

**EXECUTIVE
BOARD
MEETING**

SM/21/140

Correction 1

July 27, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Antigua and Barbuda—Staff Report for the 2021 Article IV Consultation**

Board Action: The attached corrections to SM/21/140 (7/16/21) have been provided by the staff:

Evident Ambiguity

Page 15 (para. 23, line 8)

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Pages 9, 15, (para. 23, line 9), 45

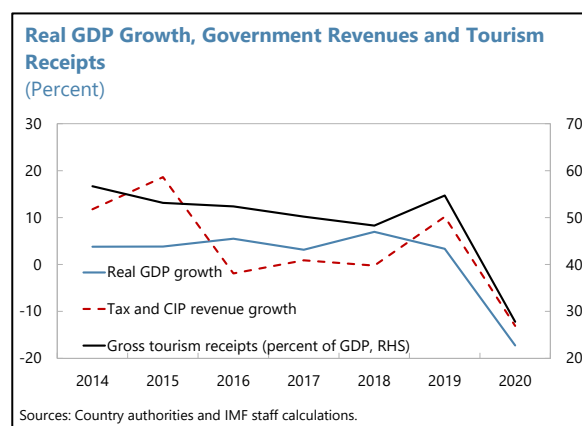
Questions:

Mr. Chensavasdijai, WHD (ext. 34992)

Mr. Rosales Torres, WHD (ext. 38688)

9. The financial position of credit unions is of concern. Credit unions granted loan moratoria to their members, although at a smaller scale than for the banks. NPLs rose to 24 percent at end-2020 (from 7 percent at end-2019). Credit unions do, however, have significant holdings of liquid assets.

10. The government's cash flow pressures were exacerbated by the rising fiscal deficit. The fiscal deficit was 6¼ percent of GDP in 2020 with the loss of revenue only partially offset by spending cuts. Arrears were accumulated (6.9 percent of GDP) and public debt—including government guaranteed debt—rose to 100 percent of GDP in 2020, partly due to the abrupt drop in nominal GDP (16.4 percent).



11. The financial position of state-owned enterprises (SOEs) was weakened by the pandemic. Most SOEs and statutory corporations cannot adequately finance their operations without transfers from the central government. The bulk of transfers were to the public hospital, Social Security, and Medical Benefits Scheme. The increased demand for healthcare during the pandemic has put additional strain on them. Loan guarantees are close to 10 percent of GDP and pose substantial fiscal risks. Also, LIAT airline was severely impacted by the pandemic and has been declared insolvent (Box 2).

12. The external position in 2020 is assessed to be weaker than the level consistent with medium-term fundamentals and desirable policies. The current account deficit widened to an estimated 7.8 percent of GDP in 2020 with the collapse of tourism receipts largely offset by import compression linked to weaker activity. Based on preliminary data and the EBA-Lite model, the current account gap was -3.1 percent of GDP in 2020 and the real effective exchange rate was overvalued by around 6.7 percent (Annex III).

13. The economy is projected to contract further in 2021 before a recovery takes hold in the second half of the year. The state of emergency was extended through end-September 2021 and tourism arrivals fell by 50 percent year-on-year in the first five months of the year. Hotel occupancy was 27 percent and flights from Canada remained suspended. Real GDP is projected to decline by 1 percent in 2021. However, in June Antigua and Barbuda was placed on the lowest travel risk ratings of the UK and U.S. and the first cruise ship will arrive in July. A recovery is expected to start in the second half of 2021 with GDP returning to pre-COVID-19 levels by 2024. The government's goal is to have 70 percent of the population fully vaccinated by end-2021.

C. Near-Term Risks

14. Downside risks are significant (Annex II). A more prolonged pandemic due to the spread of new COVID-19 variants and limited vaccine availability—either domestically or abroad—would weaken tourism prospects, put additional strain on healthcare resources, and worsen public

B. Resolving Arrears

22. The authorities should put in place a concrete plan to clear their arrears.¹² Long-standing external arrears have precluded access to potential official financing. The government has initiated discussions with the Paris Club and arrears to other official creditors are being treated and cleared. The government's strategy should include an audit of accumulated domestic arrears and the announcement of a detailed plan for their clearance. The authorities have indicated their intention to clear domestic arrears through cash payouts, write-offs, land swaps, and the securitization of the debt with new bonds issued at below-market interest rates.

C. Decisively Tackling COVID-19

23. Investment in healthcare infrastructure and development of a National Health Insurance (NHI) program will enhance health service delivery outcomes. The authorities plan to build and operationalize a renal and cardiac center to enhance domestic healthcare access while expanding possibilities for export of health services in the region. The authorities also plan, through the NHI, to expand coverage of the existing medical benefits system, widen the range of covered services, and improve integration of the insurance system with private healthcare providers so as to reduce reliance on the single public hospital. The authorities are also exploring options to procure additional doses of COVID-19 vaccines and have earmarked EC\$1.8 million thus far for vaccine acquisition to meet the 70 percent vaccination target and EC\$1 million for pandemic-related healthcare personnel expenses in 2020.

D. Protecting the Vulnerable

24. The authorities are seeking to improve the targeting of social programs. The recently approved National Social Protection Act of 2020 aims to enhance the integration and efficiency of existing social welfare programs and strengthen their legislative frameworks. In collaboration with UNICEF, the authorities are making efforts to digitize beneficiary information on cash transfer programs to improve targeting, pursue proxy means testing, and establish a central beneficiary registry for all social programs. Tools to better target programs need to be developed and then shared with the many agencies that operate social programs. In addition, a new country poverty assessment could be conducted to gauge the size of the vulnerable population and recalibrate social programs.¹³

25. Ongoing parametric reforms to the social security system include increases in retirement age and contribution rates. However, the loss of contribution income during the pandemic, combined with demographic shifts, threaten the sustainability of the social security

¹² Staff's baseline projections assume no accumulation of new domestic arrears and a reduction in the 2020 outstanding stock of arrears to domestic suppliers by 60 percent over the projection period, in line with the authorities' plans.

¹³ The last such assessment was undertaken in 2006.

Figure 1. Antigua and Barbuda: Public DSA – Risk Assessment



Source: IMF staff.

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

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

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

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

4/ Long-term bond spread over German bonds, an average over the last 3 months, 01-Apr-21 through 30-Jun-21.

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