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IMF Concludes Article IV Consultation with Antigua and Barbuda

The IMF Executive Board on December 3, 1997 concluded the 1997 Article IV consultation[1] with Antigua and Barbuda.

Background

Fiscal deficits stemming from large public investment projects in the 1980s and difficulties in mobilizing revenue led to an accumulation over the last several years of external payment arrears, which now exceed 70 percent of GDP. By the beginning of the 1990s, new foreign credits had been severely curtailed, with negative consequences for public investment, particularly for the expansion of infrastructure. To reduce the fiscal imbalances the government began developing a "home-grown" adjustment program in late 1994 with assistance from regional institutions, and a number of revenue measures were introduced that led to a 1 percentage point increase in the tax-to-GDP ratio in 1995, to 18½ percent.

Two hurricanes caused extensive damage to the country's economic infrastructure in September 1995 , and the attendant disruption to tourism led to a 5 percent decline in real GDP that year. Most hotels re-opened by the end of 1995, and with the increased activity in tourism and construction, real GDP recovered in 1996 to the level of 1994. Meanwhile, the tourist industry has not yet fully recouped the lost ground, as stayover arrivals in the first seven months of 1997 were about 5 percent lower than in the corresponding period of 1995. Inflation has remained low, owing to the discipline imparted by membership in the Eastern Caribbean currency union. Wage increases have been subdued by a freeze on government wages since early 1995, a one-year

[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. In this PIN, the main features of the Board's discussion are described.

wage freeze in the hotel sector in 1996, and the easing of labor shortages by the use of foreign workers.

The public sector deficit was reduced by half in 1996, to less than 3 percent of GDP, owing to the post-hurricane recovery of earnings by the public utilities, a reduction in public investment, and an increase in tax revenue that partly reflected the efforts of a newly established tax compliance unit. Current non-interest spending declined slightly in relation to GDP, restrained by the wage freeze, but the reduction in the wage bill and the scaling down of the vocational training scheme that had been announced in the budget did not take place. As in the past, the deficit was financed by an accumulation of arrears. An improved budgetary performance in 1996 led the government to make partial payments of social security contributions for the first time since 1990.

The fiscal position weakened again in the first half of 1997, led by a pickup in nonwage current expenditure and public investment, and as a result the public sector deficit is projected to increase to 6 percent of GDP for the year. Part of the increase in public investment, which is expected to rise from 4 percent of GDP in 1996 to 7 percent of GDP in 1997, is for much-needed investment in infrastructure, notably for roads.

The inflow of insurance payments from abroad in late 1995—after the hurricanes—led to a buildup of deposits in the domestic banking system that exceeded the demand for credit, and the commercial banks increased their net foreign asset position. During 1996 and the first half of 1997, the stock of broad money (M2) was virtually unchanged, and banks funded the growth of credit to the private sector by reducing their net foreign asset position. Bank interest rates were stable during this period.

The external current account deficit rose to about 18 percent of GDP in 1996, as the reinsurance inflows had largely subsided by the beginning of that year, tourism receipts remained weak, and imports rose in response to the reconstruction activity. The government is pursuing a bilateral approach to the external arrears problem. Under this strategy, arrears to the Caribbean Development Bank were cleared by cash payments in 1996 and early 1997, after which lending from that institution resumed.

Executive Board Assessment

Executive Directors noted that, while the economy had recovered somewhat in 1996 from severe hurricane damage, tourism had not yet recovered completely. They stressed the importance of safeguarding the competitiveness of the tourism sector by boosting public savings to maintain and expand investment in infrastructure, as well as by protecting the environment and pursuing a prudent wage policy. Directors recommended that the authorities undertake a comprehensive adjustment program to provide a framework for increased public savings, deal with the external arrears problem, and mobilize resources for development.

Directors expressed concern about the deterioration in the public finances in 1997. They therefore urged the authorities to strengthen the fiscal adjustment effort without delay and to establish a fiscal program with revenue and expenditure targets based on specific measures, including savings on the government wage bill from employment and wage restraint. They encouraged the authorities to formulate a public investment program that establishes clear investment priorities within a medium-term framework. They also emphasized the need to bolster tax revenues by increasing direct taxation; curbing discretionary tax exemptions, especially those on imports; and strengthening tax administration. They welcomed the decision to make the education levy permanent, and some called for other steps to strengthen direct taxation.

Directors welcomed the progress toward the reduction of arrears, but some suggested that a multilateral approach to arrears clearance would be more effective than the present bilateral debt strategy as a means of achieving a normalization of creditor relations.

Directors recommended several steps to foster good governance, including greater transparency and accountability of government operations, the curtailment of unproductive expenditure, and the elimination of discretionary tax exemptions. They welcomed the Government's actions to address concerns over money laundering, in particular the introduction of a comprehensive anti-money-laundering law.

Directors emphasized the need to improve the quality, scope, and timeliness of statistics—particularly in the areas of public finance and trade—to help in economic policy formulation and IMF surveillance.

Press Information Notices (PINs) are a new series of IMF press notices (see Press Release 97/21). PINs are issued, at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies.

Antigua and Barbuda: Selected Economic Indicators

	1993	1994	1995	Prel. 1996	Proj. 1997
			Annual percentage changes		
Output and prices					
Real GDP	5.5	6.2	-5.0	5.1	3.3
Consumer prices (average)	3.1	3.5	2.7	3.5	1.2
			In percent of GDP		
Investment and savings					
Gross domestic investment	25.6	24.9	39.6	36.8	31.5
Gross national savings	18.3	20.1	35.2	19.1	18.4
Public sector operations					
Public sector revenue	26.2	26.8	27.1	28.9	29.7
Public sector expenditure	29.8	31.9	33.4	31.7	35.8
Public sector savings	-2.2	-1.3	-1.9	0.8	0.2
Public sector balance	-3.6	-5.0	-6.3	-2.8	-6.0
			In millions of U.S. dollars unless otherwise specified		
External sector					
Merchandise exports	31.2	27.3	19.7	24.9	29.6
Merchandise imports	401.6	440.9	454.6	439.9	456.6
Gross tourism receipts	358.0	398.8	325.2	316.3	351.7
Current account balance	-33.2	-24.1	-21.8	-96.2	-74.6
Current account (in percent of GDP)	-7.3	-4.8	-4.4	-17.7	-13.1
Overall balance	-43.1	-27.9	-13.0	-35.5	-27.5
External public debt 1/	370.6	407.2	439.3	453.7	481.2
Public sector external arrears	290.5	341.6	381.6	401.0	...
Real effective exchange rate (1990 = 100) 2/	106.5	106.7	103.3	105.0	108.6
			Changes in percent of broad money at beginning of period		
Monetary sector					
Net domestic assets	6.6	1.4	14.6	10.1	10.3
Credit to private sector	5.8	3.2	10.6	13.3	10.4
Broad money (M2)	10.5	7.6	23.8	-1.9	-0.3

Sources: Antiguan authorities; Eastern Caribbean Central Bank; and IMF staff estimates and projections.

1/ Includes arrears on both principal and interest.

2/ The figure for 1997 is the average for January–September 1997.