

June 3, 1985 - 85/98

Statement by Mr. Leonard  
on Antigua and Barbuda  
Executive Board Meeting 85/87  
June 3, 1985

The economy in 1984

Recent economic performance in Antigua and Barbuda has been strong. Following growth of GDP of over 6 per cent in 1983 - a figure roughly double that estimated at the time of the last Board discussion - there has been further growth of the same order in 1984. In both years there was a resurgence of tourism, some growth in manufacturing and, in 1984, renewed activity in building and construction. The outlook for 1985 is also encouraging with prospects of good growth in all major sectors of the economy.

The rate of price rise is being contained at about 4 per cent at present, a figure higher than that of 1983 but hardly excessive in the light of greater economic activity especially in tourism where stronger demand and more developed facilities have been accompanied by higher prices.

The value of exports of goods and services has risen, partly because of price changes but mainly because of greater volume. There was also an increase in the volume of imports mitigated in its balance of payments effects by a price fall. The external deficit on current account was the equivalent of 3.6 per cent of GDP, a deterioration on the 1.6 per cent recorded in 1983 but far short of the high figures in the opening years of the decade. As against a deficit of 4.4 per cent of GDP the previous year, the overall external balance in 1984 was slightly positive.

The public sector

The more buoyant state of the economy was reflected in the fiscal outturn. The current account of central government on an accrual basis was almost in balance (on a cash basis there was a small surplus), while the overall deficit, again on an accrual basis, fell from EC\$47.5 million to EC\$8.1 million, mainly on account of lower capital expenditures but also on account of receipts from the sale of a government-owned hotel. At the same time the current account for the consolidated operations of the public sector as a whole moved from a surplus of EC\$4 million in 1983 to one of EC\$20 million in 1984 and the overall account from a deficit of EC\$20 million to a surplus of EC\$8 million. Apart from revenue buoyancy, these results were brought about by government action to improve revenue collection and restrain expenditure.

In 1984 as in previous years, the fiscal position has been clouded by the accumulation of arrears in the service of mainly external

debt. The extent of the buildup was less last year than in 1983 and 1982, EC\$13.8 million compared with EC\$25.9 million and EC\$20.2 million, respectively, but, nevertheless, is a continuing problem for the authorities. In order to deal with it a much stronger fiscal effort will be needed and may have to be accompanied by rescheduling of payments already overdue and those to be met in future.

A first step in containing the problem was taken by the authorities at the end of 1984 when loans to two foreign commercial banks were repaid. Further containment may also be achieved insofar as agreement is reached between the authorities and certain creditors on the amount of loans by these creditors now to be regarded as outstanding. Options available to the authorities to deal with the balance of past arrears, avoidance of further arrears accumulation in 1985 and service of present debt include stronger fiscal action in 1985, sale of a second government-owned hotel, agreed debt rescheduling with creditors and further commercial borrowing. The specific measures to be taken have yet to be settled.

#### Looking to the Future

The government looks mainly to tourism for future economic growth and the emphasis of investment plans is on the provision of the infrastructure on which expansion of the sector depends. In the past, the authorities have shown both enterprise and boldness in the development of tourism and, while success has not been uniform, both the size of the sector relative to the economy as a whole and its expansion in recent years can be cited as justification for their efforts. In view of present strains on hotel capacity during the peak season and water shortages during periods of drought, the authorities see considerable merit in the two major investment projects - a hotel/condominium complex and a large seawater desalinization plant - mentioned in the staff report on the consultations. However, they are also well seized of the dangerous financial consequences to the economy that could flow from the failure in any form of either project and of the possibilities that the hotel/condominium complex might be provided as a private venture and that there are means other than the desalinization plant for enhancing the water supply. They agree, therefore, that both projects need to be fully and carefully evaluated.

The government is seeking to develop manufacturing industry as a source of future growth. The sector is as yet small, accounting for only about 5 per cent of GDP, and will depend for its expansion on, among several other factors, the competitiveness of its output and access to markets within and outside the CARICOM area. Present low pay levels are attractive for potential investors but their future evolution will need to be carefully managed if this advantage is not to be lost. The authorities are also satisfied that the current exchange rate for the EC dollar is not disadvantageous as far as Antigua and Barbuda is concerned and, while ready to cooperate with their ECCB partners in their study of the rate, do not wish to see a change in its parity.

The medium-term outlook for the balance of payments is reasonably favourable. There are uncertainties about capital inflows

but with proper handling of the arrears problem these should be resolved. It is also to be noted that scheduled debt service payments in 1984 amounted to only 5 per cent of goods and services. Total outstanding debt in the same year was the equivalent of 35 per cent of GDP.

My authorities, as on previous occasions, are grateful to the Fund staff for their technical expertise, advice and courtesy at all stages of the consultations and renew the thanks already extended to them.