

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

**FOR
AGENDA**

MASTER FILES

ROOM C-120

01

SM/36/264

CONTAINS CONFIDENTIAL
INFORMATION

October 27, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Antigua and Barbuda - Staff Report for the
1986 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1986 Article IV consultation with Antigua and Barbuda, which will be brought to the agenda for discussion on a date to be announced.

Mr. Amselle (ext. 7682) or Mr. DaCosta (ext. 7688) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Antigua and Barbuda

Staff Report for the 1986 Article IV Consultation

Prepared by the Staff Representatives for the
1986 Article IV Consultation with Antigua and Barbuda

Approved by E. Wiesner and S. Kanesa-Thanan

October 23, 1986

The 1986 Article IV consultation discussions with Antigua and Barbuda were held in St. John's in the period August 12-28, 1986. The representatives of Antigua and Barbuda included the Prime Minister, the Minister of Finance, senior government officials, and representatives of the major public enterprises. The mission also met with the Governor of the Eastern Caribbean Central Bank (ECCB). Mr. Leonard, the Alternate Executive Director for Antigua and Barbuda, participated in the final round of policy discussions. The staff representatives were Messrs. Amselle (Head), DaCosta, Khor (all WHD), Mr. Gons (TRE), Mr. Thugge (EP-WHD), and Ms. Hinds (Secretary-RES). The mission was assisted by Mr. Byam of the Inter-Agency Resident Mission and by Mr. de Moraes, the Fund's Regional Advisor. Antigua and Barbuda accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement on November 15, 1983. The last Article IV consultation with Antigua and Barbuda was concluded by the Executive Board on June 3, 1985 (EBM/85/88).

I. Recent Economic Developments

Following a setback in 1982, real GDP has increased by about 6 1/2 percent a year since then. In 1983-84 growth was led by a sharp increase in tourism and related industries, and in the past two years also has reflected a substantial upturn in construction and agriculture (Table 1). Prospects for 1987 are for a further expansion in output, based on continued growth in agriculture, construction, and tourism.

The annual rate of increase in consumer prices, which had averaged 15 1/2 percent in 1980-81, declined to 3 1/2 percent in 1982-84, and to about 1 percent in 1985, reflecting generally trends in import prices. Since 1981 there has been a moderate but steady increase in average hotel rates and in the price of other tourist-related services; as a result, there has been a significant improvement in the terms of trade.

Information on wage trends is limited, but indications based on a small sample of wage settlements in the private sector and major public enterprises suggest that average annual wage increases moderated from

22 1/2 percent in 1982 to about 10 percent in 1985 and 1986. Salaries for government employees were increased by an average of 20 percent in the fourth quarter of 1981 and by 12 1/2 percent in early 1985, retroactive to September 1984. There are no official data on employment trends; however, there are indications that the buoyant activity in tourism and related sectors since 1983, and in agriculture and construction in the past two years, has resulted in labor shortages in several sectors of the economy.

Table 1. Antigua and Barbuda: Selected Economic Indicators
(Percentage change)

	1982	1983	1984	Prel. 1985	Est. 1986	Proj. 1987
GDP at current market prices	9.1	10.6	11.9	11.6	15.2	10.3
GDP at 1980 market prices	-1.3	6.4	6.5	6.7	6.1	5.9
Agriculture	(-5.6)	(-0.9)	(-10.3)	(13.5)	(5.5)	(5.8)
Transport and communi- cations	(5.4)	(14.2)	(7.3)	(7.9)	(6.4)	(5.7)
Construction	(-38.1)	(-7.7)	(4.6)	(13.2)	(14.0)	(7.0)
Hotels and restaurants	(0.8)	(18.0)	(26.3)	(10.8)	(8.0)	(8.0)
Consumer prices (average)	4.2	2.3	3.9	0.9	2.8	2.6
Import prices	-0.3	-3.5	-1.0	1.0	0.4	--
Wage index	22.4	15.6	11.6	9.7	10.1	8.7
Terms of trade <u>1/</u>	5.8	9.6	12.1	2.6	4.5	--

Sources: Statistical Division, Ministry of Finance; and Fund staff estimates.

1/ Export price includes goods and tourism.

The public finances improved markedly in 1983-84 as strict controls were imposed on both current and capital outlays. The overall public sector deficit was reduced from 12 1/2 percent of GDP in 1982 to about 2 percent in 1984, while public sector savings rose in the same period from less than 1 percent of GDP to more than 2 1/2 percent (Table 2). This improvement, however, was not sufficient to stem the buildup of arrears on external public debt that began in 1979; the stock of overdue obligations to foreign creditors rose from 6 1/2 percent of GDP at the end of 1982 to 10 1/2 percent of GDP at the end of 1984. In 1985 the Government increased import duty collections and current revenues rose

Table 2. Antigua and Barbuda: Operations of the Consolidated Public Sector

	1982	1983	1984	1985	Est. 1986	Staff Projections			
						1987	1988	1989	1990
(In millions of Eastern Caribbean dollars)									
Total revenue and grants	111.1	108.1	133.2	144.1	188.3	203.1	225.7	253.3	287.6
Current revenue	107.3	105.4	117.8	138.9	175.4	190.0	213.8	246.3	282.6
Capital revenue	0.9	1.0	8.3	0.5	1.0	1.0	1.0	1.0	1.0
Capital grants	2.9	1.7	7.1	4.7	11.9	12.1	10.9	6.0	4.0
Total expenditure	155.6	131.9	141.2	162.9	390.8	361.5	228.6	217.6	235.4
Current expenditure <u>1/</u>	104.6	100.1	106.0	120.1	143.6	158.1	170.8	184.9	202.7
Capital expenditure	51.0	31.8	35.2	42.8	247.2	203.4	57.8	32.7	32.7
Of which: public enterprises	(9.1)	(17.1)	(16.2)	(27.7)	(184.8)	(177.0)	(28.2)	(9.0)	(9.0)
Public sector saving	2.7	5.3	11.7	18.8	31.8	32.0	43.1	61.4	79.9
Central Government	-12.8	-11.4	-9.9	-7.5	4.6	8.4	16.3	20.8	23.3
Rest of general government	10.5	10.6	11.0	12.5	12.8	13.3	13.3	13.5	13.6
Public enterprises	5.1	6.2	10.7	13.8	14.4	10.4	13.5	27.1	43.0
Overall surplus or deficit (-)	-44.5	-23.8	-8.0	-18.8	-202.5	-158.3	-2.8	35.7	52.2
Central Government	-54.4	-22.1	-18.0	-19.8	-47.4	-4.4	-0.9	4.6	5.1
Rest of general government	9.2	8.3	10.5	12.0	12.3	12.7	12.8	13.0	13.1
Public enterprises	0.8	-9.9	-0.5	-11.1	-167.4	-166.6	-14.7	18.1	34.0
Financing	44.5	23.8	8.0	18.8	202.5	158.3	2.8	-35.7	-52.2
Domestic (net)	9.5	7.5	2.3	--	8.3	3.0	4.0	5.0	5.0
External (net) <u>2/</u>	23.0	-3.9	-12.0	-1.3	177.1	143.9	-32.0	-63.2	-61.7
Change in external arrears <u>3/</u>	12.0	20.2	17.7	20.1	17.1	--	--	--	--
Financing gap	...	...	...	...	...	11.4	30.8	22.5	4.5
(As percent of GDP)									
Total revenue and grants	31.5	27.7	30.5	29.6	33.6	32.9	33.5	34.5	35.8
Of which: current revenue	30.4	27.0	27.0	28.5	31.3	30.7	31.8	33.6	35.1
Total expenditure	44.1	33.8	32.4	33.5	69.7	58.5	34.0	29.7	29.3
Current expenditure	29.7	25.7	24.3	24.7	25.6	25.6	25.4	25.2	25.2
Capital expenditure	14.5	8.2	8.1	8.8	44.1	32.9	8.6	4.5	4.1
Public sector saving	0.8	1.4	2.7	3.9	5.7	5.2	6.4	8.4	9.9
Overall surplus or deficit (-)	-12.6	-6.1	-1.8	-3.9	-36.1	-25.6	-0.4	4.9	6.5

Sources: Ministry of Finance; Treasury; Social Security Scheme; Medical Benefits Scheme; state enterprises; and Fund Staff estimates.

1/ Includes interest payments in arrears.

2/ Includes amortization payments in arrears.

3/ On scheduled interest and amortization payments.

markedly. However, the growth in expenditures outpaced that of revenues, mainly because of the pay increase awarded to civil servants and higher capital outlays. Public sector savings rose to nearly 4 percent of GDP, but the public sector's overall deficit widened to 4 percent of GDP and the stock of external arrears rose to 13 1/2 percent of GDP at the end of the year.

Further efforts to raise revenue were made in 1986. Consumption taxes were increased by including import duties in the taxable base, and tax administration was substantially improved; as a result, the public sector's current revenues are expected to rise to 31 1/2 percent of GDP, compared with 28 1/2 percent in 1985. Although in 1986 the wage bill rose substantially because of promotions, merit increases, and higher employment, public sector saving is expected to increase to more than 5 1/2 percent of GDP. Capital expenditure has risen sixfold in 1986 mainly because of the startup of two major projects being undertaken by public enterprises with foreign financing on commercial terms. The largest of these projects is a turnkey hotel complex being built at Deep Bay by Italian contractors at a cost of EC\$177 million, of which 85 percent is guaranteed by the Export Credit Insurance Agency of Italy. The second project is a plant capable of producing 2 million gallons of desalted seawater per day and 18 megawatts/hour of electric power; about 60 percent of the cost of this project, which is estimated at EC\$134 million, is guaranteed by the Export-Import Bank of Japan. There was also a large increase in the central government outlays for improvement of the road system and the international airport.

The sizable increase in public sector capital outlays in 1986 is likely to lead to an overall deficit of 36 percent of GDP. Nearly 90 percent of this deficit is expected to be financed by foreign borrowing. Although the public sector also has increased its net borrowing from the domestic banking system, external arrears have continued to accumulate in 1986 and are expected to reach 15 percent of GDP by the end of the year.

After a marked increase in commercial bank interest rates on deposits in early 1983, private sector deposits increased from 47 percent of GDP at the end of 1982 to 58 percent at the end of June 1986, exceeding by far the growth in domestic demand for credit. This development permitted a significant improvement in the banks' reserve position, consisting of net foreign assets and claims on the ECCB. At the end of June 1986, the banks' net reserve position had increased to EC\$33 million from a net liability position of EC\$22 million at the end of 1982.

A minimum interest rate of 4 percent has been established by the ECCB on saving deposits, but rates on time deposits are determined freely by commercial banks. Interest rates offered by banks on time deposits are generally competitive with international rates and are

among the highest in the East Caribbean area. The increase in tourism in recent years appears to have contributed to a significant increase in the circulation of the U.S. dollar as a parallel currency.

The deficit in the current account of the balance of payments narrowed from 32 1/2 percent of GDP in 1982 to an average of 6 percent in 1983-84 because of a sharp recovery in tourism receipts and a decline in investment-related imports, but it widened to 14 1/2 percent of GDP in 1985 reflecting mainly increased imports (Table 3). Private direct investment and official capital inflows in the form of grants and loans financed most of the current account deficit during the 1982-85 period, with the overall deficit increasing from 2 1/2 percent of GDP in 1982 to 3 1/2 percent in 1985. The overall deficits were largely financed by the buildup of arrears ^{1/} on debt service. In 1986, the current account deficit *is estimated to increase to 38 1/2 percent of GDP mainly because of imports of goods and services (management and consultancy fees) related to the two major projects mentioned earlier.* As in past years, most of the current account deficit is expected to be covered by capital inflows in the form of loans on commercial terms and suppliers' credit. The overall balance of payments deficit for 1986 is anticipated to narrow to about 1 percent of GDP; however, arrears are expected to continue to accumulate.

Antigua's official foreign debt, including arrears in interest payments, rose from US\$59.5 million at the end of 1982 to US\$68 million at the end of 1985, which represented a decline in relation to GDP from 45 1/2 percent to 37 1/2 percent. In 1986, however, Antigua's foreign debt has increased by a very large amount because of drawings related to the construction of the Deep Bay hotel and the electric power/desalting plant; it is estimated that by the end of the year total official indebtedness would amount to US\$142 million, or 68 1/2 percent of GDP; this would include US\$31 million of arrears on principal and interest, up from US\$8.5 million at the end of 1982. Scheduled debt service payments for 1986, excluding arrears, are estimated at 8 percent of exports of goods and services and 17 percent of public sector revenues (Table 4).

Antigua and Barbuda's currency, the Eastern Caribbean dollar, is shared with six other countries which are members of the ECCB. The Eastern Caribbean dollar has been pegged to the U.S. dollar at EC\$2.70 per U.S. dollar since July 1976. Antigua and Barbuda's index of the real effective exchange rate--based on the average for 1980--rose to a high of 117 in February 1985 but declined to 107.5 in July 1986. The increase in the index over the period since 1980 was the second lowest among the ECCB members.

^{1/} Because these arrears arise from the Government's failure to generate the necessary domestic resources for debt servicing--rather than a governmental limitation on, or interference with, the availability of foreign exchange--they do not constitute an exchange restriction subject to Fund approval.

Table 3. Antigua and Barbuda: Summary Balance of Payments

	1982	1983	1984	Prel. 1985	Est. 1986	Projected			
						1987	1988	1989	1990
(In millions of U.S. dollars)									
Goods, services, and transfers	-42.7	-9.6	-8.4	-25.9	-80.2	-76.3	-19.4	-4.6	0.6
Exports, f.o.b.	49.3	36.5	35.2	28.3	24.7	27.2	29.9	32.9	36.2
Imports, c.i.f.	-139.4	-109.7	-131.2	-146.3	-199.6	-206.5	-171.5	-182.1	-203.6
Services (net)	39.2	53.6	75.7	79.7	81.3	88.9	107.3	129.0	151.7
Tourism	(43.6)	(52.9)	(75.7)	(87.5)	(99.4)	(112.7)	(131.4)	(150.1)	(171.3)
Interest	(-4.3)	(-3.4)	(-2.6)	(-2.2)	(-3.9)	(-11.0)	(-15.7)	(-14.1)	(-12.0)
Repayments made	/-1.2/	/-0.6/	/-1.0/	/-1.0/	/-2.3/	/-11.0/	/-15.7/	/-14.1/	/-12.0/
Repayments in arrears	/-3.1/	/-2.8/	/-1.6/	/-1.2/	/-1.6/	/--/	/--/	/--/	/--/
Other services	(-0.1)	(4.1)	(2.6)	(-5.6)	(-14.2)	(-12.8)	(-8.4)	(-7.0)	(-7.6)
Private transfers	8.2	10.0	11.9	12.4	13.4	14.1	14.9	15.6	16.3
Capital account	39.4	3.6	8.8	19.8	78.2	73.1	9.2	-2.2	-0.4
Official grants	1.1	0.6	2.6	1.8	4.4	4.7	4.0	2.2	1.5
Official drawings on loans	11.6	4.5	2.2	7.5	74.2	62.7	7.5	--	--
Official obligations on loans	-3.0	-5.9	-6.5	-7.9	-7.2	-9.4	-19.3	-23.4	-22.9
Repayments made	(-1.7)	(-1.2)	(-1.5)	(-1.7)	(-2.4)	(-9.4)	(-19.3)	(-19.5)	(-19.0)
Repayments in arrears	(-1.3)	(-4.7)	(-5.0)	(-6.2)	(-4.8)	(--)	(--)	(--)	(--)
Commercial banks (net)	5.3	-2.7	-0.7	9.4	-6.3	--	--	--	--
Private capital ^{1/}	24.4	7.1	11.2	9.0	13.1	15.1	17.0	19.0	21.0
Overall balance	-3.3	-6.0	0.5	-6.1	-2.0	-3.2	-10.2	-6.8	0.2
Financing	3.3	6.0	-0.5	6.1	2.0	3.2	10.2	6.8	-0.2
Change in foreign assets	0.1	-0.1	-0.2	-0.1	-1.4	--	--	--	--
Change in imputed ECCB reserves	-1.2	-1.4	-6.9	-1.2	-3.0	-1.0	-1.2	-1.6	-1.9
Change in debt arrears	4.4	7.5	6.6	7.4	6.4	--	--	--	--
Financing gap	...	...	...	...	...	4.2	11.4	8.4	1.7
(In percent of GDP)									
Current account balance	-32.7	-6.6	-5.2	-14.4	-38.6	-33.3	-7.8	-1.7	0.2
Overall balance	-2.5	-4.2	0.3	-3.4	-1.0	-1.4	-4.1	-2.5	0.1

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

^{1/} Includes errors and omissions.

Table 4. Antigua and Barbuda: Public and Publicly-Guaranteed External Debt ^{1/}

	1982	1983	1984	1985	Est. 1986	Projected			
						1987	1988	1989	1990
(In millions of U.S. dollars)									
Total debt outstanding (end of year) ^{2/}	59.4	62.7	58.8	67.9	142.1	199.9	188.1	164.7	141.8
Of which: arrears on principal	3.1	6.8	11.8	18.0	22.8	--	--	--	--
arrears on interest	5.4	7.0	5.4	6.7	8.3	--	--	--	--
Scheduled debt service obligations ^{3/}	7.3	9.4	9.1	10.2	11.1	20.4	35.0	37.5	34.9
Amortization	3.0	5.9	6.5	7.9	7.2	9.4	19.3	23.4	22.9
Of which: rescheduled arrears	(...)	(...)	(...)	(...)	(...)	(--)	(--)	(3.9)	(3.9)
Interest	4.3	3.5	2.6	2.3	3.9	11.0	15.7	14.1	12.0
Of which: rescheduled arrears	(...)	(...)	(...)	(...)	(...)	(1.5)	(1.5)	(1.4)	(1.2)
(In percent)									
Debt service/exports of goods and services	6.7	9.0	6.9	7.6	7.9	12.9	19.4	18.5	15.3
Debt service/public sector revenues	18.1	23.8	19.6	19.7	17.0	28.8	44.0	41.0	33.3
Outstanding debt/GDP	45.5	43.4	36.4	37.7	68.4	87.3	75.4	60.6	47.6
Average interest rate	9.3	9.2	6.3	4.7	4.1	6.4	8.2	7.9	7.5

Sources: Statistics Division, Ministry of Finance; and Fund staff estimates.

^{1/} Medium- and long-term debt. Excludes debt held by ECCB.

^{2/} After 1986, includes drawings on loans contracted through 1986.

^{3/} Do not include non-rescheduled arrears before 1987.

II. Economic Policies and Prospects

At the conclusion of the 1985 Article IV consultation with Antigua and Barbuda, Executive Directors took note of the magnitude of accumulated external arrears and expressed concern about the likelihood of a further buildup of such arrears. Directors were of the view that prompt action was needed to strengthen the public finances and to seek means for an orderly settlement of overdue external obligations. Directors urged the authorities to avoid the contraction of new debt on commercial terms until the arrears situation had been cleared up and the country's debt servicing capacity restored. Directors also noted that it was essential for Antigua and Barbuda to bring public sector wages under tighter control, not only to improve the government finances, but also to foster external competitiveness. Developments described in the previous section indicate that the general thrust of policies followed by the Government since the last Article IV consultation has not been in accordance with these recommendations.

1. Economic development strategies

Because tourism is the leading economic sector with respect to the generation of income, foreign exchange, and employment, the Government intends to continue giving support to this sector through the development of related infrastructure, in particular water supply, electric power, communications, and roads. Antigua's rainfall and supply of underground water have proven inadequate to support the growing needs of the economy, particularly in periods of drought. Moreover, the existing capacity to generate electric power has been taxed by the increasing demands from the tourist sector, especially during the peak of the tourist season. The authorities consider that potential shortages in the provision of these basic utilities would be a major deterrent to the continued expansion of the tourist sector. Therefore, as mentioned earlier, the decision was taken to proceed with the construction of a unified plant to desalt seawater and produce electric power. The authorities believe that this addition to existing capacity would be sufficient to meet the demand for at least the next five years. Construction of this plant was initiated in 1986 and is expected to be in operation by mid-1987.

The private sector has been active in the construction of smaller hotels, condominium units, and other tourist facilities. However, the Government's decision to construct a large hotel/condominium complex at Deep Bay was based largely on its assessment of the need for a large hotel to supplement existing capacity. This project consists of a luxury hotel with 250 rooms and approximately 100 condominium units, which the Government intends to sell to private individuals. Construction of this project also was initiated in 1986 and is expected to be completed by mid-1987.

The public sector investment program (PSIP) for 1986-88 amounts to approximately EC\$508 million, equivalent to about 27 percent of the period's GDP. The two large projects mentioned above account for almost 60 percent of the PSIP, but the program also embodies substantial investments for resurfacing of the airport runway, the expansion of the telephone system, and the development of part of the St. John's area to provide facilities for cruise-ship visitors and other tourists.

The World Bank has abstained from making any direct loans to Antigua, mainly because of the Government's inability to generate an acceptable level of public savings and the growth in overdue obligations, which affects adversely the country's creditworthiness. The Bank considers that the restoration of the country's creditworthiness is dependent on (a) the implementation of a fiscal adjustment program and (b) an agreement with creditors on a mechanism to deal with existing arrears. With respect to the PSIP, the Bank recognizes the desirability to upkeep and improve supportive infrastructure, particularly roads and utility services. However, it has expressed reservations on the criteria used for the selection of projects, particularly in view of the commercial nature of the associated financing, the apparent lack of adequate coordination in project selection among various ministries and public enterprises, and uncertainties about the economic and financial returns of the largest projects.

2. Fiscal policy

Because of the sharp increase in the public sector deficit in 1986 and the continued accumulation of external arrears during the year, the discussions with the authorities focused mainly on policies to improve the performance of the public sector.

The authorities observed that a major effort had been made in the last two years to increase revenue collections through a combination of increased tax rates, a broadening of the consumption tax base, and improved tax administration. As a result, public sector revenues rose from an average of 27 percent of GDP in 1983-84 to an estimated 31 1/2 percent in 1986; during the same period, public sector savings increased from 2 percent of GDP to 5 1/2 percent, notwithstanding the pay increase granted civil servants in 1985. The authorities emphasized that the growth in the public sector deficit in 1986 was directly attributable to the large increase in capital outlays. Although the two largest projects had been financed by borrowing on commercial terms, other projects--such as the road rehabilitation program--had been financed mainly from the Government's own resources. The Government deemed it necessary not to delay the implementation of the capital projects because they were considered essential to maintain the momentum of the tourist-led economic growth. Practically all public investment was in the provision and improvement of public utilities, improvement of the airport, roads, and hotels.

foreigners were borrowing in the domestic market mainly to finance the purchase of construction of vacation condominium units or property, rather than using their own savings. The tax was intended to foster foreign capital inflows, and was not expected to have much of an adverse impact on construction of vacation property.

4. External sector policies and outlook

Because of its membership in the regional ECCB, Antigua and Barbuda's scope for independent monetary and exchange rate policy, as well as for foreign reserve management, is very limited. Therefore, the trends in the overall balance of payments reflect closely fiscal developments, with changes in overdue obligations to nonresidents being an important source of below-the-line financing. Since there is no official foreign borrowing for recurrent budgetary outlays, most of the variations in the external current account reflect changes in project-related imports which are usually financed by official capital inflows or private direct investment.

The Antiguan authorities were optimistic about the outlook for tourism, the island's main export, for the next several years. They pointed out that the slowdown in tourist arrivals in the last two years was rooted in capacity constraints rather than lack of demand. International flights to Antigua had registered high load factors, and most of the first-class hotels had been operating at an average occupancy rate of about 85 percent, which was considered fairly high in the tourist industry. The authorities were confident that the construction of new hotels and tourist facilities, as well as the development and improvement in tourist-related infrastructure, would continue to stimulate activity in the sector. On the import side, they noted that domestic production of vegetables and other food items was increasing rapidly, albeit from a very small base, and expressed hope for a substantial increase in import substitution of food items in the coming years.

The analysis of the medium-term balance of payments outlook is complicated by the same uncertainties that surround the fiscal outlook. While the stock of external arrears should be virtually eliminated by the rescheduling operation, the capacity of the Government to avoid a buildup of new external arrears will hinge on its ability to reduce the fiscal imbalance through improved tax collection, a substantial increase in electricity and water rates, expenditure restraint, and the sale of the Halcyon Cove hotel and the condominium units at Deep Bay on acceptable terms. The medium-term scenario prepared by the staff (see Table 3) assumes that the rescheduling of arrears outstanding at the end of 1986 will successfully take place in early 1987, and that the Government will adopt the fiscal measures underlying the projection of Table 2. However, the projection excludes the potential positive capital inflow from the sale of the Government's fixed assets.

Because of the large loans contracted in recent years to finance public sector projects, in addition to the capitalization of interest on outstanding arrears in the forthcoming rescheduling operation, the external debt outstanding is projected to increase sharply in relation to GDP in 1987 (from 68 1/2 percent at the end of 1986 to 87 1/2 percent at the end of 1987) but is expected to decline rapidly thereafter (see Table 4). Scheduled debt service payments are projected to peak at 19 1/2 percent of exports of goods and services in 1988 before declining significantly by 1990.

Other assumptions underlying the medium-term balance of payments projections are: (a) no modification of the present exchange rate; (b) an 8 percent growth in tourist arrivals in 1987, 10 percent in 1988, and an annual 9 percent in 1989-90, with average expenditure by tourist increasing by 5 percent a year in 1987-90; (c) a decline in the ratio of imports to GDP from 91 percent in 1987 to a yearly average of 70 percent in 1988-90, following the expected decrease in investment-related imports; (d) no further external borrowing by the public sector after 1986, except for drawings on loans contracted earlier; (e) a small but steady increase in Antigua's imputed share of the ECCB net international reserves concomitant with the expected growth in Antigua's share in the ECCB's demand liabilities. Based on these assumptions the current account deficit of the balance of payments is projected to decline from 38 1/2 percent of GDP in 1986 to 33 1/2 percent in 1987 and to continue to narrow rapidly in the following three years, as investment-related imports come down. In the absence of capital inflows derived from the sale of government fixed assets, the overall balance of payments deficit would rise from 1 percent of GDP in 1986 to 4 percent in 1988; it would then decline to 2 1/2 percent of GDP in 1989 before giving way to approximate balance in 1990.

The exchange system for Antigua and Barbuda is free of restrictions on payments and transfers for current international transactions, and has remained unchanged since the last Article IV consultation.

As was noted, Antigua and Barbuda's index of the real effective exchange rate has shown relatively little appreciation since 1980. Given the relatively favorable prospects for tourism, the authorities saw no need for a modification of the parity of the Eastern Caribbean dollar at the present time. In any case, the authorities said that they would continue to cooperate with the ECCB in its periodic reviews of exchange rate developments in the region as a whole.

III. Staff Appraisal

After declining in 1982, real GDP in Antigua and Barbuda increased at an average rate of 6 1/2 percent in 1983-86 mainly because of a strong expansion in tourism and related activities. Prospects for the next few years are for continued strong growth led by tourism and construction. The rate of inflation has declined significantly and unemployment appears to be very low.

Since the last Article IV consultation with the Fund, the overall fiscal deficit has widened sharply and arrears on foreign debt service payments have continued to accumulate, notwithstanding the Government's success in increasing revenues. The fiscal deterioration in 1986 reflects sizable increases in the Government's wage bill and in purchases of goods and services; at the same time, there has been a massive increase in capital outlays, financed largely on commercial terms.

The staff is of the view that the planned operation to reschedule existing arrears is an important first step toward the normalization of Antigua's debt servicing. However, if the recurrence of arrears is to be avoided, it is essential that the Government adopt without delay actions to strengthen the public finances. The staff would urge the authorities to establish a firm timetable for the implementation of the planned increase in utility rates over the next four years in order to ensure the commercial viability of the public utilities, including the timely servicing of the related debt. Furthermore, the staff would recommend that the authorities proceed expeditiously with the reassessment of property values as well as with the revision in the hotel tax. In addition, the Government should expedite negotiations with private parties toward the sale of government-owned hotels and condominiums. More importantly, the staff is of the view that the reduction of the fiscal gap foreseen in the next few years will hinge mainly on stricter expenditure restraint, particularly with respect to wages, purchases of goods and services, and locally financed capital outlays.

In view of the large increase in external debt incurred in the last few years, and the reservations expressed by the World Bank concerning the economic and financial return of the largest projects, the staff would urge the authorities to avoid the contraction of new debt on commercial terms, except in the context of a refinancing or rescheduling of existing debt, until there is a significant improvement in the capacity of the public sector to service debt.

Although the movement in Antigua and Barbuda's index of the real effective exchange rate indicates an appreciation of only 7 1/2 percent over the last six years, the staff would encourage the authorities to monitor closely exchange rate developments and to continue collaborating actively with the ECCB in its periodic review of the appropriateness of the external value of the Eastern Caribbean dollar. Given the importance to limit cost increases throughout the economy, the staff would emphasize the need for the Government to play a leadership role by showing restraint in the granting of pay increases to civil servants.

In view of the difficult financial situation of the public sector, the authorities considered it important to maintain a close policy dialogue with the Fund. It is therefore recommended that the next Article IV consultation with Antigua and Barbuda be held on a 12-month cycle rather than the 18-month cycle which was previously in effect.

Antigua and Barbuda - Fund Relations
(As of September 30, 1986)

I. Membership Status

- (a) Date of membership: February 25, 1982
- (b) Status: Article VIII

(A) Financial Relations

II. General Department (General Resources Account)

- (a) Quota: SDR 5.0 million
- (b) Fund currency holdings: 100.00 percent of quota
- (c) Fund credit: None
- (d) Reserve tranche position: Nil

III. Current and Past Stand-by or Extended Arrangement and Special Facilities: None

IV. SDR Department

- (a) Net cumulative allocation: None
- (b) Holdings: None
- (c) Current designation plan: N/A

V. Administered Accounts: N/A

VI. Overdue Obligations to the Fund: None

(B) Nonfinancial Relations

VII. Exchange Rate Arrangement: Antigua and Barbuda and the other six member countries of the Eastern Caribbean Central Bank share a common currency, the Eastern Caribbean dollar, which since July 1976 has been pegged to the U.S. dollar at the rate of EC\$2.70 per U.S. dollar.

III. Previous Article IV Consultation: This was initiated in St. John's in February-March 1985 and was concluded by the Executive Board on June 3, 1985 (EBM/85/88).

III. Technical Assistance: In February-March 1983 a Fiscal Affairs Department mission reviewed the tax system, and suggested certain reforms. Mr. Millar-Craig, a member of the Fund's panel of fiscal experts, concluded his assignment as fiscal advisor to the Ministry of Finance on April 7, 1984.

IX. Resident Advisor: Mr. Waldemar de Moraes, the Fund's new Regional Advisor, assumed office at the Eastern Caribbean Central Bank in May 1986.

Antigua and Barbuda - Basic Data

Area and population

Area	170 sq. miles (442 sq. kilometers)
Population (mid-1985)	80,311
Annual rate of population increase	1.3 percent

GDP (Prel. 1985)

SDR 177.6 million

GDP per capita (1985)

SDR 2,211

	1983	1984	Prel. 1985	Est. 1986
<u>Origin of GDP</u>				
Agriculture	6.6	5.4	5.7	5.6
Mining	0.7	0.8	0.7	0.8
Manufacturing	5.3	4.9	4.4	4.3
Hotels and restaurants	13.7	15.9	16.4	16.6
Construction	6.2	6.2	6.8	7.6
Government	15.8	15.8	15.7	15.9
Other services	51.7	51.0	50.3	49.2

Ratios to GDP

Exports of goods and nonfactor services	68.8	78.4	73.0	68.0
Imports of goods and nonfactor services	81.8	90.9	92.7	110.1
Current account of the balance of payments	-6.6	-5.2	-14.4	-38.6
Public sector revenue and grants	27.7	30.5	29.6	33.6
Public sector expenditure	33.8	32.4	33.5	69.7
Public sector savings	1.4	2.7	3.9	5.7
Public sector overall surplus or deficit (-)	-6.1	-1.9	-3.9	-36.1
External public debt (end of year)	38.6	33.0	33.9	64.5
Money and quasi-money (end of year)	56.3	59.1	59.5	59.0
Change - Money and quasi-money	11.6	8.8	6.5	7.3

Annual changes in selected indicators

Real GDP at factor cost	6.4	6.5	6.7	6.1
GDP at current prices	10.6	11.9	11.6	15.2
GDP deflator	5.3	4.6	3.9	4.4
Consumer prices (annual averages)	2.3	3.9	0.9	2.8
Public sector revenue and grants	-2.7	23.2	8.2	30.7
Public sector expenditure	-15.2	7.1	15.4	139.9
Liabilities to private sector <u>1/</u>	28.8	18.9	13.6	19.9
Money	(8.5)	(1.7)	(4.7)	(7.1)
Quasi-money	(20.3)	(17.2)	(8.9)	(12.8)
Net domestic assets of the banking system <u>1/</u>	21.7	-1.5	22.5	8.7
Credit to public sector	(2.9)	(-9.9)	(1.6)	(3.5)
Credit to private sector	(18.8)	(8.4)	(20.9)	(5.2)
Merchandise exports (in U.S. dollars)	-26.0	-3.6	-19.6	-12.7
Merchandise imports (in U.S. dollars)	-21.3	19.6	11.5	36.4

	1983	1984	Prel. 1985	Est. 1986
(millions of Eastern Caribbean dollars)				
<u>Public sector finances</u>				
Revenue	108.1	133.2	144.1	188.3
Expenditure	131.9	141.2	162.9	390.8
Current account surplus or deficit (-)	5.3	11.7	18.8	31.8
Overall surplus or deficit (-)	-23.8	-8.1	-18.8	-202.5
External financing (net)	16.3	5.7	18.8	194.2
Domestic financing	7.5	2.4	--	8.3
(millions of U.S. dollars)				
<u>Balance of payments</u>				
Merchandise exports	36.5	35.2	28.3	24.7
Merchandise imports	-109.7	-131.2	-146.3	-199.6
Investment income (net)	-3.4	-2.6	-2.2	-3.9
Other services and transfers (net)	67.0	90.2	94.3	98.7
Balance on current account	-9.6	-8.4	-25.9	-80.2
Official capital	-0.8	-1.7	1.4	71.4
Banking system	-2.7	-0.7	9.4	-6.3
Private capital, including errors and omissions	7.0	11.2	9.1	13.2
Basic balance	-6.0	0.5	-6.1	-2.0
Changes in reserves	-1.4	-7.1	-1.3	-4.4
Changes in arrears, n.i.e.	7.5	6.6	7.4	6.4

1/ As a percentage of commercial bank liabilities to the private sector at the beginning of the period.

Antigua and Barbuda--Statistical Issues

1. Outstanding Statistical Issues

a. Consumer price index

A general economic data mission in October 1985 made a detailed proposal for conducting a household expenditure survey and recommended that it should be implemented on a priority basis in order to facilitate the compilation of a revised consumer price index. The present consumer price index has not been published for periods after 1983, though data have been provided to the Fund for its internal use.

b. Government finance

There is no presentation of government finance statistics for Antigua and Barbuda in either the monthly IFS or the annual GFS Yearbook. No reply has been received to the 1986 GFS questionnaire.

c. Balance of payments

The Bureau of Statistics does not receive balance of payments data from the authorities. The Bureau's files incorporate balance of payments data from the latest issue of Recent Economic Developments.

2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for Antigua and Barbuda in the October 1986 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Ministry of Finance, and Eastern Caribbean Central Bank, which during the past year have generally been provided on a timely basis; however, reports relating to merchandise trade have been infrequent and current consumer price data are not presently published.

Status of IFS Data

		<u>Latest Data in October 1986 IFS</u>
Real Sector	- National Accounts	1982
	- Prices: CPI	Q4 1983
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	n.a.
	- Financing	n.a.
	- Debt	n.a.

Monetary Accounts	- Monetary Authority	January 1986
	- Deposit Money Banks	June 1986
	- Other Financial Institutions	n.a.
Interest Rates	- Discount Rate	December 1985
	Deposit/Lending Rate	March 1986
	- Bond Yield	n.a.
External Sector	- Merchandise Trade: Value	1982
	Prices	n.a.
	- Balance of Payments	1984
	- International Reserves	March 1986
	- Exchange Rates	August 1986