

International Monetary Fund

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Antigua and Barbuda: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

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[IMF Executive Board Approves Completion of Second and Third Reviews Under Stand-by Arrangement with Antigua and Barbuda](#)
March 30, 2011

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March 18, 2011

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

Antigua and Barbuda's performance under the program described in our Letter of Intent (LOI) dated October 21, 2011 has been strong, despite adverse economic conditions. Real economic activity remained weak during 2010, but there are signs that growth will pick up in 2011. Tourist arrivals in 2010 increased almost 3 percent for the year as a whole, driven by a 5.0 percent increase in visitors in the second half. However, in part, reflecting food and fuel price hikes towards the end of the year inflation rose to about 3½ percent in 2010. The external current account is estimated to have improved in 2010 owing to significantly lower imports as FDI-related construction activity and domestic demand remained weak.

Despite these challenges, we are pleased to report that performance under the Stand-By Arrangement (SBA) remains broadly on track. All quantitative targets have been met for end-September and end-December. Implementation of the structural reform agenda was delayed by the uncertainty caused by challenges to the 2009 election results and capacity constraints in the implementing institutions. With that uncertainty behind us we are pressing ahead with the implementation of the delayed measures. Key structural benchmarks have been achieved, including: (i) the implementation of the regulations for the Finance Administration Act; (ii) the initiation of civil service reform through the World Bank supported public sector transformation program; (iii) the development of a program for the privatization of the State Insurance Corporation; (iv) the recapitalization of the Bank of Antigua; and (v) diagnostic studies of the banking sector have been completed. On this basis we request the completion of the second and third reviews under the SBA.

Notwithstanding these early successes, the government recognizes that there are still many challenges ahead. Concerns are rising over the impact of the prolonged recession on unemployment and on poverty rates, while government revenue collection remains well below potential. In addition, the global economic environment remains uncertain with food and fuel prices close to the 2008 record levels. This situation requires continued vigilance to ensure that the objectives under the program are achieved. The Government of Antigua and

Barbuda remains firmly committed to macroeconomic stability and to the implementation of the reform outlined in the Memorandum of Economic and Financial Policies (MEFP) attached to our LOI of May 21. The attached MEFP describes performance under the SBA up to the end of 2010, outlines policies that the government has adopted in the 2011 Budget to help keep the program on track, and proposes structural benchmarks for this year. We continue to make good progress on reaching agreements with our domestic and external creditors on a comprehensive restructuring of the public debt that which has virtually eliminated arrears and significantly reduced debt service payments.

The government believes that the economic and financial policies set forth in the MEFP are adequate to ensure that the objectives of the program will be met. However, if needed, we stand ready to take any further measures that may prove necessary to meet our objectives, and would consult with the IMF on the adoption of such measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. In addition, the Government of Antigua and Barbuda does not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, introduce new or intensify existing trade restrictions for balance of payments purposes, or enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement.

Sincerely yours,

/s/

Hon. Harold Lovell
Minister of Finance, the Economy and Public Administration
Antigua and Barbuda

Attachments: Memorandum of Economic and Financial Policies

Attachment I. Memorandum on Economic and Financial Policies, 2010–2013

March 2011

I. BACKGROUND

1. **On June 7, 2010 the Board approved a 36-month SBA for 600 percent of quota (SDR 81 million), in support of the objectives of restoring fiscal and debt sustainability, and to set the stage for a sustained recovery.** The program includes a major fiscal improvement of 14½ percent of GDP in the primary balance, and a structural reform agenda to help strengthen the fiscal position and address vulnerabilities in the financial sector. As fiscal adjustment and structural reforms alone would not be sufficient to restore debt sustainability, a comprehensive restructuring of the public debt is also in progress. The completion of the first review under the SBA was approved by the Board on October 29, 2010. The second review, initially scheduled to be held prior to end-2010, did not take place as scheduled due to the need for a fuller assessment of financial sector conditions. It is now proposed to complete the combined second and third reviews, and to make available associated purchases.

2. **Although economic activity in 2010 was weaker than expected at the time of the SBA approval, there are some indications that growth will pick up in 2011.** There has been a strong improvement in the fiscal position, stemming from tighter spending and debt restructuring.
 - **Growth and inflation.** Tourist expenditures, labor remittances, construction spending, and foreign direct investment all declined during the recession of 2009–10, with GDP growth rates of -9.6 percent in 2009 and -4.1 percent in 2010. However, some demand indicators did begin to improve in the second half of 2010. Tourist arrivals in 2010 were up 2.7 percent for the year as a whole, but 5.0 percent higher in the second half. Inflation rose during 2010, owing mostly to food and fuel price hikes, finishing the year at an average rate of 3.4 percent. Overall, the outlook remains for moderate growth of 3.1 percent in 2011, with inflation of about 3 percent.
 - **Balance of payments.** Reflecting lower imports and reduced interest payments due to extensive debt restructuring, the current account deficit narrowed to 12 percent in 2010, from a deficit of 20 percent in 2009. Antigua’s share of the international reserves of the ECCB rose by US\$35 million to US\$136.1 million during the final quarter of 2010. A pickup in economic activity and imports together with higher interest payments in 2011 relative to 2010, should lead to some widening of the current account deficit in 2011, to about 14.5 percent.

- **Financial sector.** Deposits in indigenous banks have held fairly steady since the first half of 2009, when there was a run on the Bank of Antigua as a result of events surrounding the Stanford International Bank collapse. Overall, total loans by indigenous banks have fallen by about 12 percent since end-2009, to a little over EC\$1.3 billion, largely due to write-offs and restructuring. After declining in 2009, the ratio of non-performing loans (NPLs) to total loans in indigenous banks increased by more than 6 percentage points in 2010, to 17.5 percent at the end of September (well in excess of the ECCB-recommended 5 percent benchmark).
- **Public finances.** The central government overall fiscal balance improved by more than percent of GDP in the past year, from a deficit of 17.5 percent of GDP in 2009 to only 0.3 percent in 2010. Although revenue-side performance remained weaker than projected at the time of the SBA approval, this was offset by tighter expenditure and lower interest payments due to debt restructuring. Primary current expenditures and capital expenditures were lower than program projections, while current revenues and capital revenues underperformed program targets, and grant disbursement remained slower than expected.
- **Short-term debt and budget arrears.** The stock of central government external short-term debt was unchanged, while there was a substantial reduction in the amount of external and budget expenditure arrears, largely through debt restructuring agreements.

II. PERFORMANCE UNDER THE PROGRAM

3. **Fiscal results have been broadly in line with program projections.** All quantitative performance targets and fiscal structural benchmarks for end-December were met (Table 1). The EC\$11 million overall fiscal deficit recorded in 2010 was well within the end- December program target of EC\$52 million. The quantitative target for no net accumulation of external short-term debt was met. The targets for no net accumulation of budget and external arrears were met and surpassed. However, revenue collection continued to be disappointing, falling well short of the projections at the time of the SBA approval, despite showing some improvement in the second half of 2010. Recognizing this, we were able to limit expenditure and restructure interest obligations so as to maintain the overall balance target.

Table 1. Antigua and Barbuda: Quantitative Performance Criteria and Indicative Targets 1/
(In millions of Eastern Caribbean dollars)

	End-June 2010		End-September 2010		End-December 2010		End-March 2011		End-June 2011		End-September 2011		End-December 2011	
	Program	Adjusted Actual	Programmed	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program 8/	Actual
Performance Criteria														
Central government overall deficit including grants (ceiling) 2/ 3/	41.0	52.0	25.0	57.0	6/	46.0	75.0	7/	11.3	8.0	30.0	45.0		54.0
Stock of central government external short term debt (ceiling)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0
Central government external arrears accumulation (ceiling) 4/	0.0	0.0	-7.0	0.0	-8.0	0.0	-8.0	0.0	0.0	0.0	0.0	0.0		0.0
Central government budget expenditure arrears accumulation (ceiling) 4/	0.0	0.0	-32.0	0.0	-35.0	0.0	-35.0	0.0	0.0	0.0	0.0	0.0		0.0
Contracting and guaranteeing of external debt by the nonfinancial public sector (ceiling) 5/										10.0	10.0			10.0
Indicative target														
Central government primary balance including grants (floor) 2/ 3/	67.5	56.5	30.0	72.2	1.0	95.6	57.0	26.7	34.0	41.0				49.0

1/ Cumulative within each calendar year.

2/ See the TMU for a description of adjusters.

3/ Assumes all debt restructuring agreements have been concluded.

4/ To be monitored on a continuous basis.

5/ Excludes debt already contracted with IMF and CDB, any development policy loans contracted with the World Bank in 2011, and loans contracted with China Eximbank for airport improvement as described in the framework agreement of 31 December 2010, up to 210 million Chinese yuan.

6/ Target adjusted to reflect grant shortfall, the original program target is EC\$ 40 million.

7/ Target adjusted to reflect grant shortfall, the original program target is EC\$ 52 million.

8/ End-December 2011 PC's are indicative.

4. **We have made significant progress with the structural reform agenda, although we have encountered a few delays.** All of the end-June structural benchmarks have been achieved, one of the three end-September benchmarks has been met, and four of the six end-December benchmarks have been also been reached. Among the key end-June benchmarks, the most important is the recapitalization of the Bank of Antigua, which was achieved with a slight delay in October. Our government has developed a plan for privatization of the State Insurance Corporation, meeting one end-September benchmark. With respect to one of the other end-September benchmarks, the new Procurement Act regarding government acquisitions is expected to be enacted in the next few weeks. The drafting and presentation to Parliament of stand-alone legislation to govern the Financial Services Regulatory Commission,¹ the single regulatory unit for the nonbank financial sector, has been delayed, however, pending the ongoing implementation of several restructuring and reform measures. Three end-December benchmarks to enhance revenue collection were achieved, albeit with a slight delay in one case. The end-December PFM benchmark to strengthen Treasury cash and voucher management systems has also been reached.

5. **We have implemented a number of institutional reforms that are expected to contribute to improving the primary balance over the medium term.** On the revenue side, a CARTAC resident tax expert has been working since July to assist the authorities in implementing a DFID-financed program to strengthen capacity at the Customs and Inland Revenue Department (IRD). Initial steps included setting up teams to focus on large

¹ Presently, legislation governing the operation of the FSRC is enshrined in the International Business Corporations Act 1982, as amended. A separate piece of legislation governing the operation of the Commission is currently being drafted by the Attorney-General's Chambers. It is intended that the drafting of the FSRC legislation will form part of the overall restructuring exercise which has already commenced.

taxpayers and developing databases to facilitate cross-checking of returns. Other measures include hiring of 14 new tax auditors in September and October, the appointment of a new Comptroller of Customs in September, the institution of a program to raise VAT return filing rates, and the replacement of old tariff codes with the updated and simplified HS 2007 codes now used throughout the CARICOM region. On the expenditure side, we have begun taking action based on a World Bank-financed report that presents recommendations for rationalizing the size of the civil service. Functional reviews of two ministries have already been completed, and those ministries will prepare action plans to implement the review recommendations beginning in 2011. Negotiations are underway to secure funding to complete functional reviews of the remaining ministries.

6. **In the financial sector we have made considerable progress.** The recapitalization of the Bank of Antigua was completed in October with the opening of the successor institution, the Eastern Caribbean Amalgamated Bank (ECAB). The ECCB has commissioned bank valuations from external auditors to better gauge systemic and individual bank risks. In October, our government withdrew almost all of its 2009 SDR allocation (about US\$18 million), which we placed with the ECCB as emergency liquidity for support to solvent banks facing eventual liquidity needs.

7. **Our government has achieved notable success in restructuring debts to both domestic and external creditors.** We have signed memoranda of understanding with the two largest creditors among the statutory bodies—Social Security and the Medical Benefits Scheme. Together with the renegotiation of the interest on debt to commercial banks, nearly 80 percent of the domestic debt has been restructured, substantially reducing arrears and yielding large interest savings. The remainder of the domestic debt is primarily arrears to domestic suppliers. The government has negotiated payment plans with the largest institutions and will seek to pay down arrears to smaller institutions over time. On the external front, as we indicated in the MEF from the first review, the government negotiated a Paris Club agreement in September for non-concessional flow treatment of its debt, refinancing the existing debt (including arrears) at commercial interest rates, but with a grace period on amortization averaging seven years. Since then, we have also been in communication with non-Paris Club bilateral creditors, and have commenced negotiations on debt restructuring with some of these creditors.

Table 2. Antigua and Barbuda: Structural Benchmarks 1/

Action	Timing	SBA approval	2nd Review	TA requested ?	Status
Fiscal and Public Sector Reform					
<i>Inland Revenue Department (IRD) and Customs Department</i>					
Strengthen information technology (including SITAS) and human resources 2/	Dec-10	☀			● Done. Large taxpayer unit established; New tax auditors recruited.
Present legislation to harmonize tax laws and establish revenue court	Mar-11	☀			⚠ In progress. Preparatory work is being done.
Activate legislation authorizing garnishment of overdue ABST and personal income taxes	Jun-11		☀		New.
Develop guidelines to limit discretionary duty and tax concessions	Jun-11		☀		New.
Strengthen human resources, with emphasis on valuation and classification of goods	Dec-10	☀			● Done. HS2007 tariff codes passed and will be implemented starting April 1. Staff trained by CARTAC experts.
Draft regulations to give effect to the Customs Management and Control Act of 1993	Dec-10	☀			● Done. Draft submitted to Minister and will be presented to Parliament in March. (Delayed by 3 months)
<i>Public financial management</i>					
Implement regulations for the Finance Administration Act	Jun-10	☀			● Done.
Strengthen Treasury operations, including cash and voucher management systems	Dec-10	☀			● Done.
Enact new Procurement Act	Sep-10	☀			⚠ Delayed. Presented to Parliament, being reviewed by selected committee.
Develop and implement penalties for breaching expenditure controls	Sep-11		☀		New.
Review external audit department	Dec-11		☀	TA	New.
Complete draft of revised public service legislation	Sep-11		☀	TA	New.
<i>Civil service reform</i>					
Initiate work on the Civil Service Transformation program (payroll survey)	Jun-10	☀			● Done. Strategy paper drafted; employee census initiated in May 2010.
Initiate functional reviews of ministries not already reviewed	Jun-11		☀	TA	New.
<i>Social security reform</i>					
Initiate comprehensive reform of the social security scheme	Dec-10	☀			● Done. Proposals for reform approved by the Board.
<i>Public enterprise reform</i>					
Develop a plan for the privatization of selected government enterprises	Sep-10	☀			● Done. Strategy developed; Divestment of State Insurance Corporation nearing completion.
Complete TOR for budget impact assessment of selected SOEs	Jun-11		☀	TA	New.
Commence reviews of selected SOEs to assess fiscal risks	Sep-11		☀	TA	New. 3/
<i>Debt management</i>					
Develop guidelines for issuing government debt guarantees	Jun-11		☀	TA	New. 3/
Begin publishing quarterly debt information	Mar-11		☀		New.
Financial Sector Reforms					
Recapitalization of Bank of Antigua	Jun-10	☀			● Done. Successor institution began operations as Eastern Caribbean Amalgamated Bank. (Delayed by 3 months)
ECCB comprehensive examination of the banks	Jun-10	☀			● Done. Bank examination started by end-June; valuation of two banks initiated. (Delayed by 2 months)
Present stand-alone legislation to govern the Financial Services Regulatory Commission to Parliament	Sep-10	☀			⚠ Delayed. Legislation is being drafted.
Amend legislation to effectively combat money laundering and terrorism financing	Jun-10	☀			● Done. Amendments to legislation passed in June.
Develop a plan for the resolution of the BAICO and CLICO in line with regional efforts	Dec-10	☀			⚠ In progress. Regional initiative is progressing slowly.

1/ These benchmarks are discussed in Box 4 of EBS/10/96 (05/25/10).

2/ Standardized Integrated General Tax Administration System (SIGTAS).

3/ If the planned TA does not become available as scheduled, the target date will not be binding.

III. POLICY OBJECTIVES FOR 2011 AND BEYOND

8. **Our government remains firmly committed to its wide-ranging reform program.**

The major initiatives are in the areas of fiscal and financial sector policy, but the program also includes social sector reforms, notably for social security.

A. Fiscal Policy

9. **The 2011 budget secures and extends the gains achieved in 2010.** The budget projects an overall balance of -EC\$54 million (1.5 percent of projected GDP), similar to 2010, and a primary surplus of EC\$49 million. The reforms implemented over the past year at Customs and the IRD are expected to yield tax revenue gains of 10 percent year-on-year in 2011. New revenue measures—yet to be implemented—include reductions in special tax concessions, the activation of existing legislation enabling the garnishment of assets to satisfy tax obligations, and the submission of new Customs legislation to Parliament. On the expenditure side, the public sector wage bill will be controlled through tight limits on overtime, and through the continuation of freezes on new hires and on nominal wage increases. Our government will continue to pursue its Public Sector Transformation Program, which involves reducing the workforce through attrition, reviewing the compensation and functions of civil servants, and outsourcing some government activities, among other measures. As it is likely that no additional financing for the public sector will be available beyond what is already projected, in the event that fiscal performance appears to be falling short of targets, we will undertake additional budget measures to ensure achievement of the targets.

10. **Our government will develop plans for the normalization of fiscal relations with the public enterprises, and for eventual privatization of some enterprises.** The privatization of the State Insurance Corporation is expected to be completed within fiscal year 2011. The government will develop plans to make more transparent the fiscal relations with remaining state-owned enterprises, many of which receive tax subsidies but which also hold claims against the Treasury. We will also identify additional candidates for eventual privatization, with a view to improving both overall economic efficiency and the fiscal position.

11. **We will develop new backup sources of financing in order to reduce overall vulnerabilities.** While the program is fully financed, and the arrangements with creditors provide for a moratorium on most principal repayments until 2017, liquidity pressures could emerge over the medium-term, especially at the time we start making repurchases on the SBA with the Fund. For these reasons it is crucial that we develop supplemental sources of nonbank financing (including the RGSM) to be used in the event of unanticipated shocks. We look forward to technical assistance from MCM to assist us with improving debt management.

B. Debt Management

12. **Our government will continue bilateral negotiations to resolve remaining arrears.** Bilateral negotiations with several individual Paris Club creditors, including the United States, United Kingdom, France, and the Netherlands, have already been completed. Others will soon be completed in order to secure the specific terms (including interest rate profiles and resolution of uncertain obligations) not already determined by the terms of the September Paris Club agreement. Negotiations with non-Paris-Club creditors will be pursued with the aim of securing terms as good as, or more favorable than, those granted by the Paris Club. Our government will continue with its program of restructuring and paying outstanding obligations to domestic suppliers over the first two years of the SBA. We have updated the previous December 2009 reference point for the performance criterion on arrears non-accumulation to September 2010, to reflect the considerable gains we have already achieved in resolving arrears.

13. **Our government commits to restricting the contracting of new external public and publically guaranteed debt to EC\$ 10 million or less in 2011.** This commitment excludes the contracting of any or all of the loan referred to in the framework agreement with China signed on 31 December 2010, for construction of an airport terminal, up to the amount of 210 million Chinese yuan. Financing from the IMF and the Caribbean Development Bank that has already been contracted for 2011 will not be counted against this limit. Any development policy loan contracted with the World Bank in 2011 will also be exempted from this limit.

14. **We will continue to advise IMF staff of developments with respect to the framework agreement with China for a loan to construct a new airport terminal.** Accordingly, we agree to provide IMF staff with advance copies of any binding agreements to be signed with respect to the loan, leaving IMF staff adequate time to respond and provide advice on the proposed contract.

C. Financial Sector Policies

15. **Working in conjunction with the ECCB, we will take rapid action to resolve any identified capital shortfalls.** Existing shareholders will bear the burden of recapitalization to the extent possible, and solutions that rely upon recapitalization from private investors will be favored. While fiscal support may be required for recapitalization, this will be minimized, and we will retain an equity interest that will allow taxpayers to benefit from a return to profitability. This strategy will be developed in consultation with Fund staff within the context of the government's fiscal consolidation program.

16. **The use of the SDR resources withdrawn in October will be restricted to support for banks that are solvent.** Such support would be provided through ECCB liquidity facilities, and may be used in conjunction with a broader strategy for recapitalization.

17. **The government will proceed with reforms to the financial regulatory framework.** The government is working, together with the ECCB, on measures to improve domestic bank supervision, with a focus on liquidity management and loan classification. In addition, the government is receiving assistance to strengthen the Financial Services Regulatory Commission (FSRC), which is responsible for the supervision of non-bank financial institutions and offshore financial companies. We are proceeding with efforts to complete the drafting of legislation to establish a single regulatory agency for nonbanks. Regarding the failed insurance companies BAICO and CLICO, we remain committed to the principle that any resolution should minimize fiscal costs—through revision of existing terms, extension of tenor, and possibly conversion of some liabilities into equity. We will continue to participate actively in regional initiatives toward the resolution of BAICO.

D. Social Policies

18. **We will advance our program of social reforms, including reforms aimed at ensuring the sustainability of Social Security.** The social security board has developed a set of proposals for parametric reform of the social security that will raise the retirement age progressively from 60 to 65, and increase the maximum income for contributions. The Board has presented its proposals for reform to the Cabinet with a view to having parliamentary approval by the second quarter of 2011. The proposals for the reform of the social security scheme will be finalized in the context of the ongoing actuarial review which will incorporate the effects of the recently agreed debt restructuring measures.

19. **Progress** in the implementation of policies under the program will continue to be monitored through quarterly reviews and through performance criteria, with indicative targets as well as structural benchmarks. The fourth and fifth program and financing assurances reviews would be completed by June 1, 2011 and September 1, 2011. At this stage quantitative performance criteria are set for end-June and end-September 2011, and quantitative indicative targets are set for end-September and end-December 2011. Definitions of all relevant variables and reporting requirements are contained in the attached Technical Memorandum of Understanding.

Attachment II. Antigua and Barbuda: Technical Memorandum of Understanding

1. Performance under the Stand-By Arrangement (SBA) will be assessed on the basis of quantitative performance criteria and indicative targets, as well as structural benchmarks. This Technical Memorandum of Understanding presents the definitions of variables set out in Table 1 of the Memorandum of Economic and Financial Policies (MEFP) and the reporting requirements to adequately monitor performance under the program.

2. For the purposes of the program, the exchange rate of the Eastern Caribbean dollar (EC\$) to the U.S. dollar is set at EC\$ 2.70 = US\$1. Foreign currency accounts denominated in currencies other than the U.S. dollar, excluding SDRs, will be first valued in the U.S. dollar at actual end-of-period exchange rates used by the ECCB to calculate the official exchange rates. SDR-denominated accounts will be valued at the program exchange rate of U.S. dollar 1.5 per SDR.

I. COVERAGE

3. For the purpose of the program, the **central government** will cover all items included in the government budget.

4. The **nonfinancial public sector** is defined as the total central government and nonfinancial public enterprises. Public enterprises consist of Agricultural Development Corporation, Antigua and Barbuda Hospitality Training Institute, Antigua and Barbuda Institute of Continuing Education, Antigua and Barbuda Investment Authority, Antigua and Barbuda Social Security Board of Control, Antigua Barbuda Airport Authority, Antigua Barbuda Bureau of Standards Board, Antigua Barbuda Development Bank, Antigua Barbuda Tourism Authority, Antigua Barbuda Transport Board, Antigua Pier Group Limited, Antigua Port Authority, Antigua Public Utilities Authority, Board of Education 1994 Limited, Central Housing and Planning Authority, Central Marketing Corporation, Development Control Authority, Financial Services Regulatory Commission, Industrial Development Board, Medical Benefit Scheme, Mt. St. John Medical Centre, National Parks Authority, National Solid Waste Management Authority, PDV Caribe, St John's Development Corporation, State Insurance Corporation and Youth Empowerment Corporation.

5. **External debt** is defined as all debt owed to creditors residing outside of Antigua and Barbuda, while domestic debt covers all debt owed to residents of Antigua and Barbuda. All bonds issued at the Regional Government Securities Market (RGSM) will be regarded as domestic debt.

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Central Government's Overall Deficit

6. The **central government's overall balance** will cover all its revenue, grants, expenditure, and transfers. Revenues will exclude any proceeds from the sale of public assets, which will be considered as financing.
7. The **central government's overall deficit** will be measured from the financing side as the sum of the net domestic financing plus net external financing.
8. **Net domestic financing** of the central government is the sum of:
 - net domestic bank financing as measured by the change in the domestic banking system credit to the central government net of deposits, as reported by the consolidated balance sheet of the monetary authorities and commercial banks, including special tranches from the ECCB;
 - net nonbank financing as measured by the net changes in holdings of government securities by nonbanks, and net borrowing from nonbank institutions;
 - the change in the stock of domestic arrears of the central government defined as net changes in unpaid checks issued, unprocessed claims, pending invoices, plus accrued interest payments, and other forms of expenditures recorded above the line but not paid;
 - gross receipts from divestment are defined as proceeds received from any privatization/divestment; and
 - any exceptional financing (including rescheduled principal and interest).
9. **Net external financing** of the central government is defined as the sum of:
 - disbursements of project and non-project loans, including securitization;
 - proceeds from bonds issued abroad (with an original maturity of one year or greater);
 - exceptional financing (including rescheduled principal and interest);
 - net changes in cash deposits held outside the domestic banking system;
 - net changes in short-term external debt excluding exceptional financing (with an original maturity of less than one year);

- any change in arrears on external interest payments and other forms of external expenditures recorded above the line but not paid;

less:

- payments of principal on current maturities for bonds and loans on a due basis, including any prepayment of external but excluding repayments to the IMF.

10. The **ceiling on the overall deficit of the central government** will be adjusted:

upward to the extent that grants fall short of the programmed amounts as specified in Table 1; and **upward** by the cumulative amount of up to EC\$ 25 million spent on bank recapitalization and support to the British American Insurance Companies—any amounts spent in excess of this programmed contingency will need to be funded within the program limit on the overall deficit. Grants are defined as noncompulsory transfers, in cash or in kind, received from other governments or from international organizations.

Table 1. Programmed Disbursements of Grants in 2011
(in EC\$ millions)

Quarter	I	II	III	IV
Grants	19

Sources: Antiguan authorities and Fund staff estimates.

Note: Values presented are cumulative.

B. Stock of Central Government Short-Term External Debt

11. The **limit on short-term external debt** applies to debt owed or guaranteed by the central government of Antigua and Barbuda, with an original maturity of up to and including one year. Excluded from the limit are any rescheduling operations (including the deferral of interest on commercial debt) and normal import-related credits. Normal import credit is understood to be a self-liquidating operation where the proceeds from sales of imports are used to retire the debt. Debt falling within the limit shall be valued in U.S. dollars at the time the contract or guarantee becomes effective.

C. External Arrears of the Public Sector

12. The **non-accumulation of arrears to external creditors** will be a continuous performance criterion under the program. This performance criterion applies to debt contracted or guaranteed by central government from multilateral or bilateral official creditors. External payment arrears consist of external debt service obligations (principal and interest) falling due after December 31, 2009 that have not been paid at the time due, taking into account the grace periods specified in contractual agreements. Arrears resulting from the nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is being sought are excluded from this definition.

D. Budget Expenditure Arrears

13. A ceiling is set on **central government budget expenditure arrears** to domestic private parties, equal to the stock of such arrears as at September 30, 2010 (Table 2). This ceiling will be monitored on a continuous basis. Budget expenditure arrears are defined as the sum of: (1) any invoice that has been received by a spending agency from a supplier of goods, services, and capital goods delivered and verified, and for which payment has not been made within the contractually agreed period, or, in the absence of a grace period, within 60 days; and (2) unpaid wages, pensions, or transfers, pending for longer than 60 days to domestic or foreign residents, irrespective of the currency denomination of the obligation.

Table 2. Stock of Domestic Arrears at September 30, 2010
(in EC\$ millions)

Unpaid checks issued	198.8
Unprocessed claims and pending invoices	43.8
Interest and amortization arrears on domestic debt	646.7
Total stock of arrears	889.3

Source: Ministry of Finance

E. External Debt Contracted or Guaranteed by the Nonfinancial Public Sector

14. The ceiling on external debt will be applied to contracting or guaranteeing of debt by the nonfinancial public sector. The contracting and guaranteeing of debt will be monitored and reported to the Fund staff by the Debt Management Unit on a monthly basis.

15. This performance criterion applies not only to debt as defined in point No. 9 of the “Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements” adopted by the Decision No. 14416-(09/91) of the Executive Board of the IMF, as amended effective December 1, 2009 but also to commitments contracted or guaranteed for which value has not been received:

(a) For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out in point 10(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.”

16. Excluded from the ceiling are credits by the IMF and credits contracted by the Caribbean Development Bank before March 4, 2011, any development policy loans contracted with the World Bank in 2011, and loans contracted with China Eximbank for airport improvement as described in the framework agreement of 31 December 2010, up to 210 million Chinese yuan.²

17. The contracting of external debt for the purpose of refinancing existing obligations shall be excluded from the ceiling, up to the amount of the existing obligation to be paid.

² As of March 4, 2011, undisbursed balances of CDB loans already contracted with Antigua and Barbuda totaled US\$ 26.5 million.

III. INDICATIVE TARGET ON THE PRIMARY BALANCE OF THE CENTRAL GOVERNMENT

18. The **central government's primary balance** is defined as revenue and grants minus non-interest expenditures. As in the definition of the overall balance, revenues will exclude privatization proceeds. Net lending is a non-interest expenditure item (negative net lending is a revenue item). Interest expenditures include interest payments on outstanding arrears, as defined above in sections C and D (at their contractual rates) converted to a cash basis.

19. The **floor on the primary balance of the central government** will be monitored from above the line on a cash basis. Transfers among entities of the central government are mutually offsetting; hence, the difference between the simple sum of revenues and the simple sum of primary expenditures across all central government entities yields the consolidated central government balance. Should discrepancies arise, reconciliation between reported transfers and reported revenues from other central government entities will be required so that compliance with the central government primary balance target. The **floor on the primary balance of the central government** will be adjusted as follows:

- **downward** (i.e., a smaller primary surplus target would apply) to the extent that grants fall short of the programmed amounts as specified in Table 1; and
- **downward** by the cumulative amount of up to EC\$ 25 million spent on bank recapitalization and support to the British American Insurance Companies—any amounts spent in excess of this programmed contingency will need to be funded within the program limit on the overall deficit.

IV. DATA AND INFORMATION

20. To enable monitoring of performance relative to the above quantitative performance criteria and indicative targets, the Antigua and Barbuda authorities will provide Fund staff with the following specific data and information within 6 weeks after the end of each month.

Fiscal sector

- Central government budgetary accounts.
- Current grant inflows.
- Capital expenditure.
- Total disbursements/grant receipts, monthly, disaggregated into: (a) budgetary support (by type—either loans or external “bonds” and/or other securities); (b) project loans; (c) budgetary grants; and (d) project grants.
- Central government domestic debt data.

- Stock of domestic arrears, including unpaid checks issued, stock of unprocessed claims due and invoices pending; interest and amortization on domestic debt.
- Stock of external arrears (creditor by creditor).
- Detailed (creditor by creditor) monthly external debt report from the Debt Unit in the Ministry of Finance, showing fiscal year-to-date disbursements, amortization, interest payments, and outstanding stocks, for the central government and public enterprises.
- Copies of loan agreements for any new loans contracted, including financing involving the issue of government paper, and of any renegotiated agreements on existing loans.

Financial sector

- Monetary survey for Antigua and Barbuda as prepared by the Eastern Caribbean Central Bank.

21. All such information will be provided to Fund staff within 6 weeks of the end of each month, except for the monetary survey, which will be delivered by the ECCB to Fund staff within 8 weeks of the end of each month.