

International Monetary Fund

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and the IMF

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

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May 21, 2012

Mme. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Madame Lagarde,

Antigua and Barbuda continues to decisively address the major challenges to its economy that have arisen from the worst crisis in its history. Over the past three years, we have seen a contraction of economic activity of about 25 percent, with tourism receipts, labor remittances, construction and foreign direct investment displaying double-digit declines. Nevertheless, the Government has persevered in its program to correct fiscal imbalances, implement structural reforms and reduce the debt burden, all preconditions for sustainable long-term growth that will ensure the future welfare of our population. The strains from the economic crisis also led to the collapse of one of our largest domestic banks, Antigua and Barbuda Investment Bank (ABIB), which was intervened in July 2011 by the Eastern Caribbean Central Bank (ECCB). The intervention and subsequent conservatorship of the bank by the ECCB have been skillfully managed to maintain the integrity and stability of the financial system. However, the resolution process has been complex given the systemic nature of the bank and its links to other banks and enterprises in Antigua and Barbuda and regionally. Uncertainty about the fiscal cost of resolution has led to delays in the Fund program reviews and purchases.

Despite these challenges, Antigua and Barbuda's performance under the Stand-By Arrangement (SBA), described in our Letter of Intent (LOI) dated March 18, 2011, has been strong, a palpable demonstration of our commitment to our fiscal consolidation program. Three targets under the program for end-September, 2011 were missed due to expenditures in support of ABIB and shortfalls in external financing arising from delayed reviews under the program, as well as the reprogramming of a previous loan from the Export-Import Bank of China. However, the deviations were minor, temporary or addressed through corrective action and, excluding payments for ABIB, all indicative targets for December related to performance criteria would have been met. Furthermore, progress was made in achieving two important structural benchmarks before end-December: (i) the enactment of the new Procurement Act; and (ii) the issuance of guidelines for government debt guarantees. In addition, an important benchmark on the taxation of benefits as required under the PAYE law was completed in April 2012, and another on the activation of legislation authorizing garnishment for overdue ABST and PAYE taxes will be completed by end-June. These measures mark landmark reforms to help enhance fiscal performance in support of the long-term goals of increasing government investment and ensuring debt sustainability.

Our program for 2012–13, described in the attached memorandum of economic and financial policies (MEFP), is designed to consolidate our record of fiscal responsibility under the program and safeguard the gains from our recent debt restructuring. We are cautiously expecting real growth of 1 percent in 2012, based on a modest pick up in tourism and construction. Given the World Economic Outlook projection for an expected easing of food and fuel prices in 2012, we are expecting inflation to drop to 3 percent by the end of this year. Taking into account the possible impact of ABIB’s resolution, we have designed a conservative fiscal program that targets an underlying primary surplus of 1.7 percent of GDP in 2012 and the necessary effort in 2013 to achieve our debt targets in the medium term, contingent on the size of the recapitalization bond that will need to be issued in the process of resolution. Our structural agenda for fiscal reforms is in line with the technical assistance on public financial management and revenue administration we are receiving with funding from the European Union to boost fiscal performance. Our program also contains a number of financial sector measures consistent with a rapid resolution of ABIB and the licensing of a new financial entity, as well as continued stability of the financial system. These measures entail actions on the part of the Eastern Caribbean Central Bank, which has provided the Government with assurances that such actions will be taken in a timely manner (see attached letter). On the basis of past performance and these policies, we request waivers for the missed performance criteria in September, based on the fact that they were minor, or temporary and corrected in December, and we request the completion of the fourth, fifth and sixth reviews under the SBA. In addition, in consultation with Fund staff regarding the delays in the Fund program reviews, the Fund’s policy on access limits and the resumption of purchases under the SBA, we request a rephrasing of purchases under the SBA (reducing access by 50 percent of quota to a total of 100 percent of quota to be available upon the completion of the fourth, fifth and sixth reviews and by 100 percent of quota to a total of 500 percent of quota under the SBA).

The Government of Antigua and Barbuda remains firmly committed to macroeconomic stability and to the implementation of the reforms outlined in the Memorandum of Economic and Financial Policies (MEFP) attached to our LOI of May 21, 2010. The attached MEFP describes our performance under the SBA up to the end of 2011, outlines policies that the government has adopted in the 2012 Budget or separately with the Fund 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 the comprehensive restructuring of the public debt, which has virtually eliminated arrears and significantly reduced debt service payments.

We are confident that the economic and financial policies set forth in the attached MEFP are adequate to ensure that the objectives of the program will be met. However, should there be any unforeseen events or external shocks, the Government stands ready to adopt the necessary policies and measures that would secure our policy objectives. The Government

will consult with the IMF on the adoption of such policies and 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. In line with our commitment to transparency, we request that the IMF publish this letter of intent, the MEFP and the technical memorandum of understandings (TMU).

Sincerely yours,

/s/

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

Attachments: Memorandum of Economic and Financial Policies
Letter from the ECCB

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2012–2013
May 2012

I. BACKGROUND

1. **The Government's fiscal consolidation program, supported by a Stand-By Arrangement (SBA) from the IMF approved on June 7, 2010, continues to yield important results.** The public finances have been stabilized, with a major improvement of almost 13 percent of GDP in the primary fiscal balance in 2010, which has been largely sustained in 2011 despite an adverse external economic environment, delays in disbursements under the SBA and challenges in the banking sector. A comprehensive debt restructuring has been mostly completed, normalizing relations with domestic and international creditors and allowing for a reprogramming of debt payments and a significant reduction in debt service. A comprehensive program of reforms in revenue administration and public financial management is underway to improve public administration. These actions are designed to ensure fiscal and external sustainability, and to set the stage for a revival of private investment and robust and sustained growth going forward.
2. **Reviews under the program have been delayed due to uncertainties over the resolution of ABIB.** The completion of the first review was approved by the Board on October 29, 2010. The completion of the combined second and third reviews was approved by the Board on March 30, 2011. The fourth review, which should have been completed before the end of June, 2011, was delayed due to challenges facing a large domestic bank (ABIB) which was ultimately intervened by the ECCB in July, 2011 and uncertainties related to the fiscal cost of its resolution. Subsequent reviews were delayed as the process of resolution was complicated by the need to value ABIB's balance sheet and determine assets to be transferred to a new bank as part of its resolution.
3. **The Government's program, described in this memorandum, seeks a flexible policy approach that accommodates different outcomes for the resolution of ABIB, while maintaining the government's goals of fiscal sustainability and financial stability.** It programs a very cautious fiscal path for 2013 based on a worst case projection for the fiscal cost for the resolution of ABIB, but includes an adjustor to revise the fiscal stance should the outcome be different from this pessimistic baseline. In addition, the program includes actions on the financial sector on the part of the ECCB to safeguard the stability of the financial system going forward. On the basis of these policies it is proposed to complete the fourth, fifth and sixth reviews under the SBA together.

II. ECONOMIC PERFORMANCE

4. **Economic performance in 2011 was weaker than expected due to the continued effect of low growth and uncertainty in our industrial trading partners.**

- **Growth and inflation.** Output declined an estimated 5.5 percent in 2011, following a cumulative decline of about 19 percent in the previous two years, despite the gradual improvement of some demand indicators including tourist arrivals. After a slowdown related to the recession, inflation picked up in the second half of 2011 due to the lagged effect of higher food and energy prices.
- **Balance of payments.** Reflecting lower imports and reduced interest payments due to extensive debt restructuring, the current account deficit as a percent of GDP narrowed to 10.6 percent in 2011, from 12.9 percent in 2010. Antigua's share of the international reserves of the ECCB rose by US\$37 million from December 2010 to US\$ 172.9 million in February 2012.
- **Financial sector.** Total deposits in the banking system were up 2 percent year-to-date in February while credit to the private sector declined by 5 percent year-on-year—largely due to the prolonged slowdown in economic activity. The ratio of non-performing loans (NPLs) to total loans for the overall banking sector rose to 12.8 percent in December 2011 from 10.6 percent the previous year. However, loan loss provisioning as a ratio to NPLs also increased to 31.9 percent compared to 26.4 percent in December 2010.

III. PERFORMANCE UNDER THE PROGRAM

5. **The fiscal outcome for 2011 was broadly in line with the program despite weak economic activity.** Revenue collection continued to be disappointing for the whole year due to the weak economy, falling well short of the projections at the time of the combined second and third reviews. In light of this, we were compelled to further constrain primary expenditure, particularly capital spending, and we restructured interest obligations so as to maintain the overall balance target. Three quantitative targets for end-September, 2011 were missed due to expenditures in support of ABIB and shortfalls in external financing arising from delayed reviews under the program, as well as the reprogramming of a loan from the Export-Import Bank of China. However, the deviations were minor or temporary and, excluding payments for ABIB, all indicative targets for December related to performance criteria were met.¹ Excluding the EC\$41 million liquidity injection to ABIB, the overall fiscal deficit recorded in 2011 was EC\$52 million, EC\$2 million below the unadjusted end-December indicative program target of EC\$54 million.²

¹ The indicative target on the primary balance for December, which is not a performance criterion, was missed.

² Including payments for ABIB the overall deficit was EC\$93.3 million, which was larger than the adjusted program target of EC\$79 million, which only takes into account EC\$25 million of the EC\$41 million liquidity payments to ABIB.

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

	End-March 2011		End-June 2011		End-September 2011		End-December 2011		7/ End-June 2012		End-September 2012		End-December 2012		End-March 2013		
	Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual	
Performance Criteria																	
Central government overall deficit including grants (ceiling) 2/ 3/	8.0	18.5	30.0	28.9	70.0	6/	84.8	79.0	6/	93.3	16.0		32.0		40.0		-5.3
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	0.0	0.0	0.0	0.0
Central government external arrears accumulation (ceiling) 4/	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	0.0	0.0	0.0	0.0
Central government budget expenditure arrears accumulation (ceiling) 4/	0.0	-17.0	0.0	-25.2	0.0	3.2	0.0	-21.0	0.0	0.0	0.0	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	0.0	10.0	12.0	10.0	12.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Indicative target																	
Central government primary balance including grants (floor) 2/ 3/	26.7	5.7	34.0	6.5	16.0	6/	-30.5	24.0	6/	-30.4	28.2		38.4		54.5		29.0

1/ Cumulative within each calendar year.

2/ See the TMLU 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 2012,

and loans contracted with China Eximbank for airport improvement as described in the framework agreement of Dec. 31, 2010, up to 210 million Chinese yuan.

6/ Adjusted target (including ECS25 million for bank recapitalization), the original program target for the overall deficit was ECS 45 million (end-September), and ECS 54 million (end-December).

7/ Indicative targets.

6. **We have made significant progress with the structural reform agenda, although we have encountered a few delays.** We have completed the following important structural benchmarks: (i) publish quarterly debt information; (ii) develop guidelines to limit discretionary duty and tax concessions; (iii) issue guidelines for granting debt guarantees; (iv) enact the new Procurement Act; and (v) develop a plan for the resolution of BAICO and CLICO in line with regional efforts. In addition, an important benchmark on the taxation of benefits as required under the PAYE law was completed in April 2012, and another on the activation of legislation authorizing garnishment for overdue ABST and PAYE taxes will be completed by end-June. Another pending reform (the drafting and presentation to Parliament of stand-alone legislation to govern the Financial Services Regulatory Commission) has been delayed, but we have made substantial organizational changes to strengthen the Commission.³

7. **The Government has finalized five of the six bilateral agreements under the Paris Club, and good-faith efforts are underway to complete agreements with non-Paris Club creditors.** We have concluded bilateral agreements with France, Japan, the Netherlands, the United States and the United Kingdom, and the negotiated agreement with Brazil is pending ratification by that country's senate. For non-Paris Club countries, China has agreed to restructure all outstanding debts over 15 years on an interest-free basis and discussions have commenced with Kuwait and Trinidad and Tobago to restructure debt on comparable terms. The negotiations with the two remaining external creditors are ongoing. For domestic debt, the government has negotiated repayment plans with several suppliers and aims to continue to pay down arrears.

³ Presently legislation governing the operation of the FSRC is enshrined in the International Business Corporations Act of 1982 as amended. A separate piece of legislation governing the operation of the commission is currently being drafted by the Attorney General's chambers. This FSRC legislation forms part of an overall restructuring exercise that is ongoing.

IV. POLICY OBJECTIVES AND POLICIES FOR 2012–2013

A. Growth and Inflation

8. **We have assumed a moderate recovery of the economy for 2012–13.** For 2012 we are projecting growth of 1 percent based on a modest pick up in tourism and some construction activity, related to a modest recovery in economic growth in North America. We are assuming inflation will ease to 3 percent by year-end given the expected softening of food and fuel prices. For 2013, we are projecting growth of 1.5 percent based on improved external conditions and a consequent improvement in tourism and FDI. Inflation is expected to remain stable at 3 percent in 2013 given forecasts for a reduction in food and fuel prices.

B. Fiscal Policy

9. **Fiscal policy will continue to be guided by the goal of adjustment and the gradual reduction of the debt ratio.** For 2012, the fiscal program would target an underlying primary surplus for the central government (excluding ABIB) of 1.7 percent of GDP and an overall deficit of 1.3 percent of GDP. This represents a headline tightening of 1.3 percent over 2011 in the primary balance (excluding ABIB). To reach this ratio we are implementing tax administration measures which we expect to yield an additional 0.9 percent of GDP in revenue over and above what would be expected based on nominal GDP growth alone (see Structural Reforms below).

10. **For 2013, the fiscal program would be consistent with an adverse scenario, which assumes the issuance of a recapitalization bond for the resolution of ABIB that approaches** the upper bound of the gap in the new bank's balance sheet that would need to be filled by government assets to bring the net worth to zero (see Recapitalization Bond below). Under this adverse scenario, an additional effort for 2013 would target a primary surplus of 3.5 percent of GDP, a further adjustment of 1.8 percent of GDP over 2012. We estimate this is the medium-term primary surplus necessary under this adverse scenario to bring the debt ratio to 60 percent of GDP in 2020.

	Antigua and Barbuda - Fiscal balances (percent of GDP)			
	Prel.	Program		
	2011	2012	2013	Medium term 2/
Primary balance 1/	0.4	1.7	3.5	3.5
Interest payments	2.1	3.0	2.9	2.8
Overall balance 1/	-1.7	-1.3	0.6	0.7
Public debt 3/	93.0	97.9	93.4	60.0

1/ Excluding recapitalization payments in 2011 (1.4 percent of GDP) and the bond in 2012.
2/ Average required to reach a debt ratio of 60 percent of GDP by 2020.
3/ Public and publicly guaranteed. Includes renegotiation to reduce debt by 3.1 percent of GDP in 2012.

11. **A symmetric adjustor will allow for a revision of the fiscal targets for 2013 if the size of the recapitalization bond were to be different from the adverse scenario.** We believe the bond is more likely to be lower, however we have opted to proceed with the adverse scenario as a precaution until the resolution process has been completed. The adjustor is based on a simple linear formula to maintain consistency with a reduction in debt to 60 percent of GDP by 2020.⁴ The adjustor would lower the primary surplus to 2.6 percent of GDP in the most optimistic case. In all cases the adjusted target would be set in nominal terms as the overall balance consistent with the primary surplus calculated in the adjustor minus interest payments.

C. Recapitalization Bond

12. **The issuance of the recapitalization bond will be guided by the following principles:**

- The recapitalization bond will be issued by the Government of Antigua and Barbuda to the new bank when it is licensed and begins operating.
- The issuance of the recapitalization bond shall reflect the analysis of the valuation of the assets as agreed (see below). Specifically, the bond will be equal to the difference between the valuation of the assets to be transferred (as in the valuation below) and the liabilities to be transferred and will be sufficient to bring the net worth of the new bank to zero.
- If in the process of establishment of the new bank the purchasers decide, in agreement with the ECCB, to value the assets to be transferred at a higher price than suggested in the valuation report, this will not affect the value of the recapitalization bond to be issued on the balance sheet of the new bank, and the capitalization of the new bank will be based on the valuation of assets as presented in the valuation report.

D. Financial Sector Policies

13. **The focus of our program has shifted to include a greater emphasis on financial sector measures as a result of the need to proceed with the resolution of ABIB.** These measures also take into account the need to restructure and consolidate the domestic banking system and update the legal and regulatory framework. The following measures, except for the establishment of an asset management company, are under the purview of the Eastern Caribbean Central Bank (ECCB) which has signaled its commitment to take these measures in a timely manner in the attached letter:

⁴ The formula is $p=0.0047b+1.89$, where p is the primary surplus in 2013 in percent of GDP and b is the size of the bond in millions of EC\$, and it determines a floor for the 2013 primary surplus equal to what is needed in 2014–2020 to achieve the target of 60 percent public debt by 2020.

Resolution of ABIB

- **Independent valuation of the assets to be transferred to the new bank.** In the process of resolution of ABIB, the good assets remaining on the balance sheet of the intervened bank will be transferred to the new bank. As part of the licensing process, an independent valuation of assets is necessary for supervisory purposes in order to determine the adequacy of the bank's capital. This valuation will be performed in the context of an update of the original report on ABIB and mandated by the ECCB. *As a prior action for these reviews, the ECCB will present a satisfactory terms of reference for the new valuation including specific information that should be reviewed in the process of the valuation.*
- **Strategic plan for the new bank.** This would be required as part of the fit and proper certification and licensing of the new bank. *This would be a structural benchmark for the next review under the program.*
- **Establishment of an Asset Management Company for recovery of bad assets from bank resolutions.** This measure is under the purview of the Government of Antigua and Barbuda. We have decided to create a separate asset management company to liquidate the impaired assets stemming from the resolution of ABIB. *Creation of this special purpose vehicle (different from the RTC) would be a structural benchmark for the next review.*

Rest of the Financial System

- **Other indigenous banks.** The ECCB will submit a plan to restructure the indigenous banking system in Antigua and Barbuda. *This would be a structural benchmark for the next review.*
- **Banking supervision.** The ECCB has agreed on a timetable for on-site inspections of Antigua and Barbuda indigenous banks. *Completion of the inspections would be a structural benchmark for the next review.*

14. **As part of the efforts to reduce systemic risk in the ECCU,** the ECCB, under the guidance of the Monetary Council, is in the process of developing plans to revise provisioning regulations and capital adequacy in the ECCU in the medium-term. These developments will be followed closely as we regard them as important measures in safeguarding the domestic banking system.

E. Structural Reforms and Social Policies

15. **The structural reform agenda follows our continued efforts to improve public financial management and revenue administration, aided by funding from the European Union and technical assistance from the IMF.** These efforts are key to

ensuring a sustainable improvement in the fiscal position necessary to bring about fiscal consolidation without further cutting essential government expenditure on social programs and capital spending. The most important elements of these structural reforms (presented in Table 2A attached) include: the implementation of legislation to tax benefits as per the PAYE law, which was completed in April; improving compliance levels of state-owned enterprises and professionals with tax obligations (to be completed by June and September 2012, respectively); the implementation of the HS2007 code in Customs and the presentation to Parliament of the New Customs Law (to be completed by June and September 2012, respectively); the completion of a tax-expenditure study in September; the implementation of a valuation/compliance audit in customs on petroleum imports; and finally, the clearing up of all pending financial statements for FY2007 through FY2010 by December 2012.

F. Program Monitoring

16. **Progress in the implementation of policies under this program will be monitored through quarterly reviews and through quantitative performance criteria, with indicative targets as well as structural benchmarks.** The seventh and eighth program and financing assurances reviews are to be completed by September 15 and December 15, 2012 respectively. Quantitative performance criteria at this stage are being set for end-June, end-September and end-December 2012 and end-March 2013. The quantitative performance criteria and indicative targets are set out in Table 1.

17. **Definitions for all relevant variables and reporting requirements are contained in the attached Technical Memorandum of Understandings.** The program also incorporates continuous performance criteria on the non-accumulation of domestic and external debt arrears on the public debt. Structural benchmarks are presented in Table 2A.

18. **We will adhere to the safeguards policy in the case of Fund budget financing.** In accordance with the recommendations of the 2012 safeguards assessment of the ECCB, we will maintain our foreign exchange balances only with the ECCB.

Table 2. Antigua and Barbuda: Structural Benchmarks

Action	Timing	SBA approval 1/	2nd Review	TA requested?	Status as of: January, 2012
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 process.
Activate legislation authorizing garnishment of overdue ABST and personal income taxes	Jun-11		☀		⚠ In process.
Develop guidelines to limit discretionary duty and tax concessions	Jun-11		☀		● Done.
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	☀			● Done.
Develop and implement penalties for breaching expenditure controls	Sep-11		☀		⚠ In process.
Review external audit department	Dec-11		☀	TA	⚠ In process.
Complete draft of revised public service legislation	Sep-11		☀	TA	⚠ In process
<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	⚠ In process.
<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	Delayed.
Commence reviews of selected SOEs to assess fiscal risks	Sep-11		☀	TA	⚠ In process.
<i>Debt management</i>					
Develop guidelines for issuing government debt guarantees	Jun-11		☀	TA	● Done.
Begin publishing quarterly debt information	Mar-11		☀		● Done.
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 legislation to Parliament to create a single regulatory unit for the nonbank financial sector in line with regional agreements	Sep-10	☀			Delayed.
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	☀			● Done.

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

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

Table 2A. Antigua and Barbuda: Structural Benchmarks

Action	Timing	SBA approval 1/	2nd Review	New	TA	Status as of: January, 2012
Fiscal and Public Sector Reform						
<i>Inland Revenue Department (IRD) and Customs Department</i>						
Present legislation to harmonize tax laws and establish revenue court	Dec-12	☼			TA	 In process.
Activate legislation authorizing garnishment of overdue ABST and personal income taxes	Jun-12		☼		TA	 In process.
Implement legislation to tax benefits as required under the PAYE law	Apr-12			☼	TA	● Done.
Increase compliance of 15 out of 23 state-owned enterprises to file all tax returns and remit all taxes or have payment arrangements in place with IRD 2/	Jun-12			☼	TA	
Increase compliance of 40 percent of professionals with tax obligations	Sep-12			☼	TA	
Commence and complete a valuation/ compliance audit on petroleum imports including the required use of dip stick process to reduce contraband	Jun-12			☼	TA	
Implement HS2007 code in Customs	Jun-12			☼	TA	
New Customs Law presented and passed by Parliament	Sep-12			☼	TA	
Complete a tax expenditure study	Sep-12			☼	TA	
<i>Public financial management</i>						
Activate purchase order module in Free Balance to improve commitments control for PSIP projects	Sep-12		☼		TA	 In process.
Review external audit department and adopt a strategic development plan	Aug-12		☼		TA	 In process.
Clear up the FY2007 to FY2010 financial statements backlog	Dec-12			☼	TA	
<i>Civil service reform</i>						
Complete draft of revised public service legislation	Sep-12		☼		TA	 In process
Initiate functional reviews of ministries not already reviewed	Jul-12		☼		TA	 In process.
<i>Public enterprise reform</i>						
Set up an oversight institutional and reporting framework for SOEs	Dec-12		☼		TA	Delayed.
Commence reviews of selected SOEs to assess fiscal risks	Jan-13		☼		TA	 In process.
Financial Sector Reforms						
ECCB to submit terms of reference for bank valuation (prior action)	May-12					
Present to Parliament stand-alone legislation to govern the Financial Services Regulatory Commission (FSRC)	Dec-12	☼				 In process.
ECCB to provide a strategic plan of action for ABIB 2012	Aug-12			☼		
Activate and staff the asset management company to deal with assets from ABIB not transferred	Aug-12			☼	TA	
ECCB to provide strategic plan for restructuring the indigenous banking system	Aug-12			☼		
ECCB to conduct on-site examinations of indigenous banks in Antigua and Barbuda	Aug-12			☼		

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

2/ Increase compliance of all 23 SOEs by September 2012.



Eastern Caribbean Central Bank

P.O BOX 89, BASSETERRE, ST. KITTS, WEST INDIES.

Trevor O B Brathwaite
Deputy Governor

9 May 2012

Madame Christine Lagarde
Managing Director
International Monetary Fund (IMF)
700 19th Street NW
Washington, DC 20431
UNITED STATES OF AMERICA Dear

Madame Lagarde

Financial Sector Understandings under the Antigua and Barbuda Program

Following the meeting of 3 May 2012 with officials from the International Monetary Fund (IMF), Government of Antigua and Barbuda (GOAB) and the Eastern Caribbean Central Bank (ECCB), the ECCB wishes to confirm the following understandings in respect of the Financial Sector as they pertain to the Programme for Antigua and Barbuda.

1. The Resolution of ABI Bank Ltd (ABIB)

- We note that the Government of Antigua and Barbuda (GOAB) has agreed to the issuance of the recapitalisation bond to complete the resolution of ABIB.
- In our discussions with GOAB, it has been our understanding that the proposed bond would be of a value sufficient to equate the assets transferred to the new bank with the liabilities to be protected and transferred, and that the relevant values would be based on the results of the independent (updated) valuation that has been commissioned by the ECCB for that purpose.
- The recapitalisation bond will therefore establish the net asset value of the transferred portfolios at zero. The new investors will be required to invest new capital sufficient to satisfy the minimum regulatory capital requirement for the new bank at a CAR of 8%.

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- The IMF has agreed to offer, within a few days, for consideration by the ECCB, suggestions as to what might be appropriate to be included in the Terms of Reference for the kind of situation at hand, bearing in mind the legal requirements for the conduct of an independent valuation.

2. Strategic Plan for the New Bank

- As part of the process of issuing a banking license for the new bank which will be a new entity formed to complete the resolution transaction, the shareholders are required to prepare and submit to the ECCB, among other documentation, a Strategic Plan for the new bank. The ECCB understands that the preparation of such a Plan is underway and will be available to facilitate the granting of the license and the completion of the resolution transaction.

3. The Antigua Asset Management Company

- The ECCB understands that GOAB has taken all the steps necessary for establishing the proposed Special Purpose Vehicle which will have the responsibility for managing the assets of ABIB that would not form part of the resolution transaction with the new bank.

4. Other Financial System Requirements

- The ECCB will document its strategy, approach and plan for restructuring the indigenous banking system in Antigua and Barbuda, including the strategy that would lead to the ultimate amalgamation of the banks in the sector. The target date for the completion of this document is 30 September 2012.
- The ECCB has agreed on the following timetable for undertaking full-scope, on site examinations of Antigua and Barbuda indigenous banks:

The ECCB has agreed on a timetable for undertaking full-scope, on site examinations of Antigua and Barbuda indigenous banks:

- Under the guidance, and for the ultimate approval, of the Monetary Council, the ECCB has begun a process of reviewing the regulations for loan loss provisioning and for capital adequacy with a view to revising the existing regulations and implementing new regulations in these areas for the entire banking sector in the ECCU.



These undertakings are provided in satisfaction of the requirements for completing the Antigua and Barbuda Programme.

Yours sincerely

Trevor O B Brathwaite
Deputy Governor

cc: The Honourable Harold Lovell, Minister for Finance, Antigua and Barbuda
Mr Thomas A Hockin, Executive Director (Canada, Ireland and Caribbean), IMF