Government of
Antigua and Barbuda

Antigua and Barbuda Debt Profile Review 2008 to 2012

Prepared by:
Antigua and Barbuda Debt Management Unit
in collaboration with the
Debt Management Advisory Service (DMAS) Unit

December 2013

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ABBREVIATIONS

ABAA	Antigua and Barbuda Airport Authority
ABIB	Antigua and Barbuda Investment Bank
ACB	Antigua Commercial Bank
APUA	Antigua Public Utilities Authority
ATM	Average Time to Maturity
ATR	Average Time to Refixing
BAICO	British American Insurance Company
CLICO	Caribbean Life Insurance Company
EEC	European Economic Commission
EIB	European Investment Bank
BOA	Bank of Antigua
CDB	Caribbean Development Bank
CS-DRMS	Commonwealth Secretariat Debt Recording Management System
CUB	Caribbean Union Bank
DMAS	Debt Management Advisory Service
DMU	Debt Management Unit
ECAB	Eastern Caribbean Amalgamated Bank
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
FAA	Finance Administration Act
GoAB	Government of Antigua and Barbuda
GDP	Gross Domestic Product
IMF	International Monetary Fund
MoF	Ministry of Finance
OCR	Ordinary Capital Resources
OFID	OPEC Fund for International Development
PBL	Policy-Based Loan
PSIP	Public Sector Investment Programme
RGSM	Regional Government Securities Market
SBA	Stand-By Arrangement
SFG	Stanford Financial Group

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SECTION 1.0: Executive Summary

This report gives a comprehensive review of Antigua and Barbuda's debt portfolio over the period 2008 to 2012. It was compiled by the Antigua and Barbuda Debt Management Unit (DMU) in collaboration with the Eastern Caribbean Central Bank's Debt Management Advisory Service Unit. The report begins with an overview of Antigua and Barbuda's economy along with the institutional and legal framework that supports debt management.

The composition of the debt and the risks embedded in the portfolio form the core of this review. Details of debt holders by residency, interest and exchange rates, and maturity profile are clearly outlined. Activity on the Regional Government Securities Market (RGSM), debt sustainability indicators and a synopsis of debt by economic sector are also captured.

In 2010, the Government of Antigua and Barbuda approached the International Monetary Fund (IMF) to assist with its fiscal adjustment and structural reform programme. This programme continued throughout the review period, and an intense restructuring exercise ensued with both external and domestic creditors, which resulted in a significant decline in arrears and an improvement of various debt indicators. Commitments were honoured throughout out the review period based on the various restructured agreements.

The report concludes by identifying the challenges the Government faces, the upcoming activities of the Debt Management Unit (DMU) and the current strategy which guides debt management.

SECTION 2.0: Overview of Economy

Real GDP continued to grow in 2007 and 2008, though at smaller rates than in 2006. In 2006 there had been a peak in economic growth of some 12.7%. Real GDP in 2006 amounted to EC$3,064.89 million. This spike in growth was primarily attributable to investment activity in preparation for the ICC World Cup 2007. By 2009, real GDP started to contract and in fact negative growth of approximately 10% was recorded. This was due mainly to the effects of the global economic downturn, the collapse of the Stanford Financial Group (SFG), and the failure of the Caribbean Life Insurance Company (CLICO) and British American Insurance Company (BAICO).

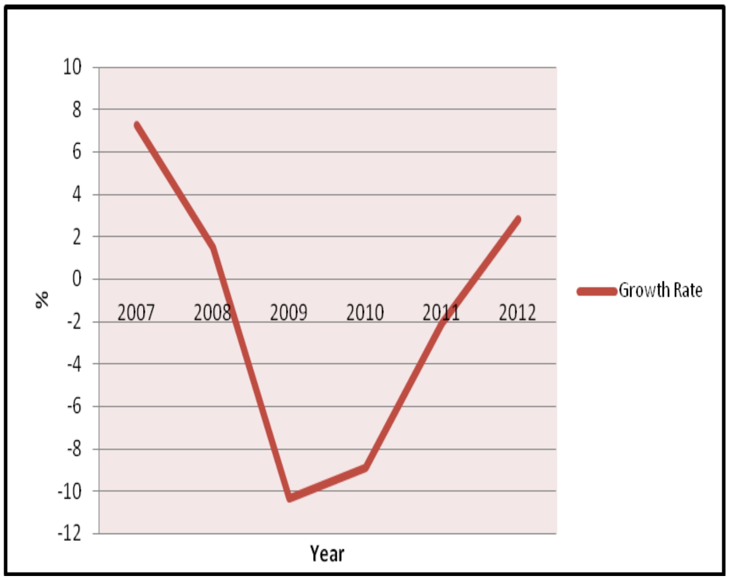


Figure 1: Real GDP Growth 2007- 2012

Policy measures were designed and implemented to stabilize the economy and to realize growth. By 2010, real GDP was still falling and there was a contraction of approximately 9%. However, the Government of Antigua and Barbuda continued to aggressively pursue its reform agenda towards debt sustainability and economic growth. . In 2012, there was a consistent effort to contain expenditure, in keeping with the fiscal consolidation objectives. This resulted in a significant improvement in fiscal balances. The reform efforts have borne some fruit, as evidenced by positive economic growth in 2012, to 2.8%, after three (3) consecutive years of economic decline.

The increase in economic activity is mainly attributed to growth in the tourism and construction sectors of 2.2% and 9.99% respectively. Central government's fiscal operation indicates an improvement in the fiscal deficit from 5.3% of GDP, recorded in 2011 to a fiscal deficit of 1.4%

of GDP in 2012; which was mainly attributed to an improvement in revenue collection and lower outlays for capital expenditure.

Table 1: Selected Economic Indicators 2008 - 2012

Selected Economic Indicators	2008	2009	2010	2011	2012
Real GDP Growth (%)	1.47	(10.35)	(8.88)	(2.10)	2.80
Population Estimates	87,506	89,138	90,801	86,295	86,295
GDP per capita	42	36.7809	34	35	37
Inflation Rate (Period Average %)	5.33	(0.55)	3.37	3.46	3.38
Balance of Payments (EC$mn)					
Exports	1,688.50	1,516.38	1,414.35	1,451.94	1,462.18
Visitor Expenditure	901.8	823.8	803.9	841.8	861.3
Imports	2,570.96	1,907.49	1,833.11	1,732.44	1,856.59
Current Account (% of GDP)	(25.73)	(13.93)	(14.48)	(10.77)	(6.58)
Fiscal Account					
Primary Balance (% of GDP)	(3.24)	(8.01)	0.97	(2.72)	1.13
Interest Service Ratio (%)	13.94	16.05	11.36	10.31	8.51
Capital Expenditure (% of GDP)	6.15	5.34	1.72	1.32	0.65
Grants (% of GDP)	0.82	-	1.44	0.75	-
Public Debt (% of GDP)	81.45	95.19	86.91	93.37	87.96
Domestic debt (% of GDP)	49.28	61.43	49.51	51.87	51.00
External debt (% of GDP)	32.17	33.76	37.40	41.50	36.96

In 2012, there was a turnaround in economic performance with real GDP growth of 2.80%. This improvement can be attributed to the programme of fiscal consolidation supported by the IMF Stand-By arrangement and a Policy Based Loan from the Caribbean Development Bank. The policy objectives of the fiscal consolidation programme as well as other structural measures were outlined in the National Economic and Social transformation (NEST)[1] Plan. Fiscal consolidation and debt restructuring, reduced the debt ratio and arrears, while structural reforms began to improve revenue administration and public financial management.

[1] The Nest Plan was introduced in 2009 to address deep- seated fiscal and debt sustainability issues caused by the global economic and financial crisis, and to promote economical growth. The four pillars include Fiscal Consolidation, Economic Action Plan, Social Transformation and Financial Sector Stability.

The primary balance, a key measure of government's debt sustainability, improved and recorded a surplus in 2012 of just over 1% of GDP.

Based on a target debt- to- GDP ratio of 60% by 2020[2], the debt management strategy was a staged approach; first attaining a debt-to-GDP ratio of 80% by 2012 and 60% by 2020. At the end of 2012, the ratio however was 87.96% a reality of low economic growth. The debt strategy also emphasises the need to rely less on domestic loans and more on concessional financing to lower the cost of debt. The Government is also negotiating with some external creditors who have not yet agreed to the terms of the debt restructuring. .

SECTION 3.0: Institutional and Legal Framework

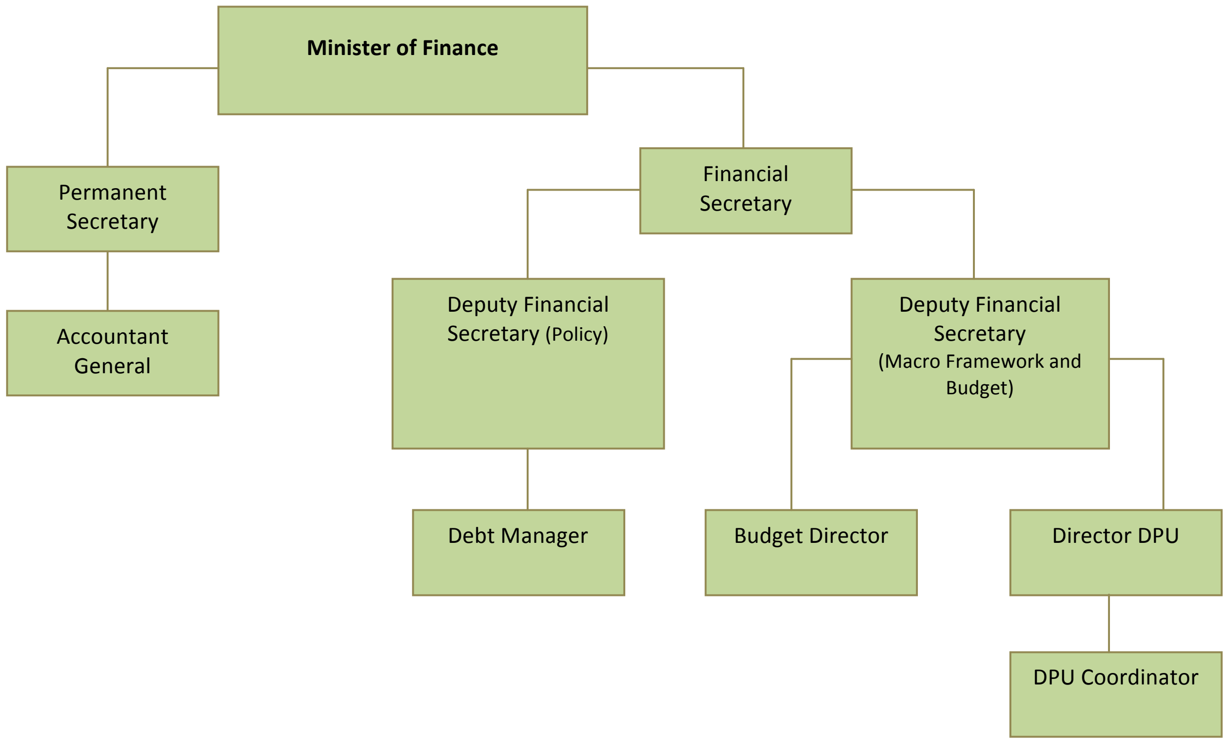
3.1 Institutional Framework

The Debt Management Unit (DMU) is primarily responsible for debt management within the Ministry of Finance (MoF); however, other entities of government such as the Accountant General, Budget Director and the Coordinator of the Development Planning Unit play key roles in the debt management process as shown in Figure 2.

The Debt Management Unit (DMU) is responsible for debt recording, debt reporting, external debt payment preparation and processing, analysis of borrowing, issuing of Government guarantees, issuing securities on the Regional Government Securities Market (RGSM) and the implementation and management of a Debt Management Strategy. There are five (5) officers within the Unit - a Debt Manager who carries out Front Office duties and four (4) public debt officers who carry out Back Office duties.[3] All officers straddle Middle Office functions to an extent.

Figure 2: Organization of the Debt Management Function within the MOF

[2] The targets are elaborated in the ECCU Eight Point Growth and Stabilization Plan.
[3] The Front Office has the responsibility of mobilizing resources from domestic and external sources at a minimum cost. The Middle Office undertakes analytical functions that enable government to meet its financing and debt service obligations at the lowest possible cost with a prudent degree of risk exposure. The Back Office tasks include debt recording, and validation, debt accounting, quality control and debt reporting.



The Budget Director prepares the macroeconomic projections in accordance with how the budget and debt sustainability analyses are formulated. The Accountant General issues local T-Bills for liquidity management purposes and facilitates the various payments of debt instruments.

The Development Planning Unit (DPU) manages the Government's Public Sector Investment Programme (PSIP) and the responsibility of identifying sources of funding lies with the Ministry of Finance (MoF)/ Debt Management Unit.

Loan Guarantees are prepared by Legal Counsel in the Ministry of Legal Affairs, and reviewed by the technical staff of the Ministry of Finance, before recommendation is made to the Minister of Finance for submission to Cabinet.

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3.2 Legal Framework

The primary legislation in Antigua and Barbuda which governs and explicitly authorises the Government to borrow is the *Finance Administration Act (FAA) of 2006*. The FAA gives the Minister of Finance responsibility for managing the public debt, investing public money, loans and advances, and Government guarantees. This act mandates that guarantees can only be issued with authorisation granted by a resolution of Parliament.

The *Treasury Bills Act (TB Act) of 2005* governs how Treasury Bills are issued within Antigua and Barbuda. This Act delegates authority to the Minister of Finance to contract debt for public use by issuing Treasury Bills. The principal sums outstanding at any one time should not exceed 30 %of the estimated revenues of the current year. The Act further states that the Minister of Finance may delegate that the Treasury Bills be issued by the Financial Secretary.

In addition, the *Loan Stock Authorisation Act of 2005* authorises the Minister of Finance to contract debt for (i) repaying monies granted to the Government by Statutory Corporations; (ii) financing projects approved in the annual budget estimates in accordance with the *Development Fund Act*; (iii) repaying public debt; and (iv) meeting expenses incurred in raising and administering a loan.

Other legislation which covers borrowing by the Government includes *the Antigua and Barbuda (General Loan) Act, 2002* which authorises the Minister of Finance to borrow up to EC$60.0m to finance recurrent expenditure, certain overdraft and credit facilities and contingent liabilities of the Government of Antigua and Barbuda. The *Antigua and Barbuda (Development Loan) Act, 2002* authorises the Minister of Finance to borrow an amount not exceeding US$120m or the equivalent in other currencies for the purpose of financing development projects on the island, debt service charges and matters incidental thereto.

SECTION 4.0: Public Debt Structure and Ratios

4.1 Total Public Debt

At the end of 2012, the total public sector debt stood at EC$2,835.76m (See Table 2). For the period under review (2008 to 2012), the total public debt declined by an average of 0.9 % annually, recording its largest fall in 2010 when debt declined by 13.2 % (EC$413.34m). This decline was due primarily to the extensive debt restructuring exercise[4] that the Government embarked on in 2010. Figure 4 below shows the trend in public debt by residency over the review period.

Table 2: Total Public Sector Debt 2008 – 2012

Public Debt (EC$ m)	2008	2009	2010	2011	2012
Domestic	1,802.30	2,013.90	1,542.37	1,578.59	1,644.18
External	1,176.70	1,106.84	1,165.03	1,262.80	1,191.57
Total	**2,979.00**	**3,120.73**	**2,707.40**	**2,841.39**	**2,835.76**
of which arrears	1,545.30	1,489.05	436.24	397.35	184.22

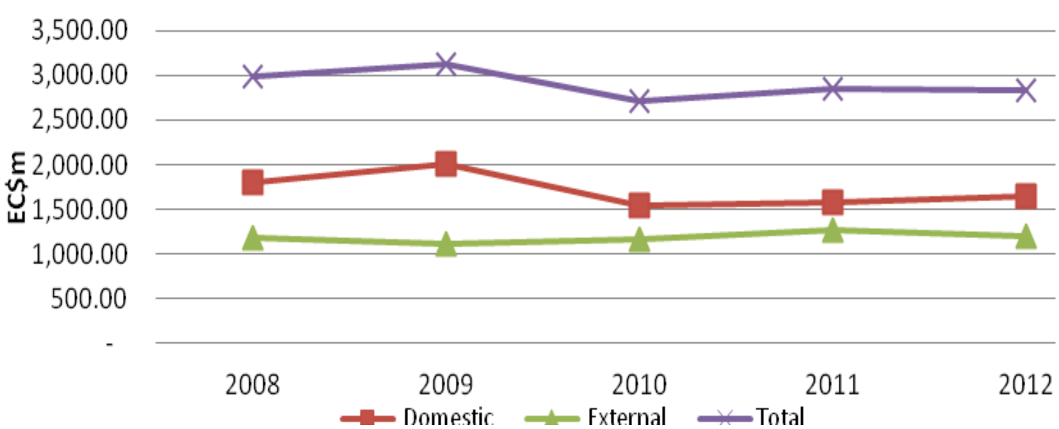


Figure 3: Total Public Sector Debt 2008 -2012

Outstanding Arrears

[4] For more details on this restructuring, see section 5.

In 2008 and 2009, arrears accounted for 49.8 % of total debt. From 2010, this declined to 12.2 % and at the end of 2012, it stood at EC$184.2m or 6.5 % of the total debt (see table 5). Arrears in 2012 represented on average 27.8 % of domestic debt and 27.6 % of external debt.

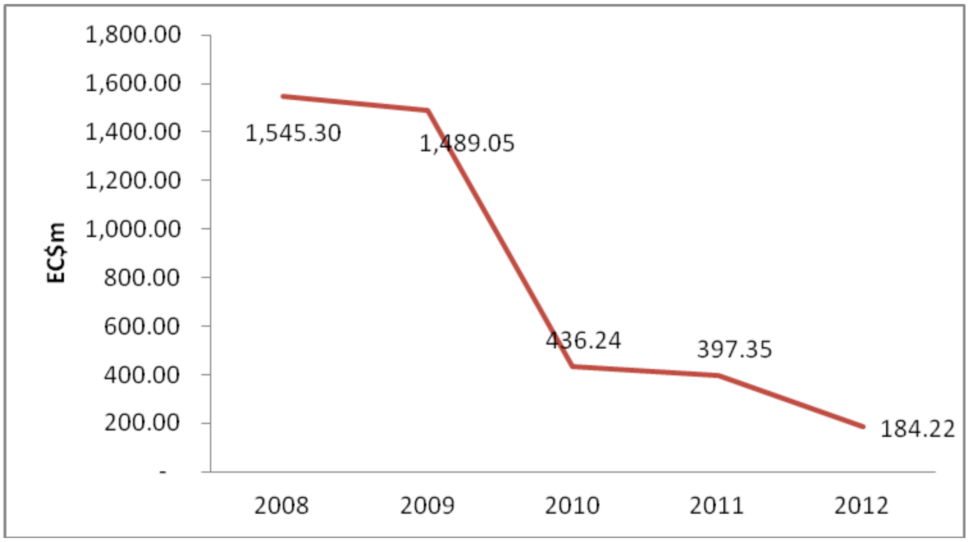


Figure 4: Outstanding Arrears

Central Government and Government Guaranteed

The composition of Central Government debt to Total Public Sector Debt averaged 85.2% over the period 2008 – 2012. In 2010, Central Government debt dipped to EC$ 2,276.75m. At end 2012, it stood at EC$2,359.16m or 83.2% (see Figure 6)

Public Corporation debt, for which the Government has given an explicit guarantee, averaged 14.8% of total debt over the period 2008 - 2012. In 2008, debt of the public corporations accounted for EC$295.4m (10 per cent) of the total public debt and increased to EC$476.6m (17 per cent) by end 2012. Public Co-operations seeking guarantees from the Government include Antigua Public Utilities Authority (APUA), the St John's Development Corporation, Central Housing and Planning Authority, and the Antigua and Barbuda Transport Board, Board of Education, Antigua and Barbuda Development Bank (ABDB) and the National Solid Waste Management Authority.

The indigenous banks[5], Caribbean Development Bank (CDB), United States Agency for International Development (USAID), Banco de Desarrollo Económico (Bandes) and Andrade Guitterez[6] represent the major lenders to these statutory bodies.

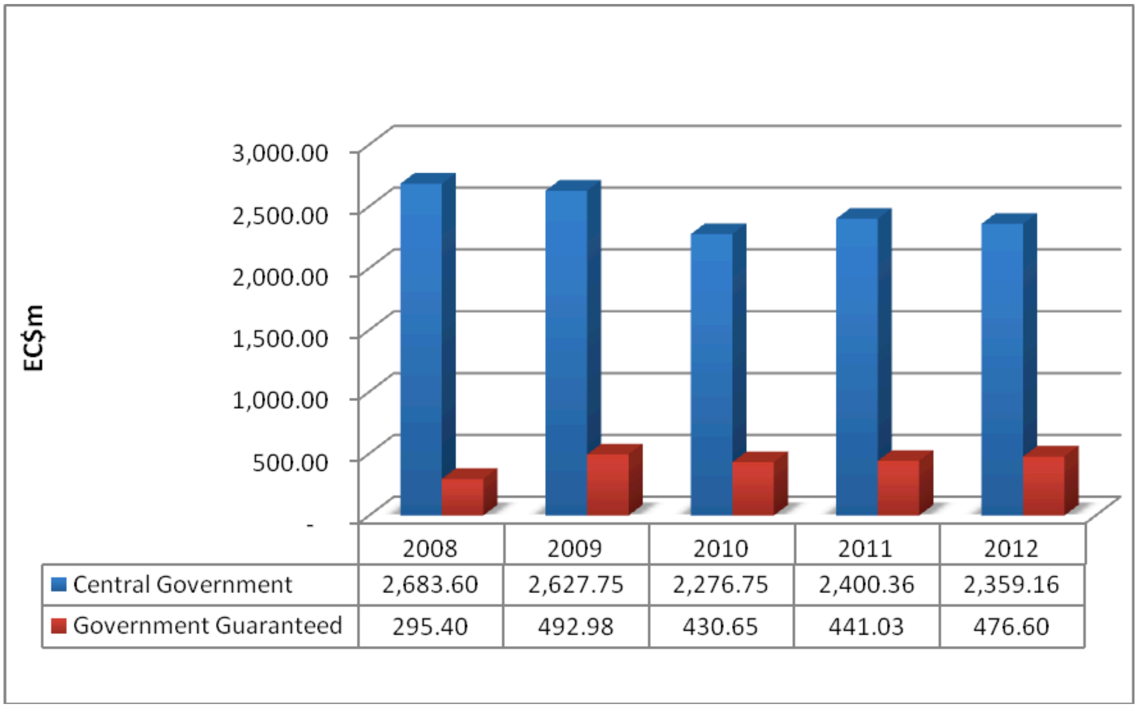
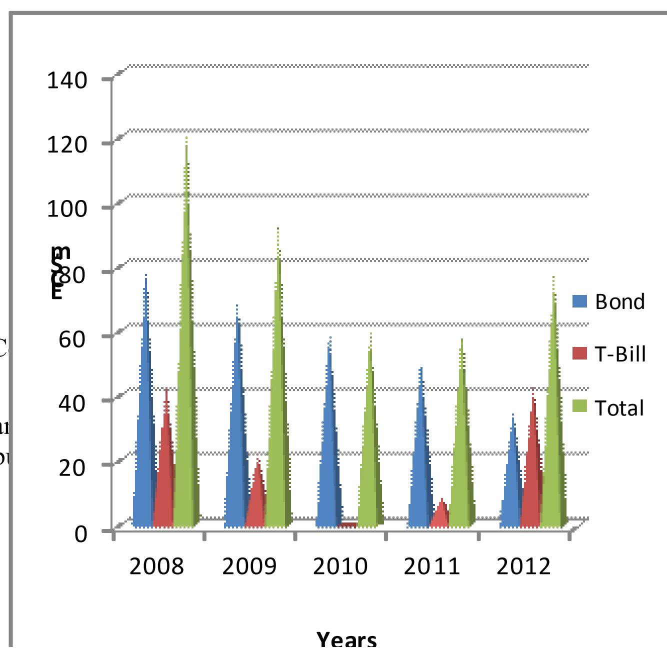


Figure 5: Categories of Public Sector Debt

RGSM Activity



[5] Antigua and Barbuda Investment Bank, Antigua C… k of Antigua and Caribbean Union Bank.

[6] Contractor used to work on airport runway. The a… completed and is a liability of the Antigua and Barb…

In 2006, the Government of Antigua and Barbuda started issuing securities on the RGSM in the form of 91-day Treasury Bills and long-term instruments (bonds) with maturities of five and seven years.

From 2008, activity on the RGSM, started to decline with no T-Bills issued in 2010. Antigua and Barbuda maintained its presence with the longer term securities. From 2011, the government resumed its T-Bill programme, T-Bills outstanding increased to EC$8.46m and EC$43.12m in 2011 and 2012 respectively.

Domestic Debt

Table 3: Domestic Debt 2008 – 2012

Domestic Debt (EC$ m)	2008	2009	2010	2011	2012
Central Government	1,684.40	1,722.82	1,265.58	1,296.00	1,336.09
of which arrears	*1,085.58*	*1,020.76*	*166.09*	*127.76*	*112.31*
Government Guaranteed	117.90	291.07	276.79	282.59	*308.09*
of which arrears	*2.54*	-	*0.71*	*1.26*	*32.15*
Total	1,802.30	2,013.90	1,542.37	1,578.59	1,644.18

The value of Domestic debt as at end, 2012 was EC$1,644.2m which comprises debt held by Central Government and public corporations.

Over the period 2008 - 2012 total public domestic debt declined on average by 1.3%, with Central Government debt decreasing on average by 4.7% and public corporation domestic debt growing by 38.3 %.

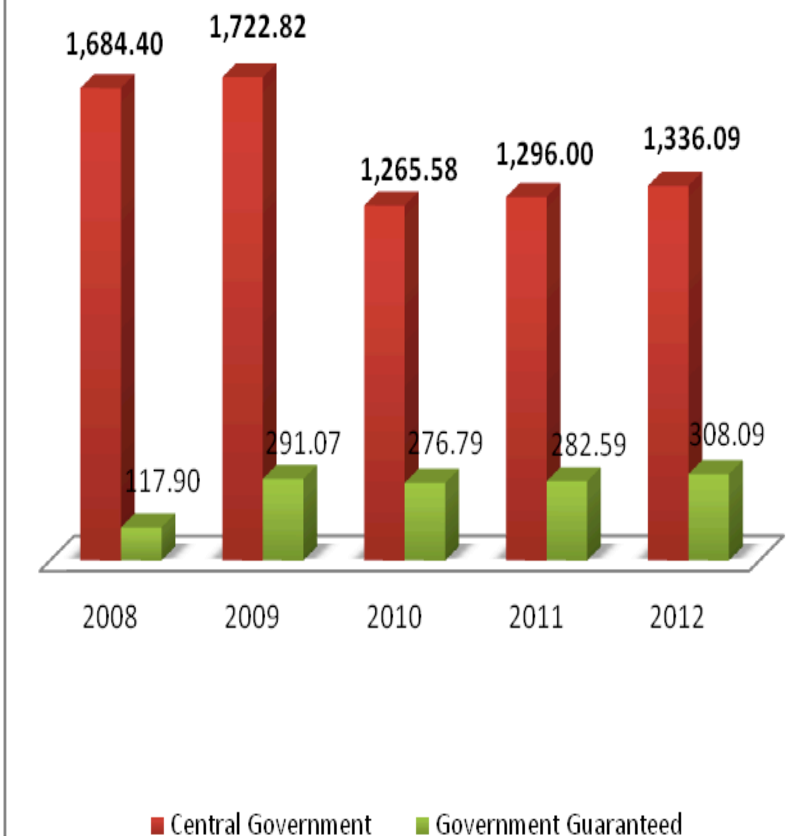


Figure 7: Domestic Debt

In 2010, the Government negotiated with local commercial banks to restructure through a reduction of interest rates and debt consolidation in some cases. As a result of this, Central Government arrears declined significantly to EC$166.09m while total outstanding balance decreased to EC$ 1.542.37m.

There was a reclassification of some loans, in 2012, based on the residency of the creditor. Instruments with Creditors who were domicile were transferred to the domestic database[7]. This reclassification increased the arrears of the Government Guaranteed debt by EC$30.89m and resulted in an overall increase of 4.2 % in domestic debt over 2011 (see Figure 7). Meanwhile, Central Government figures for 2011 and 2012 increased to EC$1,296m and EC$1,336.09m respectively due also to the issuance of securities on the regional market and via private placement.

[7] ABI external Bond, Global Bank of Commerce and RBTT APUA funding loan

External Debt

Table 4 shows the trend in external debt between 2008 and 2012. External debt held by the Central Government increased on average by 1.0% while external debt held by public corporations declined on average by 0.2 per cent. Over the period, 2008 to 2012, total external debt increased by 0.5 % while external arrears on average decreased by 21.1 per cent. In 2012, total external arrears declined by 44.0 % which resulted in an overall reduction of 5.6 % in total external debt from 2011; Central Government contributed 60.5 % of the arrears.

External Debt (EC$ m)	2008	2009	2010	2011	2012
Central Government	999.20	904.93	1,011.17	1,104.35	1,023.07
Of which Arrears	*399.45*	*397.43*	*153.86*	*152.47*	*60.28*
Government Guaranteed	177.50	201.91	153.86	158.45	168.51
Of which Arrears	*57.73*	*70.87*	*115.59*	*115.87*	*89.91*
Total	1,176.76	1,106.84	1,165.03	1,262.80	1,191.57

Table 4: External Debt

During 2010, the Government also underwent an extensive restructuring program[8] with external creditors. Of significance were the agreements with the Paris Club Bilateral creditors to restructure outstanding arrears. These agreements caused the total arrears in 2010 to decline whilst increasing the debt stock as outstanding arrears were converted to new loans. The reduction of Central Government Debt in 2012 was as result of the reclassification of loans[9] to the domestic database and the removal of the Stanford Financial Group Loan. This resulted in the transfer of over EC$59m to the domestic database in January 2012. The removal of the Stanford

[8] See Section 5 for additional details of the restructuring
[9] The reclassification of loans was advised by the IMF during the reviews of the Stand By Arrangement to categorize loans based on the residency of the creditor

Financial Group loan[10] contributed to the decline in arrears in 2012; the arrears accounted for EC$87.3m.

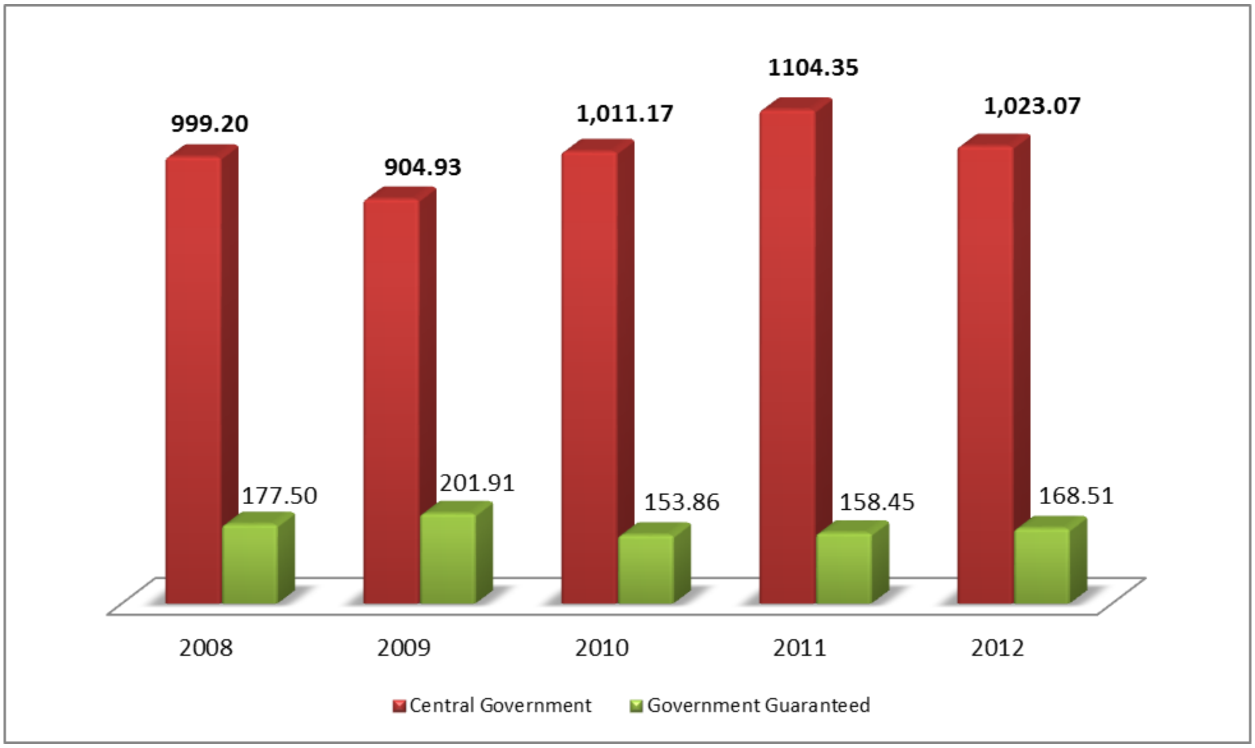


Figure 8: External Debt

[10] Based on an agreement in principal with Stanford Group liquidators

4.2 Public Sector Debt Composition

Debt by Instrument

Figure 9 shows the breakdown of domestic debt by instrument at the end of December 2012. This snapshot shows that 53.0 % of domestic debt is in the form of loans, while privately placed securities and Restructured Statutory Bonds with the Social Security Board and the Medical Benefit Scheme make up a large portion of the Non-RGSM Securities, the total being 33%. Floating debt makes up 7.0% of the domestic debt portfolio and amounted to EC$110M. The overdraft balance at the end of 2012 amounted to 2.0 %of the domestic debt stock while the Treasury Bills and Bonds issued on the RGSM[11] made up 5.0 % of the domestic debt instruments.

The entire external debt portfolio was comprised of Standard Loans at the end of 2012 with arrears making up 13 per cent.

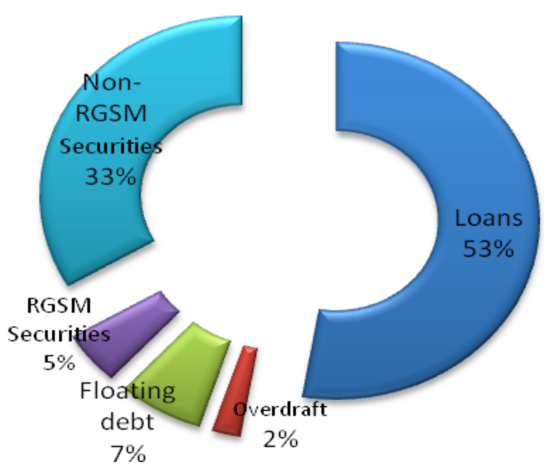


Figure 9: Domestic Debt by Instrument

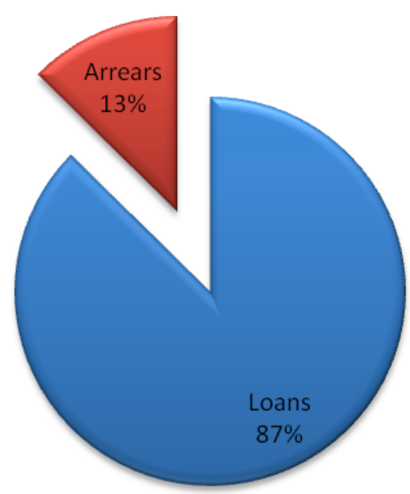


Figure 10: External Debt by Instrument

[11] All RGSM are classified as Domestic Debt

Domestic Debt by Creditor

Figure 11 shows that the majority of the domestic debt is held with the domestic commercial banks (36.0 per cent) and the statutory corporations (28.0 per cent). The indigenous commercial banks that are exposed to the Government include the ABI Bank Ltd., the Eastern Caribbean Amalgamated Bank (ECAB), the Antigua Commercial Bank (ACB) and the Caribbean Union Bank (CUB). The GoAB relies sparsely on the foreign branch banks for financing, with the Bank of Nova Scotia, the Royal Bank of Canada (RBC) and FirstCaribbean International Bank (FCIB) holding approximately $69.40m or 4% of Government debt. The debt owed to FCIB and RBC is Government guaranteed and the latter is restricted to an overdraft facility.

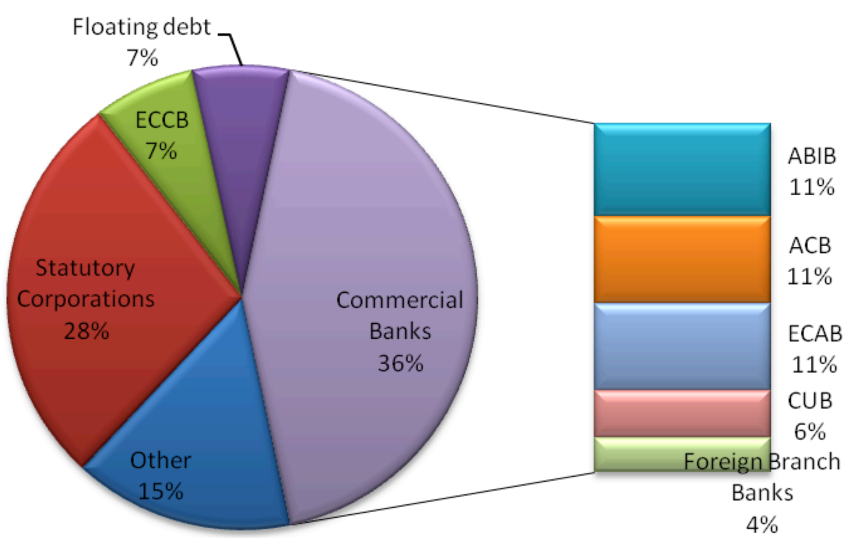


Figure 11: Domestic Debt by Creditor

Statutory corporations hold roughly 28.0 % of domestic debt; the Social Security Board accounts for 72.8.0 % of this with a $330.0m bond, while the Medical Benefits Scheme accounts for 27.2 % with a bond of $125.8m.

The category "other", which amounts to 15.0 per cent, represents other financial institutions and domestic holders of the private T-bills and development bonds. The debt owed to the ECCB is largely a loan to the GoAB following the Central Bank's intervention in the Bank of Antigua to stabilize the banking system after the collapse of the Stanford Financial Group. Other parts of this debt are loans to stabilize the ABI Bank and its operations.

External Debt by Creditor

Antigua and Barbuda does not have access to highly concessional multilateral debt, given its income level classification (high-income). The country has historically relied on bilateral credit. As Figure 12 shows below, at the end of December 2012, 59.0 % of external debt was held with bilateral creditors, while multilateral debt accounted for 27.0%.

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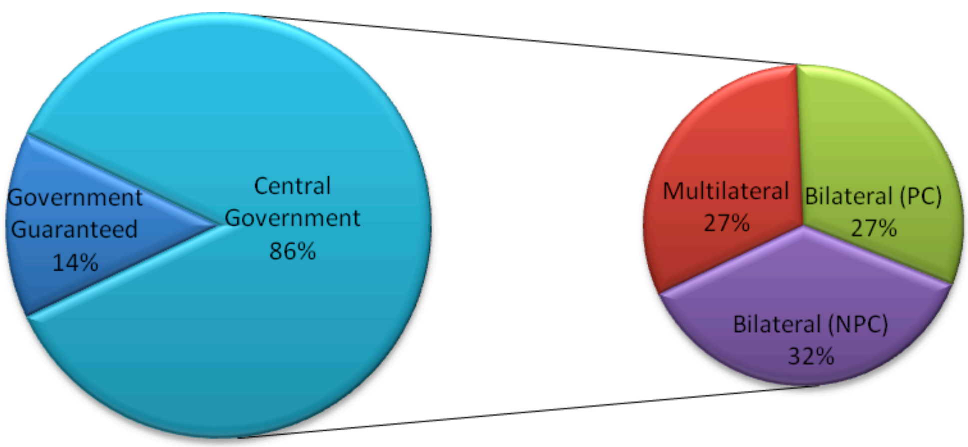

Figure 12: External Debt by Creditor Category

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Paris Club creditors account for 27.0 %of external debt. In 2010 the GoAB renegotiated the terms on these loans, which were mostly in arrears. The non-Paris Club (NPC) bilateral debt is owed mostly to the Chinese Financial Institutions (EC$214.7m), Venezuela (EC$21.4.0m) and Kuwait (EC$60m). A small debt of approximately EC$5.0m is owed to Trinidad and Tobago. Multilateral debt is owed to the Caribbean Development Bank (EC$132.03m), IMF (EC$180.8m), EIB/EEC (EC$9.7m) and OFID (EC$1.5m). While the restructuring exercise in

2010 focused heavily on the Paris Club creditors, the Government intends to renegotiate debts still in arrears, in particular with outstanding bilateral creditors.

Interest Rate Composition

At the end of 2012, debt contracted with fixed interest rates accounted for 79.0 % of the total public debt and variable rate debt amounted to 12.0 per cent. The Government had interest free loans with the Chinese creditors which made up 9.0 %of total debt. The breakdown of the interest rate composition, including a further split of the variable rate debt is shown in Figure 13.

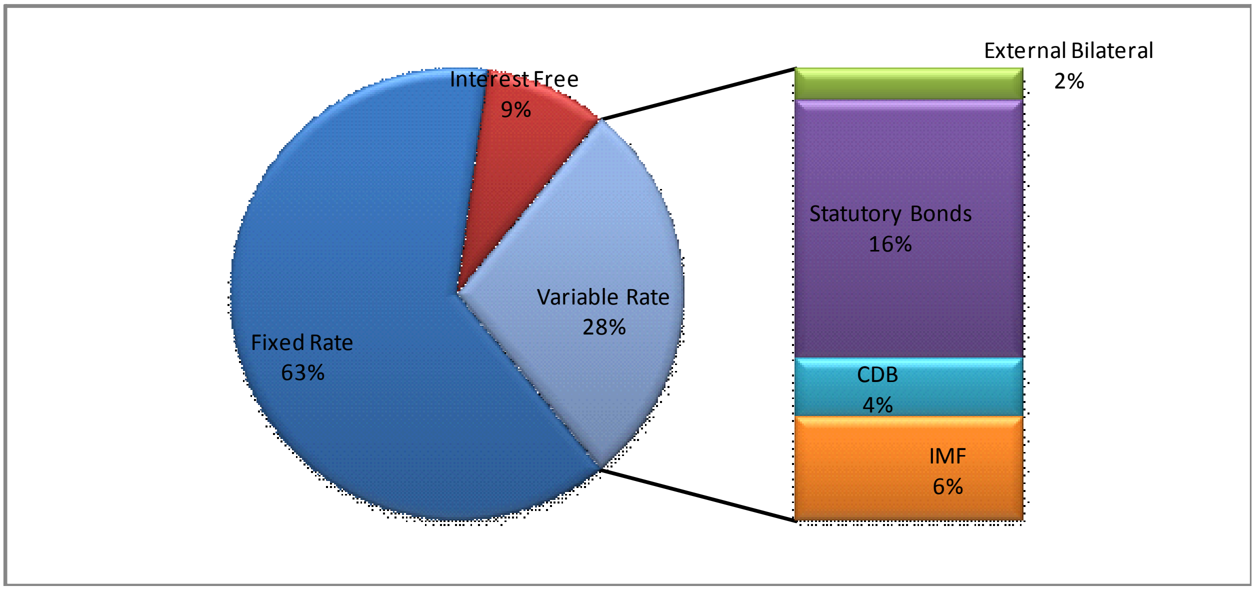


Figure 13: Interest Rate Comparison

The restructured bonds with the statutory corporations have step-up interest rates which peak at 6.0 % from 2022. The loans with CDB have been contracted on Official Capital Resources (OCR) terms with an interest rate which is re-fixed every six months. The facility with the IMF has a Special Drawing Rights (SDR) base rate which changes daily and a margin of 1% for amounts representing less than 300% of quota and 2% for amounts above 300% of quota. The

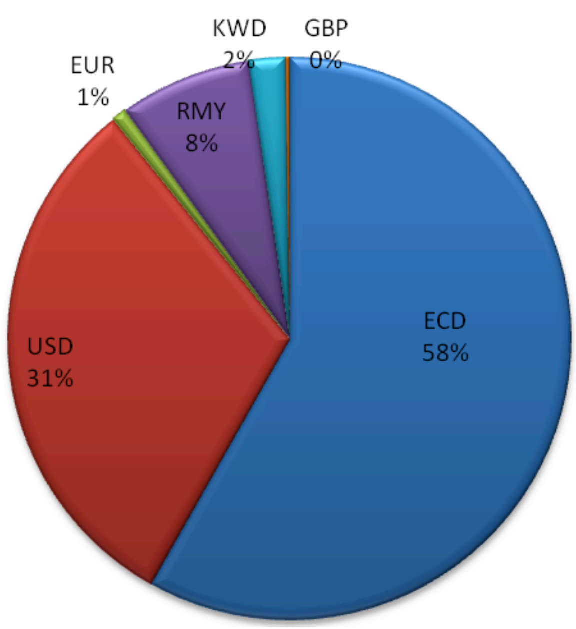
Government attempted to restructure all Paris Club debt to fixed interest rates, however the new terms with the US still include a variable rate based on the London Interbank Offered Rate (LIBOR).

Currency Composition

Figure 14 shows the currency profile of the GoAB debt. EC dollar debt accounts for 58.0 % of the debt, while US dollar debt makes up 31.0 %. Although domestic debt is predominantly in the local currency, a bond issued by the Antigua Pier Group (APG)[12] and a loan agreement with the Global Bank of Commerce are in US dollars.

The Renminbi Yuan (RMB), the SDR, Kuwaiti Dinar, Euro and the Pound Sterling account for roughly 11.0 % of the public debt. The amount owed to the Chinese creditors and denominated in RMB converts to EC$214.7m, while the SDR loan (EC$180.8m) is the disbursed portion of the Stand-By Arrangement (SBA) signed with the IMF in 2010.

Figure 14: Currency Composition of Total Public Debt



[12] Trinidad based institutions arranged these instruments, however the investors are domestic

4.3 Economic Sector Breakdown of External Debt

The external debt by economic sector for the GoAB is captured in Figure 15. At the end of 2012 approximately 51.0 % of external debt was acquired for budgetary support. Financing for the other sectors has been sourced mostly from bilateral creditors. Debt for Air Transportation is due largely to Andrade Guitterez for the airport runway construction and is Government Guaranteed for the Antigua and Barbuda Airport Authority. The GoAB did not use external credit to finance capital expenditure throughout 2012, a stipulation on new external borrowing which formed part of the IMF SBA.

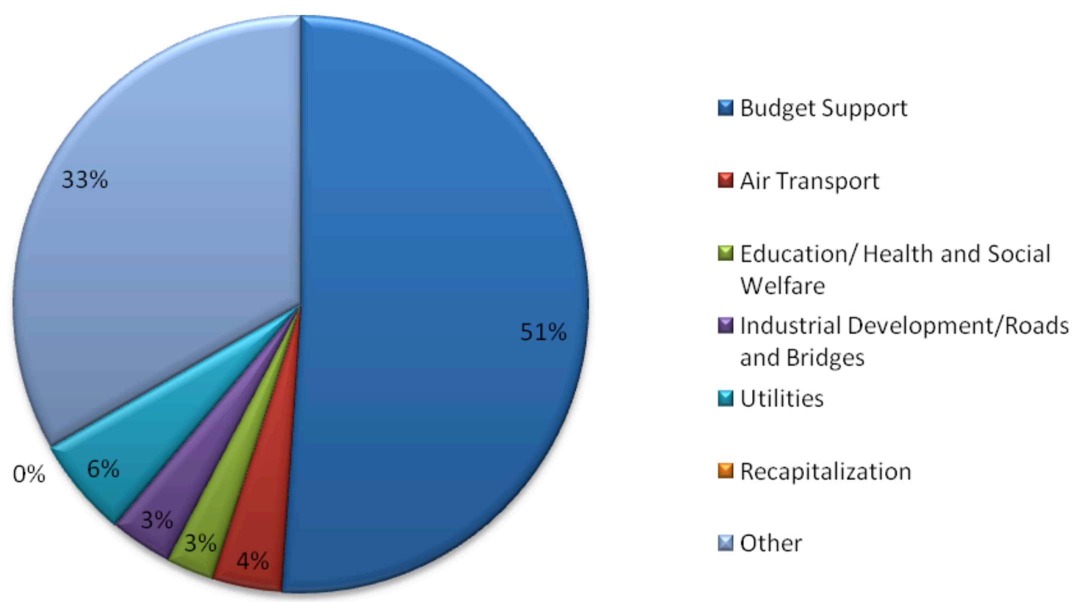


Figure 15: Synopsis of External Public Debt by Economic Sector

4.4 External Borrowing for 2011 and 2012 (Central Government)

Table 5 shows that during 2011 and 2012, the GoAB received EC$99.5m and EC$101.4m respectively in external financing from the IMF, CDB and China EXIM Bank. The IMF approved SBA for SDR 81.0m over 36 months was reduced to SDR 67.5M after a reduction in quota of SDR 13.5m in 2012.

Table 5: Central Government Disbursements 2011 and 2012

Creditor	Agreement Date	Amount Committed (EC$ M's)	Disbursements (EC$ M's)	
			2011	2012
Caribbean Development Bank				
Airport&Seaport Security Enhancement	2002	9.45	0.05	0.60
Support for Transformation Process	2007	44.18	3.00	3.90
Support for Transformation Process	2007	14.73	1.00	1.30
Policy - Based Loan	2010	81	27.00	
sub-total			**31.05**	**5.80**
International Monetary Fund				
IMF Stand - By Arrangement	2010	280.1	**28.79**	**68.92**
Exim Bank China				
V.C. Bird International Airport New Terminal Project	2010	90.99	26.84	26.69
Antigua New Power Plant Project	2008	129.99	12.83	-
sub-total			**39.67**	**26.69**
Total Disbursements			**99.5**	**101.4**

The CDB Policy Based Loan (PBL) of US$30.0m, approved in 2010, was expected to be disbursed over the same period as the SBA; however the final disbursement of US$10.0m remains outstanding due to an outstanding condition which is the development of a Medium Term Development Plan. PBL and IMF disbursements were used to support the Government's fiscal adjustment and structural reform programme. Both arrangements were monitored through periodic reviews on the basis of mutually agreed structural benchmarks as outlined in the Fiscal Consolidation Programme of Antigua and Barbuda's National Economic and Social Transformation (NEST) Plan.

CDB also continued to disburse for various projects, and the China EXIM Bank disbursed funds for the construction of the V.C Bird International New Airport Terminal Project.

4.5 Debt Service Payments (Central Government Debt)[13]

Table 6: Debt Service Payments 2007 - 2012 (EC $m)

Debt Service Payments (EC$ Mns)	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Debt Service Payments (Central Government)	**202.50**	**243.47**	**182.70**	**222.60**	**230.48**	**166.79**
External	**124.94**	**183.83**	**105.20**	**90.45**	**40.05**	**26.22**
Principal Repayments	56.05	113.62	49.17	72.56	23.80	15.20
Interest Payments	68.89	70.21	56.03	17.88	16.25	11.02
Domestic	**77.56**	**59.64**	**77.50**	**132.15**	**190.43**	**140.57**
Principal Repayments	41.95	27.28	37.88	77.40	145.20	96.57
Interest Payments	35.61	32.36	39.62	54.76	45.24	44.00

Table 6 shows that over the period 2007 to 2012, total debt service payments decreased on average by 6.98 %. External payments decreased by 20.0 % while domestic payments increased by 19.1%. The share of domestic debt payments to total payments have increased over the years given greater reliance on short-term securities on the RGSM and repayments of bonds. External Debt service payments represented 16 % of the total debt service in 2012. The decline in payments over previous years shows the benefits of the restructuring exercise and more concessional external debt in the portfolio. Additionally, a bond held with ABI Bank Ltd[14], previously categorized as external debt, was reclassified and moved to the domestic portfolio. This bond had an annual payment of approximately EC 19.5M in 2011.

[13] Includes arrears on debt service

[14] During the IMF SBA reviews it was decided that instruments would be categorized based on residency of the creditor. As such, ABI Bank Ltd, being the holder of the security and resident in Antigua and Barbuda needed to be recorded in the Domestic Database.

Table 7: External Debt Service Payments for 2011 and 2012

Debt Service Payments EC$ M's		
	2011	2012
Bilateral PC		
Interest Payments	3.23	6.47
Principal Repayments	2.91	6.16
Bilateral NPC		
Interest Payments	2.02	0.26
Principal Repayments	1.76	0.89
Commercial		
Interest Payments	7.58	0.00
Principal Repayments	12.55	0.00
Multilateral		
Interest Payments	3.05	4.28
Principal Repayments	6.24	8.15
TOTAL		
Interest Payments	15.88	11.02
Principal Repayments	23.46	15.20
Total Debt Service	39.34	26.22

In 2010, the Paris Club rescheduled approximately US$117m of GOAB debt which were mostly in arrears. Payments began in 2011 and continued in 2012. The multilateral and bilateral creditors accounted for the majority of central government debt service payments in 2012 (See table 7).

4.6 Risk Analysis

Figure 16 shows the maturity profile of central government debt given the stock of debt at the end of 2012. The spike in 2013 is due to T-Bill, overdraft and floating debt payments which are assumed to be repaid within the year. After this, the maturity profile is fairly smooth with elevations being observed from 2014 to 2018. The undulating effect continues over the periods 2019-2023 though showing a slight decrease from the previous period.

Maturity Profile

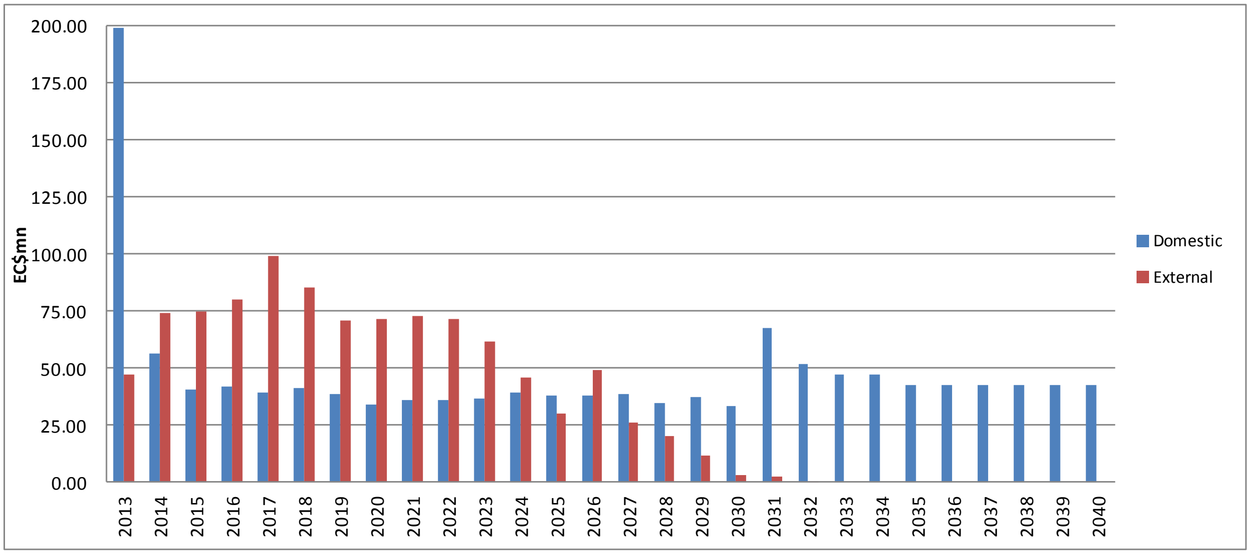


Figure 16: Maturity Profile of the Public Debt (EC $m)

Between 2013 and 2017 a total of EC $754.18m comes due, while the Government is required to pay off approximately EC$559.08m between 2018 and 2022. The debt restructuring from 2010 resulted in an extension of the maturity profile with principal repayments between 2022 and 2040 amounting to EC$1,016.13m. From 2031, total payments of $42.35m are to be made each year to the Social Security Board and Medical Benefit Scheme. Both instruments mature in 2040.

The spikes for external debt during 2014 to 2023 are demonstrated in Figure 17 below. Payments to bilateral creditors between 2018 and 2022 amount to EC$317.0m with an average per year of EC$63.0 m- higher than the overall average of EC$38.0m in bilateral payments during 2013 to 2030. These payments relate to the Paris Club debts which were restructured in 2010. Payments to multilateral creditors increase from 2013 to 2017, given payments due to the IMF and CDB. The first principal repayment on the IMF SBA is due in 2013 and the facility matures in 2018.

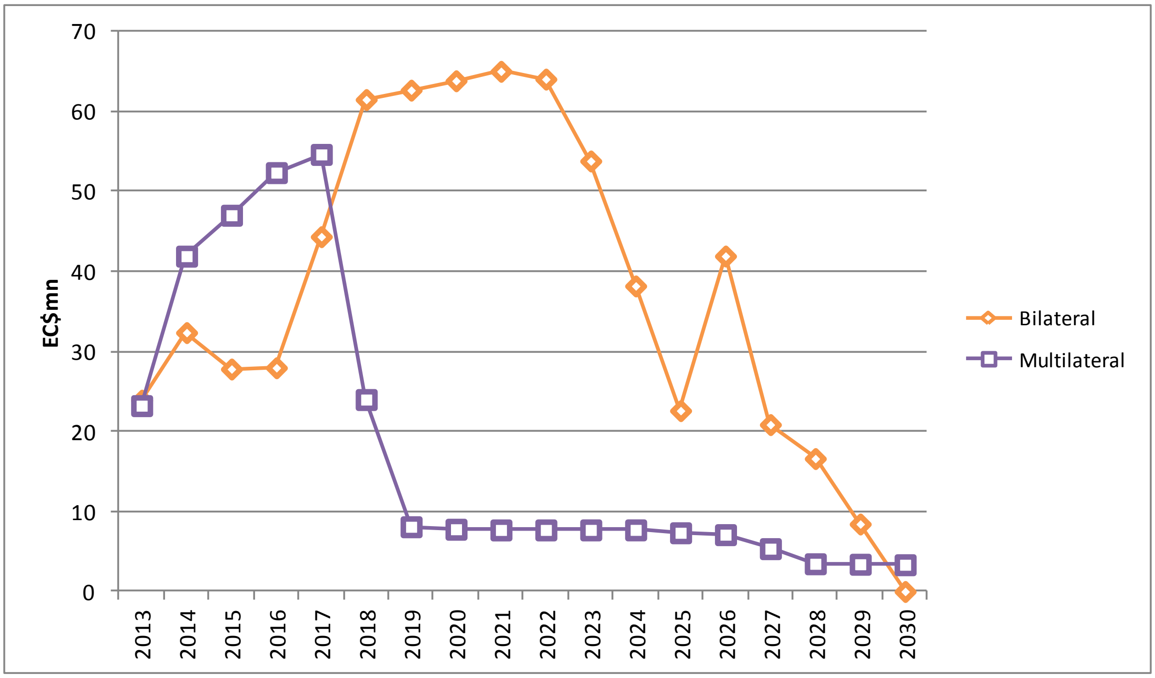


Figure 17: Maturity of Bilateral and Multilateral External Debt (EC$ m)

Average Time to Maturity (ATM) – is a measure of the weighted average time to maturity of all the principal payments in the debt portfolio. The GoAB currently has an ATM of 10.2[15] years. Since 2010, the Government has made significant strides in lengthening the maturity on outstanding debt instruments.

Interest Rate Risk

Average Time to Re-fixing (ATR) – is a measure of the weighted average time until all principal payments in the debt portfolio become subject to a new interest rate. The ATR for the GoAB is 5.34[16] years. Given the predominance of fixed rate debt in the portfolio, the Government's exposure to interest rate risks is low.

The Government is still exposed marginally to interest rate shocks, given the 26 % proportion of variable rate debt. The likelihood of restructuring the debts with the IMF and CDB is very low;

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[15] MTDS Report 2013-2017

[16] MTDS Report 2013-2017

therefore the Government needs to monitor these rates closely, as a slight uptick in a rate could have a big impact on interest costs.

Foreign Currency Risk

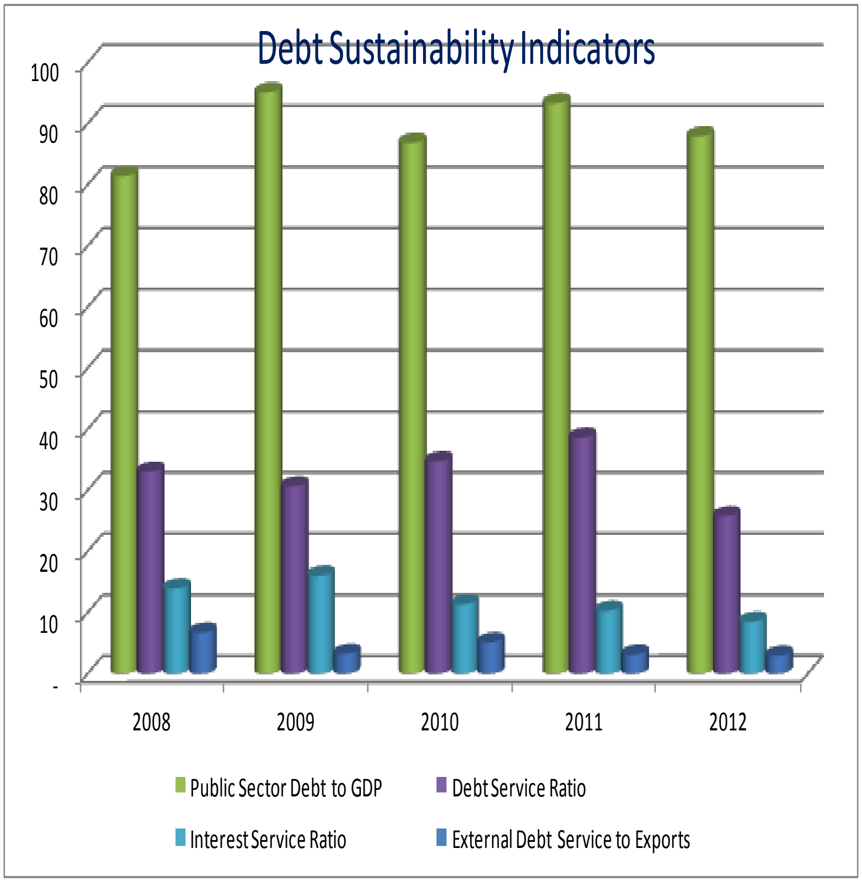
Exchange rate risk in the debt portfolio is low given the 89.0 % share of both EC and US dollar debt. The ECCU countries currently have a fixed exchange rate regime with the US dollar which has been in place since 1976.

The exposure to foreign currency risk comes from the RMB, Kuwaiti Dinar, Euro and Pound Sterling in the debt portfolio. A weakening of the US dollar against these currencies can pose significant risks, given the concurrent increase in debt service payments.

4.7 Debt Sustainability Indicators

Table 8: Debt Sustainability Indicators (%)

Debt Sustainability Indicators	2008	2009	2010	2011	2012
Public Sector Debt to GDP	**81.45**	**95.19**	**86.91**	**93.37**	**87.96**
Domestic	49.28	61.43	49.51	51.87	51.00
External	32.17	33.76	37.40	41.50	36.96
Debt Service Ratio	**33.08**	**30.66**	**34.80**	**38.65**	**25.79**
Domestic	8.10	13.01	20.66	31.94	21.74
External	24.98	17.66	14.14	6.72	4.06
Interest Service Ratio	**13.94**	**16.05**	**11.36**	**10.31**	**8.51**
Domestic	4.40	6.65	8.56	7.59	6.80
External	9.54	9.40	2.80	2.72	1.70
External Debt Service to Exports	**6.73**	**3.24**	**5.13**	**3.13**	**2.96**



The movements of the debt sustainability indicators over the five years (2008-2012) have been sporadic. The lowest debt/GDP ratio (81.45) was recorded in 2008 while the lowest debt service ratio (25.79) was in 2012. However, 2009 registered the highest debt/GDP ratio (95.19) for the period under review. This resulted because the brunt of the economic crisis was felt in 2009 when GDP declined by 9.6 per cent.

Figure 18: Select Debt Sustainability Indicators

Public Sector Debt to GDP improved in 2012 when compared to 2011, which indicates that the debt is on a downward path and is on track to get debt/GDP target of 60% by 2020.The debt service ratio has remained fairly constant over the four years (2008-2012), averaging 32.6 per cent, while the interest service ratio averaged 12.03 per cent, which is 3 % lower than the ECCB's target of 15 per cent. Notably, the external debt service ratio showed a marked improvement in 2012

ANTIGUA AND BARBUDA
DEBT SUSTAINABILITY ANALYSIS

Introduction

The current assessment of debt sustainability concluded that keeping Antigua and Barbuda's debt on a sustainable path is very challenging but possible under the program. Successful restructuring with external and domestic creditors since 2009, combined with fiscal adjustment under the program, helped bring debt on a downward path. The fiscal and financial sector measures included in the previous program reviews will help contain Antigua and Barbuda's risk of debt distress going forward.

SECTION 5.0: Public Debt Management Issues

Situation Analysis 2012

At the end of 2012, the total public sector debt stood at EC$2,835.76 million (87.96 % of GDP), of which, external debt amounted to EC$1,191.57 million (36.96 %of GDP). Domestic debt accounted for EC$1,644.18 million of the total debt (51.00 % of GDP). Over the period 2008-2012, total public debt declined by an average of 4.9 % annually, recording the largest fall in 2010 when the debt declined by 13.2 % or EC$413.34 million. The contraction in the total public debt was due primarily to the debt restructuring exercise that the Government embarked on in 2010 despite a decline of over 22 % of the country's GDP over the period 2009-2012.

External Debt – GOAB's strategy was anchored on a restructuring of all outstanding arrears and short-term maturities owed to its Paris Club external creditor countries. These negotiations were successfully concluded in 2010. The Paris Club Agreement was reached to consolidate and restructure debts owed to Brazil, France, Japan, Netherlands, UK and USA. The agreement established the overall schedule of repayments to the participating creditor countries, while the terms of specific loans would be determined bilaterally.

While the agreements did not affect the face value of debt, it led to a restructuring of EC$390m, of which EC$275m was in arrears. The GoAB is required to pay 10.0 % over 2012-2016 and will spread the remaining 90.0 % over 2017-2024. The estimated net present value savings range between 25.0 and 30.0 per cent.

Other external creditors the GoAB has concluded negotiations with are China, and the Stanford Financial Group. Negotiations are ongoing with Kuwait, Trinidad and Tobago, and Brazil. Multilateral debts were excluded from the restructuring process.

Domestic Debt –

i. GOAB concluded agreements with the Social Security Board, the Medical Benefits Board and the Board of Education, which normalised arrears that had been outstanding. The GOAB signed MOUs with both the Social Security Board and the Medical Benefits Scheme to restructure amounts owed which had been outstanding since the late 1970s on the basis of asset swaps, elimination of penalties, and amortisation of remaining amounts through a performing long-term bond. The terms of the new instruments include a maturity of 30 years and a stepped up interest rate from 1.0% to 6.0%. The agreements reduced the face value of the debt outstanding by about 15.0 % of GDP.

ii. Loans and arrears owed to all domestic financial institutions were restructured on the basis of maturity extensions over an average of 15- 20 years and a reduction of coupon payments (interest rates).

iii. The restructuring of debts owed to domestic contractors and suppliers has been completed; the agreements were based on either upfront or short-term payments (interest free), asset swaps and the elimination of penalty arrears.

iv. The restructuring of the expensive overdraft facilities at commercial banks has been initiated; interest rates have been reduced and facilities consolidated by financial institutions.

v. GOAB plans to finalise the restructuring of outstanding government debentures securities issued in the early 1980s, which will allow for resolution of all outstanding domestic arrears.

vi. GOAB has actively participated on the RGSM in 2012 with the issuing of T-Bills and Bonds to reduce reliance on expensive overdraft facilities.

vii. Debt issued on the Regional Government Securities Market (RGSM), Development Bonds and Treasury -bills issues were excluded from the debt restructuring programme.

Challenges

The GoAB has taken steps to improve debt management and place debt on a sustainable path; however, Antigua and Barbuda continues to face challenges. These include:–

- Low economic growth
- Weak fiscal performances
- Limited access to highly concessional financing

- High refinancing needs in the short term
- Market perception of the Government of Antigua and Barbuda
- The absence of a clear Middle Office within the Debt Unit
- Further training needs for staff
- Fragmented legal framework to support debt management and issuing of guarantees

Proposed Activities in 2013

- Finalise bilateral agreements with outstanding Paris Club Creditors and pursue better terms with existing creditors.
- Continue the restructuring exercise with other external creditors
- Reconcile Non-RGSM Development Bonds, T-bills and debentures
- Improve the procedures manual for the Debt Management Unit
- Participate in a Debt Management Institutional Assessment – IMF
- Prepare A Medium Term Debt Strategy for 2013-2017
- Complete upcoming Debt Portfolio Reviews independently
- CSDRMS training for Debt Unit staff
- Loan negotiation training

Strategy

Antigua and Barbuda developed a debt management strategy that was adopted by the Cabinet of Ministers in 2006 and implemented by the DMU in 2009. The overarching aim of the strategy is to achieve a debt/GDP target in two stages: 80.0 % by 2012 and 60.0 % by 2020. In 2012, the debt /GDP ratio was slightly off-target by seven (7.96) percentage points (87.96). The GoAB also intends to target a debt service burden of no more than 20.0 % of current revenue.

The debt management strategy has been an integral component of the ambitious fiscal consolidation programme, effectively lowering the public sector's cash-flow requirements at a time when resources have been extremely scarce. But equally as important, the strategy has successfully placed the debt on a downward and sustainable path.

The objectives of the Debt Strategy:

- Establish a sustainable debt service profile consistent with the Government's medium-term payment capacity outlook
- Resolve contractual principal and interest arrears and normalise relations with creditors
- Resume payment of contributions and resolve arrears owed to the statutory bodies
- Address the large stock of earmarked liabilities
- Improve the market perception of Antigua and Barbuda to rehabilitate its credit rating and regain access to the international capital markets

The Government intends to continue prioritising external financing on concessional terms from multilateral and bilateral creditors while at the same time developing the domestic capital markets. The success of the IMF SBA has improved the Government's credit worthiness and the Government can now approach new creditors and re-engage existing ones. The Regional Government Securities Market will continue to be a viable source of funds for debt financing and short term cash flow management.[17]

Managing Contingent Liabilities

The FAA requires that the Minister of Finance, acting on the advice of Cabinet, approve all borrowing including those of State Owned Enterprises (SOE). The Guarantee of Loans Act allows the Ministry of Finance to approve guarantees of up to EC five million dollars (EC$ 5M). A Government Guarantee Policy was created by the Debt Management Unit, and officially came into being by a Cabinet Decision in 2012.

In requesting a Guarantee, each institution is required to submit the necessary documentation and adhere to specific requirements. However, the DMU will need to assess the risk of the loan guarantee, before the government commits to being Guarantor. Consequently, when a guarantee agreement is signed, a guarantee fee is charged to the organisation according to the level of risk

[17] MTDS Report - 2013

that is anticipated. The risks are viewed as low, medium and high with rates applied being 0.25%, 0.50 % and 1.0 % of the loan amount respectively.

In the event that the SOE is unable to service their loan, they would need to notify the government, as Guarantor, and the reasons for their inability to service the loan must be identified. When the government makes the payment on their behalf, the documented procedures should be followed to ensure that the government is reimbursed. Failure to reimburse Government as agreed may prompt Government to evaluate the entire organization and its viability.

SECTION 6.0: Conclusion

The debt restructuring programme in 2010 has addressed many of the objectives outlined in the 2006 debt management strategy and has since lessened the risk of debt distress for the GoAB.

The Government must however remain vigilant as it relates to the refinancing, exchange and interest rate risks identified. The Government has been actively participating on the RGSM as the main source of short term financing. This has been largely a success story in most instances. Reliance on the domestic commercial banks for financing is minimal.

The Government loan guarantee policy which was approved by cabinet on 21st February 2012 has provided structure and guidance on how borrowing should be conducted by State Owned Enterprises (SOEs) that require a government guarantee. This is critical since this current economic climate requires that contingent liabilities are carefully managed as they represent a potential financial claim against the Government which can be triggered in times of financial stress.

The institutional framework should be further strengthened to keep debt management in line with international best practices. This will be complemented by an appropriate medium term debt strategy for contracting and guaranteeing debt.