Government of
Antigua and Barbuda

Antigua and Barbuda
Debt Profile Review
2006 to 2010

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

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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 is a review of Antigua and Barbuda's debt portfolio from 2006 to 2010. It was compiled by the Eastern Caribbean Central Bank's Debt Management Advisory Service Unit in collaboration with the Antigua and Barbuda Debt Management Unit (DMU). 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 (GoAB) approached the International Monetary Fund (IMF) to assist with the GoAB's fiscal adjustment and structural reform programme. 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.

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

SECTION 2.0: Overview of Economy

Antigua and Barbuda relies heavily on tourism and tourism related activities. As shown in Figure 1, there was an overall decline in economic growth from 2006 to 2010. In 2009 real GDP slumped by 9.6 per cent as a result of the global recession. This decline was exacerbated by the collapse of the Stanford Financial Group and the failure of the Caribbean Life Insurance Company (CLICO) and British American Insurance Company (BAICO).

Economic indicators for Antigua and Barbuda remain fragile, with a falling per capita GDP and weak external position (See Table 1). Although the debt ratios showed improvements in 2010, the Government still has high domestic debt levels. This, along with the low capital expenditure, has negative implications for much needed growth.

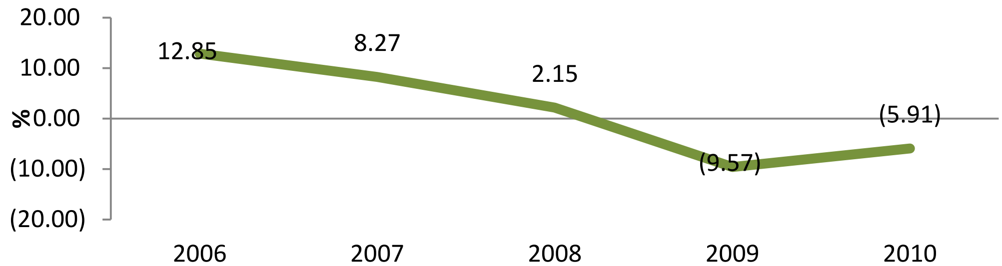


Figure 1: Real GDP Growth 2006 to 2010

Table 1: Selected Economic Indicators 2006 to 2010

Selected Economic Indicators	2006	2007	2008	2009	2010
Real GDP Growth (%)	12.85	8.27	2.15	(9.57)	(5.91)
Population Estimates	84,330	85,903	87,506	89,138	90,801
GDP per capita	37,222	41,422	42,520	37,959	36,019
Inflation Rate (Period Average %)	(0.33)	2.19	(0.68)	1.66	1.13
Balance of Payments (EC$m)					
Exports	1,488.96	1,578.51	1,676.53	1,482.00	1,473.52
Visitor Expenditure	882.22	912.18	901.71	823.81	803.90
Imports	2,209.72	2,517.40	2,546.34	2,070.13	1,787.34
Current Account (% of GDP)	(25.10)	(29.26)	(25.95)	(19.30)	(9.30)
Fiscal Account					
Primary Balance (% of GDP)	(3.72)	(2.69)	(3.18)	(7.77)	0.92
Interest Service Ratio (%)	16.27	14.42	13.94	16.05	11.36
Capital Expenditure (% of GDP)	6.81	5.63	6.05	5.17	1.64
Grants (% of GDP)	2.40	0.56	0.81	-	1.37
Public Debt (% of GDP)					
Total Debt (% of GDP)	90.48	79.69	80.06	92.69	83.27
Domestic debt (% of GDP)	44.96	43.23	48.44	59.52	47.17
External debt (% of GDP)	45.52	36.46	31.63	33.17	36.10

SECTION 3.0: Institutional and Legal Framework

3.1 Institutional Framework

The DMU is primarily responsible for debt management within the Ministry of Finance (MoF), however other entities play key roles in the debt management process as shown in Figure 2.

The DMU is responsible for debt recording, external debt payment preparation and processing, analysis of borrowing, issuing of Government guarantees, issuing securities on the RGSM and the debt management strategy. There are four officers within the Unit - a Debt Manager who straddles the Front and Middle Offices and three officers who carry out Back Office duties.

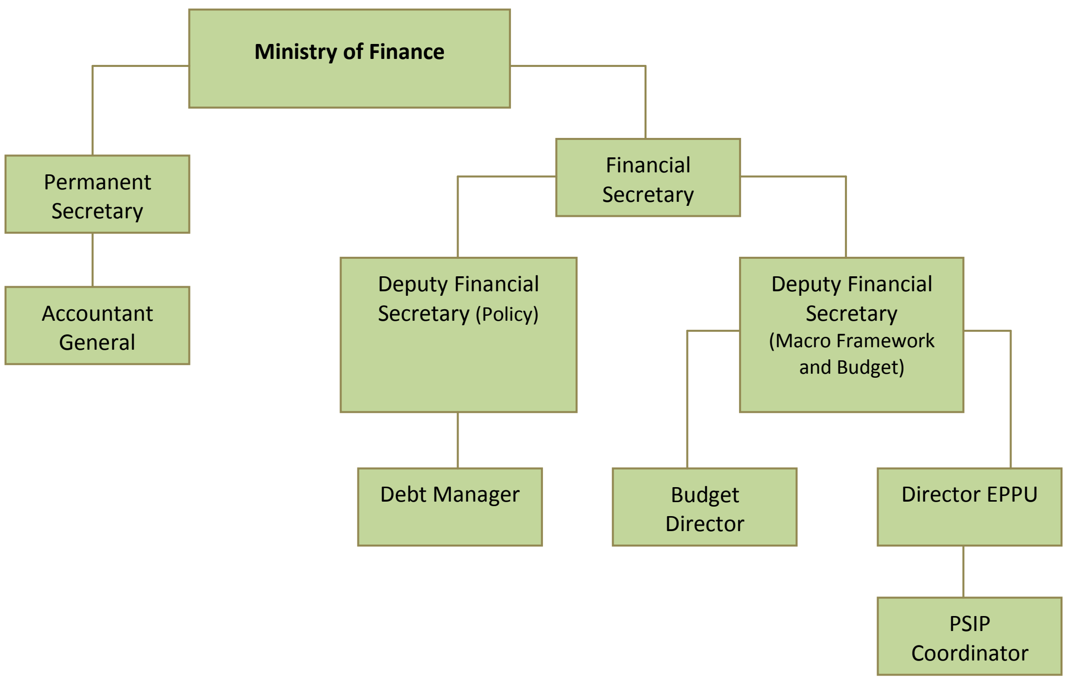


Figure 2: Organisation of the Debt Management Function within the MoF

The Budget Director prepares the macroeconomic projections according to which the budget and debt sustainability analysis are formulated, while the Accountant General issues local T-Bills for liquidity management purposes. The Economic Policy and Planning Unit (EPPU) manages the Government's Public Sector Investment Programme (PSIP), however it has no role in identifying sources of funding.

With regards to issuing Government guarantees, statutory bodies must seek authorisation from the MoF for all borrowings. 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.

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 (FAA)*. 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 per cent 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 2010 the total disbursed outstanding public sector debt stood at EC$2,723.4m (See Table 2). For the period under review (2006 to 2010) total debt had an average annual decline of 0.7 per cent. The largest fall was recorded in 2010 when debt declined by 13.2 per cent or EC$413m over 2009. This decline was due primarily to the debt restructuring exercise[1] that the Government embarked on in 2010. Figure 3 below shows the trend in public debt by residency over the review period.

Table 2: Total Public Sector Debt 2006 to 2010

Public Debt (EC$m)	2006	2007	2008	2009	2010
Domestic	1,411.30	1,538.30	1,802.30	2,013.90	1,542.72
External	1,428.70	1,297.40	1,176.70	1,122.50	1,180.69
Total	2,840.00	2,835.70	2,979.00	3,136.39	2,723.42
of which arrears	*1,226.75*	*1,286.82*	*1,545.30*	*1,494.92*	*474.10*

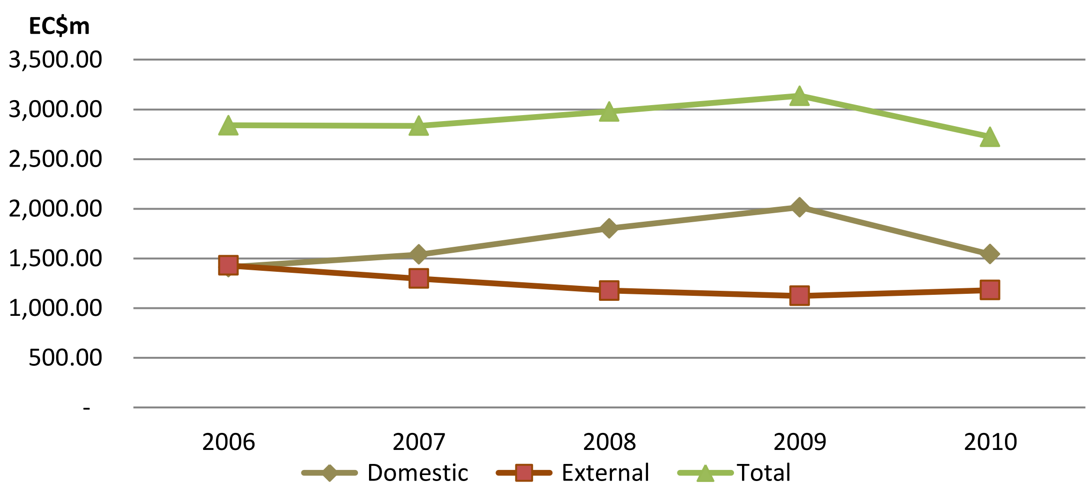


Figure 3: Total Public Sector Debt 2006 to 2010

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

Outstanding Arrears

Between 2006 and 2009 arrears accounted for 47.0 per cent of total debt (See Figure 4). In 2010 however, this dropped to 17.4 per cent. Arrears made up on average 47.7 per cent of domestic debt over the review period. This proportion was as high as 60.4 per cent in 2008 and declined to 11.0 per cent in 2010. For external debt, arrears represented on average 33.1 per cent, with the largest percentage recorded in 2009 (42.1 per cent) and the lowest in 2010 (25.8 per cent).

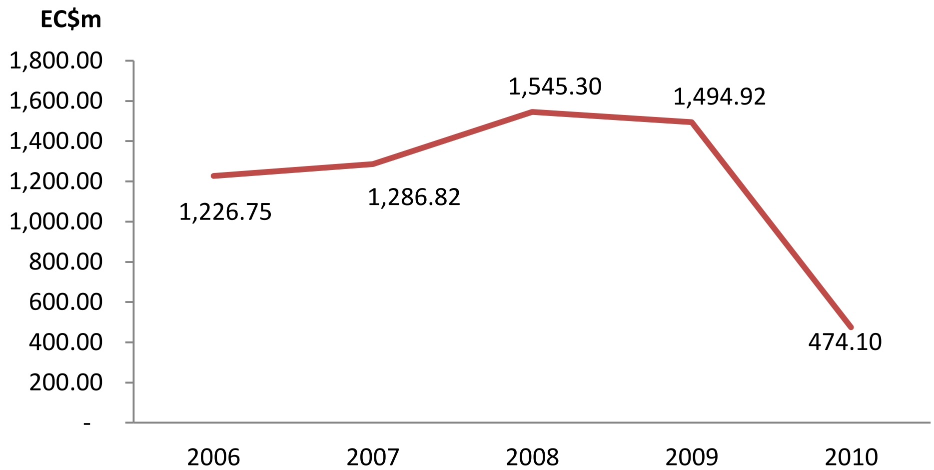


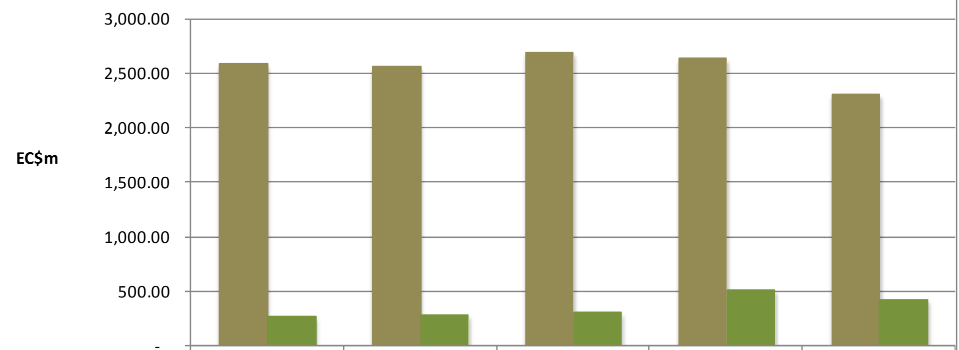
Figure 4: Outstanding Arrears

Central Government and Government Guaranteed

Public Corporation debt, for which the Government has given an explicit guarantee, accounted for 12.0 per cent of total debt. External guarantees made up roughly 61.0 per cent over 2006 to 2008 but dropped to 38.4 per cent over 2009 to 2010. This shift to domestic debt for the public corporations was due mostly to the lack of access to external credit. The major statutory bodies seeking guarantees from the Government include the Antigua Public Utilities Authority (APUA), the St John's Development Corporation, Central Housing and Planning Authority, and the Antigua and Barbuda Transport Board. The indigenous banks[2], Caribbean Development Bank (CDB), United States Agency for

[2] Antigua and Barbuda Investment Bank, Antigua Commercial Bank, Eastern Caribbean Amalgamated Bank/ Bank of Antigua, Caribbean Union Bank.

International Development (USAID), Bandes and Andrade Guitterez[3] represent the major lenders to these statutory bodies.



	2006	2007	2008	2009	2010
Central Government	2,582.82	2,558.18	2,683.64	2,630.44	2,306.07
Government Guaranteed	257.25	277.51	295.43	505.96	417.35

Figure 5: Categories of Public Sector Debt

RGSM Activity

In 2006 the Government of Antigua and Barbuda started issuing securities on the RGSM in the form of three 91-day Treasury Bills and two long-term instruments (bonds) with maturities of five and seven years respectively. The three issues of 91-day Treasury Bills amounted to EC$51m (EC$17m each) in 2006. In December 2008 the value of the 91-day Treasury Bills was reduced to EC$45m (EC$15m each) and by December 2009 this had declined to EC$22.1m. At the end of 2010 the GoAB had no T-Bills on the RGSM (see Figure 5) but maintained its presence in the market with the two bonds totalling EC$60.0m; from a total of EC$100.2m in 2006.

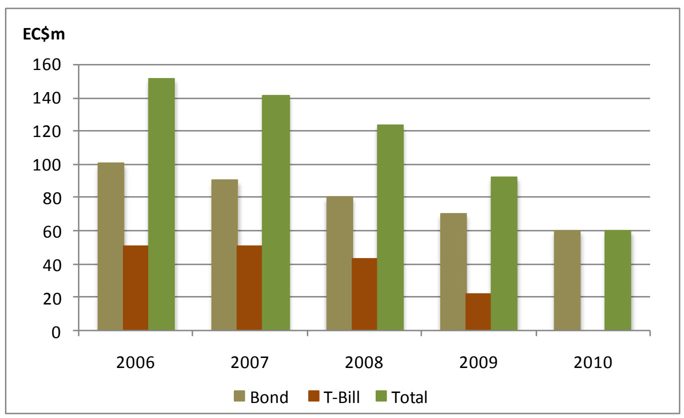


Figure 6: RGSM Activity 2006 to 2010 (EC$m)

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[3] Contractor used to work on airport runway. The amount outstanding represents the amount owed for work completed and is a liability of the Antigua and Barbuda Airport Authority (ABAA).

Domestic Debt

Table 3: Domestic Debt 2006 to 2010

Domestic Debt (EC$m)	2006	2007	2008	2009	2010
Central Government	1,323.40	1,427.20	1,684.40	1,722.82	1,268.81
of which arrears	*796.96*	*857.03*	*1,085.58*	*1,022.76*	*168.31*
Government Guaranteed	87.90	111.10	117.90	291.07	273.91
of which arrears	*31.51*	*31.51*	*2.54*	*-*	*0.71*
Total	**1,411.30**	**1,538.30**	**1,802.30**	**2,013.90**	**1,542.72**

Domestic debt as at December 2010 stood at EC$1,542.7m and comprised debt held by the Central Government and public corporations. For the period under review total public domestic debt grew on average by 4.0 per cent, with Central Government debt increasing on average by 0.5 per cent and public corporation domestic debt growing by 43.4 per cent. In 2010 domestic arrears declined by 83.5 per cent, which resulted in an overall decline of 23.4 per cent in domestic debt (see Figure 4).

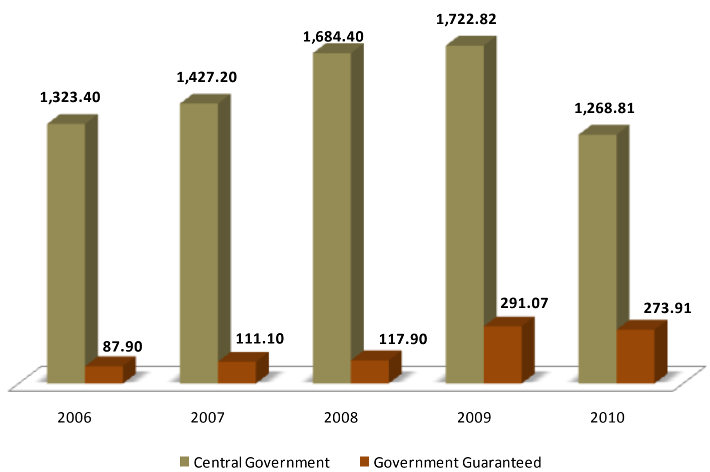

Figure 7: Domestic Debt

External Debt

Table 5 shows the trend in external debt between 2006 and 2010. External debt held by the Central Government and by the public corporations declined on average by 4.2 per cent and 1.8 per cent respectively, which resulted in an overall decline of 4.5 per cent. In 2010, however, Central Government debt increased by EC$129.6m (see Figure 7) due to disbursements from the International Monetary Fund, Caribbean Development Bank, European Investment Bank and debt restructuring with the bilateral creditors. This restructuring also resulted in a decline of 46.2 per cent (EC$184.9m) in Central Government's external arrears, which had increased every year prior to 2010.

Table 4: External Debt

External Debt (EC$M)	2006	2007	2008	2009	2010
Central Government	1,259.40	1,131.00	999.20	907.61	1,037.25
Of which Arrears	*382.24*	*382.24*	*399.45*	*400.11*	*215.17*
Government Guaranteed	169.30	166.40	177.50	214.88	143.44
Of which Arrears	*16.04*	*16.04*	*57.73*	*72.05*	*89.91*
Total	**1,428.70**	**1,297.40**	**1,176.70**	**1,122.50**	**1,180.69**

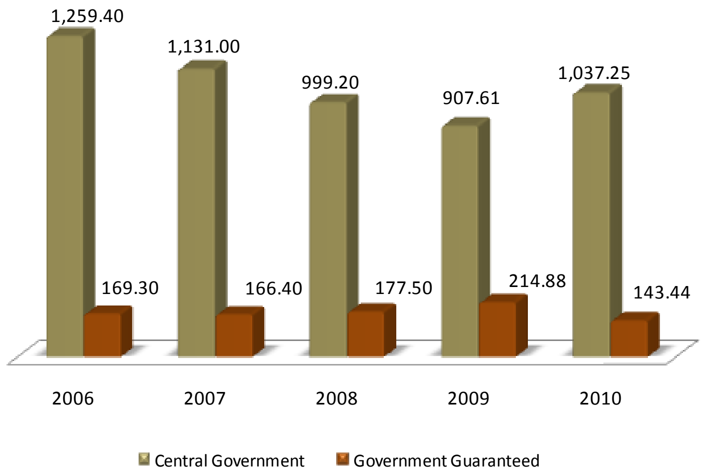

Figure 8: External Debt

4.2 Public Sector Debt Composition

Debt by Instrument

Figure 9 shows the breakdown of domestic debt by instrument at the end of December 2010. This snapshot shows that 52.0 per cent of domestic debt is in the form of loans, while privately placed securities comprise 34.0 per cent. Floating debt makes up 9.0 per cent of the domestic debt portfolio and amounted to EC$169m. The share of domestic debt in the form of privately placed securities increased in 2010 when the Government converted outstanding liabilities owed to Social Security and Medical Benefits to long term bonds[4]. The overdraft balance at the end of 2010 amounted to 3.0 per cent of the domestic debt stock while the two bonds on the RGSM made up 2.0 per cent.

At the end of December 2010 loans accounted for 70.6 per cent of external debt while arrears made up 25.8 per cent. This composition changed in 2010 when the Government

[4] For more details, see section 5.

concluded debt restructuring negotiations with the Paris Club Group of creditors to normalise the amounts owed. Arrears on debt service are due mostly to non-payment to the Kuwaiti Fund, Stanford Financial Group and Andrade Guitterez. External bonds made up 3.6 per cent of the external debt portfolio, with the RGSM portion accounting for 2.6 per cent.

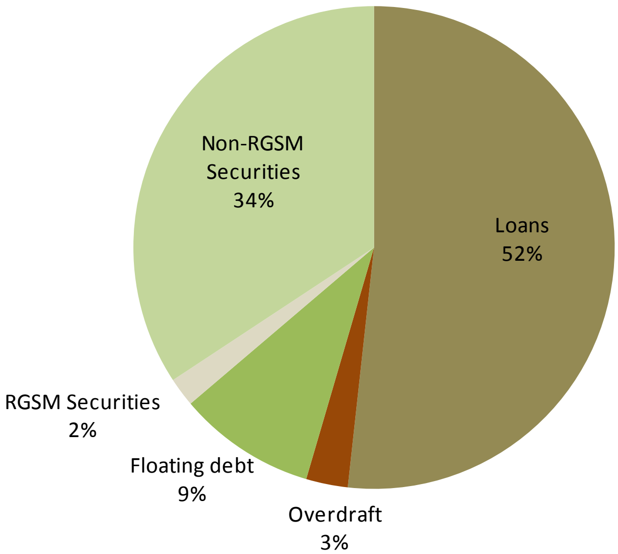

Figure 9: Domestic Debt by Instrument

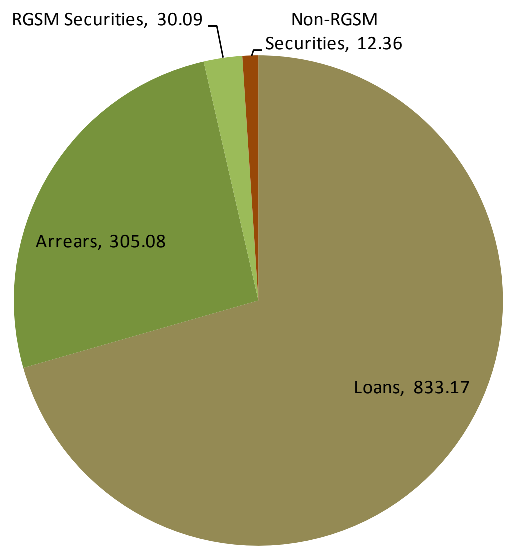

Figure 10: External Debt by Instrument

Debt by Creditor

The majority of the domestic debt is held with the domestic commercial banks (40.0 per cent) and the statutory corporations (30.0 per cent). The indigenous commercial banks that are exposed to the Government include the ABI Bank (12.0 per cent), the Eastern Caribbean Amalgamated Bank (12.0 per cent), the Antigua Commercial Bank (7.0 per cent) and the Caribbean Union Bank (6.0 per cent). 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 $35.0m in Government debt. The debts owed to RBC and FCIB are Government guaranteed and are restricted to overdraft facilities.

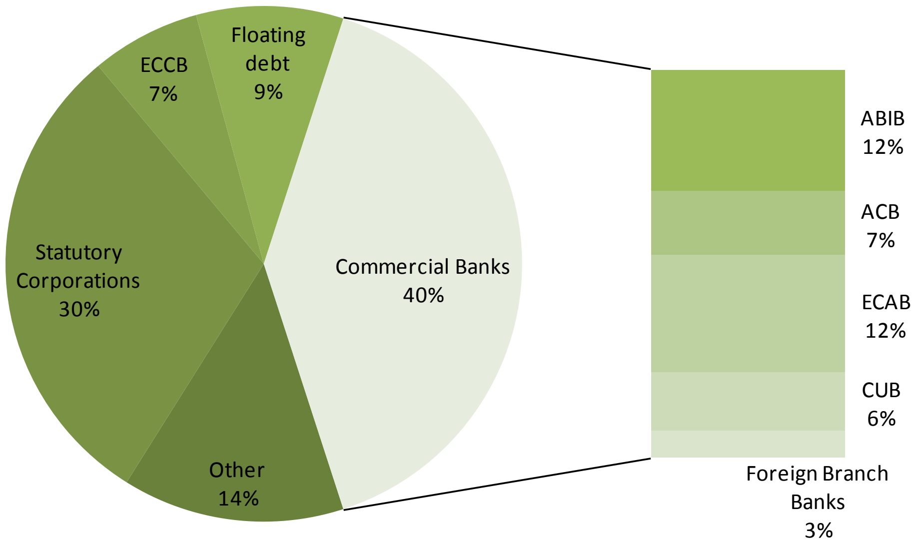

Figure 11: Domestic Debt by Creditor

Statutory corporations hold roughly 30.0 per cent of domestic debt. The Social Security accounts for over 70.0 per cent of this with a $330.0m bond, while the Medical Benefits Scheme accounts for 27.2 per cent with a bond of $125.8m.

The category "other", which amounts to 14.0 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 stabilise the banking system after the collapse of the Stanford Financial Group.

Antigua and Barbuda does not have access to highly concessional multilateral debt, given its income level. The country has historically relied on bilateral credit. At the end of December 2010, 57.0 per cent of external debt was held with bilateral creditors, while commercial and multilateral debt accounted for 16.0 per cent and 15.0 per cent respectively.

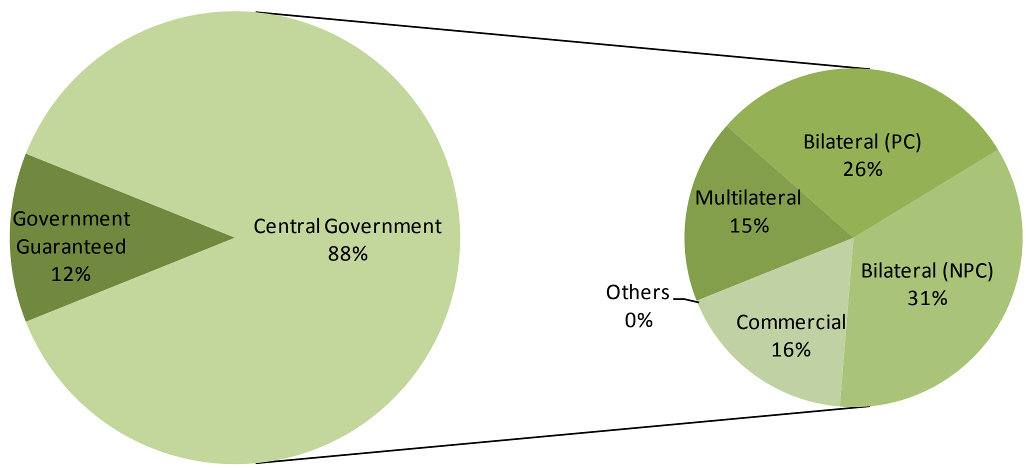

Figure 12: External Debt by Creditor Category

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Paris Club creditors account for 26.0 per cent 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$245.9m), Venezuela (EC$135.0m) and Kuwait (EC$55.0m). A small debt of EC$5.0m is owed to Trinidad and Tobago. The commercial creditors are the Stanford Financial Group (EC$96.8m) and Royal Merchant Bank (EC$25.7m). Multilateral debt is owed to the Caribbean Development Bank (EC$105.8m), IMF (EC$84.2m), EIB/EEC (EC$15.2m) and OFID (EC$2.2m). While the restructuring exercise in 2010 focussed heavily on the Paris Club creditors, the Government intends to renegotiate debts still in arrears, in particular with outstanding bilateral and commercial creditors.

Interest Rate Composition

At the end of 2010 debt contracted with fixed interest rates accounted for 69.0 per cent of the total public debt and variable rate debt amounted to 26.0 per cent. The Government has interest free loans with the Chinese creditors which made up 5.0 per cent of total debt. The breakdown of the interest rate composition, including a further split of the variable rate debt, is shown in Figure 13.

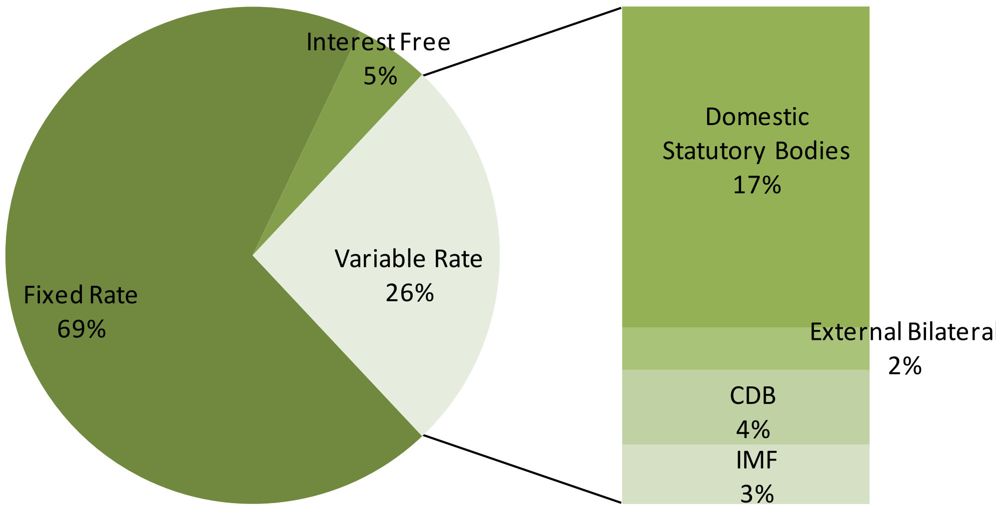

Figure 13: Interest Rate Composition

The bonds with the statutory corporations have step-up interest rates which peak at 6.0 per cent from 2022. The loans with CDB have been contracted on official cash rate (OCR) terms with an interest rate which is re-fixed every six months. The facility with the IMF has a base rate of 0.43 per cent; however the spread is based on the Special Drawing Rights (SDR) rate which changes daily. 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 54.0 per cent of the debt, while US dollar debt makes up 34.0 per cent. Although domestic debt is predominantly in the local currency, a bond issued by the Antigua Pier Group (APG)[5] 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 12.0 per cent of the public debt. The amount owed to the Chinese creditors and denominated in RMB converts to EC$227.9m, while the SDR loan (EC$84.2m) is the disbursed portion of the Stand-By Arrangement (SBA) signed with the IMF in 2010.

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

The outstanding balances based in Kuwaiti Dinars, Euro and Pound Sterling amount to EC$50.0m, EC$31.0m and EC$6.1m respectively.

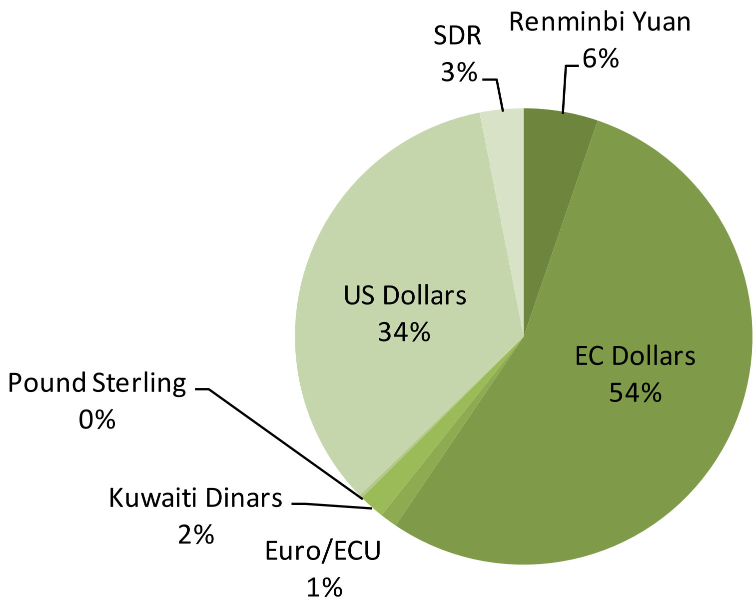

Figure 14: Currency Composition of Total Public Debt

4.3 Economic Sector Breakdown of External Debt

The external debt by economic sector for the GoAB is captured in Figure 9. At the end of 2010 approximately 53.0 per cent of external debt was acquired for budgetary support. The other economic sectors that account for the most external financing are Infrastructural Development, Utilities, and Air Transport. Financing for these sectors has been sourced mostly from bilateral creditors. Debt for Air Transportation is due largely to Andrade Guitterez for 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 in 2010.

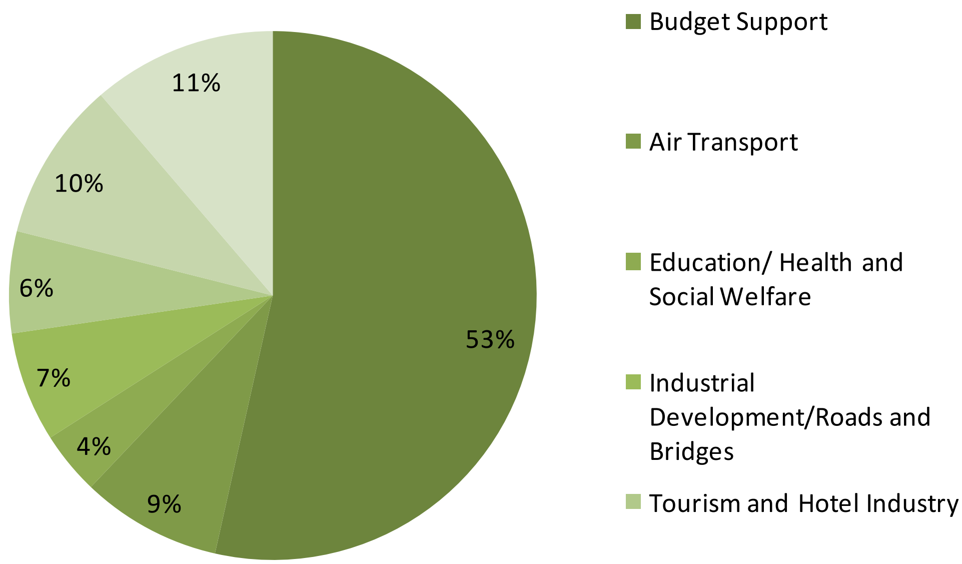

Figure 15: Synopsis of External Public Debt by Economic Sector

4.4 New External Borrowing for 2010 (Central Government)

In 2010 the GoAB received EC$109.7m in new external financing from the IMF and the CDB. The IMF approved an SBA for SDR 81.0m over 36 months. A CDB Policy Based Loan of US$30.0m was also approved in 2010, to be disbursed over the same period as the SBA. These loans will be used to support the Government's fiscal adjustment and structural reform programme. Both arrangements will be 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. The instruments carry semi-concessional terms, as shown in table 5 below.

Table 5: New External Borrowing for 2010

Creditor	Use of Funds	Amount (EC$m)	Disbursed	Maturity (yrs)	Interest Rate
IMF	Stand By-Arrangement	318.06	82.74	7.78	1.00%
CDB	Policy Based Loan	81.00	27.00	16.76	4.09%

4.5 Debt Service Payments (Central Government Debt)[6]

Table 6: Debt Service Payments 2006 to 2010 (EC$m)

Debt Service Payments (EC$ M)	2006	2007	2008	2009	2010
Total Debt Service Payments	**246.59**	**202.50**	**243.47**	**182.70**	**222.60**
External	**116.62**	**124.94**	**183.83**	**105.20**	**90.45**
Principal Repayments	55.80	56.05	113.62	49.17	72.56
Interest Payments	60.82	68.89	70.21	56.03	17.88
Domestic	**129.97**	**77.56**	**59.64**	**77.50**	**132.15**
Principal Repayments	92.71	41.95	27.28	37.88	77.40
Interest Payments	37.26	35.61	32.36	39.62	54.76

Table 7: External Debt Service Payments for 2010

Service Payments (EC$M)	2010
Multilateral	***27.75***
Principal	25.57
Interest	2.18
Bilateral	***10.17***
PC	**0.30**
Principal	0.13
Interest	0.17
NPC	**9.86**
Principal	6.83
Interest	3.03
Commercial	***35.60***
Principal	27.54
Interest	8.06
Other	***16.94***
Principal	12.49
Interest	4.45
Total	**90.45**
Principal	72.56
Interest	17.88

Over the period 2006 to 2010 total debt service payments increased on average by 1.6 per cent. External payments grew by 2.4 per cent while domestic payments expanded by 9.3 per cent. There is no defined trend in debt service over the review period, however the share of domestic debt payments to total payments increased to 56 per cent in 2010, as the Government relied more heavily on domestic financing.

In 2010 principal repayments were made mostly to multilateral and "other" creditors. The payments shown for the NPC and commercial creditors were largely due to a build-up of arrears to the Kuwaiti Fund, People's Republic of China and the Stanford Financial Group. "Other" represents the RGSM bond holders.

[6] Includes arrears on debt service

4.6 Risk Analysis

Figure 16 shows the maturity profile of Central Government debt given the stock of debt at the end of 2010. The spikes in 2011 and 2012 are due to T-Bill, overdraft and floating debt payments. It is assumed that the Government will clear the amount owed to the ECCB in 2012. Barring 2011 and 2012, the maturity profile is smooth, with slight elevations from 2013 to 2023.

Maturity Profile

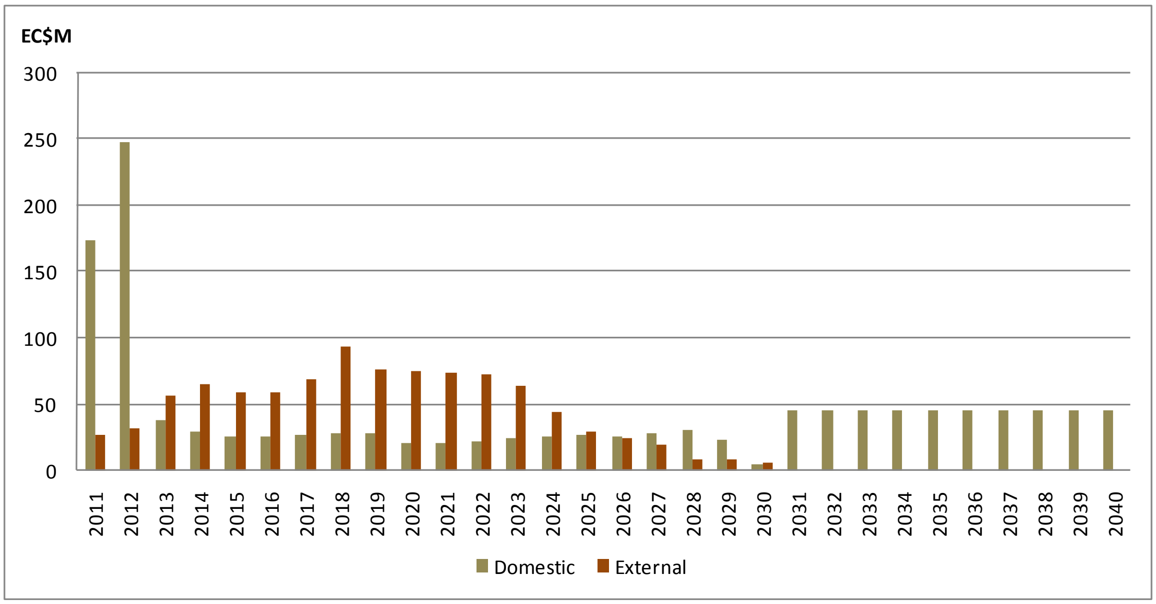

Figure 16: Maturity Profile of the Public Debt (EC$m)

Between 2011 and 2015 a total of $756.0m comes due, while the Government is required to pay off roughly $504.9m between 2016 and 2020. After 2020 principal repayments total $1,045.3m, with external payments ceasing in 2030. From 2031 the Government is only required to make domestic payments at a steady $45.6m to the Social Security Board and Medical Benefit Scheme, with both instruments maturing in 2040.

The spikes for external debt during 2013 to 2023 are demonstrated in Figure 17. Payments to bilateral creditors between 2018 and 2023 amount to $383.0m with an average per year of $54.5m - higher than the overall average of $31.5m during 2011 to 2030. These payments refer to the Paris Club debts which were restructured in 2010. Payments to multilateral creditors increase from 2013 to 2018, 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.

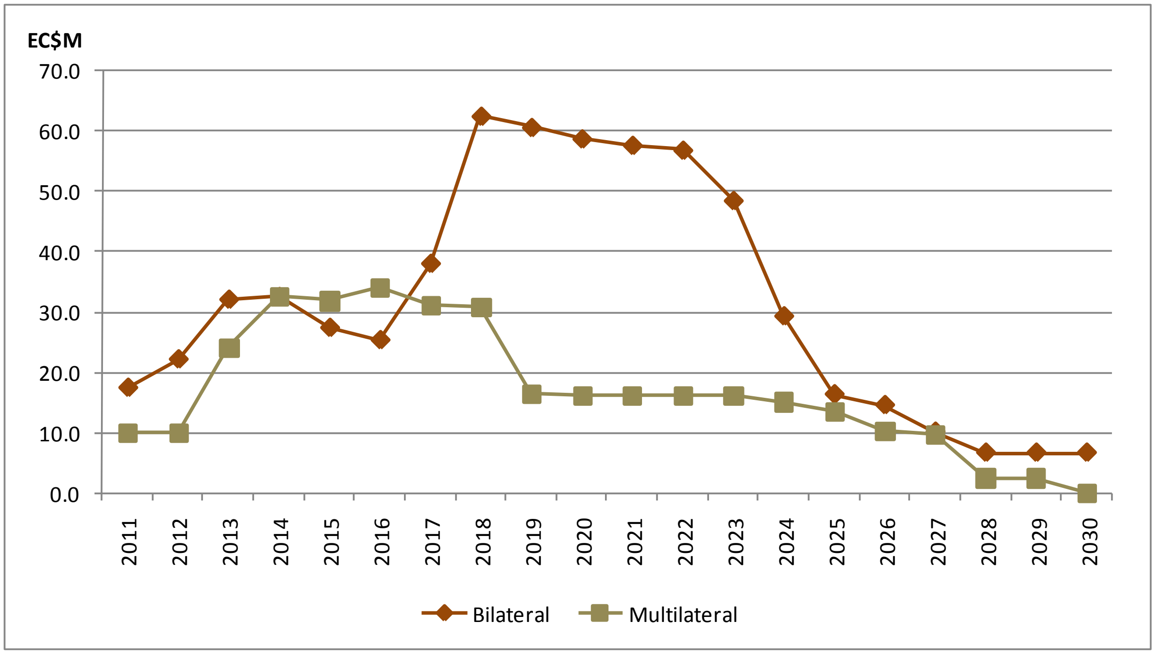

Figure 17: Maturity of Bilateral and Multilateral External Debt (EC$m)

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 10.8 years. Although the Government has made significant strides in lengthening the maturity on outstanding debt instruments, the refinancing needs over the short term are high. To ease the payment requirements over the short term, the Government needs to continue its restructuring programme with the domestic creditors, in particular the floating debt and the ECCB.

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 10.6 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 per cent proportion of variable rate debt. The likelihood of restructuring the debts with the IMF and CDB is very low; 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 88.0 per cent share of 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[7]

Table 8: Debt Sustainability Indicators (in percentages)

Debt Sustainability Indicators	2006	2007	2008	2009	2010
Public Sector Debt to GDP	**90.48**	**79.69**	**80.06**	**92.69**	**83.27**
Domestic	44.96	43.23	48.44	59.52	47.17
External	45.52	36.46	31.63	33.17	36.10
Debt Service Ratio	**40.92**	**27.94**	**33.08**	**30.66**	**34.80**
Domestic	21.57	10.70	8.10	13.01	20.66
External	19.35	17.24	24.98	17.66	14.14
Interest Service Ratio	**16.27**	**14.42**	**13.94**	**16.05**	**11.36**
Domestic	6.18	4.91	4.40	6.65	8.56
External	10.09	9.51	9.54	9.40	2.80
External Debt Service to Exports	**7.83**	**7.91**	**10.97**	**7.10**	**6.14**

In 2010 all the debt sustainability indicators shown in table 10 improved when compared to 2006. The movements of these indicators over the years have been sporadic; although the year 2007 recorded the lowest debt/GDP and debt service ratios. The brunt of the economic crisis was felt in 2009 when GDP declined by 9.6 per cent. This led to a worsening of the Government's debt/GDP ratio, which climbed to 92.7 per cent.

The debt service ratio has remained fairly high over the five years (2006-2010), averaging 33.5 per cent, while the interest service ratio averaged 14.4 per cent. Although all indicators improved in 2010, external debt service to exports weakened, given the lowest export earnings in that year compared to the other four years.

[7] Indicators as a percentage of GDP are based on a rebased GDP series. The rebasing exercise was done for all the ECCU territories in 2010.

Box 1 - Excerpt from IMF External and Public Debt Sustainability Analysis - March 2011

Introduction

- Antigua and Barbuda commenced an IMF programme with a high debt-to-GDP ratio.
- By the end of 2010 Antigua and Barbuda had secured debt restructuring agreements with most external and domestic creditors.
- The outcome of the debt restructuring is better than assumed at the time of the approval of the IMF programme.

Macroeconomic Assumptions

- The adjustment measures in 2010 and 2011 are expected to yield an average primary surplus of 2.5 per cent of GDP over the medium term.
- Inflation is forecast at 3.7 per cent in 2011, with upside risks from global food and fuel prices.
- The current account deficit is projected to widen in 2011.
- The average rate of interest on the public debt is projected to be 3.7 per cent in 2011.

Debt Dynamics

- The analysis is based on the assumption that arrears will be cleared in 2011, mainly through restructuring agreements with external and domestic creditors.
- Under the IMF programme, Antigua and Barbuda's public and publicly guaranteed debt has moved towards a sustainable trajectory.
- There are several risks to this generally positive scenario.
    - Commitment to fiscal consolidation weakens
    - Economy not able to generate sustained growth rates
    - Loss of access to concessional or restructured financing terms

Natural Disasters

- The debt restructuring with external creditors appears to have successfully contained external vulnerabilities.

Conclusion

- Antigua and Barbuda's risks of debt distress have been significantly contained following the execution of a successful debt restructuring strategy.
- Nevertheless, financing needs will remain high over the medium term, and inherent vulnerabilities continue to threaten the downward debt trajectory.

SECTION 5.0: Public Debt Management Issues

Restructuring Programme in 2010

In 2010 the Government embarked on a debt restructuring programme supported by the IMF. The overall objective of the exercise was to place the debt on a downward trend over the medium term by eliminating arrears and normalising relations with creditors.

External Debt – An agreement with the Paris Club in September 2010 marked the beginning of the restructuring process. The agreement established the overall schedule of repayments to the participating creditor countries, while the terms of specific loans would be determined bilaterally. The Paris Club creditors include the governments of Brazil, France, Japan, the Netherlands, the United Kingdom and the United States of America. While the agreement 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 per cent over 2012-2016 and will spread the remaining 90.0 per cent over 2017-2024. The estimated net present value savings range between 25.0 and 30.0 per cent.

Other external creditors the GoAB intends to negotiate with include China, Kuwait, Trinidad and Tobago, and the Stanford Financial Group. The Government is also seeking to refinance the amounts owed to Andrade Guitterez and to evaluate the amount for which a guarantee can be given. Multilateral debts are excluded from the restructuring process.

Domestic Debt – The GoAB signed an MOU with both the Social Security Board and the Medical Benefits Scheme to restructure the amounts owed, which were accumulated over years of missed payment of contributions. The terms of the new instruments include a maturity of 30 years and a stepped up interest rate from 1.0 per cent to 6.0 per cent. The agreements reduced the face value of the debt outstanding by about 15.0 per cent of GDP.

Restructuring arrangements with the commercial banks have been more customised, but mainly resulted in an extension of maturities to 15-20 years and a reduction of interest rates to 8.0 per cent. The GoAB is negotiating repayment plans with several domestic suppliers. Debt issued on the RGSM, Development Bonds and T-bills have been excluded from the restructuring process.

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
- No 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

Activities in 2011

- Finalise bilateral agreements with Paris Club Creditors
- Continue restructuring with other external creditors
- Complete rescheduling with Domestic Creditors/Suppliers
- Reconcile Non-RGSM Development Bonds, T-bills and debentures
- Produce and publish a prospectus
- Issue a private bond and two instruments on the RGSM
- Debt Management Performance Assessment (DeMPA) Action Plan activities
- Develop a procedures manual for the Debt Management Unit
- Debt Management Institutional Assessment – IMF
- Medium Term Debt Strategy – Workshop
- Debt Portfolio Review

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 per cent by 2012 and 60.0 per cent by 2020. The GoAB also intends to target a debt service burden of no more than 20.0 per cent of current revenue. 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

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 heavy reliance on domestic commercial bank financing should be curtailed and the Government should explore further use of the RGSM as an alternative source of funds. Given the current economic climate, contingent liabilities must be 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 should also be complemented by an appropriate medium term debt strategy for contracting and guaranteeing debt.