Medium Term Fiscal Strategy

2021-2023

Ministry of Finance and Corporate Governance

Government of Antigua and Barbuda

31 December 2020

Blank Page

Acknowledgements

The Medium - Term Fiscal Strategy is a product of the Macro Fiscal Team within the Ministry of Finance, Corporate Governance and Public – Private Partnerships.

The Team Members are:

Ms. Denise Knight

Mr. Yannick Gordon

Ms. Cordella Weston

Ms. Jonique Mingo

In completing this Strategy, invaluable support was received from the Country Economist at the Caribbean Development Bank – Mr. Kevin Hope, and the Country Economist at the Eastern Caribbean Central Bank – Ms. Martina Regis.

Appreciation is also extended to Shivon Burton – a former Team Member.

Blank Page

Foreword

Over the five-year period 2015 to 2019, Antigua and Barbuda recorded consistent and relatively robust economic growth which allowed us to make advances in our development agenda. This clearly evidences the concerted efforts my Government has been making to strengthen the enabling environment to facilitate economic prosperity for the people of Antigua and Barbuda.

The year 2020 has seen the onset of a global pandemic and we in this country have been severely impacted. In the wake of this on-going crisis, my government continues to make every effort to protect lives and livelihoods, shore up aggregate demand, support the poor and vulnerable and keep the economy afloat.

Now, more than ever, the need for resilience in fiscal management is evident. As a government, we are not only determined to overcome the challenges with which we are currently faced but we also commit to building the foundation for sustainable and resilient growth over the medium term.

In this regard, we have recently adopted Fiscal Resilience Guidelines, as well as a Medium- Term Fiscal Framework to enhance our operations through a more robust and transparent public financial management system. These initiatives follow a comprehensive assessment of the current conditions and recommendations of measures to spur economic activity and alleviate the impact of the pandemic. The recommendations for recovery came out of the work spearheaded by the Economic Recovery Committee, and this Medium-Term Fiscal Strategy benefitted from inputs from regional and international partners. We are confident that we will recover from this unprecedented economic contraction and come out stronger on the other side. However, we must put in the requisite work to achieve the desired results.

We are determined to forge ahead in our quest to build a strong, resilient nation. Failure is not an option. Antigua and Barbuda - we are stronger together!

....

Honourable Gaston Browne
Prime Minister and Minister of Finance

Blank Page

List of Acronyms

ABDB	-	Antigua Barbuda Development Bank
ABHTA	-	Antigua and Barbuda Hotels and Tourism Association
ABIA	-	Antigua and Barbuda Investment Authority
ABST	-	Antigua and Barbuda Sales Tax
ABTA	-	Antigua and Barbuda Tourism Authority
ALBA	-	Bolivarian Alliance for the Peoples of Our America
BOE	-	Board of Education
CABI	-	Construct Antigua and Barbuda Initiative
CCRIF	-	Caribbean Catastrophe Risk Insurance Facility
CDB	-	Caribbean Development Bank
CDC	-	Centers for Disease Control and Prevention (U.S.A.)
CDF	-	CARICOM Development Fund
CDEMA	-	Caribbean Disaster Emergency Management Agency
CIP	-	Citizenship by Investment Programme
CRDF	-	Climate Resilience and Development Fund
ECCB	-	Eastern Caribbean Central Bank
ECCU	-	Eastern Caribbean Currency Union
ECPCGC	-	Eastern Caribbean Partial Credit Guarantee Corporation
EDF	-	European Development Fund
EDP	-	Entrepreneurial Development Programme
EFAP	-	Emergency Food Assistance Programme
ERC	-	Economic Recovery Committee
EU	-	European Union
FAA	-	Finance Administration Act

FRG	-	Fiscal Resilience Guidelines
GCF	-	Green Climate Fund (United Nations)
GDP	-	Gross Domestic Product
GOAB	-	Government of Antigua and Barbuda
IBRD	-	International Bank for Reconstruction and Development (The World Bank)
IMF	-	International Monetary Fund
IRD	-	Inland Revenue Department
IRP	-	The Investor Relations Programme
IT	-	Information Technology
KPI	-	Key Performance Indicators
MBS	-	Medical Benefits Scheme
MoF	-	Ministry of Finance
MSME	-	Micro, Small and Medium Enterprises
MTFS	-	Medium Term Fiscal Strategy
NODS	-	National Office of Disaster Services
OFID	-	OPEC Fund for International Development
OPEC	-	Organization of Petroleum Exporting Countries
PCR	-	Polymerase Chain Reaction (Test for COVID-19)
PPE	-	Personal Protective Equipment
RGSM	-	Regional Government Securities Market
RRC	-	Revenue Recovery Charge
RRL	-	Reconstruction and Rehabilitation Loan
SOE	-	State-Owned Enterprise
SSB	-	Social Security Board
TAL	-	Tourist Accommodation Levy
UNDP	-	United Nations Development Programme

Contents

CHAPTERS

FIGURES

TABLES

BOX

1. INTRODUCTION

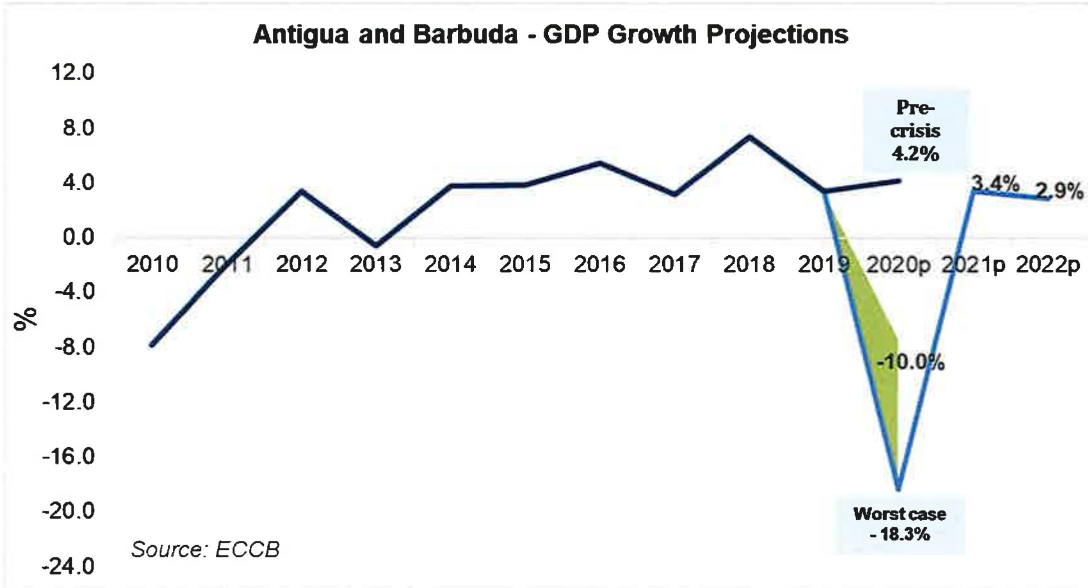
The 2021 Medium Term Fiscal Strategy (MTFS) lays out the Government of Antigua and Barbuda's (GOAB's) strategy to effectively manage its fiscal affairs over the medium term, 2021-2023. The MTFS was developed against the backdrop of the December 2019, Novel Coronavirus (Severe Acute Respiratory Syndrome-CoV-2) pandemic which, to date, has spread rapidly across the world with severe health, economic and social consequences. Measures - such as lockdowns, curfews, business and border closures and travel restrictions – which were instituted to limit the transmission of the virus - led to unparalleled disruption in global economic activity and may have undermined the economic outlook and altered the global economic structure for years to come.

The MTFS focuses on the period 2021-2023, outlining the course that will enable Antigua and Barbuda to begin the difficult task of economic recovery and stabilization. This paper looks at the current fiscal situation – the 2020 baseline, as well as projected outcomes of a number of policy interventions - to be implemented over the stated timeframe. The overarching goal is to place the country on a path of fiscal and debt sustainability and broad-based economic growth, while ensuring that the effort is adequate to allow the country's debt to GDP ratio to trend toward the prudential benchmark of 60% as established by the Monetary Council of the Eastern Caribbean Currency Union (ECCU).

Achieving these objectives will require determined action. Working with its social partners in business, labour and civil society, government has begun implementing an economic recovery plan, with immediate measures to boost confidence and investment, and longer-term reforms to promote sustained higher economic growth. In the short term, the economic recovery plan will focus on building infrastructure, improving utilities such as water supply, electricity generation and ICT, supporting light manufacturing, agriculture and employment.

To support economic recovery, it is critical that fiscal imbalances do not act as a drag on growth or continue to widen. With mounting debt and interest payments that now consume 40 cents of every dollar of main budget revenue, public finances face the risk of a debt spiral. Stabilizing debt to avoid such a crisis will involve significant revenue enhancement and expenditure management across government.

Figure 1: Antigua and Barbuda Growth Projections



The COVID-19 pandemic and measures to protect public health have had far-reaching effects on the economy. According to estimates from the Eastern Caribbean Central Bank (ECCB), real GDP is projected to contract by 18.3% in 2020 in a worst-case scenario, relative to the 4.2% growth projected before the crisis. Job losses have been particularly severe in light of the closure or significant downsizing of hotels and many other businesses. The Government commissioned an Economic Recovery Committee (ERC) which has proposed s a three-year Economic Recovery Strategy (ERS) that enables continued support for the economy and job creation. Consequently, the MTFS complements the ERS, in outlining fiscal measures that will bring the country's debt burden under control and realign the composition of spending from consumption towards investment.

1.1 SOCIO-ECONOMIC CONTEXT

Antigua and Barbuda is ranked as a Highly Developed Country based on the Human Development Index[1] of 0.776, with gross domestic product (GDP) per capita of US$17,346 in 2018. Between 1990 and 2018: life expectancy at birth increased by 5.4 years; mean years of schooling increased by 2.2 years; and expected years of schooling decreased by 0.8 years. Despite human capital

[1] United Nations Development Programme, Human Development Reports, Antigua and Barbuda, 2020

improvements over the last three decades, issues of poverty, social vulnerability and the ability of the poor to sustainably improve their life chances and wellbeing remain critical matters of concern. The latest available data show that: 18% of the population is poor; 3.7% indigent (food poor); and 10% vulnerable to poverty in the event of a significant socio-economic shock or natural hazard. Comparatively, the poorest quintile is responsible for less than 5% of total consumption versus 56.3% for the wealthiest quintile of the population. It is estimated that 41% of homes in Antigua and Barbuda are single-parent, female-headed households. The level of multidimensional poverty is likely to have deepened due to ongoing challenges associated with the frequency and magnitude of exogenous shocks and the evolving COVID-19 crisis. Persons with disabilities, women, youth, elderly, children and migrants are affected disproportionately by poverty and vulnerability and are the least resilient to respond to such shocks and crises.

Gains in human development are easily reversed and inequality exacerbated in the face of economic shocks that have significant negative impacts on the social, economic, and fiscal stability. Furthermore, macroeconomic instability makes it difficult to implement and sustain poverty reduction policies.

The Antigua and Barbuda economy is highly vulnerable to economic and natural disaster shocks. Economic and natural disaster shocks put an estimated 80.4% of the country's GDP at risk, placing Antigua and Barbuda among the top 20 countries with risk to GDP from two or more hazards[2]. The country is still recovering from the economic and social fallout caused by the devastating Hurricane Irma in 2017. The country suffered damage and loss of US$155.1 million (10% of GDP) impacting houses, public buildings, hotels, firms engaged in the tourism sector and safety nets of vulnerable households. In Barbuda, 95% of the housing stock was damaged or destroyed, and the entire population of 1,600 persons was evacuated to Antigua immediately following the devastation.

A rapid rise in economic standards and improved living conditions over the last three decades coincided with fast-paced growth in tourism activities. During the period 2016-19, buoyant tourism investments, stay-over arrivals and physical infrastructure developments drove robust economic growth (5.3% on average). However, much of the county's economic progress was

[2] Disaster Risk Management in Latin America and The Caribbean, Antigua and Barbuda. The World Bank, 2010

achieved through a large accumulation of public debt to finance critical social and economic infrastructure. Public spending to mitigate the impacts of recurrent shocks, including the global recession of 2008, and to fund bank resolutions in the aftermath of the global crisis also contributed to elevated debt levels of close to 100% of GDP in 2014. After Hurricane Irma, public finances deteriorated due to reduced economic activity and tax exemptions associated with reconstruction, while there was an increase in government spending to rebuild public infrastructure and assist the affected population.

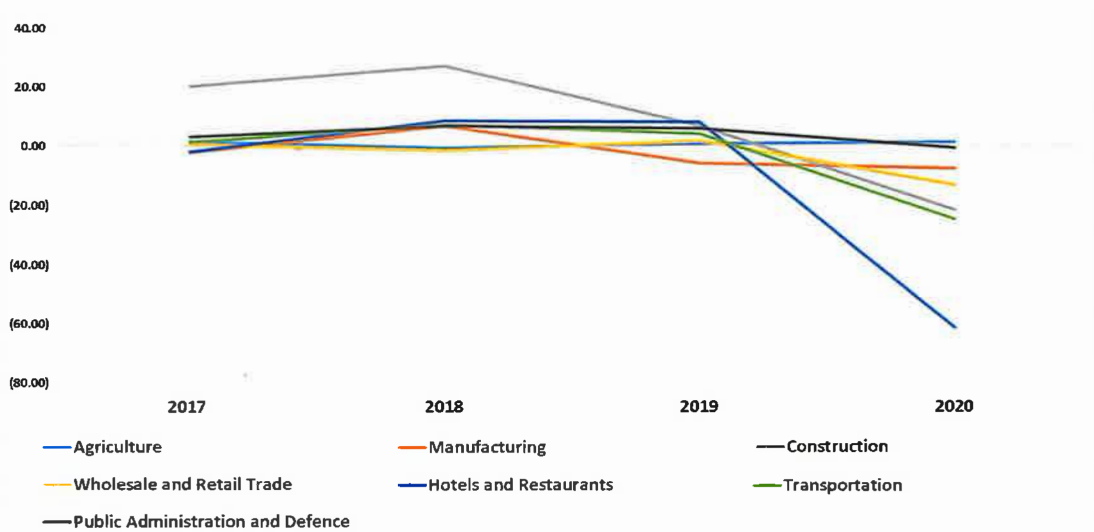
During the five-year period to 2019, robust economic growth and low inflation masked weaknesses in government's revenue collection and financing conditions. For example, widespread exemptions (estimated at 45% of potential revenue) and lower tax compliance contributed to eroded tax performance even when the economy was growing at a strong pace and contributed in part to sizeable fiscal deficits, cash flow pressures and the accumulation of arrears. Moreover, the tax expenditures and a high debt-servicing burden (42% of current revenue in 2019) left little fiscal space to deal with emergencies such as the pandemic. On the other hand, strong growth and prudent debt management reduced the Central Government debt to an estimated 66.6% of GDP at end-2019.

COVID-19 is having significant adverse macroeconomic and social impacts on Antigua and Barbuda. The pandemic has had an immediate deleterious impact on public finances, simultaneously affecting government's operations from both sides, revenues and expenditures. The Government of Antigua and Barbuda, (GOAB), with the assistance of the International Monetary Fund, (IMF), The Caribbean Development Bank, (CDB), and the Eastern Caribbean Central Bank, (ECCB) has estimated the macroeconomic impacts, assuming a steep reduction in tourism activity, on the hotels and restaurants, wholesale and retail, transportation, storage and communication sectors over a 6 to 9-month period during 2020 (see Figure 2). Under the baseline scenario, which assumes that there will be limited recovery in tourism for the remainder of 2020 as well as a reduction in domestic and external demand, GDP is expected to contract by 18.3% in 2020. The overall economic costs and impacts will depend on the evolution of the pandemic, duration of the outbreak in Antigua and Barbuda's tourism-source countries, travel bans, and the length of time for tourism flows to return to normalcy. The longer the tourism industry remains closed, the greater the economic setback and permanent losses for firms, workers, households and the GOAB, and an increasing proportion of the population will likely fall below the poverty line. Consultations with Government stakeholders reveal compounding impacts especially for the unemployed.

At the household level, there has been a steep contraction in domestic consumption (which accounts for approximately 75% of economic activities) owing to the nationwide lockdown in April and May 2020; the maintenance of curfew hours established under state of emergency regulations; and social distancing measures that resulted in significant slowdown, and in many cases, stoppage of business activities.

Antigua and Barbuda Statistics Department estimated a steep fall in economic activity in the leading sectors such as hotels and restaurants (-61.8%), transportation (-25.2%), construction (-22.0%) and wholesale and retail (-13.5%) for 2020 (see Figure 2). These sectors have a high concentration of Micro, Small, and Medium-sized Enterprises (MSMEs) that experienced disproportionate challenges under COVID19. For example, in excess of 80%[3] of the firms in the tourism, transportation and retail trade sectors are MSMEs, accounting for the majority of the total employment outside of the public sector. Although, the firms would have witnessed modest and steady growth in line with GDP growth within the last five years, many are thinly resourced in terms of access to credit and working capital.

Figure 2: Real GDP Growth Rate by Economic Activity (%-change)



Source: Antigua and Barbuda Statistics Department

[3] Antigua and Barbuda, Social Security Board 2020 Active Employment Database by Industry

As a result, the lockdown and initial supply chain disruptions have negatively affected MSMEs. Businesses across a range of economic sectors are facing catastrophic losses which threaten their operations and solvency. Significant business closures and job losses, along with rising business and consumer debt default could put the fragile banking system at risk. Challenges persist in accessing credit and loans to develop enterprises, primarily due to high interest rates, limited collateral to access loans, intimidating application processes, and poor production and market records.

1.2 OUTLINE OF THE 2020 MTFS

Chapter 2 reviews the medium-term economic outlook. Real GDP growth is forecast at -18.3% for 2020, a significant collapse from the 4.2% projected in early 2020 during the annual budget presentation. The economy is expected to recover to a real GDP growth rate of 3.4% in 2021, with growth averaging 3.5% over the medium term consistent with Antigua and Barbuda's long-term growth trend. It should be noted that the outlook is subject to significant downside risks. In particular, there are significant uncertainties as to the pace of recovery in 2021 which depends on how quickly vaccines for the COVID-19 virus can be widely deployed in Antigua as well as in the US and UK, both major sources of tourists. Recent decisions by both countries requiring negative COVID-19 test results by all arriving passengers to those countries have added to the risk of lower-than-expected tourist arrivals, given the limited testing capacity in Antigua. Nonetheless, swift implementation of structural reforms can provide additional support for growth. Chapters 3 and 4 outline the medium-term fiscal policy stance, which focuses on stabilising the public finances. As a result, the overall deficit will narrow from 4.5% of GDP in 2020 to 4.3% of GDP in 2021 and 0.7% by 2023. Chapters 5 and 6 set out proposed medium-term debt management and fiscal risks strategies.

2. ECONOMIC OUTLOOK AND ASSUMPTIONS

Against the backdrop of the COVID-19 pandemic, a number of assessments have pointed to a significant contraction in global economic activity for 2020. The World Bank forecasted a decline of 5.2% in global GDP in 2020, with a 4.2% rebound in 2021. Meanwhile, OECD's September 2020 Interim report projected global GDP would decline by 4.5% in 2021. By comparison, the International Monetary Fund's (IMF) World Economic Outlook, released in October 2020, projected global output would contract by 4.4% in 2020, to be followed by growth of 5.2% in 2021 (see Table 1). Based on these assessments, the performance in 2020 for many economies is projected to be worse relative to the performance during the global financial crisis. Although positive global growth is expected in 2021, this outcome is contingent on the effective containment of the COVID-19 pandemic by the end of 2020 or early 2021.

Table 1: International Growth Projections

	Actual	Estimate	Forecast			
	2018	2019	2020	2021	2022	2023
World	3.5	2.8	-4.4	5.2	4.2	3.8
Advanced Economies	2.2	1.7	-5.8	3.9	2.9	2.2
US	3.0	2.2	-4.3	3.1	2.9	2.3
Canada	2	1.7	-7.1	5.2	3.4	2.4
UK	1.3	1.5	-9.8	5.9	3.2	1.9
Euro Area	1.8	1.3	-8.3	5.2	3.1	2.2
Caribbean						
Tourism dependent	2.0	0.5	-9.9	4.0		
Commodity exporters	1.1	1	0.6	3.8		
ECCU	4.0	2.8	-16.2	5.1	4.3	-
Exchange rate (USD/XCD)	2.7	2.7	2.7			

Sources: IMF World Economic Outlook; Regional Economic Outlook and ECCB

While there may be some tentative signs that an incipient recovery may have begun in some advanced economies, new cases of the coronavirus have increased in several advanced and emerging countries during the fourth quarter of 2020 and have raised the specter of potential second and third waves of the pandemic. In an effort to combat this second wave many developed European countries and the UK have decided to be more proactive and have instituted nationwide lockdowns for the majority of November 2020. This resurgence of COVID-19 cases in many countries implies that the pandemic is likely to remain a risk to health and economic recovery until a vaccine or an effective therapeutic treatment is widely available, which may not occur until sometime in 2021.

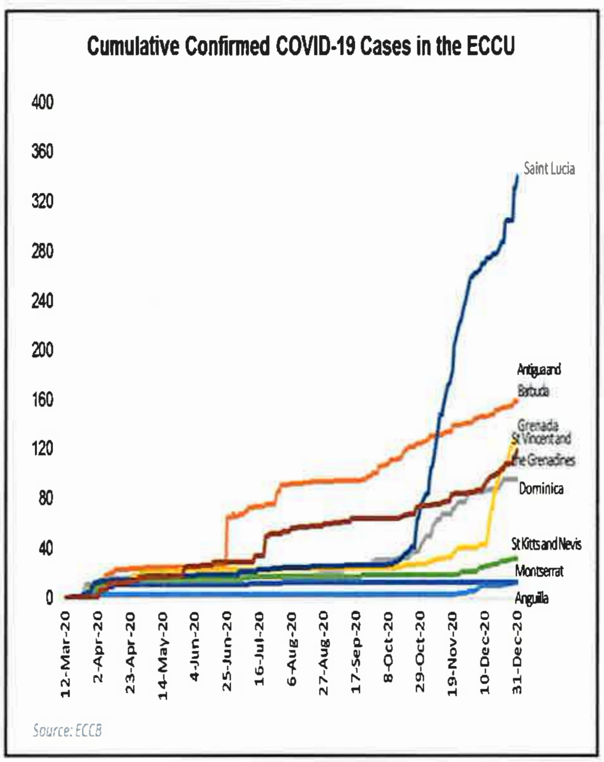
The Fund estimates that countries that rely more on contact-intensive service sectors and oil exporters will likely face weaker recoveries compared to economies that are based on manufacturing. This has implications for the outlook for all ECCU economies, including Antigua and Barbuda given their dependence on tourism.

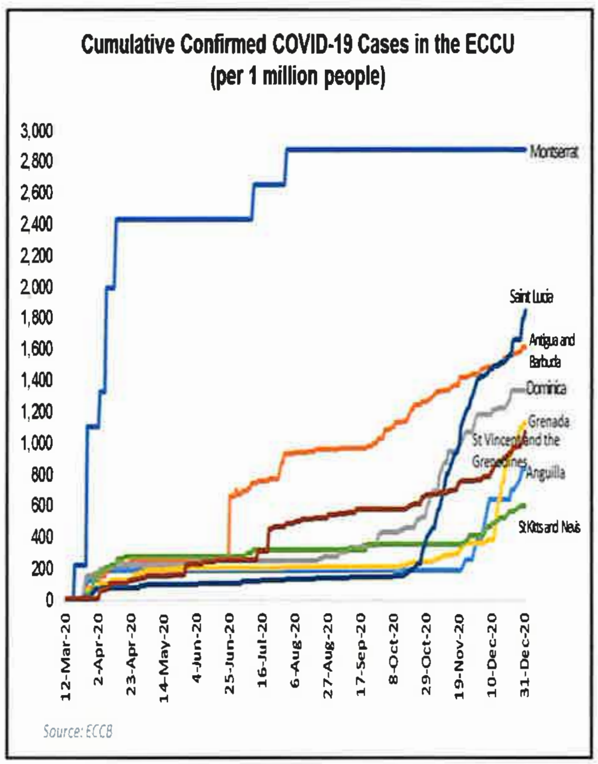
The IMF's projections for Latin America and the Caribbean indicate a contraction of 8.1% in 2020. This outturn is attributable to the large percentage of the regional labour force being employed in service-sector jobs or those requiring close physical proximity such as in hotels and restaurants. The IMF warns that unless the virus is contained in the region, more economic damage is likely.

The Regional Economy

The outlook for the ECCU is constrained by the COVID-19 pandemic. While, as at the end of December 2020, the number of cases in the ECCU has remained relatively low, the uncertainty of transmission and the rising cases in source markets suggests that the potential threat is ongoing.

Figure 3: COVID-19 Cases in the ECCU





The outlook for the remainder of 2020 is likely to remain subdued despite the gradual reopening of economies regionally and globally. The global economy is estimated to experience a recession in 2020, which is likely to affect both advanced and emerging economies. It is projected that countries, such as those of the ECCU, which rely heavily on travel services may be disproportionately affected as demand for travel will remain constrained from the continuing impact of the COVID-19 pandemic. The outlook is also likely to differ across Member States and may be contingent on the size of the tourism sector, the extent and effectiveness of stimulus measures implemented and the degree of fiscal and financial vulnerability of member countries prior to the crisis.

The outlook is also fraught with considerable uncertainty related to the pandemic. Downside risks therefore include a possible resurgence in infections and possible delays in the development and availability of a vaccine to contain it. These uncertainties are likely to be compounded by deteriorating domestic conditions including limited job growth, a deterioration in fiscal balances and weak investment from reduced business confidence due to the crisis. The risk of natural disasters remains another important downside risk in all of the ECCU member countries. The aforementioned scenarios could further deteriorate the growth outlook for the region. On the upside, breakthroughs in vaccine development, effective stimulus measures by some member governments and the gradual resumption of travel to the ECCU may mitigate the overall decline in economic activity. On balance, given the great degree of uncertainty, risks to the finalized out-turn for 2020 remain tilted to the downside.

2.1 The Domestic Outlook

Like many other countries globally, Antigua and Barbuda's economy has been severely impacted by the COVID-19 pandemic. The measures taken to contain the transmission of the virus, such as border closures, social distancing and lockdowns, have limited business activity and curtailed the service-related sectors in this tourism-dependent country, where the Tourism Sector accounted for approximately 75.0% of GDP (2018) from hotels and restaurants and other ancillary services sectors.

Consequently, economic conditions have deteriorated significantly for Antigua and Barbuda. Prior to the pandemic, economic activity for Antigua and Barbuda was expected to expand by 4.2% in 2020. However, the economic and fiscal impact from COVID-19 is expected to be extensive. Projections by the ECCB in the last quarter of 2020 suggest that the economy may decline from about 10.0% to as much as 18.3% under a worst-case scenario (Figure 1), far worse than its performance in recent history. The outturn reflects significant contractions expected in a number of its key sectors such as hotels and restaurants, wholesale and retail, construction as well as transport and communication.

Moving beyond the near term, the medium-term outlook is expected to improve. According to the ECCB, based on their assessments up to the third quarter in 2020, real growth is projected at 3.4% and 2.9% in 2021 and 2022 respectively. Some deterioration is expected to this outlook however, depending on both the global outlook and the effects of the COVID-19 pandemic.

Key Influences Affecting Domestic Outlook

Undoubtedly, the on-going COVID-19 pandemic poses the greatest down-side risk to the outlook for Antigua and Barbuda, and the region as a whole. The country's main industry – tourism, has been enormously impacted by the pandemic. The closing of the country's borders to commercial air and sea traffic for the months of April – May 2020, led to the effective closure of the tourism industry. It is estimated that 4,300 hotel workers were laid off and thousands more workers in tourism- related sectors were without employment.

As at 24 October 2020 (since borders reopened on 01 June 2020), 25 hotel properties were reopened accounting for 1,629 rooms or 48% of the room stock; and another 11 were anticipated to reopen between 31 October and 10 December 2020. However, visitor arrivals are significantly lower than they usually are, because of the ongoing pandemic, with its attendant travel restrictions, and new protocols for travel. Visitors to Antigua and Barbuda must have a negative PCR test result which is no more than 7 days old. Total visitors to the country up to end September 2020 was 98,483, relative to a total of 216,257 in the previous year, a decline of 55%.

In response to the effects of the pandemic, the Government of Antigua and Barbuda has established the Economic Recovery Committee (ERC) to help identify the key opportunities to help revitalize the domestic economy in the short- to medium term. Some of the key priorities identified by the

ERC report include the development of entrepreneurship, food security, energy and environmental sustainability and enhancing the role of the public sector.

The importance of food and food security was brought to the fore by the COVID-19 pandemic. Given the supply chain interruptions and the loss of spending power for thousands of citizens, several initiatives were introduced to bolster the food production and distribution from the second quarter of 2020. These included seedling distributions, and back yard gardening initiatives. Additionally, many persons who lost their jobs during the pandemic, as well as persons who were at home because of the national curfew, turned to farming and distribution of produce. Consequently, it is estimated that the contribution of agriculture to GDP for 2020 has slightly increased.

In response to the challenges being faced by thousands of persons because of the on-going pandemic, the financial institutions offered moratoria on loan payments to clients who applied for this facility. This facility was introduced in April 2020, for a period up to six months and was further extended in October 2020. Persons who had lost jobs or were otherwise impacted by the pandemic could qualify for this facility. As more persons return to work, it is anticipated that fewer individuals would need to apply for moratoria in the second iteration. For individuals who have been made redundant or who have become under-employed, their ability to repay loans will likely be challenged, and it is anticipated that there will be an uptick in non-performing loans in the medium -term, after the moratorium facility has ended.

Statement of the Government's Economic Priorities

The Government of Antigua and Barbuda is committed to the well-being of its citizens and residents. As the country continues to control the spread of the COVID-19 virus, the government will continue to create the enabling environment for growth, investment, safety and good governance. In this regard, the government is committed to fiscal responsibility. As a result of the on-going pandemic there has been a significant decrease in government revenues, particularly during the second and third quarters of 2020. In addition, there were several health-related expenditures which had to be undertaken to mitigate the spread and impact of the COVID-19 virus. Given these realities, the Government has recently formulated Fiscal Resilience Guidelines to govern its operations. These will cover procedures related to its budgeting and reporting frameworks and lend to improved fiscal options and accountability.

In spite of the present economic realities, the Government has reaffirmed its commitment to the on-going employment of public servants to ensure their well-being and maintain economic activity. This strategy will also ensure that the unemployment rate does not escalate any further, given the significant layoffs which have occurred in the private sector. The Entrepreneurial Development Programme (EDP) also remains an available source of affordable capital to entrepreneurs to advance their ventures. This is also a means of providing opportunities for persons who had become unemployed because of the pandemic. Further, the operationalization of the Eastern Caribbean Partial Credit Guarantee Corporation (ECPCGC) will increase the likelihood of micro, small and medium sized enterprises gaining access to credit since the ECPCGC will reduce risks which commercial banks typically encounter when lending to these businesses.

As a complement to these efforts, the Government continues to engage with potential investors in various sectors to facilitate adequate levels of Foreign Direct Investment, new ventures, jobs, and economic activity, which ultimately will foster growth and development in the domestic economy.

2.2 Proposed Economic Measures to Stimulate Growth

Micro, Small and Medium - sized enterprises, (MSMEs) will continue to be supported by the Entrepreneurial Development Programme (EDP). This will facilitate expansion of entrepreneurs, thus fostering self-employment and employment opportunities, while expanding productivity. The Fund was initially capitalized by the Government in 2019 and offers affordable loans to businesses and prospective entrepreneurs. For 2020, the EDP has made approximately $1 million available in funding to applicants. The EDP is to be continually funded by the Telecommunications Tax, and therefore is poised to continue offering its services over the medium term and beyond. Additionally, the Antigua Barbuda Development Bank (ABDB) will be restructured and revamped to allow it to increase funding for MSMEs, thus ensuring that entrepreneurs will have access to affordable funds, and productivity and business activity will be supported over the medium term. The reorganization of the ABDB is being undertaken with assistance from the CARICOM Development Fund (CDF).

There is also a plan to increase sales of crown lands over the medium term. Demand for crown lands is always high, since it is an affordable option for individuals. In addition to the revenue which these sales will generate, there is the multiplier impact on the economy from related banking services as well as construction activity. The Government has offered concessions for first time home - owners through the Construct Antigua and Barbuda Initiative (CABI), a programme executed through the Antigua and Barbuda Investment Authority (ABIA) for over seven years. Construction is a major driver of growth in the domestic economy and there is long- term revenue potential via property taxes that is expected from this initiative.

2.3 Analysis of Key Sectors

Tourism – Antigua and Barbuda's main sector, is anticipated to begin recovery during the 2020 -2021 winter season, which commenced October 2020. COVID-19 related cases have been comparatively lower in the country than in the traditional source markets. Resultantly, potential visitors may feel safer in Antigua and Barbuda than they do at home, and as a result may decide to travel. The destination won the Magellan 2020 Travel Destinations Gold Award for its marketing campaign, 'Your Space in the sun' which was launched in July 2020. There are many promotional air fares to entice persons to resume travelling. Additionally, the country has launched a 'Nomad Digital Residence Visa Programme' which targets persons who are able to work remotely, and who would want to do so from a safe, tropical island. The visa is valid for up to two years in the first instance.

Prior to the pandemic, the Antigua and Barbuda Hotels and Tourism Association (ABHTA) had 37 hotel properties as members, employing a total of 5,717 persons. Based on current and projected re-openings up to December 2020 before the announcement of the Europe and UK shutdown, - up 3,634 persons, or sixty four percent (64%) of those persons were expected to re-gain employment in the sector. However, this has now been negatively impacted by the second wave, but it is still hoped that the rescheduled bookings to December will be sufficient to support close to this level of employment. Occupancy levels are still projected to increase over the medium-term barring the need for further shutdowns in the effort to contain the spread of this virus. Overall, a moderate recovery is being anticipated in the Tourism sector, with the Hotels and Restaurants Sector projected to have a growth rate of 12.93% in 2021 and to continue this pattern over the medium term.

Information Technology (IT) Sector

Demand for internet connectivity and other IT services has increased significantly because of the COVID-19 pandemic. In instances where individuals can work from home, businesses have chosen this option to facilitate social distancing and lessen the chances of the spread of the virus. Many persons have also opted to do business on-line, as a safer alternative, including services such as: banking, paying bills, education, and entertainment. The increased demand has caused many customers to upgrade their services, both in terms of hardware and connectivity packages. This trend is expected to continue in the medium term. Educational institutions are now taking a blended approach to teaching. Many university students are having classes on-line, as travel is still restricted. Several schools have a mix of on-line and face to face classes. The Government has made a commitment to provide students with electronic devices to facilitate their ability to participate in on-line classes. Churches and other entities which usually had large gatherings are now also utilizing blended formats. The Entertainment Industry has been forced to utilize virtual platforms. Given these current realities, the service providers will also be required to improve their offerings, so that the Communications Sector is projected to grow by 2.8% in 2021.

Construction

A number of projects will be rolled out over the medium term. The Government of Antigua and Barbuda has collaborated with its development partners to ensure that there will be infrastructural development. In many instances, the Government will provide counterpart financing and other concessions. Some of the project agreements which were finalized in 2020 and others which will be on-going during the medium term include:

Table 2: Government of Antigua & Barbuda Construction Projects

PROJECTS	VALUE/COST	DESCRIPTION
GCF Build	US$46.1M	Refurbishment of 52 public buildings to ensure climate resilience. Over 6 years
2nd Road Infrastructure Rehabilitation	US$65.6M	Refurbishment of 4 major highways. Partly funded by CDB.
Reconstruction and Rehabilitation Loan (RRL)	US$28.7M	Refurbish damaged infrastructure from Hurricane Irma. Includes reconstruction of 3 roads and a bridge.
Barbuda Energy Resilience	£2.85M	Implement Green Technologies on Barbuda

Source: Ministry of Finance

In addition to these public sector projects, there are also major private sector projects such as the PLH Ocean Club in Barbuda, the YIDA project, construction of luxury properties on several sites including Mill Reef Club, Jumby Bay Pearns Point and Windward Beach. There is also the Government's national housing initiative; the Prince's Foundation and Calvin Ayre housing project to provide houses for displaced residents on Barbuda who were impacted by Hurricane Irma in 2017; and the EU-funded UNDP executed project to reconstruct and repair houses for Barbudans affected by Hurricane Irma.

3. FISCAL OUTLOOK (BASELINE)

3.1 Fiscal Outlook for 2020

Based on trends in the first nine months, the Government's fiscal programme has been adversely affected by the economic shock from the viral pandemic. Total Revenue and Grants for Financial Year 2020 is estimated to be $767M, a shortfall of $253M (22.5%) relative to the 2020 Budget projection of $1.02B. This represents a decline of 27% compared with total revenue and grants in

FY2019. Tax revenue collection of $461.0M for the first nine months of 2020 was 8% lower than the same period in 2019 ($501.4M). The overall fall in tax revenue was mitigated by a higher-than-expected revenue performance in Q1 2020 of $246.9M, which was 26% higher than Q1 2019 performance.

Table 3: Government Operations, EC$M (January – September 2020)

	2018 Jan-Sept	2019 Jan-Sept	2020 Jan-Sept		2019 Jan-Sept	2020 Jan-Sept
Total revenue and grants	**679.0**	**764.7**	**561.6**		**13%**	**-27%**
Current revenue	594.0	633.1	559.6		7%	-12%
Of which: tax revenue	509.0	501.4	461.0		-1%	-8%
Capital revenue	2.2	2.6	2.0		20%	-24%
Total expenditure	**658.7**	**751.8**	**694.1**		**14%**	**-8%**
Current expenditure	614.6	691.6	614.8		13%	-11%
Wages and salaries	278.4	293.9	289.4		6%	-2%
Goods and services	84.4	110.3	81.5		31%	-26%
Interest payments	86.6	92.4	71.5		7%	-23%
Transfers and Subsidies	165.1	195.1	145.1		18%	-26%

Source: Ministry of Finance

Recurrent revenue declined by about 12% on average to $62M per month relative to the average $70M in monthly revenue during the same period in 2019. This was attributed to the decline in tourist arrivals, quarantine measures and shut down of economic activity. However, tax revenues, which fell sharply during the first several months of the coronavirus pandemic have begun to recover following the reopening of the borders on June 1, 2020 and the resumption of domestic business operations. By July 2020, the Antigua and Barbuda Tourism Authority (ABTA) reported an increase in bookings for Q3 and Q4 2020 and the return of several international carriers.

Table 4: Antigua and Barbuda: Baseline Fiscal Projections (EC$M)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Revenue and Grants	**951**	**822**	**859**	**849**	**761**	**698**	**730**	**765**	**802**
Tax Revenue	**641**	**636**	**680**	**672**	**620**	**580**	**607**	**636**	**667**
Taxes on Income and Profits	75.6	74.1	78.4	79.1	87.2	67.2	70.1	73.8	77.7
Taxes on Property	17.5	20.1	21.2	28.6	18.0	18.7	19.6	20.6	21.7
Tax on Goods and Services	301.4	298	330	306	264	274	288	302	317
International Trade Taxes	247	244	251	259	241	220	229	240	250
Non-Tax revenue	**136**	**173**	**136**	**174**	**136**	**115**	**119**	**125**	**131**
Capital Revenue	**174**	**11**	**28**	**3**	**5**	**4**	**4**	**4**	**4**
Grants	**0**	**2**	**16**	**0**	**0**	**0**	**0**	**0**	**0**
Total spending	**954**	**949**	**1,015**	**1,039**	**985**	**1,065**	**1,101**	**1,139**	**1,144**
Current	**801**	**873**	**931**	**952**	**882**	**957**	**988**	**1,020**	**1,053**
Wages	329	341	423	400	389	406	417	425	435
Goods and Services	128	134	129	152	117	139	141	145	148
Transfers and Subsidies	251	290	255	284	254	295	298	301	304
Interest	93	107	124	116	121	117	133	150	166
External	15	19	24	27	53	40	45	50	54
Domestic	63	72	65	50	51	78	88	100	112
Capital spending	154	76	84	87	103	108	113	119	91
Overall balance	**-4**	**-127**	**-156**	**-190**	**-224**	**-366**	**-371**	**-373**	**-342**
Primary balance	**89**	**-20**	**-32**	**-75**	**-103**	**-249**	**-238**	**-224**	**-176**

Source: Ministry of Finance

Most of the projected revenue shortfall is from both Tax and Non-Tax Revenue sources where:

- There was a sharp reduction in consumption, lowering Antigua and Barbuda Sales Tax (ABST) collection. The budgeted amount for 2020 was $285.5M while projected collection is EC$206.8 M.
- A weaker import outlook has reduced ABST and customs expectations.

However, the $82.0M corporation tax is approximate to the 2020 budgeted amount of $82.5M, this is attributed to a buoyant 2019 economic performance. Similarly, the Cabinet Decision in May 2020 to halt tax exemptions at the Port mitigated the reduction in taxes on international trade and transactions, despite lower non-fuel imports. Citizenship by Investment receipts helped to mitigate the fall in total revenue, with projected receipts of $76.9M for 2020.

Owing to the shortfall in revenues and interruption of normal economic activities in response to the pandemic, the Government sought to reallocate budgetary resources to meet urgent COVID-19-related needs. Total Expenditure and Net Lending is estimated to have fallen by $227M to $985M against the 2020 Budget projection. This will result in an increase in the fiscal deficit that was originally expected to be $155.0M. The lockdown and curfew measures stalled economic activity for both the public and private sectors. For example, recurrent expenditure of $882M in 2020 was 7% lower than 2019 (see Table 4). Key factors affecting government spending included:

- Ministries, departments and agencies (MDAs) made adjustments to main budget spending plans to support the pandemic response in terms of the purchase of personal protective equipment (PPEs) and sanitizing products among others, for their offices and staff
- Some 1,500 COVID-19 Emergency Food Assistance Programme (EFAP) food packages were distributed - almost three times the number of pre-COVID social assistance beneficiaries
- Immediate interventions have included increased spending to scale-up health and supporting services to monitor, detect and prevent the spread of the virus, and providing emergency assistance to affected persons
- Cabinet adopted a hiring freeze to contain the wage costs
- GOAB also engaged its creditors to refinance public debt and/or extend moratoriums on their debt servicing for 2020.
- With the onset of COVID 19 during the second quarter of 2020, the closure of most government offices for the month of April, and the postponement of most of their activities for the year resulted in the reduction of goods and services for the balance of the year. It is projected to be $57.9M less than budgeted for 2020 and 23% less than 2019.
- In the budget for 2020 Transfers and Subsidies were $245.9M but are projected to be $254.4M with most of this difference being accounted for by the increase in the non-budgeted transfers to the National Solid Waste Management Authority.

The MTFS assumes in the baseline that the GOAB will resume the delivery of its key priorities and essential services such as education, healthcare, the provision of medical supplies, social services, housing, and public infrastructure (roads, schools and housing). Notwithstanding the lower recurrent expenditure recorded in 2020, public spending is expected to increase, though at a pace that is contingent on how long the effects of the pandemic-induced crisis lasts. In the short term, the increase in unemployment, loss of household income and weakened livelihoods; as well as substantial disruptions of, and pressures on, social services such as health, education and social protection are expected to place expenditure pressures on the GOAB.

Anecdotal evidence points to an increase in unemployment in the tourism and transportation sectors, with an estimated 4,300 employees of the 30 major hotel properties laid-off and another 410 taxi operators displaced[4]. Further, there has been a corresponding increased demand on the limited employment support services provided by the GOAB. The GOAB has offered a series of policy responses in the areas of public health, social protection, and education.

The total public debt stock[5] is expected to increase to $3,395M, or 85.6% of GDP by the end of 2020, significantly higher than the 71.6% outcome for 2019. Importantly, the primary balance has deteriorated to -2.7% of GDP, against the 2020 Budget target of a surplus 0.6%. A correction of this trend will be required if medium term improvement in the annual primary balance, a critical anchor to achieving both debt and fiscal sustainability, is to be achieved.

[4] The unemployed accounts for approximately 45% of the active employed within the combined tourism and transport sectors according to the Antigua and Barbuda Social Security Board statistics 2019.

[5] Total public debt includes central government, government guaranteed debt and debt held by public corporations. It also includes principal and interest arrears.

3.2 Fiscal Outlook for 2021-24

The fiscal baseline is projected to move approximately in line with nominal GDP. Given that the majority of our trading partners are struggling with controlling the virus within their economies, the resumption of normal travel globally will remain repressed, thus prolonging the negative impact on our tourism industry for more than one season. Best estimates on the economic recovery, suggest a possible Q1/Q2 2021 release of COVID-19 vaccinations, coinciding with a phased-in resumption of cruise tourism of around 50% capacity in mid-2021 that steadily increases towards full capacity by Q4 2022.

Table 5 Antigua and Barbuda: Baseline Fiscal Developments (% of GDP)

Fiscal Accounts	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Revenue and Grants	**24.5**	**20.7**	**19.8**	**18.9**	**20.1**	**17.7**	**17.6**	**17.6**	**17.6**
Tax Revenue	**16.5**	**16.1**	**15.7**	**15.0**	**16.3**	**14.7**	**14.7**	**14.6**	**14.6**
Taxes on Income and Profits	1.9	1.9	1.8	1.8	2.3	1.7	1.7	1.7	1.7
Taxes on Property	0.5	0.5	0.5	0.6	0.5	0.5	0.5	0.5	0.5
Tax on Goods and Services	7.8	7.5	7.6	6.8	7.0	7.0	7.0	7.0	7.0
International Trade Taxes	6.4	6.2	5.8	5.8	6.4	5.6	5.5	5.5	5.5
Non-Tax revenue	**3.5**	**4.4**	**3.1**	**3.9**	**3.6**	**2.9**	**2.9**	**2.9**	**2.9**
Capital Revenue	**4.5**	**0.3**	**0.7**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Grants	**0.0**	**0.1**	**0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total spending	**24.6**	**23.9**	**23.4**	**23.2**	**26.0**	**27.0**	**26.6**	**26.2**	**25.1**
Current	**20.6**	**22.0**	**21.5**	**21.2**	**23.3**	**24.3**	**23.9**	**23.5**	**23.1**
Wages	8.5	8.6	9.8	8.9	10.3	10.3	10.1	9.8	9.5
Goods and services	3.3	3.4	3.0	3.4	3.1	3.5	3.4	3.3	3.3
Transfers and Subsidies	6.5	7.3	5.9	6.3	6.7	7.5	7.2	6.9	6.7
Interest	2.4	2.7	2.9	2.6	3.2	3.0	3.2	3.4	3.6
External	0.4	0.5	0.6	0.6	1.4	1.0	1.1	1.1	1.2
Domestic	1.6	1.8	1.5	1.1	1.3	2.0	2.1	2.3	2.5
Capital spending	4.0	1.9	1.9	1.9	2.7	2.7	2.7	2.7	2.0
Overall balance	**-0.1**	**-3.2**	**-3.6**	**-4.2**	**-5.9**	**-9.3**	**-9.0**	**-8.6**	**-7.5**
Primary balance	**2.3**	**-0.5**	**-0.7**	**-1.7**	**-2.7**	**-6.3**	**-5.8**	**-5.1**	**-3.9**

Source: Ministry of Finance

With limited policy actions, trends suggest that under a baseline scenario, the fiscal imbalances and attendant solvency and liquidity problems of the Government will worsen over the medium term. This is likely to reflect continued underlying weak tax compliance, widespread discretionary tax exemptions, weak performance of State-Owned Enterprises necessitating large transfers and subsidies and limited resources available for growth-promoting social, economic, and climate resilient capital spending.

Under this scenario, the overall fiscal deficit is likely to remain at an unsustainable level of over 6% of GDP by 2024 reflecting persistent dissaving (large primary balance deficits) by the Government, limited capacity to meet debt obligations, limited access to borrowing, and ballooning arrears. In short, the risks are high for continued cash flow problems and mounting debt.

Under a baseline scenario reflecting no new policy actions, the trend decline in total revenue is expected to continue as a share of GDP, from 19.5% in 2020 to 17.2% in the medium term. This scenario assumes continued sizable tax exemptions, waivers and overall weak tax compliance. This is consistent with Antigua and Barbuda's historical low level of tax revenue when compared to the ECCU (20% of GDP) and the rest of CARICOM (22% of GDP)[6]. In absolute terms, tax revenues are expected to increase on average 2% per year, in line with the recovery in nominal GDP. In levels, tax revenue is projected to average 14.1% of GDP throughout the medium term, reflecting a low tax effort that is indicative of sizeable tax exemptions and weak tax compliance. Non-tax revenue, on the other hand, averages 3.1% of GDP over the medium term, and accounts for 18% of total revenue. CIP receipts make up more than 50% of this non-tax revenue, reflecting continued vulnerability of the budget to receipts from the Citizenship By Investment Programme.

In contrast to revenues, total expenditures are expected to average 25% of GDP over the medium term. Recurring expenditures are projected to average 22.4% of GDP over the medium term. Wages and salaries are expected to be around 9.4% of GDP, goods and services are expected to average 3.2% of GDP, and transfers and subsidies around 6.7% of GDP in the medium term.

For expenditure, it is expected that many government agencies would seek to execute most of the plans and activities that were suspended in 2020 during 2021. Additionally, owing to the new COVID -19 protocols that are likely to still be in place in 2021, new hiring within the Health and Education Ministries to fill shortages, unless offset elsewhere, is likely to exert further pressures

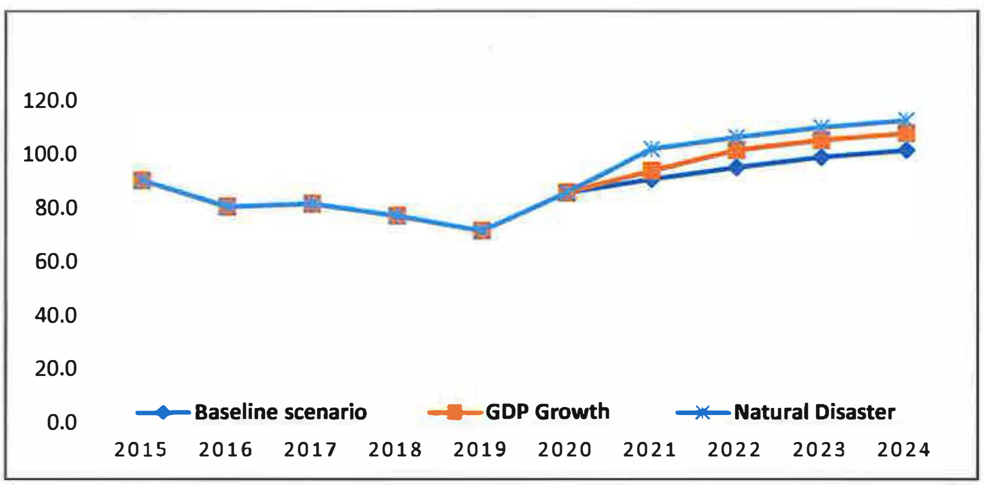
[6] The Eastern Caribbean Economic and Currency Union: Macroeconomics and Financial systems - edited by Alfred Schipke, Aliona Cebotari, and Nita Thacker (2013)

on the Government's wage bill. Expenditure on goods and services by the end of the second quarter 2020 showed a severe contraction from $77.3 M in 2019 to $43.7 M in 2020 (43.5% reduction). However, with the expected resumption of most work plans in 2021 the amount forecast to be spent is expected to be much more. With the additional pressure for support from the quasi-governmental sector, Transfers are expected to maintain this higher level of demand on Central Government.

3.3 Debt Sustainability Analysis

As at September 2020, it is estimated that Antigua and Barbuda is at a high risk of debt distress under the baseline scenario. The public debt to GDP ratio is expected to accelerate by nearly 14% of GDP in 2020 to 85.6% from an estimated 71.6% of GDP in 2019. As a result, without any fiscal adjustment, both central government debt to GDP (solvency indicator) and debt service-to-recurrent revenue ratios (liquidity indicator) are expected to remain above acceptable debt sustainability thresholds[7].

Figure 4: Antigua and Barbuda Baseline Debt Scenarios (% of GDP)



Source: Ministry of Finance

Antigua and Barbuda's near-term financing pressures are significant. This is attributed in part to projected primary deficits, averaging $196.0M (4.4% of GDP) per year for the period 2021-2024.

[7] Debt ratios below the 60% debt-to-GDP ratio and 15%-20% debt service to recurrent revenue ratios are acceptable international benchmarks that signal the risk of low-to-medium debt distress.

Similarly, the cost of borrowing is expected to worsen over the medium term as the majority of the new debt will be financed domestically at market rates with an increasing share of short-term debt. This reinforces the need for corrective action by the GOAB. In anticipation of a phased-economic recovery, the GOAB via their Economic Recovery Committee (ERC) committed to maintaining macroeconomic stability, increasing public investment in Health and Education and building resilience to natural disasters and climate change, in addition to achieving the Eastern Caribbean Currency Union (ECCU) debt target of 60% by 2030 or shortly thereafter. Consequently, an active scenario was designed taking into account the ECCU debt target and a proposed adoption of a medium-term fiscal resilience framework.

It is estimated that a primary surplus of 3.5% of GDP is required over the medium term (and as much as 4.5% of GDP under a contingent liability/natural disaster shock) to place Antigua and Barbuda's central government debt on a sustainable path. Under an active scenario, the debt to GDP ratio will gradually converge to a sustainable level by 2030 and create the requisite fiscal space to withstand a number of cyclical shocks assumed under the stress tests. As a tourism-dependent economy, Antigua and Barbuda is very exposed to external economic conditions, and a deeper slowdown in advanced economies or continued consumer concerns over leisure travel could bring about a more protracted decline in tourist arrivals.

4. GOVERNMENT FISCAL STRATEGY AND PRIORITIES

Returning the public finances to a sustainable position requires fiscal consolidation, or a tighter fiscal policy stance anchored by the primary balance target necessary to strengthen both liquidity and solvency of the Government's finances over the medium term. Public spending remains too high for the tax effort – and this gap has likely increased because of the 2020 recession. A balanced policy approach aimed at improving the tax effort and expanding the tax base, where necessary, while rationalizing expenditure is required over the medium term. Without fiscal consolidation, debt will continue to accumulate and debt service payments – which already consume 40 cents of every dollar of recurrent revenue – will crowd out other spending. To partially cushion the effect of the fiscal consolidation on the economy, government has prioritized the largest share of the adjustment to improving revenue collection such as improving compliance, reducing tax expenditures and the expansion of the property tax base; as well as constraining public sector wage growth while supporting investments in health, education and public infrastructure.

In September 2020, while planning and framing the 2021 Budget and medium-term fiscal forecasts, the GOAB opted to develop Fiscal Resilience Guidelines (FRG) that would support the economy's recovery while improving the fiscal balance, alongside structural reforms to foster a more robust economy with additional job creation opportunities. The overall objective of the FRG is to build fiscal buffers to absorb any unexpected shocks to long-term macroeconomic and fiscal sustainability.

Box 1: Antigua and Barbuda Fiscal Resilience Guidelines, September 2020*

The recent adoption of a Fiscal Resilience Guidelines by the Cabinet of the GOAB, requires the tabling of a Medium-Term Fiscal Strategy before the House of Parliament, accompanying the submission of annual Estimates of Revenue and Expenditure. Both documents provide members the opportunity to examine both sides of the budget, satisfying the need for transparency and robust debate among parliamentarians who are entrusted with oversight of the management of public funds and have ultimate responsibility for the performance of the economy.

Indicator	Target
Debt to GDP Ratio	60%
Primary Balance (% of GDP) min.	1.5% to 2%
Overall Balance (% of GDP) min.	-1.5% to 1%
Revenue (% of GDP) min.	20%
Interest Payments to Revenue (%) max.	10%
Wages and Salaries (% of GDP) max.	9%
Private Transfers (% of GDP) max.	4%
Goods and Services (% of GDP) max.	3%
Recurrent Expenditure	≤ estimated long-term rate of growth of nominal GDP*

Prudent fiscal management requires that there be adherence to the fiscal targets, the continuous monitoring of fiscal events and a willingness to make timely and sound fiscal decisions. It also requires well-planned and clear actions to minimize or mitigate fiscal risks, which pose a threat to the sustainability of public finances either in the current fiscal year or over the medium term or both. GOAB policy decisions must therefore be informed by the expected impact in the current fiscal year, as well as the fiscal implications across the medium term.

The GOAB is committed to the tenet of fiscal prudence. Economic growth and job creation are dependent on stable economic conditions. Sustainability of the fiscal operations is an essential requirement for stability of the economy and reduction of the debt-to-GDP ratio.

4.1 Revenue Strategies

The Government's taxation strategy for FY2021 and the medium-term horizon seeks to ensure that revenue streams are sustainable and supportive to the attainment of its fiscal targets. The policy focus for revenue will include a combination of initiatives to improve the tax revenue to GDP ratio from 16% towards the regional benchmark of approximately 20.0%, through durable measures that increase compliance, stem tax leakages, simplify the tax system and alleviate administrative costs. The Government will pursue technical assistance from regional and international partners in pursuit of these reforms.

Table 6: Fiscal Outlook under Active Scenario (% of GDP)

Fiscal Accounts	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Revenue and Grants	**24.5**	**20.7**	**19.8**	**18.2**	**19.5**	**23.7**	**25.2**	**26.7**	**24.9**
Tax Revenue	**16.5**	**16.1**	**15.6**	**14.4**	**15.6**	**17.4**	**19.9**	**22.5**	**20.7**
Taxes on Income and Profits	1.9	1.9	1.8	1.7	2.2	1.7	1.7	2.0	2.0
Taxes on Property	0.5	0.5	0.5	0.6	0.5	0.8	0.6	0.6	0.9
Tax on Goods and Services	7.8	7.5	7.6	6.6	6.6	7.5	8.2	8.2	8.2
International Trade Taxes	6.4	6.2	5.8	5.6	6.1	7.5	9.5	11.8	9.7
Non-Tax revenue	**3.5**	**4.4**	**3.1**	**3.7**	**3.4**	**4.2**	**4.1**	**4.1**	**4.1**
Capital Revenue	**4.5**	**0.3**	**0.6**	**0.1**	**0.1**	**0.2**	**0.1**	**0.1**	**0.1**
Grants	**0.0**	**0.1**	**0.4**	**0.0**	**0.0**	**2.0**	**1.0**	**0.0**	**0.0**
Total spending	**24.6**	**23.9**	**23.3**	**22.3**	**24.7**	**24.5**	**27.6**	**26.8**	**23.8**
Current	**20.6**	**22.0**	**21.4**	**20.4**	**22.1**	**20.4**	**23.4**	**22.6**	**21.8**
Wages	8.5	8.6	9.7	8.6	9.8	9.9	9.8	9.4	9.1
Goods and services	3.3	3.4	3.0	3.3	3.0	3.9	3.9	3.8	3.7
Transfers and Subsidies	6.5	7.3	5.9	6.1	6.2	6.5	7.1	6.9	6.6
Interest	2.4	2.7	2.9	2.5	3.1	2.5	2.7	2.6	2.4
External	0.4	0.5	0.6	0.6	1.3	0.9	1.0	1.0	0.9
Domestic	1.6	1.8	1.5	1.1	1.3	1.6	1.7	1.6	1.5
Capital spending	4.0	1.9	1.9	1.9	2.6	4.1	4.1	4.1	2.0
Overall balance	**-0.1**	**-3.2**	**-3.6**	**-4.1**	**-5.2**	**-0.8**	**-2.4**	**-0.1**	**1.1**
Primary balance	**2.3**	**-0.5**	**-0.7**	**-1.6**	**-2.1**	**1.8**	**0.3**	**2.5**	**3.5**

Source: Ministry of Finance

Enhanced focus on tax compliance

The GOAB will pursue ways to enhance revenue mobilization and achieve greater efficiency, through measures that improve tax administration capacity, automation, increase risk-based audits and the simplification of the tax system. The Inland Revenue Department (IRD) is modernizing the revenue administration system to accommodate e-filing and e-payments, to reduce the time and resources it takes to service taxpayers. The overall objective is to promote voluntary compliance and deter non-compliance. To date, IRD agents have increased audits and tax debt collection resulting in an increase in compliance and this should improve yield on the baseline by 20% as of 2025. With an estimated compliance rate of 50% in the baseline for Corporate Tax, ABST and Property Taxes, the target is to increase compliance to 75% by 2022, towards an 80%

minimum threshold by 2024/25. Furthermore, by simplifying the tax and customs systems, continuing to increase the quality of services to taxpayers and continuing full digitalization of taxpayer services, we expect an increase in tax administration efficiency and increase in voluntary compliance in tax liabilities, which consequently will reflect positively in tax revenues collected domestically.

Rationalize Tax Incentives/Tax Exemptions:

Tax exemptions are pervasive in Antigua and Barbuda and the multitude of exemptions are difficult to monitor and generate significant risks of being used for unintended purposes. Eliminating poorly targeted, redundant or ineffective exemptions would yield substantial fiscal savings. Overall, tax expenditures in Antigua and Barbuda are costly, averaging 5% of GDP over the last five years and amounting to approximately $300M in 2019.

The Government's decision to stop all discretionary concessions in 2020 is a response to the COVID-19 pandemic. The MTFS assumes the GOAB will continue to eliminate and/or streamline inefficient and discretionary tax incentives over the period 2021-2025. The expected outcome is a gradual reduction of total exemptions to no more than 25% of potential revenue. This will involve a revision of the GOAB's exemptions policy and a significant reduction of waivers of the Revenue Recovery Charge (RRC). The RRC Act is to be amended to limit waivers of this 10% charge. RRC exemptions will only apply in a few cases, to include:

a. Agriculture and fisheries inputs and equipment that are currently exempted
b. Medicines and pharmaceutical supplies that are currently exempted; and
c. Entities with which the Government of Antigua and Barbuda has International Assistance Agreements.

While the law will maintain some allowance for waivers in support of business activity and major investment, such waivers will not exceed 50% of the applicable charge. Also, the exemptions policy will be adjusted to curtail discretionary waivers and reduce the administrative burden of granting exemptions. The Cabinet policy instituted in 2020 to limit discretionary tax waivers will be maintained and further efforts will be taken to secure Government revenues over the medium term. This includes enhancing the capabilities of ASYCUDA World to accept online payments, enhancing Risk Management and Post Clearance Audits, and strengthening Duty Exemptions Controls at Customs. The expected yield from these interventions is additional revenue of 1% of GDP in 2021 and up to 2% of GDP over the medium term.

Implement Property Tax Reforms

As a part of the long-awaited reforms, the IRD has commenced the first phase of property tax updates. This entails a massive data collection initiative which is expected to add the unregistered/newly constructed properties to the tax roll and secure a projected annual boost to government revenues. This also coincides with an increase in property tax compliance. The project is anticipated to be completed by December 2021. An annual yield of 0.5% of GDP is assumed from end-2023 onward.

Other Revenue Enhancement Initiatives

The GOAB deferred implementation of the Tourist Accommodation Levy (TAL) that was intended to be implemented in 2020. The TAL is applicable to tourism accommodations including hotels, guest houses, apartments AirBnB rentals and villas.

This measure will be implemented in the first half of 2021 and will fund the Climate Resilience and Development Fund (CRDF).

The active scenario assumes a rebound in stayover arrivals by 2022, and the Tourist Accommodation Levy is estimated to yield between 0.75% and 1% of GDP annually.

The Government also intends to embark on a lands sale initiative as part of its COVID-19 economic recovery response to catalyze private sector investments in agriculture, manufacturing and tourism. An annual yield of 0.25% of GDP is assumed from end-2021 to 2025.

In addition to the foregoing measures, the Government will broaden the tax base to include AirBnB rentals and other businesses, increase automation of procedures at the Inland Revenue Department and Customs and Excise Division, to include electronic filing and electronic payment of taxes; and undertake forensic audits in key sectors to address incidences of tax avoidance and evasion. This work will be supported by the European Union through the 11th European Development Fund (EDF), which has provided grant funding for a tax administration and public financial management reform project.

The interventions on the revenue side are expected to improve tax to GDP from the current 16% to at least 18% by 2023 and an average of 20% over the medium term.

4.2 Recurrent Expenditure Policy & Priorities

The GOAB's overarching expenditure policy is to maintain recurrent outlays at no more than 20% of GDP, while ensuring that the growth in spending does not exceed the economy's growth potential. Consistent with the economic recovery strategy, expenditure policies for FY2021 to FY2023 will prioritize health, education and social programmes to mitigate the impact of pandemic-induced recession and safeguard livelihoods. Similarly, strategic and job-creating public investment projects are targeted to stimulate domestic economic activities.

Personal emoluments/central government wages accounted for 44% of total expenditure on average over the period 2015-2019. Further, personnel expenses combined with pensions and interest payments account for 65% of total expenditure. Consequently, limited resources are left for productive investments in health, education and physical infrastructure. As at May 2020, GOAB's Cabinet instituted a hiring freeze with exceptions for limited cases of essential technical and professional workers. Critical replacements could also be made by redeploying staff from other Ministries, Departments and Agencies, to the extent they have the appropriate skills. The MTFS assumes, that the authorities will limit the headcount and adhere to an attrition policy into 2023.

Other recurrent expenditure and structural measures include:

- Modernising the public sector to enable greater use of digital channels by individuals and companies to access public services; greater efficiency in public sector administration; and the strengthening of public sector skills to operate in a digital economy.
- Proactive management of fiscal risks (pensions, SOE balance sheets, guarantees and other contingent liabilities), through timely accounting and reporting to Parliament.

- Establishing a central beneficiary registry for all social programmes to aid with the validation of beneficiaries' information and to prevent abuse of the programmes and duplication of services. Information such as the number of programmes, number of beneficiaries, total spending on benefits, eligibility conditions, targeting mechanisms, and administrative costs to deliver the benefits.
- Modernising Antigua and Barbuda's procurement law and regulations; strengthening oversight and leveraging technology to introduce e-procurement and data analytics in the process.
- Public pension reforms and other measures to strengthen the sustainability of pensions over the medium-term.

The Government will prioritize improved monitoring and oversight of statutory corporations and enhancing efficiency of commercially and strategically important State –Owned Enterprises (SOEs) to reduce fiscal risks. The overall objective is to secure the viability of these entities over the medium to long term by ensuring they can effectively fulfill their social mandate and manage the assets under their control such that operational surpluses can be generated. This will involve:

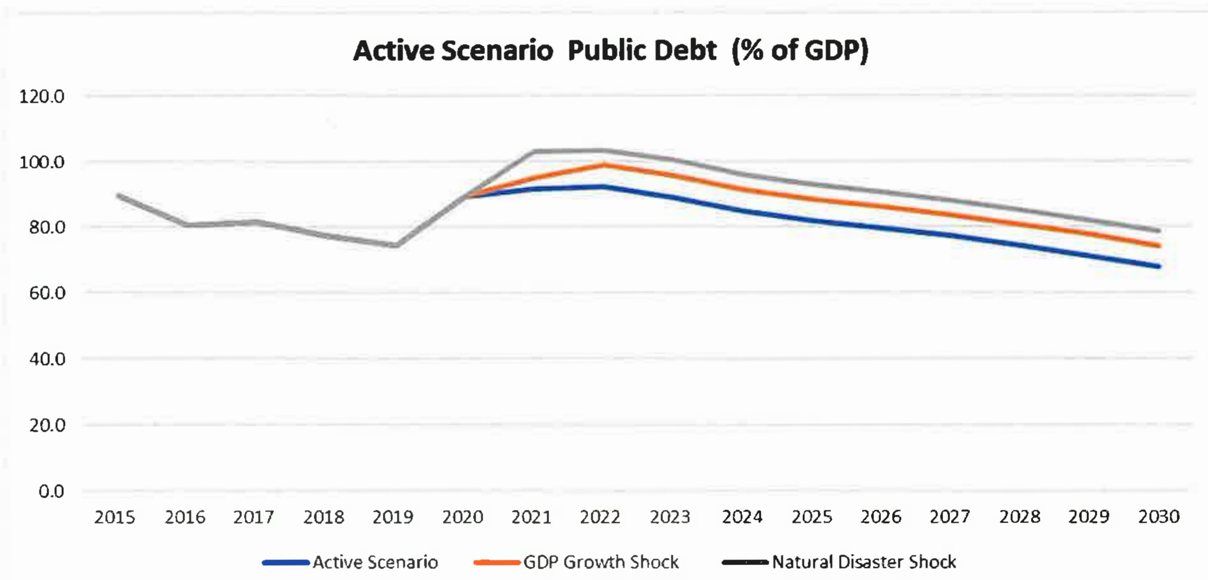
- Establishing a report card system to track key performance indicators (KPIs) of the commercial SOEs.
- Enforcement of the Finance Administration Act (FAA) requirements for quarterly and annual financial reporting by the commercially and strategically important SOEs.
- Amending the FAA to include: sanctions for non-compliant SOEs; internal audit functions; fiscal resilience guidelines; establishment and management of contingency fund and emergency borrowing provisions.

4.3 Capital Expenditure Policy & Priorities

The GOAB acknowledges the critical nature of infrastructure to sustainable economic development, and the primary role played by investments in public infrastructure, such as roads, land and coastal management, sustainable waste management, energy, water and information communication technology. To the extent possible, over the medium-term, the Government's intent is to rebalance expenditures towards productive investments to ensure that its limited fiscal space does not hamper growth, and to ensure capital expenditures do not fall below the target minimum of 2.5% of GDP. Spending priorities through the medium term will address critical infrastructure to crowd-in private sector investments in key sectors such as agriculture, manufacturing and tourism services, alongside initiatives to address the health and education response to the pandemic.

The GOAB has prioritized developing solutions to increase the climate resilience of the country's population and priority sectors, including energy, the built environment, agriculture and the financial sector. As an accredited entity to the Green Climate Fund (GCF), the authorities will execute grant (and concessional) financed climate proofing investment projects. The GOAB is actively engaging some of its external creditors on a debt for climate finance swap. The project will catalyse investments in climate resilient infrastructure, where government spending is redirected from debt service obligations towards local adaptation and mitigation interventions and where additional investments are 'crowded in'.

Figure 5: Active Scenario Public Debt (% of GDP)



Source: Ministry of Finance

4.4 Debt Sustainability Outlook:

The medium-term fiscal and debt outlook is predicated on the Government's adoption of the fiscal consolidation measures outlined in the active scenario. Antigua and Barbuda's primary balance is projected to improve, with a reversal in the 2.2% of GDP primary deficit in 2020 towards a surplus of 3.9% of GDP by 2024. The current outlook assumes the full implementation of the fiscal consolidation efforts over the next three years, which would further improve fiscal and debt dynamics. Consequently, debt levels are expected to decline to 67.7% of GDP by 2030. The public debt projection is sensitive to external and policy shocks such as a global economic decline, a third wave of COVID-19 pandemic, natural disasters and further slippages in the fiscal accounts.

Table 7 - Financing the Medium -Term Fiscal Strategy

Antigua and Barbuda: Fiscal Developments - Financing Under the Active Policy Scenario (EC$000)

	2018	2019	2020	2021	2022	2023	2024
Total Net New Financing	**156**	**190**	**322**	**178**	**151**	**5**	**33**
Net New Domestic Financing	**58**	**3**	**165**	**109**	**127**	**37**	**65**
T-Bills							
- Other domestic financing (financing GAP)	261	177	306	283	324	267	300
- Domestic repayments (MLT)	202	175	141	174	196	231	235
existing loans	202	175	124	126	108	99	65
- Foreign disbursements	251	258	297	201	158	115	128
existing loans	251	258	116	55	14	-	-
new loans	-	-	181	145	145	115	128
- Foreign repayments (MLT)	154	71	140	132	135	146	160
existing loans	154	71	140	132	135	146	131
new loans	-	-	-	-	-	-	29
Gross Financing Needs	**512**	**436**	**603**	**484**	**482**	**382**	**428**
Amortization on MLT Debt	356	246	281	307	331	377	395
External	154	71	140	132	135	146	160
Domestic	202	175	141	174	196	231	235
Central Government Debt	2,612	2,543	2,549	2,727	2,878	2,883	2,916
- Domestic Debt	1,368	1,298	1,329	1,438	1,566	1,602	1,667
- Foreign Debt	1,244	1,245	1,220	1,288	1,312	1,281	1,249
Total Public Debt (including arrears)	3,356	3,340	3,395	3,461	3,501	3,394	3,316
Memo item:							
Nominal GDP	4,349	4,665	3,965	4,163	4,372	4,590	4,820

Source: The Ministry of Finance

In support of its comprehensive reform programme, the Government, over the medium- term, aims to pursue a fiscal financing strategy that relies primarily on a combination of funding from External Official Creditors (Multilateral & Bilateral) and the Domestic Securities Market. Thus, the GOAB aims to reduce its reliance on local bank financing. It will pursue negotiation of a restructuring of existing local commercial bank debts, take stock of all cross debts between the Central Government and SOEs and clear all arrears through a combination of new securities and debt discounts. For other domestic arrears and short-medium term domestic debts, the Government intends to establish a comprehensive stock, offer discounts on older debts and new long-term securities on others.

New Financing

The strategy of relying on official external financing will be advantageous to the Government as multilateral creditors generally offer a longer maturity period (ranging from 15 to 20 years) and lower interest rates. Implementation of this strategy will lead to a decrease in the debt to GDP ratio and a reduction in the refinancing and interest rate risk given the longer average time to maturity[8]and average time to refixing[9]. The Government's plans to access new financing from multilateral creditors includes a US$50 M Policy Based Loan from Caribbean Development Bank, US$20 M from World Bank via the IBRD pool of funds to support the health sector, US$6 M from ALBA to provide support to LIAT and US$26.9 M from the IMF through the Rapid Financing Instrument[10]. Bilateral financing will be sourced from China Development Bank in the amount of US$50 M for Post COVID-19 Support and US$13 M from Kuwait for development of a sewage system in the capital city. Domestic funding in the amount of $7 million will be sourced from the ECCB.

[8] Average Term to Maturity is a measure of the weighted average time to maturity of all the principal repayments.

[9] Average Time to Re-fixing is a measure of the weighted average time until all principal payments in the debt portfolio become subject to a new interest rate.

[10] According to the IMF, The Rapid Financing Instrument (RFI) provides rapid financial assistance, which is available to all member countries facing an urgent balance of payments need. Financial assistance under the RFI is provided in the form of outright purchases without the need for a full-fledged program or reviews. A member country requesting RFI assistance is required to cooperate with the IMF to make efforts to solve its balance of payments difficulties and to describe the general economic policies that it proposes to follow. Prior actions may be required where warranted.

Table 8: Planned Financing by Year

Year	Source	Type of Financing	Amount in EC$M
2021	Caribbean Development Bank	Multilateral	67.5
	International Monetary Fund	Multilateral	72.63
	ALBA	Multilateral	16.2
	China Development Bank	Bilateral	135
	Kuwait	Bilateral	35.1
	Eastern Caribbean Central Bank	Monetary Authority	7
	Total		**333.43**
2022	Caribbean Development Bank	Multilateral	67.5
	World Bank	Multilateral	54
	Eastern Caribbean Central Bank	Monetary Authority	7
	Total		**128.5**
2023	Caribbean Development Bank	Multilateral	27
	Eastern Caribbean Central Bank	Monetary Authority	7
	Total		**34**

Source: Ministry of Finance

5. DEBT MANAGEMENT STRATEGY

The GOAB's debt management mandate is to ensure that the government's financing needs, and its payment obligations are met on time, and at the lowest possible cost over the medium to long term and with due attention to prudent risks. Guided by the aforementioned Debt Management Objective and in light of the future outlook on the debt; the following strategies aim to ensure that the GOAB's debt management policies over the medium term and by 2030 achieve or approach the overall debt target of no more than 60% of GDP.

In line with this goal, the Government will anchor its fiscal consolidation effort based on the required annual fiscal savings (primary balance) necessary to achieve the debt target, complemented by key debt management and financing initiatives supported by external partners.

5.1 Reducing Arrears

Given the cash flow challenges faced by the Government, high levels of arrears have accumulated. The Government intends to adopt a comprehensive programme to address all outstanding external and domestic arrears as well as payables. Accordingly, the government will pursue the following options: -

Debt for Climate Swap Initiative to address arrears to Paris Club bilateral creditors: the GOAB has begun negotiations with the Green Climate Fund (GCF) and the country's Paris Club member creditors for a trilateral Debt for Climate Swap. Under this arrangement, GCF funds would support or partially finance the redirection of approximately US$147M in debt towards domestic public investment in climate change projects. The GOAB is planning to submit the proposal for endorsement to the GCF Board in 2021. The GOAB is committed to formulating a pipeline of projects that meet the criteria of climate change projects whose financing can be met from this initiative. The approval of such an arrangement will not only increase the GOAB's investment in climate change adaptation and mitigation, but significantly reduce the Government's arrears as Paris Club creditors account for 45.95% of Central Government debt arrears. This will simultaneously ease the country's debt obligations and improve the medium- term debt outlook, resulting in a reduction in the debt to GDP ratio to a level that is more consistent with the ECCU target. Along with increasing the country's accessibility to new creditors; more avenues for financing at a lower interest rate should become available to Antigua and Barbuda. Moreover, this initiative will amplify the government's effort to achieve debt and fiscal sustainability.

Payables[11] are estimated at $163.2M (3.4% of 2019 GDP), $83M of which is accounted for in the debt stock. The verified quantum of payables will be reflected in the finalized 2020 debt stock. Nonetheless, the GOAB plans to taper floating debt, by paying out a maximum of 50% of the total payables amount over the medium- term. Payables owed [by the Government] to State Owned Enterprises (SOEs) will be written – off, except for Social Security (SSB), Medical Benefits (MBS) and Board of Education (BOE). The Government will arrange with the BOE to set off outstanding arrears against payments made by the GOAB to the University of the West Indies. The SSB and MBS bonds will also be regularized. As it relates to Rents and Goods and Services, debts older than 7 years will be written off. While obligations under 7 years and with a value of less than $100,000 will receive an up-front payment of $20,000. The balance will be converted into a 10-year Private Placement Bond with a rate of 2%. Amounts in excess of $100,000 will be converted into 20- year Private Placement Bonds with a rate of 2%.

Reducing the arrears position, will not only improve the debt stock but will boost the creditworthiness of the country. In 2019, the GOAB repaid outstanding arrears to OPEC Fund for International Development (OFID) and European Investment Bank allowing the initiation of discussions regarding new financing estimated at $135M for capital projects such as replacement of pipe infrastructure and conversion of public transport to electric vehicles. Increasing repayment of arrears shall permit for further negotiations to recommence in 2021 leading to the Government being able to access new funds from its traditional creditors and new sources of financing.

5.4 Lengthening the Maturity Structure of the Debt

[11] Payables are defined as payments that have not been made by the contractually agreed date

The Government is committed in its effort to reduce its current debt obligations in order to redirect those funds towards paying current expenditures and for capital projects, in the medium to long-run. In this regard, the GOAB has already initiated this strategy by converting its short-term facilities in the amount $59.6M at ECCB into a longer- term facility. Implementation of The Investor Relations Programme (IRP)[12] will similarly assist in sourcing financing for development projects and other general government administrative activities from the external and domestic market. By way of the IRP strategy the Government will be able to proactively shape market sentiment, diversify the funding base by expanding the range of creditors, improve access to cost effective funds while lowering financing costs and minimizing perceptions of contagion risk linked to external shocks.

The Government is also actively pursuing financing options to re-profile its debt. Throughout the medium- term horizon, the Government plans to pay out all its short-term RGSM securities estimated at $273M. Commencing in 2021, the GOAB expects to cease issuance of 180- Day Treasury bills on the RGSM. This accounts for approximately $180M in financing. The short tenor of the securities (less than 1 year) and average interest of 4 %, presents a stress to government's cash-flow and does not align with the debt management objective.

5.5 Debt Refinancing and Restructuring

In accordance with the overarching debt management strategy, the GOAB continues to explore debt liability management options to lower the overall cost of borrowing. In 2019, the Debt Management Unit, on behalf of the GOAB partnered with EASibuy Auction Service [13]in order to reduce the cost associated with Government issuing securities (inclusive of brokerage and management fees). This resulted in a cost saving of approximately $432,000. In the near future, the Government intends to utilize this process to access new sources of financing at lower interest rates and overall lower financing costs. This strategy will assist in reducing interest payments, leading to less costly debt, lower cash flow requirements and helping to narrow the fiscal gap. The

[12] In 2018, the IMF, ECCB and MoF participated in a workshop regarding the development and implementation of an Investors Relations Program. This initiative involves undertaking market development and outreach programmes.
[13] On 13th November 2019, GoAB and EASibuy Auction Service held the first Reverse Auction event in the region. The process helped to improve the Government's procurement of broker-dealer services by allowing for increased competition and providing each Broker a fair chance at offering their services to our country.

Government also intends to pursue reprofiling options with the domestic commercial banks in order to lower interest charges and lengthen the maturity structure. In late 2020, the Government restructured its debt with the Antigua Commercial Bank in the amount of $127M at a lower interest rate of 6.5 % and extended the maturity on the consolidated loans to 20 years.

6. FISCAL RISK AND MITIGATION STRATEGIES

As evidenced by the impact of the COVID-19 pandemic, changes in macroeconomic conditions can significantly alter assumptions used for key economic variables derived for fiscal and economic forecasting, resulting in significant shifts in previously predicted outcomes. Since Antigua and Barbuda is considerably dependent on tourism, the direct impact that the pandemic caused to regional and international travel due to the closing of borders has significantly exposed the vulnerability of the economy to this particular sector and threatening its collapse. Although we do not expect levels to immediately return to their previous positions, we are depending on the anticipated turnaround in the travel and tourism sectors to boost our recovery efforts.

As price takers we are also vulnerable to the volatility in international prices set by our international trading partners and the economic and political conditions of their economies, particularly the US, UK, EU and China. Continued escalation of trade tensions as well as the impact of the COVID-19 pandemic ultimately impacts global economic growth, lowering potential tourism prospects and reducing foreign investment activities, ultimately affecting government revenue and expenditure outcomes, employment, and private consumption.

The Government recognizes these risks and seeks to, inter alia, ensure the prudent management of the public finances, and removal of structural impediments to growth, as buffers to variability in external global economic conditions.

6.1 Macroeconomic Risks

The COVID-19 pandemic poses significant downside risks to growth, and the overall outlook over the medium term. Although the number of cases to date has been relatively low, the risk of spread remains significant, especially in light of the country's main industry – Tourism. Particularly, the cases and effects in Antigua and Barbuda's traditional source markets such as the US, UK and Canada are of paramount significance, since this will determine the economic impact on potential tourists as well as their health, general wellbeing, and ultimately their ability to vacation in Antigua and Barbuda. Ratings of Antigua and Barbuda by agencies such as the Center for Disease Control (CDC) in the U.S. will impact how persons view the safety of the country, and ultimately their desire to travel to it. The ability of the health sector locally to manage the cases, and the effectiveness of the protocols in limiting community spread are all factors which contribute to whether the country will be able to realize projected growth. The availability of and access to a COVID-19 vaccine will also have a significant impact, since this measure would be seen as the ultimate tool in limiting the devastating impacts of the virus and seeing the world return to a semblance of normalcy.

Government's fiscal position is a risk to growth. Higher long-term borrowing costs and risk premiums can affect the broader economy. In addition, recovery efforts will be inadequate unless structural constraints (including in energy, infrastructure and competitiveness) are urgently addressed. While the reforms required in these areas do not immediately affect growth, they are critical for confidence and investment.

6.2 Natural Disaster Risks

Hurricanes pose several threats to Antigua and Barbuda, and predictions that climate change is likely to increase the frequency and intensity of these threats reinforce the importance of increased preparedness and risk reduction policies in achieving resilience in the face of potentially high economic loss and associated fiscal costs. As recent as November 9th, 2020, Antigua received significant rainfall due to spiral bands from an area of disturbed weather which led to excessive rainfall resulting in flash floods and erosion of much of the road network. Preliminary estimates of the resulting infrastructural damages amounted to about $168M. The impact to Barbuda has been even worse given that an estimated 90% of its infrastructure was destroyed in 2017 during the passage of Hurricane Irma. The total damages – affected physical assets – of Hurricane Irma for Barbuda was around US$136.1M, with the productive and social sectors most affected. The tourism sector accounted for 44% of total damage costs, followed by housing which accounted for 37% of all damage. The total losses – changes in economic flows resulting from the disaster – amounted to approximately US$18.9M. The recovery needs amounted to US$222.2M. US$79.6M of this was for repair or replacement of houses, as 45% of the houses were uninhabitable after the hurricane and 28% required complete replacement. US$ 0.35 M was also required for the water and sanitation sector, given that all water sources on Barbuda were damaged by Hurricane Irma and important water supplies were contaminated[14]. The Government

[14] Post Disaster Needs Assessment Report, Government of Antigua & Barbuda, 2017

acknowledges these significant downside risks and has put in place existing measures to reduce the financial exposure and other vulnerabilities to disaster risk.

Disaster Insurance. The GOAB continues to meet its annual insurance premium obligation of EC$2.2 M to the Caribbean Catastrophe Risk Insurance Facility (CCRIF). CCRIF provides parametric insurance maximum coverage of US$11 M for hurricane damages and US$2 M for earthquakes. After the passage of Hurricane Irma in 2017, the GOAB was the recipient of a disbursement of US$8 M from the parametric insurance policy to aid with the recovery costs mentioned previously, post Hurricane Irma.

Disaster Management Act (No. 13 of 2002). The Act provides for the effective organization of the preparedness, management, mitigation of, response to and recovery from emergencies and disasters natural and man-made in Antigua and Barbuda.

National Office of Disaster Services. The National Office of Disaster Services (NODS) is a government agency established in 1984 to coordinate disaster management efforts in Antigua and Barbuda. The National Office of Disaster Services (NODS) was established as a state-run agency of the Government with responsibility to reduce the vulnerability of natural and technological hazards in the twin island state, through multi-sector and integrated hazard risk reduction management. Through its operations, NODS seeks at all times to save lives and protect property in Antigua and Barbuda. NODS also provides administrative and emergency support based on requests from the Caribbean Disaster Emergency Management Agency (CDEMA) to assist any of the CDEMA member states. NODS assists in the planning and execution of comprehensive stakeholder disaster management exercises at the national level. This is done to test the effectiveness of existing plans and identify deficiencies that need to be addressed by various agencies.

6.3 Contingent Liabilities

Explicit loan guarantees provided to SOEs expose the Government to the possibility of unexpected and substantial risk, which could lead to a severe strain on the fiscal resources—hence the Government's resolve to ensure that these entities are closely monitored and managed. As presented in the table below, contingent liabilities were an estimated $354.7 M at end-September 2020.

Table 9: Contingent Liabilities as at September 2020

SOE	EC$M
Antigua & Barbuda Maritime Board Inc	27.0
Antigua and Barbuda Airport Authority	30.9
Antigua and Barbuda Social Security	4.2
Antigua and Barbuda Transport Board	62.5
Antigua Port Authority	49.6
Antigua Public Utilities Authority	24.7
Board of Education	16.6
Central Housing & Planning Authority (C)	26.6
Medical Benefit Scheme	65.1
National Housing Development & Urban Renewal	16.7
St. John's Development Corporation	3.6
State Insurance Corporation	12.1
The Cancer Centre Eastern Caribbean Ltd	5.6
SOEs Overdraft	9.5
Total Contingent Liabilities	**354.7**

Source: Ministry of Finance

6.4 State Owned Enterprises (SOEs)

SOEs receive a significant budgetary subvention from central government in the form of transfers, hence the importance of ongoing initiatives for cost rationalization as part of the transformation of SOEs to becoming more sustainable, efficient and financially independent entities. This includes examining and pursuing opportunities for services provided by these entities to be more aligned with cost recovery levels and avenues for improving efficiency and achieving effective financial oversight. SOEs accounted for over 7% of the 2020 budget and most cannot adequately finance their operations without receiving transfers from central government. With the pandemic putting a heavy strain on government resources it is becoming increasingly difficult to meet these obligations in a timely manner. The table below shows a list of SOEs and their corresponding 2020 budget allocation from central government.

Table 10: State Owned Enterprises 2020 Budget

SOE	EC$M
Mount St. John's Medical Centre	36.0
National Solid Waste Management Authority	12.0
Antigua & Barbuda Tourism Authority	1.5
Antigua & Barbuda Investment Authority	1.5
Agricultural Development Corporation	1.0
Antigua & Barbuda Hospitality Training Institute	1.2
St. John's Development Corporation	6.0
Social Security	32.0
Medical Benefits Scheme	18.0
Board of Education	5.0
TOTAL	**114.2**

Source: Ministry of Finance

The funds allocated to Social Security and Medical Benefits Scheme are not categorized in the fiscal accounts as transfers but as contribution expenses since these represent both the employer and employee contributions to the respective schemes. However, for the purpose of this report it was important to include them as they both bear substantial risks to central government given the current cash flow restrictions due to the pandemic and both require sizeable contributions.

Social Security in particular runs the risk of not being able to meet its obligations to its beneficiaries in a timely manner and to finance its own operations without the transfer of the contributions from central government. The timely provision of social security pensions and other related benefits to the public is essential at this time when economic activity is slowed.

Similar to the current situation with Social Security, the Medical Benefits Scheme is also dependent on the timely turnover of contributions from central government to meet its obligations to its beneficiaries and to finance its operations. Moreover, since medical benefits is responsible for providing medical supplies to the public as well as providing financial support for the Mount St. Johns Medical Centre (MSJMC), the increased demand it is faced with due to the pandemic puts a higher strain on the scheme and a higher burden on central government to cushion the impact.

MSJMC, the sole public hospital on the island of Antigua, is heavily dependent on transfers from central government. As mentioned above, the public demand that the hospital is currently faced with due to the pandemic has forced central government to prioritize making transfer payments to the hospital to fund its basic operation.

7. CONCLUSION

The MTFS is prepared in the context of a global pandemic and one of the largest economic contractions since the global financial crisis in 2008/09. Budget preparation has had to adapt to emergency circumstances, despite an already weak fiscal position prior to the current crisis. Ensuring the return to sustainable public finances, and more rapid, employment-rich economic growth, requires hard choices and disciplined implementation of economic reforms.

The economic recovery plan agreed on by the social partners targets short- and longer-term reforms to boost growth and remove constraints to investment and employment. Rapid and effective implementation of this plan is a critical driver of higher and sustained growth over the medium term.

The MTFS sets out ambitious consolidation targets to achieve a primary surplus by 2023. This requires revenue enhancing measures and improvements in the composition of spending. It is also important to stabilize public debt and reduce the cost of borrowing. Measures to manage and reduce public-sector pressures and risks will be implemented over the medium term. Fiscal policy and the debt management strategy will work to mitigate risks to the outlook.

The GOAB will prioritize the implementation of those critical structural reforms deemed necessary to spur stronger economic growth and job creation. There will be an aggressive focus on the objective of growing the economy and creating meaningful jobs which will enable a rapid and sustainable reduction in the public debt. It is within this context that the GOAB will continue its efforts toward further tax reform, cost containment in government operations and accelerating the economic recovery. The GOAB is confident that these efforts will ensure a more stable macroeconomic environment, sustainable debt reduction and an improved business climate that will attract new investments and result in durable job creation.