FISCAL REPORT
ON
ANTIGUA AND BARBUDA

PERIOD ENDING JUNE 2004

PREPARED BY
MINISTRY OF FINANCE AND THE ECONOMY

OCTOBER 2004
INTRODUCTION

• REPORT FORMS PART OF OVERALL MONITORING AND REVIEW MECHANISM

• FOCUSES ON GOVERNMENT'S QUARTERLY FISCAL PERFORMANCE
INTRODUCTION – Cont’d

- REPORT OUTLINES GOVERNMENT’S FISCAL OPERATIONS AND PERFORMANCE FOR FIRST HALF 2004
- COMPARES PERFORMANCE IN FIRST HALF 2004 WITH PERFORMANCE IN FIRST HALF 2003
- ALSO CONTRASTS PERFORMANCE IN SECOND QUARTER 2004 WITH PERFORMANCE IN SECOND QUARTER 2003
INTRODUCTION – Cont’d

- FORMAT OF PRESENTATION:
  1. SUMMARY OF PERFORMANCE IN TOURISM SECTOR
  2. GOVERNMENT FISCAL BALANCES
  3. REVENUE PERFORMANCE
  4. EXPENDITURE PERFORMANCE
  5. SUMMARY OF PUBLIC DEBT
  6. PERFORMANCE OF FISCAL INDICATORS RELATIVE TO TARGETS
  7. CONCLUSION
PERFORMANCE IN TOURISM SECTOR

- SIGNIFICANT INCREASE IN STAY-OVER VISITOR ARRIVALS AND CRUISE PASSENGER ARRIVALS IN FIRST HALF 2004
  - 15.35% INCREASE IN VISITOR ARRIVALS BY AIR
  - 45.2% INCREASE IN CRUISE PASSENGER ARRIVALS
PERFORMANCE IN TOURISM SECTOR - Cont’d

GRAPH-1
VISITOR ARRIVALS BY AIR


TOTAAL ARRIVALS (’000)

0  20  40  60  80  100  120  140

JAN-JUNE 2003  JAN-JUNE 2004
PERFORMANCE IN TOURISM SECTOR - Cont’d

GRAPH-2
CRUISE PASSENGER ARRIVALS

PASSENGER ARRIVALS (’000)


0 50 100 150 200 250 300 350 400
PERFORMANCE IN TOURISM SECTOR - Cont’d

- IMPROVED PERFORMANCE DUE TO:
  - INCREASED NUMBER OF FLIGHTS FROM UK
  - ADDITIONAL 1,000 VISITORS EACH WEEK DUE TO INCREASE SEAT CAPACITY ON FLIGHTS ORIGINATING IN USA
  - ADDITIONAL CRUISE CALLS
PERFORMANCE IN TOURISM SECTOR - Cont’d

• RENEWED MARKETING OF ANTIGUA AND BARBUDA IN MAJOR MARKETS AND AN EXPECTED INCREASE IN THE NUMBER OF CRUISE SHIP CALLS SHOULD RESULT IN AN ACTIVE TOURIST SEASON

• EXPECT SPILL-OVER BENEFITS INTO OTHER SECTORS OF ECONOMY
GOVERNMENT FISCAL BALANCES

- FISCAL BALANCES:
  - OVERALL FISCAL BALANCE – DIFFERENCE OF TOTAL REVENUE AND TOTAL EXPENDITURE
  - CURRENT ACCOUNT BALANCE – DIFFERENCE OF CURRENT REVENUE AND CURRENT EXPENDITURE
GOVERNMENT FISCAL BALANCES – Cont’d

• STRONG FISCAL PERFORMANCES IN FIRST HALF 2004 COMPARED TO FIRST HALF 2003:
  ➢ 58 % DECLINE IN OVERALL FISCAL DEFICIT
  ➢ 79 % DECLINE IN CURRENT ACCOUNT DEFICIT
PERFORMANCE IN SECOND QUARTER 2004 ALSO IMPROVED OVER PERFORMANCE IN SECOND QUARTER 2003:

- OVERALL DEFICIT 64% LESS IN SECOND QUARTER 2004
- CURRENT ACCOUNT DEFICIT 88% LESS IN SECOND QUARTER 2004
OVERALL FISCAL BALANCE:

FIRST HALF 2003: -EC$55.09 million
FIRST HALF 2004: -EC$23.11 million
SECOND QUARTER 2003: -EC$42.03 million
SECOND QUARTER 2004: -EC$15.13 million
CURRENT ACCOUNT BALANCE:

FIRST HALF 2003: -EC$45.58 million
FIRST HALF 2004: - EC$9.43 million

SECOND QUARTER 2003: -EC$36.13 million
SECOND QUARTER 2004: -EC$4.19 million
GOVERNMENT FISCAL BALANCES – Cont’d

IMPROVEMENT IN GOVERNMENT’S FISCAL BALANCES RESULT OF 15 % INCREASE IN REVENUES AND RELATIVELY FLAT EXPENDITURE
REVENUE PERFORMANCE

- Government current revenue in first half 2004 was EC$235.7 million.
- In first half 2003 current revenue was EC$205.4 million.
- This 15% increase in revenue reflects an attempt to increase collection from existing revenue streams; especially from customs duties and consumption tax.
REVENUE PERFORMANCE – Cont’d

- SOURCES OF GOVERNMENT’S CURRENT REVENUE ARE TAX AND NON-TAX REVENUE
- TAXES PROVIDE ABOUT 90% OF GOVERNMENT CURRENT REVENUE
- NON-TAX REVENUE IS 10% OF CURRENT REVENUE
REVENUE PERFORMANCE – Cont’d

- Tax revenue in first half 2003 was EC$171.4 million.
- In first half 2004, tax revenue was 27% higher at EC$217.18 million.
- For second quarter 2003 and 2004, tax revenue increased 24% from EC$86.73 million in second quarter 2003 to EC$107.43 million in second quarter 2004.
THE MAJOR SOURCE OF TAX REVENUE IS INDIRECT TAXES – MAINLY TAXES ON INTERNATIONAL TRADE AND TRANSACTIONS OF WHICH CUSTOMS DUTIES AND THE CONSUMPTION TAX ARE KEY SOURCES.

IN FIRST HALF 2004 INDIRECT TAXES YIELDED EC$182.86 MILLION.

FOR FIRST HALF 2003 INDIRECT TAX REVENUE WAS 30% LESS AT EC$140.61 MILLION.
REVENUE PERFORMANCE – Cont’d

• TAXES ON INTERNATIONAL TRADE AND TRANSACTIONS AMOUNT TO OVER 50% OF TOTAL CURRENT REVENUE

• IN FIRST HALF 2004 REVENUE FROM TAXES ON INTERNATIONAL TRADE AND TRANSACTIONS WAS EC$123.13 MILLION

• FOR FIRST HALF 2003 REVENUE FROM THIS SOURCE WAS EC$100.04 MILLION
REVENUE PERFORMANCE – Cont’d

- THE INCREASE IN TAX REVENUE IS MAINLY ATTRIBUTED TO A 25.7% DECLINE IN THE VALUE OF DUTY CONCESSIONS GRANTED.

- FOR FIRST HALF 2004 DUTY CONCESSIONS AMOUNTED TO EC$53.19 MILLION OR 23% OF TOTAL CURRENT REVENUE

- FOR FIRST HALF 2003, DUTY CONCESSIONS AMOUNTED TO EC$71.58 MILLION OR 35% OF TOTAL CURRENT REVENUE
REVENUE PERFORMANCE – Cont’d

• FOR THE SECOND QUARTER OF 2004 AND THE SECOND QUARTER OF 2003 DUTY CONCESSIONS AMOUNTED TO EC$24.24 MILLION AND EC$31.7 MILLION RESPECTIVELY
REVENUE
PERFORMANCE – Cont’d

GRAPH-3
TOTAL DUTY WAIVERS

DUTY WAIVERS (EC$M)

REVENUE PERFORMANCE – Cont’d

• DUTY CONCESSIONS ON VEHICLES DECLINED 35.5% FROM ECS$3.18 MILLION IN FIRST HALF 2003 TO ECS$2.05 MILLION IN SECOND HALF 2004

• DUTY CONCESSIONS ON VEHICLES WERE 50% LESS IN SECOND QUARTER 2004 COMPARED TO SECOND QUARTER 2003
GRAPH-4
DUTY WAIVERS: VEHICLES


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<tr>
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<tr>
<td>Q-1 2004</td>
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<tr>
<td>Q2-2003</td>
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<tr>
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<td>0.5</td>
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<td>JAN-JUNE 2003</td>
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<tr>
<td>JAN-JUNE 2004</td>
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REVENUE PERFORMANCE – Cont’d

• FOR NON-TAX REVENUE THERE WAS A 12.5% DECLINE FROM EC$21.2 MILLION IN FIRST HALF 2003 TO EC$18.5 MILLION IN FIRST HALF 2004

• THIS WAS MAINLY DUE TO A DECLINE IN WORK PERMIT FEES AND GOVERNMENT’S SHARE IN WEST INDIES OIL PROFITS
EXPENDITURE PERFORMANCE

• GOVERNMENT’S CURRENT EXPENDITURE DECREASED 2.3% IN THE FIRST HALF OF 2004
• IN FIRST HALF 2003 CURRENT EXPENDITURE AMOUNTED TO EC$250.94 MILLION
• FOR FIRST HALF 2004, CURRENT EXPENDITURE WAS EC$245.13 MILLION
EXPENDITURE PERFORMANCE-Cont’d

EXPENDITURE ALSO DECLINED 9.1% FROM EC$133.16 MILLION IN SECOND QUARTER 2003 TO EC$121.02 MILLION IN SECOND QUARTER 2004
EXPENDITURE PERFORMANCE-Cont’d

• At about 49% of total current expenditure and about 51% of current revenue, wages, salaries and related allowances represent government’s major liability.

• For the first half of 2003 and 2004, expenditure on wages and salaries amounted to about EC$120 million.
EXPENDITURE PERFORMANCE-Cont’d

• WAGES AND SALARIES DECLINED SLIGHTLY FROM EC$63.5 MILLION IN SECOND QUARTER 2003 TO EC$62.4 MILLION IN SECOND QUARTER 2004
EXPENDITURE PERFORMANCE-Cont’d

- EXPENDITURE ON GOODS AND SERVICES IS THE OTHER KEY COMPONENT OF GOVERNMENT CURRENT EXPENDITURE

- IN FIRST HALF 2003, EXPENDITURE ON GOODS AND SERVICES AMOUNTED TO EC$49.69 MILLION

- FOR THE FIRST HALF OF 2004, THIS DECREASED 19% TO EC$40.18 MILLION
EXPENDITURE PERFORMANCE-Cont’d

• FOR THE SECOND QUARTER OF 2003, EXPENDITURE ON GOODS AND SERVICES AMOUNTED TO EC$30.84 MILLION.

• IN THE SECOND QUARTER OF 2004, THIS DECLINED 43% TO EC$17.7 MILLION.
FINALLY, CAPITAL EXPENDITURE IN THE FIRST HALF OF 2003 AMOUNTED TO EC$10.24 MILLION

IN THE FIRST HALF OF 2004, THIS INCREASED 79% TO EC$18.35 REFLECTING GOVERNMENT’S UNDERTAKING A NUMBER OF INFRASTRUCTURAL DEVELOPMENT PROJECTS
SUMMARY OF PUBLIC DEBT

- TOTAL PUBLIC SECTOR DEBT = DOMESTIC AND EXTERNAL DEBT OF CENTRAL GOVERNMENT + GOVERNMENT GUARANTEED DEBT TO STATUTORY BODIES

- AT END OF 2003 TOTAL PUBLIC DEBT AMOUNTED TO EC$2.82 BILLION
SUMMARY OF PUBLIC DEBT – Cont’d

• BY THE END OF THE FIRST HALF OF 2004, TOTAL DEBT DECLINED SLIGHTLY TO EC$2.79 BILLION

• THIS DECLINE DUE TO GOVERNMENT’S PRINCIPLE PAYMENTS ON AND CONSOLIDATION OF A NUMBER OF DOMESTIC DEBTS
SUMMARY OF PUBLIC DEBT – Cont’d

- CENTRAL GOVERNMENT DEBT AT END OF FIRST HALF 2004 AMOUNTED TO ECS$2.63 BILLION

- 52% OF THIS WAS EXTERNAL DEBT WHILE DOMESTIC DEBT WAS ABOUT 48%
SUMMARY OF PUBLIC DEBT – Cont’d

- ARREARS ON CENTRAL GOVERNMENT DEBT AMOUNTED TO EC$366.5 MILLION
  
- OF THIS, EC$263.8 MILLION WAS ARREARS ON EXTERNAL DEBT AND EC$102.7 REPRESENTED ARREARS ON DOMESTIC DEBT
SUMMARY OF PUBLIC DEBT – Cont’d

- REQUIRED DEBT SERVICE PAYMENTS WHICH IS EQUAL TO INTEREST AND PRINCIPLE PAYMENTS ON OUTSTANDING DEBT IS ABOUT 5% OF GDP OR ABOUT EC$110 MILLION

- THE DEBT SERVICE RATIO CURRENTLY STANDS AT ABOUT 49%
FISCAL PERFORMANCE RELATIVE TO TARGETS

- IN COLLABORATION WITH ECCB AND CARTAC, THE MINISTRY OF FINANCE MADE A NUMBER OF QUARTERLY PROJECTIONS IN RESPECT OF KEY GOVERNMENT FISCAL VARIABLES

- ACTUAL PERFORMANCE RELATIVE TO THESE PROJECTIONS IS AS FOLLOWS:
FISCAL PERFORMANCE RELATIVE TO TARGETS – Cont’d

• THE ACTUAL CURRENT ACCOUNT DEFICIT WAS LESS THAN PROJECTED
FISCAL PERFORMANCE RELATIVE TO TARGETS – Cont’d

GRAPH-5
CURRENT ACCOUNT BALANCE: PROJECTED VS ACTUAL

Q1-2004
Q2-2004
JAN-JUNE 2004
FISCAL PERFORMANCE RELATIVE TO TARGETS – Cont’d

• THE ACTUAL OVERALL FISCAL DEFICIT WAS ALSO LESS THAN PROJECTED
GRAPH-6
OVERALL BALANCE: PROJECTED VS. ACTUAL

Q1-2004
Q2-2004
JAN-JUNE 2004

OVERALL BALANCE (EC$M)
FISCAL PERFORMANCE RELATIVE TO TARGETS – Cont’d

- The actual primary balance showed a surplus compared to the deficit that was projected.
GRAPH-7

PRIMARY BALANCE: PROJECTED VS ACTUAL

Q1-2004
Q2-2004
JAN-JUNE 2004
FISCAL PERFORMANCE RELATIVE TO TARGETS – Cont’d

- ACTUAL EXPENDITURE ON WAGES AND SALARIES WAS 11.5% LESS THAN PROJECTED
FISCAL PERFORMANCE RELATIVE TO TARGETS – Cont’d

GRAPH-8
GOVERNMENT WAGE BILL: PROJECTED VS ACTUAL

PERSONAL EMOLUMENTS (EC$M)

Q1-2004  Q2-2004  JAN-JUNE 2004

0.00  20.00  40.00  60.00  80.00  100.00  120.00  140.00  160.00

PROJECTED  ACTUAL
FISCAL PERFORMANCE RELATIVE TO TARGETS – Cont’d

• CAPITAL EXPENDITURE WAS 20% LESS THAN PROJECTED
GRAPH-9
GOVERNMENT CAPITAL EXPENDITURE: PROJECTED VS ACTUAL

Q1-2004  Q2-2004  JAN-JUNE 2004

CAPITAL EXPENDITURE (EC$M)

PROJECTED  ACTUAL
FISCAL PERFORMANCE
RELATIVE TO TARGETS –
Cont’d

- ACTUAL CURRENT EXPENDITURE WAS ABOUT 15% LESS THAN PROJECTED
FISCAL PERFORMANCE RELATIVE TO TARGETS – Cont’d

GRAPH-10
GOVERNMENT CURRENT EXPENDITURE: PROJECTED VS ACTUAL
FINALLY, ACTUAL CURRENT REVENUE WAS 4% HIGHER THAN PROJECTED
FISCAL PERFORMANCE RELATIVE TO TARGETS – Cont’d

GRAPH-11
GOVERNMENT CURRENT REVENUE: PROJECTED VS ACTUAL

Q1-2004  Q2-2004  JAN-JUNE 2004

CURRENT REVENUE (EC$M)
CONCLUSION

THE IMPROVEMENT IN FISCAL PERFORMANCE IN THE FIRST HALF OF 2004; PARTICULARLY IN THE SECOND QUARTER WAS A RESULT OF ENHANCED REVENUE PERFORMANCE AND A SLIGHT DECLINE IN CURRENT EXPENDITURE
CONCLUSION – Cont’d

- DESPITE THIS IMPROVEMENT, GOVERNMENT STILL FACES SIGNIFICANT CASH FLOW PROBLEMS SO THAT ALL OF ITS LIABILITIES ARE NOT BEING ADEQUATELY MET:

- EG. EXPENDITURE ON GOODS AND SERVICES; DEBT SERVICING; PAYMENTS TO REGIONAL AND INTERNATIONAL ORGANISATIONS; DEVELOPMENTAL AND SOCIAL INVESTMENTS
CONCLUSION – Cont’d

• THIS IS AN UNSUSTAINABLE APPROACH TO FISCAL ADMINISTRATION AND THEREFORE REQUIRES GOVERNMENT COMMITMENT TO A FISCAL ADJUSTMENT STRATEGY
CONCLUSION – Cont’d

• THE STRATEGY WOULD FOCUS ON:
  ➢ CREATING A MORE EFFECTIVE TAX SYSTEM THROUGH TAX REFORM
  ➢ ENHANCING PUBLIC SECTOR EFFICIENCY AND CREDIBILITY THROUGH PUBLIC SECTOR REFORM
  ➢ ESTABLISHING MORE EFFICIENT MECHANISMS FOR DEBT MANAGEMENT
CONCLUSION – Cont’d

- THROUGH FISCAL ADJUSTMENT, THE GOVERNMENT WOULD BE IN A BETTER POSITION TO PURSUE MORE PRUDENT FISCAL MANAGEMENT POLICIES AND UNDERTAKE DEVELOPMENTAL AND SOCIAL INVESTMENTS THAT ARE KEY STIMULANTS TO PRIVATE INVESTMENT AND OVERALL ECONOMIC PERFORMANCE
END