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ST. KITTS AND NEVIS

November 2022

2018 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ST. KITTS AND NEVIS

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2018 Article IV consultation with St. Kitts and Nevis, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 14, 2018, consideration of the staff report that concluded the Article IV consultation with St. Kitts and Nevis.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 14, 2018, following discussions that ended on July 9, 2018, with the officials of St. Kitts and Nevis on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 6, 2018.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for St. Kitts and Nevis.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR22/400

IMF Executive Board Concludes 2018 Article IV Consultation with St. Kitts and Nevis

FOR IMMEDIATE RELEASE

Washington, DC – **November 21, 2022:** On September 14, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with St. Kitts and Nevis.

Growth decelerated marginally in 2017, as the continued decline in CBI inflows slowed growth in construction. Consumer inflation was low, partly due to a small contraction in food prices. The overall fiscal balance remained in surplus but has deteriorated markedly since its 2013-peak, and the debt-to-GDP ratio increased marginally from the previous year. The current account deficit remains high and only marginally declined in 2017, as the decline in CBI receipts was more than offset by growing tourism receipts and a significant decrease in imports. Foreign reserves at the ECCB remained at comfortable levels, well above the various reserve-adequacy metrics. The banking sector has reported capital and liquidity ratios that are well above the regulatory minimum but has elevated NPLs and risks, including delays in completing the debt-land swap arrangement and loss of Corresponding Banking Relationships (CBRs).

Medium-term growth is projected to fluctuate around 3 percent under the current policies. It is projected to improve in 2018-20 as the implementation of FDI projects in the tourism sector accelerates and decelerate to around 2.7 percent over time as the momentum slows down. The current account deficit is projected to worsen over the medium term, driven by higher FDI-related imports associated with tourism projects and a tapering of CBI inflows, partially offset by growth in tourism receipts. Downside risks include lower than projected CBI inflows; further delays in resolving the debt-land swap; failure to tackle worsening financial sector vulnerabilities; exposure to major natural disasters; a tighter financial environment from higher U.S. interest rates; and spillovers from regional financial challenges, including loss of CBRs. On the upside, stronger CBI inflows and higher growth in advanced economies could support growth compared to the baseline.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors welcomed St. Kitts and Nevis's good macroeconomic performance in recent years. However, growth has slowed over the past year, and the medium-term outlook remains moderate. Directors acknowledged significant challenges, including those associated with declining Citizenship By Investment (CBI) inflows, financial sector vulnerabilities, tighter global financial conditions, and weather-related shocks. Against this background, Directors encouraged policies to safeguard macroeconomic and financial stability, together with reforms to strengthen competitiveness and foster inclusive growth.

Directors noted that, absent any corrective policies, public debt is expected to increase over the medium term, as revenue from CBI receipts further declines. They considered that a significant fiscal adjustment is needed to reverse debt dynamics. The adjustment could focus on both revenue and expenditure measures, including streamlining tax incentives, restructuring activities funded by the Sugar Industry Diversification Foundation, and containing the wage bill through a multi-year framework.

Recognizing the need to maintain fiscal buffers to assist in covering the cost of natural disasters, Directors recommended the establishment of a Growth and Resilience Fund (GRF), which should be linked to a fiscal responsibility framework. They suggested that access to the GRF could be used to respond to adverse shocks and to support natural disaster resilience investment projects. The GRF should have a sovereign wealth fund structure in line with international best practices.

Directors expressed concern about the high level of NPLs and urged the authorities to prioritize their resolution, which would include the operationalization of the Eastern Caribbean Asset Management Corporation, a credit bureau, and the strengthening of foreclosure and insolvency legislation. They supported the implementation of IFRS9 and new regulations on provisioning and valuation and encouraged the authorities to closely monitor capitalization levels of the banking system.

Directors encouraged the authorities to take decisive steps to accelerate land sales under the debt-land swap arrangement to mitigate the fiscal and financial sectors from contingent liabilities. They also emphasized the importance of remaining vigilant to CBR risks, enhancing the AML/CFT regime, and strengthening the transparency of the CBI program.

Directors agreed that comprehensive structural reforms would strengthen the potential for diversified and inclusive growth, and address competitiveness challenges. They welcomed ongoing efforts to improve the ease-of-doing business, support skills development, promote growth in tourism and other sectors, and strengthen social policies and security. Improving labor productivity and promoting trade integration at the regional and international level are also necessary to support competitiveness.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm .

St. Kitts and Nevis: Selected Economic and Financial Indicators 2015–20

			Est.	Proj.		
	2015	2016	2017	2018	2019	2020
	(Annual percentage change; unless otherwise specified)					
National income and prices						
Real GDP (factor cost) 1/	2.7	2.9	2.1	2.7	3.5	3.5
Consumer prices, end-of-period 2/	-2.4	0.0	0.8	2.0	2.0	2.0
Consumer prices, period average 2/	-2.3	-1.2	0.4	1.4	2.0	2.0
Real effective exchange rate appreciation (+) (end-of-period)	-2.8	-0.4	-2.5	...	...	...
Banking system						
Change in net foreign assets 3/	-5.3	-1.3	-7.8	3.6	1.4	0.0
Credit to public sector 3/	-0.8	-5.1	0.7	-3.7	2.5	3.2
Credit to private sector 3/	1.5	0.4	0.8	1.1	1.2	1.3
Broad money	2.5	-4.0	-3.4	0.9	5.2	4.5
	(In percent of GDP)					
Public sector 4/						
Total revenue and grants	36.3	32.2	30.2	32.7	27.6	26.8
o/w Tax revenue	20.1	19.3	19.1	19.4	19.3	19.3
o/w CBI fees	11.6	6.8	5.7	7.4	2.6	2.0
Total expenditure and net lending	31.0	28.2	29.6	29.2	30.4	30.3
Current expenditure	24.4	24.0	24.8	24.6	26.1	26.2
Capital expenditure and net lending	6.6	4.2	4.8	4.6	4.3	4.2
Primary balance	7.3	5.6	2.1	5.1	-1.3	-1.8
Overall balance	5.3	4.0	0.5	3.5	-2.8	-3.5
Overall balance (less CBI inflows) 5/	-5.5	-3.0	-5.4	-4.0	-5.3	-5.4
Foreign financing	-6.8	-1.9	-0.9	-0.9	-0.9	-0.8
Domestic financing	1.2	-0.9	-0.1	-3.0	3.3	3.9
Change in arrears	-0.1	0.0	0.0	0.0	0.0	0.0
Sale of assets	0.5	0.4	0.4	0.4	0.4	0.4
Extraordinary financing 6/	0.3	0.0	0.0	0.0	0.0	0.0
Total public debt (end-of-period) 7/	66.1	61.5	62.9	63.6	63.4	63.3
Public debt service (percent of total revenue and grants)	24.5	11.2	8.5	7.6	8.6	9.6
External sector						
External current account balance	-9.2	-12.0	-11.2	-10.9	-17.3	-17.8
Trade balance	-26.5	-30.7	-27.9	-30.4	-32.4	-32.4
Services, net	27.8	26.9	25.1	27.4	23.0	22.6
o/w Tourism receipts	32.6	33.4	37.6	38.0	38.3	38.6
FDI (net)	13.6	13.3	8.9	10.2	12.8	12.7
External public debt (end-of-period)	25.2	20.2	16.1	14.2	12.2	10.4
	(In percent of exports of goods and nonfactor services)					
External public debt service	6.8	3.8	3.5	2.9	3.0	2.7
External public debt (end-of-period)	44.9	38.7	31.5	26.6	24.9	21.5
Memorandum items						
Net international reserves, end-of-period						
(in millions of U.S. dollars)	280.4	312.8	358.2	358.2	354.5	350.7
(in percent of broad money)	25.0	29.0	34.4	34.1	32.1	30.4
Holdings of SDRs, in millions of U.S. dollars	13.8	13.8	14.8	15.8	16.8	17.8
Nominal GDP at market prices (in millions of EC$)	2,528	2,591	2,602	2,714	2,868	3,031

Sources: St. Kitts and Nevis authorities; ECCB; UNDP; World Bank; and Fund staff estimates and projections.
1/ Authorities revised historical GDP growth backwards from 2015.
2/ Includes St. Kitts and Nevis (in the past, only St. Kitts data was reflected).
3/ In relation to broad money at the beginning of the period.
4/ Consolidated general government balances unless otherwise noted. Primary and overall balances are based on above-the-line data.
5/ Excludes CBI budgetary fees, SIDF grants and Investment proceeds, and CBI due diligence costs.
6/ Reflects operations linked to the restructuring of public debt.
7/ Reflects the debt-land swap equivalent to EC$565 million in 2013 and EC$231 million in 2014.

ST. KITTS AND NEVIS

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION

August 6, 2018

KEY ISSUES

Context. Macroeconomic performance has improved over the past five years, but vulnerabilities remain**.** On current policies, public debt is expected to increase over the medium term, as revenue from the Citizenship-by-Investment (CBI) program declines sharply and expenditure increases when previously off-budget expenditure by the Sugar Industry Diversification Foundation (SIDF) is integrated to the budget. The banking system suffers from weak profitability, high non-performing loans (NPLs), and in some cases land holdings that generate little income. Actions to improve the business environment should be complemented by stronger efforts to strengthen governance and anticorruption frameworks.

Article IV. Discussions focused on measures to safeguard macroeconomic and financial stability, including identifying fiscal adjustment measures, actions to aggressively tackle NPLs, and encouraging progress in completing the debt-land swap. Staff urged the authorities to ensure that public debt fall to 60 percent of GDP by 2023, by implementing a fiscal adjustment of 4 percent of GDP over 2019-23. This adjustment would comprise streamlining tax incentives, restructuring SIDF-funded activities, and containing growth in the wage bill. Staff stressed that the sale of lands under the debt-land swap must be stepped up to protect the financial and fiscal sectors from contingent liabilities. Staff also urged remedial measures to resolve high NPLs and suggested that the authorities should support efforts by the ECCB to monitor bank capital given deteriorating asset quality in the banking system. To boost inclusive growth, staff called for further efforts to improve the business climate, strengthen the labor market and education system to address skill gaps, and foster growth in tourism and enhance diversification.

Authorities' views. The authorities broadly concurred with staff's policy recommendations. They agreed to consider bringing the SIDF expenditures on budget together with the revenues and streamlining tax incentives in the context of a comprehensive strategy. An NPL reduction strategy that targets large loans that account for the bulk of the NPLs was developed and is being monitored by the ECCB. The authorities agreed on the urgency of completing the sale of lands under the debt-land swap arrangement and will devise a time-bound plan to sell the land to the extent possible. They concurred with the importance of achieving sustainable and more inclusive growth by strengthening competitiveness.

Approved By	
Robert Rennhack (WHD) and Rupa Duttagupta (SPR)	The staff team comprising Arnold McIntyre (head), Takuji Komatsuzaki and Mauricio Vargas (all WHD), and A.M. Wickham (IMF local economist) visited Basseterre and Charlestown during June 25-July 9, 2018. The mission met with Prime Minister the Honorable Timothy Harris, Premier of Nevis Honorable Mark Brantley, Deputy Governor of the ECCB, the Financial Secretary of St. Kitts and Nevis, the Permanent Secretary of Finance of the Nevis Island Administration, the Citizenship by Investment Unit, Ministries of Agriculture, Health, Labor, Social Development, and Sustainable Development, and other senior public officials, and representatives of the Financial Services Regulatory Commission, Leader of the Opposition, and financial and business community. Courtney Williams from the Office of the Executive Director participated in the discussions. In addition to the mission team, Gonzalo Salinas (WHD) also contributed to the Staff Report.

CONTENTS

TABLES

ANNEXES

Glossary

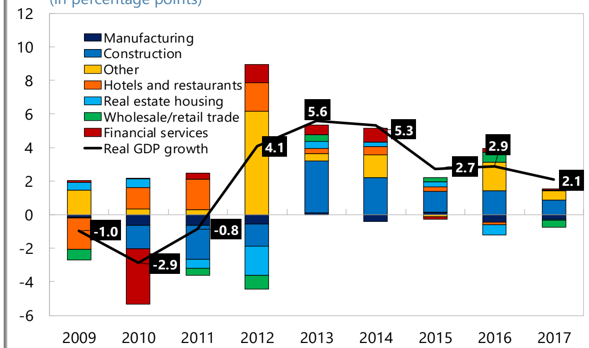
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BOP	Balance of Payments
CARTAC	Caribbean Regional Technical Assistance Centre
CBI	Citizenship-By-Investment
CBRs	Correspondent Banking Relationships
CCTV	Closed Circuit TV
CDB	Caribbean Development Bank
EBA	External Balance Assessment
ECAMC	Eastern Caribbean Asset Management Corporation
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GRF	Growth and Resilience Fund
MHI	Mandatory Health Insurance
NCD	Non-communicable disease
NIA	Nevis Island Administration
NPLs	Nonperforming Loans
OECS	Organization of Eastern Caribbean States
PAHO	Pan-American Health Organization
PFM	Public Financial Management
PEP	People Employment Program
REER	Real Effective Exchange Rate
SIDF	Sugar Industry Diversification Foundation
SLSC	Special Land Sales Company
SGBP	State Guaranteed Benefits Package
SKIPA	St. Kitts Investment Promotion Agency
UCS	Universal Coverage Scheme
UHC	Universal Health Coverage
UHI	Universal Health Insurance
UWI	University of the West Indies

RECENT ECONOMIC DEVELOPMENTS

1. Economic growth decelerated marginally in 2017 to 2.1 percent from 2.9 percent in 2016. CBI inflows continued to decline, which slowed growth in construction, and output declined in livestock and fishing, and hotels and restaurants. On the other hand, agriculture and transportation recorded double-digit growth despite the passing of Hurricane Maria. Consumer inflation was low, at 0.4 percent, partly restrained by a small contraction in food prices.

Contribution to Growth

(In percentage points)

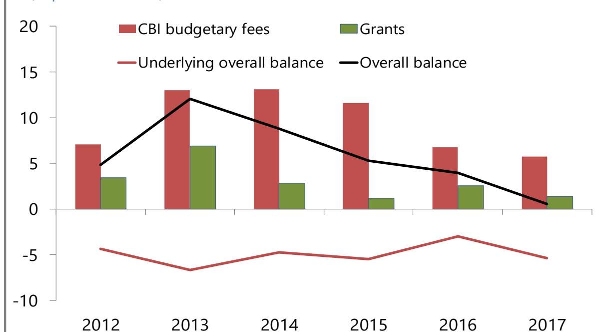


Sources: Authorities; IMF staff calculations.

2. The overall fiscal balance in 2017 remained in surplus at 0.5 percent of GDP, but has deteriorated markedly since its 2013-peak. CBI receipts to the budget were lower, reflecting increased competition in the region and concerns about the integrity of the CBI applicants. Tax revenues were also lower, largely attributable to pervasive exemptions. Total expenditure and its composition were broadly unchanged, as weaker than expected capital expenditure in St. Kitts was offset by an increase in capital expenditure in Nevis. The underlying overall fiscal deficit[1] worsened to 5.4 percent of GDP. The end-2017 debt-to-GDP ratio increased marginally from the end-2016 level at 63 percent.

Fiscal Performance 2012-2017

(In percent of GDP)



Sources: St. Kitts and Nevis Authorities and IMF staff estimates.

3. The current account deficit declined slightly in 2017, but remains high at 10.1 percent of GDP. The decline in CBI receipts was more than offset by growing tourism receipts and a significant decrease in imports, the latter in line with lower foreign direct investment (partly CBI-linked FDI). Foreign reserves at the ECCB remained at comfortable levels (7.7 months of imports), well above the various reserve-adequacy metrics (Annex II).

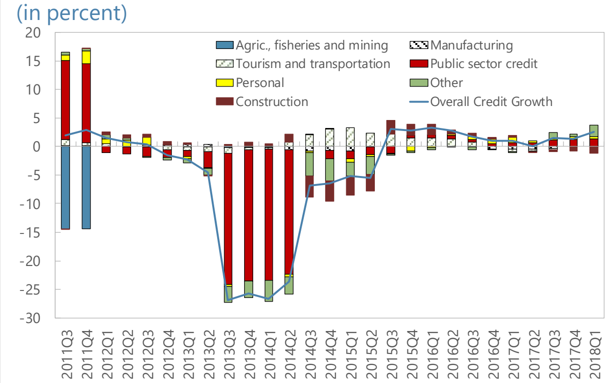
4. Loans and deposits of the commercial banking system continued shrinking in relation to GDP while banks' loan portfolio quality has worsened. Reported capital and liquidity ratios are well above the regulatory minimum but are subject to risks, including those related to delays on finishing the debt-land swap arrangement[2]. Profitability (ROA) has remained

[1] The underlying overall deficit is the general government overall deficit excluding CBI receipts, Sugar Industry Diversification Foundation (SIDF) grants and investment income, and CBI due diligence costs.

[2] This swap resulted from the restructuring of public debt with the indigenous banking system. The swaps took place in July 2013, and August and October 2014 and amounted to over 30 percent of GDP. The government guaranteed a dividend on the value of unsold lands. See also box 2.

near to zero, reflecting limited lending opportunities, a low appetite to expand the customer base and high NPLs. Credit from the banking sector grew by 1.4 percent in 2017[3] while credit unions' (CU) loans increased by an annualized rate of 13 percent between 2012 and 2017. Yet, CUs are relatively small compared to banks, as their total assets in 2017 represented just 4.6 percent of those of the banking system. CUs' loan portfolio is concentrated in personal loans, mainly mortgages. NPLs in the banking sector have significantly deteriorated in 2017[4], and banks failed to raise provisioning in line with the rise in NPLs, although their total loans are relatively small, limiting the impact of NPLs on other performance indicators. Indigenous banks have managed to maintain their Correspondent Banking Relationships (CBRs) during the last year amidst increasing costs and discontinuation of some services, such as US$-checks clearance.

Credit Growth Composition by Sector
(in percent)



Source: IMF Staff calculations, ECCB.

OUTLOOK AND RISKS

5. Economic growth is projected to fluctuate around 3 percent over the medium term under the current policies. Growth is projected to improve to 2.7 percent for 2018 and 3.5 percent in 2019-20 as implementation of FDI projects in the tourism sector accelerates, and decelerate to around 2.7 percent over time as the momentum slows down. The external current account deficit is projected to worsen over the medium term, driven by higher FDI-related imports associated with tourism projects and a tapering of CBI inflows. This will be partially offset by growth in tourism receipts.

6. Risks to the outlook are tilted to the downside (Annex I). Medium-term projections assume a significant decline in CBI inflows, but competition from similar programs and global security concerns could diminish inflows more drastically than assumed in the baseline. Risks to the outlook also include further delays in resolving the debt-land swap and failure to tackle worsening financial sector vulnerabilities; exposure to major natural disasters; a tighter financial environment from higher U.S. interest rates; and spillovers from regional financial challenges, including loss of CBRs. On the upside, stronger CBI inflows from the ongoing reforms, and higher growth in advanced economies could support growth compared to the baseline.

[3] Personal loans and credit to the public sector compensated negative credit growth rates in tourism and construction sectors.
[4] Nonperforming loan ratio increased from 15 percent at end-2016 to 20 percent in the first quarter of this year.

Text Table 1. St. Kitts and Nevis: Medium-Term Outlook

	Avg. 2005-12	2013	2014	2015	2016	Est. 2017	Projections 2018	2019	2020	2021	2022	2023
Output and prices					(Annual percentage change)							
Real GDP (factor cost)	1.2	6.6	9.5	2.7	2.9	2.1	2.7	3.5	3.5	3.0	2.7	2.7
Consumer prices, end-of-period	3.8	0.6	-0.5	-2.4	0.0	0.8	2.0	2.0	2.0	2.0	2.0	2.0
Fiscal Sector						(In percent of GDP)						
Gen. Gov.primary balance	4.8	16.0	11.4	7.3	5.6	2.1	5.1	-1.3	-1.8	-2.2	-2.4	-2.1
Gen. Gov. underlying primary balance 1/	-0.4	3.8	-0.8	-3.5	-0.7	-3.2	-1.8	-3.8	-3.6	-3.7	-3.8	-3.4
Gen. Gov. overall balance	-1.8	12.1	8.8	5.3	4.0	0.5	3.5	-2.8	-3.5	-4.4	-5.0	-5.0
Gen. Gov. underlying overall balance 1/	-4.3	-5.9	-4.8	-5.5	-3.0	-5.4	-4.0	-5.3	-5.4	-5.9	-6.4	-6.3
Citizenship by investment fees to the budget		13.0	13.1	11.6	6.8	5.7	7.4	2.6	2.0	1.6	1.5	1.4
Due diligence fees		0.8	0.9	0.8	0.4	0.4	0.5	0.2	0.1	0.1	0.1	0.1
SIDF contributions to the budget 2/		5.8	1.3	0.0	0.6	0.6	0.6	0.0	0.0	0.0	0.0	0.0
Total public debt (end-of-period) 3/	139.2	101.0	75.2	66.1	61.5	62.9	63.6	63.4	63.3	65.2	67.9	69.0
External Sector												
Current account balance (in percent of GDP)	-17.7	-10.3	-4.5	-9.1	-10.7	-10.1	-9.9	-15.8	-16.2	-15.9	-15.9	-16.0
Current account balance (less CBI) (in percent of GDP)	-19.0	-23.3	-17.7	-20.7	-17.4	-15.8	-17.2	-18.4	-18.2	-17.4	-17.4	-17.4
Imputed reserves (in months of imports)	4.6	7.0	7.4	6.5	7.3	7.7	7.1	6.6	6.3	5.9	5.5	---

Sources: St. Kitts and Nevis authorities, ECCB and IMF staff estimates and projections.
1/The underlying overall (primary) balance is overall (primary) deficit excluding CBI receipts, grants, and Sugar Industry Diversification Fund (SIDF) investment income, and CBI due diligence costs
2/ Includes capital grants and investment proceeds to government.
3/ Reflects debt-land swap equivalent to EC$565 million in 2013 and EC$231 million in 2014.

POLICY DISCUSSIONS

Against the background of vulnerabilities in public debt and the financial sector, and risks associated with the sluggish pace of the sale of lands under the debt-land swap arrangement, discussions focused on measures to safeguard macroeconomic and financial stability, including identifying fiscal adjustment measures, actions to aggressively tackle NPLs, and encouraging progress in completing the debt-land swap. The authorities broadly concurred with staff's policy recommendations; implementation of most of staff's recommendations from the previous Article IV consultations are ongoing (Annex III).

A. Preserving Fiscal and Debt Sustainability

Background

7. The underlying fiscal situation has significant vulnerabilities. The outlook for CBI inflows is uncertain despite the boost from the time-bound Hurricane Relief Fund Option, while the wage bill continues to be high and quasi-fiscal activities of the Sugar Industry Diversification Foundation (SIDF) are becoming increasingly unsustainable (Box 1). SIDF's assets, income, and expenditure responsibilities should be integrated to the general government and income and expenditures to the budget to enhance transparency. If the SIDF's income and expenditure are integrated to the budget starting 2019 as recommended by staff, the underlying overall fiscal deficit would average about 5.8 percent of GDP over the medium-term (2019-2023), as the transfers increase to fund the SIDF's spending commitments, most notably Skills Training Empowerment Program (STEP), which amounts to 1.6 percent of GDP.[5] Assuming the additional

[5] The choice of general government overall balance (excluding CBI receipts) follows a recommendation of the February 2018 FAD TA on fiscal rules.

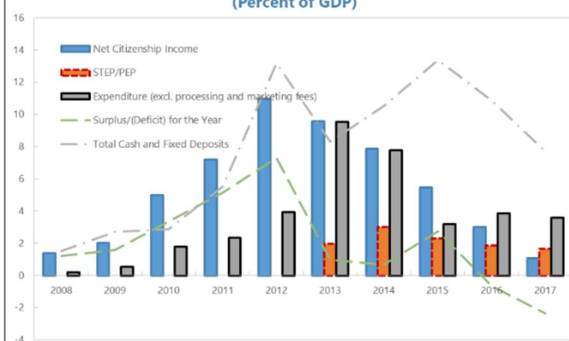
SIDF expenditures are financed by domestic borrowing[6] the debt-to-GDP ratio will rise to almost 70 percent of GDP by 2023. While continued demand for private placements and ample liquidity at the Regional Government Securities Market (RGSM), to which St. Kitts and Nevis has access to but has not utilized, would provide sufficient source for domestic financing in the short term, there could be a risk in the medium-term. Moreover, there is a possibility of a partial reversal of the debt-land swap. The natural disaster risk is also a concern.

Box 1. Rise and Fall of the SIDF

The SIDF was established in 2006 following the closure of the sugar industry. Its original mandate was to support the development and diversification of the economy by providing training and conducting research. The mandate was expanded in 2011 to include support to the government's efforts to diversify the economy and maintain stability, and to finance or undertake the developments of new and existing industries, projects or enterprises.

Booms in CBI inflows led to expansion of quasi-fiscal activities and cash accumulation. As the revenue from the CBI income increased in early 2010s, part of the revenue supported government activities by providing grants to capital investment projects and supporting social and economic spending, including a vocational training program and subsidies to the St. Kitts Electricity Company (SKELEC). Significant cash and deposits were also accumulated, although part of the deposits was tied to funding of government initiatives such as subsidized housing and SME lending programs.

SIDF Selected Indicators
(Percent of GDP)



Sources: SIDF and IMF staff estimates.

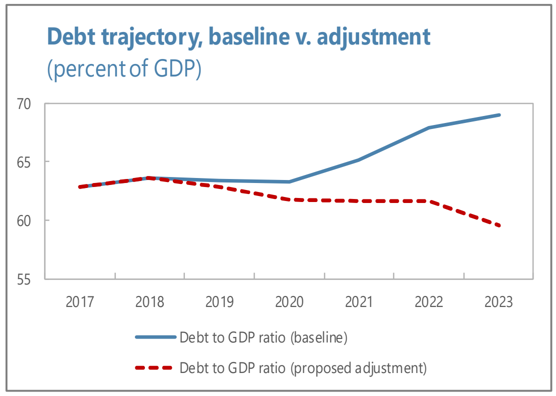
Plummeting revenue led to a significant deterioration in the SIDF's balance. The overall decrease in CBI inflows was compounded by the shift away from the SIDF option to the other options within the CBI program. There was a moderate decrease in expenditure, including some restructuring of the vocational training program, but it was not nearly enough to offset the rapid decrease in income. As a result, its overall balance turned negative in 2016 and further worsened in 2017. Its cash holding also started to shrink.

The SIDF has transparency issues. Established as a private foundation, there was no formal requirement to publish SIDF's audited financial statements, and audited accounts are available only up to 2011. The authorities agreed that a comprehensive strategy is required for the way forward with the SIDF including the determination of the expenditures and revenues that could be transferred to the Federal Government's budget and are in the process of auditing financial statements for more recent years. Once this audit is complete, a report on SIDF's audit results and activities should be prepared.

[6] Staff recommends that fiscal buffers be aimed at covering the costs of natural disasters and possibly tackling vulnerabilities at the state-owned bank.

Policy Recommendations

8. Staff recommends a 4 percent of GDP adjustment in the primary balance (excluding CBI-related receipts) in 2019-23. This will reverse the debt dynamics and ensure that the debt-to-GDP ratio reaches 60 percent by 2023 well ahead of the ECCB's target for 2030.[7][8] The 4 percent of GDP adjustment in the primary balance would result in the improvement of the underlying overall fiscal deficit, which is the operational target, improving to 3.3 percent of GDP in 2023 in the proposed adjustment scenario, as opposed to 6.3 percent of GDP in the baseline.[9] After reaching the target, the authorities should continue to build fiscal buffers against future shocks.



Text Table 2. St. Kitts and Nevis: Fiscal Balances and Public Debt Trajectories
(In Percent of GDP)

	Est.		Projections				
	2017	2018	2019	2020	2021	2022	2023
Overall balance 1/2/	0.5	3.5	-2.8	-3.5	-4.4	-5.0	-5.0
Underlying overall balance 1/2/	-5.4	-4.0	-5.3	-5.4	-5.9	-6.4	-6.3
Underlying overall balance (proposed adjustment)			-4.8	-4.4	-3.9	-3.9	-3.3
Debt to GDP ratio (baseline)	62.9	63.6	63.4	63.3	65.2	67.9	69.0
Debt to GDP ratio (proposed adjustment)	62.9	63.6	62.9	61.7	61.6	61.7	59.6
Public Gross Financing Needs (baseline)	16.3	11.9	18.1	18.2	18.6	20.2	22.2

1/ It is assumed that the activities of the SIDF will be integrated to the general government in 2019.
2/ Overall balance is the general government overall balance, and underlying overall balance is the general government underlying overall balance as defined in footnote 1 of the main text.

9. The adjustment should encompass both revenue and expenditure measures. Streamlining tax incentives and restructuring of activities funded by the SIDF, especially the STEP should be the main measures. Staff recommends streamlining tax incentives including: replacement of tax holidays by investment allowances, a ceiling on the value of imports that enjoy preferential tax treatment for each phase of the project, and cutting back or eliminating border exemptions for taxis, restaurants, and duty-free shops. Transparency should be enhanced by requiring that tax concessions or tax expenditures be part of annual fiscal reporting. The STEP program, which remains an employment program that pays the minimum wage to program participants without time limits, should be integrated into the national training system, and

[7] However, the required fiscal adjustment would be higher if CBI revenues are lower than projected and not sufficient to meet the annual budgetary contribution to the GRF (see paragraph 12).

[8] Fiscal multipliers in the OECS/ECCU region is small. A recent study suggests that the impact multiplier is 0.2 but is not statistically significant.

[9] Given the projected 1.5 percent of GDP CBI receipts in 2023, this implies -1.8 percent general government overall balance in 2023 for the adjustment scenario.

should be recast as a one-year time-bound internship program. In addition, the wage bill should be contained by establishing a predictable multi-year wage determination framework that ensures alignment between public and private sector wages and gradually reduces the wage bill in percent of GDP. This framework should be supported by implementation of the remaining civil-service reform priorities and precludes ad-hoc 13th month bonuses.

Proposed Fiscal Adjustments to Achieve 60 percent of GDP debt-to-GDP ratio by 2023
(In percent of GDP)

Proposed Adjustments over 5 years (2019-23)	**4.0**
Streamline tax incentives	**2.3**
Replacement of Tax Holidays by Investment Allowance	0.4
Ceiling on the value of imports with preferential tax treatment	1.3
Elimination of border exemptions for taxis and restaurants	0.05
Reduction of Duty free shops exemptions	0.5
Restructuring of STEP program	**1.2**
Contain wage bill: predictable wage determination and civil service reform	**0.5**

10. Macro-financial linkages pose potential fiscal risks. Staff analysis shows that banks would remain sufficiently capitalized over the medium term as they adopt the more stringent provisioning and valuation regimes established by the ECCB. However, there is a risk that the land related to the debt-land swap will not be sold as envisaged or that prices may be lower than anticipated, which could lead to a complex situation for the banking system as well as the government (Box 2). Discussions with the authorities and the real estate sector suggest that it might be challenging to sell all the land in the medium term. In such a situation, one option would be to partially reverse the swap, which would raise public debt (Annex IV, paragraph 5). In this case, an additional fiscal adjustment would be required to counter the shock and ensure the debt-to-GDP ratio will reach 60 percent in the medium term.

Box 2. The Debt-Land Swap Arrangement

In 2013 and 2014, the government of St. Kitts implemented a debt-land swap agreement as a key component of a debt restructuring program supported by an IMF program. Under this agreement, the banking system, which held about 31 percent of total government debt (around 50 percent of GDP), received land from the government in exchange for debt relief. This resulted in an over 30 percent of GDP reduction in the debt stock. A special purpose vehicle (Special Land Sales Company, or SLSC) was set up to sell the land and remit funds received from the sales. Progress in land sales have been slow so far, however. Capacity constraints of the SLSC and the difficulties in pricing could be some of the reasons for the slow sale, as any sale below a certain threshold price needs to be approved by the government, which would be required to transfer additional land to the bank to compensate for the lower sales revenue.

11. Staff recommends that a formal fiscal responsibility framework should support the proposed fiscal adjustment and ensure long-term debt sustainability. The framework would establish a long-term fiscal anchor at 60 percent of GDP and general government overall balance (excl. CBI-related receipts) as an operational target, complemented by clearly and narrowly defined escape clauses. Given that the current level of debt-to-GDP ratio is above 60 percent, the operational target path up to 2023 should follow the proposed adjustment scenario described above. These rules should be supported by enhanced institutional frameworks, including fiscal strategy statements and clarification of revenue-sharing and transfer mechanism with the local government.

12. A Growth and Resilience Fund (GRF) should be established as soon as possible. This would be tightly linked to the fiscal responsibility framework to ensure savings from past CBI revenues are used to maintain fiscal buffers to cover the cost of natural disasters. The initial capital of the GRF could be around 20 percent of GDP and funded by transferring part of the government's deposits. Following the initial capitalization, the proposed fiscal responsibility framework would dictate the inflows of and access to the GRF. At a minimum, an annual contribution in line with the average fiscal cost of natural disasters should be made irrespective of the level of CBI revenues. Annual costs of natural disasters that accrue to the public sector have been 1.9 percent of GDP on average for 1980-2017. While part of the cost can be borne by the contingency fund that already exists in the budget, the rest of the cost should be borne by the GRF. Annual contribution to the GRF should be at least 1 percent of GDP to avoid its depletion. If fiscal surpluses, likely derived from CBI revenues, are generated, the additional resource could be contributed to the GRF or used to pay down debt. Access to the GRF should be allowed to (i) respond to adverse shocks without debt accumulation; and (ii) support resilience-enhancing investment projects subject to clearly-defined criteria and risk controls. The GRF should have a simple sovereign-wealth-fund structure operating as a financing fund in line with international best practices and should not directly engage in fiscal activities. Its investment strategy should favor placing funds abroad in principle for risk diversification purposes, but consideration for financial stability is paramount in the short term. To ensure transparency, the GRF's activities should be reported semi-annually to the National Assembly.

13. Other fiscal risks also need to be monitored. The authorities launched the national health insurance commission in February 2018 to introduce the Universal Health Care (UHC) and continue to work with the University of West Indies Health Economics team on the design of the UHC, although the costing and funding of the scheme is not yet available. Staff reiterated the message that the scheme should be carefully calibrated to achieve its goals and limit risks to fiscal sustainability. Monitoring of SOEs remains weak despite the ongoing PFM reforms and weaknesses in PFM capacity continue at NIA.

Authorities' Views

- The authorities broadly concurred with staff recommendations. They agreed to consider bringing the SIDF expenditures on budget together with the revenues in the context of a comprehensive strategy. They also agreed with staff on the need to strengthen the medium-term fiscal framework through the development and implementation of a fiscal adjustment strategy over the medium term but disagreed with staff on the operational target. The authorities reiterated[10] their preference to target the general government balance that includes a proportion of the CBI receipts and did not accept staff's proposal to target the general government balance excluding CBI receipts. On specific fiscal adjustment measures, the authorities confirmed their commitment to continue to reduce the level of concessions and would explore the practicality of developing an incentive strategy based on the recent Technical Assistance Report produced by the Fiscal Affairs Department. Despite political difficulties, the authorities are committed to continue efforts to streamline the STEP initiative as part of the overall strategy to address the unsustainable quasi-fiscal activities of the SIDF. They wanted to establish a more predictable system for public sector pay-packages to better manage the wage bill, and have requested a Fund TA. They reiterated their intention to establish the GRF and use it to manage the revenue from the Sustainable Growth Fund, a new option of the CBI program launched in April. They expressed their hope that they would soon be in receipt of the final TA report on the GRF from the Fund.

B. Financial System at a Crossroads

St. Kitts and Nevis: Banking Sector Soundness Indicators' Map 1/ 2/ 3/

St. Kitts and Nevis	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4
Overall Banking Sector Rating	M	M	M	M	L	M	M	M	L	L	L	L	L	L	L	M
Credit cycle	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Change in credit / GDP ratio (pp, annual)	(7.3)	(4.9)	(5.1)	(3.2)	(1.1)	(0.4)	0.9	0.0	0.8	(0.6)	(1.1)	(1.1)	(0.7)	(1.5)	(0.7)	(1.3)
Growth of credit / GDP (%, annual)	(10.7)	(7.5)	(7.9)	(5.0)	(1.8)	(0.6)	1.5	0.1	1.3	(1.0)	(1.9)	(1.9)	(1.1)	(2.5)	(1.2)	(2.1)
Balance Sheet Soundness	M	M	M	M	L	M	M	M	L	L	L	L	L	L	L	M
Balance Sheet Structural Risk	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
Deposit-to-loan ratio	258.0	252.5	274.5	279.1	292.5	291.0	287.2	266.7	273.5	272.3	269.3	265.1	269.2	265.1	255.4	251.5
FX liabilities % (of total liabilities)	24.9	24.5	26.2	26.8	28.5	27.9	29.2	26.2	26.5	25.6	26.1	26.8	27.6	26.2	26.3	26.5
FX loans % (of total loans)	10.6	12.1	15.0	17.4	18.5	19.2	20.5	21.4	20.9	22.0	21.4	21.6	22.7	22.6	22.1	21.1
Balance Sheet Buffers	M	M	M	M	L	M	M	M	L	L	L	L	L	L	L	M
Leverage	L	L	L	L	L	L	L	L	M	L	L	L	L	L	L	L
Leverage ratio (%)	8.4	8.4	8.6	8.0	7.5	7.7	7.4	7.4	6.8	7.5	8.1	7.9	8.1	8.1	8.5	8.4
Profitability	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L	L
ROA	0.9	0.7	0.7	0.6	0.7	0.7	0.7	0.8	0.7	0.8	0.9	0.9	1.0	1.0	0.9	0.8
ROE	9.8	7.6	8.3	7.5	8.3	8.7	8.9	10.3	10.1	11.3	12.3	12.1	12.8	12.4	10.7	9.5
Asset quality	H	H	H	H	L	H	H	H	L	M	M	L	L	M	L	H
NPL ratio	17.5	11.5	12.6	12.7	16.6	15.4	15.5	15.5	15.8	15.8	17.8	14.7	14.8	16.4	16.5	20.5
NPL ratio change (%, annual)	71.3	65.4	23.6	18.8	(5.3)	34.6	22.5	22.1	(4.8)	2.7	14.9	(5.1)	(6.1)	3.7	(7.4)	39.6
Memo items 4/:																
Regulatory capital to risk-weighted assets (CAR)	33.0	30.7	29.6	26.5	25.3	24.7	25.3	22.5	20.8	22.0	22.8	22.8	24.7	25.1	26.8	27.4
Regulatory Tier 1 capital to risk-weighted assets	33.1	29.5	30.5	27.3	25.8	26.4	27.8	24.6	24.1	23.2	23.8	23.9	23.4	23.0	26.2	26.3

Source: ECCB and IMF staff calculations.

1/ Red, orange and green cells represent high, medium and low risks, respectively.

2/ The indicators do not reflect the forthcoming prudential regulations or the introduction of IFRS9 and thus the map can potentially understate the provisioning needs and related risks.

3/ Heatmap vulnerability indicators qualify more negatively financial systems with higher credit growth, higher exposure to FX, lower leverage ratio, negative profitability and higher NPLs.

4/ Corresponds to indigenous banks only.

14. **Weakening conditions in the banking system raise concerns.** The banking sector soundness indicators worsened in 2017Q4 from low to medium risks, but asset quality deteriorated sharply on account of a small number of relatively large CBI real estate projects that went into default. The ECCB conveyed they are closely monitoring the situation, and that action is being taken to resolve the large loans that account for bulk of the NPLs by end of the year, including loan restructuring, assets sales, and adequate provisioning. However, foreclosure

[10] The authorities emphasized that they had raised their concerns on staff's proposed operational target in previous Article IV consultations.

processes face both administrative rigidities (e.g. at least one year to take foreclosure cases to court) and legislative rigidities such as the imposition of having at least 3 bids in auctions. Other measures to enhance credit quality in general are planned to be implemented this year, including preventive measures to improve asset quality such as training of current staff on credit risk management, and the establishment of recoveries units within some banks. In addition, the implementation of new prudential regulations on valuation and provisioning[11] and introduction of IFRS9 reporting standards, are expected to reduce the relatively comfortable reported capitalization levels (at 27.4 percent) but they are expected to remain above the 8 percent regulatory minimum. Some other measures that would help strengthen the financial sector, such as the operationalization of the ECAMC, credit bureau, and modern foreclosure and insolvency legislations, are still pending.

Authorities' Views

- The ECCB and the authorities concurred that securing the stability of the financial sector is key. They mentioned that the ECCB was actively monitoring developments in the banking system and the effectiveness of the NPL reduction strategy, while ensuring that banks step up efforts to improve their performance.

15. Stepped up land sales are needed to limit financial risks. To date, and after 4 years since the debt/land swap arrangement was approved, only a small portion of the lands has been sold affecting the asset composition of banks. The Special Land Sales Company (SLSC), the exclusive entity in charge of the sales, reported that four sales totaling less than 10 percent of the total lands have been completed.[12] The SLSC faces capacity constraints and needs to prepare a time-bound (up to five years) strategic plan for land sales supported by an aggressive marketing strategy. Additional suggested actions to market the lands include: signing agreements with real-estate agents, enhancing a website, and establishing strategic partnerships with the Citizenship-by-Investment Unit (CIU) and St. Kitts Investment Promotion Agency (SKIPA). At the same time, the SLSC should be strengthened and receive additional resources. In the short term, the SLSC expects to fill the CEO position and hire additional staff to support promotion efforts.

16. A reclassification of the debt-land-swap lands in the balance sheet of banks limits the time to carry out the sale of lands. The ECCB has required reclassification of the claim related to the debt-land swap from financial to fixed assets.[13] This will require that the lands be

[11] The prudential regulation on valuation was implemented in July and the regulation on provisioning is scheduled for October 2018.

[12] The total value of the land amounts to about 23 percent of total assets of the banks involved in the debt-land swap arrangement. According to the terms of the debt/land swap agreement, the banking system would not be exposed to any valuation losses/gains. If the lands are sold for less than the initial valuation, the government is obligated to transfer additional lands to make up for the shortfall. The banking system does not stand to benefit should the lands be sold for more than the initial value either.

[13] Staff estimates indicate that with a 100 percent risk-weight parameter applied to the unsold lands of the debt-land swap arrangement, and assuming the banking system should reach a provisioning to NPLs ratio of at least 60 percent, CAR would decrease from 28 percent to 15 percent, still above the 8 percent regulatory minimum.

sold within a timeframe of 5 years or be fully provisioned, consistent with ECCB regulation.[14] Meanwhile, a dividend payment equivalent to 2.75 percent on the value of the unsold lands has been guaranteed up to 2019.

Authorities' Views

- The authorities agreed with staff that stepped-up land sales are needed to protect the financial and fiscal sectors from contingent liabilities, and that a time-bound plan should be developed and aggressively implemented possibly with assistance from regional real estate companies. The authorities are targeting completing land sales in a five-year timeframe.

17. Staff welcomed that the banking system has managed to preserve Correspondent Banking Relationships (CBRs). Banks have preserved their CBRs, although at increasing costs. Difficulties to increase the numbers of CBRs are apparently more related to the low volume and value of transactions of the banks rather than to concerns on AML/CFT compliance. To prevent future risks, staff encouraged the authorities to continue to support ongoing efforts to move forward with legislation to transfer AML/CFT supervisory powers to the ECCB, while continuing their efforts to bring the AML/CFT regime in line with the 2012 FATF standard[15].

18. The 2016 update safeguards assessment found that the ECCB continues to maintain a governance framework that provides for independent oversight. The bank has made progress in implementing the assessment's recommendations, including on strengthening the Audit Committee's financial expertise. The external audit and financial reporting remain in accordance with international standards.

19. Given its growing importance, the non-bank financial system needs a stronger regulatory framework. Credit Unions, which are small compared to banks, have relatively low levels of NPLs (4 percent) and low profitability (ROA equal to 2 percent). However, their rapid expansion, likely driven by regulatory arbitrage given tighter bank credit standards, favorable taxation, and a looser regulatory environment, calls for a strengthened regulatory framework. Notwithstanding, the Financial Services Regulatory Commission (FSRC) is applying risk-based supervision to credit unions and insurance companies, and according to recent data and discussions, there is no major exposure or interlinkages between banks and non-banks except for a limited amount of deposits that credit unions hold at commercial banks.

Authorities' Views

- The authorities reaffirmed their intention to continue working to have the AML/CFT framework in compliance with international standards on transparency and exchange of

[14] Under Section 55(3) of the Banking Act for the ECCU, fixed assets need to be sold within five years of acquisition.

[15] If non-bank financial regulation is transferred to a regional supervisor, as currently planned, this institution should include AML/CFT supervisory powers.

tax information including the OECD's peer review on Base Erosion and Profit Shifting (BEPS) and other international partners. Also, they agreed to continue strengthening the transparency and reputation of the CBI program. About the non-bank financial sector, the authorities expressed their commitment to continue applying risk-based supervision and fully support the regional initiative to establish a single regulator by 2021.

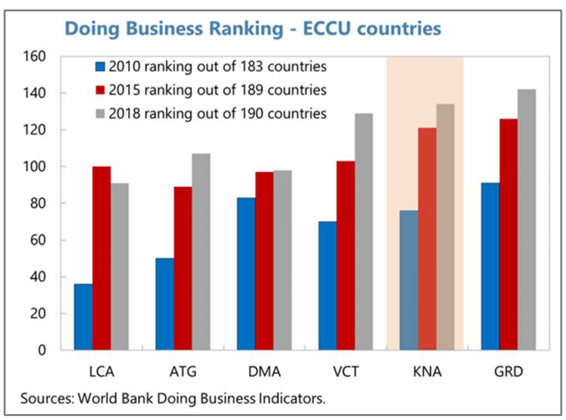
C. Strengthening Competitiveness and Boosting Growth

20. The external position is weaker than implied by fundamentals and desirable policies (Annex II). EBA-lite models point to a real exchange rate overvaluation. Results from the Current Account model of the EBA-Lite point to a significant and positive REER gap, while results from the REER Model point to only a 1.4 percent overvaluation. Various non-price indicators also signal competitiveness challenges. Weak doing business indicators, high energy costs, significant infrastructure gaps, a relatively high minimum wage, and a small domestic market coupled with high import duties and expensive intraregional travel, considerably hinder competitiveness. Regarding the doing business indicators, St. Kitts and Nevis ranks particularly low on accessing credit, registering property, and resolving insolvency. In addition, rising nominal wages amidst weak productivity growth, has significantly increased unit labor costs (Annex II).

St. Kitts and Nevis: External Sector Assessment

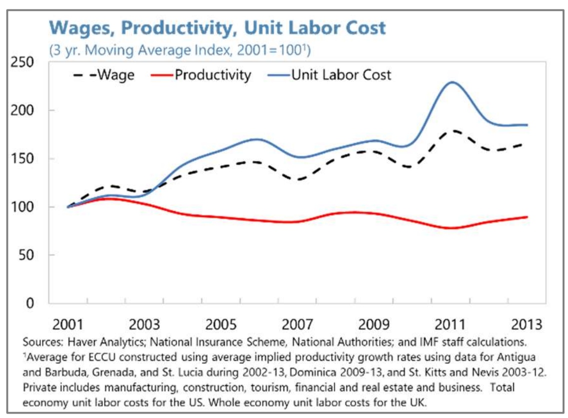
		Current Account Balance					REER Gap
		Norm 2/	2017 Actual	Gap	Policy Gap	Residual	3/
EBA-lite	CA Model 1/	-5.0	-10.1	-5.1	-2.0	-3.1	**13.5**
	REER Model						**1.4**

1/ Percent of GDP.
2/ Norm estimate includes modest CBI inflows equivalent to 2% of GDP out to the medium term.
3/ Positive number indicates overvaluation.



Doing Business Ranking - ECCU countries

Sources: World Bank Doing Business Indicators.



Wages, Productivity, Unit Labor Cost
(3 yr. Moving Average Index, 2001=100[1])

Sources: Haver Analytics; National Insurance Scheme, National Authorities; and IMF staff calculations.
[1]Average for ECCU constructed using average implied productivity growth rates using data for Antigua and Barbuda, Grenada, and St. Lucia during 2002-13, Dominica 2009-13, and St. Kitts and Nevis 2003-12. Private includes manufacturing, construction, tourism, financial and real estate and business. Total economy unit labor costs for the US. Whole economy unit labor costs for the UK.

21. Reducing economic volatility and spreading the benefits of economic growth are also key challenges. As a small economy almost exclusively dependent on tourism exports, St. Kitts and Nevis remains vulnerable to shocks to this sector. Although there is no robust evidence that the export dependence on tourism hinders long term growth in ECCU countries[16], developing additional sources of growth would reduce income volatility. And despite high economic growth in recent years, a significant share of the population remains under poverty and a very high crime rate further erodes social welfare.

22. A comprehensive strategy is needed to strengthen competitiveness and boost economic growth, as well as to develop new sources of growth and increase growth inclusiveness. There are key challenges and policy priorities that the authorities should consider in this regard:

- **Improving the business environment.** Ongoing efforts to expedite business registration, introduce a uniform commercial code to allow for broader assets to be used as collateral, establish a credit bureau, an SME partial-credit-guarantee scheme, and revise the foreclosure legislation should be promptly finalized to strengthen the weak business environment.

- **Strengthening labor productivity and avoiding wage setting rigidities.** Amidst rising unit labor costs, the government should aim to upgrade skills through targeted training programs and better aligning the STEP program and the education system with the needs of the labor market including developing skills in the tourism and hospitality sector. Current proposals for a hospitality training institute would help enhance human capital in the tourism sector. The authorities should also promote an environment in which wages grow in line with productivity. Thus, they should ensure that the new labor code currently being drafted and soon to be submitted to cabinet for consideration avoids imposing rigidities in the wage setting process.

- **Fostering growth in tourism and economic diversification.** Efforts to attract investment on tourism through the CBI program and the ongoing development of the second cruise pier and airport rehabilitation are key to facilitate further tourism expansion. The authorities could further promote other sources of growth by fostering backward linkages to agriculture from tourism and channel CBI inflows to additional target areas (for example, renewable energy, health, and education). Given the small size of the domestic market, economic growth and diversification also requires increased connectivity to regional and international markets, including through lower regional import duties, more competitive intra-regional air travel, and development of intra-regional maritime transportation[17].

[16] McIntyre and others, 2018, "Economic Benefits of Export Diversification in Small States," IMF Working Paper No. 18/16, Washington DC.

[17] In this regard, the authorities could consider joining the World Bank's "OECS tourism competitiveness project", which includes the development of an intraregional ferry connecting Grenada, St. Lucia, and St. Vincent and the Grenadines.

- **Pursue inclusiveness.** The authorities should continue to improve targeting of social programs, including by expanding the conditional cash transfer program and preserve ongoing efforts to reduce crime through enhanced security and community-related programs.

- **Improving the availability and quality of data needs to be prioritized.** In addition to the strengthening of the balance of payments, national accounts, and labor market and social statistics data that are ongoing with technical assistance, tourism sector data needs to be enhanced for the effective use of marketing resources and further development of the sector.

23. Staff recommends strengthening the anti-corruption framework and effectively prevent and detect the laundering of proceeds of corruption. The operationalization of the Integrity Commission is a positive step in enhancing governance and staff urges that the appointment of the 3-person Commission be finalized on schedule. The Anti-Corruption Bill could be taken forward to complement the already legislated Integrity in Public Life Act. Building on that momentum, the authorities should also consider other measures to bring the declaration of interest regime in line with best practices. This would facilitate the detection of illicit enrichment and increase the effectiveness of the AML/CFT framework to address the laundering of proceeds and corruption. Consideration should also be given to becoming a party to the United Nations Convention against Corruption and ensuring its implementation, including the criminalization of all acts of corruption.

Authorities' Views

- The authorities agreed that efforts to continue to strengthen the business environment are critical to economic growth and have focused on priority areas such as accessing credit, registering property, and resolving insolvency. Regarding the drafting of the new labor code, they noted the existence of a triparty mechanism involving the government, unions, and private sector, to develop a common understanding on productivity and competitiveness. The authorities also acknowledged the need to better align the STEP program and the education system with the needs of the labor market including developing skills in the tourism and hospitality sector. Current proposals have been put forward for a hospitality training institute which will help to enhance human capital in the tourism sector. The authorities emphasized the need to improve the quality, timelines and reliability of tourism statistics to better inform policy decisions. The issue of crime continues to be of concern to the government and they have emphasized that safety and security must be of paramount importance to effectively implement measures to deal with crime. To this end the government will continue to support the work of the security services, to expand the CCTV program and to allocate more technical resources to the protection and legal system.

- As part of St. Kitts and Nevis' Good Governance Agenda the government has fully implemented the Integrity in Public Life Act which makes provision for a Code of Conduct and declarations of interest for public officials. Additionally, an Integrity Commission has been established and members selected. The authorities pointed out that these actions to strengthen governance, including the recently passed Freedom of Information Legislation and the Data Protection Bill, would improve the business environment and encourage private sector activities.

STAFF APPRAISAL

24. Economic performance continued to moderate in 2017. Growth moderated reflecting the slowdown in CBI receipts and related construction activity. Lower CBI receipts were also a key factor contributing to a narrowing of the overall fiscal surplus and a significant widening of the current account deficit. At the same time, the public debt-to-GDP ratio, while still lower than ECCU peers, increased marginally in 2017. Banks' reported capital and liquidity continue to remain above regulatory requirements, but face risks from the slow progress in land sales and worsening financial sector vulnerabilities, including high NPLs. Growth is expected to average around 3 percent in the medium term. However, key risks to the outlook include a sharper drop in CBI inflows, further delays in completing the sale of lands under the debt-land swap arrangement, loss of CBRs, and a stronger U.S. dollar.

25. A 4 percent of GDP adjustment in the primary balance (excluding CBI-related receipts) in 2019-23 is necessary to reverse debt dynamics. On current policies, public debt is expected to increase over the medium term, as revenue from the Citizenship-by-Investment (CBI) receipts declines sharply and expenditure increases when previously-off budget expenditure by the Sugar Industry Diversification Foundation (SIDF) will be integrated to the budget. The adjustment should encompass both revenue and expenditure measures and streamlining tax incentives and restructuring of activities funded by the SIDF should be the main measures. Transparency should be enhanced by requiring that tax concessions or tax expenditures be part of annual fiscal reporting. In addition, the wage bill should be contained by establishing a predictable multi-year wage determination framework that precludes ad-hoc 13^{th} month bonuses, supported by implementation of the remaining civil-service reform priorities.

26. A Growth and Resilience Fund (GRF) should be established as soon as possible. This would be tightly linked to the fiscal responsibility framework to ensure savings from past CBI revenues are used to maintain fiscal buffers to cover the cost of natural disasters. The proposed fiscal responsibility framework would dictate the inflows of and access to the GRF. If fiscal surpluses, likely derived from CBI revenues, are generated, the additional resource could be contributed to the GRF or used to pay down debt. Access to the GRF will be allowed to (i) respond to adverse shocks without debt accumulation; and (ii) support resilience-enhancing investment projects subject to clearly-defined criteria and risk controls. The GRF should have a simple sovereign-wealth-fund structure operating as a financing fund in line with international best practices and should not directly engage in fiscal activities. Its investment strategy should favor placing funds abroad in principle for risk diversification purposes, but consideration for financial stability is paramount in the short term. To ensure transparency, the GRF's activities should be reported semi-annually to the Parliament.

27. The authorities should support implementation of remedial measures to resolve high NPLs and efforts by the ECCB to monitor banks' capital to preserve asset quality of the banking system. The authorities should encourage efforts by the ECCB to monitor the capitalization levels of the banking system, to ensure successful implementation of the NPL reduction strategy and in view of the implementation of IFRS9 and new prudential regulations on provisioning and valuation this year. In the medium term, the authorities should encourage the effort at the ECCU level to operationalize the Eastern Caribbean Asset Management Corporation (ECAMC), establish a credit bureau, and strengthen foreclosure and insolvency legal frameworks, as they would help improve asset quality and prevent future NPLs, while boosting credit to the private sector.

28. Macro-financial linkages pose potential fiscal risks. Moderate risks to the banking sector are related to overall low profitability and high NPLs. The increase in NPLs in the banking sector by end-2017 is related to a small number of relatively large loans that went into default. Over the medium term, there is a significant risk that the land related to the debt-land swap will not be sold as envisaged or that prices may be lower than anticipated, which could lead to a complex situation for the banking system as well as the government. It is likely that a significant share of the land will remain unsold. In these circumstances, one option would be to partially reverse the swap, which would significantly raise public debt. This would require an additional fiscal adjustment to counter the shock and ensure the debt-to-GDP ratio will reach 60 percent in the medium term.

29. The sale of lands under the debt-land swap arrangement must continue to protect the financial and fiscal sectors from contingent liabilities. To speed up the pace of progress, a time-bound plan should be developed, aggressively implemented, and supported by strong marketing efforts. Additional suggested actions to market the lands include: signing agreements with real-estate agents, enhancing a website, and establishing strategic partnerships with the Citizenship-by-Investment Unit (CIU) and St. Kitts Investment Promotion Agency (SKIPA). At the same time, the SLSC should be strengthened and receive additional resources. The renewal of the dividend-guarantee agreement with banks is welcome, as a measure to limit negative impacts to the financial sector.

30. The authorities should be vigilant to CBR risks, continue efforts to enhance AML/CFT regime and strengthen transparency of the CBI program. It is encouraging that the banking system has managed to preserve CBRs. However, to prevent future risks, the authorities should continue to support ongoing efforts to move forward with the legislation to transfer AML/CFT supervisory powers to the ECCB, while continuing their efforts to bring the AML/CFT regime in line with the 2012 FATF standard and ensure a risk-based supervision, especially by continued strengthening of national AML/CFT supervisory efforts. Additional measures, such as strengthening the governance and transparency of the CBI program, and increasing information-sharing between indigenous and correspondent banks are also encouraged. In addition, risk-based supervision, including in the non-bank financial sector, should continue to minimize emerging risks.

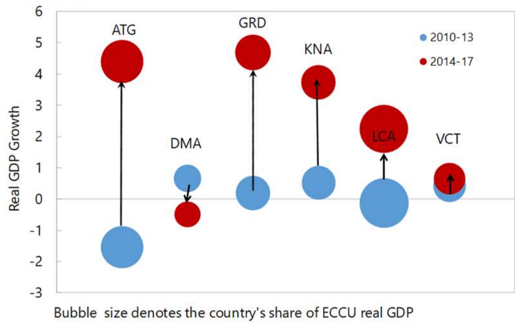
31. A comprehensive reform strategy is needed to overcome persistent structural challenges that continue to limit the potential for inclusive growth. The staff's external assessment based on a broad set of competitiveness indicators points to competitiveness challenges. Ongoing efforts to improve the ease-of-doing business, support skills development, promote growth in tourism and other sectors, and support inclusive growth are welcomed. To complement these efforts towards higher and inclusive growth the authorities should ensure the new labor code avoids creating rigidities and promotes higher integration through lower trade policy barriers and more efficient intraregional travel. Urgent attention is needed to improve the availability and quality of data, which is key to assessing macroeconomic, financial, and social vulnerabilities and facilitating effective policymaking. Similarly, it is important to strengthen the anti-corruption framework and detect the laundering of proceeds of corruption.

32. Staff recommends the next Article IV consultation with St. Kitts and Nevis take place on a 12-month cycle.

Figure 1. St. Kitts and Nevis: Regional Context

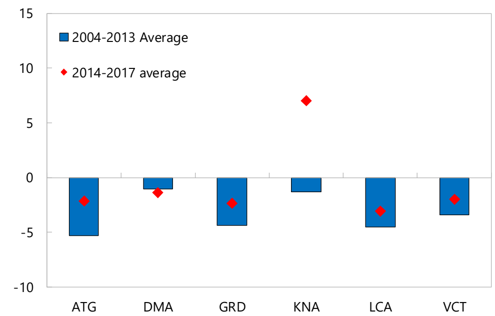
St. Kitts and Nevis enjoyed one of the strongest economic recovery in the region…

Real GDP Growth and Share of the ECCU
(In percent)



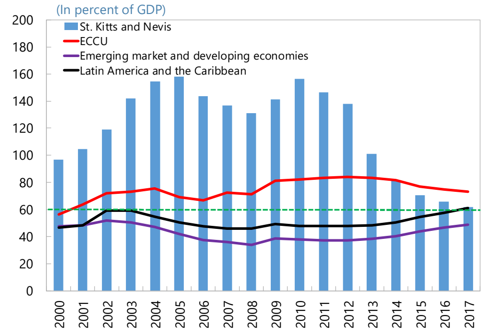
…together with the strongest fiscal balance, on the back of large CBI receipts to the budget.

Overall Fiscal balance
(In percent of GDP)



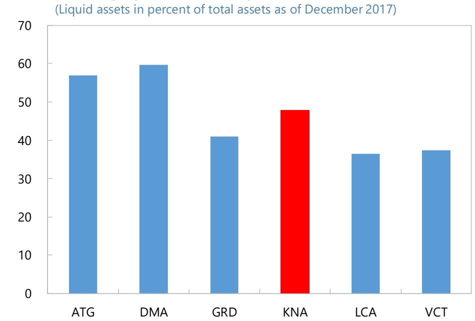
successful debt restructuring (including the debt-land swap) and early debt repayments decreased public debt.

Public Debt
(In percent of GDP)



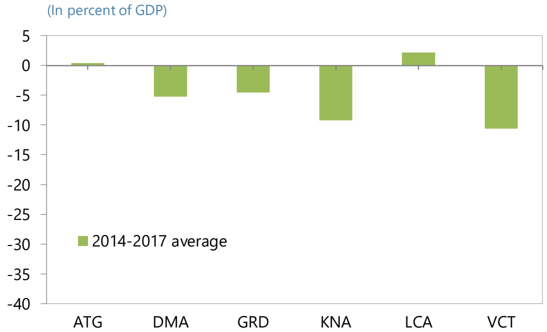
The banking system remains the third most liquid in the region.

Banking System Liquidity
(Liquid assets in percent of total assets as of December 2017)



Estimated current account deficit is sizable, notwithstanding the large CBI service fees to government…

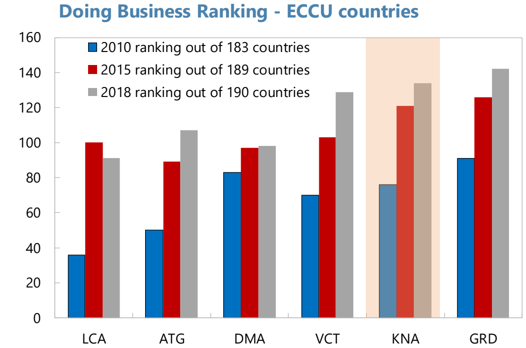
Current Account Balances
(In percent of GDP)



Sources: ECCB, authorities and IMF staff estimates.

…while the business climate is one of the weakest and has been worsening.

Doing Business Ranking - ECCU countries

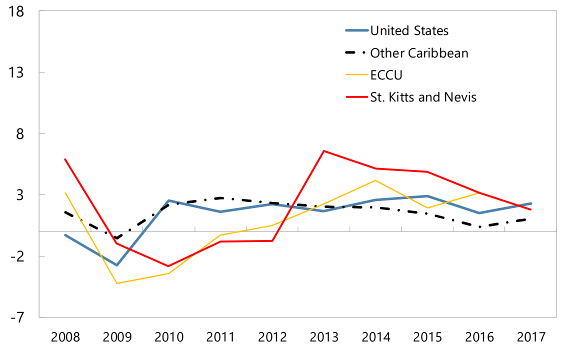


Sources: World Bank Doing Business Indicators.

Figure 2. St. Kitts and Nevis: Real Sector Developments

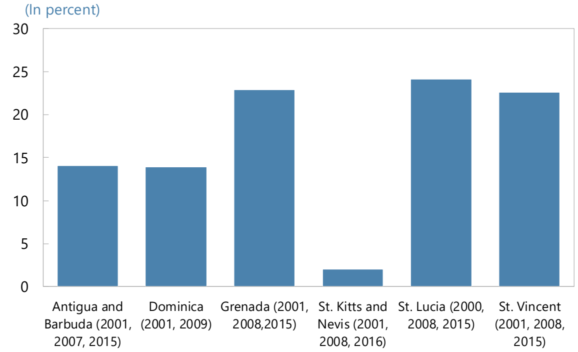
Growth continued to slow down in 2016 although remains higher than peers and key trade partners…

Real GDP Growth
(In percent)



…and unemployment remains the lowest in the region.

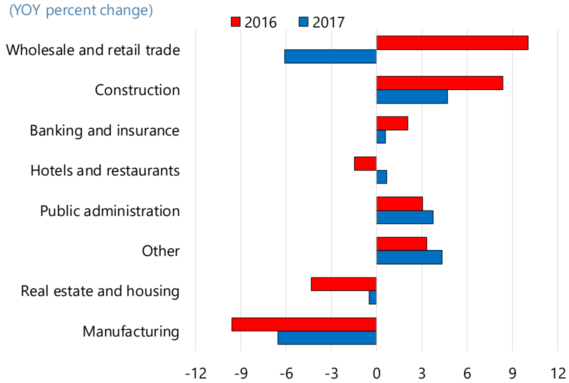
Unemployment Rate
(In percent)



Sources: World Bank, WDI, and "Youth Unemployment in the Caribbean"; National Authorities; and IMF staff calculations.

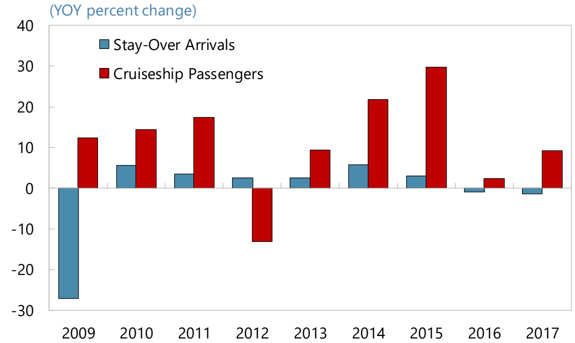
The economic slowdown mainly reflects lower growth in the tourism related sectors and manufacturing.

Real GDP: Production Components
(YOY percent change)



After a buoyant tourist activity in 2015 there was a marked slowdown in Jan-Sep 2016 year-on-year.

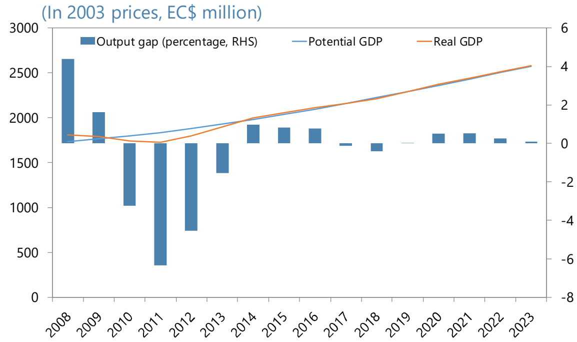
Annual Tourism Performance
(YOY percent change)



Sources: ECCB, and IMF staff estimates.

With output above its potential level…

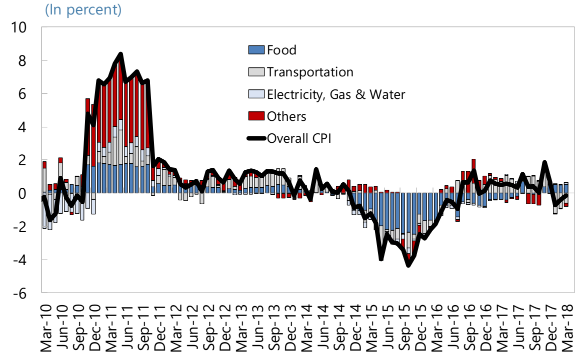
Real GDP and Output Gap
(In 2003 prices, EC$ million)



Source: ECCB, authorities and IMF staff estimates.

… and the moderate rebound in fuel prices, consumer price inflation turned back positive in 2016.

Inflation
(In percent)

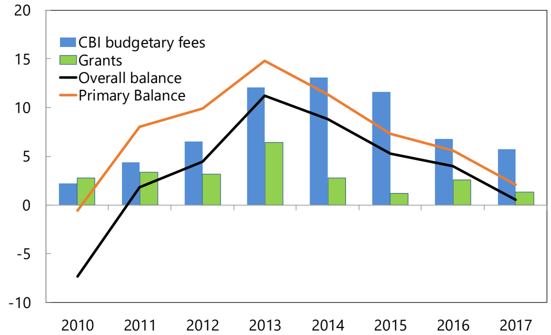


Sources: National Authorities; and IMF Staff Estimates.

Figure 3. St. Kitts and Nevis: Fiscal Sector Developments

Headline fiscal performance in 2017 has continued its deterioration since 2013…

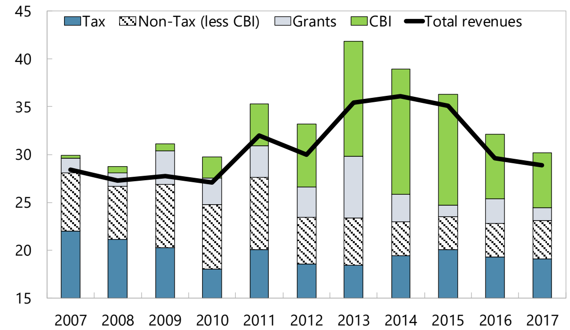
Headline Fiscal Indicators
(In percent of GDP)



Sources: St. Kitts and Nevis Authorities and IMF staff estimates.

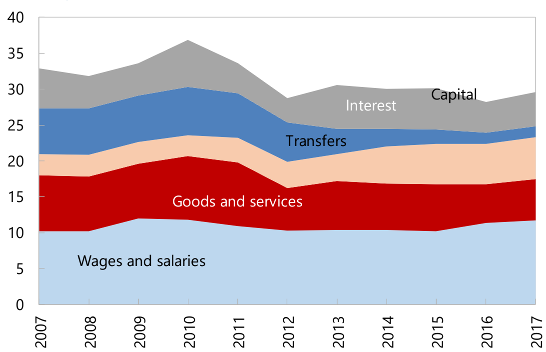
…as both tax and non-tax revenue weakened.

Total Revenues
(in percent of GDP)



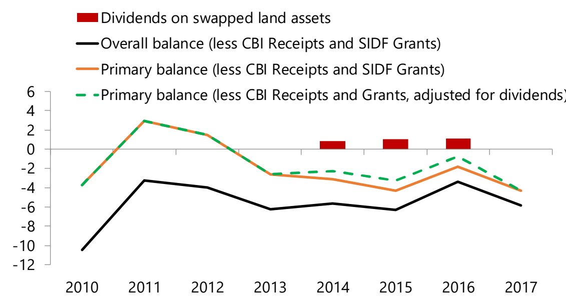
While growth in expenditures has been contained…

Total Expenditure
(In percent of GDP)



…it was not sufficient to prevent further deterioration in the underlying fiscal position.

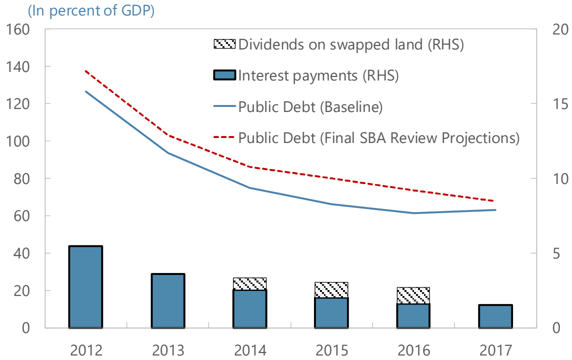
Underlying Fiscal Position (ex. CBI receipts and Grants) 1/
(In percent of GDP)



1/ Excludes all SIDF grants and Investment Proceeds.
Sources: St. Kitts and Nevis Authorities and IMF staff estimates.

The debt-to-GDP ratio is approaching the ECCU 60 percent debt limit, although the trend is reversing….

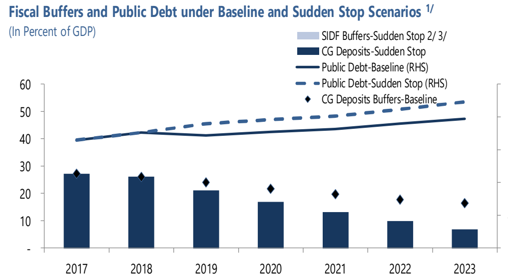
Public Debt and Interest Payments
(In percent of GDP)



Sources: St. Kitts and Nevis Authorities and IMF staff estimates.

…and the fiscal and debt position remains vulnerable to CBI sudden stops and natural disaster shocks.

Fiscal Buffers and Public Debt under Baseline and Sudden Stop Scenarios 1/
(In Percent of GDP)

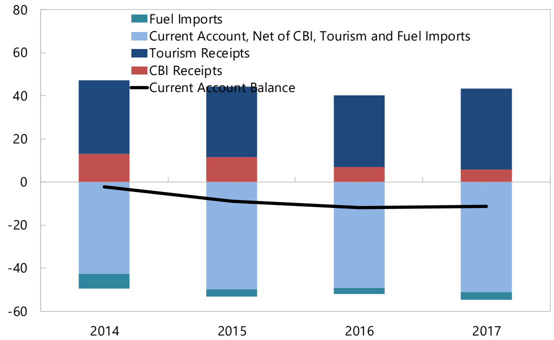


1/ Assumes a complete sudden stop of CBI inflows in 2019, while maintaining baseline assumptions on expenditure, including the capital budget.
2/Based on preliminary data at end-2017, excluding illiquid assets and loans to the public sector.
3/ Assumes social spending by SIDF is maintained in a sudden stop scenario.
Sources: ECCB, SIDF, Authorities and IMF staff estimates.

Figure 4. St. Kitts and Nevis: External Sector Developments

Estimates of the current account suggest a weakened position in 2016 due to lower CBI receipts…

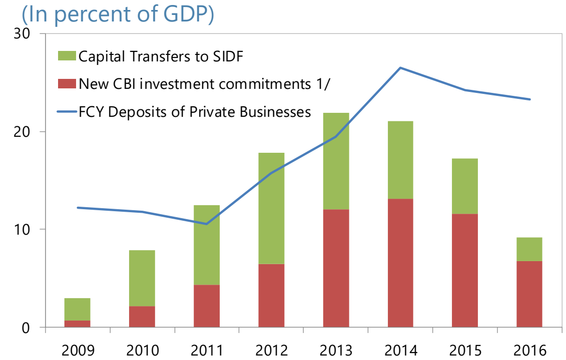
Current Account Flows and Balance
(In percent of GDP)



Sources: Authorities and IMF staff estimates.

…with the number of applicants to the CBI program falling in 2016.

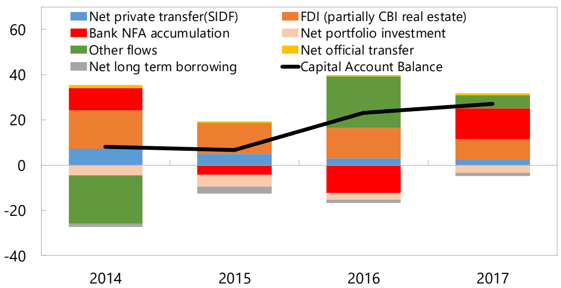
CBI inflows and FCY deposits of Private Businesses
(In percent of GDP)



1/Estimated based on number of "new" applications through the real estate option.

Despite the reduction in new CBI inflows, FDI continued financing the Current Account deficit…

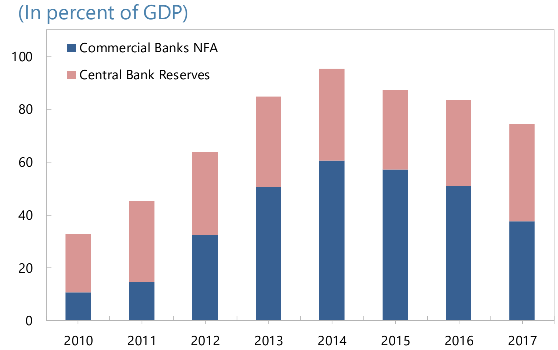
Capital and Financial Account 1/ 2/
(In Percent of GDP)



1/ Reflects adjusted estimates of the FDI spending since 2013.
2/ Large amortizations in 2012 reflect reductions in external debt through restructuring and debt forgiveness.
Sources: National Authorities; and IMF Staff Estimates.

which permitted the international investment position to stay flat, with increasing Central Bank Reserves offsetting a decline in commercial banks' foreign assets.

Net Foreign Assets
(In percent of GDP)

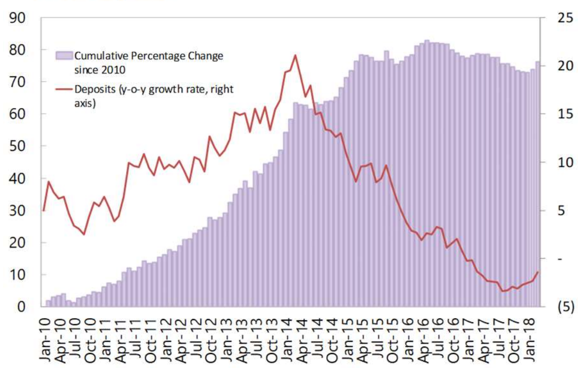


Sources: St. Kitts and Nevis authorities and IMF staff estimates.

Figure 5. St. Kitts and Nevis: Banking System Developments

Banking system deposits slowed down after growing at a very fast pace from 2010, reaching an inflexion point in early 2014…

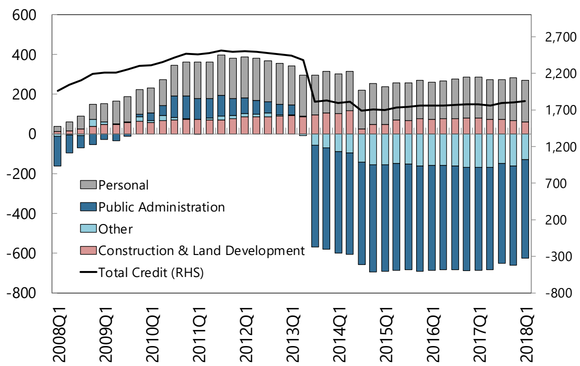
Total Deposits



…meanwhile banks' loan portfolio has been recovering after a large drop due to the public debt restructuring (debt-land swap).

Cumulative Change in Bank Credit Since end-2007

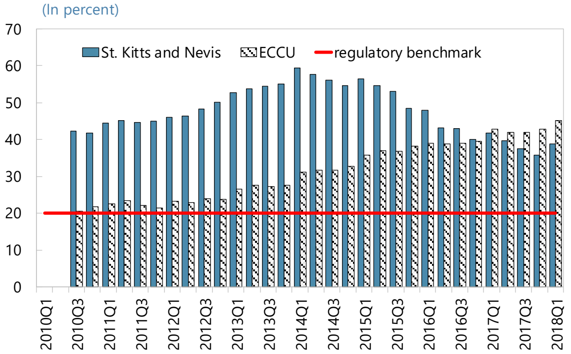
(In EC$ million)



Banking system liquidity has been falling from its 2014 peak, reaching similar levels to those of ECCU peers….

Net Liquid Assets to Total Deposits

(In percent)

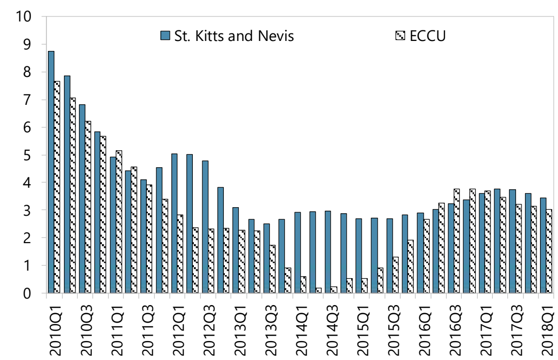


Sources: ECCB; and IMF Staff Estimates.

…however still high enough to put pressure on banks' profitability in the absence of lending.

Return on Assets

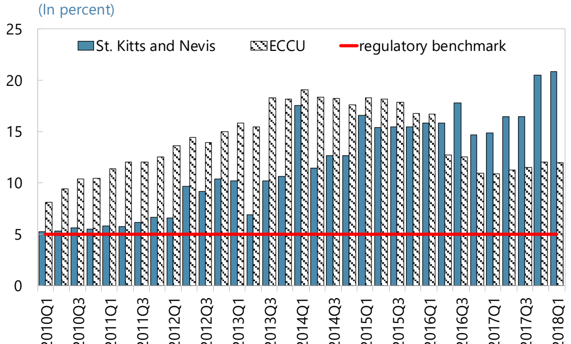
(sum of quarterly returns for the four quarters up to the period, in percent)



The NPL ratio is persistent and far above the regulatory benchmark …

NPLs to Total Loans

(In percent)

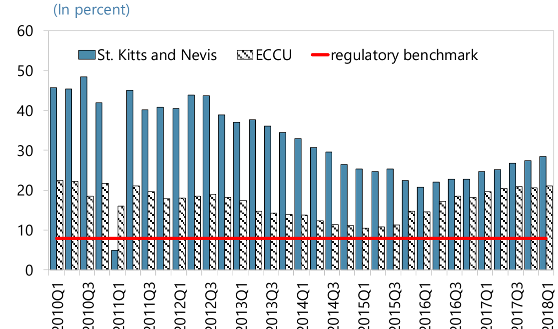


Source: Sources: ECCB, authorities and IMF staff estimates.

…nonetheless, commercial banks remain well capitalized.

Total Capital to Risk Weighted Assets [1/]

(In percent)



1/ Starting 2014Q3, reported capital adequacy ratios reflect the ECCB's change of the risk weighting of land assets related to the debt-land swap from 100 percent to zero.

Table 1. St. Kitts and Nevis: Basic Data

I. Social, Geographic and Demographic Indicators

Area (sq. km)	269.4
Population	
Total (thousands, 2017 est.)	48.6
Rate of growth (percent per year, 2017)	0.50
Density (per sq. km., 2017)	180.7
Net migration rate (per thousand, 2014 est.)	1.2
Population characteristics	
Life expectancy at birth (years,2002)	71.3
Infant mortality (per thousand live births, 2017)	15.5
Under 5 mortality rate (per thousand, 2017)	15.5
Adult literacy rate (percent, 2009)	97.8
Headcount Poverty (percent, 2008)	23.7
Income inequality (Gini coefficient, 2008)	0.38
Health and nutrition	
Calorie intake (per capita a day, 2011)	2,452
Physicians (per 1,000 people, 2017)	1.2
Access to safe water (percent, 2011)	98.9
AIDS incidence rate (per 100,000, 2016)	33.9
Gross domestic product (2017)	
(millions of U.S. dollars)	963.9
(millions of E.C. dollars)	2,602
(US$ per capita)	19,832

II. Economic and Financial Indicators, 2014—23

				Est	Proj.					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
(Annual percentage change; unless otherwise specified)										
National income and prices										
Real GDP (factor cost) 1/	9.5	2.7	2.9	2.1	2.7	3.5	3.5	3.0	2.7	2.7
Consumer prices, end-of-period 2/	-0.5	-2.4	0.0	0.8	2.0	2.0	2.0	2.0	2.0	2.0
Consumer prices, period average 2/	0.2	-2.3	-1.2	0.4	1.4	2.0	2.0	2.0	2.0	2.0
Real effective exchange rate appreciation (+) (end-of-period)	2.8	-2.8	-0.4	-2.5	...	...	...	...	...	...
Banking system										
Change in net foreign assets 3/	16.1	-5.3	-1.3	-7.8	3.6	1.4	0.0	0.0	-0.3	-0.3
Credit to public sector 3/	-13.9	-0.8	-5.1	0.7	-3.7	2.5	3.2	4.2	4.7	4.5
Credit to private sector 3/	0.3	1.5	0.4	0.8	1.1	1.2	1.3	1.3	1.2	1.2
Broad money	14.2	2.5	-4.0	-3.4	0.9	5.2	4.5	5.4	5.6	5.4
(In percent of GDP)										
Public sector 4/										
Total revenue and grants	39.0	36.3	32.2	30.2	32.7	27.6	26.8	26.3	26.0	25.8
o/w Tax revenue	19.5	20.1	19.3	19.1	19.4	19.3	19.3	19.3	19.3	19.3
o/w CBI fees	13.1	11.6	6.8	5.7	7.4	2.6	2.0	1.6	1.5	1.4
Total expenditure and net lending	30.2	31.0	28.2	29.6	29.2	30.4	30.3	30.7	31.0	30.8
Current expenditure	24.6	24.4	24.0	24.8	24.6	26.1	26.2	26.6	26.9	26.7
Capital expenditure and net lending	5.6	6.6	4.2	4.8	4.6	4.3	4.2	4.1	4.1	4.1
Primary balance	11.4	7.3	5.6	2.1	5.1	-1.3	-1.8	-2.2	-2.4	-2.1
Overall balance	8.8	5.3	4.0	0.5	3.5	-2.8	-3.5	-4.4	-5.0	-5.0
Overall balance (less CBI inflows) 5/	-4.8	-5.5	-3.0	-5.4	-4.0	-5.3	-5.4	-5.9	-6.4	-6.3
Foreign financing	-3.3	-6.8	-1.9	-0.9	-0.9	-0.9	-0.8	-0.7	-0.7	-0.7
Domestic financing	-7.9	1.2	-0.9	-0.1	-3.0	3.3	3.9	4.8	5.3	5.1
Change in arrears	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sale of assets	1.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.2	0.2
Extraordinary financing 6/	1.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total public debt (end-of-period) 7/	75.2	66.1	61.5	62.9	63.6	63.4	63.3	65.2	67.9	69.0
Public debt service (percent of total revenue and grants)	16.0	24.5	11.2	8.5	7.6	8.6	9.6	11.2	12.4	13.7
External sector										
External current account balance	-4.5	-9.1	-10.7	-10.1	-9.9	-15.8	-16.2	-15.9	-15.9	-16.0
Trade balance	-25.8	-27.0	-26.7	-27.2	-29.8	-31.3	-31.3	-30.5	-30.7	-31.0
Services, net	30.6	28.4	27.2	25.1	27.4	23.0	22.6	22.2	22.4	22.5
o/w Tourism receipts	33.8	32.9	34.5	37.6	38.0	38.3	38.6	38.7	38.8	39.0
FDI (net)	17.2	14.1	9.2	8.9	10.2	12.8	12.7	12.3	12.1	11.5
External public debt (end-of-period)	33.7	25.2	20.2	16.1	14.2	12.2	10.4	8.9	7.5	6.3
(In percent of exports of goods and nonfactor services)										
External public debt service	3.9	6.7	3.7	3.5	2.9	3.0	2.7	2.5	2.0	1.8
External public debt (end-of-period)	56.9	44.4	37.4	31.5	26.6	24.9	21.5	18.4	15.5	13.0
Memorandum items										
Net international reserves, end-of-period										
(in millions of U.S. dollars)	318.4	280.4	312.9	357.0	357.0	353.3	349.6	345.9	342.2	338.5
(in percent of broad money)	29.1	25.0	29.1	34.3	34.0	32.0	30.3	28.4	26.6	25.0
Holdings of SDRs, in millions of U.S. dollars	13.8	13.8	13.8	14.8	15.8	16.8	17.8	18.8	18.8	19.8
Nominal GDP at market prices (in millions of EC$)	2,476	2,528	2,591	2,602	2,714	2,868	3,031	3,188	3,343	3,501

Sources: St. Kitts and Nevis authorities; ECCB; UNDP; World Bank; and Fund staff estimates and projections.
1/ Authorities revised historical GDP growth backwards from 2015.
2/ Includes St. Kitts and Nevis (in the past, only St. Kitts data was reflected).
3/ In relation to broad money at the beginning of the period.
4/ Consolidated general government balances unless otherwise noted. Primary and overall balances are based on above-the-line data.
5/ Excludes CBI budgetary fees, SIDF grants and investment proceeds, and CBI due diligence costs.
6/ Reflects operations linked to the restructuring of public debt.
7/ Reflects the debt-land swap equivalent to EC$565 million in 2013 and EC$231 million in 2014.

Table 2a. St. Kitts and Nevis: Federal Government Fiscal Operations, 2014–23 1/
(In millions of Eastern Caribbean dollars)

				Est.			Proj.			
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total revenue	**896.4**	**887.3**	**766.3**	**750.8**	**832.0**	**740.5**	**760.9**	**785.4**	**820.7**	**854.9**
Current revenue	896.4	887.3	766.3	750.8	832.0	740.5	760.9	785.4	820.7	854.9
Tax revenue	482.0	507.5	500.0	497.3	525.4	555.0	586.3	616.5	646.5	677.0
Taxes on income	95.3	127.0	126.5	135.3	151.9	160.3	169.2	177.8	186.4	195.2
Taxes on property	16.5	20.2	16.3	15.5	18.9	20.1	21.4	22.6	23.7	24.9
Taxes on domestic goods and consumption 2/	246.0	217.0	209.1	203.0	202.8	214.0	226.1	237.7	249.2	261.0
Taxes on international trade and transactions	124.1	143.2	148.0	143.4	151.9	160.5	169.6	178.4	187.1	195.9
Nontax revenue	414.4	379.8	266.4	253.5	306.6	185.5	174.6	169.0	174.3	177.9
o/w: Citizenship by investment (CBI) Budgetary Receipts	325.4	293.4	175.3	149.4	200.0	75.0	60.0	50.0	50.0	50.0
o/w: SIDF Investment Proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	89.0	86.4	91.1	104.1	106.6	110.5	114.6	119.0	124.3	127.9
Total expenditure and net lending	**747.5**	**784.1**	**729.9**	**771.4**	**792.4**	**872.6**	**919.8**	**978.2**	**1036.6**	**1078.3**
Current expenditure	608.3	617.0	620.6	646.0	668.6	749.5	793.1	847.8	899.9	935.1
Wages and salaries	258.5	257.6	295.4	305.4	318.1	330.7	347.7	364.2	380.8	390.4
Goods and services	160.0	165.6	139.0	148.5	163.0	164.4	173.8	183.5	192.8	202.2
of which: CBI due diligence costs	22.7	21.0	10.9	11.3	13.7	5.2	4.1	3.4	3.4	3.4
Interest	63.3	51.1	41.9	39.9	42.2	43.8	53.8	70.3	84.7	100.1
Domestic	46.9	36.5	32.4	31.6	32.6	30.3	40.9	58.0	72.9	88.9
Foreign	16.5	14.6	9.5	8.3	9.6	13.5	12.9	12.3	11.8	11.2
Transfers 3/	126.4	142.7	144.3	152.1	145.3	210.6	217.8	229.8	241.6	242.5
of which: Dividends on Land Assets 4/	19.8	26.2	27.9	27.8	20.9	20.1	0.0	0.0	0.0	0.0
Net lending	0.7	21.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	138.6	145.7	109.3	125.4	123.8	123.1	126.8	130.4	136.7	143.2
Current balance	**288.1**	**270.3**	**145.7**	**104.8**	**163.5**	**-9.0**	**-32.2**	**-62.4**	**-79.2**	**-80.3**
Overall balance (before grants)	148.9	103.2	36.4	-20.7	39.7	-132.1	-158.9	-192.7	-215.9	-223.4
Grants	69.7	30.7	66.6	34.9	56.1	50.5	51.5	51.5	49.5	49.5
o/w SIDF Grants	33.4	0.0	16.5	16.7	17.5	0.0	0.0	0.0	0.0	0.0
Overall balance (after grants)	**218.5**	**133.8**	**103.0**	**14.3**	**95.8**	**-81.6**	**-107.4**	**-141.2**	**-166.4**	**-173.9**
Primary balance	281.8	184.9	145.0	54.2	138.0	-37.8	-53.6	-70.9	-81.7	-73.8
Overall balance (ex. CBI receipts and SIDF Grants & Inv. Proceeds, CBI due diligence costs)	**-117.6**	**-138.6**	**-77.8**	**-140.5**	**-108.0**	**-151.4**	**-163.3**	**-187.8**	**-212.9**	**-220.5**
Primary balance (ex. CBI receipts and SIDF Grants & Inv. Proceeds, CBI due diligence costs)	-54.3	-87.5	-35.9	-100.6	-65.8	-107.6	-109.5	-117.5	-128.3	-120.4
Financing	**-215.1**	**-122.6**	**-62.9**	**-14.3**	**-95.8**	**81.6**	**107.4**	**142.1**	**159.8**	**162.6**
Net foreign financing	-82.5	-171.1	-49.2	-22.9	-25.0	-24.5	-24.2	-23.6	-23.4	-23.4
Disbursements	9.0	2.4	2.1	3.9	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	91.5	173.5	51.3	26.8	25.0	24.5	24.2	23.6	23.4	23.4
Net domestic financing	-196.7	31.6	-23.9	-1.5	-81.4	94.9	119.7	153.2	176.6	179.1
Banking system	-152.2	22.0	-23.9	-1.5	-81.4	94.9	119.7	153.2	176.6	179.1
Nonbanks and other	-46.1	9.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing arrangement on fuel purchase	6.1	6.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	0.8	-2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	1.4	-5.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	0.0	-5.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	1.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.5	3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sale/purchase of assets	34.3	12.0	10.1	10.2	10.6	11.2	11.8	12.4	6.5	6.8
Exceptional financing	29.0	7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	-3.4	-11.2	-40.1	0.0	0.0	0.0	0.1	-0.8	6.6	11.3
Memorandum items:										
Primary balance including 14 public enterprises 5/	304.0	215.7	168.2	84.8	169.4	-1.4	-17.9	-36.9	-70.2	-62.9
Overall balance including 14 public enterprises 5/	229.9	153.1	119.4	36.0	117.4	-59.9	-85.8	-119.6	-166.4	-173.9
Overall balance including 14 public enterprises and SIDF 5/ 6/	287.5	235.1	99.0	15.2	102.1	-64.5	-86.0	-118.8	-166.4	-173.9
GDP (market prices)	2,476	2,528	2,591	2,602	2,714	2,868	3,031	3,188	3,343	3,501
Public sector debt (end of period)	1,862.3	1,670.2	1,593.4	1,636.6	1,725.9	1,817.3	1,917.4	2,078.8	2,270.3	2,417.1
Of which										
Central government	636	803	794	936	869	1,186	1,379	1,622	1,829	2,022
Domestic	788	781	818	937	951	1,091	1,260	1,469	1,652	1,843
External	-152	22	-24	-2	-81	95	120	153	177	179
Public enterprises	297	299	291	313	418	398	358	339	322	306

Sources: St. Kitts and Nevis authorities; and Fund staff estimates.

1/ Combined accounts of the Federal Government of St. Kitts and Nevis and the Nevis Island Administration.

2/ The drop in taxes on domestic goods and services in 2015 reflects VAT exemptions on food and other items.

3/ The rise in transfers in 2015 reflects the disbursement of the EC$16.5 million grant to sugar workers from Venezuela.

4/ Reflects renewal of the 3.5 percent dividend payment on unsold land plots which were transferred, as part of the debt-land swap agreement beyond its original 3-year term up to the 5-year limit for holding collateral assets, in line with the ECCB's prudential regulations.

5/ Based on actual data of 10 public sector corporations and estimates for 4 others. No audited financial statements have yet been published for St. Kitts Electricity Company (SKELEC). Excludes data for St. Kitts Sugar Manufacturing Corporation, which was dissolved in 2012. Series is used in the Debt Sustainability Analysis (Annex IV).

6/ Includes SIDF net surplus or deficit.

Table 2b. St. Kitts and Nevis: Federal Government Fiscal Operations 2014–23 [1/]

(In percent of GDP)

				Est.	Proj.					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total revenue	**36.2**	**35.1**	**29.6**	**28.8**	**30.7**	**25.8**	**25.1**	**24.6**	**24.5**	**24.4**
Current revenue	36.2	35.1	29.6	28.8	30.7	25.8	25.1	24.6	24.5	24.4
Tax revenue	19.5	20.1	19.3	19.1	19.4	19.3	19.3	19.3	19.3	19.3
Taxes on income	3.9	5.0	4.9	5.2	5.6	5.6	5.6	5.6	5.6	5.6
Taxes on property	0.7	0.8	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Taxes on domestic goods and consumption 2/	9.9	8.6	8.1	7.8	7.5	7.5	7.5	7.5	7.5	7.5
Taxes on international trade and transactions	5.0	5.7	5.7	5.5	5.6	5.6	5.6	5.6	5.6	5.6
Nontax revenue	16.7	15.0	10.3	9.7	11.3	6.5	5.8	5.3	5.2	5.1
o/w: Citizenship by investment (CBI) Budgetary Receipts	13.1	11.6	6.8	5.7	7.4	2.6	2.0	1.6	1.5	1.4
o/w: SIDF Investment Proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	3.6	3.4	3.5	4.0	3.9	3.9	3.8	3.7	3.7	3.7
Total expenditure and net lending	**30.2**	**31.0**	**28.2**	**29.6**	**29.2**	**30.4**	**30.3**	**30.7**	**31.0**	**30.8**
Current expenditure	24.6	24.4	24.0	24.8	24.6	26.1	26.2	26.6	26.9	26.7
Wages and salaries	10.4	10.2	11.4	11.7	11.7	11.5	11.5	11.4	11.4	11.1
Goods and service	6.5	6.5	5.4	5.7	6.0	5.7	5.7	5.8	5.8	5.8
of which: CBI due diligence costs	0.9	0.8	0.4	0.4	0.5	0.2	0.1	0.1	0.1	0.1
Interest	2.6	2.0	1.6	1.5	1.6	1.5	1.8	2.2	2.5	2.9
Domestic	1.9	1.4	1.3	1.2	1.2	1.1	1.3	1.8	2.2	2.5
Foreign	0.7	0.6	0.4	0.3	0.4	0.5	0.4	0.4	0.4	0.3
Transfers 3/	5.1	5.6	5.6	5.8	5.4	7.3	7.2	7.2	7.2	6.9
of which: Dividends on Land Assets 4/	0.8	1.0	1.1	1.1	0.8	0.7	0.0	0.0	0.0	0.0
Net lending	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	5.6	5.8	4.2	4.8	4.6	4.3	4.2	4.1	4.1	4.1
Current balance	**11.6**	**10.7**	**5.6**	**4.0**	**6.0**	**-0.3**	**-1.1**	**-2.0**	**-2.4**	**-2.3**
Overall balance (before grants)	6.0	4.1	1.4	-0.8	1.5	-4.6	-5.2	-6.0	-6.5	-6.4
Grants	2.8	1.2	2.6	1.3	2.1	1.8	1.7	1.6	1.5	1.4
o/w SIDF Grants	1.3	0.0	0.6	0.6	0.6	0.0	0.0	0.0	0.0	0.0
Overall balance (after grants)	**8.8**	**5.3**	**4.0**	**0.5**	**3.5**	**-2.8**	**-3.5**	**-4.4**	**-5.0**	**-5.0**
Primary balance	11.4	7.3	5.6	2.1	5.1	-1.3	-1.8	-2.2	-2.4	-2.1
Overall balance (ex. CBI receipts and SIDF Grants & Inv. Proceeds, CBI due diligence costs)	**-4.8**	**-5.5**	**-3.0**	**-5.4**	**-4.0**	**-5.3**	**-5.4**	**-5.9**	**-6.4**	**-6.3**
Primary balance (ex. CBI receipts and SIDF Grants & Inv. Proceeds, CBI due diligence costs)	-2.2	-3.5	-1.4	-3.9	-2.4	-3.8	-3.6	-3.7	-3.8	-3.4
Financing	**-8.7**	**-4.9**	**-2.4**	**-0.5**	**-3.5**	**2.8**	**3.5**	**4.5**	**4.8**	**4.6**
Net foreign financing	-3.3	-6.8	-1.9	-0.9	-0.9	-0.9	-0.8	-0.7	-0.7	-0.7
Disbursements	0.4	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	3.7	6.9	2.0	1.0	0.9	0.9	0.8	0.7	0.7	0.7
Net domestic financing	-7.9	1.2	-0.9	-0.1	-3.0	3.3	3.9	4.8	5.3	5.1
Banking system	-6.2	0.9	-0.9	-0.1	-3.0	3.3	3.9	4.8	5.3	5.1
Nonbanks and other	-1.9	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sale/purchase of assets	1.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.2	0.2
Exceptional financing	1.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	-0.1	-0.4	-1.5	0.0	0.0	0.0	0.0	0.0	0.2	0.3
Memorandum items:										
Primary balance including 14 public enterprises 5/	12.3	8.5	6.5	3.3	6.2	0.0	-0.6	-1.2	-2.1	-1.8
Overall balance including 14 public enterprises 5/	9.3	6.1	4.6	1.4	4.3	-2.1	-2.8	-3.8	-5.0	-5.0
Overall balance including 14 public enterprises and SIDF 5/ 6/	11.6	9.3	3.8	0.6	3.8	-2.2	-2.8	-3.7	-5.0	-5.0
Public sector debt (end of period)	75.2	66.1	61.5	62.9	63.6	63.4	63.3	65.2	67.9	69.0
Of which										
Central government	25.7	31.8	30.7	36.0	32.0	41.4	45.5	50.9	54.7	57.7
Domestic	31.8	30.9	31.6	36.0	35.0	38.1	41.6	46.1	49.4	52.6
External	-6.2	0.9	-0.9	-0.1	-3.0	3.3	3.9	4.8	5.3	5.1
Public enterprises	12.0	11.8	11.2	12.0	15.4	13.9	11.8	10.6	9.6	8.7

Sources: St. Kitts and Nevis authorities; and Fund staff estimates.

1/ Combined accounts of the Federal Government of St. Kitts and Nevis and the Nevis Island Administration.
2/ The drop in taxes on domestic goods and services in 2015 reflects VAT exemptions on food and other items.
3/ The rise in transfers in 2015 reflects the disbursement of the EC$16.5 million grant to sugar workers from Venezuela.
4/ Reflects renewal of the 3.5 percent dividend payment on unsold land plots which were transferred, as part of the debt-land swap agreement beyond its original 3-year term up to the 5-year limit for holding collateral assets, in line with the ECCB's prudential regulations.
5/ Based on actual data of 10 public sector corporations and estimates for 4 others. No audited financial statements have yet been published for St. Kitts Electricity Company (SKELEC). Excludes data for St. Kitts Sugar Manufacturing Corporation, which was dissolved in 2012. Series is used in the Debt Sustainability Analysis (Annex IV).
6/ Includes SIDF net surplus or deficit.

Table 3. St. Kitts & Nevis: Balance of Payments, 2014–23 1/

	2014	2015	2016	Est. 2017	Proj. 2018	2019	2020	2021	2022	2023
	(In millions of Eastern Caribbean dollars)									
Current account	**-112.6**	**-230.5**	**-276.4**	**-262.8**	**-267.6**	**-452.7**	**-491.6**	**-505.7**	**-530.5**	**-558.9**
Trade balance	-637.6	-683.8	-692.4	-708.4	-808.6	-898.4	-947.4	-973.0	-1028.1	-1086.5
Exports, f.o.b.	133.5	131.8	138.9	108.0	110.9	121.7	129.9	138.0	146.6	154.3
Imports f.o.b.	-771.1	-815.6	-831.3	-816.4	-919.5	-1020.0	-1077.3	-1111.0	-1174.7	-1240.9
o/w Mineral fuel	-162.3	-88.5	-72.1	-89.8	-121.1	-122.0	-117.3	-113.5	-111.2	-109.9
Services and transfers (net)	525.0	453.3	416.0	445.6	541.0	445.7	455.8	467.3	497.6	527.7
Services (net)	758.0	718.3	703.6	654.0	743.2	659.0	685.9	708.6	748.2	789.5
Services (receipts)	1331.5	1302.4	1261.0	1224.7	1331.9	1279.4	1341.7	1398.2	1471.4	1546.9
o/w Tourism receipts	837.1	832.4	894.0	979.0	1030.9	1098.6	1170.6	1232.4	1297.5	1366.0
o/w Citizenship-by-investment budgetary fees	325.4	293.4	175.3	149.4	200.0	75.0	60.0	50.0	50.0	50.0
Services (payments)	-573.5	-584.1	-557.4	-570.8	-588.7	-620.5	-655.7	-689.6	-723.2	-757.4
Factor income (net)	-208.7	-219.8	-217.8	-174.7	-180.5	-189.3	-198.6	-207.4	-214.6	-223.7
Transfers (net)	-24.3	-45.2	-69.8	-33.7	-21.7	-24.0	-31.6	-33.9	-36.0	-38.1
Capital	**215.4**	**133.2**	**113.4**	**91.7**	**63.8**	**67.5**	**60.3**	**59.1**	**59.9**	**58.8**
Financial Account	**80.1**	**-294.2**	**-322.5**	**-370.7**	**-203.8**	**-385.2**	**-431.3**	**-446.6**	**-470.6**	**-500.1**
Foreign direct investment (net)	-426.9	-357.1	-239.5	-231.7	-278.0	-367.0	-385.4	-393.1	-404.2	-403.3
Portfolio investment (net)	116.6	104.0	84.9	85.4	68.3	54.6	43.7	35.0	28.0	22.4
Commercial bank NFA accumulation	239.5	-105.2	-315.7	-445.8	-100.0	-50.0	-10.0	-10.0	0.0	0.0
Reserve Assets	76.3	-103.9	119.5	122.4	0.0	-10.0	-10.0	-10.0	-10.0	-10.0
Other (net)	74.6	168.0	28.3	99.0	106.0	-12.8	-69.7	-68.5	-84.3	-109.2
Errors and omissions	-22.8	-196.9	-159.4	-199.6	0.0	0.0	0.0	0.0	0.0	0.0
	(In percent of GDP)									
Current account	-4.5	-9.1	-10.7	-10.1	-9.9	-15.8	-16.2	-15.9	-15.9	-16.0
Current account, excluding CBI receipts	-17.7	-20.7	-17.4	-15.8	-17.2	-18.4	-18.2	-17.4	-17.4	-17.4
Exports of goods and nonfactor services	59.2	56.7	54.0	51.2	53.2	48.8	48.5	48.2	48.4	48.6
Merchandise exports	5.4	5.2	5.4	4.1	4.1	4.2	4.3	4.3	4.4	4.4
Nonfactor services	53.8	51.5	48.7	47.1	49.1	44.6	44.3	43.9	44.0	44.2
o/w Tourism receipts	33.8	32.9	34.5	37.6	38.0	38.3	38.6	38.7	38.8	39.0
Imports of goods and nonfactor services	-54.3	-55.4	-53.6	-53.3	-55.6	-57.2	-57.2	-56.5	-56.8	-57.1
Merchandise imports	-31.1	-32.3	-32.1	-31.4	-33.9	-35.6	-35.5	-34.8	-35.1	-35.4
Nonfactor services	-23.2	-23.1	-21.5	-21.9	-21.7	-21.6	-21.6	-21.6	-21.6	-21.6
Foreign direct investment (net)	17.2	14.1	9.2	8.9	10.2	12.8	12.7	12.3	12.1	11.5
External public debt	33.7	25.2	20.2	16.1	14.2	12.2	10.4	8.9	7.5	6.3
	(Annual percentage change)									
Merchandise exports	-12.6	-1.3	5.4	-22.3	2.7	9.7	6.8	6.2	6.2	5.2
Tourism receipts	166.0	-0.6	7.4	9.5	5.3	6.6	6.6	5.3	5.3	5.3
Merchandise imports	-3.1	5.8	1.9	-1.8	12.6	10.9	5.6	3.1	5.7	5.6
	(In percent of exports of goods and nonfactor services)									
External public debt	56.9	44.4	37.4	31.5	26.6	24.9	21.5	18.4	15.5	13.0
External debt service	3.9	6.7	3.7	3.5	2.9	3.0	2.7	2.5	2.0	1.8
o/w Interest	1.3	1.3	1.0	0.9	0.7	0.7	0.6	0.5	0.4	0.3
o/w Principal	2.6	5.5	2.7	2.6	2.2	2.3	2.1	1.9	1.7	1.5
	(Millions of US dollar)									
ECCB imputed reserves	318.4	280.4	312.9	357.0	357.0	353.3	349.6	345.9	342.2	338.5
in months of imports of goods and services	7.4	6.5	7.3	7.7	7.1	6.6	6.3	5.9	5.5	

Sources: ECCB; and Fund staff estimates and projections.

1/ Reflect the outcome of the debt exchange offer to bondholders and external commercial creditors.

Table 4. St. Kitts and Nevis: Monetary Survey, 2014–23

	2014	2015	2016	Est. 2017	Proj. 2018	2019	2020	2021	2022	2023
(In millions of East Caribbean dollars)										
Net foreign assets	**2374.5**	**2216.7**	**2177.7**	**1950.6**	**2050.6**	**2090.6**	**2090.6**	**2090.6**	**2080.6**	**2070.6**
ECCB imputed reserves	859.7	757.2	844.7	963.8	963.8	953.8	943.8	933.8	923.8	913.8
Crown agents	10.6	10.6	10.6	10.6	…	…	…	…	…	…
Commercial banks	1504.2	1448.9	1322.4	976.1	1076.1	1126.1	1136.1	1146.1	1146.1	1146.1
Net domestic assets	**580.7**	**811.3**	**730.0**	**857.4**	**783.2**	**889.6**	**1023.9**	**1193.0**	**1386.4**	**1582.7**
Net credit to the public sector	-1188.0	-1213.1	-1367.1	-1345.4	-1449.3	-1377.7	-1282.1	-1152.7	-1000.0	-845.4
Net credit to central government 1/	-333.9	-287.0	-355.6	-335.0	-416.4	-321.5	-201.8	-48.6	128.1	307.2
Net credit to St. Kitts	-508.2	-462.3	-545.8	-555.1	-650.8	-584.4	-505.5	-399.3	-275.7	-154.4
Net credit to Nevis	174.3	175.2	190.2	220.1	234.5	263.0	303.8	350.7	403.8	461.6
Net credit to non-financial public sector 2/	-854.1	-926.0	-1011.5	-1010.3	-1032.9	-1056.2	-1080.4	-1104.2	-1128.1	-1152.7
Credit to the private sector	1404.5	1449.0	1461.8	1484.3	1514.0	1548.8	1587.5	1627.2	1667.9	1709.6
Net other assets 3/	364.1	575.4	635.2	718.5	718.5	718.5	718.5	718.5	718.5	718.5
Broad money (M2)	**2955.1**	**3028.0**	**2907.7**	**2808.0**	**2833.8**	**2980.2**	**3114.5**	**3283.6**	**3467.0**	**3653.2**
Money	583.0	625.3	568.5	569.4	593.8	627.6	663.2	695.1	733.9	773.3
Currency in circulation	154.6	168.3	178.1	196.4	204.8	216.4	228.7	239.7	251.2	263.3
Demand deposits 4/	428.3	457.0	390.4	373.0	389.1	411.1	434.5	455.4	477.2	500.1
Quasi-money	2372.1	2402.7	2339.2	2238.6	2239.9	2352.6	2451.3	2588.5	2733.1	2879.9
Savings deposits	908.9	936.6	955.4	1002.9	1046.0	1105.4	1168.2	1224.3	1283.1	1344.6
Time deposits	585.5	620.5	560.1	514.8	537.0	567.5	599.7	628.5	658.6	690.3
Foreign currency deposits	877.7	845.6	823.7	720.9	656.9	679.7	683.3	735.8	791.4	845.0
(Percentage change relative to broad money at beginning of period)										
Net foreign assets	16.1	-5.3	-1.3	-7.8	3.6	1.4	0.0	0.0	-0.3	-0.3
Net domestic assets	-2.0	7.8	-2.7	4.4	-2.6	3.8	4.5	5.4	5.9	5.7
Net credit to the public sector	-13.9	-0.8	-5.1	0.7	-3.7	2.5	3.2	4.2	4.7	4.5
Net credit to central government 1/	-5.4	1.6	-2.3	0.7	-2.9	3.3	4.0	4.9	5.4	5.2
Net credit to non-financial public sector 2/	-8.5	-2.4	-2.8	0.0	-0.8	-0.8	-0.8	-0.8	-0.7	-0.7
Credit to the private sector	0.3	1.5	0.4	0.8	1.1	1.2	1.3	1.3	1.2	1.2
Net other assets 3/	11.6	7.1	2.0	2.9	0.0	0.0	0.0	0.0	0.0	0.0
(Annual percentage change)										
Broad money (M2)	14.2	2.5	-4.0	-3.4	0.9	5.2	4.5	5.4	5.6	5.4
Money	11.7	7.3	-9.1	0.2	4.3	5.7	5.7	4.8	5.6	5.4
Currency in circulation	16.2	8.8	5.9	10.2	4.3	5.7	5.7	4.8	4.8	4.8
Demand deposits 4/	10.1	6.7	-14.6	-4.4	4.3	5.7	5.7	4.8	4.8	4.8
Quasi-money	14.8	1.3	-2.6	-4.3	0.1	5.0	4.2	5.6	5.6	5.4
Savings deposits	9.8	3.0	2.0	5.0	4.3	5.7	5.7	4.8	4.8	4.8
Time deposits	-3.5	6.0	-9.7	-8.1	4.3	5.7	5.7	4.8	4.8	4.8
Foreign currency deposits	38.9	-3.6	-2.6	-12.5	-8.9	3.5	0.5	7.7	7.6	6.8
Credit to the private sector (in nominal terms)	0.6	3.2	0.9	1.5	2.0	2.3	2.5	2.5	2.5	2.5
Credit to the private sector (in real terms)	1.1	5.7	0.9	0.8	0.0	0.3	0.5	0.5	0.5	0.5
Memorandum items:										
Income velocity of money	4.2	4.0	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.5
Income velocity of broad money	0.8	0.8	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0
Private sector credit/GDP (in percent)	56.7	57.3	56.4	57.0	55.8	54.0	52.4	51.0	49.9	48.8
Foreign currency deposits/GDP (in percent)	35.5	33.5	31.8	27.7	24.2	23.7	22.5	23.1	23.7	24.1
General government deposits (EC$ million) 5/	663.0	627.0	705.8	707.3	788.7	693.8	574.1	420.9	244.2	65.1
General government deposits (percent of GDP)	26.8	24.8	27.2	27.2	29.1	24.2	18.9	13.2	7.3	1.9
ECCB imputed reserves	34.7	30.0	32.6	37.0	35.5	33.3	31.1	29.3	27.6	26.1

Sources: ECCB; and Fund staff estimates and projections.

1/ Reflects EC$565 million debt-land swap in 2013 and EC$29 million in 2014.

2/ Reflects EC$202 million debt-land swap with public enterprises in 2014.

3/ Includes shares in the Special Purpose Vehicle holding land assets from the debt-land swap.

4/ Includes EC$ bank cheques.

5/ Includes central government deposits at the ECCB.

Table 5. St. Kitts and Nevis: Indicators of External and Financial Vulnerability, 2011–17

(12-month percentage, unless otherwise stated)

	2011	2012	2013	2014	2015	2016	2017
External indicators							
Merchandise exports	16.7	-7.2	-10.0	-12.6	-1.3	5.4	-22.3
Merchandise imports	-1.1	-8.4	25.1	-3.1	5.8	1.9	-1.8
Tourism earnings	20.6	1.2	6.7	166.0	-0.6	7.4	9.5
Current account balance (percent of GDP)	-13.0	-8.3	-10.3	-4.5	-9.1	-10.7	-10.1
Capital and financial account balance (percent of GDP)	14.9	1.4	15.5	11.6	8.7	26.0	27.2
Of which							
Foreign direct investment	14.6	14.8	23.6	17.2	14.1	9.2	8.9
Imputed net international reserves							
In millions of U.S. dollars 1/	231.5	251.6	291.3	318.4	280.4	312.9	357.0
In percent of broad money	29.7	29.0	30.4	29.1	25.0	29.1	34.3
Commercial banks' net foreign assets (millions of U. S. dollars)	109.5	258.6	429.4	557.1	536.6	489.8	361.5
External public debt (percent of GDP)	48.2	43.2	40.7	33.7	25.2	20.2	16.1
External debt service (in percent of exports of goods and services)	21.3	11.3	7.2	3.9	6.7	3.7	3.5
Interest	5.2	2.5	2.4	1.3	1.3	1.0	0.9
Principal	16.1	8.8	4.8	2.6	5.5	2.7	2.6
Nominal exchange rate (E.C. dollars per U.S. dollar, end period)	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Real effective exchange rate appreciation (+), end period 2/	-0.3	-1.6	-0.3	2.8	-2.8	-0.4	-2.5
Financial indicators							
Broad money	10.1	11.6	10.3	14.2	2.5	-4.0	-3.4
Credit to the private sector	3.7	0.2	-0.9	0.6	3.2	0.9	1.5
Nonperforming loans to total assets of banks (percent)	6.7	10.4	10.7	12.7	15.5	14.7	20.5
Liquid assets/total assets (percent)	44.2	47.7	52.0	53.8	50.7	48.4	47.9
Liquid assets/current liabilities (percent)	51.8	56.2	58.7	58.8	55.2	52.8	52.8
Ratio of banks' before-tax profits to average assets (percent)	1.5	0.6	0.7	0.6	0.8	0.9	0.8

Sources: ECCB; Ministry of Finance; and Fund staff estimates.

1/ Decline in 2015 reflects large early repayments of external debt, including to the IMF, and conversion of about EC$ 130 million of government deposits into Foreign Currency.

2/ Estimated on the basis of weights given by the average trade share over 2004-2006, excluding Ukraine.

Table 6. St. Kitts and Nevis: External Financing Requirement and Sources, 2014–23
(In millions of U.S. dollars)

				Est.	Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Gross financing requirement	**-32.4**	**52.4**	**266.9**	**284.0**	**108.5**	**198.8**	**219.2**	**223.5**	**234.0**	**253.1**
Current account deficit	41.7	85.4	102.4	97.3	99.1	167.7	182.1	187.3	196.5	207.0
Amortization	-102.4	5.5	120.2	141.3	9.4	34.8	40.8	39.9	41.3	49.8
Official (public sector and central government)	13.9	28.8	13.8	12.9	11.6	11.6	11.3	10.8	10.0	9.4
Private sector (net)	-116.3	-23.2	106.4	128.4	-2.2	23.3	29.5	29.1	31.2	40.4
Commercial banks	-88.7	39.0	116.9	165.1	37.0	18.5	3.7	3.7	0.0	0.0
Other private	-27.6	-62.2	-10.5	-36.7	-39.2	4.8	25.8	25.4	31.2	40.4
Reserve accumulation (+ increase: - decrease)	28.3	-38.5	44.3	45.3	0.0	-3.7	-3.7	-3.7	-3.7	-3.7
Sources of financing	**-40.2**	**-116.4**	**-14.5**	**-18.8**	**-54.0**	**-90.7**	**-104.2**	**-110.7**	**-117.2**	**-119.3**
Capital grants and transfers	79.8	49.3	42.0	34.0	23.6	25.0	22.3	21.9	22.2	21.8
Foreign Direct Investment (net)	-158.1	-132.3	-88.7	-85.8	-103.0	-135.9	-142.7	-145.6	-149.7	-149.4
Net inflow of equity and other capital	43.2	38.5	31.4	31.6	25.3	20.2	16.2	13.0	10.4	8.3
New borrowing	3.3	0.9	0.8	1.4	0.0	0.0	0.0	0.0	0.0	0.0
of which: public sector	3.3	0.9	0.8	1.4	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-8.4	-72.9	-59.0	-73.9	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional external financing	**-22.2**	**-43.4**	**-10.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.4**
IMF net disbursement	-22.2	-43.4	-10.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund disbursement	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases 1/ 2/	-22.2	-43.4	-10.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest due	-1.7	-1.5	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt forgiveness/debt restructuring 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4

Sources: St. Kitts and Nevis authorities; Eastern Caribbean Central Bank; and Fund staff estimates and projections.
1/ Based on the Program exchange rate (US$1 = 0.625 SDR).
2/ Full repayment of outstanding obligations to the Fund expected in 2016.
3/ Includes clearance of NIA's debt service arrears through restructuring in 2015.

Table 7. St. Kitts and Nevis: Selected Labor Indicators

	2001	2008	2016
Total Population (y-o-y % change)			
ECCU	0.6	0.5	0.4
St. Kitts and Nevis	1.5	1.2	1.2
Unemployment rate (%)			
ECCU	13.4	15.5	20.9
St. Kitts and Nevis	5.1	5.1	2.0
Wages (EC$, annual average)			
ECCU	16,213	19,558	21,822
St. Kitts and Nevis	21,047	31,266	37,086
Wages-to-GDP			
ECCU	1.0	0.8	0.9
St. Kitts and Nevis	0.8	0.8	0.9
Public Sector Wages (EC$, annual average)			
ECCU	16,513	22,896	24,758
St. Kitts and Nevis	22,115	33,262	34,323
Public Sector Wages-to-GDP			
ECCU	1.1	1.0	1.0
St. Kitts and Nevis	0.8	0.9	0.8

Sources: WEO, World Bank, WDI, National Authorities (censuses, poverty assessments, labor force surveys, national insurance systems); and IMF staff calculations.

Annex I. Risk Assessment Matrix[1]

	Main Risks to Baseline Scenario	Likelihood	Impact	Policy Response
Country-Specific Risks	**Sharp drop in CBI inflows.** Increased competition from regional programs, integrity concerns, high global security risks, and rising political pressure against international migration increase downside risks to CBI inflows, with implications for fiscal, growth and external performance.	High	High	Reduce funding of recurrent expenditure through CBI revenues; further strengthen due diligence of applicants to reduce risks to financial integrity and international security, and limit risks to the integrity of the program and its sustainability; build precautionary balances by saving the bulk of inflows and repaying debt; and strengthen the management/governance of accumulated CBI resources.
	Slow pace of land sales from the debt-land swap. A large stock of unsold land after the 3-year dividend arrangement with the government passed and approaching deadline for the ECCB prudential requirement to kick in poses risks to banks' balance sheets and stability.	High	High	Accelerate efforts to sell the land, with a concrete action plan and timetable. Pursue politically palatable options to mobilize land sales.
	High banking system liquidity and limited credit opportunities. This put pressure on bank profitability and may push banks to engage in high risk investments and/or raise concentration risks to specific sectors.	High	Medium to High	Strengthen banks' supervisory framework, and enhance credit risk management.
Regional Risks	**Persistent banking sector weaknesses in the ECCU.** Regional financial distress could spill over to domestic financial institutions. Vulnerability heightened by lack of deposit insurance, low capitalization of regional banks and limited fiscal space in the region to support weak institutions.	High	High	Support the regional resolution strategy by continuing to enforce the new banking law enacted in July 2015. Strengthen contingency planning. Upgrade foreclosure legislation to accelerate NPL resolution. Implement BASEL II Framework.
	Reduced financial services by global/regional banks ("withdrawal of CBRs "). This could significantly curtail cross-border payments, trade finance, and remittances in St. Kitts and Nevis.	Medium	Medium to High	Further strengthen AML/CFT supervisory framework, including by transferring AML/CFT supervisory powers to the ECCB. Conduct periodic risk assessments. Ensure full compliance with international standards on tax information transparency.
	Natural disasters. The high vulnerability to natural disasters increases risks of substantial damage to infrastructure, entailing large reconstruction costs, and risk to growth and fiscal prospects.	High	High	Invest in weather-resilient infrastructure. Accumulate buffers, including by reorienting CBI inflows. Ensure sufficient coverage of disaster insurance. Increase private sector access to weather-linked insurance products.
Global Risks	**Sharp tightening of global financial conditions** causes higher debt service and refinancing risks; stress on leveraged firms, households, and vulnerable sovereigns; capital account pressures; and a broad-based downturn. Tighter financial conditions could be triggered by a sharper-than-expected increase in U.S. interest rates (prompted by higher-than-expected inflation) or materialization of other risks**.** Given high-end tourism focus, the impact may be more moderate than in other countries.	High	Medium to High	Address cost competitiveness by containing public sector wages, which may affect private sector wages; lower energy prices; and mitigate other bottlenecks that weigh on businesses (including ease of doing business).
	Weaker-than-expected U.S. growth. As capacity constraints become more binding and the economy pushes further through full employment, the risks of a sharper-than-expected slowdown increase..	Medium	Medium	Continue to build precautionary balances by saving the bulk of CBI receipts. Increase economic diversification and step up structural reforms to boost potential growth.
	Rising protectionism and retreat from multilateralism. Global imbalances and fraying consensus about the benefits of globalization lead	High	Medium to High	Continue to build precautionary balances by saving the bulk of CBI receipts. Increase economic

	to escalating and sustained trade actions and spreading isolationism. This threatens the global trade system, regional integration, labor mobility, as well as global and regional policy and regulatory collaboration. In the short term, increased uncertainty about growth triggered by escalating trade tensions leads to increased financial market volatility. Negative consequences for growth are, in turn, exacerbated by adverse changes in market entiment and investment.			diversification and step up structural reforms to boost potential growth.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex II. External Stability Assessment

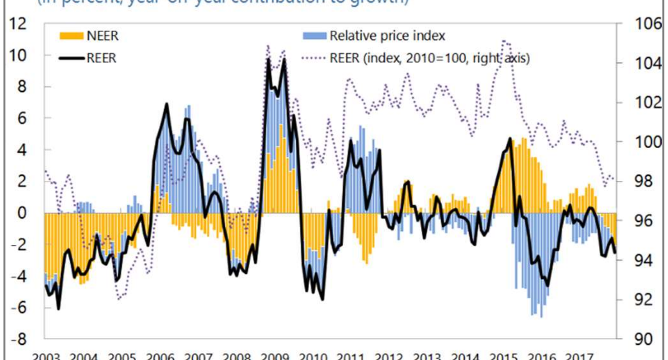
The external position appears weaker than implied by fundamentals and recommended policies. Real exchange rate assessments suggest some overvaluation, while other indicators, including the World Bank Doing Business Ranking, slow productivity growth, rising unit labor costs, and high wages in the tourism sector (adjusted by income per capita) relative to competitors confirm competitiveness challenges. Significant foreign currency accumulation by the central government at commercial banks suggests a relatively stable reserve position as reflected in imputed reserves at the ECCB in 2017.

A. Current Account and Exchange Rate Assessment

1. **Recent current account deficits were revised downward following methodological improvements, and remained stable between 2016 and 2017.** The migration from BPM5 to BPM6 methodology and improvements in surveys resulted in a reduction of about 5 percentage points of GDP in recent current account deficits. Estimates for 2017 based on latest trade data from the authorities and IMF projections for non-trade items of the current account point indicate that the current account deficit remained stable in 2017 relative to 2016, with reductions in tourism receipts being significantly offset by reductions in imports mainly linked to reductions in CBI related investment. Over the medium term, staff projects an increase in the current account deficit linked to increase in imports related to expected hotel construction projects.[1]

2. **The CPI-based real effective exchange rate (excluding Ukraine) shows the REER continued to depreciate in 2017, after the significant appreciation that followed the Global Financial Crisis.[2]** REER depreciation during 2017 was related to the depreciation of the NEER, in turn explained by the depreciation of the US dollar, to which the EC dollar is pegged. This trend was further reinforced by continued stability in internal prices, which continued to grow below the rate in trading partners.

St. Kitts and Nevis: REER Appreciation
(In percent, year-on-year contribution to growth)



1/ Excludes Ukraine from the basket of countries.
Sources: IMF staff estimates and calculations.

[1] CBI application fees to the budget appear as service receipts in the current account, while contributions to the Sugar Industry Diversification Foundation (SIDF) appear in the capital and financial account as a capital transfer. FDI inflows include CBI-Investments in real estate sector. This is initially offset by strong accumulation of foreign assets by commercial banks, when the CBI applicant's investment is paid. As capital investment progresses, real estate developers draw down on these balances, funding imports of construction materials and other related expenditures.

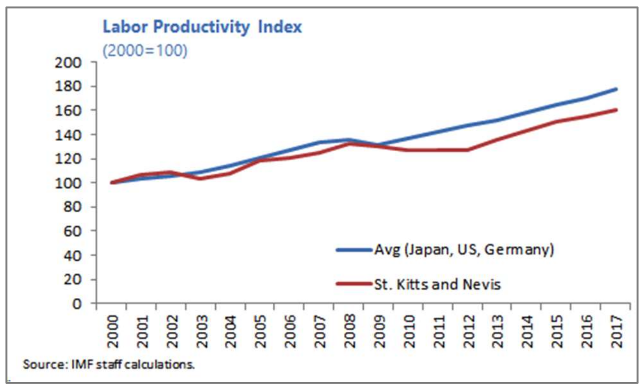
[2] The REER estimated using a country basket that includes Ukraine shows a significant appreciation because of a large depreciation of the Ukrainian Hryvnia.

3. The exchange rate assessment suggests the real effective exchange rate is above the level implied by fundamentals and recommended policies. In particular, results from the Current Account model of the EBA-Lite point to a significant and positive REER gap, while results from the the REER Model point to only a 1.4 percent overvaluation. Note that the Current Account EBA-Lite model includes an adjustment that takes into account that the current account deficit is high because of large FDI flows relative to other EBA-Lite sample countries, which in turn is a result of high CIP and hotel-related projects. Without this adjustment the this model would suggest an even higher overvaluation.

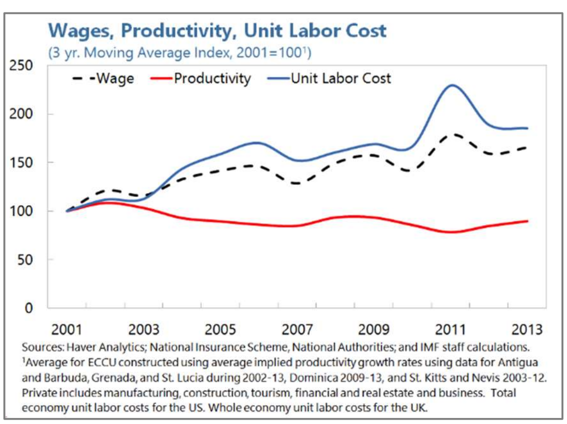
St. Kitts and Nevis: External Sector Assessment

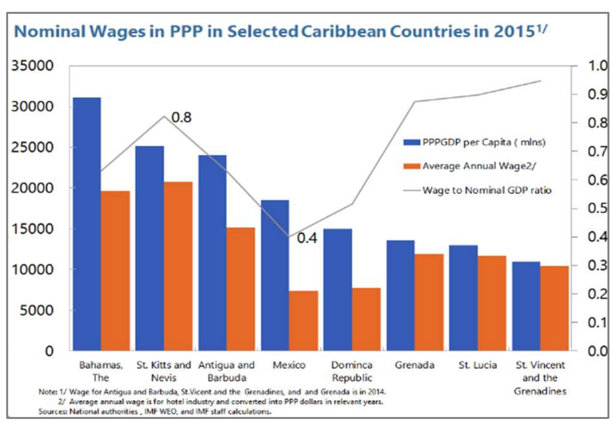
		Current Account Balance					REER Gap
		Norm 2/	2017 Actual	Gap	Policy Gap	Residual	3/
EBA-lite	CA Model 1/	-5.0	-10.1	-5.1	-2.0	-3.1	**13.5**
	REER Model						**1.4**

1/ Percent of GDP.
2/ Norm estimate includes modest CBI inflows equivalent to 2% of GDP out to the medium term.
3/ Positive number indicates overvaluation.

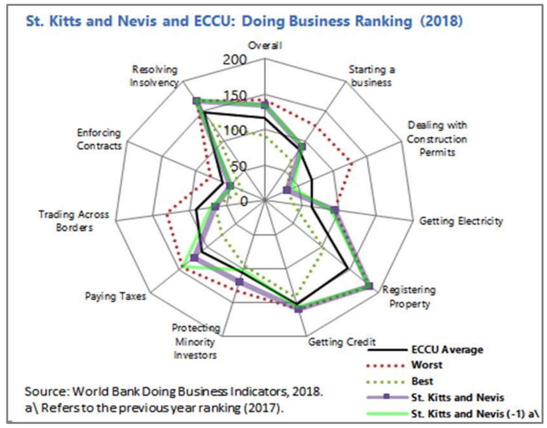


4. Labor cost indicators also signal competitiveness challenges. Labor productivity has not recovered steadily after a slowdown following the global financial crisis, as real GDP growth has grown below the rate of grow of employment. The latter is partly linked to government temporary worker programs that employ a large share of the labor force since the global financial crisis. Despite weak productivity growth, wages have been growing significantly in recent years, thus considerably increasing unit labor costs. High unit labor costs are particularly evident in the tourism sector, as wages in this sector adjusted for GDP per capita are significantly higher than in competitor countries.

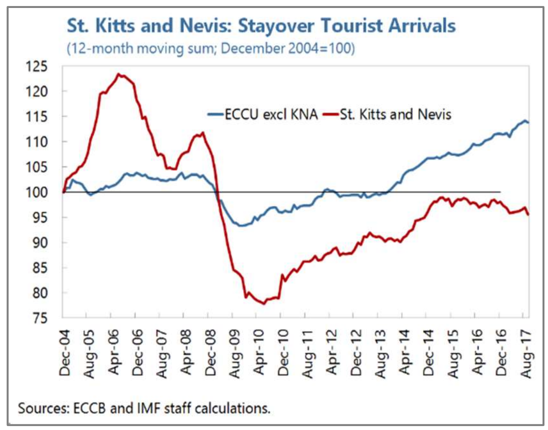




5. Business climate indicators also continue to suggest weak competitiveness with respect to other countries in the region. The World Bank Doing Business indicators suggest that St. Kitts and Nevis outperforms its ECCU peers in 'dealing with construction permits,' 'trading across borders,' and 'enforcing contracts,' but its overall ranking places the country in the 134th position (out of 190 countries, 7 positions lower than in the previous release), with major weaknesses in the areas of 'registering property,' 'getting credit,' and 'resolving insolvency.' National and regional efforts are ongoing to implement reforms that enhance the business environment, including revising foreclosure legislation, establishing a credit bureau, setting up a Partial Credit Guarantee Scheme with regional and international partners, and reforming land registry to address weaknesses in access to credit and handling insolvency.



6. Meanwhile, tourist arrivals in 2017 remained stagnant, as has been the case in recent years. This trend notably contrasts important dynamism in other ECCU countries which have seen continued growth since the trough of the global financial crisis.



B. Reserve Adequacy

7. International reserves remain well above the various metrics of reserve adequacy, providing ample buffers. As of 2017, reserve coverage, at 7.6 months of imports of goods and services, remains at a comfortable level, well above the traditional 3-month benchmark, as well as a stricter threshold of 6 months; reserves are also higher than the 20 percent of broad money (M2) benchmark. At the ECCU-regional level, St. Kitts and Nevis is leading its peers in terms of the stock of international reserves.

Comparison of International Reserves Across Regions

	In Months of Goods and Service Imports		
	2015	2016	2017
St. Kitts and Nevis	6.5	7.3	7.7
ECCU	5.2	5.4	5.2
Caribbean excluding ECCU 1/	3.8	4.0	3.9

Source: IMF, World Economic Outlook
1/ Includes Bahamas, Barbados, Belize, Guyana, Haiti and Jamaica

Annex III. Progress on 2017 Article IV Policy Recommendations

Recommendations	Policy Actions
Growth Agenda	
Improve **business environment**	Ongoing. Further progress made in implementing reforms to improve access to credit, business registration, and land registration.
Address the **skills gap** and **enhance diversification**	Ongoing. The upgraded apprenticeship scheme (STEP) includes a training component. Recommendation to reduce stipends below the minimum wage yet not implemented. Government continues to promote agricultural linkages to hotel demand.
Enhance **productivity and connectivity**	Not yet implemented. The government has not yet joined the World Bank project to establish and intra-regional ferry. Regional level decisions are needed to reduce imports tariffs, foster competition in intra-regional air travel.
Pursue **growth inclusiveness**	Ongoing. Government continues to reform social assistance to improve targeting. Important efforts made to enhance security and establish community programs to fight crime.
Fiscal Sector	
Establish clear framework to complete **debt-land swap.** The SLSC should develop a clear strategy to enable progress with land sales.	Ongoing. Four sales have been completed, and a time-bound strategy with assistance from international real estate companies is envisaged.
Adopt a **medium-term fiscal framework** with a zero-primary balance target, net of CBI receipts and SIDF grants.	Not yet implemented. Fiscal adjustments to bring debt-to-GDP ratio to the ECCU-target of 60 percent by 2023 supported, but no discussion on the formal fiscal responsibility framework, and they prefer overall balance inclusive of CBI receipts as fiscal target.
Broadening the tax base (including through streamlining tax incentives) and **containing spending** to achieve the recommended medium-term fiscal target.	Ongoing. Streamlining tax incentives and integration of SIDF-funded activities to the budget envisaged, and seeking technical assistance to make the wage bill predictable.
Establish **Growth and Resilience Fund** to accumulate savings from CBI and provide a contingency buffer for future shocks.	Ongoing. Planning to establish the GRF based on recent Fund TA and manage receipts from the newly-established Sustainable Growth Fund, a new option of the CBI program.
Strengthen **PFM**, debt management, NIA debt/cash management. Increase transparency of SIDF and integrate with government's Consolidated Fund.	Ongoing. NIA debt/cash management continues with Fund TA. NIA's overdraft was negotiated into a new long-term loan. Legal work ongoing regarding the future of the SIDF. Agreed on integrating SIDF activities to the government.
Financial Sector	
Rapid progress needed in **NPL resolution.** Operationalize ECAMC. Modernizing foreclosure/insolvency legislation.	Ongoing. NPLs increased since the 2017 Article IV SR. ECAMC needs further support from shareholders. Foreclosure/insolvency legislations still pending.
Renewal of the debt-land swap **dividend guarantee** with banks.	Done. The dividend was renewed at a rate of 2.75 percent. It will be paid to banks up to 2019.
Establish a land registry new legal framework.	Done. By mid-2017 the Land Registry Bill was passed in Parliament.
Establish a **credit bureau**.	Ongoing. Legislation must be passed in all members of the currency union.
Reduce **CBR** risks and maintain a watertight **AML/CFT regime** with adequate financial disclosure.	Ongoing. Transfer of AML/CFT regulatory powers to the ECCB is still pending. Onsite risk-based examinations are regularly applied, including in the non-bank financial sector.
Data Gaps	
Enhance the quality of statistical data in Balance of Payments, National Accounts.	Ongoing. CARTAC assisted with compilation of National Account Statistics, Price Statistics, and BOP BPM6 and IIP data. BOP-BPM6 data and 2015/16 labor force survey to be released soon.

Annex IV. Debt Sustainability Analysis (DSA)

Worsening of the underlying fiscal position and materialization of vulnerabilities will lead to an upward trajectory in the debt-to-GDP ratio. The debt to GDP ratio is projected to increase to 69 percent by end-2023 if the activities of the SIDF are integrated to the general government in 2019, as recommended by staff. Adverse shocks, including a sudden stop in CBI flows or a costly natural disaster will further worsen the debt dynamics. Risks relating to the debt-land swap also constitute a significant risk for debt sustainability, in case of further delays in divesting land assets. Gross financing needs remain high, mainly owing to the large stock of T-bills, with ongoing efforts to gradually reduce the size of the portfolio and extend its average maturity.

A. Public Debt Sustainability Analysis

Medium-Term Debt Sustainability Analysis

1. Medium-term debt sustainability is projected to worsen as CBI inflows continue to decrease and if the SIDF activities are integrated to the general government, as recommended by staff.[1] The debt-to-GDP ratio was 62.9 percent of GDP at end-2017, lower than 66 percent at end-2015 but slightly higher than 61.5 percent at end-2016, and is projected to increase to 69 percent by 2023.[2] The public sector primary balance has deteriorated since 2014 because of lower grants, slowdown in CBI inflows, and a weaker tax performance, and despite the steep decline of CBI receipts incorporated in the baseline, the public sector primary balance is projected to average about 0.1 percent of GDP over 2018-2023.[3] Automatic debt dynamics turn unfavorable over the medium term, as domestic debt is issued to cover deficit from integrating the SIDF-related activities and the effective interest rate starts to exceed nominal GDP growth. Public debt, net of liquid financial assets of the public sector, is estimated at 36 percent of GDP at end-2017 and is projected to stabilize around 52 percent of GDP by 2023.[4]

2. The public sector has accumulated significant fiscal buffers from windfall revenues through the CBI program. At end-2017, central government has accumulated liquid deposits of about 27 percent of GDP, allowing it to cover its projected financing requirements and comfortably meet its debt service obligations without contracting new debt over the forecast

[1] Public debt declined significantly from a peak of 159 percent of GDP at end-2010 to 80 percent of GDP at end-2014, largely as the result of debt-restructuring that involved an innovative debt-land swap with domestic banks (equivalent to about 41 percent of 2010 GDP), a debt exchange with bondholders and external commercial creditors in 2012, and a flow restructuring with other Paris Club creditors.

[2] Gross public debt balances have been revised to include about 2.1 percent of GDP in budgetary arrears by central government on fuel purchases from PDVSA that date back to before 2009. These arrears remain contested by the authorities and are under negotiation, but have been conservatively included in the public debt stock. Retroactive corrections to staff's public enterprise debt figures have kept headline public debt close to former estimates.

[3] The public sector primary balance is largely governed by changes in the consolidated general government fiscal position. The financial position of 14 public enterprises is estimated based on unaudited financial performance of 10 enterprises through 2015 and estimates for 4 others over 2013-2015.

[4] Reflects liquid bank deposits of central government and public corporations.

horizon in the baseline scenario. The Sugar Industry Diversification Foundation (SIDF), the country's national development fund, had also accumulated significant assets in the past. SIDF's assets have been rapidly eroding in the past two years, however, and it cannot be counted as a source of financing anymore.

3. Despite large accumulated public sector savings, the scope for more rapid debt repayment remains limited. Central government has already paid down all outstanding domestic loans to commercial banks and social security and settled debt with major external bilateral creditors including debt owed to PDVSA, where the negotiation concluded in 2017 and the old loan was converted to a new loan with a lower interest rate. Purchases under the SBA were fully repaid in April 2016. Bonds from the debt restructuring or external multilateral debt carry a low interest rate with long maturities, hence beneficial for long-run debt sustainability. Meanwhile, expensive overdraft debt accounts held by the Nevis Island Administration (NIA) were consolidated with existing loans and converted into a new long-term loan in 2018 at a lower interest rate. Aggressive repayment of the remaining debt owed by the NIA and public corporations (equivalent to 16 percent of GDP) could deplete central government savings and weaken fiscal sustainability across the Federation absent significant strengthening of fiscal discipline at NIA and sufficient central government oversight on public corporations. T-bills held by private investors and arrears to PDVSA seems to be the most likely candidate for immediate repayment.

4. The baseline scenario incorporates the following assumptions on growth and the outlook for CBI inflows:

- *Fiscal Balance:* CBI budgetary revenues are assumed to decline from 5.7 percent of GDP in 2017 to 1.4 percent of GDP by 2023, contributing to the significant decline in the public sector primary surplus from 3 percent in 2017 to – 1.8 percent by 2023.

- *Growth and Inflation:* Real economic activity accelerates to about 3 ¼ percent over 2018-2020, before stabilizing at about 2.7 percent for the rest of the projection horizon—about 1 percentage point below the 10-year pre-crisis historical growth average. The drop reflects the phasing out of CBI-related investments and the impact of a subsequent slowdown in the construction sector as planned projects reach completion in 2019 and beyond. Continued recovery in tourism and related sectors, as new high-end tourist facilities come on stream and growth in source markets strengthen, partly offsets the drop. Inflation, measured by the GDP deflator, averages 2 percent over 2018-23.

- *Debt:* No assumptions are made on further early retirement of debt, despite the authorities' plans to consider repaying historical budgetary arrears to PDVSA. It is assumed that the government will resume domestic borrowing in the baseline as its fiscal balance worsens. In addition, negative shocks that worsens the primary balance will also be financed by new borrowing except for the natural disaster shock, for which the worsened primary balance for the year of the disaster is financed by drawing down central government deposits.

5. Staff used standard and customized MAC DSA shocks to simulate the impact of downside risks, highlighted in the Risk Assessment Matrix, on the public debt trajectory. These shocks will bring debt to elevated levels, especially if a combination of them were to materialize.

- **An adverse shock to growth** (calibrated as 1 standard deviation of growth volatility over the past 10 years), reflecting adverse external shocks, such as to tourism and from global spillovers, lowers growth by 3.9 percentage points relative to baseline over 2019-20, and lowers inflation by 1 percentage point in each year. Public debt rises, due to lower growth, to 90.4 percent of GDP in 2023, about 21 percentage points above baseline.
- **A sustained interest rate shock** of 368 bps (difference between the average real interest rate level over the projection period and the maximum 10-year historical level) was applied— consistent with a projected 350 bps increase in US interest rates over the medium-term.[5] The shock has only marginal effects (by about 3 percentage point compared to baseline). This reflects rolling over short-term debt, both by central government and NIA, at higher interest rates as well as higher interest expense on new borrowing by NIA.
- **A primary balance shock** was used to simulate the impact of a sudden stop in CBI inflows. A sudden stop in 2019 shocks the primary deficit by about 3¾ percentage points in 2019 and 1 ¾ percentage points in 2020 and about 1½ percentage points over 2021-2023. Under this scenario, the debt-to-GDP ratio increases by about 9½ percentage points by 2023.
- **A combined macro-fiscal** shock of all the above would lead to an elevated level. Debt rises to 106 percent of GDP in 2023, about 37 percentage points higher than baseline.
- **A custom natural disaster shock,** based on historical episodes of hurricane shocks in St. Kitts and Nevis, lowers growth by 6 percentage points compared to baseline in 2019, but growth is assumed to quickly recover to 1.6 percent in 2020 including through reconstruction efforts. Historical shocks suggest an expected deterioration in the fiscal balance by about 5 percentage points in both 2019 and 2020. Fiscal buffers will be drawn down by 7 percent of GDP in the year of the hurricane, while the debt-to-GDP ratio reaches 79.2 percent in 2023, 10 percentage points above baseline.
- A custom shock was used to simulate the impact of **a debt-land swap shock,** if the swapped land were not divested as planned. The scenario assumes swapping of 70 percent of the land for a long-term loan with domestic banks at an interest rate of 4.5 percent (about 0.5 percent higher than the current interest rate on one-year T-bills

[5] The economic projections of the Federal Reserve Board members as of December 2015 show an upper range forecast of 350 bps increase in the Federal Funds rate by 2018.

and about 1.75 percentage point higher than the 2.75 percent dividend guarantee on unsold land). This shock results in a 17 percentage points upward shift in the debt ratio compared to baseline in 2022. The debt-to-GDP ratio will be 85.8 percent in 2023.

6. **The historical and constant primary balance scenarios do not provide a reliable insight into possible risk.** The historical scenario considers several years of very high CBI budgetary inflows combined with strong fiscal performance under the Fund-supported program. The scenario with a constant primary balance also reflects the very high CBI budgetary inflows. While CBI inflows may prove to be stronger than staff's projections, such large inflows are more likely to be used to bolster fiscal buffers than pay down debt more rapidly (see ¶3).

7. **The heat map reflects a vulnerable debt risk profile.** While the debt level does not trigger the heat map threshold of 70 percent under the baseline scenario, and it exceeds 70 percent in all shock scenarios. A debt-land swap shock, if it materializes, would raise the debt level to over 85 percent by the end of the projection period. Debt is still vulnerable because of the large annual gross financing needs given the large stock of short-term debt (mainly T-bills). Although lengthening the maturities of commercial debt instruments would materially improve debt sustainability, the significant liquidity in the domestic banking system lowers potential challenges in rolling over short-term instruments over the near-term, at least for central government. Indicators show a medium level of vulnerability with respect to external debt and foreign currency denominated debt, while the fan charts show that there is some probability that the debt-to-GDP ratio will approach 100 percent over the medium term under the asymmetric fan chart (where only negative shocks to growth and the exchange rate are considered).

8. **The forecast track record has been affected by high uncertainty related to CBI inflows explains large forecast errors in recent years.** The forecast track record indicates that staff has underestimated growth and fiscal outturns in projections during the peak years of CBI inflows (2012-14). This reflects the unanticipated surge in CBI inflows, resulting in a delayed but much stronger-than-anticipated recovery and record primary surpluses, far above peers and historical averages. Forecast errors have shrunk more recently. Inflation projections have shown fewer forecast errors in recent years.

9. **The cyclically adjusted primary balance in the forecast period reflects the assumption that CBI inflows are not expected to continue at their current pace.** The estimated change in the cyclically adjusted primary surplus over the forecast period is at the lower end of the distribution of adjustments historically achieved by advanced and emerging economies with debt greater than 60 percent of GDP. This reflects the baseline assumptions of significantly lower CBI inflows, and hence, the projected decline in non-tax revenues and primary surplus over a 3-year forecast horizon.

Conclusion

10. **Ensuring St. Kitts and Nevis' medium-term debt sustainability requires attention to risks associated with the debt-land swap and prudent management of the accumulated**

government savings. Cementing the gains achieved in debt sustainability will require a framework to effectively mobilize land use/sales in a manner that ensures the credibility of the debt restructuring, while preserving national interests and the stability of domestic banks. Meanwhile, implementing an effective medium-term fiscal framework to preserve and prudently manage the large accumulated savings from CBI inflows by both central government and the SIDF will be critical to stabilizing the debt path and increasing resilience to exogenous shocks, including costly natural disasters, without renewed build-up of public debt.

B. External Debt Sustainability Analysis

11. The external public debt is projected to decline rapidly over the medium term to 9 percent in 2023, down from 16.5 percent in 2017. Amortization of restructured bonds with external commercial debt and projected repayment of multilateral debt, largely from the CDB, will significantly contribute to this decline. The current account deficit is projected to widen because of the modeled decay in CBI inflows in the baseline scenario, while imports remain elevated, in part because of continued imports of construction materials and capital goods and some pick up in fuel prices. Drawdowns on the accumulated investment commitments from prior years, reflected in commercial banks' net foreign asset position (and the growth in the imputed reserves at the ECCB), will finance the bulk of the current account deficits, as CBI-projects reach completion, resulting in no significant accumulation of new foreign debt. Stress tests indicate that external debt would continue to decline under interest rate, growth, real depreciation, and combined shocks. However, debt stays relatively higher under the current account shock scenario, suggesting that some external adjustment would be necessary to bring the debt path back to a downward trend under that shock.

Figure 1. St. Kitts and Nevis: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

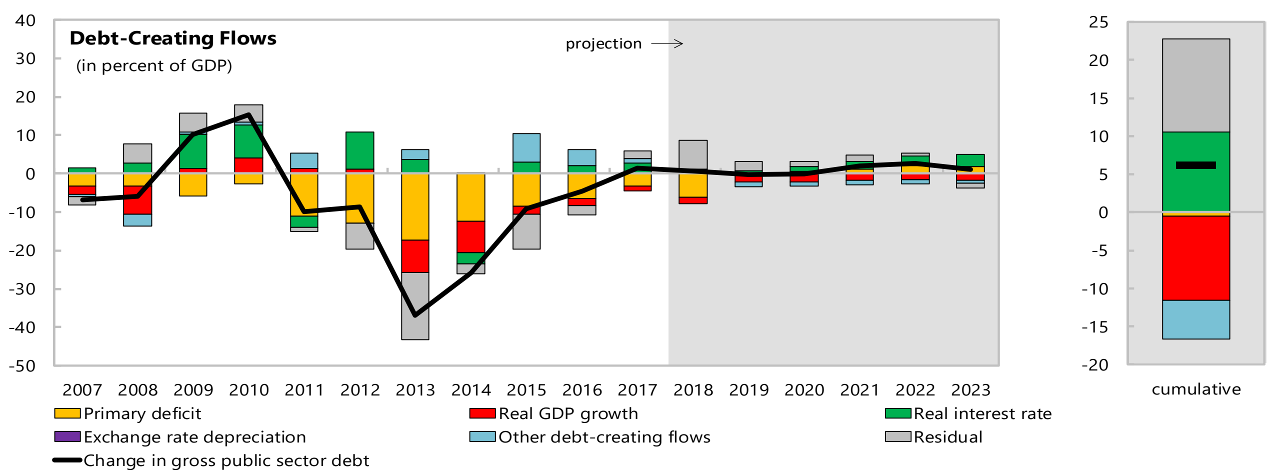
(In percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2007-2015 [2]	2016	2017	2018	2019	2020	2021	2022	2023
Nominal gross public debt	121.4	61.5	62.9	63.6	63.4	63.3	65.2	67.9	69.0
Public gross financing needs	26.8	18.0	16.3	11.9	18.1	18.2	18.6	20.2	22.2
Net public debt	111.8	35.9	36.0	37.1	39.3	41.2	45.0	49.4	51.9
Real GDP growth (in percent)	2.3	2.9	2.1	2.7	3.5	3.5	3.0	2.7	2.7
Inflation (GDP deflator, in percent)	2.2	-0.4	-1.6	1.6	2.1	2.1	2.1	2.1	2.0
Nominal GDP growth (in percent)	4.6	2.5	0.5	4.3	5.7	5.7	5.2	4.9	4.7
Effective interest rate (in percent) [3]	4.9	2.9	3.1	3.0	3.6	4.4	5.4	6.1	6.8

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	cumulative	debt-stabilizing primary balance [8]
Change in gross public sector debt	-8.6	-4.6	1.4	0.7	-0.2	-0.1	1.9	2.7	1.1	6.1	
Identified debt-creating flows	-5.9	-2.1	-0.6	-6.7	-2.6	-1.4	0.1	1.9	2.5	-6.1	
Primary deficit	-8.5	-6.5	-3.3	-6.2	0.0	0.6	1.2	2.1	1.8	-0.5	0.7
Primary(noninterest) revenue+grants	42.6	39.3	37.8	40.2	34.8	33.8	33.1	26.0	25.8	193.7	
Primary(noninterest) expenditure	34.1	32.8	34.5	33.9	34.8	34.4	34.2	28.1	27.6	193.2	
Automatic debt dynamics [4]	1.4	0.3	1.6	-0.8	-1.3	-0.8	0.1	0.8	1.4	-0.6	
Interest rate/growth differential [5]	1.4	0.3	1.6	-0.8	-1.3	-0.8	0.1	0.8	1.4	-0.6	
Of which: real interest rate	3.6	2.1	2.9	0.8	0.8	1.3	1.9	2.5	3.1	10.5	
Of which: real GDP growth	-2.3	-1.9	-1.3	-1.6	-2.1	-2.1	-1.8	-1.7	-1.8	-11.1	
Exchange rate depreciation [6]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	1.3	4.1	1.0	0.3	-1.4	-1.1	-1.1	-1.0	-0.7	-5.0	
Privatization/Drawdown of Deposits (	-1.1	-0.4	-0.4	0.3	-1.4	-1.1	-1.1	-1.0	-0.7	-5.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Accumulation of Bank Deposits	2.4	4.4	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [7]	-2.7	-2.4	2.0	7.4	2.4	1.3	1.8	0.8	-1.3	12.3	



Source: IMF staff.

1/ Public sector is defined as consolidated public sector, including 14 public enterprises.

2/ Based on available data.

3/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

4/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

5/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi (1+g)$ and the real growth contribution as $-g$.

6/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

7/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period. The residual negative effect on debt creating flows in 2012, 2013 and 2014 includes the impact of the debt forgiveness on the stock of debt.

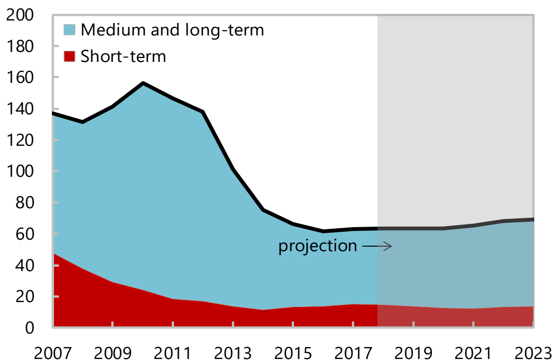
8/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. St. Kitts and Nevis: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

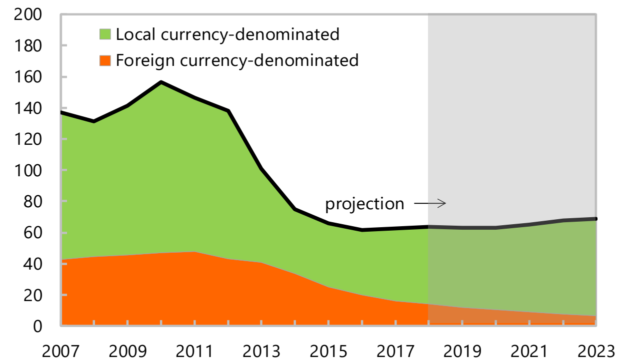
By Maturity 1/

(in percent of GDP)



By Currency

(in percent of GDP)

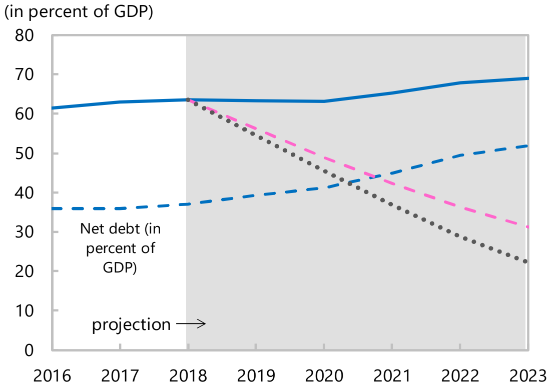


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

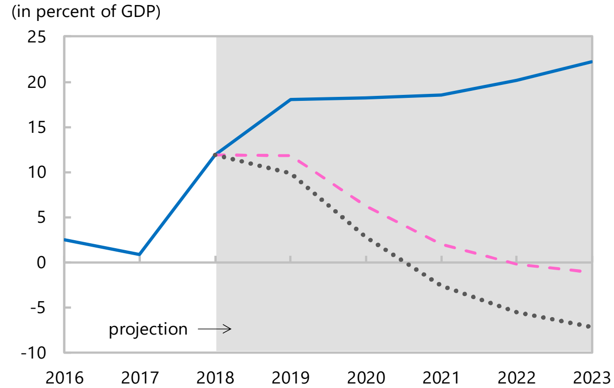
Gross Nominal Public Debt 2/

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	2.7	3.5	3.5	3.0	2.7	2.7
Inflation	1.6	2.1	2.1	2.1	2.1	2.0
Primary Balance	6.2	0.0	-0.6	-1.2	-2.1	-1.8
Effective interest rate	3.0	3.6	4.4	5.4	6.1	6.8
Liquid Buffers	29.7	26.5	24.4	22.3	20.4	18.7
Constant Primary Balance Scenario						
Real GDP growth	2.7	3.5	3.5	3.0	2.7	2.7
Inflation	1.6	2.1	2.1	2.1	2.1	2.0
Primary Balance	6.2	6.2	6.2	6.2	6.2	6.2
Effective interest rate	3.0	3.7	4.8	6.3	7.8	9.5

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth 3/	2.7	2.4	2.4	2.4	2.4	2.4
Inflation	1.6	2.1	2.1	2.1	2.1	2.0
Primary Balance 3/	6.2	8.3	8.3	8.3	8.3	8.3
Effective interest rate	3.0	3.7	5.0	6.7	8.5	10.9

Source: IMF staff.

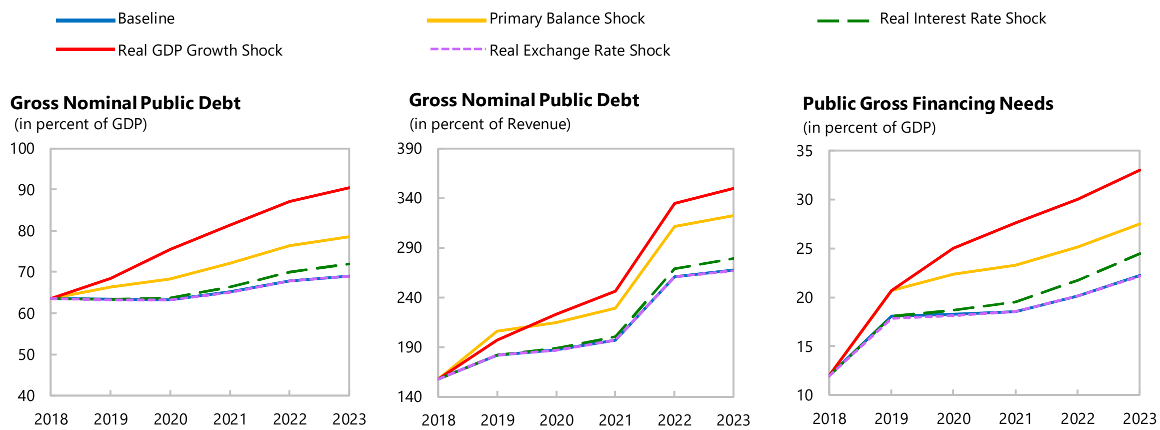
1/ The stock of short term debt falls over 2012-2013 as a result of restructuing of bank overdrafts.

2/ Net Debt reflects liquid financial assets of central government and public sector enterprises.

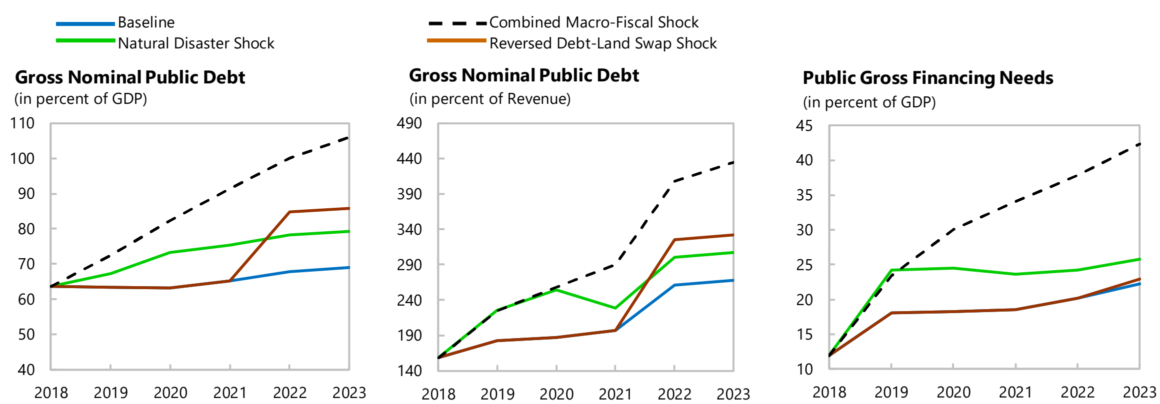
3/ 2017 is the current projection and 2018-2022 is the ten-year average for 2007-2016.

Figure 3. St. Kitts and Nevis: Public DSA – Stress Tools

Macro-Fiscal Stress Tests 1/



Additional Stress Tests 1/



Underlying Assumptions

(in percent)

Primary Balance Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	2.7	3.5	3.5	3.0	2.7	2.7
Inflation	1.6	2.1	2.1	2.1	2.1	2.0
Primary balance	6.2	-2.7	-2.6	-2.7	-3.6	-3.2
Effective interest rate	3.0	3.7	4.4	5.4	6.2	6.8
Liquid Buffers	29.7	27.1	25.0	23.0	21.1	19.6
Real Interest Rate Shock						
Real GDP growth	2.7	3.5	3.5	3.0	2.7	2.7
Inflation	1.6	2.1	2.1	2.1	2.1	2.0
Primary balance	29.7	0.0	-0.6	-1.2	-2.1	-1.8
Effective interest rate	3.0	3.7	5.3	6.5	7.7	8.7
Liquid Buffers	29.7	26.5	24.4	22.3	20.4	18.7
Combined Shock						
Real GDP growth	2.7	-0.4	-0.4	3.0	2.7	2.7
Inflation	1.6	1.1	1.1	2.1	2.1	2.0
Primary balance	6.2	-4.4	-6.1	-6.2	-6.5	-6.0
Effective interest rate	3.0	3.8	5.2	6.4	7.5	8.4
Liquid Buffers	29.7	28.5	27.5	25.3	23.3	21.6

Real GDP Growth Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	2.7	-0.4	-0.4	3.0	2.7	2.7
Inflation	1.6	1.1	1.1	2.1	2.1	2.0
Primary balance	0.0	-0.4	-0.8	-0.9	-1.0	-0.9
Effective interest rate	3.0	3.7	4.4	5.3	6.1	6.7
Liquid Buffers	29.7	28.5	27.5	25.3	23.3	21.6
Reversed Debt-Land Swap Shock						
Real GDP growth	2.7	3.5	3.5	3.0	2.7	2.7
Inflation	1.6	2.1	2.1	2.1	2.1	2.0
Primary balance	6.2	0.0	-0.6	-1.2	-2.1	-1.8
Effective interest rate	3.0	4.0	4.8	5.8	6.7	6.8
Liquid Buffers	29.7	26.5	24.4	22.3	20.4	18.7
Natural Disaster Shock						
Real GDP growth	2.7	-2.5	2.1	3.0	2.7	2.7
Inflation	1.6	2.1	2.1	2.1	2.1	2.0
Primary balance	6.2	-5.0	-5.6	-1.2	-2.1	-1.8
Effective interest rate	3.0	3.7	4.5	5.3	6.3	7.0
Liquid Buffers	29.7	23.8	22.0	20.1	18.3	16.9

Source: IMF staff.

1/ Assumes that shocks to central government's primary balance draws down on accummulated fiscal buffers before new debt is contracted. New borrowing is triggered when buffers fall below 10 percent of GDP. Except for the Natural Disaster Shock, deficits of local government (the Nevis Island Administration) and Public Sector Enterprises are financed through new borrowing throughout the forecast horizon.

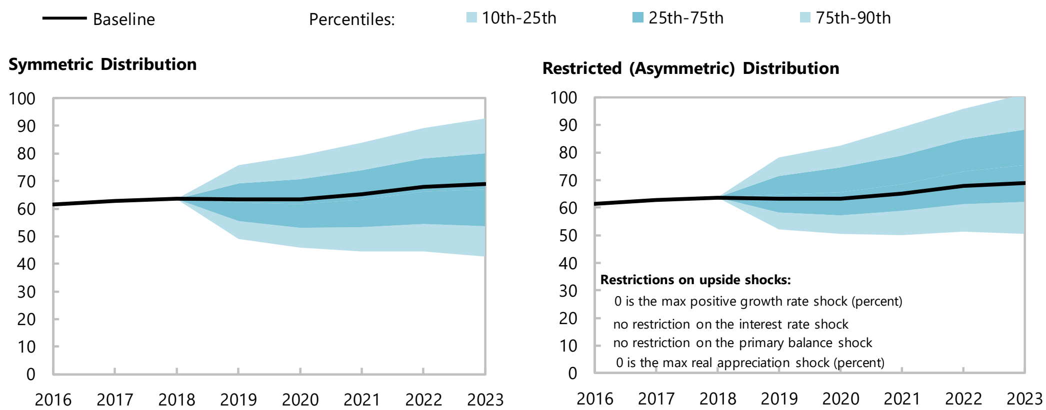
Figure 4. St. Kitts and Nevis: Public Debt Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

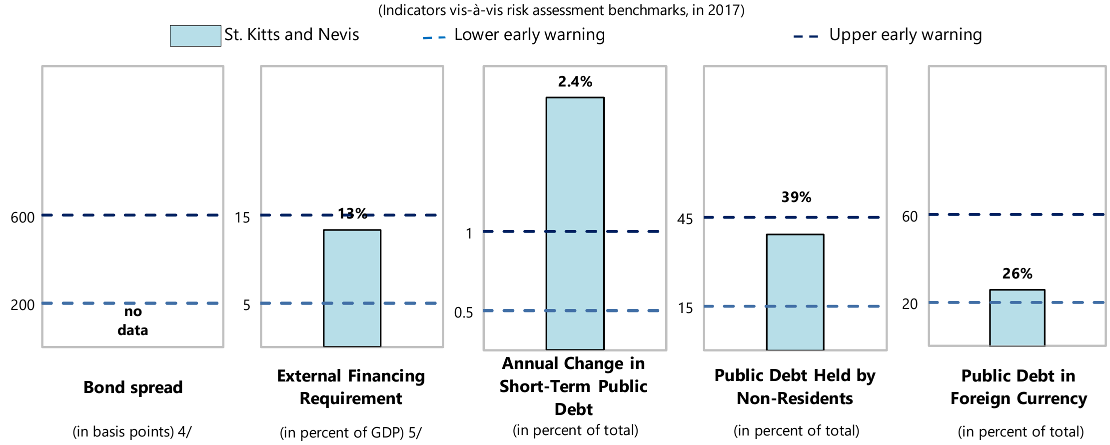
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2017)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

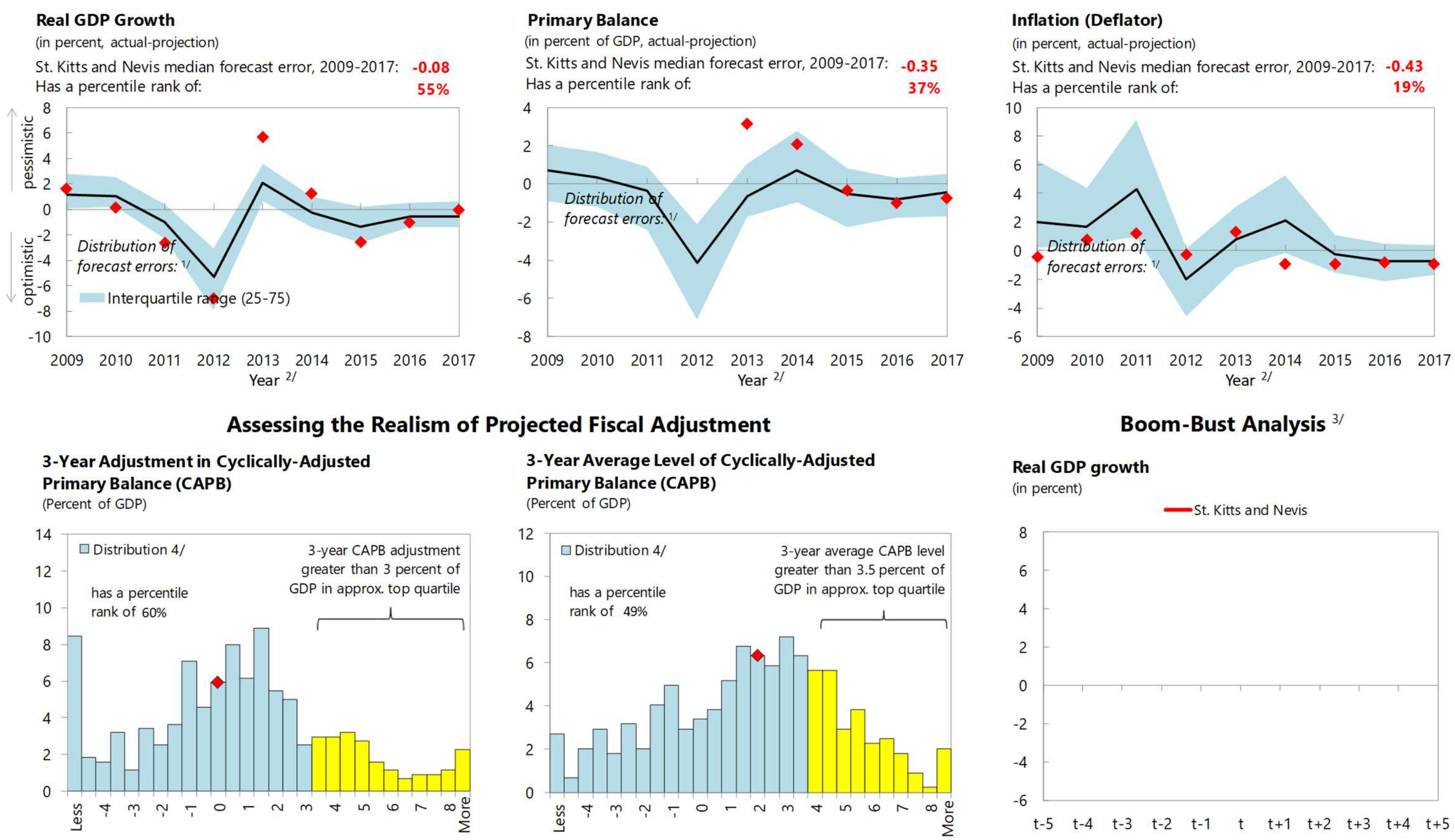
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ St Kitts and Nevis is not rated by the credit rating agencies, and no bond spread information is available

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 5. St. Kitts and Nevis: Public DSA—Realism of Baseline Assumptions

Forecast Track Record, versus all countries



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

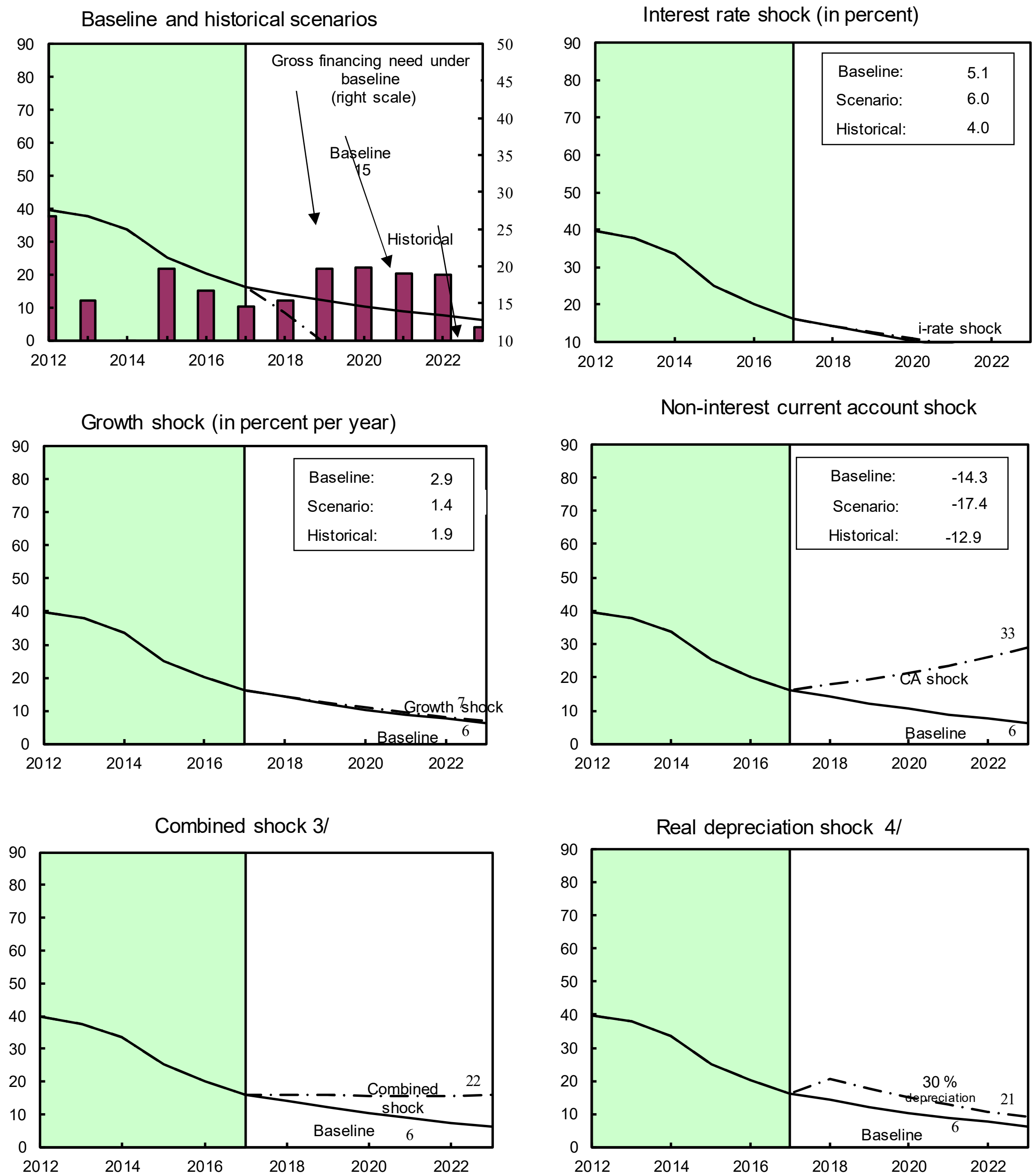
2/ Projections made in the spring WEO vintage of the preceding year. St Kitts and Nevis does not have historic WEO forecasts for either primary balance or expenditure/revenues/interest expenditure between 2005 and 2010, as a result the forecast errors are not available.

3/ Not applicable for St. Kitts and Nevis as there has not been a 3-year positive output gap.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis. Realism assessment conducted over forecasts from 2017.

Figure 6. St. Kitts and Nevis: External Debt Sustainability: Bound Tests[1/ 2/]

(External debt in percent of GDP)



Sources: International Monetary Fund, St. Kitts and Nevis authorities, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance in 2017.
4/ One-time real depreciation of 30 percent occurs in 2017.

Table 1. St. Kitts and Nevis: External Debt Sustainability Framework, 2011–23

	Actual									Projections							
	2011	2012	2013	2014	2015	2016	2017			2018	2019	2020	2021	2022	2023		Debt-stabilizing non-interest current account 6/
Baseline: External debt	48.2	39.6	37.8	33.6	25.2	20.2	16.1			**14.2**	**12.2**	**10.4**	**8.9**	**7.5**	**6.3**		**-10.8**
Change in external debt	0.9	-8.5	-1.9	-4.2	-8.4	-4.9	-4.1			-2.0	-2.0	-1.8	-1.6	-1.3	-1.2	0.0	
Identified external debt-creating flows	-1.9	-2.9	-14.7	-13.5	0.1	1.2	5.2			4.6	6.0	6.1	5.6	5.8	-0.7	0.0	
Current account deficit, excluding interest payments	11.0	6.1	9.1	1.3	8.5	11.6	10.7			12.2	16.6	17.2	16.6	16.7	9.8	10.8	
Deficit in balance of goods and services	15.8	10.6	12.1	-6.7	-1.2	3.8	2.8			4.8	9.4	9.7	9.1	9.3	9.3		
Exports	34.7	34.8	38.2	58.7	56.1	52.2	51.2			51.3	48.8	48.5	48.2	48.4	48.6		
Imports	50.5	45.4	50.3	52.0	54.9	56.0	54.0			56.2	58.3	58.3	57.3	57.7	57.8		
Net non-debt creating capital inflows (negative)	-11.9	-7.7	-21.9	-12.8	-8.4	-10.1	-5.6			-7.7	-10.9	-11.3	-11.2	-11.3	-10.9	-10.9	
Automatic debt dynamics 1/	-1.0	-1.3	-1.9	-2.0	0.1	-0.2	0.1			0.1	0.2	0.2	0.3	0.3	0.3	0.1	
Contribution from nominal interest rate	2.0	1.5	0.4	0.9	0.7	0.4	0.5			0.5	0.7	0.6	0.6	0.5	0.5	0.4	
Contribution from real GDP growth	0.4	-1.9	-2.1	-1.9	-0.9	-0.7	-0.4			-0.4	-0.5	-0.4	-0.3	-0.2	-0.2	-0.2	
Contribution from price and exchange rate changes 2/	-3.4	-1.0	-0.2	-1.0	0.3	0.1	0.3			...	...	...	...	...	...	-0.1	
Residual, incl. change in gross foreign assets 3/	2.8	-5.6	12.8	9.3	-8.6	-6.2	-9.3			-6.6	-7.9	-7.9	-7.2	-7.1	-0.4	0.0	
External debt-to-exports ratio (in percent)	138.8	113.8	98.8	57.2	44.9	38.7	31.5			27.6	24.9	21.5	18.4	15.5	13.0		
Gross external financing need (in millions of US dollars) 4/	160.6	214.3	131.4	89.1	184.0	160.3	140.1			154.8	209.1	223.4	224.6	234.2	152.6		
in percent of GDP	21.3	26.8	15.5	9.7	19.7	16.7	14.5	10-Year	10-Year	15.4	19.7	19.9	19.0	18.9	11.8		
Scenario with key variables at their historical averages 5/										**8.5**	**-0.7**	**-10.1**	**-19.0**	**-28.0**	**-29.9**		**-14.4**
Key Macroeconomic Assumptions Underlying Baseline								Historical Average	Standard Deviation							For debt stabilization	
Real GDP growth (in percent)	-0.8	4.1	5.6	5.3	2.7	2.9	2.1	1.9	3.5	2.7	3.5	3.5	3.0	2.7	2.7	2.7	
GDP deflator in US dollars (change in percent)	7.8	2.1	0.6	2.7	-0.8	-0.4	-1.6	1.5	2.7	1.6	2.1	2.1	2.1	2.1	2.0	2.1	
Nominal external interest rate (in percent)	4.5	3.3	1.2	2.4	2.1	1.5	2.5	4.0	2.1	3.5	5.0	5.5	5.9	6.4	7.0	7.0	
Growth of exports (G&S, US dollar terms, in percent) 7/	23.2	6.6	16.6	66.1	-2.6	-4.6	-1.5	12.2	24.1	4.5	0.6	5.0	4.4	5.3	5.1		
Growth of imports (G&S, US dollar terms, in percent)	2.0	-4.3	17.7	11.8	7.4	4.6	-3.2	4.8	10.5	8.5	9.6	5.7	3.4	5.6	5.0		
Current account balance, excluding interest payments	-11.0	-6.1	-9.1	-1.3	-8.5	-11.6	-10.7	-12.9	7.3	-12.2	-16.6	-17.2	-16.6	-16.7	-9.8		
Net non-debt creating capital inflows	11.9	7.7	21.9	12.8	8.4	10.1	5.6	14.3	5.7	7.7	10.9	11.3	11.2	11.3	10.9		

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ Residual reflects CBI-related capital transfers to the Sugar Industry Diversification Foundationand changes in commercial banks' net foreign assets and International reserves.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

7/ Includes CBI receipts.

INTERNATIONAL MONETARY FUND

ST. KITTS AND NEVIS

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

August 6, 2018

Prepared By

The Western Hemisphere Department (in collaboration with other departments and institutions)

CONTENTS

FUND RELATIONS

(As of June 30, 2018)

Membership Status: Joined August 15, 1984; Article VIII.

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	12.50	100.00
Fund holdings of currency	11.52	92.15
Reserve position in the Fund	0.98	7.86

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	8.50	100.00
Holdings	4.73	55.63

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Jul 27, 2011	Jul 26, 2014	52.51	47.37

Overdue Obligations and Projected Payments to Fund[1/]:
(SDR Million; based on existing use of resources and present holdings of SDRs):

			Forthcoming		
	2018	2019	2020	2021	2021
Principal	0.00	0.00	0.00	0.00	0.00
Charges/Interest	0.02	0.04	0.04	0.04	0.04
Total	**0.02**	**0.04**	**0.04**	**0.04**	**0.04**

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not Applicable

Implementation of MDRI Assistance: Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Exchange Arrangement

St. Kitts and Nevis is a member of the Eastern Caribbean Central Bank (ECCB), which manages monetary policy and the exchange system for its eight members. The common currency, the Eastern Caribbean dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. The exchange rate regime is a currency board. St. Kitts and Nevis accepted the obligations of Article VIII, Sections 2, 3, and 4 in December 1984. The exchange system is free of multiple currency practices and restrictions.

Safeguards Assessment

Under the Fund's safeguards assessment policy, the Eastern Caribbean Central Bank (ECCB) is subject to a full safeguards assessment on a four year cycle. An update assessment was completed in April 2016 and found that the ECCB has maintained generally strong controls over its key operations. External audit and financial reporting practices remain sound. The ECCB financial statements are compliant with International Financial Reporting Standards and are published on a timely basis. The ECCB has restructured the internal audit function and established an independent risk management unit to align it with leading international practices.

Last Article IV Consultation

The last Article IV staff report (IMF Country Report No. 16/250) was published on July 5, 2017. Board discussion took place on June 16, 2017. Article IV consultations take place on a 12-month cycle.

FSAP Participation, ROSCs, and OFC Assessment

St. Kitts and Nevis participated in the regional ECCU FSAP conducted in September 2004. The Financial System Stability Assessment is available at http://www.imf.org/external/pubs/cat/longres.aspx?sk=17718.

A review of St. Kitts and Nevis AML/CFT Assessment was conducted by a team of assessors representing the Caribbean Financial Action Taskforce (CFATF) in September 2012.

Technical Assistance: (2010–Present)

Since 2010, St. Kitts and Nevis has benefited from technical assistance (TA) in the areas of tax policy, tax administration, economic statistics, financial supervision and macroeconomic management, both from IMF headquarters and the Caribbean Regional Technical Assistance Centre (CARTAC).

- CARTAC and the IMF's Statistics Department (STA) advised the National Statistics Office on rebasing the national accounts, and rebasing the consumer price index (CPI). CARTAC is assisting in developing quarterly GDP estimates; including compiling separate production-based measures of GDP for St. Kitts and Nevis. The milestone of developing the quarterly GDP methodology has been achieved; and good progress is being made in developing the compilation worksheets with around 80 percent completion. Experimental quarterly GDP estimates have been constructed but not been published yet. In addition, assistance is being provided to improve the CPI, and develop data collections and index methodologies for a producer price index and export-import price indices.

- CARTAC has assisted the St. Kitts and Nevis Department of Statistics and the Eastern Caribbean Central Bank (ECCB) in strengthening the compilation and dissemination of external sector statistics. The ECCB released preliminary summary estimates of 2014 balance of payments (BOP) and—for the first time—international investment position (IIP) statistics following the latest international standard methodology (*BPM6*) in January 2016. The ECCB published comprehensive BOP tables for 2014-16 and IIP tables for 2013-16 in the July 2017. The estimates benefited from CARTAC TA to develop and administer new surveys, and train data compilers and survey respondents. In order to solve remaining data gaps, CARTAC continues assisting in strengthening the business and visitor expenditure surveys; improving the coverage of source data used for the compilation of trade in goods, and further developing other data sources used to compile relevant components of the external sector statistics.

- CARTAC, the IMF's Monetary and Capital Markets Department (MCM), and the IMF's Legal Department (LEG) advised the authorities on strengthening financial sector regulation and supervision, including risk-based supervision. With assistance from the Office of the Superintendent of Financial Institutions in Canada (OSFI), CARTAC provided technical assistance to the Eastern Caribbean Central Bank (ECCB) on drafting the OECS Insurance Act, and also, in conjunction with LEG, provided technical assistance to the ECCB in finalizing the drafting of the OECS Money Services Business Act. CARTAC also assisted in the development of the Single Regulatory Unit and provided training to the Financial Services Regulatory Commission (FSRC) on implementing Risk-Based Supervision, including for nonbank financial institutions in the Federation and the offshore banking sector in Nevis. Since 2014, CARTAC has been assisting the regulatory bodies in St. Kitts with the development of guidelines for supervisory interventions, the implementation of Basel II and risk-based supervisory frameworks. On the Financial Stability front, CARTAC also provided TA in the area of stress-testing and dynamic modelling of the banking system in conjunction with the ECCB and conducted several capacity building workshops on the development of financial soundness indicators, and on risk-weighted capital adequacy.

- CARTAC has provided significant TA in tax administration, to both the Inland Revenue Department (IRD) and the Customs and Excise Department (CED);

- For the IRD, the assistance included the development of a comprehensive compliance risk management program; strengthening the headquarters function in 'program development' through the development of an audit plan for the large taxpayer segment, and capacity building in data analytics and cross-matching to improve data quality within the IRD and to support improved planning, performance management and business decisions. The IRD also benefitted from training to improve collections enforcement. For the CED, the assistance involved its reform and modernization program, including Post-Clearance Audit (PCA), Valuation and Risk Management training and developing a Corporate and Strategic Business Plan (2014-17). CARTAC also provided assistance in drafting a new Customs bill and regulations and training for the implementation of the OECS Harmonized System for goods classification.

- A follow-up mission from FAD visited the Federation in February 2016 to review progress with previous FAD recommendations and provide advice on remaining challenges for modernizing tax and customs administration.

- CARTAC and MCM provided technical assistance on public debt management under the Fund-supported program.

- IMF's Fiscal Affairs Department (FAD) is currently providing assistance for the comprehensive review of the tax incentives regime. An FAD scoping mission took place in March 2016 to review the main laws granting tax concessions and identify the next steps for developing an incentive regime that would be appropriate for the circumstances of St. Kitts and Nevis. In June 2018, a follow-up mission reviewed and made recommendations on both tax policy and procedures for tax incentives, including legislative changes in income tax, VAT, and tax administration and procedures to implement the recommendations.

- CARTAC, FAD and LEG provided assistance to improve cash management and tax administration—including collection enforcement. CARTAC also provided assistance in Property Tax reform to move the property tax base from rental value to market value, and in improving central government fiscal and debt data. A capacity building exercise was conducted to train new officers in the preparation of fiscal and debt projections.

- Under the Fiscal Management in the Caribbean Project (FMCP) the IMF is providing technical assistance in broad areas of Public Financial Management (PFM), including program and performance budgeting, cash planning in the Nevis Island Administration, the PFM reform action plan, and the finalization of Chart of Account codes.

As part of the Stabilization and Adjustment Technical Assistance Program (SATAP), St. Kitts and Nevis have benefited from capacity building in macroeconomic analysis.

RELATIONS WITH OTHER FINANCIAL INSTITUTIONS

- World Bank: http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=KN
- Caribbean Development Bank: http://www.caribank.org/about-cdb/member-countries/regional-members/st-kitts-and-nevis

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is **broadly adequate** for surveillance.
National Accounts: Methodological deficiencies are present in the real sector statistics. GDP figures rely on the production approach, both in constant and current prices. Limited survey data hinder the assessments of value-added for each sector with some sectors suffering from significant weaknesses in estimation methodology. On the expenditure of GDP, which is available only at current prices, the aggregate final private consumption expenditure is derived as a residual. This residual includes households and NPISH final consumption expenditures, and changes in inventories. Weaknesses are observed in the methods to estimate gross capital formation. GDP figures are derived from the production approach in constant and current prices. There are significant delays in completing data collection and processing of the annual NA. Staffing constraints in the compiling agency may compromise the development of new statistics, the quality improvement of the existing ones, and the intended improvements of timeliness. Quarterly GDP estimates are not published. Monthly data on tourism is disseminated by the ECCB with a significant lag.
Price Statistics: Monthly CPI data are posted on the ECCB website with a long lag, and a break in the series in November 2010 suggests a methodological problem in the linking process with the previous base. The ECCB disseminate monthly data on tourism also with a long lag, and the estimates on tourism expenditure are based on an old survey of spending by types of tourists and are only updated by changes in CPI. Except for data from the social security board and occasional labor force surveys, limited data are available on labor market developments.
Government Finance Statistics: Government Finance Statistics: STA has derived both quarterly and annual government finance statistics (GFS) for St. Kitts and Nevis up to 2016Q2 and annual GFS up to 2014 on main aggregates and their components for revenue, expense, and financing of the budgetary central government.
Monetary and Financial Statistics: Monthly monetary statistics are compiled and reported to the Fund by the ECCB, based on standardized report forms (SRF) for the central bank (SRF 1SR) and for other depository corporations (SRF 2SR), since July 2006. In April 2007, a data ROSC mission assessed the monetary statistics with reference to the GDDS and the Data Quality Assessment Framework (DQAF, July 2003). It indicated that the institutional coverage of other depository corporations is incomplete, which accept deposits—are excluded. Also, accrued interest is not incorporated in the value of the interest-bearing assets and liabilities, and valuation adjustments are

liabilities. In addition, source data for the commercial banks do not provide the disaggregation recommended by the *Monetary and Financial Statistics Manual* and *Compilation Guide*. Close coordination between the ECCB and the single regulatory unit (which supervises financial corporations other than those licensed under the Banking Act) is crucial. The ECCB is currently working on implementing a new reporting system for commercial banks that is envisaged to address the recommendations made by the April 2007 data ROSC mission. It is expected that the new reporting system would be implemented in 2016-17.

Financial Sector Surveillance: The ECCB compiles financial soundness indicators (FSIs) for its member countries, including St. Kitts and Nevis.

Financial Soundness Indicators (FSI): The ECCB compiles financial soundness indicators (FSIs) for its member countries, including St. Kitts and Nevis. However, due to confidentiality reason, dissemination of FSIs for the ECCB member countries has so far not been approved.

External sector statistics: Balance of payments data are compiled and disseminated by the ECCB on an annual basis. In January 2016, the ECCB released preliminary summary estimates of 2014 balance of payments and—for the first time—international investment position statistics based on the sixth edition of the *Balance of Payments and International Investment Position Statistics Manual* (*BPM6*) for the eight ECCU member economies. In 2017, the ECCB disseminated comprehensive balance of payments data for 2014-16 based on BPM6, pending estimation of historical data prior to 2014 under this methodology. Further work is required to improve the coverage of the data, particularly, the recording of trade in goods sourced from customs records and direct investment transactions due to low survey response rates. Travel credit services are now based on the results of the recent visitor expenditure survey, which are a better data source.

II. Data Standards and Quality

St. Kitts and Nevis has been participating in the General Data Dissemination System (GDDS) since October 2000, and currently participates in its successor initiative, the e-GDDS. The 2007 regional data ROSC provides an assessment on the ECCB's monetary statistics. No data ROSC is available for other sectors. Monetary Statistics Component of the Regional Data Module Report on Observance of Standards and Codes (ROSC) for the Eastern Caribbean Central Bank (ECCB) was published in 2007.

Data ROSC was published on August 2007.

Table of Common Indicators Required for Surveillance
(As of March 2017)

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]
Exchange Rates	Fixed Rate	NA	NA	NA	NA.
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	3/18	5/22/2018	M	M	M
Reserve/Base Money	3/18	5/22/2018	M	M	M
Broad Money	3/18	5/22/2018	M	M	M
Central Bank Balance Sheet	3/18	5/22/2018	M	M	M
Consolidated Balance Sheet of the Banking System	3/18	5/22/2018	M	M	M
Interest Rates[2]	3/18	5/22/2018	M	M	M
Consumer Price Index	3/18	6/26/2018	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	12/17	4/27/2018	Q	Q	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/17	4/27/2018	Q	Q	A
External Current Account Balance	2016	7/23/2017	A	A	A
Exports and Imports of Goods and Services	2016	7/23/2017	A	A	A
GDP/GNP	2017	6/26/2018	A	A	A
Gross External Debt	12/17	4/27/18	Q	Q	A

[1] includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] Central government only.

[5] Including currency and maturity composition.

[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

Statement by Ms. Horsman and Mr. Williams on St. Kitts and Nevis
September 12, 2018

Our St. Kitts and Nevis (SKN) authorities thank staff and management for the constructive engagement during the Article IV consultations. Our authorities value the cordial relationship with the Fund, welcome the staff report, and broadly agree with the policy recommendations. The SKN economy continues to register solid growth, however maintaining this momentum will require continued strong resolve to tackle existing and emerging vulnerabilities. To this end, our authorities will remain focused on pursuing sound policies geared toward solidifying the macroeconomic framework, safeguarding financial sector stability, enhancing the business environment, and strengthening resilience to natural disasters and climate change.

Recent Economic Developments and Outlook

Stimulating Growth

The SKN economy is rebounding following the recent slowdown. Growth slowed to 2.1 percent in 2017 from 2.9 percent the previous year. Contributing to the deceleration were Hurricanes Irma and Maria, which adversely affected several sectors, including construction, tourism, and international trade. Aided by disbursement from the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and the use of fiscal buffers built up largely from the Citizenship By Investment (CBI) program, our authorities responded quickly and decisively to address the damage caused by the hurricanes. As a result, economic expansion is expected to strengthen to 2.7 percent in 2018 and to average 3 percent over the medium term.

While the outlook for growth is positive, our authorities are mindful of downside risks. SKN, like the rest of the Caribbean, remains susceptible to shocks from natural disasters and climate change, inflows from CBI are expected to moderate, and public safety remains a concern for the authorities.

Our authorities will continue to undertake measures on several fronts to mitigate these risks. They increased coverage under the CCRIF this year and will continue to work toward strengthening the resilience of the country's infrastructure. Maintaining the integrity of the CBI program and accelerating land sales also remain priorities for our authorities. To complement these undertakings, they are advancing structural reforms to improve the business environment, promote economic diversification and boost potential growth. These reforms include stepping up plans to improve access to credit and business registration, and forging closer linkages between tourism and agriculture. To ensure that the education system is in sync with emerging labor market demands, our authorities will examine human capital deficiencies and undertake the requisite enhancements. They will also sustain ongoing efforts to improve the security and justice apparatus through increased provision of financial and technical resources.

Sustaining Fiscal Prudence

Fiscal policy continues to support debt containment and macroeconomic stability. The overall balance remained in surplus. The CBI program continues to be an important element of the fiscal landscape, and in this vein, our authorities have rebranded it and strengthened the due diligence process. These enhancements to the program offerings and operations have led to a considerable turnaround in business activity. CBI inflows for the first half of this year have already surpassed 2017 levels and are also ahead of staff's estimate for 2018. Based on current trends, and even with an expected moderation in inflows going forward, our authorities consider staff's medium-term fiscal forecasts to be overly pessimistic.

Durable measures will be adopted to reinforce fiscal discipline. While our authorities remain confident in the integrity of the CBI program, they will continue to use these inflows to build fiscal buffers, reduce reliance on them, and work toward strengthening the medium-term fiscal framework. In this regard, they will expedite efforts to streamline tax incentives, informed by recent Fund TA. Containment of the wage bill is also a top priority for SKN and our authorities look forward to Fund TA in this area. They acknowledge that a comprehensive strategy is required in respect of the Sugar Industry Diversification Foundation (SIDF) to minimize the associated fiscal risks. To this end, they consider it prudent to undertake a proper analysis to explore and weigh the options for the future treatment of the SIDF. Our authorities have initiated the legal process regarding the future of the SIDF, however incorporating its activities into the 2019 budget as recommended by staff is not practical. They are nevertheless willing to discuss possible options going forward and welcome technical advice from the Fund to inform their decisions.

Looking ahead, our authorities intend to establish a Growth and Resilience Fund (GRF), informed by Fund TA launched earlier this year. They will undertake a thorough analysis to determine what portion of government's deposits could be transferred to the GRF, taking into account the desire to pay down debt and upscale public investments. Our authorities are also giving consideration to the Fund's TA report received in July to guide their decision on an appropriate fiscal responsibility framework.

Preserving Financial Sector Soundness

A stable financial sector is integral to sustaining the economy's growth momentum and deepen inclusion. Key macroprudential ratios such as capital and liquidity requirements remain above regulatory minimum, and indigenous banks have preserved CBRs, albeit at increased costs. Our authorities however are concerned about the higher levels of NPLs and related impacts on profitability within the banking system. To ameliorate these unfavorable trends, they developed an NPL resolution strategy, which is being implemented with ongoing monitoring by the ECCB.

Our authorities will move steadfastly to develop a sound action plan to expedite the sale of lands and thereby attenuate financial sector risks. While progress with land sales has been slower than anticipated, implementation of the action plan is expected to stimulate a pick-up in transactions. To demonstrate their commitment in this regard, our authorities will engage a credible realtor to aggressively market plots of land for sale.

Other efforts to bolster financial sector stability will continue. Following the implementation of strengthened regulations on valuation in July, work is far advanced toward adoption of more stringent provisioning requirements by October. SKN maintains a robust AML/CFT regime, nevertheless they will continue to work determinedly to ensure that the framework remains compliant with international standards. Furthermore, the SKN government is collaborating with the ECCB as part of an ongoing regional initiative to establish a modern credit reporting system and develop modern foreclosure legislation.