



ST. KITTS AND NEVIS

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

May 2024

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 2024 Article IV consultation with St. Kitts and Nevis, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on February 26, 2024, 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 April 17, 2024.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

- Selected Issues

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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International Monetary Fund
Washington, D.C.



IMF Executive Board Concludes 2024 Article IV Consultation with St. Kitts and Nevis

FOR IMMEDIATE RELEASE

Washington, DC – May 15, 2024: On May 2, 2024, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with St. Kitts and Nevis and endorsed the staff appraisal without a meeting on a lapse-of-time basis.¹

Despite a continued strong tourism performance, growth fell to 3.4 percent in 2023 (from 8.8 percent in 2022) due to delays in public and private sector investment projects. Higher food and oil prices and shipping costs pushed average inflation to 3.6 percent, which subsided at end-2023. The current account deficit narrowed to 5.4 percent of GDP in 2023 (from 10.9 percent in 2022) supported by the robust tourism recovery.

Pandemic support is being phased out (from 3.5 percent of GDP in 2022 to 1.1 percent of GDP in 2023) and CBI revenues have remained solid (at 22 percent of GDP in 2023). As a result, the fiscal position moved to a surplus of 1.0 percent of GDP in 2023, allowing gross debt to fall to 54 percent of GDP. CBI revenue is expected to face a gradual decline to 10 percent of GDP in 2028, which will raise the fiscal deficit over time (to 3.9 percent of GDP). Public debt will, though, remain below 60 percent of GDP. The systemic bank has high NPLs, low capital and a large foreign investment portfolio funded by public sector deposits.

The economic outlook is positive thanks to the renewable energy projects that would significantly reshape the economy. A privately funded utility-scale solar and battery storage project is expected to be completed in 2025 and a geothermal project in Nevis is at the planning stage. Geopolitical risks, commodity price volatility, an abrupt slowdown in key source markets for tourism, and natural disasters represent important near-term downsides. Over a longer horizon, greater-than-expected production of solar and/or geothermal energy could turn St. Kitts and Nevis into a net energy exporter, creating an additional source of growth. A balanced budget with a more ambitious fiscal path, and a further strengthening of the CBI framework will help cushion the risks stemmed from volatility of CBI, while undertaking an overhaul of the systemic bank will strengthen the financial sector further.

Executive Board Assessment²

Economic growth is poised to accelerate in the near term. Public and private sector investments, including on renewable energy, will add to the productive capacity of the economy, and lower energy imports will increase national income. It is also expected that cheaper energy prices will support competitiveness, foster economic diversification and ultimately raise potential growth. Carefully crafted policies in the areas of natural resource

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.

² The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

taxation, utility prices, investment tax incentives will be required to fully seize the potential of energy transition and harness renewable energy resources towards sheltering the country from growing climate risks.

The fiscal stance should be tightened to maintain a balanced budget over the medium term. While a small deficit is expected in 2024, balancing the budget over the medium term will require tightening the fiscal stance in response to an expected decline in CBI revenue. Foregoing further unbudgeted and untargeted payments, such as the CBI dividends, and returning current expenditures to their pre-pandemic level as a share of GDP will be essential. Improving control over the wage bill and goods and services expenditures, along with fully phasing out of electricity subsidies, should form the core of the effort. Progress in these areas would support an expansion of targeted social assistance and capital expenditures for natural disasters' resilience.

A comprehensive roadmap for tax reform would help prepare for a future decline in CBI revenues. A more progressive tax system would address the distortions created by broad tax concessions and bring greater fairness and economic efficiency. Reforming the property tax to reflect the current market value of properties and abolish stamp duty, as well as focusing on tax arrears collection, are steps in the right direction. Conducting a review of CIT concessions, with a view to abolishing negotiated tax concessions and income tax holidays, is time critical given the window of opportunity opened by the implementation of the OECD pillar II. Bringing unincorporated businesses under the CIT would allow for the full expensing of capital spending and the carryforward of losses. There is also scope to scale back VAT exemptions and expand VAT coverage to professional and financial services.

Efforts to enhance the CBI framework should be continued. CBI revenue have provided crucial support to the budget in the last few years but there is scope to further improve the integrity of the program. The steps taken to improve the governance of the program, advance CBI legislation, and create the CBI Board of Governors to improve oversight are commendable. The transparency and accountability of the CBI program could be further enhanced by publishing an annual financial report on the CBI unit's operations and key data on applications.

The country's legacy of fiscal prudence can be entrenched by a further strengthening of the fiscal framework. The government's implicit fiscal rule of balancing the budget and remaining below the regional debt ceiling has served the country well. Enshrining this practice into law would provide a clear fiscal anchor, improve fiscal policy making transparency and provide solid foundations to the establishment of the SRF. An expenditure rule would help bring current expenditures back to pre-pandemic levels and cap future current spending increases from volatile CBI inflows, supporting a rebalancing towards capital expenditures. Public sector investment policy and planning should be consolidated across the public sector through a consolidated investment budget prioritizing across projects.

Debt and cash management could be improved and the social security fund requires urgent reform. Maintaining a large amount of short-term debt can be costly, particularly when fiscal buffers are available. Consideration should be given to using the Regional Bond Market as a means to diversify funding sources, and more collaboration at the federal level could optimize public finance management. Urgent and decisive action is needed to preserve the financial balance of the Social Security Fund and protect intergenerational equity. A parametric reform should increase the contribution rate, raise the retirement age, and expand pension coverage. Ensuring that public sector employees' pensions are aligned with those of the broader social

security system to ensure replacement rates no greater than 100 percent is central to the fairness of the reform.

A successful transition to renewable energy will transform the economy. The government aims to bring the country to energy self-sufficiency by 2030 with 100 percent of renewable energy production. Investments planned in solar and geothermal energy will reduce energy imports, lower energy costs and could support productivity growth by boosting economic diversification and export opportunities. Fully harnessing the country's renewable energy potential calls for a comprehensive strategy, including deciding on the optimal energy mix, related investment plans and financing options, and multi-year planning for the infrastructure upgrades needed to connect the two islands power grids and increase resilience to natural disasters.

Climate adaptation requires reforming utility prices. Water and electricity prices need to reflect production costs and promote conservation. The drilling of wells, water storage investment, and creating capacity for desalination are needed to establish a reliable supply of fresh water. More progressive utility rate structures will encourage investments in conservation and provide some of the resources needed. The utility commission should provide guidance on cost-recovery pricing of electricity and water. The government should establish a taxation framework that provides incentives for renewable energy investment while allowing the public sector to receive a share of future rents from such investments. Broad based tax exemptions for such investments should be avoided, and more targeted and economically efficient subsidies or tax incentives considered instead.

The impact of wage increases on employment, informality, and external competitiveness should be carefully assessed. A two-tier increase of minimum wage in January 2024 and July 2025 will increase the minimum wage by nearly 40 percent compared to the previous level set in 2014, placing it higher than ECCU peers and likely subjecting one-sixth of the workforce to the minimum wage. Public sector wage setting should also consider its cascading effects in the private sector.

The financial system should be strengthened. The government should restructure the systemic bank. Provisions and capital for all banks should meet the ECCB regulatory minimum and long-standing non-performing loans be addressed. Banks unable to meet regulatory minimum should continue to work closely with the ECCB through a clear and monitorable capital restoration plan. The systemic bank has made good progress in de-risking its large foreign investment portfolio, as recommended in the last IMF Staff Report. The establishment of the SRF—which will be accompanied by a reallocation of some of the foreign investments and government deposits from the systemic bank into the SRF—will allow the bank to focus on channeling household and corporate deposits towards private sector lending. The credit union sector has expanded briskly and should be monitored closely to ensure proper recordation of non-performing loans and adequate provisioning and capital at each institution.

The 2023 external position is assessed to be weaker than the level implied by medium-term fundamentals and desirable policies. The current account deficit is projected to fall to over the medium term supported by lower fossil fuel imports. International reserves are adequate.

St. Kitts and Nevis: Selected Economic Indicators 2019-25

	2019	2020	2021	2022	Est. 2023	Proj. 2024	2025
(Annual percentage change, unless otherwise specified)							
National income and prices							
Real GDP (market prices) 1/	4.1	-14.6	-0.9	8.8	3.4	4.7	4.3
Real GDP (factor cost) 1/	4.8	-13.4	-0.1	6.3	8.4	3.5	4.1
Consumer prices, period average	-0.3	-1.2	1.2	2.7	3.6	2.5	2.2
Real effective exchange rate appreciation (+) (end-of-period)	-0.2	-2.3	-4.7	-2.7	0.6	...	...
Money and credit 2/							
Broad money	5.6	-8.1	8.9	3.7	4.3	6.3	7.1
Change in net foreign assets	6.5	-0.4	9.1	-7.0	2.6	2.6	2.5
Net credit to general government	-9.5	-18.4	-4.8	4.9	-0.6	1.0	1.7
Credit to private sector	1.5	1.1	4.1	3.0	2.1	2.3	2.5
(In percent of GDP)							
Public sector 3/							
Total revenue and grants	36.6	33.5	46.6	45.6	42.5	39.5	37.7
o/w Tax revenue	18.5	18.8	19.0	18.6	19.1	19.1	19.1
o/w CBI fees	14.8	11.3	23.4	25.5	21.5	18.0	16.0
Total expenditure and net lending	37.3	36.5	41.2	49.6	41.6	39.7	38.6
Overall balance	-0.7	-3.1	5.4	-4.0	1.0	-0.2	-0.9
Total public debt (end-of-period)	54.3	68.0	69.1	60.6	54.4	51.7	49.9
General government deposits (percent of GDP) 4/	24.8	21.6	30.4	21.8	19.9	18.7	17.6
External sector							
External current account balance	-4.8	-10.8	-5.1	-10.9	-5.4	-6.5	-8.6
Trade balance	-27.5	-28.0	-26.3	-34.9	-31.0	-32.6	-34.1
Memorandum items							
Net international reserves, end-of-period							
Holdings of SDRs, in millions of U.S. dollars	346.3	365.4	312.8	270.3	267.0	264.7	263.0
Nominal GDP at market prices (in millions of EC\$)	2,989	2,387	2,318	2,628	2,884	3,062	3,260

Sources: St. Kitts and Nevis authorities; ECCB; UNDP; World Bank; and IMF staff estimates and projections.

1/ In June 2021, the National Statistics Office revised historical GDP series.

2/ The series for monetary aggregates have been revised consistent with the 2016 Monetary and Financial Statistics Manual and Compilation Guide.

3/ Consolidated general government balances. Primary and overall balances are based on above-the-line data.

4/ Includes only central government deposits at the commercial banks.



ST. KITTS AND NEVIS

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

April 17, 2024

KEY ISSUES

Context. Delays in investment projects lowered growth to 3.4 percent in 2023 despite a solid rebound in tourism. Revenues from the citizenship by investment (CBI) program were 22 percent of GDP in 2023 which resulted in a small fiscal surplus and debt falling to 54 percent of GDP. Two large energy projects are at a planning stage but, if fully implemented, would shift the country's energy mix entirely to renewables and significantly reduce the impact of changes in global commodity prices.

Policy Priorities

- Enhance the integrity and transparency of the CBI program including by administering the resources from CBI through a sovereign wealth fund.
- Carry out a comprehensive tax reform that, over time, will reduce the budget's reliance on CBI revenues.
- Reduce and better target current expenditures while increasing public investment in water infrastructure and climate adaptation.
- Address the actuarial imbalance in the pension system.
- Advance the transition to renewable energy.
- Reorganize the systemic bank—which faces high NPLs and market risk on its balance sheet—to focus its activities on its core banking business. Doing so would reduce the risks to both financial stability and public finances.

Approved By
Nigel Chalk (WHD)
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The mission team comprising Alexandre Chailloux (head), Sergei Antoshin, Sophia Chen, and Sinem Kilic Celik (all WHD) visited Basseterre and Charlestown during February 15-26, 2024. Paul Leonovich (MCM) and Ian De Vere Carrington (LEG) joined the meetings with the ECCB and FSRC, respectively. The team was supported by Spencer Siegel and Brett Smith (both WHD). Sylvia Gumbs (OED) participated in several meetings. Kevin Woods (ECCB) and Lisa Drakes (CDB) also joined the mission. The mission met with Prime Minister Honorable Dr. Terrance Drew, Premier of Nevis Honorable Mark Brantley, Attorney General Honorable Garth Wilkin, Financial Secretary Hilary Hazel, and other senior government officials, and representatives from public utility companies and the private sector, as well as regulators and statisticians from the ECCB.

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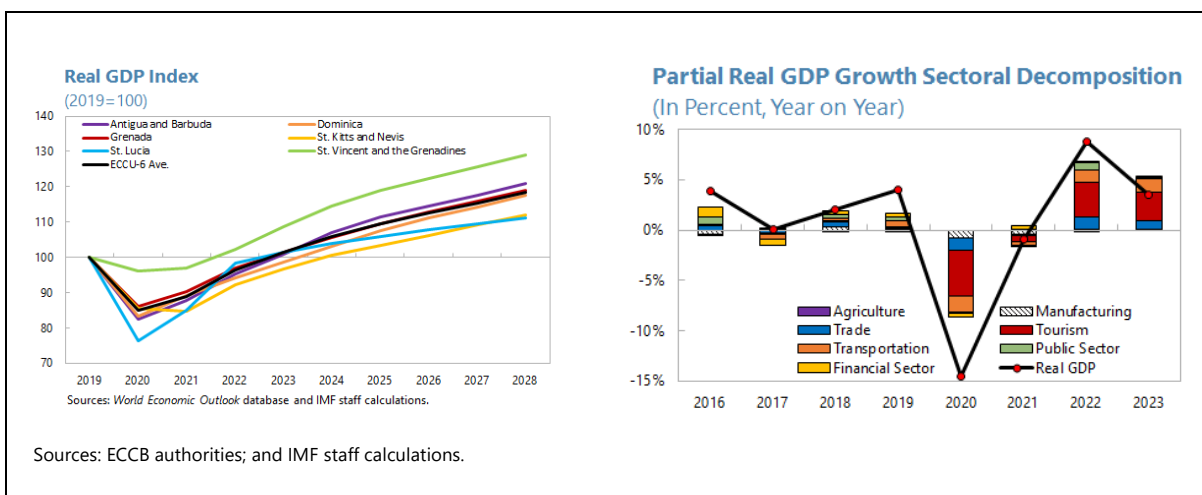
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RECENT DEVELOPMENTS

1. After strong growth in 2022, the economy slowed in 2023 due to delays in investment projects. Real GDP increased by 8.8 percent in 2022 with tourism contributing to more than half of the total expansion. Despite a continued strong tourism performance, growth fell to 3.4 percent in 2023 due to delays in public and private sector investment projects.



2. Inflation has tracked the changes in global commodity prices. Higher food and oil prices and shipping costs pushed average inflation to 3.6 percent, which subsided at end-2023. However, fiscal measures¹ reduced the pass-through of world food and energy prices and more recent data has shown a moderation of inflation.

3. The fiscal position improved in 2023 and public debt has fallen as a share of GDP. Pandemic support is being phased out (from 3.5 percent of GDP in 2022 to 1.1 percent of GDP in 2023) and CBI revenues have remained solid (at 22 percent of GDP in 2023). As a result, the fiscal position moved to a surplus of

Key Fiscal Items (In percent of GDP)		2019	2020	2021	2022	2023
Tax revenue		18.5	18.8	19.0	18.6	19.1
Nontax net revenue		17.3	13.5	26.8	26.4	22.5
Citizenship by investment (CBI) budgetary receipt:		14.8	11.3	23.4	25.5	21.5
Current expenditure		25.3	29.0	32.9	35.6	34.8
Capital expenditure		12.0	7.5	8.3	14.0	6.7
Land buyback		3.3	0.0	0.0	7.8	0.0
Overall balance (after grants)		-0.7	-3.1	5.4	-4.0	1.0
Overall balance (ex. land buyback, CBI net receipts)		-11.3	-13.3	-16.6	-19.3	-18.1
Primary balance		0.5	-1.7	6.6	-2.7	2.1
Primary balance (ex. land buyback, CBI net receipts)		-10.1	-11.9	-15.4	-18.1	-17.0

Sources: National authorities; and IMF staff calculations.

1.0 percent of GDP in 2023, allowing gross debt to fall to 54 percent of GDP. In addition, the government maintains sizable deposits in the systemic bank (of 22 percent of GDP). However, net of

¹ For instance, the gasoline excise reduction, and the electricity price subsidy introduced during the pandemic have not been phased out as planned in earlier budget commitments.

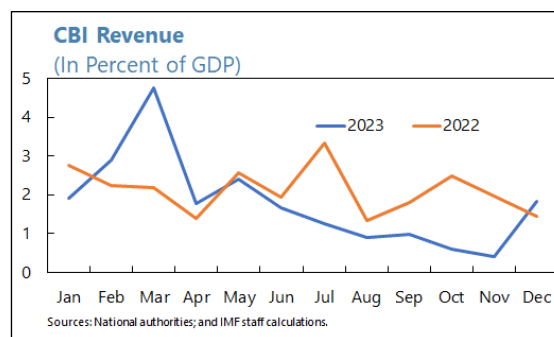
CBI revenue and land buybacks, the primary fiscal deficit—a key measure of fiscal stance—remains high (at 18 percent of GDP).

4. The budget remains highly reliant on CBI revenues. CBI revenues fell sharply in 2023H2, underscoring the volatility of this revenue source. Also, in 2023, 14 percent of CBI revenue was paid directly to residents (through a “CBI dividend”).

5. The 2024 general government budget targets a small overall deficit². The budget featured an 8 percent increase in public salaries and public pensions, a reduction in the remaining pandemic-era support, and the establishment of a contributory public pension fund. The government also announced significant increases in the minimum pension³ under the Social Security Fund and the national minimum wage.

6. The external position in 2023 is assessed to be weaker than the level implied by medium-term fundamentals and desirable policies. The current account deficit narrowed to 5.4 percent of GDP in 2023 (from 10.9 percent in 2022) supported by the robust tourism recovery. The EBA-Lite model estimates the current account gap at -4.8 percent of GDP in 2023. International reserves are adequate (Annex III).

7. The systemic bank has high NPLs and a large foreign investment portfolio funded by public sector deposits. The systemic bank has assets of around 120 percent of GDP (the largest bank in the ECCU), and the government owns 51 percent of its equity.⁴ The systemic bank’s NPL ratio was 39 percent in 2023Q2.⁵ The systemic bank has reached the 60 percent coverage ratio⁶ required by the ECCB, mostly through the use of regulatory reserves. Excluding the systemic bank, on average NPLs are 9 percent of assets (close to the 2020-23 average) although provisioning and loan-loss reserves are well below the ECCB’s 60 percent minimum. The systemic bank’s profits



EBA-lite Model Results, 2023

	CA model 1/ (in percent of GDP)	REER model 1/ (in percent of GDP)
CA-Actual	-5.4	
Cyclical contributions (from model) (-)	0.1	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.2	
Adjusted CA	-5.3	
CA Norm (from model) 2/	-12.5	
Adjustments to the norm (-) 3/	12.0	
Adjusted CA Norm	-0.5	
CA Gap	-4.8	6.6
o/w Relative policy gap	5.6	
Elasticity	-0.4	
REER Gap (in percent)	13.3	-18.2

1/ Based on the EBA-lite 3.0 methodology

2/ Cyclically adjusted, including multilateral consistency adjustments.

3/ The norm adjustor reflects the country’s unusually low remittance receipts relative to its (high) ratio of the stock of outward migrants relative to the domestic population. Generally, economies with a high migrated share of households have high receipts of remittances. Remittance income is generally associated with a higher average propensity to consume and invest, which would be reflected in a lower current account balance.

² The central government expects a surplus of 0.8 percent of GDP, and the local government expects a deficit of 1.4 percent of GDP, resulting in a deficit of 0.6 percent of GDP for the general government.

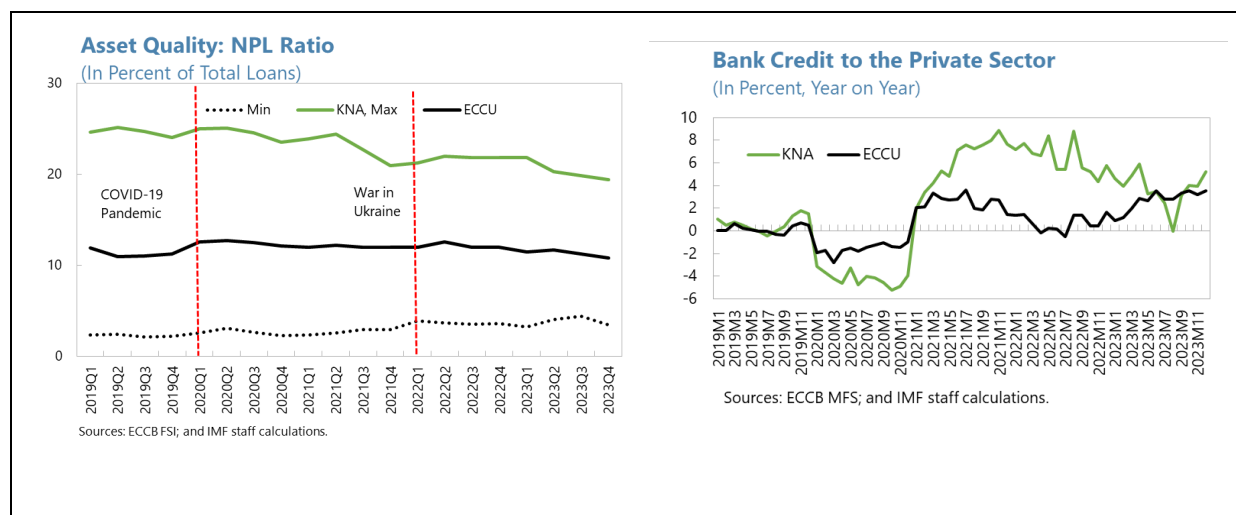
³ The minimum age pension will increase by 16 percent and the assistance pension by 37 percent.

⁴ The remainder of the banks have assets of around 85 percent of GDP.

⁵ Based on the [bank’s 2023 Annual Report](#).

⁶ The ratio of provisions and regulatory loan loss reserves to NPLs. Provisions subtract from capital; reserves do not.

turned positive in 2023Q2 due to a rebound in US equity prices that partially reversed the losses in prior quarters. Net interest income for the rest of the system have also recovered as short-term interest rates moved higher. Bank credit growth has moderated after the post-pandemic rebound. Lending by credit unions⁷ has been expanding briskly, their NPL ratios rising to 6.8 percent.



8. The government is trying to advance renewable energy projects that would significantly reshape the economy. A privately funded utility-scale solar and battery storage project is expected to be completed in 2025 and a geothermal project in Nevis is at the planning stage (although will take at least two years to complete). The two projects, upon completion, would be able to provide 100 percent of the country's electricity needs. This, in turn, would reduce energy imports, lower electricity costs, and make the country less vulnerable to terms of trade shocks (see Annex VI).

OUTLOOK AND RISKS

9. Growth is expected to increase to 4.7 percent in 2024 following the implementation of investments that were delayed last year and of the solar energy project. Output is expected to be supported by investments in solar in the near term and over the medium-term by geothermal projects. Over a longer horizon the renewable energy transition is also expected to generate productivity gains (see Annex VI). Lower world commodity prices should allow inflation to fall to 2.5 percent in 2024, with convergence to 2 percent expected by 2026. CBI revenue is expected to face a gradual decline to 10 percent of GDP in 2028, which will raise the fiscal deficit over time (to 3.9 percent of GDP). Public debt will, though, remain below 60 percent of GDP (Annex V). Even with a decline in CBI inflows and exports as a share of GDP, the current account deficit is projected to fall to around 2 percent of GDP over the medium term supported by lower fossil fuel imports.

⁷ Assets of around 20 percent of GDP.

10. Near-term risks are to the downside but the potential for renewable energy provides an important upside over the medium term (see Annex I). Geopolitical risks, commodity price volatility, or an abrupt slowdown in key source markets for tourism represent important near-term downsides. Potential inflows of CBI revenues pose a two-sided risk with significant uncertainty. Worsening NPLs and tighter credit conditions could also prove to be a headwind. St. Kitts and Nevis is also highly exposed to the risk of natural disasters (2023 SIP and 2021 Article IV). Over a longer horizon, greater-than-expected production of solar and/or geothermal energy could turn St. Kitts and Nevis into a net energy exporter, creating an additional source of growth.

Authorities' Views

11. The authorities broadly agreed with staff's projections and assessment of risks. They expect growth to pick up in 2024 and GDP to return to its pre-pandemic level by end-2024. They envision a positive outlook in the medium term, supported by strong growth in tourism, trade, and construction. They agreed that near-term downside risks were stemming from the uncertain external environment but noted that the renewable energy projects create a positive outlook in the medium term.

POLICY DISCUSSIONS

Ongoing large CBI revenues have helped to reduce debt and provide more room for maneuver to increase the effectiveness of current spending, improve the tax system, better manage CBI proceeds (including through setting-up a sovereign wealth fund), tackle imbalances in the pension system, and invest in renewable energy and climate adaptation. Reform of the systemic bank would improve financial stability and lead to greater accountability and transparency in the management of public sector resources.

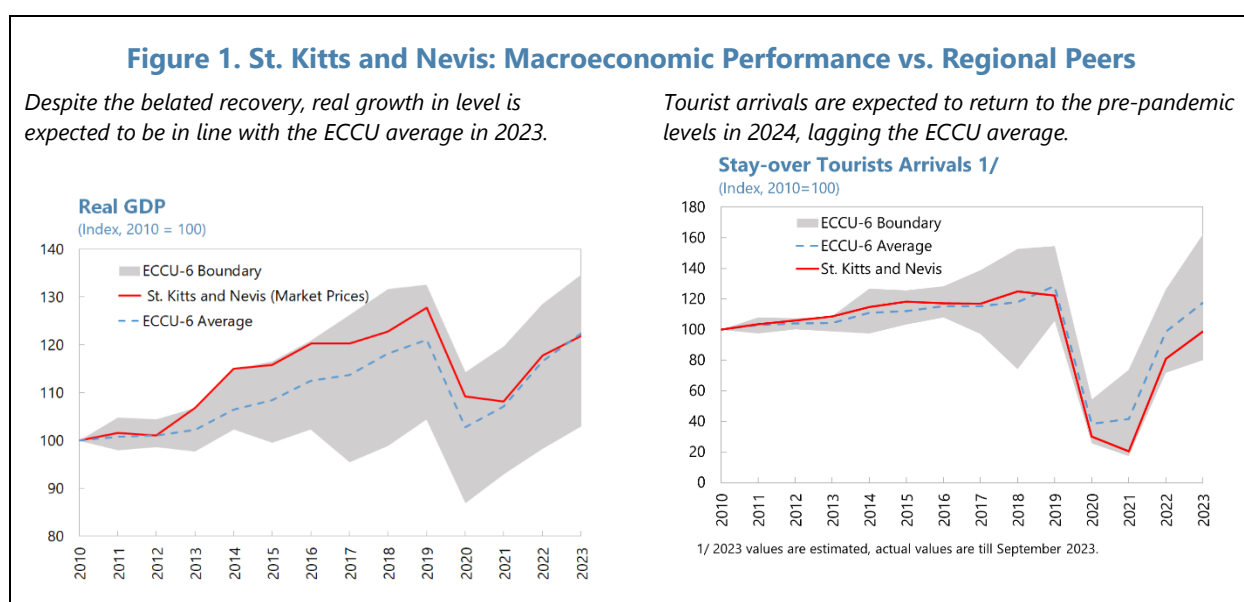
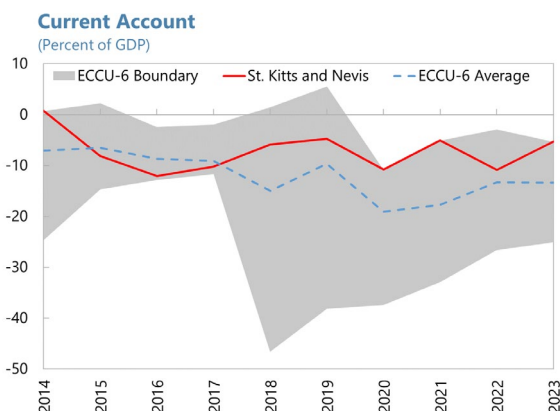
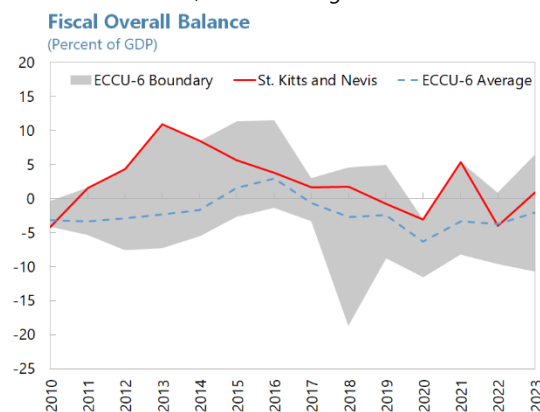


Figure 1. St. Kitts and Nevis: Macroeconomic Performance vs. Regional Peers (concluded)

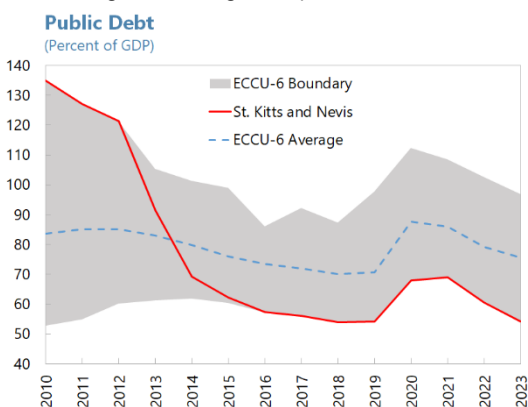
The current account balance in 2023, while negative, remained better than ECCU peers.



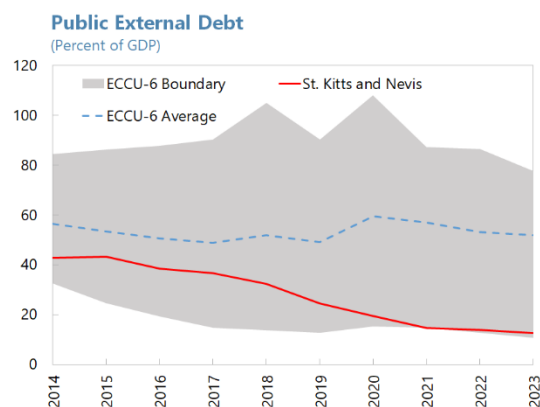
The fiscal balance is expected to return to the strongest position in the ECCU, thanks to large CBI revenue.



Gross public debt stock is the lowest in the region and below the regional ceiling of 60 percent of GDP.



External debt continued its downward trajectory.



Sources: ECCB authorities; and IMF staff calculations.

A. Improving Public Finances

12. Under current policies, the deficit is expected to rise to 3.9 percent of GDP over the medium-term. Around one-half of the assumed decline in net CBI revenues is expected to be offset by reductions in CBI dividends, a phase out of the electricity subsidy, and lower capital spending.

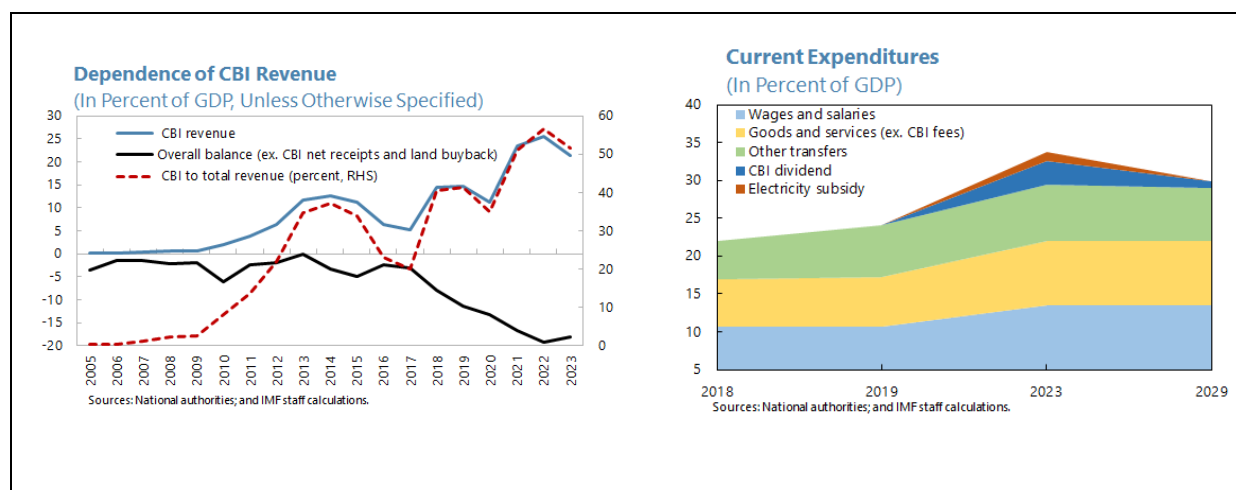
13. A more ambitious fiscal path would be needed to achieve a balanced budget. An additional fiscal adjustment of 3.9 percent of GDP over the medium term, through reductions in current expenditures, would improve the primary deficit (excluding land buybacks and CBI net receipts) from 17 percent of GDP in 2023 to 8 percent of GDP in 2029. This would lower gross debt to under 40 percent. Under this proposed path (text table), public wages, goods and services and transfers would revert to pre-pandemic levels and CBI dividends would be discontinued (the phasing-out of the electricity subsidy is already assumed in the baseline). This would lower current spending by 5.2 percent of GDP⁸ which would allow for a 1.4 percent of GDP increase in capital expenditure (relative to the baseline) to enhance natural disaster resilience. In the event of downsides in CBI revenues, the authorities would need to take further steps to raise taxes. Given the uncertainty surrounding CBI inflows, it would be prudent to have ready contingency measures that could be quickly deployed in the event of a shortfall.

Baseline: Key Fiscal Items (In percent of GDP)					delta
	2019	2023	2029	2029-23	
Tax revenue	18.5	19.1	19.1	0.0	0.0
Citizenship by investment (CBI) budgetary receipts minus CBI due diligence fees	14.8	21.5	10.0	-11.5	-11.5
Other nontax revenue	3.4	3.5	3.5	0.0	0.0
Wages and salaries	10.7	13.6	13.6	0.0	0.0
Goods and services (ex. CBI fees)	6.5	8.4	8.4	0.0	0.0
CBI dividend	0.0	3.1	0.9	-2.2	-2.2
Transfers ex. CBI dividend	6.8	8.6	7.0	-1.6	-1.6
Capex ex. land buyback	8.7	6.7	5.4	-1.4	-1.4
Overall balance (after grants)	-0.7	1.0	-3.9	-4.9	-4.9
Primary balance (ex. land buyback, CBI net receipts)	-10.1	-17.0	-11.8	5.2	5.2
Gross debt	54.3	54.4	54.4	0.1	0.1

Sources: National authorities; and IMF staff calculations.

Preferred Scenario: Key Fiscal Items (In percent of GDP)					
	2019	2023	2029	2029-23	diff. vs. baseline
Tax revenue	18.5	19.1	19.1	0.0	0.0
Citizenship by investment (CBI) budgetary receipts minus CBI due diligence fees	14.8	21.5	10.0	-11.5	0.0
Other nontax revenue	3.4	3.5	3.5	0.0	0.0
Wages and salaries	10.7	13.6	11.1	-2.4	-2.4
Goods and services (ex. CBI fees)	6.5	8.4	6.5	-1.9	-1.9
CBI dividend	0.0	3.1	0.0	-3.1	-0.9
Transfers ex. CBI dividend	6.8	8.6	6.8	-1.7	-0.1
Capex ex. land buyback	8.7	6.7	6.7	0.0	1.4
Overall balance (after grants)	-0.7	1.0	0.2	-0.9	4.0
Primary balance (ex. land buyback, CBI net receipts)	-10.1	-17.0	-7.7	9.3	4.1
Gross debt	54.3	54.4	35.7	-18.6	-18.7

Sources: National authorities; and IMF staff calculations.



⁸ Current spending in 2023 was 10 percent of GDP above pre-pandemic levels (including 3 percent of GDP of CBI dividend and 3 percent from the wage bill).

14. A further strengthening of the CBI framework should be prioritized. Prospects for CBI inflows would be improved by further steps to promote transparency and financial integrity⁹ of the scheme. The steps taken recently to improve the governance of the program, advance CBI legislation and create the [CBI Board of Governors](#) to improve oversight are commendable. Nonetheless, there is scope to further improve integrity of the program. In particular, the transparency and accountability of the CBI program could be enhanced further by publishing an annual financial report on the CBI unit's operations and key data on applications.

15. The legacy of fiscal prudence should be institutionalized and dependence on CBI reduced by a further strengthening of the fiscal framework. A Sustainability and Resilience Fund (SRF) should be introduced alongside an explicit fiscal rule, consistent with recent IMF technical assistance.

- **SRF.** It would be prudent to view the CBI inflows as a windfall that is likely to diminish over time. Establishing an SRF would (i) smooth flows to the budget from CBI revenues, preferably based upon a rule that carefully considers the intergenerational implications of the CBI inflows and (ii) manage public assets in a transparent and prudent way, providing self-insurance for natural disasters.¹⁰ The bulk of general government deposits, currently being held at the systemic bank, should be transferred to the SRF and invested abroad according to clear institutional guidelines and a transparent reporting of financial results.
- **Fiscal rule.** The government's adherence to implicit fiscal rules of a balanced budget and remaining below the regional debt ceiling has served the country well for over a decade. Enshrining these fiscal rules into law—accompanied by narrowly defined escape clauses—would provide a clear fiscal anchor and improve the transparency of fiscal policy making. An expenditure rule should also be considered that steadily brings current expenditures back to pre-pandemic levels (as a percent of GDP) and subsequently limits future current spending increases to the nominal growth in potential output. This would avoid unplanned expansions in current spending from volatile CBI inflows, generate higher surpluses to be transferred to the SRF, and support an increase in capital expenditures over time.

16. Better systems would improve the targeting of social assistance. The authorities have made progress on improving the efficiency and targeting of social assistance by recertifying beneficiaries of the Poverty Alleviation Program. A digital national household registry based on administrative data and periodic household surveys would help identify gaps and overlaps in program coverage and further improve targeting. In addition, training, and entrepreneurial support would facilitate the transition to employment.

⁹ See the Financial Action Task Force's [report](#).

¹⁰ See the FAD 2018 TA Report "St. Kitts and Nevis Establishing a Fiscal Responsibility Framework and Growth and Resilience Fund, July 2018".

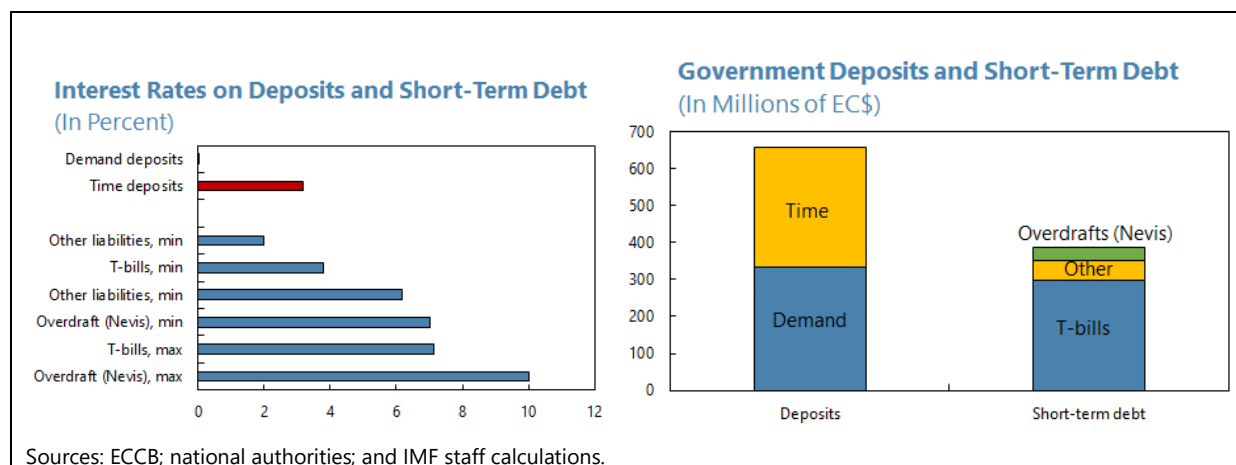
17. A comprehensive tax policy reform should be implemented, as recommended in the 2023 IMF technical assistance report¹¹. A comprehensive roadmap for tax reform, that increases progressivity and reduces distortions, would help frame a broader platform of improvements and prepare for a potential future decline in CBI revenues. The authorities' current focus on property tax reform (to reflect the current market value of properties), stamp duty, and a more effective collection of arrears is appropriate. A review of CIT concessions should be quickly concluded given the window of opportunity opened by the implementation of the OECD pillar II with a view to abolishing negotiated tax concessions and income tax holidays. Consideration should be given to bringing large unincorporated businesses under the CIT (rather than subjecting them to turnover taxes), allowing for full expensing of capital spending and loss carryforwards. There is scope also to scale back VAT exemptions and preferences and expand VAT coverage to professional and financial services. The excise on gasoline should return to the pre-pandemic level. This tax reform can be designed initially to be revenue neutral with the focus being on making structural improvements to the system. The authorities should stand ready to raise tax rates in the event CBI revenues diminish beyond baseline projections.

18. Debt is sustainable but debt and cash management should be improved. Public debt is sustainable (see Annex V) and is projected to remain below the regional ceiling of 60 percent of GDP over the medium term. The main fiscal risks stem from the heavy dependence on CBI revenues, the high Gross Financing Needs (GFN), and a large, long-term contingent liability from the Social Security Fund.

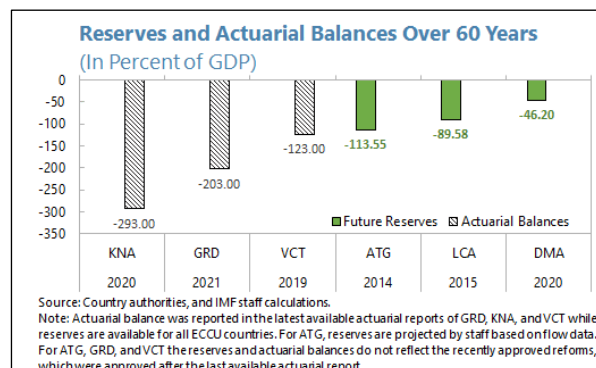
- Using some of the large government deposits to pay down expensive short-term debt would reduce interest costs and GFNs.
- The establishment of the SRF and the fiscal rule at the federal level will require greater collaboration between the central and the local government to optimize consolidated debt and cash management costs. In this regard, more fiscal discipline is needed from the local government, preferably enshrined into a clear legal framework, and supplemented by joint efforts to reduce the short-term debt.
- Re-establishing a presence on the regional bond market would be useful as a means to diversify sources of financing.¹²

¹¹ See annex IV on tax reform.

¹² See the 2023 St. Kitts and Nevis Staff Report.



19. There is an urgent need for parametric reform of the Social Security Fund.¹³ The actuarial imbalance in the system over the next 60 years is around 300 percent of GDP; the SSF is expected to begin running deficits this year and will deplete its reserves by 2040¹⁴. The authorities should implement some combination of increasing contributions, lowering the replacement rate, increasing retirement age and linking it to life expectancy, and requiring mandatory participation for self-employed persons. In addition, the pension system for public sector workers could, over time, be unified with the SSF while respecting the acquired rights of current participants.



Authorities' Views

20. The authorities broadly agreed with staff advice on fiscal policy. They noted that elevated current spending will likely lead to deficits over time and concurred with the need to steer current expenditures back to pre-pandemic levels as a share of GDP, including the wage bill. They welcomed the recent IMF technical assistance and intend to establish the SRF this or next fiscal year. The authorities re-iterated their commitment to the implicit fiscal rules of balanced budgets (at the central government level) and debt below the regional ceiling and expressed interest in enshrining them into law. They also inquired about the best way to formulate the expenditure rule which would allow them to enhance management of the fiscal stance and then control current spending expansion better. While in broad agreement with tax reform options suggested by IMF technical assistance, they expressed the need to proceed in a stepwise fashion and estimate first the tax take impact of considered measures to ascertain short-run revenue neutrality. They also highlighted

¹³ See the 2024 ECCU Policy Note, particularly the Annex on pensions, and the 2023 St. Kitts and Nevis Staff Report (the DSA Annex).

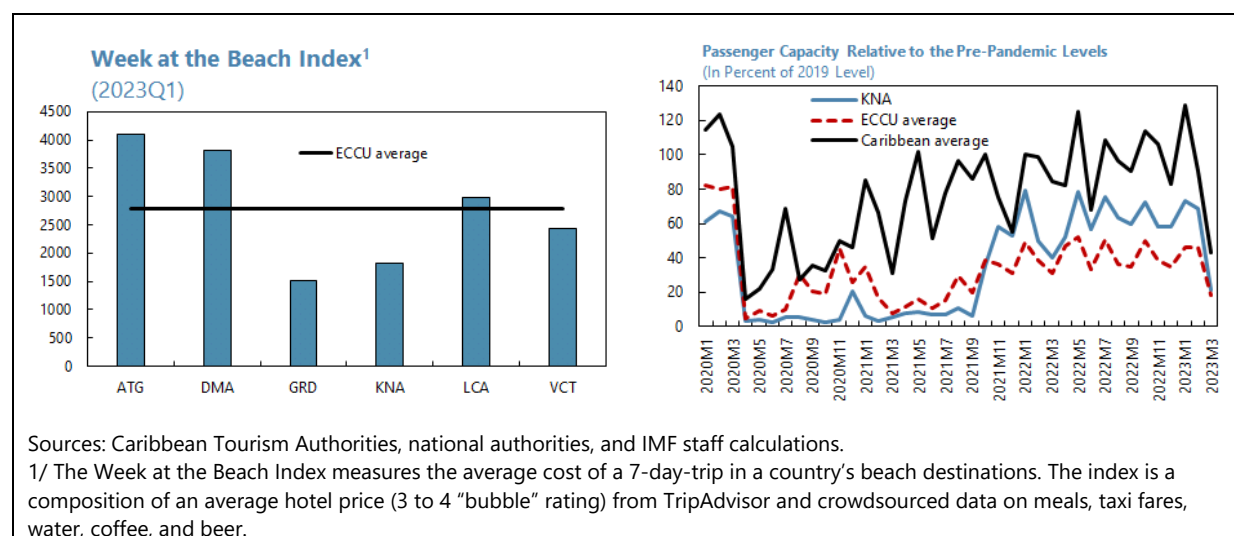
¹⁴ The text figure presents (i) the projected reserves and (ii) actuarial balances in 60 years shown in the actuarial reviews and defined as (i) current reserves plus the sum of future revenues minus expenses and (ii) current reserves plus the present value of future revenues minus expenses, respectively.

capacity constraints in assessing the impact of the OECD Pillar II that could require further technical assistance. On pension fund reform the authorities stressed that reform options were being analyzed for potential future implementation. On debt and cash management the authorities are exploring reducing short-term debt issuance and requested staff advice on the minimum cash buffers required for fiscal operations, with a view to assess the share of public sector deposits that could be potentially shifted to the SRF.

B. Supply Side Priorities

21. A successful transition to renewable energy would have a profound impact on the economy. Planned investments in solar and geothermal are expected to reduce energy imports and lower the cost of energy. This transition is expected to bring the country to energy self-sufficiency by 2030, support economic diversification and create new export opportunities. Fully harnessing the country's renewable energy potential requires a comprehensive strategy, including determining the optimal energy mix, developing related investment plans, upgrading and connecting the power grids of the two islands and enhancing their resilience to natural disasters. The government should establish a taxation framework that provides incentives for investments in renewable energy while allowing the public sector to receive a share of future rents from such investments. Broad-based exemptions of VAT and corporate income taxes for such investments should be avoided. Instead, more targeted and economically efficient subsidy or tax incentives should be considered.

22. There is a need to increase water infrastructure investment and update utility pricing. Annual rainfalls in recent years have been 20 percent below long-term averages, leading aquifers to critical levels and water outages in some areas. Addressing longstanding challenges to water supply requires key measures, including the drilling of wells, investing in water storage, and creating capacity for desalination. Implementing more progressive utility rate structures, which raise tariffs for high-use customers, would incentivize investments in conservation and generate the necessary resources for such investments. The utility commission should provide guidance on the appropriate cost-recovery pricing of electricity and water.



23. Increasing flight connectivity would bolster growth over the medium-term. Although the costs for tourist accommodations and local services are relatively low in St. Kitts and Nevis compared to other ECCU countries, high airfare makes the country an expensive destination. Limited airlift after the pandemic has aggravated the problem. Efforts to diversify tourism revenues and boost tourism during low season would make the country a more attractive destination (2023 Article IV).

Authorities' Views

24. The authorities concurred with staff assessment on the potential economic impact of renewable energy transition. They welcomed the staff's presentation of the SIP on energy transition. They highlighted ongoing efforts to advance the solar and geothermal projects, increase water infrastructure investment, and their plan to develop a strategy to guide future renewable energy investments and power grid upgrade. They agreed with staff on the benefits of setting water and electricity pricing to accurately reflect the costs of production. They plan to develop an electricity pricing policy and inquired about potential technical assistance on energy taxation. Consistent with staff advice, the authorities continue to work towards increasing airlift, flight capacity and diversify tourism revenues.

C. Strengthening the Financial System

25. The government should restructure the systemic bank. Following the recommendations in the 2023 Staff Report, the bank has met the ECCB requirement for loan loss provisions and regulatory reserves and has significantly de-risked its foreign investment portfolio by shifting from US equities to US Treasuries and corporate bonds.

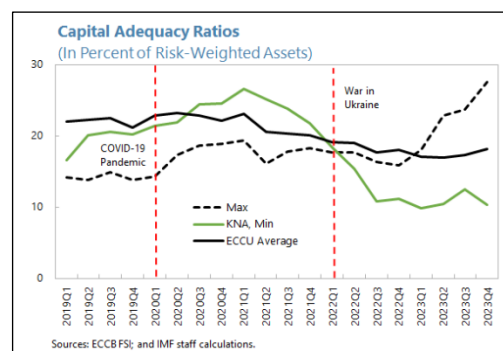
- Nonetheless, the institutional framework for managing a large foreign investment portfolio funded by public sector deposits¹⁵ is insufficient. The recent good performance of the foreign investment portfolio (due to rising US equity and bond prices) masks the underlying weakness in the traditional commercial lending business at the bank. The establishment of the SRF—which should be accompanied by a reallocation of some of the foreign investments and government deposits from the systemic bank into the SRF—will provide a better institutional framework for managing public sector resources and allow the bank to focus squarely on its primary function of intermediating household and corporate deposits to lend to the private sector.
- The remaining loan book of the bank should be carefully evaluated—potentially through a diagnostic assessment—to determine the appropriate adjustments to NPL and loan loss provisioning on long-dated NPLs. The government, as the majority shareholder, should mandate the bank to meet all ECCB regulatory requirements, address legacy NPLs, and further increase

¹⁵ From the Treasury and Social Security Funds.

provisioning¹⁶. The bank should focus on cutting operating costs (e.g., through investment in IT infrastructure) and to make lending profitable. The ECCB has required banks to develop NPL resolution strategies and capital plans, encouraged banks to establish NPL work-out departments, and has implemented risk-based capital charges, all intended to strengthen the financial soundness of banks under their jurisdiction. The bank has already developed a capital restoration plan and submitted it to the ECCB, but the progress needs to be closely monitored by the central bank and the government to ensure a rapid transition to profitability and sustainability, as well as the minimization of any potential costs to the budget. Further curbs on dividends, the sale of non-core assets, or issuance of new equity should be considered to help strengthen bank capital.

26. Legislative initiatives to reduce disincentives to bank lending should be accelerated to help direct system liquidity towards credit provision. More progress is needed to bring the credit reporting bureau to full operational capacity (including expanded coverage to credit unions); develop a collateral resolution framework and strengthen insolvency and foreclosure regimes. Insufficient credit growth may limit potential growth and economic diversification.

27. The regulation and oversight of credit unions need to be strengthened. Credit union lending has expanded rapidly. However, the oversight by the national supervisor (FSRC) needs to be improved including by strengthening lending standards, increasing provisioning requirements, and taking action against institutions that are unable to meet regulatory requirements.



28. Progress is being made to improve the AML/CFT regime. CFATF's December 2023 plenary approved upgrades for the ratings of several recommendations from partially compliant to largely compliant. As a result of these re-ratings, the country is now rated as compliant or largely compliant with 31 of the 40 FATF Recommendations, and the FRSC has strengthened its staff capacity and developed new AML/CFT supervisory tools with support provided by the World Bank. The authorities are encouraged to continue efforts to improve the effectiveness of the overall AML/CFT system, and as previously recommended, should put measures in place to designate the ECCB as the AML/CFT supervisor of banks.

Authorities' Views

29. The authorities agreed that the systemic bank has to be streamlined and strengthened and highlighted the progress made by the bank. They agreed that the SRF could have a positive impact on the banking system and noted that all the options outlined by staff for the bank are under consideration. The authorities emphasized the need to proceed gradually with the transition

¹⁶ The current ECCB regulation permits provisioning through the use of reserves rather than charges to capital. However, the government, as the majority shareholder, can go further than ECCB regulations and seek to have provisioning fully reflected into bank capital.

to ensure the smooth operation of the banking system. They agreed that at least one credit union has expanded quickly, and the sector should continue to be monitored closely. The authorities concurred with further advancing the AML/CFT agenda.

D. Data Issues

30. **The data framework should be improved to support evidence-based policymaking.**

Data provision has some shortcomings but is broadly adequate for surveillance. Areas for improvement include (i) reviewing National Accounts methodology to improve data accuracy; (ii) reducing publication lags of central government accounts and reviewing classification of capital expenditure items; (iii) reviewing data provision of CBI in external sector and fiscal sector statistics; (iv) filling gaps in labor market statistics (e.g., unemployment rate and the size of the informal labor market) and surveys (e.g., labor market survey). These would require strengthening resources of the statistical office.

STAFF APPRAISAL

31. Economic growth is poised to accelerate in the near term. Public and private sector investments, including on renewable energy, will add to the productive capacity of the economy, and lower energy imports will increase national income. It is also expected that cheaper energy prices will support competitiveness, foster economic diversification and ultimately raise potential growth. Carefully crafted policies in the areas of natural resource taxation, utility prices, investment tax incentives will be required to fully seize the potential of energy transition and harness renewable energy resources towards sheltering the country from growing climate risks.

32. The fiscal stance should be tightened to maintain a balanced budget over the medium term. While a small deficit is expected in 2024, balancing the budget over the medium term will require tightening the fiscal stance in response to an expected decline in CBI revenue. Foregoing further unbudgeted and untargeted payments, such as the CBI dividends, and returning current expenditures to their pre-pandemic level as a share of GDP will be essential. Improving control over the wage bill and goods and services expenditures, along with fully phasing out of electricity subsidies, should form the core of the effort. Progress in these areas would support an expansion of targeted social assistance and capital expenditures for natural disasters' resilience.

33. A comprehensive roadmap for tax reform would help prepare for a future decline in CBI revenues. A more progressive tax system would address the distortions created by broad tax concessions and bring greater fairness and economic efficiency. Reforming the property tax to reflect the current market value of properties and abolish stamp duty, as well as focusing on tax arrears collection, are steps in the right direction. Conducting a review of CIT concessions, with a view to abolishing negotiated tax concessions and income tax holidays, is time critical given the window of opportunity opened by the implementation of the OECD pillar II. Bringing unincorporated businesses under the CIT would allow for the full expensing of capital spending and

the carryforward of losses. There is also scope to scale back VAT exemptions and expand VAT coverage to professional and financial services.

34. Efforts to enhance the CBI framework should be continued. CBI revenue have provided crucial support to the budget in the last few years but there is scope to further improve the integrity of the program. The steps taken to improve the governance of the program, advance CBI legislation, and create the CBI Board of Governors to improve oversight are commendable. The transparency and accountability of the CBI program could be further enhanced by publishing an annual financial report on the CBI unit's operations and key data on applications.

35. The country's legacy of fiscal prudence can be entrenched by a further strengthening of the fiscal framework. The government's implicit fiscal rule of balancing the budget and remaining below the regional debt ceiling has served the country well. Enshrining this practice into law would provide a clear fiscal anchor, improve fiscal policy making transparency and provide solid foundations to the establishment of the SRF. An expenditure rule would help bring current expenditures back to pre-pandemic levels and cap future current spending increases from volatile CBI inflows, supporting a rebalancing towards capital expenditures. Public sector investment policy and planning should be consolidated across the public sector through a consolidated investment budget prioritizing across projects.

36. Debt and cash management could be improved and the social security fund requires urgent reform. Maintaining a large amount of short-term debt can be costly, particularly when fiscal buffers are available. Consideration should be given to using the Regional Bond Market as a means to diversify funding sources, and more collaboration at the federal level could optimize public finance management. Urgent and decisive action is needed to preserve the financial balance of the Social Security Fund and protect intergenerational equity. A parametric reform should increase the contribution rate, raise the retirement age, and expand pension coverage. Ensuring that public sector employees' pensions are aligned with those of the broader social security system to ensure replacement rates no greater than 100 percent is central to the fairness of the reform.

37. A successful transition to renewable energy will transform the economy. The government aims to bring the country to energy self-sufficiency by 2030 with 100 percent of renewable energy production. Investments planned in solar and geothermal energy will reduce energy imports, lower energy costs and could support productivity growth by boosting economic diversification and export opportunities. Fully harnessing the country's renewable energy potential calls for a comprehensive strategy, including deciding on the optimal energy mix, related investment plans and financing options, and multi-year planning for the infrastructure upgrades needed to connect the two islands power grids and increase resilience to natural disasters.

38. Climate adaptation requires reforming utility prices. Water and electricity prices need to reflect production costs and promote conservation. The drilling of wells, water storage investment, and creating capacity for desalination are needed to establish a reliable supply of fresh water. More progressive utility rate structures will encourage investments in conservation and provide some of the resources needed. The utility commission should provide guidance on cost-recovery pricing of

electricity and water. The government should establish a taxation framework that provides incentives for renewable energy investment while allowing the public sector to receive a share of future rents from such investments. Broad based tax exemptions for such investments should be avoided, and more targeted and economically efficient subsidies or tax incentives considered instead.

39. The impact of wage increases on employment, informality, and external competitiveness should be carefully assessed. A two-tier increase of minimum wage in January 2024 and July 2025 will increase the minimum wage by nearly 40 percent compared to the previous level set in 2014, placing it higher than ECCU peers and likely subjecting one-sixth of the workforce to the minimum wage. Public sector wage setting should also consider its cascading effects in the private sector.

40. The financial system should be strengthened. The government should restructure the systemic bank. Provisions and capital for all banks should meet the ECCB regulatory minimum and long-standing non-performing loans be addressed. Banks unable to meet regulatory minimum should continue to work closely with the ECCB through a clear and monitorable capital restoration plan. The systemic bank has made good progress in de-risking its large foreign investment portfolio, as recommended in the last IMF Staff Report. The establishment of the SRF—which will be accompanied by a reallocation of some of the foreign investments and government deposits from the systemic bank into the SRF—will allow the bank to focus on channeling household and corporate deposits towards private sector lending. The credit union sector has expanded briskly and should be monitored closely to ensure proper recordation of non-performing loans and adequate provisioning and capital at each institution.

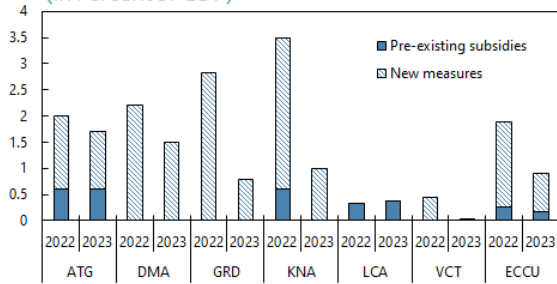
41. The 2023 external position is assessed to be weaker than the level implied by medium-term fundamentals and desirable policies. The current account deficit is projected to fall to over the medium term supported by lower fossil fuel imports. International reserves are adequate.

42. It is expected that the next Article IV Consultation with St. Kitts and Nevis will take place on the standard 12-month cycle.

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

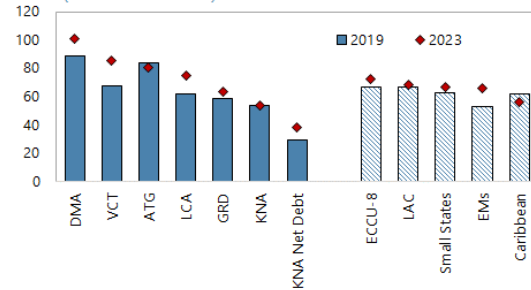
The government's response to the twin crises has been one of the strongest in the region...

Fiscal Measures for Cost-of-Living Crisis
(In Percent of GDP)



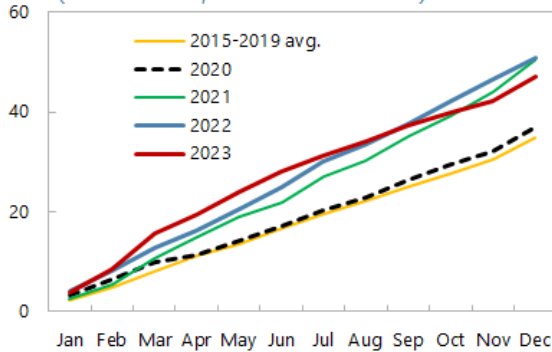
...and gross debt remained the lowest in the ECCU and below regional ceiling of 60 percent of GDP.

Public Debt
(In Percent of GDP)



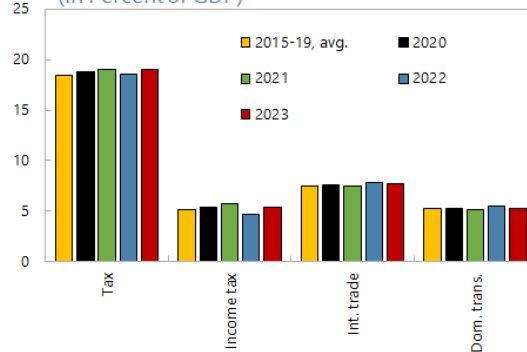
Total revenue has so far been in line with prior years...

Total Revenue
(Cumulative, In Percent of GDP)



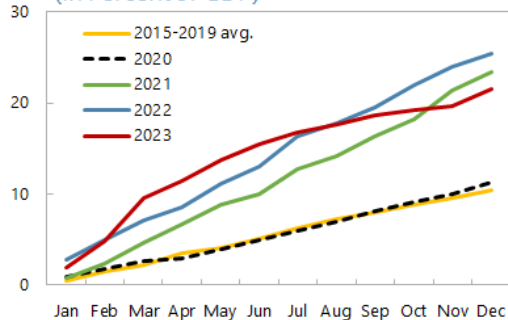
... as tax revenue edged slightly higher, helped by income taxes...

Tax Revenue Performance
(In Percent of GDP)



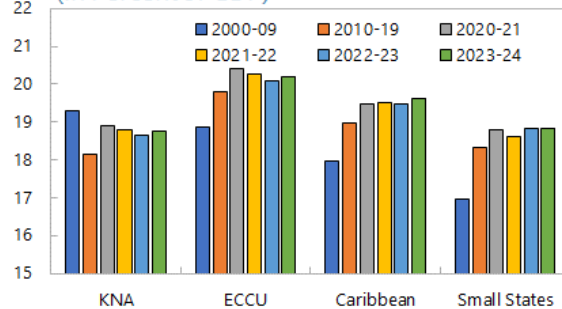
...while CBI revenue slowed rapidly in 2023H2

Citizenship-By-Investment Revenue
(In Percent of GDP)



Tax revenues have started to recover but remain below the ECCU peers in the absence of reforms.

Tax Revenues
(In Percent of GDP)

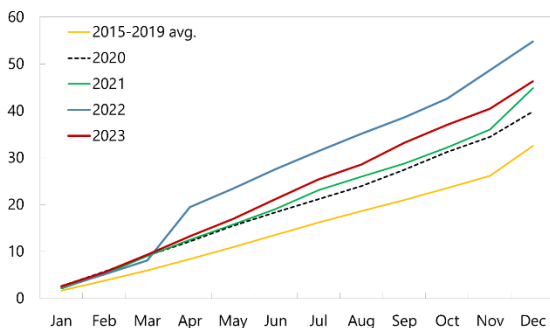


Sources: National authorities; and IMF staff calculations.

Figure 2. St. Kitts and Nevis: Fiscal Sector Developments (concluded)

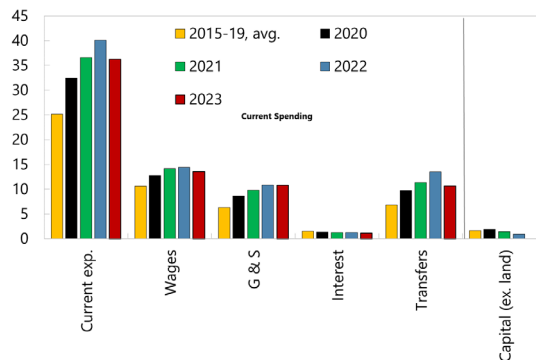
Total expenditure has had some of the fastest growth in 2023...

Total Expenditure
(Cumulative, In Percent of GDP)



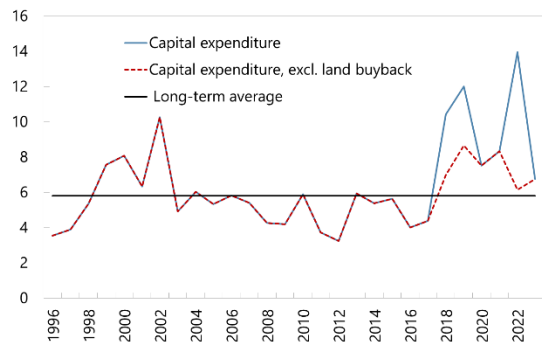
Wages and other current expenditures have been contained so far in 2023.

Expenditure Performance
(In Percent of GDP; YTD)



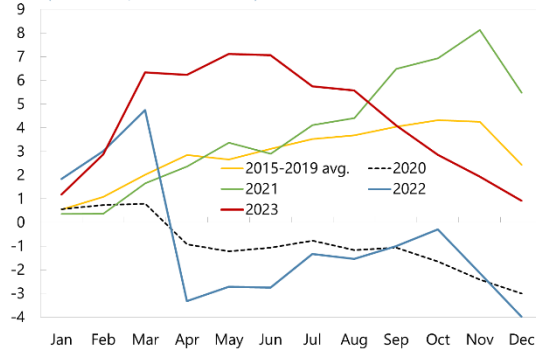
Capex has declined to the long-term average.

Capital Expenditure
(In Percent of GDP)



The overall balance is expected to show a small surplus in 2023, unless there is additional spending in Q4.

Overall Balance
(Cumulative, In Percent of GDP)

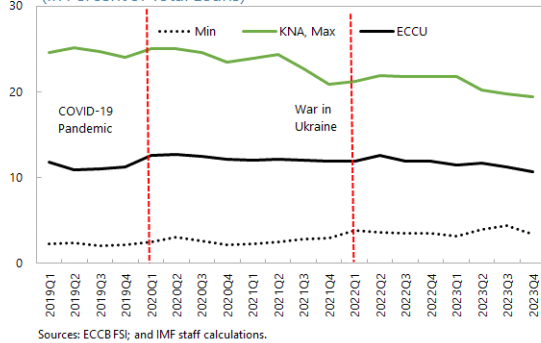


Sources: National authorities; and IMF staff calculations.

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

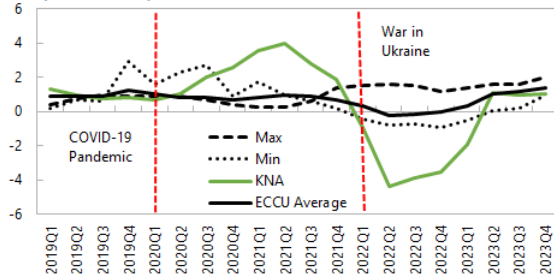
KNA NPL ratio is the highest in the ECCU despite a recent improvement.

Asset Quality: NPL Ratio
(In Percent of Total Loans)



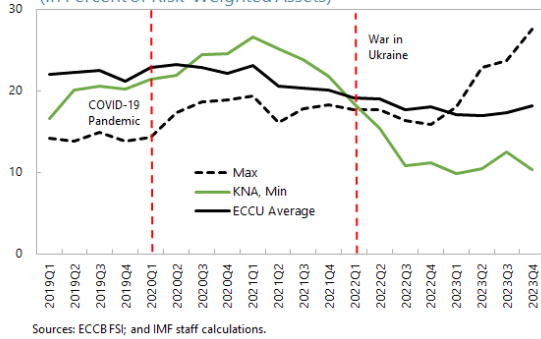
KNA bank profits have finally turned positive after heavy losses in 2022.

Return on Average Assets
(In Percent)



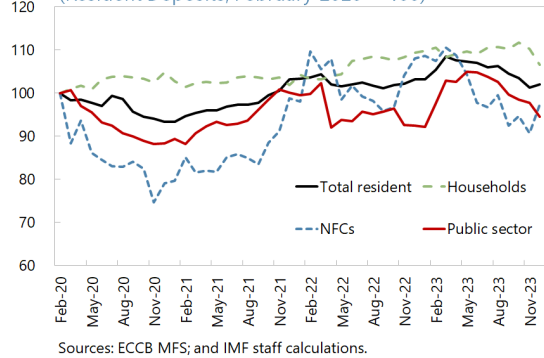
As a result of the losses, KNA has the lowest capital ratio in the ECCU.

Capital Adequacy Ratios
(In Percent of Risk-Weighted Assets)



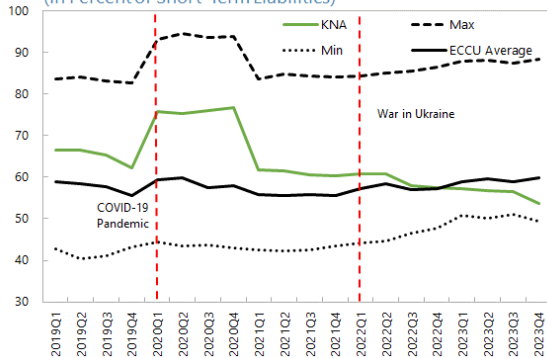
Private and public deposits have declined slightly in 2023 but remained substantial.

Accumulation of Bank Deposits
(Resident Deposits, February 2020 = 100)



Banks continue to have ample liquidity buffers, supported by large deposits.

Liquid Assets
(In Percent of Short-Term Liabilities)



Credit to government has remained stable and below the ECCU average.

Credit to General Government
(In Percent of Total Assets)

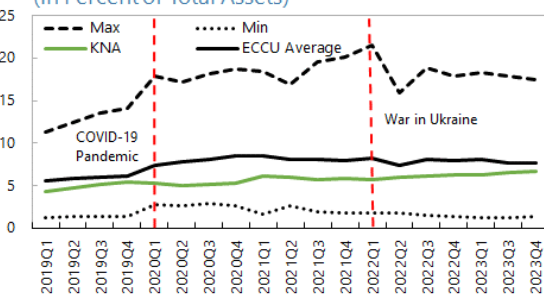
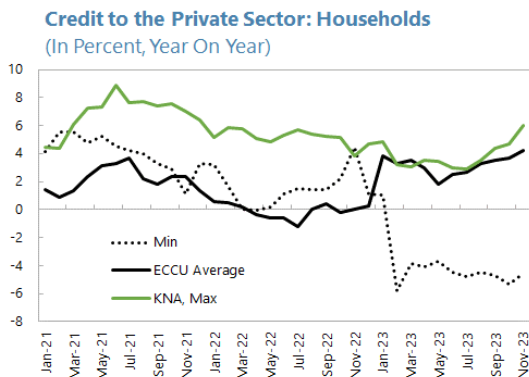
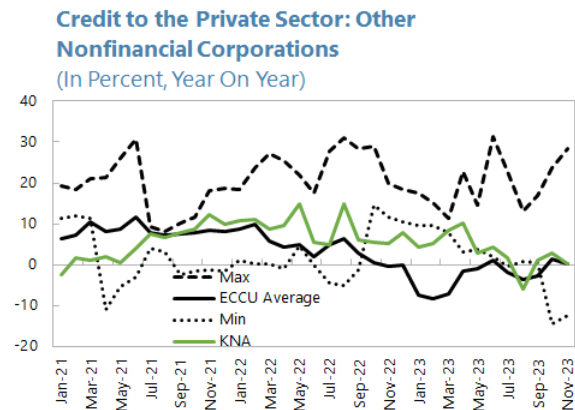


Figure 3. St. Kitts and Nevis: Financial Sector Developments (concluded)

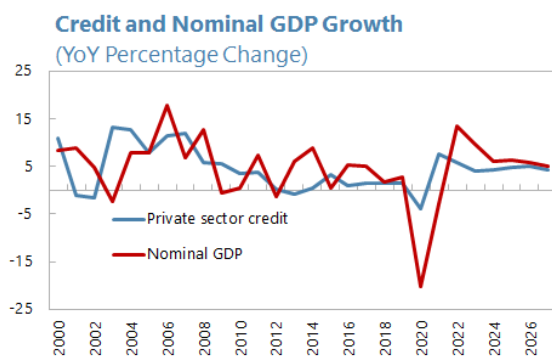
Credit to households has slowed but maintained positive growth in 2023...



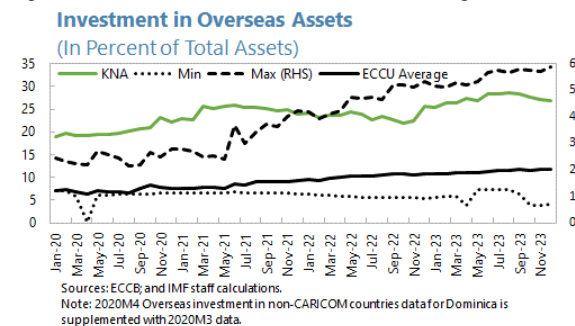
...but credit growth to firms has dropped sharply, turning negative.



Credit is projected to follow nominal GDP growth as in previous years, while large projects are financed externally.



KNA investment in overseas assets has been some of the highest in the ECCU and continued to climb higher.

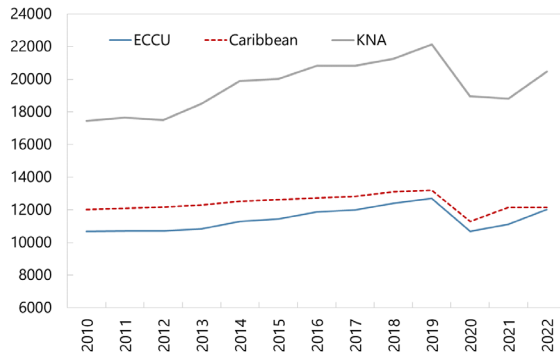


Sources: ECCB; and IMF staff calculations.

Figure 4. St. Kitts and Nevis: Structural Indicators

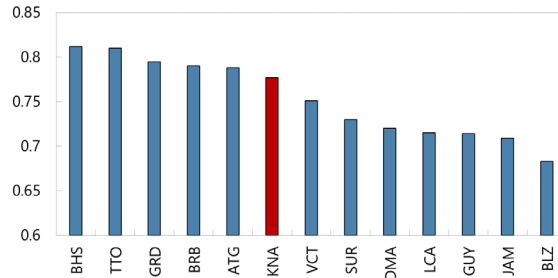
St. Kitts and Nevis has one of the highest GDP per capita...

GDP Per Capita
(Constant 2015 US\$)



...and human development...

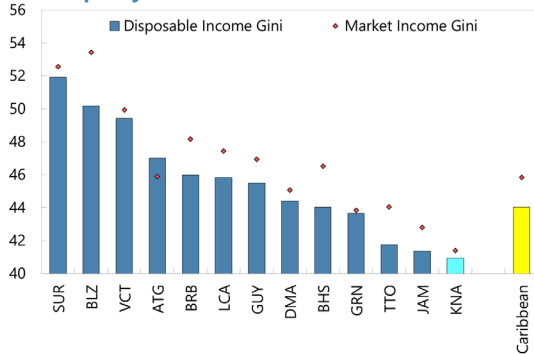
Human Development Index
(2022)



Source: UN Development Programme.

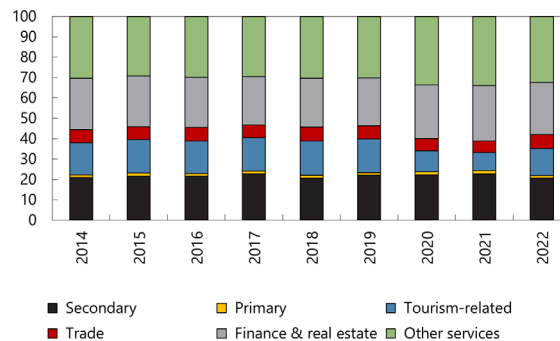
...and lowest inequality in the Caribbean.

Inequality



The economy is mainly supported by tourism, trade, finance, and real estate services.

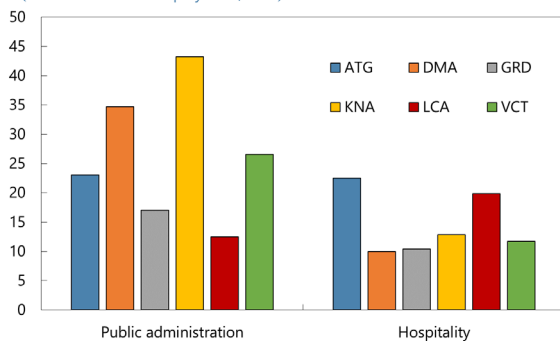
GDP by Sector
(In Percent of Total GDP)



Its public sector employment share is the largest ...

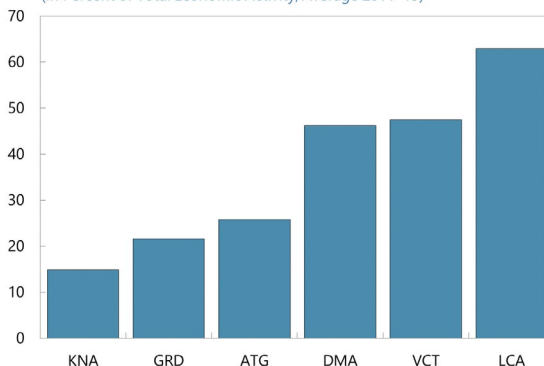
Sectoral Employment

(In Percent of Total Employment, 2021)



... and its estimated size of informal economy is the lowest in the ECCU.

Estimated Size of Informal Economy¹
(In Percent of Total Economic Activity, Average 2011–19)



Sources: National authorities; ECCB; United Nations Development Program; World Bank; and IMF staff calculations.

1/ Estimates from multiple indicator multiple cause (MIMIC) model that relates the latent unobserved variable (the informal economy) to its possible drivers (tax rate, size of agriculture and tourism, regulatory quality) and observable variables (employment rate, real GDP growth).

Table 1. St. Kitts and Nevis: Basic Data

I. Social, Geographic and Demographic Indicators											
Area (sq. km)	269.4				Headcount Poverty (percent, 2008)						23.7
					Income inequality (Gini coefficient, 2008)						0.38
Population					Health and nutrition						
Total (thousands, 2021 est.)	53.5				Calorie intake (per capita a day, 2011)						2,452
Rate of growth (percent per year, 2021)	0.66				Physicians (per 1,000 people, 2018)						2.8
Density (per sq. km., 2021)	198.8				Access to safe water (percent, 2011)						98.9
Net migration rate (per thousand, 2014 est.)	1.2				AIDS incidence rate (per 100,000, 2016)						33.9
Population characteristics					Gross domestic product (2022)						
Life expectancy at birth (years, 2021)	71.7				(millions of U.S. dollars)						973.3
Infant mortality (per thousand live births, 2020)	12.6				(millions of E.C. dollars)						2,628
Under 5 mortality rate (per thousand, 2020)	15.0				(US\$ per capita)						18,177.6
Adult literacy rate (percent, 2009)	97.8										
II. Economic and Financial Indicators, 2019—29											
					Est.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	(Annual percentage change, unless otherwise specified)										
National income and prices											
Real GDP (market prices)	4.1	-14.6	-0.9	8.8	3.4	4.7	4.3	3.8	3.1	2.9	2.9
Real GDP (factor cost)	4.8	-13.4	-0.1	6.3	8.4	3.5	4.1	3.8	3.1	2.9	2.9
Consumer prices, end-of-period	-0.8	-1.2	1.9	3.9	2.1	2.3	2.0	2.0	2.0	2.0	2.0
Consumer prices, period average	-0.3	-1.2	1.2	2.7	3.6	2.5	2.2	2.0	2.0	2.0	2.0
Real effective exchange rate appreciation (+) (end-of-period)	-0.2	-2.3	-4.7	-2.7	0.6	...	...	...	...	...	...
	(Contributions to money growth, in percent)										
Money and credit											
Broad money	5.6	-8.1	8.9	3.7	4.3	6.3	7.1	7.9	8.2	9.1	8.2
Change in net foreign assets	6.5	-0.4	9.1	-7.0	2.6	2.6	2.5	2.3	2.1	2.5	1.8
Net credit to general government	-9.5	-18.4	-4.8	4.9	-0.6	1.0	1.7	2.5	3.3	3.9	3.7
Credit to private sector	1.5	1.1	4.1	3.0	2.1	2.3	2.5	2.6	2.1	2.0	1.9
Nonperforming loans to total gross loans	24.0	23.5	20.9	21.8	19.4	...	...	...	...	...	...
	(In percent of GDP)										
General government											
Total revenue and grants	36.6	33.5	46.6	45.6	42.5	39.5	37.7	35.9	34.2	32.4	32.4
o/w Tax revenue	18.5	18.8	19.0	18.6	19.1	19.1	19.1	19.1	19.1	19.1	19.1
o/w CBI revenue	14.8	11.3	23.4	25.5	21.5	18.0	16.0	14.0	12.0	10.0	10.0
Total expenditure and net lending	37.3	36.5	41.2	49.6	41.6	39.7	38.6	37.8	37.0	36.3	36.3
Current expenditure	25.3	29.0	32.9	35.6	34.8	33.2	32.4	31.9	31.4	30.9	30.9
Capital expenditure and net lending	12.0	7.5	8.3	14.0	6.7	6.5	6.2	5.9	5.7	5.4	5.4
Primary balance	0.5	-1.7	6.6	-2.7	2.1	0.8	0.1	-0.9	-1.9	-2.9	-2.9
Overall balance	-0.7	-3.1	5.4	-4.0	1.0	-0.2	-0.9	-1.9	-2.9	-3.9	-3.9
Overall balance (excl. land buyback)	2.6	-3.1	5.4	3.8	1.0	-0.2	-0.9	-1.9	-2.9	-3.9	-3.9
Overall balance (ex. land buyback, CBI net receipts)	-11.3	-13.3	-16.6	-19.3	-18.1	-16.2	-15.1	-14.3	-13.5	-12.7	-12.8
Total public debt	54.3	68.0	69.1	60.6	54.4	51.7	49.9	49.5	50.4	52.5	54.4
Government deposits	24.8	21.6	30.4	21.8	19.9	18.7	17.6	16.6	15.8	15.0	14.3
External sector											
External current account balance	-4.8	-10.8	-5.1	-10.9	-5.4	-6.5	-8.6	-4.3	-3.4	-1.8	-1.8
Trade balance	-27.5	-28.0	-26.3	-34.9	-31.0	-32.6	-34.1	-29.5	-28.0	-25.7	-25.2
Services, net	24.2	19.4	24.2	28.8	29.8	30.2	29.5	29.2	28.7	28.2	27.7
o/w Tourism receipts	32.7	12.1	17.7	30.7	33.0	33.8	33.1	32.8	32.2	31.6	31.0
FDI (net)	4.5	-0.1	2.9	4.6	4.0	3.5	3.3	3.1	2.7	2.4	2.4
External public debt	12.7	15.3	14.8	12.7	10.5	8.9	7.4	6.1	4.9	3.9	3.0
Net international reserves, end-of-period											
(in millions of U.S. dollars)	346.3	365.4	312.8	270.3	267.0	264.7	263.0	261.2	259.4	266.0	264.8
(in percent of broad money)	32.2	35.6	28.0	23.3	22.1	20.6	19.1	17.6	16.1	15.2	14.0
Holdings of SDRs, in millions of U.S. dollars	16.8	17.8	28.8	28.8	28.8	28.8	28.8	28.8	28.8	28.8	28.8
Nominal GDP at market prices (in millions of EC\$)	2,989	2,387	2,318	2,628	2,884	3,062	3,260	3,453	3,631	3,811	4,000

Sources: National authorities, ECCB, UNDP, World Bank and IMF staff estimates and projections.

Table 2. St. Kitts and Nevis: Federal Government Fiscal Operations, 2019–29^{1/}
(In percent of GDP)

	2019	2020	2021	2022	Est	Proj.					
					2023	2024	2025	2026	2027	2028	2029
Total revenue	35.8	32.3	45.8	45.0	41.6	38.5	36.7	34.9	33.2	31.4	31.4
Tax revenue	18.5	18.8	19.0	18.6	19.1	19.1	19.1	19.1	19.1	19.1	19.1
Taxes on income	4.1	5.1	5.6	4.4	5.2	5.2	5.2	5.2	5.2	5.2	5.2
Taxes on property	0.5	0.5	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Taxes on domestic goods and consumption	8.5	7.7	7.6	8.1	7.8	7.8	7.8	7.8	7.8	7.8	7.8
Taxes on international trade and transactions	5.4	5.4	5.2	5.5	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Nontax revenue	17.3	13.5	26.8	26.4	22.5	19.4	17.6	15.9	14.1	12.3	12.3
Citizenship by investment (CBI) revenue	14.8	11.3	23.4	25.5	21.5	18.0	16.0	14.0	12.0	10.0	10.0
minus CBI due diligence fees	0.9	1.1	1.4	2.3	2.4	2.0	1.8	1.6	1.4	1.1	1.1
Other nontax revenue	2.5	2.2	3.4	1.0	1.0	1.4	1.6	1.9	2.1	2.3	2.3
Total expenditure and net lending	37.3	36.5	41.2	49.6	41.6	39.7	38.6	37.8	37.0	36.3	36.3
Current expenditure	25.3	29.0	32.9	35.6	34.8	33.2	32.4	31.9	31.4	30.9	30.9
Wages and salaries	10.7	12.8	14.2	14.4	13.6	13.6	13.6	13.6	13.6	13.6	13.6
Goods and services (ex. CBI fees)	6.5	7.5	8.4	8.6	8.4	8.4	8.4	8.4	8.4	8.4	8.4
Interest	1.2	1.4	1.2	1.3	1.1	1.0	1.0	1.0	1.0	1.0	1.0
Domestic	0.9	1.0	0.9	1.0	1.0	0.8	0.8	0.8	0.9	0.9	1.0
Foreign	0.3	0.4	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Transfers	6.8	7.4	9.0	11.4	11.7	10.2	9.4	8.9	8.4	7.9	7.9
CBI dividend	0.0	0.0	0.0	0.7	3.1	1.9	1.5	1.3	1.1	0.9	0.9
Other	0.0	7.4	9.0	10.7	8.6	8.2	7.9	7.6	7.3	7.0	7.0
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	12.0	7.5	8.3	14.0	6.7	6.5	6.2	5.9	5.7	5.4	5.4
Land buyback	3.3	0.0	0.0	7.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	8.7	7.5	8.3	6.2	6.7	6.5	6.2	5.9	5.7	5.4	5.4
Overall balance (before grants)	-1.5	-4.2	4.6	-4.6	0.0	-1.2	-1.9	-2.9	-3.9	-4.9	-4.9
Grants	0.8	1.2	0.8	0.6	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Overall balance (after grants)	-0.7	-3.1	5.4	-4.0	1.0	-0.2	-0.9	-1.9	-2.9	-3.9	-3.9
Overall balance (ex. land buyback)	2.6	-3.1	5.4	3.8	1.0	-0.2	-0.9	-1.9	-2.9	-3.9	-3.9
Overall balance (ex. land buyback, CBI net receipts)	-11.3	-13.3	-16.6	-19.3	-18.1	-16.2	-15.1	-14.3	-13.5	-12.7	-12.8
Primary balance	0.5	-1.7	6.6	-2.7	2.1	0.8	0.1	-0.9	-1.9	-2.9	-2.9
Primary balance (ex. land buyback, CBI net receipts)	-10.1	-11.9	-15.4	-18.1	-17.0	-15.1	-14.1	-13.3	-12.5	-11.8	-11.8
Gross financing need	15.2	22.6	13.5	20.9	14.3	15.5	16.8	18.5	20.5	22.4	3.9
Amortization	14.5	19.5	18.9	16.9	15.2	15.0	15.5	16.1	17.1	18.0	-7.5
Public debt	54.3	68.0	69.1	60.6	54.4	51.7	49.9	49.5	50.4	52.5	54.4
<i>By sector</i>											
General government	37.8	46.4	47.1	41.7	37.1	35.5	34.7	35.1	36.8	39.4	41.4
Public enterprises	16.5	21.5	22.0	18.9	17.2	16.2	15.2	14.4	13.7	13.0	12.4
<i>By currency</i>											
Domestic	41.6	52.7	54.3	48.0	43.8	42.9	42.6	43.6	45.7	48.7	33.0
External	12.7	15.3	14.8	12.7	10.6	8.9	7.3	5.9	4.7	3.7	8.4
Government deposits	24.8	21.6	30.4	21.8	19.9	18.7	17.6	16.6	15.8	15.0	14.3
Net debt	29.5	46.4	38.7	38.9	34.5	33.0	32.4	32.9	34.7	37.4	40.1

Sources: National authorities; and IMF staff estimates.

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

Table 3. St. Kitts and Nevis: Balance of Payments, 2019–29^{1/}

	2019	2020	2021	2022	Est. 2023	Proj. 2024	2025	2026	2027	2028	2029
(In millions of Eastern Caribbean dollars)											
Current account	-143.1	-258.7	-118.1	-285.5	-154.5	-200.0	-278.8	-149.5	-123.2	-68.8	-70.4
Trade balance	-821.2	-668.5	-610.2	-918.3	-902.6	-998.0	-1094.5	-992.3	-987.9	-951.1	-975.6
Exports, f.o.b.	123.2	74.0	79.5	94.4	93.9	97.0	100.5	103.8	107.3	110.8	114.5
Imports f.o.b.	-944.4	-742.6	-689.7	-1012.6	-996.5	-1095.0	-1195.0	-1096.1	-1095.2	-1061.9	-1090.0
o/w Mineral fuel	-185.5	-116.6	-192.4	-279.4	-238.0	-237.5	-227.3	-193.0	-195.9	-150.7	-152.8
Services and transfers (net)	678.1	409.9	492.1	632.8	748.1	798.0	815.7	842.8	864.7	882.2	905.1
Services (net)	722.7	462.5	561.4	756.5	867.9	924.0	947.2	983.2	1013.2	1042.0	1071.7
Services (receipts)	1401.0	881.7	971.8	1380.9	1551.6	1591.8	1643.4	1705.9	1757.9	1808.0	1859.5
o/w Tourism receipts	976.5	289.3	410.0	807.2	961.9	1035.0	1062.9	1103.3	1137.0	1169.4	1202.7
o/w Citizenship-by-investment budgetary fees	442.6	270.8	542.6	669.4	619.8	551.2	521.6	483.4	435.7	381.1	400.0
Other	-18.1	321.5	19.2	-95.6	-30.1	5.6	58.9	119.1	185.2	257.5	256.9
Services (payments)	-678.3	-419.2	-410.4	-624.4	-683.7	-667.8	-696.2	-722.7	-744.7	-766.0	-787.8
Factor income (net)	-43.4	-62.9	-84.1	-76.2	-71.3	-75.2	-78.6	-85.5	-91.8	-101.6	-106.7
Transfers (net)	-1.3	10.2	14.8	-47.6	-48.5	-50.8	-52.9	-54.9	-56.6	-58.2	-59.9
Capital account	189.0	124.1	212.5	252.6	260.5	270.6	282.8	294.7	305.0	315.0	324.7
Financial account	38.6	-129.9	158.0	-37.8	106.0	70.7	4.0	145.2	181.7	246.1	254.3
Foreign direct investment (net)	135.5	-3.0	68.2	120.6	115.8	108.5	107.3	103.5	96.4	87.1	93.9
Portfolio investment (net)	-271.9	-78.2	46.9	-257.6	-100.2	-104.9	-109.4	-113.5	-117.0	-120.3	-123.8
Commercial bank NFA accumulation (+increase)	100.4	258.1	-307.0	116.9	-90.2	-90.2	-90.2	-90.2	-90.2	-90.2	-90.2
Reserve assets (+increase/-decrease)	1.0	-28.0	96.6	114.8	9.1	6.2	4.6	4.8	4.8	3.8	3.1
Other (net)	73.7	-278.9	253.3	-132.5	171.4	151.1	91.6	240.6	287.7	365.7	371.3
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF reserve liabilities (purchase = +)	1.0	-28.0	96.6	114.8	9.1	6.2	4.6	4.8	4.8	3.8	3.1
Net use of IMF resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(In percent of GDP)											
Current account	-4.8	-10.8	-5.1	-10.9	-5.4	-6.5	-8.6	-4.3	-3.4	-1.8	-1.8
Current account, excluding CBI receipts	-19.6	-22.2	-28.5	-36.3	-26.8	-24.5	-24.6	-18.3	-15.4	-11.8	-11.8
Exports of goods and nonfactor services	51.0	40.0	45.3	56.1	56.5	55.1	54.3	53.8	52.9	51.9	51.0
Merchandise exports	4.1	3.1	3.4	3.6	3.2	3.2	3.1	3.1	3.0	3.0	3.0
Nonfactor services	46.9	36.9	41.9	52.5	53.3	52.0	51.2	50.7	49.8	48.9	48.0
o/w Tourism receipts	32.7	12.1	17.7	30.7	33.0	33.8	33.1	32.8	32.2	31.6	31.0
Imports of goods and nonfactor services	-54.3	-48.7	-47.5	-62.3	-57.7	-57.6	-58.9	-54.0	-52.2	-49.5	-48.5
Merchandise imports	-31.6	-31.1	-29.8	-38.5	-34.2	-35.8	-37.2	-32.6	-31.1	-28.7	-28.1
Nonfactor services	-22.7	-17.6	-17.7	-23.8	-23.5	-21.8	-21.7	-21.5	-21.1	-20.7	-20.3
Foreign direct investment (net)	4.5	-0.1	2.9	4.6	4.0	3.5	3.3	3.1	2.7	2.4	2.4
External public debt	12.7	15.3	14.8	12.7	10.5	8.9	7.4	6.1	4.9	3.9	3.0
(Annual percentage change)											
Merchandise exports	21.7	-39.9	7.4	18.7	-0.4	3.3	3.6	3.3	3.3	3.3	3.3
Tourism receipts	-1.1	-70.4	41.7	96.9	19.2	7.6	2.7	3.8	3.0	2.8	2.9
Merchandise imports	-1.5	-21.4	-7.1	46.8	-1.6	9.9	9.1	-8.3	-0.1	-3.0	2.6
(In percent of exports of goods and nonfactor services)											
External public debt	25.0	38.2	32.6	22.5	18.6	16.1	13.6	11.3	9.2	7.4	6.0
External debt service	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w Interest	2.7	2.9	2.7	1.9	0.4	0.4	0.5	0.5	0.5	0.5	0.5
o/w Principal	-2.7	-2.9	-2.7	-1.9	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5
(In millions of US dollars)											
ECCB imputed reserves	346.3	365.4	312.8	270.3	267.0	264.7	263.0	261.2	259.4	266.0	264.8
in months of imports of goods and services	9.7	10.8	6.2	5.2	4.9	4.5	4.7	4.6	4.6	4.6	4.4

Sources: ECCB; and IMF 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, 2019–29^{1/}

	2019	2020	2021	2022	2023	Proj.					
						2024	2025	2026	2027	2028	2029
(Percentage change relative to broad money at beginning of period)											
Net foreign assets	5.7	0.4	9.1	-7.0	2.6	2.6	2.5	2.3	2.1	2.5	1.8
Net domestic assets	-0.6	-4.9	-0.2	10.8	1.8	3.7	4.6	5.6	6.0	6.6	6.4
Net credit to the public sector	5.5	6.6	-4.0	4.9	-0.5	1.3	2.0	2.9	3.8	4.5	4.4
Net credit to central government	2.9	6.8	-4.8	4.9	-0.6	1.0	1.6	2.5	3.2	3.9	3.7
Net credit to non-financial public sector	2.7	-0.3	0.9	0.0	0.1	0.3	0.4	0.5	0.5	0.6	0.7
Net credit to nonbank financial institutions	...	...	4.7	3.4	2.2	2.4	2.6	2.7	2.2	2.0	2.0
Credit to the private sector	0.8	-2.1	4.1	3.0	2.1	2.3	2.5	2.6	2.1	2.0	1.9
Net other assets	-6.9	-16.4	-0.9	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Annual percentage change)											
Broad money (M2)	5.1	-4.5	8.9	3.7	4.3	6.3	7.0	7.9	8.2	9.1	8.2
Money	14.6	-7.1	14.5	28.4	4.3	6.3	7.0	7.9	8.2	9.1	8.2
Currency in circulation	2.5	4.8	3.7	5.2	9.7	6.2	6.4	5.9	5.2	5.0	5.0
Demand deposits 2/	21.7	-13.0	20.9	40.3	9.7	6.2	6.4	5.9	5.2	5.0	5.0
Quasi-money	2.7	-3.7	7.3	-3.4	4.3	6.3	7.0	7.9	8.2	9.1	8.2
Savings deposits	6.6	5.8	3.7	-13.7	9.7	6.2	6.4	5.9	5.2	5.0	5.0
Time deposits	-3.1	-1.7	9.3	-5.4	9.7	6.2	6.4	5.9	5.2	5.0	5.0
Foreign currency deposits	1.4	-20.2	13.2	18.1	-6.9	6.4	8.5	12.7	14.9	17.6	14.2
Credit to the private sector (in nominal terms)	1.5	-4.0	7.7	5.8	4.0	4.4	4.7	5.1	4.3	4.1	4.1
Credit to the private sector (in real terms)	1.9	-2.8	6.4	3.0	0.4	1.9	2.4	3.0	2.2	2.0	2.0
Memorandum items:											
Income velocity of money	4.7	4.0	3.4	3.0	3.2	3.2	3.2	3.1	3.0	2.9	2.8
Income velocity of broad money	1.0	0.9	0.8	0.8	0.9	0.9	0.9	0.9	0.8	0.8	0.8
Private sector credit/GDP (in percent)	51.1	61.5	68.2	63.6	60.3	59.3	58.3	57.8	57.4	56.9	56.4
Foreign currency deposits/GDP (in percent)	23.0	23.0	26.8	27.9	23.7	23.7	24.2	25.7	28.1	31.5	34.3
Central government deposits (EC\$ million) 3/	741.8	515.7	705.4	572.5	572.5	572.5	572.5	572.5	572.5	572.5	572.5
Central government deposits (percent of GDP) 3/	24.8	21.6	30.4	21.8	19.9	18.7	17.6	16.6	15.8	15.0	14.3
ECCB imputed reserves	31.3	41.3	36.4	27.8	25.0	23.3	21.8	20.4	19.3	18.8	17.9

Sources: ECCB; and IMF staff estimates and projections.

1/ There have been structural changes in the monetary and financial statistics since January 2020. This affects year on year comparisons with 2019.

2/ Includes EC\$ bank cheques.

3/ Includes only central and local government deposits. Includes deposits at the ECCB.

Table 5. St. Kitts and Nevis: Selected Financial Soundness Indicators, 2019-23^{1/}
(In percent)

	2019	2020	2021	2022	2023
Banking Sector					
Private sector credit growth (y/y)	1.5	-4.0	7.7	5.8	4.0
Capital adequacy and profitability					
Regulatory capital to risk-weighted assets (CAR)	20.2	24.5	21.8	11.1	10.3
Regulatory Tier 1 capital to risk-weighted assets	19.4	17.2	16.8	7.8	6.8
Return on average assets (ROA)	0.9	2.6	1.9	-3.5	1.0
Net-interest income to gross income	42.5	13.8	19.0	18.7	30.7
Non-interest expenses to gross income	71.7	58.7	53.0	171.9	78.0
Liquidity					
Liquid assets to total assets	55.9	58.4	51.6	51.8	47.8
Net liquid assets to deposits	62.2	76.7	60.4	57.5	53.7
Loan-to-deposit ratio	44.4	52.5	50.8	53.0	55.0
Asset quality					
Nonperforming loans to total gross loans	24.0	23.5	20.9	21.8	19.4
Total provisions to nonperforming loans	24.7	30.8	58.9	55.9	55.9
Credit Unions					
Credit growth (y/y)	8.7	9.8	5.9	4.0	11.0
Capital adequacy and profitability					
Total capital to assets 2/	17.8	17.9	18.8	20.5	...
Institutional capital to assets	11.5	11.6	11.8	10.5	11.0
Return on assets (ROA)	1.3	1.6	1.3	0.9	0.9
Net-interest income to gross income	82.4	80.9	82.6	85.7	...
Non-interest expenses to gross income	63.4	57.7	77.5	65.5	...
Liquidity					
Liquid assets to total assets	23.2	27.0	18.4	18.4	...
Net liquid assets to deposits	29.2	33.9	32.9	36.9	...
Loan-to-deposit ratio	87.4	83.6	87.7	80.9	...
Asset quality					
Delinquent loans to total gross loans	8.0	8.3	...	12.5	9.1
Nonperforming loans (>90 days past due) to total gross loans	5.9	5.8	5.5	6.4	6.8
Total provisions to nonperforming loans	63.5	57.3	63.0	59.3	56.0

Sources: FSRC, ECCB; and IMF staff calculations.

1/ Limited available data for banking sector and credit unions for 2021-22.

2/ Institutional capital and non-withdrawable member shares.

Table 6. St. Kitts and Nevis: Indicators of External and Financial Vulnerability, 2019–23^{1/}
(12-month percentage change, unless otherwise specified)

	2019	2020	2021	2022	2023
External indicators					
Merchandise exports	21.7	-39.9	7.4	18.7	-0.4
Merchandise imports	-1.5	-21.4	-7.1	46.8	-1.6
Tourism earnings	-1.1	-70.4	41.7	96.9	19.2
Current account balance (percent of GDP)	-4.8	-10.8	-5.1	-10.9	-5.4
Capital and financial account balance (percent of GDP)	2.8	12.1	-0.5	2.3	2.3
<i>Of which</i>					
Foreign direct investment	4.5	-0.1	2.9	4.6	4.0
Imputed net international reserves					
In millions of U.S. dollars	346.3	365.4	312.8	270.3	267.0
In percent of broad money	32.2	35.6	28.0	23.3	22.1
Commercial banks' net foreign assets (millions of U. S. dollars)	591.1	576.4	722.1	686.1	619.6
External public debt (percent of GDP)	12.7	15.3	14.8	12.7	10.5
External debt service (in percent of exports of goods and services)	0.0	0.0	0.0	0.0	0.0
Interest	2.7	2.9	2.7	1.9	0.4
Principal	-2.7	-2.9	-2.7	-1.9	-0.4
Nominal exchange rate (E.C. dollars per U.S. dollar, end period)	2.7	2.7	3.7	4.7	5.7
Real effective exchange rate appreciation (+), end period	-0.2	-2.3	-4.7	-2.7	0.6
Financial indicators 2/					
Broad money	5.1	-4.5	8.9	3.7	4.3
Credit to the private sector	1.5	-4.0	7.7	5.8	4.0
Nonperforming loans to total assets of banks (percent)	24.0	23.5	20.9	21.8	19.4
Liquid assets/total assets (percent)	55.9	58.4	51.6	51.8	47.8
Liquid assets/current liabilities (percent)	62.2	76.7	60.4	57.5	53.7
Ratio of banks' before-tax profits to average assets (percent)	0.9	2.6	1.9	-3.5	1.0

Sources: ECCB, Ministry of Finance; and IMF staff estimates.

1/ Limited available data for indicators for 2021-22.

2/ The series for monetary aggregates have been revised consistent with the 2016 Monetary and Financial Statistics Manual and Compilation Guide.

Annex I. Risk Assessment Matrix¹

Risks	Relative Likelihood	Impact	Policy Response
Conjunctural Risks			
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	High	Medium ST/MT	Strengthen the social safety net. Diversify tourism revenues. Increase the linkage between tourism and other sectors. Vigilantly monitor the financial sector development in coordination with ECCB.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	High	Medium ST/MT	Strengthen the social safety net to provide temporary and targeted transfers to the vulnerable. Allow a gradual pass-through of international prices and phase out generalized subsidies. Accelerate transition to renewable energy sources.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs. • U.S.: Amid tight labor markets and/or commodity price shocks, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in more abrupt financial, housing and commercial real estate market correction, and "hard landing".	Medium	High ST/MT	Strengthen the social safety net to provide temporary and targeted support to the vulnerable. Enhance competitiveness to support economic recovery. Diversify tourism revenues. Increase the linkage between tourism and other sectors.
Systemic financial instability. Sharp swings in real interest rates and risk premia, and asset repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing market dislocations and adverse cross-border spillovers.	Medium	Medium ST/MT	Monitor asset quality and ensure adequate loan loss provisioning. Vigilantly monitor the financial sector development in coordination with ECCB.

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood 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 between 30 and 50 percent). 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. "Short term" (ST) and "medium term" (MT) are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Risks	Relative Likelihood	Impact	Policy Response
Structural Risks			
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	High	Medium ST/MT	Enhance international cooperation and competitiveness to support economic recovery and cross border collaboration.
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	Medium	Medium ST/MT	Design rule-based fiscal frameworks that internalize exposure to natural disasters. Adopt national adaptation plans with investment in structural and financial resilience, and appropriate ex ante financing.
Disorderly energy transition. Disorderly shift to net-zero emissions (e.g., owing to shortages in critical metals) and climate policy uncertainty cause supply disruptions, stranded assets, market volatility, and subdued investment and growth.	Medium	Medium MT	Accelerate transition to renewable energy to improve resilience and reduce vulnerability to imported energy prices.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets ecosystems) or misuse of AI technologies trigger financial and economic instability.	Medium	Low MT	Enhance digital security in public and private platforms.
Domestic Risks			
Lower than expected CBI revenues. Pressure from EU to end Citizenship by Investment Program or face visa restrictions, leaving the program unattractive.	Medium	Medium MT	Mobilize revenue from alternative sources. Strengthen governance frameworks to protect the integrity of the CBI program.
Financial sector weakness. Higher NPLs and low capital buffer impairs credit intermediation and dampens growth	Medium	Medium ST	Monitor asset quality and ensure adequate loan loss provisioning.

Annex II. Progress on 2023 Article IV Policy Recommendations

Recommendations	Policy Actions
Fiscal Sector	
In the near term, phase out crisis-related measures	Mixed. Crisis-era policy support declined from 2022 to 2023.
Control wage bill and other current spending. Better target social transfers	Mixed. Wages are set to grow further in 2024 based on the budget speech. The Ministry of Social Development and Gender Affairs is working to better target the vulnerable.
In the medium term, overhaul the taxation framework to reduce dependency on CBI	Pending. Fund TA took place in 2023. The government announced in December its intent to review the tax framework and made the CIT rate of 25 percent permanent, consistent with Fund TA.
Energy Sector	
Invest in resilience building and boost insurance against ND	Pending. Capital expenditure underperformed again in 2023. The government plans to upgrade the power grid, including putting the lines underground.
Financial Sector	
Revisit the business model of the systemic bank	Pending. The bank significantly de-risked its foreign investment portfolio. The government is planning to create a SRF and transfer some of its deposits from the bank to the fund following FAD TA received in February 2024.
Strengthen the regulation of credit unions	Pending. The authorities recognized that supervision of the credit union segment should be strengthened, including a close monitoring of restructured loans.
Structural Policies	
Strengthen labor markets to restore competitiveness and inclusive growth	Work in progress. Authorities made progress by recertifying beneficiaries in the Poverty Alleviation Program and launching the ELEVATE program. They need to strengthen ALMPs to better integrate training with the labor market and promote job opportunities.
Data gaps	
Improve National Accounts methodology, fill gaps in labor market statistics and surveys	Work in progress. Issues persist in National Accounts methodology, fiscal data classification, and labor market statistics.

Annex III. External Sector Assessment

Overall Assessment: *St. Kitts and Nevis's external position in 2023 is assessed as weaker than the level consistent with fundamentals and desirable policies. The current account deficit narrowed to 5.4 percent of GDP in 2023 (from 10.9 percent in 2022) supported by robust tourism recovery.*

Potential Policy Responses: *Efforts to ensure fiscal sustainability should continue. A comprehensive tax reform can invigorate growth and diminish the heavy dependence on the CBI. Enhancing competitiveness through structural reform and transitioning to renewable energy sources are critical for a sustainable external sector in the long run.*

Foreign Assets and Liabilities: Position and Trajectory

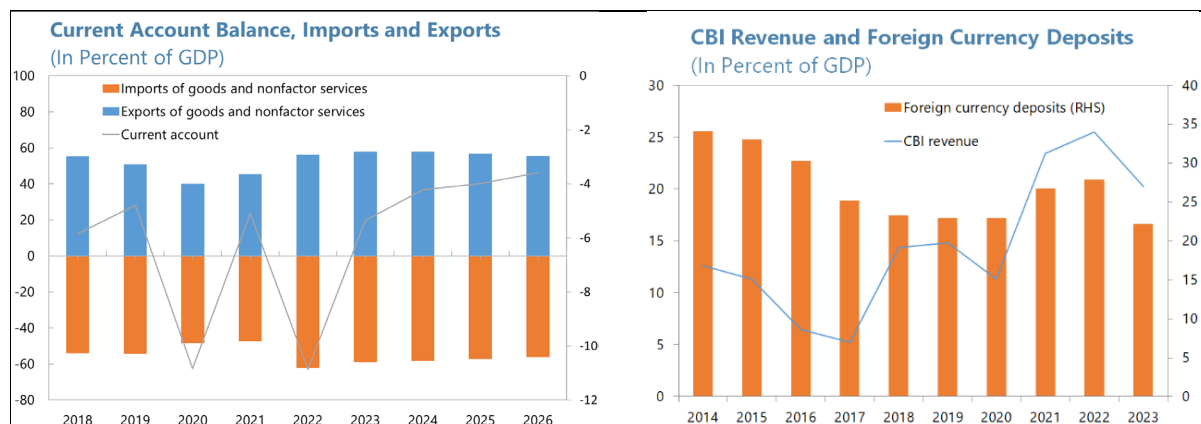
Background. The net international investment position (IIP), which averaged -83 percent of GDP during 2015-19, edged down to -100 percent of GDP in 2020. The position improved to -87 percent of GDP in 2022 and -75 percent of GDP in 2023. On the asset side, portfolio investment (mostly equity and investment fund shares) and other investment (mostly currency and deposits), were the biggest assets, at 46 percent and 29 percent of total assets in 2023, respectively. On the liability side, direct investment, and other investment (mostly currency and deposits) were the largest liabilities, at 73 and 25 percent of total liabilities, respectively. Most of the external debt is in the form of other investment liabilities, particularly currency and deposits; general government loans; and trade credits and advances.

Assessment. The NIIP in 2023 does not constitute a significant concern for external debt sustainability. The projected improvement in the current account will help improve the NIIP over time. The large share of FDI in liabilities mitigate potential risks.

2023 (% GDP)	NIIP: -75.1	Gross Assets: 138.3	Debt Assets: 43.8	Gross Liab.: 213.4	Debt Liab.: 10.6
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Current Account

Background. According to preliminary ECCB and staff estimates, the current account deficit improved from 10.9 percent of GDP in 2022 to 5.4 percent of GDP in 2023. This was the result of higher exports of services and lower imports of goods, which was partly offset by lower CBI receipts.



Sources: ECCB; and IMF staff calculations.

Assessment. The external position in 2023 is assessed to be weaker than the level consistent with fundamentals and desirable policies. The current account deficit in St. Kitts and Nevis in 2020-2023 is mainly explained by the impact of COVID-19 on tourism and higher import bills, not due to exchange rate movements or the country's fundamentals. The external position is expected to improve in line with the normalization of tourism and economic activity, and in the medium term, increased competitiveness through structural reform and renewable energy transition.

EBA-lite Model Results, 2023

	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	-5.4	
Cyclical contributions (from model) (-)	0.1	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.2	
Adjusted CA	-5.3	
CA Norm (from model) 2/	-12.5	
Adjustments to the norm (-) 3/	12.0	
Adjusted CA Norm	-0.5	
CA Gap	-4.8	6.6
o/w Relative policy gap	5.6	
Elasticity	-0.4	
REER Gap (in percent)	13.3	-18.2

1/ Based on the EBA-lite 3.0 methodology

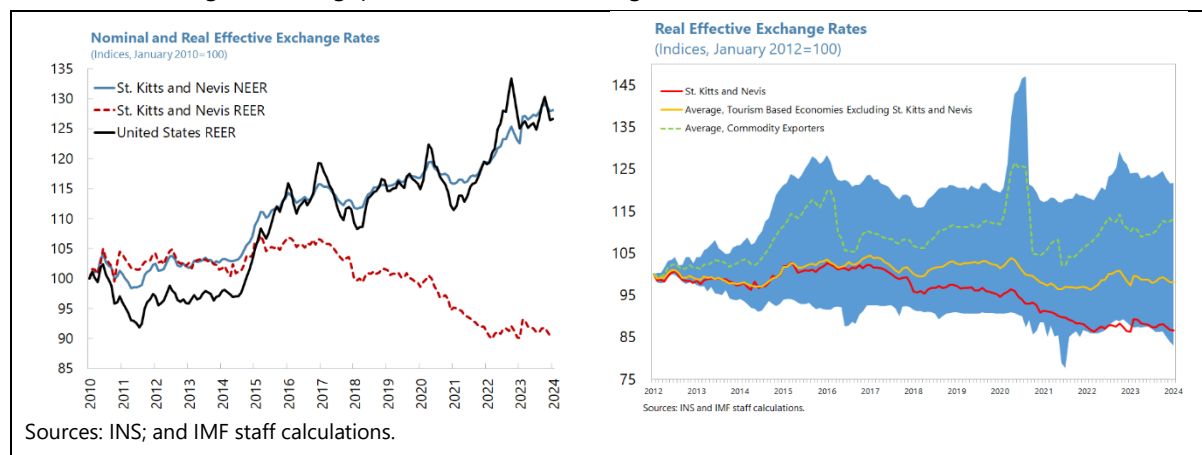
2/ Cyclically adjusted, including multilateral consistency adjustments.

3/ The norm adjustor reflects the country's unusually low remittance receipts relative to its (high) ratio of the stock of outward migrants relative to the domestic population. Generally, economies with a high migrated share of households have high receipts of remittances. Remittance income is generally associated with a higher average propensity to consume and invest, which would be reflected in a lower current account balance.

Real Exchange Rate

Background. In 2023, the REER appreciated by 0.4 percent.¹ The appreciation of NEER during the same period (4 percent) was largely offset by inflation differentials with St. Kitts and Nevis's main trading partners.

Assessment. The REER gap was 13.3 percent, derived from EBA-lite CA model with an elasticity of -0.4. Results of EBA-Lite REER model point to a gap of -18.2 percent. The CA model is preferred over the REER model in assessing the REER gap for St. Kitts and Nevis given its better fit.



Capital and Financial Accounts: Flows and Policy Measures

Background. St. Kitts and Nevis has heavily relied on FDI to finance domestic investment, with large CBI inflows averaging 18 percent of GDP during 2018-23.

Assessment. FDI is projected to increase in the near term as energy transition projects come into fruition and subside in the medium term. The CBI inflows could be volatile. To the extent that the CBI inflows are mostly to finance investment (which has a large import component), the impact of declines in CBI on the current account would be partially mitigated by resulting lower imports. Key downside risks include continued tightening of global financial conditions (which could reduce liquidity and drive savings out of the region in search for yield) and natural disasters (which could deter private capital inflows). On the upside, a faster implementation of structural reforms to improve business environment and competitiveness will help attract higher FDI.

¹ The Eastern Caribbean dollar, the currency of St. Kitts and Nevis, is pegged to the U.S. dollar.

Annex IV. Tax Reform Key Milestones and Sequence

1. The authorities should carry out a comprehensive tax reform to enhance growth, equality, and efficiency. FAD TA conducted in 2023 found that the country has an unsustainable tax system punctuated by inequality and recommended broadening tax bases, rationalizing tax rates, and relying more on VAT and property tax. *The roadmap presented in FAD's report included the following first steps:*

- Abolish negotiated tax concession packages, including the rescission of a section of the Income Tax Act and other provisions that provide the legislative authority for discretionary tax relief in future potential investment agreements.
- Instead, implement an approach to corporate taxation compatible with the OECD-led international tax reform¹: cease income tax holidays, and allow the full expensing of capex, loss carryforwards, and employee salaries.
- Raise current property tax revenues by collecting assessed tax from delinquent commercial and residential high-value properties.
- Return the excise on gasoline to its pre-pandemic level.

As second steps:

- Broaden the VAT base, including repeals of exemptions and zero-ratings, so that VAT is collected in a manner consistent with international best practice, affecting business inputs, construction goods and services, real property, professional services, financial services, and cross-border digital and traditional services. This should provide the fiscal space to reduce the VAT rate from 17 to 15 percent.
- Make the PIT more progressive. The labor income tax² rates should be restructured to have four income brackets (0, 6, 17, 22 percent).
- Synchronize the taxation of small (unincorporated) businesses with CIT and PIT. The monthly turnover threshold should be eliminated, and larger businesses and professional service providers should be required to pay CIT.
- Revalue residential and commercial properties to reflect their current market value, combined an increase in the deduction for a residential property to simplify the administrative task of revaluation and improve equity.

¹ The government made a 25 percent corporate income tax rate permanent from January 2024, consistent with the FAD TA recommendation.

² Housing and social development levy.

2. The proposed tax reform can be carried out without raising the overall tax burden—while the CBI lasts. The strategy is to build a broad-base and low-rate tax system during the good times, so that taxes can be increased with the least damage to growth when the CBI diminishes. *The best options to raise additional revenue would be:*

- Increasing property tax rates on the improved market value base and introduce a progressive residential property tax rate structure with a more modest increase in the rate on commercial properties.
- Making PIT more progressive. Add a high-income bracket for the labor income tax; require workers with multiple jobs to file a year-end return to adjust both social security charges and the labor income tax; tax pension withdrawals of high-income households as labor income; and impose tax on investment income at the individual level.
- Raising excise rates on tobacco, alcoholic beverages, and fossil fuels (which are substantially below regional and international levels).

Annex V. Debt Sustainability Analysis

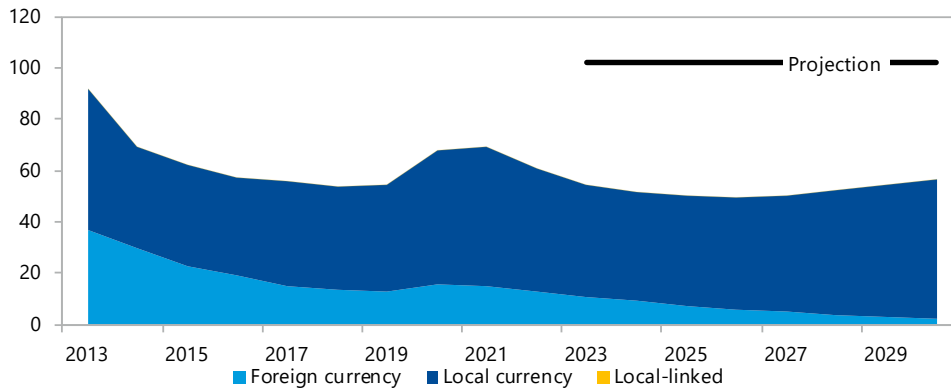
Figure 1. St. Kitts and Nevis: Risk of Sovereign Stress			
Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	The overall risk of sovereign stress is moderate, reflecting relatively low debt levels for a high-income economy and ample deposits. However, the dependence on CBI is heavy, and the contingent liability related to social security is very large.
Near term 1/	Low	Low	
Medium term	High	Moderate	Medium-term risks are assessed as moderate because the mechanical high signal was generated based on the previously high debt which was subsequently restructured. The government has ample deposits to absorb shocks in the medium term. The moderate GFN level is caused mainly by the high share of short-term debt, is mitigated by the high deposits and the low share of external debt.
Fanchart	High	Moderate	
GFN	Moderate	Moderate	
Stress test	Comm. Prices Nat. Diast.	...	
Long term	...	High	Long-term risks are high because of the very large contingent liability related to the Social Security Fund which is deeply underfunded.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	Country teams must input comments on the module in this section.
Debt stabilization in the baseline			No
DSA Summary Assessment			
<p>Commentary: St. Kitts and Nevis is at a moderate overall risk of sovereign stress and debt is sustainable over the medium term. Beyond the medium term, debt could increase because of the realization of a large contingent liability related to social security.</p>			
<p>Source: Fund staff.</p> <p>Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.</p> <p>1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.</p> <p>2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.</p>			

Figure 2. St. Kitts and Nevis: Debt Coverage and Disclosures

										Comments										
1. Debt coverage in the DSA: 1/																				
										CG	GG	NFPS	CPS	Other						
1a. If central government, are non-central government entities insignificant?															n.a.					
2. Subsectors included in the chosen coverage in (1) above:																				
Subsectors captured in the baseline										Inclusion										
CPS	NFPS	GG: expected	CG	1	Budgetary central government						Yes	Not applicable								
				2	Extra budgetary funds (EBFs)						No									
				3	Social security funds (SSFs)						No									
				4	State governments						No									
				5	Local governments						Yes									
				6	Public nonfinancial corporations						Yes									
				7	Central bank						No									
				8	Other public financial corporations						No									
3. Instrument coverage:										Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/						
4. Accounting principles:										Basis of recording		Valuation of debt stock								
										Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/						
5. Debt consolidation across sectors:										Consolidated		Non-consolidated								
Color code: ■ chosen coverage ■ Missing from recommended coverage ■ Not applicable																				
Reporting on Intra-Government Debt Holdings																				
Issuer										Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total	
CPS	NFPS	GG: expected	CG	1	Budget. central govt												0			
				2	Extra-budget. funds														0	
				3	Social security funds															0
				4	State govt.															0
				5	Local govt.															0
				6	Nonfin pub. corp.															0
				7	Central bank															0
				8	Oth. pub. fin. corp															0
Total										0	0	0	0	0	0	0	0	0		
<p>1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.</p> <p>2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.</p> <p>3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.</p> <p>4/ Includes accrual recording, commitment basis, due for payment, etc.</p> <p>5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).</p> <p>6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.</p> <p>7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.</p>																				
<p>Commentary: Public debt coverage includes the central government (St. Kitts), the local government (Nevis), and the public enterprises.</p>																				

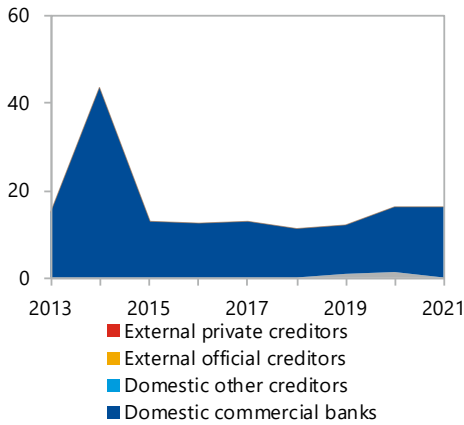
Figure 3. St. Kitts and Nevis: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



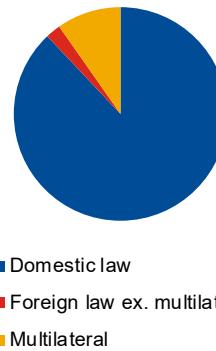
Note: The perimeter shown is consolidated public sector.

Public Debt by Holder (Percent of GDP)



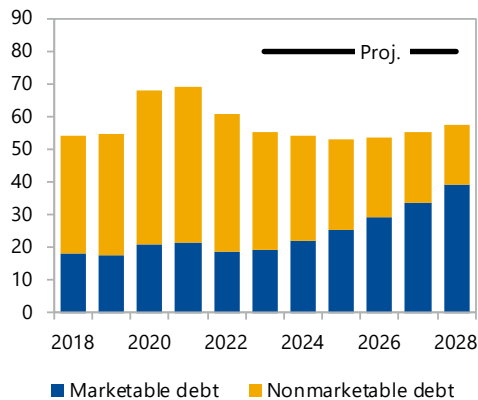
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2022 (percent)



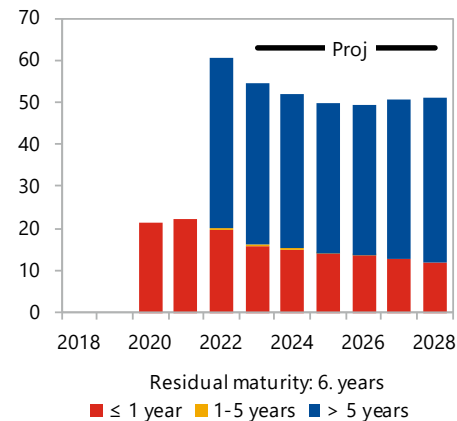
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)

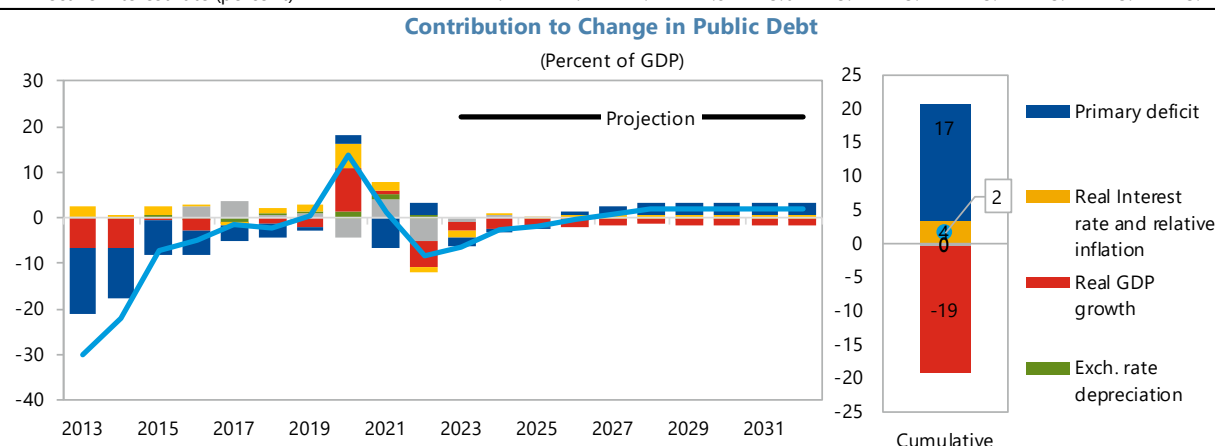


Note: The perimeter shown is general government.

Commentary: External debt is expected to diminish, while domestic debt is projected to remain stable.

Figure 4. St. Kitts and Nevis: Baseline Scenario
(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	60.6	54.4	51.7	49.9	49.5	50.4	52.5	54.4	56.4	58.4	60.3
Change in public debt	-8.5	-6.3	-2.6	-1.8	-0.4	0.9	2.0	2.0	1.9	2.0	1.9
Contribution of identified flows	-3.2	-5.4	-3.2	-1.9	-0.4	1.0	2.0	2.0	2.0	2.0	2.0
Primary deficit	2.7	-2.1	-0.8	-0.1	0.9	1.9	2.9	2.9	2.9	2.9	2.9
Noninterest revenues	45.6	42.5	39.5	37.7	35.9	34.2	32.4	32.4	32.4	32.4	32.4
Noninterest expenditures	48.4	40.4	38.6	37.6	36.9	36.1	35.3	35.3	35.3	35.3	35.3
Automatic debt dynamics	-6.0	-3.3	-2.4	-1.8	-1.4	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Real interest rate and relative inflation	-0.9	-1.3	0.1	0.3	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Real interest rate	-0.4	-1.4	0.0	0.3	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Relative inflation	-0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-5.6	-2.0	-2.5	-2.1	-1.8	-1.5	-1.4	-1.5	-1.5	-1.5	-1.5
Real exchange rate	0.5	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-5.2	-0.9	0.6	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	20.9	14.3	15.5	16.8	18.5	20.5	22.4	23.7	25.0	26.5	28.1
of which: debt service	18.1	16.4	16.4	16.9	17.6	18.6	19.6	20.8	22.2	23.6	25.2
Local currency	16.5	15.2	15.0	15.7	16.5	17.6	18.7	20.1	21.5	23.1	24.7
Foreign currency	1.6	1.1	1.3	1.2	1.1	1.0	0.8	0.7	0.6	0.6	0.5
Memo:											
Real GDP growth (percent)	8.8	3.4	4.7	4.3	3.8	3.0	2.8	2.9	2.9	2.8	2.7
Inflation (GDP deflator; percent)	2.7	4.7	2.6	2.3	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	13.4	9.7	6.2	6.4	5.9	5.2	5.0	5.0	5.0	4.8	4.8
Effective interest rate (percent)	2.1	2.1	2.7	2.9	3.0	3.1	3.2	3.2	3.1	3.1	3.1



Commentary: The main driver of debt is moderate deficits, largely ameliorated by real GDP growth.

Figure 5. St. Kitts and Nevis: Medium-Term Risk Assessment

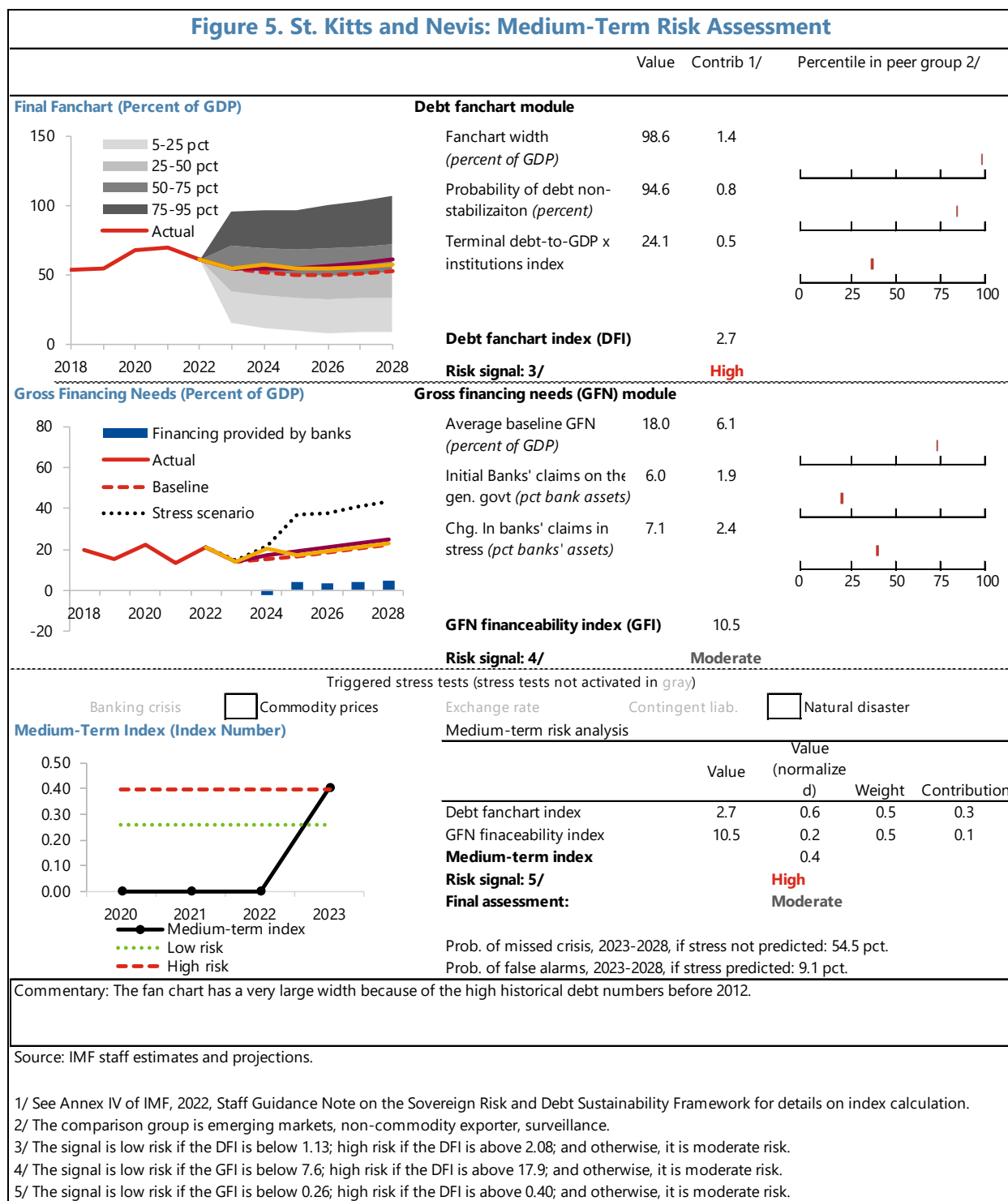
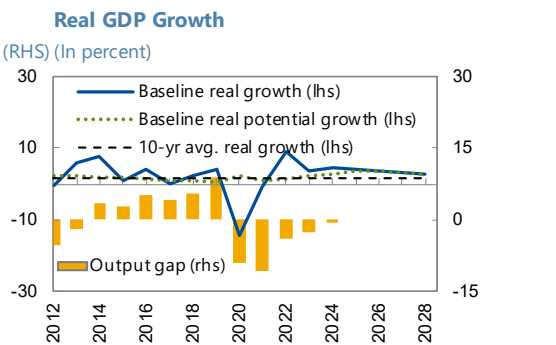
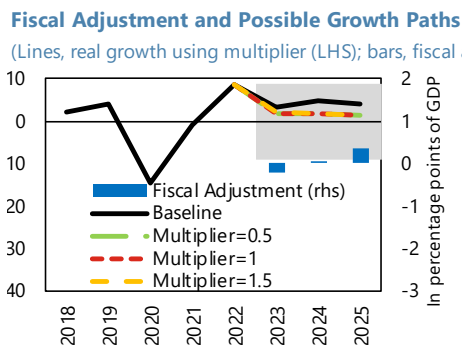
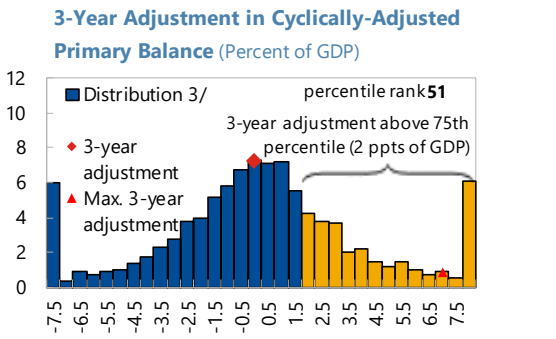
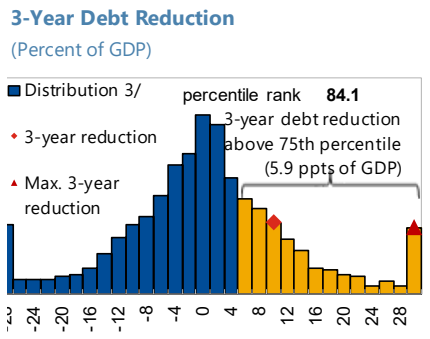
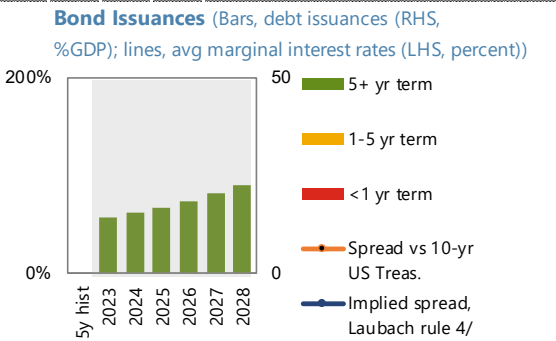
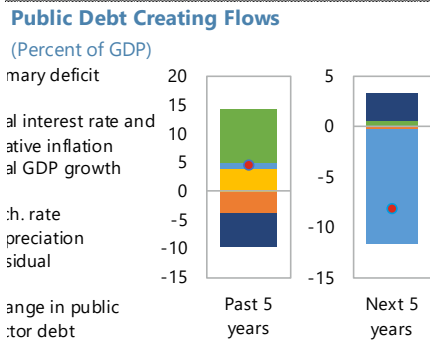
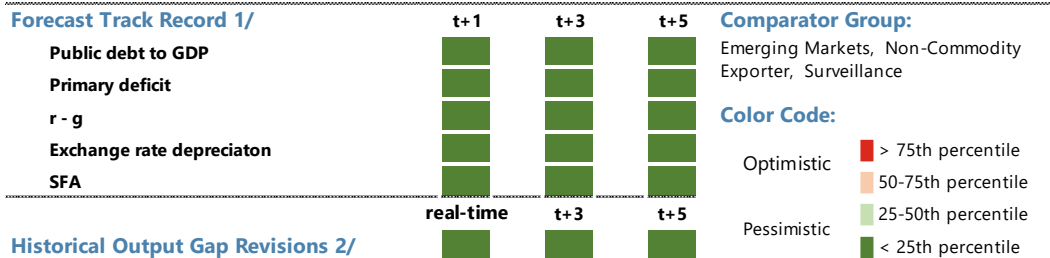


Figure 6. St. Kitts and Nevis: Realism of Baseline Assumptions



Commentary: The high percentile rank is based on the historical sample which includes very high debt numbers before 2012.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 7. St. Kitts and Nevis: REER Gap (+ Overvaluation)
(In Percent)

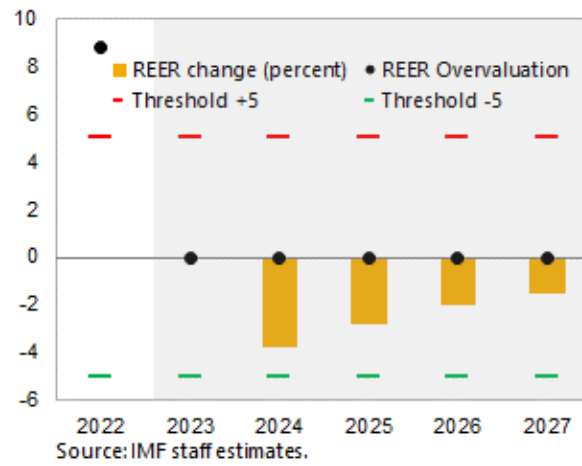


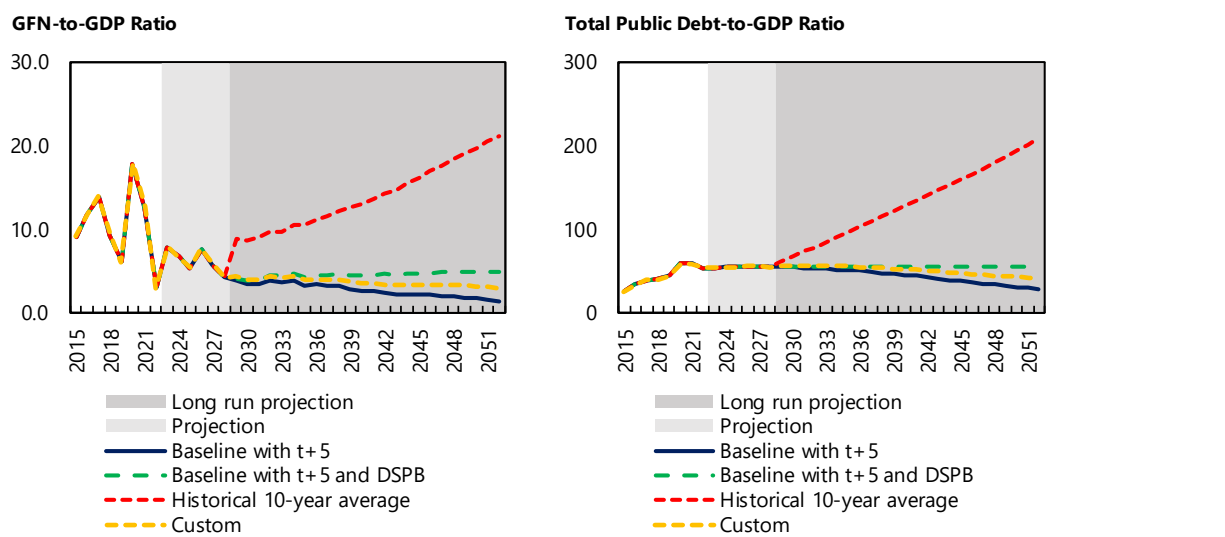
Figure 8. St. Kitts and Nevis: Triggered Modules

Large amortizations Pensions **Climate change: Adaptation** Natural Resources
 Health Climate change: Mitigation

St. Kitts and Nevis: Long-Term Risk Assessment: Large Amortization Incl. Custom Scenario

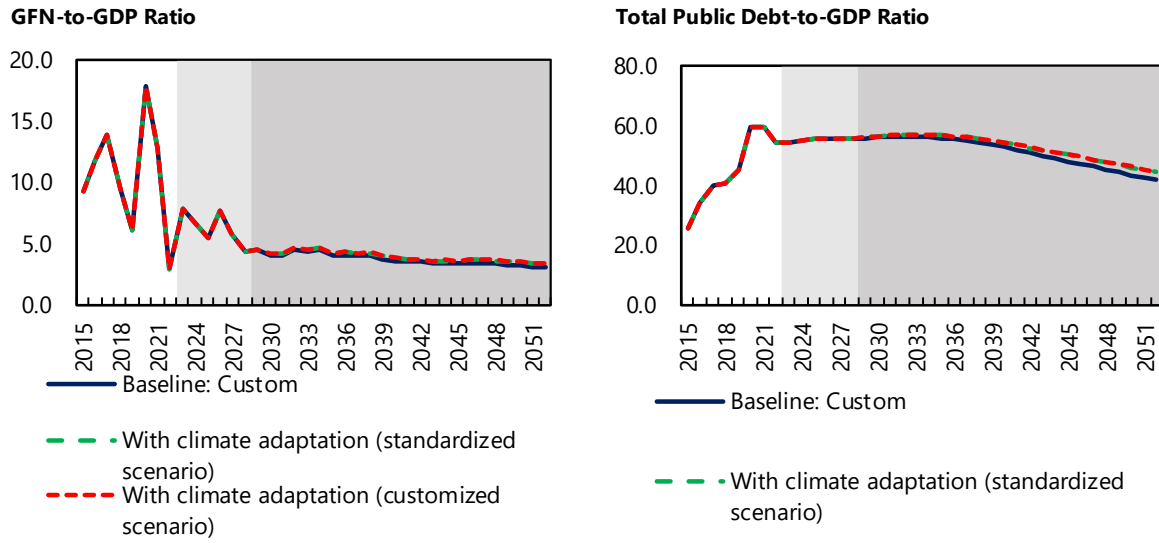
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

Variable	2028	2022 to 2036 average	Custom Scenario
Real GDP growth	2.8%	2.8%	2.8%
Primary Balance-to-GDP ratio	-2.9%	-2.9%	-2.9%
Real depreciation	-2.0%	-2.0%	-2.0%
Inflation (GDP deflator)	2.0%	2.0%	2.0%



Commentary: The upward trajectory is driven by the historically high debt before the GFC, which was subsequently restructured.

Figure 9. St. Kitts and Nevis: Climate Change: Adaption



Commentary: Climate change adaptation does not worsen the debt dynamic significantly.

Annex VI. Staff Baseline Assumptions on Renewable Energy Projects

1. The solar project with a total investment of 80 million USD is expected to be fully operational in 2026. This utility scale solar photo-voltaic power generation unit should provide 35MW of peak capacity but contribute on average to one third of the needs of St-Kitts' grid, about 9 MW. Peak solar power generation will be used to power a Battery Energy Storage System (BESS) of 43 MW that will help maintain baseload capacity on solar generation, shift some of the solar energy to night consumption and contribute to rebalancing the grid. The facility is designed to be resilient to a class-4 Hurricane. Solar power will be sold to the utility through a 25 years duration Purchase Power Agreement (PPA) negotiated between a Dutch-Swiss private sector consortium and St-Kitts Energy Utility Company (SKELEC). Construction is expected to start in 2024Q2 and last for 18 months. Staff assesses the execution risk of the project to be small and incorporates the full power generation capacity in the baseline. At the construction stage, the required investment will mainly generate additional imports and the domestic component of the investment is assumed to be about 12.5 percent of the total envelope. The creation of 50 and 100 new jobs are expected in 2024 and 2025, respectively. Once the project operational, the cost of the solar electricity purchased by SKELEC should be 40 percent lower than from diesel-powered generator (accounting for the fuel surcharge transferred from the budget).

2. The geothermal project was launched with an initial investment of 17 million USD for drilling and exploration, that was provided by through a contingent loan of the Caribbean Development Bank (acting as intermediary for the Green Climate Fund). The construction stage is expected to take three years (2025-27). The geothermal power plant is expected to be operational with a planned capacity of 30 to 45MW (corresponding to three production wells of 10 to 15MW). Staff assesses the execution risk of the project to be medium and incorporated 50 percent of the planned power generation capacity in the baseline (of note geothermal energy consultants have produced forecasts for total power generation that range between 100MW and 1GW). The domestic component of investment is assumed to be 25 percent. Due to the lack of information and the specific skillsets required for the construction, the baseline assumes no impact on the domestic labor market. The unit price of electricity once this project operational is expected to decline by around 63 percent for NEVLEC, the utility provider in Nevis. The cost of electricity is anticipated to decrease by around 45 percent for the Federation.

3. The two projects are also expected to affect long-term growth through productivity gain. Based on cross-country data, staff estimate the productivity gains to be 1.4 percent of GDP over 6 years given baseline assumptions on project capacities (see SIP).

4. The projects are expected to affect the external accounts. The current account is expected to deteriorate during the investment phase due to high imports demand for construction. Once the projects are operational, they are expected to generate savings from lower fuel imports. Staff assumed that the operational launch of the solar facility will reduce the Island utility company

fuel import by about 40 percent (4 mil gallons of diesel for total annual imports of 10 million) resulting in annual savings of about 100 mil EC (37 mil USD). The solar project is financed with a mix of foreign equity (about 25 percent of the total investment) and domestic loans, hence a small impact on primary income through profits outflows according to staff calculations.

5. Related additional infrastructure projects could create additional upside risk for growth. Staff did not include in its baseline scenario the impact of prospective projects that the authorities are contemplating to upgrade the power grid. Larger electricity generation from geothermal would require, to fully realize its potential economic benefits, an upgrade to the two Islands power grid, replacing 11Kv power lines with 66Kv power lines, further grid extension to ensure redundancy, and the burying of high voltage power lines to strengthen resilience to Natural Disasters. Authorities estimate that this extension of their energy plans, depending on its scale, could involve investments ranging between 200 and 500 USD million spanning over a decade. This upgrade may be necessary if the country decides to fully reap the energy export potential estimated from Nevis' potential resources, and ramp-ups electricity production in line with the expected growth of the economy and the estimated increase in electricity production required to reach the net-zero trajectory featured in their [National Determined Contribution](#) to COP21.



ST. KITTS AND NEVIS

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

April 17, 2024

Prepared By

The Western Hemisphere Department

CONTENTS

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RELATIONS WITH OTHER FINANCIAL INSTITUTIONS	6
STATISTICAL ISSUES	7

FUND RELATIONS

(As of February 29, 2024)

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 Tranche Position	0.98	7.86

SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	20.48	100.00
Holdings	16.45	80.28

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	
Projected Payments to the Fund¹					
	Forthcoming				
	2024	2025	2026	2027	2028
Principal					
Charges/Interest	0.12	0.17	0.17	0.17	0.17
Total	0.12	0.17	0.17	0.17	0.17

Outright Loans: None

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

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

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.

Exchange Arrangements: St. Kitts and Nevis participates with seven other members in the Eastern Caribbean Currency Union (ECCU) and has no separate legal tender. Monetary policy and the exchange system is managed by a common central bank, the Eastern Caribbean Central Bank (ECCB), which operates like a quasi-currency board, maintaining foreign exchange backing of its currency and demand liabilities of close to 100 percent. 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. St. Kitts and Nevis accepted the obligations of Article VIII, Sections 2, 3, and 4 in December 1984, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

Safeguards Assessment: An update safeguards assessment of the ECCB, finalized in August 2021, found strong external audit and financial reporting practices that continue to be aligned with international standards, and further improvement in the capacity of the internal audit function. Legal reforms were recommended to further strengthen operational autonomy of the ECCB and align its Agreement Act with leading practices. The issuance of digital currency (D-Cash) introduced new risks that require additional control and oversight, including strengthening the related project-governance framework.

Article IV Consultation: St. Kitts and Nevis is on a 12-month cycle. The last Article IV consultation was concluded on March 15, 2023, by the Executive Board: Meeting 23/53.

Technical Assistance: Several missions from MCM, FAD, STA, supported by the Caribbean Regional Technical Assistance Centre (CARTAC), have visited the country. Below the compilation of the TA delivered from 2019–February 2024.

St. Kitts and Nevis: Fund Technical Assistance, 2019–February 2024		
Start date	End date	Mission description
May 20, 2019	May 31, 2019	CARTAC: Assist with the compilation of the SUT
Oct. 21, 2019	Nov. 1, 2019	CARTAC: BOP/IIP - Enhance Source Data
Jun. 2, 2020	Jun. 5, 2020	CARTAC: Training - (Remote TA) Enhancing the Medium Term Macro-Fiscal Framework
Aug. 31, 2020	Sep. 15, 2020	(Remote TA) CARTAC: Longer BPM6 BOP time series
Oct. 4, 2020	Oct. 21, 2020	CARTAC: Developing a Compliance Program for Large & Medium Taxpayers (WFH)
Apr. 5, 2021	Apr. 30, 2021	(Remote TA) CARTAC: National Accounts - VT Improving estimates of GDP
Apr. 19, 2021	Apr. 30, 2021	(Remote TA) CARTAC: VT Consumer Prices/Producer Price - Finalize the new CPI series build capacity
May 1, 2021	Apr. 30, 2022	St. Kitts and Nevis - LTX Desk Work
May 3, 2021	Aug. 31, 2021	FY21 St Kitts and Nevis - National Accounts
Jun. 7, 2021	Jun. 22, 2021	STX - Development of a CRMS Implementation Plan
Nov. 15, 2021	Dec. 3, 2021	STX - Strengthening Core Business Functions - Audit Capacity (RTAT)
Nov. 22, 2021	Nov. 26, 2021	St. Kitts and Nevis - Develop Quarterly BOP Data
Jan. 10, 2022	Jan. 28, 2022	(Virtual mission) Review of the Nevis Intl Banking Ordinance
Aug. 8, 2022	Aug. 26, 2022	(Virtual mission) ICT support - SIGTAS Clean up
Aug. 8, 2022	Aug. 12, 2022	St. Kitts and Nevis - BOP Source data
Sep. 1, 2022	Oct. 31, 2022	Mission LTX/STX Agile PEFA Assessment FY23
Sep. 6, 2022	Sep. 9, 2022	Building capacity in medium-term macro framework
Mar. 22, 2023	Apr. 4, 2023	Diagnostic: assess tax mix, VAT base, property tax, adding a PIT to the CIT
Mar. 27, 2023	Mar. 31, 2023	TA- BOP - Enhance Travel credits
May 1, 2023	May 1, 2023	MID 23FAS68 - Under Accrual (TA 462920)
May 8, 2023	May 12, 2023	Follow-up TA to develop capacity in macro-fiscal analysis, forecasting, and risk analysis
May 15, 2023	Jul. 3, 2023	Mission LTX/STX Supporting Audit FY24
Jun. 5, 2023	Jun. 16, 2023	St. Kitts and Nevis-STARE-Real Sector - National Accounts-NAR-FY24-1
Oct. 2, 2023	Oct. 13, 2023	STX - Strengthening Compliance Program - VAT and Income Tax Cross Matching
Nov. 13, 2023	Nov. 24, 2023	St Kitts and Nevis - TA- BOP- Source data
Nov. 20, 2023	Nov. 24, 2023	STX - Supporting Strategic Management and HQ functions
Dec. 4, 2023	Dec. 8, 2023	Strengthening HQ function (Peer to Peer engagement with TAJ)
Jan. 22, 2024	Feb. 16, 2024	Mission LTX/STX Training Audit Planning (HYBRID) FY24
Jan. 31, 2024	Feb. 13, 2024	HQ Mission LTX/STX Sovereign Wealth Fund FY24

FSAP: A joint IMF/World Bank team assessed the financial sector of the ECCU member countries in two missions: September 1–19 and October 20–31, 2003. The missions evaluated development needs and opportunities for the financial sector, identified potential vulnerabilities of markets and financial institutions, and identified risks to macroeconomic stability from weaknesses in the financial sector. The Financial System Stability Assessment (FSSA) was discussed by the Executive Board on May 5, 2004, and subsequently published on the IMF’s external website, including the Report on the Observance of Standards and Codes (ROSC) on Banking Supervision.

RELATIONS WITH OTHER FINANCIAL INSTITUTIONS

(As of March 20, 2024)

- World Bank

[WBG Finances - Country Details - St. Kitts and Nevis \(worldbank.org\)](https://www.worldbank.org/en/country/stk)

- Caribbean Development Bank

[Saint Kitts and Nevis | Caribbean Development Bank \(caribank.org\)](https://www.caribank.org/saint-kitts-and-nevis)

STATISTICAL ISSUES

(As of March 20, 2024)

I. Assessment of Data Adequacy for Surveillance
<p>General: Data provision has some shortcomings but is broadly adequate for surveillance.</p>
<p>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. GDP figures are derived from the production approach in constant and current prices. In addition, annual current price expenditure-based GDP estimates are compiled and disseminated. One deficiency with the expenditure-based methodology is that Household Final Consumption Expenditures are derived residually. Weaknesses are observed in the methods to estimate gross capital formation. There are significant delays in completing data collection and processing of all the annual national accounts data. 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 lag.</p>
<p>Price Statistics: Monthly CPI data are posted on the ECCB website. The ECCB disseminates monthly data on tourism with a lag but estimates on tourism expenditure have been made. Except for data from the social security board and occasional labor force surveys, limited data are available on labor market developments.</p>
<p>Government Finance Statistics: Coverage of fiscal data is limited to the budgetary central government and the local government (the Nevis Island Administration), with limited below-the-line data. This omits revenues and expenditures of other general government units, notably the St. Christopher and Nevis Social Security Board (SSB). Fiscal data also have some methodological shortcomings with misclassification of some revenue and expenditure items. In 2023, some unbudgeted recurrent expenditure items—CBI dividends and workers' bonuses—were classified as capital expenditures. Moreover, the bottom-up data from the list of capital expenditure projects did not match the top-down number for capital expenditure in the fiscal accounts. The authorities do not report any fiscal data to STA. However, some preliminary work has been undertaken by STA and the authorities to derive annual government finance statistics (GFS) in line with the GFSM 2014 on main aggregates and their components for revenue, expense, and financing of the budgetary central government. The debt data includes the general government, the local government, and the statutory bodies, but not government-owned entities such as the National Bank. There is no reporting on contingent liabilities, for</p>

<p>example, arising from the debt-for-land swap (this data is obtained from the National Bank's annual reports) and from the projected actuarial balance of the SSB.</p> <p>The SSB publishes detailed triennial Actuarial Reports which importantly present 60-year projections of its reserves under different scenarios; the last one is from 2021, covering the historical data from 2018-20. Mandated by law, the next one is expected by December 31, 2023. The SSB also publishes annual Financial Statements (previously Annual Reports) but with a significant lag; the last one is from 2019.</p>
<p>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. The ECCB implemented the reporting system for commercial banks that is envisaged to address the recommendations made by the April 2007 data ROSC mission.</p> <p>The ECCB reports data on some key series and indicators of the Financial Access Survey, including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the United Nations to monitor Target 8.10 of the Sustainable Development Goals for its member countries, including St. Kitts and Nevis.</p>
<p>Financial Sector Surveillance: 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. Furthermore, in late 2017, the ECCB stopped publishing a plethora of useful FSIs. The National Bank (the largest bank in the country and the ECCU) publishes detailed audited annual reports every December (with data as of June).</p>
<p>External sector statistics: Balance of payments and IIP data are jointly compiled and disseminated by the Department of Statistics of the country and the ECCB on an annual basis following the BPM6 methodology. Further work is required to improve the coverage of the data, particularly, direct investment transactions due to low business survey response rates. Travel credit services are based on the results of the 2016 visitor expenditure survey (tourism expenditure) and business survey data reported by offshore universities (student expenditure). Plans for the implementation of a new visitor surveys have been postponed due to limited resources and the COVID-19 pandemic. The recording of CBI revenues is a complex issue and should depend on the CBI option (donation or real estate) and the nature of proceeds (e.g., the value of donation or real estate investment and due diligence fee).</p>
<p>II. Data Standards and Quality</p>
<p>St. Kitts and Nevis participates in the Enhanced General Data Dissemination System (e-GDDS). Monetary Statistics Component of the Regional Data Module Report on Observance of Standards and Codes (ROSC) for the ECCB was published in 2007. Data ROSC was published in August 2007.</p>

St. Kitts and Nevis: Table of Common Indicators Required for Surveillance
(As of March 20, 2024)

	Date of Latest Observation	Date Received	Frequency of Data ⁵	Frequency of Reporting ⁵	Frequency of Publication ⁵
Exchange rate ¹	Fixed rate	NA	NA	NA	NA
International reserve assets and reserve liabilities of the monetary authorities	Jan. 2024	Mar. 2024	M	M	M
Reserve/base money	Jan. 2024	Mar. 2024	M	M	M
Broad money	Jan. 2024	Mar. 2024	M	M	M
Central bank balance sheet	Jan. 2024	Mar. 2024	M	M	M
Consolidated balance sheet of the banking system	Jan. 2024	Mar. 2024	M	M	M
Interest rates	Mar. 2024	Mar. 2024	Q	Q	Q
Consumer price index	Dec. 2023	Feb. 2024	M	M	M
Revenue, expenditure, balance and composition of financing—central government	Dec. 2023	Feb. 2024	M	M	M
Revenue, expenditure, balance and composition of financing—general government ²	Dec. 2023	Feb. 2024	M	M	M
Stock of central government and central government-guaranteed debt ³	2023Q3	2023Q4	Q	Q	Q
External current account balance	2022	Dec. 2023	A	A	A
Exports and imports of goods and services	2022	Dec. 2023	A	Q	Q
GDP/GNP	2023	Jan. 2024	A	A	A
Gross external debt	2023Q3	2023Q4	Q	Q	Q
International Investment Position ⁴	2022	Dec. 2023	A	A	A

¹ St. Kitts and Nevis is a member of the Eastern Caribbean Currency Union, in which the common currency of all member states (E.C. dollar) is pegged to the U.S. dollar at US\$1 = EC\$2.70.

² The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state-owned enterprises.

³ Including domestic and external composition and maturity.

⁴ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁵ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).