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St. Kitts and Nevis: 2006 Article IV Consultation—Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion

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 2006 Article IV consultation with St. Kitts and Nevis, the following documents have been released and are included in this package:

- the staff report for the 2006 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on October 16, 2006, 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 December 20, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of January 17, 2007 updating information on recent developments.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its January 17, 2007 discussion of the staff report that concluded the Article IV consultation.

The document listed below has been or will be separately released.

Statistical Appendix

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND

ST. KITTS AND NEVIS

Staff Report for the 2006 Article IV Consultation

Prepared by the Staff Representatives for the
2006 Consultation with St. Kitts and Nevis

Approved by Christopher Towe and Matthew Fisher

December 20, 2006

Economic background and focus of discussions. St. Kitts and Nevis is a small, very open, middle-income economy with a population of about 46,000 and per capita income of over US$9,500. The sugar industry—historically the mainstay of the economy—was closed in July 2005 and discussions focused on the transition strategy, particularly on the measures needed to bring down the very high public debt burden, realize the economy's growth potential, and to reduce vulnerabilities.

Political situation. St. Kitts and Nevis form a twin-island federation with a unicameral Parliament consisting of 14 representatives—8 elected in St. Kitts, 3 elected in Nevis, and 3 appointees. In the National Assembly elections held in October 2004, the incumbent Labor Party was re-elected with a large majority. Premier Parry's Nevis Reformation Party (NRP) assumed office in Nevis following elections on July 10, 2006, after 14 years in opposition. The NRP campaign emphasized improved health care, better social programs, and a lower cost of living. The new government on Nevis has taken a conciliatory approach to inter-island relations.

Discussions: The consultation took place during October 3–17, 2006. The team comprised D. O. Robinson (Head), M. Mlachila, N. Mwase, and E. Tsounta (all WHD), and was joined by staff of the ECCB and the Caribbean Development Bank (CDB). J. Fried (OED) participated in the final meetings. The team met with Prime Minister Douglas, Deputy Prime Minister Condor, Nevis Premier Parry, other senior officials in the federal government and the Nevis Island Administration, and representatives of the Opposition, trade unions, and the private sector.

Fund relations and statistics. The last Article IV consultation was concluded on December 21, 2005. St. Kitts and Nevis has no outstanding Fund resources. A summary of Executive Board discussions is found at:

http://www.imf.org/external/np/sec/pn/2006/pn0611.htm.

Improvements are needed in several key areas to facilitate more effective surveillance, including national accounts, debt statistics, and general government statistics.

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EXECUTIVE SUMMARY

Background

Economic activity has strengthened. Growth accelerated to 4½ percent in 2006 driven by construction and tourism. The closure of the sugar industry in 2005 has had a limited impact on growth and the balance of payments, but has increased government debt and debt service costs. Large adjustments in petroleum and electricity prices created a temporary spike in inflation.

Fiscal balances have improved significantly, but debt remains very high. The central government primary surplus is projected to reach 6 percent of GDP in 2006, an adjustment of more than 6 percent of GDP since 2004. Gross public sector debt declined only modestly to 190 percent of GDP at end-2005, due to significant borrowing by public enterprises.

The government has reiterated its commitment to debt reduction. A comprehensive post-sugar adaptation strategy is being developed, supported by public outreach. The strategy is based on sustained fiscal adjustment, asset sales, and structural reform.

Policy discussions

Discussions focused on increasing growth and restoring fiscal and debt sustainability. This will require continued efforts to strengthen the business environment, improve fiscal balances, accelerate the scope and pace of government asset sales, and reduce vulnerabilities.

Raising growth potential will require additional efforts in a number of areas, including putting former sugar lands to more productive use, strengthening the investment climate, improving the tax incentive regime, and enhancing the efficiency of labor and financial markets.

The authorities have announced an ambitious, but feasible, program of fiscal consolidation. The fiscal strategy includes the introduction of a VAT and the corporatization of the loss-making electricity sector, as well as improved prioritization of the capital budget, and refinancing of high-cost debt. The authorities are also taking steps to enhance the institutional setting for fiscal policy.

There is need to significantly improve the transparency and accountability of public enterprises. Without proper monitoring of their financial operations, there is a risk that fiscal consolidation undertaken by the central government could be undone.

Vulnerabilities to exogenous shocks are high, but the greatest risks may stem from delays in domestic policy reforms. Even with a large fiscal adjustment and robust growth, public debt is likely to remain very high for a number of years, constraining the ability to address social priorities and pointing to the need for exploring options for a more rapid debt reduction and strengthened financial sector supervision.

I. CONTEXT

1. **In July 2005, the sugar industry—the historical mainstay of the economy—closed after more than 300 years**. The industry had incurred substantial losses—on the order of 3–4 percent of GDP annually in the last several years—even before the announced further cut in preferential access to the EU market. The sugar industry had occupied about 9,300 acres of land (about a quarter of the land surface of St. Kitts) and employed about 1,400 workers (6 percent of the labor force). The closure has required the government to service the debt of the sugar company (29 percent of GDP).

2. **St. Kitts and Nevis faces the challenge of absorbing the labor and land released from the sugar sector and of coping with a substantial public debt burden**. In consultation with the EU, a comprehensive medium-term strategy has been prepared to guide the transition of resources from sugar to more productive uses. Gross public debt—accumulated as a result of a series of exogenous shocks (including three hurricanes in the second half of the 1990s) and an accommodative policy stance—reached 190 percent of GDP at end-2005, creating a significant vulnerability and limiting the scope for fiscal policy to ease the transition (Figure 1). Encouragingly, the 2006 Budget Speech emphasized the need for fiscal consolidation, and announced medium-term fiscal and public debt targets supported by an ambitious tax reform.

3. **Ensuring strong social outcomes has been a high priority.** The policy response to the large exogenous shocks during the 1990s focused on government-led investment to spur growth, sustain employment, and maintain living standards. Partly reflecting these efforts, St. Kitts and Nevis is the second highest ranked Caribbean nation on the United Nation's Human Development Index. There are, though, emerging concerns about the spread of diabetes and hypertension.

St. Kitts and Nevis: Selected Social and Demographic Indicators

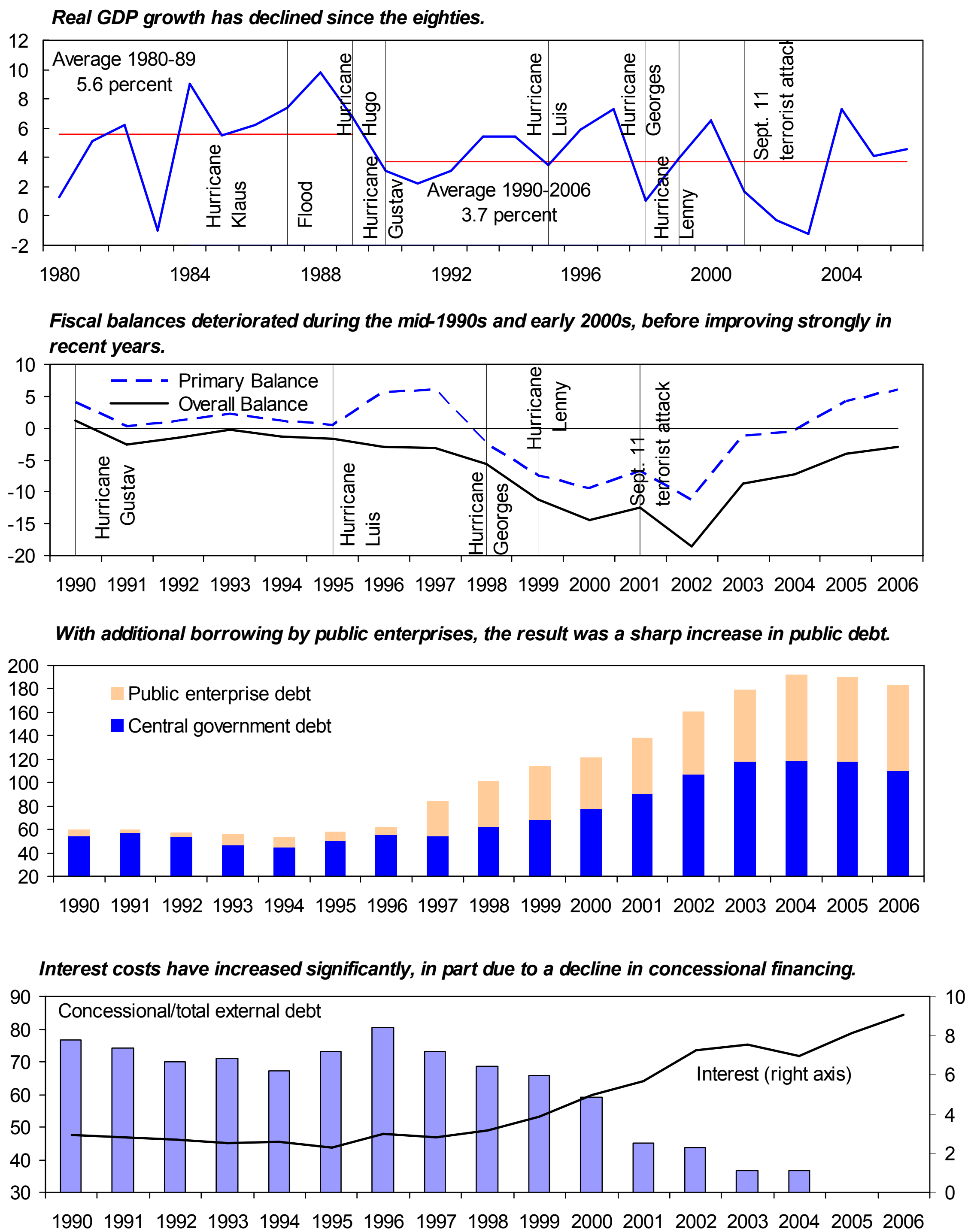
	St. Kitts and Nevis	ECCU
HDI rank (rank out of 177 countries), 2006	51	70
Life expectancy at birth, total years), 2002	71.3	73.3
Adult literacy rate (% of people ages 15 and above), 2003	97.8	92.9
Infant mortality (per 1,000 live births), 2004	19.0	15.0
GDP per capita (US$), 2005	9,565	6,023
Aids incidences (per 100,000), 1998	14	9

Sources: World Bank, WDI; United Nations, Human Development Report 2006; and country authorities.

4. **Discussions focused on the authorities' transition strategy, the prioritization of reforms, and options for reducing risks**. The discussions were complemented by the 2006 Eastern Caribbean Currency Union Regional Discussions.

5. **The authorities generally agreed with the staff's analysis and recommendations, but, as in the past, were more sanguine about the risks stemming from the debt stock**. In discussions on both St Kitts and on Nevis, there was a clear consensus on the need to reduce debt to a more manageable level, based on sustained fiscal consolidation and strong growth. The authorities emphasized that risks implied by the high debt level were mitigated by the government's substantial assets, particularly land. Key components of the authorities' transition strategy—such as the tax reform—have been discussed in previous consultations, but implementation has been held back by the desire to build broad public consensus for the reforms.

Figure 1. St. Kitts and Nevis: Economic Developments
(In percent of GDP)



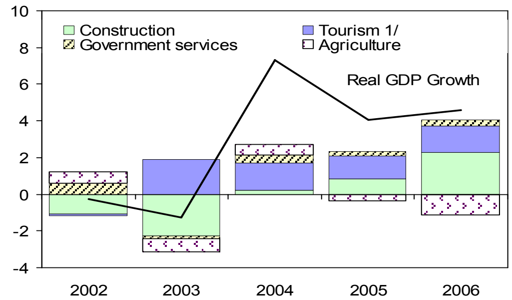
Sources: St. Kitts and Nevis authorities; World Bank *Global Development Finance;* and Fund staff estimates.

Note: Projections for 2006.

II. Recent Economic Developments And Near-Term Prospects

6. **Macroeconomic outcomes have strengthened significantly in the last few years**. Despite the closure of the sugar industry, growth has been robust, driven by the tourism, construction, and communications sectors, in the latter case reflecting liberalization in 2005 (Box 1).[1] Inflation accelerated in late 2005 following the government's decision to pass-through some of the increase in world oil prices to domestic consumers by raising regulated gasoline prices and introducing an electricity surcharge.[2] Unemployment has remained subdued—at about 5 percent—despite the closure of the sugar industry.

St. Kitts and Nevis: Contribution to GDP Growth by Sector
(In percent)



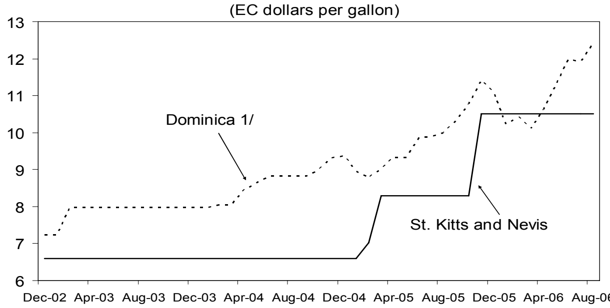
Sources: St. Kitts and Nevis authorities; and Fund staff estimates.
1/ Includes wholesale and retail trade, hotels and restaurants, airport transport and half of local transport.

St. Kitts and Nevis: Selected Indicators, 2003–07

	2003	2004	Prel. 2005	Proj. 2006	2007
(Change in percent)					
Real GDP	-1.2	7.3	4.1	4.6	6.0
CPI, end-of-year	2.9	1.7	7.2	5.0	1.5
Real effective exchange rate, (depreciation-)	-7.5	-6.9	-2.0	...	...
(In percent of GDP)					
Central government overall balance	-8.7	-7.3	-3.9	-3.0	-2.9
External current account balance	-34.4	-25.2	-25.5	-28.2	-27.5

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

Dominica and St. Kitts and Nevis: Evolution of Gasoline Prices
(EC dollars per gallon)



Source: Eastern Caribbean Central Bank.
1/ Dominica has undertaken automatic price adjustments since September 2003.

7. **Central government fiscal balances have improved by more than 6 percent of GDP since 2004, yielding large primary surpluses** (Figure 2). This mainly reflected increased revenue effort—administrative reforms at both Customs and Inland Revenue that significantly increased compliance, the electricity surcharge, increased retail prices for petroleum products, and new

St. Kitts and Nevis: Selected Fiscal Indicators, 2003–07

	2003	2004	Prel. 2005	Budg. 2006	Proj. 2006	2007
(Central government, in percent of GDP)						
Revenue	32.7	33.8	36.6	35.1	38.1	38.4
Grants	0.6	0.4	2.7	3.4	1.9	0.4
Expenditure						
Current	33.7	34.3	36.7	30.9	36.1	34.6
Of which						
Interest payments	7.5	6.9	8.1	6.8	9.1	8.6
Capital and net lending	8.3	7.1	6.6	13.4	7.0	7.1
Current balance	-1.2	-1.0	-0.4	4.2	1.7	3.5
Primary balance	-1.2	-0.4	4.2	0.6	6.1	5.7
Overall balance	-8.7	-7.3	-3.9	-5.8	-3.0	-2.9
Central government debt	118.0	119.2	117.8	...	110.0	103.7
Public sector debt	179.3	192.1	190.2	...	183.4	172.1

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

[1] National accounts data, especially on the tourism sector, are particularly weak.

[2] A flexible pricing system allowing for full pass-through was introduced in November 2006.

excises on alcohol and tobacco. However, noninterest expenditures were also curbed, despite the severance payments to sugar workers (2 percent of GDP in 2005 and ½ percent of GDP in 2006).

Box 1. St. Kitts and Nevis: Macroeconomic Impact of Closing the Sugar Industry

Considerable long-term economic benefits are anticipated, but there will be significant transitional costs. Key benefits are likely to stem from the release of land and labor resources to more productive uses, thereby raising growth potential, as well as halting the incurrence of quasi-fiscal losses that were aggravating an already difficult debt situation. Transitional costs include:

- **The severance package for the 1,406 sugar workers of EC$27.4 million (2.3 percent of 2005 GDP).** EC$22.5 million was paid during 2005 and the remainder in March 2006. The government provided eligible workers with a package of up to 104 weeks' pay, consistent with the 1961 Severance Agreement Act.

- **The government is servicing the debt of the St. Kitts Sugar Manufacturing Company (SSMC), increasing the central government interest bill by 1½ percent of GDP a year**. The debt is in the form of a 30-year bond at 5.2 percent interest rate—about 80 percent of the debt is held by the majority state-owned National Bank, with the remainder currently held by the Development Bank (the debt is to be consolidated with that at the former institution). The debt is secured by approximately 4,700 acres of land. Principal repayments are scheduled at EC$57 million every five years, but the National Bank retains the option of requesting prepayment if it faces any liquidity problems.

- **Transfers to former sugar workers are set to increase over the medium term.** Under the severance agreement, the sugar workers will receive medical care under the National Health Program, and the SSMC pensioners will be transferred to the Social Security Scheme with the guarantee that their pensions will not be reduced. In addition, land has been allocated to workers who wanted to become farmers, and a housing scheme is to be implemented for workers with long tenure (20 years or more) who do not own homes and have income levels below the poverty line.

- **Near-term impacts on growth and foreign exchange earnings are estimated to be modest**. Sugar export proceeds had declined to an average of 2½ percent of GDP a year during 2000–04 with a limited contribution to value added in the economy.

Transition costs may be offset by two factors:

- **The booming economy and initial low level of unemployment has enabled the quick reabsorption of most workers into the labor force**. A survey conducted by the Sugar Transition office in May–June 2006 found that only 317 former workers were unemployed.

- **The European Union has pledged grant support to African Caribbean Pacific (ACP) sugar producers affected by the erosion of trade preferences**. Precise amounts and modalities for receipt are still to be finalized, but the authorities sugar transition strategy document has been reviewed and approved by the EU.

8. **Nonetheless, substantial borrowing by public entities resulted in the public debt/GDP ratio falling only modestly during 2005** (Figure 3). Public entities—such as the Port Authority and various land development companies—contracted an estimated 11 percent of GDP in new loans during 2004–05. The gross financing needs of the

government have been met by increased reliance on domestic financing—the overdraft facility at the state-owned National Bank surged to almost 20 percent of GDP by mid-2006.

9. **The current account deficit remains very large (25 percent of GDP in 2005), but has been mainly financed by foreign direct investment, and competitiveness appears to be improving**. The pickup in tourism receipts was offset by the higher cost of oil imports, a strong rebound in non-oil imports reflecting the construction boom, and the cessation of sugar exports.

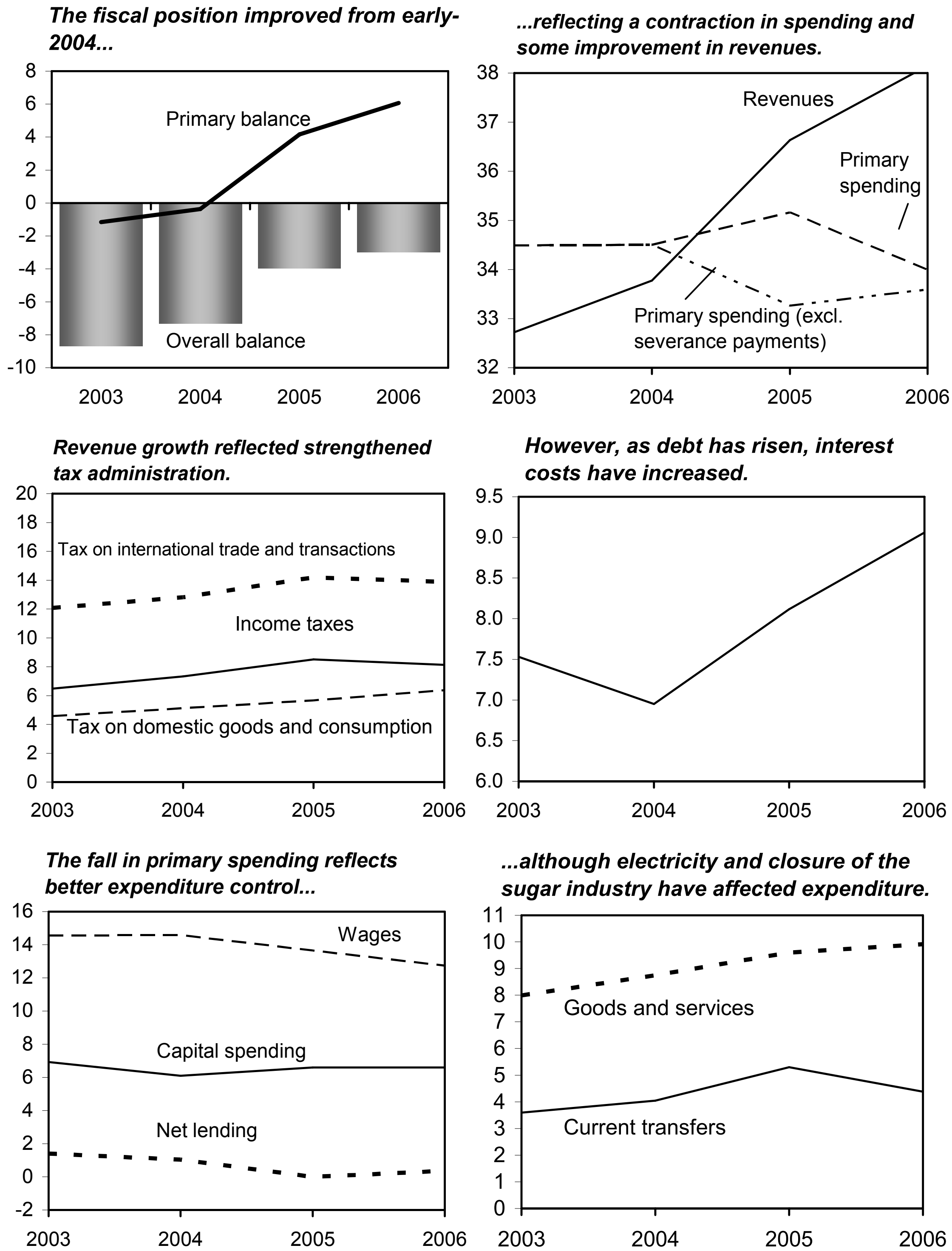
10. **Available data point to a strong improvement in competitiveness in recent years** (Figure 4). The real exchange rate has depreciated sharply with the depreciation of the U.S. dollar and is now at its lowest level in more than 15 years. Tourism receipts have increased and St. Kitts and Nevis's share in both the ECCU and Caribbean tourism markets has risen. While tourism prospects are sensitive to both price and nonprice factors, the strong interest from investors in a number of new projects suggests the absence of a competitiveness concern.

11. **Consistent with growth in economic activity, private credit has rebounded.** During 2004–05, private credit grew by 8 percent a year, and is projected to increase by more than 10 percent in 2006, with the largest increases in real estate, household, and agricultural sectors.

12. **Prudential indicators point to a strengthening of the banking sector, with risks concentrated in locally-incorporated banks**. Locally-incorporated banks have substantial exposures to the government—particularly at the National Bank which holds about 60 percent of deposits in the banking system and is the largest indigenous bank in the ECCU. System-wide NPLs declined, though largely due to the acceleration in credit growth. Capital adequacy ratios are well above prudential guidelines, but have to be interpreted with care due to the low levels of provisions (Figure 5).

13. **Progress on structural reforms has been slow.** The authorities have developed a comprehensive strategy for dealing with the transition from sugar, that may help to unlock grants from the EU, but this first required extensive consultations with stakeholders. Privatization of public entities has been particularly sluggish, with little achieved in the last ten years.

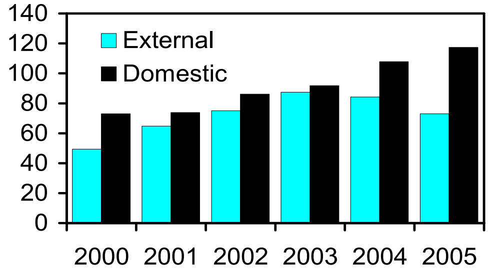
Figure 2. St. Kitts and Nevis: Fiscal Developments, 2003–06
(In percent of GDP, central government)



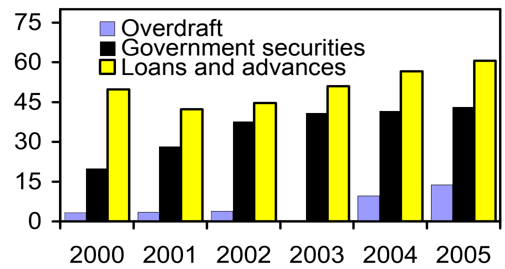
Sources: ECCB; and Fund staff estimates.

Figure 3. St. Kitts and Nevis: Evolution of Debt, 2000–05
(In percent of GDP, central government)

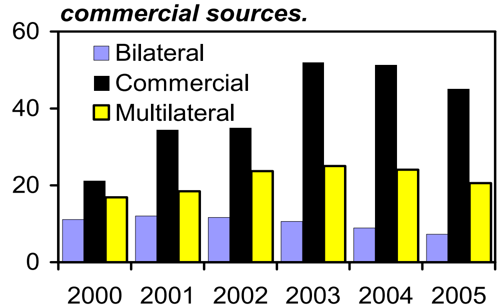
Reliance on domestic debt has increased...



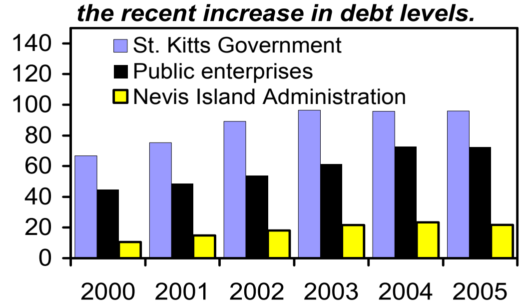
... principally via overdrafts, and loans and advances...



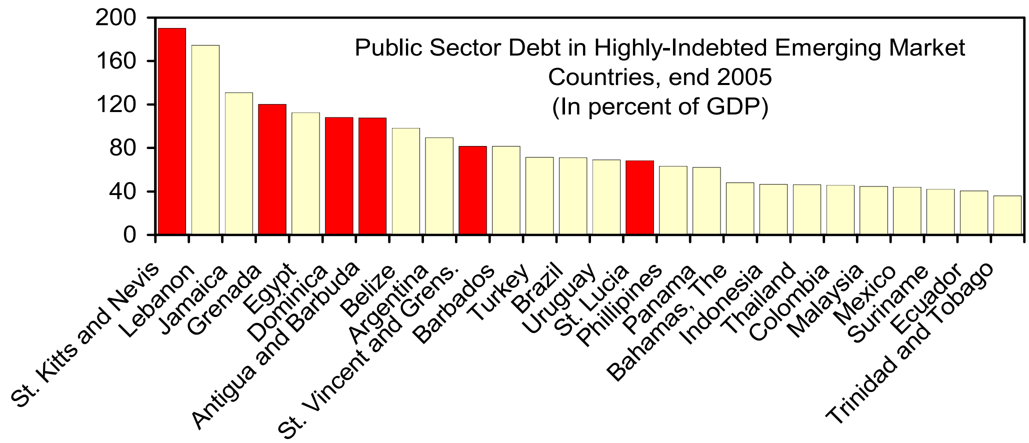
...while external debt is from commercial sources.



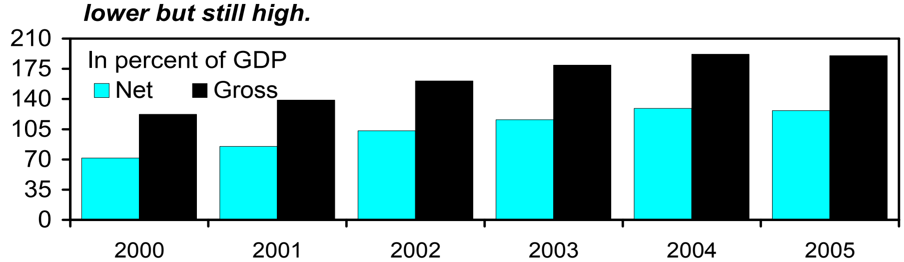
Public enterprise borrowing has driven the recent increase in debt levels.



Gross public debt is among the highest in the world.

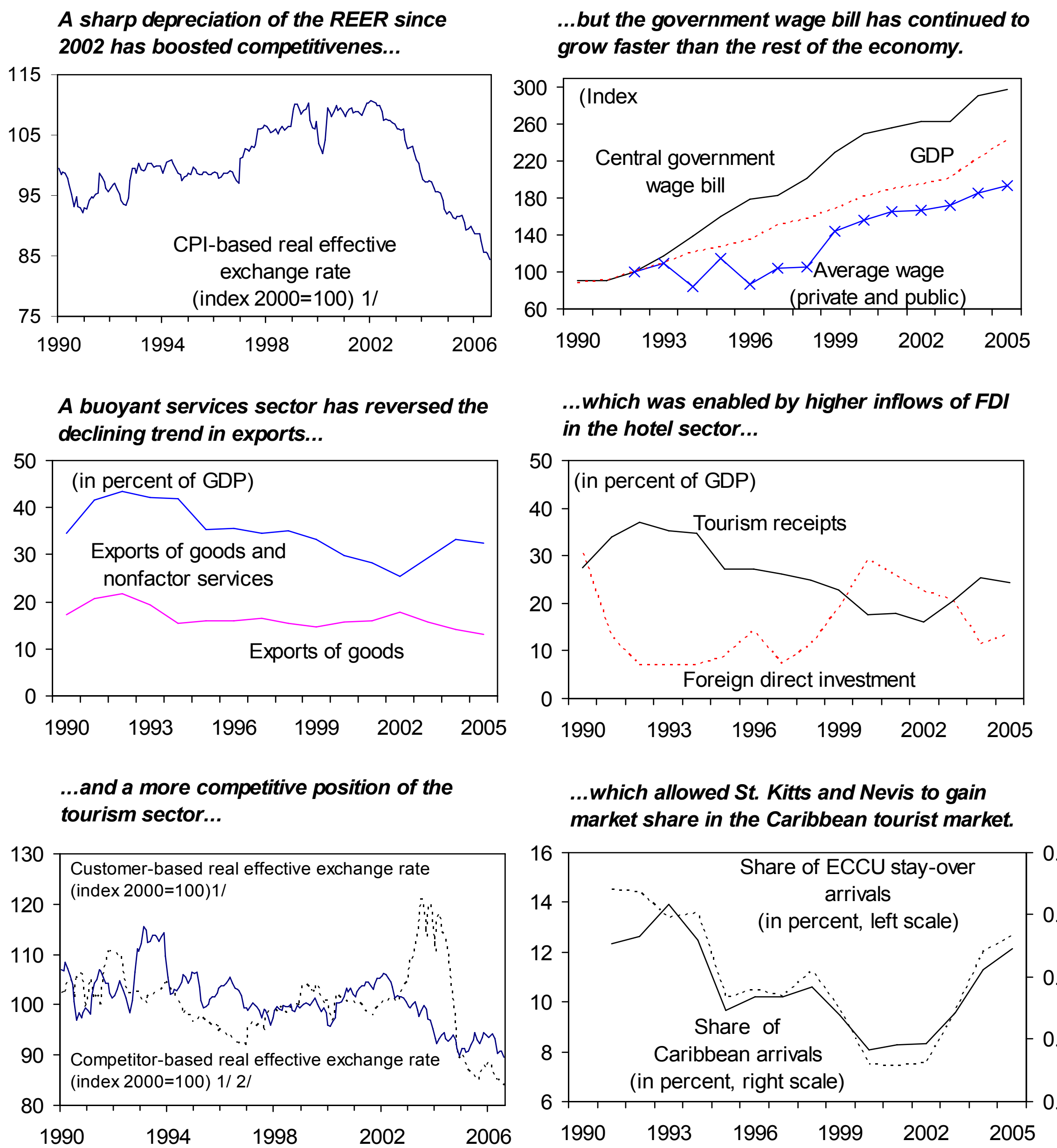


Net public debt excluding social security assets is significantly lower but still high.



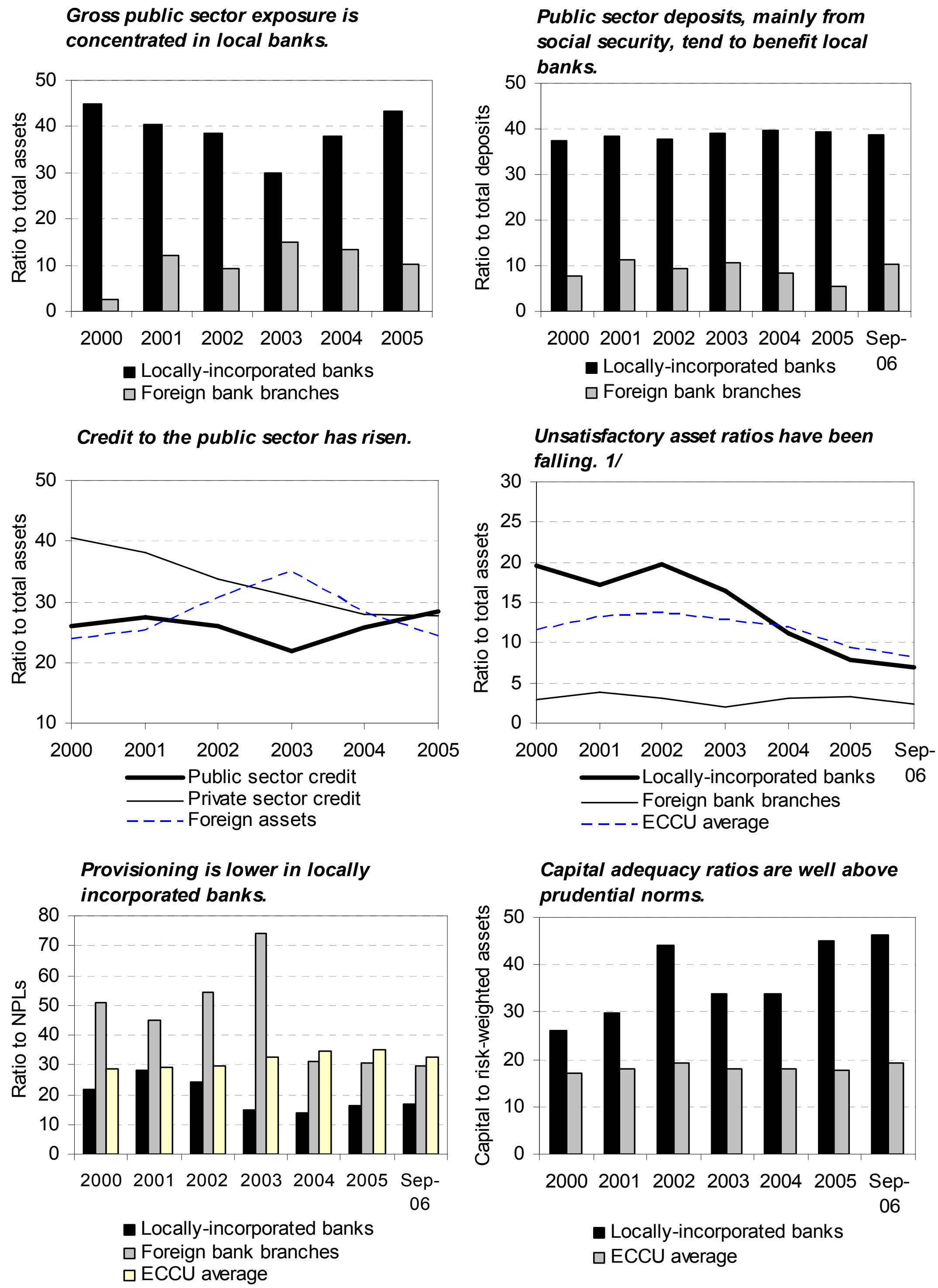
Sources: ECCB; Ministry of Finance; World Bank; and Fund staff estimates.

Figure 4. St. Kitts and Nevis: External Competitiveness, 1990–2006



Sources: ECCB; Caribbean Tourism Organization; St. Kitts and Nevis authorities; and Fund staff calculations.
1/ An increase (decrease) indicates an appreciation (depreciation).
2/ The spike in the competitor-based real exchange rate in 2002–03 was largely caused by the real effective depreciation and subsequent appreciation of the Dominican Republic's peso.

Figure 5. St. Kitts and Nevis: Banking System Developments, 2000–06
(in percent)



Source: ECCB.

1/ Unsatisfactory assets include nonperforming loans, credits, and overdrafts.

III. THE TRANSITION STRATEGY

14. **The authorities have formulated a comprehensive strategy to transition from sugar to a sustainable growth path, while ensuring fiscal and debt sustainability**. The strategy was the focal point for National Consultations held in October 2006. There are two key pillars:

- *Growth* driven by structural reforms to enhance productivity, supported by public sector interventions to develop high-end tourism projects (Box 2); and

- *Fiscal consolidation* to provide the fiscal space for public investments to meet social objectives, and to reduce debt in order to weather the economy's vulnerabilities to exogenous shocks.

A. Realizing Growth Potential

15. **Medium-term growth prospects appear favorable**. The authorities noted that tourism would continue to be the main driver of the economy, but other sectors such as agriculture and information and communications technology were also expected to become more dynamic. A number of very large private sector tourism projects—some with planned investments of over 50 percent of GDP—are in the pipeline and could significantly enhance growth prospects.

16. **Staff noted that the pace and modalities for transferring government assets to the private sector will be key to realizing growth**. The experience with the privatization program, which has been subject to substantial delays, underscores the need for an effective mechanism for transferring assets to the private sector. In particular, staff urged the formal adoption of a transparent land management strategy to clearly establish the procedures for land sales and land use. The authorities acknowledged the importance of putting assets to more productive uses, but stressed the need to ensure that land sales did not result in the disenfranchisement of the local population. Similarly, a key goal of the privatization program was to empower the local populace, and the modalities for achieving this were still under debate.

17. **The investment climate needs to be strengthened.** The World Bank's *Doing Business Indicators* survey highlighted numerous administrative obstacles that constrain the development of small- and medium-sized enterprises and associated employment opportunities (Figure 6). Staff also suggested that the withdrawal of the public sector from commercial activities—including through outsourcing select government services—could make greater room for the private sector.

Box 2. The Authorities' Growth Strategy

The strategy was articulated in the *Adaptation Strategy for St. Kitts and Nevis in Response to the New EU Sugar Regime.* It covers a broad range of economic, social and environmental measures that aim to diversify and improve the competitiveness of the economy, including:

Tourism

- **Developing high-end facilities**, such as villas, marinas and golf courses, with the public sector playing a key role in developing infrastructure and marketing the new developments.
- **Strengthening land development agencies.** Public entities involved in land development are to be consolidated with professional management and enhanced financial expertise.
- **Upgrading the international airport** to increase carrying capacity for wide-bodied jets, and constructing a separate terminal for private jets through a private-public partnership.
- **Restructuring the Port Authority** to make it more commercially oriented.

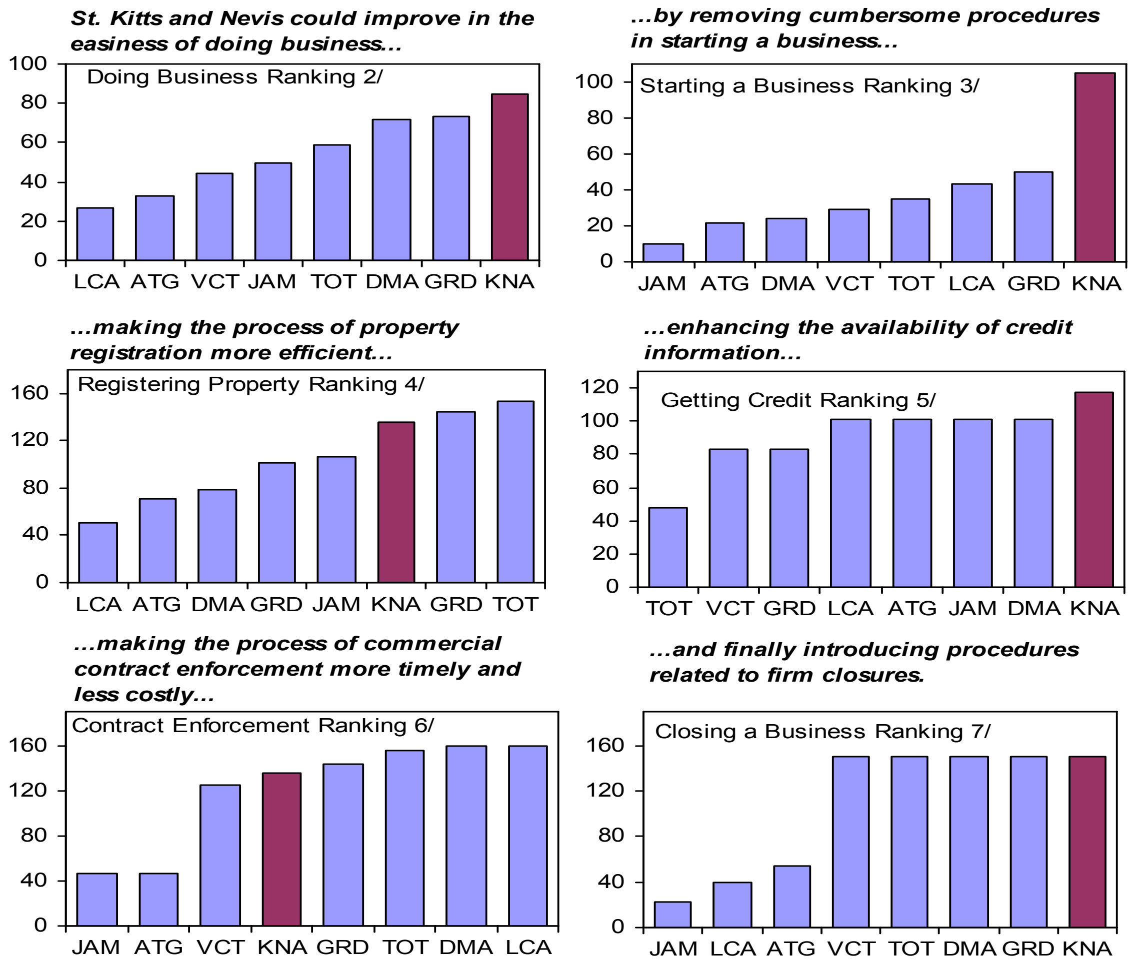
Agriculture

- **About 1,500 acres of sugar lands are to be reserved for agricultural use**.
- **Enhancing linkages to the tourism sector** by expanding the production of locally-grown fruits and vegetables through the development of surface water sources and a comprehensive marketing program to encourage the supply of local produce to the hospitality sector.
- **Subsidies to farmers**. New tax exemptions on import duty and consumption tax on agricultural inputs.

Empowerment of vulnerable groups

- **Retraining opportunities** for ex-sugar workers in new skills such as agriculture, carpentry, craft production, and landscaping.
- **Small business loans** through the recently-established Empowerment Fund that has seed money amounting to EC$10 million. Loans of up to EC$100,000 are available at an interest rate of 6 percent, and a maturity of up to seven years.

Figure 6. St. Kitts and Nevis: Doing Business Indicators, 2006 1/

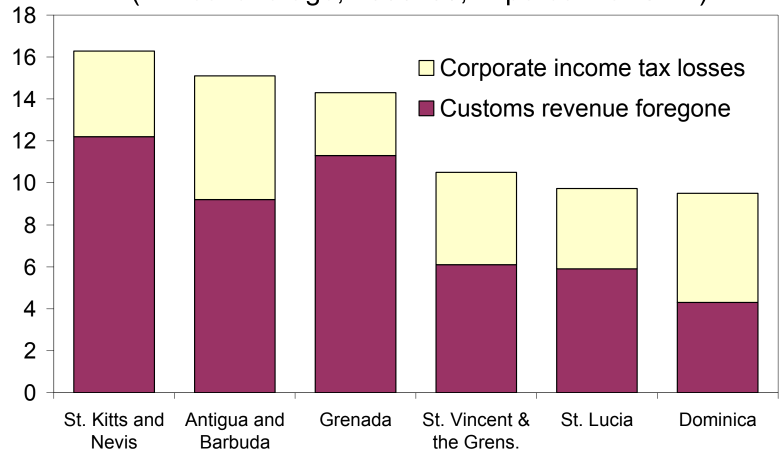


Source: World Bank, *Doing Business Indicators* (2006).
Note: ATG stands for Antigua and Barbuda, DMA stands for Dominica, GRD stands for Grenada, JAM stands for Jamaica, KNA stands for St. Kitts and Nevis, LCA stands for St. Lucia, TOT stands for Trinidad and Tobago and VCT stands for St. Vincent and the Grenadines.

1/ Smaller numbers represent greater ease in doing business. The indicators are comparable across 175 countries.
2/ This is an overall indicator that captures the regulatory costs of doing business; it can be used to analyze specific regulations that enhance or constrain investment, productivity, and growth.
3/ This topic identifies the bureaucratic and legal hurdles an entrepreneur must overcome to incorporate and register a new firm. It examines the procedures, time, and cost involved in launching a commercial or industrial firm with up to 50 employees and start-up capital of 10 times the economy's per-capita gross national income.
4/ This topic examines the steps, time, and cost involved in registering property, assuming a standardized case of an entrepreneur who wants to purchase land and a building in the largest business city—already registered and free of title dispute.
5/ This topic explores two sets of issues—credit information registries and the effectiveness of collateral and bankruptcy laws in facilitating lending.
6/ This topic looks at the efficiency of contract enforcement by following the evolution of a sale of goods dispute and tracking the time, cost, and number of procedures involved from the moment the plaintiff files the lawsuit until actual payment.
7/ This topic identifies weaknesses in existing bankruptcy laws and the main procedural and administrative bottlenecks in the bankruptcy process.

18. **The authorities consider tax incentives to be essential to attract significant investments**. However, they noted that the magnitude of incentives offered had been curbed and eligibility tightened—for example, in early 2005, the customs service charge for those exempt from import duty and consumption tax was raised by 6 percentage points to 12 percent. Staff noted the tremendous revenue loss and distortions created by the existing incentives and that international experience clearly demonstrated that other factors—including, macroeconomic stability and efficient public institutions—are more important than tax incentives for investment. Staff encouraged the development of a more transparent and less costly incentive framework—for example, based on accelerated depreciation—that would be rules-based and closely targeted to actual investment.

ECCU: Tax Collections Foregone Due to Concessions
(Annual average, 2000–03, in percent of GDP)



Source: Eastern Caribbean Currency Union Selected Issues (2005).

19. **Labor markets are relatively flexible, but skilled labor shortages could constrain growth**. Staff noted that transparent procedures for granting work permits would enable the private sector to fill skill shortages. Well-targeted training programs for the unskilled and recent school graduates could also be used to create the competencies needed in expanding sectors and enable the local population to take advantage of the opportunities afforded by membership in the CARICOM Single Market (CSM). The authorities expressed their commitment to the CSM, but argued that labor migration had to be handled carefully in a small economy, especially given the risk that migrants could overwhelm social safety nets.

Selected Indicators of Labor Markets, 2006

	Hourly Wage in US$, Construction	Difficulty of Firing Index 1/	Firing Costs Index 2/
Antigua and Barbuda	4.1	20.0	52.3
Dominica	2.3	20.0	57.7
Grenada	3.0	0.0	28.7
St. Kitts and Nevis	**5.3**	**20.0**	**60.0**
St. Lucia	...	20.0	56.0
St. Vincent and the Grenadines	2.5	20.0	54.0
Upper middle income countries	2.0	27.4	31.3
Mauritius	1.3	50.0	34.7

Sources: OECS: *Towards a New Agenda for Growth;* World Bank: *Doing Business Indicators*; Mauritius authorities; and Fund staff estimates.

1/ Based on regulations governing worker-dismissal procedures. Higher number indicates more rigid regulations.

2/ Weeks of pay in severance and notice for workers dismissed after 20 years of employment.

B. Achieving Fiscal and Debt Sustainability

20. **The authorities have announced an ambitious medium-term fiscal strategy aimed at boosting the primary budget surplus to 8 percent of GDP and reducing public debt to around 117 percent of GDP by 2010** (Box 3). The strategy, laid out in the 2006 budget, is based on a broad tax reform, efforts to strengthen capital budgeting and the operations of public enterprises, and improved debt management. The staff welcomed the elaboration of a fiscal strategy but noted that achieving the targeted reduction in debt will depend critically on the magnitude and timing of asset sales, in addition to the growth outcome and the absence of exogenous shocks.

Box 3. The Authorities' Fiscal Strategy

The 2006 budget stated a target for the primary surplus of 8 percent of GDP over the medium-term, and a reduction in public debt to about 117 percent of GDP by 2010. Key components are:

Tax reform

- **Introducing a VAT,** to replace the current consumption tax, as well as a raft of "nuisance" taxes.
- **Reforming the social security levy**, to make it more progressive and capture a wider range of incomes beyond salaries.
- **Moving to market-based property tax.**
- **Further improvements in tax administration.**

Expenditure reform

- **Improving prioritization of the capital budget,** through greater reliance on the public sector investment program (PSIP).
- **Pension reform**, to contain the costs of civil service pensions and ensure the long-term viability of the Social Security Scheme.
- **Commercializing the Electricity Department** to enhance efficiency and reduce losses.
- **Public enterprise reform** to enhance the quality of service provision and ensure greater accountability through the provision of regular audited financial statements.
- **Revising the Finance and Administration Act** to strengthen expenditure management.

Debt management

- **Refinancing the most costly debt obligations**.

21. **The authorities' fiscal strategy can be expected to produce the targeted improvement in the primary balance, but staff urged greater balance on the composition of the adjustment.** The authorities' strategy relies heavily on raising revenues—via the VAT, property tax and flexible pricing of petroleum products—together with the corporatization of the electricity department. Staff noted that tax collections are already among the highest in the region—together with the large amount of tax concessions this meant that marginal tax rates were also high. Thus, expenditure reduction seemed an important priority, especially given the need to make room for the authorities' social and other policy objectives.

ECCU: Tax Revenue, in percent of GDP

	2005
Antigua and Barbuda	19.3
Dominica	30.3
Grenada	25.3
St. Kitts and Nevis	**28.8**
St. Lucia	24.1
St. Vincent and the Grenadines	26.5

Sources: Country authorities and Fund staff estimates.

St. Kitts and Nevis: Options for Fiscal Adjustment, 2007-10
(In percent of GDP)

Measure	Yield
Expenditure and net lending	
Contain the wage bill	2.0-2.5
Corporatization of electricity department (net)	1.0-2.0
Contain expenditure on goods and services	0.5-1.0
No net lending to public enterprises 1/	0.5-1.0
Restrict capital expenditure to well-targeted projects 1/	2.5-3.5
Revenue	
Introduction of VAT 2/	1.0-3.0
Implementation of Phase IV of CARICOM tariffs	-1.0-1.5
Raise property taxes by market value-based approach	0.2-0.4
Stricter enforcement of hotel taxes	0.3-0.5
Introduce new pricing mechanism for petroleum products	0.2-0.4
Reduce tax concessions	0.5-1.0

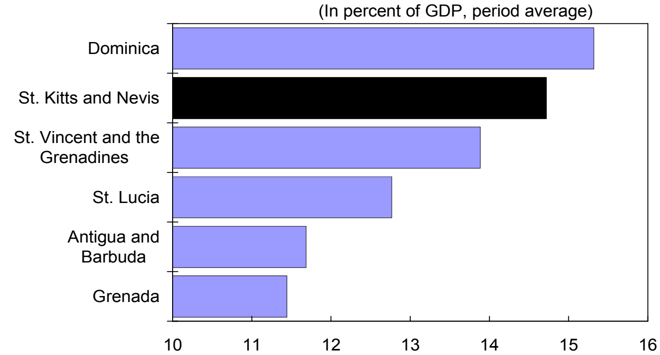
Source: St. Kitts and Nevis authorities; and Fund staff estimates.
1/ Compared to a passive scenario involving a reversion towards historical levels of net lending and an increase in capital expenditure.
2/ Based on regional experience. A full-fledged study on yield is expected to be completed in early 2007.

22. **Rationalizing expenditures is likely to be challenging**. The authorities supported staff's suggestion that an OECS body be charged with developing a regional approach to setting expenditure policies—as was done previously for tax policy. A few options for reducing expenditure were identified:

- *Electricity Department:* The department has long been beset by high technical losses, nonpayment of bills, and low regulated rates—in 2005, the estimated revenue shortfall compared to expenditures amounted to EC$31 million (2½ percent of GDP). At the same time, increased investment is needed to prevent electricity shortages from constraining growth. The authorities noted that a reform plan is being developed to limit the losses, and that the introduction of a fuel-surcharge has helped improve revenues. The government is working with the CDB to corporatize the electricity department within the next 18 months.

- *Public sector wage bill:* The government's wage bill is the second highest in the ECCU, in part due to the operation of parallel administrations on each of the islands. The authorities argued that avenues for streamlining were largely limited to containing annual wage increments. Staff noted

ECCU: Wage Bill of Central Government 2000–05
(In percent of GDP, period average)



Sources: ECCU country authorities, and Fund staff estimates.

that policy coordination between the two islands appeared to have improved following the change in regime on Nevis—indeed, a program of regular meetings of the two cabinets had been initiated—and urged consideration of the elimination of duplication in government service provision.

- *Capital expenditure:* It was agreed that better prioritization of capital expenditures—including by formalizing the PSIP mechanism—could enhance the effectiveness of expenditures.

- *Pension reforms:* Civil service pension payments will increase sharply as more civil servants retire. Staff endorsed the government's plan to establish a more financially-sustainable and more equitable system, notably by eliminating or capping the double pension for civil servants, and moving to a contribution-based pension plan for new civil servants.[3]

23. **The authorities' tax reform agenda appropriately focuses on broadening the tax base, rather than raising tax rates.** The proposals—which involve a broad-based consumption tax (VAT), a personal income tax (PIT), and a modernized property tax—are in line with the recommendations of the 2003 report by the OECS Tax Reform and Administration Commission that is being adopted throughout the region.

- *VAT:* The government intends to introduce a VAT during 2008. In addition to harmonizing legislation with the rest of the region and improving the efficiency of the tax system, the VAT would help replace revenues likely to be lost as the obligations to bring tariffs in line with Phase IV of the CARICOM Common External Tariff (CET) are met. Staff emphasized the need to ensure adequate preparation, and encouraged establishing a single rate with limited exemptions in order to minimize administrative costs and leakages.

- *Personal income tax:* The existing social services levy is an inefficient and regressive tax. While some degree of progressivity was introduced in 2006, the focus on wage income creates an incentive for nonwage compensation. Given constraints on implementation capacity, staff recommended broadening the definition of income in the existing social services levy instead of introducing new PIT legislation at the present time.

- *Market-based property tax:* The strong performance of the real estate sector has not translated into higher property tax collections. The authorities noted that legislation to introduce a market-based valuation system had been enacted and that a cadastral survey was underway.

24. **There was broad agreement on the need for strengthened control over the operations of public enterprises.** The absence of information on the operations of the public enterprise sector—which control substantial assets of the government and have

[3] Currently, retired civil servants benefit from a government noncontributory pension and a pension from the Social Security Board. In certain conditions, the combination of the two pensions can amount to more than the retiree's previous salary.

contracted significant amounts of new debt in recent years—is a problem that needs to be addressed by enforcing existing requirements for reporting of audited financial statements for all public enterprises to Parliament. Additional steps include:

- *Enacting the draft Finance and Administration Act (FAA)***.** Staff recommended that the revised FAA provide explicit means for ensuring the provision of timely information by public enterprises to the Ministry of Finance and Parliament, as well as penalties for noncompliance. Staff encouraged the authorities to ensure that debt contracted by these entities is carefully monitored and controlled, for example, by requiring that such borrowing be countersigned by the Ministry of Finance and subject to annual limits approved in the budget.

- *Strengthening the legal and institutional framework for public debt guarantees***.** Current procedures for guaranteeing debt are ad hoc and offer few safeguards on the financial soundness of the underlying borrowing. Staff advised that borrowing by public enterprises using land as collateral rather than an explicit government guarantee should also be reviewed. The authorities agreed that contingent liabilities relating to public enterprises and infrastructure projects should be closely monitored, and requested Fund assistance in this regard.

25. **For 2007, the fiscal position is expected to be largely unchanged relative to 2006**. The revenue reforms will take time to come into effect and, given the likely significant increase in capital expenditures—in part related to road construction in Nevis that is already under way—staff recommended that the year 2007 should be used to lock in gains made in 2006. The increase in capital expenditures is likely to offset continued improvements in revenue mobilization supported by buoyant economic activity, as well as discipline over spending on both wages and goods and services.

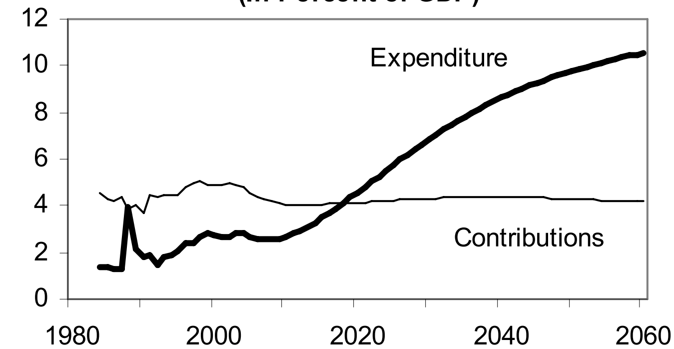
26. **A cornerstone of the authorities' strategy is the refinancing of expensive debt.** In October 2006 the CDB approved a policy-based guarantee on a proposed ten-year bond to be floated by the government in early 2007.[4] The staff emphasized that any new borrowing from capital markets should be undertaken as part of a coherent debt management strategy focused on repaying high-cost debt and not lead to a relaxation in the fiscal stance. In addition, staff noted the importance of establishing a debt management unit to monitor existing debt, help avoid bunching of future debt payments, reduce debt service costs, and formulate a strategy for retiring high-cost debt.

[4] The guarantee would cover one year of debt service payments, and would be renewed annually.

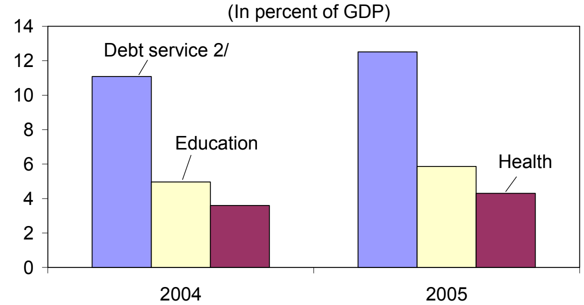
IV. Reducing Risks and Vulnerabilities

27. **St. Kitts and Nevis has lived with a very high public debt for a remarkably long time without obvious adverse effects**. This has partly reflected the stability afforded by the regional currency board, the strong payments record of the government, and the substantial assets held by the government. However, the environment is likely to become more challenging given that the funding cushion provided by the cashflow surpluses of the social security system is projected to erode in coming years.

St. Kitts and Nevis: Projections for Social Security
(In Percent of GDP)



St. Kitts and Nevis: Central Government Debt Service and Social Expenditure, 2004–05 1/
(In percent of GDP)



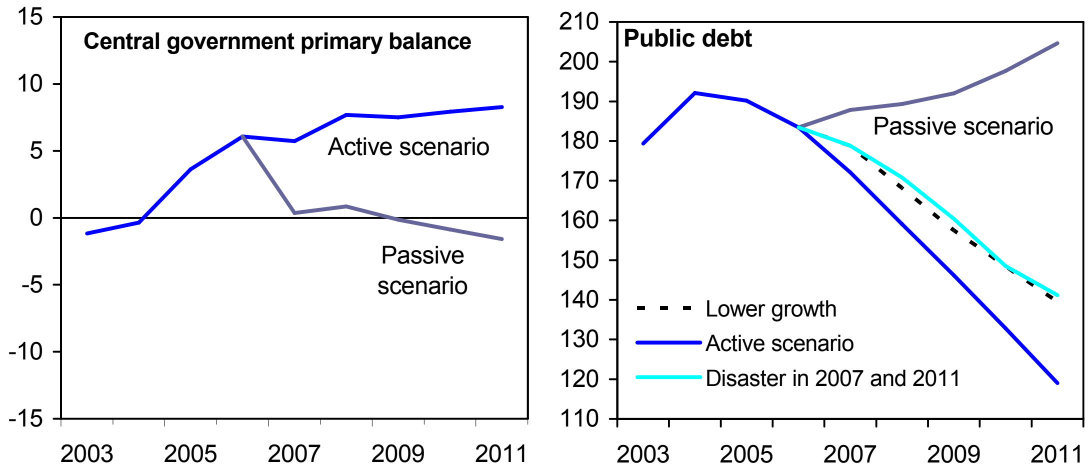
Sources: St. Kitts and Nevis authorities; and Fund staff estimates.
1/ Data for education and health expenditure for 2005 are based on budget estimates.
2/ Interest plus external amortization.

28. **Recent policy adjustments have lowered near-term risks, but even a full implementation of the authorities' strategy would leave debt very high** (Box 4). Assuming that a primary surplus of around 8 percent of GDP can be achieved and sustained over the medium term and public enterprises brought into balance, public debt would remain well above 100 percent of GDP throughout the medium term. Moreover, the fiscal position will remain vulnerable given the economy's dependence on tourism, susceptibility to natural disasters, emerging fiscal pressures from population aging, and the difficulty of sustaining such a large surplus for a long period of time. Debt service costs, as a share of GDP, are now the highest in the region and significantly exceed expenditures on health or education and, if unaddressed, will constrain the ability to address priority concerns.

29. **While acknowledging the risks, the authorities reiterated their determination to honor their debt obligations, emphasizing that government's asset holdings exceed the value of the debt**. The authorities noted that the value of their land holdings as well as the assets slated for privatization provided a clear indication of the solvency of the government. In this regard, they noted that about 1,200 acres of land would be sold to retire the sugar debt.

Box 4. Medium-Term Scenario

Public Sector Debt Dynamics (In percent of GDP)



Sources: St. Kitts and Nevis authorities; and Fund staff estimates and projections.
1/ Combined accounts of the St.Kitts Government and the Nevis Island Administration.

Active: Real GDP growth averages 4 percent over the medium term, the primary surplus reaches 8 percent of GDP, asset sales generate net proceeds of 3 percent of GDP a year, and no new net borrowing by public enterprises.

Passive: Growth slows to 2½ percent of GDP a year. Fiscal expenditures revert to historical levels, ultimately pushing the primary balance into deficit.

Natural disaster: reflecting historical incidence, a hurricane is assumed every fourth year (2007, 2011), with damage at average historical impact.

Lower growth: Fiscal path as in active scenario but no progress in structural reform so that growth declines as in passive scenario.

30. **Against this background, staff emphasized the importance of exploring options for a more rapid reduction in the debt stock**:

- *Accelerating the scope and pace of asset sales.* Staff encouraged the authorities to view land sales (and privatization more generally) in the broader context of the government's asset-liability management strategy and not to tie land sales to the amount needed to repay the sugar debt.

- *Strenuous efforts to tap concessional financing*. Staff stressed, in particular, the importance of working closely with the EU to ensure the timely disbursement of grant funds earmarked for the transition from sugar.[5]

[5] The EU has announced that €1.3 billion will be made available to ACP sugar producers during 2007–13, but neither country allocations nor disbursement modalities have been finalized.

31. **Financial sector risks need to be monitored carefully.** Like most countries in the region, bank credit to the private sector has increased sharply in the last year. While this is a welcome sign of increasing domestic activity, there is also a risk that a slowdown in the economy could induce an increase in nonperforming loans and therefore affect bank stability. The very large bank exposures to the government—especially by the National Bank—also need to be monitored carefully. While the government has maintained a strong payments record, any disruption to the government's payment capacity—for example, due to an exogenous shock such as a hurricane—could seriously impact the domestic banking system.

ECCU: Private Sector Credit

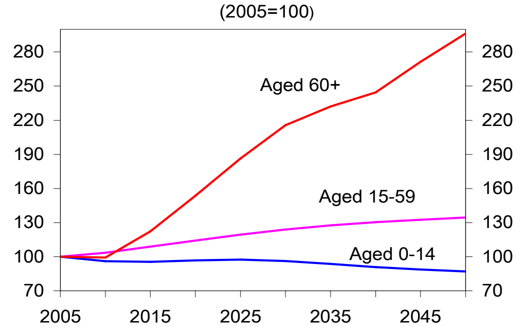
	2001	2002	2003	2004	2005	June 2006
Annual percentage change						
Antigua and Barbuda	3.1	8.0	2.4	1.1	10.4	17.2
Dominica	-3.2	-1.4	-2.9	7.1	6.0	18.5
Grenada	0.9	1.1	4.1	6.8	9.2	13.2
St. Kitts and Nevis	**-0.8**	**-2.4**	**4.3**	**8.8**	**7.6**	**10.6**
St. Lucia	4.1	0.8	-3.6	10.2	16.2	17.4
St. Vincent and the Grenadines	2.3	4.6	0.6	0.9	5.5	6.5

Sources: ECCB, and Fund staff calculations.

32. **Efforts are also underway to improve the supervision and regulation of the financial sector, but enforcement remains weak.** The authorities have introduced risk-weighting on nonperforming government assets, and enacted a new Banking Act that enhances the supervisory powers of the ECCB. A Single Regulatory Unit is being formed to oversee nonbank financial institutions—credit unions, insurance companies, finance companies, mortgage institutions, offshore and money remittance businesses. They are also working with the ECCB to harmonize and improve domestic insurance legislation as well as prepare specific legislation for the supervision of offshore businesses. Staff welcomed these efforts and emphasized that while currently small, the nonbank financial institutions appeared to be growing rapidly, including into some areas that closely resembled banking activity but absent the supervision. Thus prompt enactment and implementation of needed legislation was a high priority. Progress has been made in AML/CFT to improve the supervisory powers and the regulatory framework to reflect ongoing changes in the financial system.[6]

33. **Population aging will create additional fiscal pressures.** The number of retirees is projected to rise rapidly over the next several years in the context of a broadly stable population. Pressures for increased health and other age-related spending are likely to emerge and the staff encouraged the authorities to clearly define the role of the government and private sector in health care provision. The social security system is projected to see a significant tightening in its financial position and the staff advised the authorities to initiate parametric reforms,

St. Kitts and Nevis: Population Projections by Age Group, 2005–2050
(2005=100)



Source: U.S. Census Bureau, International Data Base; and staff calculations.

[6] The AML act was amended in 2005 to increase penalties and the authorities are currently revising the Guidance Notes to broaden the coverage of financial institutions (to include for example, money transfer businesses) and strengthen supervisory powers. A Captive Insurance Act was enacted in 2006.

such as a further gradual increase in the retirement age, to ensure the continued viability of social security.

V. Staff Appraisal

34. **Economic outcomes and prospects have improved considerably over the last few years.** Growth has re-emerged, new investment is being undertaken, and the bold decision to close the sugar industry has released both labor and land for more productive uses. Indeed, the current strength of the economy appears to have facilitated a relatively smooth absorption of former sugar workers within the economy.

35. **Commendable progress has been made in reducing fiscal imbalances, but these efforts could be undermined by the public enterprise sector.** The primary balance of the central government has moved into strong surplus, driven by increased revenue effort. However, these efforts could be undone absent strengthened control over the operations of the public enterprise sector. Enforcing existing requirements for reporting audited financial statements for all public enterprises to Parliament and requiring contracting of debt to be subject to effective Ministry of Finance review are key priorities.

36. **The very high public debt stock remains a source of concern**. While the government has continued to service its obligations in a timely manner, the debt service burden is rising and the government's payments capacity could be stretched in the event of a shock or a downturn in the economy that, given high government exposures, could significantly impact the domestic banking system.

37. **The authorities' strategy going forward appropriately targets growth and debt reduction**. The transition strategy document contains a broad structural reform agenda and a comprehensive tax reform. Given institutional capacity constraints, a careful prioritization of reforms is essential to ensure timely and effective implementation of key measures. Sustaining the reforms, including the strong primary surplus for many years, represents a considerable policy challenge pointing to a need for increased outreach efforts and policy transparency to foster the required public consensus.

38. **A solid foundation is being laid for public finances, but more focus could be given to establishing expenditure priorities and strengthening expenditure controls**. The proposed tax reform appropriately involves the introduction of VAT, refinement of a personal income tax, and a modernized property tax, that would broaden the tax base and improve its structure and efficiency. Given the fairly compressed timetable for introduction of the VAT, it is imperative that this be a focus of capacity building efforts on both St. Kitts and Nevis. Sustaining the envisaged large primary surpluses will require sustained expenditure restraint. Thus efforts are needed to ensure the efficacy of expenditures—particularly capital projects through a strengthened PSIP process—and that actual expenditures are in line with government priorities. The wage bill remains very high and opportunities for streamlining public sector employment, including the collective provision of government services at both the federal and regional level, could be explored. Impending fiscal challenges related to population aging should be explicitly addressed to ensure clarity of expectations on the role to be played by the government in areas such as health.

39. **A strengthened investment climate would help sustain growth and competitiveness over the medium term**. Recent growth has been driven by construction and it is vital to ensure a transition to more sustainable growth sources. In this context, a clear and transparent land management strategy will be key to attracting investment and facilitating asset sales. Additional efforts could also be made to foster domestic investment, for example through addressing identified weaknesses in business licensing and regulation, and in the legal system. Labor market constraints could be relieved through enhanced labor mobility under the CSM to broaden the available skills mix and offer new opportunities for the unemployed. Efforts to increase the efficiency and reliability of public utilities, as currently underway at the Electricity Department, are also a high priority. The combination of these reforms should serve to lower the cost of doing business and therefore strengthen competitiveness.

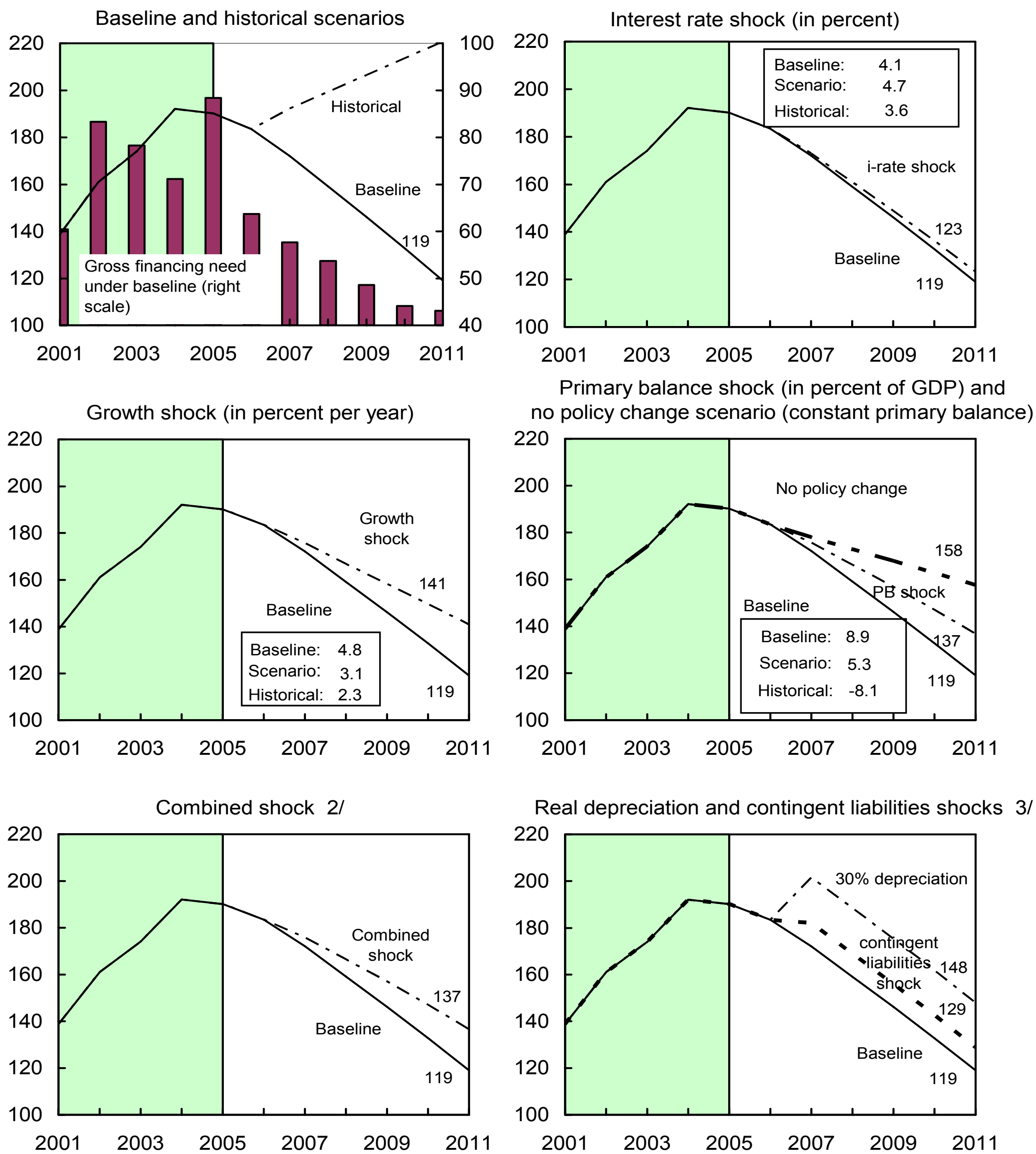
40. **However, even with the full implementation of the authorities' strategy and with a benign external environment, significant risks remain.** The public debt stock will remain very high for many years. Key downside risks stem from natural disasters, a disruption to global tourism, or undue delays in the completion of the major new investment projects. Thus efforts to achieve a more rapid reduction in debt, including by accelerating the pace of asset sales and improved debt management, should be considered. It will also be important for the authorities to work closely with the European Union to ensure the timely disbursal of available grants.

41. **Emerging financial sector risks need to be monitored carefully.** The authorities have passed the Amendments to the Uniform Banking Act enabling an improvement in the effectiveness of bank supervision. Additional steps are underway to strengthen the supervision of the nonbank sector, and rapid progress in making effective the single regulatory unit and supporting legislation is a priority.

42. **While the statistical database has improved in recent years, weaknesses remain that adversely affect the quality of economic analyses and policy implementation**. Improvements in the reliability and timeliness of key data including of tourism indicators, debt, and public enterprise activities, are urgently needed.

43. **It is proposed that the next Article IV consultation be conducted on the standard 12-month cycle.**

Figure 7. St. Kitts and Nevis: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



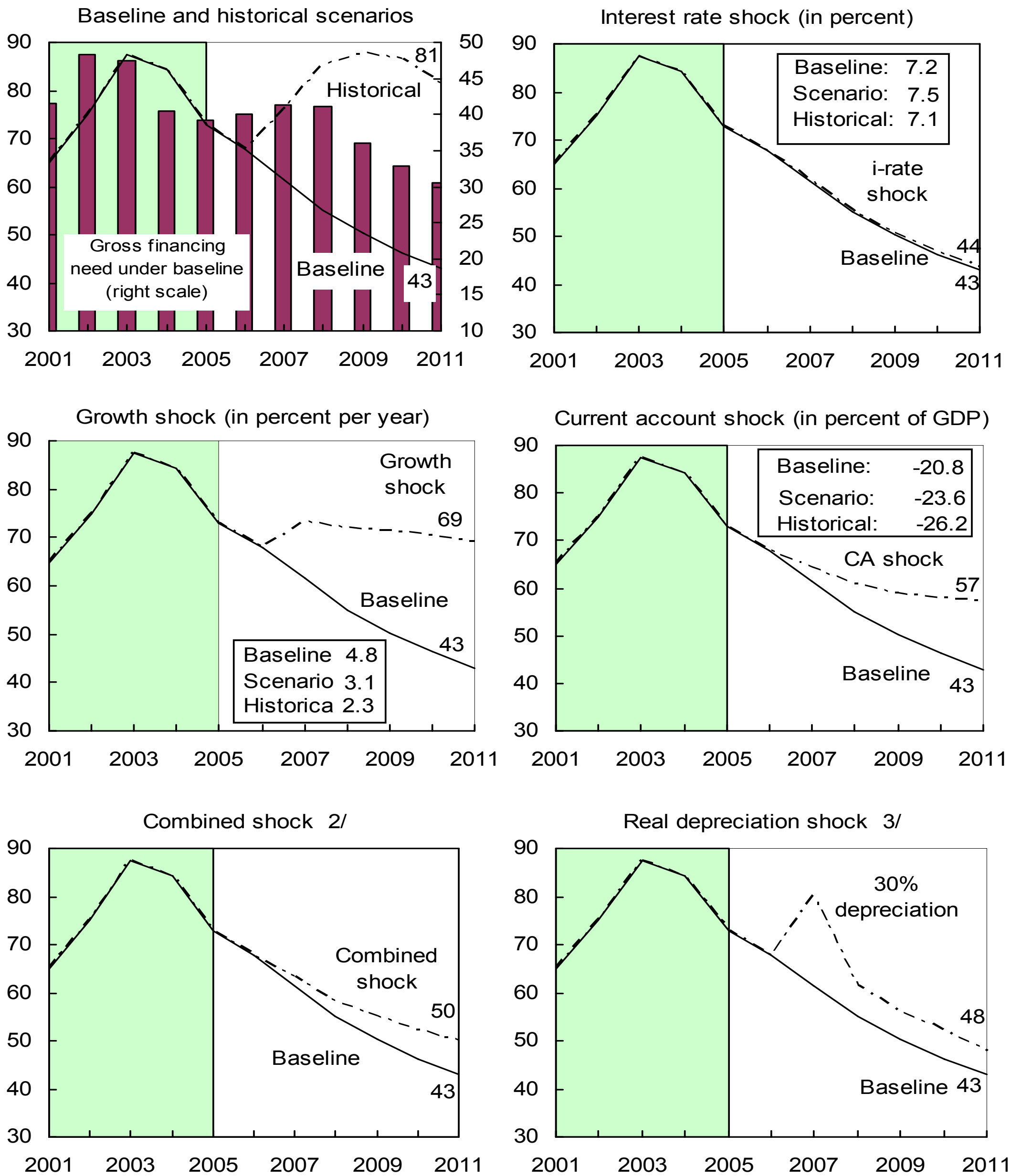
Sources: International Monetary Fund, St. Kitts and Nevis authorities, and Fund staff estimates.

1/ Shaded areas represent actual data.Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Five-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2006, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Figure 8. St. Kitts and Nevis: External Public Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

3/ One-time real depreciation of 30 percent occurs in 2007.

Table 1. St. Kitts and Nevis: Basic Data

I. Social and Demographic Indicators

Area (sq. km)	269.4	Adult literacy rate (percent, 2000)	97.8
Population		Health and nutrition	
Total (thousands, 2001)	46.1	Calorie intake (per capita a day, 1996)	2,639
Rate of growth (percent per year, 2001)	0.02	Population per physician (thousand, 1993)	2.2
Density (per sq. km., 2001)	171.2	Access to safe water (percent, 1994)	100
Net migration rate (per thousand, 2002)	-9.8	AIDS incidence rate (per 100,000, 1998)	14
Population characteristics		Gross domestic product (2005)	
Life expectancy at birth (years, 2002)	71	(millions of U.S. dollars)	442
Infant mortality (per thousand live births,2004)	19	(millions of E.C. dollars)	1,194
Under 5 mortality rate (per thousand, 2004)	18	(US$ per capita)	9,565

II. Economic and Financial Indicators, 2001–07

	2001	2002	2003	2004	Est. 2005	Proj. 2006	Proj. 2007
			(Annual percentage change; unless otherwise specified)				
National income and prices							
Real GDP (factor cost)	1.7	-0.3	-1.2	7.3	4.1	4.6	6.0
Consumer prices, end-of-year	2.6	1.8	2.9	1.7	7.2	5.0	1.5
Real effective exchange rate (end-of-period) 1/	1.1	-3.3	-7.5	-6.9	-2.0	...	...
Banking system							
Net foreign assets 2/	10.4	10.2	13.6	-7.5	-2.0	3.2	8.0
Net domestic assets 2/	-8.2	-3.9	-6.7	29.2	6.7	6.9	-0.5
Of which							
Credit to public sector 2/	1.3	1.6	-10.8	17.9	9.6	1.8	-4.7
Credit to private sector 2/	-0.7	-2.1	3.4	6.7	5.2	7.6	6.0
Broad money	2.3	6.4	6.9	21.7	4.7	10.0	7.4
Of which							
Money	-3.6	12.9	11.0	25.0	-1.6	7.0	7.4
Quasi-money	3.2	5.4	6.2	21.1	5.9	10.5	7.4
Weighted average deposit rate (in percent per year) 3/	4.2	3.8	4.1	3.6	4.1	...	...
Weighted average lending rate (in percent per year) 3/	11.1	10.4	12.0	9.9	9.8	...	...
			(In percent of GDP)				
Public sector 4/							
Primary balance	-6.7	-11.2	-1.2	-0.4	4.2	6.1	5.7
Overall balance	-12.4	-18.5	-8.7	-7.3	-3.9	-3.0	-2.9
Total revenue and grants	29.0	34.8	33.3	34.1	39.3	40.1	38.8
Total expenditure and net lending	41.4	53.3	42.0	41.5	43.3	43.1	41.6
Foreign financing	14.0	10.9	14.3	1.5	-3.2	-1.3	-1.6
Domestic financing	-0.4	8.0	-5.6	5.8	7.1	4.3	3.0
Sale/purchase of assets	-1.2	-0.4	0.0	0.0	0.0	0.0	1.5
Total public debt (end-of-period)	138.8	161.0	179.3	192.1	190.2	183.4	172.1
Of which							
Central government	90.0	107.3	118.0	119.2	117.8	110.0	103.7
Public enterprises	48.7	53.7	61.3	72.9	72.4	73.4	68.3
External sector							
External current account balance	-31.8	-37.9	-34.4	-25.2	-25.5	-28.2	-27.5
Trade balance	-32.4	-32.2	-32.3	-29.1	-28.7	-29.9	-30.3
Services, net	6.6	3.3	7.6	12.9	11.6	10.2	11.4
Of which							
Tourism receipts	17.9	16.1	20.6	25.3	24.2	22.9	23.8
Transfers, net	5.7	4.6	5.1	4.5	4.1	3.9	3.6
Net capital inflow 5/	35.0	40.7	34.1	28.5	24.2	31.0	28.9
FDI (net)	25.6	22.5	20.6	11.4	13.6	14.5	15.0
External public debt (end-of-period)	64.8	75.0	87.5	84.2	72.9	67.8	61.5
			(In percent of exports of goods and nonfactor services)				
External public debt service	18.8	20.7	25.4	26.4	24.0	22.8	27.2
External public debt (end-of-period)	146.2	173.8	194.1	177.2	160.3	157.9	140.1
			(In millions of U.S. dollars; unless otherwise specified)				
Gross international reserves of the ECCB, end-of-period	446.0	504.8	539.9	632.4	600.8	651.7	711.3
In percent of ECCU broad money	19.1	20.2	19.8	20.5	17.9	17.7	17.6

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

1/ Weights given by the average trade share during 1999–2003. Depreciation (-).
2/ In relation to broad money at the beginning of the period.
3/ End of period. Weighted by the size of loans or deposits. There was a break in the average interest rate series in June 2003.
4/ Federal government unless otherwise noted.
5/ Includes errors and omissions.

Table 2. St. Kitts and Nevis: Central Government Fiscal Operations, 2001–07 1/

(In millions of Eastern Caribbean dollars)

							Proj.	
					Est.		Passive	Active
	2001	2002	2003	2004	2005	2006	2007	2007
Total revenue	**265.0**	**305.6**	**323.6**	**369.9**	**437.5**	**501.3**	**513.3**	**542.2**
Current revenue	261.3	299.1	321.4	365.3	433.4	496.9	508.7	537.4
Tax revenue	193.6	212.1	233.9	281.9	343.8	381.4	389.3	412.4
Taxes on income	57.7	61.9	64.1	80.4	101.6	106.9	110.6	114.9
Taxes on property	4.4	4.5	5.2	5.1	5.0	8.6	11.1	11.6
Taxes on domestic goods and consumption	37.6	41.3	45.2	56.0	67.8	83.7	77.3	86.1
Taxes on international trade and transactions	93.9	104.3	119.3	140.5	169.5	182.3	190.4	199.8
Nontax revenue	67.6	87.0	87.5	83.5	89.6	115.4	119.3	125.0
Capital revenue	3.7	6.5	2.2	4.6	4.0	4.4	4.6	4.8
Total expenditure and net lending	**385.0**	**511.2**	**415.6**	**454.1**	**516.8**	**565.8**	**638.1**	**587.9**
Current expenditure	306.5	326.5	333.2	376.0	438.0	474.3	509.0	487.9
Wages and salaries	140.3	144.2	144.1	159.7	163.1	167.4	176.7	170.2
Goods and services	79.5	78.9	79.0	95.8	114.7	130.2	145.8	133.4
Interest	52.6	69.8	74.5	76.1	96.9	119.1	124.8	121.2
Domestic	34.1	38.2	31.0	30.1	49.5	72.5	79.9	76.5
Foreign	18.5	31.6	43.5	46.1	47.4	46.6	45.0	44.7
Transfers	34.1	33.6	35.6	44.3	63.3	57.5	61.7	63.1
Net lending	0.0	51.6	13.9	11.3	0.0	4.8	6.2	-1.4
Capital expenditure	78.4	133.1	68.6	66.7	78.9	86.7	122.9	101.3
Current balance	**-45.2**	**-27.4**	**-11.7**	**-10.7**	-4.5	**22.5**	**-0.4**	**49.5**
Overall balance (before grants)	-120.0	-205.6	-92.0	-84.1	-79.3	-64.5	-124.9	-45.7
Grants	4.6	28.3	6.1	4.1	32.2	25.2	5.0	5.2
Overall balance (after grants)	**-115.4**	**-177.3**	**-85.9**	**-80.1**	-47.1	**-39.4**	**-119.9**	**-40.4**
Primary balance	-62.8	-107.5	-11.4	-4.0	49.8	79.7	4.9	80.8
Financing	**115.4**	**177.3**	**85.9**	**80.1**	47.1	**39.4**	**119.9**	**40.4**
Net foreign financing	130.0	104.3	141.8	16.6	-38.2	-17.1	-12.5	-22.5
Drawings	148.5	134.1	187.1	62.9	14.3	19.4	63.9	53.9
Amortization	18.0	26.3	42.1	45.3	52.5	36.5	76.4	76.4
Other 2/	-0.5	-3.4	-3.2	-1.0	0.0	0.0	0.0	0.0
Net domestic financing	-3.8	76.6	-55.9	63.5	85.3	56.5	132.4	41.8
Banking system	11.8	-15.0	-68.5	73.9	43.5	41.5	114.4	23.8
Nonbanks and other	-15.6	91.6	12.6	-10.4	41.8	15.0	18.0	18.0
Sale/purchase of assets	-10.8	-3.5	0.0	0.0	0.0	0.0	0.0	21.2
Memorandum items:								
GDP (market prices)	931	959	989	1,095	1,194	1,314	1,364	1,412
Public sector debt (end of period)	1,292	1,544	1,774	2,104	2,271	2,411	2,562	2,430
Of which								
Central government	838	1,029	1,167	1,306	1,406	1,446	1,565	1,465
Domestic	454	534	523	643	807	864	996	906
External	384	495	644	663	599	582	569	559

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

1/ Combined accounts of the Federal Government of St. Kitts and Nevis and the Nevis Island Administration.
2/ IMF purchases and repurchases, and changes in the foreign assets of the federal government.

Table 3. St. Kitts and Nevis: Central Government Fiscal Operations, 2001–07 1/

(In percent of GDP)

							Proj.	
					Est.		Passive	Active
	2001	2002	2003	2004	2005	2006	2007	2007
Total revenue	**28.5**	**31.9**	**32.7**	**33.8**	**36.6**	**38.1**	**37.6**	**38.4**
Current revenue	28.1	31.2	32.5	33.4	36.3	37.8	37.3	38.1
Tax revenue	20.8	22.1	23.6	25.7	28.8	29.0	28.5	29.2
Taxes on income	6.2	6.5	6.5	7.3	8.5	8.1	8.1	8.1
Taxes on property	0.5	0.5	0.5	0.5	0.4	0.7	0.8	0.8
Taxes on domestic goods and consumption	4.0	4.3	4.6	5.1	5.7	6.4	5.7	6.1
Taxes on international trade and transactions	10.1	10.9	12.1	12.8	14.2	13.9	14.0	14.2
Nontax revenue	7.3	9.1	8.8	7.6	7.5	8.8	8.7	8.9
Capital revenue	0.4	0.7	0.2	0.4	0.3	0.3	0.3	0.3
Total expenditure and net lending	**41.4**	**53.3**	**42.0**	**41.5**	**43.3**	**43.1**	**46.8**	**41.6**
Current expenditure	32.9	34.0	33.7	34.3	36.7	36.1	37.3	34.6
Wages and salaries	15.1	15.0	14.6	14.6	13.7	12.7	13.0	12.1
Goods and services	8.5	8.2	8.0	8.8	9.6	9.9	10.7	9.4
Interest	5.7	7.3	7.5	6.9	8.1	9.1	9.2	8.6
Domestic	3.7	4.0	3.1	2.7	4.1	5.5	5.9	5.4
Foreign	2.0	3.3	4.4	4.2	4.0	3.5	3.3	3.2
Transfers	3.7	3.5	3.6	4.0	5.3	4.4	4.5	4.5
Net lending	0.0	5.4	1.4	1.0	0.0	0.4	0.5	-0.1
Capital expenditure	8.4	13.9	6.9	6.1	6.6	6.6	9.0	7.2
Current balance	**-4.9**	**-2.9**	**-1.2**	**-1.0**	-0.4	**1.7**	**0.0**	**3.5**
Overall balance (before grants)	-12.9	-21.4	-9.3	-7.7	-6.6	-4.9	-9.2	-3.2
Grants	0.5	3.0	0.6	0.4	2.7	1.9	0.4	0.4
Overall balance (after grants)	**-12.4**	**-18.5**	**-8.7**	**-7.3**	-3.9	**-3.0**	**-8.8**	**-2.9**
Primary balance	-6.7	-11.2	-1.2	-0.4	4.2	6.1	0.4	5.7
Financing	12.4	18.5	8.7	7.3	3.9	3.0	8.8	2.9
Net foreign financing	14.0	10.9	14.3	1.5	-3.2	-1.3	-0.9	-1.6
Drawings	16.0	14.0	18.9	5.7	1.2	1.5	4.7	3.8
Amortization	1.9	2.7	4.3	4.1	4.4	2.8	5.6	5.4
Other 2/	-0.1	-0.4	-0.3	-0.1	0.0	0.0	0.0	0.0
Net domestic financing	-0.4	8.0	-5.6	5.8	7.1	4.3	9.7	3.0
Banking system	1.3	-1.6	-6.9	6.7	3.6	3.2	8.4	1.7
Nonbanks and other	-1.7	9.5	1.3	-0.9	3.5	1.1	1.3	1.3
Sale/purchase of assets	-1.2	-0.4	0.0	0.0	0.0	0.0	0.0	1.5
Memorandum items:								
Public sector debt (end of period)	138.8	161.0	179.3	192.1	190.2	183.4	187.8	172.1
Of which								
Central government	90.0	107.3	118.0	119.2	117.8	110.0	114.8	103.7
Domestic	48.7	55.7	52.9	58.7	67.6	65.7	73.0	64.1
External	41.3	51.6	65.1	60.5	50.1	44.3	41.7	39.6

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

1/ Combined accounts of the Federal Government of St. Kitts and Nevis and the Nevis Island Administration.
2/ IMF purchases and repurchases, and changes in the foreign assets of the federal government.

Table 4: St. Kitts and Nevis: Structure of the Public Debt, 2001–05 1/

(In millions of U.S. dollars, unless otherwise stated)

	2001	2002	2003	Est. 2004	2005
Total stock of debt	**478.4**	**571.9**	**656.9**	**779.0**	**841.0**
(In percent of GDP)	138.8	161.0	179.3	192.0	190.2
Total external debt (by debtor)	**223.5**	**266.4**	**320.6**	**341.5**	**322.4**
St. Kitts Government	105.8	138.9	185.5	180.7	160.6
Nevis Island Administration	36.5	44.4	52.9	65.0	61.2
Public enterprises	81.2	83.1	82.2	95.9	100.6
Total external debt (by creditor)	**223.5**	**266.4**	**320.6**	**341.5**	**322.4**
Bilateral	41.3	41.2	38.7	36.0	32.1
Taiwan, Province of China	21.9	20.4	18.5	17.1	15.2
Kuwait	9.6	11.9	11.8	11.2	9.9
USA	9.8	9.0	8.3	7.7	7.0
Multilateral	63.6	84.3	91.7	97.6	91.1
CDB	49.4	68.2	72.7	76.9	73.8
World Bank	7.9	10.1	11.9	13.2	13.0
Other	6.2	5.9	7.0	7.5	4.3
Commercial	118.6	140.8	190.2	208.0	199.2
Total domestic debt (by debtor)	**254.9**	**305.5**	**336.4**	**437.5**	**518.6**
St. Kitts Government	153.4	178.0	168.0	208.0	263.7
Nevis Island Administration	14.6	19.8	25.9	29.8	35.4
Public enterprises	86.9	107.7	142.5	199.7	219.6
Total domestic debt (by instruments)	**254.9**	**305.5**	**336.4**	**437.5**	**518.6**
Loans and advances	157.7	171.9	186.8	268.6	328.5
Treasury bills	90.7	95.1	111.6	130.4	152.4
Debentures	6.4	10.7	10.2	10.7	9.9
Regional government securities market	0.0	27.8	27.8	27.8	27.8
Memorandum items (in percent of GDP):					
Debt of St. Kitts Sugar Manufacturing Corporation	21.0	24.1	27.2	28.3	29.1
Public sector debt excluding debt to social security system	85.0	103.1	116.1	129.3	126.7
Net assets of Social Security Board	53.8	57.9	63.3	62.8	63.4

Sources: St. Kitts and Nevis authorities; ECCB; and financial statements of public enterprises.

1/ Public debt comprises debts of the St. Kitts government, Nevis Island Administration, and public enterprises, including government guaranteed debt and debt to the social security system but excluding all other intra-public sector debt.

Table 5 St Kitts and Nevis: Balance of Payments (Active) 2001–11

					Est.	Projections					
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
(In millions of Eastern Caribbean dollars)											
Current account	**-295.9**	**-363.2**	**-340.3**	**-276.3**	**-304.8**	**-370.7**	**-387.8**	**-408.0**	**-397.0**	**-388.6**	**-381.8**
Trade balance	-301.2	-309.3	-319.5	-318.6	-343.2	-393.5	-428.0	-441.3	-452.1	-466.0	-483.7
Exports, f.o.b.	148.6	170.2	154.7	155.1	155.8	156.9	165.1	171.7	178.7	186.1	194.1
Of which											
Sugar	26.0	27.9	22.9	22.4	16.9	0.0	0.0	0.0	0.0	0.0	0.0
Imports f.o.b.	-449.8	-479.5	-474.2	-473.7	-499.0	-550.4	-593.0	-613.0	-630.7	-652.1	-677.8
Of which											
Mineral fuel	-38.3	-24.3	-47.9	-54.9	-74.1	-91.5	-92.6	-96.0	-95.6	-95.0	-94.8
Services and transfers (net)	5.3	-54.0	-20.8	42.3	38.3	22.8	40.2	33.3	55.1	77.4	101.9
Services (net)	61.2	31.3	74.8	141.0	138.9	134.2	161.2	163.3	194.7	228.3	266.5
Services (receipts)	264.3	243.7	291.3	365.3	387.3	407.4	454.8	476.2	528.4	584.7	647.6
Of which											
Tourism receipts	167.0	154.3	203.4	277.1	289.5	301.2	335.8	359.7	403.6	452.8	508.0
Services (payments)	-203.1	-212.5	-216.5	-224.3	-248.3	-273.2	-293.6	-312.9	-333.7	-356.5	-381.1
Factor income (net)	-108.7	-129.6	-145.8	-147.9	-149.9	-163.0	-172.0	-180.2	-189.0	-199.3	-210.2
Of which											
Public sector interest	-31.3	-45.3	-55.8	-57.3	-59.6	-61.5	-61.3	-60.8	-60.3	-60.2	-60.1
Transfers (net)	52.8	44.4	50.2	49.2	49.3	51.6	51.0	50.2	49.4	48.4	45.6
Official (net)	-2.2	-1.1	-1.3	-3.6	-4.2	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3
Private (net)	54.9	45.5	51.5	52.8	53.5	53.9	53.3	52.5	51.7	50.7	47.9
Capital and financial account	**488.8**	**421.3**	**433.0**	**283.1**	**239.8**	**407.5**	**407.8**	**428.0**	**416.9**	**408.5**	**401.6**
Official	187.6	143.1	147.1	60.9	6.0	43.7	-15.5	-34.4	-15.6	-8.2	-2.8
Capital transfers (net)	21.7	30.7	5.7	7.3	31.6	23.0	7.0	7.0	5.0	5.0	5.0
Long-term borrowing (net)	165.9	112.3	141.5	53.6	-25.6	20.7	-22.5	-41.4	-20.6	-13.2	-7.8
Disbursements	212.0	152.6	199.0	133.4	45.2	88.1	84.8	83.7	76.8	81.6	89.0
Amortization	46.1	40.2	57.6	79.8	70.8	67.4	107.4	125.1	97.4	94.7	96.8
Private capital	301.2	278.2	285.8	222.2	233.7	363.8	423.3	462.4	432.5	416.6	404.3
Capital transfers (net)	7.7	8.7	8.4	7.2	7.4	8.7	8.9	9.2	9.5	9.8	10.0
Foreign direct investment (net)	237.9	215.4	204.1	124.6	162.3	190.0	212.1	233.1	253.6	270.9	289.6
Portfolio investment (net)	115.2	82.0	129.7	-26.6	-31.9	100.0	162.2	180.1	129.4	96.0	64.7
Short-term capital (net)	-55.3	-51.9	-89.8	161.8	9.7	10.6	20.0	20.0	20.0	20.0	20.0
Other private (net)	-4.4	24.1	33.4	-44.8	86.2	54.5	20.0	20.0	20.0	20.0	20.0
Errors and omissions	-162.8	-31.3	-96.0	28.7	49.5	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**30.0**	**26.8**	**-3.3**	**35.5**	**-15.6**	**36.8**	**20.0**	**19.9**	**19.9**	**19.8**	**19.8**
(In percent of GDP)											
Current account	-31.8	-37.9	-34.4	-25.2	-25.5	-28.2	-27.5	-27.1	-24.7	-22.7	-20.8
Exports of goods and nonfactor service	44.4	43.2	45.1	47.5	45.5	42.9	43.9	43.1	44.1	45.0	45.9
Merchandise exports	16.0	17.7	15.6	14.2	13.0	11.9	11.7	11.4	11.1	10.9	10.6
Of which											
Sugar	2.8	2.9	2.3	2.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0
Nonfactor services	28.4	25.4	29.4	33.3	32.4	31.0	32.2	31.6	32.9	34.1	35.3
Of which											
Tourism receipts	17.9	16.1	20.6	25.3	24.2	22.9	23.8	23.9	25.1	26.4	27.7
Imports of goods and nonfactor service	-70.1	-72.1	-69.8	-63.7	-62.6	-62.7	-62.8	-61.5	-60.1	-58.8	-57.8
Merchandise imports	-48.3	-50.0	-47.9	-43.2	-41.8	-41.9	-42.0	-40.7	-39.3	-38.0	-37.0
Nonfactor services	-21.8	-22.2	-21.9	-20.5	-20.8	-20.8	-20.8	-20.8	-20.8	-20.8	-20.8
Foreign direct investment (net)	25.6	22.5	20.6	11.4	13.6	14.5	15.0	15.5	15.8	15.8	15.8
External public debt	64.8	75.0	87.5	84.2	72.9	67.8	61.5	55.0	50.3	46.3	42.9
(Annual percentage change)											
Merchandise exports	6.9	14.6	-9.1	0.2	0.5	0.7	5.2	4.0	4.0	4.2	4.3
Tourism receipts	5.8	-7.6	31.9	36.2	4.5	4.0	11.5	7.1	12.2	12.2	12.2
Merchandise imports	-3.5	6.6	-1.1	-0.1	5.3	10.3	7.8	3.4	2.9	3.4	4.0
Terms of trade	1.3	0.1	0.2	-2.4	-3.7	-4.4	0.3	1.5	1.2	1.0	0.8
(In percent of exports of goods and nonfactor services)											
External public debt	146.2	173.8	194.1	177.2	160.3	157.9	140.1	127.7	114.1	102.9	93.3
External debt service	18.8	20.7	25.4	26.4	24.0	22.8	27.2	28.7	22.3	20.1	18.6
Of which											
Interest	7.4	10.6	12.1	10.6	10.5	10.5	9.5	9.1	8.2	7.6	6.9

Sources: ECCB; and Fund staff estimates and projections.

Table 6. St. Kitts and Nevis: Monetary Survey, 2001–06

	2001	2002	2003	2004	Est. 2005	2006
(In millions of Eastern Caribbean dollars)						
Net foreign assets	**242.6**	**324.0**	**438.9**	**371.3**	**349.4**	**386.1**
ECCB imputed reserves	147.7	176.6	174.6	209.3	193.7	230.5
Crown agents	8.9	9.5	9.6	10.6	10.6	10.6
Commercial banks	86.0	137.9	254.7	151.4	145.1	145.0
Net domestic assets	**551.6**	**520.8**	**464.1**	**727.4**	**801.5**	**880.3**
Net credit to the public sector	130.4	143.0	51.4	212.8	318.0	338.8
Net credit to central government	286.2	266.7	198.2	263.0	351.7	393.2
Net credit to St. Kitts	250.5	226.1	160.1	224.7	313.2	360.3
Net credit to Nevis	35.7	40.6	38.1	38.3	38.5	32.8
Net credit to nonbank financial inst.	-4.5	-16.0	25.1	48.8	41.0	40.7
Credit to the private sector	675.3	658.9	687.4	748.0	804.6	892.1
Net other assets 1/	-249.6	-265.1	-299.8	-282.2	-362.1	-391.2
Broad money (M2)	**794.2**	**844.8**	**903.0**	**1,098.7**	**1,150.8**	**1,266.4**
Money	106.2	119.9	133.1	166.4	163.7	175.2
Currency in circulation	36.1	37.7	39.9	44.6	49.9	54.9
Demand deposits	70.1	82.2	93.2	121.8	113.8	120.3
Quasi-money	688.1	724.9	769.9	932.3	987.1	1091.3
Savings deposits	305.9	335.0	361.2	418.1	468.1	502.0
Time deposits	147.3	153.6	144.6	203.5	183.3	193.9
Foreign currency deposits	234.8	236.3	264.2	310.7	335.7	395.4
(Percentage change relative to broad money at beginning of period)						
Net foreign assets	10.4	10.2	13.6	-7.5	-2.0	3.2
Net domestic assets	-8.2	-3.9	-6.7	29.2	6.7	6.9
Net credit to the public sector	1.3	1.6	-10.8	17.9	9.6	1.8
Net credit to central government	1.7	-2.5	-8.1	7.2	8.1	3.6
Net credit to other public sector	-0.4	4.0	-2.7	10.7	1.5	-1.8
Net credit to nonbank financial inst.	-0.1	-1.4	4.9	2.6	-0.7	0.0
Credit to the private sector	-0.7	-2.1	3.4	6.7	5.2	7.6
Net other assets 1/	-8.7	-1.9	-4.1	2.0	-7.3	-2.5
(Percentage change)						
Broad money (M2)	2.3	6.4	6.9	21.7	4.7	10.0
Money	-3.6	12.9	11.0	25.0	-1.6	7.0
Currency in circulation	-11.1	4.4	5.9	11.7	11.8	10.0
Demand deposits	0.8	17.3	13.4	30.7	-6.5	5.7
Quasi-money	3.2	5.4	6.2	21.1	5.9	10.5
Savings deposits	6.6	9.5	7.8	15.8	12.0	7.2
Time deposits	13.0	4.3	-5.9	40.8	-9.9	5.8
Foreign currency deposits	-5.7	0.6	11.8	17.6	8.0	17.8
Credit to the private sector (in nominal terms)	-0.8	-2.4	4.3	8.8	7.6	10.9
Credit to the private sector (in real terms)	-3.3	-4.2	1.4	7.0	0.3	5.6
Memorandum items:						
Income velocity of money	8.8	8.0	7.4	6.6	7.3	7.5
Income velocity of broad money	1.2	1.1	1.1	1.0	1.0	1.0
Private sector credit/GDP (in percent)	72.6	68.7	69.5	68.3	67.4	67.9
Foreign currency deposits/GDP (in percent)	25.2	24.6	26.7	28.4	28.1	30.1

Sources: ECCB; and Fund staff estimates and projections.

1/ Includes subsidiaries and affiliates and capital accounts.

Table 7. St Kitts and Nevis: Summary Medium-Term Projections, 2004–11

(In percent of GDP, unless otherwise noted)

	2004	Prel. 2005	Projections 2006	2007	2008	2009	2010	2011
			I. Active Scenario					
National accounts and prices								
Real GDP at factor cost (percent change)	7.3	4.1	4.6	6.0	4.3	4.6	4.6	4.6
CPI inflation, end of period (percent change)	1.7	7.2	5.0	1.5	2.7	2.3	2.2	2.2
Savings-investment balance								
Domestic expenditures	116.2	117.1	119.7	118.9	118.5	116.0	113.9	111.9
Consumption	68.3	68.2	70.8	69.9	69.5	67.0	68.9	70.8
Gross capital formation	47.9	48.9	49.0	49.0	49.0	49.0	45.0	41.0
Net exports	-16.2	-17.1	-19.7	-18.9	-18.5	-16.0	-13.9	-11.9
Gross national savings	22.7	23.4	20.7	21.5	21.9	24.3	22.3	20.2
Savings-investment gap	25.2	25.5	28.2	27.5	27.1	24.7	22.7	20.8
Central government accounts								
Total revenue and grants	34.1	39.3	40.1	38.8	36.8	34.7	34.7	34.8
Tax revenue	25.7	28.8	29.0	29.2	29.1	29.0	29.0	29.1
Nontax revenue, including capital revenue 1/	8.0	7.8	9.1	9.2	7.3	5.3	5.2	5.2
Grants	0.4	2.7	1.9	0.4	0.4	0.4	0.5	0.5
Expenditure and net lending	41.5	43.3	43.1	41.6	37.4	35.0	34.1	32.9
Current	34.3	36.7	36.1	34.6	31.4	29.0	28.0	26.9
Wages and salaries 1/	14.6	13.7	12.7	12.1	11.7	11.6	11.2	10.8
Goods and services	8.8	9.6	9.9	9.4	6.8	4.8	4.6	4.5
Interest	6.9	8.1	9.1	8.6	8.3	7.8	7.3	6.4
Transfers	4.0	5.3	4.4	4.5	4.6	4.8	4.9	5.1
Capital	6.1	6.6	6.6	7.2	6.3	6.3	6.3	6.3
Net lending	1.0	0.0	0.4	-0.1	-0.2	-0.2	-0.2	-0.2
Current balance	-1.0	-0.4	1.7	3.5	4.7	4.9	5.9	7.1
Primary balance	-0.4	4.2	6.1	5.7	7.7	7.5	7.9	8.3
Overall balance	-7.3	-3.9	-3.0	-2.9	-0.6	-0.3	0.6	1.8
External financing	1.5	-3.2	-1.3	-1.6	-2.8	-1.1	-0.6	-0.3
Domestic financing and other 2/	5.8	7.1	4.3	4.5	3.4	1.4	-0.1	-1.6
Total public debt (end of period)	**192.1**	**190.2**	**183.4**	**172.1**	**159.1**	**146.1**	**132.8**	**119.0**
			II. Passive Scenario					
National accounts and prices								
Real GDP growth (percent change)	7.3	4.1	4.6	3.0	2.8	2.7	2.5	2.5
CPI inflation, end of period (percent change)	1.7	7.2	5.0	1.5	2.7	2.3	2.2	2.2
Central government accounts								
Total revenue and grants	34.1	39.3	40.1	38.0	37.4	37.3	37.2	37.1
Tax revenue	25.7	28.8	29.0	28.5	28.4	28.3	28.3	28.2
Nontax revenue, including capital revenue	8.0	7.8	9.1	9.1	9.0	9.0	8.9	8.9
Grants	0.4	2.7	1.9	0.4	0.0	0.0	0.0	0.0
Expenditure and net lending	41.5	43.3	43.1	46.8	46.1	47.4	48.5	49.5
Current	34.3	36.7	36.1	37.3	38.4	39.7	40.8	41.7
Wages and salaries	14.6	13.7	12.7	13.0	13.0	13.5	13.6	13.7
Goods and services	8.8	9.6	9.9	10.7	11.1	11.3	11.5	11.7
Interest	6.9	8.1	9.1	9.2	9.6	9.9	10.4	10.8
Transfers	4.0	5.3	4.4	4.5	4.7	4.9	5.2	5.5
Capital	6.1	6.6	6.6	9.0	7.3	7.3	7.3	7.3
Net lending	1.0	0.0	0.4	0.5	0.5	0.5	0.5	0.5
Current balance	-1.0	-0.4	1.7	0.0	-1.3	-2.7	-3.9	-5.0
Primary balance	-0.4	4.2	6.1	0.4	0.8	-0.1	-0.9	-1.6
Overall balance	-7.3	-3.9	-3.0	-8.8	-8.7	-10.1	-11.3	-12.4
External financing	1.5	-3.2	-1.3	-0.9	-0.2	0.8	-0.5	-0.2
Domestic financing and other	5.8	7.1	4.3	9.7	8.9	9.2	11.8	12.5
Total public debt (end of period)	**192.1**	**190.2**	**183.4**	**187.8**	**189.3**	**192.0**	**197.6**	**204.6**

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

1/ Asssumes that Electricity Department is corporatized and removed from central government accounts during 2008.
2/ Includes asset sales of 1.5 percent of GDP in 2007 and 3 percent of GDP per year for the period 2008–11.

Table 8. St. Kitts and Nevis: Indicators of External and Financial Vulnerability, 2001–06

(12-month percentage change, unless otherwise stated)

	2001	2002	2003	2004	Est. 2005	Proj. 2006
External indicators						
Merchandise exports	6.9	14.6	-9.1	0.2	0.5	0.7
Merchandise imports	-3.5	6.6	-1.1	-0.1	5.3	10.3
Terms of trade deterioration (-)	1.3	0.1	0.2	-2.4	-3.7	-4.4
Tourism earnings	5.8	-7.6	31.9	36.2	4.5	4.0
Current account balance (percent of GDP)	-31.8	-37.9	-34.4	-25.2	-25.5	-28.4
Capital and financial account balance (percent of GDP) 1/	52.5	43.9	43.8	20.2	25.3	31.2
Of which						
Foreign direct investment	25.6	22.5	20.6	11.4	13.6	14.5
Gross international reserves of the ECCB						
In millions of U.S. dollars	446.0	504.8	539.9	632.4	600.8	648.8
In percent of broad money	19.1	20.2	19.8	20.5	17.9	17.7
Commercial banks' net foreign assets (millions of U. S. dollars)	31.8	51.1	53.7	128.0	112.0	111.9
External public debt (percent of GDP)	64.8	75.0	87.5	78.5	72.9	67.8
External debt service (in percent of exports of goods and services)	18.8	20.7	25.4	26.4	24.0	23.2
Of which						
Interest	7.4	10.6	12.1	10.6	10.5	10.8
Nominal exchange rate (E.C. dollars per U.S. dollar, end period)	2.7	2.7	2.7	2.7	2.7	...
Real effective exchange rate depreciation (-), end period 2/	1.1	-3.3	-7.5	-6.9	-2.0	...
Financial indicators						
Broad money	2.3	6.4	6.9	21.7	4.7	10.0
Credit to the private sector	-0.8	-2.4	4.3	8.8	7.6	10.9
Share of nonperforming assets to total assets of banks (percent)	11.6	12.7	9.1	7.8	6.1	...
Provisions for loan losses/nonperforming assets (percent)	30.5	27.2	21.9	17.0	19.3	...
Provisions for loan losses/total loans (percent)	3.5	3.4	2.0	1.3	1.2	...
Gross government exposure/total assets (percent)	28.4	25.8	24.6	28.9	30.0	...
Total loans/total deposits (percent)	80.9	79.0	71.7	75.0	80.4	...
Net liquid assets/total deposits (percent)	31.8	34.2	39.7	32.1	26.7	...
Foreign currency deposits/total deposits (percent)	21.3	21.3	20.9	22.0	21.1	...
Total capital/total assets (percent) 3/	11.1	14.8	11.8	11.7	12.7	...
Risk-based capital asset ratio of banks (percent) 3/	23.8	40.0	36.6	30.0	39.7	...
Ratio of bank's before-tax profits to average assets (percent)	3.4	2.6	2.4	2.8	3.1	...

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

1/ Includes errors and omissions.
2/ Estimated on the basis of weights given by the average trade share during 1999–2003.
3/ For domestic banks only. Tier 1 capital as a share of risk-weighted assets.

Table 9. St. Kitts and Nevis: External Debt Sustainability Framework, 2001–2011
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2001	2002	2003	2004	2005			2006	2007	2008	2009	2010	2011	
								I. Baseline Projections						**Debt-stabilizing non-interest current account 6/**
1 **External public debt 1/**	64.8	75.0	87.5	84.2	72.9			**67.8**	**61.5**	**55.0**	**50.3**	**46.3**	**42.9**	**-25.9**
2 Change in external debt	15.6	10.1	12.5	-3.3	-11.3			-5.1	-6.3	-6.5	-4.7	-4.0	-3.4	
3 Identified external debt-creating flows (4+8+9)	-32.5	-13.7	-25.3	10.6	8.9			-15.9	-24.4	-25.6	-17.2	-12.3	-8.3	
4 Current account deficit, excluding interest payments	28.4	33.1	28.8	20.0	20.5			23.5	23.1	23.1	21.0	19.2	17.6	
5 Deficit in balance of goods and services	25.8	29.0	24.7	16.2	17.1			19.7	18.9	18.5	16.0	13.9	11.9	
6 Exports	44.4	43.2	45.1	47.5	45.5			42.9	43.9	43.1	44.1	45.0	45.9	
7 Imports	70.1	72.1	69.8	63.7	62.6			62.7	62.8	61.5	60.1	58.8	57.8	
8 Net nondebt creating capital inflows (negative)	-62.1	-49.6	-57.5	-6.1	-9.6			-37.4	-47.2	-48.9	-38.5	-31.8	-26.2	
9 Automatic debt dynamics 2/	1.2	2.8	3.4	-3.3	-2.0			-2.0	-0.4	0.2	0.3	0.3	0.3	
10 Contribution from nominal interest rate	3.4	4.7	5.6	5.2	5.0			4.7	4.3	4.0	3.8	3.5	3.3	
11 Contribution from real GDP growth	-0.8	0.2	0.9	-5.8	-3.1			-3.0	-3.8	-2.5	-2.4	-2.1	-2.0	
12 Contribution from price and exchange rate changes 3/	-1.4	-2.1	-3.2	-2.7	-3.8			-3.6	-0.9	-1.3	-1.1	-1.1	-1.0	
13 Residual, incl. change in gross foreign assets (2-3)	48.1	23.8	37.8	-13.9	-20.2			10.8	18.1	19.0	12.5	8.3	4.9	
External debt-to-exports ratio (in percent)	146.2	173.8	194.1	177.2	160.3			157.9	140.1	127.7	114.1	102.9	93.3	
Gross external financing need (in billions of U.S. dollars) 4/	0.1	0.2	0.2	0.2	0.2			0.2	0.2	0.2	0.2	0.2	0.2	
in percent of GDP	41.5	48.4	47.5	40.4	39.2			40.0	41.4	41.2	36.0	32.9	30.4	
Key macroeconomic assumptions						5-Year Historical Average	5-Year Standard Deviation							Projected Average
Real GDP growth (in percent)	1.7	-0.3	-1.2	7.3	4.1	2.3	3.5	4.6	6.0	4.3	4.6	4.6	4.6	4.8
Exchange rate appreciation (U.S. dollar value of local currency, change in percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP deflator in U.S. dollars (change in percent)	2.9	3.3	4.4	3.2	4.7	3.7	0.8	5.2	1.4	2.2	2.0	2.2	2.2	2.0
Nominal external interest rate (in percent)	7.1	7.5	7.8	6.6	6.5	7.1	0.6	7.1	6.9	7.0	7.3	7.5	7.6	7.2
Growth of exports (U.S. dollar terms, in percent)	1.9	0.3	7.7	16.7	4.4	6.2	6.5	3.9	9.9	4.5	9.1	9.0	9.2	8.3
Growth of imports (U.S. dollar terms, in percent)	-2.8	6.0	-0.2	1.1	7.1	2.2	4.2	10.2	7.6	4.4	4.2	4.6	5.0	5.2
Current account balance, excluding interest payments	-28.4	-33.1	-28.8	-20.0	-20.5	-26.2	5.7	-23.5	-23.1	-23.1	-21.0	-19.2	-17.6	-20.8
Net nondebt creating capital inflows	62.1	49.6	57.5	6.1	9.6	37.0	27.0	37.4	47.2	48.9	38.5	31.8	26.2	38.5
								II. Stress Tests for External Debt Ratio						**Debt-stabilizing non-interest current account 6/**
A. Alternative Scenarios														
A1. Key variables are at their historical averages in 2007-11 5/								**67.8**	**76.0**	**85.2**	**87.9**	**86.4**	**81.5**	**-36.2**
B. Bound Tests														
B1. Nominal interest rate is at baseline plus one-half standard deviation								**67.8**	**61.7**	**55.3**	**50.7**	**46.9**	**43.6**	**-25.8**
B2. Real GDP growth is at baseline minus one-half standard deviations								**67.8**	**73.1**	**71.9**	**71.2**	**70.4**	**69.3**	**-24.0**
B3. Non-interest current account is at baseline minus one-half standard deviations								**67.8**	**64.4**	**60.7**	**58.9**	**57.8**	**57.3**	**-25.8**
B4. Combination of B1-B3 using 1/4 standard deviation shocks								**67.8**	**63.4**	**58.4**	**55.0**	**52.2**	**49.9**	**-26.5**

1/ Data on private debt stocks and flows is not available.
2/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.
3/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Table 10. St. Kitts and Nevis: Public Sector Debt Sustainability Framework, 2001–11
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2001	2002	2003	2004	2005			2006	2007	2008	2009	2010	2011	
								I. Baseline Projections						**Debt-stabilizing primary balance 10/**
Public sector debt 1/	138.8	161.0	174.0	192.1	190.2			**183.4**	**172.1**	**159.1**	**146.1**	**132.8**	**119.0**	**-3.7**
o/w foreign-currency denominated	64.8	75.0	87.5	78.5	68.0			64.7	59.8	53.8	48.2	42.6	37.7	
Change in public sector debt	16.6	22.2	13.0	18.1	-1.9			-6.7	-11.3	-13.0	-13.0	-13.3	-13.8	
Identified debt-creating flows (4+7+12)	15.0	26.3	12.3	-1.5	-3.9			-9.1	-12.8	-13.0	-12.9	-13.3	-13.6	
Primary deficit	10.3	19.3	5.8	4.5	0.0			-1.1	-7.0	-9.0	-9.2	-9.5	-9.9	
Revenue and grants	39.4	45.2	43.8	44.5	50.2			48.4	47.1	45.1	43.4	43.4	43.4	
Primary (noninterest) expenditure	49.7	64.5	49.6	49.0	50.3			47.3	40.1	36.2	34.2	33.8	33.5	
Automatic debt dynamics 2/	3.5	6.6	6.4	-6.0	-3.9			-6.9	-2.8	-1.0	-0.7	-0.7	-0.8	
Contribution from interest rate/growth differential 3/	3.5	6.6	6.4	-6.0	-3.9			-6.9	-2.8	-1.0	-0.7	-0.7	-0.8	
Of which contribution from real interest rate	5.4	6.2	4.5	5.5	3.3			1.0	7.5	6.0	6.1	5.5	5.0	
Of which contribution from real GDP growth	-1.9	0.4	1.9	-11.5	-7.2			-7.9	-10.2	-6.9	-6.8	-6.2	-5.8	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Other identified debt-creating flows	1.2	0.4	0.0	0.0	0.0			-1.0	-3.0	-3.0	-3.0	-3.0	-3.0	
Privatization receipts (negative)	1.2	0.4	0.0	0.0	0.0			-1.0	-3.0	-3.0	-3.0	-3.0	-3.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3)	1.6	-4.1	0.8	19.6	2.0			2.4	1.5	0.0	-0.1	-0.1	-0.1	
Public sector debt-to-revenue ratio 1/	352.4	355.9	397.5	431.4	378.4			378.9	365.2	352.4	336.9	306.0	274.3	
Gross financing need 5/	60.5	83.3	78.3	71.1	87.9			63.7	57.7	53.7	48.6	44.1	43.1	
in billions of U.S. dollars	0.2	0.3	0.3	0.3	0.4			0.3	0.3	0.3	0.3	0.3	0.3	
Key Macroeconomic and Fiscal Assumptions						5-Year Historical Average	5-Year Standard Deviation							Projected Average
Real GDP growth (in percent)	1.7	-0.3	-1.2	7.3	4.1	2.3	3.5	4.6	6.0	4.3	4.6	4.6	4.6	4.8
Average nominal interest rate on public debt (in percent) 6/	7.6	8.0	7.2	6.9	6.8	7.3	0.5	6.0	5.8	6.0	6.2	6.3	6.3	6.1
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	4.7	4.6	2.8	3.7	2.0	3.6	1.1	0.8	4.4	3.8	4.2	4.1	4.1	4.1
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflation rate (GDP deflator, in percent)	2.9	3.3	4.4	3.2	4.7	3.7	0.8	5.2	1.4	2.2	2.0	2.2	2.2	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.8	29.5	-24.1	6.1	6.6	3.5	19.2	-2.6	-10.1	-5.9	-1.0	3.4	3.6	-2.0
Primary deficit	10.3	19.3	5.8	4.5	0.0	8.0	7.3	-1.1	-7.0	-9.0	-9.2	-9.5	-9.9	-8.9
A. Alternative Scenarios								**II. Stress Tests for Public Debt Ratio**						**Debt-stabilizing primary balance 10/**
A1. Key variables are at their historical averages in 2007–11 7/								**183.4**	**192.2**	**199.3**	**206.5**	**213.6**	**220.7**	**-0.8**
A2. No policy change (constant primary balance) in 2007–11								**183.4**	**178.0**	**172.8**	**167.8**	**162.8**	**157.6**	**-3.9**
B. Bound Tests														
B1. Real interest rate is at baseline plus one standard deviations								**183.4**	**173.1**	**161.0**	**148.9**	**136.3**	**123.3**	**-3.0**
B2. Real GDP growth is at historical average minus two standard deviations in 2007 and 2008								**183.4**	**175.7**	**166.8**	**158.2**	**149.6**	**140.9**	**-1.7**
B3. Primary balance is at historical average minus two standard deviations in 2007 and 2008								**183.4**	**175.7**	**166.2**	**156.8**	**147.0**	**136.8**	**-3.8**
B4. Combination of B1-B3 using one standard deviation shocks								**183.4**	**175.9**	**166.5**	**157.1**	**147.1**	**136.5**	**-2.4**
B5. One time 30 percent real depreciation in 2007 9/								**183.4**	**201.6**	**188.4**	**175.4**	**161.9**	**148.0**	**-3.9**
B6. 10 percent of GDP increase in other debt-creating flows in 2007								**183.4**	**182.1**	**169.0**	**156.0**	**142.6**	**128.8**	**-3.7**

1/ Nonfinancial public sector gross debt.
2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).
5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
6/ Derived as nominal interest expenditure divided by previous period debt stock.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ The implied change in other key variables under this scenario is discussed in the text.
9/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).
10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

ANNEX I. SUMMARY OF INFORMATIONAL ANNEXES

Fund relations. St. Kitts and Nevis has no outstanding Fund resources. It is a member of the Eastern Caribbean Currency Union (ECCU), which has a common central bank, the Eastern Caribbean Central Bank (ECCB). The common currency, the EC dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 since July 1976. St. Kitts and Nevis has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement. The exchange system is free of restrictions on the making of payments and transfers for current international transactions, apart from an indicative limit on travel allowances for which bona fide requests continue to be approved.

Relations with the World Bank Group. The country assistance strategy (CAS) for FY06−09 supports the region's development through: (1) stimulating growth and improving competitiveness; and (2) reducing vulnerability. The current CAS does not include any lending to St. Kitts and Nevis under the base case scenario. There are three active projects in St. Kitts and Nevis with a commitment of US$9.6 million of which US$1.6 million has been disbursed: (i) **Telecommunications and ICT Development Project,** approved on May 12, 2005, to improve the access, quality, and use of telecommunications and ICT services; (ii) **Education Development Project** approved in June 2003, to increase equitable access to secondary education and improve the quality of the teaching and learning processes; and (iii) **HIV/AIDS Prevention and Control Program**, approved in Jan 2003.

Relations with the Caribbean Development Bank. The CDB has approved loans of US$146.1 million, of which US$114.2 million has bee disbursed. Major projects under implementation include: a basic education project; road projects; loans to NEVLEC (Nevis Electricity Company),and for natural disaster management. Discussions are at an advanced stage on a policy based loan and a project for the commercialization of the electricity department.

Statistical issues. St. Kitts and Nevis has participated in the General Data Dissemination System since October 2000 and its metadata are posted on the Fund's Dissemination Standards Bulletin Board. There are significant weaknesses in real, fiscal, and balance of payments data. Data on GDP by type of expenditure are not available at constant prices, while the data at current prices are not reliable due to weaknesses in estimating gross capital formation. A new CPI with weights from the 2000 household survey has been introduced. There are no data on labor market developments. Fiscal data are not reported for publication in IFS. The latest data published in the *GFS Yearbook* are for 2003 (only). No data are available on the nonfinancial public sector. Data on external trade (especially exports) are not comprehensive, as they omit important categories of goods. Most components of the financial account also need improvement. There are no data on private external debt.

Appendix I. St. Kitts and Nevis—Relations with the Fund

(As of October 31, 2006)

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

II. General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	8.90	100.00
Fund holdings of currency	8.82	99.09
Reserve position in the Fund	0.08	0.92

III. SDR Department:	**SDR Million**	**Percent of Allocation**
Holdings	0.00	N/A

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements: None

VI. Projected Payments to Fund: None

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Implementation of MDRI Assistance: Not Applicable

IX. Exchange Arrangement:

St. Kitts and Nevis is a member of the Eastern Caribbean Central Bank (ECCB), which manages monetary policy and the exchange system for its eight members. The common currency, the Eastern Caribbean dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. In practice the ECCB has operated like a quasi-currency board, maintaining foreign exchange backing of its currency and demand liabilities of close to 100 percent. St. Kitts and Nevis accepted the obligations of Article VIII, Sections 2, 3, and 4 in December 1984. The exchange system is free of restrictions on the making of payments and transfers for current international transactions, apart from an indicative limit on travel allowances for which bona fide requests continue to be approved.

X. Safeguards Assessment:

Under the Fund's safeguards assessment policy, the Eastern Caribbean Central Bank (ECCB), of which St. Kitts and Nevis is a participating government, is subject to a full safeguards assessment. The onsite safeguards assessment was completed on February 20, 2003, and concluded that the ECCB has in place appropriate mechanisms to manage resources, including Fund disbursements and that the vulnerabilities that remain do not present an undue risk. The safeguards assessment proposed specific measures to address these vulnerabilities, which have been substantially implemented by the ECCB.

XI. Last Article IV Consultation:

St. Kitts and Nevis is on the standard 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on December 21, 2005.

XII. FSAP Participation, ROSCs, and OFC Assessment

St. Kitts and Nevis participated in the regional ECCU FSAP conducted in September and October 2003. The Financial System Stability Assessment is IMF Country Report No. 04/293. A review of St. Kitts and Nevis AML/CFT Assessment was conducted by a team of assessors representing the Caribbean Financial Action Taskforce (CFATF) in September 2003.

XIII. Technical Assistance: (2005–Present)

During 2005 and 2006, St. Kitts and Nevis has benefited from technical assistance in the areas of tax policy, tax administration, economic statistics, financial supervision and macroeconomic management, both from IMF headquarters and the Caribbean Regional Technical Assistance Center (CARTAC).

- Experts from CARTAC and the IMF's Statistics Department (STA) advised the Central Statistics Office on improving the national accounts, and developing export-import price indices.

- Experts from CARTAC, the IMF's Monetary and Capital Markets Department (MCD), and the IMF's Legal Department (LEG) advised the authorities on strengthening financial regulation and supervision, including risk-based supervision.

- In 2005 and 2006, CARTAC and MCM advised the authorities on developing a consistent debt management framework.

- CARTAC, the IMF's Fiscal Affairs Department (FAD) and LEG provided assistance to improve cash management and tax administration—including collection enforcement. Assistance has also been provided in Property Tax Reform, in preparing to move the property tax base from rental value to market value.

- CARTAC and FAD provided extensive assistance, through frequent expert visits, to sensitize politicians and technicians from the Ministry of Finance on the Value Added Tax (VAT). This provided a general explanation on VAT, and the main steps in its introduction.

- As part of the Stabilization and Adjustment Technical Assistance Program (SATAP), St. Kitts and Nevis have benefited from capacity building in the area of developing and monitoring stabilization programs.

- CARTAC has provided seminars to develop capacity in macroeconomic analysis including a course for technicians in the Ministry of Finance on "The Macroeconomic Impact of the Budget." In addition, CARTAC provided assistance in updating macroeconomic projections and the monitoring of performance.

Appendix II. St. Kitts and Nevis: Relations with the World Bank Group

(As of September 18, 2006)

The World Bank's Management presented to its Board the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS), on September 13, 2005. The World Bank Group's strategy for the four years covered by this CAS (FY06–09) supports the sub-region's development agenda through two main pillars: (1) stimulating growth and improving competitiveness; and (2) reducing vulnerability, by promoting greater social inclusion and strengthening disaster risk management. Recognizing the OECS countries' weakened creditworthiness due to high debt ratios, Bank activities will focus on leveraging available donor grant financing. Following the recommendations of the recently completed growth and competitiveness study for the OECS, IBRD and IDA support would focus on providing technical and financial assistance for interventions to support the two main pillars. The CAS proposes new commitments of US$103.4 million for six borrowing member states of the Organization of the Eastern Caribbean States (OECS), including St. Kitts and Nevis. Planned IBRD lending to St. Kitts and Nevis amounts to US$10 million under the high Case lending scenario.

Projects

There are three active World Bank projects in St. Kitts and Nevis for commitment of approximately US$9.6 million of which US$1.6 million has been disbursed.

The St. Kitts and Nevis **Telecommunications and ICT Development Project,** approved on May 12, 2005, aims at improving the access, quality, and use of telecommunications and ICT services to achieve socio-economic development in the Organization of Eastern Caribbean States (OECS). The project has the following four components: Component (1) will strengthen the national and regional regulatory frameworks and promote additional competition in the telecommunications sector. Emphasis will be given to capacity building of Eastern Caribbean Telecommunications Authority (ECTEL) and the National Telecommunications Regulatory Commissions (NTRCs) by providing them with assistance to revise the regional and national sector legislation, and develop a modem interconnection regime. Component (2) will review current universal access policy, create related guidelines, and provide financial support to establish a Universal Service Fund (USF). Component (3) will improve growth and competitiveness in ICT-enabled services through utilization of broadband infrastructure. Component (4) will ensure management and administration of the overall project.

The **St. Kitts and Nevis Education Development Project** was approved in June 2003 for US$5.0 million. The overall objective of this project is to build human capital which, in turn, will contribute to the diversification of the economy and more sustainable growth. This objective will be achieved by: (i) increasing equitable access to secondary education; (ii) improving the quality of the teaching and learning process, with more direct interventions at the school level and a focus on student-centered learning, and (iii) strengthening management of the sector and governance of schools.

The HIV/AIDS Prevention and Control Program, which was approved in Jan 2003 for US$4.0 million, is funded under the Multi-Country APL for the Caribbean Region, with the following objectives: (i) curbing the spread of HIV/AIDS epidemic; (ii) reducing the morbidity and mortality attributed to HIV/AIDS; (iii) improving the quality of life for persons living with HIV/AIDS (PLWAs); and (iv) developing a sustainable organizational and institutional framework for managing the HIV/AIDS epidemic over the longer term.

Economic and Sector Work

Economic and Sector Work: The Bank has, over the past three years, completed a series of analytical work relating to public expenditure, fiscal and debt sustainability, growth and competitiveness, the financial sector, public sector management and social protection. The ongoing dissemination of these reports represents a key instrument for policy dialogue with the OECS Governments including St. Kitts and Nevis.

In addition, the OECS countries will benefit from ongoing and planned regional studies including: A Caribbean regional study on Crime and Violence would focus on the impact of crime on poverty, social cohesion, tourism, investment and migration; a planned pension reform study will take an in-depth look at social insurance programs in the Caribbean, focusing in particular on reforms to address the challenges of limited coverage, increasing dependency ratios and fiscal sustainability; a study on Air Transport Rationalization which would inter alia, analyze regional air transport route and classify their commercial viability, evaluate the current air service arrangements, examine the feasibility of entering into “open skies” arrangements, and assess the impact of direct and indirect taxation on competition and service; and a study on access to finance which will examine the issues related to access to finance, particularly for small and medium enterprises in the OECS. The Bank is also finalizing a Policy Note on Project Fiduciary Management which is aimed at increasing the efficiency of project implementation in the OECS.

Financial Relations
(As of September 18, 2006)
(In millions of U.S. dollars)

Operation	Original Principal	Available	Disbursed
TELECOMMUNICATIONS & ICT DEVELOPMENT PROJECT—ST. KITTS AND NEVIS	0.54	0.49	0.05
EDUCATION REFORM PROJECT—ST. KITTS AND NEVIS	5.0	3.58	1.42
HIV/AIDS PREVENTION AND CONTROL PROGRAM—ST. KITTS AND NEVIS	4.04	3.78	0.26
	9.58	7.85	1.73

Disbursements and Debt Service (Fiscal Year Ending June 30)

	Actual							Projections
	2000	2001	2002	2003	2004	2005	2006	2007
Total disbursements	2.88	1.38	1.90	4.12	2.38	1.66	1.35	1.40
Repayments	0.07	0.05	0.12	0.33	0.67	0.89	1.18	1.75
Net disbursements	2.82	1.32	1.78	3.79	1.71	0.77	0.17	-0.35
Interest and fees	0.22	0.34	0.40	0.64	0.60	0.65	0.67	0.83

Appendix III. St. Kitts and Nevis—Relations with the Caribbean Development Bank

(As of October 31, 2006)

The Caribbean Development Bank (CDB) has approved loans totalling US$146.1 million, of which US$31.9 million are undisbursed.

Major Projects:

1. *Basic Education Project*—to assist GOSKN in the provision and maintenance of a more appropriate learning environment for a greater number of students in the system (including those with learning disabilities) who are pursuing basic education at primary and secondary schools; and enhancement of the education system in the areas of management, in particular, planning, data collection and analysis, student assessment, school management, curriculum development and pedagogy.

2. *West Basseterre By-Pass Road*—to construct approximately 3.8 kilometres of road to relieve traffic congestion in the city of Basseterre. The proposed road runs to the north of Basseterre and along the boundary fence of the Robert L. Bradshaw International Airport.

3. *Second Power Project*—consists of the installation of a generator of approximate size 2.5MW and ancillary switchgear and the establishment of an operations facility at the Nevis Electricity Company Limited (NEVLEC). The project will provide additional generating capacity to satisfy projected electricity demand and to replace existing engines that are past their useful life.

4. *Student Loan Scheme* (Fifth Loan)—to assist the Development Bank of St Kitts and Nevis (DBSKN) in financing loans to students attending local, regional and extra-regional institutions for programmes in technical, vocational and academic studies.

5. *Child Development Project*—to provide a comprehensive framework for addressing the care and protection of children and the reform of juvenile offenders. The project will enhance the life chances of children in St. Kitts and Nevis by improving their connectedness with the school system and providing rehabilitative care for those at risk and those who have committed offences.

6. *Seventh Consolidated Line of Credit*—to provide a loan to DBSKN for on-lending for various objectives including: to promote home ownership and improve existing housing stock; to develop human resources through the provision of student loans; and to satisfy the needs of individuals and entities in the productive sectors of the economy.

7. *Natural Disaster Management Project*—to contribute to the rehabilitation of economic infrastructure caused by hurricane Lenny. The project consists of rehabilitating 8.66 metres of sea defence structures with rock armouring and stone on geo-textile sheeting; reconstruction of a reinforced concrete ramp; and repairs to other infrastructure and public buildings. The

project promotes the reduction of vulnerability to natural disasters through support for the development and adoption of mitigation policies, standards and practices.

I. CURRENT PORTFOLIO
(In millions of U.S. dollars)

	Approved	Undisbursed
Basic Education Project	14.18	3.92
OECS Solid Waste Management Project	4.90	1.84
Natural Disaster Management Project	6.70	3.50
Student Loan Scheme (Fifth Loan)	5.00	1.97
Seventh Consolidated Line of Credit	9.90	0.10
Second Power Project	8.43	8.43
West Basseterre By-Pass Road	7.56	7.54
Child Development Project	2.64	2.64
Corporatisation of the Electricity Department	0.60	0.60

II. LOAN DISBURSEMENT
(In millions of U.S. dollars)

	2002	2003	2004	2005	2006[1]
Net Disbursement	18.62	3.97	4.08	3.13	3.41
Disbursement	20.24	5.92	6.48	6.02	6.31
Amortization	1.62	1.95	2.40	2.89	2.90
Interest and charges	2.00	2.66	2.80	3.07	3.27
Net resource flow	16.62	1.31	1.28	0.06	0.14

1/ As of October 31.

Appendix IV. St. Kitts and Nevis: Statistical Issues

St. Kitts and Nevis has been participating in the General Data Dissemination System (GDDS) since October 2000 and its metadata are posted on the Fund's Dissemination Standards Bulletin Board (DSBB).

1. Real sector

There are a number of deficiencies in the real sector statistics. Data on GDP broken down by type of expenditure are not available at constant prices, while the data at current prices are not reliable due to weaknesses in estimating gross capital formation. Private final consumption expenditure is estimated as a residual. A new CPI with weights from the 2000 household survey has now been introduced. Monthly CPI data are reported regularly but with a long lag. Detailed data on tourism arrivals and expenditure have not been forthcoming since end-2001. No data are currently available on labor market developments. Results of the 2001 population census are still being analyzed.

2. Public finances

Data on revenue, expenditure, and financing of the consolidated central government (St. Kitts and Nevis) are made available to Fund staff on request. There are a number of technical problems that need to be addressed, including a discrepancy between the overall balance (the difference between revenues and expenditures) and available financing. Previous missions have identified this discrepancy as arising from the inability to capture all expenditures, such as appropriation-in-aid loans and the so-called "below the line" expenditures. The authorities could benefit from technical assistance in resolving this serious discrepancy and in producing on a regular basis a set of fully integrated accounts for the central government. Also, it would be very useful to institute a mechanism for the regular reporting of financial data of the rest of the public sector and to compile the consolidated accounts of the nonfinancial public sector. The authorities do not report fiscal data for publication in IFS. The latest data published in the *GFS Yearbook* are for 2003 (only).

3. Balance of payments and external debt

Estimates for St. Kitts and Nevis are currently provided on an annual basis by the Eastern Caribbean Central Bank (ECCB). The latest data published in *IFS* are for 2005. Data on external trade (especially exports) are not comprehensive, as they omit important categories of goods. Most components of the financial account also need improvement. It would be useful to reconcile the data on the public sector investment plan for external loans with the public external debt database. There are no data on private external debt.

4. Money and financial statistics

The monetary and financial statistics based on standardized report forms for St. Kitts and Nevis are compiled and submitted to the IMF by the ECCB. The 2005 monetary and financial statistics mission indicated that enhanced institutional coverage, classification of financial instruments, and sectorization of economic units will have a positive impact on the identification of credit flows to different sectors of the economy and on the compilation of monetary aggregates in monetary policy design and implementation. It recommended that the institutional coverage for other depository corporations be expanded to include credit unions, finance companies, and building societies, which also accept demand and other deposits. Further, the mission recommended broadening the coverage to include insurance companies, pension funds, development banks, offshore institutions and foundations.

St. Kitts and Nevis: Table of Common Indicators Required for Surveillance
(As of November 22, 2006)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	Fixed Rate	n.a.	n.a.	n.a.	n.a.
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	09/06	13/11/06	M	Q	Q
Reserve/Base Money	09/06	13/11/06	M	Q	Q
Broad Money	09/06	13/11/06	M	Q	Q
Central Bank Balance Sheet	09/06	13/11/06	M	Q	Q
Consolidated Balance Sheet of the Banking System	09/06	13/11/06	M	Q	Q
Interest Rates[2]	09/06	13/11/06	M	Q	Q
Consumer Price Index	08/06	10/11/06	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	10/06	4/10/06	Q	Q	Q
1Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/05	4/01/06	Q	Q	Q
External Current Account Balance	12/05	3/16/06	A	A	A
Exports and Imports of Goods and Services	12/05	3/16/06	M	M	Q
GDP/GNP	2005	12/10/05	A	A	A
Gross External Debt	12/05	3/16/06	A	A	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] Central government only.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

Statement by the IMF Staff Representative
January 17, 2007

Subsequent to the issuance of the staff report on 12/21/06, the 2007 budgets have been presented in both St Kitts and Nevis. The new information does not alter the thrust of the staff appraisal.

1. **The staff estimates that the 2007 budgets for St. Kitts and Nevis would imply a primary surplus of the central government of about 5 percent of GDP.** Assuming a historical implementation rate for capital expenditure and receipt of grants, the primary surplus is estimated to be about 1 percent of GDP below the staff's "active scenario" (Table 1). Key components of the budgets include:

- Current expenditures are expected to continue to decline relative to GDP. The composition of expenditures has shifted to provide increased allocations for security and to provide new training opportunities to enable the local population to benefit from the Caribbean Single Market. A new Finance Administration Act will be implemented to strengthen budget control.
- Debt management operations—including floating a new bond in the first half of 2007 to retire more expensive loans—are anticipated to generate interest savings.
- Capital expenditure—planned at more than 10 percent of GDP, but estimated by staff based on historical implementation rates at 6¼ percent of GDP—reflect ongoing projects to improve roads on both St. Kitts and on Nevis, additional investments in the electricity sector, an Information and Communication Technology center, and projects to facilitate development of new agricultural opportunities.
- Modernization of the tax system is underway, including moving the Property Tax to a market valuation basis, amending the corporate income tax, and preparation for the introduction of the value-added tax.
- The deficit is to be financed, in part, by a new policy-based loan from the Caribbean Development Bank as well as land sales.

2. **The budgets also addressed the broader reform agenda**:

- 1,200 acres of land are to be sold in order to assist in retiring the sugar debt. Sales will be consistent with the new Physical Development Plan, with priority to be given to nationals. Modalities for the land sales are under development.
- A contributory pension scheme for civil servants has been introduced. Established civil servants who are not yet vested in the current scheme (those with less than ten years of service) will not be provided with a noncontributory pension.

- The new Finance Administration Act will enhance oversight over public corporations and statutory bodies.
- To improve the investment climate, an Investment Promotion Agency (IPA) focused on small- and medium-sized businesses will become operational in early 2007. The IPA will function as a one-stop shop for investors, providing a single transparent source of information on regulations and licensing.

Table 1: St. Kitts and Nevis: Central Government Fiscal Operations

	2005	2006	2007			
				Staff Est.		
	Actual 1/	Proj. 1/	Budget	Budget 2/	Active 1/	Passive 1/
			(In millions of E.C.dollars)			
Total revenue and grants	470	526	541	525	547	518
Current Revenue	433	497	516	516	537	509
Capital revenue	4	4	4	4	5	5
Grants	32	25	22	5	5	5
Total expenditure and net lending	517	566	611	553	588	638
Current expenditure	438	474	465	465	488	509
Of which						
Interest	97	119	99	99	121	125
Capital expenditure	79	87	146	88	101	123
Primary balance	50	80	29	72	81	5
Overall balance	-47	-39	-70	-28	-40	-120
			(In percent of GDP)			
Total revenue and grants	39.3	40.1	38.0	36.9	38.8	38.0
Current Revenue	36.3	37.8	36.2	36.2	38.1	37.3
Capital revenue	0.3	0.3	0.3	0.3	0.3	0.3
Grants	2.7	1.9	1.5	0.4	0.4	0.4
Total expenditure and net lending	43.3	43.1	43.0	38.9	41.6	46.8
Current expenditure	36.7	36.1	32.7	32.7	34.6	37.3
Of which						
Interest	8.1	9.1	7.0	7.0	8.6	9.2
Capital expenditure	6.6	6.6	10.3	6.2	7.2	9.0
Primary balance	4.2	6.1	2.1	5.0	5.7	0.4
Overall balance	-3.9	-3.0	-4.9	-2.0	-2.9	-8.8
Memorandum item						
GDP at market prices (in EC$ million)	1,194	1,314	1,423	1,423	1,412	1,364

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

1/ As in the 2006 Article IV consultation staff report of St. Kitts and Nevis.
2/ As in the approved budget, except for capital expenditure, for which an execution rate of 60 percent is assumed, and grants, which are assumed to be in line with Fund staff projection.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 07/42
FOR IMMEDIATE RELEASE
March 27, 2007

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2006 Article IV Consultation with St. Kitts and Nevis

On January 17, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with St. Kitts and Nevis.[1]

Background

In July 2005, the sugar industry—the historical mainstay of the economy—closed after more than 300 years. The industry had incurred substantial losses—on the order of 3–4 percent of GDP annually in the last several years—even before the announced further cut in preferential access to the EU market. The closure has required the government to service the debt of the sugar company (about 29 percent of GDP). Public debt, accumulated as a result of exogenous shocks (including three hurricanes in the second half of the 1990s) and an accommodative policy stance, reached 190 percent of GDP at end-2005.

Despite the closure of the sugar industry, economic growth has accelerated. In 2006, the economy is estimated to have recorded its third consecutive year of strong growth, projected at 4½ percent in 2006, with good prospects for 2007 due to the combination of ongoing construction projects and activity related to the Cricket World Cup. While the current account deficit remains large (at 25 percent of GDP in 2005), it has been mainly financed by foreign direct investment, and competitiveness appears to be improving—partly owing to the depreciation of the U.S. dollar against major currencies. Large adjustments in the regulated prices for petroleum and electricity prices in response to the higher global prices for petroleum, created a temporary spike in inflation during 2005–06.

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[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. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

Fiscal imbalances have improved significantly, reflecting both policy adjustments and continued growth. The central government primary surplus is estimated at 6 percent of GDP in 2006, a significant turnaround from the small primary deficit recorded in 2004. Policy adjustments include increasing revenue effort based on administrative reforms that enhanced compliance and containing noninterest expenditures.

Despite the fiscal adjustment, public sector debt remains at a very high level. While the central government accounts have strengthened significantly, public enterprises are contracting significant debt. The large gross financing needs of the government have been met by increased reliance on domestic financing sources.

Monetary aggregates have continued to grow in line with economic growth. Private credit has rebounded, rising by about 8 percent in 2005, and is projected to increase by more than 10 percent in 2006. The approval of the revisions to the uniform Banking Act has strengthened the regulatory basis for the banking system. Further progress has also been made in improving the supervision and the regulation of the Anti-Money Laundering/Combating the Financing of Terrorism framework to reflect ongoing changes in the financial system.

Executive Board Assessment

Directors welcomed the improvement in economic outcomes and prospects achieved over the last few years, with recent growth driven largely by tourism and construction. To develop more sustainable sources of growth, Directors recommended strengthening the business and investment climate and improving competitiveness, including by enhancing the efficiency and reliability of public utilities.

The authorities' ambitious fiscal consolidation program has already resulted in the central government achieving a strong primary surplus. Nevertheless, greater efforts to prioritize and control government expenditure are needed to sustain the fiscal adjustment.
The transparency, accountability, monitoring, and oversight of public enterprises need to be improved, to ensure that the central government's fiscal consolidation is not undermined by the poor financial performance of public entities. Directors welcomed the authorities' commitment to reform the tax system to improve its efficiency, but emphasized that for the reform to be successful it will need to be supported by improvements in administrative capacity.

Even with full implementation of the authorities' consolidation strategy, the public debt stock will remain very high for many years. Directors emphasized the importance of exploring options for a more rapid reduction of the debt-to-GDP ratio, including by accelerating the pace of asset sales and strengthening debt management. They stressed that a social consensus in favor of fiscal consolidation needs to be nurtured and strengthened, even as expenditure pressures related to population aging grow.

Reducing financial sector risks, including in nonbank financial institutions, needs to be given high priority. Directors called for additional progress in making effective the single regulatory unit and in approving supporting legislation.

Directors observed that St. Kitts and Nevis's high vulnerability to natural disasters and shocks to tourism highlights the importance of precautionary measures and contingency planning.

Directors welcomed the recent enhancements in the statistical database, but called for further efforts to improve the reliability and timeliness of key data, including on tourism, debt, and public enterprises.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

St. Kitts and Nevis: Selected Economic Indicators

	2002	2003	2004	Est. 2005	Proj. 2006	Proj. 2007
(Annual percentage change; unless otherwise specified)						
National income and prices						
Real GDP (factor cost)	-0.3	-1.2	7.3	4.1	4.6	6.0
Consumer prices, end-of-year	1.8	2.9	1.7	7.2	5.0	1.5
Real effective exchange rate (end-of-period) 1/	-3.3	-7.5	-6.9	-2.0	...	...
Banking system						
Net foreign assets 2/	10.2	13.6	-7.5	-2.0	3.2	8.0
Net domestic assets 2/	-3.9	-6.7	29.2	6.7	6.9	-0.5
Of which						
Credit to public sector 2/	1.6	-10.8	17.9	9.6	1.8	-4.7
Credit to private sector 2/	-2.1	3.4	6.7	5.2	7.6	6.0
Broad money	6.4	6.9	21.7	4.7	10.0	7.4
Of which						
Money	12.9	11.0	25.0	-1.6	7.0	7.4
Quasi-money	5.4	6.2	21.1	5.9	10.5	7.4
Weighted average deposit rate (in percent per year) 3/	3.8	4.1	3.6	4.1	...	...
Weighted average lending rate (in percent per year) 3/	10.4	12.0	9.9	9.8	...	...
(In percent of GDP)						
Public sector 4/						
Primary balance	-11.2	-1.2	-0.4	4.2	6.1	5.7
Overall balance	-18.5	-8.7	-7.3	-3.9	-3.0	-2.9
Total revenue and grants	34.8	33.3	34.1	39.3	40.1	38.8
Total expenditure and net lending	53.3	42.0	41.5	43.3	43.1	41.6
Foreign financing	10.9	14.3	1.5	-3.2	-1.3	-1.6
Domestic financing	8.0	-5.6	5.8	7.1	4.3	3.0
Sale/purchase of assets	-0.4	0.0	0.0	0.0	0.0	1.5
Total public debt (end-of-period)	161.0	179.3	192.1	190.2	183.4	172.1
Of which						
Central government	107.3	118.0	119.2	117.8	110.0	103.7
Public enterprises	53.7	61.3	72.9	72.4	73.4	68.3
External sector						
External current account balance	-37.9	-34.4	-25.2	-25.5	-28.2	-27.5
Trade balance	-32.2	-32.3	-29.1	-28.7	-29.9	-30.3
Services, net	3.3	7.6	12.9	11.6	10.2	11.4
Of which						
Tourism receipts	16.1	20.6	25.3	24.2	22.9	23.8
Transfers, net	4.6	5.1	4.5	4.1	3.9	3.6
Net capital inflow 5/	40.7	34.1	28.5	24.2	31.0	28.9
FDI (net)	22.5	20.6	11.4	13.6	14.5	15.0
External public debt (end-of-period)	75.0	87.5	84.2	72.9	67.8	61.5
(In percent of exports of goods and nonfactor services)						
External public debt service	20.7	25.4	26.4	24.0	22.8	27.2
External public debt (end-of-period)	173.8	194.1	177.2	160.3	157.9	140.1
(In millions of U.S. dollars; unless otherwise specified)						
Gross international reserves of the ECCB, end-of-period	504.8	539.9	632.4	600.8	651.7	711.3
In percent of ECCU broad money	20.2	19.8	20.5	17.9	17.7	17.6

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

1/ Weights given by the average trade share during 1999–2003. Depreciation (-).
2/ In relation to broad money at the beginning of the period.
3/ End of period. Weighted by the size of the loans or deposits. There was a break in the average interest rate series in June 2003.
4/ Federal government unless otherwise noted.
5/ Includes errors and omissions.