July 2012
IMF Country Report No. 12/196

St. Kitts and Nevis—Second Review Under the Stand-By Arrangement and the Financing Assurances Review, and Request for Waivers of Applicability—Staff Report and Press Release

The following documents have been released and are included in this package:

- The staff report for the Second Review Under the Stand-By Arrangement and the Financing Assurances Review, and Request for Waivers of Applicability, prepared by a staff team of the IMF, following discussions that ended on March 16, 2012 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 May 4 2012. 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 press release.

The documents listed below have been separately released.

Letter of Intent sent to the IMF by the authorities of St. Kitts and Nevis*
Memorandum of Economic and Financial Policies by the authorities of St. Kitts and Nevis*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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ST. KITTS AND NEVIS

SECOND REVIEW UNDER THE STAND-BY ARRANGEMENT AND FINANCING ASSURANCES REVIEW, AND REQUEST FOR WAIVERS OF APPLICABILITY

May 4, 2012

KEY ISSUES

Context. St. Kitts and Nevis' economic activity registered the third consecutive year of decline in 2011, reflecting an adverse global environment. Despite the weaker context, the authorities have steadfastly implemented their home-grown economic program and begun to achieve positive results. The outlook is for a moderate economic recovery, supported by FDI-related construction projects and an improvement in tourism activity. However, uncertainty regarding the global economic outlook highlights ongoing downside risks.

Stand-By Arrangement (SBA). On July 27, 2011, the Executive Board approved a 36-month SBA for St. Kitts and Nevis for SDR 52.51 million (590 percent of quota) to support the authorities' program (IMF Country Report No. 11/270). A tranche of SDR 3.161 million will be made available upon completion of this review.

Program Performance. All quantitative performance criteria for end-December 2011 were met, and the structural benchmarks were completed. The authorities have made progress in a comprehensive debt restructuring, including a successful completion of the restructuring of bonds and external commercial debt on April 18, 2012, and agreement on a debt-land swap. The authorities requested waivers of applicability for quantitative performance criteria (PC) for end-March 2012.

Review. In the attached supplementary Letter of Intent and Memorandum of Economic and Financial Policies, the authorities elaborate on their policies for 2012, which are in line with the program, and propose corresponding quantitative performance criteria. Staff supports the authorities' request for the completion of the second program review and the financing assurances review under the SBA.

Approved By
Mr. David Vegara and Mr. Jan Kees Martijn

The staff team comprised G. Tsibouris (Head), Ms. D. Simard, Mr. K. Greenidge, Ms. S. Ogawa (all WHD), Ms. A. Holland (MCM), and Mr. K. Moriyama (SPR); it was assisted by Mr. W. Samuel (Regional Resident Representative). During March 5–16, 2012, the mission met with the Prime Minister/Finance Minister of St. Kitts and Nevis, the Premier of Nevis, the Cabinet, the ECCB Governor and senior staff, as well as other senior Government officials and representatives of the private sector. Mr. M. Sajkunovic (OED) attended the final meetings.

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ATTACHMENT

PERFORMANCE UNDER THE PROGRAM

A. Recent Developments

1. **Reflecting sluggish growth in trading partners, economic activity continued to contract in 2011 while the current account balance improved and banks remained sound.**

- **The weak outturn in tourism and the persistent slump in construction since 2008 continued to depress growth while inflationary pressures eased up at end year.** Real GDP contracted by an estimated 2 percent in 2011, the third consecutive year of decline. Inflation averaged 5.4 percent during the year, reflecting the introduction of the VAT at the end of 2010, adjustments in electricity tariffs, and increases in food and oil prices. Towards the end of 2011 inflation abated, with the December rate slowing to 1.2 percent compared to 5 percent at end-2010.

- **The external current account deficit is estimated to have narrowed despite relatively weak tourism receipts.** The citizenship-by-investment program boosted services receipts beyond program expectations while the impact of relatively sluggish tourism activity was mitigated by a weakening of imports and a rebound in goods exports, particularly in electronics. A slowdown in real estate FDI inflows deteriorated the financial account.

2. **Credit growth has been relatively subdued owing to the more uncertain environment, but the financial sector remains generally healthy.** The domestic banking sector remains well capitalized and liquid and oversight of the nonbank financial sector is being reinforced (MEFP ¶ 2). The banks' capital adequacy ratio (CAR) was 42.2 percent and their ratio of net liquid assets to total deposits was 52.6 percent at end-December 2011, exceeding regional standards. Given this continued resilience, there has been no request to date to access the Banking Sector Reserve Fund set up under the SBA. Updated stress tests confirmed that the banking sector would have sufficient capital to absorb the impact of the ongoing government debt restructuring. However, although the reported ratio of nonperforming loans (NPLs) remains relatively low on a regional scale, albeit above the ECCB benchmark of 5 percent, it increased from 5.3 percent at end-2010 to 5.8 percent at end-2011. The more uncertain environment led to a general tightening in lending standards, causing credit growth to slow to 3.7 percent while deposit growth remained robust at over 10 percent.

St. Kitts and Nevis: Selected Financial Indicators, September 2009-December 2011

	Dec-09	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
	(Annual percentage change)					
Broad money	5.9	8.9	3.3	5.6	3.8	11.2
Private sector deposits	4.4	7.9	2.9	5.7	3.7	10.5
Private sector credit	5.5	3.5	5.8	3.8	5.6	3.7
	(Percentage change relative to broad money at beginning of period)					
Net foreign assets	-8.4	1.1	-1.0	7.6	11.4	16.7
Net domestic assets	14.3	7.8	4.2	-2.2	-7.6	-5.5
of which:						
Private sector credit	4.1	2.6	3.9	2.7	3.9	2.7
Net credit to public sector	1.5	4.9	0.9	-7.3	-13.5	-9.0
	(Indigenous banks; In percent)					
Capital adequacy ratio	49.3	43.9	46.3	48.5	41.6	42.2
NPLs/Total loans	4.1	5.3	5.6	5.6	5.5	5.8
Provisioning/NPLs	77.7	58.1	55.8	55.5	55.2	53.0
Net liquid asset/Total deposit	55.4	50.4	52.3	52.5	52.6	52.6
Return on Equity	11.3	4.6	4.3	9.0	10.2	14.1
Return on Asset	2.4	0.9	0.9	1.8	2.0	2.7

Source: ECCB

B. Program Performance

The St. Kitts and Nevis authorities continued to implement their home-grown macroeconomic program despite the adverse global environment. All the performance criteria (PCs) for end-December 2011 and the structural benchmarks (SBs) for end-December 2011 and end-March 2012 were met.

St. Kitts and Nevis: Quantitative Performance Criteria and Indicative Targets
(In EC$ millions)

	End-Dec 2011				
	Prog.	Adjusted	Actual	Difference	Status
Performance Criteria:					
Central government overall balance including grants (floor) 1/ 2/	-60	-35	42	77	✓
Stock of central government budget expenditure arrears accumulation (ceiling) 3/	0	0	-23	-23	✓
Stock of external short term debt	0	0	0	0	✓
Central government or guaranteed external arrears accumulation (ceiling) 4/	0	0	0	0	✓
Indicative Target:					
Central government primary balance (floor) 1/ 2/	76	101	168	68	✓

1/ Cumulative within each calendar year.
2/ See the TMU for a description of adjustors.
3/ Including the stock of arrears related to fuel purchases audited by international auditors.
4/ To be monitored on a continuous basis.

3. **Despite the weaker-than-projected economic outturn, the authorities met all program fiscal targets for end-December 2011.** The overall fiscal balance at end-2011 reached a surplus of EC$42 million, significantly above the adjusted program floor of EC$-34.8 million (the primary fiscal surplus also exceeded the program's indicative floor). Tax revenue was broadly in line with expectations while non-tax revenue far exceeded the projection made at the time of the first review, due to strong performance of the citizenship-by-investment program, transfers from the Sugar Industry Diversification Foundation (SIDF)[1], and dividend receipts. Overall, expenditure was lower than what had been projected at the time of the first review, with restraint in current outlays, especially on goods and services, offsetting higher capital spending. The authorities fulfilled their program commitment to freeze the wage bill at or below its 2010 level. Even excluding the extraordinary non-tax revenues, the overall fiscal balance was in line with the adjusted program target.

4. **All other performance criteria were met.** The authorities successfully reduced central government expenditure arrears by EC$23 million[2], compared to end-2010, despite some accumulation in domestic debt service arrears related to the ongoing debt restructuring. The stock of external short-term debt was maintained at zero, and there has been no accumulation of the central government or guaranteed external arrears except those due to the debt restructuring (excluded from the PC).

5. **The program is consistent with the Fund's arrears policy.** In staff's view, the authorities are in compliance with the Fund's policy of lending into arrears, based on their good faith efforts to engage with their private creditors. The arrears accumulated to a Paris Club creditor through end-2011 were cleared in January; since then some new arrears have been accumulated to a Paris Club creditor. For program purposes they are, however, carved out from the continuous PC on the non-accumulation of arrears to external creditors as exemptions, given that a rescheduling agreement is being sought for the debt service concerned.

6. **The authorities' structural reforms progressed as planned and all structural benchmarks for end-December 2011 and end-March 2012 were met.** The review of the borrowing capacity of public enterprises, which included a classification according to their financial risk, was completed by end-December as scheduled. It confirmed that many public enterprises are facing financial challenges that could present eventual contingent liabilities for the government.[3] The update of banks' stress tests was completed in early 2012, ahead of its end-March schedule. Finally, and in order to enhance the efficiency

[1] The Sugar Industry Diversification Foundation was established in 2006 to assist the transformation of St. Kitts and Nevis from a sugar industry-dependent to a service-oriented economy. The foundation is funded by contributions stemming from the citizenship-by-investment program, and invests in social and infrastructure projects directly as well as in conjunction with the government.

[2] Mostly related to the clearance of non-fuel budgetary arrears.

[3] The government assigned a high risk rating to several public enterprises, resulting in the imposition of limits on their short-term financing.

of public spending by improving the targeting of social expenditure, both the proposal to rationalize the Liquid Petroleum Gas (LPG) subsidy and the strategy to reform the social safety net were submitted to Cabinet on March 26 2012.

St. Kitts and Nevis: Fiscal Outturn for 2011
(percent of GDP)

	2011	
	Proj. 1/	Actual
Total revenue	30.9	33.7
Tax revenue	21.3	21.1
Non-tax revenue	9.6	12.5
Capital revenue	0.1	0.1
Total expenditure and net lending	36.5	35.4
Wages and salaries	11.7	11.5
Goods and services	10.1	9.3
Interest	6.7	6.5
Transfers	3.8	3.7
Capital expenditure and net lending	4.2	4.4
Grants	3.5	3.5
Overall balance 2/	-2.1	1.8
Primary balance 2/	4.6	8.3

Sources: St. Kitts and Nevis authorities; and Fund staff projections.
1/ First Review under the SBA, Country Report 12/51.
2/ Measured from above-the-line.

St. Kitts and Nevis: Structural Benchmarks for December 2011 and March 2012

Action	Target Date	Status
Review borrowing capacity of public enterprises	End-December 2011	completed
Submit to Cabinet proposal to rationalize the subsidy on liquefied petroleum gas (LPG)	End-March 2012	completed
Submit social safety net reform strategy to Cabinet	End-March 2012	completed
Update the existing stress tests of banks	End-March 2012	completed

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

C. Debt Restructuring

7. **The authorities concluded a successful debt exchange with bondholders and external commercial creditors on April 18, 2012 (Box).** The exchange offer covered EC$369 million (US$135 million) of eligible claims, representing about 13 percent of the total debt portfolio and 19 percent of GDP. Participation by creditors, in the end, was universal. Commercial creditors were given two options, an EC$-denominated par bond or a US$-denominated discount bond, the latter benefiting from a partial guarantee of the Caribbean Development Bank (CDB). Both entailed a significant net present value haircut for creditors of 73 and 61 percent respectively.[4]

8. **Further progress has been made with respect to the resolution of domestic loans, including on the conversion of loans secured with land.** A shareholders' agreement has been signed which determines the parameters of an exchange of land for debt

[4] Assuming an 8 percent discount rate.

Box 1. Update on the Debt Restructuring

Bondholders and external commercial creditors

On February 27 2012, the authorities launched an exchange offer for external commercial creditors and bondholders, including all domestic holders but excluding Treasury Bills. On March 7 2012, a creditor committee representing a significant proportion of external commercial creditors issued a statement indicating their intention to accept the offer. The offer was successfully concluded on April 18 2012.

- A total of EC$369 million (or US$135 million) of debt was eligible to be exchanged.
- Participation amounted to 97 percent of the eligible amount; the activation of collective action clauses (CACs) allowed the few hold-outs to be included in the exchange.
- About one third of creditors opted for the par bond. This is an EC$ denominated 45-year mortgage style bond with a 15-year grace period on principal payments that carries a 1.5 percent coupon.
- The remaining two thirds of creditors, including the holdouts, chose the discount bond, taking a 50 percent cut in the face value of their claims. This is a US$ denominated 20-year mortgage style bond with the following features:

  1. *Step-down coupon.* It carries a 6 percent coupon for the first four years which then steps down to 3 percent.
  2. *Partial guarantee from the CDB*. The CDB will guarantee on a rolling, reinstatable but non-accelerable basis, payments of principal and/or interest due, subject to an aggregate guarantee limit of US$12 million. A similar type of guarantee was provided by the African Development Bank in the context of the Seychelles debt restructuring offer in 2009.
  3. *"Clawback" provision.* This feature, which was used only in the case of the debt restructuring in the Seychelles and St. Kitts and Nevis, provides for creditors to be issued additional par bonds (equal to 40 percent of the face amount of discount bonds issued in the exchange offer) if the authorities fail to complete the sixth review under the SBA by March 31, 2014. It should be noted that, if this provision was to be triggered, the impact of this on the total stock of debt would be very marginal (+2 percent of GDP) which, per se, would not change the debt sustainability outlook.

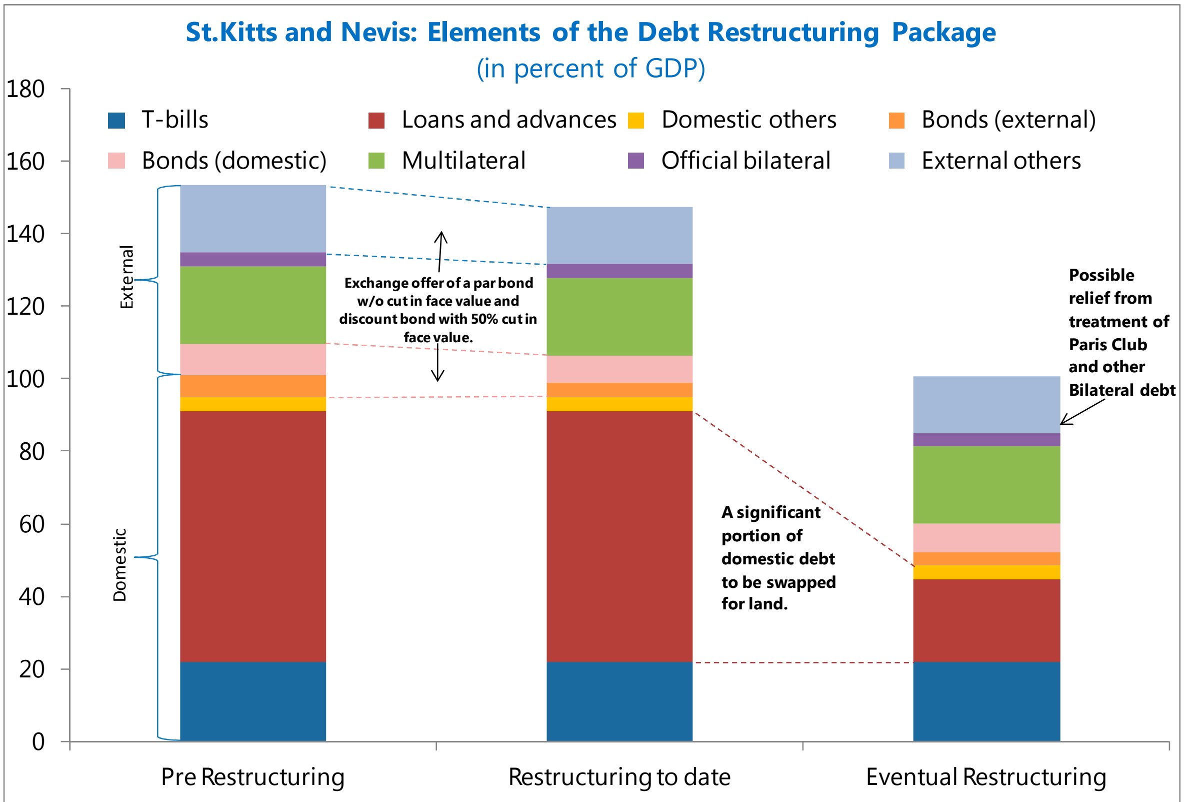
Box 1. Update on the Debt Restructuring (cont.)

Domestic Creditors

Discussions with domestic creditors on a restructuring of loans other than bonds are well advanced and the authorities envisage that they will be concluded shortly.

- The debt-land swap forms an important part of the debt restructuring, including through the establishment of a special purpose vehicle (SPV). The SPV will be tasked with selling the assigned land; as revenues are generated, they will be passed to the relevant creditors in settlement of the original claim. Given the amount of land in question, this process is likely to take several years. Once all claims are settled, any residual lands will be transferred back to the authorities.
- The offer to banks will take account of the specifics of the respective banks' balance sheet and the need to preserve financial stability. Any new debt instruments will also be designed in view of the terms of the offer to external creditors and the authorities' need to secure substantial debt relief.
- The overall offer for the Social Security Board will take into account its long-tem sustainability and the contingent liability it represents to the government.

Overall, taking into account the central assumption about the likely outcome of the restructuring negotiations with domestic creditors, the immediate impact of the restructuring exercise sees a sharp step-down in the level of debt from 154 percent of GDP to around 100 percent of GDP. This has scope to fall further depending on the outcome of discussions with bilateral creditors, although limited overall by their relatively small share in the total debt (3.8 percent of GDP).



Source: St. Kitts and Nevis authorities and Fund staff estimates.

between the government and a major domestic creditor. Next steps involve the establishment of the special purpose vehicle (SPV) and the transfers of the land extinguishing related government debt. Discussions with other domestic creditors are also progressing.

9. Overall, staff anticipates that the eventual scale of the debt restructuring will lead to a reduction in total public debt from 154 percent of GDP at end-2011 to about 100 percent of GDP at end-2012. This will set debt on a trajectory to fall within the Eastern Caribbean Currency Union (ECCU) target of 60 percent of GDP by end-2020. This projection is based on the parameters of the agreed debt exchange and debt to land exchange, combined with corresponding assumptions on the outcome of the negotiations on the remaining domestic and the official bilateral debt, respectively.

POLICY DISCUSSIONS

10. Discussions centered on the critical importance of sustaining the pace of both fiscal and structural reforms to further secure debt sustainability and provide an impetus to inclusive growth in an uncertain external context. Under baseline projections, growth is projected to pick up slightly to 1 percent in 2012, due to improved tourism activity and FDI-related construction projects, before rising to 1¾ percent in 2013 and reaching 4 percent over the medium-term.[5] However, despite the debt restructuring and current plans for fiscal consolidation, the sluggish global environment continues to present downside risks to growth and in terms of the realization of the ECCU debt target. To help achieve it, the authorities reaffirmed their commitment to maintain their fiscal strategy for 2012 in line with the program even if these risks were to materialize (MEFP ¶ 3) and to follow their ambitious planned pace of structural reforms (MEFP ¶ 12–14).

[5] Some stimulus to growth is expected to come from the lower debt burden.

A. Debt Restructuring

11. The authorities need to sustain the current momentum and conclude negotiations with domestic creditors and bilateral official creditors. Negotiations with Paris Club creditors are expected to be completed by end-May 2012. The authorities are moving forward with completing the operational arrangements for the SPV (the draft proposal for the establishment of an asset management company is a SB for end-June 2012), including sustaining progress on land valuation and registration (updating the registry and undertaking the valuation of an additional 600 acres of land, SBs for end-June 2012). A good pace of resulting land sales will be a critical element in ensuring that the debt-for-land swap does not impair the resilience of the domestic financial sector. Staff emphasized and authorities agreed on the need to set appropriate management incentives and that the principles of transparency and accountability are adhered to in determining the operating provisions of the SPV.

B. Financial Sector

12. The authorities are committed to promoting the health of the financial sector (MEFP ¶6), a key objective of the program. Given the importance of preserving the stability of the financial sector—and in line with current practice—the ECCB will continue to undertake regular stress tests, which are now a quarterly benchmark under the program. Going forward, it will be important for the ECCB to monitor the impact of the debt-for-land swap on banks' balance sheets and verify that banks dispose of the land in line with prudential guidelines and norms.

C. Fiscal Policy

13. The authorities remain committed to the 2012 program target for the overall fiscal deficit of EC$60 million, even if downside risks to the macroeconomic outlook were to materialize (MEFP ¶ 8)**.** In this context, the authorities have identified contingency measures equivalent to 1 percent of GDP, including enhancing the administration of the Housing and Social Development Levy and rationalizing further capital spending relative to the approved budget as needed, in addition to those measures identified during the first review under the SBA (Country Report No. 12/51 MEFP ¶ 9).

St. Kitts and Nevis: Fiscal Outturn for 2011 and Projection for 2012
(in percent of GDP)

	2011		2012
	Actual	Excl. Elec. Dept 1/	Prog.
Total revenue	33.7	31.2	26.1
Tax revenue	21.1	21.1	20.9
Non-tax revenue	12.5	10.0	5.2
Capital revenue	0.1	0.1	0.0
Total expenditure and net lending	35.3	30.8	33.0
Wages and salaries	11.5	11.5	11.2
Goods and services	9.2	4.7	5.4
Interest	6.5	6.5	6.4
Transfers	3.7	3.7	4.2
Capital expenditure and net lending	4.4	4.4	5.8
Grants	3.5	3.5	4.0
Overall balance 2/	2.0	3.9	-3.0
Primary balance 2/	8.4	10.4	3.4

Sources: St. Kitts and Nevis authorities; and Fund staff projections.
1/ Revenue and costs related to the Electricity Department were removed for Jan-Jul.
2/ Measured from above-the-line.

14. The authorities intend to enhance tax revenue by broadening the tax base and consolidating the revenue administration (MEFP ¶ 9)**.** The measures include amendments to the Corporate Income Tax Act to limit the scope of admissible deductions (which were submitted to the National Assembly in March 2012) and ensuring that all granted temporary VAT and customs duties exemptions, with the exception of those related to the construction sector, will be terminated by their scheduled date. Relief on construction materials imports and contracts will be extended to end-2012 in an effort to stimulate activity in the sector. The authorities also plan to extend the scope and powers of the Inland Revenue Department's (IRD) Taxpayers Intelligence Unit, allowing it to be responsible for other taxes than the VAT and to conduct on-site inspections. Finally, the authorities intend to undertake a review of the tax exemptions regime with the objective of their rationalization (MEFP ¶ 10). They are requesting technical assistance (TA) from their development partners to build capacity to conduct risk-based auditing and enhance strategic planning and performance.

15. The authorities intend to maintain tight control over expenditure, in line with the 2012 fiscal target (MEFP ¶ 11)**.** Key measures include a continued freeze on the wage bill and containing the growth of expenditure on goods and services. The authorities are taking steps to rationalize the subsidy on liquefied petroleum gas (LPG) (SB for end-March 2012), by negotiating in the first instance a lower price paid to suppliers prior to improving targeting to the most vulnerable. Budgetary transfers are expected to increase by ½ percent of GDP from the previous year, as the government covers the external debt service of three public corporations on their behalf.[6] To contain eventual contingent liabilities and related fiscal risks, the authorities are strengthening the monitoring of the public enterprises based on their risk ratings and enforcing financial discipline by limits on their short-term financing and requirements for developing strategic reform plans.

16. Structural reforms will help expand the fiscal space for growth-promoting spending by enhancing the efficiency of public outlays (MEFP ¶ 12)**.** The authorities are preparing a procurement law covering government-funded projects, planning an overhaul of the civil service and improving public expenditure planning by elaborating a medium-term expenditure framework (MTEF); all by end-June 2012 (SBs).

17. The authorities plan to conduct a review of the social security scheme (SB for end-September 2012) and to develop a medium-term debt management strategy that would be published in the 2013 budget (updated SB for end-December 2012). They also intend to improve the efficiency of public investment by upgrading their capacity for project evaluation which will allow better prioritization of the Public Sector Investment Program (PSIP) and improve its integration with the MTEF.

18. Intensified commitment to expenditure control is limiting the accumulation of arrears while improved reporting on government activities is enhancing efficiency. In these regards, the

[6] This was already envisaged at the time of the first SBA review, after the authorities agreed to reclassify the debt service paid by the government on behalf of these enterprises from a financing item to expenditure, as transfers.

authorities are strengthening their cash management system (MEFP ¶ 13) and plan to improve the transparency of government operations, which will facilitate a more comprehensive assessment of government activities (MEFP ¶ 14).

D. Program Design

19. The authorities laid out in the attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) their continued commitments to the program objectives. The Technical Memorandum of Understanding (TMU) is being modified to provide a clarification by setting the Euro/US$ exchange rate used for program purposes and an update of the stock of budgetary expenditure arrears used as a benchmark for end-2010.

20. No significant safeguards risks were identified by the updated safeguards assessment of the ECCB which was completed on April 16, 2012. The ECCB has already taken steps towards implementing recommendations to maintain and advance its safeguards framework. In addition, the authorities are committed to formalize the safeguards policy requirement to hold foreign exchange balances, used for the government's budget financing purposes, only with the central bank (MEFP ¶ ¶6)

E. Program Risks

21. The successful program implementation to date and progress in debt restructuring have further improved the capacity of St. Kitts and Nevis to repay the IMF (Table 8)**.** Debt service to the Fund will peak in 2016 at 3.6 percent of GDP and 11.9 percent of exports of goods and services before falling significantly in the following years. St. Kitts and Nevis should be in a solid position to repay the IMF, based on the maintenance of a strong fiscal framework and by the savings generated by the debt restructuring. Successful implementation of structural reforms to enhance fiscal space should further strengthen that position.

- ***Sensitivity of debt dynamics to exogenous shocks and policy slippages.*** While the restructuring of the public debt is placing it on a declining path under the baseline scenario, the debt sustainability analysis (Figure 5 and Table 10) indicates that an adverse growth shock could flatten the debt trajectory over the medium-term. This stresses the importance of safeguarding the implementation of the program and planning for contingencies on an ongoing basis.

- ***Expenditure pressures.*** The region is susceptible to natural disasters, which might entail unforeseen relief outlays. In that respect, it is important to improve the efficiency of government spending to create the needed fiscal space to address such eventualities.

- ***Public enterprises' contingent liabilities.*** Many public enterprises have challenging financial positions and present contingent liabilities for the government's budget. Staff underscored the need to bolster measures to address this situation and limit related budgetary risks.

- ***Financial sector vulnerabilities.*** The financial sector of St. Kitts and Nevis should continue observing strict prudential requirements. Delays in land sales through the SPV could add to vulnerabilities of the banking system, both in terms of liquidity and profitability. The authorities are appropriately expanding regulations pertaining to non banks to minimize the impact of a potential contagion from adverse financial developments arising in the rest of the region.

STAFF APPRAISAL

22. **In a difficult global environment, the authorities of St. Kitts and Nevis have successfully implemented their economic program to date and undertaken the first phase of their debt restructuring.** Despite continued lackluster growth, and in a context of higher inflation partially brought on by sound but politically difficult economic decisions, such as introducing the VAT and raising electricity tariffs, all program performance criteria and the structural benchmark were met at end-December 2011. Furthermore, as additional testimony to the strength of their program, the authorities concluded a successful debt exchange with bondholders and commercial external creditors in mid April 2012.

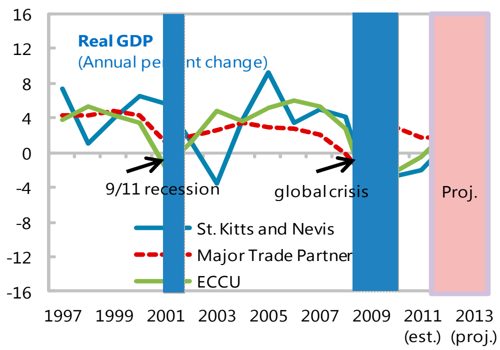
23. **Strictly adhering to the planned pace of structural reforms and a proactive response to exogenous shocks is key to fostering growth.** Building on the momentum from the ongoing restructuring of public debt, lasting gains in the fiscal position must be achieved through continued and timely reforms to expand the tax base and enhance the efficiency of tax collection, improve the prioritization and cost-effectiveness of public outlays and contain contingent liabilities from public enterprises. In addition, plans for contingency measures must be continuously updated and ready to implement, in order to prevent shocks from derailing the path of fiscal balance outlined in the program.

24. **The soundness of the financial sector needs to be preserved by minimizing the impact of the debt restructuring on the institutions' balance sheets.** The debt-land swap, which is paramount to a successful completion of the restructuring of public debt, must be engineered in a way minimizing the impact on earnings of financial institutions. The diligent implementation of the SPV according to international best practices and the timely sale of land assets are critical in this respect. Furthermore, great caution and strong collaboration between the ECCB and financial institutions will be needed to manage the impact of the debt-land swap on prudential indicators.

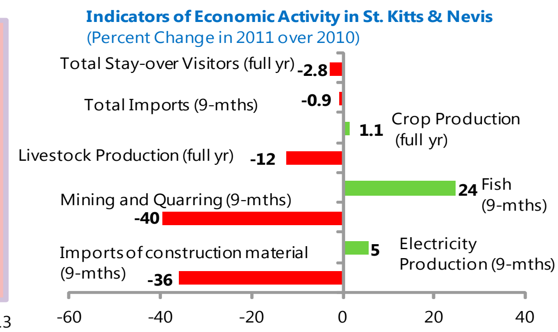
25. **Based on the authorities' demonstrated commitment to the program and successful implementation, staff supports the request for completion of the second review under the SBA and the financing assurances review.** Staff is of the view that the observance of the end-March 2012 PCs is achievable notwithstanding the unavailability of information to date necessary to assess observance. Accordingly, staff supports the request for waivers of applicability. Finally, staff supports the technical rephasing of the fourth purchase by a few days.

Figure 1. St. Kitts and Nevis: Selected Economic Indicators

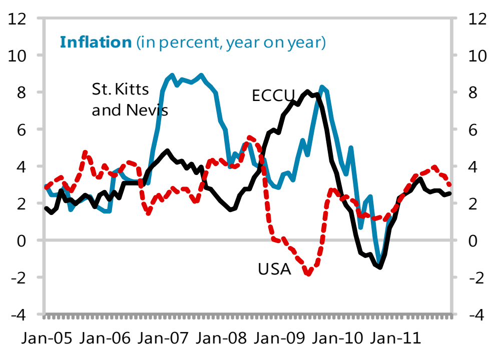
St. Kitts and Nevis, like other countries in the region, has been severely impacted by the global economic crisis...



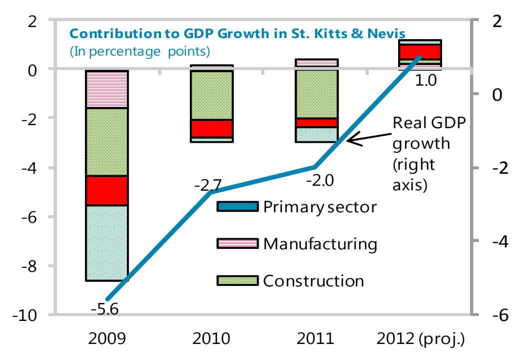
...as the major sectors, including tourism and construction, continue to underperform.



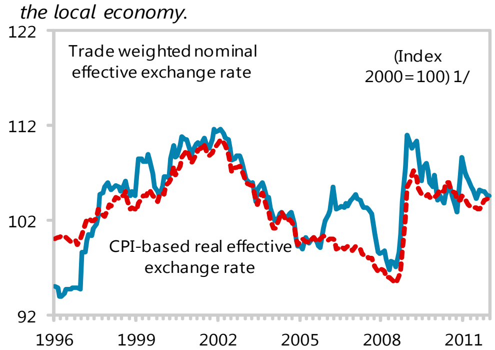
Inflation accelerated due to VAT implementation, the electricity tariff increase and higher oil and food prices, but has since eased.



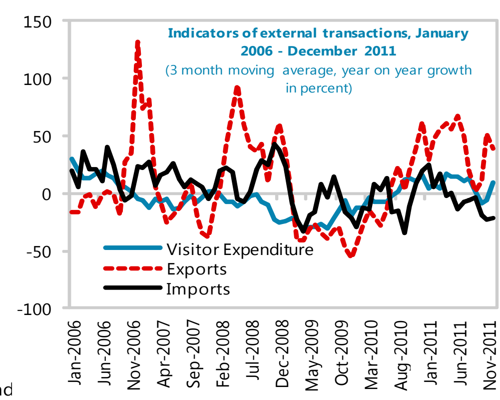
Tourism and construction should pick up in 2012, stimulating activity in the other sectors.



External competitiveness has improved very modestly, reflecting in part the depreciation of the U.S. dollar and a reduction in real wage growth in the local economy.

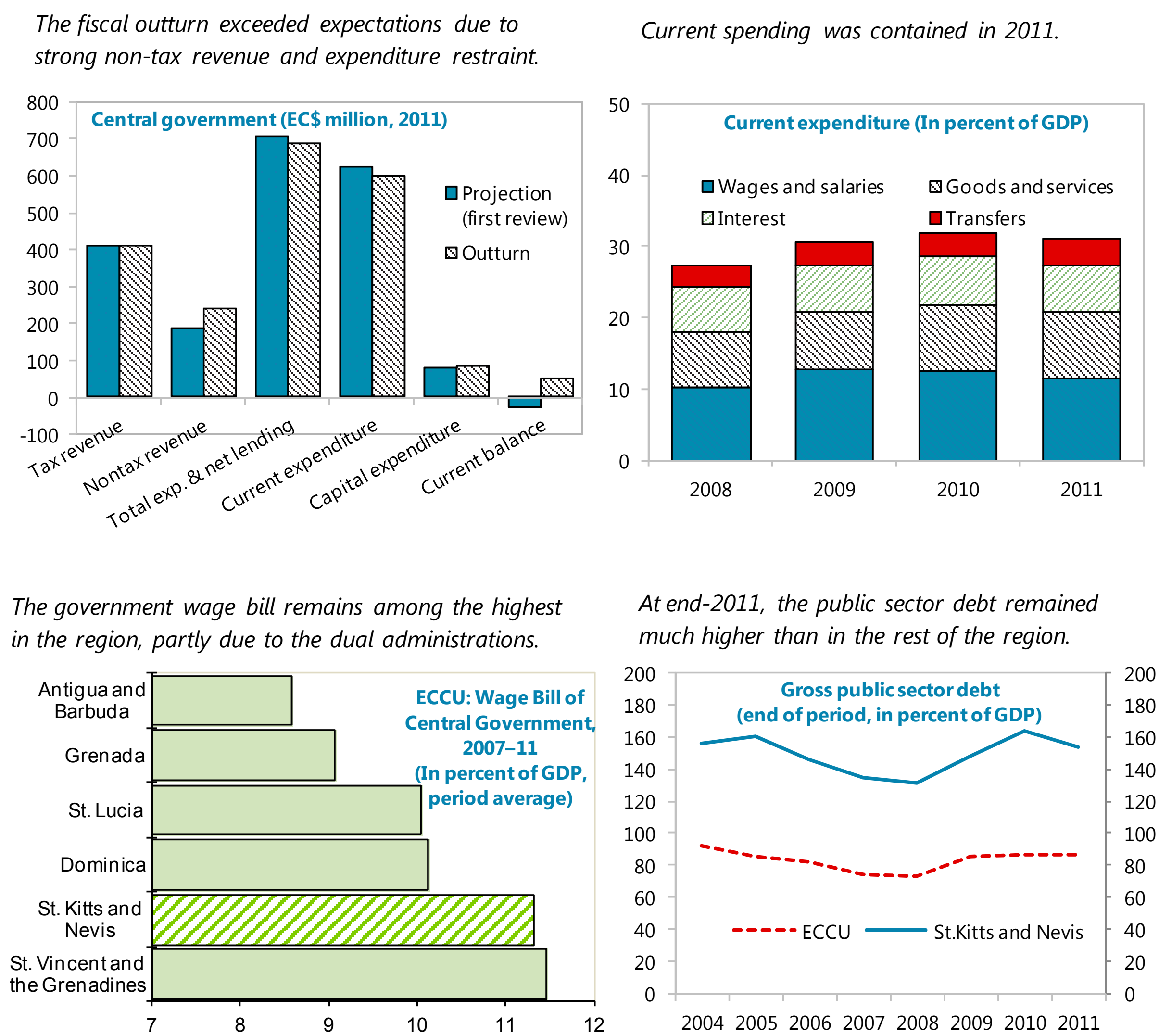


Exports and tourism receipts show signs of picking up toward the end of 2011, although imports remained on a downward trend.



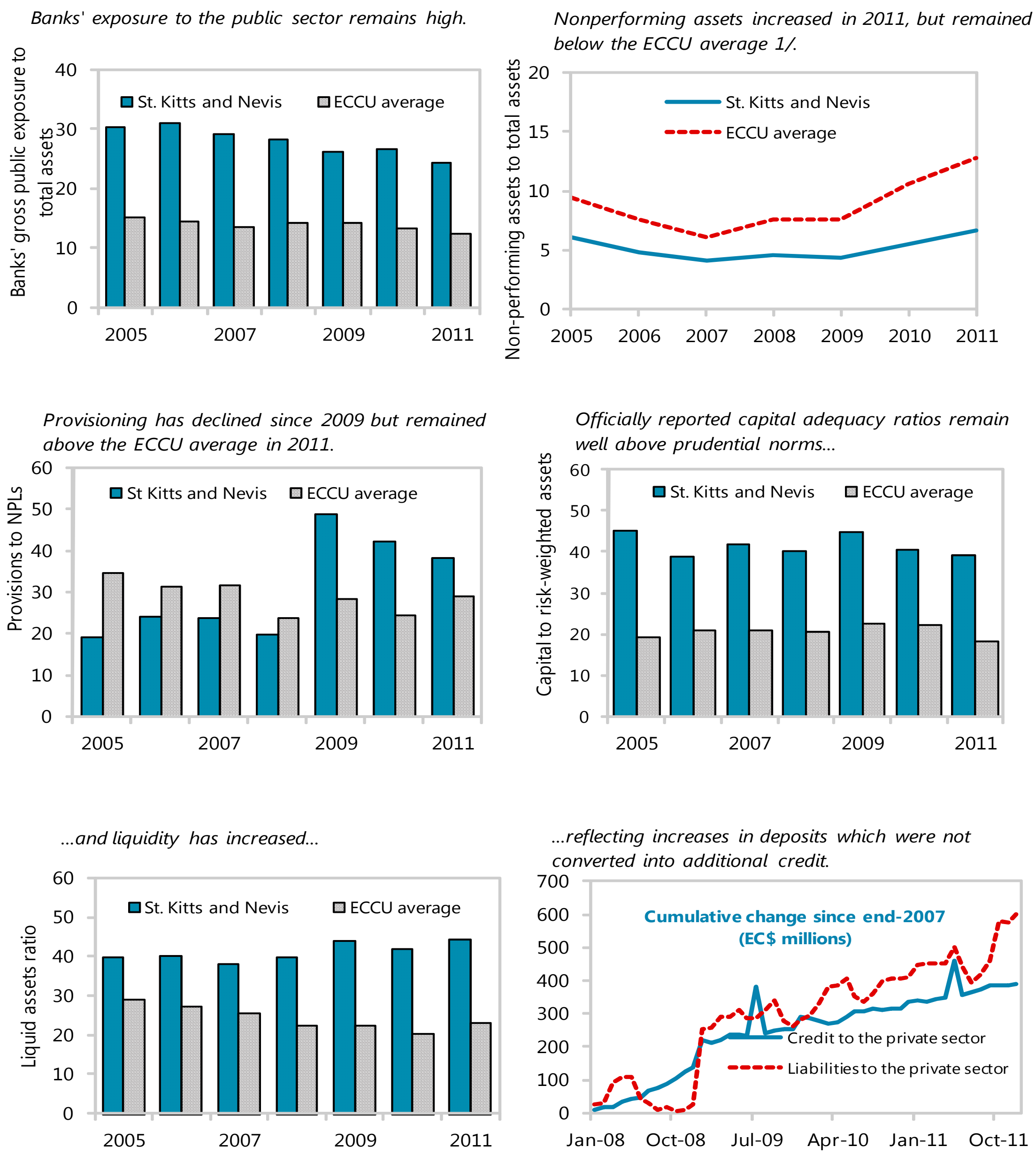
Source: ECCB; Caribbean Tourism Organizations; St. Kitts and estimates and calculations.
1/ An increase (decrease) indicates and appreciation (depreciation). Customer- and competitor-based REERs reflect main source countries and regional competitors in tourism.

Figure 2. St. Kitts and Nevis: Fiscal Developments



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

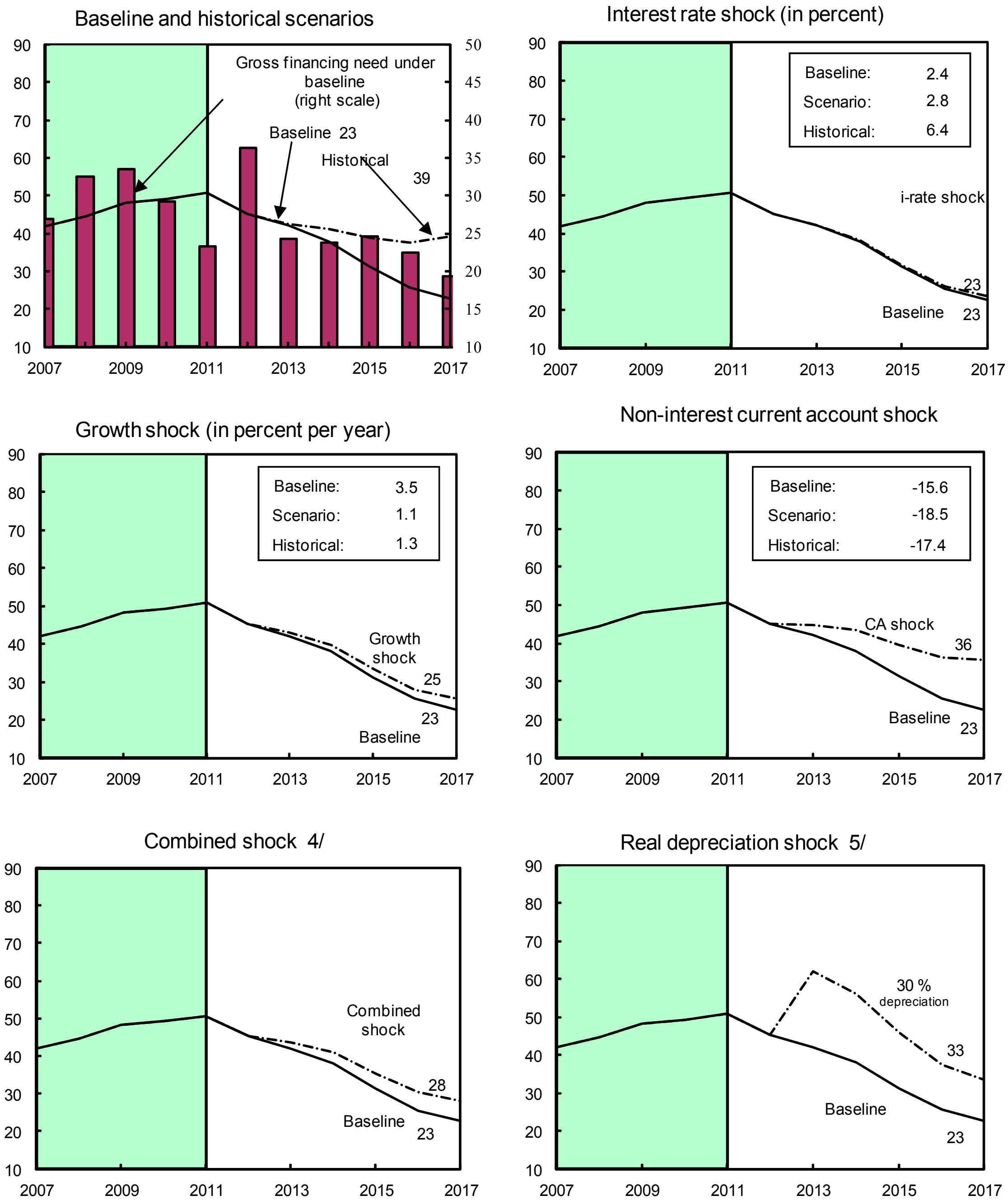
Figure 3. St. Kitts and Nevis: Banking System Developments, 2005–11
(In percent, unless otherwise indicated)



Source: ECCB
1/ Nonperforming assets include nonperforming loans, credits, and overdrafts.

Figure 4. St. Kitts and Nevis: External Debt Sustainability: Bound Tests[1/2/3/]

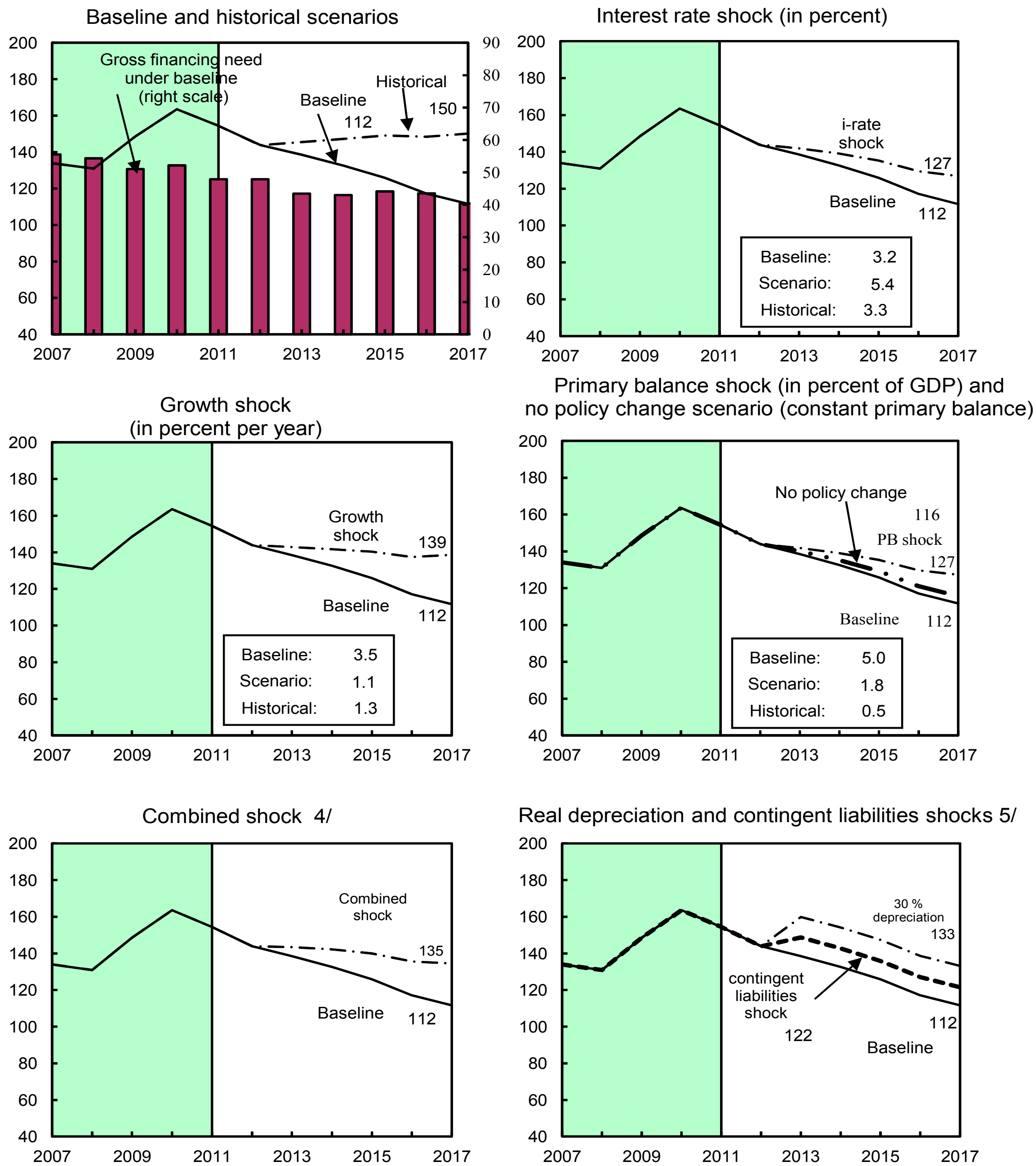
(External debt in percent of GDP)



Sources: International Monetary Fund, St. Kitts and Nevis authorities, and staff estimates.
1/ Reflects the outcome of the debt exchange offer to bondholders and external commercial creditors.
2/ 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.
3/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
4/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance in 2013.
5/ One-time real depreciation of 30 percent occurs in 2013.

Figure 5. St. Kitts and Nevis: Public Debt Sustainability: Bound Tests[1/2/3/]

(Public debt in percent of GDP)



Sources: International Monetary Fund, St. Kitts and Nevis authorities, and staff estimates.
1/ Reflects the outcome of the debt exchange offer to bondholders and external commercial creditors.
2/ 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.
3/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
4/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
5/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2013, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 1. St. Kitts and Nevis: Basic Data

I. Social, Geographic and Demographic Indicators

Area (sq. km)	269.4	Adult literacy rate (percent, 2009)	97.8
Population		Health and nutrition	
Total (thousands, 2001)	46.1	Calorie intake (per capita a day, 2011)	2,452
Rate of growth (percent per year, 2001)	0.02	Population per physician (thousand, 2000)	0.9
Density (per sq. km., 2001)	171.2	Access to safe water (percent, 2008)	99
Net migration rate (per thousand, 2002)	-9.8	AIDS incidence rate (per 100,000, 2011)	32
Population characteristics (2008)		Gross domestic product (2011)	
Life expectancy at birth (years)	73	(millions of U.S. dollars)	715
Infant mortality (per thousand live births)	14	(millions of E.C. dollars)	1,932
Under 5 mortality rate (per thousand)	15	(US$ per capita)	12,728

II. Economic and Financial Indicators, 2007–13

	2007	2008	2009	2010	Proj. 1/ 2011	Prel. 2011	Proj. 2012	Proj. 2013
	(Annual percentage change; unless otherwise specified)							
National income and prices								
Real GDP (factor cost)	5.0	4.0	-5.6	-2.7	0.0	-2.0	1.0	1.8
Consumer prices, end-of-period	2.9	6.5	1.2	5.0	1.4	1.2	2.1	2.5
Consumer prices, period average	4.5	5.3	2.1	1.0	6.3	5.4	2.8	2.2
Real effective exchange rate (period average) 2/	-1.2	-1.8	7.4	-2.8	0.4	...	...	...
Banking system								
Net foreign assets 3/	6.9	11.6	-8.4	1.1	4.7	10.5	2.9	0.7
Net domestic assets 3/	5.0	-10.0	14.3	7.8	1.3	-0.5	1.1	3.8
Of which								
Credit to private sector 3/ 4/	8.6	4.3	4.1	2.6	2.0	2.7	2.6	4.5
Broad money 4/	11.9	1.6	5.9	8.9	6.0	10.0	4.0	4.5
Of which								
Money	12.2	11.4	-3.1	43.1	6.0	34.7	4.0	4.5
Quasi-money	11.9	0.0	7.5	3.3	6.0	4.4	4.0	4.5
	(In percent of GDP)							
Public sector 5/								
Primary balance	2.7	2.6	3.7	-0.8	4.6	8.3	3.4	4.4
Overall balance	-3.5	-3.9	-2.9	-7.8	-2.1	1.8	-3.0	-1.1
Revenue	27.8	27.2	29.0	28.2	30.9	33.6	26.1	27.0
Grants	1.5	1.4	3.6	2.8	3.5	3.5	4.0	2.1
Current expenditure	26.7	27.3	30.4	31.7	32.4	31.0	27.2	25.2
Capital expenditure and net lending	6.1	5.3	5.1	7.1	4.2	4.4	5.8	5.1
Foreign financing 6/	-1.2	3.5	0.2	0.3	0.7	0.3	-6.3	-4.5
Domestic financing	2.8	-2.5	3.1	7.5	-4.4	-4.6	-5.3	-0.3
Change in arrears		1.2	1.3	1.0	3.2	1.6	-1.6	0.0
Sale of assets	2.0	3.1	1.7	0.7	2.5	0.4	0.2	0.2
Potential extraordinary financing	...	...	...	...	...	...	13.4	4.0
Statistical discrepancy	0.0	-1.4	-3.3	-1.7	-	0.4	-	-
Financing gap	...	...	...	...	0.0	...	2.6	1.8
Total public debt (end-of-period)	134.0	131.0	148.5	163.6	151.3	154.4	143.9	138.5
Of which								
Central government 7/	101.5	100.5	115.0	129.1	120.0	123.2	115.4	111.3
Public enterprises 7/	32.5	30.5	33.5	34.4	31.3	31.2	28.5	27.3
Public debt service (percent of total revenue and grants) 6/	30.1	28.4	25.2	29.1	29.3	22.3	62.2	24.5
External sector								
External current account balance	-18.1	-25.6	-25.7	-20.6	-22.5	-14.0	-18.9	-17.8
Trade balance	-26.4	-29.3	-31.2	-30.0	-27.4	-24.7	-26.2	-25.4
Services, net	10.3	5.5	5.2	7.5	5.2	10.2	7.0	7.4
Of which								
Tourism receipts	18.1	14.9	12.1	13.4	12.7	12.5	12.6	13.0
Transfers, net	4.2	4.5	6.6	8.5	4.7	5.6	4.9	4.4
Net capital inflow 8/	19.1	26.4	26.3	24.5	20.6	14.5	5.4	12.2
FDI (net)	19.5	24.0	19.0	19.9	16.4	15.9	16.0	17.2
External financing gap 9/	...	...	...	...	0.0	...	1.0	0.7
External public debt (end-of-period)	41.9	44.6	48.1	49.2	46.5	50.7	45.2	42.1
	(In percent of exports of goods and nonfactor services)							
External public debt service	21.0	18.8	23.9	22.8	33.2	22.4	26.2	25.2
External public debt (end-of-period)	125.3	143.4	195.6	175.3	163.9	161.9	160.5	147.0
Memorandum items								
Gross international reserves, end-of-period								
(in millions of U.S. dollars)	95.6	110.2	122.9	155.7	171.1	196.0	194.2	192.4
(in percent of broad money)	15.9	18.0	19.0	22.1	22.9	25.3	24.1	22.9
Holdings of SDRs, in millions of U.S. dollars	...	...	13.3	12.8	12.8	12.8	12.8	13.8
Nominal GDP at market prices (in millions of EC$)	1,862	1,998	1,859	1,818	1,927	1,932	2,009	2,098

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

1/ First review under SBA, Country Report 12/51.
2/ Weights given by the average trade share during 1999–2003. Depreciation (-).
3/ In relation to broad money at the beginning of the period.
4/ Data from 2009 includes non-bank financial institutions and subsidiaries and affiliates as parts of private sector to reflect the changes in definition in Jan 2009.
5/ Central government unless otherwise noted. Primary and overall balances are based on above-the-line data.
6/ 2012 disbursement includes financing to regularize the external arrears related to fuel purchases.
7/ SSMC debt included in central government debt since 2006.
8/ Includes errors and omissions.
9/ Net of IMF financing and debt forgiveness.

Table 2. St. Kitts and Nevis: Central Government Fiscal Operations, 2008–17[1/]

(In millions of Eastern Caribbean dollars)

				Proj. 2/	Prel.	Program			Proj.		
	2008	2009	2010	2011	2011	2012	2013	2014	2015	2016	2017
Total revenue	**544.4**	**539.4**	**513.5**	**596.1**	**651.1**	**524.1**	**566.0**	**596.7**	**631.1**	**669.4**	**709.8**
Current revenue	544.4	539.4	513.5	594.6	650.0	524.1	566.0	596.7	631.1	669.4	709.8
Tax revenue	422.0	396.1	342.4	409.9	408.1	420.2	448.6	473.3	503.8	538.1	574.6
Taxes on income	135.7	148.7	92.6	85.3	86.6	81.5	89.1	94.0	100.1	106.9	114.1
Taxes on property	6.6	8.8	9.4	8.1	8.8	10.6	11.9	12.5	13.3	14.2	15.2
Taxes on domestic goods and consumption 3/	83.9	69.6	84.2	209.6	208.3	216.8	231.4	244.2	259.9	277.6	296.5
Taxes on international trade and transactions	195.9	169.0	156.3	106.9	104.4	111.3	116.2	122.6	130.5	139.4	148.9
Nontax revenue	122.5	143.3	171.0	184.7	241.9	104.0	117.4	123.5	127.2	131.3	135.2
Capital revenue	0.0	0.0	0.0	1.5	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending	**650.4**	**661.1**	**706.1**	**704.1**	**684.5**	**663.9**	**634.3**	**648.8**	**685.6**	**734.5**	**786.8**
Current expenditure	545.3	565.6	576.3	623.6	598.8	546.4	527.8	536.5	563.1	603.7	643.8
Wages and salaries	204.5	233.5	224.0	225.5	222.0	225.1	225.1	230.7	241.9	257.7	275.2
Goods and services 4/	151.8	150.1	169.1	195.4	179.7	108.7	109.4	112.4	119.7	127.8	136.5
Interest	128.7	123.2	127.0	129.8	126.0	127.8	116.3	115.3	120.2	131.3	139.3
Domestic	86.8	81.6	86.7	103.4	91.6	101.7	95.1	98.4	104.6	117.5	126.9
Foreign	41.9	41.6	40.3	26.4	34.4	26.1	21.2	16.9	15.6	13.7	12.4
Transfers	60.3	58.9	56.2	72.8	71.1	84.8	77.0	78.0	81.3	86.9	92.8
Net lending	15.4	7.6	5.8	1.0	-0.6	0.8	0.8	0.8	0.8	0.8	0.6
Capital expenditure	89.7	87.9	124.0	79.5	86.3	116.7	105.7	111.5	121.8	130.0	142.4
Current balance	**-0.9**	**-26.2**	**-62.8**	**-29.0**	**51.2**	**-22.3**	**38.2**	**60.3**	**68.0**	**65.7**	**66.0**
Overall balance (before grants)	-106.0	-121.7	-192.6	-108.0	-33.3	-139.8	-68.3	-52.0	-54.6	-65.1	-77.0
Grants	28.3	67.5	50.7	67.5	68.3	80.1	44.6	17.6	17.6	17.6	17.6
Overall balance (after grants)	**-77.7**	**-54.2**	**-141.9**	**-40.5**	**35.0**	**-59.7**	**-23.7**	**-34.5**	**-37.0**	**-47.6**	**-59.4**
Primary balance	51.0	68.9	-14.9	89.3	160.9	68.1	92.6	80.8	83.1	83.7	79.9
Financing	**106.4**	**115.4**	**172.8**	**40.5**	**-42.4**	**8.1**	**-13.4**	**-34.2**	**-89.2**	**-78.5**	**-25.5**
Net foreign financing	70.3	2.9	5.0	14.3	6.4	-127.1	-95.2	-47.5	-101.3	-99.0	-39.4
Disbursements 5/	104.3	32.2	41.9	112.7	143.3	65.5	12.9	2.1	0.0	0.0	0.0
Amortization	33.9	29.2	36.9	98.4	136.9	192.6	108.1	49.5	101.3	99.0	39.4
Net domestic financing	-49.3	57.1	136.8	-84.7	-88.6	-106.6	-6.0	-6.5	-7.1	-65.5	-9.7
Banking system	-133.9	17.1	101.7	-99.3	-124.6	-106.6	-6.0	-6.5	-7.1	-65.5	-9.7
Nonbanks and other	45.4	22.6	11.4	14.6	-2.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing arrangement on fuel purchase	39.2	17.4	23.6	…	38.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	23.1	24.0	18.3	48.6	31.7	-31.4	0.0	0.0	0.0	0.0	0.0
External	0.0	0.0	0.0	…	63.8	-31.4	0.0	0.0	0.0	0.0	0.0
Amortization	0.0	0.0	0.0	…	49.1	-24.2	0.0	0.0	0.0	0.0	0.0
Interest	0.0	0.0	0.0	…	14.7	-7.2	0.0	0.0	0.0	0.0	0.0
Domestic	23.1	24.0	18.3	…	-32.1	0.0	0.0	0.0	0.0	0.0	0.0
Sale/purchase of assets	62.3	31.4	12.8	62.3	8.1	3.9	4.1	8.6	9.2	66.7	10.5
Exceptional financing						269.4	83.7	11.1	10.0	19.3	13.1
Statistical discrepancy	**-28.7**	**-61.2**	**-30.9**	**0.0**	**7.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financing gap 6/	…	…	…	**0.0**	…	**51.5**	**37.1**	**68.7**	**126.2**	**126.0**	**85.0**
Memorandum items:											
GDP (market prices)	1,998	1,859	1,818	1,927	1,932	2,009	2,098	2,214	2,357	2,517	2,688
Public sector debt (end of period)	2,617	2,762	2,973	2,916	2,982	2,890	2,907	2,935	2,966	2,949	3,002
Of which											
Central government	2,008	2,138	2,347	2,312	2,379	2,318	2,335	2,363	2,394	2,377	2,430
Domestic	1,351	1,455	1,641	1,524	1,555	1,552	1,583	1,642	1,765	1,830	1,903
External	657	683	706	788	824	766	752	721	630	547	526

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

2/ First review under SBA, Country Report 12/51.

3/ The sharp drop in international taxes and concurrent rise in taxes on domestic goods and services reflect the introduction of VAT in Novermber 2010.

4/ Decline in goods and services expenditure from 2012 reflect the corporatization of the Electricity Department from August 2011.

5/ 2012 disbursement includes financing to regularize the external arrears related to fuel purchases.

6/ From 2012 onwards, to be closed by prospective disbursement from the Fund and donors, and restructuring of domestic debt.

Table 3. St. Kitts and Nevis: Central Government Fiscal Operations, 2008–17 1/

(In percent of GDP)

	2008	2009	2010	Proj. 2/ 2011	Prel. 2011	Program 2012	Proj. 2013	2014	2015	2016	2017
Total revenue	**27.2**	**29.0**	**28.2**	**30.9**	**33.7**	**26.1**	**27.0**	**27.0**	**26.8**	**26.6**	**26.4**
Current revenue	27.2	29.0	28.2	30.9	33.6	26.1	27.0	27.0	26.8	26.6	26.4
Tax revenue	21.1	21.3	18.8	21.3	21.1	20.9	21.4	21.4	21.4	21.4	21.4
Taxes on income	6.8	8.0	5.1	4.4	4.5	4.1	4.2	4.2	4.2	4.2	4.2
Taxes on property	0.3	0.5	0.5	0.4	0.5	0.5	0.6	0.6	0.6	0.6	0.6
Taxes on domestic goods and consumption 3/	4.2	3.7	4.6	10.9	10.8	10.8	11.0	11.0	11.0	11.0	11.0
Taxes on international trade and transactions	9.8	9.1	8.6	5.5	5.4	5.5	5.5	5.5	5.5	5.5	5.5
Nontax revenue	6.1	7.7	9.4	9.6	12.5	5.2	5.6	5.6	5.4	5.2	5.0
Capital revenue	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending	**32.5**	**35.6**	**38.8**	**36.5**	**35.4**	**33.0**	**30.2**	**29.3**	**29.1**	**29.2**	**29.3**
Current expenditure	27.3	30.4	31.7	32.4	31.0	27.2	25.2	24.2	23.9	24.0	24.0
Wages and salaries	10.2	12.6	12.3	11.7	11.5	11.2	10.7	10.4	10.3	10.2	10.2
Goods and services 4/	7.6	8.1	9.3	10.1	9.3	5.4	5.2	5.1	5.1	5.1	5.1
Interest	6.4	6.6	7.0	6.7	6.5	6.4	5.5	5.2	5.1	5.2	5.2
Domestic	4.3	4.4	4.8	5.4	4.7	5.1	4.5	4.4	4.4	4.7	4.7
Foreign	2.1	2.2	2.2	1.4	1.8	1.3	1.0	0.8	0.7	0.5	0.5
Transfers	3.0	3.2	3.1	3.8	3.7	4.2	3.7	3.5	3.5	3.5	3.5
Net lending	0.8	0.4	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	4.5	4.7	6.8	4.1	4.5	5.8	5.0	5.0	5.2	5.2	5.3
Current balance	**0.0**	**-1.4**	**-3.5**	**-1.5**	**2.7**	**-1.1**	**1.8**	**2.7**	**2.9**	**2.6**	**2.5**
Overall balance (before grants)	-5.3	-6.5	-10.6	-5.6	-1.7	-7.0	-3.3	-2.3	-2.3	-2.6	-2.9
Grants	1.4	3.6	2.8	3.5	3.5	4.0	2.1	0.8	0.7	0.7	0.7
Overall balance (after grants)	**-3.9**	**-2.9**	**-7.8**	**-2.1**	**1.8**	**-3.0**	**-1.1**	**-1.6**	**-1.6**	**-1.9**	**-2.2**
Primary balance	2.6	3.7	-0.8	4.6	8.3	3.4	4.4	3.7	3.5	3.3	3.0
Financing	**5.3**	**6.2**	**9.5**	**2.1**	**-2.2**	**0.4**	**-0.6**	**-1.5**	**-3.8**	**-3.1**	**-0.9**
Net foreign financing	3.5	0.2	0.3	0.7	0.3	-6.3	-4.5	-2.1	-4.3	-3.9	-1.5
Drawings 5/	5.2	1.7	2.3	5.8	7.4	3.3	0.6	0.1	0.0	0.0	0.0
Amortization	1.7	1.6	2.0	5.1	7.1	9.6	5.2	2.2	4.3	3.9	1.5
Net domestic financing	-2.5	3.1	7.5	-4.4	-4.6	-5.3	-0.3	-0.3	-0.3	-2.6	-0.4
Banking system	-6.7	0.9	5.6	-5.2	-6.4	-5.3	-0.3	-0.3	-0.3	-2.6	-0.4
Nonbanks and other	2.3	1.2	0.6	0.8	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financing arrangement on fuel purchase	2.0	0.9	1.3	...	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	1.2	1.3	1.0	2.5	1.6	-1.6	0.0	0.0	0.0	0.0	0.0
External	0.0	0.0	0.0	...	3.3	-1.6	0.0	0.0	0.0	0.0	0.0
Amortization	0.0	0.0	0.0	...	2.5	-1.2	0.0	0.0	0.0	0.0	0.0
Interest	0.0	0.0	0.0	...	0.8	-0.4	0.0	0.0	0.0	0.0	0.0
Domestic	1.2	1.3	1.0	...	-1.7	0.0	0.0	0.0	0.0	0.0	0.0
Sale/purchase of assets	3.1	1.7	0.7	3.2	0.4	0.2	0.2	0.4	0.4	2.7	0.4
Exceptional financing	0.0	0.0	0.0	0.0	0.0	13.4	4.0	0.5	0.4	0.8	0.5
Statistical discrepancy	**-1.4**	**-3.3**	**-1.7**	**0.0**	**0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financing gap 6/	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**2.6**	**1.8**	**3.1**	**5.4**	**5.0**	**3.2**
Memorandum items:											
Public sector debt (end of period)	131.0	148.5	163.6	151.3	154.4	143.9	138.5	132.6	125.9	117.2	111.7
Of which											
Central government	100.5	115.0	129.1	120.0	123.2	115.4	111.3	106.7	101.6	94.4	90.4
Domestic	67.6	78.3	90.3	79.1	80.5	77.3	75.4	74.2	74.9	72.7	70.8
External	32.9	36.7	38.8	40.9	42.7	38.1	35.8	32.6	26.7	21.7	19.6

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

2/ First review under SBA, Country Report 12/51.

3/ The sharp drop in international taxes and concurrent rise in taxes on domestic goods and services reflect the introduction of VAT in November 2010.

4/ Decline in goods and services expenditure from 2012 reflect the corporatization of the Electricity Department from August 2011.

5/ 2012 disbursement includes financing to regularize the external arrears related to fuel purchases.

6/ From 2012 onwards, to be closed by prospective disbursement from the Fund and donors, and restructuring of domestic debt.

Table 4. St. Kitts and Nevis: Balance of Payments, 2008–17 1/

	2008	2009	2010	Proj. 2/ 2011	Prel. 2011	Program 2012	Proj. 2013	2014	2015	2016	2017
(In millions of Eastern Caribbean dollars)											
Current account	**-510.8**	**-478.0**	**-375.2**	**-432.9**	**-270.7**	**-380.1**	**-373.9**	**-378.7**	**-383.9**	**-391.7**	**-407.9**
Trade balance	-585.6	-580.9	-546.0	-527.3	-477.0	-527.2	-534.1	-548.3	-575.6	-606.9	-648.3
Exports, f.o.b.	186.2	101.6	105.5	166.9	147.4	152.5	160.8	171.2	181.9	195.9	211.5
Imports f.o.b.	-771.8	-682.5	-651.5	-694.2	-624.4	-679.7	-694.9	-719.6	-757.5	-802.8	-859.9
Of which											
Mineral fuel	-80.3	-45.1	-51.3	-45.9	-67.3	-75.1	-73.6	-71.4	-70.6	-71.2	-72.9
Services and transfers (net)	74.7	102.9	170.8	94.5	206.3	147.1	160.2	169.6	191.8	215.1	240.4
Services (net)	110.7	96.4	136.2	100.3	196.7	141.2	156.2	174.0	194.2	215.8	240.1
Services (receipts)	435.0	356.1	404.7	379.4	458.0	412.9	440.0	473.5	513.0	556.2	603.7
Of which											
Tourism receipts	297.2	225.4	243.1	245.2	240.7	252.6	272.0	296.3	324.0	354.0	387.3
Services (payments)	-324.3	-259.7	-268.5	-279.1	-261.3	-271.7	-283.8	-299.4	-318.8	-340.4	-363.5
Factor income (net)	-125.4	-115.4	-119.1	-97.3	-98.0	-91.8	-88.5	-86.3	-87.6	-89.4	-92.3
Of which											
Public sector interest	-55.6	-53.3	-50.7	-32.9	-40.4	-31.8	-25.8	-20.2	-17.3	-14.3	-12.0
Transfers (net)	89.4	121.9	153.7	91.5	107.7	97.8	92.4	81.9	85.2	88.8	92.6
Official (net)	12.4	41.6	61.9	-2.1	15.6	18.3	10.7	-2.9	-2.9	-2.9	-2.9
Private (net)	77.0	80.3	91.8	93.6	92.0	79.4	81.8	84.8	88.0	91.7	95.5
Capital and financial account	**479.2**	**505.2**	**399.1**	**396.8**	**279.5**	**107.8**	**257.0**	**370.9**	**398.8**	**421.3**	**422.8**
Official	33.5	-11.9	13.9	89.5	65.2	-103.0	-77.0	-27.9	-33.9	-35.2	-21.4
Capital transfers (net)	49.1	11.9	37.1	67.5	31.0	50.1	22.3	8.8	8.8	8.8	8.8
Long-term borrowing (net)	-15.5	-23.8	-23.2	22.0	34.2	-153.1	-99.3	-36.6	-42.7	-44.0	-30.2
Disbursements	45.7	32.3	42.2	170.5	129.6	61.9	26.6	15.8	6.2	6.1	12.8
Amortization	-61.3	-56.1	-65.4	148.5	-95.3	-116.2	-125.9	-52.4	-49.0	-50.1	-43.0
Debt forgiveness	...	...	...	...	...	-98.8	0.0	0.0	0.0	0.0	0.0
Private capital	445.6	517.2	385.2	307.3	214.3	210.8	333.9	398.7	432.8	456.5	444.2
Capital transfers (net)	11.1	11.9	12.2	12.5	12.3	12.3	12.2	12.0	11.8	11.6	11.4
Foreign direct investment (net)	480.3	353.0	361.2	315.7	308.0	321.3	360.7	406.9	444.6	476.6	498.0
Portfolio investment (net)	28.3	-30.1	-40.2	-28.4	-33.0	-35.0	-25.0	-20.0	-20.0	-25.0	-25.0
Short-term capital (net)	-149.6	173.5	54.7	11.9	-90.0	-65.0	-20.0	-20.0	-25.0	-30.0	-30.0
Other private (net)	75.5	8.9	-2.8	-4.3	17.0	-22.8	6.1	19.8	21.3	23.3	-10.2
Errors and omissions	48.0	-17.0	46.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**16.3**	**10.3**	**70.1**	**-36.1**	**8.8**	**-272.2**	**-116.9**	**-7.8**	**15.0**	**29.6**	**14.9**
Financing	**-16.3**	**-10.3**	**-70.1**	**36.1**	**-8.8**	**272.2**	**116.9**	**7.8**	**-15.0**	**-29.6**	**-14.9**
Net international reserves	-39.4	-34.3	-88.4	-41.6	-108.9	2.3	0.1	-3.4	-2.9	-2.8	-3.2
Change in arrears	23.1	24.0	18.3	31.6	4.3	-2.9	0.0	0.0	0.0	0.0	0.0
Net use of IMF resources	...	...	...	...	95.7	90.5	28.0	0.7	-71.5	-88.0	-38.8
Purchase					95.7	90.5	28.0	12.7	0.0	0.0	0.0
Repurchase					0.0	0.0	0.0	-12.0	-71.5	-88.0	-38.8
Financing gap	...	...	...	...	0.0	182.3	88.8	10.6	59.5	61.3	27.1
Debt forgiveness (flow) 4/	...	...	...	...	0.0	63.0	74.8	2.8	1.6	8.5	4.9
Debt forgiveness (stock write-down)	...	...	...	...	0.0	98.8	0.0	0.0	0.0	0.0	0.0
Other	...	...	...	...	0.0	20.5	14.0	7.8	57.9	52.8	22.2
(In percent of GDP)											
Current account	-25.6	-25.7	-20.6	-22.5	-14.0	-18.9	-17.8	-17.1	-16.3	-15.6	-15.2
Exports of goods and nonfactor services	31.1	24.6	28.1	28.3	31.3	28.1	28.6	29.1	29.5	29.9	30.3
Merchandise exports	9.3	5.5	5.8	8.7	7.6	7.6	7.7	7.7	7.7	7.8	7.9
Nonfactor services	21.8	19.1	22.3	19.7	23.7	20.6	21.0	21.4	21.8	22.1	22.5
Of which											
Tourism receipts	14.9	12.1	13.4	12.7	12.5	12.6	13.0	13.4	13.7	14.1	14.4
Imports of goods and nonfactor services	-54.8	-50.7	-50.6	-50.5	-45.8	-47.4	-46.6	-46.0	-45.7	-45.4	-45.5
Merchandise imports	-38.6	-36.7	-35.8	-36.0	-32.3	-33.8	-33.1	-32.5	-32.1	-31.9	-32.0
Nonfactor services	-16.2	-14.0	-14.8	-14.5	-13.5	-13.5	-13.5	-13.5	-13.5	-13.5	-13.5
Foreign direct investment (net)	24.0	19.0	19.9	16.4	15.9	16.0	17.2	18.4	18.9	18.9	18.5
Stock of unpaid fuel expenses	1.2	2.5	2.3	7.8	0.1	0.0	0.0	0.0	0.0	0.0	0.0
External financing gap	...	...	...	0.0	0.0	1.0	0.7	0.4	2.5	2.1	0.8
External public debt	44.6	48.1	49.2	46.5	50.7	45.2	42.1	38.0	31.3	25.6	22.8
(Annual percentage change)											
Merchandise exports	19.5	-45.4	3.9	7.3	39.6	3.5	5.5	6.5	6.2	7.7	8.0
Tourism receipts	-11.8	-24.1	7.8	10.3	-1.0	5.0	7.7	8.9	9.4	9.2	9.4
Merchandise imports	19.3	-11.6	-4.5	15.9	-4.2	8.9	2.2	3.6	5.3	6.0	7.1
Terms of trade	-2.4	3.4	-3.9	-3.2	-2.7	1.1	0.5	0.8	0.9	0.5	0.3
(In percent of exports of goods and nonfactor services)											
External public debt	143.4	195.6	175.3	163.9	161.9	160.5	147.0	130.5	106.3	85.8	75.3
External debt service	18.8	23.9	22.8	33.2	22.4	26.2	25.2	13.1	19.1	16.6	7.5
Of which											
Interest	8.6	11.0	9.6	5.7	6.4	5.4	4.1	3.0	2.4	1.8	1.4
(Millions of US dollar)											
ECCB imputed reserves	110.2	122.9	155.7	171.1	196.0	194.2	192.4	192.8	193.9	194.9	196.1

Sources: ECCB; and Fund staff estimates and projections.
1/ Reflect the outcome of the debt exchange offer to bondholders and external commercial creditors.
2/ First review under SBA, Country Report 12/51.
3/ Negative indicates repayment to IMF.
4/ The NPV of consolidated amounts under the debt service reduction option was reduced by 6.6 percent.

Table 5. St. Kitts and Nevis: Monetary Survey, 2008–13

	2008	2009	2010	Prel. 2011	Proj. 2012	Proj. 2013
			(In millions of EC$)			
Net foreign assets	**850.7**	**711.5**	**730.1**	**929.0**	**989.3**	**1004.4**
ECCB imputed reserves	297.6	331.9	420.3	529.2	524.5	519.5
Crown agents	10.6	10.6	10.6	10.6	10.6	10.6
Commercial banks	542.4	369.0	299.2	389.3	454.3	474.3
Net domestic assets	**799.8**	**1036.4**	**1172.6**	**1163.2**	**1186.6**	**1268.4**
Net credit to the public sector	366.3	390.9	476.4	305.7	274.5	259.1
Net credit to central government	337.2	427.4	850.8	726.2	726.2	726.2
Net credit to St. Kitts	263.0	298.9	676.6	521.4	521.4	521.4
Net credit to Nevis	74.2	128.5	174.3	204.8	204.8	204.8
Net credit to non-financial public sector	29.1	-36.5	-374.5	-420.5	-451.7	-467.1
Credit to the private sector 1/	1242.7	1311.1	1356.6	1407.2	1461.7	1559.0
Net other assets 2/	-809.2	-665.6	-660.4	-549.6	-549.6	-549.6
Broad money (M2)	**1650.5**	**1747.9**	**1902.7**	**2092.3**	**2176.0**	**2272.9**
Money	251.7	243.9	349.0	470.2	489.0	510.8
Currency in circulation	70.1	78.3	101.1	102.0	106.1	110.8
Demand deposits 1/	181.6	165.5	248.0	368.2	383.0	400.0
Quasi-money 1/	1398.8	1504.0	1553.7	1622.0	1686.9	1762.0
Savings deposits	602.6	638.5	638.4	684.8	712.2	743.9
Time deposits	398.1	491.0	552.4	581.3	604.5	631.5
Foreign currency deposits	398.1	374.5	362.8	356.0	370.2	386.7
			(Percentage change relative to broad money at beginning of period)			
Net foreign assets	11.6	-8.4	1.1	10.5	2.9	0.7
Net domestic assets	-10.0	14.3	7.8	-0.5	1.1	3.8
Net credit to the public sector	-1.7	1.5	4.9	-9.0	-1.5	-0.7
Net credit to central government	-7.9	5.5	24.2	-6.5	0.0	0.0
Net credit to non-financial public sector	6.2	-4.0	-19.3	-2.4	-1.5	-0.7
Credit to the private sector 1/	4.3	4.1	2.6	2.7	2.6	4.5
Net other assets 2/	-12.6	8.7	0.3	5.8	0.0	0.0
			(Annual percentage change)			
Broad money (M2)	1.6	5.9	8.9	10.0	4.0	4.5
Money	11.4	-3.1	43.1	34.7	4.0	4.5
Currency in circulation	24.8	11.7	29.0	0.9	4.0	4.5
Demand deposits 1/	6.9	-8.8	49.8	48.5	4.0	4.5
Quasi-money 1/	0.0	7.5	3.3	4.4	4.0	4.5
Savings deposits	6.5	6.0	0.0	7.3	4.0	4.5
Time deposits	5.4	23.3	12.5	5.2	4.0	4.5
Foreign currency deposits	-12.6	-5.9	-3.1	-1.9	4.0	4.5
Credit to the private sector (in nominal terms)	5.9	5.5	3.5	3.7	3.9	6.7
Credit to the private sector (in real terms)	1.4	4.3	-1.5	2.4	1.8	4.0
Memorandum items:						
Income velocity of money	7.9	7.6	5.2	4.1	4.1	4.1
Income velocity of broad money	1.2	1.1	1.0	0.9	0.9	0.9
Private sector credit/GDP (in percent)	62.2	70.5	74.6	72.8	72.8	74.3
Foreign currency deposits/GDP (in percent)	19.9	20.1	20.0	18.4	18.4	18.4

Sources: ECCB; and Fund staff estimates and projections.

1/ Data up to 2008 is revised to reflect the changes in the definition of private sector in January 2009.

2/ Includes capital accounts.

Table 6. St. Kitts and Nevis: Indicators of External and Financial Vulnerability, 2006–11
(12-month percentage change, unless otherwise stated)

	2006	2007	2008	2009	2010	Prel. 2011
External indicators						
Merchandise exports	-8.2	-1.0	19.5	-45.4	3.9	39.6
Merchandise imports	18.6	9.1	19.3	-11.6	-4.5	-4.2
Terms of trade deterioration (-)	-3.8	-1.5	-2.4	3.4	-3.9	-2.7
Tourism earnings	8.7	-5.2	-11.8	-24.1	7.8	-1.0
Current account balance (percent of GDP)	-15.8	-18.1	-25.6	-25.7	-20.6	-14.0
Capital and financial account balance (percent of GDP) 1/	13.8	14.6	24.0	27.2	22.0	19.4
Of which						
Foreign direct investment	17.5	19.5	24.0	19.0	19.9	15.9
Gross international reserves of the ECCB						
In millions of U.S. dollars	696.0	764.5	759.0	800.8	926.1	1007.3
In percent of broad money	18.6	18.6	17.0	17.5	19.7	21.2
Commercial banks' net foreign assets (millions of U. S. dollars)	115.7	145.5	200.9	136.7	110.8	144.2
External public debt (percent of GDP)	50.4	41.9	44.6	48.1	49.2	50.7
External debt service (in percent of exports of goods and services	22.7	21.0	18.8	23.9	22.8	22.4
Of which						
Interest	8.8	7.9	8.6	11.0	9.6	6.4
Nominal exchange rate (E.C. dollars per U.S. dollar, end period)	2.7	2.7	2.7	2.7	2.7	2.7
Real effective exchange rate depreciation (-), end period 2/	2.2	-5.5	12.8	-3.8	-5.6	…
Financial indicators						
Broad money	13.6	11.9	1.6	5.9	8.9	10.0
Credit to the private sector	11.5	11.9	5.9	5.5	3.5	3.7
Share of nonperforming assets to total assets of banks (percent)	4.8	4.1	4.5	4.3	5.5	6.6
Provisions for loan losses/nonperforming assets (percent)	24.3	23.9	20.0	48.9	42.2	38.3
Provisions for loan losses/total loans (percent)	1.2	1.0	0.9	2.1	2.3	2.5
Gross government exposure/total assets (percent)	31.0	29.1	28.2	26.1	26.6	24.3
Total loans/total deposits (percent)	85.1	86.9	88.7	77.4	78.1	73.0
Net liquid assets/total deposits (percent)	38.4	37.9	42.5	42.9	41.6	44.2
Foreign currency deposits/total deposits (percent)	25.0	23.4	22.9	30.2	27.5	25.6
Liquid assets/total asset (percent)	39.9	38.0	39.5	43.7	41.9	44.2
Liquid assets/current liabilities (percent)	45.3	47.5	48.4	50.9	51.5	51.8
Total capital/total assets (percent) 3/	13.0	15.0	16.8	19.3	18.4	16.3
Total Capital/Risk Weighted Assets (percent) 3/	39.8	43.8	42.7	47.6	42.4	39.4
Tier 1 Capital/Risk Weighted Assets (percent) 3/	36.0	37.7	40.1	42.0	36.8	38.8
Ratio of bank's before-tax profits to average assets (percent)	3.4	4.0	4.7	2.1	1.1	1.4

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 locally incorporated banks only.

Table 7. St. Kitts and Nevis: External Financing Requirement and Sources, 2010–17

(In millions of U.S. dollars)

		Prel.	Program	Projection				
	2010	2011	2012	2013	2014	2015	2016	2017
Gross financing requirement	**176.7**	**203.3**	**246.9**	**186.1**	**157.8**	**160.1**	**165.6**	**182.9**
Current account deficit	139.0	100.6	139.9	136.9	138.5	140.6	144.5	150.9
Amortization	5.0	62.3	107.9	49.2	18.0	18.4	20.1	30.8
Official (public sector and central government)	24.2	35.3	79.6	46.6	19.4	18.1	18.6	15.9
of which, debt forgiveness	...	...	36.6	0.0	0.0	0.0	0.0	0.0
Private sector (net)	-19.2	27.0	28.3	2.5	-1.4	0.3	1.5	14.9
Commercial banks	-20.3	33.3	24.1	7.4	7.4	9.3	11.1	11.1
Other private	1.0	-6.3	4.2	-4.9	-8.8	-9.0	-9.6	3.8
Reserve accumulation (+: increase)	32.7	40.3	-0.9	0.0	1.3	1.1	1.0	1.2
Sources of financing	**152.8**	**165.9**	**147.8**	**144.3**	**155.4**	**166.1**	**176.1**	**187.4**
Capital grants and transfers	18.3	16.1	23.1	12.8	7.7	7.6	7.5	7.5
Foreign Direct Investment (net)	133.8	114.1	119.0	133.6	150.7	164.7	176.5	184.4
Net inflow of equity and other capital	-14.9	-12.2	-13.0	-9.3	-7.4	-7.4	-9.3	-9.3
New borrowing	15.6	48.0	18.7	7.2	4.4	1.2	1.3	4.7
of which: public sector	15.6	48.0	18.7	7.2	4.4	1.2	1.3	4.7
Errors and omissions	17.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of arrears	6.8	1.6	-1.1	0.0	0.0	0.0	0.0	0.0
Exceptional external financing	**0.0**	**35.9**	**92.6**	**36.5**	**-0.4**	**-27.5**	**-30.0**	**-12.7**
IMF net disbursement	0.0	35.9	32.7	8.8	-1.5	-28.1	-33.2	-14.5
Fund disbursement	0.0	35.4	33.5	10.4	4.7	0.0	0.0	0.0
Repurchases	0.0	0.0	0.0	0.0	-4.4	-26.5	-32.6	-14.4
Interest due	0.0	0.5	-0.8	-1.5	-1.7	-1.6	-0.6	-0.2
Debt forgiveness 1/	0.0	0.0	59.9	27.7	1.0	0.6	3.1	1.8
Other residual	**0.0**	**0.0**	**7.6**	**5.2**	**2.9**	**21.4**	**19.6**	**8.2**

1/ Includes flow and stock write-down.

Sources: St. Kitts and Nevis authorities; Eastern Caribbean Central Bank; and Fund staff estimates and projections.

Table 8. St. Kitts and Nevis: Indicators of Capacity to Repay the Fund, 2012–21[1/]

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Fund obligations based on existing credit										
(in millions of SDRs)	0.87	1.51	3.72	15.67	14.14	1.43	0.00	0.00	0.00	0.00
Principal	0.56	1.11	3.33	15.38	14.04	1.43	0.00	0.00	0.00	0.00
Charges and interest	0.31	0.40	0.39	0.29	0.10	0.00	0.00	0.00	0.00	0.00
Fund obligations based on existing and prospective credit										
(in millions of SDRs)	1.08	2.07	4.42	17.54	20.73	9.09	3.13	0.71	0.00	0.00
Principal	0.56	1.11	3.33	16.56	20.38	8.98	3.10	0.71	0.00	0.00
Charges and interest	0.52	0.96	1.09	0.98	0.35	0.11	0.03	0.00	0.00	0.00
Fund credit outstanding based on existing and prospective credit (in millions of SDRs)	44.8	50.1	49.7	33.2	12.8	3.8	0.7	0.0	0.0	0.0
Total Obligations based on existing and prospective credit										
in millions of U.S. dollars 2/	1.7	3.3	7.1	28.1	33.2	14.5	5.0	1.1	0.0	0.0
in percent of exports of goods and services	0.8	1.5	3.0	10.9	11.9	4.8	1.6	0.3	0.0	0.0
in percent of external debt service3/	3.1	5.6	18.4	36.4	41.7	39.1	20.8	5.9	0.0	0.0
in percent of GDP	0.2	0.4	0.9	3.2	3.6	1.5	0.5	0.1	0.0	0.0
in percent of quota	12.1	23.3	49.7	197.1	232.9	102.1	35.2	8.0	0.0	0.0
in percent of net imputed reserves	0.9	1.7	3.7	14.5	17.0	7.4	2.6	0.6	0.0	0.0
in percent of revenue and grants	0.8	1.5	3.1	11.7	13.0	5.4	1.8	0.4	0.0	0.0
Outstanding Fund Credit										
in millions of U.S. dollars 2/	71.6	80.2	79.6	53.1	20.5	6.1	1.1	0.0	0.0	0.0
in percent of exports of goods and services	34.2	36.0	33.3	20.6	7.4	2.0	0.4	0.0	0.0	0.0
in percent of external debt service 3/	130.7	142.8	254.2	108.1	44.2	26.9	6.0	0.0	0.0	0.0
in number of months of imports of goods and services	2.4	2.7	2.5	1.6	0.6	0.2	0.0	0.0	0.0	0.0
in percent of GDP	9.6	10.3	9.7	6.1	2.2	0.6	0.1	0.0	0.0	0.0
in percent of quota	503.0	563.4	558.9	372.8	143.8	42.8	8.0	0.0	0.0	0.0
in percent of net imputed reserves	36.9	41.7	41.3	27.4	10.5	3.1	0.6	0.0	0.0	0.0
Net use of Fund Credit (in millions of SDRs)	20.4	5.4	-0.4	-16.6	-20.4	-9.0	-3.1	-0.7	0.0	0.0
Disbursements	21.0	6.5	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment and Repurchases	0.6	1.1	3.3	16.6	20.4	9.0	3.1	0.7	0.0	0.0
Memorandum items:										
Nominal GDP (in millions of US dollars)	744.1	777.2	819.9	872.9	932.2	995.5	1,063.1	1,135.3	1,212.4	1,294.7
Exports of goods and services (in millions of US dollars)	209.4	222.5	238.8	257.4	278.6	301.9	319.8	339.0	359.2	380.6
External debt service (in millions of US dollars)	54.8	56.2	31.3	49.1	46.3	22.7	19.1	18.1	15.2	12.8
Imports of goods and services (in millions of US dollars)	352.4	362.5	377.4	398.6	423.4	453.1	475.8	499.6	524.7	551.2
Net imputed reserves (in millions of US dollars)	194.2	192.4	192.8	193.9	194.9	196.1	196.1	196.1	196.1	196.1

1/ Assumes a 3-year SBA with access in the amount of SDR 52.5 million (590 percent of quota)
2/ US$1 = 0.625 SDR (program exchange rate in TMU)
3/ Including prospective repurchases/repayments

Table 9. St. Kitts and Nevis: External Debt Sustainability Framework, 2007–17 1/

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2007	2008	2009	2010	2011	10-Year Historical Average	10-Year Standard Deviation	2012	2013	2014	2015	2016	2017	Debt-stabilizing non-interest current account 7/
Baseline: External debt	41.9	44.6	48.1	49.2	50.7			**45.2**	**42.1**	**38.0**	**31.3**	**25.6**	**22.8**	**-18.8**
Change in external debt	-8.4	2.6	3.6	1.1	1.5			-5.5	-3.1	-4.1	-6.7	-5.7	-2.8	
Identified external debt-creating flows (4+8+9)	-5.0	-2.5	11.0	4.2	-1.7			3.8	1.0	-1.5	-2.9	-3.5	-3.3	
Current account deficit, excluding interest payments	15.3	22.8	22.8	17.9	11.9			17.5	16.7	16.2	15.5	14.9	15.0	
Deficit in balance of goods and services	16.0	23.8	26.1	22.5	14.5			19.2	18.0	16.9	16.2	15.5	15.2	
Exports	33.5	31.1	24.6	28.1	31.3			28.1	28.6	29.1	29.5	29.9	30.3	
Imports	49.5	54.8	50.7	50.6	45.8			47.4	46.6	46.0	45.7	45.4	45.5	
Net non-debt creating capital inflows (negative)	-17.6	-25.5	-17.4	-17.7	-14.2			-14.3	-16.0	-17.5	-18.0	-17.9	-17.6	
Automatic debt dynamics 2/	-2.6	0.2	5.5	4.0	0.6			0.6	0.4	-0.2	-0.4	-0.5	-0.7	
Contribution from nominal interest rate	2.8	2.8	2.8	2.8	2.2			1.0	1.2	1.1	1.0	0.8	0.3	
Contribution from real GDP growth	-2.3	-1.6	2.6	1.3	1.0			-0.5	-0.8	-1.3	-1.4	-1.2	-1.0	
Contribution from price and exchange rate changes 3/	-3.1	-1.0	0.0	-0.1	-2.5			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 4/	-3.5	5.1	-7.4	-3.2	3.2			-9.3	-4.2	-2.6	-3.8	-2.2	0.5	
External debt-to-exports ratio (in percent)	125.3	143.4	195.6	175.3	161.9			160.7	147.0	130.4	106.1	85.5	75.1	
Gross external financing need (in billions of US dollars) 5/	0.2	0.2	0.2	0.2	0.2			0.3	0.2	0.2	0.2	0.2	0.2	
in percent of GDP	26.9	32.5	33.5	29.2	23.4			36.5	24.4	23.9	24.7	22.6	19.4	
Scenario with key variables at their historical averages 6/								**45.2**	**42.6**	**41.3**	**38.8**	**37.6**	**39.2**	**-17.0**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	5.0	4.0	-5.6	-2.7	-2.0	1.3	4.6	1.0	1.8	3.2	3.8	4.2	4.2	
GDP deflator in US dollars (change in percent)	6.6	2.5	-0.1	0.2	5.3	2.9	4.3	2.5	2.5	2.2	2.5	2.5	2.5	
Nominal external interest rate (in percent)	6.1	7.1	6.0	5.7	4.5	6.4	0.9	2.1	2.7	2.8	2.7	2.6	1.1	
Growth of exports (US dollar terms, in percent)	-2.1	-0.3	-26.3	11.5	18.6	4.8	13.5	-6.6	6.3	7.3	7.8	8.2	8.4	
Growth of imports (US dollar terms, in percent)	6.4	19.0	-14.0	-2.3	-3.7	3.6	10.6	7.4	2.9	4.1	5.6	6.2	7.0	
Current account balance, excluding interest payments	-15.3	-22.8	-22.8	-17.9	-11.9	-17.4	5.6	-17.5	-16.7	-16.2	-15.5	-14.9	-15.0	
Net non-debt creating capital inflows	17.6	25.5	17.4	17.7	14.2	17.8	5.9	14.3	16.0	17.5	18.0	17.9	17.6	

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

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/ For projection, line includes the impact of price and exchange rate changes.

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

6/ 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.

7/ 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, 2007–17
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**Debt-stabilizing primary balance 9/**
Baseline: Public sector debt 1/	134.0	131.0	148.5	163.6	154.4	**143.9**	**138.5**	**132.6**	**125.9**	**117.2**	**111.7**	**-0.9**
o/w foreign-currency denominated	41.9	44.6	48.1	49.2	50.7	44.6	41.5	37.4	30.7	25.1	22.3	
Change in public sector debt	-11.3	-3.0	17.5	15.0	-9.2	-10.5	-5.3	-5.9	-6.7	-8.7	-5.5	
Identified debt-creating flows (4+7+12)	-13.5	-7.1	9.2	11.2	-6.9	-2.2	-4.8	-5.8	-6.6	-8.5	-5.3	
Primary deficit	-3.3	-3.2	-4.6	-1.5	-10.4	-4.1	-5.8	-5.2	-5.0	-4.7	-4.3	
Revenue and grants	36.0	35.3	39.6	38.0	44.2	37.0	36.0	34.7	34.4	34.2	33.9	
Primary (noninterest) expenditure	32.7	32.2	35.0	36.5	33.8	32.9	30.3	29.5	29.4	29.5	29.6	
Automatic debt dynamics 2/	-8.3	-0.8	15.4	13.4	4.0	2.1	1.1	-0.2	-1.2	-1.1	-0.6	
Contribution from interest rate/growth differential 3/	-8.3	-0.8	15.4	13.4	4.0	2.1	1.1	-0.2	-1.2	-1.1	-0.6	
Of which contribution from real interest rate	-1.8	4.2	7.7	9.3	0.8	3.6	3.6	4.0	3.6	3.8	4.0	
Of which contribution from real GDP growth	-6.5	-5.1	7.8	4.1	3.2	-1.5	-2.5	-4.2	-4.8	-4.9	-4.6	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
Other identified debt-creating flows	-2.0	-3.1	-1.7	-0.7	-0.4	-0.2	-0.2	-0.4	-0.4	-2.7	-0.4	
Privatization receipts (negative)	-2.0	-3.1	-1.7	-0.7	-0.4	-0.2	-0.2	-0.4	-0.4	-2.7	-0.4	
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) 5/	2.2	4.1	8.4	3.8	-2.3	-8.3	-0.5	-0.2	-0.2	-0.2	-0.2	
Public sector debt-to-revenue ratio 1/	372.3	370.7	375.0	430.3	349.3	388.7	384.5	382.5	365.7	342.8	329.1	
Gross financing need 6/	55.5	54.3	51.1	52.2	47.9	47.9	43.4	43.0	44.1	43.5	40.4	
in billions of U.S. dollars	0.4	0.4	0.4	0.4	0.3	0.4	0.3	0.4	0.4	0.4	0.4	
Scenario with key variables at their historical averages 7/						**143.8**	**145.5**	**147.3**	**149.1**	**148.4**	**150.2**	**2.5**
Scenario with no policy change (constant primary balance) in 2012-2017						**143.9**	**140.1**	**135.2**	**129.2**	**121.0**	**115.7**	**-1.0**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	5.0	4.0	-5.6	-2.7	-2.0	1.0	1.8	3.2	3.8	4.2	4.2	
Average nominal interest rate on public debt (in percent) 8/	5.5	6.0	5.5	6.3	5.7	4.9	5.2	5.3	5.5	5.8	6.3	
Average real interest rate (nominal rate minus change in GDP deflator, in	-1.1	3.5	5.5	6.1	0.4	2.4	2.7	3.1	3.0	3.3	3.8	
Nominal appreciation (increase in US dollar value of local currency, in per	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	6.6	2.5	-0.1	0.2	5.3	2.5	2.5	2.2	2.5	2.5	2.5	
Growth of real primary spending (deflated by GDP deflator, in percent)	-3.9	3.0	1.4	1.7	-6.7	-1.2	-6.2	0.6	3.6	4.4	4.5	
Primary deficit	-3.3	-3.2	-4.6	-1.5	-10.4	-4.1	-5.8	-5.2	-5.0	-4.7	-4.3	

1/ Public sector covers general government and gross debt is used. Reflect the outcome of the debt exchange offer to bondholders and external commercial creditors.
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/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ Derived as nominal interest expenditure divided by previous period debt stock.
9/ 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.

ATTACHMENT

Basseterre, St. Kitts
May 2, 2012

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington DC, 20431

Dear Ms. Lagarde:

Since the approval of the Stand-By Arrangement in July 2011, economic activity has contracted in St. Kitts and Nevis, hampered by global economic headwinds. However, with a number of major construction projects in the pipeline and an improvement in tourism activity, there are prospects for a mild recovery in 2012. In addition, given our prudent macroeconomic management, we are well positioned to meet our 2012 fiscal targets under the program. This achievement has been possible thanks to the sacrifice and efforts of the people of St. Kitts and Nevis, and with strong support from our commercial creditors, the donor community and international financial institutions, including the Caribbean Development Bank and the IMF.

The Government of St. Kitts and Nevis reaffirms its commitment to the success of its home-grown medium-term reform program (supported by the Fund's Stand-By Arrangement (SBA)), which will benefit the people of St. Kitts and Nevis and become a model for other countries in the region. Since the SBA was approved in July 2011, we have been determined to advance our reform agenda and successfully implement our policies. This is reflected in having met our fiscal target and all other quantitative performance criteria and the structural benchmark for end-December 2011, as well as the structural benchmarks for end-March 2012. Furthermore, after successfully concluding the first phase of the debt restructuring process with almost universal participation by both domestic and external creditors, the domestic debt for land swap is under way. We welcome your continued strong support for these initiatives.

In the attached Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU), we present our plans to achieve the 2012 objectives of our program supported by the IMF. Based on the strength of these policies, and given our performance under the program and our continued commitment, we request the completion of the second program and financing assurances reviews, waiver of applicability for the end-March 2012 performance criteria, and the release of the third tranche of SDR 3.161 million. We request that the availability date related to the fourth purchase be moved to May 25, 2012.

We are confident that the policies that we have committed to are adequate to achieve the objectives of our program. However, we need to remain vigilant to downside risks of lower-than expected growth in the global economy and the impact on government's revenue and unemployment, public enterprises' contingent liabilities and their impact on government spending, and financial sector vulnerabilities in the region. We stand ready to take additional corrective actions that would be needed to address these risks if they materialize. We will continue to consult with the Fund on the adoption of such actions in advance of necessary revision of policies contained in this letter and the attached Memorandum, in accordance with the IMF's policies.

The Government authorizes the IMF to make public the contents of this letter, the attached MEFP and TMU, and the Staff Report to clearly communicate our policies and to signal the seriousness of our commitment to the program to the people of St. Kitts and Nevis and to the international community.

Sincerely,

/s/

Rt. Hon. Dr. Denzil Douglas
Prime Minister and Minister of Finance
St. Kitts and Nevis

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

1. St. Kitts and Nevis has made significant advances in implementing its home grown economic program supported by the IMF Stand By Arrangement (SBA). Our economic reform program continues to focus on putting public finances on a sustainable trajectory, implementing a comprehensive debt restructuring to address the debt overhang, and further strengthening the financial system. This Memorandum of Economic and Financial Policies (MEFP) updates these policies in the context of the second review under the SBA.

I. PERFORMANCE UNDER THE PROGRAM

2. We remain committed to successfully implementing our policies since the SBA was approved in July 2011 and have fulfilled our commitments under the program at end-December 2011 as detailed below. In addition, we are on track to meet the program's end-March 2012 quantitative and structural reform targets. In this context, we request completion of the second program and financing assurances reviews and the waiver of applicability for end-March 2012 performance criteria. We also request that the Technical Memorandum of Understanding (TMU) be modified to specify the Euro/US$ exchange rate used to evaluate EU grants and loan disbursements.

- **Growth and inflation.** Real GDP contracted by an estimated 2 percent in 2011, the third consecutive year of decline, reflecting a weak outturn in tourism and a continued slump in construction activity due to sluggish growth in advanced economies and in FDI inflows. Inflation averaged 5.4 percent during 2011, following the introduction of the VAT at end-2010, adjustments in electricity tariffs, and higher food and oil prices, but abated to 1.2 percent (y/y) at end-December 2011.

- **External sector.** The current account narrowed from 20.6 percent of GDP in 2010 to 14 percent in 2011, as import compression dominated weak exports and tourism receipts. FDI inflows slowed down, particularly high-end real estate investments from the US. During 2011, there was an accumulation of international reserves of about EC$110 million, of which the Banking Sector Reserve Fund (BSRF) was EC$46.1 million.

- **Fiscal performance.** Despite the weak global environment, the government's economic program has yielded positive results. The overall fiscal balance at end-2011 reached a surplus of EC$42 million, significantly above the adjusted program floor of EC$-34.8 million (the primary surplus also exceeded the program's indicative floor). Tax revenue was broadly in line with expectations combined with strong non-tax revenue from the citizenship-by-investment program and transfers from the SIDF, a foundation that supports the Government in its efforts to diversify the national economy and maintain economic stability in the country following the closure of the sugar industry. The foundation does not conduct commercial activities. Overall expenditure was lower than what had been projected at the time of the first review, with restraint in current outlays offsetting higher-than-expected capital spending.

- **Other performance criteria.** The ceilings on central government budget expenditure arrears accumulation, the stock of external short-term debt, and the central government or guaranteed external arrears accumulation have all been met (Table 2).

- **Debt restructuring.** We have made significant progress in our comprehensive debt restructuring by:

  - *Launching a debt exchange offer for bonds and syndicated loans due to commercial creditors* which was completed on March 14 and provided the opportunity to exchange claims for a new discount or par bond. After the completion of bondholder meetings on 18 April 2012, a total of EC$369 million of claims were exchanged for a total of EC$133 million par bonds and US$44 million discount bonds (EC$118 million equivalent). The Caribbean Development Bank supported this endeavor by partially guaranteeing debt service payments of the new discount bonds.

  - *Signing agreements covering the vast majority of domestic commercial debt*, which envisage the exchange of approximately EC$900 million of secured loans for land and equity in a new special purpose vehicle (SPV) that will manage land sales. The terms of other loans to domestic financial institutions will be changed so that the debt servicing burden will be reduced significantly, in particular through a significant extension of maturity and reduction in interest rate.

  These operations, combined with our fiscal efforts, will lead to an immediate reduction in total public debt from 154.4 percent of GDP[7] at end-2011 to around 100 percent at end-2012 and help reduce it to 55.2 percent by end 2020, below the ECCU target of 60 percent.

- **Financial sector**. The domestic banking sector remains well capitalized and liquid (with a CAR of 42.2 percent and a ratio of net liquid assets to total deposits of 52.6 percent, at end-December 2011, exceeding regional standards) while the ratio of NPLs (5.8 percent) has remained low. There has been no request to date to access the Banking Sector Reserve Fund (BSRF) set up under the SBA**.** Updated stress tests as of December 2011, completed by the Eastern Caribbean Central Bank (ECCB), confirm that the domestic banking sector is resilient to a range of shocks, including a government debt restructuring of the order of the one undertaken. The Financial Services Regulatory Commission has also taken important steps in enhancing the oversight of the non-bank

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[7] Including budgetary arrears of 4.9 percent of GDP and interest rate arrears of 0.8 percent of GDP.

financial sector, including on-site inspections of insurance companies, quarterly reporting by credit unions, registration of pension funds and monitoring compliance with AML.

- **Structural benchmarks.** The review of the borrowing capacity of public enterprises, which included a classification according to their financial risk, was completed as planned at end-2011. The update of banks' stress tests was completed ahead of its planned date of end-March 2012. We submitted to Cabinet the proposal to rationalize the subsidy on LPG and the strategy for social safety net reform at end-March 2012, as initially envisaged at the first review under the SBA. Concerning the social safety net, we aim to consolidate the main cash assistance programmes, establish objectively and transparently defined means test and create a centralized beneficiary registry.

II. POLICIES DURING 2012

3. **The outlook for 2012 is for a mild economic recovery that would gather momentum over the medium term.** Growth is projected to pick up slightly to 1 percent in 2012, supported by improved tourism activity and FDI-related construction projects, before rising to 1¾ percent in 2013 and reaching 4 percent over the medium-term. However, the sluggish global environment presents continued downside risks. Our plans, as outlined below, should ensure that our fiscal strategy for 2012 is aligned with the program.

A. Debt Restructuring

4. **Building on the recent debt exchange offer, we are finalizing the implementation of the agreements with domestic creditors.** In particular, we expect to complete the final steps necessary to establish the SPV for managing the related land disposals (draft proposal by June 2012 (SB)). After finalizing the Shareholder Agreement, which will determine the governance structure, we will operationalize the SPV, including the appointment of key personnel. We intend to follow best practices in the set up of the SPV, including with respect to transparency, accountability and the design of management incentives. We will set operational goals with respect to a targeted pace of land sales consistent with maintaining bank profitability. We will also ensure that an additional 600 acres of land are evaluated and registered by end-June 2012 (SB). It is expected that the ECCB, as regulator, would carry out the required monitoring of the transaction and the bank's financial sector indicators.

5. **We are engaging with the Paris Club to further restructure our official bilateral debt, since negotiations with external commercial creditors have now concluded.** The Paris Club negotiations are scheduled for May 24 2012.

B. Financial Sector

6. **We are committed, in conjunction with the ECCB, to continue to safeguard the stability of the financial sector.** This has been a key consideration in determining the nature of the exchange offer with domestic creditors and we welcome the ongoing support from the ECCB in undertaking quarterly stress tests of the banking sector to ensure its continued resilience. The Banking Sector Reserve Fund (BSRF) will remain in place as an insurance policy. Finally, consistent with the IMF's safeguards policy requirement and current practice, we will continue to maintain all foreign exchange balances at the ECCB.

7. **Together with regional partners we are currently exploring a number of pension reforms that would help ensure long-term sustainability.** The reformed system will improve the framework and administration of public and private pension arrangements and social assistance. In particular, we are currently exploring a transition of the system to one with more of a defined contribution element. We anticipate having a firm proposal on these reforms developed by end-June 2013 (SB).

C. Fiscal Policy

8. **We are committed to the 2012 program target for the overall fiscal deficit of EC$60 million, even if downside risks to the macroeconomic outlook were to materialize.** This objective, along with appropriately prudent fiscal policies in the coming years, will be instrumental in reducing our debt to within the ECCU target of 60 percent of GDP by 2020. We are prepared to implement specific contingency measures, as identified during the first review under the SBA, and additional measures such as enhancing the administration of the Housing and Social Development Levy, and rationalizing capital spending relative to the approved 2012 budget.

Revenue

9. **In support of the program's revenue targets for 2012, we intend to finalize amendments to the Corporate Income Tax Act and continue to implement measures to improve tax compliance.** The amendments, which were submitted to the National Assembly on March 29, 2012, are expected to enhance revenue through limiting to one cost center per business the eligible threshold of deductible remuneration paid to an employee from the corporate income tax. Furthermore, we intend to update the methodology for calculating taxable income of insurance companies. We also plan to strengthen the revenue administration by extending the scope of the Inland Revenue Department's (IRD) Taxpayers Intelligence Unit to other taxes than the VAT. We continue our efforts to harmonize the taxpayers' identification numbers of the IRD and the Customs and Excise Department (CED) and sensitize large taxpayers to the importance of tax compliance. We seek to build capacity to conduct risk-based auditing and enhance strategic planning and performance with the assistance of our development partners. We also intend to enhance the administration of the Housing and Social Development Levy.

10. **In addition, we will continue to broaden the tax base.** All temporary VAT and customs duty exemptions will be terminated by their scheduled date, except those related to construction, which will be extended to end-2012, to enhance the stimulus in that sector. We will also review all existing customs duties exemptions by end-June 2013 and tax exemptions by end-2013 in order to streamline them over the medium-term.

Expenditure

11. **Maintaining tight control over expenditure is critical to meeting the 2012 fiscal target.** As detailed in our 2012 budget, we are committed to continue the freeze on the wage bill and constrain the growth of expenditure on goods and services. We also intend to refine our targeting mechanism for subsidies with a view to minimizing the fiscal burden. Concerning transfers, following the review of the borrowing capacity of the public enterprises (SB for end-December 2011), we are strengthening the monitoring of the enterprises based on their risk ratings and enforcing financial discipline through limits on their short-term financing facilities and through requiring that they develop strategic reform plans. We will work with the St. Kitts Electricity Company (SKELEC) to ensure that electricity tariffs adjust in line with international oil prices. The rationalization of the subsidy on liquefied petroleum gas (LPG) is progressing and we submitted a proposal to Cabinet on March 26 2012. In particular, the existing universal price subsidy will eventually be replaced with a targeted demand side subsidy following further analysis of the current price system.

Fiscal structural reforms

12. **In order to create sufficient fiscal space for priority spending, we are enhancing the efficiency of public outlays.** We have finalized the strategy for reforming the social safety net, and submitted it to Cabinet on March 26 2012 (SB). We are moving ahead with preparations of: the draft procurement act to be submitted to parliament; the plan for civil service reform, with World Bank assistance, to be submitted to Cabinet and the medium-term expenditure framework (MTEF); all planned by end-June 2012 (SBs). We are also continuing to prioritize our Public Sector Investment Program (PSIP) and to improve its integration with the MTEF and our capacity for project evaluation.

13. **We are tightening our control over expenditure commitments.** We are strengthening our cash management system by limiting purchases to purchase orders issued to avoid the accumulation of arrears.

14. **We are improving fiscal transparency.** We are progressing towards quarterly publication of reports on fiscal operations by end-2012 and gross financing needs starting in June, 2013. We remain committed to ensuring that all expenditures and revenues are reported in

the budget on a gross basis, including duties and taxes collected on petroleum products and related subsidies. While we appreciate that the Sugar Industry Diversification Foundation (SIDF) is a private foundation, we welcome the ongoing strengthening of its administrative structure in line with best practices.

Table 1. St. Kitts and Nevis: Schedule of Review and Purchases

Availability date	Amount of Purchase: Millions of SDR	Amount of Purchase: Percent of Quota	Conditions
July 27, 2011	22.150	248.9	Approval of arrangement
January 25, 2012	11.470	128.9	First review and end-September 2011 performance criteria
February 15, 2012	3.161	35.5	Second review and end-December 2011 performance criteria
May 25, 2012	3.161	35.5	Third review and end-March 2012 performance criteria
August 15, 2012	3.161	35.5	Fourth review and end-June 2012 performance criteria
November 15, 2012	3.161	35.5	Fifth review and end-September 2012 performance criteria
February 15, 2013	1.105	12.4	Sixth review and end-December 2012 performance criteria
May 15, 2013	1.105	12.4	Seventh review and end-March 2013 performance criteria
August 15, 2013	1.105	12.4	Eight review and end-June 2013 performance criteria
November 15, 2013	1.105	12.4	Nineth review and end-September 2013 performance criteria
February 15, 2014	0.913	10.3	Tenth review and end-December 2013 performance criteria
May 15, 2014	0.913	10.3	Eleventh review and end-March 2014 performance criteria
Total	**52.510**	**590.0**	

Source: Fund staff estimates

Table 2. St. Kitts and Nevis: Quantitative Performance Criteria and Indicative Targets
(In EC$ millions)

	End-Dec 2011				
	Prog.	Adjusted	Actual	Difference	Status
Performance Criteria:					
Central government overall balance including grants (floor) 1/ 2/	-60	-35	42	77	over performed
Stock of central government budget expenditure arrears accumulation (ceiling) 3/	0	0	-23	-23	over performed
Stock of external short term debt (ceiling)	0	0	0	0	met
Central government or guaranteed external arrears accumulation (ceiling) 4/	0	0	0	0	met
Indicative Target:					
Central government primary balance (floor) 1/ 2/	76	101	168	68	over performed

1/ Cumulative within each calendar year.
2/ See the TMU for a description of adjustors.
3/ Including the stock of arrears related to fuel purchases audited by international auditors.
4/ To be monitored on a continuous basis.

Table 3. St. Kitts and Nevis: Quantitative Performance Criteria 2012
(In millions of Eastern Caribbean dollars)

	Performance Criteria		Proposed Performance Criteria	
	End-Mar. 2012	End-Jun. 2012	End-Sep. 2012	End-Dec. 2012
Performance Criteria:				
Central government overall balance including grants (floor) 1/ 2/	-24	-53	-91	-60
Stock of central government budget expenditure arrears accumulation (ceiling) 3/	0	0	0	0
Stock of external short term debt (ceiling)	0	0	0	0
Central government or guaranteed external arrears accumulation (ceiling) 4/	0	0	0	0
Indicative Target:				
Central government primary balance (floor) 1/ 2/	7	19	8	68

1/ Cumulative within each calendar year.
2/ See the TMU for a description of adjustors.
3/ Including the stock of arrears related to fuel purchases audited by international auditors.
4/ To be monitored on a continuous basis.

Table 4. St. Kitts and Nevis: Structural Benchmarks

Action	Target Date	Objectives	Status
I. Fiscal and Public Sector Reforms			
Public financial management			
Submit to Cabinet proposal to rationalize the subsidy on liquefied petroleum gas (LPG)	End-March 2012	Streamline social safety nets	completed
Update the registry of additional 600 acres of land	End-June 2012	Strenghten public financial management	
Undertake valuation of additional 600 acres of land	End-June 2012	Strenghten public financial management	
Submit draft of new Procurement Act to Parliament	End-June 2012	Strenghten institutional framework	
Draft proposal for the establishment of an asset management company	End-June 2012	Strenghten public financial management	
Establish a medium-term expenditure framework with agreed fiscal targets	End-June 2012	Improve medium-term orientation of the budget	
Civil service reform			
Cabinet to approve a plan for civil service reform covering human resource policy, reviewing the organization and structure of the civil service and addressing wage policy and payroll management	End-June 2012	Strenghten public financial management	
Actuarial review of Social Security			
Regular review of the Social Security Scheme.	End-September 2012	Strenghten public financial management	
Public enterprise reform			
Review borrowing capacity of public enterprises	End-December 2011	Strenghten public financial management	completed
Rationalize public land sales and development agencies	End-September 2012	Strenghten public financial management	
Strengthen social safety net			
Submit social safety net reform strategy to Cabinet	End-March 2012	Streamline social safety nets	completed
II. Financial Sector Reforms			
Update the existing stress tests of banks	To be monitored on a quarterly basis	Financial sector stability	completed
III. Medium-term benchmark			
Develop an explicit medium-term debt management strategy that takes account of the cost-risk tradeoff of alternative financing options, within the context of the overall macroeconomic environment	End-December 2012	Improve medium-term orientation of the budget	
Draft proposal for a comprehensive pension reform	End-June 2013	Strenghten public financial management	

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

TECHNICAL MEMORANDUM OF UNDERSTANDING

1. St. Kitts and Nevis' performance under the Stand-By Arrangement (SBA) will be assessed on the basis of the quantitative performance criteria and indicative targets, as well as the structural benchmarks. This Technical Memorandum of Understanding (TMU) defines the variables set out in Table 2 of the Memorandum of Economic and Financial Policies (MEFP). It also lays down the reporting requirements to adequately monitor the program.

2. For the purposes of the program, the exchange rate of the East Caribbean dollar (EC$) to the U.S. dollar is set at EC$2.70 = US$1 and the exchange rate of the Euro to the U.S. dollar is set at EUR1 = US$1.3. Foreign currency accounts denominated in currencies other than the U.S. dollar and the Euro, excluding SDRs, will be first valued in the U.S. dollar at actual end-of-period exchange rates used by the ECCB to calculate the official exchange rates. SDR-denominated accounts will be valued at the program exchange rate of U.S. dollar 1.6 per SDR.

I. COVERAGE

3. For the purpose of the program, **central government** will cover all items included in the government budgets of the Federation (both St. Kitts and Nevis).

4. The **nonfinancial public sector** is defined as the total central government and nonfinancial public enterprises. Public enterprises consist of the Development Bank of St. Kitts and Nevis, Financial Services Regulatory Commission, Frigate Bay Development Corporation, La Vallee Greens Ltd, National Housing Corporation, Nevis Air and Sea Port Authority, Nevis Cultural Development Foundation, Nevis Electricity Corporation, Nevis Housing and Land Development Corporation, Nevis Solid Waste Management Authority, Nevis Tourism Authority, St. Christopher and Nevis Solid Waste Management Corporation, St. Christopher Tourism Authority, St. Kitts Urban Development Corporation, St. Christopher Air and Sea Ports Authority, WhiteGate Development Corporation, and ZIZ Broadcasting Corporation.

5. **External debt** is defined as all debt owed to creditors residing outside of St. Kitts and Nevis, while **domestic debt** covers all debt owed to residents of St. Kitts and Nevis. The latter covers all T-bills, including those held by creditors residing outside of St. Kitts and Nevis, and the bond issued at the Regional Government Securities Market (RGSM).

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Central Government's Overall Deficit (PC)

6. The **central government overall balance** will cover all of its revenue, grants, expenditure, and transfers. Revenues will exclude any proceeds from the sale of public assets such as land, which will be considered as financing below the line. Expenditures will exclude clearance of arrears, which will be considered as financing below the line.

7. The central government's overall balance will be measured from the financing side as the sum of the net domestic financing, net external financing, plus proceeds from the sale of public assets, minus clearance of arrears.

8. **Net domestic financing** of the central government is defined as the sum of:

- net domestic bank financing as measured by the change in the domestic banking system credit to the central government net of deposits, as reported by the consolidated balance sheet of the monetary authorities and commercial banks, including special tranches from the ECCB;
- net nonbank financing as measured by the net changes in holdings of government securities by nonbanks, and net borrowing from nonbank institutions;
- the changes in the stock of domestic arrears of the central government defined as net changes in unpaid checks issued, unprocessed claims, pending invoices, plus accrued interest payments, and other forms of expenditures recorded above the line but not paid;
- gross receipts from divestment defined as proceeds received from any privatization, divestment, and sale of asset (land); and
- any exceptional financing, including rescheduled principal and interest.

9. **Net external financing** of the central government is defined as the sum of:

- disbursements of project and non-project loans, including securitization;
- proceeds from bonds issued abroad (with an original maturity of one year or greater);
- net changes in short-term external debt (with an original maturity of less than one year), excluding exceptional financing;
- net changes in cash deposits held outside the domestic banking system;
- any changes in arrears on external interest payments and other forms of external expenditures recorded above the line but not paid;
- any exceptional financing, including rescheduled principal and interest;

<u>less</u>:

- payments of principal on current maturities for bonds and loans on a due basis, including any prepayment of external debt.

10. The **floor on the overall balance of the central government** will be adjusted as follows:

- **downward** (i.e., a larger overall deficit target would apply) to the extent that budgetary grants fall short of the programmed amounts by less than EC$3 million.
- **upward** to the extent that budgetary grants exceed the annual amounts specified in the program.
- **downward** by the cumulative amount of up to EC$15 million spent on bank recapitalization and support to the British American Insurance Companies or CLICO as part of a regional solution—any amounts spent in excess of this programmed contingency will need to be funded within the program limit on the overall deficit.
- **upward** to the extent that clearance of arrears fall short of the amounts specified.
- **upward** to the extent of exceptional financing achieved through debt restructuring.

Table 1. Programmed Disbursements of Budgetary Grants in 2012
(in EC$ millions)

Quarters	I	II	III	IV
Grants	0.0	0.0	0.0	27.4

Sources: St. Kitts and Nevis authorities; and Fund staff estimates.
Note: Values presented are cumulative and Euro 1 = US$1.3.

B. Stock of Central Government Short-Term External Debt (PC)

11. The **limit on short-term external debt** applies to debt owed or guaranteed by the central government of St. Kitts and Nevis, with an original maturity of up to and including one year. Excluded from the limit are any rescheduling operations (including the deferral of interest on commercial debt) and normal import-related credits. Normal import credit is understood to be a self-liquidating operation where the proceeds from sales of imports are used to retire the debt. Debt falling within the limit shall be valued in U.S. dollars at the time of the contract or guarantee becomes effective.

C. External Arrears of the Public Sector (PC)

12. The **non-accumulation of arrears to external creditors** will be a continuous performance criterion under the program. This performance criterion applies to arrears accumulated related to debt contracted or guaranteed by central government. External payment arrears consist of external debt service obligations (principal and interest) falling due after December 31, 2010 that have not been paid at the time due, taking into account the grace periods specified in contractual agreements. Arrears resulting from nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is being sought are excluded from this definition.

D. Budget Expenditure Arrears (PC)

13. A ceiling is set on central government budget expenditure arrears, equal to the stock of such arrears as at December 31, 2010 (Table 2). The ceiling applies to the increase in the sum of: (1) any invoice that has been received by a spending agency from a supplier of goods, services, and capital goods delivered and verified, and for which payment has not been made within the contractually agreed period, or in the absence of a grace period, within 60 days; and (2) unpaid wages, pensions, or transfers, pending for longer than 60 days to domestic or foreign residents, irrespective of the currency denomination of the debt. Interest and amortization arrears on domestic debt resulting from nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is being sought are excluded from this ceiling. For ease of monitoring, all debt issued on the Regional Government Securities Market (RGSM), irrespective of who holds it, will be regarded as domestic debt.

Table 2. Stock of Budget Expenditure Arrears at end-December, 2010
(in EC$ millions)

Stock of arrears 1/	133
Unpaid check issued	…
Unprocessed invoices	…
Pending invoices	…
Interest and amortization arrears on domestic debt	0
Total	133

Source: St. Kitts and Nevis authorities.
1/ Including the stock of arrears related to fuel purchases audited by international auditors.

III. INDICATIVE TARGET ON THE PRIMARY BALANCE OF THE CENTRAL GOVERNMENT

14. The **central government's primary balance** is defined as revenue and grants minus non-interest expenditures. As in the definition of the overall balance, revenue will exclude any proceeds from the sale of public assets. Net lending is a non-interest expenditure item (negative net lending is a revenue item). Interest expenditures include interest payments on outstanding

arrears, as defined above in sections IIC and IID (at their contractual rates) converted to a cash basis.

15. The **floor on the primary balance of the central government** will be monitored from the financing side as the sum of the net domestic financing, net external financing, proceeds from the sale of public assets, plus domestic and external interest payments on a due basis.

16. The floor on the primary balance of the central government will be adjusted as follows:

- **downward** (i.e., a smaller primary surplus target would apply) to the extent that budgetary grants fall short of the programmed amounts by less than EC$3 million.
- **upward** to the extent that budgetary grants exceed the annual amounts specified in the program.
- **downward** by the cumulative amount of up to EC$15 million spent on bank recapitalization and support to the British American Insurance Companies or CLICO as part of a regional solution.
- **upward** to the extent of exceptional financing achieved through debt restructuring.

IV. DATA AND INFORMATION

17. To enable monitoring of performance relative to the above quantitative performance criteria and indicative targets, the St. Kitts and Nevis authorities will provide Fund staff with the following specific data and information within 8 weeks after the end of each month.

Fiscal sector

- Central government budgetary accounts.
- Capital expenditure.
- Total monthly disbursements and grants receipts, disaggregated into: (a) budgetary support (by type—either loans, external "bonds" and/or other securities); (b) project loans; (c) budgetary grants; and (d) project grants.
- Central government domestic debt data (St. Kitts and Nevis).
- Stock of domestic arrears, including unpaid checks issued, stock of unprocessed claims due and invoices pending; interest and amortization on domestic debt.
- Stock of external arrears by creditor.

- Detailed monthly external debt report from the Debt Unit in the Ministry of Finance, showing fiscal year-to-date disbursements, amortization, interest payments and outstanding stocks, for the central government and public enterprises.

- Copies of loan agreements for any new loans contracted, including financing involving the issue of government paper, and of any renegotiated agreements on existing loans.

Financial sector

- Monetary survey for St. Kitts and Nevis as prepared by the Eastern Caribbean Central Bank.

Real sector

- Consumer price index.

18. Reporting on a **quarterly basis** will include the following:

Fiscal

- A detailed overview of capital expenditures on a project by project basis and the composition of financing.

- Financial position of the public enterprises (as listed in paragraph 4).

Real sector

- Economic indicators under the real sector.

External sector

- Economic indicators under the external sector.

19. Reporting on an **annual basis** will include the following:

External and real sectors

- GDP and its components.

- Balance of payments accounts.

20. **Other reporting** will include:

- Reports of legislative changes pertaining to economic matters.

- Notification of any establishment of new public enterprises.
- All disbursements and outstanding balances from the use of the Banking Sector Reserve Fund on a weekly basis.

International Monetary Fund
Washington, D.C. 20431 USA

Press Release No. 12/186
FOR IMMEDIATE RELEASE
May 21, 2012

IMF Executive Board Completes Second Review Under Stand-by Arrangement with St. Kitts and Nevis and Disburses US$4.83 million

The Executive Board of the International Monetary Fund (IMF) today completed the second review of St. Kitts and Nevis' economic performance under a program supported by a 36-month Stand-by Arrangement (SBA). The completion of the review allows the immediate disbursement of an amount equivalent to SDR 3.161 million (about US$4.83 million), bringing total disbursements under the arrangement to SDR 36.781 million (about US$56.21 million).

The Executive Board also approved a request for waivers of applicability for three end-March 2012 performance criteria. These waivers were necessary because the Executive Board meeting was scheduled to take place after end-March but before the data for the overall balance of the central government, the central government budget expenditure arrears, and the stock of short-term external debt becomes available.

The SBA was approved on July 27, 2011 (see Press Release No. 11/295), for an amount equivalent to SDR 52.51 million (about US $80.25 million), or 590 percent of St. Kitts and Nevis' IMF quota.

Following the Executive Board's discussion, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, made the following statement:

"The authorities are to be commended for the strong implementation of their home-grown, Fund-supported program. Notwithstanding an adverse global setting, the fiscal target was met by a comfortable margin, and the authorities' structural reforms progressed as planned. Following three consecutive years of decline, the domestic economic outlook is positive, supported by FDI-related construction and an improvement in tourism activities, although the global environment continues to present downside risks.

"The authorities successfully concluded a debt exchange with bondholders and external commercial creditors, the first phase of the comprehensive restructuring of the public debt. They have also made further progress in the resolution of domestic loans, including on the conversion of loans secured with land. It will be important to minimize the impact of debt restructuring on banks' balance sheets to preserve financial sector stability. The Special Purpose Vehicle should be implemented according to international best practices.

'The success of the program hinges on a proactive policy response to safeguard achievement of the fiscal targets and strict adherence to the planned pace of structural reforms. In this regard, the authorities are proceeding with efforts to enhance tax revenue, maintain tight control over expenditure, and prepare contingency measures. It will be important to continue to make progress on other fiscal reforms to expand space for growth-promoting spending."