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NINTH AND FINAL REVIEW UNDER THE STAND-BY ARRANGEMENT, REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND PROPOSAL FOR POST-PROGRAM MONITORING—STAFF REPORT; PRESS RELEASE

In the context of the ninth and final review under the Stand-By Arrangement, request for waiver of nonobservance for performance criterion, and proposal for Post-Program Monitoring, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 11, 2014, following discussions that ended on May 21, 2014, with the officials of St. Kitts and Nevis on economic developments and policies underpinning the IMF Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on June 26, 2014.
- A **Staff Statement** of July 11, 2014 updating information on recent developments.
- A **Press Release** including a statement by the Chair of the Executive Board.

The following document has been or will be separately released.

Letter of Intent sent to the IMF by the authorities of St. Kitts and Nevis*

*Also included in Staff Report

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

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NINTH AND FINAL REVIEW UNDER THE STAND-BY ARRANGEMENT, REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND PROPOSAL FOR POST-PROGRAM MONITORING

June 26, 2014

KEY ISSUES

Stand-By Arrangement (SBA): The 36-month SBA for SDR 52.51 million (590 percent of quota) was approved on July 27, 2011. The seventh and eighth reviews were completed on March 19, 2014, together with the 2014 Article IV consultation. The authorities plan to continue to treat the arrangement as precautionary, which they began at the last review, and have repaid early a portion of the Fund's outstanding credit (about 125 percent of quota).

Context: Growth is expected to continue at a relatively rapid pace, following a stronger-than-expected recovery of nearly 4 percent in 2013, after a four-year contraction. This reflects rapid expansion in construction related to large Citizenship-by-Investment inflows, and a substantial increase in public sector investment, as well as support from the People Employment Program (PEP). The ECCB is investigating the reclassification of two public sector loans targeted for restructuring that may adversely impact banks' financial soundness indicators.

Program performance: Substantial strides have been made under the government's home-grown economic program. Fiscal sustainability has improved, debt was substantially reduced and is on a downward path, the financial sector has remained stable, and key structural reforms have been implemented. The fiscal program is on track and all performance criteria were met with the exception of the continuous performance criterion on external arrears. The external arrears were minor and quickly repaid. Progress on the implementation of structural reforms is slow, with delay in one of the two benchmarks that were to be completed for this review, which is now a prior action.

Review: The authorities continue to demonstrate their commitment to their home-grown program, and are on track to meet the 2014 fiscal targets. They also plan to press ahead with their structural reform agenda and complete reforms initiated under the program. With ongoing implementation of prudent fiscal management, the authorities are on track to reduce debt to 60 percent of GDP by 2020. In accordance with Fund policy, the Managing Director is recommending the initiation of Post-Program Monitoring (PPM).

Approved By
Adrienne Cheasty and Bob Traa

The mission team comprising Ms. J. Gold (head), Mr. A. El Ashram, Mr. K. Greenidge, Ms. X. Xu, (all WHD), Ms. S. Chen (SPR), and Mr. W. Mitchell (regional res rep) visited Basseterre and Charlestown from May 12 to May 21, 2014. Mr. K. Dalrymple (OED) participated in the final discussions. The mission met with the Prime Minister and Minister of Finance Douglas, Premier Amory, other senior Government officials, Governor Venner, other ECCB staff, and representatives of the private sector.

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CONTEXT

1. St. Kitts and Nevis has made substantial strides under its home-grown economic program, supported by the 36-month SBA. The program began in July 2011 amid an exceptionally deep crisis, with large fiscal and current account deficits, very high debt, and concerns about financial stability. Despite the challenges, significant reforms were implemented, and considerable progress was achieved. Key achievements include:

- ***Substantially improved fiscal and debt sustainability.*** The fiscal balance improved from a deficit of 7.6 percent of GDP in 2010 to a surplus of 12.3 percent of GDP in 2013, reflecting tight expenditure controls, including a three-year hiring and wage bill freeze, and strong growth in Citizenship-by-Investment (CBI) receipts. Public debt fell from 159.3 percent of GDP at end-2010 to about 103.1 percent at end-2013, and is projected to decline below 60 percent of GDP by 2020.[1]

- ***Financial stability has been strengthened.*** The Banking Sector Reserve Fund (BSRF) was established to safeguard financial stability during the debt restructuring—and remained unutilized, while supervision and monitoring were intensified. An enhanced Financial Services Regulatory Commission (FSRC) also strengthened supervision of the non-bank financial institutions.

- ***Key structural reforms have been implemented.*** These included: strengthening tax administration; improving public financial management, including a medium-term debt management strategy; a new Customs Law; a new Procurement and Contract (Administration) Act; and plans for reform of the civil service and the social safety net (Box 1).

RECENT ECONOMIC DEVELOPMENTS

2. Economic recovery in 2013 was stronger than anticipated, with continued momentum in the first quarter of 2014. Real growth is estimated at 3.8 percent in 2013, up from the 1.7 percent projection (IMF Country Report No. 14/86), reflecting robust labor market developments fueled by the People Employment Program (PEP), and stronger construction performance related to both large CBI inflows and a substantial increase in public sector capital spending.[2] Wage earnings rose by 10.3 percent while employment expanded by 18.8 percent, with the vast majority of the increase related to the PEP. Growth continued in the first quarter of 2014, led by construction, with imports of building materials up by 84 percent, and a rebound in

[1] The public debt-to-GDP ratio in 2010 at the start of the program was 199.2 percent (IMF Country Report No. 11/270), revised down to 163.6 percent following a GDP rebasing exercise, and is now estimated to have been 159.3 percent following a recent GDP revision.

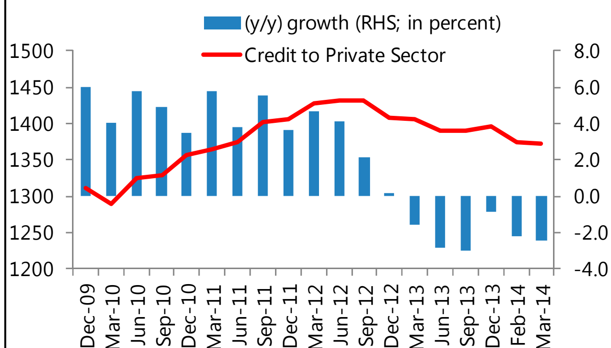
[2] PEP is funded by the SIDF, providing training for the new service economy and internship opportunities with stipends.

manufacturing. Inflation turned negative, falling from 0.4 percent at end 2013 to -0.1 percent at end-March 2014 (y/y), reflecting a reduction in education cost. The external position has continued to strengthen, boosted by strong CBI inflows, while international reserves remain adequate, covering about 9 months of imports of goods and services, and nearly 7 months excluding IMF disbursements.

3. **Fiscal performance through end-2013 was stronger than expected, notwithstanding larger-than-planned capital spending.** The surplus of 12.3 percent of GDP, compared to 10.6 percent anticipated at the last review, reflected higher Sugar Industry Diversification Foundation (SIDF) transfers (investment proceeds and capital grants), which more than offset higher capital spending (Box 2). The latter was due to SIDF funded public sector projects that were brought on to the budget late in the year. Tax revenues were generally in line with program projections, while current expenditures were contained with a pickup in goods and services largely offset by lower interest payments on account of the debt restructuring exercise. The overrun on goods and services reflected increased claims against the Government and significantly higher-than-budgeted CBI due diligence fees.

4. **The banking system remains stable notwithstanding a possible revision in reported NPLs.**[3] The reported capital adequacy ratio (CAR) remains one of the highest in the region at 22.6 percent at end-March 2014, well above the prudential benchmark of 8 percent. However, existing guidelines for loan classification date back to 1997, and provisioning in line with stricter international standards could lower the CAR. Meanwhile, credit unions have improved their institutional capital to 16.3 percent of total assets at end-2013 and reduced their NPL ratio by 7 percentage points to 16.2 percent. Banks' liquidity continues to grow, fuelled by strong deposit growth associated with CBI inflows but private sector credit has declined further by 2.4 percent (y/y) at end-March 2014, reflecting banks' limited risk appetite despite the firming economic recovery.

Credit to Private Sector
(In EC$ million)



Sources: ECCB and IMF staff calculations.

5. **The challenge in Parliament from the outstanding Motion of No Confidence is ongoing.** The Motion of No Confidence dates back to December 2012. In response to the Opposition's filing, the High Court concluded in February 2014 that the members of the

[3] The NPL ratio for St. Kitts and Nevis' banks as of end-December 2013 and end-March 2014 are unavailable in the most recent ECCB financial soundness indicators.

Assembly have the right to have the Motion of No Confidence tabled, debated and voted on within a reasonable period. The High Court dismissed the motion against the co–defendants (Cabinet members) on the grounds that there is no proof that they inhibited its tabling. The motion remains outstanding. The matter was appealed by the Speaker to contest the extent to which the High Court can dictate and determine the Parliament's procedure, particularly as it related to the powers attributed to the Speaker. Legislative activity is ongoing. In line with the Constitution, elections are due by June 2015.

OUTLOOK

6. **The outlook has improved somewhat since the last Article IV Consultation and combined seventh and eighth SBA reviews (IMF Country Report No. 14/86).** Growth in 2014 was revised up to 3.5 percent from 2.7 percent, reflecting the robust 2013 recovery, improvement in manufacturing, and the strengthening of construction activity. The somewhat slower pace in 2014 compared to 2013 reflects the expected decline in the fiscal impulse. Over the medium-term, economic growth is expected to stabilize around its potential of about 3 percent. FDI projects already in the pipeline and CBI-related real estate investments would continue to support growth in construction and real estate services. Key macro-balances, mainly the fiscal and external, are forecast to significantly deteriorate in 2015, reflecting a conservative assumption for CBI inflows rather than a deterioration in the underlying fundamentals.

7. **Risks to the outlook are broadly balanced.** The projected economic recovery is closely linked to developments in advanced economies, particularly the United States. In this regard, the slow pace of recovery in these economies and the relatively subdued growth momentum in emerging economies pose risks to the outlook (Annex I). Other risks include natural disasters and a sudden reduction in CBI flows. On the upside, CBI inflows could continue at the current rapid pace or even accelerate.

St. Kitts and Nevis: Medium-Term Outlook

	Prel.	Projections						
	2013	2014	2015	2016	2017	2018	2019	2020
Output and prices	(Annual percentage change; unless otherwise specified)							
Real GDP (factor cost)	3.8	3.5	3.2	3.2	3.1	3.1	3.1	3.1
Consumer prices, end-of-period	0.4	0.9	1.8	1.8	1.8	2.0	2.4	2.4
Fiscal Sector	(In percent of GDP)							
Central government primary balance	16.2	9.2	4.3	4.5	4.1	3.2	3.1	3.0
Central government primary balance (less CBI)	3.0	0.0	-0.1	0.4	0.1	0.2	0.3	0.3
Central government overall balance	12.3	6.2	1.7	2.2	1.8	1.1	1.0	1.0
Central government overall balance (less CBI)	-0.9	-3.0	-2.7	-1.9	-2.1	-1.9	-1.8	-1.7
Citizenship by investment	13.2	9.1	4.4	4.1	3.9	3.0	2.8	2.7
Total public debt (end-of-period)	103.1	86.2	80.1	73.5	67.8	64.9	60.2	56.7
External Sector	(In percent of GDP)							
External current account balance	-9.0	-13.5	-18.1	-17.8	-17.5	-17.0	-17.2	-16.7
Imputed reserves (in months of imports of goods and services)	8.6	8.9	7.6	6.4	6.2	6.1	6.1	6.1

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

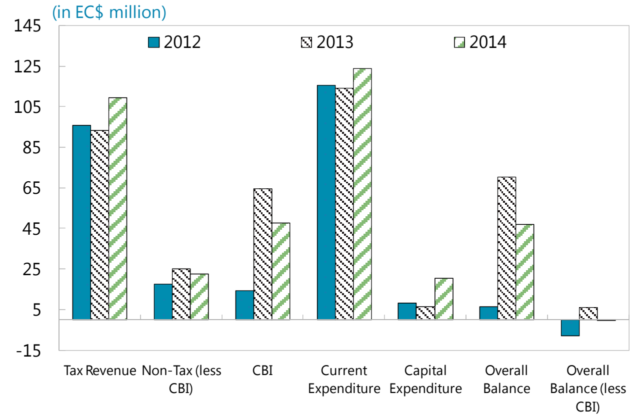
PROGRAM PERFORMANCE AND REVIEW

Discussions during this final review focused on continued strong policies to achieve fiscal and debt sustainability over the medium-term, developing a strong and transparent framework to manage CBI inflows, maintaining financial soundness, and accelerating reforms that will provide the basis for sustainable robust growth over the medium-term.

A. Fiscal Policy and Debt

8. **The fiscal performance for the first quarter was broadly in line with program targets and the authorities are on track to meet 2014 objectives.** Stronger-than-expected revenues more than offset higher current and capital spending in St. Kitts. Capital spending by the Nevis Island Administration (NIA) fell short of planned, reflecting less-than-expected grants, cash flow challenges and constrains placed on their overdraft facility. The consolidated fiscal surplus including CBI receipts was about 1½ percent of GDP higher than planned, reflecting CBI receipts that exceeded the Government's conservative assumption. The 2014 fiscal targets (net of CBI) are attainable. The authorities indicated that they remain committed to achieving the year-end target, and they agreed to adhere to the capital spending target for the year, noting that the overruns in the first quarter would be accommodated by a slower pace of capital spending in the latter part of the year. The NIA has tightened somewhat its spending plans, reflecting lower SIDF grants and limited space under its overdraft facility.

St. Kitts and Nevis: First Quarter Fiscal Performance
(in EC$ million)



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

9. **All performance criteria were met, except for the continuous ceiling on the accumulation of external arrears.** The NIA accumulated external arrears to the European Investment Bank (EIB) on October 5th 2013 of EC$0.6 million (0.03 percent of GDP), which were cleared on November 15th, 2013. This was in addition to the two occurrences of small external arrears that were reported in the last review (IMF Country Report No. 14/86). The arrears to EIB were reported to staff in advance of the last Board meeting, but staff inadvertently failed to inform the Board of their occurrence. The authorities request a waiver for the nonobservance of this performance criterion.

St. Kitts and Nevis: Quantitative Performance Criteria and Indicative Targets

(In EC$ million)

	End-Sep. 2013				End-Dec. 2013				End-Mar. 2014 1/			
	Prog.	Adjusted	Actual	Status	Prog.	Adjusted	Actual	Status	Prog.	Adjusted	Actual	Status
Performance Criteria:												
Central government overall balance including grants (floor) 2/3/	48	62	175	√	52	72	253	√	15	35	43	√
Stock of central government budget expenditure arrears accumulation (ceiling) 4/	0	0	-60	√	0	0	-67	√	0	0	-66	√
Stock of external short term debt (ceiling)	0	0	0	√	0	0	0	√	0	0	0	√
Central government or guaranteed external arrears accumulation (ceiling) 5/	0	0	1.3	X	0	0	0.6	X	0	0	0.3	X
Indicative Target:												
Central government primary balance (floor) 2/3/	121	135	245	√	152	172	336	√	26	46	53	√

Sources: St. Kitts and Nevis authorities and IMF staff estimates.
1/ For the purpose of the 9th Review the controlling PCs are the end-March 2014 PCs.
2/ Cumulative within each calendar year.
3/ See the TMU for a description of adjustors.
4/ Including the estimated stock of expenditure payable on electricity.
5/ To be monitored on a continuous basis.

10. The authorities are working towards raising revenues and strengthening expenditure controls, including on the wage bill. The medium-term framework is anchored on achieving the authorities' public debt target of 60 percent of GDP by 2020, based on a moderate increase in tax revenues, the containment of current expenditure, in particular the wage bill, an increase in capital spending, and a cautious assumption for CBI inflows (averaging about 3.0 percent of GDP during 2015-2020, net of due diligence fees). The primary balance without CBI receipts stabilizes close to zero by 2020. The improved revenue performance reflects reforms in tax administration and the non-renewal of transitory VAT arrangements (on construction materials).[4] Achieving the medium-term targets would require mobilizing additional tax revenue through continued improvements in revenue administration and broadening of the tax base, while enhancing the efficiency of public expenditure by strengthening public financial management. The overruns in capital spending in 2013 related to SIDF funded projects pose a potential risk and point to the need for tighter control of expenditures and a more orderly process to ensure effective prioritization of PSIP projects. The lack of clear rules for transfers from SIDF could weaken policy discipline and present a risk to staying on the agreed medium-term fiscal path. The authorities are seeking technical assistance to develop an integrated approach to budgeting. They stressed their intentions to adhere to the wage bill in the fiscal framework and will be instructing all ministries to comply with the hiring freeze. They plan to begin the public service wage audit and payroll assessment in July 2014, to be completed by February 2015, and concurrently conduct a functional review of the public sector and finalize a new policy framework for its modernization by April 2015.

11. Staff emphasized that medium-term fiscal sustainability also requires sound finances in the rest of the public sector. Continued monitoring and strict oversight of public sector activity must be a priority. In this regard, the corporatization of the Electricity Department

[4] This excludes signed development agreements and CBI investment projects approved before end-2013.

as the St. Kitts Electricity Company, SKELEC, has yet to be translated into a financially viable company. SKELEC's revenues continue to fall short of operating expenses and challenges in bill collection, including from public sector entities, have resulted in arrears to PDVSKN, some dating back to 2013. While ongoing improvements in billing and metering should strengthen SKELEC's finances, staff recommended a revised strategy involving i) clearing the company's books by resolving legacy issues; ii) settling public sector arrears owed to SKELEC; and iii) empowering SKELEC to enforce timely bill collection. The authorities expressed their commitment to getting SKELEC on a path to financial soundness. There is also a need to revisit the benefit derived from the PetroCaribe Energy Cooperation Agreement and to monitor associated contingent liabilities (Annex II). A framework for private public partnership (PPP) is also needed to ensure that the selection and awards of PPP projects follow best practices, and is consistent with the new Procurement Law, while risks to the public sector and contingent liabilities are contained.

12. The debt-for-land swap is on track to be mostly completed by end-2014. In 2013, St. Kitts transferred 27 percent of GDP in lands to a domestic creditor, extinguishing a corresponding amount of debt, contributing to a reduction in the debt-to-GDP ratio from 137.3 percent at end-2012 to 103.1 percent at end-2013. Additional land transfers in 2014, by both the NIA and the Federal Government, up to the equivalent of 11 percent of GDP, is expected to lower the debt ratio to 86.2 percent by year-end.[5] Negotiations with three remaining bilateral external creditors continue. Although the debt-to-GDP ratio is falling faster than previously expected, reflecting partial early repayment to the Fund (para. 19) and faster GDP growth, it remains one of the highest in the region, and is very vulnerable to exogenous shocks. A combined shock that entails weaker growth, higher interest rates, and smaller primary balances, could see the debt-to-GDP ratio rise to 86.8 percent of GDP by 2019 (Annex III).

B. Managing CBI inflows and the SIDF

13. Developing a medium-term framework to effectively manage CBI inflows will be key to reducing vulnerability to exogenous shocks and securing fiscal and external sustainability. Equally important will be strengthening the institutional framework to ensure the CBI program's integrity and good governance to preserve its long-term future. While the large inflows have greatly benefited the economy, they also present substantial risks if not managed appropriately. The authorities welcomed the recommendation to establish a fund— Stabilization and Growth Fund (SGF)—following best practices of Sovereign Wealth Funds (SWF), embodying guidance on saving, using, and investing CBI inflows (Annex IV). The SGF should be anchored by the medium-term fiscal framework, consistent with the debt target, based on utilizing a moderate amount of CBI inflows for budgetary purposes, with the rest saved. Withdrawals would be linked to cyclical revenue shortfalls and exceptional spending needs, subject to agreed limits to preserve the fund. The underlying principle is that withdrawals would cover temporary rather than permanent budget gaps, preventing

[5] The NIA authorized the partial transfer of lands after its bankers refused to honor paychecks issued by the NIA, enforcing the overdraft limit.

a build-up of unsustainable reliance on CBI revenues. Part of the SGF's resources could be used to support higher priority public investment than embodied in the medium-term fiscal framework. A critical element would be a strong governance structure that would be accountable to Parliament and would provide regular comprehensive and timely reports, in accordance with international accounting standards. The authorities expressed considerable interest in these proposals and are awaiting staff's recommendations on how to proceed with implementation. The authorities also indicated that they are investigating options for increasing the investments of some of these resources overseas, noting the economy's limited capacity to hold these resources domestically. Recent reports on suspected abuse by certain economic citizens underscores the need to further strengthen the due diligence process for the CBI program to ensure its sustainability and good reputation. The authorities indicated that they have a strong and rigorous due diligence process and that they are reviewing the program and will consider changes to further tighten oversight, if necessary. Further, there are ongoing discussions with other ECCU countries to enhance collaboration and ensure the integrity of similar programs.

14. SIDF operational guidelines should be clarified to prevent a weakening of fiscal discipline while enhancing its integration with public finances. The SIDF, intended to play the role of a national development foundation, has grown—likely to a magnitude never envisaged when founded—and is involved in some quasi-fiscal activities, estimated to be about 2.5 percent of GDP in 2013, with a sizeable economic impact, most notably the PEP. To facilitate planning, ensure effective control, and prevent spending on low priority projects, SIDF activities should be fully taken into account when setting fiscal targets, including by using a unified public investment budget. At the same time, transfers to the budget should be guided by clear ex ante criteria to strengthen adherence to fiscal targets. There is a need to start developing a comprehensive fiscal framework that would merge the SIDF with the Government accounts, subsuming it into a new SGF. The authorities are committed to improving transparency of SIDF operations by encouraging the timely publication of the SIDF's audited financial statements for 2012 and beyond, and encouraging the SIDF to publish its project selection process. Regarding the PEP, staff is encouraged by efforts to improve its sustainability by capping the number of new participants and engaging private employers in covering partial costs. Staff emphasized that the temporary nature of the program should be enforced, and consideration should be given to reducing the stipend for young graduates, in line with the program's training objective.

C. Financial Sector

15. Continued vigilance and progress in strengthening the safeguards for the financial system are needed. Managing the rapid increase in banks' liquidity presents new risks as limited and undiversified options for expanding credit may magnify banks' exposure to tourism and construction, with the latter highly exposed to a deterioration in CBI inflows. Notwithstanding the difficulties in maintaining adequate return on assets in this environment, banks should continue to exercise caution while devising growth strategies to safeguard asset quality. In this context, the creation of a wealth fund to manage CBI savings would help shield the domestic banking system. The mission called for renewed consideration to be given to eliminating the 3 percent interest floor on savings accounts. With the ending of the program, the BSRF—created to stabilize banks during the debt restructuring—is being unwound. This underscores the need to continue to consult and collaborate with the ECCB, IMF and the World Bank regarding the possible fallout from the ongoing regional financial difficulties, and undertake necessary due diligence when assessing plans for regional financial sector integration. Continued efforts are also needed to further build the institutional capacity of the Financial Services Regulatory Commission (FSRC) for on-site and off-site supervision. The issuance of the implementing regulations supporting the FSRC Act is also critical to enhancing the FSRC's supervisory powers, including through stronger reporting requirements.

D. Structural Reform and Growth

16. There has been mixed progress in implementing the structural reform agenda. The implementing regulations of the 2011 Civil Service Act were operationalized by Official Gazette on May 15 (structural benchmark for end-June 2014). However, the submission of the Customs Law (end-May structural benchmark) has been delayed. The authorities have agreed to implement this as a prior action for this review, as an indication of their commitment to continue with the structural reforms that have begun under the program, but which, for various factors, were delayed beyond the program period. As envisaged in the combined seventh and eight reviews, three other benchmarks that were initially part of the program are delayed past the program period. The authorities indicate in the attached LOI that they plan to complete two of these measures after the program period, by end-2014. A third measure, completion of the draft proposal for a comprehensive pension reform, has been delayed to allow further reflection on its integration with the ECCU regional initiative on pension reform. Further, they will continue ongoing efforts to enhance revenue collection, maintain expenditure control, and press ahead with improvements in public financial management. The Special Land Sales Company Limited (SLSC) (St. Kitts) should commence sales in the second half of 2014 and the NIA is in the process of operationalizing its land sales company and adopting operational guidelines.

St. Kitts and Nevis: Structural Benchmarks for March 2014

Action	Target Date	Status
Submit to parliament the new Customs Law	End-May 2014	delayed; new prior action
Operationalize the implementing regulations of the 2011 Civil Service Act (pertaining to recruiting, discipline, promotion, and standing orders) by amending the general orders accordingly	End-June 2014	completed; May 15, 2014

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

17. Staff emphasized the need to continue and step up reforms to support sustainable private sector development to accelerate growth. The priorities should be:

- ***Enhance tourism's contribution to the economy.*** Completion of the new tourism master strategy will provide a roadmap for growth by developing more diversified source markets, raising the value-added of tourism through upgrading the hotel stock and infrastructure, tapping into the yachting market, and increasing backward linkages to other sectors.
- ***Continue efforts to improve the investment climate.*** Though commendable efforts in some of these areas have been made, such as the expansion of e-filing to include property tax and corporate income tax by end-September 2014, more remains to be done, such as lowering administrative hurdles for property registration and fortifying resources for contract enforcement.
- ***Strengthen the monitoring of real estate developments.*** Notwithstanding the beneficial impact of the rapid expansion of CBI inflows on construction, unchecked construction developments could risk tarnishing the reputation of the "St. Kitts and Nevis Brand" and the CBI program. Regulating the quality and pace of development would help maintain a quality housing stock and prevent overbuilding, while addressing environmental considerations related to such activities.

PROGRAM ISSUES

18. In accordance with Fund policy, the Managing Director recommends the initiation of Post-Program Monitoring (PPM). Outstanding Fund credit to St. Kitts and Nevis exceeds the 200 percent of quota threshold for PPM, and there are no exceptional circumstances that would indicate that PPM is not warranted. Completion of the review will allow St. Kitts and Nevis to make additional and final purchases of 57.8 percent of quota. The authorities indicated their intention to continue to treat the arrangement as precautionary, which they began at the last review, and have repaid early EC$46 million—the Fund resources that were being held at the ECCB in the BSRF. This has reduced outstanding credit to the Fund by about 125 percent of quota to 407.8 percent at end-June 2014. The authorities do not plan to request a successor arrangement, and welcomed the continued policy dialogue under the PPM framework. They signaled their commitment to maintaining the medium-term fiscal framework underlying the SBA—bringing debt down to a sustainable level of 60 percent of GDP by 2020. The first PPM Board discussion, which will focus on the implementation of the fiscal performance net of CBI, progress with debt restructuring and structural reform, and steps toward the creation of the SGF, is envisaged within six months of the end of the current SBA, and would refer to the end-September fiscal outcome**.**

STAFF APPRAISAL

19. Substantial progress has been achieved under the Government's homegrown program, supported by a 36-month SBA. Fiscal and debt sustainability have significantly improved, reflecting substantial policy efforts, adjustments, and reforms, including an ambitious debt restructuring exercise. These positive developments also reflect large CBI inflows. The fiscal balance went from a deficit of 7.6 percent of GDP in 2010 to a surplus of 12.3 percent in 2013, while public debt was reduced from 159.3 percent of GDP to 103.1 percent, and it is on track to reach the ECCU target of 60 percent of GDP by 2020. In addition, the economy rebounded after a four-year recession, and is poised to grow at its potential rate over the medium-term. Inflation remains low and the external position has significantly strengthened. Looking forward, the challenge will be maintaining fiscal discipline in the face of ample CBI inflows and the forthcoming election.

20. The fiscal performance for the first quarter places the annual targets for 2014 within reach. Stronger-than-expected revenues more than offset higher current and capital spending and the Government is committed to meeting the end-year targets while progress with debt restructuring, partial early repayment of Fund credit outstanding, and faster GDP growth, is leading to a more rapid decline in the debt-to-GDP ratio. All but one of the end-March 2014 performance criteria were met, as the NIA accumulated a temporary small amount of external arrears that were cleared quickly. The authorities have strengthened measures to prevent the recurrence of arrears in the future. One structural benchmark for the review period was met ahead of schedule while the other has become a prior action for this review. There has been progress with two other previously delayed benchmarks, now scheduled for completion after the program expires. Staff commends the authorities for their continued prudence with the greater-than-anticipated CBI revenues, most of which were saved.

21. The success of the medium-term fiscal framework depends on maintaining fiscal discipline and implementing planned reforms. Continued efforts to contain expenditure, and especially the wage bill, while increasing tax revenues will be needed to maintain fiscal sustainability and avoid developing an overreliance on CBI receipts. Moreover, the debt restructuring exercise will need to be completed. Considerable progress with reforms in tax administration, including the non-renewal of transitory VAT arrangements during the first quarter of 2014, and improvements in public financial management have been made. Staff urged the authorities to press on with planned measures on tax and custom administration, civil service reform, particularly the public service wage audit and payroll assessment, and the streamlining of the social safety net, which should lead to improvements in public administration and greater control over the wage bill. There is also a need to step up the monitoring of the rest of the public sector, where further reform may be needed.

22. CBI inflows present an opportunity to reduce vulnerability to exogenous shocks and secure fiscal and external sustainability. Despite the many benefits of large CBI inflows, if not managed properly, they could exacerbate the economy's high vulnerability. Staff recommended that the authorities utilize excess CBI inflows to more rapidly reduce public debt, build precautionary buffers and create fiscal space for infrastructure investment. With respect to the latter two, staff encouraged the authorities to establish a fund, which would embody guidance on how to save, use, and invest CBI inflows, and would be anchored by the medium-term fiscal framework. Staff strongly urges the authorities to further strengthen institutional safeguards against CBI misuse for illicit purposes. Staff recommends greater integration of SIDF investments with the budget and substantial improvement in its reporting to enhance the transparency of its operations, and over the medium-term the creation of a comprehensive fiscal framework.

23. Continued vigilance regarding financial sector developments is needed. Banks remain stable, notwithstanding the recent possible reclassification of NPLs. The near-term poses some challenges for banks' profitability and capitalization, and increased monitoring of bank lending would help ensure that the higher liquidity does not translate into banks taking on undue risks. The authorities are encouraged to continue to work closely with the ECCB to monitor financial sector developments of other ECCU territories to minimize potential contagion risks. While linkages appear to be minimal, continued vigilance and readiness for prompt action are needed.

24. The priority going forward must continue to center on growth, bolstering competitiveness and improving employment opportunities. In addition to sustaining reforms initiated under the program to strengthen public finances, efforts to enhance private sector development need to be stepped up. The focus should continue to be on tourism, improving the business climate, and strengthening the monitoring of CBI-related construction to ensure that overly rapid growth does not detract from long-term tourism potential.

25. Staff supports the request for completion of the ninth and final review under the Stand-By Arrangement and the granting of a waiver. The request for a waiver is related to the nonobservance of the continuous performance criterion on the accumulation of external arrears on Government and Government-guaranteed debt breached in October 2013, and is based on the authorities' continued commitment to their homegrown program. Staff commends the authorities for their demonstrated commitment to the program and congratulates them on the program's successful completion. Staff welcomes the early repayment of a significant portion of Fund's outstanding credit and the authorities' plans to continue to treat the arrangement as precautionary. The Managing Director recommends the initiation of Post-Program Monitoring, given that outstanding Fund credit to St. Kitts and Nevis remains above 200 percent of quota, and the first Post-Program Monitoring review would be expected to be presented to the Executive Board within six months of the end of the current SBA.

Box 1. Structural Reforms Under the Program

Context: St. Kitts and Nevis' home grown economic program supported by the IMF Stand By Arrangement (SBA) was launched in a highly adverse economic environment following a sharp decline in tourism and construction-related FDI inflows in the aftermath of the global financial crisis, and the collapse of two large regional insurance companies which had significant presence in St. Kitts and Nevis. By end-2010, public debt was one of the highest in the world at 159 percent of GDP, GDP had fallen by a cumulative of 7.5 percent since 2009 and the fiscal position had significantly deteriorated to a deficit of 7.6 percent of GDP.

Objectives: The economic reform program focused on putting public finances on a sustainable trajectory—through fiscal consolidation efforts and comprehensive debt restructuring—and on strengthening the financial system, both with the support of structural reforms.

Reforms implemented:

- ***Completing a substantial share of the debt restructuring exercise.*** Public announcement of the Government's debt restructuring plan was a prior action under the program, allowing for open and transparent debt negotiations. Public debt declined from 159 percent of GDP at end-2010 to about 103 percent at end-2013, and is projected to fall to 86 percent at end-2014. The bulk of the debt-for-land swap with domestic creditors was successfully completed in July 2013, with the remaining tranche scheduled for the second half of 2014. Bilateral agreements with Paris Club creditors were concluded in July 2012, yielding some debt forgiveness by one creditor and rescheduling by another. The structural benchmark of establishing and operationalizing the Special Land Sales Company (St. Kitts) in line with best international practices was completed in March 2014 (a prior action) and the Nevis Island Administration is soon to operationalize its land sale company.

- ***Strengthening the financial sector.*** The Banking Sector Reserve Fund (BSRF), established under the SBA, helped the domestic banking system remain stable during the debt restructuring process. Quarterly bank stress tests, set as a structural benchmark, continued to show financial system resilience, while banks did not need to draw on the BSRF throughout the SBA. Supervision of non bank financial institutions has also been strengthened, including through the establishing the Single Regulatory Unit in October 2010.
- ***Improving tax administration and widening the tax base. These include:***

  - **Establishing a unit in the Inland Revenue Department**, dedicated to the design, planning and monitoring of strategic initiatives on tax compliance and upgrading the legal and operational framework. This has been competed in September 2013.
  - **Launching and operationalizing a Large and Medium Taxpayer Unit (LMTU)** to strengthen tax collection and tax payer compliance was completed in December 2013.
  - **Launching the e-filing program in the Inland Revenue Department** to facilitate and enhance tax filing procedures.
  - **Ongoing revision of the tax administration legislation** to harmonize the Tax Administration Procedures Act with the VAT Act to help extend best practices of the VAT system to the full range of administered taxes.
  - **Reducing discretionary tax exemptions.** The temporary VAT and custom duties exemptions on construction materials were terminated for new projects at end-2013 and total exemptions were capped at EC$100 million for 2014, down from EC$ 122 million in 2012.

Box 1. Structural Reforms Under the Program (Concluded)

- **Enhancing enforcement at the Customs and Excise Department,** including through improved risk-management practices, such as risk profiling in cargo clearance procedures. A new Customs Law, which facilitates the enforcement of post-clearance audits, is to be submitted to Parliament in July 2014.

- ***Strengthening the public financial management framework. These include:***
  - **Adopting an explicit medium-term debt management strategy,** which is now integrated into the annual budgeting process and published.
  - **Containing transfers to public enterprises and strengthening their financial position,** including through reviewing the borrowing capacity of public enterprises and enacting provisions to strengthen financial reporting and the enforcement authority of the Government Entities Oversight Board, completed in July 2013.
  - **Adopting a new Procurement and Contract (Administration) Act in 2012.**
  - **Streamlining the social safety net,** including through the development of a National Social Protection System and the restructuring of the civil servants' pension system, which benefited from the adoption of the new Pension Act at end-2012.

Reforms initiated; these have set necessary groundwork, but will require further action to fully realize their intended benefits:

- ***Comprehensive civil service reform*** to improve the efficiency of the public sector, address wage policy and strengthen payroll management. The implementing regulations of the 2011 Civil Service Act were operationalized by Official Gazette in May 2014, laying the foundation for the effective implementation of the legislation which is expected to enhance public financial management. The payroll audit and assessment, and the functional review for public sector modernization, planned with TA support from the World Bank through April 2015, are critical steps yet to be taken in the civil service reform process.
- ***Corporatization of the St. Kitts Electricity Department*** in August 2011, a reform completed early in the program, may require further action to ensure the company's viability.
- ***A proposal to rationalize the subsidy on liquefied petroleum gas (LPG)*** was approved by Cabinet in 2012; however, plans for introducing a full pass-through pricing system have been postponed, pending the conclusion of the regional initiative on renegotiating the petroleum market price structure.

Reforms delayed:

- ***The development of the method for proxy means testing for the cash transfer pilot program*** aimed at consolidating all existing social programs offered across ministries has been delayed by a year to end-2014, mainly because of an interruption related to sourcing relevant technical assistance.
- ***The implementation of the Procurement and Contract (Administration) Act*** suffered from delayed finalization of the implementing regulations because of lack of donor funding for necessary TA; this measure is now set for completion by end-2014 and will be financed from own resources.
- ***Developing a draft proposal for a comprehensive pension reform*** has been subsumed by the authorities' plans to integrate this with the ECCU regional initiative on pension reforms.

Box 2. The Sugar Industry Diversification Foundation's Economic Activities

The size and activities of the Sugar Industry Diversification Foundation (SIDF) have substantially expanded in recent years. The SIDF was established in 2006 as an independent foundation, funded by contributions from the CBI program, to support the development and diversification of the economy away from the sugar industry, by providing training and conducting research. Its focus was expanded in 2011 to include support to the Government's efforts to diversify the economy and maintain stability, and to finance or undertake the development of new and existing industries, projects or enterprises. Benefiting from the recent surge in CBI inflows, SIDF's income increased substantially from less than 1 percent of GDP in 2007 to an estimated 12 percent of GDP in 2013, with accumulated assets estimated about 24 percent of GDP. Of these, about half (11 percent of GDP) were cash and deposits in domestic banks, and the rest invested in loans, bonds and equities. Meanwhile, its expenditure grew modestly until 2013, when it rose due to an increase in grants to Government and others.

SIDF Operations

(In percent of GDP)

	2007	2008	2009	2010	2011	2012 est	2013 est
Income 1/	0.9	1.5	2.4	5.9	8.7	10.1	11.9
Expenditure 1/	0.1	0.3	0.8	2.5	3.4	2.8	7.0
Investment proceeds to Gov.	0.0	0.0	0.0	1.0	0.7	1.5	1.7
Capital grants to Gov.	0.0	0.1	0.3	0.4	1.4	0.2	2.0
Grants to others 2/	0.0	0.1	0.2	0.8	0.5	0.1	2.4
Other expenditure 3/	0.1	0.2	0.2	0.3	0.8	0.9	1.0
Surplus	0.8	1.2	1.6	3.4	5.3	7.3	5.0

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

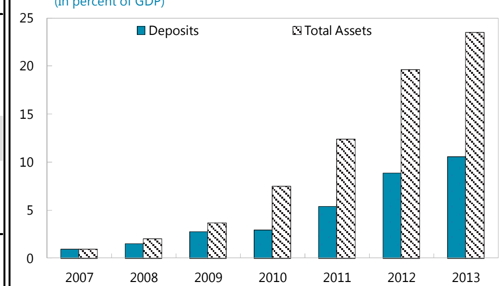
1/ Net of Processing and due diligence fees.

2/ Including electricity and airlift subsidy, support to PEP and other social programs.

3/ Administrative cost, including marketing fees, management fees and other spending.

SIDF Deposits and Assets

(In percent of GDP)



Sources: 2007-2011 data from SIDF financial statements, 2012-2013 from authorities and staff estimates.

The SIDF's budgetary support and direct social spending increased in 2013, with a sizeable impact on economic activity. Its budgetary support consists of investment proceeds and capital grants, which totaled about 3.7 percent of GDP in 2013, double the amount in 2012, in response to the Government's request. SIDF directly funds a variety of social programs, as well as targeted economic programs. The former includes the People Employment Program (PEP), while the latter includes electricity and airlift subsidies. The SIDF also supports subsidized credit activities through the banking system by providing zero interest deposits, which are leveraged by banks to provide targeted credit facilities at lower-than-market rates. These include the Fund for the Realization of Economic Empowerment through Subsidized Housing (FREESH), the Housing Enhancement Loan Program (HELP) and the Small Entrepreneur and Enterprise Development (SEED). The total amount of these facilities was about 1.5 percent of GDP by end-2013, which would generate subsidies of about 0.05 percent of GDP per year.

SIDF Direct Social and Economic Spending

(In Percent of GDP)

Direct Support	**2010**	**2011**	**2012**	**2013**
Training activities	0.0	0.04	0.0	1.7
Airlift Support	0.4	0.2	0.0	0.0
Electricity Subsidy	0.0	0.0	0.0	0.7
Totals	0.4	0.24	0.0	2.4

Sources: SIDF and staff estimates.

The consolidated accounts of the Central Government and the SIDF provide for a more comprehensive picture of the economic impact of public sector activity. The consilidated accounts show substantially stronger revenue, expenditure and overall balance. In 2013, SIDF income net of flows that are already incorporated into the budget— investment proceeds and capital grants—would have boosted non-tax revenue from 19 to 27 percent of GDP, fiscal expenditure would have been higher by about 3-3.5 percent of GDP (excluding forgone interest on deposits discussed above), and the fiscal surplus would have increased from 12 to 17 percent of GDP. More importantly, the consolidated accounts show a very rapid increase in total spending.

Consolidated SIDF and Central Government Account

(In percent of of GDP)

	2010	2011	2012 est	2013 est
Total Revenue and Grants	**34.7**	**43.2**	**44.3**	**54.2**
Government	30.2	36.6	36.0	45.9
SIDF 1/	4.5	6.6	8.3	8.3
Total Expenditure	**38.8**	**36.1**	**32.0**	**36.9**
Government	37.8	34.8	31.0	33.6
SIDF 1/	1.1	1.3	1.0	3.3
Total Overall Balance	**-4.2**	**7.1**	**12.3**	**17.2**
Government	-7.6	1.8	5.0	12.3
SIDF	3.4	5.3	7.3	5.0

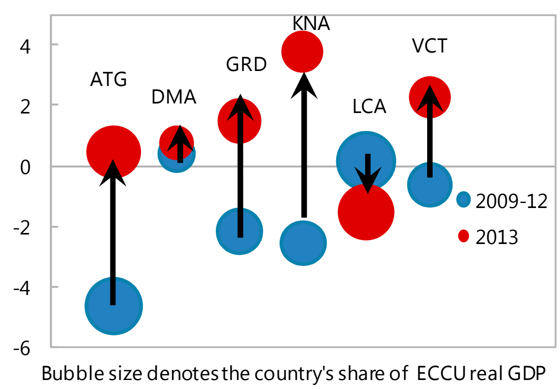
Sources: St. Kitts and Nevis authorities and staff estimates.

1/ Net of investment proceeds and capital grants to the budget.

Figure 1. St. Kitts and Nevis in the Regional Context

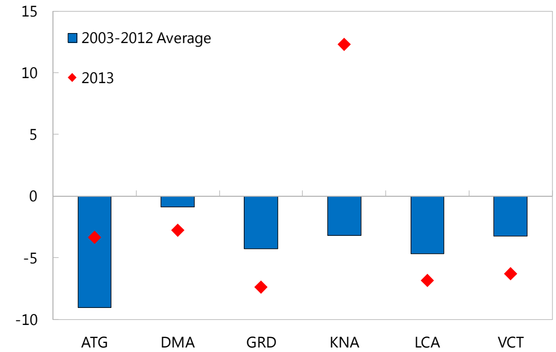
Economic recovery in 2013 has been stronger than in the rest of the region…

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



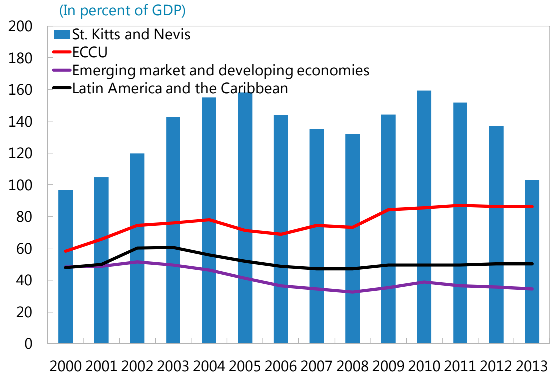
…with a significantly better fiscal position.

Overall Fiscal balance
(In percent of GDP)



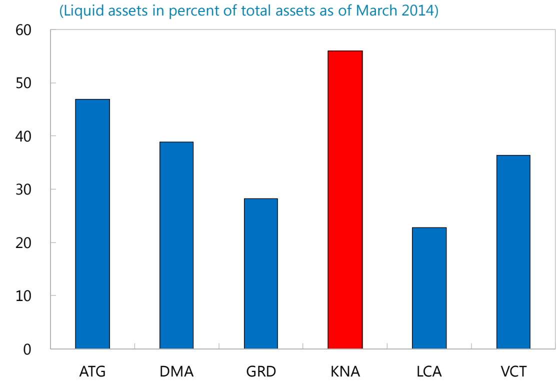
Public debt still stands higher than the regional average despite the recent debt restructuring.

Public Debt
(In percent of GDP)



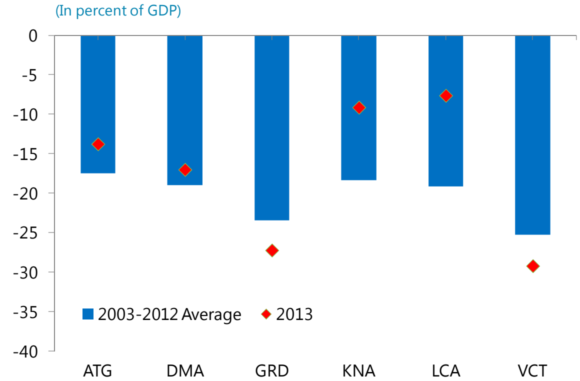
The banking system remains the most liquid.

Banking System Liquidity
(Liquid assets in percent of total assets as of March 2014)



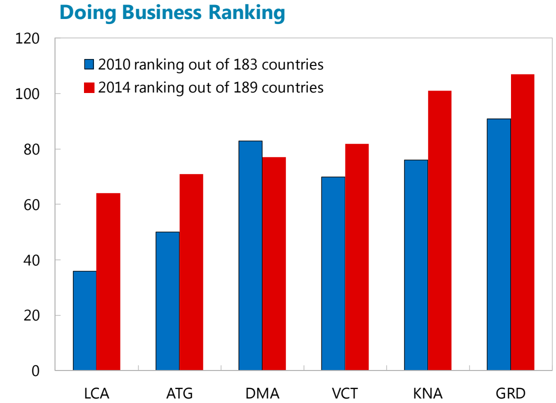
External position is stronger than most peers.

Current Account Balances
(In percent of GDP)



The business climate should be further improved.

Doing Business Ranking

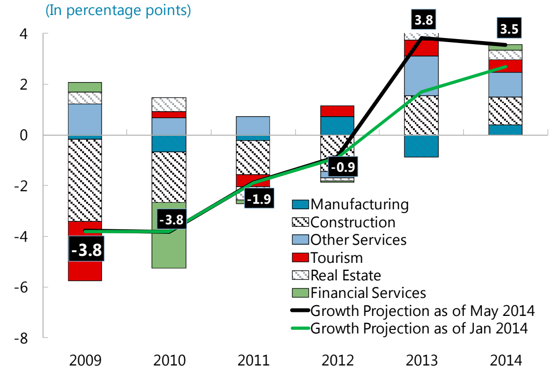


Sources: Authorities and IMF staff estimates.

Figure 2. St. Kitts and Nevis: Real Sector Developments and Near-Term Outlook

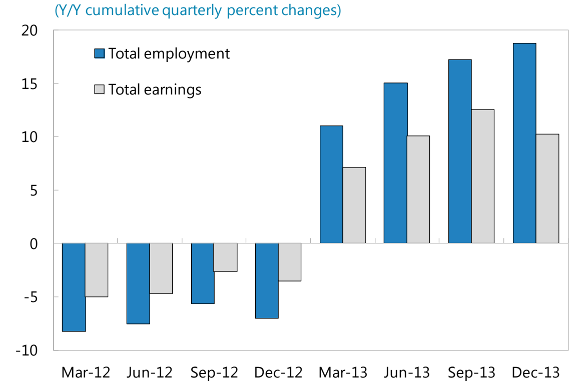
The economic recovery is stronger than anticipated…

Contribution to Growth
(In percentage points)



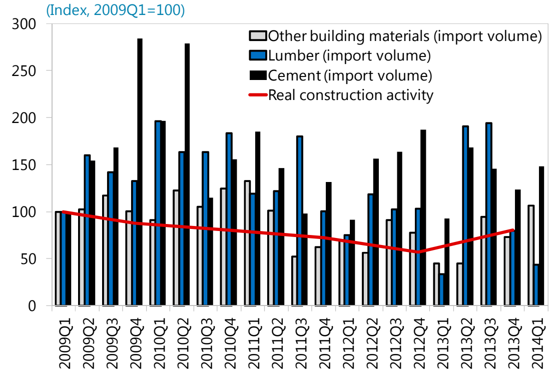
…as both employment and wage earnings rebounded, with support from the People Employment Program.

Employment and Earnings
(Y/Y cumulative quarterly percent changes)



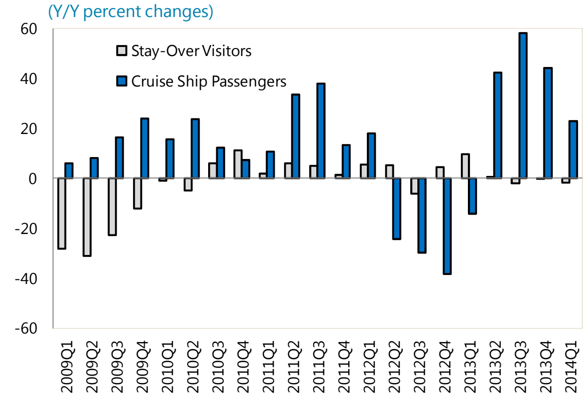
Construction activities have picked up, reflecting large CBI inflows and higher public investment…

Construction Performance
(Index, 2009Q1=100)



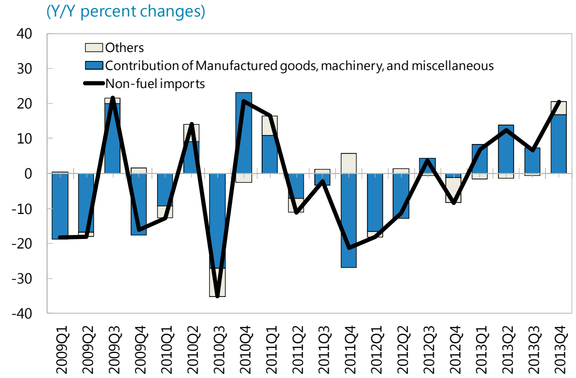
…while stay-over arrivals remain stable at the same time that cruise ship passengers have grown rapidly.

Quarterly Tourism Performance
(Y/Y percent changes)



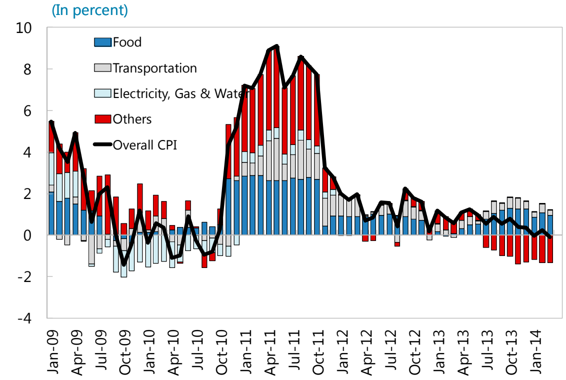
Non-fuel imports have increased, reflecting the pickup in economic activity…

Non-fuel Imports
(Y/Y percent changes)



…while inflation remains low and stable.

Inflation
(In percent)

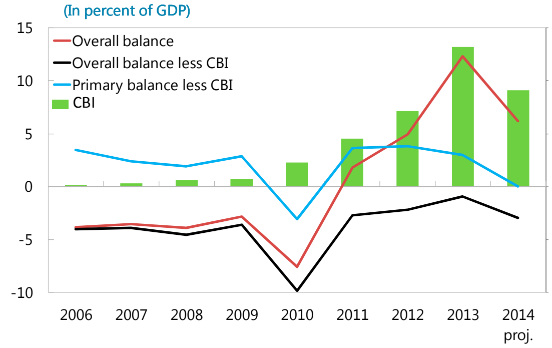


Sources: Authorities and IMF staff estimates.

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

The fiscal position further strengthened in 2013....

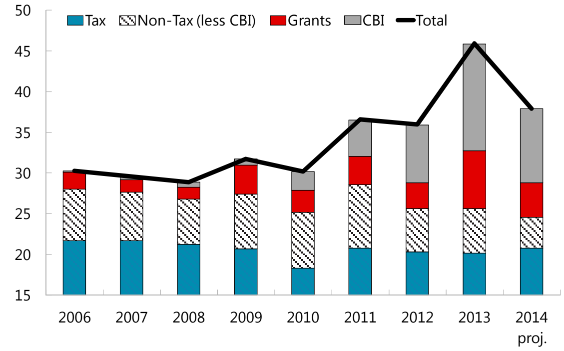
Central Government Fiscal Balance
(In percent of GDP)



The projection for 2014 reflects a conservative assumption for CBI receipts of 9.1 percent of GDP compared to 13.2 percent in 2013.

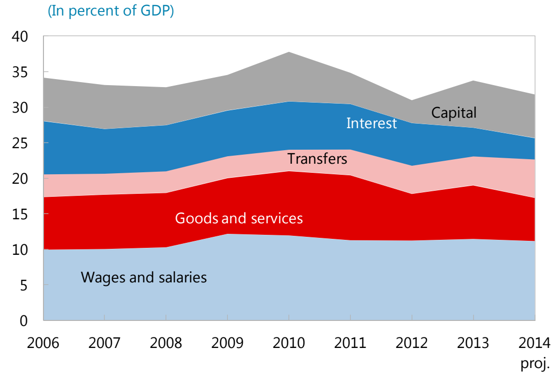
...as a solid outturn for tax revenues, coupled with buoyant CBI inflows and capital grants ...

Total Revenue and Grants
(in percent of GDP)



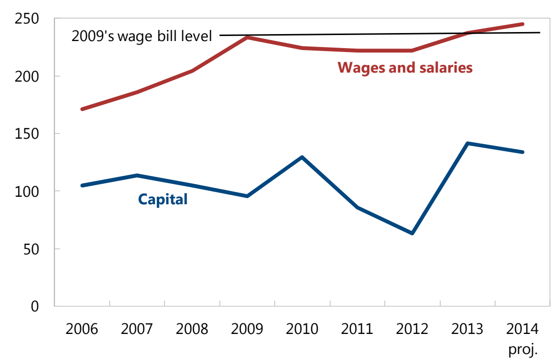
...offset a substantial increase in capital expenditure.

Total Expenditure
(In percent of GDP)



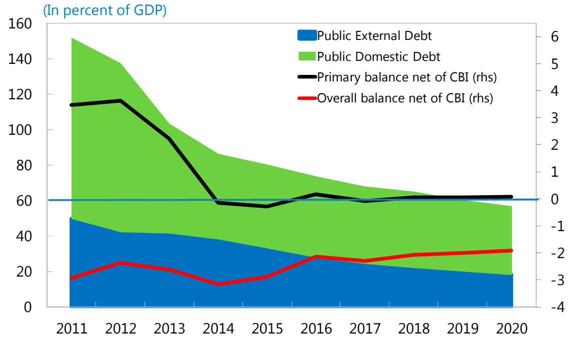
The wage bill increased in 2013 after several years of decline.

Current Expenditure
(in millions of EC$)



Debt restructuring and fiscal consolidation placed debt on a sustainable trajectory...

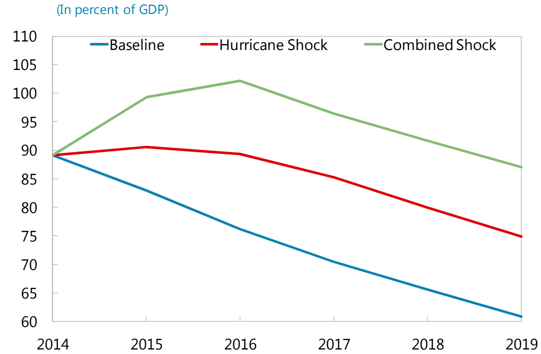
Medium-term fiscal framework 1/
(In percent of GDP)



1/ Assumes CBI receipts at EC$200 million in 2014, EC$100 in 2015-2017, and EC$ 80 million 2018-2020.

...but debt remains high and vulnerable to shocks.

Gross Nominal Public Debt
(In percent of GDP)

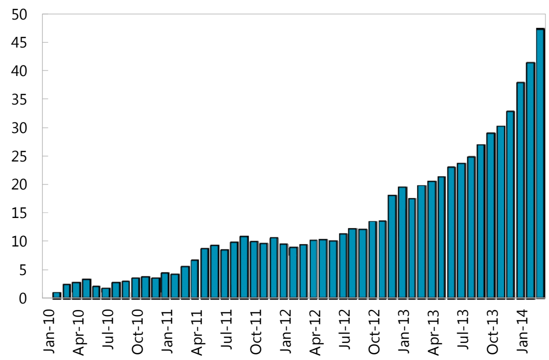


Sources: Authorities and IMF staff estimates.

Figure 4. St. Kitts and Nevis: Monetary Developments

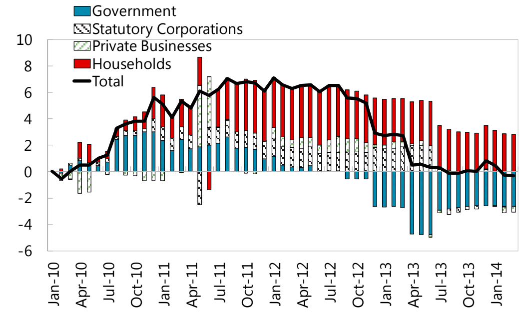
Growth in banking system deposits has been accelerating since end-2012, and continues to increase…

Total Deposits
(Cumulative Percentage Change since 2010)



…while the recovery in bank credit remains elusive.

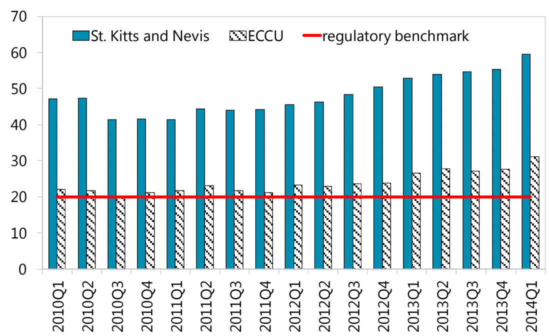
Total Bank Credit [1]
(Cumulative Percentage Change since 2010)



1/ excludes operations pertaining to the debt/land swap in July 2013 and the associated increase in the banking sector's share in the SPV.

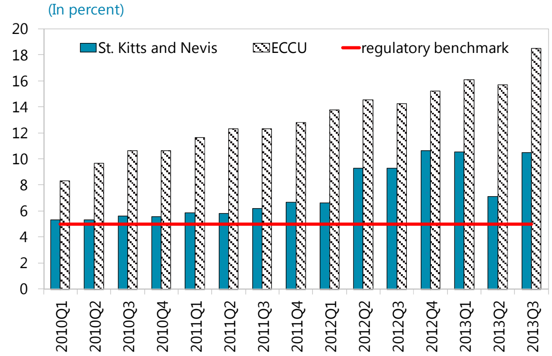
Banks' liquidity continues to grow….

Net Liquid Assets to Total Deposits
(In percent)



…while available NPL data show an increase in 2013Q3 reflecting a decline in the loan portfolio following the debt-for-land swap

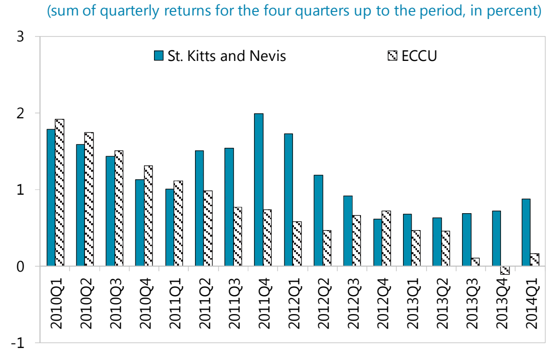
NPLs to Total Loans [1/]
(In percent)



1/ The NPL ratios for 2013Q4 and 2014Q1 have not been published by the ECCB.

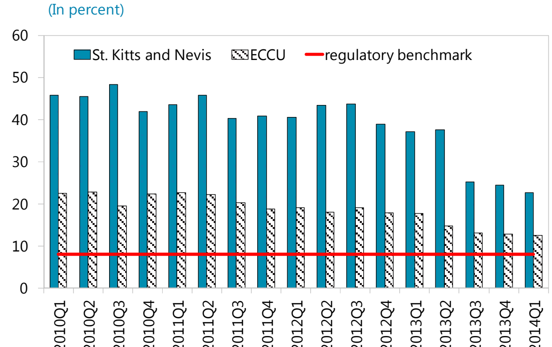
Bank profitability is slowly recovering

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



Banks' reported capitalization, although still high for the region, declined following the debt-for-land swap reflecting a risk rating for land assets of 100 percent.

Total Capital to Risk Weighted Assets
(In percent)



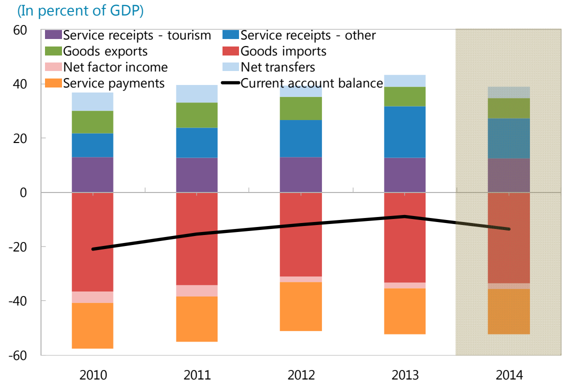
Sources: ECCB and IMF staff estimates.

Figure 5. St. Kitts and Nevis: External Sector Developments

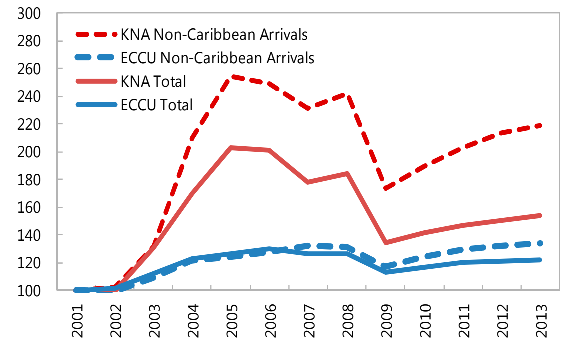
Notwithstanding an expansion in imports, the current account balance improved substantially in 2013, reflecting large CBI-related service receipts...

...and a pickup in high-end stay-over visitors.

Current Account
(In percent of GDP)



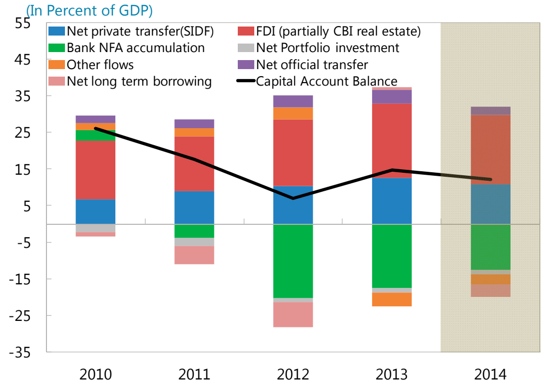
Stay-Over Arrivals
(Index, 2000=100)



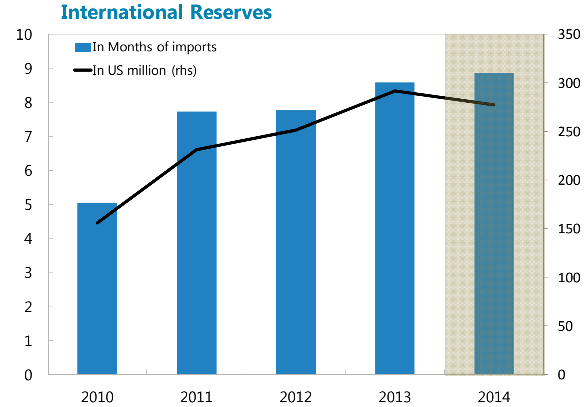
Large CBI-related FDI and capital transfers were partially offset by a surge in NFA, resulting in a moderate increase in the capital account balance.

As a result, international reserves have increased.

Capital Account
(In Percent of GDP)



International Reserves



Sources: Authorities and IMF staff estimates.

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, 2012)	53.6	Calorie intake (per capita a day, 2011)	2,452
Rate of growth (percent per year, 2012)	1.15	Population per physician (thousand, 2000)	1.1
Density (per sq. km., 2011)	203.7	Access to safe water (percent, 2008)	99
Net migration rate (per thousand, 2012)	1.2	AIDS incidence rate (per 100,000, 2011)	32
Population characteristics (2008)		Gross domestic product (2012)	
Life expectancy at birth (years)	73	(millions of U.S. dollars)	732
Infant mortality (per thousand live births)	9.2	(millions of E.C. dollars)	1,976
Under 5 mortality rate (per thousand)	15	(US$ per capita)	13,655

II. Economic and Financial Indicators, 2010—15

	2010	2011	2012	Prog. 1/ 2013	Proj. 2013	Prog. 1/ 2014	Proj. 2014	Proj. 2015
(Annual percentage change; unless otherwise specified)								
National income and prices								
Real GDP (factor cost)	-3.8	-1.9	-0.9	1.7	3.8	2.7	3.5	3.2
Consumer prices, end-of-period	5.2	2.8	0.1	0.4	0.4	1.5	0.9	1.8
Consumer prices, period average	0.6	7.1	1.4	0.7	0.7	0.7	0.6	1.4
Real effective exchange rate (end-of-period)	-2.5	2.3	-0.8	...	...	...	...	...
Banking system								
Net foreign assets 2/	1.1	15.5	21.8	14.5	20.4	3.5	13.2	1.7
Net domestic assets 2/	7.8	-5.5	-10.4	-4.9	-9.9	0.8	-3.4	2.3
Of which								
Credit to public sector	4.9	-9.0	-10.7	-37.0	-39.0	-11.0	-14.3	0.4
Credit to private sector	2.6	2.6	0.1	-1.4	-0.5	2.2	1.4	2.0
Broad money	8.9	10.0	11.4	9.5	10.4	4.3	9.8	4.1
Of which								
Money	43.1	34.7	12.0	-6.2	-3.4	2.0	5.9	3.9
Quasi-money	3.3	4.4	11.3	14.1	14.5	4.9	10.7	4.1
(In percent of GDP)								
Public sector 3/								
Primary balance	-0.8	8.2	11.0	15.5	16.2	4.6	9.2	4.3
Overall balance	-7.6	1.8	5.0	10.6	12.3	1.6	6.2	1.7
Overall balance (less CBI)	-9.8	-2.7	-2.2	-2.4	-0.9	-3.1	-3.0	-2.7
Total revenue and grants	30.2	36.6	36.0	42.3	45.9	34.2	37.9	33.0
Revenue	27.5	33.1	32.8	37.3	38.9	29.5	33.7	29.3
o.w. CBI fees	2.3	4.5	7.1	13.0	13.2	4.7	9.1	4.4
Grants	2.7	3.5	3.2	4.9	7.0	4.7	4.2	3.8
Total expenditure and net lending 4/	37.8	34.8	31.0	31.7	33.6	32.6	31.8	31.4
Current expenditure	30.8	30.5	27.8	26.9	26.8	26.3	25.7	25.2
Capital expenditure and net lending	6.9	4.4	3.2	4.7	6.8	6.3	6.1	6.2
Foreign financing 5/	0.3	0.3	-5.3	0.5	0.0	-1.1	-2.9	-2.7
Domestic financing	7.5	-8.7	-13.8	-36.1	-36.9	-3.5	-5.7	0.6
Change in arrears	1.0	1.6	-1.0	-0.6	-0.6	0.0	0.0	0.0
Sale of assets	0.7	0.4	0.5	0.2	0.2	0.4	-0.3	0.4
Extraordinary financing 6/	...	...	15.5	25.4	25.2	2.6	2.6	0.0
Statistical discrepancy	-1.8	4.5	-0.9	0.0	(0.2)	...	...	...
Total public debt (end-of-period) 7/	159.3	151.7	137.3	104.9	103.1	91.2	86.2	80.1
Central government	125.8	121.0	110.5	80.1	78.6	76.1	71.4	66.0
Public enterprises	33.5	30.7	26.8	24.8	24.5	15.1	14.8	14.1
Public debt service (percent of total revenue and grants)	29.1	22.2	57.3	15.1	11.9	15.4	18.4	18.6
External sector								
External current account balance	-20.9	-15.5	-11.9	-8.5	-9.0	-17.4	-13.5	-18.1
Trade balance	-28.1	-25.0	-22.4	-25.7	-26.1	-26.6	-26.2	-26.0
Services, net	4.8	7.2	8.6	14.8	14.8	7.1	10.7	5.7
Of which								
Tourism receipts	13.0	12.7	13.0	13.1	12.7	13.5	12.6	12.4
Transfers, net	6.7	6.4	4.0	4.5	4.4	4.3	4.2	4.2
Net capital inflow 8/	24.6	17.8	4.2	11.9	13.0	18.2	18.4	16.1
FDI (net)	16.0	15.1	18.2	20.4	20.2	18.5	18.9	18.2
External public debt (end-of-period)	48.1	49.8	42.3	42.5	41.6	41.5	36.4	33.5
(In percent of exports of goods and nonfactor services)								
External public debt service	24.5	23.7	10.4	8.3	8.2	12.5	17.7	25.4
External public debt (end-of-period)	159.8	150.2	120.0	108.5	107.1	131.9	104.8	112.3
Memorandum items								
Gross international reserves, end-of-period								
(in millions of U.S. dollars)	164.8	240.7	256.9	286.8	296.6	291.4	319.8	287.1
(in percent of broad money)	23.4	31.1	29.7	30.3	31.1	29.5	30.5	26.3
Holdings of SDRs, in millions of U.S. dollars	12.8	12.8	12.8	13.8	13.8	13.8	13.8	13.8
Nominal GDP at market prices (in millions of EC$)	1,870	1,966	1,976	2,071	2,093	2,147	2,192	2,298

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

1/ IMF Country Report No. 14/86.

2/ In relation to broad money at the beginning of the period.

3/ Central government unless otherwise noted. Primary and overall balances are based on above-the-line data.

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/ Reflects operations linked to the restructuring of Central Government debt, and not reflecting a further debt/land swap equivalent to EC$189 million in 2014 related to public enterprise debt.

7/ Reflects the debt/land swap equivalent to EC$565 million in 2013 and assumes a debt/land swap equivalent to EC$245 million in 2014.

8/ Includes errors and omissions.

Table 2. St. Kitts and Nevis: Central Government Fiscal Operations, 2010–20 1/

(In millions of Eastern Caribbean dollars)

				Prog. 2/	Proj.	Prog. 2/	Proj.						
	2010	2011	2012	2013	2013	2014	2014	2015	2016	2017	2018	2019	2020
Total revenue	**513.5**	**651.1**	**648.2**	**772.9**	**813.4**	**632.4**	**738.6**	**672.7**	**702.9**	**735.1**	**742.9**	**778.9**	**816.5**
Current revenue	513.5	650.0	647.9	772.9	813.4	632.4	738.6	672.7	702.9	735.1	742.9	778.9	816.5
Tax revenue	342.4	408.1	401.6	416.7	422.2	449.2	455.3	485.6	512.8	539.7	566.9	597.4	631.4
Taxes on income	92.6	86.6	81.4	84.9	82.3	84.8	86.0	91.5	96.1	100.7	105.6	111.1	117.9
Taxes on property	9.4	8.8	12.9	15.0	14.9	15.7	15.8	16.5	17.4	18.3	19.2	20.2	21.3
Taxes on domestic goods and consumption 3/	84.2	208.3	206.0	210.5	217.4	229.6	233.9	249.2	262.6	276.1	290.2	306.0	323.3
Taxes on international trade and transactions	156.3	104.4	101.2	106.3	107.6	119.1	119.6	128.3	136.6	144.7	152.0	160.0	168.9
Nontax revenue 4/	171.0	241.9	246.4	356.2	391.3	183.2	283.3	187.1	190.2	195.4	176.0	181.5	185.1
Citizenship by investment	42.1	88.8	141.0	270.0	276.9	100.0	200.0	100.0	100.0	100.0	80.0	80.0	80.0
Other	129.0	153.1	105.4	86.2	114.3	83.2	83.3	87.1	90.2	95.4	96.0	101.5	105.1
Total expenditure and net lending	**706.1**	**684.5**	**612.2**	**655.6**	**703.5**	**699.7**	**696.3**	**720.8**	**734.3**	**762.7**	**791.3**	**827.2**	**862.2**
Current expenditure	576.3	598.8	549.0	557.3	561.9	564.1	562.4	578.5	584.5	604.2	624.8	651.9	677.3
Wages and salaries	224.0	222.0	222.3	241.6	237.4	245.2	245.2	254.4	264.8	275.5	284.2	298.1	311.5
Goods and services 4/	169.1	179.7	130.1	134.1	157.7	135.8	133.3	141.5	148.9	156.4	164.2	172.9	179.7
Interest	127.0	126.0	118.2	100.4	82.5	64.8	65.6	59.5	55.7	56.0	56.7	58.1	59.3
Domestic	86.7	91.6	79.4	80.4	71.0	42.7	43.8	41.1	41.9	43.2	44.5	46.4	48.0
Foreign	40.3	34.4	38.8	20.0	11.5	22.0	21.8	18.5	13.8	12.8	12.2	11.8	11.3
Transfers 5/	56.2	71.1	78.3	81.2	84.3	118.3	118.3	123.1	115.1	116.3	119.7	122.8	126.9
Net lending	5.8	-0.6	0.1	1.0	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Capital expenditure	124.0	86.3	63.2	97.3	140.7	134.6	132.9	141.3	148.8	157.6	165.4	174.2	183.8
Current balance	**-62.8**	**51.2**	**98.9**	**215.7**	**251.6**	**68.3**	**176.2**	**94.2**	**118.4**	**131.0**	**118.1**	**127.0**	**139.2**
Overall balance (before grants)	-192.6	-33.3	35.9	117.3	110.0	-67.3	42.3	-48.2	-31.3	-27.6	-48.3	-48.3	-45.6
Grants	50.7	68.3	62.4	102.4	147.3	101.7	92.9	86.5	84.4	74.5	78.1	77.4	74.7
Overall balance (after grants)	**-141.9**	**35.0**	**98.3**	**219.8**	**257.3**	**34.5**	**135.2**	**38.3**	**53.0**	**46.9**	**29.8**	**29.2**	**29.1**
Primary balance	-14.9	160.9	216.5	320.2	339.7	99.2	200.9	97.8	108.8	102.9	86.5	87.3	88.3
Overall balance (after grants less CBI)	**-184.0**	**-53.9**	**-42.7**	**-50.2**	**-19.7**	**-65.5**	**-64.8**	**-61.7**	**-47.0**	**-53.1**	**-50.2**	**-50.8**	**-50.9**
Primary balance (after grants less CBI)	-57.0	72.1	75.5	50.2	62.8	-0.8	0.9	-2.2	8.8	2.9	6.5	7.3	8.3
Financing	**176.3**	**-124.4**	**-80.5**	**-219.8**	**-253.3**	**-34.5**	**-135.8**	**-39.4**	**-53.0**	**-46.8**	**-29.7**	**-29.0**	**-28.9**
Net foreign financing	5.0	6.4	-105.1	9.7	0.5	-23.7	-62.6	-62.4	-76.2	-45.7	-22.9	-18.2	-17.9
Disbursements 6/	41.9	143.3	94.6	41.7	32.5	24.6	24.6	19.5	19.4	14.2	10.9	10.0	10.0
Amortization	36.9	136.9	199.7	32.0	32.0	48.3	87.2	81.9	95.6	59.9	33.8	28.2	27.9
Net domestic financing	140.3	-170.7	-272.4	-748.1	-772.5	-75.6	-124.1	14.1	13.8	-11.0	-17.2	-21.8	-22.6
Banking system	105.2	-206.6	-260.4	-748.1	-772.5	-75.6	-124.1	14.1	13.8	-11.0	-17.2	-21.8	-22.6
Nonbanks and other	11.4	-2.0	-12.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing arrangement on fuel purchase	23.6	38.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	18.3	31.8	-19.9	-12.2	-12.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	0.0	63.8	-24.4	-12.2	-12.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	0.0	49.1	-17.2	-7.8	-7.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.0	14.7	-7.2	-4.4	-4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	18.3	-32.0	4.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sale/purchase of assets	12.8	8.1	9.6	4.0	4.1	8.4	-5.5	9.0	9.4	9.9	10.4	11.0	11.6
Exceptional financing	0.0	0.0	307.3	526.8	526.8	56.5	56.5	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	-34.4	89.4	-17.8	0.0	-3.9	…	…	…	…	…	…	…	…
Memorandum items:													
Primary balance including 14 public enterprises	27.3	203.5	239.0	358.4	350.8	113.8	215.3	111.4	122.0	115.8	99.0	99.4	100.1
Overall balance including 14 public enterprises	-145.6	31.3	94.6	234.1	225.2	29.9	129.6	31.7	45.6	38.5	20.4	18.9	17.8
GDP (market prices)	1,870	1,966	1,976	2,071	2,093	2,147	2,192	2,298	2,419	2,540	2,666	2,808	2,963
Public sector debt (end of period)	2,978	2,981	2,713	2,172	2,158	1,958	1,890	1,841	1,778	1,721	1,730	1,690	1,681
Central government	2,353	2,378	2,184	1,658	1,644	1,633	1,565	1,517	1,454	1,397	1,406	1,366	1,357
Domestic	1,641	1,555	1,427	892	887	891	829	843	857	846	877	855	865
External	711	823	757	767	757	743	736	673	597	551	529	511	493
Public enterprises	626	603	529	513	513	325	325	325	324	324	324	324	324

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

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

2/ IMF Country Report No. 14/86.

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/ Data from August 2011 exculdes the electricity department following its corporatization.

5/ Includes a 3.5 percent dividend payment on unsold lands held by the Special Land Sales Company (St. Kitts) Limited and the Land Sales Company in Nevis, that were transferred, as part of the debt-land swap agreement.

6/ 2012 disbursement includes financing to regularize the external arrears related to fuel purchases.

Table 3. St. Kitts and Nevis: Central Government Fiscal Operations, 2010–20 1/

(In percent of GDP)

				Prog. 2/	Proj.	Prog. 2/				Proj.			
	2010	2011	2012	2013	2013	2014	2014	2015	2016	2017	2018	2019	2020
Total revenue	**27.5**	**33.1**	**32.8**	**37.3**	**38.9**	**29.5**	**33.7**	**29.3**	**29.1**	**28.9**	**27.9**	**27.7**	**27.6**
Current revenue	27.5	33.1	32.8	37.3	38.9	29.5	33.7	29.3	29.1	28.9	27.9	27.7	27.6
Tax revenue	18.3	20.8	20.3	20.1	20.2	20.9	20.8	21.1	21.2	21.3	21.3	21.3	21.3
Taxes on income	5.0	4.4	4.1	4.1	3.9	4.0	3.9	4.0	4.0	4.0	4.0	4.0	4.0
Taxes on property	0.5	0.4	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Taxes on domestic goods and consumption 3/	4.5	10.6	10.4	10.2	10.4	10.7	10.7	10.8	10.9	10.9	10.9	10.9	10.9
Taxes on international trade and transactions	8.4	5.3	5.1	5.1	5.1	5.5	5.5	5.6	5.6	5.7	5.7	5.7	5.7
Nontax revenue 4/	9.1	12.3	12.5	17.2	18.7	8.5	12.9	8.1	7.9	7.7	6.6	6.5	6.2
Citizenship by investment	2.3	4.5	7.1	13.0	13.2	4.7	9.1	4.4	4.1	3.9	3.0	2.8	2.7
Other	6.9	7.8	5.3	4.2	5.5	3.9	3.8	3.8	3.7	3.8	3.6	3.6	3.5
Total expenditure and net lending	**37.8**	**34.8**	**31.0**	**31.7**	**33.6**	**32.6**	**31.8**	**31.4**	**30.4**	**30.0**	**29.7**	**29.5**	**29.1**
Current expenditure	30.8	30.5	27.8	26.9	26.8	26.3	25.7	25.2	24.2	23.8	23.4	23.2	22.9
Wages and salaries	12.0	11.3	11.2	11.7	11.3	11.4	11.2	11.1	10.9	10.8	10.7	10.6	10.5
Goods and services 4/	9.0	9.1	6.6	6.5	7.5	6.3	6.1	6.2	6.2	6.2	6.2	6.2	6.1
Interest	6.8	6.4	6.0	4.8	3.9	3.0	3.0	2.6	2.3	2.2	2.1	2.1	2.0
Domestic	4.6	4.7	4.0	3.9	3.4	2.0	2.0	1.8	1.7	1.7	1.7	1.7	1.6
Foreign	2.2	1.8	2.0	1.0	0.5	1.0	1.0	0.8	0.6	0.5	0.5	0.4	0.4
Transfers 5/	3.0	3.6	4.0	3.9	4.0	5.5	5.4	5.4	4.8	4.6	4.5	4.4	4.3
Net lending	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	6.6	4.4	3.2	4.7	6.7	6.3	6.1	6.1	6.1	6.2	6.2	6.2	6.2
Current balance	**-3.4**	**2.6**	**5.0**	**10.4**	**12.0**	**3.2**	**8.0**	**4.1**	**4.9**	**5.2**	**4.4**	**4.5**	**4.7**
Overall balance (before grants)	-10.3	-1.7	1.8	5.7	5.3	-3.1	1.9	-2.1	-1.3	-1.1	-1.8	-1.7	-1.5
Grants	2.7	3.5	3.2	4.9	7.0	4.7	4.2	3.8	3.5	2.9	2.9	2.8	2.5
Overall balance (after grants)	**-7.6**	**1.8**	**5.0**	**10.6**	**12.3**	**1.6**	**6.2**	**1.7**	**2.2**	**1.8**	**1.1**	**1.0**	**1.0**
Primary balance	-0.8	8.2	11.0	15.5	16.2	4.6	9.2	4.3	4.5	4.1	3.2	3.1	3.0
Overall balance (after grants less CBI)	**-9.8**	**-2.7**	**-2.2**	**-2.4**	**-0.9**	**-3.1**	**-3.0**	**-2.7**	**-1.9**	**-2.1**	**-1.9**	**-1.8**	**-1.7**
Primary balance (after grants less CBI)	-3.0	3.7	3.8	2.4	3.0	0.0	0.0	-0.1	0.4	0.1	0.2	0.3	0.3
Financing	**9.4**	**-6.3**	**-4.1**	**-10.6**	**-12.1**	**-1.6**	**-6.2**	**-1.7**	**-2.2**	**-1.8**	**-1.1**	**-1.0**	**-1.0**
Net foreign financing	0.3	0.3	-5.3	0.5	0.0	-1.1	-2.9	-2.7	-3.2	-1.8	-0.9	-0.6	-0.6
Disbursements 6/	2.2	7.3	4.8	2.0	1.6	1.1	1.1	0.8	0.8	0.6	0.4	0.4	0.3
Amortization	2.0	7.0	10.1	1.5	1.5	2.2	4.0	3.6	4.0	2.4	1.3	1.0	0.9
Net domestic financing	7.5	-8.7	-13.8	-36.1	-36.9	-3.5	-5.7	0.6	0.6	-0.4	-0.6	-0.8	-0.8
Banking system	5.6	-10.5	-13.2	-36.1	-36.9	-3.5	-5.7	0.6	0.6	-0.4	-0.6	-0.8	-0.8
Nonbanks and other	0.6	-0.1	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	1.0	1.6	-1.0	-0.6	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	0.0	3.2	-1.2	-0.6	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	0.0	2.5	-0.9	-0.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.0	0.7	-0.4	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	1.0	-1.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sale/purchase of assets	0.7	0.4	0.5	0.2	0.2	0.4	-0.3	0.4	0.4	0.4	0.4	0.4	0.4
Exceptional financing	0.0	0.0	15.5	25.4	25.2	2.6	2.6	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	-1.8	4.5	-0.9	0.0	-0.2	...	...	...	...	...	...	...	...
Memorandum items:													
Primary balance including 14 public enterprises	1.5	10.4	12.1	17.3	16.8	5.3	9.8	4.8	5.0	4.6	3.7	3.5	3.4
Overall balance including 14 public enterprises	-7.8	1.6	4.8	11.3	10.8	1.4	5.9	1.4	1.9	1.5	0.8	0.7	0.6
Public sector debt (end of period)	159.3	151.7	137.3	104.9	103.1	91.2	86.2	80.1	73.5	67.8	64.9	60.2	56.7
Of which													
Central government	125.8	121.0	110.5	80.1	78.6	76.1	71.4	66.0	60.1	55.0	52.7	48.6	45.8
Domestic	87.8	79.1	72.2	43.1	42.4	41.5	37.8	36.7	35.4	33.3	32.9	30.5	29.2
External	38.0	41.9	38.3	37.0	36.2	34.6	33.6	29.3	24.7	21.7	19.8	18.2	16.6
Public Enterprises	33.5	30.7	26.8	24.8	24.5	15.1	14.8	14.1	13.4	12.8	12.2	11.5	10.9

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

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

2/ IMF Country Report No. 14/86.

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/ Data from August 2011 exculdes the electricity department following its corporatization.

5/ Includes a 3.5 percent dividend payment on unsold lands held by the Special Land Sales Company (St. Kitts) Limited and the Land Sales Company in Nevis, that were transferred, as part of the debt-land swap agreement.

6/ 2012 disbursement includes financing to regularize the external arrears related to fuel purchases.

Table 4. St. Kitts and Nevis: Balance of Payments, 2010–20

				Est.	Proj.						
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
					(In millions of Eastern Caribbean dollars)						
Current account	**-390.4**	**-304.7**	**-234.9**	**-189.0**	**-296.6**	**-417.1**	**-431.7**	**-445.7**	**-452.3**	**-482.8**	**-494.9**
Trade balance	-525.4	-490.8	-442.3	-546.2	-573.4	-597.1	-621.3	-646.1	-669.1	-692.7	-717.2
Exports, f.o.b.	156.9	183.8	172.6	149.6	162.0	172.8	185.0	197.9	212.0	227.2	243.2
Imports f.o.b.	-682.2	-674.6	-614.9	-695.8	-735.3	-769.9	-806.3	-844.1	-881.2	-919.9	-960.4
Of which											
Mineral fuel	-68.8	-101.7	-103.6	-104.6	-101.6	-97.9	-94.7	-92.8	-91.8	-91.5	-92.8
Services and transfers (net)	135.0	186.2	207.4	357.2	276.8	180.0	189.6	200.5	216.9	209.9	222.2
Services (net)	90.6	140.6	169.6	308.9	233.7	130.8	132.5	138.9	147.8	135.9	143.6
Services (receipts)	406.3	467.6	524.6	662.9	598.2	511.9	529.6	551.7	577.0	586.8	619.4
Tourism receipts	243.1	249.9	256.4	266.9	275.2	284.4	296.6	312.2	330.6	352.9	377.4
Other	163.3	217.7	268.2	396.0	323.0	227.5	233.0	239.5	246.4	233.9	241.9
Services (payments)	-315.7	-327.0	-355.0	-354.0	-364.5	-381.2	-397.2	-412.8	-429.2	-450.9	-475.8
Factor income (net)	-81.4	-80.3	-40.8	-44.1	-48.5	-47.4	-43.5	-43.5	-40.6	-40.3	-40.4
Of which											
Public sector interest	-48.7	-37.8	-18.8	-20.9	-24.1	-21.8	-16.6	-15.2	-11.0	-9.1	-7.4
Transfers (net)	125.8	125.8	78.6	92.5	91.6	96.6	100.6	105.0	109.7	114.3	119.1
Official (net)	34.0	44.6	-9.0	5.0	1.1	2.2	2.2	2.2	2.2	2.2	2.2
Private (net)	91.8	81.2	87.6	87.4	90.5	94.4	98.4	102.8	107.4	112.1	116.8
Capital and financial account	**488.7**	**345.5**	**141.9**	**271.8**	**403.3**	**369.4**	**393.8**	**485.7**	**471.7**	**509.8**	**524.9**
Official	13.9	-53.4	-67.7	93.4	-22.8	-30.2	-44.7	-23.1	9.4	8.5	6.7
Capital transfers (net)	37.1	47.0	65.3	81.1	50.7	43.1	41.1	31.1	34.8	34.1	31.4
Long-term borrowing (net)	-23.2	-100.4	-133.0	12.3	-73.5	-73.4	-85.8	-54.3	-25.4	-25.6	-24.6
Disbursements	42.2	16.5	22.9	58.4	24.6	19.5	19.4	14.2	10.9	10.0	10.0
Amortization	-65.4	-116.9	-53.5	-46.1	-98.1	-92.8	-105.2	-68.5	-36.4	-35.6	-34.6
Debt forgiveness	...	...	-102.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private capital	474.8	399.0	209.6	178.4	426.2	399.6	438.5	508.8	462.3	501.4	518.1
Capital transfers (net)	125.4	175.8	205.0	263.6	237.6	188.0	162.7	137.3	123.0	119.3	118.4
Foreign direct investment (net)	298.2	296.0	359.5	423.3	414.1	417.6	432.6	456.6	476.9	478.9	488.1
Portfolio investment (net)	-40.2	-41.7	-20.8	-24.8	-24.8	-24.8	-24.8	-24.8	-24.8	-24.8	-24.8
Commercial bank NFA accumulation	54.7	-75.0	-402.4	-367.7	-275.8	-137.9	-110.3	-88.2	-79.4	-79.4	-79.4
Other (net)	36.6	43.9	68.3	-113.4	82.0	-37.2	-15.7	33.6	-27.9	13.3	20.9
Errors and omissions	-76.0	4.4	-58.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**22.4**	**45.3**	**-151.8**	**82.8**	**106.7**	**-47.7**	**-37.8**	**40.0**	**19.4**	**27.0**	**29.9**
Financing	**-22.4**	**-45.3**	**151.8**	**-82.8**	**-106.7**	**47.7**	**37.8**	**-40.0**	**-19.4**	**-27.0**	**-29.9**
Net international reserves	-88.4	-204.9	-43.8	-107.2	-62.9	88.5	95.9	-16.0	-18.0	-33.0	-35.0
Change in arrears	66.0	63.9	-15.4	3.2	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Net use of IMF resources 1/	...	95.7	90.5	18.4	-50.4	-46.9	-64.0	-29.7	-6.9	0.0	0.0
Purchase		95.7	90.5	18.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchase		0.0	0.0	0.0	-50.4	-46.9	-64.0	-29.7	-6.9	0.0	0.0
Debt forgiveness	...	0.0	120.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
					(In percent of GDP)						
Current account	-20.9	-15.5	-11.9	-9.0	-13.5	-18.1	-17.8	-17.5	-17.0	-17.2	-16.7
Current account, excluding CBI receipts	-23.1	-20.0	-19.0	-22.3	-22.7	-22.5	-22.0	-21.5	-20.7	-20.0	-19.4
Exports of goods and nonfactor services	30.1	33.1	35.3	38.8	34.7	29.8	29.5	29.5	29.6	29.0	29.1
Merchandise exports	8.4	9.4	8.7	7.1	7.4	7.5	7.6	7.8	8.0	8.1	8.2
Nonfactor services 2/	21.7	23.8	26.5	31.7	27.3	22.3	21.9	21.7	21.6	20.9	20.9
Tourism receipts	13.0	12.7	13.0	12.7	12.6	12.4	12.3	12.3	12.4	12.6	12.7
Other	8.7	11.1	13.6	18.9	14.7	9.9	9.6	9.4	9.2	8.3	8.2
Imports of goods and nonfactor services	-53.4	-51.0	-49.1	-50.2	-50.2	-50.1	-49.8	-49.5	-49.1	-48.8	-48.5
Merchandise imports	-36.5	-34.3	-31.1	-33.2	-33.5	-33.5	-33.3	-33.2	-33.0	-32.8	-32.4
Nonfactor services	-16.9	-16.6	-18.0	-16.9	-16.6	-16.6	-16.4	-16.3	-16.1	-16.1	-16.1
Foreign direct investment (net)	16.0	15.1	18.2	20.2	18.9	18.2	17.9	18.0	17.9	17.1	16.5
External public debt	50.7	51.0	43.4	42.0	38.6	34.6	28.6	24.8	22.0	20.3	18.3
					(Annual percentage change)						
Merchandise exports	55.2	17.2	-6.1	-13.3	8.2	6.7	7.1	7.0	7.1	7.1	7.1
Tourism receipts	7.8	2.8	2.6	4.1	3.1	3.3	4.3	5.3	5.9	6.7	7.0
Merchandise imports	-4.9	-1.1	-8.9	13.2	5.7	4.7	4.7	4.7	4.4	4.4	4.4
Terms of trade	11.6	10.1	2.9	0.1	2.2	-1.8	-1.9	-1.8	-1.0	-1.3	1.2
					(In percent of exports of goods and nonfactor services)						
External public debt	168.3	153.8	123.1	108.3	111.2	116.2	96.9	84.1	74.5	70.1	62.9
External debt service	24.5	23.7	10.4	8.2	17.7	25.4	28.7	15.3	6.0	5.5	4.9
Interest	8.3	5.6	2.6	2.5	3.1	3.1	2.3	2.0	1.4	1.1	0.8
Principal	16.1	18.1	7.7	5.7	14.5	22.3	26.4	13.3	4.6	4.4	4.0
					(Millions of US dollar)						
ECCB imputed reserves	155.7	231.5	251.7	291.3	315.0	282.3	246.8	252.7	259.4	271.6	284.5
in months of importd of goods and services	5.0	7.7	7.8	8.6	8.9	7.6	6.4	6.2	6.1	6.1	6.1

Sources: ECCB; and Fund staff estimates.

1/ Values for 2014 onward reflect treatment of Fund arrangement as precautionary since the combined 7th and 8th review and early repayment of EC$46 million to Fund in June 2014.

2/ Decline in non-factor services exports between 2013 and 2014 reflect the projected decline in the CBI receipts in 2014.

Table 5. St. Kitts and Nevis: Monetary Survey, 2010–15

	2010	2011	2012	Est. 2013	Proj. 2014	Proj. 2015
	(In millions of EC$)					
Net foreign assets	**730.1**	**1025.0**	**1481.8**	**1956.5**	**2296.3**	**2345.7**
ECCB imputed reserves	420.3	625.1	679.5	786.6	850.6	762.1
Crown agents	10.6	10.6	10.6	10.6	10.6	10.6
Commercial banks	299.2	389.3	791.7	1159.3	1435.1	1573.0
Net domestic assets	**1172.6**	**1067.2**	**850.0**	**618.8**	**530.9**	**596.8**
Net credit to the public sector	476.4	305.7	81.4	-828.0	-1196.2	-1185.7
Net credit to central government	850.8	726.2	576.1	-192.7	-355.5	-339.4
Net credit to St. Kitts 1/	676.6	526.4	383.0	-394.7	-499.6	-489.3
Net credit to Nevis 2/	174.3	199.8	193.1	202.0	144.1	149.9
Net credit to non-financial public sector 3/	-374.5	-420.5	-494.7	-635.3	-840.7	-846.4
Credit to the private sector	1356.6	1406.4	1408.5	1396.4	1431.5	1486.9
Net other assets 4/	-660.4	-644.8	-640.0	50.4	295.6	295.6
Broad money (M2)	**1902.7**	**2092.3**	**2331.8**	**2575.3**	**2827.2**	**2942.5**
Money	349.0	470.2	526.8	508.8	539.0	560.2
Currency in circulation	101.1	102.0	107.6	133.1	141.0	146.5
Demand deposits	248.0	368.2	419.2	375.7	398.0	413.6
Quasi-money	1553.7	1622.0	1805.0	2066.5	2288.2	2382.3
Savings deposits	638.4	684.8	753.3	827.9	877.0	911.5
Time deposits	552.4	581.3	555.0	606.6	642.5	667.8
Foreign currency deposits	362.8	356.0	496.7	632.1	768.8	802.9
	(Percentage change relative to broad money at beginning of period)					
Net foreign assets	1.1	15.5	21.8	20.4	13.2	1.7
Net domestic assets	7.8	-5.5	-10.4	-9.9	-3.4	2.3
Net credit to the public sector	4.9	-9.0	-10.7	-39.0	-14.3	0.4
Net credit to central government 1/2/	24.2	-6.5	-7.2	-33.0	-6.3	0.6
Net credit to non-financial public sector 3/	-19.3	-2.4	-3.5	-6.0	-8.0	-0.2
Credit to the private sector	2.6	2.6	0.1	-0.5	1.4	2.0
Net other assets 4/	0.3	0.8	0.2	29.6	9.5	0.0
	(Annual percentage change)					
Broad money (M2)	8.9	10.0	11.4	10.4	9.8	4.1
Money	43.1	34.7	12.0	-3.4	5.9	3.9
Currency in circulation	29.0	0.9	5.5	23.7	5.9	3.9
Demand deposits	49.8	48.5	13.8	-10.4	5.9	3.9
Quasi-money	3.3	4.4	11.3	14.5	10.7	4.1
Savings deposits	0.0	7.3	10.0	9.9	5.9	3.9
Time deposits	12.5	5.2	-4.5	9.3	5.9	3.9
Foreign currency deposits	-3.1	-1.9	39.5	27.2	21.6	4.4
Credit to the private sector (in nominal terms)	3.5	3.7	0.2	-0.9	2.5	3.9
Credit to the private sector (in real terms)	-1.6	0.8	0.1	-1.2	1.6	2.0
Memorandum items:						
Income velocity of money	5.4	4.2	3.8	4.1	4.1	4.1
Income velocity of broad money	1.0	0.9	0.8	0.8	0.8	0.8
Private sector credit/GDP (in percent)	72.6	71.5	71.3	66.7	65.3	64.7
Foreign currency deposits/GDP (in percent)	19.4	18.1	25.1	30.2	35.1	34.9

Sources: ECCB; and Fund staff estimates.

1/ Includes a debt land swap of EC$ 526 million in 2013.

2/ Includes a projected debt land swap of EC$56.5 million in 2014.

3/ Includes a debt/land swap of EC$39 million in 2013 and a projected EC$188.8 million in 2014.

4/ Includes shares corresponding to the debt-for-land swap starting 2013.

Table 6. St. Kitts and Nevis: Indicators of External and Financial Vulnerability, 2008–14

(12-month percentage change, unless otherwise stated)

	2008	2009	2010	2011	2012	Prel. 2013	Proj. 2014
External indicators							
Merchandise exports	19.5	-45.6	55.2	17.2	-6.1	-13.3	8.2
Merchandise imports	30.2	-14.8	-4.9	-1.1	-8.9	13.2	5.7
Terms of trade deterioration (-)	10.8	-15.5	11.6	10.1	2.9	0.1	2.2
Tourism earnings	-11.8	-24.1	7.8	2.8	2.6	4.1	3.1
Current account balance (percent of GDP)	-27.5	-26.6	-20.9	-15.5	-11.9	-9.0	-13.5
Capital and financial account balance (percent of GDP) 1/	25.7	28.0	26.1	17.6	7.2	13.0	18.4
Of which							
Foreign direct investment	24.2	16.6	16.0	15.1	18.2	20.2	18.9
Gross international reserves of the ECCB							
In millions of U.S. dollars	759.0	800.8	926.1	1007.5	1123.6	1132.7	1152.7
In percent of broad money	16.9	17.7	20.0	21.2	22.7	21.9	21.7
Commercial banks' net foreign assets (millions of U. S. dollars)	200.9	136.7	110.8	144.2	293.2	429.4	531.5
External public debt (percent of GDP)	44.9	46.7	50.7	51.0	43.4	42.0	41.5
External debt service (in percent of exports of goods and services)	22.9	26.3	24.5	23.7	10.4	8.2	17.7
Interest	8.3	11.0	8.3	5.6	2.6	2.5	3.1
Principal	14.6	15.4	16.1	18.1	7.7	5.7	14.5
Nominal exchange rate (E.C. dollars per U.S. dollar, end period)	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Real effective exchange rate depreciation (-), end period 2/	-0.4	2.8	-2.5	2.3	-0.8	-0.7	-0.7
Financial indicators							
Broad money	1.6	5.9	8.9	10.0	11.4	10.4	9.8
Credit to the private sector	5.9	5.5	3.5	3.7	0.2	-0.9	2.5
Share of nonperforming assets to total assets of banks (percent) 3/	4.5	4.3	5.5	6.6	10.6	NA	NA
Provisions for loan losses/nonperforming assets (percent) 3/	20.0	48.9	42.2	38.3	32.1	NA	NA
Provisions for loan losses/total loans (percent) 3/	0.9	2.1	2.3	2.5	3.4	4.4	4.5
Gross government exposure/total assets (percent) 3/	28.2	26.1	26.6	24.3	22.6	11.4	10.8
Total loans/total deposits (percent) 3/	88.7	77.4	78.1	73.0	65.9	43.1	38.8
Net liquid assets/total deposits (percent) 3/	42.5	42.9	41.6	44.2	50.4	55.3	59.5
Foreign currency deposits/total deposits (percent) 3/	22.9	30.2	27.5	25.6	25.9	24.3	25.8
Liquid assets/total asset (percent) 3/	39.5	43.7	41.9	44.2	47.8	52.1	56.0
Liquid assets/current liabilities (percent) 3/	48.4	50.9	51.5	51.8	56.2	58.7	61.4
Total capital/total assets (percent) 3/, 4/	16.8	19.3	18.4	16.3	15.8	13.3	11.9
Total Capital/Risk Weighted Assets (percent) 3/, 4/	42.7	47.6	42.4	40.7	38.2	23.7	21.7
Tier 1 Capital/Risk Weighted Assets (percent) 3/, 4/	40.1	42.0	36.8	40.1	38.5	23.2	21.9
Ratio of bank's before-tax profits to average assets (percent) 3/	4.7	2.1	1.1	2.0	0.6	0.7	0.1

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

1/ Includes errors and omissions.

2/ Estimated on the basis of weights given by the average trade share during 2003–2013.

3/ 2014 values are as of March, 2014.

4/ For locally incorporated banks only.

Table 7. St. Kitts and Nevis: External Financing Requirement and Sources, 2013–20

(In millions of U.S. dollars)

	Est.	Proj.						
	2013	2014	2015	2016	2017	2018	2019	2020
Gross financing requirement	**301.6**	**241.2**	**220.9**	**210.0**	**216.6**	**227.4**	**228.7**	**230.8**
Current account deficit	70.0	109.8	154.5	159.9	165.1	167.5	178.8	183.3
Amortization	191.9	108.1	99.2	85.6	45.6	53.2	37.7	34.5
Official (public sector and central government)	17.1	36.3	34.4	38.9	25.4	13.5	13.2	12.8
of which, debt forgiveness	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector (net)	174.8	71.8	64.8	46.6	20.2	39.8	24.5	21.7
Commercial banks (NFA)	136.2	102.1	51.1	40.9	32.7	29.4	29.4	29.4
Other private	38.6	-30.4	13.8	5.8	-12.4	10.4	-4.9	-7.7
Reserve accumulation (+: increase)	39.7	23.3	-32.8	-35.5	5.9	6.7	12.2	13.0
Sources of financing	**293.5**	**260.1**	**238.3**	**233.7**	**227.6**	**229.9**	**228.7**	**230.8**
Capital grants and transfers	127.7	106.8	85.6	75.4	62.4	58.4	56.8	55.5
Foreign Direct Investment (net)	156.8	153.4	154.7	160.2	169.1	176.6	177.4	180.8
Net inflow of equity and other capital	-9.2	-9.2	-9.2	-9.2	-9.2	-9.2	-9.2	-9.2
New borrowing	18.2	9.1	7.2	7.2	5.3	4.1	3.7	3.7
of which: public sector	18.2	9.1	7.2	7.2	5.3	4.1	3.7	3.7
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of arrears	1.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional external financing	**6.8**	**-18.7**	**-17.4**	**-23.7**	**-11.0**	**-2.6**	**0.0**	**0.0**
IMF net disbursement	6.8	-18.7	-17.4	-23.7	-11.0	-2.6	0.0	0.0
Fund disbursement	6.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	0.0	-18.7	-17.4	-23.7	-11.0	-2.6	0.0	0.0
Debt forgiveness 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

1/ Includes flow and stock write-down.

Table 8. St. Kitts and Nevis: Indicators of Capacity to Repay the Fund, 2014–19 1/

	2014	2015	2016	2017	2018	2019
Fund obligations based on existing credit						
(in millions of SDRs)	3.45	17.00	19.55	7.18	1.61	0.00
Principal	3.05	16.56	19.32	7.12	1.60	0.00
Charges and interest	0.40	0.44	0.23	0.06	0.01	0.00
Fund obligations based on existing and prospective credit						
(in millions of SDRs) 2/ 3/	11.57	9.57	19.67	7.89	4.22	1.94
Principal	10.88	8.73	19.32	7.77	4.17	1.93
Charges and interest	0.69	0.84	0.35	0.12	0.05	0.01
Fund credit outstanding based on existing and prospective credit						
(in millions of SDRs) 2/ 3/	42.2	33.5	13.9	6.1	1.9	0.0
Total Obligations based on existing and prospective credit 2/ 3/						
in millions of U.S. dollars 4/	18.5	15.3	31.5	12.6	6.8	3.1
in percent of exports of goods and services	7.0	5.5	10.5	3.9	2.0	0.9
in percent of external debt service 4/	37.6	23.0	38.2	31.8	26.5	14.6
in percent of GDP	2.3	1.8	3.5	1.3	0.7	0.3
in percent of quota	130.0	107.5	221.0	88.7	47.4	21.8
in percent of net imputed reserves	7.3	6.0	12.3	4.9	2.5	1.2
in percent of revenue and grants	8.0	6.1	12.3	4.7	2.4	1.1
Outstanding Fund Credit 2/ 3/						
in millions of U.S. dollars 4/	67.5	53.5	22.2	9.8	3.1	0.0
in percent of exports of goods and services	25.7	19.2	7.4	3.1	0.9	0.0
in percent of external debt service	220.0	104.6	43.6	36.1	16.5	0.0
in number of months of imports of goods and services	2.0	1.5	0.6	0.2	0.1	0.0
in percent of GDP	8.4	6.3	2.4	1.0	0.3	0.0
in percent of quota	474.0	375.9	155.7	68.5	21.7	0.0
in percent of net imputed reserves	26.5	21.0	8.7	3.8	1.2	0.0
Net use of Fund Credit (in millions of SDRs) 2/ 3/	-5.7	-8.7	-19.3	-7.8	-4.2	-1.9
Disbursements	5.1	0.0	0.0	0.0	0.0	0.0
Repayment and Repurchases	10.9	8.7	19.3	7.8	4.2	1.9
Memorandum items:						
Nominal GDP (in millions of US dollars)	805.7	855.2	907.6	963.3	1,022.4	1,085.2
Exports of goods and services (in millions of US dollars)	263.1	279.1	298.4	319.9	343.6	361.4
External debt service (in millions of US dollars)	30.7	51.2	50.9	27.0	18.8	18.1
Imports of goods and services (in millions of US dollars)	409.1	431.7	454.5	479.3	506.6	533.2
Net imputed reserves (in millions of US dollars)	254.5	255.3	256.0	258.3	265.7	265.7

1/ Based on all purchases under the 3-year SBA with access in the amount of SDR 52.5 million (590 percent of quota) approved in July 2011; US$1 = 0.625 SDR (program exchange rate in TMU).

2/ Includes an advanced repurchase of 11.1 million SDRs (about 125 percent of quota) in June 2014.

3/ Includes SDR 5.1 million that would become available following the completion of the 9th Review, which the authorities do not plan to purchase as they began treating the arrangement as precautionary following the combined 7th and 8th Review.

Annex I. St. Kitts and Nevis – Risk Assessment Matrix

	Nature/Source of Main Threats Over the Next 3 Years	Likelihood	Impact	Policy Response
Short-term	**Unresolved parliamentary challenge in St. Kitts.** Ongoing parliamentary challenge may reduce business confidence and adversely impact private domestic and foreign investment.	Medium	High	Continue with fiscal consolidation, save the bulk of CBI receipts and further prioritize public investment according to expected impact on growth.
Short/medium term	**Natural disasters**. As in the rest of the Caribbean, natural disasters are occurring more frequently, resulting in substantial damage to infrastructure and entailing large reconstruction costs.	Medium to High	Medium to High	Formulate adequate budgetary provisions for disaster mitigation. Coordinate with the World Bank to build resilience to climate change.
	Financial contagion from other countries in the region. Banking difficulties in other ECCU countries could impact banks in St. Kitts and Nevis through a contagion effect rather than via interbank linkages, which remain relatively weak.	Medium	Medium to High	Coordinate with the ECCU to strengthen banking supervision and regulation procedures and form contingency plans for the event of severe financial stress.
Medium-term	**Sharp fall in CBI receipts.** A change of visa policy in advanced economies and increasing competition of similar programs in other countries can rapidly reduce the number of applicants to the CBI program and related inflows to the budget and the SIDF. It would also reduce FDI in real estate.	Medium	High	Implement adequate safeguards to minimize risks related to financial integrity and international safety and establish ECCU-wide institutional initiatives to strengthen the oversight arrangements for the program. Reduce reliance on CBI revenues for government spending and build precautionary balances by saving the bulk of CBI receipts; devise a financial strategy to ensure the medium-term viability of the SIDF.
	Slow pace of land sales in the context of the debt-for-land swap. St. Kitts and Nevis' indigenous banks may face risks to profitability and balance sheet liquidity if a large stock of land remains unsold at the end of the 3-year dividend arrangement with the government.	Medium	Low	Strengthen the operations of the Special Land Sales Company (St. Kitts) to ensure the bulk of the land inventory is sold within the 3-year window.
	Rapid increase in banking system liquidity notwithstanding limited and undiversified credit opportunities. Large deposit growth associated with CBI inflows may pressure banks to engage in investments that can expose their portfolios to higher credit and concentration risks.	High	Medium to High	Increase monitoring of bank lending and establish a mechanism along the lines of a Sovereign Wealth Fund (SWF) to protect the balance sheet of the domestic financial system from excessive liquidity pressures.
	Protracted period of slower growth in advanced economies. Larger than expected deleveraging or negative surprises on potential growth in the major economies could cause adverse spillover effects through lower tourism arrivals, trade, FDI, grant, and investor confidence.	High	Medium	Build precautionary balances by saving the bulk of CBI receipts and use those resources to support growth and stabilize government finance; step up structural reforms to boost potential growth.
	Sharp slowdown in China. Sharply reduced returns on investment, bankruptcies, and large financial losses could reduce the number of Chinese applicants to the CBI program.	Medium	High	Reduce reliance on CBI revenues for government spending; build precautionary balances by saving the bulk of CBI receipts; devise a financial strategy to ensure the medium-term viability of the SIDF and articulate a more diversified strategy for the development of real estate projects.

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

Annex II. St. Kitts and Nevis' PetroCaribe Arrangement

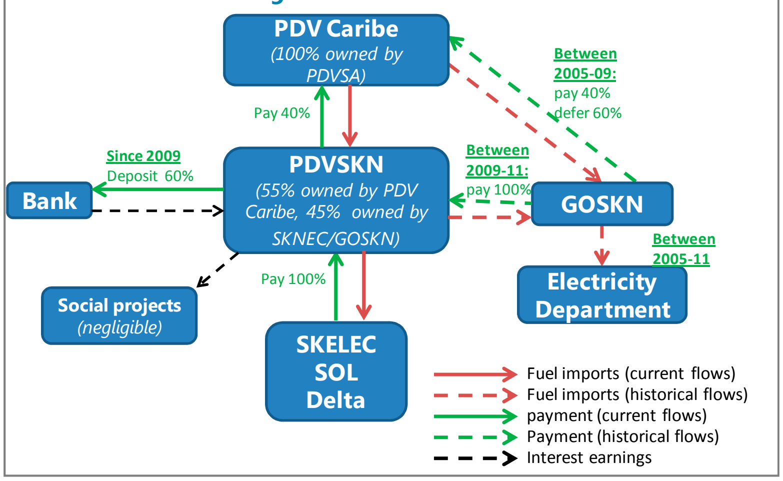
1. **St. Kitts and Nevis joined the PetroCaribe Arrangement in 2005.** Between 2005 and 2008, the Government of St. Kitts and Nevis (GOSKN) purchased petroleum products directly from Petróleos de Venezuela S.A. (PDVSA) and benefited from the favorable financing terms provided by the PetroCaribe Agreement. The agreement provides concessional financing for a portion of the fuel cost, depending on the market price. The terms of the concessional portion provide for repayment over 25 years, with a two-year grace period when the price per barrel exceeds US$40 and 17 years when it is below, at 1 percent interest. The remainder is to be paid in cash within 90 days.

PetroCaribe Financing

PRICE PER BARREL	PERCENTAGE TO BE FINANCED
up to 15 dollars	5
up to 20 dollars	10
up to 22 dollars	15
up to 24 dollars	20
up to 30 dollars	25
up to 40 dollars	30
up to 50 dollars	40
up to 100 dollars	50
in excess of 100 dollars	60

2. **PDV St. Kitts Nevis Ltd. (PDVSKN), a joint venture company, took over the importation of fuel under the PetroCaribe Agreement in 2009.**[1] PDVSKN is 55 percent owned by PDVSA, and 45 percent by St. Kitts Nevis Energy Company Ltd (SKNEC) (a state-owned company), and acts as an agent on behalf of PDVSA. PDVSKN imports fuels, (up to a quota of 26 thousand barrels per month as per the original PetroCaribe Agreement) and sells it on the local market at market prices plus a markup. Since the inception of PDVSKN, the GOSKN has not benefited from the original favorable financing terms, and it is billed for 100 percent of the fuel cost to be paid within 90 days. At the same time, in line with the original financing terms under the PetroCaribe Agreement, PDVSKN transfers only the required cash portion to PDVSA and deposits the rest in the local banking system, after covering its operational cost. Interest earned on the local account is intended to finance social programs. Following the corporatization of the Electricity Department in August 2011, PDVSKN sells fuel directly to the St. Kitts Electricity Company (SKELEC), with 100 percent of the bill due within 90 days.

PetroCaribe Arrangement in St. Kitts and Nevis



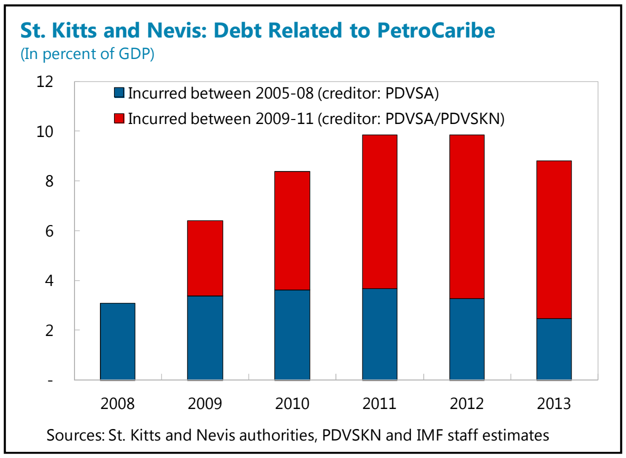
[1] The company was locally incorporated.

3. A significant amount of debt has accumulated under the PetroCaribe Agreement. Between 2005 and 2008, when GOSKN dealt directly with PDVSA, it accumulated a debt of US$21.8 million (2.9 percent of GDP). From 2009 and up to August 2011, the GOSKN accumulated additional debt of US$42 million (5.4 percent of GDP), including charges of penalty interest for late payment, as it was responsible for paying cash for the entire import bill. This debt is currently under negotiations as part of the debt restructuring exercise with external creditors.[1] Since August 2011, when SKELEC began to make direct purchases from PDVSKN, no new debt is being accumulated by GOSKN. All SKELEC purchases are also on a cash basis, but it is facing some operational challenges, and it has started to accumulate commercial arrears to PDVSKN of about US$7 million, some dating to late 2013. This is not recorded as public sector debt.

Debt Accumulation
(In US$ millions)

	Creditor	GOSKN	Comments
2005-2008	PDVSA	21.8	$15.3 million on financing portion and $6.5 million on cash portion and late fees
2009-2011	PDVSA/ PDVSKN	41.8	$29.3 million on financing portion and $12.5 million on cash portion and late fees
Total		**63.6**	

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



4. PDVSKN debt represents a possible contingent liability to the GOSKN. PDVSKN is incurring debt on the concessional part of the financing terms provided by PDVSA. This debt, according to PDVSKN, totals US$107 million as of 2013, and is offset by assets of about similar magnitude. These mainly consist of accounts receivable from SKELEC, GOSKN, and other customers, and deposits in the banking system which amount to US$40 million, about the magnitude of the debt owed by PDVSKN to PDVSA net of GOSKN's debt to PDVSKN.

5. There appears to be very limited benefit to the GOSKN from the PetroCaribe agreement as it is currently being managed. Since the GOSKN began purchasing from PDVSKN in 2009, it has not benefited from the concessional financing arrangement. Indeed, part of the debt that is under negotiation is debt that would have been incurred on significantly more favorable terms that are being extended by PDVSA. At the same time, there appears to be very limited support for social programs from the interest earnings accrued by PDVSKN, contrary to what was originally intended. Moreover, the absence of published audited accounts since the establishment of PDVSKN makes it difficult to assess the financial standing of the company and the contingent risks to the GOSKN. The publication of these reports would improve the transparency and accountability of the company and contribute to enhancing its operations.

[1] PDVSKN's debt figures suggest that the outstanding debt is about 10 percent higher than the authorities' data.

Annex III. Debt Sustainability Analysis (DSA)

Notwithstanding the faster decline in the debt-to-GDP ratio than previously envisaged, the risk of debt distress is still high and the debt level is vulnerable to plausible shocks. The DSA indicates a somewhat improved position relative to that presented in the 2014 Article IV Consultation and the combined seventh and eighth reviews (IMF Country Report No. 14/86). This reflects stronger GDP growth and an early partial repayment of Fund credit outstanding. Debt is projected to decline to 86.2 percent of GDP at end-2014, compared to 91.2 percent in the earlier report. It is forecast to fall somewhat below 60 percent of GDP by 2020, based on sustained economic growth, continued fiscal discipline and the implementation of structural reforms.

A. Public Debt Sustainability Analysis [1]

Medium-Term Debt Sustainability Analysis

1. **Under the baseline scenario, the debt-to-GDP ratio converges to 61 percent of GDP by 2019.** The baseline scenario is predicated on the authorities' continued fiscal prudence and economic recovery, taking into account the early repayment of part of the Fund credit outstanding.[2] Assumptions are as follows**:**

- *Debt restructuring:* agreements are reached with the remaining official bilateral creditors in line with the Paris Club terms (3.5 percent of GDP); and additional lands are transferred to extinguish domestic debt equivalent to 11 percent of GDP in 2014, as part of the debt-for-land swap agreement. [3, 4]

- *Growth and Inflation:* Over the medium-term, real economic activity reaches its potential rate of 3 percent while inflation averages 2 percent.

- *Fiscal Balance:* The primary fiscal surplus of the public sector is estimated to moderate to 3 percent by 2019, premised on moderate CBI inflows (of 3 percent of GDP net of due diligence fees).

[1] This annex presents an analysis of debt sustainability utilizing the new DSA framework for Market-Access Countries.

[2] The DSA reflects the government treatment of the SBA as precautionary in 2014, and the government's plans to repay EC$46 million in 2014 to the IMF, about 125 percent of quota.

[3] Part of this debt is related to public enterprises.

[4] The public gross financing needs reflected in the heat map (Figure 1), and as shown in Figures 3, 4 and 5 for 2013-14 do not include debt cancellation from the debt-land swap with domestic banks.

2. **Despite the significant reduction in debt, the heat map and fan charts show that risks to debt sustainability remain high.** Although the debt is on a downward trajectory, both the debt and the gross financing needs exceed the benchmark for emerging market economies and will do so for some time. Moreover, under the various stress tests, debt declines considerably slower than in the baseline scenario, particularly under the real GDP growth shock. The debt profile is also subject to high risks from external financing requirements, as a result of high current account deficits. The fan charts show the possible evolution of the debt-to-GDP ratio over the medium term, based on both a symmetric and an asymmetric distribution of risks. The asymmetric fan chart (where only negative shocks to growth and the exchange rate are considered) shows that debt would approach 100 percent of GDP by 2019 if economic conditions were to deteriorate significantly.

3. **There would not appear to be a systematic projection bias.** The forecasts of real GDP growth in 2008 to 2011 underestimated the severity of the impact of the global financial crisis on tourism in ECCU countries, leading to projections for higher growth than that which materialized. However, the staff underestimated the strength of the recovery in 2013. In addition, there are significant forecast errors for the primary balance in 2011 to 2013 (underestimating the primary surplus) because the vast increase in CBI inflows was initially unanticipated and in subsequent years not included in the baseline. The inflation forecast errors are comparable to that of other countries with Fund-supported programs, although the projection for 2011 overestimated the impact of the introduction of the VAT on inflation.

4. **CBI inflows distort the measure of the average cyclically adjusted primary balance (CAPB) in the forecast period.** The estimated change in the cyclically adjusted primary surplus over the forecast period is at the lower end of the distribution of adjustments historically achieved by advanced and emerging economies with debt greater than 60 percent of GDP. This reflects the baseline scenario cautious assumption for CBI inflows, and thus, lower projections for non-tax revenues and primary surplus compared to the 2012 to 2014 period.[5] However, the average CAPB for the period 2013–2015 is in the top quartile of the distribution, as it captures the impact of the large CBI inflows during 2013–14, which were mostly saved, which suggest a very large adjustment. The primary balance required to stabilize debt at the 2019 level (60.2 percent of GDP) is -1.9 percent of GDP, lower than the 3.5 primary surpluses in the medium-term fiscal framework. The constant primary balance scenario shows a very rapid but unrealistic decline in debt, reflecting a forecasted high primary balance in 2014 of 9.8 percent, which is the result of high CBI inflows that are not projected to continue at their current pace.

5. **Notwithstanding the downward debt trajectory, the debt profile remains sensitive to shocks, especially if a combination of them were to materialize.**

- Under a *growth shock* that lowers output by 4.4 percentage points (1 standard deviation of growth over the past 10 years) in each year relative to that projected for 2015 and 2016, and

[5] As noted in paragraph one above, the baseline projections contain a more conservative assumption for CBI inflows.

lower inflation by 1.1 percentage points in each year, debt would peak at 89 percent in 2016, 15.5 points higher than in the baseline.

- A sustained *interest rate* shock of 377 bps (difference between the maximum and average rates over the last 10 years) would slow down the rate of debt decline in the medium term, so that by 2019 the debt-to-GDP ratio is 2.5 points higher compared with the baseline.

- A *primary balance* shock of 6.5 percentage points over 2015–16 (½ standard deviations of the historical 10-year average) results in the debt-to-GDP ratio being 6.2 percentage points higher in 2019 relative to the baseline.

- A *combined macro-fiscal* shock of all of the above would lead to debt peaking at 98.9 percent of GDP in 2016, 25.4 percentage points higher than under the baseline, and declining gradually to 86.8 percent of GDP by 2019.

- A natural disaster shock occurring in 2014 that results in real GDP growth declining by 3 and 2 percentage points in 2015 and 2016 compared to the baseline, and a deterioration in the primary balance of 5, 4, and 2 percent of GDP in 2014, 2015 and 2016 respectively, would slow the decline in the debt-to-GDP ratio to 74.3 percent by 2019, 14.2 points above the baseline.

- A contingent liability shock related to the debt-for-land swap, which would require the recapitalization of banks up to the required prudential limits, would slow the gross public debt trajectory to 70.2 percent of GDP by 2019 and increase gross financing needs to 25 percent of GDP. [6]

B. External Debt Sustainability Analysis

6. The external public debt of St. Kitts and Nevis is projected to decline over the medium term, but remains vulnerable to deterioration in the current account balance. St. Kitts and Nevis' external debt is expected to remain on a downward trend over the medium term reflecting the external debt restructuring and repayment to the Fund, falling to below 20 percent of GDP by 2019. In addition to the lower debt service resulting from the external debt restructuring, solid FDI inflows would help finance the current account deficit. Stress tests indicate that external debt would continue to decline under interest rate, growth, real depreciation and combined shocks. Although its level is still lower than the 2013 level, debt stays relatively high under the current account shock scenario, suggesting that some external adjustment would be necessary to bring the debt path back to a downward trend under the shock.

[6] This scenario assumes no land sales at the end of 3 years and that the total value of land transferred under the debt-land swap agreement are written off from banks' assets and registered as losses in the income statement, impacting the banks' capital. Consequently, the amount of recapitalization of banks that would be needed to meet the regional CAR prudential requirement of 8 percent would be EC$253 million or 10 percent of GDP.

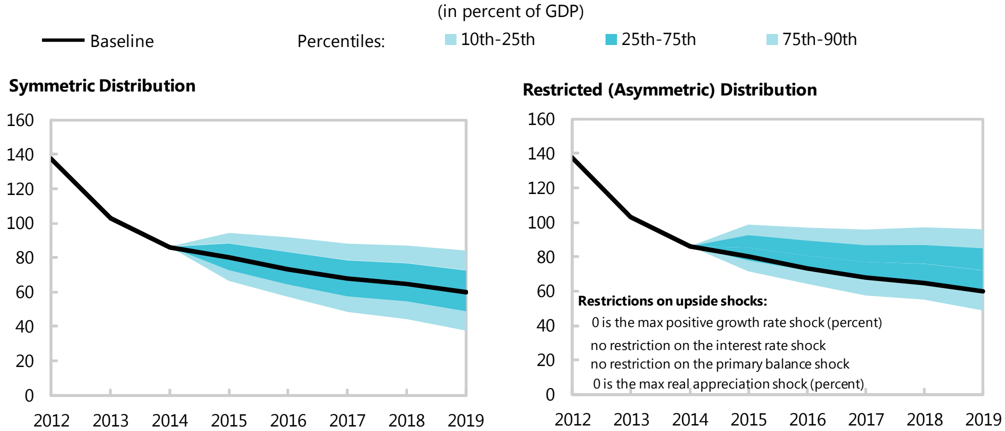
Figure 1. St. Kitts and Nevis Public DSA Risk Assessment

Heat Map

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

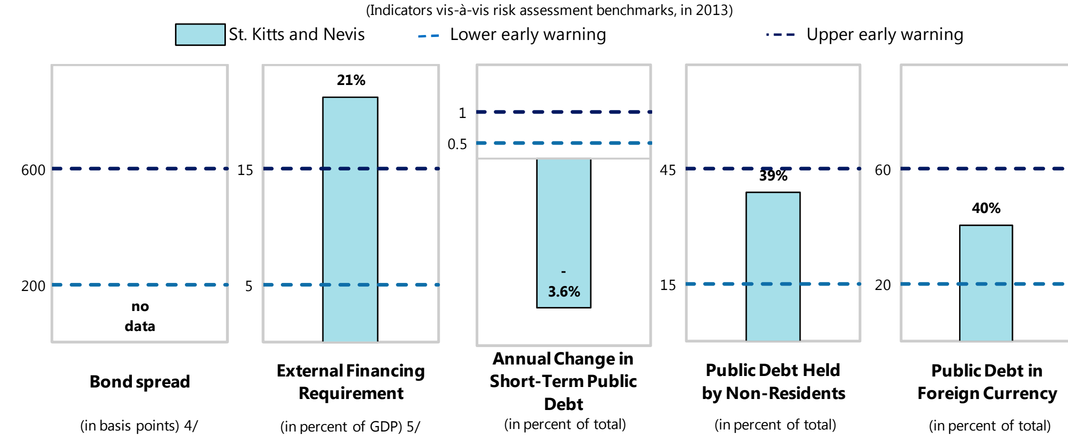
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2013)



Source: IMF staff.

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

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

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

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

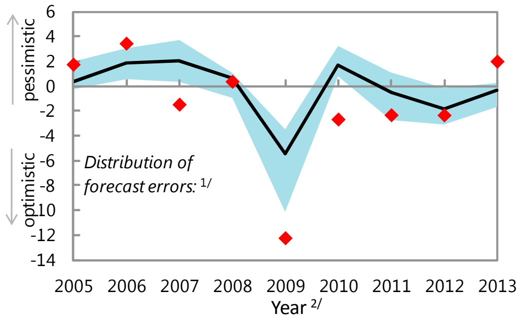
4/ St Kitts and Nevis is not rated by the credit rating agencies, and no bond spread information is available

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

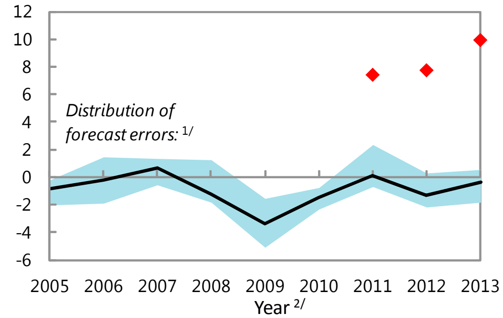
Figure 2. St. Kitts and Nevis Public DSA – Realism of Baseline Assumption

Forecast Track Record, versus program countries

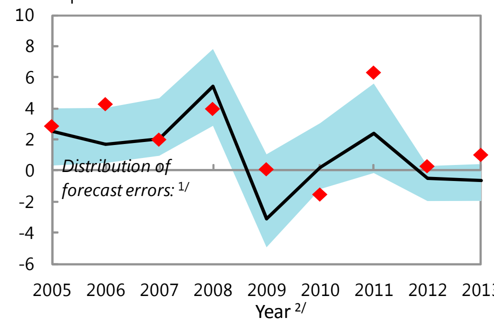
Real GDP Growth
(in percent, actual-projection)
St. Kitts and Nevis median forecast error, 2005-2013: **-1.50**
Has a percentile rank of: **11%**



Primary Balance
(in percent of GDP, actual-projection)
St. Kitts and Nevis median forecast error, 2005-2013: **7.75**
Has a percentile rank of: **100%**

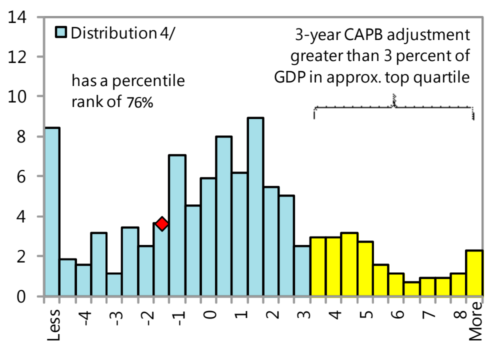


Inflation (Deflator)
(in percent, actual-projection)
St. Kitts and Nevis median forecast error, 2005-2013: **1.99**
Has a percentile rank of: **64%**

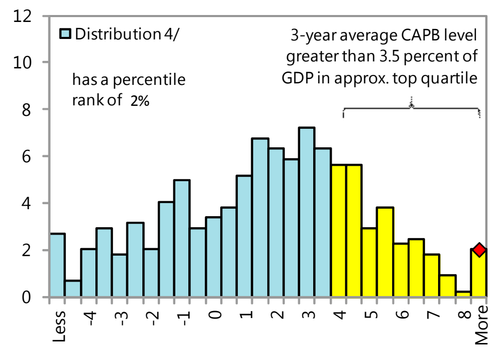


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)

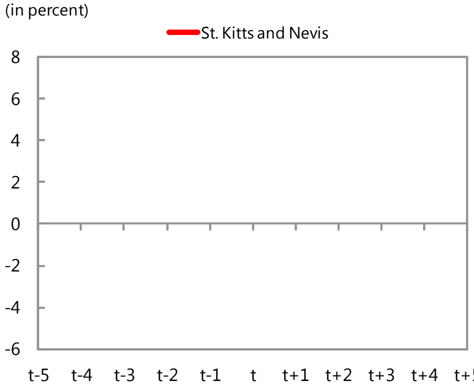


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis 3/

Real GDP growth
(in percent)



Source : IMF Staff.
1/ Plotted distribution includes program countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year. St Kitts and Nevis does not have historic WEO forecasts for either primary balance or expenditure/revenues/interest expenditure between 2005 and 2010, as a result the forecast errors are not available.
3/ Not applicable for St. Kitts and Nevis as there has not been a 3-year positive output gap.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis. Realism assessment conducted over forecasts from 2014.

Figure 3. St. Kitts and Nevis Public DSA – Baseline Scenario

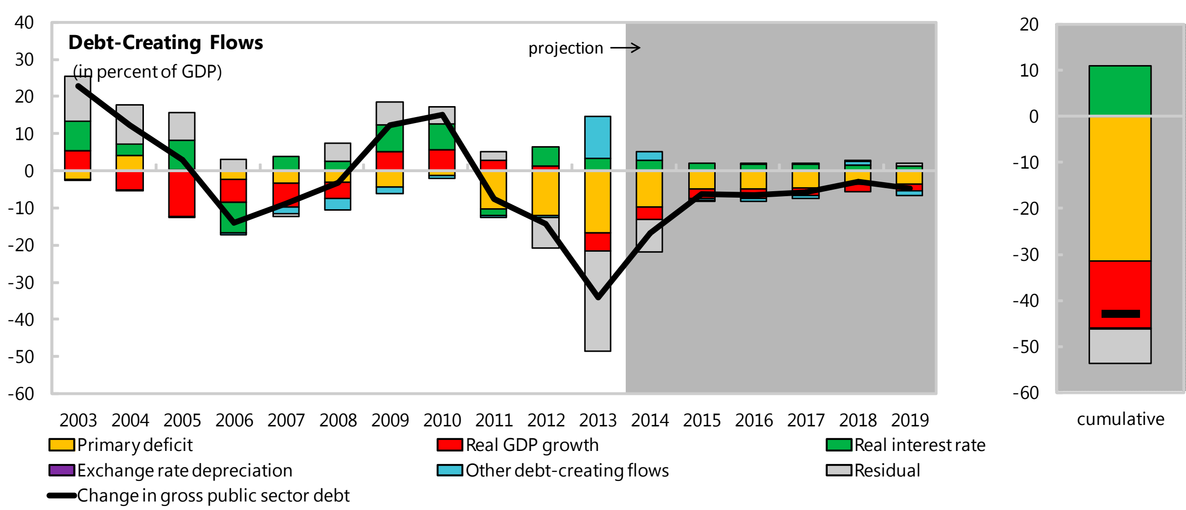
(In percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2003-2011 [2/]	2012	2013	2014	2015	2016	2017	2018	2019
Nominal gross public debt	146.8	137.3	103.1	86.2	80.1	73.5	67.8	64.9	60.2
Public gross financing needs	40.7	31.3	21.9	21.1	21.9	20.9	18.6	17.3	16.3
Real GDP growth (in percent)	1.3	-0.9	3.8	3.5	3.2	3.2	3.1	3.1	3.1
Inflation (GDP deflator, in percent)	3.6	1.4	2.0	1.2	1.6	2.0	1.8	1.9	2.2
Nominal GDP growth (in percent)	4.9	0.5	5.9	4.7	4.8	5.3	5.0	5.0	5.3
Effective interest rate (in percent) [3/]	6.1	4.8	4.6	4.0	4.1	4.2	4.3	4.3	4.3

Contribution to Changes in Public Debt

	Actual			Projections							
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	cumulative	debt-stabilizing primary balance [8/]
Change in gross public sector debt	3.5	-14.4	-34.2	-16.9	-6.2	-6.6	-5.7	-2.9	-4.7	-42.9	
Identified debt-creating flows	-2.0	-6.1	-7.0	-8.3	-6.1	-6.7	-5.7	-3.1	-5.5	-35.4	
Primary deficit	-2.6	-12.1	-16.8	-9.8	-4.8	-5.0	-4.6	-3.7	-3.5	-31.5	-1.9
Primary(noninterest) revenue+grants	37.6	42.8	52.5	44.8	39.9	39.4	38.7	37.6	37.3	237.7	
Primary(noninterest) expenditure	35.0	30.8	35.8	35.0	35.0	34.3	34.2	33.9	33.8	206.2	
Automatic debt dynamics [4/]	1.5	6.5	-1.7	-0.7	-0.6	-0.8	-0.4	-0.5	-0.6	-3.7	
Interest rate/growth differential [5/]	1.5	6.5	-1.7	-0.7	-0.6	-0.8	-0.4	-0.5	-0.6	-3.7	
Of which: real interest rate	3.3	5.2	3.3	2.7	2.0	1.6	1.7	1.5	1.3	10.9	
Of which: real GDP growth	-1.7	1.3	-4.9	-3.5	-2.6	-2.5	-2.2	-2.0	-1.9	-14.6	
Exchange rate depreciation [6/]	0.0	0.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	-1.0	-0.5	11.4	2.3	-0.6	-0.9	-0.7	1.0	-1.3	-0.2	
Privatization/Drawdown of Deposits	-1.0	-0.5	11.4	2.3	-0.6	-0.9	-0.7	1.0	-1.3	-0.2	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [7/]	5.6	-8.3	-27.2	-8.6	-0.1	0.1	0.1	0.2	0.8	-7.5	



Source: IMF staff.

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

2/ Based on available data.

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

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

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

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

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

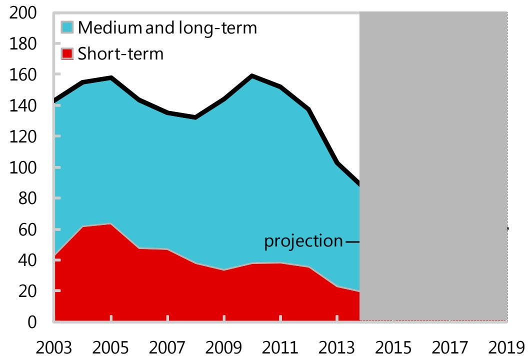
8/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 4. St. Kitts and Nevis Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

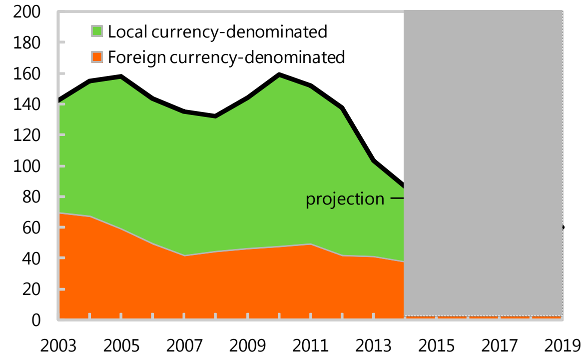
By Maturity [1]

(in percent of GDP)



By Currency

(in percent of GDP)

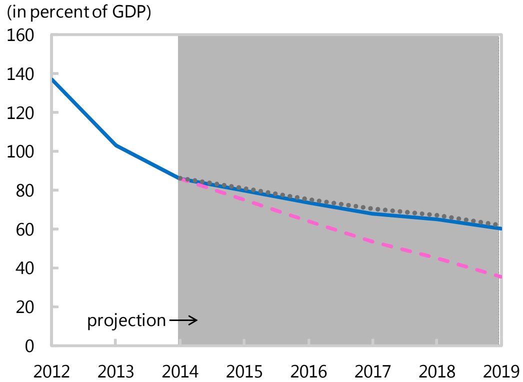


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

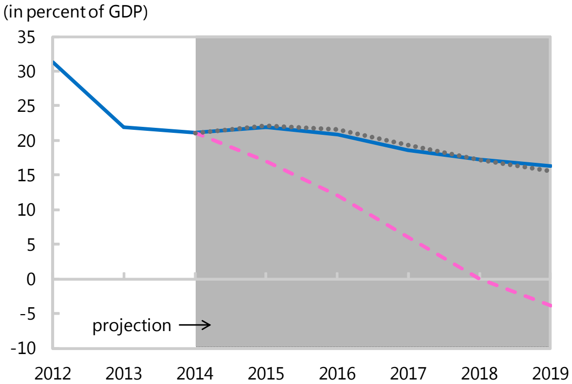
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs [2/]

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	3.5	3.2	3.2	3.1	3.1	3.1
Inflation	1.2	1.6	2.0	1.8	1.9	2.2
Primary Balance	9.8	4.8	5.0	4.6	3.7	3.5
Effective interest rate	4.0	4.1	4.2	4.3	4.3	4.3
Constant Primary Balance Scenario						
Real GDP growth	3.5	3.2	3.2	3.1	3.1	3.1
Inflation	1.2	1.6	2.0	1.8	1.9	2.2
Primary Balance	9.8	9.8	9.8	9.8	9.8	9.8
Effective interest rate	4.0	4.1	4.4	5.1	5.6	6.5

Historical Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth 3/	3.5	1.9	1.9	1.9	1.9	1.9
Inflation	1.2	1.6	2.0	1.8	1.9	2.2
Primary Balance 3/	9.8	5.0	5.0	5.0	5.0	5.0
Effective interest rate	4.0	4.1	4.2	4.5	4.5	4.7

Source: IMF staff.

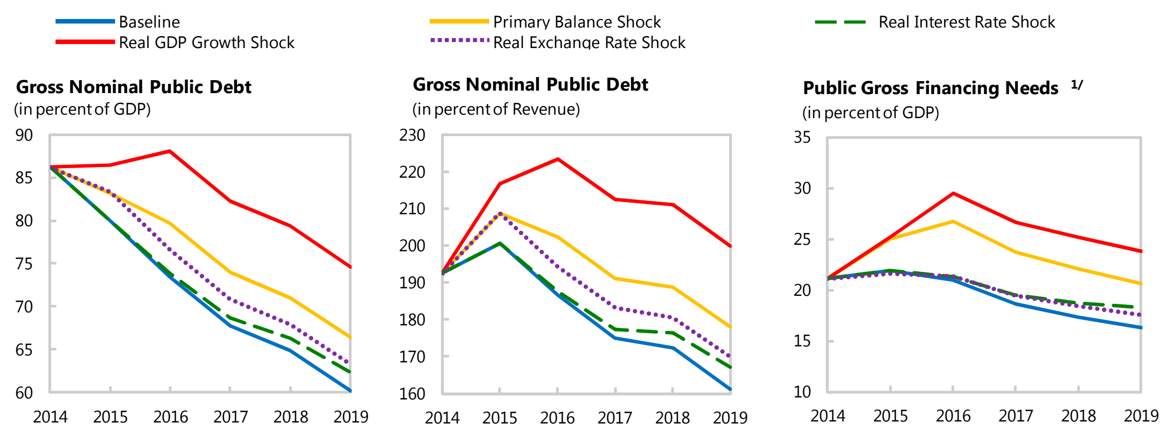
1/ The stock of short term debt falls between 2012 and 2013 as a result of reductions in bank overdrafts

2/ The public gross financing needs do not include debt cancellation from the debt-land swap operation.

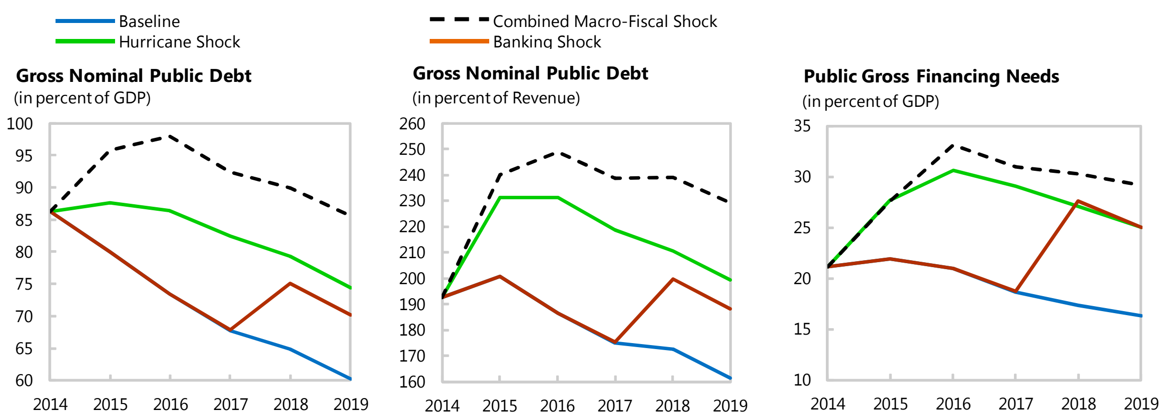
3/ 2014 is the current projection and 2015-2019 is the ten-year average for 2004-2013.

Figure 5. St. Kitts and Nevis Public DSA – Stress Tools

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

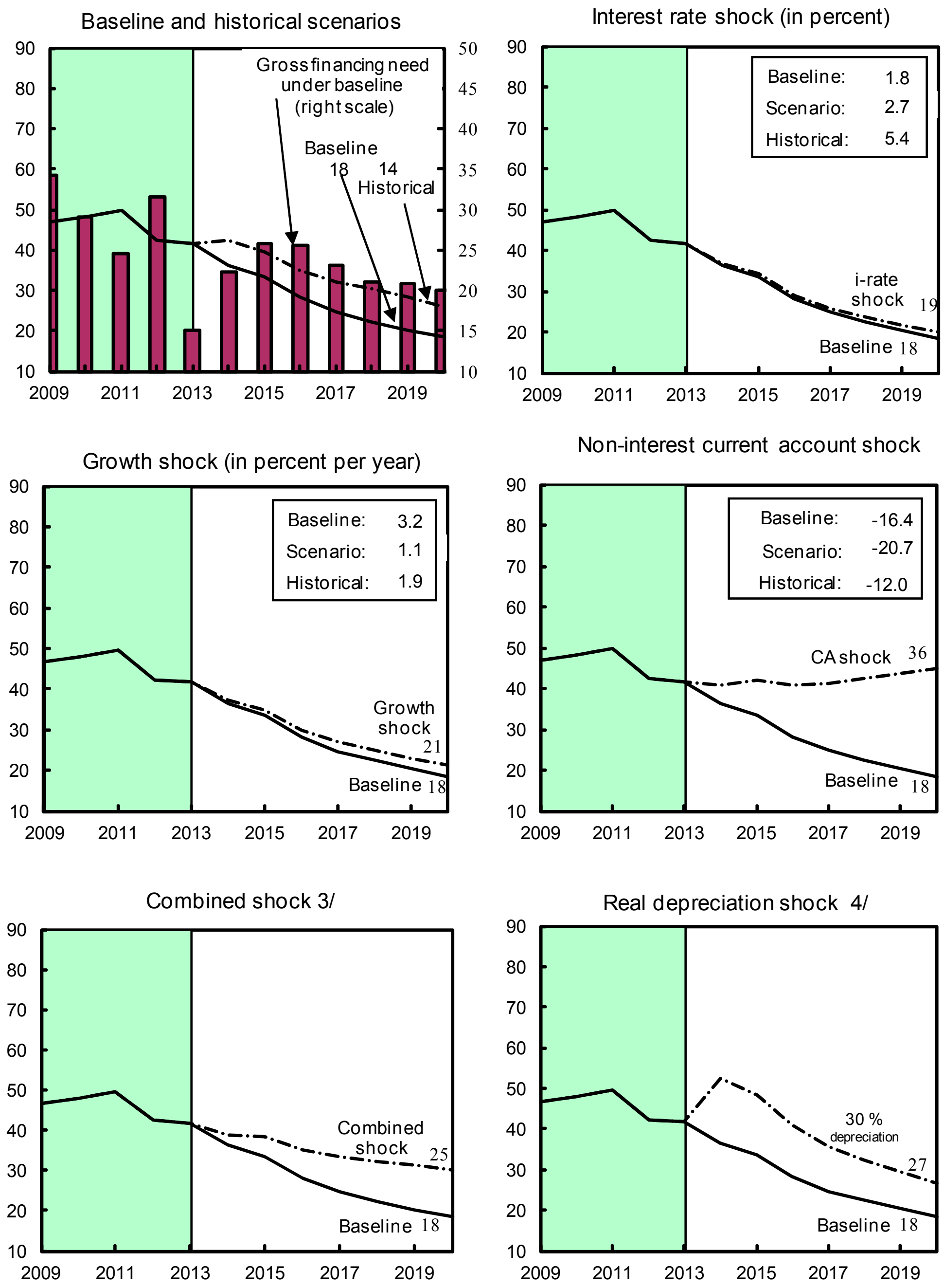
Primary Balance Shock	2014	2015	2016	2017	2018	2019
Real GDP growth	3.5	3.2	3.2	3.1	3.1	3.1
Inflation	1.2	1.6	2.0	1.8	1.9	2.2
Primary balance	9.8	1.7	1.9	4.6	3.7	3.5
Effective interest rate	4.0	4.1	4.2	4.4	4.3	4.5
Real Interest Rate Shock						
Real GDP growth	3.5	3.2	3.2	3.1	3.1	3.1
Inflation	1.2	1.6	2.0	1.8	1.9	2.2
Primary balance	9.8	4.8	5.0	4.6	3.7	3.5
Effective interest rate	4.0	4.1	4.7	5.1	5.2	5.5
Combined Shock						
Real GDP growth	3.5	-1.0	-1.0	3.1	3.1	3.1
Inflation	1.2	0.6	0.9	1.8	1.9	2.2
Primary balance	9.8	1.7	1.3	4.6	3.7	3.5
Effective interest rate	4.0	4.4	4.4	4.7	4.7	5.0

Real GDP Growth Shock	2014	2015	2016	2017	2018	2019
Real GDP growth	3.5	-1.0	-1.0	3.1	3.1	3.1
Inflation	1.2	0.6	0.9	1.8	1.9	2.2
Primary balance	9.8	3.0	1.3	4.6	3.7	3.5
Effective interest rate	4.0	4.1	4.2	4.4	4.2	4.4
Real Exchange Rate Shock						
Real GDP growth	3.5	3.2	3.2	3.1	3.1	3.1
Inflation	1.2	6.7	2.0	1.8	1.9	2.2
Primary balance	9.8	4.8	5.0	4.6	3.7	3.5
Effective interest rate	4.0	4.4	4.0	4.3	4.3	4.5
Hurricane Shock						
Real GDP growth	3.5	0.2	1.2	3.1	3.1	3.1
Inflation	1.2	1.6	2.0	1.8	1.9	2.2
Primary balance	9.8	-0.2	1.0	2.6	3.7	3.5
Effective interest rate	4.0	4.1	3.9	4.1	4.0	4.2

Source: IMF staff.
1/ The public gross financing needs do not include debt cancellation from the debt-land swap operation.

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

(External debt in percent of GDP)



Sources: International Monetary Fund, St. Kitts and Nevis authorities, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance in 2014.
4/ One-time real depreciation of 30 percent occurs in 2014.

Table 1. St. Kitts and Nevis: External Debt Sustainability Framework, 2008–2020

(In percent of GDP, unless otherwise indicated)

	Actual						10-Year	10-Year	Projections							
	2008	2009	2010	2011	2012	2013	Historical Average	Standard Deviation	2014	2015	2016	2017	2018	2019	2020	Debt-stabilizing non-interest current account 6/
Baseline: External debt	44.9	46.7	48.1	49.8	42.3	41.6			**36.4**	**33.5**	**28.2**	**24.7**	**22.4**	**20.3**	**18.3**	**-16.3**
Change in external debt	2.6	1.8	1.4	1.7	-7.4	-0.8			-5.2	-2.9	-5.2	-3.5	-2.4	-2.1	-2.0	
Identified external debt-creating flows (4+8+9)	-0.7	12.2	8.5	2.0	-6.0	-12.4			-5.5	0.1	0.0	-0.2	-0.6	0.5	0.7	
Current account deficit, excluding interest payments	24.7	23.8	18.2	13.4	9.9	8.4			12.4	17.2	17.2	17.5	16.9	17.1	16.7	
Deficit in balance of goods and services	27.2	28.4	23.3	17.8	13.8	11.3			15.5	20.3	20.2	20.0	19.6	19.8	19.4	
Exports	31.3	23.9	30.1	33.1	35.3	38.8			34.7	29.8	29.5	29.5	29.6	29.0	29.1	
Imports	58.5	52.4	53.4	51.0	49.1	50.2			50.2	50.1	49.8	49.5	49.1	48.8	48.5	
Net non-debt creating capital inflows (negative)	-25.6	-15.0	-13.8	-12.9	-17.1	-19.0			-17.8	-17.1	-16.9	-17.0	-17.0	-16.2	-15.6	
Automatic debt dynamics 1/	0.2	3.5	4.1	1.5	1.2	-1.8			-0.1	0.0	-0.3	-0.6	-0.5	-0.4	-0.4	
Contribution from nominal interest rate	2.8	2.7	2.7	2.1	1.7	0.6			1.3	1.1	0.8	0.2	0.2	0.2	0.2	
Contribution from real GDP growth	-1.4	1.7	1.8	0.9	0.4	-1.5			-1.4	-1.1	-1.0	-0.8	-0.7	-0.7	-0.6	
Contribution from price and exchange rate changes 2/	-1.3	-1.0	-0.4	-1.6	-0.9	-0.8			...	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	3.4	-10.4	-7.1	-0.3	-1.4	11.7			0.2	-3.0	-5.3	-3.3	-1.8	-2.6	-2.7	
External debt-to-exports ratio (in percent)	143.4	195.5	159.8	150.2	120.0	107.1			104.8	112.3	95.5	83.7	75.6	70.1	62.8	
Gross external financing need (in millions of US dollars) 4/	253.9	242.1	201.9	178.0	231.6	116.5			180.0	220.0	228.3	217.1	207.8	216.0	219.5	
in percent of GDP	34.6	34.2	29.2	24.5	31.6	15.0			22.2	25.8	25.5	23.1	21.0	20.8	20.0	
Scenario with key variables at their historical averages 5/									**42.2**	**39.7**	**35.0**	**32.0**	**30.6**	**28.3**	**26.0**	**-12.2**
Key Macroeconomic Assumptions Underlying Baseline																
Real GDP growth (in percent)	3.4	-3.8	-3.8	-1.9	-0.9	3.8	1.9	4.2	3.5	3.2	3.2	3.1	3.1	3.1	3.1	
GDP deflator in US dollars (change in percent)	3.1	2.2	0.9	3.4	1.8	2.0	3.1	3.0	1.2	1.6	2.0	1.8	1.9	2.2	2.4	
Nominal external interest rate (in percent)	7.1	6.0	5.7	4.5	3.4	1.4	5.4	1.8	3.2	3.1	2.4	0.7	0.9	1.0	1.2	
Growth of exports (G&S, US dollar terms, in percent) 7/	-0.3	-26.3	23.1	15.7	7.0	16.5	7.2	14.5	-6.4	-9.9	4.4	4.9	5.3	3.2	6.0	
Growth of imports (G&S, US dollar terms, in percent)	26.8	-13.7	-0.4	0.4	-3.2	8.2	4.9	11.9	4.8	4.7	4.6	4.4	4.3	4.6	4.8	
Current account balance, excluding interest payments	-24.7	-23.8	-18.2	-13.4	-9.9	-8.4	-12.0	8.6	-12.4	-17.2	-17.2	-17.5	-16.9	-17.1	-16.7	
Net non-debt creating capital inflows	25.6	15.0	13.8	12.9	17.1	19.0	12.3	7.7	17.8	17.1	16.9	17.0	17.0	16.2	15.6	

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

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

3/ For projection, line includes the impact of price and exchange rate changes. The fairly large residuals are related to repayments to the Fund and accumulation of international reserves.

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

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

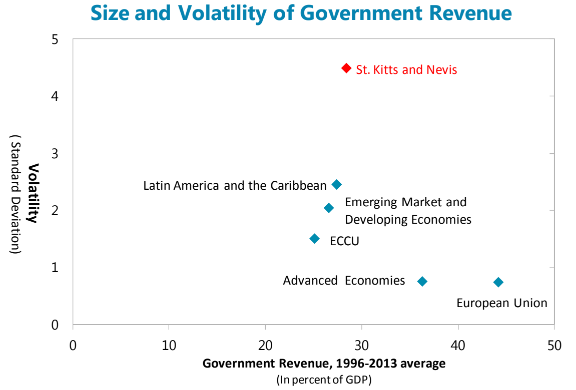
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

7/ Includes CBI receipts.

Annex IV. Optimal Management of Citizenship-by-Investment Inflows

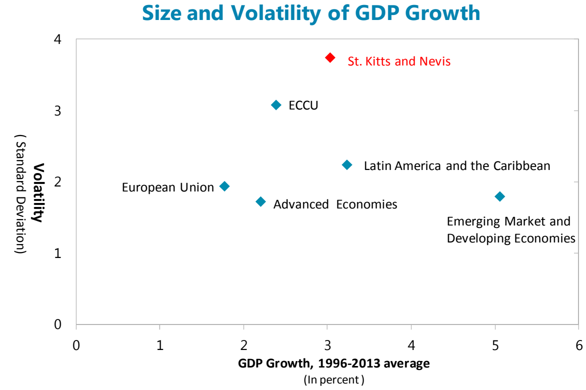
1. Citizenship-by-Investment (CBI) inflows offer a valuable opportunity to more rapidly reduce public debt, build precautionary buffers and create fiscal space for infrastructure investment. St. Kitts and Nevis is extremely vulnerable to exogenous shocks. As a result, it faces high volatility in economic growth and fiscal revenues, well above the world average and other ECCU countries. Though CBI inflows have bolstered the economy's buffers, poor management of these inflows could exacerbate vulnerabilities, and lead to adverse macroeconomic consequences usually associated with Dutch Disease, including wage and price inflation. A viable medium-term fiscal strategy that would limit reliance on excess CBI inflows is essential to contain the risk associated with these inflows and limit the unfavorable impacts on the economy. In addition, a transparent and robust framework to manage the saved resources, to be used for debt repayment or saved as buffers, is also urgently needed. This annex discusses options for the management of the saved CBI inflows, based on international experience with Sovereign Wealth Funds (SWFs).

Size and Volatility of Government Revenue



Sources: WEO and staff estimates.

Size and Volatility of GDP Growth



Sources: WEO and staff estimates.

2. A SWF can be a useful tool to manage the large CBI receipts. SWFs have been in existence for several decades, encompassing a wide range of revenue sources and management objectives. The majority of SWF revenues are resource based, but there are also SWFs whose revenue sources are current account surpluses (China, Korea and Singapore) or external grants (Marshall Islands, Micronesia and Palau). The objectives may include intergenerational equity, stabilizing fiscal revenues,

SWFs in Small Island Countries

Name	Value 1/	
	USD mil	Percent of GDP
Kiribati Revenue Equalization Reserve Fund	612.9	350.0
Marshall Islands Compact Trust Fund	165.6	96.0
Micronesia Compact Trust Fund	254.7	77.8
Palau Compact Trust Fund	148.8	64.2
Timor Leste Petroleum Fund	11768.0	186.8
Trinidad and Tobago Heritage and Stabilization Fund	4500.0	18.1
Tuvalu Trust Fund	122.9 2/	345.0

Sources: IMF staff reports.
1/ As of end-2012.
2/ As of April, 2012.

enhancing returns on international reserves, meeting pension liabilities, and achieving development objectives.[1] The experience of several small island countries that have established SWFs to manage their highly volatile revenue and grants may be particularly instrumental for St. Kitts and Nevis. With the prospect of continued inflows, St. Kitts and Nevis could consider establishing a fund—a Stabilization and Growth Fund (SGF)—following the best international practices from the more than 40 SWFs world wide—which would embody guidance on how to save, use, and invest CBI inflows.[2]

3. **The creation of a SGF would need to take into consideration the unique challenges of managing CBI inflows.** In contrast to natural resource funds, CBI revenues have no underlying assets, no reference asset price or a predictable future income stream. As a result, common rules of natural resource SWFs that reference an underlying asset price or utilize a permanent income hypothesis framework are not applicable to CBI-related SWFs. Further, the uncertainty and volatility of CBI inflows are higher than those associated with natural resources, as CBI revenues are based on the relative attractiveness of the visa-free access of the passport, and such attributes may diminish with the growing availability of competing destinations. Moreover, the inflows are subject to sudden stops. A change in advanced economies' policy towards visitors, such as the end of visa-free access to St. Kitts and Nevis citizens in Canada and Schengen countries, could abruptly reduce the number of applicants to the CBI program.

4. **Notwithstanding the uncertainties related to CBI inflows, the establishment of an SGF would provide a framework to manage and save CBI inflows and address the related uncertainty of future inflows.** The SGF would facilitate building precautionary balances, to be used for early debt repayment, to stabilize government revenue and expenditure in the face of cyclical developments, to meet exceptional needs in the case of natural disasters, and to provide additional resources to finance large infrastructure projects. Moreover, if sizable inflows continue over a longer term, savings may also provide scope for intergenerational transfers.[3]

- The ample CBI inflows present an option for St. Kitts and Nevis to more rapidly reduce its public debt.[4] Although public debt has declined substantially following debt restructuring and is on a downward trajectory to reach the ECCU agreed target of 60 percent of GDP by 2020, it remains the highest in the region. Using some of the receipts for faster debt reduction would accelerate the achievement of this objective and would not be easily reversed. This could lessen the negative impact of the debt overhang

[1] Das, U., Y. Lu, C. Mulder, and A. Sy, 2009, "Setting up a Sovereign Wealth Fund: Some Policy and Operational Considerations", IMF Working Paper No. 09/179.

[2] Le Borgne, E., and P. Medas, 2007, "Sovereign Wealth Funds in the Pacific Island Countries: Macro-Fiscal Linkages", IMF Working Paper No. 07/297.

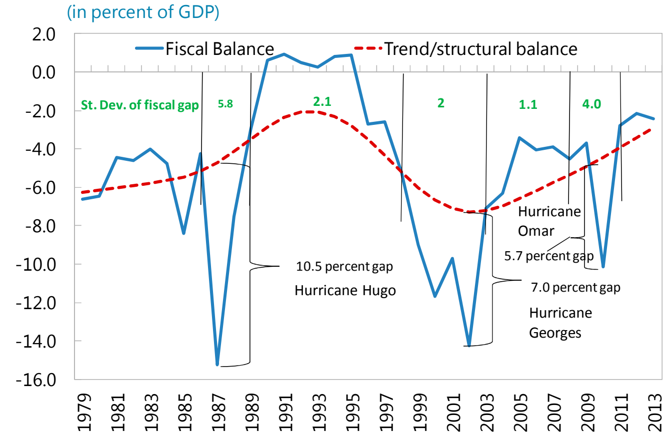
[3] Considerations of intergenerational equity are usually raised in the context of natural resources that are finite.

[4] Accumulated fiscal savings net of debt amortization are estimated to be about 15 to 20 percent of GDP.

on growth, improve the fiscal balance by lowering debt service, and expand sovereign borrowing capacity.[5]

- Building buffers would provide insurance for the future, create the means to deal with natural disasters, and help smooth spending in the case of negative revenue shocks. The recent experience during the global financial crisis suggested a sizable precautionary buffer between 25 to 40 percent of GDP.[6] Nevertheless, the investment return on savings may not be as high as the debt service cost on some of the government's outstanding obligations (some with interest costs of 7, 8 and 10 percent at end-2013) without bearing unacceptable risks. Further, without a strong governance framework and clear withdrawal and investment guidance, the saved balances may be used for unproductive public spending.

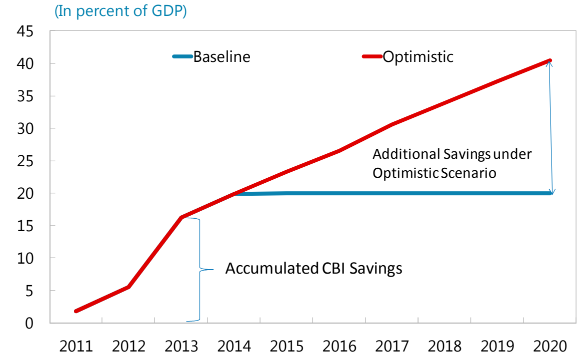
Fiscal Balance net of CBI and Underlying Trend
(in percent of GDP)



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

- Accumulated savings could also be used to support higher public investment. Recent literature suggests countries can sometimes do better by scaling up public investment rather than increasing wealth in a SWF. Nevertheless, both the pace and scale of additional public investment need to be carefully managed to avoid the risk of instability and lowering investment efficiency. Further, there is no guarantee that growth outcomes will be superior. Sustainable investing, on the other hand, facilitated by financing from a stabilization fund would shield the public investment program from volatile resource revenues and improve outcomes.[7]

Accumulated CBI Savings 1/
(In percent of GDP)



Sources: St. Kitts and Nevis Authorities and Staff estimates.
1/ Compounded investment return 3 percent for both scenarios.

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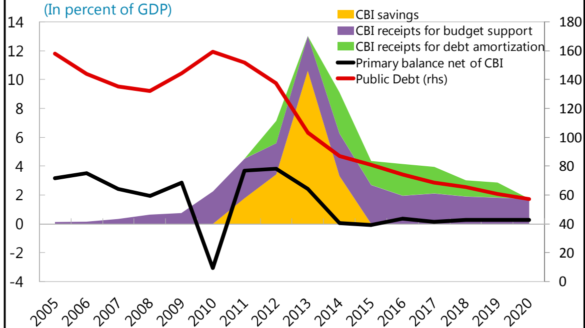
[5] Greenidge, K., R. Craigwell, C. Thomas, and L. Drakes, 2012, "Threshold Effects of Sovereign Debt: Evidence from the Caribbean", IMF Working Paper No. 12/157.

[6] The accumulated fiscal deficits net of CBI receipts from 2008 to 2013, a period that included Hurricane Omar, are about 25 percent of GDP, despite efforts during this time to contain the fiscal deterioration.

[7] Berg, A., R. Portillo, S. Yang, and L. Zanna, 2012, "Public Investment in Resource-Abundant Developing Countries", IMF Working Paper No. 12/274.

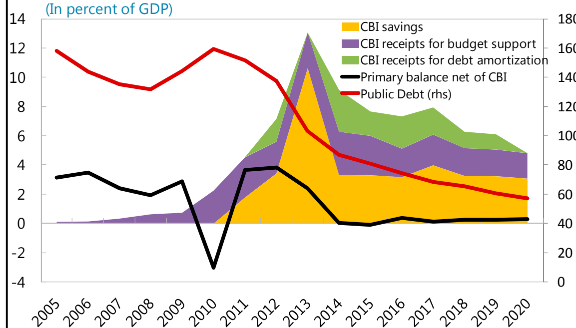
5. A prerequisite for a successful SGF is a commitment to a robust medium-term fiscal framework. A strong commitment to a sustainable fiscal framework that seeks reduce public debt is essential for a SGF to achieve its objective. Otherwise, there is high risk that the accumulation and withdrawals norms are frequently changed reducing savings of excess revenues, or that accumulated savings will, after an initial period, be quickly depleted. Other countries' experiences confirm that successful SWFs are those that are integrated into sound fiscal frameworks and good institutions (Le Borgne and Medas, 2007). The St. Kitts and Nevis government's medium-term fiscal framework is anchored by a strategy to reduce public debt to GDP to 60 percent by 2020, based on very conservative CBI receipts and higher capital spending.[8]

CBI savings under Baseline Scenario 1/
(In percent of GDP)



Sources: St. Kitts and Nevis authorities and staff estimates.
1/ Assuming budgetary CBI receipts at EC$200 million in 2014, EC$100 million 2015-2017, and EC$80 million 2018-2020.

CBI savings under Optimistic Scenario 1/
(In percent of GDP)



Sources: St. Kitts and Nevis authorities and staff estimates.
1/ Assuming budgetary CBI receipts at EC$200 million 2014-2017, and EC$160 million 2018-2020.

6. A sound institutional framework, with a clear agreement of objectives, effective operational guidance, combined with proper investment guidelines and transparent operations, is necessary to ensure the success of the SGF.[9] Specifically, international experience with resource funds underscores several key aspects when designing a SWF:

- ***Integration with budget:*** SGF inflows and outflows should be integrated into the budget process to ensure the budget's integrity and protect its role as the mechanism for setting expenditure priorities and allocating public resources (Berg et al, 2012).
- ***Clear operational guidance:*** Clear objectives should guide the operations of a SWF. Operational guidelines anchored by established objectives, rather than rigid saving/withdrawal rules, have led to better outcomes in the operations of small islands' SWF (Le Borgne and Medas, 2007).

[8] Capital spending is projected to return to its pre-crisis level of about 6 percent of GDP.

[9] Hammer, C., P. Kunzel, and I. Petrova, 2008, "Sovereign Wealth Funds: Current Institutional and Operational Practices", IMF Working Paper No. 08/254.

- ***Investment guidelines***: The SGF assets should be held abroad, rather than in domestic banks given the size of the banking system, and the assets should be held in a diversified portfolio that seeks to maximize returns with reasonable risks. The investment strategy should be periodically reviewed.
- ***Transparency and accountability*:** The annual report and financial statements should be prepared and audited in a timely manner and on a regular basis, in accordance with international accounting standards. They should be disclosed to the public, preferably in connection with the national budget. Policies, rules, or procedures related to funding, withdrawal and investment operations should also be publically available.
- ***Broad-based political and social support*:** The SGF should have broad political and social support to gain and maintain legitimacy. If it is not perceived to serve the interest of the society, it will not be sustained. Ideally, its establishment should follow public consultations and reflect a social consensus, thus reducing the temptation for future administrations to tinker with the agreed practices. Moreover, its performance should be reviewed regularly (say, every five years) in public forums.[10]

7. A simple and transparent framework to guide saving and spending decisions is critical to manage the SGF and maintain its credibility. Anchored by a medium-term fiscal framework with a sustainable non-CBI primary balance, excessive CBI receipts would be saved, while allowing for withdrawals to repay debt early, meet cyclical revenue shortfalls and exceptional spending needs, or finance high priority capital projects, subject to limits. The following discussion provides an illustrative framework that is feasible, flexible, and consistent with the SGF objectives.

- ***Funding norms:*** Excess CBI receipts above the conservative inflow assumed in the medium-term fiscal framework would be saved. This would permit funding of the budget from CBI receipts by about 2 percent of GDP, a historical average that is considered sustainable, excluding peak years (for example, 2013), which may convey misleading information on the sustainability of the inflows.[11] The norm should be periodically reviewed (say every 3 to 5 years) and revised down when inflows substantially decline.

CBI Budgetary Receipts

(In percent of GDP)

Period Average		5-Year Moving Average	
2005-2009	0.4	2005-2009	0.4
2005-2010	0.7	2006-2010	0.8
2005-2011	1.3	2007-2011	1.7
2005-2012	2.0	2008-2012	3.1

Sources: Authorities and staff estimates.

- ***Withdrawal norms for a shortfall in revenues:*** Consistent with the stabilization objective, withdrawals should be linked to a shortfall in tax revenue due to cyclical

[10] An example of SWF with broad social support and highly valued by its society is Trinidad and Tobago's Heritage and Stabilization Fund, which could provide guidance in how to engage the public in discussion and review.

[11] A further 0.5-1 percent of GDP of CBI receipts cover due diligence costs, while the rest of CBI receipts finances debt amortization.

developments or exogenous shocks. The underlying principle is that the fund's withdrawals could cover temporary rather than permanent budget gaps, to prevent a build-up of unsustainable reliance on CBI revenues. While it may be difficult to distinguish between cyclical and long-term developments, a time bound norm may help ensure that ongoing revenue shortfalls are addressed by more structural measures. Also, CBI savings should not be used to finance explicit policy decisions such as an increase in tax concessions or reduction in the VAT, or even a weakening of the revenue administration, which should be compensated by other measures.

- ***Withdrawal norms for higher expenditure:*** Withdrawals could support exceptional (rather than recurrent) expenditure to address specific developments such as salvage and reconstruction efforts following a natural disaster, or a temporary strengthening of the social safety net in the case of a deep recession (for example a PEP). Such withdrawals should be limited to avoid rapidly depleting the Fund. The response to a natural disaster could be, for example, a withdrawal to cover 100 percent of the fiscal cost related to natural disaster relief and reconstruction but no more than a certain share of the Fund total assets (the cap should be based on a consensus view and reviewed periodically). The average fiscal cost of the three most severe hurricanes in the last two decades, estimated to total to about 6 percent of GDP in the two years after the event, provides an example of an upper bound of expense related to these types of events. [12] Withdrawals to address cyclical developments, including strengthening the social safety net and maintaining critical public services, in the face of a deep economic slowdown should be temporary.
- ***Withdrawal norms for public investment/infrastructure projects:*** Part of the fund's resources could be used to support the Public Sector Investment Program that is higher than would be consistent with the fiscal framework underpinning a downward trajectory of the debt-to-GDP ratio. The objective would be to allow financing of exceptional/high priority projects which are selected on the basis of a comprehensive cost benefit analysis to ensure that the funds are used for productive purposes.

8. In creating a SGF, the role of the Sugar Industry Diversification Foundation (SIDF) needs to be considered. The use of large CBI funds off-budget creates impediments to effective fiscal policy and serious non-transparencies. Like the SGF, the operations of the SIDF should be integrated into the budget and fully taken into account when setting fiscal targets and expenditures. In particular, there should be a unified public investment budget (including all projects, regardless of their source of financing), so that priorities are set efficiently and transparently, and consideration could be given to subsuming the SIDF into a new SGF. The SIDF's investment guidelines, the decision-making process, savings objectives, and investment performance should be available for public scrutiny. Its audited financial statements should be

[12] Hurricane Luis in 1995, Hurricane Georges in 1998, and Tropical Storm Omar in 2008.

disclosed annually, in a timely fashion, with a minimal delay (for instance, the 2011 report was only released at the end of 2013).

9. **The cost of establishing and maintaining a SWF also needs to be considered in the context of the sustainability of the inflows going forward.** There are considerable upfront costs in establishing the SGF. If the inflows prove temporary, this upfront investment might be disproportionate to potential benefits. At the same time, budgetary savings are already about 18 to 20 percent of GDP, with saved SIDF balances in the banking system of about an additional 11 percent. Thus, even without a SWF, a framework to manage these significant savings in a transparent manner is highly recommended. This is particularly relevant as the banking system continues to struggle with limited investment opportunities against a background of ample liquidity that far exceeds the absorptive capacity of the domestic economy. One option to contain the fixed cost is to set the SWF as a separate government account to be managed by an external investment manager.[13] This would require establishing an oversight committee to monitor and appraise performance. The experience of ECCB in managing international reserves may provide useful guidance for the management of the SGF. The establishment of such a framework would require legislative changes that would define the SGF's governance structure, funding and operational guidelines, auditing, and reporting to ensure transparency and to safeguard the SGF resources.

[13] Cheasty, A., J. Gardner, I. Rial, M. Vera-Martin, and M. Villafuerte, 2011, "Peru: Fiscal consideration for establishing a Sovereign Wealth Fund", IMF FAD TA Report.

Appendix I. Letter of Intent

PRIME MINISTER
ST KITTS AND NEVIS

GOVERNMENT HEADQUARTERS,
P O Box 186
ST KITTS • WEST INDIES

June 23, 2014

Mme. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington DC, 20431

Dear Madame Lagarde,

As support under the IMF's Stand-By Arrangement comes to an end, it is an opportune time to look back at the achievements of the St. Kitts and Nevis' home-grown economic program. We have bolstered fiscal sustainability, addressed the debt overhang, placed debt on a sustainable downward trajectory, and strengthened the financial sector. Despite a challenging economic environment, we have implemented reforms that improved the public finances from a deficit of 7.6 percent of GDP in 2010 to a surplus of 12.3 percent in 2013, strengthened the resilience of the financial sector, and reduced the debt burden through debt restructuring and fiscal consolidation from a debt-to-GDP ratio of 159.3 percent at end-2010 (it was 164 percent at the start of the program but it was revised down following a recent GDP revision) to 103.1 percent at end-2013. The economy is now in a better position to sustain the current strong rebound in economic activity over the medium term. Following a four-year contraction, economic activity grew by 3.8 percent in 2013, and is expected to continue to expand by 3.5 percent in 2014.

Although the support from the IMF Stand-By Arrangement (SBA) comes to an end in July, the Government of St. Kitts and Nevis reaffirms its commitment to maintaining prudent fiscal policies and continuing structural reforms to consolidate the gains made under our home-grown medium-term reform program (supported by the SBA) and to achieve our medium-term public debt target. The technical expertise we have gained and financial and tax management systems we have put in place will allow us to maintain fiscal prudence, which we believe is imperative for economic stability and growth.

Since our last review, we have made further progress in implementing our home-grown medium-term reform program. We have met our fiscal targets for end-March 2014 and other quantitative performance criteria, with the exception of the continuous criterion on the non-accumulation of external arrears related to debt contracted or guaranteed by central government, which were minor and have since been repaid. We have also made further progress in debt restructuring, which is nearly complete. The bulk of the debt-for-land swap with domestic creditors was finalized in June 2013, and additional lands will be passed on to the creditor to further reduce our debt obligations, as necessary. The management company responsible for selling the land assets in St. Kitts is operational and is now being staffed. Sales are expected to commence in the second half of 2014. A management company to sell land in Nevis is being operationalized. We welcome your continued strong support for these initiatives.

The first quarter fiscal performance places us well toward meeting our annual fiscal targets. Tax revenues for the first quarter of 2014 exceeded program target by EC$16 million, offsetting higher capital spending in St. Kitts, resulting in a deficit net of CBI revenues of EC$0.5 million relative to a targeted deficit of EC$10 million. CBI inflows for application fees were almost double the amount assumed for the quarter. Consequently, we achieved an overall surplus of EC$47 million (2.1 percent of GDP).

The Nevis Island Administration (NIA) accumulated external arrears to the European Investment Bank (EIB) on October 5th 2013 of EC$0.6 million (0.03 percent of GDP), which were cleared on November 15, 2013. In accordance with the commitments in the June 2013 Memorandum of Economic and Financial Policies (MEFP), the NIA has established a fund to support management of its debt obligations and assigned an additional staff member to monitor them. As indicated in the March 2014 MEFP, we have reviewed and strengthened our procedures to prevent a recurrence of arrears, including through further strengthening of the coordinating and monitoring processes between the NIA and the Federal Government of St. Kitts and Nevis. These arrears were incurred in October 2013 before the coordinating and monitoring systems were in place.

We continue to make progress with our structural reform agenda. The implementing regulations of the 2011 Civil Service Act were made operational by Official Gazette on May 15, ahead of the end-June 2014 scheduled date. However, the submission of the Customs Law to Parliament (an end-May structural benchmark) is delayed and we plan to complete this measure as a prior action for the completion of this review. We have also made progress with two other delayed benchmarks, which will be completed after the program expires. The development of a method for proxy means testing for the eligibility criteria of the planned consolidated cash transfer program will now be combined with all the remaining elements required to roll out the program, including creating a database; the entire measure is expected to be completed by end-2014. With regard to finalizing the implementing regulations of the Procurement and Contract

(Administration) Act, we plan to complete this measure by end-2014 using our own resources. As noted in the March 2014 MEFP, we have postponed completion of the draft proposal for a comprehensive pension reform, in order to allow further reflection on its integration with the ECCU regional initiative on pension reform. In this context, we are examining pension reform options, and will develop a strategy for the coming year.

With regard to policies for the rest of 2014, Government reiterates its commitment to the policies described in our Letter of Intent (LOI) and MEFP of March 4, 2014, which encompass continued prudent fiscal management–consistent with achieving our target to reduce the ratio of debt to GDP to 60 percent by 2020–and continuing with close monitoring of the financial sector to maintain stability. We would like to underscore our commitment to meeting the year-end fiscal deficit target less net CBI receipts of EC$65 million or 3 percent of GDP. To ensure that we meet this target, we are strengthening expenditure controls and are committed to containing the public sector wage bill within the program target. We also intend to use some of the saved CBI receipts to further reduce our public debt after a complete analysis of technical and legal implications.

We remain committed to our structural reform agenda as described above with revised timing in the attached table of structural benchmarks. On the basis of our performance for the first quarter of 2014 and the economic and financial policies put forward in this letter, we request the completion of the ninth program review under the Stand-By Arrangement and a waiver of nonobservance of the performance criterion on the non-accumulation of external arrears related to debt contracted or guaranteed by central government.

In view of the strong improvement in our public finances and our external position, the Government of St. Kitts and Nevis intends to continue to treat the remainder of the Stand-By Arrangement as precautionary and does not plan to request purchases of the remaining amounts available under the arrangement. Further, we plan to repay EC$46.1 million, in mid-2014, the amount of Fund credit outstanding that was held in the Banking Sector Reserve Fund at the ECCB. This will reduce our Fund credit outstanding by about 120 percent of quota.

We are confident that the policies set forth above are adequate and ensure that the objectives of our program for 2014 are met. However, we need to remain vigilant. Should there be any unforeseen events or external shocks, the Government of St. Kitts and Nevis stands ready to adopt the necessary policies and measures to secure the objectives of the program. We will continue to consult with the IMF on the adoption of such policies and measures, and in advance of revisions to the policies contained in the March 2014 MEFP, in accordance with the Fund's policies on such consultations. Following the completion of the SBA, the Government intends to continue its frank and open policy dialogue and close relationship with the Fund through the Post Program Monitoring framework.

The Government of St. Kitts and Nevis authorizes the IMF to make public the contents of this letter 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,

Denzil Douglas (Rt. Hon. Dr.)

Prime Minister and Minister of Finance
St. Kitts and Nevis

Attachment 1: Program Tables

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

Availability date 1/	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
May 21, 2012	3.161	35.5	Second review and end-December 2011 performance criteria
August 3, 2012	3.161	35.5	Third review and end-March 2012 performance criteria
November 30, 2012	3.161	35.5	Fourth review and end-June 2012 performance criteria
July 24, 2013	4.266	47.9	Fifth and sixth review and end-March 2013 performance criteria
March 19, 2014	2.210	24.8	Seventh and eighth review and end-September 2013 performance criteria
June 15, 2014	2.931	32.9	Ninth review and end-March 2014 performance criteria
Total	**52.510**	**590.0**	

Source: Fund staff estimates.
1/ For completed reviews the dates refer to Board dates and for future reviews the dates refer to availability dates.

Table 2. St. Kitts and Nevis: Quantitative Performance Criteria and Indicative Targets

(In EC$ million)

	End-Sep. 2013				End-Dec. 2013				End-Mar. 2014 1/			
	Prog.	Adjusted	Actual	Status	Prog.	Adjusted	Actual	Status	Prog.	Adjusted	Actual	Status
Performance Criteria:												
Central government overall balance including grants (floor) 2/3/	48	62	175	√	52	72	253	√	15	35	43	√
Stock of central government budget expenditure arrears accumulation (ceiling) 4/	0	0	-60	√	0	0	-67	√	0	0	-66	√
Stock of external short term debt (ceiling)	0	0	0	√	0	0	0	√	0	0	0	√
Central government or guaranteed external arrears accumulation (ceiling) 5/	0	0	1.3	X	0	0	0.6	X	0	0	0.3	X
Indicative Target:												
Central government primary balance (floor) 2/3/	121	135	245	√	152	172	336	√	26	46	53	√

1/ For the purpose of the 9th Review the controlling PCs are the end-March 2014 PCs.
2/ Cumulative within each calendar year.
3/ See the TMU for a description of adjustors.
4/ Including the estimated stock of expenditure payable on electricity.
5/ To be monitored on a continuous basis.

Table 3. Structural Reform Program

Action	Target Date	Objectives	Status	New Target 1/
I. Fiscal and Public Sector Reforms				
Revenue Administration				
Submit to Parliament the new Customs Law	End-May 2014	Strengthen revenue administration	delayed, **new prior action**	
Establish and operationalize a unit dedicated to program design, planning and monitoring in the Inland Revenue.	End-September 2013	Strengthen revenue administration	completed	
Public financial management				
Submit the bill for the corporatization of the Electricity Department to Parliament	End-September 2011	Strengthen institutional framework	completed	
Make Substantial Progress on the consultative phase of restructuring with creditors	End-September 2011	Strengthen public financial management	completed	
Review borrowing capacity of public enterprises	End-December 2011	Strengthen public financial management	completed	
Submit to Cabinet proposal to rationalize the subsidy on liquefied petroleum gas (LPG)	End-March 2012	Streamline social safety net	completed	
Update the registry of at least 600 acres of land	End-September 2011	Strengthen public financial management	completed	
Undertake valuation of at least 600 acres of land	End-September 2011	Strengthen public financial management	completed	
Update the registry of additional 600 acres of land	End-June 2012	Strengthen public financial management	completed	
Undertake valuation of additional 600 acres of land	End-June 2012	Strengthen public financial management	completed	
Submit draft of new Procurement Act to Parliament	End-June 2012	Strengthen institutional framework	completed	
Draft proposal for the establishment of an asset management company	End-June 2012	Strengthen public financial management	completed	
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	To accompany the 2013 budget	Improve medium-term orientation of the budget	completed	
Establish a medium-term expenditure framework with agreed fiscal targets	End-June 2012	Improve medium-term orientation of the budget	completed	
Finalize the implementing regulations to the Procurement and Contract (Administration) Act	End-December 2013	Strengthen public financial management	delayed	End -2014
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	Strengthen public financial management	completed	
Operationalize the implementing regulations of the 2011 Civil Service Act (pertaining to recruiting, discipline, promotion, and standing orders) by amending the general orders accordingly	End-June 2014	Strengthen public financial management	completed	
Social Security Reform				
Actuarial review of the Social Security Scheme.	End-December 2012	Strengthen public financial management	met with delay in May 2013	
Draft proposal for a comprehensive pension reform	End-June 2013	Strengthen public financial management	delayed	2015
Public enterprise reform				
Rationalize public land sales and development agencies	End-September 2012	Strengthen public financial management	met with delay October 5, 2012	
Include in the Finance Administration Act provisions recognizing the Government Entities Oversight Board and strengthening its enforcement authority	End-March 2013	Strengthen public financial management	met with delay in July 2013	
Strengthen social safety net				
Submit social safety net reform strategy to Cabinet	End-March 2012	Streamline social safety nets	completed	
Develop method for the proxy means testing for the eligibiity criteria of the planned consolidated cash transfer	End-December 2013	Streamline social safety nets	delayed	End-2014
II. Financial Sector Reforms				
Update the existing stress tests of banks	To be monitored on a quarterly basis	Financial sector stability	completed	

Sources: St. Kitts and Nevis authorities

1/ New target dates refer to the authorities' own reform schedule and do not represent conditionality beyond the program expiration date.

Statement by the IMF Staff Representative on
St. Kitts and Nevis
July 11, 2014

This statement reports on the implementation of the prior action and on information that has become available since the Staff Report was issued on June 26, 2014. The information does not alter the thrust of the Staff Appraisal.

1. **The prior action on submitting the new Customs Law to Parliament has been met.** The new Customs Bill was approved on June 30, 2014 by the Cabinet of the Government of St. Kitts and Nevis and sent on July 3 to the Permanent Secretary for Justice and Legal Affairs to be submitted for tabling at the next sitting of Parliament.

2. **The St. Kitts and Nevis government is implementing reforms to strengthen the legal, regulatory and administrative framework governing the Citizenship-by-Investment (CBI) program.** The objective is to ensure that the program's due diligence process exceeds international standards, to strengthen the program's sustainability and to safeguard its strong reputation. The following actions have been taken:

    - An in-house legal adviser has been assigned to the CBI Unit.
    - The Cabinet has approved a Plan of Action to strengthen the operating procedures of the CBI program. The senior government officials who will be implementing this Plan will report directly to the Prime Minister.
    - The information system has been improved with a new database, which is currently being tested.
    - The Prime Minister has initiated a dialogue on strengthening regional collaboration on the oversight of CBI programs at the CARICOM level.

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 14/342
FOR IMMEDIATE RELEASE
July 15, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Board Completes Final Review Under SBA for St. Kitts and Nevis, Approves US$4.5 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) on July 11 completed the ninth and final review of St. Kitts and Nevis' economic performance under a program supported by a 36-month Stand-By Arrangement (SBA). The completion of this review enables the authorities to draw an additional amount equivalent to SDR 2.931 million (about US$4.5 million), bringing the total resources available for immediate disbursement to St Kitts and Nevis under the arrangement to SDR 5.141 million (about US$7.9 million). The authorities have expressed the intention to continue to treat the arrangement as precautionary.

The SBA was originally approved on July 27, 2011 (see Press Release No.11/295), for SDR 52.51 million (about US$84.5 million at the time of the approval of the SBA), or 590 percent of St. Kitts and Nevis' IMF quota. In March 2014, the authorities decided to treat the arrangement as precautionary (see: Press Release No. 14/117), and on June 24, 2014 the authorities started to make repayments to the Fund ahead of schedule (see: Press Release No. 14/313). In completing the review, the Executive Board also approved the waiver of the non-observance of the continuous performance criterion on external arrears.

After the expiration of the SBA, St Kitts and Nevis and the Fund will continue to maintain a fluid and constructive policy dialogue. In accordance with Fund policy, Post-Program Monitoring (PPM) will now be initiated.[1]

Following the Executive Board discussion, Mr. Min Zhu, Deputy Managing Director and Acting Chair, issued the following statement:

"Substantial strides have been made under St. Kitts and Nevis' home-grown Fund-supported program. Fiscal and debt sustainability have improved significantly, financial sector stability was preserved during a comprehensive debt restructuring exercise, and economic growth has rebounded strongly following a four-year recession. As evidence of the strong turnaround, St.

[1] The central objective of PPM is to provide for closer monitoring of the policies of members that have substantial Fund credit outstanding following the expiration of their arrangements. PPM is discussed in more detail in this factsheet

Kitts and Nevis repaid early a significant portion of its outstanding credit to the IMF and continues to treat the arrangement as precautionary.

"The fiscal outturn for end-March 2014 was consistent with program objectives and the government is on track to achieve its end-year targets. The temporary accumulation of small external arrears was rapidly cleared and measures to prevent their recurrence have been taken. Attaining the medium-term fiscal program objectives is consistent with achieving the ECCB debt target of 60 percent of GDP by 2020, but it will require continued fiscal prudence and the implementation of structural reforms, including strengthening of revenue administration, civil service reform, and streamlining of the social safety net. Debt has fallen considerably, but it is still high and vulnerable to shocks. Completing the remaining debt-for-land swap is necessary to achieve the medium-term debt target.

"The government should continue with its cautious use of Citizenship-By-Investment inflows, which have been key in improving the fiscal and external macroeconomic performance. The establishment of a fund to help manage these inflows would be important to build fiscal buffers and contain associated risks. Strengthening the institutional safeguards against misuse of the program to ensure its longer-term viability is also key.

"The banking sector remains stable but continued vigilance is needed, including with regard to financial sector developments in the ECCU region.

"Achieving the country's medium-term growth and development objectives will require continued implementation of key structural reforms designed to enhance external competitiveness and strengthen the business climate.

"St. Kitts and Nevis will continue its close policy dialogue with the Fund under the Post-Program Monitoring framework."