



ST. KITTS AND NEVIS

September 2015

2015 ARTICLE IV CONSULTATION AND FIRST POST-PROGRAM MONITORING DISCUSSIONS—PRESS RELEASE; AND STAFF REPORT

In the context of the 2015 Article IV Consultation and First Post-Program Monitoring discussions, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 31, 2015, following discussions that ended on June 19, 2015, with the officials of St. Kitts and Nevis on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 31, 2015.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Statement** updating information on recent developments.

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

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IMF Executive Board Concludes 2015 Article IV Consultation and First Post-Program Monitoring Discussions with St. Kitts and Nevis

On August 31, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ and the First Post-Program² with St. Kitts and Nevis.

The economic situation has continued to improve since the completion of the Fund-supported home-grown economic program in July 2014. Continued rapid inflows under the Citizenship-By-Investment (CBI) program have led to a surge in construction activity, and supported a large increase in government and Sugar Industry Diversification Fund (SIDF) investments and spending, including on the People Employment Program (PEP). These factors, together with the ongoing recovery in tourist arrivals fueled rapid GDP growth of about 6 percent in 2013 and 2014. The banking system has remained stable, notwithstanding the restructuring of government debt held by the banks. However, the growth of private sector credit, while turning positive, has remained very weak, despite the high bank liquidity. Inflation has remained very low, at 0.6 percent at end-2014, reflecting weak international commodity prices. The current account deficit remained at about 7.5 percent of GDP, below historical levels, on the back of high CBI budgetary inflows, while external reserves remain high at about 9 months of imports.

The fiscal balance has remained high. Tax revenues grew more rapidly than GDP, offsetting higher expenditures, including the thirteenth month wage bonus and reforms to the CBI program. CBI budgetary revenues surpassed their 2013 performance, reaching 14 percent of GDP. The

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>

² Post-Program Monitoring provides for more frequent consultations between the Fund and members whose arrangements has expired but that continue to have Fund credit outstanding, with a particular focus on policies that have a bearing on external viability. There is a presumption that members whose credit outstanding exceeds 200 percent of quota would engage in Post-Program Monitoring.

overall fiscal surplus in 2014 was 9.5 percent, compared to 12 percent in 2013, primarily on account of substantial decline in SIDF support to the budget. Debt has declined faster than planned, reflecting higher GDP growth and advance debt repayments, to reach 79 percent of GDP at end-2014 compared to 100.8 percent at end-2013.

The near-term outlook remains strong, but there are risks on the horizon. The imposition of visa requirements by Canada, combined with new competition on the CBI front, from neighboring countries and globally, raising uncertainty regarding future CBI inflows. Further, while the high fiscal surplus allows the government to accommodate the expected decline in tax revenues from the substantial widening in VAT and custom exemptions granted in December 2014 and April 2015, these measures may undermine fiscal and debt sustainability over the medium term. Without corrective measures, the new exemptions could lead to a reversal of the downward trajectory of the debt-to-GDP ratio, particularly in case of a natural disaster or an exogenous shock. Finally, a substantial part of the rapid reduction in the debt-to-GDP ratio is the result of the debt-land swap. A reversal of this operation would erode much of the gains in debt sustainability and increase fiscal spending on debt service.

Over the medium term, growth is expected to converge to the regional average of about 2.5 percent, consistent with the staff's cautious assumptions regarding CBI inflows, as large CBI construction projects reach completion, and tourism resumes as the main driver of growth.

Executive Board Assessment³

Executive Directors welcomed the strong economic performance of St. Kitts and Nevis since the completion of the three-year Stand-By Arrangement, as evidenced by rapid growth and the strong fiscal position. Although the outlook remains favorable, it is vulnerable to a possible reduction of the large inflows of recent years under the Citizenship-By-Investment (CBI) Program. Directors therefore stressed the need for continued prudent policies and structural reforms to safeguard fiscal and debt sustainability and deliver broad-based growth.

Directors welcomed the improvement in tax revenue collection and the large fiscal surplus achieved in 2014. Most Directors, however, were concerned that the recent introduction of VAT and custom duties exemptions could erode past gains and increase vulnerability to volatile CBI inflows, unless accompanied by offsetting measures. In this regard, Directors encouraged the authorities to strengthen fiscal buffers with continued reform of tax administration and public financial management, civil service reform, measures to limit tax incentives, and improved monitoring of public enterprises.

³ At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Directors commended the authorities' efforts to pre-pay debt. Despite the considerable progress, public debt remains high, and Directors recommended continued early repayment of debt with CBI savings. Noting the substantial gains from debt restructuring and the debt-land swap, Directors encouraged the authorities to preserve this progress.

Directors welcomed the ongoing reform of the CBI program to strengthen due diligence and the efforts to coordinate policies on these programs in the region. They encouraged the authorities to establish an effective and transparent framework for saving and managing the budgetary resources from the program. They also stressed the importance of improving the management and transparency of the Sugar Investment Diversification Foundation. These steps will reduce pro-cyclical stimulus, contain risks to the economy from a possible reduction of these inflows, and gradually eliminate quasi-fiscal expenditures.

Directors noted that the financial system is stable, and called for continuous efforts to strengthen financial supervision, reduce nonperforming loans, and foster sound credit growth. They welcomed the passage of the banking legislation, which will facilitate the implementation of the regional banking resolution strategy. They encouraged the authorities to continue monitoring developments and coordinate with the Eastern Caribbean Currency Union (ECCB) as needed. Directors considered that any extension of offshore banking should be accompanied by adequate supervision and compliance with global Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regulation and tax reporting requirements. Moving forward with a plan for the land held by the Special Land Sales Company would bolster banks' balance sheets.

Directors agreed that faster progress on structural reform is key to enhancing competitiveness and medium-term growth prospects. Priorities include strengthening support to the tourism sector, improving the business climate, and diversifying into alternative energy sources.

Directors underscored the importance of upgrading the quality of macroeconomic data.



ST. KITTS AND NEVIS

2015 ARTICLE IV CONSULTATION AND FIRST POST-PROGRAM MONITORING DISCUSSIONS

July 31, 2015

KEY ISSUES

Context and post-program performance: Macroeconomic conditions continued to improve, with the economy recording a second year of strong growth of about 6 percent, significantly higher than envisaged in the 9th Review. The fiscal balance has also been exceptionally strong, reflecting both robust tax revenues and continued strong growth of CBI budgetary fees, while the debt-to-GDP ratio has fallen more rapidly than projected, to 79 percent of GDP. A new government won elections and assumed power in February 2015, which delayed the PPM mission.

Article IV: The last Article IV consultation was concluded on March 19, 2014. Current discussions focused on sustaining fiscal prudence, making progress with debt-land swaps, and boosting reform momentum following a further widening of tax exemptions and heightened uncertainty about future CBI inflows. The mission also urged the development of a plan for managing the CBI inflows, support for the regional bank strategy while continuing to strengthen bank oversight, preserving debt sustainability with a strategy for moving forward with the debt-land swap, implementing growth enhancing reforms focusing on strengthening tourism, developing cost-effective energy solutions, and improving the business environment.

Post-Program Monitoring: The 36-month SBA for SDR 52.51 million (590 percent of quota) was concluded on July 27, 2014, with total withdrawals of SDR 47.37 million. Following several advance repayments, Fund credit outstanding fell to 298 percent of quota as of end-June 2015, placing St. Kitts and Nevis under Post-Program Monitoring till May 2016, absent additional early repayments.

Authorities' views: The authorities broadly agreed with the staff's assessment of the key economic challenges and policy recommendations and they explained that they need time to develop a strategy to address these, consistent with their objective of sharing more widely the benefits of the improved macroeconomic conditions. They are considering options to increase revenues by reducing tax exemptions while improving conditions for domestic investment. They have launched a comprehensive reform of the CBI program to improve its sustainability. They are also contemplating changes to the debt-land swap in a manner that would best serve the national interest while preserving gains in debt sustainability.

Approved By
Adrienne Cheasty and
Bob Traa

The staff team comprising Ms. J. Gold (head), Mr. A. El-Ashram, Mr. K. Greenidge (all WHD) and S. Chen (SPR), visited Basseterre and Charlestown during June 8-19, 2015, with Ms. Gold joining the advance team that was headed by Mr. Greenidge on June 15. The mission met with Prime Minister and Minister of Finance T. Harris, Premier V. Amory, and other senior officials and representatives of the private sector. Mr. K. Silston (OED) joined the team during the second week of the mission. Mr. El-Ashram made a presentation on prudent management of inflows under Economic Citizenship Programs at the regional conference on these programs that took place on June 15-16 in Basseterre.

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CONTEXT

1. **The economic situation has continued to improve with robust growth and a strong fiscal balance.** Economic growth for 2013-2014 averaged about 6 percent per year, the fiscal surplus remained high as a result of strong tax revenue, which more than offset higher spending, while the public debt-to-GDP ratio fell faster than anticipated. This follows the successful completion of the 36-month exceptional access SBA, which aimed to restore growth and fiscal and debt sustainability, while preserving financial stability.¹ Under the program, St. Kitts and Nevis implemented substantial fiscal consolidation measures, undertook a major debt restructuring exercise, including a debt-land swap, while making substantial progress with key structural reforms. The latter included strengthening tax administration and improving public financial management. There was considerable progress in implementing Fund policy advice from the 2014 Article IV consultation but important issues remain outstanding (Box 1).

2. **Recent developments suggest increased risks to the Citizenship-By-Investment (CBI) program, the main driver of the economy's strong performance.** The Canadian imposition of visa requirements on citizens of St. Kitts and Nevis on November 22, 2014 led the government to undertake important reforms to address security concerns. However, the heightened international scrutiny, combined with substantial competition from new CBI programs in the region and globally, raises concerns about the sustainability of these inflows.

3. **Recent elections led to a change in administration.** Team Unity, a three-party coalition won Parliamentary elections on February 16th, 2015, with Dr. Timothy Harris replacing Dr. Denzil Douglas—the country's Prime Minister since 1995. The campaign promised strong employment creation, lower taxes, and higher welfare benefits, and opposed the debt-land swaps. The campaign also promised to strengthen the CBI program administration and improve the transparency of the operations of the Sugar Investment Diversification Foundation (SIDF). The new government has already moved by widening tax exemptions introduced by the previous government and stepped up the reform of the CBI program.

RECENT ECONOMIC DEVELOPMENTS

4. **The buoyant recovery reflects a surge in construction activity.** Growth in 2013 was revised up from 3.8 percent to 6.2 percent and, estimated to have been 6.1 percent in 2014, driven by the surge in CBI-related construction activity, government and Sugar Industry Diversification Foundation (SIDF) investments and spending, including the People Employment Program (PEP), and the ongoing recovery in tourist arrivals.² Wages and employment in the construction sector were

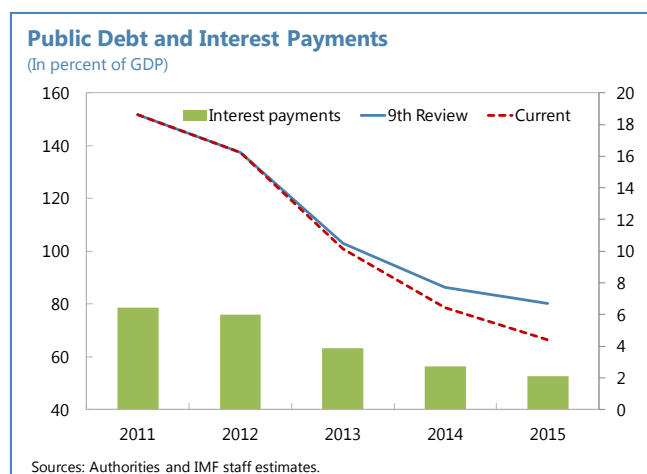
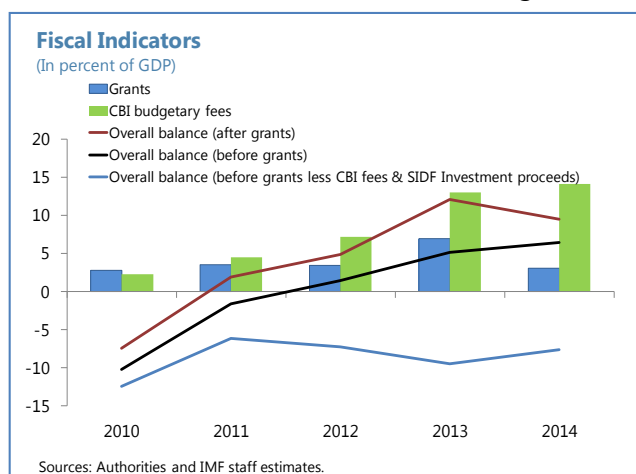
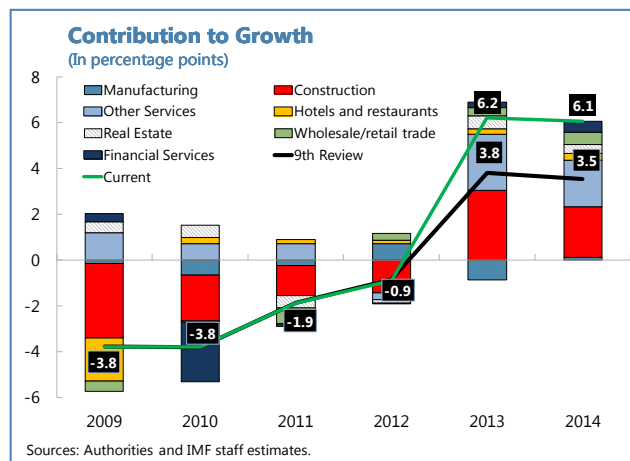
¹Improved macroeconomic circumstances permitted the authorities to begin to treat the arrangement as precautionary at the time of the completion of the Seventh and Eighth Review, in March 2014.

² The revision follows technical assistance provided by a CARTAC National Accounts expert.

up by 30 and 15 percent, respectively. Inflation remained low at 0.6 percent (y/y) at end-2014, reflecting low commodity prices. The current account deficit has remained lower than its historical average, at around 7.5 percent of GDP, owing to high CBI service receipts. International reserves continued to increase in 2014, with import coverage remaining at about 9 months.

5. The fiscal surplus remained high as a result of strong growth in tax revenue, more than offsetting higher spending. Reflecting the

strength of the economic activity, tax revenue increased by 1 percentage point from 2013, significantly higher than envisaged in the 9th Review in Eastern Caribbean dollar (EC\$) terms. Current spending was also higher than projected (in EC\$) in the 9th Review as a result of the 13th-month salary bonus, increased outlays, in part related to CBI program reforms and higher transfers, but continued to decline as a percent of GDP. Meanwhile, CBI budgetary revenues grew to 14.1 percent of GDP from 13 percent in 2013. As a result, the surplus before grants increased to 6.5 percent of GDP, from 5.2 percent in 2013. Significantly lower grants in 2014, including from the SIDF, generated a decline in the headline central government surplus to 9.5 percent of GDP from 12.1 percent in 2013. Netting the impact of grants, CBI flows and SIDF budgetary support, the central government registered an improvement of 1.5 percent of GDP in 2014.^{3,4} Debt declined faster than anticipated, reflecting higher GDP growth and advance debt repayments, to 79 percent of GDP at end-2014 compared to a projected 86.2 percent, and 100.8 percent at end-2013. In 2015Q1, the fiscal result remained strong.



³ The fiscal performance of Nevis was weaker, reflecting slower revenue growth, and higher current and capital spending, which turned its small surplus in 2013 into a deficit.

⁴ Estimates based on the monetary survey and public sector debt data suggest that the overall public sector balance, including 14 public sector enterprises, deteriorated by 4.3 percent, although it was still very strong, with a surplus of 10.4 percent of GDP in 2014.

Box 1. Implementation of 2014 Article IV Recommendations¹

The authorities undertook the following actions, consistent with the last Article IV recommendations:

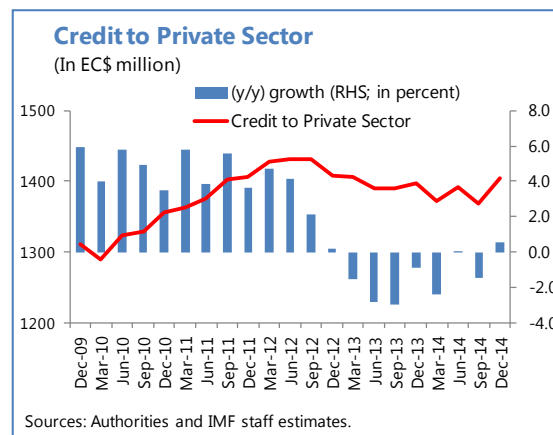
- Completed the second tranche of the debt-land swap agreement for St. Kitts and the first tranche for Nevis.
- Saved a large portion of CBI budgetary revenues to build further precautionary buffers.
- Reduced public debt more rapidly using accumulated government deposits.
- Limited discretionary tax exemptions on new construction projects to about EC\$100 million limits.
- Passed a new Customs Law in November 2014 to facilitate the enforcement of post-clearance audits at the Customs and Excise Department.
- Further strengthened the tax administration, including greater focus on large tax-payers, representing 80 percent of total tax revenues and broadening the tax base by limiting deductions.
- Progressed with civil service reform by operationalizing the implementing regulations of the 2011 Civil Service Act, in May 2014, for the effective implementation of the legislation, and began the payroll audit and functional review of selected departments, with the final review due for completion by end-2015.
- Made important revisions to strengthen the National Energy Policy and Action Plan and made significant progress in negotiations on the geothermal project in Nevis.

Policy action was slow, delayed, or reversed, in the following areas:

- Introducing new VAT and import duties exemptions that staff estimates will lead to substantial loss of tax revenues absent offsetting measures.
- Mobilizing land sales by the Special Land Sales Company (St. Kitts).
- Curtailing tax holidays and centralizing the power to grant and manage tax incentives in the Ministry of Finance and moving from discretionary to a rules-based concessions system.
- Strengthening oversight of public enterprises and enhancing their reporting requirements.
- Implementing an action plan to improve the business climate, which was, however, initiated in 2015.
- Publishing the latest audited financial statements of SIDF.
- Developing a time-table for implementing parametric reforms proposed in the latest actuarial review of the Social Security Board (SSB).
- Strengthening statistical capacity.

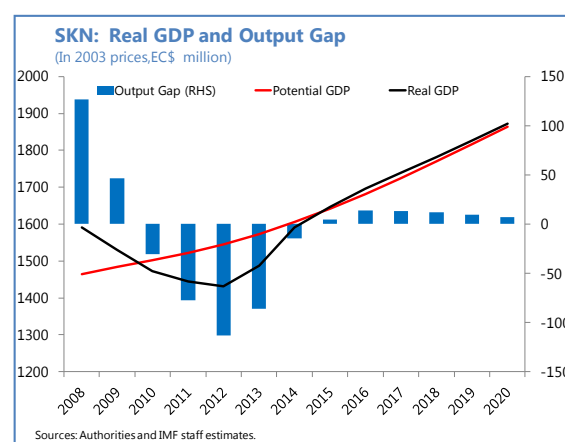
¹ See IMF Country Report No. 14/86. For a review of SBA program implementation see IMF Country Report No. 14/297.

6. **The banking system remains stable while credit growth is low.** The debt-land swap in July 2013 and August 2014 contributed to increasing indigenous banks' NPL ratio to 16.8 percent as of 2014Q4, as public sector loans were removed from the balance of total loans.⁵ Private sector credit recovered modestly by 0.5 percent (y/y) in December 2014, following two years of contraction, reflecting banks' low risk appetite and the elevated NPL ratio. On other hand, bank liquidity continued to grow, fuelled by strong deposit growth associated with high CBI inflows and government savings.

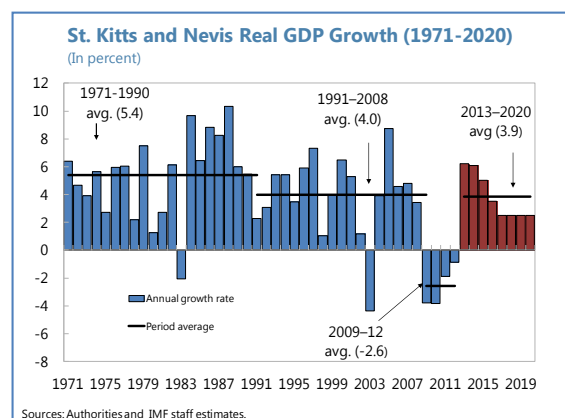


OUTLOOK: STRONG BUT WITH NEW RISKS

7. **Near-term economic growth is set to continue, albeit at a somewhat slower pace.** Growth is expected to slow to about 5 percent in 2015 and 3.5 percent in 2016, reflecting some moderation of construction activity; the output gap is estimated to close in 2015. The authorities are more bullish on growth, projecting a 7 percent increase in 2015, reflecting strong first quarter developments. Given considerable uncertainty related to the CBI program following the Canadian action and growing competition, staff is more cautious and assumes a substantial slowdown in the pace of inflows. Inflation is forecast to be negative 2.2 percent in 2015 as a result of the VAT exemptions on food items, which represent 25 percent of the consumer basket, and the decline in global commodity prices.



8. **Over the medium-term, staff projects growth to converge back to the regional average.** The normalization of growth over 2017-2020 to 2.5 percent is based on the staff's assumption of low CBI inflows, a tapering off in CBI-related



⁵ Adjusting for the impact of the debt-land swap, the NPL ratio in 2014 is estimated to be 9 ½ percent, up from 8.9 percent in 2012.

construction, and moderate growth prospects for key tourism source markets. This implies an average growth of 3.9 percent for 2013-2020, roughly the same as the pre-crisis average of 4 percent over 1991-2008, a period buffeted by negative exogenous shocks, including natural disasters. Risks to the outlook, highlighted in the Risk Assessment Matrix (Annex I), are broadly balanced. These include the potential fallout of the regional financial resolution process, vulnerability to natural disasters, and slower growth in advanced economies. On the upside, CBI and FDI inflows could be more buoyant than anticipated in the baseline.

9. **The external sustainability analysis suggests that the current account deficit is larger than implied by fundamentals, while the exchange rate is somewhat overvalued.**⁶ The current account deficit is expected to deteriorate by about 5 percentage points to 12.6 percent in 2015 reflecting the staff's cautious projection for CBI inflows for the rest of the year. Excluding CBI receipts, the current account balance remains broadly stable as higher good imports are offset by lower energy cost. Reserves are projected to fall reflecting planned debt repayment, but remain adequate, covering 8 months of imports in 2015.⁷ Competitiveness indicators – including the investment climate and tourism performance – suggest ongoing challenges (Annex II). The capacity to repay has substantially improved reflecting higher growth and advance repayments to the Fund, with outstanding Fund credit projected at end-2015 to be about 14 percent of imputed reserves compared to projection of 21 percent at the last review.

St. Kitts and Nevis: Medium-Term Outlook									
	Avg. 2005-12	2013	Prel. 2014	Projections					
				2015	2016	2017	2018	2019	2020
(Annual percentage change)									
Output and prices									
Real GDP (factor cost)	1.2	6.2	6.1	5.0	3.5	2.5	2.5	2.5	2.5
Consumer prices, end-of-period	3.8	1.0	0.6	-2.2	1.7	1.7	1.7	1.7	1.7
(In percent of GDP)									
Fiscal Sector									
Central government primary balance	4.8	16.0	12.2	7.0	0.5	-0.9	-1.6	-1.8	-1.8
Central government primary balance (less CBI)	-0.4	3.0	-1.9	-2.4	-3.4	-3.5	-3.4	-3.5	-3.4
Central government overall balance	-1.8	12.1	9.5	4.9	-1.3	-2.7	-3.5	-3.6	-3.6
Central government overall balance (less CBI)	-4.3	-0.9	-4.6	-4.4	-5.3	-5.4	-5.3	-5.3	-5.3
Citizenship by investment fees to the budget		13.0	14.1	9.4	4.0	2.7	1.8	1.7	1.7
SIDF contributions to the budget 1/		5.6	1.5	1.8	1.5	1.5	0.0	0.0	0.0
Total public debt (end-of-period) 2/	139.2	100.3	78.6	66.3	61.3	58.8	56.4	54.2	52.1
External Sector									
External current account balance (in percent of GDP)	-17.7	-6.6	-7.6	-12.6	-18.6	-17.9	-17.7	-16.8	-15.8
Imputed reserves (in months of imports of goods and services)	4.6	9.0	9.2	8.4	7.5	7.4	7.3	7.4	7.5

Sources: St. Kitts and Nevis authorities, ECCB and IMF staff estimates and projections.
1/ Includes capital grants and investment proceeds to government.
2/ Reflects debt-land swap equivalent to EC\$565 million in 2013 and EC\$202 million in 2014.

⁶ Substantial measurement shortfalls in the balance of payment hinder accurate assessment.

⁷ Outstanding 2015 obligations to the Fund have already been paid.

POLICY DISCUSSIONS

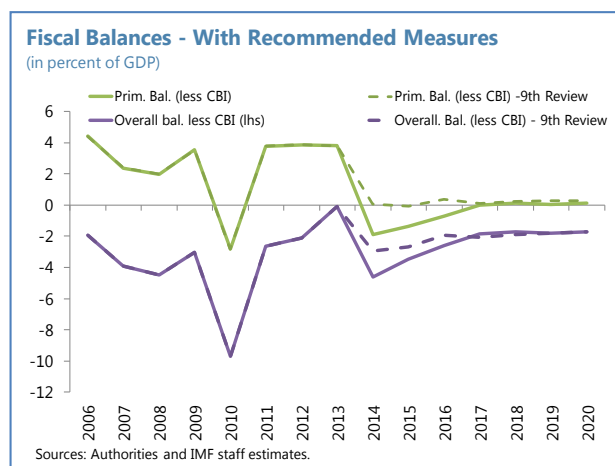
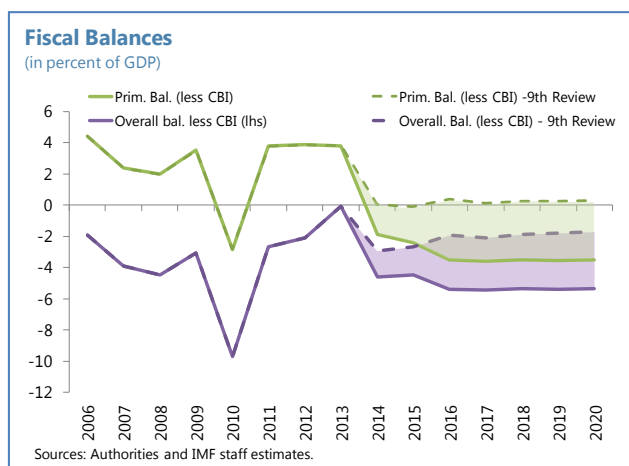
Discussions during the Article IV consultation focused on (i) securing fiscal sustainability following a widening of tax exemptions and greater uncertainty regarding future CBI inflows; (ii) strengthening the management of the CBI program and associated inflows; (iii) preserving financial stability following the debt-land swap and high liquidity; and (iv) implementing policies aimed at enhancing growth. These were also critical issues for the PPM review.

A. Safeguarding Fiscal Sustainability

10. **The new VAT exemptions, combined with a weakening of the outlook for CBI inflows, increase fiscal vulnerabilities and raise new challenges to sustainability.** The VAT and customs exemptions are estimated to lead to a direct loss of revenues of over 2 percent of GDP in 2015, relative to what they would have been, and a larger amount in 2016, when the full year impact will be realized.⁸ The projected weakening in the fiscal outlook, if not addressed, could quickly undo much of the gains achieved under the program. The fiscal balance (net of CBI) is projected to be in deficit by 5.3 percent of GDP in 2020, with a primary deficit (net of CBI) of 3.4 percent, compared to an overall deficit of 1.7 percent and a small primary surplus of 0.3 percent at the last review. Moreover, any slowdown in CBI inflows could further erode the tax base resulting in a higher shortfall than that implied from the direct loss in CBI revenues. The weaker fiscal outlook, combined with scheduled debt repayment, could substantially reduce accumulated fiscal buffers, and could trigger a renewed upturn in the debt-to-GDP ratio in case of an exogenous shock.

	December Exemptions (Jan. - Mar.)		December and April Exemptions (Apr. - Dec.)		Annual Total	
	EC\$ mil.	% of GDP	EC\$ mil.	% of GDP	EC\$ mil.	% of GDP
VAT	4.2	0.2	39.5	1.6	43.7	1.8
Import duties	2.3	0.1	6.8	0.3	9.1	0.4
Total	6.5	0.3	46.3	1.9	52.7	2.2

Source: Authorities and IMF staff estimates



⁸ Newly exempt items include food, medicine and funeral expenses.

11. **Staff strongly recommended corrective action to safeguard fiscal and debt sustainability.** The need for this is underscored by the country's high vulnerability to external shocks (including natural disasters), the still high debt-to-GDP ratio, and heightened uncertainty regarding the sustainability of CBI inflows. Reversing the VAT exemptions and using the social safety net to more effectively target assistance to the poorer segments of the population is the optimal strategy. This would also reduce the pro-cyclicality of fiscal policy. Staff also presented alternative measures given the political difficulty of reversing recently granted VAT exemptions in the short run. These would bring back the fiscal path over the next 3 years to that envisaged in the 9th review. These measures include further reducing tax exemptions for construction projects, since the sector needs no further incentives given the CBI program, enhancing other tax measures, in particular, property tax, and slowing the pace of the already high level of capital spending. Moving forward with land sales would also lower expenditure by reducing dividend payments to banks. In addition, staff emphasized the need to continue implementing structural reforms, mainly continued strengthening of the tax administration, PFM reform, civil service reform, and improved targeting of social support, while containing expenditures and transfers. The proposed illustrative package would secure fiscal and debt sustainability over the medium term and place the authorities in a stronger position to deal with exogenous shocks.

Proposed Adjustments to Close the Primary Balance Gap by 2017 (in Percent of GDP)	
Deviation in Primary Balance (less CBI) from 9th Review 1/	-3.6
Proposed Adjustments over 3 years	3.2
Progressively reduce exemptions	1.2
Increase property tax intake	0.2
Continue to improve tax administration	0.3
Implement civil service reform: payroll audit and public sector modernization	1.0
Contain spending on goods and services	0.5
1/ Net of changes in SIDF funding to the budget	

12. **The rest of the public sector must also play its part in maintaining a sound financial position.** Continued monitoring and strict oversight of public sector activity must be a priority. In particular, the absence of financial statements for the electricity company, SKELEC, since its incorporation makes concrete assessments of its financial position difficult. Although SKELEC has improved its billing and metering, the company continues to face challenges, including in collecting overdue bills. Additionally, the recent government action to write off residential customer arrears of EC\$21 million will need to be offset by some other asset or a reduction in liabilities. Staff stressed the need to devise a strategy to ensure the medium-term viability of SKELEC. Staff also noted that reforms to the Social Security Board will be needed, as outlays are expected to overtake total income by 2024, based on the 2013 actuarial review (Box 2).

- **Authorities' views:** The authorities broadly agreed that additional measures will be needed to preserve fiscal sustainability, but they stressed the importance of more widely sharing the benefits of the improved public finances. Exempting food and other basic necessities was a quick and direct way to deliver these benefits. They are looking to raise additional revenue by broadening the tax base, especially by reducing discretionary tax incentives and seek to optimize the benefits already provided to ensure that new construction projects contribute more to the economy (Box 3). They also plan to complete the ongoing work to revise the investment code to increase transparency and reduce discretion. They will look to update

the valuation of properties to ensure that property tax collection is in line with recent market developments. They agreed with the need to continue public sector reforms, including strengthening the oversight of public enterprises, although they noted that reforming SKELEC will take time.

13. **Substantial progress has been made in reducing public debt, although the debt-to-GDP ratio remains high and continues to be vulnerable to adverse shocks.** Public debt declined to 79 percent of GDP at end-2014, and is half of that in 2010, reflecting further debt-land swaps, advance repayments, and economic growth. However, at nearly 80 percent of GDP, the debt remains high, and risks to debt sustainability over the medium term are elevated given plausible shocks (Annex III). Staff welcomed plans to further accelerate repayments, which are estimated to reduce debt to 66.3 percent of GDP at end-2015 compared to 73 percent if debt is paid as scheduled. The gross debt-to-GDP ratio is projected to fall to 52.1 percent by 2020, but in the absence of strengthening fiscal policy, accumulated government deposits will be depleted. Staff also recommended lengthening the tenor of debt instruments, which are mostly in the form of 91-day T-bills, while continuing to reduce borrowing costs as the government is now in a strong position to obtain better terms.

- **Authorities' views:** The authorities pointed to the substantial progress and further plans for advance debt repayment, including to the IMF. They have also agreed on a new repayment schedule with one non-Paris Club creditor, will repay another, and plan to finalize debt restructuring negotiations with other non-Paris Club creditors. They continue to work towards reducing borrowing cost on remaining outstanding obligations, and have had some success, including reducing the interest on new T-bills to rates ranging from 4.75 percent to 5.0 percent. However, lengthening the tenor of T-bills may be more challenging given the limited market appetite for longer maturities. NIA noted that they were facing challenges in raising funding.

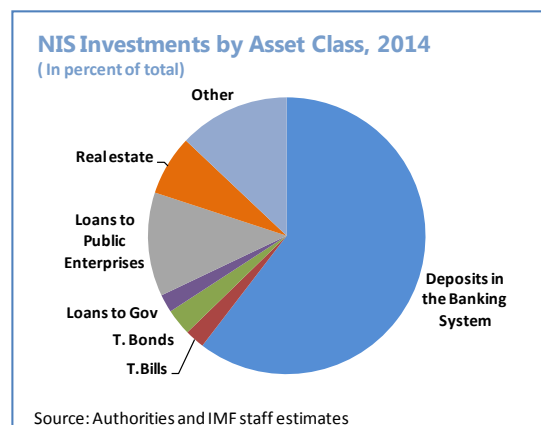
B. Managing CBI Inflows and Improving the Accountability of the Sugar Industry Diversification Foundation

14. **The reform of the CBI program to improve its operations and strengthen the due diligence framework will improve the program's sustainability.** The reforms being implemented include using a minimum of three due diligence companies to leverage their different strengths, incorporating a risk matrix to the reports, increasing CBI Unit staffing and upgrading IT to improve efficiency and reporting capacity. Steps taken to improve transparency of the operations and increasing collaboration with other programs in the region are also important for ensuring high standards for due diligence. Staff urged the government to quickly complete the reforms to the CBI Unit, while continuing to strengthen its oversight. Reforms will also be needed to enhance supervision and monitoring of real estate developments and ensure that the pipeline of CBI-related condominium developments be consistent with the tourism master plan.

Box 2. The Social Security Board

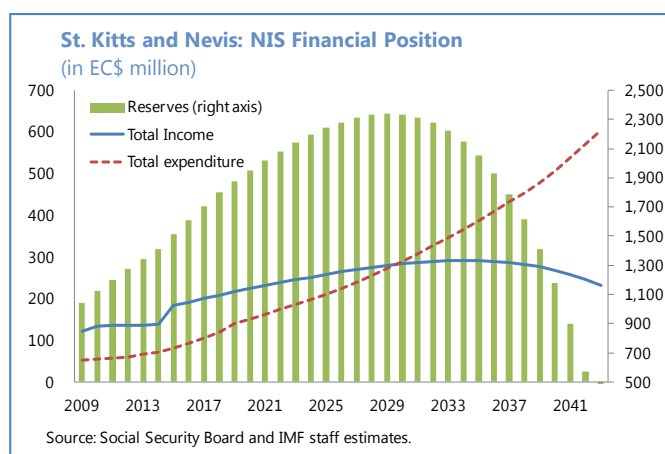
The Social Security Board (SSB) is in a stable financial position with substantial investment funds.

The SSB is currently in surplus, averaging 3.8 percent of GDP per year over 2009-2013, with a reserve-expenditure ratio of 20 years.¹ Reserves have been increasing steadily reaching around 65 percent of GDP in 2013, the highest in the ECCU. The scheme is also the most liquid, with more than 60 percent of its assets in bank deposits, comprising 17 percent of total banking system deposits. Investments in the public sector, including in public sector enterprises, represented around 20 percent of the investment portfolio as of end-2014, while real estate investments comprised at least 7 percent.



The ageing population dynamics are expected to negatively impact the long-run sustainability of the SSB. Based on the 9th actuarial review, the dependency ratio of pensioners to working age persons is expected to more than double from 0.15 to 0.33 by 2035, and to triple to 0.44 by 2055. The 10th review indicates that the SSB will start running down resources between 2024-2030, and exhaust reserves between 2038 and 2044.² Nonetheless, strong employment growth in the past two years has led to a significant increase in contributions, with benefit expenditure currently standing at 72 percent of contribution income.

Reform of the pension scheme should be a policy priority. The 9th actuarial review recommended reforms including: increasing the minimum retirement age for full pension entitlement from 62 to 65; raising contribution rates; increasing the period over which insurable earnings are averaged to calculate benefits; and indexing annual adjustments of pension payments to actual inflation. The investment portfolio of the SSB also needs to be diversified since the current asset mix is significantly exposed to the government and statutory bodies, including state-owned indigenous banks.



¹ Reserve-expenditure ratio measures number of years of payments the fund could make if no future contributions or interest were received and no additional benefits were awarded.

² The 9th actuarial review was completed in 2010 and the 10th actuarial review in 2013.

Box 3. Tax Incentives in St. Kitts and Nevis

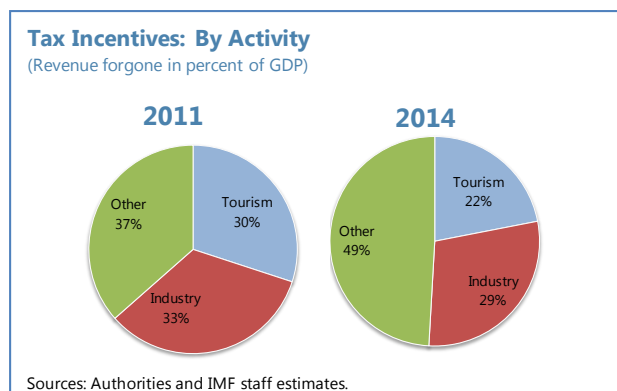
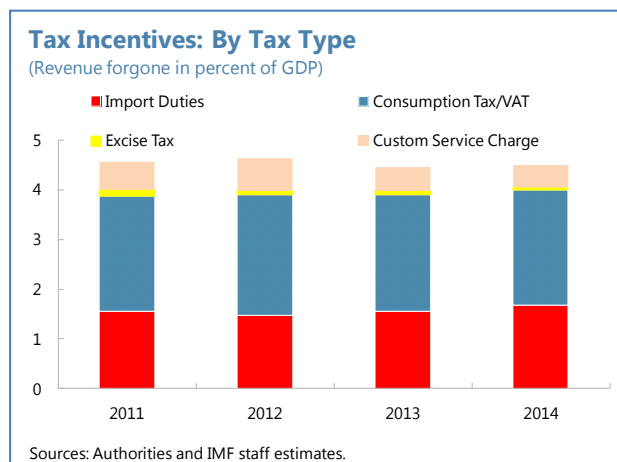
More effort is needed to contain the magnitude of tax exemptions. Total exemptions granted in 2014 exceeded the EC\$100 million cap introduced in the 2014 budget by EC\$3 million.¹ As a ratio to GDP, revenue forgone from tax incentives has remained stable since 2011. Additional exemptions were granted in late 2014 and April 2015, on food and other items, which will increase foregone revenue by about 2.5 percent of GDP.

The granting of tax exemptions involves considerable discretion. Several laws guide the granting of tax concessions, including the Fiscal Incentives Act, the Small Business Development Act, the Income Tax Act, the Stamp Act for Special Development Areas, the Special Resort Development Act, the VAT Act, the Hotels Aid Act, and the Duty Free Shop Act. However, Cabinet has the authority to grant concessions, and in practice, has discretion in almost all aspects of the decision, including the terms of the concessions. This results in many concessions being provided on a case-by-case basis, based on special Cabinet decisions.

The tourism sector share of foregone revenue has declined.² As with other ECCU countries, the main argument for granting concessions is to encourage investment in tourism. However, it appears that other factors are becoming increasingly important drivers of tax incentives as the share of revenue forgone from tourism has shrunk over time.

The authorities are considering strategies to improving the process of granting exemptions.

In addition to maintaining the \$100 million cap on discretionary exemptions, they indicated that the VAT and the Customs Service Charge will be excluded from negotiations pertaining to exemptions. The improved monitoring of exemptions granted, with monthly revenue-loss reports, may also aid in containing new exemptions. Staff encouraged the authorities to publish these reports to increase scrutiny of the benefits received by projects that are accorded incentives. Staff also suggested centralizing the power to grant and manage tax incentives at the Ministry of Finance as a move towards a more rules-based concessions system.



¹The cap and estimates exclude corporate income tax since the authorities do not have a reliable methodology to estimate foregone revenue from these sources. The FAD report "Tax Incentives and Property Taxation in the ECCU", by Norregaard, J., E. Crivelli, R. Franzsen, and R. Krellove, IMF (2015), estimate these at 1 percent of GDP.

²These estimates are about half of the estimates of tourism-related exemptions in the abovementioned study, so this may also reflect classification issues.

15. **In light of the uncertainty surrounding future CBI inflows, careful management of the stock of accumulated savings should be a priority.** Staff urged the authorities to create a comprehensive and transparent CBI management framework, build precautionary balances to address exogenous shocks, stabilize economic activity, and prepay debt. Indeed, the return on government deposits is likely to fall short of the cost of debt. CBI resources could also be used for investment in high-priority public projects, subject to a rigorous cost-benefit analysis. While such a framework may take some time to establish, the government should proceed with interim plans to invest these savings abroad, to reduce the pressure on banks' profitability (see below).⁹

14. **Strengthening of SIDF management and its integration with the government accounts should be a high priority.** The SIDF has been increasingly involved in quasi-fiscal activities, including substantial expenditure under PEP (see below). A clear operational framework limiting these operations is needed. Transfers from the SIDF to the budget should also be limited, and be subject to clear rules, to ensure that the government operates with a clearly defined budget constraint. The selection of SIDF investment projects needs to be transparent and based on sound economic returns, while SIDF financial statements should be audited and released to the public on a timely basis.¹⁰ Over the medium term, staff recommends establishing an overarching framework to integrate saving and investment activities of the SIDF with the government under a SWF structure, with strong accountability and governance frameworks to preserve accumulated savings and allow for the sustainable use of the resources to face exogenous shocks and promote long-term development (Annex IV).

15. **The operation and costs of PEP need to be streamlined.** Around 3,300 persons were employed under the program as of end-March 2015, with a cost of about 3 percent of GDP for 2014. Although PEP supported employment when the economy was operating with considerable excess capacity, it needs to be downsized and refocused on skills development in line with labor market needs. Restructuring the program should include establishing a strict budget for its operations, limiting enrollment periods, and lowering the stipend below the minimum wage. Incentives should be put in place to ensure both applicants and participating employers treat it as a training opportunity rather than a permanent subsidy. Plans will need to be made to redeploy the majority of participants working at the public sector since these cannot be absorbed by the civil service, if fiscal discipline is to be sustained.

- **Authorities' views:** Substantial progress has already been made in reforming CBI operations and strengthening security. Government's effort to coordinate with other programs in the region will help maintain high standards. Notwithstanding, the implementation of reforms must not be rushed, but given adequate time to implement the necessary changes to ensure a stronger and more credible program. The authorities plan to strengthen outreach to clarify the reforms and reduce adverse impressions that the program has stalled. They agreed that construction projects

⁹ See IMF working paper (WP/15/93), "Prudent Management of Inflows under Economic Citizenship Programs".

¹⁰ In the absence of a Board, the audited financial statements for 2012 have yet to be released.

under the CBI program need greater scrutiny and are looking at options to maintain the value of real estate projects. They plan to reform the SIDF and are beginning to examine alternatives, and are eager to improve the transparency and accountability of its operations. They are keenly aware of the need to limit and reform PEP to move it to a sustainable path, but they will need to move gradually in light of the large number of participants.

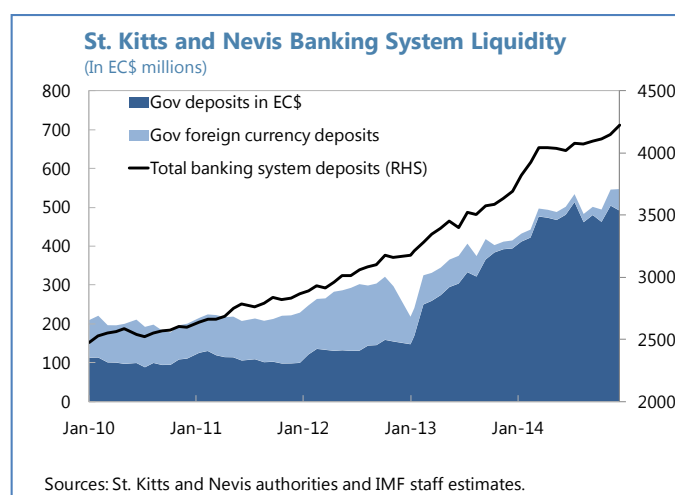
C. Preserving Financial Stability

16. **While the financial system has been stable, safeguards need to be strengthened.**

Financial soundness indicators have suffered due to the prolonged recession and the debt restructuring. The significant growth in deposits, reflecting government savings from CBI inflows, has also increased pressure on bank profitability. Going forward, banks need to reduce the NPL ratio and revisit their business model to improve credit growth and profitability while exercising caution with new lending to safeguard their asset quality. In particular, exposure to the long pipeline of CBI-financed real estate projects should be carefully considered, to ensure that the projects can be brought to closure. Meanwhile, the government needs to consider an alternative investment vehicle for government deposits to help alleviate excess liquidity.

St. Kitts and Nevis: Selected Financial Indicators, 2010-2014				
	Dec-11	Dec-12	Dec-13	Dec-14
(Indigenous banks, In percent)				
Capital adequacy ratio	40.7	38.2	23.7	25.4
NPLs/Total Loans	5.8	8.9	12.1	16.8
Provisioning/NPLs	53.0	34.7	43.0	46.5
Liquid Assets/Total Assets	38.0	43.6	50.7	51.3
Return on Assets	2.0	0.9	0.5	0.5

Source: ECCB



17. **The regional banking resolution is progressing.** The authorities should continue to consult with the ECCB on addressing regional financial sector issues following the completion of the asset quality reviews. We commend the authorities for ratifying the new banking law which will facilitate the implementation of the regional financial resolution plans.¹¹ The government should continue to exercise caution and due diligence in assessing plans for regional financial integration to safeguard St. Kitts and Nevis' banking system and ensure its viability and efficiency going forward.

18. **Moving forward with the land sales will consolidate the progress with debt restructuring.** Unwinding the debt-land swap would jeopardize the hard earned gains in fiscal and

¹¹ The bill was passed July 29th.

debt sustainability.¹² An extension of the dividend agreement—a three year agreement to pay banks a dividend of 3.5 percent per annum on the stock of land held by the Special Land Sales Company (SLSC)—would provide time to consider options. The SLSC’s executive board should be reappointed and authorized to develop long-term strategies that would benefit the country. Moving forward with land sales will help enhance potential growth through the wider deployment of otherwise idle land assets. It will promote the development of a stronger middle class, stimulate construction by domestic developers for local consumption, and contribute to supporting other sectors, including medical schools, agricultural projects, as well as tourism.

19. **Expansion of the offshore financial sector needs to follow best practices.** New legislation passed in June 2015 in Nevis facilitates the establishment of offshore banks. Staff cautioned that offshore banks should comply with global AML/CFT regulations and enhanced reporting requirements for tax compliance (e.g. FATCA), and will require direct oversight and strict monitoring by the Financial Services Regulatory Commission (FSRC). It would also be important to consider ramifications on the onshore banking system, and potential loss of correspondent banking relations of indigenous banks.¹³ Additionally, any perception of an offshore banking jurisdiction as being a tax haven can negatively impact the image of the CBI program, leading to increased pressure by the international community through greater travel restrictions, undermining the sustainability of the CBI program.

- **Authorities’ views:** They were mindful of risks related to the regional financial resolution and the high NPL ratio. On the challenges created by the debt-land swap, they noted that preserving public land is of special significance to the nation. Their first priority is to introduce transparency to the process, while considering the merits of individual transactions, ensuring that they are consistent with the government’s overall vision for the country. They will consider options for addressing the debt-land swap while developing a long-term strategy for land use that would be consistent with supporting strong economic growth. They assured staff that any new offshore bank would need to meet criteria established under the country’s Anti-Money Laundering legislation.

D. Stepping Up Growth-oriented Reforms

20. **Reforms to support sustainable private sector development could reduce growth volatility and make the economic recovery underway more durable. The priorities are:**

- **Enhance tourism’s contribution to the economy.** Steadfast implementation of the new tourism master strategy will help diversify source markets, raise the value-added of tourism

¹² A reversal of the debt-land swap would increase public debt by 33 percent of 2015 GDP and could entail some additional fiscal penalties for unwinding agreements already in place.

¹³ US FATCA reporting requirements have prompted international banks to re-evaluate their correspondent banking relationships in the region, with one bank in the Caribbean already having lost access to international bank correspondents.

through upgrading hotel and infrastructure, develop niche markets and increase backward linkages to other economic sectors. Initiatives to enhance the quality of tourism service provision, including the center of excellence for human resource training, could provide much-needed skills to boost high-end tourism services.

- **Continue efforts to improve the investment climate.** The development and implementation of a strategic plan to improve processes for registering property, securing credit, enforcing contracts and resolving insolvencies remain critical. Expedient implementation of the new Bankruptcy and Insolvency Bill would help foster domestic credit growth.
- **Reduce dependence on fossil fuels.** High energy cost is an important factor behind the high cost of doing business. Implementing the national energy initiative and identifying adjustments to the regulatory and institutional environment of the energy sector is crucial for the country's energy independence. To that end, recent sharp declines in fuel prices heighten the need for cost analysis of energy-related initiatives (Annex V).
- **Improve statistical capabilities.** Significant data gaps exist in the Balance of Payments and National Accounts and Fiscal statistics, hampering economic assessment and policy prescription. This reflects methodological challenges in estimating value added in various sectors, and the absence of data, including, for example, on the impact of the large number of medical school students on the economy. Harnessing technical assistance and accelerating institutional reforms, in particular through increased staffing and training, is critical to identifying and closing data gaps (Informational Annex).
- **Authorities' views:** The authorities agreed with these priorities and noted that substantive work has already taken place in this regard. The challenge is implementing these plans in a cost effective manner given capacity constraints in nearly all areas of government.

STAFF APPRAISAL

21. **Economic performance since the completion of the three-year Fund arrangement has been impressive.** The economy continued to expand at a rapid pace, averaging just above 6 percent in both 2013 and 2014. Public finances remained on a very strong footing, notwithstanding the run up to the elections in early 2015, while the debt-to GDP ratio has fallen much faster than anticipated. The strong economic activity reflects primarily a construction boom fueled by inflows under the CBI program, government and SIDF investment and expenditure, including on PEP, and a continued recovery in tourist arrivals.

22. **The outlook for 2015-2016 is positive, although the pace of expansion is expected to somewhat moderate and the economy remains vulnerable to changes in CBI flow.** Over the medium term, staff projects a return to more moderate growth rates, as construction projects conclude and the tourism sector continues to expand. However, new developments with the CBI

program, mainly loss of visa free access to Canada and considerable increase in competition from new programs in the region and globally, raise new concerns about the sustainability of the CBI inflows, which have played such a crucial role in turning around the economy.

23. **The strong 2014 fiscal outturn was supported by robust tax revenues.** Growth in tax revenues more than offset higher-than-planned expenditures, including the 13th-month wage bonus. CBI revenues to the budget increased to about 14 percent of GDP, also higher than in 2013. The strong fiscal outcome, combined with additional progress with the debt-land swaps and advance debt repayment, led to a further decline in public debt to 79 percent of GDP at end-2014, compared to 100.8 percent at end-2013, and 159.3 percent in 2010. St. Kitts and Nevis' debt-to-GDP ratio is now below the ECCU average.

24. **Recent policy changes will need to be addressed to safeguard the substantial achievements in fiscal and debt sustainability.** The widening of the VAT and customs exemptions could lead to a growing fiscal imbalance that could quickly deplete the country's accumulated savings, and lead to a reversal in the downward trend of the debt-to-GDP ratio, particularly if the country experiences an exogenous shock. Corrective measures are needed to prevent the adverse impact on government finances, including substantially reducing tax exemptions, while continuing to implement other structural reforms that are already in train, mainly further strengthening tax administration, implementing the civil service reform, and improving public financial management. Strengthening the performance of public enterprises, and moving forward with reforms of the social security system are also important.

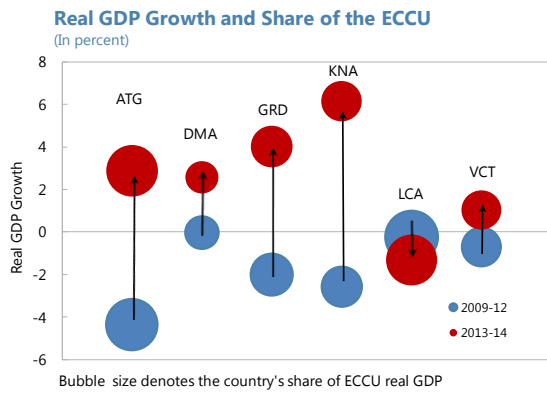
25. **The implementation of substantive measures to strengthen the administration and the security of the CBI program should improve its sustainability.** We commended the authorities for their commitment to and progress with reforming the CBI program and their leadership in enhancing cooperation with neighboring islands. Increased risk to CBI inflows underscores the importance of careful use and preservation of the stock of accumulated savings. Staff urges establishing an effective and transparent framework to manage the CBI inflows and savings in the banking system, as well as more stringent oversight of development projects. The SIDF operations should also be reviewed, and its audited accounts should be made available to the public, with a view to its gradual integration with the budget. Moreover, the strong economic environment provides an opportunity to streamline PEP's operations and reinforce the temporary nature of its program.

26. **Financial stability has been preserved notwithstanding debt restructuring that has impacted financial soundness indicators.** The resulting high NPL ratio may be inhibiting new lending, and efforts to bring it down rapidly together with continued vigilance to ensure that the high level of liquidity does not weaken credit practices will be needed. Moving forward with land sales would strengthen banks' balance sheets, while securing the gains from debt restructuring and spurring growth. The dividend agreement with banks should be extended to allow more time to develop a comprehensive plan that would support long-term growth through the wider deployment of otherwise idle lands, while progress is made on a case by case basis.

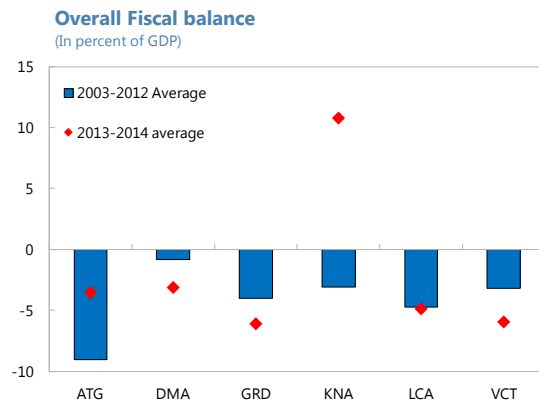
27. **Implementing growth enhancing measures is key to sustaining high growth over the medium-term.** The current strength of the economic recovery provides an opportunity to undertake important reforms, including implementing the tourism master plan to enhance its value added, taking concrete measures to improve the business climate, and investing in alternative energy sources to reduce long-term energy costs.
28. **Weak data quality is of increasing concern.** Accelerating efforts to improve economic data is crucial to providing a better basis for policy decisions.
29. **It is proposed that the next Article IV consultation be held on a standard 12-month cycle.** The PPM framework will continue until outstanding Fund credit falls below 200 percent of quota, expected by May 2016, absent early repayment.

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

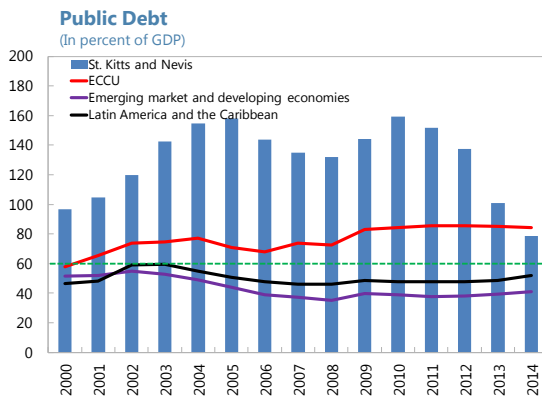
Economic recovery has been stronger than in the rest of the region...



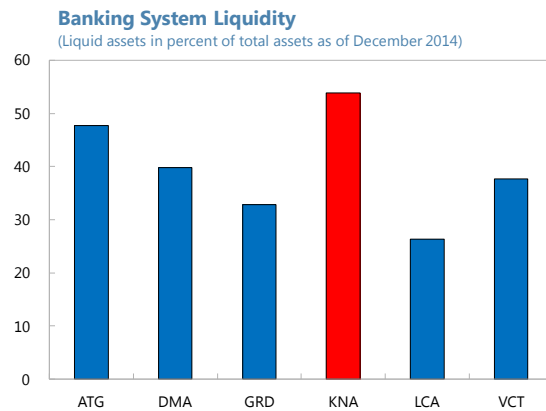
...with a significantly improved fiscal balance.



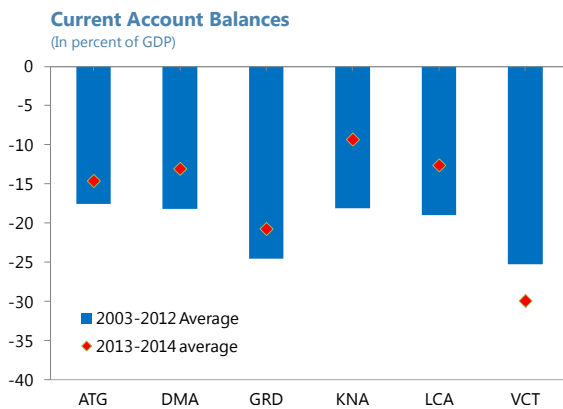
Public debt is falling toward the region's debt-to-GDP target of 60 percent.



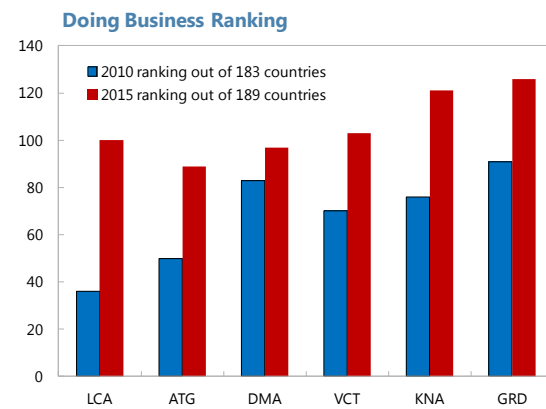
The banking system remains the most liquid in the region.



The external position is stronger than most peers...



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

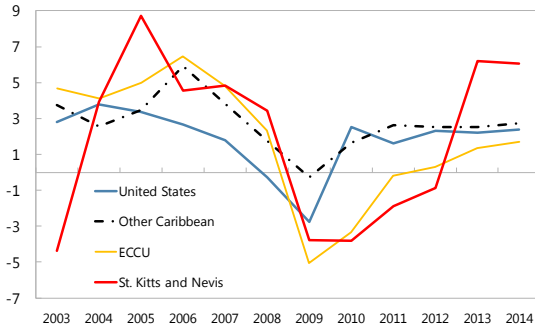


Sources: ECCB, authorities and IMF staff estimates.

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

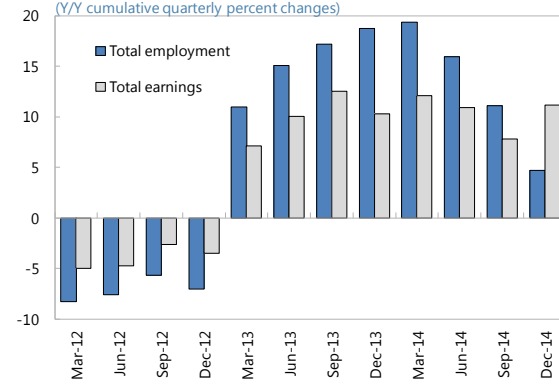
Strong growth continued in 2014...

Real GDP Growth
(In percent)



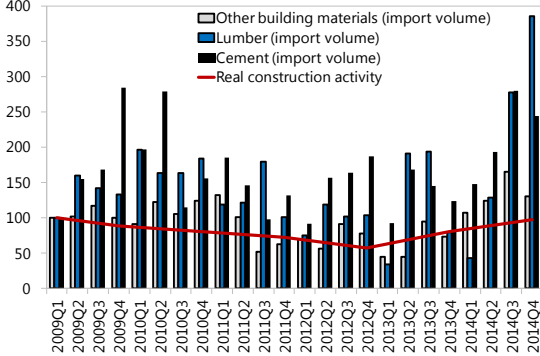
...although employment and income growth has moderated.

Employment and Earnings



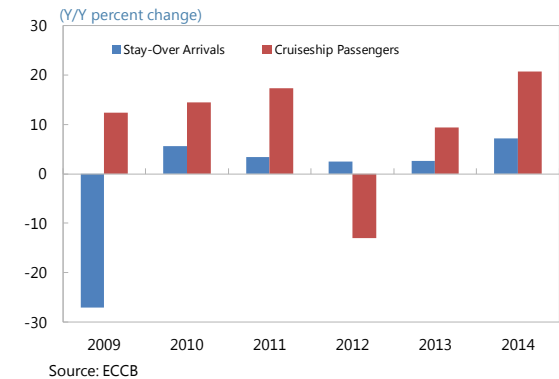
Construction activity is booming...

Construction Performance
(Index, 2009Q1=100)



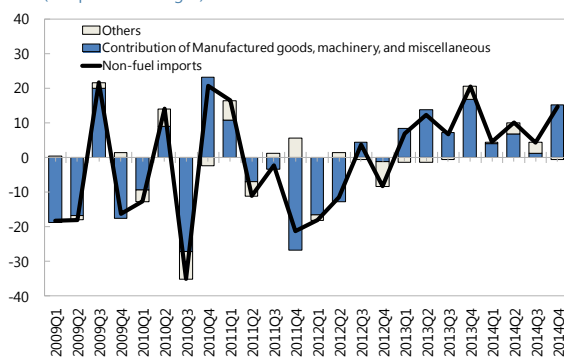
... along with the ongoing recovery in stay-over visitors and more robust cruise ship arrivals.

Annual Tourism Performance



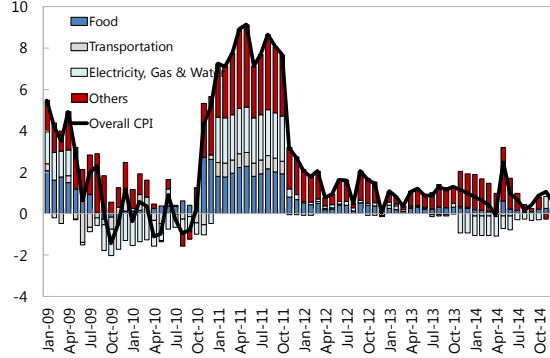
Non-fuel imports have declined...

Non-fuel Imports
(YoY percent changes)



...while inflation remains low.

Inflation
(In percent)

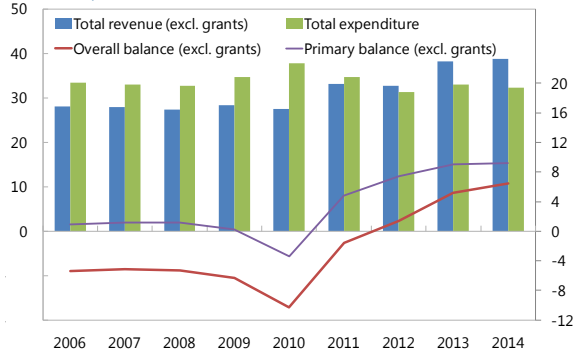


Source: ECCB, authorities and IMF staff estimates.

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

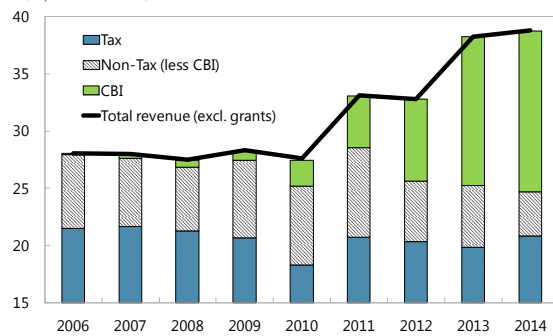
The fiscal balance in 2014 remained strong...

Central Government Fiscal Balance
(In percent of GDP)



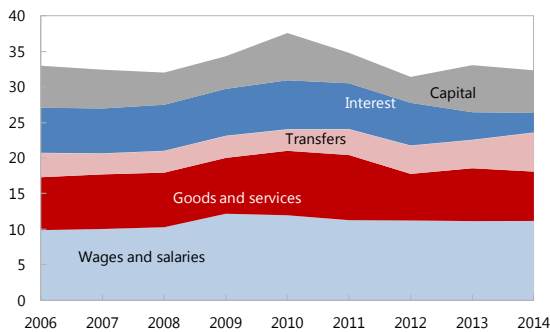
...reflecting an impressive outturn for tax revenues and buoyant CBI inflows, ...

Total Revenue (excluding Grants)
(in percent of GDP)



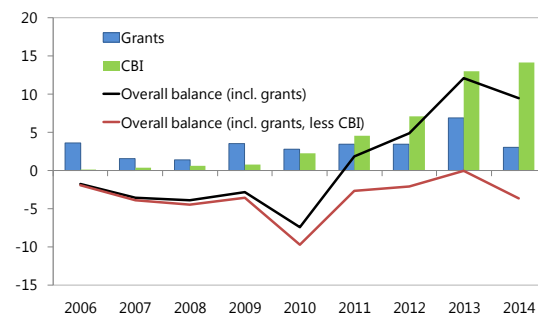
... while expenditures increased moderately.

Total Expenditure
(In percent of GDP)



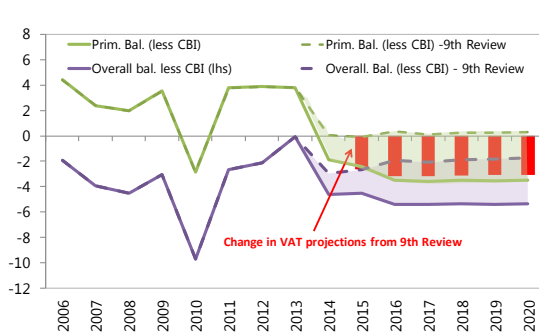
However, substantially lower grants resulted in a deteriorating balances relative to 2013.

Fiscal Performance (incl. Grants and excl. CBI)
(In percent of GDP)



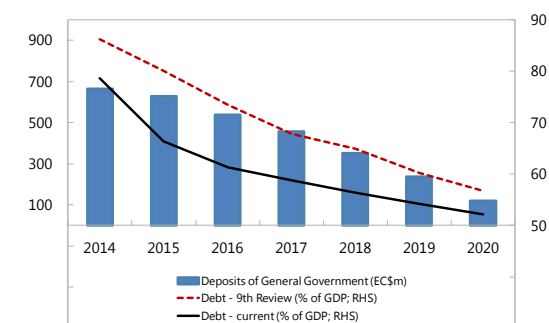
Recent VAT exemptions and somewhat higher spending, will lead to significantly wider deficits ...

Fiscal Balances
(In percent of GDP)



...depleting government savings and undermining fiscal and debt sustainability in the event of an exogenous shock.

Financing: Public Debt vs Government Savings

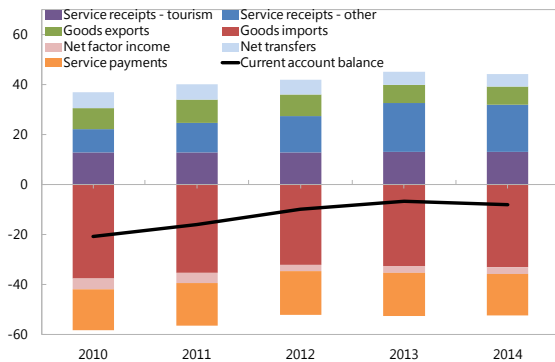


Sources: ECCB, authorities and IMF staff estimates.

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

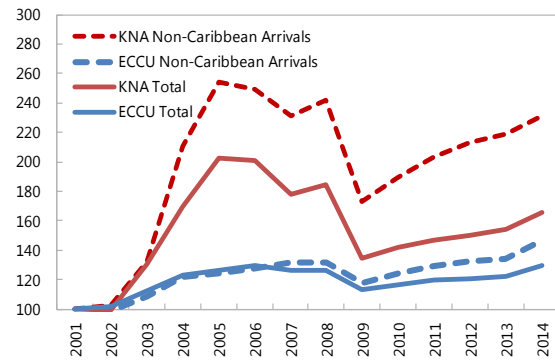
The 2014 current account deficit remained relative moderate on the back of high CBI receipts...

Current Account
(In percent of GDP)



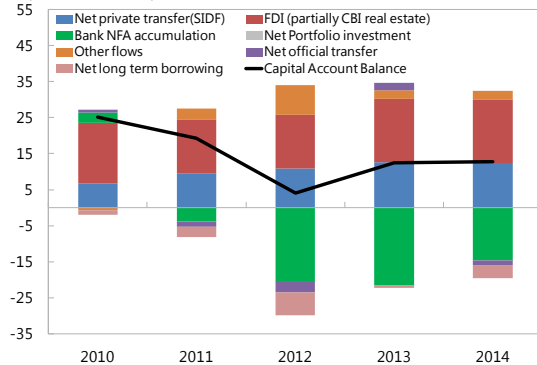
...and the ongoing recovery in stay-over arrivals.

Stay-Over Arrivals
(Index, 2000=100)



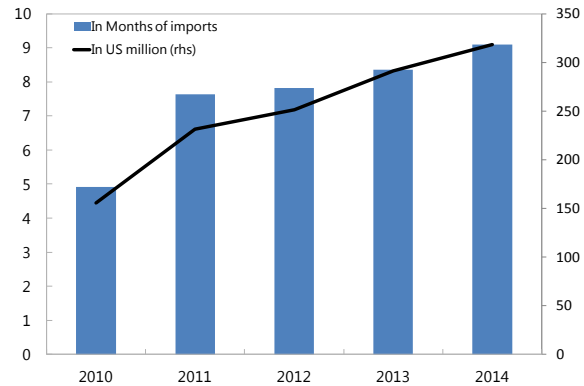
The capital account remained largely stable as large CBI-related FDI and capital transfers continued to be mostly offset by high commercial banks' NFA and an increase in debt repayment...

Capital Account
(In Percent of GDP)



... while international reserves further increased.

International Reserves



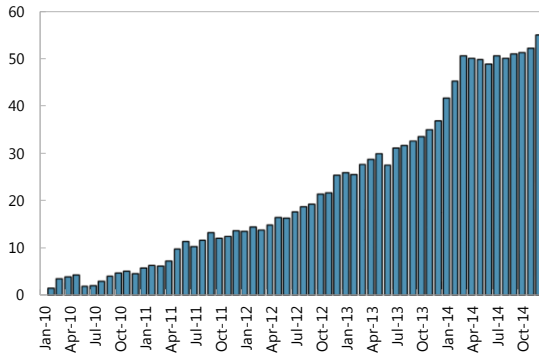
Sources: ECCB, authorities and IMF staff estimates.

Figure 5. St. Kitts and Nevis: Monetary Developments

Banking system deposits have grown rapidly since 2010, albeit at a slower pace in 2014...

Total Deposits

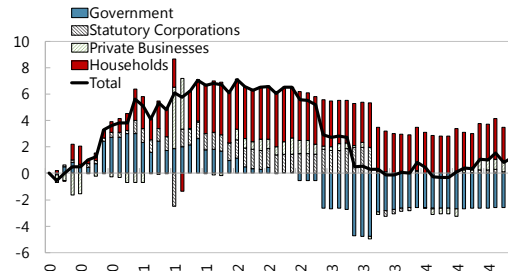
(Cumulative Percentage Change since 2010)



...while bank credit performance has been weak despite a mild recovery in credit to the private sector.

Total Bank Credit ¹

(Cumulative Percentage Change since 2010)

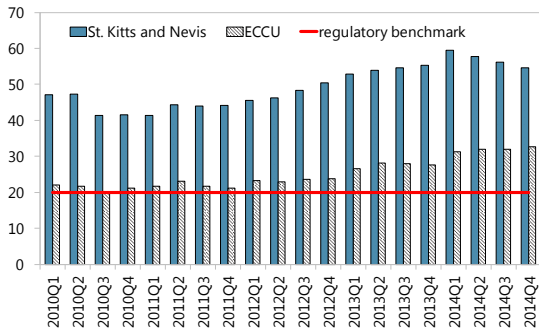


^{1/} excludes operations pertaining to the debt/land swap in July 2013 and August 2014 and the associated increase in the banking sector's share in the SPV.

Banking system liquidity remains high....

Net Liquid Assets to Total Deposits

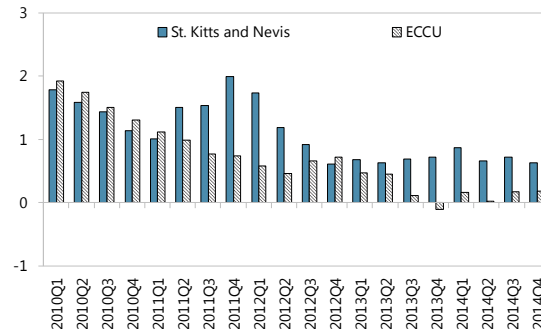
(In percent)



...putting pressure on banks' profitability.

Return on Assets

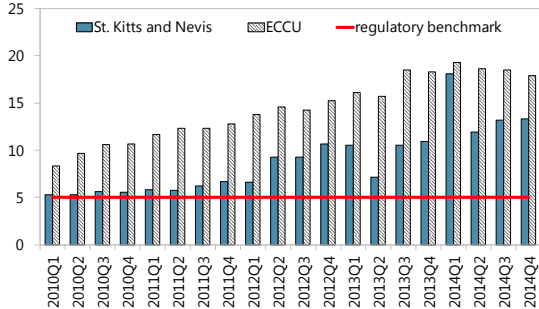
(sum of quarterly returns for the four quarters up to the period, in percent)



The increase in banks' NPL ratio partly reflects a smaller loan portfolio as a result of the debt-for-land swap...

NPLs to Total Loans ^{1/}

(In percent)

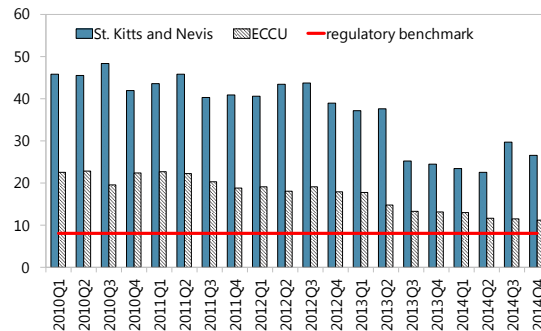


^{1/} The NPL ratios for 2014Q1 has been subject to a temporary reclassification of loans under restructuring.

...which also lowered reported capital adequacy, although it remains one of the highest in the region.

Total Capital to Risk Weighted Assets

(In percent)



Sources: ECCB, 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 (2013)								
Life expectancy at birth (years)	73	(millions of U.S. dollars)		811.9					
Infant mortality (per thousand live births)	9.2	(millions of E.C. dollars)		2,192					
Under 5 mortality rate (per thousand)	15	(US\$ per capita)		14,849					
II. Economic and Financial Indicators, 2010–16									
	2010	2011	2012	Prog. 1/ 2013	2013	Proj. 1/ 2014	Est. 2014	Proj. 2015	Proj. 2016
(Annual percentage change; unless otherwise specified)									
National income and prices									
Real GDP (factor cost) 2/	-3.8	-1.9	-0.9	1.7	6.2	3.5	6.1	5.0	3.5
Consumer prices, end-of-period	5.3	2.7	0.1	0.4	1.0	0.9	0.6	-2.2	1.7
Consumer prices, period average	0.7	7.1	1.4	0.7	1.0	0.6	0.8	-0.8	-0.3
Real effective exchange rate (end-of-period)	3.4	0.2	-1.5	...	0.0	...	2.5	...	...
Banking system									
Change in net foreign assets	1.1	15.5	21.8	14.5	24.4	13.2	16.0	3.7	-0.4
Credit to public sector 3/	4.9	-9.0	-10.7	-37.0	-39.0	-14.3	-14.0	1.0	1.8
Credit to private sector 3/	2.6	2.6	0.1	-1.4	-0.5	1.4	0.3	1.1	1.2
Broad money	8.9	10.0	11.4	9.5	10.4	9.8	14.1	5.8	2.6
(In percent of GDP)									
Public sector 4/									
Total revenue and grants	30.4	36.6	36.3	33.0	45.2	37.9	42.0	37.1	29.3
o.w. Tax revenue	18.3	20.8	20.3	19.9	19.9	20.8	20.9	19.5	18.4
o.w. CBI fees	2.3	4.5	7.1	2.5	13.0	9.1	14.1	9.4	4.0
Total expenditure and net lending 5/	37.9	34.7	31.4	30.5	33.1	31.8	32.5	32.2	30.6
Current expenditure	30.9	30.5	27.7	26.0	26.4	25.7	26.4	25.9	24.2
Capital expenditure and net lending	7.0	4.3	3.7	4.5	6.7	6.1	6.0	6.4	6.3
Primary balance	-0.6	8.3	10.9	15.5	16.0	9.2	12.2	7.0	0.5
Overall balance	-7.5	1.9	4.9	2.5	12.1	6.2	9.5	4.9	-1.3
Overall balance (less CBI)	-9.7	-2.7	-2.3	0.0	-0.9	-3.0	-4.6	-4.4	-5.3
Foreign financing 6/	0.3	-1.3	-5.5	-1.3	0.5	-2.9	-3.7	-6.5	-2.7
Domestic financing	7.3	-4.5	-13.3	-26.3	-39.8	-5.7	-8.6	1.4	3.6
Change in arrears	1.0	2.6	-2.1	-0.6	-1.2	0.0	0.3	-0.5	0.0
Sale of assets	0.7	0.4	0.5	0.2	1.1	-0.3	0.9	0.4	0.4
Extraordinary financing 7/	...	...	15.6	25.5	27.0	2.6	1.3	0.3	0.0
Total public debt (end-of-period) 8/	159.3	151.6	137.5	105.1	100.3	86.2	78.6	66.3	61.3
Public debt service (percent of total revenue and grants)	29.1	22.0	57.2	12.3	16.2	18.4	24.3	14.5	10.4
External sector									
External current account balance	-20.8	-15.9	-9.8	-16.0	-6.6	-13.5	-7.6	-12.6	-18.6
Trade balance	-29.1	-26.0	-23.6	-22.8	-24.9	-26.2	-25.3	-24.2	-24.1
Services, net	5.9	7.8	10.0	6.0	15.1	10.7	15.2	10.7	5.5
Of which									
Tourism receipts	12.9	12.9	13.0	12.9	12.8	12.6	13.0	13.3	13.4
FDI (net)	16.8	15.1	14.8	16.2	17.3	18.9	17.4	17.3	17.1
External public debt (end-of-period)	48.1	49.8	42.3	43.1	40.6	36.4	34.4	26.0	21.8
(In percent of exports of goods and nonfactor services)									
External public debt service	24.0	23.2	10.1	10.0	7.2	17.7	14.4	24.5	14.0
External public debt (end-of-period)	157.1	146.5	117.2	130.6	103.4	104.8	88.8	76.1	75.5
Memorandum items									
Net international reserves, end-of-period (in millions of U.S. dollars)	155.7	231.5	251.6	291.3	291.3	319.8	318.4	295.8	275.6
(in percent of broad money)	22.1	29.9	29.1	29.1	30.5	30.5	29.3	25.7	23.3
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	13.8
Nominal GDP at market prices (in millions of EC\$)	1,870	1,966	1,976	2,064	2,126	2,192	2,301	2,401	2,511

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

1/ IMF Country Report No. 14/297.

2/ GDP growth in 2013 has been revised upwards following technical assistance by CARTAC.

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

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

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

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

7/ Reflects operations linked to the restructuring of public debt.

8/ Reflects the debt-land swap equivalent to EC\$565 million in 2013 and EC\$231 million in 2014.

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

(In millions of Eastern Caribbean dollars)												
	2010	2011	2012	2013	Proj. 2/ 2014	Est. 2014	2015	2016	Proj.		2020	
									2017	2018	2019	
Total revenue	515.9	651.1	648.1	813.5	738.6	896.4	781.5	654.6	650.3	658.2	686.2	716.2
Current revenue	513.7	650.0	647.9	813.4	738.6	896.4	781.5	654.6	650.3	658.2	686.2	716.2
Tax revenue	342.6	408.1	401.6	422.2	455.3	482.0	467.6	462.5	484.5	508.4	531.8	556.8
Taxes on income	92.6	86.6	81.4	82.3	86.0	95.3	109.1	102.3	106.8	112.2	116.7	122.8
Taxes on property	9.4	8.8	12.9	14.9	15.8	16.5	18.4	19.2	20.1	21.1	22.1	23.1
Taxes on domestic goods and consumption 3/	84.1	208.2	206.1	217.4	233.9	246.0	212.3	210.2	221.0	232.0	243.3	254.9
Taxes on international trade and transactions	156.6	104.4	101.2	107.6	119.6	124.1	127.8	130.8	136.6	143.1	149.7	156.1
Nontax revenue	171.0	241.9	246.3	391.3	283.3	414.4	313.9	192.2	165.8	149.9	154.4	159.4
<i>of which: Citizenship by investment (CBI)</i>	42.1	88.8	138.1	259.1	200.0	302.8	210.5	93.5	65.5	46.8	46.8	46.8
<i>CBI to cover due diligence fees</i>	...	...	2.9	17.9	...	22.7	14.5	6.5	4.5	3.2	3.2	3.2
Other	129.0	153.1	105.3	114.3	83.3	89.0	88.9	92.2	95.8	99.9	104.4	109.4
Total expenditure and net lending	707.8	682.8	620.3	703.5	696.3	747.5	773.4	768.3	786.8	819.1	855.0	890.3
Current expenditure	577.8	599.2	548.0	561.9	562.4	608.3	620.9	608.9	620.0	644.4	672.1	699.0
Wages and salaries	224.0	222.0	222.3	237.4	245.2	258.5	262.4	273.5	283.9	292.4	304.9	315.9
Goods and services 4/	169.2	179.7	129.2	157.7	133.3	160.0	163.1	158.9	166.3	174.2	182.4	190.8
Interest	128.5	126.4	118.2	82.5	65.6	63.3	50.0	47.2	47.9	51.1	53.2	55.5
Domestic	88.5	91.9	79.4	71.0	43.8	46.9	31.5	32.4	34.4	40.2	42.8	45.4
Foreign	40.0	34.5	38.8	11.5	21.8	16.5	18.5	14.8	13.4	10.8	10.4	10.0
Transfers 5/	56.1	71.1	78.3	84.3	118.3	126.4	145.3	129.3	121.8	126.7	131.7	136.9
Net lending	5.8	-0.6	0.1	0.9	1.0	0.7	1.0	1.0	1.0	1.0	1.0	1.0
Capital expenditure	124.2	84.2	72.2	140.7	132.9	138.6	151.5	158.5	165.9	173.8	181.9	190.3
Current balance	-64.1	50.8	99.9	251.6	176.8	288.1	160.6	45.7	30.4	13.9	14.1	17.2
Overall balance (before grants)	-192.0	-31.7	27.9	110.0	42.3	148.9	8.1	-113.7	-136.5	-160.9	-168.8	-174.1
Grants	52.5	68.3	68.3	147.3	92.9	69.7	110.5	80.2	65.6	65.0	65.0	65.0
Overall balance (after grants)	-139.5	36.6	96.2	257.3	135.2	218.5	118.6	-33.5	-70.9	-95.9	-103.8	-109.1
Primary balance	-11.0	163.1	214.4	339.8	200.9	281.8	168.5	13.6	-23.0	-44.8	-50.6	-53.6
Overall balance (after grants less CBI)	-181.5	-52.2	-44.8	-19.6	-64.8	-106.9	-106.4	-133.5	-140.9	-145.9	-153.8	-159.1
Primary balance (after grants less CBI)	-53.0	74.2	73.4	62.8	0.9	-43.6	-56.5	-86.4	-93.0	-94.8	-100.6	-103.6
Financing	172.8	-54.6	-94.0	-261.9	-135.8	-227.0	-118.6	33.5	70.8	95.9	103.8	109.2
Net foreign financing	5.0	-24.6	-108.0	10.8	-62.6	-84.5	-156.6	-66.9	-18.7	-17.7	-17.7	-17.7
Disbursements 6/	41.9	106.6	93.7	46.6	24.6	8.7	14.4	12.9	10.7	10.0	10.0	10.0
Amortization	36.9	131.2	201.6	35.8	87.2	93.2	171.0	79.8	29.4	27.7	27.7	27.7
Net domestic financing	136.8	-88.6	-263.6	-846.1	-124.1	-198.4	32.6	90.6	79.2	102.8	110.3	115.2
Banking system	101.7	-124.6	-251.5	-852.8	-124.1	-152.3	32.6	90.6	79.2	102.8	110.3	115.2
Nonbanks and other	11.4	-2.0	-12.0	6.6	0.0	-46.1	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
Change in arrears	18.3	50.5	-41.3	-25.3	0.0	6.7	-11.1	0.0	0.0	0.0	0.0	0.0
External	0.0	73.6	-35.7	4.0	0.0	6.1	-7.2	0.0	0.0	0.0	0.0	0.0
Amortization	0.0	61.4	-30.8	5.3	0.0	4.7	-5.7	0.0	0.0	0.0	0.0	0.0
Interest	0.0	12.2	-4.9	-1.3	0.0	1.4	-1.5	0.0	0.0	0.0	0.0	0.0
Domestic	18.3	-23.2	-5.6	-29.3	0.0	0.6	-3.9	0.0	0.0	0.0	0.0	0.0
Sale/purchase of assets	12.8	8.1	9.6	24.1	-5.5	20.2	9.4	9.8	10.3	10.7	11.2	11.8
Exceptional financing			309.2	574.6	56.5	29.0	7.2	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	-33.3	18.0	-2.2	4.6	...	8.5	0.1	0.0	0.0	0.0	0.0	-0.1
Memorandum items:												
Primary balance including 14 public enterprises 7/	31.3	205.7	247.0	416.5	215.3	318.1	177.0	24.2	-15.1	-37.6	-43.8	-47.0
Overall balance including 14 public enterprises 7/	-143.1	32.9	103.0	312.7	129.6	239.9	112.1	-41.0	-79.3	-105.2	-114.1	-120.3
GDP (market prices)	1,870	1,966	1,976	2,126	2,192	2,301	2,401	2,511	2,629	2,754	2,882	3,016
Public sector debt (end of period)	2,978	2,981	2,716	2,133	1,890	1,808.5	1,592.4	1,540.3	1,545.2	1,552.4	1,561.4	1,572.0
<i>Of which</i>												
Central government	2,353	2,378	2,184	1,667	1,565	1,501	1,304	1,253	1,258	1,265	1,274	1,285
Domestic	1,641	1,555	1,427	866	829	787	745	760	784	809	836	865
External	711	823	757	801	736	715	559	492	473	456	438	420
Public enterprises	626	603	532	466	325	307	288	288	288	287	287	287

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. 14/297.

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 excludes 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.

7/ Estimated from below the line based on the monetary survey and public sector debt data. May differ from actual operating balance.

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

(In percent of GDP)

	2010	2011	2012	2013	Proj. 2/ 2014	Est. 2014	2015	2016	Proj.			
									2017	2018	2019	2020
Total revenue	27.6	33.1	32.8	38.3	33.7	39.0	32.5	26.1	24.7	23.9	23.8	23.7
Current revenue	27.5	33.1	32.8	38.3	33.7	39.0	32.5	26.1	24.7	23.9	23.8	23.7
Tax revenue	18.3	20.8	20.3	19.9	20.8	20.9	19.5	18.4	18.4	18.5	18.5	18.5
Taxes on income	5.0	4.4	4.1	3.9	3.9	4.1	4.5	4.1	4.1	4.1	4.0	4.1
Taxes on property	0.5	0.4	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Taxes on domestic goods and consumption 3/	4.5	10.6	10.4	10.2	10.7	10.7	8.8	8.4	8.4	8.4	8.4	8.5
Taxes on international trade and transactions	8.4	5.3	5.1	5.1	5.5	5.4	5.3	5.2	5.2	5.2	5.2	5.2
Nontax revenue	9.1	12.3	12.5	18.4	12.9	18.0	13.1	7.7	6.3	5.4	5.4	5.3
<i>of which: Citizenship by investment (CBI)</i>	2.3	4.5	7.0	12.2	9.1	13.2	8.8	3.7	2.5	1.7	1.6	1.6
<i>CBI to cover due diligence fees</i>	...	...	0.1	0.8	...	1.0	0.6	0.3	0.2	0.1	0.1	0.1
<i>Other</i>	6.9	7.8	5.3	5.4	3.8	3.9	3.7	3.7	3.6	3.6	3.6	3.6
Total expenditure and net lending	37.9	34.7	31.4	33.1	31.8	32.5	32.2	30.6	29.9	29.7	29.7	29.5
Current expenditure	30.9	30.5	27.7	26.4	25.7	26.4	25.9	24.2	23.6	23.4	23.3	23.2
Wages and salaries	12.0	11.3	11.2	11.2	11.2	11.2	10.9	10.9	10.8	10.6	10.6	10.5
Goods and services 4/	9.0	9.1	6.5	7.4	6.1	7.0	6.8	6.3	6.3	6.3	6.3	6.3
Interest	6.9	6.4	6.0	3.9	3.0	2.8	2.1	1.9	1.8	1.9	1.8	1.8
Domestic	4.7	4.7	4.0	3.3	2.0	2.0	1.3	1.3	1.3	1.5	1.5	1.5
Foreign	2.1	1.8	2.0	0.5	1.0	0.7	0.8	0.6	0.5	0.4	0.4	0.3
Transfers 5/	3.0	3.6	4.0	4.0	5.4	5.5	6.1	5.1	4.6	4.6	4.6	4.5
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
Capital expenditure	6.6	4.3	3.7	6.6	6.1	6.0	6.3	6.3	6.3	6.3	6.3	6.3
Current balance	-3.4	2.6	5.1	11.8	8.1	12.5	6.7	1.8	1.2	0.5	0.5	0.6
Overall balance (before grants)	-10.3	-1.6	1.4	5.2	1.9	6.5	0.3	-4.5	-5.2	-5.8	-5.9	-5.8
Grants	2.8	3.5	3.5	6.9	4.2	3.0	4.6	3.2	2.5	2.4	2.3	2.2
Overall balance (after grants)	-7.5	1.9	4.9	12.1	6.2	9.5	4.9	-1.3	-2.7	-3.5	-3.6	-3.6
Primary balance	-0.6	8.3	10.9	16.0	9.2	12.2	7.0	0.5	-0.9	-1.6	-1.8	-1.8
Overall balance (after grants less CBI)	-9.7	-2.7	-2.3	-0.9	-3.0	-4.6	-4.4	-5.3	-5.4	-5.3	-5.3	-5.3
Primary balance (after grants less CBI)	-2.8	3.8	3.7	3.0	0.0	-1.9	-2.4	-3.4	-3.5	-3.4	-3.5	-3.4
Financing	9.2	-2.8	-4.8	-12.3	-6.2	-9.9	-4.9	1.3	2.7	3.5	3.6	3.6
Net foreign financing	0.3	-1.3	-5.5	0.5	-2.9	-3.7	-6.5	-2.7	-0.7	-0.6	-0.6	-0.6
Disbursements 6/	2.2	5.4	4.7	2.2	1.1	0.4	0.6	0.5	0.4	0.4	0.3	0.3
Amortization	2.0	6.7	10.2	1.7	4.0	4.1	7.1	3.2	1.1	1.0	1.0	0.9
Net domestic financing	7.3	-4.5	-13.3	-39.8	-5.7	-8.6	1.4	3.6	3.0	3.7	3.8	3.8
Banking system	5.4	-6.3	-12.7	-40.1	-5.7	-6.6	1.4	3.6	3.0	3.7	3.8	3.8
Nonbanks and other	0.6	-0.1	-0.6	0.3	0.0	-2.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	1.0	2.6	-2.1	-1.2	0.0	0.3	-0.5	0.0	0.0	0.0	0.0	0.0
External	0.0	3.7	-1.8	0.2	0.0	0.3	-0.3	0.0	0.0	0.0	0.0	0.0
Amortization	0.0	3.1	-1.6	0.2	0.0	0.2	-0.2	0.0	0.0	0.0	0.0	0.0
Interest	0.0	0.6	-0.2	-0.1	0.0	0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Domestic	1.0	-1.2	-0.3	-1.4	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Sale/purchase of assets	0.7	0.4	0.5	1.1	-0.3	0.9	0.4	0.4	0.4	0.4	0.4	0.4
Exceptional financing	0.0	0.0	15.6	27.0	2.6	1.3	0.3	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	-1.8	0.9	-0.1	0.2	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Primary balance including 14 public enterprises 7/	1.7	10.5	12.5	19.6	9.8	13.8	7.4	1.0	-0.6	-1.4	-1.5	-1.6
Overall balance including 14 public enterprises 7/	-7.7	1.7	5.2	14.7	5.9	10.4	4.7	-1.6	-3.0	-3.8	-4.0	-4.0
Public sector debt (end of period)	159.3	151.6	137.5	100.3	86.2	78.6	66.3	61.3	58.8	56.4	54.2	52.1
<i>Of which</i>												
Central government	125.8	121.0	110.5	78.4	71.4	65.2	54.3	49.9	47.8	45.9	44.2	42.6
Domestic	87.8	79.1	72.2	40.7	37.8	34.2	31.0	30.3	29.8	29.4	29.0	28.7
External	38.0	41.9	38.3	37.7	33.6	31.1	23.3	19.6	18.0	16.5	15.2	13.9
Public enterprises	33.5	30.7	26.9	21.9	14.8	13.4	12.0	11.5	10.9	10.4	10.0	9.5

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. 14/297.

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 excludes 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.

7/ Estimated from below the line based on the monetary survey and public sector debt data. May differ from actual operating balance.

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

	2010	2011	2012	2013	2014	Proj.					
						2015	2016	2017	2018	2019	2020
(In millions of Eastern Caribbean dollars)											
Current account	-388.7	-312.5	-193.8	-139.6	-175.9	-301.4	-466.8	-471.8	-488.2	-483.1	-478.0
Trade balance	-544.6	-510.8	-466.0	-528.4	-583.1	-581.4	-604.8	-621.1	-635.0	-645.4	-655.8
Exports, f.o.b.	156.9	183.1	169.8	152.8	161.9	169.7	179.6	189.0	199.0	209.5	220.5
Imports f.o.b.	-701.5	-693.9	-635.8	-681.2	-745.0	-751.1	-784.4	-810.1	-834.1	-854.9	-876.3
Of which											
Mineral fuel	-68.8	-101.7	-103.6	111.7	106.8	66.9	74.3	78.6	82.9	85.3	86.3
Services and transfers (net)	155.9	198.3	272.2	388.8	407.1	280.0	138.0	149.2	146.9	162.3	177.9
Services (net)	111.2	152.7	198.0	320.5	350.1	256.0	137.2	118.5	112.5	124.7	137.1
Services (receipts)	416.1	485.2	544.1	682.4	729.1	650.6	545.7	541.7	551.4	583.0	616.7
Of which											
Tourism receipts	241.7	254.1	256.5	272.8	299.9	318.9	336.5	358.0	383.0	409.8	438.4
Citizenship-by-investment budgetary fees	42.1	88.8	141.0	276.9	325.4	225.0	100.0	70.0	50.0	50.0	50.0
Other	132.3	142.3	146.6	132.6	103.9	106.7	109.2	113.7	118.4	123.2	128.3
Services (payments)	-304.8	-332.5	-346.0	-361.9	-379.1	-394.6	-408.5	-423.2	-439.0	-458.3	-479.5
Factor income (net)	-80.9	-80.2	-48.5	-53.4	-61.0	-77.4	-84.2	-86.0	-86.6	-88.4	-90.5
Of which											
Public sector interest	-48.7	-37.8	-18.8	-20.1	-24.5	-21.8	-15.0	-13.5	-10.8	-9.0	-7.4
Transfers (net)	125.6	125.8	122.7	121.7	118.1	101.4	85.0	116.7	121.0	126.0	131.2
Official (net)	34.2	44.6	35.1	23.5	23.1	3.6	-14.1	14.7	14.7	14.7	14.7
Private (net)	91.4	81.2	87.6	98.2	95.0	97.8	99.1	102.0	106.3	111.3	116.5
Capital and financial account	471.7	399.4	200.0	242.5	298.5	331.7	458.0	513.5	510.0	513.0	510.2
Official	13.9	-9.5	56.8	28.3	-47.0	-127.6	-47.0	-26.0	-1.2	6.0	6.6
Capital transfers (net)	37.1	47.0	183.4	65.0	48.4	37.3	26.8	28.9	28.3	28.3	28.3
Long-term borrowing (net)	-23.2	-56.5	-126.6	-36.7	-95.4	-164.9	-73.7	-54.9	-29.5	-22.3	-21.7
Disbursements	42.2	60.4	29.3	2.9	8.7	14.4	12.9	10.7	10.0	10.0	10.0
Amortization	-56.1	-116.9	-53.5	-39.7	-104.0	-179.3	-86.6	-65.6	-39.5	-32.3	-31.7
Debt forgiveness	0.0	0.0	-102.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private capital	457.8	409.0	143.2	214.2	345.5	459.3	505.0	539.5	511.2	507.0	503.6
Capital transfers (net)	125.4	185.8	216.3	267.4	280.3	216.3	112.4	89.5	73.1	59.1	59.2
Foreign direct investment (net)	313.9	296.0	292.6	367.7	399.8	414.7	430.4	446.2	458.5	470.8	483.1
Portfolio investment (net)	-46.6	-41.7	-19.6	-0.7	-52.7	-61.1	-65.4	-65.4	-65.4	-65.4	-65.4
Commercial bank NFA accumulation	54.7	-75.0	-402.4	-461.2	-338.3	-169.2	-42.3	-21.1	34.0	34.0	34.0
Other (net)	10.3	43.9	56.3	41.0	56.5	58.5	69.8	90.3	11.0	8.4	-7.4
Errors and omissions	-12.9	-51.4	-127.2	-21.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	70.1	35.5	-121.0	81.9	122.5	30.2	-8.8	41.7	21.8	29.9	32.3
Financing	-70.1	-35.5	121.0	-81.9	-122.5	-30.2	8.8	-41.7	-21.8	-29.9	-32.3
Net international reserves	-88.4	-204.9	-54.3	-107.1	-73.2	61.0	54.6	-14.3	-18.0	-33.0	-35.0
Change in arrears	18.3	73.6	-35.7	4.0	6.1	-7.2	0.0	0.0	0.0	0.0	0.0
Net use of IMF resources	...	95.7	90.5	18.4	-60.0	-95.1	-49.3	-30.7	-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	-60.0	-95.1	-49.3	-30.7	-6.9	0.0	0.0
Debt forgiveness/Exceptional financing	...	0.0	120.5	2.7	0.0	7.2	0.0	0.0	0.0	0.0	0.0
(In percent of GDP)											
Current account	-20.8	-15.9	-9.8	-6.6	-7.6	-12.6	-18.6	-17.9	-17.7	-16.8	-15.8
Current account, excluding CBI receipts	-23.0	-20.4	-16.9	-19.6	-21.8	-21.9	-22.6	-20.6	-19.5	-18.5	-17.5
Exports of goods and nonfactor services	30.6	34.0	36.1	39.3	38.7	34.2	28.9	27.8	27.3	27.5	27.8
Merchandise exports	8.4	9.3	8.6	7.2	7.0	7.1	7.2	7.2	7.2	7.3	7.3
Nonfactor services 1/	22.3	24.7	27.5	32.1	31.7	27.1	21.7	20.6	20.0	20.2	20.4
Of which											
Tourism receipts	12.9	12.9	13.0	12.8	13.0	13.3	13.4	13.6	13.9	14.2	14.5
Other	9.3	11.8	14.6	19.3	18.7	13.8	8.3	7.0	6.1	6.0	5.9
Imports of goods and nonfactor services	-53.8	-52.2	-49.7	-49.1	-48.9	-47.7	-47.5	-46.9	-46.2	-45.6	-45.0
Merchandise imports	-37.5	-35.3	-32.2	-32.0	-32.4	-31.3	-31.2	-30.8	-30.3	-29.7	-29.1
Nonfactor services	-16.3	-16.9	-17.5	-17.0	-16.5	-16.4	-16.3	-16.1	-15.9	-15.9	-15.9
Foreign direct investment (net)	16.8	15.1	14.8	17.3	17.4	17.3	17.1	17.0	16.6	16.3	16.0
External public debt	48.1	49.8	42.3	40.6	34.4	26.0	21.8	19.8	18.0	16.4	14.8
(Annual percentage change)											
Merchandise exports	54.4	16.7	-7.2	-10.0	5.9	4.8	5.9	5.2	5.3	5.3	5.3
Tourism receipts	7.2	5.1	1.0	6.4	9.9	6.4	5.5	6.4	7.0	7.0	7.0
Merchandise imports	-4.0	-1.1	-8.4	7.1	9.4	0.8	4.4	3.3	3.0	2.5	2.5
(In percent of exports of goods and nonfactor services)											
External public debt	157.1	146.5	117.2	103.4	88.8	76.1	75.5	71.3	66.1	59.5	53.4
External debt service	24.0	23.2	10.1	7.2	14.4	24.5	14.0	10.8	6.7	5.2	4.7
Of which											
Interest	8.2	5.5	2.6	2.4	2.7	2.6	2.0	1.8	1.4	1.1	0.9
Principal	15.9	17.6	7.6	4.8	11.7	21.9	12.0	9.0	5.3	4.1	3.8
(Millions of US dollar)											
ECCB imputed reserves	155.7	231.5	251.6	291.3	318.4	295.8	275.6	281.5	288.2	300.4	313.4
in months of import of goods and services	5.0	7.3	8.3	9.0	9.2	8.4	7.5	7.4	7.3	7.4	7.5

Sources: ECCB; and Fund staff estimates and projections.

1/ Decline in non-factor services exports between 2014 and 2015 reflect the projected decline in the CBI receipts in 2015.

Table 5. St. Kitts and Nevis: Monetary Survey, 2010–16

	2010	2011	2012	2013	2014	Proj. 2015	Proj. 2016
(In millions of East Caribbean dollars)							
Net foreign assets	636.6	931.5	1388.2	1956.4	2368.0	2476.1	2463.8
ECCB imputed reserves	420.3	625.1	679.4	786.5	859.7	798.7	744.1
Crown agents	10.6	10.6	10.6	10.6	10.6	10.6	10.6
Commercial banks 1/	205.7	295.7	698.1	1159.3	1497.7	1666.8	1709.1
Net domestic assets	1266.1	1160.8	943.6	618.4	569.9	630.7	723.9
Net credit to the public sector	476.4	305.7	81.4	-828.4	-1188.1	-1158.1	-1100.7
Net credit to central government 2/	850.8	726.2	576.1	-193.1	-333.9	-297.7	-232.0
Net credit to St. Kitts	676.6	526.4	383.0	-395.1	-508.3	-479.6	-433.6
Net credit to Nevis	174.3	199.8	193.1	202.0	174.3	181.9	201.7
Net credit to non-financial public sector 3/	-374.5	-420.5	-494.7	-635.3	-854.1	-860.5	-868.8
Credit to the private sector	1356.6	1406.4	1408.5	1396.4	1404.0	1434.9	1470.8
Net other assets 4/	-566.9	-551.3	-546.3	50.5	353.9	353.9	353.9
Broad money (M2)	1902.7	2092.3	2331.8	2574.9	2937.8	3106.8	3187.8
Money	349.0	470.2	526.8	508.4	565.7	585.3	607.4
Currency in circulation	101.1	102.0	107.6	133.1	154.6	160.0	166.0
Demand deposits 1/	248.0	368.2	419.2	375.3	411.1	425.3	441.4
Quasi-money 1/	1553.7	1622.0	1805.0	2066.5	2372.1	2521.9	2580.7
Savings deposits	638.4	684.8	753.3	827.9	908.9	940.5	976.0
Time deposits	552.4	581.3	555.0	606.6	585.5	605.8	628.7
Foreign currency deposits	362.8	356.0	496.7	632.1	877.7	976.6	977.1
(Percentage change relative to broad money at beginning of period)							
Net foreign assets	1.1	15.5	21.8	24.4	16.0	3.7	-0.4
Net domestic assets	7.8	-5.5	-10.4	-13.9	-1.9	2.1	3.0
Net credit to the public sector	4.9	-9.0	-10.7	-39.0	-14.0	1.0	1.8
Net credit to central government 2/	24.2	-6.5	-7.2	-33.0	-5.5	1.2	2.1
Net credit to non-financial public sector 3/	-19.3	-2.4	-3.5	-6.0	-8.5	-0.2	-0.3
Credit to the private sector	2.6	2.6	0.1	-0.5	0.3	1.1	1.2
Net other assets 4/	0.3	0.8	0.2	25.6	11.8	0.0	0.0
(Annual percentage change)							
Broad money (M2)	8.9	10.0	11.4	10.4	14.1	5.8	2.6
Money	43.1	34.7	12.0	-3.5	11.3	3.5	3.8
Currency in circulation	29.0	0.9	5.5	23.7	16.2	3.5	3.8
Demand deposits	49.8	48.5	13.8	-10.5	9.5	3.5	3.8
Quasi-money	3.3	4.4	11.3	14.5	14.8	6.3	2.3
Savings deposits	0.0	7.3	10.0	9.9	9.8	3.5	3.8
Time deposits	12.5	5.2	-4.5	9.3	-3.5	3.5	3.8
Foreign currency deposits	-3.1	-1.9	39.5	27.2	38.9	11.3	0.1
Credit to the private sector (in nominal terms)	3.5	3.7	0.2	-0.9	0.5	2.2	2.5
Credit to the private sector (in real terms)	-1.8	0.9	0.1	-1.8	0.0	4.5	0.7
Memorandum items:							
Income velocity of money	5.4	4.2	3.8	4.2	4.1	4.1	4.1
Income velocity of broad money	1.0	0.9	0.8	0.8	0.8	0.8	0.8
Private sector credit/GDP (in percent)	72.6	71.5	71.3	65.7	61.0	59.8	58.6
Foreign currency deposits/GDP (in percent)	19.4	18.1	25.1	29.7	38.1	40.7	38.9
Central government deposits (EC\$ million) 5/	224.7	302.9	343.4	547.8	663.1	630.5	540.0

Sources: ECCB; and Fund staff estimates and projections.

1/ Includes debentures as foreign liabilities till 2012.

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

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

4/ Includes capital accounts and, as of 2013, shares in the Special Purpose Vehicle.

5/ Includes CG deposits at the ECCB.

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	2013	2014
External indicators							
Merchandise exports	19.7	-45.4	54.4	16.7	-7.2	-10.0	5.9
Merchandise imports	28.4	-13.2	-4.0	-1.1	-8.4	7.1	9.4
Tourism earnings	-11.8	-24.1	7.2	5.1	1.0	6.4	9.9
Current account balance (percent of GDP)	-26.8	-25.7	-20.8	-15.9	-9.8	-6.6	-7.6
Capital and financial account balance (percent of GDP)	25.8	27.7	25.2	20.3	10.1	11.4	13.0
<i>Of which</i>							
Foreign direct investment	24.2	18.4	16.8	15.1	14.8	17.3	17.4
Imputed net international reserves							
In millions of U.S. dollars	110.3	122.9	155.7	231.5	251.6	291.3	318.4
In percent of broad money	18.0	19.0	22.1	29.9	29.1	30.5	29.3
Commercial banks' net foreign assets (millions of U. S. dollars)	166.3	102.0	76.2	109.5	258.6	429.4	554.7
External public debt (percent of GDP)	44.9	46.7	48.1	49.8	42.3	40.6	34.4
External debt service (in percent of exports of goods and services)	22.4	25.3	24.0	23.2	10.1	7.2	14.4
Interest	8.2	10.6	8.2	5.5	2.6	2.4	2.7
Principal	14.2	14.7	15.9	17.6	7.6	4.8	11.7
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 1/	7.7	-2.7	3.4	0.2	-1.5	0.0	2.5
Financial indicators							
Broad money	1.6	5.9	8.9	10.0	11.4	10.4	14.1
Credit to the private sector	5.9	5.5	3.5	3.7	0.2	-0.9	0.5
Share of nonperforming assets to total assets of banks (percent)	4.5	4.3	5.5	6.6	10.6	10.9	13.3
Provisions for loan losses/nonperforming assets (percent)	20.0	48.9	42.2	38.3	32.1	40.2	48.2
Provisions for loan losses/total loans (percent)	0.9	2.1	2.3	2.5	3.4	4.4	6.4
Gross government exposure/total assets (percent)	28.2	26.1	26.6	24.3	22.6	11.4	7.8
Total loans/total deposits (percent)	88.7	77.4	78.1	73.0	65.9	43.1	35.8
Net liquid assets/total deposits (percent)	42.5	42.9	41.6	44.2	50.4	55.3	54.6
Foreign currency deposits/total deposits (percent)	22.9	30.2	27.5	25.6	25.9	24.3	27.7
Liquid assets/total assets (percent)	39.5	43.7	41.9	44.2	47.8	52.1	53.8
Liquid assets/current liabilities (percent)	48.4	50.9	51.5	51.8	56.2	58.7	58.8
Total capital/total assets (percent) 2/	16.8	19.3	18.4	16.3	15.8	13.3	11.4
Total Capital/Risk Weighted Assets (percent) 2/	42.7	47.6	42.4	40.7	38.2	23.7	25.4
Tier 1 Capital/Risk Weighted Assets (percent) 2/	40.1	42.0	36.8	40.1	38.5	23.2	26.2
Ratio of banks' before-tax profits to average assets (percent)	4.7	2.1	1.1	1.5	0.6	0.7	0.6

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

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

2/ For locally incorporated banks only.

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

(In millions of U.S. dollars)

	2013	2014	Projections					
			2015	2016	2017	2018	2019	2020
Gross financing requirement	261.7	235.2	196.5	174.5	178.7	185.5	187.4	191.8
Current account deficit	51.7	65.2	111.6	172.9	174.7	180.8	178.9	177.0
Amortization	170.3	142.9	107.4	21.9	-1.3	-2.0	-3.8	1.9
Official (public sector and central government)	14.7	38.5	66.4	32.1	24.3	14.6	11.9	11.7
of which: to official creditors								
of which: debt forgiveness	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector (net)	155.6	104.4	41.0	-10.2	-25.6	-16.7	-15.7	-9.9
Commercial banks	170.8	125.3	62.7	15.7	7.8	-12.6	-12.6	-12.6
Other private	-15.2	-20.9	-21.7	-25.9	-33.4	-4.1	-3.1	2.7
Reserve accumulation (+ increase: - decrease)	39.7	27.1	-22.6	-20.2	5.3	6.7	12.2	13.0
Sources of financing	260.1	253.5	230.2	191.5	188.9	186.9	186.2	190.8
Capital grants and transfers	123.1	121.7	93.9	51.5	43.9	37.6	32.4	32.4
Foreign Direct Investment (net)	136.2	148.1	153.6	159.4	165.3	169.8	174.4	178.9
Net inflow of equity and other capital	-0.3	-19.5	-22.6	-24.2	-24.2	-24.2	-24.2	-24.2
New borrowing	1.1	3.2	5.3	4.8	4.0	3.7	3.7	3.7
of which: public sector	1.1	3.2	5.3	4.8	4.0	3.7	3.7	3.7
Errors and omissions	-7.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of arrears	1.5	2.2	-2.7	0.0	0.0	0.0	0.0	0.0
Debt forgiveness								
Exceptional external financing	7.8	-22.2	-32.6	-18.2	-11.4	-2.6	0.0	0.0
IMF net disbursement	6.8	-22.2	-35.2	-18.2	-11.4	-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	-22.2	-35.2	-18.2	-11.4	-2.6	0.0	0.0
Interest due	-1.5	-1.7	-1.5	-0.5	-0.1	0.0	0.0	0.0
Debt forgiveness/debt restructuring 1/	1.0	0.0	2.7	0.0	0.0	0.0	0.0	0.0

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

1/ Includes flow and stock write-down.

Table 8. St. Kitts and Nevis: Indicators of Capacity to Repay the Fund, 2015–20^{1/}

	2015	2016	2017	2018	2019	2020
Fund obligations based on existing credit						
(in millions of SDRs)	0.14	18.04	7.18	1.61	0.00	0.00
Principal	0.00	17.83	7.12	1.60	0.00	0.00
Charges and interest	0.14	0.21	0.06	0.01	0.00	0.00
Fund obligations based on existing and prospective credit						
(in millions of SDRs) ^{2/}	0.14	18.04	7.18	1.61	0.00	0.00
Principal	0.00	17.83	7.12	1.60	0.00	0.00
Charges and interest	0.14	0.21	0.06	0.01	0.00	0.00
Fund credit outstanding based on existing and prospective credit						
(in millions of SDRs) ^{2/}	26.6	8.7	1.6	0.0	0.0	0.0
Total Obligations based on existing and prospective credit ^{2/}						
in millions of U.S. dollars ^{3/}	0.2	28.9	11.5	2.6	0.0	0.0
in percent of exports of goods and services	0.1	10.7	4.2	0.9	0.0	0.0
in percent of external debt service	0.3	43.4	28.2	12.2	0.0	0.0
in percent of GDP	0.0	3.1	1.2	0.3	0.0	0.0
in percent of quota	1.6	202.7	80.7	18.1	0.0	0.0
in percent of net imputed reserves	0.1	10.5	4.1	0.9	0.0	0.0
in percent of revenue and grants	0.1	10.6	4.3	1.0	0.0	0.0
Outstanding Fund Credit ^{2/}						
in millions of U.S. dollars ^{3/}	42.5	14.0	2.6	0.0	0.0	0.0
in percent of exports of goods and services	14.0	5.2	0.9	0.0	0.0	0.0
in percent of external debt service	57.0	37.1	8.7	0.0	0.0	0.0
in number of months of imports of goods and services	2.1	0.7	0.1	0.0	0.0	0.0
in percent of GDP	4.8	1.5	0.3	0.0	0.0	0.0
in percent of quota	298.3	98.0	18.0	0.0	0.0	0.0
in percent of net imputed reserves	14.4	5.1	0.9	0.0	0.0	0.0
Net use of Fund Credit (in millions of SDRs) ^{2/}						
Disbursements	0.0	-17.8	-7.1	-1.6	0.0	0.0
Repayment and Repurchases	0.0	17.8	7.1	1.6	0.0	0.0
<i>Memorandum items:</i>						
Nominal GDP (in millions of US dollars)	889.4	930.1	973.6	1,020.0	1,067.6	1,117.0
Exports of goods and services (in millions of US dollars)	303.8	268.6	270.7	278.0	293.5	310.1
External debt service (in millions of US dollars)	74.5	37.6	29.3	18.6	15.3	14.5
Imports of goods and services (in millions of US dollars)	238.7	250.1	257.9	265.1	271.0	277.1
Net imputed reserves (in millions of US dollars)	295.8	275.6	281.5	288.2	300.4	313.4
1/ As of June 30, 2015; based on purchases of SDR 47.37 million (532 percent of quota) under the 3-year SBA with access in the amount of SDR 52.5 million (590 percent of quota) approved in July 2011.						
2/ Reflects advance repurchases of SDR 13.9 million (156 percent of quota) in 2014 and SDR 6.8 million (78 percent of quota) in 2015.						
3/ US\$1 = 0.625 SDR (program exchange rate in the TMU).						

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

Main Risks to Baseline Scenario		Likelihood	Impact	Policy Response
Short/medium term	Escalation of financial sector stress in the ECCU. A sudden loss of confidence could rapidly spill over into other financial institutions. The limited lender of last resort facility, given the currency board arrangement, and the lack of deposit insurance increase vulnerability. This could lead to increased financial sector instability in the region, which could impact St. Kitts and Nevis notwithstanding the strength of its banking system.	High	High	Support the resolution of weak financial institutions in the region by passing Monetary Council approved legal reforms; and applying best practices to restructure and resolve weak banks, including private sector solutions. Strengthen contingency planning.
	Natural disasters. The high vulnerability to natural disasters increases risks of substantial damage to infrastructure, entailing large reconstruction costs.	Medium to High	Medium to High	Formulate adequate budgetary provisions for disaster mitigation. Work with the World Bank and other development partners to build resilience to climate change.
	Sharp drop in CBI receipts. The change in visa requirements by Canada and possible adverse actions by other advanced countries, together with 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 to construction and real estate.	Medium	High	Contain reliance on CBI revenues for government spending and build precautionary balances by saving the bulk of CBI receipts; strengthen due diligence and oversight at both the national and ECCU levels to reduce risks to financial integrity and international security; devise a financial strategy to ensure the medium-term viability of the SIDF. Preserve the value of saved resources to use as precautionary balances.
Medium-term	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 quality if a large stock of land remains unsold at the end of the 3-year dividend arrangement with the government.	High	Medium	Authorize the Special Land Sales Company (St. Kitts) to proceed with the sale of the bulk of the land inventory and consider extending the 3-year dividend agreement to provide time to develop a land use strategy.
	High banking system liquidity. Large deposits 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 alleviate excessive liquidity pressures on the balance sheet of domestic banks.
	Protracted period of slower growth in advanced and emerging economies. Persistently weak demand and lower than anticipated potential growth in the major economies could cause adverse spillover effects through lower tourism arrivals, trade, FDI, grants, and investor confidence.	High	Medium	Build precautionary balances by saving the bulk of CBI receipts and use these resources to support growth and stabilize government finances; step up structural reforms to boost potential growth.
	Sharp growth slowdown and increased financial risks in China. Lower investment efficiency and weaker balance sheets can trigger bankruptcies, and potential financial losses, reducing 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.
	Disruption to the PetroCaribe arrangement. A sustained decline in oil prices can affect the sustainability of the financing arrangement, leading to the emergence of external sector vulnerabilities.	Medium	Low	Monitor financial flows and identify alternative sources of financing.

^{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. External Stability Assessment

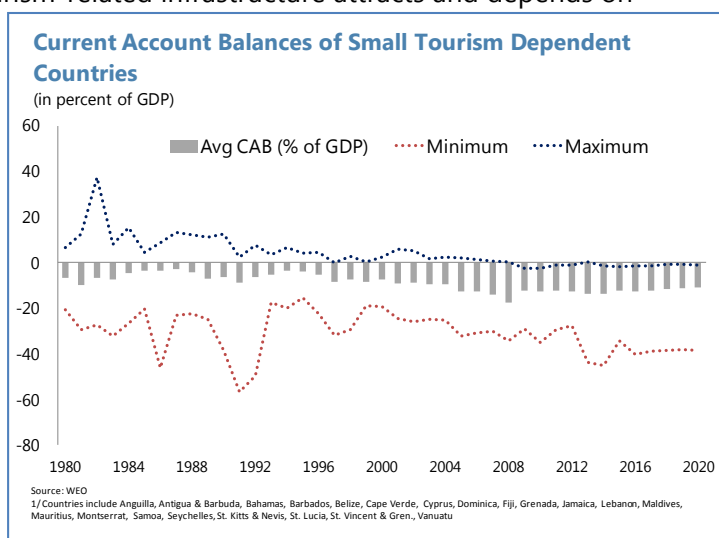
St. Kitts and Nevis' current account deficit is higher than implied by fundamentals, suggesting that the exchange rate is overvalued. Competitiveness indicators – including the business climate and tourism performance – suggest ongoing challenges. Recent appreciation of the US dollar, to which the East Caribbean dollar is pegged, could further undermine St. Kitts and Nevis' competitiveness. That said, St. Kitts and Nevis' level of reserves is high, providing ample cushion for external shocks.

A. Current Account and Exchange Rate Assessment

1. **The structure of St. Kitts and Nevis as a small tourism-dependent state with large inflows under the Citizenship-By-Investment (CBI) program presents unique challenges to estimating its fundamentally-justified current account balance and currency valuation.** For

St. Kitts and Nevis, the financing of its tourism-related infrastructure attracts and depends on

sizeable capital flows, notably foreign direct investments (FDI). In fact, small tourism-dependent countries typically run sizable current account deficits (text chart); this reflects the high import content of FDI (which is typically higher than other economies), and the repatriation of profits (also higher reflecting the larger share of FDI in these economies). Additionally, recent large CBI inflows have helped to narrow the size of the CA deficit, but CBI program prospects are highly uncertain.

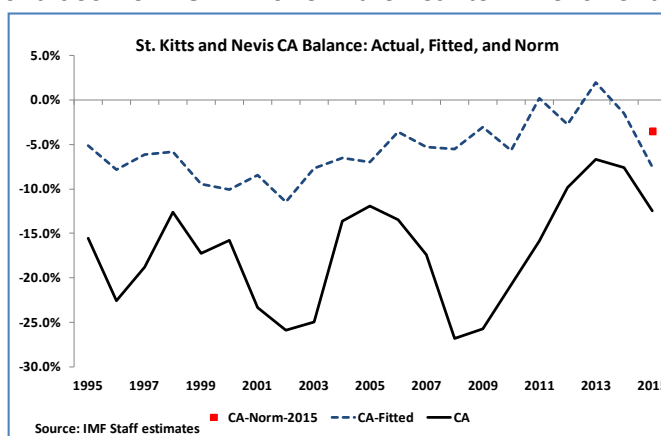


2. **Staff customized the EBA-lite methodology for tourism and CBI inflows.** Specifically, a dummy representing small tourism dependent countries is added to the model.¹ The dummy is significant and slope coefficients for other variables changed under this specification. Additionally, the expected current account norm out to the medium term includes modest CBI inflows. Lastly, the value against which the current account gap is calculated is an average of current account estimates for 2014 and 2015 – this is done to smooth the expected impact of CBI inflows on the current account balance, reflecting possible declines over the near term given heightened scrutiny to the program. However, the projected current account deficit may be overstated since the staff's forecast for CBI service receipts in the medium-term is very modest while imports remain relatively high on

¹ Values of 1 are assigned to the following countries: Antigua and Barbuda, Bahamas, Barbados, Belize, Cape Verde, Cyprus, Dominica, Fiji, Grenada, Jamaica, Lebanon, Maldives, Mauritius, Samoa, Seychelles, St. Kitts and Nevis, St. Lucia, St. Vincent & the Grenadines, Vanuatu. These countries are selected as their ratio of exports of tourism services to output exceeds 15 percent and the ratio of exports of tourism services to total exports exceeds 25 percent.

the assumption that FDI to the tourism sector will replace the bulk of the current CBI inflows to the construction sector.

3. **The adjusted EBA-lite model-based estimates suggest that the near-term forecast for current account balance is below the level implied by fundamentals and that the REER is overvalued.** The current account balance, at -10.1 percent of GDP – using an average of 2014 and 2015 values to account for the possibility of a decline in CBI inflows in the near term – is lower than the estimated “norm” of -3.5% based on fundamental assessments (text table and text chart).² Virtually, the entire current account gap is explained by the regression residual. This is not surprising given the poor historical fit of the model due, in large part, due to incomplete data that has hampered full analysis.³ Meanwhile, the policy gap is small, with fiscal performance underperforming the medium-term target slightly.⁴



St. Kitts and Nevis: Exchange Rate Assessment, EBA-Lite Model Results						
	Current Account Norm 2/	2015 Actual Current Account Balance 3/	Current Account Gap	REER Gap 4/	Policy Gap	Residual
EBA-lite Methodology 1/	-3.5	-10.1	-6.5	10.7	-0.1	-4.8
1/ Percent of GDP. 2/ Norm estimate includes modest CBI inflows equivalent to roughly 2% of GDP out to the medium term. 3/ Assessment based average of 2014 and 2015 CAB. 4/ Positive number indicates overvaluation.						

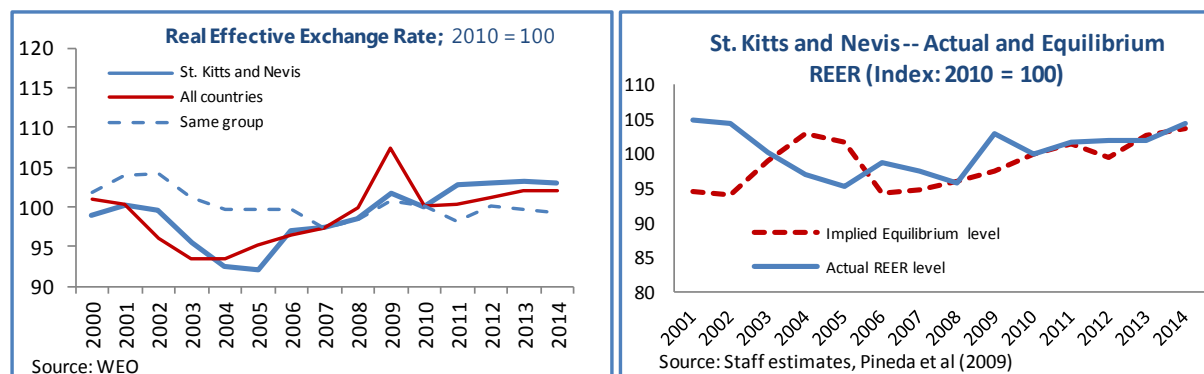
4. **An alternative analysis takes the large literature on the determinants of long-run exchange rate into consideration and incorporates the role of large FDI in small tourism-**

² Staff's forecast for CBI inflows was conservative to reflect possible downside risks.

³ Data shortcomings include: (i) outdated visitor expenditure survey information for the calculation of the tourism receipts; (ii) incomplete information on impact of medical schools; (iii) and partial data on exports and imports. There has not been a visitor survey for several years, and the BOP data are based on old estimates of visitor surveys that do not take into account the change in the composition of visitors, nor their spending pattern. For example, the number of visitors from the Caribbean has sharply dropped, while the number of visitors from advanced countries has increased. The former spend a lot less than the latter. The BOP also does not capture the impact of the medical schools, not in their spending, nor their role in FDI, nor in the net factor income.

⁴ The CA norm estimate is conditional on policies – fiscal balance, capital controls, reserve accumulation and financial policies – at their desired levels. By comparison, the CA fitted line is the estimated CA value based on regression coefficients.

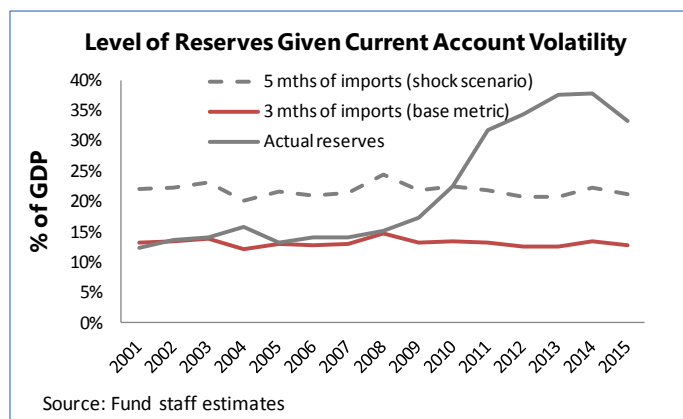
dependent economies. An update to the Pineda et al (2009) approach suggests the degree of misalignment is more modest. The staff's medium-term CA forecast of -15.8 percent in 2020 is slightly below the level of -12.2 percent implied by fundamentals. For the near term, the REER for 2014 is broadly in line with the model's estimate (text chart, right hand side). The real effective exchange rate remains appreciated relative to its competitors (text chart, left hand side).^{5,6} The recent appreciation of the US dollar—to which the East Caribbean dollar has been pegged since 1976—has gained about 12 percent on a trade-weighted basis since mid-2014 and could undermine competitiveness further.



B. Reserve Adequacy

5. The current level of international reserves for St. Kitts and Nevis is significantly higher than what would be considered as adequate based on a range of metrics.

The traditional benchmark of 3 months of imports of goods and services is often used as a barometer.⁷ By this measure, St. Kitts and Nevis' foreign reserves are markedly higher relative to its peers (text table below). As a country with limited exposure to international capital markets, current account volatility remains the main source of pressure on reserves. St. Kitts and Nevis is vulnerable to current account shocks given its vulnerability to natural disasters, the sizable share of CBI-related inflows in recent years and its



⁵ Small tourism-dependent countries include Antigua and Barbuda, Bahamas, Barbados, Belize, Cape Verde, Cyprus, Dominica, Fiji, Grenada, Jamaica, Lebanon, Maldives, Mauritius, Samoa, Seychelles, St. Lucia, St. Vincent & Grens., Vanuatu.

⁶ REER is calculated based on trade-weights that exclude Ukraine which has an unduly large share of about 15 percent in 2005-2006, while trade with Ukraine in 2010-2014 was less than 0.5 percent of the total.

⁷ See Dehesa, M., E. Pineda, and W. Samuel (2009).

reliance on tourism as the mainstay of its economy. Since 1990, the volatilities of tourism receipts and FDI have both been about 5 percent of GDP, while imports have averaged slightly below 50 percent as a share of GDP.⁸ An extreme shock to the current account – measured as a 2 standard deviation event – would result in a swing of 20 percent of GDP, or about 5 months of coverage for imports. By this measure, the current reserve coverage of 8.5 months for 2015 or nearly 35 percent of GDP is adequate insurance (text chart). The ample reserve cushion is not surprising as recent foreign currency inflows have boosted currency in circulation, raising St. Kitts and Nevis' share of imputed reserves at the ECCB.⁹ Risks rest with the outlook for the currency union: vulnerable members could destabilize the outlook for the union as a whole, and negatively affect more-robust countries such as St. Kitts and Nevis.

Comparison of International Reserves Across Regions			
	In Months of Goods and Service Imports		
	2000 - 07	2008 - 2009	2010 - 2015
St. Kitts and Nevis	3.1	3.5	7.8
ECCU	2.8	2.8	4.3
Small tourism dependent economies 1/ Caribbean excluding ECCU 2/	4.6	4.2	4.5
	2.6	3.2	4.0

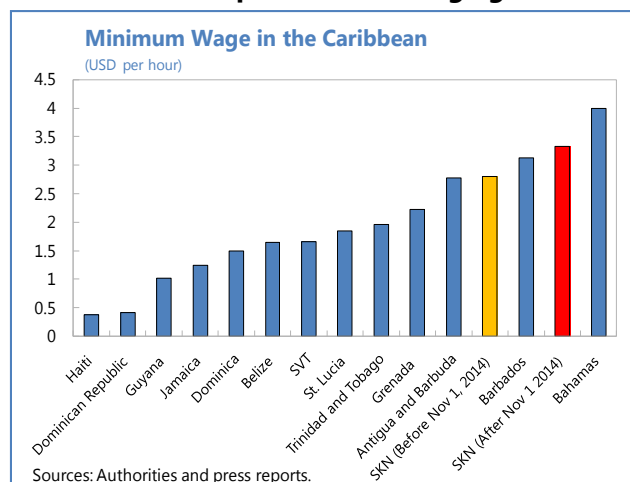
Source: IMF, World Economic Outlook
 1/ Includes Croatia, Cyprus, Fiji, The Gambia, Jordan, Lebanon, Maldives, Malta, Samoa, Sao Tome and Principe, Seychelles, Vanuatu and Togo.
 2/ Includes Bahamas, Barbados, Belize, Guyana, Haiti and Jamaica.

C. External Competitiveness

6. **Metrics for external competitiveness indicate room for improvement – wage gains suggest potential headwind, business climate is poor while its tourism performance indicates ongoing hurdles.** The increase in the minimum wage in November 2014 will increase

St. Kitts and Nevis Minimum Wage (EC\$ per week)		
	Nominal (In current price)	Real (In 2004 constant price)
2004	250	250
2008	320	259
2014 ^{1/}	360	258

Sources: Authorities and staff calculation.
 1/ Effective after Nov 1, 2014.

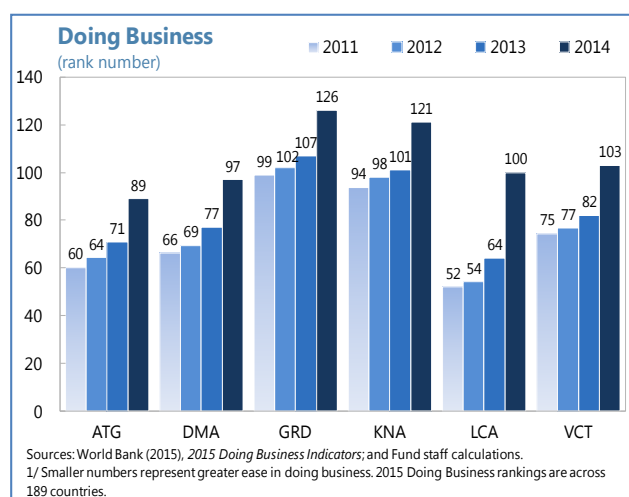
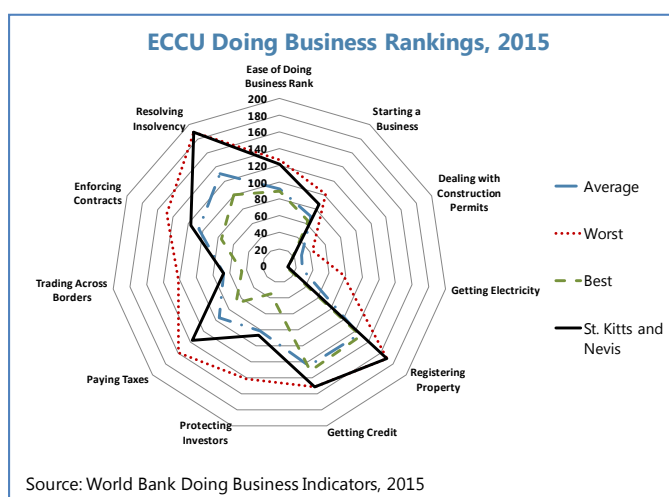


⁸ Volatility is measured as standard deviations.

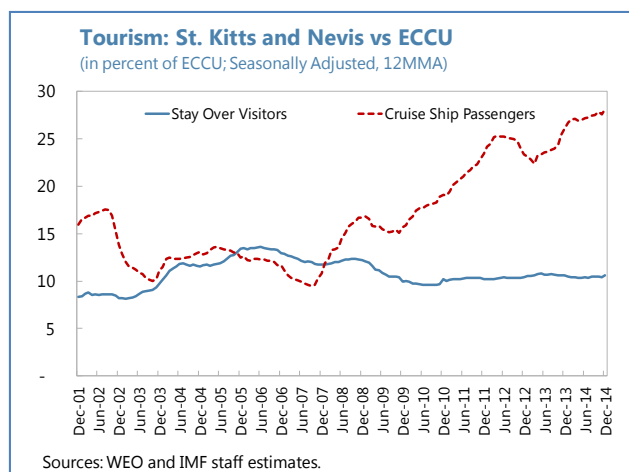
⁹ Foreign banks' liquidity management operations within the ECCU may impact the share of reserves attributed to each jurisdiction, with at least one foreign bank in St. Kitts and Nevis acting as treasurer for regional branches, boosting foreign currency sales to the ECCB. For imputed reserve calculation methodology, please see presentation by Williams et al (1998) at the 1998 Annual Monetary Studies Conference in Bahamas and Williams et al (2001).

production cost and will need to be monitored to ensure that it does not erode competitiveness. This increase followed extensive consultations with stakeholders, and was endorsed by private sector. It restored the real minimum wage back to the 2008 level, when it was last adjusted. It is now the second highest in the region, up from third. While the increase is not expected to impact growth adversely in the short-term, caution is needed to gauge its medium-term implications for competitiveness.

7. **Business investment climate has deteriorated.** St. Kitts and Nevis was ranked as one of more difficult places in ECCU for business in 2015.¹⁰ Its overall ranking for business climate in 2014 slipped further from to 121 from 101 in 2013. It experienced a broad-based decline in the subcomponents of its doing-business index, with starting business, registering property, getting credit and resolving insolvency particularly difficult compared to its ECCU peers.



8. **St. Kitts and Nevis’ tourism performance underscores ongoing challenges.** While St. Kitts and Nevis has modeled itself as a high-end tourist destination with relatively price-insensitive visitors, its share of stay-over visitors—the primary source of high-quality tourism revenues—has changed little. Indeed, this share has remained stagnant relative to the rest of the ECCU. Although tourism performance in the ECCU region has lagged behind its global competitors, and St. Kitts and Nevis has struggled amid this regional context, an appreciating currency could only compound the hurdles St. Kitts and Nevis must overcome to boost its tourism performance, particularly against competitors in the wider Caribbean region. Thus, the authorities’ ongoing efforts to strengthening



¹⁰ 2015 World Bank Doing Business Index.

the tourism sector as well as investment in infrastructure, structural reforms to improve the its business climate, and investment in training will be of even greater importance for St. Kitts and Nevis' prospects going forward.

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Annex III. Debt Sustainability Analysis (DSA)

Stronger growth in 2013 and 2014 and sizable advance repayments have improved the debt outlook, although risk to debt sustainability remains high. The debt-to-GDP ratio declined to 79 percent of GDP at end-2014, compared to a forecast of 86.2 percent in the last program review, and 100.8 percent at end-2013. Concrete plans for additional debt repayment underlie the further rapid decline in the projected debt-to-GDP ratio, notwithstanding a weakening in the fiscal outlook on account of new tax exemptions. The new policies combined with a cautious outlook for CBI budgetary inflows risk depleting government buffers and a reversal of the debt-to-GDP in case of an exogenous shock. Gross financing needs remains high on account of the large stock of T-bills that are assumed to be rolled over.

A. Public Debt Sustainability Analysis ¹

Background

1. **Public debt has significantly declined from 159 percent of GDP at end-2010 to 79 percent of GDP at end-2014.** The bulk of the decline was achieved through restructuring of central government and public sector enterprises domestic debt, equivalent to 34.6 percent of 2014 GDP (or 43 percent of 2010 GDP) to the indigenous banking system. This took place through debt-land swap operations in July 2013, and August and October 2014. Bilateral agreements with all Paris Club creditors have been signed relating to the May 2012 agreement on debt equivalent to 0.8 percent of GDP, yielding some debt forgiveness by one creditor and rescheduling by another. Discussions with non-Paris club creditors, namely Kuwait, Taiwan POC and Venezuela have also advanced. In addition, the authorities concluded a debt exchange with bondholders and commercial external creditors with more favorable coupon rates in mid April 2012. In 2014, early repayments to the Fund equivalent to 2.6 percent of GDP further accelerated the decline in outstanding debt. There was also an advance repayment to the SSB of 2.2 percent of GDP and to the Development Bank of St. Kitts and Nevis of 0.9 percent of GDP in August 2014.

Medium-Term Debt Sustainability Analysis

2. **The debt-to-GDP ratio is projected to decline faster than in last review (IMF Country Report No. 14/297) falling to below the 60 percent target in 2017.** Although the primary balance has worsened from the last review on account of the widening of tax exemptions and somewhat higher capital spending, accumulated public sector deposits allow the government to meet its financing requirements and repay its debt. Moreover, the baseline scenario takes into account the advance repayments planned by the government in 2015. CBI budgetary inflows are projected to slow in 2015 and significantly decline thereafter to about 1.7 percent by 2020. The specific assumptions are:

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

- *Fiscal Balance:* The primary fiscal surplus drops from 13.8 percent of GDP in 2014 to 7.4 percent of GDP in 2015, mainly because of the increased exemptions, and a drop in CBI budgetary revenues. It further deteriorates to a deficit of 1.6 percent by 2020. CBI budgetary revenues are assumed to decline from 14.1 percent of GDP in 2014 to 9.4 percent in 2015 and to 1.7 percent by 2020.
- *Growth and Inflation:* Real economic activity moderates somewhat to 5 percent in 2015, 3.5 percent in 2016, and stabilizes at its potential rate of 2.5 percent over the medium term, while inflation averages 2.1 percent.
- *Debt:* Authorities make advanced repayments in 2015 of around 5 percent of GDP, including to the IMF, one bilateral creditor, and PDVSKN.²

3. **Despite the rapid reduction in debt-to-GDP ratio, the heat map and fan charts show that risks to debt sustainability remain high.** Notwithstanding the further projected decline in debt, 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 more slowly than in the baseline scenario. 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 go back up to 90 percent of GDP by 2020 if economic conditions were to deteriorate significantly.

4. **There would not appear to be a systematic projection bias.** The forecasts of real GDP growth in 2008 to 2011 overestimated growth as a result of underestimating the severity of the impact of the global financial crisis on tourism in ECCU countries. More recently, the staff's projections underestimated growth, with the rebound being much stronger than anticipated. In addition, there are large forecast errors for the primary balance in 2011 to 2014 because the vast increase in CBI inflows was unanticipated in 2010-12, while in 2013 and 2014 staff used a cautious assumption about future inflows, given the uncertainty of these inflows. 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.

5. **The cyclically adjusted primary balance in the forecast period reflects the assumption that CBI inflows are not expected to continue at their current pace.** The estimated change in the cyclically adjusted primary surplus over the forecast period is at the lower end of the distribution of adjustments historically achieved by advanced and emerging economies with debt greater than 60 percent of GDP. This reflects the baseline scenario's cautious assumption for CBI inflows, and thus, lower projections for non-tax revenues and primary surplus compared to the 2012-2014.

² About 2.1 percent of GDP was already repaid to the Fund as of July 23, 2015. An agreement was also reached with one non-Paris Club creditor in June 2015 on a flow restructure with a lower interest rate and longer maturity in line with the 2012 Paris Club agreement.

6. **Under the baseline scenario the debt-to-GDP ratio falls to 60 percent by 2017, reaching 52.1 percent of GDP by 2020.** This path remains sensitive to shocks, especially if a combination of them were to materialize.

- Under a *growth shock* that lowers output by 4.5 percentage points (1 standard deviation of growth over the past 10 years) relative to that projected in 2016 and 2017 and lowers inflation by 1.1 percentage points in each year, debt would peak at 72 percent in 2017, about 13.2 points higher than in the baseline.
- A sustained *interest rate* shock of 463 bps (difference between the average real interest rate level over the projection period and the maximum 10-year historical level) would slow down the rate of debt decline in the medium term, so that by 2020 the debt-to-GDP ratio is 2.0 points higher compared with the baseline.
- A *primary balance* shock of 3.3 percentage points over 2016–17 ($\frac{1}{2}$ standard deviations of the historical 10-year average) results in the debt-to-GDP ratio being 6.5 percentage points higher in 2020 relative to the baseline.
- A *combined macro-fiscal* shock of all of the above would lead to debt peaking at 79.1 percent of GDP in 2017, 20.4 percentage points higher than under the baseline, before slowly declining to 72.6 percent in 2020.
- A natural disaster shock that results in real GDP growth declining by 3 and 2 percentage points in 2016 and 2017 compared to the baseline, and a deterioration in the primary balance of 5, 4, and 2 percent of GDP in 2016, 2017 and 2018 respectively, would result in a debt-to-GDP ratio of 64.9 percent by 2020, 12.8 percentage points above the baseline.
- A contingent liability shock related to the debt-land swap, which would require the recapitalization of banks up to required prudential limits, would slow the gross public debt trajectory to 62.1 percent of GDP by 2020 and increases gross financing needs to 24.5 percent of GDP.³

7. **The historical and constant primary balance scenarios do not provide a reliable insight into possible risk.** The historical scenario takes into account several years of very high CBI budgetary inflows combined with strong fiscal performance under the Fund supported program. The scenario with a constant primary balance also reflects the very high CBI budgetary inflows. While CBI inflows may continue to be stronger than under the staff's cautious assumptions, such large inflows could more than likely be used to support higher government spending.

³ This scenario assumes no land sales at the end of 3 years and that the total value of land previously transferred to the Special Purpose Vehicle is written off from assets and registered as losses in the income statement, impacting banks' capital. Consequently, the amount of recapitalization of the 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.

B. External Debt Sustainability Analysis

8. **St. Kitts and Nevis external public debt is projected to continue to decline relatively rapidly 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, falling to below 20 percent of GDP by 2017 and to below 15 percent by 2020. Lower debt service resulting from the external debt restructuring and debt repayment, together with solid FDI inflows would help finance the projected current account deficits. Stress tests indicate that external debt would continue to decline under interest rate, growth, real depreciation and combined shocks. However, 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.

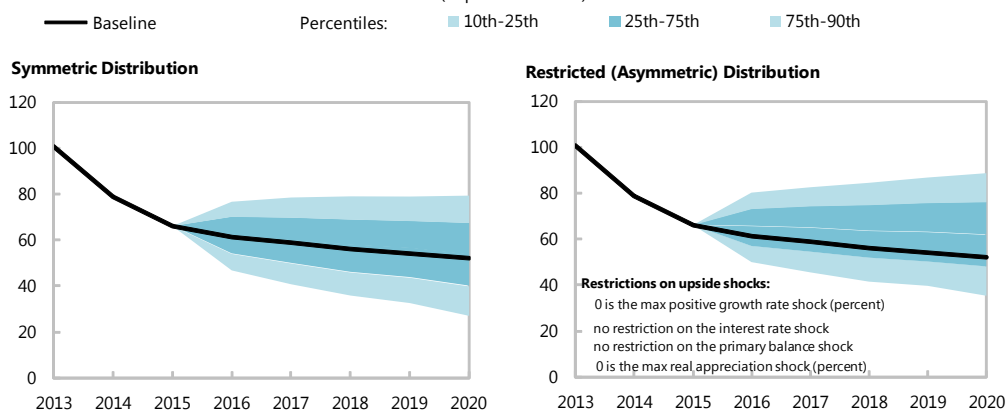
Figure 1. St. Kitts and Nevis: Public DSA Risk Assessment

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

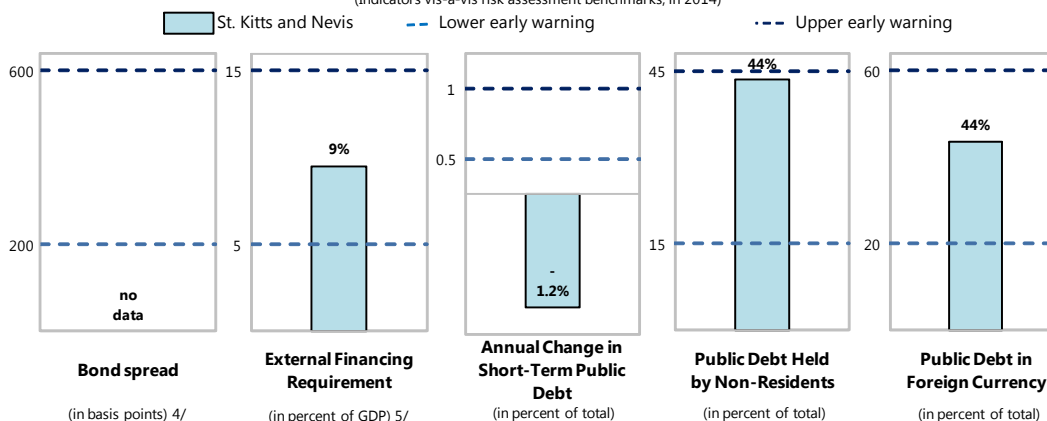
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2014)



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:

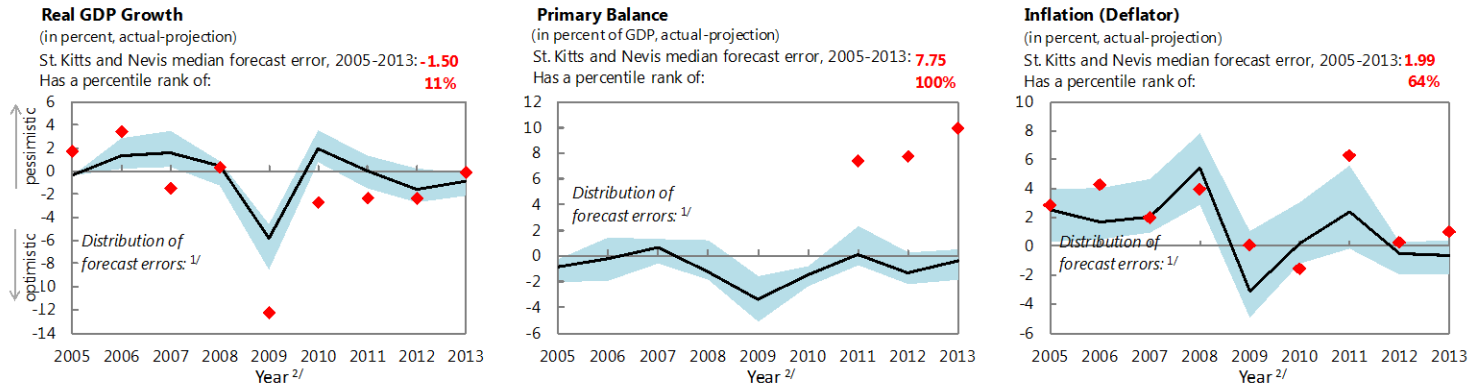
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

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.

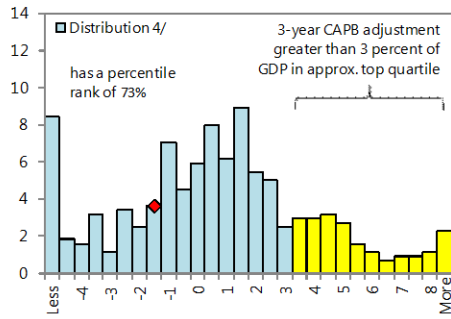
Figure 2. St. Kitts and Nevis: Public DSA – Realism of Baseline Assumption

Forecast Track Record, versus program countries

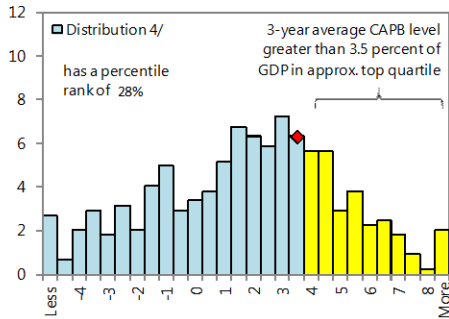


Assessing the Realism of Projected Fiscal Adjustment

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

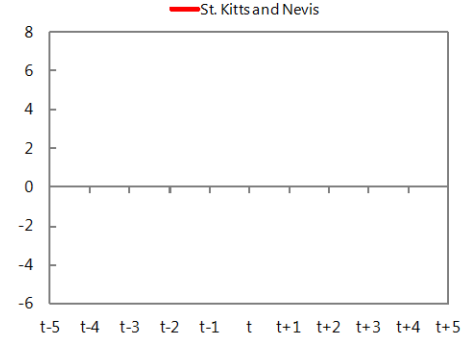


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



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 observations 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 Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

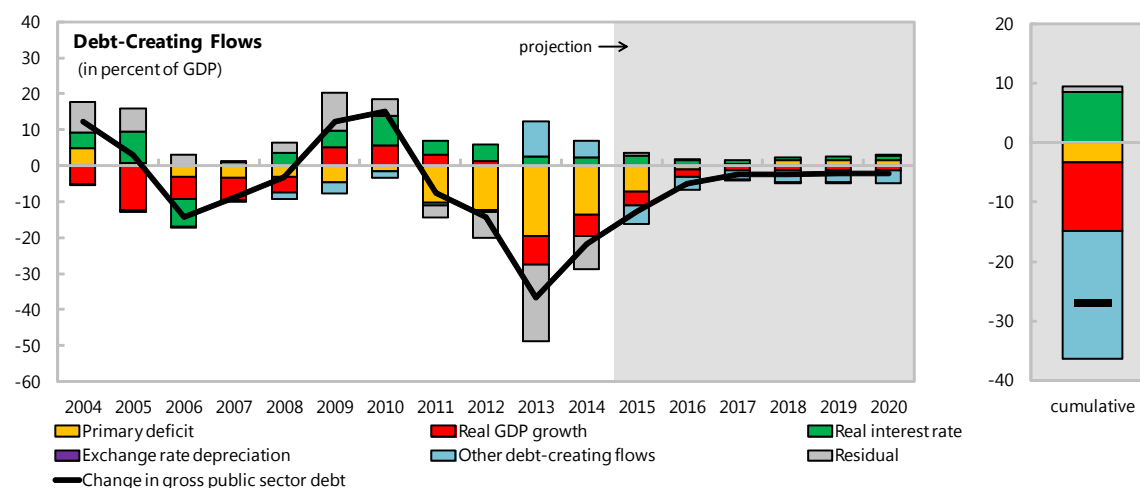
(In percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators^{1/}

	Actual			Projections					
	2004-2012 ^{2/}	2013	2014	2015	2016	2017	2018	2019	2020
Nominal gross public debt	146.2	100.8	79.0	66.2	61.2	58.7	56.3	54.1	52.1
Public gross financing needs	34.2	11.2	17.7	17.8	18.4	16.9	17.0	16.6	15.9
Real GDP growth (in percent)	1.7	6.2	6.1	5.0	3.5	2.5	2.5	2.5	2.5
Inflation (GDP deflator, in percent)	3.3	1.6	1.3	-0.6	1.1	2.1	2.2	2.1	2.0
Nominal GDP growth (in percent)	5.4	7.6	8.2	4.4	4.6	4.7	4.8	4.7	4.6
Effective interest rate (in percent) ^{3/}	5.7	3.8	3.6	3.1	3.6	3.9	4.1	4.1	4.2

Contribution to Changes in Public Debt

	Actual			Projections						cumulative	debt-stabilizing primary balance ^{8/}
	2004-2012 ^{2/}	2013	2014	2015	2016	2017	2018	2019	2020		
Change in gross public sector debt	-0.6	-36.7	-21.8	-12.8	-5.1	-2.5	-2.4	-2.2	-2.0	-27.0	
Identified debt-creating flows	-3.4	-15.2	-12.5	-13.5	-5.1	-2.4	-2.4	-2.1	-2.3	-27.9	
Primary deficit	-3.7	-19.6	-13.8	-7.4	-1.0	0.6	1.4	1.5	1.6	-3.3	
Primary(noninterest) revenue+grants	38.8	55.9	50.0	44.0	36.1	34.1	33.1	32.9	32.7	212.8	
Primary(noninterest) expenditure	35.1	36.3	36.2	36.6	35.1	34.6	34.4	34.4	34.3	209.5	
Automatic debt dynamics ^{4/}	1.3	-5.3	-3.5	-0.9	-0.7	-0.5	-0.5	-0.3	-0.2	-3.0	
Interest rate/growth differential ^{5/}	1.3	-5.3	-3.5	-0.9	-0.7	-0.5	-0.5	-0.3	-0.2	-3.0	
Of which: real interest rate	3.4	2.6	2.2	2.8	1.5	1.0	1.0	1.1	1.2	8.5	
Of which: real GDP growth	-2.2	-7.9	-5.7	-3.8	-2.2	-1.5	-1.4	-1.4	-1.3	-11.5	
Exchange rate depreciation ^{6/}	0.0	0.0	0.0	...	...	...	...	...	...	...
Other identified debt-creating flows	-1.0	9.7	4.9	-5.2	-3.5	-2.5	-3.3	-3.4	-3.7	-21.6	
Privatization/Drawdown of Deposits	-1.0	9.7	4.9	-5.2	-3.5	-2.5	-3.3	-3.4	-3.7	-21.6	
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/}	2.9	-21.5	-9.3	0.8	0.1	0.0	0.0	-0.1	0.3	1.0	



Source: IMF staff.

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

2/ Based on available data.

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

4/ Derived as $[(r - \pi(1+g) - g + ae(1+r))/(1+g+\pi+g\pi)]$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).5/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.6/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

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

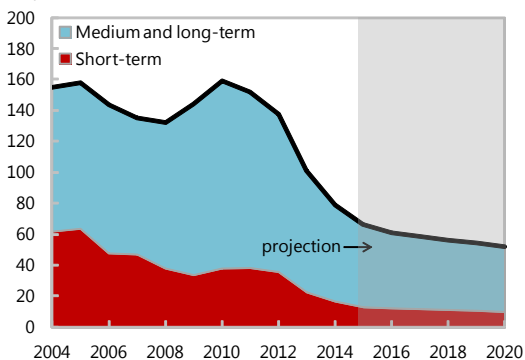
8/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

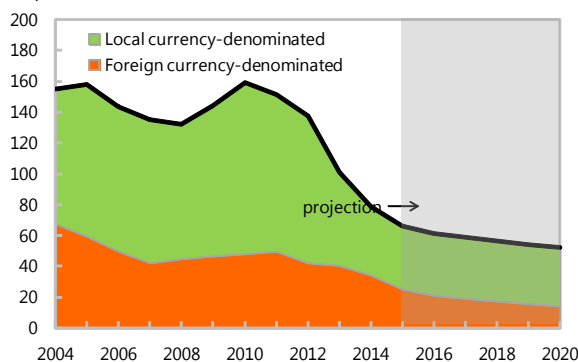
By Maturity ¹

(in percent of GDP)



By Currency

(in percent of GDP)



Alternative Scenarios

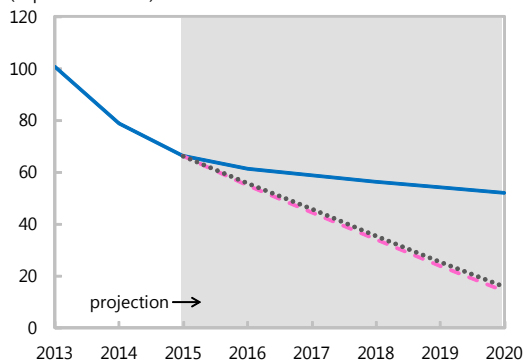
— Baseline

..... Historical

— Constant Primary Balance

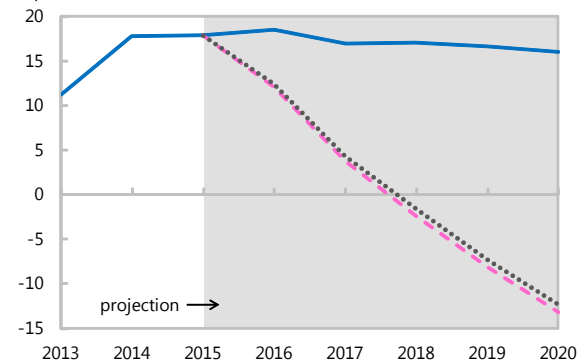
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs ^{2/}

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	5.0	3.5	2.5	2.5	2.5	2.5
Inflation	-0.6	1.1	2.1	2.2	2.1	2.0
Primary Balance	7.4	1.0	-0.6	-1.4	-1.5	-1.6
Effective interest rate	3.1	3.6	3.9	4.1	4.1	4.2

Constant Primary Balance Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	5.0	3.5	2.5	2.5	2.5	2.5
Inflation	-0.6	1.1	2.1	2.2	2.1	2.0
Primary Balance	7.4	7.4	7.4	7.4	7.4	7.4
Effective interest rate	3.1	3.7	4.5	5.6	7.2	10.1

Historical Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth ^{3/}	5.0	2.3	2.3	2.3	2.3	2.3
Inflation	-0.6	1.1	2.1	2.2	2.1	2.0
Primary Balance ^{3/}	7.4	7.2	7.2	7.2	7.2	7.2
Effective interest rate	3.1	3.7	4.4	5.5	7.1	9.7

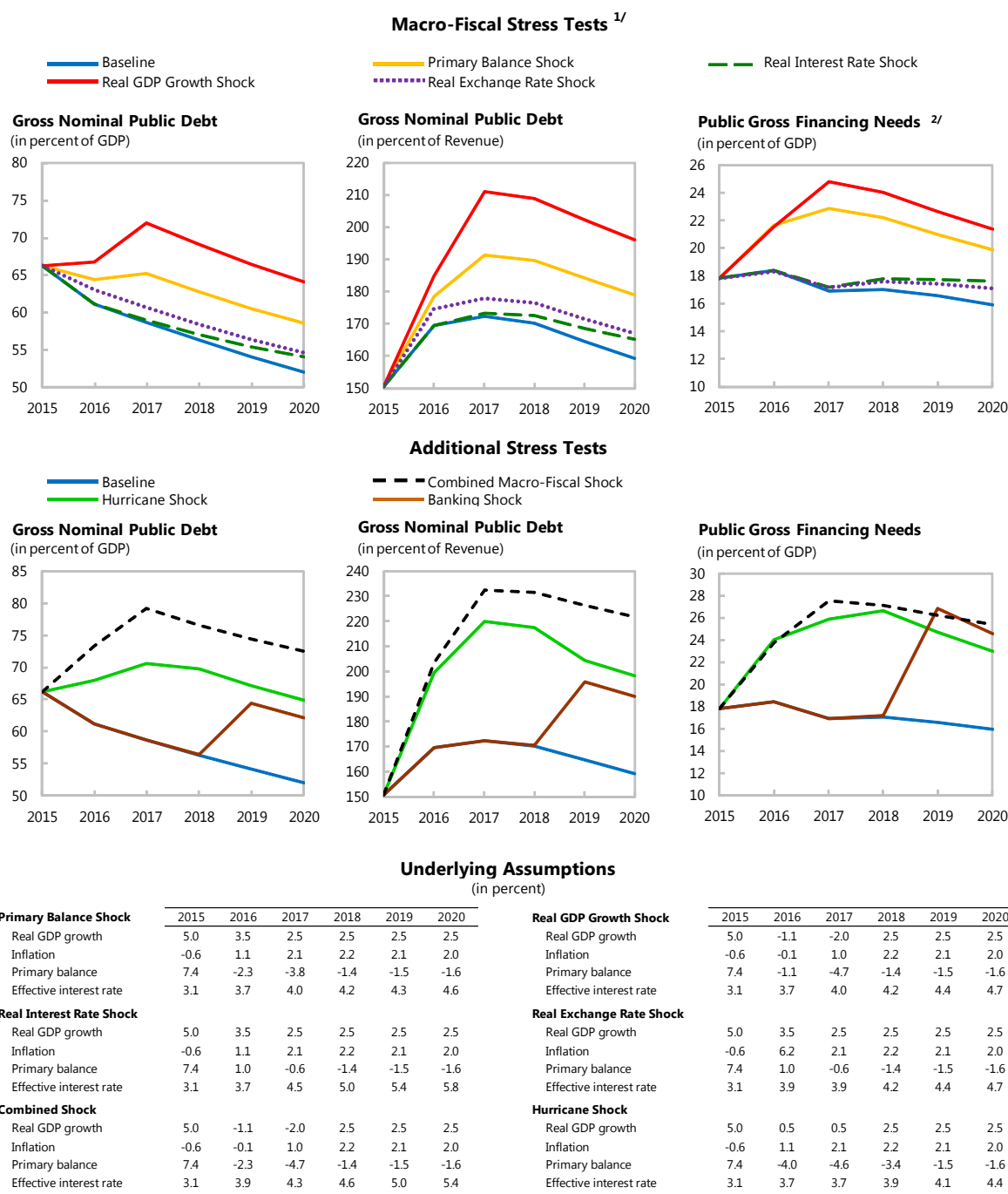
Source: IMF staff.

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

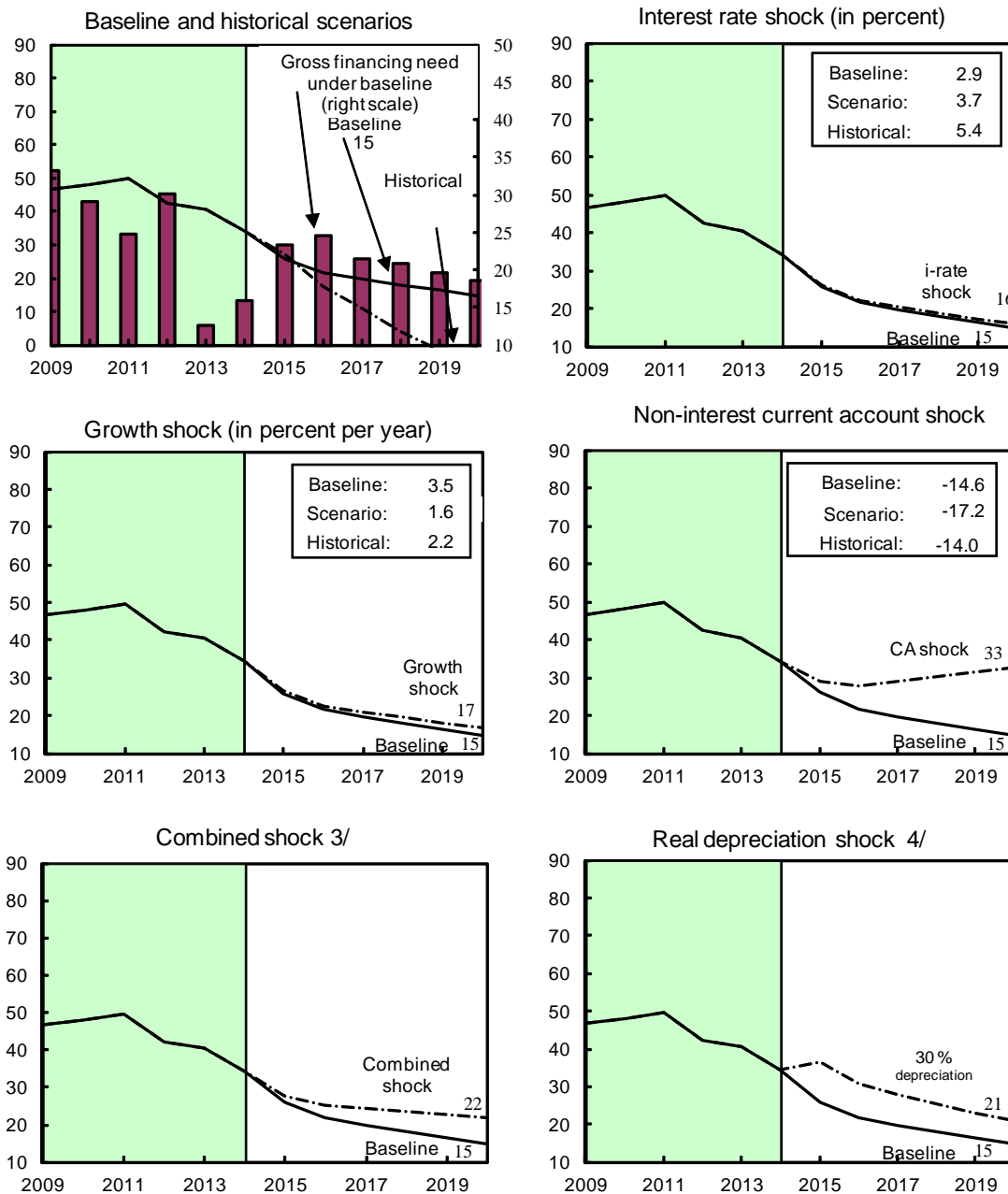


Source: IMF staff.

1/ Assumes that shocks lead to new borrowing rather than a drawdown of accumulated bank deposits.

2/ 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 2015.

4/ One-time real depreciation of 30 percent occurs in 2015.

Table 1. St. Kitts and Nevis: External Debt Sustainability Framework, 2008–20

	Actual							Projections						Debt-stabilizing non-interest current account 6/ -14.1	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		
Baseline: External debt	44.9	46.7	48.1	49.8	42.3	40.6	34.4	26.0	21.8	19.8	18.0	16.3	14.8		
Change in external debt	2.6	1.8	1.4	1.7	-7.4	-1.7	-6.2	-8.4	-4.2	-2.0	-1.8	-1.7	-1.5		
Identified external debt-creating flows (4+8+9)	-1.5	9.5	7.9	2.4	-4.5	-13.8	-9.7	-3.8	3.2	2.9	3.0	2.2	1.6		
Current account deficit, excluding interest payments	24.0	22.9	18.1	13.8	8.1	6.0	6.6	11.5	17.9	17.3	17.2	16.2	15.3		
Deficit in balance of goods and services	26.5	27.6	23.2	18.2	13.6	9.8	10.1	13.5	18.6	19.1	18.9	18.0	17.2		
Exports	32.0	24.9	30.6	34.0	36.1	39.3	38.7	34.2	28.9	27.8	27.2	27.5	27.7		
Imports	58.5	52.5	53.8	52.2	49.7	49.1	48.9	47.7	47.5	46.9	46.2	45.5	44.9		
Net non-debt creating capital inflows (negative)	-25.6	-16.9	-14.3	-12.9	-13.8	-17.3	-15.1	-14.7	-14.5	-14.5	-14.3	-14.0	-13.8		
Automatic debt dynamics 1/	0.2	3.5	4.1	1.5	1.2	-2.6	-1.3	-0.6	-0.2	0.1	0.1	0.1	0.1		
Contribution from nominal interest rate	2.8	2.7	2.7	2.2	1.7	0.6	1.0	1.0	0.7	0.6	0.5	0.5	0.5		
Contribution from real GDP growth	-1.4	1.7	1.8	0.9	0.4	-2.4	-2.3	-1.6	-0.9	-0.5	-0.5	-0.4	-0.4		
Contribution from price and exchange rate changes 2/	-1.3	-1.0	-0.4	-1.6	-0.9	-0.7	-0.5	...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 3/	4.1	-7.7	-6.5	-0.7	-3.0	12.1	3.5	-4.6	-7.3	-4.9	-4.8	-3.9	-3.1		
External debt-to-exports ratio (in percent)	140.1	187.7	157.1	146.5	117.2	103.4	88.8	76.1	75.5	71.3	66.1	59.5	53.4		
Gross external financing need (in millions of US dollars) 4/	248.5	236.1	201.3	180.2	219.8	99.6	135.8	208.3	228.9	208.8	213.0	210.1	207.0		
in percent of GDP	33.8	33.3	29.1	24.7	30.0	12.6	16.1	10-Year	10-Year	23.6	24.8	21.6	21.0	19.8	18.7
Scenario with key variables at their historical averages 5/								27.1	17.7	10.9	4.2	-1.7	-6.8	-16.5	
Key Macroeconomic Assumptions Underlying Baseline								Historical Average	Standard Deviation						
Real GDP growth (in percent)	3.4	-3.8	-3.8	-1.9	-0.9	6.2	6.1	2.2	4.4	5.0	3.5	2.5	2.5	2.5	
GDP deflator in US dollars (change in percent)	3.1	2.2	0.9	3.4	1.8	1.6	1.3	3.2	3.1	-0.6	1.1	2.1	2.2	2.1	2.1
Nominal external interest rate (in percent)	7.1	6.0	5.6	4.5	3.4	1.4	2.7	5.4	1.8	3.1	2.8	3.0	2.8	3.0	3.2
Growth of exports (G&S, US dollar terms, in percent) 7/	1.0	-25.0	20.2	16.6	6.8	17.0	6.7	5.5	13.5	-7.9	-11.6	0.7	2.7	5.6	5.6
Growth of imports (G&S, US dollar terms, in percent)	22.4	-13.5	0.1	2.0	-4.3	6.2	7.8	6.3	10.5	1.9	4.1	3.4	3.2	3.2	3.2
Current account balance, excluding interest payments	-24.0	-22.9	-18.1	-13.8	-8.1	-6.0	-6.6	-14.0	6.2	-11.5	-17.9	-17.3	-17.2	-16.2	-15.3
Net non-debt creating capital inflows	25.6	16.9	14.3	12.9	13.8	17.3	15.1	16.5	3.7	14.7	14.5	14.5	14.3	14.0	13.8

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.

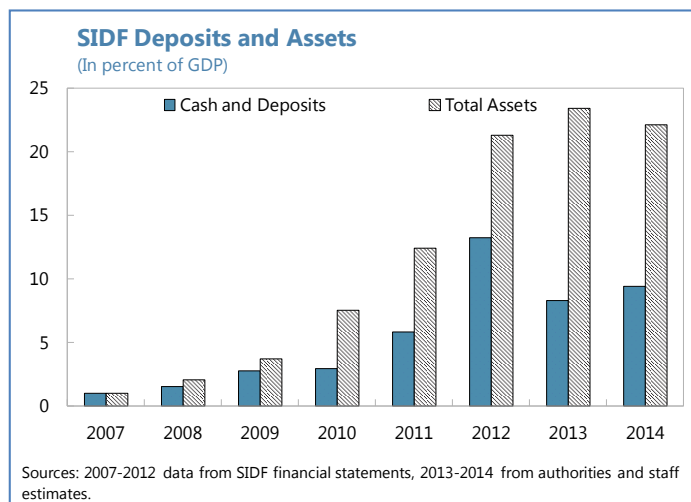
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

7/ Includes CBI receipts.

Annex IV. The Sugar Industry Diversification Foundation's Economic Activity¹

1. SIDF has played a significant role in the economy, financing budgetary operations and public and private investment, as well as supporting a multitude of social programs.

Its role has considerably evolved since its establishment in 2006 as an independent foundation, to provide training and conduct research to support the development and diversification of the economy following the closure of the sugar industry. The pickup in CBI inflows has dramatically increased the foundation's revenues and asset portfolio, as the program permits applicants to invest in St. Kitts and Nevis through making a non-refundable contribution to



SIDF.² This allowed the SIDF to expand its operations, providing funding for substantial public investments as well as budgetary support, financing multiple social programs, and investing in private sector projects. In 2013, SIDF support to the budget reached about 5.6 percent of GDP, of which 3.9 percent of GDP were in the form of public investment financed through capital grants.³

2. The growth of SIDF assets has leveled. After growing very rapidly till 2012, reaching 21.3

percent of GDP, assets are estimated to have remained broadly the same at end-2014, at about 22 percent of GDP.⁴ This reflects a combination of lower income over the last two years, as CBI applicants increasingly opt for the real estate option, as well as higher expenditure. Net revenue is estimated to have been 8.9 percent of GDP in 2014, about 20 percent down from 12.6 percent of GDP in 2012. At the same time, expenditures surged to an estimated

SIDF Operations
(In percent of GDP)

	2007	2008	2009	2010	2011	2012	2013 ^{est}	2014 ^{est}
Income ^{1/}	0.9	1.5	2.4	5.9	8.7	12.6	11.2	8.9
Expenditure ^{1/}	0.1	0.3	0.8	2.5	3.4	3.6	9.4	7.1
Investment proceeds to Gov.	0.0	0.0	0.0	1.0	0.7	1.6	1.6	0.0
Capital grants to Gov.	0.0	0.1	0.3	0.4	1.4	0.2	3.9	1.5
Grants to others ^{2/}	0.0	0.1	0.2	0.4	0.3	0.3	2.5	4.3
Other expenditure ^{3/}	0.1	0.2	0.2	0.7	1.0	1.5	1.4	1.4
Surplus	0.8	1.2	1.6	3.4	5.3	8.9	1.8	1.8

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.

¹ This Annex updates developments with the SIDF discussed in IMF country report No. 14/297, Box 2.

² Under the CBI program investors can make a contribution to the SIDF of US\$250,000 or purchase a property of a minimum value of US\$450,000. In both options, around US\$50,000 are earmarked as budgetary revenues.

³ Estimates of SIDF contributions to the budget are based on data from the fiscal accounts.

⁴ Estimates of SIDF's financial position in 2013 and 2014 are preliminary and are subject to revision.

9.4 percent of GDP in 2013, before moderating somewhat in 2014 to 7.1 percent of GDP, putting the overall balance at 1.8 percent of GDP in 2014, compared to 8.9 percent in 2012. The large increase in grants and investment proceeds to government together with the expansion of social spending underpin the large increase in expenditure in 2013. Support to the government substantially declined in 2014.

3. **SIDF finances a wide range of social and economic programs.** Spending on social programs increased to 3.6 percent of GDP in 2014. The main increase was related to the People Employment Program (PEP), which rose by a third, reflecting a large increase in the average number of trainees over the year, from 2,148 to 3,481 per month. Additionally, funds were made available to SKELEC to subsidize energy consumption.⁵

Other activities include various programs that provide below interest credit for specific groups and specific economic activities. These activities are supported through the banking system by SIDF providing zero interest deposits, which are leveraged by banks to

SIDF Direct Social and Economic Spending					
(In Percent of GDP)					
	2010	2011	2012	2013	2014
Training activities (exclude PEP)	0.1	0.1	0.1	0.1	0.2
Training - PEP				2.0	3.0
Airlift Support	0.4	0.2	0.1	0.0	0.0
Electricity Subsidies	0.0	0.0	0.0	0.5	0.4
Totals	0.4	0.3	0.3	2.5	3.6

Sources: SIDF and staff estimates.

provide targeted credit facilities below market rates. These include the Fund for the Realization of Economic Empowerment through Subsidized Housing (FREESH), the Housing Enhancement Loan Program (HELP), the Small Entrepreneur and Enterprise Development (SEED), the Recognizing Everyone's Ability to Climb Higher program (REACH), and the Graduate Relief Assistance Student Program (GRASP).

4. **The consolidated position of the public sector, taking into account SIDF activity, suggests a stronger public sector position than otherwise.**

Adding SIDF revenues, net of flows that are already incorporated into the budget, boosts the consolidated surplus to 11.3 percent of GDP. Nonetheless, this is a weaker position than in 2013, reflecting lower government grants, and lower SIDF revenues and higher SIDF spending. Including estimates of the performance of the public enterprises, the deterioration was even greater.

Consolidated SIDF and Central Government Account					
(In percent of of GDP)					
	2010	2011	2012	2013 ^{est}	2014 ^{est}
Total Revenue and Grants	34.9	43.2	47.0	50.8	49.4
Government	30.4	36.6	36.3	45.2	42.0
SIDF ^{1/}	4.5	6.6	10.7	5.6	7.4
Total Expenditure	38.9	36.0	33.2	37.0	38.1
Government	37.9	34.7	31.4	33.1	32.5
SIDF ^{1/}	1.1	1.3	1.8	3.9	5.6
Total Overall Balance	-4.1	7.2	13.8	13.9	11.3
Government	-7.5	1.9	4.9	12.1	9.5
SIDF	3.4	5.3	8.9	1.8	1.8
Overall public sector balance including 14 public enterprises^{2/}	-4.3	7.0	14.1	16.5	12.2

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

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

2/ Public enterprises balance is estimated from below the line based on the monetary survey and public sector debt data. May differ from the actual operating balance.

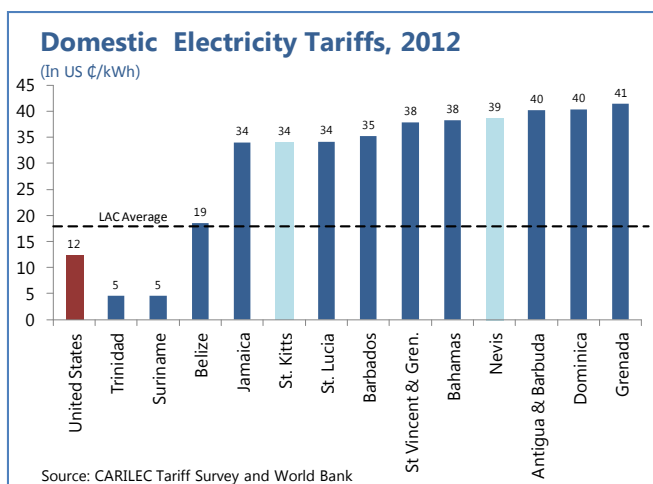
⁵ This includes support for the custom service charge on fuel imports and for lower residential tariff rates. The subsidy for both has declined because of the fall in energy prices. SIDF has provided SKELEC with an advance to cover the cost of the residential tariff subsidy for three years.

5. **Strengthening of SIDF management and its integration with the government accounts should be a high priority.** Given the amount of assets that is under its purview, financial reporting of the SIDF needs to be strengthened with improved monitoring of its asset-liability position. Establishing rigorous and transparent financial guidelines is essential in light of increasing financial challenges going forward, as revenues are likely to continue to decline, while there is no clear operational framework to contain expenditures. Also, the bulk of SIDF loans are to the central government and public sector enterprises, yet some of these are not being serviced, and the debtors may consider them to be grants. Other assets have a limited income stream associated with them. SIDF has not published audited financial statements since 2011, and a financial audit for 2013 has just begun. Curtailing its quasi-fiscal activities is also necessary to bring its expenditures under control and ensure its sustainability. Transfers from the SIDF to the budget should also be limited, and be subject to clear rules, to ensure that the government operates with a clearly defined budget constraint and that the PSIP is not modified to include low priority projects. Related, the selection of SIDF investment projects, whether in the public or private domain, needs to be transparent and based on sound economic returns. Finally, SIDF financial statements should be annually audited and released to the public on a timely basis. Over the medium-term, the government should seek to integrate its activities with the government and its savings should be managed together with CBI savings in a unified investment framework.

Annex V. Overview of the Energy Sector in St. Kitts and Nevis

1. **Like other ECCU countries, St. Kitts and Nevis faces significant energy sector challenges.** These are largely attributed to constraints of limited generation capacity, isolated grids, and high generation costs as a result of old and undiversified generation technology. The high fuel prices had also been a major contributor to the higher energy costs, with negative implications for economic activity and competitiveness. Fuel import cost doubled from a decade ago to reach an average of 5.0 percent of GDP over 2011-2014, compared to an average of 2.4 percent over 1995-2005.

2. **With around 95 percent of generation capacity fueled by diesel, electricity prices in the Federation have been influenced by high and volatile oil prices.** Tariff rates reached an average of US\$0.37/kWh for the Federation in 2012 putting the national electricity bill burden at around 6.5 percent of GDP. This raises the cost of doing business and increases uncertainty of investment planning with around 64 percent of firms in St. Kitts and Nevis identifying the high cost of electricity as a major constraint to doing business.¹ The Federation has implemented an automatic pass-through system for fuel and electricity prices since December 2006 to minimize the impact price volatility on the fiscal accounts. To make the electricity more affordable, the SIDF has been subsidizing domestic consumption for residential customers. More recently, with the oil price decline, tariff rates dropped to US\$0.26/kWh in 2015, and the magnitude of the energy subsidies have significantly declined.



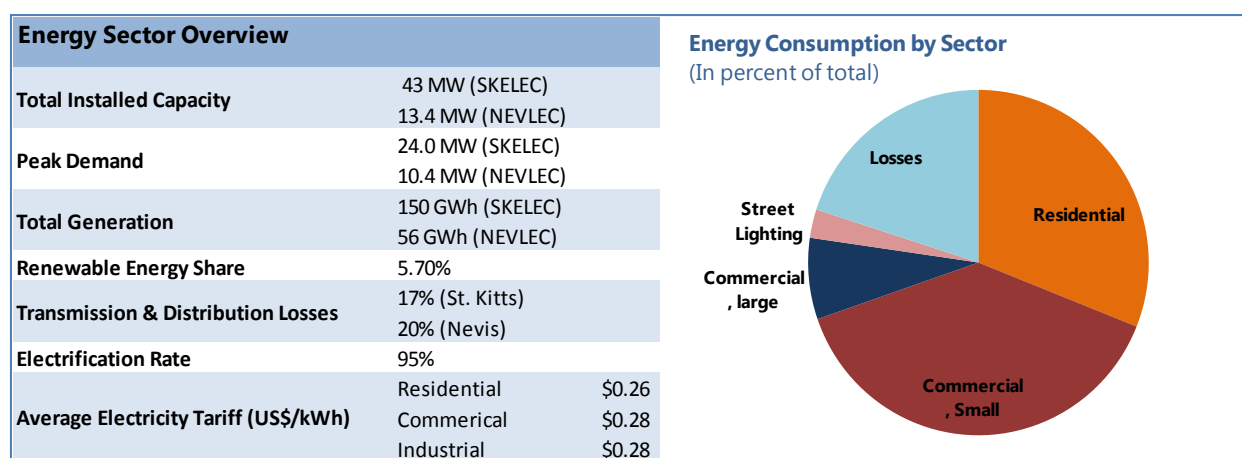
3. **A segmented and under-regulated energy sector represents a key challenge.** The two-island federation has separate government-owned electric utilities that operate independently with separate grid networks. It also has separate regulatory frameworks with each island retaining the right to make its own legislation for its electric power sector. In St. Kitts, SKELEC has the exclusive right to produce, transmit and distribute electricity following its corporatization in August 2011. In Nevis, NEVLEC is also the sole provider of electricity on the island and is wholly owned by the Nevis Island Administration after being corporatized in September 2000. Both the Electricity Supply Act (2011) for St. Kitts and the Electricity Supply Act of Nevis (1998) for Nevis stipulate that a Public Utilities Commission (PUC) is responsible for regulating the sector; however, no such body exists in either island.²

¹ World Bank, "Enterprise Surveys St. Kitts and Nevis (2010)".

² SKELEC is regulated by the Governor General on an as needed basis, while NEVLEC is largely self-regulated, setting its own tariffs and fuel surcharges.

4. **The government has tried to address some of operational challenges in the electricity sector.** The Electricity Department was incorporated as SKELEC in 2011 with the intention of strengthening its financial operations and energy sector performance. However, the absence of financial statements for SKELEC since its incorporation makes concrete assessments of its financial position difficult. Although SKELEC implemented plans to reduce losses through smart metering and billing system upgrade, challenges remain because of legacy issues, poor collection on bills, theft and inefficiencies in generation and distribution. Efforts to settle remaining public sector arrears owed to SKELEC and enforcing a system of timely bill collection will enhance financial viability and facilitate capital investment and maintenance to boost operating efficiency. NEVLEC also faces challenges in fully recovering costs through tariffs and its recent financial reports are not available.

5. **A comprehensive strategy is needed to ensure a sustainable energy future.** A new draft of the National Energy Policy, with its associated action plan, is being finalized, placing emphasis on the accelerated deployment of renewable energy technology, particularly geothermal power, and identifies a renewable energy target for the electricity sector of 100 percent by 2020. The policy also outlines measures for improving energy efficiency and the institutional framework of the power sector. In addition, several government-sponsored initiatives to diversify the energy matrix away from fossil fuels have been launched or are in the planning stage. For example, Nevis began operating the first utility-scale wind farm (2.2 MW) in the OECS in 2010, while a recently completed 1 MW solar power plant in St. Kitts, developed in partnership with Taiwan, powers the country's international airport. Meanwhile, NIA is in final negotiations with an international consortium to develop a 10 MW geothermal power plant in Nevis, with potential for expansion to export electricity to St. Kitts and other neighboring islands. Setting the appropriate legal framework and regulatory environment, including the introduction of net billing schemes or feed-in tariffs, will help attract more private sector investments to the renewable energy sector. Nevertheless, the viability of alternative energy projects needs to be reassessed in light of recent shifts in the global oil market outlook.





ST. KITTS AND NEVIS

2015 ARTICLE IV CONSULTATION AND FIRST POST PROGRAM MONITORING DISCUSSIONS— INFORMATIONAL ANNEX

July 31, 2015

Prepared By

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

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FUND RELATIONS

(As of July 31, 2015)

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

General Resources Account:	SDR Million	Percent of Quota
Quota	8.90	100.00
Fund holdings of currency	31.17	350.20
Reserve position in the Fund	0.08	0.92

SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	8.50	100.00
Holdings	5.79	68.08

Outstanding Purchases and Loans:	SDR Million	Percent of Quota
Stand-by Arrangements	22.35	251.11

Latest Financial Arrangements:

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

Projected Payments to Fund^{1/}:

(SDR Million; based on existing use of resources and present holdings of SDRs):

	<u>2015</u>	<u>2016</u>	<u>Forthcoming</u> <u>2017</u>	<u>2018</u>	<u>2019</u>
Principal	0.00	13.63	7.12	1.60	
Charges/Interest	0.13	0.20	0.06	0.01	0.00
Total	<u>0.13</u>	<u>13.82</u>	<u>7.18</u>	<u>1.61</u>	<u>0.00</u>

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

Implementation of HIPC Initiative: Not Applicable

Implementation of MDRI Assistance: Not Applicable

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Exchange Arrangement

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

Safeguards Assessment

Under the Fund's safeguards assessment policy, the Eastern Caribbean Central Bank (ECCB) is subject to a full safeguards assessment on a four year cycle. The most recent assessment was completed on April 16, 2012 and did not identify any significant safeguards risks. The assessment made some recommendations to sustain and advance the ECCB's safeguards framework going forward. The authorities broadly agreed with the recommendations and have commenced implementation.

Last Article IV Consultation

The last Article IV staff report (IMF Country Report No. 14/86) was issued on March 5, 2014. Board discussion took place on March 19, 2014. Article IV consultations take place on a 12-month cycle.

FSAP Participation, ROSCs, and OFC Assessment

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

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

Technical Assistance: (2010–Present)

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

- CARTAC and the IMF's Statistics Department (STA) advised the Central Statistics Office on rebasing the national accounts, rebasing the consumer price index, and developing export-import price indices. CARTAC assisted in compiling separate production-based measures of GDP for St. Kitts and Nevis. Most recently, CARTAC has provided assistance on the methodology for calculating the value added in the construction and the public sector components of the National Accounts.
- CARTAC, the IMF's Monetary and Capital Markets Department (MCM), and the IMF's Legal Department (LEG) advised the authorities on strengthening financial regulation and supervision, including risk-based supervision. With assistance from the Office of the Superintendent of Financial Institutions in Canada (OSFI), CARTAC provided technical assistance to the ECCB on drafting the OECS Insurance Act, and also, in conjunction with LEG, provided technical assistance to the ECCB in finalizing the drafting of the OECS Money Services business Act. CARTAC also assisted in the development of the Single Regulatory Unit and provided training to the Financial Services Regulatory Authority on Risk-Based Supervision.
- CARTAC has delivered significant TA to the Customs and Excise Department (CED) in relation to its reform and modernization program, including Post-Clearance Audit (PCA), Valuation and Risk Management training and developing a Corporate and Strategic Business Plan (2014-17). CARTAC also provided assistance in drafting a new Customs bill and regulations and training for the implementation of the OECS Harmonized System for goods classification.
- CARTAC and MCM provided technical assistance on public debt management.
- IMF's Fiscal Affairs Department (FAD) and the World Bank provided assistance on Public Financial Management under the SEMCAR project.
- CARTAC, the IMF's Fiscal Affairs Department (FAD) and LEG provided assistance to improve cash management and tax administration—including collection enforcement. CARTAC also provided assistance in Property Tax reform to move the property tax base from rental value to market value, and in improving central government fiscal and debt data.

- CARTAC, FAD and LEG provided assistance for review of the assessment of the tax incentives regime.
- A capacity building exercise was conducted to train new officers in the preparation of fiscal and debt projections.

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

RELATIONS WITH THE WORLD BANK GROUP

(As of May 30, 2015)

World Bank Group OECS Regional Partnership Strategy. The Board of the Executive Directors of the World Bank Group endorsed the new OECS Regional Partnership Strategy (RPS) November 13, 2014, which covers the period FY15-19. The high-level objective of the new RPS is to contribute to laying down the foundations for sustainable inclusive growth, in line with the OECS governments' priorities. In order to achieve this goal, the program will be organized around three main areas of engagement. Under the first one, the WBG will support "competitiveness". Growth and job creation in the private sector will be supported both horizontally – by improving the business environment– and vertically – by focusing on specific sectors with a high potential to generate inclusive sustainable growth (particularly tourism, agribusiness and their respective linkages). The second area of engagement is "public sector modernization", with particular focus on public financial management (PFM) and institutional capacity, including for statistics and public private partnerships (PPPs), to better leverage private investment in infrastructure and service provision. The third area is "resilience", with the objective to address both social vulnerabilities (in education, health and social protection), and exposure to natural disasters. Constrained in general by the small size of investments in the OECS, the IFC and MIGA will contribute to the RPS objectives through selective investment support, depending on opportunities. The IFC will focus on crisis response; job creation and inclusive growth; innovation, competitiveness, and integration; and climate change. MIGA faces limited opportunities for engagement because of the small market size of the OECS countries.

The RPS is grounded in a holistic approach to tackling the long-standing issues of low growth and debt sustainability in the Caribbean. This approach is the Comprehensive Debt Framework (CDF), which was developed in 2010 by the Bank at the request of the Heads of Government of CARICOM countries. Structured around four pillars, the CDF is designed to address the interdependent structural causes of high debt and low growth in small island states by (i) promoting private-sector led growth, (ii) strengthening fiscal management, (iii) building resilience to natural disasters, and (iv) improving debt management. Governments of the OECS recognize the multifaceted nature of the challenges they face and understand that improvements in competitiveness, reduction in sovereign debt levels, fiscal adjustments to ensure macro sustainability, and enhanced sustainability and resilience to shocks are interrelated aspects that are critical to resume and sustain inclusive growth. As a result, they have used the CDF to frame their own reform strategies and activities.

The indicative IBRD lending program. For the six OECS countries, it is expected to be around US\$120 million, or up to a maximum of US\$20 million for each OECS country for the period of the RPS (FY15-19), subject to country and program performance, IBRD's lending capacity, and exposure management parameters. In addition to the IBRD envelope, four OECS countries (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines) can also count on an IDA national allocation.

The IDA17 (FY15-17) allocation for the OECS is equal to SDR61.3 million, an increase of around 22 percent over the IDA16 OECS allocation (SDR50.3 million).

A. Projects

St. Kitts and Nevis, because of its income status, is not eligible to IDA resources. Its indicative IBRD allocation for the period covered by the RPS FY15-19 is US\$20 million. As of today, there are no active lending operations in St. Kitts and Nevis. This is due, in part, to the high debt level situation of the country and the lack of availability of concessional resources.

The WBG engagement is limited to the implementation of a grant which has the objective to enhance Public Sector Governance and Efficiency. This operation (US\$ 415,000) is financed by a grant from the Institutional Development Fund (IDF), a World Bank's financing tool to enhance the delivery and implementation of programs that will lead ultimately to better development results. The objective of this project is to increase the quality of expenditures and public sector efficiency and promote a fiscally sustainable and more equitable system of pay and employment which generates the right incentives to improve public sector performance in St. Kitts and Nevis. This will be done through building capacity at the Ministry of Finance by working with government teams to: (i) implement measures to rapidly increase the efficiency of personnel expenditures; (ii) align human resource needs and staffing in St. Kitts and Nevis public service through the implementation of recommendations of functional reviews; and (iii) introduce pay classification and evaluations. The project is expected to close in October 2015.

The government of St. Kitts and Nevis launched its national chapter of the Caribbean Growth Forum (CGF) in February 2013. The CGF is an initiative led by the World Bank, the Inter-American Development Bank, and the Caribbean Development Bank, in collaboration with the United Kingdom Agency for International Development (DFID) and the Canadian Department of Foreign Affairs, to identify policies and initiatives aimed at inducing growth and creating jobs in the Caribbean region through analytical work, knowledge exchange and inclusive dialogue. The CGF can contribute to an enhanced and participatory policy dialogue (involving the private sector, CSOs, and other non-traditional stakeholders, such as youth and Diaspora) on key challenges that affect economic growth, in a situation where fiscal space is limited and the need to promote a more diversified knowledge-based economy is pressing. The CGF national chapters have been launched in 12 Caribbean countries, including all the six OECS countries.

B. Economic and Sector Work

The Bank has completed a series of analytical products relating to public expenditure, fiscal and debt sustainability, growth and competitiveness, the financial sector, public sector management and social protection. The ongoing dissemination of these reports represents a key instrument for policy dialogue with the OECS governments, including St. Kitts and Nevis. The Bank's program in St. Kitts and Nevis is further supported by a comprehensive series of analytical and advisory activities, including the following: "Towards a New Agenda for Growth" – OECS growth and

competitiveness study (2005); An OECS Skills Enhancement Policy Note (2006); a Caribbean Air Transport Report (2006); a regional study on Crime, Violence, and Development: Trends, Costs, and Policy Options in the Caribbean (2007); an OECS Private Sector Financing Study (2008); the OECS Tourism Backward Linkages Study (2008); the report titled "Caribbean – Accelerating Trade Integration: Policy Options for Sustained Growth, Job Creation and Poverty Reduction" (2009); a study on the Nurse Labor & Education Markets in the English-Speaking CARICOM: Issues and Options for Reform (2009); and Caribbean Regional Electricity Supply Options: Toward Greater Security, Renewable and Resilience (2011).

Financial Relations (In millions of U.S. Dollars)					
Operation	Amount Approved	Approval Date	Closing Date	Amount Disbursed	Available Balance
P129786 (TF12323) Enhanced Public Sector Governance and Efficiency.	0.42	10/17/12	10/17/15	0.14	0.28



CARIBBEAN GROWTH FORUM
St. Kitts and Nevis National Chapter

Summary Brief of the Dialogues Realized To Date

Investment Climate Working Group Priorities

- Establish an ICT Commission
- Ease of access to finance for small entrepreneurs
- Consultancy for improvement of Property Registration
- Consultancy on an Off-Shore Education policy (short term)
- Establishment of an Energy Commission

Training, Research and Development, ICT

- Training of personnel in high-income and growth areas, e.g. IT professionals and High-Tech engineers (requires more research)
- Public Education on crime prevention and eradication (ongoing work)
- Pursue the possibility of attracting a technology based institute to setup a branch in St. Kitts and the development of a technology park in close relation with this institute (long term)
- Conduct a human resource and infrastructure audit of the ICT sector (short term but to be referred to the Skills and Productivity Working Group)
- Establish an ICT Commission (short term)

Hotel industry

- Consultancy to eradicate the situation with students occupying hotel stock. (Requires additional research and direct government intervention)
- Need for a system to improve the monitoring, evaluation and economic statistical reporting of hotel properties that obtain concessions (linked to the above)
- Revision of the Hotel Aids Ordinance Act: reclassification, concessions, occupants, etc. (medium term)
- Consultancy on an Off-Shore Education policy (short term)

State Modernization

- Consultancy for a revised Land Use Master Plan (ongoing work)
- Review aspects of the tax system and its impact on small business enterprises (more research required)
- Modernization of government's business operations processes through the use of technology (ongoing work)
- Consultancy for improvement of Property Registration (short term)
- Creation of an office for Private Sector Development or Relations (short term – more research required)
- Establishment of an Energy Commission (short term)

SMEs Development

- Ease of access to finance for small entrepreneurs in specific sectors: a) ease of access to financing and cost of borrowing (short term) and b) policy adjustments (medium term)
- The creation of an Incubator System for small manufacturers (considered to be a very important area , services are being supplied by various entities for small entrepreneurs)
- Attracting investment for new foreign industries with different technologies, e.g. medical devices and pharmaceuticals (medium-long term)

Logistics and Connectivity Working Group Priorities (discussions are still ongoing)

Trade

- Establish a competent authority on the island of Nevis to be able to issue import licenses and avoid the delay
- Improve dissemination of information on the requirements for clearing goods from customs to the general public by using ICT and/or public service announcements
- Address the high cost of importing items
- Improve availability of adequate and reliable transport for trading in the region

ICT

- ICT infrastructure: improve access to more affordable and reliable ICT infrastructure, specifically fiber optic networks

- Reduce time for processing documents at customs
- Increase E-Government

Tourism

- For Nevis: improve access to timely and accurate information, airlift and inter-island travel
- Reduce cost of air-travel: addressing airport levies
- Inter-island travel: improve the functioning and punctuality of the Ferry Terminal

Skills and Productivity Working Group (discussions are still ongoing)

- Priorities selected until now: reform the school's curriculum with regards to a better balance between soft and hard skills
- Improve the 2013 Labor Market Survey

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK

(As of December 31, 2014)

Over the years, the Caribbean Development Bank (CDB) has supported the economic and social development of St. Kitts and Nevis, by providing financing for priority capital and technical (TA) projects. In addition, CDB has engaged in policy dialogue with the Government of St. Kitts and Nevis. CDB's involvement with SKN has been concerned with activities such as: the formulation and implementation of macroeconomic, social and sectoral policies; development of infrastructure to facilitate growth and economic diversification; direct and indirect lending to agriculture; and emergency rehabilitation.

In December, 2012, CDB approved a new assistance strategy for St. Kitts and Nevis for the period 2013-16. The strategy focuses on establishing an enabling environment for sustained inclusive growth and poverty reduction and strengthening resilience by securing social stability and improving environmental sustainability. The indicative list of interventions contained in the assistance strategy is expected to result in a lending program of up to US\$42.7mn over the strategy period. At the end of 2014, CDB had approved loans totaling US\$149.7mn to St. Kitts and Nevis, of which US\$3.0mn were undisbursed.

The Nevis Water Supply Enhancement is the only major project currently under implementation. The project aims to assist in improving the water supply network capacity on the island of Nevis. Under the project, approximately 20 kilometers of pipelines, two pumping stations and storage capacity of 1.0 million gallons will be constructed. The project also provides for capacity building and strengthening institutional arrangements for the delivery of water services.

The 2014 reporting period saw significant progress on all three major capital contracts and engagement of the Water Resource Management TA Consultant. The tank installation is approximately 80% complete and the pumping stations 90% completed. Ninety per cent of the pipe material was delivered and the laying of mains by the Nevis Water Department commenced. Disbursement totaled \$5.447mn, approximately 63% of the loan amount of \$8.425mn. Based on the amounts outstanding on existing contracts and projected activities, the project will be completed approximately \$1.0mn below budget.

Three other projects were previously in the pipeline in 2013. (i) The Sixth Student loan was terminated by the borrower, the St. Kitts-Nevis-Anguilla National Bank, and all monies owing to CDB were repaid; (ii) the works funded by the Immediate Response Loan for Tropical Storm Otto were completed under budget and the balance of the loan was cancelled; (iii) the Second Power Project for Nevis which included the installation of a generator of 2.5mw, ancillary switchgear and an operations facility was cancelled.

Major Project under Implementation (In millions of U.S. Dollars)		
Project	Approved	Undisbursed
Nevis Water Supply Enhancement	8.425	2.978

Loan Disbursement, Service and Resource Flow (In millions of U.S. dollars)					
	2010	2011	2012	2013	2014
Net Disbursement	8.21	0.27	-2.45	4.34	-4.0
Disbursement	13.65	4.37	1.73	18.98	3.2
Amortization	5.44	4.10	4.18	14.64	7.2
Interest and Charges	3.44	2.62	2.48	3.16	3.2
Net resource flow	4.77	-2.35	-4.98	1.18	-7.2

Source: Caribbean Development Bank

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

Data provision is broadly adequate for surveillance, although there are significant shortcomings in data provision and data quality.

Real Sector

Methodological deficiencies are present in the real sector statistics. GDP figures rely on the production approach, both in constant and current prices. Limited survey data hinder the assessments of value-added for each sector with some sectors suffering from significant weaknesses in estimation methodology. On the expenditure of GDP, which is available only at current prices, the aggregate final private consumption expenditure is derived as a residual. This residual includes households and NPISH final consumption expenditures, and changes in inventories. Weaknesses are observed in the methods to estimate gross capital formation. CPI only covers St. Kitts but not Nevis although the information is available. Monthly CPI data are posted on the ECCB website with a long lag, and a break in the series in November 2010 suggests a methodological problem in the linking process with the previous base. The ECCB disseminated monthly data on tourism also with a long lag, and the estimates on tourism expenditure are based on an old survey of spending by types of tourists and are only updated by changes in CPI. Except for data from the social security board, limited data are available on labor market developments.

Government Finance Statistics

St. Kitts and Nevis has reported to STA quarterly government finance statistics (GFS) up to 2014Q1 and annual GFS up to 2012 on main aggregates and their components for revenue, expense, and financing of the budgetary central government. Extra-budgetary units are included in budgetary central government. Accounts for the public enterprises are only available with a long lag. There are also limited accounts provided on the activities of the Sugar Investment Diversification Foundation, although it is playing an incremental role in fiscal policy. Progress has been made in reducing discrepancies between overall balance and available financing in 2013 but further work is needed to resolve discrepancies in earlier years. Government finance data are recorded by the authorities on a cash basis, and reported to the Fund based on a Chart of Accounts broadly in line with the *GFSM 1986* classifications. Efforts to report the government financial balance sheet, particularly the main liabilities (loans and debt securities), will strengthen the fiscal data for surveillance purposes. In implementing the *GFSM 2014*, the authorities should consider making selective adjustments to the current cash accounting, as relevant, in the following categories: arrears, debt reorganization, transactions in kind, and interest.

External Sector Statistics

The ECCB reports annual balance of payments data of its eight members (including St. Kitts and Nevis) for publication in the *Balance of Payments Statistics Yearbook (BOPSY)* and the *International Financial Statistics (IFS)*. The compilation of balance of payments statistics for the ECCU and member states is a joint exercise between the ECCB and its members. The quality of major components of the balance of payments in the region needs substantial improvement, including the recording of goods imports, travel credits, private transfers, and direct investment transactions. There is also need to compile private sector external debt data. CARTAC is providing technical assistance to the ECCB and the member economies to improve the quality of external sector statistics and to introduce the new survey instruments. The new survey forms are aligned with the sixth edition of the *Balance of Payments and International Investment Position Statistics Manual (BPM6)* and also will collect, for the first time, data for the production of international investment position (IIP) statistics. St. Kitts and Nevis does not report external debt data to the Quarterly External Debt Statistics (QEDS) database.

Monetary and Financial Statistics

Monetary statistics have been compiled and reported to the Fund by the ECCB on a monthly basis based on a standardized report form since July 2006, with a timeliness of approximately two months after the reference month. The institutional coverage of monetary statistics needs to be improved by including the accounts of nonbank deposit takers licensed by the ECCB, credit unions, and other financial corporations. In this respect, close coordination between the ECCB and the Financial Services Regulatory Commission (which is supervising financial institutions not licensed by the ECCB under the Banking Act) is crucial. Financial Soundness Indicators (FSIs) for the ECCU area are not published. While noting some improvements, the 2014 monetary and financial statistics (MFS) technical assistance mission that visited the ECCB identified the following main shortcomings in the ECCB's monetary statistics: (i) the methodological soundness of monetary statistics can be improved by expanding institutional coverage (particularly of the other depository corporations (ODC) sector), and revising the classifications of some financial instruments and sectors to align the reporting to international standards; (ii) transparency can be improved by adopting a single monetary survey for publication on the ECCB website and in IFS, to be released to all users at the same time; (iii) the timeliness of the dissemination of data on broad money and credit aggregates can be improved to meet best international practices; and (iv) the access to officially disseminated data and metadata can be improved.

II. Data Standards and Quality

St. Kitts and Nevis participates in the General Data Dissemination System (GDDS) since October 2000, and its metadata are posted on the Fund's Dissemination Standards Bulletin Board (DSBB). The metadata for the financial sector was updated in 2012 while the metadata for the real, fiscal, and external sectors, has not been updated since the country joined GDDS. A Report on the Monetary Statistics Component of the Regional Data Module Report on Observance of Standards and Codes (ROSC) for the Eastern Caribbean Central Bank (ECCB) was published in 2007.

Table of Common Indicators Required for Surveillance
(As of July 2015)

	Date of latest observation	Date received	Frequency of data ⁶	Frequency of reporting ⁶	Frequency of publication ⁶
Exchange Rates	Fixed Rate	NA	NA	NA	NA.
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	4/15	07/15/15	M	M	M
Reserve/Base Money	4/15	07/15/15	M	M	M
Broad Money	4/15	07/15/15	M	M	M
Central Bank Balance Sheet	4/15	07/15/15	M	M	M
Consolidated Balance Sheet of the Banking System	4/15	07/15/15	M	M	M
Interest Rates ²	4/15	07/15/15	M	M	M
Consumer Price Index	4/15	07/15/15	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	3/15	07/01/15	Q	Q	A
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	3/15	07/01/15	Q	Q	A
External Current Account Balance	2013	02/27/15	A	A	A
Exports and Imports of Goods and Services	2013	02/27/15	A	A	A
GDP/GNP	2014	07/07/15	A	A	A
Gross External Debt	3/15	07/01/15	Q	Q	A

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

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

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ Central government only.

⁵ Including currency and maturity composition.

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

**Statement by the Staff Representative on St. Kitts and Nevis
August 31, 2015**

This statement reports on information that has become available since the Staff Report was issued on August 04, 2015. The information does not alter the thrust of the Staff Appraisal.

- 1. Preliminary fiscal data for 1H2015 suggest that fiscal performance remains broadly in line with expectations.** Tax revenues grew 8.6 percent compared to 1H2014, 3.5 percent higher than projected, mainly on the back of improved income tax collection and one-off corporate tax settlements. Current and capital expenditure were broadly in line with staff projections, albeit with a slower-than-expected execution of the capital budget in Nevis.
- 2. Citizenship-by-investment inflows to the budget substantially slowed in 2Q2015.** This reflects ongoing reforms to the program and the impact of the loss of the visa free access to Canada. However, data on the inflows in July 2015 suggest a recovery of the pace of applications to that of July 2014. Cumulative inflows to the budget through July 2015 reached EC\$162 million, compared to EC\$185 million in July 2014.
- 3. The National Assembly passed the New ECCU Banking Act 2015 on July 29 without amendments.** The legislation allows for necessary reforms to strengthen the bank supervision and resolution framework and create a regional asset management company and will facilitate the regional financial sector resolution strategy. Unanimous ratification by ECCU member states is required. St. Kitts and Nevis was the last of the independent ECCU states to pass the law. The Bill is still being discussed in Anguilla and Montserrat, the two British dependencies, with no timeline as to when it would be passed.
- 4. The authorities have made an early repurchase of SDR4.20 million, equivalent to 47.2 percent of quota, on July 27.** This, together with prior early repayments (equivalent to 282 percent of quota), have reduced Fund credit outstanding to SDR 22.35 million (or 251 percent of quota) as of July 31, 2015. Absent additional early repayments, St. Kitts and Nevis is expected to remain under the Post-Program Monitoring framework till May 2016.