St. Kitts and Nevis
Authorities' Home-Grown Macroeconomic Program

by

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Outline

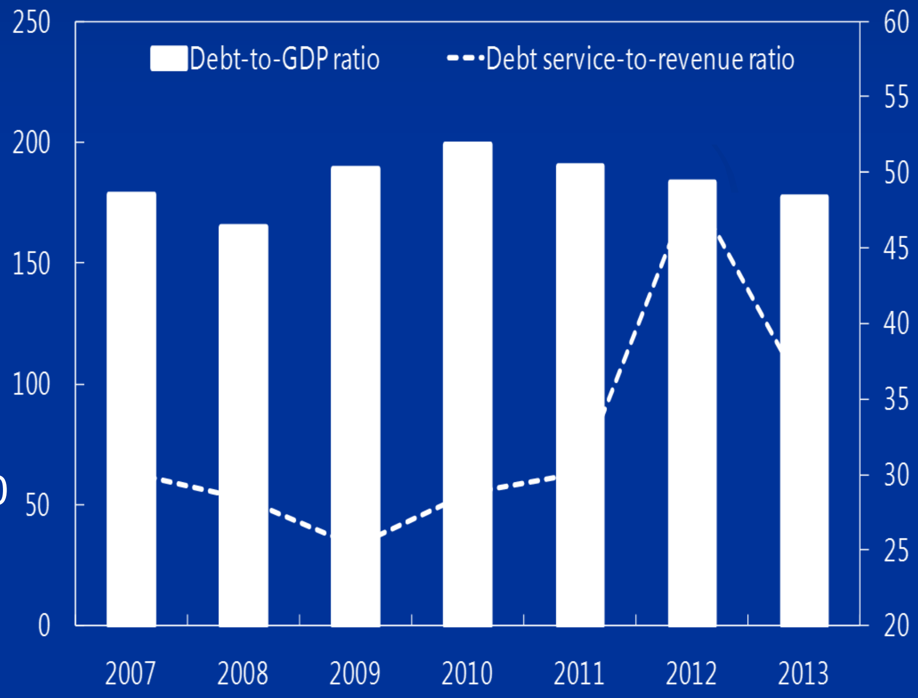
- Background: Impact of exogenous shocks
- The authorities' home-grown program: A three-pronged approach
- Structural reforms
- The role of the IMF
- Concluding remarks

Background: Impact of exogenous shocks

- **Significant decline in growth in 2009 and 2010, due to:**
  - A significant drop in stay-over tourist arrivals
  - A slowdown in FDI inflows and tourism-related construction activities
  - The closure of the Four Seasons in Nevis, following Hurricane Omar

- **Without growth, everything is a challenge**
  - Tax revenue declined 13.5 percent in 2010
  - The overall fiscal deficit widened to 9.4 percent of GDP
  - Public debt reached almost 200 percent of GDP
  - Debt service-to-total revenue increased sharply

Figure 1. St. Kitts and Nevis--Public Debt (in percent of old GDP series) and Debt Service-to-Revenue Ratio



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

St. Kitts and Nevis: Public Debt and Debt Service (in millions of EC$; unless otherwise indicated)

	Public Debt	GDP	Public Debt-to-GDP Ratio	Debt Service	Total Revenue	Debt Service -to-Revenue Ratio
2007	2,468.8	1,385.7	178.2	164.2	545.7	30.1
2008	2,540.4	1,539.4	165.0	162.7	572.7	28.4
2009	2,689.2	1,420.8	189.3	153.0	606.9	25.2
2010	2,842.5	1,426.7	199.2	162.2	564.2	28.7
2011	2,867.2	1,505.6	190.4	200.0	663.7	30.1
2012	2,914.5	1,586.3	183.7	330.9	674.9	49.0
2013	2,951.0	1,666.5	177.1	253.9	715.9	35.5

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

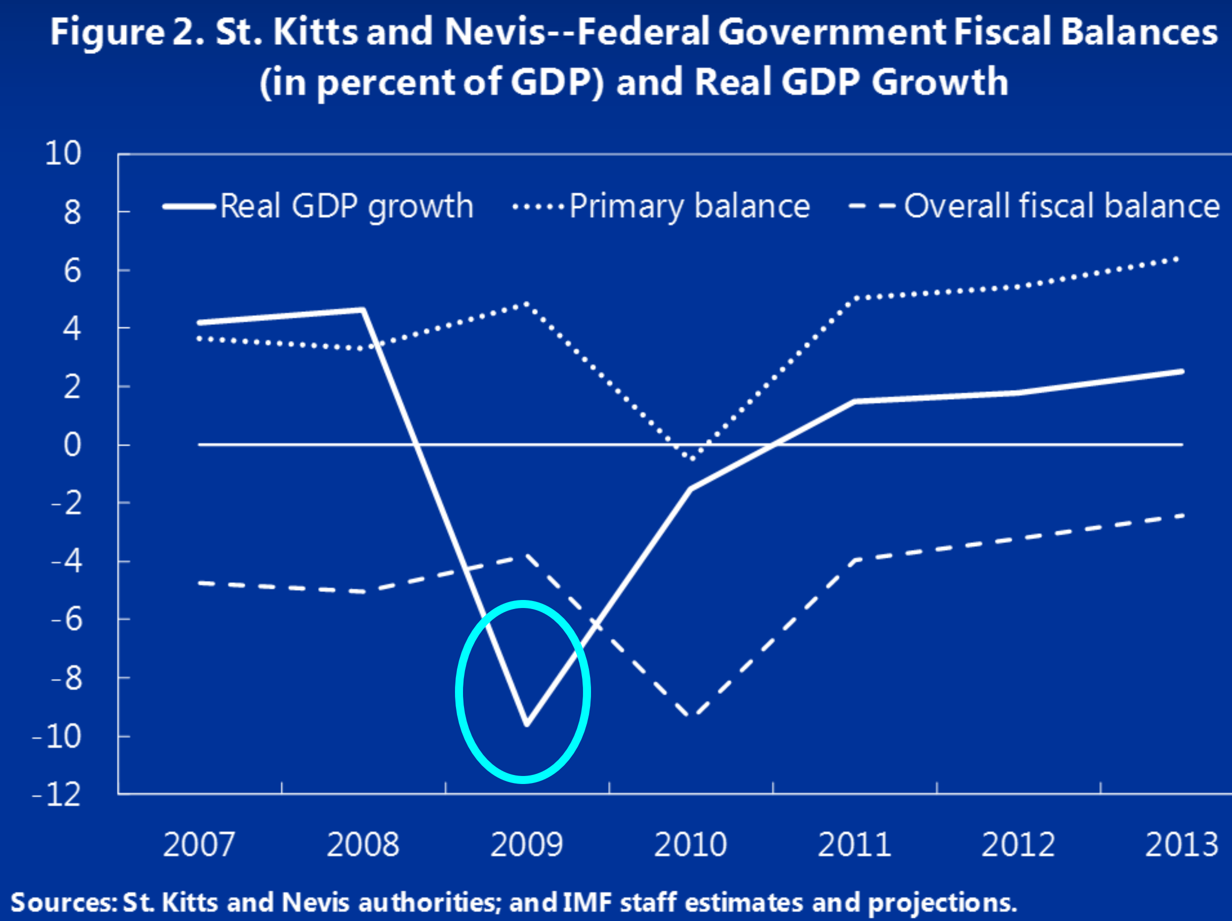
The authorities' home-grown program

- **The overarching objectives of the program are twofold:**
  - Boost growth
  - Reduce the high level of public debt

- **The program: a three-pronged approach**
  - Front Loaded fiscal consolidation
  - Comprehensive debt restructuring
  - Strengthening the financial sector

- **Structural reforms**

Fiscal Consolidation: Achieve 5.6% primary fiscal balance on average during 2011-13



St. Kitts and Nevis: Fiscal Balances and Growth (in millions of EC$, unless otherwise indicated)

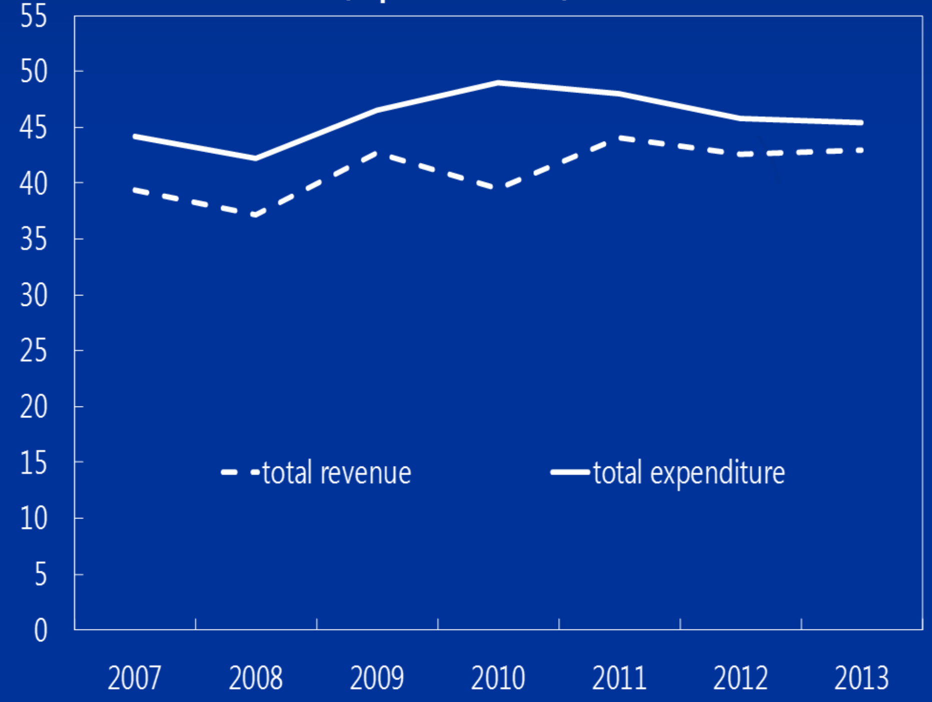
	Real GDP Growth	Total Revenue and Grants	Total Expenditure	Interest Payments	Fiscal Primary Balance	Overall Fiscal Balance
2007	4.2	545.7	611.6	116.3	50.5	-65.9
2008	4.6	572.7	650.4	128.7	51.0	-77.7
2009	-9.6	606.9	661.1	123.2	69.0	-54.2
2010	-1.5	564.2	698.5	127.0	-7.3	-134.3
2011	1.5	663.7	723.6	135.6	75.7	-59.9
2012	1.8	674.9	726.2	137.0	85.7	-51.3
2013	2.5	715.9	756.5	147.8	107.2	-40.6

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

Fiscal Consolidation (cont.)

- Allowing revenues to rise upfront
- Containing expenditure over the medium term
- Efforts to protect the most vulnerable, with a view to strengthening the program's credibility and sustainability

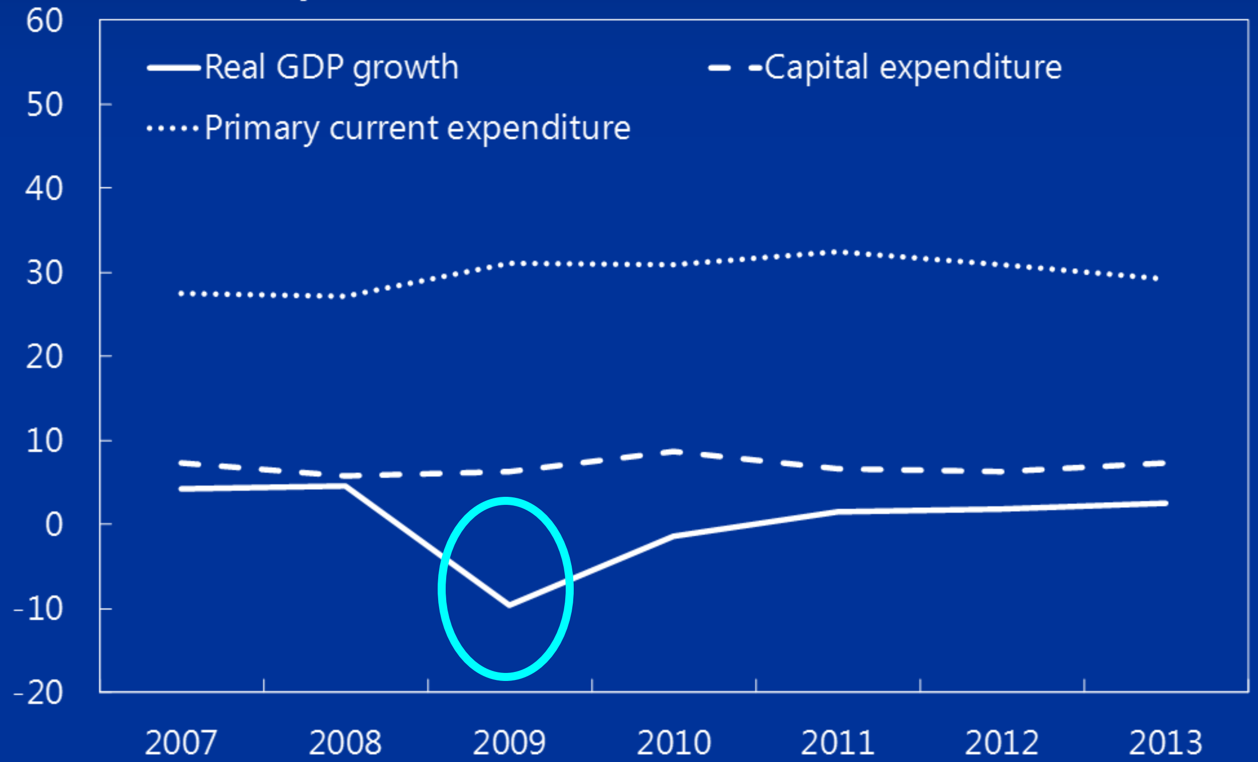
Figure 3. St. Kitts and Nevis--Federal Government
Total Revenue and Total Expenditure
(in percent of GDP)



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

Fiscal consolidation (cont.): Capital expenditure to remain stable over the medium term

Figure 4. St. Kitts and Nevis--Federal Government Expenditure (in percent of GDP) and Real GDP Growth



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

St. Kitts and Nevis: Composition of Total Expenditure (in millions of EC$)

	Total Expenditure	Interest Payments	Primary Current Expenditure	Net Lending	Capital Expenditure
2007	611.6	116.3	381.4	13.1	100.7
2008	650.4	128.7	416.6	15.4	89.7
2009	661.1	123.2	442.4	7.6	87.9
2010	698.5	127.0	441.7	5.8	124.0
2011	723.6	135.6	488.6	1.0	98.4
2012	726.2	137.0	489.0	1.0	99.1
2013	756.5	147.8	486.8	1.0	120.8

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

Comprehensive debt restructuring needed to achieve debt sustainability, despite fiscal consolidation

- **Three options offered to external commercial creditors on a dedicated website**
- **Proposed treatment of domestic debt is still being developed**
- **Multilateral debt and Treasury bills are exempted from the debt restructuring**

Strengthening the financial sector

- Maintaining the health of the financial sector during the restructuring is paramount
- Establishment of a Banking Sector Reserve Fund as a backstopping mechanism for liquidity support, if needed
- Strengthening the oversight of non-bank financial institutions is also a priority

Structural reforms are key to sustaining the fiscal reforms in the medium term

- **Strengthening fiscal management**
  - Improving the medium-term orientation of the budget
  - Perfecting the program-based budgeting framework
  - Curtailing accumulation of arrears

- **Improving the effectiveness and efficiency of the public sector**
  - Rationalize and enhance efficiency and accountability of the public sector
  - Improve controls over public sector employment and compensation

- **Removing obstacles to growth**
  - Productivity boosting reforms
  - Promoting competitiveness
  - Boost confidence for private sector investment

The role of the IMF

- **In response to the recent global economic crisis, the IMF has made important changes in how we lend.**
  - We wanted to ensure that our lending framework is better suited to countries' needs, with more flexibility and fewer conditionalities.
- **The Fund is committed to help protect the most vulnerable in supporting countries' reform programs.**
  - In particular, the IMF is promoting measures to increase spending on, and improve the targeting of, social safety net programs that can mitigate the impact of the crisis on the most vulnerable in society.
- **In this context, the IMF supports St. Kitts and Nevis' home-grown economic program**
- **The impact of the authorities' program would be even more difficult without Fund support**

IMF Financial Assistance

- **Access and financing**
  - The Executive Board of the IMF approved a three-year Stand-By-Arrangement (SBA) for an amount equivalent to EC$228.3 million on July 27, 2011.
  - Of this amount, EC$96.1 have already been disbursed
  - The SBA represents 590 percent of St. Kitts and Nevis' IMF quota (SDR 8.9 million)
- **Phasing and use of resources**
  - Disbursement is frontloaded, with about half of total IMF funds disbursed upon approval of the program
  - IMF funds are to address St. Kitts and Nevis' balance of payments needs and help maintain the stability of the domestic financial system
- **Reviews**
  - Quarterly reviews of quantitative performance criteria focus on fiscal targets (overall fiscal balance of the government) and are intended to help the authorities establish a solid track record of fiscal performance

Concluding Remarks

- Following a two-year long recession, a gradual recovery is underway

- The authorities' multi-pronged reform program appropriately lays out a strategy to dramatically reduce the public debt.

- Fiscal consolidation measures appropriately seek to
  - broaden the tax base to take advantage of the cyclical recovery
  - Decrease distortions by reducing exemptions
  - Design and implement civil service reform strategy
  - Enhance social safety nets to protect the most vulnerable

- A comprehensive debt restructuring is critical for the authorities' economic reform program to be fully financed and to put public debt on a firmly downward trajectory

Thank you