INTERNATIONAL MONETARY FUND

IMF Country Report No. 14/86

ST. KITTS AND NEVIS

March 2014

2014 ARTICLE IV CONSULTATION AND THE SEVENTH AND EIGHTH REVIEWS UNDER THE STAND-BY ARRANGEMENT AND REQUEST FOR WAIVERS OF APPLICABILITY AND NONOBSERVANCE OF PERFORMANCE CRITERION—STAFF REPORT; PRESS RELEASES

In the context of the 2014 Article IV consultation and the seventh and eighth reviews under the Stand-By Arrangement and request for waivers of applicability and nonobservance of performance criterion, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 19, 2014, following discussions that ended on January 31, 2014, 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 March 5, 2014.

- An **Informational Annex** prepared by the IMF.

- **Press Releases** including a statement by the Chair of the Executive Board, and summarizing the views of the Executive Board as expressed during its March 19, 2014 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
P.O. Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: http://www.imf.org

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

ST. KITTS AND NEVIS

March 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION AND THE SEVENTH AND EIGHTH REVIEWS UNDER THE STAND-BY ARRANGEMENT AND REQUEST FOR WAIVERS OF APPLICABILITY AND NONOBSERVANCE OF PERFORMANCE CRITERION

KEY ISSUES

Stand-By Arrangement (SBA): the 36-month SBA for SDR 52.51 million (590 percent of quota) was approved July 27, 2011. The fifth and sixth reviews were completed July 24, 2013.

Context and program performance: The economy is recovering from a four-year contraction through 2012, and prospects are positive, although risks remain. All fiscal program targets were met with a large margin through end-September 2013. However, the continuous performance criterion on external arrears was missed. The amounts were minor and quickly repaid. The authorities have taken measures to prevent this recurrence. The implementation of structural reforms was slow with most end-December benchmarks delayed by capacity constraints, challenges in technical assistance and changing priorities.

Article IV: The last Article IV consultation was concluded on July 27, 2011. Current discussions focused on strategies to secure sustainable growth through enhancing tourism, developing cost-effective alternative energy sources, and improving the business environment. Developing a stable macroeconomic framework conducive to growth and investment is a critical element of the strategy, including a sustainable medium-term fiscal path, use of exceptional revenues to build buffers against exogenous shocks, and strengthened safeguards for the financial system.

Review: The authorities' commitment to their program is reflected in the 2014 budget, and their plans to save the bulk of the Citizenship-by-Investment (CBI) application fees. Understandings were reached on a new timetable for the implementation of most of the structural benchmarks within the remaining program period, and a prior action on operational guidelines to facilitate land sales related to the debt restructuring.

Exchange regime: St. Kitts and Nevis is part of the Eastern Caribbean Currency Union and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. It has accepted the obligations of Article VIII, Sections 2, 3 and 4.

Approved By
Adrienne Cheasty and Bob Traa

The staff team comprising Ms. J. Gold (head), Mr. K. Greenidge, Ms. D. Simard, Ms. X. Xu (all WHD), Mr. K. Moriyama (SPR), Ms. E. Karlsdottir (MCM), assisted by Mr. W. Mitchell (regional resident representative) visited Basseterre and Charlestown during January 21 to 31, 2014. Mr. Dalrymple (OED) participated in the final discussions. The mission met with Prime Minister and Minister of Finance Douglas, Premier Amory, and other senior officials and representatives of the private sector.

CONTENTS

ANNEXES

APPENDICES

CONTEXT: ECONOMIC RECOVERY AND FISCAL CONSOLIDATION

Considerable progress has been achieved under the three-year Stand-By Arrangement (SBA).[1] *Firm signs of a recovery were present in the first nine months of 2013 after a four-year contraction. The fiscal position has improved significantly as a result of adjustment and reforms, as well as considerable growth in non-tax revenue. There has been substantial progress in reducing public debt through debt restructuring. The financial sector has remained resilient and the external position has improved.*

1. **Economic activity in 2013 is recovering, with a pickup in tourism and construction.** Following a prolonged slowdown, with GDP declining by a cumulative 10 percent in 2009–2012, economic growth is projected to be 1.7 percent in 2013 although the recovery in Nevis is weaker. This reflects a recovery in tourism and construction, the latter fueled by the large inflows under the Citizenship by Investment (CBI) program, other FDI projects, and Sugar Industry Diversification Foundation (SIDF) (Box 1).[2] A decline in the manufacturing sector with the loss of an important bottling license for two international brands and the temporary closure of a major electronics plant due to mechanical problems, and a fall in the communication sector, have moderated the recovery. CPI inflation has remained low at 0.4 percent at end-December (y/y).

2. **The external position has significantly strengthened.** A recovery in tourism receipts and strong CBI fees, together with weak imports reflecting sluggish demand through 2012 have narrowed the current account deficit, from over 20 percent of GDP prior to 2011 to about 12 percent in 2012 and 8½ percent in 2013. The stronger current account balance together with capital inflows led to an accumulation of international reserves since the start of the SBA, from 5-months-of-imports to over 8 months at end-November 2013 (6 months excluding IMF disbursements).

3. **The fiscal position of the central government has further strengthened, with continued strong CBI fee receipts and sustained budgetary discipline.** Under the three-year SBA, the fiscal balance has improved from a deficit of 7.8 percent of GDP in 2010 to a projected surplus of 10.6 percent of GDP in 2013, and the primary balance strengthened from a deficit of 0.8 percent to a surplus of 15.5 percent of GDP. The largest contributor to the adjustment has been the sharp increase in CBI fee receipts, from 2.3 percent of GDP in 2010 to an estimated 13 percent of GDP in 2013. Moreover, in line with the program, the implementation of the VAT boosted tax revenue in 2011 while hiring and the wage bill were frozen since 2010. Other expenditures have also been contained, while capital spending declined from 6.8 percent in 2010 to 4.7 percent in 2013.

---

[1] The 36-month SBA was approved on July 27, 2011 for SDR 52.51 million (590 percent of quota), and SDR 47.37 million have been disbursed to date.

[2] The SIDF is an autonomous entity, which was created in 2006 after the closure of the St. Kitts Sugar Manufacturing Corporation to support, develop and diversify the economy. All of its funding comes from the CBI program.

Substantial progress has been made in reducing public debt, with the debt-to-GDP ratio projected to decline from 164 percent of GDP in 2010 to 105 percent of GDP in 2013 as a result of debt restructuring, with the debt-for-land swap with domestic creditors finalized in June 2013.

4. **Private sector credit, after stagnating since 2012, is now declining notwithstanding ample bank liquidity.** The banking system remains the strongest in the region, relatively well capitalized and with ample liquidity. Deposits—which remain banks' primary source of funding—have grown, dominated by CBI inflows. Nonetheless, banks' NPLs rose from 6.6 percent at end-2011 to 10.5 percent at end-September 2013, notably due to removing government loans from total loans following the debt-for-land swap. Despite the emerging recovery, credit to the private sector, which had been flat through 2012, contracted by 2.6 percent (y/y) through end-November 2013 reflecting banks' concerns about higher NPLs, reluctance to increase their exposure to tourism, and the fact that the recovery has been mostly financed by FDI or CBI inflows. Capitalization, well above the regulatory benchmark, and profits were somewhat adversely impacted by the growing NPLs and the reduction in interest earned on government loans after the debt restructuring.

St. Kitts and Nevis: Selected Financial Indicators, December 2010–September 2013

	Dec-10	Dec-11	Dec-12	Mar-13	Jun-13	Sep-13
(All banks, In percent)						
Capital adequacy ratio	41.9	40.8	38.9	37.1	37.6	25.1
NPLs/Total loans	5.5	6.6	10.6	10.5	7.1	10.5
Provisioning/NPLs	42.2	38.3	32.1	34.7	45.9	42.0
Net liquid asset/Total deposit	41.6	44.2	50.4	52.8	53.8	54.6
Return on Equity 1/	5.5	15.1	5.2	5.3	3.2	3.2
Return on Assets 1/	1.1	2.0	0.6	0.7	0.6	0.7
Net operating income 1/ 2/	4.0	4.7	3.3	3.3	3.2	2.4
Total loans/Total deposits	78.1	73.0	65.9	62.5	59.8	43.8

Source: ECCB

1/ Sum of quarterly returns for the four quarters up to the end of each period.

2/ Ratio of net operating income to average assets.

5. **The supervision of the non-bank financial institutions has strengthened.** The Financial Services Regulatory Commission (FSRC) assumed responsibility for credit unions in 2012.[3] Its implementation of a new supervisory framework based on the PEARLS prudential rating has led to an increase in credit unions NPLs from 10 percent at end-2012 to 21 percent at end-September 2013.[4] At the same time, credit unions' assets grew by 11 percent (y/y) in September 2013.

6. **The government remains challenged in Parliament because of the outstanding motion of no confidence.** In early 2013, two members of the government joined the opposition party, which had tabled a motion of no confidence in December 2012. The High Court is addressing

[3] The FSRC assumed responsibility for insurance companies in 2009.

[4] PEARLS stands for Protection, Effective financial structure, Asset quality, Rates of return and cost, Liquidity and Signs of growth.

whether the motion can take precedence over other items of the legislative agenda while the opposition limited its participation in Parliament. The 2014 budget of St. Kitts and Nevis was approved on December 11, 2013. The Concerned Citizens Movement (CCM), affiliated with the federal opposition party, won the January 2013 election in Nevis. In line with the Constitution, elections are due by June 2015.[5]

PROGRAM PERFORMANCE

7. **Fiscal performance under the SBA remains strong.** The fiscal targets have been met for end-June 2013 and end-September 2013, the latter in part due to ample CBI receipts, which more than offset some overruns in current outlays—including the granting of a thirteenth month wage after the three-year nominal wage freeze—and an accelerated execution of the investment budget. Tax revenue was aligned with program expectations at end-September 2013, partly due to buoyant receipts from taxes related to real estate transactions. The budgetary surplus at end-June 2013 was EC$126 million, and at end-September EC$175 million, more than twice the adjusted program targets. The primary surpluses at end-June and end-September also amply exceeded their adjusted targets.

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

(in EC$ million)

	Ma	Performance Criteria							
		End-Jun. 2013				End-Sep. 2013			
	Actual	Prog.	Adjusted	Actual	Status	Prog.	Adjusted	Actual	Status
Performance Criteria:									
Central government overall balance including grants (floor) 1/ 2/	69	28	31	126	√	48	62	175	√
Stock of central government budget expenditure arrears accumulation (ceiling) 3/	-52	0	0	-32	√	0	0	-60	√
Stock of external short term debt (ceiling)	0	0	0	0	√	0	0	0	√
Central government or guaranteed external arrears accumulation (ceiling) 4/	0.8	0	0	-1	√	0	0	1.3	X
Indicative Target:									
Central government primary balance (floor) 1/ 2/	85	61	60	171	√	121	135	245	√

1/ Cumulative within each calendar year.
2/ See the TMU for a description of adjustors.
3/ Including the estimated stock of expenditure payable on electricity.
4/ To be monitored on a continuous basis.

8. **All other performance criteria have been met through end-September 2013, except for the continuous ceiling on the accumulation of external arrears.** The Development Bank of St. Kitts and Nevis (DBSKN) accumulated temporary and minor arrears of EC$1.6 million (0.08 percent of GDP) to the European Investment Bank (EIB) in September 2013, which were cleared at end-October 2013. This resulted from the DBSKN's temporarily tight cash flow situation compounded by coordination gaps with the central government. The DBSKN is addressing this situation by tightening administrative procedures and establishing a fund for the pre-payment of debt service. The Nevis Island Administration (NIA) also accumulated small arrears to the CDB (of EC$0.3 million

[5] This includes constitutional provisions for ninety days beyond the five-year term of the Parliament.

or 0.01 percent of GDP) after normal operations were impeded by the fire destruction of its Treasury building three days before payment was due, destroying paper records and damaging the data server. The NIA promptly alerted the CDB of the impending delay and shortly thereafter repaid the outstanding amount.

9. **Despite the improving consolidated fiscal position, the NIA has been facing financing pressures and temporarily incurred domestic arrears on its bond.** The NIA EC$20 million Treasury Bill issued on the Regional Government Securities Market (RGSM)—due on June 20, 2013—could not be rolled over without a federal government guarantee, which was routinely provided in the past. The temporary default gave rise to domestic arrears, but did not breach the program ceiling on the accumulation of domestic arrears (Country Report No. 14/49, Technical Memorandum of Understanding, ¶13) since the authorities entered into negotiations to settle the arrears immediately. The issue was resolved with an NIA offer to exchange the Treasury Bill against a new Treasury Bill yielding ½ percentage point higher interest, which was accepted by most of the debt holders at end-July.

10. **Progress on structural reforms has slowed, reflecting capacity constraints, technical assistance challenges and changes in priorities.**

- ***The authorities met the structural benchmark on establishing and operationalizing the Inland Revenue Department (IRD)*** unit dedicated to program design, planning and monitoring at end-September 2013. They also ***met the structural benchmark on updating the quarterly stress tests of banks*** based on end-June 2013 and end-September 2013 data.

- However, ***administrative and capacity bottlenecks factored into the delay*** in the implementation of the regulations of the 2011 Civil Service Act (structural benchmark for end-July 2013) and the submission of the Customs Law to Parliament (structural benchmark for end-December 2013). Both measures had to be resubmitted following revisions. These actions are now expected to be completed by end-June 2014 and end-May 2014, respectively.

- ***Challenges with securing continuous technical assistance*** hampered progress in finalizing implementing regulations to the Procurement and Contract (Administration) Act and developing a proxy means testing for the eligibility criteria for the planned consolidated cash transfer program (structural benchmarks for end-December 2013). The former requires technical assistance from the World Bank, which has faced issue with funding. The authorities are intensifying efforts to secure the required financial support to complete the measure. The latter, which was being implemented with the assistance of UNICEF, was delayed by an unforeseen change in the consulting staff and funding constrains. A new consultant is being identified to be funded by a budgetary allocation and the project completion is planned by end-2014.

- ***The authorities have postponed the draft proposal for a comprehensive pension reform*** (structural benchmark for end-June 2013 (Country Report No. 14/49 ¶9)) to integrate it with the regional initiative on pension reforms, launched by the Eastern Caribbean Currency Union (ECCU).

St. Kitts and Nevis: Structural Benchmarks for September and December 2013

Action	Target Date	Status
Draft proposal for a comprehensive pension reform	End-June 2013	delayed
Operationalize the implementing regulations of the 2011 Civil Service Act (pertaining to recruiting, discipline, promotion, and standing orders) by amending the general orders accordingly	End-July 2013	delayed, expected for end-June 2014
Establish and operationalize a unit dedicated to program design, planning and monitoring in the Inland Revenue.	End-September 2013	completed
Develop method for the proxy means testing for the eligibiity criteria of the planned consolidated cash transfer program	End-December 2013	delayed
Submit to parliament the new Customs Law	End-December 2013	delayed, expected for end-May 2014
Finalize the implementing regulations to the Procurement and Contract Act	End-December 2013	delayed
Update the existing stress tests of banks	To be monitored on a quarterly basis	completed

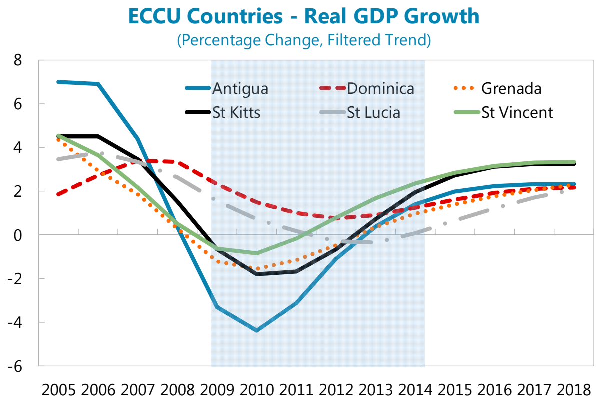
Sources: St. Kitts and Nevis authorities and IMF staff estimates.

OUTLOOK: RECOVERY WITH DOWNSIDE RISKS

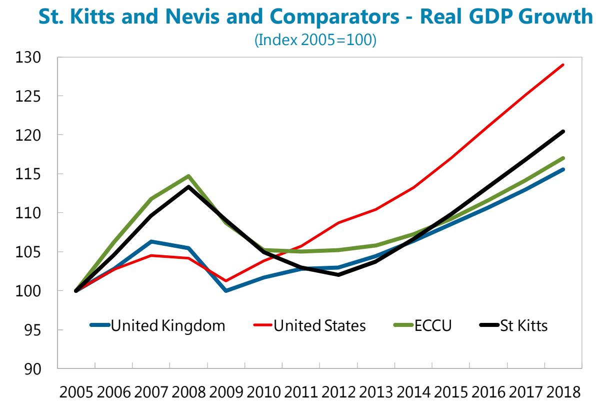
11. **The outlook is positive with growth expected to reach its potential over the medium term.** Growth in 2014 is expected to accelerate to 2.7 percent, and continue to lead the ECCU countries, on the basis of the ongoing recovery in tourism—supported by an increase in air lift—and construction, the latter being fueled by CBI inflows and other new FDI and SIDF projects.[6] The trend is expected to continue and somewhat strengthen, contingent on the recovery envisaged in key external tourism markets, sustained expansion of airline and hotel room capacity—the latter based on current construction activity, new projects supported by CBI inflows and the SIDF, and a rebound of consumer and business confidence.[7] After being subdued in 2013 and 2014, inflation is expected to pick up slightly with the rebounding domestic demand. The current account deficit is projected to widen in 2014, based on a conservative assumption regarding CBI receipts. Without CBI receipts, the current account deficit would remain broadly unchanged in 2014 relative to 2013.

[6] Average growth during 1980-2012 was 3.9 percent.

[7] CBI inflows are difficult to forecast. The medium-term framework is based on the authorities' projections of CBI applications fees falling sharply in 2014 to their 2011 share of GDP, reflected in their budget, and slowly declining thereafter. Nevertheless, preliminary information suggested that inflows in the first few weeks in 2014 are continuing at their 2013 level.



Sources: WEO and IMF staff estimates.



Sources: WEO and IMF staff estimates.

St. Kitts and Nevis: Medium-Term Outlook

	Avg.	Prel.	Projections						
	2005-12	2013	2014	2015	2016	2017	2018	2019	2020
Output and prices			(Annual percentage change; unless otherwise specified)						
Real GDP (factor cost)	1.2	1.7	2.7	3.0	3.2	3.1	3.1	3.1	3.1
Consumer prices, end-of-period	3.8	0.4	1.5	2.0	2.5	2.5	2.5	2.5	2.5
Fiscal Sector			(In percent of GDP)						
Central government primary balance	4.8	15.5	4.6	4.9	4.9	4.3	3.2	2.4	1.8
Central government primary balance (less CBI)	-0.4	2.4	0.0	0.4	0.7	0.3	0.2	-0.5	-0.9
Central government overall balance	-1.8	10.6	1.6	2.1	2.4	2.0	0.9	0.2	-0.3
Central government overall balance (less CBI)	-4.3	-2.4	-3.1	-2.4	-1.8	-2.0	-2.1	-2.6	-3.0
Total public debt (end-of-period) 1/	140.5	104.9	91.2	84.6	77.3	70.7	65.6	61.4	59.1
External Sector			(In percent of GDP)						
External current account balance	-17.9	-8.5	-17.4	-17.1	-16.2	-15.7	-15.7	-15.1	-14.6
Imputed reserves (in months of imports of goods and services)	4.6	8.4	8.1	7.3	6.7	6.5	6.4	0.1	6.4

Sources: St. Kitts and Nevis authorities, ECCB and IMF staff estimates and projections.
1/ Reflects the debt/land swap equivalent to EC$565 million in 2013 and assumes a debt/land swap equivalent to EC$202 million in 2014.

12. **Risks to this projection are broadly balanced (Annex 1).** Real GDP growth in St. Kitts and Nevis is closely related to economic developments in the U.S., and current uncertainty regarding U.S. fiscal policy and the volatility in emerging market economies pose a definite risk. Other factors that could undermine the recovery include the protracted parliamentary challenge that may adversely impact the business climate, a sudden rapid diminution of inflows related to the CBI program—including because of changes in the visa-free access for citizens of St. Kitts and Nevis—and natural disasters. At the same time, the large inflows under the CBI program could continue at their current rapid pace, increasing government revenues, creating additional fiscal space, and leading to higher growth through increased investment. Such inflow would need to be managed to avoid potential overheating. The authorities are keenly aware of their vulnerability to exogenous shocks, including natural disasters. They note that they are now in a much stronger position to deal with such shocks, based on their improved financial balances, the accumulation of some precautionary balances, and their conservative treatment of CBI inflows.

MAIN THEMES OF THE ARTICLE IV DISCUSSION

The critical challenge facing St. Kitts and Nevis as it is recovering from the deep contraction of the past four years and emerging from the fiscal and debt crisis is to secure sustainable growth. The authorities' strategy is based on reinvigorating tourism, developing sustainable energy sources and strengthening the business environment. A robust and stable macroeconomic framework conducive to growth and investment are critical elements of the strategy. This includes implementing a sustainable medium-term fiscal path, building buffers against exogenous shocks, and strengthening safeguards for the financial system.

A. Improving Tools for Growth

13. **The authorities are placing high priority on enhancing the GDP contribution of tourism, the mainstay of the economy.** They have made significant progress in increasing airlift capacity to complement the increase in new hotel rooms that is already taking place and will continue with the support of new FDI projects and the CBI real estate option.[8] In addition, the new tourism master strategy, to be finalized April 2014, reflects extensive consultation with main stakeholders.[9] It aims to develop more diversified source markets; raise the value-added of tourism through upgraded hotel, infrastructure, and tapping into the yachting market; and increase backward linkages. Staff recommended that the strategy also clearly identify infrastructure shortcomings, establish guidelines for real estate development, address bottleneck in approving high-end tourism projects under the CBI program, update institutional arrangements, and clarify the resource requirements needed to achieve the agreed upon goals. Along with staff, the authorities recognized the need to strengthen their statistical capacities, as an important input for tourism policy design, and plan to develop new surveys. They stressed that the estimated growth contribution from the stay-over tourists is underestimated since it does not factor in the change in tourists' country of origin (fewer tourists from the Caribbean and more from the United States) since the global crisis, with the latter spending considerably more.

14. **The high cost of energy is reported as the most important challenge facing the private sector in St. Kitts and Nevis, as in the rest of the Caribbean.** The 2014 budget reflects the authorities' goal to transition to alternative sources of energy over the medium-term and their support for the development of solar, geothermal, wind and waste-to-energy projects. To that effect, the authorities grant tax concessions for the production of solar energy and customs duties exemptions for the import of renewable energy and energy-efficient technologies. In partnership with the SIDF, they are also building solar-powered homes. Moreover, they are negotiating an agreement on a geothermal energy project in Nevis, and are participating in a regional project to negotiate more advantageous prices for Liquid Petroleum Gas (LPG) imports. To alleviate the current

---

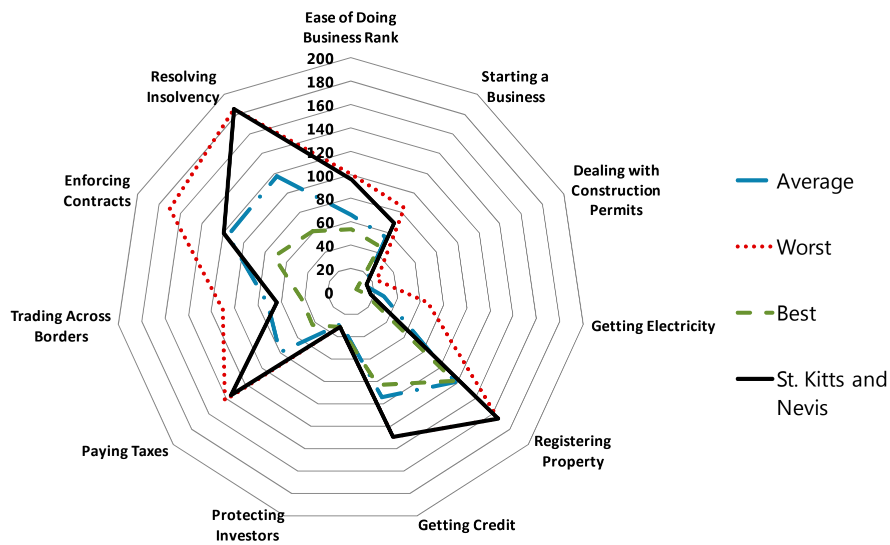
[8] Airlift capacity increased with additional direct flights from Miami and Toronto and a widening of the peak season flying period by two major airlines in 2013. An additional new flight from Puerto Rico started in 2014.

[9] The previous tourism master plan dates from 2006.

high cost, the SIDF is temporarily subsidizing households' electricity consumption (on a sliding scale based on use and according to a three-year program expiring in 2015) and covers the customs service charge on petroleum imports through a subsidy to the electricity company SKELEC. Staff commended the authorities for their foresight in fostering the development of alternative sources of energy, but cautioned on the need to monitor costs, including foregone tax revenue. In addition, it recommended that the energy subsidies should be more targeted and be included in the budget, rather than being provided by the SIDF.

15. **The authorities are moving quickly to improve the investment climate.** According to the 2013 Doing Business Survey, the business climate rank of St. Kitts and Nevis is 96 out of 185 countries and 5th out of the 6 ECCU countries. Key areas identified for improvements are resolving insolvency, reducing lengthy processes for paying taxes and a relatively high effective profit tax, accessing credit, and registering property. Important steps have already been taken to address the first two concerns, the adoption of the new Bankruptcy and Insolvency Act in 2013 and the reduction of the corporate income tax rate from 35 to 33 percent (Country Report No. 14/49 ¶14 and ¶15). The authorities are also improving taxpayer services, including with the implementation of e-filing. Moreover, they are formalizing an action plan, following a thorough review of government agencies, to further lift constraints in these areas.

ECCU Doing Business Rankings, 2013



Source: World Bank Doing Business Indicators, 2013

16. **St. Kitts and Nevis also participates in several regional initiatives, launched by the Caribbean Growth Forum (CGF), that seek to identify and remove impediments to growth.**[10] Working groups are assessing priorities for improving: the investment climate; training, research and

[10] The initiative was launched in June 2012, with the support of 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 International Development Agency (CIDA). The CGF national chapters have taken place in 12 Caribbean countries and the St. Kitts and Nevis national chapter began in February 2013. Further information is available in the Statistical Appendix, under Relations with the World Bank.

development; contribution of tourism to growth; government operations to make it more user-friendly for the private sector; framework to develop Small and Medium Enterprises (SMEs); and logistics and connectivity.

17. **The SIDF offers scope to support growth and stimulate economic activity.** It currently supports a host of programs ranging from airlift capacity, wages for on-the job-training programs, and facilitating financing construction of both low-cost housing and luxury tourism developments. Staff recommended that SIDF funding should be limited to productive investment that would support growth and development, and it should not be providing subsidies which should be part of the government budget. Moreover, the SIDF investment should be phased to ensure that its activities do not lead to overheating, nor compete with the domestic banking system in the provision of credit to commercial enterprises. Further, enhanced transparency regarding operating guidelines and the project selection process, and in publishing SIDF financial statements, not available after 2011, would provide additional safeguards for its operations. In this context, staff recommended that the SIDF financial statement be made available with the government's budget. The authorities observed that the SIDF was an important motor of the economy and a key tool for its development. They noted that their investment aimed to support a recovery in the context of the prolonged decline and recession. They do not see SIDF activities as competing with the banking sector, but as collaborating with the banks. They clarified that audited financial statements of the SIDF for 2012 and 2013 would be published online by end-2014, after the asset valuation of their investments is fully completed. Moreover, they are considering options to further improve its long-term sustainability.

B. Ensuring Medium-Term Fiscal Sustainability

18. **The staff emphasized the importance of continuing to implement a prudent and sustainable fiscal framework that would not be reliant on high CBI inflows**. Such a strategy would be anchored in achieving the authorities' public debt target of 60 percent of GDP by 2020 while using for budgetary purposes only a conservative amount of CBI receipts. The staff presented a medium-term framework, consistent with the 2014 budget (Box 3) and the government's debt objective, and modest CBI inflows. The main underlying assumption are improvement of tax administration and a modest widening of the tax base leading to an increase of revenues of about 1 percentage point relative to 2013; a wage bill increase consistent with the 2014 budget with growth in subsequent years slightly below nominal GDP based on implementing civil service reform; and constrained spending on goods and services. The framework illustrates that the authorities could achieve their objective without undue reliance on CBI inflows, while at the same time accommodating higher capital outlays. The authorities recognized the risk associated with undue reliance on CBI receipts for budgetary purposes, and are continuing with the implementation of the reforms initiated under their adjustment program that would be consistent with the proposed medium-term fiscal framework. Indeed, they underscored that the budget is consistent with their plans to continue to save the bulk of the CBI receipts.

19. **The authorities agreed that enhancing tax revenue must remain a priority.** Receipts from the VAT, after the first full year of its implementation in 2011, have remained disappointingly

low, and total tax revenues have not yet recovered to their pre-crisis level since the sectors leading the economic recovery have benefited from transitional VAT and customs duties exemptions. The focus should be on:

- **Continuing to reform the revenue administration**. The authorities plan to fully integrate the operations of the VAT Unit and other units of the Inland Revenue Department into a function-based administration that includes audit, enforcement, collections and refunds, providing a critical platform for a comprehensive compliance and enforcement strategy for the VAT and the corporate income tax.

- **Broadening the tax base through streamlining tax incentives (Box 2).** The substantial budgetary costs of incentives suggest an urgent need for their review and the development of a strategy to substantially reduce them.

20. **The authorities plan to continue improving public finance management.** Better expenditure control together with an improved process of prioritization of outlays will enable further savings on budgetary resources while delivering the public services and investment in infrastructure needed to sustain growth. Measures include:

- **Civil Service reform.** Following the relatively sizable increase in the wage bill in 2013 and 2014, it is critical to proceed with the ongoing audit of the public service to streamline the civil service and to move towards a more performance-based remuneration system. Staff cautioned that the recent wage increases and the expansion in the wage bill to support new government initiatives could rapidly undermine the hard earned gains over the past few years to moderate the size of the wage bill, and underscored the need to move quickly with these reforms.

- **Targeting of the social safety net.** The authorities see their conditional cash transfer pilot program as a catalyst for improved targeting of all social programs, which will provide a basis to consolidate all existing social programs offered across ministries.

- **Public financial management reforms.** Following the full application of the Procurement Act, the next steps should include adoption of International Public Sector Accounting Standards (IPSAS), development of improved performance indicators to support fiscal discipline, and strengthening internal and external budgetary audit capacities.[11]

- **Oversight of public entities and a stronger financial position.** A key priority is to strengthen the capacity of public enterprises to meet their reporting requirements under the Finance Administration Act. Building on the recent granting of enforcement powers to the Government Entities Oversight Board, it is particularly important that the Board intensifies its monitoring of these entities and engages them on their business plans. In that regard, it would also be needed

[11] These recommendations are in line with Sandeep, S. et al. (2012) "St. Kitts and Nevis: Proposal for SEMCAR Public Financial Management, Technical Assistance and Related ICT Capacity Building 2012–13", FAD, World Bank, SEMCAR, October 2012.

to extend the Procurement Act provisions to public entities. The new management of the electricity company (SKELEC) should prioritize improving the recovery of receipts.

- **The Social Security System.** The government should review the parametric reform and other recommendations proposed in the recent actuarial review of the Social Security Board, assess the scope for their integration with the new health and unemployment insurance schemes, and develop a timetable for their implementation.

21. **Developing a framework to manage PPPs and limit contingent fiscal liabilities is key to using public funds efficiently and avoiding accumulating debt through indirect channels.** Establishing an overarching legal framework for PPPs would enhance the Ministry of Finance's control over budgetary commitments to PPP projects and help contain future contingent government obligations. The authorities requested technical assistance to better understand the scope of the proposed reform.

22. **Notwithstanding the significant decline in public debt following restructuring, it remains very high and vulnerable to exogenous shocks.** With continued fiscal discipline, debt is projected to reach 66 percent of GDP by 2018, on track to achieving the ECCU region-wide target of 60 percent by 2020. This is predicated on the authorities' commitment to maintaining fiscal prudence and on the continuation of the economic recovery. However, should fiscal policy be relaxed, or growth be significantly weaker, the debt would decline considerably more slowly. Moreover, the country is very vulnerable to natural disasters. A combined shock that entails weaker growth, higher interest rates, and larger primary balances, could see the debt-to-GDP ratio rise to 110 percent of GDP by 2018 (Annex III).

C. Building Buffers and Providing for Critical Investments

23. **The authorities recognize that the large CBI proceeds provide a unique opportunity to amass buffers and create fiscal space for important infrastructure investment.** They are also aware of the special challenges in terms of financial integrity and international security associated with the program, and continue to ensure that strong safeguards are observed. Noting St. Kitts and Nevis' high vulnerability to exogenous shocks, the staff urged the authorities to use the exceptional CBI inflows to build buffers and consider developing a framework, including specific norm, to save excess CBI receipts in a stabilization fund, similarly to resource funds established by resource-exporting countries. This would help prevent CBI revenues in excess of the historical norm (staff suggest about 2 percent of GDP with an additional 0.5 percent of GDP to cover due diligence costs) from being used to support recurrent expenditure and/or to finance routine capital spending. The accumulated savings could be used to:

- Reduce public debt, especially the costlier instruments, which would lower interest costs and expand room to borrow in case of a shock. Indeed, in the current global economy, it may not be possible for the government to obtain higher returns than their borrowing costs without bearing unacceptable risk.

- Stabilize government finances by withdrawals to compensate for a revenue shortfall, support economic activity, and/or meet unforeseen expenditure to address a natural disaster or other events (e.g., recapitalizing a systemic financial institution). These savings could also be used to finance large lumpy infrastructure projects, although such investment should be carefully timed to avoid exacerbating cyclical trends.

The already accumulated savings, and robust future flows, may provide scope for the government to explore both options and develop a consensus on the optimal strategy. The authorities were receptive to these proposals, and wanted more assistance in developing guidelines. Indeed, they noted that were already examining option to pay down debt, factoring in the impact of penalty costs for prepayment and possible implications of collective action clauses. At the same time, they were also looking at ways to support critical intervention in their economy to improve medium-term growth prospects. The staff urged caution, to ensure that savings are not expended on unsustainable projects.

D. Securing a Stable and Productive Financial System

24. **A healthy and stable financial system that can support private sector development is critical for enhancing medium-term growth.** While the St. Kitts and Nevis financial system remains relatively strong following the financial crisis and the debt restructuring, continued efforts are needed to monitor and strengthen the financial sector and reinforce the supervisory framework for non-bank financial institutions. Updated stress tests based on end-September 2013 data remained consistent with the previous assessment (Country Report No. 14/49, ¶4) and confirmed that the banking system remains sufficiently capitalized and liquid to weather a host of shocks. Despite the growing liquidity, the relative weaker banks remain vulnerable to a large liquidity shock. Strong priority should be given to facilitating the banks' plans to implement actions to return NPLs to the prudential requirement of below 5 percent over the medium term. In this context, the current protracted proceedings for realization of non-performing assets through the courts may be a significant challenge for banks. The new Bankruptcy and Insolvency bill introduced in Parliament in July 2013 is a step in the right direction. The agenda for updating ECCU foreclosure legislation should also be accelerated. In addition, the impact of the debt/land swap on the banking system will continue to warrant particular attention. In that regard, it is key to engage the process of selling the lands on a timely basis while ensuring that the operational guidelines of the SPV are aligned with best practices (prior action for the completion of the seventh and eight review), including with respect to securing competitive sales prices. Fund and World Bank staff are collaborating toward a regional approach to implement the ECCU's comprehensive bank resolution strategy. Vigilance will be needed to manage the potential spillovers from the challenges facing the other ECCU banks.

25. **The staff urged the continued implementation of the CARTAC/World Bank reform program for strengthening the supervisory framework of the non-bank financial sector.** The focus should be on building capacity for on-site and off-site supervision and strengthening reporting requirements. Moreover, swift issuance of the regulations supporting the FSRC Act would enhance its supervisory powers and leverage the efforts by credit unions to raise their regulatory capital to 10 percent by October 2014, in line with the Cooperative Societies Act. The FSRC should

also maintain its close monitoring of the insurance industry. The adoption and implementation of the Insurance and Private Pension Plan Act will strengthen the protection of insurance policy holders and firms' reporting requirements.

REVIEW AND POLICY ISSUES

The staff agreed on the 2014 fiscal program consistent with the authorities' budget, and a revised structural reform program for the remainder of the arrangement. The underlying objective is to secure medium-term fiscal sustainability, continue on the downward debt trajectory, and accelerate implementation of structural reforms critical for growth.

26. **Notwithstanding some spending overruns, the 2013 December program targets are expected to be met with an ample margin.** The main spending overruns are related to the extra month of wages granted in September to civil servants and pensioners (about 0.7 percent of GDP), additional increase in the wage bill reflecting some new government initiatives, the transfer of the cost of due diligence for the CBI to budget (also reflected in higher CBI fees), the higher cost of government electricity consumption following the installation of meters by SKELEC, and professional fees for the debt restructuring. Tax revenues are expected to be broadly aligned with program targets. The large CBI inflows suggest that the government will have no difficulty meeting the end-December 2013 fiscal performance criteria.

27. **The 2014 fiscal program is consistent with the medium-term strategy to reduce debt-to-GDP to 60 percent by 2020.** It is built on significantly lower CBI receipts than in 2013, further mobilization of revenues, wage increases announced in the budget as well some additional wage cost associated with new government initiatives, containment of other current expenditures, and higher capital spending. Moreover, the authorities are committed to saving part of the CBI receipts, and as an indication of this commitment, they agreed on an adjustor for changes in CBI receipts relative to the amount in the budget. The primary surplus target for 2014 under the program is 4.6 percent of GDP, or a zero primary balance net of CBI receipts.

St. Kitts and Nevis: Central Government Fiscal Operations
(in percent of GDP)

	2013	2014
	Prelim.	Program
Total revenue	**37.3**	**29.5**
Tax revenue	20.1	20.9
Non-tax revenue	17.2	8.5
o/w: CBI	13.0	4.7
Total expenditure and net lending	**31.6**	**32.6**
Current expenditure	26.9	26.3
o/w: Wages and saleries	11.7	11.4
o/w: interest	4.8	3.0
o/w: transfers	3.9	5.5
Capital expenditure	4.7	6.3
Grants	4.9	4.7
Overall balance with grants	**10.6**	**1.6**
Overall balance with grants less CBI	**(2.4)**	**(3.1)**
Primary balance	**15.5**	**4.6**
Primary balance with grants less CBI	**2.5**	**(0.0)**

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

28. **The weaker primary balance in 2014 can be explained by higher capital spending and some shift of debt service from interest to transfers.** The deterioration from the estimated 2013 primary surplus net of CBI receipts of 2.5 percent of GDP, mainly reflects:

- higher planned capital spending by 1.6 percent;
- higher transfers by 1.6 percent, as a result of a shift of some interest debt service to transfers reflecting the debt/land swap, and a one off-

subscription payment to multilateral institutions that was to have taken place in 2013.[12]

Net of these factors, the primary surplus would have been about 0.7 percent of GDP stronger than in 2013.

29. **Underlying the 2014 fiscal program are policy commitments to continue with public sector reforms.** These include:

- ***Step up revenue reform.*** The government implemented the Large and Medium Taxpayers Unit in early 2014, and is assigning a high priority to audit operations. They also intend to strengthen the post-clearance enforcement of the Customs and Excise Department (CED) and fully harmonize and modernize all procedures. It is fully integrating the operations of the VAT Unit and other units of the IRD into a function-based administration. The CED has developed risk management practices and will integrate these into the ASYCUDA World system planned for implementation in 2014. The government is also taking steps to limit tax exemptions and is allowing the transitional VAT exemptions to expire, as scheduled for end-2013.

- ***Commitment to a viable wage bill for 2014 and the medium-term debt sustainability.*** The 2014 budget, introduced on December 10, provides for wage bill increases of 4, 3 and 3 percent over 2014–2016, together with incremental increases equivalent to about 2 percent of the wage bill each year. The budget also provided some additional increase in hiring for implementing new government initiatives. The government plans to proceed with the civil service reform over the medium term, including the wage bill audit. Based on these reforms, the share of the wage bill in GDP is projected to modestly decline over the next few years.

30. **The authorities are committed to completing the debt restructuring.** The bulk of the debt/land swap was completed, and the remaining swap (representing 11 percent of GDP) is planned for this year. In addition, the authorities plan to issue in the coming days operational guidelines for the Special Purpose Vehicle (SPV), aligned with best international practices (prior action), in order to launch land sales. The NIA also expects to finalize its agreement on a debt/land swap with the St. Kitts-Nevis-Anguilla National Bank. This will yield immediate budgetary savings on interest costs and fees for debt advisors. The authorities continue with their negotiations with non-Paris Club creditors.

31. **The authorities are pressing forward with their program of structural reforms.** Submitting the new Customs Law to Parliament is necessary to strengthen the CED's authority to conduct post-clearance audits. The authorities are committed to do so by end-May 2014. Moreover, implementing the regulations to the Civil Service Act is a key step towards creating a more efficient civil service by enhancing accountability of civil servants including with specifying procedures for

[12] With the debt/land swap, the government's interest bill fell in line with the amount of debt swapped for land; at the same time, the government is committed to pay a dividend of 3.5 percent to the banks on the unsold lands held by the SPV. This payment is classified as a transfer.

disciplinary actions. Completing this action by end-June 2014 will send a strong signal that the agenda for civil service reform is progressing. Going forward, having provided the required funding in the 2014 budget, the authorities intend to finalize the proxy means-test for cash transfers by end-2014. This important feature of social safety net reform would transform the mode of attribution of social transfers into a comprehensive rules-based system. Meanwhile, the authorities are targeting implementation of a pilot program for conditional cash transfers by end-June 2014 and conducting a host of other structural reforms that will improve their business environment and macro fiscal management.

32. **The authorities are requesting waivers of non-observance for the continuous performance criterion on external arrears and of applicability for the end-December performance criteria.** There were two instances of minor and temporary accumulation of external arrears that were quickly repaid. One of these instances resulted from unforeseen circumstances beyond the authorities' control and the authorities adopted measures to prevent a recurrence of the second type of situation. While the controlling performance criteria for the seventh and eighth review are end-December, the authorities are seeking a waiver of applicability due to unavailability of data to assess them.

33. **The authorities are requesting that the ninth and tenth reviews be combined and the purchase available after March 15, 2014, currently associated with the ninth review, be rephased to be made available after June 15, 2014.** This reflects the delay that have already taken place in completing the seventh and eight reviews, with the missions delayed from September 2013 to January 2014 that followed staff turnover and the authorities' request for accommodation for budget preparations. The authorities have indicated that in view of the strong improvement in the public finances and the strengthening of the external position, they intend to treat the Stand-By Arrangement as precautionary for the remainder of the program period, and they do not plan to request to purchase the remaining amounts under the arrangement. This is part of their plan to review how to use the additional resources to accelerate debt reduction.

34. **Capacity to repay the Fund is adequate and risk remains manageable.** Repayment to the Fund will peak in 2015 and 2016 and will reach 10 and 10.9 percent of revenues and grants, and 10.6 and 11.2 percent of exports of goods and services in these years (Table 8). This is somewhat less than anticipated at the time of the request for an the arrangement where the debt services on GRA credit was projected to be 11.7 percent of central government revenues in both years and about 11.8 and 11.6 percent of exports of goods and service (Country Report No. 11/270). In percent of imputed reserves, the planned debt service to the Fund is half of that envisaged at the time of the request for a Fund arrangement, 10.3 and 12.1 percent compared to 22.3 and 24 percent. In view of the improved fiscal and external position, the capacity to repay the Fund has improved since the program was approved and the risk is manageable.

STAFF APPRAISAL

35. **Considerable progress has been achieved under the three year arrangement.** Growth has resumed after four years of decline and stagnation, reflecting a recovery in tourism and a strong pick up in construction associated with the CBI program and other tourism-related investments. Inflation has abated following the introduction of the VAT. The external position has significantly strengthened, due to the recovery in tourism receipts and strong CBI fees, as well as increased capital inflows, which have contributed to the increase in international reserves since the start of the SBA. The outlook is positive, with growth expected to accelerate in 2014, and reach its potential over the medium term based on the continued recovery in tourism and construction, the latter being fueled by CBI inflows and other new FDI projects.

36. **The strengthening in the fiscal position has surpassed expectations.** The improved fiscal performance reflects both policy efforts and the large increase in CBI receipts. The authorities took significant steps to improve public finances, including implementing the VAT and strengthening the tax and custom administrations. At the same time, there was substantial increase in revenues associated with the CBI program. Nonetheless, the authorities contained spending, including with a freeze in general hiring and the nominal wage bill through end-August 2013. The staff commends the authorities for their prudence with the greater-than-anticipated CBI revenues and the accumulation of fiscal buffers.

37. **Public debt was successfully reduced, to an estimated 105 percent of GDP in 2013 from 164 percent in 2010.** This is the result of external debt restructuring and a debt-for-land swap with commercial banks. Public debt is on track to decline to the ECCU region-wide target of 60 percent of GDP by 2020, predicated on the authorities' commitment to maintaining fiscal prudence and continue with reforms, and a sustained economic recovery. Staff cautions that the target may not be met should fiscal policy be relaxed or if growth weakens.

38. **Major reforms have been undertaken in the context of the program although the pace of implementation has slowed.** The authorities have made considerable progress towards strengthening public financial management, including the amendment of legislation to strengthening the oversight of public enterprises, the adopting of a medium-term expenditure framework and a medium-term debt management strategy, improving revenue administration, and moving forward with a plan for civil service reform, a new Procurement Act, and reforming the social safety net. Nevertheless, capacity constraints and other issues have recently slowed the pace of implementation. Staff urged the authorities to re-invigorated the implementation of reform agenda. The remaining measures in the program would yield further fiscal savings, and a more efficient and productive public sector that could better support a more dynamic private sector.

39. **Notwithstanding substantially improved external and domestic balances, vulnerabilities and risks remain.** St. Kitts and Nevis, like the rest of the ECCU countries, are highly dependent on development in the U.S. and advanced economies. The risk stemming from the global economy remains relatively high, and the implication for tourism, the mainstay of the economy, is

similarly elevated. This is compounded by the uncertainty related to the CBI program, and vulnerability to natural disaster. At the same time, in the near term, there may also be some upside risk related to the CBI inflows, which may continue at their current rapid pace. While the reduction in the debt-to-GDP ratio has been significant, the debt remains high, and highly vulnerable to external shocks.

40. **The priority going forward must continue to center on growth, bolstering competitiveness and improving employment opportunities.** The modest performance of tourism reflects competitiveness and growth challenges. The government aims to increase tourism by more targeted marketing, fostering expansion of airlift and hotel capacities, and improving infrastructure. It also aims to reduce energy cost by supporting the development of alternative energy sources. Critical reforms to improve the investment climate are also being planned. The staff commends these initiatives. The authorities will need to ensure that these measures are cost-effective and yield the expected results, and be ready to review the strategy as needed.

41. **A critical element of the growth strategy is a sustainable medium-term macroeconomic framework and continued progress with debt reduction.** Stronger fiscal balances and lower debt will reduce vulnerability together with the risk of sharp adjustment and public sector retrenchment, and will provide for adequate resources for continued infrastructure maintenance and improvements. Staff commends the authorities' plans to save a large portion of CBI receipts for precautionary purposes and reducing public debt and supports their efforts to manage the CBI program carefully. Continued fiscal reform to improve tax revenues and contain expansion of current spending, in particular, the wage bill, is the strongest safeguard against future exogenous shocks. In this regard, the staff urges the authorities to exert more restraint in granting future wage increases and in public sector hiring, and to continue with their efforts to strengthen tax administration, reduce tax exemptions, and proceed with the Public Financial Management reforms.

42. **A stable financial system, which can play its appropriate role in providing credit to the private sector, is also critical in supporting continued growth**. The commercial banks have remained resilient, notwithstanding the depth of the economic decline and the impact of the debt restructuring. Nevertheless, the near term poses some challenge for banks' profit and capital and progress in reducing their NPLs, as planned, will be key to ensure that they retain their relatively sound position. The new supervisory framework for credit unions has led to an increase in their capitalization, but continued efforts will be needed, including a strengthening of FSRC's sanctioning powers to ensure further consolidation of credit unions' balance sheets. Close monitoring of developments in the financial sector of the other ECCU economies will be needed to minimize potential for contagion. While linkages would appear to be minimal, continued vigilance and readiness for prompt action are needed.

43. **Staff supports the request for the completion of the seventh and eight review under the Stand-By Arrangement, the granting of waivers, and the rephasing of the last two purchases.** The requests for waivers are related to the nonobservance of the performance criterion on the accumulation of external arrears on government and government-guaranteed debt, and waivers for the applicability for end-December 2013 performance criteria. The staff support these request as the authorities continue to demonstrate their commitment to achieving the objectives of the SBA, including to save the bulk of the proceeds from the CBI application fees, reinforced by the

inclusion of an adjustor on these receipts. The authorities have also reaffirmed their commitment to completing most of the structural reforms under the program. The temporary reoccurrences of arrears are regrettable, but new measures are being taken by the Development Bank of St. Kitts and Nevis to avoid such occurrences. Further, preliminary data suggest that the end-December 2013 performance criteria were met. The staff supports the authorities' intention to combine the remaining reviews and treat the program as precautionary.

44. **The next Article IV consultation is expected to take place on a 24-month cycle, in accordance with the Board decision on Article IV consultation cycles as applied to countries with a Fund arrangement.**

Box 1. Macroeconomic Linkages of the Citizenship-by-Investment Program

Inflows under the Citizenship-by-Investment (CBI) program have sharply grown beginning in 2010.[1] The St. Kitts and Nevis program, established in 1984, is one of the oldest of its kind in the world. New programs are being introduced in several countries, including in Antigua and Barbuda and Grenada.[2] Their recent popularity appears to be fueled by wealthy clients from emerging economies and the Middle East searching for a safe haven as well as ease of worldwide travel.

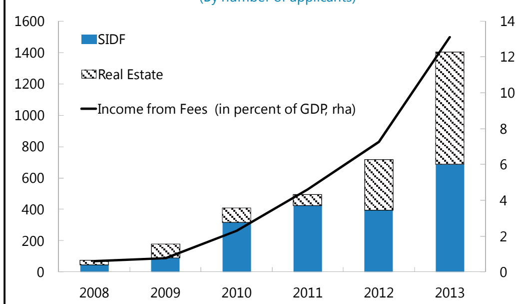
CBI brings three different types of inflows into the economy. These are: application fees collected by the government, contributions to the Sugar Industry Diversification Foundation (SIDF), and real-estate investments. Under the CBI program, the applicant may select to invest at least US$400,000 in designated real estate or make a contribution to the SIDF of US$250,000 or more. The application fees are US$50,000 and US$35,000 respectively, and increase with the number of dependents.[3]

Citizenship-by-Investment Inflows
(In EC $ million)

	2008	2009	2010	2011	2012	2013
CBI application fees	12.5	14.2	42.1	88.8	141.0	270.0 1/
SIDF contribution 2/	30.6	44.1	107.5	165.7	200.0 3/	200.0 3/

Sources: St. Kitts and Nevis authorities and IMF staff estimates.
1/ Preliminary.
2/ Net of processing fees and due diligence fees.
3/ Staff estimates.

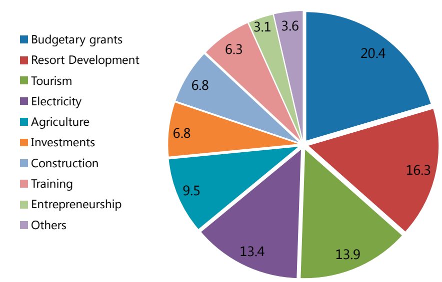
Citizenship by Investment
(By number of applicants)



Sources: Citizenship by Investment Unit.

CBI inflows have had a significant impact on the country's fiscal performance. Fees are recorded as non tax revenue and account for an increasingly large share of budgetary revenue, from about 1 percent of total revenues in 2007 to 22 percent in 2012, and an estimated 37 percent in 2013. Revenues were further increased by investment proceeds from SIDF about 1.1 percent of GDP during 2010–2012, also recorded under non-tax revenue. In addition, the SIDF also provides capital grants to the budget.

SIDF Funds Disbursed
(In Percent of Total)



Sources: SIDF website and staff estimates.

Buoyant CBI inflows have provided substantial funding to various sectors in the economy. In addition to the fees and SIDF budget support, CBI real-estate inflows have contributed to the pick-up in construction. Currently, there are 57 government-approved real estate projects eligible for CBI investment, most of which are villas and condominium. Further, the SIDF provides funding to various economic and social programs. These include subsidies for electricity consumers, and grants to tourism, agriculture, and education sectors, as well as support for training program and other social activities. In addition, the SIDF is funding mortgage lending and small business loans through the banking system, and investing in bonds and equities in public and private entities.[4] The SIDF holds its undisbursed assets, estimated at about EC$105 million at end 2011 in the domestic banking system.

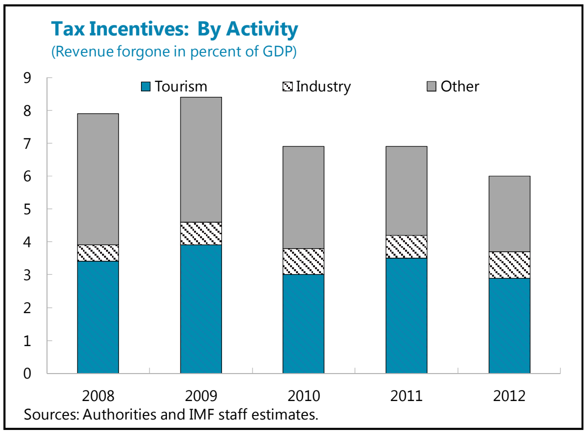
---

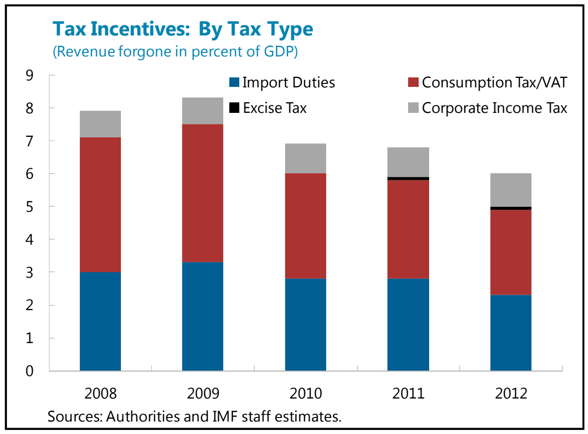
[1] Additional background is in Country Report No. 14/49, Box 2.
[2] Dominica has a similar program while Malta has just initiated its own program and Cyprus is modifying its program to be more attractive.
[3] Other fees include US$7,500 due diligence and other minor processing fees.
[4] Data is available on the SIDF web site (http://www.sknsidf.org/) and may not reflect the most recent information. Financial accounts for 2011 were released in December 2013. The available information suggests that total disbursements for social and economic programs average about 1 percent of GDP per year over 2008-2012 (excluding investments in bonds and equity) but have been larger more recently.

Box 2. Tax Incentives in St. Kitts and Nevis

While the estimated revenue forgone from tax incentives has declined since 2009, it remained significant in 2012, at 6 percent of GDP and 30 percent of tax revenue.

In addition to being costly, tax incentives may be poorly targeted measures as they do not necessarily benefit the sector for which they were initially intended given shortcomings in tax administration. Tourism represented one-half of the share of the estimated revenue forgone, while the share of incentives to industry was relatively small.





Authority to grant tax incentives is highly decentralized, which may cause their proliferation. There are a host of tax incentives available in St. Kitts and Nevis, offered under different laws (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). Furthermore, many incentives are available at the discretion of the Minister of Tourism or other Cabinet ministers.

Broadening the tax base by reducing tax incentives would yield sizeable revenue and/or permit lower tax rates, which would stimulate growth. The government's initiative to limit concessions to EC$100 million (4.7 percent of GDP) in 2014 is an important first step. The staff recommended developing a comprehensive strategy which would include preparing a full tax expenditure budget for the 2015 budget and further curtailing tax holidays. Centralizing the power to grant and manage tax incentives in the Ministry of Finance and moving from discretionary to rules-based concessions system would help contain them.

Sources: Norregaard, J., E. Crivelli, R. Franzsen, and R. Krelove (2013), "Tax Incentives and Property Taxation in the ECCU—Preliminary Findings for Dominica, St. Kitts and Nevis and St. Lucia", Fiscal Affairs Department, International Monetary Fund; Crivelli, E. (2013), "Tax Incentives in the ECCU", power point presentation to the ECCU, July 12, 2013.

Box 3. Main Features of the 2014 Budget of St. Kitts and Nevis

The 2014 Budgets[1] signal the authorities' intention to continue the fiscal consolidation effort, with a moderate increase in tax revenue, conservative projections for receipts from the CBI (8.3 percentage points below CBI earnings for 2013), and a further decline in current outlays (as a percent of GDP).

The budget addresses the major strategic challenges in support of sustainable economic growth. The guiding principles are:

- Expansion of expenditure must be moderate and measured in line with the growth of tax revenues.
- The use of the surplus resources generated by the CBI program will be heavily biased towards investment spending to improve the country's productive capacity.
- The implementation of the structural reform agenda will be accelerated and includes continuation of the public financial management program, business climate enhancement, pension reform, public sector modernization and the re-engineering of the social service delivery system.

Fiscal Measures:

a. Contain the increase in the wage bill and civil service pensions to 4 percent in 2014 and 3 percent in 2015 and 2016, and an incremental adjustment of 2 percent of the wage bill each year. This measure is also accompanied by a commitment to a formal review of the wage bill every 3 years. Future increment payments are to be linked to productivity.
b. Review the system for administering tax concessions with the objective of employing a more consistent methodology for estimating revenues foregone and their impact.
c. Implement the first phase of the universal health care scheme, which will focus on providing insurance coverage to the uninsured and vulnerable sections of the population at an estimated cost of EC$5 million.
d. Provide unemployment benefit as partial income replacement to Social Security contributors who are temporarily unemployed and actively seeking employment.
e. Upgrade the computer technology at both the Customs and Excise Department and Inland Revenue Department to further facilitate e-business.

Major Projects/Initiatives:

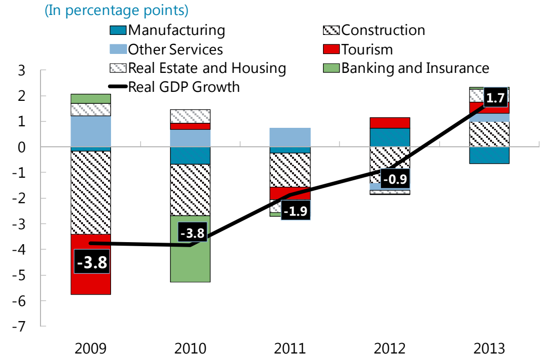
a. Complete upgrade of the South East Peninsula road.
b. Enhance berthing infrastructure at the cargo pier to accommodate larger cruise ships and undertake the construction of a second pier at the cruise ship facility. The pier is estimated to cost in the region of US$31 million.
c. Restructure the Statistical Department into an independent statistics agency.
d. Construct three hundred homes powered by solar panels, in partnership with the SIDF.
e. Construct 100 affordable-homes under the housing development program in Nevis.

[1] Reflecting the combined budgets of St. Kitts and the Nevis Island Administration (NIA).

Figure 1. St. Kitts and Nevis: Real Sector Developments and Near-Term Outlook

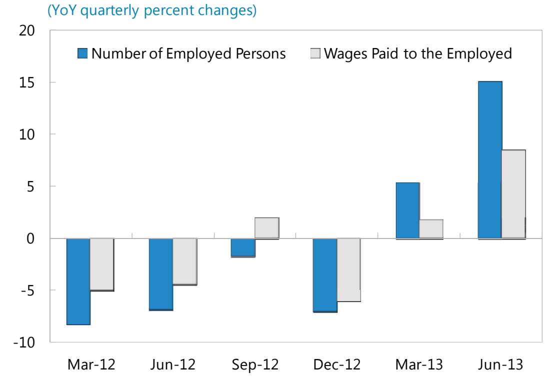
The economy is recovering from a four-year output contraction...

Contribution to Growth
(In percentage points)



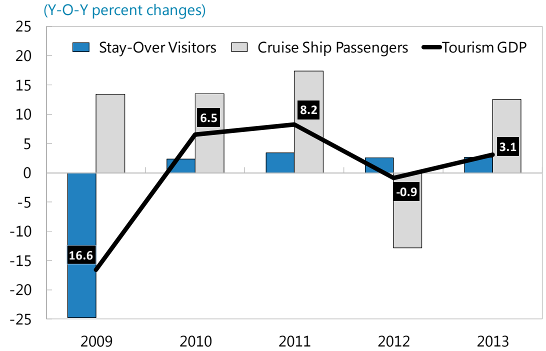
...with both employment and wages rebounding.

Employment and Wages
(YoY quarterly percent changes)



Driven by a modest increase of stay-over visitors and a more robust recovery in cruise ship arrivals....

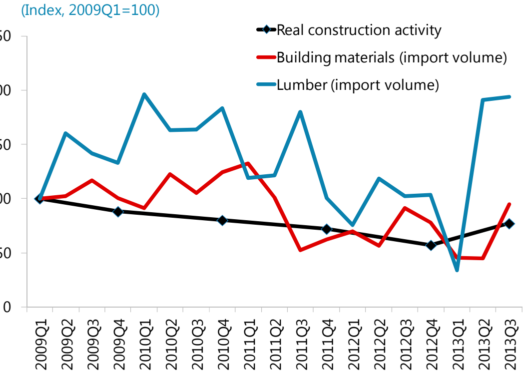
Annual Tourism Performance [1/]
(Y-O-Y percent changes)



1/ 2013 data is January to November YoY percent change.

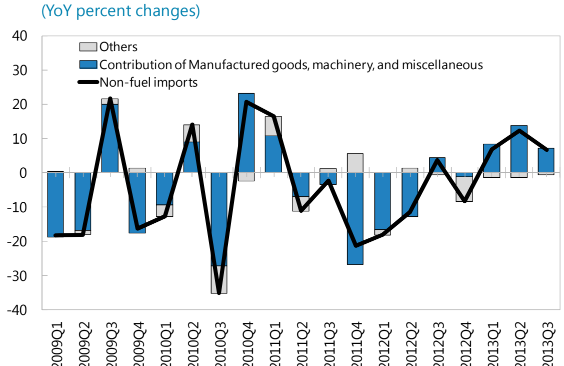
...along with a strong pickup in construction activities.

Construction Performance
(Index, 2009Q1=100)



Non-fuel imports have increased.

Non-fuel Imports
(YoY percent changes)



Inflation remains low and stable.

Inflation
(In percent)

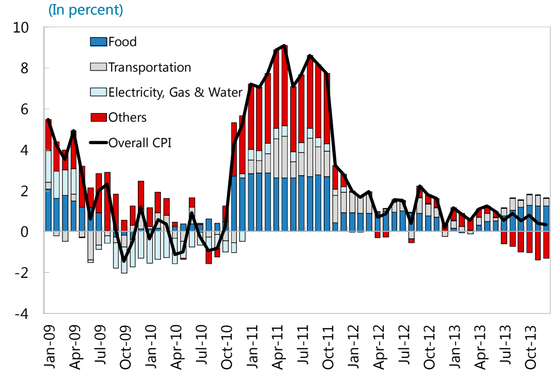
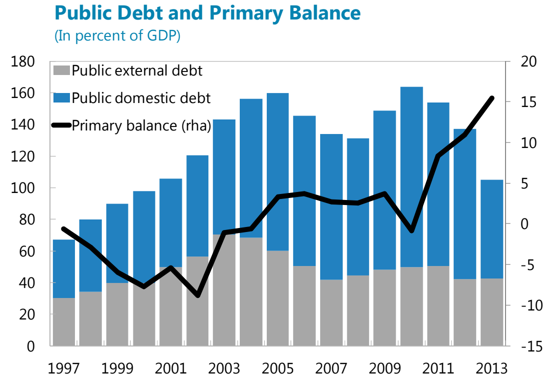
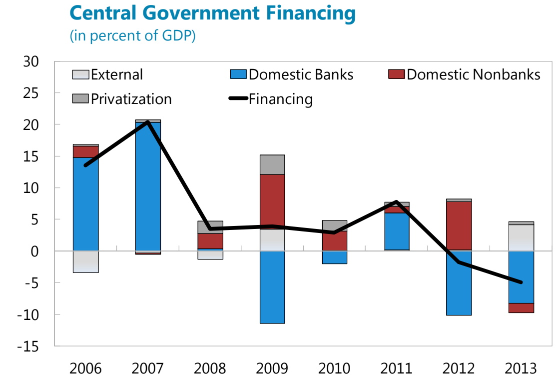


Figure 2. St. Kitts and Nevis: Fiscal Sector Developments

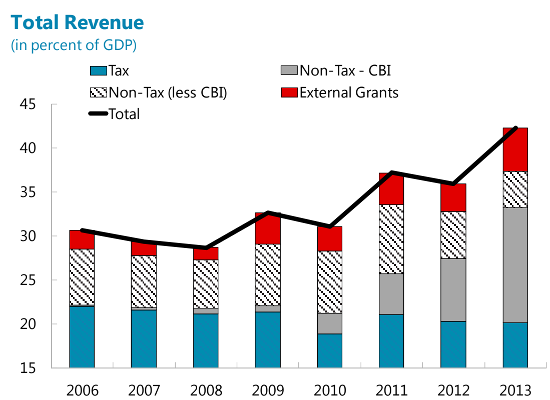
Public sector debt fell considerably since 2010, reflecting debt restructuring and improved primary balances …



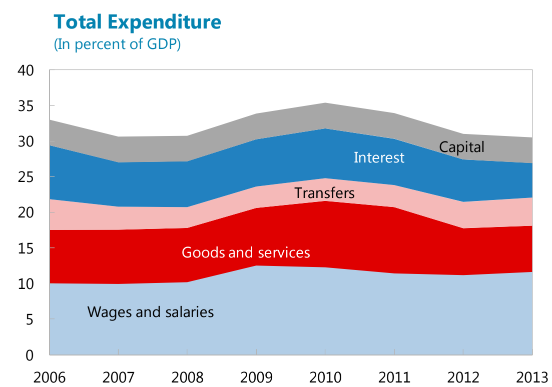
… and the government is now a net creditor to the domestic financial system.



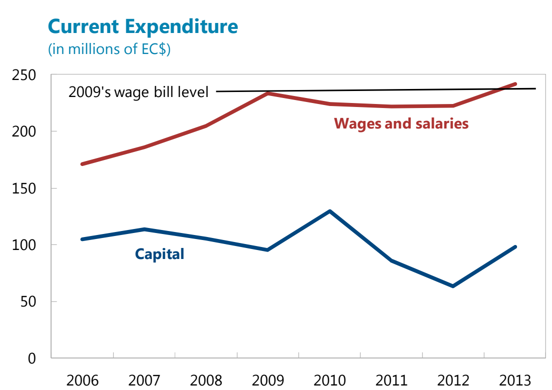
Total revenue improved markedly, mainly on account of buoyant CBI inflows …



… while spending has been contained, ….



… reflecting the capping of the wage bill, interest savings and the compression of capital expenditures.



Indeed, the wage bill adjustment is one of the largest in the region.

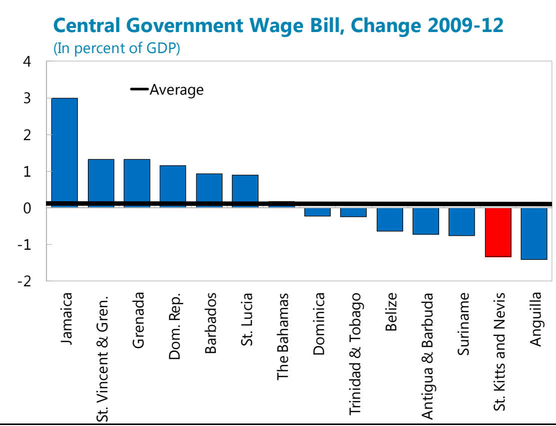
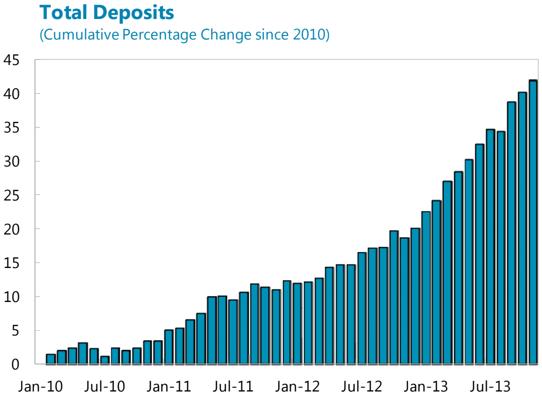
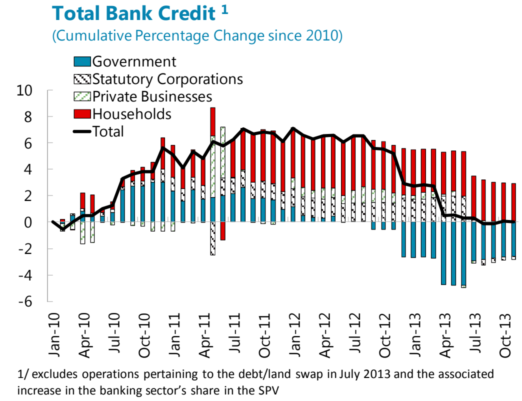


Figure 3. St. Kitts and Nevis: Monetary Developments

The increase in bank deposits accelerated from end-2012…

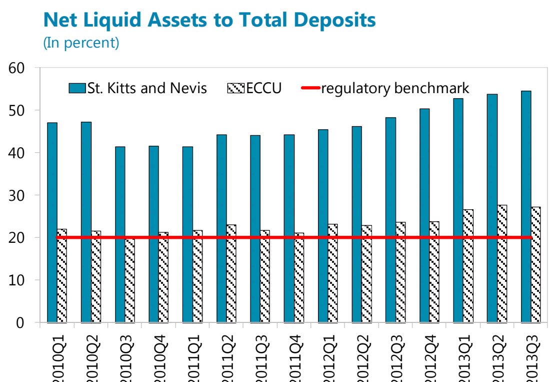


…while total bank credit is declining,

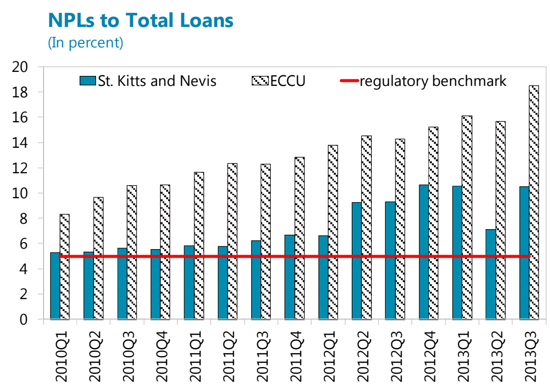


1/ excludes operations pertaining to the debt/land swap in July 2013 and the associated increase in the banking sector's share in the SPV

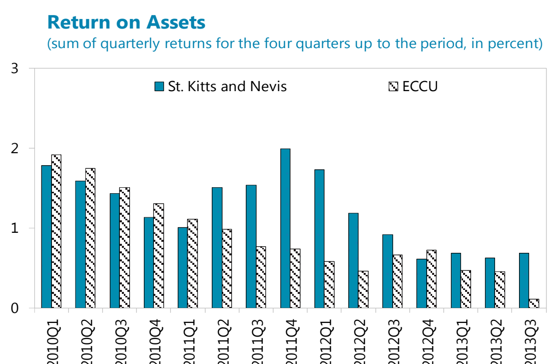
leading to a steady increase in banks' liquidity, already high for the region.



After declining following the debt restructuring, NPLs rose again, as a result of the debt-land swap.



The deterioration in quality of the loans portfolio and the public debt restructuring have reduced banks' profitability.



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

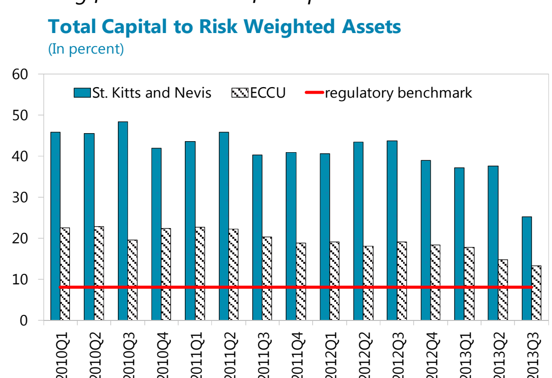


Table 1. St. Kitts and Nevis: Basic Data

I. Social, Geographic and Demographic Indicators

Area (sq. km)	269.4	Adult literacy rate (percent, 2009)	97.8
Population		Health and nutrition	
Total (thousands, 2012)	53.6	Calorie intake (per capita a day, 2011)	2,452
Rate of growth (percent per year, 2012)	1.15	Population per physician (thousand, 2000)	1.1
Density (per sq. km., 2011)	203.7	Access to safe water (percent, 2008)	99
Net migration rate (per thousand, 2012)	1.2	AIDS incidence rate (per 100,000, 2011)	32
Population characteristics (2008)		Gross domestic product (2012)	
Life expectancy at birth (years)	73	(millions of U.S. dollars)	733
Infant mortality (per thousand live births)	9.2	(millions of E.C. dollars)	1,980
Under 5 mortality rate (per thousand)	15	(US$ per capita)	11,223

II. Economic and Financial Indicators, 2010—15

				Prog. 1/	Proj.		
	2010	2011	2012	2013	2013	2014	2015
(Annual percentage change; unless otherwise specified)							
National income and prices							
Real GDP (factor cost)	-3.8	-1.9	-0.9	2.0	1.7	2.7	3.0
Consumer prices, end-of-period	5.2	2.8	0.1	2.5	0.4	1.5	2.0
Consumer prices, period average	0.6	7.1	1.4	2.5	0.7	0.7	1.8
Real effective exchange rate (end-of-period)	-2.5	2.3	-0.8	...	...	...	...
Banking system							
Net foreign assets 2/	1.1	15.5	21.8	8.5	14.5	3.5	-0.3
Net domestic assets 2/	7.8	-5.5	-10.4	-3.8	-4.9	0.8	-0.5
Of which							
Credit to public sector	4.9	-9.0	-10.7	-4.1	-37.0	-11.0	0.1
Credit to private sector	2.6	2.6	0.1	0.1	-1.4	2.2	2.1
Broad money	8.9	10.0	11.4	4.7	9.5	4.3	-0.8
Of which							
Money	43.1	34.7	12.0	4.7	-6.2	2.0	1.5
Quasi-money	3.3	4.4	11.3	4.7	14.1	4.9	-1.4
(In percent of GDP)							
Public sector 3/							
Primary balance	-0.8	8.3	10.9	7.4	15.5	4.6	4.9
Primary balance including 14 public enterprises	1.5	10.5	12.1	...	17.3	5.3	5.5
Overall balance	-7.8	1.8	5.0	2.5	10.6	1.6	2.1
Overall balance (less CBI)	-10.1	-2.8	-2.2	-2.8	-2.4	-3.1	-2.4
Total revenue and grants	31.0	37.2	35.9	33.0	42.3	34.2	33.7
Revenue	28.2	33.6	32.7	30.4	37.3	29.5	29.7
o.w. CBI fees	2.3	4.6	7.1	5.4	13.0	4.7	4.4
Grants	2.8	3.5	3.2	2.6	4.9	4.7	3.9
Total expenditure and net lending 4/	38.8	35.4	30.9	30.5	31.7	32.6	31.6
Current expenditure	31.7	30.9	27.7	26.0	26.9	26.3	25.6
Capital expenditure and net lending	7.1	4.4	3.2	4.5	4.7	6.3	6.0
Foreign financing 5/	0.3	0.3	-5.3	-1.3	0.5	-1.1	-3.7
Domestic financing	7.7	-8.8	-13.8	-26.3	-36.1	-3.5	1.3
Change in arrears	1.0	1.6	-1.0	-0.6	-0.6	0.0	0.0
Sale of assets	0.7	0.4	0.5	0.2	0.2	0.4	0.4
Extraordinary financing 6/	...	...	15.5	25.5	25.4	2.6	0.0
Statistical discrepancy	-1.9	4.6	-0.9	-	0.0	...	...
Total public debt (end-of-period) 7/	163.9	154.0	137.0	105.1	104.9	91.2	84.6
Central government	129.4	122.8	110.3	80.2	80.1	76.1	70.1
Public enterprises	34.4	31.1	26.7	24.9	24.8	15.1	14.4
Public debt service (percent of total revenue and grants)	29.1	22.2	57.3	19.5	15.1	15.4	22.1
External sector							
External current account balance	-21.4	-15.4	-11.8	-16.0	-8.5	-17.4	-17.0
Trade balance	-28.9	-25.4	-22.3	-22.8	-25.7	-26.5	-26.5
Services, net	5.0	7.4	8.6	6.0	14.8	7.1	7.3
Of which							
Tourism receipts	13.4	12.9	13.0	12.9	13.1	13.5	13.9
Transfers, net	6.9	6.5	4.0	3.9	4.5	4.3	4.3
Net capital inflow 8/	25.3	17.7	4.7	14.3	11.9	18.2	17.8
FDI (net)	16.4	15.3	18.2	16.2	20.4	18.5	17.1
External public debt (end-of-period)	49.5	50.5	42.3	43.1	42.5	41.5	35.4
(In percent of exports of goods and nonfactor services)							
External public debt service	24.5	23.6	10.4	10.0	8.3	12.5	18.0
External public debt (end-of-period)	159.8	149.5	120.0	130.6	108.5	131.9	111.4
Memorandum items							
Gross international reserves, end-of-period							
(in millions of U.S. dollars)	155.7	231.5	250.8	252.6	284.1	287.9	272.0
(in percent of broad money)	22.1	29.9	29.0	29.1	30.0	29.2	27.8
Holdings of SDRs, in millions of U.S. dollars	12.8	12.8	12.8	13.8	13.8	13.8	13.8
Nominal GDP at market prices (in millions of EC$)	1,818	1,936	1,980	2,064	2,071	2,147	2,250

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

1/ Country Report No. 14/49.

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

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

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

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

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

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

8/ Includes errors and omissions.

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

(In millions of Eastern Caribbean dollars)

				Prog. 2/	Proj.							
	2010	2011	2012	2013	2013	2014	2015	2016	2017	2018	2019	2020
Total revenue	**513.5**	**651.1**	**648.2**	**627.9**	**772.9**	**632.4**	**668.6**	**693.6**	**724.2**	**728.6**	**754.4**	**780.6**
Current revenue	513.5	650.0	647.9	627.9	772.9	632.4	668.6	693.6	724.2	728.6	754.4	780.6
Tax revenue	342.4	408.1	401.6	431.7	416.7	449.2	481.6	507.4	537.7	568.2	600.3	633.2
Taxes on income	92.6	86.6	81.4	87.1	84.9	84.8	90.2	95.0	100.3	105.8	111.7	116.7
Taxes on property	9.4	8.8	12.9	12.2	15.0	15.7	16.5	17.4	18.4	19.5	20.6	21.7
Taxes on domestic goods and consumption 3/	84.2	208.3	206.0	216.8	210.5	229.6	245.1	258.6	273.5	289.0	305.5	322.9
Taxes on international trade and transactions	156.3	104.4	101.2	115.6	106.3	119.1	129.8	136.5	145.6	153.9	162.6	171.9
Nontax revenue 4/	171.0	241.9	246.4	196.2	356.2	183.2	187.0	186.2	186.5	160.4	154.1	147.3
Citizenship by investment	42.1	88.8	141.0	110.5	270.0	100.0	100.0	100.0	100.0	80.0	80.0	80.0
Other	129.0	153.1	105.4	85.7	86.2	83.2	87.0	86.2	86.5	80.4	74.1	67.3
Total expenditure and net lending	**706.1**	**684.5**	**612.2**	**629.7**	**655.6**	**699.7**	**711.2**	**723.2**	**752.4**	**785.9**	**830.8**	**870.1**
Current expenditure	576.3	598.8	549.0	537.1	557.3	564.1	577.2	581.7	602.8	627.9	653.8	678.1
Wages and salaries	224.0	222.0	222.3	222.0	241.6	245.2	251.8	259.6	270.8	282.3	294.4	307.0
Goods and services 4/	169.1	179.7	130.1	120.4	134.1	135.8	140.1	147.9	156.5	165.4	174.8	181.9
Interest	127.0	126.0	118.2	100.3	100.4	64.8	63.5	60.2	59.3	59.6	60.4	61.0
Domestic	86.7	91.6	79.4	80.4	80.4	42.7	44.6	46.1	46.3	47.2	48.7	49.7
Foreign	40.3	34.4	38.8	19.9	20.0	22.0	18.9	14.0	13.0	12.3	11.8	11.3
Transfers	56.2	71.1	78.3	94.3	81.2	118.3	121.8	114.0	116.2	120.6	124.2	128.1
Net lending	5.8	-0.6	0.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Capital expenditure	124.0	86.3	63.2	91.5	97.3	134.6	133.1	140.5	148.6	157.0	176.0	191.0
Current balance	**-62.8**	**51.2**	**98.9**	**90.8**	**215.7**	**68.3**	**91.4**	**111.9**	**121.4**	**100.7**	**100.6**	**102.5**
Overall balance (before grants)	-192.6	-33.3	35.9	-1.7	117.3	-67.3	-42.6	-29.6	-28.2	-57.3	-76.4	-89.5
Grants	50.7	68.3	62.4	53.6	102.4	101.7	88.9	86.2	77.5	82.3	82.8	81.3
Overall balance (after grants)	**-141.9**	**35.0**	**98.3**	**51.8**	**219.8**	**34.5**	**46.2**	**56.6**	**49.3**	**25.0**	**6.4**	**-8.2**
Primary balance	-14.9	160.9	216.5	152.2	320.2	99.2	109.7	116.8	108.5	84.6	66.8	52.8
Overall balance (after grants less CBI)	**-184.0**	**-53.9**	**-42.7**	**-58.7**	**-50.2**	**-65.5**	**-53.8**	**-43.4**	**-50.7**	**-55.0**	**-73.6**	**-88.2**
Primary balance (after grants less CBI)	-57.0	72.1	75.5	41.7	50.2	-0.8	9.7	16.8	8.5	4.6	-13.2	-27.2
Financing	**176.3**	**-124.4**	**-80.5**	**-51.8**	**-219.8**	**-34.5**	**-46.2**	**-56.6**	**-49.3**	**-25.0**	**-6.4**	**8.2**
Net foreign financing	5.0	6.4	-105.1	-27.0	9.7	-23.7	-84.1	-92.8	-53.2	-34.3	-18.2	-17.9
Disbursements 5/	41.9	143.3	94.6	5.8	41.7	24.6	19.5	19.4	14.2	10.9	10.0	10.0
Amortization	36.9	136.9	199.7	32.8	32.0	48.3	103.6	112.2	67.4	45.2	28.2	27.9
Net domestic financing	140.3	-170.7	-272.4	-543.4	-748.1	-75.6	29.1	26.9	-5.9	-1.1	0.8	14.5
Banking system	105.2	-206.6	-260.4	-543.4	-748.1	-75.6	29.1	26.9	-5.9	-1.1	0.8	14.5
Nonbanks and other	11.4	-2.0	-12.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	18.3	31.8	-19.9	-12.2	-12.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	0.0	63.8	-24.4	-12.2	-12.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	0.0	49.1	-17.2	-7.8	-7.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.0	14.7	-7.2	-4.4	-4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	18.3	-32.0	4.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sale/purchase of assets	12.8	8.1	9.6	4.0	4.0	8.4	8.8	9.3	9.8	10.4	11.0	11.6
Exceptional financing			307.3	526.8	526.8	56.5	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	-34.4	89.4	-17.8	0.0	0.0	...	...	...	...	...	...	...
Financing gap	...	...	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
GDP (market prices)	1,818	1,936	1,980	2,064	2,071	2,147	2,250	2,376	2,513	2,656	2,807	2,967
Public sector debt (end of period)	2,978	2,981	2,713	2,169	2,172	1,958	1,903	1,837	1,778	1,742	1,725	1,753
Central government	2,353	2,378	2,184	1,655	1,658	1,633	1,578	1,513	1,453	1,418	1,401	1,429
Domestic	1,641	1,555	1,427	925	892	891	920	947	941	940	940	987
External	711	823	757	730	767	743	659	566	513	479	460	443
Public enterprises	626	603	529	513	513	325	325	324	324	324	324	324

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

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

2/ Country Report No. 14/49.

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

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

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

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

(In percent of GDP)

				Prog. 2/	Proj.							
	2010	2011	2012	2013	2013	2014	2015	2016	2017	2018	2019	2020
Total revenue	**28.2**	**33.6**	**32.7**	**30.4**	**37.3**	**29.5**	**29.7**	**29.2**	**28.8**	**27.4**	**26.9**	**26.3**
Current revenue	28.2	33.6	32.7	30.4	37.3	29.5	29.7	29.2	28.8	27.4	26.9	26.3
Tax revenue	18.8	21.1	20.3	20.9	20.1	20.9	21.4	21.4	21.4	21.4	21.4	21.3
Taxes on income	5.1	4.5	4.1	4.2	4.1	4.0	4.0	4.0	4.0	4.0	4.0	3.9
Taxes on property	0.5	0.5	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Taxes on domestic goods and consumption 3/	4.6	10.8	10.4	10.5	10.2	10.7	10.9	10.9	10.9	10.9	10.9	10.9
Taxes on international trade and transactions	8.6	5.4	5.1	5.6	5.1	5.5	5.8	5.7	5.8	5.8	5.8	5.8
Nontax revenue 4/	9.4	12.5	12.4	9.5	17.2	8.5	8.3	7.8	7.4	6.0	5.5	5.0
Citizenship by investment	2.3	4.6	7.1	5.4	13.0	4.7	4.4	4.2	4.0	3.0	2.9	2.7
Other	7.1	7.9	5.3	4.2	4.2	3.9	3.9	3.6	3.4	3.0	2.6	2.3
Total expenditure and net lending	**38.8**	**35.4**	**30.9**	**30.5**	**31.7**	**32.6**	**31.6**	**30.4**	**29.9**	**29.6**	**29.6**	**29.3**
Current expenditure	31.7	30.9	27.7	26.0	26.9	26.3	25.6	24.5	24.0	23.6	23.3	22.9
Wages and salaries	12.3	11.5	11.2	10.8	11.7	11.4	11.2	10.9	10.8	10.6	10.5	10.3
Goods and services 4/	9.3	9.3	6.6	5.8	6.5	6.3	6.2	6.2	6.2	6.2	6.2	6.1
Interest	7.0	6.5	6.0	4.9	4.8	3.0	2.8	2.5	2.4	2.2	2.2	2.1
Domestic	4.8	4.7	4.0	3.9	3.9	2.0	2.0	1.9	1.8	1.8	1.7	1.7
Foreign	2.2	1.8	2.0	1.0	1.0	1.0	0.8	0.6	0.5	0.5	0.4	0.4
Transfers	3.1	3.7	4.0	4.6	3.9	5.5	5.4	4.8	4.6	4.5	4.4	4.3
Net lending	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	6.8	4.5	3.2	4.4	4.7	6.3	5.9	5.9	5.9	5.9	6.3	6.4
Current balance	**-3.5**	**2.6**	**5.0**	**4.4**	**10.4**	**3.2**	**4.1**	**4.7**	**4.8**	**3.8**	**3.6**	**3.5**
Overall balance (before grants)	-10.6	-1.7	1.8	-0.1	5.7	-3.1	-1.9	-1.2	-1.1	-2.2	-2.7	-3.0
Grants	2.8	3.5	3.2	2.6	4.9	4.7	3.9	3.6	3.1	3.1	3.0	2.7
Overall balance (after grants)	**-7.8**	**1.8**	**5.0**	**2.5**	**10.6**	**1.6**	**2.1**	**2.4**	**2.0**	**0.9**	**0.2**	**-0.3**
Primary balance	-0.8	8.3	10.9	7.4	15.5	4.6	4.9	4.9	4.3	3.2	2.4	1.8
Overall balance (after grants less CBI)	**-10.1**	**-2.8**	**-2.2**	**-2.8**	**-2.4**	**-3.1**	**-2.4**	**-1.8**	**-2.0**	**-2.1**	**-2.6**	**-3.0**
Primary balance (after grants less CBI)	-3.1	3.7	3.8	2.0	2.4	0.0	0.4	0.7	0.3	0.2	-0.5	-0.9
Financing	**9.7**	**-6.4**	**-4.1**	**-2.5**	**-10.6**	**-1.6**	**-2.1**	**-2.4**	**-2.0**	**-0.9**	**-0.2**	**0.3**
Net foreign financing	0.3	0.3	-5.3	-1.3	0.5	-1.1	-3.7	-3.9	-2.1	-1.3	-0.6	-0.6
Disbursements 5/	2.3	7.4	4.8	0.3	2.0	1.1	0.9	0.8	0.6	0.4	0.4	0.3
Amortization	2.0	7.1	10.1	1.6	1.5	2.2	4.6	4.7	2.7	1.7	1.0	0.9
Net domestic financing	7.7	-8.8	-13.8	-26.3	-36.1	-3.5	1.3	1.1	-0.2	0.0	0.0	0.5
Banking system	5.8	-10.7	-13.2	-26.3	-36.1	-3.5	1.3	1.1	-0.2	0.0	0.0	0.5
Nonbanks and other	0.6	-0.1	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	1.0	1.6	-1.0	-0.6	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	0.0	3.3	-1.2	-0.6	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	0.0	2.5	-0.9	-0.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.0	0.8	-0.4	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	1.0	-1.7	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sale/purchase of assets	0.7	0.4	0.5	0.2	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Exceptional financing	0.0	0.0	15.5	25.5	25.4	2.6	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	-1.9	4.6	-0.9	0.0	0.0	...	...	...	...	...	...	...
Financing gap	...	...	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Public sector debt (end of period)	163.9	154.0	137.0	105.1	104.9	91.2	84.6	77.3	70.7	65.6	61.4	59.1
Of which												
Central government	129.4	122.8	110.3	80.2	80.1	76.1	70.1	63.7	57.8	53.4	49.9	48.2
Domestic	90.3	80.3	72.1	44.8	43.1	41.5	40.9	39.8	37.4	35.4	33.5	33.3
External	39.1	42.5	38.2	35.4	37.0	34.6	29.3	23.8	20.4	18.0	16.4	14.9
Public Enterprises	34.4	31.1	26.7	24.9	24.8	15.1	14.4	13.7	12.9	12.2	11.5	10.9

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

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

2/ Country Report No. 14/49.

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

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

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

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

				Est.	Proj.						
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
					(In millions of Eastern Caribbean dollars)						
Current account	**-389.4**	**-298.2**	**-234.4**	**-175.7**	**-372.6**	**-383.5**	**-384.8**	**-394.8**	**-417.0**	**-424.4**	**-432.8**
Trade balance	-525.4	-490.8	-441.8	-531.5	-569.4	-596.7	-620.6	-645.5	-668.4	-692.0	-716.4
Exports, f.o.b.	156.9	183.8	172.6	149.6	162.0	172.8	185.0	197.9	212.0	227.2	243.2
Imports f.o.b.	-682.2	-674.6	-614.4	-681.1	-731.4	-769.5	-805.7	-843.4	-880.5	-919.2	-959.6
Of which											
Mineral fuel	-68.8	-101.7	-103.6	-103.6	-100.2	-96.5	-93.3	-91.4	-90.4	-90.4	-90.4
Services and transfers (net)	135.9	192.7	207.4	355.8	196.8	213.2	235.8	250.7	251.4	267.6	283.6
Services (net)	90.6	143.8	169.6	307.2	152.6	163.4	177.3	189.6	183.3	194.9	206.5
Services (receipts)	406.3	470.8	524.6	661.2	513.7	541.0	572.0	602.9	615.8	650.9	688.5
Tourism receipts	243.1	249.9	256.4	272.0	290.0	312.1	336.8	360.6	386.0	413.2	442.4
Other	163.3	221.0	268.2	389.3	223.7	228.9	235.2	242.3	229.8	237.7	246.1
Services (payments)	-315.7	-327.0	-355.0	-354.0	-361.2	-377.6	-394.7	-413.3	-432.5	-456.0	-482.0
Factor income (net)	-80.4	-77.0	-40.8	-43.8	-48.4	-47.9	-43.4	-43.3	-40.4	-40.2	-40.4
Of which											
Public sector interest	-48.7	-37.8	-18.8	-20.9	-24.6	-23.0	-17.0	-15.5	-11.0	-9.1	-7.4
Transfers (net)	125.8	125.8	78.6	92.5	92.7	97.8	101.9	104.4	108.6	113.0	117.5
Official (net)	34.0	44.6	-9.0	5.0	1.1	2.2	2.2	2.2	2.2	2.2	2.2
Private (net)	91.8	81.2	87.6	87.4	91.6	95.6	99.6	102.2	106.4	110.8	115.3
Capital and financial account	**488.7**	**384.3**	**141.5**	**246.1**	**390.6**	**401.5**	**425.0**	**430.5**	**431.0**	**446.1**	**457.4**
Official	13.9	-11.7	-61.9	58.6	36.4	19.1	21.0	9.6	-7.7	5.9	12.5
Capital transfers (net)	37.1	47.0	65.3	46.3	59.5	45.5	42.9	34.1	39.0	39.5	38.0
Long-term borrowing (net)	-23.2	-58.7	-127.2	12.3	-23.1	-26.4	-21.8	-24.5	-46.7	-33.6	-25.5
Disbursements	42.2	58.3	28.7	58.4	24.6	19.5	19.4	14.2	10.9	10.0	10.0
Amortization	-65.4	-116.9	-53.5	-46.1	-47.7	-45.9	-41.2	-38.8	-57.6	-43.6	-35.5
Debt forgiveness	...	...	-102.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private capital	474.8	395.9	203.5	187.5	354.2	382.5	403.9	420.9	438.7	440.2	444.9
Capital transfers (net)	125.4	175.8	202.8	209.9	100.3	100.3	100.3	100.3	82.8	82.8	82.0
Foreign direct investment (net)	298.2	296.0	359.5	423.3	397.1	385.9	399.5	413.7	424.9	424.9	424.4
Portfolio investment (net)	-40.2	-43.4	-24.8	-44.8	-24.8	-24.8	-24.8	-24.8	-24.8	-24.8	-24.8
Commercial bank NFA accumulation	54.7	-75.0	-402.4	-252.2	-80.0	-35.0	-30.0	-30.0	-30.0	-30.0	-30.0
Other (net)	36.6	42.6	68.3	-148.7	-38.5	-44.0	-41.1	-38.3	-14.2	-12.7	-6.7
Errors and omissions	-29.2	-40.8	-48.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**70.1**	**45.3**	**-141.2**	**70.4**	**18.0**	**18.0**	**40.2**	**35.7**	**14.0**	**21.7**	**24.6**
Financing	**-70.1**	**-45.3**	**141.2**	**-70.4**	**-18.0**	**-18.0**	**-40.2**	**-35.7**	**-14.0**	**-21.7**	**-24.6**
Net international reserves	-88.4	-204.9	-54.4	-94.8	-12.6	42.8	32.8	-16.0	-18.0	-33.0	-35.0
Change in arrears	18.3	63.9	-15.4	3.2	-0.5	4.5	5.2	5.4	5.4	5.3	5.3
Net use of IMF resources	...	95.7	90.5	18.4	-12.0	-71.5	-84.0	-30.8	-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	-12.0	-71.5	-84.0	-30.8	-6.9	0.0	0.0
Debt forgiveness	...	0.0	120.5	2.7	7.1	6.1	5.9	5.7	5.5	6.0	5.1
					(In percent of GDP)						
Current account	-21.4	-15.4	-11.8	-8.5	-17.4	-17.0	-16.2	-15.7	-15.7	-15.1	-14.6
Current account, excluding CBI receipts	-23.7	-20.0	-19.0	-21.5	-22.0	-21.5	-20.4	-19.7	-18.7	-18.0	-17.3
Exports of goods and nonfactor services	31.0	33.8	35.2	39.2	31.5	31.7	31.9	31.9	31.2	31.3	31.4
Merchandise exports	8.6	9.5	8.7	7.2	7.5	7.7	7.8	7.9	8.0	8.1	8.2
Nonfactor services 1/	22.4	24.3	26.5	31.9	23.9	24.0	24.1	24.0	23.2	23.2	23.2
Tourism receipts	13.4	12.9	13.0	13.1	13.5	13.9	14.2	14.4	14.5	14.7	14.9
Other	9.0	11.4	13.5	18.8	10.4	10.2	9.9	9.6	8.7	8.5	8.3
Imports of goods and nonfactor services	-54.9	-51.7	-49.0	-50.0	-50.9	-51.0	-50.5	-50.0	-49.4	-49.0	-48.6
Merchandise imports	-37.5	-34.8	-31.0	-32.9	-34.1	-34.2	-33.9	-33.6	-33.2	-32.7	-32.3
Nonfactor services	-17.4	-16.9	-17.9	-17.1	-16.8	-16.8	-16.6	-16.4	-16.3	-16.2	-16.2
Foreign direct investment (net)	16.4	15.3	18.2	20.4	18.5	17.1	16.8	16.5	16.0	15.1	14.3
External public debt	49.5	50.5	42.3	42.5	41.5	35.4	29.1	25.1	22.1	20.3	18.3
					(Annual percentage change)						
Merchandise exports	55.2	17.2	-6.1	-13.3	8.2	6.7	7.1	7.0	7.1	7.1	7.1
Tourism receipts	7.8	2.8	2.6	6.1	6.6	7.6	7.9	7.1	7.1	7.1	7.1
Merchandise imports	-4.9	-1.1	-8.9	10.9	7.4	5.2	4.7	4.7	4.4	4.4	4.4
Terms of trade	11.6	10.1	2.9	0.1	2.2	-1.8	-1.9	-1.8	-1.0	1.3	1.2
					(In percent of exports of goods and nonfactor services)						
External public debt	159.8	149.5	120.0	108.5	131.9	111.4	91.5	78.7	71.0	64.9	58.2
External debt service	24.5	23.6	10.4	8.3	12.5	18.0	18.7	10.6	8.3	6.0	4.6
Interest	8.3	5.6	2.6	2.5	3.6	3.1	2.2	1.9	1.3	1.0	0.8
Principal	16.1	18.0	7.7	5.7	8.9	14.8	16.5	8.7	7.0	5.0	3.8
					(Millions of US dollar)						
ECCB imputed reserves	155.7	231.5	251.7	283.1	286.9	271.0	258.9	264.8	271.5	283.7	296.7
in month of importd of goods and services	5.0	7.7	7.9	8.4	8.1	7.3	6.7	6.5	6.4	6.4	6.4

Sources: ECCB; and Fund staff estimates.

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

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

	2010	2011	2012	Est. 2013	Proj. 2014	2015
	(In millions of EC$)					
Net foreign assets	**730.1**	**1025.0**	**1481.8**	**1818.9**	**1908.9**	**1901.1**
ECCB imputed reserves	420.3	625.1	679.5	764.4	774.4	731.6
Crown agents	10.6	10.6	10.6	10.6	10.6	10.6
Commercial banks	299.2	389.3	791.7	1043.9	1123.9	1158.9
Net domestic assets	**1172.6**	**1067.2**	**850.0**	**735.5**	**755.5**	**741.5**
Net credit to the public sector	476.4	305.7	81.4	-781.0	-1061.3	-1057.4
Net credit to central government	850.8	726.2	576.1	-171.3	-246.9	-237.8
Net credit to St. Kitts 1/	676.6	526.4	383.0	-373.9	-391.9	-386.8
Net credit to Nevis 2/	174.3	199.8	193.1	202.6	145.0	149.0
Net credit to non-financial public sector 3/	-374.5	-420.5	-494.7	-609.8	-814.4	-819.6
Credit to the private sector	1356.6	1406.4	1408.5	1374.8	1429.8	1487.0
Net other assets 4/	-660.4	-644.8	-640.0	141.7	387.0	311.8
Broad money (M2)	**1902.7**	**2092.3**	**2331.8**	**2554.4**	**2664.4**	**2642.5**
Money	349.0	470.2	526.8	494.0	503.9	511.5
Currency in circulation	101.1	102.0	107.6	129.6	132.2	134.2
Demand deposits	248.0	368.2	419.2	364.4	371.7	377.3
Quasi-money	1553.7	1622.0	1805.0	2060.4	2160.5	2131.1
Savings deposits	638.4	684.8	753.3	832.0	848.6	861.4
Time deposits	552.4	581.3	555.0	591.0	620.6	629.9
Foreign currency deposits	362.8	356.0	496.7	637.4	691.3	639.8
	(Percentage change relative to broad money at beginning of period)					
Net foreign assets	1.1	15.5	21.8	14.5	3.5	-0.3
Net domestic assets	7.8	-5.5	-10.4	-4.9	0.8	-0.5
Net credit to the public sector	4.9	-9.0	-10.7	-37.0	-11.0	0.1
Net credit to central government 1/2/	24.2	-6.5	-7.2	-32.1	-3.0	0.3
Net credit to non-financial public sector 3/	-19.3	-2.4	-3.5	-4.9	-8.0	-0.2
Credit to the private sector	2.6	2.6	0.1	-1.4	2.2	2.1
Net other assets 4/	0.3	0.8	0.2	33.5	9.6	-2.8
	(Annual percentage change)					
Broad money (M2)	8.9	10.0	11.4	9.5	4.3	-0.8
Money	43.1	34.7	12.0	-6.2	2.0	1.5
Currency in circulation	29.0	0.9	5.5	20.4	2.0	1.5
Demand deposits	49.8	48.5	13.8	-13.1	2.0	1.5
Quasi-money	3.3	4.4	11.3	14.1	4.9	-1.4
Savings deposits	0.0	7.3	10.0	10.5	2.0	1.5
Time deposits	12.5	5.2	-4.5	6.5	5.0	1.5
Foreign currency deposits	-3.1	-1.9	39.5	28.3	8.5	-7.4
Credit to the private sector (in nominal terms)	3.5	3.7	0.2	-2.4	4.0	4.0
Credit to the private sector (in real terms)	-1.6	0.8	0.1	-2.8	2.5	2.0
Memorandum items:						
Income velocity of money	5.2	4.1	3.8	4.2	4.3	4.4
Income velocity of broad money	1.0	0.9	0.8	0.8	0.8	0.9
Private sector credit/GDP (in percent)	74.6	72.6	71.1	66.4	66.6	66.1
Foreign currency deposits/GDP (in percent)	20.0	18.4	25.1	30.8	32.2	28.4

Sources: ECCB; and Fund staff estimates.

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

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

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

4/ As of 2013, shares in the Special Purpose Vehicle are included.

Table 6. St. Kitts and Nevis: Indicators of External and Financial Vulnerability, 2007–13

(12-month percentage change, unless otherwise stated)

	2007	2008	2009	2010	2011	2012	Proj. 2013
External indicators							
Merchandise exports	-1.0	19.5	-45.6	55.2	17.2	-6.1	-13.3
Merchandise imports	9.1	30.2	-14.8	-4.9	-1.1	-8.9	10.9
Terms of trade deterioration (-)	2.6	10.8	-15.5	11.6	10.1	2.9	0.1
Tourism earnings	-5.2	-11.8	-24.1	7.8	2.8	2.6	6.1
Current account balance (percent of GDP)	-16.1	-27.3	-27.3	-21.5	-15.7	-11.9	-8.5
Capital and financial account balance (percent of GDP) 1/	15.5	25.6	28.8	26.9	20.0	7.1	11.9
Of which							
Foreign direct investment	19.5	24.0	17.1	16.4	15.3	18.2	20.4
Gross international reserves of the ECCB							
In millions of U.S. dollars	764.5	759.0	800.8	926.1	1007.5	1123.6	1132.7
In percent of broad money	18.5	16.9	17.7	20.0	21.2	22.7	21.9
Commercial banks' net foreign assets (millions of U. S. dollars)	145.5	200.9	136.7	110.8	144.2	293.2	386.6
External public debt (percent of GDP)	41.9	44.6	48.1	49.5	50.5	42.3	42.5
External debt service (in percent of exports of goods and services)	21.0	22.9	26.3	24.5	23.7	10.4	8.3
Interest	7.9	8.3	11.0	8.3	5.6	2.6	2.5
Principal	13.1	14.6	15.4	16.1	18.1	7.7	5.7
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 2/	-0.7	-0.4	2.8	-2.5	2.3	-0.8	-0.7
Financial indicators							
Broad money	11.9	1.6	5.9	8.9	10.0	11.4	9.5
Credit to the private sector	11.9	5.9	5.5	3.5	3.7	0.2	-2.4
Share of nonperforming assets to total assets of banks (percent) 3/	4.1	4.5	4.3	5.5	6.6	10.6	10.5
Provisions for loan losses/nonperforming assets (percent) 3/	23.9	20.0	48.9	42.2	38.3	32.1	42.0
Provisions for loan losses/total loans (percent) 3/	1.0	0.9	2.1	2.3	2.5	3.4	4.4
Gross government exposure/total assets (percent) 3/	29.1	28.2	26.1	26.6	24.3	22.6	10.7
Total loans/total deposits (percent) 3/	86.9	88.7	77.4	78.1	73.0	65.9	43.8
Net liquid assets/total deposits (percent) 3/	37.9	42.5	42.9	41.6	44.2	50.4	54.6
Foreign currency deposits/total deposits (percent) 3/	23.4	22.9	30.2	27.5	25.6	25.9	24.4
Liquid assets/total asset (percent) 3/	38.0	39.5	43.7	41.9	44.2	47.8	52.0
Liquid assets/current liabilities (percent) 3/	47.5	48.4	50.9	51.5	51.8	56.2	59.5
Total capital/total assets (percent) 3/, 4/	15.0	16.8	19.3	18.4	16.3	15.8	13.1
Total Capital/Risk Weighted Assets (percent) 3/, 4/	43.8	42.7	47.6	42.4	40.7	38.2	24.2
Tier 1 Capital/Risk Weighted Assets (percent) 3/, 4/	37.7	40.1	42.0	36.8	40.1	38.5	24.6
Ratio of bank's before-tax profits to average assets (percent) 3/	4.0	4.7	2.1	1.1	2.0	0.6	0.1

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

1/ Includes errors and omissions.

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

3/ 2013 values are as of Q3.

4/ For locally incorporated banks only.

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

(In millions of U.S. dollars)

		Est.	Proj.						
	2012	2013	2014	2015	2016	2017	2018	2019	2020
Gross financing requirement	**288.6**	**265.7**	**204.4**	**172.6**	**172.2**	**192.0**	**199.0**	**201.6**	**200.2**
Current account deficit	87.0	65.3	138.3	142.3	142.9	146.1	154.3	157.0	160.1
Amortization	181.5	165.4	61.5	46.1	41.4	40.0	38.0	32.3	27.1
Official (public sector and central government)	57.7	17.1	17.7	17.0	15.3	14.4	13.5	13.2	12.8
of which, debt forgiveness	37.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector (net)	123.7	148.3	43.9	29.1	26.2	25.6	24.6	19.1	14.3
Commercial banks	149.0	93.4	29.6	13.0	11.1	11.1	11.1	11.1	11.1
Other private	-25.3	54.9	14.2	16.2	15.0	14.5	13.5	8.0	3.1
Reserve accumulation (+: increase)	20.1	35.1	4.6	-15.9	-12.1	5.9	6.7	12.2	13.0
Sources of financing	**233.9**	**256.7**	**206.4**	**195.2**	**199.2**	**199.3**	**197.5**	**197.4**	**196.3**
Capital grants and transfers	99.3	94.9	59.2	54.0	53.0	49.8	45.1	45.3	44.4
Foreign Direct Investment (net)	133.2	156.8	147.2	143.1	148.1	153.4	157.6	157.6	157.4
Net inflow of equity and other capital	-9.2	-16.6	-9.2	-9.2	-9.2	-9.2	-9.2	-9.2	-9.2
New borrowing	10.6	21.6	9.1	7.2	7.2	5.3	4.1	3.7	3.7
of which: public sector	10.6	21.6	9.1	7.2	7.2	5.3	4.1	3.7	3.7
Errors and omissions	-17.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of arrears	-5.7	1.2	-0.2	1.7	1.9	2.0	2.0	2.0	2.0
Exceptional external financing	**78.1**	**7.8**	**-1.8**	**-24.2**	**-28.9**	**-9.3**	**-0.5**	**2.2**	**1.9**
IMF net disbursement	33.5	6.8	-4.4	-26.5	-31.1	-11.4	-2.6	0.0	0.0
Fund disbursement	33.5	6.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	0.0	0.0	-4.4	-26.5	-31.1	-11.4	-2.6	0.0	0.0
Debt forgiveness 1/	44.6	1.0	2.6	2.3	2.2	2.1	2.0	2.2	1.9

Sources: St. Kitts and Nevis authorities; Eastern Caribbean Central Bank; and Fund staff estimates.
1/ Includes flow and stock write-down.

Table 8. St. Kitts and Nevis: Indicators of Capacity to Repay the Fund, 2013–20[1]

	2013	2014	2015	2016	2017	2018	2019	2020
Fund obligations based on existing credit								
(in millions of SDRs)	0.80	3.74	17.01	19.55	7.18	1.61	0.00	0.00
Principal	0.56	3.33	16.56	19.32	7.12	1.60	0.00	0.00
Charges and interest	0.24	0.41	0.45	0.23	0.06	0.01	0.00	0.00
Fund obligations based on existing and prospective credit								
(in millions of SDRs)	1.04	4.14	17.54	19.67	8.44	4.22	1.39	0.00
Principal	0.56	3.33	16.56	19.32	8.32	4.17	1.38	0.00
Charges and interest	0.48	0.81	0.98	0.35	0.12	0.05	0.01	0.00
Fund credit outstanding based on existing and prospective credit								
(in millions of SDRs)	47.9	49.7	33.2	13.9	5.6	1.4	0.0	0.0
Total Obligations based on existing and prospective credit								
in millions of U.S. dollars 2/	1.7	6.6	28.1	31.5	13.5	6.8	2.2	0.0
in percent of exports of goods and services	0.6	2.6	10.6	11.2	4.6	2.2	0.7	0.0
in percent of external debt service3/	6.3	17.5	37.1	37.5	30.0	21.0	10.2	0.0
in percent of GDP	0.2	0.8	3.4	3.6	1.5	0.7	0.2	0.0
in percent of quota	11.7	46.5	197.1	221.0	94.8	47.4	15.6	0.0
in percent of net imputed reserves	0.6	2.3	10.3	12.1	5.1	2.5	0.8	0.0
in percent of revenue and grants	0.5	2.4	10.0	10.9	4.5	2.2	0.7	0.0
Outstanding Fund Credit								
in millions of U.S. dollars 2/	76.7	79.6	53.1	22.2	8.9	2.2	0.0	0.0
in percent of exports of goods and services	25.5	31.8	20.1	7.9	3.0	0.7	0.0	0.0
in percent of external debt service 3/	309.3	255.1	111.6	42.3	28.2	8.7	0.0	0.0
in number of months of imports of goods and services	2.4	2.4	1.5	0.6	0.2	0.1	0.0	0.0
in percent of GDP	10.0	10.0	6.4	2.5	1.0	0.2	0.0	0.0
in percent of quota	538.5	558.9	372.8	155.7	62.4	15.5	0.0	0.0
in percent of net imputed reserves	27.0	27.6	19.5	8.5	3.3	0.8	0.0	0.0
Net use of Fund Credit (in millions of SDRs)	0.0	1.8	-16.6	-19.3	-8.3	-4.2	-1.4	0.0
Disbursements	0.6	5.1	0.0	0.0	0.0	0.0	0.0	0.0
Repayment and Repurchases	0.6	3.3	16.6	19.3	8.3	4.2	1.4	0.0
Memorandum items:								
Nominal GDP (in millions of US dollars)	767.0	795.1	833.5	880.0	930.6	983.5	1,039.6	1,098.8
Exports of goods and services (in millions of US dollars)	300.3	250.2	264.4	280.4	296.6	306.6	325.2	345.1
External debt service (in millions of US dollars)	24.8	31.2	47.6	52.5	31.5	25.4	19.5	15.9
Imports of goods and services (in millions of US dollars)	383.4	404.6	424.9	444.6	465.5	486.3	509.3	533.9
Net imputed reserves (in millions of US dollars)	284.1	287.9	272.0	259.9	265.8	272.5	284.7	297.7

1/ Assumes a 3-year SBA with access in the amount of SDR 52.51 million (590 percent of quota). Based on proposed full drawing under proposed precautionary SBA.
2/ US$1 = 0.625 SDR (program exchange rate in TMU).
3/ Including prospective repurchases/repayments.

Annex 1: St. Kitts and Nevis – Risk Assessment Matrix

	Nature/Source of Main Threats Over the Next 3 Years	Like-lihood	Impact	Policy Response
Short-Term	**Unresolved parliamentary challenges in St. Kitts.** A protracted parliamentary challenge may reduce business confidence and adversely impact private domestic and foreign investment.	Medium	High	Continue with fiscal consolidation, save the bulk of CBI receipts and further prioritize public investment according to expected impact on growth.
Short-Term	**Fiscal policy shock in the United States.** A protracted failure to agree on a credible plan to ensure fiscal sustainability could lead to a sustained loss in confidence increasing the sovereign risk premium and bond yields, which would depress US economic activity, with harmful spillovers for growth in St. Kitts and Nevis.	Low	High	Safeguard the fiscal position by intensifying efforts in revenue administration and rationalizing current expenditure while prioritizing growth-enhancing infrastructure investment. Build precautionary balances by saving the bulk of CBI receipts. Form contingency plans for additional measures.
Short/medium term	**Natural disasters**. As in the rest of the Caribbean, natural disasters are occurring more frequently, resulting in substantial damage to infrastructure and entailing large reconstruction costs.	Medium to High	High	Formulate adequate budgetary provisions for disaster mitigation. Coordinate with the World Bank to build resilience to climate change.
Short/medium term	**Financial contagion from other countries in the region.** Banking difficulties experienced in other countries of the region would impact banks in St. Kitts and Nevis through a contagion effect rather than via interbank linkages, which remain relatively weak.	Medium	Medium to High	Coordinate with the ECCU to strengthen banking supervision and regulation procedures and form contingency plans for the event of severe financial stress, including drawing on the resources from the Banking Sector Reserve Fund.
Medium-term	**End visa-free access to St. Kitts and Nevis citizens to Canada and Schengen countries.** A change in foreign countries' policy decisions pertaining to visitors from St. Kitts and Nevis can abruptly reduce the number of applicants to the CBI program and related inflows to the budget and the SIDF. It would also reduce FDI in real estate.	Medium	High	Implement adequate safeguards to minimize risks related to financial integrity and international safety. 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.
Medium-term	**Slow pace of land sales in the context of the debt/land swap.** The St. Kitts and Nevis indigenous banks would suffer a loss of income in the event of sluggish land sales, impacting their capitalization over the medium-term and capacity to extend credit to the private sector.	Medium to High	Medium	Coordinate with the ECCU to form contingency plans in the event of severe financial stress.
Medium-term	**Sharp slowdown in China.** Sharply reduced returns on investment, bankruptcies, and large financial losses could reduce the number of Chinese applicants to the CBI program.	Medium	High	Reduce reliance on CBI revenues for government spending; build precautionary balances by saving the bulk of CBI receipts; devise a financial strategy to ensure the medium-term viability of the SIDF and articulate a more diversified strategy for the development of real estate projects.

Annex II. St. Kitts and Nevis: External Sector Assessment

The relatively weak performance of tourism over the past several years points to competitiveness and growth challenges. The real effective exchange rate (REER) may also be overvalued.

CGER Exchange Rate Assessment Results

	Methods		
	Equilibrium Real Exchange Rate	Macroeconomic Balance	External Sustainability
Current Account Norm		-8.5	-16.9
Misalignment (%)	17.8	35.6	-5.8
Memorandum:			
Underlying Current Account		-15.7	-15.7
Current Account Gap		7.2	-1.2
CAB/RER elasticity		-0.20	-0.20

Sources: WEO and IMF staff estimates.

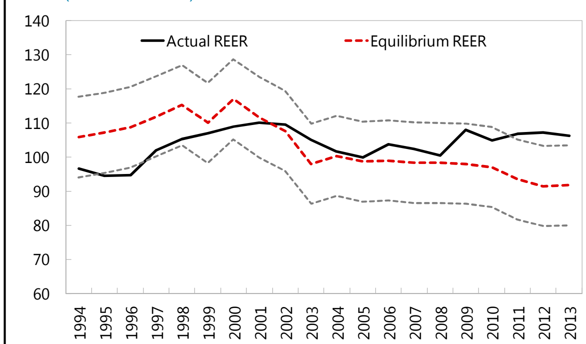
1. The CGER-type analysis presents mixed results, but suggests that the REER may be elevated.

- The equilibrium real exchange rate (ERER) indicates that the REER has appreciated from its equilibrium since 2011, but remains within the 10 percent confidence interval.[1]

- The macro-balance (MB) approach suggests a considerable overvaluation based on the high current account deficits. This reflects in part the high import content of FDI. Net of FDI-associated imports, the implied overvaluation would be less.

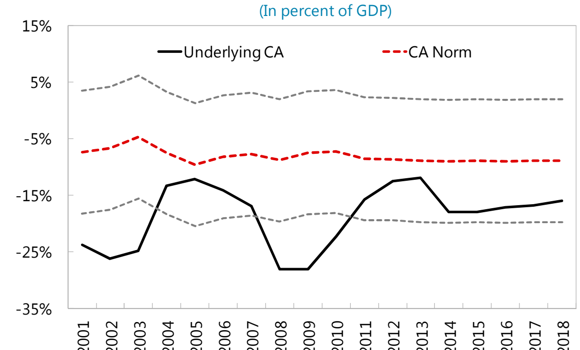
- The external sustainability (ES) methodology points to some degree of undervaluation. The significant growth in capital transfers in recent years renders the current account balance sustainable and indicates that it can accommodate an even larger current account deficit. However, this reflects the high inflows

St Kitts and Nevis: CGER ERER Approach
(Index 2005 = 100)



Sources: WEO and IMF staff estimates.
Note: Grey dotted lines represent the 90 percent confidence interval.

St Kitts and Nevis: CGER Macro Balance Approach
(In percent of GDP)



Sources: WEO and IMF staff estimates.
Note: Grey dotted lines represent the 90 percent confidence interval.

FDI Components, 2010-2013
(EC$ millions)

	2010	2011	2012	2013
Direct investment, net	298	296	360	423
Equity	103	79	44	46
Reinvested Earnings	5	11	4	5
Real Estate	188	206	304	363
Other	2	1	7	9

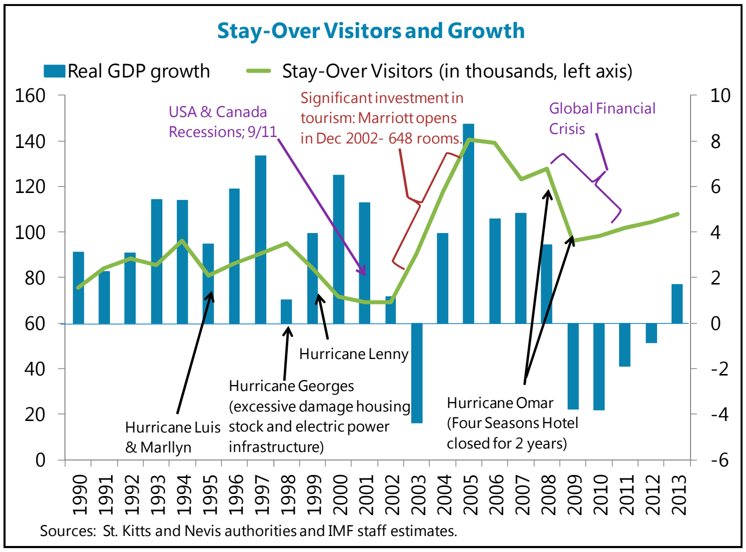
Sources: St. Kitts and Nevis authorities and IMF staff estimates.

[1] The coefficients are derived from a large sample, and suggest that an increase in government spending would be consistent with a more appreciated equilibrium exchange rate, since a greater portion would be spent on non-tradable goods, everything else equal. However, this framework is not well suited for small open economies with high propensity to import.

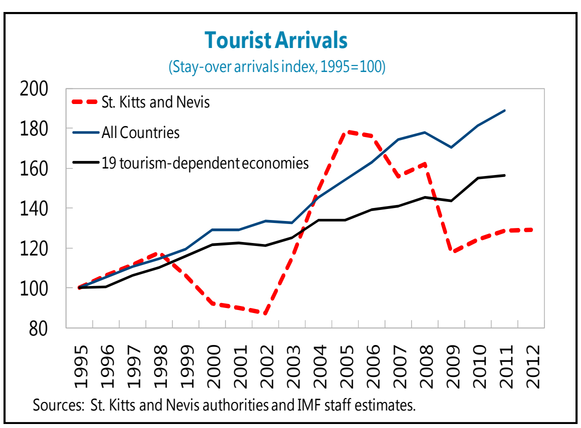
under the CBI program. This result must be viewed with caution as the inflows may not be sustained at the current levels.

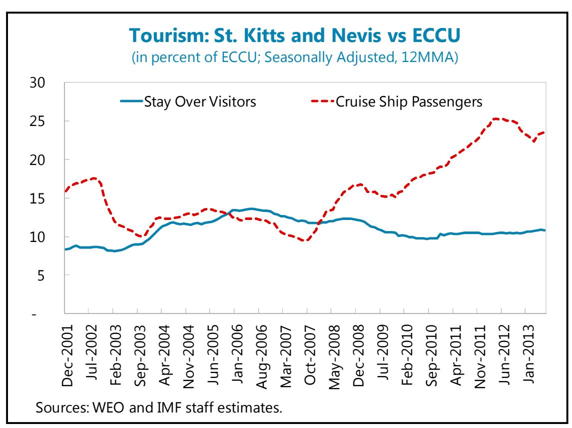
2. **A weaker recovery of stay-over tourist arrivals than in other tourism-dependent economies suggests some competitiveness challenges.** The government however has taken a number of critical steps recently that may accelerate the recovery in tourism.

- The small size of the economy together with the important role of tourism, result in discreet events having an unduly large impact on broad economic aggregates. In particular, the opening of a large hotel in early 2000s, led a sharp increase in arrivals. While the destruction of another large hotel in 2008 by a hurricane had large negative impact on tourism in advance of the global economic crisis. This underscores the challenges in managing the sector in the face of its high vulnerability.

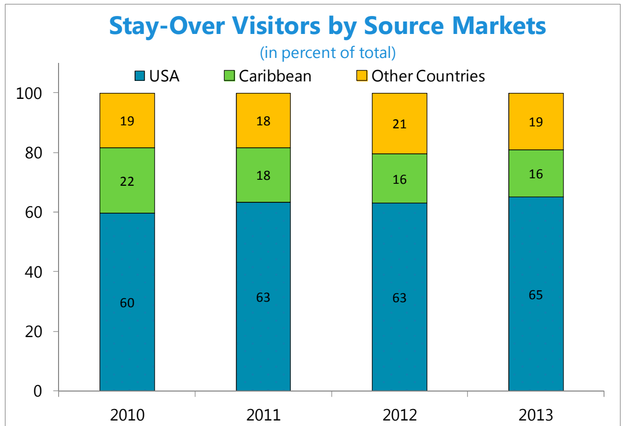


- Stay-over arrivals to St. Kitts and Nevis show some recovery in 2013 but they are still underperforming compared to other tourism-dependent economies. The seasonally adjusted series shows the twin island's share of stay-over visitors to the ECCU declining since early 2006, and deteriorating following Hurricane Omar in 2008 which destroyed one of the largest hotels in the country. There has been some upturn in the trend since the financial crisis. Moreover, there has been a change in composition of tourist arrivals; with a decline in the share of tourist from the region. This suggests that although there are a smaller number of arrivals, the average spending is higher. Cruise ship arrivals have grown rapidly since 2008, notwithstanding the financial crisis.



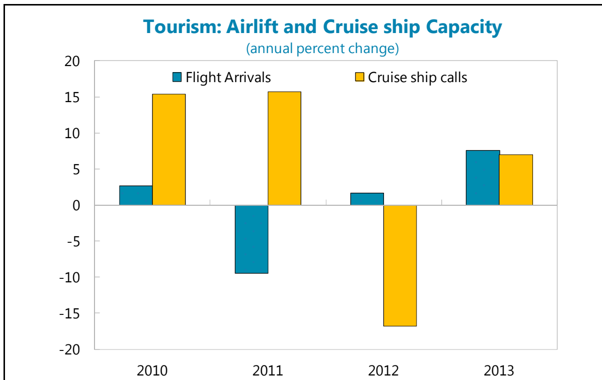


- Airlift capacity improved considerably in 2013, reflecting additional direct flights from Miami, and is expected to increase further as two major airlines widen their peak season flying period. Similarly, the cruise industry is expected to benefit from additional port calls from two large cruise lines. The authorities also plan to develop a second cruise pier at the main port, upgrade the marina and widen the berthing areas.

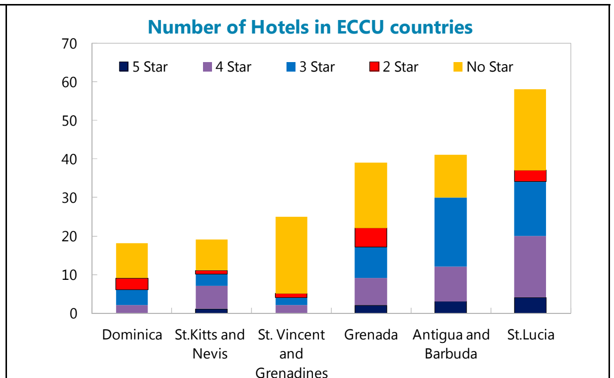


Sources: WEO and IMF staff estimates.

- The quality and quantity of hotel stock are low relative to other ECCU countries. This is being addressed with the construction of approximately 350 additional rooms, in part financed by investment under the CBI program, and by major upgrades planned for two large hotels. Completion of these projects will boost the sector's competitiveness.

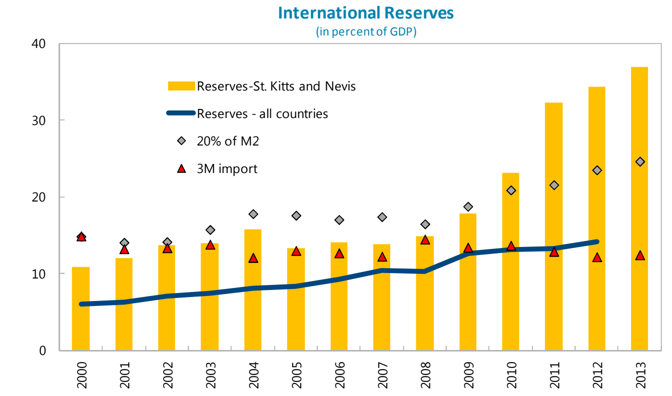


Sources: WEO and IMF staff estimates.



Sources: WEO and IMF staff estimates.

- International reserves covered 8 months of imports of goods and services (traditional metric) at end-November 2013, and over 6 months excluding IMF disbursements, suggesting that international reserves are adequate.[2 3 4]



Sources: WEO and IMF staff estimates.

[2] The new reserve adequacy metric cannot be constructed for St. Kitts and Nevis due to data limitations.

[3] Government's increasing deposits in the banking system, together with the reserves position would help buffer St. Kitts and Nevis against a potential interruption or change in its agreement with Petro Caribe on the financing of petroleum imports. Moreover, the St. Kitts and Nevis Petro Caribe Company established a "sinking fund" in 2012 which is financed by the accumulated savings from a portion of the Petro Caribe arrangement.

[4] Individual economies within a currency union, like all other economies, can be subject to balance of payments shocks. As such they also require external buffers, even if they have no currency to defend. However, with a common central bank (ECCB) holding an adequate level of reserves and ensuring adequate liquidity within the union, there may be less need for individual members to cover their reserve needs through their own reserves.

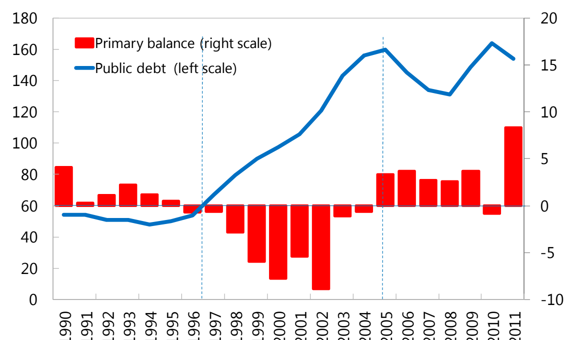
Annex III. Debt Sustainability Analysis (DSA)

Substantial progress has been made in reducing public debt from 164 percent of GDP in 2010 to a projected 105 percent in 2013, primarily through debt restructuring and fiscal adjustments. Notwithstanding progress to date, public debt remains high. Under the baseline scenario, public debt is projected to continue to decline to 60 percent of GDP by 2020 with continued fiscal discipline, further fiscal reform, and a recovery in economic growth. Gross financing needs remain very high over the medium term. Further, the analysis suggests that St. Kitts and Nevis' public debt is highly vulnerable to growth and natural disaster shocks.

A. Public Debt Sustainability Analysis[1]

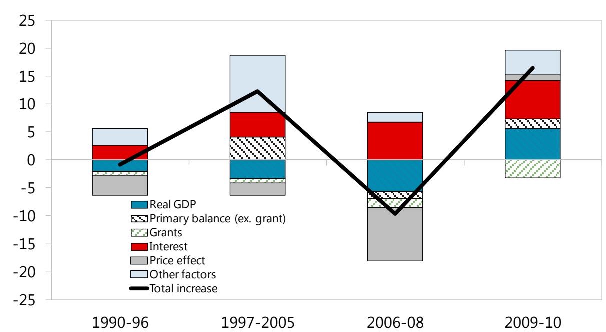
1. **Exogenous events and deteriorating fiscal primary balances led to a dramatic rise in the public debt over a very short period.** During 1997–2005, debt climbed by an average of 12.3 percent of GDP a year, of which 10.2 percentage points were due to events and other shocks and 4.1 percentage points were due to the worsening of fiscal primary balances (excluding grants), while the net effect of interest payments and output growth tempered the accumulation by 1.2 percentage points.[2] By 2010, the public debt-to-GDP ratio reached 164 percent of GDP, one of the highest in the world, with interest costs of 24.7 percent of fiscal revenues. Central government debt accounted for 80 percent of total public sector debt. The remainder of this analysis focuses on total public sector debt.

Public Debt and Primary Balance
(in percent of GDP)



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

Annual Contributors to Change in Public Debt
(In percent of GDP)



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

2. **To address this critical situation, the authorities implemented a strong fiscal adjustment program in mid-2010 combined with a debt restructuring strategy.** The debt restructuring strategy comprised three elements:

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

[2] The conceptual framework appears in Sahay (2006) "Stabilization, Debt, and Fiscal Policy in the Caribbean", Chapter 2, in The Caribbean: From Vulnerability to Sustained Growth", IMF.

(1) Bondholders and external commercial creditors had their debt instruments exchanged for new instruments, which saw them take significant haircuts averaging 65 percent in NPV terms.

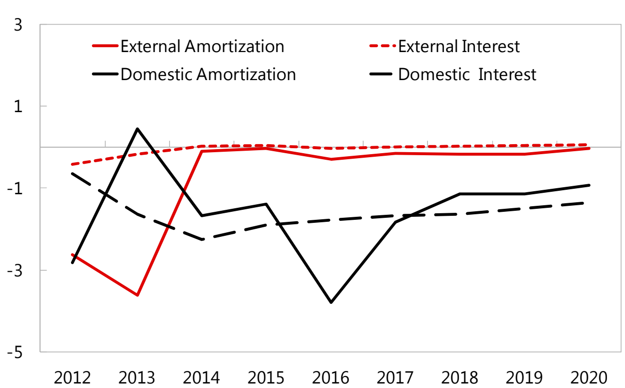
(2) Domestic banks, which held about 31 percent of government total debt in 2010, acquired government lands that had been used to secure the loans. The government also pledged to identify and transfer additional lands to cover unsecured government debt held by the banks.

(3) The government rescheduled external debt with Paris Club and other bilateral creditors, lowering the interest rates and extending the amortization payments.

The remaining debt, mainly Treasury bills and obligations to multilateral organizations including the CDB, was not part of the restructuring package.

3. **The debt restructuring is nearly complete, with the debt projected to decline to 105 percent of GDP by end-2013**. Domestic debt is projected to fall from 114.4 percent of GDP in 2010 to 62.4 percent in 2013, reflecting mainly the debt-land swap with commercial banks. External debt is projected to fall more moderately from 49.5 percent in 2010 to 42.5 percent of GDP primarily because of the debt exchange with bondholders and external commercial creditors. Over 2012–20, external amortization and interest are envisaged to be cumulatively reduced by an annual average of 1 percent and 0.2 percent of GDP respectively while domestic debt amortization and interest service are expected to be reduced by an annual average of 1.2 percent and 2.1 percent of GDP respectively. With continued fiscal discipline and economic recovery, the public debt-to-GDP ratio is projected to decline to 66 percent of GDP by 2018, and to 60 percent of GDP by 2020—on track to achieving the ECCU region-wide target.

Debt restructuring Package - Impact on Debt Service
(In Percent of GDP)



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

St Kitts and Nevis Public Sector Debt
(In Percent of GDP)

	2010	2011	2012	2013
Domestic	**114.4**	**103.4**	**94.7**	**62.4**
Treasury Bills	21.1	19.1	17.4	17.7
Debentures	5.9	5.2	3.2	1.0
Bonds	5.2	4.9	4.9	6.6
Loans and Advances	60.9	55.8	52.5	22.2
o/w: overdraft	7.1	4.7	3.5	2.9
Other liabilities	5.3	3.3	2.5	1.7
Social Security Board	15.8	15.0	14.2	13.1
External	**49.5**	**50.5**	**42.3**	**42.5**
Bonds	11.4	9.9	7.9	5.0
Loans and Advances	38.1	40.6	34.4	37.5
Multilateral	18.5	21.5	24.1	25.2
CDB	15.6	14.3	13.3	14.2
IMF	0.0	4.9	9.0	9.9
Other	2.8	2.3	1.8	1.1
Bilateral	5.0	4.3	2.8	3.3
Paris Club	0.9	0.8	0.1	0.0
Kuwait	0.7	0.4	0.5	1.1
Taiwan	2.0	1.8	2.1	2.0
Other	1.3	1.4	0.1	0.2
Other	13.6	13.6	6.3	8.5
Petro Caribe	4.8	6.2	6.0	5.7
Commercial	1.1	1.2	1.2	0.5
Total	**163.9**	**154.0**	**137.0**	**104.9**

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

Medium-Term Debt Sustainability Analysis

4. **The baseline scenario is predicated on the authorities' continued fiscal prudence and economic recovery.** Assumptions are as follows:

- *Debt restructuring*: agreements are reached with the remaining official bilateral creditors in line with the Paris Club terms (3.5 percent of GDP); and additional lands are transferred to extinguish the remaining domestic debt identified in the debt-for-land swap agreement (11.5 percent of GDP).[3 4]

- *Growth and Inflation*: Over the medium-term, real economic activity reaches its potential rate of 3 percent while inflation reverts to its historical average rate of 2.5 percent.

- *Fiscal Balance*: The primary fiscal surplus of the public sector is estimated to moderate to 3.6 percent by 2018, premised on moderate CBI inflows (of 3 percent of GDP).

5. **Notwithstanding the substantial progress with debt restructuring, the heat map and fan charts show that risks to debt sustainability remain high**. Although the debt is on a downward trajectory, both the debt and the gross financing needs exceed the benchmark for emerging market economies and will do so for some time. Moreover, under the various stress tests, debt declines considerably slower than in the baseline scenario, particularly under the real GDP growth shock. The debt profile is also subject to high risks from external financing requirements, as a result of high current account deficits. The fan charts show the possible evolution of the debt-to-GDP ratio over the medium term, based on both a symmetric and an asymmetric distribution of risks. The asymmetric fan chart (where only negative shocks to growth and the exchange rate are considered) shows that debt would approach 120 percent of GDP by 2018 if economic conditions were to significantly deteriorate.

6. **The projection bias evident in the baseline macro assumptions can be explained by one-off historic factors**. The past forecasts of real GDP growth underestimated the severity of the global financial crisis impact on tourism in ECCU countries. In addition, there are significant forecast errors for the primary balance in 2011 and 2012 (underestimating the primary surplus) because the vast increase in CBI inflows was unanticipated. 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.

7. **CBI inflows distort the measure of the average cyclically adjusted primary balance (CAPB) in the forecast period**. The estimated change in the cyclically adjusted primary surplus

[3] This debt is related to public enterprise debt and therefore does not feature as exceptional financing for the central government.

[4] The public gross financing needs reflected in the heat map (Figure 4), and as shown in Figures 6, 7 and 8 for 2013-14 do not include debt cancellation from the debt-land swap with domestic banks.

from 2014 to 2017, a decline of 1.8 percent of GDP, 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. However, the average CAPB for the period 2012–2014 is in the top quartile of the distribution, reflecting large CBI inflows during 2012–13, which were mostly saved. The primary balance required to stabilize debt at the 2018 level (66 percent of GDP) is -1.1 percent of GDP, lower than the 3.6 primary surpluses in the medium-term fiscal framework. The constant primary balance scenario show a very rapid but unrealistic decline in debt, reflecting the very high primary balance in 2013 of 17.3 percent, which is the result of high CBI inflows which are not projected to continue at their current pace.

8. **Under the baseline scenario the debt-to-GDP ratio converges to 66 percent of GDP by 2018 but 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 2014 and 2015 and lower inflation by 1.2 percentage points in each year, debt would peak at 102.6 percent in 2015, 17.4 points higher than in the baseline.

- A sustained *interest rate* shock of 568 bps (difference between the maximum and average rates over the last 10 years) would slow down the rate of debt decline in the medium term, so that by 2018 the debt-to-GDP ratio is 4.3 points higher compared with the baseline.

- A *primary balance* shock of 5.2 percentage points over 2014–15 (½ standard deviations of the historical 10-year average) results in the debt-to-GDP ratio being 4.5 percentage points higher in 2018 relative to the baseline.

- A *combined macro-fiscal* shock of all of the above would lead to debt peaking at 113.3 percent of GDP in 2015, 28.1 percentage points higher than under the baseline, and declining gradually to 96.9 percent of GDP by 2018.

- A *natural disaster* shock occurring in 2014 that results in real GDP growth declining by 3 and 2 percentage points in 2014 and 2015 compared to the baseline, and a deterioration in the primary balance of 5, 4, and 2 percent of GDP in 2014, 2015 and 2016 respectively, would slow the decline in the debt-to-GDP ratio to 80.0 percent by 2018, 14.4 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 75.7 percent of GDP by 2018 and increases gross financing needs to 26.7 percent of GDP.[5]

[5] This scenario assumes no land sales at the end of 3 years and the total value of land previous transferred to the Special Purpose Vehicle are written off from assets and are registered as losses in the income statement, impacting

(continued)

B. External Debt Sustainability Analysis

9. **St. Kitts and Nevis external public debt is projected to decline over the medium term, but remains vulnerable to a deterioration in the current account balance**. St. Kitts and Nevis' external debt is expected to remain on a downward trend over the medium term reflecting the external debt restructuring and repayment to the Fund, falling to below 20 percent of GDP by 2018. In addition to the lower debt service resulting from the external debt restructuring, solid FDI inflows would help finance the current account deficit. Stress tests indicate that external debt would continue to decline under interest rate, growth, real depreciation and combined shocks. Although its level is still lower than the 2013 level, debt stays relatively high under the current account shock scenario, suggesting that some external adjustment would be necessary to bring the debt path back to a downward trend under the shock.

---

the bank's capital. Consequently, the amount of recapitalization of the bank that would be needed to meet the regional CAR prudential requirement of 8 percent would be EC$253 million or 10 percent of GDP.

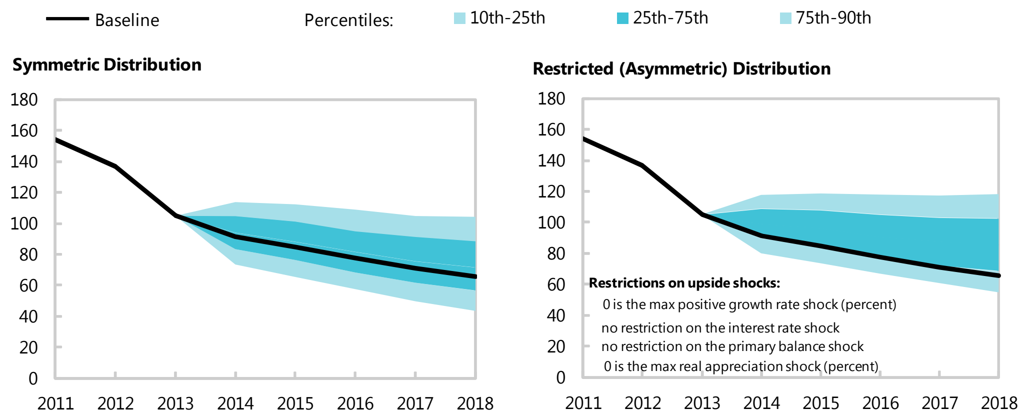
Figure 1. St. Kitts and Nevis Public DSA Risk Assessment

Heat Map

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

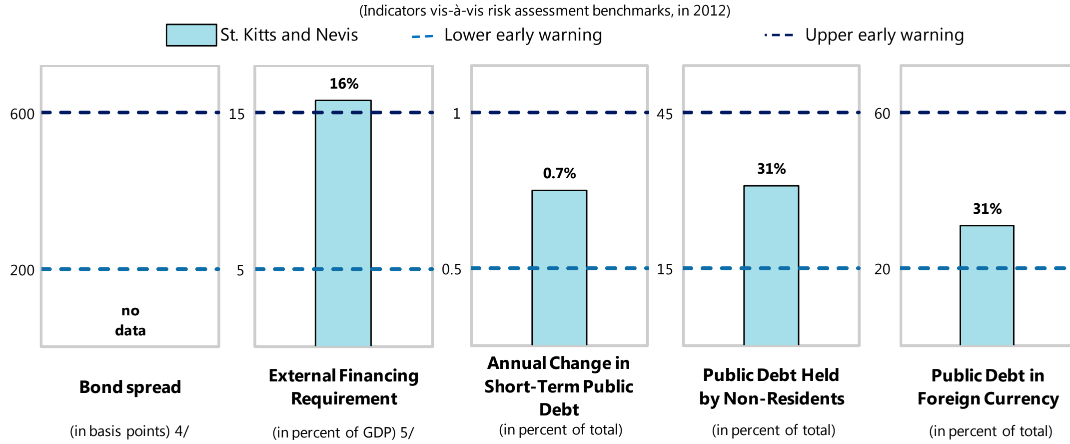
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2012)



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

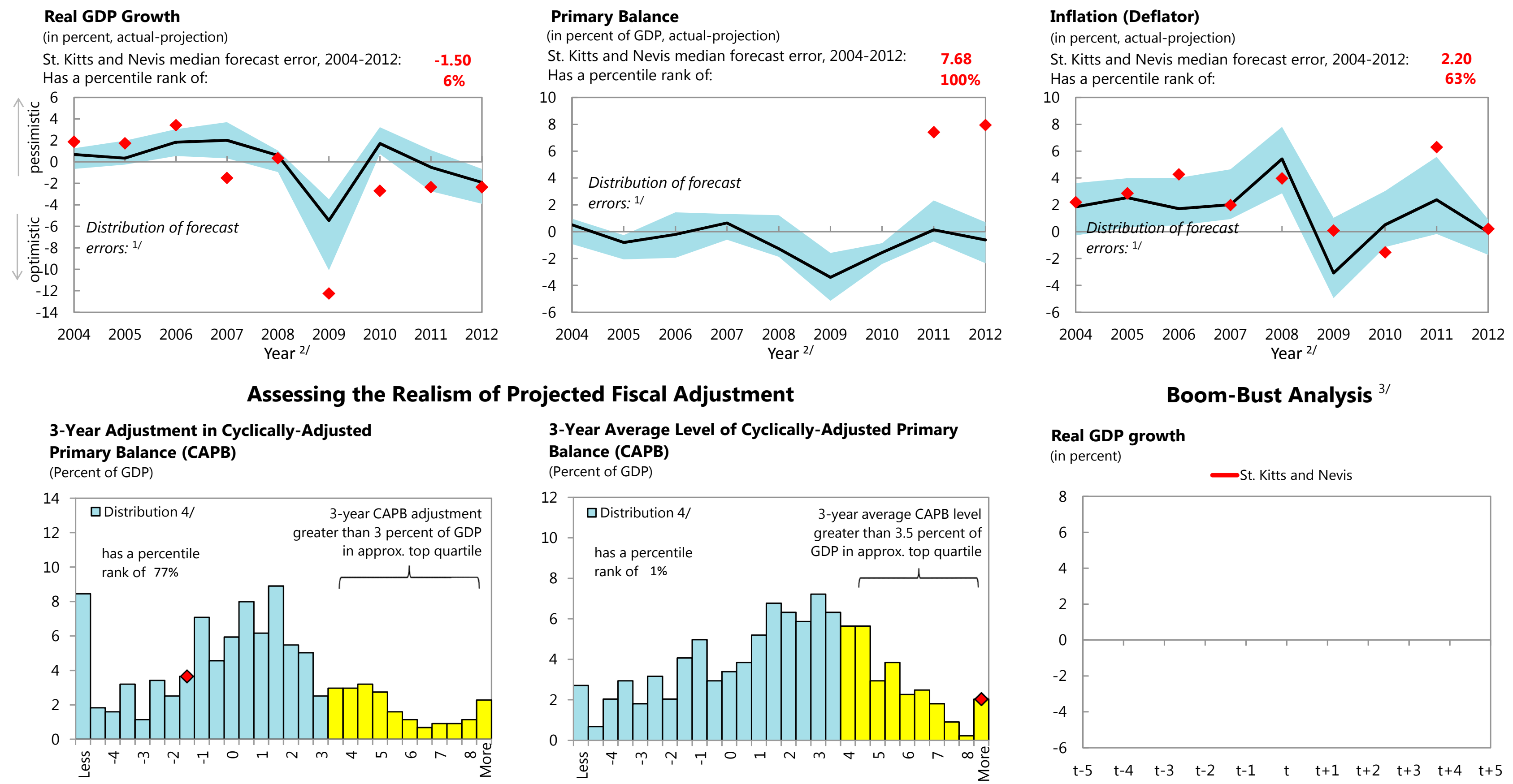
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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



Source : IMF Staff.

1/ Plotted distribution includes program countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year. St Kitts and Nevis does not have historic WEO forecasts for either primary balance or expenditure/revenues/interest expenditure between 2005 and 2010, as a result the forecast errors are not available.

3/ Not applicable for St. Kitts and Nevis as there has not been a 3-year positive output gap.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis. Realism assessment conducted over forecasts from 2014.

Figure 3. St. Kitts and Nevis Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

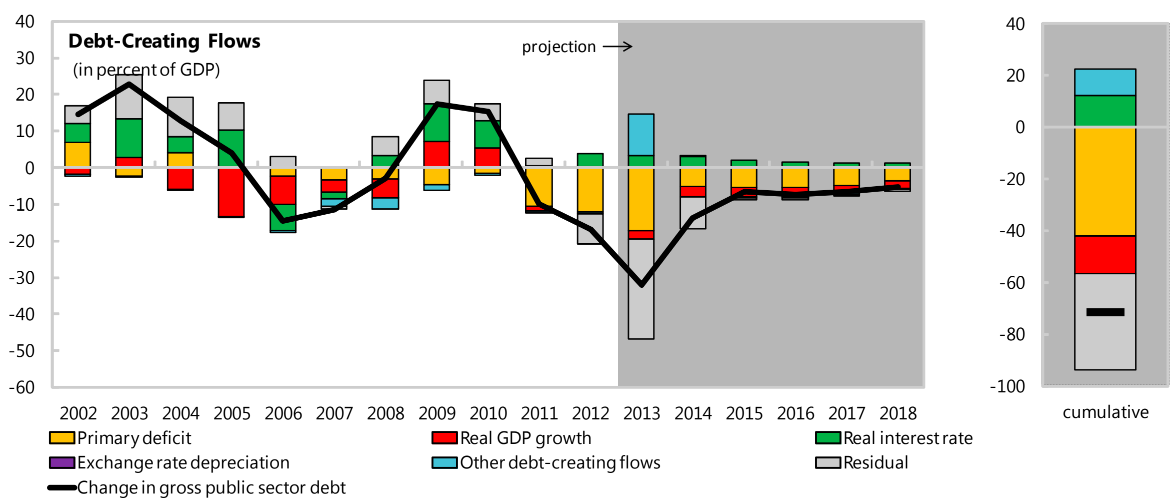
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2002-2010 [2]	2011	2012	2013	2014	2015	2016	2017	2018
Nominal gross public debt	144.7	154.0	137.0	104.9	91.2	84.6	77.3	70.7	65.6
Public gross financing needs [3]	41.5	42.2	31.3	21.6	24.5	22.8	21.6	18.8	18.0
Real GDP growth (in percent)	1.9	1.0	-0.1	1.7	2.7	3.0	3.2	3.1	3.1
Inflation (GDP deflator, in percent)	2.7	5.5	2.3	2.8	0.9	1.8	2.3	2.6	2.6
Nominal GDP growth (in percent)	4.7	6.5	2.3	4.6	3.7	4.8	5.6	5.8	5.7
Effective interest rate (in percent) [4]	6.3	5.8	4.8	5.3	3.9	4.2	4.2	4.4	4.6

Contribution to Changes in Public Debt

	Actual			Projections							
	2002-2010	2011	2012	2013	2014	2015	2016	2017	2018	cumulative	debt-stabilizing
Change in gross public sector debt	6.5	-9.9	-17.0	-32.1	-13.7	-6.6	-7.2	-6.6	-5.2	-71.4	primary
Identified debt-creating flows	0.5	-12.0	-8.6	-4.9	-4.9	-6.3	-6.9	-6.2	-4.8	-34.0	balance [9]
Primary deficit	-0.6	-10.5	-12.1	-17.3	-5.3	-5.5	-5.5	-4.8	-3.6	-42.0	-1.1
Primary(noninterest) revenue+grants	36.8	44.1	42.8	49.2	41.1	40.6	39.7	38.8	37.4	246.8	
Primary(noninterest) expenditure	36.1	33.6	30.8	31.9	35.8	35.1	34.3	34.0	33.8	204.9	
Automatic debt dynamics [5]	2.2	-1.1	3.9	0.9	0.2	-0.5	-1.1	-1.0	-0.8	-2.2	
Interest rate/growth differential [6]	2.2	-1.1	3.9	0.9	0.2	-0.5	-1.1	-1.0	-0.8	-2.2	
Of which: real interest rate	4.6	0.4	3.8	3.2	3.0	2.1	1.5	1.3	1.3	12.3	
Of which: real GDP growth	-2.5	-1.5	0.1	-2.3	-2.8	-2.6	-2.6	-2.3	-2.0	-14.5	
Exchange rate depreciation [7]	0.0	0.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	-1.0	-0.4	-0.5	11.5	0.1	-0.4	-0.4	-0.4	-0.4	10.2	
Privatization/Change of Deposits	-1.0	-0.4	-0.5	11.5	0.1	-0.4	-0.4	-0.4	-0.4	10.2	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8]	6.0	2.2	-8.3	-27.3	-8.8	-0.3	-0.3	-0.4	-0.4	-37.4	



Source: IMF staff.

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

2/ Based on available data.

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

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

5/ 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).

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

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

8/ 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 restructuring on the stock of debt.

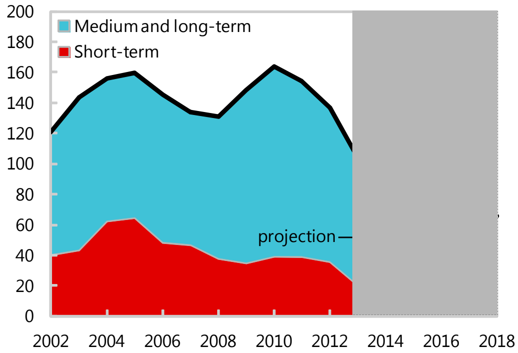
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

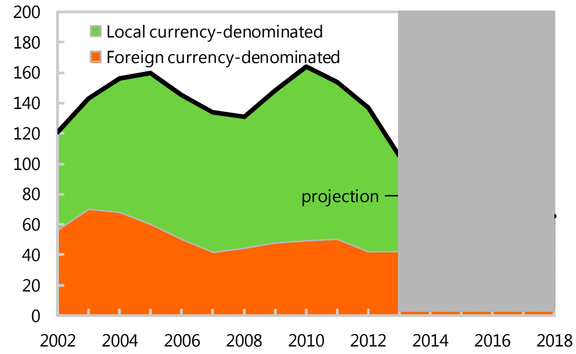
By Maturity [1/]

(in percent of GDP)



By Currency

(in percent of GDP)

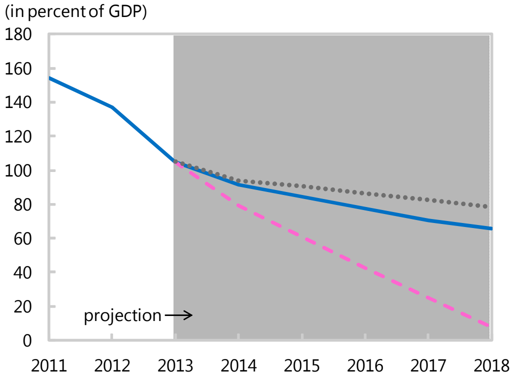


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

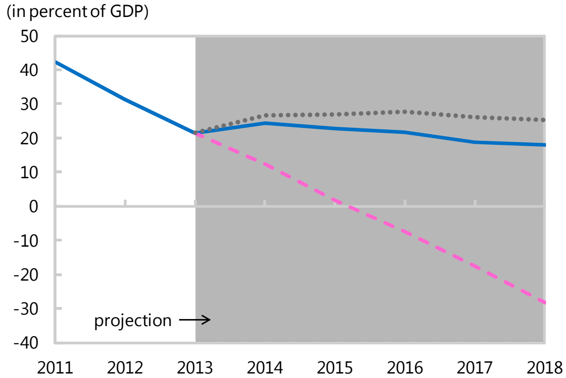
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs [2/]

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2013	2014	2015	2016	2017	2018
Real GDP growth	1.7	2.7	3.0	3.2	3.1	3.1
Inflation	2.8	0.9	1.8	2.3	2.6	2.6
Primary Balance	17.3	5.3	5.5	5.5	4.8	3.6
Effective interest rate	5.3	3.9	4.2	4.2	4.4	4.6
Constant Primary Balance Scenario						
Real GDP growth	1.7	2.7	3.0	3.2	3.1	3.1
Inflation	2.8	0.9	1.8	2.3	2.6	2.6
Primary Balance	17.3	17.3	17.3	17.3	17.3	17.3
Effective interest rate	5.3	3.9	4.7	5.2	6.2	9.4

Historical Scenario	2013	2014	2015	2016	2017	2018
Real GDP growth 3/	1.7	1.6	1.6	1.6	1.6	1.6
Inflation	2.8	0.9	1.8	2.3	2.6	2.6
Primary Balance 3/	17.3	3.5	3.5	3.5	3.5	3.5
Effective interest rate	5.3	3.9	4.3	4.3	4.4	4.6

Source: IMF staff.

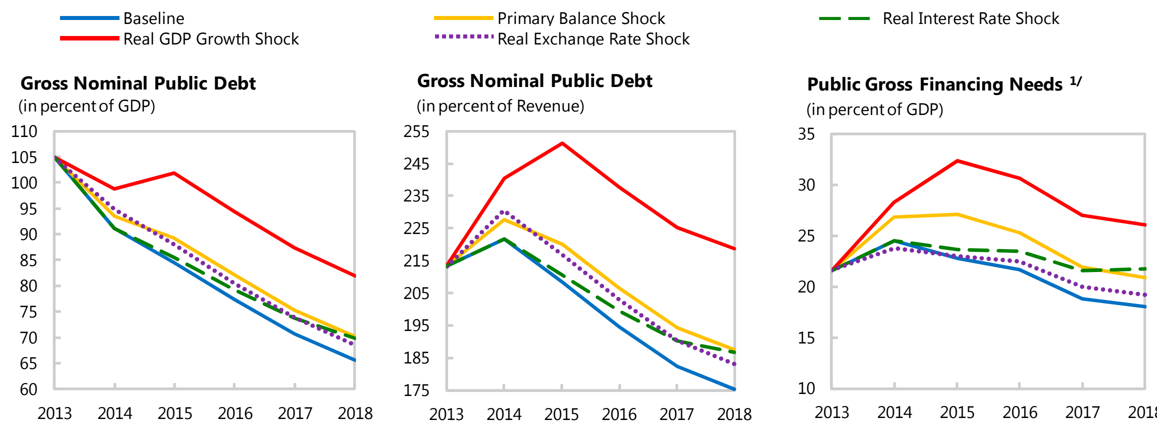
1/ The stock of short term debt falls between 2012 and 2013 as a result of reductions in bank overdrafts.

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

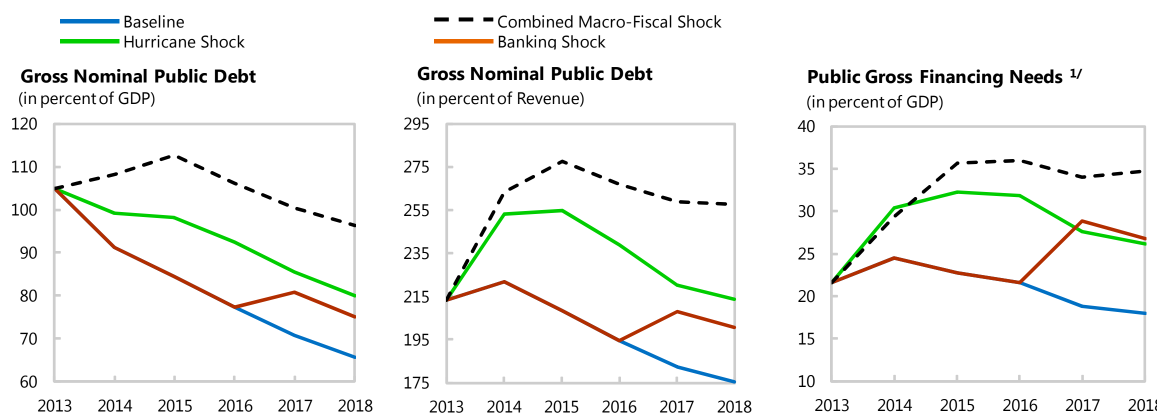
3/ Ten-year average for 2003-2012.

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

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

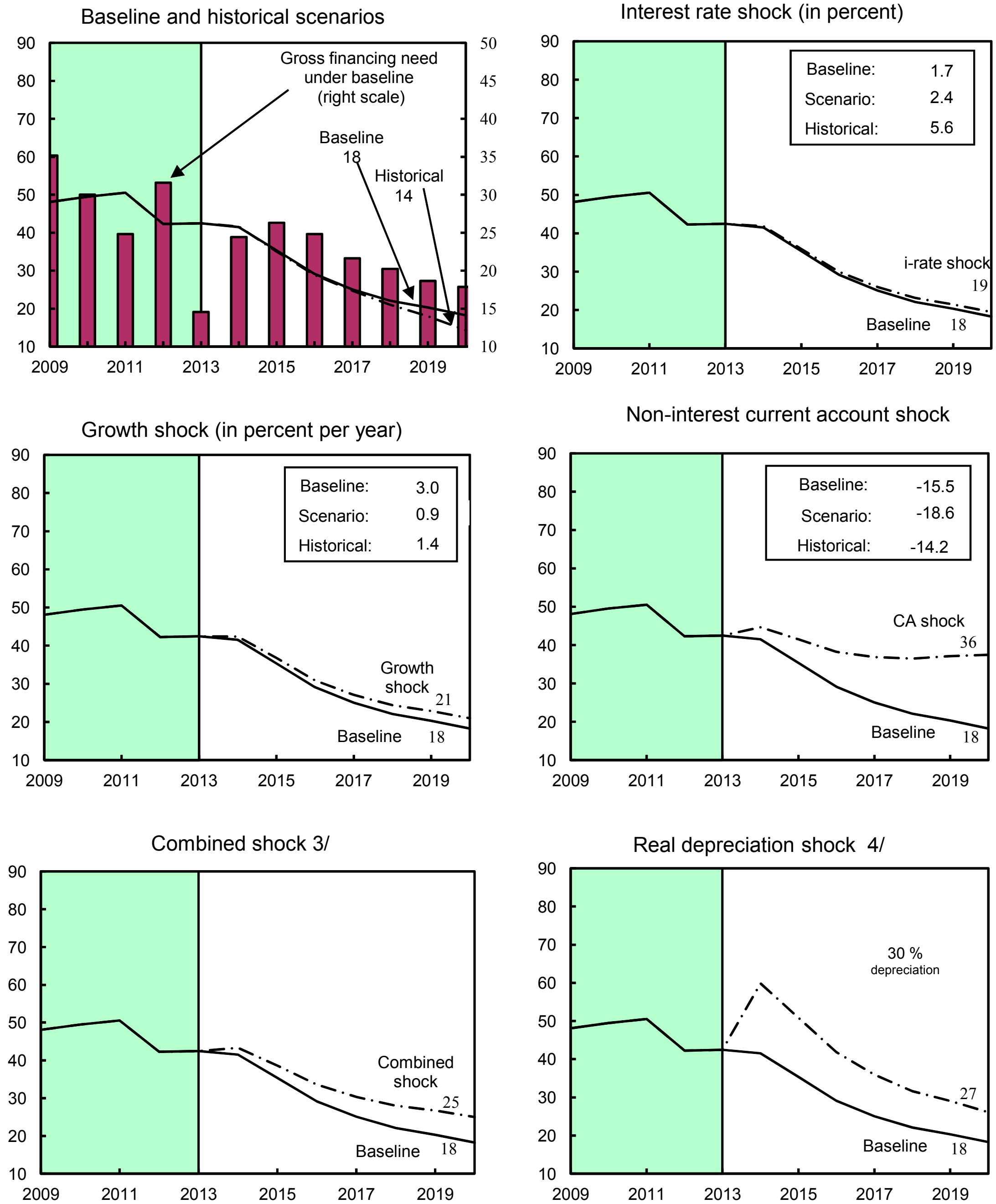
	2013	2014	2015	2016	2017	2018
Primary Balance Shock						
Real GDP growth	1.7	2.7	3.0	3.2	3.1	3.1
Inflation	2.8	0.9	1.8	2.3	2.6	2.6
Primary balance	17.3	2.9	3.1	5.5	4.8	3.6
Effective interest rate	5.3	3.9	4.3	4.2	4.3	4.5
Real Interest Rate Shock						
Real GDP growth	1.7	2.7	3.0	3.2	3.1	3.1
Inflation	2.8	0.9	1.8	2.3	2.6	2.6
Primary balance	17.3	5.3	5.5	5.5	4.8	3.6
Effective interest rate	5.3	3.9	5.3	5.5	6.0	6.3
Combined Shock						
Real GDP growth	1.7	-1.8	-1.5	3.2	3.1	3.1
Inflation	2.8	-0.2	0.7	2.3	2.6	2.6
Primary balance	17.3	2.9	1.3	5.5	4.8	3.6
Effective interest rate	5.3	4.1	5.0	5.3	5.8	6.1

	2013	2014	2015	2016	2017	2018
Real GDP Growth Shock						
Real GDP growth	1.7	-1.8	-1.5	3.2	3.1	3.1
Inflation	2.8	-0.2	0.7	2.3	2.6	2.6
Primary balance	17.3	3.2	1.3	5.5	4.8	3.6
Effective interest rate	5.3	3.9	4.3	4.2	4.3	4.4
Real Exchange Rate Shock						
Real GDP growth	1.7	2.7	3.0	3.2	3.1	3.1
Inflation	2.8	6.0	1.8	2.3	2.6	2.6
Primary balance	17.3	5.3	5.5	5.5	4.8	3.6
Effective interest rate	5.3	4.1	4.1	4.0	4.1	4.3
Hurricane Shock						
Real GDP growth	1.7	-0.3	1.0	3.2	3.1	3.1
Inflation	2.8	0.9	1.8	2.3	2.6	2.6
Primary balance	17.3	0.3	1.5	3.5	4.8	3.6
Effective interest rate	5.3	3.9	4.1	4.0	4.1	4.3

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

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

(External debt in percent of GDP)



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

Table 1. St. Kitts and Nevis: External Debt Sustainability Framework, 2008–2010

	Actual								Projections							
	2008	2009	2010	2011	2012	2013	10-Year Historical Average	10-Year Standard Deviation	2014	2015	2016	2017	2018	2019	2020	Debt-stabilizing non-interest current account 6/
Baseline: External debt	44.6	48.1	49.5	50.5	42.3	42.5			**41.5**	**35.4**	**29.1**	**25.1**	**22.1**	**20.3**	**18.3**	**-14.3**
Change in external debt	2.6	3.5	1.4	1.0	-8.3	0.2			-1.0	-6.2	-6.2	-4.1	-3.0	-1.8	-2.0	
Identified external debt-creating flows (4+8+9)	-0.7	14.5	8.5	1.0	-6.1	-11.7			-0.9	0.0	-0.5	-0.5	0.0	0.4	0.7	
Current account deficit, excluding interest payments	24.5	24.5	18.7	13.6	9.9	7.5			16.2	16.1	15.5	15.6	15.6	15.1	14.5	
Deficit in balance of goods and services	27.0	29.3	23.9	18.1	13.8	10.9			19.4	19.3	18.7	18.2	18.3	17.7	17.2	
Exports	31.1	24.6	31.0	33.6	35.2	39.2			31.5	31.7	31.9	31.9	31.2	31.3	31.4	
Imports	58.1	53.9	54.9	51.7	49.0	50.0			50.9	51.0	50.5	50.0	49.5	49.0	48.6	
Net non-debt creating capital inflows (negative)	-25.5	-15.5	-14.2	-13.1	-16.9	-18.3			-17.4	-16.1	-15.8	-15.5	-15.1	-14.3	-13.5	
Automatic debt dynamics 1/	0.2	5.5	4.0	0.5	1.0	-0.8			0.2	0.0	-0.3	-0.7	-0.5	-0.4	-0.4	
Contribution from nominal interest rate	2.8	2.8	2.8	2.2	1.7	1.0			1.3	1.1	0.8	0.2	0.2	0.2	0.2	
Contribution from real GDP growth	-1.3	1.8	1.9	0.9	0.4	-0.7			-1.1	-1.2	-1.1	-0.9	-0.7	-0.6	-0.6	
Contribution from price and exchange rate changes 2/	-1.3	0.9	-0.6	-2.6	-1.2	-1.1			...	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	3.4	-11.0	-7.1	0.0	-2.2	11.9			0.0	-6.2	-5.7	-3.5	-3.0	-2.2	-2.7	
External debt-to-exports ratio (in percent)	143.4	195.5	159.8	150.2	120.0	108.5			131.9	111.4	91.5	78.7	71.0	64.9	58.2	
Gross external financing need (in millions of US dollars) 4/	253.9	242.1	201.9	178.0	231.6	111.8			194.3	219.4	218.5	201.2	198.9	193.9	196.3	
in percent of GDP	34.3	35.2	30.0	24.8	31.6	14.6			24.4	26.3	24.8	21.6	20.2	18.7	17.9	
Scenario with key variables at their historical averages 5/									**41.7**	**35.1**	**28.9**	**24.8**	**21.0**	**18.0**	**14.3**	**-15.6**
Key Macroeconomic Assumptions Underlying Baseline																
Real GDP growth (in percent)	3.4	-3.8	-3.8	-1.9	-0.9	1.7	1.4	4.2	2.7	3.0	3.2	3.1	3.1	3.1	3.1	
GDP deflator in US dollars (change in percent)	3.2	-1.9	1.4	5.5	2.3	2.8	3.2	3.8	0.9	1.8	2.3	2.6	2.6	2.6	2.6	
Nominal external interest rate (in percent)	7.1	6.0	5.7	4.5	3.4	2.5	5.6	1.4	3.2	2.9	2.3	0.7	0.9	1.0	1.2	
Growth of exports (G&S, US dollar terms, in percent) 7/	-0.3	-26.3	23.1	15.7	7.0	16.3	6.1	14.1	-16.7	5.6	6.1	5.8	3.4	6.1	6.1	
Growth of imports (G&S, US dollar terms, in percent)	26.8	-13.7	-0.4	0.4	-3.2	6.8	3.6	12.2	5.5	5.0	4.6	4.7	4.5	4.7	4.8	
Current account balance, excluding interest payments	-24.5	-24.5	-18.7	-13.6	-9.9	-7.5	-14.2	6.2	-16.2	-16.1	-15.5	-15.6	-15.6	-15.1	-14.5	
Net non-debt creating capital inflows	25.5	15.5	14.2	13.1	16.9	18.3	15.8	4.2	17.4	16.1	15.8	15.5	15.1	14.3	13.5	

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. Main Recommendations from the 2011 Article IV Consultation and Follow Up

1. **The Executive Board completed the 2011 Article IV consultation on July 27, 2011 together with the request for a Three-year Stand-By Arrangement.** Executive Directors noted then that a gradual recovery was underway after a two-year recession. They also observed that the unsustainably high public debt-to-GDP ratio presented a significant challenge that called for decisive actions. They supported the three-pronged reform agenda based on fiscal consolidation, a comprehensive debt restructuring and further strengthening of the financial sector, including the oversight of the non-bank financial institutions.

2. **Directors welcomed the authorities' adjustment program of fiscal consolidation including the VAT, an increase in electricity tariffs and the freezing of the wage bill.** Directors remarked that the real exchange rate was somewhat overvalued and stressed the importance of addressing this situation by fully implementing the authorities' structural reform agenda.

3. **Since then, the recovery took longer to materialize than expected, having only begun in 2013 while inflation abated in 2012, after the first full year of the VAT implementation.** The fiscal position has substantially improved, from a deficit of 7.8 percent of GDP in 2010 to a projected surplus of 10.6 percent of GDP in 2013, reflecting policy efforts and substantial non-tax revenue, from the Citizenship by Investment (CBI) program vastly exceeding expectations in 2013. The authorities have taken the following policy actions:

- The nominal wage bill freeze was maintained from 2010 until September 2013, when the government awarded the thirteenth month wage. Other spending was also contained, and capital spending was reduced.

- Electricity tariffs have remained unchanged since February 2011. The electricity company—corporatized in August 2011—has received a subsidy from the Sugar Industry Diversification Foundation (SIDF) to help cover the costs of this tariff freeze.

- The restructuring of public debt was launched with a debt exchange with external commercial creditors, a rescheduling of external debt with Paris Club creditors, and a swap of government-owned land for the public debt held by domestic banks completed, reducing public debt from 164 percent of GDP in 2010 to a projected 105 percent of GDP in 2013.

- The Financial Services Regulatory Commission (FSRC) assumed responsibility for credit unions in 2012. It is implementing a new supervisory framework based on the PEARLS prudential rating.

- To improve the medium-term structure of the budget, there were reforms to boost revenue and streamline expenditure. These included: an extensive program to reform revenue administration; rationalization of the LPG subsidy, development of a plan for civil service reform, measures to reform the social safety net, adoption of a medium-term fiscal framework and an explicit medium-term debt management strategy. Furthermore, Parliament approved the Procurement Act in October 2012 and provisions strengthening the enforcement authority of the Government Entities Oversight Board in July 2013.

- Competitiveness remains a challenge. The government is taking steps to strengthen the tourism sector, including by adding airlift capacity and enhancing the tourism infrastructure. It is investing in alternative energy sources to reduce energy cost in the long-term, and it is implementing reforms to improve the business climate. Measures in that regard include the reduction of the corporate income tax rate from 35 to 33 percent in 2013.

Appendix I. Letter of Intent

Basseterre, St. Kitts
March 4, 2014

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

Dear Ms. Lagarde:

We have progressed a long way towards meeting the original goals of our home grown economic program, to restore fiscal sustainability, finalize a debt restructuring to address the debt overhang and put debt on a sustainable downward trajectory and strengthen the financial sector, despite a challenging economic environment. We have reduced our debt burden and made it more sustainable through debt restructuring and fiscal consolidation, thereby lowering the debt-to-GDP ratio to about 105 percent at end-2013 from 154 percent at end-2011. We have implemented various reforms that improved the public finances and strengthened the resilience of the financial sector. Consequently, the economy is now in a better position to support the resumption of growth. Economic activity advanced by 1.7 percent in 2013, the first year of positive growth in the last five years, driven by continuing improvements in the performance of the tourism sector and increased construction activity.

The Government of St. Kitts and Nevis reaffirms its commitment to the success of its home-grown medium-term reform program (supported by the Fund's Stand-By Arrangement (SBA)), which will benefit the people of St. Kitts and Nevis. Since the SBA was approved in July 2011, we have been determined to further our reform agenda and successfully implement our policies. This is reflected in having met our fiscal targets for end-June 2013 and end-September 2013 and other quantitative performance criteria with the exception of the continuous one on the accumulation of external arrears, which have since been repaid. We are near completion of our debt restructuring exercise. The bulk debt-for-land swap with domestic creditors was finalized in June 2013 and the management company responsible for selling the land assets in St. Kitts is now operational. We welcome your continued strong support for these initiatives.

In the attached Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU), we present our plans through 2014 to achieve the objectives of our program supported by the IMF. Based on the strength of these policies, and given our performance under the program and our continued commitment, we request the completion of the seventh and eighth review, a waiver of non-observance of performance criterion on the non-accumulation of central government or government guaranteed external arrears, and a waiver of applicability for the end-December 2013 performance criteria. Due to the delay in completing the seventh and eighth review following scheduling issues related to IMF personnel changes and the preparation of the 2014 budget, we request that the ninth and tenth reviews be combined and that the purchase associated with the ninth review be rephased. To reflect the new timeline of reviews, the availability date for the combined ninth and tenth disbursement is proposed to be set to the availability date previously set for the tenth disbursement, as shown in Table 1.

In view of the strong improvement in our public finances and our external position, the Government of St. Kitts and Nevis intends to treat the remainder of the Stand-By Arrangement as precautionary and does not plan to request purchases of the remaining amounts available under the arrangement.

We are confident that our policy commitments will support the achievement of our program objectives. However, we need to remain vigilant to downside risks of lower-than expected growth in the global economy and are prepared to address them through policy actions. We stand ready to take additional corrective actions that would be needed to address these risks if they materialize. We will continue to consult with the Fund on the adoption of such actions in advance of necessary revision of policies contained in this letter and the attached Memorandum, in accordance with the IMF's policies.

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

Sincerely,

/s/

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

Attachment I. Memorandum of Economic and Financial Policies

1. St. Kitts and Nevis has made substantial progress in executing its economic recovery program supported by the IMF Stand-By Arrangement (SBA). As the program enters the final phase, the focus continues to be on putting public finances on a sustainable trajectory, finalizing a comprehensive debt restructuring, further strengthening the financial system, and implementing reforms to underpin sustained growth. This Memorandum of Economic and Financial Policies (MEFP) updates these policies in the context of the seventh and eighth reviews under the SBA.

Recent Economic Developments

2. Firm signs of a recovery were present in the first nine months of 2013 after a four-year contraction, the fiscal position has improved significantly and debt restructuring has brought debt down substantially. Notwithstanding the challenges associated with the prolonged global recession and the debt restructuring, the financial system remains stable.

- **Growth and inflation**. On the basis of indicators of real economic activity for the first nine months of 2013, we expect growth for the year to be about 1.7 percent. Construction activity is benefiting from the large inflows under the Citizenship by Investment (CBI) program, tourism-related projects, and several projects funded by the Sugar Industry Diversification Foundation (SIDF). Stay-over arrivals expanded by 2.7 percent (y/y), largely reflecting improved airlift capacity and the recovery of its main source market, while cruise ship passengers arrivals were up by 12.6 percent (Y/Y) through November. Inflation remained low at 0.4 percent at end-December.

- **External sector**. The current account deficit is projected to have further narrowed from 11.8 percent of GDP in 2012 to 8.5 percent of GDP in 2013. This reflects a modest recovery in tourism receipts and strong inflows related to CBI fees. The capital and financial account surplus in 2013 is recovering following the restructuring of external public debt in 2012 and a sizable increase in FDI. These have been partially offset by the continued, albeit at a slower pace, increase in commercial banks' foreign assets. Overall, the imputed international reserves are projected to increase by approximately EC$95 million in 2013 (covering about 8½ months of imports).

- **Banking Sector**. Our banking system remains the strongest in the region, with ample liquidity, and relatively high capital. Notwithstanding, private sector credit continues to fall. Deposits—which remain banks' primary source of funding— have grown, dominated by inflows under the CBI program. Banks' NPLs rose from 6.6 percent at end-2011 to 10.5 percent at end-September 2013, notably due to removing government loans from total loans following the debt/land swap. Capitalization, while well above the regulatory benchmark, and profits were somewhat adversely impacted by the growing NPLs and the reduction in interest earned on government loans after the debt restructuring. There has been no request to access the Banking Sector Reserve Fund (BSRF) set up under the SBA to date.

- **Debt restructuring**. The debt restructuring exercise is almost complete and has so far resulted in a significant reduction in the public debt, from 154 percent of GDP at end-2011 to a projected 105 percent of GDP at end-December 2013, based on preliminary data. In addition to the debt exchange in April 2012 with external commercial creditors and bondholders, we have concluded agreements with Paris Club creditors. In July 2013, 1,200 acres of land were transferred to the St. Kitts-Nevis-Anguilla National Bank Limited as part of a debt-for-land swap agreement and resulted in a 27 percent of GDP reduction in the debt stock. These operations reduced debt service to 4.8 percent of GDP in 2013 from 6.5 percent of GDP in 2011.

PERFORMANCE UNDER THE PROGRAM

3. We have fulfilled our commitments under the program at end-June and end-September 2013 as detailed below. In this context, we request completion of the seventh and eighth program reviews, and request a waiver of non observance of the continuous performance criterion on the non-accumulation of central government or government guaranteed external arrears at September 2013 and at January 2014, which have since been repaid.

- **Fiscal performance**. We have met our fiscal targets for end-June 2013 and end-September 2013, reflecting continued policy efforts and stronger-than-expected CBI receipts. The buoyant CBI inflows have afforded the fiscal space to grant the 13th month wage following a three-year nominal wage freeze and to step up capital outlays. At end-June 2013, the overall fiscal balance (as measured from below the line) reached a surplus of EC$126 million, well above the adjusted program floor of EC$28 million. Similarly, the primary surplus of EC$171 million significantly exceeded the adjusted indicative program target of EC$60 million. These trends carried over to end-September 2013, resulting in an overall surplus of EC$171 million, EC$80 million larger than the adjusted program floor, and a primary surplus of EC$247 million, EC$83 million above the adjusted indicative program target. CBI inflows at end-September 2013 exceeded the revised forecast by EC$116 million.

- **Other performance criteria**. The ceilings on central government budget expenditure arrears accumulation and the stock of external short-term debt have been met (Table 2). Nevertheless, we have had some slippages with the observance of the performance criterion on the accumulation of external arrears. The Development Bank of St. Kitts and Nevis (DBSKN) accumulated arrears of EC$1.57 million (0.08 percent of GDP) to the European Investment Bank (EIB) in September 2013, which were cleared on October 30, 2013, and the NIA accumulated arrears of EC$0.29 million (0.01 percent of GDP) to the Caribbean Development Bank (CDB) on January 20 2014, which were cleared on January 27, 2014. The EIB arrears were the result of operational gaps, including coordination, and temporary cash flow challenges. The DBSKN is tightening administrative procedures and establishing a fund to pre-pay debt service to prevent future such occurrences of arrears. The arrears by the NIA to the CDB occurred in the context of a fire that destroyed the Treasury building, including all paper records, and damaged the data server three days before the due date. The NIA notified the CDB of the damage on January 17, ahead of the January 20 due date, indicating that they would be delayed on account of the fire and that they would make the payment as soon as their capacity to do so is restored. The payment was made one week later. In accordance with the commitments in the previous MEFP, the NIA has established a Fund to support management of its debt obligations and assigned an additional staff member to monitor them. We will further review and strengthen our procedures to prevent a recurrence of arrears, including further strengthening of coordinating and monitoring processes between the NIA and the Federal Government of St. Kitts and Nevis.

- **Structural benchmarks**. We continue to implement our structural reform agenda, but changing circumstances and a widening of reforms, together with capacity constraints have caused delays.

  - We met the structural benchmarks on establishing and operationalizing a unit dedicated to program design, planning and monitoring in the Inland Revenue Department at end-September 2013, and updating the stress tests for banks, on a quarterly basis, based on data for end-June 2013 and end-September 2013.

    The implementation of the regulations of the 2011 Civil Service Act (structural benchmark for end-July 2013) was delayed following a decision by the Committee of Permanent Secretaries to redraft the regulations.

  - The three structural benchmarks expected to be completed by end-December 2013 have also been delayed as a result of gaps in the provision of technical assistance and procedural shortcomings.

    - ✓ **Develop the method for the proxy means testing for the eligibility criteria of the planned consolidated cash transfer program** was delayed when the UNICEF consultant was reassigned before completion of the project. A new consultant was recently hired to continue the project funded by resources from the 2014 budget. The proxy means test is now planned for completion by end-June 2014.

    - ✓ **Finalizing implementing regulations to the Procurement and Contract Act** requires additional technical assistance from the World Bank, which has to identify the needed resources. The authorities also wish to explore the possibility of accessing resources from the EU earmarked for the provision of technical assistance by the IMF.

    - ✓ **Submission of the Customs Law to Parliament** was delayed because of revisions, which are required to be sent to Cabinet for approval. It will be sent for Parliamentary approval by May 2014.

- Once more we have had to postpone completion of the draft proposal for a comprehensive pension reform, initially scheduled for end-June 2013 in order to allow further reflection on its integration with the ECCU regional initiative on pension reforms.

4. We remain fully committed to continuing with our reform agenda. However, we will need more time to implement reforms in order to harmonize measures with changing circumstance, evolving objectives, and limited capacity.

POLICIES DURING 2014

5. We expect the recovery of 2013 to strengthen in 2014. We are projecting real GDP to grow by 2.8 percent based on a further pick up in construction activity, reflecting the strong CBI inflows, FDI projects already in the pipeline, and continued improvements in tourism. Inflation is expected to pick up slightly as the economy grows and domestic demand increases.

6. We remain fully committed to the reform strategy and supporting policies outlined in our previous MEFP (July, 2013). These are aimed to secure sustainability by focusing on reforms to support growth and increase resilience to external shocks. On December 10, 2013, the National Assembly of St. Kitts and Nevis approved the 2014 budget, which was in line with program parameters, and on December 18, 2013, the Nevis Island Administration (NIA) also approved a program-consistent budget. On the basis of these fiscal frameworks, we are confident that the program's fiscal targets will continue to be met.

A. Fiscal Policy

7. Our fiscal consolidation program will continue to be anchored by the objective of reaching a debt-to-GDP ratio of 60 percent by 2020, while reducing fiscal vulnerabilities. For 2014, the fiscal program will target an overall surplus of 1.6 percent of GDP and a primary balance of 4.6 percent of GDP. These targets include a conservative projection for CBI receipts of 4.7 percent of GDP. Further, we are committed to a medium-term fiscal path consistent with our debt service commitments that will peak in 2015-2016 when we repay the IMF. To achieve our objective, the 2014 Budget has announced a civil service wages and pensions increase over the next three years of 4, 3 and 3 percent beginning 2014, following the nominal wage freeze which was in effect since 2010. Additionally, it was indicated in the 2014 Budget Address that the payment of increments to eligible Civil Servants—also frozen since 2010— would be restored. These increments amount to approximately 2 percent of the wage bill each year. Furthermore, we plan an additional moderate increase in the public wage bill to accommodate new initiatives of the Government's social reform agenda which would require the development of human resources and the maintenance of adequate staffing levels. These initiatives include the following:

i. Implementation of the Agricultural Diversification Strategy to ensure food and nutrition security of our people;

ii. Enhancement of government information and communication services by installing and commissioning a Government Wide Area Network (GWAN);

iii. Improved access to reliable and affordable health services by the establishment of a Hemodialysis Unit and the expansion of psychiatric services to ensure a healthy population;

iv. Strengthening of national security through improved law enforcement, national defence and prison services as well as intensifying the rehabilitation programme of the penal system to reduce recidivism.

We plan to accumulate budget surpluses as precautionary balances to assist us with future debt repayments, address exogenous shocks, and scale up public sector infrastructure investment in future years.

8. To achieve the fiscal targets we will continue to focus on enhancing tax revenues, while improving the efficiency of public expenditures, with a focus on creating a macroeconomic environment that promotes sustainable growth.

Revenue Enhancing Reforms:

- **Inland Revenue Department**. The Inland Revenue Department's (IRD) Strategic Planning Unit will complete operation plans and performance indicators by end-May, 2014. To focus on the most productive tax base and enhance our capacity to cross-check collections from different taxes, we established a Large and Medium Taxpayers' unit (LMTU). We plan to revise legislation to fully implement our e-filing program at the IRD. We have intensified enforcement of the obligation for beneficiaries of tax concessions to file annual income tax returns and we are starting the process of amending our Income Tax Act accordingly in order to improve control over potential abuses of tax incentives and VAT refunds. We will complete the draft legislation for the harmonization of the Tax Administration Procedures Act with the VAT Act to extend best practices in enforcement to taxes other than the VAT by end-December 2014. Inter alia, this reform will support improved compliance and our continuing efforts to improve tax administration by facilitating: (i) deployment of uniform tax administration policies across all tax types; (ii) the application of the best practices of the VAT system to the full range of taxes administered by the IRD and (iii) the planned adoption of risk-based auditing systems. We have expanded our taxpayers' services through the provision of a one-stop-shop which combines VAT and Corporate Income Tax services. This Unit is responsible for cleaning up the tax roll and spearheading our public outreach campaign on tax reporting and compliance, which has thus far been a success.

- **Customs and Excise Department**. We will strengthen post-clearance enforcement at the Customs and Excise Department (CED) by submitting to Parliament the new Customs law by end-May, 2014 and implementing it shortly after. We have started post-clearance audits and implemented risk-management practices at the CED, including risk profiling in cargo clearance procedures, and will integrate these procedures into the ASYCUDA World system by end September 2014. We expect the full implementation of ASYCUDA by end-September 2014. Our efforts to date have substantially reduced the average clearance time. We have also tightened export controls at Customs through the implementation of the new regime for export verification.

9. We remain committed to a thorough review of the system of customs duties and tax exemptions (Country Report No. 13/42 MEFP¶7) to facilitate broadening the tax base through streamlining tax incentives. Exemptions related to the transition period to the VAT ended on December 31, 2013, and the 2014 budget revenue projections are premised on reducing exemptions to not exceed EC$100 million. We will review the system for administering tax incentives in the context of eliminating ad hoc incentives and exemptions. To this end, the Ministry of Finance will collaborate with SKIPA, the CED and IRD to develop and implement a set of consistent methodologies for the measurement of foregone revenue.

Expenditure Reforms

10. We aim to moderate and improve the efficiency of public expenditure by:

- **Implementing our procurement procedures** (Country Report No. 14/49 MEFP¶9). We will renew efforts to obtain technical assistance to complete the Procurement Action Plan and draft the implementing regulations for the Procurement and Contract Act by end-September 2014. Standard Bidding Documents will also be developed subsequently. As a result of the delay, our plans to summarize and widely disseminate the scope of the Procurement and Contract (Administration) Act, its regulations and the underlying strategic vision and objectives will be delayed to end 2014.

- **Reforming the civil service**. We are revising the draft operational implementing regulations of the 2011 Civil Service Act and plan to resubmit the proposal to the Parliamentary Counsel by end-September 2014 after further review. With the support of the World Bank, we are moving forward with the Public Sector Modernization Project (PSMP) by undertaking a functional review of four key ministries (Public Works, Health, Human Resources and Education) which will serve as models for the rest of the public sector. We will also develop a reliable public employment wage bill and payroll database by conducting a payroll audit. To that effect, we have received a list of firms under consideration to conduct the audit, which should be launched in August 2014. We expect the PSMP to be completed by end-2015.

- **Continue to strengthen our control over contingent liabilities**. We remain committed to adopting policies and actions to strengthen the financial position of public enterprises, including reinforcing the requirement for statutory bodies to issue periodical financial statements.

- **Refine our cost estimates of the Health Insurance Scheme**. We are in the first phase of a three-year implementation of the Health Insurance Scheme which is intended to widen the citizenry's access to affordable health care. We will start with the most vulnerable group of the society, those that are already part of the social safety program, and ensure that they are covered by June 2014. The total estimated cost of this initiative is EC$16 million and our 2014 budget includes an allocation of EC$ 7 million for the first phase.

- **We are moving forward with plans for introducing a full pass-through for LPG pricing**. We are implementing a strategy to renegotiate the pricing structure for the importation of petroleum products in line with a Cabinet approved strategy (April 2013) to enhance the competitiveness of the market for petroleum products. The renegotiation process has now evolved into an ECCU region-wide coordinated initiative. A negotiating team has been appointed and a negotiating brief is being prepared. These negotiations are expected to result in lower import prices for LPG and white fuels (gasoline, diesel and kerosene) through the adoption of a more transparent and efficient approach to the pricing of these fuels, allowing us to reduce or eliminate the subsidy on the purchase of LPG and kerosene.

Social safety net

- **We will continue with the reform of the National Social Protection system**. We have established an evaluation framework consistent with the Cabinet-approved National Social Protection Strategy: Monitoring and Evaluation Framework. In this regard, we will launch a pilot program by June 2014, centered on 21 families to facilitate the smooth implementation of the monitoring and evaluation phase. We plan to finalize the proxy means test to widen our coverage to 80 families by 2015, 140 families by 2016, and 200 by 2017.

- **The new Unemployment Benefit Scheme**. The modified scheme aims to provide partial income replacement to Social Security contributors who are temporarily unemployed and actively seeking employment. It will be rolled out in 2014.

- **Pensions of civil servants**. By end-September 2014, we intend to complete implementing regulations for the Pension Act that was adopted at end-2012. (Country Report No. 14/49 MEFP¶9)

B. Debt Restructuring

11. We will seek to conclude the debt restructuring exercise. We will operationalize the Special Purpose Vehicle (SPV) to begin selling land. [We have issued the SPV's operational guidelines and aligned them with best international practices, including provisions that would ensure that the lands are sold at competitive market prices. We have publicized these guidelines by issuing a press release and posting them on our website (prior action)]. We will recruit a CEO for the SPV and complete its staffing by end-March, 2014. We will establish a land database, list land prices, and register real estate brokers by end-June, 2014. Our guiding principles will emphasize seeking competitive market value for the SPVs' assets and engaging in sales in a timely fashion. In addition, the NIA is to sign the supplementary shareholders' agreement.

C. Financial Sector

12. We are committed, together with the ECCB, to continue to safeguard the resilience of the banking sector, a prerequisite for sustainable growth.

- The ECCB's quarterly stress tests remain valuable monitoring tools. They indicate that one bank would be vulnerable to a liquidity shock, but that the system is adequately capitalized. Furthermore, two institutions provide deposits as a buffer. Finally, consistent with the IMF's safeguards policy requirement and current practice, we will continue to maintain all foreign exchange balances at the ECCB.

- The ECCB and banks are implementing their plan to lower NPLs back to the prudential requirement of 5 percent over the medium term.

- We are closely monitoring the effects of the debt/land swap on the banking sector and are mindful of the importance of swiftly launching land sales by the Special Purpose Vehicle (SPV).

- Improving the balance sheets of credit unions by continuing with on-site inspection under the new supervisory framework, based on the PEARLS performance monitoring system). On-site inspections of all four Credit Unions will be concluded by October 2014. We are closely monitoring implementation of corrective action, including through progress reports of non-compliant credit unions. In that regard, we will strengthen the FSRC's sanctioning power by issuing supporting regulations to the FSRC Act by end-June 2014.

D. Growth and Labor Market Issues

13. We are finalizing our Tourism Sector Strategy, based on promoting environmental sustainability, sharper targeting of the high-end segment and diversifying our source markets; we plan to develop greener infrastructure, building on the new solar energy projects implemented with the assistance of Taiwan (POC) and developing backward linkages to our agriculture and crafts sectors. We are directing our marketing campaigns at high-income households and expanding our source markets to reduce dependence on the U.S. We are developing partnerships with new airlines to significantly increasing airlift capacity to support the ongoing expansion in the number of tourist rooms. We are near to concluding arrangements for a PPP to begin the construction of a second cruise ship pier, which will be capable of accommodating two large cruise ships along with the related tourism facilities (shopping area, craft market, and road infrastructure). We are launching other projects that are aimed at increasing the range of amenities and services that support the tourism sector. We expect these actions to support sustained growth over the medium-term by raising the contribution of tourism to GDP.

14. We are preparing an action plan to improve the business environment. Guided by the World Bank Doing Business indicators, our priority is to improve processes for: resolving insolvency, registering property, securing credit, paying taxes and enforcing contracts. We adopted in 2013 the

new Bankruptcy and Insolvency Act to strengthen the legal framework for insolvency, including through the supervision of the administration of all estates.[1] We are also facilitating the payment of taxes by implementing e-services such as e-filing, e-payments and other revenue administration reforms. We plan to articulate a comprehensive strategy in the second half of 2014 following consultation with stakeholders, which will cost the reforms for inclusion in the budget.

15. We are finalizing the legislation to improve working conditions, and continuing actions to improve training of the work force. We plan to submit the new Labour Code to Parliament by the end of June 2014. The code will strengthen the legal framework for occupational health and safety, define labor termination rules and institute labour tribunals, in order to alleviate the existing backlog in the courts. We will also rollout an Unemployment Benefit Scheme in the second half of 2014. The purpose of the Scheme is to provide partial income replacement to Social Security contributors who are temporarily unemployed and actively seeking employment. We continue to implement training initiatives to improve the match between job seekers and employers.[2]

E. Program Issues

16. There is one prior action for the completion of this review: the issuing of operational guidelines for the SPV in line with best practices.

17. An adjustor was introduced for shortfalls/excess of CBI application fees in the budget. The overall balance and the primary balance of the central government at end-March 2014 will be adjusted by any difference in the outcome of the Citizenship by Investment fee receipts (¶ 10 in TMU) relative to the program target.

[1] This replaced the Bankruptcy Act of 1889.

[2] These include: the National Technical and Vocational Education and Training (TVET) Implementation Plan, the Skills Training and Entrepreneurial Program (STEP), the People Employment Program (PEP), the National Entrepreneurship Development Division (NEDD), the Youth Business Trust and Capisterre Farm.

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

Availability date 1/	Amount of Purchase		Conditions
	Millions of SDR	Percent of Quota	
July 27, 2011	22.150	248.9	Approval of arrangement
January 25, 2012	11.470	128.9	First review and end-September 2011 performance criteria
May 21, 2012	3.161	35.5	Second review and end-December 2011 performance criteria
August 3, 2012	3.161	35.5	Third review and end-March 2012 performance criteria
November 30, 2012	3.161	35.5	Fourth review and end-June 2012 performance criteria
July 24, 2013	4.266	47.9	Fifth and sixth review and end-March 2013 performance criteria
September 15, 2013	1.105	12.4	Seventh review and end-June 2013 performance criteria 2/
December 15, 2013	1.105	12.4	Eight review and end-September 2013 performance criteria 2/
June 15, 2014	2.931	32.9	Ninth review and end-March 2014 performance criteria 3/
Total	**52.510**	**590.0**	

Source: Fund staff estimates.

1/ For completed reviews the dates refer to Board dates and for future reviews the dates refer to availability dates.
2/ End-December 2013 PCs have been set and are the controlling PCs for both the seventh and eight reviews. However, the authorities request a waiver of applicability since (i) the final data to assess performance for end-December is not yet available; and (ii) there is no clear evidence suggesting that the end-December 2013 PCs are not observed.
3/ Reflects the proposed rephasing combining the ninth and tenth reviews.

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

	Performance Criteria									Proposed Performance Criteria
	End-Jun. 2013				End-Sep. 2013				End-Dec. 2013	End-Mar. 2014
	Prog.	Adjusted	Actual	Status	Prog.	Adjusted	Actual	Status		
Performance Criteria:										
Central government overall balance including grants (floor) 1/ 2/	28	31	126	√	48	62	175	√	52	15
Stock of central government budget expenditure arrears accumulation (ceiling) 3/	0	0	-32	√	0	0	-60	√	0	0
Stock of external short term debt (ceiling)	0	0	0	√	0	0	0	√	0	0
Central government or guaranteed external arrears accumulation (ceiling) 4/	0	0	-1	√	0	0	1.3	X	0	0
Indicative Target:										
Central government primary balance (floor) 1/ 2/	61	60	171	√	121	135	245	√	152	26

1/ Cumulative within each calendar year.
2/ See the TMU for a description of adjustors.
3/ Including the estimated stock of expenditure payable on electricity.
4/ To be monitored on a continuous basis.

Table 3. St. Kitts and Nevis: Structural Benchmarks

Action	Target Date Original	Target Date Revised	Objectives	Status
I. Prior Action				
Publish the guiding principles of the Special Purpose Vehicle (SPV) and align them with best international practices.			Strengthen public financial management	proposed
II. Fiscal and Public Sector Reforms				
Revenue Administration				
Establish and operationalize a unit dedicated to program design, planning and monitoring in the Inland Revenue.	End-September 2013		Strengthen revenue administration	completed
Submit to parliament the new Customs Law	End-December 2013	End-May 2014	Strengthen revenue administration	delayed, new date proposed
Public financial management				
Submit to Cabinet proposal to rationalize the subsidy on liquefied petroleum gas (LPG)	End-March 2012		Strengthen public financial management	completed
Update the registry of additional 600 acres of land	End-June 2012		Strengthen public financial management	completed
Undertake valuation of additional 600 acres of land	End-June 2012		Strengthen public financial management	completed
Submit draft of new Procurement Act to Parliament	End-June 2012		Strengthen institutional	completed
Draft proposal for the establishment of an asset management company	End-June 2012		Strengthen public financial management	completed
Establish a medium-term expenditure framework with agreed fiscal targets	End-June 2012		Improve medium-term orientation of the budget	completed
Finalize the implementing regulations to the Procurement and Contract Act	End-December 2013		Strengthen public financial management	delayed
Civil service reform				
Cabinet to approve a plan for civil service reform covering human resource policy, reviewing the organization and structure of the civil service and addressing wage policy and payroll management	End-June 2012		Strengthen public financial management	completed
Operationalize the implementing regulations of the 2011 Civil Service Act (pertaining to recruiting, discipline, promotion, and standing orders) by amending the general orders accordingly	End-July 2013	End-June 2014	Strengthen public financial management	delayed, new date proposed
Actuarial review of Social Security				
Regular review of the Social Security Scheme.	End-December 2012		Strengthen public financial management	met with delay in May 2013
Public enterprise reform				
Rationalize public land sales and development agencies	End-September 2012		Strengthen public financial management	met with delay October 5, 2012
Include in the Finance Administration Act provisions recognizing the Government Entities Oversight Board and strengthening its enforcement authority	End-March 2013		Strengthen public financial management	met with delay in July 2013
Strengthen social safety net				
Submit social safety net reform strategy to Cabinet	End-March 2012		Streamline social safety nets	completed
Develop method for the proxy means testing for the eligibiity criteria of the planned consolidated cash transfer program	End-December 2013		Streamline social safety nets	delayed
III. Financial Sector Reforms				
Update the existing stress tests of banks	To be monitored on a quarterly basis		Financial sector stability	completed
IV. Medium-term				
Develop an explicit medium-term debt management strategy that takes account of the cost-risk tradeoff of alternative financing options, within the context of the overall macroeconomic environment	End-December 2012		Improve medium-term orientation of the budget	completed
Draft proposal for a comprehensive pension reform	End-June 2013		Strengthen public financial management	delayed

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

Attachment II. Technical Memorandum of Understanding

1. St. Kitts and Nevis' performance under the Stand-By Arrangement (SBA) will be assessed on the basis of the quantitative performance criteria and indicative targets, as well as the structural benchmarks. This Technical Memorandum of Understanding (TMU) defines the variables set out in Tables 2 and 3 of the Memorandum of Economic and Financial Policies (MEFP). It also lays down the reporting requirements to adequately monitor the program.

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

Coverage

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

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

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

Quantitative Performance Criteria

A. Central Government's Overall Deficit (PC)

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

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

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

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

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

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

- any exceptional financing, including rescheduled principal and interest;

  less:

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

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

- **downward** (i.e., a larger overall deficit target would apply) to the extent that budgetary grants fall short of the programmed amounts by less than EC$3 million.

- **upward** to the extent that budgetary grants exceed the annual amounts specified in the program as indicated in table 1.

Table 1. Programmed Disbursements of Budgetary Grants in 2014

(in EC$ millions)

Quarters	I	II	III	IV
Grants	6	23	27	32

Sources: St. Kitts and Nevis authorities; and Fund staff estimates.
Note: Values presented are cumulative from the beginning of the year.

- **downward** by the cumulative amount of up to EC$15 million spent to support the British American Insurance Companies or CLICO resolutions as part of a regional strategy—any amounts spent in excess of this programmed contingency will need to be funded within the program limit on the overall deficit.

- **downward** to the extent that clearance of arrears exceeds zero.

- **upward** to the extent of exceptional financing achieved through debt restructuring.

- **upward** to the extent of under-execution of non-grant financed capital expenditure relative to the program targets as indicated in Table 2. For the purpose of the program revenue financed capital expenditure refers to capital expenditure not financed by loans or grants.

Table 2. Programmed Capital Outlays of the Central Government, 2014

(in EC$ millions)

Quarters	I	II	III	IV
Capital expenditure	8	44	76	107
Capital expenditure net of grants and loans	3	20	36	50

Sources: St. Kitts and Nevis authorities; and IMF Staff estimates.
Note: Values presented are cumulative from the beginning of the year.

- **upward** to the extent that the Citizenship by Investment fee receipts exceed the amounts specified in the program as indicated in Table 3.
- **downward** to the extent that the Citizenship by Investment fee receipts fall short of the amounts specified in the program as indicated in Table 3.

Table 3. Programmed Receipts from Citizenship by Investment in 2014

(in EC$ millions)

Quarters	I	II	III	IV
Citizenship by investment	25	50	75	100

Sources: St. Kitts and Nevis authorities; and Fund staff estimates.
Note: Values presented are cumulative from the beginning of the year.

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

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

C. External Arrears of the Public Sector (PC)

12. The **non-accumulation of arrears to external creditors** will be a continuous performance criterion under the program. This performance criterion applies to arrears accumulated related to debt contracted or guaranteed by central government. External payment arrears consist of external debt service obligations (principal and interest) falling due after December 31, 2010 that have not

been paid at the time due, taking into account the grace periods specified in contractual agreements. Arrears resulting from nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is being sought are excluded from this definition.

D. Budget Expenditure Arrears (PC)

13. A ceiling is set on central government budget expenditure arrears, equal to the stock of such arrears as at December 31, 2010 (Table 4). The ceiling applies to the increase in the sum of: (1) any invoice that has been received by a spending agency from a supplier of goods, services, and capital goods delivered and verified, and for which payment has not been made within the contractually agreed period, or in the absence of a grace period, within 60 days; and (2) unpaid wages, pensions, or transfers, pending for longer than 60 days to domestic or foreign residents, irrespective of the currency denomination of the debt. Interest and amortization arrears on domestic debt resulting from nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is being sought are excluded from this ceiling. For ease of monitoring, all debt issued on the Regional Government Securities Market (RGSM), irrespective of who holds it, will be regarded as domestic debt.

Table 4. Stock of Budget Expenditure Arrears at end-December, 2010

(in EC$ millions)

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

Source: St. Kitts and Nevis authorities.

1/ The stock of arrears related to the fuel purchase is being audited by international auditors .

Indicative Target on the Primary Balance of the Central Government

14. The **central government's primary balance** is defined as revenue and grants minus non-interest expenditures. As in the definition of the overall balance, revenue will exclude any proceeds from the sale of public assets. Net lending is a non-interest expenditure item (negative net lending is a revenue item). Interest expenditures include interest payments on outstanding arrears, as defined above in sections IIC and IID (at their contractual rates) converted to a cash basis.

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

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

- **downward** (i.e., a smaller primary surplus target would apply) to the extent that budgetary grants fall short of the programmed amounts by less than EC$3 million.
- **upward** to the extent that budgetary grants exceed the annual amounts specified in the program as indicated in Table 1.
- **downward** by the cumulative amount of up to EC$15 million spent to support the British American Insurance Companies or CLICO resolutions as part of a regional solution—any amounts spent in excess of this programmed contingency will need to be funded within the program limit on the overall deficit.
- **downward** to the extent that clearance of arrears exceed zero.
- **upward** to the extent of exceptional financing achieved through debt restructuring.
- **upward** to the extent of under-execution of non-grant financed capital expenditure relative to the program targets as indicated in Table 2. For the purpose of the program revenue financed capital expenditure refers to capital expenditure not financed by loans or grants.
- **upward** to the extent that the Citizenship by Investment fee receipts exceed the amounts specified in the program as indicated in Table 3.
- **downward** to the extent that the Citizenship by Investment fee receipts fall short of the amounts specified in the program as indicated in Table 3.

Data and Information

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

Fiscal sector

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

- Stock of external arrears by creditor.

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

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

Financial sector

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

Real sector

- Consumer price index.

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

Fiscal

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

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

Real sector

- Economic indicators under the real sector.

External sector

- Economic indicators under the external sector.

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

External and real sectors

- GDP and its components.

- Balance of payments accounts.

20. **Other reporting** will include:

- Reports of legislative changes pertaining to economic matters.

- Notification of any establishment of new public enterprises.

- All disbursements and outstanding balances from the use of the Banking Sector Reserve Fund on a weekly basis.

INTERNATIONAL MONETARY FUND

ST. KITTS AND NEVIS

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION AND THE SEVENTH AND EIGHTH REVIEWS UNDER THE STAND-BY ARRANGEMENT AND REQUEST FOR WAIVERS OF APPLICABILITY AND NONOBSERVANCE OF PERFORMANCE CRITERION—INFORMATIONAL ANNEX

March 6, 2014

Prepared By

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

CONTENTS

FUND RELATIONS

(As of January 31, 2014)

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	56.74	637.57
Reserve position in the Fund	0.08	0.92

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	8.50	100.00
Holdings	6.84	80.41

Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
Emergency Assistance	0.56	6.25
Stand-By Arrangement	47.37	532.24

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
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):

	Forthcoming				
	2014	2015	2016	2017	2018
Principal	3.33	16.56	19.32	7.12	1.60
Charges/Interest	0.96	0.78	0.24	0.06	0.01
Total	4.28	17.34	19.56	7.19	1.61

[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 of close to 100 percent. St. Kitts and Nevis accepted the obligations of Article VIII, Sections 2, 3, and 4 in December 1984. The exchange system is free of restrictions on the making of payments and transfers for current international transactions.

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. 11/270) was issued on July 20, 2011. Board discussion took place on July 27, 2011. It is proposed that the next Article IV consultation take place in 12 months.

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 and improving 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.

- 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.

- 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 January 21, 2014)

The World Bank Group's Management presented to its Board the Organization of the Eastern Caribbean States (OECS) Regional Partnership Strategy (RPS) on June 8, 2010. The RPS covers the five year period July 2009–June 2014. It sets forth the terms of engagement of the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) and the International Finance Corporation (IFC) with the countries of the Eastern Caribbean, sub-regional organizations and other development partners in pursuit of the following strategic objectives: (a) building resilience; and (b) enhancing competitiveness and stimulating growth over the medium term.

To help build resilience in the OECS, the Bank Group is supporting interventions aimed at promoting fiscal and debt sustainability, protecting and improving human capital—particularly social safety nets, education and health—and strengthening climate resilience.

To help enhance competitiveness and stimulate sustainable growth, it focuses its support on two critical areas: strengthening the countries' domestic financial sectors and improving access to quality services to create more competitive business environments. The Strategy provides urgent remedial measures to address the crippling effects of the global and regional crises, while supporting key policy reforms that establish a platform for growth in the medium term.

The program of support entails new commitments totaling up to about US$120 million on IBRD terms for the six Bank Members of the OECS and up to US$73 million of IDA financing, for the four OECS which are also eligible to IDA, namely: Dominica, Grenada, Saint Lucia and St. Vincent and the Grenadines. St. Kitts and Nevis and Antigua and Barbuda are the only OECS eligible to IBRD-only resources because of their high-income status. St. Kitts and Nevis graduated from access to IDA resources in 1994.

A new OECS Regional Partnership Framework FY15-19 is currently under preparation and expected to be presented to the World Bank Board in spring 2014.

A. Projects

St. Kitts and Nevis participates in one active World Bank's Project-Enhanced Public Sector Governance and Efficiency (IDF grant). 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 government of St. Kitts and Nevis launched its national chapter of the Caribbean Growth Forum (CGF) between February 25 and 27, 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 International Development Agency (CIDA), 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 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 already been launched in 12 Caribbean countries, including all the six OECS countries. During the CGF workshop in St. Kitts and Nevis, participants started discussions on issues and measures to strengthen the investment climate, logistics and connectivity, and skills and productivity in St. Kitts and Nevis. Key actions addressed included upgrading education, enhancing ICT, improving the infrastructure services, and reducing electricity costs through exploring alternative energy sources.

Recent projects. There was one WB recent regional operation, the OECS Telecommunications and ICT Development Project, which closed on Dec 31, 2011 for the benefit of St. Kitts and Nevis (US$0.54 million), as well as Dominica (US$ 0.54 million); Grenada (US$ 0.27 million); St. Lucia (US$ 0.27 million) and St. Vincent and the Grenadines (US$ 0.27 million). The project aimed at improving the access, quality, and use of telecommunications and ICT services to achieve socioeconomic development in the OECS. The project for St. Kitts and Nevis was aimed at establishing a wireless network to provide connectivity to schools in support of a parallel initiative of the Government that involved the provision of laptops to students. Given the nature of the project where five member countries were involved, each country's performance was overall positive. The evidence that shows Governments' satisfactory performance can be found in their support to overcome the challenges encountered in finding adequate ICT providers and vendors.

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**	**Approval Date**	**Closing Date**	**Disbursed**	**Available**
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, 2013)

Over the years, Caribbean Development Bank (CDB) has supported the economic and social development of St. Kitts and Nevis by providing financing for priority capital and technical assistance (TA) projects. In addition, CDB has engaged in policy dialogue with the Government of St. Kitts and Nevis. Generally, 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 industry; and emergency disaster rehabilitation.

In December 2012, CDB approved a new assistance strategy for St. Kitts and Nevis for the period 2013-16, which 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 programme of up to US$42.7 million over the strategy period.

At the end of December 2013, CDB had approved loans totaling US$171.74 million to SKN of which US$19.89 million were undisbursed.

Major projects currently under implementation include following:

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

2. Student-Loan Scheme (Sixth Loan)-to assist the National Bank of St Kitts-Nevis-Anguilla in financing loans to students attending local, regional and extra-regional institutions for programmes in technical, vocational and academic studies.

3. National Disaster Management: Immediate Response Loan-Tropical Storm Otto-to contribute to the rehabilitation of economic infrastructure damaged by Tropical Storm Otto. The Project consists of the restoration of part of Basseterre Bay Road, the reconstruction of 200 meters of sea defense wall and associated roadwork.

4. Nevis Water Supply Enhancement-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 1.00 million gallons will be constructed. The project also provides for capacity building and strengthening institutional arrangements for the delivery of water services.

Major Projects Under Implementation

(In millions of U.S. dollars)

	Approved	Undisbursed
Second Power Project	8.43	8.37
Student Loan Scheme (Sixth Loan)	6.20	5.17
Nevis Water Supply Enhancement	8.76	7.73
National Disaster Management-Immediate Response Loan	0.75	0.41

Source: Caribbean Development Bank.

Loan Disbursement, Service and Resource Flow

(In millions of U.S. dollars)

	2009	2010	2011	2012	2013
Net Disbursement	2.16	8.21	0.27	-2.45	4.34
Disbursement	6.91	13.65	4.37	1.73	18.98
Amortisation	4.75	5.44	4.10	4.18	14.64
Interest and charges	3.59	3.44	2.62	2.48	3.16
Net resource flow	-1.43	4.77	-2.35	-4.93	1.18

Source: Caribbean Development Bank.

STATISTICAL ISSUES

Data provision is broadly adequate for surveillance, although significant shortcomings in data provision and data quality remain. St. Kitts and Nevis has been participating in the General Data Dissemination System (GDDS) since October 2000, and its metadata are posted on the Fund's Dissemination Standards Bulletin Board (DSBB).

Real Sector

There are a number of deficiencies in the real sector statistics. GDP data by type of expenditure are not available at constant prices, while the data at current prices are not reliable due to weaknesses in estimating gross capital formation. Private final consumption expenditure is estimated as a residual. A new CPI was introduced in 2010, with new weights based on the 2000 household survey, linking the old and new baskets back to 2006. Monthly CPI data are posted on the ECCB website with a long lag. The ECCB also produces monthly data, and on tourism with a long lag, and tourism expenditure. The assumed spending levels for types of tourists have not been updated recently. Limited data are available on labor market developments.

Public Finances

Data on revenue, expenditure, and financing of the consolidated central government are made available to Fund staff on request. Commendable progress has recently been made in improving the quality and coverage of central government fiscal data, including on government and public enterprise debt. Progress has been made reducing discrepancies between overall balance and available financing in 2013. Works needs to be done in resolving the discrepancy in earlier years. It would be important to produce a set of fully consolidated accounts for the central government on a regular basis. Also, it would be beneficial to institute a mechanism for the regular reporting of financial data on the rest of the public sector. The most recent data on the central government published in the GFS Yearbook are for 2012. Public Finance data is recorded by the authorities on a cash basis, and reported to the Fund in a Chart of Account broadly in line with that of the GFSM.

Balance of Payments and External Debt

ECCB provides imports and exports on a monthly basis, and estimates a full balance of payments on an annual basis. The latest data published in IFS are for 2012. Most components of the financial account need improvement. It would be useful to reconcile the data on the public sector investment plan for external loans with the public external debt database. There are no data on private external debt. The IMF Statistics Department undertook a mission on Balance of Payments Statistics in 2012 to work with the ECCB Authorities on meeting the requirements of the *Balance of Payments and International Investment Position Manual, sixth edition (BPM6).*

Monetary and Financial Statistics

The 2003 money and banking statistics mission indicated that enhanced institutional coverage, classification of financial instruments, and sectorization of economic units would facilitate identification of credit flows to different sectors of the economy and compilation of monetary aggregates. It recommended that the institutional coverage for other depository corporations be expanded to include credit unions, finance companies, and building societies, which also accept demand and other deposits. Further, the mission recommended broadening the coverage to include insurance companies, pension funds, development banks, and offshore institutions and foundations.

In April 2007, a data ROSC mission assessed the monetary statistics with reference to the GDDS and the Data Quality Assessment Framework (DQAF, July 2003). It indicated that the quality of the ECCB and Eastern Caribbean Currency Union member countries' monetary statistics has improved over recent years, and the monetary statistics are broadly adequate for macroeconomic analysis and policy design and monitoring. The mission identified shortcomings related to the institutional coverage of the other depository corporations as data for mortgage companies, finance companies, building societies, and credit unions—all of which accept deposits—are excluded. Also, accrued interest is not incorporated in the value of the interest-bearing assets and liabilities, and valuation adjustments are included in other liabilities. In addition, source data for the commercial banks do not provide the disaggregation recommended in the Monetary and Financial Statistics Manual. Monetary Statistics were modified, and since January 1, 2009, the definition of broad money aggregates is revised to include the deposits of non-bank financial institutions and subsidiaries and affiliates held at commercial banks.

The authorities report monetary data to the IMF on a monthly basis, with a time lag of about 3 months. The ECCB publically releases monetary survey data, and deposits, loans, and sector distribution of credit alongside a Central Bank balance sheet and data on interest rates on a monthly basis, again with a lag.

Table of Common Indicators Required for Surveillance

(As of February 2014)

	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]	11/13	1/21/2014	M	M	M
Reserve/Base Money	11/13	1/21/2014	M	M	M
Broad Money	11/13	1/21/2014	M	M	M
Central Bank Balance Sheet	11/13	1/21/2014	M	M	M
Consolidated Balance Sheet of the Banking System	11/13	1/21/2014	M	M	M
Interest Rates[2]	11/13	1/21/2014	M	M	M
Consumer Price Index	12/13	01/30/14	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	11/13	12/31/13	M	M	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	11/13	12/31/13	Q	Q	A
External Current Account Balance	2012	10/30/13	A	A	A
Exports and Imports of Goods and Services	2012	10/30/13	A	A	A
GDP/GNP	2012	10/13/13	A	A	A
Gross External Debt	11/13	12/31/13	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).

INTERNATIONAL MONETARY FUND

Press Release No. 14/xx
FOR IMMEDIATE RELEASE
March 25, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes 2014 Article IV Consultation with St. Kitts and Nevis

On March 19, the Executive Board of the International Monetary Fund (IMF) concluded the 2014 Article IV consultation[1] s with St. Kitts and Nevis. On the same day, the Board also completed the seventh and eight review under a program supported by a 36-month Stand-by Arrangement (SBA), see: Press Release 14/xx

St. Kitts and Nevis is recovering from a four-year economic recession, occasioned by the international financial crisis, the need to restore fiscal sustainability and restructure public debt. For 2013, real GDP is estimated to have grown by 1.7 percent, based on a modest recovery in tourism, and a strong pickup in construction related to the Citizenship by Investment (CBI) program and other tourism-related projects. Inflation has declined following the introduction of the VAT at end-2010 and the hike in electricity tariffs in early 2011 and remains low and stable. Robust CBI and rising tourism receipts are projected to have narrowed the current account deficit from 21.4 percent of GDP in 2010 to 8.5 percent of GDP in 2013, which have together with increased capital inflows, increased international reserves. The commercial banks remain resilient despite the recession and the impact of the debt restructuring.

The economy is expected to grow by 2.7 percent in 2014 and continue to strengthen over the medium-term towards its potential growth rate of 3–3.5 percent. Tourism should continue its recovery, supported by increased airlift capacity and new room capacity, while CBI inflows and other projects are expected to continue to fuel construction.

The fiscal consolidation has progressed considerably, reflecting both concerted policy efforts and continued strong CBI revenues which have mostly been saved. The overall balance improved from a deficit of 7.8 percent of GDP in 2010 to an estimated surplus of 10.6 percent of GDP in 2013.Tax revenues stagnated in percent of GDP after an initial

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

boost from introducing the VAT, while CBI revenues grew from 2.3 percent of GDP in 2010 to a projected 13 percent of GDP in 2013. Current expenditures were compressed through a hiring and wage freeze since 2010, while the corporatization of the Electricity Company, and interest reductions following the debt restructuring provided for further budgetary savings. The stronger fiscal positions enabled the authorities to grant the thirteenth month wage payment in 2013 and increase capital spending. Fiscal consolidation and debt restructuring reduced the debt-to-GDP ratio from 164 percent in 2010 to around 105 percent in 2013, but the debt remains high and vulnerable to exogenous shocks.

Executive Board Assessment[2]

Executive Directors commended the authorities' successful implementation of their home-grown Fund-supported program. Growth has resumed after four years of contraction; a significant fiscal adjustment has been achieved; and progress has been made in debt restructuring. Directors underscored the importance of continued efforts to strengthen the fiscal framework, reduce debt further, and implement growth-enhancing reforms. They welcomed the authorities' intention to treat the arrangement as precautionary for the remainder of the program in view of the improved external position.

Directors welcomed the authorities' commitment to continue fiscal consolidation to secure medium-term fiscal sustainability. They supported further efforts to broaden the tax base, strengthen tax administration, contain current outlays, and enhance public financial management. They recommended greater restraint in future wage increases and public sector hiring, and proceeding with civil service reform. Directors welcomed plans to save the bulk of CBI receipts to build buffers and consider setting up a stabilization fund to support public debt reduction and productive infrastructure projects. They called for vigilance to prevent a recurrence of external arrears.

Directors underscored the importance of sustaining the pace of fiscal structural reforms. They encouraged the authorities to move swiftly to implement regulations for the Civil Service Act and the Procurement and Contract Act, develop proxy means testing for social safety net programs, and submit the Customs Law to parliament. These measures are needed for a more efficient and productive public sector that can support a dynamic private sector. Directors looked forward to the finalization of debt restructuring negotiations with remaining bilateral creditors.

Directors noted that the banking sector remains resilient and well capitalized. They commended the progress in strengthening the supervisory framework for credit unions and

[2] 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 summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

the increase in their capitalization, but noted the need to further consolidate their balance sheets. Directors also stressed the importance of facilitating banks' plans to reduce nonperforming loans, and of launching land sales to buttress banks' liquidity. Strong oversight of the financial sector, in close collaboration with the Eastern Caribbean Central Bank, should continue.

Directors agreed that the priority going forward is to enhance growth. They commended efforts to boost the tourism sector and its contribution to GDP, plans to support investment in alternative energy to reduce energy costs, and measures to strengthen the business and investment climate. Vigilance to ensure that investments are yielding the expected results and readiness to review the strategy, as needed, will be important.

St. Kitts and Nevis: Selected Economic Indicators

	2010	2011	2012	2013	2014	2015
(Annual percentage change; unless otherwise specified)						
National income and prices						
Real GDP (factor cost)	-3.8	-1.9	-0.9	1.7	2.7	3.0
Consumer prices, end-of-year	5.2	2.8	0.1	0.4	1.5	2.0
Real effective exchange rate (end-of-period) 1/	-2.5	2.3	-0.8	...	...	...
Banking system						
Net foreign assets 2/	1.1	15.5	21.8	14.5	3.5	-0.3
Net domestic assets 2/	7.8	-5.5	-10.4	-4.9	0.8	-0.5
Of which						
Credit to public sector 2/	4.9	-9.0	-10.7	-37.0	-11.0	0.1
Credit to private sector 2/	2.6	2.6	0.1	-1.4	2.2	2.1
Broad money	8.9	10.0	11.4	9.5	4.3	-0.8
Of which						
Money	43.1	34.7	12.0	-6.2	2.0	1.5
Quasi-money	3.3	4.4	11.3	14.1	4.9	-1.4
Weighted average deposit rate (in percent per year) 3/	3.5	3.4	3.4	…	…	…
Weighted average lending rate (in percent per year) 3/	8.5	9.1	8.4	…	…	…
(In percent of GDP)						
Public sector 4/						
Primary balance	-0.8	8.3	10.9	15.5	4.6	4.9
Primary balance (net of CBI)	-3.1	3.7	3.8	2.4	0.0	0.4
Overall balance	-7.8	1.8	5.0	10.6	1.6	2.1
Overall balance (net of CBI)	-10.1	-2.8	-2.2	-2.4	-3.1	-2.4
Total revenue and grants	31.0	37.2	35.9	42.3	34.2	33.7
Total expenditure and net lending	38.8	35.4	30.9	31.7	32.6	31.6
Foreign financing	0.3	0.3	-5.3	0.5	-1.1	-3.7
Domestic financing	7.7	-8.8	-13.8	-36.1	-3.5	1.3
Sale/purchase of assets	0.7	0.4	0.5	0.2	0.4	0.4
Statistical discrepancy	-1.9	4.6	-0.9	0.0	…	…
Financing gap	…	…	…	0.0	0.0	0.0
Total public sector debt (end-of-period)	163.9	154.0	137.0	104.9	91.2	84.6
Of which						
Central government	129.4	122.8	110.3	80.1	76.1	70.1
Public enterprises	34.4	31.1	26.7	24.8	15.1	14.4
External sector						
External current account balance	-21.5	-15.7	-11.9	-8.5	-17.4	-17.1
Trade balance	-28.9	-25.4	-22.3	-25.7	-26.6	-26.5
Services, net	5.0	7.3	8.6	14.8	7.1	7.3
Of which						
Tourism receipts	13.4	12.9	13.0	13.1	13.5	13.9
Transfers, net	6.9	6.5	4.0	4.5	4.3	4.3
Net capital inflow 5/	25.3	18.1	4.7	11.9	18.2	17.9
FDI (net)	16.4	15.3	18.2	20.4	18.5	17.2
External public debt (end-of-period)	49.5	50.5	42.3	42.5	41.5	35.4
(In percent of exports of goods and nonfactor services)						
External public debt service	24.5	23.7	10.4	8.3	12.5	18.0
External public debt (end-of-period)	159.8	150.2	120.0	108.5	131.9	111.4

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

1/ Weights given by the average trade share during 2003–2013. Depreciation (-).

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

3/ End of period. Weighted by the size of loans or deposits.

4/ Central government unless otherwise noted.

5/ Includes errors and omissions.

Press Release No.14/xx
FOR IMMEDIATE RELEASE
March 19, 2014

International Monetary Fund
Washington, D.C. 20431 USA

(Corrected) IMF Executive Board Completes Seventh and Eighth Reviews Under Stand-by Arrangement for St. Kitts and Nevis and Approves US$3.43 Million Disbursement

On March 19, the Executive Board of the International Monetary Fund (IMF) completed the seventh and eighth reviews of St. Kitts and Nevis' economic performance under a program supported by a 36-month Stand-by Arrangement (SBA). The completion of the review enables the immediate disbursement of an amount equivalent to SDR 2.21 million (about US$ 3.43 million). The authorities have decided to treat the arrangement as precautionary. On the same day, the Board also concluded the 2014 Article IV consultation with St. Kitts and Nevis, see PR xxx

In completing the reviews, the Executive Board approved the waiver of applicability for the end-December 2013 performance criteria, for which data are not yet available and there is no evidence that they were not observed. The Executive Board also approved the waiver of non-observance of the continuous performance criterion on the ceiling of external arrears accumulated on debt contracted or guaranteed by the central government as the non-observance was minor and temporary. In addition, the Executive Board approved the re-phasing of the undisbursed amounts over the remainder of the arrangement.
The SBA was originally approved on July 27, 2011 (see Press Release No.11/295), for an amount equivalent to SDR 52.51 million (about US$81.55 million), or 590 percent of St. Kitts and Nevis' IMF quota.

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

"The St. Kitts and Nevis authorities have continued to make commendable progress under their home-grown Fund-supported program. Economic activity is picking up after a four-year slump, inflation remains low, the financial sector is stable, and the fiscal and external positions are improving. Significant progress has also been made to strengthen public financial management.

"The 2014 budget aims to protect the gains under the program, continue the downward debt-to-GDP trajectory, and advance the reform agenda. Achieving these objectives will require sustained strict control of government spending and increased efforts to improve revenue collection. The bulk of revenues from the Citizenship by Investment program should be saved to build buffers, facilitate a faster decline in debt, and finance productive capital projects. Containing public sector wage outlays and hiring will also be necessary.

"Debt has fallen considerably due to completion of a large part of the debt-land swap, but remains high. Completing the agreement on the remaining debt-land swap should be a top priority. New measures should ensure that external arrears do not recur.

"While there have been significant advances in structural reforms, greater effort will be needed to implement the remaining planned reforms to generate further efficiencies in the public sector and foster private sector growth. Priority should be given to measures to enhance revenues by strengthening tax administration and limiting tax exemptions, and to streamline public expenditure, including through civil service reform.

"The banking sector remains resilient. Together with the ECCB, the government should continue its close monitoring of banks and their progress in reducing nonperforming loans. The sale of lands involved in the debt-land swap should commence expeditiously to bolster banks' profitability. The authorities have taken welcome steps to strengthen the non-bank financial institutions supervisory framework. Continued efforts in this area are needed to support the stability of the financial system."