

**International Monetary Fund**

[St. Kitts and Nevis](#)  
and the IMF

**St. Kitts and Nevis:** Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

**Press Release:**  
[IMF Executive Board](#)  
[Completes Second](#)  
[Review Under Stand-](#)  
[by Arrangement with](#)  
[St. Kitts and Nevis](#)  
[and Disburses US](#)  
[\\$4.83 million](#)  
May 21, 2012

May 2, 2012

The following item is a Letter of Intent of the government of St. Kitts and Nevis, which describes the policies that St. Kitts and Nevis intends to implement in the context of its request for financial support from the IMF. The document, which is the property of St. Kitts and Nevis, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

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Basseterre, St. Kitts  
May 2, 2012

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

Dear Ms. Lagarde:

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

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

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

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

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

Sincerely,

/s/

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

## MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

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

### I. PERFORMANCE UNDER THE PROGRAM

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

- **Growth and inflation.** Real GDP contracted by an estimated 2 percent in 2011, the third consecutive year of decline, reflecting a weak outturn in tourism and a continued slump in construction activity due to sluggish growth in advanced economies and in FDI inflows. Inflation averaged 5.4 percent during 2011, following the introduction of the VAT at end-2010, adjustments in electricity tariffs, and higher food and oil prices, but abated to 1.2 percent (y/y) at end-December 2011.
- **External sector.** The current account narrowed from 20.6 percent of GDP in 2010 to 14 percent in 2011, as import compression dominated weak exports and tourism receipts. FDI inflows slowed down, particularly high-end real estate investments from the US. During 2011, there was an accumulation of international reserves of about EC\$110 million, of which the Banking Sector Reserve Fund (BSRF) was EC\$46.1 million.
- **Fiscal performance.** Despite the weak global environment, the government's economic program has yielded positive results. The overall fiscal balance at end-2011 reached a surplus of EC\$42 million, significantly above the adjusted program floor of EC\$-34.8 million (the primary surplus also exceeded the program's indicative floor). Tax revenue was broadly in line with expectations combined with strong non-tax revenue from the citizenship-by-investment program and transfers from the SIDF, a foundation that supports the Government in its efforts to diversify the national economy and maintain economic stability in the country following the closure of the sugar industry. The foundation does not conduct commercial activities. Overall

expenditure was lower than what had been projected at the time of the first review, with restraint in current outlays offsetting higher-than-expected capital spending.

- **Other performance criteria.** The ceilings on central government budget expenditure arrears accumulation, the stock of external short-term debt, and the central government or guaranteed external arrears accumulation have all been met (Table 2).
- **Debt restructuring.** We have made significant progress in our comprehensive debt restructuring by:
  - *Launching a debt exchange offer for bonds and syndicated loans due to commercial creditors* which was completed on March 14 and provided the opportunity to exchange claims for a new discount or par bond. After the completion of bondholder meetings on 18 April 2012, a total of EC\$369 million of claims were exchanged for a total of EC\$133 million par bonds and US\$44 million discount bonds (EC\$118 million equivalent). The Caribbean Development Bank supported this endeavor by partially guaranteeing debt service payments of the new discount bonds.
  - *Signing agreements covering the vast majority of domestic commercial debt*, which envisage the exchange of approximately EC\$900 million of secured loans for land and equity in a new special purpose vehicle (SPV) that will manage land sales. The terms of other loans to domestic financial institutions will be changed so that the debt servicing burden will be reduced significantly, in particular through a significant extension of maturity and reduction in interest rate.

These operations, combined with our fiscal efforts, will lead to an immediate reduction in total public debt from 154.4 percent of GDP<sup>1</sup> at end-2011 to around 100 percent at end-2012 and help reduce it to 55.2 percent by end 2020, below the ECCU target of 60 percent.

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

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<sup>1</sup> Including budgetary arrears of 4.9 percent of GDP and interest rate arrears of 0.8 percent of GDP.

Services Regulatory Commission has also taken important steps in enhancing the oversight of the non-bank financial sector, including on-site inspections of insurance companies, quarterly reporting by credit unions, registration of pension funds and monitoring compliance with AML.

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

## II. POLICIES DURING 2012

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

### A. Debt Restructuring

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

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

## B. Financial Sector

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

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

## C. Fiscal Policy

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

### Revenue

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

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

### **Expenditure**

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

### **Fiscal structural reforms**

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

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

14. **We are improving fiscal transparency.** We are progressing towards quarterly publication of reports on fiscal operations by end-2012 and gross financing needs starting in June, 2013. We remain committed to ensuring that all expenditures and revenues are reported in the budget on a gross basis, including duties and taxes collected on petroleum products and

related subsidies. While we appreciate that the Sugar Industry Diversification Foundation (SIDF) is a private foundation, we welcome the ongoing strengthening of its administrative structure in line with best practices.

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

Availability date	Amount of Purchase		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
February 15, 2012	3.161	35.5	Second review and end-December 2011 performance criteria
May 25, 2012	3.161	35.5	Third review and end-March 2012 performance criteria
August 15, 2012	3.161	35.5	Fourth review and end-June 2012 performance criteria
November 15, 2012	3.161	35.5	Fifth review and end-September 2012 performance criteria
February 15, 2013	1.105	12.4	Sixth review and end-December 2012 performance criteria
May 15, 2013	1.105	12.4	Seventh review and end-March 2013 performance criteria
August 15, 2013	1.105	12.4	Eighth review and end-June 2013 performance criteria
November 15, 2013	1.105	12.4	Ninth review and end-September 2013 performance criteria
February 15, 2014	0.913	10.3	Tenth review and end-December 2013 performance criteria
May 15, 2014	0.913	10.3	Eleventh review and end-March 2014 performance criteria
<b>Total</b>	<b>52.510</b>	<b>590.0</b>	

Source: Fund staff estimates

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

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

1/ Cumulative within each calendar year.

2/ See the TMU for a description of adjusters.

3/ Including the stock of arrears related to fuel purchases audited by international auditors.

4/ To be monitored on a continuous basis.

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

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

1/ Cumulative within each calendar year.

2/ See the TMU for a description of adjusters.

3/ Including the stock of arrears related to fuel purchases audited by international auditors.

4/ To be monitored on a continuous basis.

Table 4. St. Kitts and Nevis: Structural Benchmarks

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

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

## TECHNICAL MEMORANDUM OF UNDERSTANDING

1. St. Kitts and Nevis' performance under the Stand-By Arrangement (SBA) will be assessed on the basis of the quantitative performance criteria and indicative targets, as well as the structural benchmarks. This Technical Memorandum of Understanding (TMU) defines the variables set out in Table 2 of the Memorandum of Economic and Financial Policies (MEFP). It also lays down the reporting requirements to adequately monitor the program.
2. For the purposes of the program, the exchange rate of the East Caribbean dollar (EC\$) to the U.S. dollar is set at EC\$2.70 = US\$1 and the exchange rate of the Euro to the U.S. dollar is set at EUR1 = US\$1.3. Foreign currency accounts denominated in currencies other than the U.S. dollar and the Euro, excluding SDRs, will be first valued in the U.S. dollar at actual end-of-period exchange rates used by the ECCB to calculate the official exchange rates. SDR-denominated accounts will be valued at the program exchange rate of U.S. dollar 1.6 per SDR.

### I. COVERAGE

3. For the purpose of the program, **central government** will cover all items included in the government budgets of the Federation (both St. Kitts and Nevis).
4. The **nonfinancial public sector** is defined as the total central government and nonfinancial public enterprises. Public enterprises consist of the Development Bank of St. Kitts and Nevis, Financial Services Regulatory Commission, Frigate Bay Development Corporation, La Vallee Greens Ltd, National Housing Corporation, Nevis Air and Sea Port Authority, Nevis Cultural Development Foundation, Nevis Electricity Corporation, Nevis Housing and Land Development Corporation, Nevis Solid Waste Management Authority, Nevis Tourism Authority, St. Christopher and Nevis Solid Waste Management Corporation, St. Christopher Tourism Authority, St. Kitts Urban Development Corporation, St. Christopher Air and Sea Ports Authority, WhiteGate Development Corporation, and ZIZ Broadcasting Corporation.
5. **External debt** is defined as all debt owed to creditors residing outside of St. Kitts and Nevis, while **domestic debt** covers all debt owed to residents of St. Kitts and Nevis. The latter covers all T-bills, including those held by creditors residing outside of St. Kitts and Nevis, and the bond issued at the Regional Government Securities Market (RGSM).

### II. QUANTITATIVE PERFORMANCE CRITERIA

#### A. Central Government's Overall Deficit (PC)

6. The **central government overall balance** will cover all of its revenue, grants, expenditure, and transfers. Revenues will exclude any proceeds from the sale of public assets

such as land, which will be considered as financing below the line. Expenditures will exclude clearance of arrears, which will be considered as financing below the line.

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

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

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

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

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

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.
- **downward** by the cumulative amount of up to EC\$15 million spent on bank recapitalization and support to the British American Insurance Companies or CLICO as part of a regional solution—any amounts spent in excess of this programmed contingency will need to be funded within the program limit on the overall deficit.
- **upward** to the extent that clearance of arrears fall short of the amounts specified.
- **upward** to the extent of exceptional financing achieved through debt restructuring.

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

Quarters	I	II	III	IV
Grants	0.0	0.0	0.0	27.4

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

Note: Values presented are cumulative and Euro 1 = US\$1.3.

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

11. The **limit on short-term external debt** applies to debt owed or guaranteed by the central government of St. Kitts and Nevis, with an original maturity of up to and including one year. Excluded from the limit are any rescheduling operations (including the deferral of interest on commercial debt) and normal import-related credits. Normal import credit is understood to be a self-liquidating operation where the proceeds from sales of imports are

used to retire the debt. Debt falling within the limit shall be valued in U.S. dollars at the time of the contract or guarantee becomes effective.

### C. External Arrears of the Public Sector (PC)

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

### D. Budget Expenditure Arrears (PC)

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

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

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

Source: St. Kitts and Nevis authorities.

1/ Including the stock of arrears related to fuel purchases audited by international auditors.

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

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

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

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

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

### IV. DATA AND INFORMATION

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

#### Fiscal sector

- Central government budgetary accounts.
- Capital expenditure.

- Total monthly disbursements and grants receipts, disaggregated into: (a) budgetary support (by type—either loans, external “bonds” and/or other securities); (b) project loans; (c) budgetary grants; and (d) project grants.
- Central government domestic debt data (St. Kitts and Nevis).
- Stock of domestic arrears, including unpaid checks issued, stock of unprocessed claims due and invoices pending; interest and amortization on domestic debt.
- Stock of external arrears by creditor.
- Detailed monthly external debt report from the Debt Unit in the Ministry of Finance, showing fiscal year-to-date disbursements, amortization, interest payments and outstanding stocks, for the central government and public enterprises.
- Copies of loan agreements for any new loans contracted, including financing involving the issue of government paper, and of any renegotiated agreements on existing loans.

#### **Financial sector**

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

#### **Real sector**

- Consumer price index.

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

#### **Fiscal**

- A detailed overview of capital expenditures on a project by project basis and the composition of financing.
- Financial position of the public enterprises (as listed in paragraph 4).

#### **Real sector**

- Economic indicators under the real sector.

#### **External sector**

- Economic indicators under the external sector.

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

**External and real sectors**

- GDP and its components.
- Balance of payments accounts.

20. **Other reporting** will include:

- Reports of legislative changes pertaining to economic matters.
- Notification of any establishment of new public enterprises.
- All disbursements and outstanding balances from the use of the Banking Sector Reserve Fund on a weekly basis.