

International Monetary Fund

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and the IMF

St. Kitts and Nevis: Letter of Intent

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SBA for St. Kitts and
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US\\$4.5 Million
Disbursement](#)
July 15, 2014

June 23, 2014

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Letter of Intent



**PRIME MINISTER
ST KITTS AND NEVIS**

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

June 23, 2014

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

Dear Madame Lagarde,

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

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

we have put in place will allow us to maintain fiscal prudence, which we believe is imperative for economic stability and growth.

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

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

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

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

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

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

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

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

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

ST. KITTS AND NEVIS

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

Sincerely,



Denzil Douglas (Rt. Hon. Dr.)

Prime Minister and Minister of Finance
St. Kitts and Nevis

Attachment 1: Program Tables

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

Availability date 1/	Amount of Purchase		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
March 19, 2014	2.210	24.8	Seventh and eighth review and end-September 2013 performance criteria
June 15, 2014	2.931	32.9	Ninth review and end-March 2014 performance criteria
Total	52.510	590.0	

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

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

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

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

Table 3. Structural Reform Program

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

Sources: St. Kitts and Nevis authorities

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