INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/186

ST. KITTS AND NEVIS

2017 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT

July 2017

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2017 Article IV consultation with St. Kitts and Nevis, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 16, 2017 consideration of the staff report that concluded the Article IV consultation with St. Kitts and Nevis.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 16, 2017, following discussions that ended on May 4, 2017, 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 June 2, 2017.
- An **Informational Annex** prepared by the IMF staff.

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

Press Release No. 17/261
FOR IMMEDIATE RELEASE
July 5, 2017

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2017 Article IV Consultation with St. Kitts and Nevis

On June 16, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation1 with St. Kitts and Nevis.

Economic performance moderated in 2016. Growth moderated, reflecting the deceleration in tourism-linked sectors and contraction in manufacturing output, while still exceeding the average growth in the Eastern Caribbean Currency Union (ECCU) region. Lower Citizenship-By-Investment (CBI) receipts was a key factor contributing to a narrowing of the overall fiscal surplus and a significant widening of the current account deficit. Consumer inflation was negative, reflecting the favorable tax environment and low international fuel prices, but end-year inflation turned positive as these effects started to subside. Public debt fell further, projected to reach the ECCU debt-to-GDP target in 2018, well ahead of ECCU peers. The banking sector remains stable, but faces risks, including those associated with the slow progress with the sale of land swapped for public debt, weak asset quality, and loss of Correspondent Banking Relationships (CBRs).

Growth is expected to average around 3 percent in the medium term under the current policies and conservative assumptions about future CBI flows. The projected slowdown in construction linked to lower CBI inflows is expected to be offset by public infrastructure investment and higher tourism growth as source market growth accelerates and new tourism facilities come on stream through 2019. Inflation is projected to rise with the expected rise in fuel prices, remaining around 2 percent in the medium term. The current account deficit should remain large with CBI inflows tapering off. Key risks to the outlook include a sharper drop in CBI inflows, further delays in completing the sale of lands under the debt-land swap arrangement, loss of CBRs, and a stronger U.S. dollar. Stronger-than-expected CBI inflows from the ongoing reforms and continued oil-price weakness could surprise on the upside.

[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.

Executive Board Assessment[2]

Executive Directors welcomed the authorities' commitment to sound economic management and continued efforts to strengthen their policy framework which has resulted in favorable outcomes. The medium-term outlook is also favorable, with public debt expected to fall below the Eastern Caribbean Currency Union target in 2018, well ahead of other member states. However, growth has moderated, reflecting slower tourism and manufacturing activity. Lower citizenship-by-investment (CBI) inflows have weakened fiscal and external accounts. Moreover, the outlook remains vulnerable to risks of a sharp fall in CBI inflows, delays in the sale of lands under the debt-land swap arrangement, loss of correspondent banking relationships, and natural disasters. Against this backdrop, Directors called for policy actions to limit fiscal and financial sector risks and support strong, inclusive growth.

To maintain sustainability, Directors supported adoption of a medium term fiscal framework with a zero underlying primary balance target, which excludes CBI inflows. This framework could be enshrined in fiscal responsibility legislation but should preserve priority spending that contributes to long-term inclusive growth, including infrastructure investment, social sector spending, and poverty alleviation.

To further strengthen fiscal management, Directors suggested implementation of measures to broaden the tax base, streamline tax incentives and improve tax administration. Measures would also be needed to contain the public wage bill, spending on goods and services, and quasi-fiscal spending of the Sugar Industry Diversification Foundation, while improving oversight of public corporations and fiscal management of the Nevis Island Administration. Directors encouraged further prepayment of expensive debt and underscored the need to carefully manage fiscal implications of the planned universal health coverage.

Directors welcomed the authorities' commitment to establish a Growth and Resilience Fund to preserve and manage the fiscal savings from CBI inflows. With a prudent investment strategy and flows integrated with the fiscal framework, the fund should be prioritized for debt reduction and building resilience against natural disasters. In this regard, Directors encouraged preparing for natural disasters through a comprehensive framework that involves risk reduction through public infrastructure investment, and risk mitigation through fiscal buffers, risk-transfer arrangements, and contingent financing plans.

Directors noted that despite adequate capital and liquidity levels, the financial sector faces risk from delays in the sale of lands under the 2014 debt-land swap, loss of correspondent banking relationships, and high nonperforming loans. CBI inflows would also need to be monitored closely for their impact on the banking system. Directors urged completion of the land sales to limit fiscal and financial risks. They also supported continued efforts to improve compliance with international AML/CFT standards, implement risk-based supervision, and maintain open communications to reduce correspondent banking risks. The ongoing regional and national efforts to resolve problem loans, including operationalization of the Eastern

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

Caribbean Asset Management Corporation and modernizing foreclosure legislation, can help revive private sector credit growth.

Directors emphasized that reforms to overcome persistent structural challenges are necessary to boost inclusive growth and raise competitiveness. Priorities include policies to improve the business environment, support skills-development and economic diversification, strengthen wage-productivity links, improve global and regional connectivity, better target social programs, and reduce gender gaps and crime. Directors urged progress in improving availability of reliable data to enhance the quality of surveillance and policymaking.

St. Kitts and Nevis: Selected Economic and Financial Indicators 2015-19

		Est	Proj.		
	2015	2016	2017	2018	2019
National income and prices (Percentage change)					
Real GDP (factor cost) 1/	4.9	3.1	2.7	3.5	3.2
Consumer prices, end-of-period 2/	-2.4	0.9	1.5	2.0	2.0
Consumer prices, period average 2/	-2.3	-0.7	1.2	1.8	2.0
Banking system (Annual percentage change)					
Change in net foreign assets 3/	-5.3	-1.3	1.2	0.7	-0.6
Credit to public sector 3/	-0.8	-5.1	0.4	1.0	1.5
Credit to private sector 3/	1.5	-0.2	1.7	1.9	1.9
Broad money	2.5	-4.0	3.3	3.5	2.7
Public sector 4/ (In percent of GDP)					
Total revenue and grants	38.8	34.3	31.0	29.9	28.1
o/w Tax revenue	21.4	20.6	20.7	20.8	20.8
o/w CBI fees	12.4	7.2	3.9	3.7	1.8
Grants	1.3	2.7	2.7	1.7	1.9
Total expenditure and net lending 5/	33.1	30.1	31.8	31.3	30.0
Primary balance	7.8	6.0	0.9	0.3	-0.4
Overall balance	5.7	4.2	-0.7	-1.4	-1.9
Overall balance (less CBI inflows) 6/	-6.7	-3.7	-6.6	-6.1	-4.6
Total public debt (end-of-period)7/	70.6	65.6	61.7	59.0	56.1
External sector (In percent of GDP)					
External current account balance 8/	-9.2	-17.3	-18.5	-17.9	-18.1
Trade balance 8/	-27.4	-30.2	-28.2	-27.5	-27.0
Services, net	16.6	11.6	8.6	8.9	8.2
o/w Tourism receipts	14.7	14.7	14.8	15.2	15.7
External public debt (end-of-period)	26.9	21.6	18.5	16.2	14.1
Memorandum items					
Net international reserves (in millions of U.S. dollars)	280.4	312.9	336.9	351.7	348.0
Nominal GDP at market prices (in millions of EC$)	2,366	2,429	2,534	2,676	2,820

Sources: Country authorities; ECCB; UNDP; World Bank; and Fund staff estimates and projections.
1/ Authorities revised historical GDP growth backwards from 2015.
2/ Includes St. Kitts and Nevis (in the past, only St. Kitts data was reflected).
3/ In relation to broad money at the beginning of the period.
4/ Consolidated general government balances. Primary and overall balances are based on above-the-line data.
5/ Decline in goods and services expenditure in 2012 reflects the corporatization of the Electricity Department in August 2011.
6/ Excludes CBI budgetary fees as well as SIDF grants and Investment proceeds.
7/ Reflects the debt-land swap equivalent to EC$565 million in 2013 and EC$231 million in 2014.
8/ Based on staff's preliminary revisions to merchandise imports since 2013 pending technical assistance from CARTAC and headquarters.

ST. KITTS AND NEVIS

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

June 2, 2017

KEY ISSUES

Context. St. Kitts and Nevis attained the strongest growth and fiscal performance in the ECCU region in recent years, with public debt set to meet the ECCU's 60 percent of GDP target in 2018. The strong macroeconomic performance owes much to the robust Citizenship-by-Investment (CBI) inflows as well as overall prudent macroeconomic policies. However, CBI revenues fell significantly last year and are expected to fall further going forward. In this context, additional efforts are needed to secure the macroeconomic gains, while enhancing resilience to external shocks and ensuring sustainable, inclusive growth into the medium term.

Article IV. Discussions focused on measures to strengthen the fiscal framework, with a view to reducing reliance on CBI inflows while strengthening fiscal sustainability. Staff urged the authorities to target a zero-underlying primary balance over the medium term by broadening the tax base and containing spending, especially on the public wage bill. Staff stressed that the sale of lands under the debt-land swap should be completed urgently to limit fiscal and financial sector risks. Weak asset quality and potential financial sector risks from a CBI slowdown or withdrawal of correspondent banking relationships must be addressed by further progress in removing obstacles to NPL resolution, monitoring the real-estate market and ensuring adequate prudential oversight, and continued efforts for compliance with international standards. To boost inclusive growth, staff called for further efforts to improve the business climate, address skill gaps, enhance diversification, and build resilience to natural disasters.

Authorities' views. The authorities broadly concurred with staff's assessment and policy recommendations. They agreed that the medium-term framework should continue to focus on reducing reliance on CBI inflows, including by containing discretionary tax incentives and controlling wage-bill growth through a predictable wage-setting mechanism. The authorities have committed to give due consideration to implementing the staff's recommendation of aiming for a zero-underlying primary balance and enshrining it in a fiscal-responsibility law after a full assessment and consultations. The authorities noted that they would explore further options to repay expensive debt and noted recent actions in this regard. The authorities agreed on the urgency to complete the sale of lands under the debt-land swap arrangement, and believed that their renewed efforts should expedite land sales. They also concurred with the importance of achieving sustainable and more inclusive growth, by strengthening competitiveness and implementing revamped social programs under the National Social Protection Strategy.

Approved By
Trevor Alleyne and Bob Traa

The staff team comprising Inci Otker (head), Takuji Komatsuzaki, Gonzalo Salinas, and Mauricio Vargas (all WHD) visited Basseterre and Charlestown during April 18-May 4, 2017. The mission met with Prime Minister the Honorable Timothy Harris, Premier of Nevis Honorable Vance Amory, Deputy Governor of the ECCB, the Financial Secretary of St. Kitts and Nevis, the Permanent Secretary of Finance of the Nevis Island Administration, the Citizenship by Investment Unit, Ministries of Agriculture, Health, Labor, Social Development, and Sustainable Development, and other senior public officials, and representatives of the Financial Services Regulatory Commission, Leader of the Opposition, St. Kitts and Nevis Trade and Labor Union, and financial and business community. Courtney Williams from the Office of the Executive Director and A.M. Wickham, IMF local economist, participated in the discussions.

CONTENTS

TABLES

ANNEXES

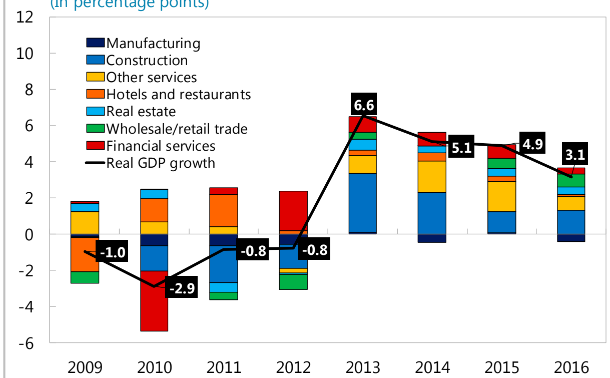
Glossary

AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BOP	Balance of Payments
CARTAC	Caribbean Regional Technical Assistance Centre
CBI	Citizenship-By-Investment
CBRs	Correspondent Banking Relationships
CCTV	Closed Circuit TV
CDB	Caribbean Development Bank
EBA	External Balance Assessment
ECAMC	Eastern Caribbean Asset Management Corporation
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GRF	Growth and Resilience Fund
MHI	Mandatory Health Insurance
NCD	Non-communicable disease
NIA	Nevis Island Administration
NPLs	Nonperforming Loans
OECS	Organization of Eastern Caribbean States
PAHO	Pan-American Health Organization
PFM	Public Financial Management
PEP	People Employment Program
REER	Real Effective Exchange Rate
SIDF	Sugar Industry Diversification Foundation
SLSC	Special Land Sales Company
SGBP	State Guaranteed Benefits Package
SKIPA	St. Kitts Investment Promotion Agency
UCS	Universal Coverage Scheme
UHC	Universal Health Coverage
UHI	Universal Health Insurance
UWI	University of the West Indies

RECENT ECONOMIC DEVELOPMENTS

1. **Economic activity moderated in 2016.** The economy grew at 3.2 percent, compared to 4.9 percent in 2015. The slowdown reflected deceleration in manufacturing, financial, and tourism-linked sectors, the latter reflecting a slowdown in both cruise arrivals (due to limited port capacity) and lower stay-over arrivals from the United States and the United Kingdom. Construction grew at a robust 7.6 percent, largely owing to a major hotel project. Consumer inflation was negative, reflecting the effect of tax exemptions and low international fuel prices in 2015; but end-year inflation turned positive as these effects started to subside.

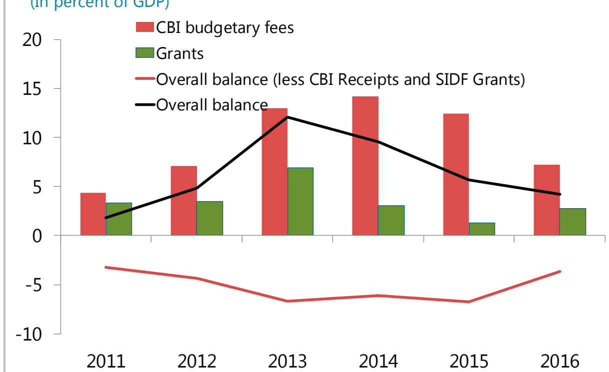
Contribution to Growth
(In percentage points)



Sources: Authorities; IMF staff calculations.

2. **The overall fiscal balance remained in surplus, at 4.2 percent of GDP, but deteriorated compared to 2015.** The reduced surplus was driven largely by the lower CBI receipts to the budget, as CBI inflows slowed down reflecting increased competition in the region and global security concerns. The weaker fiscal position also reflects reduced tax revenues, owing in part to the full-year impact of the VAT exemptions granted in April 2015. Total expenditure declined substantially due to a significant fall in goods and services spending and capital expenditure, partially offset by a higher wage bill, reflecting the 13th-month bonus to public employees. The estimated 'underlying' fiscal balance (the overall balance excluding Sugar Industry Diversification Foundation (SIDF) grants and CBI-related receipts and due-diligence spending) remained in deficit, but narrowed to 3.3 percent of GDP. Public debt fell to 66 percent at end-2016, while central government and SIDF deposit buffers rose to 42 percent of GDP.

Fiscal Performance 2011-2016
(In percent of GDP)



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

3. **A combination of lower CBI-budgetary receipts and a larger trade deficit resulted in a significant widening of the current account deficit**—to 17.3 percent of GDP, from 9.2 percent previously. The sluggish growth in the tourism sector and significant data revisions by the

authorities also contributed to the deterioration.[1] Capital inflows were strong (owing, in part, to CBI-linked FDI), which helped to finance the trade deficit. The balance of payments surplus in 2016 compensated the previous year's drop in foreign reserves. Foreign reserves at the ECCB remained at comfortable levels (7.4 months of imports), well above the various reserve-adequacy metrics (Annex II).

4. The domestic banking system remains broadly stable, but faces risks. Banks' capital and liquidity ratios appear comfortably above the regulatory requirements, although the capital adequacy ratio could be lower, given the ECCB's classification of the land assets swapped for government debt in bank books[2] and the upcoming switch to Basel II (2019) and IFRS (October 2018), which are expected to put pressure on capital and provisioning. Notwithstanding the ongoing resolution efforts by banks (through intensified recovery/collection, refinancing, and renegotiating loan terms), banks are still burdened with high nonperforming loans (NPLs) and loan portfolios are vulnerable to adverse real-estate-market developments (see paragraph 20). Combined with limited bankable projects, high NPLs dampen banks' appetite for lending, with real credit growth moving to negative territory in end-2016. Banks have preserved correspondent banking relationships (CBRs) through continued engagement with correspondent banks, increased provision of information, training of staff, and increased allocation of resources to address AML/CFT requirements. However, the banking system has experienced higher fees (about an average 25 percent increase), longer time to complete transactions, and increased due-diligence processes.[3] Some businesses have been discontinued in some banks (e.g., clearing US$-checks, money services).

Selected Financial Indicators, 2012-2016

		Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
		(In percent)				
Indigenous Banks	Capital adequacy ratio	39.4	34.6	26.3	22.1	22.3
	NPLs/Total Loans	8.9	12.1	16.8	22.3	20.8
	Provisioning/NPLs	34.7	43.0	46.5	32.6	32.1
	Liquid Assets/Total Assets	43.6	50.7	51.3	50.2	50.9
	Return on Assets	0.9	0.5	0.5	0.6	0.8
Foreign Banks	Capital adequacy ratio	-	-	-	-	-
	NPLs/Total Loans	12.7	9.9	10.3	9.5	8.6
	Provisioning/NPLs	29.8	37.3	50.5	54.6	52.4
	Liquid Assets/Total Assets	52.9	54.2	58.0	51.9	45.5
	Return on Assets	0.2	1.0	0.8	1.1	1.0

Source: ECCB
Note: The decline in CAR reflects the reduction in the size of the loan portfolio due to the debt-land swap.

[1] Further revisions are expected later this year when the ECCB completes revisions to external statistics with new surveys using the BPM6 methodology.

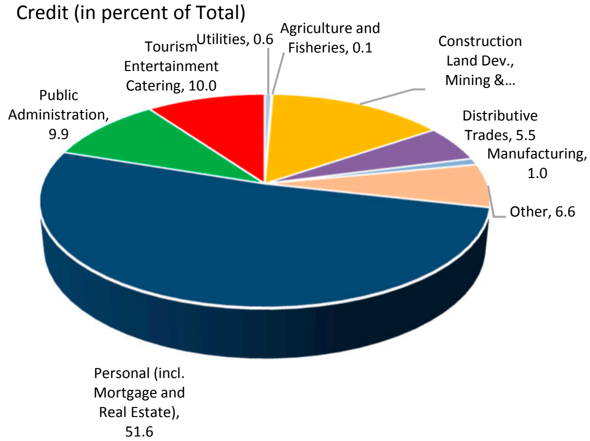
[2] In 2014Q3, the ECCB reclassified the banks' holdings of SPV shares for the land as de-facto government exposure collateralized by land, based on the banks' own reporting of the land as a financial investment that represents "rights to the cash flows from the sale of the land," and assigned a zero risk-weight in computing the capital-adequacy ratio (CAR), compared to a previous 100 percent risk weight. The new treatment results in a reported CAR of 22 percent as of end-December 2016, compared to about 15 percent if a 100 percent risk weight were applied. The ECCB maintains the existing treatment until the government and the bank agree on a consistent treatment of the swap; the government, in line with the swap agreement, does not acknowledge ongoing liability/debt to the bank.

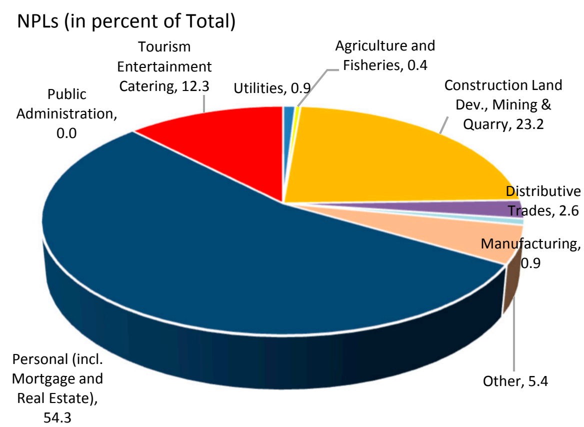
[3] One indigenous bank lost two CBRs but has replaced them with other relationships, albeit at a higher cost in terms of fees (30-50 percent) and longer duration of completing transactions (3-4 days). Increased transaction costs apply to both foreign and indigenous banks, given additional due-diligence, reporting, and training requirements.

OUTLOOK AND RISKS

5. **Economic growth is projected to fluctuate around its current level over the medium term under the baseline with current policies and cautious assumptions on future CBI flows**. Growth is projected to be 2.7 percent for 2017 and average around 3 percent in the medium term. The projected slowdown in construction linked to lower CBI inflows would be offset by public investment on infrastructure and higher tourism growth (as source market growth accelerates and new tourism facilities come on stream in 2017-19). With the expected rise in fuel prices from 2017, inflation is projected to rise in 2017, remaining around 2 percent in the medium term. The external current account deficit should remain large, with CBI inflows tapering off, while reserves remain at comfortable levels. Public debt is projected to reach the 60-percent ECCU debt-to-GDP target by 2018.

St. Kitts and Nevis: Sectoral Distribution of Loans and NPLs, End-2015





Source: ECCB, Staff estimates and computations.

6. **Risks to the medium-term outlook are broadly balanced (Annex I), deriving from both domestic and external factors.** Key risks include further delays in completing the sale of lands under the debt-land swap arrangement and a sharper drop in CBI inflows. A stronger U.S. dollar and a tighter financial environment could raise borrowing costs and offset the positive effect on tourism from expansionary U.S. fiscal policies; a more severe Zika epidemic (notwithstanding the intensive efforts to reduce the mosquito population at source, public awareness and education campaigns, and continued monitoring and testing) or a major natural disaster also add to the risks. Loss of CBRs could add to financial sector challenges. On the upside, stronger CBI inflows (from the ongoing reforms) and continued oil-price weakness could support growth.

Text Table 1. St. Kitts and Nevis: Medium-Term Outlook

	Avg. 2005-12	2013	2014	Est. 2015	Projections 2016	2017	2018	2019	2020	2021	2022
Output and prices					(Annual percentage change)						
Real GDP (factor cost)	1.2	6.6	5.1	4.9	3.1	2.7	3.5	3.2	3.0	2.7	2.7
Consumer prices, end-of-period	3.8	0.6	-0.5	-2.4	0.9	1.5	2.0	2.0	2.0	2.0	2.0
Fiscal Sector					(In percent of GDP)						
Gen. Gov.primary balance	4.8	16.0	12.3	7.8	6.0	0.9	0.3	-0.4	0.3	0.3	0.1
Gen. Gov. primary balance (less CBI budgetary receipts)	-0.4	3.0	-1.9	-4.6	-1.2	-3.0	-3.4	-2.2	-1.4	-1.3	-1.4
Gen. Gov. overall balance	-1.8	12.1	9.5	5.7	4.2	-0.7	-1.4	-1.9	-1.4	-1.5	-1.6
Gen. Gov. overall balance (less CBI budgetary receipts)	-4.3	-0.9	-4.7	-6.7	-3.0	-4.7	-5.1	-3.7	-3.1	-3.1	-3.2
Citizenship by investment fees to the budget		13.0	14.2	12.4	7.2	3.9	3.7	1.8	1.7	1.6	1.5
SIDF contributions to the budget 1/		5.8	1.5	0.0	0.7	1.9	1.0	0.9	0.7	0.7	0.7
Total public debt (end-of-period) 2/	139.2	101.0	81.4	70.6	65.6	61.7	59.0	56.1	53.9	50.9	48.1
External Sector											
Current account balance (in percent of GDP)	-17.7	-11.4	-8.1	-9.2	-17.3	-18.5	-17.9	-18.1	-18.1	-17.9	-17.6
Current account balance (less CBI) (in percent of GDP)	-19.0	-24.4	-22.3	-21.6	-24.5	-22.5	-21.6	-19.9	-19.8	-19.5	-19.1
Imputed reserves (in months of imports)	4.6	7.6	8.1	6.7	7.4	7.8	7.8	7.3	6.8	6.1	---

Sources: St. Kitts and Nevis authorities, ECCB and IMF staff estimates and projections.
1/ Includes capital grants and investment proceeds to government.
2/ Reflects debt-land swap equivalent to EC$565 million in 2013 and EC$231 million in 2014.

POLICY DISCUSSIONS

Against the background of elevated risks to CBI inflows and risks associated with completion of the sale of lands under the debt-land swap arrangement, discussions focused on policies to safeguard macroeconomic and financial stability, including by strengthening the fiscal policy framework and reducing reliance on CBI inflows, mitigating risks to financial stability, and necessary reforms to attain sustainable, inclusive growth. The authorities broadly concurred with staff's assessment and policy recommendations; implementation of most staff recommendations from the previous Article IV consultations are ongoing (Annex III).

C. Strengthening the Fiscal Framework

7. The underlying fiscal position suggests that fiscal policy has been procyclical and expansionary in recent years, notwithstanding the adjustment in 2016. The general government underlying primary deficit widened from 2.8 percent of GDP in 2013 to 4.6 percent in 2015, before improving to a 1.9 percent deficit in 2016 due to temporary underspending, while the underlying overall deficit fluctuated around 6.5 percent in 2013-15, before improving to a deficit of 3.7 percent. Beside reducing the deficit, the CBI inflows supported the SIDF's quasi-fiscal activities that added to the fiscal impulse until 2014 (including through social programs, such as the People Employment Program (PEP) and other public/private investment projects). The underlying consolidated public sector deficit (i.e., including SIDF spending and public-enterprise balances but net of CBI receipts) improved somewhat since 2014, reflecting lower SIDF spending in line with reduced CBI proceeds, but nevertheless remains large. The VAT and import-duty exemptions since 2014 have weakened the fiscal framework, with revenue loss from tax incentives estimated at 6.4 percent of GDP in 2016.[4]

[4] The loss of revenue is likely underestimated, since it excludes exemptions related to the corporate income tax and the April 2015 VAT exemptions.

8. The authorities' 2017 fiscal policy priorities focus on preserving the gains in fiscal sustainability, while supporting growth and strengthening resilience. The strategy aims at controlling government recurrent spending, while scaling up public investment to support stronger, sustainable, and inclusive growth and build resilience to natural disasters. The budget does not propose new taxes, but envisages streamlining tax concessions over the next 2-3 years and implementing PFM reforms.

St. Kitts and Nevis: Consolidated Underlying Public Sector Balance, Net of CBI Inflows

(In Percent of GDP)

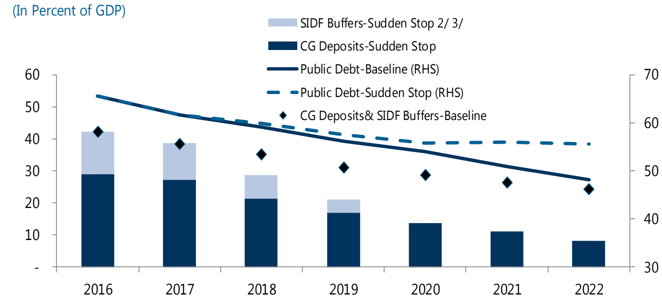
	2012	2013	2014	2015	Est. 2016	2017	2018	Projections 2019	2020	2021	2022
Gen. Gov Primary balance (after grants)	10.8	16.0	12.3	7.8	6.0	0.9	0.3	-0.4	0.3	0.3	0.1
Less: CBI Budgetary Receipts	7.1	13.0	14.2	12.4	7.2	3.9	3.7	1.8	1.7	1.6	1.5
Less: SIDF Investment Proceeds	1.5	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Less: SIDF grants	0.6	4.1	1.5	0.0	0.7	1.9	1.0	0.9	0.7	0.7	0.7
Gen. Gov Primary balance (less CBI fees, SIDF grants and Inv. Proceeds)	**1.6**	**-2.8**	**-3.4**	**-4.6**	**-1.9**	**-5.0**	**-4.4**	**-3.1**	**-2.1**	**-2.0**	**-2.1**
Add: Dividend payments for swapped land	0.0	0.0	0.9	1.1	1.1	1.1	1.0	1.0	0.0	0.0	0.0
Gen. Gov Primary balance (less CBI fees & SIDF grants), adjusted for dividend payments	**1.6**	**-2.8**	**-2.5**	**-3.5**	**-0.8**	**-3.9**	**-3.4**	**-2.1**	**-2.1**	**-2.0**	**-2.1**
Improvement (+)/Deterioration (-) in underlying fiscal position		-4.4	0.3	-1.0	2.7	-3.1	0.4	1.3	0.0	0.1	-0.1
Gen. Gov. Overall balance (less CBI fees, SIDF grants and Inv. Proceeds)	**-4.4**	**-6.7**	**-6.1**	**-6.7**	**-3.7**	**-6.6**	**-6.1**	**-4.6**	**-3.9**	**-3.8**	**-3.8**
Other SIDF Spending	0.3	2.5	4.6	2.5	1.9	1.0	1.0	0.5	0.4	0.4	0.4
o/w PEP	0.0	1.9	3.0	2.3	1.9	1.0	1.0	0.5	0.4	0.4	0.4
Consolidated Gen. Gov. and SIDF Overall balance, net of CBI inflows	**-4.6**	**-9.2**	**-10.7**	**-9.2**	**-5.5**	**-7.6**	**-7.1**	**-5.1**	**-4.3**	**-4.2**	**-4.2**
Public sector enterprises, overall balance 1/	0.8	0.5	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Consolidated public sector balance, net of CBI inflows	**-3.8**	**-8.7**	**-10.1**	**-8.6**	**-4.8**	**-6.9**	**-6.4**	**-4.4**	**-3.6**	**-3.5**	**-3.6**

1/ Reflects the overall balance of 14 public sector enterprises

9. The medium-term fiscal framework should continue to focus on reducing reliance on CBI inflows, given continued risks to fiscal sustainability from the underlying deficits in a world of heightened uncertainty. Notwithstanding the large fiscal buffers, an extreme scenario of a stop in inflows could result in budget deficits that erode the buffers as early as 2020 and leave the public debt 8 percentage points above the 2022 baseline, absent any fiscal adjustment. Combined with a natural disaster (which is assumed to lower growth by 6 percentage points compared to baseline in 2018 and deteriorates fiscal balance by about 5 percent of GDP in 2018-19), the CBI shock would add another 3.5 percent of GDP to the baseline in 2022, taking the debt-to-GDP ratio slightly above the 60 percent target (Annex IV). The resulting slowdown in economic activity could further weaken tax performance that had benefited from spillovers from CBI-related spending and investment.

Fiscal Buffers and Public Debt under Baseline and Sudden Stop Scenarios 1/

(In Percent of GDP)



1/ Assumes a complete sudden stop of CBI inflows in 2018, while maintaining baseline assumptions on expenditure, including the capital budget.
2/Based on preliminary data at end-2016, excluding illiquid assets and loans to the public sector.
3/ Assumes social spending by SIDF is maintained in a sudden stop scenario.
Sources: ECCB, SIDF, Authorities and IMF staff estimates.

10. Staff maintains that a zero-underlying primary balance target of the general government, net of CBI-related receipts should be used as the fiscal anchor that guides medium-term fiscal management. Given the declining CBI inflows and projections of further falls in the future, such a target would help increase resilience to negative surprises in future CBI inflows, facilitate accumulation of fiscal buffers to address external shocks, and absorb unforeseen financing needs if tax performance is insufficient after CBI inflows decline. The target could be enshrined in fiscal responsibility legislation that provides the government with a commitment device to anchor its fiscal adjustments to meet the target, and saves windfall CBI inflows, excluded from the target, in a contingency fund. Approval by both the St. Kitts and the Nevis cabinets of an action plan to meet the primary balance target at the country level will be key.

11. Achieving the zero-primary-balance target will require additional fiscal effort of about 2.1 percent of GDP over the medium term. On the revenue side, the tax base should be broadened, including by streamlining tax incentives and continuing to improve tax administration and compliance, especially at the Nevis Island Administration (NIA) level (Annex V). Tax incentives should be well-targeted, rules-based, and transparent, codified in appropriate laws. There is also scope for higher property tax revenue, which remained flat in GDP in 2016, by updating property valuations and enhancing compliance. Other taxes, including on cigarette, alcohol, and sugary products, can raise revenue, while contributing to government efforts to reduce noncommunicable diseases.

Proposed Adjustments to Achieve a Zero Primary Balance Target, Net of CBI and SIDF Grants in the Medium Term
(In percent of GDP)

Deviation from Target Primary Balance (less CBI & SIDF Grants) 1/	**2.1**
Proposed Adjustments over 3-5 years	**2.1**
Streamline tax incentives	1.3
Increase property tax intake, including on new developments	0.2
Continue to improve tax administration and compliance	0.2
Implement civil service reform: payroll audit and public sector modernization and contain growth in the wage bill	0.2
Contain spending on goods and services	0.2

1/ Adjusted for dividends on unsold land.

12. On the expenditure side, containing spending on goods and services and implementing the remaining civil service reforms should remain priorities. The public-sector wage bill absorbs a large share of budgetary resources, even though wages are not defined by collective bargaining with trade unions unlike in other ECCU countries (Annex VI). Staff welcomes the authorities' intention to better manage the wage bill, by establishing more predictable public-pay packages. Pay increases should be consistent with budgetary constraints and macroeconomic developments. Regular benchmarking of public and private sector wages should be incorporated in wage determination to avoid misalignment between public and private sector wages over time. The 13th-month bonus pay can be made conditional on macroeconomic variables, such as GDP or revenue exceeding thresholds, or fiscal performance exceeding the primary balance target, but the provision should be an exception rather than the rule.

13. Universal health coverage (UHC) may have fiscal implications that should be carefully managed. The authorities have signaled their intention to introduce UHC within the next few years, though planning is still in the early stages (Annex VII). The design, coverage, and financing of the UHC should be carefully calibrated to achieve its goals and limit risks to fiscal sustainability. The scheme should be funded from permanent revenue sources (e.g., VAT, tax on cigarettes or sugary products, or a health levy) to avoid recurrent drains on the budget. The coverage should reflect national priorities, and the benefit package for the total population should ensure the system's financial viability, while using specific measures to target the poor and matching UHC commitments with the capacity to deliver health services. Appropriate incentives and regulatory tools should help contain costs.

Authorities' Views

- While acknowledging the risks in an environment with increased competition and security concerns, the authorities expressed confidence in the benefits and continuation of the CBI inflows, albeit in a more nuanced way, and stressed their efforts to safeguard the quality and integrity of the program through strengthened due-diligence processes with dedicated resources and global collaboration, and avoidance of destructive competition with other regional programs. They have also improved program management and marketing systems and accelerated processing of CBI applications. Notwithstanding, they agreed that the fiscal framework should continue to focus on reducing reliance on CBI inflows and that a fiscal framework targeting an appropriate primary balance could be enshrined in a fiscal-responsibility law. The authorities committed to give due consideration to implementing the staff's zero-primary balance target recommendation and enshrining it in a fiscal-responsibility law after a full assessment and consultations. The authorities highlighted their efforts in containing discretionary tax incentives, reiterated the intention to refine the regime, and requested TA to analyze the impact of tax concessions on investment and employment. They viewed staff's additional revenue mobilization proposals as possible contingent revenue measures and noted the regional approach to taxation of sugary products being explored at the CARICOM level.
- The authorities welcomed the discussion on the wage bill management framework and possible TA to help them establish a predictable wage-setting mechanism. They noted the ongoing collaboration with the University of the West Indies and PAHO on the design of UHC. Ensuring consistency with an ongoing initiative on UHC at the CARICOM level would also be important.

14. The authorities should continue to build fiscal buffers in the form of a contingency fund and use some of the existing buffers to prepay the most expensive debt. Staff welcomed the authorities' commitment to establish a Growth and Resilience Fund (GRF) later this year to manage savings from fiscal surpluses (currently held in the banking system), respond to adverse shocks, and create fiscal space to support public sector investment projects, while limiting debt accumulation. The GRF should have a simple sovereign-wealth-fund structure operating as a financing fund with a prudent investment strategy, and be fully integrated with the medium-term fiscal framework, linking the flows directly to the primary-balance target. Further liability-management efforts, including reducing outstanding T-bills, accelerating payment of expensive debt, and improving debt terms, would help to further reduce public debt and its service. In this context, the authorities' recent agreement to clear the arrears owed by the Federal Government to PDVSA and progress on restructuring of NIA's overdraft debt accounts are welcome. Strengthening public financial management at the NIA, especially its debt and cash management frameworks, and at public corporations remain critical for the Federation's fiscal sustainability.

15. The work to establish the GRF should accompany the efforts to prepare for the inevitable recurrence of natural disasters. A comprehensive risk management framework focusing on risk reduction and mitigation is critical to building resilience and reducing the fiscal burden of costly disasters. Risk of natural disasters could be assessed and incorporated into the budget and debt management frameworks. Investment in risk reduction, including through risk maps, early-warning systems, and targeted infrastructure projects, can build resilience to disaster damage. Self-insurance through fiscal buffers remains crucial to safeguard debt sustainability, given insufficient payouts from catastrophe-risk insurance in the Caribbean. Contingent financing plans, risk-transfer arrangements, and encouraging private sector investment in risk mitigation are also essential.

16. The SIDF should be reformed to enhance transparency and broaden parameters of fiscal management. Continued delays in the availability of the SIDF's audited financial statements and its expansion into quasi-fiscal activities have led to reduced fiscal transparency and fragmented fiscal management. More recently, SIDF finances have come under pressure as CBI contributions to the SIDF declined with a fall in overall CBI applications and increased appeal of the real-estate-purchase option of the CBI program, while its quasi-fiscal social spending has continued. The SIDF's quasi-fiscal spending should be contained, including by streamlining its activities, and establishing steps for its integration with the Treasury Single Account (TSA). Once the GRF is established, revenue from CBI flows and resulting SIDF deposits should be transferred to the GRF, while SIDF's quasi-fiscal spending is integrated with general government fiscal account, to facilitate more comprehensive fiscal reporting, planning, cash-management, and control.

Authorities' Views

- The authorities agreed on the desirability of repaying expensive debt, where warranted. They have reached agreement on clearing federal government budgetary arrears with PDVSA (to be paid over 5 years); are close to an agreement with creditors on NIA debt restructuring; repaid outstanding NIA arrears to bilateral creditors; and stopped the rollover of interest on federal government T-bills. The authorities will aim to operationalize the GRF later this year and expressed interest in TA. They concurred with the need to reform the SIDF and noted ongoing legislative work, including to ensure transparency with reporting of audited financial statements to the National Assembly, but the decision on its integration with the TSA is pending. The authorities accepted the need to enhance oversight of public corporations by enforcing timely reporting of financial statements and better debt/cash management at NIA.

D. Safeguarding Financial System Stability

17. Sovereign-bank linkages through the debt-land swap present a risk to domestic financial system stability. The second leg of the swap—to divest the land now owned by banks—has not yet been carried out in full, in part due to the initial delays in fully operationalizing the Special Land Sales Company (SLSC) as a marketing and sales agent, and to subsequent delays in finalizing the sales transactions of the two purchase offers (amounting to 3 percent of the swapped land) that had been approved by the cabinet, but the sales have not been completed. The 3-year dividend guarantee agreement with the banks, at a total cost to the government of 3 percent of GDP, ended in mid-2016, with ongoing discussions for its renewal.

18. The sale of lands should be completed urgently to preserve the credibility of debt restructuring and limit fiscal and financial risks. Further delay in sales will require banks to start provisioning for unsold land under an ECCB prudential guideline requiring divestment of the land within five years, with significant macro, financial, and fiscal implications. A clear action plan and timetable with concrete, visible milestones are needed. Completing the sales of existing purchase proposals and stepped-up marketing by the SLSC to generate sales, including through real-estate agents and SLSC website, will help establish momentum and remove policy uncertainty. Staff welcomed the ongoing discussions to renew the dividend guarantee agreement with banks at renegotiated terms; and cooperation among the SLSC, Citizenship by Investment Unit (CIU), and St. Kitts Investment Promotion Agency (SKIPA) to support the sales efforts.

Authorities' Views

- The authorities agreed on the urgency to complete the sale of lands under the debt-land swap arrangement. They have made progress to complete the existing purchase proposals. The authorities reassured staff of their commitment to push forward with these and other sales and continue to support stability of the financial system and economic growth. They were open to the possibility of promoting the land for projects to support resilience, diversification and economic development. They signaled commitment to conclude discussions on the renewal of the dividend guarantee agreement by June, when the rate would be applied retroactively, under a mutually beneficial arrangement.

19. Rapid progress is needed in addressing the obstacles to NPL resolution and limiting further deterioration in asset quality that hinders lending and growth. Some progress was made in lowering NPLs in 2016 through banks' increased resolution efforts, but lengthy foreclosure processes with outdated legislation, difficulty in seizing/divesting collateral, a weak resale market, and information obstacles have undermined these efforts. Completing the final steps to operationalize the Eastern Caribbean Asset Management Corporation (ECAMC) by the ECCB will facilitate collection and disposal of distressed assets, and is expected shortly (with six of the eight jurisdictions, including St. Kitts and Nevis, having paid their capital contributions and its Board of Directors confirmed). Enabling non-citizen ownership of property should support cross-border sale of collateral, while modernizing the foreclosure/insolvency frameworks should help recovery and reduce fiscal costs. The new collateral appraisal guidelines and upcoming credit bureau and land registry should better inform credit decisions and reduce future NPLs. Increased coordination between bank and nonbank regulators should help limit risks from bank-nonbank linkages, considering high delinquency rates in the credit union sector.

20. The authorities should monitor other potential risks, including the implications of a further slowdown in CBI inflows for the banking system. While the direct impact may be limited to the extent that the CBI-related and local real-estate markets are segmented and most CBI properties are self-financed, slower inflows affect banks through construction activity, and repayment capacity by some property-developer borrowers (Annex VIII). In addition, the ending of the 5-year holding-period, which will affect a large amount of existing CBI properties in 2018, could result in an increase in properties for sale and reduce overall property values, and hence bank asset quality (considering that real-estate-related activity make up an important share of bank loans and NPLs). Authorities should thus monitor market developments and banks' asset portfolios and ensure adequate prudential oversight, to reduce potential macro-financial risks.

Authorities' Views

- The authorities noted their participation in the ongoing regional efforts to expedite resolution of distressed assets (through ECAMC, foreclosure legislation, collateral valuation, credit bureau, and a dedicated land registry). They noted that these efforts are at advanced stages, and work is ongoing toward their completion. The authorities stressed that the alien-land-holding legislation is not an impediment to resolution, with cabinet approvals for licenses taking place routinely. While they saw the local and CBI-related real-estate markets largely segmented, they acknowledged the need to monitor the market and ensure adequate prudential oversight.

21. The authorities should continue their efforts to reduce CBR risks and safeguard the integrity of the CBI program. The authorities have amended AML/CFT laws and strengthened legislation for tax information exchange. They have committed to implementing the international standard for automatic exchange of financial account information by September 2018 and note that they have the necessary legal framework in place since end-2016. Compliance with the AML/CFT FATF standards will be assessed in St. Kitts and Nevis' mutual evaluation to be conducted by the CFATF in 2019. The ECCB and FSRC, through the Regulatory Oversight Committee, have also been focusing their attention on AML/CFT issues after the recent Monetary Council approval of centralizing AML/CFT supervision of financial institutions licensed under the Banking Act under the ECCB. These efforts, as well as ongoing open communication and information sharing between respondent and correspondent banks, implementation of Basel II and risk-based supervision,[5] and avoiding destructive competition with other CBI programs, should help limit loss of CBRs and preserve CBI program integrity. Careful consideration of

[5] The FSRC has taken the decision to supervise and monitor regulated entities using a Risk Based Supervisory Framework (RBS) in accordance with FATF Recommendation 26; RBS includes explicitly AML/CFT as one of the "Inherent Risk Categories" considered under its framework.

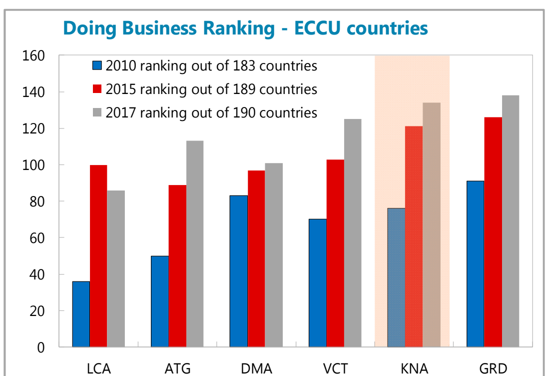
amalgamation opportunities can also help address volume-of-business concerns and improve risk management capability.

Authorities' Views

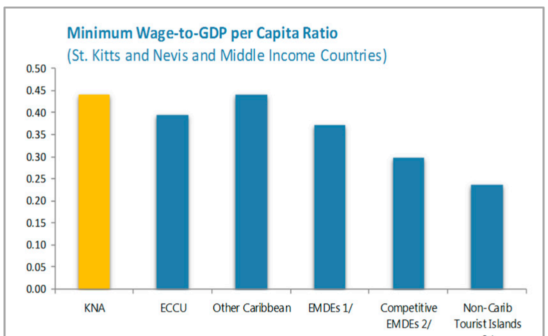
- The authorities emphasized their strong efforts and commitment at significant costs to further improve compliance with global AML/CFT standards and tax information exchange protocols. They expressed concern over recent reports regarding AML/CFT standards in the country, and noted that these reports contain inaccurate statements and did not recognize the strong efforts in tightening due-diligence processes and improved compliance with AML/CFT standards. They acknowledged the importance of making progress in Basel II implementation at the regional level. They were open to amalgamation opportunities, but noted possible challenges and emphasized the need for a comprehensive framework from the ECCB to achieve consensus.

E. Enhancing Competitiveness, Resilience and Inclusiveness

22. The external sector analysis suggests that the external position is weaker than implied by fundamentals and desirable policies, based on a broad set of competitiveness indicators (Annex II). While the adjusted EBA-lite model suggests no significant overvaluation as of 2016, various non-price indicators indicate competitiveness challenges. The Ease-of-Doing-Business ranking has gradually worsened, with weaknesses in registering property, accessing credit, and resolving insolvency. The decline in the 2017 ranking mainly reflects increased number of days needed to register property, underscoring the need for a dedicated land registry. The GDP-per-capita-adjusted minimum wage is slightly higher than the average among ECCU countries and substantially higher than non-Caribbean tourist islands. Skills mismatches and low labor productivity, high energy costs, significant infrastructure gaps, high import duties (average tariff at about 12 percent—one of the highest in the world), and limited and expensive intraregional travel also hinder competitiveness.



Sources: World Bank Doing Business Indicators.



Source: University of Amsterdam Wage Indicator Foundation and national authorities.
1/ Emerging Market and Developing Economies, excluding Low Income and Arab Countries
2/ EMDEs ranked top 50 in Global Competitiveness Index

23. The authorities' 2017 policy objectives include attaining inclusive growth, social cohesion, and human development. A 2008 Poverty Assessment suggests relatively high poverty levels despite the country's high income status (23.7 percent in St. Kitts and 15.9 percent in Nevis).[6] A World Bank Social Safety Net Assessment identifies the need to better target and streamline social programs. While unemployment is low (around 4 percent in 2013), large government apprenticeship schemes (e.g., PEP and Skills Training and Empowerment Programme, STEP) likely conceal the problem (unemployment could be around 12 percent, without the 3,374 jobs provided under the apprenticeship scheme in 2013). Gender issues, including domestic violence and equal opportunity, also call for attention. The very high homicide rates (among the highest in the world) related to gang activity are not only a social concern but could adversely affect perceptions and, potentially, tourism.

24. The authorities should adopt a comprehensive strategy to overcome persistent structural challenges that continue to limit the potential for inclusive growth. The strategy should continue to focus on the following priorities to achieve sustainable, inclusive growth:

- **Improve business environment.** Ongoing efforts to expedite business registration, establish a credit bureau and a dedicated land registry later this year, launch an SME partial-credit-guarantee scheme, and upgrade foreclosure legislation are welcome and should improve the business environment. More effort is needed by banks to educate small businesses to improve credit culture through proper business planning and management and collateral should increase the bankability of projects.

- **Enhance diversification and continue to address skill gaps.** The decision made at the cabinet level to channel CBI inflows to additional target areas (e.g., renewable energy, health, and education) should support skills development and economic diversification, while also reducing the risk of asset bubbles in the real estate market, with most CBI inflows coming through the real-estate option. Developing backward linkages from tourism to agriculture is undermined by insufficient technology, small plot sizes, insufficient infrastructure for droughts, and invasion from a large monkey population, but could be supported by technical assistance, investment in drought-resilient crops, and promotion of commercial investments in agriculture. Diversifying the tourism product (e.g., expanding to medical tourism) and source markets could reduce tourism volatility. Reorientation this year of the PEP to STEP for vocational training and certification should help meeting the high-end needs of the economy. Time-bound participation should be enforced and stipends set below the minimum wage to encourage employment outside the STEP program.

- **Enhance productivity and connectivity.** Any future increase in the relatively high minimum wage should be linked to productivity, and labor-market flexibility should be maintained (as envisaged in the upcoming labor code). Improving regional and global connectivity is key to competitiveness, including through lower regional import duties,

[6] A more recent 2016 household registry, whose methodology/coverage differs from the 2008 Poverty Assessment, classified as “Poor” 17 percent of households in St. Kitts and 14 percent in Nevis.

more competitive intra-regional air travel, and development of intra-regional maritime-transportation jointly with the World Bank.

- **Pursue inclusiveness.** The authorities should continue to improve targeting of government social programs (as indicated in the National Social Protection Policy strategy), including by expanding the conditional-cash transfer program, addressing gender issues, and focusing housing programs on the poorest (Annex IX). Ongoing actions to reduce crime through increased use of CCTV systems and community-related programs are welcome.

- **Address data gaps and improve data quality**. Urgent attention is needed to improve, including through further dedicated TA, the availability and quality of data on balance of payments, national accounts, and labor-market and social statistics, which are key to assessing vulnerabilities and effective policymaking.

Authorities' Views

- The authorities reaffirmed their intention and efforts to continue to strengthen the business environment. On diversification, they will move cautiously in channeling CBI inflows to alternative investments to avoid reputational risks. The authorities welcomed the focus on labor market and social issues, and noted that once the upcoming labor code is in place, it would bring the country in line with the labor market international standards. They noted the existence of a tripartite mechanism involving the government, unions, and private sector/employers, to have a common understanding on productivity and competitiveness. Substantial progress has been made in reforming social safety nets, including the recent centralized conditional cash transfer program and efforts to facilitate participation of women in the labor force through the provision of childcare facilities at a subsidized cost. The authorities noted that crime has not affected tourism but recognized the need to address it and noted their efforts in this direction. They also acknowledged the need to improve availability and quality of data, and welcomed dedicated TA on improving balance-of-payments, national accounts, labor market, and social statistics.

STAFF APPRAISAL

25. Economic performance moderated in 2016. Growth moderated (though still exceeding the ECCU average), reflecting a slowdown in tourism and manufacturing activity. Lower CBI receipts were a key factor contributing to a narrowing of the overall fiscal surplus and a significant widening of the current account deficit. At the same time, public debt fell further and is projected to reach the ECCU debt-to-GDP target in 2018, well ahead of ECCU peers. Banks continue to hold adequate capital and liquidity, but face risks, including those associated with the slow progress with land sales, high NPLs, and loss of CBRs. Growth is expected to average around its current level in the medium term. However, key risks to the outlook include a sharper drop in CBI inflows, further delays in completing the sale of lands under the debt-land swap arrangement, loss of CBRs, and a stronger U.S. dollar.

26. Given risks to CBI revenues, the medium-term fiscal framework should continue to focus on reducing reliance on CBI inflows, while preserving a strong program. The authorities have made significant efforts to strengthen the CBI program since 2015, notably by dedicating further resources and increasing global collaboration to tighten the due-diligence process. These efforts should continue, to reduce integrity and security risks, avoid destructive competition with other regional programs, and preserve the program's credibility and sustainability. A fiscal framework that does not rely on CBI inflows will help build resilience to negative surprises in the inflows and facilitate further accumulation of fiscal buffers, which could be eroded quickly under an extreme scenario of a sharp drop in CBI inflows and reverse the downward debt trajectory. In this context, the authorities should target a zero-primary balance, net of CBI-related receipts, over the medium term. Such a target could be enshrined in fiscal responsibility legislation that would provide the government with a commitment device to anchor its adjustments and save windfall CBI inflows in a contingency fund.

27. Achieving the target will require some additional fiscal effort. On the revenue side, the tax base should be broadened, including by streamlining tax incentives to make them more targeted and rule-based, and efforts to improve tax administration should continue. On the expenditure side, containing spending on goods and services and the public wage-bill should remain a priority, including through a more predictable system for pay packages consistent with budgetary constraints, macroeconomic developments, and regular benchmarking with private sector wages. Fiscal implications of introducing universal health-coverage should be carefully managed, with the scheme funded from permanent revenue sources to avoid recurrent drains on the budget and ensure its financial viability.

28. Staff welcomes the commitment to establish the GRF to preserve and manage the savings from the CBI program. The Fund should have a simple sovereign-wealth-fund structure, with a prudent investment strategy and flows fully integrated with the fiscal framework. GRF resources would be prioritized for debt reduction, and building buffers for future shocks, including natural disasters.

29. The GRF should go hand in hand with efforts to prepare for natural disasters through a comprehensive risk management framework. Assessing natural-disaster risks and incorporating them into budget and debt management frameworks would help build resilience and reduce the fiscal burden of disasters, through investments in risk reduction and self-insurance financed through fiscal buffers. Contingent financing plans, risk-transfer arrangements, and encouraging private sector investment in risk mitigation are also essential.

30. Structural reforms to strengthen PFM need urgent attention. The SIDF's quasi-fiscal spending should be contained, including by streamlining its activities and integrating with the general government's TSA to facilitate more comprehensive fiscal planning and cash management. Once the GRF is established, the authorities should consider transferring revenue from CBI flows and resulting SIDF deposits to the GRF. Oversight of public corporations should be enhanced through timely reporting of financial statements. PFM would also benefit from strengthening the NIA's debt and cash management frameworks. Staff welcomes progress in clearing remaining arrears and encourages the authorities to improve liability management, including reducing outstanding T-bills, accelerating payment of expensive debt, and improving debt terms.

31. The sale of lands under the debt-land swap arrangement should be completed urgently to limit fiscal and financial risks. A clear action plan and timetable with concrete, visible milestones should be established. Completing existing purchase proposals and stepped-up marketing to generate sales (including with support from the CIU and the Investment Promotion Agency) will help establish momentum and remove policy uncertainty. The ongoing discussions on the renewal of the dividend-guarantee agreement with banks at renegotiated terms are welcome. Staff urges the authorities and banks to reach an agreement on the reporting treatment of the swapped land to remove any remaining uncertainty about the debt-land swap.

32. Continued efforts to reduce CBR risks and rapid progress with NPL resolution are also essential to preserving financial stability. The authorities' efforts to improve compliance with international standards and implement risk-based supervision, and respondent banks' open communication and information sharing with correspondent banks should help limit CBR risks. Carefully considered amalgamation opportunities can help address volume-of-business concerns and improve risk management. Swift resolution of NPLs is critical to supporting bank credit and economic growth. The ongoing efforts to operationalize the ECAMC; modernize foreclosure/ insolvency frameworks; and establish collateral-appraisal guidelines, credit bureaus, and a land registry should facilitate resolution and help contain future NPLs. Authorities should also ensure adequate prudential oversight to minimize potential effects on banks of further slowdowns in CBI inflows and the ending of the 5-year holding-period for existing CBI properties.

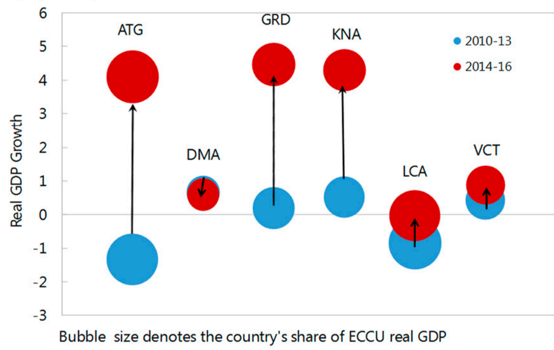
33. A comprehensive reform strategy that focuses on improved business environment, diversification, human resources, competitiveness, and social safety would help overcome persistent structural challenges that continue to limit the potential for inclusive growth. The staff's external assessment based on a broad set of competitiveness indicators points out competitiveness challenges. Ongoing efforts to improve the ease-of-doing business and investments in strategic transformative projects, including through alternative investment options under the CBI program, should support skills development, economic diversification, and competitiveness. Efforts to support inclusive growth through streamlining and better targeting social programs, policies to tackle gender gaps and reduce crime, including through increased use of CCTV systems and community-related programs, are welcome. Urgent attention is needed to improve the availability and quality of data, which is key to assessing macroeconomic, financial, and social vulnerabilities and facilitating effective policymaking.

34. Staff recommends the next Article IV consultation with St. Kitts and Nevis to take place on a 12-month cycle.

Figure 1. St. Kitts and Nevis: Regional Context

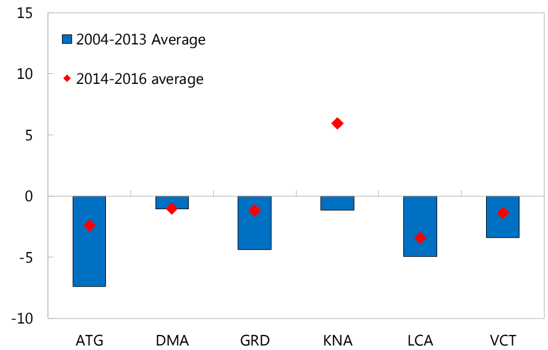
St. Kitts and Nevis enjoyed the strongest economic recovery in the region…

Real GDP Growth and Share of the ECCU
(In percent)



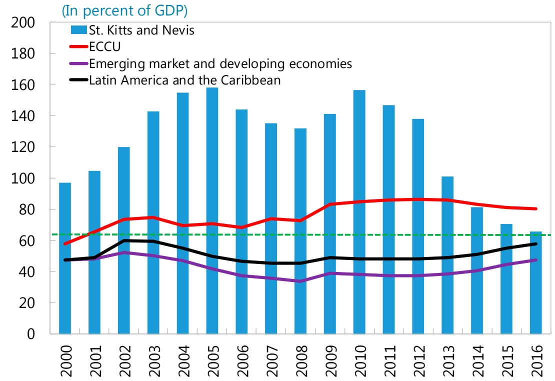
…together with the strongest fiscal balance, on the back of large CBI receipts to the budget.

Overall Fiscal balance
(In percent of GDP)



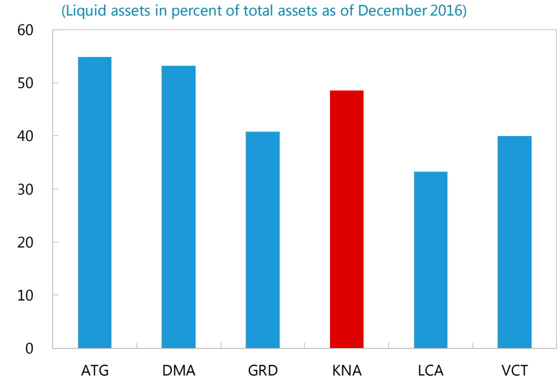
Public debt is on a firm downward trajectory, thanks to the successful debt restructuring (including the debt-land swap) and early debt repayments.

Public Debt
(In percent of GDP)



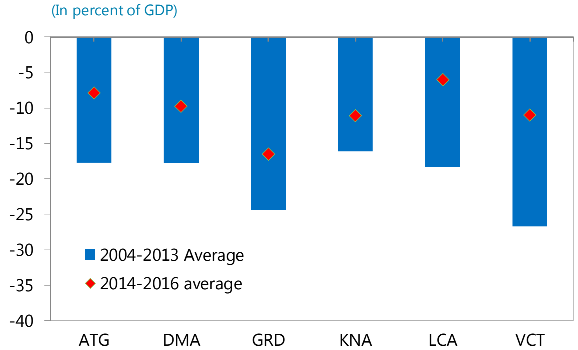
The banking system remains the third most liquid in the region.

Banking System Liquidity
(Liquid assets in percent of total assets as of December 2016)



Estimated current account deficit is sizable, notwithstanding the large CBI service fees to government…

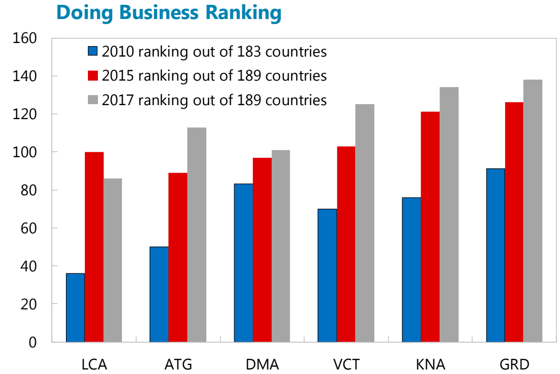
Current Account Balances
(In percent of GDP)



Sources: ECCB, authorities and IMF staff estimates.

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

Doing Business Ranking

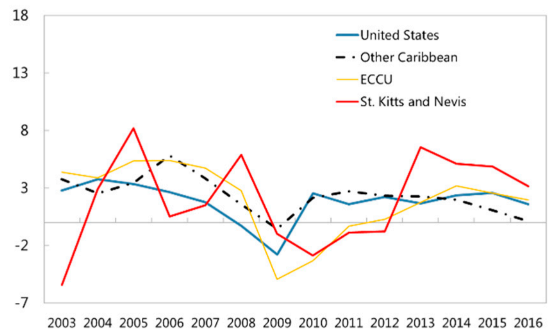


Sources: World Bank Doing Business Indicators, 2016.

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

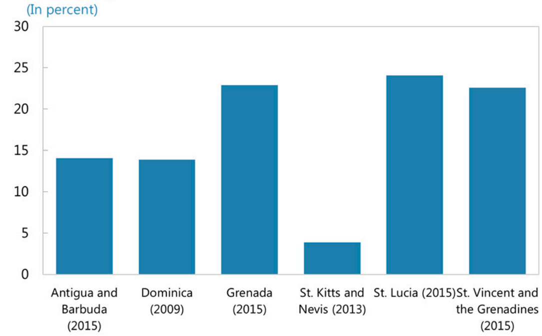
Growth continued to slow down in 2016 although remains higher than peers and key trade partners…

Real GDP Growth
(In percent)



…and unemployment remains the lowest in the region.

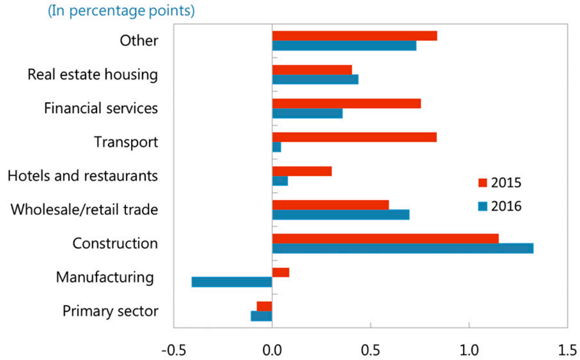
Unemployment Rate
(In percent)



Sources: World Bank, WDI, and "Youth Unemployment in the Caribbean"; National Authorities; and IMF staff calculations.

The economic slowdown mainly reflects lower growth in the tourism related sectors and manufacturing.

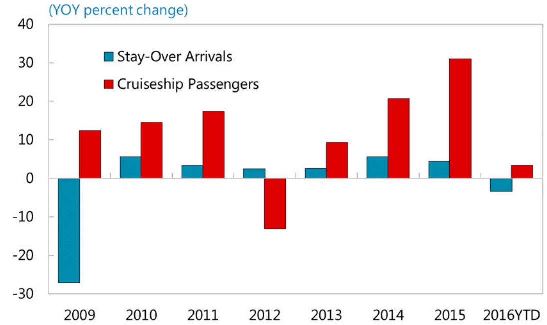
Contribution to Growth
(In percentage points)



Sources: Authorities; IMF staff calculations.

After a buoyant tourist activity in 2015 there was a marked slowdown in Jan-Sep 2016 year-on-year.

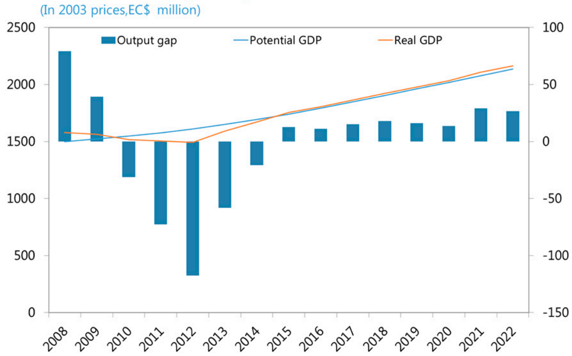
Annual Toursim Performance 1/
(YOY percent change)



Sources: ECCB, and IMF staff estimates.
1/ 2016YTD corresponds to Jan-Sep 2016.

With output above its potential level…

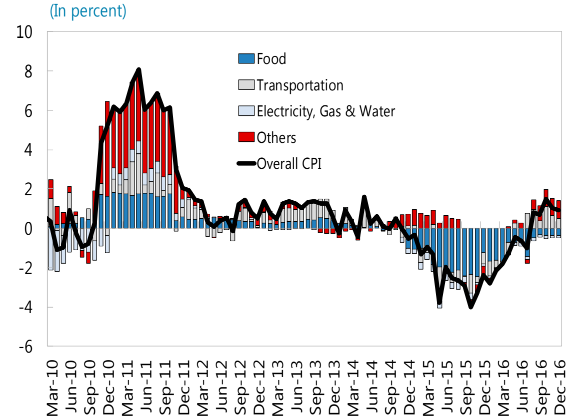
Real GDP and Output Gap
(In 2003 prices,EC$ million)



Source: ECCB, authorities and IMF staff estimates.

… and the moderate rebound in fuel prices, consumer price inflation turned back positive in 2016.

Inflation
(In percent)

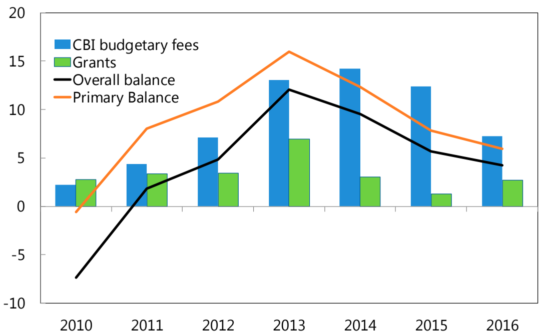


Sources: National Authorities; and IMF Staff Estimates.

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

Headline fiscal performance in 2016 has continued its deterioration since 2013…

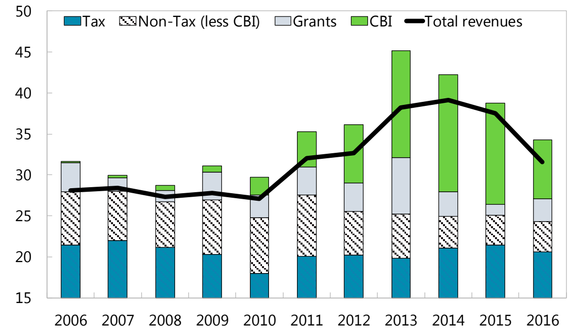
Headline Fiscal Indicators
(In percent of GDP)



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

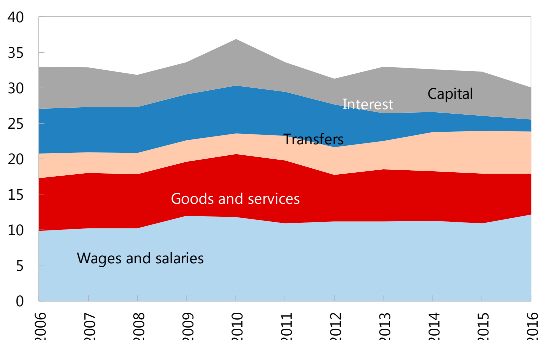
…mainly because of a slowdown in CBI receipts to the budget, and weaker tax performance.

Total Revenues
(In percent of GDP)



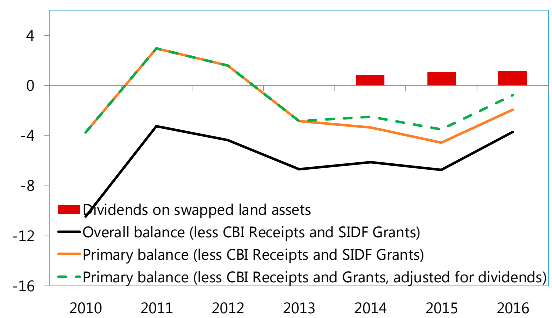
Growth in expenditures has been contained…

Total Expenditure
(In percent of GDP)



…limiting further deterioration in the underlying fiscal position, which has been large and negative since 2013.

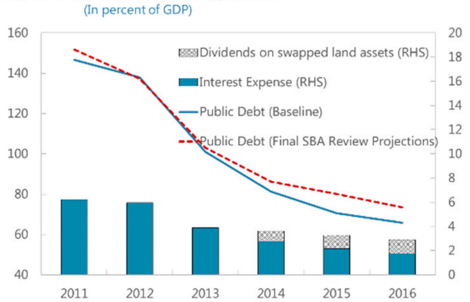
Underlying Fiscal Position (ex. CBI receipts and Grants) 1/
(In percent of GDP)



1/ Excludes all SIDF grants and Investment Proceeds.
Sources: St. Kitts and Nevis Authorities and IMF staff estimates.

The debt-to-GDP ratio is rapidly approaching the ECCU 60 percent debt limit, thanks to strong growth and early debt repayments.…

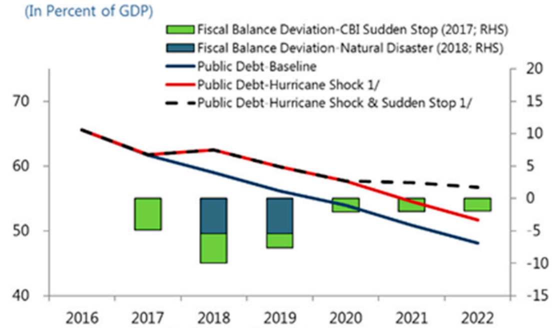
Public Debt and Interest Payments
(In percent of GDP)



Sources: Authorities and IMF staff estimates

…although the fiscal and debt position remains vulnerable to CBI sudden stops and natural disaster shocks.

Public Debt Ratio and Deviations in Fiscal Balance under Adverse Shock Scenarios
(In Percent of GDP)



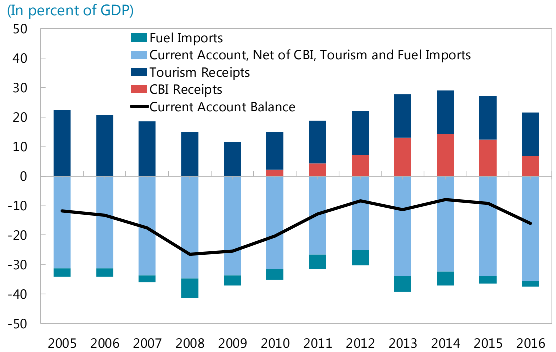
1/ In percent of nominal GDP, adjusted for shock to output.

Sources: ECCB, authorities and IMF staff estimates.

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

Estimates of the current account suggest a weakened position in 2016 due to lower CBI receipts…

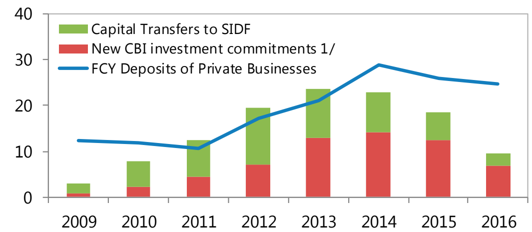
Current Account Flows and Balance
(In percent of GDP)



Sources: Authorities and IMF staff estimates.

…with the number of applicants to the CBI program falling in 2016.

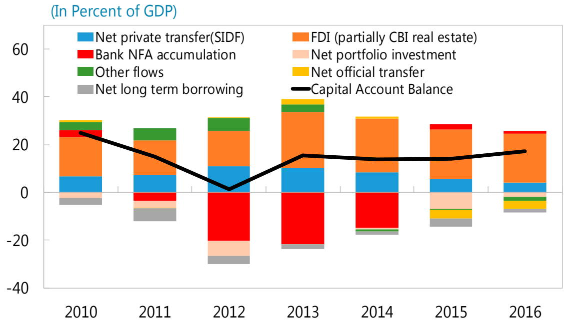
CBI inflows and FCY deposits of Private Businesses
(In Percent of GDP)



1/Estimated based on number of "new" applications through the real estate option.

Despite the reduction in new CBI inflows, FDI continued financing the Current Account deficit…

Capital and Financial Account 1/ 2/
(In Percent of GDP)



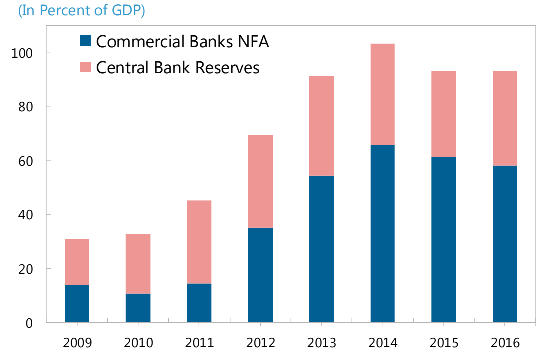
1/ Reflects adjusted estimates of the FDI spending since 2013.

2/ Large amortizations in 2012 reflect reductions in external debt through restructuring and debt forgiveness.

Sources: National Authorities; and IMF Staff Estimates.

which permitted the international investment position to stay flat, with increasing Central Bank Reserves offsetting a decline in commercial banks' foreign assets.

Net Foreign Assets
(In Percent of GDP)

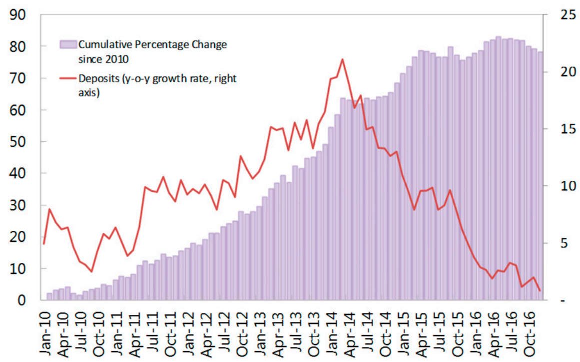


Sources: St. Kitts and Nevis authorities and IMF staff estimates.

Figure 5. St. Kitts and Nevis: Monetary Developments

Banking system deposits slowed down after growing at a very fast pace from 2010, reaching an inflexion point in early 2014…

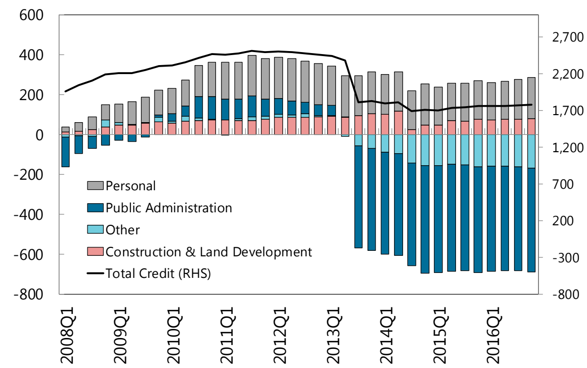
Total Deposits (2010-2016)



…meanwhile banks' loan portfolio has been recovering after a large drop due to the public debt restructuring (debt-land swap).

Cumulative Change in Bank Credit Since end-2007

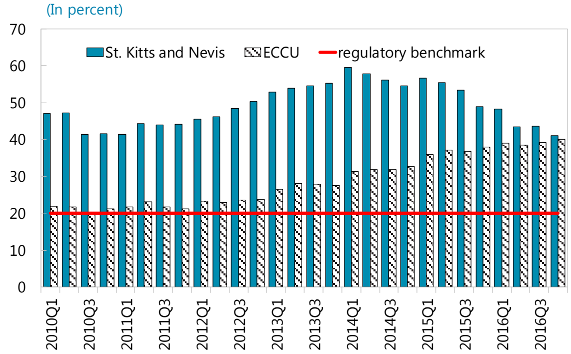
(In EC$ million)



Banking system liquidity has been falling from its 2014 peak, reaching similar levels to those of ECCU peers….

Net Liquid Assets to Total Deposits

(In percent)

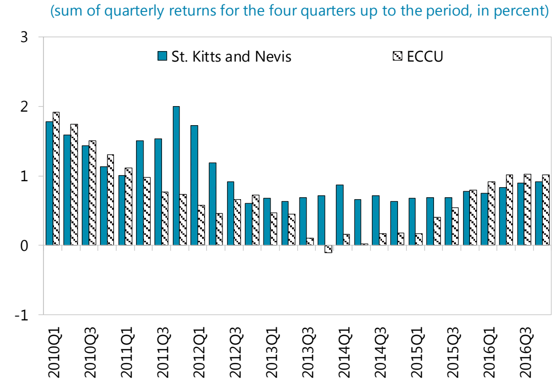


Sources: ECCB; and IMF Staff Estimates.

…however still high enough to put pressure on banks' profitability in the absence of lending.

Return on Assets

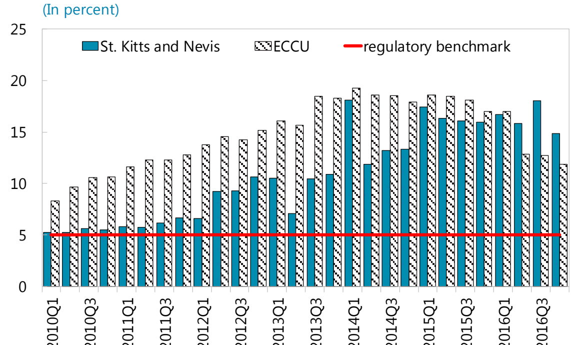
(sum of quarterly returns for the four quarters up to the period, in percent)



The NPL ratio is persistent and far above the regulatory benchmark …

NPLs to Total Loans

(In percent)

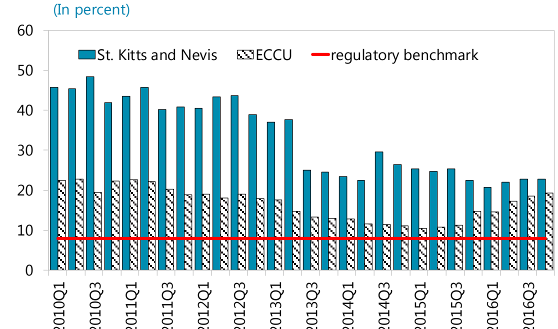


Source: Sources: ECCB, authorities and IMF staff

…nonetheless, commercial banks remain well capitalized.

Total Capital to Risk Weighted Assets [1/]

(In percent)



1/ Starting 2014Q3, reported capital adequacy ratios reflect the ECCB's change of the risk weighting of land assets related to the debt-land swap from 100 percent to zero.

Table 1. St. Kitts and Nevis: Basic Data

I. Social, Geographic and Demographic Indicators

Area (sq. km)	269.4	Headcount Poverty (percent, 2008)	23.7
		Income inequality (Gini coefficient, 2008)	0.38
Population			
Total (thousands, 2014 est.)	54.9	Health and nutrition	
Rate of growth (percent per year, 2014)	1.18	Calorie intake (per capita a day, 2011)	2,452
Density (per sq. km., 2014)	211.3	Physicians (per 1,000 people, 2001)	1.2
Net migration rate (per thousand, 2014 est.)	1.2	Access to safe water (percent, 2008)	99
		AIDS incidence rate (per 100,000, 2013)	32
Population characteristics			
Life expectancy at birth (years,2002)	71	Gross domestic product (2015)	
Infant mortality (per thousand live births, 2015)	8.4	(millions of U.S. dollars)	876.5
Under 5 mortality rate (per thousand, 2015)	11	(millions of E.C. dollars)	2,366
Adult literacy rate (percent, 2009)	97.8	(US$ per capita)	15,952

II. Economic and Financial Indicators, 2010—22

						Est			Proj.			
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
(Annual percentage change; unless otherwise specified)												
National income and prices												
Real GDP (factor cost) 1/	-0.8	-0.8	6.6	5.1	4.9	3.1	2.7	3.5	3.2	3.0	2.7	2.7
Consumer prices, end-of-period 2/	2.0	0.5	0.6	-0.5	-2.4	0.9	1.5	2.0	2.0	2.0	2.0	2.0
Consumer prices, period average 2/	5.8	0.8	1.1	0.2	-2.3	-0.7	1.2	1.8	2.0	2.0	2.0	2.0
Real effective exchange rate appreciation (+) (end-of-period)	-0.3	-1.9	-0.1	2.7	-3.3	...	...	...	...	...	...	...
Banking system												
Change in net foreign assets 3/	15.4	21.7	24.2	16.1	-5.3	-1.3	1.2	0.7	-0.6	-0.9	-1.5	-1.8
Credit to public sector 3/	-8.9	-10.7	-38.8	-13.9	-0.8	-5.1	0.4	1.0	1.5	1.0	1.1	1.2
Credit to private sector 3/	2.6	0.1	-0.5	0.3	1.5	-0.2	1.7	1.9	1.9	2.3	2.6	2.6
Broad money	10.1	11.6	10.3	14.2	2.5	-4.0	3.3	3.5	2.7	2.3	2.1	2.1
(In percent of GDP)												
Public sector 4/												
Total revenue and grants	35.4	36.1	45.1	42.2	38.8	34.3	31.0	29.9	28.1	27.7	27.5	27.3
o/w Tax revenue	20.1	20.3	19.8	21.1	21.4	20.6	20.7	20.8	20.8	20.8	20.9	20.9
o/w CBI fees	4.4	7.1	13.0	14.2	12.4	7.2	3.9	3.7	1.8	1.7	1.6	1.5
Total expenditure and net lending 5/	33.6	31.3	33.1	32.7	33.1	30.1	31.8	31.3	30.0	29.1	29.0	29.0
Current expenditure	29.5	27.6	26.4	26.6	26.1	25.6	24.4	23.7	23.5	22.8	22.8	22.7
Capital expenditure and net lending	4.1	3.6	6.7	6.1	7.1	4.5	7.3	7.5	6.5	6.4	6.2	6.2
Primary balance	8.0	10.8	16.0	12.3	7.8	6.0	0.9	0.3	-0.4	0.3	0.3	0.1
Overall balance	1.8	4.9	12.1	9.5	5.7	4.2	-0.7	-1.4	-1.9	-1.4	-1.5	-1.6
Overall balance (less CBI inflows) 6/	-3.3	-4.4	-6.7	-6.1	-6.7	-3.7	-6.6	-6.1	-4.6	-3.9	-3.8	-3.8
Foreign financing 7/	-1.2	-3.6	0.3	-3.6	-7.2	-2.0	-0.9	-0.9	-0.9	-0.8	-0.8	-0.7
Domestic financing	-4.4	-9.6	-37.1	-8.6	1.3	-2.6	1.2	1.9	2.4	1.9	1.9	2.0
Change in arrears	2.5	-2.1	-4.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sale of assets	0.4	0.5	1.1	1.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.2
Extraordinary financing 8/	...	10.3	27.2	1.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total public debt (end-of-period) 9/	146.6	137.9	101.0	81.4	70.6	65.6	61.7	59.0	56.1	53.9	50.9	48.1
Public debt service (percent of total revenue and grants)	22.0	57.3	16.0	24.5	11.2	8.2	8.4	8.7	8.6	9.2	9.2	6.3
External sector												
External current account balance 10/	-13.0	-8.3	-11.4	-8.1	-9.2	-17.3	-18.5	-17.9	-18.1	-18.1	-17.9	-17.6
Trade balance 10/	-25.1	-23.5	-31.2	-30.0	-27.4	-30.2	-28.2	-27.5	-27.0	-27.1	-27.2	-27.3
Services, net	9.3	11.9	17.0	20.0	16.6	11.6	8.6	8.9	8.2	8.5	8.7	9.0
o/w Tourism receipts	14.3	14.9	14.8	14.8	14.7	14.7	14.8	15.2	15.7	16.2	16.6	17.0
FDI (net)	14.6	14.8	23.6	22.5	20.7	20.6	20.1	19.3	18.3	17.5	16.9	16.9
External public debt (end-of-period)	48.2	43.2	40.7	36.4	26.9	21.6	18.5	16.2	14.1	12.3	10.7	9.2
(In percent of exports of goods and nonfactor services)												
External public debt service	21.3	11.3	7.2	5.7	9.6	5.6	5.5	4.8	4.5	4.0	3.6	3.0
External public debt (end-of-period)	138.8	113.8	98.8	82.7	63.0	57.7	54.3	47.7	42.7	37.0	32.0	27.5
Memorandum items												
Net international reserves, end-of-period												
(in millions of U.S. dollars)	231.5	251.6	291.3	318.4	280.4	312.9	336.9	351.7	348.0	336.9	318.4	296.2
(in percent of broad money)	29.7	29.0	30.4	29.1	25.0	29.1	30.3	30.5	29.4	27.8	25.8	23.5
Holdings of SDRs, in millions of U.S. dollars	12.8	12.8	13.8	13.8	13.8	13.8	14.8	15.8	16.8	17.8	18.8	18.8
Nominal GDP at market prices (in millions of EC$)	2,034	1,983	2,128	2,289	2,366	2,429	2,534	2,676	2,820	2,968	3,113	3,266

Sources: St. Kitts and Nevis authorities; ECCB; UNDP; World Bank; and Fund staff estimates and projections.
1/ Authorities revised historical GDP growth backwards from 2015.
2/ Includes St. Kitts and Nevis (in the past, only St. Kitts data was reflected).
3/ In relation to broad money at the beginning of the period.
4/ Consolidated general government balances unless otherwise noted. Primary and overall balances are based on above-the-line data.
5/ Decline in goods and services expenditure in 2012 reflects the corporatization of the Electricity Department in August 2011.
6/ Excludes CBI budgetary fees as well as SIDF grants and Investment proceeds.
7/ 2012 disbursement includes financing to regularize the external arrears related to fuel purchases.
8/ Reflects operations linked to the restructuring of public debt.
9/ Reflects the debt-land swap equivalent to EC$565 million in 2013 and EC$231 million in 2014.
10/ Based on staff's preliminary revisions to merchandise imports since 2013 pending technical assistance from CARTAC and headquarters.

Table 2a. St. Kitts and Nevis: Federal Government Fiscal Operations, 2011–22[1/]

(In millions of Eastern Caribbean dollars)

	2011	2012	2013	2014	2015	Est. 2016	Proj 2017	2018	2019	2020	2021	2022
Total revenue	**651.1**	**648.1**	**813.5**	**896.4**	**887.3**	**766.3**	**718.3**	**753.7**	**737.6**	**772.4**	**807.5**	**844.3**
Current revenue	650.0	647.9	813.4	896.4	887.3	766.3	718.3	753.7	737.6	772.4	807.5	844.3
Tax revenue	408.1	401.6	422.2	482.0	507.5	500.0	524.5	556.5	587.1	618.6	650.0	681.9
Taxes on income	86.6	81.4	82.3	95.3	127.0	126.5	132.5	140.4	147.7	155.2	162.6	170.6
Taxes on property	8.8	12.9	14.9	16.5	20.2	16.3	17.2	18.4	19.6	20.7	21.8	22.9
Taxes on domestic goods and consumption 2/	208.2	206.1	217.4	246.0	217.0	209.1	219.2	232.1	245.4	259.2	273.0	286.4
Taxes on international trade and transactions	104.4	101.2	107.6	124.1	143.2	148.0	155.6	165.5	174.4	183.6	192.6	202.0
Nontax revenue	241.9	246.3	391.3	414.4	379.8	266.4	193.8	197.2	150.5	153.7	157.5	162.4
o/w: Citizenship by investment (CBI) Budgetary Receipts	88.8	141.0	276.9	325.4	293.4	175.3	100.0	100.0	50.0	50.0	50.0	50.0
o/w: SIDF Investment Proceeds		30.6	34.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	153.1	74.6	79.6	89.0	86.4	91.1	93.8	97.2	100.5	103.7	107.5	112.4
Total expenditure and net lending	**682.8**	**620.3**	**703.5**	**747.5**	**784.1**	**729.9**	**804.9**	**836.9**	**846.5**	**864.9**	**903.7**	**945.5**
Current expenditure	599.2	548.0	561.9	608.3	617.0	620.6	619.3	635.5	662.8	676.2	709.9	742.2
Wages and salaries	222.0	222.3	237.4	258.5	257.6	295.4	295.3	305.0	317.0	332.2	347.1	363.1
Goods and services 3/	179.7	129.2	157.7	160.0	165.6	139.0	161.8	169.6	173.0	182.3	191.7	201.1
Interest	126.4	118.2	82.5	63.3	51.1	41.9	41.1	45.0	43.9	52.4	55.8	56.5
Domestic	91.9	79.4	71.0	46.9	36.5	32.4	28.4	30.9	30.4	39.5	43.5	44.7
Foreign	34.5	38.8	11.5	16.5	14.6	9.5	12.7	14.1	13.5	12.9	12.3	11.8
Transfers 4/	71.1	78.3	84.3	126.4	142.7	144.3	121.2	115.9	128.8	109.4	115.3	121.6
of which: Dividends on Land Assets 5/				19.8	26.2	27.9	27.8	26.8	26.8	0.0	0.0	0.0
Net lending	-0.6	0.1	0.9	0.7	21.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	84.2	72.2	140.7	138.6	145.7	109.3	185.5	201.4	183.7	188.7	193.8	203.3
Current balance	**50.8**	**99.9**	**251.6**	**288.1**	**270.3**	**145.7**	**99.0**	**118.2**	**74.8**	**96.2**	**97.6**	**102.1**
Overall balance (before grants)	-31.7	27.9	110.0	148.9	103.2	36.4	-86.6	-83.2	-108.9	-92.6	-96.2	-101.2
Grants	68.3	68.3	147.3	69.7	30.7	66.6	68.4	46.8	54.1	49.6	49.6	47.6
o/w SIDF Grants	14.0	11.2	88.2	33.4	0.0	16.5	48.5	27.0	25.8	21.3	21.3	21.3
Overall balance (after grants)	**36.6**	**96.2**	**257.3**	**218.5**	**133.8**	**103.0**	**-18.2**	**-36.4**	**-54.8**	**-42.9**	**-46.6**	**-53.6**
Primary balance	163.1	214.4	339.8	281.8	184.9	145.0	23.0	8.6	-10.9	9.5	9.2	2.8
Overall balance (ex. CBI receipts and SIDF Grants & Inv. Proceeds)	**-66.2**	**-86.7**	**-142.6**	**-140.3**	**-159.6**	**-88.7**	**-166.6**	**-163.3**	**-130.6**	**-114.3**	**-117.9**	**-125.0**
Primary balance (ex. CBI receipts and SIDF Grants & Inv. Proceeds)	60.2	31.6	-60.2	-76.9	-108.5	-46.8	-125.5	-118.3	-86.7	-61.9	-62.1	-68.5
Financing	**-54.6**	**-87.9**	**-276.7**	**-215.1**	**-122.6**	**-103.0**	**18.2**	**36.4**	**54.8**	**42.9**	**46.6**	**47.2**
Net foreign financing	-24.6	-70.8	5.4	-82.5	-171.1	-49.2	-22.9	-25.0	-24.5	-24.2	-23.6	-23.4
Disbursements 6/	106.6	93.7	47.2	9.0	2.4	2.1	3.9	0.0	0.0	0.0	0.0	0.0
Amortization	131.2	164.4	41.8	91.5	173.5	51.3	26.8	25.0	24.5	24.2	23.6	23.4
Net domestic financing	-88.6	-190.2	-790.4	-196.7	31.6	-63.3	31.2	50.9	68.3	55.5	58.0	64.3
Banking system	-124.6	-178.9	-803.7	-152.2	22.0	-63.3	31.2	50.9	68.3	55.5	58.0	64.3
Nonbanks and other	-2.0	-14.0	8.6	-46.1	9.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing arrangement on fuel purchase	38.0	0.0	4.4	6.1	6.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	50.5	-41.3	-94.2	0.8	-2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	73.6	-35.7	-3.5	1.4	-5.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	61.4	-30.8	-2.3	0.0	-5.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	12.2	-4.9	-1.3	1.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-23.2	-5.6	-90.7	-0.5	3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sale/purchase of assets	8.1	9.6	24.1	34.3	12.0	9.5	9.9	10.4	11.0	11.6	12.1	6.4
Exceptional financing		204.7	578.4	29.0	7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	18.0	-8.3	19.4	-3.4	-11.2	0.0	0.0	0.0	0.0	0.0	0.0	6.4
Memorandum items:												
Primary balance including 14 public enterprises 7/	224.9	254.7	368.2	306.8	211.2	168.0	49.0	34.8	15.9	37.2	37.5	16.4
Overall balance including 14 public enterprises 7/	54.0	113.0	267.8	232.6	148.6	119.2	-2.2	-20.7	-39.3	-27.7	-31.6	-53.6
Overall balance including 14 public enterprises and SIDF 7/ 8/	178.7	283.7	310.9	290.3	230.7	98.8	-54.8	-45.4	-69.7	-49.2	-52.2	-53.6
GDP (market prices)	2,034	1,983	2,128	2,289	2,366	2,429	2,534	2,676	2,820	2,968	3,113	3,266
Public sector debt (end of period)	2,982	2,735	2,150	1,862.3	1,670.2	1,592.3	1,564.2	1,580.0	1,582.7	1,600.4	1,584.7	1,571.5
Of which												
Central government	2,378	2,183	1,667	1,565	1,372	1,303	1,275	1,291	1,294	1,312	1,297	1,284
Domestic	1,555	1,426	866	788	781	818	839	884	916	963	976	991
External	823	757	801	777	590	484	435	406	377	349	321	293
Public enterprises	603	552	483	297	299	290	290	289	289	289	288	288

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/ The drop in taxes on domestic goods and services in 2015 reflects VAT exemptions on food and other items.
3/ Data from August 2011 exculdes the electricity department following its corporatization.
4/ The rise in transfers in 2015 reflects the disbursement of the EC$16.5 million grant to sugar workers from Venezuela.
5/ Reflects renewal of the 3.5 percent dividend payment on unsold land plots which were transferred, as part of the debt-land swap agreement beyond its original 3-year term up to the 5-year limit for holding collateral assets, in line with the ECCB's prudential regulations.
6/ 2012 disbursement includes financing to regularize the external arrears related to fuel purchases.
7/ Based on actual data of 10 public sector corporations and estimates for 4 others. No audited financial statements have yet been published for St. Kitts Electricity Company (SKELEC). Excludes data for St. Kitts Sugar Manufacturing Corporation, which was dissolved in 2012. Series is used in the Debt Sustainability Analysis (Annex IV).
8/ Includes SIDF net surplus or deficit.

Table 2b. St. Kitts and Nevis: Federal Government Fiscal Operations 2011–22 1/

(In percent of GDP)

						Est.	Proj.					
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total revenue	**32.0**	**32.7**	**38.2**	**39.2**	**37.5**	**31.6**	**28.3**	**28.2**	**26.2**	**26.0**	**25.9**	**25.9**
Current revenue	32.0	32.7	38.2	39.2	37.5	31.6	28.3	28.2	26.2	26.0	25.9	25.9
Tax revenue	20.1	20.3	19.8	21.1	21.4	20.6	20.7	20.8	20.8	20.8	20.9	20.9
Taxes on income	4.3	4.1	3.9	4.2	5.4	5.2	5.2	5.2	5.2	5.2	5.2	5.2
Taxes on property	0.4	0.7	0.7	0.7	0.9	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Taxes on domestic goods and consumption 2/	10.2	10.4	10.2	10.7	9.2	8.6	8.6	8.7	8.7	8.7	8.8	8.8
Taxes on international trade and transactions	5.1	5.1	5.1	5.4	6.1	6.1	6.1	6.2	6.2	6.2	6.2	6.2
Nontax revenue	11.9	12.4	18.4	18.1	16.0	11.0	7.6	7.4	5.3	5.2	5.1	5.0
o/w: Citizenship by investment (CBI) Budgetary Receipts	4.4	7.1	13.0	14.2	12.4	7.2	3.9	3.7	1.8	1.7	1.6	1.5
o/w: SIDF Investment Proceeds	0.0	1.5	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	7.5	3.8	3.7	3.9	3.6	3.8	3.7	3.6	3.6	3.5	3.5	3.4
Total expenditure and net lending	**33.6**	**31.3**	**33.1**	**32.7**	**33.1**	**30.1**	**31.8**	**31.3**	**30.0**	**29.1**	**29.0**	**29.0**
Current expenditure	29.5	27.6	26.4	26.6	26.1	25.6	24.4	23.7	23.5	22.8	22.8	22.7
Wages and salaries	10.9	11.2	11.2	11.3	10.9	12.2	11.7	11.4	11.2	11.2	11.2	11.1
Goods and services 3/	8.8	6.5	7.4	7.0	7.0	5.7	6.4	6.3	6.1	6.1	6.2	6.2
Interest	6.2	6.0	3.9	2.8	2.2	1.7	1.6	1.7	1.6	1.8	1.8	1.7
Domestic	4.5	4.0	3.3	2.0	1.5	1.3	1.1	1.2	1.1	1.3	1.4	1.4
Foreign	1.7	2.0	0.5	0.7	0.6	0.4	0.5	0.5	0.5	0.4	0.4	0.4
Transfers 4/	3.5	4.0	4.0	5.5	6.0	5.9	4.8	4.3	4.6	3.7	3.7	3.7
of which: Dividends on Land Assets 5/				0.9	1.1	1.1	1.1	1.0	1.0	0.0	0.0	0.0
Net lending	0.0	0.0	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	4.1	3.6	6.6	6.1	6.2	4.5	7.3	7.5	6.5	6.4	6.2	6.2
Current balance	**2.5**	**5.0**	**11.8**	**12.6**	**11.4**	**6.0**	**3.9**	**4.4**	**2.7**	**3.2**	**3.1**	**3.1**
Overall balance (before grants)	-1.6	1.4	5.2	6.5	4.4	1.5	-3.4	-3.1	-3.9	-3.1	-3.1	-3.1
Grants	3.4	3.4	6.9	3.0	1.3	2.7	2.7	1.7	1.9	1.7	1.6	1.5
o/w SIDF Grants	0.7	0.6	4.1	1.5	0.0	0.7	1.9	1.0	0.9	0.7	0.7	0.7
Overall balance (after grants)	**1.8**	**4.9**	**12.1**	**9.5**	**5.7**	**4.2**	**-0.7**	**-1.4**	**-1.9**	**-1.4**	**-1.5**	**-1.6**
Primary balance	8.0	10.8	16.0	12.3	7.8	6.0	0.9	0.3	-0.4	0.3	0.3	0.1
Overall balance (ex. CBI receipts and SIDF Grants & Inv. Proceeds)	**-3.3**	**-4.4**	**-6.7**	**-6.1**	**-6.7**	**-3.7**	**-6.6**	**-6.1**	**-4.6**	**-3.9**	**-3.8**	**-3.8**
Primary balance (ex. CBI receipts and SIDF Grants & Inv. Proceeds)	3.0	1.6	-2.8	-3.4	-4.6	-1.9	-5.0	-4.4	-3.1	-2.1	-2.0	-2.1
Financing	**-2.7**	**-4.4**	**-13.0**	**-9.4**	**-5.2**	**-4.2**	**0.7**	**1.4**	**1.9**	**1.4**	**1.5**	**1.4**
Net foreign financing	-1.2	-3.6	0.3	-3.6	-7.2	-2.0	-0.9	-0.9	-0.9	-0.8	-0.8	-0.7
Disbursements 6/	5.2	4.7	2.2	0.4	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Amortization	6.5	8.3	2.0	4.0	7.3	2.1	1.1	0.9	0.9	0.8	0.8	0.7
Net domestic financing	-4.4	-9.6	-37.1	-8.6	1.3	-2.6	1.2	1.9	2.4	1.9	1.9	2.0
Banking system	-6.1	-9.0	-37.8	-6.7	0.9	-2.6	1.2	1.9	2.4	1.9	1.9	2.0
Nonbanks and other	-0.1	-0.7	0.4	-2.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	2.5	-2.1	-4.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	3.6	-1.8	-0.2	0.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	3.0	-1.6	-0.1	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.6	-0.2	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-1.1	-0.3	-4.3	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sale/purchase of assets	0.4	0.5	1.1	1.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.2
Exceptional financing	0.0	10.3	27.2	1.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	0.9	-0.4	0.9	-0.2	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Memorandum items:												
Primary balance including 14 public enterprises 7/	11.1	12.8	17.3	13.4	8.9	6.9	1.9	1.3	0.6	1.3	1.2	0.5
Overall balance including 14 public enterprises 7/	2.7	5.7	12.6	10.2	6.3	4.9	-0.1	-0.8	-1.4	-0.9	-1.0	-1.6
Overall balance including 14 public enterprises and SIDF 7/ 8/	8.8	14.3	14.6	12.7	9.7	4.1	-2.2	-1.7	-2.5	-1.7	-1.7	-1.6
Public sector debt (end of period)	146.6	137.9	101.0	81.4	70.6	65.6	61.7	59.0	56.1	53.9	50.9	48.1
Of which												
Central government	116.9	110.1	78.3	68.4	58.0	53.6	50.3	48.2	45.9	44.2	41.7	39.3
Domestic	76.5	71.9	40.7	34.4	33.0	33.7	33.1	33.0	32.5	32.5	31.4	30.3
External	40.5	38.2	37.6	33.9	24.9	19.9	17.2	15.2	13.4	11.8	10.3	9.0
Public enterprises	29.7	27.8	22.7	13.0	12.6	11.9	11.4	10.8	10.2	9.7	9.3	8.8

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/ The drop in taxes on domestic goods and services in 2015 reflects VAT exemptions on food and other items.
3/ Data from August 2011 exculdes the electricity department following its corporatization.
4/ The rise in transfers in 2015 reflects the disbursement of the EC$16.5 million grant to sugar workers from Venezuela.
5/ Reflects renewal of the 3.5 percent dividend payment on unsold land plots which were transferred, as part of the debt-land swap agreement beyond its original 3-year term up to the 5-year limit for holding collateral assets, in line with the ECCB's prudential regulations.
6/ 2012 disbursement includes financing to regularize the external arrears related to fuel purchases.
7/ Based on actual data of 10 public sector corporations and estimates for 4 others. No audited financial statements have yet been published for St. Kitts Electricity Company (SKELEC). Excludes data for St. Kitts Sugar Manufacturing Corporation, which was dissolved in 2012. Series is used in the Debt Sustainability Analysis (Annex IV).
8/ Includes SIDF net surplus or deficit.

Table 3. St. Kitts & Nevis: General Government Cash Flow Schedule, 2011–22

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Deposits, beginning of period	**224.7**	**302.9**	**343.5**	**547.9**	**663.2**	**627.0**	**696.2**	**686.4**	**682.2**	**646.9**	**639.3**	**600.3**
Gross inflows	**499.0**	**532.3**	**1,141.1**	**382.6**	**226.9**	**283.9**	**64.4**	**71.6**	**49.6**	**74.3**	**46.0**	**43.2**
Primary surplus	163.1	214.4	339.8	281.8	184.9	145.0	23.0	8.6		9.5	9.2	2.8
Domestic borrowing	129.6	9.9	132.1	27.1	27.9	127.3	27.7	52.5	38.6	53.3	24.6	32.0
External borrowing	106.6	93.7	47.2	9.0	2.4	2.1	3.9	0.0	0.0	0.0	0.0	0.0
of which: CDB	10.6	3.7	28.2	8.7	2.0	2.1	3.9	0.0	0.0	0.0	0.0	0.0
IMF	95.7	90.5	18.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears acumulation	0.0	0.0	0.0	0.0	3.8	0.0	0.0	0.0	0.0	0.0	0.0	1.0
External arrears acumulation	73.6	0.0	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Asset sales	8.1	9.6	24.1	34.3	12.0	9.5	9.9	10.4	11.0	11.6	12.1	6.4
Exceptional financing	0	204.7	578.4	29.0	7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (statistical discrepancy)	18.0	0.0	19.4	0.0	-11.2	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Gross outflows	**420.8**	**491.6**	**936.7**	**267.4**	**263.0**	**214.7**	**74.2**	**75.8**	**84.9**	**82.0**	**84.9**	**86.6**
Primary deficit									10.9			
Interest	126.4	118.2	82.5	63.3	51.1	41.9	41.1	45.0	43.9	52.4	55.8	56.5
Domestic amortization	140.0	159.5	718.1	108.5	32.5	121.5	6.3	5.8	5.6	5.4	5.6	5.8
External amortization	131.2	164.4	41.8	91.5	173.5	51.3	26.8	25.0	24.5	24.2	23.6	23.4
of which: CDB	9.6	10.0	8.7	11.1	11.0	11.0	12.7	12.8	12.7	12.3	12.1	11.9
IMF	0.0	2.4	4.8	62.2	102.1	24.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears clearance	23.2	5.6	90.7	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External arrears clearance	0.0	35.7	3.5	0.0	5.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Asset purchases												
Other (statistical discrepancy)	0.0	8.2	0.0	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Net cash flow -(change in deposits	**78.2**	**40.7**	**204.4**	**115.3**	**-36.1**	**69.1**	**-9.8**	**-4.2**	**-35.3**	**-7.6**	**-38.9**	**-43.4**
Deposits, end of period	**302.9**	**343.5**	**547.9**	**663.2**	**627.0**	**696.2**	**686.4**	**682.2**	**646.9**	**639.3**	**600.3**	**556.9**
Memorandum items												
Public Debt Stock	2,982	2,735	2,150	1,862	1,670	1,592	1,564	1,580	1,583	1,600	1,585	1,571
Public Debt as % of GDP	146.6	137.9	101.0	81.4	70.6	65.6	61.7	59.0	56.1	53.9	50.9	48.1
Deposits as % of GDP	14.9	17.3	25.7	29.0	26.5	28.7	27.1	25.5	22.9	21.5	19.3	17.1
GDP at Market Prices	2,034	1,983	2,128	2,289	2,366	2,429	2,534	2,676	2,820	2,968	3,113	3,266

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

Table 4. St. Kitts and Nevis: Balance of Payments, 2012–22 1/

					Est.	Proj.					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
(In millions of Eastern Caribbean dollars)											
Current account	**-165.3**	**-241.7**	**-184.9**	**-218.4**	**-420.1**	**-469.7**	**-478.4**	**-511.1**	**-536.2**	**-556.4**	**-573.9**
Trade balance	-466.0	-664.6	-685.6	-648.6	-733.4	-715.2	-734.8	-762.7	-804.7	-845.2	-891.0
Exports, f.o.b.	169.8	152.8	156.6	161.1	163.3	166.8	171.3	175.9	180.7	185.5	190.5
Imports f.o.b.	-635.8	-817.4	-842.2	-809.7	-896.7	-882.0	-906.1	-938.6	-985.3	-1030.8	-1081.6
o/w Mineral fuel	196.1	193.9	176.1	93.0	78.4	101.0	102.4	102.4	103.5	105.7	108.8
Services and transfers (net)	300.7	422.9	500.7	430.2	313.2	245.4	256.4	251.6	268.5	288.8	317.1
Services (net)	236.6	362.4	456.8	393.0	281.6	217.4	237.0	230.9	251.4	269.8	294.7
Services (receipts)	582.6	724.3	850.7	849.8	745.6	696.4	737.7	757.2	805.2	850.8	904.1
o/w Tourism receipts	295.1	314.7	339.1	348.2	356.7	375.0	407.3	442.6	481.0	516.5	554.7
o/w Citizenship-by-investment budgetary fees	141.0	276.9	325.4	293.4	175.3	100.0	100.0	50.0	50.0	50.0	50.0
Services (payments)	-346.0	-361.9	-394.0	-456.8	-463.9	-479.1	-500.7	-526.3	-553.8	-580.9	-609.5
Factor income (net)	-58.5	-61.2	-69.3	-68.1	-69.9	-73.0	-75.2	-77.7	-80.4	-82.9	-84.2
Transfers (net)	122.7	121.7	113.3	105.3	101.5	101.0	94.7	98.4	97.4	101.9	106.6
Capital and financial account	**27.1**	**330.4**	**316.7**	**233.0**	**535.4**	**534.7**	**518.4**	**501.1**	**506.2**	**506.4**	**513.9**
Official	4.5	51.8	19.7	-92.5	-52.2	-29.4	-42.5	-34.4	-32.8	-31.6	-31.5
Capital transfers (net)	183.4	65.0	48.4	-17.2	-17.1	1.4	-10.2	-2.9	-2.4	-2.4	-4.4
Long-term borrowing (net)	-179.0	-13.3	-28.6	-75.3	-35.0	-30.9	-32.3	-31.5	-30.5	-29.3	-27.1
Disbursements	4.7	28.8	9.0	2.4	2.1	3.9	0.0	0.0	0.0	0.0	0.0
Amortization 2/	-66.1	-42.1	-37.6	-77.7	-37.2	-34.7	-32.3	-31.5	-30.5	-29.3	-27.1
Debt forgiveness	-117.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private capital	22.6	278.6	297.0	325.5	587.5	564.2	560.9	535.4	539.0	538.0	545.4
Capital transfers (net)	217.5	216.6	191.2	129.4	96.9	47.1	47.1	23.5	23.5	23.5	23.3
Foreign direct investment (net)	292.6	503.0	516.2	490.4	500.2	510.2	515.3	515.3	520.4	525.6	552.4
Portfolio investment (net)	-126.3	-0.7	-11.7	-165.0	-47.9	-47.9	-47.9	-47.9	-47.9	-47.9	-47.9
Commercial bank NFA accumulation	-402.4	-461.2	-344.8	55.3	126.5	30.0	20.0	10.0	0.0	0.0	0.0
Other (net)	41.3	21.0	-53.8	-184.5	-88.2	24.8	26.4	34.5	42.9	36.8	17.6
Errors and omissions	20.1	3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-118.1**	**92.2**	**131.8**	**14.6**	**115.2**	**65.0**	**40.0**	**-10.0**	**-30.0**	**-50.0**	**-60.0**
Financing	**118.1**	**-92.2**	**-131.8**	**-14.6**	**-115.2**	**-65.0**	**-40.0**	**10.0**	**30.0**	**50.0**	**60.0**
Net international reserves	-54.3	-107.1	-73.2	102.5	-87.5	-65.0	-40.0	10.0	30.0	50.0	60.0
Change in arrears	-35.7	-3.5	1.4	-5.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net use of IMF resources	90.5	18.4	-60.0	-117.1	-27.7	0.0	0.0	0.0	0.0	0.0	0.0
Purchase	90.5	18.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchase	0.0	0.0	-60.0	-117.1	-27.7	0.0	0.0	0.0	0.0	0.0	0.0
Debt forgiveness/Exceptional financing	117.6	0.0	0.0	5.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(In percent of GDP)											
Overall Balance	-6.0	4.3	5.8	0.6	4.7	2.6	1.5	-0.4	-1.0	-1.6	-1.8
Current account	-8.3	-11.4	-8.1	-9.2	-17.3	-18.5	-17.9	-18.1	-18.1	-17.9	-17.6
Current account, excluding CBI receipts	-15.4	-24.4	-22.3	-21.6	-24.5	-22.5	-21.6	-19.9	-19.8	-19.5	-19.1
Exports of goods and nonfactor services	37.9	41.2	44.0	42.7	37.4	34.1	34.0	33.1	33.2	33.3	33.5
Merchandise exports	8.6	7.2	6.8	6.8	6.7	6.6	6.4	6.2	6.1	6.0	5.8
Nonfactor services 3/	29.4	34.0	37.2	35.9	30.7	27.5	27.6	26.9	27.1	27.3	27.7
o/w Tourism receipts	14.9	14.8	14.8	14.7	14.7	14.8	15.2	15.7	16.2	16.6	17.0
Imports of goods and nonfactor services	-49.5	-55.4	-54.0	-53.5	-56.0	-53.7	-52.6	-51.9	-51.9	-51.8	-51.8
Merchandise imports	-32.1	-38.4	-36.8	-34.2	-36.9	-34.8	-33.9	-33.3	-33.2	-33.1	-33.1
Nonfactor services	-17.5	-17.0	-17.2	-19.3	-19.1	-18.9	-18.7	-18.7	-18.7	-18.7	-18.7
Foreign direct investment (net)	14.8	23.6	22.5	20.7	20.6	20.1	19.3	18.3	17.5	16.9	16.9
External public debt	43.2	40.7	36.4	26.9	21.6	18.5	16.2	14.1	12.3	10.7	9.2
(Annual percentage change)											
Merchandise exports	-7.2	-10.0	2.5	2.9	1.3	2.2	2.7	2.7	2.7	2.7	2.7
Tourism receipts	1.2	6.7	7.7	2.7	2.4	5.1	8.6	8.7	8.7	7.4	7.4
Merchandise imports	-8.4	28.6	3.0	-3.9	10.7	-1.6	2.7	3.6	5.0	4.6	4.9
(In percent of exports of goods and nonfactor services)											
External public debt	113.8	98.8	82.7	63.0	57.7	54.3	47.7	42.7	37.0	32.0	27.5
External debt service	11.3	7.2	5.7	9.6	5.6	5.5	4.8	4.5	4.0	3.6	3.0
o/w Interest	2.5	2.4	1.9	1.8	1.5	1.4	1.2	1.1	0.9	0.8	0.5
o/w Principal	8.8	4.8	3.8	7.7	4.1	4.1	3.6	3.4	3.1	2.8	2.5
(Millions of US dollar)											
ECCB imputed reserves	251.6	291.3	318.4	280.4	312.9	336.9	351.7	348.0	336.9	318.4	296.2
in months of imports of goods and services	6.9	7.6	8.1	6.7	7.4	7.8	7.8	7.3	6.8	6.1	

Sources: ECCB; and Fund staff estimates and projections.

1/ Reflects staff preliminary revisions to merchandise imports to capture underestimated imports of capital goods and raw materials, and net inflows of FDI to adjust for methodological deficiencies in capturing investment spending. Comprehensive technical assistance for Balance of Payments Statistics is being mobilized from headquarters.

2/ Based on actual and projected debt service after debt restructuring, including the flow restructuring from the Paris Club agreement.

3/ The decline in non-factor services exports beyond 2015 reflect the projected decline in the CBI receipts over the medium term.

Table 5. St. Kitts and Nevis: Monetary Survey, 2011–22

						Est.	Proj.					
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					(In millions of East Caribbean dollars)							
Net foreign assets	**931.5**	**1388.2**	**1956.4**	**2374.5**	**2216.7**	**2177.7**	**2212.7**	**2232.7**	**2212.7**	**2182.7**	**2132.7**	**2072.7**
ECCB imputed reserves	625.1	679.4	786.5	859.7	757.2	844.7	909.7	949.7	939.7	909.7	859.7	799.7
Crown agents	10.6	10.6	10.6	10.6	10.6	10.6	10.6	...	...	...	...	...
Commercial banks	295.7	698.1	1159.3	1504.2	1448.9	1322.4	1292.4	1272.4	1262.4	1262.4	1262.4	1262.4
Net domestic assets	**1171.6**	**958.5**	**632.1**	**580.7**	**811.3**	**730.0**	**790.9**	**876.7**	**981.5**	**1086.3**	**1205.9**	**1335.8**
Net credit to the public sector	305.7	81.4	-828.4	-1188.0	-1213.1	-1367.1	-1356.7	-1327.6	-1281.8	-1249.3	-1213.8	-1172.2
Net credit to central government 1/	726.2	576.1	-193.1	-333.9	-287.0	-355.6	-324.4	-273.5	-205.2	-149.7	-91.7	-27.4
Net credit to St. Kitts	526.4	383.0	-395.1	-508.2	-462.3	-545.8	-535.6	-530.6	-494.9	-486.9	-481.0	-472.5
Net credit to Nevis	199.8	193.1	202.0	174.3	175.2	190.2	211.2	257.1	289.7	337.2	389.3	445.0
Net credit to non-financial public sector 2/	-420.5	-494.7	-635.3	-854.1	-926.0	-1011.5	-1032.2	-1054.1	-1076.5	-1099.6	-1122.2	-1144.7
Credit to the private sector	1406.4	1408.5	1396.4	1404.5	1449.0	1443.1	1493.6	1550.3	1609.2	1681.6	1765.7	1854.0
Net other assets 3/	-540.5	-531.4	64.2	364.1	575.4	654.0	654.0	654.0	654.0	654.0	654.0	654.0
Broad money (M2)	**2103.1**	**2346.7**	**2588.5**	**2955.1**	**3028.0**	**2907.7**	**3003.6**	**3109.4**	**3194.1**	**3269.0**	**3338.5**	**3408.5**
Money	481.0	541.7	522.0	583.0	625.3	568.5	581.8	614.4	647.4	681.3	714.0	729.0
Currency in circulation	102.0	107.6	133.1	154.6	168.3	178.1	182.3	192.5	202.9	213.5	223.7	234.4
Demand deposits 4/	379.1	434.1	388.9	428.3	457.0	390.4	399.5	421.9	444.6	467.8	490.3	513.8
Quasi-money	1622.0	1805.0	2066.5	2372.1	2402.7	2339.2	2421.7	2495.0	2546.7	2587.7	2624.6	2679.6
Savings deposits	684.8	753.3	827.9	908.9	936.6	955.4	977.7	1032.5	1088.0	1144.9	1199.8	1257.4
Time deposits	581.3	555.0	606.6	585.5	620.5	560.1	573.2	605.3	637.8	671.1	703.4	737.1
Foreign currency deposits	356.0	496.7	632.1	877.7	845.6	823.7	870.8	857.2	821.0	771.7	721.3	685.0
					(Percentage change relative to broad money at beginning of period)							
Net foreign assets	15.4	21.7	24.2	16.1	-5.3	-1.3	1.2	0.7	-0.6	-0.9	-1.5	-1.8
Net domestic assets	-5.4	-10.1	-13.9	-2.0	7.8	-2.7	2.1	2.9	3.4	3.3	3.7	3.9
Net credit to the public sector	-8.9	-10.7	-38.8	-13.9	-0.8	-5.1	0.4	1.0	1.5	1.0	1.1	1.2
Net credit to central government 1/	-6.5	-7.1	-32.8	-5.4	1.6	-2.3	1.1	1.7	2.2	1.7	1.8	1.9
Net credit to non-financial public sector 2/	-2.4	-3.5	-6.0	-8.5	-2.4	-2.8	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Credit to the private sector	2.6	0.1	-0.5	0.3	1.5	-0.2	1.7	1.9	1.9	2.3	2.6	2.6
Net other assets 3/	0.9	0.4	25.4	11.6	7.1	2.6	0.0	0.0	0.0	0.0	0.0	0.0
					(Annual percentage change)							
Broad money (M2)	10.1	11.6	10.3	14.2	2.5	-4.0	3.3	3.5	2.7	2.3	2.1	2.1
Money	34.6	12.6	-3.6	11.7	7.3	-9.1	2.3	5.6	5.4	5.2	4.8	2.1
Currency in circulation	0.9	5.5	23.7	16.2	8.8	5.9	2.3	5.6	5.4	5.2	4.8	4.8
Demand deposits 4/	47.9	14.5	-10.4	10.1	6.7	-14.6	2.3	5.6	5.4	5.2	4.8	4.8
Quasi-money	4.4	11.3	14.5	14.8	1.3	-2.6	3.5	3.0	2.1	1.6	1.4	2.1
Savings deposits	7.3	10.0	9.9	9.8	3.0	2.0	2.3	5.6	5.4	5.2	4.8	4.8
Time deposits	5.2	-4.5	9.3	-3.5	6.0	-9.7	2.3	5.6	5.4	5.2	4.8	4.8
Foreign currency deposits	-1.9	39.5	27.2	38.9	-3.6	-2.6	5.7	-1.6	-4.2	-6.0	-6.5	-5.0
Credit to the private sector (in nominal terms)	3.7	0.2	-0.9	0.6	3.2	-0.4	3.5	3.8	3.8	4.5	5.0	5.0
Credit to the private sector (in real terms)	1.6	-0.4	-1.5	1.1	5.7	-1.3	1.9	1.8	1.8	2.5	3.0	3.0
Memorandum items:												
Income velocity of money	4.2	3.7	4.1	3.9	3.8	4.3	4.4	4.4	4.4	4.4	4.4	4.5
Income velocity of broad money	1.0	0.8	0.8	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9	1.0
Private sector credit/GDP (in percent)	69.2	71.0	65.6	61.4	61.2	59.4	58.9	57.9	57.1	56.7	56.7	56.8
Foreign currency deposits/GDP (in percent)	17.5	25.0	29.7	38.3	35.7	33.9	34.4	32.0	29.1	26.0	23.2	21.0
General government deposits (EC$ million) 5/	302.9	343.4	547.8	663.0	627.0	705.8	674.6	623.7	555.4	499.9	441.9	377.6
General government deposits (percent of GDP)	14.9	17.3	25.7	29.0	26.5	29.1	26.6	23.3	19.7	16.8	14.2	11.6
ECCB imputed reserves	30.7	34.3	37.0	37.6	32.0	34.8	35.9	35.5	33.3	30.7	27.6	24.5

Sources: ECCB; and Fund staff estimates and projections.

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

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

3/ Includes shares in the Special Purpose Vehicle holding land assets from the debt-land swap.

4/ Includes EC$ bank cheques.

5/ Includes central government deposits at the ECCB.

Table 6. St. Kitts and Nevis: Indicators of External and Financial Vulnerability

(12-month percentage, unless otherwise stated)

	2010	2011	2012	2013	2014	2015	2016
External indicators							
Merchandise exports	54.4	16.7	-7.2	-10.0	2.5	2.9	1.3
Merchandise imports	-4.0	-1.1	-8.4	28.6	3.0	-3.9	10.7
Tourism earnings	7.2	20.6	1.2	6.7	7.7	2.7	2.4
Current account balance (percent of GDP)	-20.3	-13.0	-8.3	-11.4	-8.1	-9.2	-17.3
Capital and financial account balance (percent of GDP)	24.8	14.9	1.4	15.5	13.8	9.8	22.0
Of which							
Foreign direct investment	16.5	14.6	14.8	23.6	22.5	20.7	20.6
Imputed net international reserves							
In millions of U.S. dollars 1/	155.7	231.5	251.6	291.3	318.4	280.4	312.9
In percent of broad money	22.0	29.7	29.0	30.4	29.1	25.0	29.1
Commercial banks’ net foreign assets (millions of U. S. dollars)	76.2	109.5	258.6	429.4	557.1	536.6	489.8
External public debt (percent of GDP)	47.3	48.2	43.2	40.7	36.4	26.9	21.6
External debt service (in percent of exports of goods and services	23.4	21.3	11.3	7.2	5.7	9.6	5.6
Interest	8.2	5.2	2.5	2.4	1.9	1.8	1.5
Principal	15.2	16.1	8.8	4.8	3.8	7.7	4.1
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 appreciation (+), end period 2/	3.0	-0.3	-1.9	-0.1	2.7	-3.3	…
Financial indicators							
Broad money	8.6	10.1	11.6	10.3	14.2	2.5	-4.0
Credit to the private sector	3.5	3.7	0.2	-0.9	0.6	3.2	-0.4
Nonperforming loans to total assets of banks (percent)	5.5	6.7	10.6	10.9	13.3	15.9	14.9
Provisions for loan losses/nonperforming assets (percent)	42.2	38.3	32.1	40.2	48.2	39.1	37.9
Provisions for loan losses/total loans (percent)	2.3	2.6	3.4	4.4	6.4	6.2	5.6
Gross government exposure/total assets (percent)	26.6	24.3	22.6	20.8	19.6	18.8	18.4
Total loans/total deposits (percent)	78.1	73.0	65.9	43.1	35.8	37.5	37.7
Net liquid assets/total deposits (percent)	41.6	44.2	50.4	55.3	54.6	48.9	41.0
Foreign currency deposits/total deposits (percent)	27.5	25.6	25.9	24.3	27.7	25.1	27.0
Liquid assets/total assets (percent)	41.9	44.3	47.9	52.1	53.8	50.8	48.5
Liquid assets/current liabilities (percent)	51.5	51.8	56.2	58.7	58.8	55.2	52.9
Total capital/total assets (percent) 3/ 4/	18.4	16.3	15.8	13.3	11.4	9.9	10.4
Total Capital/Risk Weighted Assets (percent) 3/ 4/	42.4	40.8	38.2	33.6	25.4	21.3	21.7
Tier 1 Capital/Risk Weighted Assets (percent) 3/ 4/	36.8	40.1	38.5	32.9	26.2	23.6	22.8
Ratio of banks' before-tax profits to average assets (percent)	1.1	1.5	0.6	0.7	0.6	0.8	0.9

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

1/ Decline in 2015 reflects large early repayments of external debt, including to the IMF, and conversion of about EC$ 130 million of government deposits into Foreign Currency.

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

3/ For locally incorporated banks only. Risk weights on EC$767 million in SPV shares related to the land assets have been revised downwards by the ECCB in 2014

4/ Shares in the SPV holding land assets related to the debt-land swap have been reclassified by the ECCB as de-facto exposure to government collateralized by land, attracting a risk weight of zero instead of a 100 percent.

Table 7. St. Kitts and Nevis: External Financing Requirement and Sources, 2013–22
(In millions of U.S. dollars)

				Est.	Projections					
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Gross financing requirement	**307.8**	**257.2**	**119.6**	**187.6**	**190.6**	**186.8**	**180.7**	**182.8**	**184.8**	**193.9**
Current account deficit	89.5	68.5	80.9	155.6	174.0	177.2	189.3	198.6	206.1	212.6
Amortization	178.6	161.6	76.7	-0.4	-7.4	-5.2	-4.8	-4.6	-2.8	3.5
Official (public sector and central government)	15.6	13.9	28.8	13.8	12.9	12.0	11.7	11.3	10.8	10.0
Private sector (net)	163.0	147.6	47.9	-14.2	-20.3	-17.2	-16.5	-15.9	-13.6	-6.5
Commercial banks	170.8	127.7	-20.5	-46.9	-11.1	-7.4	-3.7	0.0	0.0	0.0
Other private	-7.8	19.9	68.4	32.7	-9.2	-9.8	-12.8	-15.9	-13.6	-6.5
Reserve accumulation (+ increase: - decrease)	39.7	27.1	-38.0	32.4	24.1	14.8	-3.7	-11.1	-18.5	-22.2
Sources of financing	**301.0**	**279.4**	**160.8**	**197.9**	**190.6**	**186.8**	**180.7**	**182.8**	**184.8**	**193.9**
Capital grants and transfers	104.3	88.7	41.6	29.6	18.0	13.7	7.6	7.8	7.8	7.0
Foreign Direct Investment (net)	186.3	191.2	181.6	185.2	188.9	190.8	190.8	192.7	194.7	204.6
Net inflow of equity and other capital	-0.3	-4.3	-61.1	-17.7	-17.7	-17.7	-17.7	-17.7	-17.7	-17.7
New borrowing	10.7	3.3	0.9	0.8	1.4	0.0	0.0	0.0	0.0	0.0
of which: public sector	10.7	3.3	0.9	0.8	1.4	0.0	0.0	0.0	0.0	0.0
Errors and omissions	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of arrears	-1.3	0.5	-2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional external financing	**6.8**	**-22.2**	**-41.2**	**-10.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
IMF net disbursement	6.8	-22.2	-43.4	-10.3	0.0	0.0	0.0	0.0	0.0	0.0
Fund disbursement	6.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases 1/ 2/	0.0	-22.2	-43.4	-10.3	0.0	0.0	0.0	0.0	0.0	0.0
Interest due	-1.5	-1.7	-1.5	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Debt forgiveness/debt restructuring 3/	0.0	0.0	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

1/ Based on the Program exchange rate (US$1 = 0.625 SDR).

2/ Full repayment of outstanding obligations to the Fund expected in 2016.

3/ Includes clearance of NIA's debt service arrears through restructuring in 2015.

Table 8. St. Kitts and Nevis: Selected Labor Indicators

	2001	2008	2016
Total Population (y-o-y % change)			
ECCU	0.6	0.5	0.4
St. Kitts and Nevis	1.5	1.2	1.2
Unemployment rate (%)			
ECCU	13.4	15.5	20.9
St. Kitts and Nevis	5.1	5.1	3.9 [1]
Wages (EC$, annual average)			
ECCU	16,213	19,558	21,822
St. Kitts and Nevis	21,047	31,266	37,086
Wages-to-GDP per Capita Ratio			
ECCU	1.0	0.8	0.9
St. Kitts and Nevis	0.8	0.8	0.9
Public Sector Wages (EC$, annual average)			
ECCU	16,513	22,896	24,758
St. Kitts and Nevis	22,116	32,244	34,320
Public Sector Wages-to-GDP per Capita Ratio			
ECCU	1.1	1.0	1.0
St. Kitts and Nevis	0.8	0.8	0.8

Sources: WEO, World Bank, WDI, National Authorities (censuses, poverty assessments, labor force surveys, national insurance systems); and IMF staff calculations.

[1] In 2013.

Annex I. Risk Assessment Matrix[1]

	Main Risks to Baseline Scenario	Likelihood	Impact	Policy Response
Country-Specific Risks	**Sharp drop in CBI inflows.** Increased competition from regional programs, integrity concerns, high global security risks, and rising political pressure against international migration increase downside risks to CBI inflows, with implications for fiscal, growth and external performance.	**High**	**High**	Reduce reliance on CBI revenues for funding of recurrent expenditure; ensure strong due diligence to reduce risks to financial integrity and security and to the sustainability and integrity of the program; continue to build precautionary balances by saving the bulk of inflows, and repay debt, where warranted; and strengthen the management/ governance of accumulated CBI resources.
	Slow pace of land sales from the debt-land swap. A large stock of unsold land at the end of the 3-year dividend arrangement with the government and approaching deadline for the ECCB provisioning requirement pose risks to banking sector stability.	**High**	**High**	Accelerate efforts to sell the land, with a concrete action plan and timetable. Pursue politically palatable options to mobilize land sales and consider extending the 3-year dividend agreement to safeguard banks' soundness as concrete milestones are executed to resolve land assets.
	High banking system liquidity and limited credit opportunities, putting pressure on profitability. This may push banks to engage in high-risk investments and/or raise concentration risks to specific sectors.	**High**	**Medium** to **High**	Strengthen supervisory framework, and establish the Growth Resilience Fund along the lines of a Sovereign Wealth Fund to alleviate excess liquidity pressure on bank balance sheets.
Regional Risks Global Risks	**Persistent banking sector weaknesses in the ECCU.** Regional financial distress could spill over to domestic financial institutions. Vulnerability heightened by lack of deposit insurance, low capitalization of regional banks and limited fiscal space in the region to support weak institutions.	**High**	**High**	Support the regional resolution strategy by continuing to enforce the new banking law enacted in July 2015. Strengthen contingency planning. Upgrade foreclosure legislation to accelerate NPL resolution. Implement Basel II and ensure increased capital to absorb the impact of the shift to Basel II and IFRS.
	Reduced financial services by global/regional banks ("withdrawal of CBRs "). This could curtail cross-border payments, trade finance, and remittances in St. Kitts and Nevis.	**Medium**	**Medium** to **High**	Further strengthen risk-based supervision and maintain tight AML/CFT regime to ease AML/CFT concerns; enhance transparency of the CBI program. Conduct periodic risk assessments. Ensure full compliance with international standards.
	Natural disasters. High vulnerability to more frequent natural disasters increases risks of substantial damage to infrastructure, entailing large reconstruction costs, and risk to growth and fiscal outlook.	**High**	**High**	Invest in weather-resilient infrastructure and other tools to reduce and mitigate risk of natural disasters. Accumulate buffers as self-insurance, saving CBI inflows. Purchase additional disaster insurance to reduce public exposure to disaster risks. Increase private sector awareness of the need to hedge against disaster risks, including through weather-linked insurance products. Ensure contingency planning.

[1/] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

	Spread of the Zika virus. Associated health concerns may lower tourist arrivals and reduce Caribbean tourism market share.	**Medium**	**High**	Continue eradication and protection actions; put in place case-management framework; and continue to lead public education/awareness campaigns.
Global Risks	**Significant strengthening of US dollar/higher interest rates** would hinder competitiveness and increase global and regional interest rates. Given high-end tourism focus and US as main source market, competitiveness impact may be less.	**High**	**Medium to High**	Address cost competitiveness by containing public sector wages, which may affect private sector wages; lower energy prices; address skill gaps; and mitigate other obstacles to ease of doing business. Repay expensive debt, where warranted to reduce vulnerability to rising borrowing costs.
	Structurally weak growth in key advanced and emerging economies. Persistently weak demand and lower medium-term growth could lower tourist arrivals, trade, FDI, grants, and investor confidence.	**Medium** to **High**	**Medium**	Continue to build precautionary balances by saving the bulk of CBI receipts, and create fiscal space by repaying debt, where warranted. Increase economic diversification as well as diversification of tourism source markets and products, and step up structural reforms to boost potential growth.
	Policy uncertainty in the U.S. and Europe. Could fuel global imbalances and exchange rate and capital flow volatility that could lower tourist arrivals, trade, FDI, grants, and investor confidence. Could reduce cooperation on climate change.	**High**	**Medium** to **High**	Continue to build precautionary balances, saving the bulk of CBI receipts, and create fiscal space by repaying debt, where warranted. Increase diversification and step up structural reforms to boost potential growth. Reduce integrity risks to the CBI program and implement disaster-resilient infrastructure projects and other mitigation measures.

Annex II. External Stability Assessment

The external position of St. Kitts and Nevis is weaker than implied by fundamentals and desirable policies based on a broad set of competitiveness indicators. While staff's preferred adjusted EBA-lite REER model suggests no signs of overvaluation as of 2016, other indicators, including changes in the share of global trade, the World Bank Doing Business Ranking, and wage-cost indicators vis-à-vis other middle income countries, suggest competitiveness challenges. Persistence of US dollar strength may increase competitiveness pressures over the medium term. In a currency union with a fixed exchange rate, enhancing competitiveness will require cost adjustments, strengthening productivity, and improving the business environment. Significant foreign currency accumulation by the central government at commercial banks suggests a relatively stable reserve position as reflected in imputed reserves at the ECCB in 2016. The projected decline in CBI inflows may put downward pressure on the medium-term international investment position.

A. Current Account and Exchange Rate Assessment

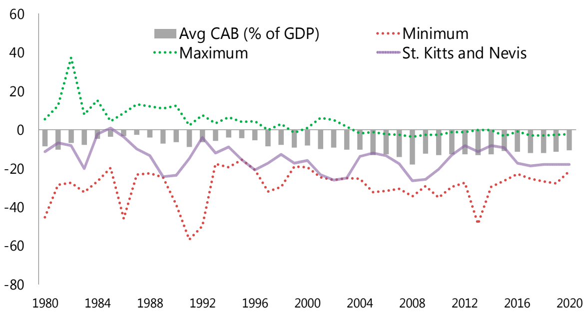
1. The current account deficit increased to reach 17.3 percent of GDP in 2016, while external stability assessment continued to be hampered by significant weaknesses in external sector statistics. The estimated deficit is based on published Balance of Payments (BOP) data in accordance with BPM5, augmented with staff's and authorities' preliminary revisions to external accounts data to adjust for the statistical shortfalls.[1] Based on BPM5 data, the deterioration in the current account reflects a combination of lower CBI-budgetary receipts (which appear as service receipts in the current account), increased imports of goods, and significant historical data revisions by the authorities.[2] Over the medium term, staff estimates point to a current account deficit of around 18 percent of GDP, mainly reflecting a projected decline in CBI inflows. The tapering of CBI-linked investment spending is expected to moderate FDI inflows, suggesting that the deficit will be financed mainly by drawing down the net foreign asset position of commercial banks from the accumulation of pre-funded investment commitments through the CBI program's real-estate route.[3]

[1] Important revisions have been made to historical external sector data by the ECCB, based on data from national authorities that partly address the data gaps identified by TA from CARTAC and the IMF. (These revisions resulted in an improved current account balance for 2011-15, compared to those reported in IMF Country Report No 16/250.)

[2] The ECCB is further reforming external sector statistics by implementing new surveys and using BPM6 methodology. Reforms to the external sector statistics for 2014 using BPM6 reflect updated tourist expenditure surveys, and wider coverage of offshore universities and their student population. The release of the comprehensive 2014-15 BOP and IIP data using BPM6 methodology is expected later this year.

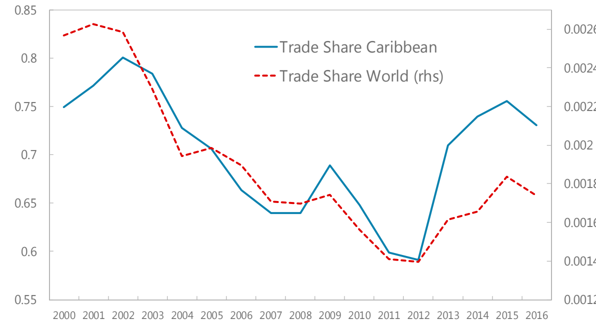
[3] CBI application fees to the budget appear as service receipts in the current account, while contributions to the Sugar Industry Diversification Foundation (SIDF) appear in the capital and financial account as a capital transfer. FDI inflows include CBI-Investments in real estate sector. This is initially offset by strong accumulation of foreign assets by commercial banks, when the CBI applicant's investment is paid. As capital investment progresses, real estate developers draw down on these balances, funding imports of construction materials and other related expenditures.

Current Account Balances of Small Tourism Dependent Countries
(In percent of GDP)



Source: IMF staff estimates ,WEO.
1/ Countries include Anguilla, Antigua & Barbuda, Bahamas, Barbados, Belize, Cape Verde, Cyprus, Dominica, Fiji, Grenada, Jamaica, Lebanon, Maldives, Mauritius, Montserrat, Samoa, Seychelles, St. Kitts & Nevis, St. Lucia, St. Vincent & Gren., Vanuatu

St. Kitts and Nevis - Share of Total Trade
(In percent)



Source: IMF staff estimates, WEO.

2. **The external assessment using the available data is based on an adjusted EBA-lite methodology that incorporates some unique characteristics of St. Kitts and Nevis' economy.** In general, small, tourism-dependent economies run sizable current account deficits, reflecting the high import content of FDI (compared to other economies) and repatriation of investment profits (also higher, reflecting a larger share of FDI in these economies).[4] This is true for St. Kitts and Nevis, which relies heavily on tourism activities, and, in recent years, significant CBI inflows. The surge in imports of construction materials and capital goods, spurred, in part, by large CBI-related investments in the real estate sector, has contributed to import growth since 2011. The EBA-lite Current Account and REER models include alternative specifications to consider these idiosyncratic elements of small tourism-dependent economies. Desirable policy variables (P*) for the current account norm have also been adjusted to reflect idiosyncratic elements relevant to St. Kitts and Nevis.[5]

3. **The adjusted EBA-lite model estimates suggest that the REER is broadly aligned with the level implied by fundamentals and desirable policies, using the REER-based model.** The adjusted current-account-based model implies a larger REER gap equivalent to [22.7] percent[6] explained mostly by the residual of the model (likely reflecting the decline in CBI service receipts which materialized last year). If, as projected, the volatile CBI service receipts were to decline, the current account deficit, as well as its implied REER gap, may become significantly larger than

[4] Large current account deficits might be also due to shortfalls in quantifying exports of services. A dummy variable representing small tourism-dependent countries is added to the model. The following countries are considered small tourism-dependent economies: Antigua and Barbuda, Bahamas, Barbados, Belize, Cape Verde, Cyprus, Dominica, Fiji, Grenada, Jamaica, Lebanon, Maldives, Mauritius, Samoa, Seychelles, St. Kitts and Nevis, St. Lucia, St. Vincent & the Grenadines, and Vanuatu.

[5] The assessment of the current account norm uses historical fiscal balances, net of CBI receipts, and a corresponding policy target, net of CBI, to reflect the true fiscal stance in the economy, which otherwise would be distorted by large fiscal surpluses portraying a picture of an overly contractionary fiscal policy.

[6] A positive (negative) gap implies a currency overvaluation (undervaluation).

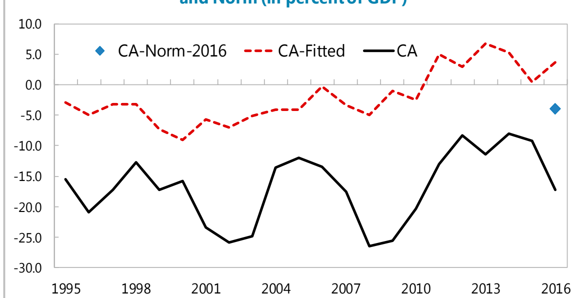
warranted by medium-term fundamentals as of 2016. However, the ongoing transition to BPM6 methodology may affect the reliability of the BPM5 estimates in which we base the CA-regression.

St. Kitts and Nevis: Exchange Rate Assessment

		Current Account Balance					REER Gap 3/
		Norm 2/	2015 Actual	Gap	Policy Gap	Residual	
Staff estimates based on EBA-lite 4/	CA Model 1/	-3.9	-17.3	-13.4	1.1	-14.4	**22.7**
	REER Model						**-0.6**
EBA-lite	CA Model 1/	2.3	-17.3	-19.6	1.4	-21.0	**33.2**
	REER Model						**-0.4**

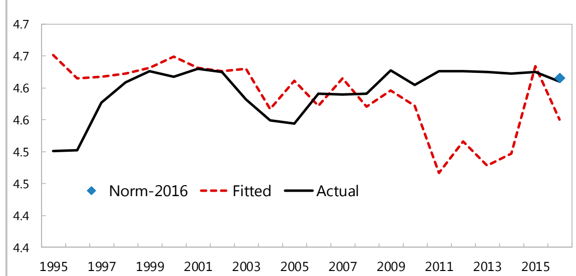
1/ Percent of GDP
2/ Norm estimate includes modest CBI inflows equivalent to 2% of GDP out to the medium term
3/ Positive number indicates overvaluation.
4/ The model modifies the standard EBA-lite specification to consider specific effects for small tourism-dependent countries.

St. Kitts and Nevis - Current Account Balance: Actual, Fitted, and Norm (in percent of GDP)



Source: IMF staff calculations.

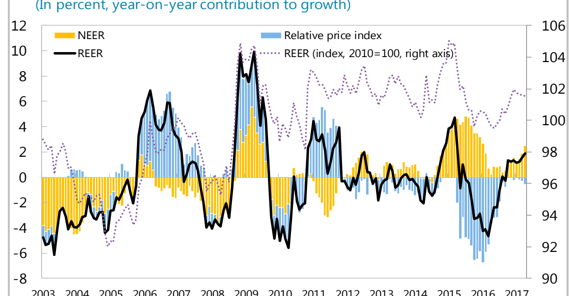
St. Kitts and Nevis - Ln(REER): Actual, Fitted, and Norm



Source: IMF staff calculations.

4. **Analysis of the CPI-based real effective exchange rate (excluding Ukraine) confirms a marginal loss of competitiveness (appreciation of REER) vis-à-vis trade partners over the past decade.**[7] After a significant appreciation in the run up to the global financial crisis, the REER has remained relatively stable until recently, with an appreciation of about 2 percent since 2010. In 2016, the impact of the appreciation of the US$, to which the EC$ is pegged, on the NEER appears to be offset by lower internal prices, which, however, seems to have been reversed from late 2016.

St. Kitts and Nevis: REER Appreciation
(In percent, year-on-year contribution to growth)

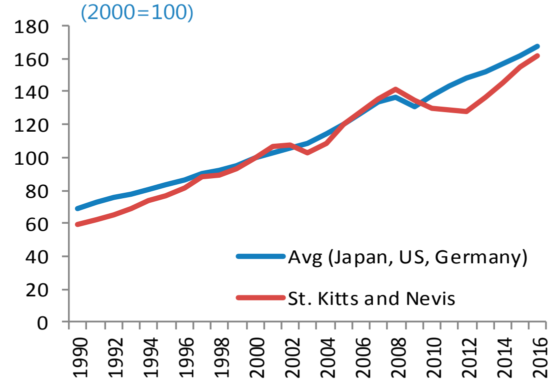


1/ Excludes Ukraine from the basket of countries.
Sources: IMF staff estimates and calculations.

[7] The REER estimated using a country basket that includes Ukraine shows a significant appreciation because of a large depreciation of the Ukrainian Hryvnia.

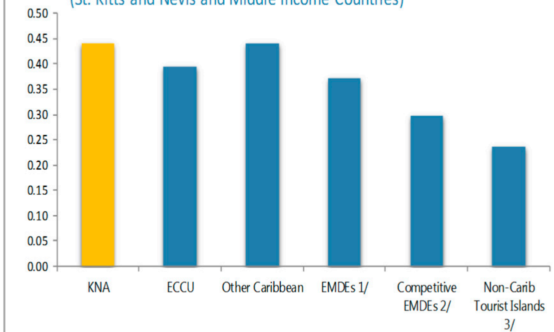
5. Labor cost indicators also signal competitiveness challenges. While labor productivity has been recovering steadily after a slowdown following the global financial crisis, there are indications that labor costs may be high. The minimum wage adjusted by GDP per capita is slightly higher than the average in the ECCU region, but is substantially above the average in most other relevant comparator groups, suggesting high labor costs associated with low-skilled workers.[8]

Labor Productivity Index
(2000=100)



Source: IMF staff calculations.

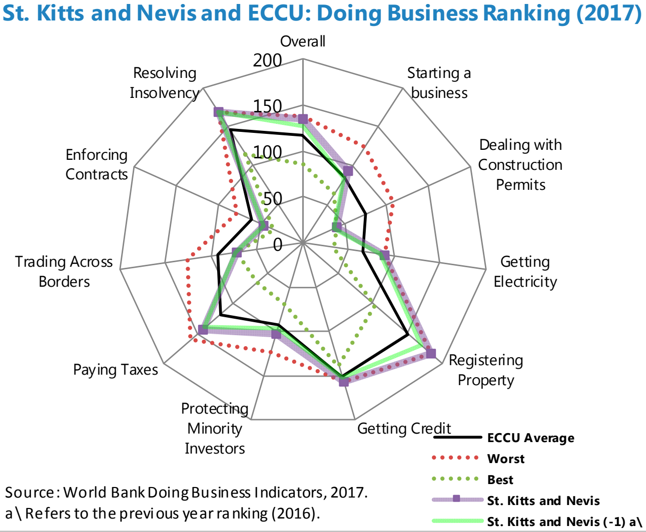
Minimum Wage-to-GDP per Capita Ratio
(St. Kitts and Nevis and Middle Income Countries)



Source: University of Amsterdam Wage Indicator Foundation and national authorities.
1/ Emerging Market and Developing Economies, excluding Low Income and Arab Countries
2/ EMDEs ranked top 50 in Global Competitiveness Index

6. Business climate indicators also continue to suggest weak competitiveness with respect to other countries in the region. The World Bank Doing Business indicators suggest that St. Kitts and Nevis outperforms its ECCU peers in 'dealing with construction permits,' 'trading across borders,' and 'enforcing contracts,' but its overall ranking places the country in the 134th position (out of 190 countries, 7 positions lower than in the previous release), with major weaknesses in the areas of 'registering property,' 'getting credit,' and 'resolving insolvency.' National and regional efforts are ongoing to implement reforms that enhance the business environment, including revising foreclosure legislation, establishing a credit bureau, setting up a Partial Credit Guarantee Scheme with regional and international partners, and reforming land registry to address weaknesses in access to credit and handling insolvency.

St. Kitts and Nevis and ECCU: Doing Business Ranking (2017)

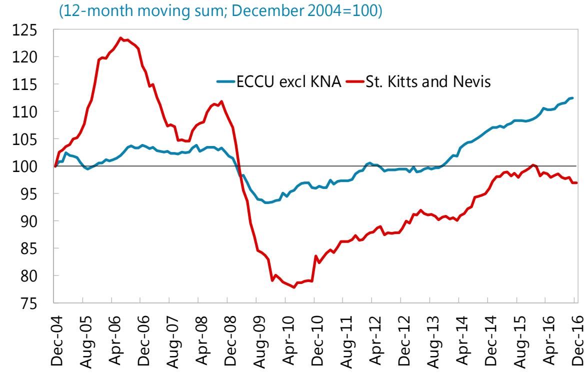


Source: World Bank Doing Business Indicators, 2017.
a\ Refers to the previous year ranking (2016).

[8] The minimum wage was increased in November 2014, which restored the real minimum wage back to its 2008 level.

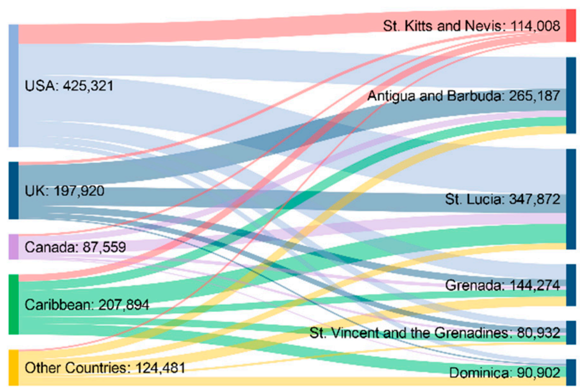
7. **Meanwhile, tourist arrivals in 2016 stayed flat compared to the previous year.** St. Kitts and Nevis is the fourth major stayover tourist destination among ECCU countries, with around 60 percent of its visitors arriving from the U.S., 6 percent from Canada, 8 percent from UK, and 20 percent from other Caribbean countries. In 2016, stayover arrivals to the country underperformed with respect to its ECCU peers, contracting by 3.3 percent, and suggesting a further decline in its market share.

St. Kitts and Nevis: Stayover Tourist Arrivals
(12-month moving sum; December 2004=100)



Sources: ECCB and IMF staff calculations.

Stayover Tourism Flows to ECCU Countries (2016)

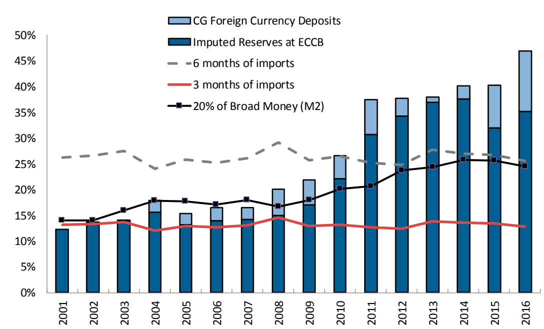


Source: ECCB and IMF staff calculations

B. Reserve Adequacy

8. **International reserves remain well above the various metrics of reserve adequacy, providing ample buffers.** As of 2016, reserve coverage, at 7.5 months of imports of goods and services, remains at a comfortable level, well above the traditional 3-month benchmark, as well as a stricter threshold of 6 months; reserves are also higher than the 20 percent of broad money (M2) benchmark. At the ECCU-regional level, St. Kitts and Nevis is leading its peers in terms of the stock of international reserves. Reserve coverage, including central government foreign currency deposits, grew by 6 percentage points, reaching about 46 percent of GDP, or 200 percent of outstanding external debt, at end-2016, providing strong buffers for foreign currency needs over the medium-term.

Level of Foreign Currency Reserves and Adequacy Thresholds
(In percent of GDP)



Source: IMF staff estimates and ECCB.

Comparison of International Reserves Across Regions

	In Months of Goods and Service Imports		
	2000-07	2008-09	2010-16
St. Kitts and Nevis	3.1	4.5	7.5
ECCU	2.8	3.4	4.9
Caribbean excluding ECCU 1/	2.5	4.1	4.0

Source: IMF, World Economic Outlook

1/ Includes Bahamas, Barbados, Belize, Guyana, Haiti and Jamaica

Annex III. Progress on 2016 Article IV Policy Recommendations

Recommendations	Policy Actions
Growth Agenda	
Improve **business environment**	Ongoing. Implementing reforms on business registration and foreclosure legislation, and establishing land-registry, SME partial-credit-guarantee, and credit bureau.
Address the **skills gap** (including through reorientation and streamlining PEP)	Ongoing. The upgraded apprenticeship scheme (STEP) includes a training component. Recommendation to reduce stipends below the minimum wage not implemented.
Enhance **economic diversification** (backward linkages from tourism, targeted transformative projects, including by broadening options under the CBI program)	Ongoing. Cabinet decision to channel CBI inflows to additional target areas (e.g., renewable energy, education and health) but proceeding cautiously. Project design for the construction of a second pier at the main port being finalized.
Fiscal Sector	
Establish clear framework to complete **debt-land swap.** The SLSC should develop a clear strategy to enable progress with land sales.	Ongoing. Steps taken toward completing the sale for two outstanding purchase proposals and new purchase offers being sought actively.
Adopt a **medium-term fiscal framework** with a zero-primary balance target, net of CBI receipts and SIDF grants.	Not yet implemented. Authorities committed to give due consideration to implementing the staff's recommendation and enshrining it in fiscal-responsibility law after full assessment and consultations.
Broadening the tax base (including through streamlining tax incentives) and **containing spending** to achieve the recommended medium-term fiscal target.	Ongoing. Monitoring discretionary tax incentives, but legislative changes have not taken place. Made progress in civil service reform and seeking technical assistance to make the wage bill predictable.
Establish **Growth and Resilience Fund** to accumulate savings from CBI and provide a contingency buffer for future shocks.	Ongoing. Announced commitment to establish GRF to deal with shocks and manage CBI revenues. Exploring TA on modalities and design.
Strengthen **PFM**, debt management, NIA debt/cash management. Increase transparency of SIDF and integrate with government's Consolidated Fund.	Ongoing. Legislative work ongoing on reforming the SIDF targeted at increased transparency. Restructured PDVSA debt, near-agreement on NIA debt restructuring. No progress on integrating SIDF with government Consolidated Fund.
Financial Sector	
Rapid progress needed in **NPL resolution.** Implement legislation on ECAMC. Revise foreclosure legislation.	Ongoing. Opening of ECAMC expected in short order. Six of the eight jurisdictions, including St. Kitts and Nevis, paid capital contributions. Some senior staff have been recruited. Foreclosure legislation in progress.
Consider temporary extension of debt-land swap **dividend guarantee** with banks.	Ongoing. Authorities expect to conclude discussions on the renewal of the dividend agreement by June.
Systematic **coordination between ECCB and FSRC** to limit risks from bank-nonbank linkages.	Ongoing. Quarterly meetings resumed, with focus so far on AML/CFT.
Monitor systematically **CBRs** trends to limit risk of losing CBRs.	Ongoing. ECCB is monitoring the developments closely, in St. Kitts and Nevis as well as the whole ECCU region.
Maintain a watertight **AML/CFT regime** with adequate financial disclosure.	Ongoing efforts to improve compliance with international AML/CFT standards and information exchange (with ECCB). Onsite risk-related examinations. Legislation put in place to implement the international standard for automatic exchange of financial account information.
Data Gaps	
Enhance the quality of statistical data in Balance of Payments, National Accounts.	Ongoing. CARTAC assisted with compilation of National Account Statistics, Price Statistics, and BOP BPM6 and IIP data. BOP-BPM6 data and 2015/16 labor force survey to be released soon.

Annex IV. Debt Sustainability Analysis (DSA)

The debt-to-GDP ratio remains on a firm downward trajectory, in line with the 2016 Article IV projections, yet the debt position remains vulnerable to a range of risks. The ratio declined to 66 percent of GDP at end-2016 and is projected to fall below the ECCU target of 60 percent by end-2018, with the downward path supported by strong economic growth since 2013 and early retirement of debt equivalent to 6 ½ percent of GDP. Purchases under the SBA have been fully repaid as of end-April 2016, three years ahead of schedule. Notwithstanding, recent tax exemptions and growing risk to the sustainability of CBI inflows have increased risks to the currently favorable debt trajectory. If CBI receipts to the budget decay as projected, large fiscal buffers would gradually decline, absent adequate fiscal adjustment, although the debt-to-GDP ratio would still fall to below 50 percent by 2022 under baseline assumptions. Adverse shocks, including a sudden stop in CBI flows or a costly natural disaster, may reverse the downward debt trajectory, if fiscal buffers are rapidly depleted, although stress tests indicate that debt is likely to remain below 70 percent of GDP by 2022 under most shocks. Risks relating to the debt-land swap also constitute a significant risk for debt sustainability, in case of further delays in divesting land assets. Gross financing needs remain high, mainly owing to the large stock of T-bills, with ongoing efforts to gradually reduce the size of the portfolio.

A. Public Debt Sustainability Analysis

Medium-Term Debt Sustainability Analysis

1. **Medium-term debt sustainability is projected to improve further following the significant debt restructuring, thanks to favorable debt dynamics and ample fiscal buffers generated by the CBI program.**[1] The debt-to-GDP ratio declined to 66 percent of GDP at end-2016, compared to 80 percent at end-2014 and 71 percent at end-2015, *and* is projected to fall below 50 percent by 2022. Although the public sector primary balance has deteriorated since 2014 because of lower grants, slowdown in CBI inflows, and a weaker tax performance, and despite the steep decline of CBI receipts incorporated in the baseline, the public sector primary surplus is projected to average about 1.1 percent of GDP over 2017-2022.[2] Automatic debt dynamics remain favorable at an average growth rate of 3 percent over the medium term—about 1.5 percentage points above the effective real interest rate on public debt. Public debt, net of liquid financial assets of the public sector, is estimated at 36.5 percent of GDP at end-2016 and is projected to stabilize around 33 percent of GDP by 2022.[3]

[1] Public debt declined significantly from a peak of 159 percent of GDP at end-2010 to 80 percent of GDP at end-2014, largely as the result of debt-restructuring that involved an innovative debt-land swap with domestic banks (equivalent to about 41 percent of 2010 GDP), a debt exchange with bondholders and external commercial creditors in 2012, and a flow restructuring with other Paris Club creditors.

[2] The public sector primary balance is largely governed by changes in the consolidated general government fiscal position. The financial position of 14 public enterprises is estimated based on unaudited financial performance of 10 enterprises through 2015 and estimates for 4 others over 2013-2015.

[3] Reflects liquid bank deposits of central government and public corporations.

2. **The public sector has accumulated significant fiscal buffers from windfall revenues through the CBI program.** At end-2016, central government has accumulated liquid deposits of about 29 percent of GDP, allowing it to cover its projected financing requirements and comfortably meet its debt service obligations without contracting new debt over the forecast horizon in the baseline scenario. In addition, the Sugar Industry Diversification Foundation (SIDF), the country's national development fund, has accumulated assets equivalent to 20 percent of GDP from CBI-related flows, of which 11 percent of GDP are liquid assets in the form bank deposits and marketable securities. Public sector enterprises hold an estimated 3.5 percent of GDP in bank deposits.

3. **Despite large accumulated public sector savings, the scope for more rapid debt repayment remains limited.** Central government has already paid down all outstanding domestic loans to commercial banks and social security and settled debt with major external bilateral creditors, and recently agreed on the payment schedule of the arrears owed to PDVSA. Purchases under the SBA were fully repaid in April 2016. Bonds from the debt restructuring or external multilateral debt carry a low interest rate with long maturities, hence beneficial for long-run debt sustainability. Meanwhile, expensive overdraft debt accounts held by the Nevis Island Administration (NIA) (about 5 percent of GDP) is being restructured into a long-term loan with lower interest rate. Aggressive repayment of the remaining debt owed by the NIA and public corporations (equivalent to 27 percent of GDP) could deplete central government savings and weaken fiscal sustainability across the Federation absent fiscal discipline at NIA and sufficient central government oversight on public corporations. T-bills held by private investors appear to be the most likely candidate for immediate repayment.

4. **The baseline scenario incorporates the following assumptions on growth and the outlook for CBI inflows**:

- *Fiscal Balance:* CBI budgetary revenues are assumed to decline from 7.2 percent of GDP in 2016 to 1.5 percent of GDP by 2022, contributing to the significant decline in the public sector primary surplus from 6.9 percent in 2016 to 0.5 percent by 2022.
- *Growth and Inflation:* Real economic activity moderates to about 3.1 percent over 2017-2019, before stabilizing at about 2.8 percent for the rest of the projection horizon—about 1 percentage point below the 10-year pre-crisis historical growth average. The drop reflects the phasing out of CBI-related investments and the impact of a subsequent slowdown in the construction sector as planned projects reach completion in 2019 and beyond. Continued recovery in tourism and related sectors, as new high-end tourist facilities come on stream and growth in source markets strengthen, partly offsets the drop. Inflation, measured by the GDP deflator, averages 2 percent over 2017-22.
- *Debt:* Repurchases of about 1 percent of GDP have been made since end-2015, settling all outstanding obligations to the Fund as of end-April 2016. No new debt is expected to be contracted by the central government (St. Kitts) given its ample fiscal buffers. However, the NIA is expected to finance its projected deficits through new borrowing, given its limited access to central government savings. Public corporations are expected to refinance their debt position, which is expected to remain stable in nominal terms.

5. **The MAC DSA template has been enhanced to more accurately reflect the impact of adverse shocks on debt trajectory in light of its surplus position.** Given ample fiscal buffers, staff modified the design of the MAC DSA stress tests to reflect a drawdown on liquid deposits before new borrowing takes place.[4] This is consistent with staff's proposal and the authorities' decision of pooling accumulated savings in a Contingency Fund to address future shocks, including increased financing needs from a sharp drop (or sudden stop) in CBI revenues and natural disaster shocks. In implementing the modifications, the following methodology is used:

i. Only liquid deposit balances of the central government and public corporations, equivalent to about 33 percent of GDP at end-2016, are used to address additional financing needs that arise from the shocks. The liquid assets of the SIDF are conservatively excluded since its financial accounts are not yet consolidated with the rest of the public sector.[5]

ii. The NIA is projected to continue facing financing constraints given its limited access to central government savings. Therefore, about 20 percent (roughly the size of NIA revenues and expenditure in the consolidated federal accounts) of deviations in the primary balance in shock scenarios are financed through new borrowing (at an average interest rate of 7 percent). However, deviations in the fiscal balance emerging from sudden stops to CBI are fully financed through central government deposits since NIA's budget is not a direct beneficiary of these flows.

iii. To reflect the need for a minimum level of fiscal buffers, new debt issuance is assumed to cover additional financing needs (in excess of baseline) once buffers fall below 10 percent of GDP. In all shock scenarios, at least 5 percent of GDP of buffers were retained by 2022.[6]

iv. Shock scenarios incorporate the drawdown on deposit balances already assumed in the baseline.

6. **Staff used standard and customized MAC DSA shocks to simulate the impact of downside risks, highlighted in the Risk Assessment Matrix, on the public debt trajectory.** Despite a favorable baseline trajectory, the path remains vulnerable to shocks, especially if a combination of them were to materialize.

---

[4] Deposits are readily available for withdrawal given the very high liquidity of the domestic banking system (and the government's domestic banking agent in particular). The bulk of the banks' assets are in correspondent bank balances, investments in foreign marketable securities, and excess reserves at the ECCB.

[5] The SIDF remains a quasi-fiscal entity that, while not formally considered a statutory body, has consistently supported public sector activities, including through grants to the government and various social programs. Its liquid assets are expected to be available as a buffer in the event of severe shocks, including natural disasters. In the 2016 budget, the PM announced plans to consolidate the SIDF with the central government consolidated account (Treasury Single Account) but to date, no change in this direction has taken place. Staff proposed an overarching framework that enhances the management of the SIDF (see IMF Country Report No. 16/250).

[6] Like other highly vulnerable small states, St. Kitts and Nevis needs to maintain a minimum cushion of liquid buffers to safeguard against the possibility of multiple adverse shocks materializing over a short horizon. The thresholds reflect the need to start tapping markets before fiscal buffers are fully depleted.

- **An adverse shock to growth** (calibrated as 1 standard deviation of growth volatility over the past 10 years), reflecting adverse external shocks, such as to tourism and from global spillovers, lowers growth by 3.4 percentage points relative to baseline over 2018-19, and lowers inflation by 0.9 percentage point in each year. Cumulative losses of the primary balance of about 10 percent of GDP lower fiscal buffers to 11 percent of GDP in 2022. Public debt rises, mainly due to lower growth, to 53.4 percent of GDP in 2022, about 5 percentage points above baseline.
- **A sustained interest rate shock** of 543 bps (difference between the average real interest rate level over the projection period and the maximum 10-year historical level) was applied—. The shock has only marginally slowed down the rate of debt decline (by about 2 percentage points compared to baseline). This reflects rolling over short-term debt, both by central government and NIA, at higher interest rates, as well as higher interest expense on new borrowing by NIA.
- **A primary balance shock** was used to simulate the impact of a sudden stop in CBI inflows. A sudden stop in 2018 shocks the primary deficit by about 3¾ percentage points in 2018 and 1¾ percentage points in 2019 and about 1½ percentage points over 2020-2022. Under this scenario, buffers decline to 11 percent and the debt-to-GDP ratio rises to 53.4 percent by 2022, about 5 percentage points above baseline.
- **A combined macro-fiscal** shock of all of the above would lead to an explosive debt trajectory. Debt rises to 71.6 percent of GDP in 2022, about 23 percentage points higher than baseline. Buffers drop to 10.4 percent of GDP in 2021 and decline further to a low of 7.9 percent in 2022.
- **A custom natural disaster shock,** based on historical episodes of hurricane shocks in St. Kitts and Nevis, lowers growth by 6 percentage points compared to baseline in 2018, but growth is assumed to quickly recover to 1.8 percent in 2019 including through reconstruction efforts. Historical shocks suggest an expected deterioration in the fiscal balance by about 5 percentage points in both 2018 and 2019. However, fiscal buffers are able to cover the bulk of the cost. Some additional borrowing in the outer years slows down the decline in the debt-to-GDP ratio, which reaches 51.5 percent in 2022, about 3.5 percent above baseline.[7,8] A second natural disaster shock of a similar magnitude materializing in 2024 would deplete buffers, raise the debt ratio by 13 percentage points over 2024-2025 and require a fiscal adjustment of about 1 percent of GDP to lower the debt back to below 60 percent of GDP by 2027.
- A custom shock was used to simulate the impact of **a debt-land swap shock,** if the swapped land were not divested within a timeframe consistent with the ECCB's regulatory guidelines. The scenario assumes swapping the land for a long-term loan with domestic

[7] In the event of a natural disaster, the SIDF is expected to undertake additional spending to provide disaster relief, projected at about 4 percent of GDP, which will further drawdown on its assets (see Annex V).

[8] An additional scenario combining a sudden stop in CBI inflows with a natural disaster shock was modeled outside the DSA suggesting a debt ratio of about 70 percent by 2021.

banks at an interest rate of 4.5 percent (about 0.5 percent higher than the current interest rate on one-year T-bills and about 1 percentage point higher than the 3.5 percent dividend guarantee on unsold land). This shock results in a 27 percentage points upward shift in the debt ratio compared to baseline in 2018. The primary balance improves reflecting the shift of payments for dividends from transfers to interest expense, yet the effective interest rate on debt rises by an average of 1.1 percentage points over 2018-2022.[9] Given the new debt dynamics, public debt declines from a peak of 86.6 percent of GDP in 2018 to 74.3 percent by 2022—to about 26 percentage points above the baseline.

7. The historical and constant primary balance scenarios do not provide a reliable insight into possible risk. The historical scenario takes into account several years of very high CBI budgetary inflows combined with strong fiscal performance under the Fund-supported program. The scenario with a constant primary balance also reflects the very high CBI budgetary inflows. While CBI inflows may prove to be stronger than staff's projections, such large inflows are more likely to be used to bolster fiscal buffers than pay down debt more rapidly (see ¶3)

8. The heat map reflects an improved debt risk profile, although it remains highly vulnerable to rollover risks. Under this modified shock design, the debt level does not trigger the heat map threshold of 70 percent under either the baseline scenario or any of the standard shock scenarios, reflecting the contribution of large fiscal buffers in stabilizing the debt position. However, a debt-land swap shock, if it materializes (as considered in the 2016 Article IV assessment), would raise the debt level above the 70 percent threshold for EMs. Debt is still vulnerable because of the large annual gross financing needs given the large stock of short-term debt (mainly T-bills). Although lengthening the maturities of commercial debt instruments would materially improve debt sustainability, the significant liquidity in the domestic banking system lowers potential challenges in rolling over short-term instruments over the near-term, at least for central government. Indicators show a medium level of vulnerability with respect to short-term debt and foreign currency denominated debt, while the fan charts show that the debt-to-GDP ratio is unlikely to rise above 85 percent over the medium term, even under the asymmetric fan chart (where only negative shocks to growth and the exchange rate are considered).

9. High uncertainty related to CBI inflows explains large forecast errors in recent years. The forecast track record indicates that staff has underestimated growth and fiscal outturns in recent projections. This reflects the unanticipated surge in CBI inflows, resulting in a delayed but much stronger-than-anticipated recovery and record primary surpluses, far above peers and historical averages. Given the high uncertainty surrounding the sustainability of future CBI flows, staff remains cautious on future growth and fiscal projections, which may continue to lead to higher forecast errors. Inflation projections have shown fewer forecast errors in recent years.

10. The cyclically adjusted primary balance in the forecast period reflects the assumption that CBI inflows are not expected to continue at their current pace. The

[9] In the baseline scenario, the 3-year dividend guarantee is assumed to be extended for three additional years, expiring by 2018 for the first tranche of swapped land and 2019 for the second tranche, consistent with the ECCB's guidelines on resolving collateral assets within a 5-year window.

estimated change in the cyclically adjusted primary surplus over the forecast period is at the lower end of the distribution of adjustments historically achieved by advanced and emerging economies with debt greater than 60 percent of GDP. This reflects the baseline assumptions of significantly lower CBI inflows, and hence, the projected decline in non-tax revenues and primary surplus over a 3-year forecast horizon.

Conclusion

11. The authorities agree that ensuring St. Kitts and Nevis' medium-term debt sustainability requires resolving the debt-land swap and prudent management of the accumulated government savings. Cementing the gains achieved in debt sustainability will require a framework to effectively mobilize land use/sales in a manner that ensures the credibility of the debt restructuring, while preserving national interests and the stability of domestic banks. Meanwhile, implementing an effective medium-term fiscal framework to preserve and prudently manage the large accumulated savings from CBI inflows by both central government and the SIDF will be critical to stabilizing the debt path and increasing resilience to exogenous shocks, including costly natural disasters, without renewed build-up of public debt.

B. External Debt Sustainability Analysis

12. The external public debt is projected to decline rapidly over the medium term to 9 percent in 2022, down from 24 percent in 2016. Amortization of restructured bonds with external commercial debt and projected repayment of multilateral debt, largely from the CDB, will significantly contribute to this decline. The current account deficit is projected to widen as a result of the modeled decay in CBI inflows in the baseline scenario, while imports remain elevated, in part because of continued imports of construction materials and capital goods and some pick up in fuel prices. Drawdowns on the accumulated investment commitments from prior years, reflected in commercial banks' net foreign asset position (and the growth in the imputed reserves at the ECCB), will finance the bulk of the current account deficits, as CBI-projects reach completion, resulting in no significant accumulation of new foreign debt. Stress tests indicate that external debt would continue to decline under interest rate, growth, real depreciation, and combined shocks. However, debt stays relatively higher 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 that shock.

Figure 1. St. Kitts and Nevis: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

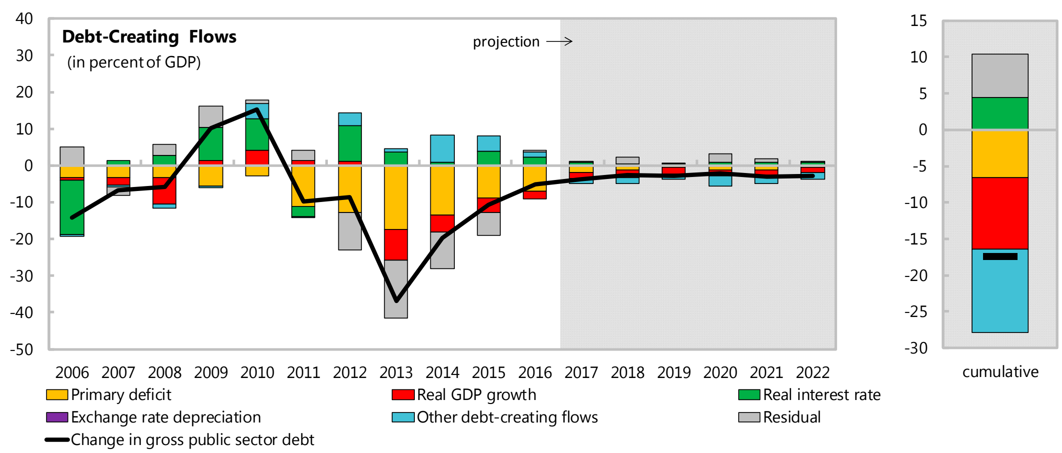
(In percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2006-2014 [2/]	2015	2016	2017	2018	2019	2020	2021	2022
Nominal gross public debt	130.7	70.6	65.6	61.7	59.1	56.2	54.0	50.9	48.2
Public gross financing needs	28.2	20.3	2.7	17.6	16.3	16.2	15.0	14.8	15.1
Net public debt	120.4	42.6	36.5	31.4	31.8	31.5	33.0	33.1	33.1
Real GDP growth (in percent)	1.6	4.9	3.1	2.7	3.5	3.2	3.0	2.7	2.7
Inflation (GDP deflator, in percent)	3.6	-1.4	-0.5	1.6	2.1	2.1	2.1	2.1	2.1
Nominal GDP growth (in percent)	5.3	3.4	2.6	4.3	5.6	5.4	5.2	4.9	4.9
Effective interest rate (in percent) [3/]	5.2	3.4	3.0	3.0	3.0	3.1	3.8	3.9	4.0

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing primary balance [8/]
Change in gross public sector debt	-8.5	-10.8	-5.0	-3.8	-2.7	-2.9	-2.2	-3.0	-2.8	-17.4	
Identified debt-creating flows	-6.3	-4.6	-5.3	-4.1	-4.5	-3.2	-4.7	-4.0	-2.9	-23.4	
Primary deficit	-8.1	-8.9	-6.9	-1.9	-1.3	-0.5	-1.2	-1.2	-0.5	-6.6	-2.4
Primary(noninterest) revenue+grants	42.5	46.7	42.3	38.9	37.5	35.5	34.9	34.6	27.3	208.7	
Primary(noninterest) expenditure	34.4	37.8	35.4	37.0	36.3	34.9	33.7	33.4	26.8	202.1	
Automatic debt dynamics [4/]	0.3	0.0	0.2	-0.8	-1.6	-1.3	-0.8	-0.4	-0.4	-5.4	
Interest rate/growth differential [5/]	0.3	0.0	0.2	-0.8	-1.6	-1.3	-0.8	-0.4	-0.4	-5.4	
Of which: real interest rate	2.1	3.8	2.4	0.9	0.5	0.5	0.8	0.9	0.9	4.5	
Of which: real GDP growth	-1.7	-3.8	-2.2	-1.7	-2.0	-1.8	-1.6	-1.4	-1.3	-9.8	
Exchange rate depreciation [6/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	1.5	4.4	1.4	-1.3	-1.7	-1.3	-2.6	-2.4	-2.0	-11.4	
Privatization/Drawdown of Deposits	-1.1	-0.5	-0.4	-1.3	-1.7	-1.3	-2.6	-2.4	-2.0	-11.4	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Accumulation of Bank Deposits	2.6	4.9	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [7/]	-2.2	-6.2	0.3	0.2	1.8	0.3	2.5	1.0	0.1	6.0	



Source: IMF staff.

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

2/ Based on available data.

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

4/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

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

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

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

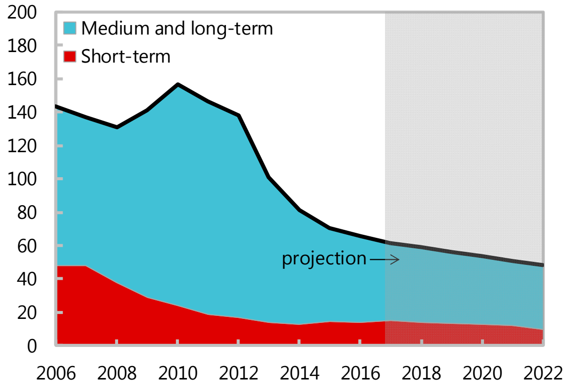
8/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. St. Kitts and Nevis: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

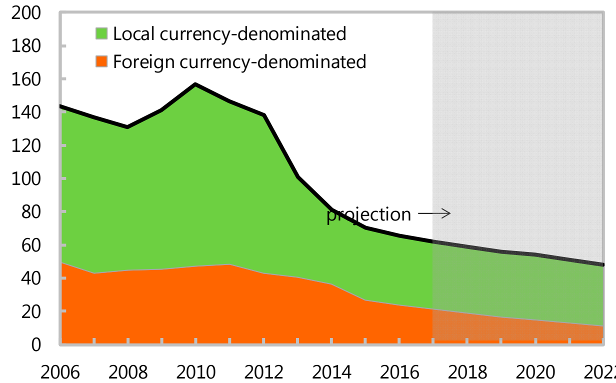
By Maturity 1/

(in percent of GDP)



By Currency

(in percent of GDP)

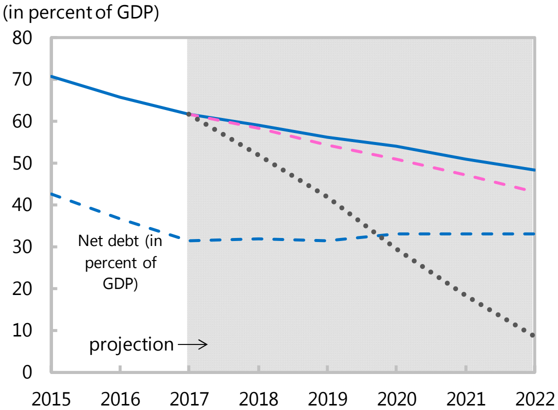


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

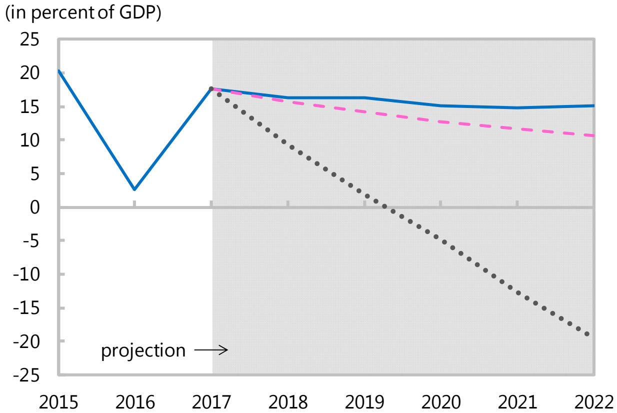
Gross Nominal Public Debt 2/

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	2.7	3.5	3.2	3.0	2.7	2.7
Inflation	1.6	2.1	2.1	2.1	2.1	2.1
Primary Balance	1.9	1.3	0.5	1.2	1.2	0.5
Effective interest rate	3.0	3.0	3.1	3.8	3.9	4.0
Liquid Buffers	30.4	26.9	24.6	21.2	18.1	15.4
Constant Primary Balance Scenario						
Real GDP growth	2.7	3.5	3.2	3.0	2.7	2.7
Inflation	1.6	2.1	2.1	2.1	2.1	2.1
Primary Balance	1.9	1.9	1.9	1.9	1.9	1.9
Effective interest rate	3.0	3.1	3.2	4.0	4.4	4.5

Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth 3/	2.7	2.2	2.2	2.2	2.2	2.2
Inflation	1.6	2.1	2.1	2.1	2.1	2.1
Primary Balance 3/	1.9	8.5	8.5	8.5	8.5	8.5
Effective interest rate	3.0	3.1	3.7	4.9	6.2	8.1

Source: IMF staff.

1/ The stock of short term debt falls over 2012-2013 as a result of restructuing of bank overdrafts.

2/ Net Debt reflects liquid financial assets of central government and public sector enterprises.

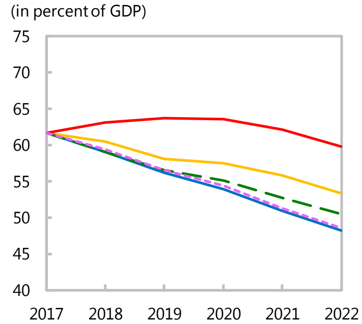
3/ 2017 is the current projection and 2018-2022 is the ten-year average for 2007-2016.

Figure 3. St. Kitts and Nevis: Public DSA – Stress Tools

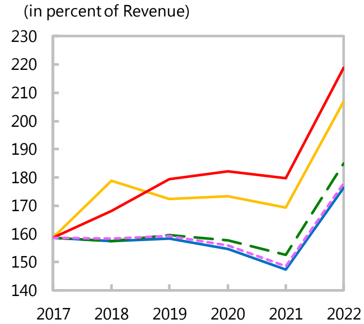
Macro-Fiscal Stress Tests [1/]

Baseline
Primary Balance Shock
Real Interest Rate Shock
Real GDP Growth Shock
Real Exchange Rate Shock

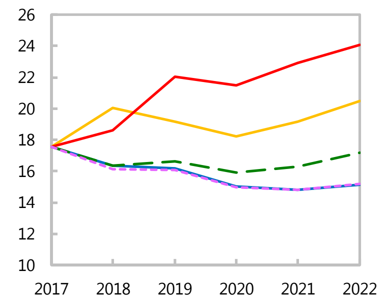
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



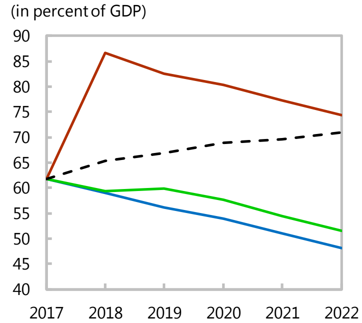
Public Gross Financing Needs
(in percent of GDP)



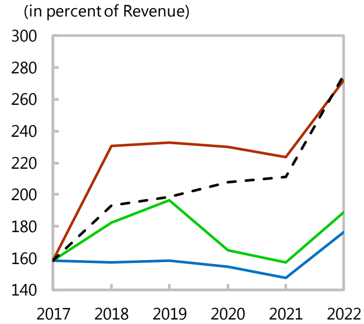
Additional Stress Tests [1/]

Baseline
Natural Disaster Shock
Combined Macro-Fiscal Shock
Reversed Debt-Land Swap Shock

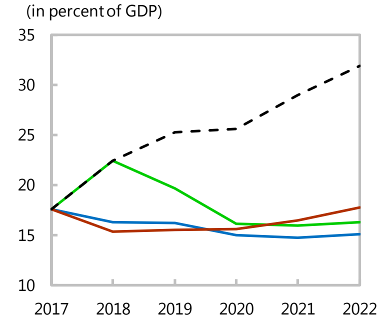
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Primary Balance Shock	2017	2018	2019	2020	2021	2022
Real GDP growth	2.7	3.5	3.2	3.0	2.7	2.7
Inflation	1.6	2.1	2.1	2.1	2.1	2.1
Primary balance	1.9	-2.5	-1.2	-0.5	-0.4	-1.1
Effective interest rate	3.0	3.1	3.2	3.8	4.1	4.1
Liquid Buffers	30.4	25.0	21.6	17.8	14.5	11.0
Real Interest Rate Shock						
Real GDP growth	2.7	3.5	3.2	3.0	2.7	2.7
Inflation	1.6	2.1	2.1	2.1	2.1	2.1
Primary balance	30.4	1.3	0.5	1.2	1.2	0.5
Effective interest rate	3.0	3.1	4.0	4.8	5.3	5.5
Liquid Buffers	30.4	26.9	24.6	21.2	18.1	15.4
Combined Shock						
Real GDP growth	2.7	0.1	-0.2	3.0	2.7	2.7
Inflation	1.6	1.2	1.2	2.1	2.1	2.1
Primary balance	1.9	-4.0	-4.3	-3.4	-3.3	-3.4
Effective interest rate	3.0	3.2	4.0	4.7	5.2	5.3
Liquid Buffers	30.4	25.4	20.7	15.2	10.4	7.9

Real GDP Growth Shock	2017	2018	2019	2020	2021	2022
Real GDP growth	2.7	0.1	-0.2	3.0	2.7	2.7
Inflation	1.6	1.2	1.2	2.1	2.1	2.1
Primary balance	0.0	-0.1	-0.5	-0.3	-0.3	-0.4
Effective interest rate	3.0	3.1	3.2	3.8	4.0	4.0
Liquid Buffers	30.4	28.4	25.1	20.1	15.6	11.4
Reversed Debt-Land Swap Shock						
Real GDP growth	2.7	3.5	3.2	3.0	2.7	2.7
Inflation	1.6	2.1	2.1	2.1	2.1	2.1
Primary balance	1.9	2.3	1.5	1.2	1.2	0.5
Effective interest rate	3.0	3.4	3.9	4.3	4.5	4.5
Liquid Buffers	30.4	26.9	24.6	21.2	18.1	15.4
Natural Disaster Shock						
Real GDP growth	2.7	-2.6	1.8	3.0	2.7	2.7
Inflation	1.6	2.1	2.1	2.1	2.1	2.1
Primary balance	1.9	-3.7	-4.5	1.2	1.2	0.5
Effective interest rate	3.0	3.1	3.3	3.9	4.2	4.3
Liquid Buffers	30.4	21.1	17.0	13.7	10.9	8.4

Source: IMF staff.

1/ Assumes that shocks to central government's primary balance draws down on accummulated fiscal buffers before new debt is contracted. New borrowing is triggered when buffers fall below 10 percent of GDP. Except for the Natural Disaster Shock, deficits of local government (the Nevis Island Administration) and Public Sector Enterprises are financed through new borrowing throughout the forecast horizon.

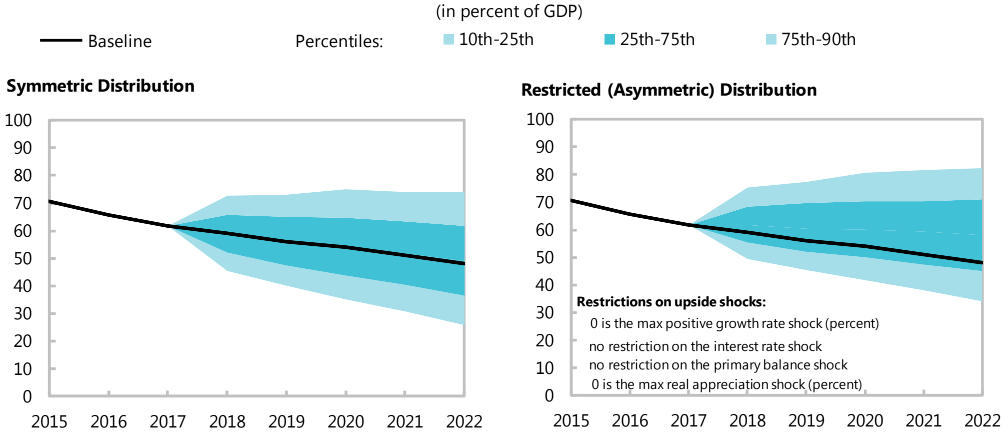
Figure 4. St. Kitts and Nevis: Public Debt Risk Assessment

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

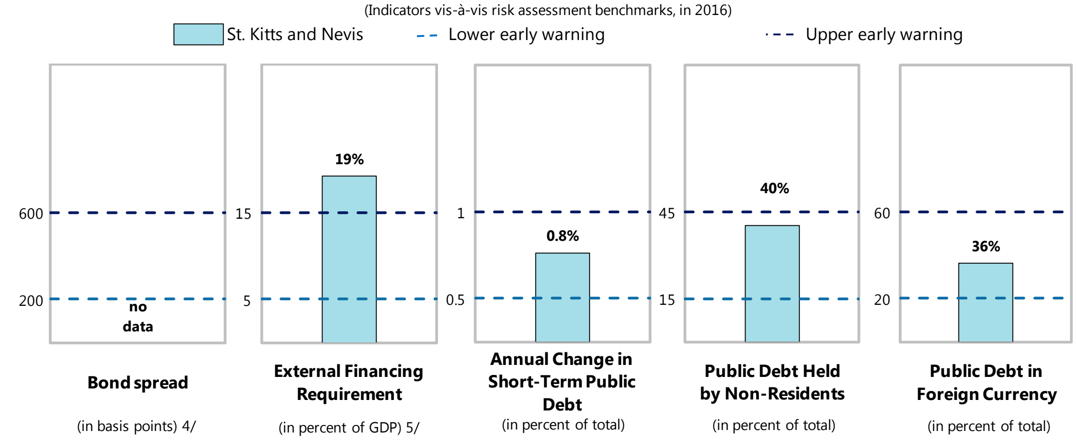
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2016)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

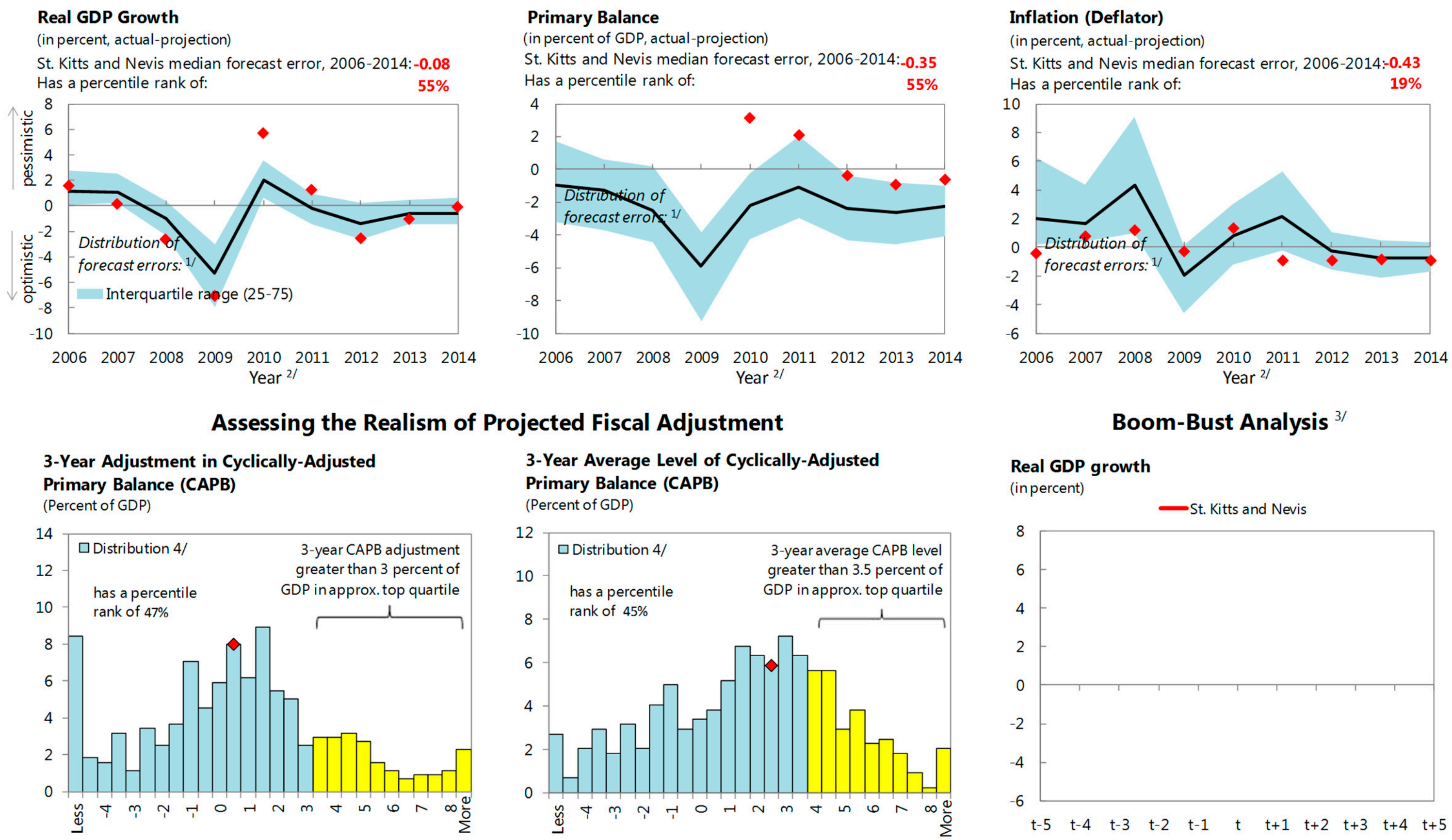
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ St Kitts and Nevis is not rated by the credit rating agencies, and no bond spread information is available

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 5. St. Kitts and Nevis: Public DSA—Realism of Baseline Assumptions



Source : IMF Staff.

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

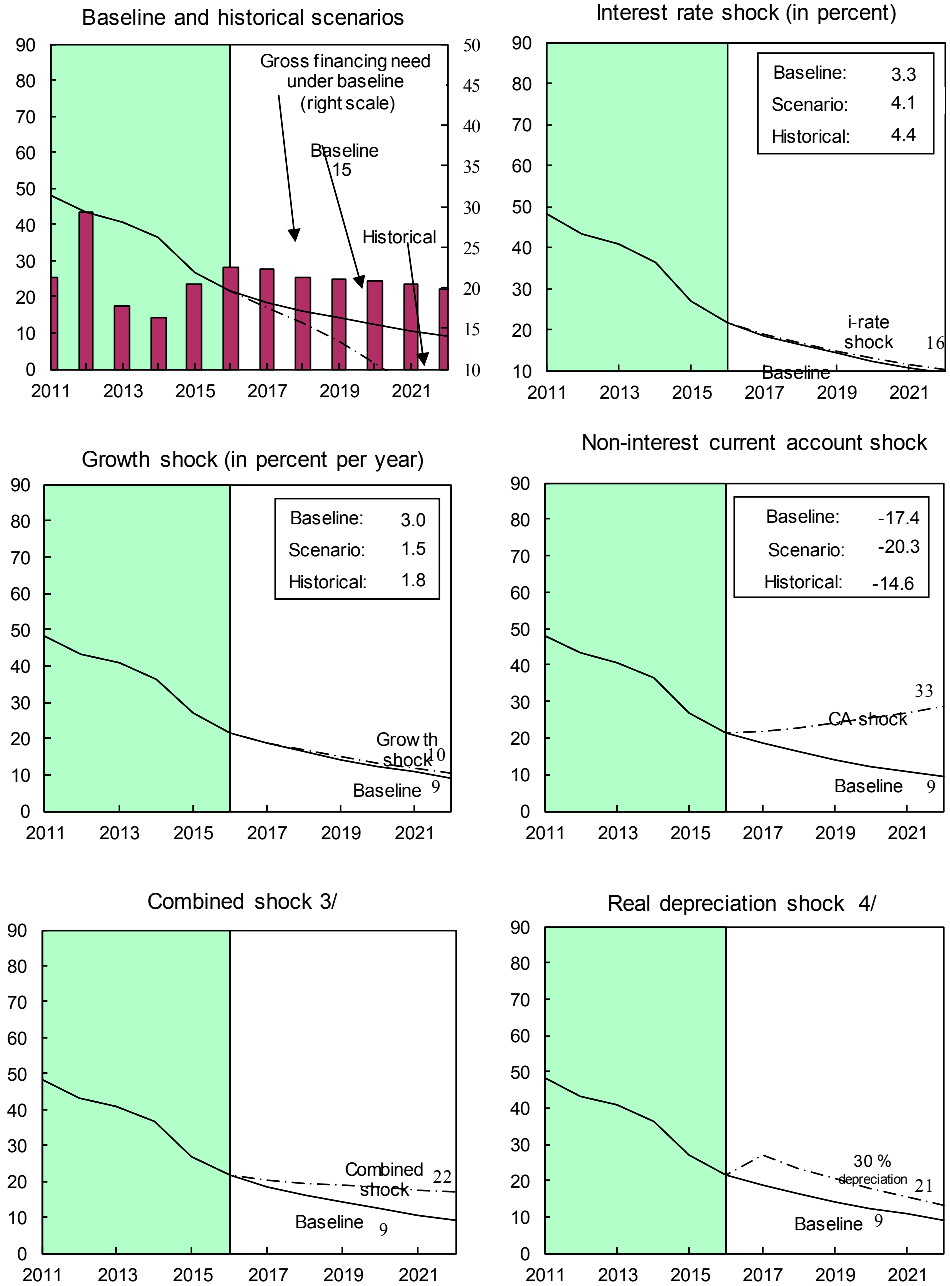
2/ Projections made in the spring WEO vintage of the preceding year. St Kitts and Nevis does not have historic WEO forecasts for either primary balance or expenditure/revenues/interest expenditure between 2005 and 2010, as a result the forecast errors are not available.

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 2017.

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 2017.
4/ One-time real depreciation of 30 percent occurs in 2017.

Table 1. St. Kitts and Nevis: External Debt Sustainability Framework, 2010–22

	Actual 2010	2011	2012	2013	2014	2015	2016	10-Year Historical Average	10-Year Standard Deviation	Projections 2017	2018	2019	2020	2021	2022	For debt stabilization	Debt-stabilizing non-interest current account 6/
Baseline: External debt	47.3	48.2	43.2	40.7	36.4	26.9	21.6			**18.5**	**16.2**	**14.1**	**12.3**	**10.7**	**9.2**		**-15.5**
Change in external debt	1.6	0.9	-5.0	-2.5	-4.3	-9.5	-5.3			-3.1	-2.3	-2.1	-1.8	-1.6	-1.5	0.0	
Identified external debt-creating flows	7.4	-1.9	1.2	-15.2	-16.8	-5.7	-2.1			-0.3	-0.2	1.1	1.7	2.2	1.9	0.0	
Current account deficit, excluding interest payments	17.7	11.0	6.7	10.9	7.2	8.5	16.9			17.9	17.3	17.6	17.6	17.4	17.2	15.5	
Deficit in balance of goods and services	22.8	15.8	11.6	14.2	10.0	10.8	18.6			19.6	18.6	18.9	18.6	18.5	18.3		
Exports	30.1	34.7	37.9	41.2	44.0	42.7	37.4			34.1	34.0	33.1	33.2	33.3	33.5		
Imports	52.9	50.5	49.5	55.4	54.0	53.5	56.0			53.7	52.6	51.9	51.9	51.8	51.8		
Net non-debt creating capital inflows (negative)	-14.0	-11.9	-8.4	-23.6	-22.0	-13.7	-18.6			-18.2	-17.5	-16.6	-15.9	-15.3	-15.4	-15.4	
Automatic debt dynamics 1/	3.8	-1.0	2.9	-2.5	-1.9	-0.4	-0.4			0.1	0.0	0.0	0.1	0.1	0.1	-0.1	
Contribution from nominal interest rate	2.6	2.0	1.7	0.5	0.9	0.7	0.4			0.6	0.6	0.5	0.5	0.5	0.4	0.4	
Contribution from real GDP growth	1.3	0.4	0.4	-2.6	-1.9	-1.7	-0.8			-0.6	-0.6	-0.5	-0.4	-0.3	-0.3	-0.2	
Contribution from price and exchange rate changes 2/	-0.2	-3.4	0.8	-0.3	-0.9	0.5	0.1			...	...	...	...	...	...	-0.2	
Residual, incl. change in gross foreign assets 3/	-5.8	2.8	-6.1	12.7	12.5	-3.8	-3.2			-2.8	-2.1	-3.1	-3.6	-3.9	-3.3	0.0	
External debt-to-exports ratio (in percent)	157.1	138.8	113.8	98.8	82.7	63.0	57.7			54.3	47.7	42.7	37.0	32.0	27.5		
Gross external financing need (in millions of US dollars) 4/	200.4	160.6	214.3	140.3	137.6	179.1	202.8			209.2	210.2	220.7	228.4	234.4	239.3		
in percent of GDP	28.4	21.3	29.2	17.8	16.2	20.4	22.5			22.3	21.2	21.1	20.8	20.3	19.8		
Scenario with key variables at their historical averages 5/										**16.9**	**12.8**	**7.6**	**1.7**	**-4.7**	**-10.6**		**-17.2**
Key Macroeconomic Assumptions Underlying Baseline																	
Real GDP growth (in percent)	-2.9	-0.8	-0.8	6.6	5.1	4.9	3.1	1.8	3.5	2.7	3.5	3.2	3.0	2.7	2.7	2.7	
GDP deflator in US dollars (change in percent)	0.4	7.8	-1.7	0.7	2.3	-1.4	-0.5	1.4	3.1	1.6	2.1	2.1	2.1	2.1	2.1	2.1	
Nominal external interest rate (in percent)	5.6	4.5	3.3	1.2	2.4	2.1	1.6	4.4	2.0	2.9	3.2	3.4	3.7	3.9	4.0	4.0	
Growth of exports (G&S, US dollar terms, in percent) 7/	20.2	23.2	6.6	16.6	14.9	0.4	-10.1	3.2	17.1	-5.0	5.3	2.7	5.7	5.1	5.6		
Growth of imports (G&S, US dollar terms, in percent)	0.1	2.0	-4.3	20.1	4.8	2.5	7.4	3.0	12.1	0.0	3.4	4.1	5.1	4.7	4.9		
Current account balance, excluding interest payments	-17.7	-11.0	-6.7	-10.9	-7.2	-8.5	-16.9	-14.6	6.7	-17.9	-17.3	-17.6	-17.6	-17.4	-17.2		
Net non-debt creating capital inflows	14.0	11.9	8.4	23.6	22.0	13.7	18.6	17.0	5.4	18.2	17.5	16.6	15.9	15.3	15.4		

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/ Residual reflects CBI-related capital transfers to the Sugar Industry Diversification Foundationand changes in commercial banks' net foreign assets and 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 V. Challenges in Domestic Revenue Mobilization in St. Kitts and Nevis

1. **Domestic revenue mobilization continues to be a key policy challenge for St. Kitts and Nevis**. The tax-to- GDP ratio remains around 20-21 percent since 2011. As staff recommends that St. Kitts and Nevis maintain fiscal discipline and reduce reliance on CBI inflows through targeting a non-CBI primary balance and improving it, increases in tax revenue are expected play a large part in this policy effort. Extensive technical assistance (TA) on both tax policy and tax administration supports staff's policy recommendations.

2. **Tax policy TA focused on tax incentives reform**. Tax incentives remain significant in the country, along with other countries in ECCU. The size of tax incentives was estimated to be 6 percent of GDP and 30 percent of tax revenue in 2012. Moreover, new VAT and customs exemptions, including on food and medicine, were introduced in December 2014. In April 2015, funeral expenses were also exempted from VAT and the VAT exemption on food was broadened. An ECCU-wide TA took place in 2013-14 and made broad recommendations such as: (i) introduction of comprehensive tax expenditure budgeting for all main taxes with regular publication; (ii) consideration of a cap on annual costs for duty and other concessions; and (iii) introduction of rules-based approach to minimize discretion and improve transparency. A St. Kitts and Nevis-specific TA on tax incentives started 2016. A scoping mission in March 2016 made suggestions on the initial steps in reviewing the existing system. The Fund TA is available to support the authorities' intention to review the tax concessions regime, expressed in the 2016 and 2017 budget speeches. Apart from tax incentives, the 2013-14 ECCU-wide TA also made some diagnosis on property taxation.

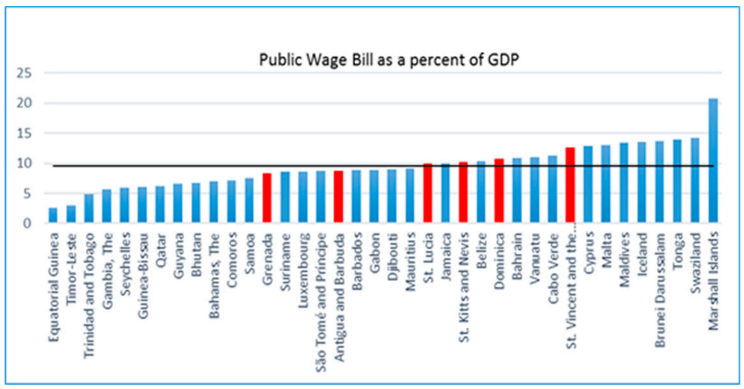
3. **Tax administration TA has supported the implementation of the authorities' home-grown revenue administration reform programs**. A December 2012 mission reviewed VAT administration and made a broad assessment of the operations of the Inland Revenue Department (IRD) and Customs and Excise Department (CED). The mission made a number of recommendations on improving taxpayer compliance of VAT, including on taxpayer registration and filing, collection enforcement, audits and investigation, appeals process, and IT system. Broad recommendations on IRD focused on organizational changes and formulation of a reform strategy. While the recommendations on CED also included some organizational recommendations, the emphasis is on implementation, including risk management strategy. A January 2016 mission revisited the progress with reforms in IRD and CED. The mission acknowledged solid progress, including establishment of a strategic, risk, data analysis and program monitoring division and adoption of a five-year corporate strategic plan in IRD, and significant progress with risk management practices in CED by the introduction of ASYCUDA World and post clearance audits. The mission also made suggestions on the next steps, including strengthening cooperation between St. Kitts and Nevis for IRD, and finalization of Corporate and Strategic Plan for CED, together with other technical recommendations.

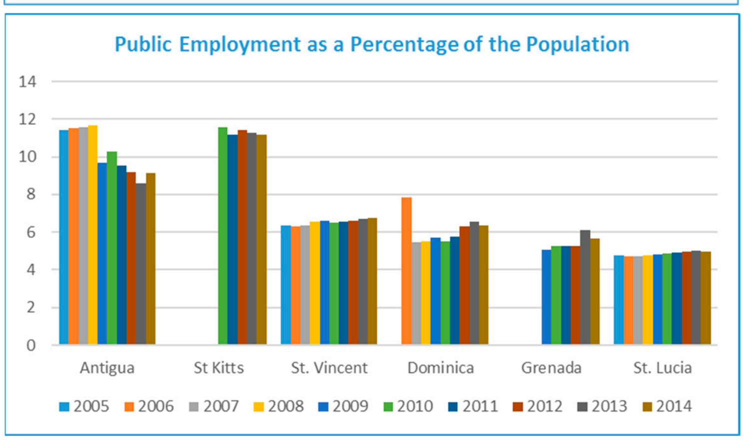
Annex VI. St. Kitts and Nevis: Public Wage Bill Management

Public wage bill management in St. Kitts and Nevis continues to evolve, building on the progress made during the 2011-14 Stand-by Arrangement and World Bank technical assistance to strengthen institutional capacity. Recent experiences from neighboring countries suggest that while ad-hoc, across-the-board freezes on wage and employment levels can have short-term relief, institutional reforms that focus on weaknesses in the management of wage and employment processes are needed for sustainable wage bill management. These experiences and the IMF's new framework for analyzing wage bill management and supporting institutions may offer some lessons for St. Kitts and Nevis. Proper wage bill management should (i) take a data-driven approach and ensure pay increases are consistent with budgetary constraints, macroeconomic developments, and private sector trends; (ii) incorporate regular benchmarking of public and private sector wages in the wage determination process to avoid misalignment between public and private sector wages over time; and (iii) make further progress on civil service reforms.

A. Background

1. **St. Kitts and Nevis' public wage bill is comparable to other small states and ECCU countries, while its public employment is larger than other ECCU countries** (Mitchell and James, forthcoming). As of 2015, wage bill-to-GDP ratio was the third-highest among ECCU countries while public employment to population ratio was among the highest in the ECCU. Historically, the public wage bill to GDP ratio has been 10-12 percent. In St. Kitts and Nevis, public sector wages are unilaterally determined by the government and trade union activity is almost nonexistent, unlike the rest of the ECCU, where the wage-setting landscape is defined by negotiated or collective bargaining with trade unions.





2. **A high public wage bill and minimum wage could translate into high private sector wages and low competitiveness**. It has been empirically shown that in ECCU countries, public sector wage-setting affects the private sector wages through demonstration effects (James et al., forthcoming). A static exercise of benchmarking public and private sector compensation, performed for the first time in the 2015 review of remuneration policy and

strategy (World Bank (2015b)), concluded that for low- and middle-grade staff, allowances and non-financial benefits were similar across both public and private sectors, with the main difference being that private sector pension and insurance schemes were generally contributory. Private sector comparison for senior positions turned out to be difficult.

3. **St. Kitts and Nevis authorities are considering to establish a more predictable system for determining public sector pay-packages to better manage the wage bill**—a departure from a system that combined annual setting of wage increases, or freezes on public sector hiring and wage increments, with occasional granting of a 13th-month salary to civil servants. This effort to improve wage bill management from macro-fiscal perspective is complemented by institutional reforms that were initiated in the context of the 2011-14 Stand-by Arrangement. A series of civil service reform actions took place, such as: (i) the 2011 Public Service Act that established basic principles of recruitment and appointment, conduct and ethics, and discipline of civil servants; (ii) its operationalization by the implementing regulations in May 2014; and (iii) TA from the World Bank in 2015 in a number of areas, including functional reviews of selected ministries, a new policy framework for public sector modernization and human resources management, a payroll audit and assessment, review of remuneration policy and strategy, and workforce remuneration modelling. While a significant amount of work has been done to update and modernize public service rules and regulations ((i) and (ii)), progress in many areas of human resource management, including evidence-based performance management, training and development, have been limited so far (World Bank (2015a)).

4. **In this context, the 2017 budget mentions the ongoing work on a new performance incentive system.** The system aims to incentivize good performance, based on the idea that rewards must be commensurate not only with the education and skills but equally with effort.[1] The system has the potential for increased productivity if appropriately designed and implemented. At the same time, the budget also alludes to broadening coverage of pension to non-established employees, and the need to address compensation of certain segments of civil service, such as nurses and security officers. If the envisaged compensation increase is not in line with productivity and private sector comparators, it could hamper competitiveness of the economy in addition to introducing permanent fiscal cost.

B. Recommendations

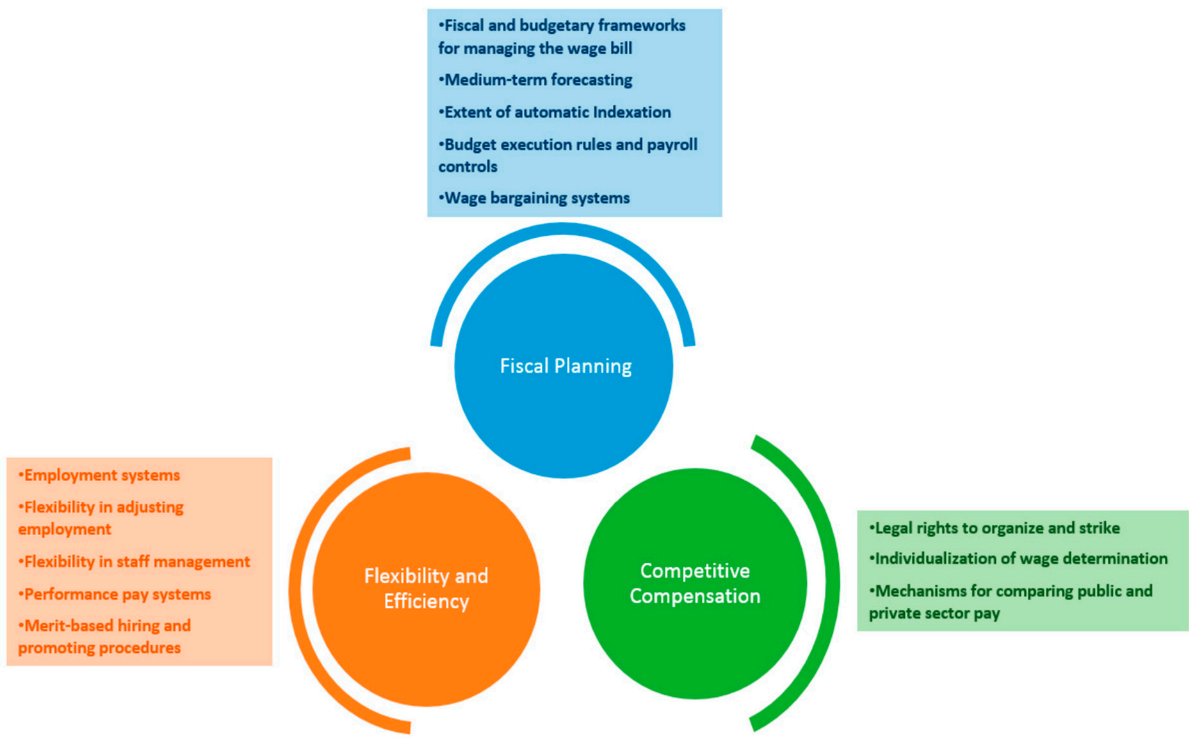
5. **Selected country experiences and a recently proposed framework by the IMF suggest focusing on three pillars for public-wage-bill management**: fiscal sustainability; competitiveness; and flexibility and efficiency (see Box and IMF 2016a). The following principles may be particularly important to consider:

[1] This is broadly in line with the World Bank TA on remuneration policy and strategy, which observed that current performance system pays merit increments regardless of effort, and recommended a creation of performance plan and review using key performance indicators.

- Ensure that pay increases are consistent with budgetary constraints, macroeconomic developments, and private sector trends. Credible fiscal rules could serve as an anchor to establish the link between fiscal sustainability and affordability of the wage bill.
- A data-driven approach that links the wage bill to the government's ability to pay (e.g. wage bill as a percent of revenue) and macroeconomic developments (e.g. inflation and real GDP growth) and explicitly benchmarks public-sector wage with private-sector wage would be effective in setting expectations and make a convincing case of the wage-bill decisions to the public and civil servants. The 13th-month pay can be made conditional on macroeconomic variables, such as GDP or revenue exceeding thresholds, or fiscal performance exceeding the primary balance target, but the provision should be made an exception rather than the rule.
- Incorporate regular benchmarking of public and private sector wages in the wage determination process to avoid misalignment between public and private sector wages over time. This requires that the labor force survey be conducted regularly to obtain data on private-sector wages.
- Make further progress on civil service reforms to support medium-term sustainability of the wage bill and improve public-service delivery, including through appropriate implementation of the new performance incentive system and further capacity development. The initiative to reform performance appraisal is a good first step in following up on World Bank TA that includes detailed recommendations in broad areas of civil service reforms. Institutions for Human Resource management should be further improved, including in planning, training, IT systems, and organizational changes following the 2015 functional review.

6. In the context of St. Kitts and Nevis, these principles are consistent with the authorities' objective to incorporate a systematic mechanism for public wage bill into the budget planning process. In practical terms, a ceiling on the public wage bill could be set, guided by the medium-term fiscal framework anchored to the 60 percent debt-to-GDP and zero primary-balance targets in the medium term. The allocation of the total wage bill could then be established by the Cabinet as guidance to line ministries during the budget process, taking into consideration public-private sector comparability of compensation and the envisaged performance-based incentive system.

Figure 1. Comparative Framework: Key Institutions Influencing Wage Bill Management



Box 1. Lessons from Cross-Country Experience[1]

While ad-hoc, across-the-board freezes on wage and employment levels can have short-term relief, institutional reforms that focus on weaknesses in the management of wage and employment processes are needed for sustainable wage-bill management. Wage bill determination should follow a data-driven approach to incorporate macroeconomic and fiscal conditions and private-sector wage developments.

El Salvador: Government employment was expanded in 2008-14, partly to close gaps in El Salvador's coverage in health care and education. This has proved costly because government pay is substantially higher than the private sector. In addition, the pay structure is fragmented and perceived as inequitable within the public sector, with some sectors—health care in particular—receiving substantially higher pay for similar types of work. Looking forward, it is crucial to organize the pay structure to ensure fiscal sustainability while addressing existing coverage gaps in key areas such as education, health care, and security. It is important to realign compensation with that in the private sector. The parameters of the health care sector pay-scale could be revised, in particular. Avoiding further growth in the number of positions is also crucial.

Grenada: Grenada undertook effective, short-term measures to reduce the wage bill during the home-grown program supported by the ECF--the wage bill was lowered from 10.7 percent of GDP in 2013 to 8.1 percent in 2015. Measures taken include a nominal wage freeze, automatic step increment deferral, a broad-based reduction in employment under a strict attrition policy. However, the current system of automatic pay-grade increases divorced from performance outcomes and gains in service delivery. Moreover, additional wage increases in the wage-negotiation process could result in an unsustainable trajectory of the public-sector wage bill. Subsequently, Grenada developed a public wage reform plan for implementation in 2016-19, drawing from the Fund TA. The TA emphasized that the reforms should consider tradeoffs: affordability, pay, and service delivery and recommended: (i) wage increment and increases should be consistent with budgetary constraints; (ii) periodic public-private benchmarking should take place; (iii) integrity of public service employment and pay should be maintained; (iv) functional reviews should be utilized to identify overlaps and assess public service needs; and (v) performance appraisal system needs to be revamped.

Honduras: The wage bill fluctuated between 11 and 14 percent of GDP over the past 15 years, reflecting, in part, high pay in the public sector relative to the private sector. Significant pressures on the wage bill came from the education sector employees. After a record fiscal deficit in 2013, the government has embarked on an ambitious fiscal consolidation program that includes controlling wage bill by freezing wages, eliminating vacancies, and enhancing oversight, and by rightsizing public employment as key objectives. These efforts appear to be affecting the wage bill-to-GDP ratio, which declined by nearly 2 percentage points in 2013–15. Honduras' flexible employment framework was helpful in this context. However, further work is needed to achieve a modern and performance-based public workforce. The reform agenda needs to be focused on an exit strategy from short-term measures, such as across-the-board wage freezes, on reducing the numerous compensation frameworks, and a transparent mechanism to link wage increases with productivity. Supporting fiscal reforms, including introducing an enforceable medium-term fiscal framework, strengthening the public financial management system, improving labor market institutions, and a unified wage-bill management, are needed to ensure the long-term sustainability of the recent fiscal gains.

Jamaica: Jamaica's wage-bill management faces a number of challenges. The wage bill has fluctuated around 10 percent of GDP for the past 15 years, with periods of sharp increases followed by sharp declines, reflecting a pattern of persistent accumulation of wage arrears that are cleared every few years. A marked decline in the wage-bill share in GDP since 2012 largely reflects efforts to contain wages and employment, including through wage freezes. The authorities' medium-term plan, stipulated in the Fiscal Policy Paper, is to maintain the wage bill at 9 percent of GDP, as part of a systematic effort to modernize the public sector and contain government employment by: enhancing efficiency through shared services, modernizing information technology resources to enhance oversight, prioritizing government functions and the associated employment, and beginning to modernize selected ministries.

---

[1] The Box draws on IMF (2016b) and IMF (2016c).

References

International Monetary Fund (2015), "Ex Post Evaluation of Exceptional Access under the 2011 stand-by Arrangement," Box 3.

International Monetary Fund (2016a), "Managing Government Compensation and Employment: Institutions, Policies, and Reform Challenges", IMF Policy Paper.

International Monetary Fund (2016b), "Case Studies on Managing Government Compensation and Employment: Institutions, Policies, and Reform Challenges", IMF Policy Paper.

International Monetary Fund (2016c), "fifth review under the extended credit facility, request for modification of performance criteria, and financing assurances review", IMF Country Report 16/389, Annex II.

James, Lafeuillee, Li, Salinas, and Savchenko (forthcoming), "Explaining High Unemployment in ECCU Countries", IMF Working Paper.

Mitchell and James (forthcoming), "The Wage Bill and Government Employment in ECCU Member Countries", IMF Working Paper.

St. Kitts and Nevis Government (2016), "2017 Budget Address."

World Bank (2015a), "Functional Reviews and New Policy Framework for Public Sector Modernization and Human Resources Management", World Bank.

World Bank (2015b), "Government of St. Kitts and Nevis Enhanced Public Sector Governance and Efficiency Remuneration Strategy", World Bank.

Annex VII. Introducing Universal Health Insurance Coverage

St. Kitts and Nevis authorities are considering to implement universal health insurance coverage, with a view to making health insurance accessible to all people, while being cognizant of the risk that the system may become a recurrent drain on the budget. To achieve its goals and manage the potential risks, the system must be funded from permanent revenue sources, given the still high-level of public debt and recurrent nature of spending. Moreover, the benefit package that applies to the total population should be reasonably small to ensure the system's financial viability, while specific measures could be used to improve the targeting of spending to the poor. Appropriate incentives and regulatory tools should be in place to avoid excessive provision of services.

A. Background

1. **The St. Kitts and Nevis government is considering reforms to introduce universal health coverage (UHC)**. The government reiterated in the 2017 Budget its intention to introduce UHC within its mandate. The authorities are concerned about the cost of specialist health care services, which, in many instances, have to be provided abroad. The objective is to move expeditiously, to help most citizens, particularly the aged and the poor, to procure such services via the national health insurance. The authorities are working with the Organization of Eastern Caribbean States (OECS) Secretariat, as well as Pan-American Health Organization (PAHO) and the University of the West Indies (UWI) to determine the design, coverage, and funding of the national health insurance scheme.

2. **St. Kitts and Nevis does not have a national health insurance scheme that covers the population at present** (PAHO, 2015). Vulnerable populations, including children, youth, elderly, and the indigent, are exempt from all charges and user fees within the public health system. In addition, all public servants benefit from a non-contributory insurance scheme that covers a basic package of services including outpatient visits, prescriptions, hospitalization, selected surgical procedures, laboratory and radiological investigations. Several larger private sector companies also provide medical insurance coverage for their employees and their families (PAHO (2008)). For the rest of the population, out-of-pocket payment is the main funding source of medical care, although the primary health care service at public health centers, including maternal and child health services, chronic disease management, and general medical care services, is free of charge, and fees for some secondary care services (medical care provided by a specialist or facility upon referral by a primary care physician) charged at public hospitals and for medicines, lab tests, and x-rays are modest (Hatt et al. (2012)).

3. **While the health care system has performed well in delivering low-cost access to primary health care and good access to secondary care, advanced care is not available to all income groups.** Primary health care services are delivered through 17 primary health care centers (11 on St. Kitts and six on Nevis). Facilities are strategically located throughout the two islands such that each household is within three miles of a clinic. For secondary health care, public sector health services are provided at four hospitals, with Joseph N. France Hospital in St. Kitts and Alexandra Hospital in Nevis being main referral hospitals. There are no private hospitals, but there are private clinics and specialist practitioners. Out-of-pocket payment for secondary health care can be costly

if not covered by insurance (Nakhimovsky et al. (2013)). Accessing advanced care requires travel to off-island facilities and therefore prohibitively costly for much of the population. The authorities experimented in the past with alternative means of financing health services through the limited application of user fees and outsourcing of services through public-private partnerships. Major challenges include ensuring universal access while sustaining health-care financing; adequate supply and distribution of human resources; and reorienting service delivery to emphasize health promotion and prevention of diseases (PAHO (2008)).

Health Expenditure in 2014, Percent of GDP
(Percent of GDP, unless stated otherwise)

	Total	Public	Private	Per Capita (Current US$)
St. Kitts and Nevis	5.1	2.1	2.9	770.5
Antigua and Barbuda	5.5	3.8	1.8	773.7
St. Vincent and the Grenadines	8.6	4.4	4.2	575.1
Dominica	5.5	3.8	1.7	407.8
Grenada	6.1	2.8	3.3	505.8
St. Lucia	6.7	3.6	3.1	499.6
Caribbean small states 1/	6.1	3.3	2.9	596.3
Small states	4.5	3.1	1.4	625.6

1/ Caribbean small states include Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.
Source: World Development Indicators

4. **Public health expenditure is moderate relative to neighboring countries.** Health spending at 5.1 percent of GDP is 1 percentage point lower than the Caribbean small-states average, and more than half of total health expenditure is covered by the private sector, in contrast with Caribbean small-states, for which more than half of total expenditure on average is covered by the public sector.

B. Selected Country Experiences with Moving Toward UHC

Introduction of the UHC is typically gradual and goes through steps. Financing sources include taxation, social contribution, and recurrent budget allocation, depending on the country situation. Many programs also include special programs focused on the poor. In the experiences discussed below, some mechanisms were used to contain cost.

- **Barbados**' health care system is free to all locals and is funded through taxation on income earned by companies and employees as well as private contributions. The latter include private health insurance, fee-for-services and out-of-pocket payments. The government sets an annual budget for the healthcare sector to provide universal accessibility to the public healthcare system. Accordingly, locals have free and easy access to a wide-ranging health care which offers preventive and curative services. The Ministry of Health is responsible for the planning, regulation and delivery of health care in the public sector. Primary health care is offered through a network of polyclinics that are scattered throughout the island and accessible to all at the community level. Secondary and tertiary care is provided mainly through the island's main hospital that offers additional services unavailable from the polyclinics. This 600-bed institution can be considered well-equipped, allowing it to cater to the needs of the entire population, offering a wide range of ambulatory services and acute care, including intensive care services. The private sector also provides some health services in a parallel system. The 1969 Health Services Act (Cap. 44) ensures public universal health coverage for Barbadians. However, persons may opt to access care through private health insurance schemes. Importantly, a National Insurance Scheme covers both employed and self–employed persons from ages 16 to 65, where benefits include sickness, maternity, unemployment, and work–related injury.

- **Jamaica** took steps toward UHC by establishing the Jamaica National Health Fund (NHF) in 2003 and abolishing user fees at public facilities in 2008 (Chao (2013)). NHF benefits package is a drug subsidy program with relatively high copayments. The NHF was initially funded by a consumption tax on tobacco, alcohol, petroleum, and motor vehicles, and a payroll tax. When user fees were abolished, the government increased its budget allocation to compensate for the loss of income from user fees to health facilities. Utilization of health care has substantially increased following the abolition of user fees. However, while the NHF has successfully managed its benefit package within its resource envelope, universal access to health care remained incomplete and inadequate, because the NHF covers only 19 percent of the population, and insufficient supply of public medical service induced more people, including the poor, to increasingly use private health services. As a result, the NHF's drug subsidy program and the abolition of user fees have not brought down overall out-of-pocket health expenditures, but resulted in the poor paying a higher proportion of their income for health care.

- **Kyrgyz Republic**'s State Guaranteed Benefits Package (SGBP) is considered to be a successful case of UHC in a low-income transition economy (Guiffrida et al. (2013)). The SGBP was introduced as part of the comprehensive national health-reform program implemented during 1996-2006. The SGBP ensures free provision of primary and emergency care to all citizens, while referral care is provided for a flat copayment, with generous exemption categories—thereby allowing for equal access to basic health services. A mandatory health insurance (MHI) contribution was introduced to finance the SGBP through earmarked payroll contributions, which increased public health funds and flexibility in the use of public resources. The Mandatory Health Insurance Fund (MHIF) was created to pool all public funds, including MHI contribution, which created economies of scale and lowered administrative costs of managing the SGBP. Introduction of official copayments, output-based payment mechanisms, and organizational reforms improved the efficiency of the medical service.

- **Thailand** introduced a Universal Coverage Scheme (UCS) in 2002 to provide comprehensive benefit packages for those who were not covered by the social security and health insurance for civil servants (Hanvoravongchai (2013)). The scheme relies on funding support from the central government while employing several mechanisms to help it contain costs in providing care to its beneficiaries. Despite the efforts to contain costs, however, the overall expenses of the UCS continued to increase. The predecessor of the UCS, which also made efforts to cover target groups such as the poor and the informal sector, also had mixed success. The Thai experience may suggest that it may not be feasible or affordable for a country without major health insurance schemes to design a comprehensive universal coverage scheme for the entire population, and implement it all at once. In effect, the experience may suggest a trade-off between providing a comprehensive benefits package for specific populations or limited benefits for the entire population.

- **Turkey** launched a comprehensive health reform effort, called the "Health Transformation Program" (HTP), in 2003, with a key objective of increasing access to services and eliminating fragmentation in financing by merging the then-existing five health insurance schemes into a Universal Health Insurance (UHI) scheme to be managed by the newly created Social Security Institution (Menon and others (2013)). The scheme was financed by budget allocation, given the significant fiscal space. Significant improvements in health system performance and outcomes have been achieved in a relatively short period. Formal insurance coverage of the population expanded significantly, reaching over 95 percent of the population, while at the same time the government has undertaken the needed capacity building and implementation of incentive structures to assure access and promote efficient use of resources. Total health spending to GDP ratio has increased, but remains comparable to countries with similar income levels. At the same time, the share of public health spending in total health spending increased. The reforms in the health sector that focused on expanding access to services for the poor and underserved were also accompanied by a significant increase in financial protection for the poor under the HTP. Expansion and improved targeting of the Green Card program for the Poor, the main flagship social protection program of the Turkish government, played a key role in this aspect.

C. Recommendations

5. Introducing a universal health coverage in St. Kitts and Nevis may have important fiscal implications that should be carefully managed. There may be a good rationale for introducing universal health care in the country, given the relatively high private sector share of health expenditure. However, its design and financing schemes matter for the success in achieving its goals—to ensure that all can access quality health services, public health risks are limited, and all can be protected from impoverishment due to illness, whether from out-of-pocket payments for health care or loss of income when a household member falls sick (Maeda et al. (2014)). Distilling lessons from the selected country cases and the literature, the introduction of UHC should adopt the following principles (Tsounta (2009)).

- **Fiscal sustainability must be ensured**. Expansion of public coverage of health expenditure would create a new recurrent expenditure, which should be matched by a permanent revenue. Financing it by higher deficits is not desirable, including because of the still high level of public debt.
- **Taxation should be the primary financing source**. Potential options to mobilize permanent revenue range from general taxation (e.g., VAT) to special taxation (e.g., on

alcohol, tobacco, soda, motor vehicles), and social contribution. The choice is country-specific, taking into consideration growth prospects, size of the informal sector, tax administration capacity, and room to introduce reasonable contribution rates. For example, in Jamaica user fees were abolished; a consumption tax on tobacco, alcohol, petroleum, and motor vehicles, and a payroll tax was used for initial funding. Kyrgyz Republic introduced a mandatory health insurance contribution. Budget allocation was the primary funding source for Thailand's universal coverage scheme and for Turkey's expansion of the Green Card program for the poor. In St. Kitts and Nevis, budget allocation is not desirable given the limited fiscal space, and there may be limited room to mobilize revenue from social security contributions, given the already high social security contribution and possible need to raise the contribution rate to ensure pension sustainability (Nassar et al. (2016)).

- **The benefit package that applies to the total population should be reasonably small** to ensure the system's financial viability, while specific measures could be used to improve the targeting of spending to the poor. Diseases to be included should be guided by the country's health objectives. For example, Jamaica's drug subsidy program targeted 15 most common NCDs and the elderly over 65.
- **Correct incentives and appropriate regulatory tools should be in place,** to contain costs. All country examples involve attempts to improve efficiency of the supply of medical service and control costs, while their modalities depended on country circumstances.
- **It is necessary to match commitments to UHC with the capacity to deliver health services.** This, in turn, depends critically on the availability of qualified and motivated health workers. Fiscal costs of this capacity building efforts need to be accounted for in designing UHC. Capacity constraints became an issue in Jamaica after the removal of user fees which significantly increased the demand for services beyond what could be provided by the system.

References

Cashin (2016), "Health Financing Policy: The Macroeconomic, Fiscal, and Public Finance Context", World Bank

Chao (2013), "Jamaica's Effort in Improving Universal Access within Fiscal Constraints", World Bank

Giuffrida, Jakab, and Dale (2013), "Toward Universal Coverage in Health: The Case of the State Guaranteed Benefit Package of the Kyrgyz Republic", World Bank

Hanvoravongchai (2013), "Health Financing Reform in Thailand: Toward Universal Coverage under Fiscal Constraints", World Bank

Hatt, L, A Vogus, B O'Hanlon, K Banke, T Williamson, M Hainsworth, and S Augustine. April 2012. *St. Kitts and Nevis Health Systems and Private Sector Assessment*. Bethesda, MD: Health Systems 20/20 project and SHOPS project, Abt Associates Inc.

Maeda, Araujo, Cashin, Harris, Ikegami, and Reich (2014), "Universal Health Coverage for Inclusive and Sustainable Development: A Synthesis of 11 Country Case Studies", World Bank

Menon, Mollahaliloglu, and Postolovska (2013), "Toward Universal Coverage: Turkey's Green Card Program for the Poor", World Bank

Nakhimovsky, Sharon, Roxanne Brizan-St. Martin, Heather Cogswell, Darwin Young, Karl Theodore, Althea LaFoucade, Christine Laptiste, Don Bethelmie, Roger McLean, Stanley Lalta, and Laurel Hatt. October 2013. *St. Kitts and Nevis 2011 National Health Accounts and HIV Subaccounts*. Bethesda, MD: Health Systems 20/20 Caribbean project, Abt Associates Inc.

Nassar, Okwuokei, Li, Robinson, and Thomas (2016), "National Insurance Reforms in the Caribbean", IMF WP/16/206

Pan-American Health Organization (2008), "Health System Profile: St. Kitts and Nevis"

Pan-American Health Organization (2015), "Health in the Americas: St. Kitts and Nevis", http://www.paho.org/salud-en-las-americas-2012/index.php?option=com_content&view=article&id=53&Itemid=152&lang=en

St. Kitts and Nevis Government (2016), "2017 Budget Address"

Tsounta (2009), "Universal Health Care 101: Lessons for the Eastern Caribbean and Beyond", IMF WP/09/61

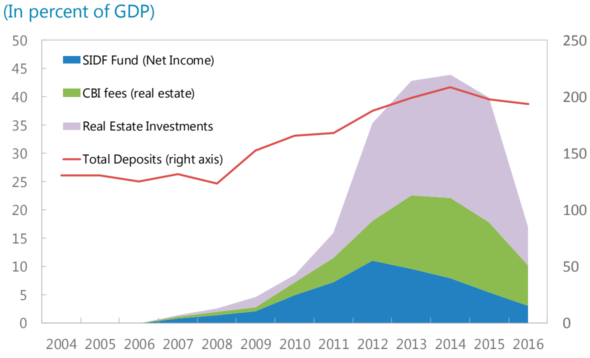
Annex VIII. Citizenship by Investment (CBI) Inflows and Financial Stability

Over 2010-2016, CBI inflows boosted economic activity in St. Kitts and Nevis, contributing to strengthening macroeconomic performance. The recent slowdown in CBI-related inflows and the ending of the five-year holding period for CBI properties call for close monitoring of the implications for the financial sector through the real estate market and banks' exposure to real-estate-related activities.

1. **The inflows through the CBI program have boosted economic activity since 2010 and contributed to the strengthening of the fiscal and external accounts.** Strong activity in the construction sector, supported by large real-estate projects funded through the CBI program and its spillover to the economy, has underpinned economic growth in recent years. Strong growth in CBI application fees to the budget, which reached a peak at 14 percent of GDP in 2014, has contributed to large overall fiscal surpluses since 2012. External accounts also improved through higher services receipts and FDI (related to CBI budgetary fees and CBI investments in the real estate sector, respectively), as well as through CBI contributions to the SIDF (recorded in the capital account as capital transfers). The amount of resources linked to CBI is sizable, with an annual average of more than 29 percent of GDP in 2010-16 and a peak of 44 percent in 2014.[1]

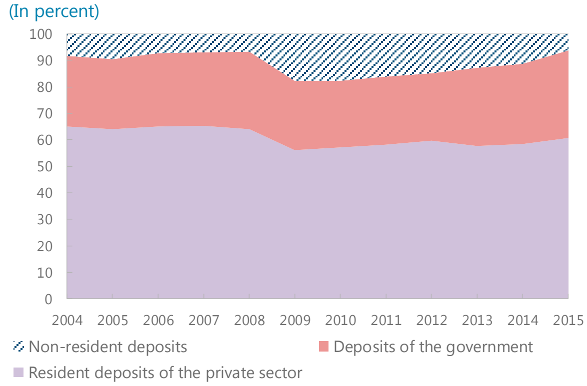
2. **Banking system deposits have broadly mirrored the evolution of fiscal surpluses and external accounts, highlighting the need to closely monitor the financial sector as CBI inflows slow down**. CBI inflows continued in 2015-16, albeit at a much slower pace. Staff estimates suggest that CBI-related resource inflows in 2016 fell to about 60 percent of the 2010-2015 average (a drop of about 20 percentage point of GDP from the previous year). The steep upward trajectory of banking system deposits during 2010-14 moderated in 2015-16 in line with CBI slowdown, but deposits remain high. Abundant bank liquidity, combined with limited lending opportunities, has been putting pressure on bank profitability[2] and asset-liability management.

St. Kitts and Nevis: CBI-related inflows and Total Deposits of Commercial Banks
(In percent of GDP)



Sources: IMF staff estimates based on national authorities' data.

St. Kitts and Nevis: Composition of Commercial Banks' Deposits
(In percent)



Sources: IMF staff estimates based on national authorities' data.

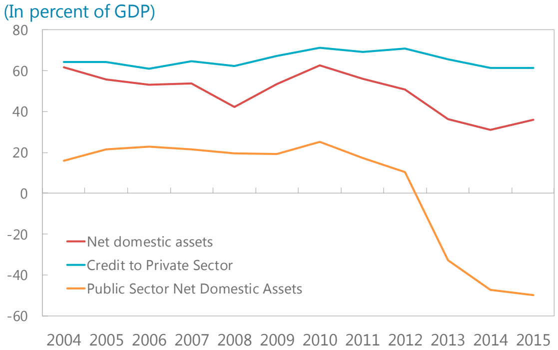
---

[1] This estimate includes CBI fees and SIDF support channeled through public accounts plus an estimate of new investments under the real estate option of the CBI program.

[2] Return on assets of the banks has been consistently below 1 percent in the last 5 years.

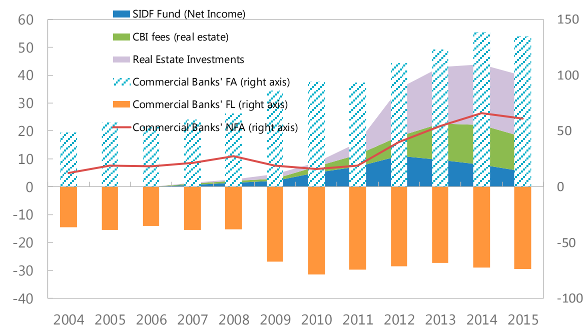
3. **The increase in bank deposits was reflected in more rapid accumulation of net foreign assets (NFA) than in net domestic assets (NDA).** The strong growth of deposits from CBI inflows, coupled with limited domestic investment opportunities and broadly stable foreign liabilities, resulted in a significant increase in NFA from 16 percent of GDP in 2010 to about 54 percent in 2015. On the other hand, commercial banks' domestic assets dropped by 30 percentage points of GDP between 2010 and 2016, due to a tepid credit-to-private sector performance and a fall of public debt holdings (the latter due to the debt-land swap agreement that took place between 2013 and 2014).

St. Kitts and Nevis: CBI-related inflows and Commercial Banks Domestic Assets
(In percent of GDP)



Sources: IMF staff estimates based on national authorities' data.

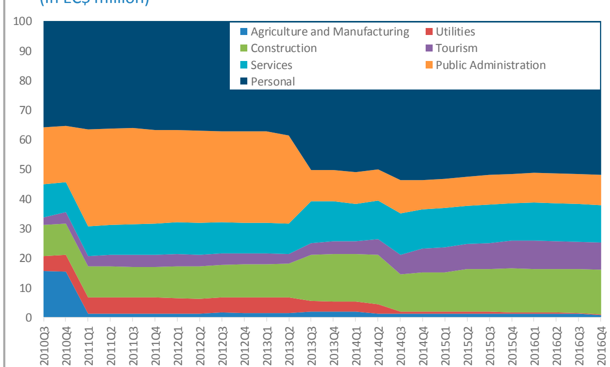
St. Kitts and Nevis: CBI-related inflows and Commercial Banks Foreign Assets and Liabilities
(In percent of GDP)



Sources: IMF staff estimates based on national authorities' data.

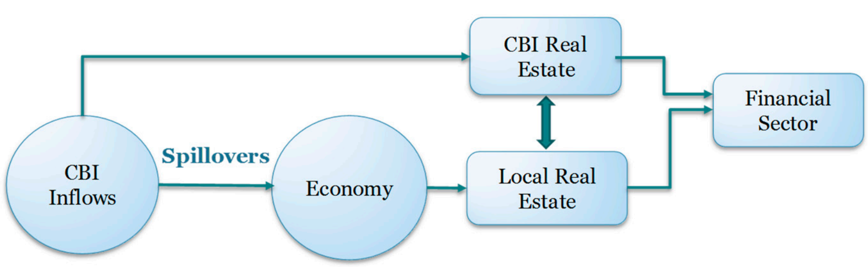
4. **The slowdown in CBI inflows could affect banking system assets through the composition of banks' loan portfolios.** The latter is dominated by loans to the real-estate related sectors (such as construction and tourism), which indirectly benefited from strong CBI inflows, as well as by personal loans that contain real estate mortgages. The loan composition, as well as the large share of these sectors in the outstanding stock of NPLs, in turn, make banks exposed to adverse developments in the real-estate market.

St. Kitts and Nevis - Commercial Banks Credit by Sector
(In EC$ million)



Sources: ECCB; and IMF staff estimates.

5. **The exposures on the asset and liability sides of bank balance sheets call for close monitoring of the potential effects a further slowdown in CBI inflows may have on the banking system.** The banking system may be affected through several channels:



- CBI slowdown may affect banks directly through **exposure to CBI property developers**, to the extent the developers borrow from the banking system to fund their activity. While this channel may not be very significant to the extent that CBI properties are self-financed through CBI-program flows, some local banks reportedly have credit exposures and NPLs related to CBI developers. Subsequent rise in NPLs could, in turn, add to the existing weaknesses in asset quality.

- A sharp CBI slowdown could have a **dampening effect on real estate market activity**, with most CBI inflows coming through the real-estate option in recent years. While some observers believe that the CBI-related and local real-estate markets are segmented,[3] anecdotal information also suggests that CBI developments built under strict quality standards have boosted prices of adjacent non-CBI properties in the country. A weakening of land and real estate prices as a result of a weaker real estate market activity could affect banks through reduced value of collateral (with most mortgage loans collateralized by real estate) and lower repayment capacity of borrowers.

- A sharp CBI slowdown could affect banks **indirectly, through its spillover effects** on economic activity and job creation. CBI developments have boosted the construction sector since 2012, with positive spillovers to other sectors of the economy. A sharp drop in CBI inflows would, therefore, directly affect construction activity and related employment, with adverse implications for debt-service capacity of borrowers and banks' asset quality.

6. The potentially adverse effects of CBI slowdown on the banking system and the real-estate market could be magnified by the ending of the 5-year holding period restriction. Since 2012, CBI-real-estate applicants are required to hold their CBI properties for at least 5 years, but with the ending of the 5-year holding restriction in 2017, CBI investors are permitted to resell their properties to another CBI applicant or to a local buyer. An offloading of a significant number of CBI properties in the local market could dampen real-estate prices, and affect the banking system through banks' exposure to real estate loans and reduced value of collateral. If existing CBI properties are resold to new CBI investors, banking system could be affected indirectly through a slowdown of construction activity, with the only benefit to the economy coming from application fees to the government.

---

[3] The small size of the market, the relatively high transaction costs, and legal constraints may have reduced the market's dynamism, potentially limiting the impact of a CBI-slowdown on the overall real-estate market. Moreover, average prices of CBI properties are well above those of the local housing market, with the former internalizing the benefits of the St. Kitts and Nevis citizenship. Real-estate transactions also face obstacles to entry, through high stamp duty, difficulty in getting mortgage loans, and high commission rates. These structural factors may limit the incentives of citizens-by-birth to acquire a CBI-eligible property, keeping the two markets somewhat fragmented. CBI properties are also subject to a 5-year holding period restriction that prevents their immediate resale and dampening impact on the market.

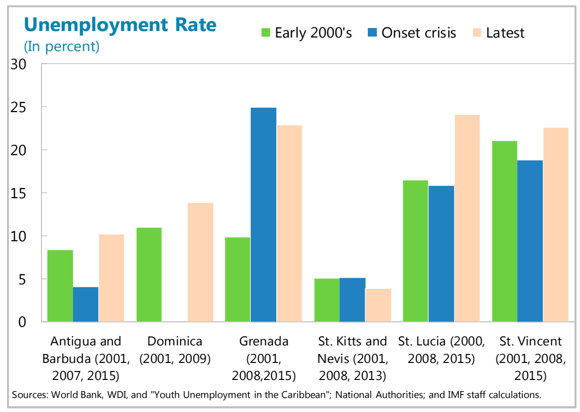
7. In view of the direct and indirect effects of CBI inflows on the financial system, adequate prudential oversight of the banking system will be key to preserving its financial soundness. Proper assessment of the channels of transmission from CBI slowdown to the banking system is significantly undermined by the absence of data on real estate market prices and transactions. Efforts to develop a real estate database is essential, as well as close monitoring of the developments in the market and of bank balance sheet exposures to real estate. Careful monitoring of these exposures, as well as banking system deposits and currency/maturity mismatches in bank balance sheets will be important to assess implications for financial stability.

Annex IX. Labor Market and Social Issues

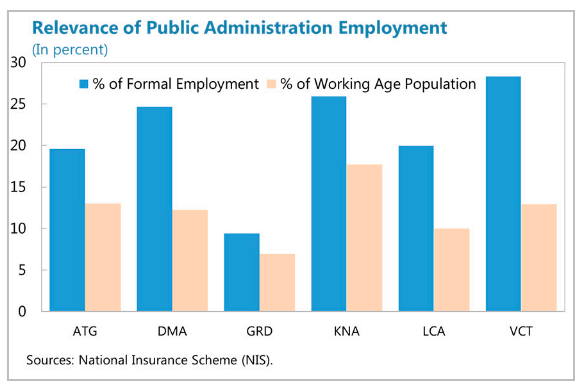
Although available statistics suggest that unemployment is low in St. Kitts and Nevis, employment is highly dependent on the public-funded apprenticeship scheme that accounts for a large share of formal employment. Minimum wages are relatively high, suggesting high unit labor cost. Further progress in reducing poverty and economic vulnerability requires improving targeting and securing social expenditures in case of exogenous shocks, including sharp reductions in CBI receipts. Gender and crime-related issues should be also high in the reform agenda.

A. Low unemployment, but important labor market issues

1. Unemployment in St. Kitts and Nevis is relatively low, considerably below the level in other ECCU countries. Available statistics since the early 2000s show that the rate of unemployment has remained at single digits, in contrast to the very high levels in a number of other ECCU countries, where the unemployment rate exceeds 20 percent. In fact, while the global financial crisis led to a significant increase in unemployment in other ECCU countries, unemployment in St. Kitts and Nevis (at 3.9 percent by 2013) was lower than it was before the global crisis (at 5.1 percent).

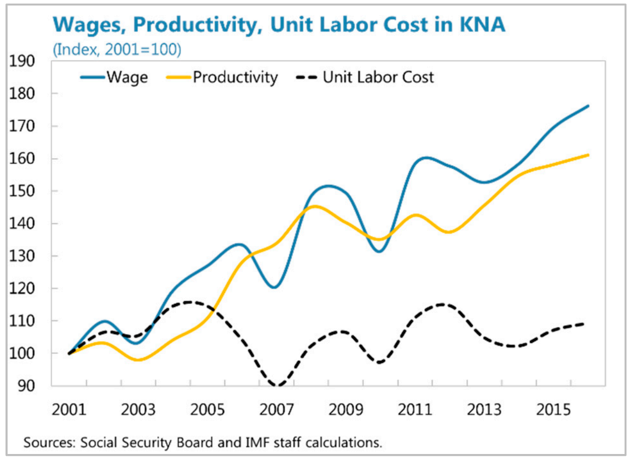


2. Several factors explain the lower level of structural unemployment in St. Kitts and Nevis relative to other ECCU countries. Employment in ECCU countries has been affected by ; the impact of natural disasters (most notably, Grenada in 2004-05); the removal of EU trade preferences to their main agricultural exports (bananas/sugar) since the mid-1990s; and strong labor-union activity (high collective-bargaining coverage) that exerts upward pressure on wages and impedes the clearance of the labor market at lower unemployment levels.[1] St. Kitts and Nevis has been spared from large natural disasters following a large disaster in the late 1990s and although the decline in the sugar industry affected agricultural employment, the government absorbed many of the unemployed.. Currently, employment in the country is supported by a large government sector (which has the highest share of total employment among the ECCU countries).

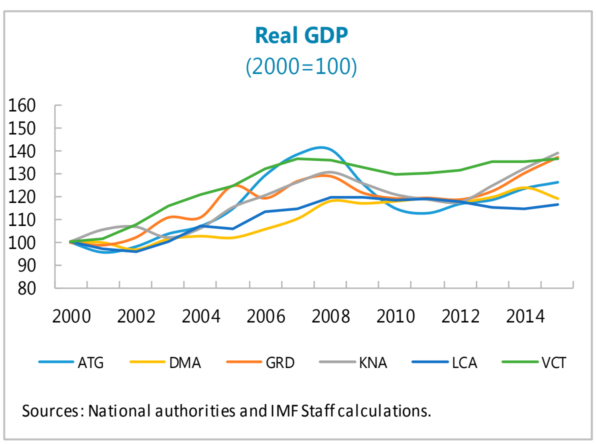


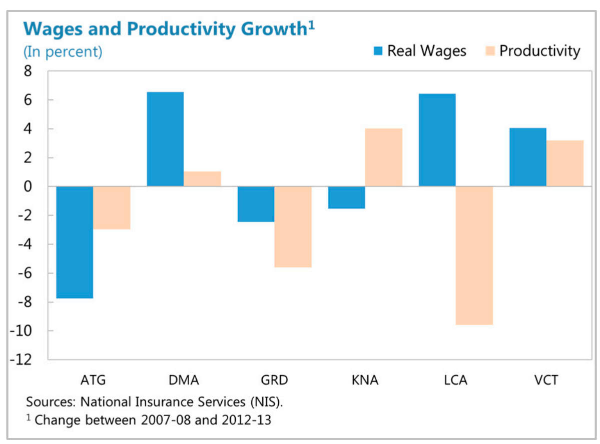
[1] James and others, forthcoming, "Explaining high unemployment in ECCU countries", IMF Working Paper.

3. The coverage of collective-bargaining agreements in St. Kitts and Nevis is lower than in other ECCU countries, suggesting, other things equal, a more flexible wage-setting process. Collective-bargaining agreements in the country apply only to unionized workers and to firms that have more than half of its workers unionized. This results in a lower coverage than in other ECCU countries with occupational-based and public sector-based unions, which extend collective bargaining agreement coverage to about 80 percent (much higher than in most middle-income countries). A lower coverage implies a more flexible wage-setting process, as suggested by the evolution of wages broadly in line with productivity (measured by GDP per capita) in recent years.



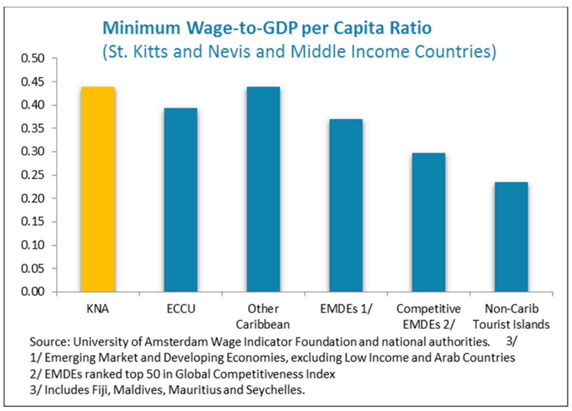
4. Strong economic activity and moderate wage growth in recent years have been key to preserving low unemployment following the global crisis. Real GDP bounced back relatively rapidly, and by 2014 it was already above its 2008 level. Although the economy is dependent on tourism, which was severely affected by the crisis, large revenues from the CBI program (the largest as a share of GDP in the region) fueled overall economic activity, particularly in construction and government service. And although tourism accounts for a significant share of employment (13 percent of total formal employment in 2015), the share of employment in public administration is twice as large, and remained robust throughout the crisis. Importantly, unlike in other ECCU countries where unemployment increased considerably after the crisis (e.g., Grenada and St. Lucia), real wage growth did not outpace productivity growth.

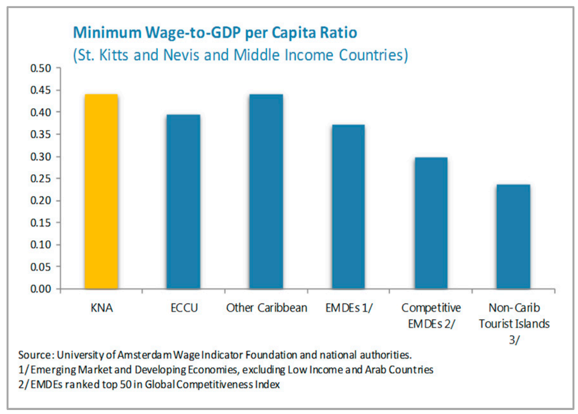




5. Notably, low unemployment is also a result of direct government intervention in the labor market through temporary work programs. In 2013, apprenticeship schemes in St. Kitts and Nevis accounted for 14 percent of total formal employment (the highest share among ECCU countries that implement apprenticeship programs), suggesting that unemployment in 2013 would have been around 13 percent without these programs (assuming 30 percent of all jobs are informal). While still high by international levels, the adjusted rate would still be considerably below that in other ECCU countries.

6. Labor costs may signal competitiveness challenges. Although wages evolved in line with productivity growth in the aftermath of the global crisis, the minimum wage adjusted by GDP per capita is higher than in most comparator country groups, and considerably higher than in other tourism-based economies competitive in manufacturing (e.g., Dominican Republic, Mexico, and Mauritius). The relatively high minimum wage may reflect some historical factors in the case of St. Kitts and Nevis, including the political association of labor unions, and downward rigidities in minimum wages. While other ECCU countries have stronger labor unions, minimum wage in St. Kitts and Nevis is higher also compared to the average in the ECCU, since labor unions are not focused as much on minimum wage negotiations, given their more direct control over wages through the higher coverage of collective-bargaining agreements.



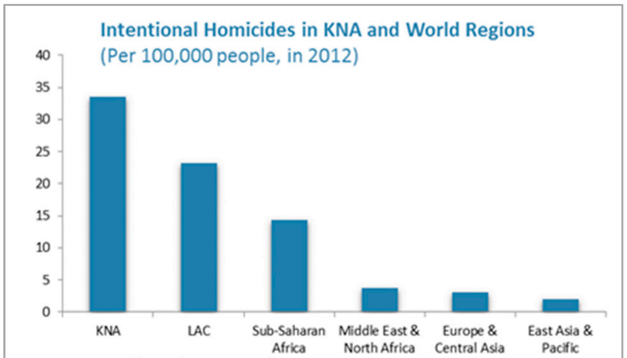


B. Poverty and vulnerability despite high income status

7. The latest available comprehensive statistics show high incidence of poverty despite the country's high income status. Although considerable progress was made during the early 2000s, the poverty rate was still high at the onset of the global crisis, with the 2009-Country Poverty Assessment (the latest published to date) estimating headcount poverty in 2008/09 at 23.7 percent in St. Kitts (down from 30.5 percent in 2000/01) and at 15.9 percent in Nevis (down from 32 percent in 2008/09). The Assessment noted that about a quarter of households had consumption levels that were either below the poverty line or only 25 percent above it in 2008/09. The Assessment also suggested moderate income inequality, with the Gini coefficient standing at 0.38 in both islands, broadly unchanged since 2000/01.

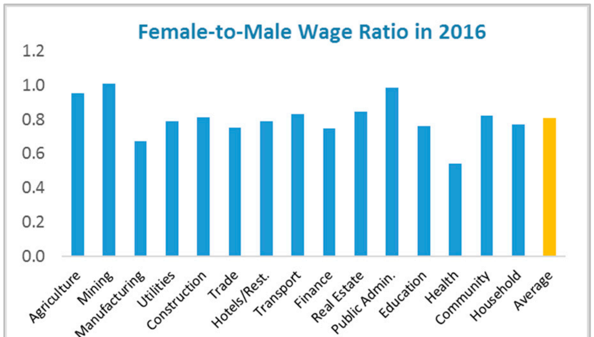
8. In the absence of a more recent comprehensive household survey, it is not clear how poverty levels have changed since the global crisis.[2] The economic contraction in the aftermath of the global financial crisis has been reversed since 2012 and unemployment is lower, as CBI inflows boosted economic growth (to an average 5.5 percent in 2012-15) and helped finance government social programs, such as the apprenticeship scheme. A substantial reduction in CBI inflows could have implications also for socioeconomic indicators.

9. The 2008/09 Assessment and recent developments also highlight socioeconomic vulnerability of specific population groups. In 2008/09, one third of children in St. Kitts and one fourth in Nevis were assessed poor. In 2008, only half of individuals 62 and older were covered by retirement pensions and were, thus, vulnerable to poverty during retirement. Gang-related violence affects the youth and makes St. Kitts and Nevis one of the countries with the highest homicide rates in the world. This is not only an important social issue, but also a risk to the country's attractiveness as a tourist destination; even isolated incidents of violence against tourists could affect tourist arrivals through perceptions.



Source: World Development Indicators

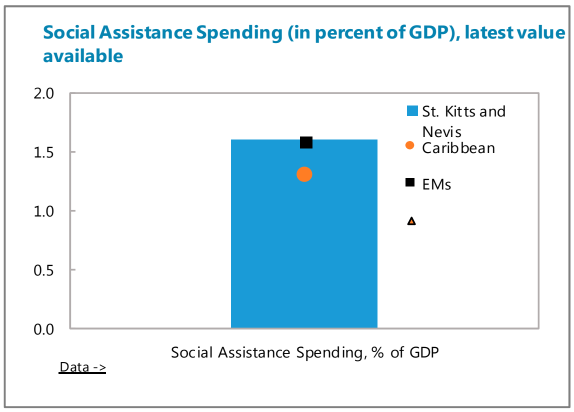
10. Gender-related vulnerability also merits attention. Poverty incidence according to the 2009-Country Poverty Assessment suggested some gender bias, with poverty rates slightly higher for women than for men, and female-headed households accounting for a high 43 percent of all households. Moreover, the 2014- Country Gender Assessment by the Caribbean Development Bank (CDB) identified severe legislative gaps regarding sexual and reproductive rights, unequal women status in law of common law unions, sexual harassment, among others. The report saw a clear need to promote increased role of women in leadership and decision making, stem domestic violence, and enlarge the prospects of women regarding economic empowerment. Social Security Board labor statistics indicate that female wages across industries are on average 81 percent the level of male wages. The authorities highlight that despite their efforts, unequal pay and domestic abuse remain major challenges.



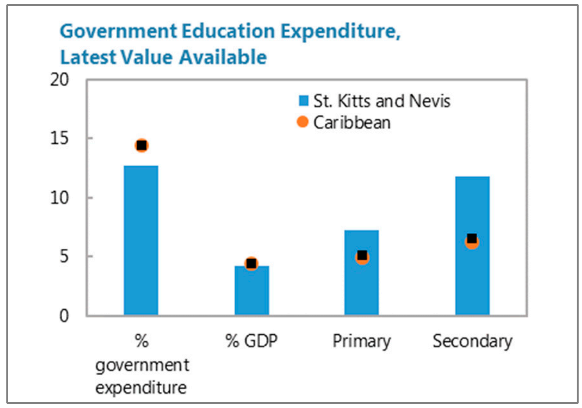
Source: Social Secutiry Board and IMF Staff calculations

[2] A more recent 2016-household registry classified as "Poor" 17 percent of households in St. Kitts and 14 percent in Nevis, although the survey methodology differs from the 2009-Country Poverty Assessment and its coverage is more limited.

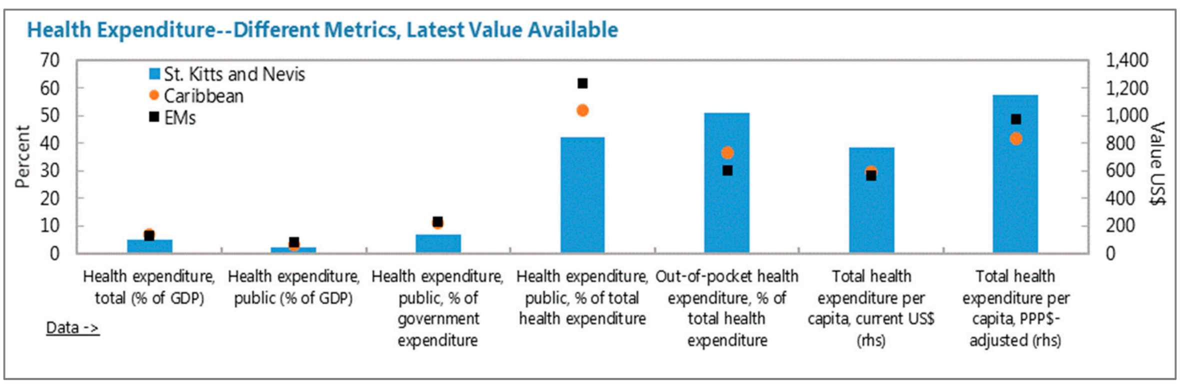
11. **Social assistance spending is significant, though there are some shortages in basic services.** As a share of GDP, social assistance spending is about the average for emerging markets, and above the average for the Caribbean countries. Funding for social assistance, as for all government spending, is vulnerable to reductions in government revenues, including from the CBI. Adjustment measures would need to safeguard social spending, also considering that government spending on health and education constitutes a smaller share of total government expenditure relative to the Caribbean and Emerging Market economies. Key indicators such as the number of hospital beds per capita and net enrollment in primary education are already below the average of Caribbean and Emerging Markets.



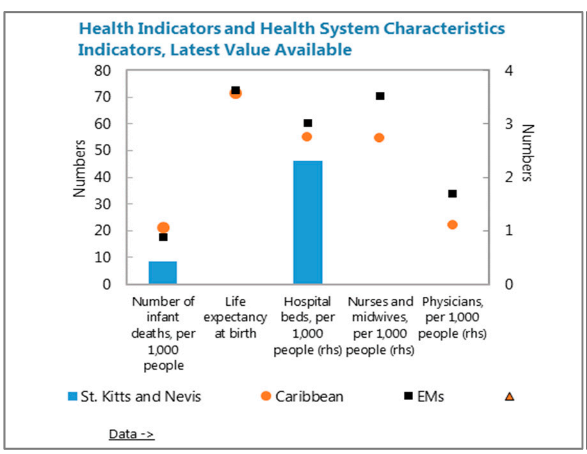
Social Assistance Spending (in percent of GDP), latest value available



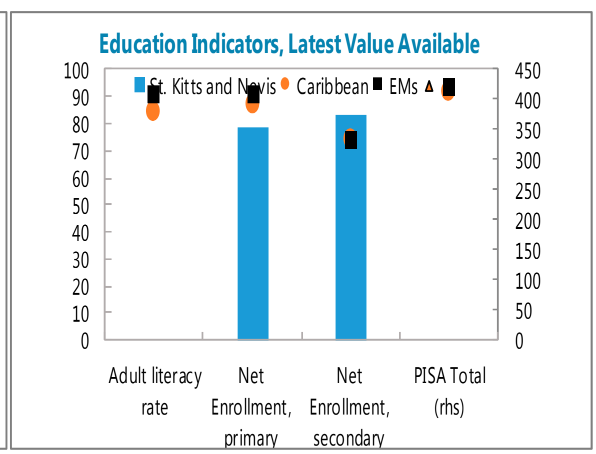
Government Education Expenditure, Latest Value Available



Health Expenditure--Different Metrics, Latest Value Available



Health Indicators and Health System Characteristics Indicators, Latest Value Available



Education Indicators, Latest Value Available

12. The government, through the National Housing Corporation (NHC), is devoting significant resources to foster home ownership through several programs, although not particularly targeting lowest income households. One program provides grants up to $10,000 to make critical repairs and basic improvements to homes (by 2016, assistance was granted to 150 households). And under the Habitat Independence 30 Programme, by 2016 the NHC sourced EC$15 million to facilitate the completion of 115 homes. By 2016, the NHC and the National Bank assisted 43 individuals to construct homes on their lots. The NHC has also introduced a mortgage payment assistance system (named 'Pay As You Earn'), which progressively sets interest rates on mortgages according to income levels of the applicant.[3] This system was created to address the high incidence of NPLs listed with the NHC. The government is now introducing another housing scheme, "Unity Housing Solutions," which will provide housing for more than 300 families.

13. While the level of social spending appears adequate, further progress in poverty reduction and protection of vulnerable population requires some important changes to the social policy framework. Following recommendations of a Social Safety Net Assessment, the government elaborated a National Social Protection Strategy (with support from UN Women and UNICEF) and is currently implementing its first phase (2013-17). The 2008/09 Country Poverty Assessment and the Social Safety Net Assessment elaborated in 2009 (with support from the World Bank, UN Women, and UNICEF) highlighted important shortfalls and inefficiencies in what constituted a "loose network of social programs and services."[4]. The strategy aims to: (i) streamline social safety nets; (ii) enhance evidence-based decision making in social policies; (iii) consolidate cash assistance programs; (iv) enhance access of the poor to basic health and basic education; and (v) improve services to vulnerable groups. Following this strategy, a national household registry was created and cash transfers are being unified under a conditional cash transfer program (called MEND), which is in its initial stage and receives TA from UNICEF and cooperation from the Chilean government. The MEND provides a cash transfer of EC$700 per month conditional on health-check attendance, school attendance, participation in Parent-Teacher Associations, among other requirements.

C. Recommended Policies

14. The authorities should aim to preserve labor market flexibility and strengthen training and certification. The high dependence of employment on government temporary work programs highlights the need to create sustainable and productive employment in the country. The relatively high minimum wage implies that policies need to be adopted to improve labor productivity to ensure that wages are internationally competitive and the relatively flexible

[3] Individuals earning income up to EC$3,500 per month will pay 2 percent for their mortgage; those earning EC$3,501 to $4,500 per month will pay 3 percent; and those earning EC$4,501 and over per month will pay 5 percent.

[4] Blank, L. (2009). Social Safety Net Assessment Report - St. Kitts and Nevis. UNICEF, UNIFEM, World Bank. The report found that social programs poorly target the poor and vulnerable and saw significant scope to improve their social return. The assessment is in line with similar prescriptions by the CDB for poverty and inequality in the region.

labor market institutional arrangement be preserved to avoid misalignment between wages and productivity. In this regard, it is important to ensure that:

- Training and certification under the recently overhauled apprenticeship program (STEP, transformed from PEP) is enforced with time-bound participation upon certification.
- The revised labor code preserves labor market flexibility.
- Increases in minimum wage are linked to productivity.

15. Reforms to social assistance along the lines suggested by international organizations and stated in the National Protection Social Strategy need to be implemented. The MEND conditional cash transfer should be expanded, incorporating any lessons from an upcoming evaluation of the program by UNICEF. Improving the targeting of social policies should also extend to housing schemes, which are currently mainly aimed at the middle class, but should give priority to the poor. The announced establishment of universal health care should not only be properly funded, but also be in line with the principles of the National Social Protection Strategy, especially regarding the efficiency of its implementation. Well-targeted social spending should be given priority and safeguarded from the adverse implications of potential reductions in CBI flows.

16. The authorities should implement policies aimed at improving the well-being of women and reducing violence. In this context, the recommendations highlighted in CDB's 2014 Country Gender Assessment are a good start, including to: (i) address gender-related legislative gaps; (ii) reform technical and vocational education and training so that they challenge traditional gender stereotypes; and (iii) undertake measures to make the police and other stakeholders more responsive to gender-based violence." The authorities should continue their efforts to address the high homicide rate, ensuring appropriate budget to combat crime and capitalize on international experience in reducing gang-related violence. Recent installation of a Closed-Circuit TV system and community programs are important steps in this direction.

INTERNATIONAL MONETARY FUND

ST. KITTS AND NEVIS

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 2, 2017

Prepared By

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

CONTENTS

FUND RELATIONS

(As of April 30, 2017)

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

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota [1/]	12.50	100.00
Fund holdings of currency	11.52	92.15
Reserve position in the Fund	0.98	7.86

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	8.50	100.00
Holdings	4.73	55.63

Outstanding Purchases and Loans: None

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[2/]:
(SDR Million; based on existing use of resources and present holdings of SDRs):

			Forthcoming		
	2017	2018	2019	2020	2021
Principal	0.00	0.00	0.00	0.00	0.00
Charges/Interest	0.01	0.02	0.02	0.02	0.02
Total	**0.01**	**0.02**	**0.02**	**0.02**	**0.02**

[1/] Reflects payment of the quota increase on May 26, 2016, in line with the 14th General Quota Review in 2010. Quota size before the increase was SDR 8.9 million.
[2/] 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 Catastrophe Containment and Relief (CCR): Not Applicable

Exchange Arrangement

St. Kitts and Nevis is a member of the Eastern Caribbean Central Bank (ECCB), which manages monetary policy and the exchange system for its eight members. The common currency, the Eastern Caribbean dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. The *de jure* regime is a currency board, which in practice the ECCB has operated like a quasi-currency board, maintaining foreign exchange backing of its currency and demand liabilities close to 100 percent. St. Kitts and Nevis accepted the obligations of Article VIII, Sections 2, 3, and 4 in December 1984. The exchange system is free of multiple currency practices and 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. An update assessment was completed in April 2016 and found that the ECCB has maintained generally strong controls over its key operations. External audit and financial reporting practices remain sound. The ECCB financial statements are compliant with International Financial Reporting Standards and are published on a timely basis. The internal audit function needs to be reformed to align it with leading international practices and oversight could be further strengthened by enhancing the financial expertise of the audit committee.

Last Article IV Consultation

The last Article IV staff report (IMF Country Report No. 16/250) was published on July 26, 2016. Board discussion took place on July 08, 2016 on an LOT basis. Article IV consultations take place on a 12-month cycle.

FSAP Participation, ROSCs, and OFC Assessment

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

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

Technical Assistance: (2010–Present)

Since 2010, St. Kitts and Nevis has benefited from technical assistance (TA) 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 National Statistics Office on rebasing the national accounts, and rebasing the consumer price index (CPI). CARTAC is assisting in developing quarterly GDP estimates; including compiling separate production-based measures of GDP for St. Kitts and Nevis. The milestone of developing the quarterly GDP methodology has been achieved; and good progress is being made in developing the compilation worksheets with around 80 percent completion. Experimental quarterly GDP estimates are expected to be available by June 2017. In addition, assistance is being provided to improve the CPI, and develop data collections and index methodologies for a producer price index and export-import price indices. Further, CARTAC is providing technical assistance to the ECCB and the National Statistics Office to improve the quality of external sector statistics and to introduce the new survey instruments in line with the sixth edition of the Balance of Payments and International Investment Statistics Manual (BPM6).

- CARTAC has assisted the St. Kitts and Nevis Department of Statistics and the Eastern Caribbean Central Bank (ECCB) in strengthening the compilation and dissemination of external sector statistics. The ECCB released preliminary summary estimates of 2014 balance of payments and—for the first time—international investment position (IIP) statistics following the latest international standard methodology (*BPM6*) in January 2016. The ECCB plans to publish comprehensive tables for 2014 and 2015 in the first semester of 2017. The estimates benefited from CARTAC TA to develop and administer new surveys, and train data compilers and survey respondents. In order to solve remaining data gaps, CARTAC continues assisting in strengthening the business and visitor expenditure surveys; improving the coverage of source data used for the compilation of trade in goods, and further developing other data sources used to compile relevant components of the external sector statistics.

- CARTAC, the IMF's Monetary and Capital Markets Department (MCM), and the IMF's Legal Department (LEG) advised the authorities on strengthening financial sector 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 Eastern Caribbean Central Bank (ECCB) on drafting the OECS Insurance Act, and also, in conjunction with LEG, provided technical assistance to the ECCB in finalizing the drafting of the OECS Money Services Business Act. CARTAC also assisted in the development of the Single Regulatory Unit and provided training to the Financial Services Regulatory Commission (FSRC) on implementing Risk-Based Supervision, including for nonbank financial institutions in the Federation and the offshore banking sector in Nevis. Since 2014, CARTAC has been assisting the regulatory bodies in St. Kitts with the development of guidelines for supervisory interventions, the implementation of Basel II and risk-based supervisory frameworks. On the

Financial Stability front, CARTAC also provided TA in the area of stress-testing and dynamic modelling of the banking system in conjunction with the ECCB and conducted several capacity building workshops on the development of financial soundness indicators, and on risk-weighted capital adequacy.

- CARTAC has provided significant TA to the Inland Revenue Department (IRD) in tax administration; including for the development of a comprehensive compliance risk management program; strengthening the headquarters function in 'program development' through the development of an audit plan for the large taxpayer segment, and capacity building in data analytics and cross-matching to improve data quality within the IRD and to support improved planning, performance management and business decisions. The IRD also benefitted from training to improve collections enforcement.

- CARTAC has delivered significant TA to the Customs and Excise Department (CED) in relation to its reform and modernization program, including Post-Clearance Audit (PCA), Valuation and Risk Management training and developing a Corporate and Strategic Business Plan (2014-17). CARTAC also provided assistance in drafting a new Customs bill and regulations and training for the implementation of the OECS Harmonized System for goods classification.

- CARTAC and MCM provided technical assistance on public debt management under the Fund-supported program.

- IMF's Fiscal Affairs Department (FAD) and the World Bank provided assistance on Public Financial Management under the SEMCAR project. A follow-up mission from FAD visited the Federation in February 2016 to review progress with previous FAD recommendations and provide advice on remaining challenges for modernizing tax and customs administration IMF's Fiscal Affairs Department (FAD) is currently providing assistance for the comprehensive review of the tax incentives regime. An FAD scoping mission took place in March 2016 to review the main laws granting tax concessions and identify the next steps for developing an incentive regime that would be appropriate for the circumstances of St. Kitts and Nevis.

- CARTAC, 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. 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 April 2017)

World Bank Group OECS Regional Partnership Strategy:

On November 13, 2014, the Board of the Executive Directors of the World Bank Group (WBG) endorsed the Regional Partnership Strategy (RPS) for the Organization of the Eastern Caribbean States (OECS). The RPS covers the period FY15-FY19. The high-level objective of the RPS is to contribute to lay the foundations for sustainable inclusive growth, in line with the OECS governments' priorities. In order to achieve this goal, the program is planned to be organized around three main areas of engagement. Under the first one, the WBG is supporting "competitiveness". Growth and job creation in the private sector is being supported both horizontally – by improving the business environment – and vertically – by focusing on specific sectors with a high potential to generate inclusive sustainable growth (particularly tourism, agribusiness and their respective linkages). The second area of engagement is "public sector modernization", with particular focus on public financial management (PFM) and institutional capacity, including for statistics and public private partnerships (PPPs), to better leverage private investment in infrastructure and service provision. The third area is "resilience", with the objective to address both social vulnerabilities (in education, health and social protection), and exposure to natural disasters.

Constrained in general by the small size of investments in the OECS, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) are expected to contribute to the RPS objectives through selective investment support, depending on opportunities. The IFC is expected to focus on crisis response; job creation and inclusive growth; innovation, competitiveness, and integration; and climate change. MIGA, however, faces limited opportunities for engagement because of the small market size of the OECS countries. The IBRD lending program for the six OECS countries is of around US$120 million, or up to a maximum of US$20 million for each OECS country for the period of the RPS (FY15-19), subject to country and program performance, IBRD's lending capacity, and exposure management parameters. In addition to the IBRD envelope, four OECS countries (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines) can also count on an IDA national allocation. The IDA17 (FY15-17) allocation for the OECS was equal to SDR60.2 million, an increase of around 20 percent over the IDA16 OECS allocation (SDR50.3 million). However, the final IDA17 allocation used by all OECS countries was of SDR43.6 million. Dominica, in particular, did not avail of any IDA17 resources. The IDA18 (FY18-FY20) allocation for the OECS countries is expected to dramatically increase and be roughly of SDR 200 million. With regard to St. Kitts and Nevis, as the country is not eligible to IDA resources (similarly to Antigua and Barbuda), it has available an indicative amount of US$ 20 million IBRD resources for the period covered by the RPS (FY15-19). So far, St. Kitts and Nevis has not availed of any of these resources.

A. Projects

The most recent WBG engagement has been limited to the implementation of a grant which had the objective of enhancing Public Sector Governance and Efficiency. This operation (US$ 415,000) closed in October 2015 and was 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 was 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 was 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) in February 2013. The CGF is an initiative led by the World Bank, the Inter-American Development Bank, and the Caribbean Development Bank, in collaboration with the United Kingdom Agency for International Development (DFID) and Global Affairs Canada, to identify policies and initiatives aimed at inducing growth and creating jobs in the Caribbean region through analytical work, knowledge exchange and inclusive dialogue. The CGF can contribute to an enhanced and participatory policy dialogue (involving the private sector, CSOs, and other non-traditional stakeholders, such as youth and Diaspora) on key challenges that affect economic growth, in a situation where fiscal space is limited and the need to promote a more diversified knowledge-based economy is pressing. The CGF national chapters have been launched in 12 Caribbean countries, including all the six OECS countries.

B. Economic and Sector Work

The Bank has completed a series of analytical products relating to public expenditure, fiscal and debt sustainability, growth and competitiveness, the financial sector, public sector management and social protection. The ongoing dissemination of these reports represents a key instrument for policy dialogue with the OECS governments, including St. Kitts and Nevis. A number of recent analytical works have been disseminated in the context of the Caribbean Growth Forum. A number of knowledge products have also been disseminated more recently, including "Driving tourism in the Eastern Caribbean: The case for a regional Ferry"; "Trade matters: new opportunities for the Caribbean"; "Linking farmers and agro-processors to the tourism industry in the OECS"; and the "OECS Growth report".

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK

(As of March 2017)

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

In 2017, CDB plans to approve a new assistance strategy for St. Kitts and Nevis for the period 2017-2020. The last strategy focused on establishing an enabling environment for sustained inclusive growth and poverty reduction, and strengthening resilience by securing social stability and improving environmental sustainability. The interventions contained in the assistance strategy resulted in a lending program of USD23.5 million over the strategy period 2013-16. At the end of 2016, CDB had approved loans totaling USD198.1 million to St. Kitts and Nevis, of which USD20.4 million were undisbursed.

The Nevis Water Supply Enhancement is one of two major projects currently under implementation. The project aims to assist in improving the water supply network capacity on the island of Nevis. Under the project, approximately 20 kilometers of pipelines, 2 pumping stations and storage capacity of 1 million gallons will be constructed. The project also provides for capacity building and strengthening institutional arrangements for the delivery of water services.

The 2016 reporting period saw the practical completion of the project, originally projected for 2014. Total disbursements to date total USD7.1 million, approximately 74% of the loan amount of USD8.4 million. Based on the amounts outstanding on existing contracts and projected activities, the project will be completed approximately USD1.3 million below budget. The savings will be spent on additional reservoirs and pipe network.

The second major project under implementation is a support project for Technical and Vocational Education and Training (TVET), approved by CDB's Board in 2015. A TVET enhancement project was appraised by CDB staff, and approved in December 2015. CDB will lend USD8 million to improve the TVET learning environment, enhance institutional capacity, provide support for TVET Secretariat programming, and develop operational guidelines to improve the employability of beneficiaries of the People Employment Programme and the overall program effectiveness. Disbursement, which initially had been expected to start in late 2016, is now expected to start in mid-2017.

In 2016 CDB's Board approved a Street and Flood Light Retrofitting Project. A loan of an amount of USD5.8 million was approved for replacing all existing high-pressure sodium and mercury vapor street lights and flood lights at public facilities in St. Kitts and Nevis, (approximately 10,650) with high-efficiency, light-emitting diode lights. At the completion of this project, it is expected that there will be: (a) reduced street and flood lighting energy consumption and associated greenhouse gas emissions in St. Kitts and Nevis; and (b) enhanced capacity of St. Kitts Electricity Company Ltd. (SKELEC) and Nevis Electricity Company Ltd. (NEVLEC) in climate change adaptation planning.

CDB visited St. Kitts and Nevis in March 2017, and held discussions related to the light retrofitting project with representatives of both GOSKN and SKELEC. A project launch is anticipated for the second quarter of 2017, subsequent to the final review and signing of the Loan Agreement. The project is expected to be completed by December 2018.

Major Projects Under Implementation (USD million)		
Project	**Approved**	**Undisbursed**
Nevis Water Supply Enhancement	8.425	1.783
TVET	8.000	8.000

Loan Disbursement, Service and Resource Flow (USD million)					
	2012	**2013**	**2014**	**2015**	**2016**
Net Disbursement	-5.48	4.34	-5.25	-6.28	-6.97
Disbursement	1.28	18.98	3.31	0.75	0.45
Amortization	6.76	14.64	8.56	7.03	7.42
Interest and Charges	3.32	3.15	3.23	2.84	2.35
Net resource flow	-8.80	1.18	-8.48	-9.12	-9.32
Source: CDB.					

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is **broadly adequate** for surveillance.
National Accounts: Methodological deficiencies are present in the real sector statistics. GDP figures rely on the production approach, both in constant and current prices. Limited survey data hinder the assessments of value-added for each sector with some sectors suffering from significant weaknesses in estimation methodology. On the expenditure of GDP, which is available only at current prices, the aggregate final private consumption expenditure is derived as a residual. This residual includes households and NPISH final consumption expenditures, and changes in inventories. Weaknesses are observed in the methods to estimate gross capital formation. GDP figures are derived from the production approach in constant and current prices. There are significant delays in completing data collection and processing of the annual NA. Staffing constraints in the compiling agency may compromise the development of new statistics, the quality improvement of the existing ones, and the intended improvements of timeliness. Quarterly GDP estimates are not published. Monthly data on tourism is disseminated by the ECCB with a significant lag.
Price Statistics: CPI only covers St. Kitts but not Nevis although the information is available. Monthly CPI data are posted on the ECCB website with a long lag, and a break in the series in November 2010 suggests a methodological problem in the linking process with the previous base. The ECCB disseminate monthly data on tourism also with a long lag, and the estimates on tourism expenditure are based on an old survey of spending by types of tourists and are only updated by changes in CPI. Except for data from the social security board, limited data are available on labor market developments.
Government Finance Statistics: Government Finance Statistics: STA has derived both quarterly and annual government finance statistics (GFS) for St. Kitts and Nevis up to 2016Q2 and annual GFS up to 2014 on main aggregates and their components for revenue, expense, and financing of the budgetary central government.

Monetary and Financial Statistics: Monthly monetary statistics are compiled and reported to the Fund by the ECCB, based on standardized report forms (SRF) for the central bank (SRF 1SR) and for other depository corporations (SRF 2SR), since July 2006. 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 institutional coverage of other depository corporations is incomplete, 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 by the *Monetary and Financial Statistics Manual* and *Compilation Guide*. Close coordination between the ECCB and the single regulatory unit (which supervises financial corporations other than those licensed under the Banking Act) is crucial. The ECCB is currently working on implementing a new reporting system for commercial banks that is envisaged to address the recommendations made by the April 2007 data ROSC mission. It is expected that the new reporting system would be implemented in 2016-17.

Financial Sector Surveillance: The ECCB compiles financial soundness indicators (FSIs) for its member countries, including St. Kitts and Nevis. The publication of FSIs has been approved by the ECCB in February 2017 and will follow in the next months.

External sector statistics: Balance of payments data are compiled and disseminated by the ECCB on an annual basis. In January 2016, the ECCB released preliminary summary estimates of 2014 balance of payments and—for the first time—international investment position statistics based on the sixth edition of the *Balance of Payments and International Investment Position Statistics Manual* (*BPM6*) for the eight ECCU member economies. The ECCB plans to disseminate comprehensive balance of payments data in April 2017. Given the lack of detail of 2014 preliminary balance of payments statistics, more work is underway to review these data and identify balance of payments components that need further improvement. Further work is required to improve the coverage of the data, particularly, the recording of trade in goods sourced from customs records and direct investment transactions due to low survey response rates. Travel credit services are now based on the results of the recent visitor expenditure survey, which are a better data source. New data have not been submitted to STA. Actions need to be undertaken in collaboration with the ECCB, which coordinates the compilation of the external sector statistics for all its member economies

II. Data Standards and Quality

St. Kitts and Nevis has been participating in the General Data Dissemination System (GDDS) since October 2000, and currently participates in its successor initiative, the e-GDDS. The 2007 regional data ROSC provides an assessment on the ECCB's monetary statistics. No data ROSC is available for other sectors. Monetary Statistics Component of the Regional Data Module Report on Observance of Standards and Codes (ROSC) for the Eastern Caribbean Central Bank (ECCB) was published in 2007.

Data ROSC was published on August 2007.

Table of Common Indicators Required for Surveillance
(As of March 2017)

	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]	2/17	3/07/2017	M	M	M
Reserve/Base Money	12/16	2/17/2017	M	M	M
Broad Money	12/16	2/17/2017	M	M	M
Central Bank Balance Sheet	12/16	2/17/2017	M	M	M
Consolidated Balance Sheet of the Banking System	12/16	2/17/2017	M	M	M
Interest Rates[2]	12/16	2/17/2017	M	M	M
Consumer Price Index	9/16	12/30/2016	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	3/15	07/01/15	Q	Q	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	3/15	07/01/15	Q	Q	A
External Current Account Balance	2013	02/27/15	A	A	A
Exports and Imports of Goods and Services	2015	12/30/2016	A	A	A
GDP/GNP	2014	07/07/2015	A	A	A
Gross External Debt	3/15	07/01/15	Q	Q	A

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

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

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] Central government only.

[5] Including currency and maturity composition.

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