April 2008
IMF Country Report No. 08/126

# St. Kitts and Nevis: 2007 Article IV Consultation—Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion

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 2007 Article IV consultation with St. Kitts and Nevis, the following documents have been released and are included in this package:

- The staff report for the 2007 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on October 9, 2007, 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 December 17, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff statement of February 4, 2008, updating information on recent developments.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its February 4, 2008 discussion of the staff report that concluded the Article IV consultation.

The document listed below will be separately released.

Statistical Appendix

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: http://www.imf.org

Price: $18.00 a copy

**International Monetary Fund**
**Washington, D.C.**

INTERNATIONAL MONETARY FUND

ST. KITTS AND NEVIS

# Staff Report for the 2007 Article IV Consultation

Prepared by the Staff Representatives for the 2007 Consultation with St. Kitts and Nevis

Approved by Markus Rodlauer (WHD) and Matthew Fisher (PDR)

December 17, 2007


## EXECUTIVE SUMMARY

**Political context**: St. Kitts and Nevis form a twin-island federation with a unicameral parliament. In the October 2004 elections, the incumbent Labor Party was re-elected with a large majority. The next election is due in 2009 but could take place earlier. The Nevis Reformation Party returned to power in Nevis in July 2006 after 14 years in opposition.

**Background**: The economic rebound continued in 2006, but showed signs of weakening in 2007. The public debt-to-GDP ratio—at about 185 percent as of end-2006—leaves little room for maneuver in the event of an adverse shock. In the 2006 budget, the authorities announced a strategy to restore fiscal and debt sustainability, in conjunction with transition out of sugar production. The fiscal stabilization program has borne fruit, with a primary surplus expected in 2007 for the third consecutive year, although there has been some fiscal loosening relative to 2006.

**External competitiveness**: Although the real effective exchange rate and medium-term current account deficits are broadly in line with fundamentals, maintaining competitiveness remains challenging. Fiscal consolidation will be important for supporting competitiveness, maintaining stability, and underpinning the quasi-currency board arrangement.

**Discussions focused on the key challenges facing St. Kitts and Nevis:**

- **Restoring fiscal and debt sustainability**. Further efforts are needed to put debt on a solid downward path and achieve the government's goal of a primary surplus of 8 percent of GDP by 2010. The authorities broadly agreed with the mission's recommendations, including comprehensive tax reforms, expenditure restraint, enhanced debt management and oversight of public enterprises, and tapping more concessional financing (e.g., European Union sugar grants).

- **Enhancing competitiveness and growth**. There was broad consensus on the need to accelerate structural reforms—especially enhancing the business climate, improving labor market flexibility, and strengthening regional integration—to promote private sector-led growth. The authorities recognized the urgency of divesting government land/assets for more productive uses, but have faced resistance to selling off the nation's "patrimony."

- **Containing risks**. The high and rising government exposure of the banking system warrants close monitoring, and the rapidly-growing nonbank sector needs to be better supervised. The authorities clearly recognized the country's vulnerability to a range of exogenous shocks and agreed that a contingency plan should be prepared to allow a rapid response in the event of an adverse shock.

CONTENTS Page

# I. CONTEXT

1. **St. Kitts and Nevis is a small, open, middle-income country that is highly vulnerable to shocks**. The closure in 2005 of the sugar industry—the historical mainstay of the economy—set the stage for a new economic course. The key challenges now facing the economy include:

- **Transition out of sugar**. The country is grappling with the challenge of putting labor and land released from the sugar sector to more productive uses. In consultation with the European Union (EU), the government adopted a National Adaptation Strategy in 2006 that aims to put the economy on a sustainable growth path.

- **Debt burden**. Public debt[1]—the result of a series of exogenous shocks and accommodative policies—amounted to about 185 percent of GDP by end-2006. In the 2006 budget, the authorities announced the goal of boosting the primary surplus to 8 percent of GDP by 2010 to place public debt on a solid downward trajectory.

- **Vulnerability**. The economy is vulnerable to external shocks, particularly natural disasters and shifts in tourism demand. High public debt leaves little room for maneuver.

2. **Inter-island relations have improved, but the political atmosphere makes fiscal consolidation and reform challenging**. The new Nevis Island Administration (NIA) has taken a conciliatory approach toward working with the St. Kitts' Government. In a departure from past practice, the two islands have held joint Cabinet meetings, including a joint concluding meeting with the mission. There is speculation in St. Kitts that early elections might be called in 2008. The NIA also faces pressure to deliver on campaign promises such as social programs and road construction.

3. **Social indicators remain favorable**. The country has the second-highest per capita income in the Eastern Caribbean Currency Union (ECCU) and ranks third among Caribbean nations in the UN's Human Development Index. However, the spread of HIV/AIDS and diabetes is becoming a concern.

St. Kitts and Nevis: Selected Social and Demographic Indicators

| | St. Kitts and Nevis | ECCU |
|---|---|---|
| HDI rank (rank out of 177 countries), 2007 | 54 | ... |
| Life expectancy at birth (years), 2005 | 71.0 | 73.7 |
| Adult illiteracy rate (% of people ages 15 and above), 2004 | 2.2 | 8.2 |
| Infant mortality (per 1,000 live births), 2005 | 18.0 | 14.7 |
| GNI per capita (US$), 2006 | 7,840 | 5,685 |
| Gini coefficient | 0.445 | 0.480 |
| Aids incidences (per 100,000), 1998 | 14 | 9 |

Sources: World Bank, WDI; United Nations, Human Development Report 2007; and Fund staff estimates.

[1] Public debt includes the debt of the St. Kitts Government, Nevis Island Administration, and statutory bodies, including debt to the social security system but excluding all other intra-public sector debt.

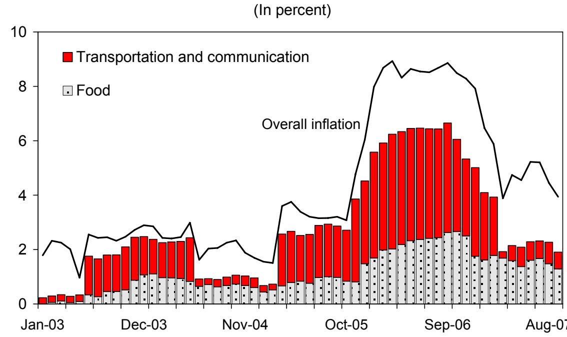
## II. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

4. **The economic rebound continued in 2006, but showed signs of slowing in 2007**.

- ***Growth***. The economy grew by 4 percent in 2006, driven by tourism, construction, and communications. Growth is projected at 3.3 percent in 2007, with tourism receipts marginally lower, notwithstanding the Cricket World Cup.

- ***Inflation***. Average inflation reached 8.5 percent during 2006, the highest in the ECCU. This reflected large adjustments in fuel prices and a new fuel surcharge for electricity, which led to higher prices for other items, particularly transportation and food. Inflation has since decelerated to under 5 percent.

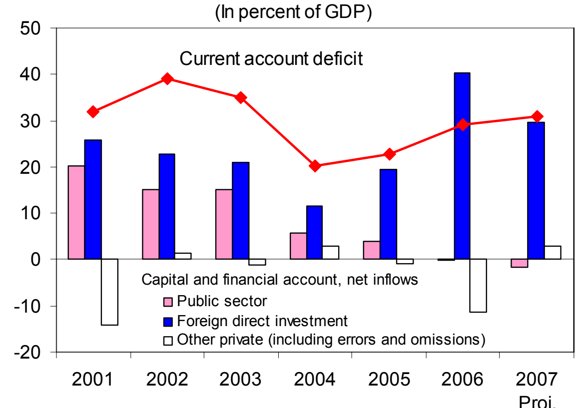
St. Kitts and Nevis: Contribution to Overall Inflation
(In percent)




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

- ***Balance of payments.*** Reflecting strong construction-related imports, the current account deficit increased to 29 percent of GDP in 2006. This was largely financed by tourism-related FDI (40 percent of GDP, twice the level in 2005). The current account deficit is projected to widen slightly to 31 percent of GDP in 2007, but will continue to be largely financed by FDI.

St. Kitts and Nevis: Components of Balance of Payments
(In percent of GDP)

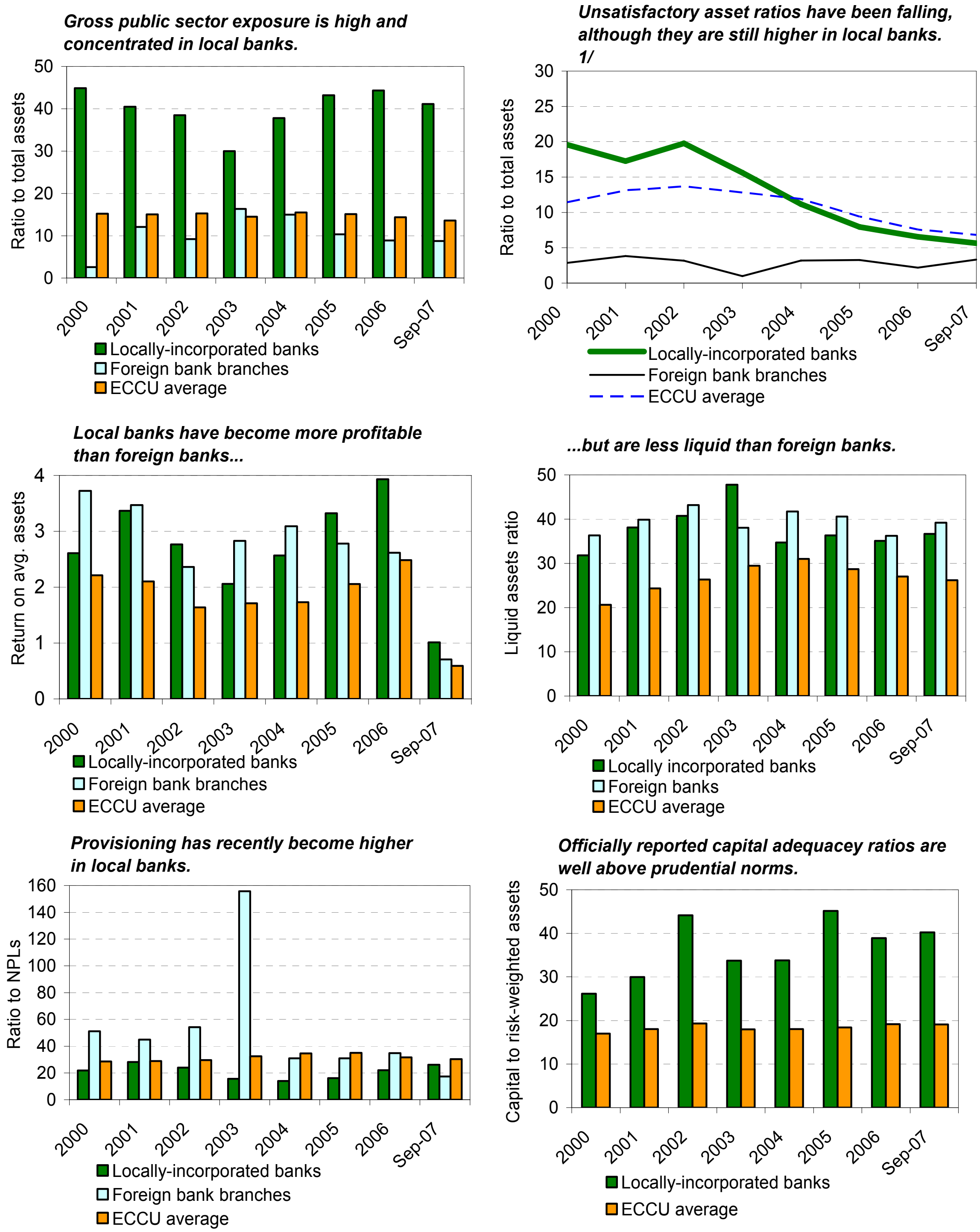



Sources: St. Kitts and Nevis authorities; ECCB; and Fund staff estimates.

5. **Although prudential indicators point to some strengthening of the banking system, its high public sector exposure has increased further** (Figure 1). Profitability and loan-loss provisioning of locally-incorporated banks have increased. The nonperforming loans (NPLs) ratio declined to just above the ECCB's prudential target of 5 percent of total assets,[2] in part reflecting the rebound in credit to the private sector on the back of buoyant economic activity. However, the banking system's public sector exposure continued to increase. As of June 2007, banks held 44 percent of total public debt (an increase of 10 percentage points

[2] The 2004 ECCU FSSA, however, noted that there were some problems with loan classification by locally-incorporated banks in the ECCU, particularly with regard to public sector debt.

Figure 1. St. Kitts and Nevis: Banking System Developments, 2000–2007
(In percent)




Source: ECCB
1/ Unsatisfactory assets include nonperforming loans, credits, and overdrafts.

from end-2004), with the majority held by indigenous banks. Indeed, the public sector accounted for 68 percent of locally-incorporated banks' loan portfolios.

6. **The government achieved a sizable primary surplus in 2006, for the second year in a row** (Figure 2). A buoyant economy, the electricity surcharge, and strengthened tax administration allowed the government to broadly preserve the revenue gains realized in 2005. While government wages were contained, large expenditure overruns continued for goods and services, capital, and net lending.

St. Kitts and Nevis: Selected Fiscal Indicators, 2004–07

| | 2004 | 2005 | Prel. 2006 | Budget 2007 | Proj. 2007 |
|---|---|---|---|---|---|
| (Central government, in percent of GDP) | | | | | |
| Revenue | 33.9 | 36.7 | 36.2 | 36.0 | 35.8 |
| Grants | 0.4 | 2.7 | 2.7 | 1.5 | 1.5 |
| Expenditure | | | | | |
| Current | 34.9 | 36.9 | 36.0 | 32.6 | 35.3 |
| *Of which* | | | | | |
| Interest payments | 7.1 | 8.1 | 9.6 | 7.0 | 9.5 |
| Capital spending and net lending | 7.2 | 6.7 | 8.3 | 11.9 | 9.1 |
| Current balance | -1.0 | -0.1 | 0.3 | 3.5 | 0.5 |
| Primary balance | -0.8 | 4.0 | 4.3 | 0.4 | 2.4 |
| Overall balance | -7.9 | -4.1 | -5.3 | -6.6 | -7.1 |
| Central government debt | 121.2 | 117.2 | 112.6 | ... | 109.7 |
| Public sector debt | 195.0 | 194.8 | 184.6 | ... | 180.4 |

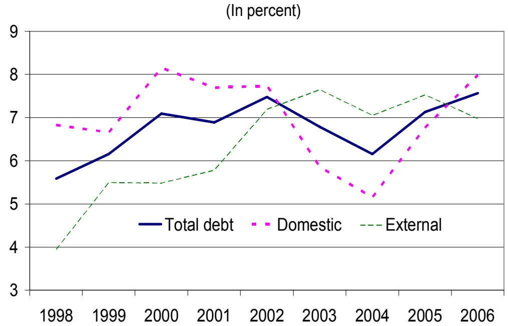
Sources: St. Kitts and Nevis authorities; and Fund staff estimates.

7. **The primary surplus is projected to decline in 2007**. Several factors are contributing: a reduction in the electricity fuel surcharge in early 2007 and a sharp increase in net lending in St. Kitts; and a near-tripling of capital expenditure in Nevis, with major road projects underway.

8. **The picture for the broader public sector is less clear**. There is little financial information on public enterprises—whose share in public debt reached 38 percent by end-June 2007—hindering an accurate assessment of the public sector fiscal stance and debt sustainability.

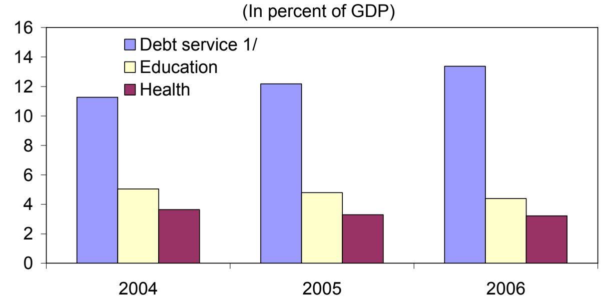
9. **Public debt remains a major source of risk** (Figure 3). Although debt declined by about 10 percent of GDP during 2006, rising debt service costs—reflecting increasing rates for new borrowing—crowded out social spending. Facing tightened external borrowing conditions, the government has not accessed new commercial external borrowing since 2005, relying instead mainly on the expensive overdraft facility, which has tripled in two years to about 22 percent of GDP by end-June 2007.

St. Kitts and Nevis: Implicit Interest Rates on Central Government Debt 1/
(In percent)



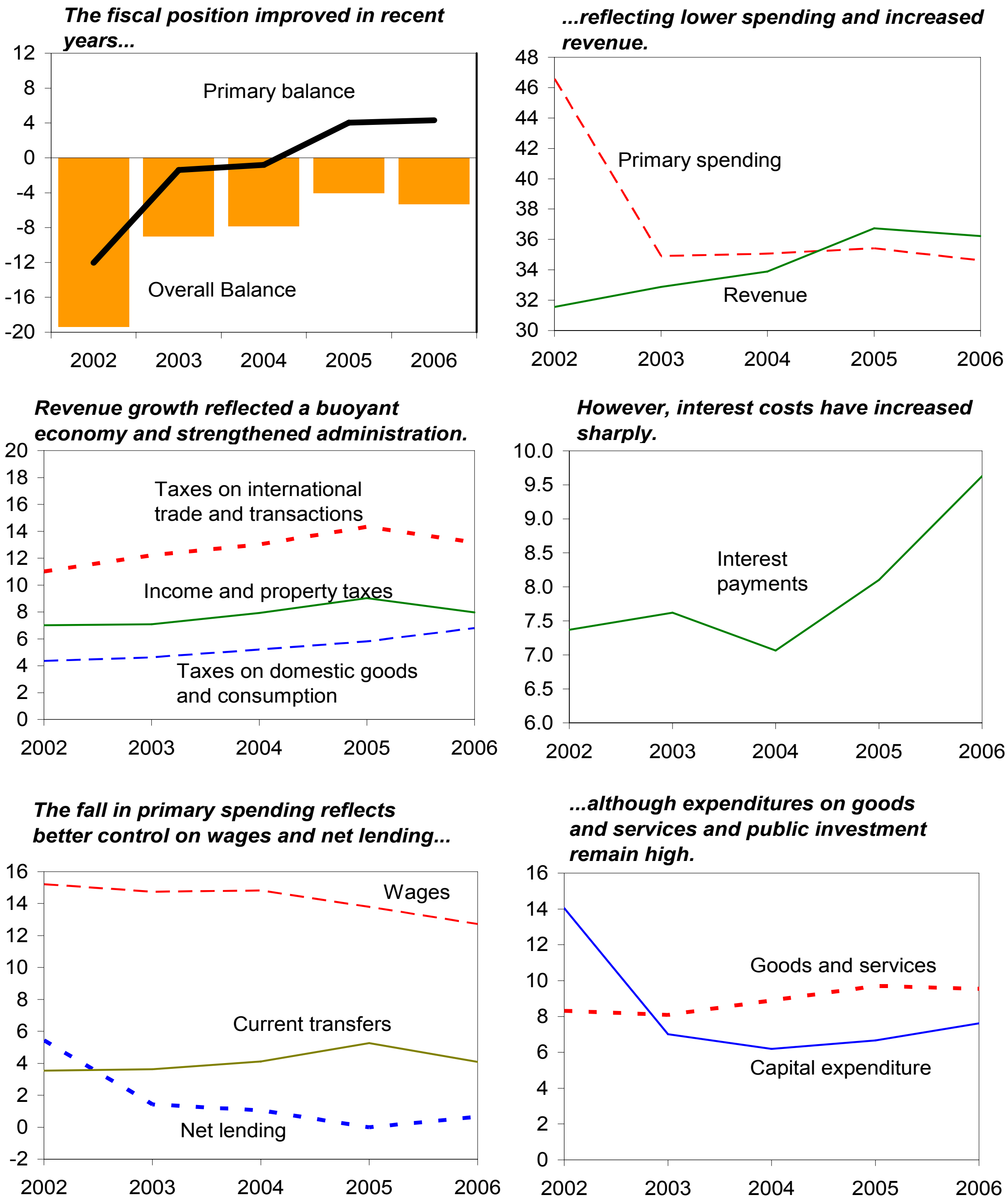

Source: St. Kitts and Nevis authorities.
1/ Excludes SSMC debt.

St. Kitts and Nevis: Central Government Debt Service and Social Expenditure, 2004–06
(In percent of GDP)



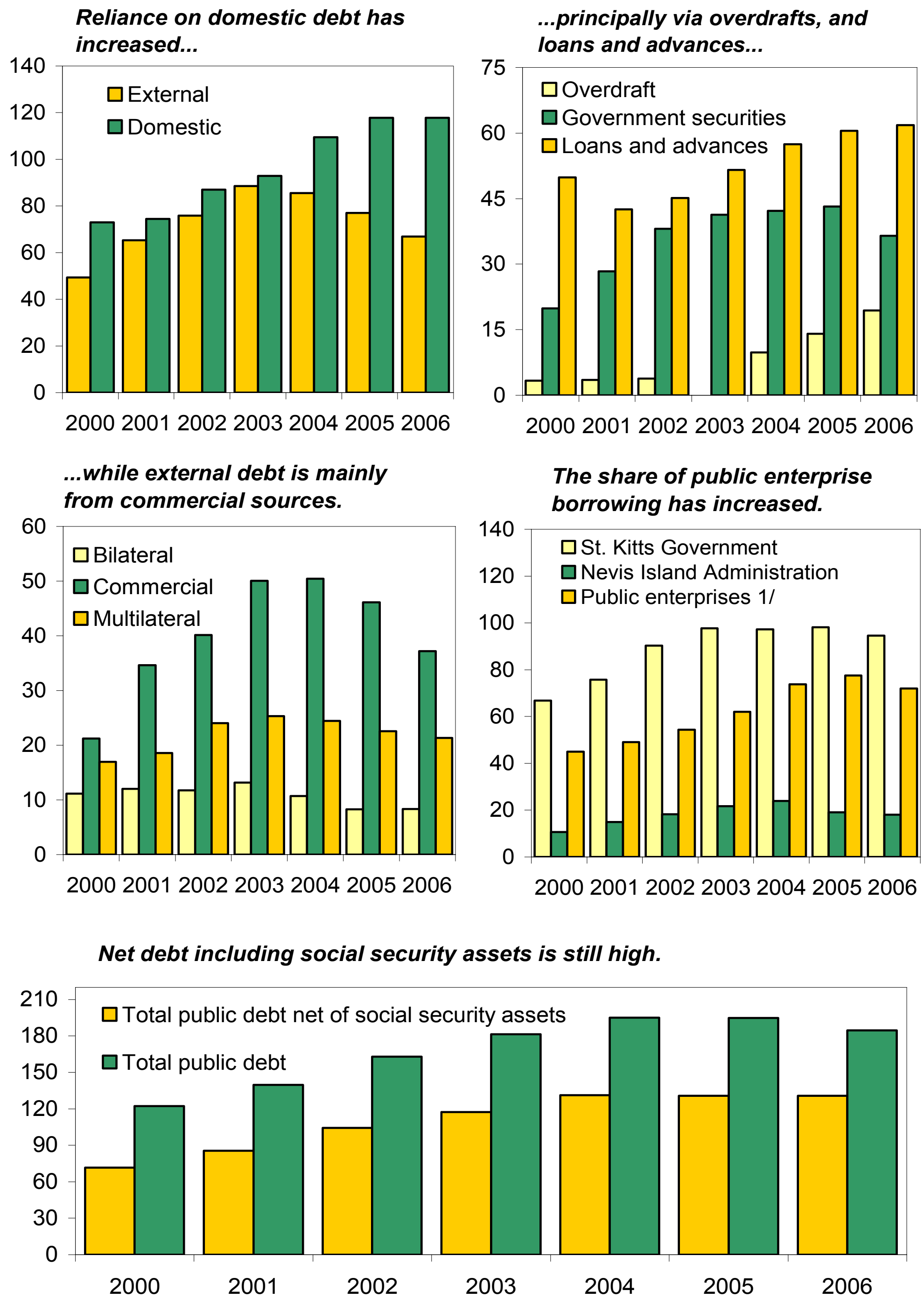

Sources: St. Kitts and Nevis authorities; and Fund staff estimates.
1/ Interest plus external amortization.

Figure 2. St. Kitts and Nevis: Fiscal Developments, 2002–06
(In percent of GDP, central government)




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

Figure 3. St. Kitts and Nevis: Evolution of Public Debt, 2000–06
(In percent of GDP)




Sources: ECCB; St. Kitts and Nevis authorities; and Fund staff estimates.
1/ Including SSMC.

10. **The government plans to refinance its more costly debt**. In October 2006, the CDB approved a policy-based guarantee, renewable annually, covering one year of debt service on a proposed 12-year bond of EC$150 million. Proceeds from the bond, when fully subscribed, would be used to repay more costly debt. In February 2007, the CDB approved a policy-based loan (PBL) of US$20 million. The first tranche is pending implementation of several policy measures (Table 9).

11. **Economic prospects look promising, with a number of high-end foreign investment tourism projects in the pipeline**. If the authorities push ahead with their reform agenda, real growth is projected at around 4 percent over the medium term. However, the potential slowdown of the global economy, particularly in the United States, and exogenous shocks such as hurricanes pose downside risks to the outlook.

## III. Policy Discussions

*Discussions centered on restoring fiscal and debt sustainability, enhancing competitiveness and growth, and containing risks.*[3] *The authorities generally agreed with the staff's analysis and recommendations, and reaffirmed their commitment to reducing public debt in an effective and orderly manner.*

### A. Restoring Fiscal and Debt Sustainability

12. **The government aims to raise the primary surplus to 8 percent of GDP by 2010, putting debt on a solid downward trajectory**. The authorities have already taken important steps toward this goal, including strengthening tax administration; introducing an electricity fuel surcharge; adopting an automatic fuel pricing mechanism; and moving toward market-valuation-based property tax. They broadly agreed on the need for greater expenditure control and prioritization, but noted the challenge of meeting pressing social/development needs.

ECCU: Revenue and Expenditure
(In percent of GDP; 2005–2006 average)

| | Tax Revenue | Non-interest Current Expenditure |
|---|---|---|
| Antigua and Barbuda | 20.1 | 20.7 |
| Dominica | 31.1 | 25.7 |
| Grenada | 23.2 | 18.8 |
| **St. Kitts and Nevis** | **28.5** | **27.6** |
| St. Lucia | 24.0 | 18.6 |
| St. Vincent and the Grenadines | 26.7 | 23.9 |

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

13. **However, policies need to be strengthened to achieve these targets**. On current policies (the "baseline" scenario), the 2008 primary balance is projected to move into deficit, and the public debt ratio would increase. With access to external credit markets tightened and

---

[3] The discussions took place from September 27–October 11, 2007. The team comprised N. Wagner (Head), H. Monroe, N. Mwase, and Y. Sun (all WHD) and was joined by staff of the ECCB and the CDB. P. Charleton (OED) participated in the final meetings. The team met with Prime Minister Douglas, Deputy Prime Minister Condor, Nevis Premier Parry, other senior officials, and representatives of the opposition, trade unions, and the private sector.

the domestic banking system already heavily exposed, financing the deficit would require land/asset sales, contrary to the government's strategy to use divestment proceeds to pay down debt. Besides strengthening central government finances, improving debt dynamics will require better oversight of public enterprises, more land/asset sales, and improved debt management capacity, areas where progress has been limited.

14. **The mission recommended a set of measures to restore sustainability and forestall financing problems**. Under an "active scenario" with additional fiscal measures, accelerated land/asset sales, and annual GDP growth of about 4 percent, the central government primary surplus is projected to reach 8 percent of GDP by 2010 and the public debt would fall to 60 percent of GDP by 2019 (Annex I). For 2008, the mission advocated a central government primary surplus of 6 percent of GDP. With major tax reforms to be introduced only after 2008, the adjustment should focus on containing expenditures while preserving revenue gains.

**St. Kitts and Nevis: Options for Fiscal Adjustment in 2008**
Additional Measures Under Active Scenario Relative to Baseline
(In percent of GDP)

| Measures | Total | St. Kitts | Nevis |
|---|---|---|---|
| **Expenditures** | **5.9** | **3.8** | **2.0** |
| Contain wages | 0.4 | 0.3 | 0.1 |
| Contain expenditure on goods and services | 0.3 | 0.3 | 0.1 |
| Corporatize the Electricity Department (net effect) | 0.5 | 0.5 | ... |
| Implement well-targeted social transfers | (0.1) | (0.1) | (0.1) |
| Reduce transfers to statutory bodies | 0.1 | ... | 0.1 |
| Refrain from net lending to public enterprises | 1.5 | 1.5 | ... |
| Contain capital expenditure | 3.2 | 1.3 | 1.8 |
| **Revenue** | **0.6** | **0.5** | **0.1** |
| Increase efforts to collect tax arrears | 0.2 | 0.1 | 0.1 |
| Strictly enforce hotel taxes | 0.1 | 0.1 | ... |
| Refrain from price control tax concessions | 0.3 | 0.3 | ... |
| Increase efforts to collect non-tax arrears | 0.1 | ... | 0.1 |
| **Total impact of fiscal measures** | **6.5** | **4.3** | **2.1** |

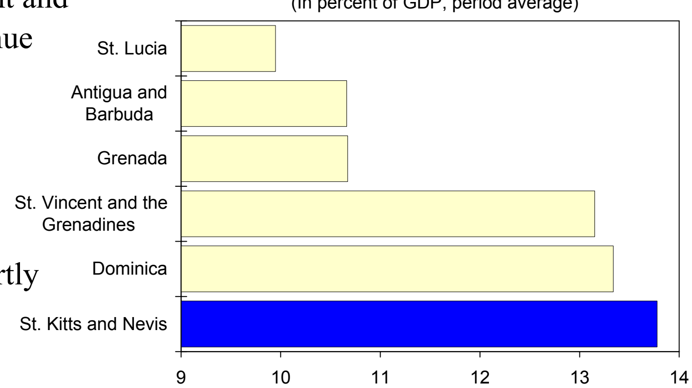
Sources: St. Kitts and Nevis authorities; and Fund staff estimates.

15. **Containing expenditures and enhancing efficiency will be crucial**. The authorities plan to introduce performance budgeting in 2008 to allow for greater accountability in the use of budget resources.

- ***Off-budget expenditures***. "Below-the-line" accounts, many of which capture revenue and expenditure items not in the budget, have proliferated in recent years. With CARTAC's assistance, the authorities have incorporated these accounts into 2006 and 2007 fiscal estimates. The mission commended the government for this accomplishment and encouraged the authorities to continue this practice.

- ***Civil service reform***. Despite wage restraint in recent years, the government wage bill remains among the highest in the region, partly reflecting the operation of parallel administrations. The mission supported the authorities' plan for

ECCU: Wage Bill of Central Government, 2004–06
(In percent of GDP, period average)




Sources: ECCU country authorities; and Fund staff estimates.

comprehensive civil service reform aimed at eliminating duplication between agencies and rationalizing the public sector workforce, while ensuring that compensation is sufficient to retain highly-qualified civil servants.

- ***Goods and services***. Tighter control over spending on goods and services is crucial. The mission supported plans to corporatize the electricity department, which has been a substantial drain on the budget, and suggested a similar approach for water services.

- ***Capital expenditure and net lending***. Capital spending needs to be prioritized, based on rigorous cost-benefit analysis and financing availability. The authorities agreed on the need to strengthen the PSIP process. The NIA indicated that increased capital spending was needed to attract FDI and transform the economy toward high-end tourism. Restraining net lending activities would also be important.[4]

- ***Civil servant pension reform***. Commendable progress has been made in establishing a contributory pension scheme for civil servants. The mission welcomed the authorities' plan to cap double pensions for civil servants and increase their retirement age to match that under the social security scheme.

16. **The mission supported the authorities' consideration of a transactions-based or value-added tax (VAT), but only with a unified administration**. A VAT would replace the current consumption tax and allow for some increase in revenues to offset the implementation of the Common External Tariff (CET) under CARICOM.[5]

- ***Tax/customs administration*** needs to be revamped to ensure successful introduction of a VAT. Currently, there are two separate administrations—one for each island—which do not share revenues. Successful VAT implementation will require a unified regime administered at the federal level and effective revenue-sharing. Following a recent FAD/CARTAC mission, both islands agreed to establish a joint management committee to oversee tax/customs administration. While the St. Kitts Government believed revenue sharing would be feasible, the NIA, which has viewed revenue autonomy as crucial to its economic development strategy, reserved a firm decision pending more details on a proposed revenue-sharing mechanism.

- ***Thorough preparation***, including developing an action plan for tax administration reform, is essential for the VAT's success. Such a plan would include creation of a project team and steering committee and preparation of a detailed roadmap for VAT

---

[4] Net lending in St. Kitts has been mainly on-lending of foreign official credit to statutory bodies, as creditors preferred to channel funds through the central government (¶18).

[5] The authorities intend to implement Phase IV of the CET gradually over three years, given concerns about potential revenue losses.

implementation, including TA needs. The authorities intend to assemble a strong VAT team soon and to keep the public fully informed to address uncertainty and misperceptions.

17. **Other reforms to enhance the tax system's equity and efficiency were discussed**.

- ***Social services levy***. Adopting a comprehensive personal income tax (PIT) could broaden the tax base and enhance progressivity. However, given limited implementation capacity and the need to focus on introducing a VAT, it was agreed that reforming the existing social services levy, including broadening the definition of income, could be preferable to introducing a new PIT at this stage.

- ***Property tax***. The government has made substantial progress in moving toward a market-based valuation system, with assessments expected to be completed by end-2007 and implementation to start in 2008.

- ***Tax concessions***. St. Kitts and Nevis has granted costly investment incentives, including generous tax holidays. While the authorities believe that a unilateral elimination of incentives could place St. Kitts and Nevis at a disadvantage relative to other countries in the region, a new Investment Code under preparation will specify a transparent, nondiscretionary regime that provides investment incentives based on projected economic impact. The government was considering import duty concessions on some foods and other basic necessities to mitigate the impact of rising prices. The mission advised against this approach as it could lead to sizable revenue losses. Instead, targeted transfers could better compensate low-income households.

- ***Corporate income tax***. The existing Income Tax Act was enacted some 40 years ago and has many loopholes. The mission endorsed the plan to introduce a new Corporate Tax Act, which should also limit the room to grant tax concessions.

18. **Control over the broader public sector needs to be strengthened**. The adoption of a new Finance Administration Act (FAA) is a welcome step. Its strict enforcement will be key, particularly on borrowing and data provision by public enterprises. The mission advised that borrowing by public enterprises using land as collateral should be strictly avoided, and government guarantees should be contingent on full and timely disclosure of financial information.

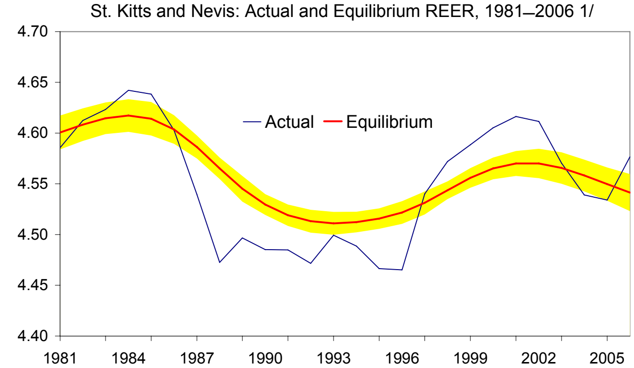
19. **Debt management capacity, albeit improved, needs further strengthening**. With assistance from CARTAC, the debt unit has compiled a comprehensive government debt database. The mission recommended incorporation of nongovernment-guaranteed external debt in the database and closer monitoring of public debt developments. The government intends to hire a debt management consultant and seek Fund technical assistance to further strengthen the debt unit, improve debt management capacity of statutory bodies, and formulate a strategy to retire more costly debt.

## B. Enhancing Competitiveness and Growth

20. **Discussions centered on structural reforms to enhance the business climate and improve labor market flexibility, and on releasing government land/assets for more productive uses**. The authorities reaffirmed their commitment to advancing these reforms and providing a conducive environment for private sector-led growth.

21. **While the real effective exchange rate (REER) does not appear to be misaligned, external competitiveness remains a challenge** (Box 1 and Figure 4). Staff analysis suggests that the REER is broadly in line with macroeconomic fundamentals. However, maintaining competitiveness remains challenging, as private sector and government wage bills are among the highest in the region, and the recent increase in the share of the Caribbean tourist market leveled off in 2006.[6] Reflecting higher inflation, the CPI-based REER appreciated through early 2007, despite the depreciation of the U.S. dollar against other major currencies during this period. However, declining inflation during 2007 and the continued depreciation of the U.S. dollar has since arrested the upward movement of the REER.[7]

St. Kitts and Nevis: Actual and Equilibrium REER, 1981–2006 1/




Sources: St. Kitts and Nevis authorities; and Fund staff estimates.
1/ The shaded band around the equilibrium REER represents plus or minus one standard error of the prediction.

22. **Improving the business climate is essential to support competitiveness**. Reflecting steps to lower the cost of doing business, St. Kitts and Nevis now ranks 64th out of 178 countries on the World Bank's 2008 *Doing Business Indicators* survey (Figure 5). While this ranking is an improvement over last year's, the country still has the lowest rank in the ECCU on some sub-categories, such as procedures to start and close a business. The government has set up a team to address these areas and is establishing a one-stop Investment Promotion Agency.

23. **Transfer of government land/assets to the private sector for more productive uses will be key to enhancing growth potential**. The mission welcomed the recent sales of the government's shares in Cable and Wireless. The adoption of a National Physical Development Plan is also a welcome step and should be complemented by accelerated implementation of the government's plans to unify land development agencies, define a full-

---

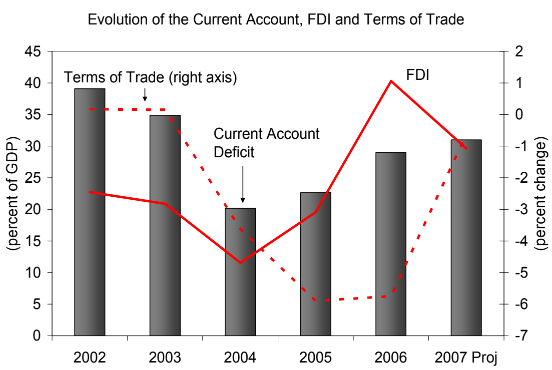
[6] Tourism receipts increased by 1.6 percent in 2006, compared to double-digit increases in 2003–05 after the opening of a large Marriott resort in 2003.

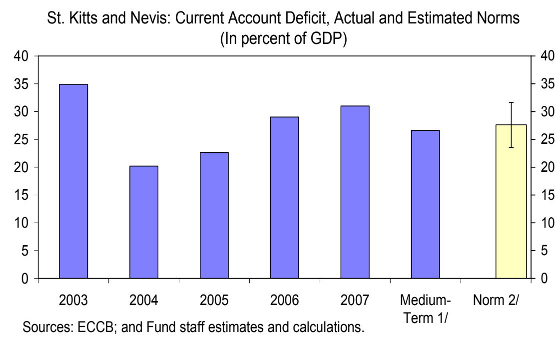
[7] The text figure shows developments only through end-2006 as annual data are used to calculate the equilibrium REER and associated standard deviation.

fledged and transparent land development strategy, and create a professionally-staffed land sales agency. The authorities agreed, but face strong resistance to selling off the nation's "patrimony." To garner public support, the authorities intend to give priority to nationals and have announced an initiative to sell 618 acres to first-time land owners.

**Box 1. External Competitiveness** [1]

**The widening of the current account deficit in the past few years was largely due to the closure of the sugar industry and external factors, rather than an erosion of competitiveness**. The cessation of sugar exports, rising imports related to a construction boom, and a sharp increase in oil prices led to a deterioration in the current account.




Sources: ECCB; and Fund staff estimates and calculations.
1/ Based on Fund staff estimates. Medium-term is average during 2008-2012.
2/ In computing the norms, medium-term values of the fiscal balance, oil-balance, output growth, and relative income are drawn from staff projections. Band is ±1 standard error of the prediction.

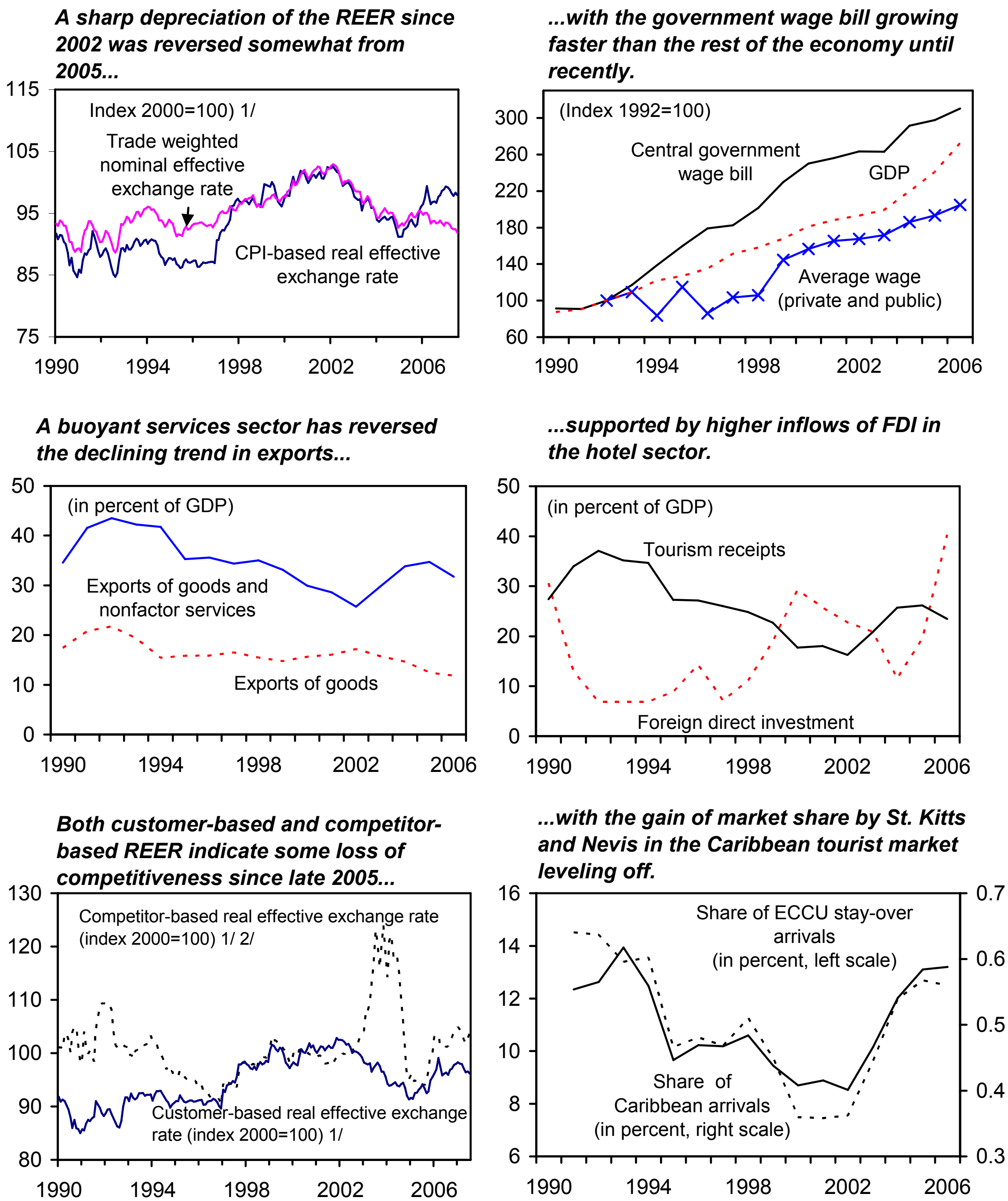
**The current account deficit is broadly in line with equilibrium levels predicted by fundamentals**. Using the macroeconomic balance approach, staff estimates put the equilibrium current account deficit under the baseline scenario (i.e., the current account "norm") at around 28 percent of GDP. The projected medium-term deficit of about 27 percent of GDP is within one standard deviation of the equilibrium level. This implies that despite their apparent high levels, medium-term deficits, financed largely by FDI, appear sustainable. [2]

**The real effective exchange rate is also broadly in line with fundamentals**. The CPI-based REER appreciated by 2½ percent during 2006, mainly on account of a rise in inflation following energy price adjustments. While the results from the equilibrium value approach indicate that the REER was slightly above its equilibrium as of end-2006, the more recent deceleration of inflation and the continued depreciation of the U.S. dollar have begun to reverse the earlier appreciation (see Figure 4), suggesting no consistent evidence of misalignment at present.

[1] The analysis uses a panel regression model linking the REER to fundamentals (based on the CGER approach, but using staff's own estimation from a different sample). See Pineda and Cashin (2007), "Assessing Exchange Rate Competitiveness in the Eastern Caribbean Currency Union," forthcoming ECCU Selected Issues Paper.

[2] While current account deficits of this magnitude could not be sustained indefinitely, the pipeline of foreign investment projects suggests that FDI levels should remain very high during the period under consideration.

Figure 4. St. Kitts and Nevis: External Competitiveness, 1990–2007



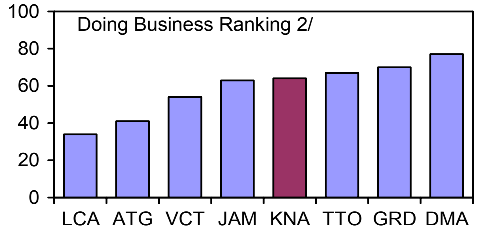

Sources: ECCB; Caribbean Tourism Organization; St. Kitts and Nevis authorities; and Fund staff calculations.

1/ An increase (decrease) indicates an appreciation (depreciation).

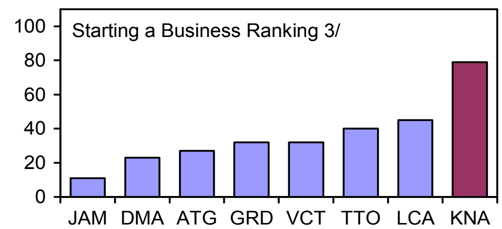
2/ The spike in the competitor-based real exchange rate in 2002–03 was largely caused by the real effective depreciation and subsequent appreciation of the Dominican Republic's peso.

Figure 5. St. Kitts and Nevis: Doing Business Indicators, 2007 1/

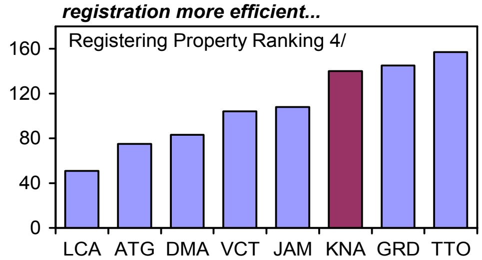
***Doing business should be facilitated...***



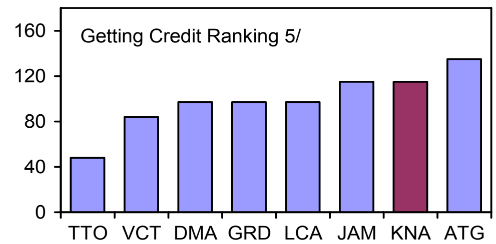

***...by removing cumbersome procedures in starting a business...***



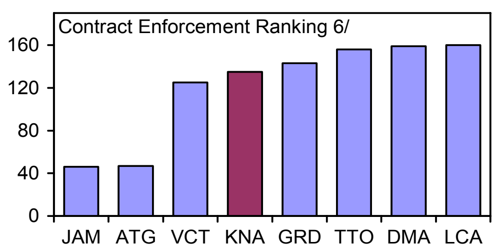

***...making the process of property registration more efficient...***



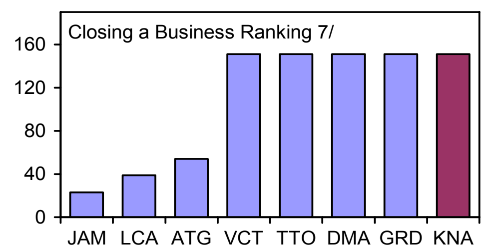

***...enhancing the availability of credit information...***




***...facilitating commercial contract enforcement...***




***...and strengthening bankruptcy procedures.***




Source: World Bank, *2008 Doing Business Indicators* (2007).
Note: ATG stands for Antigua and Barbuda, DMA stands for Dominica, GRD stands for Grenada, JAM stands for Jamaica, KNA stands for St. Kitts and Nevis, LCA stands for St. Lucia, TTO stands for Trinidad and Tobago and VCT stands for St. Vincent and the Grenadines.

1/ Smaller numbers represent greater ease in doing business. The indicators are comparable across 178 countries.
2/ This is an overall indicator that captures the regulatory costs of doing business; it can be used to analyze specific regulations that enhance or constrain investment, productivity, and growth.
3/ This topic identifies the bureaucratic and legal hurdles an entrepreneur must overcome to incorporate and register a new firm. It examines the procedures, time, and cost involved in launching a commercial or industrial firm with up to 50 employees and start-up capital of ten times the economy's per capita gross national income.
4/ This topic examines the steps, time, and cost involved in registering property, assuming a standardized case of an entrepreneur who wants to purchase land and a building in the largest business city—already registered and free of title dispute.
5/ This topic explores two sets of issues—credit information registries and the effectiveness of collateral and bankruptcy laws in facilitating lending.
6/ This topic looks at the efficiency of contract enforcement by following the evolution of a sale of goods dispute and tracking the time, cost, and number of procedures involved from the moment the plaintiff files the lawsuit until actual payment.
7/ This topic identifies weaknesses in existing bankruptcy laws and the main procedural and administrative bottlenecks in the bankruptcy process.

24. **While the labor market is relatively flexible, labor constraints are emerging as large-scale investment projects come on stream**. The mission supported the authorities' efforts to address emerging labor/skill shortages, including by strengthening vocational and technical education, and encouraged them to promote greater regional labor mobility.

## C. Containing Risks

25. **Reducing public debt to sustainable levels represents a major challenge**. Even with strong growth, full implementation of the reform agenda, and the absence of exogenous shocks, public debt will remain very high throughout the medium term (Annex I and Figures 6 and 7). It is, therefore, important to carefully monitor risks, explore options to lower debt more quickly, and develop a contingency plan.

26. **Banking sector risks need to be carefully monitored**. The system's government exposure is rising and very high by international standards. While the government has a strong payment record, any disruption to the government's payment capacity—owing, for example, to a shock like a hurricane—could undermine the stability of the banking system. The high exposure warrants close monitoring, including enhanced supervision of vulnerable banks, development of a contingency plan, and a strategy to unwind this large exposure. Moreover, while the pickup of private sector credit growth is a welcome sign of economic growth, there is a risk that an economic slowdown could lead to a sharp increase in the NPLs. Lastly, the high and rising level of dollarization, likely reflecting the suspension of exchange controls in 2004, highlights the need for careful management of currency mismatches. The authorities noted that the banks report regularly to the ECCB, which is carefully monitoring banking sector risks including with enhanced off-site inspections. They also reaffirmed their plans to use the proceeds from land sales and the proposed 12-year bond to pay down the bank-held sugar debt and the overdraft.

27. **The nonbank sector has been growing rapidly, requiring careful monitoring**. The mission expressed concern about the deposit-taking activities of insurance companies, which offer fixed-term deposits with interest rates significantly higher than commercial banks.[8] These deposit accounts not only undermine the client base for the commercial banks, but the much higher interest rates could indicate riskier investment activities (of which depositors may not be fully aware). The staff encouraged the authorities to determine, in coordination with the ECCB, whether these companies should be required to obtain banking licenses to continue these activities. The timely establishment of a single regulatory unit, along with the adoption of supporting legislation such as the Insurance Act, is also critical for containing emerging risks in the nonbank sector. On AML/CFT, the authorities are preparing for an assessment in 2008 by the Caribbean Financial Action Task Force; they are strengthening the Financial Services Department, are planning to undertake an inspection of credit unions with CARTAC assistance, and have signed Memoranda of Understanding with several countries for the exchange of information.

[8] Indeed, banks' real deposit rates were negative during 2005–06.

28. **St. Kitts and Nevis is vulnerable to a wide range of exogenous shocks, which could derail the authorities' adjustment strategy**. While financial markets in the region have remained relatively insulated, recent financial market turmoil, if it continues, could have a negative impact on the local real estate market, undermining the government's land sales strategy and plans for upscale tourism development, while weakening bank portfolios. The ongoing repricing of risk could also complicate rolling over public sector external debt, with about EC$110 million (7 percent of GDP) falling due in 2008.[9] Other shocks include natural disasters, declines in tourism demand, a slowdown in the world economy, and higher world oil prices. The mission welcomed the authorities' emphasis on preparedness and more widespread use of insurance for mitigating and managing natural disasters.

29. **The high debt level and vulnerability of the economy point to the need to explore options to reduce debt more quickly**.

- ***Land/asset sales***. There was broad agreement that the pace of debt reduction would depend critically on the pace and scope of land/asset sales (Box 2).

- ***Concessional resources***. The authorities have made important progress toward meeting the conditions of the CDB's PBL, which could also facilitate access to the EU's pledged sugar grants (2–3 percent of GDP per annum during 2007–13). The mission encouraged the authorities to use concessional financing under PetroCaribe, when available, to improve the debt profile.[10]

30. **Reforming the social security system is necessary to ensure the long-term viability of public finances**. The system's operating surpluses of 5–6 percent of GDP a year, which have directly and indirectly financed the budget, will not continue as the population ages. On current trends, deficits would emerge around 2020 and assets be depleted by mid-century. The authorities have established a committee to explore parametric reforms. The mission also encouraged the authorities to explore options to gradually diversify portfolio allocations,[11] along with a reduction in government financing needs.

31. **A contingency plan is needed in light of the country's high vulnerability to shocks**. The mission suggested that a key component of such a plan should be emergency fiscal measures that can be quickly implemented in the event of shocks. The authorities noted their intention to identify such a set of measures.

---

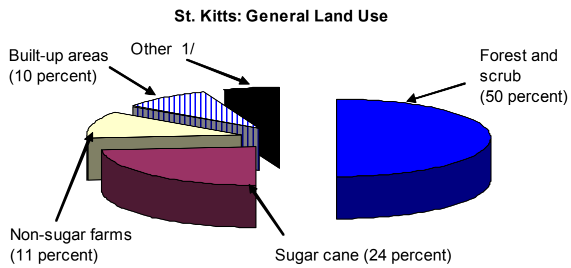
[9] Annex I illustrates the impact on public external debt under a modified active scenario of higher interest rates. It is assumed that debt would not be rolled over under the baseline scenario.

[10] The first PetroCaribe shipment of diesel is expected before end-2007.

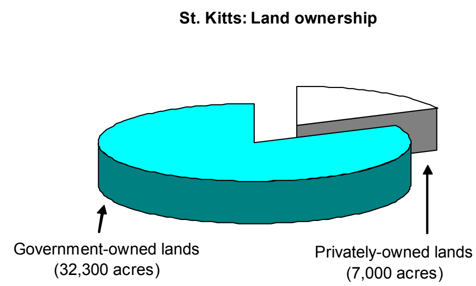
[11] Nearly 90 percent of assets are invested in the public sector.

**Box 2. St. Kitts: Land Development and Sales**

**About 80 percent of the island's land is owned by the St. Kitts Government**. The existing land ownership pattern is a direct result of the compulsory acquisition of sugar estates in 1975 by the government. Until the demise of the sugar industry, land use policy was primarily designed to support the sugar sector. Since the sugar industry's closure in 2005, the sugar lands have largely been idle.




Source: The National Physical Development Plan (2006)
1/ National Park, rock, sand, quarries and water bodies.




Source: The National Physical Development Plan (2006)

**Two corporations, Frigate Bay and Whitegate, were established to develop and sell lands in the southeastern and northwestern parts, respectively, of the island**. The southeast is currently the heart of the tourism industry, with high-end projects including the Marriott Resort—the largest hotel in the country—and ongoing construction of other resorts. In the northwest, a wide range of projects are either underway or being planned, including golf courses, a horse racing track, and upscale villas.

**In August 2007, the government announced its intention to sell 618 acres of land (about 2 percent of government-owned land) to first-time homeowners under the Special Land Distribution Initiative (SLDI)**. Land will be sold using a two-tier pricing system—EC$4.95 per sq.ft. for the first 4,000 square feet and EC$6.50 thereafter.

**Preliminary estimates suggest that proceeds from land sales, based on a conservative assumption on market prices, could be on the order of 45–50 percent of 2006 GDP**. About 10-13 percent of GDP could be generated by the SLDI. Selling another 1,200 acres of land, in line with the CDB policy-based-loan conditions and using a lower bound for market prices, could yield additional proceeds of about 36 percent of GDP.

**Potential Proceeds from Land Sales**

| | Price (sq.ft.) (in EC$) | Proceeds (in EC$ millions) | Proceeds (in percent of 2006 GDP) |
|---|---|---|---|
| Special Land Dist. Init. (618 acres) | | | |
| Lower bound | 5.0 | 133.3 | 10.0 |
| Upper bound | 6.5 | 175.0 | 13.1 |
| 1,200 acres at market prices 1/ | 9.1 | 474.9 | 35.5 |

Source: Fund staff estimates

1/ Assumes 636 acres sold for local residential use at EC$6.5 per sq.ft. and 564 acres sold for hotels/villas at EC$12 per sq.ft. (acreage in line with National Physical Development Plan sectoral goals).

## IV. STAFF APPRAISAL

32. **Macroeconomic outcomes have strengthened in recent years**. Growth has rebounded, and fiscal balances have improved markedly. This is testament to the authorities' commitment to reinvigorate the economy and restore sustainability, including by closing the sugar industry and launching a reform strategy to boost growth and reduce debt.

33. **The economy, however, remains very vulnerable**. Public debt is very high, constraining the room for maneuver in the event of shocks. Recent fiscal trends have increased the risk that earlier consolidation gains could be reversed and public debt return to an upward path. With access to external credit markets limited, the domestic banking system already heavily exposed to the government, and a less benign global environment, strong efforts are needed to mitigate risks and place public debt on a solid downward trajectory.

34. **The authorities' medium-term fiscal goals are appropriate but need to be underpinned by**:

- ***Expenditure restraint***. It is critical to move quickly with the corporatization of the electricity department; contain and prioritize capital expenditures; refrain from net lending; implement comprehensive civil service reform; and reform civil servant pensions.

- ***Tax reforms***, focused on broadening the tax base and revamping tax administration (in particular, a unified VAT regime).

35. **Improving the oversight of public enterprises will also be key**. The recent adoption of the new FAA is a major step in the right direction, but its strict enforcement will be crucial for its success. Ongoing efforts to strengthen debt management capacity are well placed.

36. **Although the real effective exchange rate and medium-term current account deficits are broadly in line with fundamentals, maintaining external competitiveness remains challenging**. Other indicators—including inflation, tourism developments, deteriorating terms of trade, and high wages—point to challenges for competitiveness. Fiscal consolidation is not only fundamental to supporting competitiveness, but also necessary to avoid instability and underpin the quasi-currency board arrangement.

37. **Planned structural reforms will enhance competitiveness and growth.** The authorities have initiated a number of reforms, but the pace of implementation could be accelerated to build on the current growth momentum. Priority should be given to strengthening the business climate and labor market flexibility.

38. **Transfers of government land/assets to the private sector should help promote growth and reduce public debt.** The adoption of a National Physical Development Plan, the

recent sale of the government's shares in Cable and Wireless, and the government's commitment to use divestment proceeds to lower debt are positive developments. The staff also welcomes the government's plans to consolidate land development agencies, define a land development strategy, and establish a land sales agency.

39. **Financial sector risks warrant careful monitoring**. The high government exposure of the banking system is a systemic concern. Implementing measures to mitigate risks should be given a top priority, including enhanced supervision of vulnerable banks and reducing the large government exposure. Establishing a single regulatory unit is also essential for more comprehensive supervision of the nonbank sector.

40. **Risk management and contingency planning should be a priority**. Even with determined efforts and a benign external environment, public debt will remain high well into the next decade. Given the country's vulnerability to shocks, a full-fledged contingency plan, including a set of emergency fiscal measures, should be at hand. The authorities should also continue their efforts to tap more concessional resources, particularly the EU sugar grants, to lower the debt level more quickly.

41. **Better statistics will support effective economic management**. Commendable progress has been made in improving the quality and coverage of central government fiscal data, which will strengthen fiscal policy analysis and implementation. Further improvements are needed in the areas of national accounts, labor markets, tourism, debt, and public enterprises.

42. **It is proposed that the next Article IV consultation be conducted on the standard 12-month cycle**.

## ANNEX I. MEDIUM-TERM FISCAL SCENARIOS AND DEBT SUSTAINABILITY ANALYSIS

**Two scenarios, baseline and active, are considered**. Under the baseline, major reforms are delayed and expenditures continue to increase, resulting in large financing gaps and a rise in the public debt ratio. In contrast, the active scenario, under which the authorities deepen and sustain fiscal adjustment and structural reforms, suggests a solid downward trajectory for public debt over the medium term.

- **Baseline scenario**. Real growth in 2008 is projected to be slightly stronger than in 2007, as the tourism sector recovers somewhat owing to improved airlift from the United States. However, growth will gradually decline to 2 percent in the medium term, reflecting delayed structural reforms, including land/asset sales. On revenue, a market-based property tax and VAT will be introduced in 2008 and mid-2010, respectively. Tax concessions continue to be granted. On expenditure, the electricity department will be corporatized only in mid-2009, the wage bill as a share of GDP will start to increase moderately, and large net lending and capital expenditures will continue. Under this scenario, the central government primary balance will hover around the zero mark and there will be large financing gaps. Public enterprises are assumed to borrow mainly from domestic sources, and their debt is projected to decline from 72 percent of GDP at end-2006 to 63 percent by 2012, reflecting the assumption that the Finance Administration Act is passed but its enforcement and control are lax. Total public debt is projected to increase to almost 200 percent of GDP by 2012.

**St. Kitts and Nevis: Medium-Term Projections Under Baseline and Active Scenarios**
(In percent of GDP unless otherwise indicated)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| **Real GDP growth (in percent)** | | | | | | |
| Active | 3.3 | 4.0 | 4.1 | 4.1 | 4.2 | 4.2 |
| Baseline | 3.3 | 3.5 | 2.7 | 2.3 | 2.0 | 2.0 |
| **Primary balance** | | | | | | |
| Active | 2.4 | 6.2 | 6.8 | 8.0 | 8.2 | 8.6 |
| Baseline | 2.4 | -0.2 | -0.5 | 0.3 | 0.6 | 0.5 |
| **Overall balance** | | | | | | |
| Active | -7.1 | -2.8 | -1.9 | -0.2 | 0.7 | 1.7 |
| Baseline | -7.1 | -9.8 | -10.5 | -10.2 | -10.3 | -10.9 |
| **Asset sales** | | | | | | |
| Active | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Baseline | 3.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| **Financing gaps** | | | | | | |
| Active | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Baseline 1/ | 0.0 | 3.7 | 5.5 | 5.6 | 6.4 | 6.6 |
| **Public debt** | | | | | | |
| Active | 180 | 171 | 160 | 149 | 138 | 126 |
| Active with EU grants | 180 | 168 | 155 | 141 | 124 | 110 |
| Baseline | 180 | 182 | 185 | 189 | 193 | 199 |

Sources: Fund staff estimates.
1/ Assumed to be filled through issuing of domestic bonds with an interest rate of 10 percent.

- **Active scenario**. With accelerated structural reforms, including land/asset sales of 3 percent of GDP per year, and a shift toward more productive private investment, real growth remains at 4 percent per year throughout the medium term, compared to declining growth under the baseline scenario. On revenue, a market-based property tax and VAT will be introduced in 2008 and early 2010, respectively. Tax concessions are contained and efforts to collect tax arrears are strengthened. On expenditure, the electricity department will be corporatized in mid-2008, the wage bill will grow in line with inflation, there is no net lending, and capital expenditures will be reduced, largely reflecting a postponement of planned new road construction in Nevis. Under this scenario, the central government primary balance will reach 8 percent of GDP by 2010. Strict enforcement of the Finance Administration Act combined with stronger control of borrowing by public enterprises will lead to the projected decline of public enterprise indebtedness, from 72 percent of GDP at end-2006 to 53 percent by 2012. The overall public debt is projected to decline steadily to 126 percent of GDP by 2012.

**The active scenario is modified as follows**:

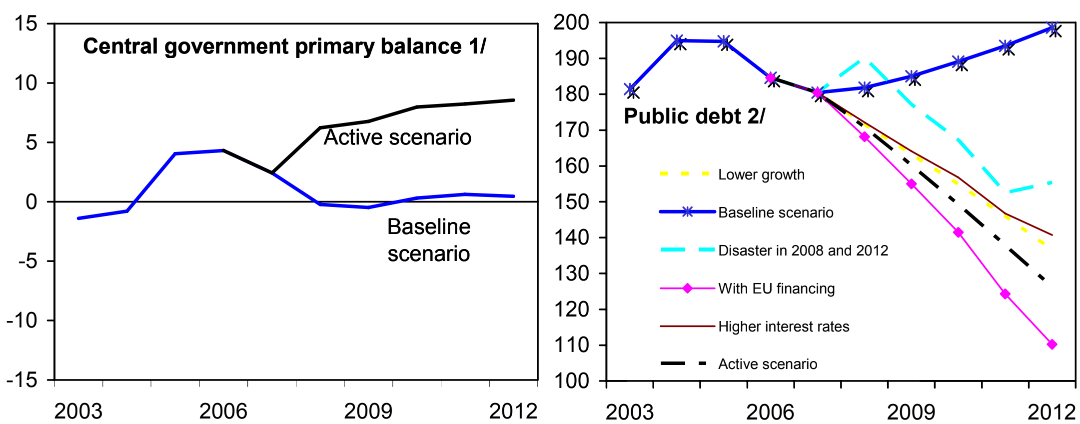
- **Disaster in 2008 and 2012**. Reflecting the vulnerability to hurricanes, this assumes that real growth is reduced by 5 percent in 2008 and 2012, respectively, and expenditure is increased by 2–3 percent of annual GDP during 2008–12.

- **Lower growth**. This has the same fiscal path as the active scenario but GDP growth declines as in the baseline scenario.

- **Higher interest rates**. The interest rate increases gradually by 5 percentage points relative to the base case, in which the marginal interest rate increases broadly in line with the WEO projections for the U.S. deposit rate.

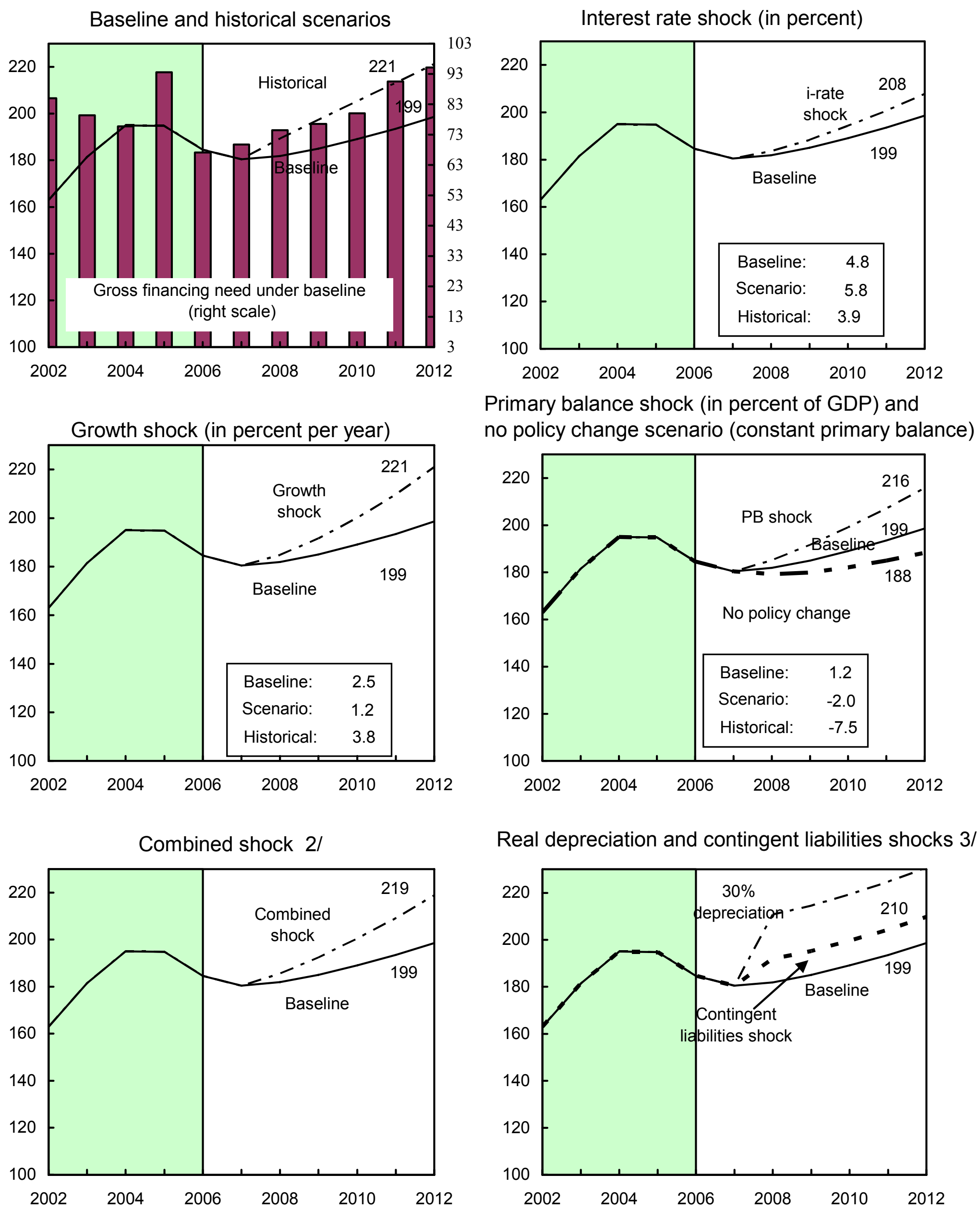
- **With EU financing**. Reflecting EU commitments on sugar assistance, this assumes an increase in grants of 2–3 percent of annual GDP during 2008–12.

Public Sector Debt Dynamics (In percent of GDP)




Sources: St. Kitts and Nevis authorities; and Fund staff estimates and projections.
1/ Combined accounts of the St. Kitts Government and the Nevis Island Administration.
2/ Public debt comprises debts of the St. Kitts Government, Nevis Island Administration, and statutory bodies, including debt to the social security system but excluding all other intra-public sector debt.

Figure 6. St. Kitts and Nevis: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



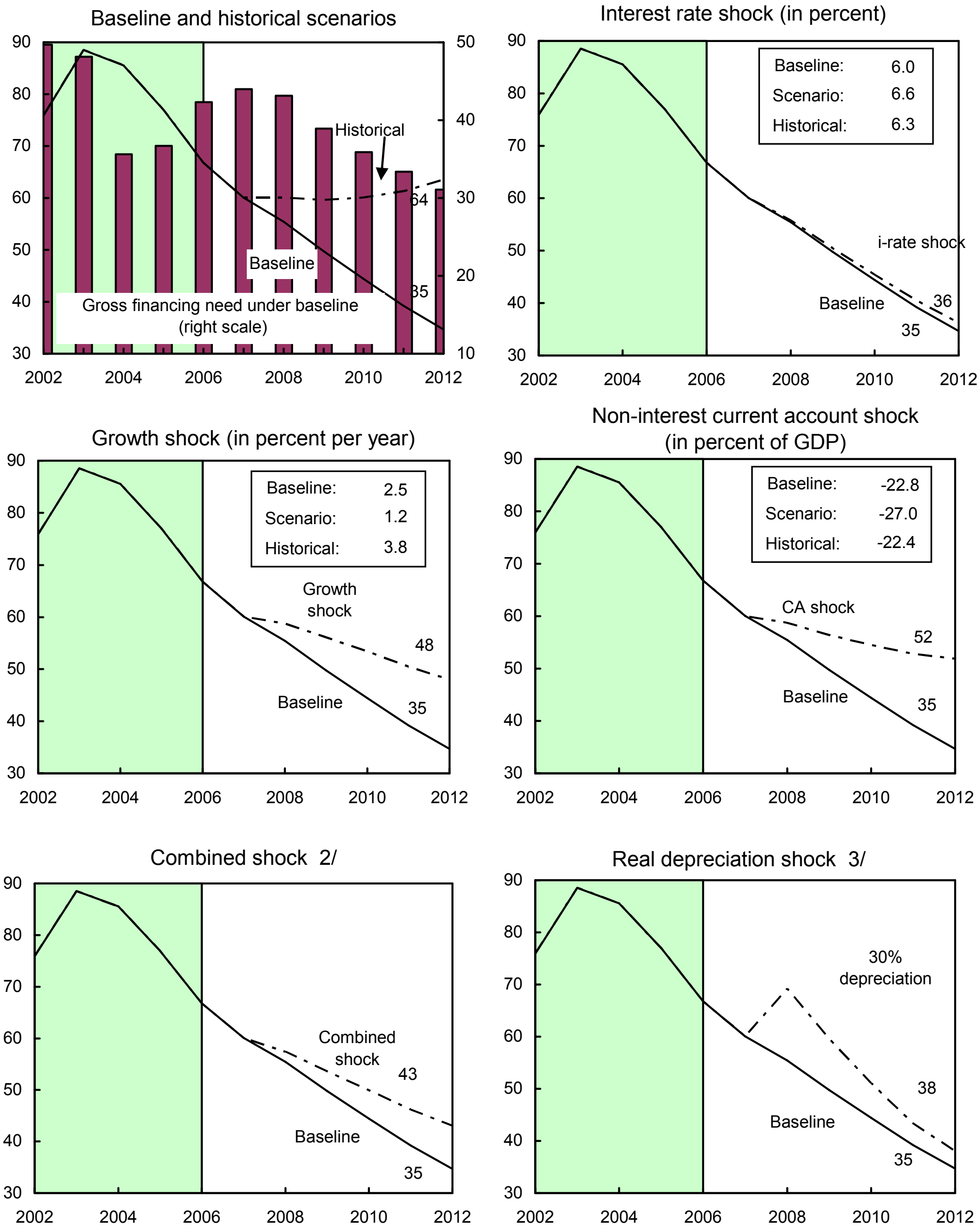

Sources: International Monetary Fund, country desk data; and Fund staff estimates.

1/ Based on the current policy scenario. 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/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2008, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Figure 7. St. Kitts and Nevis: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)




Sources: International Monetary Fund, Country desk data; and Fund staff estimates.

1/ Based on the current policy scenario. 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/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

3/ One-time real depreciation of 30 percent occurs in 2008.

## ANNEX II. SUMMARY OF APPENDICES

*The full appendices to this report are issued as a supplement.*

**Fund relations**. St. Kitts and Nevis has no outstanding Fund resources. It is a member of the Eastern Caribbean Currency Union (ECCU), which has a common central bank, the Eastern Caribbean Central Bank (ECCB). The common currency, the EC dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 since July 1976. St. Kitts and Nevis has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement. The exchange system is free of restrictions on the making of payments and transfers for current international transactions.

**Relations with the World Bank Group**. The country assistance strategy (CAS) for FY 2006−09 supports the region's development through: (1) stimulating growth and improving competitiveness; and (2) reducing vulnerability. The current CAS does not include any lending to St. Kitts and Nevis under the base case scenario. There are three active projects in St. Kitts and Nevis with a commitment of US$9.6 million of which US$3.7 million has been disbursed: (i) Telecommunications and ICT Development Project, approved on May 12, 2005, to improve the access, quality, and use of telecommunications and ICT services; (ii) Education Development Project approved in June 2003, to increase equitable access to secondary education and improve the quality of the teaching and learning processes; and (iii) HIV/AIDS Prevention and Control Program, approved in January 2003.

**Relations with the Caribbean Development Bank**. The CDB has approved loans of US$165.8 million, of which US$119.1 million has been disbursed as of end-September 2007. Major projects under implementation include: a basic education project; road projects, a child development project, loans to Nevis Electricity Company (NEVLEC), a natural disaster management project, a policy-based guarantee, and a policy-based loan.

**Statistical issues**. St. Kitts and Nevis has participated in the General Data Dissemination System since October 2000 and its metadata are posted on the Fund's Dissemination Standards Bulletin Board. There are significant weaknesses in real, fiscal, and balance of payments data. Data on GDP by type of expenditure are not available at constant prices, while the data at current prices are not reliable due to weaknesses in estimating gross capital formation. A new CPI with weights from the 2000 household survey has been introduced. There are no data on labor market developments. Fiscal data are not reported for publication in IFS. The latest data published in the *GFS Yearbook* are for 2003 (only). No data are available on the nonfinancial public sector. Data on external trade (especially exports) are not comprehensive, as they omit important categories of goods. Most components of the financial account also need improvement. There are no data on private external debt.

## Table 1. St. Kitts and Nevis: Basic Data

### I. Social and Demographic Indicators

| | | | |
|---|---|---|---|
| Area (sq. km) | 269.4 | Adult literacy rate (percent, 2004) | 97.8 |
| Population | | Health and nutrition | |
| Total (thousands, 2001) | 46.1 | Calorie intake (per capita a day, 1996) | 2639 |
| Rate of growth (percent per year, 2001) | 0.02 | Population per physician (thousand, 1993) | 2 |
| Density (per sq. km., 2001) | 171.2 | Access to safe water (percent, 1994) | 100 |
| Net migration rate (per thousand, 2002) | -9.8 | AIDS incidence rate (per 100,000, 1998) | 14 |
| Population characteristics | | Gross domestic product (2006) | |
| Life expectancy at birth (years, 2005) | 71 | (millions of U.S. dollars) | 495 |
| Infant mortality (per thousand live births, 2005) | 18 | (millions of E.C. dollars) | 1337 |
| Under 5 mortality rate (per thousand, 2004) | 18 | (US$ per capita) | 9723 |

### II. Economic and Financial Indicators, 2001–08

| | 2001 | 2002 | 2003 | 2004 | 2005 | Prel. 2006 | Proj. 2007 | Proj. 2008 1/ |
|---|---|---|---|---|---|---|---|---|
| (Annual percentage change; unless otherwise specified) | | | | | | | | |
| **National income and prices** | | | | | | | | |
| Real GDP (factor cost) | 1.7 | -0.3 | -1.2 | 7.3 | 4.4 | 4.0 | 3.3 | 3.5 |
| Consumer prices, end-of-year | 2.6 | 1.8 | 2.9 | 1.7 | 6.0 | 7.9 | 4.0 | 2.5 |
| Real effective exchange rate (end-of-period) 2/ | 1.8 | -3.3 | -3.9 | -4.0 | 5.4 | 0.5 | ... | ... |
| **Banking system** | | | | | | | | |
| Net foreign assets 3/ | 10.4 | 10.2 | 13.6 | -5.7 | 8.4 | 7.1 | 9.9 | 1.5 |
| Net domestic assets 3/ | -8.2 | -3.9 | -6.7 | 27.8 | -4.1 | 5.7 | 4.2 | 4.5 |
| *Of which* | | | | | | | | |
| Credit to public sector 3/ | 1.3 | 1.6 | -10.8 | 18.3 | 9.2 | 6.4 | 4.1 | 0.5 |
| Credit to private sector 3/ | -0.7 | -2.1 | 3.4 | 6.8 | 5.1 | 8.2 | 6.6 | 4.0 |
| Broad money | 2.3 | 6.4 | 6.9 | 22.1 | 4.3 | 12.8 | 14.1 | 6.1 |
| *Of which* | | | | | | | | |
| Money | -3.6 | 12.9 | 11.0 | 25.4 | -1.9 | 12.7 | 14.1 | 6.1 |
| Quasi-money | 3.2 | 5.4 | 6.2 | 21.6 | 5.5 | 12.8 | 14.1 | 6.1 |
| Weighted average deposit rate 4/ | 4.2 | 3.8 | 4.1 | 3.6 | 4.1 | 3.7 | ... | ... |
| Weighted average lending rate 4/ | 11.1 | 10.4 | 12.0 | 9.9 | 9.7 | 9.4 | ... | ... |
| (In percent of GDP) | | | | | | | | |
| **Public sector** 5/ | | | | | | | | |
| Primary balance | -7.2 | -12.0 | -1.4 | -0.8 | 4.0 | 4.3 | 2.4 | -0.2 |
| Overall balance | -12.9 | -19.4 | -9.0 | -7.9 | -4.1 | -5.3 | -7.1 | -9.8 |
| Total revenue and grants | 28.8 | 34.5 | 33.5 | 34.3 | 39.5 | 38.9 | 37.4 | 36.3 |
| Total expenditure and net lending | 41.6 | 53.9 | 42.5 | 42.1 | 43.5 | 44.2 | 44.5 | 46.1 |
| Foreign financing | 14.1 | 11.0 | 14.5 | 1.5 | -1.1 | 0.2 | -0.9 | -0.9 |
| Domestic financing | 1.8 | 0.2 | -3.1 | 8.7 | 11.9 | 9.6 | 5.0 | 6.0 |
| Sale of assets | 0.4 | 0.7 | 0.2 | 0.4 | 0.3 | 0.5 | 3.0 | 1.0 |
| Statistical discrepancy | -3.3 | 7.5 | -2.6 | -2.8 | -7.1 | -5.0 | 0.0 | 0.0 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 3.7 |
| Total public debt (end-of-period) | 139.7 | 163.0 | 181.5 | 195.0 | 194.8 | 184.6 | 180.4 | 181.9 |
| *Of which* | | | | | | | | |
| Central government | 90.7 | 108.6 | 119.4 | 121.2 | 117.2 | 112.6 | 109.7 | 112.2 |
| Public enterprises 6/ | 49.1 | 54.4 | 62.1 | 73.8 | 77.6 | 72.0 | 70.8 | 69.7 |
| **External sector** | | | | | | | | |
| External current account balance | -32.0 | -39.1 | -34.9 | -20.2 | -22.6 | -29.0 | -31.0 | -30.2 |
| Trade balance | -32.6 | -33.4 | -32.8 | -25.6 | -29.9 | -32.2 | -32.9 | -32.7 |
| Services, net | 6.6 | 3.3 | 7.7 | 13.6 | 13.7 | 9.1 | 7.2 | 7.5 |
| *Of which* | | | | | | | | |
| Tourism receipts | 18.1 | 16.3 | 20.8 | 25.7 | 26.1 | 23.5 | 21.6 | 22.0 |
| Transfers, net | 5.7 | 4.7 | 5.1 | 4.6 | 4.7 | 4.1 | 4.0 | 4.0 |
| Net capital inflow 7/ | 34.8 | 42.2 | 34.7 | 23.7 | 21.1 | 32.5 | 31.0 | 30.2 |
| FDI (net) | 25.7 | 22.7 | 20.9 | 11.6 | 19.5 | 40.3 | 29.4 | 29.4 |
| External public debt (end-of-period) | 65.3 | 75.9 | 88.5 | 85.5 | 77.0 | 66.9 | 60.1 | 55.4 |
| (In percent of exports of goods and nonfactor services) | | | | | | | | |
| External public debt service | 18.8 | 21.0 | 25.5 | 26.2 | 24.1 | 25.1 | 25.3 | 25.7 |
| External public debt (end-of-period) | 146.2 | 176.8 | 194.4 | 176.3 | 163.3 | 153.2 | 144.5 | 132.8 |

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

1/ Based on the baseline (current policy) scenario.
2/ Weights given by the average trade share during 1999–2003. Depreciation (-).
3/ In relation to broad money at the beginning of the period.
4/ End of period. Weighted by the size of loans or deposits. There was a break in the interest rate series in June 2003.
5/ Central government unless otherwise noted.
6/ Including St. Kitts Sugar Manufacturing Company (SSMC).
7/ Includes errors and omissions.

Table 2. St. Kitts and Nevis: Central Government Fiscal Operations, 2001–08 1/

(In millions of Eastern Caribbean dollars)

| | 2001 | 2002 | 2003 | 2004 | 2005 | Prel. 2006 | Proj. 2007 | Baseline 2008 | Active 2008 |
|---|---|---|---|---|---|---|---|---|---|
| **Total revenue** | **261.3** | **299.1** | **321.4** | **365.3** | **434.4** | **484.2** | **509.5** | **531.7** | **518.3** |
| Current revenue | 261.3 | 299.1 | 321.4 | 365.3 | 434.4 | 484.2 | 509.5 | 531.7 | 518.3 |
| Tax revenue | 193.6 | 212.1 | 233.9 | 281.9 | 344.8 | 373.1 | 395.5 | 413.5 | 423.8 |
| Taxes on income | 57.7 | 61.9 | 64.1 | 80.4 | 101.6 | 97.6 | 109.1 | 115.7 | 116.3 |
| Taxes on property | 4.4 | 4.5 | 5.2 | 5.1 | 5.0 | 8.7 | 6.0 | 7.9 | 7.9 |
| Taxes on domestic goods and consumption | 37.6 | 41.3 | 45.2 | 56.0 | 68.7 | 90.8 | 89.8 | 95.3 | 99.6 |
| Taxes on international trade and transactions | 93.9 | 104.3 | 119.3 | 140.5 | 169.5 | 175.9 | 190.6 | 194.6 | 200.1 |
| Nontax revenue 2/ | 67.6 | 87.0 | 87.5 | 83.5 | 89.6 | 111.1 | 114.0 | 118.2 | 94.5 |
| Capital revenue | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total expenditure and net lending** | **385.0** | **511.2** | **415.6** | **454.1** | **514.6** | **591.4** | **632.6** | **694.8** | **577.3** |
| Current expenditure | 306.5 | 326.5 | 333.2 | 376.0 | 435.8 | 480.8 | 502.6 | 536.0 | 487.9 |
| Wages and salaries | 140.3 | 144.2 | 144.1 | 159.7 | 163.1 | 170.0 | 175.7 | 186.7 | 181.0 |
| Goods and services | 79.5 | 78.9 | 79.0 | 95.8 | 114.7 | 127.5 | 131.9 | 142.5 | 105.2 |
| Interest | 52.6 | 69.8 | 74.5 | 76.1 | 95.8 | 128.7 | 135.4 | 143.7 | 137.3 |
| Domestic | 34.1 | 38.2 | 31.0 | 30.1 | 48.4 | 87.0 | 94.0 | 103.1 | 95.5 |
| Foreign | 18.5 | 31.6 | 43.5 | 46.1 | 47.4 | 41.7 | 41.4 | 40.6 | 41.8 |
| Transfers | 34.1 | 33.6 | 35.6 | 44.3 | 62.2 | 54.7 | 59.5 | 63.1 | 64.4 |
| Net lending | 0.0 | 51.6 | 13.9 | 11.3 | 0.0 | 8.7 | 18.0 | 22.0 | 0.0 |
| Capital expenditure 3/ | 78.4 | 133.1 | 68.6 | 66.7 | 78.8 | 101.8 | 112.0 | 136.8 | 89.4 |
| **Current balance** | **-45.2** | **-27.4** | **-11.7** | **-10.7** | **-1.4** | **3.4** | **7.0** | **-4.3** | **30.4** |
| Overall balance (before grants) | -123.7 | -212.2 | -94.2 | -88.7 | -80.2 | -107.1 | -123.0 | -163.1 | -59.0 |
| Grants | 4.6 | 28.3 | 6.1 | 4.1 | 32.2 | 36.1 | 22.0 | 16.0 | 16.0 |
| **Overall balance (after grants)** | **-119.1** | **-183.8** | **-88.2** | **-84.7** | **-48.0** | **-71.0** | **-101.0** | **-147.1** | **-43.0** |
| Primary balance | -66.5 | -114.0 | -13.7 | -8.6 | 47.8 | 57.6 | 34.4 | -3.4 | 94.3 |
| **Financing** | **149.9** | **113.0** | **113.7** | **114.5** | **132.4** | **138.2** | **101.0** | **91.9** | **43.0** |
| Net foreign financing | 130.0 | 104.3 | 141.8 | 16.6 | -12.6 | 3.0 | -12.8 | -13.7 | 22.3 |
| Disbursements | 148.5 | 134.1 | 187.1 | 62.9 | 7.5 | 45.2 | 52.1 | 66.5 | 106.5 |
| Amortization | 18.0 | 26.3 | 42.1 | 45.3 | 55.6 | 49.8 | 65.0 | 80.2 | 84.2 |
| Other 4/ | -0.5 | -3.4 | -3.2 | -1.0 | 35.5 | 7.7 | 0.0 | 0.0 | 0.0 |
| Net domestic financing | 16.3 | 2.2 | -30.3 | 93.3 | 141.0 | 128.2 | 71.5 | 90.5 | -24.8 |
| Banking system | 11.8 | -15.0 | -68.5 | 61.8 | 88.7 | 105.7 | 66.1 | 40.5 | -34.8 |
| Nonbanks | 4.5 | 17.2 | 38.2 | 31.5 | 52.3 | 11.7 | 1.3 | 50.0 | 10.0 |
| Capitalized interest arrears of SSMC debt 5/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 10.9 | 4.0 | 0.0 | 0.0 |
| Sale/purchase of assets | 3.7 | 6.5 | 2.2 | 4.6 | 4.0 | 7.0 | 42.4 | 15.1 | 45.5 |
| Statistical discrepancy | -30.9 | 70.9 | -25.6 | -29.8 | -84.4 | -67.2 | 0.0 | 0.0 | 0.0 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 55.2 | 0.0 |
| **Memorandum items:** | | | | | | | | | |
| GDP (market prices) | 924 | 948 | 977 | 1078 | 1182 | 1337 | 1422 | 1508 | 1516 |
| Public sector debt (end of period) | 1292 | 1544 | 1774 | 2102 | 2303 | 2467 | 2566 | 2744 | 2589 |
| *Of which* | | | | | | | | | |
| Central government 6/ | 838 | 1029 | 1167 | 1306 | 1386 | 1505 | 1560 | 1692 | 1557 |
| Domestic | 454 | 534 | 523 | 643 | 790 | 905 | 972 | 1118 | 947 |
| External | 384 | 495 | 644 | 663 | 596 | 601 | 588 | 574 | 610 |

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 decline of nontax revenue under 2008 active relative to baseline reflects the corporatization of electricity department in mid-2008.
3/ The increase in 2007 largely reflects on-going projects to improve roads in Nevis.
4/ IMF purchases and repurchases, and changes in the foreign assets of the federal government.
5/ Held in the Development Bank.
6/ Excluding SSMC debt taken over by the government from 2005.

Table 3. St. Kitts and Nevis: Central Government Fiscal Operations, 2001–08 1/
(In percent of GDP)

| | 2001 | 2002 | 2003 | 2004 | 2005 | Prel. 2006 | Proj. 2007 | Baseline 2008 | Active 2008 |
|---|---|---|---|---|---|---|---|---|---|
| **Total revenue** | **28.3** | **31.6** | **32.9** | **33.9** | **36.7** | **36.2** | **35.8** | **35.2** | **34.2** |
| Current revenue | 28.3 | 31.6 | 32.9 | 33.9 | 36.7 | 36.2 | 35.8 | 35.2 | 34.2 |
| Tax revenue | 20.9 | 22.4 | 23.9 | 26.2 | 29.2 | 27.9 | 27.8 | 27.4 | 28.0 |
| Taxes on income | 6.2 | 6.5 | 6.6 | 7.5 | 8.6 | 7.3 | 7.7 | 7.7 | 7.7 |
| Taxes on property | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 | 0.7 | 0.4 | 0.5 | 0.5 |
| Taxes on domestic goods and consumption | 4.1 | 4.4 | 4.6 | 5.2 | 5.8 | 6.8 | 6.3 | 6.3 | 6.6 |
| Taxes on international trade and transactions | 10.2 | 11.0 | 12.2 | 13.0 | 14.3 | 13.2 | 13.4 | 12.9 | 13.2 |
| Nontax revenue 2/ | 7.3 | 9.2 | 9.0 | 7.7 | 7.6 | 8.3 | 8.0 | 7.8 | 6.2 |
| Capital revenue | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total expenditure and net lending** | **41.6** | **53.9** | **42.5** | **42.1** | **43.5** | **44.2** | **44.5** | **46.1** | **38.1** |
| Current expenditure | 33.2 | 34.5 | 34.1 | 34.9 | 36.9 | 36.0 | 35.3 | 35.5 | 32.2 |
| Wages and salaries | 15.2 | 15.2 | 14.7 | 14.8 | 13.8 | 12.7 | 12.4 | 12.4 | 11.9 |
| Goods and services | 8.6 | 8.3 | 8.1 | 8.9 | 9.7 | 9.5 | 9.3 | 9.4 | 6.9 |
| Interest | 5.7 | 7.4 | 7.6 | 7.1 | 8.1 | 9.6 | 9.5 | 9.5 | 9.1 |
| Domestic | 3.7 | 4.0 | 3.2 | 2.8 | 4.1 | 6.5 | 6.6 | 6.8 | 6.3 |
| Foreign | 2.0 | 3.3 | 4.5 | 4.3 | 4.0 | 3.1 | 2.9 | 2.7 | 2.8 |
| Transfers | 3.7 | 3.5 | 3.6 | 4.1 | 5.3 | 4.1 | 4.2 | 4.2 | 4.3 |
| Net lending | 0.0 | 5.4 | 1.4 | 1.1 | 0.0 | 0.7 | 1.3 | 1.5 | 0.0 |
| Capital expenditure 3/ | 8.5 | 14.0 | 7.0 | 6.2 | 6.7 | 7.6 | 7.9 | 9.1 | 5.9 |
| **Current balance** | **-4.9** | **-2.9** | **-1.2** | **-1.0** | **-0.1** | **0.3** | **0.5** | **-0.3** | **2.0** |
| Overall balance (before grants) | -13.4 | -22.4 | -9.6 | -8.2 | -6.8 | -8.0 | -8.7 | -10.8 | -3.9 |
| Grants | 0.5 | 3.0 | 0.6 | 0.4 | 2.7 | 2.7 | 1.5 | 1.1 | 1.1 |
| **Overall balance (after grants)** | **-12.9** | **-19.4** | **-9.0** | **-7.9** | **-4.1** | **-5.3** | **-7.1** | **-9.8** | **-2.8** |
| Primary balance | -7.2 | -12.0 | -1.4 | -0.8 | 4.0 | 4.3 | 2.4 | -0.2 | 6.2 |
| Financing | 16.2 | 11.9 | 11.6 | 10.6 | 11.2 | 10.3 | 7.1 | 6.1 | 2.8 |
| Net foreign financing | 14.1 | 11.0 | 14.5 | 1.5 | -1.1 | 0.2 | -0.9 | -0.9 | 1.5 |
| Drawings | 16.1 | 14.1 | 19.1 | 5.8 | 0.6 | 3.4 | 3.7 | 4.4 | 7.0 |
| Amortization | 2.0 | 2.8 | 4.3 | 4.2 | 4.7 | 3.7 | 4.6 | 5.3 | 5.6 |
| Other 4/ | -0.1 | -0.4 | -0.3 | -0.1 | 3.0 | 0.6 | 0.0 | 0.0 | 0.0 |
| Net domestic financing | 1.8 | 0.2 | -3.1 | 8.7 | 11.9 | 9.6 | 5.0 | 6.0 | -1.6 |
| Banking system | 1.3 | -1.6 | -7.0 | 5.7 | 7.5 | 7.9 | 4.7 | 2.7 | -2.3 |
| Nonbanks | 0.5 | 1.8 | 3.9 | 2.9 | 4.4 | 0.9 | 0.1 | 3.3 | 0.7 |
| Capitalized interest arrears of SSMC debt 5/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.8 | 0.3 | 0.0 | 0.0 |
| Sale/purchase of assets | 0.4 | 0.7 | 0.2 | 0.4 | 0.3 | 0.5 | 3.0 | 1.0 | 3.0 |
| Statistical discrepancy | -3.3 | 7.5 | -2.6 | -2.8 | -7.1 | -5.0 | 0.0 | 0.0 | 0.0 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 3.7 | 0.0 |
| **Memorandum items:** | | | | | | | | | |
| Public sector debt (end of period) | 139.7 | 163.0 | 181.5 | 195.0 | 194.8 | 184.6 | 180.4 | 181.9 | 170.8 |
| *Of which* | | | | | | | | | |
| Central government 6/ | 90.7 | 108.6 | 119.4 | 121.2 | 117.2 | 112.6 | 109.7 | 112.2 | 102.7 |
| Domestic | 49.1 | 56.4 | 53.6 | 59.6 | 66.8 | 67.7 | 68.3 | 74.1 | 62.5 |
| External | 41.6 | 52.2 | 65.8 | 61.5 | 50.4 | 44.9 | 41.3 | 38.1 | 40.3 |

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 decline of nontax revenue under 2008 active relative to baseline reflects the corporatization of electricity department in mid-2008.
3/ The increase in 2007 largely reflects projects to improve roads in Nevis.
4/ IMF purchases and repurchases, and changes in the foreign assets of the federal government.
5/ Held in the Development Bank.
6/ Excluding SSMC debt taken over by the government from 2005.

Table 4. St. Kitts and Nevis: Structure of the Public Debt, 2001–07 1/

(In millions of U.S. dollars, unless otherwise stated)

| | 2001 | 2002 | 2003 | 2004 | 2005 | Prel. 2006 | Prel. 2007Q1 | Prel. 2007Q2 |
|---|---|---|---|---|---|---|---|---|
| **Total stock of debt** | **478.4** | **571.9** | **656.9** | **778.4** | **853.0** | **913.8** | **926.2** | **928.9** |
| (In percent of GDP) | 139.7 | 163.0 | 181.5 | 195.0 | 194.8 | 184.6 | 175.8 | 176.3 |
| **Total external debt (by debtor)** | **223.5** | **266.4** | **320.6** | **341.5** | **337.3** | **331.0** | **328.3** | **322.3** |
| St. Kitts Government | 105.8 | 138.9 | 185.5 | 180.7 | 173.8 | 178.3 | 176.8 | 175.0 |
| Nevis Island Administration | 36.5 | 44.4 | 52.9 | 65.0 | 47.0 | 44.1 | 43.1 | 42.7 |
| Public enterprises 2/ | 81.2 | 83.1 | 82.2 | 95.9 | 116.5 | 108.6 | 108.3 | 104.7 |
| **Total external debt (by creditor)** | **223.5** | **266.4** | **320.6** | **341.5** | **337.3** | **331.0** | **328.3** | **322.3** |
| Bilateral | 41.3 | 41.2 | 47.7 | 42.7 | 36.4 | 41.2 | 43.6 | 41.3 |
| Taiwan, Province of China | 21.9 | 20.4 | 18.5 | 17.1 | 15.3 | 24.0 | 26.5 | 25.9 |
| Kuwait | 9.6 | 11.9 | 11.8 | 11.2 | 9.9 | 8.4 | 8.3 | 7.7 |
| Other | 9.8 | 9.0 | 17.3 | 14.4 | 11.2 | 8.8 | 8.8 | 7.6 |
| Multilateral | 63.6 | 84.3 | 91.7 | 97.6 | 98.9 | 105.6 | 106.7 | 106.4 |
| CDB | 49.4 | 68.2 | 72.7 | 76.9 | 79.8 | 84.4 | 85.0 | 85.4 |
| World Bank | 7.9 | 10.1 | 11.9 | 13.2 | 13.0 | 14.5 | 2.5 | 2.5 |
| Other | 6.2 | 5.9 | 7.0 | 7.5 | 6.1 | 6.7 | 19.2 | 18.5 |
| Commercial and other | 118.6 | 140.8 | 181.2 | 201.2 | 202.0 | 184.2 | 178.0 | 174.7 |
| **Total domestic debt (by debtor)** | **254.9** | **305.5** | **336.4** | **436.8** | **515.8** | **582.8** | **597.9** | **606.5** |
| St. Kitts Government | 153.4 | 178.0 | 168.0 | 207.8 | 255.9 | 289.8 | 301.7 | 306.5 |
| Nevis Island Administration | 14.6 | 19.8 | 25.9 | 30.3 | 36.6 | 45.2 | 49.1 | 50.3 |
| Public enterprises 2/ | 86.9 | 107.7 | 142.5 | 198.7 | 223.2 | 247.8 | 247.1 | 249.7 |
| **Total domestic debt (by instruments)** | **254.9** | **305.5** | **336.4** | **436.8** | **515.8** | **582.8** | **597.9** | **606.5** |
| Loans and advances | 157.7 | 171.9 | 186.8 | 268.3 | 326.7 | 402.2 | 418.9 | 428.4 |
| Treasury bills | 90.7 | 95.1 | 111.6 | 130.4 | 152.4 | 144.0 | 141.9 | 140.7 |
| Debentures | 6.4 | 10.7 | 10.2 | 10.3 | 9.0 | 10.4 | 10.4 | 10.4 |
| Regional government securities market | 0.0 | 27.8 | 27.8 | 27.8 | 15.6 | 15.6 | 15.6 | 15.6 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 12.1 | 10.6 | 11.1 | 11.5 |
| **Total domestic debt (by creditor)** | **254.9** | **305.5** | **336.4** | **436.8** | **515.8** | **582.8** | **597.9** | **606.5** |
| ECCB | 2.3 | 2.6 | 3.7 | 4.8 | 4.8 | 5.0 | 5.5 | 5.3 |
| Commercial banks | 180.4 | 189.3 | 196.3 | 262.2 | 326.7 | 384.0 | 395.1 | 404.3 |
| *Of which* | | | | | | | | |
| Overdrafts 3/ | 32.5 | 36.2 | 0.0 | 105.3 | 166.4 | 259.4 | 300.6 | 311.6 |
| Social security | 40.8 | 63.0 | 69.3 | 80.9 | 84.1 | 87.4 | 87.2 | 87.1 |
| Other | 31.4 | 50.7 | 67.0 | 89.0 | 100.1 | 106.3 | 110.1 | 109.9 |
| **Memorandum items (in percent of GDP):** | | | | | | | | |
| Debt of St. Kitts Sugar Manufacturing Corporation | 21.1 | 24.4 | 27.6 | 28.8 | 29.2 | 26.6 | 25.1 | 25.2 |
| Public sector debt excluding debt to social security system | 127.8 | 145.0 | 162.3 | 174.7 | 175.6 | 167.0 | ... | ... |
| Net assets of Social Security Board | 54.2 | 58.6 | 64.0 | 63.8 | 64.1 | 62.3 | ... | ... |

Sources: St. Kitts and Nevis authorities; ECCB; and financial statements of public enterprises.

1/ Public debt comprises debts of the St. Kitts government, Nevis Island Administration, and public enterprises, including government guaranteed debt and debt to the social security system but excluding all other intra-public sector debt.

2/ Including SSMC.

3/ For central government only.

Table 5. St Kitts and Nevis: Balance of Payments, Baseline, 2002–12

| | 2002 | 2003 | 2004 | 2005 | Prel. 2006 | Projections 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| (In millions of Eastern Caribbean dollars) | | | | | | | | | | | |
| **Current account** | **-370.5** | **-341.1** | **-217.5** | **-267.7** | **-388.1** | **-441.2** | **-455.9** | **-447.6** | **-431.8** | **-419.2** | **-413.8** |
| Trade balance | -316.5 | -320.3 | -276.0 | -352.9 | -430.8 | -467.5 | -493.3 | -494.8 | -495.6 | -500.1 | -509.0 |
| Exports, f.o.b. | 163.0 | 153.9 | 158.3 | 147.1 | 158.3 | 167.0 | 174.7 | 181.4 | 189.0 | 197.3 | 206.3 |
| Of which | | | | | | | | | | | |
| Sugar | 0.1 | 19.5 | 25.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Imports f.o.b. | -479.5 | -474.2 | -434.2 | -500.1 | -589.2 | -634.4 | -668.0 | -676.2 | -684.6 | -697.5 | -715.3 |
| Of which | | | | | | | | | | | |
| Mineral fuel | -24.3 | -47.9 | -53.4 | -74.1 | -88.0 | -93.8 | -102.7 | -98.9 | -96.5 | -95.2 | -94.1 |
| Services and transfers (net) | -54.0 | -20.8 | 58.5 | 85.3 | 42.7 | 26.3 | 37.3 | 47.2 | 63.8 | 80.9 | 95.2 |
| Services (net) | 31.2 | 74.8 | 146.7 | 162.1 | 121.9 | 101.9 | 112.9 | 121.0 | 134.0 | 146.7 | 160.5 |
| Services (receipts) | 243.7 | 291.3 | 364.9 | 410.3 | 424.9 | 424.3 | 454.9 | 479.1 | 505.8 | 531.7 | 559.1 |
| *Of which* | | | | | | | | | | | |
| Tourism receipts | 154.3 | 203.5 | 277.1 | 309.2 | 314.1 | 307.9 | 331.3 | 352.0 | 375.7 | 399.2 | 424.1 |
| Services (payments) | -212.5 | -216.4 | -218.2 | -248.2 | -303.0 | -322.4 | -342.0 | -358.1 | -371.7 | -385.0 | -398.6 |
| Factor income (net) | -129.6 | -145.8 | -137.4 | -132.4 | -133.4 | -133.0 | -135.5 | -137.7 | -137.6 | -136.9 | -140.2 |
| *Of which* | | | | | | | | | | | |
| Public sector interest | -45.3 | -55.8 | -57.3 | -60.7 | -59.8 | -54.8 | -52.5 | -50.8 | -47.4 | -43.5 | -43.5 |
| Transfers (net) | 44.4 | 50.2 | 49.2 | 55.6 | 54.2 | 57.4 | 59.9 | 63.9 | 67.4 | 71.1 | 75.0 |
| Official (net) | -1.1 | -1.2 | -3.6 | -2.7 | -3.9 | -2.5 | -1.8 | -0.7 | -0.7 | -0.7 | -0.7 |
| Private (net) | 45.5 | 51.4 | 52.8 | 58.4 | 58.1 | 59.9 | 61.7 | 64.5 | 68.0 | 71.8 | 75.6 |
| **Capital and financial account** | **357.5** | **302.6** | **238.2** | **149.6** | **384.5** | **441.2** | **455.9** | **447.6** | **431.8** | **419.2** | **413.8** |
| Official | 143.1 | 147.6 | 61.9 | 39.1 | -0.2 | -22.4 | -6.1 | -45.2 | -53.2 | -58.2 | -51.7 |
| Capital transfers (net) | 30.7 | 6.1 | 7.3 | 31.6 | 26.5 | 16.7 | 12.2 | 4.6 | 4.6 | 4.6 | 4.6 |
| Long-term borrowing (net) | 112.3 | 141.5 | 54.6 | 7.5 | -26.7 | -39.1 | -18.2 | -49.8 | -57.7 | -62.8 | -56.2 |
| Disbursements | 152.6 | 199.0 | 133.4 | 81.4 | 59.7 | 55.9 | 91.0 | 33.9 | 19.9 | 11.7 | 10.0 |
| Amortization | 40.2 | 57.6 | 79.8 | 73.9 | 86.5 | 95.0 | 109.2 | 83.6 | 77.7 | 74.5 | 66.2 |
| Private capital | 214.4 | 155.0 | 176.3 | 110.5 | 384.7 | 463.6 | 462.0 | 492.8 | 485.0 | 477.4 | 465.5 |
| Capital transfers (net) | 8.7 | 8.4 | 7.2 | 8.2 | 8.4 | 8.2 | 8.0 | 8.0 | 8.1 | 8.2 | 8.3 |
| Foreign direct investment (net) | 215.4 | 204.2 | 124.6 | 230.8 | 539.1 | 418.6 | 443.7 | 458.9 | 463.2 | 469.5 | 477.1 |
| Portfolio investment (net) | 18.2 | -1.1 | -62.8 | 9.0 | 9.0 | 9.0 | 9.0 | 9.0 | 9.0 | 9.0 | 9.0 |
| Short-term capital (net) | -51.9 | -89.8 | 152.1 | -107.9 | -184.5 | -128.6 | -22.5 | -17.8 | -10.8 | -18.9 | -14.4 |
| Other private (net) | 24.1 | 33.4 | -44.7 | -29.6 | 12.7 | 156.4 | 23.7 | 34.7 | 15.4 | 9.6 | -14.6 |
| Errors and omissions | 42.5 | 36.6 | 17.1 | 99.6 | 49.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Overall balance** | **29.5** | **-1.9** | **37.9** | **-18.5** | **46.1** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| (In percent of GDP) | | | | | | | | | | | |
| Current account | -39.1 | -34.9 | -20.2 | -22.6 | -29.0 | -31.0 | -30.2 | -28.3 | -26.3 | -24.7 | -23.5 |
| Exports of goods and nonfactor services | 42.9 | 45.5 | 48.5 | 47.1 | 43.6 | 41.6 | 41.7 | 41.8 | 42.4 | 42.9 | 43.5 |
| Merchandise exports | 17.2 | 15.7 | 14.7 | 12.4 | 11.8 | 11.7 | 11.6 | 11.5 | 11.5 | 11.6 | 11.7 |
| Nonfactor services | 25.7 | 29.8 | 33.9 | 34.7 | 31.8 | 29.8 | 30.2 | 30.3 | 30.8 | 31.3 | 31.8 |
| Of which | | | | | | | | | | | |
| Tourism receipts | 16.3 | 20.8 | 25.7 | 26.1 | 23.5 | 21.6 | 22.0 | 22.3 | 22.9 | 23.5 | 24.1 |
| Imports of goods and nonfactor services | -73.0 | -70.7 | -60.5 | -63.3 | -66.8 | -67.3 | -67.0 | -65.5 | -64.4 | -63.7 | -63.4 |
| Merchandise imports | -50.6 | -48.5 | -40.3 | -42.3 | -44.1 | -44.6 | -44.3 | -42.8 | -41.8 | -41.1 | -40.7 |
| Nonfactor services | -22.4 | -22.1 | -20.2 | -21.0 | -22.7 | -22.7 | -22.7 | -22.7 | -22.7 | -22.7 | -22.7 |
| Foreign direct investment (net) | 22.7 | 20.9 | 11.6 | 19.5 | 40.3 | 29.4 | 29.4 | 29.0 | 28.2 | 27.7 | 27.1 |
| External public debt | 75.9 | 88.5 | 85.5 | 77.0 | 66.9 | 60.1 | 55.4 | 49.8 | 44.4 | 39.2 | 34.7 |
| (Annual percentage change) | | | | | | | | | | | |
| Merchandise exports | 9.7 | -5.6 | 2.8 | -7.0 | 7.6 | 5.4 | 4.6 | 3.8 | 4.2 | 4.4 | 4.5 |
| Tourism receipts | -7.6 | 31.9 | 36.2 | 11.6 | 1.6 | -2.0 | 7.6 | 6.2 | 6.7 | 6.2 | 6.2 |
| Merchandise imports | 6.6 | -1.1 | -8.4 | 15.2 | 17.8 | 7.7 | 5.3 | 1.2 | 1.2 | 1.9 | 2.6 |
| Terms of trade | 0.2 | 0.2 | -3.6 | -5.9 | -5.7 | -0.6 | 0.5 | 2.3 | 2.1 | 1.4 | 1.0 |
| (In percent of exports of goods and nonfactor services) | | | | | | | | | | | |
| External public debt | 176.8 | 194.4 | 176.3 | 163.3 | 153.2 | 144.5 | 132.8 | 119.0 | 104.9 | 91.3 | 79.6 |
| External debt service | 21.0 | 25.5 | 26.2 | 24.1 | 25.1 | 25.3 | 25.7 | 20.4 | 18.0 | 16.2 | 14.3 |
| *Of which* | | | | | | | | | | | |
| Interest | 10.8 | 12.1 | 10.5 | 10.3 | 9.7 | 8.7 | 7.9 | 7.2 | 6.4 | 5.6 | 5.4 |

Sources: ECCB; and Fund staff estimates and projections.

Table 6. St. Kitts and Nevis: Monetary Survey, 2001–07

| | 2001 | 2002 | 2003 | 2004 | 2005 | Prel. 2006 | Proj. 2007 |
|---|---|---|---|---|---|---|---|
| | | | (In millions of EC$) | | | | |
| **Net foreign assets** | **242.6** | **324.0** | **438.9** | **387.6** | **480.7** | **562.1** | **690.7** |
| ECCB imputed reserves | 147.7 | 176.6 | 174.6 | 211.5 | 193.0 | 239.1 | 239.1 |
| Crown agents | 8.9 | 9.5 | 9.6 | 10.6 | 10.6 | 10.6 | 10.6 |
| Commercial banks | 86.0 | 137.9 | 254.7 | 165.5 | 277.0 | 312.3 | 441.0 |
| **Net domestic assets** | **551.6** | **520.8** | **464.1** | **715.2** | **670.2** | **736.2** | **790.7** |
| Net credit to the public sector | 130.4 | 143.0 | 51.4 | 216.4 | 318.0 | 392.1 | 445.6 |
| Net credit to central government | 286.2 | 266.7 | 198.2 | 263.0 | 351.7 | 422.5 | 488.6 |
| Net credit to St. Kitts | 250.5 | 226.1 | 160.1 | 216.0 | 296.7 | 397.5 | 445.5 |
| Net credit to Nevis | 35.7 | 40.6 | 38.1 | 47.0 | 55.0 | 25.0 | 43.1 |
| Net credit to nonfinancial public sector | -155.8 | -123.7 | -146.8 | -46.5 | -33.7 | -30.3 | -43.1 |
| Net credit to nonbank financial institutions | -4.5 | -16.0 | 25.1 | 48.8 | 41.0 | 37.9 | 40.0 |
| Credit to the private sector | 675.3 | 658.9 | 687.4 | 748.5 | 804.6 | 899.5 | 985.1 |
| Net other assets 1/ | -249.6 | -265.1 | -299.8 | -298.5 | -493.4 | -593.3 | -680.0 |
| **Broad money (M2)** | **794.2** | **844.8** | **903.0** | **1102.9** | **1150.8** | **1298.3** | **1481.4** |
| Money | 106.2 | 119.9 | 133.1 | 166.9 | 163.7 | 184.5 | 210.5 |
| Currency in circulation | 36.1 | 37.7 | 39.9 | 44.6 | 49.9 | 55.1 | 62.9 |
| Demand deposits | 70.1 | 82.2 | 93.2 | 122.3 | 113.8 | 129.4 | 147.6 |
| Quasi-money | 688.1 | 724.9 | 769.9 | 936.0 | 987.1 | 1113.8 | 1270.9 |
| Savings deposits | 305.9 | 335.0 | 361.2 | 418.2 | 468.1 | 518.9 | 555.3 |
| Time deposits | 147.3 | 153.6 | 144.6 | 203.5 | 183.3 | 188.1 | 232.7 |
| Foreign currency deposits | 234.8 | 236.3 | 264.2 | 314.2 | 335.7 | 406.8 | 482.9 |
| | | | (Percentage change relative to broad money at beginning of period) | | | | |
| Net foreign assets | 10.4 | 10.2 | 13.6 | -5.7 | 8.4 | 7.1 | 9.9 |
| Net domestic assets | -8.2 | -3.9 | -6.7 | 27.8 | -4.1 | 5.7 | 4.2 |
| Net credit to the public sector | 1.3 | 1.6 | -10.8 | 18.3 | 9.2 | 6.4 | 4.1 |
| Net credit to central government | 1.7 | -2.5 | -8.1 | 7.2 | 8.0 | 6.2 | 5.1 |
| Net credit to nonfinancial public sector | -0.4 | 4.0 | -2.7 | 11.1 | 1.2 | 0.3 | -1.0 |
| Net credit to nonbank financial institutions | -0.1 | -1.4 | 4.9 | 2.6 | -0.7 | -0.3 | 0.2 |
| Credit to the private sector | -0.7 | -2.1 | 3.4 | 6.8 | 5.1 | 8.2 | 6.6 |
| Net other assets 1/ | -8.7 | -1.9 | -4.1 | 0.1 | -17.7 | -8.7 | -6.7 |
| | | | (Annual percentage change) | | | | |
| Broad money (M2) | 2.3 | 6.4 | 6.9 | 22.1 | 4.3 | 12.8 | 14.1 |
| Money | -3.6 | 12.9 | 11.0 | 25.4 | -1.9 | 12.7 | 14.1 |
| Currency in circulation | -11.1 | 4.4 | 5.9 | 11.7 | 11.8 | 10.5 | 14.1 |
| Demand deposits | 0.8 | 17.3 | 13.4 | 31.2 | -6.9 | 13.7 | 14.1 |
| Quasi-money | 3.2 | 5.4 | 6.2 | 21.6 | 5.5 | 12.8 | 14.1 |
| Savings deposits | 6.6 | 9.5 | 7.8 | 15.8 | 11.9 | 10.9 | 7.0 |
| Time deposits | 13.0 | 4.3 | -5.9 | 40.8 | -9.9 | 2.6 | 23.7 |
| Foreign currency deposits | -5.7 | 0.6 | 11.8 | 19.0 | 6.8 | 21.2 | 18.7 |
| Credit to the private sector (in nominal terms) | -0.8 | -2.4 | 4.3 | 8.9 | 7.5 | 11.8 | 9.5 |
| Credit to the private sector (in real terms) | -3.3 | -4.2 | 1.4 | 7.1 | 1.4 | 3.6 | 5.3 |
| **Memorandum items:** | | | | | | | |
| Income velocity of money | 8.7 | 7.9 | 7.3 | 6.5 | 7.2 | 7.2 | 6.8 |
| Income velocity of broad money | 1.2 | 1.1 | 1.1 | 1.0 | 1.0 | 1.0 | 1.0 |
| Private sector credit/GDP (in percent) | 73.0 | 69.5 | 70.3 | 69.4 | 68.1 | 67.3 | 69.3 |
| Foreign currency deposits/GDP (in percent) | 25.4 | 24.9 | 27.0 | 29.2 | 28.4 | 30.4 | 34.0 |

Sources: ECCB; and Fund staff estimates and projections.

1/ Includes subsidiaries and affiliates and capital accounts.

Table 7. St Kitts and Nevis: Summary Medium-Term Projections, 2004–12
(In percent of GDP, unless otherwise noted)

| | | | Prel. | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| | | | I. Baseline Scenario | | | | | | |
| **National accounts and prices** | | | | | | | | | |
| Real GDP at factor cost (percent change) | 7.3 | 4.4 | 4.0 | 3.3 | 3.5 | 2.7 | 2.3 | 2.0 | 2.0 |
| CPI inflation, end of period (percent change) | 1.7 | 6.0 | 7.9 | 4.0 | 2.5 | 2.2 | 2.2 | 2.2 | 2.2 |
| **Savings-investment balance** | | | | | | | | | |
| Domestic expenditures | 112.0 | 116.1 | 123.1 | 125.7 | 125.2 | 123.7 | 122.0 | 120.8 | 119.8 |
| Consumption | 68.2 | 73.7 | 69.1 | 75.7 | 75.2 | 73.7 | 74.0 | 72.8 | 71.8 |
| Gross capital formation | 43.8 | 42.4 | 54.0 | 50.0 | 50.0 | 50.0 | 48.0 | 48.0 | 48.0 |
| Net exports | -12.0 | -16.1 | -23.1 | -25.7 | -25.2 | -23.7 | -22.0 | -20.8 | -19.8 |
| Gross national savings | 23.6 | 19.8 | 25.0 | 19.0 | 19.8 | 21.7 | 21.7 | 23.3 | 24.5 |
| Savings-investment gap | 20.2 | 22.6 | 29.0 | 31.0 | 30.2 | 28.3 | 26.3 | 24.7 | 23.5 |
| **Central government accounts** | | | | | | | | | |
| Total revenue and grants | 34.3 | 39.5 | 38.9 | 37.4 | 36.3 | 34.0 | 32.9 | 33.4 | 33.4 |
| Tax revenue | 26.2 | 29.2 | 27.9 | 27.8 | 27.4 | 27.5 | 28.0 | 28.5 | 28.5 |
| Nontax revenue, including capital revenue 1/ | 7.7 | 7.6 | 8.3 | 8.0 | 7.8 | 6.1 | 4.5 | 4.5 | 4.5 |
| Grants | 0.4 | 2.7 | 2.7 | 1.5 | 1.1 | 0.4 | 0.4 | 0.4 | 0.3 |
| Expenditure and net lending | 42.1 | 43.5 | 44.2 | 44.5 | 46.1 | 44.5 | 43.2 | 43.7 | 44.3 |
| Current | 34.9 | 36.9 | 36.0 | 35.3 | 35.5 | 34.0 | 32.6 | 33.2 | 33.7 |
| Wages and salaries | 14.8 | 13.8 | 12.7 | 12.4 | 12.4 | 12.4 | 12.5 | 12.5 | 12.6 |
| Goods and services 1/ | 8.9 | 9.7 | 9.5 | 9.3 | 9.4 | 7.3 | 5.3 | 5.4 | 5.5 |
| Interest | 7.1 | 8.1 | 9.6 | 9.5 | 9.5 | 10.1 | 10.5 | 11.0 | 11.4 |
| Transfers | 4.1 | 5.3 | 4.1 | 4.2 | 4.2 | 4.3 | 4.3 | 4.3 | 4.3 |
| Capital | 6.2 | 6.7 | 7.6 | 7.9 | 9.1 | 9.1 | 9.1 | 9.1 | 9.1 |
| Net lending | 1.1 | 0.0 | 0.7 | 1.3 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Current balance | -1.0 | -0.1 | 0.3 | 0.5 | -0.3 | -0.4 | -0.1 | -0.2 | -0.7 |
| Primary balance | -0.8 | 4.0 | 4.3 | 2.4 | -0.2 | -0.5 | 0.3 | 0.6 | 0.5 |
| Overall balance | -7.9 | -4.1 | -5.3 | -7.1 | -9.8 | -10.5 | -10.2 | -10.3 | -10.9 |
| External financing | 1.5 | -1.1 | 0.2 | -0.9 | -0.9 | -1.8 | -2.1 | -2.3 | -2.2 |
| Domestic financing | 8.7 | 11.9 | 9.6 | 5.0 | 6.0 | 5.8 | 5.7 | 5.2 | 5.5 |
| Asset sales | 0.4 | 0.3 | 0.5 | 3.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Statistical discrepenacy | -2.8 | -7.1 | -5.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 3.7 | 5.5 | 5.6 | 6.4 | 6.6 |
| **Total public debt (end of period)** | **195.0** | **194.8** | **184.6** | **180.4** | **181.9** | **185.0** | **189.1** | **193.5** | **198.6** |
| *Of which* | | | | | | | | | |
| External debt | 85.5 | 77.0 | 66.9 | 60.1 | 55.4 | 49.8 | 44.4 | 39.2 | 34.7 |
| | | | II. Active Scenario | | | | | | |
| **National accounts and prices** | | | | | | | | | |
| Real GDP growth (percent change) | 7.3 | 4.4 | 4.0 | 3.3 | 4.0 | 4.1 | 4.1 | 4.2 | 4.2 |
| CPI inflation, end of period (percent change) | 1.7 | 6.0 | 8.4 | 4.0 | 2.5 | 2.2 | 2.2 | 2.2 | 2.2 |
| **Central government accounts** | | | | | | | | | |
| Total revenue and grants | 34.3 | 39.5 | 38.9 | 37.4 | 35.3 | 33.4 | 34.5 | 34.6 | 34.7 |
| Tax revenue | 26.2 | 29.2 | 27.9 | 27.8 | 28.0 | 28.2 | 29.3 | 29.4 | 29.5 |
| Nontax revenue, including capital revenue 2/ | 7.7 | 7.6 | 8.3 | 8.0 | 6.2 | 4.7 | 4.7 | 4.7 | 4.7 |
| Grants | 0.4 | 2.7 | 2.7 | 1.5 | 1.1 | 0.5 | 0.5 | 0.4 | 0.4 |
| Expenditure and net lending | 42.1 | 43.5 | 44.2 | 44.5 | 38.1 | 35.3 | 34.7 | 33.9 | 33.0 |
| Current | 34.9 | 36.9 | 36.0 | 35.3 | 32.2 | 29.4 | 28.8 | 28.0 | 27.1 |
| Wages and salaries | 14.8 | 13.8 | 12.7 | 12.4 | 11.9 | 11.6 | 11.3 | 11.0 | 10.7 |
| Goods and services 2/ | 8.9 | 9.7 | 9.5 | 9.3 | 6.9 | 4.8 | 4.7 | 4.7 | 4.6 |
| Interest | 7.1 | 8.1 | 9.6 | 9.5 | 9.1 | 8.7 | 8.2 | 7.6 | 6.9 |
| Transfers | 4.1 | 5.3 | 4.1 | 4.2 | 4.3 | 4.3 | 4.6 | 4.8 | 4.9 |
| Capital | 6.2 | 6.7 | 7.6 | 7.9 | 5.9 | 5.9 | 5.9 | 5.9 | 5.9 |
| Net lending | 1.1 | 0.0 | 0.7 | 1.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Current balance | -1.0 | -0.1 | 0.3 | 0.5 | 2.0 | 3.5 | 5.2 | 6.1 | 7.2 |
| Primary balance | -0.8 | 4.0 | 4.3 | 2.4 | 6.2 | 6.8 | 8.0 | 8.2 | 8.6 |
| Overall balance | -7.9 | -4.1 | -5.3 | -7.1 | -2.8 | -1.9 | -0.2 | 0.7 | 1.7 |
| External financing | 1.5 | -1.1 | 0.2 | -0.9 | 1.5 | 0.2 | -0.4 | -0.6 | -0.6 |
| Domestic financing | 8.7 | 11.9 | 9.6 | 5.0 | -1.6 | -1.3 | -2.4 | -3.0 | -4.1 |
| Asset sales | 0.4 | 0.3 | 0.5 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Statistical discrepenacy | -2.8 | -7.1 | -5.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total public debt (end of period)** | **195.0** | **194.8** | **184.6** | **180.4** | **170.8** | **160.3** | **149.3** | **137.9** | **126.3** |
| *Of which* | | | | | | | | | |
| External debt | 85.5 | 77.0 | 66.9 | 60.1 | 57.5 | 53.1 | 48.5 | 43.9 | 40.0 |
| **Total public debt with EU grants (end of period)** | **195.0** | **194.8** | **184.6** | **180.4** | **168.1** | **155.0** | **141.5** | **124.3** | **110.2** |

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

1/ Asssumes that Electricity Department is corporatized and removed from central government accounts during 2009.
2/ Asssumes that Electricity Department is corporatized and removed from central government accounts during 2008.

Table 8. St. Kitts and Nevis: Indicators of External and Financial Vulnerability, 2001–07

(12-month percentage change, unless otherwise stated)

| | 2001 | 2002 | 2003 | 2004 | 2005 | Prel. 2006 | Proj. 2007 |
|---|---|---|---|---|---|---|---|
| **External indicators** | | | | | | | |
| Merchandise exports | 6.9 | 9.7 | -5.6 | 2.8 | -7.0 | 7.6 | 5.4 |
| Merchandise imports | -3.5 | 6.6 | -1.1 | -8.4 | 15.2 | 17.8 | 7.7 |
| Terms of trade deterioration (-) | 1.9 | 0.2 | 0.2 | -3.6 | -5.9 | -5.7 | -0.6 |
| Tourism earnings | 5.8 | -7.6 | 31.9 | 36.2 | 11.6 | 1.6 | -2.0 |
| Current account balance (percent of GDP) | -32.0 | -39.1 | -34.9 | -20.2 | -22.6 | -29.0 | -31.0 |
| Capital and financial account balance (percent of GDP) 1/ | 40.0 | 37.7 | 31.0 | 22.1 | 12.6 | 28.8 | 31.0 |
| *Of which* | | | | | | | |
| Foreign direct investment | 25.7 | 22.7 | 20.9 | 11.6 | 19.5 | 40.3 | 29.4 |
| Gross international reserves of the ECCB | | | | | | | |
| In millions of U.S. dollars | 446.0 | 504.8 | 539.9 | 632.4 | 600.8 | 696.0 | 770.2 |
| In percent of broad money | 19.1 | 20.2 | 19.8 | 20.5 | 17.9 | 18.6 | 18.6 |
| Commercial banks' net foreign assets (millions of U. S. dollars) | 31.8 | 51.1 | 94.3 | 61.3 | 102.6 | 115.7 | 163.3 |
| External public debt (percent of GDP) | 65.3 | 75.9 | 88.5 | 85.5 | 77.0 | 66.9 | 60.1 |
| External debt service (in percent of exports of goods and services) | 18.8 | 21.0 | 25.5 | 26.2 | 24.1 | 25.1 | 25.3 |
| *Of which* | | | | | | | |
| Interest | 7.4 | 10.8 | 12.1 | 10.5 | 10.3 | 9.7 | 8.7 |
| Nominal exchange rate (E.C. dollars per U.S. dollar, end period) | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 |
| Real effective exchange rate depreciation (-), end period 2/ | 1.8 | -3.3 | -3.9 | -4.0 | 5.4 | 0.5 | ... |
| **Financial indicators** | | | | | | | |
| Broad money | 2.3 | 6.4 | 6.9 | 22.1 | 4.3 | 12.8 | 14.1 |
| Credit to the private sector | -0.8 | -2.4 | 4.3 | 8.9 | 7.5 | 11.8 | 9.5 |
| Share of nonperforming assets to total assets of banks (percent) | 11.6 | 12.7 | 8.6 | 7.8 | 6.1 | 4.8 | ... |
| Provisions for loan losses/nonperforming assets (percent) | 30.5 | 27.2 | 23.2 | 17.0 | 19.3 | 24.3 | ... |
| Provisions for loan losses/total loans (percent) | 3.5 | 3.4 | 2.0 | 1.3 | 1.2 | 1.2 | ... |
| Gross government exposure/total assets (percent) | 28.4 | 25.8 | 24.6 | 28.9 | 30.1 | 29.6 | ... |
| Total loans/total deposits (percent) | 80.9 | 79.0 | 71.7 | 75.0 | 80.4 | 85.1 | ... |
| Net liquid assets/total deposits (percent) | 32.2 | 34.2 | 39.7 | 33.1 | 34.3 | 33.8 | ... |
| Foreign currency deposits/total deposits (percent) | 21.3 | 21.3 | 20.9 | 22.0 | 21.1 | 25.0 | ... |
| Liquid assets/total deposits (percent) | 38.5 | 41.7 | 43.4 | 37.3 | 36.9 | 35.2 | ... |
| Liquid assets/current liabilities (percent) | 48.2 | 46.1 | 55.6 | 41.9 | 49.3 | 41.8 | ... |
| Total capital/total assets (percent) 3/ | 11.1 | 14.8 | 11.8 | 11.7 | 12.7 | 13.2 | ... |
| Total capital/risk weighted assets (percent) 3/ | 30.0 | 44.2 | 33.7 | 33.8 | 45.1 | 38.9 | ... |
| Tier 1 capital/risk weighted assets (percent) 3/ | 23.8 | 40.0 | 36.6 | 30.0 | 39.7 | 35.0 | ... |
| Ratio of bank's before-tax profits to average assets (percent) | 3.4 | 2.6 | 2.4 | 2.8 | 3.1 | 3.4 | ... |

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

1/ Includes errors and omissions.

2/ Estimated on the basis of weights given by the average trade share during 1999–2003.

3/ For locally incorporated banks only.

Table 9. St. Kitts and Nevis: Status of Policy Conditions for the First Disbursement of PBL 1/
(As of December 6, 2007)

| Conditions | Status |
|---|---|
| **General Fiscal Policy**<br>• Maintenance or strengthening of existing fiscal policy arrangements to achieve and maintain sustainable fiscal and debt outturns;<br>• Central Government primary balance not to fall below 3.5 percent of GDP 2/;<br>• IMF to have no objections to fiscal policy stance and policy arrangements. | **Pending**<br>Fiscal data for January to September 2007 indicated a primary balance of EC$42.2 million for the St. Kitts government. |
| **Revenue Measures**<br>• Completion of valuation of at least 17 percent of total registered properties for property tax assessment.<br>• Enactment and bringing into force of new Income Tax Act. | • **Done**. As of June 28, 2007, the Inland Revenue Department completed 17.2 percent of the total registered properties for property tax assessment.<br>• **Waived.** The authorities sent a letter to CDB requesting that this condition be waived and technical assistance be provided. The CDB has approved the waiver and added this condition for the second disbursement of the PBL. |
| **Expenditure Management**<br>Enactment and bringing into force of new Finance Administration Act. | **Done**<br>The Finance Administration Act formally went into effect on November 1, 2007. A letter from the Attorney General indicating that the FAA is in effect was received by CDB on November 29. |
| **Debt Management**<br>Consultants engaged to review the public debt to determine its features, characteristics and management arrangements, and to recommend arrangements for the comprehensive management and reporting of the public debt and for the integration of debt operations with budgetary management. | **Pending**<br>The Ministry of Finance has requested assistance from the Canadian International Development Agency (CIDA) to finance the engagement of consultants. CIDA confirmed that it would fund the consultants and would send short-term consultants before the end of the year. |
| **Land Sales**<br>Transparent arrangements in place, acceptable to CDB, for the orderly sale at market prices of 1,200 acres of land earmarked for sale by the government, with the proceeds being used for reducing the public debt. | **Pending**<br>A draft document detailing the arrangements for the land sale was prepared and is to be finalized by the Ministry of Sustainable Development. |
| **Privatization**<br>Consultants engaged to complete the framework for the post-corporatization management and operations of the electricity utility. | **Done**<br>The Ministry of Sustainable Development received CDB's "no objection" to proceed with the finalization of the agreement. The contract with the consultants was signed and a copy was sent to CDB. Consultants are engaged with the project. |

Sources: CDB; and the Ministry of Finance.

1/ Two sources of funds will be used for the PBL: US$12 million from Ordinary Capital Resources (OCR) and US$8 million from Special Funds Resources (SFR). (i) The OCR portion is to be repaid in 20 years, inclusive of a grace period of five years, at a variable interest rate (reviewed semi-annually). The rate at end-2006 was 6.25 percent per year. A commitment fee of 1 percent is also applied. If the CDB's Board of Directors agrees to establish an Interest Subsidization Fund (ISF), an interest subsidy of 2 percent could be applied. (ii) The SFR portion is to be repaid in 25 years, inclusive of a grace period of five years, at an interest rate of 2.5 percent per year.

2/ Referring to only the St. Kitts Government and excluding the NIA.

Table 10. St. Kitts and Nevis: Public Sector Debt Sustainability Framework, Baseline, 2002–12
(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | |
| | | | | | | | | I. Baseline Projections | | | | | | **Debt-stabilizing primary balance 1/** |
| **Public sector debt 2/** | 163.0 | 181.5 | 195.0 | 194.8 | 184.6 | | | **180.4** | **181.9** | **185.0** | **189.1** | **193.5** | **198.6** | **5.3** |
| *Of which*: Foreign-currency denominated | 75.9 | 88.5 | 85.5 | 77.0 | 66.9 | | | 60.1 | 55.4 | 49.8 | 44.4 | 39.2 | 34.7 | |
| Change in public sector debt | 23.2 | 18.5 | 13.5 | -0.2 | -10.2 | | | -4.2 | 1.4 | 3.1 | 4.1 | 4.4 | 5.1 | |
| Identified debt-creating flows | 27.7 | 12.1 | -1.3 | -5.5 | -14.6 | | | -6.3 | -1.0 | 1.6 | 2.7 | 3.1 | 3.5 | |
| Primary deficit | 20.2 | 5.9 | 5.0 | 0.2 | -2.6 | | | -3.1 | -0.5 | -0.6 | -1.4 | -1.8 | -1.6 | |
| Revenue and grants | 45.1 | 44.0 | 44.8 | 50.5 | 47.3 | | | 45.8 | 44.7 | 42.7 | 41.7 | 42.1 | 42.1 | |
| Primary (noninterest) expenditure | 65.3 | 49.9 | 49.8 | 50.6 | 44.8 | | | 42.7 | 44.2 | 42.1 | 40.2 | 40.4 | 40.5 | |
| Automatic debt dynamics 3/ | 7.4 | 6.5 | -5.9 | -5.3 | -11.5 | | | -0.2 | 0.6 | 3.2 | 5.1 | 5.8 | 6.1 | |
| Contribution from interest rate/growth differential 4/ | 7.4 | 6.5 | -5.9 | -5.3 | -11.5 | | | -0.2 | 0.6 | 3.2 | 5.1 | 5.8 | 6.1 | |
| *Of which:* Contribution from real interest rate | 8.8 | 7.2 | 6.7 | 3.2 | -0.5 | | | 5.5 | 6.5 | 7.8 | 9.2 | 9.5 | 9.9 | |
| *Of which:* Contribution from real GDP growth | -1.4 | -0.8 | -12.6 | -8.5 | -11.0 | | | -5.7 | -5.9 | -4.6 | -4.0 | -3.7 | -3.8 | |
| Contribution from exchange rate depreciation 5/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Other identified debt-creating flows | 0.0 | -0.2 | -0.4 | -0.3 | -0.5 | | | -3.0 | -1.0 | -1.0 | -1.0 | -1.0 | -1.0 | |
| Privatization receipts (negative) | 0.0 | -0.2 | -0.4 | -0.3 | -0.5 | | | -3.0 | -1.0 | -1.0 | -1.0 | -1.0 | -1.0 | |
| Recognition of implicit or contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Other (specify, e.g., bank recapitalization) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Residual, including asset changes | -4.4 | 6.4 | 14.8 | 5.3 | 4.4 | | | 2.2 | 2.4 | 1.6 | 1.4 | 1.3 | 1.6 | |
| Public sector debt-to-revenue ratio 2/ | 361.6 | 411.9 | 435.5 | 385.9 | 389.9 | | | 394.0 | 406.7 | 432.9 | 453.8 | 459.3 | 471.9 | |
| **Gross financing need 6/** | **85.0** | **79.3** | **75.7** | **93.6** | **67.1** | | | **69.8** | **74.5** | **76.6** | **80.0** | **90.5** | **95.2** | |
| In billions of U.S. dollars | 0.3 | 0.3 | 0.3 | 0.4 | 0.3 | | | 0.4 | 0.4 | 0.4 | 0.5 | 0.6 | 0.6 | |
| **Key Macroeconomic and Fiscal Assumptions** | | | | | | 10-Year Historical Average | 10-Year Standard Deviation | | | | | | | Projected Average |
| Real GDP growth (in percent) | 1.0 | 0.5 | 7.6 | 4.8 | 6.4 | 3.8 | 2.7 | 3.3 | 3.5 | 2.7 | 2.3 | 2.0 | 2.0 | 2.5 |
| Average nominal interest rate on public debt (in percent) 7/ | 8.0 | 7.2 | 6.7 | 6.7 | 6.4 | 7.1 | 0.5 | 6.3 | 6.4 | 6.6 | 6.7 | 6.8 | 6.8 | 6.6 |
| Average real interest rate (nominal rate minus change in GDP deflator, in percent) | 6.5 | 4.6 | 4.2 | 2.0 | 0.1 | 3.9 | 1.9 | 3.3 | 3.9 | 4.6 | 5.2 | 5.3 | 5.3 | 4.8 |
| Nominal appreciation (increase in US dollar value of local currency, in percent) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Inflation rate (GDP deflator, in percent) | 1.5 | 2.7 | 2.4 | 4.7 | 6.3 | 3.3 | 1.5 | 3.0 | 2.5 | 2.0 | 1.5 | 1.5 | 1.5 | 1.8 |
| Growth of real primary spending (deflated by GDP deflator, in percent) | 32.0 | -23.2 | 7.4 | 6.5 | -6.0 | 10.4 | 27.9 | -1.5 | 7.2 | -2.2 | -2.3 | 2.3 | 2.3 | 1.5 |
| Primary deficit | 20.2 | 5.9 | 5.0 | 0.2 | -2.6 | 7.5 | 6.5 | -3.1 | -0.5 | -0.6 | -1.4 | -1.8 | -1.6 | -1.2 |
| | | | | | | | | II. Stress Tests for Public Debt Ratio | | | | | | **Debt-stabilizing primary balance 1/** |
| **A. Alternative Scenarios** | | | | | | | | | | | | | | |
| A1. Key variables are at their historical averages in 2007–12 8/ | | | | | | | | **180.4** | **189.3** | **197.4** | **205.2** | **213.1** | **221.2** | **-0.9** |
| A2. No policy change (constant primary balance) in 2007–12 | | | | | | | | **180.4** | **179.3** | **179.9** | **182.1** | **184.9** | **188.3** | **4.9** |
| **B. Bound Tests** | | | | | | | | | | | | | | |
| B1. Real interest rate is at baseline plus one standard deviations | | | | | | | | **180.4** | **183.5** | **188.4** | **194.2** | **200.6** | **207.8** | **7.5** |
| B2. Real GDP growth is at baseline minus one-half standard deviation | | | | | | | | **180.4** | **184.8** | **191.6** | **200.0** | **209.7** | **220.9** | **8.9** |
| B3. Primary balance is at baseline minus one-half standard deviation | | | | | | | | **180.4** | **185.1** | **191.6** | **199.0** | **207.0** | **215.7** | **5.8** |
| B4. Combination of B1-B3 using one-quarter standard deviation shocks | | | | | | | | **180.4** | **185.5** | **192.4** | **200.5** | **209.1** | **218.8** | **8.4** |
| B5. One time 30 percent real depreciation in 2008 9/ | | | | | | | | **180.4** | **210.8** | **214.5** | **219.4** | **224.7** | **230.8** | **6.3** |
| B6. 10 percent of GDP increase in other debt-creating flows in 2008 | | | | | | | | **180.4** | **191.9** | **195.2** | **199.5** | **204.3** | **209.7** | **5.6** |

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

1/ 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.

2/ Gross debt of central government and public enterprises.

3/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = 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).

4/ The real interest rate contribution is derived from the denominator in footnote 3/ as r - π (1+g) and the real growth contribution as -g.

5/ The exchange rate contribution is derived from the numerator in footnote 3/ as ae(1+r).

6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ Derived as nominal interest expenditure divided by previous period debt stock.

8/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

9/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 11. St. Kitts and Nevis: External Debt Sustainability Framework, Baseline, 2002–12

(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | |
| | | | | | | | | I. Baseline Projections | | | | | | **Debt-stabilizing noninterest current account 1/** |
| **External public debt 2/** | 75.9 | 88.5 | 85.5 | 77.0 | 66.9 | | | **60.1** | **55.4** | **49.8** | **44.4** | **39.2** | **34.7** | **-26.8** |
| Change in external debt | 10.6 | 12.6 | -3.0 | -8.5 | -10.1 | | | -6.8 | -4.6 | -5.6 | -5.3 | -5.2 | -4.5 | |
| Identified external debt-creating flows | 12.9 | 11.8 | 6.2 | -5.2 | -20.9 | | | -3.1 | -3.2 | -3.8 | -4.3 | -5.0 | -5.5 | |
| Current account deficit, excluding interest payments | 34.3 | 29.2 | 14.9 | 17.5 | 24.6 | | | 27.2 | 26.7 | 25.1 | 23.4 | 22.1 | 21.3 | |
| Deficit in balance of goods and services | 30.1 | 25.1 | 12.0 | 16.1 | 23.1 | | | 25.7 | 25.2 | 23.7 | 22.0 | 20.8 | 19.8 | |
| Exports | 42.9 | 45.5 | 48.5 | 47.1 | 43.6 | | | 41.6 | 41.7 | 41.8 | 42.4 | 42.9 | 43.5 | |
| Imports | 73.0 | 70.7 | 60.5 | 63.3 | 66.8 | | | 67.3 | 67.0 | 65.5 | 64.4 | 63.7 | 63.4 | |
| Net non-debt creating capital inflows (negative) | -24.6 | -20.8 | -5.7 | -20.3 | -41.0 | | | -30.1 | -30.0 | -29.6 | -28.8 | -28.2 | -27.6 | |
| Automatic debt dynamics 3/ | 3.2 | 3.4 | -2.9 | -2.4 | -4.4 | | | -0.2 | 0.0 | 0.7 | 1.1 | 1.0 | 0.9 | |
| Contribution from nominal interest rate | 4.8 | 5.7 | 5.3 | 5.1 | 4.5 | | | 3.9 | 3.5 | 3.2 | 2.9 | 2.6 | 2.2 | |
| Contribution from real GDP growth | -0.7 | -0.4 | -6.1 | -3.7 | -4.3 | | | -2.1 | -2.0 | -1.4 | -1.1 | -0.9 | -0.8 | |
| Contribution from price and exchange rate changes 4/ | -0.9 | -2.0 | -2.1 | -3.8 | -4.5 | | | -1.9 | -1.5 | -1.1 | -0.7 | -0.7 | -0.6 | |
| Residual, incl. change in gross foreign assets | -2.2 | 0.8 | -9.2 | -3.3 | 10.7 | | | -3.7 | -1.4 | -1.9 | -1.1 | -0.2 | 0.9 | |
| External debt-to-exports ratio (in percent) | 176.8 | 194.4 | 176.3 | 163.3 | 153.2 | | | 144.5 | 132.8 | 119.0 | 104.9 | 91.3 | 79.6 | |
| **Gross external financing need (in billions of US dollars) 5/** | 0.2 | 0.2 | 0.1 | 0.2 | 0.2 | | | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | |
| in percent of GDP | 49.7 | 48.1 | 35.6 | 36.7 | 42.3 | 10-Year Historical Average | 10-Year Standard Deviation | 44.0 | 43.1 | 38.9 | 35.9 | 33.4 | 31.1 | Projected Average |
| **Key Macroeconomic Assumptions** | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 1.0 | 0.5 | 7.6 | 4.8 | 6.4 | 3.8 | 2.7 | 3.3 | 3.5 | 2.7 | 2.3 | 2.0 | 2.0 | 2.5 |
| Exchange rate appreciation (U.S. dollar value of local currency, change in percent) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| GDP deflator in U.S. dollars (change in percent) | 1.5 | 2.7 | 2.4 | 4.7 | 6.3 | 3.3 | 1.5 | 3.0 | 2.5 | 2.0 | 1.5 | 1.5 | 1.5 | 1.8 |
| Nominal external interest rate (in percent) | 7.5 | 7.8 | 6.6 | 6.6 | 6.6 | 6.3 | 1.2 | 6.1 | 6.1 | 6.1 | 6.0 | 6.0 | 5.9 | 6.0 |
| Growth of exports (U.S. dollar terms, in percent) | -1.5 | 9.5 | 17.5 | 6.6 | 4.6 | 5.6 | 5.6 | 1.4 | 6.5 | 4.9 | 5.2 | 4.9 | 5.0 | 5.3 |
| Growth of imports (U.S. dollar terms, in percent) | 6.0 | -0.2 | -5.5 | 14.7 | 19.2 | 5.9 | 9.5 | 7.2 | 5.5 | 2.4 | 2.1 | 2.5 | 2.9 | 3.1 |
| Current account balance, excluding interest payments | -34.3 | -29.2 | -14.9 | -17.5 | -24.6 | -22.4 | 6.6 | -27.2 | -26.7 | -25.1 | -23.4 | -22.1 | -21.3 | -23.7 |
| Net nondebt creating capital inflows | 24.6 | 20.8 | 5.7 | 20.3 | 41.0 | 22.4 | 12.0 | 30.1 | 30.0 | 29.6 | 28.8 | 28.2 | 27.6 | 28.9 |
| | | | | | | | | II. Stress Tests for External Debt Ratio | | | | | | **Debt-stabilizing noninterest current account 1/** |
| **A. Alternative Scenarios** | | | | | | | | | | | | | | |
| A1. Key variables are at their historical averages in 2007–12 6/ | | | | | | | | **60.1** | **60.1** | **59.7** | **60.1** | **61.3** | **63.5** | **-21.1** |
| **B. Bound Tests** | | | | | | | | | | | | | | |
| B1. Nominal interest rate is at baseline plus one-half standard deviation | | | | | | | | **60.1** | **55.8** | **50.4** | **45.4** | **40.5** | **36.2** | **-26.6** |
| B2. Real GDP growth is at baseline minus one-half standard deviations | | | | | | | | **60.1** | **58.8** | **56.1** | **53.4** | **50.5** | **48.0** | **-24.9** |
| B3. Noninterest current account is at baseline minus one-half standard deviations | | | | | | | | **60.1** | **58.7** | **56.4** | **54.5** | **52.8** | **51.9** | **-26.5** |
| B4. Combination of B1–B3 using 1/4 standard deviation shocks | | | | | | | | **60.1** | **57.4** | **53.6** | **49.9** | **46.2** | **43.0** | **-27.2** |
| B5. One time 30 percent real depreciation in 2008 | | | | | | | | **60.1** | **69.2** | **59.6** | **51.1** | **43.4** | **38.0** | **-40.1** |

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

1/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and nondebt inflows in percent of GDP) remain at their levels of the last projection year.

2/ Data on private debt stocks and flows are unavailable.

3/ 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 U.S. 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.

4/ 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).

5/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

6/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both noninterest current account and nondebt inflows in percent of GDP.

INTERNATIONAL MONETARY FUND

ST. KITTS AND NEVIS

**Staff Report for the 2007 Article IV Consultation—Informational Annex**

Prepared by the Western Hemisphere Department

December 17, 2007

Contents Page

Appendices

## Appendix I. St. Kitts and Nevis—Fund Relations

(As of October 31, 2007)

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

| **II. General Resources Account:** | **SDR Million** | **Percent of Quota** |
|---|---|---|
| Quota | 8.90 | 100.00 |
| Fund holdings of currency | 8.82 | 99.09 |
| Reserve position in the Fund | 0.08 | 0.92 |

| **III. SDR Department:** | **SDR Million** | **Percent of Allocation** |
|---|---|---|
| Holdings | 0.00 | N/A |

**IV. Outstanding Purchases and Loans:** None

**V. Latest Financial Arrangements:** None

**VI. Projected Payments to Fund:** None

**VII. Implementation of HIPC Initiative:** Not Applicable

**VIII. Implementation of MDRI Assistance:** Not Applicable

**IX. 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. In practice the ECCB has operated like a quasi-currency board, maintaining foreign exchange backing of its currency and demand liabilities of close to 100 percent. St. Kitts and Nevis accepted the obligations of Article VIII, Sections 2, 3, and 4 in December 1984. The exchange system is free of restrictions on the making of payments and transfers for current international transactions.

**X. Safeguards Assessment**:

Under the Fund's safeguards assessment policy, the Eastern Caribbean Central Bank (ECCB), of which St. Kitts and Nevis is a participating government, is subject to a full safeguards assessment under a four-year cycle. The most recent assessment was completed in July 2007 and concluded that the ECCB continues to have appropriate control mechanisms in place, which have strengthened since the first safeguards assessment was completed in 2003. ECCB management places emphasis on good governance and sound controls, and has enhanced the bank's transparency and accountability since the last assessment, including the publications of financial statements that comply with International Financial Reporting Standards. The assessment made some recommendations to sustain the ECCB's safeguards framework going forward.

**XI. Last Article IV Consultation**:

St. Kitts and Nevis is on the standard 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on January 17, 2007. The staff report is IMF Country Report No. 07/141, and the accompanying statistical appendix is IMF Country Report No. 07/142.

**XII. FSAP Participation, ROSCs, and OFC Assessment**

St. Kitts and Nevis participated in the regional ECCU FSAP conducted in September and October 2003. The Financial System Stability Assessment is available at www.imf.org/external/pubs/ft/scr/2004/cr04293.pdf. 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 2003.

**XIII. Technical Assistance: (2005–Present)**

Since 2005, St. Kitts and Nevis has benefited from technical assistance in the areas of tax policy, tax administration, economic statistics, financial supervision and macroeconomic management, both from IMF headquarters and the Caribbean Regional Technical Assistance Centre (CARTAC).

- Experts from CARTAC and the IMF's Statistics Department (STA) advised the Central Statistics Office on improving the national accounts, and developing export-import price indices.

- Experts from CARTAC, the IMF's Monetary and Capital Markets Department (MCM), and the IMF's Legal Department (LEG) advised the authorities on strengthening financial regulation and supervision, including risk-based supervision. With assistance from the Office of the Superintendent of Financial Institutions in Canada (OSFI), experts from CARTAC have provided technical assistance to the ECCB on drafting the OECS Insurance Act. They have also, in conjunction with

LEG, provided technical assistance to the ECCB in finalizing the drafting of the OECS Money Services business Act.

- Experts from CARTAC and MCM also provided technical assistance on public debt management framework.

- Experts from CARTAC, the IMF's Fiscal Affairs Department (FAD) and LEG provided assistance to improve cash management and tax administration—including collection enforcement. Experts from CARTAC have also provided assistance in Property Tax reform, in preparing to move the property tax base from rental value to market value, and in improving central government fiscal and debt data.

- CARTAC and FAD have provided extensive assistance, through frequent expert visits, to sensitize politicians and technicians from the Ministry of Finance on the value-added tax (VAT). This provided a general explanation on VAT, a VAT sensitivity study, and the main steps in its introduction.

- Experts from LEG provided assistance in tax legislation in the areas of VAT, Social Service Levy and Corporate Income Tax.

- As part of the Stabilization and Adjustment Technical Assistance Program (SATAP), St. Kitts and Nevis have benefited from capacity building in macroeconomic analysis.

## Appendix II. St. Kitts and Nevis: Relations with the World Bank Group

(As of November 16, 2007)

The World Bank's Management presented to its Board the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS), on September 13, 2005. The World Bank Group's strategy for the four years covered by this CAS (FY 2006–09) supports the sub-region's development agenda through two main pillars: (1) stimulating growth and improving competitiveness; and (2) reducing vulnerability, by promoting greater social inclusion and strengthening disaster risk management. Recognizing the Organization of the Eastern Caribbean States (OECS) countries' weakened creditworthiness due to high debt ratios, Bank activities will focus on leveraging available donor grant financing. Following the recommendations of the 2005 growth and competitiveness study for the OECS, IBRD and IDA support would focus on providing technical and financial assistance for interventions to support the two main pillars. The CAS proposes new commitments of US$103.4 million for six borrowing member states of the OECS, including St. Kitts and Nevis. Planned IBRD lending to St. Kitts and Nevis amounts to US$10 million under the high-case lending scenario.

### A. Projects

There are three active World Bank projects in St. Kitts and Nevis for commitment of approximately US$9.6 million of which US$4.3 million has been disbursed.

The St. Kitts and Nevis **Telecommunications and ICT Development Project,** approved on May 12, 2005 for US$0.54 million, aims at improving the access, quality, and use of telecommunications and ICT services to achieve socioeconomic development in the OECS. The project has the following four components: Component 1) will strengthen the national and regional regulatory frameworks and promote additional competition in the telecommunications sector. Emphasis will be given to capacity building of Eastern Caribbean Telecommunications Authority (ECTEL) and the National Telecommunications Regulatory Commissions (NTRCs) by providing them with assistance to revise the regional and national sector legislation, and develop a modem interconnection regime. Component 2) will review current universal access policy, create related guidelines, and provide financial support to establish a Universal Service Fund (USF). Component 3) will improve growth and competitiveness in ICT-enabled services through utilization of broadband infrastructure. Component 4) will ensure management and administration of the overall project.

The **St. Kitts and Nevis Education Development Project** was approved in June 2003 for US$5.0 million. The overall objective of this project is to build human capital which, in turn, will contribute to the diversification of the economy and more sustainable growth. This objective will be achieved by: (i) increasing equitable access to secondary education; (ii) improving the quality of the teaching and learning process, with more direct interventions at the school level and a focus on student-centered learning, and (iii) strengthening management of the sector and governance of schools.

**The HIV/AIDS Prevention and Control Program**, which was approved in January 2003 for US$4.0 million, is funded under the Multi-Country APL for the Caribbean Region, with the following objectives: (i) curbing the spread of HIV/AIDS epidemic; (ii) reducing the morbidity and mortality attributed to HIV/AIDS; (iii) improving the quality of life for persons living with HIV/AIDS (PLWAs); and (iv) developing a sustainable organizational and institutional framework for managing the HIV/AIDS epidemic over the longer term.

## B. Economic and Sector Work

**Economic and Sector Work:** The Bank has, over the past three years, completed a series of analytical work 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.

In addition, the OECS countries will benefit from ongoing and planned regional studies including: A Caribbean regional study (recently completed) on crime and violence focuses on the impact of crime on poverty, social cohesion, tourism, investment and migration; a planned pension reform study will take an in-depth look at social insurance programs in the Caribbean, focusing in particular on reforms to address the challenges of limited coverage, increasing dependency ratios and fiscal sustainability; a study on Air Transport Rationalization (recently completed) which inter alia, analyzes regional air transport route and classify their commercial viability, evaluate the current air service arrangements, examine the feasibility of entering into "open skies" arrangements, and assess the impact of direct and indirect taxation on competition and service; and a study on access to finance (recently completed) which examined the issues related to access to finance, particularly for small and medium enterprises in the OECS. The Bank is also finalizing a Policy Note on Project Fiduciary Management which is aimed at increasing the efficiency of project implementation in the OECS.

## C. Financial Relations

(In millions of U.S. dollars)

| Operation | Original Principal | Available | Disbursed |
|---|---|---|---|
| TELECOMMUNICATIONS & ICT DEVELOPMENT PROJECT—ST. KITTS AND NEVIS | 0.54 | 0.38 | 0.16 |
| EDUCATION REFORM PROJECT—ST. KITTS AND NEVIS | 5.0 | 2.69 | 2.31 |
| HIV/AIDS PREVENTION AND CONTROL PROGRAM—ST. KITTS AND NEVIS | 4.05 | 2.23 | 1.81 |
| | 9.58 | 5.30 | 4.28 |

**Disbursements and Debt Service (Fiscal Year Ending June 30)**

| | Actual | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008* |
| Total disbursements | 2.88 | 1.38 | 1.90 | 4.12 | 2.38 | 1.66 | 1.35 | 1.85 | 0.83 |
| Repayments | 0.07 | 0.05 | 0.12 | 0..33 | 0.67 | 0.89 | 1.18 | 1.75 | 0.82 |
| Net disbursements | 2.82 | 1.32 | 1.78 | 3.79 | 1.71 | 0.77 | 0.17 | 0.10 | 0.00 |
| Interest and fees | 0.22 | 0.34 | 0.40 | 0.64 | 0.60 | 0.65 | 0.67 | 0.76 | 0.18 |

NOTE: * DATA FOR JUNE 2007 TO NOVEMBER 2007.

## Appendix III: St. Kitts and Nevis—Relations with the Caribbean Development Bank

(As of September 30, 2007)

The Caribbean Development Bank (CDB) has approved loans totalling US$165.8 million, of which US$46.7 million are undisbursed.

### A. Major Projects

1. *Basic Education Project*—to assist GOSKN in the provision and maintenance of a more appropriate learning environment for a greater number of students in the system (including those with learning disabilities) who are pursuing basic education at primary and secondary schools; and enhancement of the education system in the areas of management, in particular, planning, data collection and analysis, student assessment, school management, curriculum development and pedagogy.

2. *West Basseterre By-Pass Road*—to construct approximately 3.8 kilometres of road to relieve traffic congestion in the city of Basseterre. The proposed road runs to the north of Basseterre and along the boundary fence of the Robert L. Bradshaw International Airport.

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

4. *Student Loan Scheme* (Fifth Loan)—to assist the Development Bank of St Kitts and Nevis (DBSKN) in financing loans to students attending local, regional and extra-regional institutions for programmes in technical, vocational and academic studies.

5. *Child Development Project*—to provide a comprehensive framework for addressing the care and protection of children and the reform of juvenile offenders. The project will enhance the life chances of children in St. Kitts and Nevis by improving their connectedness with the school system and providing rehabilitative care for those at risk and those who have committed offences.

6. *Natural Disaster Management Project*—to contribute to the rehabilitation of economic infrastructure caused by hurricane Lenny. The project consists of rehabilitating 8.66 metres of sea defence structures with rock armouring and stone on geo-textile sheeting; reconstruction of a reinforced concrete ramp; and repairs to other infrastructure and public buildings. The project promotes the reduction of vulnerability to natural disasters through support for the development and adoption of mitigation policies, standards and practices.

7. *Policy-based Guarantee*—to support a bond issue of up to EC$150 mn by the Government to refinance high cost debt thereby supporting ongoing macroeconomic reforms and structural

reforms in St. Kitts and Nevis. The refinancing would also improve the debt dynamics, thus lowering the time-path of the debt-to-GDP ratio.

8. *Policy-based Loan*—is intended to support policy and institutional reforms while helping the Federal Government to improve debt dynamics by using the proceeds of the loan to replace some of its high-cost debt. The policy reforms are designed to improve public finance management, particularly budget management and revenue systems, and public enterprises governance systems to achieve fiscal and debt sustainability.

**B. Current Portfolio**
(In millions of U.S. dollars)

| | **Approved** | **Undisbursed** |
|---|---|---|
| Basic Education Project | 14.18 | 3.10 |
| OECS Solid Waste Management Project | 4.90 | 1.84 |
| Natural Disaster Management Project | 6.70 | 3.50 |
| Student Loan Scheme (Fifth Loan) | 5.00 | 0.80 |
| Second Power Project | 8.43 | 8.43 |
| West Basseterre By-Pass Road | 7.56 | 5.60 |
| Child Development Project | 2.64 | 2.64 |
| Corporatisation of the Electricity Department | 0.60 | 0.60 |
| Policy-Based Guarantee | 8.30 | 8.30 |
| Policy-Based Loan | 20.0 | 20.0 |

**C. Loan Disbursement**
(In millions of U.S. dollars)

| | **2003** | **2004** | **2005** | **2006** | **2007[1]** |
|---|---|---|---|---|---|
| Net Disbursement | 3.97 | 4.08 | 3.13 | 4.32 | 1.34 |
| Disbursement | 5.92 | 6.48 | 6.02 | 7.38 | 3.95 |
| Amortization | 1.95 | 2.40 | 2.89 | 3.06 | 2.61 |
| Interest and charges | 2.66 | 2.80 | 3.07 | 3.35 | 2.73 |
| Net resource flow | 1.31 | 1.28 | 0.06 | 0.97 | -1.39 |

1/ As of September 30, 2007.

## Appendix IV. St. Kitts and Nevis: Statistical Issues

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

### A. Real Sector

There are a number of deficiencies in the real sector statistics. GDP data by type of expenditure are not available at constant prices, while the data at current prices are not reliable due to weaknesses in estimating gross capital formation. Private final consumption expenditure is estimated as a residual. A new CPI with weights from the 2000 household survey has now been introduced. Monthly CPI data are reported regularly but with a long lag. Detailed data on tourism arrivals and expenditure have not been compiled since end-2001. No data are currently available on labor market developments. Results of the 2001 population census are still being analyzed.

### B. Public Finances

Data on revenue, expenditure, and financing of the consolidated central government are made available to Fund staff on request. Commendable progress has recently been made in improving the quality and coverage of central government fiscal data, including on government debt. However, discrepancies between overall balance and available financing need to be resolved. It would be important to produce a set of fully integrated accounts for the central government on a regular basis. Also, it would be beneficial to institute a mechanism for the regular reporting of financial data on the rest of the public sector. Data for the budgetary central government published in *IFS* relate to 2003 and 2004; the most recent data on the central government published in the *GFS Yearbook* are for 2003.

### C. Balance of Payments and External Debt

Estimates are currently provided on an annual basis by the Eastern Caribbean Central Bank (ECCB). The latest data published in *IFS* are for 2005. Incomplete provisional data have been produced for 2006 by the ECCB; these will be completed and finalized in early 2008. Data on external trade (especially exports) are not comprehensive, as they omit important categories of goods. Most components of the financial account also need improvement. It would be useful to reconcile the data on the public sector investment plan for external loans with the public external debt database. There are no data on private external debt.

## D. Monetary and Financial Statistics

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

In April 2007, a data ROSC mission assessed the monetary statistics with reference to the GDDS and the Data Quality Assessment Framework (DQAF, July 2003). It indicated that the quality of the ECCB and Eastern Caribbean Currency Union member countries' monetary statistics has improved over recent years, and the monetary statistics are broadly adequate for macroeconomic analysis and policy design and monitoring. Nevertheless, the mission identified shortcomings that have the potential for detracting from accurate and timely analysis of economic and financial developments. In particular, the institutional coverage of the other depository corporations remains 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 in the Monetary and Financial Statistics Manual. The authorities endorsed the mission's recommendations and an action plan for enhancing the analytical usefulness of the monetary statistics.

## St. Kitts and Nevis: Table of Common Indicators Required for Surveillance
(As of November 30, 2007)

| | Date of latest observation | Date received | Frequency of Data[6] | Frequency of Reporting[6] | Frequency of publication[6] |
|---|---|---|---|---|---|
| Exchange Rates | Fixed Rate | n.a. | n.a. | n.a. | n.a. |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1] | 09/07 | 11/25/07 | M | Q | Q |
| Reserve/Base Money | 09/07 | 11/25/07 | M | Q | Q |
| Broad Money | 09/07 | 11/25/07 | M | Q | Q |
| Central Bank Balance Sheet | 09/07 | 11/25/07 | M | Q | Q |
| Consolidated Balance Sheet of the Banking System | 09/07 | 11/25/07 | M | Q | Q |
| Interest Rates[2] | 09/07 | 11/25/07 | M | Q | Q |
| Consumer Price Index | 10/07 | 11/29/07 | M | M | M |
| Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4] | 09/07 | 11/7/07 | Q | Q | Q |
| Stocks of Central Government and Central Government-Guaranteed Debt[5] | 06/07 | 09/28/07 | Q | Q | Q |
| External Current Account Balance | 12/06 | 3/16/07 | A | A | A |
| Exports and Imports of Goods and Services | 12/06 | 3/16/07 | M | M | Q |
| GDP/GNP | 2006 | 9/25/07 | A | A | A |
| Gross External Debt | 06/07 | 09/28/07 | A | A | 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).

**Statement by the IMF Staff Representative**
**February 4, 2008**

*Since the issuance of the staff report, the authorities revised slightly the 2006 fiscal data, granted a salary increase for government employees, and presented the 2008 budgets for St. Kitts and Nevis. The new information does not alter the thrust of the staff appraisal.*

1. **The revised 2006 fiscal estimates indicate a primary surplus of 4.7 percent of GDP**, compared to 4.3 percent in the staff report. The adjustment reflects the removal of some double-counting of capital expenditures.

2. **A 5 percent interim salary increase for government employees, retroactive from January 2007, was paid in December 2007**.[1] The cost is estimated at about EC$8 million (0.6 percent of GDP). Accordingly, staff has revised the 2007 primary surplus projection to 1.9 percent of GDP, down from 2.4 percent in the staff report.

3. **The 2008 budgets imply an overall primary surplus of about 1 percent of GDP, compared with a small deficit in the staff's baseline scenario**. As before, the revised staff estimate is based on historical rates for capital expenditure implementation and grants. Key components of the budgets include:

- No new taxes in 2008, while efforts to strengthen tax collection will continue. A decision on the introduction of a VAT will be made in 2008.
- Savings arising from the PetroCaribe agreement[2] are broadly offset by higher wages and capital expenditures.
- As part of comprehensive civil service reform, a salary review is to be completed in 2008, with a further retroactive payment if the final increase is higher than the interim.
- Capital expenditures reflect ongoing and new road projects, Nevis airport expansion, projects to improve public utilities, and investments in health and education.
- To mitigate the impact of rising prices, the government plans to limit retail margins on a basket of basic consumption items, reduce duties and taxes on some imported foods (already incorporated in the original baseline scenario), and cap the electricity fuel surcharge. However, the electricity department is envisaged to be corporatized by late 2008.

---

[1] A general salary increase had been built into the original baseline scenario for 2008, but not for 2007.

[2] The first shipment of about 7,000 barrels of diesel fuel was received in December 2007.

St. Kitts and Nevis: Central Government Fiscal Operations, 2006-08

| | Revised 2006 Actual | Revised 2007 Proj. | 2008 Revised Baseline | 2008 Revised Active | 2008 Budget | 2008 Staff Est. Budget 1/ |
|---|---|---|---|---|---|---|
| | | | (In millions of E.C.dollars) | | | |
| **Total revenue and grants** | 520 | 532 | 548 | 534 | 654 | 557 |
| Current Revenue | 484 | 510 | 532 | 518 | 541 | 541 |
| Capital revenue | 0 | 0 | 0 | 0 | 44 | 0 |
| Grants | 36 | 22 | 16 | 16 | 70 | 16 |
| **Total expenditure and net lending** | 587 | 641 | 696 | 583 | 692 | 677 |
| Current expenditure | 482 | 511 | 537 | 493 | 518 | 518 |
| *Of which* : interest | 129 | 136 | 144 | 138 | 132 | 132 |
| Capital expenditure and net lending | 105 | 130 | 159 | 89 | 174 | 159 |
| **Overall balance** | -66 | -109 | -149 | -48 | -37 | -120 |
| **Primary balance** | 62 | 26 | -4 | 90 | 95 | 12 |
| | | | (In percent of GDP) | | | |
| **Total revenue and grants** | 38.9 | 37.4 | 36.3 | 35.3 | 41.9 | 35.6 |
| Current Revenue | 36.2 | 35.8 | 35.2 | 34.2 | 34.6 | 34.6 |
| Capital revenue | 0.0 | 0.0 | 0.0 | 0.0 | 2.8 | 0.0 |
| Grants | 2.7 | 1.5 | 1.1 | 1.1 | 4.5 | 1.0 |
| **Total expenditure and net lending** | 43.9 | 45.1 | 46.2 | 38.4 | 44.3 | 43.3 |
| Current expenditure | 36.1 | 35.9 | 35.6 | 32.5 | 33.1 | 33.1 |
| *Of which* : interest | 9.6 | 9.5 | 9.6 | 9.1 | 8.4 | 8.4 |
| Capital expenditure and net lending | 7.8 | 9.1 | 10.5 | 5.9 | 11.1 | 10.2 |
| **Overall balance** | -5.0 | -7.7 | -9.8 | -3.2 | -2.4 | -7.7 |
| **Primary balance** | 4.7 | 1.9 | -0.3 | 5.9 | 6.1 | 0.8 |
| **Memorandum item** | | | | | | |
| Public sector debt (in percent of GDP) | 185 | 181 | 183 | 172 | 165 | n.a. |

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

1/ As in the approved budgets, except for capital revenue, which has been reclassified as "below-the-line" financing, and grants and capital expenditure and net lending, which are assumed to be in line with Fund staff baseline projections and historical implementation rates.

INTERNATIONAL MONETARY FUND
*Public Information Notice*
EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 08/42
FOR IMMEDIATE RELEASE
April 1, 2008

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

# IMF Executive Board Concludes 2007 Article IV Consultation with St. Kitts and Nevis

On February 4, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with St. Kitts and Nevis.1

**Background**

The closure in 2005 of the sugar industry—the historical mainstay of the economy—set the stage for a new economic course. Indeed, despite the closure, growth remained strong in 2006, with output increasing by 4 percent, driven by tourism, construction, and communications. Some slowdown is expected for 2007, with growth projected at 3.3 percent. Medium-term prospects look promising, with a number of high-end foreign investment tourism projects in the pipeline.

Large adjustments in retail fuel prices and a new fuel surcharge for electricity created a temporary inflation spike in 2006, but inflation has since decelerated as these one-off effects dissipated. Reflecting strong construction-related imports, the current account deficit increased to around 30 percent of GDP in 2006/07, but has been largely financed by tourism-related foreign direct investment (FDI).

Considerable progress has been made in strengthening the fiscal accounts. The government achieved a sizable primary surplus in 2006 for the second year in a row. A buoyant economy, the electricity surcharge, strengthened tax administration, and wage restraint have contributed

[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. 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.

to this improvement. However, expenditure management remains a challenge. The primary surplus is projected to decline to 2 percent of GDP in 2007 (from around 4½ percent in 2006), largely because of a sharp increase in net lending in St. Kitts and a near-tripling of capital expenditure in Nevis, with major road projects underway.

Despite the fiscal improvement, public debt remains high—at about 185 percent of GDP at end-2006—leaving little room for maneuver in the event of an adverse shock. Facing tightened external borrowing conditions, the government has relied mainly on domestic sources to meet its financing needs. There also continues to be insufficient financial information on public enterprises, whose share in public debt reached 38 percent by end-June 2007.

Monetary and financial developments have been largely favorable, although the high and rising public sector exposure of the banking system is a concern. Credit to the private sector rebounded on the back of buoyant economic activity and, partly reflecting this, the nonperforming loans ratio declined. However, the banking system's holdings of public debt had risen to 44 percent as of end-June 2007. The nonbank sector has been growing rapidly, while progress in establishing an appropriate supervisory and regulatory framework for this sector has been limited so far.

**Executive Board Assessment**

Executive Directors commended the authorities of St. Kitts and Nevis for their efforts to strengthen macroeconomic performance, with growth rebounding and fiscal balances improving markedly. Directors observed, however, that the country's high public debt leaves little room for maneuver in the event of adverse shocks. Sustained fiscal consolidation, backed up with the development of a contingency plan to respond to economic shocks, would help mitigate the risks associated with the high debt stock.

Directors welcomed the important steps that have been taken towards strengthening fiscal performance, including the improvement of tax administration and the adoption of an automatic pass-through of fuel prices. They encouraged the authorities to continue their efforts to achieve their medium-term fiscal goals and put debt on a solid downward trajectory. Expenditure restraint, including comprehensive civil service reform, will be key. Plans to broaden the tax base, improve the oversight and transparency of public enterprises and strengthen debt management capacity will also support these goals. Directors noted that public debt would remain elevated throughout the medium term, and encouraged the authorities to explore options for a more rapid debt reduction, including by accelerating the pace of asset sales, which could also promote private sector-led growth.

Directors noted that the real effective exchange rate does appear broadly in line with fundamentals. Further fiscal consolidation would support external competitiveness and underpin the regional currency arrangement. Directors also encouraged the authorities to accelerate the implementation of planned structural reforms aimed at improving the business climate and strengthening the economy's flexibility and resilience. Directors noted that the country's large external current account deficit, mainly financed by foreign direct investment, although likely to remain high over the medium term, could be expected to decline as investment in infrastructure and tourism projects taper off.

Directors noted that financial sector risks need to be carefully monitored. They called for further progress in mitigating risks, including through enhancing supervision of vulnerable banks and reducing the large government exposure. They welcomed the authorities' plan to establish a single regulatory unit for the nonbank financial sector.

Directors also welcomed the progress made in improving the quality and coverage of fiscal data, and looked forward to similar progress in other areas.

## St. Kitts and Nevis: Selected Economic Indicators

| | 2003 | 2004 | 2005 | Prel. 2006 | Proj. 2007 | Proj.1/ 2008 |
|---|---|---|---|---|---|---|
| (Annual percentage change; unless otherwise specified) | | | | | | |
| **National income and prices** | | | | | | |
| Real GDP (factor cost) | -1.2 | 7.3 | 4.4 | 4.0 | 3.3 | 3.5 |
| Consumer prices, end-of-year | 2.9 | 1.7 | 6.0 | 7.9 | 4.0 | 2.5 |
| Real effective exchange rate (end-of-period) 2/ | -3.9 | -4.0 | 5.4 | 0.5 | ... | ... |
| **Banking system** | | | | | | |
| Net foreign assets 3/ | 13.6 | -5.7 | 8.4 | 7.1 | 9.8 | 1.4 |
| Net domestic assets 3/ | -6.7 | 27.8 | -4.1 | 5.7 | 4.3 | 4.7 |
| *Of which* | | | | | | |
| Credit to public sector 3/ | -10.8 | 18.3 | 9.2 | 6.4 | 4.2 | 0.6 |
| Credit to private sector 3/ | 3.4 | 6.8 | 5.1 | 8.2 | 6.6 | 4.0 |
| Broad money | 6.9 | 22.1 | 4.3 | 12.8 | 14.1 | 6.1 |
| *Of which* | | | | | | |
| Money | 11.0 | 25.4 | -1.9 | 12.7 | 14.1 | 6.1 |
| Quasi-money | 6.2 | 21.6 | 5.5 | 12.8 | 14.1 | 6.1 |
| Weighted average deposit rate (in percent per year) 4/ | 4.1 | 3.6 | 4.1 | 3.7 | ... | ... |
| Weighted average lending rate (in percent per year) 4/ | 12.0 | 9.9 | 9.7 | 9.4 | ... | ... |
| (In percent of GDP) | | | | | | |
| **Public sector 5/** | | | | | | |
| Primary balance | -1.4 | -0.8 | 4.0 | 4.7 | 1.9 | -0.3 |
| Overall balance | -9.0 | -7.9 | -4.1 | -5.0 | -7.7 | -9.8 |
| Total revenue and grants | 33.5 | 34.3 | 39.5 | 38.9 | 37.4 | 36.3 |
| Total expenditure and net lending | 42.5 | 42.1 | 43.5 | 43.9 | 45.1 | 46.2 |
| Foreign financing | 14.5 | 1.5 | -1.1 | 0.2 | -0.9 | -0.9 |
| Domestic financing | -3.1 | 8.7 | 11.9 | 9.6 | 5.6 | 6.1 |
| Sale/purchase of assets | 0.2 | 0.4 | 0.3 | 0.5 | 3.0 | 1.0 |
| Statistical discrepancy | -2.6 | -2.8 | -7.1 | -5.4 | 0.0 | 0.0 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 3.6 |
| Total public sector debt (end-of-period) | 181.5 | 195.0 | 194.8 | 184.6 | 181.0 | 182.5 |
| *Of which* | | | | | | |
| Central government | 119.4 | 121.2 | 117.2 | 112.6 | 110.3 | 112.8 |
| Public enterprises 6/ | 62.1 | 73.8 | 77.6 | 72.0 | 70.8 | 69.7 |
| **External sector** | | | | | | |
| External current account balance | -34.9 | -20.2 | -22.6 | -29.0 | -31.0 | -30.2 |
| Trade balance | -32.8 | -25.6 | -29.9 | -32.2 | -32.9 | -32.7 |
| Services, net | 7.7 | 13.6 | 13.7 | 9.1 | 7.2 | 7.5 |
| *Of which* | | | | | | |
| Tourism receipts | 20.8 | 25.7 | 26.1 | 23.5 | 21.6 | 22.0 |
| Transfers, net | 5.1 | 4.6 | 4.7 | 4.1 | 4.0 | 4.0 |
| Net capital inflow 7/ | 34.7 | 23.7 | 21.1 | 32.5 | 31.0 | 30.2 |
| FDI (net) | 20.9 | 11.6 | 19.5 | 40.3 | 29.4 | 29.4 |
| External public debt (end-of-period) | 88.5 | 85.5 | 77.0 | 66.9 | 60.1 | 55.4 |
| (In percent of exports of goods and nonfactor services) | | | | | | |
| External public debt service | 25.5 | 26.2 | 24.1 | 25.1 | 25.3 | 25.7 |
| External public debt (end-of-period) | 194.4 | 176.3 | 163.3 | 153.2 | 144.5 | 132.8 |

Sources: St. Kitts and Nevis authorities; and IMF staff estimates and projections.
1/ Based on the baseline (current policy) scenario.
2/ Weights given by the average trade share during 1999–2003. Depreciation (-).
3/ In relation to broad money at the beginning of the period.
4/ End of period. Weighted by the size of loans or deposits. There was a break in the series in June 2003.
5/ Central government unless otherwise noted.
6/ Including St. Kitts Sugar Manufacturing Corporation (SSMC).
7/ Includes errors and omissions.