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# St. Kitts and Nevis—Fourth Review Under the Stand-By Arrangement, Financing Assurances Review and Request for Waivers of Applicability—Staff Report and Press Release

The following documents have been released and are included in this package:

- The staff report for the fourth review under the Stand-By Arrangement, financing assurances review and request for waivers of applicability, prepared by a staff team of the IMF, following discussions that ended on October 5, 2012 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 November 16, 2012. 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 Press Release.

The document listed below is to be separately released.

Letter of Intent sent to the IMF by the authorities of St. Kitts and Nevis*
Memorandum of Economic and Financial Policies by the authorities of St. Kitts and Nevis*

*Also included in Staff Report

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

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**Washington, D.C.**

INTERNATIONAL MONETARY FUND

# ST. KITTS AND NEVIS

November 16, 2012

## FOURTH REVIEW UNDER THE STAND-BY ARRANGEMENT, FINANCING ASSURANCES REVIEW AND REQUEST FOR WAIVERS OF APPLICABILITY

## EXECUTIVE SUMMARY

**Context.** Economic activity continued to shrink in the first semester of 2012 on account of a sharp slowdown in the construction sector which outweighed a modest recovery in tourism. Despite this contraction, now in its fourth year, and the sluggish global environment, the authorities have continued to successfully implement their home−grown economic program. The outlook is a contraction lasting through 2012, followed by a modest economic recovery in 2013, partly supported by a rebound in FDI. Uncertain global economic conditions remain the key downside risk to growth.

**Stand-By Arrangement (SBA).** On July 27, 2011, the Executive Board approved a 36−month SBA for St. Kitts and Nevis for SDR 52.51 million (590 percent of quota) to support the authorities' program (Country Report No. 11/270). A tranche of SDR 3.161 million will be made available upon completion of this review.

**Program Performance.** All quantitative performance criteria (PC) for end-June 2012 were met, as were the structural benchmarks at end-June 2012. One structural benchmark at end-September 2012 was met while the other was met with a few days' delay. The authorities have further advanced in the restructuring of their public debt, including debt forgiveness by the UK in June 2012 and transferring land to the asset management company in September 2012 in the context of the debt/land swap. The authorities requested waivers of applicability for the quantitative PC for end-September 2012.

**Review.** In the attached supplementary Letter of Intent and Memorandum of Economic and Financial Policies, the authorities elaborate on their policies for the remainder of 2012 and 2013—including the outlines of the 2013 budget framework—which are in line with the program. Staff supports the authorities' request for the completion of the fourth program review and of the financing assurances review under the SBA.

Approved By
**Adrienne Cheasty and Elliott Harris**

The staff team comprising Mr. G. Tsibouris (Head), Ms. D. Simard, Mr. K. Greenidge, (all WHD), and Mr. K. Moriyama (SPR) visited Basseterre during September 25 to October 5, 2012. Mr. C. de Resende (OED) participated in the final discussions. The mission met with Prime Minister and Minister of Finance Douglas, Premier Parry, other senior officials and representatives of the private sector.

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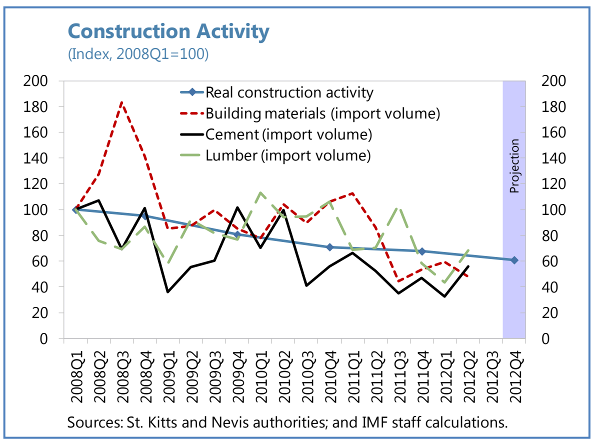
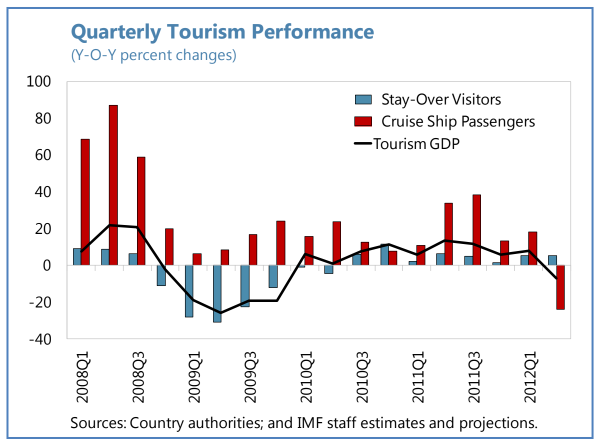
**APPENDIX**

# PERFORMANCE UNDER THE PROGRAM

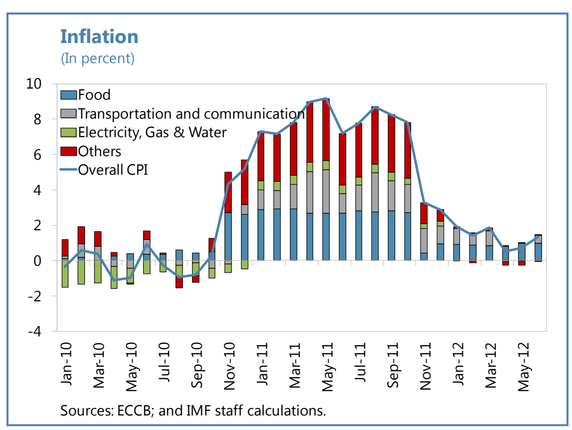
## A. Recent Developments

1. **Available data point to a continued economic contraction in 2012, as slower construction activity through June has outweighed the modest recovery in tourism.** Construction is estimated to have contracted by 20 percent (y/y) in the first half of 2012, reflecting in part the compression in public investment relative to the previous year. Tourism registered a modest recovery, with a 5.3 percent (y/y) increase in total visitors in the first semester of 2012. Indicators of a slow recovery are emerging in the third quarter, particularly with new construction projects, and with evidence of an uptick of imports and social security contributions from the retail sector. The recovery cannot, however, compensate for the sharper than anticipated contraction in construction in the first half of 2012; hence projected real GDP growth is revised from 0 percent to -0.7 percent for 2012.

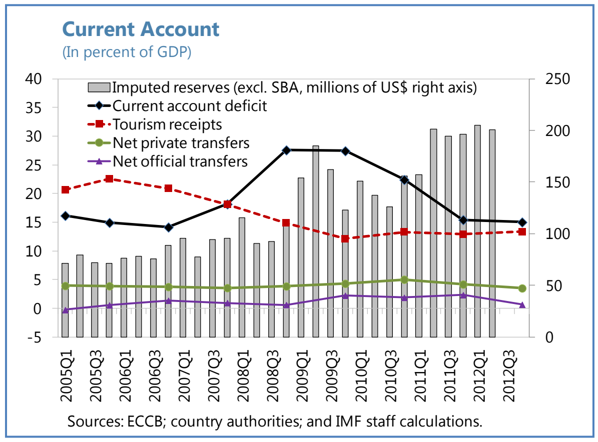



2. **Inflation has stabilized at a low level through June 2012, and is projected to remain below 2 percent by end-year.** As economic activity remained sluggish in the first semester, inflation slowed from 2.9 percent (y/y) at end-December 2011 to 1.4 percent (y/y) at end-June 2012, despite some increase in food prices since May. Inflation is projected to rise modestly to 1.9 percent (y/y) through end-2012, due to the impact of the recent drought in North America on global food prices.

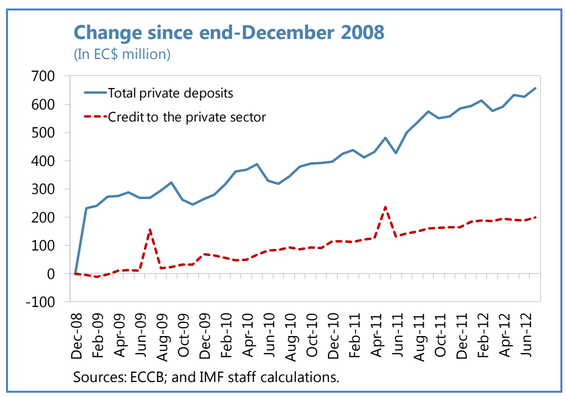


**3. The external position is envisaged to remain relatively stable since the improved trade balance due to lower domestic demand will be offset by lower transfers.** Sluggish domestic demand is expected to continue to weaken imports during the year. Combined with lower official and private transfers, this would contribute to a modest improvement in the current account deficit from 15.5 percent of GDP in 2011 to 15.1 percent of GDP in 2012. Overall, gross international reserves would remain at around US$195 million at end-2012, as at end-2011.




**4. The restructuring of public debt has proceeded with the finalization of an agreement with a Paris Club creditor and advances in the debt/land swap with domestic creditors.** Following the Paris Club meeting in May 2012, the UK's Department for International Development (DFID) cancelled its debt claim in June 2012. Concerning the restructuring of domestic debt through a debt/land swap, 1,200 acres of land were transferred to the land asset management company (the Special Purpose Vehicle, SPV) that has been commissioned with selling the land. These operations, combined with the debt exchange concluded in April 2012 with bondholders and external commercial creditors[1], are expected to contribute to reduce public debt from 154.4 percent of GDP at end-2011 to below 100 percent of GDP at end-2012.

**5. Bank credit was restrained by the sluggish economy and rising NPLs, and was outpaced by the increase in deposits in the first half of 2012.** Credit to the private sector grew by 2.8 percent at end-June 2012 (y/y), with increases in personal loans and construction loans, while deposits grew by 3.9 percent (y/y) partly reflecting the success of the citizenship by investment (CBI) program. The capital adequacy ratio of the indigenous banking sector increased from 42 percent to 45 percent in the second quarter of 2012, further beyond regulatory requirements. However, the quality of the loan portfolio has slightly deteriorated, as the NPL ratio rose from 5.9 percent to 6.1 percent, above the regulatory benchmark of 5 percent.




[1] Country Reports No. 12/196 and No. 12/284.

St. Kitts and Nevis: Selected Financial Indicators, December 2009–June 2012

| | Dec-09 | Dec-10 | Mar-11 | Jun-11 | Sep-11 | Dec-11 | Mar-12 | Jun-12 | Post debt-restructuring simulation | ECCB prudential guidelines |
|---|---|---|---|---|---|---|---|---|---|---|
| (Indigenous banks; In percent) | | | | | | | | | | |
| Capital adequacy ratio | 49.3 | 43.9 | 45.8 | 48.5 | 41.6 | 42.2 | 41.9 | 45.0 | 20.7 | 8.0 |
| NPLs/Total loans | 4.1 | 5.3 | 5.6 | 5.6 | 5.5 | 5.8 | 5.9 | 6.1 | 15.4 | 5.0 |
| Provisioning/NPLs | 77.7 | 58.1 | 55.8 | 55.5 | 55.2 | 53.0 | 52.1 | 50.7 | 50.7 | … |
| Net liquid asset/Total deposit | 55.4 | 50.4 | 52.3 | 52.5 | 52.6 | 52.6 | 54.3 | 54.8 | 54.8 | … |
| Return on Equity 1/ | 11.3 | 4.6 | 1.0 | 6.6 | 8.0 | 12.0 | 15.0 | 10.9 | 10.9 | … |
| Return on Asset 1/ | 2.4 | 0.9 | 0.2 | 1.3 | 1.6 | 2.3 | 2.9 | 2.0 | … | … |
| Net operating income 1/ 2/ | 5.8 | 4.6 | 3.9 | 5.0 | 5.3 | 5.9 | 6.5 | 4.0 | … | … |
| Total loans/Total deposits | 78.5 | 82.3 | 79.2 | 77.0 | 75.7 | 75.0 | 72.6 | 69.6 | 27.4 | … |

Source: ECCB

1/ Sum of quarterly returns for the four quarters up to the end of each period.
2/ Ratio of net operating income to average assets.

Moreover, profitability indicators have softened following the restructuring of government bonds. Updated stress tests highlighted that, while the banking sector would be impacted by the debt restructuring, its capitalization would remain above regional norms (Box 1). They also show that while the Net Liquid Asset Ratio of indigenous banks, above 50 percent, well exceeds the regional prudential limit of 20 percent, it will be vital, however, that any weaker banks are strengthened so as to respect the prudential limit even in the case of a liquidity shock. There has been no request to date to access the Banking Sector Reserve Fund (BSRF) set up under the SBA.

### Box 1. St. Kitts and Nevis: Key Features of the Post-Debt Restructuring Stress Test of the Indigenous Banking Sector

A stress test was conducted to illustrate the impact of the debt restructuring (including the debt/land swap) based on data for end-June 2012. The salient points of the stress tests are as follows:

- ***Interest income.*** In addition to the lower interest income from the debt exchange concluded with one bank in April, further decline is expected from the conclusion of debt exchange negotiations with another bank and from the debt/land swap. As a result, other things being equal, the banks' operating income would decline by about one-fourth.

- ***NPL ratio.*** Given the high weight of government assets in the portfolio of indigenous banks, (68 percent), the debt/land swap will sharply impact the NPL ratio by reducing total loans in the denominator by the amount of government loans subject to the debt land swap. This would increase the NPL ratio from 6.1 percent to 15.4 percent.

- ***Capital Adequacy Ratio (CAR).*** Following the debt/land swap, government land would replace government loans and receive a risk rating of 100 percent, while remaining government loans would be assigned a risk rating of 35 percent. Under these assumptions, while the CAR would decline from 45 percent to 20.7 percent, it would still remain above the regional benchmark of 8 percent.

**6. Nevis is expected to hold elections in the coming months since its ruling party no longer has a parliamentary majority.** The next federal parliamentary elections in St. Kitts and Nevis are statutorily due in 2015. In Nevis, however, a court order invalidated the outcome of one parliamentary seat, thus eliminating the ruling party's majority. This process may take a few months to be resolved through general elections in Nevis.

## B. Program Performance

**7. Despite the continued economic contraction, all of the fiscal targets were met at end-June 2012 due to strong non-tax and income tax receipts and under-executed public investment.** Due to the unavailability of data to assess the governing PCs for end-September, and the absence of clear evidence from preliminary data through end-August that the end-September PCs will not be met, the quantitative assessment of program performance is based on data for end-June 2012. Moreover, this performance is envisaged to be sustained for the remainder of the year.[2] The overall fiscal balance at end-June 2012 reached a surplus of EC$61 million, significantly above the adjusted program floor of EC$-51 million. Similarly, the primary surplus of EC$117 million was well above the adjusted indicative program target of EC$20 million. Revenue from direct taxes and the Citizenship by Investment (CBI) program contributed to that performance by exceeding program expectations, compensating for relatively weaker receipts from taxes on goods and services and international trade–partly due to lower imports, and lower grant disbursements than anticipated at the time of the third review.[3] In addition, capital outlays amounted to only 50 percent of program targets to

St. Kitts and Nevis: Fiscal Outturn for June and Projection for 2012
(in millions of Eastern Caribbean dollars)

| | 2012 H1 | | 2012 |
|---|---|---|---|
| | Prog. | Actual | Proj. |
| Total revenue | 254.9 | 280.7 | 608.8 |
| Tax revenue | 203.2 | 192.9 | 411.1 |
| Taxes on income | 37.3 | 41.1 | 87.6 |
| Taxes on property | 5.4 | 7.5 | 11.0 |
| Taxes on domestic goods and consumption | 109.4 | 101.5 | 204.8 |
| Taxes on international trade and transactions | 51.1 | 42.9 | 107.6 |
| Non-tax revenue | 51.8 | 81.2 | 191.1 |
| Capital revenue | 0.0 | 6.6 | 6.6 |
| Total expenditure and net lending | 325.3 | 279.2 | 596.5 |
| Wages and salaries | 107.0 | 109.8 | 225.1 |
| Goods and services | 46.5 | 51.9 | 107.4 |
| Interest | 71.5 | 56.0 | 132.7 |
| Transfers | 45.5 | 38.4 | 77.4 |
| Capital expenditure and net lending | 54.8 | 23.0 | 53.9 |
| Grants | 18.0 | 3.8 | 35.6 |
| Overall balance 1/ | -52.4 | 5.3 | 47.9 |
| Overall balance 2/ | -51.3 | 61.2 | 47.9 |
| Primary balance 2/ | 20.1 | 117.2 | 180.7 |
| Statistical discrepancy, overall balance 3/ | -1.0 | -55.9 | 0.0 |

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

1/ Measured from above-the-line.
2/ Measured from below-the-line.
3/ Difference between the overall balance as measured from above the line and the overall balance as measured from below the line.

[2] In particular, given the rebound of imports (seasonally adjusted) observed through end-August (Figure 1), and the entry of operation of FDI projects, staff project a pick-up in customs collections for the second half of 2012. Furthermore, the Citizenship by Investment program continues to receive a high number of applicants, which will sustain nontax revenue.

[3] It should be noted, however, that the performance criteria would have been met even without the overperformance of receipts from the Citizenship by Investment program, which represented 49 percent of non-tax revenue at end-June 2012.

date in 2012, on account of binding financing constraints in Nevis, bureaucratic bottlenecks, and the transition to the new Procurement Act.[4]

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

| | End-June 2012 | | | |
|---|---|---|---|---|
| | Prog. | Adjusted | Actual | Status |
| *Performance Criteria:* | | | | |
| Central government overall balance including grants (floor) 1/ 2/ | -53 | -51 | 61 | met |
| Stock of central government budget expenditure arrears accumulation (ceiling) 3/ | 0 | 0 | -26 | met |
| Stock of external short term debt (ceiling) | 0 | 0 | 0 | met |
| Central government or guaranteed external arrears accumulation (ceiling) 4/ | 0 | 0 | 0 | met |
| *Indicative Target:* | | | | |
| Central government primary balance (floor) 1/ 2/ | 19 | 20 | 117 | met |

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

8. **All other performance criteria have been met.** The ceilings on central government budget expenditure arrears accumulation, the stock of external short-term debt, and the central government or guaranteed arrears accumulation have all been met.

9. **The program remains consistent with the Fund's arrears policy.** In staff's view, the authorities are in compliance with the Fund's policy of lending into arrears[5] based on their good faith efforts to engage with their private creditors.

10. **The authorities are pursuing the program's structural reforms, building on completion of all structural benchmarks (SBs) for end-June and end-September 2012.** Following the successful completion of all program SBs for end-June 2012 (Country Report No. 12/284), the stress test of the banking system was updated by end-September 2012 and the plan for the rationalization of public land sales and development agencies, also targeted for end-September 2012, was approved on October 5.

[4] Country Report No. 12/284 page 6, ¶5.

[5] A Paris Club Agreed Minute was established on May 24, 2012. In that regard, since the Minute is still valid, arrears to Paris Club and non Paris Club creditors are deemed not to have arisen for purposes of the Fund's Arrears Policy.

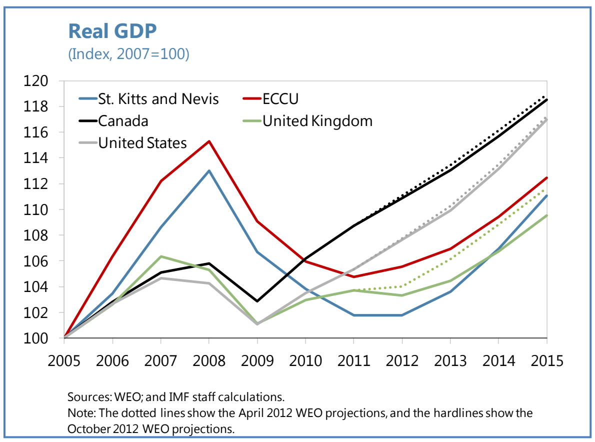
St. Kitts and Nevis: Structural Benchmarks for June and September 2012

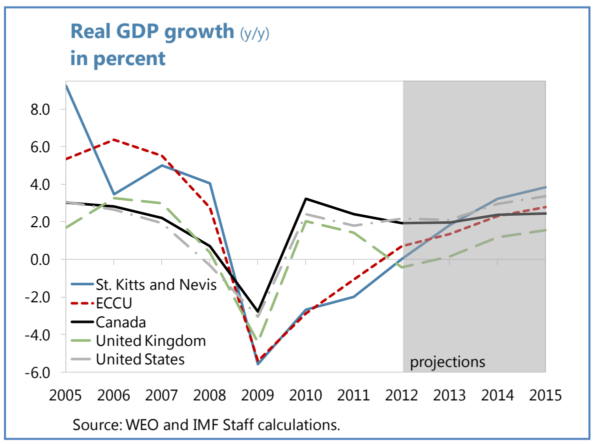
| Action | Target Date | Status |
|---|---|---|
| Update the registry of additional 600 acres of land | End-June 2012 | completed |
| Undertake valuation of additional 600 acres of land | End-June 2012 | completed |
| Submit draft of new Procurement Act to Parliament | End-June 2012 | completed |
| Draft proposal for the establishment of an asset management company | End-June 2012 | completed |
| Establish a medium-term expenditure framework with agreed fiscal targets | End-June 2012 | completed |
| Cabinet to approve a plan for civil service reform covering human resource policy, reviewing the organization and structure of the civil service and addressing wage policy and payroll management | End-June 2012 | completed |
| Rationalize public land sales and development agencies | End-September 2012 | completed on October 5 |
| Update the existing stress tests of banks | To be monitored on a quarterly basis | completed |

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

# OUTLOOK

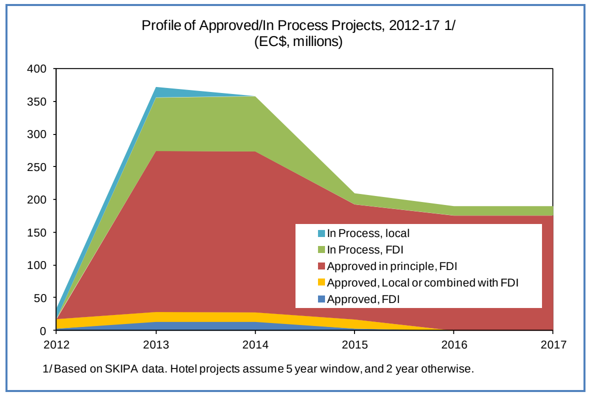
**11. Real GDP growth is expected to recover to 1.8 percent in 2013, with FDI envisaged to gain momentum and counter the impact of a modestly downgraded outlook in advanced partner countries.** The baseline growth projection for St. Kitts and Nevis in 2013 remains unchanged from the third review under the SBA, as the impact of the downgraded forecast from 0 to -0.7 percent in 2012 and more conservative projections[6] for real GDP growth in the United States (U.S.), Canada and the United Kingdom (U.K.) is expected to be offset by brighter prospects for approved investment projects (Box 2). It is projected that the additional growth impetus will originate from several sectors: construction, retail and tourism (on the basis of the momentum following the relatively strong outturn in 2012).




[6] International Monetary Fund (2012), "Coping with High Debt and Sluggish Growth", World Economic Outlook, World Economic and Financial Surveys, International Monetary Fund, Washington, October.

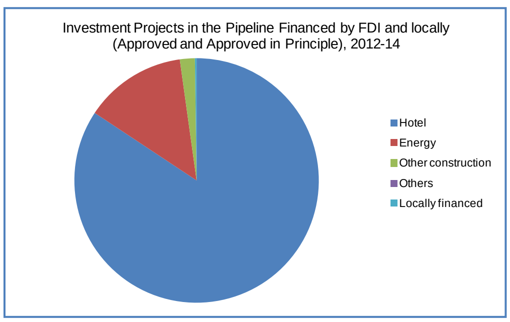
## Box 2. St. Kitts and Nevis: Medium-Term Investment Prospects




**Investment projects in the pipeline suggest that there will be a rebound in investment in 2013 and 2014.** While investment projects approved or in process amount to 1.5 percent of GDP to date in 2012, three large FDI projects already approved in principle suggest that the investment landscape is likely to change in 2013.

**Investments are directed mostly to the tourism industry,** and to a lesser extent the energy sector, **and originate in large part from traditional partner countries,** with less than 10 percent of investments from the European continent, Asia and the Middle East.

**Investment projects benefit from tax incentives** under the Small Business Act, the Fiscal Incentives Act, the Hotels Aid Act and the Special Resorts Development Act. Such tax incentives can include:




- Exemptions of import duties on building material, medical equipment, furniture and appliances
- VAT exemptions on equipment and construction material (during the period of transition to the VAT)
- 15 year income tax holiday
- Exemptions from consumption taxes
- Concessions on property taxes

**The buoyancy of the Citizenship by Investment Program is contributing to the momentum of FDI.** As of end-June 2012, 11 percent of all applicants to the program elected to purchase real estate for a minimum of US$400,000 per unit.[1] Based on the number of program applicants currently in the pipeline, this could help boost FDI by 3 percent of GDP in 2013. Over the medium-term, real estate investments through the Citizenship by Investment program are conservatively projected to taper off.

**FDI projections over the medium-term are relatively conservative** and based on currently approved projects and a small fraction of projects in process, phased over a five year period. FDI is projected to average 17½ percent of GDP in 2014–2017, slightly above its ratio of 17.1 percent of GDP in 2009.

______________________

Sources: St. Kitts Investment Promotion Agency and Citizenship by Investment Unit.

[1] Contributions to the Sugar Industry Diversification Fund by applicants to the program are registered as capital transfers, not FDI.

**12. Over the medium-term, economic activity is projected to pick up as construction and tourism continue to recover.** Real GDP growth is envisaged to reach 4 percent by 2016, on the basis of the currently approved FDI projects, towards which tangible progress has been made, and an eventual recovery in advanced partner countries. Downside risks remain, driven at the forefront by concerns related to the fiscal cliff in the United States and, to some extent, the continued uncertain outlook for the Euro area. In addition, the banking sector in St. Kitts and Nevis is vulnerable to the effects of the debt/land swap—particularly should a slow pace of land sales materialize—and, moderately, to regional contagion, although its exposure to the other regional banks is relatively small. Finally, like most islands in the region, St. Kitts and Nevis remains vulnerable to natural disasters.

**13. The profile of public debt to GDP over the medium-term is particularly sensitive to the realization of downside risks to growth and to fiscal policy slippages.** In particular, the policy goal of reaching a public debt to GDP ratio of 60 percent by 2020 would be compromised by a material reduction in growth over the medium-term and by an easing of fiscal efforts in terms of the primary balance (Box 3).

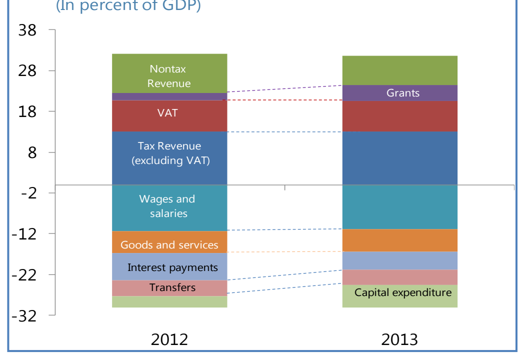
# POLICIES THROUGH 2013

**14. Discussions centered on the 2013 budget framework and the importance of sustained fiscal consolidation to build on the public debt restructuring and to foster growth.** The overarching principles of the framework are to bolster the tax base, contain current outlays and increase capital spending, as well as build the capacity to buffer shocks. Over the medium-term, continued reforms to boost tax revenue and enhance the quality of public spending are necessary to firmly place public debt on a declining path. Furthermore, the recent momentum achieved in the public debt restructuring needs to be further secured by completing the remaining steps concerning the debt to non Paris club external bilateral creditors and the domestic debt. Finally, continued vigilance is required to help buffer the banking sector against the impact of the domestic debt restructuring and any transmission of external shocks.

## A. Fiscal Policy

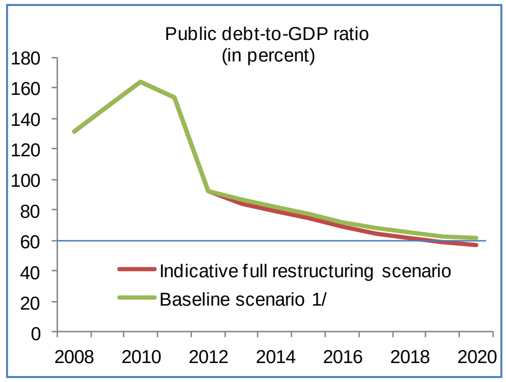
**15. The budget framework for 2013 that the authorities are in the process of preparing aims to align itself with understandings under the program (MEFP ¶5).** The budget of the Federation is the consolidation of the budgets of St. Kitts and Nevis, which are under preparation and typically presented to each

**Fiscal Projections for 2012 and 2013**
(In percent of GDP)



## Box 3. St. Kitts and Nevis: Medium-Term Debt Sustainability with Indicative Debt Restructuring Scenario

The **baseline scenario** reflects the debt exchange with bondholders and external commercial creditors concluded in April 2012, the Paris Club agreement and the transfer of 1,200 acres of land to the SPV.[1]



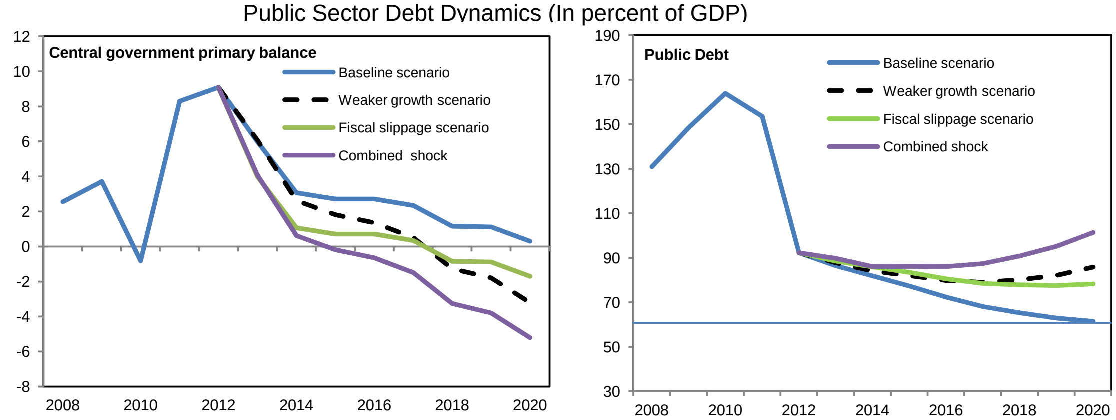

Furthermore, the **indicative scenario** assumes that discussions with remaining eligible domestic creditors are concluded by end-2012 with the repayment schedule in line with the par bond issued for the exchange in April 2012, but with a more favorable coupon rate of 4 percent relative to the 1.5 percent interest rate on the par bond. The simulation shows a drop in the public debt to GDP ratio from 154 percent to around 93 percent by end-2012, and a convergence to below 60 percent of GDP by 2020.

**Medium-term Debt Sustainability**

The debt trajectory described above is subject to substantial downside risks, including slower-than-expected economic growth and fiscal slippage. The downside growth scenario assumes that growth is 2 percentage points lower over the medium term. Under the downside fiscal scenario, it is assumed that there are fiscal slippages leading to the deterioration of the primary fiscal surplus.

**Under these alternative scenarios, the debt ratio is unlikely to converge to the 60 percent target by 2020.** In the slower growth scenario, the debt-to-GDP ratio is above the baseline scenario in 2013 and the gap widens into the medium term to 86 percent in 2020, which is considerably higher than the 60 percent target. The trajectory under the fiscal slippage scenario is quite similar to that of the growth scenario but at a few percentage points lower, declining only to 78 percent of GDP by 2020. If both shocks occur together, the debt ratio would be above 100 percent of GDP by 2020. These results are consistent with those from the more standard debt sustainability exercise applied to the baseline scenario (Figures 5 and Table 10).

Public Sector Debt Dynamics (In percent of GDP)




[1] Although this amount of land is currently estimated to cover 30 percent of GDP in public debt, the actual amount of debt to be extinguished by this transfer will be determined through market valuation.

island's parliament in mid-December.[7] It will be cast according to key principles set out by the program, such as a fiscal primary surplus consistent with a declining path of the public debt which achieves the objective of reaching the target of 60 percent of GDP by 2020, an increase in growth-enhancing capital expenditure, and a containment of current spending. In that regard the wage bill would remain at the nominal level projected for 2012.

**16. Continued reforms and improvements in the revenue administration are the cornerstone of the authorities' strategy to boost tax revenue over the medium term.** Securing medium-term fiscal sustainability and creating the fiscal space necessary for growth hinges on increasing tax collections and their share in budgetary revenue. Following recent important tax policy reforms, such as the institution of the VAT in 2010, the authorities now assign priority to enhancing the effectiveness of tax revenue collection. They intend to do so by strengthening audits of large taxpayers and enforcement through securing parliamentary adoption for the Customs bill. They also plan to further increase reliance on information technology to improve the automation of the audit system. Finally, they plan to bolster the performance and accountability of the revenue administration by harmonizing legislation and procedures according to international best practices (MEFP¶6).

**17. The authorities are also intent on pursuing a broadening of the tax base** (MEFP¶7). With TA support, as part of a regional initiative, they will continue to refine their assessment of the foregone revenue of customs duties and tax exemptions[8] and align their legal provisions with international best practices. In doing so, they will pay particular attention to ensuring that modalities of issuance are rules-based and vetted by the Ministry of Finance and to the proper targeting of the list of eligible entities. Finally, consideration will be given to switching to incentives aimed at accelerating the depreciation of capital over indirect tax incentives or income tax holidays.

**18. Reforms in public financial management will continue, in order to ensure that current spending is well contained.** The authorities aim to improve the efficiency of public spending by initiating steps to reform the civil service and thereby continue containing the wage bill in the years ahead. They also seek to rationalize subsidies by improving the management of price controls for basic staples and negotiating a more advantageous price for the price-subsidized Liquid Petroleum

[7] The budget process in Nevis, where the spending envelope is about one quarter the size of St. Kitts, is likely to be delayed by the current political situation. In the absence of an approved budget by the beginning of 2013, quarterly budget allocations would be assigned equal to one quarter of the allocations provided under the 2012 budget until the 2013 budget is adopted.

[8] Tax and customs duties exemptions have been estimated at an annual average of 5 percent of GDP or 26 percent of the average annual tax collections over the past three years. The bulk of the foregone revenue, 3½ percent of GDP, is due to tax and customs duty concessions granted under the Fiscal Incentives Act and the Hotels Aid Act and to Duty Free Shops. Concessions are also granted under the Small Business Development Act and the Special Resort Development Act.

Gas (LPG).[9] Finally, they aim to limit the contingent liabilities from public enterprises by amending the Finance Administration Act to formally recognize the Government Entities Oversight Board's investigative and enforcement powers and widen the list of entities under its purview (MEFP¶8)

## B. Debt Restructuring

**19. The authorities' priority is to make the SPV fully operational and start land sales so as to minimize the revenue impact of the debt/land swap on domestic creditors.** The debt/land swap is an important component of the authorities' debt restructuring program, covering 45 percent of GDP in debt, and representing 32 percent of the assets of the indigenous banking sector. The authorities plan to appoint the management of the SPV and outline its operational guidelines, in line with best international practices, by end-2012 (MEFP¶10).

**20. The authorities are also pursuing their negotiations with domestic creditors and foreign bilateral creditors (MEFP¶2).** A relatively quick resolution of the debt exchange with remaining domestic creditors, all financial sector entities, would further buttress their liquidity.

## C. Financial Sector

**21. The authorities are well aware that the landscape for the banking system will dramatically change following the debt restructuring (Box 1).** To this end, indigenous banks are diversifying the sources of their operating income and rationalizing their costs to buffer against the contingency of a slow pace of land sales. New services such as the processing of credit cards for the wider Caribbean area are being considered and the scheme of bank fees and charges is under review. Banks are aiming to contain their costs by restructuring their internal operations, including training, and engaging in the region-wide contracting of services.

**22. Indigenous banks face relatively contained risks from exposure to other banks in the region.** The net exposure of indigenous banks to other banks in the region amounts to 4.2 percent of the indigenous banks' loans portfolio while the largest net credit exposure of an indigenous bank to another bank in the region (headquartered in Antigua) represents only 2 percent of the St. Kitts' bank's loans.

[9] Improved targeting of subsidies for staples and LPG will be examined after the establishment, in September 2013, of a legal framework supporting a means test to determine households' eligibility for transfers (Country Report No. 12/284, MEFP ¶10)

# STAFF APPRAISAL

**23. The authorities of St. Kitts and Nevis have continued to perform well in implementing their program despite the continued economic contraction.** All performance criteria and structural benchmarks were met for end-June 2012, while the structural benchmark for end-September 2012 was met with a few days' delay. An important milestone was also reached in the agenda for public debt restructuring, with the recent transfer of land to the land asset management company.

**24. The authorities' ongoing work on a budget for 2013, in line with their home grown program, is consistent with the path of securing gains from the reduction in public debt.** The outline of the budget is consistent with the key principles of bolstering the tax base, containing current outlays and increasing capital spending and the capacity to buffer shocks.

**25. Over the near- to medium-term, it is necessary to accelerate the pace of structural fiscal reforms in order to boost revenue and promote growth-enhancing public expenditure**. In particular, the Customs Act should be adopted and revenue administration procedures should be harmonized in the first half of 2013, to further support sound administrative practices. On the expenditure side, the authorities' plan to reform the civil service is a welcome response to a necessary reform, as is their intention to better monitor and control contingent liabilities from public enterprises.

**26. The authorities are encouraged to quickly complete the restructuring of public debt and to be on guard against any adverse impact on the financial sector**. Implementation and entry into operation of the land asset management company, with a code of procedures aligned with best practices, is key in that respect. Finalizing debt restructuring negotiations with remaining domestic and external creditors is also important. Continued monitoring of the financial sector will be needed, in close collaboration with the Eastern Caribbean Central Bank (ECCB), including in the context of addressing the now higher NPLs. While the financial system is resilient, the authorities should stand ready to use the Banking Sector Reserve Fund (BSRF) as a buffer.

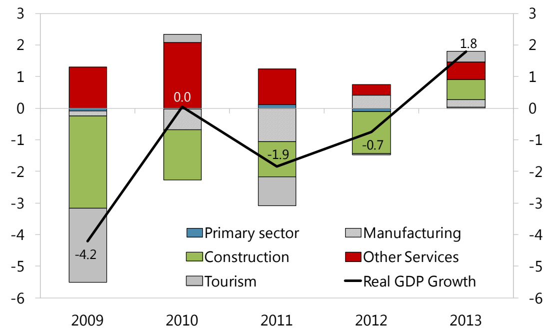
**27. Based on the authorities' demonstrated commitment to the program and successful implementation, staff supports the request for completion of the fourth review under the SBA and the financing assurances review.** Staff supports the waivers of applicability, based on the absence of available data to assess whether the end-September 2012 PCs—although the governing PCs under the SBA—were met, and the lack of evidence that end-September PCs will not be met. Finally, staff supports the technical rephasing of the fifth purchase by a few days.

## Figure 1. St. Kitts and Nevis: Real and External Sector Developments

*The contraction in construction has been an important drag on growth in recent years; a rebound is envisaged for 2013.*

**Contributions to GDP Growth**

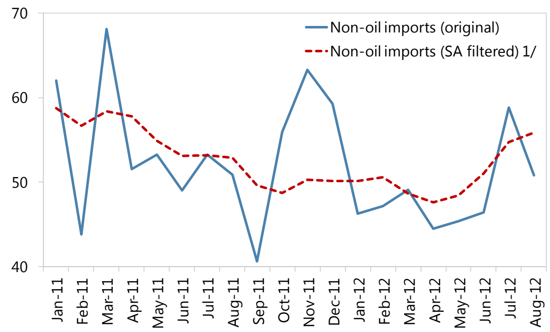
(In percentage points)




*Non-oil imports have started to recover in recent months.*

**Non-Oil Imports, Jan.2011-Aug.2012**

(In millions of EC$)

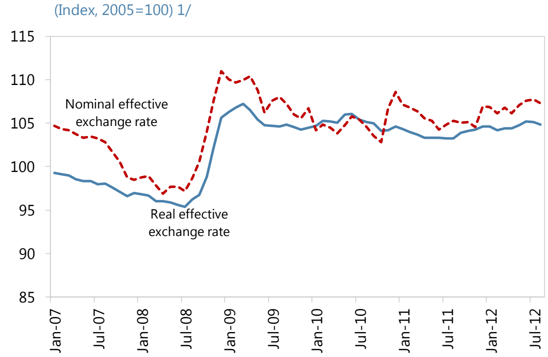



1/ Seasonally adjusted with X-12 ARIMA.

*External competitiveness has remained broadly unchanged over the past three years.*

**Effective Exchange Rates**

(Index, 2005=100) 1/

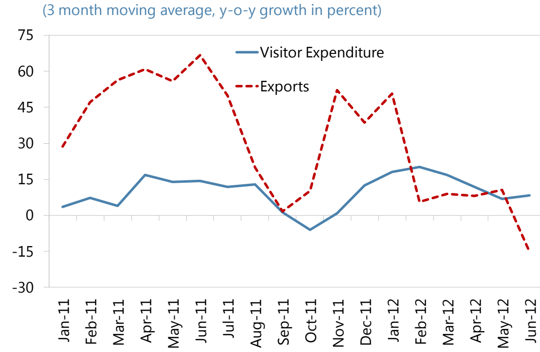



1/ An increase (decrease) indicates an appreciation (depreciation).

*Tourism receipts grew at a steady pace in the second quarter of 2012 while export receipts declined.*

**Indicators of External Transactions, Jan.2011-Jun.2012**

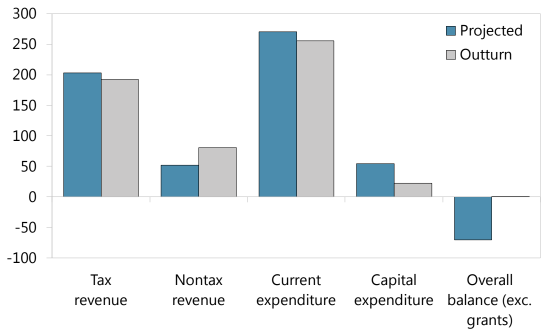
(3 month moving average, y-o-y growth in percent)



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

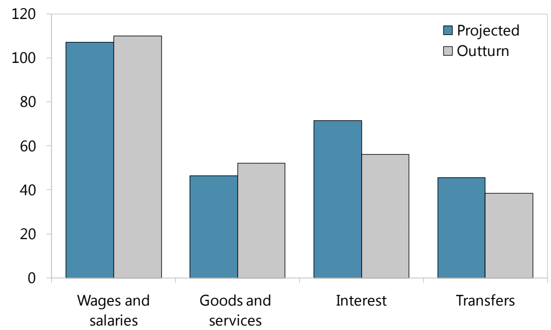
*The under-execution of public investment, containment of current spending and strong nontax revenue were key to the better than anticipated fiscal balance in 2012H1.*

**Central Government, 2012H1**
(In millions of EC$)



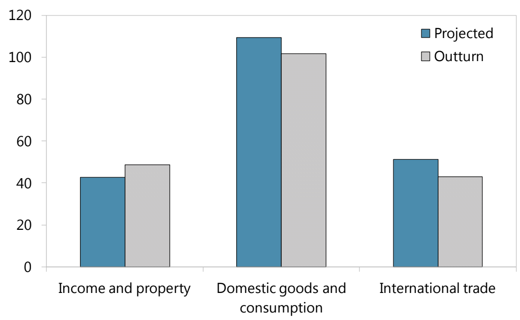

*Current expenditure was contained due to savings in interest payments due to the debt restructuring and in transfers.*

**Current Expenditure, 2012H1**
(In millions of EC$)



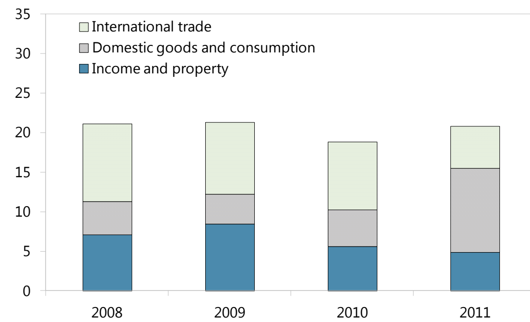

*Relatively strong income and property taxes partially offset sluggish collections from taxes on consumption and international trade that were impacted by weak demand.*

**Tax Revenue Performance, 2012H1**
(In millions of EC$)



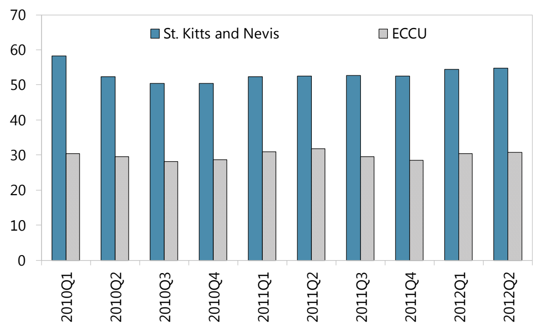

*Tax collections have remained below their 2008-2009 ratio to GDP, with declining receipts from international trade offset by revenue from the VAT, introduced at end-2010.*

**Tax Revenue**
(In percent of GDP)

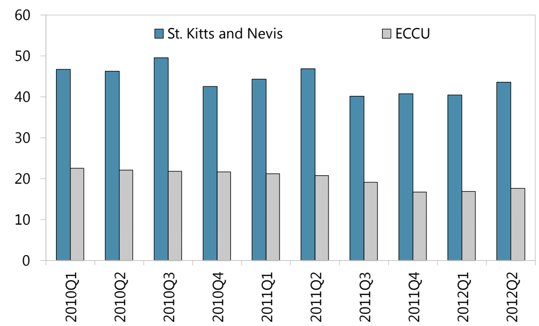


## Figure 3. St. Kitts and Nevis: Monetary Developments

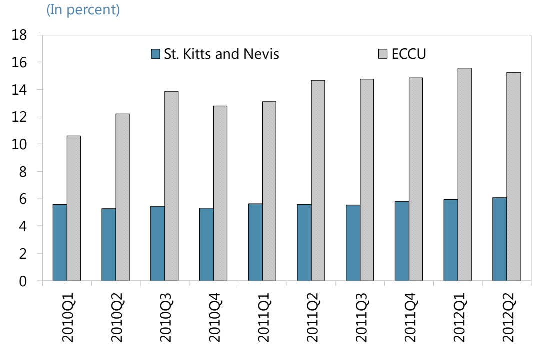
*Bank liquidity of indigenous banks remains high relative to the region…*



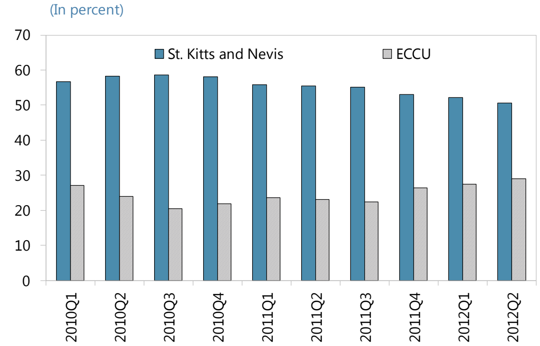

…as does capitalization, which has further improved in 2012Q2.



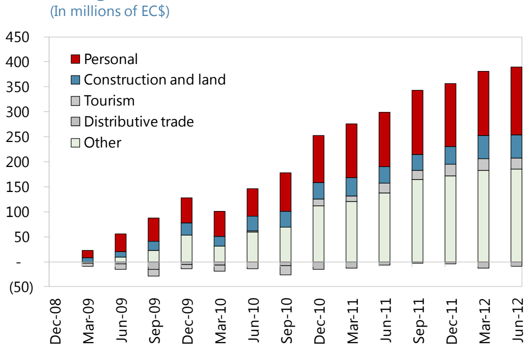

*Nonperforming loans continued to inch up in 2012Q2, but remain well below the rest of the region…*




*…and provisioning for NPLs has trended downwards but remains higher than in the region.*

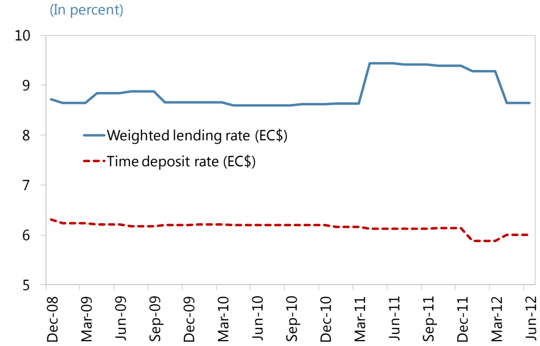



*Credit for personal loans, particularly mortgages, and construction has further increased in 2012Q2…*

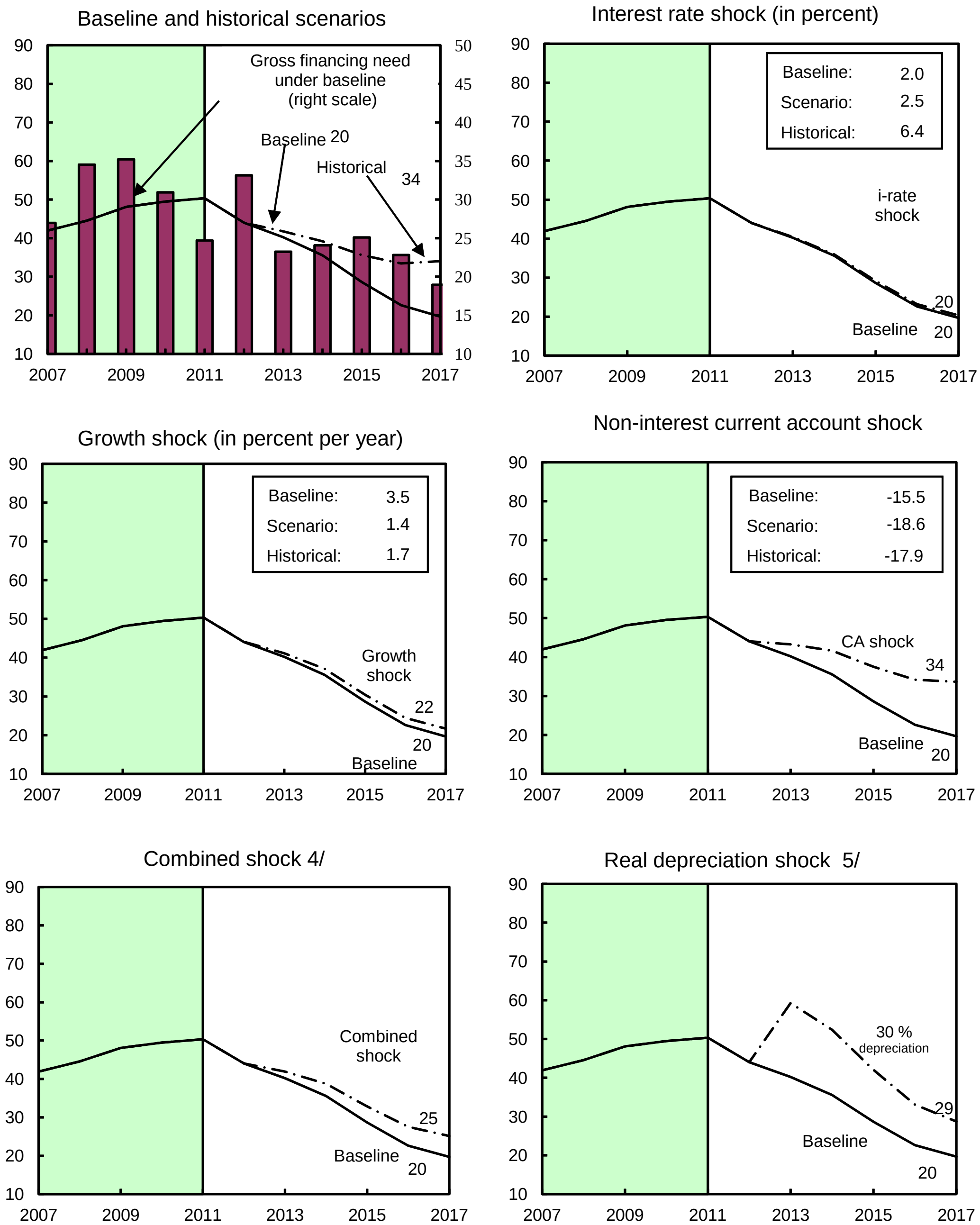



Note: Excludes credit to public administration.

*…as the spread between lending and deposit rates has recently narrowed.*

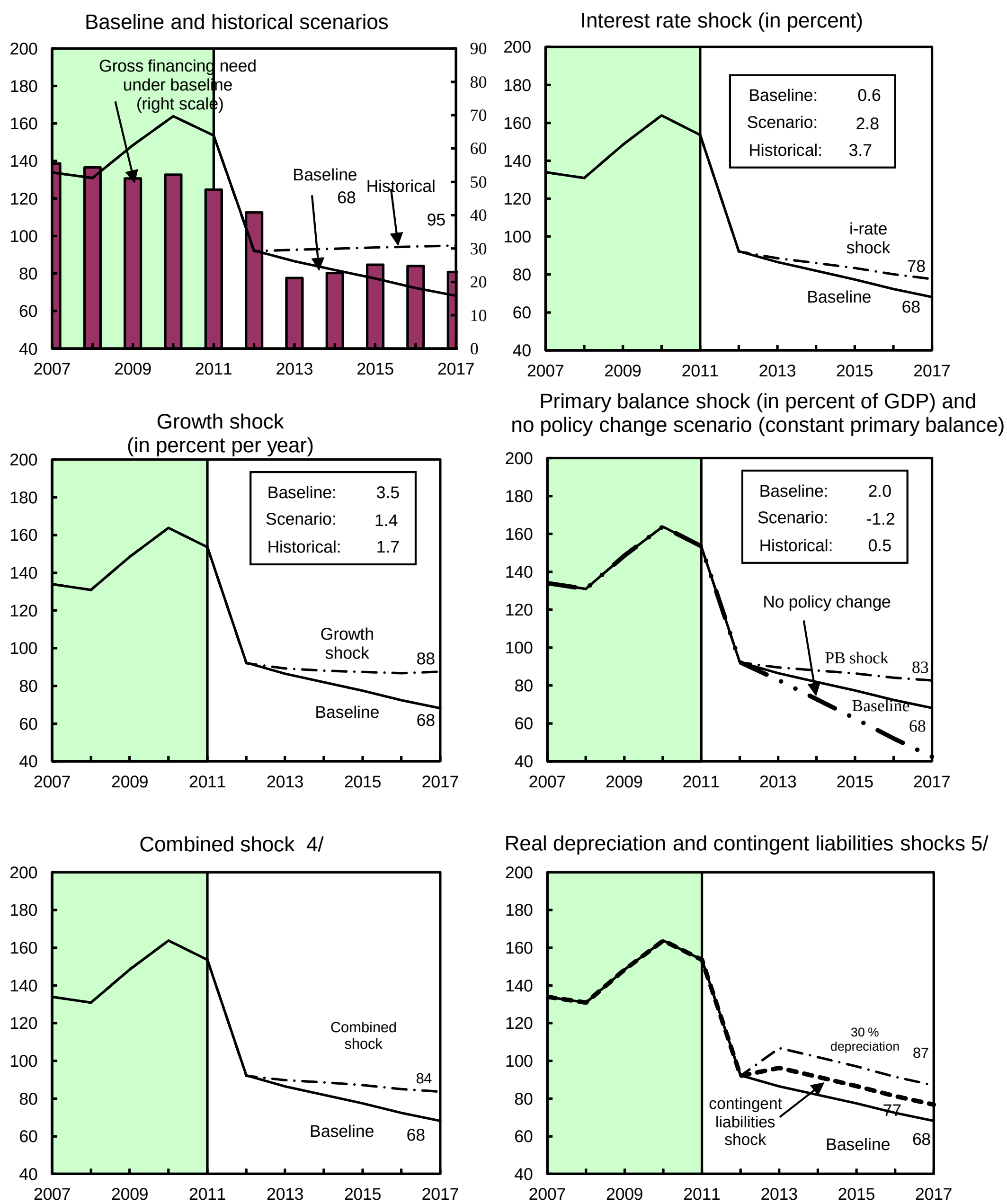


## Figure 4. St. Kitts and Nevis: External Debt Sustainability: Bound Tests 1/ 2/ 3/
## (External debt in percent of GDP)




Sources: International Monetary Fund, St. Kitts and Nevis authorities, and staff estimates.
1/ Reflects the outcome of the debt exchange offer to bondholders and external commercial creditors, and the Paris Club agreement.
2/ 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.
3/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
4/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance in 2013.
5/ One-time real depreciation of 30 percent occurs in 2013.

## Figure 5. St. Kitts and Nevis: Public Debt Sustainability: Bound Tests[1/ 2/ 3/]
## (Public debt in percent of GDP)




Sources: International Monetary Fund, St. Kitts and Nevis authorities, and staff estimates.
1/ Reflects the outcome of the debt exchange offer to bondholders and external commercial creditors, the Paris Club agreement and the full debt/land swap.
2/ 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.
3/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
4/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
5/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2013, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

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

**I. Social, Geographic and Demographic Indicators**

| | | | |
|---|---|---|---|
| Area (sq. km) | 269.4 | Adult literacy rate (percent, 2009) | 97.8 |
| Population | | Health and nutrition | |
| Total (thousands, 2001) | 46.1 | Calorie intake (per capita a day, 2011) | 2,452 |
| Rate of growth (percent per year, 2001) | 0.02 | Population per physician (thousand, 2000) | 0.9 |
| Density (per sq. km., 2001) | 171.2 | Access to safe water (percent, 2008) | 99 |
| Net migration rate (per thousand, 2002) | -9.8 | AIDS incidence rate (per 100,000, 2011) | 32 |
| Population characteristics (2008) | | Gross domestic product (2011) | |
| Life expectancy at birth (years) | 73 | (millions of U.S. dollars) | 718 |
| Infant mortality (per thousand live births) | 14 | (millions of E.C. dollars) | 1,939 |
| Under 5 mortality rate (per thousand) | 15 | (US$ per capita) | 12,779 |

**II. Economic and Financial Indicators, 2007—13**

| | 2007 | 2008 | 2009 | 2010 | Prel. 2011 | Prog. 1/ 2012 | Proj. 2012 | Proj. 2013 |
|---|---|---|---|---|---|---|---|---|
| (Annual percentage change; unless otherwise specified) | | | | | | | | |
| **National income and prices** | | | | | | | | |
| Real GDP (factor cost) | 4.8 | 3.9 | -4.2 | 0.0 | -1.9 | 0.0 | -0.7 | 1.8 |
| Consumer prices, end-of-period | 2.9 | 6.5 | 1.2 | 5.2 | 2.9 | 1.9 | 1.9 | 2.5 |
| Consumer prices, period average | 4.5 | 5.3 | 2.1 | 0.6 | 7.1 | 2.5 | 2.5 | 2.5 |
| Real effective exchange rate (end-of-period) 2/ | -5.5 | 12.8 | -3.8 | -5.6 | ... | ... | ... | ... |
| **Banking system** | | | | | | | | |
| Net foreign assets 3/ | 6.9 | 11.6 | -8.4 | 1.1 | 10.5 | 2.9 | 8.4 | 5.3 |
| Net domestic assets 3/ | 5.0 | -10.0 | 14.3 | 7.8 | -0.5 | 0.2 | -4.0 | -0.9 |
| *Of which* | | | | | | | | |
| Credit to public sector 4/ | 0.1 | -1.7 | 1.5 | 4.9 | -9.0 | -1.3 | -42.5 | -1.1 |
| Credit to private sector 3/ 4/ | 8.6 | 4.3 | 4.1 | 2.6 | 2.6 | 1.5 | 6.0 | 1.5 |
| Broad money 4/ | 11.9 | 1.6 | 5.9 | 8.9 | 10.0 | 3.1 | 4.3 | 4.4 |
| *Of which* | | | | | | | | |
| Money | 12.2 | 11.4 | -3.1 | 43.1 | 34.7 | 3.1 | 9.7 | 4.4 |
| Quasi-money | 11.9 | 0.0 | 7.5 | 3.3 | 4.4 | 3.1 | 2.8 | 4.4 |
| (In percent of GDP) | | | | | | | | |
| **Public sector 5/** | | | | | | | | |
| Primary balance | 2.7 | 2.6 | 3.7 | -0.8 | 8.3 | 3.4 | 9.1 | 6.0 |
| Overall balance | -3.5 | -3.9 | -2.9 | -7.8 | 1.8 | -3.0 | 2.4 | 1.7 |
| Total revenue and grants | 29.3 | 28.7 | 32.6 | 31.0 | 37.1 | 30.3 | 32.4 | 31.8 |
| Revenue | 27.8 | 27.2 | 29.0 | 28.2 | 33.5 | 26.3 | 30.3 | 27.6 |
| Grants | 1.5 | 1.4 | 3.6 | 2.8 | 3.5 | 4.0 | 1.8 | 3.9 |
| Total expenditure and net lending | 32.9 | 32.5 | 35.6 | 38.8 | 35.3 | 33.3 | 30.0 | 30.1 |
| Current expenditure | 26.7 | 27.3 | 30.4 | 31.7 | 30.9 | 27.4 | 27.3 | 24.6 |
| Capital expenditure and net lending | 6.1 | 5.3 | 5.1 | 7.1 | 4.4 | 5.9 | 2.7 | 5.5 |
| Foreign financing 6/ | -1.2 | 3.5 | 0.2 | 0.3 | 0.3 | -5.7 | -6.6 | -1.7 |
| Domestic financing | 2.8 | -2.5 | 3.1 | 7.5 | -4.6 | -5.4 | -42.5 | -0.2 |
| Change in arrears | | 1.2 | 1.3 | 1.0 | 1.6 | -1.6 | -1.4 | 0.0 |
| Sale of assets | 2.0 | 3.1 | 1.7 | 0.7 | 0.4 | 0.2 | 0.2 | 0.2 |
| Potential extraordinary financing | ... | ... | ... | ... | ... | 13.2 | 47.9 | 0.0 |
| Statistical discrepancy | 0.0 | -1.4 | -3.3 | -1.7 | 0.4 | - | - | - |
| Financing gap | ... | ... | ... | ... | ... | 2.2 | 0.0 | 0.0 |
| Total public debt (end-of-period) | 134.0 | 131.0 | 148.5 | 163.9 | 153.6 | 144.9 | 92.3 | 86.5 |
| *Of which* | | | | | | | | |
| Central government 7/ | 101.5 | 100.5 | 114.9 | 129.4 | 122.5 | 115.7 | 74.8 | 69.7 |
| Public enterprises 7/ | 32.5 | 30.5 | 33.5 | 34.4 | 31.1 | 29.2 | 17.5 | 16.8 |
| Public debt service (percent of total revenue and grants) 6/ | 30.1 | 28.4 | 25.2 | 29.1 | 22.2 | 62.9 | 60.9 | 19.8 |
| **External sector 8/** | | | | | | | | |
| External current account balance | -18.2 | -27.6 | -27.4 | -22.4 | -15.4 | -17.1 | -15.0 | -16.4 |
| Trade balance | -26.9 | -32.8 | -33.1 | -28.9 | -25.3 | -25.2 | -22.7 | -24.0 |
| Services, net | 9.0 | 5.7 | 3.9 | 4.1 | 7.4 | 7.6 | 6.5 | 6.3 |
| *Of which* | | | | | | | | |
| Tourism receipts | 18.1 | 14.9 | 12.1 | 13.3 | 12.9 | 13.0 | 13.3 | 13.6 |
| Transfers, net | 4.5 | 4.5 | 6.6 | 6.9 | 6.5 | 4.9 | 4.2 | 4.4 |
| Net capital inflow 9/ | 19.2 | 28.4 | 28.0 | 26.3 | 12.8 | 3.4 | 5.0 | 14.2 |
| FDI (net) | 19.5 | 24.0 | 17.1 | 16.4 | 14.5 | 13.3 | 15.3 | 16.0 |
| External financing gap 10/ | ... | ... | ... | ... | ... | 1.0 | 0.0 | 0.8 |
| External public debt (end-of-period) | 41.9 | 44.6 | 48.1 | 49.5 | 50.3 | 45.5 | 44.0 | 40.2 |
| (In percent of exports of goods and nonfactor services) | | | | | | | | |
| External public debt service | 20.8 | 22.4 | 25.5 | 24.5 | 23.8 | 25.7 | 12.5 | 11.6 |
| External public debt (end-of-period) | 124.1 | 140.5 | 189.6 | 160.1 | 146.9 | 157.2 | 126.9 | 120.3 |
| **Memorandum items** | | | | | | | | |
| Gross international reserves, end-of-period | | | | | | | | |
| (in millions of U.S. dollars) | 95.6 | 110.2 | 122.9 | 155.7 | 196.0 | 194.3 | 194.3 | 192.5 |
| (in percent of broad money) | 15.9 | 18.0 | 19.0 | 22.1 | 25.3 | 24.3 | 24.0 | 22.8 |
| Holdings of SDRs, in millions of U.S. dollars | ... | ... | 13.3 | 12.8 | 12.8 | 12.8 | 12.8 | 13.8 |
| Nominal GDP at market prices (in millions of EC$) | 1,862 | 1,998 | 1,859 | 1,818 | 1,939 | 1,992 | 1,987 | 2,075 |

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

1/ Third Review under the SBA, Country Report 12/284.
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/ Data from 2009 includes non-bank financial institutions and subsidiaries and affiliates as parts of private sector to reflect the changes in definition in January 2009.
5/ Central government unless otherwise noted. Primary and overall balances are based on above-the-line data.
6/ 2012 disbursement includes financing to regularize the external arrears related to fuel purchases.
7/ St. Kitts Sugar Manufacturing Company (SSMC) debt included in central government debt since 2006.
8/ Several items of the Balance of Payments were revised during the Fourth Review under the SBA, from 2007 onwards, including exports, petroleum imports, service payments, FDI and private transfers.
9/ Includes errors and omissions.
10/ Net of IMF financing and debt forgiveness.

## Table 2. St. Kitts and Nevis: Central Government Fiscal Operations, 2008–17[1/]
## (In millions of Eastern Caribbean dollars)

(In millions of Eastern Caribbean dollars)

| | 2008 | 2009 | 2010 | Prel. 2011 | Program. 2/ 2012 | Rev. proj. 2012 | Proj. 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total revenue** | **544.4** | **539.4** | **513.5** | **651.1** | **524.1** | **608.8** | **578.6** | **589.7** | **624.1** | **668.3** | **715.4** |
| Current revenue | 544.4 | 539.4 | 513.5 | 650.0 | 524.1 | 602.2 | 573.6 | 584.5 | 624.1 | 668.3 | 715.4 |
| Tax revenue | 422.0 | 396.1 | 342.4 | 408.1 | 414.7 | 411.1 | 427.6 | 458.1 | 493.7 | 533.5 | 576.6 |
| Taxes on income | 135.7 | 148.7 | 92.6 | 86.6 | 85.5 | 87.6 | 87.4 | 92.5 | 98.5 | 105.2 | 112.4 |
| Taxes on property | 6.6 | 8.8 | 9.4 | 8.8 | 12.0 | 11.0 | 12.2 | 12.9 | 13.8 | 14.7 | 15.7 |
| Taxes on domestic goods and consumption 3/ | 83.9 | 69.6 | 84.2 | 208.3 | 214.2 | 204.8 | 213.8 | 230.8 | 250.4 | 272.5 | 296.4 |
| Taxes on international trade and transactions | 195.9 | 169.0 | 156.3 | 104.4 | 102.9 | 107.6 | 114.1 | 121.9 | 131.0 | 141.2 | 152.1 |
| Nontax revenue | 122.5 | 143.3 | 171.0 | 241.9 | 109.4 | 191.1 | 146.0 | 126.4 | 130.4 | 134.8 | 138.9 |
| Capital revenue | 0.0 | 0.0 | 0.0 | 1.1 | 0.0 | 6.6 | 5.0 | 5.3 | 0.0 | 0.0 | 0.0 |
| **Total expenditure and net lending** | **650.4** | **661.1** | **706.1** | **684.5** | **663.9** | **596.5** | **624.6** | **620.0** | **661.9** | **692.7** | **753.9** |
| Current expenditure | 545.3 | 565.6 | 576.3 | 598.8 | 546.3 | 542.6 | 510.7 | 505.9 | 531.5 | 547.3 | 588.5 |
| Wages and salaries | 204.5 | 233.5 | 224.0 | 222.0 | 225.1 | 225.1 | 225.1 | 230.7 | 241.9 | 257.8 | 275.3 |
| Goods and services 4/ | 151.8 | 150.1 | 169.1 | 179.7 | 108.7 | 107.4 | 116.5 | 112.4 | 119.7 | 127.9 | 136.6 |
| Interest | 128.7 | 123.2 | 127.0 | 126.0 | 127.7 | 132.7 | 89.3 | 79.9 | 83.6 | 74.4 | 83.4 |
| Domestic | 86.8 | 81.6 | 86.7 | 91.6 | 101.7 | 81.8 | 68.9 | 63.4 | 68.7 | 63.6 | 73.7 |
| Foreign | 41.9 | 41.6 | 40.3 | 34.4 | 26.0 | 50.9 | 20.4 | 16.5 | 15.0 | 10.8 | 9.7 |
| Transfers | 60.3 | 58.9 | 56.2 | 71.1 | 84.8 | 77.4 | 79.8 | 82.8 | 86.2 | 87.2 | 93.1 |
| Net lending | 15.4 | 7.6 | 5.8 | -0.6 | 1.0 | 0.3 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Capital expenditure | 89.7 | 87.9 | 124.0 | 86.3 | 116.7 | 53.6 | 112.8 | 113.1 | 129.3 | 144.4 | 164.4 |
| **Current balance** | **-0.9** | **-26.2** | **-62.8** | **51.2** | **-22.2** | **59.6** | **62.9** | **78.6** | **92.5** | **121.0** | **126.9** |
| Overall balance (before grants) | -106.0 | -121.7 | -192.6 | -33.3 | -139.9 | 12.3 | -46.0 | -30.2 | -37.8 | -24.4 | -38.4 |
| Grants | 28.3 | 67.5 | 50.7 | 68.3 | 80.1 | 35.6 | 80.8 | 17.6 | 17.6 | 17.6 | 17.6 |
| **Overall balance (after grants)** | **-77.7** | **-54.2** | **-141.9** | **35.0** | **-59.7** | **47.9** | **34.8** | **-12.7** | **-20.3** | **-6.8** | **-20.9** |
| Primary balance | 51.0 | 68.9 | -14.9 | 160.9 | 67.9 | 180.7 | 124.1 | 67.2 | 63.4 | 67.6 | 62.5 |
| **Financing** | **106.4** | **115.4** | **172.8** | **-42.3** | **15.8** | **-47.9** | **-34.9** | **-19.9** | **-70.0** | **-69.2** | **-24.9** |
| Net foreign financing | 70.3 | 2.9 | 5.0 | 6.4 | -112.9 | -130.6 | -34.7 | -46.6 | -102.2 | -96.2 | -35.3 |
| Disbursements 5/ | 104.3 | 32.2 | 41.9 | 143.3 | 79.1 | 74.0 | 6.6 | 4.2 | 4.0 | 4.0 | 3.9 |
| Amortization | 33.9 | 29.2 | 36.9 | 136.9 | 192.0 | 204.6 | 41.3 | 50.9 | 106.2 | 100.2 | 39.2 |
| Net domestic financing | -49.3 | 57.1 | 136.8 | -88.6 | -106.6 | -845.0 | -4.2 | 18.1 | 23.1 | 17.3 | 0.0 |
| Banking system | -133.9 | 17.1 | 101.7 | -124.6 | -106.6 | -845.0 | -4.2 | 18.1 | 23.1 | 17.3 | 0.0 |
| Nonbanks and other | 45.4 | 22.6 | 11.4 | -2.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing arrangement on fuel purchase | 39.2 | 17.4 | 23.6 | 38.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in arrears | 23.1 | 24.0 | 18.3 | 31.8 | -31.4 | -27.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| External | 0.0 | 0.0 | 0.0 | 63.8 | -31.4 | -27.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortization | 0.0 | 0.0 | 0.0 | 49.1 | -24.2 | -23.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest | 0.0 | 0.0 | 0.0 | 14.7 | -7.2 | -4.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Domestic | 23.1 | 24.0 | 18.3 | -32.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Sale/purchase of assets | 62.3 | 31.4 | 12.8 | 8.1 | 3.9 | 3.9 | 4.0 | 8.6 | 9.1 | 9.7 | 10.4 |
| Exceptional financing | | | | | 262.9 | 951.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Statistical discrepancy** | **-28.7** | **-61.2** | **-30.9** | **7.4** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Financing gap 6/** | … | … | … | … | 43.9 | **0.0** | **0.0** | **32.6** | **90.2** | **76.0** | **45.8** |
| **Memorandum items:** | | | | | | | | | | | |
| GDP (market prices) | 1,998 | 1,859 | 1,818 | 1,939 | 1,992 | 1,987 | 2,075 | 2,196 | 2,339 | 2,498 | 2,668 |
| Public sector debt (end of period) | 2,617 | 2,761 | 2,978 | 2,979 | 2,887 | 1,834 | 1,795 | 1,799 | 1,810 | 1,808 | 1,818 |
| *Of which* | | | | | | | | | | | |
| Central government | 2,008 | 2,137 | 2,353 | 2,376 | 2,306 | 1,485 | 1,447 | 1,451 | 1,462 | 1,459 | 1,469 |
| Domestic | 1,351 | 1,455 | 1,641 | 1,555 | 1,546 | 757 | 752 | 797 | 907 | 999 | 1,039 |
| External | 656 | 682 | 711 | 821 | 760 | 729 | 695 | 654 | 554 | 460 | 431 |

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/ Third review under SBA, Country Report 12/284.
3/ The sharp drop in international taxes and concurrent rise in taxes on domestic goods and services reflect the introduction of VAT in Novermber 2010.
4/ Decline in goods and services expenditure from 2012 reflect the corporatization of the Electricity Department from August 2011.
5/ 2012 disbursement includes financing to regularize the external arrears related to fuel purchases.
6/ From 2012 onwards, to be closed by prospective disbursement from the Fund and donors, and restructuring of domestic debt.

## Table 3. St. Kitts and Nevis: Central Government Fiscal Operations, 2008–17[1/]
## (In percent of GDP)

| | | | | Prel. | Program. 2/ | Rev. proj. | Proj. | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| **Total revenue** | **27.2** | **29.0** | **28.2** | **33.6** | **26.3** | **30.6** | **27.9** | **26.9** | **26.7** | **26.8** | **26.8** |
| Current revenue | 27.2 | 29.0 | 28.2 | 33.5 | 26.3 | 30.3 | 27.6 | 26.6 | 26.7 | 26.8 | 26.8 |
| Tax revenue | 21.1 | 21.3 | 18.8 | 21.0 | 20.8 | 20.7 | 20.6 | 20.9 | 21.1 | 21.4 | 21.6 |
| Taxes on income | 6.8 | 8.0 | 5.1 | 4.5 | 4.3 | 4.4 | 4.2 | 4.2 | 4.2 | 4.2 | 4.2 |
| Taxes on property | 0.3 | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Taxes on domestic goods and consumption 2/ | 4.2 | 3.7 | 4.6 | 10.7 | 10.8 | 10.3 | 10.3 | 10.5 | 10.7 | 10.9 | 11.1 |
| Taxes on international trade and transactions | 9.8 | 9.1 | 8.6 | 5.4 | 5.2 | 5.4 | 5.5 | 5.6 | 5.6 | 5.7 | 5.7 |
| Nontax revenue | 6.1 | 7.7 | 9.4 | 12.5 | 5.5 | 9.6 | 7.0 | 5.8 | 5.6 | 5.4 | 5.2 |
| Capital revenue | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.3 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 |
| **Total expenditure and net lending** | **32.5** | **35.6** | **38.8** | **35.3** | **33.3** | **30.0** | **30.1** | **28.2** | **28.3** | **27.7** | **28.3** |
| Current expenditure | 27.3 | 30.4 | 31.7 | 30.9 | 27.4 | 27.3 | 24.6 | 23.0 | 22.7 | 21.9 | 22.1 |
| Wages and salaries | 10.2 | 12.6 | 12.3 | 11.4 | 11.3 | 11.3 | 10.8 | 10.5 | 10.3 | 10.3 | 10.3 |
| Goods and services 3/ | 7.6 | 8.1 | 9.3 | 9.3 | 5.5 | 5.4 | 5.6 | 5.1 | 5.1 | 5.1 | 5.1 |
| Interest | 6.4 | 6.6 | 7.0 | 6.5 | 6.4 | 6.7 | 4.3 | 3.6 | 3.6 | 3.0 | 3.1 |
| Domestic | 4.3 | 4.4 | 4.8 | 4.7 | 5.1 | 4.1 | 3.3 | 2.9 | 2.9 | 2.5 | 2.8 |
| Foreign | 2.1 | 2.2 | 2.2 | 1.8 | 1.3 | 2.6 | 1.0 | 0.8 | 0.6 | 0.4 | 0.4 |
| Transfers | 3.0 | 3.2 | 3.1 | 3.7 | 4.3 | 3.9 | 3.8 | 3.8 | 3.7 | 3.5 | 3.5 |
| Net lending | 0.8 | 0.4 | 0.3 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital expenditure | 4.5 | 4.7 | 6.8 | 4.4 | 5.9 | 2.7 | 5.4 | 5.1 | 5.5 | 5.8 | 6.2 |
| **Current balance** | **0.0** | **-1.4** | **-3.5** | **2.6** | **-1.1** | **3.0** | **3.0** | **3.6** | **4.0** | **4.8** | **4.8** |
| Overall balance (before grants) | -5.3 | -6.5 | -10.6 | -1.7 | -7.0 | 0.6 | -2.2 | -1.4 | -1.6 | -1.0 | -1.4 |
| Grants | 1.4 | 3.6 | 2.8 | 3.5 | 4.0 | 1.8 | 3.9 | 0.8 | 0.8 | 0.7 | 0.7 |
| **Overall balance (after grants)** | **-3.9** | **-2.9** | **-7.8** | **1.8** | **-3.0** | **2.4** | **1.7** | **-0.6** | **-0.9** | **-0.3** | **-0.8** |
| Primary balance | 2.6 | 3.7 | -0.8 | 8.3 | 3.4 | 9.1 | 6.0 | 3.1 | 2.7 | 2.7 | 2.3 |
| **Financing** | **5.3** | **6.2** | **9.5** | **-2.2** | **0.8** | **-2.4** | **-1.7** | **-0.9** | **-3.0** | **-2.8** | **-0.9** |
| Net foreign financing | 3.5 | 0.2 | 0.3 | 0.3 | -5.7 | -6.6 | -1.7 | -2.1 | -4.4 | -3.9 | -1.3 |
| Drawings 4/ | 5.2 | 1.7 | 2.3 | 7.4 | 4.0 | 3.7 | 0.3 | 0.2 | 0.2 | 0.2 | 0.1 |
| Amortization | 1.7 | 1.6 | 2.0 | 7.1 | 9.6 | 10.3 | 2.0 | 2.3 | 4.5 | 4.0 | 1.5 |
| Net domestic financing | -2.5 | 3.1 | 7.5 | -4.6 | -5.4 | -42.5 | -0.2 | 0.8 | 1.0 | 0.7 | 0.0 |
| Banking system | -6.7 | 0.9 | 5.6 | -6.4 | -5.4 | -42.5 | -0.2 | 0.8 | 1.0 | 0.7 | 0.0 |
| Nonbanks and other | 2.3 | 1.2 | 0.6 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing arrangement on fuel purchase | 2.0 | 0.9 | 1.3 | 2.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in arrears | 1.2 | 1.3 | 1.0 | 1.6 | -1.6 | -1.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| External | 0.0 | 0.0 | 0.0 | 3.3 | -1.6 | -1.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortization | 0.0 | 0.0 | 0.0 | 2.5 | -1.2 | -1.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest | 0.0 | 0.0 | 0.0 | 0.8 | -0.4 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Domestic | 1.2 | 1.3 | 1.0 | -1.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Sale/purchase of assets | 3.1 | 1.7 | 0.7 | 0.4 | 0.2 | 0.2 | 0.2 | 0.4 | 0.4 | 0.4 | 0.4 |
| Exceptional financing | 0.0 | 0.0 | 0.0 | 0.0 | 13.2 | 47.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Statistical discrepancy** | **-1.4** | **-3.3** | **-1.7** | **0.4** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Financing gap 5/** | **0.0** | **0.0** | **0.0** | **0.0** | **2.2** | **0.0** | **0.0** | **1.5** | **3.9** | **3.0** | **1.7** |
| **Memorandum items:** | | | | | | | | | | | |
| Public sector debt (end of period) | 131.0 | 148.5 | 163.9 | 153.6 | 144.9 | 92.3 | 86.5 | 81.9 | 77.4 | 72.4 | 68.1 |
| *Of which* | | | | | | | | | | | |
| Central government | 100.5 | 114.9 | 129.4 | 122.5 | 115.7 | 74.8 | 69.7 | 66.1 | 62.5 | 58.4 | 55.1 |
| Domestic | 67.6 | 78.3 | 90.3 | 80.2 | 77.6 | 38.1 | 36.2 | 36.3 | 38.8 | 40.0 | 38.9 |
| External | 32.8 | 36.7 | 39.1 | 42.3 | 38.1 | 36.7 | 33.5 | 29.8 | 23.7 | 18.4 | 16.1 |

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/ Third review under SBA, Country Report 12/284.
3/ Decline in goods and services expenditure from 2012 reflect the corporatization of the Electricity Department from August 2011.
4/ 2012 disbursement includes financing to regularize the external arrears related to fuel purchases.
5/ From 2012 onwards, to be closed by prospective disbursement from the Fund and donors, and restructuring of domestic debt.

# Table 4. St Kitts and Nevis: Balance of Payments, 2008–17

| | | | | Prel. | Proj. | | | Proj. | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| | | | | | (In millions of Eastern Caribbean dollars) | | | | | |
| **Current account** | **-550.9** | **-509.9** | **-407.3** | **-299.0** | **-298.3** | **-339.5** | **-378.9** | **-388.0** | **-391.8** | **-402.2** |
| Trade balance | -656.0 | -615.8 | -525.4 | -490.8 | -450.3 | -498.6 | -526.6 | -549.9 | -573.8 | -601.9 |
| Exports, f.o.b. | 186.2 | 101.6 | 156.9 | 183.8 | 197.8 | 204.6 | 217.3 | 231.7 | 250.1 | 271.2 |
| Imports f.o.b. | -842.2 | -717.4 | -682.2 | -674.6 | -648.0 | -703.2 | -743.9 | -781.6 | -823.9 | -873.1 |
| Of which | | | | | | | | | | |
| Mineral fuel | -132.6 | -67.2 | -68.8 | -101.7 | -103.8 | -102.7 | -98.3 | -94.3 | -90.7 | -86.9 |
| Services and transfers (net) | 105.0 | 105.8 | 118.1 | 191.8 | 152.0 | 159.1 | 147.6 | 161.9 | 182.0 | 199.6 |
| Services (net) | 113.1 | 71.9 | 74.3 | 143.4 | 130.0 | 131.4 | 145.3 | 158.1 | 174.8 | 192.9 |
| Services (receipts) | 447.4 | 370.3 | 405.1 | 480.8 | 491.7 | 489.2 | 520.8 | 554.4 | 594.4 | 637.2 |
| Of which | | | | | | | | | | |
| Tourism receipts | 297.2 | 225.4 | 241.7 | 249.9 | 265.0 | 283.1 | 308.1 | 335.7 | 365.6 | 397.7 |
| Services (payments) | -334.4 | -298.3 | -330.8 | -337.4 | -361.7 | -357.8 | -375.4 | -396.3 | -419.6 | -444.3 |
| Factor income (net) | -97.5 | -88.0 | -81.8 | -78.0 | -61.0 | -63.7 | -64.3 | -65.7 | -65.3 | -67.6 |
| Of which | | | | | | | | | | |
| Public sector interest | -54.0 | -53.3 | -48.7 | -37.7 | -19.7 | -20.6 | -18.7 | -17.1 | -13.4 | -12.2 |
| Transfers (net) | 89.4 | 121.9 | 125.6 | 126.4 | 83.0 | 91.4 | 66.6 | 69.5 | 72.5 | 74.4 |
| Official (net) | 12.4 | 41.6 | 34.2 | 45.2 | 13.1 | 19.3 | -8.1 | -8.1 | -8.1 | -8.1 |
| Private (net) | 77.0 | 80.3 | 91.4 | 81.2 | 69.8 | 72.1 | 74.7 | 77.6 | 80.6 | 82.5 |
| **Capital and financial account** | **513.4** | **542.2** | **476.2** | **259.9** | **99.4** | **294.4** | **369.6** | **411.6** | **443.0** | **425.8** |
| Official | 33.5 | -11.9 | 13.9 | -18.0 | -152.6 | 1.1 | -32.8 | -33.3 | -29.1 | -21.2 |
| Capital transfers (net) | 49.1 | 11.9 | 37.1 | 47.0 | 5.6 | 44.6 | 8.8 | 8.8 | 8.8 | 8.8 |
| Long-term borrowing (net) | -15.5 | -23.8 | -23.2 | -64.9 | -158.2 | -43.5 | -41.6 | -42.1 | -37.8 | -30.0 |
| Disbursements | 45.7 | 32.3 | 42.2 | 55.7 | 10.3 | 16.4 | 10.4 | 6.7 | 5.9 | 7.3 |
| Amortization | -61.3 | -56.1 | -65.4 | -120.7 | -66.2 | -59.9 | -52.0 | -48.8 | -43.7 | -37.3 |
| Debt forgiveness | ... | ... | ... | ... | -102.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Private capital | 479.9 | 554.1 | 462.2 | 277.9 | 252.0 | 293.3 | 402.5 | 445.0 | 472.0 | 447.0 |
| Capital transfers (net) | 42.5 | 57.7 | 125.4 | 136.9 | 137.3 | 126.3 | 114.5 | 97.6 | 80.9 | 69.5 |
| Foreign direct investment (net) | 480.3 | 317.7 | 298.2 | 281.2 | 304.1 | 331.3 | 376.6 | 420.0 | 443.1 | 454.6 |
| Portfolio investment (net) | 28.3 | -30.1 | -49.7 | -43.4 | -35.0 | -35.0 | -35.0 | -35.0 | -35.0 | -35.0 |
| Short-term capital (net) | -149.6 | 173.4 | 54.7 | -75.0 | -180.0 | -120.0 | -50.0 | -35.0 | -30.0 | -30.0 |
| Other private (net) | 78.4 | 35.4 | 33.6 | -21.8 | 25.6 | -9.3 | -3.6 | -2.7 | 13.0 | -12.0 |
| Errors and omissions | 53.9 | -22.0 | 1.2 | -11.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Overall balance** | **16.3** | **10.3** | **70.1** | **-50.7** | **-198.9** | **-45.0** | **-9.3** | **23.7** | **51.2** | **23.5** |
| **Financing** | **-16.3** | **-10.3** | **-70.1** | **50.7** | **198.9** | **45.0** | **9.3** | **-23.7** | **-51.2** | **-23.5** |
| Net international reserves | -39.4 | -34.3 | -88.4 | -108.9 | 2.2 | 0.0 | -3.5 | -3.0 | -2.8 | 2.1 |
| Change in arrears | 23.1 | 24.0 | 18.3 | 63.9 | -14.2 | -2.4 | 4.6 | 4.5 | 5.2 | 5.4 |
| Net use of IMF resources | ... | ... | ... | 95.7 | 90.5 | 28.0 | 0.7 | -71.5 | -88.0 | -38.8 |
| Purchase | | | | 95.7 | 90.5 | 28.0 | 12.7 | 0.0 | 0.0 | 0.0 |
| Repurchase | | | | 0.0 | 0.0 | 0.0 | -12.0 | -71.5 | -88.0 | -38.8 |
| Financing gap | ... | ... | ... | 0.0 | 120.4 | 19.4 | 7.5 | 46.3 | 34.6 | 7.8 |
| Debt forgiveness | ... | ... | ... | 0.0 | 120.4 | 2.7 | -0.1 | -0.1 | -0.1 | -0.1 |
| Other | ... | ... | ... | 0.0 | 0.0 | 16.7 | 7.6 | 46.4 | 34.7 | 7.9 |
| | | | | | (In percent of GDP) | | | | | |
| Current account | -27.6 | -27.4 | -22.4 | -15.4 | -15.0 | -16.4 | -17.3 | -16.6 | -15.7 | -15.1 |
| Exports of goods and nonfactor services | 31.7 | 25.4 | 30.9 | 34.3 | 34.7 | 33.4 | 33.6 | 33.6 | 33.8 | 34.0 |
| Merchandise exports | 9.3 | 5.5 | 8.6 | 9.5 | 10.0 | 9.9 | 9.9 | 9.9 | 10.0 | 10.2 |
| Nonfactor services | 22.4 | 19.9 | 22.3 | 24.8 | 24.7 | 23.6 | 23.7 | 23.7 | 23.8 | 23.9 |
| *Of which* | | | | | | | | | | |
| *Tourism receipts* | 14.9 | 12.1 | 13.3 | 12.9 | 13.3 | 13.6 | 14.0 | 14.4 | 14.6 | 14.9 |
| Imports of goods and nonfactor services | -58.9 | -54.6 | -55.7 | -52.2 | -50.8 | -51.1 | -51.0 | -50.4 | -49.8 | -49.4 |
| Merchandise imports | -42.1 | -38.6 | -37.5 | -34.8 | -32.6 | -33.9 | -33.9 | -33.4 | -33.0 | -32.7 |
| Nonfactor services | -16.7 | -16.0 | -18.2 | -17.4 | -18.2 | -17.2 | -17.1 | -16.9 | -16.8 | -16.7 |
| Foreign direct investment (net) | 24.0 | 17.1 | 16.4 | 14.5 | 15.3 | 16.0 | 17.1 | 18.0 | 17.7 | 17.0 |
| Stock of unpaid fuel expenses | 1.2 | 2.5 | 2.3 | 0.7 | 0.0 | -0.1 | 0.1 | 0.3 | 0.0 | 0.0 |
| External financing gap | ... | ... | ... | 0.0 | 0.0 | 0.8 | 0.3 | 2.0 | 1.4 | 0.3 |
| External public debt | 44.6 | 48.1 | 49.5 | 50.3 | 44.0 | 40.2 | 35.6 | 28.6 | 22.6 | 19.7 |
| | | | | | (Annual percentage change) | | | | | |
| Merchandise exports | 19.7 | -45.4 | 54.4 | 17.2 | 7.6 | 3.4 | 6.2 | 6.6 | 7.9 | 8.4 |
| Tourism receipts | -11.8 | -24.1 | 7.2 | 3.4 | 6.0 | 6.8 | 8.8 | 8.9 | 8.9 | 8.8 |
| Merchandise imports | 28.4 | -14.8 | -4.9 | -1.1 | -3.9 | 8.5 | 5.8 | 5.1 | 5.4 | 6.0 |
| Terms of trade | -3.6 | 4.8 | -4.6 | -3.7 | 0.8 | 0.4 | 1.1 | 0.9 | 0.7 | 0.7 |
| | | | | | (In percent of exports of goods and nonfactor services) | | | | | |
| External public debt | 140.5 | 189.6 | 160.1 | 146.9 | 126.9 | 120.3 | 105.9 | 85.2 | 66.9 | 57.8 |
| External debt service | 22.4 | 25.5 | 24.5 | 23.8 | 12.5 | 11.6 | 11.2 | 17.3 | 14.8 | 6.5 |
| *Of which* | | | | | | | | | | |
| Interest | 8.2 | 10.7 | 8.3 | 5.5 | 2.8 | 2.9 | 2.5 | 2.1 | 1.5 | 1.3 |
| | | | | | (Millions of US dollar) | | | | | |
| ECCB imputed reserves | 110.2 | 122.9 | 155.7 | 196.0 | 194.3 | 192.5 | 192.9 | 194.0 | 195.0 | 196.2 |

Sources: ECCB; and Fund staff estimates and projections.

## Table 5. St. Kitts and Nevis: Monetary Survey , 2008–13

| | 2008 | 2009 | 2010 | Prel. 2011 | Proj. 2012 | Proj. 2013 |
|---|---|---|---|---|---|---|
| | | | (In millions of EC$) | | | |
| **Net foreign assets** | **850.7** | **711.5** | **730.1** | **929.0** | **1104.4** | **1219.5** |
| ECCB imputed reserves | 297.6 | 331.9 | 420.3 | 529.2 | 524.5 | 519.7 |
| Crown agents | 10.6 | 10.6 | 10.6 | 10.6 | 10.6 | 10.6 |
| Commercial banks | 542.4 | 369.0 | 299.2 | 389.3 | 569.3 | 689.3 |
| **Net domestic assets** | **799.8** | **1036.4** | **1172.6** | **1163.2** | **1078.7** | **1059.7** |
| Net credit to the public sector | 366.3 | 390.9 | 476.4 | 305.7 | -583.2 | -608.2 |
| Net credit to central government | 337.2 | 427.4 | 850.8 | 726.2 | 83.0 | 78.8 |
| Net credit to St. Kitts | 263.0 | 298.9 | 676.6 | 526.4 | -113.5 | -120.7 |
| Net credit to Nevis | 74.2 | 128.5 | 174.3 | 199.8 | 196.5 | 199.5 |
| Net credit to non-financial public sector | 29.1 | -36.5 | -374.5 | -420.5 | -666.3 | -687.0 |
| Credit to the private sector 1/ | 1242.7 | 1311.1 | 1356.6 | 1406.4 | 1531.1 | 1563.3 |
| Net other assets 2/ | -809.2 | -665.6 | -660.4 | -548.9 | 130.8 | 104.6 |
| **Broad money (M2)** | **1650.5** | **1747.9** | **1902.7** | **2092.3** | **2183.0** | **2279.3** |
| Money | 251.7 | 243.9 | 349.0 | 470.2 | 516.0 | 538.8 |
| Currency in circulation | 70.1 | 78.3 | 101.1 | 102.0 | 120.3 | 125.6 |
| Demand deposits 1/ | 181.6 | 165.5 | 248.0 | 368.2 | 395.7 | 413.2 |
| Quasi-money 1/ | 1398.8 | 1504.0 | 1553.7 | 1622.0 | 1667.0 | 1740.5 |
| Savings deposits | 602.6 | 638.5 | 638.4 | 684.8 | 736.6 | 769.1 |
| Time deposits | 398.1 | 491.0 | 552.4 | 581.3 | 567.1 | 592.1 |
| Foreign currency deposits | 398.1 | 374.5 | 362.8 | 356.0 | 363.3 | 379.3 |
| | | (Percentage change relative to broad money at beginning of period) | | | | |
| Net foreign assets | 11.6 | -8.4 | 1.1 | 10.5 | 8.4 | 5.3 |
| Net domestic assets | -10.0 | 14.3 | 7.8 | -0.5 | -4.0 | -0.9 |
| Net credit to the public sector | -1.7 | 1.5 | 4.9 | -9.0 | -42.5 | -1.1 |
| Net credit to central government | -7.9 | 5.5 | 24.2 | -6.5 | -30.7 | -0.2 |
| Net credit to non-financial public sector | 6.2 | -4.0 | -19.3 | -2.4 | -11.7 | -1.0 |
| Credit to the private sector 1/ | 4.3 | 4.1 | 2.6 | 2.6 | 6.0 | 1.5 |
| Net other assets 2/ | -12.6 | 8.7 | 0.3 | 5.9 | 32.5 | -1.2 |
| | | | (Annual percentage change) | | | |
| Broad money (M2) | 1.6 | 5.9 | 8.9 | 10.0 | 4.3 | 4.4 |
| Money | 11.4 | -3.1 | 43.1 | 34.7 | 9.7 | 4.4 |
| Currency in circulation | 24.8 | 11.7 | 29.0 | 0.9 | 18.0 | 4.4 |
| Demand deposits 1/ | 6.9 | -8.8 | 49.8 | 48.5 | 7.5 | 4.4 |
| Quasi-money 1/ | 0.0 | 7.5 | 3.3 | 4.4 | 2.8 | 4.4 |
| Savings deposits | 6.5 | 6.0 | 0.0 | 7.3 | 7.6 | 4.4 |
| Time deposits | 5.4 | 23.3 | 12.5 | 5.2 | -2.4 | 4.4 |
| Foreign currency deposits | -12.6 | -5.9 | -3.1 | -1.9 | 2.1 | 4.4 |
| Credit to the private sector (in nominal terms) | 5.9 | 5.5 | 3.5 | 3.7 | 8.9 | 2.1 |
| Credit to the private sector (in real terms) | 1.4 | 4.3 | -1.6 | 0.8 | 6.8 | -0.4 |
| **Memorandum items:** | | | | | | |
| Income velocity of money | 7.9 | 7.6 | 5.2 | 4.1 | 3.9 | 3.9 |
| Income velocity of broad money | 1.2 | 1.1 | 1.0 | 0.9 | 0.9 | 0.9 |
| Private sector credit/GDP (in percent) | 62.2 | 70.5 | 74.6 | 72.5 | 77.1 | 75.4 |
| Foreign currency deposits/GDP (in percent) | 19.9 | 20.1 | 20.0 | 18.4 | 18.3 | 18.3 |

Sources: ECCB; and Fund staff estimates and projections.

1/ Data up to 2008 is revised to reflect the changes in the definition of private sector in January 2009.
2/ Includes capital accounts.

## Table 6. St. Kitts and Nevis: Indicators of External and Financial Vulnerability, 2006–11
## (12-month percentage change, unless otherwise stated)

| | 2006 | 2007 | 2008 | 2009 | 2010 | Prel. 2011 |
|---|---|---|---|---|---|---|
| **External indicators** | | | | | | |
| Merchandise exports | -8.2 | -1.2 | 19.7 | -45.4 | 54.4 | 17.2 |
| Merchandise imports | 18.6 | 10.6 | 28.4 | -14.8 | -4.9 | -1.1 |
| Terms of trade deterioration (-) | -4.3 | -1.7 | -3.6 | 4.8 | -4.6 | -3.7 |
| Tourism earnings | 8.7 | -5.2 | -11.8 | -24.1 | 7.2 | 3.4 |
| Current account balance (percent of GDP) | -14.1 | -18.2 | -27.6 | -27.4 | -22.4 | -15.4 |
| Capital and financial account balance (percent of GDP) 1/ | 13.8 | 17.4 | 25.7 | 29.2 | 26.2 | 13.4 |
| *Of which* | | | | | | |
| Foreign direct investment | 17.5 | 19.5 | 24.0 | 17.1 | 16.4 | 14.5 |
| Gross international reserves of the ECCB | | | | | | |
| In millions of U.S. dollars | 696.0 | 764.5 | 759.0 | 800.8 | 926.1 | 1007.5 |
| In percent of broad money | 18.6 | 18.6 | 17.0 | 17.5 | 19.7 | 20.9 |
| Commercial banks' net foreign assets (millions of U. S. dollars) | 115.7 | 145.5 | 200.9 | 136.7 | 110.8 | 144.2 |
| External public debt (percent of GDP) | 50.4 | 41.9 | 44.6 | 48.1 | 49.5 | 50.3 |
| External debt service (in percent of exports of goods and services) | 22.7 | 20.8 | 22.4 | 25.5 | 24.5 | 23.8 |
| *Of which* | | | | | | |
| Interest | 8.8 | 7.8 | 8.2 | 10.7 | 8.3 | 5.5 |
| Nominal exchange rate (E.C. dollars per U.S. dollar, end period) | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 |
| Real effective exchange rate depreciation (-), end period 2/ | 2.2 | -5.5 | 12.8 | -3.8 | -5.6 | ... |
| **Financial indicators** | | | | | | |
| Broad money | 13.6 | 11.9 | 1.6 | 5.9 | 8.9 | 10.0 |
| Credit to the private sector | 11.5 | 11.9 | 5.9 | 5.5 | 3.5 | 3.7 |
| Share of nonperforming assets to total assets of banks (percent) | 4.8 | 4.1 | 4.5 | 4.3 | 5.5 | 6.6 |
| Provisions for loan losses/nonperforming assets (percent) | 24.3 | 23.9 | 20.0 | 48.9 | 42.2 | 38.3 |
| Provisions for loan losses/total loans (percent) | 1.2 | 1.0 | 0.9 | 2.1 | 2.3 | 2.5 |
| Gross government exposure/total assets (percent) | 31.0 | 29.1 | 28.2 | 26.1 | 26.6 | 24.3 |
| Total loans/total deposits (percent) | 85.1 | 86.9 | 88.7 | 77.4 | 78.1 | 73.0 |
| Net liquid assets/total deposits (percent) | 38.4 | 37.9 | 42.5 | 42.9 | 41.6 | 44.2 |
| Foreign currency deposits/total deposits (percent) | 25.0 | 23.4 | 22.9 | 30.2 | 27.5 | 25.6 |
| Liquid assets/total asset (percent) | 39.9 | 38.0 | 39.5 | 43.7 | 41.9 | 44.2 |
| Liquid assets/current liabilities (percent) | 45.3 | 47.5 | 48.4 | 50.9 | 51.5 | 51.8 |
| Total capital/total assets (percent) 3/ | 13.0 | 15.0 | 16.8 | 19.3 | 18.4 | 16.3 |
| Total Capital/Risk Weighted Assets (percent) 3/ | 39.8 | 43.8 | 42.7 | 47.6 | 42.4 | 40.7 |
| Tier 1 Capital/Risk Weighted Assets (percent) 3/ | 36.0 | 37.7 | 40.1 | 42.0 | 36.8 | 40.1 |
| Ratio of bank's before-tax profits to average assets (percent) | 3.4 | 4.0 | 4.7 | 2.1 | 1.1 | 1.4 |

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 7. St. Kitts and Nevis: External Financing Requirement and Sources, 2011–17
### (In millions of U.S. dollars)

| | Prel. | Proj. | Projection | | | | |
|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| **Gross financing requirement** | **231.0** | **228.7** | **194.3** | **179.0** | **175.3** | **168.1** | **177.4** |
| Current account deficit | 110.1 | 109.9 | 124.2 | 138.6 | 142.1 | 144.6 | 148.8 |
| Amortization | 80.5 | 119.6 | 70.1 | 39.1 | 32.0 | 22.5 | 29.4 |
| Official (public sector and central government) | 44.7 | 62.4 | 22.2 | 19.3 | 18.1 | 16.2 | 13.8 |
| of which, debt forgiveness | ... | 37.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Private sector (net) | 35.8 | 57.2 | 47.9 | 19.8 | 14.0 | 6.3 | 15.6 |
| Commercial banks | 27.8 | 66.7 | 44.4 | 18.5 | 13.0 | 11.1 | 11.1 |
| Other private | 8.1 | -9.5 | 3.4 | 1.3 | 1.0 | -4.8 | 4.5 |
| Reserve accumulation (+: increase) | 40.3 | -0.8 | 0.0 | 1.3 | 1.1 | 1.0 | -0.8 |
| **Sources of financing** | **176.8** | **156.4** | **179.1** | **176.0** | **184.5** | **186.6** | **187.1** |
| Capital grants and transfers | 68.1 | 52.9 | 63.3 | 45.7 | 39.4 | 33.2 | 29.0 |
| Foreign Direct Investment (net) | 104.2 | 112.6 | 122.7 | 139.5 | 155.6 | 164.1 | 168.4 |
| Net inflow of equity and other capital | -16.1 | -13.0 | -13.0 | -13.0 | -13.0 | -13.0 | -13.0 |
| New borrowing | 20.6 | 3.8 | 6.1 | 3.9 | 2.5 | 2.2 | 2.7 |
| of which: public sector | 20.6 | 3.8 | 6.1 | 3.9 | 2.5 | 2.2 | 2.7 |
| Errors and omissions | -4.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accumulation of arrears | 23.7 | -5.3 | -0.9 | 1.7 | 1.7 | 1.9 | 2.0 |
| **Exceptional external financing** | **35.0** | **77.5** | **9.8** | **-1.5** | **-28.1** | **-33.2** | **-14.6** |
| IMF net disbursement | 35.0 | 32.9 | 8.8 | -1.5 | -28.1 | -33.2 | -14.5 |
| Fund disbursement | 35.4 | 33.5 | 10.4 | 4.7 | 0.0 | 0.0 | 0.0 |
| Repurchases | 0.0 | 0.0 | 0.0 | -4.4 | -26.5 | -32.6 | -14.4 |
| Interest due | -0.5 | -0.6 | -1.5 | -1.7 | -1.6 | -0.5 | -0.2 |
| Debt forgiveness 1/ | 0.0 | 44.6 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Other residual** | **0.0** | **0.0** | **6.2** | **2.8** | **17.2** | **12.8** | **2.9** |

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

## Table 8: St. Kitts and Nevis: Indicators of Capacity to Repay the Fund, 2012–21[1/]

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Fund obligations based on existing credit** | | | | | | | | | | |
| (in millions of SDRs) | 0.28 | 1.56 | 3.77 | 16.91 | 17.34 | 3.43 | 0.00 | 0.00 | 0.00 | 0.00 |
| Principal | 0.28 | 1.11 | 3.33 | 16.56 | 17.20 | 3.41 | 0.00 | 0.00 | 0.00 | 0.00 |
| Charges and interest | 0.00 | 0.45 | 0.44 | 0.35 | 0.14 | 0.02 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Fund obligations based on existing and prospective credit** | | | | | | | | | | |
| (in millions of SDRs) | 0.31 | 2.07 | 4.41 | 17.52 | 21.52 | 9.44 | 2.31 | 0.34 | 0.00 | 0.00 |
| Principal | 0.28 | 1.11 | 3.33 | 16.56 | 21.19 | 9.35 | 2.29 | 0.34 | 0.00 | 0.00 |
| Charges and interest | 0.03 | 0.96 | 1.08 | 0.96 | 0.33 | 0.09 | 0.02 | 0.00 | 0.00 | 0.00 |
| **Fund credit outstanding based on existing and prospective credit** (in millions of SDRs) | 47.9 | 51.2 | 49.7 | 33.2 | 12.0 | 2.6 | 0.3 | 0.0 | 0.0 | 0.0 |
| **Total Obligations based on existing and prospective credit** | | | | | | | | | | |
| in millions of U.S. dollars 2/ | 0.5 | 3.3 | 7.1 | 28.0 | 34.4 | 15.1 | 3.7 | 0.5 | 0.0 | 0.0 |
| in percent of exports of goods and services | 0.2 | 1.3 | 2.6 | 9.6 | 11.0 | 4.5 | 1.0 | 0.1 | 0.0 | 0.0 |
| in percent of external debt service3/ | 1.5 | 10.0 | 18.7 | 35.8 | 42.7 | 40.8 | 16.9 | 2.9 | 0.0 | 0.0 |
| in percent of GDP | 0.1 | 0.4 | 0.9 | 3.2 | 3.7 | 1.5 | 0.4 | 0.0 | 0.0 | 0.0 |
| in percent of quota | 3.5 | 23.3 | 49.6 | 196.9 | 241.8 | 106.1 | 26.0 | 3.8 | 0.0 | 0.0 |
| in percent of net imputed reserves | 0.3 | 1.7 | 3.7 | 14.5 | 17.7 | 7.7 | 1.9 | 0.3 | 0.0 | 0.0 |
| in percent of revenue and grants | 0.2 | 1.4 | 3.1 | 11.8 | 13.6 | 5.6 | 1.3 | 0.2 | 0.0 | 0.0 |
| **Outstanding Fund Credit** | | | | | | | | | | |
| in millions of U.S. dollars 2/ | 76.7 | 82.0 | 79.6 | 53.1 | 19.2 | 4.2 | 0.5 | 0.0 | 0.0 | 0.0 |
| in percent of exports of goods and services | 30.0 | 31.9 | 29.1 | 18.2 | 6.1 | 1.3 | 0.2 | 0.0 | 0.0 | 0.0 |
| in percent of external debt service 3/ | 241.2 | 275.0 | 260.0 | 105.6 | 41.6 | 19.3 | 3.0 | 0.0 | 0.0 | 0.0 |
| in number of months of imports of goods and services | 2.5 | 2.5 | 2.3 | 1.5 | 0.5 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| in percent of GDP | 10.4 | 10.7 | 9.8 | 6.1 | 2.1 | 0.4 | 0.1 | 0.0 | 0.0 | 0.0 |
| in percent of quota | 538.5 | 575.7 | 558.9 | 372.8 | 134.7 | 29.7 | 3.8 | 0.0 | 0.0 | 0.0 |
| in percent of net imputed reserves | 39.5 | 42.6 | 41.3 | 27.4 | 9.8 | 2.2 | 0.3 | 0.0 | 0.0 | 0.0 |
| **Net use of Fund Credit** (in millions of SDRs) | 23.6 | 3.3 | -1.5 | -16.6 | -21.2 | -9.4 | -2.3 | -0.3 | 0.0 | 0.0 |
| Disbursements | 23.8 | 4.4 | 1.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Repayment and Repurchases | 0.3 | 1.1 | 3.3 | 16.6 | 21.2 | 9.4 | 2.3 | 0.3 | 0.0 | 0.0 |
| *Memorandum items:* | | | | | | | | | | |
| Nominal GDP (in millions of US dollars) | 735.9 | 768.4 | 813.4 | 866.2 | 925.2 | 988.2 | 1,055.4 | 1,127.3 | 1,204.1 | 1,286.1 |
| Exports of goods and services (in millions of US dollars) | 255.4 | 256.9 | 273.4 | 291.2 | 312.8 | 336.4 | 356.3 | 377.6 | 399.9 | 423.7 |
| External debt service (in millions of US dollars) | 31.8 | 29.8 | 30.6 | 50.3 | 46.2 | 21.9 | 18.1 | 18.2 | 15.8 | 14.2 |
| Imports of goods and services (in millions of US dollars) | 374.0 | 392.9 | 414.6 | 436.2 | 460.6 | 487.9 | 513.0 | 539.5 | 567.4 | 596.8 |
| Net imputed reserves (in millions of US dollars) | 194.3 | 192.5 | 192.9 | 194.0 | 195.0 | 196.2 | 196.2 | 196.2 | 196.2 | 196.2 |

1/ Assumes a 3-year SBA with access in the amount of SDR 52.5 million (590 percent of quota)
2/ US$1 = 0.625 SDR (program exchange rate in TMU)
3/ Including prospective repurchases/repayments

# Table 9. St. Kitts and Nevis: External Debt Sustainability Framework, 2007–17
## (in percent of GDP, unless otherwise indicated)

| | Actual 2007 | 2008 | 2009 | 2010 | 2011 | 10-Year Historical Average | 10-Year Standard Deviation | Projections 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Debt-stabilizing non-interest current account 7/ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 **Baseline: External debt** | 41.9 | 44.6 | 48.1 | 49.5 | 50.3 | | | **44.0** | **40.2** | **35.6** | **28.6** | **22.6** | **19.7** | **-16.9** |
| 2 Change in external debt | -8.4 | 2.6 | 3.5 | 1.4 | 0.8 | | | -6.3 | -3.8 | -4.6 | -6.9 | -6.0 | -2.9 | |
| 3 Identified external debt-creating flows (4+8+9) | -4.9 | -0.5 | 14.6 | 10.0 | 1.4 | | | 1.5 | 1.3 | 0.6 | -1.1 | -1.8 | -1.5 | |
| 4 Current account deficit, excluding interest payments | 15.3 | 24.8 | 24.6 | 19.6 | 13.3 | | | 12.3 | 15.2 | 16.4 | 15.8 | 15.1 | 15.0 | |
| 5 Deficit in balance of goods and services | 17.9 | 27.2 | 29.2 | 24.8 | 17.9 | | | 16.1 | 17.7 | 17.4 | 16.8 | 16.0 | 15.3 | |
| 6 Exports | 33.8 | 31.7 | 25.4 | 30.9 | 34.3 | | | 34.7 | 33.4 | 33.6 | 33.6 | 33.8 | 34.0 | |
| 7 Imports | 51.7 | 58.9 | 54.6 | 55.7 | 52.2 | | | 50.8 | 51.1 | 51.0 | 50.4 | 49.8 | 49.4 | |
| 8 Net non-debt creating capital inflows (negative) | -17.6 | -25.5 | -15.5 | -13.7 | -12.3 | | | -13.5 | -14.3 | -15.6 | -16.5 | -16.3 | -15.7 | |
| 9 Automatic debt dynamics 2/ | -2.6 | 0.2 | 5.5 | 4.0 | 0.4 | | | 2.7 | 0.3 | -0.2 | -0.4 | -0.6 | -0.8 | |
| 10 Contribution from nominal interest rate | 2.8 | 2.8 | 2.8 | 2.8 | 2.2 | | | 2.4 | 1.1 | 1.0 | 0.9 | 0.5 | 0.1 | |
| 11 Contribution from real GDP growth | -2.2 | -1.5 | 2.0 | 0.0 | 0.9 | | | 0.4 | -0.8 | -1.2 | -1.3 | -1.1 | -0.9 | |
| 12 Contribution from price and exchange rate changes 3/ | -3.2 | -1.1 | 0.7 | 1.3 | -2.7 | | | ... | ... | ... | ... | ... | ... | |
| 13 Residual, incl. change in gross foreign assets (2-3) 4/ | -3.5 | 3.1 | -11.0 | -8.6 | -0.6 | | | -7.8 | -5.1 | -5.2 | -5.9 | -4.3 | -1.4 | |
| External debt-to-exports ratio (in percent) | 124.1 | 140.5 | 189.6 | 160.1 | 146.9 | | | 126.9 | 120.3 | 105.9 | 85.2 | 66.9 | 57.8 | |
| **Gross external financing need (in billions of US dollars) 5/** | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | | | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | |
| in percent of GDP | 27.0 | 34.5 | 35.2 | 30.9 | 24.7 | | | 33.4 | 23.4 | 24.3 | 25.3 | 23.0 | 19.1 | |
| **Scenario with key variables at their historical averages 6/** | | | | | | | | **44.0** | **41.8** | **39.2** | **35.6** | **33.4** | **34.1** | **-16.3** |
| **Key Macroeconomic Assumptions Underlying Baseline** | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 4.8 | 3.9 | -4.2 | 0.0 | -1.9 | 1.7 | 4.2 | -0.7 | 1.8 | 3.2 | 3.9 | 4.2 | 4.2 | |
| GDP deflator in US dollars (change in percent) | 6.7 | 2.7 | -1.5 | -2.6 | 5.7 | 2.5 | 4.3 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | |
| Nominal external interest rate (in percent) | 6.1 | 7.1 | 6.0 | 5.7 | 4.5 | 6.4 | 0.9 | 4.8 | 2.5 | 2.6 | 2.6 | 2.0 | 0.5 | |
| Growth of exports (US dollar terms, in percent) | -1.1 | 0.7 | -25.5 | 19.1 | 18.3 | 5.8 | 13.8 | 3.7 | 0.6 | 6.4 | 6.5 | 7.4 | 7.6 | |
| Growth of imports (US dollar terms, in percent) | 11.2 | 22.2 | -13.7 | -0.3 | -0.1 | 5.0 | 11.0 | -0.2 | 5.1 | 5.5 | 5.2 | 5.6 | 5.9 | |
| Current account balance, excluding interest payments | -15.3 | -24.8 | -24.6 | -19.6 | -13.3 | -17.9 | 6.1 | -12.3 | -15.2 | -16.4 | -15.8 | -15.1 | -15.0 | |
| Net non-debt creating capital inflows | 17.6 | 25.5 | 15.5 | 13.7 | 12.3 | 17.0 | 6.2 | 13.5 | 14.3 | 15.6 | 16.5 | 16.3 | 15.7 | |

1/ Reflect the outcome of the debt exchange offer to bondholders and external commercial creditors, and the Paris Club agreement.

2/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

3/ 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).

4/ For projection, line includes the impact of price and exchange rate changes.

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 non-interest current account and non-debt inflows in percent of GDP.

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

## Table 10. St. Kitts and Nevis: Public Sector Debt Sustainability Framework, 2007–17
## (In percent of GDP, unless otherwise indicated)

| | Actual | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | **Debt-stabilizing primary balance 9/** |
| **Baseline: Public sector debt 1/** | 134.0 | 131.0 | 148.5 | 163.9 | 153.6 | **92.3** | **86.5** | **81.9** | **77.4** | **72.4** | **68.1** | **-2.6** |
| o/w foreign-currency denominated | 41.9 | 44.6 | 48.1 | 49.5 | 50.3 | 42.8 | 39.0 | 34.5 | 27.6 | 21.6 | 18.8 | |
| Change in public sector debt | -11.3 | -3.0 | 17.5 | 15.4 | -10.3 | -61.3 | -5.8 | -4.6 | -4.5 | -5.1 | -4.2 | |
| Identified debt-creating flows (4+7+12) | -13.5 | -7.1 | 9.2 | 11.2 | -7.6 | -4.9 | -5.4 | -4.3 | -4.2 | -4.7 | -3.9 | |
| Primary deficit | -3.3 | -3.2 | -4.6 | -1.5 | -10.4 | -7.3 | -4.2 | -1.6 | -1.4 | -1.3 | -1.2 | |
| Revenue and grants | 36.0 | 35.3 | 39.6 | 38.0 | 44.0 | 39.4 | 38.7 | 34.6 | 34.3 | 34.3 | 34.3 | |
| Primary (noninterest) expenditure | 32.7 | 32.2 | 35.0 | 36.5 | 33.6 | 32.1 | 34.5 | 32.9 | 32.9 | 33.0 | 33.2 | |
| Automatic debt dynamics 2/ | -8.3 | -0.8 | 15.4 | 13.4 | 3.2 | 2.5 | -1.0 | -2.3 | -2.4 | -3.1 | -2.3 | |
| Contribution from interest rate/growth differential 3/ | -8.3 | -0.8 | 15.4 | 13.4 | 3.2 | 2.5 | -1.0 | -2.3 | -2.4 | -3.1 | -2.3 | |
| Of which contribution from real interest rate | -2.0 | 4.1 | 9.6 | 13.5 | 0.3 | 1.4 | 0.5 | 0.4 | 0.6 | 0.0 | 0.5 | |
| Of which contribution from real GDP growth | -6.3 | -4.9 | 5.9 | -0.1 | 2.9 | 1.1 | -1.6 | -2.6 | -3.0 | -3.0 | -2.8 | |
| Contribution from exchange rate depreciation 4/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | ... | ... | ... | ... | ... | ... | |
| Other identified debt-creating flows | -2.0 | -3.1 | -1.7 | -0.7 | -0.4 | -0.2 | -0.2 | -0.4 | -0.4 | -0.4 | -0.4 | |
| Privatization receipts (negative) | -2.0 | -3.1 | -1.7 | -0.7 | -0.4 | -0.2 | -0.2 | -0.4 | -0.4 | -0.4 | -0.4 | |
| 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 (2-3) 5/ | 2.2 | 4.1 | 8.4 | 4.2 | -2.7 | -56.4 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | |
| Public sector debt-to-revenue ratio 1/ | 372.3 | 370.7 | 374.9 | 431.1 | 348.7 | 234.4 | 223.5 | 237.0 | 225.4 | 210.7 | 198.4 | |
| **Gross financing need 6/** | 55.5 | 54.3 | 51.1 | 52.2 | 47.7 | 40.9 | 21.2 | 22.7 | 25.1 | 24.8 | 22.9 | |
| in billions of U.S. dollars | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | |
| **Scenario with key variables at their historical averages 7/** | | | | | | **91.9** | **92.6** | **93.3** | **93.9** | **94.4** | **95.0** | **1.4** |
| **Scenario with no policy change (constant primary balance) in 2012-2017** | | | | | | **92.3** | **82.9** | **72.7** | **62.6** | **52.1** | **42.4** | **-1.8** |
| **Key Macroeconomic and Fiscal Assumptions Underlying Baseline** | | | | | | | | | | | | |
| Real GDP growth (in percent) | 4.8 | 3.9 | -4.2 | 0.0 | -1.9 | -0.7 | 1.8 | 3.2 | 3.9 | 4.2 | 4.2 | |
| Average nominal interest rate on public debt (in percent) 8/ | 5.5 | 6.0 | 5.5 | 6.3 | 5.7 | 3.4 | 3.1 | 3.0 | 3.4 | 2.6 | 3.4 | |
| Average real interest rate (nominal rate minus change in GDP deflator, in percent) | -1.2 | 3.4 | 7.0 | 8.8 | 0.1 | 0.9 | 0.7 | 0.5 | 0.9 | 0.1 | 0.9 | |
| Nominal appreciation (increase in US dollar value of local currency, in percent) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | ... | ... | ... | ... | ... | ... | |
| Inflation rate (GDP deflator, in percent) | 6.7 | 2.7 | -1.5 | -2.6 | 5.7 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | |
| Growth of real primary spending (deflated by GDP deflator, in percent) | -4.1 | 2.8 | 2.9 | 4.6 | -7.0 | -4.5 | 9.5 | -1.5 | 3.8 | 4.7 | 4.6 | |
| Primary deficit | -3.3 | -3.2 | -4.6 | -1.5 | -10.4 | -7.3 | -4.2 | -1.6 | -1.4 | -1.3 | -1.2 | |

1/ Public sector covers general government and gross debt is used. Reflect the outcome of the debt exchange offer to bondholders and external commercial creditors, the Paris Club agreement and the full debt/land swap.

2/ 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).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).

5/ For projections, this line includes exchange rate changes.

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

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

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

## APPENDIX. LETTER OF INTENT

Basseterre, St. Kitts
November 15, 2012

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

Dear Ms. Lagarde:

Since the approval of the Stand-By Arrangement in July 2011, economic activity in St. Kitts and Nevis has been impacted by the challenging global conditions. The continued contraction in construction during the first semester of 2012 has outweighed the mild uptick in tourism, which leads us to project a further decline in activity in 2012. However, on the basis of FDI gathering momentum, we envisage a modest recovery in 2013. Given our prudent macroeconomic management, we are well placed to meet our 2012 and 2013 fiscal targets under the program. This achievement has been possible thanks to the sacrifice and efforts of the people of St. Kitts and Nevis, and with strong support from the donor community and international financial institutions, including the Caribbean Development Bank and the IMF.

The Government of St. Kitts and Nevis reaffirms its commitment to the success of its home-grown medium-term reform program (supported by the Fund's Stand-By Arrangement (SBA)), which will benefit the people of St. Kitts and Nevis and aims to be a model for other countries in the region. Since the SBA was approved in July 2011, we have been determined to advance our reform agenda and successfully implement our policies. This is reflected in having met our fiscal target and all other quantitative performance criteria and the structural benchmarks for end-June 2012,[1] as well as the structural benchmark for end-September 2012 with a few days' delay. Our debt restructuring process is proceeding well and the domestic debt for land swap has advanced, with the transfer of 1,200 acres of land to the management company responsible for selling the land assets. We have agreed on a board for the company, submitted a short list of candidates for its management, and are elaborating its operational guidelines. We welcome your continued strong support for these initiatives.

In the attached Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU), we present our plans through 2013 to achieve the objectives of our program supported by the IMF. Based on the strength of these policies, and

[1] While end-September performance criteria (PC) govern the fourth review, due to unavailability of data to assess them and the absence of clear evidence that the end-September PCs will not be met, the fourth review is based on the end-June 2012 PCs.

given our performance under the program and our continued commitment, we request the completion of the fourth program and financing assurances reviews, waiver of applicability for the end-September 2012 performance criteria, and the release of the fifth tranche of SDR 3.161 million. We request that the availability date for the sixth purchase be moved to December 15, 2012.

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

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

Sincerely,

/s

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

## ATTACHMENT. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

**1.** St. Kitts and Nevis has realized major accomplishments in implementing its home grown economic program supported by the IMF Stand-By Arrangement (SBA). Our economic reform program continues to focus on putting public finances on a sustainable trajectory, finalizing a comprehensive debt restructuring to address the debt overhang, and further strengthening the financial system, in order to boost growth and employment. This Memorandum of Economic and Financial Policies (MEFP) updates these policies in the context of the fourth review under the SBA.

### I. PERFORMANCE UNDER THE PROGRAM

**2.** We have fulfilled our commitments under the program at end-June 2012 as detailed below. In addition, we have met the program's structural reform target on reforming the land agencies on October 5, a few days after the end-September 2012 target and expect the program's end-September quantitative program targets to be met. In this context, we request completion of the fourth program review and financing assurances review and request a waiver of applicability for the end-September 2012 performance criteria.

- **Growth and inflation.** Available indicators point to continued sluggish economic activity in the first half of 2012. Tourism activity continued to recover modestly relative to 2011 while construction continued to contract by an estimated 20 percent. There are some emerging signs of a tepid recovery in the third quarter of the year, notably in the construction and retail sectors. Inflation continued to decline, from 2.9 percent (y/y) at end-December 2011 to 1.4 percent at end June 2012.

- **External sector.** While imports in the second quarter 2012 weakened due to persistent sluggish domestic demand, buoyant receipts from the citizenship by investment program further reduced the current account deficit. As a result, international reserves net of IMF SBA resources declined by about EC$ 10 million during that period.

- **Fiscal performance.** All the fiscal targets were met at end-June 2012[1], despite the continued context of sluggish global environment and the persisting economic contraction. The overall fiscal balance at end-June 2012 reached a surplus of EC$61 million, significantly above the adjusted program floor of EC$-51 million. Similarly, the primary surplus of EC$117 million was well above the adjusted indicative program target of EC$20 million. Key factors to this strong performance were buoyant receipts, from the Citizenship by Investment program and

[1] While the end-September 2012 performance criteria (PCs) are the governing ones under the SBA, the absence of both available data and clear evidence that end-September PCs will not be met justifies the quantitative assessment of the program based on the PCs for end-June 2012.

direct taxes, which compensated for relatively weaker tax collections on goods and services and international trade.

- **Other performance criteria.** The ceilings on central government budget expenditure arrears accumulation, the stock of external short-term debt, and the central government or guaranteed external arrears accumulation have all been met (Table 2).

- **Debt restructuring.** We continue to advance the comprehensive debt restructuring by:

    - **Effecting a debt/land swap with our domestic creditors.** Following the completion of the land registry, we transferred 1,200 acres of land to the Special Purpose Vehicle (SPV) in October 2012. This land will be offered for sale as the SPV becomes operational. The Board of the SPV has been agreed upon and we submitted a short list of candidates for its management. The SPV's operational guidelines and reporting requirements are under elaboration.

    - **Finalizing bilateral agreements with Paris Club creditors**. Our negotiations with the United Kingdom were concluded in July resulting in the cancellation of our debt with the Department for International Development (DFID).

    - **Engaging our other bilateral creditors.** Discussions with our other bilateral creditors continue to proceed. Now that the amount of debt service arrears has been confirmed, we have extended a restructuring proposal to Venezuela and expect to hear back shortly. Negotiations with Taiwan POC and Kuwait are ongoing.

  Upon completion of the debt/land swap, we expect these operations, combined with our fiscal efforts, to reduce total public debt from 154.4 percent of GDP at end-2011 to just under 100 percent at end-2012, in line with our objective to reach the ECCU target of 60 percent of GDP by end-2020.

- **Financial sector**. The capitalization and liquidity of the indigenous financial sector improved modestly through June 2012. The capital adequacy ratio increased from 42 percent to 45 percent in the second quarter of 2012 while net liquid assets increased from 54.3 percent to 54.8 percent of deposits. However, the NPL ratio continued to inch up from 5.9 percent to 6.1 percent, above the regional benchmark of 5 percent, and profitability indicators have softened following the restructuring of government bonds. Updated stress tests as of June 2012, completed by the Eastern Caribbean Central Bank (ECCB), continue to confirm the overall resilience of the banking sector to a range of shocks, including the full impact of the debt restructuring. However, one bank would be vulnerable to a liquidity shock. Following the debt/land swap, the NPL ratio would increase above the prudential benchmark due to the change in asset composition while the capital adequacy ratio would exceed regional norms. There has been no request to date to access the Banking Sector Reserve Fund (BSRF) set up under the SBA.

## II. POLICIES DURING 2012 AND 2013

**3. A difficult first half-year and tepid global environment presage a contraction of economic activity in 2012.** We now expect economic growth to be revised from 0 percent to -0.7 percent in 2012. The sharp contraction in construction in the first semester will weigh heavily against a mild expected uptick in tourism. Going forward, construction activity should improve, on account of the strength of the Citizenship by Investment program and related FDI projects already in the pipeline as well as projects funded by the Sugar Industry Diversification Foundation (SIDF). As a result, real GDP growth is projected to reach 1.8 percent for 2013 and 3-4 percent over the medium term as tourism and construction continue to recover. Nevertheless, downside risks continue to persist.

### A. Fiscal Policy

**4. We expect to comfortably meet the 2012 program target for the overall fiscal deficit.** We project an overall surplus of EC$48 million and aim to further reduce budgetary arrears. Tax revenue performance will fall slightly short of expectations but will be more than compensated by non-tax receipts from the Citizenship by Investment program. While we project a marked under-execution of the investment budget due to administrative bottlenecks in its implementation and its ongoing prioritization, current spending is projected to remain near program expectations.

**5. The 2013 budget envisages boosting tax revenue, continuing to contain current expenditure and accommodating an increase in capital outlays.** In order to continue to pursue a path of fiscal consolidation consistent with debt sustainability, we project to achieve a fiscal surplus of 1.7 percent of GDP in 2013, corresponding to a primary surplus of 6.0 percent of GDP in 2013.

#### Tax Revenue

**6. In order to ensure sustained increases in tax revenue over the medium term, we will continue to reform and consolidate our revenue administration by:**

- **Strengthening audits.** We are intensifying audits of large taxpayers, including with respect to the VAT, owing to enhanced collaboration between the Customs and Excise Department (CED) and the Inland Revenue Department (IRD). We commit to extending that collaboration to post Customs clearance audits in the near term. In that regard, we plan to activate the Post Clearance Audit (PCA) function of the CED by securing parliamentary approval for the draft Customs bill (that would strengthen enforcement).

- **Further integrating information technology (IT) into our practices.** We aim to raise the ratio of electronic to total Customs declarations from the current 90 percent. With TA support, we will improve the IT system by designing e-filing forms that would be more user-friendly and audit-based, with built-in triggers for more tailored and automated audits, and a better integrated system. This will facilitate the submission of electronic declarations by all large importers and free up staff resources for priority tasks.

- **Overhauling legislation and procedures to enhance staff performance and accountability.** We will harmonize the Tax Administration Procedures Act with the VAT Act to extend best practices in enforcement to other taxes. We will also require that entities benefiting from tax concessions file tax in addition to customs returns, in order to improve our control over non-eligible activities or goods. Finally, we will formulate an Action Plan to integrate already existing indicators into a comprehensive strategy to enhance the accountability of the CED and IRD staff.

**7. We aim to further broaden the tax base.** We will conduct a thorough review of the system of customs duties and tax exemptions, as part of a regional initiative (with TA support). We intend to continue to monitor the revenue cost of these exemptions, estimated at about 2 percent of GDP) in the first half of 2012, and align the provisions in the Small Business Act, the Fiscal Incentives Act, the Hotels Aid Act and the Special Resorts Development Act with international best practices. In particular, we will modify the provisions of these Acts to make them more rules-based, subject to vetting by the Ministry of Finance. We will also rationalize the list of priority sectors eligible for exemptions, streamline provisions pertaining to reduction of consumption taxes, and favor accelerated capital depreciation over tax holidays.

**Expenditure**

**8. We will continue to improve the efficiency of public expenditure by:**

- **Reforming the civil service.** Building on our Action Plan for the modernization of public service, we will undertake an audit of the government payroll, with assistance from the World Bank and expect to complete it by end-2013. The results will inform our strategy to rationalize the wage bill over the medium-term.

- **Improving the management of the price control for basic staples.** We are in the process of closing the government-operated Supply Office and transferring the responsibility of managing the supply of price-subsidized staples to the private sector. Over the medium-term, we plan to phase out the subsidies for basic staples in conjunction with strengthening the social safety net. Concerning our objective of rationalizing the Liquid Petroleum Gas (LPG), we are elaborating a proposal to revise the price formula in the context of our negotiations with the LPG suppliers.

- **Containing transfers to public enterprises.** We have now settled mutual claims that have accumulated between the government and the St. Kitts Electricity Company (SKELEC) since its corporatization in August 2011. To date, SKELEC has been able to cover its operating costs. In order to properly safeguard the budget against any contingent liabilities arising from public enterprises, we plan to amend the Finance Administration Act, in order to formally recognize the Government Entities Oversight Board's investigative and enforcement powers (structural benchmark for end-March 2013) and also widen the list of entities under its purview to include all non-financial companies with government ownership.

**9. Progress has been made in improving fiscal transparency.** We are preparing to begin quarterly publication of reports on fiscal operations by end-2012 and gross financing needs starting in June 2013. We expect the audited financial statements of the Sugar Industry Diversification Foundation (SIDF) for 2011 to be published by end- December 2012.

## B. Debt Restructuring

**10. We are mindful of the importance of promoting land sales to protect the financial position of domestic banks.** We intend to appoint the management of the SPV and outline its operational guidelines by end-2012. We will adhere to best practices concerning transparency, accountability and the design of management incentives.

## C. Financial Sector

**11. We are committed to continue to safeguard the stability of the financial sector, in conjunction with the ECCB.** The ECCB's quarterly stress tests have allowed us to closely monitor the banking sector. We also support the initiatives by indigenous banks to seek out diversified sources of revenue and to intensify recovery of NPLs. The BSRF will remain in place to address any liquidity pressures. Finally, consistent with the IMF's safeguards policy requirement and current practice, we will continue to maintain all foreign exchange balances at the ECCB.

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

| Date 1/ | Amount of Purchase: Millions of SDR | Amount of Purchase: Percent of Quota | Conditions |
|---|---|---|---|
| July 27, 2011 | 22.150 | 248.9 | Approval of arrangement |
| January 25, 2012 | 11.470 | 128.9 | First review and end-September 2011 performance criteria |
| July 21, 2012 | 3.161 | 35.5 | Second review and end-December 2011 performance criteria |
| August 3, 2012 | 3.161 | 35.5 | Third review and end-March 2012 performance criteria |
| August 15, 2012 | 3.161 | 35.5 | Fourth review and end-June 2012 performance criteria |
| December 15, 2012 | 3.161 | 35.5 | Fifth review and end-September 2012 performance criteria |
| February 15, 2013 | 1.105 | 12.4 | Sixth review and end-December 2012 performance criteria |
| May 15, 2013 | 1.105 | 12.4 | Seventh review and end-March 2013 performance criteria |
| August 15, 2013 | 1.105 | 12.4 | Eight review and end-June 2013 performance criteria |
| November 15, 2013 | 1.105 | 12.4 | Nineth review and end-September 2013 performance criteria |
| February 15, 2014 | 0.913 | 10.3 | Tenth review and end-December 2013 performance criteria |
| May 15, 2014 | 0.913 | 10.3 | Eleventh review and end-March 2014 performance criteria |
| **Total** | **52.510** | **590.0** | |

Source: Fund staff estimates

1/ For completed reviews the dates refer to Board dates and for future reviews the dates refer to availability dates.

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

| | End-Jun. 2012 | | | | Performance Criteria | | Proposed Performance Criteria | | | Proposed Indicative Targets | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | End-Sep. 2012 | End-Dec 2012 | End-Dec 2012 | End-Mar. 2013 | End-Jun. 2013 | End-Sep. 2013 | End-Dec 2013 |
| | Prog. | Adjusted | Actual | Status | | | | | | | |
| *Performance Criteria:* | | | | | | | | | | | |
| Central government overall balance including grants (floor) 1/ 2/ | -53 | -51 | 61 | met | -91 | -60 | 24 | 8 | 28 | 20 | 35 |
| Stock of central government budget expenditure arrears accumulation (ceiling) 3/ | 0 | 0 | -26 | met | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Stock of external short term debt (ceiling) | 0 | 0 | 0 | met | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Central government or guaranteed external arrears accumulation (ceiling) 4/ | 0 | 0 | 0 | met | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Indicative Target:* | | | | | | | | | | | |
| Central government primary balance (floor) 1/ 2/ | 19 | 20 | 117 | met | 8 | 68 | 181 | 32 | 61 | 82 | 124 |

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

Table 3. St. Kitts and Nevis: Structural Benchmarks

| Action | Target Date | Objectives | Status |
|---|---|---|---|
| **I. Fiscal and Public Sector Reforms** | | | |
| ***Public financial management*** | | | |
| Submit to Cabinet proposal to rationalize the subsidy on liquefied petroleum gas (LPG) | End-March 2012 | Strenghten public financial management | completed |
| Update the registry of additional 600 acres of land | End-June 2012 | Strenghten public financial management | completed |
| Undertake valuation of additional 600 acres of land | End-June 2012 | Strenghten public financial management | completed |
| Submit draft of new Procurement Act to Parliament | End-June 2012 | Strenghten institutional framework | completed |
| Draft proposal for the establishment of an asset management company | End-June 2012 | Strenghten public financial management | completed |
| Establish a medium-term expenditure framework with agreed fiscal targets | End-June 2012 | Improve medium-term orientation of the budget | completed |
| ***Civil service reform*** | | | |
| Cabinet to approve a plan for civil service reform covering human resource policy, reviewing the organization and structure of the civil service and addressing wage policy and payroll management | End-June 2012 | Strenghten public financial management | completed |
| **Structural Benchmarks for Upcoming Reviews** | | | |
| ***Actuarial review of Social Security*** | | | |
| Regular review of the Social Security Scheme. | End-December 2012 | Strenghten public financial management | |
| ***Public enterprise reform*** | | | |
| Rationalize public land sales and development agencies | End-September 2012 | Strenghten public financial management | completed on October 5 |
| Include in the Finance Administration Act provisions recognizing the Government Entities Oversight Board and strengthening its enforcement authority | End-March 2013 | Strenghten public financial management | |
| ***Strengthen social safety net*** | | | |
| Submit social safety net reform strategy to Cabinet | End-March 2012 | Streamline social safety nets | completed |
| Develop method for the proxy means testing for the eligibiity criteria of the planned consolidated cash transfer program | End-September 2013 | Streamline social safety nets | |
| **II. Financial Sector Reforms** | | | |
| Update the existing stress tests of banks | To be monitored on a quarterly basis | Financial sector stability | completed |
| **III. Medium-term benchmark** | | | |
| Develop an explicit medium-term debt management strategy that takes account of the cost-risk tradeoff of alternative financing options, within the context of the overall macroeconomic environment | End-December 2012 | Improve medium-term orientation of the budget | |
| Draft proposal for a comprehensive pension reform | End-June 2013 | Strenghten public financial management | |

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

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No.12/467
FOR IMMEDIATE RELEASE
November 30, 2012

International Monetary Fund
Washington, D.C. 20431 USA

**IMF Executive Board Completes Fourth Review Under Stand-by Arrangement with St. Kitts and Nevis and Disburses US$4.9 Million**

The Executive Board of the International Monetary Fund (IMF) today completed the fourth review of St. Kitts and Nevis' economic performance under a program supported by a 36-month Stand-by Arrangement (SBA). The completion of the review allows the immediate disbursement of an amount equivalent to SDR 3.161 million (about US$ 4.9 million), bringing total disbursements under the arrangement to SDR 43.101 million (about US$ 66.15 million).

The Executive Board also approved a request for waivers of applicability for the end-September 2012 performance criteria (PC). These waivers were necessary because the Executive Board discussion took place prior to the availability of data to assess the relevant PCs.

The SBA was approved on July 27, 2011 (see Press Release No. 11/295), for an amount equivalent to SDR 52.51 million (about US$80.6 million), or 590 percent of St. Kitts and Nevis' IMF quota.

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

"The St. Kitts and Nevis authorities have continued steadfast implementation of their Fund-supported program, despite the sluggish global environment and economic contraction. The near-term outlook for the economy is for a modest recovery.

"Significant progress has been made in restructuring the public debt. An important milestone was reached in terms of the debt-land swap with domestic creditors with the recent transfer of land to the land asset management company. In order to limit the impact on the financial sector and to further buttress the fiscal position through lower interest payments, it will be important to swiftly complete the restructuring of public debt, including with the rapid implementation and entry into operations of the land asset management company, and by finalizing negotiations with remaining domestic and external creditors.

"The authorities are in the process of elaborating a budget for 2013. In line with their IMF-supported program's aim of securing gains from the reduction in public debt, due emphasis will need be given to bolstering the tax base, containing current outlays, and increasing capital spending, as well as the capacity to buffer shocks. Over the near-to medium-term, it will be important to accelerate the pace of structural reforms to further boost revenue and promote growth-enhancing public expenditure.

"The financial system has remained resilient, with adequate capitalization and continued deposit growth. Continued monitoring of the financial sector will be needed, in close collaboration with the ECCB, including in the context of addressing the impact of the restructuring of public debt on banks' NPLs, liquidity, and profitability."