INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/250

ST. KITTS AND NEVIS

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

July 2016

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2016 Article IV consultation with St. Kitts and Nevis, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on May 3, 2016, with the officials of St. Kitts and Nevis on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 23, 2016.
- An **Informational Annex** prepared by the IMF staff.

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

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July 26, 2016

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IMF Executive Board Concludes 2016 Article IV Consultation with St. Kitts and Nevis

On July 8, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with St. Kitts and Nevis, and considered and endorsed the staff appraisal without a meeting.[2]

St. Kitts and Nevis successfully exited the Post-Program Monitoring Framework in October 2015, maintaining favorable macroeconomic performance and a broadly stable financial system. The economy continued its strong growth at around 5 percent, recording the strongest growth in the region over 2013-2015. Strong growth has been underpinned by construction and tourism sector activity and their favorable spillovers on the rest of the economy, supported by surging inflows from its Citizenship-by-Investment (CBI) program. Large CBI inflows continued in 2015, albeit at a slower pace, reflecting the temporary impact of the program reform and increased competition from similar programs in the region. Consumer price inflation turned negative, owing to lower global commodity prices and recent VAT and Import Duty exemptions on food items that carry a large weight in the CPI basket. The banking system remained broadly stable with comfortable capital and liquidity buffers, but high levels of nonperforming loans (NPLs), low profitability, and slow progress with land sales have created pockets of vulnerability, adding to the risks from regional financial developments.

The fiscal position remained in surplus, but weakened compared to previous years, owing to a slowdown in CBI receipts to the budget, delays in grants, and the impact of the 2014-2015 VAT and Import Duty exemptions. Notwithstanding, the debt-to-GDP ratio continued its impressive downward trajectory and is projected to reach the ECCU's 60 percent target in 2017, well ahead of peers.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

The medium-term outlook is positive, but remains dependent on developments in CBI inflows. Growth is expected to moderate to 3.5 percent in 2016 and 3 percent, on average, over the medium term, reflecting projected tapering of CBI-related construction activity as the pace of new CBI applications normalize from recent peaks, including due to higher competition. Potential spillovers from weak growth prospects in key tourism source markets, regional financial sector challenges, including derisking trends, and exposure to natural disasters pose additional downside risks to the outlook. However, CBI inflows and favorable spillovers from a protracted low oil price could surprise on the upside.

Executive Board Assessment

In concluding the 2016 Article IV Consultation with St. Kitts and Nevis, Executive Directors endorsed staff's appraisal as follows:

Although St. Kitts and Nevis continued to enjoy strong macroeconomic performance in recent years, the outlook is highly dependent on developments in the CBI program. A multi-pronged strategy is needed to preserve macro-financial stability and hard-earned gains in debt sustainability. The elements of such a strategy include: (i) strengthening the fiscal framework to reduce reliance on CBI inflows, while preserving the accumulated savings from the CBI program and further improving public financial management; (ii) resolving the debt-land swap to safeguard financial stability, while mitigating emerging financial sector risks; and (iii) enhancing competitiveness, diversification, and resilience to shocks, including from natural disasters.

A prudent medium-term fiscal framework with a zero primary balance target, net of CBI receipts and Sugar Industry Diversification Foundation (SIDF) grants, would help safeguard fiscal sustainability, with the adjustment paced over the medium-term. The framework would help build resilience to negative surprises in future CBI inflows, and facilitate accumulation of fiscal buffers to address external shocks and absorb unforeseen financing needs if tax performance disappoints after CBI flows decline. Implementing this framework requires broadening the tax base, including by streamlining tax incentives and further improving compliance, especially at the Nevis Island Administration (NIA) level, as well as containing recurrent spending. The authorities' commitment to a comprehensive review of the concessions regime is welcome, as well as plans to contain the wage bill and spending on goods and services.

Establishing a 'Growth and Resilience Fund' can help preserve the accumulated savings from the CBI program, while providing a contingency buffer for future shocks, such as costly natural disasters. The fund should have a prudent investment strategy, with appropriate governance and accountability, and its flows fully integrated with the fiscal framework with the zero primary-balance-target. Investing the funds in safe instruments abroad according to appropriate investment guidelines should help reduce risks to financial stability by easing banks' excess liquidity pressures. A comprehensive investment and debt management strategy that optimizes the government balance sheet through further debt reduction and improves the cost and composition of debt would complement efforts to build adequate buffers as self-insurance for future shocks.

The authorities should press ahead with structural reforms that strengthen public financial management. In this context, strengthening the NIA's budget framework, tax policy, and revenue administration, and better coordination with central government on the sharing of VAT and CBI revenues are crucial for the Federation's fiscal sustainability. Enhancing oversight of public corporations and enforcing timely reporting of their audited financial statements are also critical to safeguarding the sustainability of the consolidated public sector position. Staff welcomes the authorities' efforts to enhance the transparency of SIDF financial reporting and commitment to streamline and re-orient the People Employment Program. Plans for potential integration of the SIDF with the government's Consolidated Fund should enhance assessment and management of the overall fiscal policy stance.

A clear framework for resolving the debt-land swap is crucial to preserve the credibility of debt restructuring, the hard-earned gains in debt sustainability, and financial sector stability. With the appointment of the SLSC board of directors and approval of the two sale offers recently, the SLSC can be operationalized as a marketing agent to sell the remaining plots of land, including to the diaspora. A clear strategy should be developed to enable reasonable progress with land sales, to remove the policy uncertainty around the swap. While setting up this framework, staff recommends the consideration of a temporary extension of the dividend guarantee on unsold land, at possible renegotiated terms, and agreement on the reporting treatment of the swap by all parties—the banks, the regulator, and the government.

Preserving financial stability also calls for further strengthening of the supervisory frameworks for banks and nonbanks and more systematic coordination between their regulatory authorities. Further supervisory strengthening would help capture weaknesses in growing market segments. A more systematic coordination between the Eastern Caribbean Central Bank (ECCB) and the Financial Services Regulatory Commission (FSRC) will help limit potential risks from linkages between banks and nonbanks and between onshore financial institutions and those operating internationally. Implementing the new Banking Law will also enable the ECCB to conduct consolidated and risk-based supervision and address potential spillover risks. Trends in Correspondent Banking Relationships (CBRs) need to be systematically monitored to limit the risk of losing CBRs, as well as maintaining a watertight AML/CFT regime with adequate financial disclosure, and full compliance with international standards on transparency and exchange of tax information.

A structural reform agenda that focuses on economic diversification, improved business environment, and contingency planning should enhance resilience to external shocks and bolster long-run growth potential. Ongoing efforts to improve the business environment and addressing the skills gap will provide an enabling environment for private sector development and help attract foreign investment crucial to financing the current account. Investing in targeted transformative projects (including by broadening options under the CBI program to include business investment in renewable energy, education and health) will improve competitiveness, diversification, and resilience of the economy, including to natural disasters.

Urgent attention is needed to improve the quality of statistical data. In particular, addressing shortfalls in Balance of Payments, National Accounts, and labor market statistics is critical to enhancing surveillance and providing better basis for policy decisions.

St. Kitts and Nevis: Selected Social and Economic Indicators

I. Social, Geographic and Demographic Indicators

Area (sq. km)	269.4	Adult literacy rate (percent, 2009)	97.8
Population		Health and nutrition	
Total (thousands, 2014 est.)	54.9	Calorie intake (per capita a day, 2011)	2,452
Rate of growth (percent per year, 2014)	1.18	Physicians (per 1,000 people, 2001)	1.2
Density (per sq. km., 2014)	211.3	Access to safe water (percent, 2008)	99
Net migration rate (per thousand, 2014 est.)	1.2	AIDS incidence rate (per 100,000, 2013)	32
Population characteristics		Gross domestic product (2015)	
Life expectancy at birth (years,2002)	71	(millions of U.S. dollars)	915.1
Infant mortality (per thousand live births, 2015)	8.4	(millions of E.C. dollars)	2,471
Under 5 mortality rate (per thousand, 2015)	11	(US$ per capita)	16,654

II. Economic and Financial Indicators, 2010—17

	2010	2011	2012	2013	2014	Est. 2015	Proj. 2016	Proj. 2017
(Annual percentage change; unless otherwise specified)								
National income and prices								
Real GDP (factor cost) 1/	-3.8	-1.9	-0.9	6.2	6.1	5.0	3.5	3.5
Consumer prices, end-of-period	5.3	2.7	0.1	1.0	-0.6	-2.9	0.2	1.3
Consumer prices, period average	0.7	7.1	1.4	1.0	0.7	-2.8	-1.3	0.8
Real effective exchange rate appreciation (+) (end-of-period)	3.0	-0.3	-1.9	-0.1	2.7	-3.3	…	…
Banking system								
Change in net foreign assets	1.1	15.4	21.7	24.2	16.1	-5.3	0.7	0.6
Credit to private sector	3.5	3.7	0.2	-0.9	0.6	3.2	3.5	3.5
(In percent of GDP)								
Public sector 2/								
Total revenue and grants	30.4	36.6	36.3	45.2	41.4	36.4	30.9	28.3
o/w Tax revenue	18.3	20.8	20.3	19.9	20.6	19.9	19.3	19.4
o/w CBI fees	2.3	4.5	7.1	13.0	13.9	11.9	5.8	3.7
Total expenditure and net lending 3/	37.9	34.7	31.4	33.1	32.0	31.4	30.7	29.6
Current expenditure	30.9	30.5	27.7	26.4	26.1	24.7	24.1	23.6
Capital expenditure and net lending	7.0	4.3	3.7	6.7	6.0	6.7	6.7	5.9
Primary balance	-0.6	8.3	10.9	16.0	12.1	7.2	1.9	0.3
Overall balance	-7.5	1.9	4.9	12.1	9.4	5.1	0.2	-1.2
Overall balance (less CBI inflows) 4/	-10.7	-3.4	-4.4	-6.7	-6.0	-6.9	-6.6	-6.0
Foreign financing 5/	0.3	-1.3	-3.6	0.3	-3.5	-7.5	-2.1	-1.1
Domestic financing	7.3	-4.5	-9.6	-37.2	-8.4	1.3	1.5	2.0
Extraordinary financing 6/	…	…	10.4	27.2	1.2	0.3	0.0	0.0
Total public debt (end-of-period) 7/	159.3	151.7	138.4	101.1	79.8	67.8	63.4	59.8
Public debt service (percent of revenues and grants)	29.1	22.0	57.3	16.0	26.0	12.5	9.4	9.3
External sector								
External current account balance 8/	-20.8	-15.9	-9.8	-13.5	-12.2	-12.2	-16.4	-18.6
Trade balance 8/	-29.1	-26.0	-23.6	-31.7	-29.8	-26.3	-23.8	-24.7
Services, net	5.9	7.8	10.0	15.1	15.0	12.9	6.8	5.0
Of which								
Tourism receipts	12.9	12.9	13.0	12.8	12.8	12.9	12.8	13.1
FDI (net)	16.8	15.1	14.8	23.7	22.1	20.3	18.4	18.0
External public debt (end-of-period)	48.1	49.8	43.3	40.8	35.7	25.9	22.4	19.9
(In percent of exports of goods and nonfactor services)								
External public debt service	23.4	22.5	11.9	7.6	6.5	11.3	6.9	6.5
External public debt (end-of-period)	157.1	146.5	120.0	103.8	94.2	73.2	77.7	74.5
Memorandum items								
Net international reserves, end-of-period (in millions of U.S. dollars)	155.7	231.5	251.6	291.3	318.4	280.4	300.8	324.9
Nominal GDP at market prices (in millions of EC$)	1,870	1,966	1,976	2,126	2,335	2,471	2,579	2,715

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

1/ 2013 GDP growth has been revised upwards in July 2015 following technical assistance by CARTAC, reflecting better estimates for construction sector activity.

2/ Consolidated general government balances unless otherwise noted. Primary and overall balances are based on above-the-line data.

3/ Decline in goods and services expenditure in 2012 reflects the corporatization of the Electricity Department in August 2011.

4/ Excludes CBI budgetary fees as well as SIDF grants and Investment proceeds.

5/ 2012 disbursement includes financing to regularize the external arrears related to fuel purchases.

6/ Reflects operations linked to the restructuring of public debt.

7/ Reflects the debt-land swap equivalent to EC$565 million in 2013 and EC$231 million in 2014.

8/ Based on staff's preliminary revisions to merchandise imports since 2013 pending technical assistance from CARTAC and headquarters.

INTERNATIONAL MONETARY FUND

ST. KITTS AND NEVIS

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

June 23, 2016

KEY ISSUES

Context. The 2016 Article IV consultation is the first since St. Kitts and Nevis exited the Post-Program Monitoring Framework in October 2015 following the conclusion of the Stand-By Arrangement in July 2014, with purchases of 532 percent of quota fully repaid as of end-April 2016. In 2015, economic activity remained robust and there was a sizeable fiscal surplus. This surplus, however, was significantly weaker than in recent years, owing to a slowdown in receipts from the Citizenship-By-Investment (CBI) program, recent tax exemptions, and other one-off factors. Public debt fell to 68 percent of GDP, from 159 percent in 2010.

Article IV: The consultation focused on preserving the economic gains accumulated over the last half-decade. Key issues included steps needed to cement the improvement in debt sustainability from the debt-land swap, while maintaining the soundness of domestic banks' balance sheets. Staff proposed a medium-term fiscal framework that reduces reliance on CBI inflows, while building fiscal buffers to safeguard sustainability and enhancing resilience to external shocks, including from natural disasters. Discussions with financial sector participants and regulators focused on reducing macro-financial risks and on effects of de-risking for domestic banks, reforms to enhance the business environment, diversify the economy, and restore healthy credit growth.

Authorities' views: The authorities broadly agreed with staff's assessment of the key economic challenges and policy recommendations and concurred on the need to safeguard fiscal and debt sustainability in the face of increased risks to future CBI inflows. They agreed with the need for a comprehensive review of the tax concession regime and to contain recurrent expenditures, but preferred a less ambitious timeline in the medium term. The authorities intend to launch a 'Growth and Resilience Fund', following Cabinet approval, to safeguard fiscal buffers to address future shocks within a transparent framework, while exploring further reduction of debt, where possible. They also intend to resolve uncertainties in the debt-land swap, and are considering best options to contribute to long-term development of the local economy and national interests.

Approved By
Adrienne Cheasty and Bob Traa

The staff team comprising Ms. Inci Otker, Mr. Ahmed El-Ashram, Ms. Sumiko Ogawa (all WHD) and Ms. Ezgi Ozturk (FIN) visited Basseterre and Charlestown during April 20-May 3, 2016. The mission met with Premier V. Amory, the Governor of the Eastern Caribbean Central Bank (ECCB) T. Antoine, the Financial Secretary of St. Kitts and Nevis, the Permanent Secretary of Finance of the Nevis Island Administration (NIA), other senior government and ECCB officials, the Financial Services Regulatory Commission, and representatives of the business community and the Opposition, and concluded the discussions with Prime Minister T. Harris on May 5th in Washington DC. Kelvin Dalrymple (OED) and Ronald James (IMF office in Barbados) attended policy meetings. In addition to the mission team, Mauricio Vargas (WHD) also contributed to the Staff Report. The team was assisted from headquarters by RoseMarie Fonseca and Joy Villacorte.

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ANNEXES

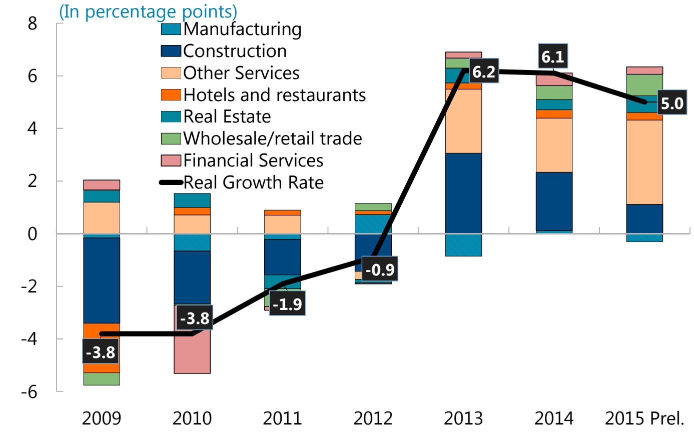
CONTEXT

1. **St. Kitts and Nevis continues to enjoy broadly favorable macroeconomic developments.** Over 2013-2015, the country recorded the strongest growth and fiscal results in the region, supported by surging inflows from its Citizenship-by-Investment (CBI) program that facilitated accumulation of substantial fiscal buffers. Under their home-grown program that concluded in July 2014, the authorities implemented substantial fiscal consolidation measures and a major debt restructuring, including an innovative debt-land swap with domestic banks that helped reduce the debt-to-GDP ratio to 68 percent, the lowest in the region. The structural reform agenda has achieved significant improvements in tax administration and public financial management. Additional efforts are needed to secure these gains, while enhancing the resilience of the economy to shocks, including from natural disasters, a sudden stop in CBI inflows, and domestic and regional financial sector risks.

RECENT ECONOMIC DEVELOPMENTS

2. **The economy grew at an estimated 5 percent in 2015, somewhat below the 6 percent growth in 2013-2014.** Strong construction activity has underpinned growth in recent years, supported by large real-estate projects funded through the CBI program and large public investment projects. The lower growth reflects deceleration in construction activity in some CBI-funded real-estate developments toward end-2015, reflecting caution by developers as the CBI program was being reformed. The ongoing recovery in stay-over tourist arrivals, buoyant cruise-ship business, and strong activity in the wholesale and retail sectors continued to support growth. Consumer price inflation turned significantly negative (-2.9 percent, year-on-year), reflecting lower global commodity prices and the impact of new VAT and Import Duty exemptions on food items that carry a large weight in the CPI basket.

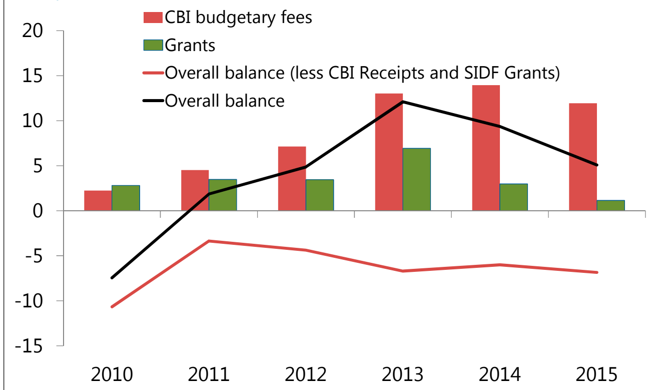
Contribution to Growth
(In percentage points)



Sources: Authorities; IMF staff calculations

3. The overall fiscal balance remained in surplus in 2015, at an estimated 5 percent of GDP, but has significantly weakened compared to recent years. Weaker performance partly reflects the decline in CBI receipts to the budget (to an estimated 12 percent, from 14 percent of GDP in 2014). The decline was partly due to a temporary slowdown in processing applications at the start of a rigorous program reform that subsequently reduced processing time to 45-70 days. The weaker fiscal performance also reflects the impact of the VAT and import-duty exemptions granted in 2014-2015, with an estimated 2 percent of GDP in foregone revenue at Customs and Excise and Inland Revenue Departments. Stronger collection of other taxes helped limit the deterioration in the overall tax performance to 0.8 percent of GDP. Notwithstanding savings on the interest bill and goods and services, delays in external grants from the EU and one-off financing of the Sugar Industry Diversification Foundation (SIDF) spending (due to the delayed appointment of its board of directors) further worsened the overall balance by 1.5 percent of GDP. On an underlying basis, excluding CBI receipts and SIDF grants, the overall deficit increased from 6 to 6.9 percent of GDP. Public debt has continued its impressive downward trajectory, to 68 percent of GDP at end-2015, and is projected to reach the ECCU's 2030 debt-to-GDP target of 60 percent in 2017, well ahead of peers.

Fiscal Performance 2010-2015
(In percent of GDP)



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

4. The domestic banking system remains stable, but has pockets of vulnerability. The reported capital-adequacy ratio (CAR) remains high at 22 percent as of end-2015. (A different regulatory treatment of land assets in bank balance sheets would imply a lower ratio, but still comfortably above the regulatory minimum—see below.) The nonperforming loans (NPLs) ratio is high and rising, even after adjusting for the impact of the debt-land swap on the size of the banks' loan portfolio.[1] Banks' appetite for lending is dampened by the high level of NPLs, and by the limited number of projects deemed bankable (in particular for small and medium enterprises (SMEs)

Selected Financial Indicators, 2011-2015

	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
	(Indigenous banks, In percent)				
Capital adequacy ratio	42.2	39.4	24.2	26.3	22.1
NPLs/Total Loans	5.8	8.9	12.1	16.8	22.2
Provisioning/NPLs	53.0	34.7	43.0	46.5	32.6
Liquid Assets/Total Assets	38.0	43.6	50.7	51.3	50.2
Return on Assets	1.5	0.6	0.7	0.6	0.8

Source: ECCB

Note: The decline in CAR in Dec 2013 reflects the reduction in the size of the loan portfolio due to the debt-land swap. Its impact on Dec 2014 figure was partially offset by the reclassification of the asset with zero risk weight (see ¶18 for detail).

[1] Swapping banks' public sector loans for land reduced the size of their loan portfolio, leading to an initial rise in NPLs. The rise in the NPL ratio in 2015 to 22.2 percent reflects reclassification of a Nevis Island Administration loan as nonperforming—discussions for the loan's resolution are ongoing.

perceived as risky), despite strong economic activity and high banking system liquidity. Private sector credit growth hence remains subdued, at 3.2 percent in 2015 following two years of negative to flat growth. Ample project funding through the CBI program and limited government borrowing needs also contain credit growth. Limited lending, along with a growing deposit base and the high cost of funds induced by the ECCB's 2 percent interest rate floor on savings accounts, in turn, put pressure on indigenous banks' profitability.

5. External sector performance presents a mixed picture, with an accurate assessment hampered by significant shortcomings in balance of payment statistics.[2] While the current account deficit remained stable at an estimated 12 percent of GDP in 2015,[3] the international investment position has deteriorated significantly from a recent peak (Figure 4). Reduced CBI budgetary receipts (which appear as service receipts in the current account) and lower foreign grants in 2015 were largely offset by an estimated decline in merchandise imports—the latter reflecting the significant drop in fuel and commodity prices and lower imports of construction materials. CBI-related inflows, including capital transfers and CBI-linked FDI, continued to finance the current account deficit. However, net international reserves and commercial banks' net foreign assets (NFA) fell for the first time since 2010, indicating a significant drain on foreign currency assets, even after adjusting for large repayments to external creditors in 2015.[4]

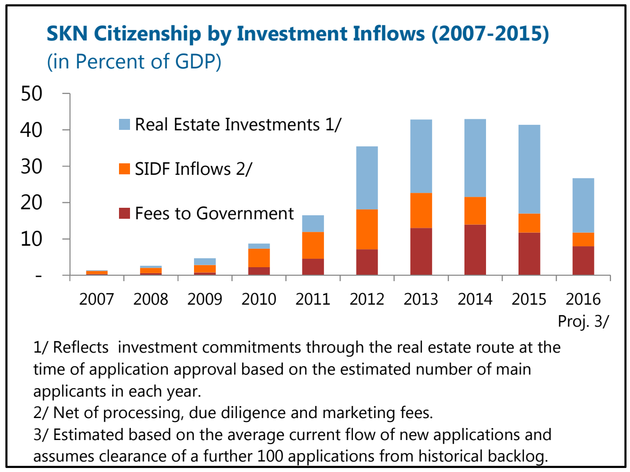
[2] Distortions arise from inaccurate estimation of tourism receipts, spending by the large foreign student population, and significant underestimation of the volume of merchandise imports and exports since 2013; these have complicated the assessment of the current account balance (see Annex II). Further, the methodology for estimating foreign direct investment (FDI) based on transfer of title from the land and property registry does not capture foreign developers' significant investment spending on construction, while CBI-related inflows of foreign currency deposits to domestic banks through the real estate route also appear underestimated. The ECCB is currently revising external sector statistics with new surveys using the BPM6 methodology. Technical assistance from CARTAC and IMF headquarters is being mobilized to address the significant data gaps.

[3] Based on staff's preliminary revisions to merchandise imports over 2013-2015, using data from the US Census Bureau, Eurostat and historical ECCB's BPM5 data (Annex II).

[4] The decline may be partly explained by the slowdown in new CBI investment commitments through the real estate option, while real estate developers continued funding construction activity by drawing down on their balances—in effect, reducing banks' NFA.

OUTLOOK AND RISKS

6. The medium-term outlook remains favorable, but risks are tilted to the downside and are particularly subject to future developments in CBI inflows. The flow of new CBI applications has declined significantly since mid-2015, compared to the average flow in 2014, reflecting, in part, the negative impact of the loss of visa-free access to Canada and the US FinCEN advisory.[5] Growing regional and global competition, global security concerns, and rising international migration pose downside risks to future CBI inflows, with budget receipts projected to fall closer to the budgeted figures over 2016-2018.[6] CBI-related FDI is also expected to moderate, with real estate developers likely to exercise caution, considering the increased uncertainty about future applications. With strengthened due diligence and marketing efforts, the authorities expect CBI inflows to continue, albeit at a lower pace. Other risks to the outlook, highlighted in the Risk Assessment Matrix (Annex I), include potential spillovers from weak growth prospects in key tourism source markets, regional financial sector challenges, including derisking, and exposure to natural disasters.[7]



7. Economic activity is projected to slow as the surge in construction activity tapers off. Growth is expected to moderate to 3.5 percent in 2016 and 3 percent, on average, over the medium term, with a projected contraction in construction after 2019. By then, most projects would have reached completion and a large number of new real-estate developments would become eligible for resale to new CBI applicants following expiration of the mandated 5-year holding period. Tourist arrivals are projected to continue recovering, bolstered by the new CBI-funded tourism facilities, the bulk of which are expected to come on stream over 2017-19. Inflation is expected to remain below 2 percent over the medium term, benefitting from the projected weakness in commodity prices and subdued inflation in key trade partners. The projected decline in CBI inflows is also expected to widen the current account deficit over the medium term and increase pressures on the net international investment position. On the upside, stronger-than-projected CBI inflows and a protracted period of low oil prices could support growth compared to the baseline.

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[5] In May 2014, the US FinCEN issued an advisory relating to financial activities of some individuals applying to St. Kitts and Nevis CBI program. In November 2014, Canadian authorities reintroduced visa requirements for citizens of St. Kitts and Nevis. Following these actions, the authorities implemented a comprehensive reform program, including enhanced due diligence procedures for applicants.

[6] The decline in new applications has not affected budgetary receipts in 2015 owing to the significant clearance of the backlog of applications accumulated in previous years.

[7] These risks, including natural disaster shocks, are not reflected in the baseline scenario.

POLICY DISCUSSIONS

Discussions focused on (i) strengthening the fiscal framework to increase the resilience of fiscal performance to negative surprises in future CBI inflows, preserve debt sustainability, and further improve public financial management; (ii) safeguarding financial stability, while resolving the debt-land swap and mitigating emerging domestic and regional risks; and (iii) enhancing the economy's competitiveness, diversification, and resilience to shocks, including from natural disasters.

A. Strengthening the Fiscal Framework

8. Notwithstanding the significant fiscal adjustment and debt restructuring under the Fund-supported program, the strength of the economic recovery and fiscal performance in recent years owes much to the strong CBI inflows and their spillovers across the economy. Critical goals are to increase the resilience of fiscal performance through a prudent medium-term fiscal framework, ensure continued accumulation of savings from the CBI revenue windfall, and press ahead with reforms to enhance public financial management, in order to preserve fiscal and debt sustainability.

9. Despite efforts to maintain a reasonably prudent budget framework, fiscal policy has been expansionary and procyclical in recent years. The underlying fiscal position, measured by the fiscal deficit net of CBI budgetary receipts and SIDF grants, has been an average -6½ percent of GDP since 2013.[8] The expansionary stance coincided with a surge in CBI inflows (at about 40 percent of GDP annually over 2012-15), which, besides financing the underlying deficit, also contributed to the SIDF, with the remaining large share flowing to the construction sector through the program's real-estate investment option. The quasi-fiscal activities of the SIDF increased the fiscal impulse, observed through the widening of the consolidated public sector deficit by about 5 percent of GDP over 2013-2015. This reflects SIDF's sizeable spending on social programs (e.g., the People Employment Program (PEP)) and funding of other public and private investment projects that further boosted the construction boom. This off-budget activity has made it difficult for the

Consolidated Public Sector Balance, net of CBI inflows
(In Percent of GDP)

	2011	2012	2013	2014	2015	2013-15 Avg.
Gen. Gov. overall balance (less CBI budgetary fees)	**-2.7**	**-2.3**	**-0.9**	**-4.6**	**-6.9**	**-4.1**
SIDF Grants and Investment Proceeds 1/	0.7	2.1	5.8	1.4	0.0	2.4
Gen. Gov. balance (less CBI fees, SIDF grants and Inv. Proceeds)	**-3.4**	**-4.4**	**-6.7**	**-6.0**	**-6.9**	**-6.5**
Other SIDF Spending	0.3	0.3	2.5	4.5	2.4	3.1
o/w PEP	*0.0*	*0.0*	*2.0*	*2.9*	*2.2*	*2.4*
Consolidated Gen. Gov. and SIDF balance, net of CBI inflows	**-3.7**	**-4.7**	**-9.2**	**-10.5**	**-9.2**	**-9.6**
Public sector enterprises, overall balance 2/	**0.9**	**0.9**	**0.5**	**0.6**	**0.6**	**0.6**
Consolidated public sector balance, net of CBI inflows	**-2.8**	**-3.8**	**-8.7**	**-9.9**	**-8.6**	**-9.1**

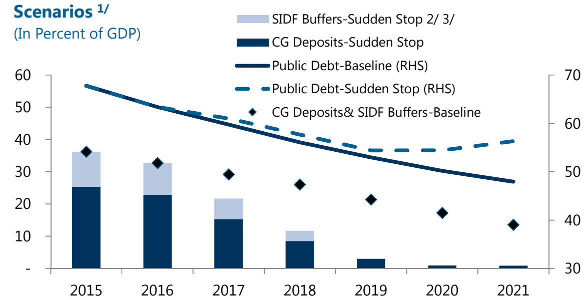
1/ Reflects SIDF budgetary and capital grants as well as SIDF investment proceeds over 2012-2013 to General Government.
2/ Reflects the overall balance of 14 public sector sector enterprises.

[8] Excludes SIDF grants and investment proceeds to the budget.

government to ensure coherent fiscal policy design and implementation. Further VAT and import-duty exemptions in 2015 have also weakened the fiscal framework.

10. Elevated risks to future CBI inflows, including the possibility of a sudden stop, pose significant risks to fiscal and debt sustainability. Despite significant accumulation of liquid financial buffers by the central government and the SIDF[9] (an estimated 36 percent of GDP at end-2015) and the authorities' conservative budgeting of future CBI inflows, a sudden stop (or sharp slowdown) in inflows could result in fiscal deficits that erode the buffers as early as 2019, and leave the debt-to-GDP ratio about 8 percentage points above baseline, absent a fiscal adjustment. A combined natural disaster and CBI sudden-stop shock could leave the debt ratio about 18 percentage points above baseline (Annex III). The resulting slowdown in economic activity would further weaken tax performance, which had benefited from significant spillovers from large CBI-related spending and investments before being structurally weakened by new tax exemptions.

Fiscal Buffers and Public Debt under Baseline and Sudden Stop Scenarios 1/
(In Percent of GDP)



1/ Assumes a complete sudden stop of CBI inflows in 2017, while maintaining baseline assumptions on expenditure, including the capital budget.
2/Based on unaudited SIDF data at end-2015, excluding illiquid assets and loans to the public sector.
3/ Assumes social spending by SIDF is maintained in a sudden stop scenario.
Sources: ECCB, SIDF, Authorities and IMF staff estimates.

11. Challenges facing the Nevis Island Administration (NIA) and some public corporations have persisted. The NIA continues to face significant financing constraints and has more recently relied on short-term T-bills, overdrafts and ad hoc fiscal transfers from central government to finance its deficit, while rolling over a sizeable stock of budgetary arrears (about 0.5 percent of GDP). The St. Kitts Electricity Company, SKELEC, runs significant arrears to its fuel supplier (PDVSKN) and remains unable to service its debt due to cash flow problems from slow collection of bills. Ensuring adequate oversight of public corporations and timely audited financial statements remains a challenge.

12. Safeguarding fiscal sustainability requires a prudent medium-term fiscal framework anchored by a General Government zero-primary-balance target net of CBI receipts and SIDF grants.[10] Adhering to such a target would (i) reduce the risk of weakening fiscal discipline and dependence on CBI inflows and SIDF grants and (ii) facilitate saving the bulk of CBI-related inflows to the budget, including upside surprises. The framework aims to (i) build resilience to a sudden stop in CBI flows, by financing the budget from domestic revenues and safeguarding against large deficits if tax performance disappoints after CBI-related activities dry up, and to (ii) dampen the fiscal impulse from the SIDF's quasi-fiscal spending and other public sector activities. A credible

[9] Includes central government deposits, SIDF cash, and fixed deposits, net of pledged funds for the FREESH program for mortgage financing of residential home construction.

[10] The target is also adjusted to offset the government's 3.5 percent dividend payment on unsold land from the debt-land swap; this temporary payment replaced the high interest rate banks previously received on government debt, with a view to safeguarding bank stability until land sales are mobilized (see text table).

commitment to the target will be critical to successful implementation of the framework. Curtailing extra-budgetary spending will also help achieve the target by limiting risks of expenditure overruns.

Underlying Fiscal Position

	2013	2014	Est. 2015	Projections 2016	2017	2018	2019	2020	2021
Primary balance (after grants)	16.0	12.1	7.2	1.9	0.3	0.8	-0.8	-0.7	-0.6
Less: CBI Budgetary Receipts	13.0	13.9	11.9	5.8	3.7	3.5	1.7	1.6	1.5
Less: SIDF Investment Proceeds	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Less: SIDF grants	4.2	1.4	0.0	1.0	1.1	1.0	0.5	0.4	0.4
Primary balance (less CBI fees, SIDF grants and Inv. Proceeds)	**-2.8**	**-3.3**	**-4.7**	**-4.9**	**-4.4**	**-3.8**	**-2.9**	**-2.7**	**-2.6**
Add: Dividend payments for swapped land	0.0	0.8	1.1	1.1	1.0	0.9	0.2	0.0	0.0
Primary balance (less CBI fees & SIDF grants), adjusted for dividend payments	**-2.8**	**-2.4**	**-3.7**	**-3.9**	**-3.4**	**-2.9**	**-2.7**	**-2.7**	**-2.6**
Improvement (+)/Deterioration (-) in underlying fiscal position		0.4	-1.2	-0.2	0.4	0.6	0.1	0.0	0.1

13. **Achieving the zero-primary-balance target (net of CBI receipts and SIDF grants) will require additional fiscal effort over the medium term.** Meeting the target within a 3-year adjustment period will require closing a primary-balance gap of about 2.9 percent of GDP in 2018. To this end, it would be important to broaden the tax base, including by streamlining tax incentives (both discretionary and granted by legislation) and further improving tax administration and compliance, especially at the local government level (NIA). Revenues forgone from tax exemptions at customs are estimated at 6 percent of GDP (large by international standards)—including 1.3 percent from the recent VAT and Import Duty exemptions on food and other items, and 1.2 percent on construction materials and vehicles.[11] Addressing the specific features of the tax concession system with TA support and necessary administrative and legislative reforms in consultation with the private sector would facilitate successful implementation. The reformed concession system should be rule-based, with limited discretion, to ensure consistency with the fiscal framework. Increasing property tax intake can also contribute to meeting the target, including by updating property valuations and enhancing compliance (particularly by economic citizens through the CBI program). Cabinet approval on an action plan to meet the underlying primary-balance target, at both central government and NIA levels, would help entrench fiscal discipline in the Federation.

Proposed Adjustments to Achieve a Zero Primary Balance Target, net of CBI and SIDF Grants by 2018
(in Percent of GDP)

Deviation from Target Primary Balance (less CBI & SIDF Grants) 1/	**-2.9**
Proposed Adjustments over 3 years	**2.9**
Enforce a EC$100 million cap on all exemptions at customs	1.6
Increase property tax intake, including on new developments	0.4
Continue to improve tax administration and compliance	0.2
Implement civil service reform: payroll audit and public sector modernization and contain growth in the wage bill	0.2
Contain spending on goods and services	0.4

1/ Adjusted for dividends on unsold land.

Authorities' views

- The authorities agreed on the need to enhance resilience to downside risks in CBI flows and to reinforce a culture of savings. They broadly agreed with staff's proposed measures to strengthen structural revenue sources but preferred a more gradual pace of adjustment.

[11] Estimates of revenue foregone are based on data from the St. Kitts and Nevis Customs and Excise Department.

They expressed commitment to a comprehensive review of the tax concession regime, particularly as it relates to concessions on VAT, Customs Service Charge, Stamp Duties, Property Tax, Withholding Tax and Import Duties, and intention to continue efforts to contain growth in recurrent expenditure, by formulating a preset 3-year package to contain the wage bill, restraining new hires to the civil service, and containing growth in spending on goods and services. They also support a regional fiscal responsibility law and wish to explore fiscal rules in a regional context to strengthen fiscal discipline.

14. A comprehensive investment and debt management strategy is needed to optimize the government balance sheet, through further debt reduction where possible, and improved cost and composition, while maintaining adequate buffers for possible shocks. Using CBI resources to retire debt remains a policy priority, to increase fiscal space and reduce the debt-service burden. Staff urged progress on finalizing negotiations on restructuring the debt to PDVSA and resolving accumulated arrears (about 2.7 percent of GDP). Staff also recommended reducing outstanding T-bills, particularly those held by private investors (2.7 percent of GDP), lowering the average interest rate on debt instruments, and lengthening their maturities (including possible issuance of a 2-year T-bond) to support debt sustainability.[12] A comprehensive strategy that considers the impact of these actions on the earning assets of financial institutions (banks, insurance companies, and the Social Security Board) is also needed.

15. Introducing a 'Growth and Resilience Fund' (GRF) can provide an effective and transparent framework to manage the savings from the CBI program, while providing a buffer for future shocks. Staff encouraged setting up a fund with a simple sovereign wealth fund (SWF) structure that operates as a financing fund, fully integrated with the fiscal framework—that is, linking the fund's flows directly to the fiscal balance, which in turn adheres to the zero-primary balance target, net of CBI receipts and SIDF grants. The GRF would serve as a contingency buffer to address future shocks, such as natural disasters, consistent with staff's previous recommendations, best practices in setting up SWFs for revenue windfalls,[13] and recent Fund advice on managing fiscal risks.[14] The fund would enhance the governance and accountability framework for managing CBI resources, including through transparent reporting on the use of saved resources to Parliament. In using the resources, staff cautioned against rigid withdrawal/accumulation rules that can complicate budget financing. Staff recommended management of financial assets according to appropriate investment guidelines that define risk tolerance and investment horizon, and placing the funds in safe investments overseas to ease excess liquidity pressures in banks and limit incentives to take undue risks to boost profitability.

Authorities' views

- The authorities have taken steps similar to staff's approach. They recently extended the purview of the Debt Management Unit, to develop a strategy for managing the accumulated

[12] See the Ex-Post Evaluation of Exceptional Access under the 2011 SBA (IMF Country Report No. 15/297).

[13] See IMF Country Report No. 14/297, Annex IV, on launching a SWF for CBI-generated resources, and FAD report, "Fiscal Advice on Establishing a Sovereign Wealth Fund in Panama" by M. Villafuerte, J. R. Ruiz and S. Vtyurina (2011).

[14] See "Analyzing and Managing Fiscal Risks: Best Practices," IMF Policy Paper, June 2016.

savings, with a view to supporting sustainable development over the medium term. They have been taking steps to set up a fund to support resilience and preserve CBI-generated savings at the Federation level, but noted sensitivities to investing the funds abroad. They noted that the room for further debt repayments is limited but the intention is to press ahead with resolving arrears to PDVSA. The authorities have already taken steps to change the composition of the T-bill portfolio towards longer maturities, reduced interest rates by 1 percentage point (from May 2016), strictly limited issuing T-bills to new investors, and refrained from rolling over interest. They expressed interest in TA to develop an effective debt strategy to issue longer-dated instruments.

16. A careful strategy is needed to manage SIDF finances in light of its declining revenue stream and significant drain on its resources. CBI contributions to the SIDF, net of processing, marketing and due diligence fees, have declined by around 30 percent in 2015, reflecting an increasing share of applications to the real-estate option (which offers possible divestment after 5 years and a potential interim return). Competition from other programs that accept lower contributions to their national development fund has further dampened the SIDF's appeal. Staff projects SIDF net contribution income to be subdued in 2016 (at about 4 percent of GDP), against a projected expenditure of about 3½ percent of GDP (including capital grants to the government of 1 percent in 2016, with the remainder on extra-budgetary social programs—mainly to finance PEP).

17. A number of steps recently undertaken will help in better managing SIDF finances. Staff welcomed ongoing efforts to streamline and reorient PEP as a training, rather than a social, program.[15] Staff supported the government's initiative to increase the transparency of SIDF financial reporting, including progress in publishing financial statements and the ongoing forensic audit. Staff welcomed plans for potential integration of the SIDF with the government's Consolidated Fund,[16] in line with previous recommendations,[17] and encouraged the development of a comprehensive fiscal perimeter, reflecting the SIDF's quasi-fiscal activities, to facilitate a more comprehensive assessment of the fiscal policy stance. At the same time, staff noted that the SIDF's existing portfolio of equity investments in key tourism projects might require private sector experience to ensure adequate returns to the nation and minimize contingent liability risks to the government. Centralizing the investment budget at the Ministry of Finance can facilitate efficient allocation of resources towards well-targeted transformative priority projects that support long-run potential growth.

Authorities' views

- The authorities were mindful of the increasing challenges to SIDF finances and noted plans to recruit the necessary expertise to devise a reform strategy after the ongoing forensic audit is completed. They stressed the significant progress in reducing the size and cost of PEP and reorienting its focus, with the support of the Technical and Vocational Education

[15] The authorities noted a 20 percent (y/y) reduction in program costs and a 30 percent (y/y) fall in enrolled participants at end-March 2016.

[16] Refers to the central government's Single Treasury Account.

[17] See IMF country report no. 15/248, Annex IV on the SIDF's economic activity.

and Training Council; the Council will provide program participants with vocational certification to facilitate graduation to the job market, gradually bringing the program to sustainable levels and reducing its drain on SIDF resources.

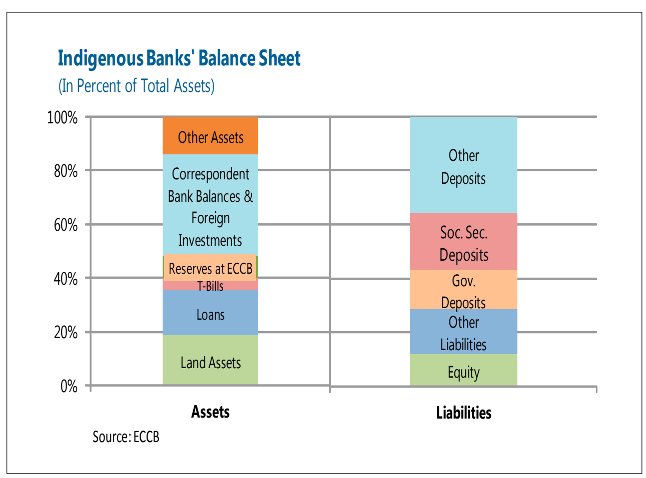
18. Further strengthening of public financial management, particularly at the NIA and public corporations, is critical to protecting fiscal and debt sustainability of the Federation. Improving the NIA's budget framework and debt management strategy is crucial. Strengthening its fiscal position requires improvement in its revenue stream, by refraining from renewing concessions to long-standing investors in Nevis and enhancing tax policy and revenue administration. A clear mechanism for sharing VAT and CBI revenues between the two islands is needed to minimize ad hoc transfers and expenditure overruns that weaken the overall fiscal position. The NIA can also build cash buffers over the near term given its limited access to new credit and high rollover risk from the short-maturity of its T-bill portfolio. Resolving persistent cash flow challenges at SKELEC and improving its bill collection rates are needed to enable servicing its debt. The authorities are also encouraged to continue efforts to fully operationalize the ASYCUDA World system to increase the efficiency of reporting at the Customs and Excise Department—a critical element for monitoring and implementing reforms to the tax concession system. Finally, an action plan is needed following completion of the payroll audit, and, to ensure the long-term sustainability of the Social Security Board, prompt implementation of the parametric reforms highlighted in the Final Report on the 10th Actuarial Review of the Social Security Fund.

Authorities' views

- The authorities agreed with the need to strengthen revenue administration in Nevis, particularly at Customs, and the need for legislative action to revise property tax valuations. They noted that some of the concessions granted at NIA were not sustainable and further efforts were needed to improve its tax performance.

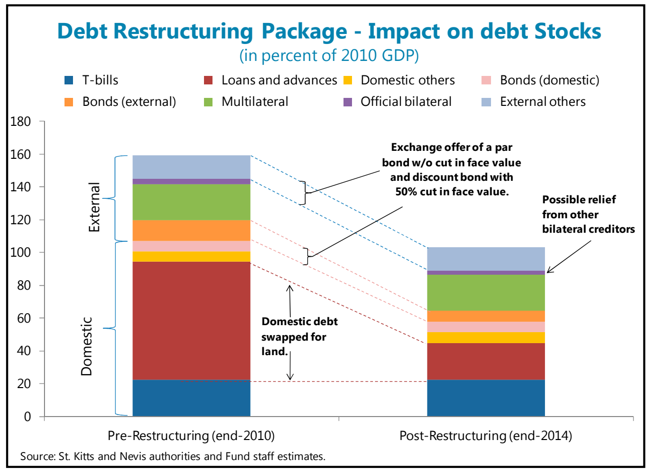
B. Safeguarding the Stability of the Financial System

19. Sovereign-bank linkages continue to pose risks to financial stability and the soundness of banks' balance sheets. The debt-land swap (which cut the public debt by 30 percent of 2015 GDP and reduced banks' direct exposure to the government) was the most significant element of the debt restructuring. However, it introduced an illiquid asset onto bank balance sheets, with implications for financial soundness and long-run profitability, particularly given the limited progress in land sales since the swap took place. Although the swap provides banks with title for the land, assigning the Special Land Sales Company (SLSC) the task of approving land sales created an operational hurdle given the delay in



appointing the new board of directors. Further delays in land sales may require banks to start provisioning for unsold land in line with the ECCB's prudential requirement to divest seized collateral assets within 5 years, adding to banks' challenges.

20. Establishing a clear framework for completing the debt-land swap is crucial to preserve the credibility of the debt restructuring and hard-earned gains in debt sustainability, while protecting financial stability. The significant achievements in creating fiscal space, putting the public debt on a firm downward trajectory, and building sizable buffers will be jeopardized if the second leg of the restructuring is not completed by divesting the land within a timeframe consistent with the ECCB's regulatory guidelines. In this context, staff welcomed the appointment of the SLSC board of directors and the recent approval of two outstanding purchase offers, and urged consideration of others. Staff stressed the need to develop a clear action plan to enable reasonable progress with land sales and operationalize the SLSC to market the remaining land, to sell it to domestic and foreign investors, including the Kittitian and Nevisian Diaspora, lease it on behalf of banks, subject to regulatory requirements, or facilitate joint ventures with foreign investors to turn the land into productive assets. While setting up this framework, staff recommended consideration of a temporary extension of the dividend guarantee on unsold land, at possible renegotiated terms, to support bank stability.



21. In the interim, the economic and legal treatment of the debt-land swap needs to be clarified and agreed by all parties—the banks, the regulator, and the government. The legal transaction of transferring the land to banks extinguished public debt, as envisaged under the swap agreement. However, in 2014Q3, the ECCB reclassified the banks' holdings of SPV shares as de facto government exposure, assigning a zero risk-weight in computing the CAR, compared to a previous 100 percent risk weight.[18] The new treatment results in a reported CAR of 22.3 percent as of end-December 2015, compared to 15.3 percent if the full risk weight were applied. Staff urged the authorities, the ECCB and the banks to agree on a uniform treatment of the swap to better assess the loss-absorption capacity of the banking system.

Authorities' views

- The authorities noted the Cabinet approval of the purchase offers and signaled commitment to moving forward with the debt-land swap, including by considering all credible purchase

[18] The reclassification considers the SPV shares as a financial investment in government securities collateralized by land, given the implicit government control over approving land sales and the limited profit or loss if proceeds from land sales exceed or fall below the original valuation.

offers, while ensuring that national interest is preserved and the resulting investment contributes to the economy. In addition, the Cabinet will examine other policy options that can further expedite the downward trajectory of the national debt. They are also cognizant of the need to safeguard bank soundness, while considering options to reduce the annual cost to government of dividend payments on unsold land. The authorities agree on the need to articulate a pro-active role for the SLSC in marketing the land and are engaging with the ECCB on adopting a consistent treatment of the swap in the balance sheets of both the government and the banks.

22. Rapid progress is needed to resolve the high level of NPLs in the banking system and restore sustainable private sector credit growth. Like in other ECCU countries, a protracted foreclosure process, with difficulties in seizing and divesting collateral, slows down the NPL resolution process. As a result, banks have tightened lending standards and exercise caution in new lending (especially to SMEs perceived as high-risk borrowers in the absence of adequate business plans, cash flow projections, and audited financial statements), despite the high level of liquidity in the system. Legislative reforms, including the draft regional Foreclosure Law (targeted for implementation by end-2016) and the recent passage of the Eastern Caribbean Asset Management Corporation (ECAMC) Act, should support banks' efforts in lowering their NPL ratios, stimulating credit growth and improving profitability. Educating borrowers, creating a culture of business planning, and establishing credit bureaus should also help reduce information gaps on the creditworthiness of borrowers to generate more bankable projects.

23. Continued strengthening of the supervisory frameworks and more systematic coordination between the regulators of banks and nonbank financial institutions (NBFIs) are critical to limiting risks to the domestic financial system. Following the introduction of the risk-based supervisory framework in 2014 and increased onsite examinations of NBFIs, the nonbank regulator (Financial Services Regulatory Commission, FSRC)[19] has identified weaknesses in some segments of the sector (e.g., high delinquency rates and accelerated lending activity). Staff recommended continued strengthening of supervisory frameworks to capture risks in growing market segments, and close coordination between the FSRC and the ECCB, to limit potential risks from ownership and funding linkages between banks and NBFIs.[20] Close coordination will also help limit contagion risks that may emerge in the absence of clear prudential regulations on cross-transactions between onshore and offshore financial institutions.[21] Staff stressed that enforcement

[19] The FSRC is also in charge of AML/CFT oversight, for both banks and nonbanks, and banks operating offshore.

[20] The two domestic insurance companies are subsidiaries of two groups, which include financial institutions with domestic banking licenses.

[21] One of the indigenous banks has an offshore subsidiary regulated and supervised by the FSRC branch in Nevis.

of the new Banking Law, ratified by Parliament in July 2015, would enable the ECCB to conduct consolidated and risk-based supervision, while helping banks increase capital.[22]

24. Supervision and regulation of offshore banks should continue to follow international best practices. With the increased scrutiny and de-risking practices by international banks now also affecting indigenous banks in St. Kitts and Nevis,[23] staff recommended systematic monitoring of developments in existing CBRs, maintaining a watertight AML/CFT framework with adequate financial disclosure, prudent financial sector oversight, and full compliance with international standards on transparency and exchange of tax information, to reduce the risk of losing CBRs and avoid adverse implications for the CBI program.

Authorities' views

- The authorities shared the concerns on the potential impact of losing CBR's. Some indigenous banks are proactively exploring other potential counterparts, training staff and expanding compliance departments. The authorities have continued efforts to ensure full compliance with international standards on AML/CFT,[24] and requested Fund advice on possible alterative arrangements should de-risking trends continue.

C. Enhancing Resilience, Boosting Competitiveness and Long-run Growth

25. In a currency union with a fixed exchange rate, enhancing competitiveness will require raising productivity and resilience, economic diversification, and improving the business environment. The External Stability Assessment (Annex II) points to competitiveness challenges based on exchange rate and other indicators. The Federation continues to lag the rest of the region and the world in terms of ease of doing business, is highly exposed to natural disasters, and has limited diversification. Limited labor market data hinders adequate assessment of labor costs, but the country has the highest minimum wage in the region. A comprehensive structural reform agenda should focus on the following priorities to bolster long-run potential growth and competitiveness:

- **Improve the business environment.** Pressing ahead with the regional effort to revise foreclosure legislation, establish a credit bureau, and the ongoing reform of land registry will help enhance access to credit and handling insolvency—key obstacles to private sector development. Fostering initiatives that educate entrepreneurs on proper business planning and financial management would further increase the bankability of domestic projects.

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[22] Banks are given 450 days to comply with the increase in the minimum paid-up capital and the ECCB retains discretion to extend the period if needed. The ECCB will also be able to introduce differentiated capital requirements based on the riskiness of the institution.

[23] Including through increased fees, greater resources needed for due diligence, and possible changes in correspondent banking relationships (CBRs).

[24] See the ECCU Staff Report, Appendix 6, for the favorable compliance status for St. Kitts and Nevis.

- **Address the existing skill gap.** Re-orienting the PEP toward vocational training and certification is one way to increase productivity of the domestic labor force and build skills that meet the demands of key sectors (mainly construction and hospitality). Investment in soft-skills training is a priority to meet the needs of the growing high-end tourism sector.

- **Invest in well-targeted and managed infrastructure projects**. Investing in sustainable infrastructure, such as the ongoing and planned investments in geothermal energy, is expected to contribute to reducing and stabilizing energy costs—a key contributor to the high cost of doing business in the Caribbean. Closing the infrastructure gap and strengthening public investment management would enhance the efficiency of public investment spending, the productivity of the economy, and its long-run growth impact, as well as increasing resilience to natural disasters.[25]

- **Adopt a targeted marketing strategy that differentiates the country's tourism brand.** This is critical to maintaining the country's market share in the region in the face of price competition from other destinations, including new markets like Cuba, and is consistent with the authorities' Master Tourism Strategy. Actively diversifying tourism source markets should help reduce the impact of external shocks to the economy (Annex IV).

- **Increase economic diversification.** Increasing backward linkages from tourism (e.g., into agriculture) can help maximize the spillovers from tourism recovery. Broadening options under the CBI program to include business investments in different sectors, such as education or health, can help foster growth in other sectors and mitigate the risk of real-estate overdevelopment and boom-bust cycles in construction.

- **Enhance resilience to natural disasters**. A comprehensive risk management framework that focuses on both risk reduction (through investments in disaster-resilient infrastructure) and risk transfer (e.g., through weather-linked or catastrophe insurance), is critical to reducing the burden of costly natural disasters on the public sector. Self-insurance through fiscal buffers remains instrumental in the context of grossly insufficient payouts from existing catastrophe risk insurance in the Caribbean (Annex V).

- **Enhance the quality of statistical data in the Federation.** Significant shortfalls in Balance of Payments and National Accounts statistics hamper economic assessment and policy prescription. In particular, significant distortions in current and capital account flows hinder an accurate assessment of the country's external position and activity in various economic sectors. A near-term action plan would involve strengthening the capacity of the statistical office through additional staff training and targeted technical assistance by CARTAC, the Fund, and World Bank, in effective coordination with the ECCB's technical staff.

- **Authorities' views:** The authorities agreed with these priority areas and noted ongoing efforts to implement reforms that enhance the business environment. They were keen on

[25] See IMF policy paper (June 2015) on "Making Public Investment More Efficient".

improving the efficiency and targeting of public investment spending. They supported the ongoing geothermal plant development in Nevis and noted plans to test geothermal potential in St. Kitts. They shared staff's concerns on the urgent need for improving statistical data.

STAFF APPRAISAL

26. St. Kitts and Nevis exited the Post-Program Monitoring Framework in October 2015, maintaining favorable macroeconomic performance and a broadly stable financial system. The economy continued its strong growth, underpinned by construction and tourism activity, and their spillovers to the rest of the economy. The fiscal surplus weakened compared to previous years, owing to a slowdown in CBI receipts to the budget, delays in grants, and the impact of recent VAT and Import Duty exemptions. The debt-to-GDP ratio continued its impressive downward trajectory, owing to strong economic growth and early debt repayments, projected to reach the ECCU's 60 percent target well ahead of peers. The banking system remained broadly stable with comfortable capital and liquidity buffers, but high levels of NPLs, low profitability, and slow progress with land sales have created pockets of vulnerability, adding to the risks from regional financial developments.

27. The outlook for 2016 is positive, but remains dependent on developments in CBI inflows. The medium-term outlook remains highly vulnerable to negative surprises in CBI inflows, given increased regional and global competition from other CBI programs and global security concerns, and the sizeable underlying fiscal deficit. Weak growth prospects in key tourism source markets, regional financial sector challenges, including derisking, and exposure to natural disasters also tilt the risks to the downside.

28. A multi-pronged strategy is needed to preserve macro-financial stability and hard-earned gains in debt sustainability. The elements of such a strategy include: (i) strengthening the fiscal framework to reduce reliance on CBI inflows, while preserving the accumulated savings from the CBI program and further improving public financial management; (ii) resolving the debt-land swap to safeguard financial stability, while mitigating emerging financial sector risks; and (iii) enhancing competitiveness, diversification, and resilience to shocks, including from natural disasters.

29. A prudent medium-term fiscal framework with a zero primary balance target, net of CBI receipts and SIDF grants, would help safeguard fiscal sustainability, with the adjustment paced over the medium-term. The framework would help build resilience to negative surprises in future CBI inflows, and facilitate accumulation of fiscal buffers to address external shocks and absorb unforeseen financing needs if tax performance disappoints after CBI flows decline. Implementing this framework requires broadening the tax base, including by streamlining tax incentives and further improving compliance, especially at the NIA level, as well as containing recurrent spending. The authorities' commitment to a comprehensive review of the concessions regime is welcome, as well as plans to contain the wage bill and spending on goods and services.

30. Establishing a 'Growth and Resilience Fund' can help preserve the accumulated savings from the CBI program, while providing a contingency buffer for future shocks, such as costly

natural disasters. The fund should have a prudent investment strategy, with appropriate governance and accountability, and its flows fully integrated with the fiscal framework with the zero primary-balance-target. Investing the funds in safe instruments abroad according to appropriate investment guidelines should help reduce risks to financial stability by easing banks' excess liquidity pressures. A comprehensive investment and debt management strategy that optimizes the government balance sheet through further debt reduction and improves the cost and composition of debt would complement efforts to build adequate buffers as self-insurance for future shocks.

31. The authorities should press ahead with structural reforms that strengthen public financial management. In this context, strengthening the NIA's budget framework, tax policy, and revenue administration, and better coordination with central government on the sharing of VAT and CBI revenues are crucial for the Federation's fiscal sustainability. Enhancing oversight of public corporations and enforcing timely reporting of their audited financial statements are also critical to safeguarding the sustainability of the consolidated public sector position. Staff welcomes the authorities' efforts to enhance the transparency of SIDF financial reporting and commitment to streamline and re-orient PEP. Plans for potential integration of the SIDF with the government's Consolidated Fund should enhance assessment and management of the overall fiscal policy stance.

32. A clear framework for resolving the debt-land swap is crucial to preserve the credibility of debt restructuring, the hard-earned gains in debt sustainability, and financial sector stability. With the appointment of the SLSC board of directors and approval of the two sale offers recently, the SLSC can be operationalized as a marketing agent to sell the remaining plots of land, including to the diaspora. A clear strategy should be developed to enable reasonable progress with land sales, to remove the policy uncertainty around the swap. While setting up this framework, staff recommends the consideration of a temporary extension of the dividend guarantee on unsold land, at possible renegotiated terms, and agreement on the reporting treatment of the swap by all parties—the banks, the regulator, and the government.

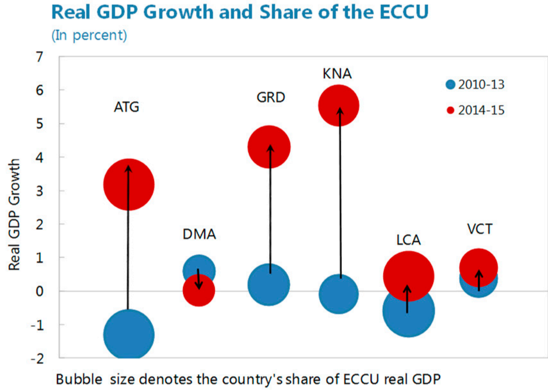
33. Preserving financial stability also calls for further strengthening of the supervisory frameworks for banks and nonbanks and more systematic coordination between their regulatory authorities. Further supervisory strengthening would help capture weaknesses in growing market segments. A more systematic coordination between the ECCB and the FSRC will help limit potential risks from linkages between banks and nonbanks and between onshore financial institutions and those operating internationally. Implementing the new Banking Law will also enable the ECCB to conduct consolidated and risk-based supervision and address potential spillover risks. Trends in CBRs need to be systematically monitored to limit the risk of losing CBRs, as well as maintaining a watertight AML/CFT regime with adequate financial disclosure, and full compliance with international standards on transparency and exchange of tax information.

34. A structural reform agenda that focuses on economic diversification, improved business environment, and contingency planning should enhance resilience to external shocks and bolster long-run growth potential. Ongoing efforts to improve the business environment and addressing the skills gap will provide an enabling environment for private sector development and help attract foreign investment crucial to financing the current account. Investing in targeted transformative projects (including by broadening options under the CBI program to include business investment in renewable energy, education and health) will improve competitiveness, diversification, and resilience of the economy, including to natural disasters.

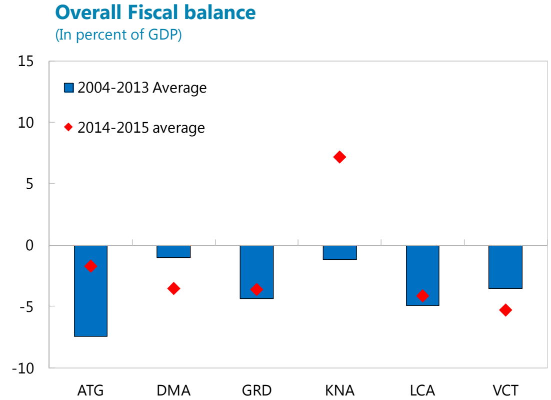
35. **Urgent attention is needed to improve the quality of statistical data.** In particular, addressing shortfalls in Balance of Payments, National Accounts, and labor market statistics is critical to enhancing surveillance and providing better basis for policy decisions.

Figure 1. The Regional Context

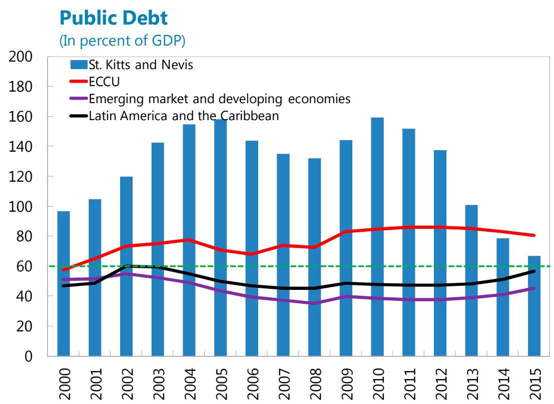
St. Kitts and Nevis enjoyed the strongest economic recovery in the region...



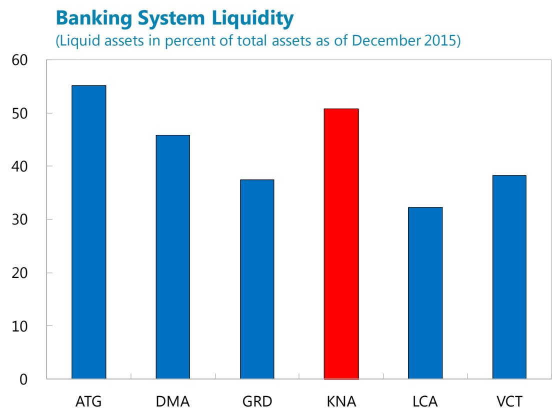
...together with the strongest fiscal balance, on the back of large CBI receipts to the budget.



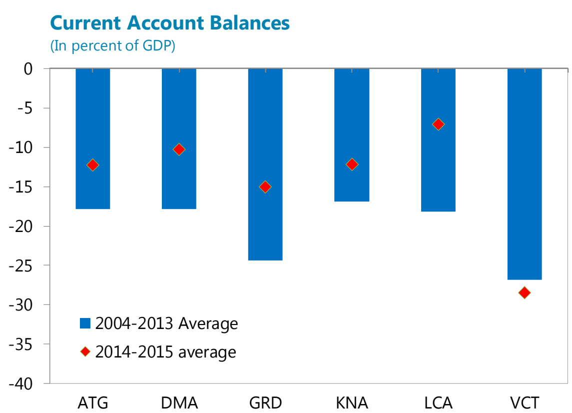
Public debt is on a firm downward trajectory, thanks to the successful debt restructuring (including the debt-land swap) and early debt repayments.



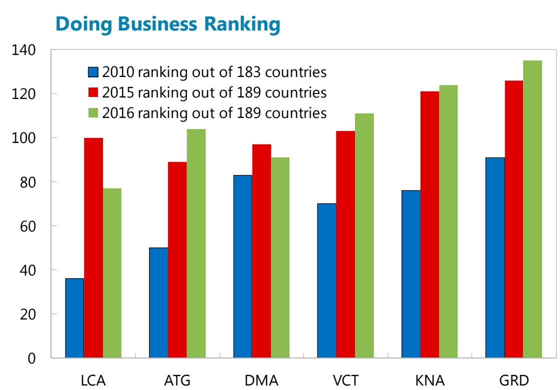
The banking system remains the second most liquid in the region.



Estimated current account balance is stronger than most peers given the large CBI service fees to government...



...however, the business climate is one of the weakest and has been worsening.



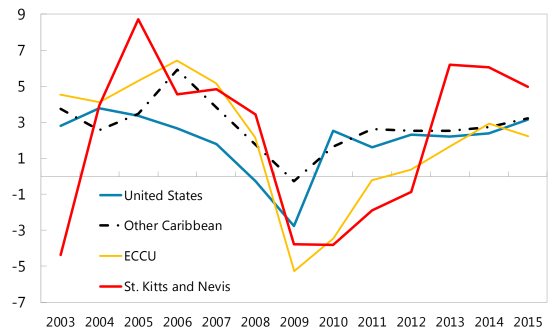
Sources: World Bank Doing Business Indicators, 2016.

Sources: ECCB, authorities and IMF staff estimates.

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

Growth continued at a somewhat slower rate of 5 percent in 2015, yet still substantially higher than peers and key trade partners…

Real GDP Growth
(In percent)



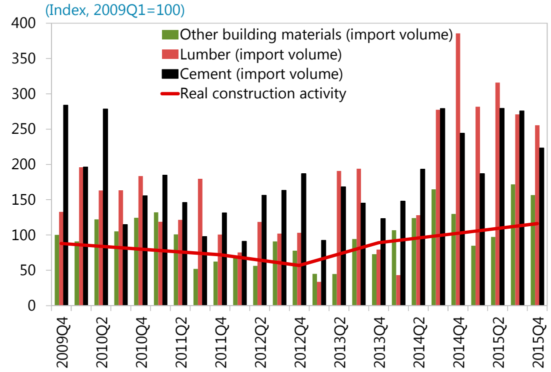
…with employment of the domestic labor force leveling off following a strong recovery.

Employment and Earnings[1/]
(Cumulative growth since end-2011)

1/ Data for March and June 2015 are interpolated.
Source: Social Security Board

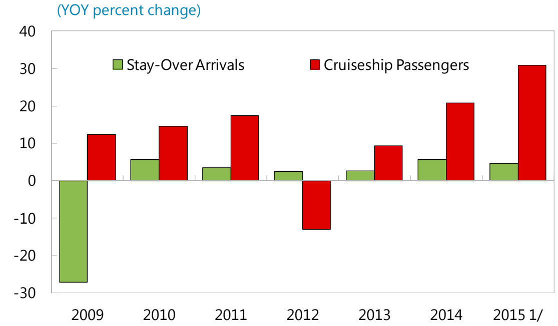
The construction sector continued to propel the economy in 2015…

Construction Performance
(Index, 2009Q1=100)



…along with the continued buoyancy in stay-over visitors and strong growth in cruise ship arrivals.

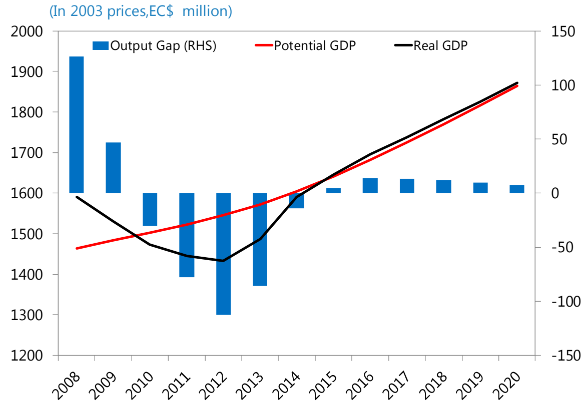
Annual Tourism Performance
(YOY percent change)



Sources: ECCB; and IMF Staff Estimates.
1/ 2015 data are preliminary estimates.

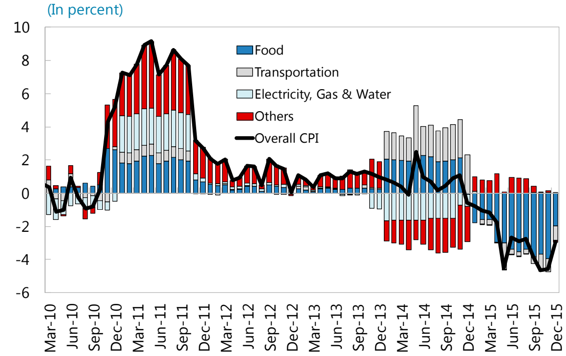
The output gap is estimated to have closed in 2015 …

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



…yet, consumer price inflation turned negative, reflecting VAT exemptions on food and imported deflation, thanks to lower global energy and commodity prices.

Inflation
(In percent)

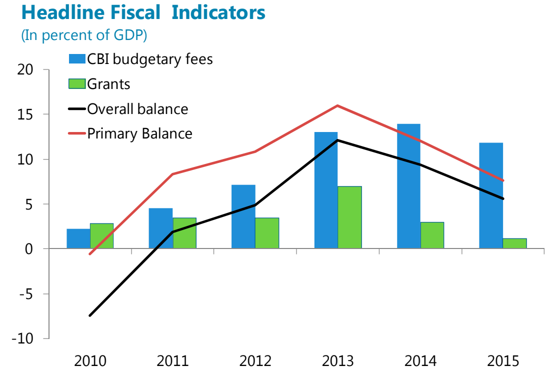


Sources: National Authorities; and IMF Staff Estimates.

Source: ECCB, authorities and IMF staff estimates.

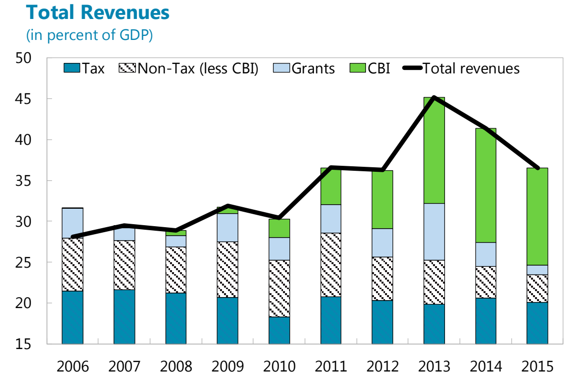
Figure 3. St. Kitts and Nevis: Fiscal Sector Developments

Headline fiscal performance in 2015 has continued its deterioration since 2013…

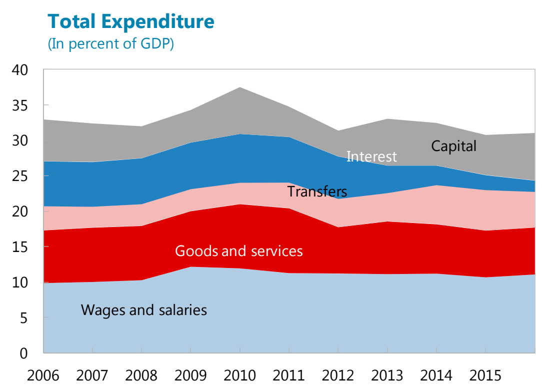


Sources: St. Kitts and Nevis Authorities and IMF staff estimates.

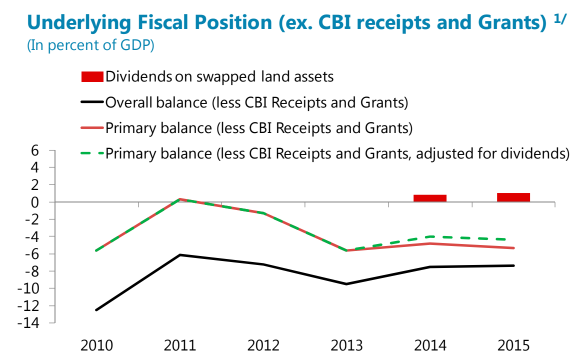
…mainly because of lower grants, a slowdown in CBI receipts to the budget, and weaker tax performance…



Growth in expenditures has been contained…

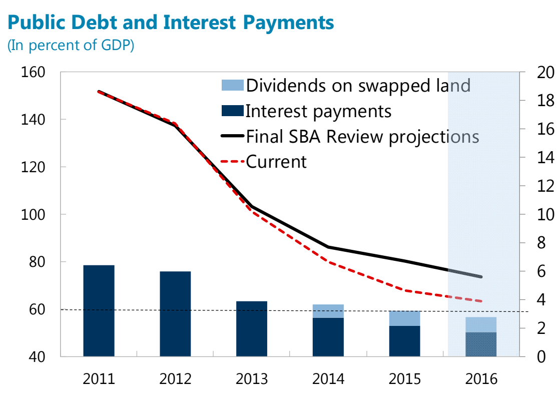


…limiting further deterioration in the underlying fiscal position, which has been large and negative since 2013.



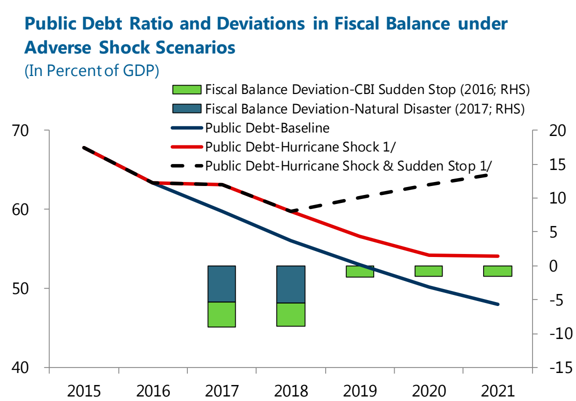
1/ Excludes all SIDF grants and Investment Proceeds.
Sources: St. Kitts and Nevis Authorities and IMF staff estimates.

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



Sources: Authorities and IMF staff estimates.

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

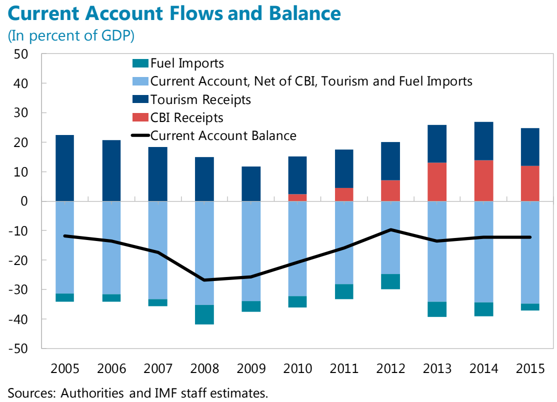


1/ In percent of nominal GDP, adjusted for shock to output.

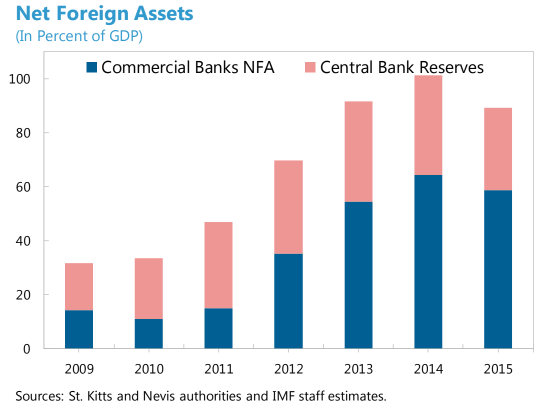
Sources: ECCB, authorities and IMF staff estimates.

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

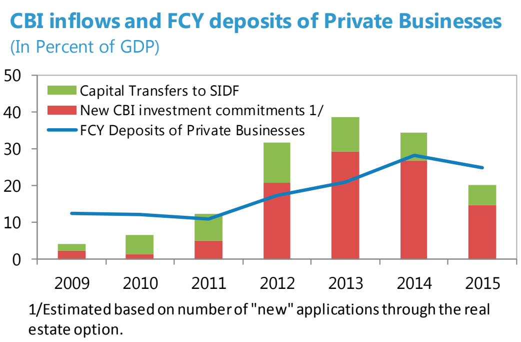
Preliminary estimates of the current account deficit suggest it remained stable over 2014-2015, with lower grants and CBI receipts being offset by cheaper oil & non-oil imports.



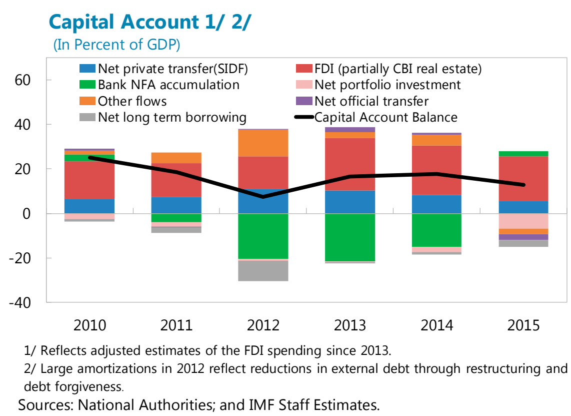
However, the international investment position appears to have deteriorated in 2015…



…which may be explained by changes in the flow of applications through the CBI program in 2015 and the behavior of private sector developers.



However, current estimates of the capital account still underestimate the level of FDI and have gaps relating the actual size of portfolio flows in and out of the economy.

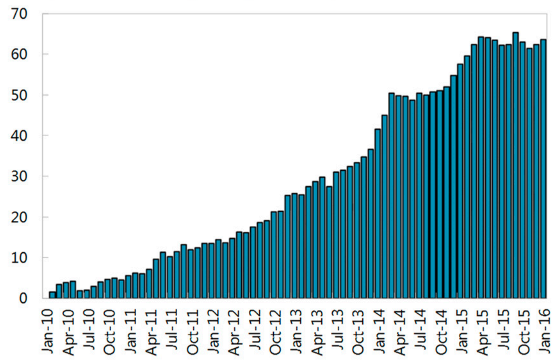


Sources: ECCB, authorities and IMF staff estimates.

Figure 5. St. Kitts and Nevis: Monetary Developments

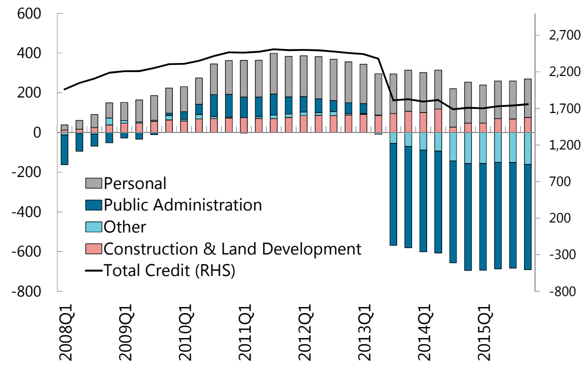
Banking system deposit growth has been very rapid since 2010, though tapering off in 2015…

Total Deposits
(Cumulative Percentage Change since 2010)



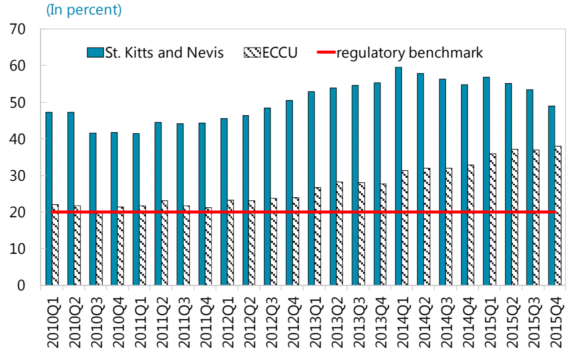
…while banks' loan portfolio has shrunk, mainly because of the public debt restructuring (debt-land swap).

Cumulative Change in Bank Credit Since end-2007
(In EC$ million)



Banking system liquidity remains high….

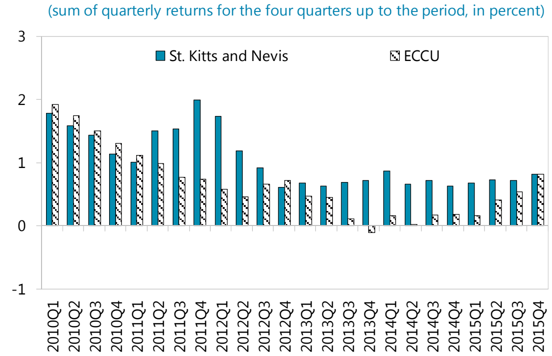
Net Liquid Assets to Total Deposits
(In percent)



Sources: ECCB; and IMF Staff Estimates.

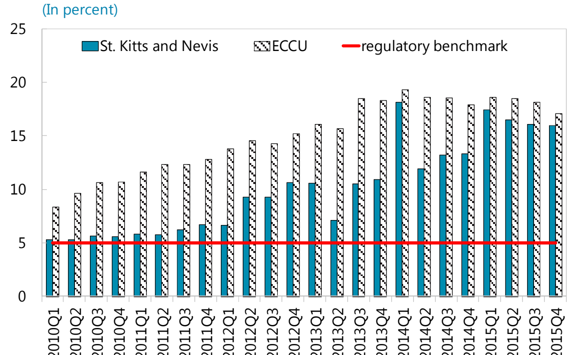
…putting pressure on banks' profitability.

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



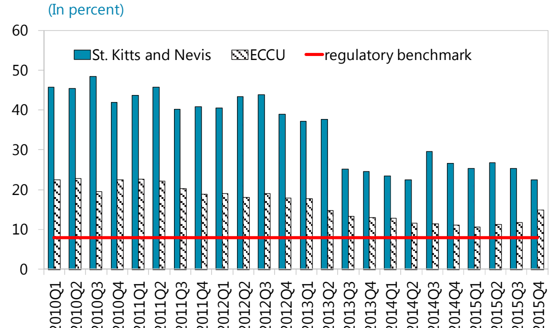
The NPL ratio picked up in 2015…

NPLs to Total Loans
(In percent)



…while reported capital adequacy ratios remained high, although assigning a 100 percent risk weight to land assets would suggest a significantly lower ratio.

Total Capital to Risk Weighted Assets [1/]
(In percent)



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

Sources: ECCB, authorities and IMF staff estimates.

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, 2014 est.)	54.9	Calorie intake (per capita a day, 2011)	2,452
Rate of growth (percent per year, 2014)	1.18	Physicians (per 1,000 people, 2001)	1.2
Density (per sq. km., 2014)	211.3	Access to safe water (percent, 2008)	$99.00
Net migration rate (per thousand, 2014 est.)	1.2	AIDS incidence rate (per 100,000, 2013)	$32.00
Population characteristics		Gross domestic product (2015)	
Life expectancy at birth (years,2002)	71	(millions of U.S. dollars)	915.1
Infant mortality (per thousand live births, 2015)	8.4	(millions of E.C. dollars)	2,471
Under 5 mortality rate (per thousand, 2015)	11	(US$ per capita)	16,654

II. Economic and Financial Indicators, 2010—21

	2010	2011	2012	2013	2014	Est. 2015	Proj. 2016	Proj. 2017	Proj. 2018	Proj. 2019	Proj. 2020	Proj. 2021
(Annual percentage change; unless otherwise specified)												
National income and prices												
Real GDP (factor cost) 1/	-3.8	-1.9	-0.9	6.2	6.1	5.0	3.5	3.5	3.4	2.9	2.8	2.8
Consumer prices, end-of-period	5.3	2.7	0.1	1.0	-0.6	-2.9	0.2	1.3	1.6	1.7	1.8	1.8
Consumer prices, period average	0.7	7.1	1.4	1.0	0.7	-2.8	-1.3	0.8	1.5	1.7	1.7	1.8
Real effective exchange rate appreciation (+) (end-of-period)	3.0	-0.3	-1.9	-0.1	2.7	-3.3	...	...	...	...	...	...
Banking system												
Change in net foreign assets	1.1	15.4	21.7	24.2	16.1	-5.3	0.7	0.6	-0.4	-3.3	-4.0	-4.4
Credit to public sector 2/	4.9	-8.9	-10.7	-38.8	-13.9	-3.4	1.0	1.0	0.6	2.0	1.7	1.7
Credit to private sector 2/	2.6	2.6	0.1	-0.5	0.3	1.5	1.7	1.7	1.8	1.9	2.3	2.6
Broad money	8.6	10.1	11.6	10.3	14.2	2.5	3.3	3.3	2.0	0.5	0.0	0.0
(In percent of GDP)												
Public sector 3/												
Total revenue and grants	30.4	36.6	36.3	45.2	41.4	36.4	30.9	28.3	28.2	25.8	25.5	25.4
o/w Tax revenue	18.3	20.8	20.3	19.9	20.6	19.9	19.3	19.4	19.5	19.5	19.6	19.6
o/w CBI fees	2.3	4.5	7.1	13.0	13.9	11.9	5.8	3.7	3.5	1.7	1.6	1.5
Total expenditure and net lending 4/	37.9	34.7	31.4	33.1	32.0	31.4	30.7	29.6	29.0	28.1	27.6	27.4
Current expenditure	30.9	30.5	27.7	26.4	26.1	24.7	24.1	23.6	23.4	22.7	22.4	22.3
Capital expenditure and net lending	7.0	4.3	3.7	6.7	6.0	6.7	6.7	5.9	5.5	5.4	5.2	5.1
Primary balance	-0.6	8.3	10.9	16.0	12.1	7.2	1.9	0.3	0.8	-0.8	-0.7	-0.6
Overall balance	-7.5	1.9	4.9	12.1	9.4	5.1	0.2	-1.2	-0.8	-2.3	-2.1	-2.0
Overall balance (less CBI inflows) 5/	-10.7	-3.4	-4.4	-6.7	-6.0	-6.9	-6.6	-6.0	-5.3	-4.4	-4.1	-4.0
Foreign financing 6/	0.3	-1.3	-3.6	0.3	-3.5	-7.5	-2.1	-1.1	-1.0	-1.0	-0.9	-0.8
Domestic financing	7.3	-4.5	-9.6	-37.2	-8.4	1.3	1.5	2.0	1.4	2.9	2.6	2.5
Change in arrears	1.0	2.6	-2.1	-4.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Sale of assets	0.7	0.4	0.5	1.1	1.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Extraordinary financing 7/	...	...	10.4	27.2	1.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Total public debt (end-of-period) 8/	159.3	151.7	138.4	101.1	79.8	67.8	63.4	59.8	56.1	53.0	50.2	48.0
Public debt service (percent of total revenue and grants)	29.1	22.0	57.3	16.0	26.0	12.5	9.4	9.3	9.0	9.4	9.1	5.5
External sector												
External current account balance 9/	-20.8	-15.9	-9.8	-13.5	-12.2	-12.2	-16.4	-18.6	-18.6	-19.3	-18.2	-17.4
Trade balance 9/	-29.1	-26.0	-23.6	-31.7	-29.8	-26.3	-23.8	-24.7	-25.0	-24.6	-24.3	-24.1
Services, net	5.9	7.8	10.0	15.1	15.0	12.9	6.8	5.0	5.3	4.2	5.1	5.7
o/w Tourism receipts	12.9	12.9	13.0	12.8	12.8	12.9	12.8	13.1	13.4	14.2	15.1	15.8
FDI (net)	16.8	15.1	14.8	23.7	22.1	20.3	18.4	18.0	17.3	15.3	13.5	12.6
External public debt (end-of-period)	48.1	49.8	43.3	40.8	35.7	25.9	22.4	19.9	17.6	15.6	13.8	12.2
(In percent of exports of goods and nonfactor services)												
External public debt service	23.4	22.5	11.9	7.6	6.5	11.3	6.9	6.5	5.7	5.5	4.9	4.3
External public debt (end-of-period)	157.1	146.5	120.0	103.8	94.2	73.2	77.7	74.5	66.1	61.4	52.8	45.7
Memorandum items												
Net international reserves, end-of-period												
(in millions of U.S. dollars)	155.7	231.5	251.6	291.3	318.4	280.4	300.8	324.9	344.5	330.4	312.3	292.7
(in percent of broad money)	22.0	29.7	29.0	30.4	29.1	25.0	26.0	27.1	28.2	26.9	25.5	23.9
Holdings of SDRs, in millions of U.S. dollars	12.8	12.8	12.8	13.8	13.8	13.8	13.8	14.8	15.8	16.8	17.8	18.8
Nominal GDP at market prices (in millions of EC$)	1,870	1,966	1,976	2,126	2,335	2,471	2,579	2,715	2,866	3,015	3,167	3,323

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

1/ 2013 GDP growth has been revised upwards in July 2015 following technical assistance by CARTAC, reflecting better estimates for construction sector activity.

2/ In relation to broad money at the beginning of the period.

3/ Consolidated general government balances unless otherwise noted. Primary and overall balances are based on above-the-line data.

4/ Decline in goods and services expenditure in 2012 reflects the corporatization of the Electricity Department in August 2011.

5/ Excludes CBI budgetary fees as well as SIDF grants and Investment proceeds.

6/ 2012 disbursement includes financing to regularize the external arrears related to fuel purchases.

7/ Reflects operations linked to the restructuring of public debt.

8/ Reflects the debt-land swap equivalent to EC$565 million in 2013 and EC$231 million in 2014.

9/ Based on staff's preliminary revisions to merchandise imports since 2013 pending technical assistance from CARTAC and headquarters.

Table 2. St. Kitts and Nevis: General Government Fiscal Operations, 2010–21 1/
(in millions of Eastern Caribbean dollars)

						Est.	Proj					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total revenue	**515.9**	**651.1**	**648.1**	**813.5**	**896.4**	**871.9**	**736.5**	**718.8**	**753.9**	**736.7**	**770.2**	**805.5**
Current revenue	513.7	650.0	647.9	813.4	896.4	871.9	736.5	718.8	753.9	736.7	770.2	805.5
Tax revenue	342.6	408.1	401.6	422.2	482.0	491.2	498.7	527.6	559.5	589.3	619.7	651.3
Taxes on income	92.6	86.6	81.4	82.3	95.3	127.2	122.5	129.5	137.2	144.1	151.0	158.2
Taxes on property	9.4	8.8	12.9	14.9	16.5	21.2	22.1	23.4	25.0	26.5	27.9	29.4
Taxes on domestic goods and consumption 2/	84.1	208.2	206.1	217.4	246.0	212.4	221.2	233.9	247.6	261.3	275.4	290.2
Taxes on international trade and transactions	156.6	104.4	101.2	107.6	124.1	130.5	132.8	140.8	149.6	157.4	165.3	173.5
Nontax revenue	171.0	241.9	246.3	391.3	414.4	380.7	237.8	191.2	194.4	147.5	150.5	154.2
o/w: Citizenship by investment (CBI) Budgetary Receipts	42.1	88.8	141.0	276.9	325.4	295.0	150.0	100.0	100.0	50.0	50.0	50.0
o/w: SIDF Investment Proceeds			30.6	34.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	129.0	153.1	74.6	79.6	89.0	85.7	87.8	91.2	94.4	97.5	100.5	104.2
Total expenditure and net lending	**707.8**	**682.8**	**620.3**	**703.5**	**747.5**	**774.6**	**792.1**	**802.8**	**830.0**	**846.8**	**874.8**	**910.9**
Current expenditure	577.8	599.2	548.0	561.9	608.3	609.9	620.2	641.9	671.3	684.4	708.6	740.7
Wages and salaries	224.0	222.0	222.3	237.4	258.5	258.4	283.5	295.7	307.5	320.5	334.0	348.1
Goods and services 3/	169.2	179.7	129.2	157.7	160.0	159.3	163.4	170.1	179.4	189.3	199.0	209.0
Interest	128.5	126.4	118.2	82.5	63.3	52.8	43.6	42.8	43.8	44.6	45.5	46.7
Domestic	88.5	91.9	79.4	71.0	46.9	36.6	31.7	32.2	34.0	35.4	37.1	38.9
Foreign	40.0	34.5	38.8	11.5	16.5	16.2	11.9	10.6	9.9	9.2	8.5	7.8
Transfers 4/	56.1	71.1	78.3	84.3	126.4	139.4	129.8	133.3	140.6	130.0	130.0	136.9
of which: Dividends on Land Assets 5/					19.8	26.2	27.9	26.7	25.7	7.1	0.0	0.0
Net lending	5.8	-0.6	0.1	0.9	0.7	25.5	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	124.2	84.2	72.2	140.7	138.6	139.1	171.9	160.9	158.8	162.4	166.2	170.1
Current balance	**-64.1**	**50.8**	**99.9**	**251.6**	**288.1**	**262.0**	**116.3**	**76.9**	**82.7**	**52.4**	**61.6**	**64.8**
Overall balance (before grants)	-192.0	-31.7	27.9	110.0	148.9	97.4	-55.6	-84.0	-76.1	-110.0	-104.6	-105.4
Grants	52.5	68.3	68.3	147.3	69.7	28.4	60.7	50.6	54.0	40.8	37.8	37.8
o/w SIDF Grants	18.0	14.0	11.2	88.2	33.4	0.0	26.3	29.5	29.5	14.2	14.2	14.2
Overall balance (after grants)	**-139.5**	**36.6**	**96.2**	**257.3**	**218.5**	**125.7**	**5.1**	**-33.5**	**-22.1**	**-69.2**	**-66.8**	**-67.6**
Primary balance	-11.0	163.1	214.4	339.8	281.8	178.6	48.7	9.3	21.8	-24.7	-21.3	-20.9
Overall balance (ex. CBI receipts and SIDF Grants & Inv. Proceeds)	**-199.5**	**-66.2**	**-86.7**	**-142.6**	**-140.3**	**-169.3**	**-171.2**	**-162.9**	**-151.5**	**-133.5**	**-131.1**	**-131.8**
Primary balance (ex. CBI receipts and SIDF Grants & Inv. Proceeds)	-71.1	60.2	31.6	-60.2	-76.9	-116.4	-127.6	-120.1	-107.7	-88.9	-85.5	-85.1
Financing	**172.8**	**-54.6**	**-88.0**	**-276.7**	**-215.1**	**-137.0**	**-5.1**	**33.5**	**22.1**	**69.3**	**66.8**	**67.0**
Net foreign financing	5.0	-24.6	-70.8	5.4	-82.5	-185.4	-53.8	-31.0	-29.1	-28.7	-28.5	-28.0
Disbursements 6/	41.9	106.6	93.7	47.2	9.0	2.4	6.0	0.0	0.0	0.0	0.0	0.0
Amortization	36.9	131.2	164.4	41.8	91.5	187.9	59.8	31.0	29.1	28.7	28.5	28.0
Net domestic financing	136.8	-88.6	-190.2	-790.4	-196.7	31.6	38.7	53.9	40.0	86.2	83.0	82.1
Banking system	101.7	-124.6	-178.9	-803.7	-152.2	22.0	38.7	53.9	40.0	86.2	83.0	82.1
Nonbanks and other	11.4	-2.0	-14.0	8.6	-46.1	9.6	0.0	0.0	0.0	0.0	0.0	0.0
Financing arrangement on fuel purchase	23.6	38.0	0.0	4.4	6.1	6.3	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	18.3	50.5	-41.3	-94.2	0.8	-2.2	0.0	0.0	0.0	0.0	0.0	0.0
External	0.0	73.6	-35.7	-3.5	1.4	-5.9	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	0.0	61.4	-30.8	-2.3	0.0	-5.5	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.0	12.2	-4.9	-1.3	1.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	18.3	-23.2	-5.6	-90.7	-0.5	3.8	0.0	0.0	0.0	0.0	0.0	0.0
Sale/purchase of assets	12.8	8.1	9.6	24.1	34.3	12.0	10.1	10.6	11.2	11.8	12.4	13.0
Exceptional financing			204.6	578.4	29.0	7.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	-33.3	18.0	-8.2	19.5	-3.4	11.2	0.0	0.0	0.0	0.0	0.0	0.5
Memorandum items:												
Primary balance including 14 public enterprises 7/	51.7	224.9	254.7	368.2	306.8	201.2	73.8	35.9	48.5	2.6	6.9	8.0
Overall balance including 14 public enterprises 7/	-121.2	54.0	113.0	267.8	232.6	140.6	21.2	-17.6	-6.4	-53.9	-51.7	-52.7
Overall balance including 14 public enterprises and SIDF 7/ 8/	-57.6	159.2	257.6	288.7	271.8	209.1	39.3	-46.7	-25.5	-73.0	-64.1	-64.1
GDP (market prices)	1,870	1,966	1,976	2,126	2,335	2,471	2,579	2,715	2,866	3,015	3,167	3,323
Public sector debt (end of period)	2,979	2,982	2,735	2,150	1,862.3	1,674.1	1,634.3	1,622.9	1,606.9	1,596.7	1,588.7	1,596.9
Of which												
Central government	2,353	2,378	2,183	1,667	1,565	1,375	1,337	1,326	1,310	1,299	1,291	1,300
Domestic	1,641	1,555	1,426	866	788	781	797	816	829	848	868	905
External	711	823	757	801	777	594	540	509	480	452	423	395
Public enterprises	626	603	552	483	297	299	297	297	297	297	297	297

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

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

Table 3. St. Kitts and Nevis: General Government Fiscal Operations, 2010–21 1/

(in percent of GDP)

						Est.	Proj.					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total revenue	**27.6**	**33.1**	**32.8**	**38.3**	**38.4**	**35.3**	**28.6**	**26.5**	**26.3**	**24.4**	**24.3**	**24.2**
Current revenue	27.5	33.1	32.8	38.3	38.4	35.3	28.6	26.5	26.3	24.4	24.3	24.2
Tax revenue	18.3	20.8	20.3	19.9	20.6	19.9	19.3	19.4	19.5	19.5	19.6	19.6
Taxes on income	5.0	4.4	4.1	3.9	4.1	5.1	4.8	4.8	4.8	4.8	4.8	4.8
Taxes on property	0.5	0.4	0.7	0.7	0.7	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Taxes on domestic goods and consumption 2/	4.5	10.6	10.4	10.2	10.5	8.6	8.6	8.6	8.6	8.7	8.7	8.7
Taxes on international trade and transactions	8.4	5.3	5.1	5.1	5.3	5.3	5.2	5.2	5.2	5.2	5.2	5.2
Nontax revenue	9.1	12.3	12.5	18.4	17.7	15.4	9.2	7.0	6.8	4.9	4.8	4.6
o/w: Citizenship by investment (CBI) Budgetary Receipts	2.3	4.5	7.1	13.0	13.9	11.9	5.8	3.7	3.5	1.7	1.6	1.5
o/w: SIDF Investment Proceeds	0.0	0.0	1.5	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	6.9	7.8	3.8	3.7	3.8	3.5	3.4	3.4	3.3	3.2	3.2	3.1
Total expenditure and net lending	**37.9**	**34.7**	**31.4**	**33.1**	**32.0**	**31.4**	**30.7**	**29.6**	**29.0**	**28.1**	**27.6**	**27.4**
Current expenditure	30.9	30.5	27.7	26.4	26.1	24.7	24.1	23.6	23.4	22.7	22.4	22.3
Wages and salaries	12.0	11.3	11.2	11.2	11.1	10.5	11.0	10.9	10.7	10.6	10.5	10.5
Goods and services 3/	9.0	9.1	6.5	7.4	6.9	6.4	6.3	6.3	6.3	6.3	6.3	6.3
Interest	6.9	6.4	6.0	3.9	2.7	2.1	1.7	1.6	1.5	1.5	1.4	1.4
Domestic	4.7	4.7	4.0	3.3	2.0	1.5	1.2	1.2	1.2	1.2	1.2	1.2
Foreign	2.1	1.8	2.0	0.5	0.7	0.7	0.5	0.4	0.3	0.3	0.3	0.2
Transfers 4/	3.0	3.6	4.0	4.0	5.4	5.6	5.0	4.9	4.9	4.3	4.1	4.1
of which: Dividends on Land Assets 5/					0.8	1.1	1.1	1.0	0.9	0.2	0.0	0.0
Net lending	0.3	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	6.6	4.3	3.7	6.6	5.9	5.6	6.7	5.9	5.5	5.4	5.2	5.1
Current balance	**-3.4**	**2.6**	**5.1**	**11.8**	**12.3**	**10.6**	**4.5**	**2.8**	**2.9**	**1.7**	**1.9**	**1.9**
Overall balance (before grants)	-10.3	-1.6	1.4	5.2	6.4	3.9	-2.2	-3.1	-2.7	-3.6	-3.3	-3.2
Grants	2.8	3.5	3.5	6.9	3.0	1.1	2.4	1.9	1.9	1.4	1.2	1.1
o/w SIDF Grants	1.0	0.7	0.6	4.2	1.4	0.0	1.0	1.1	1.0	0.5	0.4	0.4
Overall balance (after grants)	**-7.5**	**1.9**	**4.9**	**12.1**	**9.4**	**5.1**	**0.2**	**-1.2**	**-0.8**	**-2.3**	**-2.1**	**-2.0**
Primary balance	-0.6	8.3	10.9	16.0	12.1	7.2	1.9	0.3	0.8	-0.8	-0.7	-0.6
Overall balance (ex. CBI receipts and SIDF Grants & Inv. Proceeds)	**-10.7**	**-3.4**	**-4.4**	**-6.7**	**-6.0**	**-6.9**	**-6.6**	**-6.0**	**-5.3**	**-4.4**	**-4.1**	**-4.0**
Primary balance (ex. CBI receipts and SIDF Grants & Inv. Proceeds)	-3.8	3.1	1.6	-2.8	-3.3	-4.7	-4.9	-4.4	-3.8	-2.9	-2.7	-2.6
Financing	**9.2**	**-2.8**	**-4.5**	**-13.0**	**-9.2**	**-5.5**	**-0.2**	**1.2**	**0.8**	**2.3**	**2.1**	**2.0**
Net foreign financing	0.3	-1.3	-3.6	0.3	-3.5	-7.5	-2.1	-1.1	-1.0	-1.0	-0.9	-0.8
Disbursements 6/	2.2	5.4	4.7	2.2	0.4	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Amortization	2.0	6.7	8.3	2.0	3.9	7.6	2.3	1.1	1.0	1.0	0.9	0.8
Net domestic financing	7.3	-4.5	-9.6	-37.2	-8.4	1.3	1.5	2.0	1.4	2.9	2.6	2.5
Banking system	5.4	-6.3	-9.1	-37.8	-6.5	0.9	1.5	2.0	1.4	2.9	2.6	2.5
Nonbanks and other	0.6	-0.1	-0.7	0.4	-2.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	1.0	2.6	-2.1	-4.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
External	0.0	3.7	-1.8	-0.2	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	0.0	3.1	-1.6	-0.1	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.0	0.6	-0.2	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	1.0	-1.2	-0.3	-4.3	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Sale/purchase of assets	0.7	0.4	0.5	1.1	1.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Exceptional financing	0.0	0.0	10.4	27.2	1.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	-1.8	0.9	-0.4	0.9	-0.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Primary balance including 14 public enterprises 7/	2.8	11.4	12.9	17.3	13.1	8.1	2.9	1.3	1.7	0.1	0.2	0.2
Overall balance including 14 public enterprises 7/	-6.5	2.7	5.7	12.6	10.0	5.7	0.8	-0.6	-0.2	-1.8	-1.6	-1.6
Overall balance including 14 public enterprises and SIDF 7/ 8/	-3.1	8.1	13.0	13.6	11.6	8.5	1.5	-1.7	-0.9	-2.4	-2.0	-1.9
Public sector debt (end of period)	159.3	151.7	138.4	101.1	79.8	67.8	63.4	59.8	56.1	53.0	50.2	48.0
Of which												
Central government	125.8	121.0	110.5	78.4	67.0	55.7	51.8	48.8	45.7	43.1	40.8	39.1
Domestic	87.8	79.1	72.1	40.7	33.8	31.6	30.9	30.1	28.9	28.1	27.4	27.2
External	38.0	41.9	38.3	37.7	33.3	24.1	21.0	18.8	16.8	15.0	13.4	11.9
Public enterprises	33.5	30.7	27.9	22.7	12.7	12.1	11.5	11.0	10.4	9.9	9.4	8.9

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

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

Table 4. St. Kitts and Nevis: General Government Cash Flow Schedule, 2010–21

(Millions of EC$)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Deposits, beginning of period	**216.8**	**224.7**	**302.9**	**343.4**	**547.8**	**663.1**	**626.9**	**602.4**	**568.2**	**542.6**	**475.8**	**413.9**
Gross inflows	**318.4**	**499.0**	**532.2**	**1,141.1**	**382.6**	**243.0**	**195.4**	**46.1**	**53.4**	**36.6**	**38.7**	**40.8**
Primary surplus		163.1	214.4	339.8	281.8	178.6	48.7	9.3	21.8			
Domestic borrowing	245.4	129.6	9.9	132.1	27.1	27.9	130.7	26.2	20.5	24.8	26.3	27.9
External borrowing	41.9	106.6	93.7	47.2	9.0	2.4	6.0	0.0	0.0	0.0	0.0	0.0
of which: CDB	36.5	10.6	3.7	28.2	8.7	2.0	6.0	0.0	0.0	0.0	0.0	0.0
IMF	0.0	95.7	90.5	18.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears acumulation	18.3	0.0	0.0	0.0	0.0	3.8	0.0	0.0	0.0	0.0	0.0	0.0
External arrears acumulation	0.0	73.6	0.0	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Asset sales	12.8	8.1	9.6	24.1	34.3	12.0	10.1	10.6	11.2	11.8	12.4	13.0
Exceptional financing	0.0	0	204.6	578.4	29.0	7.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (statistical discrepancy)	0.0	18.0	0.0	19.5	0.0	11.2	0.0	0.0	0.0	0.0	0.0	0.0
Gross outflows	**310.5**	**420.8**	**491.6**	**936.7**	**267.4**	**279.1**	**220.0**	**80.3**	**79.0**	**103.4**	**100.5**	**101.0**
Primary deficit	11.0									24.7	21.3	20.9
Interest	128.5	126.4	118.2	82.5	63.3	52.8	43.6	42.8	43.8	44.6	45.5	46.7
Domestic amortization	100.8	140.0	159.5	718.1	108.5	32.5	116.5	6.5	6.0	5.4	5.2	5.4
External amortization	36.9	131.2	164.4	41.8	91.5	187.9	59.8	31.0	29.1	28.7	28.5	28.0
of which: CDB	6.9	9.6	10.0	8.7	11.1	11.0	11.1	12.9	12.8	12.4	12.2	12.0
IMF	0.0	0.0	2.4	4.8	62.2	117.1	27.7	0.0	0.0	0.0	0.0	0.0
Domestic arrears clearance	0.0	23.2	5.6	90.7	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External arrears clearance	0.0	0.0	35.7	3.5	0.0	5.9	0.0	0.0	0.0	0.0	0.0	0.0
Asset purchases												
Other (statistical discrepancy)	33.3	0.0	8.2	0.0	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow -(change in deposits	**7.9**	**78.2**	**40.6**	**204.4**	**115.3**	**-36.1**	**-24.5**	**-34.2**	**-25.6**	**-66.9**	**-61.9**	**-60.2**
Deposits, end of period	**224.7**	**302.9**	**343.4**	**547.8**	**663.1**	**626.9**	**602.4**	**568.2**	**542.6**	**475.8**	**413.9**	**353.8**
Memorandum items												
Public Debt Stock	2,979	2,982	2,735	2,150	1,862	1,674	1,634	1,623	1,607	1,597	1,589	1,597
Public Debt as % of GDP	159.3	151.7	138.4	101.1	79.8	67.8	63.4	59.8	56.1	53.0	50.2	48.0
Deposits as % of GDP	12.0	15.4	17.4	25.8	28.4	25.4	23.4	20.9	18.9	15.8	13.1	10.6
GDP at Market Prices	1,870	1,966	1,976	2,126	2,335	2,471	2,579	2,715	2,866	3,015	3,167	3,323

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

Table 5. St. Kitts and Nevis: Balance of Payments, 2010–21[1/]

					Prel.	Est.	Proj.					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	(In millions of Eastern Caribbean dollars)											
Current account	**-388.7**	**-312.5**	**-193.9**	**-285.9**	**-284.0**	**-302.1**	**-423.3**	**-505.7**	**-534.3**	**-582.2**	**-575.2**	**-578.6**
Trade balance	-544.6	-510.8	-466.0	-673.5	-695.1	-650.0	-613.4	-671.3	-715.9	-740.9	-768.7	-801.6
Exports, f.o.b.	156.9	183.1	169.8	152.8	156.0	154.5	154.9	158.6	162.9	167.3	171.8	176.4
Imports f.o.b.	-701.5	-693.9	-635.8	-826.3	-851.1	-804.4	-768.3	-829.9	-878.8	-908.2	-940.5	-978.0
o/w Mineral fuel	-68.8	-101.7	-103.6	-111.7	-106.4	-57.5	-40.0	-48.1	-53.1	-57.6	-58.4	-59.2
Services and transfers (net)	155.9	198.3	272.1	387.5	411.1	347.9	190.1	165.5	181.6	158.7	193.6	222.9
Services (net)	111.2	152.7	198.0	320.5	350.1	319.9	176.2	136.6	152.2	127.7	160.7	188.1
Services (receipts)	416.1	485.2	544.1	682.4	729.1	720.0	589.5	567.3	602.4	600.1	656.9	708.8
o/w Tourism receipts	241.7	254.1	256.5	272.8	299.9	318.4	330.7	354.3	384.9	427.8	479.7	526.4
o/w Citizenship-by-investment budgetary fees	42.1	88.8	141.0	276.9	325.4	295.0	150.0	100.0	100.0	50.0	50.0	50.0
Services (payments)	-304.8	-332.5	-346.0	-361.9	-379.1	-400.1	-413.3	-430.8	-450.2	-472.5	-496.2	-520.7
Factor income (net)	-80.9	-80.2	-48.6	-54.7	-56.2	-74.6	-83.2	-85.1	-88.1	-91.1	-94.2	-97.5
Transfers (net)	125.6	125.8	122.7	121.7	117.1	102.6	97.1	114.1	117.4	122.1	127.1	132.4
Capital and financial account	**471.7**	**364.1**	**148.8**	**350.4**	**415.8**	**316.7**	**506.0**	**570.7**	**587.3**	**544.2**	**526.2**	**525.6**
Official	13.9	-5.2	4.5	51.8	19.7	-65.2	-39.0	-22.7	-20.1	-32.6	-31.7	-30.7
Capital transfers (net)	37.1	47.0	183.4	65.0	48.4	11.7	-7.4	12.6	12.6	-0.7	-0.7	-0.7
Long-term borrowing (net)	-23.2	-52.2	-179.0	-13.3	-28.6	-76.9	-31.5	-35.2	-32.7	-31.9	-31.1	-30.0
Disbursements	42.2	60.5	4.7	28.8	9.0	2.4	6.0	0.0	0.0	0.0	0.0	0.0
Amortization 2/	-56.1	-112.6	-66.1	-42.1	-37.6	-79.3	-37.6	-35.2	-32.7	-31.9	-31.1	-30.0
Debt forgiveness	0.0	0.0	-117.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private capital	457.8	369.3	144.4	298.6	396.1	381.9	544.9	593.4	607.4	576.8	557.9	556.3
Capital transfers (net)	125.4	146.1	217.5	216.6	191.2	129.4	96.9	47.1	47.1	23.5	23.5	23.5
Foreign direct investment (net)	313.9	296.0	292.6	503.0	516.2	500.7	475.6	489.9	494.8	460.2	428.0	419.4
Portfolio investment (net)	-46.6	-41.7	-19.6	-0.7	-52.7	-165.0	-132.0	-46.2	-43.9	-30.7	-30.7	-30.7
Commercial bank NFA accumulation	54.7	-75.0	-402.4	-461.2	-344.8	55.3	35.0	45.0	66.0	72.0	85.0	93.0
Other (net)	10.3	43.9	56.3	41.0	86.3	-138.5	69.4	57.6	43.4	51.9	52.1	51.1
Errors and omissions	-12.9	-16.0	-73.1	27.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**70.1**	**35.5**	**-118.1**	**92.2**	**131.8**	**14.6**	**82.7**	**65.0**	**53.0**	**-38.0**	**-49.0**	**-53.0**
Financing	**-70.1**	**-35.5**	**118.1**	**-92.2**	**-131.8**	**-14.6**	**-82.7**	**-65.0**	**-53.0**	**38.0**	**49.0**	**53.0**
Net international reserves	-88.4	-204.9	-54.3	-107.1	-73.2	102.5	-55.0	-65.0	-53.0	38.0	49.0	53.0
Change in arrears	18.3	73.6	-35.7	-3.5	1.4	-5.9	0.0	0.0	0.0	0.0	0.0	0.0
Net use of IMF resources	…	95.7	90.5	18.4	-60.0	-117.1	-27.7	0.0	0.0	0.0	0.0	0.0
Purchase		95.7	90.5	18.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchase		0.0	0.0	0.0	-60.0	-117.1	-27.7	0.0	0.0	0.0	0.0	0.0
Debt forgiveness/Exceptional financing	…	0.0	117.6	0.0	0.0	5.9	0.0	0.0	0.0	0.0	0.0	0.0
	(In percent of GDP)											
Current account	-20.8	-15.9	-9.8	-13.5	-12.2	-12.2	-16.4	-18.6	-18.6	-19.3	-18.2	-17.4
Current account, excluding CBI receipts	-23.0	-20.4	-16.9	-26.5	-26.1	-24.2	-22.2	-22.3	-22.1	-21.0	-19.7	-18.9
Exports of goods and nonfactor services	30.6	34.0	36.1	39.3	37.9	35.4	28.9	26.7	26.7	25.5	26.2	26.6
Merchandise exports	8.4	9.3	8.6	7.2	6.7	6.3	6.0	5.8	5.7	5.5	5.4	5.3
Nonfactor services 3/	22.3	24.7	27.5	32.1	31.2	29.1	22.9	20.9	21.0	19.9	20.7	21.3
o/w Tourism receipts	12.9	12.9	13.0	12.8	12.8	12.9	12.8	13.1	13.4	14.2	15.1	15.8
Imports of goods and nonfactor services	-53.8	-52.2	-49.7	-55.9	-52.7	-48.8	-45.8	-46.4	-46.4	-45.8	-45.4	-45.1
Merchandise imports	-37.5	-35.3	-32.2	-38.9	-36.5	-32.6	-29.8	-30.6	-30.7	-30.1	-29.7	-29.4
Nonfactor services	-16.3	-16.9	-17.5	-17.0	-16.2	-16.2	-16.0	-15.9	-15.7	-15.7	-15.7	-15.7
Foreign direct investment (net)	16.8	15.1	14.8	23.7	22.1	20.3	18.4	18.0	17.3	15.3	13.5	12.6
External public debt	48.1	49.8	43.3	40.8	35.7	25.9	22.4	19.9	17.6	15.6	13.8	12.2
	(Annual percentage change)											
Merchandise exports	54.4	16.7	-7.2	-10.0	2.1	-1.0	0.3	2.4	2.7	2.7	2.7	2.7
Tourism receipts	7.2	5.1	1.0	6.4	9.9	6.2	3.9	7.1	8.6	11.2	12.1	9.7
Merchandise imports	-4.0	-1.1	-8.4	30.0	3.0	-5.5	-4.5	8.0	5.9	3.3	3.6	4.0
	(In percent of exports of goods and nonfactor services)											
External public debt	157.1	146.5	120.0	103.8	94.2	73.2	77.7	74.5	66.1	61.4	52.8	45.7
External debt service	23.4	22.5	11.9	7.6	6.5	11.3	6.9	6.5	5.7	5.5	4.9	4.3
o/w Interest	8.2	5.5	2.6	2.5	2.2	2.2	1.8	1.7	1.4	1.3	1.1	0.9
o/w Principal	15.2	17.0	9.3	5.1	4.3	9.1	5.1	4.9	4.3	4.2	3.8	3.4
	(Millions of US dollar)											
ECCB imputed reserves	155.7	231.5	251.6	291.3	318.4	280.4	300.8	324.9	344.5	330.4	312.3	292.7
in months of importd of goods and services	5.0	7.3	8.3	7.9	8.4	7.5	8.2	8.3	8.4	7.8	7.0	6.3

Sources: ECCB; and Fund staff estimates and projections.

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

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

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

Table 6. St. Kitts and Nevis: Monetary Survey, 2010–17

	2010	2011	2012	2013	2014	2015	Proj. 2016	Proj. 2017
(In millions of East Caribbean dollars)								
Net foreign assets	**636.6**	**931.5**	**1388.2**	**1956.4**	**2374.5**	**2216.7**	**2236.7**	**2256.7**
ECCB imputed reserves	420.3	625.1	679.4	786.5	859.7	757.2	812.2	877.2
Crown agents	10.6	10.6	10.6	10.6	10.6	10.6	10.6	10.6
Commercial banks	205.7	295.7	698.1	1159.3	1504.2	1448.9	1413.9	1368.9
Net domestic assets	**1274.4**	**1171.6**	**958.5**	**632.1**	**580.7**	**811.3**	**892.0**	**975.6**
Net credit to the public sector	476.4	305.7	81.4	-828.4	-1188.0	-1288.9	-1259.0	-1227.9
Net credit to central government 1/	850.8	726.2	576.1	-193.1	-333.9	-362.9	-324.2	-270.3
Net credit to St. Kitts	676.6	526.4	383.0	-395.1	-508.2	-538.1	-514.5	-480.0
Net credit to Nevis	174.3	199.8	193.1	202.0	174.3	175.2	190.3	209.7
Net credit to non-financial public sector 2/	-374.5	-420.5	-494.7	-635.3	-854.1	-926.0	-934.8	-957.6
Credit to the private sector	1356.6	1406.4	1408.5	1396.4	1404.5	1449.0	1499.7	1552.2
Net other assets 3/	-558.6	-540.5	-531.4	64.2	364.1	651.3	651.3	651.3
Broad money (M2)	**1911.0**	**2103.1**	**2346.7**	**2588.5**	**2955.1**	**3028.0**	**3128.7**	**3232.3**
Money	357.3	481.0	541.7	522.0	583.0	625.3	646.4	667.6
Currency in circulation	101.1	102.0	107.6	133.1	154.6	168.3	173.9	179.7
Demand deposits 4/	256.3	379.1	434.1	388.9	428.3	457.0	472.5	488.0
Quasi-money	1553.7	1622.0	1805.0	2066.5	2372.1	2402.7	2482.3	2564.6
Savings deposits	638.4	684.8	753.3	827.9	908.9	936.6	968.3	1000.1
Time deposits	552.4	581.3	555.0	606.6	585.5	620.5	641.4	662.5
Foreign currency deposits	362.8	356.0	496.7	632.1	877.7	845.6	872.6	902.1
(Percentage change relative to broad money at beginning of period)								
Net foreign assets	1.1	15.4	21.7	24.2	16.1	-5.3	0.7	0.6
Net domestic assets	7.6	-5.4	-10.1	-13.9	-2.0	7.8	2.7	2.7
Net credit to the public sector	4.9	-8.9	-10.7	-38.8	-13.9	-3.4	1.0	1.0
Net credit to central government 1/	24.1	-6.5	-7.1	-32.8	-5.4	-1.0	1.3	1.7
Net credit to non-financial public sector 2/	-19.2	-2.4	-3.5	-6.0	-8.5	-2.4	-0.3	-0.7
Credit to the private sector	2.6	2.6	0.1	-0.5	0.3	1.5	1.7	1.7
Net other assets 3/	0.1	0.9	0.4	25.4	11.6	9.7	0.0	0.0
(Annual percentage change)								
Broad money (M2)	8.6	10.1	11.6	10.3	14.2	2.5	3.3	3.3
Money	40.0	34.6	12.6	-3.6	11.7	7.3	3.4	3.3
Currency in circulation	29.0	0.9	5.5	23.7	16.2	8.8	3.4	3.3
Demand deposits 4/	44.9	47.9	14.5	-10.4	10.1	6.7	3.4	3.3
Quasi-money	3.3	4.4	11.3	14.5	14.8	1.3	3.3	3.3
Savings deposits	0.0	7.3	10.0	9.9	9.8	3.0	3.4	3.3
Time deposits	12.5	5.2	-4.5	9.3	-3.5	6.0	3.4	3.3
Foreign currency deposits	-3.1	-1.9	39.5	27.2	38.9	-3.6	3.2	3.4
Credit to the private sector (in nominal terms)	3.5	3.7	0.2	-0.9	0.6	3.2	3.5	3.5
Credit to the private sector (in real terms)	-1.8	0.9	0.1	-1.8	1.2	6.3	3.3	2.2
Memorandum items:								
Income velocity of money	5.2	4.1	3.6	4.1	4.0	4.0	4.0	4.1
Income velocity of broad money	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Private sector credit/GDP (in percent)	72.6	71.5	71.3	65.7	60.2	58.6	58.2	57.2
Foreign currency deposits/GDP (in percent)	19.4	18.1	25.1	29.7	37.6	34.2	33.8	33.2
Central government deposits (EC$ million) 5/	224.7	302.9	343.4	547.8	663.0	627.0	588.3	534.4

Sources: ECCB; and Fund staff estimates and projections.

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

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

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

4/ Includes EC$ bank cheques.

5/ Includes central government deposits at the ECCB.

Table 7. St. Kitts and Nevis: Indicators of External and Financial Vulnerability, 2008–15

(12-month percentage change, unless otherwise stated)

	2008	2009	2010	2011	2012	2013	2014	2015
External indicators								
Merchandise exports	19.7	-45.4	54.4	16.7	-7.2	-10.0	2.1	-1.0
Merchandise imports	28.4	-13.2	-4.0	-1.1	-8.4	30.0	3.0	-5.5
Tourism earnings	-11.8	-24.1	7.2	5.1	1.0	6.4	9.9	6.2
Current account balance (percent of GDP)	-26.8	-25.7	-20.8	-15.9	-9.8	-13.5	-12.2	-12.2
Capital and financial account balance (percent of GDP)	25.8	27.7	25.2	18.5	7.5	16.5	17.8	12.8
Of which								
Foreign direct investment	24.2	18.4	16.8	15.1	14.8	23.7	22.1	20.3
Imputed net international reserves								
In millions of U.S. dollars 1/	110.3	122.9	155.7	231.5	251.6	291.3	318.4	280.4
In percent of broad money	17.8	18.9	22.0	29.7	29.0	30.4	29.1	25.0
Commercial banks' net foreign assets (millions of U. S. dollars)	166.3	102.0	76.2	109.5	258.6	429.4	557.1	536.6
External public debt (percent of GDP)	44.9	46.6	48.1	49.8	43.3	40.8	35.7	25.9
External debt service (in percent of exports of goods and services	22.4	24.3	23.4	22.5	11.9	7.6	6.5	11.3
Interest	8.2	10.6	8.2	5.5	2.6	2.5	2.2	2.2
Principal	14.2	13.7	15.2	17.0	9.3	5.1	4.3	9.1
Nominal exchange rate (E.C. dollars per U.S. dollar, end period)	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Real effective exchange rate appreciation (+), end period 2/	8.0	-3.3	3.0	-0.3	-1.9	-0.1	2.7	-3.3
Financial indicators								
Broad money	2.0	5.4	8.6	10.1	11.6	10.3	14.2	2.5
Credit to the private sector	5.9	5.5	3.5	3.7	0.2	-0.9	0.6	3.2
Nonperforming loans to total assets of banks (percent)	4.5	4.3	5.5	6.6	10.6	10.9	13.3	15.9
Provisions for loan losses/nonperforming assets (percent)	20.0	48.9	42.2	38.3	32.1	40.2	48.2	39.1
Provisions for loan losses/total loans (percent)	0.9	2.1	2.3	2.5	3.4	4.4	6.4	6.2
Gross government exposure/total assets (percent)	28.2	26.1	26.6	24.3	22.6	11.4	19.6	18.8
Total loans/total deposits (percent)	88.7	77.4	78.1	73.0	65.9	43.1	35.8	37.5
Net liquid assets/total deposits (percent)	42.5	42.9	41.6	44.2	50.4	55.3	54.6	48.9
Foreign currency deposits/total deposits (percent)	22.9	30.2	27.5	25.6	25.9	24.3	27.7	25.1
Liquid assets/total assets (percent)	39.5	43.7	41.9	44.2	47.8	52.1	53.8	50.8
Liquid assets/current liabilities (percent)	48.4	50.9	51.5	51.8	56.2	58.7	58.8	55.2
Total capital/total assets (percent) 3/ 4/	16.8	19.3	18.4	16.3	15.8	13.3	11.4	9.9
Total Capital/Risk Weighted Assets (percent) 3/ 4/	42.7	47.6	42.4	40.7	38.2	23.7	25.4	21.3
Tier 1 Capital/Risk Weighted Assets (percent) 3/ 4/	40.1	42.0	36.8	40.1	38.5	23.2	26.2	23.5
Ratio of banks' before-tax profits to average assets (percent)	4.7	2.1	1.1	1.5	0.6	0.7	0.6	0.8

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

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

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

3/ For locally incorporated banks only. Risk weights on EC$767 million in SPV shares related to the land assets have been revised downwards by the ECCB in 2014Q3.

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

Table 8. St. Kitts and Nevis: External Financing Requirement and Sources, 2013–21

	2013	2014	Est. 2015	Projections 2016	2017	2018	2019	2020	2021
Gross financing requirement	**316.8**	**242.0**	**134.1**	**152.4**	**186.4**	**189.1**	**167.5**	**155.6**	**152.4**
Current account deficit	105.9	105.2	111.9	156.8	187.3	197.9	215.6	213.0	214.3
Amortization	171.2	109.7	60.2	-24.7	-25.0	-28.4	-34.1	-39.3	-42.3
Official (public sector and central government)	15.6	13.9	29.4	13.9	13.0	12.1	11.8	11.5	11.1
Private sector (net)	155.6	95.8	30.8	-38.7	-38.0	-40.5	-45.9	-50.8	-53.4
Commercial banks	170.8	127.7	-20.5	-13.0	-16.7	-24.4	-26.7	-31.5	-34.4
Other private	-15.2	-31.9	51.3	-25.7	-21.3	-16.1	-19.2	-19.3	-18.9
Reserve accumulation (+ increase: - decrease)	39.7	27.1	-38.0	20.4	24.1	19.6	-14.1	-18.1	-19.6
Sources of financing	**309.9**	**264.2**	**175.3**	**162.7**	**186.4**	**189.1**	**167.5**	**155.6**	**152.4**
Capital grants and transfers	104.3	88.7	52.3	33.2	22.1	22.1	8.5	8.5	8.5
Foreign Direct Investment (net)	186.3	191.2	185.4	176.2	181.4	183.3	170.4	158.5	155.3
Net inflow of equity and other capital	-0.3	-19.5	-61.1	-48.9	-17.1	-16.3	-11.4	-11.4	-11.4
New borrowing	10.7	3.3	0.9	2.2	0.0	0.0	0.0	0.0	0.0
of which: public sector	10.7	3.3	0.9	2.2	0.0	0.0	0.0	0.0	0.0
Errors and omissions	10.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of arrears	-1.3	0.5	-2.2	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional external financing	**6.8**	**-22.2**	**-41.2**	**-10.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
IMF net disbursement	6.8	-22.2	-43.4	-10.3	0.0	0.0	0.0	0.0	0.0
Fund disbursement	6.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases 1/ 2/	0.0	-22.2	-43.4	-10.3	0.0	0.0	0.0	0.0	0.0
Interest due	-1.5	-1.7	-1.5	-0.5	0.0	0.0	0.0	0.0	0.0
Debt forgiveness/debt restructuring 3/	0.0	0.0	2.2	0.0	0.0	0.0	0.0	0.0	0.0

Sources: St. Kitts and Nevis authorities; Eastern Caribbean Central Bank; and Fund staff estimates and projections.
1/ Based on the Program exchange rate (US$1 = 0.625 SDR).
2/ Full repayment of outstanding obligations to the Fund expected in 2016.
3/ Includes clearance of NIA's debt service arrears through restructuring in 2015.

Annex I. Risk Assessment Matrix[1]

	Main Risks to Baseline Scenario	Likelihood	Impact	Policy Response
Country-Specific Risks	**Sharp drop in CBI inflows.** Increased competition from regional programs, high global security risks, and rising international migration pressures increase downside risks to CBI inflows to the public sector and real estate development with significant implications to macroeconomic performance.	Medium	High	Reduce reliance on CBI revenues to fund recurrent expenditure; build precautionary balances by saving the bulk of inflows; strengthen due diligence of applicants to reduce risks to financial integrity and international security; strengthen the management and governance of the accumulated CBI resources.
	Slow pace of land sales from the debt-land swap. A large stock of unsold land at the end of the 3-year dividend arrangement with the government poses risks to banks' balance sheets and profitability.	High	Medium	Pursue politically palatable options to mobilize land sales and consider extending the 3-year dividend agreement to safeguard banks' profitability until a workable solution to resolve land assets is in place.
	High banking system liquidity and limited credit opportunities. Excess liquidity associated with large public sector deposits and CBI inflows place downward pressures on profitability and may pressure banks to engage in high risk investments and/or raise concentration risks to specific sectors.	High	Medium to High	Strengthen banks' supervisory framework and establish a mechanism along the lines of a Sovereign Wealth Fund (SWF) to alleviate excess liquidity pressures on the balance sheet of domestic banks.
Regional Risks	**Persistent banking sector weaknesses in the ECCU.** Regional financial distress could spill over to domestic financial institutions. Vulnerability is heightened by the lack of deposit insurance, low capitalization of regional banks and limited fiscal space in the region to support weak institutions.	High	High	Support the regional resolution strategy by enforcing the new banking law ratified in July 2015. Strengthen contingency planning. Upgrade foreclosure legislation to accelerate NPL resolution. Implement BASEL II Framework.
	Reduced financial services by global/regional banks ("de-risking"). Loss of correspondent banking services would significantly curtail cross-border payments, trade finance, and remittances in St. Kitts and Nevis.	Medium	Medium to High	Further strengthen the risk-based supervision framework to ease AML/CFT concerns of correspondent banks. Conduct periodic risk assessments. Ensure full compliance with international standards on transparency of tax information.
	Natural disasters. The high vulnerability to natural disasters increases risks of substantial damage to infrastructure, entailing large reconstruction costs, and risk to growth and fiscal prospects.	High	High	Invest in weather-resilient infrastructure. Accumulate buffers, including by reorienting CBI inflows. Purchase disaster insurance. Increase private sector access to weather-linked insurance products.
	Disruption to the PetroCaribe arrangement. A sustained decline in oil prices can affect the sustainability of the financing arrangement, leading to the emergence of external sector vulnerabilities.	Medium	Low	Monitor financial flows and identify alternative sources of external financing. Increase energy security by investing in alternative energy technologies, including renewable energy.
	Spread of the Zika virus. Associated health concerns may lower tourist arrivals and reduce Caribbean tourism market share.	Medium	High	Enhance eradication and protection actions; put in place case-management framework; and lead a public education campaign.
Global Risks	**Structurally weak growth in key advanced and emerging economies.** Persistently weak demand and lower medium-term growth could lower tourist arrivals, trade, FDI, grants, and investor confidence.	Medium to High	Medium	Build precautionary balances by saving the bulk of CBI receipts. Increase economic diversification and step up structural reforms to boost potential growth.
	Persistently lower oil and gas prices. Adverse impact on energy exporters, like Canada and Trinidad and Tobago, could spillover to the region through trade and financial linkages.	High	High	Strengthen tourism-marketing strategy toward key source markets, including the US and the UK, that are less affected by the low oil price environment.
	Sharp growth slowdown and increased financial risks in China. Higher bankruptcies, and potential financial losses could reduce the number of Chinese applicants to the CBI program.	Low to Medium	High	Reduce reliance on CBI revenues for government spending; accumulate precautionary buffers; reduce the vulnerability to CBI through a balanced investment strategy beyond the construction sector.

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

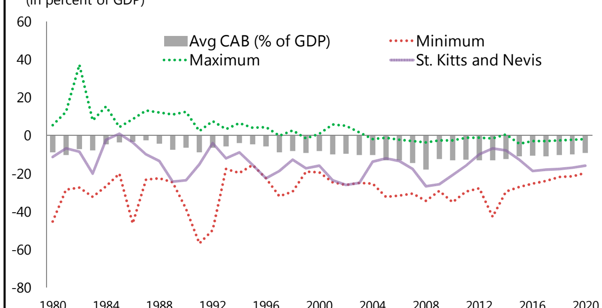
Annex II. External Stability Assessment

The external stability assessment suggests that the country is facing competitiveness challenges. An adjusted EBA-lite model suggests some overvaluation, about 4 percent in 2015. However, significant uncertainty about the true size of the current account balance—largely reflecting recently uncovered statistical shortfalls and large volatile CBI receipts to the government in recent years—calls for caution in interpreting the model results. Other indicators, including REER movements, the World Bank Doing Business Ranking, and wage-cost indicators vis-à-vis the rest of the region, confirm competitiveness challenges. Persistence of US dollar strength may increase competitiveness pressures over the medium term. In a currency union with a fixed exchange rate, enhancing competitiveness will require cost adjustments, strengthening productivity, and improving the business environment. Significant foreign currency accumulation by central government at commercial banks suggests a relatively stable reserve position notwithstanding a fall in imputed reserves at the ECCB in 2015. The projected decline in CBI inflows may put downward pressure on the medium-term international investment position.

A. Current Account and Exchange Rate Assessment

1. The current account deficit remained relatively stable at an estimated 12 percent in 2014-2015. The estimated deficit is based on published Balance of Payments (BOP) data in accordance with BPM5, augmented with staff's preliminary revisions of merchandise imports and Foreign Direct Investment (FDI) data to adjust for recently uncovered statistical shortfalls.[1] The slowdown in CBI receipts and lower foreign grants in 2015 were largely offset by cheaper imports, reflecting lower global oil and commodity prices. Tourism receipts have remained stable at around 13 percent of GDP since 2011. Over the medium term, staff estimates point to a current account deficit of around 17 percent of GDP (on a BPM5 basis), mainly reflecting a projected decline in CBI inflows. The tapering of CBI-linked investment spending is expected to moderate FDI inflows, suggesting that the deficit will be financed mainly by drawing down the significant net foreign asset position of commercial banks from the accumulation of pre-funded investment commitments through the CBI program's real estate route.[2]

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



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

[1] The data underestimate the level of foreign investment spending and related imports of capital goods and raw materials since 2013. Staff's preliminary revisions to merchandise imports over 2013-2015 used data from the US Census Bureau, Eurostat, the IMF's Direction of Trade Statistics (DOTS) and historical ECCB's BPM5 data. Further adjustments are likely as ECCU balance of payments statistics are migrated from BPM5 to BPM6.

[2] CBI application fees to the budget appear as service receipts in the current account, while contributions to the Sugar Industry Diversification Foundation (SIDF) appear in the capital and financial account as a capital transfer. FDI inflows reflect CBI-Investments in real estate sector. This is initially offset by strong accumulation of foreign assets by

2. The external stability assessment is hampered by significant shortfalls in BOP statistics. Distortions arising from inaccurate estimation of tourism receipts, including from the large student population, and significant underestimation of the volume of both merchandise imports and exports since 2013 have complicated the assessment of the current account balance. Further, the methodology for estimating FDI, based on transfer of title from the land and property registry, does not capture the significant investment spending in the construction sector by foreign developers, while CBI-related inflows of foreign currency deposits to the domestic banking system through the real-estate route also appear to be underestimated. Moreover, the reversal in commercial banks' NFA growth trend in 2015 remains unexplained.[3] The ECCB is currently reforming external sector statistics by implementing new surveys using BPM6.[4] Further technical assistance from CARTAC and IMF headquarters is currently being mobilized to address the abovementioned data gaps.

3. The sustainability of the external position will depend on the impact of revisions to the BOP data, as well as future developments in CBI inflows. CBI fees to the budget, averaging about 9.9 percent of GDP over 2011-2015, have helped narrow the size of the CA deficit. The projected decay in future CBI receipts to the budget will widen the current account deficit, while a decline in new investment commitments together with lower capital transfers to the SIDF will reduce external financing. However, provisional data from the ECCB show that tourism receipts from the offshore student population alone may be as high as 10 percent of GDP. Updating the tourism survey will further augment this figure, potentially providing much better fundamentals underpinning the current account position.[5]

Current Account Data Revision
(In Percent of GDP, 2014)

	BPM5	BPM6	Change
Antigua and Barbuda	-14.5	-1.7	12.8
Dominica	-13.1	-6.8	6.3
Grenada	-18.4	-7.8	10.6
St. Kitts and Nevis	-7.5	3.0	10.5
St. Lucia	-6.7	7.2	13.9
St. Vincent and the Grens.	-29.6	-24.6	5.0
ECCU	-14.3	-4.50	9.8

Source: ECCB data and IMF staff estimates

4. The external assessment using the available data is based on an adjusted EBA-lite methodology that incorporates some unique characteristics of St. Kitts and Nevis' economy. In general, small, tourism-dependent economies run sizable current account deficits, reflecting the high import content of FDI (compared to other economies) and repatriation of investment profits (also higher, reflecting a larger share of FDI in these economies).[6] This is true for St. Kitts and Nevis, which relies heavily on tourism activities, and, in recent years, significant CBI inflows. The surge in

commercial banks, when the CBI applicant's investment is paid. As capital investment progresses, real estate developers draw down on these balances, funding imports of construction materials and other related expenditures.

[3] The decline in domestic banks' NFA position in 2015, following significant accumulation of foreign assets since 2012 due to large CBI-related inflows to the banking system, cannot be explained through current account developments or CBI flows in 2015.

[4] Reforms to the external sector statistics for 2014 using BPM6 reflect updated tourist expenditure surveys, and wider coverage of offshore universities and their student population. The external assessment in this annex is based on the published BMP5 data since the data is not yet verified.

[5] The ECCB is expected to release BOP data using BPM6 in 2017.

[6] A dummy variable representing small tourism-dependent countries is added to the model. The following countries are considered small tourism-dependent economies: Antigua and Barbuda, Bahamas, Barbados, Belize, Cape Verde, Cyprus, Dominica, Fiji, Grenada, Jamaica, Lebanon, Maldives, Mauritius, Samoa, Seychelles, St. Kitts and Nevis, St. Lucia, St. Vincent & the Grenadines, and Vanuatu.

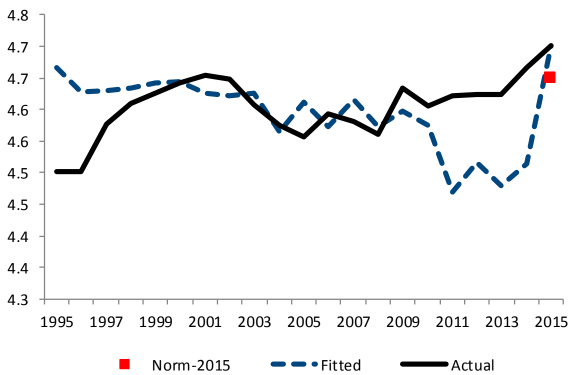
imports of construction materials and capital goods, spurred, in part, by large CBI-related investments in the real estate sector, has contributed to import growth since 2011. The EBA-lite Current Account and REER models include alternative specifications to consider these idiosyncratic elements of small tourism-dependent economies. Desirable policy variables (P*) for the current account norm have also been adjusted to reflect idiosyncratic elements relevant to St. Kitts and Nevis.[7]

Exchange Rate Assessment

		Current Account Balance					REER Gap 3/
		Norm 2/	2015 Actual	Gap	Policy Gap	Residual	
Staff estimates based on EBA-lite 4/	CA Model 1/	-9.7	-12.2	-2.5	-0.1	-2.4	**4.0**
	REER Model						**5.1**
EBA-lite	CA Model 1/	-3.6	-12.2	-8.6	2.0	-10.6	**13.6**
	REER Model						**5.3**

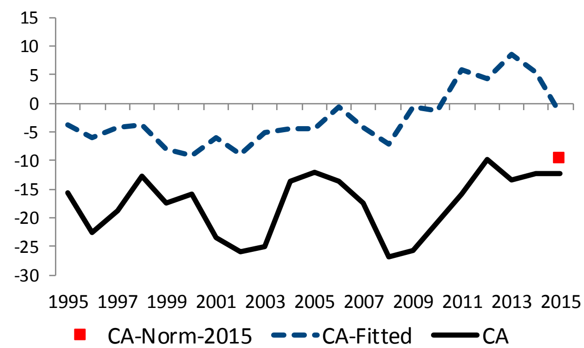
1/ Percent of GDP
2/ Norm estimate includes modest CBI inflows equivalent to 2% of GDP out to the medium term
3/ Positive number indicates overvaluation.
4/ The model modifies the standard EBA-lite specification to consider specific effects for small tourism-dependent countries.

Ln(REER): Actual, Fitted, and Norm



Source: IMF staff calculations.

Current Account Balance: Actual, Fitted, and Norm (in percent of GDP)



Source: IMF staff calculations.

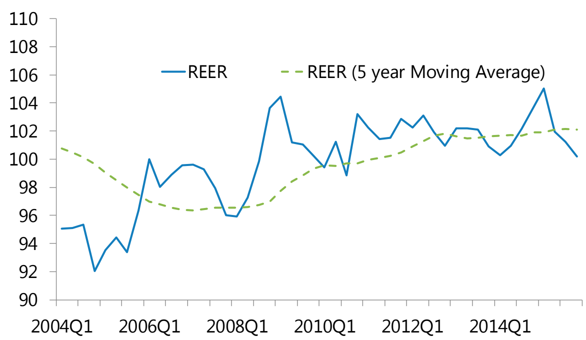
5. The adjusted EBA-lite model estimates suggest that the REER is somewhat overvalued relative to the level implied by fundamentals and desirable policies, implying a challenge for external competitiveness. Both the adjusted Current Account and REER models estimate an REER overvaluation of about 4-5 percent in 2015, explained mostly by the residual of the model in the case of the CA model, and by the policy gaps in the case of the REER model. As expected, the unadjusted Current Account model implies a larger REER gap, equivalent to 13.6 percent of GDP. However, if, as

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

projected, the large and potentially volatile CBI service receipts were to decline, the current account deficit may become significantly larger than warranted by medium-term fundamentals as of 2015.

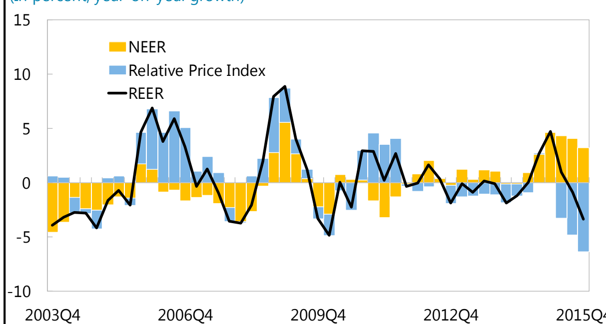
6. Analysis of the CPI-based real effective exchange rate (excluding Ukraine) confirms a marginal loss of competitiveness vis-à-vis trade partners over the past decade.[8] After a significant appreciation in the run up to the global financial crisis, the REER has remained relatively stable, with an appreciation of about 4 percent over the past 10-years. In 2015, the impact of the appreciation of the US$, to which the EC$ is pegged, on the NEER appears to be offset by a large deflationary impulse from the VAT exemptions and declining global commodity prices.

Real Effective Exchange Rate Index



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

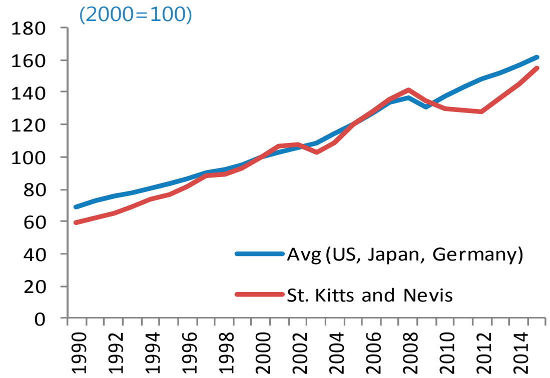
Contributors to Changes in REER 1/
(In percent, year-on-year growth)



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

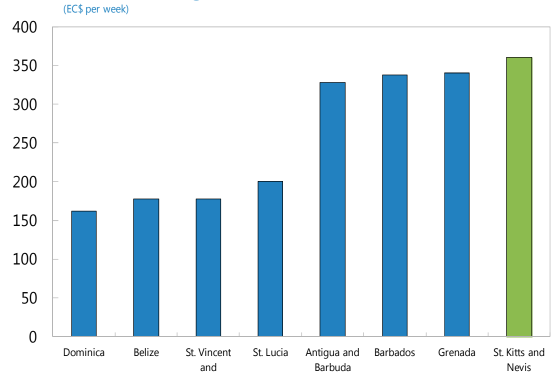
7. Labor cost indicators also signal competitiveness challenges. While labor productivity has been recovering steadily after a slowdown following the global financial crisis, labor costs may be higher than ECCU peers. The minimum wage is the highest in the ECCU region, suggesting high labor costs associated with low-skilled workers, against a background of skills gaps particularly in the service and tourism industry. The minimum wage was increased in November 2014, which restored the real minimum wage back to its 2008 level.

Labor Productivity Index
(2000=100)



Source: IMF staff calculations.

Minimum Wage in 2015 1/
(EC$ per week)



Sources: Authorities and press reports.

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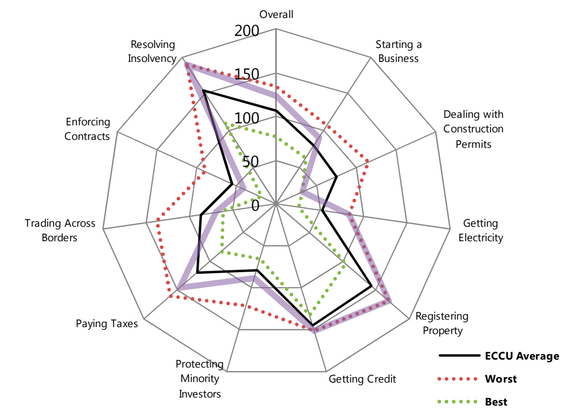
[8] The REER estimated using a country basket that includes Ukraine shows a significant appreciation because of a large depreciation of the Ukrainian Hryvnia.

8. Business climate indicators also suggest weak competitiveness with respect to other countries in the region. The World Bank Doing Business indicators suggest that St. Kitts and Nevis outperforms its ECCU peers in 'dealing with construction permits,' 'trading across borders,' and 'enforcing contracts,' but its overall ranking places the country in the 124th position (out of 189 countries), with major weaknesses in the areas of 'registering property,' 'getting credit,' 'resolving insolvency,' and 'paying taxes.' In these four areas, St. Kitts and Nevis ranks among the worst. National and regional efforts are ongoing to implement reforms that enhance the business environment, including revising foreclosure legislation, establishing a credit bureau, and reforming land registry to address weaknesses in access to credit and handling insolvency.

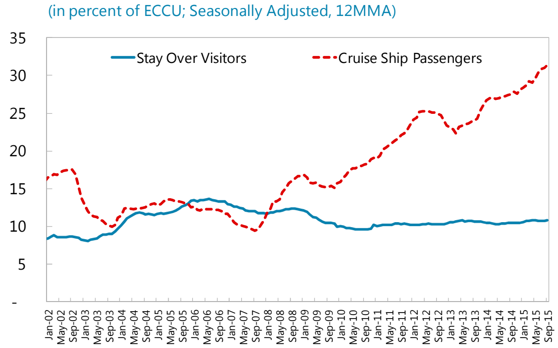
St. Kitts and Nevis and ECCU: Doing Business Ranking (2016)



Source: World Bank Doing Business Indicators, 2016.

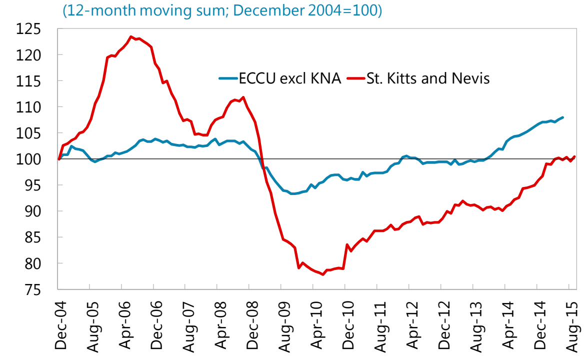
9. The growth in tourist arrivals has been driven largely by buoyant cruiseship arrivals, while the share in stay-over visitors in the ECCU region has remained stable since 2010. The number and share (in ECCU) of cruiseship passengers has increased strongly since 2008 and now accounts for almost a third of all the arrivals to the ECCU region, but cruiseship passangers contribute less to the local economy compared to stay-over visitors, which has remained relatively stable as a share of total tourism to the region in recent years. As a result, tourism receipts have remained broadly stable at around 13 percent of GDP.

Tourism: St. Kitts and Nevis vs ECCU
(in percent of ECCU; Seasonally Adjusted, 12MMA)



Sources: WEO and IMF staff estimates.

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

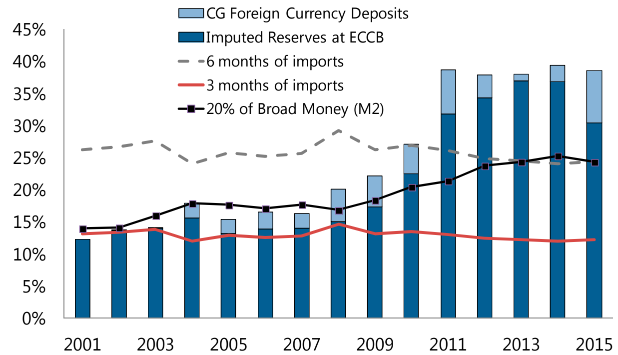


Sources: ECCB and IMF staff calculations.

C. Reserve Adequacy

10. International reserves remain well above the various metrics of reserve adequacy, providing ample buffers. As of 2015, reserve coverage is at a comfortable level based on the traditional benchmark of 3 months of imports of goods and services, as well as on a stricter threshold of 6 months, providing an adequate cushion against external shocks. Imputed reserves declined by 6 percentage points to 30 percent of GDP in 2015, mainly reflecting large external debt repayments and the central government retaining foreign currency assets outside of the ECCB reserve account, but St. Kitts and Nevis has one of the largest stocks of international reserves among the ECCU peers and other Caribbean countries. Reserve coverage, including central government foreign currency deposits, remains stable at about 39 percent of GDP, providing 150 percent coverage of outstanding external debt at end-2015. Further, the net liquid foreign currency asset position of domestic banks stood at about 30 percent of GDP at end-2015, providing strong buffers for foreign currency needs over the medium-term.[9]

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



Source: ECCB

Comparison of International Reserves Across Regions			
	In Months of Goods and Service Imports		
	2000-07	2008-09	2010-15
St. Kitts and Nevis	3.2	3.5	7.7
ECCU	2.8	2.8	4.6
Caribbean excluding ECCU 1/	2.6	3.2	4.0

Source: IMF World Economic Outlook
1/ Includes the Bahamas, Barbados, Belize, Guyana, Haiti, and Jamaica.

[9] Defined as liquid foreign currency denominated assets, excluding foreign currency loans, net of all foreign currency liabilities.

Annex III. Debt Sustainability Analysis (DSA) [1]

The debt-to-GDP ratio remains on a firm downward trajectory, in line with the 2015 Article IV projections, yet the debt position remains vulnerable to a range of risks. The ratio declined to 68 percent of GDP at end-2015 and is projected to fall below the ECCU target of 60 percent by end-2017, with the downward path supported by strong economic growth since 2013 and early retirement of debt equivalent to 6 ½ percent of GDP. Purchases under the SBA have been fully repaid as of end-April 2016, three years ahead of schedule. Notwithstanding, recent tax exemptions and higher risk to the sustainability of CBI inflows have increased risks to the currently favorable debt trajectory. If CBI receipts to the budget decay as projected, large fiscal buffers would gradually decline, absent adequate fiscal adjustment, although the debt-to-GDP ratio would still fall to a projected 50 percent by 2021 under baseline assumptions. Adverse shocks, including a sudden stop in CBI flows or a costly natural disaster, may reverse the downward debt trajectory, if fiscal buffers are rapidly depleted, although stress tests indicate that debt is likely to remain below 70 percent of GDP by 2021 under most shocks. Risks relating to the debt-land swap also constitute a significant risk for debt sustainability, in case of further delays in divesting land assets. Gross financing needs remain high, mainly owing to the large stock of T-bills, with ongoing efforts to gradually reduce the size of the portfolio and extend its average maturity.

A. Public Debt Sustainability Analysis

Medium-Term Debt Sustainability Analysis

1. **Medium-term debt sustainability is projected to improve further following the significant debt restructuring, thanks to favorable debt dynamics and ample fiscal buffers generated by the CBI program.**[2] The debt-to-GDP ratio declined to 68 percent of GDP at end-2015, compared to 80 percent at end-2014, and is projected to fall below 50 percent by 2021.[3] Although the public sector primary balance has deteriorated since 2014 because of lower grants, some slowdown in CBI inflows, and a marginally weaker tax performance, and despite the steep decline of CBI receipts incorporated in the baseline, the public sector primary surplus is projected to average about 1 percent of GDP over 2016-2021.[4] Automatic debt dynamics remain favorable at an average growth rate of 3.2 percent over the medium term—about 1.6 percentage points above the

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[1] This annex presents an analysis of debt sustainability utilizing the DSA framework for Market-Access Countries (MAC). Modifications have been made to the MAC DSA template to accommodate the large surplus position of St. Kitts and Nevis (see paragraph 3).

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

[3] Gross public debt balances have been revised to include about 2.1 percent of GDP in budgetary arrears by central government on fuel purchases from PDVSA that date back to before 2009. These remain contested by the authorities and are under negotiation, but have been conservatively included in the public debt stock. Retroactive corrections to staff's public enterprise debt figures have kept headline public debt close to former estimates.

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

effective real interest rate on public debt. Public debt, net of liquid financial assets of the public sector, is estimated at 39 percent of GDP at end-2015 and is projected to decline to 36 percent of GDP by 2021 (see figure 3).[5]

2. The public sector has accumulated significant fiscal buffers from windfall revenues through the CBI program. At end-2015, central government has accumulated liquid deposits of about 25 percent of GDP, allowing it to cover its projected financing requirements and comfortably meet its debt service obligations without contracting new debt over the forecast horizon in the baseline scenario. In addition, the Sugar Industry Diversification Foundation (SIDF), the country's national development fund, has accumulated assets equivalent to 20 percent of GDP from CBI-related flows, of which 14 percent of GDP are liquid assets in the form bank deposits and marketable securities. Public sector enterprises hold an additional 3.5 percent of GDP in bank deposits.

3. Despite large accumulated public sector savings, the scope for more rapid debt repayment is limited. Central government has already paid down all outstanding domestic loans to commercial banks and social security and settled debt with major external bilateral creditors except debt owed to PDVSA (about 7 percent of GDP, including 2.7 percent of GDP in arrears), where negotiations are still ongoing. Purchases under the SBA were fully repaid in April 2016. Bonds from the debt restructuring or external multilateral debt carry a low interest rate with long maturities, hence beneficial for long-run debt sustainability. Meanwhile, expensive overdraft debt accounts held by the Nevis Island Administration (NIA) (about 5 percent of GDP) is being restructured into a long-term loan with lower interest rate. Using central government savings to more aggressively repay the remaining debt owed by the NIA and public corporations (equivalent to 21 percent of GDP) would not be warranted, unless there is significant strengthening of fiscal discipline at NIA and sufficient central government oversight of public corporations. Debt equivalent to about 6 percent of GDP, including T-bills held by private investors and arrears to PDVSA, seems the most likely candidate for immediate repayment, and the authorities plan to move in that direction.

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

- *Fiscal Balance:* CBI budgetary revenues are assumed to decline from 11.9 percent of GDP in 2015 to 1.5 percent of GDP by 2021, contributing to the significant decline in the public sector primary surplus from 8.7 percent in 2015 to 0.5 percent of GDP by 2021.

- *Growth and Inflation:* Real economic activity moderates to about 3.5 percent over 2016-2018, before stabilizing at about 2.8 percent for the rest of the projection horizon—about 0.8 percentage point below the 10-year pre-crisis historical growth average. The drop reflects the phasing out of CBI-related investments and the impact of a subsequent slowdown in the construction sector as planned projects reach completion in 2019 and beyond. Continued

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

recovery in tourism and related sectors, as new high-end tourist facilities come on stream, partly offsets the drop. Inflation, measured by the GDP deflator, averages 1.8 percent over 2016-21.

- *Debt:* Repurchases of about 1 percent of GDP have been made since end-2015, settling all outstanding obligations to the Fund as of end-April 2016. No assumptions are made on further early retirement of debt, despite the authorities' plans to consider repaying historical budgetary arrears to PDVSA. No new debt is expected to be contracted by the central government (St. Kitts) given its ample fiscal buffers. However, the NIA is expected to finance its projected deficits through new borrowing, given its limited access to central government savings (see below). Public corporations are expected to refinance their debt position, which is expected to remain stable in nominal terms.

5. The MAC DSA template has been enhanced to more accurately reflect the impact of adverse shocks on St. Kitts and Nevis' debt trajectory in light of its significant surplus position. Given ample fiscal buffers, staff modified the design of the MAC DSA stress tests to reflect a drawdown on liquid deposits before new borrowing takes place.[6] This is consistent with staff's proposal of pooling accumulated savings in a Contingency Fund to address future shocks, including increased financing needs from a sharp decline (or sudden stops) in CBI revenues and natural disaster shocks (see ¶16 of the staff report). In implementing these modifications, the following methodology was used:

i. Only liquid deposit balances of the central government and public corporations, equivalent to about 29 percent of GDP at end-2015, are used to address additional financing needs that arise from the shocks. The liquid assets of the SIDF are conservatively excluded since its financial accounts are not yet consolidated with the rest of the public sector.[7]

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

iii. In order to reflect the need for a minimum level of fiscal buffers, new debt issuance is assumed to cover additional financing needs (in excess of baseline) once buffers fall below

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

[7] The SIDF remains a quasi-fiscal entity that, while not formally considered a statutory body, has consistently supported public sector activities, including through grants to the government and various social programs. Its liquid assets are expected to be available as a buffer in the event of severe shocks, including natural disasters. In the 2016 budget, the PM announced plans to consolidate the SIDF with the central government consolidated account. Staff proposes an overarching framework that enhances the management of the SIDF (see ¶17 and ¶18 of the staff report).

10 percent of GDP. In all shock scenarios, at least 5 percent of GDP of buffers were retained by 2021.[8]

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

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

- **An adverse shock to growth** (calibrated as 1 standard deviation of growth volatility over the past 10 years), reflecting adverse external shocks, such as to tourism and from global spillovers, lowers output growth by 4.1 percentage points relative to baseline over 2017-2018, and lowers inflation by 1 percentage point in each year. Cumulative primary deficits of about 9 percent of GDP lower fiscal buffers to 11 percent of GDP in 2020 before central government contracts new debt in 2021 in line with the 10 percent threshold assumed above (¶5, iii) Public debt rises, mainly due to lower growth, to 61.7 percent of GDP in 2021, about 14 percentage points above baseline.
- **A sustained interest rate shock** of 368 bps (difference between the average real interest rate level over the projection period and the maximum 10-year historical level) was applied—consistent with a projected 350 bps increase in US interest rates over the medium-term.[9] The shock has only marginally slowed down the rate of debt decline (by about 1 percentage point compared to baseline). This reflects rolling over short-term debt, both by central government and NIA, at higher interest rates as well as higher interest expense on new borrowing by NIA.
- **A primary balance shock** was used to simulate the impact of a sudden stop in CBI inflows. A sudden stop in 2017 shocks the primary deficit by about 3½ percentage points in 2017 and 2018 and about 1½ percentage points over 2019-2021. Under this scenario, buffers decline to 7.8 percent and the debt-to-GDP ratio rises to 53.5 percent by 2021, about 5½ percentage points above baseline.
- **A combined macro-fiscal** shock of all of the above would lead to an explosive debt trajectory. Debt rises to 74.4 percent of GDP in 2021, about 26 percentage points higher than baseline. Buffers drop to 10 percent of GDP in 2019 and decline further to a low of 5.4 percent in 2021.
- **A custom natural disaster shock,** based on historical episodes of hurricane shocks in St. Kitts and Nevis (see Annex V), lowers growth by 6 percentage points compared to baseline in 2017, but growth is assumed to quickly recover to 2 percent in 2018 including through reconstruction

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

[9] The economic projections of the Federal Reserve Board members as of December 2015 show an upper range forecast of 350 bps increase in the Federal Funds rate by 2018.

efforts. Historical shocks suggest an expected deterioration in the fiscal balance by about 5 percentage points in both 2017 and 2018. However, fiscal buffers are able to cover the bulk of the cost. Some additional borrowing in the outer years slows down the decline in the debt-to-GDP ratio, which reaches 51.8 percent in 2021, about 3.7 percent above baseline.[10,11] A second natural disaster shock of a similar magnitude materializing in 2023 would deplete buffers, raise the debt ratio by 13 percentage points over 2023-2024 and require a fiscal adjustment of about 1 percent of GDP to lower the debt back to below 60 percent of GDP by 2027.

- A custom shock was used to simulate the impact of **a debt-land swap shock,** if the swapped land were not divested within a timeframe consistent with the ECCB's regulatory guidelines. The scenario assumes swapping the land for a long-term loan with domestic banks at an interest rate of 4.5 percent (about 0.5 percent higher than the current interest rate on one-year T-bills and about 1 percentage point higher than the 3.5 percent dividend guarantee on unsold land). This shock results in a 28 percentage points upward shift in the debt ratio compared to baseline in 2017. The primary balance improves reflecting the shift of payments for dividends from transfers to interest expense, yet the effective interest rate on debt rises by an average of 0.6 percentage points over 2017-2021.[12] Given the new debt dynamics, public debt declines from a peak of 87 percent of GDP in 2017 to 73.6 percent by 2021—to about 26 percentage points above the baseline.

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

8. The heat map reflects an improved debt risk profile compared to the 2015 Article IV assessment, although it remains highly vulnerable to rollover risks. Under this modified shock design, the debt level does not trigger the heat map threshold of 70 percent under either the baseline scenario or any of the standard shock scenarios, reflecting the contribution of large fiscal buffers in stabilizing the debt position. However, the debt-land swap shock, if it materializes, would raise the debt level above the 70 percent threshold for EMs. Debt is still vulnerable because of the large annual gross financing needs given the large stock of short-term debt (mainly T-bills). Although lengthening the maturities of commercial debt instruments would materially improve debt sustainability, the significant liquidity in the domestic banking system lowers potential challenges in rolling over short-term instruments over the near-term, at least for central government. Indicators

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

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

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

show a medium level of vulnerability with respect to external debt and foreign currency denominated debt, while the fan charts show that the debt-to-GDP ratio is unlikely to rise above 80 percent over the medium term, even under the asymmetric fan chart (where only negative shocks to growth and the exchange rate are considered).

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

10. The cyclically adjusted primary balance in the forecast period reflects the assumption that CBI inflows are not expected to continue at their current pace. The estimated change in the cyclically adjusted primary surplus over the forecast period is at the lower end of the distribution of adjustments historically achieved by advanced and emerging economies with debt greater than 60 percent of GDP. This reflects the baseline assumptions of significantly lower CBI inflows, and hence, the projected decline in non-tax revenues and primary surplus over a 3-year forecast horizon.

Conclusion

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

B. External Debt Sustainability Analysis

12. The external public debt is projected to decline rapidly over the medium term to 12 percent in 2021, down from 26 percent in 2015. Amortization of restructured bonds with external commercial and projected repayment of multilateral debt, largely from the CDB, will significantly contribute to this decline. The current account deficit is projected to widen as a result of the modeled decay in CBI inflows in the baseline scenario, while imports remain elevated, in part because of continued imports of construction materials and capital goods. Drawdowns on the accumulated investment commitments from prior years, reflected in commercial banks' large net foreign asset position (and the growth in the imputed reserves at the ECCB), will finance the bulk of the current account deficits, as CBI-projects reach completion, resulting in no significant accumulation of new foreign debt. Stress tests indicate that external debt would continue to decline under interest rate, growth, real depreciation, and combined shocks. However, debt stays relatively higher under the current account shock scenario, suggesting that some external adjustment would be necessary to bring the debt path back to a downward trend under that shock.

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

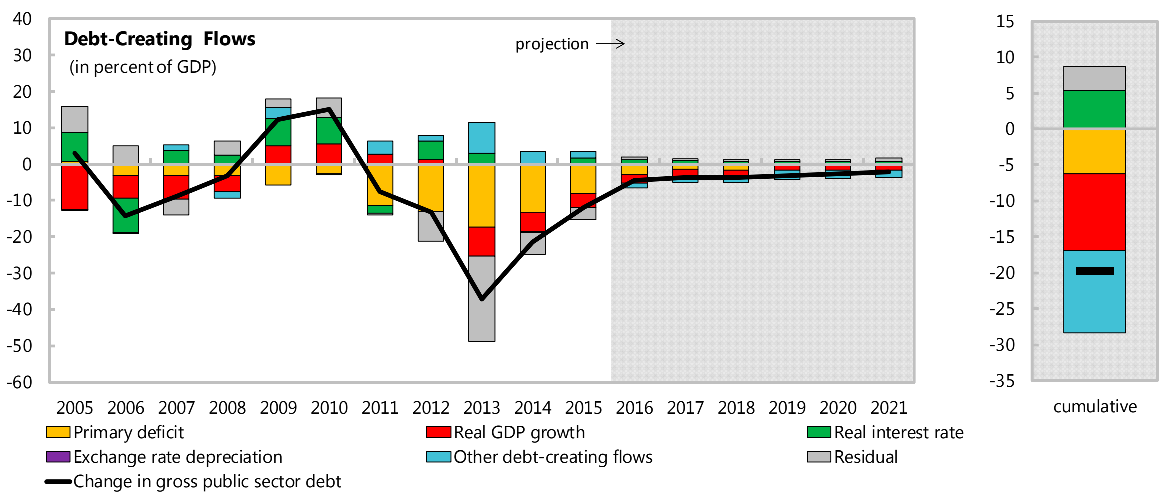
(In percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2005-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	140.4	79.8	67.8	63.4	59.8	56.1	53.0	50.2	48.0
Public gross financing needs	30.9	17.6	20.8	23.1	17.4	16.1	16.8	16.7	16.8
Net public debt	129.5	51.4	38.8	36.6	35.8	34.5	34.9	35.1	35.6
Real GDP growth (in percent)	1.9	6.1	5.0	3.5	3.5	3.4	2.9	2.8	2.8
Inflation (GDP deflator, in percent)	3.3	3.6	0.8	0.8	1.7	2.1	2.2	2.1	2.1
Nominal GDP growth (in percent)	5.3	9.8	5.8	4.4	5.3	5.6	5.2	5.0	4.9
Effective interest rate (in percent) [3/]	5.4	3.4	3.3	2.8	3.5	3.6	3.7	3.6	3.7

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [8/]
Change in gross public sector debt	-6.0	-21.4	-12.0	-4.4	-3.6	-3.7	-3.1	-2.8	-2.1	-19.7	
Identified debt-creating flows	-4.6	-15.6	-8.5	-5.2	-4.1	-4.2	-3.5	-3.2	-3.0	-23.1	
Primary deficit	-6.6	-13.1	-8.1	-2.9	-1.3	-1.7	-0.1	-0.2	-0.2	-6.3	-2.8
Primary(noninterest) revenue+grants	41.7	49.1	44.0	38.4	35.6	35.2	32.6	32.2	31.9	205.8	
Primary(noninterest) expenditure	35.1	35.9	35.8	35.5	34.3	33.5	32.6	32.0	31.7	199.6	
Automatic debt dynamics [4/]	0.3	-5.9	-1.9	-1.0	-1.2	-1.2	-0.9	-0.7	-0.6	-5.4	
Interest rate/growth differential [5/]	0.3	-5.9	-1.9	-1.0	-1.2	-1.2	-0.9	-0.7	-0.6	-5.4	
Of which: real interest rate	2.8	-0.3	1.8	1.3	1.0	0.7	0.7	0.8	0.8	5.3	
Of which: real GDP growth	-2.5	-5.6	-3.7	-2.3	-2.1	-1.9	-1.6	-1.4	-1.3	-10.7	
Exchange rate depreciation [6/]	0.0	0.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	1.7	3.5	1.6	-1.3	-1.7	-1.3	-2.6	-2.3	-2.2	-11.4	
Privatization/Drawdown of Deposits	-1.0	-1.5	-0.5	-1.3	-1.7	-1.3	-2.6	-2.3	-2.2	-11.4	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Accumulation of Bank Deposits	2.7	4.9	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [7/]	-1.4	-5.8	-3.5	0.8	0.5	0.4	0.4	0.4	0.8	3.4	



Source: IMF staff.

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

2/ Based on available data.

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

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

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

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

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

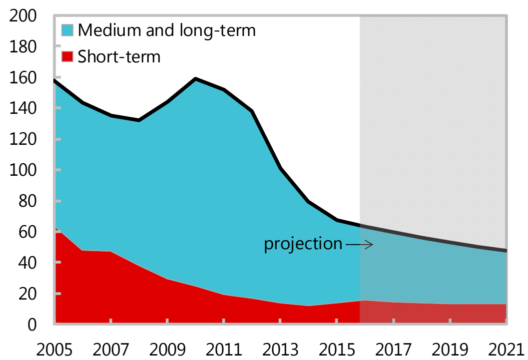
8/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

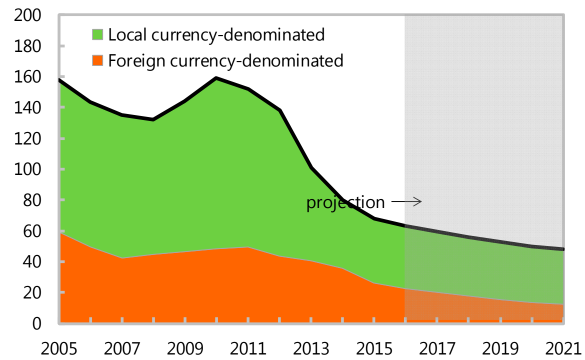
By Maturity 1/

(in percent of GDP)



By Currency

(in percent of GDP)

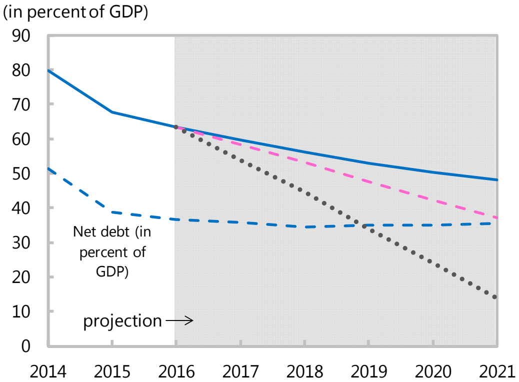


Alternative Scenarios

Baseline — Historical — Constant Primary Balance

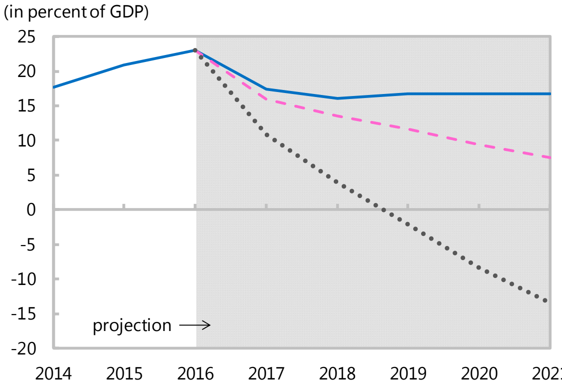
Gross Nominal Public Debt 2/

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	3.5	3.5	3.4	2.9	2.8	2.8
Inflation	0.8	1.7	2.1	2.2	2.1	2.1
Primary Balance	2.9	1.3	1.7	0.1	0.2	0.2
Effective interest rate	2.8	3.5	3.6	3.7	3.6	3.7
Liquid Buffers	26.8	23.8	21.5	18.0	15.1	12.5
Constant Primary Balance Scenario						
Real GDP growth	3.5	3.5	3.4	2.9	2.8	2.8
Inflation	0.8	1.7	2.1	2.2	2.1	2.1
Primary Balance	2.9	2.9	2.9	2.9	2.9	2.9
Effective interest rate	2.8	3.6	3.8	4.0	4.3	4.5

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth 3/	3.5	2.0	2.0	2.0	2.0	2.0
Inflation	0.8	1.7	2.1	2.2	2.1	2.1
Primary Balance 3/	2.9	8.1	8.1	8.1	8.1	8.1
Effective interest rate	2.8	3.6	4.1	4.8	5.9	7.4

Source: IMF staff.

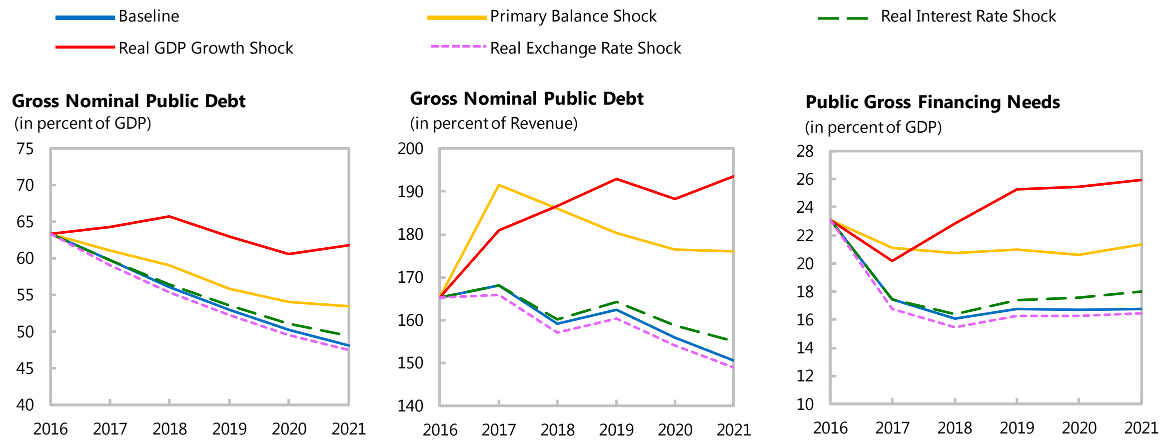
1/ The stock of short term debt falls over 2012-2013 as a result of restructuing of bank overdrafts.

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

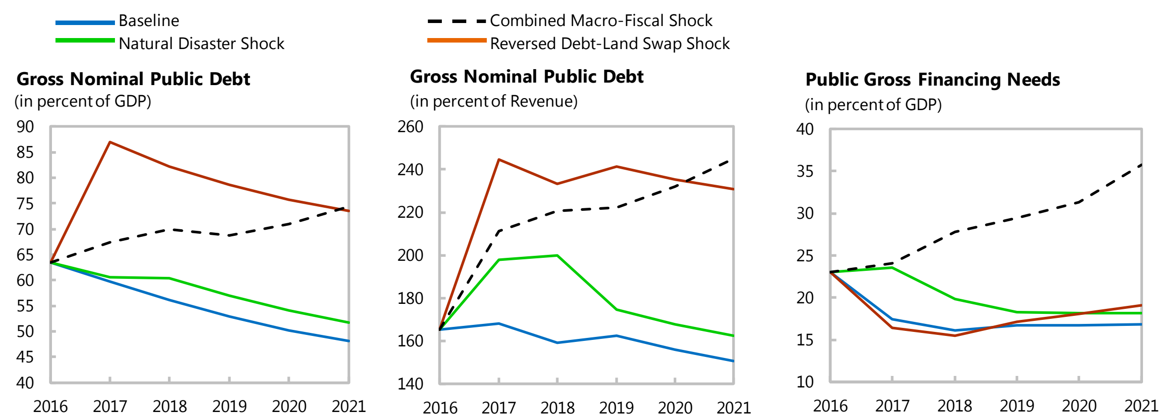
3/ 2016 is the current projection and 2017-2021 is the ten-year average for 2006-2015.

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

Macro-Fiscal Stress Tests [1/]



Additional Stress Tests [1/]



Underlying Assumptions

(in percent)

	2016	2017	2018	2019	2020	2021
Primary Balance Shock						
Real GDP growth	3.5	3.5	3.4	2.9	2.8	2.8
Inflation	0.8	1.7	2.1	2.2	2.1	2.1
Primary balance	2.9	-2.4	-1.8	-1.6	-1.4	-1.3
Effective interest rate	2.8	3.6	3.6	3.6	3.8	3.8
Liquid Buffers	26.8	21.8	17.9	13.2	10.1	7.8
Real Interest Rate Shock						
Real GDP growth	3.5	3.5	3.4	2.9	2.8	2.8
Inflation	0.8	1.7	2.1	2.2	2.1	2.1
Primary balance	26.8	1.3	1.7	0.1	0.2	0.2
Effective interest rate	2.8	3.6	4.2	4.4	4.6	4.7
Liquid Buffers	26.8	23.8	21.5	18.0	15.1	12.5
Combined Shock						
Real GDP growth	3.5	-0.5	-0.7	2.9	2.8	2.8
Inflation	0.8	0.7	1.1	2.2	2.1	2.1
Primary balance	2.9	-4.2	-5.4	-5.1	-4.8	-4.7
Effective interest rate	2.8	3.6	4.1	4.1	4.3	4.4
Liquid Buffers	26.8	22.1	16.7	10.4	7.7	5.4

	2016	2017	2018	2019	2020	2021
Real GDP Growth Shock						
Real GDP growth	3.5	-0.5	-0.7	2.9	2.8	2.8
Inflation	0.8	0.7	1.1	2.2	2.1	2.1
Primary balance	0.0	-0.1	-0.4	-0.7	-0.6	-3.2
Effective interest rate	2.8	3.6	3.6	3.6	3.7	3.7
Liquid Buffers	26.8	25.0	22.4	16.2	10.7	8.2
Reversed Debt-Land Swap Shock						
Real GDP growth	3.5	3.5	3.4	2.9	2.8	2.8
Inflation	0.8	1.7	2.1	2.2	2.1	2.1
Primary balance	2.9	2.3	2.6	0.3	0.2	0.2
Effective interest rate	2.8	3.9	4.2	4.2	4.3	4.3
Liquid Buffers	26.8	23.8	21.5	18.0	15.1	12.5
Natural Disaster Shock						
Real GDP growth	3.5	-2.5	2.0	2.9	2.8	2.8
Inflation	0.8	1.7	2.1	2.2	2.1	2.1
Primary balance	2.9	-3.7	-3.3	0.1	0.2	0.2
Effective interest rate	2.8	3.6	3.8	3.8	3.9	3.9
Liquid Buffers	26.8	17.7	13.8	10.7	8.1	5.7

Source: IMF staff.

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

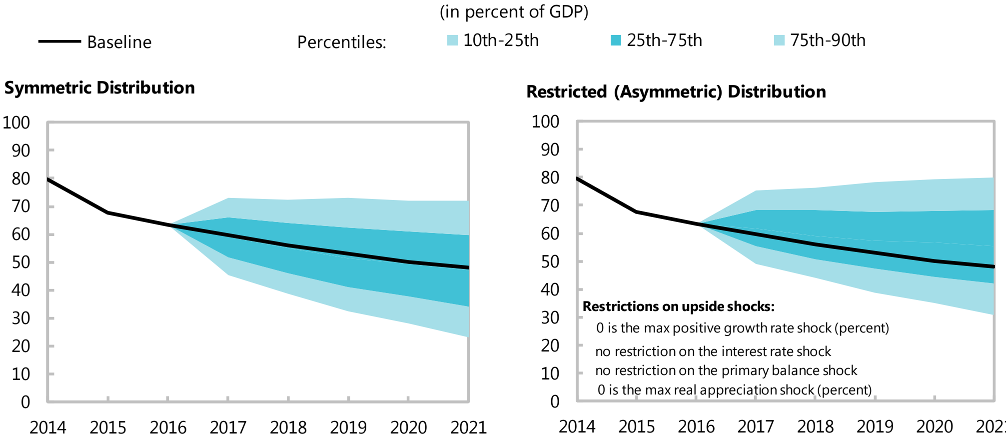
Figure 4. St. Kitts and Nevis: Public Debt Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

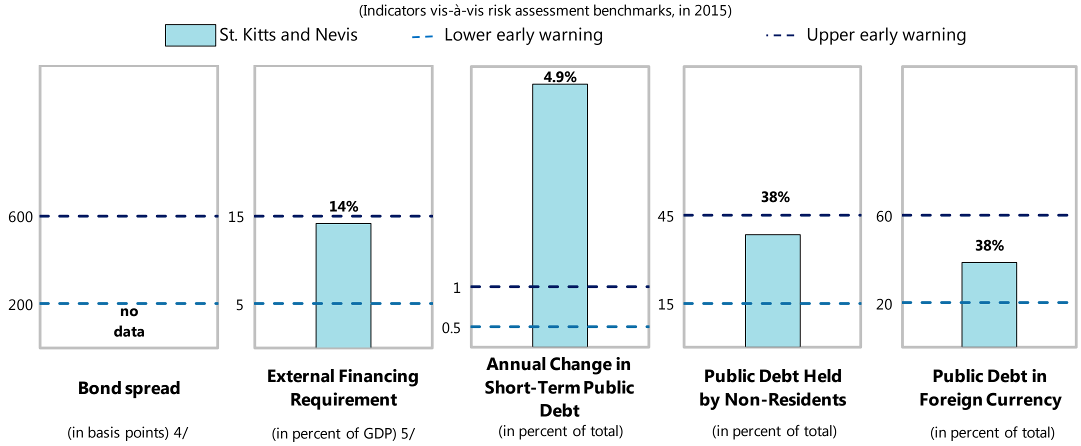
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)



Source: IMF staff.

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

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

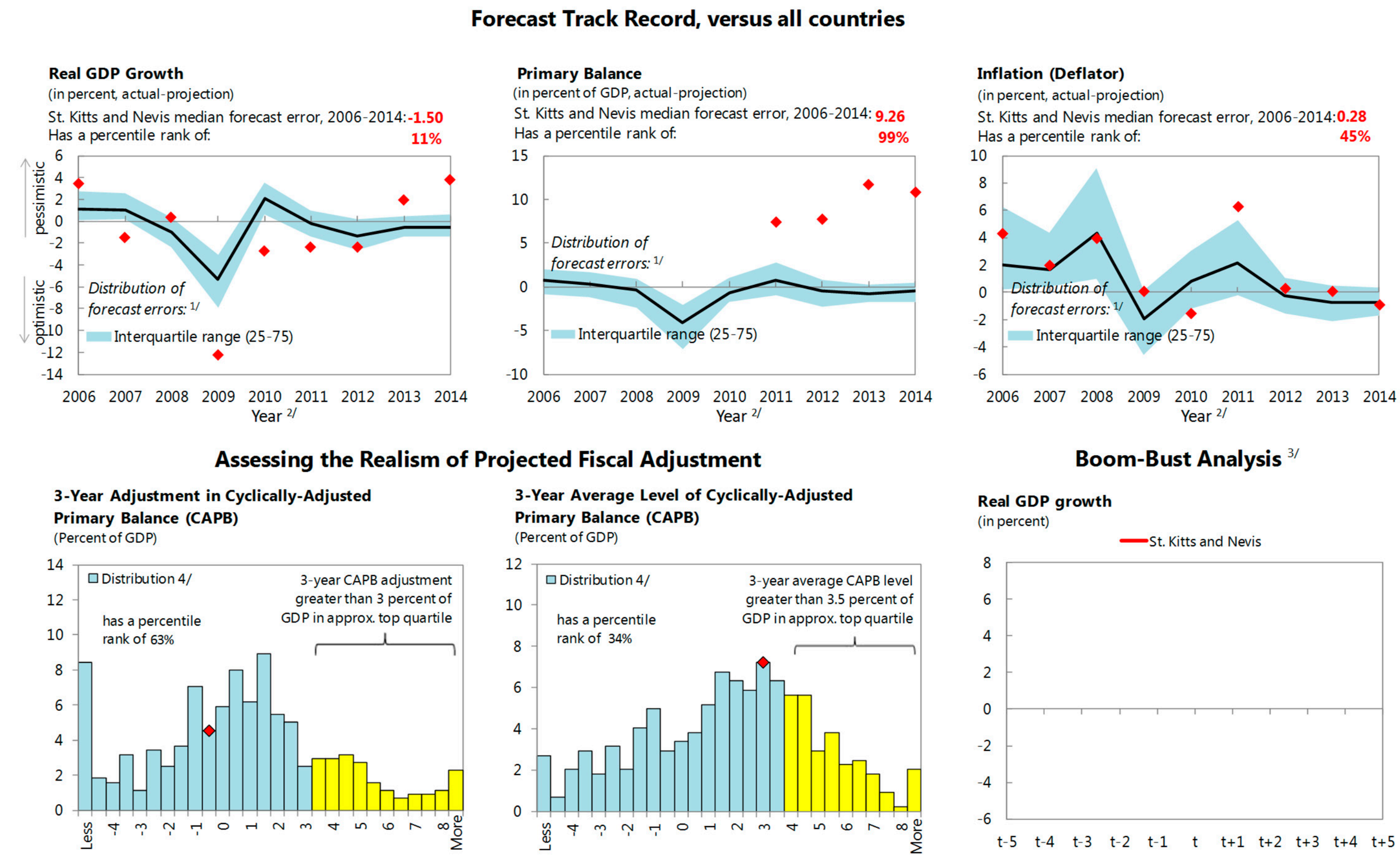
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

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

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

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



Source : IMF Staff.

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

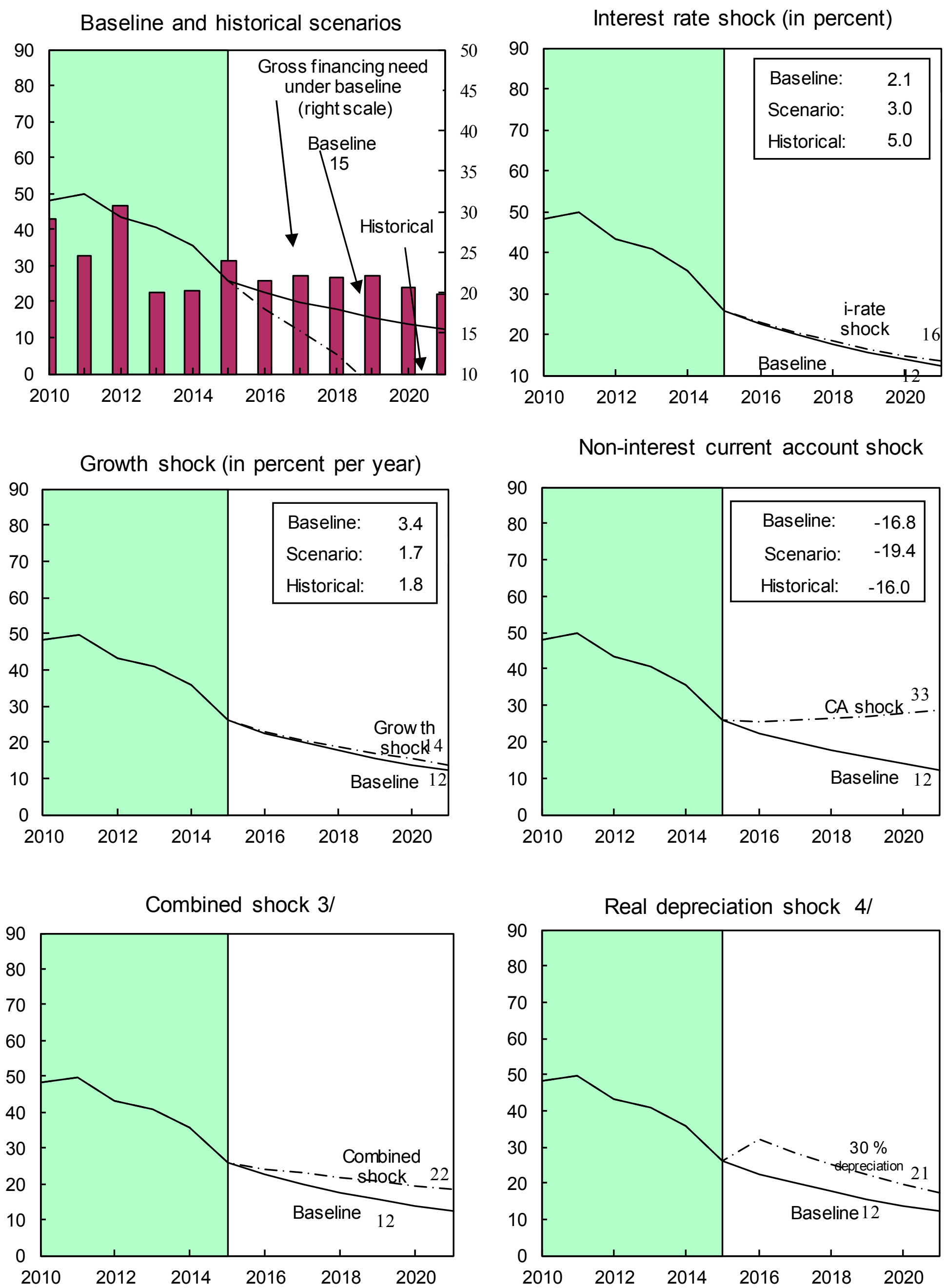
2/ Projections made in the spring WEO vintage of the preceding year. St Kitts and Nevis does not have historic WEO forecasts for either primary balance or expenditure/revenues/interest expenditure between 2005 and 2010, as a result the forecast errors are not available.

3/ Not applicable for St. Kitts and Nevis as there has not been a 3-year positive output gap.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis. Realism assessment conducted over forecasts from 2014.

Figure 6. St. Kitts and Nevis: External Debt Sustainability: Bound Tests[1/ 2/]

(External debt in percent of GDP)



Sources: International Monetary Fund, St. Kitts and Nevis authorities, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance in 2016.
4/ One-time real depreciation of 30 percent occurs in 2016.

Table 1. St. Kitts and Nevis: External Debt Sustainability Framework, 2009–21

(In percent of GDP, unless otherwise indicated)

	Actual									Projections						
	2009	2010	2011	2012	2013	2014	2015	10-Year Historical Average	10-Year Standard Deviation	2016	2017	2018	2019	2020	2021	**Debt-stabilizing non-interest current account** 6/
Baseline: External debt	46.6	48.1	49.8	43.3	40.8	35.7	25.9			**22.4**	**19.9**	**17.6**	**15.6**	**13.8**	**12.2**	**-12.0**
Change in external debt	1.7	1.5	1.7	-6.5	-2.6	-5.1	-9.8			-3.5	-2.5	-2.3	-2.0	-1.8	-1.6	
Identified external debt-creating flows	10.5	7.6	0.6	-4.3	-13.2	-11.3	-3.0			2.2	1.5	2.3	4.6	5.2	5.3	
Current account deficit, excluding interest payments	22.9	18.1	13.8	8.2	13.0	11.3	11.4			15.9	18.2	18.3	19.0	17.8	17.1	
Deficit in balance of goods and services	27.6	23.2	18.2	13.6	16.6	14.8	13.4			17.0	19.7	19.7	20.3	19.2	18.5	
Exports	24.9	30.6	34.0	36.1	39.3	37.9	35.4			28.9	26.7	26.7	25.5	26.2	26.6	
Imports	52.5	53.8	52.2	49.7	55.9	52.7	48.8			45.8	46.4	46.4	45.8	45.4	45.1	
Net non-debt creating capital inflows (negative)	-16.9	-14.3	-12.9	-13.8	-23.6	-19.8	-13.6			-13.3	-16.3	-15.7	-14.2	-12.5	-11.7	
Automatic debt dynamics 1/	4.4	3.8	-0.3	1.4	-2.6	-2.7	-0.9			-0.4	-0.3	-0.3	-0.1	-0.1	-0.1	
Contribution from nominal interest rate	2.8	2.7	2.1	1.7	0.5	0.9	0.8			0.5	0.4	0.4	0.4	0.3	0.3	
Contribution from real GDP growth	1.8	1.8	0.9	0.4	-2.5	-2.3	-1.7			-0.9	-0.8	-0.6	-0.5	-0.4	-0.4	
Contribution from price and exchange rate changes 2/	-0.1	-0.7	-3.2	-0.7	-0.5	-1.4	-0.3			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets 3/	-8.8	-6.1	1.1	-2.2	10.6	6.3	-6.7			-5.7	-4.0	-4.5	-6.6	-7.0	-7.0	
External debt-to-exports ratio (in percent)	187.1	157.1	146.5	120.0	103.8	94.2	73.2			77.7	74.5	66.1	61.4	52.8	45.7	
Gross external financing need (in millions of US dollars) 4/	236.1	201.2	178.6	224.9	156.7	174.3	218.3			205.6	222.7	230.9	247.1	242.9	242.8	
in percent of GDP	33.3	29.1	24.5	30.7	19.9	20.2	23.9			21.5	22.1	21.8	22.1	20.7	19.7	
Scenario with key variables at their historical averages 5/										**17.9**	**11.7**	**5.1**	**-3.5**	**-12.4**	**-21.3**	**-18.3**
Key Macroeconomic Assumptions Underlying Baseline																
Real GDP growth (in percent)	-3.8	-3.8	-1.9	-0.9	6.2	6.1	5.0	1.8	4.0	3.5	3.5	3.4	2.9	2.8	2.8	
GDP deflator in US dollars (change in percent)	0.3	1.6	7.2	1.4	1.3	3.6	0.8	3.8	3.5	0.8	1.7	2.1	2.2	2.1	2.1	
Nominal external interest rate (in percent)	6.0	5.6	4.5	3.3	1.2	2.4	2.3	5.0	2.1	2.1	2.0	2.0	2.1	2.2	2.2	
Growth of exports (G&S, US dollar terms, in percent) 7/	-25.0	20.2	16.6	6.8	17.0	6.0	-1.2	4.7	12.8	-14.9	-2.5	5.4	0.3	8.0	6.8	
Growth of imports (G&S, US dollar terms, in percent)	-13.5	0.1	2.0	-4.3	21.0	3.5	-2.1	7.8	12.3	-1.9	6.7	5.4	3.9	4.1	4.3	
Current account balance, excluding interest payments	-22.9	-18.1	-13.8	-8.2	-13.0	-11.3	-11.4	-16.0	5.9	-15.9	-18.2	-18.3	-19.0	-17.8	-17.1	
Net non-debt creating capital inflows	16.9	14.3	12.9	13.8	23.6	19.8	13.6	18.5	5.0	13.3	16.3	15.7	14.2	12.5	11.7	

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

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ Residual reflects CBI-related capital transfers to the Sugar Industry Diversification Foundationand changes in commercial banks' net foreign assets and International reserves.

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

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

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

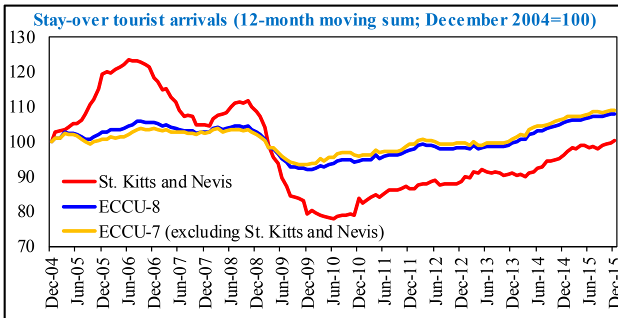
7/ Includes CBI receipts.

Annex IV. Tourism Sector in St. Kitts and Nevis

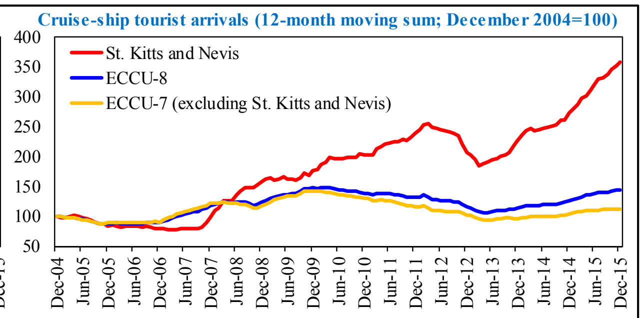
Tourism is an important contributor to employment and economic growth in St. Kitts and Nevis. It plays a role in the development of less well-developed and rural areas in the country and in promoting the image and perception of the country externally. This annex provides an analysis of the tourism sector in the country, presents measures of tourism performance, assesses tourism competitiveness of the country in the region, and discusses the challenges facing the sector and opportunities for further development.

A. Measuring Tourism Performance and Impact

1. Tourist arrivals are still recovering from the sharp decline during the global financial crisis. Notwithstanding the upward trend, stay-over tourist arrivals have not returned to the peak levels before the crisis and suffered more compared to the ECCU average, suggesting increased competition from other destinations in the region. Cruise-ship tourist arrivals, on the other hand, have grown almost four-fold since 2007, and have been over performing the ECCU average. The strong rise in cruise-ship arrivals underpinned an improved performance in tourism activity in 2015.

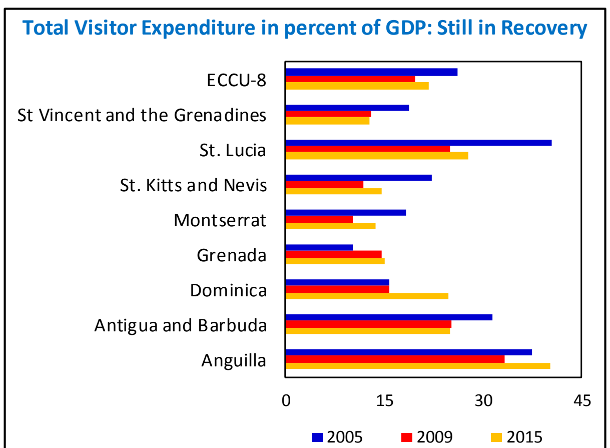


Source: ECCB and Fund staff calculations.



Source: ECCB and Fund staff calculations.

2. Despite the strong growth in cruise-ship tourist arrivals, total visitor expenditure in percent of GDP is still below its peak in 2005 and the current ECCU average. The slow recovery in total visitor expenditure may reflect the smaller contribution of overall spending by cruise-ship passengers, compared with stay-over tourists. The slow recovery may also reflect the increased contribution of other sectors to economic activity—including the construction sector, which has grown rapidly since 2013 owing to CBI-related investments—although this cannot fully explain the relative underperformance compared to other ECCU countries. Dominica, for example, experienced strong growth in total expenditure despite diversification toward the construction sector with the CBI-related investments.



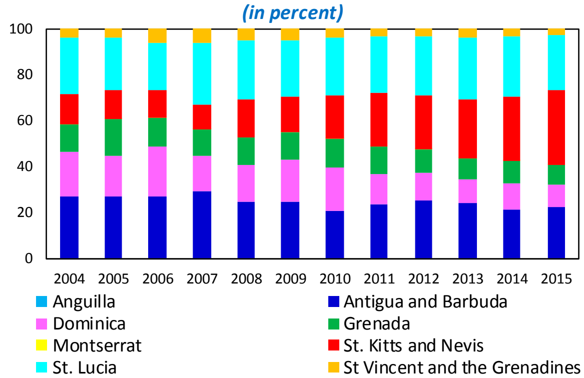
Source: ECCB and IMF staff calculations.

B. Tourism Competitiveness and Challenges

3. St. Kitts and Nevis has been an attractive destination for cruise-ship tourists in the past few years. Ranked as the top destination in the ECCU region in 2014-2015, it hosted, on average, 30 percent of all cruise-ship tourists visiting one of the ECCU member countries, up from around 10 percent in 2007. New investment decisions in St. Kitts and Nevis are also supporting cruise-ship tourism. A new pier project, which will be able to host larger cruise ships, is expected to be completed by October 2017, after which tourist arrivals are expected to grow even faster.

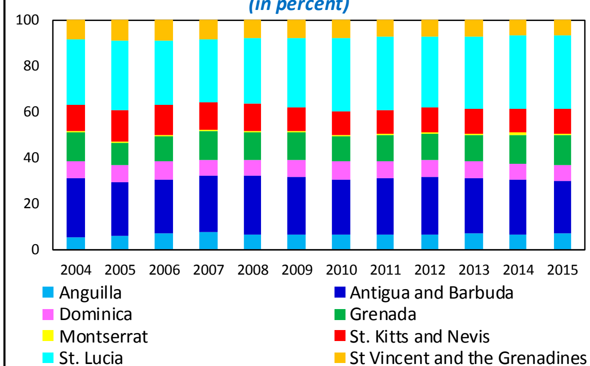
4. At the same time, St. Kitts and Nevis is ranked as the fourth country receiving the highest number of stay-over tourists in the ECCU region. Its share has been stagnant around 11 percent over the 2004-2015 period, after reaching a maximum of 13 percent in 2005. The shares suggest that St. Kitts and Nevis has been a relatively less attractive destination for stay-over tourists, compared to other countries in the region, suggesting a need to take steps toward improving its stay-over tourism competitiveness.

Share of Cruise-ship Tourist Arrivals in the ECCU
(in percent)



Source: ECCB and IMF staff calculations.

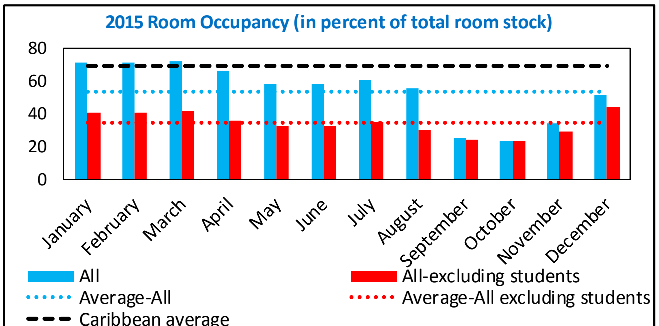
Share of Stay-over Tourist Arrivals in the ECCU
(in percent)



Source: ECCB and IMF staff calculations.

5. Two widely-used measures for assessing stay-over tourism competitiveness, hotel room capacity and hotel room occupancy rate, suggest competitiveness challenges. The room-occupancy rate, estimated based on monthly data on the number and segments of tourist arrivals and data on current hotel room stock (see Box 1), appears to be below the Caribbean average, and would fall to half the regional average if the long-staying student population is excluded from the calculations. Moreover, the bulk of the existing room stock belongs to 3-star hotels, which attract middle-income families and youth, as opposed to the target group of high-income

2015 Room Occupancy (in percent of total room stock)



Source : Statistics Department of Ministry of Sustainable Development, Ministry of Tourism, St. Kitts and Nevis; Caribbean Tourism Review 2015, Caribbean Tourism Organization; and IMF staff estimates.
Note : Caribbean average for room occupancy reflects the statistics in 2014.

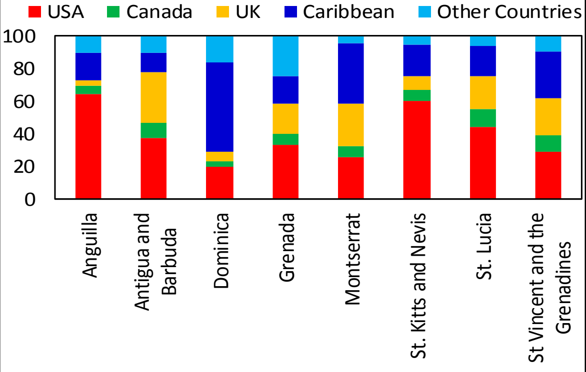
and higher-age families[1] but the cost of stay in these hotels is high for the group that they attract.[2] The current room stock is expected to increase by about 1000 in the next three years and some of the new room stock will belong to high-end, 5-star properties that could attract higher-income tourists. Hotel occupancy rates are expected to remain low until the existing hotels are renovated and service is improved to attract high-income tourists, or the cost of stay is reduced to attract more middle-income tourists.

Airport Exit Survey Data: Demographics and Expenditure

	2014 Average	2015 Average	Change
Average age of visitors	48	48	0
Annual income of visitors(USD)	$142,550	$143,150	0.42%
Per-person, per-day spending (USD)	$173	$223	28.90%
Length of Stay (days)	7.25	6.5	-10.34%
Average per-person spending during stay(USD)	$1,260	$1,461	15.94%

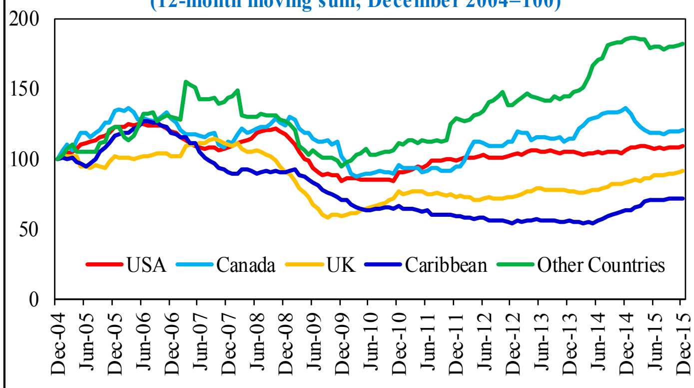
Source: St. Kitts Tourism Office and IMF staff calculations.
Note: Per-person, per day spending excludes hotel costs and airfare.

Main Source Markets of 2015 Stay-over Tourist Arrivals
(in percent)



Source: ECCB and IMF Staff Calculations

Stay-over Tourist Arrivals by Main Source Market
(12-month moving sum; December 2004=100)



Source: ECCB and Fund staff calculations.

Box 1. Estimating Room Occupancy Rate

Monthly room occupancy rate is the ratio of purchased hotel nights per month to total available hotel nights (total room stock times 30). Purchased hotel nights in a month are calculated based on the length of stay times the number of stay-over arrivals in each category of arrivals. Stay-over tourist arrival statistics reflect the number of air arrivals and exclude sea arrivals, which are mostly cruise-ship tourists. The room stock of St. Kitts and Nevis was 2932 in 2015. Some of these rooms were occupied by students of the offshore universities in the islands and the estimations show both including and excluding the student population staying at hotels.

Regular tourists are assumed to stay 7 nights with two people occupying one hotel room; business tourists are assumed to stay 5 nights, one person occupying one hotel room; arrivals in “other” category are assumed to stay 3 nights. For students, January arrival numbers are used to calculate the number of hotel nights for the period of January-April, and May arrival numbers are used to calculate number of hotel nights over the period of May-August; students are assumed to stay 30 nights a month during this period, two students occupying one bedroom. For the rest of the year, students are treated as normal tourists, staying 7 nights a month.

[1] A typical stay-over tourist visiting St. Kitts and Nevis is middle-age, earns higher than middle-income, stays around 7 days, and spends around US$1,500 excluding hotel costs and airfare for the entire stay in the islands (text table).

[2] In addition to the hotel room charges, the cost of food served in these hotels are also very high, given the high service charges and imported ingredients typically used in their production.

6. **Airlift has also been a constraint on the tourism sector in St. Kitts and Nevis.** There are only two daily international airlines, one flying from the Caribbean region and the other from the United States. Flights from other destinations are only once or twice a week, typically arriving in St. Kitts on Saturday or Sunday, and hence cannot accommodate a long-weekend trip. In an effort to increase the airlift to the country, the authorities have supported minimum revenue guarantee arrangements with certain airlines. The expected increase in hotel room capacity in high-end properties is likely to trigger higher demand for business class seats, reducing the pressure to support the airlift for minimum revenue, as well as to increase the number of private jet flights to the islands.

7. **Its highly concentrated tourist base increases the exposure of St. Kitts and Nevis to shocks from source countries, as well as to potential competition from new entrants.** The United States has been the main source market for some time, with more than 60 percent of the stay-over tourists visiting from the United States. The U.S. share in stay-over tourist arrivals has been stagnant over the past few years, however, and may be exposed to potential competition from new entrants, such as Cuba following the beginning of a gradual normalization of relations between the United States and Cuba. Continued increase in the share of arrivals from other source markets, such as the United Kingdom, the Caribbean, Canada, and other countries, may help reduce the vulnerability to adverse economic developments in the dominant source country, as well as to the impact of competition from new entrants on its tourism demand.

C. Opportunities for Further Development

8. **A targeted marketing strategy toward high-income earners in source markets is important, given the large stock of higher-end tourist facilities coming on stream in the next three years.** Focusing on a specific market niche would help differentiation of the St. Kitts and Nevis tourism brand and maintain the country's market share in the region. Yachting, diving, and golf are three main niche markets that the tourism authorities currently focus on. At the same time, given that the bulk of the existing room stock belongs to 3-star hotels, the tourism strategy also needs to target middle-income families and youth to maintain the occupancy rates in existing properties.

9. **Meanwhile, increasing backward linkages from the tourism sector would help maximize the spillovers from future expansion in the tourism sector.** Efforts could include fostering initiatives to promote local farm produce to hotels and substitute imports that can be produced locally. Investment in human resource development and soft-skills training is also a priority to meet the needs of high-end tourist facilities.

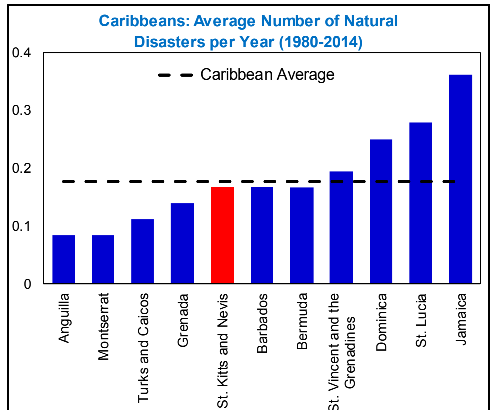
10. **The authorities will also need to address the new challenges on the tourism sector, including the possible spread of the Zika virus and potential competition from Cuba.** While the average age of tourists typically visiting St. Kitts and Nevis is above child-bearing age, for which Zika virus is a great threat, efforts are needed to prevent exposure to the virus to limit any downside risks to tourism flows. While competition from Cuba has been an ongoing challenge for St. Kitts and Nevis for visitors from non-US source markets, the anticipated normalization of relationships between Cuba and the United States is expected to introduce new competition for U.S. visitors—the largest source market for St. Kitts and Nevis. Efforts to focus on strategic market niches, such as eco-tourism, culture and heritage, and effective marketing strategies for high-end resorts could help attract tourists who are looking for both niche markets and luxury.

Annex V. Natural Disasters in St. Kitts and Nevis

Around 42 million human lives are lost in internationally reported disasters each year. Global average annual loss due to investment requirements in urban infrastructure is estimated to reach up to US$450 billion in the next 15 years.[1] These global figures, however, do not reflect an evenly distributed disaster risk around the world. Small island developing states have disproportionately high disaster risk relative to the size of their economies and capital stock. As a small island state, St. Kitts and Nevis faces very high potential losses associated with natural disasters. Maintaining an adequate level of fiscal buffers is crucial for the resilience of the economy and for fiscal sustainability in the aftermath of a disaster, as well as effective efforts for risk reduction and transfer.

A. Frequency of Disasters and Magnitude of Damages

1. **St. Kitts and Nevis has a very high exposure to various natural disasters such as hurricanes, floods, droughts and earthquakes.** Tropical hurricane is the most frequent type of natural disaster in the country, causing significant damage to public infrastructure and private property. According to the National Emergency Management Agency (NEMA), St. Kitts and Nevis experienced seven named tropical hurricanes with severe damages in the past 36 years (1980–2015). On average, the country suffers a tropical hurricane disaster every 5.14 years—or 0.167 disasters per year (slightly lower than the Caribbean average), with the most recent hurricane causing severe damages recorded in 2010. A tropical hurricane has an estimated 18 percent probability of hitting the country over a one-year horizon, 62 percent over a five-year horizon, and 86 percent over a ten-year horizon.

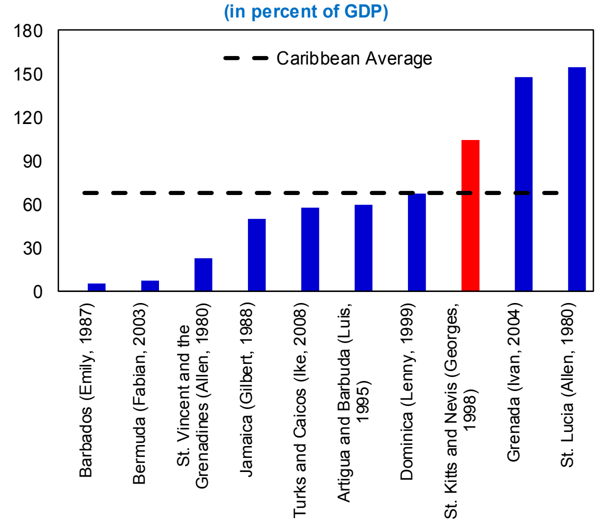


Sources: EM-DAT International Disaster Database; National Emergency Management Agency, St. Kitts and Nevis; and IMF staff estimates.
Note: Storms that categorized as disasters are presented and other type of disasters are excluded. Each bar presents the total number of storm disasters in respective country over total number of years between 1980 and 2015.

2. **Damage and losses related to natural disasters have been disproportionately high in St. Kitts and Nevis relative to the size of its economy.** Tropical hurricane Georges that hit the country in 1998 destroyed 80 percent of the housing stock and caused significant damage to the power infrastructure. The estimated total damage during this hurricane was more than 50 percent higher than the average total damage experienced in the most severe disaster episodes of the Caribbean region. Annual hurricane disaster cost is estimated to average at 4.6 percent of GDP over 1980-2015, with 40 percent of the damage borne by the public sector.

[1] UNISDR, Global Assessment Report on Disaster Risk Reduction, 2015.

Caribbeans: Largest Natural Disaster Damages
(in percent of GDP)



Sources: EM-DAT International Disaster Database; National Emergency Management Agency, St. Kitts and Nevis; and IMF staff estimates.
Note: Each bar presents the largest tropical hurricane damage in percent of GDP in respective country. Caribbean average presents the average damage of the tropical hurricanes listed in this figure.

Natural Disasters in St. Kitts and Nevis (1980-2015)

Hurricane/Tropical Storm	Damage in percent of GDP		
	Total	Private Sector	Public Sector
Hugo (Sept. 1989)	23.12	5.16	17.96
Luis (Sept.1995)	24.94	9.75	15.19
Georges (Sept. 1998)	104.71	78.35	26.35
Jose (Oct. 1999)	0.97	0.19	0.78
Lenny (Nov. 1999)	10.77	0.91	9.86
Omar (Oct. 2008)	0.86	0.08	0.79
Earl (Aug. 2010)	0.42	0.03	0.39
Average	*23.68*	*13.50*	*10.19*
Annual Average	*4.61*	*2.62*	*1.98*

Source: National Emergency Management Agency, St. Kitts and Nevis.

B. Mitigating Economic Impacts of Disasters

3. **Reducing the cost of natural disasters requires a comprehensive risk management framework.** A key component of managing disaster risk is *risk reduction,* including adaptive measures, such as revising and enforcing building codes for public and private properties, building disaster-resilient infrastructure, and protecting agricultural production and residents with new technologies. Efforts in disaster risk management continue in these areas, but additional work is needed to close infrastructure gaps (e.g., for slope stabilization, resilience to storm surge and road erosions). For extreme droughts and flooding, St. Kitts and Nevis has recently joined a program funded by United States Agency for International Development to implement climate-smart technologies, including a master drainage plan and installation of four flood-monitoring stations that would provide early warning and data analysis. By providing more data on disaster risk, these new technologies could also help development of the insurance market, which has very limited coverage.

4. **As a country facing disasters with low frequency but high expected losses, St. Kitts and Nevis would also benefit from *risk-transfer* strategies that help internationalize some of the losses through global financial markets**. Mandatory property insurance, currently only required for those with mortgages, is one form of risk transfer that could reduce the burden that the public sector typically bears in a small island economy after a natural disaster. Among the three main types of risk transferring mechanisms widely used in the world—reinsurance, catastrophe insurance, and catastrophe bonds—re-insurance is widely used in St. Kitts and Nevis for risk transfer.[2] The country

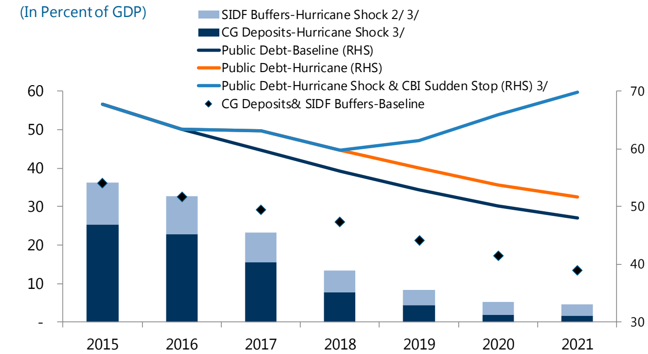
[2] Lloyds of London, Munich RE (German), Hannover RE (via Bermuda), SWISS Re, Royal Sun Alliance, AIG Europe Ltd, AMLIN AG (Switzerland via Bermuda) are some of the re-insurers operating in the country.

also participates in the Caribbean Catastrophic Risk Insurance Facility (CCRIF) and it received a payout of US$1,055,408 in November 2014, under the excess rainfall insurance policy. In addition to the existing catastrophe insurance and reinsurance practices, insurance products such as regional catastrophe bonds and weather-linked insurance could further enhance and strengthen the resilience in the financial sector and the economy and reduce the fiscal burden of costly natural disasters.

With the average payouts from current risk transfer mechanisms largely insufficient to cover potential fiscal costs, *self-insurance* through policy buffers is needed. Historically, around 40 percent of natural disaster costs were borne by the public sector in St. Kitts and Nevis. However, actual impact of disasters on the public sector can be larger than the direct damage on public properties, as public finances are also hit by lower current and future tax revenues following the decline in economic activity, and subsequently by increased government spending to fund reconstruction efforts. Analysis of the fiscal balance, net of grants, following seven hurricanes between 1980 and 2015 reveals an average cumulative fiscal balance of about 10 percent of GDP over two years, including the year of the hurricane and the following year. With its accumulated fiscal buffers, the country seems capable of withstanding a severe natural disaster shock without a reversal in the downward debt trajectory, although debt-to-GDP ratio would be 4 percentage points higher than the baseline (as a result of the lower growth rate) and fiscal buffers would drop to about 6 percent of GDP by 2021, absent a fiscal adjustment. A combined shock featuring both a natural disaster and a sudden stop in CBI inflows in 2017 would completely deplete fiscal buffers by 2020 and would result in a debt-to-GDP ratio of 70 percent by 2021—about 22 percentage points above baseline projections. Ensuring continued accumulation of buffers would facilitate resilient public financing and allow fiscal policy to respond proactively should a disaster materialize. Launching the Growth and Resilience Fund will be instrumental to internalizing the expected cost of natural disasters and institutionalizing efforts to build resilience.

Fiscal Buffers and Public Debt under Baseline and a Natural Disaster Shock [1/]

(In Percent of GDP)



1/ Assumes a natural disaster shock in 2017. Based on seven historical episodes, the fiscal balance deteriorates by 5.1 percentage points in 2017 and 2018, respectively. Growth falls by 5.5 percentage points compared to baseline in 2017 but quickly recovers to 2 percent in 2018 on the back of reconstruction efforts. About 4 percent of GDP in additional spending by the SIDF, above baseline, for disaster relief and public assistance is assumed over 2017-2019.

2/Based on unaudited preliminary accounts of the SIDF at end-2014, excluding illiquid assets and loans to the public sector.

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

Sources: ECCB, SIDF, Authorities and IMF staff estimates.

INTERNATIONAL MONETARY FUND

ST. KITTS AND NEVIS

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 23, 2016

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

CONTENTS

FUND RELATIONS

(As of May 31, 2016)

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

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

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	8.50	100.00
Holdings	4.73	55.67

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Jul 27, 2011	Jul 26, 2014	52.51	47.37

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

	Forthcoming				
	2016	2017	2018	2019	2020
Principal	0.00	0.00	0.00	0.00	0.00
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

[1/] Reflects payment of the quota increase on May 26, 2016, in line with the 14th General Quota Review in 2010. Quota size before the increase was SDR 8.9 million.
[2/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not Applicable

Implementation of MDRI Assistance: Not Applicable

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Exchange Arrangement

St. Kitts and Nevis is a member of the Eastern Caribbean Central Bank (ECCB), which manages monetary policy and the exchange system for its eight members. The common currency, the Eastern Caribbean dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. The *de jure* regime is a currency board, which in practice the ECCB has operated like a quasi-currency board, maintaining foreign exchange backing of its currency and demand liabilities close to 100 percent. St. Kitts and Nevis accepted the obligations of Article VIII, Sections 2, 3, and 4 in December 1984. The exchange system is free of restrictions on the making of payments and transfers for current international transactions.

Safeguards Assessment

Under the Fund's safeguards assessment policy, the Eastern Caribbean Central Bank (ECCB) is subject to a full safeguards assessment on a four year cycle. An update assessment was completed in April 2016 and found that the ECCB has maintained generally strong controls over its key operations. External audit and financial reporting practices remain sound. The ECCB financial statements are compliant with International Financial Reporting Standards and are published on a timely basis. The internal audit function needs to be reformed to align it with leading international practices and oversight could be further strengthened by enhancing the financial expertise of the audit committee.

Last Article IV Consultation

The last Article IV staff report (IMF Country Report No. 15/248) was published on September 04, 2015. Board discussion took place on August 31, 2015. Article IV consultations take place on a 12-month cycle.

FSAP Participation, ROSCs, and OFC Assessment

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

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

Technical Assistance: (2010–Present)

Since 2010, St. Kitts and Nevis has benefited from technical assistance in the areas of tax policy, tax administration, economic statistics, financial supervision and macroeconomic management, both from IMF headquarters and the Caribbean Regional Technical Assistance Centre (CARTAC).

- CARTAC and the IMF's Statistics Department (STA) advised the National Statistics Office on rebasing the national accounts, rebasing the consumer price index, and developing export-import price indices. CARTAC is also assisting in compiling separate production-based measures of GDP for St. Kitts and Nevis. Further, CARTAC is providing technical assistance to the ECCB and the National Statistics Office to improve the quality of external sector statistics and to introduce the new survey instruments in line with the sixth edition of the Balance of Payments and International Investment Statistics Manual (BPM6).
- CARTAC, the IMF's Monetary and Capital Markets Department (MCM), and the IMF's Legal Department (LEG) advised the authorities on strengthening financial sector regulation and supervision, including risk-based supervision. With assistance from the Office of the Superintendent of Financial Institutions in Canada (OSFI), CARTAC provided technical assistance to the ECCB on drafting the OECS Insurance Act, and also, in conjunction with LEG, provided technical assistance to the ECCB in finalizing the drafting of the OECS Money Services business Act. CARTAC also assisted in the development of the Single Regulatory Unit and provided training to the Financial Services Regulatory Commission (FSRC) on implementing Risk-Based Supervision, including for nonbank financial institutions in the Federation and the offshore banking sector in Nevis.
- CARTAC has delivered significant TA to the Customs and Excise Department (CED) in relation to its reform and modernization program, including Post-Clearance Audit (PCA), Valuation and Risk Management training and developing a Corporate and Strategic Business Plan (2014-17). CARTAC also provided assistance in drafting a new Customs bill and regulations and training for the implementation of the OECS Harmonized System for goods classification.
- CARTAC and MCM provided technical assistance on public debt management under the Fund-supported program.
- IMF's Fiscal Affairs Department (FAD) and the World Bank provided assistance on Public Financial Management under the SEMCAR project. A follow-up mission from FAD visited the Federation in February 2016 to review progress with previous FAD recommendations and provide advice on remaining challenges for modernizing tax and customs administration.

- IMF's Fiscal Affairs Department (FAD) is currently providing assistance for the comprehensive review of the tax incentives regime. An FAD scoping mission took place in March 2016 to review the main laws granting tax concessions and identify the next steps for developing an incentive regime that would be appropriate for the circumstances of St. Kitts and Nevis.
- CARTAC, FAD and LEG provided assistance to improve cash management and tax administration—including collection enforcement. CARTAC also provided assistance in Property Tax reform to move the property tax base from rental value to market value, and in improving central government fiscal and debt data.
- A capacity building exercise was conducted to train new officers in the preparation of fiscal and debt projections.

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

RELATIONS WITH THE WORLD BANK GROUP

(As of May 2016)

World Bank Group OECS Regional Partnership Strategy: On November 13, 2014, the Board of the Executive Directors of the World Bank Group has endorsed the new OECS Regional Partnership Strategy (RPS) which will cover the period FY15-19. The high-level objective of the new RPS is to contribute to lay the foundations for sustainable inclusive growth, in line with the OECS governments' priorities. In order to achieve this goal, the program is planned to be organized around three main areas of engagement. Under the first one, the WBG is planning to support "competitiveness". Growth and job creation in the private sector will be supported both horizontally – by improving the business environment– and vertically – by focusing on specific sectors with a high potential to generate inclusive sustainable growth (particularly tourism, agribusiness and their respective linkages). The second area of engagement is "public sector modernization", with particular focus on public financial management (PFM) and institutional capacity, including for statistics and public private partnerships (PPPs), to better leverage private investment in infrastructure and service provision. The third area is "resilience", with the objective to address both social vulnerabilities (in education, health and social protection), and exposure to natural disasters. Constrained by the small size of investments in the OECS, the IFC and MIGA will contribute to the RPS objectives through selective investment support, depending on opportunities. The IFC will focus on crisis response; job creation and inclusive growth; innovation, competitiveness, and integration; and climate change. MIGA faces limited opportunities for engagement because of the small market size of the OECS countries.

The RPS is grounded in a holistic approach to tackling the long-standing issues of low growth and debt sustainability in the Caribbean: the Comprehensive Debt Framework, developed in 2010 by the Bank at the request of the Heads of Government of CARICOM countries. Structured around four pillars, the Comprehensive Debt Framework (CDF) is designed to address the interdependent structural causes of high debt and low growth in small island states by (i) promoting private-sector led growth, (ii) strengthening fiscal management, (iii) building resilience to natural disasters, and (iv) improving debt management. Governments of the OECS recognize the multifaceted nature of the challenges they face and understand that improvements in competitiveness, reduction in sovereign debt levels, fiscal adjustments to ensure macro sustainability, and enhanced sustainability and resilience to shocks are interrelated aspects that are critical to resume and sustain inclusive growth. As a result, they have used the CDF to frame their own reform strategies and activities.

The indicative IBRD lending program for the six OECS countries is expected to be around US$120 million, or up to a maximum of US$20 million for each OECS country for the period of the RPS (FY15-19), subject to country and program performance, IBRD's lending capacity, and exposure management parameters. In addition to the IBRD envelope, four OECS countries (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines) can also count on an IDA national allocation. The IDA17 (FY15-17) allocation for the OECS is equal to SDR61.3 million, an increase of around

22 percent over the IDA16 OECS allocation (SDR50.3 million). With regard to St. Kitts and Nevis, as the country is not eligible to IDA resources (similarly to Antigua and Barbuda), it has available an indicative amount of US$ 20 million IBRD resources for the period covered by the RPS (FY15-19).

A. Projects

St. Kitts and Nevis, because of its income status, is not eligible for IDA resources. Its indicative IBRD allocation for the period covered by the RPS FY15-19 is US$20 million. As of today, there are no active lending operations in St. Kitts and Nevis.

The most recent WBG engagement has been limited to the implementation of a grant which had the objective of enhancing Public Sector Governance and Efficiency. This operation (US$ 415,000) closed in October 2015 and was financed by a grant from the Institutional Development Fund (IDF), a World Bank's financing tool to enhance the delivery and implementation of programs that will lead ultimately to better development results. The objective of this project was to increase the quality of expenditures and public sector efficiency and promote a fiscally sustainable and more equitable system of pay and employment which generates the right incentives to improve public sector performance in St. Kitts and Nevis. This was done through building capacity at the Ministry of Finance by working with government teams to: (i) implement measures to rapidly increase the efficiency of personnel expenditures; (ii) align human resource needs and staffing in St. Kitts and Nevis public service through the implementation of recommendations of functional reviews; and (iii) introduce pay classification and evaluations.

The government of St. Kitts and Nevis launched its national chapter of the Caribbean Growth Forum (CGF) in February 2013. The CGF is an initiative led by the World Bank, the Inter-American Development Bank, and the Caribbean Development Bank, in collaboration with the United Kingdom Agency for International Development (DFID) and the Canadian Department of Foreign Affairs, to identify policies and initiatives aimed at inducing growth and creating jobs in the Caribbean region through analytical work, knowledge exchange and inclusive dialogue. The CGF can contribute to an enhanced and participatory policy dialogue (involving the private sector, CSOs, and other non-traditional stakeholders, such as youth and Diaspora) on key challenges that affect economic growth, in a situation where fiscal space is limited and the need to promote a more diversified knowledge-based economy is pressing. The CGF national chapters have been launched in 12 Caribbean countries, including all the six OECS countries.

B. Economic and Sector Work

The Bank has completed a series of analytical products relating to public expenditure, fiscal and debt sustainability, growth and competitiveness, the financial sector, public sector management and social protection. The ongoing dissemination of these reports represents a key instrument for policy dialogue with the OECS governments, including St. Kitts and Nevis. The Bank's program in St. Kitts and Nevis is further supported by a comprehensive series of analytical and advisory activities, including the following: "Towards a New Agenda for Growth" – OECS growth and competitiveness study (2005); An OECS Skills Enhancement Policy Note (2006); a Caribbean Air

Transport Report (2006); a regional study on Crime, Violence, and Development: Trends, Costs, and Policy Options in the Caribbean (2007); an OECS Private Sector Financing Study (2008); the OECS Tourism Backward Linkages Study (2008); the report titled "Caribbean – Accelerating Trade Integration: Policy Options for Sustained Growth, Job Creation and Poverty Reduction" (2009); a study on the Nurse Labor & Education Markets in the English-Speaking CARICOM: Issues and Options for Reform (2009); and Caribbean Regional Electricity Supply Options: Toward Greater Security, Renewable and Resilience (2011). A number of recent analytical works have also been disseminated in the context of the Caribbean Growth Forum. A number of knowledge products have also been disseminated more recently, including "Driving tourism in the Eastern Caribbean: The case for a regional Ferry"; "Trade matters: new opportunities for the Caribbean"; "Linking farmers and agro-processors to the tourism industry in the OECS"; and the "OECS Growth report".

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK

(As of May 2016)

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

In December, 2012, CDB approved a new assistance strategy for St. Kitts and Nevis for the period 2013-16. The strategy focuses on establishing an enabling environment for sustained inclusive growth and poverty reduction and strengthening resilience by securing social stability and improving environmental sustainability. The indicative list of interventions contained in the assistance strategy was expected to result in a lending program of up to US$42.7mn over the strategy period. At the end of 2015, CDB had approved loans totaling US$177.8mn to St. Kitts and Nevis, of which US$2.4mn were undisbursed.

The Nevis Water Supply Enhancement is the only major project currently under implementation. The project aims to assist in improving the water supply network capacity on the island of Nevis. Under the project, approximately 20 kilometers of pipelines, two pumping stations and storage capacity of 1.0 million gallons will be constructed. The project also provides for capacity building and strengthening institutional arrangements for the delivery of water services.

The 2015 reporting period saw continued progress, although completion of the overall project will be delayed. The installation of tanks and pumping stations is 95% completed. However only 57% of the pipe network (parallel funded by NIA) has been completed, due to local capacity issues. This will delay completion of the project by three years. Disbursement totaled $6.2mn, approximately 74% of the loan amount of $8.4mn. Based on the amounts outstanding on existing contracts and projected activities, the project will be completed approximately $1.3mn below budget. The savings will be spent on additional reservoirs and pipe network. In addition, a tariff study is to be carried out.

Three other projects were previously in the pipeline in 2013. (i) The Sixth Student loan was terminated by the borrower, the St. Kitts-Nevis-Anguilla National Bank, and all monies owing to CDB were repaid; (ii) the works funded by the Immediate Response Loan for Tropical Storm Otto were completed under budget and the balance of the loan was cancelled; (iii) the Second Power Project for Nevis which included the installation of a generator of 2.5mw, ancillary switchgear and an operations facility was cancelled.

In 2015 CDB's Board approved support for Technical and Vocational Education and Training (TVET). A TVET enhancement project was appraised by CDB staff, and approved in December

2015. CDB will lend US$8mn to improve the TVET learning environment, enhance institutional capacity, provide support for TVET Secretariat programming, and develop operational guidelines to support PEP training. Disbursement is expected to start in late 2016.

Major Project under Implementation
(In millions of U.S. Dollars)

Project	Approved	Undisbursed
Nevis Water Supply Enhancement	8.425	2.231

Loan Disbursement, Service and Resource Flow
(In millions of U.S. dollars)

	2011	2012	2013	2014	2015
Net Disbursement	-2.31	-5.48	4.34	-5.25	-6.28
Disbursement	4.37	1.28	18.98	3.31	0.75
Amortization	6.69	6.76	14.64	8.56	7.03
Interest and Charges	3.57	3.32	3.15	3.23	2.84
Net resource flow	-5.89	-8.80	1.18	-8.48	-9.12

Source: Caribbean Development Bank.

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is **broadly adequate** for surveillance.
National Accounts: Methodological deficiencies are present in the real sector statistics. GDP figures rely on the production approach, both in constant and current prices. Limited survey data hinder the assessments of value-added for each sector with some sectors suffering from significant weaknesses in estimation methodology. On the expenditure of GDP, which is available only at current prices, the aggregate final private consumption expenditure is derived as a residual. This residual includes households and NPISH final consumption expenditures, and changes in inventories. Weaknesses are observed in the methods to estimate gross capital formation. GDP figures are derived from the production approach in constant and current prices. There are significant delays in completing data collection and processing of the annual NA. Staffing constraints in the compiling agency may compromise the development of new statistics, the quality improvement of the existing ones, and the intended improvements of timeliness. No quarterly GDP is available. Monthly data on tourism is disseminated by the ECCB with a significant lag.
Price Statistics: CPI only covers St. Kitts but not Nevis although the information is available. Monthly CPI data are posted on the ECCB website with a long lag, and a break in the series in November 2010 suggests a methodological problem in the linking process with the previous base. The ECCB disseminate monthly data on tourism also with a long lag, and the estimates on tourism expenditure are based on an old survey of spending by types of tourists and are only updated by changes in CPI. Except for data from the social security board, limited data are available on labor market developments.
Government Finance Statistics: St. Kitts and Nevis has reported to STA quarterly government finance statistics (GFS) up to 2014Q1 and annual GFS up to 2012 on main aggregates and their components for revenue, expense, and financing of the budgetary central government. Extra-budgetary units are included in budgetary central government. Accounts for the public enterprises are only available with a long lag. There are also limited accounts provided on the activities of the Sugar Investment Diversification Foundation, although it is playing an incremental role in fiscal policy.

Progress has been made in reducing discrepancies between overall balance and available financing in 2013 but further work is needed to resolve discrepancies in earlier years. Government finance data are recorded by the authorities on a cash basis, and reported to the Fund based on a Chart of Accounts broadly in line with the *GFSM 1986* classifications. Efforts to report the government financial balance sheet, particularly the main liabilities (loans and debt securities), will strengthen the fiscal data for surveillance purposes. In implementing the *GFSM 2014*, the authorities should consider making selective adjustments to the current cash accounting, as relevant, in the following categories: arrears, debt reorganization, transactions in kind, and interest.

Monetary and Financial Statistics: Monthly monetary statistics are compiled and reported to the Fund by the ECCB, based on standardized report forms (SRF) for the central bank (SRF 1SR) and for other depository corporations (SRF 2SR), since July 2006. In April 2007, a data ROSC mission assessed the monetary statistics with reference to the GDDS and the Data Quality Assessment Framework (DQAF, July 2003). It indicated that the institutional coverage of other depository corporations is incomplete, as data for mortgage companies, finance companies, building societies, and credit unions—all of which accept deposits—are excluded. Also, accrued interest is not incorporated in the value of the interest-bearing assets and liabilities, and valuation adjustments are included in other liabilities. In addition, source data for the commercial banks do not provide the disaggregation recommended by the *Monetary and Financial Statistics Manual* and *Compilation Guide*. Close coordination between the ECCB and the single regulatory unit (which supervises financial corporations other than those licensed under the Banking Act) is crucial. The ECCB is currently working in implementing a new reporting system for commercial banks that is envisaged to address the recommendations made by the April 2007 data ROSC mission. It is expected that the new reporting system would be implemented in 2016-2017.

Financial Soundness Indicators (FSI): The ECCB compiles financial soundness indicators (FSIs) for its member countries, including St. Kitts and Nevis. However, due to confidentiality reason, dissemination of FSIs for the ECCB member countries has so far not been approved.

External sector statistics: Balance of payments data are compiled and disseminated by the ECCB on an annual basis. The ECCB released preliminary summary estimates of 2014 balance of payments and—for the first time—international investment position statistics following the latest international standard methodology (*BPM6*) for the eight ECCU member economies in January 2016. The ECCB plans to publish comprehensive balance of payments data in October 2016. The estimates benefited from CARTAC technical assistance to develop and administer new surveys, and train data compilers and survey respondents. Given the lack of detail of preliminary 2014 data, more work is needed to review the recent revisions and identify balance of payments components that need further improvement. The quality of major components of the balance of payments needs substantial improvement, including the recording of goods imports, travel credits, investment income, and direct investment transactions. There is also need to compile private sector external debt data; St. Kitts and Nevis does not report external debt data to the Quarterly External Debt Statistics (QEDS) database.

Further work have also been identified to (a) improve timeliness of annual data dissemination (the most current data reported to STA pertains to 2013) and (b) review and produce time series that are consistent with *BPM6* methodological changes. Actions will have to be undertaken in conjunction with the ECCB, which coordinates the compilation of external sector statistics for all its member economies. Data shortcomings are being addressed by a shift from BPM5 to BPM6, as well as additional TA from STA and CARTAC.	
II. Data Standards and Quality	
St. Kitts and Nevis has been participating in the General Data Dissemination System (GDDS) since October 2000, and currently participates in its successor initiative, the e-GDDS. The 2007 regional data ROSC provides an assessment on the ECCB's monetary statistics. No data ROSC is available for other sectors. Monetary Statistics Component of the Regional Data Module Report on Observance of Standards and Codes (ROSC) for the Eastern Caribbean Central Bank (ECCB) was published in 2007.	Data ROSC was published on August 2007.

Table of Common Indicators Required for Surveillance
(As of May 2016)

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]
Exchange Rates	Fixed Rate	NA	NA	NA	NA.
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	2/16	04/14/16	M	M	M
Reserve/Base Money	2/16	04/14/16	M	M	M
Broad Money	2/16	04/14/16	M	M	M
Central Bank Balance Sheet	2/16	04/14/16	M	M	M
Consolidated Balance Sheet of the Banking System	2/16	04/14/16	M	M	M
Interest Rates[2]	2/16	04/14/16	M	M	M
Consumer Price Index	4/15	07/15/15	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	3/15	07/01/15	Q	Q	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	3/15	07/01/15	Q	Q	A
External Current Account Balance	2013	02/27/15	A	A	A
Exports and Imports of Goods and Services	2013	02/27/15	A	A	A
GDP/GNP	2014	07/07/15	A	A	A
Gross External Debt	3/15	07/01/15	Q	Q	A

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

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

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

[4] Central government only.

[5] Including currency and maturity composition.

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