ST. KITTS AND NEVIS: Fifth and Sixth Reviews under the Stand-By Arrangement, Request for Waiver of Nonobservance of Performance Criterion and Request for Waiver of Applicability; Staff Report; Press Release

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IMF Country Report No. 14/49

ST. KITTS AND NEVIS

February 2014

FIFTH AND SIXTH REVIEWS UNDER THE STAND-BY ARRANGEMENT, REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION AND REQUEST FOR WAIVER OF APPLICABILITY; STAFF REPORT; PRESS RELEASE

In the context of the combined fifth and sixth reviews under the Stand-by Arrangement, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 24, 2013, following discussions that ended on May 15, 2013, with the officials of St. Kitts and Nevis on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on July 8, 2013.
- A **Press Release** including a statement by the Chair of the Executive Board.

The documents listed below have been or will be separately released.

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

*Also included in Staff Report

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

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ST. KITTS AND NEVIS

FIFTH AND SIXTH REVIEWS UNDER THE STAND-BY ARRANGEMENT, REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION AND REQUEST FOR WAIVER OF APPLICABILITY

July 8, 2013

EXECUTIVE SUMMARY

Stand-By Arrangement (SBA). On July 27, 2011, the Executive Board approved a 36-month SBA for St. Kitts and Nevis for SDR 52.51 million (590 percent of quota) to support the authorities' program (Country Report No. 11/270). The first review was completed on January 25, 2012, the second review was completed on May 21, 2012, the third review was completed on August 3, 2012 and the fourth review was completed on November 30, 2012. A tranche of SDR 4.266 million will be made available upon completion of the fifth and sixth reviews.

Context. A pick-up in tourism and construction activity presages a recovery in 2013, with growth projected at 2 percent, up from a four-year contraction through 2012. In addition to an expected pickup in FDI and construction, supportive policies include programs subsidizing employment and loans to home buyers and entrepreneurs. Risks include the pace of the economic recovery in the United States and policy indecisiveness stemming from political developments in St. Kitts and Nevis, which may impact investment and slow down the adoption of reforms.

Program performance. All fiscal program targets were met through end-March 2013, partly due to strong receipts from the Citizenship by Investment program. However, the continuous performance criterion on the non accumulation of government and guaranteed external arrears was missed by a minor amount due to temporary delays in payments. Three structural benchmarks were met at end-December 2012 and end-March 2013 while two benchmarks were met with delay. The structural benchmark on drafting a proposal for a comprehensive pension reform, scheduled for end-June 2013, has been delayed to allow for further deliberations.

Review. The authorities continue to demonstrate their sustained commitment to their home-grown program, including with their 2013 budget and ongoing progress in the restructuring of their public debt. Staff supports the authorities' request for the

completion of the fifth and sixth reviews under the SBA and the waiver of applicability based on the absence of data available to assess whether the end-June 2013 PC—the governing PC under the SBA—were met, and the lack of evidence that end-June PC will not be met.

Approved By
Adrienne Cheasty and Elliott Harris

The staff team comprising Mr. G. Tsibouris (head), Mr. K. Greenidge, Ms. D. Simard (all WHD), and Mr. K. Moriyama (SPR) visited Basseterre and Charlestown during April 29 to May 15, 2013. Mr. Dalrymple (OED) participated in the final discussions. The mission met with Prime Minister and Minister of Finance Douglas, Premier Amory, and other senior officials and representatives of the private sector.

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APPENDIX

PERFORMANCE UNDER THE PROGRAM

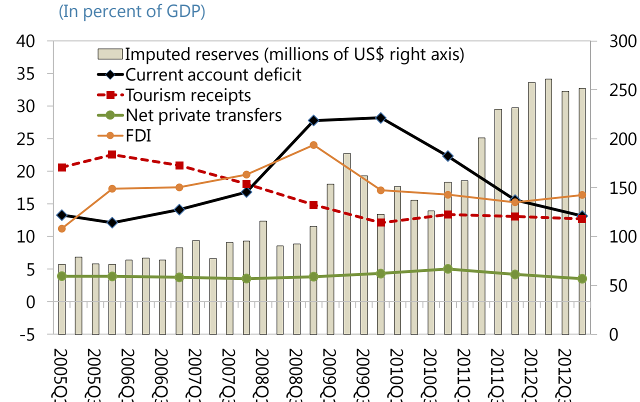
A. Recent Developments

1. **There has been some political uncertainty in St. Kitts since end-2012; at the same time, a new government was elected in Nevis in January 2013.** A motion of no-confidence in the federal government was submitted to the Speaker of Parliament by the leader of the opposition in December 2012. The parliamentary submission of the 2013 federal budget was delayed in the follow-up of these developments, but in the end, in the first of two parliamentary sessions since end-2012, it was adopted on April 9, 2013. The matter of whether the no-confidence motion, supported by the defection of two members of the government, can be presented to Parliament and take precedence over other items of the legislative agenda is being heard in court. In Nevis, the new Nevis Island Administration's (NIA) government took office following the elections in January 2013. The NIA budget was adopted on April 26, 2013. Prior to parliamentary adoption of their respective 2013 budgets, both St. Kitts and Nevis were operating with four-month warrants, the maximum allowed by the Constitution, based on one third of the approved 2012 budget allocation.

2. **A recent pick-up in tourism and construction activity signals that the economy may be recovering from a four-year contraction through 2012** (Figure 1). The decline in real GDP is estimated at 1.3 percent in 2012, dragged by a slowdown in tourism, construction and banking. Key contributing factors were the slow recovery of economic activity in key markets, and the aftermath of Hurricane Sandy in the eastern US, which disrupted critical tourism flows at the peak of the season. In 2013Q1, tourism recovered, evidenced by a 9.3 percent increase in stay-over arrivals, and construction picked up, as some large projects came on stream. There was a steady decline in inflation, generalized across CPI components, from 2.8 percent at end-2011 to 0.3 percent at end-2012, and further to 0 percent at end-March 2013.

3. **The external position has strengthened, with lower imports and strong foreign inflows linked to the Citizenship by Investment program (CBI).** The current account deficit is projected to have declined from 15.6 percent of GDP in 2011 to 13.1 percent of GDP in 2012, on account of weaker imports. In addition, increased momentum for CBI-related real estate and FDI inflows is sustaining the external position, Imputed external reserves increased by EC$54 million (US$20 million) in 2012 and EC$108 million (US$40 million) in 2013Q1.

External Flows
(In percent of GDP)

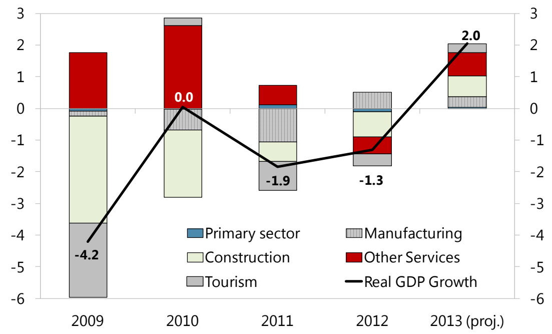


Sources: ECCB; country authorities; and IMF staff calculations.

Figure 1. Real Sector Developments and Near-Term Outlook

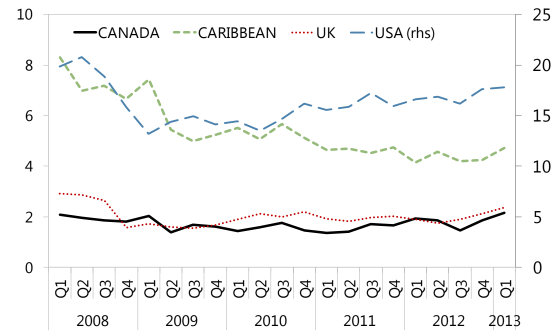
The economy is recovering from its four-year output contraction.

Contributions to GDP Growth
(In percentage points)



Stay-over arrivals continue to improve...

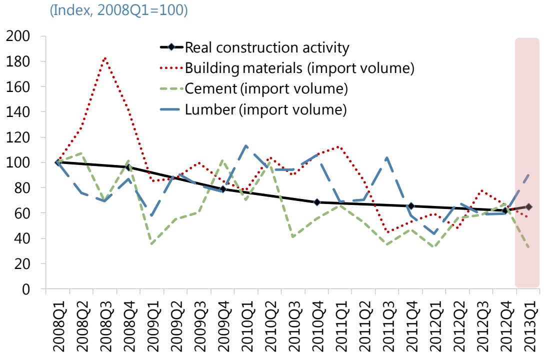
Stay-Over Visitors 1/
(In thousands)



1/ Seasonally adjusted with X-12 ARIMA.

...and construction activity seems to have bottomed out.

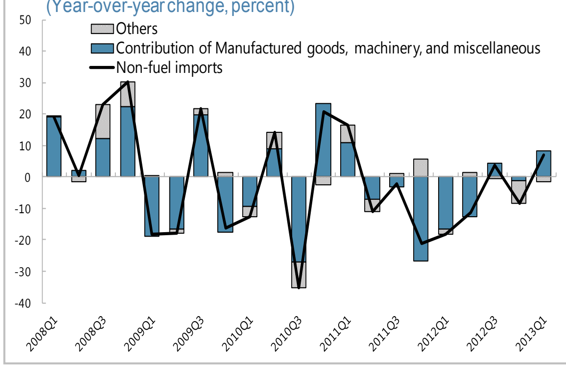
Construction Activity
(Index, 2008Q1=100)



Sources: St. Kitts and Nevis authorities; and IMF staff calculations.

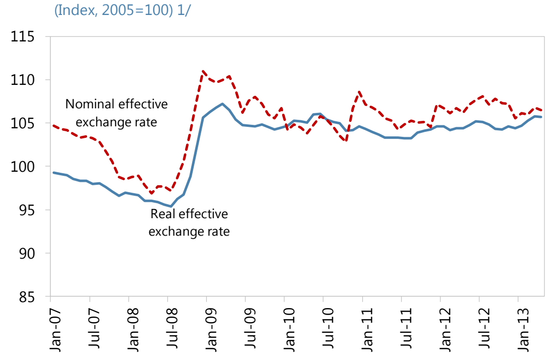
Non-oil imports also picked-up in 2013Q1.

St. Kitts and Nevis: Non-fuel Imports, 2008Q1-2013Q1
(Year-over-year change, percent)



External competitiveness remains broadly unchanged...

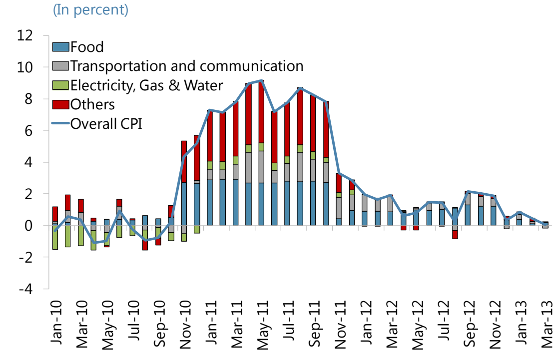
Effective Exchange Rates
(Index, 2005=100) 1/



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

... and inflationary pressures have fully abated.

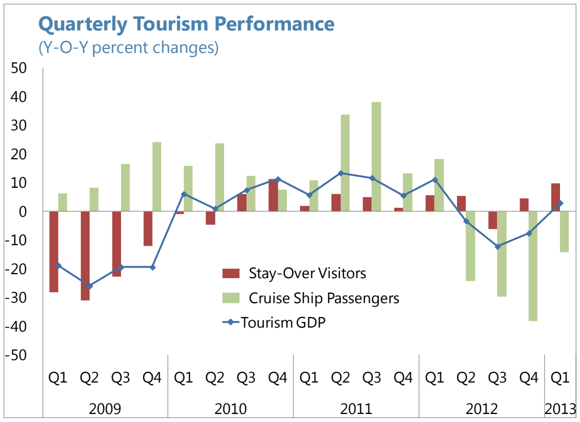
Inflation
(In percent)



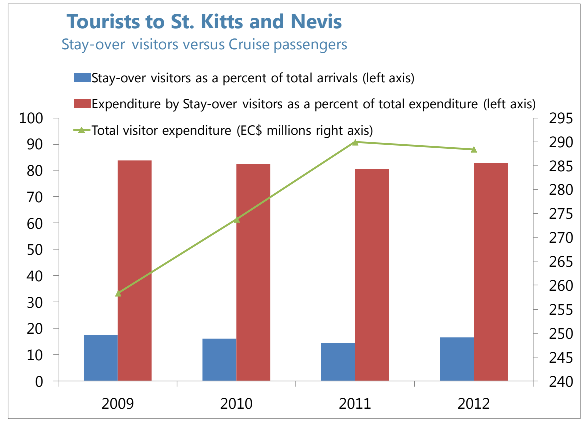
Sources: Ministry of Finance; ECCB; and IMF staff calculations.

Box 1. Tourism in St. Kitts and Nevis

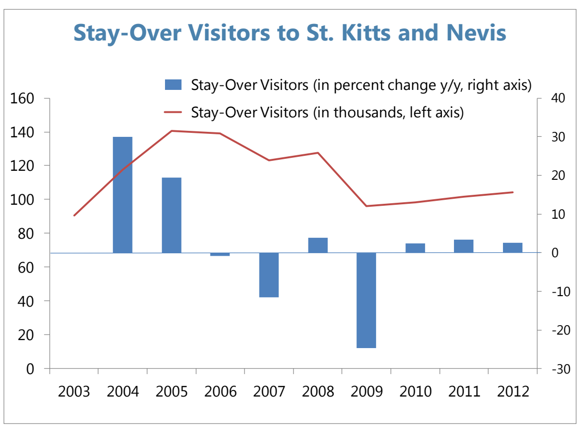
Despite recent gains in stay-over visitor arrivals, the disappointing performance of cruise ship passenger arrivals has slowed the recovery of overall tourism output.



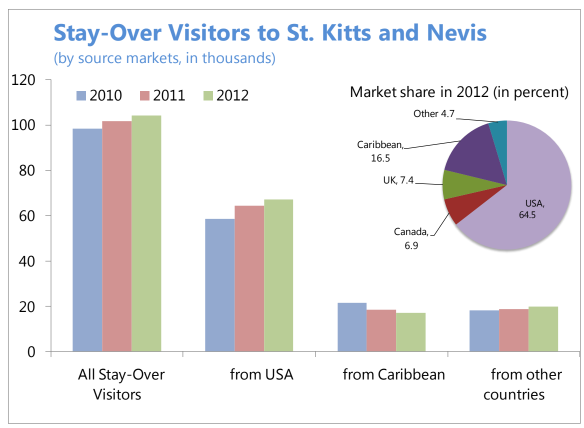
The bulk of visitors' expenditure (some 84 percent of total) comes from stay-over visitors, which account for about 16-18 percent of total visitors.



The number of stay-over visitors, gradually recovering after being significantly impacted by the 2009 global recession, remains well below 2005 levels. Hence, there is considerable potential for growth in visitor arrivals.



Visitors from the USA, accounting for about 65 percent of total stay-over arrivals, are driving the recent recovery. The high and increasing cost of regional air travel in the Caribbean is dampening arrivals from other Caribbean countries.



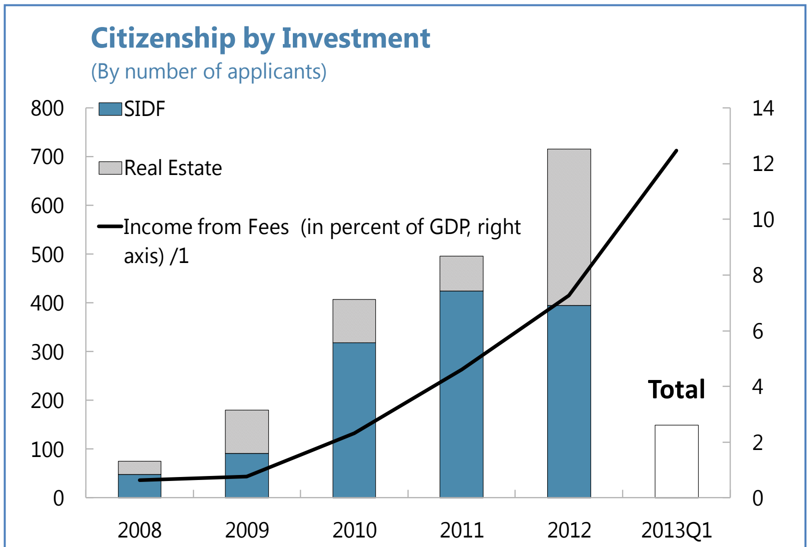
Box 2. The Citizenship by Investment (CBI) Program

The CBI program, which was established in 1984 and aims to provide St. Kitts and Nevis citizenship to non-residents under certain conditions, features the following two options:

- ***Real estate.*** For a minimum investment of US$400,000 in eligible real estate, applicants and their families are eligible for citizenship. The application fees are US$50,000, for each single applicant and any qualified dependent older than 18 years, and US$25,000 each, for a spouse and any child under 18 years old.

- ***Contribution to the Sugar Industry Diversification Fund (SIDF)***. Citizenship can also be obtained with a minimum non-refundable contribution to the SIDF of US$250,000 for a single applicant, US$300,000 for an applicant with up to three dependents, US$350,000 for an applicant with up to five dependents, and US$450,000 for an applicant with up to seven dependents.

The government also collects various related fees, including a fee to conduct due diligence on applicants (since 2012, as it was previously collected by the Financial Services Regulatory Commission (FSRC)), and an annual license fee for authorized persons to conduct corporate or trust services in St. Kitts and Nevis on behalf of the main applicant



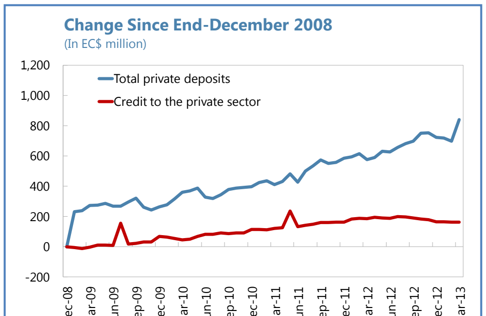
/1 in 2013Q1, in percent of annualized GDP.

Source: Citizenship by Investment Unit.

The program has become increasingly popular since 2008, with a sharp increase in take-up of the SIDF option and, more recently, strong growth in take-up of the real estate option. Overall, government fee collections have grown steadily, exceeding 7 percent of GDP in 2012.

Given that this type of program presents special challenges in terms of financial integrity and international security, the authorities aim to manage the program carefully to minimize related risks and ensure sustainability of revenue.

4. Reflecting the sluggish economy and rising NPLs, credit to the private sector has remained subdued, while growing deposits have improved banks' liquidity. Fueled by CBI inflows, deposits grew steadily (by 13.4 percent (y/y) at end-March 2013), but credit was relatively flat in 2012 before slightly declining, in response to the deteriorated asset portfolio. NPLs rose from 9.3 percent at end-September 2012

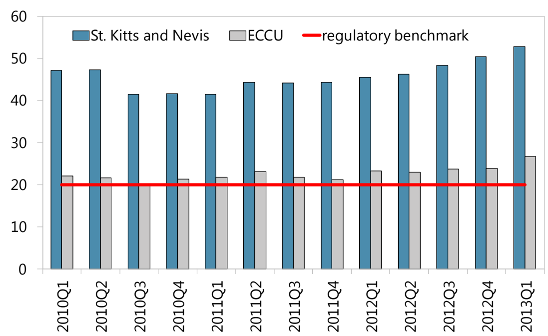


Sources: Eastern Caribbean Central Bank and IMF Staff estimates.

Figure 2. Monetary Developments

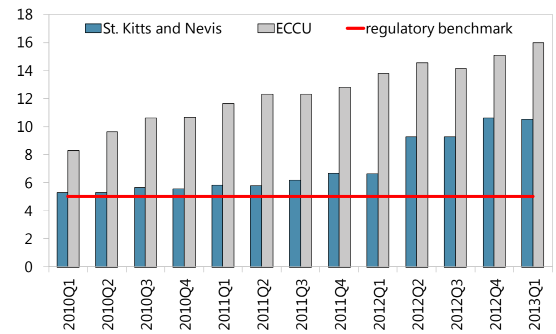
Banks' liquidity has steadily increased through 2013Q1 and remained high by regional standards…

Net Liquid Assets to Total Deposits
(In percent)



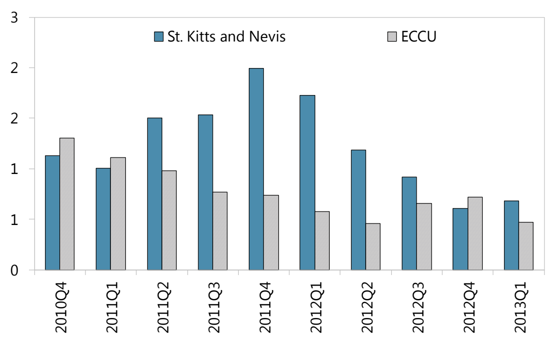
….while nonperforming loans increased further towards the regional average in 2012, before stabilizing in 2013Q1,

NPLs to Total Loans
(In percent)



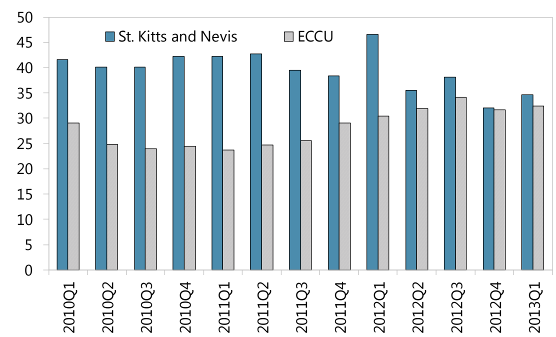
… which reduced banks' profitability.

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



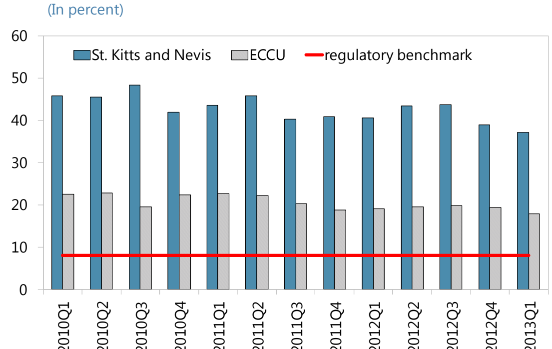
Additional provisions for loan losses, outpaced by the rise in NPLs at end-2012, were recovering in 2013Q1…

Provisions for Loan Losses to NPLs
(In percent)



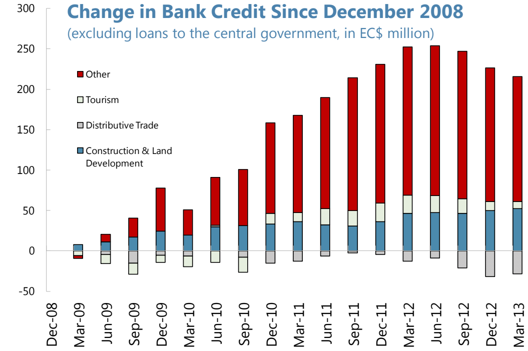
…but negatively impacted the banks' capital asset ratio.

Total Capital to Risk Weighted Assets
(In percent)



Credit to the economy declined in the second half of 2012, and in 2013Q1, while construction loans have recently increased.

Change in Bank Credit Since December 2008
(excluding loans to the central government, in EC$ million)



Source: Eastern Caribbean Central Bank and IMF staff estimates.

to around 10.6 percent at end-December 2012 and end-March 2013[1] negatively impacting banks' profitability which trended down through 2013Q1. While banks' capitalization declined, as additional NPLs were provisioned, the reported Capital Adequacy Ratio remained well above the prudential benchmark of 8 percent.[2] Updated stress tests based on end-December 2012 data remained consistent with the previous assessment (Country Report no. 13/42, ¶5), and confirm that the banking system remains sufficiently capitalized and liquid to withstand the impact of the debt restructuring. The relatively weaker banks, however, remain vulnerable to a large liquidity shock, even in the current context of more abundant liquidity. There has been no request to date to access the Banking Sector Reserve Fund (BSRF) set up under the SBA.

St. Kitts and Nevis: Selected Financial Indicators, December 2009–March 2013

	Dec-09	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
(All banks; In percent)											
Capital adequacy ratio	52.7	41.9	43.6	45.8	40.2	40.8	40.5	43.4	43.7	38.9	37.1
NPLs/Total loans	4.3	5.5	5.8	5.8	6.2	6.6	6.6	9.3	9.3	10.6	10.5
Provisioning/NPLs	48.9	42.2	42.2	42.7	39.5	38.3	46.6	35.5	38.1	32.1	34.7
Net liquid asset/Total deposit	42.9	41.6	41.4	44.3	44.1	44.2	45.5	46.2	48.4	50.4	52.8
Return on Equity 1/	13.2	5.5	5.2	10.5	11.3	15.1	14.2	10.2	9.1	5.2	5.3
Return on Assets 1/	2.1	1.1	1.0	1.5	1.5	2.0	1.7	1.2	0.9	0.6	0.7
Net operating income 1/ 2/	5.0	4.0	3.9	4.3	4.3	4.7	4.5	3.9	3.6	3.3	2.7
Total loans/Total deposits	77.4	78.1	76.5	74.1	73.8	73.0	71.7	69.7	67.8	65.9	62.5

Source: ECCB

1/ Sum of quarterly returns for the four quarters up to the end of each period.

2/ Ratio of net operating income to average assets.

5. **The government made progress in the restructuring of its debt.** Concerning the domestic public debt, agreements on the debt exchange between the central government and its remaining creditors are nearly completed. The NIA concluded its negotiations with all but one of its domestic creditors. Furthermore, the debt/land swap with the St. Kitts-Nevis-Anguilla-National Bank was finalized, after a supplementary agreement was signed, on June 19 2013, to allow the debt to be cancelled incrementally as land is transferred to the Special Purpose Vehicle (SPV) commissioned to sell the land. Following the signing of the supplementary agreement, the debt corresponding to the transfer of the 1200 acres in September 2012 was cancelled on July 1 2013, bringing public debt from 154 percent of GDP at end-2011 to a projected 105 percent of GDP at end-2013. At the SPV's first meeting, six directors including the Chairman were installed. They determined the number of directors, adopted the procurement methods of the Procurement and Contract Administration Act and set the authorized share capital. The SPV's board will finalize the recruitment of its managers soon, along with adopting governance principles. Work on the Nevis SPV, which holds land that was recently revalued, is also underway. Pertaining to external public debt, the Paris club restructuring was concluded with the signing of the bilateral agreement with

[1] The new NPLs were reportedly concentrated in the tourism and retail sectors.

[2] The Capital Adequacy Ratio would likely be significantly lower if stricter regional standards were applied to loans classification and provisioning requirements.

the United States in January 2013. Negotiations with Kuwait, Taiwan POC and Venezuela are proceeding, and the program remains consistent with the Fund's arrears policy.[3]

B. Program Performance

6. Fiscal performance through end-2012 was stronger than expected, aided by strong CBI receipts. The fiscal position of the central government was estimated at a surplus of EC$164 million at end-December 2012, threefold the adjusted program target, mainly because of over-performance in receipts from the CBI program which were almost three times the amount envisaged under the stand-by arrangement.[4] The over-performance of CBI receipts (amounting to 4.6 percent of GDP) contributed to the over-performance in the fiscal surplus (of 5.7 percent of GDP) in 2012. Tax revenue fell slightly short of expectations due to lower receipts from taxes on income and on international trade, which by-and-large reflected the weaker-than-anticipated economic outturn. There were modest pressures on current expenditure, particularly related to electricity costs,[5] insurance, and legal and advisory services. With a strong turnaround in the fourth quarter, capital outlays for the year as a whole were somewhat higher than expected, with the purchase of an office building and a pick-up in the execution of road projects. Budgetary pressures were more acute for the NIA, with revenue shortfalls and some overruns in current outlays causing a squeeze in capital spending to achieve a nearly balanced budget in 2012 and 2013Q1.

7. Fiscal prudence was maintained into the first quarter of 2013 resulting in an overall surplus at end-March 2013 of EC$69 million, significantly above the adjusted program floor. CBI receipts continued to outperform expectations, while tax revenue and current expenditure were aligned with projections. The under-execution of the capital budget reflected, in part, a delay of the start of some projects due to the uncertainty associated with the delayed 2013 budget parliamentary debate.

[3] A Paris Club Agreed Minute was established on May 24, 2012. In that regard, since the Minute continues to be in place, arrears to non Paris Club creditors are deemed not to have arisen for purposes of the Fund's Arrears Policy.

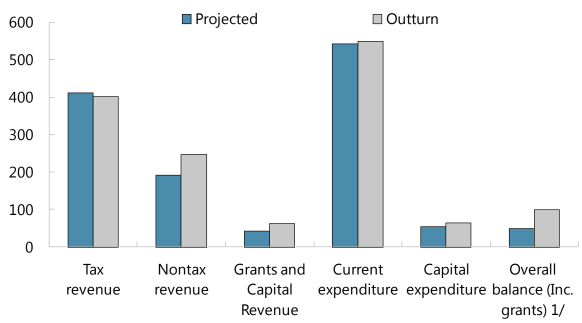
[4] The overperformance in CBI receipts was EC$91 million.

[5] Following its corporatization in 2011, the electricity company SKELEC is in the process of installing meters on all government buildings, which has resulted in higher but more accurate electricity costs than previously anticipated.

Figure 3. Fiscal Developments

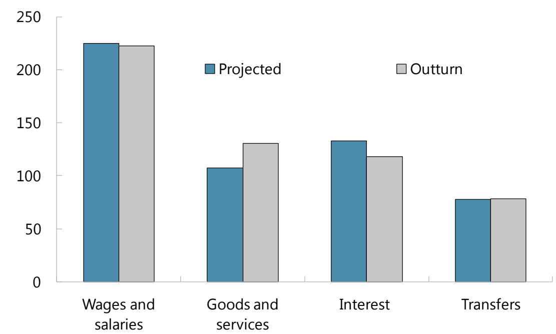
The strong performance of non tax revenue and grants was instrumental to the fiscal over performance in 2012…

Central Government; 2012
(in EC$ million)



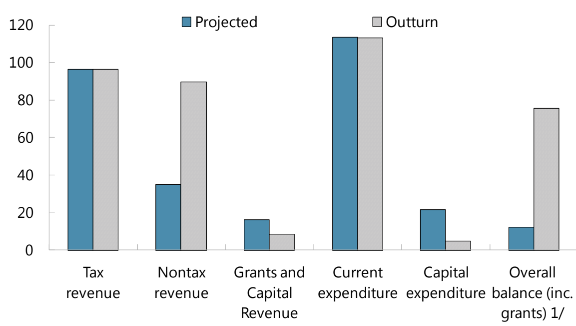
…while savings in interest payments partially offset higher than expected expenditure on goods and services.

Current Expenditure; 2012
(in EC$ million)



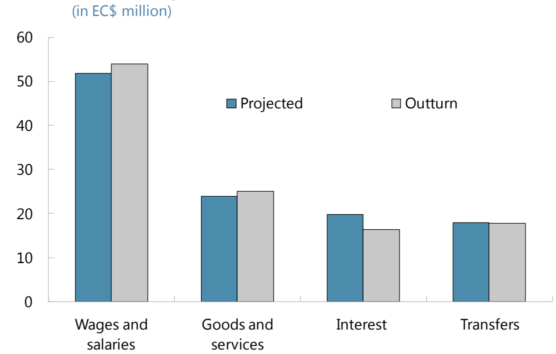
The budgetary surplus exceeded program expectations in 2013Q1, due to continued strong non tax revenue and under-execution of capital outlays…

Central Government; 2013Q1
(in EC$ million)



…while savings in interest payments offset slight overruns in other current outlays.

Current Expenditure; 2013Q1
(in EC$ million)



1/ The overall balance is measured from above the line.

8. **All other performance criteria have been met at end-March 2013, except for the continuous ceiling on the accumulation of external arrears.** The ceilings on central government budget expenditure arrears accumulation and the stock of external short-term debt have been met. The continuous performance criterion on the non-accumulation of government or guaranteed external arrears was not met. The NIA accumulated minor arrears to the Caribbean Development Bank (CDB) in October 2012 (EC$0.88 million or 0.05 percent of GDP), January 2013 (EC$0.75 million or 0.04 percent of GDP) and April 2013 (EC$0.86 million or 0.04 percent of GDP). These arrears have now been repaid. Corrective actions to prevent a recurrence include the establishment of a fund by the NIA to prepay debt service obligations to the CDB and an upgrade in CS-DRMS data base maintenance and monitoring responsibilities at the NIA Ministry of Finance. On this basis, *the authorities request a waiver for the non-observance of this performance criterion*.

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

	End-Sep. 2012				End-Dec 2012				End-Mar. 2013			
	Prog.	Adjusted	Actual	Status	Prog.	Adjusted	Actual	Status	Prog.	Adjusted	Actual	Status
Performance Criteria:												
Central government overall balance including grants (floor) 1/ 2/	-91	-93	84	√	24	51	164	√	8	11	69	√
Stock of central government budget expenditure arrears accumulation (ceiling) 3/	0	0	-50	√	0	0	-48	√	0	0	-52	√
Stock of external short term debt (ceiling)	0	0	0	√	0	0	0	√	0	0	0	√
Central government or guaranteed external arrears accumulation (ceiling) 4/	0	0	0.7	X	0	0	0.9	X	0	0	0.8	X
Indicative Target:												
Central government primary balance (floor) 1/ 2/	8	7	176	√	181	207	283	√	32	35	85	√

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

9. **There has been progress in terms of structural reforms.** The authorities met the structural benchmarks on: updating the existing stress tests of banks at end-December 2012 and end-March 2013; and developing an explicit medium-term debt management strategy by end-December 2012. The strategy was subsequently issued in conjunction with the 2013 budget. However, the regular actuarial review of the Social Security Scheme (structural benchmark for end-December 2012) was finalized only in May 2013. On the basis of its findings, the authorities were expected to complete the draft proposal for a comprehensive pension reform by end-June 2013 (structural benchmark), but this has been delayed as further deliberations will be needed. Furthermore, the authorities have submitted to the Attorney General's office proposed amendments to the Finance Administration Act recognizing the Government Entities Oversight Board and strengthening its enforcement authority in September 2012. The related structural benchmark, originally set for end-March 2013, was met upon parliamentary approval on July 8, 2013.

St. Kitts and Nevis. Structural Benchmarks for end-December 2012, end-March 2013, and end-June 2013

St. Kitts and Nevis: Structural Benchmarks for end-December 2012, end-March 2013, and end-June 2013

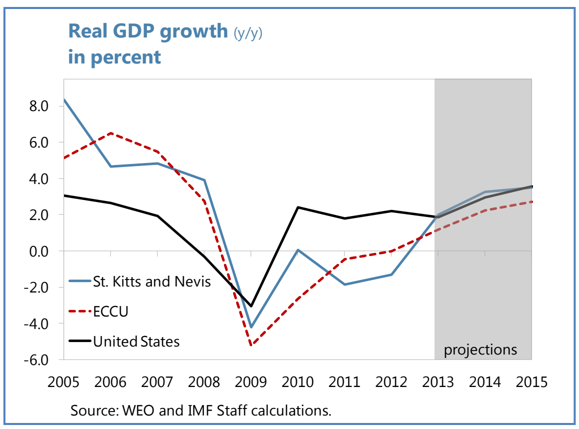
Action	Target Date	Status
Regular review of the Social Security Scheme.	End-December 2012	met with delay in May 2013
Update the existing stress tests of banks	To be monitored on a quarterly basis	completed
Develop an explicit medium-term debt management strategy that takes account of the cost-risk tradeoff of alternative financing options, within the context of the overall macroeconomic environment	End-December 2012	completed
Include in the Finance Administration Act provisions recognizing the Government Entities Oversight Board and strengthening its enforcement authority	End-March 2013	met with delay in July 2013
Draft proposal for a comprehensive pension reform	End-June 2013	delayed

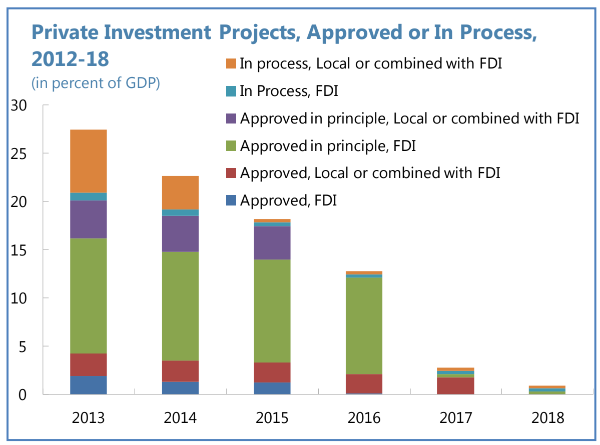
Source: St. Kitts and Nevis authorities.

OUTLOOK

10. The expected pickup in FDI and construction, and initiatives subsidizing employment and loans for entrepreneurs and housing, should provide an impetus to growth in 2013. Real GDP growth is projected to reach 2 percent in 2013, led by a projected recovery in tourism, real estate, wholesale and retail trade and construction services. The continued momentum of the CBI and related FDI projects already in the pipeline are expected to buffer the impact from the slightly slower growth projected in the United States in 2013. Economic activity is projected to be buttressed also by government programs to foster entrepreneurship and home ownership financed in partnership with the SIDF (MEFP ¶3).

11. Over the medium-term, growth is projected to rise further to 3–3½ percent, as sizeable FDI projects enter in operation and growth picks up in the main partner countries. Based on the list of FDI projects approved to date and their planned implementation schedule, combined with the demonstrated strength of the real estate option of the CBI, growth in construction is projected to be sustained over the medium-term. As tourism infrastructure increases, and based on an assumed expansion of airlift capacity, the expected recovery in tourism and real estate services is projected to continue in 2014–18.





12. Downside risks to this outlook stem from a range of factors. The projected economic recovery is closely linked to that of the United States.[6] In turn, this hinges on the timely adoption by the United States of fiscal and structural policies supporting growth in 2013 and beyond. Moreover, continued uncertainty linked to the current political climate in St. Kitts could impact investment and slow down the adoption of reforms. Furthermore, the recovery of banking sector income hinges on the pace of progress in the debt/land swap. In addition, climatologic risks continue to weigh on the outlook. Finally, a small risk of financial contagion from other countries in the region remains present.

[6] Staff estimates show that a one percentage point increase in the growth of real GDP in the United States raises tourist arrivals in St. Kitts by 2 percent over a two-year period.

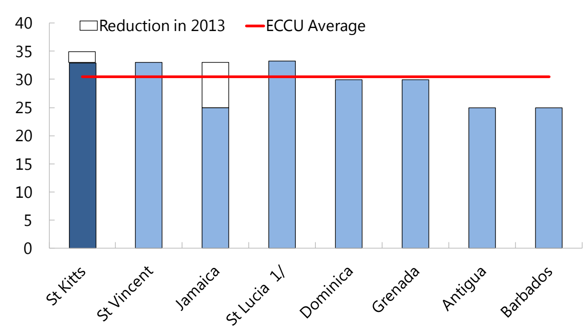
POLICIES IN 2013 AND OVER THE MEDIUM TERM

13. Discussions focused on the 2013 budget, structural policies and the pace of the debt restructuring. Building on the strong fiscal performance of 2012, the consolidated 2013 budget of St. Kitts and Nevis and the NIA is predicated on an increase in tax revenue, the containment of current expenditure, and higher capital outlays. It aims for a robust budgetary primary surplus, in order to keep public debt on a sustainable path and reduce it further towards its objective of 60 percent of GDP by 2020, thus providing room for growth-enhancing outlays. Sustaining this trajectory for public debt over the medium-term requires mobilizing additional tax revenue through continued improvements in revenue administration and broadening of the tax base, and enhancing the efficiency of public expenditure by strengthening public financial management.

A. Fiscal Policy

14. The 2013 budget reallocates interest savings to capital outlays, while increasing its reliance on tax revenue. An overall fiscal surplus of 2½ percent of GDP and a primary surplus of 7.4 percent of GDP are envisaged. Revenue projections are based on conservative assumptions for CBI receipts relative to the 2012 outturn, combined with projected increases in tax revenue (¶15). With a continued freeze in the wage bill, savings on interest payments resulting from the debt restructuring (1.1 percent of GDP) are projected to be reallocated to public investment. Despite a slow start in 2013Q1, partly caused by the delay in approving the 2013 budget and the implementation of the capital budget ahead of schedule at end-2012, the authorities are committed to meet their budget target for domestically-financed investment through careful prioritization. Key projects include further development of the road infrastructure, the construction of a health center and the renovation of educational institutions.

Corporate Tax Rates in the Caribbean, 2013
(In percent)



1/ top marginal rate
Sources: IMF and World Bank Doing Business Index

St. Kitts and Nevis: Central Government Fiscal Operations

	2012 Prelim. Central Government	2013 Program Central Government	St Kitts	Nevis
	(in percent of GDP)			
Total revenue and grants	**36.0**	**33.0**	**26.3**	**6.7**
Tax revenue	20.4	20.9	16.4	4.5
Non-tax revenue	12.5	9.5	8.0	1.5
Grants	3.2	2.6	1.9	0.7
Total expenditure and net lending	**31.1**	**30.5**	**24.0**	**6.5**
Current expenditure	27.8	26.0	20.6	5.5
o/w: interest	6.0	4.9	3.9	1.0
Capital expenditure	3.2	4.4	3.4	1.0
Overall balance	**5.0**	**2.5**	**2.3**	**0.2**
Primary balance	**11.0**	**7.4**	**6.2**	**1.1**

Source: St. Kitts and Nevis authorities; and IMF staff calculations.

15. The authorities are pursuing the dual goal of making tax policy more growth friendly, while broadening the tax base and improving revenue administration (Box 3)**.** In order to better align the corporate income tax rate with regional comparators, the 2013 budget provides for a decrease in the corporate income tax rate from 35 percent to 33 percent, with most of the revenue impact as of 2014. It also aims to stimulate growth in the construction sector by extending the existing tax incentives on building materials. The authorities expect that the projected rebound in taxes on international trade and the implementation of their revenue administration reforms (MEFP ¶7) would lead to a net increase in tax revenues as a share of GDP in 2013. The authorities have started to review their system of tax incentives (MEFP ¶8), to improve the yield of the tax system through a broader tax base, and estimate the cost in foregone revenue from tax incentives at 6 percent of GDP in 2012.

Box 3. Key Measures to Boost Growth and Tax Revenue in 2013

The 2013 budget features tax policy measures to boost growth, as well as revenue administration measures to enhance revenue (MEFP ¶7):

- ***Reducing the corporate income tax rate.*** The corporate income tax rate will be reduced from 35 percent to 33 percent, starting with business activities occurring in 2013, with an estimated revenue impact of 0.08 percent of annualized GDP in 2013.

- ***Extending the Building Materials Incentives through 2013.*** The exemptions of customs duties and the customs service charge on building materials, introduced in 2011 and scheduled to expire in December 2012, were extended to 2013. The foregone revenue associated with this measure is estimated at 0.2 percent of GDP in 2012.

- ***Closing loopholes in the corporate income tax.*** Full year impact of the measure limiting to one cost center per business the eligible threshold of deductible employee remuneration from the corporate income tax.

- ***Improving tax compliance***
- ➢ Businesses benefiting from tax holidays are required to file annual income tax returns.
- ➢ Launching a system for the online filing of income tax returns at Inland Revenue Department (IRD).
- ➢ Full computerization of customs declarations (ASYCUDA world system) by end-March 2014.

In addition, the authorities are pursuing the following measures:

- ***Strengthening audit and enforcement processes,***
- ➢ Adoption of the new Customs law by end-December 2013
- ➢ Establishment of a Large Taxpayer Unit.
- ➢ Introduction of a strategic planning unit in the IRD.
- ➢ Reinforcement and harmonization of all administrative procedures.

16. Boosting the productivity of public outlays through key policy and management reforms continues to be a priority (MEFP ¶9).

- ***Civil service reform.*** The authorities have started to reform the civil service by enhancing its accountability and initiating an audit of the public payroll. The completed audit will form the basis for recommendations to streamline the civil service and improve its performance.

- ***Rationalize subsidies and transfers linked to the social safety net.*** The authorities are elaborating their strategy, starting with the development of eligibility criteria for an eventual consolidation of the cash transfers provided by the Ministry of Social Development. The criteria will subsequently be extended to the subsidy for Liquid Petroleum Gas (LPG) and social programs administered by other ministries.

- ***Limit contingent liabilities from public enterprises.*** Building on ongoing actions, the government will further clarify its financial relations with the state-owned electricity companies in St. Kitts and Nevis and formulate a plan for the resolution of the debt of the Nevis Housing and Lands Development Corporation (NHLDC).

- ***Strengthen public financial management.*** The authorities intend to finalize their procurement reform by completing the implementing regulations to the Procurement and Contract Act and disseminating publicly its objectives and regulations.

- ***Phased introduction of a universal health insurance scheme.*** While children and pensioners already benefit from government-funded free health care, the authorities plan to extend health care coverage to others, in partnership with health care suppliers from the private sector. Cognizant of budgetary constraints, the authorities will better articulate this program (including the coverage, level of eventual participants' benefits and contributions) in the lead-up to the preparations of the 2014 budget.

B. Debt Restructuring

17. Further progress is envisaged in terms of the debt/land swap. Following the full constitution of the SPV's Board and management team, the SPV is to start operations in the near future. The land under the SPV's responsibility will be offered for sale once its management team, staff and real estate brokers come on board (MEFP¶11).[7] Regional prudential norms require that banks fully divest themselves from land assets within three years from the time of acquisition. The banking sector's profitability will be impacted by the timing of the realization of land sales' proceeds.

[7] Staff have suggested key benchmarks for the SPV, based on International best practices drawn from the "Santiago Principles" for sovereign wealth funds (http://www.iwg-swf.org/pubs/gapplist.htm) and the OECD Guidelines on corporate governance of state-owned enterprises. These benchmarks include a clear mandate, management's functional independence from the government, and full transparency and accountability to Parliament.

C. Financial Sector

18. Banks are seeking to strengthen their business model through diversification, to address rising NPLs.[8] To boost profitability, banks are developing new business activities; in the context of a growing e-commerce sector, they are issuing credit cards and introducing an electronic payment processing network in the region. They are also upgrading services for high net-worth clients. Banks have also improved underwriting of loans and intensified efforts in debt collection in 2013 to curb the emergence of new NPLs. The resolution of existing NPLs remains challenging nonetheless, due to the lengthy process involved. Credit bureaus, still at the nascent stage regionally, would provide greater confidence in banks' lending decisions and help reduce spreads.

D. Labor Market Initiatives

19. The authorities are finalizing the Labour Code and implementing programs to upgrade the skills of job seekers and enhance their employment prospects (MEFP ¶13). The revisions to the legal framework are intended to improve employment conditions and better reflect the needs of a service-based economy, including concerning the flexibility of working hours. Various programs are being introduced to improve the fit of job market applicants with employers' needs, which range from upgrading vocational training at secondary schools to subsidizing wages for new private sector trainees and developing entrepreneurial skills.

E. Program Design

20. The authorities have indicated in the attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) their continued commitment to the program objectives. Going forward, four new structural benchmarks are envisaged (in the areas of revenue administration, public financial management and civil service reform). The target date to develop a method for the proxy means testing for the eligibility criteria of the planned consolidated cash transfer program, will need to be reset from end-September 2013 to end-December 2013 (MEFP, ¶9 and Table 3) due to human resource constraints. A fiscal adjustor for the under-execution of public investment (not financed by grants and loans) is being introduced, given the importance of public investment to the growth objectives (MEFP ¶6). The authorities request a waiver of applicability based on the absence of data available to assess whether the end-June 2013 PCs—the governing PC under the SBA—were met, and the lack of evidence that end-June PCs will not be met. Moreover, due to the delay in adopting the budget for 2013, the authorities are requesting delaying the availability of the May 2013 purchase to

[8] The Eastern Caribbean Central Bank (ECCB) is pursuing a program of reforms aiming to strengthen the banking sector's regulation, supervision, and resolution, as well as developing further debt management advisory services, supported by TA from the Monetary and Capital Markets (MCM) department and funded by the Canadian International Development Agency (CIDA).

September 2013 for the seventh review[9] and corresponding adjustments to the availability dates of subsequent purchases related to the remaining reviews under the SBA (MEFP Table 1). In this regard, the authorities also request combining the last two purchases and eliminating the last review to allow the duration of the program to remain as initially intended.

STAFF APPRAISAL

21. The authorities of St. Kitts and Nevis continued to surpass their program's fiscal objectives despite a four-year contraction in economic activity through 2012. All performance criteria related to the budgetary targets were met for end-September 2012 through end-March 2013, as were the performance criteria related to the ceilings on central government budget expenditure arrears accumulation and the stock of external short-term debt. While the performance criterion on the accumulation of external arrears was not met, the authorities have cleared all such external arrears and committed to measures that should ensure that such instances do not recur. All but one structural benchmarks were met, albeit two of them with some delay, and one, related to a comprehensive pension reform, postponed in order to conduct further deliberations.

22. The 2013 budget is aligned with the authorities' objective of continued fiscal consolidation and redeployment of resources towards growth-enhancing outlays. The budget envisages maintaining a significant budgetary primary surplus, which will contribute to debt reduction and provide buffers against shocks. Efforts to boost tax revenue, with emphasis on improving revenue administration, are appropriate as is the shift from current outlays towards priority investment. Every effort should be made to tackle the still-burdensome issue of tax exemptions and to bolster fiscal performance in the NIA through enhanced fiscal discipline and improved fiscal federalism relations.

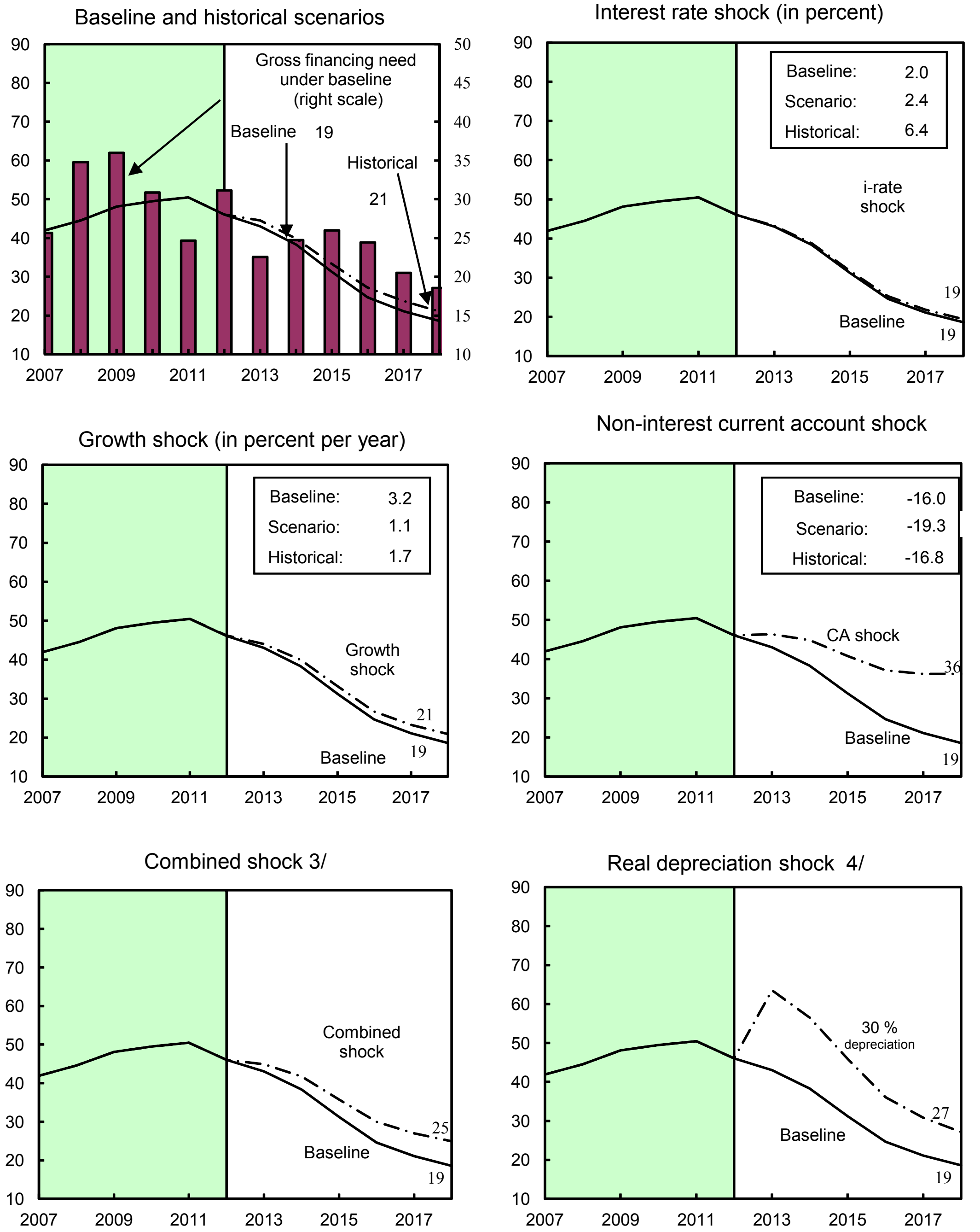
23. With the restructuring of public debt well underway, the emphasis should now be on operationalizing the SPV. A swift entry into operations of the land asset management company and the launching of the land sales will help buttress banks' income. The authorities are encouraged to continue to work closely with the Eastern Caribbean Central Bank (ECCB) to monitor financial sector developments and address them as needed. Over the medium-term, implementing a program of reforms that would include a more rapid resolution of impaired assets and the establishment of credit bureaus would be particularly helpful to stimulate bank credit to the private sector. The Banking Sector Reserve Fund (BSRF) continues to usefully serve as a buffer for any banking system liquidity challenges.

[9] The seventh review will be completed after September 15, 2013 and the eighth review will be completed after December 15, 2013.

24. The authorities are encouraged to accelerate reforms that will secure lasting gains in fiscal sustainability and fend off pressures to raise current outlays. In particular, an incisive civil service reform will be essential to help contain prospective wage bill pressures. Furthermore, a bolder streamlining of the social safety net, in speed and scope, would also produce additional budgetary savings that could be assigned to growth-enhancing infrastructure investment. The agenda for pension reform also needs to be tackled in earnest. Moreover, the continued mobilization of tax revenue through administrative improvements and broadening of the tax base should remain a priority over the medium-term. It will be important to ensure that the ongoing political developments in St. Kitts do not impact the smooth conduct of government business and the implementation of reforms.

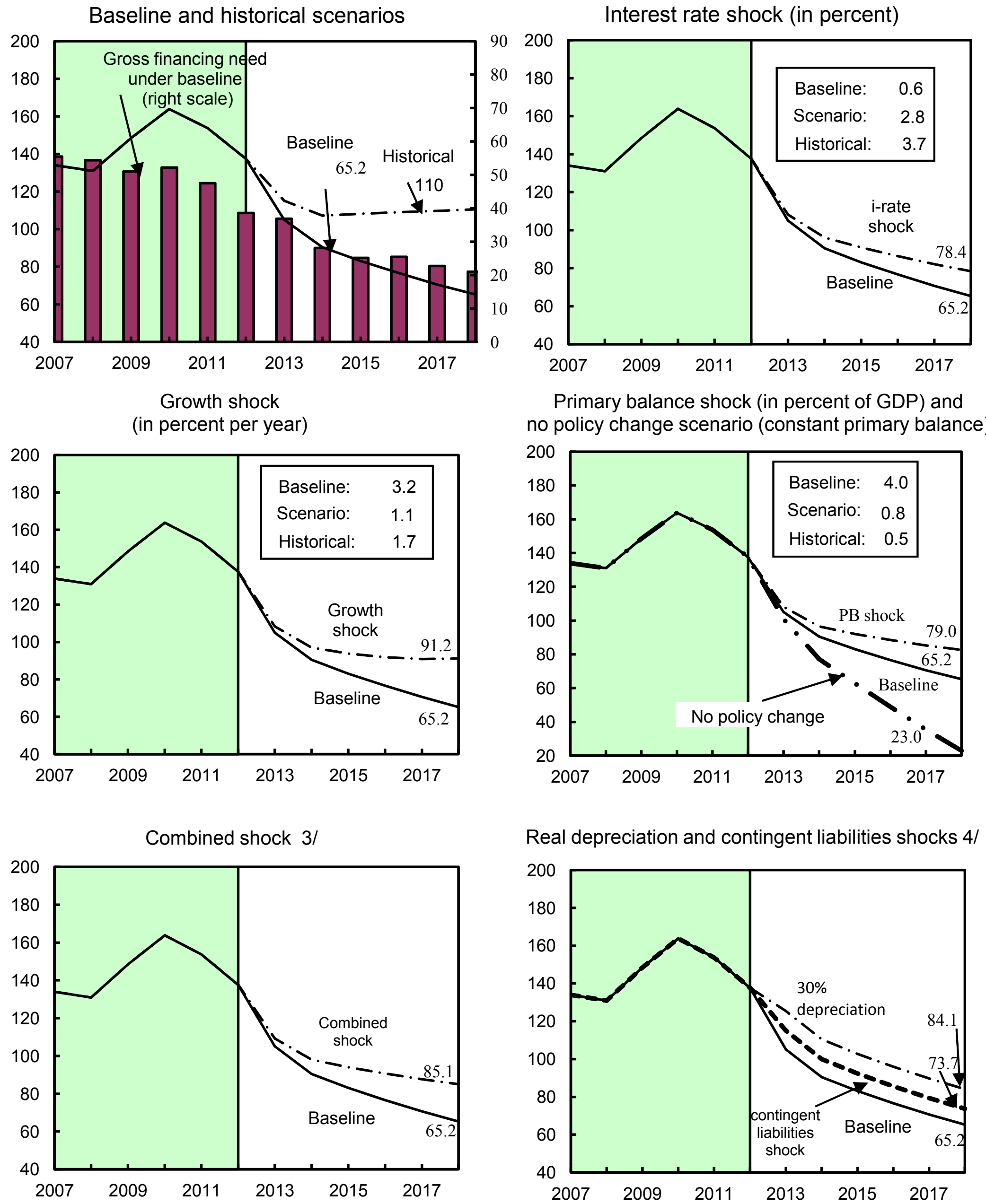
25. Staff supports the request for completion of the fifth and sixth reviews under the SBA and the granting of waivers, based on the authorities' demonstrated commitment to the program and successful implementation. On the basis of the authorities' actions to clear all remaining external arrears to the CDB and prevent the emergence of new arrears, and the minor amounts involved, staff supports the granting of a waiver of non-observance for the continuous performance criterion on external arrears for the fifth and sixth SBA review. Furthermore, staff supports the waivers of applicability, based on the absence of available data to assess whether the end-June 2013 PCs—the governing PCs under the SBA—were met, and the lack of evidence that end-June PCs will not be met. Moreover, staff supports delaying the availability of the May 2013 purchases to September 2013 for the seventh review and corresponding adjustments to the availability dates of subsequent purchases related to the remaining reviews under the SBA. Finally, staff supports the authorities' request to combine the last two purchases and eliminate the last review to maintain the duration of the program as initially intended

Figure 4. External Debt Sustainability: Bound Tests[1/2/3/]
(External debt in percent of GDP)



Sources: International Monetary Fund, St. Kitts and Nevis authorities, and staff estimates.
1/ 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 2013.
4/ One-time real depreciation of 30 percent occurs in 2013.

Figure 5. Public Debt Sustainability: Bound Tests[1/2/]
(Public 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 primary balance.
4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2013, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 1. St. Kitts and Nevis: Basic Data

I. Social, Geographic and Demographic Indicators

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

II. Economic and Financial Indicators, 2007—13

	2007	2008	2009	2010	Prel. 2011	Prog. 1/ 2012	Prel. 2012	Proj. 2013
	(Annual percentage change; unless otherwise specified)							
National income and prices								
Real GDP (factor cost)	4.8	3.9	-4.2	0.0	-1.9	-0.7	-1.3	2.0
Consumer prices, end-of-period	2.9	6.5	1.2	5.2	2.9	1.9	0.3	2.5
Consumer prices, period average	4.5	5.3	2.1	0.6	7.1	2.5	1.4	2.5
Real effective exchange rate (end-of-period) 2/	-5.8	12.4	-4.1	1.8	-0.6	...	1.0	...
Banking system								
Net foreign assets 3/	6.9	11.6	-8.4	1.1	15.5	8.4	21.8	8.5
Net domestic assets 3/	5.0	-10.0	14.3	7.8	-5.5	-4.0	-15.0	-3.8
Of which								
Credit to public sector 4/	0.1	-1.7	1.5	4.9	-9.0	-42.5	-15.3	-4.1
Credit to private sector 3/ 4/	8.6	4.3	4.1	2.6	2.6	6.0	0.1	0.1
Broad money 4/	11.9	1.6	5.9	8.9	10.0	4.3	6.9	4.7
Of which								
Money	12.2	11.4	-3.1	43.1	34.7	9.7	9.8	4.7
Quasi-money	11.9	0.0	7.5	3.3	4.4	2.8	6.0	4.7
	(In percent of GDP)							
Public sector 5/								
Primary balance	2.7	2.6	3.7	-0.8	8.3	9.1	11.0	7.4
Overall balance	-3.5	-3.9	-2.9	-7.8	1.8	2.4	5.0	2.5
Total revenue and grants	29.3	28.7	32.6	31.0	37.1	32.4	36.0	33.0
Revenue	27.8	27.2	29.0	28.2	33.5	30.3	32.9	30.4
Grants	1.5	1.4	3.6	2.8	3.5	1.8	3.2	2.6
Total expenditure and net lending	32.9	32.5	35.6	38.8	35.3	30.0	31.0	30.5
Current expenditure	26.7	27.3	30.4	31.7	30.9	27.3	27.8	26.0
Capital expenditure and net lending	6.1	5.3	5.1	7.1	4.4	2.7	3.2	4.5
Foreign financing 6/	-1.2	3.5	0.2	0.3	0.3	-6.6	-3.4	-1.3
Domestic financing	2.8	-2.5	3.1	7.5	-4.6	-42.5	-16.3	-26.3
Change in arrears		1.2	1.3	1.0	1.6	-1.4	-1.0	-0.6
Sale of assets	2.0	3.1	1.7	0.7	0.4	0.2	0.5	0.2
Extraordinary financing	...	...	...	...	...	47.9	11.9	25.5
Statistical discrepancy	0.0	-1.4	-3.3	-1.7	0.4	-	3.36	-
Financing gap	...	...	...	...	...	0.0	0.0	0.0
Total public debt (end-of-period) 7/	134.0	131.0	148.5	163.9	153.7	92.3	137.6	105.1
Of which								
Central government 8/	101.5	100.5	114.9	129.4	122.6	74.8	110.7	80.2
Public enterprises 8/	32.5	30.5	33.5	34.4	31.1	17.5	26.8	24.9
Public debt service (percent of total revenue and grants) 6/	30.1	28.4	25.2	29.1	22.2	60.9	52.2	19.5
External sector 9/								
External current account balance	-16.8	-27.8	-28.2	-22.3	-15.6	-15.0	-13.1	-16.1
Trade balance	-26.4	-32.8	-33.1	-28.9	-25.3	-22.7	-21.3	-22.8
Services, net	10.0	5.0	3.1	4.2	7.3	6.5	7.2	6.0
Of which								
Tourism receipts	18.1	14.9	12.1	13.4	13.1	13.3	12.7	12.9
Transfers, net	4.2	4.5	6.6	6.9	6.5	4.2	4.2	3.9
Net capital inflow 10/	17.9	28.6	28.7	26.2	17.9	5.0	6.0	14.3
FDI (net)	19.5	24.0	17.1	16.4	15.3	15.3	16.4	16.3
External financing gap 11/	...	...	...	...	...	0.0	0.0	0.5
External public debt (end-of-period)	41.9	44.6	48.1	49.5	50.5	44.0	42.4	43.1
	(In percent of exports of goods and nonfactor services)							
External public debt service	21.0	22.9	26.3	24.5	23.5	12.5	10.8	10.0
External public debt (end-of-period)	125.3	143.4	195.5	159.8	148.6	126.9	121.2	130.4
Memorandum items								
Gross international reserves, end-of-period								
(in millions of U.S. dollars)	95.6	110.2	122.9	155.7	231.5	194.3	250.8	252.6
(in percent of broad money)	15.9	18.0	19.0	22.1	29.9	24.0	30.3	29.1
Holdings of SDRs, in millions of U.S. dollars	...	...	13.3	12.8	12.8	12.8	12.8	13.8
Nominal GDP at market prices (in millions of EC$)	1,862	1,998	1,859	1,818	1,939	1,987	1,972	2,064

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

1/ Fourth Review under the SBA, Country Report 13/42.
2/ Weights given by the average trade share during 1999–2003. Depreciation (-).
3/ In relation to broad money at the beginning of the period.
4/ Data from 2009 includes non-bank financial institutions and subsidiaries and affiliates as parts of private sector to reflect the changes in definition in January 2009.
5/ Central government unless otherwise noted. Primary and overall balances are based on above-the-line data.
6/ 2012 disbursement includes financing to regularize the external arrears related to fuel purchases.
7/ Under the assumption that most of the debt/land swap takes place by end-2013.
8/ St. Kitts Sugar Manufacturing Company (SSMC) debt included in central government debt since 2006.
9/ Several items of the Balance of Payments were revised during the Fourth Review under the SBA, from 2007 onwards, including exports, petroleum imports, service payments, FDI and private transfers.
10/ Includes errors and omissions.
11/ Net of IMF financing and debt forgiveness.

Table 2. St. Kitts and Nevis: Central Government Fiscal Operations, 2009–15[1/]
(In millions of Eastern Caribbean dollars)

	2009	2010	Prel. 2011	Prog. 2/ 2012	Prel. 2012	Prog. 2/ 2013	Rev. Proj. 2013	Proj. 2014	Proj. 2015
Total revenue	**539.4**	**513.5**	**651.1**	**608.8**	**648.2**	**578.6**	**627.9**	**574.8**	**611.9**
Current revenue	539.4	513.5	650.0	602.2	647.9	573.6	627.9	574.8	611.9
Tax revenue	396.1	342.4	408.1	411.1	401.6	427.6	431.7	451.9	485.8
Taxes on income	148.7	92.6	86.6	87.6	81.4	87.4	87.1	86.5	91.9
Taxes on property	8.8	9.4	8.8	11.0	12.9	12.2	12.2	12.9	13.7
Taxes on domestic goods and consumption 3/	69.6	84.2	208.3	204.8	206.0	213.8	216.8	229.7	248.5
Taxes on international trade and transactions	169.0	156.3	104.4	107.6	101.2	114.1	115.6	122.9	131.6
Nontax revenue	143.3	171.0	241.9	191.1	246.4	146.0	196.2	122.8	126.2
Capital revenue	0.0	0.0	1.1	6.6	0.2	5.0	0.0	0.0	0.0
Total expenditure and net lending	**661.1**	**706.1**	**684.5**	**596.5**	**612.2**	**624.6**	**629.7**	**619.9**	**634.4**
Current expenditure	565.6	576.3	598.8	542.6	549.0	510.7	537.1	524.9	533.1
Wages and salaries	233.5	224.0	222.0	225.1	222.3	225.1	222.0	230.5	236.8
Goods and services 4/	150.1	169.1	179.7	107.4	130.1	116.5	120.4	122.6	125.4
Interest	123.2	127.0	126.0	132.7	118.2	89.3	100.3	74.5	81.2
Domestic	81.6	86.7	91.6	81.8	79.4	68.9	80.4	56.8	65.5
Foreign	41.6	40.3	34.4	50.9	38.8	20.4	19.9	17.6	15.7
Transfers	58.9	56.2	71.1	77.4	78.3	79.8	94.3	97.3	89.7
Net lending	7.6	5.8	-0.6	0.3	0.1	1.0	1.0	1.0	1.0
Capital expenditure	87.9	124.0	86.3	53.6	63.2	112.8	91.5	94.0	100.3
Current balance	**-26.2**	**-62.8**	**51.2**	**59.6**	**98.9**	**62.9**	**90.8**	**49.9**	**78.9**
Overall balance (before grants)	-121.7	-192.6	-33.3	12.3	35.9	-46.0	-1.7	-45.2	-22.5
Grants	67.5	50.7	68.3	35.6	62.4	80.8	53.6	48.8	62.6
Overall balance (after grants)	**-54.2**	**-141.9**	**35.0**	**47.9**	**98.3**	**34.8**	**51.8**	**3.6**	**40.2**
Primary balance	68.9	-14.9	160.9	180.7	216.5	124.1	152.2	78.1	121.3
Financing	**115.4**	**172.8**	**-42.3**	**-47.9**	**-164.5**	**-34.9**	**-51.8**	**-16.7**	**-54.3**
Net foreign financing	2.9	5.0	6.4	-130.6	-67.0	-34.7	-27.0	-43.3	-101.4
Disbursements 5/	32.2	41.9	143.3	74.0	94.6	6.6	5.8	4.8	4.5
Amortization	29.2	36.9	136.9	204.6	161.6	41.3	32.8	48.2	105.9
Net domestic financing	57.1	136.8	-88.6	-845.0	-321.9	-4.2	-543.4	18.1	38.1
Banking system	17.1	101.7	-124.6	-845.0	-309.9	-4.2	-543.4	18.1	38.1
Nonbanks and other	22.6	11.4	-2.0	0.0	-12.0	0.0	0.0	0.0	0.0
Financing arrangement on fuel purchase	17.4	23.6	38.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	24.0	18.3	31.8	-27.6	-19.9	0.0	-12.2	0.0	0.0
External	0.0	0.0	63.8	-27.6	-24.4	0.0	-12.2	0.0	0.0
Amortization	0.0	0.0	49.1	-23.3	-17.2	0.0	-7.8	0.0	0.0
Interest	0.0	0.0	14.7	-4.3	-7.2	0.0	-4.4	0.0	0.0
Domestic	24.0	18.3	-32.0	0.0	4.5	0.0	0.0	0.0	0.0
Sale/purchase of assets	31.4	12.8	8.1	3.9	9.6	4.0	4.0	-4.8	9.0
Exceptional financing				951.5	234.7	0.0	526.8	13.2	0.0
Statistical discrepancy	**-61.2**	**-30.9**	**7.4**	**0.0**	**66.2**	**0.0**	**0.0**	**0.0**	**0.0**
Financing gap 6/	...	...	...	**0.0**	...	0.0	**0.0**	**13.1**	**14.2**
Memorandum items:									
GDP (market prices)	1,859	1,818	1,939	1987.1	1,972	2,075	2,064	2,175	2,309
Public sector debt (end of period)	2,761	2,978	2,981	1834.0	2,713	1,795	2,169	1,968	1,918
Of which									
Central government	2,137	2,353	2,378	1485.4	2,184	1,447	1,655	1,643	1,594
Domestic	1,455	1,641	1,555	756.7	1,427	752	925	957	1,009
External	682	711	823	728.7	757	695	730	686	585

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/ Fourth review under SBA, Country Report 13/42.
3/ The sharp drop in international taxes and concurrent rise in taxes on domestic goods and services reflect the introduction of VAT in Novermber 2010.
4/ Decline in goods and services expenditure from 2012 reflect the corporatization of the Electricity Department from August 2011.
5/ 2012 disbursement includes financing to regularize the external arrears related to fuel purchases.
6/ From 2012 onwards, to be closed by prospective disbursement from the Fund and donors, and restructuring of domestic debt.

Table 3. St. Kitts and Nevis: Central Government Fiscal Operations, 2009–15[1/]

(In percent of GDP)

	2009	2010	2011	Prog. 2/ 2012	Prel. 2012	Prog. 2/ 2013	Rev. proj. 2013	Proj. 2014	Proj. 2015
Total revenue	**29.0**	**28.2**	**33.6**	**30.6**	**32.9**	**27.9**	**30.4**	**26.4**	**26.5**
Current revenue	29.0	28.2	33.5	30.3	32.9	27.6	30.4	26.4	26.5
Tax revenue	21.3	18.8	21.0	20.7	20.4	20.6	20.9	20.8	21.0
Taxes on income	8.0	5.1	4.5	4.4	4.1	4.2	4.2	4.0	4.0
Taxes on property	0.5	0.5	0.5	0.6	0.7	0.6	0.6	0.6	0.6
Taxes on domestic goods and consumption 3/	3.7	4.6	10.7	10.3	10.4	10.3	10.5	10.6	10.8
Taxes on international trade and transactions	9.1	8.6	5.4	5.4	5.1	5.5	5.6	5.7	5.7
Nontax revenue	7.7	9.4	12.5	9.6	12.5	7.0	9.5	5.6	5.5
Capital revenue	0.0	0.0	0.1	0.3	0.0	0.2	0.0	0.0	0.0
Total expenditure and net lending	**35.6**	**38.8**	**35.3**	**30.0**	**31.0**	**30.1**	**30.5**	**28.5**	**27.5**
Current expenditure	30.4	31.7	30.9	27.3	27.8	24.6	26.0	24.1	23.1
Wages and salaries	12.6	12.3	11.4	11.3	11.3	10.8	10.8	10.6	10.3
Goods and services 4/	8.1	9.3	9.3	5.4	6.6	5.6	5.8	5.6	5.4
Interest	6.6	7.0	6.5	6.7	6.0	4.3	4.9	3.4	3.5
Domestic	4.4	4.8	4.7	4.1	4.0	3.3	3.9	2.6	2.8
Foreign	2.2	2.2	1.8	2.6	2.0	1.0	1.0	0.8	0.7
Transfers	3.2	3.1	3.7	3.9	4.0	3.8	4.6	4.5	3.9
Net lending	0.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	4.7	6.8	4.4	2.7	3.2	5.4	4.4	4.3	4.3
Current balance	**-1.4**	**-3.5**	**2.6**	**3.0**	**5.0**	**3.0**	**4.4**	**2.3**	**3.4**
Overall balance (before grants)	-6.5	-10.6	-1.7	0.6	1.8	-2.2	-0.1	-2.1	-1.0
Grants	3.6	2.8	3.5	1.8	3.2	3.9	2.6	2.2	2.7
Overall balance (after grants)	**-2.9**	**-7.8**	**1.8**	**2.4**	**5.0**	**1.7**	**2.5**	**0.2**	**1.7**
Primary balance	3.7	-0.8	8.3	9.1	11.0	6.0	7.4	3.6	5.3
Financing	**6.2**	**9.5**	**-2.2**	**-2.4**	**-8.3**	**-1.7**	**-2.5**	**-0.8**	**-2.4**
Net foreign financing	0.2	0.3	0.3	-6.6	-3.4	-1.7	-1.3	-2.0	-4.4
Drawings 5/	1.7	2.3	7.4	3.7	4.8	0.3	0.3	0.2	0.2
Amortization	1.6	2.0	7.1	10.3	8.2	2.0	1.6	2.2	4.6
Net domestic financing	3.1	7.5	-4.6	-42.5	-16.3	-0.2	-26.3	0.8	1.6
Banking system	0.9	5.6	-6.4	-42.5	-15.7	-0.2	-26.3	0.8	1.6
Nonbanks and other	1.2	0.6	-0.1	0.0	-0.6	0.0	0.0	0.0	0.0
Financing arrangement on fuel purchase	0.9	1.3	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	1.3	1.0	1.6	-1.4	-1.0	0.0	-0.6	0.0	0.0
External	0.0	0.0	3.3	-1.4	-1.2	0.0	-0.6	0.0	0.0
Amortization	0.0	0.0	2.5	-1.2	-0.9	0.0	-0.4	0.0	0.0
Interest	0.0	0.0	0.8	-0.2	-0.4	0.0	-0.2	0.0	0.0
Domestic	1.3	1.0	-1.7	0.0	0.2	0.0	0.0	0.0	0.0
Sale/purchase of assets	1.7	0.7	0.4	0.2	0.5	0.2	0.2	-0.2	0.4
Exceptional financing	0.0	0.0	0.0	47.9	11.9	0.0	25.5	0.6	0.0
Statistical discrepancy	**-3.3**	**-1.7**	**0.4**	**0.0**	**3.4**	**0.0**	**0.0**	**0.0**	**0.0**
Financing gap 6/	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.6**	**0.6**
Memorandum items:									
Public sector debt (end of period)	148.5	163.9	153.7	92.3	137.6	86.5	105.1	90.5	83.1
Of which									
Central government	114.9	129.4	122.6	74.8	110.7	69.7	80.2	75.5	69.0
Domestic	78.3	90.3	80.2	38.1	72.3	36.2	44.8	44.0	43.7
External	36.7	39.1	42.4	36.7	38.4	33.5	35.4	31.6	25.3

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

1/ Combined accounts of the Federal Government of St. Kitts and Nevis and the Nevis Island Administration.

2/ Fourth review under SBA, Country Report 13/42.

3/ The sharp drop in international taxes and concurrent rise in taxes on domestic goods and services reflect the introduction of VAT in Novermber 2010.

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

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

6/ From 2012 onwards, to be closed by prospective disbursement from the Fund and donors, and restructuring of domestic debt.

Table 4. St. Kitts and Nevis: Balance of Payments, 2009–18

				Prel.	Proj.					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
				(In millions of Eastern Caribbean dollars)						
Current account	**-524.1**	**-406.2**	**-302.4**	**-259.3**	**-331.3**	**-387.0**	**-396.6**	**-404.1**	**-412.6**	**-420.5**
Trade balance	-616.3	-525.4	-490.8	-420.4	-471.1	-515.9	-539.6	-562.5	-586.7	-614.7
Exports, f.o.b.	101.1	156.9	183.8	194.7	204.1	217.9	233.5	252.1	273.5	296.8
Imports f.o.b.	-717.4	-682.2	-674.6	-615.1	-675.2	-733.9	-773.1	-814.6	-860.2	-911.5
Of which										
Mineral fuel	-67.2	-68.8	-101.7	-103.6	-102.3	-98.8	-96.2	-94.7	-94.6	-95.0
Services and transfers (net)	92.1	119.2	188.4	161.1	139.7	129.0	143.0	158.4	174.1	194.2
Services (net)	58.3	75.6	141.8	141.3	124.7	121.7	127.5	141.1	156.2	174.7
Services (receipts)	356.6	406.3	474.7	495.8	478.2	492.4	520.0	553.7	590.1	630.9
Of which										
Tourism receipts	225.4	243.1	254.1	250.5	265.8	282.2	308.3	335.3	364.6	392.6
Services (payments)	-298.3	-330.8	-332.9	-354.5	-353.4	-370.7	-392.5	-412.7	-433.9	-456.3
Factor income (net)	-88.0	-82.2	-79.1	-62.8	-66.2	-69.5	-70.0	-67.5	-69.2	-70.7
Of which										
Public sector interest	-53.3	-48.7	-37.8	-20.0	-21.3	-22.3	-19.9	-14.3	-12.7	-10.8
Transfers (net)	121.9	125.8	125.8	82.6	81.2	76.8	85.6	84.9	87.0	90.3
Official (net)	41.6	34.0	44.6	12.9	9.7	2.4	8.0	3.9	3.9	3.9
Private (net)	80.3	91.8	81.2	69.7	71.5	74.3	77.6	80.9	83.1	86.4
Capital and financial account	**542.3**	**485.7**	**332.7**	**118.1**	**296.0**	**385.7**	**432.1**	**458.7**	**446.7**	**438.4**
Official	-11.9	13.9	-11.7	-97.6	10.9	-13.6	-3.9	0.5	3.1	-2.8
Capital transfers (net)	11.9	37.1	47.0	32.4	26.8	29.3	37.6	37.0	37.0	37.0
Long-term borrowing (net)	-23.8	-23.2	-58.7	-130.0	-15.8	-42.9	-41.4	-36.5	-33.9	-39.8
Disbursements	32.3	42.2	58.3	26.7	31.1	4.8	4.5	4.5	3.7	0.0
Amortization	-56.1	-65.4	-116.9	-54.3	-47.0	-47.7	-45.9	-40.9	-37.6	-39.8
Debt forgiveness	...	...	...	-102.3	0.0	0.0	0.0	0.0	0.0	0.0
Private capital	554.2	471.8	344.4	215.7	285.0	399.3	436.0	458.2	443.6	441.1
Capital transfers (net)	57.7	125.4	136.9	278.3	164.5	123.1	106.8	97.6	86.5	85.4
Foreign direct investment (net)	317.7	298.2	296.0	323.1	336.5	360.8	385.9	400.7	410.9	414.9
Portfolio investment (net)	-30.1	-40.2	-41.7	-24.7	-24.7	-24.7	-24.7	-24.7	-24.7	-24.7
Short-term capital (net)	173.4	54.7	-75.0	-402.4	-185.0	-60.0	-35.0	-30.0	-30.0	-30.0
Other private (net)	35.5	33.6	28.3	41.3	-6.3	0.0	3.0	14.5	0.9	-4.4
Errors and omissions	-7.9	-9.4	15.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**10.3**	**70.1**	**45.3**	**-141.2**	**-35.4**	**-1.3**	**35.5**	**54.6**	**34.1**	**17.9**
Financing	**-10.3**	**-70.1**	**-45.3**	**141.2**	**35.4**	**1.3**	**-35.5**	**-54.6**	**-34.1**	**-17.9**
Net international reserves	-34.3	-88.4	-204.9	-54.4	-9.8	-7.5	-2.0	-2.0	-6.0	-20.0
Change in arrears	24.0	18.3	63.9	-15.4	-1.9	4.6	4.5	5.2	5.4	5.4
Net use of IMF resources	...	...	95.7	90.5	32.8	-4.1	-71.5	-91.5	-40.4	-9.9
Purchase			95.7	90.5	32.8	7.9	0.0	0.0	0.0	0.0
Repurchase			0.0	0.0	0.0	-12.0	-71.5	-91.5	-40.4	-9.9
Financing gap	...	...	0.0	120.5	14.3	8.3	33.5	33.9	6.9	6.7
Debt forgiveness	...	...	0.0	120.5	4.0	1.1	1.0	1.0	1.0	0.9
Other	...	...	0.0	0.0	10.4	7.2	32.5	32.9	5.9	5.7
				(In percent of GDP)						
Current account	-28.2	-22.3	-15.6	-13.1	-16.1	-17.8	-17.2	-16.5	-15.9	-15.2
Exports of goods and nonfactor services	24.6	31.0	34.0	35.0	33.1	32.7	32.6	32.9	33.2	33.6
Merchandise exports	5.4	8.6	9.5	9.9	9.9	10.0	10.1	10.3	10.5	10.8
Nonfactor services	19.2	22.4	24.5	25.1	23.2	22.6	22.5	22.6	22.7	22.9
Of which										
Tourism receipts	12.1	13.4	13.1	12.7	12.9	13.0	13.4	13.7	14.0	14.2
Imports of goods and nonfactor services	-54.6	-55.7	-52.0	-49.2	-49.8	-50.8	-50.5	-50.1	-49.8	-49.5
Merchandise imports	-38.6	-37.5	-34.8	-31.2	-32.7	-33.7	-33.5	-33.2	-33.1	-33.0
Nonfactor services	-16.0	-18.2	-17.2	-18.0	-17.1	-17.0	-17.0	-16.8	-16.7	-16.5
Foreign direct investment (net)	17.1	16.4	15.3	16.4	16.3	16.6	16.7	16.4	15.8	15.0
External financing gap	...	...	0.0	0.0	0.5	0.3	1.4	1.3	0.2	0.2
External public debt	48.1	49.5	50.5	42.4	43.1	38.4	31.3	24.7	21.1	18.6
				(Annual percentage change)						
Merchandise exports	-45.6	55.2	17.2	5.9	4.8	6.8	7.1	8.0	8.5	8.5
Tourism receipts	-24.1	7.8	4.5	-1.4	6.1	6.1	9.3	8.7	8.7	7.7
Merchandise imports	-14.8	-4.9	-1.1	-8.8	9.8	8.7	5.3	5.4	5.6	6.0
Terms of trade	5.6	-5.0	-4.4	1.0	0.8	1.3	0.8	0.9	0.6	0.5
				(In percent of exports of goods and nonfactor services)						
External public debt	195.5	159.8	148.6	121.2	130.4	117.5	95.8	75.0	63.6	55.4
External debt service	26.3	24.5	23.5	10.8	10.0	11.5	18.2	16.9	8.3	5.5
Of which										
Interest	11.0	8.3	5.6	2.8	3.0	3.1	2.6	1.7	1.4	1.1
				(Millions of US dollar)						
ECCB imputed reserves	122.9	155.7	231.5	251.7	253.5	255.4	256.2	256.9	259.2	266.6

Sources: ECCB; and Fund staff estimates and projections.

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

	2008	2009	2010	Prel. 2011	Prel. 2012	Projections 2013
	(In millions of EC$)					
Net foreign assets	**850.7**	**711.5**	**730.1**	**1025.0**	**1481.8**	**1671.8**
ECCB imputed reserves	297.6	331.9	420.3	625.1	679.5	684.5
Crown agents	10.6	10.6	10.6	10.6	10.6	10.6
Commercial banks	542.4	369.0	299.2	389.3	791.7	976.7
Net domestic assets	**799.8**	**1036.4**	**1172.6**	**1067.2**	**754.3**	**668.7**
Net credit to the public sector	366.3	390.9	476.4	305.7	-14.2	-106.9
Net credit to central government	337.2	427.4	850.8	726.2	459.3	442.6
Net credit to St. Kitts	263.0	298.9	676.6	526.4	266.2	248.5
Net credit to Nevis	74.2	128.5	174.3	199.8	193.1	194.2
Net credit to non-financial public sector	29.1	-36.5	-374.5	-420.5	-473.5	-549.5
Credit to the private sector 1/2/	1242.7	1311.1	1356.6	1406.4	1408.5	1409.7
Net other assets 3/	-809.2	-665.6	-660.4	-644.8	-640.0	-634.1
Broad money (M2)	**1650.5**	**1747.9**	**1902.7**	**2092.3**	**2236.1**	**2340.5**
Money	251.7	243.9	349.0	470.2	516.1	540.2
Currency in circulation	70.1	78.3	101.1	102.0	107.6	112.6
Demand deposits 1/	181.6	165.5	248.0	368.2	408.5	427.5
Quasi-money 1/	1398.8	1504.0	1553.7	1622.0	1720.0	1800.3
Savings deposits	602.6	638.5	638.4	684.8	753.3	788.4
Time deposits	398.1	491.0	552.4	581.3	527.9	552.5
Foreign currency deposits	398.1	374.5	362.8	356.0	438.9	459.4
	(Percentage change relative to broad money at beginning of period)					
Net foreign assets	11.6	-8.4	1.1	15.5	21.8	8.5
Net domestic assets	-10.0	14.3	7.8	-5.5	-15.0	-3.8
Net credit to the public sector	-1.7	1.5	4.9	-9.0	-15.3	-4.1
Net credit to central government	-7.9	5.5	24.2	-6.5	-12.8	-0.7
Net credit to non-financial public sector	6.2	-4.0	-19.3	-2.4	-2.5	-3.4
Credit to the private sector 1/2/	4.3	4.1	2.6	2.6	0.1	0.1
Net other assets 3/	-12.6	8.7	0.3	0.8	0.2	0.3
	(Annual percentage change)					
Broad money (M2)	1.6	5.9	8.9	10.0	6.9	4.7
Money	11.4	-3.1	43.1	34.7	9.8	4.7
Currency in circulation	24.8	11.7	29.0	0.9	5.5	4.7
Demand deposits 1/	6.9	-8.8	49.8	48.5	10.9	4.7
Quasi-money 1/	0.0	7.5	3.3	4.4	6.0	4.7
Savings deposits	6.5	6.0	0.0	7.3	10.0	4.7
Time deposits	5.4	23.3	12.5	5.2	-9.2	4.7
Foreign currency deposits	-12.6	-5.9	-3.1	-1.9	23.3	4.7
Credit to the private sector (in nominal terms) 2/	5.9	5.5	3.5	3.7	0.2	0.1
Credit to the private sector (in real terms) 2/	1.4	4.3	-1.6	0.8	-0.2	-2.3
Memorandum items:						
Income velocity of money	7.9	7.6	5.2	4.1	3.8	3.8
Income velocity of broad money	1.2	1.1	1.0	0.9	0.9	0.9
Private sector credit/GDP (in percent)	62.2	70.5	74.6	72.5	71.4	68.3
Foreign currency deposits/GDP (in percent)	19.9	20.1	20.0	18.4	22.3	22.3

Sources: ECCB; and Fund staff estimates and projections.

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

2/ Impacted by the debt/land swap in 2013. Land assets are assumed to be fully sold over a three year period.

3/ Includes capital accounts and, as of 2013, land assets which are assumed to be fully sold in equal increments over a three year period

Table 6. St. Kitts and Nevis: Indicators of External and Financial Vulnerability, 2007–12
(12-month percentage change, unless otherwise stated)

	2007	2008	2009	2010	2011	Prel. 2012
External indicators						
Merchandise exports	-1.0	19.5	-45.6	55.2	17.2	5.9
Merchandise imports	9.1	30.2	-14.8	-4.9	-1.1	-8.8
Terms of trade deterioration (-)	-1.9	-4.4	5.6	-5.0	-4.4	1.0
Tourism earnings	-5.2	-11.8	-24.1	7.8	4.5	-1.4
Current account balance (percent of GDP)	-16.8	-27.8	-28.2	-22.3	-15.6	-13.1
Capital and financial account balance (percent of GDP) 1/	15.5	25.6	29.2	26.7	17.2	6.0
Of which						
Foreign direct investment	19.5	24.0	17.1	16.4	15.3	16.4
Gross international reserves of the ECCB						
In millions of U.S. dollars	764.5	759.0	800.8	926.1	1007.5	1124.7
In percent of broad money	18.6	17.0	17.7	20.0	21.2	23.8
Commercial banks' net foreign assets (millions of U. S. dollars)	145.5	200.9	136.7	110.8	144.2	293.2
External public debt (percent of GDP)	41.9	44.6	48.1	49.5	50.5	42.4
External debt service (in percent of exports of goods and services)	21.0	22.9	26.3	24.5	23.5	10.8
Of which						
Interest	7.9	8.3	11.0	8.3	5.6	2.8
Nominal exchange rate (E.C. dollars per U.S. dollar, end period)	2.7	2.7	2.7	2.7	2.7	2.7
Real effective exchange rate depreciation (-), end period 2/	-5.8	12.4	-4.1	1.8	-0.6	1.0
Financial indicators						
Broad money	11.9	1.6	5.9	8.9	10.0	6.9
Credit to the private sector	11.9	5.9	5.5	3.5	3.7	0.2
Share of nonperforming assets to total assets of banks (percent)	4.1	4.5	4.3	5.5	6.6	10.6
Provisions for loan losses/nonperforming assets (percent)	23.9	20.0	48.9	42.2	38.3	28.2
Provisions for loan losses/total loans (percent)	1.0	0.9	2.1	2.3	2.5	3.4
Gross government exposure/total assets (percent)	29.1	28.2	26.1	26.6	24.3	22.6
Total loans/total deposits (percent)	86.9	88.7	77.4	78.1	73.0	65.9
Net liquid assets/total deposits (percent)	37.9	42.5	42.9	41.6	44.2	50.4
Foreign currency deposits/total deposits (percent)	23.4	22.9	30.2	27.5	25.6	25.9
Liquid assets/total asset (percent)	38.0	39.5	43.7	41.9	44.2	47.8
Liquid assets/current liabilities (percent)	47.5	48.4	50.9	51.5	51.8	56.2
Total capital/total assets (percent) 3/	15.0	16.8	19.3	18.4	16.3	15.8
Total Capital/Risk Weighted Assets (percent) 3/	43.8	42.7	47.6	42.4	40.7	38.2
Tier 1 Capital/Risk Weighted Assets (percent) 3/	37.7	40.1	42.0	36.8	40.1	38.5
Ratio of bank's before-tax profits to average assets (percent)	4.0	4.7	2.1	1.1	2.0	0.6

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

1/ Includes errors and omissions.

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

3/ For locally incorporated banks only.

Table 7. St. Kitts and Nevis: External Financing Requirement and Sources, 2011–18
(In millions of U.S. dollars)

		Prel.	Projections					
	2011	2012	2013	2014	2015	2016	2017	2018
Gross financing requirement	**247.9**	**307.3**	**213.1**	**184.3**	**175.0**	**170.8**	**179.6**	**190.6**
Current account deficit	111.4	95.4	121.2	141.6	145.4	149.2	152.7	155.7
Amortization	60.6	191.7	88.2	39.9	28.8	20.9	24.7	27.5
Official (public sector and central government)	43.3	58.0	17.4	17.7	17.0	15.2	13.9	14.7
of which, debt forgiveness	...	37.9	0.0	0.0	0.0	0.0	0.0	0.0
Private sector (net)	17.3	133.7	70.9	22.2	11.9	5.7	10.8	12.8
Commercial banks	27.8	149.0	68.5	22.2	13.0	11.1	11.1	11.1
Other private	-10.5	-15.3	2.3	0.0	-1.1	-5.4	-0.3	1.6
Reserve accumulation (+: increase)	75.9	20.1	3.6	2.8	0.8	0.8	2.2	7.4
Sources of financing	**183.9**	**235.5**	**197.9**	**182.7**	**188.9**	**190.8**	**190.2**	**189.8**
Capital grants and transfers	68.1	115.1	70.9	56.4	53.5	49.9	45.7	45.3
Foreign Direct Investment (net)	109.6	119.7	124.6	133.6	142.9	148.4	152.2	153.7
Net inflow of equity and other capital	-15.5	-9.1	-9.1	-9.1	-9.1	-9.1	-9.1	-9.1
New borrowing	21.6	9.9	11.5	1.8	1.7	1.7	1.4	0.0
of which: public sector	21.6	9.9	11.5	1.8	1.7	1.7	1.4	0.0
Errors and omissions	5.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of arrears	23.7	-5.7	-0.7	1.7	1.7	1.9	2.0	2.0
Exceptional external financing	**35.0**	**77.6**	**10.3**	**-1.1**	**-27.7**	**-34.1**	**-14.7**	**-3.3**
IMF net disbursement	35.0	32.9	8.8	-1.5	-28.0	-34.4	-15.1	-3.7
Fund disbursement	35.4	33.5	10.4	4.7	0.0	0.0	0.0	0.0
Repurchases	0.0	0.0	0.0	-4.4	-26.5	-33.9	-15.0	-3.7
Interest due	-0.5	-0.6	-1.5	-1.7	-1.5	-0.5	-0.1	0.0
Debt forgiveness 1/	0.0	44.6	1.5	0.4	0.4	0.4	0.4	0.3
Other residual	**0.0**	**0.0**	**5.6**	**0.9**	**12.0**	**12.2**	**2.2**	**2.1**

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

Table 8. St. Kitts and Nevis: Indicators of Capacity to Repay the Fund, 2013–21[1/]

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Fund obligations based on existing credit									
(in millions of SDRs)	0.80	3.79	16.93	18.95	5.02	0.00	0.00	0.00	0.00
Principal	0.56	3.33	16.56	18.78	4.99	0.00	0.00	0.00	0.00
Charges and interest	0.24	0.46	0.37	0.17	0.03	0.00	0.00	0.00	0.00
Fund obligations based on existing and prospective credit									
(in millions of SDRs)	1.04	4.37	17.50	19.78	9.21	4.06	0.59	0.00	0.00
Principal	0.56	3.33	16.56	19.45	9.10	4.03	0.59	0.00	0.00
Charges and interest	0.48	1.04	0.94	0.33	0.11	0.03	0.00	0.00	0.00
Fund credit outstanding based on existing and prospective credit									
(in millions of SDRs)	50.1	49.7	33.2	13.7	4.6	0.6	0.0	0.0	0.0
Total Obligations based on existing and prospective credit									
in millions of U.S. dollars 2/	1.7	7.0	28.0	31.6	14.7	6.5	0.9	0.0	0.0
in percent of exports of goods and services	0.7	2.7	10.0	10.6	4.6	1.9	0.3	0.0	0.0
in percent of external debt service3/	6.1	18.6	35.4	38.3	35.3	25.7	5.0	0.0	0.0
in percent of GDP	0.2	0.9	3.3	3.5	1.5	0.6	0.1	0.0	0.0
in percent of quota	11.7	49.1	196.6	222.2	103.5	45.6	6.6	0.0	0.0
in percent of net imputed reserves	0.7	2.7	11.0	12.4	5.7	2.4	0.4	0.0	0.0
in percent of revenue and grants	0.7	3.0	11.2	12.4	5.4	2.3	0.3	0.0	0.0
Outstanding Fund Credit									
in millions of U.S. dollars 2/	80.2	79.6	53.1	22.0	7.4	0.9	0.0	0.0	0.0
in percent of exports of goods and services	31.7	30.3	19.0	7.4	2.3	0.3	0.0	0.0	0.0
in percent of external debt service 3/	311.7	259.4	103.7	43.2	27.4	5.0	0.0	0.0	0.0
in number of months of imports of goods and services	2.5	2.3	1.5	0.6	0.2	0.0	0.0	0.0	0.0
in percent of GDP	10.5	9.9	6.2	2.4	0.8	0.1	0.0	0.0	0.0
in percent of quota	563.4	558.9	372.8	154.3	52.0	6.6	0.0	0.0	0.0
in percent of net imputed reserves	31.8	31.3	20.8	8.6	2.9	0.4	0.0	0.0	0.0
Net use of Fund Credit (in millions of SDRs)	2.2	-0.4	-16.6	-19.5	-9.1	-4.0	-0.6	0.0	0.0
Disbursements	2.8	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment and Repurchases	0.6	3.3	16.6	19.5	9.1	4.0	0.6	0.0	0.0
Memorandum items:									
Nominal GDP (in millions of US dollars)	764.5	805.7	855.2	907.6	963.3	1,022.4	1,085.2	1,151.9	1,222.7
Exports of goods and services (in millions of US dollars)	252.7	263.1	279.1	298.4	319.9	343.6	361.4	380.1	399.9
External debt service (in millions of US dollars)	25.7	30.7	51.2	50.9	27.0	18.8	18.1	15.6	13.3
Imports of goods and services (in millions of US dollars)	381.0	409.1	431.7	454.5	479.3	506.6	533.2	561.7	591.7
Net imputed reserves (in millions of US dollars)	252.6	254.5	255.3	256.0	258.3	265.7	265.7	265.7	265.7

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

Table 9. St. Kitts and Nevis: External Debt Sustainability Framework, 2008–18
(In percent of GDP, unless otherwise indicated)

	Actual								Projections						
	2007	2008	2009	2010	2011	2012			2013	2014	2015	2016	2017	2018	Debt-stabilizing non-interest current account 6/
Baseline: External debt	41.9	44.6	48.1	49.5	50.5	46.1			**43.0**	**38.3**	**31.2**	**24.6**	**21.1**	**18.6**	**-16.0**
Change in external debt	-8.4	2.6	3.5	1.4	1.0	-4.4			-3.0	-4.7	-7.1	-6.6	-3.6	-2.5	
Identified external debt-creating flows (4+8+9)	-6.2	-0.3	15.4	9.4	0.8	-2.7			0.0	1.1	0.4	0.1	0.2	0.4	
Current account deficit, excluding interest payments	14.0	25.0	25.3	19.6	13.5	11.1			15.0	16.9	16.4	15.9	15.8	15.2	
Deficit in balance of goods and services	16.4	27.8	30.0	24.7	18.0	14.2			16.8	18.1	17.8	17.2	16.5	15.9	
Exports	33.5	31.1	24.6	31.0	34.0	35.0			33.1	32.7	32.6	32.9	33.2	33.6	
Imports	49.9	58.9	54.6	55.7	52.0	49.2			49.8	50.8	50.5	50.1	49.8	49.5	
Net non-debt creating capital inflows (negative)	-17.6	-25.5	-15.5	-14.2	-13.1	-15.1			-15.1	-15.5	-15.6	-15.3	-14.8	-14.1	
Automatic debt dynamics 1/	-2.6	0.2	5.5	4.0	0.4	1.3			0.1	-0.3	-0.4	-0.5	-0.7	-0.6	
Contribution from nominal interest rate	2.8	2.8	2.8	2.8	2.2	1.7			1.0	1.0	0.9	0.6	0.1	0.1	
Contribution from real GDP growth	-2.2	-1.5	2.0	0.0	0.9	0.7			-0.9	-1.3	-1.3	-1.0	-0.8	-0.7	
Contribution from price and exchange rate changes 2/	-3.2	-1.1	0.7	1.3	-2.7	-1.0			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-2.2	2.9	-11.8	-8.0	0.2	-1.7			-3.0	-5.8	-7.5	-6.7	-3.8	-2.9	
External debt-to-exports ratio (in percent)	125.3	143.4	195.5	159.8	148.6	131.6			130.2	117.4	95.7	75.0	63.5	55.4	
Gross external financing need (in billions of US dollars) 4/	0.2	0.3	0.2	0.2	0.2	0.2			0.2	0.2	0.2	0.2	0.2	0.2	
in percent of GDP	25.6	34.8	36.0	30.9	24.7	31.1			22.6	24.7	26.0	24.4	20.5	18.6	
Scenario with key variables at their historical averages 5/									**44.5**	**39.8**	**33.3**	**27.2**	**23.7**	**21.0**	**-16.9**
Key Macroeconomic Assumptions Underlying Baseline							10-Year Historical Average	10-Year Standard Deviation							
Real GDP growth (in percent)	4.8	3.9	-4.2	0.0	-1.9	-1.3	1.7	4.2	2.0	3.3	3.5	3.5	3.5	3.5	
GDP deflator in US dollars (change in percent)	6.7	2.7	-1.5	-2.6	5.7	2.1	2.5	4.3	2.5	2.1	2.6	2.5	2.5	2.5	
Nominal external interest rate (in percent)	6.1	7.1	6.0	5.7	4.5	3.5	6.4	0.9	2.3	2.6	2.5	2.0	0.5	0.5	
Growth of exports (US dollar terms, in percent)	-2.1	-0.3	-26.3	23.1	16.9	4.9	5.8	14.3	-1.2	4.1	6.1	6.9	7.2	7.4	
Growth of imports (US dollar terms, in percent)	7.2	26.7	-13.7	-0.3	-0.5	-3.8	5.0	11.7	6.1	7.4	5.5	5.3	5.4	5.7	
Current account balance, excluding interest payments	-14.0	-25.0	-25.3	-19.6	-13.5	-11.1	-16.8	6.6	-15.0	-16.9	-16.4	-15.9	-15.8	-15.2	
Net non-debt creating capital inflows	17.6	25.5	15.5	14.2	13.1	15.1	17.4	5.8	15.1	15.5	15.6	15.3	14.8	14.1	

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

Table 10. St. Kitts and Nevis: Public Sector Debt Sustainability Framework, 2008–18
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2008	2009	2010	2011	2012	10-Year Historical Average	10-Year Standard Deviation	2013	2014	2015	2016	2017	2018	Debt-stabilizing primary balance 9/
Baseline: Public sector debt 1/	131.0	148.5	163.9	153.7	137.6			**105.1**	**90.5**	**83.1**	**76.7**	**70.6**	**65.2**	**-2.4**
o/w foreign-currency denominated	44.6	48.1	49.5	50.5	42.4			40.9	36.2	29.3	22.8	19.3	16.9	
Change in public sector debt	-3.0	17.5	15.4	-10.2	-16.2			-32.5	-14.6	-7.4	-6.4	-6.0	-5.4	
Identified debt-creating flows (4+7+12)	-7.1	9.2	11.2	-7.6	-6.4			-8.5	-5.7	-7.1	-6.1	-5.7	-5.0	
Primary deficit	-3.2	-4.6	-1.5	-10.5	-11.2			-7.5	-2.1	-4.0	-3.1	-3.1	-2.6	
Revenue and grants	35.3	39.6	38.0	44.0	43.0			40.0	35.6	36.1	35.1	35.0	34.5	
Primary (noninterest) expenditure	32.2	35.0	36.5	33.6	31.8			32.4	33.5	32.1	32.0	32.0	32.0	
Automatic debt dynamics 2/	-0.8	15.4	13.4	3.3	5.3			-0.8	-3.2	-2.6	-2.6	-2.2	-2.0	
Contribution from interest rate/growth differential 3/	-0.8	15.4	13.4	3.3	5.3			-0.8	-3.2	-2.6	-2.6	-2.2	-2.0	
Of which contribution from real interest rate	4.1	9.6	13.5	0.4	3.3			1.9	0.1	0.3	0.2	0.3	0.3	
Of which contribution from real GDP growth	-4.9	5.9	-0.1	2.9	2.0			-2.7	-3.3	-3.0	-2.8	-2.5	-2.3	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0			...	...	...	...	...	...	
Other identified debt-creating flows	-3.1	-1.7	-0.7	-0.4	-0.5			-0.2	-0.4	-0.4	-0.4	-0.4	-0.4	
Privatization receipts (negative)	-3.1	-1.7	-0.7	-0.4	-0.5			-0.2	-0.4	-0.4	-0.4	-0.4	-0.4	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	4.1	8.4	4.2	-2.5	-9.8			-24.0	-9.0	-0.3	-0.3	-0.3	-0.4	
Public sector debt-to-revenue ratio 1/	370.7	374.9	431.1	349.0	320.1			263.0	254.2	230.0	218.4	201.5	188.9	
Gross financing need 6/	54.3	51.1	52.2	47.5	38.6			36.9	28.1	25.2	25.5	22.7	21.0	
in billions of U.S. dollars	0.4	0.4	0.4	0.3	0.3			0.3	0.2	0.2	0.2	0.2	0.2	
Scenario with key variables at their historical averages 7/								**115.1**	**107.3**	**108.1**	**109.0**	**109.8**	**110.6**	**1.7**
Scenario with no policy change (constant primary balance) in 2012-2017								**100.9**	**77.1**	**62.9**	**48.9**	**35.5**	**23.0**	**-1.4**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline														
Real GDP growth (in percent)	3.9	-4.2	0.0	-1.9	-1.3	1.7	4.2	2.0	3.3	3.5	3.5	3.5	3.5	
Average nominal interest rate on public debt (in percent) 8/	6.0	5.5	6.3	5.8	4.2	6.2	0.8	4.0	2.2	3.0	2.8	3.1	3.1	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	3.4	7.0	8.8	0.1	2.1	3.7	4.4	1.5	0.1	0.5	0.3	0.5	0.5	
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	2.7	-1.5	-2.6	5.7	2.1	2.5	4.3	2.5	2.1	2.6	2.5	2.5	2.5	
Growth of real primary spending (deflated by GDP deflator, in percent)	2.8	2.9	4.6	-7.2	-5.6	1.4	12.6	4.0	6.7	-0.8	3.1	3.5	3.5	
Primary deficit	-3.2	-4.6	-1.5	-10.5	-11.2	-0.5	6.3	-7.5	-2.1	-4.0	-3.1	-3.1	-2.6	

1/ Public sector covers general government and gross debt is used.

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

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

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

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

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

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

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

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

Appendix. Letter of Intent

Basseterre, St. Kitts
June 28, 2013

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

Dear Ms. Lagarde:

For the past few years, economic activity has contracted in St. Kitts and Nevis, hampered by global economic headwinds. However, with an expected pick up in tourism activity and a number of major construction projects coming on stream, there are prospects for a moderate recovery in 2013. In this challenging context, prudent macroeconomic management has positioned us well to meet our 2013 targets under the program.

The Government of St. Kitts and Nevis reaffirms its commitment to the success of its home-grown medium-term reform program (supported by the Fund's Stand-By Arrangement (SBA)), which will benefit the people of St. Kitts and Nevis. Since the SBA was approved in July 2011, we have been determined to further our reform agenda and successfully implement our policies. This is reflected in having met our fiscal targets for end-September 2012 through end-March 2013 and all other quantitative performance criteria except for the continuous one on the accumulation of external arrears, which were minor and have since been repaid.[1] We also met our structural benchmarks for end-December 2012, albeit with a few months delay on completing the actuarial review of social security, due to a procedural setback. The structural benchmark for end-March 2013 on including in the Finance Administration Act provisions recognizing the Government Entities Oversight Board and strengthening its enforcement authority will be met with some delay following parliamentary approval of these amendments. There has been further progress on the restructuring of our public debt. Our bilateral negotiations with our Paris Club creditors are now complete and we have reached agreements with all but one of our domestic creditors. In terms of the St. Kitts debt land swap, the Board of the SPV is now in place and has approved its underlying principles according to best international practices. The recruitment process for its management team is under way. We welcome your continued strong support for these initiatives.

[1] We accumulated arrears to the Caribbean Development Bank in the amount of EC$0.88 million (0.04 percent of GDP) in October 2012, EC$0.75 million (0.04 percent of GDP) in January 2013, and EC$0.86 million of GDP (0.04 percent of GDP) in April 2013; these arrears were cleared as of May 15 2013.

In the attached Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU), we present our plans through 2013 to achieve the objectives of our program supported by the IMF. Based on the strength of these policies, and given our performance under the program and our continued commitment, we request the completion of the combined fifth and sixth program reviews, waiver of applicability for the end-June 2013 performance criteria[2], waiver of non-observance for the continuous performance criterion on external arrears for this review and the release of the sixth tranche of SDR 4.266 million. Due to the delay in adopting the budget for 2013, we request that the availability of the May 2013 purchase be delayed to September 2013 for the seventh review and corresponding adjustments made for the availability date of subsequent purchases related to the remaining reviews under the SBA. In this regard, we also request combining the last two purchases and eliminating the last review, in order to remain within the initially envisaged duration of the SBA.

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

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

Sincerely,

/s/

Denzil Douglas (Rt. Hon. Dr.)
Prime Minister and Minister of Finance

[2] While end-June 2013 performance criteria (PC) govern the fifth and sixth review, due to unavailability of data to assess them and the absence of clear evidence that the end-June PCs will not be met, the fifth and sixth review is based on the end-March 2013 PCs.

Attachment I. Memorandum of Economic and Financial Policies

1. St. Kitts and Nevis has continued to be successful in implementing its home grown economic program supported by the IMF Stand-By Arrangement (SBA). In support of the key goal of boosting growth and employment, the focus continues to be on putting public finances on a sustainable trajectory, finalizing a comprehensive debt restructuring to address the debt overhang, and further strengthening the financial system. This Memorandum of Economic and Financial Policies (MEFP) updates these policies in the context of the fifth and the sixth reviews under the SBA.

I. Recent Economic Developments

- **Growth and inflation.** After contracting for four years through 2012, the economy is showing some signs of recovery. The contraction in real GDP is estimated at 1.3 percent in 2012, due to a weak performance of construction and banking services, combined with a decline in tourism, partly caused by the disruption stemming from Hurricane Sandy in the northeastern United States—a key market—in the last quarter of 2012. Available indicators point to a recovery in economic activity in 2013Q1, with growth of stay-over arrivals estimated at 2.3 percent (y/y). Imports of building materials, cement and equipment have picked up; suggesting that activity in the construction sector may have bottomed out. Inflation continued to decline, from 2.8 percent (y/y) at end-December 2011 to 0.3 percent (y/y) at end-December 2012 and 0 percent at end-March 2013.

- **External sector.** The current account deficit is projected to have declined from 15.6 percent of GDP in 2011 to about 13 percent of GDP in 2012, below a projected 15 percent of GDP, on account of weaker imports than previously envisaged and strong receipts from the Citizenship by Investment program (CBI). Overall, imputed international reserves increased by EC$54 million in 2012 and EC$100 million in the first two months of 2013, as the pick-up in imports was overcompensated by a recovery in tourism and continued momentum of CBI-financed FDI receipts.

- **Financial sector.** Despite abundant liquidity, bank credit was subdued, due to the sluggish economy and rising NPLs. Credit to the private sector remained flat through end-December 2012, growing by only 0.2 percent (y/y), but contracted in 2013Q1 (by 1.6 percent (y/y) at end-March). Deposits continued to increase steadily, growing by 13.4 percent (y/y) at end-March 2013, spurred by the strong CBI inflows. The quality of the credit portfolio and profitability deteriorated somewhat in 2012Q4 and 2013Q1. Updated stress tests as of December 2012 continue to confirm earlier results with respect to the resilience of the banking sector to a range of shocks, including the full impact of the debt

restructuring, but with vulnerability to a liquidity shock for one bank. There has been no request to access the Banking Sector Reserve Fund (BSRF) set up under the SBA to date.

- **Debt restructuring.** We continue to make inroads on the comprehensive debt restructuring by:

    - **Effecting a debt/land swap.** Following the transfer of 1,200 acres of land to the St. Kitts-Nevis-Anguilla National Bank Limited in October 2012, it proved necessary to develop a supplement to the shareholders' agreement (signed on June 19 2013) in order to allow incremental debt/land swaps, as needed, to extinguish the debt. We have included a description of the lands available for sale in this supplementary agreement. On this basis, the transfer of 1,200 acres of land corresponds to a debt write-off of EC$565 million as of July 1 2013. The board of the Special Purpose Vehicle (SPV) has now been appointed and developed a clear schedule for achieving full operation of the Company. The early meetings of the Board will discuss and approve operational guidelines and reporting requirements which are aligned with international best practices. A search for the SPV's new managing director is under way, as is the tender for three real estate brokers. The Nevis SPV has been established and the reassessment of the land to be exchanged has been completed.

    - **Progressing in our discussions on the debt exchange with other domestic creditors.** Agreements to reschedule the debt of the central government through lower interest rates and extended maturity with its remaining domestic creditors are near completion. Negotiations were recently concluded between the Nevis Island Administration (NIA) and all but one of its domestic creditors.

    - **Finalizing a bilateral agreement with our remaining Paris Club creditor**. Our negotiations with the remaining Paris Club creditor, the United States, were concluded in January 2013.

    - **Engaging our other bilateral creditors.** Negotiations with Venezuela have undergone several iterations, while discussions with Taiwan POC and Kuwait continue.

These operations, combined with our fiscal efforts, will reduce total public debt, including arrears, from 153.7 percent of GDP at end-2011 to 105.1 percent of GDP at end-2013, in line with our objective to reach the ECCU target of 60 percent of GDP by end-2020.

II. Performance Under the Program

2. We have fulfilled our commitments under the program at end-March 2013 as detailed below. In this context, we request completion of the fifth and sixth program reviews, and request a waiver of non observance of the performance criterion on the accumulation of

external arrears by the central government in October 2012, January 2013 and April 2013, which have since been repaid.

- **Fiscal performance.** We have continued to meet all of our fiscal targets for end-September 2012 through end-March 2013, despite the persisting economic contraction. In 2012, strong receipts from the CBI and grants were key factors, compensating for tax revenue shortfalls and some overruns in current and capital outlays. At end-March 2013, the overall fiscal balance reached a surplus of EC$69 million, above the adjusted program floor of EC$11 million. Similarly, the primary surplus of EC$85 million was well above the adjusted indicative program target of EC$35 million. In addition to continued strong receipts from the CBI,[1] tax collections performed near program expectations, and spending was contained to within the constitutionally allowed limits (based on the 2012 budget, in the absence of an approved budget for 2013).

- **Other performance criteria.** The ceilings on central government budget expenditure arrears accumulation and the stock of external short-term debt have all been met (Table 2). We missed the PC on the accumulation of external arrears—we accumulated minor arrears to the Caribbean Development Bank (CDB) in the amount of EC$0.88 million (0.05 percent of GDP) in October 2012, EC$0.75 million (0.04 percent of GDP) in January 2013, and EC$0.86 million (0.04 percent of GDP) in April 2013; these arrears were cleared as of May 15, 2013.

- **Structural benchmarks.** We have met two of the three structural benchmarks for end-December 2012. The existing stress tests of banks were updated and we developed an explicit medium-term debt management strategy that takes account of the cost-risk tradeoff of alternative financing options within the context of the overall macroeconomic environment. This was issued in conjunction with the 2013 budget. However, the regular actuarial review of the Social Security Scheme was finalized only in May 2013. We have submitted to the Attorney General's office proposed amendments to the Finance Administration Act recognizing the Government Entities Oversight Board and strengthening its enforcement authority; the relevant structural benchmark (targeted for end-March 2013) will be met once submitted to and approved by Parliament.

- **Projected fiscal performance through end-June 2013.** While we do not yet have fiscal outturn data for end-June 2013, we are confident that the fiscal over performance for end-March 2013 will carry through the second quarter of 2013.

[1] Relative to program expectations, the over performance in the receipts from the CBI was EC$91 million in 2012 and EC$48.5 million in 2013Q1.

III. POLICIES DURING 2013

3. **We are optimistic that 2013 will be a year of economic recovery.** Construction activity should further improve, on account of the strength of the CBI program and related FDI projects already in the pipeline. Further support will come from the Sugar Industry Diversification Foundation (SIDF) projects (such as the People for Employment Program (PEP), the Small Entrepreneur Enterprise Development program (SEED), the Fund for the Realization of Economic Empowerment through Subsidized Housing (FREESH) and the Equity Assistance Fund (EAF)),[2] aimed at enhancing growth and employment. As a result, real GDP growth is projected to reach 2 percent for 2013 and 3-3½ percent over the medium term as tourism and construction continue to recover. Nevertheless, downside risks continue to weigh on this outlook.

4. **We remain firmly committed to the program.** The Parliament of St. Kitts and Nevis approved the 2013 budget on April 9 2013, in line with program parameters. Following the change in the Nevis Island Administration (NIA) government in late January 2013, its budget was approved on April 26 2013. On the basis of these fiscal frameworks, we are confident that the program's fiscal targets will continue to be met.

A. Fiscal Policy

5. **The 2013 budget envisages raising tax revenue and placing more emphasis on growth-enhancing capital outlays.** We will enhance our tax revenue collections through sustained improvements in the revenue administration and the full year impact of the amendments to the Income Tax Act in May 2012 (Country Report No. 12/284, MEFP ¶8). The major tax policy initiative is the reduction in the corporate income tax rate from 35 percent, the highest of the Organization of Eastern Caribbean States (OECS), to 33 percent, which will only apply starting with income in 2013 to be collected towards the end of 2013. Non tax revenue is expected to decline somewhat as a share of GDP, relative to 2012, based on conservative projections for revenue from the CBI. Current outlays would decline on account of the continued freeze of the nominal wage bill and interest savings following the debt restructuring. The budget envisages a reallocation of some of these savings to public investment. In support of the 2013 wage bill objectives, the NIA is committed to hiring civil servants only through attrition. We will aim for an overall fiscal surplus of 2.5 percent of GDP in 2013, corresponding to a primary surplus of 7.4 percent of GDP and consistent with moving towards debt sustainability.

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[2] Programs supported by the Sugar Industry Diversification Foundation (SIDF) include: the PEP, which provides on-the-job training by subsidizing wages; the SEED, which provides interest-free loans ranging from EC$5,000 to EC$100,000, to finance start-up businesses; the FREESH, which subsidizes interest rates on residential mortgages of up to EC$500,000 for new residential housing acquired by borrowers in the lower to middle income brackets; and the EAF, which provides equity assistance for FREESH-qualifying mortgages.

6. **We are committed to further strengthening the pro-growth orientation of our program by adhering to our public investment target for 2013.** As such, we agree to adjust upwards the program floor on the overall balance of the central government, not financed by grants and loans, by the amount of under-execution of revenue financed public investment.

Revenue Enhancing Reforms

7. **We firmly commit to sustained increases in tax revenue in 2013 and over the medium term through fundamental and continued reforms in our revenue administration.**

- **We will implement a new organizational structure that will provide strong direction and guidance to reforms and operations and continue to reinforce procedures.**

    - ***Program design, planning and monitoring.*** Building on the organization structure which we have already developed for the Inland Revenue Department (IRD), we are establishing in the IRD a unit dedicated to program design, planning and monitoring and plan to operationalize it by end-September 2013 (structural benchmark for end-September 2013).[3] This unit will be headed by a deputy comptroller. Monitoring of the implementation of the five strategic initiatives[4] adopted for the IRD in 2013 will be transferred to the new unit once it becomes operational.

    - ***Procedures.*** We continue to build on the significant reforms accomplished in the IRD to improve operations. We will enforce business processes at the IRD's recently established Tax Roll and Intelligence Unit by reviewing job descriptions and setting up a data entry testing system. We will harmonize the Tax Administration Procedures Act with the VAT Act to extend best practices in enforcement to taxes other than the VAT by the second half of 2013. We hope to receive technical assistance in this area.

- **We are implementing measures to improve taxpayer compliance, a key strategic priority for 2013 and over the medium-term.** To that effect, we undertook a comparative analysis of registration data for the VAT and income tax and have drafted an internal report evaluating and summarizing the findings. On that basis, we are reprioritizing the audit program accordingly. We have also redirected our audit operations to focus on large taxpayers. We plan to establish a Large Taxpayer Unit (LTU) by December 2013, which will be integrated in our new organizational structure, including with a description of business processes and core job descriptions. In order to

[3] A similar structure was implemented in the Customs and Excise Department (CED).

[4] Our strategic initiatives are to: facilitate tax compliance by improving services; enhance the legal framework; modernize the administration of the IRD and the CED; address effective non-compliance; and improve relations with stakeholders.

strengthen enforcement at the Customs and Excises Department (CED), we will submit to Parliament the new Customs law by end-December 2013 (structural benchmark). We have started post-clearance audits on June 1. We will implement risk-management practices at the CED, including risk profiling in cargo clearance procedures, which will be facilitated by the implementation of the ASYCUDA World system, expected to be finalized by end-March 2014. With the objective of improved control over potential abuses of tax incentives and VAT refunds, we have intensified enforcement of the provisions in the tax legislation that require beneficiaries of tax incentives to file income tax returns. We are also starting the process of amending our Income Tax Act accordingly. We will also tighten export controls at Customs through implementation of the new regime for export verification by end-September 2013. In addition, we will intensify the collection of tax arrears.

8. **Boosting tax revenue also hinges critically on further broadening the tax base.** While we extended the temporary VAT and customs duties exemptions on construction materials through end-2013, we remain committed to a thorough review of the system of customs duties and tax exemptions (EBS 12/147 MEFP¶7) and have received technical assistance to that effect. We intend to overhaul the system of tax incentives included in the Small Business Development Act, the Fiscal Incentives Act, the Hotels Aid Act, the Special Incentive Package for Small Hotels and the Special Resorts Development Act and not to grant ad hoc incentives and progressively reduce the level of discretionary exemptions.

Expenditure Reforms

9. **We aim to improve the efficiency of public expenditure by:**

- **Overhauling our procurement procedures.** With TA support, we will draft a Procurement Action Plan and finalize the implementing regulations for the Procurement and Contract Act by end-December 2013 (structural benchmark for end-December 2013). These regulations will broaden the composition of the Administration Review Board to include representatives of the private sector and independent bodies. Standard Bidding Documents will also be developed subsequently. We will summarize in a widely disseminated document the scope of the new Act, its regulations and the underlying strategic vision and objectives by end-March 2014.

- **Reforming the civil service.** We are introducing a top down notion of accountability in the management of government employees. To that effect, we will operationalize the implementing regulations (pertaining to recruiting, discipline, promotion, and standing orders) of the 2011 Civil Service Act, by amending the general orders accordingly, (structural benchmark for end-July 2013). As a first step to rationalizing the wage bill and informing the design of policies, we have launched the procurement process to conduct an audit of the public payroll, with the support of the World Bank, and plan to complete a report with our findings and recommendations by end-March 2014.

- **Limiting contingent liabilities arising from public enterprises.** Along with strengthening the authority of the Government Entities Oversight Board (EBS 12/147 MEFP¶8), we are committed to adopting policies and actions that will strengthen the financial position of public enterprises. We intend to articulate our energy policy by end-December 2013; this will help guide the electricity company SKELEC's investment plans. We will reach an agreement with SKELEC on modalities for collecting overdue electricity bills accumulated prior to its corporatization in August 2011. In addition, the NIA and NEVLEC are working on a plan to settle the overdue electricity payments. Finally, as we elaborate a plan for the resolution of the debt of the Nevis Housing and Land Development Corporation (NHLDC), we will make sure that no new loans are contracted.

- **Containing budgetary transfers.**

  - ***Health insurance scheme.*** We have announced in the 2013 budget our intention to pursue universal health care. This initiative will be comprehensively costed, based on bids that we have requested from private health providers. In addition to some consolidation of existing programs, careful consideration will be given to the level of eventual participants' benefits and contributions. This will be more fully articulated at the time of the preparation of the 2014 budget.

Price controls for staples and social safety net.

- **We are moving forward with plans for introducing a full pass-through pricing system for the LPG market** (in line with commitments to the Monetary Council of the ECCB). Plans involve the replacement of the existing universal subsidy with a targeted demand side subsidy that will be incorporated into a restructured National Social Protection system, currently under development. Based on the findings of a recently completed study, Cabinet approved a strategy for enhancing the competitiveness of the market for petroleum products. Implementation of this strategy will involve the renegotiation of the LPG pricing formula, the strengthening of the price control oversight system and complementary changes in the regulatory framework.

- **We are also moving forward with planning work for the National Social Protection system.** In that regard, we will need a bit more time to finalize our method for the proxy-means testing for the eligibility criteria of the planned consolidated cash transfer program (structural benchmark now set for end-December 2013). The government-operated Supply Office in St. Kitts was closed on January 15 2013, and responsibilities for managing the supply of related staples have been transferred to the private sector.

- ***Pensions of civil servants.*** We have adopted the new Pension Act at end-2012, which redefines the government-provided pension for new entrants in the civil service. This will involve a shift from a defined benefit to a defined contribution

regime, and will generate significant budgetary savings over the longer term. We intend to complete implementing regulations to the Pension Act by end- September 2013.

10. **Progress has been made in improving fiscal transparency.** Following the upgrade of the Ministry of Finance's website, we will commence quarterly publication of reports on fiscal operations by end-July 2013 and will do so for gross financing needs starting in September 2013. The audited financial statements of the Sugar Industry Diversification Foundation (SIDF) for 2011 have been finalized and will be published by September 2013.

B. Debt Restructuring

11. **With the debt/land swap now completed, we will swiftly proceed to land sales.** In addition to finalizing the search for the SPV's managing director, the Company intends to complete the staffing of the SPV as well as the selection of three real estate brokers. The guiding principles of the Company will emphasize seeking competitive market value for the SPVs' assets and engaging in sales in a timely fashion.

C. Financial Sector

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

D. Labour Market

13. **We are reforming legislation to improve working conditions and labor market flexibility, and taking steps to better match workers' skills with employers' needs.** Revisions to the Labour Code, in collaboration with the ILO, will be completed by December 2013. They are centered on reforming the severance fund, to improve its sustainability, and rules for the termination of employment. They also aim to improve employment conditions, enhance flexibility on working hours and establish an independent tribunal on labor disputes. To upgrade the skills of job seekers and improve their employment prospects, we have developed partnerships to implement a host of training initiatives.[5]

[5] These include: the National Technical and Vocational Education and Training (TVET) Implementation Plan, the Skills Training and Entrepreneurial Program (STEP), the People Employment Program (PEP), the National Entrepreneurship Development Division (NEDD), the Youth Business Trust and Capisterre Farm.

E. Program

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

Availability date 1/	Amount of Purchase: Millions of SDR	Amount of Purchase: Percent of Quota	Conditions
July 27, 2011	22.150	248.9	Approval of arrangement
January 25, 2012	11.470	128.9	First review and end-September 2011 performance criteria
May 21, 2012	3.161	35.5	Second review and end-December 2011 performance criteria
August 3, 2012	3.161	35.5	Third review and end-March 2012 performance criteria
November 30, 2012	3.161	35.5	Fourth review and end-June 2012 performance criteria
February 15, 2013	4.266	47.9	Fifth and sixth review and end-March 2013 performance criteria 2/
September 15, 2013	1.105	12.4	Seventh review and end-June 2013 performance criteria
December 15, 2013	1.105	12.4	Eight review and end-September 2013 performance criteria
March 15, 2014	1.105	12.4	Ninth review and end-December 2013 performance criteria
June 15, 2014	1.826	20.5	Tenth review and end-March 2014 performance criteria
Total	**52.510**	**590.0**	

Source: Fund staff estimates

1/ For completed reviews the dates refer to Board dates and for future review the dates refer to availability dates.
2/ The end-June PC govern the combined fifth and sixth reviews but are being waived due to data unavailability.

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

													Performance Criteria	Proposed Performance Criteria	
	End-Sep. 2012				End-Dec 2012				End-Mar. 2013				End-Jun. 2013	End-Sep. 2013	End-Dec. 2013
	Prog.	Adjusted	Actual	Status	Prog.	Adjusted	Actual	Status	Prog.	Adjusted	Actual	Status			
Performance Criteria:															
Central government overall balance including grants (floor) :	-91	-93	84	√	24	51	164	√	8	11	69	√	28	48	52
Stock of central government budget expenditure arrears accumulation (ceiling) 3/	0	0	-50	√	0	0	-48	√	0	0	-52	√	0	0	0
Stock of external short term debt (ceiling)	0	0	0	√	0	0	0	√	0	0	0	√	0	0	0
Central government or guaranteed external arrears accumulation (ceiling) 4/	0	0	0.7	X	0	0	0.9	X	0	0	0.8	X	0	0	0
Indicative Target:															
Central government primary balance (floor) 1/ 2/	8	7	176	√	181	207	283	√	32	35	85	√	61	121	152

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

Table 3. St. Kitts and Nevis: Structural Benchmarks

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

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

Attachment II. Technical Memorandum of Understanding

1. St. Kitts and Nevis' performance under the Stand-By Arrangement (SBA) will be assessed on the basis of the quantitative performance criteria and indicative targets, as well as the structural benchmarks. This Technical Memorandum of Understanding (TMU) defines the variables set out in Tables 2 and 3 of the Memorandum of Economic and Financial Policies (MEFP). It also lays down the reporting requirements to adequately monitor the program.

2. For the purposes of the program, the exchange rate of the East Caribbean dollar (EC$) to the U.S. dollar is set at EC$2.70 = US$1 and the exchange rate of the Euro to the U.S. dollar is set at EUR1 = US$1.3. Foreign currency accounts denominated in currencies other than the U.S. dollar and the Euro, excluding SDRs, will be first valued in the U.S. dollar at actual end-of-period exchange rates used by the ECCB to calculate the official exchange rates. SDR-denominated accounts will be valued at the program exchange rate of U.S. dollar 1.6 per SDR.

I. Coverage

3. For the purpose of the program, **central government** will cover all items included in the government budgets of the Federation (both St. Kitts and Nevis).

4. The **nonfinancial public sector** is defined as the total central government and nonfinancial public enterprises. Public enterprises consist of the Development Bank of St. Kitts and Nevis, Financial Services Regulatory Commission, Frigate Bay Development Corporation, La Vallee Greens Ltd, National Housing Corporation, Nevis Air and Sea Port Authority, Nevis Cultural Development Foundation, Nevis Electricity Corporation, Nevis Housing and Land Development Corporation, Nevis Solid Waste Management Authority, Nevis Tourism Authority, St. Christopher and Nevis Solid Waste Management Corporation, St. Christopher Tourism Authority, St. Kitts Urban Development Corporation, St. Christopher Air and Sea Ports Authority, White Gate Development Corporation, and ZIZ Broadcasting Corporation.

5. **External debt** is defined as all debt owed to creditors residing outside of St. Kitts and Nevis, while **domestic debt** covers all debt owed to residents of St. Kitts and Nevis. The latter covers all T-bills, including those held by creditors residing outside of St. Kitts and Nevis, and the bond issued at the Regional Government Securities Market (RGSM).

II. Quantitative Performance Criteria

A. Central Government's Overall Deficit (PC)

6. The **central government overall balance** will cover all of its revenue, grants, expenditure, and transfers. Revenues will exclude any proceeds from the sale of public assets

such as land, which will be considered as financing below the line. Expenditures will exclude clearance of arrears, which will be considered as financing below the line.

7. The central government's overall balance will be measured from the financing side as the sum of the net domestic financing, net external financing, plus proceeds from the sale of public assets, minus clearance of arrears.

8. **Net domestic financing** of the central government is defined as the sum of:

- net domestic bank financing as measured by the change in the domestic banking system credit to the central government net of deposits, as reported by the consolidated balance sheet of the monetary authorities and commercial banks, including special tranches from the ECCB;
- net nonbank financing as measured by the net changes in holdings of government securities by nonbanks, and net borrowing from nonbank institutions;
- the changes in the stock of domestic arrears of the central government defined as net changes in unpaid checks issued, unprocessed claims, pending invoices, plus accrued interest payments, and other forms of expenditures recorded above the line but not paid;
- gross receipts from divestment defined as proceeds received from any privatization, divestment, and sale of asset (land); and
- any exceptional financing, including rescheduled principal and interest.

9. **Net external financing** of the central government is defined as the sum of:

- disbursements of project and non-project loans, including securitization;
- proceeds from bonds issued abroad (with an original maturity of one year or greater);
- net changes in short-term external debt (with an original maturity of less than one year), excluding exceptional financing;
- net changes in cash deposits held outside the domestic banking system;
- any changes in arrears on external interest payments and other forms of external expenditures recorded above the line but not paid;

- any exceptional financing, including rescheduled principal and interest;

less:

- payments of principal on current maturities for bonds and loans on a due basis, including any prepayment of external debt.

10. The **floor on the overall balance of the central government** will be adjusted as follows:

- **downward** (i.e., a larger overall deficit target would apply) to the extent that budgetary grants fall short of the programmed amounts by less than EC$3 million.

- **upward** to the extent that budgetary grants exceed the annual amounts specified in the program.

- **downward** by the cumulative amount of up to EC$15 million spent on bank recapitalization and support to the British American Insurance Companies or CLICO as part of a regional solution—any amounts spent in excess of this programmed contingency will need to be funded within the program limit on the overall deficit.

- **upward** to the extent that clearance of arrears fall short of the amounts specified.

- **upward** to the extent of exceptional financing achieved through debt restructuring.

Table 1. Programmed Disbursements of Budgetary Grants in 2013
(in EC$ millions)

Quarters	I	II	III	IV
Grants	15	33	28	54

Sources: St. Kitts and Nevis authorities; and Fund staff estimates.
Note: Values presented are cumulative from the beginning of the year.
There is a revision of program targets from 2013Q3.

- **upward** to the extent of under-execution of revenue financed capital expenditure relative to the program targets. For the purpose of the program revenue financed capital expenditure refers to capital expenditure not financed by loans or grants.

Table 2. Programmed Capital Outlays of the Central Government, 2013
(in EC$ millions)

Quarters	II	III	IV
Capital expenditure	26	61	90
Capital expenditure net of grants and loans	17	37	53

Sources: St. Kitts and Nevis authorities; and IMF Staff estimates.

Note: Values presented are cumulative from the beginning of the year. 2013QII corresponds to targets from the fourth review under the SBA

B. Stock of Central Government Short-Term External Debt (PC)

11. **The limit on short-term external debt** applies to debt owed or guaranteed by the central government of St. Kitts and Nevis, with an original maturity of up to and including one year. Excluded from the limit are any rescheduling operations (including the deferral of interest on commercial debt) and normal import-related credits. Normal import credit is understood to be a self-liquidating operation where the proceeds from sales of imports are used to retire the debt. Debt falling within the limit shall be valued in U.S. dollars at the time of the contract or guarantee becomes effective.

C. External Arrears of the Public Sector (PC)

12. The **non-accumulation of arrears to external creditors** will be a continuous performance criterion under the program. This performance criterion applies to arrears accumulated related to debt contracted or guaranteed by central government. External payment arrears consist of external debt service obligations (principal and interest) falling due after December 31, 2010 that have not been paid at the time due, taking into account the grace periods specified in contractual agreements. Arrears resulting from nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is being sought are excluded from this definition.

D. Budget Expenditure Arrears (PC)

13. A ceiling is set on central government budget expenditure arrears, equal to the stock of such arrears as at December 31, 2010 (Table 3). The ceiling applies to the increase in the sum of: (1) any invoice that has been received by a spending agency from a supplier of goods, services, and capital goods delivered and verified, and for which payment has not been made within the contractually agreed period, or in the absence of a grace period, within 60 days; and (2) unpaid wages, pensions, or transfers, pending for longer than 60 days to domestic or foreign residents,

irrespective of the currency denomination of the debt. Interest and amortization arrears on domestic debt resulting from nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is being sought are excluded from this ceiling. For ease of monitoring, all debt issued on the Regional Government Securities Market (RGSM), irrespective of who holds it, will be regarded as domestic debt.

Table 3. Stock of Budget Expenditure Arrears at end-December, 2010
(In EC$ millions)

Stock of arrears 1/	133
Unpaid checks issued	…
Unprocessed invoices	…
Pending invoices	…
Interest and amortization arrears on domestic debt	0
Total	133

Source: St. Kitts and Nevis authorities.
1/ The stock of arrears related to the fuel purchase is being audited by international auditors .

III. INDICATIVE TARGET ON THE PRIMARY BALANCE OF THE CENTRAL GOVERNMENT

14. The **central government's primary balance** is defined as revenue and grants minus non-interest expenditures. As in the definition of the overall balance, revenue will exclude any proceeds from the sale of public assets. Net lending is a non-interest expenditure item (negative net lending is a revenue item). Interest expenditures include interest payments on outstanding arrears, as defined above in sections IIC and IID (at their contractual rates) converted to a cash basis.

15. The **floor on the primary balance of the central government** will be monitored from the financing side as the sum of the net domestic financing, net external financing, proceeds from the sale of public assets, plus domestic and external interest payments on a due basis.

16. The floor on the primary balance of the central government will be adjusted as follows:

- **downward** (i.e., a smaller primary surplus target would apply) to the extent that budgetary grants fall short of the programmed amounts by less than EC$3 million.

- **upward** to the extent that budgetary grants exceed the annual amounts specified in the program.

- **downward** by the cumulative amount of up to EC$15 million spent on bank recapitalization and support to the British American Insurance Companies or CLICO as part of a regional solution.
- **upward** to the extent of exceptional financing achieved through debt restructuring.
- **upward** to the extent of under-execution of non-grant financed capital expenditure relative to the program targets.

IV. DATA AND INFORMATION

17. To enable monitoring of performance relative to the above quantitative performance criteria and indicative targets, the St. Kitts and Nevis authorities will provide Fund staff with the following specific data and information within 8 weeks after the end of each month.

Fiscal sector

- Central government budgetary accounts.
- Capital expenditure.
- Total monthly disbursements and grants receipts, disaggregated into: (a) budgetary support (by type—either loans, external "bonds" and/or other securities); (b) project loans; (c) budgetary grants; and (d) project grants.
- Central government domestic debt data (St. Kitts and Nevis).
- Stock of domestic arrears, including unpaid checks issued, stock of unprocessed claims due and invoices pending; interest and amortization on domestic debt.
- Stock of external arrears by creditor.
- Detailed monthly external debt report from the Debt Unit in the Ministry of Finance, showing fiscal year-to-date disbursements, amortization, interest payments and outstanding stocks, for the central government and public enterprises.
- Copies of loan agreements for any new loans contracted, including financing involving the issue of government paper, and of any renegotiated agreements on existing loans.

Financial sector

- Monetary survey for St. Kitts and Nevis as prepared by the Eastern Caribbean Central Bank.

Real sector

- Consumer price index.

18. Reporting on a **quarterly basis** will include the following:

Fiscal

- A detailed overview of capital expenditures on a project by project basis and the composition of financing.
- Financial position of the public enterprises (as listed in paragraph 4).

Real sector

- Economic indicators under the real sector.

External sector

- Economic indicators under the external sector.

19. Reporting on an **annual basis** will include the following:

External and real sectors

- GDP and its components.
- Balance of payments accounts.

20. **Other reporting** will include:

- Reports of legislative changes pertaining to economic matters.
- Notification of any establishment of new public enterprises.
- All disbursements and outstanding balances from the use of the Banking Sector Reserve Fund on a weekly basis.

Press Release No. 13/278
FOR IMMEDIATE RELEASE
July 25, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth and Sixth Reviews Under Stand-by Arrangement with St. Kitts and Nevis and Approves US$6.45 Million Disbursement

On July 24, the Executive Board of the International Monetary Fund (IMF) completed the fifth and sixth reviews of St. Kitts and Nevis' economic performance under a program supported by a 36-month Stand-by Arrangement (SBA). The completion of the reviews allows the immediate disbursement of an amount equivalent to SDR 4.266 million (about US$6.45 million), bringing total disbursements under the arrangement to SDR 47.37 million (about US$71.58 million).

In completing the reviews, the Executive Board approved waivers of applicability for the end-June 2013 performance criteria, waiver of non-observance of the continuous performance criterion on the ceiling of external arrears accumulated on debt contracted or guaranteed by the central government, and rephased disbursements under the SBA. The Executive Board also approved waivers for non-observance of the continuous performance criterion on the ceiling of external arrears accumulated on debt contracted or guaranteed by the central government following minor data revisions after the completion of each of the first, second, third, and fourth reviews under the SBA.

The SBA was originally approved on July 27, 2011 (see Press Release No.11/295), for an amount equivalent to SDR 52.51 million (about US$79.35 million), or 590 percent of St. Kitts and Nevis' IMF quota.

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

"The St. Kitts and Nevis authorities have continued the successful implementation of their Fund-supported program, in particular making progress toward achieving fiscal objectives and debt restructuring. Following a four-year contraction in economic activity, signs of an economic recovery are emerging. Sustained commitment to prudent macroeconomic policies and reforms will be necessary to address remaining risks and vulnerabilities and to support stronger and inclusive growth.

"The 2013 budget is aligned with the authorities' dual objectives of redeploying resources towards growth-enhancing outlays and continuing fiscal consolidation through significant budgetary primary surpluses. To boost revenue, while steps are being taken to improve revenue administration, action will also be needed to broaden the tax base, in particular to streamline tax exemptions. Moreover, the fiscal performance of the Nevis Island Administration could usefully be bolstered and would benefit from improved communication between the twin-island federation

"The restructuring of public debt has continued, notably with establishing the legal framework for incremental debt/land swaps. To help buttress banks' income, it is necessary to proceed with launching the land asset management company, according to best practices, and with land sales. Continued collaboration with the Eastern Caribbean Central Bank will be needed to monitor and address financial sector developments and implement reforms.

"Accelerating the pace of structural reforms is important to secure lasting gains in fiscal sustainability, neutralize pressures on current outlays, and promote stronger and inclusive growth. Priority should be given to pension and civil service reform and to streamline the social safety net. Implementing programs to upgrade education and training skills of job seekers to enhance their employment prospects will also be important."