IMF Country Reports 21/236

St. Kitts and Nevis: 2021 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for St. Kitts and Nevis

INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/236

ST. KITTS AND NEVIS

October 2021

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ST. KITTS AND NEVIS

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with St. Kitts and Nevis, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 13, 2021 consideration of the staff report that concluded the Article IV consultation with St. Kitts and Nevis.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 13, 2021, following discussions that ended on June 22, 2021, with the officials of St. Kitts and Nevis on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 29, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for St. Kitts and Nevis.

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

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2021 Article IV Consultation with St. Kitts and Nevis

FOR IMMEDIATE RELEASE

Washington, DC – October 29, 2021: On September 13, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with St. Kitts and Nevis.

St. Kitts and Nevis entered the Covid-19 pandemic from a position of fiscal strength following nearly a decade of budget surpluses. A significant part of the large CBI revenues was prudently saved, reducing public debt below the regional debt target of 60 percent of GDP and supporting accumulation of large government deposits.

Prompt government action helped contain the pandemic's public health impact. At the onset of the pandemic the government swiftly restricted inbound travel, introduced a month-long national lockdown, and procured protective and medical equipment. The reopening of borders at end-October 2020 has been accompanied by strict safety protocols. The response measures effectively mitigated the pandemic's human cost, with St. Kitts and Nevis having had the lowest per capita case count in the Western Hemisphere and no mortalities in 2020.

But the impact on the economy has been severe. The complete halt in cruise ship arrivals and very few stayover tourists since the first quarter of 2020 compounded on the pandemic's impact on domestic activity. The pandemic resulted in an estimated annual decline in GDP of 14 percent, and the general government's first fiscal deficit (4.7 percent of GDP) since 2010, financed by drawing down sizeable deposit buffers.

An expected rebound in tourism sets the stage for a strong recovery from 2022 onward, but risks to the outlook remain significant. Following a loss of the 2020–21 winter tourism season and slow resumption of tourism inflows to date, staff projects a small further decline in GDP of 1 percent in 2021, followed by 10 percent growth in 2022. However, the recovery path could be derailed should the pandemic lead to further sustained disruptions on the anticipated pace of tourism recovery and domestic activity. Other risks include financial sector uncertainties, natural disasters, and lower-than-expected CBI receipts.

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

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They noted that St. Kitts and Nevis entered the COVID-19 pandemic from a position of fiscal strength and commended the authorities' prompt and effective policy response, which has helped contain the pandemic's economic and health impact. Directors agreed that, in the near term, the key policy priorities are containing the pandemic and supporting the economic recovery. In particular, they emphasized that reaching herd immunity through vaccination is the chief priority to save lives and livelihoods.

Directors agreed that fiscal relief measures should be kept in place until the recovery firmly takes root. They noted that robust levels of public investment would further support economic activity. Given the small economy's susceptibility to natural disasters and dependance on tourism and volatile revenues from the Citizenship by Investment (CBI) Program, Directors concurred that once the recovery is firmly established, the government should resume saving part of the CBI revenues to rebuild fiscal buffers, which will also provide additional fiscal space to mitigate contingent and long-term fiscal pressures.

Directors agreed on the need to preserve the stability of the financial system by increasingly focusing on building readiness to exit the temporary support measures. They recommended reviewing and formalizing crisis management plans, containing risks in the systemic bank, strengthening supervision of non-banks, developing a more robust plan to divest unsold lands, and pursuing reforms to facilitate asset recovery. While commending the authorities for promoting financial integrity, securing correspondent banking relationships, establishing CBI program safeguards and bolstering the AML/CFT and tax cooperation frameworks, Directors called for further efforts in these areas.

Directors encouraged structural reforms that raise productivity growth, economic competitiveness, and human capital. In this regard, they particularly welcomed the authorities' agenda to diversify energy sources and channel CBI revenues into other sectors besides tourism and for infrastructure that protects against natural disasters.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Table 1. St. Kitts and Nevis: Selected Economic Indicators: 2016-26

I. Social, Geographic and Demographic Indicators

Area (sq. km)	269.4	Headcount Poverty (percent, 2008)	23.7
		Income inequality (Gini coefficient, 2008)	0.38
Population			
Total (thousands, 2019 est.)	53.1	Health and nutrition	
Rate of growth (percent per year, 2019)	0.75	Calorie intake (per capita a day, 2011)	2,452
Density (per sq. km., 2019)	197.1	Physicians (per 1,000 people, 2017)	1.2
Net migration rate (per thousand, 2014 est.)	1.2	Access to safe water (percent, 2011)	98.9
		AIDS incidence rate (per 100,000, 2016)	33.9
Population characteristics			
Life expectancy at birth (years,2002)	71.3	Gross domestic product (2019)	
Infant mortality (per thousand live births, 2018)	9.8	(millions of U.S. dollars)	980.9
Under 5 mortality rate (per thousand, 2018)	12.0	(millions of E.C. dollars)	2,648
Adult literacy rate (percent, 2009)	97.8	(US$ per capita)	18,472.8

II. Economic and Financial Indicators, 2016—26

					Est.	Proj.					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
					(Annual percentage change, unless otherwise specified)						
National income and prices											
Real GDP (market prices) 1/	3.9	0.9	2.7	4.8	-14.4	-1.0	10.0	5.1	2.8	2.7	2.7
Real GDP (factor cost) 1/	3.7	1.7	2.0	5.7	-13.2	0.4	10.7	5.1	2.4	2.3	2.7
Consumer prices, end-of-period	0.0	0.8	-0.7	-0.8	-1.2	-0.8	-0.3	2.0	2.0	2.0	2.0
Consumer prices, period average	-0.7	0.7	-1.0	-0.8	-1.0	-1.0	-0.5	0.8	2.0	2.0	2.0
Real effective exchange rate appreciation (+) (end-of-period)	2.4	-2.8	2.3	0.8	-0.9	...	...	...	...	...	...
Money and credit 2/											
Broad money	-3.8	-3.7	-1.2	5.6	-8.1	3.3	6.9	4.0	4.5	5.6	5.8
Change in net foreign assets	2.7	-3.3	-0.8	6.5	-0.4	-1.0	5.9	7.0	6.0	5.7	5.5
Net credit to general government	12.6	-0.7	10.2	-9.5	-18.4	2.5	-0.2	-1.7	-1.8	-1.9	-1.9
Credit to private sector	0.5	0.5	1.6	1.5	1.1	1.1	0.4	-2.0	-0.7	0.6	0.8
Nonperforming loans to total gross loans	14.7	20.5	24.7	24.0	23.5	...	...	...	...	...	...
					(In percent of GDP)						
Public sector 3/											
Total revenue and grants	30.4	27.5	36.8	35.5	31.3	33.2	30.6	30.6	30.6	30.6	30.6
o/w Tax revenue	18.4	17.4	18.5	17.6	17.4	17.3	17.2	17.3	17.3	17.3	17.3
o/w CBI fees	6.4	5.2	14.3	14.1	9.8	13.3	9.0	9.0	9.0	9.0	9.0
Total expenditure and net lending	26.6	26.9	35.7	35.3	36.0	35.0	30.1	28.8	28.7	28.7	28.6
Current expenditure	22.6	22.6	25.3	23.8	29.4	28.2	26.1	25.8	25.8	25.7	25.7
Capital expenditure and net lending	4.0	4.4	10.4	11.4	6.6	6.8	4.0	3.0	3.0	3.0	3.0
Primary balance	5.3	1.9	2.4	1.4	-3.5	-0.7	1.5	2.8	2.8	2.8	2.8
Overall balance	3.8	0.5	1.1	0.3	-4.7	-1.8	0.5	1.9	1.9	2.0	2.0
Overall balance (excl. land buy back)		0.5	4.3	4.1	-4.7	-1.8	0.5	1.9	1.9	2.0	2.0
Overall balance (less CBI inflows) 4/	-2.9	-4.9	-12.6	-12.9	-14.2	-14.8	-8.4	-7.0	-7.0	-6.9	-6.9
Total public debt (end-of-period)	57.1	56.0	55.2	51.7	61.1	60.8	54.4	51.4	49.5	47.7	45.9
Public debt service (percent of total revenue and grants)	8.9	8.5	5.9	5.3	6.9	5.8	5.5	5.3	5.0	4.7	4.5
General government deposits (percent of GDP) 5/	23.4	22.2	26.0	23.6	19.5	16.8	14.9	15.4	16.2	17.0	17.8
External sector											
External current account balance	-12.3	-10.5	-5.4	-4.8	-14.5	-11.3	-7.3	-6.2	-5.7	-5.7	-5.7
Trade balance	-30.7	-28.6	-30.4	-28.3	-24.7	-21.8	-21.5	-23.5	-26.3	-29.7	-30.3
Services, net	25.5	25.1	32.0	30.2	14.1	14.0	20.9	25.6	29.5	32.6	33.1
o/w Tourism receipts	32.9	33.2	33.9	31.8	11.9	11.4	22.1	27.2	32.5	36.8	38.5
FDI (net)	12.3	4.0	3.3	5.6	5.5	9.3	9.3	9.4	9.3	9.2	9.1
External public debt (end-of-period)	19.3	14.7	13.7	12.1	13.6	13.1	11.2	10.1	9.2	8.4	7.6
					(In percent of exports of goods and nonfactor services)						
External public debt service	3.8	3.5	2.6	2.4	4.3	4.1	2.6	2.0	1.6	1.4	1.2
External public debt (end-of-period)	38.8	30.9	24.8	22.0	39.2	37.9	25.6	20.6	16.9	14.3	12.5
Memorandum items											
Net international reserves, end-of-period											
(in millions of U.S. dollars)	312.9	357.0	355.3	346.3	354.6	343.9	351.3	356.9	362.4	368.0	374.1
(in percent of broad money)	29.0	34.3	34.8	32.2	34.5	32.4	31.0	30.3	29.4	28.3	27.2
Holdings of SDRs, in millions of U.S. dollars	13.8	14.8	15.8	16.8	17.8	28.8	28.8	28.8	28.8	28.8	28.8
Nominal GDP at market prices (in millions of EC$)	2,724	2,864	2,912	3,145	2,648	2,636	2,948	3,125	3,266	3,408	3,569

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

1/ In June 2021, the National Statistics Office revised historical GDP series.

2/ The series for monetary aggregates have been revised consistent with the 2016 Monetary and Financial Statistics Manual and Compilation Guide.

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

4/ Excludes CBI budgetary fees, and Investment proceeds and CBI due diligence costs.

5/ Includes only central government deposits at the commercial banks.

INTERNATIONAL MONETARY FUND

ST. KITTS AND NEVIS

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

July 29, 2021

KEY ISSUES

St. Kitts and Nevis entered the Covid-19 pandemic from a position of fiscal strength following nearly a decade of budget surpluses. A significant part of the large CBI revenues was prudently saved, reducing public debt below the regional debt target of 60 percent of GDP and supporting accumulation of large government deposits.

Prompt government action helped contain the pandemic's public health impact. At the onset of the pandemic the government swiftly restricted inbound travel, introduced a month-long national lockdown, and procured protective and medical equipment. The reopening of borders at end-October 2020 has been accompanied by strict safety protocols. The response measures effectively mitigated the pandemic's human cost, with St. Kitts and Nevis having had the lowest per capita case count in the Western Hemisphere and no mortalities in 2020.

But the impact on the economy has been severe. The complete halt in cruise ship arrivals and very few stayover tourists since the first quarter of 2020 compounded on the pandemic's impact on domestic activity. In response, the government introduced tax waivers, deferrals, incentives, and the Social Security Board provided unemployment benefits to affected insured workers. In parallel, the regional and national financial supervisors swiftly introduced temporary measures, including loan moratoria, that supported liquidity and effectively mitigated the pandemic's financial system impact. Nonetheless, the pandemic resulted in an estimated annual decline in GDP of 14 percent, and the general government's first fiscal deficit (4.7 percent of GDP) since 2010, financed by drawing down sizeable deposit buffers.

Containing the pandemic and supporting the economy remain the key near-term policy priorities. As the flare-up in Covid-19 in June 2021 demonstrated, reaching herd immunity is the number one priority to save lives and livelihoods. Fiscal relief measures should be kept in place until the recovery firmly takes root. Robust levels of public investment would further support activity, while investment in resilient infrastructure would also build resilience to natural disasters.

An expected rebound in tourism sets the stage for a strong recovery from 2022 onward, but risks to the outlook remain significant. Following a loss of the 2020–21 winter tourism season and slow resumption of tourism inflows to date, staff projects a small further decline in GDP of 1 percent in 2021, followed by 10 percent growth in 2022. However, the recovery path could be derailed should the pandemic lead to further sustained disruptions on the anticipated pace of tourism recovery and domestic activity. Other risks include financial sector uncertainties, natural disasters, and lower-than-expected CBI receipts.

Once the recovery is firmly established, the government should resume saving part of the CBI revenues to rebuild fiscal buffers. As a small, natural disaster-susceptible country dependent on tourism and historically volatile CBI revenues, St. Kitts and Nevis needs significant buffers. Higher buffers will also provide more fiscal space to mitigate contingent and long-term fiscal pressures, including possible further reacquisitions of lands swapped as part of the 2012–14 sovereign debt restructuring, and a possible future need to buttress the national pension system that under current projections will soon start to run deficits and depleting reserves.

Financial sector policies should increasingly focus on building readiness for the exit from temporary support measures. The financial system remains stable and benefits from sizeable buffers, but the pandemic's full asset quality impact will become apparent only upon the expiry of the loan moratoria. The authorities should therefore review and formalize operationalizable crisis management plans, contain elevated risks in the systemically important bank, strengthen supervisory guidance to the non-bank sector, and undertake reforms to facilitate asset recovery. A more robust divestment plan for the swapped lands can help reinvigorate private sales.

There is room to strengthen productivity growth, economic competitiveness, and human capital. GDP per capita growth in the last two decades has been relatively weak and convergence with the US has stopped. Several reforms might boost productivity growth and export competitiveness, including using the CBI program to attract investment beyond the tourism sector, upgrading skills through focused training programs, better aligning the education system with the needs of the labor market, and facilitating access to credit to small firms, including through reforms that facilitate use of non-fixed asset as loan collateral.

Approved By
Patricia Alonso-Gamo (WHD) and Chad Steinberg (SPR)

Team: Bas Bakker (Head), C. Brozdowski, J. Hukka, and G. Salinas (all WHD), assisted by R. Vishvesh. Discussions took place remotely during June 9–22, 2021. The team met Prime Minister, Doctor the Honorable Timothy Harris, Premier of Nevis Honorable Mark Brantley; Minister of Health Honorable Akilah Byron-Nisbett; Minister with responsibility for National Health Insurance Honorable Eugene Hamilton; Minister of Tourism Honorable Lindsay Grant; Attorney General Honorable Vincent Byron; and other senior officials, financial sector analysts, think-tanks, academics, and representatives of the private sector. R.J. Edwards (OED), P. Abraham and R. Harris (both ECCB) participated in most meetings.

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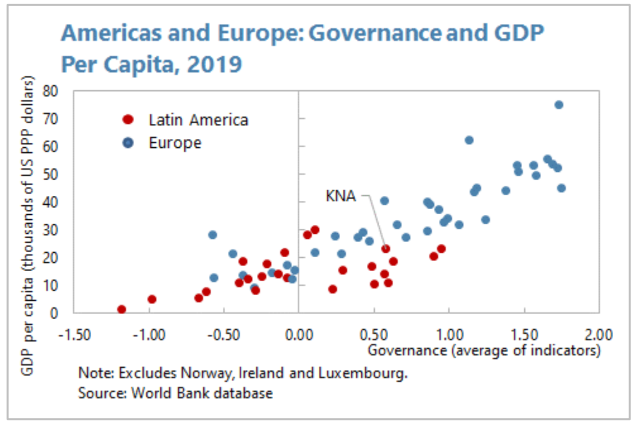
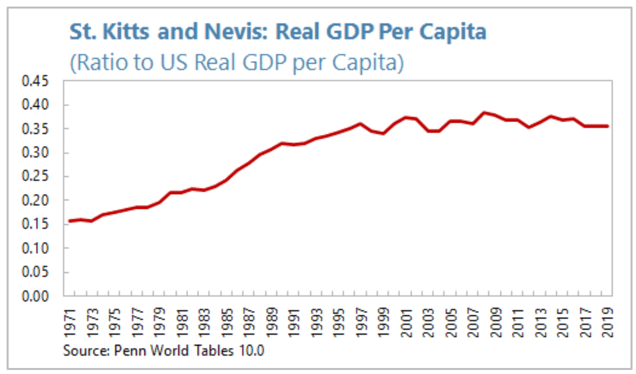
ANNEXES

CONTEXT: BEFORE COVID-19

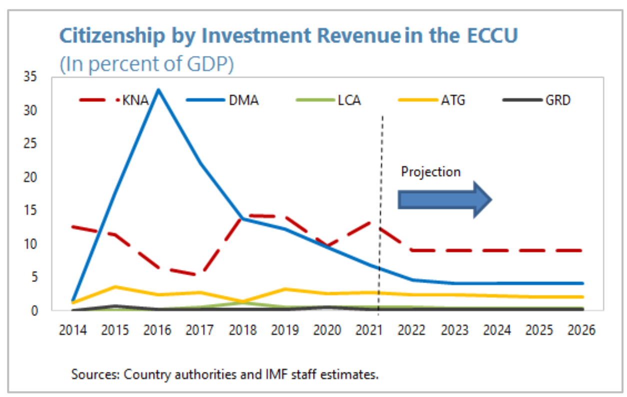
1. **St. Kitts and Nevis is a small and relatively rich two-island economy.** Its GDP per capita of US$19,000 is among the highest in Latin America and the Caribbean and it scores relatively well in governance indicators. Tourism is the main source of revenue, but it also has light manufacturing and receives considerable CBI revenues.[1] Like other small islands and Caribbean countries, St. Kitts and Nevis is highly exposed to external shocks, global economic cycles, and natural disasters.



2. **Rapid convergence of income levels with the US stopped in the late 1990s.** This was partly the result of a deep crisis between 2008 and 2012, when per capita GDP declined by 10 percent.



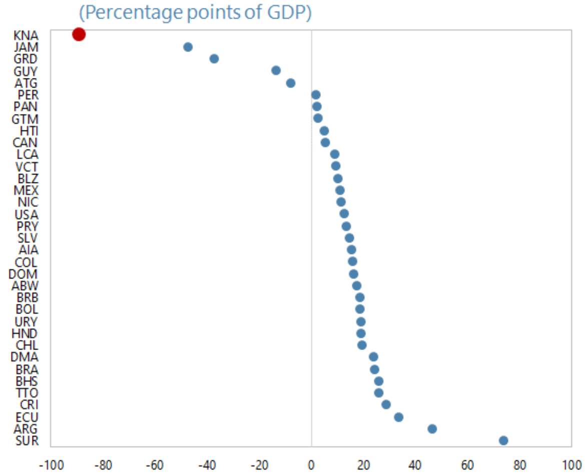
3. **In the decade preceding the pandemic, the country successfully built up large fiscal buffers.** A significant part of large CBI revenues averaging 10 percent of GDP during 2012–19 was prudently saved, resulting in a decade of fiscal surpluses. Combined with the 2012–14 sovereign debt restructuring, public debt fell from a 2010 peak of 145 percent of GDP to 52 percent in 2019, making St. Kitts and Nevis the first country in the ECCU that met the regional debt target of 60 percent by 2030.[2] Moreover, significant government deposits were built up in the local banking sector (24 percent of GDP at end-2019).



[1] The CBI program was established in 1984, making it the oldest of its kind in the world. Qualified foreign applicants may obtain citizenship through 2 traditional options: (i) a contribution to the Sustainable Growth Fund (SGF) of US$150,000 for individuals, or US$195,000 for a family of up to 4); or (ii) an investment in the Real Estate Fund of US$200,000 (share only) held for 7 years before resale; or US$400,000 (full title) held for 5 years before resale, plus fees. In 2021, the government introduced two additional options (see further below).

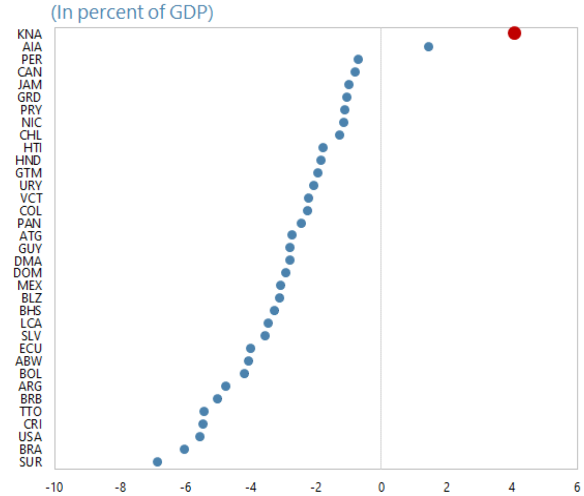
[2] In February 2021, the ECCB Monetary Council extended the regional debt target of 60 percent to 2035.

Change in Public Debt to GDP Ratio: 2010-2019
(Percentage points of GDP)



Sources: IMF *World Economic Outlook* database.

Average Fiscal Balance: 2011-2019
(In percent of GDP)

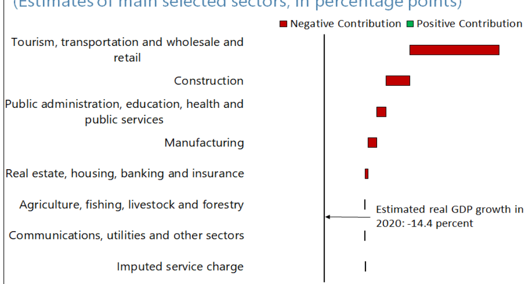


Source: IMF *World Economic Outlook* database.

RECENT DEVELOPMENTS: THE IMPACT AND POLICY RESPONSE TO THE PANDEMIC

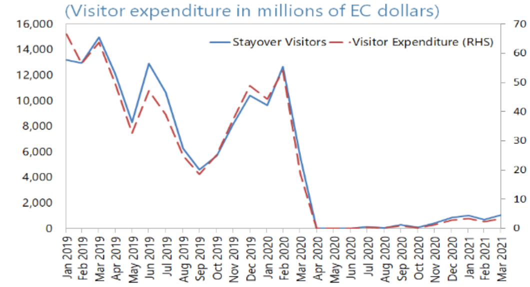
4. A prompt closure of the borders in March 2020 helped contain the spread of the disease, but the impact on the economy was severe. St. Kitts and Nevis had no deaths and the lowest number of cases in per capita terms in the western hemisphere in 2020. A complete halt in cruise ship arrivals and very few stayover tourists since the first quarter of 2020 compounded on the pandemic's disruptions on domestic activity, and GDP declined by 14 percent in 2020.

Real GDP Contributions to Percent Change in 2020
(Estimates of main selected sectors; in percentage points)



Source: Staff projections.

Stayover Arrivals
(Visitor expenditure in millions of EC dollars)



Sources: ECCB and staff estimates.

5. To mitigate the impact of the pandemic, the government appropriately launched a significant fiscal package of 3½ percent of GDP. The government bought medical equipment and supplies and i) deferred the property tax from June to September 2020; ii) reduced the unincorporated business tax rate from 4 to 2 percent for the remainder of 2020; iii) temporarily cut the income tax from 33 to 25 percent for companies that retained at least 75 percent of their personnel; and, iv) committed additional resources to boost the agriculture sector; and v) waived utilities fees.[3] In addition, the Social Security Board (SSB) provided payments to workers who lost their jobs or saw their hours reduced (about a quarter of the working age population), with a total cost of about 0.9 percent of GDP. Loan moratoria further cushioned the impact on the private sector.

St. Kitts and Nevis Stimulus Package in 2020

	EC$m	% of GDP
Business	**50.3**	**1.9%**
Funds for Citizens Mortgage Facility	15.0	0.6%
Postponement of Property Tax	n.a.	n.a.
Reduction of Corporate Income Tax	14.2	0.5%
Reduction of Unincorporated Business Tax	2.7	0.1%
Removal of VAT and Import Duty	4.9	0.2%
Agriculture Sector	8.5	0.3%
Funds for Fresh Start Program	5.0	0.2%
Households	**6.8**	**0.3%**
Poverty Alleviation Program	6.4	0.2%
Waiver of water payments 1/	0.4	0.0%
Other	**34.2**	**1.3%**
Ministry of Health Expenditures	13.2	0.5%
Ministry of Education Expenditures	0.3	0.0%
Ministry of National Security Expenditures	0.8	0.0%
Severance Payment Fund	12.9	0.5%
St. Christopher Air and Sea Ports Authority	7.0	0.3%
Total Central Government Relief Package	**91.3**	**3.4%**
Memo Item		
Social Security Board	**22.6**	**0.9%**

Source: MoF staff, 2021 Budget Address, IMF Staff Estimates
1/ This item also includes waivers to farmers.

6. **A reduction of capital spending limited the deterioration of the fiscal balance.** The fiscal balance declined from +0.3 percent of GDP 2019 to -4.7 percent in 2020. The impact of the government's fiscal package was exacerbated by the large cyclical impact on tax revenues (-4.3 percent of GDP) and a decline in CBI revenues (-1.5 percent of GDP) after an unusually strong 2019. A base effect from a one-off land buy-back in 2019[4] and a reduction in other capital expenditures helped contain the increase of the deficit, which was financed through a drawdown of deposits.

St. Kitts and Nevis: 2020 Budget and Actual
(In millions of Eastern Caribbean dollars)

			Difference (B-A)	
				Percent
	Budget (A)	Actual (B)	(EC$m)	of 2020
Revenue	996	829	-167	-6.3
Tax revenue	571	461	-110	-4.1
Non tax revenue	389	355	-34	-1.3
CBI	298	259	-39	-1.5
Grants	35	13	-22	-0.8
Expenditure	946	954	8	0.3
Current	684	779	95	3.6
Wages and salaries	332	326	-6	-0.2
Goods and services	192	209	17	0.6
Transfers	141	212	71	2.7
Interest	20	33	13	0.5
Capital	261	175	-86	-3.3
Overall Balance	50	-125	-175	-6.6
Memo items:				
Cyclical effect on revenue	..	-113	..	-4.3
Covid relief package	..	91	..	3.4
GDP at market prices	..	2648	..	..

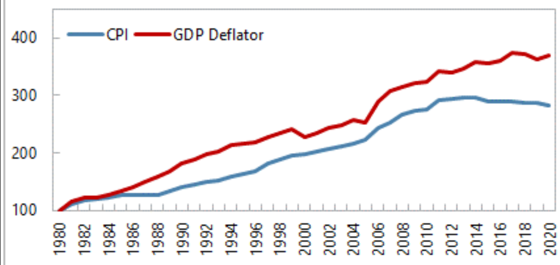
Sources: St. Kitts and Nevis authorities; and Fund staff estimates.

7. **A swift policy response cushioned the pandemic's impact on financial stability.** This included bank loan moratoria extended through end-September 2021 and a temporary freeze on overdue and moratoria loans' prudential classification.[5] The Financial Services Regulatory Commission (FSRC) and the National Co-operative League implemented similar forbearance measures for credit unions up to six months, with further moratoria extensions determined at the entity level. At end-March 2021, the share of bank and credit union performing loans under moratoria continued to stand at around 20 and 12 percent respectively. Financial conditions have so far remained stable, with ample liquidity from large public and remarkably resilient private sector deposits, only modest uptick in NPLs and bank profitability buoyed by returns from sizeable overseas investments.

8. **Consumer prices declined again in 2020.** Consumer prices have been declining since 2014. However, this reflects lower import prices rather than the absence of domestic inflationary pressures. The GDP deflator has been increasing steadily in the past decade, reflecting higher prices mostly in construction, taxes, public administration, financial intermediation, supporting transport activities, business services and hotels.

[3] The authorities have not implemented specific measures to promote transparency and accountability of COVID-19 related spending as they considered existing safeguard sufficient. The audit of all expenditures, including those related to the Covid-19 response, will be published in the National Audit Office's 2020 Annual Report, which will be submitted to parliament in December.
[4] This pertains to unsold lands from the debt-land swap arrangement that was part of the 2012–14 debt restructuring. The government made another land buy-back of similar magnitude in 2018.
[5] For fuller discussion on the banking system response measures, see the 2021 Discussion on Common Policies.

CPI and GDP Deflator
(1980=100)



Sources: ECCB and IMF staff calculations.

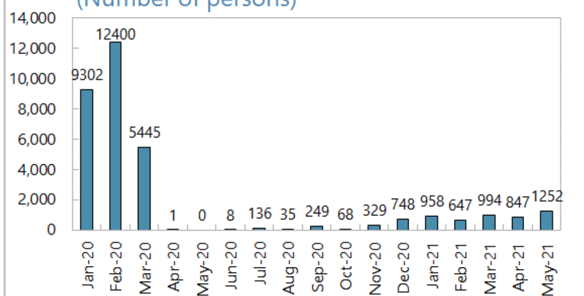
Contributions to Total Percent Change in GDP Deflator: Main Components

	2010-19
Construction	7.4
Taxes	2.6
Public Administration	2.5
Financial Intermediation	2.5
Supporting Transport Activities	1.3
Business Services	0.8
Hotels	0.7
Total of sub-components	17.7
Total Change	15.5

Sources: ECCB, IMF CARTAC and staff calculations.

9. **According to preliminary ECCB estimates based on partial information, the current account deficit increased from 4.8 percent of GDP in 2019 to 14.5 percent of GDP in 2020.** A sharp drop in tourism receipts and lower CBI receipts were the main factors behind the deterioration, which was partly offset by lower imports and profit payments. However, the current account deficit may have been overestimated. About two thirds of the corresponding capital inflows consisted of a reduction in commercial banks' net foreign assets (NFA), but according to the monetary survey, there was no NFA drawdown of corresponding scale (intuitively corresponding to banks' limited liquidity needs).

Monthly Stayover Tourist Arrivals
(Number of persons)



Source: Caribbean Tourism Organization, as of July 2021.

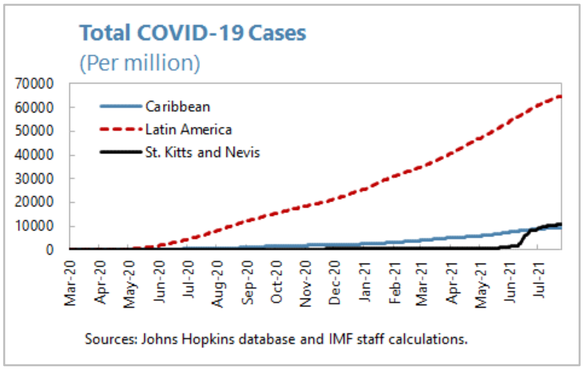
10. **In 2020, the external position was broadly in line with the level consistent with medium-term fundamentals and desirable policy settings.** Starting from the ECCB's current account estimate of -14.5 percent of GDP, the underlying current account (-5.4 percent of GDP) was broadly in line with the level consistent with medium-term fundamentals and desirable policies (4.3 percent of GDP), corresponding with a REER gap of 2.6 percent.

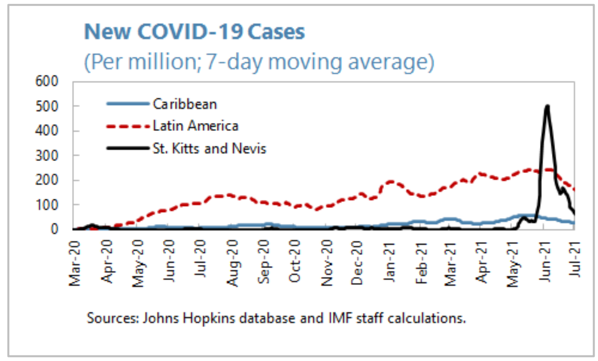
11. **The authorities reopened the country to tourism on October 31, 2020, while keeping restrictions in place to avoid a spike in COVID-19 cases.** Tourists needed to present a negative PCR test before arrival, and for the first 14 days could only stay at pre-approved hotels and not travel around the island.[6] Stay over arrivals started picking up in November although levels remained far below pre-Covid and cruise arrivals are yet to resume.

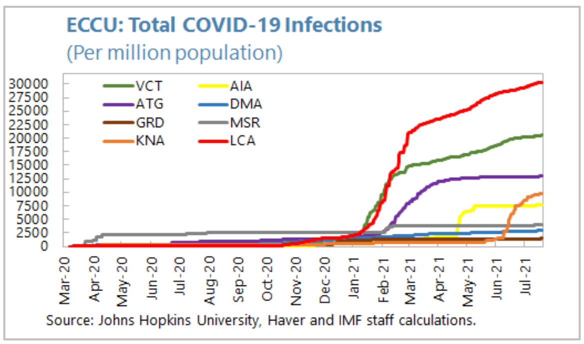
12. **In June 2021, a flare-up in Covid-19 cases led to new restrictions and another, partial, lockdown.** St. Kitts and Nevis successfully avoided community spread from isolated cases until late May 2021, when it suddenly faced a significant spike in infections and 3 deaths. In response, on

[6] There are currently 8 approved hotels. After day 7, they can go on approved excursions.

June 12, the government decreed a two-week partial lockdown.[7] Hotels remained open, but only fully vaccinated tourists were now allowed. In addition, extensive testing and contact-tracing has been deployed, with all Covid-19 cases successfully traced. Free quarantine facilities for local patients living in vulnerable and high-density conditions have been established.







COVID-19 Cases in the ECCU 1/

(Per million population)

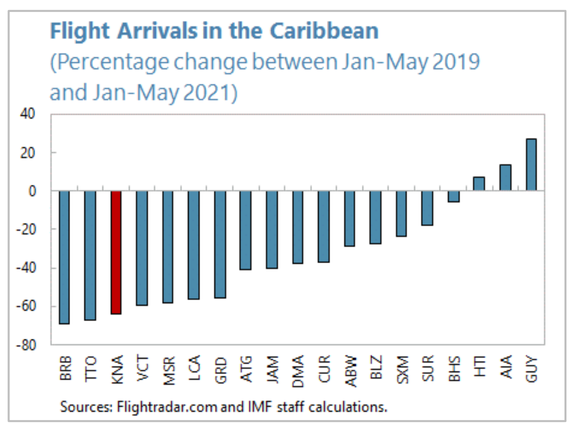
	Total	Deaths	Recovered	Active
Anguilla	7,717	0	7,580	137
Antigua & Barbuda	13,130	438	12,529	163
Dominica	2,792	0	2,618	174
Grenada	1,453	9	1,426	18
Monsterrat	4,038	192	3,654	192
St. Kitts and Nevis	10,032	53	9,296	683
St. Lucia	30,555	486	29,527	542
St. Vincent and the Grenadines	20,616	109	19,892	615

1/ Data as of July 27, 2021.

Sources: Worldometers.info/coronavirus and IMF staff estimates.

OUTLOOK AND RISKS

13. Rapid progress in vaccination in both St. Kitts and its major tourist markets should set the stage for a strong recovery from 2022 onward. Staff projects a small further decline in GDP of 1 percent in 2021, followed by 10 percent growth in 2022.[8] After 2022, growth would gradually slow as output gaps close. GDP levels would return to 2019 levels in 2023. By 2025, GDP growth would be in line with potential, which staff estimates at 2.7 percent—1.9 percent in per capita terms.



[7] Companies were required to allow workers to work from home; there was a night curfew; and restaurants could only operate on carry-out basis.

[8] This partly reflects base effects. Tourism in the first quarter of 2020 was still very strong.

14. Risks to the outlook remain significant. The recovery path could be derailed should the pandemic lead to further sustained disruptions on the anticipated pace of tourism recovery and domestic activity. Other risks include financial sector uncertainties, natural disasters, and lower-than-expected CBI receipts**.**

Authorities' Views

15. The authorities had similar views on the risks to the outlook. They saw Covid-19, CBI revenue volatility and natural disasters as the main risks, but they were hopeful that strong CBI revenues would continue based on the level of interest through the pandemic. They considered the risk from natural disasters as high and did not foresee any material risk of widespread social unrest in St. Kitts and Nevis.

16. At the time of the mission, the authorities had not yet decided whether they are going to draw on the SDR allocation. The new allocation would increase St. Kitts and Nevis' SDR allocation by SDR 11.8 million to SDR 20.3 million, of which SDR 16.5 million (2.6 percent of GDP) remains undrawn.

Box 1. Risk Assessment Matrix [1]

Source and Direction of Risk	Relative Likelihood	Impact/ Time Horizon	Policy Response
Conjunctural Shocks and Dcenarios--Global/External Risks			
Unexpected shifts in the Covid-19 pandemic. ▪ **Asynchronous progress (↓).** Limited deployment of vaccines prompts a reassessment of their growth prospects. ▪ **Prolonged pandemic (↓).** The disease proves harder to eradicate, requiring costly containment efforts and prompting persistent behavioral changes rendering many activities unviable. ▪ **Faster containment (↑).** Pandemic is contained faster than expected due to the rapid production and distribution of vaccines, boosting confidence and economic activity.	Medium Medium Medium	Medium Vaccine supply bottlenecks in producing countries and COVAX quantity limitations **ST/MT** Medium **ST/MT** Medium **ST/MT**	Extend current pandemic relief measures while designing/communicating a medium-term plan to preserve fiscal sustainability. Extend current pandemic relief measures while designing and communicating a medium-term plan to preserve fiscal sustainability. End pandemic relief measures while maintaining focus on promoting a sustainable economic recovery; and eventually rebuild fiscal buffers by resuming saving of part of the CBI revenue
Sharp rise in global risk premia exposes financial and fiscal vulnerabilities (↓). A reassessment of market fundamentals (e.g., in response to adverse Covid-19 developments) triggers widespread risk-off event. Risk asset prices fall sharply, leading to losses in financial institutions. Higher risk premia generate financing difficulties for firms/households, and bankruptcies erode banks' capital. Financing difficulties extend to sovereigns.	Medium	Medium Higher risk perception could lead to loss/higher costs of CBRs **ST/MT**	Provide fiscal support affected sectors within a sustainable medium-term fiscal plan. Intensify surveillance of financial institutions.
Widespread social discontent and political instability (↓). Social tensions erupt as the pandemic and inadequate policy response cause socio-economic hardship. Growing political polarization and instability weaken policymaking and confidence.	High	Low **ST/MT**	Provide fiscal support to affected sectors within a sustainable medium-term fiscal plan.
Oversupply and volatility in the oil market (↑). Higher supply (due to, e.g., OPEC+ disagreements) and lower demand (including due to a slower global recovery from Covid-19) lead to renewed weakness in energy prices.	Medium	Medium **ST/MT**	Accelerate transition to local renewable energy sources.
Intensified geopolitical tensions and security risks (↓). (Geo)political tensions in selected countries/regions (e.g., Middle East) cause economic/political disruption, and higher volatility in commodity prices (if supply is disrupted).	High	Low **ST/MT**	Accelerate transition to local, renewable energy sources.
Structural risks			
Accelerating de-globalization (↓). Despite renewed efforts to reach multilateral solutions to existing tensions, geopolitical competition leads to further fragmentation. Reshoring and less trade reduce potential growth.	Medium	Medium **ST/MT**	Redouble efforts to strengthen export competitiveness.
Cyber-attacks (↓), on critical infrastructure, institutions, and financial systems trigger systemic financial instability or widespread disruptions in socio-economic activities and remote work arrangements.	Medium	Low **ST/MT**	Strengthen Cybersecurity measures and contingency plans, especially for key infrastructure and institutions.
Higher frequency and severity of natural disasters related to climate change (↓), cause severe damage to smaller economies susceptible to disruptions. A sequence of severe events in large economies reduces global GDP and raise commodity price levels and volatility (low probability).	Medium/ Low	High Larger and more frequent events than the historical average **ST/MT**	Accelerate development of natural disaster resilient infrastructure and transition to local, renewable energy sources.
Domestic Risks			
Lower than expected CBI revenues (↓).	Medium	Medium **ST/MT**	Rationalize spending and mobilize revenue from other sources.
Financial sector weakness (↓) The pandemic triggers large losses by adding to pre-existing vulnerabilities of 1) elevated NPLs; 2) a large illiquid legacy asset from the 2012-14 debt-for-land swap; and, 3) sizable overseas investments of excess liquidity; 4) financial integrity and CBR challenges stemming from the CBI program and remaining weaknesses in the AML/CFT frameworks.	Medium	Medium **ST/MT**	Formalize crisis management plans, undertake reforms to support asset recovery, commit to a robust divestment plan for unsold swap lands, complete pending AML/CFT reforms and NRA follow-up measures. and enhance transparency of the CBI program.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

POLICY PRIORITIES: ENSURING A WELL-GROUNDED RECOVERY

Policy makers face several challenges. In the near term, these include bringing and then keeping the recent Covid-19 flare-up under control. Reaching herd immunity through vaccination is needed to safely allow full reopening of the country for tourism. In the meantime, boosting investment and keeping fiscal relief measures in place will help support the economy. To further support the recovery, risks from legacy weaknesses in the financial sector need to be mitigated while taking steps to promote post-pandemic balance sheet repair. Once the recovery is firmly established, fiscal buffers should be rebuilt given high susceptibility to external shocks and CBI revenue volatility.

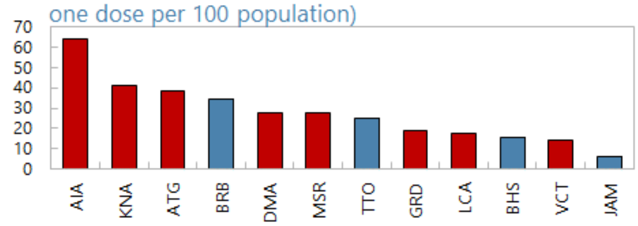
A. Reopening the Economy for Tourism and Supporting the Recovery

17. At the time of the mission, the government's immediate concern was getting the Covid-19 outbreak under control. In late June, after the mission, the initially two-week partial lockdown was extended and intensified, as community spread continued, albeit at a lower level.[9]

18. The authorities reopened to cruise arrivals in late July. To avoid community transmission, only fully vaccinated cruise passengers are allowed into the country, and must participate in "bubble tours", interacting only with fully vaccinated tourist workers.

19. To protect lives and livelihoods, the government aims to vaccinate 70 percent of the population aged 18 and older.[10] As of June 21, 35 percent of the target population had been fully vaccinated, while 67 percent of the government target population had received the first dose.[11]

COVID-19 Vaccinations in the Caribbean
(Number of people who have received at least one dose per 100 population)



1/ BHS data as of July 17, JAM data as of July 23, BRB data as of July 24, TTO and ECCU country data as of July 26, 2021.
Sources: ECCB, University of Oxford's *Our World in Data* project and IMF staff calculations.

20. The government aims to support the economy through fiscal relief measures and public investment. Covid-19 relief measures for the private sector have been appropriately extended in 2021. They include the temporary reductions of the Corporate Income Tax and Unincorporated Business Tax, VAT and import duty removals from certain goods, and waivers to water payments. Additional transfers are being made this year to the agriculture sector (EC$5 million), the Poverty Alleviation Program (EC$3 million), and the Severance Payment Fund (EC$7 million). A planned

[9] New restrictions included a full 24-hour shelter in place on four days (July 1, 2, 8 and 9, with all businesses closed except for essential businesses.

[10] This corresponds to about 70 percent of the total population.

[11] As a percent of the total population, 47 percent has received a first dose and 25 percent has been fully vaccinated.

increase in public investment from the low levels in 2020 would further support the economy although the authorities expressed concern regarding a possible slowdown in implementation as a result of difficulties in importing cement and other construction inputs.[12]

21. In early July, the government announced further measures to support the longer-term unemployed and SMEs. The government will pay EC$1000 a month for three months to those who have been out of job since March 2020.[13] Support to SMEs mainly consists of temporary tax reductions and waivers.[14]

22. The government has boosted CBI revenues through a modification of the CBI program. A temporary reduction of the needed donation under the CBI Sustainable Growth Fund program and the introduction of new CBI options[15] have fueled applications and revenues. CBI revenues are now projected at 13 percent of GDP, up from 10 percent in 2020.

23. The increase in CBI revenues has helped contain the fiscal deficit. Staff projects a deficit of around 2 percent of GDP in 2021, down from 4.7 percent in 2020.[16]

St. Kitts and Nevis: General Government Fiscal Operations, 2019-21

(In millions of Eastern Caribbean dollars)

	2019 Actual	2020 Budget	2020 Actual	2021 Budget	2021 IMF Staff
Total revenue and grants	**1118**	**996**	**829**	**837**	**875**
Tax revenue	553	571	461	471	455
Nontax revenue	541	389	355	340	407
o/w: Citizenship by investment (CBI) Budgetary Receipts	443	295	259	250	350
Grants	24	35	13	25	13
Total expenditure and net lending	**1109**	**946**	**954**	**999**	**923**
Current expenditure	750	684	779	749	743
Wages and salaries	321	332	326	329	327
Goods and services	220	192	209	230	205
Interest	35	20	33	20	30
Transfers	174	141	212	171	181
Capital expenditure	359	261	175	249	179
of which: land buy back	100	0	0	0	0
Primary balance	**44**	**69**	**-92**	**-142**	**-18**
Overall balance	**9**	**50**	**-125**	**-162**	**-48**
Memo Items					
GDP at Market Price (EC$m) 1/	3,145	2,488	2,648	2,650	2,636
Total Revenue and Grants (in percent of GDP)	35.5	40.0	31.3	31.6	33.2
Total Expenditure (in percent of GDP)	35.3	38.0	36.0	37.7	35.0
Primary Balance (in percent of GDP)	1.4	2.8	-3.5	-5.4	-0.7
Overall Balance (in percent of GDP)	0.3	2.0	-4.7	-6.1	-1.8

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

1/ The higher actual 2020 GDP relative to the 2020 Budget projection (despite the Covid shock) results from a recent upward revision of the historical GDP series.

Authorities' Views

24. The government's main focus was to protect lives. At the time of the mission, the authorities were hopeful that the duration of the partial lockdown would be limited due to steady progress in vaccination. They noted that the number of new cases had started to fall and that all new infections had been successfully traced to existing cases. However, no measure was off the table if the pandemic continued to spread.

[12] Historically, public investment has on average been 30 percent below budgeted levels, reflecting both policy adjustments (the authorities have tended to reduce capital expenditure when revenues disappointed so to avoid running fiscal deficits) and capacity constraints. and Previous IMF TA on budget preparation identified systemic issues with under-execution of the capital budget. The capital spending pipeline contains many delayed projects, and new projects are included that have not satisfied readiness criteria

[13] Unemployed who had received EC$15,000 or more in severance payment were excluded.

[14] These include rent waivers to leasers of government real estate, reduced VAT on commercial rent, and import duty and fuel subsidy for bus operators.

[15] The Alternative Investment Option allows applicants to fund government initiatives in social areas such as education, digital economy, and technological training. The Private Homes Sales Option allows foreign investors to purchase private homes.

[16] Staff projections assume that investment will be 70 percent of the budgeted amount—in line with the historical average.

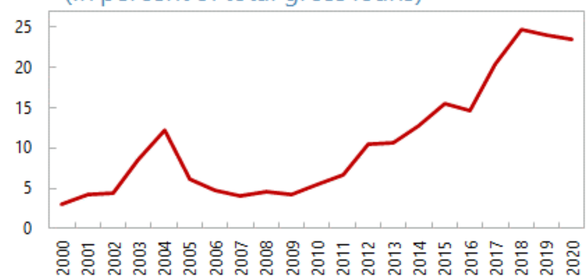
25. The government recognized that vaccinating the full target population in the near term would be challenging. At the time of the mission it needed about 24 thousand additional vaccine doses to meet its target,[17] but hoped to receive a share of the vaccines pledged by the US to CARICOM through COVAX.

26. The government concurred with the merits of supporting the economy through higher investment but noted implementation constraints. Capital projects had experienced pandemic related delays, including difficulties in importing cement and other construction inputs as a result of supply chain disruptions and constraints due to Covid-19 spikes and restrictions in source markets.

B. Dealing with Crisis Legacies in the Financial Sector

27. Financial system vulnerabilities precede the current crisis. Going into the crisis, the local banks held large capital buffers, but also (i) high NPLs (averaging about a quarter of total loans) and low provisioning, (ii) a sizeable and illiquid legacy fixed asset from the 2012–14 debt-for-land swap and (iii) large overseas investments of excess liquidity subject to heightened revaluation risks. Credit unions' pre-pandemic NPLs were more limited (6 percent), but they also held thinner prudential buffers following preceding years' rapid credit expansion (Table 6).

Nonperforming Loans
(In percent of total gross loans)



Source: ECCB

28. The pandemic adds to the vulnerabilities, but its full asset quality impact will become apparent only upon expiry of the loan moratoria.[18] At the same time, the phased introduction of stricter ECCB provisioning standard from 2021 is likely to impel more timely loss recognition, including by curtailing use of loan collateral to limit provisioning needs for long-overdue loans.

29. Building readiness for the exit from the temporary support measures can help mitigate risks and support post-pandemic balance sheet repair. Key measures include:

- **Review and formalize crisis management plans in coordination with the ECCB:** These should cover both banks and non-banks, set out readily operationalizable policy responses to downside risk scenarios, and ensure the adequacy of requisite legal powers and coordination arrangements (see the 2021 Discussion on Common Policies).

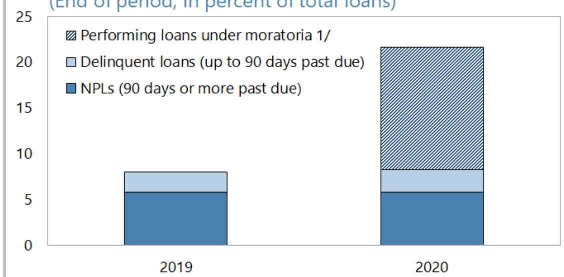
[17] At the time of the mission, St. Kitts had received 42 thousand AstraZeneca doses—of which 22 thousand were channeled through the COVAX facility and 20 thousand were provided by India—enough to vaccinate 21 thousand out of the target population of 33 thousand people. To vaccinate the remaining 12 thousand, a minimum of 24 thousand additional doses are needed—and more if not all doses are used before their end-June expiration date.

[18] Staff simulations in the 2021 Discussion on Common Policies suggest that, for the ECCU region on average, the tourism shock could result in near tripling of the banking sector NPLs in post-pandemic years, exceeding the NPL increase after the global financial crisis.

- **Contain risks in the systemically significant bank that also houses the bulk of public sector reserves.** Loan loss provisions should be increased to provide adequate cover for the sizeable and long-standing portfolio of impaired loans (about half of total loans at mid-2020), and the allocation of the bank's large overseas investments that drive its financial performance should mitigate the risk of abrupt fair-value losses.

- **Implement further supervisory guidance for the non-bank sector:** This should include more formal FSRC guidance on the application and expiry of loan moratoria, encouraging loan restructurings over further moratoria extensions. Updated provisioning guidance similar to the new ECCB standard can help timely loss recognition. While the pandemic impact on the insurance sector has so far been limited, companies should be encouraged to assess the potential impact from the loan moratoria's expiry.

Credit Unions: Credit Quality Indicators
(End of period, in percent of total loans)



1/ The share of loans under moratoria does not reflect the expected scale of future delinquencies as some of the loans would return to normal payment before or upon the support measures' expiry.
Sources: FSRC; and IMF staff calculations.

- **Completion of long-standing reforms would support post-pandemic asset recovery.** These include streamlining protracted foreclosure processes, facilitating non-citizen ownership of property and revisiting funding of regional NPL divestment strategies.[19]

30. **A more robust plan is needed to divest the unsold lands from the 2012–14 sovereign debt restructuring (Box 1).** Private sales of the lands have not materialized as intended under the terms of the debt-for-land swap. Notwithstanding the recent partial buy-backs by the government, the systemic bank has therefore been left with a large illiquid asset (nearly a fifth of its total assets) earning a modest annual dividend from the government.[20] Updating the near-decade old valuations of the unsold lands that may have also been affected by the pandemic, and revisiting the cost-sharing agreement between the bank and the government on any shortfalls from original valuations, can help reinvigorate the divestment process. This should be combined with a more active marketing strategy to attract potential investors, including through closer coordination with the CBI program. The authorities should also review the costly alien land holding license requirement that may limit overseas interest among non-CBI investors.

31. **Careful management of financial integrity risks remains important, including to support correspondent banking relationships (CBRs) and sustaining CBI revenues.** The pandemic has so far not materially affected available CBR services or costs, but foreign banking groups' recently reduced market presence increases the financial system's reliance on local banks'

[19] Prior regional efforts to reduce NPLs through purchases by the Eastern Caribbean Asset Management Corporation (ECAMC) have been hampered by funding constraints.

[20] The ECCB's current view is that the protracted holding of the land-swap asset since 2013 does not give rise to any regulatory repercussions beyond being attributed a capital adequacy risk-weight of 100 percent.

relationships.[21] This further emphasizes the need to limit operational and reputational risks, including by completing pending AML/CFT legislative amendments (foremost designation of ECCB as the competent AML/CFT authority over institutions licensed under the Banking Act), addressing the risks identified in the recently updated AML/CFT National Risk Assessment (NRA) and the ongoing CFTAF (Caribbean Financial Action Task Force) mutual evaluation, and diligently containing integrity risks from the CBI program including by strengthening its transparency.[22]

Authorities' Views

32. The authorities broadly agreed with staff's assessment and remain mindful of the pandemic's potential impact on financial sector asset quality. They took note of the need to review national crisis management plans and to contain risks around the systemically important bank. The FSRC is considering undertaking a more formal approach to its moratoria guidance to credit unions, noting however that provisioning requirements are stipulated by law.[23] The authorities acknowledged the need to reform the lengthy foreclosure processes and are reviewing processes for non-resident real estate investment. They also remain open to consider resolution options for the remaining debt-swap lands but noted that the pandemic environment is not an opportune time for real estate sales.

33. The authorities highlighted recent progress in bolstering the national AML/CFT and tax cooperation frameworks, as well as extensive CBI program safeguards. The authorities passed a suite of legislations in late 2020 and are undertaking other follow-up measures to address risks identified in the NRA report and see good prospects for compliant assessment under the CFATF mutual evaluation upon its completion in late 2021. St. Kitts and Nevis was removed from the EU's list of non-cooperative tax jurisdictions in February 2020 having implemented the necessary reforms and is working to ensure continued compliance with these and the OECD tax transparency and information exchange standards. The authorities are conscious of financial integrity risks emanating from the CBI program, but also stressed the program's robust multi-layered due diligence framework that includes comprehensive and systematic background checks with reputable due diligence firms and international law enforcement partners.

[21] The Trinidad-based Republic Bank completed the acquisition of most of Bank of Nova Scotia's ECCU operations in November 2019, and the sale of RBC/RBTT's regional operations to a consortium of indigenous banks was completed in April 2021, whereby the Bank of Nevis acquired the group's St. Kitts and Nevis operations..

[22] This could include publishing a list of CBI recipients, as is done in some other countries with similar programs.

[23] FSRC 2019 guidelines on periodic revaluation of real estate loan collateral can also mitigate potential loan losses.

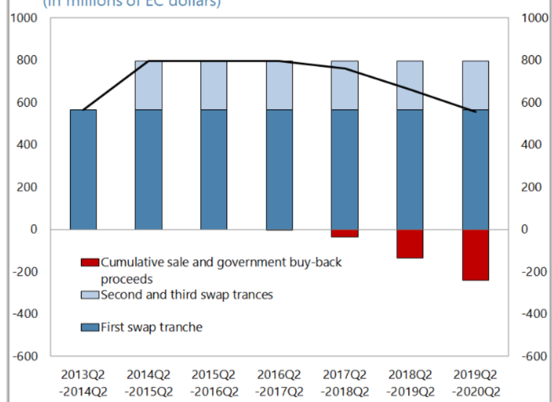
Box 2. Update on the Debt-for-Land Swap

The debt-for-land swap was a cornerstone component of the sovereign debt restructuring announced in 2011 and implemented under auspices of an IMF stand-by program. At about EC$800 million, the swap comprised roughly 60 percent of the total value of debt exchanged with external and domestic creditors over 2012–14 and contributed nearly ¾ to the total 56 percent of GDP face value reduction in public debt by end-2014.

The swap was based on an innovative mechanism that may however have led to sale price rigidities.

Domestic banks' public sector claims were replaced in three tranches by a claim on proceeds from the future sales of sovereign lands by a Special Land Sales Company (SLSC).[1] Under the terms of the swap, the government guarantees the face-value of the asset (by transfer of additional lands for sale), and the price range for the lands is subject to a minimum relative to their original valuation. Conversely, the government would retain any windfall over the face value of the original debt. It also pays an annual dividend on the value of the asset under separately negotiated agreements.

Debt-for-Land Swap: Value of the Undivested Land Stock
(In millions of EC dollars)



Sources: Bank financial statements and IMF staff calculations.

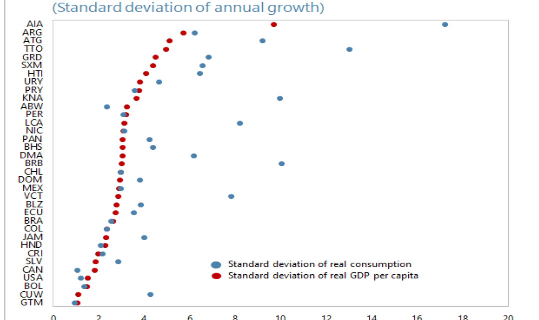
Divestment of the lands has been slow besides the two-government land repurchases in 2018 and 2019. This may reflect valuation rigidities, but also other factors including sluggish operationalization of the SLSC and its marketing strategy, the domestic real estate market's limited capacity to absorb lands of this scale, property acquisition costs to non-CBI foreign investors, limited existing development in some of the lands, as well as conjunctural factors such as the Covid-19 pandemic.

[1] The sovereign debt included in the debt swap was collateralized by lands that originated from the national sugar industry after it was shut down in 2005.

C. Rebuilding Buffers and Creating Sufficient Resilience to Shocks

34. As a small, natural disaster-prone country dependent on tourism and CBI revenues, St. Kitts and Nevis needs significant buffers. Historical volatility of GDP growth is high; and volatility of consumption is even higher.[24] Annual CBI revenues have averaged 11 percent of GDP (30 percent of total revenues) since 2012, but they have also been very volatile, dropping by about a half between 2014 and 2016, and tripling from 2017 to 2018.

Real Consumption and Real GDP Per Capita: 1990-2019
(Standard deviation of annual growth)



Source: Penn World Tables

35. Large buffers would also provide more fiscal space to mitigate contingent government liability risks and looming long-term fiscal pressures.

[24] The higher volatility of consumption may reflect the very pro-cyclical behavior of imported durables.

- **Resolution of the remaining swap-lands:** About 20 percent of GDP worth of lands remain to be divested, giving rise to potentially sizeable contingent liability should other resolution options not prove feasible.[25]

- **Pensions.** The partially funded PAYG pension system managed by the SSB has built up large reserves (about 55 percent of GDP in 2019) but benefits now exceed contributions. Under the most recent actuarial projection as of 2017, the reserves will be exhausted by the mid-2030s**.**

- **Health care.** In January 2021, the cabinet established an implementation committee for advice on setting up Universal Health Insurance Scheme (UHIS), which is expected to have an annual cost of EC$143–181 million (5–7 percent of GDP). Although salary deductions are being considered as one of the options to partly fund this initiative, its full financing is yet to be defined.

36. A deposit target of 25 percent of GDP would provide significant buffers against both macro-economic shocks and natural disasters. About half of this would be for economic shocks and half for self-insurance of natural disasters.[26] The deposits should be supplemented by obtaining suficient coverage under the Caribbean Catastrophe Risk Insurance Facility (CCRIF) against very large tropical storms, and further investment in disaster resilient infrastructure.

37. Given the large size of CBI revenues, St. Kitts and Nevis' fiscal outlook depends on what happens to these volatile and hard-to-predict inflows. Table 1 presents projections of headline fiscal items under three different CBI scenarios: a Baseline scenario in which CBI revenues at 9 percent of GDP (broadly their average level in the last ten years); an Optimistic scenario with CBI revenues remaining at 14 percent of GDP (approximately their 2018-19 level); and a Pessimistic scenario in which CBI revenues remain at 4 percent of GDP (slightly below their 2016–17 level).

38. For the baseline scenario, staff advocates an overall surplus of at least 2 percent of GDP. This would allow rebuilding deposit buffers by the end of the decade to near pre-crisis levels and reducing public debt to about 40 percent of GDP.[27] The targetted surplus though would leave only modest room for capital expenditure of about 3 percent of GDP. To create more space for investment, measures to reduce current expenditure or increase other revenue could be considered.

39. For the optimistic scenario, staff recommends saving half of the *additional* CBI revenues and using the other half to fund higher investment. The higher savings would lead to a faster build-up of deposit buffers relative to the baseline (up to 44 percent of GDP by the end of the

[25] There are also risks from SOEs. Compliance by SOEs remains weak despite the ongoing PFM reforms and weaknesses in PFM capacity continue at the Nevis Island Authority.

[26] DSGE simulations in IMF County Report No. 19/63 suggest that a savings fund of 12 percent of GDP would provide sufficient buffer to deal with natural disasters, provided it is, supplemented with maximum access to CRIFF. The other 13 percentage point would provide a buffer for economic volatility, based on the projected use of government deposits in response to the ongoing Covid-19 crisis.

[27] This scenario assumes that half of all maturing debt is refinanced. If a lower share of maturing debt is refinanced, debt would fall more rapidly, but fewer deposit buffers would be built up.

decade).[28] The higher deposits would create more room to address contingent fiscal pressures or establish a savings fund with a longer-term mandate, such as inter-generational income sharing.

40. The pessimistic scenario would necessitate fiscal adjustment to avoid running down the government's buffers. To prevent further erosion of the deposit-to-GDP ratio below its projected level in 2022 (the first full year of recovery), part of the revenue shortfall could be compensated by lower investment, and part by a lower fiscal balance. In this scenario the additional borrowing to finance the resulting deficit of 1.2 percent of GDP and the build-up of deposits needed to keep the deposit-to-GDP ratio constant would keep public debt near the regional 60 percent of GDP debt target. The government would thus be left with much more limited space to respond to shocks or contingent fiscal pressures, while investment would be at very low levels. To create room for more investment and to allow for higher buffers, measures to reduce current expenditure or increase other revenue would be needed.

[28] For simplicity the refinancing assumption on maturing debt is kept the same as under the baseline.

Table 1. Fiscal Scenarios by CBI Path Assumption, 2020–30

(In percent of GDP)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
						Baseline					
Revenue	35.7	33.2	30.6	30.6	30.6	30.6	30.6	30.6	30.6	30.6	30.6
of which: CBI	9.8	13.3	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Expenditure	36.0	35.0	30.1	28.8	28.7	28.7	28.6	28.6	28.5	28.5	28.4
of which: Interest Payments	1.2	1.1	1.0	0.9	0.9	0.8	0.8	0.7	0.7	0.6	0.6
Investment	6.6	6.8	4.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Financing need	7.2	3.7	0.7	-0.9	-0.9	-1.1	-1.0	-0.9	-1.0	-1.1	-1.1
Deficit (-=surplus)	4.7	1.8	-0.5	-1.9	-1.9	-2.0	-2.0	-2.1	-2.1	-2.1	-2.2
Amortization	2.5	1.9	1.2	1.0	1.0	0.9	1.0	1.1	1.1	1.1	1.1
Financing	9.7	3.7	0.7	-0.9	-0.9	-1.1	-1.0	-0.9	-1.0	-1.1	-1.1
New debt 1/	0.1	0.9	0.6	0.5	0.5	0.4	0.5	0.6	0.5	0.5	0.5
Reduction in deposits (-=increase)	9.7	2.8	0.1	-1.4	-1.4	-1.5	-1.5	-1.5	-1.6	-1.6	-1.6
Public sector debt	61.1	60.8	54.4	51.4	49.5	47.7	45.9	44.1	42.4	40.7	39.2
Government	41.8	40.8	35.9	33.4	31.5	29.7	27.9	26.1	24.3	22.7	21.1
SOEs	19.3	20.0	18.5	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
Government deposits	19.5	16.4	14.6	15.3	16.2	17.3	18.2	19.1	20.0	21.0	21.9
						Optimistic					
Revenue	35.7	33.2	35.6	35.6	35.6	35.6	35.6	35.6	35.6	35.6	35.6
of which: CBI	9.8	13.3	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0
Expenditure	36.0	35.0	31.6	31.3	31.3	31.2	31.2	31.1	31.1	31.0	31.0
of which: Interest Payments	1.2	1.1	1.0	0.9	0.9	0.8	0.8	0.7	0.7	0.6	0.6
Investment 2/	6.6	6.8	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Financing need	7.2	3.7	-2.8	-3.3	-3.4	-3.5	-3.5	-3.4	-3.5	-3.5	-3.6
Deficit (-=surplus) 2/	4.7	1.8	-3.9	-4.3	-4.4	-4.4	-4.5	-4.5	-4.6	-4.6	-4.6
Amortization	2.5	1.9	1.2	1.0	1.0	0.9	1.0	1.1	1.1	1.1	1.1
Financing	9.7	3.7	-2.8	-3.3	-3.4	-3.5	-3.5	-3.4	-3.5	-3.5	-3.6
New debt 1/	0.1	0.9	0.6	0.5	0.5	0.4	0.5	0.6	0.5	0.5	0.5
Reduction in deposits (-=increase)	9.7	2.8	-3.3	-3.8	-3.9	-4.0	-4.0	-3.9	-4.0	-4.1	-4.1
Public sector debt	61.1	60.8	54.4	51.4	49.5	47.7	45.9	44.1	42.4	40.7	39.2
Government	41.8	40.8	35.9	33.4	31.5	29.7	27.9	26.1	24.3	22.7	21.1
SOEs	19.3	20.0	18.5	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
Deposits	19.5	16.4	18.5	21.8	25.2	28.7	31.9	35.0	38.0	40.9	43.7
						Pessimistic					
Revenue	35.7	33.2	25.6	25.6	25.6	25.6	25.6	25.6	25.6	25.6	25.6
of which: CBI	9.8	13.3	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Expenditure	36.0	35.0	29.4	26.9	26.9	26.9	26.8	26.8	26.8	26.8	26.8
of which: Interest Payments	1.2	1.1	1.0	1.0	1.0	1.0	1.0	0.9	0.9	0.9	0.9
Investment 3/	6.6	6.8	3.3	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Financing need	7.2	3.7	5.0	2.2	2.2	2.1	2.2	2.7	3.0	3.3	3.6
Deficit (-=surplus)	4.7	1.8	3.8	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Amortization	2.5	1.9	1.2	1.0	1.0	0.9	1.0	1.5	1.8	2.1	2.4
Financing	9.7	3.7	5.0	2.2	2.2	2.1	2.2	2.7	3.0	3.3	3.6
New debt 4/	0.1	0.9	2.9	2.7	2.7	2.6	2.6	3.2	3.5	3.7	4.1
Reduction in deposits (-=increase)	9.7	2.8	2.1	-0.5	-0.5	-0.5	-0.4	-0.5	-0.5	-0.4	-0.5
Public sector debt	61.1	60.8	56.7	55.8	55.9	56.0	55.9	55.9	55.9	55.8	55.8
Government	41.8	40.8	38.3	37.8	37.9	38.0	37.9	37.9	37.9	37.8	37.8
SOEs	19.3	20.0	18.5	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
Deposits	19.5	16.4	12.3	12.1	12.2	12.2	12.1	12.1	12.1	12.1	12.1

Source: Authorities data and IMF staff calculations.
1/ Assumes that half of maturing debt is refinanced.
2/ Assumes that half of additional revenue is spent on investment and other half is saved.
3/ Assumes 2.5 percent of GDP reduction in capital expenditure in response to lower CBI revenues.
4/ Assumes borrowing that would bring public sector debt below the regional target 60 percent of GDP.

41. **Proactively reviewing borrowing options and re-establishing market presence can help mitigate the downside CBI risks.** The pessimistic scenario is likely to require ramping up government borrowing, including on commercial terms. However, any meaningful market access remains to be tested since the sovereign debt restructuring, and the post-pandemic regional sovereign debt market is getting saturated with increased financing needs of other sovereigns and the more cautious stance taken by some investors. Even though the still-sizeable deposits may provide potential investors a significant safeguard, the government should consider (i) starting to gradually re-establish a market presence both externally as well as in longer maturities; (ii) alleviating the potential areas of investor uncertainty from the unresolved debt-swap lands, the pension system and the health insurance reform, as well as enhancing transparency of SOEs accounts and Central Government assets and debt liabilities.

42. **It will also be important to review management options for the government's buffers and the national insurance reserves.** The bulk of the SSB's national insurance funds and the central government's savings are . deposited in the indigenous banking system, which in turn seeks returns in overseas markets given excess liquidity and limited opportunities domestically. The authorities should consider greater geographical and asset class diversification, while for the SSB longer maturities would better match its liability structure and institutional role.

43. **Several other areas of Public Financial Management could be strengthened.** The government's Medium-Term Framework should be published and eventually supplemented with a Fiscal Strategy Statement that embodies formal fiscal objectives and targets. In addition the authorities should continue (i) strengthening macro-fiscal projections and the identification of fiscal risks; (ii) the credibility of revenue forecasts and the investment budget; (iii) strengthening the top-down aspects of budget preparation;[29] (iv) finalizing regulations under the FAA; (v) improving PSIP project preparation and selection; and (vi) making progress under the PFM Reform Action Plan. The recent rise in State-Owned Enterprises (SOEs) debt highlights the need for timely publication of financial statements.

Debt sustainability analysis

44. **The debt outlook would be relatively robust under the baseline scenario.** Standard primary balance and growth shocks or a natural disaster would imply modestly higher yet still downward trending debt trajectories. A combination of these macro-fiscal shocks or a full reacquisition of land related to the debt-land swap would more significantly increase the debt-to-GDP ratio, but the impact would be reversed over the medium-term.

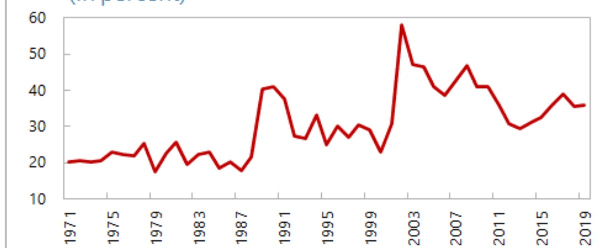
Authorities' Views

45. **The authorities' agreed on the need to maintain sizeable buffers and concurred with staff approach to assess the fiscal outlook based on different CBI revenue scenarios.** They

[29] Under a top-down approach the government would set expenditure limits consistent with fiscal objectives, rather than on the basis of agency bids.

expressed their preference to preserve liquid assets that could allow them to swiftly react to natural disasters and other sudden shocks. They aim to maintain strong public investment, including for natural disaster resilience. The authorities were not concerned about market access if they needed to borrow. They noted that there had been interest in the market in St. Kitts and Nevis sovereign debt, which had been boosted by its strong fiscal performance and debt management. They further reiterated their commitment to implement pending PFM reforms in their action plan, and emphasized the need for SOEs to improve compliance.

46. The government is considering options to address its contingent liability risks. Aware of the need to reform the partly funded pension system, the Cabinet has recently appointed a reform committee that will be informed by forthcoming actuarial recommendations. The authorities have also established a committee to consider options for introducing a universal health insurance scheme (UHIS) given current low coverage and high costs of insurance which results in delayed care for the uninsured. Funding for the UHIS is under consideration by the authorities, which have expressed the intent to implement it in a fiscally sustainable manner.

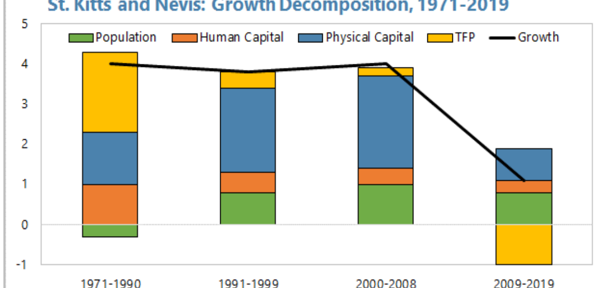


Share in GDP of Gross Capital Formation at Current Purchasing Power Parities
(In percent)

Source: Penn World Tables 10.0

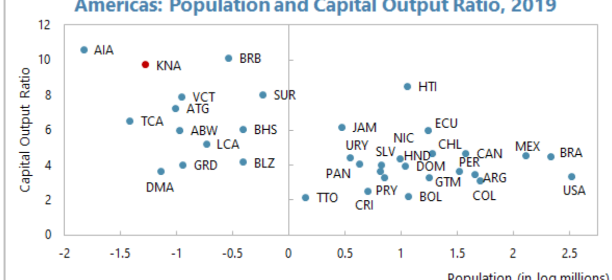
D. Boosting Productivity and Reducing Volatility through Diversification

47. GDP per capita growth in the last two decades has been relatively weak. As a result, there has been no further convergence of GDP per capita levels with those in the United States. Growth has been held back by weak productivity growth—investment has been high.



St. Kitts and Nevis: Growth Decomposition, 1971-2019

Sources: IMF staff calculations, Guerson et al. 2017.



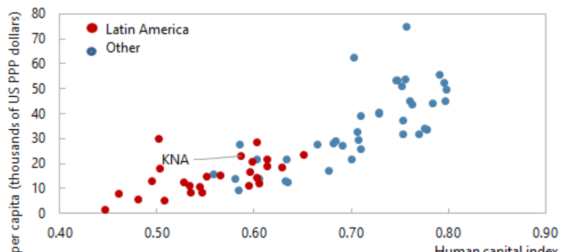
Americas: Population and Capital Output Ratio, 2019

Source: Penn World Tables 10.0

48. Weak productivity growth may partly reflect the limits of a small-island economy. Like most small islands in the Western Hemisphere, St. Kitts and Nevis has a high capital-output ratio. The decline in TFP growth may also be the result of the finished transition of an agricultural to a tourism-based economy.

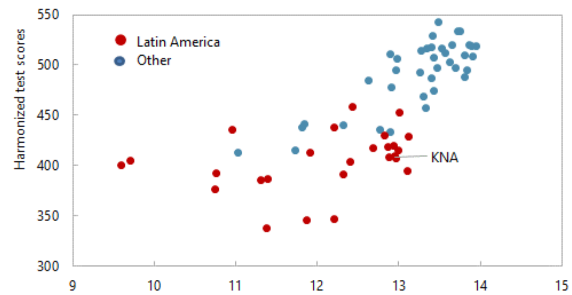
49. Human capital likely plays a role as well. Compared with Europe, and the US, human capital levels in St. Kitts and Nevis are relatively low.[30] This does not reflect so much input (years of schooling) but output (relatively low scores on harmonized test scores). Large scale emigration has further exacerbated the problem— a large part of well-schooled Kittitians and Nevisians live abroad.

Americas and Europe: Human Capital and GDP Per Capita, 2019



Note: Excludes Norway, Ireland and Luxembourg.
Source: World Bank database.

Americas and Europe: Expected Years of School and Harmonized Test Scores, 2019



Source: World Bank database.

50. High public sector wages and a CBI-induced construction boom may have reduced competitiveness by driving up wages in the tradable sector. In the ECCU, St. Kitts and Nevis is the country with the highest public sector wages, and the second highest private sector wages.

51. High electricity costs further hamper competitiveness. Although average electricity rates in St. Kitts and Nevis are lower than in other ECCU countries, they are higher than in Latin America and developing countries. 95 percent of electricity generation uses imported diesel.

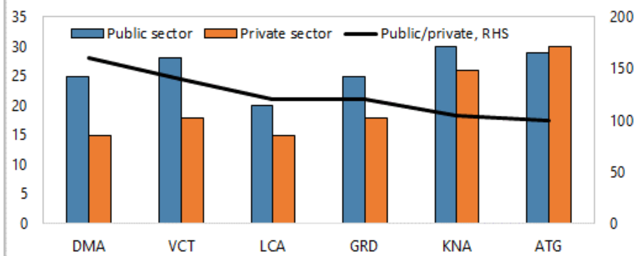
52. Several reforms might help boost productivity growth and promote diversification (which would reduce economic volatility)

- Promote other sources of growth by fostering vertical and horizontal linkages between agriculture and tourism.
- Upgrade skills through targeted training programs, and better align the STEP program and the education system with the needs of the labor market. Current proposals for a hospitality training institute would help enhance human capital in the tourism sector.

[30] Bakker et al. (2020) showed there is a strong *conditional* convergence: poorer countries with high levels of human capital (and strong governance) convergence with richer countries, while poorer countries lower levels of human capital do not.

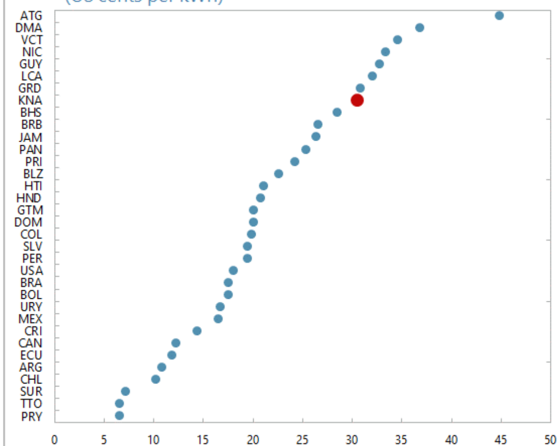
- Promote an environment in which wages grow in line with productivity. Ensure that the new labor code currently being drafted and soon to be submitted to cabinet for consideration avoids imposing rigidities in the wage setting process.

Public and private wages in the ECCU (2017)
(Wages in thousands of EC dollars; public/private comparison in percent)



Sources: Staff calculations, Guerson et al. 2017.

Electricity Prices in 2020
(US cents per kWh)



Source: World Bank *World Development Indicators* database.

- Improve the business climate and make it easier to for small firms to get credit, including by introducing a uniform commercial code to allow for broader assets to be used as collateral, and reducing legal and administrative impediments to asset recovery.

Authorities' Views

53. **To boost growth, the authorities are channeling CBI flows to other sectors.** In addition to the traditional use of the CBI flows for hotel real estate development, the CBI program now offers two new investment options (the alternative investment option and the private homes sales option[31]), which target other sectors. According to the CBI unit, residences and infrastructure have been funded with these resources, and plans to fund investments in agriculture and other areas are envisioned.

54. **The authorities intend to reduce dependency on imported fuel by diversifying into solar energy.** They have signed a contract for a new solar plant that will replace 60–75 percent of diesel generated power. The contract should be completed in the next 18 months. The government also continues to explore geothermal energy options.

55. **The government is in the process of transitioning the STEP program by absorbing current participants into the government work force.** In light of the current economic situation, in consultation with the National Tripartite Committee on International Labour Standards, the government has no plans for increases of the minimum wage.

[31] CBI flows have been traditionally used for tourism real estate development through the Real Estate Option. Since last year, 2 more investment options were created to channel CBI resources to other sectors as well as to provide investor flexibility. These options are: "Alternative Investment Option" and "Private Home Sales".

STAFF APPRAISAL

56. St. Kitts and Nevis entered the Covid-19 pandemic from a position of fiscal strength. A significant part of the large CBI revenues was prudently saved, leading to a decade of fiscal surpluses, a reduction of public debt to below the regional debt target of 60 percent of GDP, and accumulation of large government deposits.

57. Prompt government action helped to contain the pandemic's public health impact, but the impact on the economy has been severe. A complete halt in cruise ship arrivals and very few stayover tourists since the first quarter of 2020 had a severe impact on the economy. A fiscal package, unemployment payments and loan moratoria, helped mitigate the impact of the pandemic on the private sector.

58. In the near term, containing the pandemic and supporting the economy remain the key policy priorities. Reaching herd immunity through vaccination is the number one priority to save lives and livelihoods. Fiscal relief measures should be kept in place until the recovery firmly takes root. Robust levels of public investment would further support activity.

59. Once the recovery is firmly established, the government should resume its policy of saving part of the CBI revenues to build fiscal buffers. As a small, natural disaster-susceptible country dependent on tourism and historically volatile CBI revenues, St. Kitts and Nevis needs significant buffers. Higher buffers would also provide more fiscal space to mitigate contingent and long-term fiscal pressures. .

60. Financial sector policies should increasingly focus on building readiness for the exit from temporary support measures. The pandemic's full asset quality impact will become apparent only upon the expiry of the loan moratoria and may over time test the financial system's sizeable buffers. Risks may be contained by reviewing and formalizing crisis management plans, containing risks in the systemic bank, guiding non-banks' preparedness, and pursuing reforms to facilitate asset recovery. A more robust divestment plan for the swapped lands can help reinvigorate private sales.

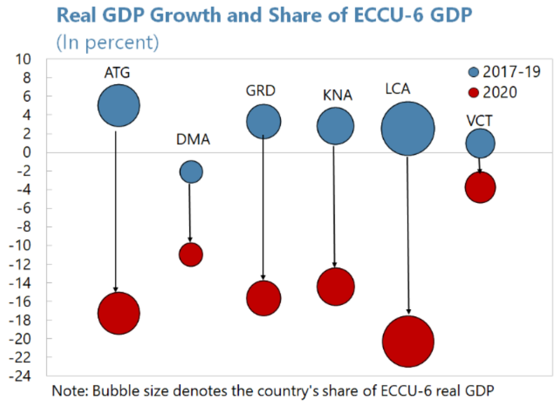
61. Reforms to strengthen productivity growth, economic competitiveness, and human capital would help restart income convergence with the US. These include attracting investment beyond the tourism sector, upgrading skills through focused training programs, better aligning the education system with the needs of the labor market, and making it easier for small firms to access credit, including through reforms that facilitate use of non-fixed asset as loan collateral.

62. The external position is broadly in line with the level consistent with medium-term fundamentals and desirable policy settings.

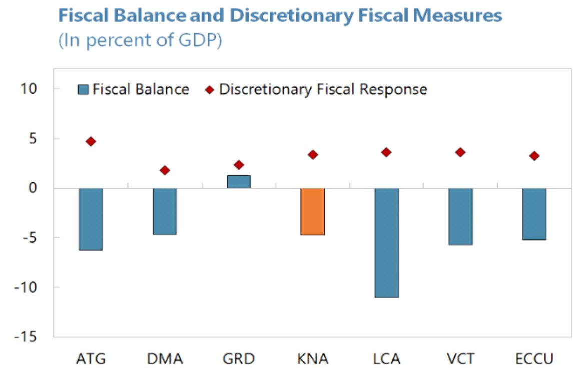
63. It is recommended that the next Article IV consultation takes place on the standard 12-months cycle.

Figure 1. St. Kitts and Nevis: Regional Context

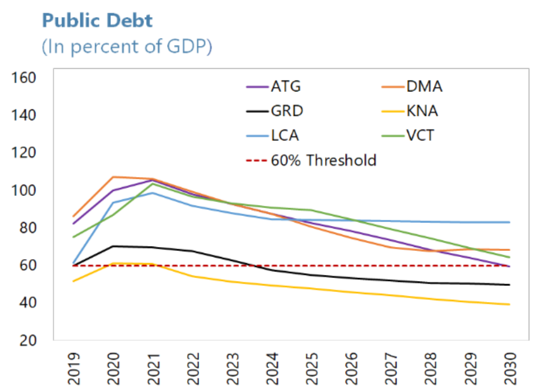
The pandemic led to a significant contraction of growth in St. Kitts and Nevis …



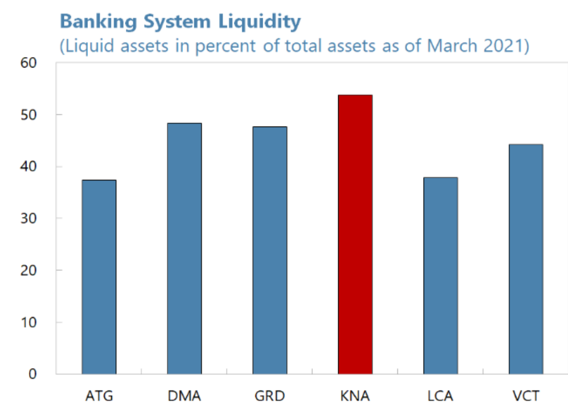
…prompting a swift fiscal response and the first fiscal deficit in nearly a decade. The deficit was largely financed by deposits.



….while debt, after a temporary uptick, is projected to return to the regional target in the medium term.



Additionally, the banking system is the most liquid in the region.

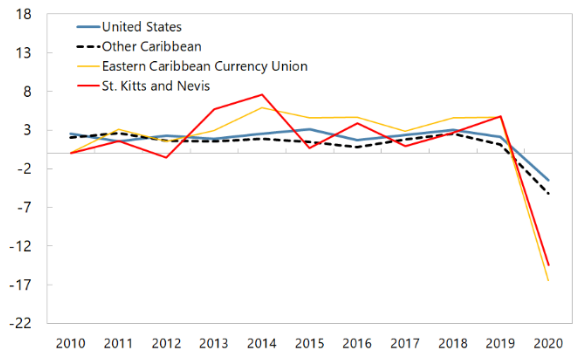


Sources: Country authorities and IMF staff calculations.

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

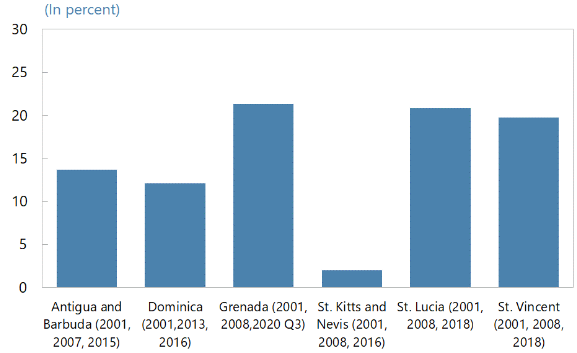
The covid-19 pandemic led to a sharp drop in tourism, resulting in a GDP contraction of 14 percent in 2020.

Real GDP Growth
(In percent)



...before the pandemic, unemployment was the lowest in the region.

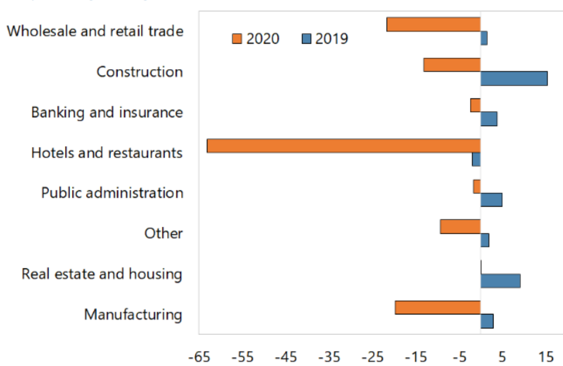
Unemployment Rate
(In percent)



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

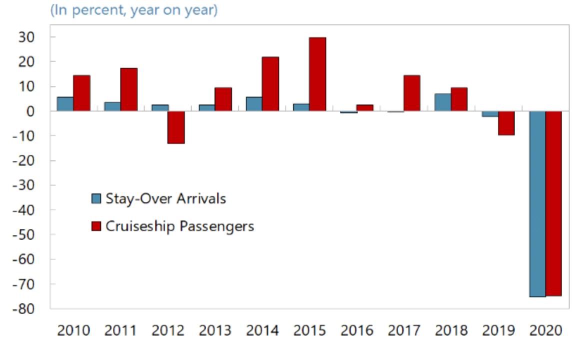
The economic slowdown mainly reflects the pandemic impact on hotels and restaurants, wholesale and retail trade and construction.

Real GDP: Production Components
(In percent, year on year)



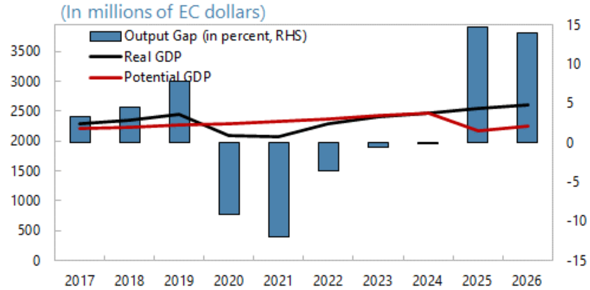
Not surprisingly, the pandemic led to a collapse of tourism arrivals by over 70 percent year-on-year.

Annual Tourism Performance
(In percent, year on year)



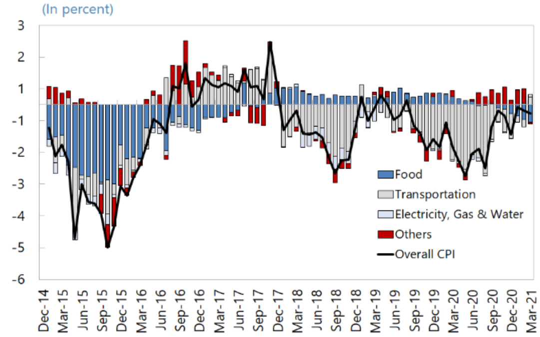
And a large output gap opened in 2020.

Real GDP and Output Gap
(In millions of EC dollars)



Consumer prices have been declining since 2014, reflecting declining import prices rather than the absence of domestic inflationary pressures.

Inflation
(In percent)

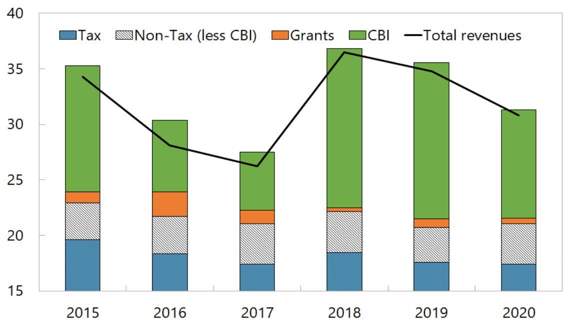


Sources: Country authorities and IMF staff calculations.

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

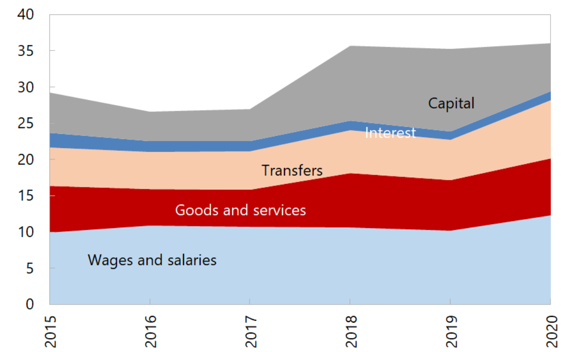
The revenue-to-GDP ratio dropped in 2020…

Total Revenues
(In percent of GDP)



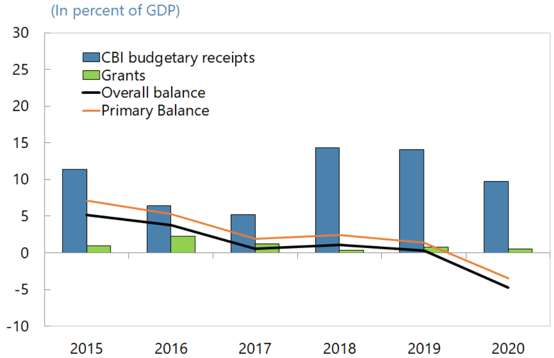
…while the expenditure-to-GDP ratio was roughly the same as in previous years

Total Expenditure
(In percent of GDP)



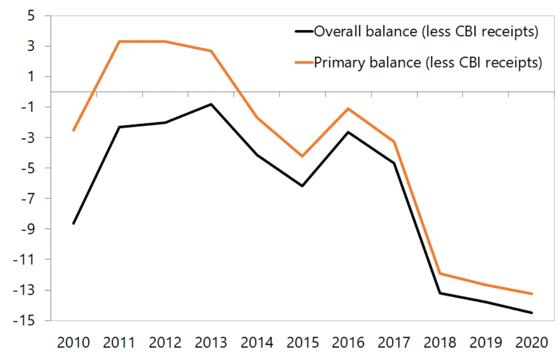
Their net effect resulted in considerably weaker fiscal balances…

Headline Fiscal Indicators
(In percent of GDP)



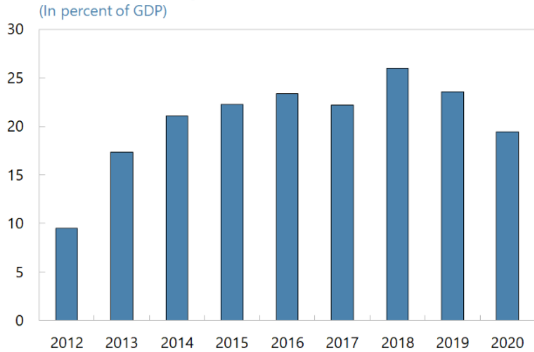
…including the underlying fiscal position.

Underlying Fiscal Position (Excluding CBI Receipts)
(In percent of GDP)



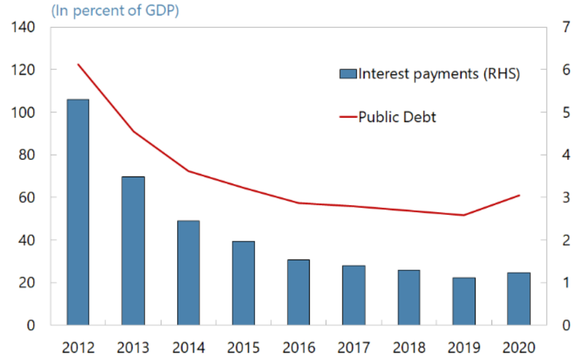
Deficits were financed through deposit withdrawal….

Government Deposits
(In percent of GDP)



…while the increase in the debt-to-GDP ratio mainly reflected the decline in GDP.

Public Debt and Interest Payments
(In percent of GDP)



Sources: Country authorities and IMF staff calculations.

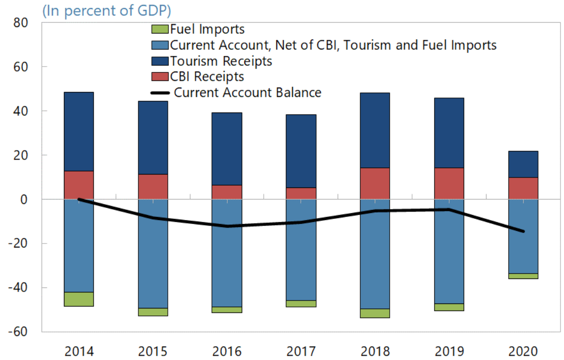
Figure 4. St. Kitts and Nevis: External Sector Developments

The current account deficit weakened in 2020 due to lower tourism and CBI receipts…

…with the CBI program revenue falling moderately in 2020.

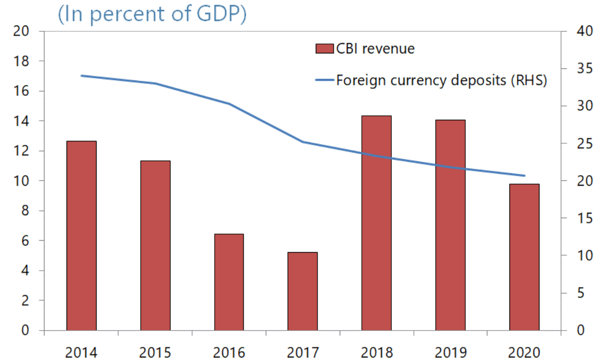
Current Account Flows and Balance

(In percent of GDP)



CBI Revenue and Foreign Currency Deposits

(In percent of GDP)

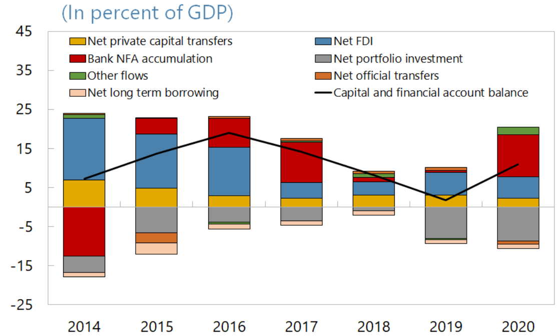


A drawdown of deposits and FDI inflows financed the current account deficit…

The ratio of Net Foreign Assets to GDP increased, as a result of the decline of GDP.

Capital and Financial Account 1/

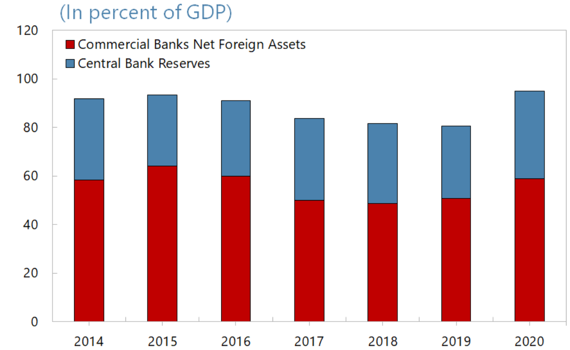
(In percent of GDP)



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

Net Foreign Assets

(In percent of GDP)

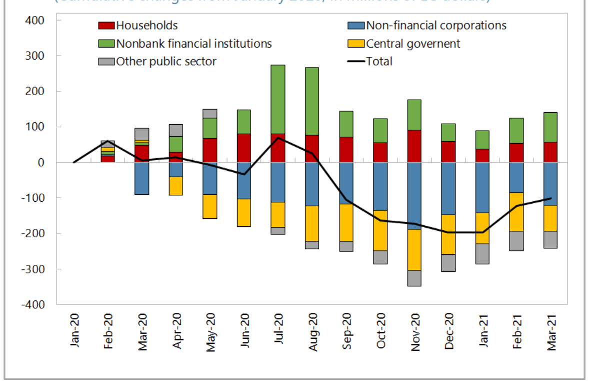


Sources: Country authorities and IMF staff calculations.

Figure 5. St. Kitts and Nevis: Banking System Developments

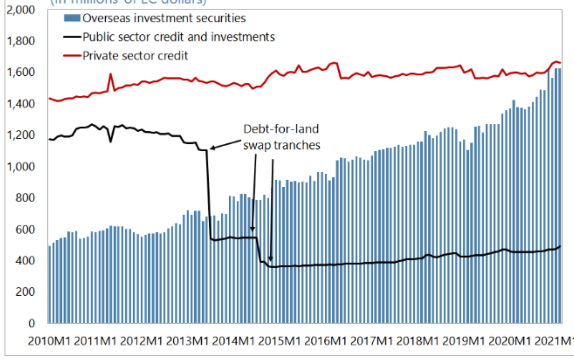
Banking system deposits have remained remarkably robust despite corporate and government drawdowns.

Commercial Bank Deposits
(Cumulative changes from January 2020; in millions of EC dollars)



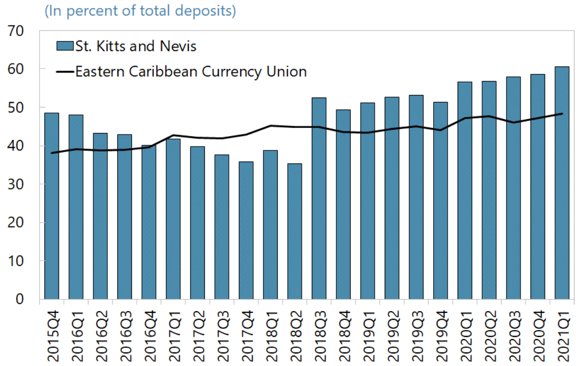
Private credit has remained broadly flat over the past decade, with growth stemming from overseas investments.

Evolution in Credit and Investments 2012-2021
(In millions of EC dollars)



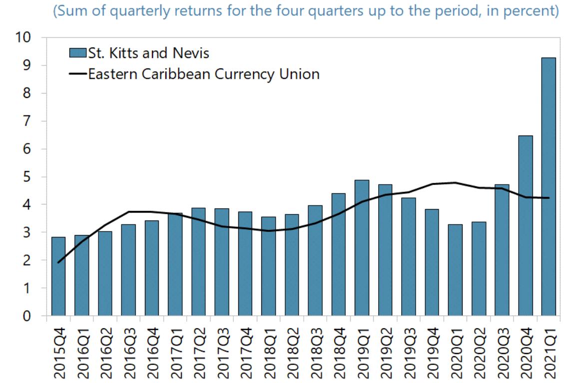
The banking system retains high excess liquidity…

Net Liquid Assets
(In percent of total deposits)



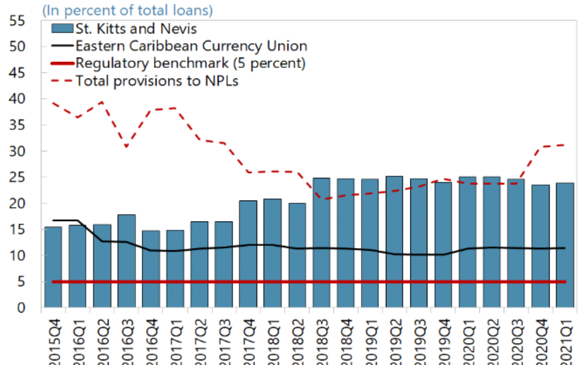
… with investment returns supporting profitability.

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



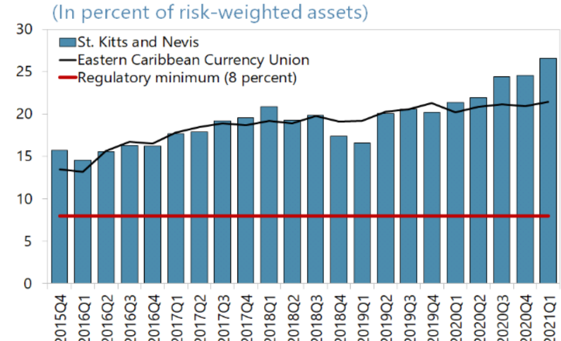
The NPL ratio remains persistently among the highest in the region…

Non-performing Loans
(In percent of total loans)



… but capital buffers stand also well above the regulatory minimum.

Total Regulatory Capital
(In percent of risk-weighted assets)



Sources: Country authorities and IMF staff calculations.

Table 2. St. Kitts and Nevis: Basic Data, 2016–26

I. Social, Geographic and Demographic Indicators

Area (sq. km)	269.4	Headcount Poverty (percent, 2008)	23.7
		Income inequality (Gini coefficient, 2008)	0.38
Population			
Total (thousands, 2019 est.)	53.1	Health and nutrition	
Rate of growth (percent per year, 2019)	0.75	Calorie intake (per capita a day, 2011)	2,452
Density (per sq. km., 2019)	197.1	Physicians (per 1,000 people, 2017)	1.2
Net migration rate (per thousand, 2014 est.)	1.2	Access to safe water (percent, 2011)	98.9
		AIDS incidence rate (per 100,000, 2016)	33.9
Population characteristics			
Life expectancy at birth (years,2002)	71.3	Gross domestic product (2019)	
Infant mortality (per thousand live births, 2018)	9.8	(millions of U.S. dollars)	980.9
Under 5 mortality rate (per thousand, 2018)	12.0	(millions of E.C. dollars)	2,648
Adult literacy rate (percent, 2009)	97.8	(US$ per capita)	18,472.8

II. Economic and Financial Indicators, 2016—26

					Est.	Proj.					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	(Annual percentage change, unless otherwise specified)										
National income and prices											
Real GDP (market prices) 1/	3.9	0.9	2.7	4.8	-14.4	-1.0	10.0	5.1	2.8	2.7	2.7
Real GDP (factor cost) 1/	3.7	1.7	2.0	5.7	-13.2	0.4	10.7	5.1	2.4	2.3	2.7
Consumer prices, end-of-period	0.0	0.8	-0.7	-0.8	-1.2	-0.8	-0.3	2.0	2.0	2.0	2.0
Consumer prices, period average	-0.7	0.7	-1.0	-0.8	-1.0	-1.0	-0.5	0.8	2.0	2.0	2.0
Real effective exchange rate appreciation (+) (end-of-period)	2.4	-2.8	2.3	0.8	-0.9	...	...	...	...	...	...
Money and credit 2/											
Broad money	-3.8	-3.7	-1.2	5.6	-8.1	3.3	6.9	4.0	4.5	5.6	5.8
Change in net foreign assets	2.7	-3.3	-0.8	6.5	-0.4	-1.0	5.9	7.0	6.0	5.7	5.5
Net credit to general government	12.6	-0.7	10.2	-9.5	-18.4	2.5	-0.2	-1.7	-1.8	-1.9	-1.9
Credit to private sector	0.5	0.5	1.6	1.5	1.1	1.1	0.4	-2.0	-0.7	0.6	0.8
Nonperforming loans to total gross loans	14.7	20.5	24.7	24.0	23.5	...	...	...	...	...	...
	(In percent of GDP)										
Public sector 3/											
Total revenue and grants	30.4	27.5	36.8	35.5	31.3	33.2	30.6	30.6	30.6	30.6	30.6
o/w Tax revenue	18.4	17.4	18.5	17.6	17.4	17.3	17.2	17.3	17.3	17.3	17.3
o/w CBI fees	6.4	5.2	14.3	14.1	9.8	13.3	9.0	9.0	9.0	9.0	9.0
Total expenditure and net lending	26.6	26.9	35.7	35.3	36.0	35.0	30.1	28.8	28.7	28.7	28.6
Current expenditure	22.6	22.6	25.3	23.8	29.4	28.2	26.1	25.8	25.8	25.7	25.7
Capital expenditure and net lending	4.0	4.4	10.4	11.4	6.6	6.8	4.0	3.0	3.0	3.0	3.0
Primary balance	5.3	1.9	2.4	1.4	-3.5	-0.7	1.5	2.8	2.8	2.8	2.8
Overall balance	3.8	0.5	1.1	0.3	-4.7	-1.8	0.5	1.9	1.9	2.0	2.0
Overall balance (excl. land buy back)		0.5	4.3	4.1	-4.7	-1.8	0.5	1.9	1.9	2.0	2.0
Overall balance (less CBI inflows) 4/	-2.9	-4.9	-12.6	-12.9	-14.2	-14.8	-8.4	-7.0	-7.0	-6.9	-6.9
Total public debt (end-of-period)	57.1	56.0	55.2	51.7	61.1	60.8	54.4	51.4	49.5	47.7	45.9
Public debt service (percent of total revenue and grants)	8.9	8.5	5.9	5.3	6.9	5.8	5.5	5.3	5.0	4.7	4.5
General government deposits (percent of GDP) 5/	23.4	22.2	26.0	23.6	19.5	16.8	14.9	15.4	16.2	17.0	17.8
External sector											
External current account balance	-12.3	-10.5	-5.4	-4.8	-14.5	-11.3	-7.3	-6.2	-5.7	-5.7	-5.7
Trade balance	-30.7	-28.6	-30.4	-28.3	-24.7	-21.8	-21.5	-23.5	-26.3	-29.7	-30.3
Services, net	25.5	25.1	32.0	30.2	14.1	14.0	20.9	25.6	29.5	32.6	33.1
o/w Tourism receipts	32.9	33.2	33.9	31.8	11.9	11.4	22.1	27.2	32.5	36.8	38.5
FDI (net)	12.3	4.0	3.3	5.6	5.5	9.3	9.3	9.4	9.3	9.2	9.1
External public debt (end-of-period)	19.3	14.7	13.7	12.1	13.6	13.1	11.2	10.1	9.2	8.4	7.6
	(In percent of exports of goods and nonfactor services)										
External public debt service	3.8	3.5	2.6	2.4	4.3	4.1	2.6	2.0	1.6	1.4	1.2
External public debt (end-of-period)	38.8	30.9	24.8	22.0	39.2	37.9	25.6	20.6	16.9	14.3	12.5
Memorandum items											
Net international reserves, end-of-period											
(in millions of U.S. dollars)	312.9	357.0	355.3	346.3	354.6	343.9	351.3	356.9	362.4	368.0	374.1
(in percent of broad money)	29.0	34.3	34.8	32.2	34.5	32.4	31.0	30.3	29.4	28.3	27.2
Holdings of SDRs, in millions of U.S. dollars	13.8	14.8	15.8	16.8	17.8	28.8	28.8	28.8	28.8	28.8	28.8
Nominal GDP at market prices (in millions of EC$)	2,724	2,864	2,912	3,145	2,648	2,636	2,948	3,125	3,266	3,408	3,569

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

1/ In June 2021, the National Statistics Office revised historical GDP series.

2/ The series for monetary aggregates have been revised consistent with the 2016 Monetary and Financial Statistics Manual and Compilation Guide.

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

4/ Excludes CBI budgetary fees, and Investment proceeds and CBI due diligence costs.

5/ Includes only central government deposits at the commercial banks.

Table 3a St. Kitts and Nevis: General Government Fiscal Operations, 2016–26 1/
(In millions of Eastern Caribbean dollars)

	2016	2017	2018	2019	Est. 2020	Proj. 2021	2022	2023	2024	2025	2026
Total revenue	**766.3**	**751.9**	**1062.1**	**1094.1**	**816.3**	**861.8**	**888.6**	**944.2**	**987.2**	**1030.1**	**1078.6**
Current revenue	766.3	751.9	1062.1	1094.1	816.3	861.8	888.6	944.2	987.2	1030.1	1078.6
Tax revenue	500.0	498.4	538.1	552.8	461.4	455.2	507.9	540.7	565.4	590.0	617.8
Taxes on income	126.5	135.3	154.2	123.1	121.5	112.2	123.3	131.8	138.1	144.1	150.8
Taxes on property	16.3	15.5	17.5	14.9	12.9	13.0	15.0	17.1	17.8	18.6	19.5
Taxes on domestic goods and consumption	209.1	204.0	208.8	253.8	191.6	190.5	213.5	226.3	236.5	246.8	258.5
Taxes on international trade and transactions	148.0	143.6	157.5	161.0	135.4	139.6	156.1	165.5	173.0	180.5	189.0
Nontax revenue	266.4	253.5	524.0	541.3	354.8	406.7	380.6	403.5	421.8	440.1	460.9
o/w: Citizenship by investment (CBI) Budgetary Receipts	175.3	149.4	417.0	442.6	258.6	350.0	265.3	281.3	294.0	306.7	321.2
Other	91.1	104.1	107.0	98.7	96.3	56.7	115.3	122.3	127.8	133.3	139.6
Total expenditure and net lending	**724.1**	**771.4**	**1040.4**	**1108.9**	**953.8**	**922.8**	**886.7**	**899.1**	**938.0**	**977.1**	**1021.5**
Current expenditure	614.8	646.0	737.5	749.7	779.2	743.4	770.0	806.4	841.2	876.0	915.6
Wages and salaries	295.4	305.4	309.9	320.9	326.2	327.2	332.3	344.6	360.2	375.8	393.6
Goods and services	139.0	148.5	217.7	219.8	208.7	205.0	227.5	241.2	252.1	263.1	275.5
of which: CBI due diligence costs	10.9	11.3	36.9	28.8	8.6	7.2	3.6	3.6	3.6	3.6	3.6
Interest	41.9	39.9	37.9	35.0	32.8	30.2	29.2	28.7	28.3	27.9	27.5
Domestic	32.4	31.6	28.3	26.3	24.6	21.9	21.3	21.2	21.2	21.2	21.2
Foreign	9.5	8.3	9.6	8.6	8.1	8.2	7.9	7.5	7.1	6.7	6.3
Transfers	138.5	152.1	172.0	174.0	211.6	181.0	181.0	191.8	200.5	209.2	219.1
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure 2/	109.3	125.4	302.9	359.2	174.6	179.4	116.7	92.7	96.9	101.1	105.8
Current balance	**151.5**	**105.9**	**324.7**	**344.4**	**37.0**	**118.4**	**118.6**	**137.8**	**146.0**	**154.1**	**163.0**
Overall balance (before grants)	42.2	-19.5	21.8	-14.8	-137.6	-61.0	1.9	45.1	49.2	53.0	57.1
Grants	60.8	34.9	10.3	23.9	12.7	12.8	12.0	12.8	13.3	13.9	14.6
Overall balance (after grants)	**103.0**	**15.4**	**32.1**	**9.2**	**-124.9**	**-48.2**	**13.9**	**57.9**	**62.5**	**66.9**	**71.7**
Primary balance	145.0	55.3	69.9	44.1	-92.1	-18.1	43.1	86.6	90.8	94.8	99.2
Overall balance (ex. Land buy back)	**103.0**	**115.4**	**132.1**	**9.2**	**-124.9**	**-48.2**	**13.9**	**57.9**	**62.5**	**66.9**	**71.7**
Financing	**-103.0**	**-115.4**	**-132.1**	**-9.2**	**124.9**	**48.2**	**-13.9**	**-57.9**	**-62.5**	**-66.9**	**-71.7**
Disbursements	17.7	16.3	0.0	3.5	1.8	24.8	17.0	15.5	15.8	15.3	17.9
Amortization	68.0	43.6	41.9	41.7	41.4	49.7	33.9	31.0	31.5	30.6	35.7
Government Deposits	-61.8	1.8	-122.1	16.0	226.0	73.1	3.0	-42.4	-46.7	-51.6	-53.8
Statistical discrepancy	9.1	-89.9	32.0	13.0	-61.5	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
GDP (market prices)	2,724	2,864	2,912	3,145	2,648	2,636	2,948	3,125	3,266	3,408	3,569
Public sector debt (end of period)	1,556.7	1,604.2	1,607.4	1,625.5	1,618.2	1,603.6	1,604.1	1,606.6	1,616.2	1,626.4	1,637.5
Of which											
Central government	1,266	1,290	1,174	1,132	1,108	1,076	1,059	1,044	1,028	1,013	995
Domestic	786	907	804	776	767	751	749	750	750	751	749
External	480	382	370	356	340	325	311	294	278	262	245
Public enterprises 3/	291	315	434	494	511	527	545	563	588	614	643

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/ In 2018 and 2019, includes EC$ 100 million buy-backs of land related to the debt-land swap.

3/ Based on actual data of 10 public sector corporations and estimates for 4 others. No audited financial statements have yet been published for St. Kitts Electricity Company (SKELEC).

Table 3b. St. Kitts and Nevis: General Government Fiscal Operations, 2016–26 1/
(In percent of GDP)

					Est.	Proj.					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Total revenue	**28.1**	**26.3**	**36.5**	**34.8**	**30.8**	**32.7**	**30.1**	**30.2**	**30.2**	**30.2**	**30.2**
Current revenue	28.1	26.3	36.5	34.8	30.8	32.7	30.1	30.2	30.2	30.2	30.2
Tax revenue	18.4	17.4	18.5	17.6	17.4	17.3	17.2	17.3	17.3	17.3	17.3
Taxes on income	4.6	4.7	5.3	3.9	4.6	4.3	4.2	4.2	4.2	4.2	4.2
Taxes on property	0.6	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Taxes on domestic goods and consumption	7.7	7.1	7.2	8.1	7.2	7.2	7.2	7.2	7.2	7.2	7.2
Taxes on international trade and transactions	5.4	5.0	5.4	5.1	5.1	5.3	5.3	5.3	5.3	5.3	5.3
Nontax revenue	9.8	8.9	18.0	17.2	13.4	15.4	12.9	12.9	12.9	12.9	12.9
o/w: Citizenship by investment (CBI) Budgetary Receipts	6.4	5.2	14.3	14.1	9.8	13.3	9.0	9.0	9.0	9.0	9.0
Other	3.3	3.6	3.7	3.1	3.6	2.2	3.9	3.9	3.9	3.9	3.9
Total expenditure and net lending	**26.6**	**26.9**	**35.7**	**35.3**	**36.0**	**35.0**	**30.1**	**28.8**	**28.7**	**28.7**	**28.6**
Current expenditure	22.6	22.6	25.3	23.8	29.4	28.2	26.1	25.8	25.8	25.7	25.7
Wages and salaries	10.8	10.7	10.6	10.2	12.3	12.4	11.3	11.0	11.0	11.0	11.0
Goods and service	5.1	5.2	7.5	7.0	7.9	7.8	7.7	7.7	7.7	7.7	7.7
of which: CBI due diligence costs	0.4	0.4	1.3	0.9	0.3	0.3	0.1	0.1	0.1	0.1	0.1
Interest	1.5	1.4	1.3	1.1	1.2	1.1	1.0	0.9	0.9	0.8	0.8
Domestic	1.2	1.1	1.0	0.8	0.9	0.8	0.7	0.7	0.7	0.6	0.6
Foreign	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Transfers	5.1	5.3	5.9	5.5	8.0	6.9	6.1	6.1	6.1	6.1	6.1
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure 2/	4.0	4.4	10.4	11.4	6.6	6.8	4.0	3.0	3.0	3.0	3.0
Current balance	**5.6**	**3.7**	**11.1**	**11.0**	**1.4**	**4.5**	**4.0**	**4.4**	**4.5**	**4.5**	**4.6**
Overall balance (before grants)	1.6	-0.7	0.7	-0.5	-5.2	-2.3	0.1	1.4	1.5	1.6	1.6
Grants	2.2	1.2	0.4	0.8	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Overall balance (after grants)	**3.8**	**0.5**	**1.1**	**0.3**	**-4.7**	**-1.8**	**0.5**	**1.9**	**1.9**	**2.0**	**2.0**
Primary balance	5.3	1.9	2.4	1.4	-3.5	-0.7	1.5	2.8	2.8	2.8	2.8
Overall balance (ex. Land buy back)	**3.8**	**4.0**	**4.5**	**0.3**	**-4.7**	**-1.8**	**0.5**	**1.9**	**1.9**	**2.0**	**2.0**
Primary balance (ex. CBI receipts and SIDF Grants & Inv. Proceeds, CBI due	-1.3	-3.5	-11.3	-11.8	-12.9	-13.7	-7.4	-6.1	-6.1	-6.1	-6.1
Financing	**-3.8**	**-4.0**	**-4.5**	**-0.3**	**4.7**	**1.8**	**-0.5**	**-1.9**	**-1.9**	**-2.0**	**-2.0**
Net foreign financing	-1.9	-0.9	-0.9	-0.8	-0.9	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5
Net domestic financing	-2.2	0.0	-4.8	0.1	8.0	2.4	0.0	-1.3	-1.4	-1.5	-1.6
Government Deposits	-2.3	0.1	-4.2	0.5	8.5	2.8	0.1	-1.4	-1.4	-1.5	-1.5
Other	0.0	0.0	-0.6	-0.4	-0.6	-0.4	-0.1	0.0	0.0	0.0	0.0
Statistical discrepancy	0.3	-3.1	1.1	0.4	-2.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Public sector debt (end of period)	57.1	56.0	55.2	51.7	61.1	60.8	54.4	51.4	49.5	47.7	45.9
Of which											
Central government	46.5	45.0	40.3	36.0	41.8	40.8	35.9	33.4	31.5	29.7	27.9
Domestic	28.9	31.7	27.6	24.7	29.0	28.5	25.4	24.0	23.0	22.0	21.0
External	17.6	13.4	12.7	11.3	12.9	12.3	10.5	9.4	8.5	7.7	6.9
Public enterprises 3/	10.7	11.0	14.9	15.7	19.3	20.0	18.5	18.0	18.0	18.0	18.0

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/ In 2018 and 2019, includes EC$ 100 million buy-backs of land related to the debt-land swap.

3/ Based on actual data of 10 public sector corporations and estimates for 4 others. No audited financial statements have yet been published for St. Kitts Electricity Company (SKELEC).

Table 4. St. Kitts and Nevis: Balance of Payments, 2016–26 1/

					Est.	Proj.					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	(In millions of Eastern Caribbean dollars)										
Current account	**-333.8**	**-301.6**	**-156.6**	**-150.4**	**-383.2**	**-298.9**	**-215.4**	**-192.4**	**-187.1**	**-195.3**	**-204.8**
Trade balance	-836.9	-818.8	-884.9	-890.6	-655.4	-575.2	-633.3	-734.6	-859.3	-1011.8	-1082.3
Exports, f.o.b.	65.8	78.7	72.5	77.1	69.7	72.9	86.1	96.4	108.7	115.0	121.1
Imports f.o.b.	-902.7	-897.5	-957.4	-967.7	-725.1	-648.1	-719.4	-830.9	-968.0	-1126.8	-1203.4
o/w Mineral fuel	-72.1	-89.8	-117.7	-108.3	-67.4	-68.4	-75.9	-87.7	-102.1	-118.9	-127.0
Services and transfers (net)	503.1	517.1	728.3	740.2	272.2	276.4	417.9	542.2	672.3	816.5	877.5
Services (net)	695.8	718.9	931.4	950.9	372.6	367.7	616.6	799.4	962.1	1112.3	1179.7
Services (receipts)	1292.9	1285.4	1542.7	1652.2	848.3	836.0	1208.0	1435.3	1669.5	1883.2	2031.2
o/w Tourism receipts	895.2	950.0	987.2	1000.2	314.7	300.1	650.1	850.1	1062.7	1254.0	1373.1
o/w Citizenship-by-investment budgetary fees	175.3	149.4	417.0	442.6	258.6	350.0	265.3	281.3	294.0	306.7	321.2
Services (payments)	-597.1	-566.5	-611.3	-701.3	-475.7	-468.4	-591.4	-635.9	-707.4	-770.8	-851.5
Factor income (net)	-158.4	-132.0	-126.0	-129.3	-35.4	-36.1	-137.9	-193.9	-226.1	-231.4	-236.9
Transfers (net)	-34.3	-69.8	-77.1	-81.4	-65.1	-55.2	-60.8	-63.3	-63.7	-64.5	-65.2
Capital account	**131.2**	**119.2**	**142.5**	**154.8**	**71.1**	**79.3**	**78.8**	**77.0**	**76.4**	**75.8**	**75.2**
Financial account	**-201.9**	**-166.0**	**-102.6**	**75.8**	**-193.8**	**-219.6**	**-136.6**	**-115.4**	**-110.6**	**-119.5**	**-129.7**
Capital and financial account	**-70.7**	**-46.7**	**39.9**	**230.6**	**-122.7**	**-140.3**	**-57.7**	**-38.4**	**-34.2**	**-43.7**	**-54.5**
Official capital	13.1	19.7	20.4	24.6	-17.8	26.8	1.8	2.2	2.1	2.7	3.9
Capital transfers (net)	50.2	54.4	51.8	55.8	12.6	22.0	22.7	22.0	21.4	20.8	20.2
Long-term borrowing (net)	-37.2	-34.7	-31.4	-31.2	-30.5	4.8	-21.0	-19.8	-19.3	-18.2	-16.3
Disbursements	0.0	0.0	0.0	0.0	0.0	34.0	6.2	5.5	5.5	5.4	5.9
Amortization 1/	-37.2	-34.7	-31.4	-31.2	-30.5	-29.3	-27.1	-25.3	-24.8	-23.6	-22.2
Private capital	-120.9	-101.2	19.5	206.0	-104.9	-167.1	-59.5	-40.6	-36.3	-46.3	-58.4
Capital transfers (net)	81.0	64.8	90.7	99.0	58.4	57.3	56.1	55.0	55.0	55.0	55.0
Foreign direct investment (net)	336.0	113.7	95.9	177.5	144.6	245.8	275.5	294.6	304.7	314.8	325.3
Portfolio investment (net)	-106.9	-100.1	-27.5	-252.7	-232.0	-185.6	-148.5	-123.8	-104.0	-88.2	-150.6
Commercial bank NFA accumulation (+increase)	203.7	298.7	36.4	17.5	286.4	0.0	-150.0	-200.0	-175.0	-175.0	-175.0
Reserve assets (+increase/-decrease)	-87.4	-119.1	4.6	24.6	-25.4	28.8	-20.0	-15.0	-15.0	-15.0	-16.5
Other (net)	-547.2	-359.2	-180.5	140.1	-336.9	-313.4	-72.6	-51.4	-102.0	-137.9	-96.6
Errors and omissions	**-68.0**	**16.5**	**-88.5**	**71.3**	**118.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
IMF reserve liabilities (purchase = +)	-24.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net use of IMF resources	-27.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	(In percent of GDP)										
Current account	-12.3	-10.5	-5.4	-4.8	-14.5	-11.3	-7.3	-6.2	-5.7	-5.7	-5.7
Current account, excluding CBI receipts	-18.7	-15.8	-19.7	-18.9	-24.2	-24.6	-16.3	-15.2	-14.7	-14.7	-14.7
Exports of goods and nonfactor services	49.9	47.6	55.5	55.0	34.7	34.5	43.9	49.0	54.4	58.6	60.3
Merchandise exports	2.4	2.7	2.5	2.5	2.6	2.8	2.9	3.1	3.3	3.4	3.4
Nonfactor services	47.5	44.9	53.0	52.5	32.0	31.7	41.0	45.9	51.1	55.3	56.9
o/w Tourism receipts	32.9	33.2	33.9	31.8	11.9	11.4	22.1	27.2	32.5	36.8	38.5
Imports of goods and nonfactor services	-55.1	-51.1	-53.9	-53.1	-45.3	-42.4	-44.5	-46.9	-51.3	-55.7	-57.6
Merchandise imports	-33.1	-31.3	-32.9	-30.8	-27.4	-24.6	-24.4	-26.6	-29.6	-33.1	-33.7
Nonfactor services	-21.9	-19.8	-21.0	-22.3	-18.0	-17.8	-20.1	-20.3	-21.7	-22.6	-23.9
Foreign direct investment (net)	12.3	4.0	3.3	5.6	5.5	9.3	9.3	9.4	9.3	9.2	9.1
External public debt	19.3	14.7	13.7	12.1	13.6	13.1	11.2	10.1	9.2	8.4	7.6
	(Annual percentage change)										
Merchandise exports	-28.9	19.7	-7.9	6.3	-9.6	4.6	18.2	11.9	12.8	5.7	5.3
Tourism receipts	4.7	6.1	3.9	1.3	-68.5	-4.7	116.7	30.8	25.0	18.0	9.5
Merchandise imports	7.7	-0.6	6.7	1.1	-25.1	-10.6	11.0	15.5	16.5	16.4	6.8
	(In percent of exports of goods and nonfactor services)										
External public debt	38.8	30.9	24.8	22.0	39.2	37.9	25.6	20.6	16.9	14.3	12.5
External debt service	3.8	3.5	2.6	2.4	4.3	4.1	2.6	2.0	1.6	1.4	1.2
o/w Interest	1.0	0.9	0.6	0.6	1.0	0.9	0.4	0.3	0.2	0.2	0.1
o/w Principal	2.8	2.6	2.0	1.8	3.4	3.3	2.1	1.7	1.4	1.2	1.0
	(In millions of US dollars)										
ECCB imputed reserves	312.9	357.0	355.3	346.3	354.6	343.9	351.3	356.9	362.4	368.0	374.1
in months of imports of goods and services	6.9	7.4	6.9	9.3	10.3	8.5	7.8	6.9	6.2	5.8	5.8

Sources: ECCB; and Fund staff estimates and projections.

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

Table 5. St. Kitts and Nevis: Monetary Survey, 2016–20 1/

	2016	2017	2018	2019	2020
	(In millions of Eastern Caribbean dollars)				
Net foreign assets	**2467.6**	**2387.2**	**2368.6**	**2523.1**	**2513.7**
ECCB imputed reserves	834.6	954.9	953.6	927.1	957.3
Commercial banks	1633.0	1432.3	1415.0	1596.0	1556.3
Net domestic assets	**536.7**	**504.9**	**489.0**	**493.5**	**257.9**
Net credit to general government 2/	-1309.1	-1299.8	-1432.6	-1297.1	-1058.9
Claims on other sectors	1498.4	1524.0	1604.9	1662.5	1673.8
Claims on non-bank financial Institutions	62.7	78.1	76.2	77.2	89.0
Claims on public non-financial corporations 3/	36.6	39.7	99.5	134.1	116.9
Claims on private sector	1399.1	1406.2	1429.2	1451.3	1467.9
Net other assets	347.3	280.6	316.8	128.0	-357.0
Broad money (M2)	**3004.3**	**2892.1**	**2857.6**	**3016.6**	**2771.5**
Money	598.1	589.5	586.6	678.7	589.4
Currency outside depository corporations	178.1	196.4	205.6	210.6	220.8
Transferable deposits, in national currency	420.0	393.2	381.0	468.1	368.6
Quasi-money	2406.2	2302.5	2271.0	2337.9	2182.1
Other deposits, in national currency	1558.9	1562.6	1572.5	1620.8	1634.1
Foreign currency deposits	847.2	740.0	698.5	717.1	548.1
	(Percentage change relative to broad money at beginning of period)				
Net foreign assets	2.1	-2.7	-0.6	5.4	-0.3
Net domestic assets, of which:	-5.9	-1.1	-0.5	0.2	-7.8
Net credit to general government	-4.7	0.3	-4.6	4.7	7.9
Claims on private sector	0.2	0.2	0.8	0.8	0.6
	(Annual percentage change)				
Broad money (M2)	-3.8	-3.7	-1.2	5.6	-8.1
Money	-8.9	-1.4	-0.5	15.7	-13.2
Currency outside depository corporations	5.9	10.2	4.7	2.4	4.9
Transferable deposits, in national currency	-14.0	-6.4	-3.1	22.9	-21.3
Quasi-money	-2.5	-4.3	-1.4	2.9	-6.7
Other deposits, in national currency	-2.1	0.2	0.6	3.1	0.8
Foreign currency deposits	-3.0	-12.7	-5.6	2.7	-23.6
Credit to the private sector (in nominal terms)	0.5	0.5	1.6	1.5	1.1
Credit to the private sector (in real terms)	0.4	-0.2	2.4	2.4	2.3
Memorandum items:					
Income velocity of money	4.6	4.9	5.0	4.6	4.5
Income velocity of broad money	0.9	1.0	1.0	1.0	1.0
Private sector credit/GDP (in percent)	51.4	49.1	49.1	46.1	55.4
Central government deposits (EC$ million) 4/	637.5	635.7	757.8	741.8	515.7
Central government deposits (percent of GDP) 4/	23.4	22.2	26.0	23.6	19.5

Sources: ECCB; and Fund staff estimates and projections.

1/ The series for monetary aggregates have been revised in 2020 consistent with the 2016 Monetary and Financial Statistics Manual and Compilation Guide. Historical mapping may involve inconsistencies due to data limitations.

2/ Includes net credit to the national insurance scheme and statutory bodies providing goods and services without charging fees.

3/ Statutory bodies charging prices for their goods and services that cover fully or mostly their operational costs.

4/ Includes only central government deposits at the commercial banks.

Table 6. Selected Financial Soundness Indicators: 2016-20
(In percent)

	2016	2017	2018	2019	2020
Banking Sector					
Capital adequacy and profitability					
Regulatory capital to risk-weighted assets (CAR) 1/	22.8	19.5	17.4	17.8	24.5
Regulatory Tier 1 capital to risk-weighted assets 1/	23.9	18.7	18.2	17.1	17.2
Return on average assets (ROA)	0.9	0.8	1.3	0.8	2.6
Net-interest income to gross income	54.4	51.8	45.4	42.5	13.8
Non-interest expenses to gross income	64.1	66.8	55.8	71.6	58.7
Liquidity					
Liquid assets to total assets	48.4	59.0	60.2	55.7	58.4
Net liquid assets to deposits	52.8	62.6	65.6	62.2	76.6
Loan-to-deposit ratio	39.2	41.4	43.2	44.4	52.5
Asset quality					
Private sector credit growth (y/y) 2/	0.9	1.5	1.4	1.5	1.1
Nonperforming loans to total gross loans	14.7	20.5	24.7	24.0	23.5
Total provisions to nonperforming loans 2/	37.9	25.9	21.5	24.7	30.8
Credit Unions					
Capital adequacy and profitability					
Total capital to assets 3/	17.8	18.3	22.5	17.8	17.9
Institutional capital to assets	11.9	12.2	11.8	11.5	11.6
Return on assets (ROA)	2.2	2.0	1.5	1.3	1.6
Net-interest income to gross income	82.0	85.2	84.6	82.4	80.9
Non-interest expenses to gross income	54.5	58.3	62.7	63.4	57.7
Liquidity					
Liquid assets to total assets	23.5	23.3	24.4	23.2	27.0
Net liquid assets to deposits	29.5	29.4	30.7	29.2	33.9
Loan-to-deposit ratio	89.5	90.2	89.3	87.4	83.6
Asset quality					
Credit growth (y/y)	13.3	10.4	10.4	8.7	9.8
Nonperforming loans to total gross loans	14.5	9.9	8.5	8.0	8.3
Nonperforming loans to total gross loans (>90 days past due)	10.1	6.6	6.1	5.9	5.8
Total provisions to nonperforming loans	38.5	60.7	65.7	63.5	57.3

Sources: FSRC, ECCB and Fund staff calculations.
1/ Data available only for locally incorporated banks
2/ Not included in standard FSIs.
3/ Institutional capital and non-withdrawable member shares.

Table 7. St. Kitts and Nevis: Indicators of External and Financial Vulnerability, 2016–20

(12-month percentage change, unless otherwise specified)

	2016	2017	2018	2019	Est. 2020
External indicators					
Merchandise exports	-28.9	19.7	-7.9	6.3	-9.6
Merchandise imports	7.7	-0.6	6.7	1.1	-25.1
Tourism earnings	4.7	6.1	3.9	1.3	-68.5
Current account balance (percent of GDP)	-12.3	-10.5	-5.4	-4.8	-14.5
Capital and financial account balance (percent of GDP)	19.0	14.1	8.3	1.7	11.0
Of which					
Foreign direct investment	12.3	4.0	3.3	5.6	5.5
Imputed net international reserves					
In millions of U.S. dollars	312.9	357.0	355.3	346.3	354.6
In percent of broad money	28.1	33.3	33.6	31.0	34.5
Commercial banks' net foreign assets (millions of U. S. dollars)	604.8	530.5	524.1	591.1	576.4
External public debt (percent of GDP)	19.3	14.7	13.7	12.1	13.6
External debt service (in percent of exports of goods and services)	3.8	3.5	2.6	2.4	4.3
Interest	1.0	0.9	0.6	0.6	1.0
Principal	2.8	2.6	2.0	1.8	3.4
Nominal exchange rate (E.C. dollars per U.S. dollar, end period)	2.7	2.7	2.7	2.7	2.7
Real effective exchange rate appreciation (+), end period	2.4	-2.8	2.3	0.8	-0.9
Financial indicators 1/					
Broad money	-3.8	-3.7	-1.2	5.6	-8.1
Credit to the private sector	0.5	0.5	1.6	1.5	1.1
Nonperforming loans to total assets of banks (percent)	14.7	20.5	24.7	24.0	23.5
Liquid assets/total assets (percent)	48.4	59.0	60.2	55.7	58.4
Liquid assets/current liabilities (percent)	52.8	62.6	65.6	62.2	76.6
Ratio of banks' before-tax profits to average assets (percent)	0.9	0.8	1.3	0.8	2.6

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

1/ The series for monetary aggregates have been revised consistent with the 2016 Monetary and Financial Statistics Manual and Compilation Guide.

Table 8. St. Kitts and Nevis: External Financing Requirement and Sources, 2016–26
(In millions of US dollars)

					Est.	Proj.					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Gross financing requirement	**297.0**	**191.1**	**121.3**	**-0.2**	**181.3**	**226.9**	**179.7**	**179.3**	**186.6**	**202.5**	**190.8**
Current account deficit	123.6	111.7	58.0	55.7	141.9	110.7	79.8	71.3	69.3	72.3	75.9
Amortization	141.0	35.3	65.0	-46.8	30.0	126.9	92.5	102.5	111.8	124.6	108.8
Official (public sector and central government)	13.8	12.9	11.6	11.6	11.3	10.8	10.0	9.4	9.2	8.7	8.2
Private sector (net)	127.2	22.4	53.4	-58.4	18.7	116.1	82.5	93.1	102.6	115.9	100.6
Commercial banks	-75.4	-110.6	-13.5	-6.5	-106.1	0.0	55.6	74.1	64.8	64.8	64.8
Other private	202.7	133.0	66.9	-51.9	124.8	116.1	26.9	19.0	37.8	51.1	35.8
Reserve accumulation (+ increase: - decrease)	32.4	44.1	-1.7	-9.1	9.4	-10.7	7.4	5.6	5.6	5.6	6.1
Sources of financing	**133.4**	**49.2**	**78.1**	**29.5**	**-6.0**	**64.3**	**78.5**	**93.8**	**104.7**	**114.0**	**94.8**
Capital grants and transfers	48.6	44.2	52.8	57.3	26.3	29.4	29.2	28.5	28.3	28.1	27.8
Foreign Direct Investment (net)	124.4	42.1	35.5	65.7	53.6	91.0	102.0	109.1	112.9	116.6	120.5
Net inflow of equity and other capital	-39.6	-37.1	-10.2	-93.6	-85.9	-68.7	-55.0	-45.8	-38.5	-32.7	-55.8
New borrowing	0.0	0.0	0.0	0.0	0.0	12.6	2.3	2.0	2.0	2.0	2.2
of which: public sector	0.0	0.0	0.0	0.0	0.0	12.6	2.3	2.0	2.0	2.0	2.2
Errors and omissions	-25.2	6.1	-32.8	26.4	43.8	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional external financing	**-10.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.4**	**0.7**	**0.7**	**1.1**
IMF net disbursement	-10.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund disbursement	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases 1/	-10.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest due	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt forgiveness/debt restructuring 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.7	0.7	1.1

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

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

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

Annex I. Progress on 2018 Article IV Policy Recommendations

Recommendations	Policy Actions
Growth Agenda	
Improve **business environment**	Ongoing. Authorities are implementing reforms to expedite business registration. So far, a dedicated land-registry separate from the high court and an SME partial-credit-guarantee scheme have both been implemented.
Address the **skills gap** (including through reorientation and streamlining STEP)	Ongoing. The upgraded apprenticeship scheme (STEP) includes a training component focusing on several areas to address skill mismatches to meet the high-end needs of the economy.
Fiscal Sector	
Establish a clear action plan and timetable with concrete milestones to divest lands under **the debt-land-swap** arrangement.	Pending. A sales and marketing plan remains to be devised. The government purchased back lands worth about EC$200 million, but the majority of the lands remain to be divested.
Adopt a **medium-term fiscal framework** with a zero-primary balance target, net of CBI receipts and SIDF grants.	Mixed. The authorities have a medium-term fiscal framework, but it is not published and currently includes CBI receipts. Currently, there are no SIDF grants flowing to the Consolidated Fund. They have agreed on reducing reliance on CBI inflows.
Broadening the tax base (including through streamlining tax incentives) and **containing spending** to achieve the recommended medium-term fiscal target.	Ongoing. Authorities agree with recommendations and have requested IMF technical assistance on rationalizing tax incentives and wage determination.
Establish a **Growth and Resilience Fund** (GRF) to preserve accumulated CBI savings and provide a contingency buffer for future shocks	Mixed. Although a GRF has not been established savings from CBI revenues surpassed staff recommended savings ceiling.
Financial Sector	
Swiftly address obstacles to **NPL resolution** to preserve financial stability and support credit and growth**.**	Ongoing. Despite operationalization of the ECAMC, its NPL purchases have been limited, including by funding constraints. Modernizing foreclosure legislation remains pending. Despite some recent progress, the stock of pre-pandemic non-performing loans has increased since the last consultation.
Reach an agreement between the authorities and the bank on the **reporting treatment of the lands under the debt-for-land swap**.	Completed. For regulatory purposes the lands are treated as a financial asset with a 100 percent risk weight for capital adequacy purposes.
Continue efforts to reduce **CBR risks,** including by improving compliance with international standards.	Ongoing. The FSRC has been regularly conducting on-site examinations in accordance with its RBS framework, and the authorities completed the national risk assessment for the ongoing CFATF 4^{th} round mutual evaluation process
Data gaps	
Enhance the quality of statistical data in Balance of Payments, National Accounts.	Work in progress. CARTAC assisted with compilation of National Account Statistics, Price Statistics, and BOP BPM6 and IIP data. BOP-BPM6 data was released. Deficiencies continue and need to be supported by TA and increased human resource capacity. Timely provision of National Accounts and Balance of Payments statistics is still untimely.

Annex II. External Sector Assessment

Overall Assessment: *In 2020, St. Kitts and Nevis external position was broadly in line with the level consistent with medium-term fundamentals and desirable policy settings. The downturn in tourism after the Covid-19 pandemic and lower CBI receipts led to a sizable current account deterioration, which was partly offset by lower imports and profit payments. While the current account is expected to adjust in the medium-term in line with economic recovery, a sustainable external sector requires policies and structural reforms geared toward improving competitiveness.*

Potential Policy Responses: *External sustainability is not, and has not been a significant concern in the past for St. Kitts and Nevis because external liabilities are mostly in the form of FDI inflows. Near-term policies should continue to support the recovery from the Covid-19 pandemic, and as recovery takes hold, efforts to ensure fiscal sustainability should continue. Additionally, structural reforms geared toward improving competitiveness and the business environment should be pursed to boost competitiveness.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (IIP) deficit increased from minus 73 percent of GDP in 2019 to minus 92 percent of GDP in 2020. On the liability side, FDI and other investment (mostly currency and deposits) were the largest liabilities, at 177.5 and 104.2 percent of NIIP, respectively. On the asset side, other investment (mostly currency and deposits) and portfolio investment, were the biggest assets, at 77 percent and 70 percent of the NIIP, respectively. Most of the external debt is in the form of other investment liabilities, particularly interbank positions, trade credits and advances, and long-term general government loans (82.5 percent of other investment).

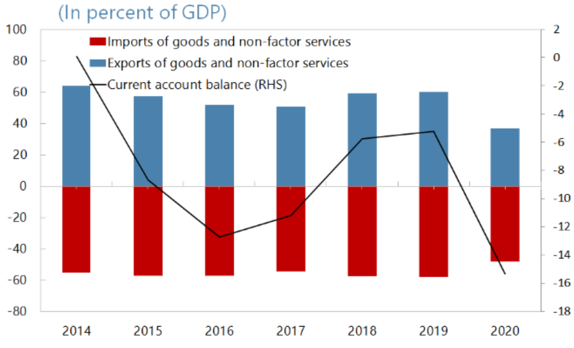
Assessment. The large share of FDI in St. Kitts and Nevis' liabilities mitigate potential risks. The deterioration of the NIIP in 2020 does not constitute a significant concern for external debt sustainability and the expected improvement in the current account in 2022 will likely stabilize the NIIP, which will likely further improve over time.

2020 (% GDP)	NIIP: -92.1	Gross Assets: 177.6	Debt Assets: 136.1	Gross Liab.: -269.7	Debt Liab.: --106.3

Current Account

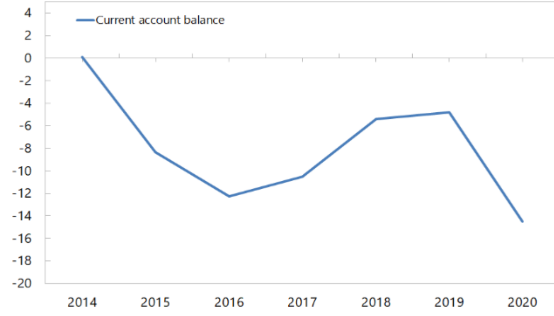
Background. According to preliminary ECCB estimates, the current account deficit deteriorated significantly in 2020. It increased from 4.8 percent of GDP in 2019 to an estimated 14.5 percent of GDP in 2020. The deterioration was the result of a sharp drop in tourism receipts (20 percentage points of GDP) and a modest decline in CBI receipts (4 ½ percentage points), which was partly offset by lower imports (8.3 percentage points) and profit payments (3 percentage points).

Current Account Balance, Imports and Exports
(In percent of GDP)



Source: ECCB and staff calculations

Current Account Balance
(In percent of GDP)



Sources: ECCB and staff calculations

Assessment. The external position was broadly in line with the level consistent with medium-term fundamentals and desirable policy settings. The deterioration of the current account in St. Kitts and Nevis is largely caused by the exceptional Covid-19 pandemic shock on tourism, not due to exchange rate movements or the country's fundamentals. Therefore, once recovery takes hold, the external position will likely improve following the normalization of tourism and economic activity.

St. Kitts and Nevis: Model Estimates for 2020
(In percent of GDP)

	CA model
CA-Actual (1)	**-14.5**
Cyclical contributions (from model) (-) (2)	1.7
COVID-19 adjustor (+) 1/ (3)	10.8
Adjusted CA= 1-2+3	**-5.4**
CA Norm (from model) 2/	**-4.3**
Adjusted CA Norm	**-4.3**
CA Gap	**-1.0**
o/w Relative policy gap	0.8
Elasticity	-0.39
REER Gap (in percent)	**2.6**

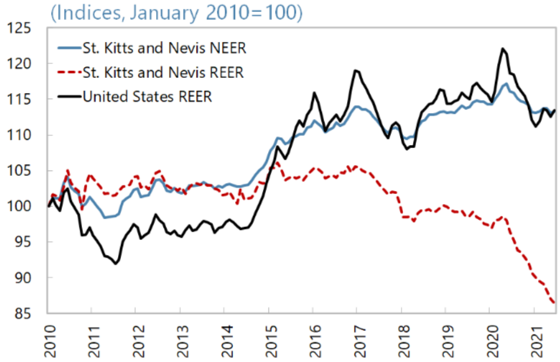
1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on oil trade balances (1.85 percent of GDP) and on tourism (8.91 percent of GDP).
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. In 2020, the real effective exchange rate (REER) depreciated by 6.9 percent.[1]

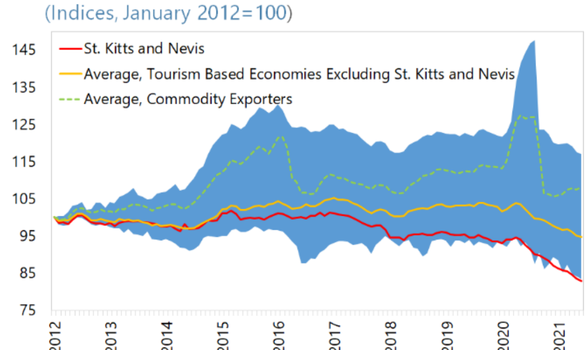
Assessment. Much of the decline in the REER was driven by inflation differentials—the NEER depreciated by only 0.9 percent. A comparison with other Caribbean tourism-based countries suggest an improvement of about 2 percent in St. Kitts and Nevis's competitiveness.

Nominal and Real Effective Exchange Rates
(Indices, January 2010=100)



Sources: INS and IMF staff calculations.

Real Effective Exchange Rates
(Indices, January 2012=100)



Sources: INS and IMF staff calculations.

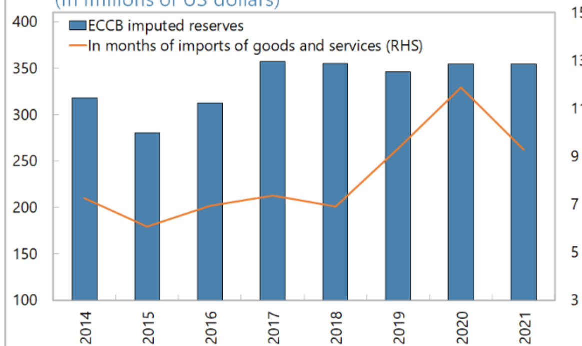
Capital and Financial Accounts: Flows and Policy Measures

Background. St. Kitts and Nevis has heavily relied on FDI to finance domestic investment, with large CBI inflows averaging 9.5 percent of GDP during the last 5 years, including 9.8 percent during 2020.

Assessment. The Covid-19 pandemic led to a large current account deficit, financed mostly by FDI, portfolio investment flows, and short-term deposits.

FX Intervention and Reserves Level

Net Imputed International Reserves
(In millions of US dollars)



Sources: ECCB and IMF staff calculations.

Background. St. Kitts and Nevis' reserve position improved slightly in 2020. As a member of the Eastern Caribbean Currency Union, St. Kitts and Nevis is under a quasi-currency board arrangement. Foreign assets and liabilities of the Eastern Caribbean Central Bank (ECCB) cannot be directly assigned to an individual country. Therefore, the imputed reserves method is used as a proxy for net foreign assets held at the ECCB.[2 3]

Assessment. By end-2019, the estimated imputed reserves were US$346.3 million, which increased by 10.7 percent in 2020 (to US$383.4 million). In 2020, imputed reserves covered 11.2 months of imports and 37.3 percent of broad money, which far exceeds the typical benchmark of 3 months of imports and 20 percent of broad money.[4]

[1] The Eastern Caribbean dollar, the currency of St. Kitts and Nevis, is pegged to the U.S. dollar.

[2] According to the ECCB by-laws, the imputed reserves of each ECCB member are calculated as the difference between the member's reserve money and net domestic assets. The ECCB has the mandate to maintain a foreign exchange cover of 60 percent of total demand liabilities.

[3] IMF 2015, *Assessing Reserve Adequacy–Specific Proposals*. Reserve adequacy assessments for currency unions should consider the reserve needs of the consolidated union level. This should be supplemented by a discussion of factors that have a bearing on the size of reserves, such as the union's financial architecture and supportive institutions, and the correlation of shocks faced by union members.

[4] Information on short term debt and other liabilities is unavailable and consequently assessments against other reserve adequacy metrics such as the IMF's composite Assessment Reserve Adequacy (ARA) metric cannot be computed.

Annex III. Debt Sustainability Analysis

Debt remains sustainable, albeit subject to increased risks. The fiscal impact from the pandemic added to pre-existing vulnerabilities of CBI revenue volatility, natural disaster susceptibility, uncertain long-term pension system sustainability and contingent liability risks from the debt-land swap and other banking sector vulnerabilities. Risks could considerably be mitigated by rebuilding fiscal buffers by saving a portion of future CBI revenues. An overall fiscal surplus of 2 percent of GDP would result in a significant downward trajectory in public net debt. Standard DSA adverse shocks, a natural disaster or a full reacquisition of lands related to the debt-swap would temporarily delay this downward trend.

A. Public Debt Sustainability Analysis

1. **Public debt declined sharply in the past decade from a peak of 145 percent of GDP at end-2010 to 52 percent of GDP at end-2019**. This was driven by a decade of fiscal surpluses (supported by high CBI revenues) and a sovereign debt restructuring that involved a debt-land swap with domestic banks in 2013–14 (equivalent to about 41 percent of 2010 GDP) and debt exchanges with external commercial creditors and reduced interest rates on debt with one Club creditor in 2012. Fiscal surpluses in following years allowed the general government to repay many of its remaining obligations.[1]

2. **The public debt-to-GDP ratio increased in 2020 to 61 percent as a result of the decline in GDP.** The government ran its first deficit since 2010 of 4.7 percent of GDP, but this was financed through a drawdown of deposits and did not increase debt.[2] High Gross Financing Needs (GFN) are in large part the result of high (domestically held) short-term debt (11 percent of GDP), which mainly consists of T-bills. The increase in GFN in 2020 reflects the switch from a fiscal surplus to a deficit,

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

- *CBI revenues:* Projected constant at 9 percent of GDP. This compares to their average 10 percent of GDP in 2011–2020 and 13 percent of GDP in 2018–20.
- *Fiscal Balance:* An overall fiscal surplus of 2 percent of GDP is assumed, with capital expenditure projected at 3 percent of GDP.

[1] The central government paid down or restructured all outstanding domestic loans to commercial banks and the SSB and settled debt with major external bilateral creditors. The latter included debt owed to PDVSA, which in 2017 was converted to a new loan with a lower interest rate. Purchases under the SBA were fully repaid in April 2016. The restructured debt from the 2012 agreements carry a low interest rate with long maturities. Meanwhile, expensive overdraft debt accounts held by the Nevis Island Administration (NIA) were consolidated with existing loans and converted into a new long-term loan in 2018 at a lower interest rate.

[2] This resulted in a substantial but temporary increase in Gross Financing Needs above the MAC DSA threshold of 15 percent of GDP (Figure 1).

- *Growth and Inflation:* Real GDP slightly further contracts by 1 percent in 2021 given the already lost winter tourism season in the first quarter. Tourism and related sectors are expected to recover from late 2021. Inflation, measured by the GDP deflator in the DSA, is projected at 2 percent in the medium term.

- *Debt:* Only half of other maturing long-term debt is assumed to be renewed, which should result in a gradual reduction of GFN.[3] The DSA assumes that government increases borrowing when facing negative shocks, while maintaining the same projection of government deposits as in the baseline scenario.[4]

4. **Staff used standard and customized MAC DSA shocks to simulate the impact of downside risks, highlighted in the Risk Assessment Matrix, on the public debt trajectory.** These shocks will raise debt only temporarily and delay the projected downward debt trajectory under the baseline.

- **An adverse shock to growth** of 5 percentage points relative to the baseline over 2022–23 (calibrated as 1 standard deviation of growth volatility over the past 10 years) lowers inflation by 1 percentage point in each year and delay the downward trajectory of public debt until 2024.

- **A sustained interest rate shock** of 300 bps (difference between the average real interest rate level over the projection period and the maximum 10-year historical level— consistent with a projected 350 bps increase in US interest rates over the medium-term) has only marginal effects on the debt trajectory.

- **A primary balance shock** of about 5 percent of GDP in 2022 , to simulate the impact of a temporary decline in CBI inflows similar to 2016, would delay the downward trajectory of public debt until 2024.

- **A combined macro-fiscal** shock of all the above would raise public debt to about 68 percent of GDP by 2023 and result in a more sustained level shift in the downward debt trajectory, without reaching the regional debt target of 60 percent of GDP at the end of the projection period.

- **A customized natural disaster shock,** based on historical hurricane episodes in St. Kitts and Nevis, lowers growth by 6 percentage points compared to baseline in 2022, followed by swift recovery to 5 percent in 2023, including through reconstruction efforts. The fiscal balance would deteriorate by about 5 percentage points in both 2022 and 2023. The debt-to-GDP ratio increases in 2022 and resumes its downward trajectory from 2023.

[3] It is assumed that short-term debt will be fully rolled over.

[4] Note that this assumption ingrained in the DSA template differs from the assumed projections of government deposits in the CBI scenarios in Section C of the staff report.

- **A customized shock of full reacquisition of remaining debt-swap lands** (22 percent of GDP) through an exchange to a long-term loan at an interest rate of 4.5 percent (about 3 percentage points higher than the current interest rate on one-year T-bills) would significantly raise debt up to almost 80 percent of GDP, but the debt-GDP ratio would decline towards the regional debt target of 60 percent of GDP afterwards.

5. **GFN vulnerabilities reflected in the heat map are mitigated by large buffers.** The projected debt level does not trigger the heat map threshold under standard adverse scenarios, but annual gross financing needs are elevated because of a large stock of domestically held short-term debt (mainly T-bills). Rollover risks are nonetheless mitigated by the significant liquidity in the domestic financial system as well as the government's sizeable and liquid deposit buffers. The medium level vulnerability with respect to external debt and foreign currency denominated debt is mitigated by long repayment profile and low interest rate, as these largely reflect restructured obligations. The fan charts show only modest probability that the debt-to-GDP ratio would not continue on its downward trajectory.

6. **High uncertainty related to CBI inflows explains large forecast errors in recent years.** Staff underestimated growth and fiscal outturns in projections during the peak years of CBI inflows (2012–14). The surge in CBI inflows in 2018–20 was similarly unanticipated.

7. **The anticipated recovery in tourism arrivals should result in an unusually large reversal in the fiscal balance.** Figure 5 indicates that the baseline projected changed in the fiscal balance is large by historical, cross country standards. The authorities' positive track record in preserving fiscal surpluses, as highlighted in Figure 5, also backs up the projected return to surpluses.

Conclusion

8. **A fiscal stance that ensures saving a portion of CBI revenues results in a relatively strong medium-term debt sustainability.** Key risks comprise of any contingencies from the remaining debt-swap lands, (extraordinary) combined macro-fiscal shocks and natural disasters of more significant impact than simulated in this DSA, such as the Category 5 hurricane that affected Dominica in 2017. Major and permanent changes to CBI revenues, such as those simulated in this staff report, could also considerably erode this outlook. A significant delay in reforming the pension fund would constitute a significant long-term risk.

B. External Debt Sustainability Analysis[5]

9. **The GDP impact of the pandemic increases the external public debt-to-GDP ratio before declining over the medium term to 8 percent in 2026, slightly below its 2019 level.** After following a declining path in recent years as a result of public debt restructuring, external GFN substantially increased in 2020 as the current account deficit considerably widened in 2020 because of the pandemic shock to tourism. The deficit and external GFN should decline in line with the

[5] Only covers *public* external debt.

normalization of international travel. Amortization of restructured bonds with external debtors and repayment of multilateral debt, largely from the CDB, will further contribute to the decline.

10. Stress tests indicate that external debt would continue to decline under interest rate, growth, real depreciation, and combined shocks. However, debt stays relatively higher under the current account shock scenario, suggesting that some external adjustment would be necessary to bring the debt path back to a downward trend under that shock.

Figure 1. Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

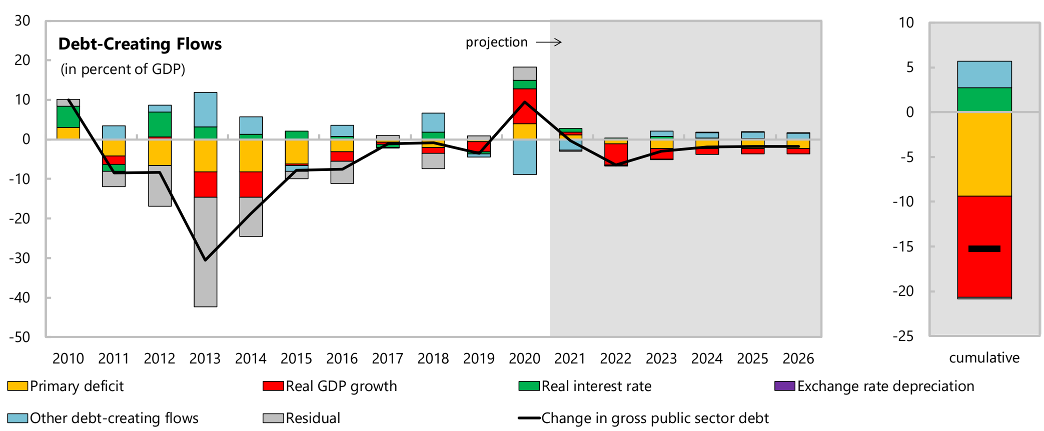
(In percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of April 12, 2021		
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026	Sovereign Spreads		
Nominal gross public debt	87.4	51.7	61.1	60.8	54.4	51.4	49.5	47.7	45.9	EMBIG (bp) 3/		n.a.
Public gross financing needs	23.6	12.2	18.3	14.5	10.7	8.6	8.1	7.7	7.3	5Y CDS (bp)		n.a.
Net public debt	66.1	25.7	39.1	41.5	37.2	33.8	31.2	28.7	26.2			
Real GDP growth (in percent)	2.5	4.8	-14.4	-1.0	10.0	5.1	2.8	2.7	2.7	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	1.3	3.1	-1.6	0.5	1.7	0.9	1.7	1.6	2.0	Moody's	n.a.	n.a.
Nominal GDP growth (in percent)	3.8	8.0	-15.8	-0.5	11.8	6.0	4.5	4.3	4.7	S&Ps	n.a.	n.a.
Effective interest rate (in percent) [4/]	3.3	2.2	2.0	2.1	2.4	2.4	2.3	2.3	2.3	Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-8.1	-3.5	9.4	-0.3	-6.4	-3.0	-1.9	-1.8	-1.8	-15.2	
Identified debt-creating flows	-1.4	-4.5	6.0	0.0	-6.3	-2.9	-2.0	-1.8	-2.0	-15.0	
Primary deficit	-4.0	-0.6	4.0	1.2	-1.1	-2.4	-2.4	-2.4	-2.4	-9.4	0.4
Primary (noninterest) revenue and grants	30.8	34.8	30.8	32.7	30.1	30.2	30.2	30.2	30.2	183.7	
Primary (noninterest) expenditure	26.7	34.1	34.8	33.9	29.1	27.9	27.9	27.9	27.9	174.4	
Automatic debt dynamics [5/]	-0.1	-3.0	10.9	1.6	-5.1	-1.9	-1.1	-1.0	-1.1	-8.6	
Interest rate/growth differential [6/]	-0.1	-3.0	10.9	1.6	-5.1	-1.9	-1.1	-1.0	-1.1	-8.6	
Of which: real interest rate	2.0	-0.5	2.1	1.0	0.3	0.7	0.3	0.3	0.1	2.7	
Of which: real GDP growth	-2.1	-2.5	8.8	0.6	-5.4	-2.6	-1.4	-1.3	-1.2	-11.3	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	2.7	-0.8	-8.9	-2.8	-0.1	1.4	1.4	1.5	1.5	2.9	
Privatization/Drawdown of Deposits (negative)	2.7	-0.8	-8.9	-2.8	-0.1	1.4	1.4	1.5	1.5	2.9	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other financing (sale of assets)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	-6.7	0.9	3.4	-0.3	-0.1	-0.1	0.1	0.1	0.1	-0.2	



Source: IMF staff.

1/ Public sector is defined as consolidated public sector.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

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

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

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

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

8/ Includes asset changes (including debt restructuring) and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

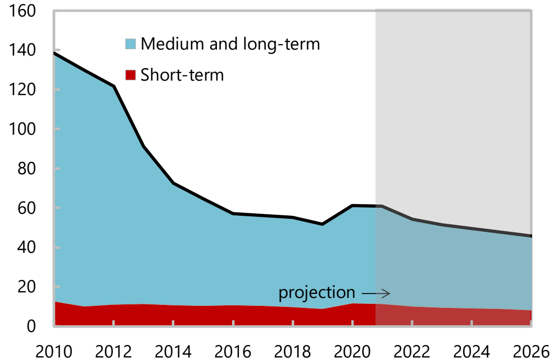
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

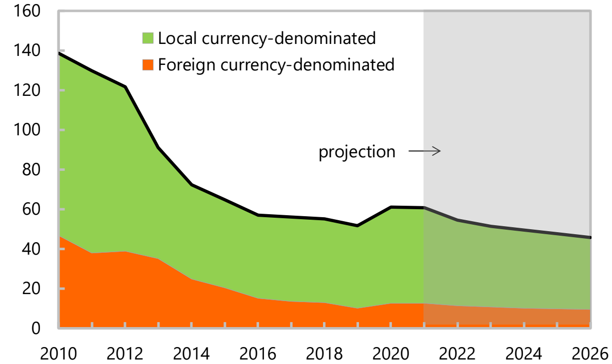
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

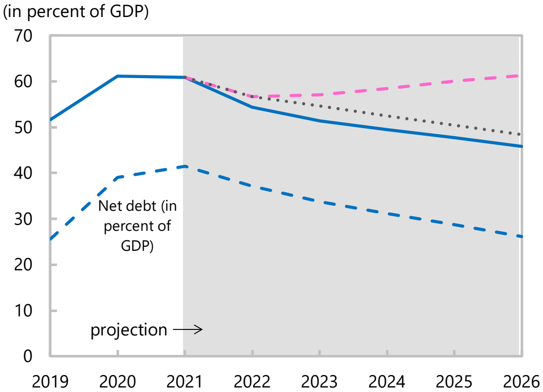


Alternative Scenarios

Baseline Historical Constant Primary Balance

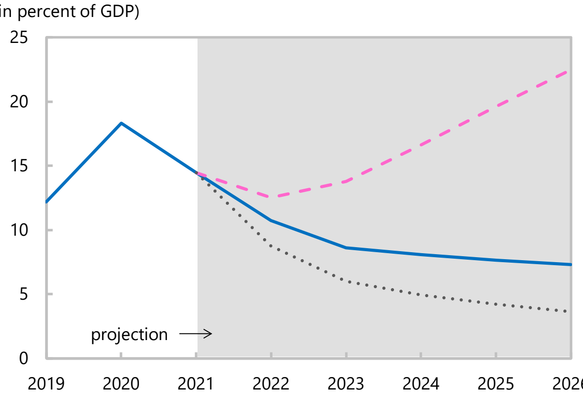
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

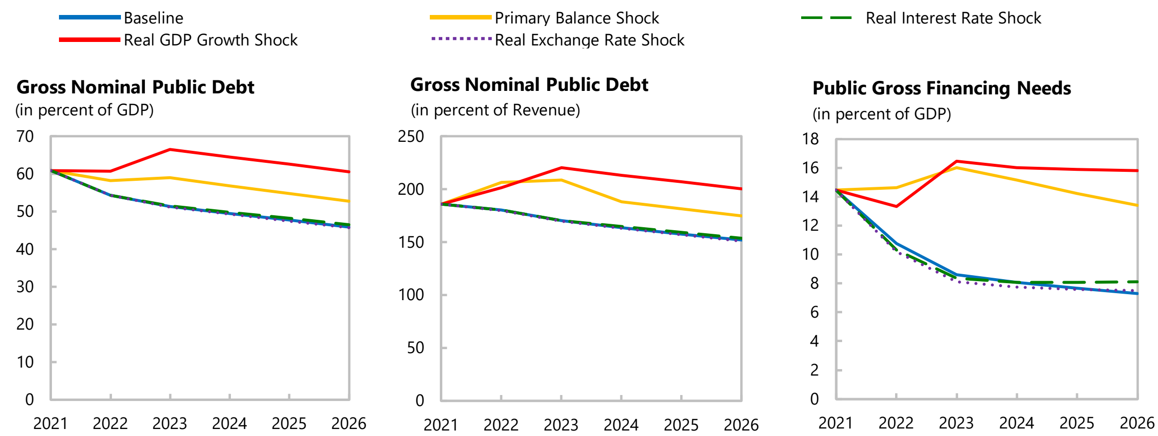
Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	-1.0	10.0	5.1	2.8	2.7	2.7
Inflation	0.5	1.7	0.9	1.7	1.6	2.0
Primary Balance	-1.2	1.1	2.4	2.4	2.4	2.4
Effective interest rate	2.1	2.4	2.4	2.3	2.3	2.3
Constant Primary Balance Scenario						
Real GDP growth	-1.0	10.0	5.1	2.8	2.7	2.7
Inflation	0.5	1.7	0.9	1.7	1.6	2.0
Primary Balance	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Effective interest rate	2.1	2.4	2.3	2.3	2.2	2.1

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	-1.0	1.3	1.3	1.3	1.3	1.3
Inflation	0.5	1.7	0.9	1.7	1.6	2.0
Primary Balance	-1.2	3.6	3.6	3.6	3.6	3.6
Effective interest rate	2.1	2.4	2.5	2.4	2.4	2.4

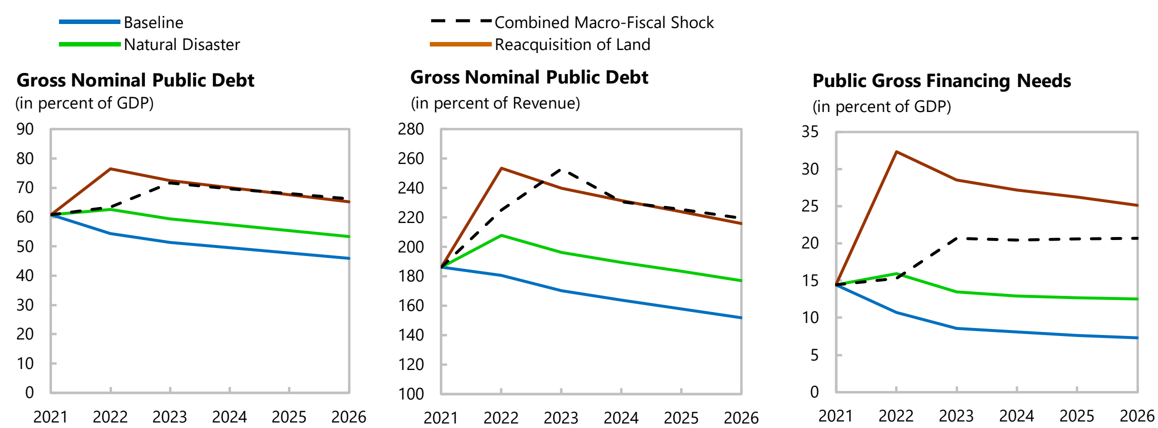
Source: IMF staff.

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

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2021	2022	2023	2024	2025	2026
Primary Balance Shock						
Real GDP growth	-1.0	10.0	5.1	2.8	2.7	2.7
Inflation	0.5	1.7	0.9	1.7	1.6	2.0
Primary balance	-1.2	-2.8	-1.5	2.4	2.4	2.4
Effective interest rate	2.1	2.4	2.3	2.2	2.2	2.2
Real Interest Rate Shock						
Real GDP growth	-1.0	10.0	5.1	2.8	2.7	2.7
Inflation	0.5	1.7	0.9	1.7	1.6	2.0
Primary balance	-1.2	1.1	2.4	2.4	2.4	2.4
Effective interest rate	2.1	2.4	2.7	2.6	2.6	2.6
Combined Shock						
Real GDP growth	-1.0	3.9	-1.0	2.8	2.7	2.7
Inflation	0.5	0.2	-0.6	1.7	1.6	2.0
Primary balance	-1.2	-3.0	-4.0	2.4	2.4	2.4
Effective interest rate	2.1	2.4	2.7	2.7	2.7	2.7

	2021	2022	2023	2024	2025	2026
Real GDP Growth Shock						
Real GDP growth	-1.0	3.9	-1.0	2.8	2.7	2.7
Inflation	0.5	0.2	-0.6	1.7	1.6	2.0
Primary balance	-1.2	-1.1	-2.0	2.4	2.4	2.4
Effective interest rate	2.1	2.4	2.3	2.2	2.2	2.2
Real Exchange Rate Shock						
Real GDP growth	-1.0	10.0	5.1	2.8	2.7	2.7
Inflation	0.5	3.3	0.9	1.7	1.6	2.0
Primary balance	-1.2	1.1	2.4	2.4	2.4	2.4
Effective interest rate	2.1	2.4	2.4	2.3	2.3	2.3

Source: IMF staff.

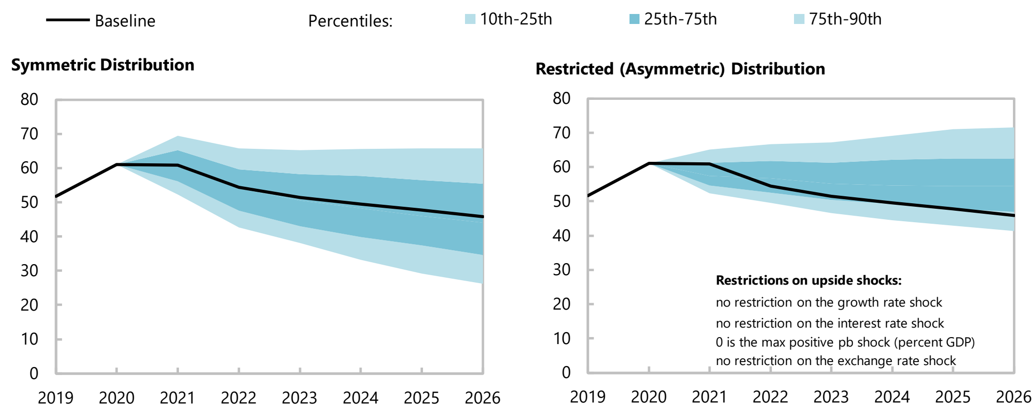
Figure 4. St. Kitts and Nevis: Public Debt Risk Assessment

Heat Map

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

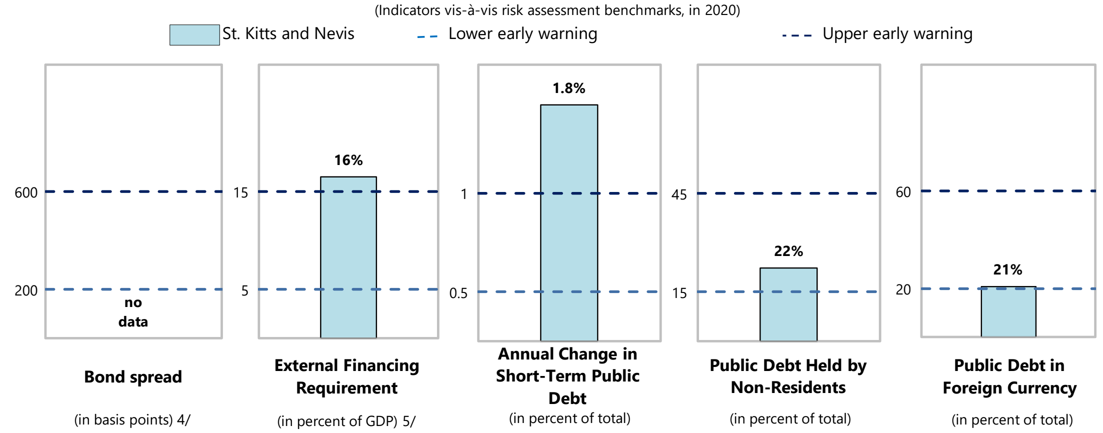
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



Source: IMF staff.

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

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

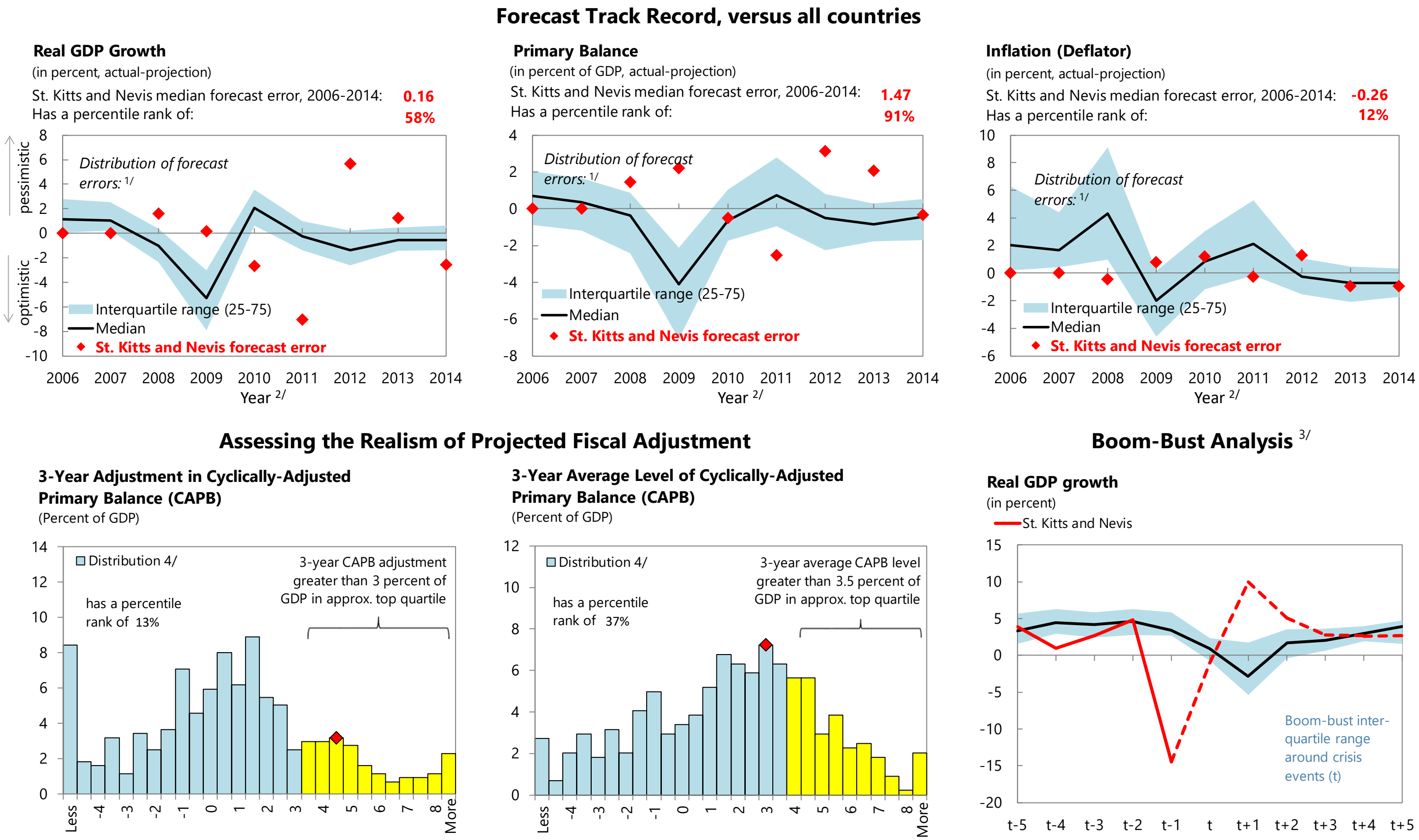
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ Long-term bond spread over German bonds, an average over the last 3 months, 12-Jan-21 through 12-Apr-21.

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

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



Source : IMF Staff.

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

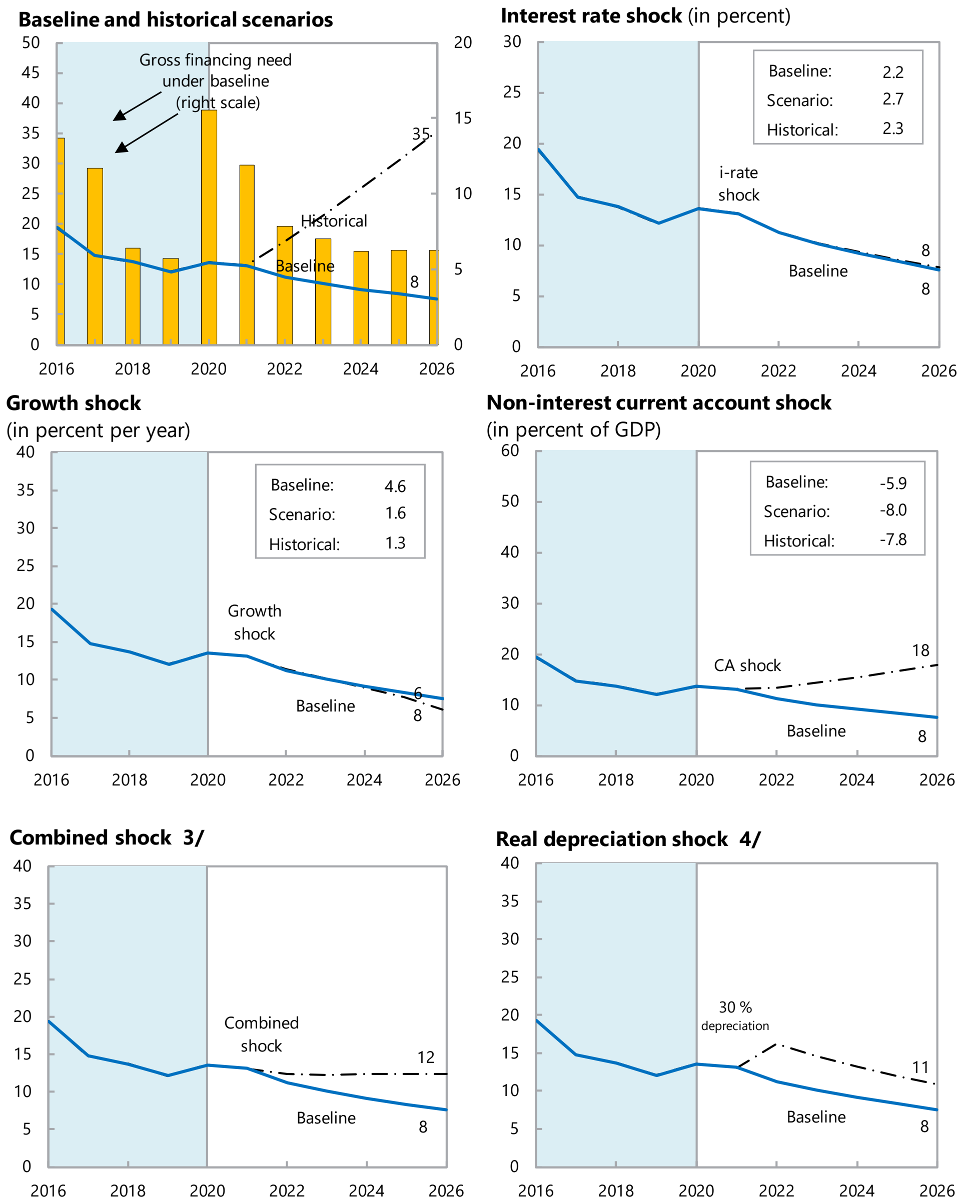
2/ Projections made in the spring WEO vintage of the preceding year.

3/ St. Kitts and Nevis has had a positive output gap for 3 consecutive years, 2018-2020. For St. Kitts and Nevis, t corresponds to 2021; for the distribution, t corresponds to the first year of the crisis.

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

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

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, 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.
4/ One-time real depreciation of 30 percent occurs in 2010.

Table 1. St. Kitts and Nevis: External Debt Sustainability Framework, 2016–26

	Actual							Projections						
	2016	2017	2018	2019	2020			2021	2022	2023	2024	2025	2026	Debt-stabilizing non-interest current account 6/
Baseline: External debt	19.3	14.7	13.7	12.1	13.6			**13.1**	**11.2**	**10.1**	**9.2**	**8.4**	**7.6**	**-1.8**
Change in external debt	-3.2	-4.6	-1.0	-1.6	1.5			-0.5	-1.8	-1.1	-0.9	-0.8	-0.8	
Identified external debt-creating flows (4+8+9)	7.5	6.1	5.8	10.3	12.8			6.2	4.1	4.3	4.3	4.1	3.9	
Current account deficit, excluding interest payments	11.9	10.2	5.0	4.5	14.2			10.9	6.9	6.1	5.3	5.5	5.5	
Deficit in balance of goods and services	5.2	3.5	-1.6	-1.9	10.7			7.7	0.4	-2.0	-3.4	-3.1	-2.9	
Exports	49.9	47.6	55.5	55.0	34.7			34.5	43.8	48.9	54.4	58.5	60.2	
Imports	55.1	51.1	53.9	53.1	45.3			42.2	44.2	47.0	50.9	55.5	57.4	
Net non-debt creating capital inflows (negative)	-3.6	-3.5	0.7	6.5	-4.0			-5.1	-1.9	-1.5	-0.9	-1.3	-1.6	
Automatic debt dynamics 1/	-0.8	-0.7	0.1	-0.7	2.6			0.5	-0.9	-0.3	-0.1	0.0	0.0	
Contribution from nominal interest rate	0.4	0.3	0.3	0.3	0.3			0.3	0.3	0.2	0.2	0.2	0.2	
Contribution from real GDP growth	-0.8	-0.2	-0.4	-0.6	2.1			0.1	-1.2	-0.5	-0.3	-0.2	-0.2	
Contribution from price and exchange rate changes 2/	-0.3	-0.8	0.1	-0.4	0.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-10.7	-10.7	-6.8	-12.0	-11.3			-6.7	-6.0	-5.5	-5.3	-5.0	-4.7	
External debt-to-exports ratio (in percent)	38.8	30.9	24.8	22.0	39.2			37.9	25.6	20.6	16.9	14.3	12.5	
Gross external financing need (in billions of US dollars) 4/	0.1	0.1	0.1	0.1	0.2			0.1	0.1	0.1	0.1	0.1	0.1	
in percent of GDP	13.7	11.7	6.4	5.7	15.6	10-Year	10-Year	11.9	7.9	7.0	6.2	6.3	6.3	
Scenario with key variables at their historical averages 5/								**13.1**	**17.1**	**21.4**	**25.8**	**30.5**	**35.4**	**2.5**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	3.9	0.9	2.7	4.8	-14.4	1.3	6.1	-1.0	10.0	5.1	2.8	2.7	2.7	
GDP deflator in US dollars (change in percent)	1.3	4.1	-1.0	3.1	-1.6	1.2	2.4	0.5	1.7	0.9	1.7	1.6	2.0	
Nominal external interest rate (in percent)	1.6	1.6	2.3	2.2	2.1	2.3	1.0	2.3	2.3	2.3	2.2	2.2	2.2	
Growth of exports (US dollar terms, in percent)	-5.1	0.4	18.4	7.1	-46.9	-5.9	0.0	-0.9	42.1	18.3	16.1	12.4	7.7	
Growth of imports (US dollar terms, in percent)	5.5	-2.4	7.2	6.4	-28.1	-1.2	0.0	-7.4	17.2	12.5	13.4	13.6	8.3	
Current account balance, excluding interest payments	-11.9	-10.2	-5.0	-4.5	-14.2	-7.8	4.3	-10.9	-6.9	-6.1	-5.3	-5.5	-5.5	
Net non-debt creating capital inflows	3.6	3.5	-0.7	-6.5	4.0	-2.6	6.7	5.1	1.9	1.5	0.9	1.3	1.6	

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.

INTERNATIONAL MONETARY FUND

ST. KITTS AND NEVIS

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 29, 2021

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

CONTENTS

FUND RELATIONS

(As of May 31, 2021)

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

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

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	8.50	100.00
Holdings	4.64	54.63

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

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

Overdue Obligations and Projected Payments to Fund[1/]:
(SDR Million; based on existing use of resources and present holdings of SDRs):

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

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not Applicable

Implementation of MDRI Assistance: Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Exchange Arrangement

St. Kitts and Nevis participates with seven other members in the Eastern Caribbean Currency Union (ECCU) and has no separate legal tender. Monetary policy and the exchange system is managed by a common central bank, the Eastern Caribbean Central Bank (ECCB), which operates like a quasi-currency board, maintaining foreign exchange backing of its currency and demand liabilities of close to 100 percent. The common currency, the Eastern Caribbean dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. St. Kitts and Nevis accepted the obligations of Article VIII, Sections 2, 3, and 4 in December 1984, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

Safeguards Assessment

Under the Fund's safeguards assessment policy, the Eastern Caribbean Central Bank (ECCB) is subject to a full safeguards assessment on a four year cycle. A 2021 update assessment has been substantially completed. The ECCB continues to maintain sound external audit and financial reporting practices, and the internal audit function has aligned its practices with international standards. The pilot project to introduce a digital currency is advancing and related new risks will need to be carefully managed. The ratification of draft amendments to the ECCB Agreement to include digital currencies should be prioritized by the participating governments that have not yet completed the process. In addition, the assessment recommended strengthening the operational autonomy of the ECCB, consistent with observations in the ECCU Staff Report for the 2019 Discussion on Common Policies of Member Countries. Necessary legal reforms to the ECCB Agreement Act center around governance arrangements for stronger delineation of the division of responsibilities on oversight and policy formulation among the decision-making bodies (Monetary Council, ECCB Board, and the Governor and Deputy Governor).

Last Article IV Consultation

The last Article IV consultation took place on September 14, 2018. The next Article IV consultation is expected to take place on the standard 12-month cycle. .

FSSA Participation, ROSCs, and OFC Assessment

St. Kitts and Nevis participated in the regional ECCU FSSA conducted in September 2014. The Financial System Stability Assessment is available at:
https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Eastern-Caribbean-Currency-Union-Financial-System-Stability-Assessment-including-Report-on-17718

A review of St. Kitts and Nevis AML/CFT Assessment is currently ongoing by a team of assessors representing the Caribbean Financial Action Task Force (CFATF) with full completion by end 2021.

Technical Assistance: (2010–Present)

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

Real Sector

- CARTAC and the IMF's Statistics Department (STA) have provided TA to the National Statistics Office on rebasing the national accounts the consumer price index (CPI). CARTAC is assisting in developing quarterly GDP estimates, including compiling separate production-based measures of GDP for St. Kitts and Nevis and consumption GDP estimates. The milestone of developing the quarterly GDP methodology has been achieved; and good progress is being made in developing the compilation worksheets with around 80 percent completion. Experimental quarterly GDP estimates have been constructed but not been published yet. In addition, assistance is being provided to improve the CPI, and develop data collections and index methodologies for a producer price index and export-import price indices.

External Sector

- CARTAC assisted the St. Kitts and Nevis Department of Statistics and the ECCB in strengthening the compilation and dissemination of external sector statistics using the BPM6 methodology. In May 2021, the ECCB published comprehensive BOP and IIP tables for 2014-21. CARTAC TA helped develop and administer the business and visitor expenditure surveys, and trained data compilers and survey respondents. To address data gaps, CARTAC continues providing assistance in strengthening the business and visitor expenditure surveys; improving the coverage of source data used for the compilation of trade in goods; and further developing other data sources used to compile relevant components of the external sector statistics.

Fiscal Sector

- CARTAC has provided significant TA in tax administration, to both the Inland Revenue Department (IRD) and the Customs and Excise Department (CED). It has particularly helped IRD strengthening its auditing function, including through training of a group of risk compliance officers, as well as through the implementation of a new IT system. CARTAC's TA is now moving to strengthen the compliance risk program. The authorities highlight the importance of CARTAC assistance towards the implementation of the Automated System for Customs Data (ASYCUDA), which they indicate has significantly facilitated their operations and allow them to shift staff towards strengthening risk-based auditing.

- The Fiscal Affairs Department (FAD) has provided training in revenue administration and governance (with the goal to strengthen revenue administration, management, and governance arrangements); and tax administration core functions (which aimed at strengthening core tax administration functions).

- Under the Fiscal Management in the Caribbean Project (FMCP) the IMF is providing technical assistance in broad areas of Public Financial Management (PFM), including asset and liability management, as well as budget and execution control.

Monetary and Financial Sectors

- CARTAC, the IMF's Monetary and Capital Markets Department (MCM), and the IMF's Legal Department (LEG) advised the authorities on strengthening financial sector regulation and supervision, including risk-based supervision. With assistance from the Office of the Superintendent of Financial Institutions in Canada (OSFI), CARTAC provided technical assistance to the Eastern Caribbean Central Bank (ECCB) on drafting the OECS Insurance Act, and also, in conjunction with LEG, provided technical assistance to the ECCB in finalizing the drafting of the OECS Money Services Business Act. CARTAC also assisted in the development of the Single Regulatory Unit and provided training to the Financial Services Regulatory Commission (FSRC) on implementing Risk-Based Supervision, including for nonbank financial institutions in the Federation and the offshore banking sector in Nevis. Since 2014, CARTAC has been assisting the regulatory bodies in St. Kitts with the development of guidelines for supervisory interventions, the implementation of Basel II and risk-based supervisory frameworks. On the Financial Stability front, CARTAC also provided TA in the area of stress-testing and dynamic modelling of the banking system in conjunction with the ECCB and conducted several capacity building workshops on the development of financial soundness indicators, and on risk-weighted capital adequacy.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank: http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=KN
- Caribbean Development Bank: https://www.caribank.org/countries-and-members/borrowing-members/saint-kitts-and-nevis

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is **broadly adequate** for surveillance.
National Accounts: Methodological deficiencies are present in the real sector statistics. GDP figures rely on the production approach, both in constant and current prices. Limited survey data hinder the assessments of value-added for each sector with some sectors suffering from significant weaknesses in estimation methodology. GDP figures are derived from the production approach in constant and current prices. In addition, annual current price expenditure-based GDP estimates are compiled and disseminated. One deficiency with the expenditure-based methodology is that Household Final Consumption Expenditures are derived residually. Weaknesses are observed in the methods to estimate gross capital formation. There are significant delays in completing data collection and processing of all the annual national accounts data. Staffing constraints in the compiling agency may compromise the development of new statistics, the quality improvement of the existing ones, and the intended improvements of timeliness. Quarterly GDP estimates are not published. Monthly data on tourism is disseminated by the ECCB with a lag.
Price Statistics: Monthly CPI data are posted on the ECCB website. The ECCB disseminates monthly data on tourism with a lag but estimates on tourism expenditure have been made. Except for data from the social security board and occasional labor force surveys, limited data are available on labor market developments.
Government Finance Statistics: Coverage of fiscal data is limited to the budgetary central government and the Nevis Island Administration, with limited below-the-line data. This omits revenues and expenditures of other general government units, notably the St. Christopher and Nevis Social Security Board. Fiscal data also have some methodological shortcomings with misclassification of some revenue and expenditure items. The authorities do not report any fiscal data to STA. However, some preliminary work has been undertaken by STA and the authorities to derive annual government finance statistics (GFS) in line with the GFSM 2014 on main aggregates and their components for revenue. expense, and financing of the budgetary central government.
Monetary and Financial Statistics: Monthly monetary statistics are compiled and reported to the Fund by the ECCB, based on standardized report forms (SRF) for the central bank (SRF 1SR) and for other depository corporations (SRF 2SR) since July 2006. The ECCB implemented the reporting system for commercial banks that is envisaged to address the recommendations made by the April 2007 data ROSC mission. The ECCB reports data on some key series and indicators of the Financial Access Survey, including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the United Nations to monitor Target 8.10 of the Sustainable Development Goals for its member countries, including St. Kitts and Nevis.

Financial Sector Surveillance: The ECCB compiles financial soundness indicators (FSIs) for its member countries, including St. Kitts and Nevis. However, due to confidentiality reason, dissemination of FSIs for the ECCB member countries has so far not been approved.
External sector statistics: Balance of payments and IIP data are jointly compiled and disseminated by the Department of Statistics of the country and the ECCB on an annual basis following the *BPM6* methodology. Further work is required to improve the coverage of the data, particularly, direct investment transactions due to low business survey response rates. Travel credit services are based on the results of the 2016 visitor expenditure survey (tourism expenditure) and business survey data reported by offshore universities (student expenditure). Plans for the implementation of a new visitor surveys have been postponed due to limited resources and the COVID-19 pandemic.
II. Data Standards and Quality
St. Kitts and Nevis participates in the Enhanced General Data Dissemination System (e-GDDS). Monetary Statistics Component of the Regional Data Module Report on Observance of Standards and Codes (ROSC) for the ECCB was published in 2007. Data ROSC was published in August 2007.

ST. Kitts and Nevis – Table 1. Common Indicators Required for Surveillance
(As of June 2021)

	Date of latest observation	Date received	Frequency of data[7]	Frequency of reporting[7]	Frequency of publication[7]
Exchange Rates	Fixed Rate	NA	NA	NA	NA
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	3/21	6/4/2021	M	M	M
Reserve/Base Money	3/21	6/4/2021	M	M	M
Broad Money	3/21	6/4/2021	M	M	M
Central Bank Balance Sheet	3/21	6/4/2021	M	M	M
Consolidated Balance Sheet of the Banking System	3/21	6/4/2021	M	M	M
Interest Rates[2]	3/21	6/4/2021	M	M	M
Consumer Price Index	3/21	6/4/2021	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	4/21	6/1/2021	M	M	A
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government[4]	4/21	6/1/2021	M	M	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	4/21	6/1/2021	M	M	A
External Current Account Balance	2020	4/6/2021	A	A	A
Exports and Imports of Goods and Services	2020	4/6/2021	A	A	A
GDP/GNP	2020	6/1/2021	A	A	A
Gross External Debt	2020	4/06/2021	A	A	A
International Investment Position[6]	2020	4/6/2021	A	A	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] Data available for central government only.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

disruptions on domestic activity. In response, the government introduced tax waivers, deferrals and incentives, and the Social Security Board provided unemployment benefits to affected insured workers. In parallel, the regional and national financial supervisors swiftly introduced temporary response measures, including loan moratoria, that supported liquidity and effectively mitigated the pandemic's financial system impact. Nonetheless, the pandemic resulted in an estimated annual decline in GDP of 12½ percent, and the general government's[1] first fiscal deficit (4.7 percent of GDP) since 2010, financed by drawing down on its sizeable deposit buffer

Containing the pandemic and supporting the economy remain the key near-term policy priorities. The government has made rapid progress toward its end-October vaccination target of 70 percent of the population (about a quarter of the target population is fully vaccinated and 65 percent have received the first dose). As the recently instated partial lockdown in response to budding community spread confirms, herd immunity has not yet been reached, and should remain the number one priority to save lives and livelihoods. Fiscal relief measures should be kept in place until the recovery firmly takes root. Maintaining robust levels of public investment would further support activity.

An expected rebound in tourism sets the stage for a strong recovery from 2022 onward, but risks to the outlook remain significant. We project a small further decline in GDP of 1 percent in 2021, followed by 10 percent growth in 2022. The pre-pandemic GDP level is expected to be reached in 2024. However, the recovery path could be derailed should the pandemic impose sustained disruptions on the anticipated pace of tourism inflows and domestic activity. Other risks include financial sector uncertainties, natural disasters, and lower-than-expected CBI receipts.

Once the recovery is firmly established, the government should resume its policy of saving part of the CBI revenues to build fiscal buffers. As a small, natural disaster-susceptible country dependent on tourism and historically volatile CBI revenues, St. Kitts and Nevis needs significant buffers. Higher buffers would also provide more fiscal space to mitigate contingent and long-term fiscal pressures, including possible further reacquisitions of lands swapped as part of the 2012-14 sovereign debt restructuring, and a possible future need to buttress the national pension system that under current projections will start to run deficits and begin depleting its reserves if corrective measures are not taken in due course.

Staff simulations suggest that maintaining an overall budget surplus of at least 2 percent of GDP would support a robust pace of buffer build-up. Assuming annual CBI revenues of 9 percent of GDP, the savings would allow reducing public debt to around 40 percent of GDP and rebuilding deposits to close to a quarter of GDP by the end of the decade, which would provide a significant buffer against both macro-economic and natural disaster shocks. The room for government investment would be modest, at around 3 percent of GDP annually, but could be expanded by policy measures such as reducing the government wage bill, reforming tax incentives and strenghtening public investment efficiency. Higher-than-assumed CBI revenues could also create more room for investment, albeit part of the

[1] The general government refers to the consolidated public finances of St Kitts and Nevis.

additional revenues should be saved (including as additonal buffer against contingent fiscal pressures). Lower CBI revenues would increase the necessity of policy adjustment and possibly additional borrowing, which would lead to a slower reduction of government debt.

Financial sector policies should increasingly focus on building readiness for the exit from temporary support measures. The financial system remains stable and benefits from sizeable buffers, but the pandemic's full asset quality impact will become apparent only upon the expiry of the loan moratoria. National authorities should therefore review and formalize operationalizable crisis management plans in close coordination with the ECCB. Long-standing high non-performing loans and elevated investment portfolio risks in the systemically significant bank should be more decisively addressed. In addition, a more robust divestment plan for the remaining lands from the sovereign debt swap should be pursued, based on updated valuations for the unsold lands, a revised cost-sharing agreement between the bank and the government on any shortfalls from original valuations, and a more active strategy to attract potential investors, including closer coordination with the CBI program. Further supervisory guidance, including on loan moratoria expiry and loan loss provisioning, can support timely balance sheet repair of the non-bank sector. Legislative reforms to streamline foreclosure processes would facilitate asset recovery efforts. Continued efforts to strengthen compliance with international AML/CFT standards and transparency and oversight of the CBI program can help mitigate risks to correspondent banking relationships.

There is room to strengthen productivity growth, economic competitiveness, and human capital. GDP per capita growth in the last two decades has been relatively weak and convergence with the U.S. has stopped. Growth has been held back by weak productivity growth as investment has been high, which may partly reflect the limits of a small-island economy. However, several reforms might help boost productivity growth and export competitiveness, including using the CBI program to attract investment beyond the tourism sector, upgrading skills through focused training programs, better aligning the education system with the needs of the labor market, and making it easier for small firms to access credit, including through reforms that facilitate use of non-fixed asset as loan collateral.

We would like to thank the authorities of St Kitts and Nevis for the very friendly and fruitful discussions.

Statement by Feargal O'Brolchain, Alternate Executive Director for St. Kitts and Nevis and Latoya Smith, Senior Advisor
September 27, 2021

On behalf of the authorities of St. Kitts and Nevis, we express gratitude to Mr. Bas Bakker and his team for constructive and candid discussions during the Article IV mission. **Our authorities found the discussions timely and helpful and largely share staff's assessment and recommendations.**

The authorities are focused on building a strategy that will facilitate post pandemic recovery. They are especially committed to rebuilding the fiscal buffers that existed prior to the pandemic and to implementing the necessary fiscal and structural measures that are essential to meet that goal while maintaining support to vulnerable groups. Accelerating vaccine roll out and reaching herd immunity is also an important part of the recovery strategy. The government aims to vaccinate 70 percent of the population aged 18 and older and as of June 21, 35 percent of the target population had been fully vaccinated, while 67 percent of the government target population had received the first dose.

The response to the COVID-19 pandemic

With significant fiscal buffers and large savings accumulated because of windfall receipts from the Citizenship by Investment (CBI) Program, the authorities of St. Kitts and Nevis were able to respond swiftly to the COVID-19 pandemic. Containing the pandemic remains a key policy priority. St. Kitts and Nevis has experienced two major waves of the pandemic. In the first wave in March 2020, the closure of the country's border was instrumental in the Government's efforts to contain the disease. As a result, St. Kitts and Nevis had no deaths and the lowest number of cases in per capita terms in the western hemisphere in 2020. Unfortunately, a second wave in May 2021 included community spread and resulted in a substantial increase in infections and the first covid-related death.

In the first wave, the authorities' response included the closure of borders, restricting arrivals by air or sea, introduction of a national lockdown for one month, and procurement of protective and other medical equipment to help fight the disease. In the second wave, a two-week partial lockdown, where hotels remained open, was instituted, but only fully vaccinated tourists were allowed. In addition, extensive testing and contact-tracing were deployed, and free quarantine facilities for local patients living in vulnerable and high-density conditions were provided.

To address the economic fallout, the government introduced tax waivers, deferrals, incentives, and through the Social Security Board, provided unemployment benefits to affected insured workers. In addition, temporary measures, including loan moratoria, were implemented to provide relief in the financial sector. The size of Government's fiscal support for 2020 is estimated at three and a half percent of GDP with some of the measures extended for 2021.

Recent Economic Developments

The economic impact of the pandemic has been grave. GDP is estimated to have declined 14 percent in 2020. This was largely because of the decline in tourism and a fall in domestic activity because of the pandemic.

Consumer prices continued to decline reflecting lower import prices. There have nevertheless been domestic inflationary pressures with higher prices being recorded for construction, public administration, financial intermediation, supporting transport activities, business services, and hotels.

A fiscal deficit of 4.7 percent of GDP was recorded in 2020. This reflected the impact of the various revenue measures and increased expenditures in response to the crisis. The revenue measures implemented include the temporary reductions of the Corporate Income Tax and Unincorporated Business Tax, VAT and import duty removals on a specified list of goods, and waivers to water payments. Expenditure increases reflect the increased transfers made to the agriculture sector, the Poverty Alleviation Program, and the Severance Payment Fund.

Measures implemented by the Financial Services Regulatory Commission (FSRC) and the credit unions have shored up the financial sector and conditions have so far remained stable. The financial sector measures implemented had the endorsement of the Eastern Caribbean Central Bank (ECCB). The increase in non-performing loans recorded to date has been modest and there are no liquidity concerns.

A sharp drop in tourism receipts and lower CBI receipts were the main factors behind the deterioration of the current account of the balance of payments, with the deficit estimated at 14.5 percent of GDP in 2020 compared to 0.8 percent of GDP in 2019. This was partly offset by lower imports and profit outflows.

Economic Outlook

The risks to the economic outlook are tilted to the downside with the trajectory of recovery subject to the path of the pandemic. A protracted pandemic could delay recovery in the tourism sector and in domestic activity. Staff projects a decline in GDP of one percent in 2021 as the tourism sector has not recovered. Growth of ten percent is projected in 2022 on the assumption that the health situation will improve, and the tourism sector will re-emerge. Inflation is projected at two percent in the medium term.

Managing the risks associated with the pandemic are of utmost priority but the authorities will continue to act to minimize the social and economic costs. As the recovery begins, the authorities will focus more on preserving fiscal and macroeconomic stability.

<u>**Fiscal policy**</u>

Supporting the economy is an immediate priority for the authorities. Therefore, it is proposed that the fiscal relief measures remain in place until the recovery firmly takes root. Going forward, however, the focus will shift to rebuilding fiscal buffers. Large buffers will provide more fiscal space to mitigate contingent and long-term fiscal pressures, including financing development, responding to crises, and lessening the impacts of climate change. The fiscal and debt performance has been influenced by its CBI Program. The authorities were able to build substantial savings, contain the fiscal deficit and reduce debt because of the positive performance of its CBI Program.

Annual CBI revenues have averaged 11 percent of GDP or 30 percent of total revenues since 2012, but they have also been very volatile. The authorities recognize that CBI revenue volatility is a major risk, but they anticipate that recent changes to the program and the high level of interest maintained through the pandemic will ensure continued strong performance of CBI revenues. In that regard, they are fully committed to using the CBI program earnings to boost savings and to attract investment beyond the tourism sector. The authorities also agree with the approach proposed by staff to assess the fiscal outlook based on different CBI revenue scenarios but expressed their preference to maintain liquid assets that allow for quick response to shocks and emergencies.

To improve fiscal outcomes, the authorities will continue to work towards broadening the tax base including through streamlining tax incentives. They identify the need to build capacity in this area and have requested Fund technical assistance to do so.

The authorities are committed to the establishment of a clear action plan and timetable to complete the debt-land-swap arrangement but have indicated challenges in doing so. They recognize that there are fiscal implications to the lands being re-purchased by the Government. Lands are to be revalued but this process is hindered by the pandemic. The agreement between the Government and the bank will also have to be revisited to minimize any impact on either party of the delays in disposing of the land. The authorities also acknowledge that a suitable strategy could be crafted to market these lands as part of the CBI program.

The authorities aim to maintain strong public investment, including for natural disaster resilience. High levels of public investment would further support activity and create employment opportunities. The authorities acknowledge the capacity constraints that impede efficient implementation of the investment program. However, as a policy, should revenue fall below projections, or to avoid running fiscal deficits and create fiscal challenges, the authorities could reduce capital expenditure.

The fiscal framework will also address the potential risks from SOEs. Increased surveillance, which forms part of a broader program of PFM reforms, will continue. The authorities have also taken action to address the increases in social security expenditures and to define a strategy to ensure that the social security is sustainable and funded.

Financial sector

Maintaining financial sector stability remains crucial to support economic recovery and actions to bolster financial system stability will deepen. The sector has weathered the pandemic well and is broadly sound. Recognizing that it will be necessary to withdraw some of the support measures once the crisis abates, the authorities will work closely with the ECCB to formalize and operationalize crisis management plans. They have also noted the importance of undertaking reforms to facilitate asset recovery. Special emphasis will be placed on the large systemically important bank and on the non-bank sector. In the case of the latter, measures to strengthen supervision are also being advocated.

The pandemic has not affected available Correspondent Baking Relationships (CBR) services and strengthening the AML/CFT framework remains a priority. The authorities are cognizant of the imperative to minimize financial integrity risks as these could impact the CBI program. In February 2020, St. Kitts and Nevis was removed from the EU's list of non-cooperative tax jurisdictions having implemented the necessary reforms. The authorities are working to ensure continued compliance with these and the OECD tax transparency and information exchange standards. Further, a suite of legislation targeting AML/CFT improvements was passed by the National Assembly in late 2020. In addition, follow-up measures to address risks identified in the National Risk Assessment (NRA) report are being implemented, with anticipation of a successful assessment under the Caribbean Financial Action Task Force (CFATF) mutual evaluation which is due to be completed in late 2021.

Structural reforms

Reforms to boost productivity growth and anchor sustainable and inclusive growth will be pursued. Improving the business environment is central to boost competitiveness. In that regard, reforms to expedite business registration including the establishment of a dedicated land registry and an SME partial credit guarantee scheme have been implemented.

To better align the education system with the needs of the labor market, the upgraded apprenticeship scheme (STEP) includes a training component focusing on several areas to address skills mismatches to meet the high end of the economy.

Building resilience to natural hazards is indispensable. St. Kitts and Nevis continues to take steps to boost resilience to climate change and natural disasters. Building resilient infrastructure and broadening solar power generation are cornerstones of the public investment program.

Concluding Remarks

The ongoing pandemic poses a monumental challenge for a tourism-dependent economy. St. Kitts and Nevis is no exception. The authorities are aware that the longer the pandemic lasts, the deeper will be the impact and as such they have adopted a strategy that will continue the support of the economy until the situation abates. The near-term priority is to protect lives and livelihoods, but they acknowledge the need to rebuild reserves, consolidate the fiscal position, and generate sustainable and inclusive growth.