INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/130

ST. KITTS AND NEVIS

March 2023

2023 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 2023 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 March 15, 2023, 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 March 15, 2023, following discussions that ended on January 27, 2023, 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 February 28, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for St. Kitts and Nevis.

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

Selected Issues

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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PRESS RELEASE

PR23/99

IMF Executive Board Concludes 2023 Article IV Consultation with St. Kitts and Nevis

FOR IMMEDIATE RELEASE

Washington, DC – March 31, 2023: On March 15, 2023, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with St. Kitts and Nevis.

St. Kitts and Nevis' economic growth rebounded strongly in 2022 despite global headwinds. GDP is estimated to have grown by 9 percent in 2022 after contracting 14.5 percent in 2020 and 0.9 percent in 2021. The lifting of all COVID-related travel restrictions in August 2022 sparked a strong rebound in the tourism sector and across the economy. The authorities' proactive policy response, facilitated by the fiscal buffers accumulated from a decade of prudent fiscal policy, helped shelter domestic prices from high global energy and food prices. These measures nonetheless took a heavy toll on fiscal accounts in 2022. The primary balance ex-CBI revenue and land buybacks, an indicator of the underlying fiscal stance, deteriorated to a deficit of 17 percent of GDP (vs. 15 percent in 2021). Large CBI inflows in 2022 helped finance this expansion, keeping public debt below the ECCU regional target of 60 percent of GDP.

Return to the pre-pandemic activity level is expected by end-2024, and beyond that, growth should converge towards its medium-term path. The budget is expected to be broadly balanced through 2025 and then go into deficits—predicated on current policies. Risks to the outlook are tilted to the downside in the short term, but with some upside potential in the medium term. Downside risks primarily stem from a global slowdown, particularly in the United States, global inflation, and sustained commodity price volatility from lingering geopolitical uncertainty. The growing dependance on volatile and uncertain CBI revenue is a major source of vulnerability. But prospects for an acceleration of the transition to renewable energy and increased investment in resilience by the broader public sector could represent a material upside risk.

The authorities are committed to maintaining a prudent fiscal stance going forward. Small budget surpluses are planned for the next three years, supported by the phasing-out of electricity price subsidies and streamlining of income support measures. They reiterated their intention to undertake structural fiscal policy changes to reduce dependency on CBI revenues over the medium term. They also remain committed to investing in natural disaster resilience and climate change adaptation.

[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]

The strong economic rebound in 2022 was moderated by tighter global financing conditions and high fuel and food prices. While proactive policies facilitated by accumulated buffers helped keep inflation under control, the fiscal measures have weighed on public finances. Strong Citizenship-by-Investment (CBI) flows cushioned the impact of higher expenditures on public debt but also increased reliance on these revenues. Looking ahead, as risks are tilted to the downside in the short run, Directors encouraged the authorities to pursue prudent fiscal policies, ensure financial stability, and implement ambitious structural reforms to boost sustainable and inclusive growth.

Directors concurred that the fiscal stance should be tightened to entrench debt sustainability, and noted the importance of the planned phasing-out of electricity price subsidies and other crisis-era support measures. Containing current expenditures, notably the wage bill, will help create space for sustainable investment. Directors called for reducing dependence on CBI revenue, which would require an overhaul of the taxation framework, including reducing tax expenditures, streamlining VAT, reforming property taxes, and introducing a progressive personal income tax.

Directors emphasized the need for structural policies to strengthen competitiveness, labor market development, and diversification. They recommended higher resilient infrastructure spending and an optimal insurance framework against natural disaster risks, and endorsed the authorities' strategy to transition toward renewable energy. They supported the plan for a sovereign wealth fund to finance resilient investment and ensure adequate fiscal buffers. Directors welcomed efforts to improve the delivery and access to education and vocational training, which should be complemented by active labor market policies, to reduce skills mismatches and promote job opportunities.

Directors called for a re-assessment of the business model of the systemically important bank, noting that further progress is needed to de-risk its investment portfolio and reduce NPLs. They stressed the importance of ring-fencing public sector deposits from risks in any single bank. Close monitoring of credit unions and continuing to advance the AML/CFT agenda would be important.

[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.

St. Kitts and Nevis: Selected Social and Economic Indicators, 2019–28

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, 2021 est.)	53.5	Health and nutrition	
Rate of growth (percent per year, 2021)	0.66	Calorie intake (per capita a day, 2011)	2,452
Density (per sq. km., 2021)	198.8	Physicians (per 1,000 people, 2018)	2.8
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		Gross domestic product (2021)	
Life expectancy at birth (years, 2021)	71.7	(millions of U.S. dollars)	860.8
Infant mortality (per thousand live births, 2020)	12.6	(millions of E.C. dollars)	2,324
Under 5 mortality rate (per thousand, 2020)	15.0	(US$ per capita)	16,076.7
Adult literacy rate (percent, 2009)	97.8		

II. Economic and Financial Indicators, 2019—28

				Est.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	(Annual percentage change, unless otherwise specified)									
National income and prices										
Real GDP (market prices) 1/	4.0	-14.5	-0.9	9.0	4.5	3.8	3.0	2.7	2.7	2.7
Real GDP (factor cost) 1/	4.8	-13.4	-0.1	11.2	5.0	2.5	2.7	2.7	2.7	2.7
Consumer prices, end-of-period	-0.8	-1.2	1.9	3.8	2.6	2.0	2.0	2.0	2.0	2.0
Consumer prices, period average	-0.3	-1.2	1.2	2.7	2.3	2.0	2.0	2.0	2.0	2.0
Real effective exchange rate appreciation (+) (end-of-period)	0.8	-0.9	...	...	...	...	...	...	...	...
Money and credit 2/										
Broad money	5.6	-8.1	8.9	6.9	5.7	5.1	4.9	5.3	6.2	8.2
Change in net foreign assets	6.5	-0.4	9.1	2.5	2.5	2.5	2.4	2.3	2.2	2.9
Net credit to general government	-9.5	-18.4	-4.8	-0.9	-0.6	-0.7	-0.7	0.0	0.9	2.0
Credit to private sector	1.5	1.1	4.1	3.4	3.2	3.0	2.7	2.5	2.5	2.5
Nonperforming loans to total gross loans	24.0	23.5	20.9	22.0	...	...	...	...	...	...
	(In percent of GDP)									
Public sector 3/										
Total revenue and grants	37.4	35.0	50.4	51.5	43.6	41.5	39.1	37.0	35.4	33.8
o/w Tax revenue	18.5	18.8	19.0	19.0	18.7	18.6	18.2	18.1	18.0	17.9
o/w CBI revenue	14.8	11.3	23.3	25.8	19.0	17.0	15.0	13.0	11.5	10.0
Total expenditure and net lending	38.1	38.1	44.8	54.8	43.0	40.9	38.8	37.6	37.1	37.0
Current expenditure	26.1	30.6	36.5	39.9	37.6	35.7	33.8	32.7	32.5	32.3
Capital expenditure and net lending	12.0	7.5	8.3	14.9	5.4	5.2	5.0	4.8	4.6	4.6
Primary balance	0.5	-1.7	6.8	-2.1	2.1	2.1	1.9	1.0	-0.1	-1.6
Overall balance	-0.7	-3.1	5.6	-3.3	0.6	0.5	0.3	-0.5	-1.7	-3.2
Overall balance (excl. land buy back)	3.5	-3.1	5.6	-3.3	0.6	0.5	0.3	-0.5	-1.7	-3.2
Overall balance (less CBI revenue) 4/	-19.2	-21.8	-13.4	-22.3	-18.1	-18.0	-17.9	-18.7	-19.7	-21.1
Total public debt (end-of-period)	54.3	68.0	68.9	58.4	55.3	53.3	51.7	50.9	51.4	53.4
Public debt service (percent of total revenue and grants)	5.4	6.8	4.1	4.6	5.8	6.1	6.2	6.4	6.7	6.6
General government deposits (percent of GDP) 5/	24.8	21.6	30.3	24.0	24.0	24.0	24.0	24.0	24.0	24.0
External sector										
External current account balance	-5.8	-10.9	-5.8	-5.0	-3.6	-2.8	-1.9	-1.3	-1.3	-1.3
Trade balance	-28.4	4.0	-26.2	-31.5	-30.1	-29.6	-29.0	-28.3	-27.2	-26.2
Services, net	24.2	19.4	24.0	29.5	29.7	30.1	30.3	30.3	29.1	28.0
o/w Tourism receipts	32.6	12.1	17.8	18.6	21.5	24.6	26.6	27.4	26.8	26.3
FDI (net)	4.5	0.3	3.3	3.8	5.6	5.4	5.0	4.6	4.3	4.0
External public debt (end-of-period)	12.7	15.2	14.6	9.5	9.3	9.3	9.5	9.8	10.3	10.9
	(In percent of exports of goods and nonfactor services)									
External public debt service	2.8	2.9	0.5	3.0	2.7	2.6	2.5	2.4	2.2	1.9
External public debt (end-of-period)	25.5	38.0	32.1	18.1	17.7	17.7	18.2	19.1	20.7	22.5
Memorandum items										
Net international reserves, end-of-period										
(in millions of U.S. dollars)	346.3	365.4	312.8	250.5	247.1	244.9	243.1	241.4	239.6	251.6
(in percent of broad money)	32.2	35.6	28.0	21.0	19.6	18.4	17.4	16.4	15.4	14.9
Holdings of SDRs, in millions of U.S. dollars	16.8	17.8	28.8	28.8	28.8	28.8	28.8	28.8	28.8	28.8
Nominal GDP at market prices (in millions of EC$)	2,991	2,388	2,324	2,628	2,837	2,973	3,115	3,265	3,421	3,586

Sources: National authorities, ECCB, UNDP, World Bank; and IMF 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 2023 ARTICLE IV CONSULTATION

February 28, 2023

KEY ISSUES

Context. Economic growth rebounded strongly in 2022 despite global headwinds. GDP is estimated to have grown by 9 percent in 2022 after contracting 14.5 percent in 2020 and 0.9 percent in 2021. The lifting of all COVID-related travel restrictions in August sparked a strong rebound in the tourism sector and across the economy. Yet economic activity is not back to pre-pandemic levels. Inflation picked up, increasing from 1.9 percent in 2021 to 3.8 percent in 2022, reaching the highest level in a decade. The authorities' proactive policy response, facilitated by the fiscal buffers accumulated from a decade of prudent fiscal policy, helped shelter domestic prices from high global energy and food prices. These measures nonetheless took a heavy toll on fiscal accounts in 2022. The primary balance ex-CBI revenue and land buybacks, an indicator of the underlying fiscal stance, deteriorated to a deficit of 17 percent of GDP (vs. 15 percent in 2021). Large CBI inflows in 2022 helped finance this expansion, keeping public debt below the ECCU regional target of 60 percent of GDP. The current account deficit is estimated to have narrowed in 2022, supported by tourism recovery.

The new government appointed following the 2022 general election is faced with important challenges. Preserving the country's legacy of fiscal prudence, in a context of concerns over CBI resources' sustainability, and of a pressing need to invest in resilience to natural disasters, will require difficult choices. An adequate prioritizing and sequencing of policies will be essential, and addressing concerns related to the systemic bank should be a priority.

Policy Priorities

- Reduce the heavy dependence on unpredictable CBI revenue through improved structural fiscal policies, enhanced accountability, and use for investment in resilience and building buffers.
- Entrench debt and fiscal sustainability through a phasing out of blanketed crisis-related measures, better targeted social transfers, and a more efficient tax system.
- Strengthen natural disaster preparedness by boosting investment in climate resilience with a multi-layered insurance framework.
- Restore competitiveness by strengthening labor markets and renewable energy investment.
- Protect financial stability by reviewing the business model of the systemic bank.

Approved By
Patricia Alonso-Gamo (WHD) and Boileau Loko (SPR)

The mission team comprising Alexandre Chailloux (head), Sergei Antoshin, and Sophia Chen (all WHD) visited Basseterre and Charlestown during January 16–27, 2023. The team was supported by Millena Machado Damasio and Spencer Siegel (both WHD). Feargal O'Brolchain and Rosamund Edwards (both OED) participated in several meetings. Peter Abraham, Joshua Kelly, Kevin Woods (all ECCB), Christine Dawson, and Lisa Drakes (both CDB) also joined the mission. The mission met with Prime Minister Honorable Dr. Terrance Drew, Premier of Nevis Honorable Mark Brantley, Attorney General Honorable Garth Wilkin, Financial Secretary Hilary Hazel, and other senior government officials, regulators, labor union, the opposition party leader, and representatives from the private sector. In addition to the mission team, Carolina Brozdowski (WHD) also contributed to the Staff Report.

CONTENTS

TABLES

ANNEXES

Glossary

ALMPs	Active Labor Market Policies
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
CAD	Current Account Deficit
CARTAC	Caribbean Technical Assistance Center
CBI	Citizenship-by-Investment Program
ECAMC	Eastern Caribbean Asset Management Corporation
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CDB	Caribbean Development Bank
CF	Contingencies Fund
CFATF	Caribbean Financial Action Task Force
CU	Credit Union
FSRC	Financial Services Regulatory Commission
GDP	Gross Domestic Product
GIR	Gross International Reserves
KNA	St. Kitts and Nevis
ML/TF	Money Laundering and Terrorism Financing
MoF	Ministry of Finance
MSME	Micro, Small, and Medium-size Enterprises
NDs	Natural Disasters
NEER	Nominal Effective Exchange Rate
NEVLEC	Nevis Electricity Company Limited
NIIP	Net International Investment Position
NPL	Nonperforming Loans
NRA	National Risk Assessment
PAP	Poverty Alleviation Program
PFM	Public Financial Management
PIMA	Public Investment Management Assessment
REER	Real Effective Exchange Rate
SIP	Special Issues Paper
SKELEC	St. Kitts Electricity Company Limited
SSB	Social Security Board
STEP	Skills Training Empowerment Program
TA	Technical Assistance
TVET	Technical and Vocational Education and Training
WB	The World Bank

CONTEXT

1. St. Kitts and Nevis is a high income two-island economy. Its GDP per capita, about 18,000 USD in 2021 is the highest of the ECCU countries. The economy has been dominated by tourism representing about one-third of GDP in recent years. Construction and light manufacturing also emerged as the country transitioned away from traditional agricultural activities. The St. Kitts and Nevis' economy is exposed to natural disasters (NDs). From 1970 to 2021, the country had an annual average negative impact from NDs of 4.2 percent of GDP.

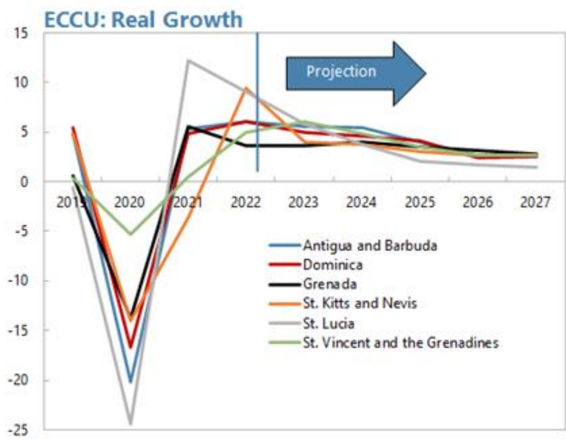
2. Prudent fiscal management helped build large buffers ahead of the twin pandemic and cost-of-living crises. Recurrent CBI revenue (amouting to a cumulative 65 percent of GDP between 2017 and 2021) has resulted in fiscal surpluses in most years since 2017. Public debt, after peaking at 135 percent of GDP in 2010, fell to less than 70 percent in 2015 and remained below the ECCU target of 60 percent for most of the last 5 years. The fiscal stimulus undertaken in 2021–22 to mitigate the effect of the twin crises was supported by a surge in CBI revenue, leaving the public debt little affected.

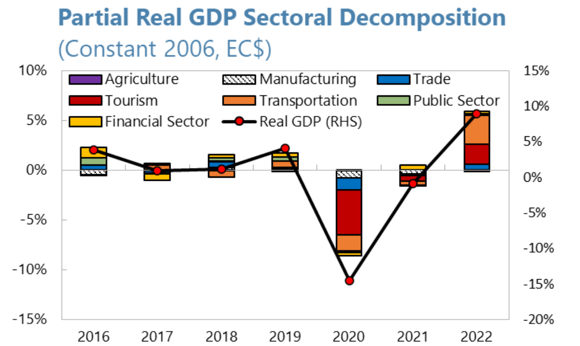
3. Fiscal prudence remains a cornerstone of public policies. The general elections in August 2022 saw the victory of the St. Kitts Nevis Labor Party, whose ambitious social agenda and strong emphasis on improving governance are combined with a focus on fiscal caution. The new cabinet's budget for 2023 envisages a small surplus, conservative projections for CBI revenue, well-contained current spending, and an increase in capital expenditure. The authorities' medium-term forecast foresees a continuation of these trends, except for capital spending which sees a sharp decline. The authorities will need to continue exercizing fiscal prudence going forward to ensure current spending can indeed be contained, while achieving social inclusion objectives and boosting capital expenditure to build resilence to NDs. Concerns over the sustainability of CBI revenue and the increasing channelling of CBI revenue to current spending warrant an active policy to reverse tax revenue erosion and improve expenditure efficiency. An adequate prioritizing and sequencing of policies will be of essence to preserve the country's legacy of fiscal prudence.

RECENT DEVELOPMENTS: FROM PANDEMIC TO COST-OF-LIVING CRISIS

4. A belated recovery. The economy was severely hit by the COVID-19 pandemic, with GDP contracting 14.5 percent in 2020 and 0.9 percent in 2021. Tourism recovery has been lagging the ECCU and other Caribbean peers because of stricter and longer-lasting COVID restrictions. At the onset of the pandemic, the authorities restricted inbound travel, completely halted cruise ships, introduced a month-long national lockdown. Unlike peer countries, they reopened borders with strict protocols.[1]

[1] Protocols included only allowing fully vaccinated tourists, extensive testing, and contact-tracing.





Sources: ECCB authorities; and IMF staff calculations.

5. Global headwinds limited the rebound in 2022. The growth catch-up expected in 2022, while confirmed by coincident indicators, was moderated by an adverse global environment stemming from tighter global financing conditions and high global fuel and food prices. Staff projects growth to be 9 percent in 2022 and 4.5 percent in 2023, with real GDP returning to pre-pandemic levels by end-2024. By 2026, growth will be in line with potential, estimated at 2.7 percent.

6. Proactive policies have kept inflation under control. Higher food prices and shipping costs pushed inflation to 3.8 percent y/y in December, the highest since 2011 although still low compared to regional peers. Core inflation remained relatively low and multiple government measures (see Annex V) contributed to softening the price impact on food and energy.

7. Measures to fight the twin crises have weighed on public finances. The policy response during the pandemic, at 5 percent of GDP, was one of the strongest in the ECCU (Figures 1 and 2). But thanks to strong CBI flows, the debt-to-GDP ratio increased only modestly and remains the lowest of the region. As concerns shifted from the pandemic to the cost-of-living crisis, the government extended support measures. H1 2022 measures included a 10 percent increase in public wages and pensions, income support to the vulnerable, and a reduction of excise taxes—totaling 4 percent of GDP. The new government proposed additional measures with a focus on healthcare, affordable housing, and access to education. But overall current expenditure in the 2023 budget is well contained.[2]

8. Reliance on CBI revenue has increased. Tax revenue continued to fall, due to a decline in income taxes, on the heels of a two-decade long fall in tax revenue and persistent underperformance relative to regional peers. The previous government made a substantial repurchase of land (8 percent of GDP) in 2022 from the debt-for-land swap arrangement[3], hereby reducing both its deposits and contingent liability (which now remains at 12 percent of GDP; see

[2] One of the most substantial measures embedded in the 2023 budget is the reduction of the electricity subsidy which could reach up to 4 percent of GDP on an annualized basis, based on 2022 costs. Income support measures introduced during the Covid crisis are discontinued in the 2023 budget.

[3] See Box 2 on p. 17 in the 2021 St. Kitts and Nevis Staff Report https://www.imf.org/-/media/Files/Publications/CR/2021/English/1KNAEA2021001.ashx.

Annex VIII). This, as well as increasing CBI due diligence fees and income support, materially raised expenditures. In addition, public wages rose rapidly last year, despite a high wage bill relative to regional peers, and are now 3 percentage points of GDP above pre-pandemic levels. In contrast, capital spending edged lower in 2022 with some planned projects delayed. The government recorded a deficit of 3 percent of GDP in 2022.

9. **In 2022, the external position was moderately weaker than the level consistent with fundamentals and desirable policies (see ESA Annex).** Before the pandemic, the external position was broadly in line with the level consistent with medium-term fundamentals and desirable policy settings. Large tourism loss led to a sizable current account deterioration in 2020. But the deficit narrowed during 2021–2022 supported by tourism recovery and is expected to continue to improve in the medium term as the economy recovers.

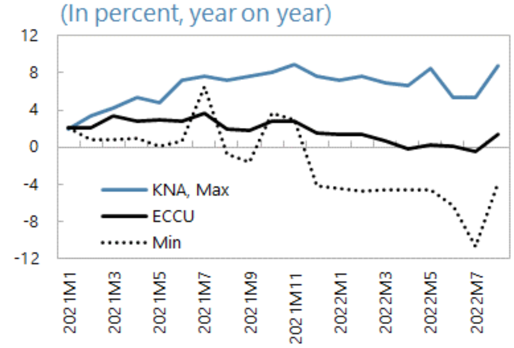
EBA-lite Model Results, 2022

	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	**-5.0**	
Cyclical contributions (from model) (-)	0.6	
COVID-19 adjustors (-) 2/	-0.3	
Natural disasters and conflicts (-)	-0.7	
Adjusted CA	**-4.7**	
CA Norm (from model) 3/	**-14.1**	
Adjustments to the norm (-)	11.0	
Adjusted CA Norm	**-3.1**	
CA Gap	**-1.6**	**-10.7**
o/w Relative policy gap	2.2	
Elasticity	-0.4	
REER Gap (in percent)	**4.4**	**30.5**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact impact of the pandemic on tourism (-0.12 percent of GDP).
3/ Cyclically adjusted, including multilateral consistency adjustments.

10. **Financial sector buffers remain adequate, but profits are volatile, NPLs are high, and capital ratios edged lower.** Loans under COVID-19 moratoria declined steadily from the high level in 2020, and the expected post-moratoria increase in NPLs has not yet materialized. NPLs are some of the highest in the region because of legacy loans but have not increased during the pandemic, as banks made efforts to write off some bad loans, Provisions relative to NPLs rose substantially and were near target of 60 percent end-2022. Profitability dropped sharply in 2022, driven by losses on the overseas investment portfolio amid tightened global financial conditions. Regulatory capital ratios declined in 2021–22 but remain well above the 8 percent minimum. Banks continue to have ample liquidity buffers. Despite structural challenges, credit growth was stronger than in other ECCU countries (figure) amid heightened competition and some relaxation of lending standards.

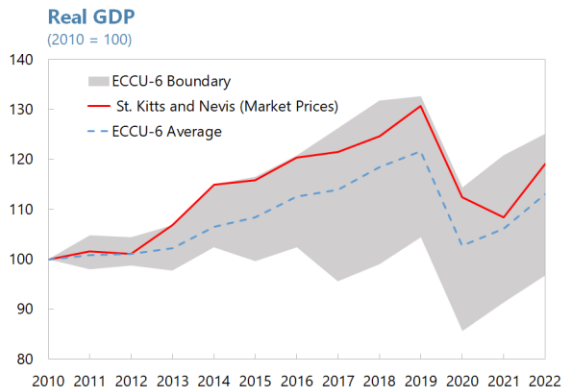
Credit to the Private Sector
(In percent, year on year)



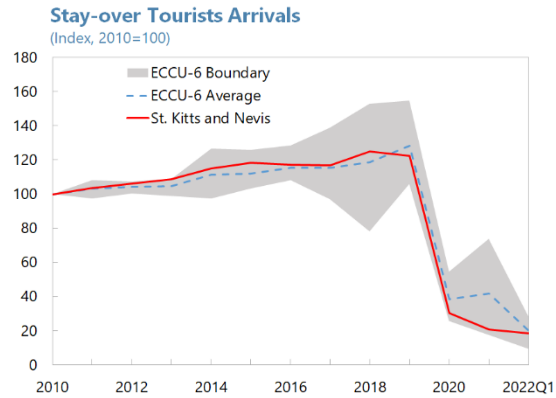
Sources: ECCB MFS; and IMF staff calculations.

Figure 1. St. Kitts and Nevis: Macroeconomic Performance vs. Regional Peers

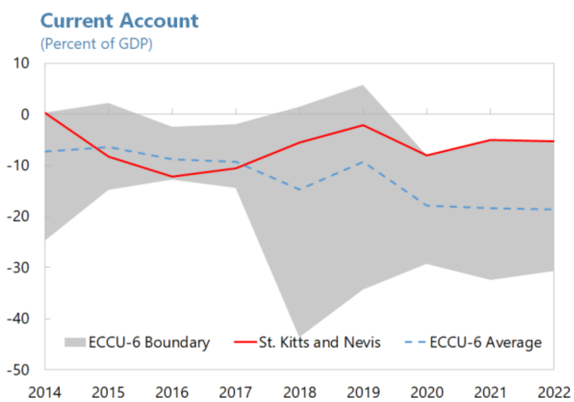
Despite two years of GDP contraction, real growth in level is expected to remain above the ECCU average in 2022.



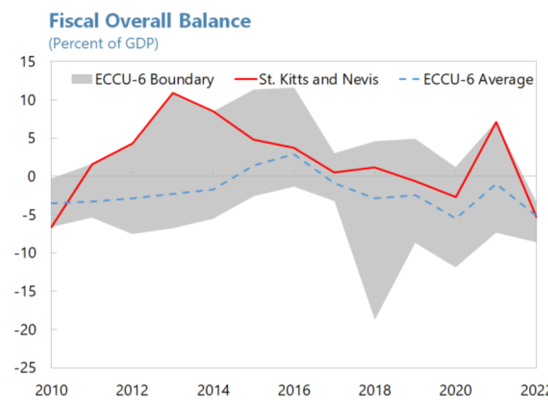
Tourist arrivals are expected to return to the pre-pandemic levels in 2024 and are in line with ECCU average.



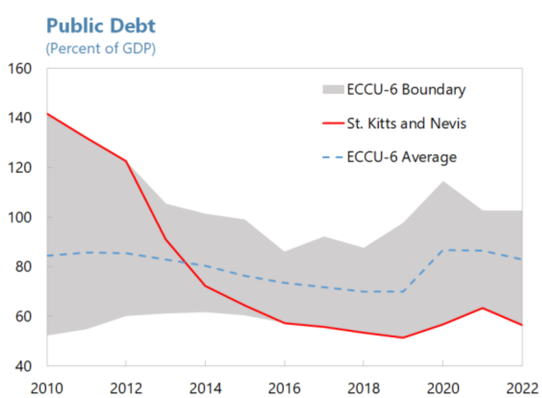
The current account balance in 2022, while negative, remained well above ECCU peers.



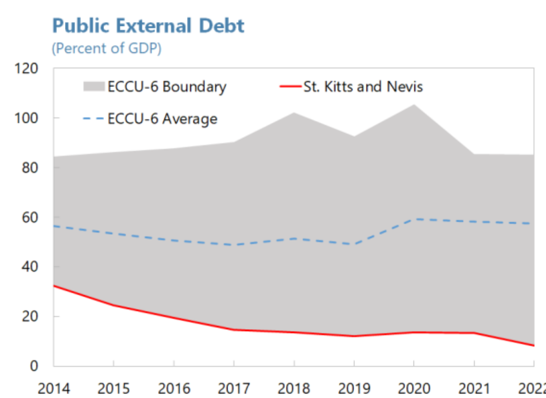
The large fiscal stimulus undertaken in 2022 brought St. Kitts and Nevis back to the regional average.



Gross public debt stock was the lowest in the region and well below peers' average.



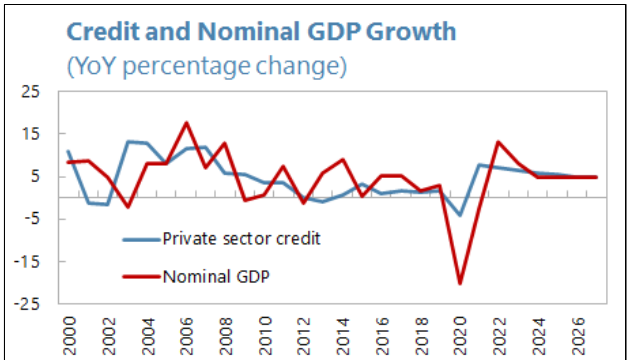
External debt continued its downward trajectory through the twin crises.



Sources: ECCB authorities; and IMF staff calculations.

OUTLOOK AND RISKS

11. After a strong rebound in 2022, growth should gradually go back to trend. With headwinds in key tourism source markets, staff project growth to be 4.5 percent of GDP in 2023 and 3.8 percent in 2024, with GDP returning to the pre-pandemic level by end-2024. By 2026, growth is expected to be in line with potential, estimated at 2.7 percent of GDP. Inflation is projected to be on average 2.3 percent in 2023 and 2 percent in 2024.[4] In the **fiscal sector,** the broadly balanced budgets projected in 2023–25 are expected to turn into growing deficits of up to 3 percent of GDP in the outer years, as CBI revenue declines from 25 percent of GDP in 2022 to 10 percent towards the end of the forecast horizon.[5] After the positive fiscal impulses[6] in 2017–22, the fiscal impulse is projected to be negative in 2023–25, as revenues recover and crisis-era support measures are gradually withdrawn. Gross public debt will remain below 60 percent of GDP, though on an upward trajectory in 2025–28. The **current account** deficit is projected to be 3.6 percent of GDP in 2023 and 2.8 percent of GDP in 2024 as tourism gradually recovers. In the **financial sector,** credit growth is projected to follow nominal GDP (figure).



Sources: ECCB authorities; and IMF staff calculations.

12. Risks to the outlook are tilted to the downside in the short term but with an upside potential in the medium term. Risks primarily stem from **global factors:** a global slowdown, particularly in the United States, a de-anchoring of inflation expectations and stagflation, and commodity price shocks (see Risk Assessment Matrix). In the **fiscal sector,** the key risk is growing dependence on CBI revenue. In the **financial sector,** fuller NPLs recognition could dampen credit growth and the recovery. Further tightening in global financial conditions could hit bank capital, through its exposure to the U.S. stock market. St. Kitts and Nevis is highly exposed to the risks of NDs, whose frequency and intensity will likely intensify with **climate change. Upside risks** include a faster-than-expected rebound in tourism, strong CBI revenue, and the development of renewable energy resources which would lower energy costs and boost potential growth.

Authorities' Views

13. The authorities broadly agreed with the staff's macroeconomic outlook. They expected a slightly stronger GDP growth in 2022 than staff's projection, supported by a robust recovery in

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[4] The inflation pressure in 2023 will be cushioned by lower projected fuel prices. The risks of a wage-price spiral are expected to be small (see SIP).

[5] The assumption reflects the high volatility of CBI revenue and embeds a non-zero probability of a cancelation of CBI (see Risks).

[6] Fiscal impulse is proxied by the negative change in the primary balance excluding net CBI revenue (i.e., CBI revenue minus CBI due diligence fees), and land buybacks.

tourism, trade, and related sectors. They anticipated that a strong performance of the tourism and construction sectors will drive robust growth in 2023. They had slightly more ambitious medium-term growth than staff's projections. They noted that their efforts to diversify the economy, develop renewable energy, and invest in infrastructure will support medium-term growth, but expected private sector investment to be the main driver. The authorities broadly shared staff's assessment of risks, stressing their efforts in climate resilience investment and CBI reform.

POLICY DISCUSSIONS

St. Kitts and Nevis face important challenges. Its large fiscal buffers and low debt have played a key role in cushioning the shock from the twin pandemic and cost-of-living crises, but its concerning dependency on CBI revenue has increased, concealing a hollowing out of tax revenue that undermines its fiscal framework. Fiscal prudence calls for a well-sequenced set of policies: (i) in the short run, tighten the fiscal stance through a phasing out of crisis-related measures; (ii) in the medium term, rationalize and strictly control current spending, including the wage bill; (iii) make social transfers better targeted; and (iv) streamline tax policy to reduce dependance on CBI. The additional fiscal space should support investment in climate change resilience, accelerate economic diversification, and help restore waning competitiveness. On the financial sector front, the systemic risk represented by the state-owned systemic bank is an important source of concern calling for a business model change, including de-risking its investment portfolio, addressing legacy asset quality issues, and safeguarding government deposits, while supporting credit growth and financial stability.

A. Entrenching Fiscal and Debt Sustainability

14. In the short term, the fiscal stance should be tightened. The continuing recovery presents an opportunity to phase out pandemic-era measures. On the revenue side (table), taxes on income and international trade have remained below the pre-pandemic averages, creating room to raise the effective tax rate. On the expenditure side, current expenditure in 2022 was 16 percentage points of GDP above the average pre-pandemic level, driven by wages, goods and services, and transfers. The composition of public spending should be improved, including through the rationalization and strict control of the wage bill. In addition, expenditure policy should be recalibrated to properly address medium-term policy priorities (see below). Otherwise, a negative fiscal impulse is expected in 2023.

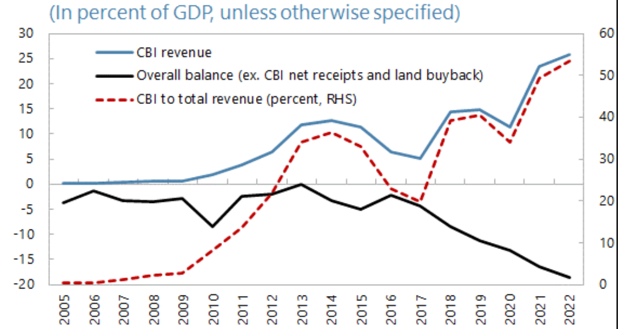
Key Revenue and Expenditure Items
(In percent of GDP)

	2015-19	2020	2021	2022	2023
Tax revenue	18.5	18.8	19.0	19.0	18.7
Taxes on income	4.7	5.1	5.6	4.7	4.6
Taxes on property	0.6	0.5	0.7	0.7	0.6
Taxes on domestic goods and consumption	7.8	7.7	7.6	8.2	8.2
Taxes on international trade and transactions	5.4	5.4	5.2	5.5	5.3
Non-tax revenue excl. CBI	3.5	3.3	4.9	3.4	3.4
Current expenditure	24.1	30.6	36.5	39.9	37.6
Wages and salaries	10.6	12.8	14.2	14.3	14.2
Goods and services excl. CBI costs	5.6	7.5	8.4	8.3	8.2
Interest	1.5	1.4	1.2	1.2	1.6
Transfers	5.7	7.8	11.3	13.3	11.6
Capital expenditure, excl. land buyback	5.9	7.5	8.3	7.1	5.4
Current balance	8.3	2.8	10.8	8.3	3.5
Overall balance (after grants)	2.1	-3.1	5.6	-3.3	0.6
Primary balance (ex. CBI net receipts and land buyback)	-4.8	-11.9	-15.1	-17.3	-14.8
Fiscal impluse	1.9	1.8	3.2	2.2	-2.5

15. Social transfers should be more targeted to protect the most vulnerable. As the cost-of-living crisis continues, emphasis should be on targeted transfers rather than price controls or blanket energy subsidies. Current crisis-related measures—the electricity and fuel subsidies—are untargeted and disproportionally benefit wealthier consumers. These measures distort price signals and will lead to fiscal pressures as consumers have little incentive to adjust their consumption. Options to phase out energy subsidies include (i) electricity block pricing, (ii) lump sum bonus, or (iii) budgeted transfers to low-income households (Annex VI). The phasing out of crisis-related measures should be complemented by a reform of the social assistance program (PAP) to better target the most vulnerable, which is consistent with the authorities' plan.

16. **The efficiency of the tax system should be improved to create fiscal space.** The main objective of any good tax system is to raise appropriate revenue to deliver public services, address distributional issues, and provide incentives for sustainable investment. A comprehensive review of tax policy is thus overdue. Furthermore, increased public investment will require generating extra fiscal space at a time when reliance on CBI revenue to finance current expenditure (figure) puts public finance at risk, as the overall deficit ex-CBI revenue and land buybacks stood at 18 percent of GDP in 2022. Annex VII discusses how to effectively and efficiently tax tourism, as well as the appropriate approach to investment tax incentives. In the context of St. Kitts and Nevis:

Dependence of CBI Revenue
(In percent of GDP, unless otherwise specified)



Source: ECCB authorities; and IMF staff calculations.

- Items with zero- or low-rated VAT (e.g., sugar and hydrocarbon fuels) should be reduced and temporary exemptions be avoided. In general, VAT should be as broad as possible and applied at all stages of production to minimize leakages through CIT and unregistered businesses.

- Import taxes should be low and flat on all imports, and exemptions on certain products (zero duty on food, duty-free items available to residents) be avoided. Excise taxes on alcohol and tobacco should be raised, with no exemptions.

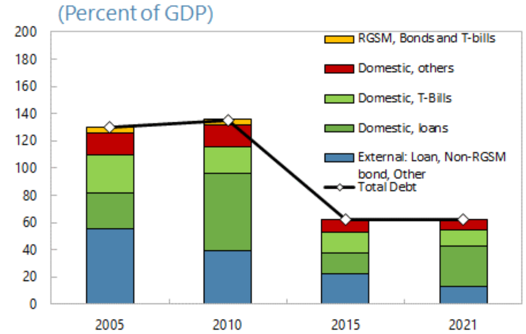
- Property tax is generally both efficient and progressive if based on actual residential property and commercial land values. The current property tax rates in KNA are extremely low, and there is scope to raise them. On the other hand, property transaction taxes inhibit the housing market and home ownership and should be reduced.

- CIT holidays and exemptions should be avoided and replaced with expenses for capital expenditures or forward loss carryovers.

- A non-zero PIT should be introduced to broaden the tax base. A PIT system should be designed to be progressive to improve redistribution.

17. The risk of sovereign stress is assessed as moderate, but financing policy should be strengthened, and long-term risks tackled. If fiscal restraint is exercised, as in the past, St. Kitts and Nevis's gross public debt is projected to remain below the regional target of 60 percent of GDP with stable deposits. Hence, the wedge between the regional target and the current debt level could be viewed as a buffer. However, to operationally use the low debt as a buffer, the country should consider using its access to the regional government securities market (RGSM). The authorities should also strive to lengthen debt maturities and use state contingent debt instruments when possible. The debt sustainability analysis (see DSA, Annex VIII) shows that net debt breaches the regional ceiling over the medium term only in the 95th percentile scenarios with joint GDP, primary deficit, and interest rate shocks. However, the long-term risk is high due to a very large funding gap of the SSB.

Public Debt, by Instrument
(Percent of GDP)



Sources: National authorities; and IMF Staff calculations

Authorities' Views

18. The authorities concurred with staff on the need to maintain a prudent fiscal stance going forward. They flagged risks to their current expenditure projections stemming from the wage bill, the streamlining of social support, and the planned phasing out of energy subsidy. Authorities agreed in principle with the need to rebalance current and capital expenditures but noted that their lower capital expenditure forecasts (after 2024) were based on actual projects in the pipeline and reflected the need to maintain balanced budgets. In addition, some investment in housing and infrastructure would come from statutory bodies. However, this is not fully accounted for in the fiscal reporting framework despite being part of the broader public sector.[7] The authorities requested TA in this regard. Referring to the prior experience, they noted that the execution rate of the budgeted projects should be improved.

19. The authorities agreed with the need to undertake an overhaul of their tax policy framework, which could be supported by IMF TA. This would help ramp up tax revenue mobilization and reduce dependence on CBI revenue. The authorities stressed the importance of taking a holistic approach to tax reform to improve equity, efficiency, and effectiveness, but also to maintain competitiveness and increase traction with private sector stakeholders. Authorities agreed to examine the merits of the proposed abolishment of various tax exemptions, broadening the tax base, and lowering harmful tariffs but noted the need to remain in compliance with CARICOM tariffs agreement. The authorities consider the RGSM as a viable option for raising government financing, however, there are no immediate plans to tap the RGSM. They also noted their robust debt

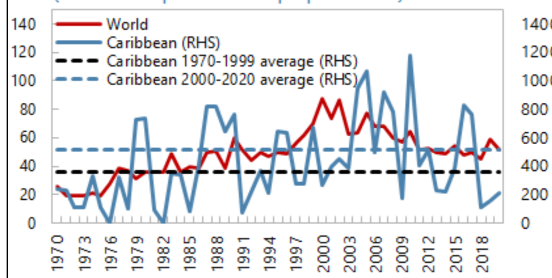
[7] The statutory bodies' debt is included in St. Kitts and Nevis public debt (see the DSA Annex). Their debt issuance is controlled by the central government, and the total public sector debt is subject to the regional ceiling of 60 percent of GDP. However, the statutory bodies' fiscal operations, including capital expenditures, are not included in the reporting by the general government.

management strategy which guides the funding options by the government. Given their strong fiscal position, they did not anticipate any difficulties in accessing the RGSM, if needed.

B. Achieving Natural Disaster Resilience and Climate Change Adaptation

20. ND risks call for resolute preparedness policy implementation. In St. Kitts and Nevis, the risks of NDs are high. From 1970 to 2021, the country had an annual average impact from ND of 4.2 percent of GDP compared to the average of 2.0 percent for small developing states and had about three times more NDs than other developing states. With climate change accelerating, the intensity and frequency of NDs could worsen.

Frequency of Natural Disasters
(Disasters per billion population)



Sources: *EM-DAT (Emergency Events Database)* by Centre for Research on the Epidemiology of Disasters, IMF *World Economic Outlook* database; and IMF staff calculations.

21. Decisive action on ND and climate change preparedness can raise growth and save fiscal costs. Investment in resilient investment and additional insurance coverage would result in economic and fiscal savings after each ND (see SIP).

- **Required investment in resilience would need to be substantial and span over the long term (20 years or longer).** While upfront fiscal costs will need to be budgeted, resulting gains for growth and fiscal savings could be significant. Front-loaded investment in resilience would also reduce insurance costs.

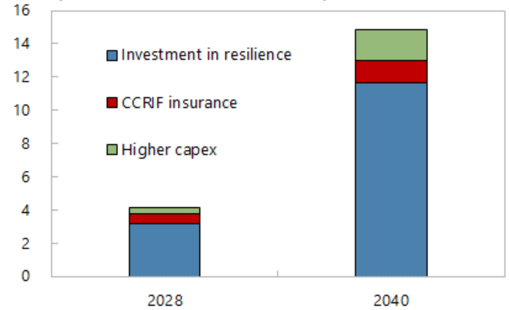
- **A multi-layered insurance framework would protect government finances from NDs and accelerate subsequent economic recovery.** While the government has sufficient deposits for the first, self-insurance layer, a legal framework should be established to earmark deposits for NDs insurance. The government should boost CCRIF coverage for immediate financing and consider state-contingent debt instruments such as a catastrophe bond for extreme events.

- **The country would benefit from the development of a comprehensive fiscal policy framework for climate mitigation and adaptation.** The framework would include the two key elements discussed above: (1) an enhanced multi-layered insurance framework and (2) substantial investment in resilience, to be supplemented by a strategy to increase public investment, enhance growth, build up buffers and maintain debt below the regional ceiling.

Differences Between the Alternative and Baseline Scenarios

	2023	2024	2025	2026	2027	2028
Nominal GDP growth	0.0	1.0	0.7	0.7	0.7	0.7
Real GDP growth	0.0	0.7	0.6	0.7	0.7	0.7
Capital expenditure (percent of GDP)	0.0	0.6	0.8	1.0	1.2	1.2
Overall balance (percent of GDP)	0.0	-0.6	-0.8	-1.0	-1.3	-1.3
Gross debt (percent of GDP)	-0.9	-1.7	-2.1	-2.3	-2.3	-2.3
Deposits (percent of GDP)	-0.9	-2.0	-3.0	-4.0	-5.1	-6.0
Net debt (percent of GDP)	0.0	0.3	0.9	1.7	2.7	3.7

Alternative Scenario: Impacts on GDP
(Relative to baseline levels)



Sources: National authorities; and IMF staff calculations.

22. The benefits of ND preparedness through long-term fiscal planning are illustrated in an alternative scenario. The scenario assumes a shift of investment towards resilience[8] up to 5.8 percent of GDP—which brings it in line with the long-term average—to remain below the regional debt ceiling over the medium term (text table and Figure 5). Fiscal costs also increase because of a larger CCRIF insurance coverage. As the share of resilient investment accumulates, the need for insurance via both deposits and CCRIF falls, resulting in smaller insurance costs. Deposits are allowed to decline gradually towards about 12 percent of GDP by 2040. The reduction in deposits alone is not sufficient to absorb upfront fiscal costs; hence gross debt rises through 2040. Gains are considerable under this scenario: a 4 percent increase in the level of GDP relative to baseline by 2028 and a 14 percent increase by 2040 (figure).

23. The scenario highlights that:

- **Fiscal restraint should be exercised as debt would be on an upward trajectory.** Tax revenues and expenditures should be optimized to create more fiscal space for ND preparedness and make debt sustainable. Additional fiscal relaxation would lead to breaching the regional ceiling by 2028.

- **The reliance on CBI—even assumed to follow the conservative baseline path—would remain significant and a source of concern.** This is another argument to optimize fiscal policy. Part of this is earmarking the CBI revenue for ND preparedness. If the CBI upside materializes extra revenues should be used exclusively for ND preparedness and other capital expenditure, or saved.

- **On the timing of the action, adequate insurance coverage—through CCRIF—should be ensured in the early years.** This would save growth and fiscal costs in the event of a large ND. Investment in resilience should be front loaded as much as feasible in the early years to boost growth and reduce insurance costs.

[8] 90 percent of capital expenditures in nominal terms from 2024 onward is assumed to go into resilience.

24. A sovereign wealth fund (SWF) with three objectives—standard wealth accumulation and expenditure smoothing, ND preparedness and investment in resilience—would be desirable.[9] A SWF would help formalize and financially secure the country's ND preparedness strategy by allocating public savings specifically for this purpose, help smooth government expenditures across the business cycle. Second, earmarking a portion of CBI revenue to the SWF would improve the transparency on the use of CBI revenue and help redistribution across generations. Finally, the transfer of public sector deposits from the systemic bank to an arm-length SWF with proper risk management would improve governance and diminish the sovereign-bank risk nexus.

Authorities' Views

25. The authorities concurred with staff assessment that ND preparedness should be reinforced and be at the core of long-term fiscal planning. They welcomed the staff's presentation of the SIP on ND preparedness including investment in resilience, insurance for ND, and the alternative scenario with these elements. The authorities noted that previous investments in resilience already paid off resulting in smaller adverse effects from flooding. On the need for more investment in resilience, they agreed in principle but pointed out that there is the need for stronger public and private partnerships with careful selection of projects and international participation to ensure transfer of critical knowledge and skills. Furthermore, authorities envision that state-owned entities (such as utility companies) and the private sector should take the lead to catalyze investments in resilience and renewable energy. On expanding the CCRIF, the authorities inquired about TA to establish the optimal insurance coverage. Consistent with staff advice, this administration continues to emphasize a plan for a SWF to lodge some CBI revenue, finance investment in resilience, and provide cushion against future shocks, including ND. The authorities requested a new TA in this area, given that fiscal parameters and goals of such a fund have evolved.

26. The transition to renewable energy could be a game changer over the medium term. The government actively explores various renewable energy options to attain its strategic goal of 100 percent renewable generation by 2030 and ensure energy security. The success of these projects could turn the country into a clean energy exporter[10] and boost medium-term growth. The country would save on energy imports, and both commercial and residential consumers would pay considerably less for electricity, resulting in efficiency gains and profits. The use of locally produced renewable energy would drastically reduce the country's vulnerability to ND and global shocks to fuel supply. However, the geothermal project is still in a testing phase with early results expected

[9] See the FAD 2018 TA Report "St. Kitts and Nevis Establishing a Fiscal Responsibility Framework and Growth and Resilience Fund, July 2018".

[10] Annex XI and the SIP on climate change adaptation present an overview of the prospects for geothermal electricity generation. The estimated potential may exceed the electricity needs of St. Kitts and Nevis' power grids. Excess power could be used to produce green hydrogen or ammonia for export, or be sold to neighboring Islands (like Martinique) using electric submarine cables.

next year. Investment in wind and solar will require substantial investments, for which financing is yet to be secured and decided upon.

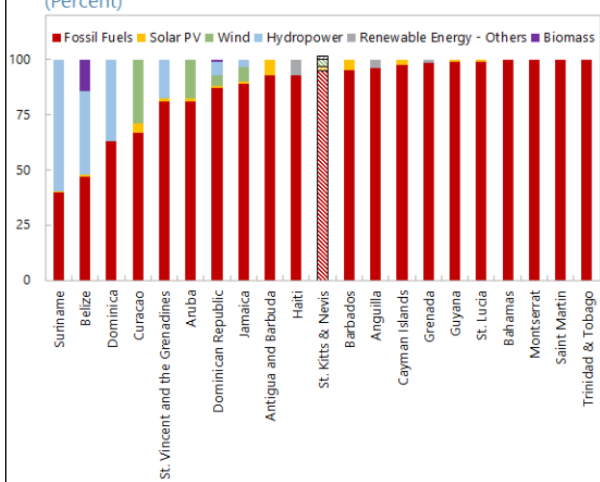
C. Enhancing Competitiveness to Achieve Sustainable Growth

27. The economy of St. Kitts and Nevis has been on the regional frontier but faces competitiveness challenges. The country has one of the highest GDP per capita and human development in the Caribbean (Figure 3). But the economy faces challenges with stagnant labor productivity, high energy and labor costs, and a large and growing public sector (Figure 4).

28. Continued structural policy efforts are needed to strengthen the labor market, encourage economic diversification, and promote sustainable growth. Ongoing efforts to improve the access and delivery of education and TVET are instrumental for unlocking growth potentials. These efforts should be complemented by Active Labor Market Policies (ALMPs) with an emphasis on better integrating training with the labor market to reduce skill mismatches and promote job opportunities. The hospitality sector is well positioned to become a stronger pillar of the labor market. Linkages between the hospitality sector and the rest of the economy can be leveraged to provide more diversified and higher-quality job opportunities (see SIP). The plan to diversify into agriculture, fishery, and manufacturing will benefit from the future rechanneling of CBI flows towards growth friendly sectors, hence supporting competitiveness. Reforms for labor market policies and institutions—including labor protection legislations, unemployment benefits, and statutory minimum wage—should be based on social dialogue, including through regular tripartite meetings of the government, employers, and employees.

29. Competitiveness can be further strengthened by leveraging climate change and disaster preparedness efforts, and renewable energy transition efforts. High local electricity costs, due to heavy reliance on fossil fuels for electricity generation, hampers competitiveness and makes the country vulnerable to global price fluctuations. With progress underway to explore a renewable mix with geothermal, solar, and wind sources, further momentum could be generated by improving the resilience of energy and water infrastructure and initiating the geothermal energy exploration in Nevis. Multiple resources could be explored to finance this agenda, including by encouraging private investment, and channeling CBI revenue to renewable energy projects (Annex XI).

Electricity Generation Mix in 2020
(Percent)



Source: U.S. Department of Energy.

Authorities' Views

30. The authorities agreed with the goal of strengthening competitiveness through renewable energy investment, economic diversification, and labor market development. Various policy initiatives unveiled with the 2023 budget aimed at this goal. The authorities plan to upgrade generators in SKELEC, address water shortage, and start exploring geothermal energy in Nevis with initial financing from the CDB. With the ongoing discussion on the optimal mix of renewable energies, they plan to explore all potential avenues with a focus on balancing reliability and cost savings considerations. They noted their efforts to diversify tourism products by developing agriculture tourism and community destination tourism. They recognized the need for developing skills in the local labor market and agreed that better integrating training and job opportunities would be of the essence, including through a better designed STEP with a graduation period to encourage private sector employment upon graduation. They concurred with staff on the merits of a tripartite engagement in the upcoming review on labor protection legislations and unemployment benefits.

D. Strengthening the Financial System

31. The systemically important bank is the largest financial institution in the ECCU, accounting for over a half of the country's banking assets. The government owns 51 percent of the bank. The bank has sizeable exposure to the government because of the debt-for-land swaps in 2013–15. The government and the SSB keep their deposits at the bank, which fulfills the function of a SWF with a substantial share of its assets invested in U.S. equities. As a result, it recorded the largest losses in the ECCU in 2022, and currently appears to be vulnerable to a further tightening in global financial conditions. In addition, the systemic bank has some of the highest NPL ratios in the ECCU.

32. The business model of the systemic bank should be revisited with an emphasis on risk reduction. State ownership, large government deposits, market and credit risk exposures make the systemic bank a powerful conduit of financial risks to the fiscal sector and ultimately the economy. The bank's overseas investments should be reviewed to mitigate risks of losses, with an emphasis on risk reduction, and a shift towards safer, less volatile instruments like bonds. Loan loss provisions should be increased to cover impaired loans.[11] While the supervision is at the ECCB level, with the bank's systemic importance, the national authorities could consider reducing the bank's exposure to government and imposing limits on investments in volatile instruments such as equities and start establishing a contingency plan should risks materialize.

33. The financial system faces other challenges and pending reforms. Bank credit growth has been relatively upbeat recently, both through the recapitalization of interest on existing and new loans, amid high competition. This calls for a closer supervisory monitoring of restructured loans and

[11] The ECCU 2022 Staff Report calls for intensified scrutiny of weaker institutions with high NPLs and large overseas investments.

additional data collection to ensure proper classification of these loans. Like other ECCU countries, insufficient credit growth may limit potential growth and economic diversification. Constraints to credit growth are related to structural (legislative gaps), legacy (high NPLs), regulatory (stricter provision requirements), and cyclical (tighter global financial conditions) factors. Credit unions are expanding quickly. But the regulation and oversight of the segment by the national regulator, the FSRC, is weaker than those from the ECCB for banks. Hence, the FSRC's regulation and oversight need to be strengthened to ensure the credit union segment continues to thrive and play its important role in advancing financial inclusion. Annex X outlines measures to strengthen credit and advance the AML/CFT agenda. Since St Kitts and Nevis' 2021 mutual evaluation, the authorities have started to undertake another national risk assessment (NRA) which will present the analysis of risk in greater detail than was done in the previous NRA. The FSRC increased its staff substantially between 2020 and 2022 and is in the process of developing a supervisory manual to be used by both of its branches. As recommended in its mutual evaluation report, it is important for the FSRC to ensure that its overall supervisory activities are sufficiently focused on AML/CFT supervision. The authorities should pass legislation to designate the ECCB as the supervisor in the AML/CFT area.

Authorities' Views

34. The authorities concurred that the business model of the systematically important bank should be strengthened with an emphasis on de-risking, while public sector deposits management should be ring-fenced. They noted that the management of the systemic bank had taken important steps to de-risk the overseas investment portfolio and to write off some legacy loans, but further progress was needed. The authorities agreed that public sector deposits should be ring-fenced from the risks inherent in any single bank, ideally through a separate arm-length structure. This goal could be achieved via the creation of a SWF, though its modalities and functions (including whether it will hold the entire stock of public deposits) were yet to be discussed. The authorities recognized that supervision of the credit union segment should be strengthened, including a close monitoring of restructured loans that exited the moratoria. They indicated that the ongoing National Risk Assessment (NRA) would demonstrate their sound and detailed understanding of ML/TF risks.[12]

E. Data Issues

35. The data framework should be improved to support evidence-based policymaking. Data provision has some shortcomings but is broadly adequate for surveillance. Key areas for improvement include reviewing National Accounts methodology to improve data accuracy, filling gaps in labor market statistics (e.g., unemployment rate and the size of the informal labor market) and surveys (e.g., labor market survey). These would require strengthening resources and training for the statistical office.

[12] The authorities also indicated that (i) the increase in staffing that has taken place since 2020 has increased the effectiveness of its operations and (ii) the new supervision manual will contribute to improving the consistency in the supervisory practices used by the FSRC's St. Kitts and Nevis branches.

STAFF APPRAISAL

36. Economic growth rebounded strongly in 2022 despite global headwinds. The lifting of all COVID-related travel restrictions in August sparked a strong rebound in the tourism sector and across the economy. Yet economic activity is not back to pre-pandemic levels. Inflation picked up, but the authorities' policy response helped dampen inflation pressures. This came at a heavy cost to public finances, with a large primary deficit after years of surpluses and increased reliance on CBI revenue. The current account (excluding CBI) worsened modestly but was offset by large CBI flows. The financial sector remained stable, but adverse price movements of overseas asset prices and an increase in provisioning severely undermined profitability and weakened capital.

37. Beyond 2022, growth should converge towards its medium-term path. Return to the pre-pandemic activity level is expected by end-2024. Inflation is likely to moderate gradually in 2023 and 2024. The budget is expected to be balanced through 2025 and then turn into growing deficits—predicated on current policies. Yet public debt is expected to remain below the regional 60 percent of GDP target over the medium term.

38. Risks to the outlook are tilted to the downside in the short term, but there is considerable upside potential in the medium term. Global headwinds could adversely impact key tourism source markets, and lingering geopolitical uncertainty sustain commodity price volatility. The growing dependance on volatile and uncertain CBI revenue is a major source of vulnerability. Further tightening of global financial conditions could affect bank capital. In the medium term, more frequent and intense natural disasters represent a major source of downside risk. But prospects for an acceleration of the transition to renewable energy and increased investment in resilience by the public sector could represent material upside risks.

39. In the near term, phasing out crisis-related measures will be essential to safeguard fiscal prudence and entrench debt sustainability. The ongoing tightening of the fiscal stance, with the planned phasing-out of electricity price subsidies, the gradual streamlining of income support measures, and a restoration of the corporate income tax rate, is required to achieve the fiscal path outlined by the authorities' medium-term fiscal plan.

40. In the medium term, a holistic overhaul of the taxation framework will be essential to reduce dependency on CBI and to maintain fiscal space. Evaluating thoroughly the current tax expenditure framework, with a view to eliminating those coming at a cost to public finance with little proven social and economic benefit, is a prerequisite to an effective tax reform. A streamlining of the VAT, a reform to the property tax to support the housing market and house ownership while increasing progressivity, an introduction of progressive personal income tax could help strengthen fiscal sustainability, improve fairness and progressivity, and achieve inclusive growth.

41. The use of budget resources should be geared in priority towards increasing sustainability. Better targeted social transfers can help address more efficiently the protection of the most vulnerable segment of the population. The ongoing reform of PAP is a commendable step in that direction (Annex I. Going forward a rebalancing between current expenditures, notably through a better control of the public sector wage bill, and higher capital expenditure will help catalyze private sector investment in natural disaster resilience, climate change adaptation and innovation to support the long-term growth potential of the federation.

42. Enhancing ND preparedness will require resolute policy implementation. Climate change mitigation policies, which will require fiscal outlays, can improve welfare and achieve economic sustainability. A long-term policy package should include higher resilient infrastructure spending, an optimal insurance framework against natural disasters, and renewable energy transition investment. In this regard, setting up a SWF based on international best practices with an aim to accumulate national wealth, finance resilient investment, and ensure adequate buffers should be a priority.

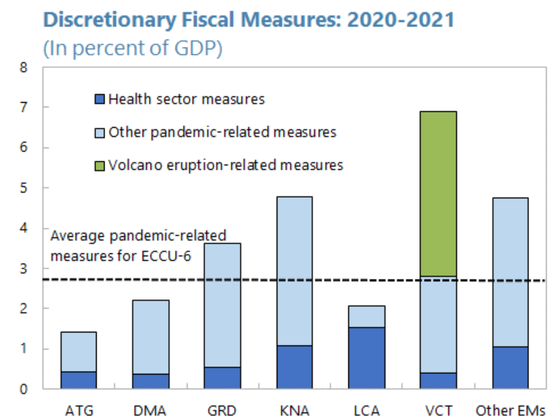
43. Continued structural policy efforts are needed to strengthen competitiveness, labor market development and economic diversification. Ongoing efforts to improve the access and delivery of education and TVET should be complemented by ALMPs with an emphasis on better integrating training with the labor market to reduce skill mismatches and promote job opportunities. Linkages between the hospitality sector and the rest of the economy can be leveraged to provide more diversified and higher-quality job opportunities. The transition to renewable energy could help lower energy costs and boost potential growth.

44. The business model of the systemically important bank should be revisited with emphasis on de-risking. The systemic bank is responsible for keeping government and SSB deposits but faces high risks from a large and risky investment portfolio and high NPLs. The bank's management has taken important steps to de-risk its investment portfolio and to write off some legacy NPLs, but further progress is needed. Public sector deposits should be ring-fenced from the risks inherent in any single bank, ideally through a separate arm-length structure, such as a SWF. In the non-bank segment, credit unions require close monitoring, including their restructured loans. The authorities should continue their work on advancing the AML/CFT agenda.

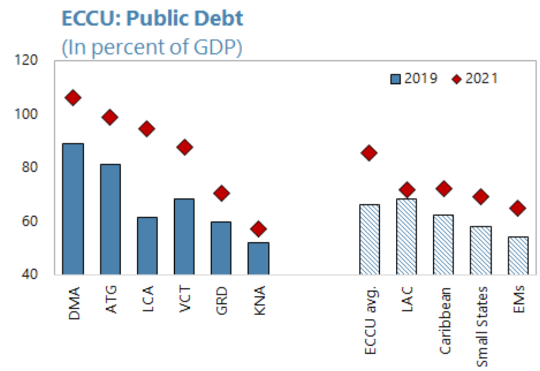
45. It is recommended that the next Article IV consultation takes place on the standard 12-months cycle.

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

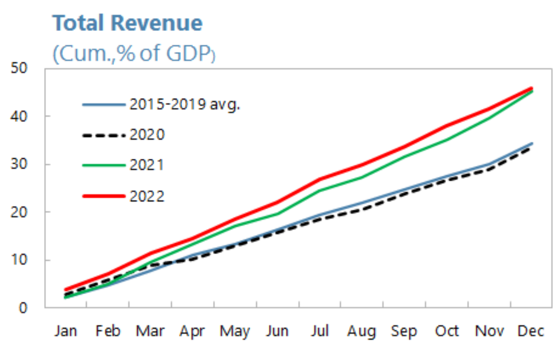
The government's response to the pandemic was one of the strongest in the region…



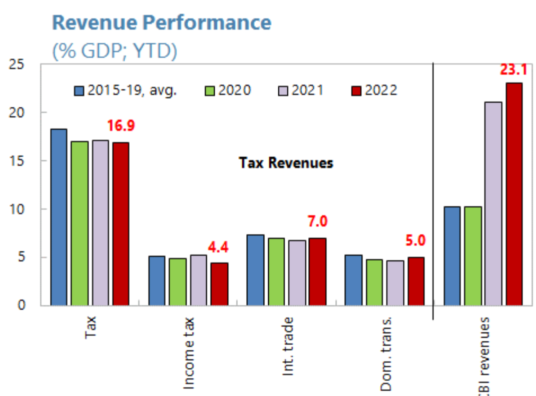
…but gross debt increased only modestly and remained the lowest in the ECCU.



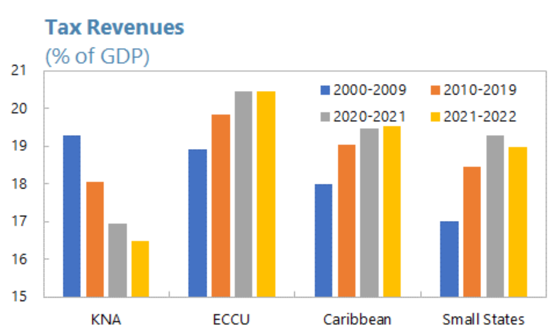
In 2022, total revenue was slightly higher than the prior year, boosted by CBI…



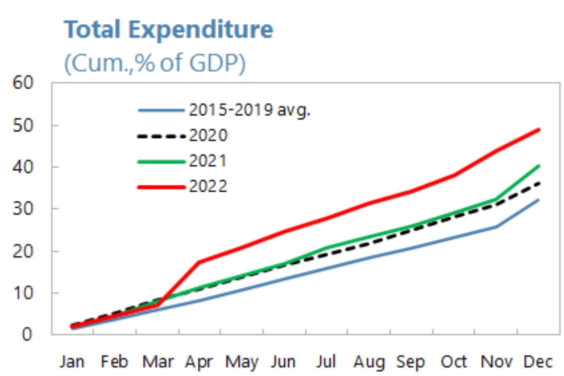
…while tax revenue edged lower, weighted down by a decline in income taxes…



…which comes on the heels of a two-decade long fall in tax revenues and a persistent underperformance relative to regional peers.



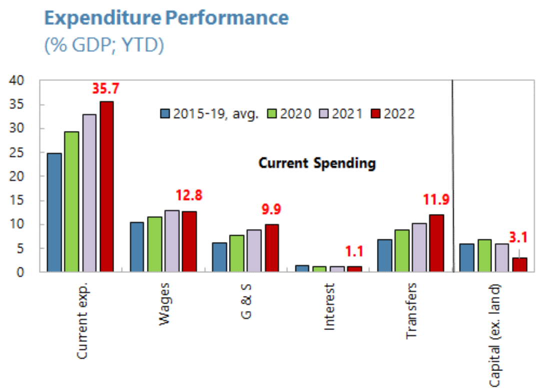
Total expenditures rose rapidly because of a substantial land buyback at 6.9 percent of GDP…



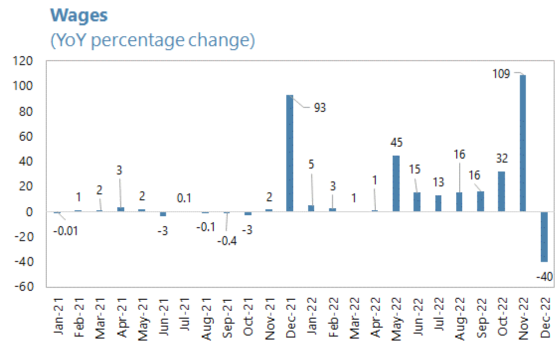
Sources: National authorities; and IMF staff calculations.

Figure 2. St. Kitts and Nevis: Fiscal Sector Developments (Concluded)

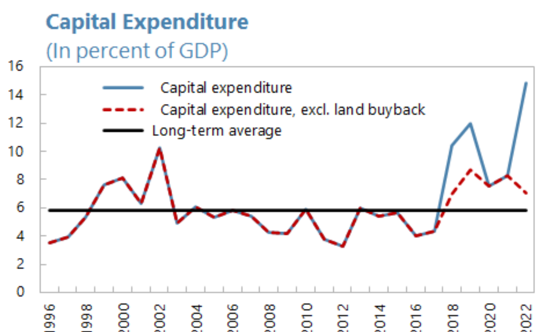
…as well as increases in CBI due diligence fees in goods and services and in social support via transfers.



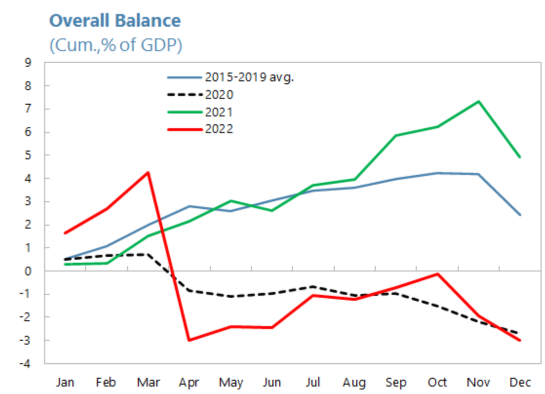
In addition, wages accelerated swiftly in nominal terms in the second half of 2022, posing challenges with controlling inflation in the short term and with competitiveness.



In contrast, capital spending fell in 2022 and remains well below the historical average of about 5 percent of GDP.



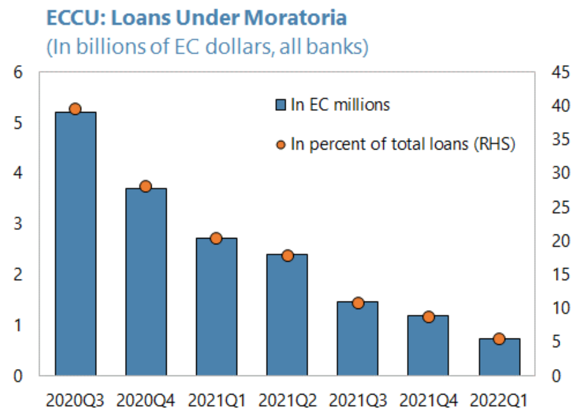
The overall balance is expected to show a deficit in 2022 unless there is additional spending in the last quarter as in the prior year.



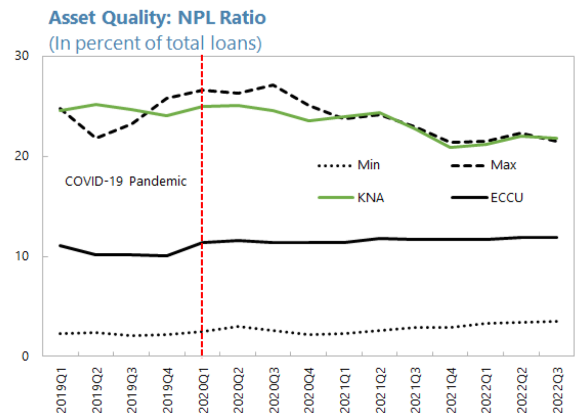
Sources: National authorities; and IMF staff calculations.

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

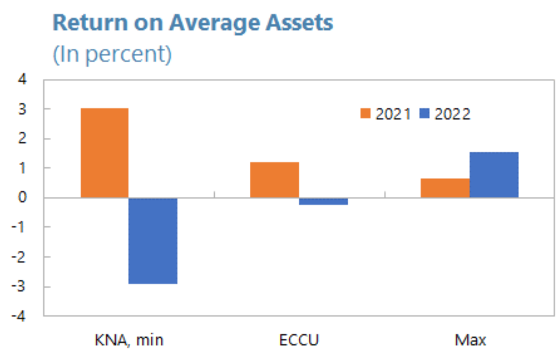
ECCU loans under moratoria declined steadily from the high levels in 2020, and the moratoria measures expired in March 2022.



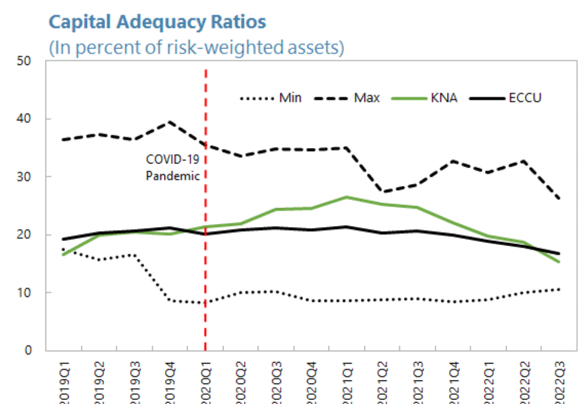
However, the expected post-moratoria increase in NPLs is not yet evidenced in St. Kitts and Nevis NPL ratios.



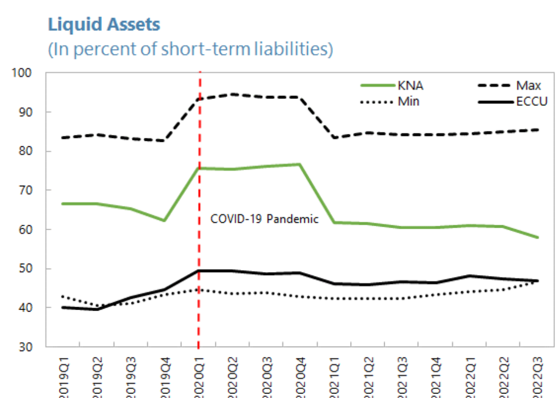
St. Kitts and Nevis bank profitability dropped sharply in 2022, driven largely by losses on the overseas investment portfolio amid heightened global market volatility.



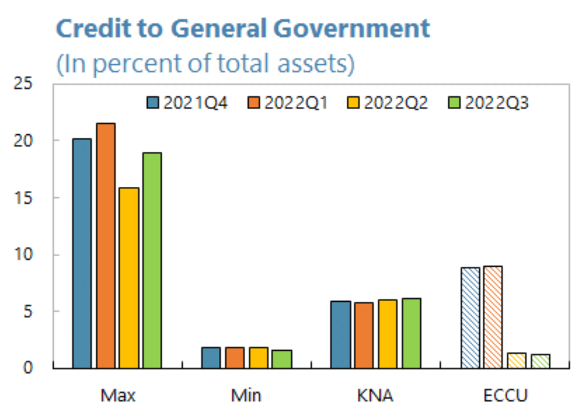
Regulatory capital ratios declined in 2021–22 but remain well above the 8 percent regulatory minimum.



Banks continue to have ample liquidity buffers, supported by strong deposit growth.



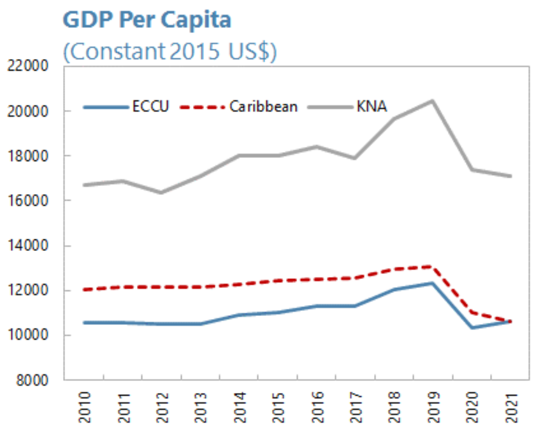
Banks slightly increased exposure to the government in 2022 (to 6 percent of assets or over 100 percent of Tier 1 capital).



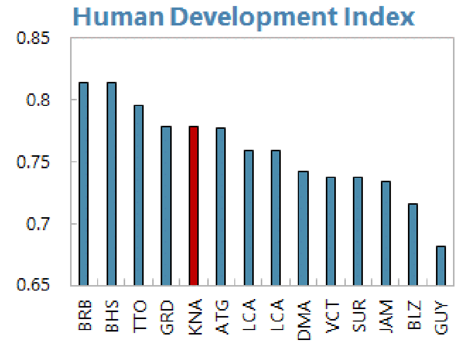
Sources: ECCB authorities; and IMF staff calculations.

Figure 4. St. Kitts and Nevis: Structural Indicators

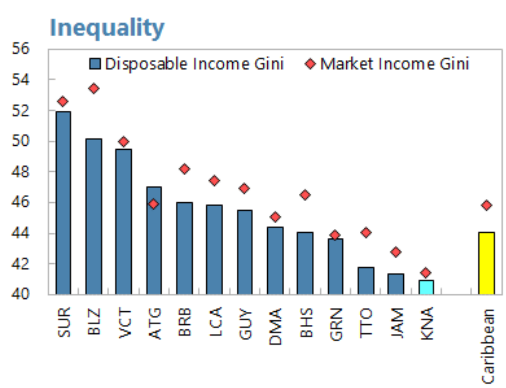
St. Kitts and Nevis has one of the highest GDP per capita, …



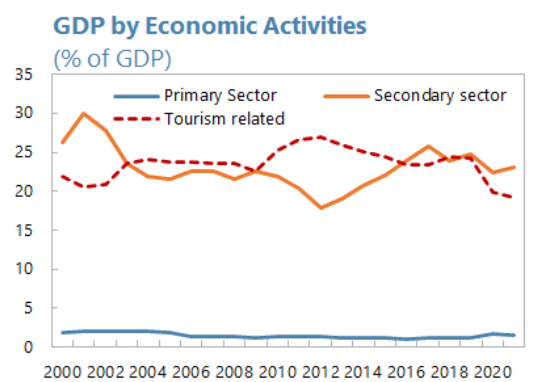
… and human development, …



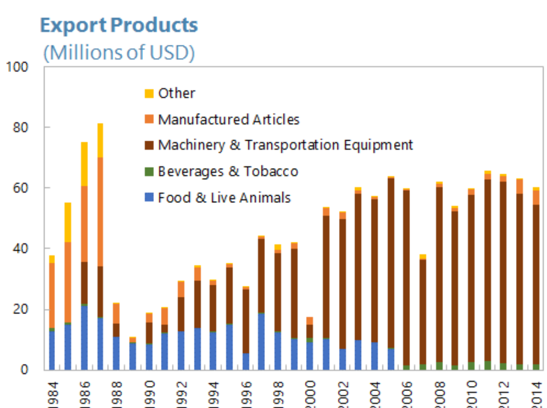
… and lowest inequality in the Caribbean.



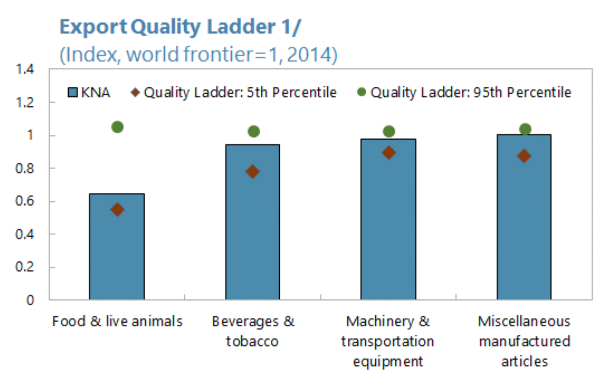
The economy is mainly supported by tourism, construction, and manufacturing sectors.



The export of goods is concentrated in a few categories …



… and has transitioned from low-quality agricultural products to high-quality manufactured product.



1/ The world frontier is defined as the 90th percentile of quality ladder by product category.

Sources: ECCB authorities, national authorities, United Nations Development Program; and IMF staff calculations.

Figure 5. St. Kitts and Nevis: Labor Market Developments

Employments are relatively high in sectors ...

Employment Ranking

	2016	2017	2018	2019	2020	2021
Agriculture	12	12	12	12	12	12
Fishing	15	15	15	15	14	15
Mining	14	15	14	14	15	14
Manufacturing	5	5	4	4	4	6
Utilities	11	11	11	11	11	11
Construction	4	4	6	6	8	7
Trade	3	3	3	3	2	2
Hotels & Restaurants	2	2	2	2	3	3
Transport	6	6	5	5	6	8
Financial Intermediation	9	9	9	8	5	4
Real Estate	8	8	7	7	7	5
Public Administration	1	1	1	1	1	1
Education	10	10	10	10	10	10
Health	13	13	13	13	13	13
Other	7	7	8	9	9	9

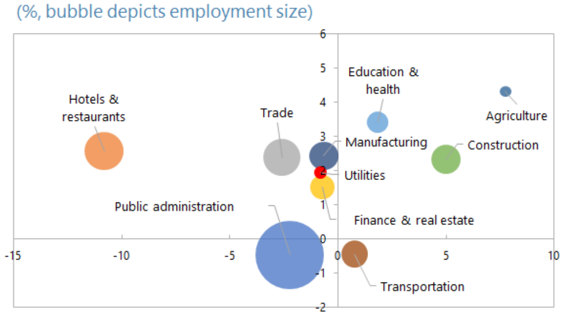
...with relatively low labor productivity.

Labor Productivity Ranking

	2016	2017	2018	2019	2020	2021
Agriculture	9	9	9	9	9	9
Fishing	1	1	1	1	1	1
Mining	4	2	2	2	2	2
Manufacturing	12	12	11	11	11	10
Utilities	10	10	10	10	10	11
Construction	8	8	4	5	3	3
Trade	13	13	13	13	13	14
Hotels & Restaurants	11	11	12	15	14	12
Transport	7	7	8	8	7	5
Financial Intermediation	5	5	6	6	8	8
Real Estate	6	6	7	7	6	7
Public Administration	15	15	15	14	15	15
Education	2	3	3	3	4	4
Health	3	4	5	4	5	6
Other	14	14	14	12	12	13

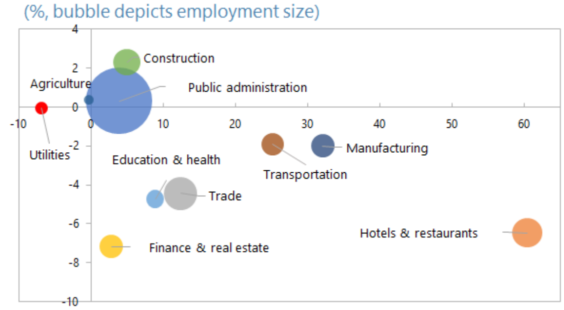
Wage was growing faster than labor productivity in most sectors before the COVID-19 pandemic.

Wage Growth (y) and Labor Productivity Growth (x), Pre-COVID (2013-19)
(%, bubble depicts employment size)



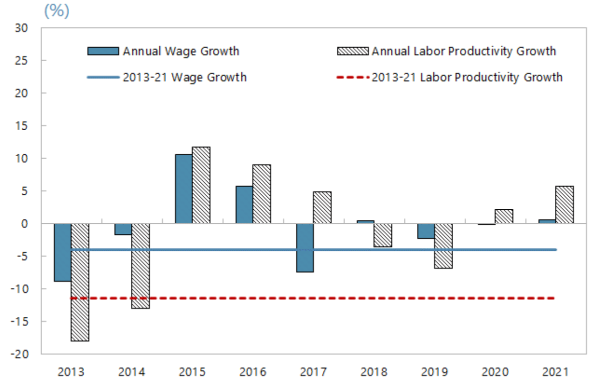
The trend was partially reversed after the pandemic.

Wage Growth (y) and Labor Productivity Growth (x), Post-COVID (2020-21)
(%, bubble depicts employment size)



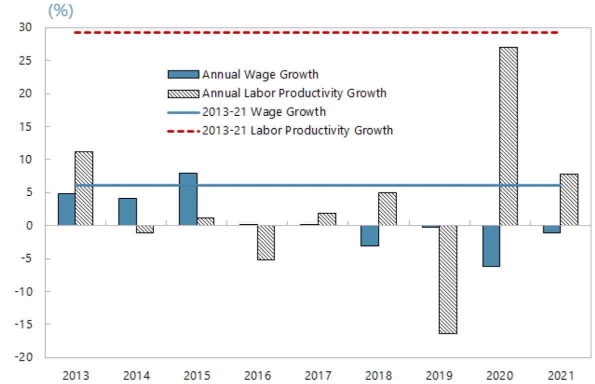
Real wage growth outpaced labor productivity growth in the public sector...

Public Sector Wage and Productivity Growth
(%)



...but lagged labor productivity growth in the private sector over the period of 2012–2021.

Private Sector Wage and Productivity Growth
(%)

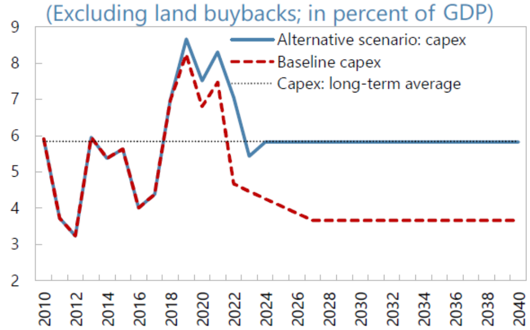


Sources: ECCB authorities, national authorities, Henn et al. (2020); and IMF staff calculations.

Figure 6. St. Kitts and Nevis: Alternative Fiscal Scenario

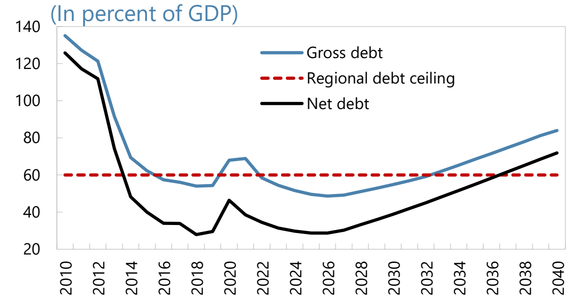
Capital expenditures are assumed to be allocated mostly to resilience and to increase modestly in levels…

Public Capex
(Excluding land buybacks; in percent of GDP)



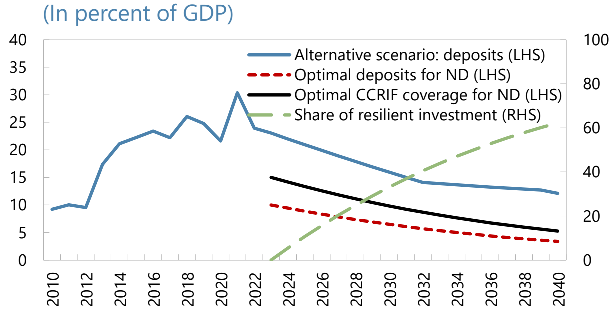
…to keep gross debt below the regional ceiling of 60 percent of GDP.

Alternative Scenario: Gross and Net Debt
(In percent of GDP)



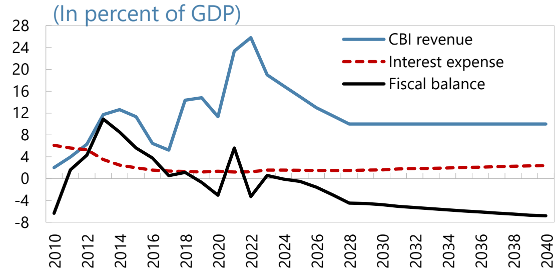
As the share of resilient investment grows over the years, the need to maintain the expensive CCRIF coverage and high deposits diminishes.

Government Deposits and Insurance Coverage with Investment in Resilience
(In percent of GDP)



The reliance on CBI remains high calling for more optimal fiscal policy. On the other hand, if CBI revenue remains high, it should be earmarked for ND preparedness.

Alternative Scenario: CBI Revenue, Interest Expense, and Fiscal Balance
(In percent of GDP)



Sources: National authorities; and IMF staff calculations.

Table 1. St. Kitts and Nevis: Basic Data

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, 2021 est.)	53.5	Health and nutrition	
Rate of growth (percent per year, 2021)	0.66	Calorie intake (per capita a day, 2011)	2,452
Density (per sq. km., 2021)	198.8	Physicians (per 1,000 people, 2018)	2.8
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, 2021)	71.7	Gross domestic product (2021)	
Infant mortality (per thousand live births, 2020)	12.6	(millions of U.S. dollars)	860.8
Under 5 mortality rate (per thousand, 2020)	15.0	(millions of E.C. dollars)	2,324
Adult literacy rate (percent, 2009)	97.8	(US$ per capita)	16,076.7

II. Economic and Financial Indicators, 2019—28

				Est.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	(Annual percentage change, unless otherwise specified)									
National income and prices										
Real GDP (market prices) 1/	4.0	-14.5	-0.9	9.0	4.5	3.8	3.0	2.7	2.7	2.7
Real GDP (factor cost) 1/	4.8	-13.4	-0.1	11.2	5.0	2.5	2.7	2.7	2.7	2.7
Consumer prices, end-of-period	-0.8	-1.2	1.9	3.8	2.6	2.0	2.0	2.0	2.0	2.0
Consumer prices, period average	-0.3	-1.2	1.2	2.7	2.3	2.0	2.0	2.0	2.0	2.0
Real effective exchange rate appreciation (+) (end-of-period)	0.8	-0.9	…	…	…	…	…	…	…	…
Money and credit 2/										
Broad money	5.6	-8.1	8.9	6.9	5.7	5.1	4.9	5.3	6.2	8.2
Change in net foreign assets	6.5	-0.4	9.1	2.5	2.5	2.5	2.4	2.3	2.2	2.9
Net credit to general government	-9.5	-18.4	-4.8	-0.9	-0.6	-0.7	-0.7	0.0	0.9	2.0
Credit to private sector	1.5	1.1	4.1	3.4	3.2	3.0	2.7	2.5	2.5	2.5
Nonperforming loans to total gross loans	24.0	23.5	20.9	22.0	…	…	…	…	…	…
	(In percent of GDP)									
Public sector 3/										
Total revenue and grants	37.4	35.0	50.4	51.5	43.6	41.5	39.1	37.0	35.4	33.8
o/w Tax revenue	18.5	18.8	19.0	19.0	18.7	18.6	18.2	18.1	18.0	17.9
o/w CBI revenue	14.8	11.3	23.3	25.8	19.0	17.0	15.0	13.0	11.5	10.0
Total expenditure and net lending	38.1	38.1	44.8	54.8	43.0	40.9	38.8	37.6	37.1	37.0
Current expenditure	26.1	30.6	36.5	39.9	37.6	35.7	33.8	32.7	32.5	32.3
Capital expenditure and net lending	12.0	7.5	8.3	14.9	5.4	5.2	5.0	4.8	4.6	4.6
Primary balance	0.5	-1.7	6.8	-2.1	2.1	2.1	1.9	1.0	-0.1	-1.6
Overall balance	-0.7	-3.1	5.6	-3.3	0.6	0.5	0.3	-0.5	-1.7	-3.2
Overall balance (excl. land buy back)	3.5	-3.1	5.6	-3.3	0.6	0.5	0.3	-0.5	-1.7	-3.2
Overall balance (less CBI revenue) 4/	-19.2	-21.8	-13.4	-22.3	-18.1	-18.0	-17.9	-18.7	-19.7	-21.1
Total public debt (end-of-period)	54.3	68.0	68.9	58.4	55.3	53.3	51.7	50.9	51.4	53.4
Public debt service (percent of total revenue and grants)	5.4	6.8	4.1	4.6	5.8	6.1	6.2	6.4	6.7	6.6
General government deposits (percent of GDP) 5/	24.8	21.6	30.3	24.0	24.0	24.0	24.0	24.0	24.0	24.0
External sector										
External current account balance	-5.8	-10.9	-5.8	-5.0	-3.6	-2.8	-1.9	-1.3	-1.3	-1.3
Trade balance	-28.4	4.0	-26.2	-31.5	-30.1	-29.6	-29.0	-28.3	-27.2	-26.2
Services, net	24.2	19.4	24.0	29.5	29.7	30.1	30.3	30.3	29.1	28.0
o/w Tourism receipts	32.6	12.1	17.8	18.6	21.5	24.6	26.6	27.4	26.8	26.3
FDI (net)	4.5	0.3	3.3	3.8	5.6	5.4	5.0	4.6	4.3	4.0
External public debt (end-of-period)	12.7	15.2	14.6	9.5	9.3	9.3	9.5	9.8	10.3	10.9
	(In percent of exports of goods and nonfactor services)									
External public debt service	2.8	2.9	0.5	3.0	2.7	2.6	2.5	2.4	2.2	1.9
External public debt (end-of-period)	25.5	38.0	32.1	18.1	17.7	17.7	18.2	19.1	20.7	22.5
Memorandum items										
Net international reserves, end-of-period										
(in millions of U.S. dollars)	346.3	365.4	312.8	250.5	247.1	244.9	243.1	241.4	239.6	251.6
(in percent of broad money)	32.2	35.6	28.0	21.0	19.6	18.4	17.4	16.4	15.4	14.9
Holdings of SDRs, in millions of U.S. dollars	16.8	17.8	28.8	28.8	28.8	28.8	28.8	28.8	28.8	28.8
Nominal GDP at market prices (in millions of EC$)	2,991	2,388	2,324	2,628	2,837	2,973	3,115	3,265	3,421	3,586

Sources: National authorities, ECCB, UNDP, World Bank; and IMF 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 2a. St. Kitts and Nevis: General Government Fiscal Operations, 2019–28 1/
(In millions of Eastern Caribbean dollars)

				Est.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Total revenue	**1095.9**	**797.2**	**1099.2**	**1267.3**	**1167.0**	**1158.5**	**1140.7**	**1127.4**	**1125.3**	**1120.7**
Tax revenue	552.8	448.1	441.8	499.1	531.1	551.7	567.3	591.8	615.5	640.2
Taxes on income	123.1	122.8	129.2	122.2	130.5	135.3	140.2	146.9	154.0	161.3
Taxes on property	14.9	12.3	15.6	17.6	17.7	17.2	16.6	17.4	18.2	19.1
Taxes on domestic goods and consumption	253.8	184.1	175.8	216.1	233.4	244.5	256.2	268.5	281.4	294.9
Taxes on international trade and transactions	161.0	128.9	121.2	143.2	149.5	154.7	154.3	159.0	161.9	164.9
Nontax revenue	543.1	349.1	656.3	768.2	635.9	606.8	573.4	535.6	509.9	480.5
Citizenship by investment (CBI) budgetary receipts	442.6	270.8	542.6	678.2	539.1	505.5	467.3	424.4	393.5	358.6
Other	100.5	78.3	113.8	90.0	96.8	101.4	106.1	111.2	116.4	121.9
Total expenditure and net lending	**1140.8**	**909.4**	**1041.2**	**1439.7**	**1221.4**	**1217.2**	**1208.6**	**1226.8**	**1269.8**	**1325.0**
Current expenditure	781.6	729.9	848.0	1048.8	1067.3	1061.7	1051.9	1069.2	1111.4	1159.0
Wages and salaries	320.9	305.0	329.0	375.6	403.1	422.4	442.6	463.8	486.1	509.4
Goods and services	219.8	205.1	227.0	290.7	291.1	297.7	304.2	310.7	319.1	328.7
of which: CBI due diligence costs	25.8	26.5	31.8	71.9	57.1	53.6	49.5	45.0	41.7	38.0
Interest	35.6	32.4	28.3	32.4	44.2	47.3	49.5	50.8	54.4	56.9
Domestic	26.3	24.0	20.5	25.1	30.0	31.7	32.7	33.1	35.9	37.6
Foreign	9.3	8.5	7.8	7.3	14.2	15.6	16.7	17.7	18.5	19.4
Transfers	205.2	187.3	263.6	350.1	328.9	294.3	255.7	243.8	251.9	264.0
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure 2/	359.2	179.5	193.3	390.9	154.1	155.5	156.7	157.7	158.4	166.0
Land buyback	100.0	0.0	0.0	205.5	0.0	0.0	0.0	0.0	0.0	0.0
Other	259.2	179.5	193.3	185.4	154.1	155.5	156.7	157.7	158.4	166.0
Overall balance (before grants)	-44.9	-112.2	57.9	-172.4	-54.4	-58.7	-67.9	-99.4	-144.5	-204.3
Grants	23.9	39.2	72.4	85.7	71.0	74.4	77.9	81.7	85.6	89.7
Overall balance (after grants)	**-21.0**	**-73.0**	**130.3**	**-86.7**	**16.6**	**15.7**	**10.1**	**-17.8**	**-58.9**	**-114.6**
Overall balance (ex. land buyback)	79.0	-73.0	130.3	118.8	16.6	15.7	10.1	-17.8	-58.9	-114.6
Overall balance (ex. land buyback, CBI net receipts)	**-337.8**	**-317.3**	**-380.4**	**-487.5**	**-465.4**	**-436.2**	**-407.7**	**-397.2**	**-410.7**	**-435.2**
Primary balance	14.7	-40.5	158.7	-54.3	60.8	63.0	59.5	33.0	-4.5	-57.7
Primary balance (ex. land buyback, CBI net receipts)	**-302.2**	**-284.8**	**-352.1**	**-455.1**	**-421.2**	**-388.9**	**-358.3**	**-346.4**	**-356.3**	**-378.2**
Financing	**-79.0**	**73.0**	**-130.3**	**86.7**	**-16.6**	**-15.7**	**-10.1**	**17.8**	**58.9**	**114.6**
Disbursements	3.5	1.8	43.0	67.3	88.9	74.7	101.6	136.9	207.3	281.2
Amortization	41.7	41.4	56.7	54.6	55.2	57.9	77.6	83.3	110.9	127.2
Government deposits, change (-)	16.0	226.0	-189.6	76.1	-50.3	-32.5	-34.0	-35.8	-37.5	-39.3
Statistical discrepancy	-56.9	-113.5	73.1	-2.1	0.0	0.0	0.0	0.0	0.0	0.0
Public sector debt (end of period)	**1,625.5**	**1,623.0**	**1,600.3**	**1,534.9**	**1,568.6**	**1,585.4**	**1,609.4**	**1,663.0**	**1,759.4**	**1,913.3**
Of which										
Central government	1,132	1,109	1,092	1,026	1,060	1,077	1,101	1,154	1,251	1,405
Domestic	776	769	769	793	814	818	821	850	914	1,031
External	356	340	323	233	246	259	279	304	337	374
Public enterprises 3/	494	514	509	509	509	509	509	509	509	509
Government deposits	**742**	**516**	**705**	**629**	**680**	**712**	**746**	**782**	**819**	**859**
Net debt	**884**	**1,107**	**895**	**906**	**889**	**873**	**863**	**881**	**940**	**1,055**

Sources: National authorities; and IMF staff estimates.

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

2/ Includes buybacks 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 2b. St. Kitts and Nevis: Federal Government Fiscal Operations, 2019–28[1/]

(In percent of GDP)

				Est.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Total revenue	**36.6**	**33.4**	**47.3**	**48.2**	**41.1**	**39.0**	**36.6**	**34.5**	**32.9**	**31.3**
Tax revenue	18.5	18.8	19.0	19.0	18.7	18.6	18.2	18.1	18.0	17.9
Taxes on income	4.1	5.1	5.6	4.7	4.6	4.6	4.5	4.5	4.5	4.5
Taxes on property	0.5	0.5	0.7	0.7	0.6	0.6	0.5	0.5	0.5	0.5
Taxes on domestic goods and consumption	8.5	7.7	7.6	8.2	8.2	8.2	8.2	8.2	8.2	8.2
Taxes on international trade and transactions	5.4	5.4	5.2	5.5	5.3	5.2	5.0	4.9	4.7	4.6
Nontax revenue	18.2	14.6	28.2	29.2	22.4	20.4	18.4	16.4	14.9	13.4
Citizenship by investment (CBI) budgetary receipts	14.8	11.3	23.3	25.8	19.0	17.0	15.0	13.0	11.5	10.0
Other	3.4	3.3	4.9	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Total expenditure and net lending	**38.1**	**38.1**	**44.8**	**54.8**	**43.0**	**40.9**	**38.8**	**37.6**	**37.1**	**37.0**
Current expenditure	26.1	30.6	36.5	39.9	37.6	35.7	33.8	32.7	32.5	32.3
Wages and salaries	10.7	12.8	14.2	14.3	14.2	14.2	14.2	14.2	14.2	14.2
Goods and services	7.3	8.6	9.8	11.1	10.3	10.0	9.8	9.5	9.3	9.2
of which: CBI due diligence costs	0.9	1.1	1.4	2.7	2.0	1.8	1.6	1.4	1.2	1.1
Interest	1.2	1.4	1.2	1.2	1.6	1.6	1.6	1.6	1.6	1.6
Domestic	0.9	1.0	0.9	1.0	1.1	1.1	1.1	1.0	1.0	1.0
Foreign	0.3	0.4	0.3	0.3	0.5	0.5	0.5	0.5	0.5	0.5
Transfers	6.9	7.8	11.3	13.3	11.6	9.9	8.2	7.5	7.4	7.4
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure 2/	12.0	7.5	8.3	14.9	5.4	5.2	5.0	4.8	4.6	4.6
Land buyback	3.3	0.0	0.0	7.8	0.0	0.0	0.0	0.0	0.0	0.0
Other	8.7	7.5	8.3	7.1	5.4	5.2	5.0	4.8	4.6	4.6
Overall balance (before grants)	-1.5	-4.7	2.5	-6.6	-1.9	-2.0	-2.2	-3.0	-4.2	-5.7
Grants	0.8	1.6	3.1	3.3	2.5	2.5	2.5	2.5	2.5	2.5
Overall balance (after grants)	**-0.7**	**-3.1**	**5.6**	**-3.3**	**0.6**	**0.5**	**0.3**	**-0.5**	**-1.7**	**-3.2**
Overall balance (ex. land buyback)	2.6	-3.1	5.6	4.5	0.6	0.5	0.3	-0.5	-1.7	-3.2
Overall balance (ex. land buyback, CBI net receipts)	**-11.3**	**-13.3**	**-16.4**	**-18.6**	**-16.4**	**-14.7**	**-13.1**	**-12.2**	**-12.0**	**-12.1**
Primary balance	0.5	-1.7	6.8	-2.1	2.1	2.1	1.9	1.0	-0.1	-1.6
Primary balance (ex. land buyback, CBI net receipts)	**-10.1**	**-11.9**	**-15.1**	**-17.3**	**-14.8**	**-13.1**	**-11.5**	**-10.6**	**-10.4**	**-10.5**
Financing	**-2.6**	**3.1**	**-5.6**	**3.3**	**-0.6**	**-0.5**	**-0.3**	**0.5**	**1.7**	**3.2**
Disbursements	0.1	0.1	1.8	2.6	3.1	2.5	3.3	4.2	6.1	7.8
Amortization	1.4	1.7	2.4	2.1	1.9	1.9	2.5	2.6	3.2	3.5
Government deposits, change (-)	0.5	9.5	-8.2	2.9	-1.8	-1.1	-1.1	-1.1	-1.1	-1.1
Statistical discrepancy	-1.9	-4.8	3.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Public sector debt (end of period)	**54.3**	**68.0**	**68.9**	**58.4**	**55.3**	**53.3**	**51.7**	**50.9**	**51.4**	**53.4**
Of which										
Central government	37.8	46.4	47.0	39.1	37.4	36.2	35.3	35.4	36.6	39.2
Domestic	25.9	32.2	33.1	30.2	28.7	27.5	26.4	26.0	26.7	28.7
External	11.9	14.2	13.9	8.9	8.7	8.7	9.0	9.3	9.9	10.4
Public enterprises 3/	16.5	21.5	21.9	19.4	17.9	17.1	16.3	15.6	14.9	14.2
Government deposits	**24.8**	**21.6**	**30.3**	**24.0**	**24.0**	**24.0**	**24.0**	**24.0**	**24.0**	**24.0**
Net debt	**29.5**	**46.4**	**38.5**	**34.5**	**31.3**	**29.4**	**27.7**	**27.0**	**27.5**	**29.4**

Sources: National authorities; and IMF staff estimates.

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

2/ Includes buybacks 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 3. St. Kitts and Nevis: Balance of Payments, 2019–28[1/]

				Est.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
				(In millions of Eastern Caribbean dollars)						
Current account	**-173.3**	**-259.9**	**-135.8**	**-132.4**	**-102.6**	**-82.0**	**-58.8**	**-41.2**	**-43.0**	**-45.1**
Trade balance	-850.9	-668.5	-610.0	-828.2	-854.0	-881.0	-902.6	-925.0	-932.0	-939.2
Exports, f.o.b.	93.5	74.0	79.7	57.6	61.4	62.7	63.7	64.8	65.8	66.9
Imports f.o.b.	-944.4	-742.5	-689.7	-885.9	-915.5	-943.7	-966.3	-989.7	-997.8	-1006.1
o/w Mineral fuel	-106.8	-67.1	-73.9	-107.5	-118.3	-127.7	-135.4	-142.2	-149.3	-156.8
Services and transfers (net)	677.6	408.6	474.1	695.9	751.5	799.0	843.8	883.8	889.0	894.1
Services (net)	722.7	462.6	557.3	775.1	842.1	896.3	945.1	988.1	995.9	1004.0
Services (receipts)	1401.2	881.7	980.7	1322.0	1419.3	1495.6	1562.3	1622.0	1647.0	1672.6
o/w Tourism receipts	976.5	289.3	413.9	488.3	610.3	732.4	827.6	893.8	917.9	942.7
o/w Citizenship-by-investment budgetary fees	442.6	270.8	542.6	678.2	539.1	505.5	467.3	424.4	393.5	358.6
Services (payments)	-678.5	-419.1	-423.4	-546.9	-577.1	-599.3	-617.2	-633.9	-651.0	-668.6
Factor income (net)	-45.2	-65.3	-97.2	-82.8	-96.2	-102.7	-106.4	-109.9	-113.1	-116.5
Transfers (net)	0.1	11.4	14.0	3.6	5.5	5.3	5.1	5.6	6.1	6.7
Capital account	**189.0**	**124.1**	**212.5**	**172.1**	**163.6**	**160.2**	**156.6**	**152.9**	**149.0**	**144.9**
Financial account	**104.7**	**-135.7**	**13.9**	**18.8**	**61.0**	**78.2**	**97.9**	**111.7**	**106.0**	**99.8**
Capital and financial account	**293.6**	**-11.7**	**226.4**	**190.9**	**224.6**	**238.4**	**254.5**	**264.6**	**255.0**	**244.7**
Official capital	-8.6	2.6	48.1	-11.6	25.0	22.7	30.2	32.9	47.9	56.8
Capital transfers (net)	22.5	16.9	14.1	15.5	10.1	6.7	3.2	-0.6	-4.5	-8.6
Long-term borrowing (net)	-31.2	-14.3	34.0	-27.1	14.9	16.0	27.0	33.5	52.3	65.4
Disbursements	0.0	0.0	34.0	0.0	40.2	40.8	50.7	55.7	71.1	79.8
Amortization 1/	-31.2	-14.3	0.0	-27.1	-25.3	-24.8	-23.6	-22.2	-18.7	-14.4
Private capital	302.3	-14.3	178.2	202.5	199.6	215.7	224.3	231.7	207.1	187.9
Capital transfers (net)	166.4	107.2	198.3	156.6	153.5	153.5	153.5	153.5	153.5	153.5
Foreign direct investment (net)	135.6	7.3	77.0	100.0	159.4	159.3	156.5	151.6	148.4	143.5
Portfolio investment (net)	-283.7	-81.1	55.1	44.1	30.2	19.2	10.4	-71.7	-57.4	-45.9
Commercial bank NFA accumulation (+increase)	15.4	39.7	-393.2	-242.7	-90.2	-90.2	-90.2	-90.2	-90.2	-90.2
Reserve assets (+increase/-decrease)	1.0	-28.0	96.6	153.6	9.1	6.2	4.6	4.8	4.8	3.8
Other (net)	267.6	-59.5	144.4	-9.0	-62.4	-32.3	-10.5	83.8	48.0	23.1
Errors and omissions	**89.0**	**0.1**	**-62.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
IMF reserve liabilities (purchase = +)	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	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	-5.8	-10.9	-5.8	-5.0	-3.6	-2.8	-1.9	-1.3	-1.3	-1.3
Current account, excluding CBI receipts	-20.6	-22.2	-29.2	-30.8	-22.6	-19.8	-16.9	-14.3	-12.8	-11.3
Exports of goods and nonfactor services	50.0	40.0	45.6	52.5	52.2	52.4	52.2	51.7	50.1	48.5
Merchandise exports	3.1	3.1	3.4	2.2	2.2	2.1	2.0	2.0	1.9	1.9
Nonfactor services	46.8	36.9	42.2	50.3	50.0	50.3	50.1	49.7	48.1	46.6
o/w Tourism receipts	32.6	12.1	17.8	18.6	21.5	24.6	26.6	27.4	26.8	26.3
Imports of goods and nonfactor services	-54.3	-48.6	-47.9	-54.5	-52.6	-51.9	-50.8	-49.7	-48.2	-46.7
Merchandise imports	-31.6	-31.1	-29.7	-33.7	-32.3	-31.7	-31.0	-30.3	-29.2	-28.1
Nonfactor services	-22.7	-17.5	-18.2	-20.8	-20.3	-20.2	-19.8	-19.4	-19.0	-18.6
Foreign direct investment (net)	4.5	0.3	3.3	3.8	5.6	5.4	5.0	4.6	4.3	4.0
External public debt	12.7	15.2	14.6	9.5	9.3	9.3	9.5	9.8	10.3	10.9
					(Annual percentage change)					
Merchandise exports	30.6	-20.8	7.6	-27.7	6.6	2.0	1.7	1.6	1.6	1.6
Tourism receipts	-1.1	-70.4	43.1	18.0	25.0	20.0	13.0	8.0	2.7	2.7
Merchandise imports	-1.5	-21.4	-7.1	28.5	3.3	3.1	2.4	2.4	0.8	0.8
				(In percent of exports of goods and nonfactor services)						
External public debt	25.5	38.0	32.1	18.1	17.7	17.7	18.2	19.1	20.7	22.5
External debt service	2.8	2.9	0.5	3.0	2.7	2.6	2.5	2.4	2.2	1.9
o/w Interest	0.6	1.3	0.5	1.0	0.9	1.0	1.0	1.0	1.0	1.1
o/w Principal	2.1	1.6	0.0	2.0	1.7	1.6	1.5	1.4	1.1	0.9
					(In millions of US dollars)					
ECCB imputed reserves	346.3	365.4	312.8	250.5	247.1	244.9	243.1	241.4	239.6	251.6
in months of imports of goods and services	9.7	10.6	7.1	5.4	5.2	5.0	4.9	4.7	4.6	4.8

Sources: ECCB; and IMF staff estimates and projections.

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

Table 4. St. Kitts and Nevis: Monetary Survey, 2019–28[1/]

				Est.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Net foreign assets	**2530.9**	**2542.9**	**2794.2**	**2868.7**	**2949.7**	**3033.7**	**3119.3**	**3204.6**	**3290.0**	**3412.6**
ECCB imputed reserves	934.9	986.6	844.7	676.4	667.3	661.1	656.5	651.7	646.9	679.3
Commercial banks	1596.0	1556.3	1949.6	2192.3	2282.5	2372.6	2462.8	2552.9	2643.1	2733.3
Net domestic assets	**369.9**	**228.6**	**222.8**	**368.5**	**460.1**	**551.5**	**643.1**	**759.0**	**918.5**	**1140.4**
Net credit to the public sector	-1278.8	-1088.2	-1198.4	-1206.6	-1223.8	-1239.2	-1251.8	-1236.5	-1182.3	-1070.8
Net credit to central government	-439.3	-240.9	-375.3	-401.0	-420.3	-442.8	-466.4	-466.5	-432.7	-347.3
Net credit to St. Kitts	-685.7	-497.1	-643.0	-670.3	-703.2	-736.9	-767.5	-771.9	-740.1	-660.1
Net credit to Nevis	246.4	256.2	267.7	269.3	282.9	294.1	301.0	305.4	307.4	312.8
Net credit to non-financial public sector	-839.4	-847.3	-823.1	-805.6	-803.5	-796.4	-785.4	-769.9	-749.6	-723.5
Net credit to nonbank financial institutions	...	1673.8	1802.7	1954.5	2063.2	2170.0	2274.2	2374.7	2480.1	2590.5
Credit to the private sector	1528.5	1467.9	1580.6	1683.2	1785.3	1886.1	1984.6	2079.9	2179.7	2284.3
Net other assets	120.2	-357.0	-381.5	-379.3	-379.3	-379.3	-379.3	-379.3	-379.3	-379.3
Broad money (M2)	**2900.9**	**2771.6**	**3017.2**	**3225.5**	**3409.8**	**3585.2**	**3762.4**	**3963.6**	**4208.5**	**4553.0**
Money	634.5	589.5	675.0	945.8	999.9	1051.3	1103.3	1162.3	1234.1	1335.1
Currency in circulation	210.7	220.8	229.0	240.1	259.3	271.7	284.7	298.3	312.6	327.6
Demand deposits 2/	423.8	368.7	445.9	715.2	772.4	809.3	848.0	888.7	931.4	976.1
Quasi-money	2266.4	2182.1	2342.2	2279.7	2409.9	2533.9	2659.1	2801.3	2974.4	3217.9
Savings deposits	1084.6	1147.6	1189.9	1046.5	1130.1	1184.1	1240.7	1300.3	1362.7	1428.1
Time deposits	495.0	486.4	531.7	511.4	552.2	578.6	606.3	635.4	665.9	697.8
Foreign currency deposits	686.9	548.1	620.5	733.9	727.7	771.1	812.1	865.7	945.9	1092.0
(Percentage change relative to broad money at beginning of period)										
Net foreign assets	5.7	0.4	9.1	2.5	2.5	2.5	2.4	2.3	2.2	2.9
Net domestic assets	-0.6	-4.9	-0.2	4.8	2.8	2.7	2.6	3.1	4.0	5.3
Net credit to the public sector	5.5	6.6	-4.0	-0.3	-0.5	-0.5	-0.4	0.4	1.4	2.6
Net credit to central government	2.9	6.8	-4.8	-0.9	-0.6	-0.7	-0.7	0.0	0.9	2.0
Net credit to non-financial public sector	2.7	-0.3	0.9	0.6	0.1	0.2	0.3	0.4	0.5	0.6
Net credit to nonbank financial institutions	...	...	4.7	5.0	3.4	3.1	2.9	2.7	2.7	2.6
Credit to the private sector	0.8	-2.1	4.1	3.4	3.2	3.0	2.7	2.5	2.5	2.5
Net other assets	-6.9	-16.4	-0.9	0.1	0.0	0.0	0.0	0.0	0.0	0.0
(Annual percentage change)										
Broad money (M2)	5.1	-4.5	8.9	6.9	5.7	5.1	4.9	5.3	6.2	8.2
Money	14.6	-7.1	14.5	40.1	5.7	5.1	4.9	5.3	6.2	8.2
Currency in circulation	2.5	4.8	3.7	4.8	8.0	4.8	4.8	4.8	4.8	4.8
Demand deposits 2/	21.7	-13.0	20.9	60.4	8.0	4.8	4.8	4.8	4.8	4.8
Quasi-money	2.7	-3.7	7.3	-2.7	5.7	5.1	4.9	5.3	6.2	8.2
Savings deposits	6.6	5.8	3.7	-12.1	8.0	4.8	4.8	4.8	4.8	4.8
Time deposits	-3.1	-1.7	9.3	-3.8	8.0	4.8	4.8	4.8	4.8	4.8
Foreign currency deposits	1.4	-20.2	13.2	18.3	-0.8	6.0	5.3	6.6	9.3	15.4
Credit to the private sector (in nominal terms)	1.5	-4.0	7.7	6.5	6.1	5.6	5.2	4.8	4.8	4.8
Credit to the private sector (in real terms)	1.9	-2.8	6.4	3.7	3.6	3.5	3.1	2.7	2.7	2.7
Memorandum items:										
Income velocity of money	4.7	4.1	3.4	2.8	2.8	2.8	2.8	2.8	2.8	2.7
Income velocity of broad money	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Private sector credit/GDP (in percent)	51.1	61.5	68.0	64.1	62.9	63.4	63.7	63.7	63.7	63.7
Foreign currency deposits/GDP (in percent)	23.0	22.9	26.7	27.9	25.6	25.9	26.1	26.5	27.6	30.5
Central government deposits (EC$ million) 3/	741.8	515.7	705.4	629.3	679.6	712.1	746.1	781.9	819.4	858.8
Central government deposits (percent of GDP) 3/	24.8	21.6	30.3	24.0	24.0	24.0	24.0	24.0	24.0	24.0
ECCB imputed reserves	31.3	41.3	36.3	25.7	23.5	22.2	21.1	20.0	18.9	18.9

Sources: ECCB; and IMF staff estimates and projections.

1/ There have been structural changes in the monetary and financial statistics since January 2020. This affects year on year comparisons with 2019.

2/ Includes EC$ bank cheques.

3/ Includes only central and local government deposits. Includes deposits at the ECCB.

Table 5. St. Kitts and Nevis: Selected Financial Soundness Indicators, 2018–22[1/]

(In percent)

	2018	2019	2020	2021	2022
Banking Sector					
Private sector credit growth (y/y)	1.4	1.5	-4.0	7.7	6.5
Capital adequacy and profitability					
Regulatory capital to risk-weighted assets (CAR)	17.4	17.8	24.5	22.1	18.7
Regulatory Tier 1 capital to risk-weighted assets	18.2	17.1	17.2	16.5	11.8
Return on average assets (ROA)	1.3	0.8	2.6	1.9	-4.2
Net-interest income to gross income	45.4	42.5	13.8	19.0	...
Non-interest expenses to gross income	55.8	71.6	58.7	53.0	...
Liquidity					
Liquid assets to total assets	60.2	55.7	58.4	51.6	51.9
Net liquid assets to deposits	65.6	62.2	76.7	60.4	60.8
Loan-to-deposit ratio	43.2	44.4	52.5	50.8	52.0
Asset quality					
Nonperforming loans to total gross loans	24.7	24.0	23.5	20.9	22.0
Total provisions to nonperforming loans	21.5	24.7	30.8	58.9	54.7
Credit Unions					
Credit growth (y/y)	10.4	8.7	9.8	5.9	4.0
Capital adequacy and profitability					
Total capital to assets 2/	22.5	17.8	17.9	18.8	20.5
Institutional capital to assets	11.8	11.5	11.6	11.8	10.5
Return on assets (ROA)	1.5	1.3	1.6	1.3	0.9
Net-interest income to gross income	84.6	82.4	80.9	82.6	85.7
Non-interest expenses to gross income	62.7	63.4	57.7	77.5	65.5
Liquidity					
Liquid assets to total assets	24.4	23.2	27.0	18.4	18.4
Net liquid assets to deposits	30.7	29.2	33.9	32.9	36.9
Loan-to-deposit ratio	89.3	87.4	83.6	87.7	80.9
Asset quality					
Delinquent loans to total gross loans	8.5	8.0	8.3	...	12.5
Nonperforming loans (>90 days past due) to total gross loans	6.1	5.9	5.8	5.5	6.4
Total provisions to nonperforming loans	65.7	63.5	57.3	63.0	59.3

Sources: FSRC, ECCB; and IMF staff calculations.
1/ Limited available data for banking sector and credit unions for 2021-22.
2/ Institutional capital and non-withdrawable member shares.

Table 6. St. Kitts and Nevis: Indicators of External and Financial Vulnerability, 2018–22[1/]
(12-month percentage change, unless otherwise specified)

	2018	2019	2020	2021	2022
External indicators					
Merchandise exports	-9.1	30.6	-20.8	7.6	-27.7
Merchandise imports	6.8	-1.5	-21.4	-7.1	28.5
Tourism earnings	3.9	-1.1	-70.4	43.1	18.0
Current account balance (percent of GDP)	-7.2	-5.8	-10.9	-5.8	-5.0
Capital and financial account balance (percent of GDP)	6.4	2.8	12.0	4.4	-0.8
Of which					
Foreign direct investment	1.1	4.5	0.3	3.3	3.8
Imputed net international reserves					
In millions of U.S. dollars	355.3	346.3	365.4	312.8	250.5
In percent of broad money	33.6	31.0	35.6	28.0	22.5
Commercial banks' net foreign assets (millions of U. S. dollars)	524.1	591.1	576.4	722.1	708.1
External public debt (percent of GDP)	13.8	12.7	15.2	14.6	9.5
External debt service (in percent of exports of goods and services)	2.7	2.8	2.9	0.5	3.0
Interest	0.7	0.6	1.3	0.5	1.0
Principal	2.0	2.1	1.6	0.0	2.0
Nominal exchange rate (E.C. dollars per U.S. dollar, end period)	2.7	2.7	2.7	3.7	4.7
Real effective exchange rate appreciation (+), end period	2.3	0.8	-0.9	...	...
Financial indicators 2/					
Broad money	-1.2	5.6	-8.1	8.9	-0.4
Credit to the private sector	1.6	1.5	1.1	7.7	6.2
Nonperforming loans to total assets of banks (percent)	24.7	24.0	23.5	20.9	22.0
Liquid assets/total assets (percent)	60.2	55.7	58.4	51.6	51.9
Liquid assets/current liabilities (percent)	65.6	62.2	76.7	60.4	60.8
Ratio of banks' before-tax profits to average assets (percent)	1.3	0.8	2.6	1.9	-4.2

Sources: ECCB, Ministry of Finance; and IMF staff estimates.

1/ Limited available data for indicators for 2021-22.

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

Table 7. St. Kitts and Nevis: External Financing Requirement and Sources, 2018–28
(In millions of U.S. dollars)

					Est.	Proj.					
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Gross financing requirement	**98.0**	**-29.4**	**119.2**	**37.0**	**51.7**	**44.4**	**37.8**	**30.2**	**-4.7**	**13.7**	**27.0**
Current account deficit	77.4	64.2	96.3	50.3	49.0	38.0	30.4	21.8	15.3	15.9	16.7
Amortization	22.3	-93.2	12.6	22.5	59.6	9.8	9.7	10.1	-18.1	-0.4	11.8
Official (public sector and central government)	11.6	11.6	5.3	0.0	10.0	9.4	9.2	8.7	8.2	6.9	5.3
Private sector (net)	10.7	-104.8	7.3	22.5	49.5	0.4	0.5	1.4	-26.3	-7.4	6.4
Commercial banks	-13.5	-5.7	-14.7	145.6	89.9	33.4	33.4	33.4	33.4	33.4	33.4
Other private	24.2	-99.1	22.0	-123.2	-40.4	-33.0	-32.9	-32.0	-59.7	-40.8	-27.0
Reserve accumulation (+ increase: - decrease)	-1.7	-0.4	10.4	-35.8	-56.9	-3.4	-2.3	-1.7	-1.8	-1.8	-1.4
Sources of financing	**55.5**	**15.1**	**18.6**	**65.5**	**66.3**	**89.6**	**95.7**	**102.7**	**78.1**	**92.2**	**101.0**
Capital grants and transfers	52.8	70.0	46.0	64.6	56.3	60.6	59.3	58.0	56.6	55.2	53.7
Foreign Direct Investment (net)	11.5	50.2	2.7	55.6	63.8	59.0	59.0	58.0	56.1	55.0	53.1
Net inflow of equity and other capital	-8.8	-105.1	-30.0	-67.2	-53.8	-44.9	-37.8	-32.1	-55.3	-44.2	-35.4
New borrowing	0.0	0.0	0.0	12.6	0.0	14.9	15.1	18.8	20.6	26.3	29.6
of which: public sector	0.0	0.0	0.0	12.6	0.0	14.9	15.1	18.8	20.6	26.3	29.6
Errors and omissions	6.8	33.0	0.0	0.0	0.0	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	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.4**	**0.7**	**0.7**	**1.1**	**1.1**	**1.5**
IMF net disbursement	0.0	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/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest due	0.0	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	0.4	0.7	0.7	1.1	1.1	1.5

Sources: National authorities, ECCB; and IMF 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. Risk Assessment Matrix[1]

Risks	Likelihood	Impact	Policy Response
Conjunctural Risks			
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	**High**	**Medium** **ST**	Diversify tourism revenues. Increase the linkage between tourism and other sectors. Vigilantly monitor the financial sector development in coordination with ECCB.
Social discontent. Supply shocks, high inflation, real wage drops, and spillovers from crises in other countries worsen inequality, trigger social unrest, and give rise to financing pressures and damaging populist policies with possible spillovers to other EMDEs. This exacerbates imbalances, slows growth, and triggers market repricing.	**High**	**Medium** **ST**	Provide temporary and targeted support to the vulnerable. Strengthen the labor market and provide more diversified and higher-quality job opportunities.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation. **EMDEs:** A new bout of global financial tightening, possibly combined with volatile commodity prices, leads to spiking risk premia, debt distress, widening of external imbalances, fiscal pressures, and sudden stops.	**Medium**	**High** **ST, MT**	Enhance competitiveness to support economic recovery. Diversify tourism revenues. Increase the linkage between tourism and other sectors. Vigilantly monitor the financial sector development in coordination with ECCB.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	**Medium**	**Medium** **MT**	Provide temporary and targeted transfers to the vulnerable. Allow a gradual pass-through of international prices and phase out generalized subsidies. Accelerate transition to renewable energy sources.
Monetary policy miscalibration. Amid high economic uncertainty and volatility, major central banks slow monetary policy tightening or pivot to loosen monetary policy stance prematurely, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets.	**Medium**	**Medium** **ST**	Provide temporary and targeted support to the vulnerable. Strengthen the fiscal and communicate credible medium-term fiscal plan.
Systemic financial instability. Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing markets dislocations and adverse cross-border spillovers.	**Medium**	**Medium** **ST**	Monitor asset quality and ensure adequate loan loss provisioning. Vigilantly monitor the financial sector development in coordination with ECCB.

[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 scenarios 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.

Structural risks			
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	**High**	**Medium** **MT**	Enhance international cooperation and competitiveness to support economic recovery and cross border collaboration.
Cyberthreats. Cyberattacks on critical domestic and/or international physical or digital infrastructure (including digital currency and crypto ecosystems) trigger financial and economic instability.	**Medium**	**Medium** **MT**	Enhance digital security in public and private platforms.
Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth.	**Medium**	**Medium** **ST**	Implement national adaptation plans with investment in structural and financial resilience, and appropriate ex ante financing.
Domestic risks			
Lower than expected CBI revenue. Pressure from EU to end Citizenship by Investment Program or face visa restrictions, leaving the program unattractive.	**Medium**	**Medium** **MT**	Mobilize revenue from alternative sources.
Financial sector weakness. Higher NPLs and low capital buffer impairs credit intermediation and dampens growth.	**Medium**	**Medium** **ST**	Monitor asset quality and ensure adequate loan loss provisioning.

Annex II. Progress on 2021 Article IV Policy Recommendations

Recommendations	Policy Actions
Growth Agenda	
Improve **business environment.**	Ongoing. The 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 authorities are improving the access and delivery of education and TVET. They recognize the need for a better designed STEP with a graduation period to encourage private sector employment upon graduation.
Fiscal Sector	
Establish a clear action plan and timetable with concrete milestones to divest lands under **the debt-land-swap** arrangement.	Ongoing. The previous administration made a substantial repurchase of land (8 percent of GDP) in 2022.
Adopt a **medium-term fiscal framework** with a zero-primary balance target, net of CBI receipts and SIDF grants.	Ongoing. The 2023 budget includes medium-term fiscal projections until 2025. The authorities agree with the need to reduce reliance on CBI.
Broadening the tax base (including through streamlining tax incentives) and **containing spending** to achieve the recommended medium-term fiscal target.	Ongoing. The authorities agree with recommendations and have requested IMF TA on rationalizing tax incentives.
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, the authorities have put forward a plan for a SWF to lodge some CBI revenue, finance investment in resilience, and provide cushion against future shocks, including ND. The authorities requested a new TA in this area.
Financial Sector	
Swiftly address obstacles to **NPL resolution** to preserve financial stability and support credit and growth.	Ongoing. ECAMC has been operationalized, but its NPL purchases have been limited partly because of funding constraints. Modernizing foreclosure legislation remains pending. Despite some recent progress, the stock of pre-pandemic NPLs 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 4th 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 III. External Sector Assessment

Overall Assessment: *In 2022, St. Kitts and Nevis external position was moderately weaker than the level consistent with fundamentals and desirable policies. Large tourism loss led to a sizable current account deterioration in 2020. But the deficit narrowed during 2021–2022 supported by tourism recovery and is expected to continue to improve in the medium term as the economy recovers. Structural policies that strengthen competitiveness are critical for a sustainable external sector in the long run.*

Potential Policy Responses: *External sustainability is not and has not been a significant concern for St. Kitts and Nevis because external liabilities are mostly in the form of FDI inflows. As recovery takes hold, efforts to ensure fiscal sustainability should continue. Furthermore, structural reforms geared toward improving competitiveness should be advanced.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (IIP) deficit decreased from minus 90.92 percent of GDP in 2021 to minus 83.21 percent of GDP in 2022. On the asset side, portfolio investment (mostly equity and investment fund shares) and other investment (mostly currency and deposits), were the biggest assets, at 75.94 percent and 72.66 percent of the NIIP, respectively. On the liability side, FDI and other investment (mostly currency and deposits) were the largest liabilities, at 209.03 and 83.52 percent of NIIP, respectively. Most of the external debt is in the form of other investment liabilities, particularly currency and deposits; general government loans; and trade credits and advances (87.67 percent of other investment).

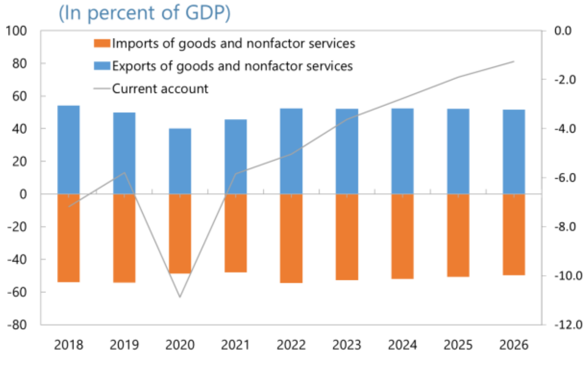
Assessment. The large share of FDI in St. Kitts and Nevis' liabilities mitigate potential risks. The NIIP in 2022 does not constitute a significant concern for external debt sustainability and the expected improvement in the current account will likely improve the NIIP over time.

2022 (% GDP)	NIIP: -83.21	Gross Assets: 164.84	Debt Assets: 128.78	Gross Liab.: -248.05	Debt Liab.: -212.03

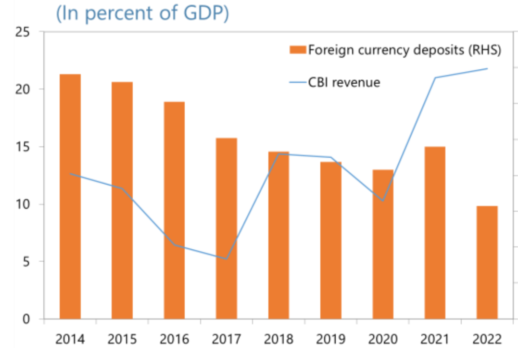
Current Account

Background. According to preliminary ECCB and staff estimates, the current account deficit improved in 2022, from 5.8 percent of GDP in 2021 to 5 percent of GDP in 2022. This was the result of an increase in exports of services and CBI receipts, which was partly offset by higher import of goods.

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



CBI Revenue and Foreign Currency Deposits
(In percent of GDP)



Sources: ECCB; and IMF staff calculations.

Assessment. The external position was moderately weaker than the level consistent with fundamentals and desirable policies.[1] The current account deficit 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 is expected to improve following the normalization of tourism and economic activity.

St. Kitts and Nevis: EBA-lite Model Results, 2022

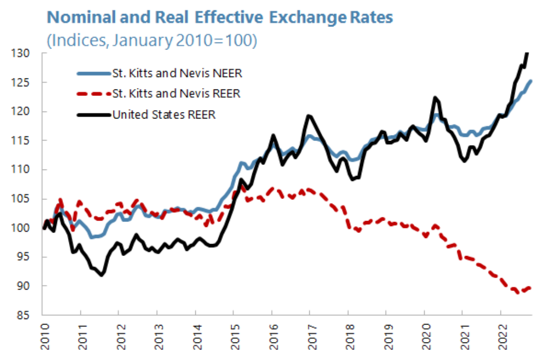
	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	**-5.0**	
Cyclical contributions (from model) (-)	0.6	
COVID-19 adjustors (-) 2/	-0.3	
Natural disasters and conflicts (-)	-0.7	
Adjusted CA	**-4.7**	
CA Norm (from model) 3/	**-14.1**	
Adjustments to the norm (-)	11.0	
Adjusted CA Norm	**-3.1**	
CA Gap	**-1.6**	**-10.7**
o/w Relative policy gap	2.2	
Elasticity	-0.4	
REER Gap (in percent)	**4.4**	**30.5**

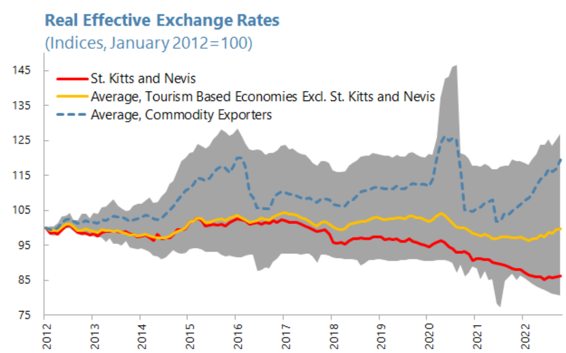
1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the impact of the pandemic on tourism (-0.12 percent of GDP).
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. In 2022, the REER depreciated by 7.6 percent.[2]

Assessment. The REER decline was driven by inflation differentials—the NEER appreciated by 6.6 percent.





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 18 percent of GDP from 2018–22, including 26 percent in 2022.

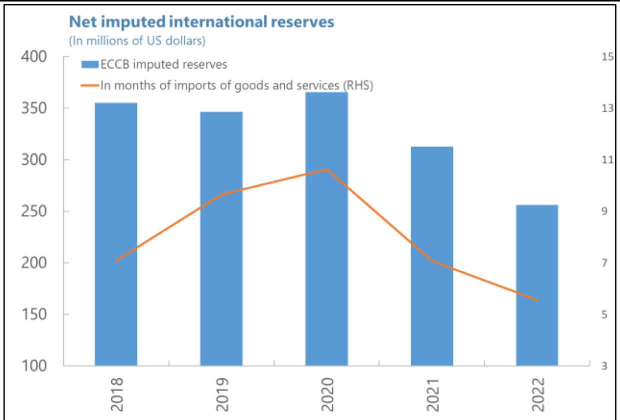
Assessment. The COVID-19 pandemic and cost-of-living crisis led to a large current account deficit, financed mostly by FDI, portfolio investment flows, and short-term deposits.

[1] The norm adjustor reflects the country's unusually low remittance receipts relative to its (high) ratio of the stock of outward migrants relative to the domestic population. Generally, economies with a high migrated share of households have high receipts of remittances. Remittance income is generally associated with a higher average propensity to consume and invest, which would be reflected in a lower current account balance.

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

FX Intervention and Reserves Level

Background. St. Kitts and Nevis' reserve position improved slightly in 2022. 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.[3, 4]



Sources: ECCB and IMF staff calculations.

Assessment. In 2022, the estimated imputed reserves were US$255.9 million, down by 18 percent with respect to 2021 (US$312.8 million). In 2022, imputed reserves covered 5.6 months of imports and 23.5 percent of broad money, which exceeds the typical benchmark of 3 months of imports and 20 percent of broad money.[5]

[3] 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.

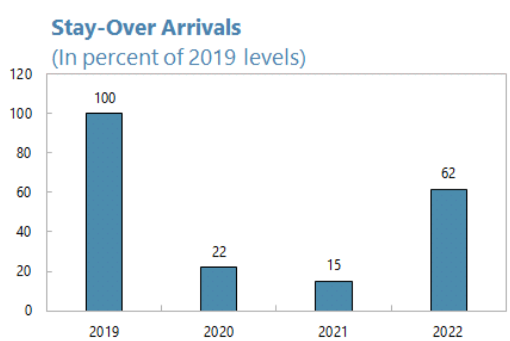
[4] IMF 2015, *Assessing Reserve Adequacy–Specific Proposals*. Reserve adequacy assessments for currency unions should consider the reserve needs of the consolidated union level. This should be supplemented by a discussion of factors that have a bearing on the size of reserves, such as the union's financial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

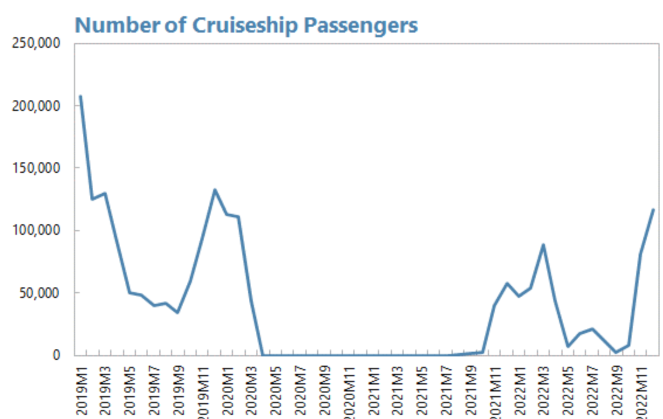
[5] Information on short term debt and other liabilities is unavailable and consequently assessments against other reserve adequacy metrics such as the IMF's composite Assessment Reserve Adequacy (ARA) metric cannot be computed.

Annex IV. Tourism Sector Trends

1. **Tourism and related industries (transportation and wholesale and retail) represent about 25 percent of GDP in St. Kitts and Nevis.** Tourism became the top economic activity in the country after 2005, when the government-owned sugar industry closed due to declining global demand. Since then, the sector has grown significantly. The country ranks among the top ten Central American and Caribbean destinations in the cruise ship segment industry. In fact, cruise tourism contributes to a great portion of Saint Kitts and Nevis' tourism sector. Between 2013 and 2019, the country had seen a steady increase in the number of cruise passengers, reaching nearly 1.05 million in 2019.

2. **The tourism sector is gradually recovering from the COVID-19 shock.** Stayover arrivals fell to 22 percent of the 2019 level in 2020, with a further drop in 2021. St. Kitts and Nevis imposed strict COVID-related travel restrictions during the early phase of the pandemic, which may have shifted its tourist market share towards Caribbean peers with fewer restrictions. The restrictions were lifted in August 2022, and St. Kitts and Nevis welcomed 80,120 stayover tourists in 2022, or 62 percent of the 2019 levels. The number of cruise ship visitors were 499,798 in 2022, or 47 percent of the 2019 levels. The outlook for 2023 is positive but global conditions are getting in the way of a faster recovery. High inflation, tightening global financial conditions, and volatile commodity prices may negatively impact growth in the US, Canada, and the UK—the country's main source markets. Furthermore, high fuel and food prices may increase operational costs for tourism businesses as well as connected sectors such as agriculture, transportation, and retail trade.

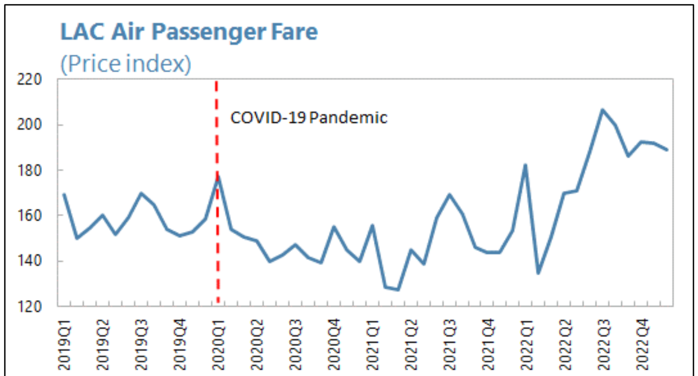




Sources: National authorities, Caribbean Tourism authorities; and IMF staff calculations.

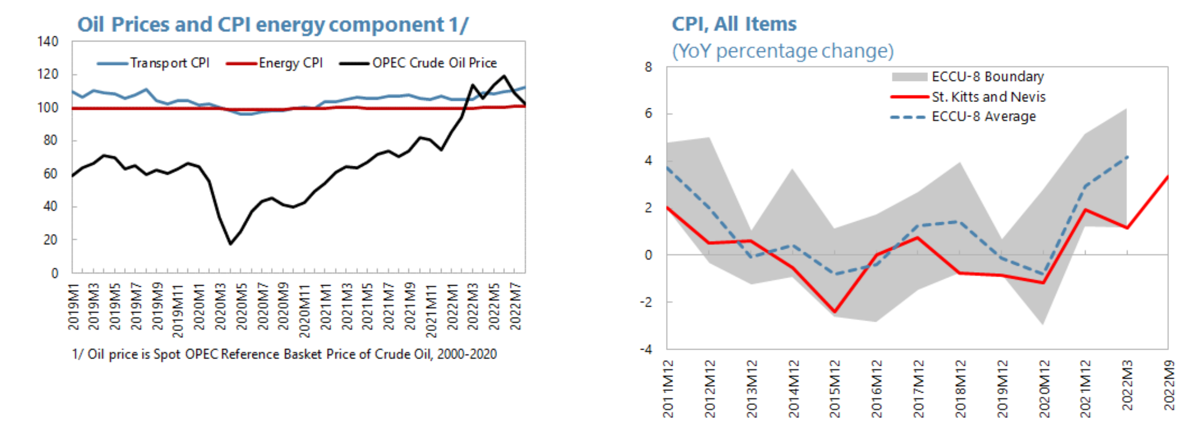
3. **Increasing competitiveness could strengthen tourism recovery.** Before the COVID-19, St. Kitts and Nevis was already a comparatively expensive Caribbean destination due to limited airlift. The problem was aggravated by the COVID-19. While average airfares to LATAM and Caribbean countries rose fast in 2022, anecdotal evidence suggests that airfare to St. Kitts and Nevis

rose even faster than the Caribbean average after the pandemic (about 100 percent up relative to 2020). With the strong competition from other Caribbean destinations, often at lower prices, the authorities are working on increasing airlift to enhance competitiveness. They are also branding the country as a top tier destination with a strategic focus to develop agriculture, community, and entertainment-related tourism. The marketing campaign has been launched through TV, magazines, radio, and subway advertisements in the US, UK, and Canada. The marketing campaign also includes trade shows, webinars, press launches and social media.



Source: FRED from the Federal Reserve Bank of St. Louis.

Annex V. Economic Impact of the War in Ukraine



Sources: National authorities, ECCB; and IMF staff calculations.

1. The short-run impact from the war in Ukraine has been somewhat muted in St. Kitts and Nevis as the direct shock from world energy and food prices was cushioned by forceful measures taken by the authorities in the second quarter of 2022. Measures to address the cost-of-living crisis in 2022 ranged from energy price controls to income support and tax rebates. Energy prices control measures included a temporary fuel subsidy program to bus drivers and taxi operators, a moratorium on electricity arrears, and waiver of fee for electricity reconnection. The non-implementation of the legislated fuel variation charge required the government to make significant transfers to SKELEC to make up for its losses (total transfers amounted to 75.6 million in 2022). Income support measures included a 10 percent increase in public sector wages and pension, retroactive to Jan. 2022. On the taxation side the government reduced the excise tax on fuel imports from $2.25 per gallon to $0.95 starting in April 2022, extended duty-free allowance of food imports and cap on freight costs. Tax exemptions implemented during the Covid-crisis on VAT, import duty, and customs service charges on selected goods were extended. To support employment the government reduced the Corporate Income Tax from 33 to 25 percent to businesses retaining 75 percent of their employees and reduced the unincorporated Business Tax from 4 percent to 2 percent. Price control measures, together with a strong USD appreciation that mitigated somewhat imported inflation by reducing the cost of non-USD-invoiced imports, have helped keep inflation under control and the CPI remained below the ECCU average at 3.8 percent by year-end.

2. Other indirect channels of transmission are likely to have an impact later, like lower tourism from the US that is expected to play out fully only in 2023. Regarding the tightening of global financial conditions, the immediate impact is deemed limited, given the quasi-financial autarky of the country, its low reliance on global and regional funding market and ample liquidity buffers. The only potential impact could be from a strong shock to USD-denominated assets that would affect the profitability and capital adequacy of the systemic bank (discussed in Section D).

Annex VI. Options for the Phasing-out of the Electricity Subsidies

The Annex reviews options for the removal of the electricity subsidies currently implemented by SKELEC and financed through direct transfers from the budget. The regressive nature of the subsidies goes against the policy direction of the new administration to support the people in need. Moreover, the electricity subsidy is becoming prohibitively expensive and unsustainable.[1]

- **As an early step, the government should provide subsidies only to households with low income—in this case proxied by low electricity and fuel consumption.** Block pricing is a viable option to preserve some of the price signal but is less preferred to the options below. Energy consumption below a minimum level is subsidized at a guaranteed price, while consumption above that level is based on market prices. The more generous the policy, the higher the fiscal cost and the lower the incentive to compress energy consumption.

- **As a more optimal option, the government may consider providing a lump-sum bonus for households.** The bonus could be linked to past electricity consumption and the price wedge between the current and a reference price. The electricity company (SKELEC) would distribute the lump sum as a one-off rebate—separate from the regular utility bill—to facilitate adjustment to the price shock.

- **Ultimately, the subsidies should be phased out completely and replaced with targeted transfers to low-income households (with the bulk of the transfers being transitory).** While the implementation of targeted support could be costly, the process could be complimented with enhanced digitalization efforts. The positive experience of Chile and Colombia, for example, showed that progress with digitalization could result in a substantial reduction in tax administration costs.

- **Ideally, targeted transfers should be facilitated via social safety nets, for example, using the framework of the already operational PAP (see Annex IX).** At the same time, the government should provide support to vulnerable households that are not covered by safety nets. Hence, there is a need to expand safety nets as soon as feasible. This could be achieved by increasing digitalization, for example, by inviting people to apply for the support through dedicated online platform.

- **On the other hand, the fuel subsidy program to bus drivers was a relatively well-targeted measure in two respects:** (i) it supported an energy-intensive business segment, and (ii) it provided support to households with low income (bus riders indirectly).

[1] If the electricity subsidy were to continue for 12 months, its annual cost would amount to about 4 percent of GDP.

Annex VII. Improving Tax Policy in the Caribbean

The Annex reviews tax policy for the Caribbean, with a focus on two issues: how to effectively and efficiently tax tourism; and the appropriate approach to investment tax incentives.

1. **There are substantial economic rents associated with tourism in the Caribbean and charging high fees for access to scarce, location specific features is a very efficient way to raise revenue.** High fees to access overcrowded destinations are efficient as they both raise revenue and allocate access to those that value it the highest. Rather than addressing overcrowding by capping the number of cruise ship visits, more countries could charge fees. The Caribbean has the competitive advantage of proximity to a large population, yet competition between jurisdictions within the region allows the private sector to capture most of the economic rents associated with this competitive advantage.

2. **The largest components of tourist expenditures are international transportation and accommodation.** Next are a variety of smaller expenditures on taxis, tour guides, souvenirs, activities, and meals. Taxing the profits associated with air transportation is challenging, while the highly competitive market for local tourist services is characterized by small businesses with significant entry and exit. That focuses effective revenue generation from tourism on the taxation of tourist accommodation and charging appropriate fees for both publicly provided activities and for access to unique location specific cultural or natural features.

3. **The taxation of stays at international hotel chains and vacation rentals is subject to administrative challenges.** Transactions are often processed outside the destination country, international hotel chains can utilize internal transactions to move profits between jurisdictions, and scattered vacation rentals can be more difficult to monitor.

What Are Good Tax Bases for Tourism Dependent Economies in the Caribbean?

4. **Tourism dependent economies in the Caribbean share features that make some tax bases preferable to tax than others.** In addition to minimizing potential negative impacts on economic growth and social welfare, tax systems need to be set up in a way that minimizes the cost of compliance for taxpayers and the cost of administration for the government, while making tax avoidance and evasion as difficult as possible.

5. **A well-designed VAT is the preferred tax for raising substantial revenues with the smallest negative effect on economic growth.** The best practice involves collecting VAT on the broadest possible range of goods and services and at each stage in the production and distribution chain and then providing a credit to a registered taxpayer for the VAT they paid on their business inputs. By collecting VAT at each stage, a substantial portion of the revenue associated with an untaxed final supply has already been collected. For example, an unregistered retailer will have paid VAT on: the goods that they imported or purchased from a wholesaler; the retail space that they rent; and the electricity and mobile phones that they use. As a result, VAT exemptions for business

inputs should be considered tax relief for the informal economy; administration of input tax credits, nonetheless, remains a work in progress in many countries.

6. **Recurrent taxes on land and residential property have the desirable features of being both efficient and progressive.** Taxing land more heavily does not reduce its quantity, so the tax creates fewer economic distortions than most other taxes. Residential property ownership also tends to be concentrated among upper-income households, so a proportional tax on the value of improved residential property collects relatively more revenue from the wealthy. The taxation of the improved value of commercial property, however, is a less efficient source of tax revenue as it discourages income earning capital investment.

7. **Taxing income at the individual level can be a potent revenue source and an effective mechanism for improving the distribution of income.** The main goals of a personal income tax are thus to raise sufficient revenue in a way that minimizes economic distortions while fairly distributing the tax burden. Two main concepts of fairness are usually distinguished: horizontal equity (individuals in similar circumstances are treated equally by the tax system); and vertical equity (individuals with greater capacity to pay taxes, as measured by their incomes, should pay a greater level of tax, usually more than proportionately more).

8. **Unfortunately, the most damaging taxes for economic growth are common in the Caribbean:** production or transaction-based taxes that are insensitive to profits (e.g., Stamp Duty on property transactions); or unrelieved tax imposed on business inputs (e.g., customs duties). Transactions taxes widen the gap between buying and selling prices, which reduces market liquidity and thereby affects the allocation of assets, labor mobility and social welfare. The result is a substantial reduction in trading and longer hold periods. Housing transaction taxes lead to a misallocation of the housing stock by discouraging young families from upsizing their housing and by discouraging retiree households from downsizing. In contrast, a recurrent property tax has no impact on mobility or the allocation of assets.

Tax Incentives: Minimizing the Economic and Fiscal Damage

9. **It would be preferable to not provide any tax incentives, secure in the knowledge that the country's core tax system and other policy frameworks are competitive.**[1] But it is understood that tax incentives are seen as necessary for attracting certain investments, and that the absence of any specific package would likely lead to the re-introduction of even more damaging discretionary relief. Caribbean countries need to ensure that their investment tax incentives are not considered harmful tax practices.

10. **If contemplated, tax incentives should relate to those tax bases that are either less robust or more economically damaging.** Specifically:

[1] "Options for Low Income Countries' Effective and Efficient Use of Tax Incentives for Investment", A, Report to the G-20 Development Working Group by the IMF, OECD, UN and WORLD BANK, https://www.oecd.org/tax/options-for-low-income-countries-effective-and-efficient-use-of-tax-incentives-for-investment.htm.

- **Transaction Taxes.** Stamp duties and property transfer taxes impose significant efficiency costs through resource misallocations and are thus a suitable target for exemptions or repeal.

- **Corporate Income Tax.** Incentives based on costs incurred directly increase the likelihood of investment, whereas incentives related to profits (e.g., tax holidays) primarily provide windfall gains to businesses that would have invested in the absence of the incentive. In lieu of tax holidays, qualifying projects could be provided with the following incentives: expensing for capital investments; and an extended loss carry-forward period plus no limit on the ability to use losses to reduce current-year taxable income to zero combined with limits on interest deductibility. Corporate income tax applies to projects once they are generating operating profits and the combination of expensing and full loss carry-forwards allows the taxpayer to delay paying corporate income tax until the value of the initial capital investment has been recovered through operating profits.

- **Non-Resident Withholding Taxes.** In a country with a corporate income tax, a full exemption from withholding tax on payments of dividends could be considered. Exemptions from withholding taxes for tax deductible payments such as interest, royalties, and management services should be time-limited and capped (or avoided altogether), as a withholding tax is often the only mechanism for ensuring source country taxation.

- **Customs Tariff.** Taxes on business inputs are amongst the most harmful for economic growth. A full exemption from Customs Tariffs imposed on business inputs (e.g., construction materials) is advisable; the general elimination of these tariffs could also be considered. No tax relief should be provided for imports destined to be consumed by employees of the project, for example personal automobiles.

11. Governments should *avoid* tax incentives related to the most economically efficient and administratively resilient tax instruments. This includes:

- **Excise Taxes.** No exemptions for alcohol, tobacco or fossil fuels. The objective of these excise taxes is to increase the price of consuming a harmful product.

- **Value-Added Tax and Recurrent Property Tax.** No exemptions. These tax bases are amongst the most economically efficient sources of tax revenues, and they are relatively difficult for taxpayers to avoid or evade.

- **Personal Income Tax.** No exemptions for employees of a favored project. Such relief is gratuitous, undermining the fairness of the tax system and the tax morale of individuals not eligible for relief.

Table 1. St. Kitts and Nevis: Summarizing the Impacts of Different Tax Bases				
	Relative Growth Friendliness	**Helps Achieve Progressivity**	**Leakage**	**Recommended for Small Caribbean Countries**
Recurrent Property Tax	Land taxation is growth friendly, taxing commercial buildings discourages investment	Recurrent taxation of the improved value of residential property	None	Essential
VAT	Growth friendly	No	Minimal	Essential
Customs Tariffs	Damaging	No	Minimal	Maybe
Stamp Duties	Damaging	No	High	No
Excise Taxes	Depends on good	No	Manageable	Yes (fossil fuels, tobacco, alcohol)
Personal Income Tax	Somewhat negative	Best mechanism	Potential for informal employment and some tax planning by wealthy	Yes
Corporate Income Tax	Negative	Supports a progressive personal income tax	Substantial tax planning opportunities	Yes, unless the top marginal personal income tax rate is low
Note: The Table summarizes the impacts of applying different taxes in the region and this may result in simplification and some loss of detail, however this does not affect the overall impacts highlighted.				

Annex VIII. Debt Sustainability Analysis

Debt remains well below the regional ceiling of 60 percent of GDP, and further buttressed by deposits of around 24 percent of GDP, but risks have increased. Fiscal support to the economy and to the vulnerable population has been extended, as the pandemic turned into a cost-of-living crisis in early 2022 with the war in Ukraine, high global inflation, and high commodity prices. This has added to pre-existing vulnerabilities to CBI revenue volatility, natural disasters, a deeply underfunded long-term pension system, and contingent liabilities from the debt-land swap and other banking sector vulnerabilities. The new government (since August 2022) has announced new measures—currently under discussion—which could lead to further fiscal expansion. Risks could be considerably mitigated by exercising fiscal prudence, as in the past, and by optimizing tax and expenditure policies. CBI revenue and about half of the deposit should be earmarked for investment in resilience and boosting insurance against natural disasters—which improve growth and save fiscal costs over time. If CBI revenue is stronger than in the baseline, the bulk should still be used for ND preparedness, and the rest should be allocated to debt reduction or a sovereign wealth fund. Standard DSA adverse shocks would worsen the debt trajectory with debt breaching the regional ceiling—albeit the deposits' cushion would remain.

Public Debt Sustainability Analysis

1. **Public debt[1] declined sharply in the decade before the pandemic from a peak of 135 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 revenue) 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.[2]

2. **The public debt-to-GDP ratio increased during the pandemic to 69 percent.** The government ran a deficit of 3.1 percent of GDP in 2020 and a surplus of 5.6 percent of GDP in 2021 driven by strong CBI revenue (23 percent of GDP) in 2021, while nominal GDP declined in 2020–21 by a cumulative 22 percent. Deposits rose to 30 percent of GDP in 2021 from 25 in 2019.

3. **In 2022, both debt and deposits are expected to fall sharply.** Fiscal support to the economy and to the vulnerable population was extended and increased, as the pandemic turned into a cost-of-living crisis in early 2022 with the war in Ukraine, high global inflation, and high

[1] Public debt includes central government, local government (Nevis), and public corporations (Table 2).

[2] 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 carries 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.

commodity prices. CBI revenue continued to outperform, at 26 percent of GDP. The government repurchased land in the amount of 8 percent of GDP from the financial sector, thereby reducing its contingent liability. This resulted in a deficit of 3 percent of GDP and reduced government deposits to 24 percent of GDP. The government did not borrow, and gross debt is estimated to drop to 58 percent of GDP in 2022—despite a deficit—mainly because of a 13 percent nominal GDP rebound. Fiscal space—based on the full use of deposits and on the regional gross debt ceiling—is about 26 percent of GDP.[3]

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

- *New government's policy:* The 2023 central government budget envisages a small surplus, continuing the policy of fiscal prudence. Ex-CBI revenue is expected to increase, and expenditures to decline—as some pandemic-era support measures are gradually phased off in the short-term. However, ex-CBI revenue and current expenditure are projected to stabilize at lower and higher levels, respectively, compared to the pre-pandemic decade given that the new government advocated for more social support via more tax expenditures and larger social programs.

- *CBI revenue* is projected to decline gradually to 10 percent of GDP towards the end of the medium term. This conservative assumption reflects the high volatility of CBI revenue and a non-zero probability of its cancelation.

- *Fiscal Balance:* Small surpluses expected in 2023–24 are projected to turn into deficits up to 3 percent of GDP. This is a result of (1) ex-CBI revenue and current expenditures stabilizing at lower and higher levels, respectively, and (2) falling CBI revenue (as per the bullets above). These are partly offset by lower capital expenditures compared to the historical averages.

- *Growth and Inflation:* After a rebound in 2023–24, real GDP is expected to stabilize at 2.7 percent. Inflation, measured by the GDP deflator in the DSA, is projected at 2 percent in the medium term.

- *Debt:* Maturing long-term debt is assumed to be repaid, with no additional borrowing, unless the overall balance is negative. It is assumed that short-term debt will be fully rolled over. In the event of shocks, the DSA assumes that government increases borrowing when facing negative shocks, while maintaining the same projection of government deposits in nominal terms.

- As a result, **the projected debt declines, on average, over the medium term to 44 percent of GDP in 2028** (Table 3 and Figure 1). The overall positive debt dynamics is driven by real growth rates, while real interest rates are low. Figure 3 shows that the debt reduction in the projection

[3] Some regional peers are able to retain market access with about 90 percent of GDP—though private sector participants are reluctant to increase credit at this point (see the 2022 St. Lucia Staff Report). Thus, should St. Kitts and Nevis establish market access, its fiscal space would become considerably larger. However, staff recommendation has been to remain well below the regional ceiling of 60 percent of GDP.

period is qualitatively different from the past where reduction was generated mainly by primary surpluses.

5. Staff used the 2022 DSA template to simulate the impact of downside risks, highlighted in the Risk Assessment Matrix, on the public debt trajectory. These shocks will raise the debt path, resulting in its breaching the regional ceiling of 60 percent of GDP. However, the government has ample deposits which can be used to reduce debt.

- **The overall risk of sovereign stress is moderate (Table 1),** reflecting relatively low debt levels for a high-income economy and ample deposits. However, the dependence on CBI is heavy and the contingent liability related to social security is very large (see paragraph 7 in the DSA).

- **Medium-term risks are assessed as moderate** because the two components—the fan chart for debt projections and gross financing risk (GFN) risks—are assigned moderate risks.

    - The fan chart (Figure 2) is built based on the historical distribution of joint growth, interest rate, and primary balance shocks. It signals high risk because it shows a wide distribution driven by the historical episodes of high debt after the GFC and the subsequent debt restructuring (see paragraph 1 in the DSA). However, even in this analysis, government deposits will be sufficient to bring debt down below the regional ceiling in scenarios corresponding to the 75th percentile (but not under the 95th percentile). Thus, the final assessment of risk from the fan chart is moderate.

    - The GFN chart (Figure 2) presents standard natural disaster and stress test shocks which increase GFN only moderately, so that it remains around 2022 levels. It signals low risk. However, GFN are large in nominal terms—around 10 percent of GDP—because of substantial amounts of T-bills, and the government currently have access to the regional debt market and thus fully depends on the domestic financial system. Thus, the final assessment of GFN risk is moderate.

- **An alternative scenario (see Section B and Figure 6) demonstrates the benefits of ND preparedness and long-term fiscal planning.** The scenario assumes a shift of investment towards resilience and an increase in investment up to 5.8 percent of GDP. Gross debt remains below the regional debt ceiling over the medium term. Deposits are allowed to decline gradually because as the share of resilient investment accumulates, the need for insurance against ND falls. Economic gains are considerable under this scenario: a 4 percent increase in the level of GDP relative to baseline by 2028.

6. Debt and GFN vulnerabilities highlighted by the fan and scenario charts (Figure 2) are largely mitigated by large buffers but require additional steps to reduce risk. Rollover risks are somewhat mitigated by the significant liquidity in the domestic financial system as well as the government's sizeable and liquid deposit buffers. However, if, for example, a natural disaster shock is large, then high GFNs in combination with banking sector vulnerabilities will lead to heightened risk of sovereign-bank nexus. To reduce the rollover risk, the authorities should strive to: (i) lengthen debt maturities to reduce GFN and propose borrowing policy to this end; (ii) shift some borrowing away from the domestic market to reduce sovereign-bank nexus in light of banking sector vulnerabilities; or (iii) use of state contingent debt instruments when accessing regional or international markets. Such instruments would automatically reduce or suspend debt service in the event of an ND, freeing up resources for emergency response.

7. The long-term sovereign stress risk modules highlight additional risks (Figure 4). The high amortization shock module signals low risk. However, the climate adaptation module points to high long-term risk as GFN and debt rise considerably under both the standardized and customized (calibrated on the SIP results) scenarios beyond the medium term, with debt exceeding the regional ceiling. In the climate mitigation standardized scenario, debt would increase substantially; however, the authorities indicated that the transition to geothermal energy would be facilitated by the private sector (without fiscal outlays) and would result in economic and fiscal savings.

8. The SSB is deeply underfunded and may carry substantial fiscal costs over the long term even in the baseline. The SSB currently covers employed and self-employed persons and offers short-term benefits, long-term benefits or pensions, and employment injury benefits. The system is financed by contributions which are levied on employment earnings and are paid by employers, employees, and self-employed persons. The latest actuarial review was conducted as of end-2020 (capturing only a partial effect of the pandemic) and found that: (1) total expenditure will first exceed total income in 2024[4] if no parametric reform is implemented in the short-run, (2) reserves will be depleted by 2040, (3) and currently proposed reforms (raising retirement age, increasing contributions) would postpone the exhaustion of the reserves by only 6 years,[5] and (4) the current actuarial balance (gap) over 2021–2080 is almost 3 times GDP. In addition, the Board's portfolio is highly exposed to the country risk (local investments account for 95 percent of the total, and 51 percent are in local banks' CDs). If the government were to cover the SSB funding gap, for example, over 60 years, this would entail additional fiscal costs of about 5 percent of GDP per year.

Conclusion

9. Fiscal policy that ensures investing a large portion CBI revenue in ND preparedness and saving the rest for debt reduction and no further fiscal relaxation results in a relatively strong medium-term debt sustainability. Key risks comprise of 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. A more-than-projected decline or cancelation of CBI revenue would also considerably erode this outlook. The pension fund (SSB) will require substantial fiscal contributions

[4] The SSB currently estimates that this will take place 1 year earlier.

[5] The SSB has proposed more modest reforms to the government in 2022, which would postpone the depletion of reserves by 4 years.

over the long-term, unless ambitious parametric reforms are undertaken to prolong reserves for several years and avoid substantial future budgetary drains.

External Debt Sustainability Analysis

10. Despite the pandemic the external public debt-to-GDP ratio fell to 8 percent of GDP in 2022 and is projected to remain almost flat over the medium term. A rebound in tourism with a positive impact on the current account, overperformance of CBI, and a recovery in GDP have contributed to the improvement. Amortization of restructured bonds with external debtors and repayment of multilateral debt, largely from the CDB, will further contribute to the decline.

11. Stress tests indicate that external public debt would increase by 4–10 percentage points of GDP under the real depreciation, combined, and current account shocks (Figure 5 and Table 4). The most pronounced impact on external debt is estimated from the current account shock. This suggests that some external adjustment would be necessary to bring the debt path back to a sustainable trend under that shock.

Table 1. St. Kitts and Nevis: Risk of Sovereign Stress

Horizon	Mechanical Signal	Final Assessment	Comments
Overall	...	Moderate	The overall risk of sovereign stress is moderate, reflecting relatively low debt levels for a high-income economy and ample deposits. However, the dependence on CBI is heavy, and the contingent liability related to social security is very large.
Near Term 1/			
Medium Term	Moderate	Moderate	Medium-term risks are assessed as moderate because the mechanical high signal was generated based on the previously high debt which was subsequently restructured. The government has ample deposits to absorb shocks in the medium term. High GFN level at [10] percent of GDP caused mainly by the high share of short-term debt, is mitigated by the large size of the financial sector assets, the relatively small share of government securities in those assets, and low share of external debt.
Fanchart	High	Moderate	
GFN	Low	Moderate	
Stress test	...	...	
Long Term	...	High	Long-term risks are high because of (1) the long-term climate adaptation module which signals high risk and (2) the very large contingent liability related to the SSB which is deeply underfunded (based on the latest actuarial review; see the main text). The amortization module generates low risk.
Sustainability Assessment 2/	Not required for surveillance countries	...	...
Debt Stabilization in the Baseline			Yes

DSA Summary Assessment

Commentary: St. Kitts and Nevis is at a moderate overall risk of sovereign stress and debt is sustainable over the medium term. Beyond the medium term, debt could increase becasue of the realization of a large continugent liability related to social secuturity.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Table 2. St. Kitts and Nevis: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

					Subsectors Captured in the Baseline	Inclusion	Comments
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes	
				2	Extra budgetary funds (EBFs)	No	Not applicable
				3	Social security funds (SSFs)	No	Separate entity (SSB)
				4	State governments	Yes	Nevis
				5	Local governments	No	Not applicable
				6	Public nonfinancial corporations	Yes	Large public corporations
				7	Central bank	No	ECCB is a regional body
				8	Other public financial corporations	No	Not applicable

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:		Consolidated		Non-consolidated	

Color code: Chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

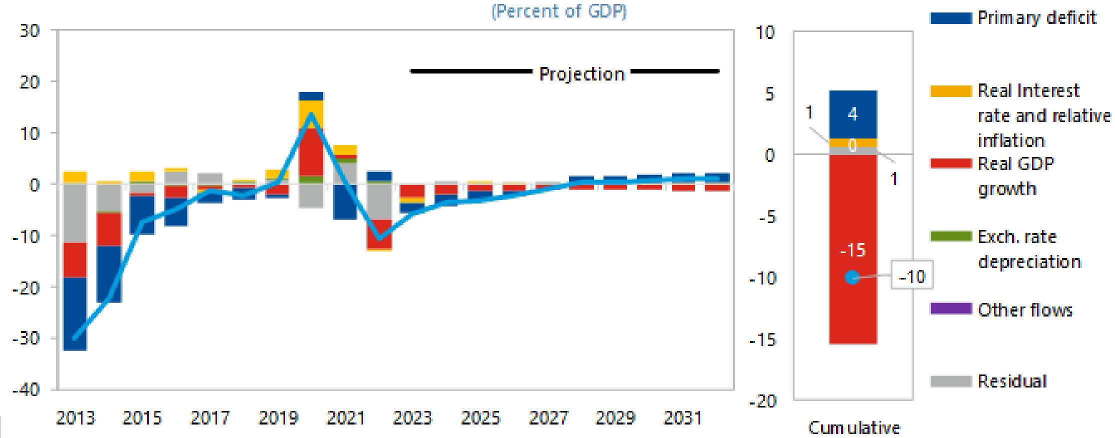
					Holder / Issuer	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
				2	Extra-budget. funds									0
				3	Social security funds									0
				4	State govt.									0
				5	Local govt.									0
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
					Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Table 3. St. Kitts and Nevis: Baseline Scenario
(Percent of GDP unless otherwise indicated)

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	58.4	52.8	49.4	46.2	44.0	43.1	43.6	44.2	45.0	46.0	47.1
Change in public debt	-10.4	-5.6	-3.4	-3.2	-2.2	-0.9	0.6	0.6	0.7	1.0	1.2
Contribution of identified flows	-3.6	-5.5	-4.1	-3.3	-2.2	-0.9	0.6	0.6	0.8	1.0	1.2
Primary deficit	2.1	-2.1	-2.1	-1.9	-1.0	0.1	1.6	1.6	1.7	1.9	2.0
Noninterest revenues	51.5	43.6	41.5	39.1	37.0	35.4	33.8	33.8	33.6	33.5	33.4
Noninterest expenditures	53.6	41.5	39.3	37.2	36.0	35.5	35.4	35.4	35.4	35.4	35.4
Automatic debt dynamics	-5.6	-3.4	-2.0	-1.4	-1.2	-1.1	-1.0	-1.0	-1.0	-0.8	-0.8
Real interest rate and relative inflat	-0.4	-0.9	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.3	0.4
Real interest rate	-0.4	-1.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.3	0.4
Relative inflation	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-5.7	-2.5	-2.0	-1.4	-1.2	-1.2	-1.1	-1.1	-1.2	-1.2	-1.2
Real exchange rate	0.5	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-6.9	-0.1	0.7	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	16.7	11.0	10.7	10.1	10.2	10.7	11.5	11.0	11.2	11.4	11.4
of which: debt service	14.7	13.1	12.9	12.0	11.2	10.5	9.8	9.4	9.5	9.5	9.4
Local currency	13.2	11.9	11.7	11.0	10.2	9.7	9.1	8.8	9.0	8.9	9.0
Foreign currency	1.4	1.2	1.1	1.0	1.0	0.9	0.7	0.6	0.5	0.6	0.4
Memo:											
Real GDP growth (percent)	9.0	4.5	3.8	3.0	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Inflation (GDP deflator; percent)	2.7	3.4	2.2	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	13.0	8.0	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Effective interest rate (percent)	2.0	1.6	2.1	2.1	2.1	2.2	2.2	2.3	2.4	2.8	2.8

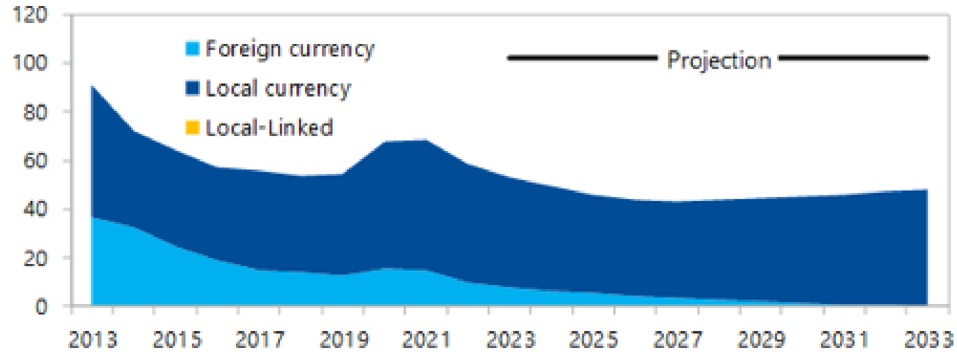
Contribution to Change in Public Debt
(Percent of GDP)



Staff commentary: Fiscal policy that ensures investing a large portion CBI revenue in ND preparedness and saving the rest for debt reduction and no further fiscal relaxation results in a relatively strong medium-term debt sustainability.

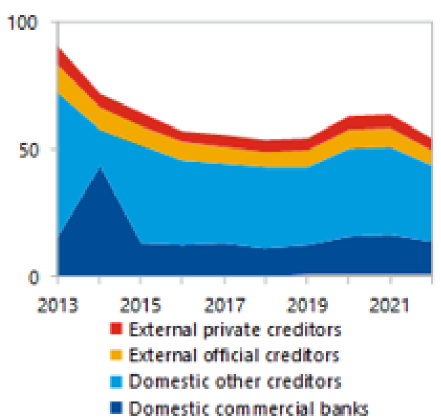
Figure 1. St. Kitts and Nevis: Public Debt Structure Indicators
(Percent of GDP)

Debt by Currency (Percent of GDP)



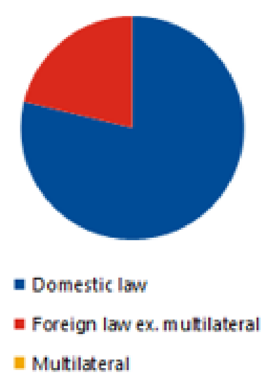
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



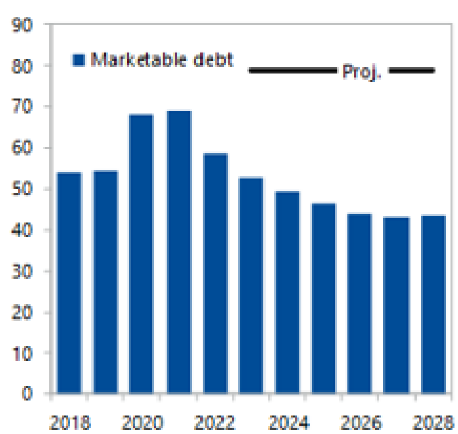
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2022 (Percent)



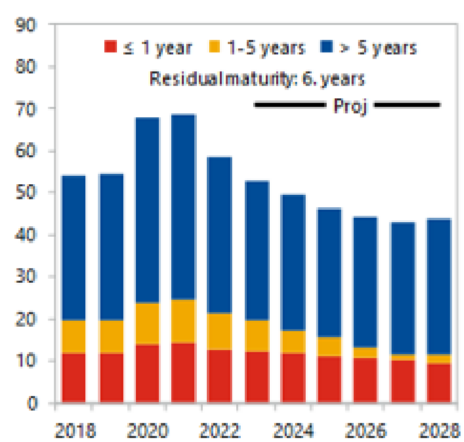
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)

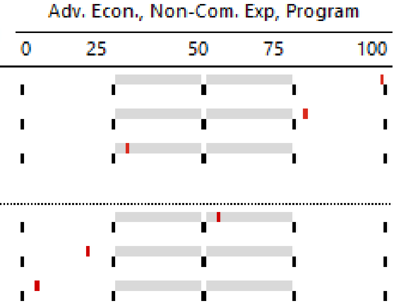


Note: The perimeter shown is general government.

Figure 2. St. Kitts and Nevis: Medium-Term Risk Analysis: Debt Fan Chart and GFN Financeability Indexes

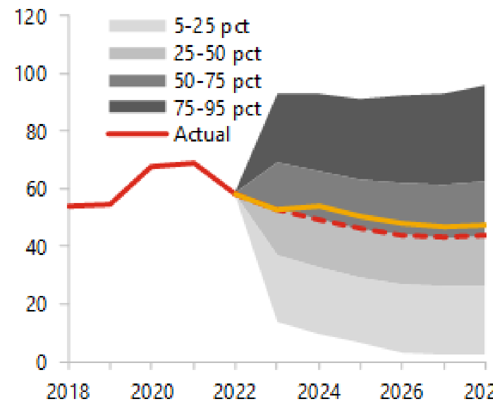
(Percent of GDP unless otherwise indicated)

Module	Indicator	Value	Risk index	Risk signal
Debt fanchart module	Fanchart width	93.8	1.4	...
	Probability of debt not stabilizing (pct)	78.9	0.7	...
	Terminal debt level x institutions index	20.4	0.4	...
	Debt fanchart index	...	2.5	High
GFN finance-ability module	Average GFN in baseline	10.7	3.6	...
	Bank claims on government (pct bank assets)	5.7	1.9	...
	Chg. in claims on govt. in stress (pct bank asset	1.1	0.4	...
	GFN financeability index	...	5.9	Low

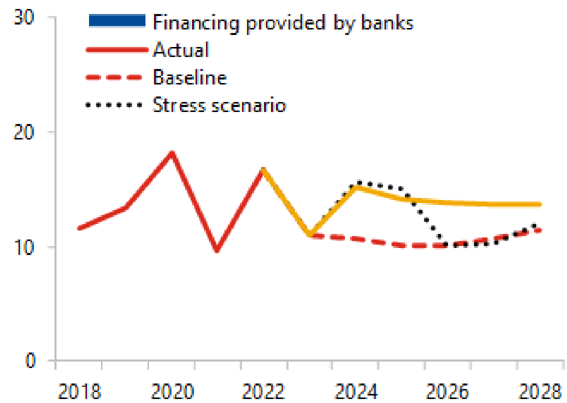


Legend: Interquartile range; St. Kitts and Nevis

Final Fanchart (Percent of GDP)



Gross Financing Needs (Percent of GDP)

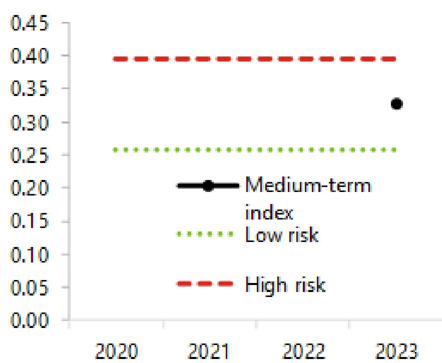


Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index

(index number)



Medium-Term Risk Analysis

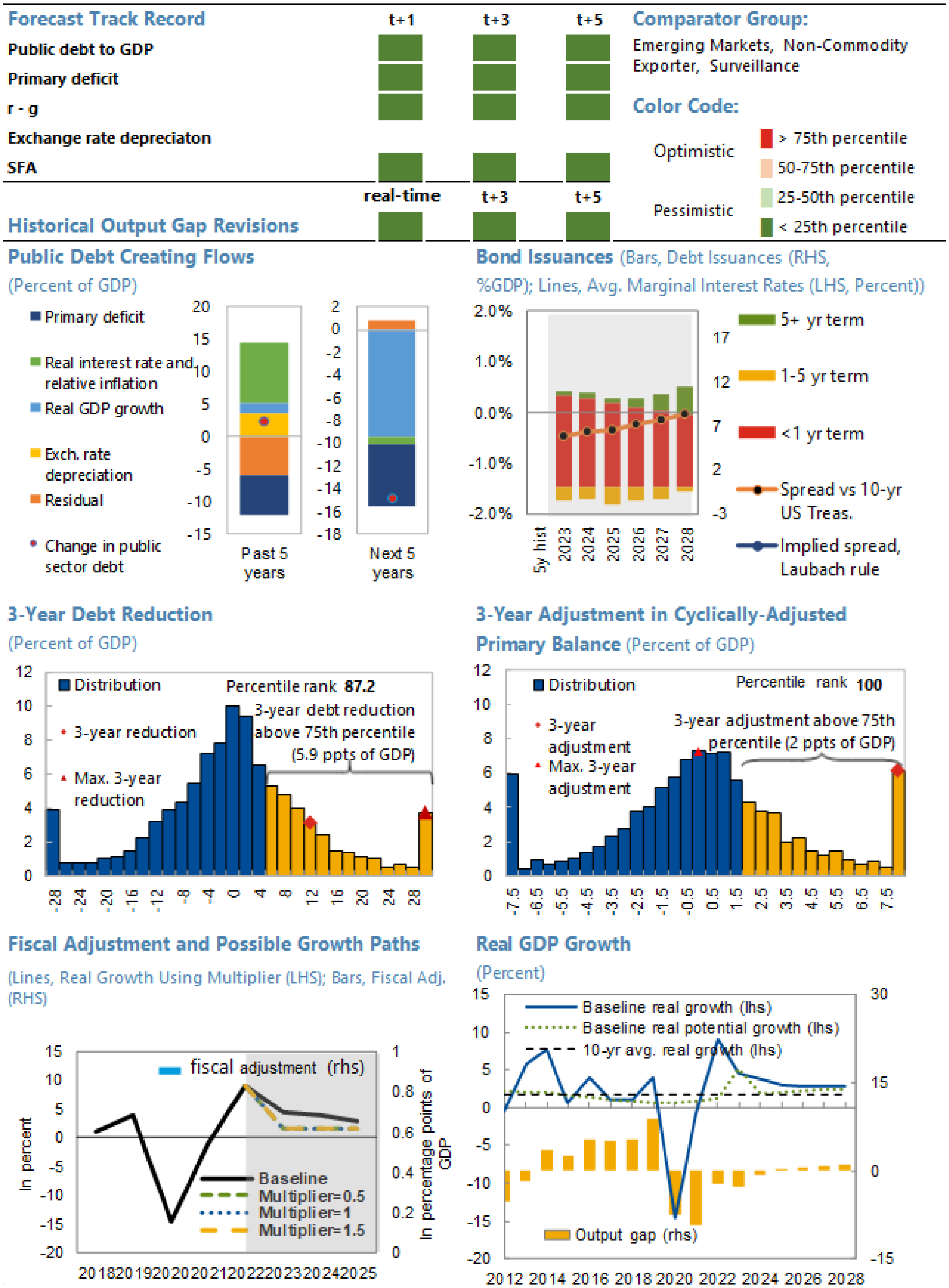
	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.5
GFN finaceability index	7.6	17.9	0.5	0.1
Medium-term index (MTI)	0.3	0.4	...	0.3, Moderate

Prob. of missed crisis, 2023-2028 (if stress not predicted): 18.2 pct.

Prob. of false alarm, 2023-2028 (if stress predicted): 21.6 pct.

Commentary: Of the two medium-term tools, the Debt Fanchart Module is pointing to high level of risk, while the GFN Financeability Module suggests lower, but still moderate, level of risk.

Figure 3. St. Kitts and Nevis: Realism of Baseline Assumptions



Commentary: The recovery from COVID-19 will impart complicated effects on the growth path. However, realism analysis does not point to major concerns: past forecast errors do not reveal any systematic biases and the projected fiscal adjustment and debt reduction are well within norms.

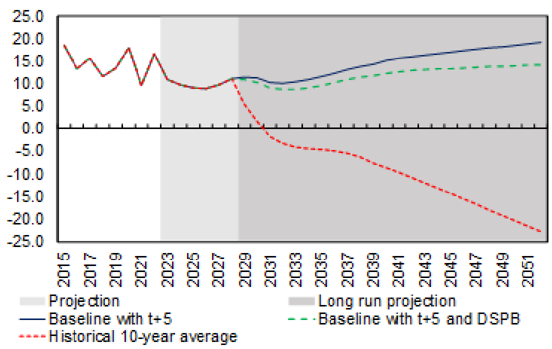
Figure 4. St. Kitts and Nevis: Long-Term Risk Modules

Large Amortization

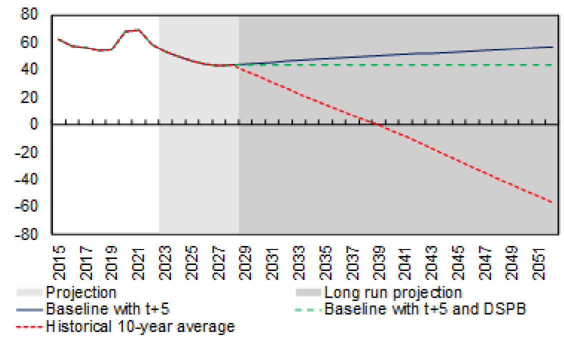
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	

Overall Risk Indication	

GFN-to-GDP ratio



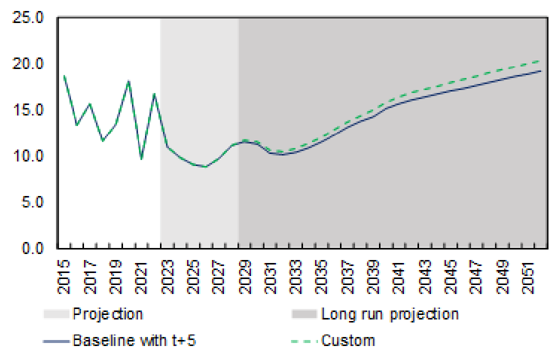
Total Public Debt-to-GDP Ratio



Custom

	Baseline extension of fifth projection year	Custom baseline
Real GDP growth	2.7%	2.7%
Primary Balance-to-GDP	-1.6%	-1.8%
Real depreciation	-2.0%	-2.0%
Inflation (GDP deflator)	2.0%	2.0%

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

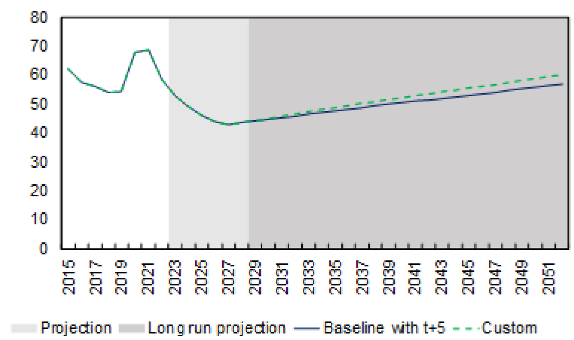
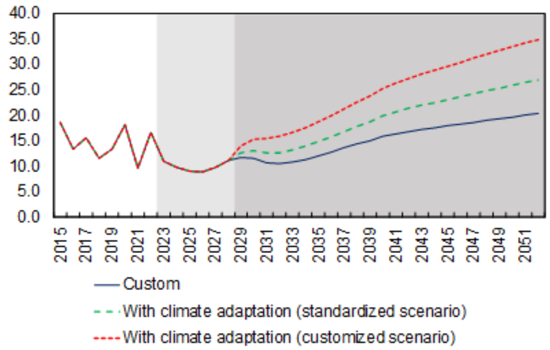


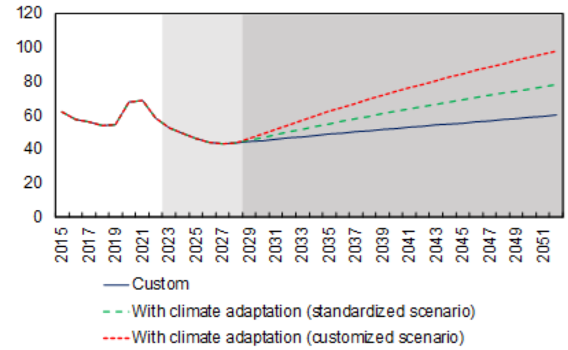
Figure 4. St. Kitts and Nevis: Long-Term Risk Modules (Concluded)

Climate Change: Adaptation

GFN-to-GDP Ratio

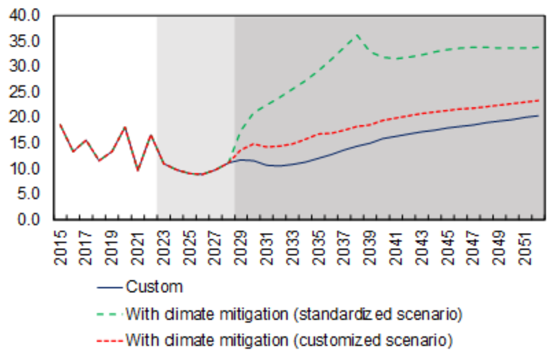


Total Public Debt-to-GDP Ratio

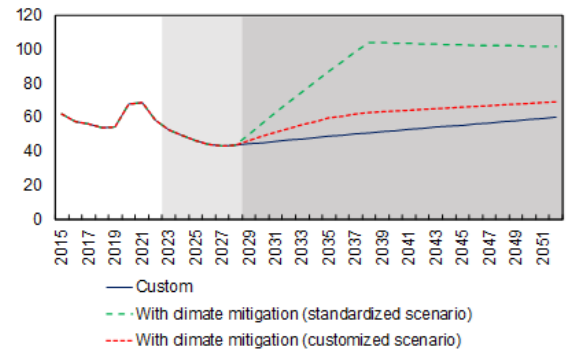


Climate Change: Mitigation

GFN-to-GDP Ratio

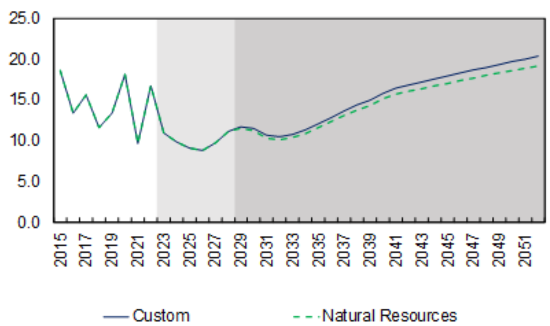


Total Public Debt-to-GDP Ratio



Natural Resources

GFN-to-GDP ratio



Total Public Debt-to-GDP Ratio

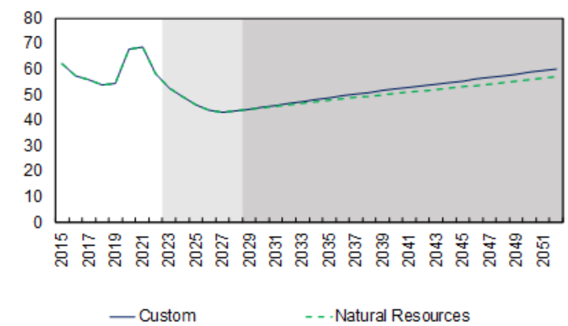
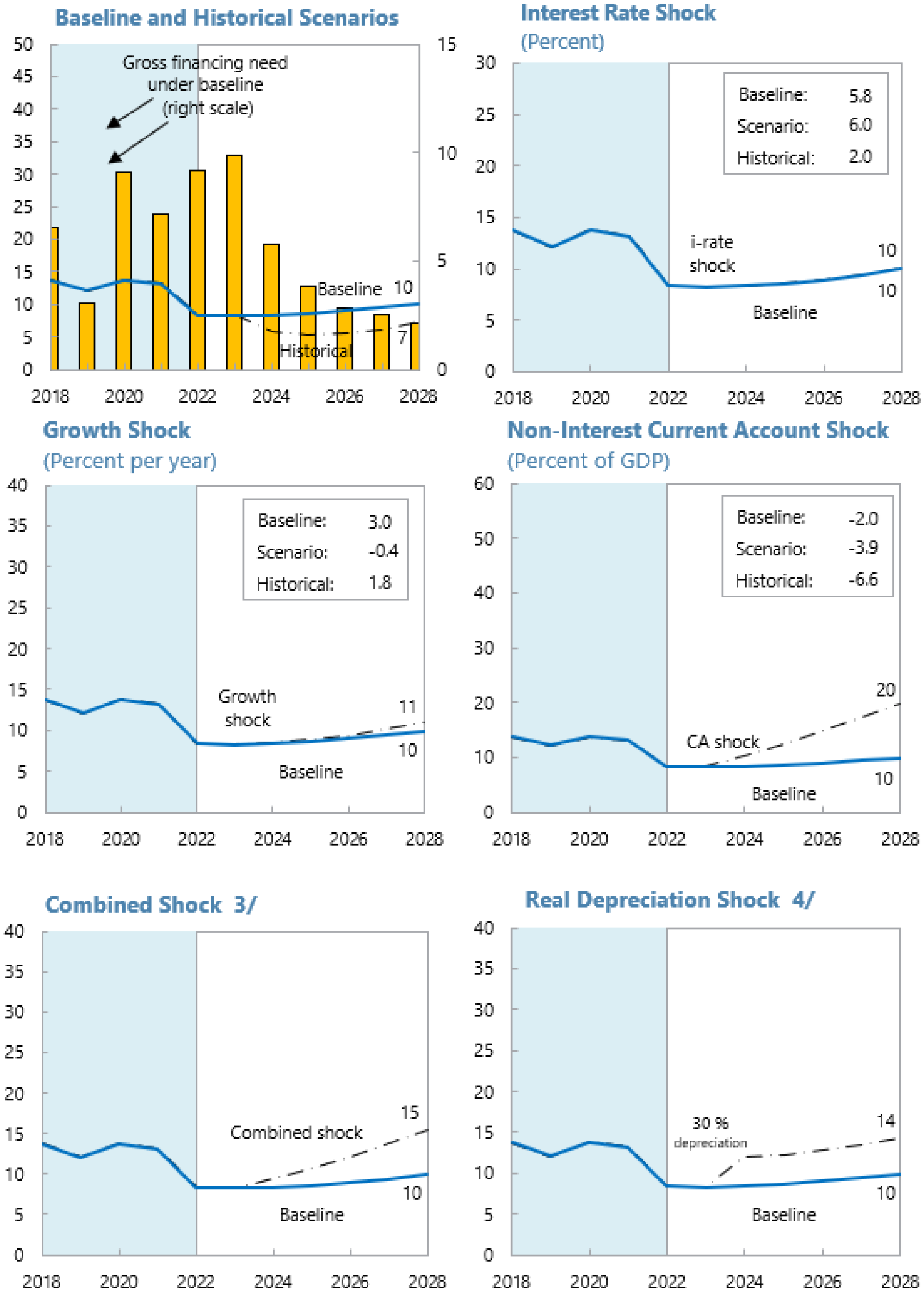


Figure 5. St. Kitts and Nevis: External Debt Sustainability: Bound Tests[1/ 2/]

(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 4. St. Kitts and Nevis: External Debt Sustainability Framework, 2018–28

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2018	2019	2020	2021	2022			2023	2024	2025	2026	2027	2028	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	13.7	12.1	13.8	13.2	8.4			**8.3**	**8.3**	**8.6**	**8.9**	**9.4**	**9.9**	**-2.6**
Change in external debt	-1.0	-1.6	1.7	-0.6	-4.8			-0.1	0.0	0.3	0.4	0.5	0.5	
Identified external debt-creating flows (4+8+9)	4.9	-2.0	9.3	2.1	2.1			4.9	1.1	-0.5	-1.2	-1.3	-1.8	
Current account deficit, excluding interest payments	5.1	1.9	7.7	6.1	7.9			8.6	4.5	2.5	1.5	1.0	0.6	
Deficit in balance of goods and services	-1.5	0.3	5.1	3.4	4.1			3.3	-1.4	-3.3	-4.2	-4.5	-4.9	
Exports	55.4	51.4	39.2	42.6	40.3			45.6	56.0	60.9	63.5	63.6	63.7	
Imports	53.9	51.7	44.3	46.1	44.4			48.9	54.6	57.6	59.3	59.0	58.8	
Net non-debt creating capital inflows (negative)	-0.3	-3.1	-1.0	-4.5	-4.3			-3.8	-3.6	-3.3	-3.0	-2.6	-2.6	
Automatic debt dynamics 1/	0.1	-0.7	2.7	0.6	-1.5			0.1	0.2	0.2	0.3	0.3	0.2	
Contribution from nominal interest rate	0.4	0.3	0.3	0.3	0.3			0.4	0.5	0.5	0.5	0.5	0.5	
Contribution from real GDP growth	-0.4	-0.6	2.0	0.5	-1.1			-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	
Contribution from price and exchange rate changes 2/	0.1	-0.4	0.3	-0.2	-0.7			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-5.9	0.3	-7.7	-2.7	-6.9			-4.9	-1.1	0.8	1.5	1.8	2.3	
External debt-to-exports ratio (in percent)	24.8	23.6	35.1	30.8	20.8			18.2	14.8	14.1	14.1	14.8	15.6	
Gross external financing need (in billions of US dollars) 4/	0.1	0.0	0.1	0.1	0.1			0.1	0.1	0.1	0.0	0.0	0.0	
in percent of GDP	6.5	3.1	9.1	7.2	9.2	10-Year	10-Year	9.9	5.8	3.9	2.8	2.5	2.1	
Scenario with key variables at their historical averages 5/								**8.3**	**5.8**	**5.2**	**5.5**	**6.1**	**7.3**	**-8.2**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Real GDP growth (in percent)	2.7	4.8	-14.0	-3.6	9.5	1.8	6.7	4.0	3.8	3.0	2.7	2.7	2.7	
GDP deflator in US dollars (change in percent)	-1.0	3.1	-2.5	1.7	5.5	1.4	2.4	3.3	1.6	1.8	2.0	2.0	2.0	
Nominal external interest rate (in percent)	2.4	2.3	2.2	2.2	2.3	2.0	0.4	5.7	5.9	6.0	5.9	5.7	5.4	
Growth of exports (US dollar terms, in percent)	18.3	0.1	-36.0	6.6	9.1	-0.2	0.0	21.6	29.5	13.9	9.2	4.9	5.0	
Growth of imports (US dollar terms, in percent)	7.2	3.6	-28.2	2.0	11.3	-1.1	0.0	18.4	17.7	10.6	7.9	4.4	4.4	
Current account balance, excluding interest payments	-5.1	-1.9	-7.7	-6.1	-7.9	-6.6	3.8	-8.6	-4.5	-2.5	-1.5	-1.0	-0.6	
Net non-debt creating capital inflows	0.3	3.1	1.0	4.5	4.3	8.1	7.2	3.8	3.6	3.3	3.0	2.6	2.6	

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.

Annex IX. Social Safety Net

Context

1. **The National Social Protection Strategy underpins the country's current social protection framework.** Its aim is to progressively develop social protection coverage for the population and prevent chronic poverty. The strategy recognizes social protection as a critical component of national poverty reduction efforts. It mainstreams considerations for social assistance, education and training, health care, and labor market issues.

2. **The social safety framework comprises social assistance programs and a social security system.** Social assistance programs are financed by government revenue, providing cash transfers, in kind benefits, and social care and assistance. The social security system is funded by contributions through private and public insurance mechanisms and taxations.

3. **The Poverty Alleviation Program (PAP) is the largest social assistance program, accounting for 94 percent of total social program spending in 2022.** It provides a monthly stipend of EC$500 to households with a gross monthly income of less than EC$3,000. The second and third largest programs are medical assistance and food voucher, each accounting for about 2 percent of total spending (Box 1). A number of small programs provide targeted support, including burial assistance, uniform assistance, rental assistance for the poor, support for foster care support, and support for youth at risk.

Policies for a Better Targeted and more Efficient Social Assistance System

4. **Means-tested programs are important policy tools for poverty reduction and social protection.** Means-tested transfers usually rely on a sophisticated system to target the population in need. They are more effective in targeting the population in need than universal transfers. But they may be difficult to implement in countries with limited administrative capacities and a large informal sector.

5. **The social assistance system in St. Kitts and Nevis can be enhance by strengthening the current system to enhance its coverage and targeting.** The current social assistance programs have a good coverage thanks to existing administrative capacity and data infrastructure. A relatively small informal sector (estimated at 10 percent of the labor force) is an enabling factor. Leveraging on the current infrastructure, priorities could be given to strengthening program designs and improve the efficiency of the system.

6. **Program eligibility can be redesigned to target the vulnerable population.** The eligibility for PAP is currently based on household income and does not account for households' special needs arising from, for example, the number of children and elderly. The authorities' ongoing effort to re-register beneficiaries under PAP and the plan is to consider a multivariate framework to determine vulnerability and program eligibility is a welcomed step forward.

7. A single beneficiary data system could help improve the efficiency of the social assistance system. A single beneficiary data system has the benefit of streamlining data collection and case management by minimizing duplication and improving the monitoring of beneficiaries transitioning in and out of the system. It could thus play a key role in improving inclusion and reduce exclusion errors of the social assistance system. The data system could be built on existing data infrastructure such as the national household registry, the national census, and the social security system. In this context, better cooperation could be established among different agencies, such as the Ministry of Social Development and Gender Affairs, the Ministry of Sustainable Development, and the SSB.

Box 1. St. Kitts and Nevis: Selected Social Assistance Programs

1. Poverty Alleviation Program (PAP)

PAP provides a monthly stipend of EC$500 to households with a gross monthly income of less than EC$3,000. PAP covers an estimated 40–50 percent of the households. It has 6,763 beneficiaries in September 2022.

2. Other programs

- A monthly food voucher is provided to the head of a household on behalf of the needy persons in the household. A monthly food voucher is made payable to the head of a household for one (1) to two (2) years on behalf of the needy persons in that said household. Vulnerability is measured in part by an income and expense analysis of the household. Where the remaining balance from the income is less than the minimum disposable income threshold, a food voucher benefit will be considered. Vouchers are valued as $200 for a family of 1–2 persons; $300 for a family of 3–4 persons; $400 for a family of more than 4 persons.
- Medical Assistance is granted to a citizen of the Federation of St. Kitts and Nevis who is unable to settle medical related expenses for primary, secondary or tertiary level medical care. It is granted based on the outcome of the applicant's income and expense analysis. The maximum payable benefit to an individual is $5000.00 USD.

3. Income support during COVID

An Income Support Program was initiated during COVID in addition to the regular social assistance programs. This program provided income support of up to $1,000 per month for workers whose income would have been impacted by COVID-19. Registered self-employed persons who were able to show that they have been impacted would also qualify for this support. The support is approved on a case-by-case basis. It had 4,238 beneficiaries over the period January to June 2022. The program was phased out in Q2 2022.

Annex X. Measures to Support Credit Growth and Pending Regulatory Reforms

1. The St. Kitts and Nevis banking sector is over 2 times of GDP and the second largest in the ECCU for total assets. The sector has ample capital and liquidity buffers but some of the highest NPLs (around 20 percent) in the ECCU. An increase in NPLs following the exit from the Covid-moratoria could put pressure on bank capital. Bank provisions are now close to the ECCB requirement of 60 percent but would need to rise further to meet the 100 percent target for long-standing NPLs by 2024.

- **Close supervisory monitoring to ensure proper loan classification is required.** Additional data reporting will be needed on restructured loans. Asset quality and provisioning buffers should be closely monitored given the new risks in 2022–23 (see Risk Assessment Matrix). An audit could be considered.

- **Loans to the construction and real estate sectors stand as a large share of credit.** Although there is currently no credit boom in the economy, risks of overheating construction and real estate sectors and rising house prices stemming from the potential proliferation of CBI investment need to be monitored.

- **The credit union segment requires close monitoring.** With 20 percent of GDP of assets, it grew moderately fast in 2021 and has relatively low NPLs of 5.5 percent despite the pandemic. The Financial Service Regulatory Commission's (FSRC) supervision of the credit union segment should be strengthened. The FSRC should carry out analysis of asset quality and conduct stress tests of large credit unions. Updated provisioning guidance similar to the new ECCB standard can help with timely loss recognition.

2. The delayed economic recovery calls for renewed emphasis on supporting credit growth. Regional initiatives could help alleviate constraints to credit, including establishing a regional credit bureau and registry, addressing collateral constraints for MSME, including via a regional partial credit guarantee scheme, revisiting the 2 percent minimum household savings deposit rate, and passing relevant securities legislation to deepen capital markets.

3. 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. ECAMC limited resources and the uncertainty with the valuation of collateral impede these efforts.

4. Regarding the AML/CFT issues, efforts are needed to mitigate the CBR risks, as well as the risk to the CBI program. St. Kitts and Nevis is one of the three countries in the ECCU that have not yet designated the ECCB as the supervisory authority for supervision of AML/CFT for banks. Further action is needed to pass other financial sector legislation in St. Kitts and Nevis, as advised by the ECCB (table).

Area	Action Required	Status
Transfer of AML/CFT regulation for entities licensed under the Banking Act to ECCB	Enactment of Amendments to AML/CFT legislation	*Pending*
Banking Act Amendments	Enactment of Banking (Amendment) Bill, 2018	*Pending*
Banking (Licences) Regulations	Issuance of Regulations	*Pending*
Banking (Abandoned Property) Regulations	Issuance of Regulations	*Pending*
Amendment to the Eastern Caribbean Central Bank Agreement Act, 1983	Enactment of Eastern Caribbean Central Bank (Amendment) Bill	*Pending*
Payment Systems (Eastern Caribbean Automated Clearing House System) (Amendment) Rules 2021	Publication in *Gazette*	*Pending*
Investment Funds Bill	Enactment of Bill	*Pending*
ECSRC Agreement Bill	Enactment of Bill	*Pending*

5. Further progress is needed on addressing AML/CFT issues. St. Kitts and Nevis' fourth round mutual evaluation report (MER) was adopted by the Caribbean Financial Action Task Force (CFATF) in December 2021. The report presented an unfavorable picture of St. Kitts and Nevis' AML/CFT regime, assessing the country as having a low level of effectiveness[1] in 8 of the 11 immediate outcomes assessed and a moderate level of effectiveness for the remaining immediate outcomes. As a result of these ratings St. Kitts and Nevis will be subject to enhanced follow-up by the CFATF. St. Kitts and Nevis' ML/TF risks arise primarily from (i) its domestic financial sector, (ii) its activity as an international business center, particularly as it relates to company formation activity and (iii) its CBI program. The MER identified deficiencies in the country's understanding of its ML/TF risk, including on the part of the Financial Services Regulatory Commission (FSRC), the supervisor of financial institutions and trust and company service providers (TCSP). Deficiencies were also identified in the FSRC's operations, notably in its failure to devote sufficient attention to AML/CFT supervision. The FSRC was found to be inadequately resourced, and assessors noted differences in the supervisory approach adopted by the St. Kitts and Nevis branches. Deficiencies in the FSRC's supervision of TCSP are very relevant in the context of the CBI program as these entities are the intermediaries through which applications are submitted to the CBI Unit. Measures announced by the European Parliament in March 2022 to deny visa-free entry to persons from countries with CBI programs could potentially place further pressures on CBRs as correspondent banks take note of these concerns. The MER also expressed concern about the absence of effective AML/CFT supervision of real estate agents.

6. The authorities have taken several measures and are encouraged to continue their efforts. The authorities are in the process of conducting another national risk assessment (NRA). In response to concerns about deficiencies in their understanding of ML/FT risk, the new NRA is

[1] Under the FATF Methodology for assessing the effectiveness of countries' AML/CFT regimes, countries are assessed against a four-point scale of High, Substantial, Moderate and Low levels of effectiveness.

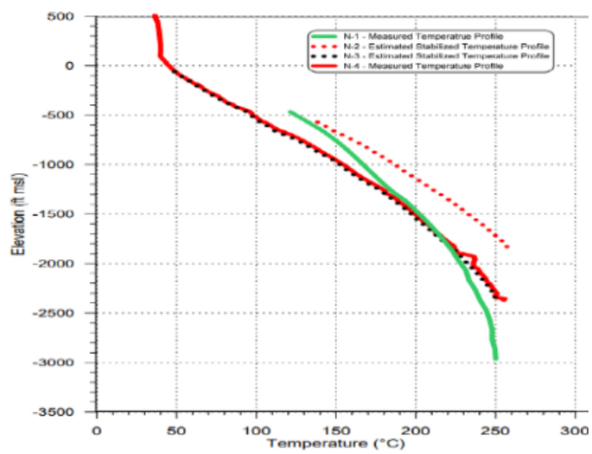
designed to undertake a more robust and detailed assessment and will present its findings in a more granular manner. To improve the consistency in the supervisory framework and practices used by the FSRC's St. Kitts and Nevis branches, a supervisory manual is being developed which will guide the branches as they undertake their supervisory functions and promote greater consistency in their practices. The St. Kitts FSRC office has taken measures to increase its staff resources. Over the period 2020 to 2022 four new staff members joined the Commission, including a manager, two regulators an additional staff member in the registry. The FSRC did not outline any measures taken in response to the MER's findings with respect to deficiencies in the supervision of TCSPs and international banks. The authorities recognize the vulnerability arising for the absence of effective AML/CFT supervisory arrangements for real estate agents, but no specific measures have been taken in this regard. The absence of effective supervisory arrangement for these entities remains a concern as they can provide services to persons who have acquired citizenship through CBI and who are in a high ML/TF risk category. Based on information provided during the mission the measures followed by the FSRC during onsite examinations appear to be largely compliance driven as they seek to confirm that institutions have met their obligations arising from legal and regulatory requirements. There appears to be scope for the FSRC to enhance its risk-based practices during onsite examinations (e.g., placing more emphasis on assessing the effectiveness of risk management frameworks and practices rather than identifying compliance exceptions). The authorities are encouraged to continue their efforts to strengthen St. Kitts and Nevis' AMLCFT regime with particular attention to enhancing measures related to the effective supervision of international banks, TCSPs and real estate agents and by continuing to strengthen the FSRC's resources and its risk-based supervisory systems and practices.

Annex XI. Developing Geothermal Energy in St. Kitts and Nevis

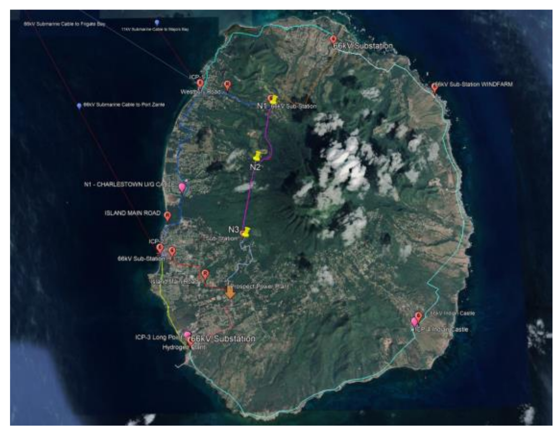
1. Renewable energy development present significant opportunities to boost climate resilience and enhance energy security in St. Kitts and Nevis. Geothermal energy has a high potential to be a pillar in this transition due to its high capacity and the country's abundance endowment of geothermal resources. Compared to other renewable sources such as solar and wind, the high capacity of geothermal sources allows power plants to run nonstop, making it a more consistent supply of baseload energy.

2. Geothermal resources are abundant in St. Kitts and Nevis. The islands of St. Kitts and Nevis are part of the Lesser Antilles islands formed as results of volcanic activities along the eastern edge of the Caribbean tectonic plate. Several sites with encouraging geothermal indicia have been identified in Nevis.[1] The estimated geothermal energy capacity ranges from 500 to 1,000 MW.

Temperature of Test Wells



Nevis' Geothermal Wells



Source: National authorities.

3. Renewable energy development is expected in phases. Under the St. Kitts and Nevis Climate Enhancement project, the first phase of the project aims to develop the capacity to meet local electricity demand. This includes a new 30 MW geothermal plant in Nevis, a new 66 kV transmission system with interconnection between St. Kitts and Nevis. Concurrent plans to upgrade the current system under consideration include distribution system update and the digitalization of the electricity system. Later phases will include additional geothermal plants to supply electricity for regional export, offshore wind plants, a hydrogen plant, and integration of the renewable energy sector with other sectors of the economy.

4. Multiple resources could be explored to finance this development. The estimated costs of the first phase are 150 million USD, including 30 million for drilling, 60 million for geothermal

[1] See Erouscilla P. Joseph, Seismic Research Unit, University of the West Indies, St. Augustine, "Geothermal Energy Potential in the Caribbean Region", or Gerald W. Huttrer "Geothermal potential of St. Kitts and Nevis".

plan, and 50 million for transmission. The authorities received Contingency Recoverable Grant from the CDB and are exploring funding with other regional and multinational sources. Private funding could also be explored by encouraging private investment through regulatory incentives and channeling CBI revenue.

INTERNATIONAL MONETARY FUND

ST. KITTS AND NEVIS

February 28, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | The Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of December 31, 2022)

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 Tranche Position	0.98	7.86

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	20.48	100.00
Holdings	16.60	81.04

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

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

Projected Payments to the Fund [1/]

	Forthcoming				
	2023	2024	2025	2026	2027
Principal					
Charges/Interest	0.11	0.11	0.11	0.11	0.11
Total	0.11	0.11	0.11	0.11	0.11

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.

Outright Loans: None

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

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

Exchange Arrangements: 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: An update safeguards assessment of the ECCB, finalized in August 2021, found strong external audit and financial reporting practices that continue to be aligned with international standards, and further improvement in the capacity of the internal audit function. Legal reforms were recommended to further strengthen operational autonomy of the ECCB and align its Agreement Act with leading practices. The issuance of digital currency (D-Cash) introduced new risks that require additional control and oversight, including strengthening the related project-governance framework.

Article IV Consultation: St. Kitts and Nevis is on a 12-month cycle. The last Article IV consultation was concluded on September 13, 2021, by the Executive Board: Meeting 21/90.

Technical Assistance: Several missions from MCM, FAD, STA, supported by the Caribbean Regional Technical Assistance Centre (CARTAC), have visited the country. Below the compilation of the TA delivered from 2018–22.

St. Kitts and Nevis: Fund Technical Assistance, 2018–22		
Start date	**End date**	**Mission description**
Jun. 19, 2018	Jun. 26, 2018	Improving the budget process-Program Budgeting and AG action plan implementation
Aug. 20, 2018	Aug. 31, 2018	CARTAC: Improve BPM6-based BOP and IIP
May 20, 2019	May 31, 2019	CARTAC: Assist with the compilation of the SUT
Oct. 21, 2019	Nov. 1, 2019	CARTAC: BOP/IIP - Enhance Source Data
Jun. 2, 2020	Jun. 5, 2020	CARTAC: Training - (Remote TA) Enhancing the Medium Term Macro-Fiscal Framework
Aug. 31, 2020	Sep. 15, 2020	(Remote TA) CARTAC: Longer BPM6 BOP time series
Oct. 4, 2020	Oct. 21, 2020	CARTAC: Developing a Compliance Program for Large & Medium Taxpayers (WFH)
Apr. 5, 2021	Apr. 30, 2021	(Remote TA) CARTAC: National Accounts - VT Improving estimates of GDP
Apr. 19, 2021	Apr. 30, 2021	(Remote TA) CARTAC: VT Consumer Prices/Producer Price - Finalize the new CPI series build capacity
May 1, 2021	Apr. 30, 2022	St Kitts and Nevis - LTX Desk Work
May 3, 2021	Aug. 31, 2021	FY21 St Kitts and Nevis - National Accounts
Jun. 7, 2021	Jun. 22, 2021	STX - Development of a CRMS Implementation Plan
Nov. 15, 2021	Dec. 3, 2021	STX - Strengthening Core Business Functions - Audit Capacity (RTAT)
Nov. 22, 2021	Nov. 26, 2021	St Kitts and Nevis - Develop Quarterly BOP Data
Jan. 10. 2022	Jan. 28, 2022	(Virtual mission) Review of the Nevis Intl Banking Ordinance
Aug. 8, 2022	Aug. 26, 2022	(Virtual mission) ICT support - SIGTAS Clean up
Aug. 8, 2022	Aug. 12, 2022	St Kitts and Nevis - BOP Source data
Sep. 1, 2022	Oct. 31, 2022	Mission LTX/STX Agile PEFA Assessment FY23
Sep. 6, 2022	Sep. 9, 2022	Building capacity in medium-term macro framework

FSAP: A joint IMF/World Bank team assessed the financial sector of the ECCU member countries in two missions: September 1–19 and October 20–31, 2003. The missions evaluated development needs and opportunities for the financial sector, identified potential vulnerabilities of markets and financial institutions, and identified risks to macroeconomic stability from weaknesses in the financial sector. The Financial System Stability Assessment (FSSA) was discussed by the Executive Board on May 5, 2004, and subsequently published on the IMF's external website, including the Report on the Observance of Standards and Codes (ROSC) on Banking Supervision.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

(As of February 2, 2023)

- World Bank

WBG Finances - Country Details - St. Kitts and Nevis (worldbank.org)

- Caribbean Development Bank

Saint Kitts and Nevis | Caribbean Development Bank (caribank.org)

STATISTICAL ISSUES

(As of February 2, 2023)

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 local government (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 (SSB). 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. The debt data includes the general government, the local government, and the statutory bodies, but not government-owned entities such as the National Bank. There is no reporting on contingent liabilities, for example, arising from the debt-for-land swap (this data is obtained from the National Bank's annual reports) and from the SSB.

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. Furthermore, in late 2017, the ECCB stopped publishing a plethora of useful FSIs.
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. The recording of CBI revenues is a complex issue and should depend on the CBI option (cash, real estate, etc.) and the nature of proceeds (main payment, due diligence, or government fee, etc.). STA is working on a methodological approach which should then be adopted by the ECCB.
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 of Common Indicators Required for Surveillance
(As of February 2, 2023)

	Date of Latest Observation	Date Received	Frequency of Data[5]	Frequency of Reporting[5]	Frequency of Publication[5]
Exchange rate[1]	Fixed rate	NA	NA	NA	NA
International reserve assets and reserve liabilities of the monetary authorities	Nov. 2022	Jan. 2022	M	M	M
Reserve/base money	Nov. 2022	Jan. 2023	M	M	M
Broad money	Nov. 2022	Jan. 2023	M	M	M
Central bank balance sheet	Nov. 2022	Jan. 2023	M	M	M
Consolidated balance sheet of the banking system	Nov. 2022	Jan. 2023	M	M	M
Interest rates	June 2022	Sep. 2022	Q	Q	Q
Consumer price index	Aug. 2022	Oct. 2022	M	M	M
Revenue, expenditure, balance and composition of financing—central government	Nov. 2022	Jan. 2023	M	M	M
Revenue, expenditure, balance and composition of financing—general government[2]	Nov. 2022	Jan. 2023	M	M	M
Stock of central government and central government-guaranteed debt[3]	2022Q3	2022Q4	Q	Q	Q
External current account balance	2021	Dec. 2022	A	A	A
Exports and imports of goods and services	2021	Dec. 2022	A	Q	Q
GDP/GNP	2021	Nov. 2022	A	A	A
Gross external debt	2022Q3	2022Q4	Q	Q	Q
International Investment Position[4]	2021	Dec. 2022	A	A	A

[1] St. Kitts and Nevis is a member of the Eastern Caribbean Currency Union, in which the common currency of all member states (E.C. dollar) is pegged to the U.S. dollar at US$1 = EC$2.70.
[2] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state-owned enterprises.
[3] Including domestic and external composition and maturity.
[4] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[5] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

Statement by Mr. Jennings, Mr. O'Brolchain, and Ms. Edwards on St. Kitts and Nevis
March 15, 2023

On behalf of the authorities of St. Kitts and Nevis, we express gratitude to Mr. Alexandre Chailloux and his team for constructive discussions and thoughtful and candid advice. **Our authorities found the discussions timely and helpful. They largely share staff's assessment and support the recommendations to help the economy emerge from the current global challenges more robust, inclusive and sustainable**.

The new government elected in St. Kitts and Nevis in 2022 is embarking into a more ambitious agenda of economic transformation of the country with the intention of *"becoming a sustainable island economy"* and has put forward a development strategy that is targeted at facilitating recovery from the pandemic and cost of living crisis, strengthening social services to protect the vulnerable from external shocks and broadening the economic base beyond the tourism sector. In that regard, they propose to develop the renewable energy sector to meet domestic needs and possibly for export. They also intend to increase investment in the agriculture sector to promote food security, to re-align the manufacturing sector and to strengthen the financial services sector.

St. Kitts and Nevis has had a good track record of prudent fiscal policies but given its susceptibility to natural disasters, the authorities have made fiscal consolidation a key pillar of their development strategy. In that context, the new government considers it important to begin its tenure with an active engagement with the Fund with a view to building an effective partnership that will aid in its policy formulation to strengthen finances and to continue building adequate fiscal buffers.

Recent Economic Developments and Policy Response to the Global Challenges

The economic impact of the pandemic and the cost-of-living crisis has been grave, but a rebound is on the way. Staff projects growth to be 9 percent in 2022 after contractions of 14.5 percent in 2020 and 0.9 percent in 2021. The rebound in tourism is the main contributing factor to the improved economic performance.

Consumer prices increased from 1.9 percent in 2021 to 3.8 percent in 2022 largely because of higher food prices and shipping costs. Actions taken by the government to mitigate the impact included an electricity subsidy, income support and increased wages in the public sector.

The fiscal deficit widened in 2022 with the gap financed with resources from the CBI program. The primary balance, excluding CBI revenue and expenditure and land buybacks, deteriorated to a deficit of 17 percent of GDP compared to 15 percent in 2021. This worsened position reflects the impact of the various revenue measures and increased expenditures implemented in response to the dual crises. Tax revenue continued to fall due to a decline in income taxes.

Financial sector conditions have so far remained stable, and buffers remain adequate. Bank profits declined as they recorded losses on the overseas investment portfolio. Capital ratios declined in 2021–22 but are still well above the 8 percent minimum. The level of non-performing loans remains high largely because of legacy loans within the system, but post-moratoria NPL increases have not yet materialized.

Recovery in the tourism sector is expected to contribute to improvements in the external sector, resulting in a narrowing of the current account deficit. For 2022, it is estimated that the current account deficit was 14.5 percent of GDP compared to 0.8 percent of GDP in 2021. This was partly offset by lower imports and profit outflows.

Macroeconomic Outlook and Policies

The risks to the economic outlook are tilted to the downside in the short term but are expected to improve over the medium term with the trajectory of recovery, subject to the success of the government's proposed investments and the path of global conditions. Staff project growth to be 4.5 percent of GDP in 2023 and 3.8 percent in 2024, with GDP returning to the pre-pandemic level by end-2024. By 2026, growth is expected to be in line with potential, estimated at 2.7 percent of GDP. Inflation is projected to be 2.3 percent in 2023 and 2 percent in 2024.

Fiscal policy

Fiscal consolidation is a priority for the authorities. The authorities provided support to mitigate the impact of the pandemic and cost of living crisis at a level higher than the rest of the Eastern Caribbean Currency Union (ECCU). They are committed to withdrawing these measures and, to that effect, propose to discontinue the electricity subsidy implemented to address the rise in fuel and energy costs and the income support measures introduced during the COVID-19 pandemic. Better targeting of social support will be guided by a reform of the Poverty Alleviation Program (PAP). Complementary measures are being considered to streamline expenditure, including public sector wage bill control.

The authorities aim to maintain strong public investment. They have indicated that several large public sector projects are being executed through government statutory agencies. The authorities also confirmed that a number of capital projects are at the design stage and will be pursued over the medium term. These factors account for a relatively small capital expenditure being included in the central government budget. The authorities are confident that this approach is a more efficient way of managing public investments.

The CBI program has performed well, and the authorities have relied mostly on the good performance of the CBI program to fund the pandemic and cost of living mitigation measures.

A key aspect of fiscal consolidation is to continue to build fiscal buffers. In that regard, the authorities are fully committed to using the CBI program earnings to boost savings. They concur with staff recommendations for the establishment of a Sovereign Wealth Fund (SWF) and have requested technical assistance to update the guidance on the formation of the Fund.

They accept that the over-reliance on CBI resources is not optimal and see the need to increase domestic revenues. To that end, the authorities have requested technical assistance to review the current revenue framework and will give due consideration to the recommendations to improve administration and efficiency of the tax system that emanate from the review.

The authorities are also mindful of the challenges facing CBI programs and are working with other member states of the ECCU which also have CBI programs to improve transparency and the governance arrangements. To that end, the St Kitts and Nevis Government joined other ECCU member states in a meeting with representatives of the United States Government and propose to meet the European Union also.

Financial sector policies

Maintaining financial sector stability remains crucial to support economic recovery, and actions to bolster financial system stability will deepen. Special emphasis will be placed on the large systemically important bank and on the non-bank sector. In the case of the former, the authorities support a review of the business model of the institution with a view to lessening risks and minimizing losses that could occur as a result of global financial and monetary conditions. Regarding the non-bank sector, the authorities agree that efforts to improve supervision and monitoring are vital. The authorities have recognized the importance of having adequate capacity to deal with the shortcomings within the sector and have increased the number of staff of the FSRC.

The authorities have taken several measures to address outstanding AML/CFT matters and are committed to continue these efforts. The national risk assessment (NRA) which is being conducted will help in the design of a more robust system. The authorities are also considering the outstanding matter to have the Eastern Caribbean Central Bank (ECCB) as the AML/CFT supervisor for financial institutions licensed under the Banking Act.

Structural reforms

Reforms to boost labor productivity are essential to both the private and public sector and will be pursued. The authorities see value in reorienting skills training towards the jobs that will be created through the new investments that are proposed. Also, training and job opportunities will be integrated into the review of the STEP program with the goal of transitioning more people into the formal workforce. Moreover, the authorities concurred that the inclusion of arrangements for tripartite engagement is useful and should be considered in the review of labor protection legislations and unemployment benefits which are planned.

Building resilience to natural hazards is imperative. Plans to build resilient infrastructure, development of multiple sources of renewable energy and reduced use of fossil fuels are keystones in the authorities plans and will not only address the climate concerns but also enhance competitiveness. The authorities are fully onboard with staff's recommendation on possible steps to financial resilience to respond to climate change impacts and natural disasters and are giving active considerations to the proposals. They are also requesting Fund technical assistance to effect these recommendations.

Concluding Remarks

The authorities in St. Kitts and Nevis highly value the engagement with the Fund. Like many other economies in the Caribbean, particularly the tourism-based ones, St. Kitts and Nevis is facing unparalleled disruptions from the lingering effect of the COVID-19 pandemic, high prices and the impacts of global monetary tightening conditions. Technical assistance and other support from the Fund and other international partners remain key in the authorities' efforts to address the myriad of challenges and to stay on track to achieving inclusive and sustainable development.