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EB/CM/St. Christopher and Nevis/83/1

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December 19, 1983

To: Members of the Committee on Membership - St. Christopher and Nevis

From: The Committee Secretary

Subject: St. Christopher and Nevis - Calculation of Quota

A staff memorandum relating to the calculation of a quota for St. Christopher and Nevis is attached. This matter will be considered at a meeting of the Committee scheduled for Tuesday, January 10, 1984.

Att: (1)

Other Distribution:
Members of the Executive Board
Department Heads
Mr. Crévier (IBRD)

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INTERNATIONAL MONETARY FUND

St. Christopher and Nevis 1/ - Calculation of Quota

Prepared by Treasurer's and Western Hemisphere Departments

(In consultation with the Legal Department)

Approved by W.O. Habermeier and E. Wiesner

December 16, 1983

I. Background

St. Kitts and Nevis, were first sighted by Christopher Columbus in 1493, and colonized by English and French settlers in the seventeenth century. Following the defeat of the French in the latter part of the eighteenth century, the islands came under British control. In February 1967, St. Kitts and Nevis, together with Anguilla, became a self-governing state, associated with the United Kingdom. However, three months later, Anguilla unilaterally severed relations with the Government of St. Kitts. The separation of Anguilla from St. Kitts and Nevis was legalized in December 1980 and, on September 19, 1983, St. Kitts and Nevis became a fully independent federated state.

The islands of St. Kitts and Nevis are located in the northeastern part of the Caribbean, among the Leeward Islands, and are separated by a strait two miles wide. The area of St. Kitts is 65 square miles while that of Nevis is 36 square miles. The climate in both islands is tropical, moderated by oceanic influences, and the average temperature during the year is 78 degrees Fahrenheit, with the wet season running from August to November. The economic infrastructure has improved substantially in the last five years with the completion of several large projects including a deep-water port, a new airport terminal with a repaved runway, road construction, the establishment of ferry service between Nevis and St. Kitts, and the installation of telecommunication facilities and a new electricity generator.

According to the 1980 census, the two islands have a population of 43,500, of which 34,000 are in St. Kitts and 9,500 in Nevis. Comparison with the previous census of 1970 and 1960 shows that the population has been steadily declining, reflecting a continuing net emigration from the islands. In 1980, the labor force and employment were estimated at 17,000 and 13,400, respectively, implying an unemployment rate of about 21 percent. Per capita income in 1980 was EC$3,000, equivalent to about SDR 850 (US$1,100).

1/ More commonly referred to as St. Kitts-Nevis, which is an officially accepted name.

St. Kitts-Nevis is a member of the Eastern Caribbean Central Bank (ECCB) and shares a common currency, the East Caribbean dollar (EC$) with six other islands.1/ It is also a member of the Organization of the East Caribbean States (OECS), the Caribbean Common Market (CARICOM), the Organization of American States (OAS), and the United Nations.

II. Economic Structure

1. Production trends

Agriculture remains the most important sector in St. Kitts-Nevis, accounting in 1982 for about one fifth of GDP and one third of total employment (Table 1). The sugar industry is the main activity both in agriculture and manufacturing. The industry was taken over by the Government in 1972 following years of neglect by the former owners and is now operated jointly by the National Agricultural Corporation (NACO) and the St. Kitts Sugar Manufacturing Corporation (SSMC). Since its establishment in 1975, NACO has implemented successfully a rehabilitation program and the industry's output of refined sugar reached a peak of 41,000 tons in 1977, from a yearly average of about 25,000 tons in 1970-75. However, the industry suffered a setback in 1978 with the outbreak of smut disease and output declined to 32,000 tons in 1981, before recovering to 36,000 tons in 1982. The unit price of exported sugar has moved in inverse relation to output: from a peak of US$575 per ton in 1975, the unit price fell to US$245 per ton in 1977, but recovered to US$505 per ton in 1981 before falling to US$340 per ton in 1982. In recent years, the Government has encouraged the production of cotton, groundnuts, and staple food crops with the objective of diversifying the agricultural base.

The manufacturing sector has traditionally been dependent on the milling and refining of sugar cane; however, since the mid-1970s, a number of enclave industries, producing mainly for export, have become established on the island,2/ and the share of sugar refining in total manufacturing output declined from two thirds in 1977 to one half in 1980. Notwithstanding the rapid growth in these new industries, overall manufacturing output grew at an average annual rate of only 2-1/2 percent from 1977 to 1980, due mainly to the decline in sugar output during that period. In 1981, two large factories--manufacturing shoes and garments--closed down, which coupled with a further decline in sugar output, resulted in a 10-1/2 percent decline in manufacturing production. In 1982, manufacturing output rebounded by 8-1/2 percent, reflecting mainly the recovery in the sugar industry.

1/ The other islands are: Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Lucia, and St. Vincent and the Grenadines.

2/ Shoes, textiles, assembly of electronic components, food processing, and aerated beverage bottling, among others.

Table 1. St. Kitts-Nevis: Composition of GDP at Current Factor Cost

(In percent of GDP)

	1978	1979	1980	1981	1982
GDP	100.0	100.0	100.0	100.0	100.0
Agriculture	20.2	19.1	20.5	15.6	20.2
Sugar cane	(9.8)	(8.6)	(10.0)	(5.5)	(10.2)
Other	(10.4)	(10.5)	(10.5)	(10.1)	(10.0)
Mining	0.2	0.3	0.3	0.3	0.3
Manufacturing	16.8	14.3	15.0	14.2	13.5
Sugar	(9.2)	(8.1)	(7.5)	(7.3)	(6.5)
Other	(7.6)	(6.2)	(7.5)	(6.9)	(7.0)
Construction	7.0	9.1	10.0	8.6	7.1
Electricity and water	0.9	0.9	0.8	0.9	0.9
Wholesale and retail trade	8.6	9.1	9.7	10.9	10.6
Hotels and restaurants	4.2	5.4	4.2	4.3	3.1
Transportation and communication	9.3	8.8	9.5	11.9	11.8
Banking and insurance	5.1	5.1	5.0	4.6	4.5
Real estate	6.8	7.3	6.3	5.9	5.6
Government services	20.1	20.1	17.9	20.8	20.3
Other services	4.5	4.4	4.9	5.2	5.3
Less imputed banking services	3.7	3.9	4.1	3.2	3.2

Source: Statistical Office, Planning Unit.

In recent years, tourism has been growing strongly, reflecting regional trends, a stepped up promotion effort by the Government and the improvement of air travel and hotel facilities in St. Kitts-Nevis. The number of stopover visitors doubled from 1977 to 1979 and increased again by 11 percent in 1981 with the completion of the new airport terminal. The boom in tourism has in turn stimulated construction in hotels and restaurants and the development of the transport and communication sectors. Because of the recession in industrial countries the tourist industry slackened somewhat in 1982.

Overall, from 1977 to 1981, real GDP increased at an average annual rate of 5 percent, on account of the growth in tourism, the development of several infrastructure projects, and the expansion of the government sector (Table 2). However, in 1982 real output growth declined to 1-1/2 percent as tourist arrivals slackened and infrastructural projects reached completion.

Table 2. St. Kitts-Nevis: Economic Indicators

	1978	1979	1980	1981	1982
(In millions of East Caribbean dollars)					
GDP at current market price	95.8	109.9	133.2	158.9	162.3
GDP at current factor cost	78.4	89.3	105.4	126.1	138.2
GDP at constant factor cost	72.5	78.0	81.2	86.5	87.9
(1977 = 100)					
Implicit GDP deflator (at factor cost)	108.1	114.5	129.8	145.8	157.2
(Annual percentage change)					
GDP at current market price	14.8	14.7	21.2	19.3	2.1
Real GDP	2.2	7.6	4.1	6.5	1.6
Implicit GDP deflator	8.1	5.9	13.4	12.3	7.8
Consumer price index	12.2	10.7	17.8	10.4	5.9

Sources: Statistical Office, Planning Unit, and Fund staff estimates.

2. Prices and wages

Given the openness of the economy, price movements are strongly influenced by the behavior of import prices. The inflation rate--measured by changes in the consumer price index--rose sharply in 1980 following the increase in oil prices. The average yearly increase for the period 1978-81 was 12-1/2 percent but, in 1982, the inflation rate came down to 6 percent (Table 3).

From the scattered information available, wage increases appeared to have kept pace with inflation in the second half of the 1970s. In the Central Government, salaries of civil servants are reviewed by a commission once every five years, a practice which is common in former British colonies. However, in 1978 the Government granted an interim (minimum) increase of 40 percent to all civil servants in view of the rapid rise in the cost of living. In 1981, central government employee salaries were again raised by 40-50 percent, depending on income levels. Outside the Central Government, wage information is only available for the sugar industry. In addition to regular wages, sugar workers also receive "goat water" (special bonuses which depend on the price of sugar). Annual increases in regular wages were in the neighborhood of 10 to 15 percent from 1977 to 1981 but, in 1982, the wage increase was reduced to 3 percent because of the collapse in sugar prices. The goat water payment, which had increased to a yearly peak of EC$3.1 million in 1981, was reduced to EC$1.3 million in 1982; no such payment will be made in 1983.

Table 3. St. Kitts-Nevis: Retail Price Index

(Annual percentage change)

	1978	1979	1980	1981	1982
All items (average of period)	12.2	10.7	17.8	10.4	5.9
Food	14.0	10.6	14.2	11.0	3.1
Alcoholic beverages and tobacco	4.5	11.4	15.5	11.4	10.6
Housing	20.5	5.5	2.7	2.7	3.1
Fuel and light	4.3	14.5	29.3	4.4	4.0
Household and miscellaneous items	15.2	12.1	19.7	16.6	8.1
Clothing and footwear	9.0	6.9	17.2	13.1	--
Other	5.3	15.0	32.8	8.1	11.4

Sources: Statistical Office, Planning Unit.

III. The Public Sector

1. Overview

The public sector in St. Kitts-Nevis encompasses the Central Government, the Nevis Administration,1/ the Social Security Scheme, and five nonfinancial state enterprises.2/ The Government also owns 60 percent of the St. Kitts-Nevis-Anguilla National Bank, 100 percent of the Development Bank of St. Kitts and Nevis, and controls the St. Kitts-Nevis Tourist Board.

The financial position of the consolidated public sector showed a sharp improvement in 1979, with public sector savings reaching the equivalent of 6 1/2 percent of GDP (Table 4). However, the public finances deteriorated in subsequent years and the current balance of the public sector shifted to an average deficit equivalent to 2 percent of GDP in 1981 and 1982. The weakness of the public finances in 1981 and 1982 was attributable to an increase in civil service salaries in 1981 and the collapse of sugar prices on the world market in 1982.

1/ Prior to independence, the Nevis Administration was subsumed under the Central Government as a separate Ministry but, with independence, the Nevis island has been granted legislative, administrative, and financial autonomy.

2/ Consisting of the National Agricultural Corporation (NACO), the St. Kitts Sugar Manufacturing Corporation (SSMC), the Central Marketing Corporation (CEMACO), the Frigate Bay Development Corporation, and the Port Authority (a statutory body which was formed in early 1983).

Table 4. St. Kitts-Nevis: Consolidated Operations of the Public Sector

	1978	1979	1980	1981	1982
(In millions of East Caribbean dollars)					
Current revenue	37.0	43.2	55.1	60.8	55.2
Current expenditure	37.8	36.1	53.4	65.2	57.0
Current balance	-0.8	7.1	1.7	-4.4	-1.8
Capital receipts	0.6	0.2	0.2	0.2	0.2
Capital expenditure (including net lending)	12.0	16.8	27.9	12.6	11.1
Overall balance	-12.2	-9.5	-26.0	-16.8	-12.7
Financing	12.2	9.5	26.0	16.8	12.7
Official grants and loans (net)	6.2	10.4	14.7	6.5	5.8
ECCA	--	--	--	--	2.6
Change in foreign assets	-0.4	-0.3	4.4	-0.4	1.6
Domestic	6.4	-0.6	6.9	10.7	2.7
Commercial banks 1/	(...)	(...)	(1.6)	(12.8)	(0.5)
Other	(...)	(...)	(5.3)	(-2.1)	(2.2)
(In percent of GDP)					
Current revenue	38.6	39.3	41.4	38.3	34.0
Current expenditure	39.4	32.8	40.1	41.0	35.1
Current balance	-0.8	6.5	1.3	-2.7	-1.1
Capital receipts	0.6	0.2	0.2	0.1	0.1
Capital expenditure	12.5	15.3	20.9	7.9	6.8
Overall balance	-12.7	-8.6	-19.4	-10.5	-7.8

Sources: Ministry of Finance; and Fund staff estimates.

1/ Disaggregated figures for commercial bank deposits are not available prior to 1980.

Changes in the overall deficit of the consolidated public sector in recent years also has been influenced by variations in the level of public investment which rose to a peak in 1980 and fell subsequently. Thus, the overall deficit reached a peak of 19 percent of GDP in 1980 but narrowed to 8 percent in 1982. The bulk of the financing in the 1978-80 period was on concessionary terms, whereas in 1981-82, most of the deficit was covered by commercial bank borrowing.

2. Central government operations

The Central Government accounts for about 90 percent of the current revenue and expenditure of the public sector. From 1978 to 1980 the current operations of the Central Government registered an average yearly surplus equivalent to 4 percent of GDP (Table 5). However, in 1981, the central government savings became negative because of the sharp rise in current expenditure following the substantial increase in civil service salaries. The current account deficit widened further to 5-1/2 percent of GDP in 1982 because of a sharp decline in sugar levy revenues. Capital expenditure rose markedly from 9 percent of GDP in 1978 to 16-1/2 percent in 1980. However, with the completion of several major projects,1/ investment outlays declined substantially in 1981-82. The decrease in capital outlays permitted a reduction in the overall deficit in 1981 to the equivalent of 8 percent of GDP (from 12-1/2 percent in the previous year); however, the strong increase in the current deficit in 1982 resulted in a rise in the overall deficit to more than 12 percent of GDP.

Central government revenue collections increased from 36 percent of GDP in 1978 to 38 percent in 1980. The increase was directly attributable to indirect taxes and nontax revenues while revenues from direct taxes declined, particularly in 1980, following the abolishment of the personal income tax. The increases in indirect taxes stemmed mainly from higher sugar levy receipts resulting from rising sugar prices; consumption and import duties also rose markedly, as did nontax revenues from distribution of ECCA profits, dividends of state enterprises and revenues of departmental enterprises. The growth in current receipts slowed in 1981 reflecting lower sugar-related revenues and a further decline in direct taxes. In 1982, current receipts declined by 10-1/2 percent because the Government decided to waive the sugar levy in view of the collapse in sugar prices on the world market. As a proportion of GDP, the share of current receipts has fallen from 38 percent of GDP in 1980 to 30 percent in 1982.

Unlike current receipts, current expenditure has risen steadily from 32 percent of GDP in 1978 to 36 percent in 1982. Wages and salaries, which constitute over 50 percent of current expenditure, were mainly responsible for the increase in current outlays. Expenditures on goods and services grew rapidly in 1978-80 because of rising costs, but have

1/ The most important among these projects are the airport extension, the deep water port, and the sugar replanting program.

Table 5. St. Kitts-Nevis: Central Government Operations

	1978	1979	1980	1981	1982
(In millions of East Caribbean dollars)					
Current revenue	34.6	40.1	50.9	55.0	49.1
Tax revenue	27.2	30.5	38.7	39.3	32.7
Other	7.4	9.6	12.2	15.7	16.4
Current expenditure	30.7	36.2	45.3	57.3	58.5
Wages and salaries	17.9	20.0	20.2	29.8	33.1
Goods and services	8.1	10.1	17.5	15.7	15.3
Interest	1.9	1.9	2.2	1.7	2.4
Pensions and gratuities	1.7	1.8	2.0	2.8	2.8
Transfers	1.1	2.4	3.4	7.3	4.9
Current balance	3.9	3.9	5.6	-2.3	-9.4
Capital receipts	0.5	0.1	--	0.1	0.1
Capital expenditures (including net lending)	8.5	14.0	22.0	10.6	10.9
Overall balance	-4.1	-10.0	-16.4	-12.8	-20.2
Financing	4.1	10.0	16.4	12.8	20.2
Official grants and loans	6.2	10.4	14.7	6.5	5.8
ECCA	--	--	--	--	2.6
Change in foreign assets	-0.5	-0.3	4.4	-0.3	1.8
Domestic	-1.6	-0.1	-2.7	6.6	10.0)
Commercial banks	(...)	(...)	(-8.5)	(6.9)	(4.0)
Rest of public sector	(...)	(...)	(...)	(...)	(2.0)
Other	(...)	(...)	(5.8)	(-0.3)	(4.0)
(In percent of GDP)					
Current revenue	36.1	36.5	38.1	34.6	30.3
Current exenditure	32.0	32.9	34.0	36.1	36.0
Current balance	4.1	3.6	4.1	-1.5	-5.7
Capital receipts	0.5	0.1	--	0.1	0.1
Capital expenditures (including net lending)	8.9	12.7	16.5	6.7	6.7
Overall balance	-4.3	-9.0	-12.4	-8.1	-12.3

Sources: Ministry of Finance; and Fund staff estimates.

declined slightly in 1981 and 1982. Transfer payments rose rapidly through 1981 because of special bonus payments to sugar workers and higher transfers to the Tourist Board, but these declined in 1982.

3. The rest of the public sector

a. Social Security Scheme

The Social Security Scheme was established in February 1978 to replace the National Providence Fund and to provide broader benefits to the members. Contributions to the Social Security Scheme have grown rapidly over the years 1978-82, generating a rising net surplus which has been invested mainly as fixed deposits in the St. Kitts-Nevis-Anguilla National Bank (Table 6). In addition, the Social Security Scheme has invested in Treasury bills and in government debentures to help finance development projects.

b. Nonfinancial state enterprises

As a group, the nonfinancial state enterprises incurred deficits throughout the period 1978-82 (Table 7). The deficits were mainly attributable to the poor performance of the National Agricultural Corporation which has been incurring continuous losses, necessitating increases in its overdraft position with the St. Kitts-Nevis-Anguilla National Bank by EC$36 million during the period 1978-82. The financial performance of the St. Kitts Sugar Manufacturing Corporation was more favorable; the current balance registered a moderate surplus in 1979 and only a slight deficit over the next three years. The Central Marketing Corporation and the Frigate Bay Development Corporation have recorded moderate surpluses in their current operations in the last few years.

Table 6. St. Kitts-Nevis: Social Security Scheme

	1978	1979	1980	1981	1982
(In millions of East Caribbean dollars)					
Current revenue	4.3	5.7	7.5	9.4	10.3
Contribution	3.3	4.4	5.7	7.4	7.6
Public Sector	(1.1)	(1.3)	(1.6)	(2.0)	(2.0)
Investment income	1.0	1.3	1.7	1.9	2.6
Other	--	--	0.1	0.1	0.1
Current expenditure	0.5	1.3	1.6	1.7	2.2
Benefits	0.2	0.9	1.1	1.1	1.6
Administration	0.3	0.4	0.5	0.6	0.6
Net surplus	3.8	4.4	5.9	7.7	8.1
Capital revenue	--	--	--	--	--
Capital expenditure	0.5	0.4	--	--	--
Overall balance	3.3	4.0	5.9	7.7	8.1
Financing	-3.3	-4.0	-5.9	-7.7	-8.1
External	--	--	-0.2	-0.1	-0.1
Domestic	-3.3	-4.0	-5.7	-7.6	-8.0
Banks	(-3.3)	(-4.0)	(-6.4)	(-7.3)	(-5.1)
Central Government	(--)	(--)	(0.7)	(-0.3)	(-2.0)
Other public enterprises	(--)	(--)	(--)	(-0.2)	(0.1)
Residual	(--)	(--)	(--)	(0.1)	(-1.0)
(In percent of GDP)					
Net surplus	4.0	4.0	4.4	4.8	5.0
Overall balance	3.4	3.6	4.4	4.8	5.0

Source: Social Security Scheme.

Table 7. St. Kitts-Nevis: Nonfinancial State Enterprises

	1978	1979	1980	1981	1982
(In millions of East Caribbean dollars)					
Current balance 1/	-8.2	-1.2	-9.7	-9.9	-0.5
Capital receipts	0.1	0.1	0.2	0.1	0.1
Capital expenditure	3.0	2.4	5.9	2.0	0.2
Overall balance	-11.1	-3.5	-15.4	-11.8	-0.6
Financing	11.1	3.5	15.4	11.8	0.6
External	0.1	--	-0.1	-0.2	-0.1
Domestic	11.0	3.5	15.5	12.0	0.7
Banks	(11.0)	(3.7)	(16.5)	(13.2)	(1.6)
Other	(--)	(-0.2)	(-1.0)	(-1.2)	(-0.9)
(In percent of GDP)					
Current balance	-8.6	-1.1	-7.3	-6.2	-0.3
Overall balance	-11.6	-3.2	-11.6	-7.4	-0.4

Sources: NACO, SSMC, CEMACO and FBDC.

1/ Current balances of SSMC, whose financial year runs from September-August, have been adjusted to a calendar year basis.

IV. The Financial Sector

1. Introduction

The financial sector of St. Kitts-Nevis consists of the Eastern Caribbean Central Bank (ECCB),1/ six commercial banks, the Development Bank of St. Kitts and Nevis, and a few insurance companies. Of the six commercial banks, five are privately owned (three of them being branches of foreign banks) while the St. Kitts-Nevis-Anguilla National Bank is 60 percent owned by the Government. A seventh bank, the Bank of Commerce, has been in default since mid-1981. St. Kitts-Nevis has not enacted a comprehensive banking law to govern the operations of the commercial banks. However, as of October 1983, the ECCB was given the authority to supervise the operations of the commercial banks in the region. Before

1/ The Eastern Caribbean Central Bank superseded the East Caribbean Currency Authority as of October 1, 1983.

the creation of the ECCB, the only regulation on commercial banks in St. Kitts-Nevis was the 5 percent legal reserve requirement introduced in 1976.

2. The Eastern Caribbean Central Bank

a. Background

On July 5, 1983 the agreement establishing the ECCB was signed by the governments of Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts-Nevis, St. Lucia, and St. Vincent and the Grenadines. The ECCB started operation on October 1, 1983, superseding the East Caribbean Currency Authority (ECCA). All of ECCA's assets and liabilities, together with all its rights and obligations, were assumed by the newly created ECCB. ECCB has been designated by five member countries as fiscal agent for dealings with the Fund and is also an "other holder" of SDRs.

As was the case with ECCA, ECCB is obliged by statute to maintain a foreign exchange cover equivalent to no less than 60 percent of the value of its notes and coins in circulation and other demand liabilities. This exchange cover poses an overall constraint on ECCA's credit operations with member governments which is additional to other statutory constraints: (a) ECCB's holdings of Treasury bills of any member government are restricted to 10 percent of that government's estimated recurrent revenue for the current year; (b) ECCB's combined holdings of securities other than Treasury bills are restricted to 15 percent of ECCB's demand liabilities; (c) ECCB's temporary advances to each member government may not exceed 5 percent of that government's average annual recurrent revenue over the three preceding financial years; and (d) ECCB's holdings of development bonds of each member government are restricted to 2-1/2 percent of that government's average annual recurrent revenue over the last three financial years. In addition to its lending activities, ECCB is empowered to regulate and oversee the operations of the commercial banks such as setting reserve requirements and minimum and maximum interest rates on deposits and other similar liabilities and setting maximum interest rates chargeable on loans, overdrafts, and other forms of credit.

b. Recent operations of ECCA 1/

Following several years of steady growth, the net foreign asset holdings of ECCA declined markedly in 1980 reflecting the adverse impact of Hurricane Allen on regional exports and tourism, and the sharp rise in interest rates abroad (Table 8). An increase in ECCA deposit rates and a recovery in exports of some member countries led to a slight improvement in ECCA's net foreign assets in 1981, but in 1982, they fell again, reflecting mainly the downturn in exports and tourism as a result of the recession in the industrial countries.

1/ In this section, reference is made to ECCA because it was the entity in existence during the period under discussion.

Table 8. East Caribbean Currency Authority

(In millions of East Caribbean dollars)

	December 31				
	1978	1979	1980	1981	1982
Net international reserves	139.1	167.4	145.2	148.8	133.8
Assets	176.2	210.6	212.3	181.4	133.8
Liabilities	-37.1	-43.2	-67.1	-32.6	--
Net position to banks in ECCA area	-75.7	-89.2	-61.6	-55.5	-46.3
Assets	2.8	8.7	6.5	7.2	11.2
Liabilities	-78.5	-97.9	-68.1	-62.7	-57.5
Net domestic assets	12.6	13.3	13.9	18.4	24.3
Net claims on governments	28.7	33.5	40.3	45.9	53.2
Of which: St. Kitts-Nevis Treasury bills	(0.9)	(0.9)	(0.9)	(0.9)	(3.7)
St. Kitts-Nevis debentures	(2.5)	(2.5)	(2.5)	(2.5)	(2.2)
Liabilities to nonmonetary international organizations	-0.4	-0.4	-7.7	-2.5	-1.4
Net unclassified assets	-15.7	-19.8	-18.7	-25.0	-27.5
Currency in circulation	76.0	91.5	97.5	111.7	111.8

Source: East Caribbean Currency Authority.

The net lending of ECCA to member countries expanded at an average annual rate of 16-1/2 percent between 1978 and 1982. The Government of St. Kitts-Nevis made little recourse to ECCA borrowing through 1981, but in 1982, its net borrowing from ECCA increased by EC$2.5 million to EC$5.9 million, which remained below the access limit of EC$8.3 million.

3. Operations of the commercial banks

Consolidated financial statements of the commercial banks, excluding Anguilla, are not available before 1980. Since the end of 1980, the growth in private sector deposits has been considerable but has been outpaced by the growth in net credit to both the public and private sectors. As a result, the net foreign assets of the commercial banks have declined from EC$16.7 million in December 1980 to minus EC$3.9 million in April 1983 (Table 9). The increase in net credit demand during the last two years has placed a considerable strain on the liquidity of the commercial banks, which have been forced to substantially reduce their gross foreign assets to their lowest position in the last five years.

Table 9. St. Kitts-Nevis: Operations of the Commercial Banks

	December 31					April 30
	1979	1980 1/	1980 2/	1981	1982	1983
(In millions of East Caribbean dollars)						
Net foreign assets	18.5	14.8	16.7	7.3	3.8	-3.9
Assets	54.6	57.2	48.7	51.1	35.4	34.3
Liabilities	-36.1	-42.4	-32.0	-43.8	-31.6	-38.2
ECCA currency holdings	3.4	3.6	3.4	3.9	3.8	2.2
Net domestic assets	39.0	45.9	26.9	58.3	70.9	82.6
Credit to public sector	-21.1	-18.5	-19.5	-9.1	-7.5	-5.7
Central Government	(-8.7)	(-17.2)	(-18.2)	(-11.3)	(-7.3)	(-5.3)
Rest of public sector	(-12.4)	(-1.3)	(-1.3)	(2.2)	(-0.2)	(-0.4)
Credit to private sector	53.5	69.3	50.4	68.3	75.6	80.8
Other	6.6	-4.9	-4.0	-0.9	2.8	7.5
Liabilities to private sector	60.9	64.3	47.0	69.5	78.5	80.9
(Annual percentage change)3/						
Net domestic assets		11.3		66.8	18.1	20.9
Credit to public sector		4.3		22.1	2.3	5.0
Credit to private sector		25.9		38.1	10.5	16.3
Other		-18.9		6.6	5.3	-0.4
Liabilities to private sector		5.6		47.9	12.9	10.5

Sources: ECCA; and Fund staff estimates.

1/ Includes Anguilla.
2/ Excludes Anguilla.
3/ In relation to liabilities to the private sector at the beginning of period.

Most of the credit to the private sector is in the form of personal loans for the purchase of consumer durables and loans to the distributive trades. Credit to the private manufacturing sector has grown moderately but has remained a minor part of the total reflecting the small size of manufacturing in the economy. Credit to the tourism and transportation sectors has resumed its high growth following a slack period in 1979 and 1980.

V. The External Sector

1. Overall developments

A complete balance of payments account is not officially available for St. Kitts-Nevis, but the Statistical Office of the Planning Unit compiles trade and tourism statistics which are believed to be reliable. Thus, the balance of payments in Table 10 has been estimated from a variety of complementary sources such as the ECCB, the Central Government, and the state enterprises.

Because of the peculiar institutional framework stemming from St. Kitts-Nevis' participation in a common currency area sharing a Central Bank, the role of monetary and exchange rate management is limited. Foreign asset holdings of the Government are small and are held primarily in sinking funds for coverage of external and local bonded obligations. Moreover, the Government's capacity to borrow abroad for balance of payments purposes is confined mainly to official sources such as the ECCB, and foreign governments. Any disequilibrium in the balance of payments would therefore rely mainly on fiscal policy for corrective action. However, the initial adjustment is normally effected in the financial system through a drawdown in the foreign assets of the commercial banks.

The trade deficit of St. Kitts-Nevis widened from the equivalent of 17 percent of GDP in 1978 to 41-1/2 percent in 1980 (Table 10). The widening trade deficits were partially offset by growing surpluses in the service account as well as increases in private transfers. Nevertheless, the current account shifted from a slight surplus equivalent to 3 percent of GDP in 1978 to a deficit representing 19-1/2 percent of GDP in 1980. The deficits in 1979-80 were largely covered by official grants and loans. In 1981-82, the current account deficit narrowed to about 14 percent of GDP; however, the proportion covered by official grants and loans declined, and increasing recourse was made to borrowings from foreign commercial banks and ECCA.

2. Merchandise transactions

The performance of merchandise exports of St. Kitts-Nevis depends largely on sugar which accounts for about 65 percent of total domestic exports. Following a slight increase in 1979, domestic exports rose sharply by 45 percent in 1980 reflecting an increase in sugar prices

Table 10. St. Kitts-Nevis: Balance of Payments

	1978	1979	1980	1981	1982
	(In millions of SDRs)				
Current account	0.8	-2.7	-7.4	-6.6	-7.9
Trade balance	-6.0	-11.7	-15.7	-19.0	-21.2
Exports, f.o.b.	(13.3)	(13.1)	(18.8)	(21.5)	(19.2)
Imports, c.i.f.	(-19.3)	(-24.8)	(-34.5)	(-40.5)	(-40.4)
Service balance	2.0	3.3	3.3	4.9	5.0
Travel receipts (net)	(3.0)	(4.2)	(4.9)	(6.1)	(6.1)
Other nonfactor services	(-1.0)	(-1.2)	(-1.8)	(-1.9)	(-1.9)
Interest payment	(-0.2)	(-0.2)	(-0.3)	(-0.3)	(-0.4)
ECCA Profits	(0.2)	(0.5)	(0.5)	(1.0)	(1.2)
Private transfers (net)	4.8	5.7	5.0	7.5	8.3
Capital account (including official grants)	-0.6	2.8	7.5	6.8	5.5
Official grants	1.8	1.5	2.6	2.0	1.9
Official borrowing (net)	--	1.5	2.8	0.2	--
Commercial banks	-3.7	-0.8	2.5	3.0	1.2
Private capital	1.3	0.6	0.8	0.6	1.1
Errors and omissions	--	--	-1.2	1.0	1.3
Overall balance	0.2	0.1	0.1	0.2	-2.4
Financing	-0.2	-0.1	-0.1	-0.2	2.4
Net ECCA borrowing	--	--	--	--	0.8
Change in foreign assets	-0.2	-0.1	-0.1	-0.2	1.6
	(In percent of GDP)				
Trade balance	-16.9	-37.1	-41.5	-38.1	-38.9
Current balance	2.8	-8.6	-19.5	-13.2	-14.5

Sources: Statistical Office, Planning Unit; and Fund staff estimates.

as well as the start-up of a major enclave footwear manufacturing plant. In 1981, domestic exports declined slightly as a further increase in sugar prices was more than offset by a decline in the volume of sugar exported and the closedown of a garment and a footwear factory. The decline in exports was accentuated in 1982 following the collapse of sugar prices in the world market. Manufacturing exports were up slightly in 1982 because increased exports of electronic goods and clothing compensated for reduced exports of footwear. Overall, the total value of exports declined by 10 1/2 percent.

From 1978 to 1980, merchandise imports increased by 85 percent. The increase was led by imports of intermediate and capital goods, which were spurred by the surge in capital expenditure of the public sector; consumer goods imports also grew quite repidly. In 1981 imports of intermediate and capital goods declined but were offset by the strong growth in consumer goods imports. Imports of all three types of goods appear to have declined or stagnated in 1982. In recent years, imports of consumer and intermediate goods have accounted for about 45 percent of total imports each, with capital goods representing the remaining 10 percent.

3. Nonmerchandise transactions

Among the service items, tourism is the most important with net receipts amounting to almost 30 percent of total merchandise exports during the period 1978-82. The tourist industry was stimulated by the completion of the airport extension project in 1981 and an intensification of promotional efforts through the Tourist Board; however, the industry suffered a setback in February 1983 when the Royal St. Kitts Hotel was damaged by fire. The hotel has since been sold to a private corporation and was rehabilitated for the Independence celebrations in September 1983.

Private transfers from Kittisians living abroad have been an important source of income and foreign exchange for the economy of St. Kitts-Nevis. These transfers have increased steadily over the years, and in 1982, they amounted to almost half the value of merchandise exports. There is no official estimate of the number of Kittisians living abroad but a rough estimate of the cumulative emigration based on the population census of 1960 and 1980 and the rate of natural increase in population over the same period resulted in a figure of 27,000, or more than one half the present population in St. Kitts-Nevis.

Official grants and loans are usually project-related and annual disbursements depend on project implementation. The disbursements reached a peak of about SDR 5.5 million in 1980 but have declined to about SDR 2 million in 1981-82.

4. External debt

The external public debt of St. Kitts-Nevis rose from SDR 5.1 million in 1978 to SDR 10.7 million in 1982, or from the equivalent of 18 percent to 25-1/2 percent of GDP. Almost all of the increase was incurred in 1979-80; since then, net disbursements of official loans have become negligible. The debt service ratio in relation to exports of goods and nonfactor services has remained at a low rate of about 3 percent reflecting the concessionary nature of the loans.

5. Exchange rate developments

The exchange rate of St. Kitts-Nevis has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. Consequently, the nominal effective exchange rate has followed the behavior of the U.S. dollar in depreciating from 1978 to 1980 and appreciating from 1981 to 1982. A recent study of exchange rate developments in the ECCA countries has shown that the real effective exchange rate of St. Kitts-Nevis has moved in a similar pattern.

VI. Quota Range

Calculations of a suggested initial quota for St. Kitts-Nevis have been made on the same basis as the quota calculations made in connection with the Eighth General Review of Quotas. It will be recalled that the Executive Board reviewed the method of quota calculations as a part of the Eighth General Review and agreed to simplify the method of quota calculations by eliminating five of the ten formulas previously used in quota calculations. As a result, the formulas using, inter alia, the level of trade and variability of exports as variables were eliminated and those containing current account variables, including the variability of current receipts were retained with some modifications in the definitions of certain variables and their relative weights. National income was replaced by GDP in all the formulas and a broader measure of reserves that include gold valued at historical prices, foreign exchange holdings, SDRs, and reserve positions in the Fund, averaged over a 12-month period, was substituted in the place of year-end level of gold, foreign exchange and SDR holdings. Furthermore, reserves was introduced as an additional variable in four of the five formulas which did not contain this variable and the coefficients of variability of current receipts were reduced in these formulas. Quota calculations for determining the initial quota for St. Kitts-Nevis have been based on the above-noted revised formulas used for the purpose of calculating quotas under the Eighth General Review; the formulas are set out in Appendix I.

1. Data used in quota calculations

The data used for calculating the quota range for St. Kitts-Nevis end in 1980, the same cutoff date as used for the calculations of Eighth Review Quotas, and comprise GDP, average reserves, current payments, current receipts, and the variability of current receipts. These data are given in the table below:

Table 11. St. Kitts-Nevis:
Data Used in Quota Calculations

(In millions of SDRs)

GDP at market prices, 1980	37.91
Reserves, monthly average 1980	6.48
Current payments, average 1976-80	26.71
Current receipts, average 1976-80	25.53
Variability of current receipts, 1968-80	2.91

As in the case of other members with small quotas, a considerable amount of estimation was involved in compiling the needed data for St. Kitts-Nevis. GDP at market prices for 1980 was estimated on the basis of the official estimate of GDP at factor cost, adjusted for indirect taxes and subsidies derived from public accounts data for that year. External reserves have been assumed to be equal to the imputed share of St. Kitts-Nevis in the East Caribbean Currency Authority's (ECCA), now replaced by the Eastern Caribbean Central Bank (ECCB), net international assets, adjusted for ECCA holdings of St. Kitts-Nevis public debt and commercial deposits related to reserve requirements. 1/ This method is slightly different from that employed for estimating reserves for other members of the ECCB who joined the Fund in the past. In these latter cases, the imputed shares of these countries in the net international reserves of ECCB, estimated on the basis of currency in circulation in these countries were taken as a proxy for reserves, in addition to other foreign assets, if any, that the member governments might have had held. An estimate of the volume of currency in circulation in St. Kitts-Nevis is not possible. The estimate of St. Kitts-Nevis' imputed share in ECCB's net international

1/ See "Currency Unions", SM/82/183 (8/31/82), pp. 167-168. The amount of reserves derived in this manner would have been the share of St. Kitts-Nevis in ECCA's net international reserves, if ECCA were dissolved and member states established their own central banks and national currencies. The formula used for apportionment is the same as the one that determines the annual distribution of ECCB's profits.

assets based on its share in ECCB's profits may be regarded as a reasonably close approximation to the level of its reserves. 1/ Data on merchandise exports (excluding re-exports) and imports have been provided by the authorities. Estimates of other elements of current receipts and payments for recent years (1978-80) were provided by the ECCB; these estimates were based mainly on tourist arrival statistics and commercial banks' foreign exchange transaction records. Such data were not available for earlier years and were, therefore, estimated by the staff, using primarily visitor arrival statistics and estimates of the number of expatriates abroad.

2. Quota calculatons and suggested initial quota

The results of quota calculations based on data covering the period of the Eighth General Review are shown in Table 12. Following the established practice, a calculated quota range was derived by using the results of the Bretton Woods formula (reduced) on the one hand and the average of the lowest two of the four remaining calculations on the other. This procedure yielded a calculated quota range of SDR 4.25-4.83 million for St. Kitts-Nevis, as shown below:

Table 12. St. Kitts-Nevis: Quota Calculations

(In millions of SDRs)

Bretton Woods formula, reduced	4.25
Bretton Woods formula, reweighted and modified	
Scheme III	5.34
Scheme IV	6.41
Bretton Woods formula, linear, reweighted and modified	
Scheme M4	4.66
Scheme M7	5.00
Average of the lowest two of the reweighted and modified Bretton Woods formulas	4.83

1/ The Government of St. Kitts-Nevis also holds some sinking funds and trust funds abroad as required by law to serve as backing for debentures and other bonded debts. Since these funds are tied to debt obligations, they are not available for use by the authorities for balance of payments purposes and are, therefore, not included in reserves.

The traditional procedure employed in determining the initial quota for a relatively small country applying for membership has been to increase the calculated quota range by the general increase agreed in the preceding Review and compare the result with the actual quotas of members having broadly similar economic size and characteristics. The usefulness of this procedure has diminished considerably in light of the fact that calculated quotas under the Eighth Review turned out to exceed on average by a considerable margin quotas agreed for members with very small quotas.

It will be recalled that under the Eighth Review of Quotas, the equiproportional increase applied to all members (except Democratic Kampuchea) amounted to SDR 11.59 billion or 40 percent of the overall increase of SDR 28.98 billion agreed under that Review, i.e., an equiproportional increase of 18.98 percent of the then existing quotas. The calculated quota range for St. Kitts-Nevis of SDR 4.25-4.83 million when increased by this equiproportional increase yields a quota range of SDR 5.06-5.75 million.

Table 13 gives comparative data for St. Kitts-Nevis and 14 existing Fund members with quotas consented under the Eighth Review in the range of SDR 2.0-7.5 million. St. Kitts-Nevis' GDP is the smallest among these members; its level of reserves ranks eleventh; total average current payments and receipts ranks tenth; and the variability of its current receipts ranks fifth. Thus, in terms of the economic variables that are relevant in determining quotas, St. Kitts-Nevis is among the smaller of the countries listed in Table 13 and in overall size its economy can be regarded as comparable to those members that have consented quotas in the range of SDR 2.0 million and SDR 5.0 million. The range can be narrowed somewhat if the comparison is confined to calculated quotas; in this respect, St. Kitts-Nevis ranks eighth, between those of St. Vincent and Grenada that have consented quotas of SDR 4 million and SDR 6 million, respectively. In this connection it is relevant to note that quotas consented under the Eighth Review for the members included in Table 13 are smaller on average by 14.8 percent as compared with their calculated quotas, although quotas agreed under the Eighth Review for five of these members, after rounding, were higher than their corresponding calculated quotas. This would seem to suggest a quota within the calculated quota range. The calculated quota range of St. Kitts-Nevis when rounded up to the nearest multiple of SDR 0.5 million, in accordance with the procedure followed in the Eighth General Review for very small quotas, yields a quota range for St. Kitts-Nevis of SDR 4.5-5.0 million.

In the light of the foregoing discussion, it would seem reasonable to set St. Kitts-Nevis' initial quota at SDR 5 million. A quota of this size would fit reasonably well into the structure of present Fund quotas.

Table 13. Comparison of Economic Data Used in Quota Calculations for St. Kitts-Nevis with those of Selected Members Under the Eighth General Review of Quotas

(In millions of SDRs)

Country	Consented quota	Calculated quota range	GDP	Reserves	Average current receipts	Average current payments	Total average current payments and receipts	Variability of current receipts
Guinea-Bissau	7.5	5.19-5.55	123.5	9.6	13.4	52.3	65.7	2.6
St. Lucia	7.5	6.95-8.43	87.5	13.4	52.2	74.4	126.6	1.5
Western Samoa	6.0	5.35-5.88	75.0	2.0	26.4	48.6	75.0	3.2
Grenada	6.0	4.21-4.35	72.4	9.6	28.9	33.8	62.7	1.5
Antigua and Barbuda	5.0	5.12-5.18	80.0	9.2	31.1	45.7	76.8	1.7
Solomon Islands	5.0	7.64-8.88	108.8	24.0	43.4	54.1	97.5	4.7
Comoros	4.5	2.92-3.21	89.8	5.4	12.9	22.9	35.8	1.7
Cape Verde	4.5	7.00-7.23	50.6	33.4	27.5	54.3	81.8	2.7
Sao Tome & Principe	4.0	3.62-4.70	39.1	15.5	18.6	15.8	34.4	3.9
Dominica	4.0	3.27-3.29	43.6	9.5	18.0	27.3	45.3	1.2
St. Vincent	4.0	4.55-5.10	46.0	9.8	33.3	38.2	71.5	1.5
Seychelles	3.0	7.22-7.37	90.0	11.5	43.6	59.1	102.7	3.2
Bhutan	2.5	2.73-2.82	90.0	4.2	13.6	24.9	38.5	0.9
Maldives	2.0	2.44-3.23	38.0	0.3	12.4	16.8	29.2	2.7
St. Kitts-Nevis	--	4.25-4.83	37.91	6.48	25.53	26.71	52.24	2.91

VII. Initial Subscription Payment

In September 1979, the Executive Board endorsed a set of guidelines for determining the proportion of the subscription that should be paid in reserve assets by a new member. 1/ Guideline 3 provides that "the amount of the subscription to be paid in reserve assets shall be determined in the light of all the payments of reserve assets made by existing members and the country's external reserve position at the time of membership." A reasonable approximation of the proportion of the subscription paid in reserve assets in the past was considered to be the average of all reserve assets actually paid in terms of the quotas of all members since their membership. Prior to the coming into effect of the Eighth General Review, total reserve asset payments made by all members amounted to 21.7 percent of total quotas. Under the Eighth General Review, 25 percent of the increase in a member's quota is payable in reserve assets. After the completion of payments for quota increases by all members, the proportion of reserve asset payments by all members will rise to 22.9 percent of total new quotas.

It will be recalled that for the purpose of quota calculations, St. Kitts-Nevis gross reserves were defined as its imputed share in ECCA's net international assets, adjusted for ECCA holdings of St. Kitts-Nevis debt and commercial bank deposits related to reserve requirements. According to the latest available information, St. Kitts-Nevis' gross reserves on this basis stood at SDR 4.5 million at the end of September 1983. Gross reserves of St. Kitts-Nevis, as defined above, would finance about 1.5 months' imports at the estimated 1982 level. This level is significantly lower than the average level for all members (nearly three months of 1982 imports).

In determining the appropriate proportion of reserve asset payment by St. Kitts-Nevis, it is pertinent to note that St. Kitts-Nevis' reserve figure is an imputed portion of a collective pool held by the ECCB. Paragraph 6 of the guidelines states that "there may be circumstances where the new member has a reserve level somewhat below the average level of all members or when other features of its external financial position would seem to call for some mitigation of the payment." Since St. Kitts-Nevis' reserves are imputed share in ECCB's net international assets, it would seem reasonable to set the reserve asset payment as a proportion of its initial quota at a somewhat lower level than the average for all members as was agreed in the case of Antigua and Barbuda, Dominica, St. Lucia, and St. Vincent, the four other members of ECCB who joined the Fund in the recent past. These latter members, three of which joined the Fund before the Seventh General Review came into effect, were required to pay 18.75 percent of their initial quotas in reserve assets as compared with average reserve

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1/ See "Guidelines for Determining the Amount of Reserve Assets to be Paid in Connection with Subscriptions," Executive Board Decision No. 6266-(79/156), adopted September 10, 1979.

asset payments of 20 percent prior to the Seventh Review and 21.7 percent following that Review. The average reserve asset payment by these members following the Seventh Review quota increase stood at 20.3 percent.

A reserve asset payment creates a reserve position in the Fund of the same amount and thereby represents a diversification of a country's external reserves which can be mobilized in case of a balance of payments need without cost and at a very short notice. Consequently, the payment of a reserve asset does not generally impose an undue burden to the country. Notwithstanding this feature of a reserve asset payment and considering that some of the other members of the ECCB group were permitted to pay smaller proportions of quotas in reserve assets, it is suggested that the reserve asset payment for St. Kitts-Nevis be set at a slightly lower proportion than the average reserve asset payment for all members following the Eighth General Review. It is suggested that St. Kitts-Nevis' reserve asset payment be set at 21.7 percent of its initial quota, compared with the average reserve asset payment of 22.9 percent when all new quotas under the Eighth Review are paid. A reserve asset payment of this amount will be equal to the average payment made by the above-mentioned four other ECCB members.

St. Kitts-Nevis could make the reserve asset payment in the currencies of other members specified, with their concurrence, by the Fund or, in the event that St. Kitts-Nevis became a participant in the Special Drawing Rights Department, it could make the reserve asset payment in SDRs, which could be acquired from another participant in a transaction by agreement. Consistent with the past practice, and in order to permit sufficient time for the completion of necessary legal and technical arrangements, including the designation of the depository and the opening of accounts, it is suggested that St. Kitts-Nevis be required to pay its subscription within a period of six months after it becomes a member of the Fund.

Eighth Review Quota Formulas

The symbols used in the specification of the formulas below are: Y = GDP, R = average reserves, P = current payments, C = current receipts, and VC = variability of current receipts. The adjustment factor is applied to each of the four modified formulas (i.e., Schemes III, IV, M4, and M7) so that the totals derived under each formula at the time of the Eighth Review equalled that derived under the Bretton Woods Formula. For each Fund member the calculated quota is derived as the larger of (i) the Bretton Woods Formula and (ii) the average of the lowest two results of the other four formulas. The total of calculated quotas on this basis came to SDR 209,133.9 million.

Formulas and their adjustment factors

Bretton Woods: $(0.01Y + 0.025R + 0.05P + 0.2276VC) \times (1 + C/Y)$

Scheme III:

$(0.0065Y + 0.0205125R + 0.078P + 0.4052VC) \times (1 + C/Y)$
Adjustment factor: 0.87556413

Scheme IV:

$(0.0045Y + 0.03896768R + 0.07P + 0.76976VC) \times (1 + C/Y)$
Adjustment factor: 0.84551136

Scheme M4:

$0.005Y + 0.042280464R + 0.044 (P + C) + 0.8352VC$
Adjustment factor: 0.89705949

Scheme M7:

$0.0045Y + 0.05281008R + 0.039 (P + C) + 1.0432VC$
Adjustment factor: 0.89571728