

**FOR
AGENDA**

EBS/09/61
Supplement 1

April 30, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **St. Kitts and Nevis—Staff Report for the 2009 Article IV Consultation and Request for Emergency Natural Disaster Assistance—Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2009 Article IV consultation with St. Kitts and Nevis and its request for emergency natural disaster assistance (EBS/09/61, 4/30/09), which is tentatively scheduled for discussion on **Friday, May 15, 2009**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of St. Kitts and Nevis indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Ms. Wagner (ext. 38847) and Ms. Wong (ext. 34153) in WHD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Friday, May 8, 2009; and to the Caribbean Development Bank, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being distributed in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

ST. KITTS AND NEVIS

Staff Report for the 2009 Article IV Consultation—Informational Annex

Prepared by the Western Hemisphere Department

April 29, 2009

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Appendix I. St. Kitts and Nevis—Fund Relations

(As of March 31, 2009)

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

II. General Resources Account:	SDR Million	Percent of Quota
Quota	8.90	100.00
Fund holdings of currency	8.82	99.09
Reserve position in the Fund	0.08	0.92

III. SDR Department:	SDR Million	Percent of Allocation
Holdings	0.00	N/A

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements: None

VI. Projected Payments to Fund: None

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Implementation of MDRI Assistance: Not Applicable

IX. Exchange Arrangement

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

X. Safeguards Assessment

Under the Fund's safeguards assessment policy, the Eastern Caribbean Central Bank (ECCB) is subject to a full safeguards assessment under a four-year cycle. The most recent

assessment was completed in July 2007 and concluded that the ECCB continues to have appropriate control mechanisms in place, which have strengthened since the first safeguards assessment completed in 2003. ECCB management places emphasis on good governance and sound controls, and has enhanced the bank's transparency and accountability since the last assessment, including publications of financial statements that comply with International Financial Reporting Standards. The assessment made some recommendations to sustain the ECCB's safeguards framework going forward.

XI. Last Article IV Consultation

St. Kitts and Nevis is on the standard 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on February 4, 2008. The staff report is IMF Country Report No. 08/126, and the accompanying statistical appendix is IMF Country Report No. 08/127.

XII. FSAP Participation, ROSCs, and OFC Assessment

St. Kitts and Nevis participated in the regional ECCU FSAP conducted in September and October 2003. The Financial System Stability Assessment is available at www.imf.org/external/pubs/ft/scr/2004/cr04293.pdf. A review of St. Kitts and Nevis AML/CFT Assessment was conducted by a team of assessors representing the Caribbean Financial Action Taskforce (CFATF) in September 2003.

XIII. Technical Assistance: (2005–Present)

Since 2005, St. Kitts and Nevis has benefited from technical assistance in the areas of tax policy, tax administration, economic statistics, financial supervision and macroeconomic management, both from IMF headquarters and the Caribbean Regional Technical Assistance Centre (CARTAC).

- Experts from CARTAC and the IMF's Statistics Department (STA) advised the Central Statistics Office on improving the national accounts, rebasing the consumer price index, and developing export-import price indices. In response to a request from the authorities, experts from CARTAC assisted in compiling separate production-based measures of GDP for St. Kitts and Nevis.
- Experts from CARTAC, the IMF's Monetary and Capital Markets Department (MCM), and the IMF's Legal Department (LEG) advised the authorities on strengthening financial regulation and supervision, including risk-based supervision. With assistance from the Office of the Superintendent of Financial Institutions in Canada (OSFI), experts from CARTAC have provided technical assistance to the ECCB on drafting the OECS Insurance Act. They have also, in conjunction with

LEG, provided technical assistance to the ECCB in finalizing the drafting of the OECS Money Services business Act. Experts from CARTAC also assisted in the development of the Single Regulatory Unit.

- Experts from CARTAC and MCM also provided technical assistance on public debt management to strengthen management capacity and develop a medium-term debt strategy.
- Experts from CARTAC, the IMF's Fiscal Affairs Department (FAD) and LEG provided assistance to improve cash management and tax administration—including collection enforcement. Experts from CARTAC have also provided assistance in Property Tax reform to move the property tax base from rental value to market value, and in improving central government fiscal and debt data.
- CARTAC, FAD and LEG are providing assistance for implementation of a value-added tax (VAT). CARTAC and FAD have provided extensive assistance, through frequent expert visits, to sensitize politicians and technicians from the Ministry of Finance on the VAT. This provided a general explanation on VAT, a VAT sensitivity study, and the main steps in its introduction. Experts from CARTAC have assisted with the preparation of a VAT Implementation Project Plan, and experts from LEG assisted in the drafting of the VAT and excise tax legislation.
- Experts from LEG also provided assistance in tax legislation in the areas of Social Service Levy and Corporate Income Tax.
- Experts from CARTAC provided assistance in the administration and design of a new pension plan for public sector employees.
- As part of the Stabilization and Adjustment Technical Assistance Program (SATAP), St. Kitts and Nevis have benefited from capacity building in macroeconomic analysis.

Appendix II. St. Kitts and Nevis: Relations with the World Bank Group

(As of March 6, 2009)

The World Bank's Management presented to its Board the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS), on September 13, 2005. The World Bank Group's strategy for the four years covered by this CAS (FY 2006–09) supports the sub-region's development agenda through two main pillars: (1) stimulating growth and improving competitiveness; and (2) reducing vulnerability, by promoting greater social inclusion and strengthening disaster risk management. Recognizing the Organization of the Eastern Caribbean States (OECS) countries' weakened creditworthiness due to high debt ratios, Bank activities will focus on leveraging available donor grant financing. Following the recommendations of the 2005 growth and competitiveness study for the OECS, IBRD and IDA support would focus on providing technical and financial assistance for interventions to support the two main pillars. The CAS proposes new commitments of US\$103.4 million for six borrowing member states of the OECS, including St. Kitts and Nevis. Planned IBRD lending to St. Kitts and Nevis amounts to US\$10 million under the high-case lending scenario.

A. Projects

There are three active World Bank projects in St. Kitts and Nevis for commitment of approximately US\$9.6 million, of which approximately US\$6.6 million has been disbursed.

The St. Kitts and Nevis **Telecommunications and ICT Development Project**, approved on May 12, 2005 for US\$0.54 million, aims at improving the access, quality, and use of telecommunications and ICT services to achieve socioeconomic development in the OECS. The project has the following four components: Component (1) will strengthen the national and regional regulatory frameworks and promote additional competition in the telecommunications sector. Emphasis will be given to capacity building of Eastern Caribbean Telecommunications Authority (ECTEL) and the National Telecommunications Regulatory Commissions (NTRCs) by providing them with assistance to revise the regional and national sector legislation, and develop a modern interconnection regime. Component (2) will review current universal access policy, create related guidelines, and provide financial support to establish a Universal Service Fund (USF). Component (3) will improve growth and competitiveness in ICT-enabled services through utilization of broadband infrastructure. Component (4) will ensure management and administration of the overall project.

The **St. Kitts and Nevis Education Development Project** was approved in June 2003 for US\$5.0 million. The overall objective of this project is to build human capital which, in turn, will contribute to the diversification of the economy and more sustainable growth. This objective will be achieved by: (i) increasing equitable access to secondary education; (ii) improving the quality of the teaching and learning process, with more direct interventions

at the school level and a focus on student-centered learning, and (iii) strengthening management of the sector and governance of schools.

The HIV/AIDS Prevention and Control Program, which was approved in January 2003 for US\$4.0 million, is funded under the Multi-Country APL for the Caribbean Region, with the following objectives: (i) curbing the spread of HIV/AIDS epidemic; (ii) reducing the morbidity and mortality attributed to HIV/AIDS; (iii) improving the quality of life for persons living with HIV/AIDS (PLWAs); and (iv) developing a sustainable organizational and institutional framework for managing the HIV/AIDS epidemic over the longer term.

B. Economic and Sector Work

Economic and Sector Work: The Bank has completed a series of analytical work relating to public expenditure, fiscal and debt sustainability, growth and competitiveness, the financial sector, public sector management, and social protection. The ongoing dissemination of these reports represents a key instrument for policy dialogue with the OECS governments, including St. Kitts and Nevis.

The Bank's program in St. Kitts and Nevis is further supported by a comprehensive series of completed, ongoing and planned analytical and advisory activities including the following: "Towards a New Agenda for Growth"—OECS growth and competitiveness study (2005); An OECS Skills Enhancement Policy Note (2006); a Caribbean Air Transport Report (2006); a regional study on Crime, Violence, and Development: Trends, Costs, and Policy Options in the Caribbean (2007); an OECS Private Sector Financing Study (2008); the OECS Tourism Backward Linkages Study (2008); the report "Caribbean—Accelerating Trade Integration: Policy Options for Sustained Growth, Job Creation and Poverty Reduction" (2009); a CARICOM study on Managing Nurse Migration (ongoing) ;and a preparatory study aimed at developing a Caribbean-wide Regional Energy Strategy (ongoing).

C. Financial Relations

(In millions of U.S. dollars)

Operation	Original Principal	Available*	Disbursed*
TELECOMMUNICATIONS & ICT DEVELOPMENT PROJECT—ST. KITTS AND NEVIS	0.54	0.27	0.25
OECS EDUCATION DEVELOPMENT PROJECT— ST. KITTS AND NEVIS	5.0	0.84	3.71
HIV/AIDS PREVENTION AND CONTROL PROGRAM—ST. KITTS AND NEVIS	4.05	1.20	2.62
	9.58	2.31	6.58

* Amounts may not add up to Original Principal due to changes in the SDR/US exchange rate since signing.

Disbursements and Debt Service (Fiscal Year Ending June 30)

	Actual									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Total disbursements	2.88	1.38	1.90	4.12	2.38	1.66	1.35	1.85	2.04	1.77
Repayments	0.07	0.05	0.12	0.33	0.67	0.89	1.18	1.75	2.56	1.55
Net disbursements	2.82	1.32	1.78	3.79	1.71	0.77	0.17	0.10	-0.52	0.22
Interest and fees	0.22	0.34	0.40	0.64	0.60	0.65	0.67	0.76	0.75	0.28

Note: * Data for June 2008 to February 2009.

Appendix III: St. Kitts and Nevis—Relations with the Caribbean Development Bank

(As of December 31, 2008)

The Caribbean Development Bank (CDB) has approved loans totalling US\$169.6 million, of which US\$34.5 million are undisbursed.

A. Major Projects

1. *Basic Education Project*—to assist the Government of St. Kitts and Nevis (GOSKN) in the provision and maintenance of a more appropriate learning environment for a greater number of students in the system (including those with learning disabilities) who are pursuing basic education at primary and secondary schools; and enhancement of the education system in the areas of management, in particular, planning, data collection and analysis, student assessment, school management, curriculum development and pedagogy.
2. *West Basseterre By-Pass Road*—to construct approximately 3.8 kilometres of road to relieve traffic congestion in the city of Basseterre. The proposed road runs to the north of Basseterre and along the boundary fence of the Robert L. Bradshaw International Airport.
3. *Second Power Project*—consists of the installation of a generator of approximate size 2.5MW and ancillary switchgear and the establishment of an operations facility at the Nevis Electricity Company Limited (NEVLEC). The project will provide additional generating capacity to satisfy projected electricity demand and to replace existing engines that are past their useful life.
4. *Student Loan Scheme (Sixth Loan)*—to assist the National Bank of St Kitts-Nevis-Anguilla in financing loans to students attending local, regional and extra-regional institutions for programmes in technical, vocational and academic studies.
5. *Child Development Project*—to provide a comprehensive framework for addressing the care and protection of children and the reform of juvenile offenders. The project will enhance the life chances of children in St. Kitts and Nevis by improving their connectedness with the school system and providing rehabilitative care for those at risk and those who have committed offences.
6. *Natural Disaster Management Project*—to contribute to the rehabilitation of economic infrastructure caused by Hurricane Lenny. The project consists of rehabilitating 8.66 metres of sea defence structures with rock armouring and stone on geo-textile sheeting; reconstruction of a reinforced concrete ramp; and repairs to other infrastructure and public buildings. The project promotes the reduction of

vulnerability to natural disasters through support for the development and adoption of mitigation policies, standards and practices.

7. *Policy-Based Guarantee*—to support a bond issue of up to EC\$150 million by the Government to refinance high cost debt, thereby supporting ongoing macroeconomic reforms and structural reforms in St. Kitts and Nevis. The refinancing would also improve the debt dynamics, thus lowering the time path of the debt-to-GDP ratio.
8. *Policy-Based Loan*—is intended to support policy and institutional reforms while helping the Federal Government to improve debt dynamics by using the proceeds of the loan to replace some of its high-cost debt. The policy reforms are designed to improve public finance management, particularly budget management and revenue systems, and public enterprise governance systems to achieve fiscal and debt sustainability.

B. Current Portfolio

(In millions of U.S. dollars)

	Approved	Undisbursed
Basic Education Project	14.18	1.97
Natural Disaster Management Project	6.7	3.47
Student Loan Scheme (Sixth Loan)	6.2	6.2
Second Power Project	8.43	8.38
West Basseterre By-Pass Road	7.56	0.82
Child Development Project	2.64	2.64
Corporatisation of the Electricity	0.6	0.27
Policy-Based Guarantee	8.3	8.3
Policy-Based Loan	20.0	10.0

C. Loan Disbursement

(In millions of U.S. dollars)

	2004	2005	2006	2007	2008
Net Disbursement	4.08	3.13	4.32	6.44	9.26
Disbursement	6.48	6.02	7.38	10.41	15.43
Amortization	2.4	2.89	3.06	3.97	6.17
Interest and charges	2.8	3.07	3.35	3.77	3.93
Net resource flow	1.28	0.06	0.97	2.67	5.33

Appendix IV. St. Kitts and Nevis: Statistical Issues

Data provision is broadly adequate for surveillance, although significant shortcomings in data provision and data quality remain. St. Kitts and Nevis has been participating in the General Data Dissemination System (GDDS) since October 2000, and its metadata are posted on the Fund's Dissemination Standards Bulletin Board (DSBB).

A. Real Sector

There are a number of deficiencies in the real sector statistics. GDP data by type of expenditure are not available at constant prices, while the data at current prices are not reliable due to weaknesses in estimating gross capital formation. Private final consumption expenditure is estimated as a residual. A new CPI with weights from the 2000 household survey has now been introduced. Monthly CPI data are reported regularly but with a long lag. Detailed data on tourism arrivals and expenditure have not been compiled since end-2001. Limited data are available on labor market developments.

B. Public Finances

Data on revenue, expenditure, and financing of the consolidated central government are made available to Fund staff on request. Commendable progress has recently been made in improving the quality and coverage of central government fiscal data, including on government and public enterprise debt. However, discrepancies between overall balance and available financing need to be resolved. It would be important to produce a set of fully integrated accounts for the central government on a regular basis. Also, it would be beneficial to institute a mechanism for the regular reporting of financial data on the rest of the public sector. The most recent data on the central government published in the *GFS Yearbook* are for 2003 and 2006.

C. Balance of Payments and External Debt

Estimates are currently provided on an annual basis by the Eastern Caribbean Central Bank (ECCB). The latest data published in *IFS* are for 2007. Incomplete provisional data have been produced for 2008 by the ECCB; these will be completed and finalized in early 2009. Data on external trade (especially exports) are not comprehensive, as they omit important categories of goods. Most components of the financial account also need improvement. It would be useful to reconcile the data on the public sector investment plan for external loans with the public external debt database. There are no data on private external debt.

D. Monetary and Financial Statistics

The 2003 money and banking statistics mission indicated that enhanced institutional coverage, classification of financial instruments, and sectorization of economic units would facilitate identification of credit flows to different sectors of the economy and compilation of monetary aggregates. It recommended that the institutional coverage for other depository corporations be expanded to include credit unions, finance companies, and building societies, which also accept demand and other deposits. Further, the mission recommended broadening the coverage to include insurance companies, pension funds, development banks, and offshore institutions and foundations.

In April 2007, a data ROSC mission assessed the monetary statistics with reference to the GDDS and the Data Quality Assessment Framework (DQAF, July 2003). It indicated that the quality of the ECCB and Eastern Caribbean Currency Union member countries' monetary statistics has improved over recent years, and the monetary statistics are broadly adequate for macroeconomic analysis and policy design and monitoring. Nevertheless, the mission identified shortcomings that have the potential for detracting from accurate and timely analysis of economic and financial developments. In particular, the institutional coverage of the other depository corporations remains incomplete, as data for mortgage companies, finance companies, building societies, and credit unions—all of which accept deposits—are excluded. Also, accrued interest is not incorporated in the value of the interest-bearing assets and liabilities, and valuation adjustments are included in other liabilities. In addition, source data for the commercial banks do not provide the disaggregation recommended in the Monetary and Financial Statistics Manual. The authorities endorsed the mission's recommendations and an action plan for enhancing the analytical usefulness of the monetary statistics. In this context, with effect from January 1, 2009, the definition of broad money aggregates is revised to include the deposits of non-bank financial institutions and subsidiaries and affiliates held at commercial banks, and this change is first reflected in the monetary statistics from January 2009.

St. Kitts and Nevis: Table of Common Indicators Required for Surveillance
(As of April 15, 2009)

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of publication ⁶
Exchange Rates	Fixed Rate	n.a.	n.a.	n.a.	n.a.
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	02/09	04/09/09	M	M	M
Reserve/Base Money	02/09	04/09/09	M	M	M
Broad Money	02/09	04/09/09	M	M	M
Central Bank Balance Sheet	02/09	04/09/09	M	M	M
Consolidated Balance Sheet of the Banking System	02/09	04/09/09	M	M	M
Interest Rates ²	02/09	04/09/09	M	M	M
Consumer Price Index	12/08	2/23/09	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	02/09	3/20/09	M	M	A
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	12/08	03/13/09	Q	Q	A
External Current Account Balance	2008	03/10/09	A	A	A
Exports and Imports of Goods and Services	2008	03/10/09	A	A	A
GDP/GNP	2008	03/10/09	A	A	A
Gross External Debt	12/08	03/13/09	Q	Q	A

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

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

³Foreign, domestic bank, and domestic nonbank financing.

⁴Central government only.

⁵Including currency and maturity composition.

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