

**FOR
AGENDA**

EBS/14/23
Supplement 1

March 6, 2014

To: Members of the Executive Board

From: The Secretary

Subject: **St. Kitts and Nevis—Staff Report for the 2014 Article IV Consultation, Seventh and Eighth Reviews Under the Stand-By Arrangement, and Request for Waivers of Applicability and Nonobservance of Performance Criterion—Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2014 Article IV consultation with St. Kitts and Nevis, the seventh and eighth reviews under the Stand-By Arrangement and request for waivers of applicability and nonobservance of a performance criterion (EBS/14/23, 3/5/14), which is tentatively scheduled for discussion on **Wednesday, March 19, 2014**. The authorities of St. Kitts and Nevis have indicated that they consent to the Fund's publication of this paper. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Ms. Gold (ext. 37934), Ms. Simard (ext. 34002) and Mr. Greenidge (ext. 34189) 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, March 14, 2014; 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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ST. KITTS AND NEVIS

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION AND THE SEVENTH AND EIGHTH REVIEWS UNDER THE STAND-BY ARRANGEMENT AND REQUEST FOR WAIVERS OF APPLICABILITY AND NONOBSERVANCE OF PERFORMANCE CRITERION—INFORMATIONAL ANNEX

March 6, 2014

Prepared By

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

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FUND RELATIONS

(As of January 31, 2014)

Membership Status: Joined August 15, 1984; Article VIII

General Resources Account:	SDR Million	Percent of Quota
Quota	8.90	100.00
Fund holdings of currency	56.74	637.57
Reserve position in the Fund	0.08	0.92

SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	8.50	100.00
Holdings	6.84	80.41

Outstanding Purchases and Loans:	SDR Million	Percent of Quota
Emergency Assistance	0.56	6.25
Stand-By Arrangement	47.37	532.24

Latest Financial Arrangements:

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

Projected Payments to Fund^{1/}:**SDR Million; based on existing use of resources and present holdings of SDRs):**

		<u>Forthcoming</u>			
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Principal	3.33	16.56	19.32	7.12	1.60
Charges/Interest	<u>0.96</u>	<u>0.78</u>	<u>0.24</u>	<u>0.06</u>	<u>0.01</u>
Total	<u>4.28</u>	<u>17.34</u>	<u>19.56</u>	<u>7.19</u>	<u>1.61</u>

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

Implementation of HIPC Initiative: Not Applicable**Implementation of MDRI Assistance:** Not Applicable**Implementation of Post-Catastrophe Debt Relief (PCDR):** Not Applicable**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. The *de jure* regime is a currency board, which 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.

Safeguards Assessment

Under the Fund's safeguards assessment policy, the Eastern Caribbean Central Bank (ECCB) is subject to a full safeguards assessment on a four year cycle. The most recent assessment was completed on April 16, 2012 and did not identify any significant safeguards risks. The assessment made some recommendations to sustain and advance the ECCB's safeguards framework going forward. The authorities broadly agreed with the recommendations and have commenced implementation.

Last Article IV Consultation

The last Article IV staff report (EBS/11/119) was issued on July 20, 2011. Board discussion took place on July 27, 2011. It is proposed that the next Article IV consultation take place in 12 months.

FSAP Participation, ROSCs, and OFC Assessment

St. Kitts and Nevis participated in the regional ECCU FSAP conducted in September 2004. The Financial System Stability Assessment is available at <http://www.imf.org/external/pubs/cat/longres.aspx?sk=17718>.

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 2012.

Technical Assistance: (2010–Present)

Since 2010, 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).

- CARTAC and the IMF's Statistics Department (STA) advised the Central Statistics Office on rebasing and improving the national accounts, rebasing the consumer price index, and developing export-import price indices. CARTAC assisted in compiling separate production-based measures of GDP for St. Kitts and Nevis.
- 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), CARTAC provided technical assistance to the ECCB on drafting the OECS Insurance Act, and also, in conjunction with LEG, provided technical assistance to the ECCB in finalizing the drafting of the OECS Money Services business Act. CARTAC also assisted in the development of the Single Regulatory Unit.
- CARTAC and MCM provided technical assistance on public debt management.
- IMF's Fiscal Affairs Department (FAD) and the World Bank provided assistance on Public Financial Management under the SEMCAR project.
- CARTAC, the IMF's Fiscal Affairs Department (FAD) and LEG provided assistance to improve cash management and tax administration—including collection enforcement. CARTAC 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 provided assistance for review of the assessment of the tax incentives regime.

- A capacity building exercise was conducted to train new officers in the preparation of fiscal and debt projections.

As part of the Stabilization and Adjustment Technical Assistance Program (SATAP), St. Kitts and Nevis have benefited from capacity building in macroeconomic analysis.

RELATIONS WITH THE WORLD BANK GROUP

(As of January 21, 2014)

The World Bank Group's Management presented to its Board the Organization of the Eastern Caribbean States (OECS) Regional Partnership Strategy (RPS) on June 8, 2010. The RPS covers the five year period July 2009–June 2014. It sets forth the terms of engagement of the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) and the International Finance Corporation (IFC) with the countries of the Eastern Caribbean, sub-regional organizations and other development partners in pursuit of the following strategic objectives: (a) building resilience; and (b) enhancing competitiveness and stimulating growth over the medium term.

To help build resilience in the OECS, the Bank Group is supporting interventions aimed at promoting fiscal and debt sustainability, protecting and improving human capital—particularly social safety nets, education and health—and strengthening climate resilience.

To help enhance competitiveness and stimulate sustainable growth, it focuses its support on two critical areas: strengthening the countries' domestic financial sectors and improving access to quality services to create more competitive business environments. The Strategy provides urgent remedial measures to address the crippling effects of the global and regional crises, while supporting key policy reforms that establish a platform for growth in the medium term.

The program of support entails new commitments totaling up to about US\$120 million on IBRD terms for the six Bank Members of the OECS and up to US\$73 million of IDA financing, for the four OECS which are also eligible to IDA, namely: Dominica, Grenada, Saint Lucia and St. Vincent and the Grenadines. St. Kitts and Nevis and Antigua and Barbuda are the only OECS eligible to IBRD-only resources because of their high-income status. St. Kitts and Nevis graduated from access to IDA resources in 1994.

A new OECS Regional Partnership Framework FY15-19 is currently under preparation and expected to be presented to the World Bank Board in spring 2014.

A. Projects

St. Kitts and Nevis participates in one active World Bank's Project-Enhanced Public Sector Governance and Efficiency (IDF grant). This operation (US\$ 415,000) is financed by a grant from the Institutional Development Fund (IDF), a World Bank's financing tool to enhance the delivery and implementation of programs that will lead ultimately to better development results. The objective of this project is to increase the quality of expenditures and public sector efficiency and promote a fiscally sustainable and more equitable system of pay and employment which generates the right incentives to improve public sector performance in St. Kitts and Nevis. This will be done through

building capacity at the Ministry of Finance by working with government teams to: (i) implement measures to rapidly increase the efficiency of personnel expenditures; (ii) align human resource needs and staffing in St. Kitts and Nevis public service through the implementation of recommendations of functional reviews; and (iii) introduce pay classification and evaluations.

The government of St. Kitts and Nevis launched its national chapter of the Caribbean Growth Forum (CGF) between February 25 and 27, 2013. The CGF is an initiative led by the World Bank, the Inter-American Development Bank, and the Caribbean Development Bank, in collaboration with the United Kingdom Agency for International Development (DFID) and the Canadian International Development Agency (CIDA), to identify policies and initiatives aimed at inducing growth and creating jobs in the Caribbean region through analytical work, knowledge exchange and inclusive dialogue. The CGF can contribute to an enhanced and participatory policy dialogue (involving private sector, CSOs, and other non-traditional stakeholders, such as youth and Diaspora) on key challenges that affect economic growth, in a situation where fiscal space is limited and the need to promote a more diversified knowledge-based economy is pressing. The CGF national chapters have already been launched in 12 Caribbean countries, including all the six OECS countries. During the CGF workshop in St. Kitts and Nevis, participants started discussions on issues and measures to strengthen the investment climate, logistics and connectivity, and skills and productivity in St. Kitts and Nevis. Key actions addressed included upgrading education, enhancing ICT, improving the infrastructure services, and reducing electricity costs through exploring alternative energy sources.

Recent projects. There was one WB recent regional operation, the OECS Telecommunications and ICT Development Project, which closed on Dec 31, 2011 for the benefit of St. Kitts and Nevis (US\$0.54 million), as well as Dominica (US\$ 0.54 million); Grenada (US\$ 0.27 million); St. Lucia (US\$ 0.27 million) and St. Vincent and the Grenadines (US\$ 0.27 million). The project aimed at improving the access, quality, and use of telecommunications and ICT services to achieve socioeconomic development in the OECS. The project for St. Kitts and Nevis was aimed at establishing a wireless network to provide connectivity to schools in support of a parallel initiative of the Government that involved the provision of laptops to students. Given the nature of the project where five member countries were involved, each country's performance was overall positive. The evidence that shows Governments' satisfactory performance can be found in their support to overcome the challenges encountered in finding adequate ICT providers and vendors.

B. Economic and Sector Work

The Bank has completed a series of analytical products 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 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:

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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 titled “Caribbean – Accelerating Trade Integration: Policy Options for Sustained Growth, Job Creation and Poverty Reduction” (2009); a study on the Nurse Labor & Education Markets in the English-Speaking CARICOM: Issues and Options for Reform (2009); and Caribbean Regional Electricity Supply Options: Toward Greater Security, Renewable and Resilience (2011).

Financial Relations

(In millions of U.S. Dollars)

Operation	Amount	Approval Date	Closing Date	Disbursed	Available
P129786 (TF12323) Enhanced Public Sector Governance and Efficiency.	0.42	10/17/12	10/17/15	0.14	0.28



CARIBBEAN GROWTH FORUM
St. Kitts and Nevis National Chapter

Summary Brief of the Dialogues Realized To Date

Investment Climate Working Group Priorities

- Establish an ICT Commission
- Ease of access to finance for small entrepreneurs
- Consultancy for improvement of Property Registration
- Consultancy on an Off-Shore Education policy (short term)
- Establishment of an Energy Commission

Training, Research and Development, ICT

- Training of personnel in high-income and growth areas, e.g. IT professionals and High-Tech engineers (requires more research)
- Public Education on crime prevention and eradication (ongoing work)
- Pursue the possibility of attracting a technology based institute to setup a branch in St. Kitts and the development of a technology park in close relation with this institute (long term)
- Conduct a human resource and infrastructure audit of the ICT sector (short term but to be referred to the Skills and Productivity Working Group)
- Establish an ICT Commission (short term)

Hotel industry

- Consultancy to eradicate the situation with students occupying hotel stock. (Requires additional research and direct government intervention)
- Need for a system to improve the monitoring, evaluation and economic statistical reporting of hotel properties that obtain concessions (linked to the above)
- Revision of the Hotel Aids Ordinance Act: reclassification, concessions, occupants, etc. (medium term)
- Consultancy on an Off-Shore Education policy (short term)

State Modernization

- Consultancy for a revised Land Use Master Plan (ongoing work)
- Review aspects of the tax system and its impact on small business enterprises (more research required)
- Modernization of government's business operations processes through the use of technology (ongoing work)
- Consultancy for improvement of Property Registration (short term)
- Creation of an office for Private Sector Development or Relations (short term – more research required)
- Establishment of an Energy Commission (short term)

SMEs Development

- Ease of access to finance for small entrepreneurs in specific sectors: a) ease of access to financing and cost of borrowing (short term) and b) policy adjustments (medium term)
- The creation of an Incubator System for small manufacturers (considered to be a very important area, services are being supplied by various entities for small entrepreneurs)
- Attracting investment for new foreign industries with different technologies, e.g. medical devices and pharmaceuticals (medium-long term)

Logistics and Connectivity Working Group Priorities (discussions are still ongoing)

Trade

- Establish a competent authority on the island of Nevis to be able to issue import licenses and avoid the delay
- Improve dissemination of information on the requirements for clearing goods from customs to the general public by using ICT and/or public service announcements
- Address the high cost of importing items
- Improve availability of adequate and reliable transport for trading in the region

ICT

- ICT infrastructure: improve access to more affordable and reliable ICT infrastructure, specifically fiber optic networks

- Reduce time for processing documents at customs
- Increase E-Government

Tourism

- For Nevis: improve access to timely and accurate information, airlift and inter-island travel
- Reduce cost of air-travel: addressing airport levies
- Inter-island travel: improve the functioning and punctuality of the Ferry Terminal

Skills and Productivity Working Group (discussions are still ongoing)

- Priorities selected until now: reform the school's curriculum with regards to a better balance between soft and hard skills
- Improve the 2013 Labor Market Survey

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK

(As of December 31, 2013)

Over the years, Caribbean Development Bank (CDB) has supported the economic and social development of St. Kitts and Nevis by providing financing for priority capital and technical assistance (TA) projects. In addition, CDB has engaged in policy dialogue with the Government of St. Kitts and Nevis. Generally, CDB's involvement with SKN has been concerned with activities such as: the formulation and implementation of macroeconomic, social and sectoral policies; development of infrastructure to facilitate growth and economic diversification; direct and indirect lending to agriculture and industry; and emergency disaster rehabilitation.

In December 2012, CDB approved a new assistance strategy for St. Kitts and Nevis for the period 2013-16, which focuses on establishing an enabling environment for sustained inclusive growth and poverty reduction and strengthening resilience by securing social stability and improving environmental sustainability. The indicative list of interventions contained in the assistance strategy is expected to result in a lending programme of up to US\$42.7 million over the strategy period.

At the end of December 2013, CDB had approved loans totaling US\$171.74 million to SKN of which US\$19.89 million were undisbursed.

Major projects currently under implementation include following:

1. Second Power Project-consists of the installation of a generator of approximate size 2.5 megawatts (MW) 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 electricity demand and to replace existing engines that have passed their useful life.
2. 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.
3. National Disaster Management: Immediate Response Loan-Tropical Storm Otto-to contribute to the rehabilitation of economic infrastructure damaged by Tropical Storm Otto. The Project consists of the restoration of part of Basseterre Bay Road, the reconstruction of 200 meters of sea defense wall and associated roadwork.
4. Nevis Water Supply Enhancement-to assist in improving the water-supply network capacity on the island of Nevis. Under the project, approximately 20 kilometers of pipelines, two pumping stations and storage capacity of 1.00 million gallons will be constructed. The project also provides for capacity building and strengthening institutional arrangements for the delivery of water services.

Major Projects Under Implementation

(In millions of U.S. dollars)

	Approved	Undisbursed
Second Power Project	8.43	8.37
Student Loan Scheme (Sixth Loan)	6.20	5.17
Nevis Water Supply Enhancement	8.76	7.73
National Disaster Management- Immediate Response Loan	0.75	0.41

Source: Caribbean Development Bank.

Loan Disbursement, Service and Resource Flow

(In millions of U.S. dollars)

	2009	2010	2011	2012	2013
Net Disbursement	2.16	8.21	0.27	-2.45	4.34
Disbursement	6.91	13.65	4.37	1.73	18.98
Amortisation	4.75	5.44	4.10	4.18	14.64
Interest and charges	3.59	3.44	2.62	2.48	3.16
Net resource flow	-1.43	4.77	-2.35	-4.93	1.18

Source: Caribbean Development Bank.

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).

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 was introduced in 2010, with new weights based on the 2000 household survey, linking the old and new baskets back to 2006. Monthly CPI data are posted on the ECCB website with a long lag. The ECCB also produces monthly data, and on tourism with a long lag, and tourism expenditure. The assumed spending levels for types of tourists have not been updated recently. Limited data are available on labor market developments.

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. Progress has been made reducing discrepancies between overall balance and available financing in 2013. Works needs to be done in resolving the discrepancy in earlier years. It would be important to produce a set of fully consolidated 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 2012. Public Finance data is recorded by the authorities on a cash basis, and reported to the Fund in a Chart of Account broadly in line with that of the GFSM.

Balance of Payments and External Debt

ECCB provides imports and exports on a monthly basis, and estimates a full balance of payments on an annual basis. The latest data published in IFS are for 2012. Most components of the financial account 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. The IMF Statistics Department undertook a mission on Balance of Payments Statistics in 2012 to work with the ECCB Authorities on meeting the requirements of the *Balance of Payments and International Investment Position Manual, sixth edition (BPM6)*.

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. The mission identified shortcomings related to the institutional coverage of the other depository corporations 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. Monetary Statistics were modified, and since 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.

The authorities report monetary data to the IMF on a monthly basis, with a time lag of about 3 months. The ECCB publically releases monetary survey data, and deposits, loans, and sector distribution of credit alongside a Central Bank balance sheet and data on interest rates on a monthly basis, again with a lag.

Table of Common Indicators Required for Surveillance
(As of February 2014)

	Date of latest observation	Date received	Frequency of data ⁶	Frequency of reporting ⁶	Frequency of publication ⁶
Exchange Rates	Fixed Rate	NA	NA	NA	NA.
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	11/13	1/21/2014	M	M	M
Reserve/Base Money	11/13	1/21/2014	M	M	M
Broad Money	11/13	1/21/2014	M	M	M
Central Bank Balance Sheet	11/13	1/21/2014	M	M	M
Consolidated Balance Sheet of the Banking System	11/13	1/21/2014	M	M	M
Interest Rates ²	11/13	1/21/2014	M	M	M
Consumer Price Index	12/13	01/30/14	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	11/13	12/31/13	M	M	A
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	11/13	12/31/13	Q	Q	A
External Current Account Balance	2012	10/30/13	A	A	A
Exports and Imports of Goods and Services	2012	10/30/13	A	A	A
GDP/GNP	2012	10/13/13	A	A	A
Gross External Debt	11/13	12/31/13	Q	Q	A

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

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

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ Central government only.

⁵ Including currency and maturity composition.

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