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May 19, 1993

To: Members of the Executive Board

From: The Secretary

Subject: St. Kitts and Nevis - Staff Report for the 1993 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1993 Article IV consultation with St. Kitts and Nevis, which will be brought to the agenda for discussion on a date to be announced.

Mr. Itam (ext. 35350) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation 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 GATT Secretariat, following its consideration by the Executive Board.

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ST. KITTS AND NEVIS

Staff Report for the 1993 Article IV Consultation

Prepared by the Staff Representatives
for the 1993 Consultation with St. Kitts and Nevis

Approved by S.T. Beza and Joaquin Pujol

May 18, 1993

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I. Introduction

The 1993 Article IV consultation discussions with the Federation of St. Kitts and Nevis were held in Basseterre and Charlestown during March 17-31. The representatives of St. Kitts and Nevis included Prime Minister Simmonds (who is also Minister of Finance), the Premier of Nevis, economic ministers, and other officials. The staff representatives were Messrs. Itam, Raymond, Zeas and Tokarick (EP), and Ms. Quelch (Assistant) (all WHD). Mrs. Williams and Mr. Augustine of the Eastern Caribbean Central Bank (ECCB) accompanied the Fund staff and Ms. Lindsay-Nanton, Assistant to the Executive Director for St. Kitts and Nevis, participated in some of the discussions.

St. Kitts and Nevis accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement in December 1984 and its exchange system is free of restrictions on current international transactions. The last Article IV consultation with St. Kitts and Nevis, which is on the 24-month cycle, was concluded by the Executive Board on July 31, 1991 (EBM/91/104). 1/ On that occasion, Executive Directors commended the authorities on their management of the economy, but noted the weakening in the public finances. They stressed the need for wage restraint, particularly in the public sector, and the importance of strengthening the Government's capacity for preparing and implementing public sector investment projects.

II. Recent Economic Developments

Following a slowing of activity in 1990 in the aftermath of hurricane Hugo, real GDP grew at an average of about 6 percent a year in 1991-92 (Chart 1 and Table 1). 2/ With the completion of a major resort hotel in Nevis in 1991, tourism became the main source of economic growth, creating considerable employment opportunities directly as well as stimulating activities in related industries such as services and nonsugar agriculture. Sugarcane also continued to be an important cash crop and favorable weather and more efficient production methods contributed to a sharp increase in sugar output in 1991-92. At the same time, continued technical progress and penetration of export markets led to significant increases in manufacturing output, particularly garments and electronic components.

Inflation declined from an annual average of 4 1/2 percent in 1990-91 to about 3 percent in 1992, largely because of increased supplies of nontraded goods and the stabilization of import prices. Selected price controls remain in place but their effect on changes in the retail price

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1/ Relations with the Fund are presented in Annex I.

2/ Hurricane Hugo swept through the Caribbean in September 1989 with devastating effects on crops, buildings and infrastructure.

index is marginal as they are administered mostly on the basis of maximum mark-ups on imported food items and building materials. 1/

The public sector finances continued to improve in the past two years with an overall balance in the fiscal accounts in 1991 and a surplus of about 4 percent of GDP in 1992; public savings--including foreign grants--recovered to about 8 percent of GDP in 1992, compared with less than 5 percent of GDP a year in 1990-91 (Table 2). These improvements reflected rising surpluses of the Social Security Scheme (SSS); a significant reduction in the operating deficit of the major public enterprise, the St. Kitts Sugar Manufacturing Company (SSMC); and a substantial slowdown in public sector investment in infrastructure.

However, the structure of the Central Government finances remained weak. The overall budget deficit averaged about 2 1/2 percent of GDP a year during 1990-92, compared with 7 percent of GDP a year in 1988-89, but this reflected a substantial drop in investment. Notwithstanding a small decline in current expenditure relative to GDP, the Central Government's current balance fell from about 4 1/2 percent of GDP in 1988-89 (before hurricane Hugo) to an average of less than 1 percent of GDP a year in 1991-92. Over this period, domestic revenue declined from about 24 percent of GDP a year in 1988-90 to less than 22 percent of GDP because of weak tax administration, especially in customs and inland revenue. In addition, foreign grants declined from an average of more than 2 percent of GDP in 1988-90 to less than 1 percent in 1991-92.

Developments in the monetary area in 1991-92 mirrored the recovery of the economy. Commercial bank liabilities to the private sector increased sharply, providing the basis for a rapid expansion in credit to the private sector which rose at an annual average rate of about 20 percent a year in 1991-92 (Table 3). However, banks remained relatively liquid as a result of large public sector loan repayments and deposits--notably deposits of the SSS--and the ratio of actual-to-required reserves rose from 1.6 in 1988-90 to 1.8 during 1991-92.

Despite the liquidity situation, average deposit and lending interest rates remained significantly positive in real terms during 1991-92. The weighted average interest rate on deposits increased from about 5.25 percent in 1989-90 to 5.65 percent in 1991-92, while lending rates declined from 11.75 percent to 10.85 percent. Notwithstanding its reduction, the spread between lending and deposit rates remained sizable.

The external current account deficit declined from about 30 percent of GDP a year in 1989-90 to 14 percent of GDP a year in 1991-92 (Table 4). This reflected an increase in exports of sugar, garments, and electronics; higher tourism receipts following the opening of a resort hotel in Nevis, an

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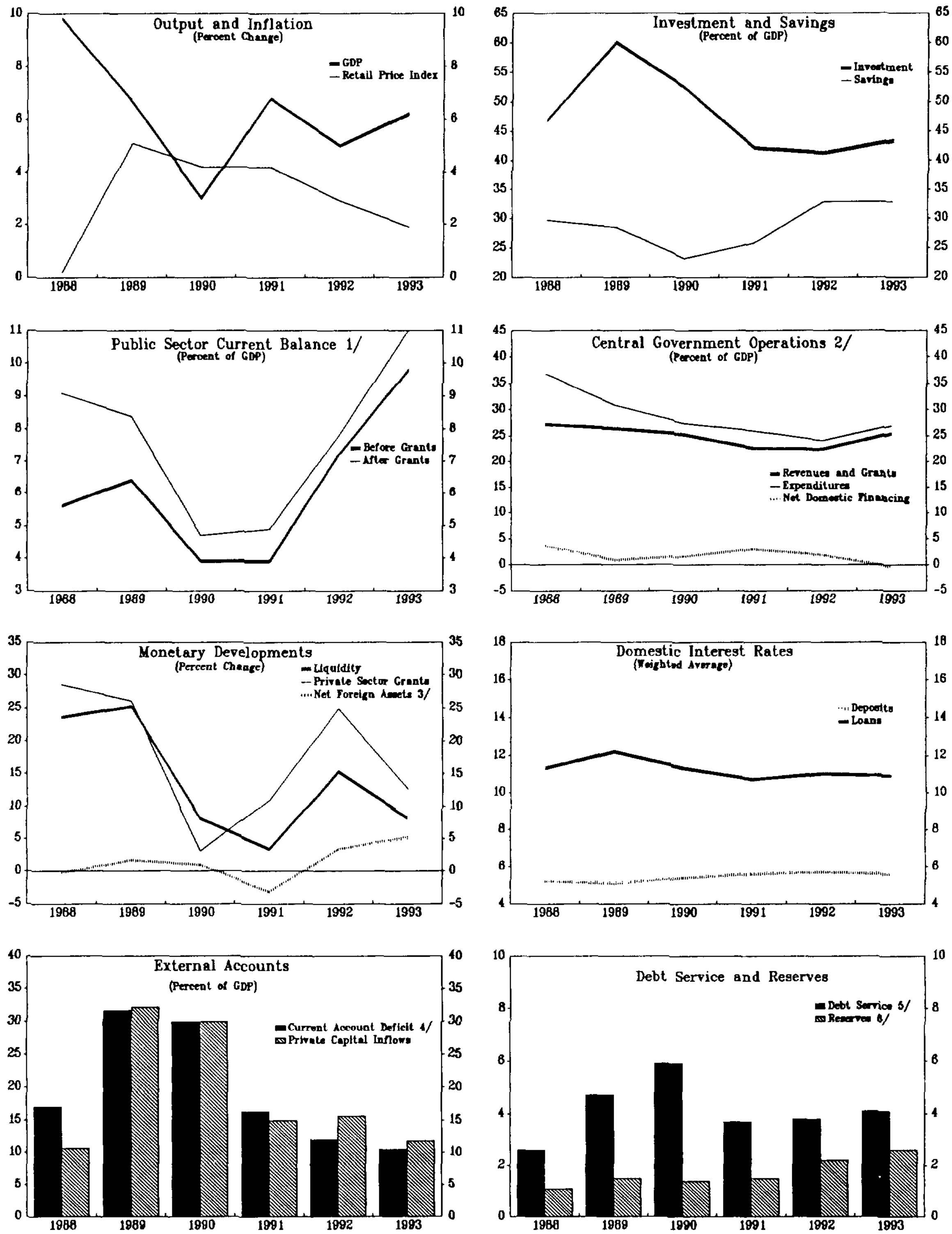
1/ See the accompanying document on recent economic developments for more details on the price control system.

CHART 1

St. Kitts and Nevis
Selected Economic Indicators, 1988-93



Sources: Tables 1-5.
1/ Including the Social Security Scheme.
2/ Consolidation of the separate budgets for St. Kitts and Nevis.
3/ Contribution to liquidity growth.
4/ After official grants.
5/ Percent of exports of goods and nonfactor services.
6/ In months of imports of goods and nonfactors services.

increase in the number of hotel rooms in St. Kitts, and more frequent arrivals of cruise ships; and little change in the value of imports as the effect of the completion of a number of major construction projects offset higher imports related to tourism. In the capital account, direct investment fell with the completion of the resort in Nevis, but remained significant. As a result, the overall balance of payments showed a cumulative surplus of US$10 million during 1991-92 (an average of about 2 1/2 percent of GDP a year). Net official international reserves rose to US$26 million at the end of 1992, equivalent to about two months of imports of goods and nonfactor services.

St. Kitts and Nevis maintained a prudent external borrowing policy during 1991-92, with total government and government-guaranteed external debt remaining virtually unchanged at about US$41 million, or 21 percent of GDP (Table 5). Almost all external loans have been provided by the Caribbean Development Bank (CDB), the World Bank and bilateral sources, and have been at concessional interest rates that averaged about 4 percent. 1/ Debt service remained modest at 4 percent of exports of goods and nonfactor services.

St. Kitts and Nevis share a common currency, the Eastern Caribbean dollar, with seven neighboring island countries; 2/ since July 1976 the currency has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar. Measured for St. Kitts and Nevis, the currency fluctuated in real effective terms within a narrow band during recent years; between the end of 1990 and the end of 1992, the currency appreciated by about 6 1/2 percent in real effective terms reflecting the appreciation of the U.S. dollar relative to other major currencies (Chart 2).

III. Economic Policies

The authorities are of the view that there is a need to change the recent trend of policies and strengthen savings for essential investment in infrastructure over the medium term. Against this background, the policy discussions focused on the development strategy of the Government and the public sector savings required to support this effort.

1. Development strategy

Over the medium term, the Government aims at maintaining strong growth and low inflation, with the private sector taking the lead role in the expansion of economic activity. The Government is to concentrate on the provision of adequate infrastructure and incentives that would spur growth

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1/ Financial relations with the World Bank Group are summarized in Annex II.

2/ Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Lucia, and St. Vincent and the Grenadines.

in tourism and related sectors, light manufacturing for export, and diversification into nonsugar agriculture.

The Government's strategy envisages public investment amounting to about EC$200 million--38 percent of current GDP--over the next 4-5 years. This would imply an increase in government investment relative to GDP of about 1 percentage point a year over the medium term. The specific projects include the development of a port facility for cruise ships, the expansion of the airport, the enlargement of electricity generating capacity, the enhancement of the water and sewage system, and new roads. In addition, the Government plans to expand its education programs, with particular emphasis on technical training. This would involve the establishment of more schools, a shift in the focus of existing education programs, and appropriate training for teachers.

In the area of agriculture, the authorities aim at promoting a further diversification in production, with an appropriate balance between traditional sugarcane and nonsugarcane activities. 1/ The plan is to encourage small farmers to specialize in the production of high price commodities, including import substitutes, and to develop stronger linkages with the tourism sector. The Government would support diversification by leasing public land to farmers, providing extension services and essential inputs, and offering marketing assistance through the Central Marketing Corporation. 2/

The Government also intends to continue with the provision of selected fiscal incentives to foster the rapid development of tourism and manufacturing. The main fiscal incentives are a 10-to-15 year tax holiday on corporate profits and import duty exemption for materials and inputs. The Government also allows developers of tourism projects to import food supplies free of duty. For manufacturing, the Government has constructed two industrial estates that provide facilities such as workshops and storage, and a third industrial estate is being developed.

Despite recent efforts, weaknesses remain in the preparation and implementation of investment projects. The authorities are aware of the need to establish criteria for the prioritization of projects. They

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1/ Sugarcane farming is plantation-oriented and employs a significant proportion of the labor force; however, it demands a considerable amount of land--which is scarce--and is relatively low-yielding. On the other hand, modern small- to medium-scale nonsugarcane farming of vegetables and other products is less labor intensive; finds immediate markets in local hotels and neighboring countries; and yields about three times as much in value added per unit of land as sugarcane.

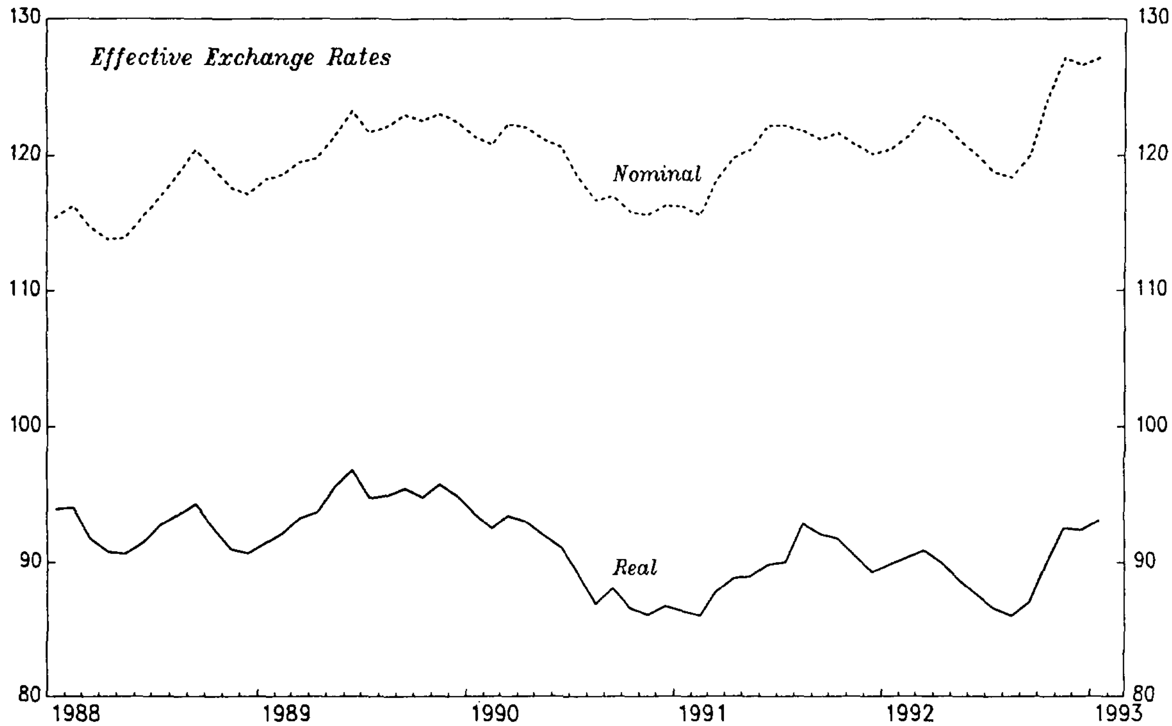
2/ The Central Marketing Corporation (CMC) was established in 1974 to assist farmers in the selling of their produce. The original intention was that the CMC would purchase from individual farmers and sell in bulk to hotels and supermarkets and arrange for the export of any excess output.

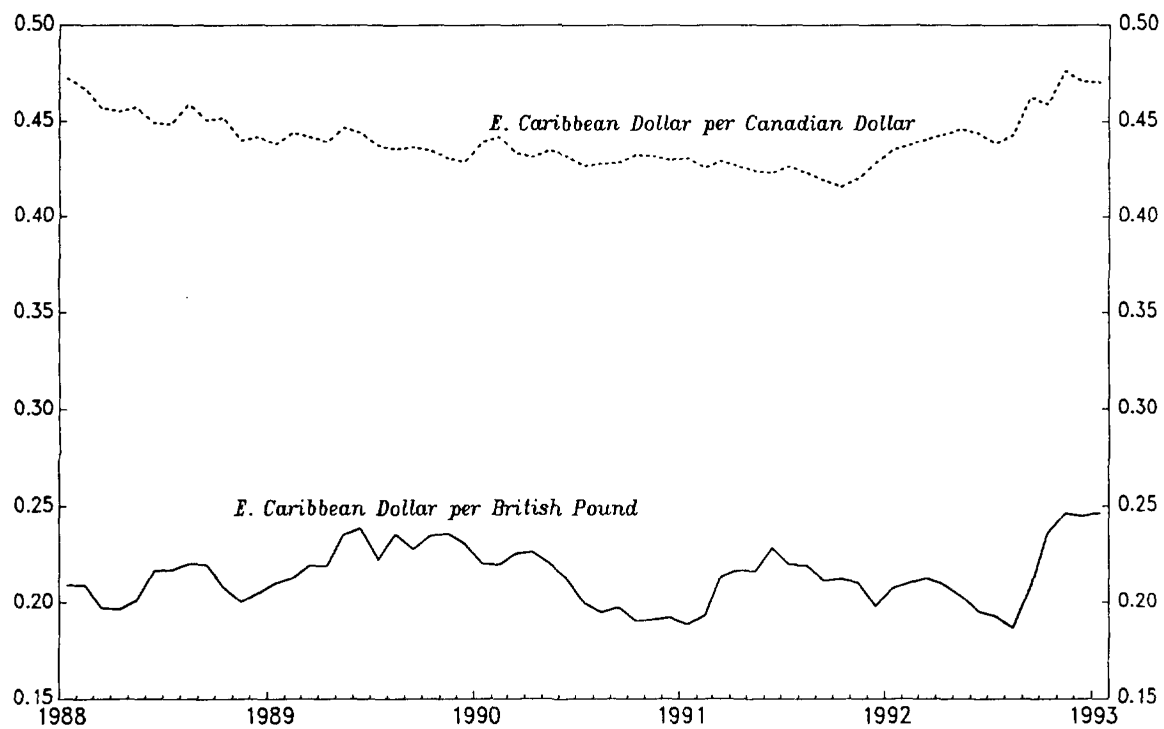
CHART 2

St. Kitts and Nevis

Exchange Rate Indices, 1988-93 1/

(1980=100)





Sources: IMF,Information System; IMF,International Financial Statistics.

1/ Increase represents an appreciation.

indicated that the lack of well-trained staff to evaluate and monitor projects has been a major handicap and that the Government is seeking assistance from the CDB and the UNDP to strengthen the Planning Unit. The authorities also see a need for donors to identify in a timely fashion the projects that would qualify for their assistance and to disburse approved assistance according to schedule.

The mission indicated that the development strategy outlined by the authorities seemed appropriate in terms of the sectors to be promoted and the emphasis given to relying on the market system. However, the staff urged the authorities to design and implement the program within a macroeconomic framework that would ensure that undue pressures are not created with respect to domestic resources and the absorptive capacity of the economy. In this regard, assistance could be sought from the World Bank in assessing the investment plan.

2. Public sector savings

The resources for the development strategy described above would need to come through a strengthening of national savings, particularly the savings of the public sector. While foreign assistance--mainly in the form of concessional loans--would continue to be significant, it would fall well short of the resources required. Also, the authorities are keenly aware of the need to continue with the Government's prudent external borrowing policy to avoid an undue debt service burden.

The increase in public savings will require a major effort on the part of the Central Government, because the surplus of the Social Security Scheme will decline substantially in the next few years as the scheme matures and benefits rise sharply relative to contributions. More specifically, it was estimated that implementation of the Government's strategy would require that government savings be increased from 5 percent of GDP projected for 1993 to 12 percent of GDP by 1998 or so.

The authorities agreed with the staff that efforts should focus both on further revenue measures and the containment of current expenditure. They noted that with recent administrative measures--especially in the customs area--revenue is expected to increase to about 24 percent of GDP in 1993 but would remain one of the lowest in the region. 1/ To strengthen revenue further, the staff encouraged the authorities to implement fully the recent recommendations of an expert sponsored by the Commonwealth Fund for Technical Cooperation (CFTC) to improve the administration of inland revenue. 2/ Also, the Government would need to overhaul property tax assessments to bring them closer to market values and increase the collection of arrears on

1/ For the Eastern Caribbean countries as a whole, domestic revenue relative to GDP averaged about 28 percent in 1991-92.

2/ These recommendations include steps for better assessment and auditing procedures.

taxes, utility bills of departmental enterprises, house rentals, and advances to government employees. 1/ Finally, there is an urgent need to review the system of customs duty exemptions and other fiscal incentives --including the tax holiday on corporate profits--to make them more transparent and minimize the loss in potential revenue. The authorities have begun to adopt most of these measures and it is estimated that they could raise domestic revenue by about 3 percent of GDP over the period 1994-98.

The remainder of the fiscal effort would involve the containment of current expenditure. The staff recommended a streamlining of the public service, including the operations of the public and departmental enterprises. The authorities shared this view and indicated that the Government already has started to reduce the size of the public sector by not filling non-essential positions that fall vacant. At the same time, the authorities stressed the need to increase public employment in selected areas, for example the police force to provide better security and surveillance. The Government also is determined to limit the expansion in current expenditure in other areas, including transfers to public enterprises. It is expected that the Central Government's current expenditure relative to GDP would decline by about 4 percent in 1994-98.

3. Wage policy

The authorities explained that wage policy in the past two years aimed to reduce disparities between the public and the private sectors. While it should be expected that public sector wages would tend to be lower than in the private sector--reflecting, among other things, greater job security in the public sector--the wage gap between the two sectors had widened in recent years, hampering the public sector's ability to recruit and retain qualified staff. 2/ At the same time, the authorities recognized that the increases in wages could jeopardize achieving the public sector savings targets. For this reason, the Government had resorted to year-end bonuses in recent years to help minimize wage costs and prevent a permanent increase in the wage structure. 3/ The authorities indicated that a policy of wage restraint would be supported by a flexible immigration policy with respect to neighboring countries for those economic sectors facing labor shortages.

The mission stressed that given the participation of St. Kitts and Nevis in a regional central bank and the sharing of a common currency, maintenance of external competitiveness depended crucially on appropriate wage restraint. While acknowledging that it might be necessary for the

1/ At the end of 1992, arrears to the Government from these categories amounted to EC$20 million or about 4 percent of GDP.

2/ The average entry level monthly salary is EC$830 in the public sector and EC$1,500 in the private sector; the average middle-level salary is EC$2,000 in the public sector and EC$4,000 in the private sector.

3/ Bonuses are excluded from the pensionable base and are not subject to social security contributions.

public sector to increase wages to maintain an adequately trained cadre, the staff stressed that given resource constraints and the fact that the wage bill already represented about one-half of total domestic revenue, adjustments in wages should be compensated by measures to streamline further the size of the public sector and to improve its efficiency.

4. Public enterprise performance

The authorities explained that the deterioration in the overall financial performance of public enterprises that occurred in 1990 was attributable almost entirely to difficulties experienced by the SSMC. In an attempt to deal with these difficulties, the Government put in place a restructuring plan in 1991 that resulted in an impressive turnaround in the finances of the enterprise. A small overall surplus was recorded in 1992, which enabled the enterprise to reduce its overdraft position with commercial banks.

Nevertheless, St. Kitts and Nevis likely would not be able to compete in the international sugar market without the price protection now provided under the trading arrangement with the European Communities (EC). 1/ The guaranteed price under the arrangement with the EC will be reduced by 2 percent each year over the next five years. Furthermore, the quota with the United States--which has not been filled in the last few years because domestic production generally was sufficient to satisfy only the EC quota--might be reduced substantially following the ratification of the North America Free Trade Agreement (NAFTA). 2/ Given these concerns, the authorities have expressed an interest in selling the SSMC. In this regard, a prospectus has been prepared and a possible buyer has been identified.

The authorities described a number of changes in the other commercial activities currently carried out by the Government. The electricity department would be organized into an autonomous body with a view to eventual privatization. Also, the responsibility for the operations of the airport would be transferred from the Ministry of Communications to the Port Authority. 3/ Furthermore, the system for determining utility rates will be examined to ensure that public sector prices reflect changes in costs.

1/ Under the arrangement, St. Kitts and Nevis could export to the EC market (mainly the United Kingdom) up to 16,500 metric tons a year of domestically produced raw sugar at the price of Ecu 465 (equivalent to US$625) per metric ton--compared with a targeted medium-term production capacity of 25,000 metric tons and the current free market price of about US$200 per metric ton.

2/ The quota for the October 1992-September 1993 period is 7,258 metric tons.

3/ The Port Authority is now a public enterprise and has operated in a financially sound manner in recent years.

5. Monetary and exchange rate policies

Monetary and exchange rate policies are determined by the ECCB in consultation with member governments, including St. Kitts and Nevis. The central bank is guided mainly by the objectives of containing inflation and maintaining adequate foreign exchange cover for its liabilities. In view of recent developments, the Government's emphasis on the consolidation of the public finances over the medium term, and the favorable prospects for the balance of payments, the authorities considered the exchange rate arrangement to be appropriate for St. Kitts and Nevis.

In 1991-92 the ECCB continued to assist commercial banks in the management of their liquidity by providing facilities for them to place their short-term funds. In addition, the ECCB created a facility for commercial banks to deposit their excess foreign assets (denominated in E.C. dollars) at interest rates that were slightly higher than they would obtain in the market. The ECCB is able to do this without incurring a cost by consolidating the relatively small foreign exchange holdings of the individual banks into larger deposits and by acquiring slightly longer term foreign securities.

Commercial banks in St. Kitts and Nevis--as in the other Eastern Caribbean countries--are subject to a minimum interest rate on saving deposits of 4 percent. The staff indicated that this minimum rate may help explain the relatively high lending rates, as it discouraged holdings of demand deposits and placed upward pressures on time deposit rates, thereby adding to the expenses of banks. The staff therefore recommended that the minimum interest rate on saving deposits be removed, recognizing that any decision on the issue would need to be made on a regional basis.

The authorities explained that the minimum interest rate on saving deposits was introduced many years ago to encourage saving and because the small number of commercial banks were suspected of colluding in setting interest rates. The authorities indicated that the issue would need to be examined in connection with a monitoring of commercial bank profitability, but expressed doubt as to whether lending rates would actually decline if the requirement was removed. 1/

There is currently a 2 percent tax on the conversion of E.C. dollars into foreign exchange, which has acted to reduce the demand for money balances denominated in E.C. dollars and led to increased holdings of U.S. dollar deposits with commercial banks. 2/ The immediate impact has been to raise the cost of transactions in currencies other than the

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1/ In late April 1993, the ECCB reduced its rediscount rate by 1 percentage point to 9 percent to reduce the cost of funds and help reduce lending rates.

2/ This tax has been in place since July 1980 and does not give rise to a multiple currency practice.

U.S. dollar. The staff recommended that this tax be removed and that compensatory measures be taken to prevent any deterioration in the budgetary position stemming from its removal. 1/ The authorities agreed that the tax should be removed, particularly in light of the abolition of the tax in other countries of the region.

6. Poverty alleviation

The authorities expressed their belief that inequalities in the distribution of income are not particularly pronounced in St. Kitts and Nevis. Nevertheless, they indicated that the Government has continued to monitor the effect of economic and financial developments on the population in lower income brackets and is implementing a number of programs to improve the living standards of these groups. Programs include assistance in the construction of low-cost housing; the provision of free medical supplies and hospital care to children and the elderly; and the payment of small cash allowances by the SSS to the indigent elderly. 2/

7. Statistical issues

There are a number of deficiencies in the economic and financial statistics for St. Kitts and Nevis that hamper the analysis of developments and weaken the basis for policy decisions. 3/ In particular, national accounts estimates are available only with a lag of 2-3 years and include significant inconsistencies. The staff urged the authorities to seek technical assistance in the areas of the national accounts, public finances, employment, and trade. STA is currently providing assistance to strengthen government finance statistics for the countries in the region.

IV. Economic Prospects

1. Prospects for 1993

The immediate prospects for 1993 are generally satisfactory. Real GDP is projected to grow by about 6 percent based on tourism and related industries, an increase in construction as new low- and middle-income housing projects are started, and continued improvements in the sugar industry. Inflation is expected to decline to about 2 percent, given low increases in import prices and adequate supplies of agriculture products.

The public sector finances are projected to improve substantially reflecting a strengthening of the central government accounts; an improvement in the performance of the public enterprises, including that of the

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1/ In 1992, the yield from this tax was EC$1 million (0.2 percent of GDP).

2/ Annex III presents social and demographic indicators for St. Kitts and Nevis.

3/ Annex IV summarizes these issues.

SSMC; and a large surplus in the SSS. Public sector savings are projected to increase from 8 percent of GDP in 1992 to about 11 percent of GDP in 1993 largely because of increased central government savings as the budget for 1993 envisages continued restraint on current expenditure and significant revenue enhancement from better tax administration. The surplus in current operations (after grants) is expected to rise to about 5 percent of GDP and limit the overall deficit of the Central Government to about 1 1/2 percent of GDP.

Developments in the external sector also are expected to remain favorable in 1993, with further increases in sugar exports and tourism receipts reducing the current account deficit to 10 1/2 percent of GDP. With foreign direct investment of about 12 percent of GDP, the overall balance of payments position is projected to show a surplus of about US$6 1/2 million.

2. Medium-term outlook

On the basis of present policies and the authorities' commitment to undertake additional measures, (including to support the public investment program), the medium-term economic outlook also is favorable. During 1994-98 real GDP is projected to grow by 5-6 percent a year and inflation is expected to be around 2-3 percent a year, in line with major trading partners (Chart 3). On the external side, the current account deficit is projected to remain at around 10 percent of GDP, reflecting strong growth in tourism receipts and an expansion in exports of sugar, electronics, and garments that matches a substantial increase in imports. With a sustained level of foreign direct investment, the overall balance of payments would register modest surpluses and raise the level of net official international reserves to the equivalent of about three months of imports of goods and nonfactor services.

There is a downside risk to these projections if the required savings from the public sector were not forthcoming because of a failure to raise government revenue or to contain current public spending (particularly on wages). Under this alternative scenario, investment in infrastructure would fall short of the desired level and real GDP growth would average only about 3 percent a year during 1994-98. The external current account balance likely would weaken slightly but the overall balance of payments would remain viable over the medium term. 1/

V. Staff Appraisal

The economic performance of St. Kitts and Nevis was satisfactory in many respects during 1991-92. Following an economic slowdown in 1990 after hurricane Hugo, most sectors recovered at a brisk pace led by tourism and agriculture. At the same time, domestic inflation subsided to about the rate prevailing in major trading partners as a result of improvements in

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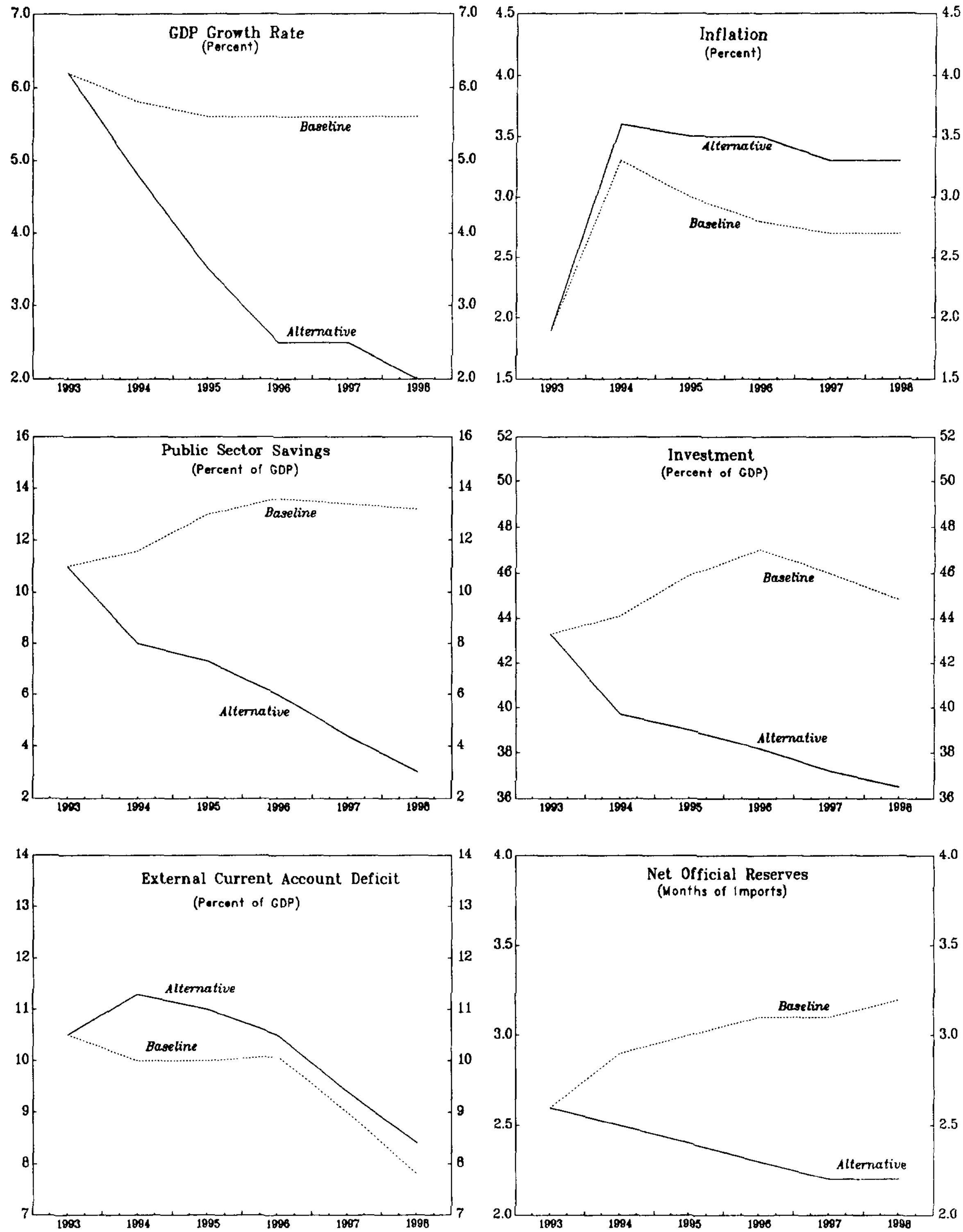
1/ More details on the medium-term scenarios are provided in Annex V.

CHART 3

St. Kitts and Nevis
Medium - Term Scenarios, 1993-98



Sources: Annex V, Tables 1–3

domestic supply conditions. The public sector registered a significant overall surplus in 1992 and the external current account deficit was reduced sharply; the overall balance of payments recorded a significant surplus in 1991-92. However, the improvement in the balance of the public sector and the reduction in the external current account deficit were attributable in large part to a substantial drop in investment spending.

The Government aims at maintaining strong growth and low inflation over the medium term and has adopted the broad strategy of providing infrastructure and incentives to spur growth in tourism, manufacturing and agriculture. While this approach is appropriate for St. Kitts and Nevis, the investment program must be designed and implemented within a consistent macroeconomic framework if its full benefits are to be realized and areas of pressures avoided. The staff estimates that over the next five years or so government savings need to be raised by about 7 percentage points of GDP.

The authorities recognize the importance of increasing domestic savings, and have initiated steps to strengthen the Central Government's revenue effort. The revenue measures, which should yield about 3 percent of GDP in 1994-98, include improving the administration of inland revenue taxes, custom duties and the property tax, and accelerating the collection of arrears on taxes, utility bills and advances to government employees, while putting in place mechanisms to ensure a lasting improvement in revenue. The remainder of the effort would come from the containment of current expenditure, especially the wage bill, which in relation to GDP would decline by about 4 percent in 1994-98. While the public sector needs to pay wages high enough to retain qualified staff, future wage increases should be accompanied by measures to streamline further the public sector and to improve its efficiency.

The authorities' intention to sell the St. Kitts Sugar Manufacturing Company, reorganize the electricity department into an autonomous body, and transfer responsibility for the airport to the Port Authority will help to make the associated commercial activities viable over the medium term. More frequent adjustment of public sector prices would bolster the financial performance of the public enterprises.

The minimum interest rate on saving deposits may be a factor in the relatively large spread observed between lending and deposit rates. The staff recognizes that any decision to remove this requirement would have to be made on a regional basis since this minimum rate reflects a decision by the Eastern Caribbean Central Bank.

The fixed exchange rate maintained by the Eastern Caribbean Central Bank--including for St. Kitts and Nevis--has helped maintain financial stability and contain inflation. The staff concurs with the authorities' view that this arrangement has served the country well and remains appropriate.

With the authorities' commitment to strengthen policies, the immediate and medium-term prospects are favorable. The economy is projected to continue growing at a strong rate, with the further dampening of inflation and the achievement of modest overall balance of payments surpluses that would make possible a gradual increase in the import coverage of net official international reserves. This outlook is predicated on the public sector succeeding in raising the necessary savings.

In view of the broadly satisfactory performance of the economy and the favorable medium-term prospects, the staff recommends that the next Article IV consultation with St. Kitts and Nevis continue to be held on the 24-month cycle.

Table 1. St. Kitts and Nevis: Output, Prices, and Investment 1/

	1988	1989	1990	1991	Est. 1992	Proj. 1993
	(Percent change)					
Real GDP (at factor cost)	9.8	6.7	3.0	6.8	5.0	6.2
Domestic demand	22.0	12.5	16.1	--	5.5	8.1
GDP deflator	8.2	4.3	9.6	3.6	4.2	2.3
Consumer prices (annual average)	0.2	5.1	4.2	4.2	2.9	1.9
	(Percent of GDP)					
Investment	46.8	60.1	52.3	42.1	41.2	43.3
Of which: Foreign direct	10.5	28.8	30.6	12.6	12.4	11.6
National savings	29.7	28.4	23.2	25.7	29.2	32.8
	(Percent change)					
Nominal effective exchange rate 2/	1.1	4.5	-5.1	3.3	5.4	...
Real effective exchange rate 2/	-4.9	4.6	-8.7	3.0	3.5	...

Sources: Data provided by the St. Kitts and Nevis authorities; and Fund staff estimates and projections.

1/ A basic data table is included in the accompanying document on recent economic developments.

2/ End of period; depreciation (-).

Table 2. St. Kitts and Nevis: Summary of Public Sector Operations

(In percent of GDP)

	1988	1989	1990	1991	Est. 1992	Proj. 1993
(Consolidated Public Sector)						
Revenue and grants 1/	47.0	44.8	40.1	38.6	38.3	41.4
Expenditure 1/	55.0	48.1	40.2	38.5	41.4	38.1
Current	37.9	36.4	35.5	33.6	30.5	30.4
Capital	17.1	11.7	4.7	4.9	10.9	7.7
Current balance 2/	9.1	8.4	4.7	4.9	7.8	11.0
Overall balance	-8.0	-3.3	-0.1	--	3.8	3.3
(Central Government) 3/						
Revenue and grants	27.2	26.4	25.3	22.6	22.4	25.4
Domestic revenue	23.7	24.5	24.6	21.6	21.9	24.3
Grants	3.5	1.9	0.7	1.0	0.5	1.1
Expenditure	36.9	30.7	27.4	26.0	24.1	26.8
Current	22.8	21.9	23.9	22.2	21.1	20.5
Of which: wages	11.4	11.0	11.3	11.2	10.9	10.5
Capital and net lending	14.1	8.8	3.5	3.8	3.0	6.3
Overall balance	-9.7	-4.4	-2.1	-3.4	-1.7	-1.5
Foreign financing (net)	6.0	3.4	0.4	0.4	-0.2	1.9
Domestic financing (net)	3.7	1.0	1.7	3.0	1.9	-0.4
Of which: banking system	4.4	1.6	1.5	0.5	-1.6	-1.1
Current balance 2/	4.4	4.5	1.4	0.4	1.3	4.9
(Before grants)	0.9	2.5	0.6	-0.7	0.8	3.7

Sources: Data provided by the St. Kitts and Nevis authorities; and Fund staff estimates and projections.

1/ Adjusted for intra-public sector transfers.
2/ After foreign grants.
3/ Consolidation of the separate budgets for St. Kitts and Nevis.

Table 3. St. Kitts and Nevis: Summary of Monetary Survey

	1988	1989	1990	1991	Est. 1992	Proj. 1993
	(In millions of Eastern Caribbean dollars at end-period)					
Net foreign assets	65.2	68.7	71.2	62.4	72.1	89.5
Net domestic assets	141.0	189.7	208.1	226.7	261.0	270.9
Domestic credit	183.6	244.7	260.8	276.0	315.8	330.9
Public sector	13.5	20.7	28.9	13.5	-18.8	-45.9
Private sector	170.1	224.0	231.9	262.5	334.6	374.8
Other items (net)	-42.6	-55.0	-52.7	-49.3	-54.8	-60.0
Liquidity 1/	206.2	258.4	279.3	289.1	333.1	360.4
	(Annual percentage change)					
Domestic credit	42.0	33.3	6.6	5.8	14.5	4.8
Of which: Private sector	38.9	31.7	3.5	13.2	27.5	12.6
Liquidity	23.6	25.2	8.1	3.4	15.3	8.2
	(Contributions to liquidity growth) 2/					
Net foreign assets	-0.2	1.7	1.0	-3.2	3.4	5.2
Domestic credit	32.5	29.6	6.3	5.4	13.8	4.5
Public sector	4.0	3.5	3.2	-5.6	-11.1	-8.2
Private sector	28.6	26.1	3.1	11.0	24.9	12.7
Other items (net)	-8.7	-6.0	0.9	1.2	-1.9	-1.6
Memorandum items						
Income velocity 3/						
Narrow money	8.78	7.56	7.42	8.25	8.97	...
Liquidity 1/	1.81	1.64	1.56	1.63	1.68	1.63
Interest rates 4/						
Deposits	5.2	5.1	5.4	5.6	5.7	5.6
Lending	11.3	12.2	11.3	10.7	11.0	10.9
Actual/required reserves 5/	1.83	1.38	1.61	1.58	1.97	...

Sources: Data provided by the St. Kitts and Nevis authorities; and Fund staff estimates and projections.

1/ Including deposits denominated in U.S. dollars.
2/ Change relative to liquidity at the beginning of the period.
3/ Nominal GDP at market prices divided by the average stock of liquidity for the period.
4/ Weighted averages.
5/ Commercial banks deposits with the Eastern Caribbean Central Bank.

Table 4. St. Kitts and Nevis: Summary Balance of Payments

	1988	1989	1990	1991	Est. 1992	Proj. 1993
	(In millions of U.S. dollars)					
Exports, f.o.b.	27.4	28.6	27.7	28.8	32.4	37.0
Of which: Sugar	13.1	11.9	9.1	11.3	12.1	14.6
Re-exports	1.7	3.3	3.3	4.0	4.0	4.3
Imports, c.i.f.	-93.1	-111.6	-113.6	-110.3	-113.6	-123.4
Trade balance	-65.7	-83.0	-85.9	-81.5	-81.2	-86.4
Services and transfers (net)	44.3	39.5	38.1	53.5	57.9	64.3
Travel receipts	34.8	36.6	39.1	51.3	62.6	66.6
Other services	-6.2	-8.5	-8.4	-14.9	-16.1	-15.4
Private transfers	10.7	9.3	8.0	16.1	12.3	12.7
Official transfers	5.0	2.1	-0.6	1.0	-0.9	0.4
Current account balance	-21.4	-43.5	-47.8	-28.0	-23.3	-22.1
Capital (net)	21.4	50.9	49.2	25.6	29.8	28.5
Official	8.0	5.3	1.4	0.1	-0.4	3.8
Private	13.4	45.6	47.8	25.5	30.2	24.7
Of which: Direct investment	13.1	40.8	48.8	21.4	23.9	24.3
Errors and omissions	-0.4	-1.3	-1.6	2.8	2.9	--
Overall balance	-0.3	6.1	-0.1	0.4	9.6	6.4
Memorandum items						
Current account balance, in percent of GDP	-17.1	-30.7	-30.0	-16.4	-12.0	-10.5
Net official international reserves 1/	10.3	16.4	16.3	16.7	26.2	32.7
(In months of imports) 2/	1.1	1.5	1.4	1.5	2.2	2.6
	(Percentage change)					
Export volume	-7.0	4.7	-12.1	-0.8	10.7	11.5
Export prices	5.4	-0.4	10.0	4.9	1.8	2.4
Import volume	10.1	19.8	-2.0	-2.4	3.1	6.6
Import prices	6.4	--	3.8	-0.5	-0.1	1.9
External terms of trade	-0.9	-0.4	6.0	5.4	1.9	0.5

Sources: Data provided by the St. Kitts and Nevis authorities; and Fund staff estimates and projections.

1/ Imputed from ECCB's records and projections.
2/ Imports of goods and nonfactor services.

Table 5. St. Kitts and Nevis: Government and Government-Guaranteed External Debt and Debt Service

(In millions of U.S. dollars)

	1988	1989	1990	1991	Est. 1992	Proj. 1993
Outstanding debt						
(end of period)	32.3	37.7	40.8	40.7	40.8	44.9
Government	18.3	23.3	24.6	25.1	24.8	28.7
Other	14.0	14.4	16.2	15.6	16.0	16.2
Drawings	9.2	8.2	4.6	2.5	2.4	7.6
Government	7.9	5.4	3.0	1.8	1.0	5.4
Other	1.3	2.8	1.6	0.7	1.4	2.2
Amortization	1.0	2.5	3.0	2.1	2.7	3.4
Government	0.4	0.5	2.3	1.1	1.4	1.4
Other	0.6	2.0	0.7	1.0	1.3	2.0
Valuation adjustment	-0.4	-0.8	1.4	-0.4	0.4	--
Interest payments	1.0	1.4	2.2	1.6	1.7	1.7
Government	0.5	0.8	1.5	0.9	1.0	1.0
Other	0.5	0.6	0.7	0.7	0.7	0.7
Debt service	2.0	3.9	5.2	3.7	4.4	5.1
Government	0.9	1.3	3.8	2.0	2.4	2.4
Other	1.1	2.6	1.4	1.7	2.0	2.7
Memorandum items						
Debt/GDP	25.8	26.6	25.6	23.9	21.0	21.4
Debt service 1/	2.6	4.7	5.9	3.8	3.8	4.1
Government debt service/revenue	2.5	3.4	9.4	5.2	5.6	4.5
Government interest						
payments/current expenditure	1.7	2.5	3.9	2.4	2.5	2.3
Effective interest rate 2/	4.1	4.3	5.9	3.9	4.2	4.1

Sources: Data provided by the St. Kitts and Nevis authorities; and Fund staff estimates and projections.

1/ Percent of exports of goods and nonfactor services.
2/ Percent per annum.

St. Kitts and Nevis - Fund Relations
(As of April 30, 1993)

I. Membership Status: Joined 8/15/84; Article VIII

II. General Department (General Resources Account):

	SDR Million	% Quota
a. Quota	6.50	100.0
b. Total Fund holdings	6.49	99.8
c. Reserve tranche position in Fund	0.01	0.2

III. SDR Department:

	SDR Million	% Allocation
	None	None

IV. Outstanding Purchases and Loans: None

V. Financial Arrangements: None

VI. Projected Obligations to Fund (SDR Million; Based on Existing Use of Resources and Present Holdings of SDRs):

Overdue	Forthcoming				
1/31/93	1993	1994	1995	1996	1997
--	--	--	--	--	--

VII. Exchange Rate Arrangement: St. Kitts and Nevis and the other seven member states of the Eastern Caribbean Central Bank (ECCB) share a common currency, the Eastern Caribbean dollar, which has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976.

VIII. Consultation with the Fund: The last Article IV consultation discussions were held in Basseterre during May 17-29, 1991 and the consultation was concluded by the Executive Board on July 31 1991 (EBM/91/104; the documents were SM/91/139, 7/10/91; and SM/91/143, 7/17/91).

IX. Technical Assistance: Mr. Khatchadourian (STA) in March 1990 to assist the ECCB in its compilation of balance of payments statistics for 1986-88; Mr. Williams (STA) in August 1990 to present a one-week course on balance of payments statistics at the ECCB; Mr. Kennedy (STA) in February 1993 to assess ECCB's statistical needs; and Mr. Stephens (Consultant-STA) in March 1993 to help in the compilation of government financial statistics.

X. Resident Representative/Advisor: None

St. Kitts and Nevis: Financial Relations with the World Bank Group 1/
(As of April 30, 1993)

(In thousands of U.S. dollars)

	Total Amount of Loan/Credit	1990/91	1992/93	Projected 1992/93	Projected 1993/94
Agricultural Development Support Project					
Disbursement during fiscal year 2/	300	0	72	100	128
IBRD	150	0	16	50	84
IDA	150	0	56	50	44
Repayments during fiscal year 2/	--	--	--	--	--
Interest and commitment fees	0	0	0	0	0
IBRD	0	0	0	0	0
IDA	0	0	0	0	0

Source: World Bank.

1/ No disbursement has been made under a loan of US$1.5 million approved in 1991 for rehabilitation of the sugar industry.
2/ World Bank fiscal year beginning July 1.

St. Kitts and Nevis: Social and Demographic Indicators

Total land area	360.0 sq. kilometers
Arable land	150.1 sq. kilometers
Population (mid-1992)	
Total	42,870
Annual rate of growth	0.5 percent
Density (1992)	
Total	119.1 per sq. kilometer
Arable	285.6 per sq. kilometer
GDP per capita (1992)	US$4,501
Life expectancy at birth (1991)	69.6 years
Infant mortality rate (1991)	36.4 per thousand
Access to safe water (1991)	
Urban	100.0 percent
Rural	...
Health (1991)	
Population per physician	2,200
Population per hospital bed	...
Daily per capita caloric intake	2,639 calories
Daily per capita protein intake	77.0 grams

Sources: World Bank, Social Indicators of Development; and data provided by the St. Kitts and Nevis authorities.

St. Kitts and Nevis--Statistical Issues

1. Outstanding statistical issues

a. Real sector

Data on the national accounts and consumer prices are reported to the Fund (STA) with a substantial lag.

b. Government finance

Government finance data for 1986-91 provided by St. Kitts and Nevis follow the national presentation and are adjusted by STA in preparing the GFS tables. Technical assistance in this area was provided by an STA consultant in April 1993.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for St. Kitts and Nevis in the May 1993 issue of IFS. The data are based mainly on reports sent to STA by the Ministry of Finance and the Eastern Caribbean Central Bank. During the last year data on national accounts, prices, employment, earnings, government operations, exports and imports have not been provided on a timely basis.

Status of IFS Data

Sector	Series	Latest Data in the May 1993 IFS
Real sector	- National accounts (GDP)	1991
	- Prices: CPI	July 1992
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government finance	- Deficit/surplus	1990 (preliminary)
	- Financing	n.a.
	- Debt	n.a.
Monetary accounts	- Monetary authorities	December 1992
	- Deposit money banks	January 1993
	- Other banking institutions	n.a.
Interest rates	- Discount rate	n.a.
	- Bank deposit/lending rates	January 1993
	- Treasury bills	January 1993
External sector	- Merchandise trade:	
	Exports	
	Value	n.a.
	Volume	n.a.
	Unit prices	n.a.
	Imports	
	Value	n.a.
	Volume	n.a.
	Unit prices	n.a.
	- Balance of payments	1991
	- International reserves	December 1992
	- Exchange rates	March 1993
Real Effective Exchange Rate		n.a.

St. Kitts and Nevis--Medium-Term Projections for 1994-98

The staff's baseline projections for 1994-98 are premised on the WEO assumptions for the external environment and on the authorities' intention to strengthen public sector savings to allow for further investment in infrastructure as described in this report. Projections for the external environment indicate that the terms of trade would improve slightly over the medium term, with export prices rising by about 2 percent per year and import prices by an average of about 1 1/2 percent per year (in terms of U.S. dollar). However, with a significant recovery in the incomes of partner countries, particularly Germany and the United States, tourist arrivals are expected to increase strongly. Foreign assistance is likely to increase somewhat, reflecting the expected increase in public investment.

On this basis, the medium-term projections suggest a continuous improvement in the economic situation (Table 1). Public sector savings--which are expected to rise from about 8 percent of GDP in 1992 to 11 percent of GDP in 1993 based on measures already in place--would rise subsequently to about 13 1/2 percent of GDP by 1996 (Table 2). The improvement in savings would permit an increase in the Central Government investment from about 6 percent of GDP in 1993 to over 12 percent of GDP by 1998.

Economic growth is projected to remain buoyant, averaging more than 5 1/2 percent a year. Tourist arrivals would increase by an average of 8 percent a year over the medium-term, while the average length of stay and average daily spending would rise moderately. At the same time, value added in agriculture is expected to increase gradually over the period with higher sugarcane production and an expansion in nonsugar produce for domestic consumption. Similarly, valued added in manufacturing is projected to increase appreciably as the electronics industry moves into high-tech equipment for the U.S. market and as the quality of garment production improves.

On the external side, the current account deficit (after official grants) is projected to stabilize at around 10 percent of GDP during 1994-98 (Table 3). Export volumes--particularly of sugar and light manufactures--would rise by about 7 percent a year, based on already identified markets. This growth in exports, in combination with increased tourism receipts, would more than offset higher import payments related to the rise in public investment. Private direct investment is projected to remain at around US$26 million a year and together with net official loan disbursements would yield an average overall balance of payments surplus of about US$5 million a year.

The staff developed an alternative scenario based on the assumption that the fiscal revenue effort would not be sustained and that wages and other current public spending would not be contained. Under this scenario, public sector savings would average less than 6 percent of GDP a year over the medium term and public sector investment would remain relatively low at around 5 percent of GDP. Real GDP growth would average only 3 percent a year--significantly below what the authorities feel is desirable.

The external position would remain viable under this alternative scenario. The loss of competitiveness would hamper the expansion in merchandise exports and tourism, but lower receipts from current transactions would be offset to a large extent by lower imports associated with the reduced level of investment. Despite lower foreign direct investment and loan disbursements, the import coverage of official international reserves would decline only slightly.

Table 1. St. Kitts and Nevis: Summary of Medium-Term Economic Indicators, 1993-98 1/

	1993	1994	1995	1996	1997	1998	Average 1994-98
(Baseline scenario) 2/							
Real GDP growth	6.2	5.8	5.6	5.6	5.6	5.6	5.6
Inflation 3/	1.9	3.3	3.0	2.8	2.7	2.7	2.9
External terms of trade	0.5	0.6	0.7	0.9	1.0	0.9	0.8
Investment/GDP	43.3	44.1	45.9	47.0	46.0	44.8	45.6
Of which: central government	6.3	9.2	11.0	11.7	11.9	12.4	11.2
National savings/GDP 4/	32.8	34.1	35.9	36.9	37.0	37.0	36.2
Of which: public sector	11.0	11.6	13.0	13.6	13.4	13.2	13.0
(Before grants)	9.8	10.5	11.9	12.6	12.4	12.2	11.9
Public sector revenue/GDP	41.4	42.0	42.7	43.2	42.9	42.7	42.7
Public sector expenditure/GDP	38.1	40.5	41.6	42.4	42.1	42.5	41.8
Overall balance 5/	3.3	1.5	1.1	0.8	0.8	0.2	0.9
Government revenue and grants/GDP	25.4	26.5	27.6	28.5	28.5	28.6	27.9
Government expenditure/GDP	26.8	28.8	29.8	30.0	29.4	29.2	29.4
Of which: capital	6.3	9.2	11.0	11.9	11.7	12.4	11.2
Current balance 5/	4.9	6.9	8.8	10.4	11.1	11.8	9.8
Overall deficit 5/	-1.5	-2.3	-2.2	-1.5	-0.8	-0.6	-1.5
External current account 5/							
(In millions of US$)	-22.1	-23.1	-25.4	-28.0	-27.3	-25.6	-25.9
(In percent of GDP)	-10.5	-10.0	-10.0	-10.1	-9.0	-7.8	-9.4
Net official reserves							
(In millions of US$)	32.7	39.3	45.1	49.3	53.2	58.9	49.2
(In months of imports) 6/	2.6	2.9	3.0	3.1	3.1	3.2	3.1
Debt service ratio 7/	4.1	3.8	3.2	2.9	3.1	3.3	3.3
Debt/GDP	21.4	21.5	21.7	21.9	21.4	20.6	21.4
(Alternative scenario) 8/							
Real GDP growth	6.2	4.8	3.5	2.5	2.5	2.0	3.1
Inflation 3/	1.9	3.6	3.5	3.5	3.3	3.3	3.4
External terms of trade	0.5	0.6	0.7	0.9	1.0	0.9	0.8
Investment/GDP	43.3	37.7	39.0	38.2	37.2	36.5	37.7
Of which: central government	6.3	5.2	5.2	5.0	5.0	5.0	5.1
National savings/GDP 4/	32.8	28.4	28.0	27.9	27.8	27.7	28.0
Of which: public sector	11.0	8.0	7.3	6.0	4.4	3.0	5.7
(Before grants)	9.8	6.9	6.4	5.0	3.4	2.0	4.7
Public sector revenue	41.4	40.0	39.5	39.3	38.9	38.9	39.3
Public sector expenditure	38.1	38.1	38.3	39.3	40.2	41.7	39.5
Overall balance 5/	3.3	1.9	1.2	--	-1.3	-2.8	-0.2
Government revenue and grants/GDP	25.4	24.7	24.4	24.3	23.9	23.7	24.2
Government expenditure/GDP	26.8	25.2	25.2	25.3	25.5	25.9	25.4
Of which: capital	6.3	5.2	5.2	5.0	5.0	5.0	5.1
Current balance 5/	4.9	4.7	4.2	4.0	3.4	2.9	3.8
Overall deficit 5/	-1.5	-0.5	-0.8	-1.0	-1.6	-2.1	-1.2
External current account 5/							
(In millions of US$)	-22.1	-25.8	-27.0	-27.5	-26.2	-26.0	-26.5
(In percent of GDP)	-10.5	-11.3	-11.0	-10.5	-9.4	-8.8	-10.2
Net official reserves							
(In millions of US$)	32.7	33.7	34.1	34.3	34.3	34.3	34.2
(In months of imports)	2.6	2.5	2.4	2.3	2.2	2.2	2.3
Debt service ratio 7/	4.1	4.0	4.0	3.4	3.2	3.5	3.6
Debt/GDP	21.4	21.3	21.1	21.0	20.1	19.0	20.5

Sources: Data provided by the St. Kitts and Nevis authorities; and Fund staff projections.
1/ The medium-term projections are based on WEO assumptions for the external environment. Data are expressed in percent, unless otherwise indicated.
2/ Based on substantial strengthening of government savings as described in the main paper.
3/ Retail price index (period average).
4/ National savings is defined as domestic savings plus net factor income from abroad.
5/ After foreign grants.
6/ In months of imports of goods (c.i.f.) and nonfactor services.
7/ Ratio of debt service payments to exports of goods and nonfactor services.
8/ Based on less ambitious domestic revenue effort and less restraint on current expenditure (including wages).

Table 2. St. Kitts and Nevis: Summary of Medium-Term Projections of Public Sector Financial Operations, 1993-98

(In millions of Eastern Caribbean dollars)

	1993	1994	1995	1996	1997	1998	Average 1994-98
(Baseline scenario) 1/							
Revenues and grants	234.1	261.6	291.0	321.9	349.2	379.2	320.6
Of which: central government	143.8	165.1	188.3	212.4	232.3	254.3	210.5
Expenditure	215.6	252.5	283.8	316.3	342.5	377.2	314.5
Current	172.1	189.2	202.3	220.4	240.3	261.8	222.8
Of which: central government wages	59.6	61.3	63.2	65.1	67.0	69.0	65.1
Capital	43.5	63.3	81.5	95.9	102.2	115.4	91.7
Of which: central government	35.9	57.3	75.4	89.0	96.7	109.8	85.6
Current balance 2/	62.0	72.4	88.7	101.6	108.9	117.4	97.8
(Percent of GDP)	11.0	11.6	13.0	13.6	13.4	13.2	13.0
(Alternative scenario) 3/							
Revenues and grants	234.1	247.4	262.9	278.7	293.4	309.7	278.4
Of which: central government	143.8	152.9	162.6	172.1	180.0	188.8	171.3
Expenditure	215.6	235.7	255.0	278.9	303.4	331.7	280.9
Current	172.1	197.8	214.5	236.4	260.2	286.0	239.0
Of which: central government wages	59.6	64.3	69.5	75.1	81.1	87.6	75.5
Capital	43.5	37.9	40.5	42.5	43.2	45.7	42.0
Of which: central government	35.9	31.9	34.5	35.6	37.7	40.1	36.0
Current balance 2/	62.0	49.6	48.4	42.3	33.2	23.7	39.4
(Percent of GDP)	11.0	8.0	7.3	6.0	4.4	3.0	5.7

Sources: Data provided by the St. Kitts and Nevis authorities; and Fund staff projections.

1/ Based on present and prospective economic policies.

2/ After official grants.

3/ Based on less ambitious central government revenue effort and less restraint on current expenditure (including wages).

Table 3. St. Kitts and Nevis: Summary of Medium-Term Balance of Payments Projections, 1993-98

(In millions of U. S. dollars)

	1993	1994	1995	1996	1997	1998	Average 1994-98
(Baseline scenario) 1/							
Exports, f.o.b.	37.0	40.8	44.7	48.8	53.3	58.1	49.1
Imports, c.i.f.	-123.4	-134.2	-146.7	-160.3	-171.6	-183.3	-159.2
Trade balance	-86.4	-93.4	-102.0	-111.5	-118.3	-125.2	-110.1
Services and transfers (net)	64.3	70.3	76.6	83.6	91.0	99.6	84.2
Of which: travel receipts	66.6	72.0	77.6	83.4	89.7	96.5	83.8
Current account deficit 2/	-22.1	-23.1	-25.4	-27.9	-27.3	-25.6	-25.9
(Percent of GDP)	-10.5	-10.0	-10.0	-10.1	-9.0	-7.8	-9.4
Capital inflows (net)	28.5	29.8	31.1	32.2	31.2	31.3	31.1
Of which: direct investment	24.3	25.0	25.7	26.4	27.2	28.0	26.5
Overall balance	6.4	6.7	5.7	4.3	3.9	5.7	5.3
Memorandum items							
Export volume (percentage change)	11.5	7.6	7.2	6.9	6.8	6.9	7.1
Import volume (percentage change)	6.6	7.0	7.7	7.9	5.7	5.6	6.8
(Alternative scenario) 3/							
Exports, f.o.b.	37.0	40.0	41.9	43.7	45.1	46.4	43.4
Imports, c.i.f.	-123.4	-131.7	-138.1	-145.7	-149.2	-152.9	-143.5
Trade balance	-86.4	-91.7	-96.2	-102.0	-104.1	-106.5	-100.1
Services and transfers (net)	64.3	65.9	69.2	74.5	77.9	80.5	73.6
Of which: travel receipts	66.6	67.6	70.1	74.7	76.6	77.6	73.3
Current account deficit 2/	-22.1	-25.8	-27.0	-27.5	-26.2	-26.0	-26.5
(Percent of GDP)	-10.5	-11.3	-11.0	-10.5	-9.4	-8.8	-10.2
Capital inflows (net)	28.5	26.8	27.4	27.7	26.2	26.0	26.8
Of which: direct investment	24.3	22.5	23.0	23.1	23.6	24.0	23.2
Overall balance	6.4	1.0	0.4	0.2	--	--	0.3
Memorandum items							
Export volume (percentage change)	11.5	5.7	2.5	2.1	1.0	0.8	2.4
Import volume (percentage change)	6.6	4.9	3.3	4.1	1.2	1.3	3.0

Sources: Data provided by the St. Kitts and Nevis authorities; and Fund staff projections.

1/ Based on present and prospective economic policies.
2/ After official grants.
3/ Based on less ambitious central government revenue effort and less restraint on current expenditure (including wages).