INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/107

ST. KITTS AND NEVIS

May 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE ALTERNATE EXECUTIVE DIRECTOR FOR ST. KITTS AND NEVIS

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with St. Kitts and Nevis, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 7, 2025 consideration of the staff report that concluded the Article IV consultation with St. Kitts and Nevis.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 7, 2025, following discussions that ended on February 24, 2025, with the officials of St. Kitts and Nevis on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 27, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Alternate Executive Director** for St. Kitts and Nevis.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR 25/139

IMF Executive Board Concludes 2025 Article IV Consultation with St. Kitts and Nevis

FOR IMMEDIATE RELEASE

Washington, DC – May 13, 2025: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for St. Kitts and Nevis[1] The authorities have consented to the publication of the Staff Report prepared for this consultation.

Following the post-pandemic rebound, the economy is facing challenges. Real GDP growth moderated to 1.5 percent in 2024, reflecting lower contributions from tourism and government services, while inflation eased to 1 percent. The fiscal deficit increased to 11 percent of GDP in 2024, mainly driven by a sharp decline in Citizenship-by-Investment (CBI) revenue amid recent reforms aimed at strengthening the CBI program. The current account deficit widened due to lower CBI inflows. Meanwhile, credit growth accelerated on the back of pent-up demand, especially in mortgage loans, amid increasing competition. Groundwork is ongoing for a potentially transformative geothermal project.

In 2025, economic growth is projected to strengthen to 2 percent supported by expanding tourism, while inflation is expected to remain stable.[2] In the medium term, growth is forecast to rise to 2½ percent, benefiting from large energy projects. Nonetheless, fiscal deficits are forecasted to remain high in the medium term, driven by expectations of structurally lower CBI revenue, resulting in public debt exceeding 70 percent of GDP by 2030.

Near-term risks to growth are tilted to the downside, but progress in fostering renewable energy provides upside potential over the medium term. The uncertainty and volatility of CBI revenue pose a significant two-sided risk, but a further decline in CBI revenue would pressure fiscal accounts. Downside risks include a slowdown in key source markets for tourism, global financial instability, and commodity price volatility. The economy is highly exposed to natural disasters. On the other hand, the energy projects could foster growth and fiscal revenue in the medium term.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] Since the issuance of the Staff Report, economic growth has been marked down, reflecting the impact of trade tensions combined with their effects on global policy uncertainty and global financial conditions, primarily through tourism and FDI (see the Supplement).

Executive Board Assessment[3]

Executive Directors welcomed the authorities' commitment to prudent policy reforms and stressed that the significant challenges the economy is facing require a multipronged approach to address low growth and fiscal sustainability, while safeguarding financial stability and the external position.

Directors encouraged the authorities to implement a prompt and decisive fiscal consolidation to keep public debt below the regional debt ceiling and reduce reliance on the Citizenship-by-Investment Program (CBI). This would create space for capital expenditure, resilience against natural disasters, and contingent liabilities. Directors stressed that fiscal consolidation should be driven by tax revenue mobilization and reductions in current expenditures, anchored by fiscal rules. Greater diversification of funding sources would also help to lengthen debt maturities and lower financing costs. Directors supported the authorities' plan to establish a Sovereign Wealth Fund to absorb upsides in CBI revenue and called for continuing improvements in the CBI framework, including its transparency. They also welcomed the authorities' initiatives to implement reforms to improve the sustainability of the Social Security Fund.

Directors underscored that further progress is needed to strengthen the financial sector, including to reduce NPLs and meet the ECCB's prudential requirements. They emphasized the importance of continuing to strengthen the balance sheet of the systemic bank and to revitalize its business model. Directors also called for reforms of the Development Bank, building on the authorities' work in this area. They stressed the need to monitor rapid credit growth and further strengthen the regulation and oversight of credit unions. It will also be important to make additional progress in strengthening the AML/CFT framework.

Directors emphasized that structural reforms and improved preparedness for natural disasters are crucial to boost potential growth. They stressed that reforms are necessary to enhance the efficiency of government services, improve credit access, and better align labor skills with market demands. Directors noted that accelerating the energy transition would help increase competitiveness. Finally, they underscored the need to enhance the investment and the multi-layered insurance frameworks to strengthen natural disaster preparedness.

[3] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

St. Kitts and Nevis: Selected Economic Indicators 2020-26 1/

	2020	2021	2022	2023	Est. 2024	Proj. 2025	2026
	(Annual percentage change, unless otherwise specified)						
National income and prices							
Real GDP (market prices) 2/	-14.6	-1.7	10.5	4.3	1.5	2.0	2.2
Real GDP (factor cost) 2/	-13.4	-1.0	8.0	5.0	4.3	0.7	0.5
Consumer prices, period average	-1.2	1.2	2.7	3.6	1.0	1.7	2.0
Real effective exchange rate appreciation (+) (end-of-period)	-1.0	-3.1	-1.4	-0.7	-2.4	…	…
Money and credit 3/							
Broad money	-8.1	8.9	3.7	-1.9	2.5	13.5	8.9
Change in net foreign assets	-0.4	9.1	-7.0	-6.4	-12.8	-2.3	-2.0
Net credit to general government	-18.4	-4.8	4.9	0.3	9.3	10.3	6.6
Credit to private sector	-4.0	7.7	5.8	5.2	9.8	8.1	6.4
	(In percent of GDP)						
Public sector 4/							
Total revenue and grants	33.5	46.6	45.2	43.0	31.1	32.5	33.2
o/w Tax revenue	18.8	19.0	18.4	19.3	18.7	18.2	19.0
o/w CBI fees	11.3	23.4	25.3	21.7	8.1	9.0	9.0
Total expenditure and net lending	36.5	41.2	49.4	43.3	41.7	42.2	39.8
Overall balance	-3.1	5.4	-4.2	-0.3	-10.6	-9.8	-6.6
Total public debt (end-of-period)	68.0	69.1	60.2	55.9	52.2	61.4	65.6
General government deposits (percent of GDP) 5/	21.6	30.4	21.6	20.4	10.4	10.3	9.9
External sector							
External current account balance	-10.8	-3.4	-11.4	-11.6	-15.1	-13.1	-12.8
Trade balance	-28.0	-24.8	-34.7	-32.8	-32.7	-32.3	-33.3
Memorandum items							
Net international reserves, end-of-period (in millions of U.S. dollars)	365.4	312.8	270.3	262.4	270.7	269.0	267.3
Nominal GDP at market prices (in millions of EC$)	2,387	2,318	2,650	2,850	3,017	3,048	3,171

Sources: St. Kitts and Nevis authorities; ECCB; UNDP; World Bank; and IMF staff estimates and projections.
1/ The staff report projections are based on the information available as of March 27, 2025. Therefore, they do not reflect the impact of trade tensions since April 2, 2025.
2/ In June 2021, the National Statistics Office revised historical GDP series.
3/ The series for monetary aggregates have been revised consistent with the 2016 Monetary and Financial Statistics Manual and Compilation Guide.
4/ Consolidated general government balances. Primary and overall balances are based on above-the-line data.
5/ Includes only central government deposits at the commercial banks.

INTERNATIONAL MONETARY FUND

ST. KITTS AND NEVIS

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

March 27, 2025

KEY ISSUES

Context. In the context of a moderation of growth following the post-pandemic rebound, the economy is facing significant challenges. The fiscal outlook has notably deteriorated against the background of structurally lower Citizenship-By-Investment (CBI) revenues, and the current account deficit has widened. Public banks are facing long-standing weaknesses, which may have important implications for financial stability and fiscal sustainability, while lending from private banks and credit unions is expanding rapidly.

Regarding the medium-term, potential growth has steadily declined over the past decades, primarily driven by slow productivity growth and a reduced contribution from human capital. Additionally, the country remains highly exposed to natural disasters. The main long-term fiscal risk stems from large underfunded liabilities of the pension fund.

The authorities have made efforts to tackle these challenges. These include partially containing current expenditure, strengthening the CBI framework, preparing for the establishment of a Sovereign Wealth Fund (SWF), and planning pension fund reforms, as well as making progress in improving financial stability. These efforts are expected to continue.

Policy Issues

The outlook and risks faced by St. Kitts and Nevis's economy require a multipronged approach to address low growth and fiscal sustainability issues while maintaining financial stability and a sound external position, including:

- A prompt and decisive fiscal consolidation to stabilize public finances.
- Strengthening financial regulations and reforming vulnerable public banks to safeguard financial and fiscal stability.
- Boost sustainable, inclusive, and resilient growth by undertaking structural reforms, enhancing labor skills, and accelerating the renewable energy transition, which would also foster private sector-led growth.
- Continue efforts to enhance resilience to natural disasters through investment and an enhanced multi-layered framework.

Approved By
Esteban Vesperoni (WHD) and Azim Sadikov (SPR)

The mission team comprising Jongsoon Shin (head), Sergei Antoshin, Sinem Kilic Celik, and Juan Trevino (all WHD), with contributions from Sophia Chen, visited Basseterre and Charlestown during February 11-24, 2025. The team was supported by Spencer Siegel and Brett Smith (both WHD). Sylvia Gumbs (OED) participated in several meetings. Kevin Woods (ECCB) and Lisa Drakes (CDB) also joined the mission. The mission met with Prime Minister Honorable Dr. Terrance Drew, Premier of Nevis Honorable Mark Brantley, Financial Secretary Hilary Hazel, and other senior government officials, and representatives from public sector companies and the private sector, as well as regulators and statisticians from the ECCB.

CONTENTS

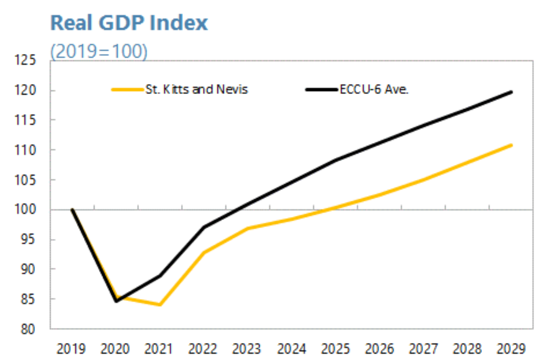
ANNEXES

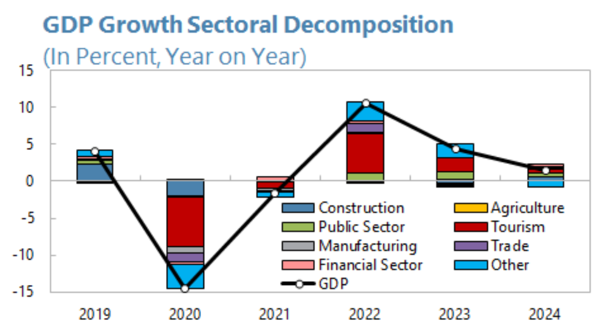
Acronyms and Abbreviations

AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
CA	Current Account
CARTAC	Caribbean Technical Assistance Center
CBI	Citizenship-by-Investment
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CCREEE	Caribbean Centre for Renewable Energy and Energy Efficiency
CDB	Caribbean Development Bank
CIT	Corporate Income Tax
CU	Credit Union
ECAMC	Eastern Caribbean Asset Management Corporation
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
EMDE	Emerging Markets and Developing Economies
FDI	Foreign Direct Investment
FSRC	Financial Services Regulatory Commission
GDP	Gross Domestic Product
MT	Medium Term
NEER	Nominal Effective Exchange Rate
NPL	Non-performing Loans
PB	Primary Balance
PIT	Personal Income Tax
p.p.	Percentage Point
RE	Renewable Energy
REER	Real Effective Exchange Rate
SDS	Small Developing States
SDR	Special Drawing Rights
SOE	State-Owned Enterprises
SKELEC	The St. Kitts Electricity Company
SSF / SSB	Social Security Fund / Social Security Board
SWF	Sovereign Wealth Fund
TA	Technical Assistance
VAT	Value-Added Tax
y/y	Year-on-Year

RECENT DEVELOPMENTS

1. **Growth has moderated and inflation continued to recede.** Real GDP is projected to have grown by 1.5 percent (y/y) in 2024, slowing from 4.3 percent in 2023. Lower contributions from tourism and government services dragged down overall growth. Stayover tourism has almost returned to pre-pandemic levels, but cruise arrivals are still below pre-pandemic levels. Headline inflation is estimated at 1 percent (y/y) by end-2024 down from 1.6 percent in 2023, driven by lower global commodity prices and subdued economic activities. Core inflation remains low at 0.7 percent.

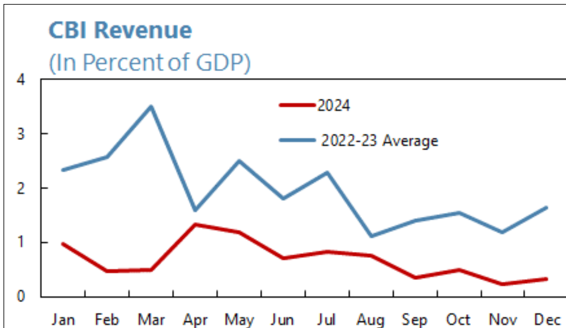




Sources: ECCB; and IMF staff calculations.
Note: 2024 is projected estimates.

Sources: ECCB authorities; WEO; and IMF staff calculations.

2. **The fiscal deficit widened to 11 percent of GDP in 2024 amid a sharp decline in CBI revenue.** CBI revenue fell to 8 percent of GDP in 2024—from 22 percent of GDP in 2023—due to recent reforms to strengthen the program entailing stronger due diligence and higher prices (text chart). Tax revenue underperformed, mainly owing to lower Corporate Income Tax (CIT). Public wages and transfers were contained relative to 2023, and CBI dividend was discontinued. Nonetheless, current expenditure remained elevated, while capital expenditure increased. To finance the deficit, the government mainly drew on its deposits—which declined to 10 percent of GDP at end-2024—keeping gross public debt contained at 52 percent of GDP. The primary deficit widened to 9 percent of GDP, and the adjusted primary deficit (net of CBI and transfers to public banks) was 17 percent of GDP.



Sources: National authorities; and IMF staff calculations.

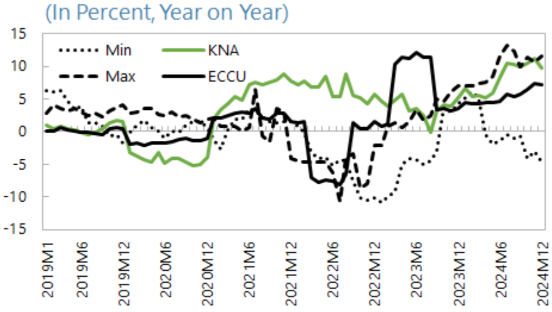
Recent Developments: Key Fiscal Items
(In Percent of GDP)

	2019	2020	2021	2022	2023	2024	'24-23
Tax revenue	18.5	18.8	19.0	18.4	19.3	18.7	-0.6
Taxes on income	4.1	5.1	5.6	4.4	5.3	4.7	-0.6
Citizenship by investment (CBI) revenue	14.8	11.3	23.4	25.3	21.7	8.1	-13.6
Current expenditure	25.3	29.0	32.9	36.2	37.5	34.3	-3.2
Wages and salaries	10.7	12.8	14.2	14.3	13.7	13.7	0.0
Goods and services (ex. CBI fees)	6.5	7.5	8.4	8.5	8.3	8.8	0.5
Transfers	6.8	7.4	9.0	12.1	14.3	10.6	-3.7
CBI dividend				0.7	3.2	0.0	-3.2
Transfers ex. CBI dividend	6.8	7.4	9.0	11.4	11.2	10.6	-0.5
Transfers to banks	3.3	0.0	0.0	7.9	0.4	0.3	0.0
Capex ex. transfers to banks	8.7	7.5	8.3	5.3	5.4	7.1	1.6
Overall balance (after grants)	-0.7	-3.1	5.4	-4.2	-0.3	-10.6	-10.3
Primary balance (ex. CBI and transfers to banks)	-10.1	-11.9	-15.4	-17.9	-18.0	-17.1	0.9
Public sector debt	54.3	68.0	69.1	60.2	55.9	52.2	-3.7
Government deposits	24.8	21.6	30.4	21.6	20.4	10.4	-10.0

Sources: National authorities; and IMF staff calculations.

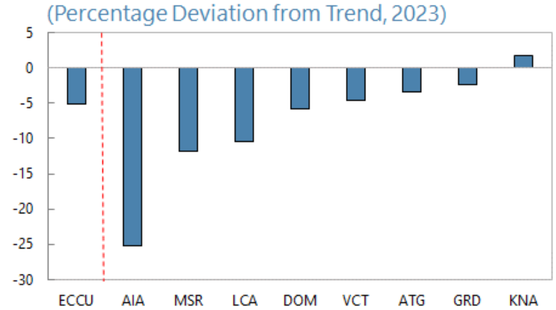
3. **Bank credit growth accelerated, while vulnerabilities remain. Bank credit grew rapidly at 10 percent (y/y) in 2024, suggesting heightened risk-taking in response to pent-up demand.** Furthermore, lending by credit unions also expanded swiftly by 12 percent (y/y). Credit growth was especially strong in mortgage loans, supported by an ongoing recovery in the real estate market amid increasing competition. The credit gap stands out as the highest in the ECCU region (text chart and Annex X).[1] Overall, the financial soundness of the banking system improved, with NPL ratios declining—albeit primarily driven by loan growth—and capital adequacy ratios strengthening. Nonetheless, systemic risk remains heightened, as NPLs are still high and buffers low. The government-owned Development Bank is in a difficult financial condition, which has necessitated government action (see section C).

Bank Credit to the Private Sector
(In Percent, Year on Year)



Sources: ECCB MFS; and IMF staff calculations.

ECCU: Credit-to-GDP Gap 1/
(Percentage Deviation from Trend, 2023)



Sources: ECCB; and IMF staff calculations.
1/ The credit-to-GDP gap is estimated by one-sided Hodrick-Prescott filter.

[1] The deviation of the bank credit-to-GDP ratio from its long-term historical norm, based on econometric filters.

4. The external position in 2024 is assessed as weaker than implied by medium-term fundamentals and desirable policies. The current account deficit (CAD) widened to 15.1 percent of GDP in 2024 from 11.6 percent in 2023—and remains significantly larger than pre-pandemic levels—reflecting a large decline in service exports due to the lower CBI inflows and the high fiscal deficit. The EBA-Lite model estimates the current account gap at -3.9 percent of GDP in 2024. International reserves remained stable (Annex III).

EBA-lite Model Results, 2024

	CA model 1/	REER model
	(in percent of GDP)	
CA-Actual	**-15.1**	
Cyclical contributions (from model) (-)	0.1	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.2	
Adjusted CA	**-15.0**	
CA Norm (from model) 2/	**-11.0**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-11.0**	
CA Gap	**-3.9**	**6.8**
o/w Relative policy gap	-1.4	
Elasticity	-0.4	
REER Gap (in percent)	**10.7**	**-18.6**

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

5. After a delay, groundwork is ongoing on an important geothermal project. The project—which could be transformational for the economy—is expected to commence soon, with advancements made in procurement and funding secured for the drilling stage.[2,3] The plan for the original solar project was cancelled, and the authorities intend to initiate a new procurement process.

OUTLOOK AND RISKS

6. Real GDP growth is projected to pick up moderately to 2 percent in 2025, and inflation to remain around 2 percent. Higher growth is expected to be supported by tourism. Inflation is expected to remain stable, reflecting global commodity price expectations. In the medium term, growth is projected to rise to around 2½ percent (y/y), benefitting from large energy projects. The CAD is projected to narrow to around 12 percent of GDP over the medium term, supported by import savings from the renewable energy transition and a moderate expansion in the tourism sector.

7. Staff projects high fiscal deficits onward, with public debt rising to 72 percent of GDP by 2030.

- *Authorities' budget.* The 2025 budget optimistically targets a deficit of 4 percent of GDP based on a rebound in CBI revenue.[4] The authorities assume that CBI revenue will bounce back to 16 percent of GDP and intend to reduce current primary expenditures. However, wage increases are

[2] See the 2024 St. Kitts and Nevis Staff Report and SIP on the energy transition.

[3] Investment in the drilling phase is projected to amount to 2.4 percent of GDP, and this has been incorporated into the baseline over the medium term.

[4] This includes the authorities' original estimates of the budget deficits of 0.9 percent of GDP for St. Kitts and 0.8 percent of GDP for Nevis plus the unbudgeted but planned expenses: the temporary VAT reduction (0.8 percent of GDP), the Budget Boost Wallet social transfer (1.1 percent of GDP), and the transfer to SKELEC (0.6 percent of GDP).

expected to phase in and no specific measures to reach the deficit target have been identified. While the budget does not envisage further streamlining of pandemic support, the authorities announced a costly reduction in the standard VAT rate (from 17 percent to 13 percent) and a support program for low-income earners—both of which are temporary, for the first half of 2025.

- *Staff's projections*. Under the staff's baseline scenario, a fiscal deficit is projected to remain high at 10 percent of GDP in 2025. The high deficit is underpinned by the staff's assessment of structurally lower CBI revenue (at 9 percent of GDP over the medium term), considering the recently adopted regional standards on due diligence and minimum pricing (Annex IX). Tax revenue is projected to remain stable from 2026 onward amid continuing tax expenditures and tax collection efforts. The authorities intend to streamline current primary expenditure—which is anticipated to decline by 3 p.p. of GDP over the medium term but remain well above pre-pandemic levels. Capital expenditure is expected to decline modestly. With higher deficits, public debt is expected to rise to 72 percent of GDP by 2030 and does not stabilize under the baseline. The overall risk of sovereign debt stress continues to be assessed as moderate (Annex IV). Large fiscal deficits and contingent liabilities from public banks and the Social Security Fund (SSF) pose considerable risks to debt sustainability.

8. **Near-term risks are tilted to the downside, but progress to foster renewable energy provides upsides over the medium term** (Annex I). The uncertainty and volatility of CBI revenue constitute an important two-sided risk, but a further decline in CBI revenue would pressure fiscal accounts. Downside risks include a slowdown in key source markets for tourism, global financial instability impacting domestic banks, and commodity price volatility. The country is also highly exposed to natural disasters (NDs). On the other hand, the renewable energy projects could create an additional source of growth and fiscal revenue in the medium term.

Baseline: Key Fiscal Items

(In Percent of GDP)

	2024	2025	2026	2027	2028	2029	2030	'30-24
Tax revenue	18.7	18.2	19.0	19.0	19.0	19.0	19.0	0.3
Citizenship by investment (CBI) revenue	8.1	9.0	9.0	9.0	9.0	9.0	9.0	0.9
Primary current expenditure	**33.1**	**34.3**	**31.7**	**30.2**	**30.2**	**30.2**	**30.2**	**-2.9**
Wages and salaries	13.7	15.1	14.5	13.9	13.9	13.9	13.9	0.2
Goods and services (ex. CBI fees)	8.8	7.9	7.6	7.3	7.3	7.3	7.3	-1.5
Transfers	10.6	11.3	9.6	9.0	9.0	9.0	9.0	-1.6
Interest	1.2	1.2	2.1	2.3	2.4	2.5	2.6	1.4
Capex ex. transfers to banks	7.1	6.4	5.7	5.0	5.0	5.0	5.0	-2.1
Overall balance (after grants)	-10.6	-9.8	-6.6	-4.6	-4.7	-4.8	-4.9	5.7
Primary balance (ex. CBI and transfers to banks)	**-17.1**	**-17.3**	**-13.1**	**-11.0**	**-11.0**	**-11.0**	**-11.0**	**6.1**
Public sector debt	**52**	**61**	**66**	**67**	**69**	**71**	**72**	**20**

Sources: National authorities; and IMF staff calculations.

Authorities' Views

9. **The authorities largely concurred with staff projections but are more optimistic about growth.** They anticipate that growth will strengthen in 2025 and remain elevated over the medium term, bolstered by tourism and large construction projects. They noted that the green energy

transition, as part of their Sustainable Island State agenda, will contribute to a positive medium-term outlook. Regarding the fiscal outlook, the authorities project only a small fiscal deficit in 2025, considering a reduction in current expenditure and a recent rebound in CBI applications. In the medium term, they also anticipate a small fiscal deficit, as a moderate decline in CBI revenue relative to GDP will be offset by a reduction in current expenditure. The authorities concurred with staff's assessment of key risks.

POLICY DISCUSSIONS

Policy priorities are to implement a prompt fiscal consolidation, enhance fiscal and financial sector policy frameworks, and foster potential growth. These should help address fiscal sustainability issues, strengthen financial stability, and secure a sound external position.

A. Stabilizing Public Finances

Fiscal Consolidation

10. The most urgent priority is to implement a prompt and decisive fiscal consolidation to keep debt below the regional ceiling. Fiscal consolidation would also create fiscal space to strengthen resilience against natural disasters and to hedge against contingent liabilities from the banking system and the SSF. Staff has developed an active policy scenario with a balanced mix of revenue and spending measures to achieve these goals. Under this scenario, the adjusted primary balance (PB) needs to be gradually tightened by 3 p.p. of GDP relative to the baseline by 2029 (text table and charts). The fiscal consolidation should be anchored by a set of fiscal rules and driven by tax reforms (increasing revenue by 2½ p.p. of GDP by 2029), as well as reductions in current expenditures (by 2½ p.p. of GDP by 2029), while creating room for additional capital expenditure.

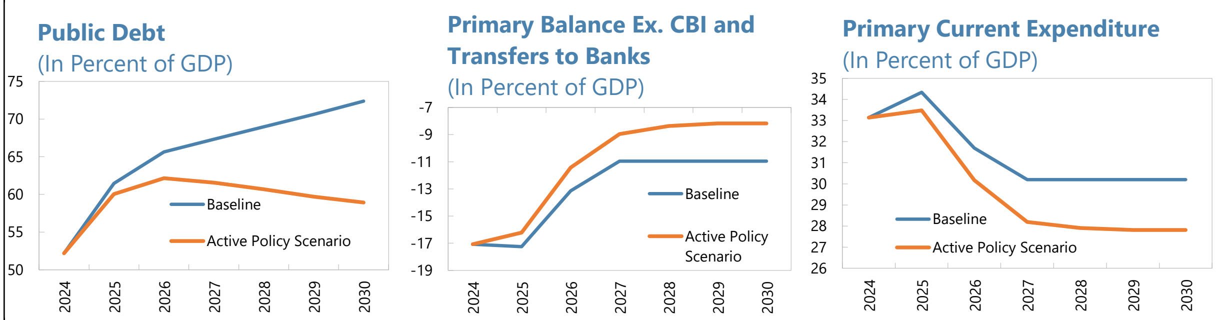
Active Scenario: Key Fiscal Items and Economic Impacts
(In Percent of GDP)

	2024	2025	2026	2027	2028	2029	2030	Pre-COVID Average '15-'19	**Difference vs. Baseline for 2029**
Tax revenue	18.7	19.1	20.6	21.1	21.4	21.5	21.5	18.5	**2.5**
Primary current expenditure	**33.1**	**33.5**	**30.2**	**28.2**	**27.9**	**27.8**	**27.8**	**21.5**	**-2.4**
Wages and salaries	13.7	14.8	13.9	13.1	13.0	13.0	13.0	10.6	**-0.9**
Goods and services (ex. CBI fees)	8.8	7.8	7.3	6.9	6.8	6.8	6.8	5.6	**-0.5**
Transfers	10.6	10.9	8.9	8.2	8.0	8.0	8.0	5.4	**-1.0**
Interest	1.2	1.2	2.1	2.3	2.4	2.5	2.6	1.5	**-0.1**
Capex ex. transfers to banks	7.1	7.1	7.1	7.1	7.1	7.1	7.1	5.9	**2.1**
Overall balance (after grants)	-10.6	-8.7	-4.8	-2.5	-2.1	-2.0	-2.0	2.4	**2.9**
Primary balance (ex. CBI and transfers to banks)	**-17.1**	**-16.2**	**-11.4**	**-8.9**	**-8.4**	**-8.2**	**-8.2**	**-4.4**	**2.8**
Public sector debt	**52**	**60**	**62**	**62**	**61**	**60**	**59**	**56**	**-11**
Impact on real GDP growth (Difference vs. Baseline)	0.0	0.5	0.5	0.5	0.2	0.3	0.3		
o/w from fiscal reforms	0.0	0.2	0.2	0.2	-0.1	0.0	0.0		
o/w from structural reforms	0.0	0.3	0.3	0.3	0.3	0.3	0.3		
Impact on inflation	0.0	0.3	0.2	0.1	0.0	0.0	0.0		
Impact on current account balance	0.0	0.0	0.3	0.3	0.3	0.3	0.3		

Sources: National authorities; and IMF staff calculations.

Staff assesses that the combined net impact of fiscal consolidation and structural reforms on growth will be positive in the medium term, and this will also improve the external position (see text table and section C). A modest drag on growth is expected to be slightly outweighed by higher capital investment and structural reforms, with the latter also supporting private sector growth.[5, 6] In the event of a further decline in CBI inflows or the realization of contingent liabilities from public banks, additional fiscal consolidation measures should be identified, including more ambitious tax reforms.

Active Policy Scenario vs. Baseline



Sources: National authorities; and IMF staff calculations.

11. Mobilizing tax revenue is essential to foster a credible fiscal consolidation and reduce reliance on uncertain and volatile CBI revenue.

- *Assessment*. The economy has significant potential to mobilize tax revenue. The tax-to-GDP ratio is at 18 percent, notably lower than the average of 21 percent in other ECCU countries. In addition, the tax system contains several regressive features and lacks equity. Furthermore, large, ad hoc tax expenditures have often been granted, resulting in low tax revenue.[7] For example, since the pandemic, the authorities have reduced business tax rates and expanded VAT exemptions—most of which are still in place.

- *Recommendations*. Staff recommends an increase in tax revenue by 2½ p.p. of GDP. This target is well within reach, given potential revenue yields that could exceed 6 percent of GDP (text table and Annex VIII). To mobilize tax revenue, the authorities have taken steps to improve tax collection—including property taxes and CIT—and to enhance tax administration. The authorities are also working to update property tax assessments (unchanged since 2007) and plan not to renew the temporary reduction in VAT for the first half of 2025. Building on these efforts, the priority is to phase out other pandemic-era tax breaks. Tax reforms should also be

[5] Gonzalez-Garcia et al. (2013) show that the long-run multipliers of taxes and consumption expenditure for the ECCU are non-different from zero statistically, while public investment has a long-run multiplier of 0.6, given the ECCU members are small island economies highly open to international trade.

[6] Budina et al. (2023, SDN/2023/007) show that the output effect from major structural reforms ranges from 4 to 8 percent in the medium term. Considering the capacity constraints in St. Kitts and Nevis, growth impact is assumed to modest in the reform scenario.

[7] Tax expenditure is 5.8 percent of GDP on average for the ECCU, based on [the 2019 ECCU Staff Report](#).

properly sequenced, based on ease of implementation and could start with: i) increasing excise rates on alcoholic beverages, tobacco, sugar-sweetened beverages, and petroleum products, as well as minimizing remissions, including via eliminating duty-free shops; and ii) harmonizing the VAT, eliminating exemptions and zero-ratings, supplemented by improved targeted social support. Regarding PIT, the Housing and Social Development Levy could include a higher tax rate for high-income earners, and non-labor income, such as investment and rental income, could be taxed to improve equity. In the medium term, negotiated tax concessions for CIT—benefitting large hospitality companies—should be lapsed.

Revenue Yields from Tax Reforms
(In Percent of GDP)

Type of Tax	Yield	Measures
Recurrent property tax	0.6	Collecting assessed taxes from delinquent commercial and residential high-value properties more forcefully would double current property tax revenues.
VAT	1.5	The VAT reforms assume harmonizing the VAT rate at 15 percent from 17 percent, coupled with eliminating exemptions and zero-ratings.
Excise taxes	0.8	An increase in excise for alcohol, tobacco, sweetened beverages, and petroleum products could increase revenue from 1.1 percent of GDP to the regional average of 1.9 percent.
PIT	>1	The country collects in labor income tax (Housing and Social Development Levy) 1 p.p. of GDP less than the regional average for PIT. Having higher tax rates on labor income for high-income earners is recommended, as well as introducing taxation of non-labor (e.g. investment and rental) income.
CIT	2-4	Eliminating large CIT incentives, especially in the profitable hospitality sector, could yield 2-4 percent of GDP.
Total	>5.9	

Sources: IMF and WB TA reports; and staff estimates.

12. Current expenditure should be rationalized while protecting capital expenditure.

- *Assessment.* Current expenditure has increased to 34 percent of GDP in 2024, up from a pre-pandemic average of 22 percent of GDP. The country has a high share of public sector employment and a high wage bill relative to other ECCU countries.[8] In addition, transfers (including social and training programs) account for 11 percent of GDP—almost double of the pre-pandemic level. Authorities' recent efforts, such as controlling the wage bill and suspending the CBI dividend in 2024, have helped contain a larger fiscal deficit.

- *Recommendations.* Building on their plan for 2025-27 to reduce current expenditure, the authorities should aim to bring it closer to pre-pandemic levels. Under the reform scenario, public wage bill, goods and services, and transfers would reverse their increase from pre-pandemic levels by about half. To this end, limiting increases in public wage bill and employment would help foster private sector job creation and improve productivity. Transfers should be better targeted and more effective. The electricity subsidy should be phased out as soon as possible. This fiscal consolidation would create room for additional capital expenditure, keeping it at the current level of 7 percent of GDP over the medium term.[9]

[8] See 2023 SIP. Public sector employment constituted 38 percent of total employment in St. Kitts and Nevis in 2018, compared to the ECCU average of 24 percent.

[9] The minimum investment required for ex-ante resilience to NDs is 0.6 percent of GDP, according to the 2019 ECCU SIP 'Building Ex-Ante Resilience to Natural Disasters'. The 2023 St. Kitts and Nevis Staff Report and SIP indicate that public investment in resilience would yield net fiscal savings, as well as gains in GDP levels and growth rates.

13. Fiscal rules should be formalized to guide the fiscal consolidation path and enhance credibility. Statutory fiscal rules should include an adjusted PB floor (net of CBI and support to public banks) and a ceiling on primary current expenditure, as well as a debt target guided by the regional debt ceiling—with escape clauses related to NDs.[10] The adjusted PB should be reduced to -8 percent of GDP and primary current expenditure capped at 28 percent of GDP by 2029. Moreover, several unbudgeted and unplanned expenditures have been introduced outside the budget process in recent years, including the temporary VAT reduction and some social transfer programs.[11] Moving forward, all expenditure items should be planned and budgeted, which would help enhance confidence in the fiscal consolidation path.

Structural Fiscal Reforms

14. A Sovereign Wealth Fund (SWF), which the authorities plan to establish soon, will help guide the fiscal consolidation. Coupled with the statutory fiscal rules, the SWF should absorb any upside in the projected CBI revenue, reduce the impact of CBI volatility on the budget, and help preserve fiscal buffers against NDs.

15. Building on recent progress, transparency of the CBI framework should continue to be enhanced. The government has taken important steps to improve the governance of the program and strengthen the due diligence and application processes (Annex IX). To further strengthen transparency and accountability, comprehensive annual reports following external audits should be published regularly, including statistics on applications and financial accounts.

16. The medium-term debt management strategy (MTDMS) should prioritize diversification of funding sources in the face of new borrowing needs. The updated medium-term debt management strategy is now under government review. The strategy should be published, and aim to lengthen debt maturity, reduce costs, and diversify the sources of funds. On debt maturity, the government's heavy reliance on short-term borrowing—which has led to large gross financing needs (25 percent of GDP in 2025) and high costs—should continue to be reduced. The government has recently reached three external loan agreements with favorable terms (amounting to 7 percent of GDP), which will finance an expansion of a power plant, the drilling phase of the geothermal project, and a hospital.[12] Going forward, the government should also consider increasing engagement with multilateral development partners for concessional borrowing and tapping into the Regional Government Securities Market.[13]

[10] See the IMF (2024) FAD TA "St. Kitts and Nevis - Establishing a Sustainability and Resilience Fund" and the 2024 ECCU Staff Report.

[11] Unbudgeted expenditure includes: (i) the temporary VAT reduction (0.8 percent of GDP in 2025); (ii) Budget Boost Wallet social transfer (1.1 percent of GDP in 2025); and (iii) SKELEC transfers (0.9 percent of GDP in 2024 and 0.6 percent of GDP in 2025). Unplanned expenditure includes: (i) lending to the Development Bank (0.2-0.4 percent of GDP in 2022-24); and (ii) lending to a private hotel (0.6 percent of GDP in 2023 and 0.3 percent of GDP in 2024).

[12] The government drew down 1 percent of GDP in 2024 and continued to reduce costly T-bills.

[13] See the 2023 St. Kitts and Nevis Article IV Staff Report.

17. Staff supports the authorities' intention to reform the Social Security Fund (SSF). The SSF has started to incur a deficit, and its reserves are projected to be depleted by 2040 if no reforms are implemented.[14] The authorities have conducted extensive consultations with stakeholders to explore measures to improve the sustainability of the fund, given the aging population. The recent actuarial reviews have considered reform options that encompass raising the contribution rate, the retirement age, and the minimum period of contributions. The reform options under consideration are welcome, and a comprehensive approach is needed to ensure the sustainability of the SSF.[15] Additionally, its investment portfolio should be more diversified by increasing the share of liquid foreign instruments.

Authorities' Views

18. The authorities concurred with the need for fiscal consolidation while protecting capital expenditure. The authorities are keen to reduce reliance on CBI revenue and seek economic diversification, as part of the Sustainable Island State agenda. Regarding revenue mobilization, their immediate focus is on strengthening tax collection and updating property tax assessments. They showed interest in raising excise rates on alcoholic beverages, tobacco, and petroleum products and intend to make the tax system more equitable. They also pledged to phase out the temporary relief measures introduced in 2025. More broadly, they are determined to reduce current expenditure, including controlling the wage bill and improving the targeting and calibration of transfers. The authorities also acknowledged the need to adjust water and electricity tariffs to better reflect costs and reduce the fiscal burden, consistent with past Fund advice. They intend to protect capital expenditure, especially investments in infrastructure and ND preparedness.

19. The authorities intend to advance structural fiscal reforms. They concurred on the need for formalizing fiscal rules and envisage that the planned establishment of a SWF will absorb some upside from the CBI revenue, in line with Fund advice. The authorities plan to improve the transparency of the CBI Unit, including the publication of its annual reports. They agreed with the key MTDMS priorities identified by staff. They noted that the MTDMS has been updated and that the latest update is currently under review, which will be published soon. The authorities are determined to proceed soon with parametric reforms of the SSF and its investment portfolio diversification.

B. Strengthening Financial Stability

20. Building on recent progress, efforts should continue to strengthen financial soundness of the systemic bank.

- **Traditional lending.** The systemic bank is one of the largest in the ECCU, with assets equivalent to 114 percent of GDP. NPLs are high at 33 percent of loans, dominated by a few large legacy

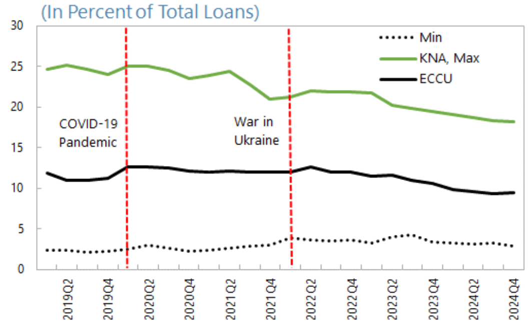
[14] See the 2024 St. Kitts and Nevis Article IV Staff Report.

[15] See the 2024 ECCU Staff Report SIP "Toward more efficient, sustainable and fair pension schemes in the ECCU."

real estate assets. The bank made progress in reducing its legacy NPLs through domestic asset disposals and is collaborating with the ECAMC, although the recent reduction in the NPL ratio was primarily driven by loan growth. The bank has met the overall provisioning requirement and is engaged with the ECCB to meet the provisioning requirement for long-dated NPLs in the near term.[16] While the bank's lending operations have been loss-making for an extended period, its profitability has recently improved due to higher investment income, and the bank is working on restoring profitability of its lending business via new loan programs. Hence, the bank's capital ratio has increased. Further, the bank has fully retained its earnings in 2024, submitted a capital restoration plan to the ECCB, and is actively engaged with the supervisor. Moving forward, financial soundness should continue to be strengthened via further reducing NPLs, strengthening lending operations, and improving the capital position—including via cost cuts, asset sales, and equity issuance. The government, as its majority shareholder, is encouraged to act on its plan to engage with external advisors to revitalize its business model, making it more focused on lending.

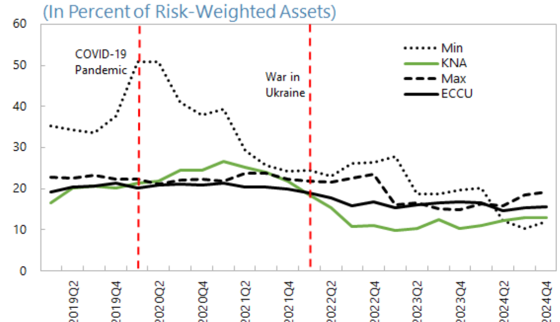
- **Foreign investments and public sector deposits.** The bank has substantial foreign investment exposure—around 39 percent of assets—in equities, Treasury bills and bonds, and corporate bonds. It has made steady progress in de-risking its foreign investment portfolio by reducing equity exposure and increasing Treasury bond exposure. Nonetheless, the foreign equity portfolio is still outsized and funded by public deposits (from the government and the SSF), which calls for further reductions in equity exposure. The authorities' planned establishment of the SWF presents an opportunity to transfer government deposits and associated foreign investments to the SWF, except for the portion necessary for cash management.

Asset Quality: NPL Ratio
(In Percent of Total Loans)



Sources: ECCB FSI; and IMF staff calculations.

Capital Adequacy Ratios
(In Percent of Risk-Weighted Assets)



Sources: ECCB FSI; and IMF staff calculations.

[16] This is mainly through the use of reserves (instead of provisioning). The ECCB regulation permits meeting the provisioning requirement through the use of reserves rather than charges to capital. However, the government, as the majority shareholder, can go further than the ECCB regulations and seek to have provisioning fully reflected in bank capital. If the bank used only provisions as buffers for loan losses (as recommended by the Fund), its capital ratio would fall notably.

21. The Development Bank needs to be reformed.[17] The bank is facing significant challenges due to high NPLs, loss-making loan programs, and a weak capital position. The legal framework does not subject the bank to adequate supervision by either the Financial Services Regulatory Commission (FSRC) or the ECCB. Although the bank does not take deposits, it has borrowed from the public and the banking sectors, posing a contingent liability to the government. The bank's non-government debt is 7 percent of GDP (text chart). The external audit—not conducted since 2018—is expected to be concluded in coming months. The government and the new management are actively working to address the bank's financial performance. Building on these efforts, the priority is to analyze the bank's financial situation, reassess its financial and social functions—potentially achievable through private lending and targeted social support—and chart the optimal path forward, firmly based on the bank's viability and fiscal prudence. The legal framework around the bank should be revised to significantly strengthen its regulation and supervision.

Development Bank
(In Percent of GDP)

	2022	2023	2024
Total debt			10.3
SSF			4.0
Government			3.2
SIDF			1.5
National Bank			1.0
PetroCaribe			0.4
Other			0.2
Government lending to the Development Bank	0.2	0.4	0.3

Sources: National authorities; Development Bank; and IMF staff estimates.

22. Financial soundness of private banks should continue to be strengthened. Private banks have reduced NPL ratios to an average of 8 percent—albeit driven by strong loan growth—and are progressing toward meeting the ECCB's prudential requirements for both provisioning and capital. These efforts should continue based on plans recently submitted to the ECCB (Annex X). Given the rapid credit growth and the regional credit bureau becoming increasingly operational, financial education for the public could help foster sound credit practices. Recent initiatives by banks to improve financial education could be further supported by the public sector, which is also enhancing financial literacy in schools.

23. The regulation and oversight of credit unions should be enhanced. The credit union segment (assets of 23 percent of GDP) is still small compared to banks but is growing quickly. Amid their rapid credit growth, their delinquency ratio is elevated at 7 percent. To ensure financial stability, the oversight by the FSRC and its regulatory powers should be further strengthened, especially in the areas of lending standards, provisioning requirements, and supervisory actions.

24. Progress in AML/CFT should continue. As recommended by the January 2022 mutual evaluation report, the authorities should strengthen their understanding of the risks associated with legal persons and legal arrangements in the context of St. Kitts and Nevis as a small international financial center and ensure that such risks are appropriately mitigated. The authorities should designate the ECCB as the AML/CFT supervisor for banks, and the FSRC should strengthen its AML/CFT supervisory practices.

[17] The Development Bank aims to promote economic growth and development through programs in its mandated areas: micro, small, medium enterprise (MSME) loans, residential mortgages for lower-middle-income and lower-income residents, and student loans.

25. The ECCB has taken steps to address most of the 2021 safeguards recommendations. There remains scope, however, to strengthen governance arrangements, including through legal reforms to further strengthen the operational autonomy of the ECCB and align its Agreement Act with leading practices. The related recommendations remain pending.

26. St. Kitts and Nevis has not introduced any changes in the foreign exchange system that: (i) may give rise to exchange restrictions or MCPs pertaining to obligations under Article VIII; or (ii) could be designed to limit capital flows and may need to be assessed under the revised Institutional View.

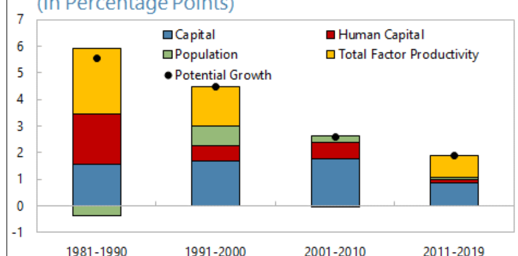
Authorities' Views

27. The authorities agreed with staff's recommendations on the financial sector. Regarding the systemic bank, they pointed to progress in strengthening its financial position and close cooperation with the ECCB, based on Fund advice. They envisage that some government deposits will be transferred to the SWF. As for the Development Bank, the authorities will determine its viability based on the ongoing external audit—expected to be completed in the coming months. They stressed that the legal framework surrounding the bank should be revised to significantly strengthen its regulation and supervision by the FSRC. The authorities intend to continue making progress in improving the AML/CFT framework.

C. Boosting Sustainable, Inclusive, and Resilient Growth

28. The medium-term growth prospects, which have steadily declined, can be improved. Staff analysis indicates that potential growth has steadily declined from around 6 percent in the 1980s to 2 percent by 2019 (text chart). This decline is primarily driven by slow productivity growth and a reduced contribution from human capital (Annex VII). Empirical analysis suggests that the gains from structural reforms could be substantial.[18] Recent survey results from Caribbean countries also indicate that growth potential can be enhanced through better resource allocation, labor force quality, and access to finance.

Factors Contribution to Potential Growth, KNA
(In Percentage Points)

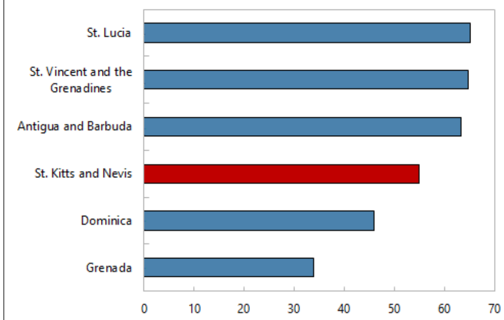


Sources: Barro and Lee (2015); EM-DAT database; IADB database, Penn World Table (10.1 version); World Bank; and IMF staff calculations.

[18] Budina et al. (2023, SDN/2023/007). The effects of implementing a package of major first-generation structural reforms, defined as episode for which an improvement in the relevant indicator is at least two standard deviations of the distribution, can be sizable. In emerging market and developing economies with large initial structural gaps, such a reform package is estimated to have lifted the level of output by 4 percent in two years and 8 percent in four years.

29. Addressing binding constraints to resource allocation could boost productivity by more than 50 percent (text chart). Efforts should be made to increase the efficiency of government services through digitalization, streamlining of customs and tax administrations, and simplification of trade regulations. The authorities' recent progress with digitalization and a single electronic window is welcome.

Aggregate TFP Gain from Reallocation
(In Percent)



Sources: Innovation, Firm Performance and Gender (IFPG) survey; and IMF staff calculations.

30. Labor skills should be better aligned with private sector demands. Survey evidence identifies an inadequately educated workforce as a significant challenge to firms' operations. Upskilling is essential for maintaining labor market competitiveness in the private sector, especially with the recent two-tier increases in minimum wage in 2024 and 2025, which place the minimum wage well above ECCU peers.[19] There are shortages of qualified workers in several industries in the private sector, such as tourism and healthcare. Recent efforts aimed at improving access to education and vocational training can help, especially benefiting the unemployed.[20] These initiatives should be tailored to meet market demands.

31. Credit access should be improved to better support business activities. The participation of all banks and credit unions in the recently established regional credit bureau is essential for its effectiveness. While foreclosure processes appear to function efficiently, bankruptcy and insolvency regimes can be enhanced to incentivize out-of-court debt workouts, given the lengthy in-court processes (Annex X).

32. Accelerating the energy transition is crucial to increase competitiveness and growth resilience. The energy transition is expected to enhance energy security, reduce energy costs, and support an economic diversification.[21] It is essential to build strong expertise in project management, especially to limit delays both in the procurement and execution stages. The investment, ownership, and taxation agreements related to large energy projects should be crafted carefully, considering their long-term economic and fiscal implications.

Authorities' Views

33. The authorities agreed with the staff's analysis of potential growth and challenges. They plan to form a Productivity Council aimed at enhancing productivity and have begun reviewing training programs to tackle skill mismatches. The authorities concurred that the renewable energy transition would enhance productivity and energy security. They highlighted ongoing efforts to invest in renewable energy by tapping into external financing and advance the geothermal project,

[19] The minimum wage was increased by 19.4 percent in January 2024 and set to be increased by 16.3 percent in July 2025. This represents around 39 percent increase compared to the previous minimum wage established in 2014.

[20] The authorities' training programs include ELEVATE and Skills Training Empowerment Programs (STEP).

[21] See the 2024 Article IV Staff Report SIP.

which could become operational in two years, with financing secured to commence drilling. While the original solar project was suspended in November, the authorities underscored their intention to proceed with a new procurement process in due course.

D. Improving Preparedness to Natural Disasters

34. To strengthen natural disaster (ND) preparedness, the public investment framework should be improved. The country is highly vulnerable to NDs, and building resilience is critical for macroeconomic and financial stability.[22] Specifically, strengthening ND-resilience will help mitigate key macro and financial risks, including fiscal deficits and debt (primarily arising from disaster relief and recovery), challenges in the financial sector (e.g., higher NPLs due to physical damage and stranded assets), and impacts on the real economy (such as adverse effects on tourism and infrastructure losses). To build resilience, it is crucial to invest in both infrastructure and financial resilience, complemented by improvements in the public investment framework:

- ***Investment framework.*** A pipeline of projects funded by the public sector—including statutory bodies—should be integrated into the Public Sector Investment Program (PSIP). This will help improve medium-term fiscal planning, anchor ND-resilient investment plans, and help unlock concessional financing. Strengthening capital expenditure forecasts would be important for the medium-term fiscal framework. Additionally, project execution should be improved. The authorities' plan to formulate a medium-term PSIP strategy will provide a useful framework for comprehensive oversight of public investment and enable project progress tracking.

- ***ND-resilient Infrastructure.*** Upgrading the power grid—as part of the geothermal project—will enhance resilience to NDs, support energy sustainability by introducing a one-grid that connects the two islands and facilitate the energy transition. Given the country's challenges with water supply, the authorities' plans for constructing two desalination plants—one for each island—is a significant development.

35. An enhanced multi-layered insurance framework would mitigate the fiscal impact of NDs. The level of layered choice could be calibrated for an efficient cost-minimizing framework. Staff analysis indicates additional fiscal buffers are essential to enhance an insurance framework against NDs, and government deposits should be preserved at their current level as the first self-insurance layer. This could be further supplemented by (i) expanding coverage through the Caribbean Catastrophe Risk Insurance Facility; and (ii) issuing a state-contingent instrument, such as catastrophe bonds or lines of credit.[23]

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[22] See the fiscal scenario in the 2023 Article IV Staff Report and 2023 SIP on investment in ND resilience and a multi-layered insurance framework.

[23] This includes a Catastrophe Deferred Drawdown Option, a contingent credit line that provides immediate liquidity in the event of a natural disaster or catastrophe.

Authorities' Views

36. **The authorities concurred with staff's recommendations on ND preparedness.** They plan to develop a resilient single power grid connecting the two islands as part of the geothermal project. They also plan to increase investments in water infrastructure, including the construction of a desalination plant—expected to be finished in the coming months—and the development of water wells. They noted that establishing a strategy for the public sector investment program will strengthen the overall oversight of public investment. Finally, the authorities agreed on the need to expand the multi-layered insurance framework against NDs.

STAFF APPRAISAL

37. **Growth has moderated and inflation remains stable.** Lower contributions from tourism and government services reduced growth in 2024. Growth is expected to pick up this year, supported by expanding tourism, and to be moderate in the medium term. Meanwhile, credit growth rose rapidly amid strong demand and lenders' competition. Near-term risks are tilted to the downside, but the potential for renewable energy provides upsides over the medium term.

38. **The external position in 2024 is assessed as weaker than implied by medium-term fundamentals and desirable policies.** The CAD further widened, reflecting a decline in CBI inflows and larger fiscal deficits. The CAD is expected to moderately narrow in the medium term, supported by import savings from the energy transition. International reserves remain stable.

39. **The fiscal deficit is projected to remain large, with public debt rising in the baseline—without additional adjustment.** The main driver of the deficits is a structural decline in CBI revenue. Recent reforms to strengthen the CBI program, reinforced by international agreements, have likely reduced CBI revenue to more sustainable levels. Public debt is projected to exceed 70 percent of GDP by 2030. The overall risk of sovereign debt stress continues to be assessed as moderate. Contingent liabilities from public banks and the SSF pose considerable risks to debt sustainability.

40. **The policy priority is to implement a prompt and decisive fiscal consolidation to keep public debt below the regional ceiling.** The authorities have confirmed their commitment to fiscal prudence. Fiscal consolidation should be driven by tax revenue mobilization and reductions in current expenditures and anchored by fiscal rules. Tax revenue mobilization will also help reduce reliance on the CBI program. The combined net effects of fiscal consolidation and structural reforms on growth and the external position are assessed as positive in the medium term.

41. **Structural fiscal reforms should continue.** The medium-term debt management strategy should prioritize diversification of funding sources. The authorities' plan to establish a SWF—which should absorb any upside in the CBI revenue—is commendable and should be implemented. Important progress has been made in strengthening the CBI framework; however, its transparency

needs to be further improved. Regarding the SSF, the authorities' intention to improve its sustainability is welcome, and the reform proposals under consideration deserve support.

42. The financial system has somewhat strengthened, but further progress is needed. The systemic bank has made progress in strengthening its balance sheet, including reducing legacy NPLs and de-risking its investment portfolio. These efforts should continue. The government is encouraged to engage with external advisors to revitalize its business model, making it more focused on lending. Efforts by private banks should also continue to reduce NPLs and meet the ECCB's prudential requirements. The participation of all banks and credit unions in the regional credit bureau is essential for its effectiveness and for mitigating risks associated with the rapid credit growth.

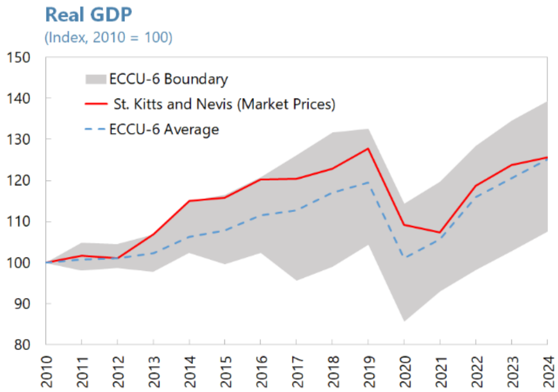
43. The Development Bank needs to be reformed. The bank is facing significant challenges due to high NPLs and a weak capital position. The authorities are working to improve the bank's accountability and financial performance. The priority is to analyze the bank's financial situation, reassess its functions, and chart the optimal path forward based on the bank's viability and fiscal prudence. The legal framework around the bank should be revised to significantly strengthen its regulation and supervision.

44. Structural reforms can enhance the medium-term growth prospects. Potential growth has declined, mainly driven by slow productivity growth and a lower contribution from human capital. Reforms are necessary to enhance the efficiency of government services, improve credit access, and better align labor skills with market demands. Additionally, accelerating the energy transition would help increase competitiveness. To strengthen ND preparedness, the investment framework should be improved, along with the enhanced multi-layered insurance framework.

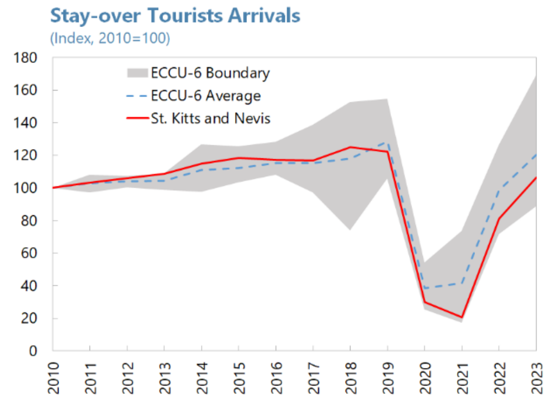
45. It is expected that the next Article IV Consultation with St. Kitts and Nevis will take place on the standard 12-month cycle.

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

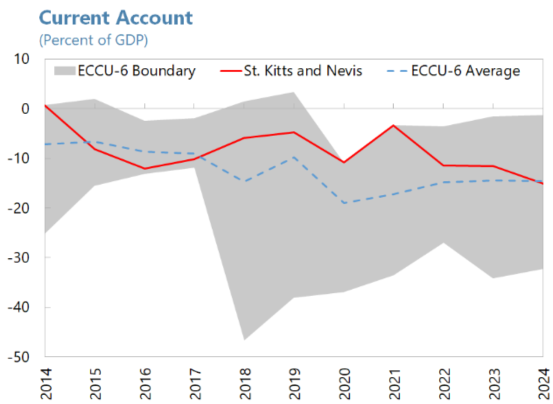
Despite the belated recovery and subdued growth in 2024, growth is in line with the ECCU average in 2024.



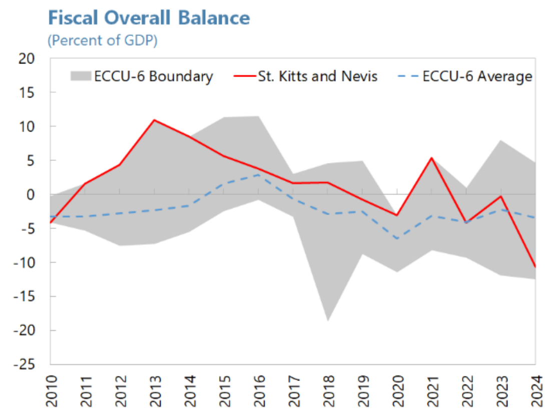
Although tourist arrivals are close to their pre-pandemic levels in 2024, still lagging the ECCU average.



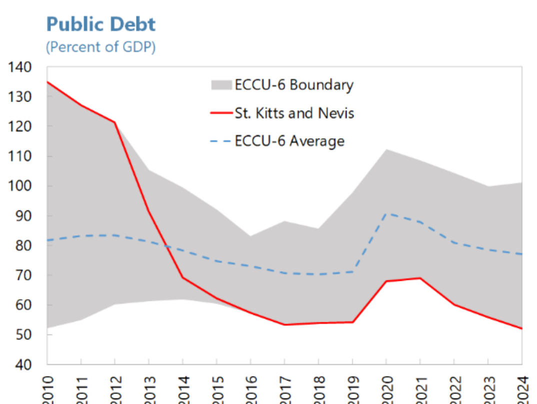
The current account deficit widened in 2024, edging closer to that of ECCU peers.



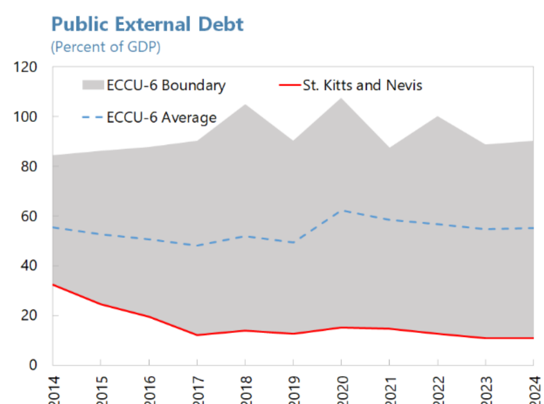
The overall fiscal balance deteriorated, falling below the ECCU average.



Still, gross public debt was the lowest in the region, remaining below the regional ceiling of 60 percent of GDP.



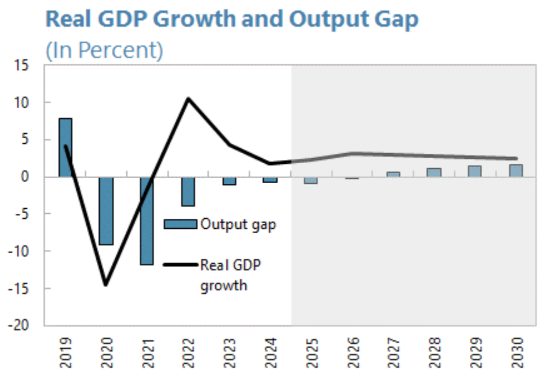
External debt also remains lowest among ECCU member countries.



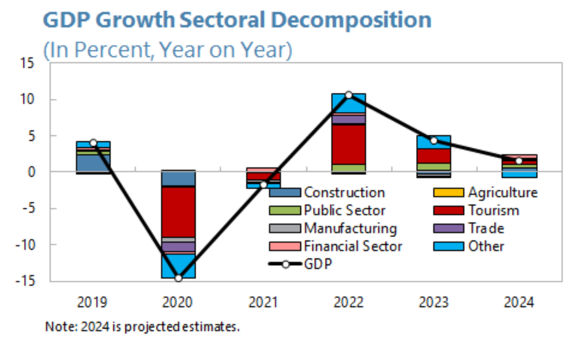
Sources: ECCB authorities; and IMF staff calculations.

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

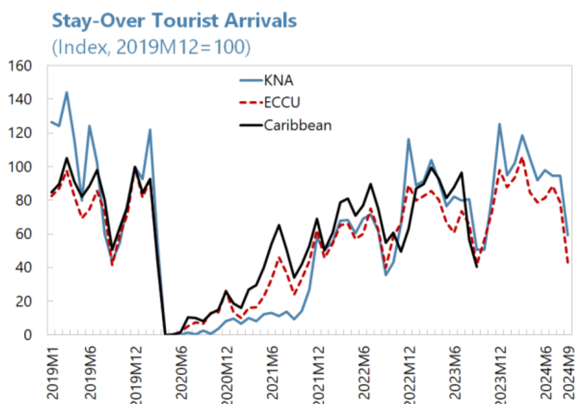
The output gap has edged closer to zero …



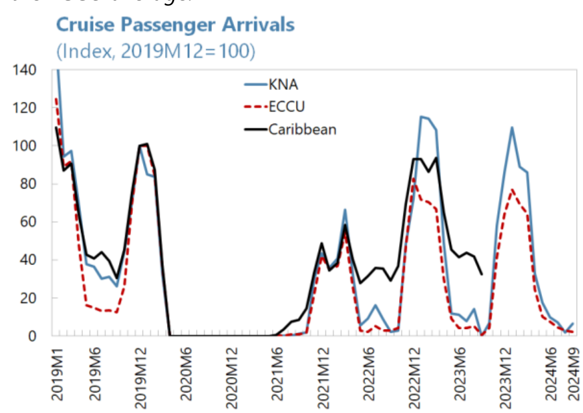
… despite the recent deceleration in real growth.



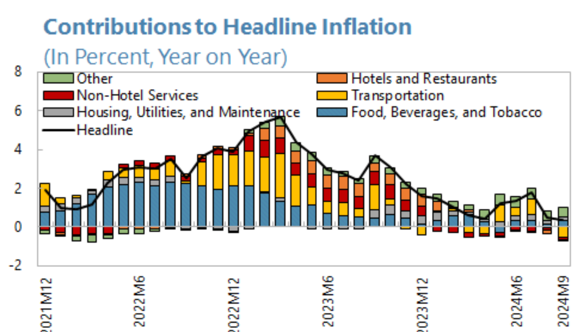
Stay-over arrivals have almost recovered to pre-COVID levels, while …



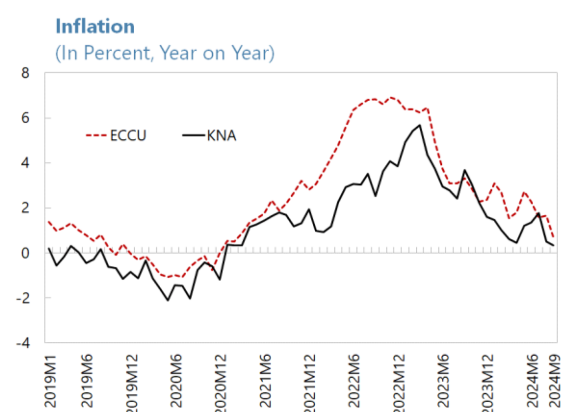
… tourism via cruise arrivals has remained below pre-COVID levels although it performed slightly better than the ECCU average.



Inflation has continued to recede amid lower food and energy prices …



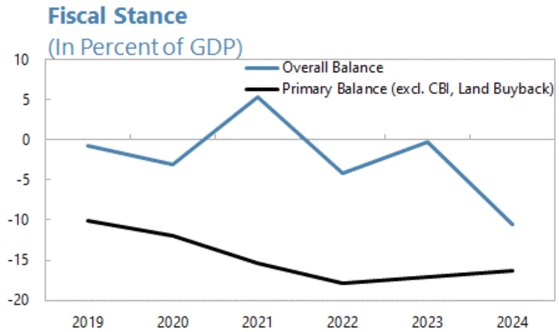
… remaining below ECCU peers also in part due to subdued economic activity.



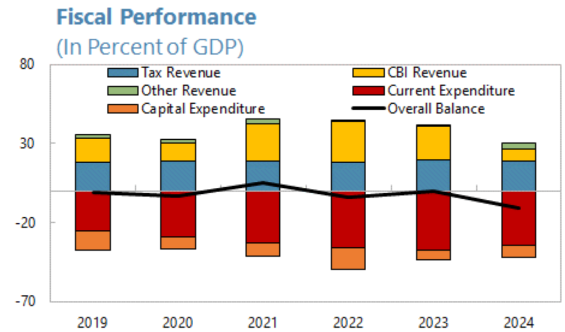
Sources: ECCB authorities; CTO; and IMF staff calculations.

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

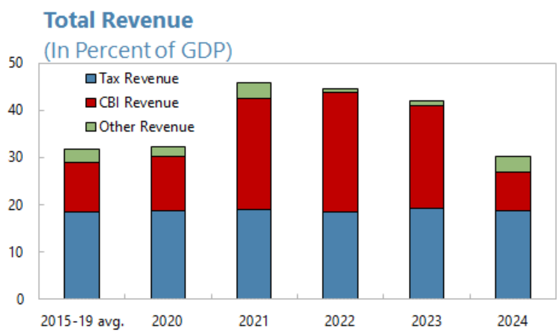
The overall balance turned sharply negative in 2024, while the fiscal stance remains loose…



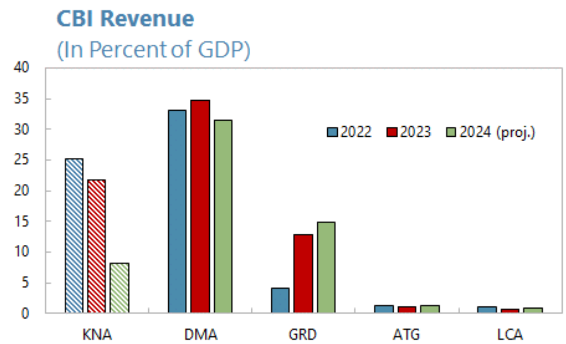
…on a significant decline in CBI revenue and still large expenditures.



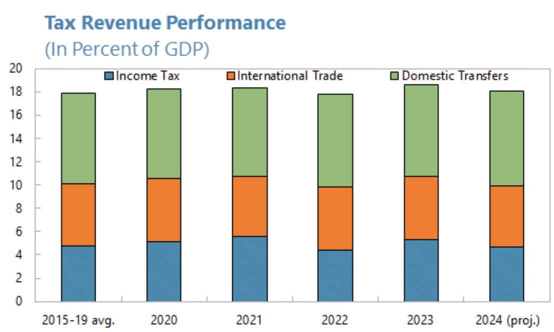
Total revenue also weakened, largely reflecting lower CBI revenue.



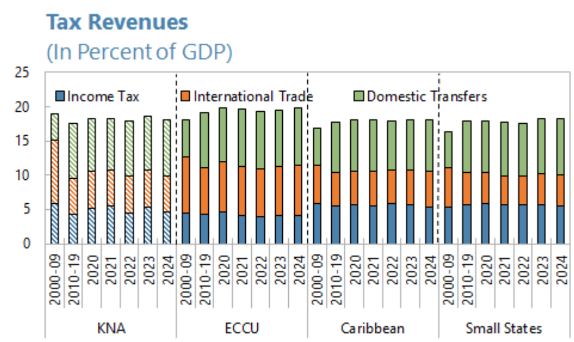
The decline in CBI revenue contrasts with other regional programs.



While tax revenue declined marginally because of lower CIT…



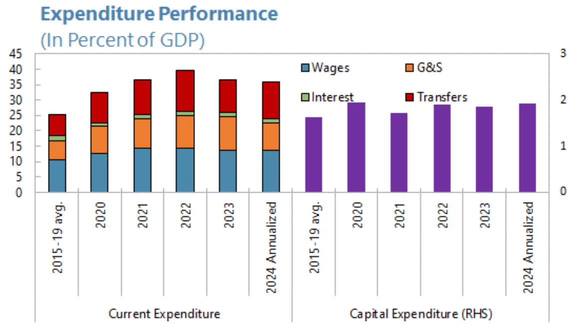
…it remains is lower than in the ECCU, and more recently, other peer groups.



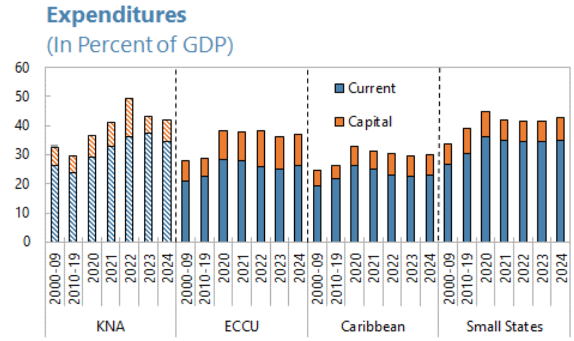
Sources: ECCB; national authorities; and IMF staff calculations.

Figure 3. St. Kitts and Nevis: Fiscal Sector Developments (concluded)

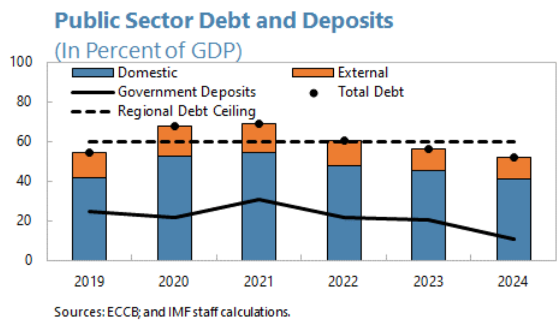
Total expenditure declined in 2024 but remained about 10 percent of GDP higher than before the pandemic.



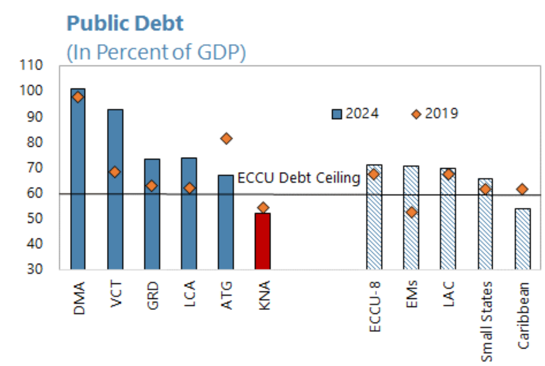
Active wage bill control helped stabilize current expenditures, , albeit at elevated levels relative to ECCU and other comparators.



Debt declined in 2024, as the deficit was financed by deposits.



The debt of St. Kitts and Nevis is currently the lowest in the ECCU.

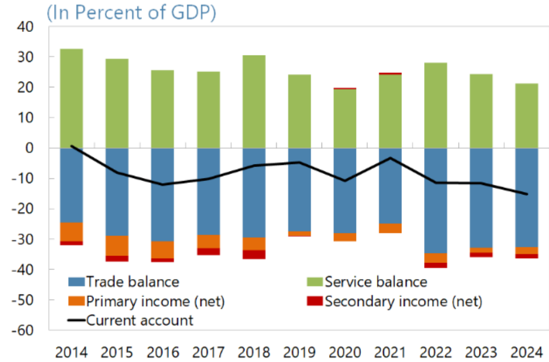


Sources: National authorities; ECCB; and IMF staff calculations.

Figure 4. St. Kitts and Nevis: External Sector Developments

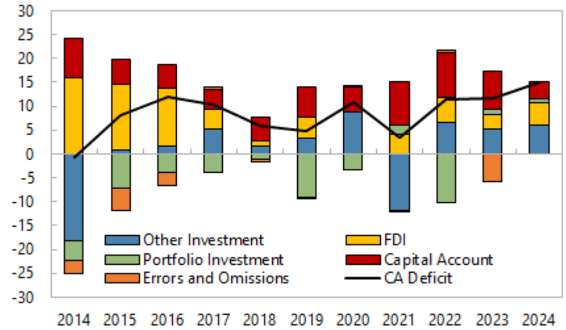
The current account deficit widened, primarily due to a significant decline in services exports driven by lower CBI.

Current Account Balance
(In Percent of GDP)



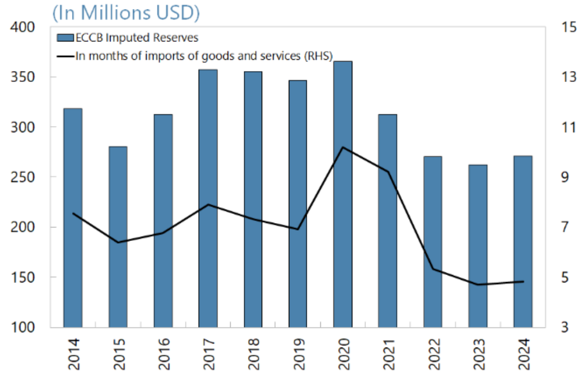
The current account deficit was mainly financed by other investment, FDI, and capital transfers.

Current Account Financing
(In Percent of GDP)



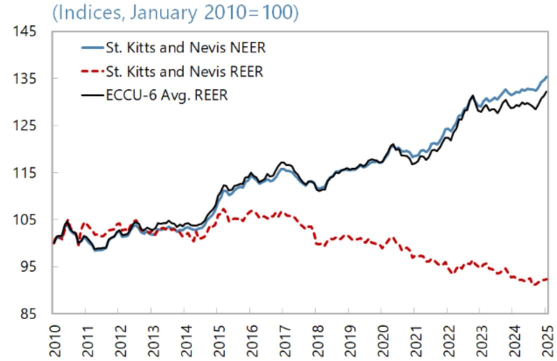
International reserves remained adequate.

Net Imputed International Reserves
(In Millions USD)



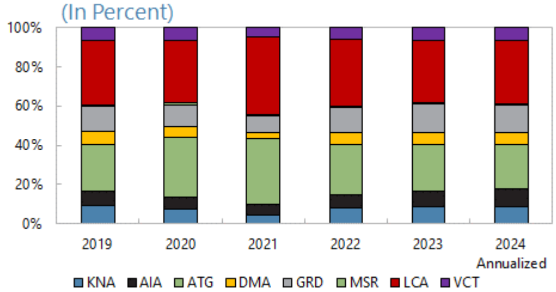
The REER depreciated slightly over the last 12 months.

Nominal and Real Effective Exchange Rates
(Indices, January 2010=100)



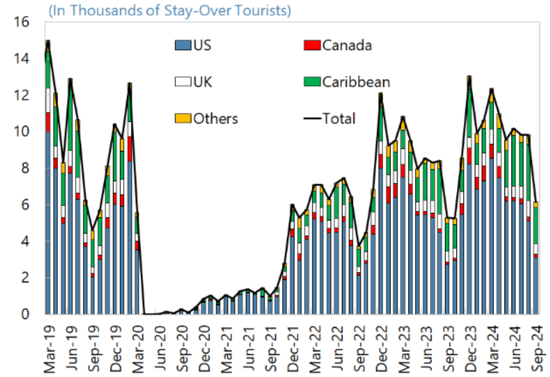
The country's market share in the overall tourism of ECCU is small.

Tourism Share
(In Percent)



The U.S. and the Caribbean are the biggest source markets for St. Kitts and Nevis.

Tourist Arrivals by Source Countries
(In Thousands of Stay-Over Tourists)

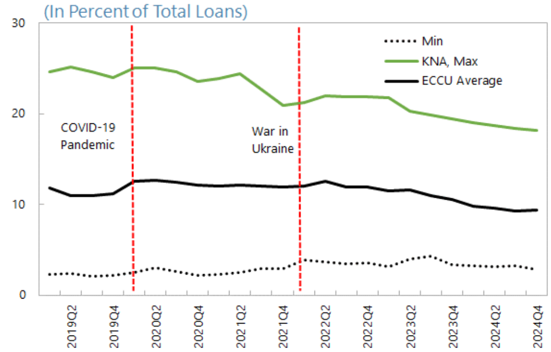


Sources: ECCB; and IMF staff calculations.

Figure 5. St. Kitts and Nevis: Financial Sector Developments

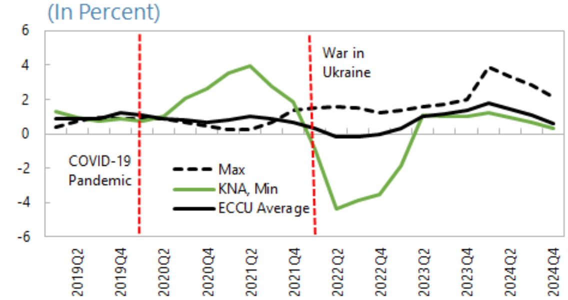
The NPL ratio is the highest in the ECCU despite the recent improvement.

Asset Quality: NPL Ratio
(In Percent of Total Loans)



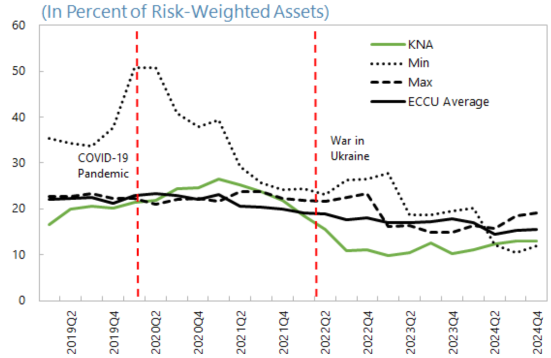
Bank profits have finally turned positive after heavy losses in 2022.

Return on Average Assets
(In Percent)



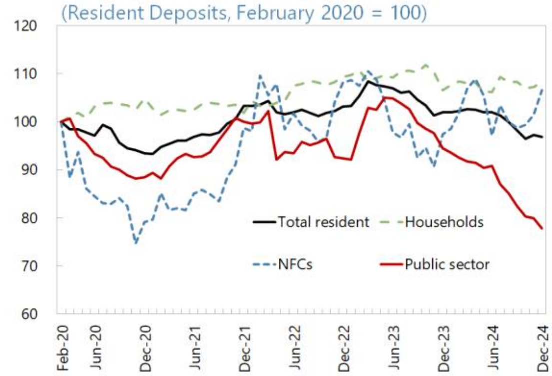
As a result of the losses, St Kitts and Nevis has the lowest capital ratio in the ECCU.

Capital Adequacy Ratios
(In Percent of Risk-Weighted Assets)



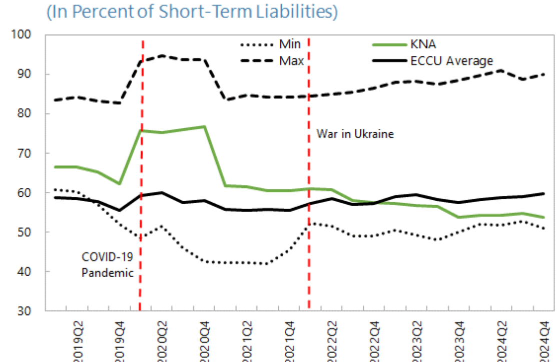
Private and public deposits declined in 2024 but remained substantial.

Accumulation of Bank Deposits
(Resident Deposits, February 2020 = 100)



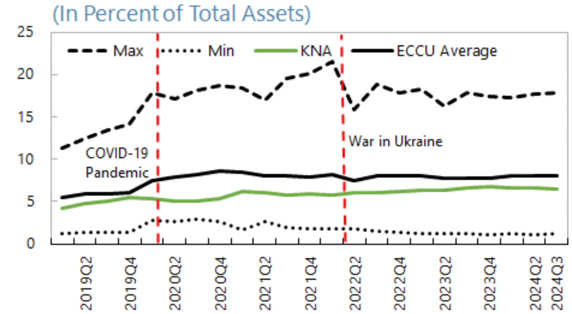
Banks continue to have ample liquidity buffers, supported by large deposits.

Liquid Assets
(In Percent of Short-Term Liabilities)



Credit to the government has remained stable and at moderate levels.

Credit to General Government
(In Percent of Total Assets)



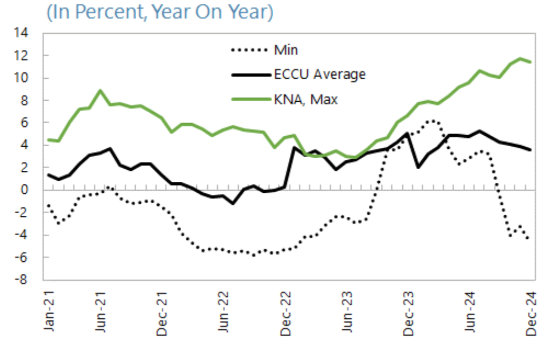
Sources: ECCB; and IMF staff calculations.

Figure 5. St. Kitts and Nevis: Financial Sector Developments (concluded)

Credit to households accelerated in 2024…

Credit to the Private Sector: Households

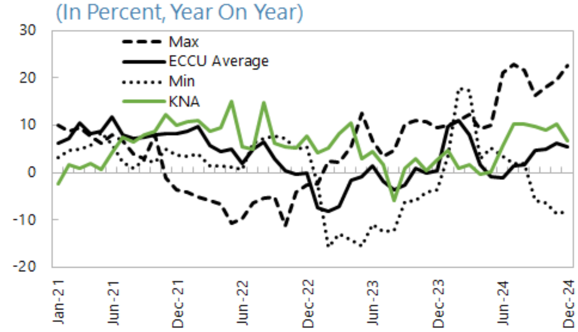
(In Percent, Year On Year)



…as well as credit to firms.

Credit to the Private Sector: Other Nonfinancial Corporations

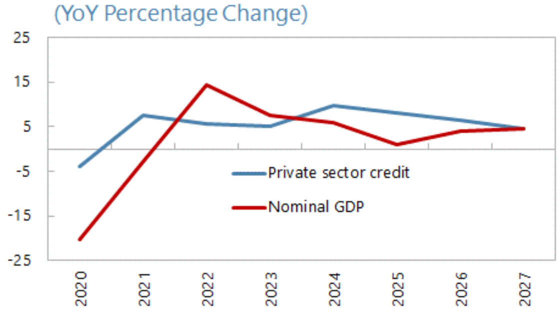
(In Percent, Year On Year)



Credit growth is projected to converge to nominal GDP growth.

Credit and Nominal GDP Growth

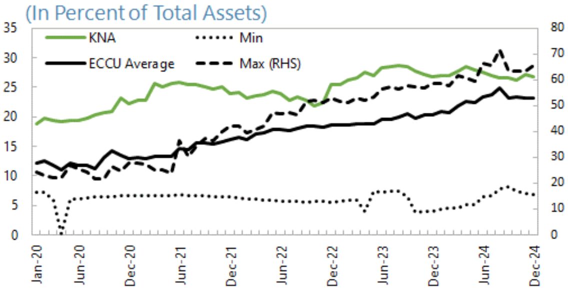
(YoY Percentage Change)



Investment in overseas assets has been among the highest in the ECCU but has plateaued since 2023.

Investment in Overseas Assets

(In Percent of Total Assets)



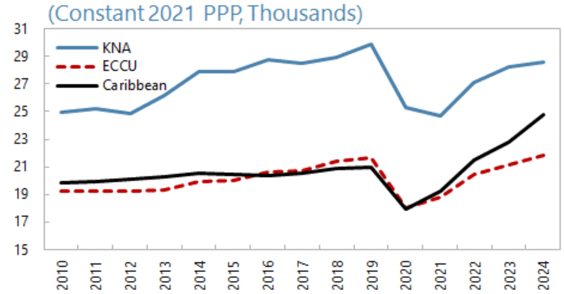
Sources: ECCB; and IMF staff calculations.

Figure 6. St. Kitts and Nevis: Structural Indicators

St. Kitts and Nevis has one of the highest GDP per capita in the Caribbean region…

GDP Per Capita

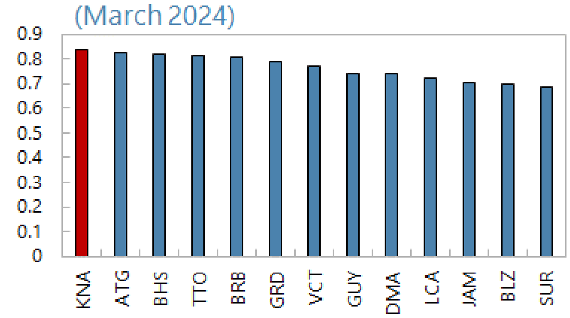
(Constant 2021 PPP, Thousands)



…and human development in the Caribbean

Human Development Index

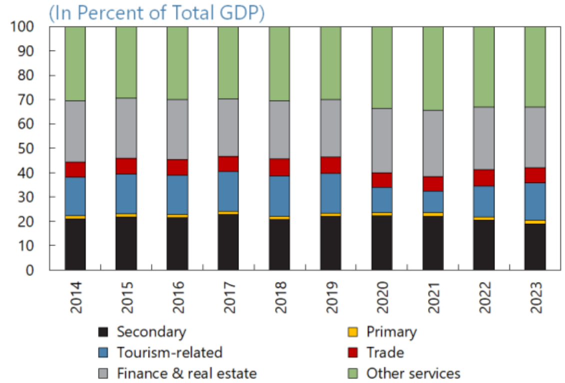
(March 2024)



The economy is mainly supported by tourism, finance, and real estate services.

GDP by Sector

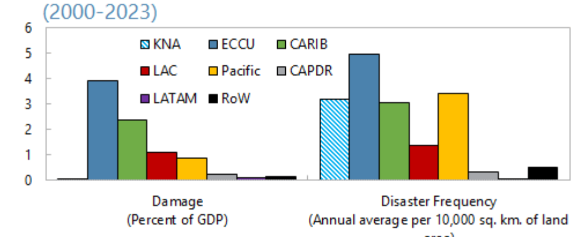
(In Percent of Total GDP)



The region is highly vulnerable to natural disasters with large economic and humanitarian impacts.

Average Annual Economic Impacts of Natural Disasters

(2000-2023)

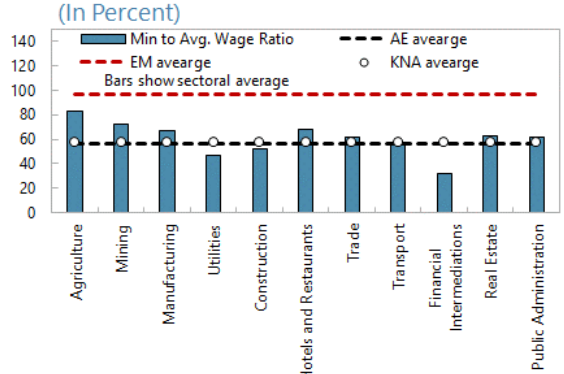


Sources: EM-DAT, World Bank, World Economic Outlook; and IMF staff calculations.
Note: Groups of WHD, Pacific and rest of the world are exclusive. 2021 reported figures are used for country land area.

The minimum wage was increased in January 2024…

Minimum to Average Wage Ratio, 2024

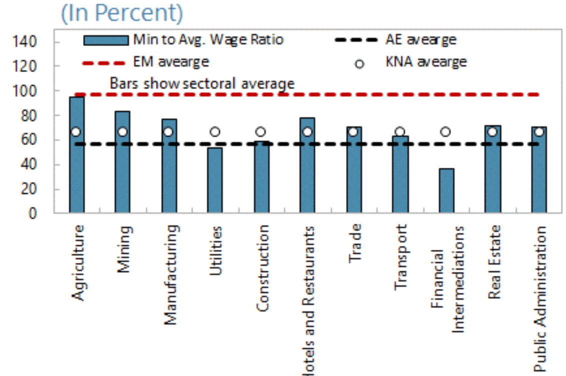
(In Percent)



…and is set to be raised again in July 2025.

Minimum to Average Wage Ratio, 2025

(In Percent)



Sources: National authorities; ECCB; United Nations Development Program Em-DAT; World Bank; World Economic Outlook; and IMF staff calculations.
Note: Groups of WHD, Pacific, and the rest of the world are exclusive. 2021 reported figures are used for country land area.

Table 1. St. Kitts and Nevis: Basic Data

I. Social, Geographic and Demographic Indicators

Area (sq. km)	269.4
Population	
Total (thousands, 2023 est.)	51.3
Rate of growth (percent per year, 2023)	0.01
Density (per sq. km., 2023)	190.5
Net migration rate (per thousand, 2014 est.)	1.2
Population characteristics	
Life expectancy at birth (years, 2021)	71.7
Infant mortality (per thousand live births, 2020)	12.6
Under 5 mortality rate (per thousand, 2020)	15.0
Adult literacy rate (percent, 2009)	97.8

Headcount Poverty (percent, 2008)	23.7
Income inequality (Gini coefficient, 2008)	0.38
Health and nutrition	
Calorie intake (per capita a day, 2011)	2,452
Physicians (per 1,000 people, 2018)	2.8
Access to safe water (percent, 2011)	98.9
AIDS incidence rate (per 100,000, 2016)	33.9
Gross domestic product (2023)	
(millions of U.S. dollars)	1,055.7
(millions of E.C. dollars)	2,850
(US$ per capita)	20,568.4

II. Economic and Financial Indicators, 2020-30

					Est.	Proj.					
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	(Annual percentage change, unless otherwise specified)										
National income and prices											
Real GDP (market prices)	-14.6	-1.7	10.5	4.3	1.5	2.0	2.2	2.6	2.6	2.7	2.6
Real GDP (factor cost)	-13.4	-1.0	8.0	5.0	4.3	0.7	0.5	2.6	2.6	2.7	2.6
Consumer prices, end-of-period	-1.2	1.9	3.9	1.6	1.0	1.8	2.0	2.0	2.0	2.0	2.0
Consumer prices, period average	-1.2	1.2	2.7	3.6	1.0	1.7	2.0	2.0	2.0	2.0	2.0
Real effective exchange rate appreciation (+) (end-of-period)	-1.0	-3.1	-1.4	-0.7	-2.4	...	...	...	...	...	...
	(Contributions to money growth, in percent)										
Money and credit											
Broad money	-8.1	8.9	3.7	-1.9	2.5	13.5	8.9	6.0	6.0	6.4	6.5
Change in net foreign assets	-0.4	9.1	-7.0	-6.4	-12.8	-2.3	-2.0	-1.9	-1.9	-1.6	-1.5
Net credit to general government	-18.4	-4.8	4.9	0.3	9.3	10.3	6.6	4.6	4.5	4.5	4.4
Credit to private sector (annual percentage change)	-4.0	7.7	5.8	5.2	9.8	8.1	6.4	4.7	4.7	4.8	4.7
Nonperforming loans to total gross loans (end-of-period)	23.5	20.9	21.8	19.4	18.1	...	...	...	...	...	...
	(In percent of GDP)										
General government											
Total revenue and grants	33.5	46.6	45.2	43.0	31.1	32.5	33.2	33.2	33.2	33.2	33.2
o/w Tax revenue	18.8	19.0	18.4	19.3	18.7	18.2	19.0	19.0	19.0	19.0	19.0
o/w CBI revenue	11.3	23.4	25.3	21.7	8.1	9.0	9.0	9.0	9.0	9.0	9.0
Total expenditure and net lending	36.5	41.2	49.4	43.3	41.7	42.2	39.8	37.8	37.9	38.1	38.2
Current expenditure	29.0	32.9	36.2	37.5	34.3	35.5	33.8	32.5	32.6	32.7	32.8
Capital expenditure and net lending	7.5	8.3	13.2	5.8	7.4	6.7	6.0	5.3	5.3	5.3	5.3
Overall balance (after grants)	-3.1	5.4	-4.2	-0.3	-10.6	-9.8	-6.6	-4.6	-4.7	-4.8	-4.9
Primary balance (ex. CBI and transfers to banks)	-11.9	-15.4	-17.9	-18.0	-17.1	-17.3	-13.1	-11.0	-11.3	-11.3	-11.3
Total public debt	68.0	69.1	60.2	55.9	52.2	61.4	65.6	67.3	69.0	70.6	72.4
Government deposits	21.6	30.4	21.6	20.4	10.4	10.3	9.9	9.4	9.0	8.6	8.2
External sector											
Current account balance	-10.8	-3.4	-11.4	-11.6	-15.1	-13.1	-12.8	-12.3	-12.2	-11.9	-11.3
Trade balance	-28.0	-24.8	-34.7	-32.8	-32.7	-32.3	-33.3	-33.2	-33.2	-32.0	-32.0
Services, net	19.4	24.1	28.1	24.3	21.2	22.9	24.1	24.6	24.7	23.7	24.4
o/w Tourism receipts	12.1	17.7	30.2	33.4	35.8	37.5	38.7	38.8	38.9	38.9	38.9
FDI (net)	-0.1	4.0	5.2	3.0	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Net international reserves, end-of-period											
(in millions of U.S. dollars)	365.4	312.8	270.3	262.4	270.7	269.0	267.3	265.5	261.4	260.2	259.3
(in months of imports of goods and services)	10.8	6.2	4.8	4.7	4.8	4.5	4.3	4.1	3.9	3.7	3.5
Nominal GDP at market prices (in millions of EC$)	2,387	2,318	2,650	2,850	3,017	3,048	3,171	3,319	3,476	3,644	3,814

Sources: National authorities, ECCB, UNDP, World Bank; and IMF staff estimates and projections.

Table 2. St. Kitts and Nevis: Federal Government Fiscal Operations, 2020–30[1/]
(In percent of GDP)

					Est.	Proj.					
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total revenue	**32.3**	**45.8**	**44.6**	**42.1**	**30.2**	**31.6**	**32.4**	**32.4**	**32.4**	**32.4**	**32.4**
Tax revenue	18.8	19.0	18.4	19.3	18.7	18.2	19.0	19.0	19.0	19.0	19.0
Taxes on income	5.1	5.6	4.4	5.3	4.7	4.8	4.8	4.8	4.8	4.8	4.8
Taxes on property	0.5	0.7	0.6	0.6	0.6	0.8	0.8	0.8	0.8	0.8	0.8
Taxes on domestic goods and consumption	7.7	7.6	8.0	7.9	8.1	7.4	8.1	8.1	8.1	8.1	8.1
Taxes on international trade and transactions	5.4	5.2	5.4	5.5	5.2	5.3	5.3	5.3	5.3	5.3	5.3
Nontax revenue	13.5	26.8	26.2	22.8	11.5	13.4	13.4	13.4	13.4	13.4	13.4
Citizenship by investment (CBI) revenue	11.3	23.4	25.3	21.7	8.1	9.0	9.0	9.0	9.0	9.0	9.0
minus CBI due diligence fees	1.1	1.4	2.3	2.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other nontax revenue	2.2	3.4	0.9	1.0	3.4	4.4	4.4	4.4	4.4	4.4	4.4
Total expenditure and net lending	**36.5**	**41.2**	**49.4**	**43.3**	**41.7**	**42.2**	**39.8**	**37.8**	**37.9**	**38.1**	**38.2**
Current expenditure	29.0	32.9	36.2	37.5	34.3	35.5	33.8	32.5	32.6	32.7	32.8
Wages and salaries	12.8	14.2	14.3	13.7	13.7	15.1	14.5	13.9	13.9	13.9	13.9
Goods and services (ex. CBI fees)	7.5	8.4	8.5	8.3	8.8	7.9	7.6	7.3	7.3	7.3	7.3
Interest	1.4	1.2	1.2	1.2	1.2	1.2	2.1	2.3	2.4	2.5	2.6
Domestic	1.0	0.9	1.0	0.9	0.9	1.0	1.5	1.5	1.5	1.4	1.4
Foreign	0.4	0.3	0.3	0.3	0.3	0.2	0.6	0.8	1.0	1.1	1.3
Transfers	7.4	9.0	12.1	14.3	10.6	11.3	9.6	9.0	9.0	9.0	9.0
CBI dividend	0.0	0.0	0.7	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	7.4	9.0	11.4	11.2	10.6	11.3	9.6	9.0	9.0	9.0	9.0
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	7.5	8.3	13.2	5.8	7.4	6.7	6.0	5.3	5.3	5.3	5.3
Transfers to banks	0.0	0.0	7.9	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other	7.5	8.3	5.3	5.4	7.1	6.4	5.7	5.0	5.0	5.0	5.0
Overall balance (before grants)	-4.2	4.6	-4.8	-1.2	-11.5	-10.6	-7.4	-5.4	-5.5	-5.7	-5.8
Grants	1.2	0.8	0.6	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Overall balance (after grants)	**-3.1**	**5.4**	**-4.2**	**-0.3**	**-10.6**	**-9.8**	**-6.6**	**-4.6**	**-4.7**	**-4.8**	**-4.9**
Overall balance (ex. transfers to banks)	-3.1	5.4	3.8	0.1	-10.3	-9.5	-6.3	-4.3	-4.7	-4.8	-4.9
Overall balance (ex. CBI and transfers to banks)	**-13.3**	**-16.6**	**-19.2**	**-19.2**	**-18.3**	**-18.5**	**-15.3**	**-13.3**	**-13.7**	**-13.8**	**-13.9**
Primary balance	-1.7	6.6	-2.9	0.9	-9.4	-8.6	-4.5	-2.3	-2.3	-2.3	-2.3
Primary balance (ex. CBI and transfers to banks)	**-11.9**	**-15.4**	**-17.9**	**-18.0**	**-17.1**	**-17.3**	**-13.1**	**-11.0**	**-11.3**	**-11.3**	**-11.3**
Gross financing need	**18.9**	**12.3**	**18.9**	**14.1**	**27.2**	**25.4**	**21.5**	**19.8**	**19.6**	**19.4**	**19.2**
Amortization	15.9	17.7	14.7	13.8	16.5	15.6	15.0	15.2	14.9	14.5	14.3
Public debt	**68.0**	**69.1**	**60.2**	**55.9**	**52.2**	**61.4**	**65.6**	**67.3**	**69.0**	**70.6**	**72.4**
By sector											
General government	46.4	47.1	41.4	38.8	36.4	45.4	51.1	54.2	57.3	60.3	63.3
Public enterprises	21.5	22.0	18.8	17.2	15.8	16.0	14.5	13.1	11.6	10.3	9.1
By currency											
Domestic	52.7	54.3	47.6	45.0	41.2	40.8	39.2	37.4	35.5	33.7	31.8
External	15.3	14.8	12.6	10.9	11.0	20.6	26.4	29.9	33.4	37.0	40.5
Government deposits	**21.6**	**30.4**	**21.6**	**20.4**	**10.4**	**10.3**	**9.9**	**9.4**	**9.0**	**8.6**	**8.2**
Net debt	**46.4**	**38.7**	**38.6**	**35.5**	**41.8**	**51.2**	**55.8**	**57.9**	**60.0**	**62.0**	**64.2**

Sources: National authorities; and IMF staff estimates and projections.

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

Table 3. St. Kitts and Nevis: Balance of Payments, 2020–30

	2020	2021	2022	2023	Est. 2024	Proj. 2025	2026	2027	2028	2029	2030
	(In millions of Eastern Caribbean dollars)										
Current account	**-258.7**	**-77.7**	**-301.6**	**-330.4**	**-455.5**	**-398.3**	**-405.4**	**-408.1**	**-422.3**	**-432.3**	**-430.8**
Trade balance	-668.5	-575.2	-918.3	-935.5	-986.4	-985.8	-1055.0	-1102.8	-1153.8	-1164.6	-1220.0
Exports	74.0	114.4	94.4	77.6	81.3	84.8	88.0	91.2	94.6	98.0	101.6
Imports	-742.6	-689.7	-1012.6	-1013.0	-1067.6	-1070.6	-1143.0	-1194.1	-1248.3	-1262.7	-1321.6
o/w Mineral fuel	-116.6	-192.4	-279.4	-238.0	-247.4	-241.9	-234.9	-245.9	-257.5	-237.5	-248.6
Services	462.5	558.6	745.8	693.5	640.4	698.5	765.1	815.2	857.3	864.8	928.8
Services (receipts)	881.7	968.9	1371.7	1487.3	1390.4	1456.3	1553.6	1630.1	1710.7	1793.3	1877.0
Travel	289.3	410.0	799.9	952.8	1080.5	1143.1	1227.7	1289.1	1353.5	1418.9	1485.1
Other	592.3	558.8	571.8	534.5	310.0	313.2	325.9	341.0	357.2	374.4	391.9
Services (payments)	-419.2	-410.3	-625.9	-793.8	-750.1	-757.7	-788.5	-814.9	-853.4	-928.6	-948.2
Primary income	-62.9	-74.0	-81.2	-46.6	-65.1	-66.3	-68.9	-71.7	-74.8	-78.9	-83.6
Secondary income	10.2	13.0	-47.9	-41.9	-44.3	-44.8	-46.6	-48.8	-51.1	-53.5	-56.0
Capital account	**124.1**	**212.5**	**252.6**	**227.2**	**105.2**	**115.7**	**121.4**	**127.1**	**133.2**	**139.7**	**146.2**
Financial account	**-129.9**	**133.8**	**-40.5**	**-265.2**	**-350.2**	**-282.5**	**-284.0**	**-280.9**	**-289.1**	**-292.6**	**-284.5**
Foreign direct investment	-3.0	92.9	136.9	86.1	136.0	137.4	143.0	149.6	156.7	164.3	171.9
Portfolio investment	-78.2	47.0	-271.2	28.8	30.4	30.8	32.0	33.5	35.1	36.8	38.5
Other investment	-20.8	-102.7	-21.1	-401.5	-522.8	-455.3	-463.7	-468.9	-484.7	-496.7	-497.4
Commercial bank NFA accumulation (+increase)	258.1	-307.0	116.9	185.1	100.0	101.0	105.1	110.0	115.2	120.8	126.4
Others	-278.9	204.3	-138.0	-586.6	-622.8	-556.3	-568.8	-578.9	-600.0	-617.5	-623.8
Reserve assets (+increase/-decrease)	-28.0	96.6	114.8	21.5	6.2	4.6	4.8	4.8	3.8	3.1	2.5
Errors and omissions	**4.7**	**-0.9**	**8.4**	**-161.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
	(In percent of GDP)										
Current account	-10.8	-3.4	-11.4	-11.6	-15.1	-13.1	-12.8	-12.3	-12.2	-11.9	-11.3
Trade balance	-28.0	-24.8	-34.7	-32.8	-32.7	-32.3	-33.3	-33.2	-33.2	-32.0	-32.0
Exports	3.1	4.9	3.6	2.7	2.7	2.8	2.8	2.7	2.7	2.7	2.7
Imports	-31.1	-29.7	-38.2	-35.5	-35.4	-35.1	-36.0	-36.0	-35.9	-34.7	-34.7
Services	19.4	24.1	28.1	24.3	21.2	22.9	24.1	24.6	24.7	23.7	24.4
Services (receipts)	36.9	41.8	51.8	52.2	46.1	47.8	49.0	49.1	49.2	49.2	49.2
Services (payments)	-17.6	-17.7	-23.6	-27.8	-24.9	-24.9	-24.9	-24.6	-24.6	-25.5	-24.9
Primary income	-2.6	-3.2	-3.1	-1.6	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2
Secondary income	0.4	0.6	-1.8	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5
Capital account	5.2	9.2	9.5	8.0	3.5	3.8	3.8	3.8	3.8	3.8	3.8
Financial account	-5.4	5.8	-1.5	-9.3	-11.6	-9.3	-9.0	-8.5	-8.3	-8.0	-7.5
	12.1	17.7	30.2	33.4	35.8	37.5	38.7	38.8	38.9	38.9	38.9
	(Annual percentage change)										
Exports	-39.9	54.6	-17.5	-17.8	4.8	4.4	3.8	3.7	3.7	3.7	3.7
Imports	-21.4	-7.1	46.8	0.0	5.4	0.3	6.8	4.5	4.5	1.1	4.7
Travel (receipts)	-70.4	41.7	95.1	19.1	13.4	5.8	7.4	5.0	5.0	4.8	4.7
	(In millions of US dollars)										
ECCB imputed reserves	365.4	312.8	270.3	262.4	270.7	269.0	267.3	265.5	261.4	260.2	259.3
(in months of imports of goods and services)	10.8	6.2	4.8	4.7	4.8	4.5	4.3	4.1	3.9	3.7	3.5

Sources: ECCB; and IMF staff estimates and projections.

Table 4. St. Kitts and Nevis: Monetary Survey, 2020–30[1/]

	2020	2021	2022	2023	Est. 2024	Proj. 2025	2026	2027	2028	2029	2030
	(Percentage change relative to broad money at beginning of period)										
Net foreign assets	0.4	9.1	-7.0	-6.4	-12.8	-2.3	-2.0	-1.9	-1.9	-1.6	-1.5
Net domestic assets	-4.9	-0.2	10.8	4.6	15.3	15.9	10.9	7.9	7.9	8.0	8.0
Net credit to the public sector	6.6	-4.0	4.9	-0.3	9.9	10.7	7.1	5.2	5.2	5.2	5.3
Net credit to central government	6.8	-4.8	4.9	0.3	9.3	10.3	6.6	4.6	4.5	4.5	4.4
Net credit to non-financial public sector	-0.3	0.9	0.0	-0.5	0.6	0.4	0.5	0.6	0.7	0.8	0.9
Net credit to nonbank financial institutions	...	4.7	3.4	3.4	4.4	5.1	3.8	2.7	2.7	2.8	2.6
Credit to the private sector	-2.1	4.1	3.0	2.8	5.6	4.9	3.7	2.7	2.7	2.7	2.6
Net other assets	-16.4	-0.9	2.5	1.4	1.0	0.0	0.0	0.0	0.0	0.0	0.0
	(Annual percentage change)										
Broad money (M2)	-4.5	8.9	3.7	-1.9	2.5	13.5	8.9	6.0	6.0	6.4	6.5
Money	-7.1	14.5	28.4	3.6	4.7	43.0	16.9	8.1	7.9	8.6	8.8
Currency in circulation	4.8	3.7	5.2	0.1	-0.9	1.0	4.1	4.7	4.7	4.8	4.7
Demand deposits 2/	-13.0	21.0	40.3	4.9	6.8	1.0	4.1	4.7	4.7	4.8	4.7
Quasi-money	-3.7	7.3	-3.4	-3.9	1.6	1.0	4.1	4.7	4.7	4.8	4.7
Savings deposits	5.8	3.7	-13.7	0.1	3.0	1.0	4.1	4.7	4.7	4.8	4.7
Time deposits	-1.7	9.3	-5.4	3.3	-1.3	1.0	4.1	4.7	4.7	4.8	4.7
Foreign currency deposits	-20.2	13.2	18.1	-14.6	1.5	1.0	4.1	4.7	4.7	4.8	4.7
Credit to the private sector (in nominal terms)	-4.0	7.7	5.8	5.2	9.8	8.1	6.4	4.7	4.7	4.8	4.7
Credit to the private sector (in real terms)	-2.8	6.4	3.0	1.6	8.6	6.2	4.2	2.6	2.6	2.7	2.6
Memorandum items:											
Income velocity of money	4.0	3.4	3.1	3.2	3.2	2.3	2.0	2.0	1.9	1.8	1.8
Income velocity of broad money	0.9	0.8	0.8	0.9	1.0	0.9	0.8	0.8	0.8	0.8	0.8
Private sector credit/GDP (in percent)	61.5	68.2	63.1	61.7	64.0	68.5	70.0	70.0	70.0	70.0	70.0
Foreign currency deposits/GDP (in percent)	23.0	26.8	27.7	22.0	21.1	21.1	21.1	21.1	21.1	21.1	21.1
Government deposits (EC$ million)	516	705	572	581	313	313	313	313	313	313	313
Government deposits (percent of GDP)	21.6	30.4	21.6	20.4	10.4	10.3	9.9	9.4	9.0	8.6	8.2
ECCB imputed reserves	41.3	36.4	27.5	24.9	24.2	23.8	22.8	21.6	20.3	19.3	18.4

Sources: ECCB; and IMF staff estimates and projections.

1/ There have been structural changes in the monetary and financial statistics since January 2020.

2/ Includes EC$ bank cheques.

Table 5. St. Kitts and Nevis: Selected Financial Soundness Indicators, 2020-24[1/]

(In percent)

	2020	2021	2022	2023	2024
Banking Sector					
Private sector credit growth (y/y)	-4.0	7.7	5.8	5.2	9.8
Capital adequacy and profitability					
Regulatory capital to risk-weighted assets (CAR)	24.5	21.8	11.1	10.3	12.9
Regulatory Tier 1 capital to risk-weighted assets	17.2	16.8	7.8	6.8	5.4
Return on average assets (ROA)	2.6	1.9	-3.5	1.0	0.3
Net-interest income to gross income	13.8	19.0	18.7	30.7	39.3
Non-interest expenses to gross income	58.7	53.0	171.9	78.0	71.4
Liquidity					
Liquid assets to total assets	58.4	51.6	51.8	47.8	46.4
Net liquid assets to deposits	76.7	60.4	57.5	53.7	53.8
Loan-to-deposit ratio	52.5	50.8	53.0	55.0	62.1
Asset quality					
Nonperforming loans to total gross loans	23.5	20.9	21.8	19.4	18.1
Total provisions to nonperforming loans	30.8	58.9	55.9	55.9	53.1
Credit Unions					
Credit growth (y/y)	9.8	10.3	9.9	9.6	12.2
Capital adequacy and profitability					
Total capital to assets 2/	18.1	17.3	17.5	18.0	17.8
Institutional capital to assets	11.6	11.8	11.0	11.3	10.6
Return on assets (ROA)	1.6	1.2	0.7	1.5	1.3
Net-interest income to gross income	80.9	82.6	83.2	77.9	79.2
Non-interest expenses to gross income	57.7	77.5	65.0	64.2	67.1
Liquidity					
Liquid assets to total assets	29.0	18.4	29.2	28.6	28.3
Net liquid assets to deposits	33.9	32.9	37.7	37.2	36.5
Loan-to-deposit ratio	83.6	87.7	84.3	84.9	84.9
Asset quality					
Delinquent loans to total gross loans	8.3	...	11.7	8.0	7.4
Nonperforming loans (>90 days past due) to total gross loans	5.8	5.5	7.1	5.6	6.0
Total provisions to nonperforming loans	57.3	63.0	48.6	50.0	43.3

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

Table 6. St. Kitts and Nevis: Indicators of External and Financial Vulnerability, 2020–24
(12-month percentage change, unless otherwise specified)

	2020	2021	2022	2023	2024
External indicators					
Merchandise exports	-39.9	54.6	-17.5	-17.8	4.8
Merchandise imports	-70.4	41.7	95.1	19.1	13.4
Tourism earnings	-21.4	-7.1	46.8	0.0	5.4
Current account balance (percent of GDP)	-10.8	-3.4	-11.4	-11.6	-15.1
Capital and financial account balance (percent of GDP)	12.1	-0.5	2.3	2.3	1.8
Of which					
Foreign direct investment	0.4	0.6	-1.8	-1.5	-1.5
Imputed net international reserves					
In millions of U.S. dollars	365.4	312.8	270.3	262.4	270.7
In percent of broad money	35.6	28.0	23.3	23.1	23.2
Commercial banks’ net foreign assets (millions of U. S. dollars)	576.4	722.1	686.1	686.1	686.1
External public debt (percent of GDP)	15.3	14.8	12.6	10.9	11.0
External debt service (in percent of exports of goods and services)	3.0	3.2	1.4	1.3	3.1
Interest	0.9	0.7	0.5	0.5	0.5
Principal	2.1	2.5	0.9	0.8	2.6
Nominal exchange rate (E.C. dollars per U.S. dollar, end period)	2.7	3.7	4.7	5.7	6.7
Real effective exchange rate appreciation (+), end period	-1.0	-3.1	-1.4	-0.7	-2.4
Financial indicators					
Broad money	-4.5	8.9	3.7	-1.9	2.5
Credit to the private sector	-4.0	7.7	5.8	5.2	9.8
Nonperforming loans to total assets of banks (percent)	23.5	20.9	21.8	19.4	18.1
Liquid assets/total assets (percent)	58.4	51.6	51.8	47.8	46.4
Liquid assets/current liabilities (percent)	76.7	60.4	57.5	53.7	53.8
Ratio of banks' before-tax profits to average assets (percent)	2.6	1.9	-3.5	1.0	0.3

Annex I. Risk Assessment Matrix[1]

Risks	Likelihood	Impact	Policy Response
Conjunctural Risks			
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	**High**	**Medium** **ST, MT**	Strengthen the social safety net. Monitor fiscal developments and financial risks closely, in coordination with the ECCB. Accelerate structural reforms and diversify economic links.
Tighter financial conditions and systemic instability. Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.	**Medium**	**Medium** **ST**	Monitor asset quality and ensure adequate loan loss provisioning. Vigilantly monitor financial sector developments in coordination with ECCB.
Regional conflicts. Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	**Medium**	**Medium** **MT**	Strengthen the social safety net. Monitor financial risks closely, in coordination with the ECCB.
Commodity price volatility. Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	**Medium**	**Medium** **ST, MT**	Strengthen the social safety net to better support the vulnerable. Allow a gradual pass-through of international prices and phase out generalized subsidies. Accelerate transition to RE sources.
Global growth acceleration. Easing of conflicts, positive supply-side surprises (e.g., oil production shocks), productivity gains from AI, or structural reforms raise global demand and trade.	**Low**	**High** **MT**	Enhance competitiveness by implementing structural reforms to foster economic growth. Accelerate fiscal adjustment.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" (ST) and "medium term" (MT) are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Risks	Likelihood	Impact	Policy Response
Structural Risks			
Deepening geoeconomic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	High	Medium MT	Reduce reliance on CBI to finance FDI and improve its governance and transparency. Diversify the economy and improve competitiveness through structural reforms.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	High	Low MT	Enhance digital security in public and private platforms. Improve financial stability. Continue to make progress in the area of AML/CFT.
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability.	Medium	High ST, MT	Adopt comprehensive ex-ante resilience strategy to enable resilient investment and adequate insurance against NDs. Improve the MTFF and PSIP.
Domestic Risks			
Sovereign debt distress. Higher interest rates, stronger U.S. dollar, and shrinking development aid amplified by sovereign-bank feedback result in capital outflows, rising risk premia, loss of market access, abrupt expenditure cuts, and lower growth in highly indebted countries.	Medium	Medium MT	Monitor financial risks closely, in coordination with the ECCB. Intensify domestic supervision of financial institutions and tighten regulations. Strengthen fiscal buffers by implementing fiscal consolidation and reduce debt rollover risk by decreasing reliance on short-term financing.
Lower than expected CBI revenues. Pressures to either end the CBI program or face visa restrictions, which could jeopardize correspondent banking relationships.	Medium	Medium MT	Mobilize revenue from alternative sources. Strengthen governance frameworks to protect the integrity of the CBI program.
Financial sector weakness. An unexpected increase in losses or NPLs at public and private banks and CUs would further impair credit intermediation and entail fiscal costs.	Medium	Medium ST	Meet the ECCB requirements on provisions and capital; create and implement a capital restoration plan where needed; and have a fiscal contingency plan in place.
Disorderly energy transition. Disorderly shift to net-zero emissions (e.g., owing to shortages in critical metals) and climate policy uncertainty cause supply disruptions, stranded assets, market volatility, and subdued investment and growth.	Medium	Medium MT	Accelerate the transition to RE through a transparent strategy. Improve project execution, including procurement processes. Supplement the RE transition with investments in climate-resilient infrastructure, including an upgraded electricity grid.

Annex II. Progress on 2024 Article IV Recommendations

Recommendations	Policy Actions
Fiscal Sector	
Enhance **integrity** and **transparency** of **CBI program**	Mixed. The CBI program's requirements have been tightened, but more progress is needed with transparency.
Carry out **comprehensive tax reform** that **reduces reliance on CBI** revenues	Pending. The 2025 budget address promised a tax reform based on equity and efficiency but without providing details and not until 2026. Tax expenditures increased.
Reduce and better target **current expenditures** while increasing **public investment**	Mixed. Current expenditures were reduced by over 3 p.p. of GDP in 2024 but remain 9 p.p. of GDP above the pre-pandemic levels. The CBI dividend (3 percent of GDP) was discontinued, and wages and transfers were controlled and slightly declined, respectively. Some social programs are under review to improve efficiency and targeting. Capital expenditure increased from a depressed level, but project execution remains low.
Address **pension system** imbalances.	Pending. The authorities announced their intention to reform the SSF and have conducted extensive consultations with stakeholders. The proposed reforms options are welcome and deserve support.
Energy Sector	
Invest in **resilience building** and boost **insurance against ND**	Mixed. A geothermal project is currently at the exploratory phase, with advancements made in procurement and funding secured for the drilling stage. The plan for the original solar project was stalled, and the authorities intend to initiate a new procurement process.
Financial Sector	
Restructure the **systemic bank**	Mixed. The authorities plan to set up a SWF and re-examine the business model of the systemic bank. The bank continued to de-risk its investment portfolio.
Strengthen the **regulation** of **credit unions**	Pending. The regulator is working towards increasing provisions and capital at CUs.
Structural Policies	
Strengthen **labor markets** to restore **competitiveness** and **inclusive growth**	Work in progress. Authorities' recent efforts aimed at improving access to education and vocational training can help improve the quality of the labor force. These initiatives should be tailored to meet market demands and address skill mismatches.
Data Gaps	
Improve **National Accounts** methodology; improve classification of **fiscal accounts** and fill gaps related to the **public enterprises**; fill gaps in **labor market statistics** and **surveys**	Mixed. Issues persist in the National Accounts methodology, labor market statistics, and external sector statistics. While some improvements have been made regarding classification of public capital expenditure and transfers, there is misclassification of below-the-line transfers to a public bank and a loan to a private entity. The gaps related to Public Enterprise accounts continue to persist.

Annex III. External Sector Assessment

Overall Assessment. St. Kitts and Nevis's external position in 2024 is assessed as weaker than the level consistent with fundamentals and desirable policies. The current account deficit widened to 15.1 percent of GDP in 2024 (from 11.6 percent in 2023) and remains significantly larger than pre-pandemic levels. The worsening current account deficit reflects a large decline in service exports due to lower CBI, which is partially offset by higher tourism revenue. The net international investment position declined to -95 percent of GDP in 2024 (from -90 percent in 2023), primarily driven by the current account deficit.

Potential Policy Responses. The policy priority is a prompt and decisive fiscal consolidation to stabilize public finances. A multi-pronged approach to lift growth potential and bolster climate resilience is critical for a sustainable external position in the long run.

Foreign Assets and Liabilities. Position and Trajectory

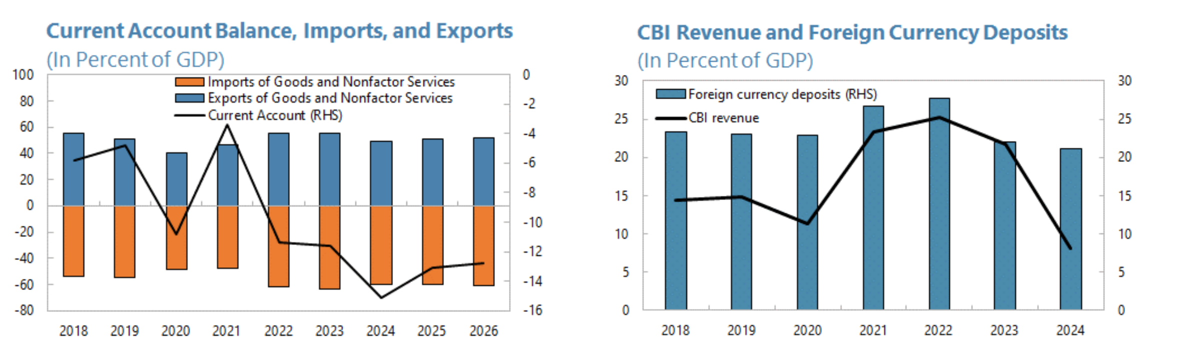
Background. The net International Investment Position (IIP), which averaged -83 percent of GDP during 2015-2019, edged down to -100 percent of GDP in 2020. The deficit narrowed to -90 percent of GDP in 2023, before widening to -95 percent of GDP in 2024. These changes in the NIIP were primarily driven by the current account deficits. On the asset side, portfolio investment (mostly equity and investment fund shares) and other investment (mostly currency and deposits), were the largest assets, accounting for 42 percent and 31 percent of total assets in 2024, respectively. On the liability side, FDI and other investment (mostly currency and deposits) were the largest liabilities, at 67 and 31 percent of total liabilities, respectively. Most of the external debt is in the form of other investment liabilities, particularly currency and deposits, general government loans, and trade credits and advances.

Assessment. The NIIP in 2024 does not constitute a significant concern for external debt sustainability. The projected improvement in the current account in the medium term will help slow down the deterioration of the NIIP. Additionally, the large share of FDI in liabilities mitigate potential risks.

2024 (% GDP)	NIIP: -95.1	Gross Assets: 135.7	Debt Assets: 47.7	Gross Liab.: 230.7	Debt Liab.: 9.9

Current Account

Background. According to preliminary ECCB and staff estimates, the current account deficit widened to 15.1 percent of GDP in 2024 from 11.6 percent of GDP in 2023, reflecting a large decline in service exports due to lower CBI, partially offset by higher tourism revenue.



Sources: ECCB; and IMF staff calculations.

Assessment. The external position in 2024 is assessed to be weaker than the level consistent with fundamentals and desirable policies. According to the CA model, the CA norm is -11 percent of GDP, and the CA gap was -3.9 percent of GDP.[1,2] The widening of the current account deficit in St. Kitts and Nevis in 2024 is mainly explained by lower CBI revenues, rather than by exchange rate movements. The current account is expected to improve in the medium term, supported by import savings from the renewable energy transition and growth in the tourism sector. An improvement in the current account deficit will slow down the deterioration of the NIIP in the medium term.

St. Kitts and Nevis: EBA-lite Model Results, 2024

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-15.1**	
Cyclical contributions (from model) (-)	0.1	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.2	
Adjusted CA	**-15.0**	
CA Norm (from model) 2/	**-11.0**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-11.0**	
CA Gap	**-3.9**	**6.8**
o/w Relative policy gap	-1.4	
Elasticity	-0.4	
REER Gap (in percent)	**10.7**	**-18.6**

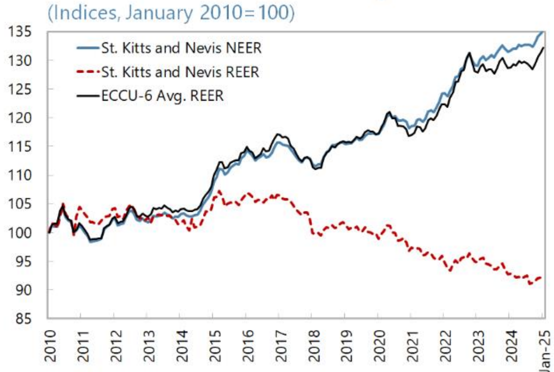
1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

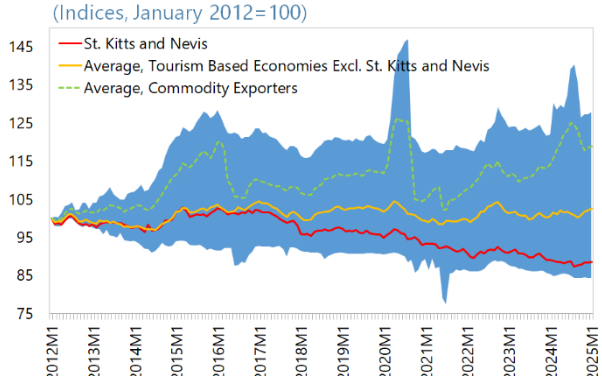
Background. In 2024, the REER depreciated by 0.7 percent. The appreciation of NEER during the same period (2.5 percent) was offset by inflation differentials with St. Kitts and Nevis's main trading partners.

Assessment. Consistent with the EBA-lite CA gap assessment, the REER gap was 10.7 percent, derived from EBA-lite CA model with an elasticity of -0.4. Results of EBA-Lite REER model point to a gap of -18.6 percent. The CA model appears to have a better fit than the REER model.

Nominal and Real Effective Exchange Rates
(Indices, January 2010=100)



Real Effective Exchange Rates
(Indices, January 2012=100)



Sources: INS; and IMF staff calculations.

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[1] Previously, a CA norm adjustor was introduced in the 2023 and 2024 External Sector Assessments to reflect the country's unusually low remittance receipts despite its high ratio of outward migrants relative to the domestic population, which resulted in smaller CA norms. In this assessment, the adjustor has been removed to enhance consistency across ECCU countries where no adjustors have been used.

[2] The CA norm of 11 percent of GDP deficit is comparable to those of peer economies in the ECCU. A significant part of the St. Kitts and Nevis's CA deficit is financed by the CBI program.

Capital and Financial Accounts: Flows and Policy Measures
Background. St. Kitts and Nevis has heavily relied on CBI revenue to finance its current account deficit. While CBI inflows to the capital account averaging 7.5 percent of GDP during 2020-2023, they are projected to decline to 2.9 percent of GDP in 2024. **Assessment.** FDI is projected to gradually increase in the medium term as the energy transition projects come into fruition. CBI inflows are expected to remain structurally low. To the extent that the CBI inflows are primarily to finance investment (which has a large import component), the impact of declines in CBI on the current account would be partially mitigated by the resulting lower imports. Key downside risks include continued tightening of global financial conditions (which could reduce liquidity and drive savings out of the region in search for yield) and natural disasters (which could deter private capital inflows). On the upside, a faster transition to renewable energy and the quicker implementation of structural reforms to enhance competitiveness will help attract higher FDI.
FX Intervention and Reserves Level
Background. St. Kitts and Nevis's reserve position remained stable in 2024. As a member of the ECCU, St. Kitts and Nevis is under a currency board arrangement. Foreign assets and liabilities of the ECCB cannot be directly assigned to an individual country. Therefore, the imputed reserves method is used as a proxy for net foreign assets held at the ECCB.[3] Net imputed reserves in 2024 were at 24 percent of GDP, equivalent to 4.8 months of imports and 23.2 percent of broad money. **Assessment.** In 2024, the imputed reserves exceeded the typical benchmarks of 20 percent of broad money and three months of prospective imports. ______________________________ [3] According to the ECCB by-laws, the imputed reserves of each ECCB member are calculated as the difference between the member's reserve money and net domestic assets. The ECCB has the mandate to maintain a foreign exchange cover of 60 percent of total demand liabilities. The Eastern Caribbean dollar, the currency of St. Kitts and Nevis, is pegged to the U.S. dollar.

Annex IV. Sovereign Risk and Debt Sustainability Analysis

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

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	The overall risk of sovereign stress is assessed as 'moderate'. Fiscal deficits are projected to be large, debt is in an upward trajectory, and Gross Financing Needs (GFNs) are large. Additionally, potential contingent liabilities stem from longstanding weaknesses in public banks and the substantial liabilities of the Social Security Fund (SSF). Nonetheless, these risks are mitigated by: (i) the relatively low debt level; (ii) a moderate level of government deposits; and (iii) ample long-term already secured financing from international partners.
Near term 1/			
Medium term	High	Moderate	Fanchart's mechanical 'high' signal is based on substantially high public debt before 2012 (around 160 percent of GDP), which was subsequently restructured, while GFN's mechanical 'moderate' signal is primarily driven by a high share of short-term debt. The final assessment is a 'moderate' rating, based on the following: (i) the current debt level is relatively low; (ii) the government holds 10 percent of GDP in deposits to absorb moderate shocks; and (iii) the government has secured ample long-term financing (31 percent of GDP) from international partners, despite the large fiscal deficits and potential contingent liabilities stemming from longstanding weaknesses in public banks.
Fanchart	High	...	
GFN	Moderate	...	
Stress test	Comm. Prices Nat. Diast.	...	
Long term	...	High	The long-term risk is assessed as 'high', mainly reflecting the potential realization of SSF's liabilities. The actuarial imbalance amounts to almost 300 percent of GDP over a 55-year horizon, and reserves are projected to be depleted by 2038. To mitigate this risk, the authorities have initiated consultations with stakeholders for the first time and are considering options such as raising the pensionable age to 65, increasing the minimum number of contributions, changing the pension formula, and capping the maximum pension.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: The overall risk of sovereign stress is assessed as 'moderate'. In the medium term, risks are also assessed as 'moderate'. Fiscal deficits are projected to remain large under the baseline, debt is on an upward trajectory, and GFNs are also substantial. In the long term, risks are assessed as 'high', as potential contingent liabilities arise from longstanding weaknesses in public banks and the substantial liabilities of the SSF. Nonetheless, these risks are mitigated by: (i) the relatively low debt level, specifically when compared to ECCU peers; (ii) a moderate level of deposits; and (iii) ample long-term financing already secured from international partners. To mitigate these risks, a prompt and steady fiscal consolidation, driven by tax reforms and reductions in current expenditures while protecting capital expenditure, is crucial. This will help create fiscal space to strengthen resilience against natural disasters and build fiscal buffers against potential contingent liabilities.

Source: Fund staff.

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

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

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

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

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

2. Subsectors included in the chosen coverage in (1) above:

	Subsectors captured in the baseline	Inclusion	Comments
1	Budgetary central government	Yes	
2	Extra budgetary funds (EBFs)	No	Not applicable
3	Social security funds (SSFs)	No	
4	State governments	No	
5	Local governments	Yes	
6	Public nonfinancial corporations	Yes	
7	Central bank	No	
8	Other public financial corporations	No	

(CPS; NFPS; GG: expected; CG)

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
Missing	Chosen	Chosen	Chosen	Missing

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis (chosen)	Nominal value 5/ (chosen)	Face value 6/	Market value 7/

5. Debt consolidation across sectors:

Consolidated	Non-consolidated
	Chosen

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

Reporting on Intra-Government Debt Holdings

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

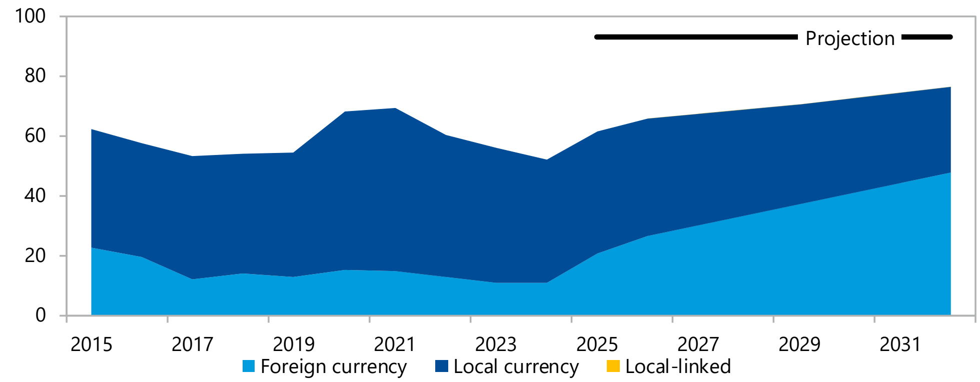
(CPS; NFPS; GG: expected; CG)

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

Commentary: Public debt coverage includes the central government (St. Kitts), the local government (Nevis), and the public enterprises.

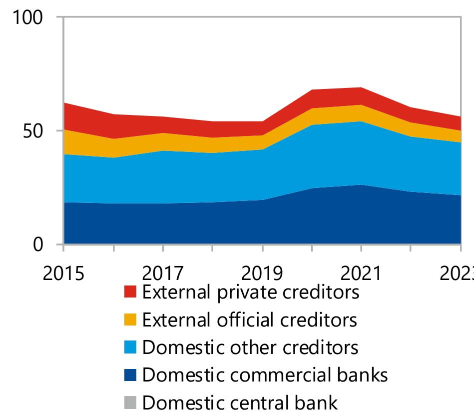
Figure 3. St. Kitts and Nevis: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



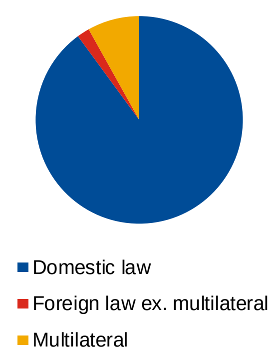
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Holder (Percent of GDP)



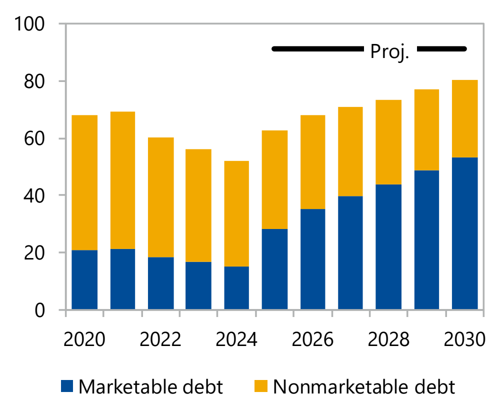
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (percent)



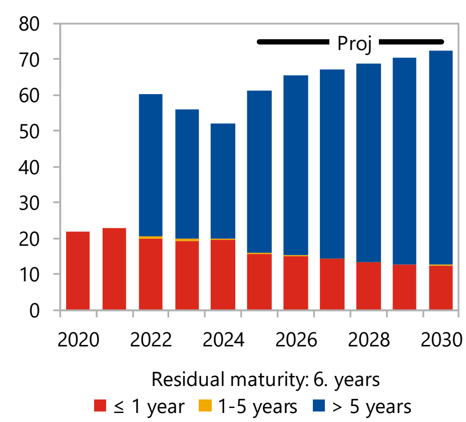
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

Commentary: The increase in public debt is projected to be implemented through the issuance of external debt. This is based on staff's assessment of the external and domestic investor absorption capacity of new public debt.

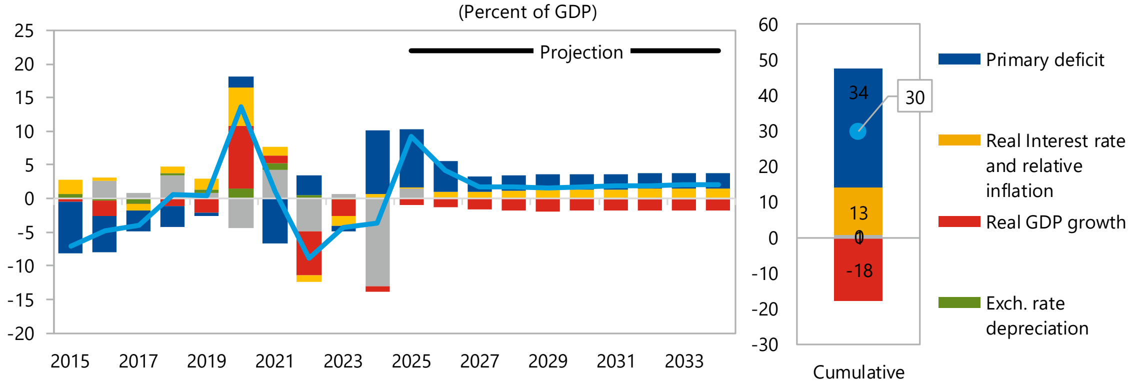
Figure 4. St. Kitts and Nevis: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	52.2	61.4	65.6	67.3	69.0	70.6	72.4	74.3	76.2	78.2	80.2
Change in public debt	-3.7	9.3	4.2	1.7	1.7	1.6	1.8	1.9	1.9	2.0	2.0
Contribution of identified flows	9.3	7.8	4.1	1.7	1.7	1.7	1.8	2.0	2.0	2.1	2.1
Primary deficit	9.4	8.6	4.5	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Noninterest revenues	31.1	32.5	33.2	33.2	33.2	33.2	33.2	33.2	33.2	33.2	33.2
Noninterest expenditures	40.5	41.0	37.7	35.5	35.5	35.5	35.5	35.5	35.5	35.5	35.5
Automatic debt dynamics	-0.2	-0.8	-0.4	-0.6	-0.6	-0.6	-0.5	-0.2	-0.2	-0.2	-0.2
Real interest rate and relative inflation	0.5	0.2	0.9	1.1	1.2	1.2	1.3	1.4	1.4	1.5	1.5
Real interest rate	0.7	0.2	0.9	1.0	1.1	1.2	1.2	1.3	1.4	1.4	1.5
Relative inflation	-0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.1
Real growth rate	-0.8	-1.0	-1.3	-1.6	-1.7	-1.8	-1.8	-1.6	-1.7	-1.7	-1.7
Real exchange rate	0.1	…	…	…	…	…	…	…	…	…	…
Other identified flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-13.0	1.4	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Gross financing needs	27.2	25.4	21.5	19.8	19.6	19.4	19.2	19.2	19.3	19.3	19.4
of which: debt service	17.7	16.8	17.1	17.5	17.3	17.1	17.0	17.0	17.0	17.0	17.1
Local currency	16.2	15.2	15.2	14.8	14.2	13.7	13.2	12.7	12.3	11.8	11.4
Foreign currency	1.5	1.5	1.8	2.8	3.1	3.4	3.8	4.2	4.7	5.2	5.7
Memo:											
Real GDP growth (percent)	1.5	2.0	2.2	2.6	2.6	2.7	2.6	2.3	2.3	2.2	2.2
Inflation (GDP deflator; percent)	1.0	1.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	5.8	1.0	4.1	4.7	4.7	4.8	4.7	4.4	4.4	4.4	4.3
Effective interest rate (percent)	2.2	2.3	3.6	3.7	3.8	3.8	3.9	3.9	3.9	4.0	3.9

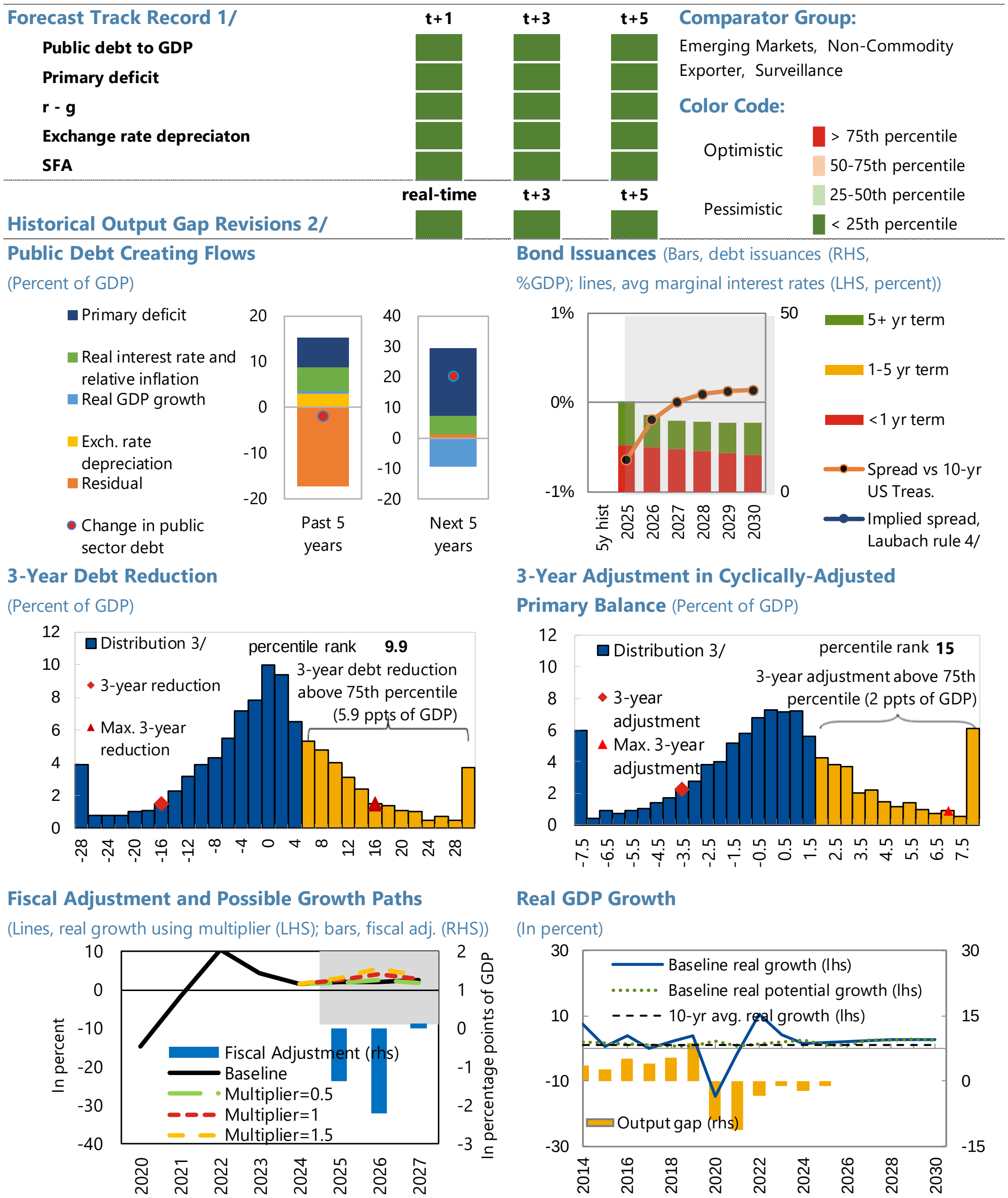
Contribution to Change in Public Debt

(Percent of GDP)



Commentary: The main driver of the increasing debt path is large primary deficits, while the low medium-term real growth rates are not sufficient to stabilze the debt-to-GDP ratio. The large residual in 2024 is due to the use of deposits to finance the deficit that year.

Figure 5. St. Kitts and Nevis: Realism of Baseline Assumptions



Commentary: The high percentile rank is based on the historical sample which includes very high debt numbers before 2012. The large residual in 2024 is due to the use of deposits to finance the deficit that year.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

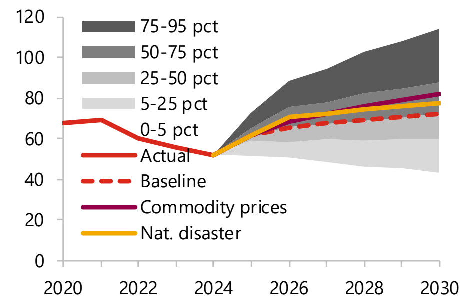
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

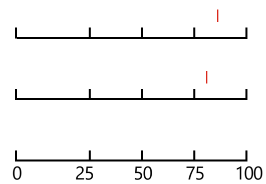
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 6. St. Kitts and Nevis: Medium-Term Risk Assessment

	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	71.0	1.0	
Probability of debt non-stabilizaiton *(percent)*	90.4	0.8	
Terminal debt-to-GDP x institutions index	33.8	0.7	
Debt fanchart index (DFI)		2.5	
Risk signal: 3/		**High**	

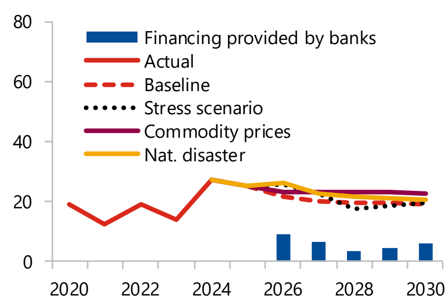
Final Fanchart (Percent of GDP)

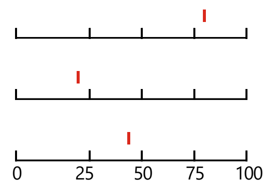




	Value	Contrib 1/	Percentile in peer group 2/
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	20.8	7.1	
Initial Banks' claims on the gen. govt *(pct bank assets)*	6.5	2.1	
Chg. In banks' claims in stress *(pct banks' assets)*	9.0	3.0	
GFN financeability index (GFI)		12.2	
Risk signal: 4/		**Moderate**	

Gross Financing Needs (Percent of GDP)

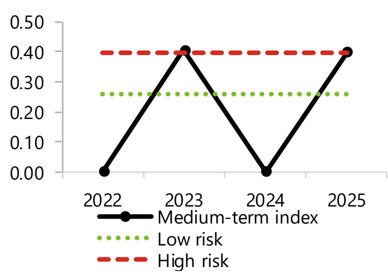




Triggered stress tests (stress tests not activated in gray)

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

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	2.5	0.6	0.5	0.3
GFN finaceability index	12.2	0.2	0.5	0.1
Medium-term index		0.4		
Risk signal: 5/		**High**		
Final assessment:		**High**		

Prob. of missed crisis, 2025-2030, if stress not predicted: 54.5 pct.
Prob. of false alarms, 2025-2030, if stress predicted: 9.1 pct.

Commentary: The fan chart has a very large width because of the high historical debt numbers before 2012.

Sources: IMF staff estimates; and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging markets, non-commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

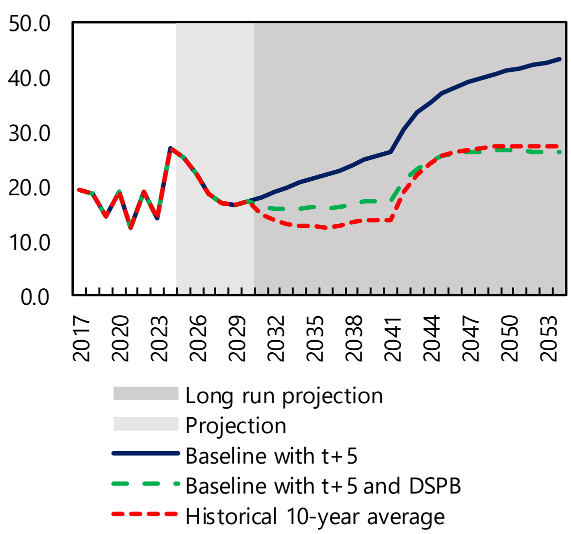
Figure 7. St. Kitts and Nevis: Triggered Modules

Large Amortizations	Pensions	**Climate Change: Adaptation**	Natural Resources
	Health	Climate Change: Mitigation	

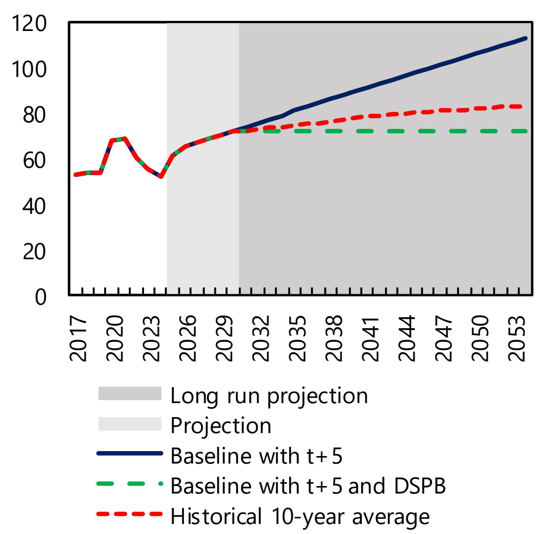
Long-Term Risk Assessment: Large Amortization

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

GFN-to-GDP Ratio



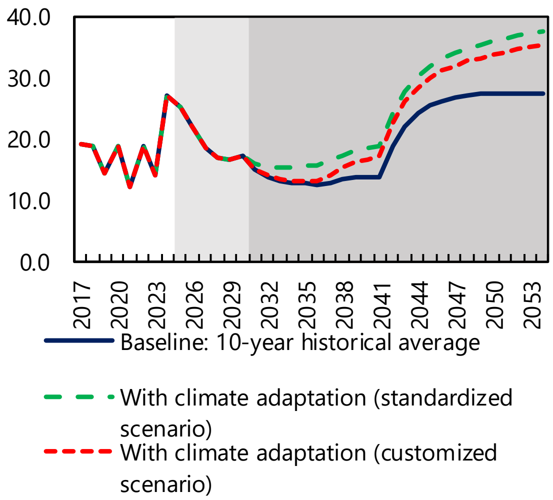
Total Public Debt-to-GDP Ratio



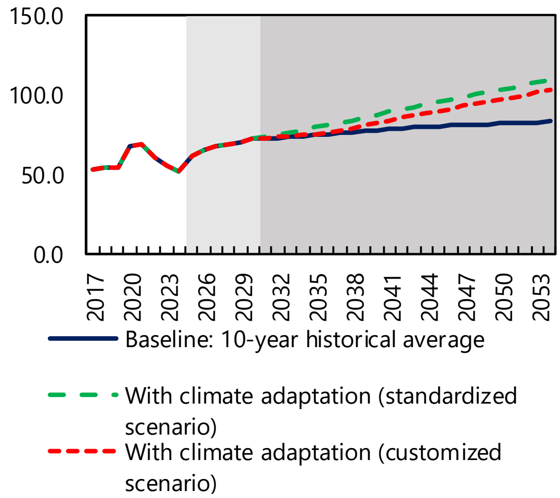
Commentary: The upward trajectory is driven by the large deficits in the baseline and the historically high debt before the GFC, which was subsequently restructured.

Figure 8. St. Kitts and Nevis: Climate Change: Adaptation

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: Climate change adaptation notably worsens the debt dynamic.

Annex V. SDS Country Engagement Strategy

The proposed engagement strategy aims to support St. Kitts and Nevis' efforts toward implementing fiscal consolidation, enhancing fiscal and financial sector policy frameworks, and fostering potential growth.

1. **St. Kitts and Nevis faces challenges common to other small developing states (SDS), along with its own challenges.** Like many other SDS, St. Kitts and Nevis has a small economic base, high dependence on tourism and CBI revenue, capacity constraints, and is vulnerable to natural disasters, which hinder growth. Growth has been further constrained by suboptimal resource allocation, low productivity, labor skills mismatches, and limited access to finance.

2. **The government's Sustainable Island State Agenda aims for economic diversification, renewable energy transition, and food security and agriculture, among others.** The authorities aim to bolster new growth engines and seek energy security. Encouraging local food production aims to decrease dependence on imports and improve resilience.

3. **The engagement strategy integrates the Fund's bilateral and regional surveillance activities with capacity development in St. Kitts and Nevis.** Regarding *surveillance*, Article IV consultations will remain key for assessing the country's macroeconomic performance, risks, and vulnerabilities. *Capacity Development (CD)* efforts will be tailored to address key implementation gaps, *inter alia*, in enhancing the budget process, strengthening targeting, calibration and efficiency of training and social programs, and tax administration. Collaboration with CARTAC will ensure targeted technical assistance and training.

4. **The Fund's engagement will focus on:**

- **Fiscal Consolidation.** Priorities include mobilizing tax revenue, rationalizing current expenditure, and enhancing the CBI framework, with support from FAD, CARTAC, and development partners.
- **Financial Stability.** The Fund is engaging at the regional level with the ECCB to strengthen banking supervision and identify regulation gaps. The Fund will carefully monitor the evolution of financial stability indicators of the public banks.
- **Structural Reforms.** Surveillance will cover structural obstacles to potential growth and encourage reforms that promote higher productivity and increase human capital.
- **Natural Disaster Preparedness.** This includes adaptation efforts through strengthening the public investment framework and ND-resilient infrastructure development.

5. **The Fund will collaborate closely with development partners and regional organizations.** The World Bank and the Caribbean Development Bank (CDB) stand ready to provide technical expertise, and the Fund has maintained dialogue with these institutions to support the authorities' policies and efforts to achieve their Sustainable Island State Agenda.

Annex VI. Data Issues

Table 1. St. Kitts and Nevis: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/

C

Questionnaire Results 2/

Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	C	B	C	B	B	C

Detailed Questionnaire Results

Data Quality Characteristics						
Coverage	B	B	C	C	B	
Granularity 3/	C		C	C	B	
			B		B	
Consistency			B	C		B
Frequency and Timeliness	C	C	B	C	B	

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provision has some shortcomings that somewhat hamper surveillance. Data gaps lead to some difficulties for the staff to produce medium-term forecasts and assess key risks. Areas of improvement include: (i) producing expenditure-based national accounts data and quarterly GDP; (ii) reducing publication lags of central government accounts and reviewing classification of capital expenditure items; (iii) reviewing external sector data given large unexplained errors and omissions and historical revisions, and CBI data provision; and (v) filling gaps in labor market statistics.

Changes since the last Article IV consultation. The main issues have remained unaddressed since the last AIV but the authorities have made progress with collecting better quality external sector statistics, benefitting from CARTAC TA and collaboration with the ECCB, and have strived to improve the classification of fiscal accounts.

Corrective actions and capacity development priorities. The authorities should continue working to improve data quality and coverage. Addressing shortcomings in national accounts data and external sector statistics should be a priority, benefitting from IMF and CARTAC TA. The resources of the statistical offices should be strengthened.

Use of data and/or estimates different from official statistics in the Article IV consultation. Staff does not use any data and/or estimates in the staff report in lieu of official statistics.

Other data gaps. Data for assessing the impact of various physical and transitional risks associated with natural disasters.

Table 2. St. Kitts and Nevis: Data Standards Initiatives

St. Kitts and Nevis participates in the Enhanced General Data Dissemination System (e-GDDS) and first posted its metadata in October 2000 but is yet to disseminate the data recommended under the e-GDDS.

Table 3. St. Kitts and Nevis: Table of Common Indicators Required for Surveillance

(As of January 2025)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	St. Kitts and Nevis[8]	Expected Timeliness[6,7]	St. Kitts and Nevis[8]
Exchange Rates	Mar-25	Mar-25	M	M	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Oct-24	Dec-24	M	M	M	...	1M	...
Reserve/Base Money	Oct-24	Dec-24	Q	Q	M	...	2M	...
Broad Money	Oct-24	Dec-24	Q	Q	M	...	1Q	...
Central Bank Balance Sheet	Oct-24	Dec-24	Q	Q	M	...	2M	...
Consolidated Balance Sheet of the Banking System	Sep-24	Dec-24	Q	Q	M	...	1Q	...
Interest Rates[2]	Oct-24	Jan-24	D	D	M	...	NA	...
Consumer Price Index	Dec-24	Feb-25	M	Q	M	...	2M	...
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Dec-24	Feb-25	M	M	A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Feb-25	Mar-25	M	M	Q	...	1Q	...
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Sep-24	Dec-24	Q	Q	Q	...	2Q	...
External Current Account Balance	Dec-24	Dec-24	A	Q	Q	...	1Q	...
Exports and Imports of Goods and Services	Dec-24	Dec-24	A	Q	M	...	12W	...
GDP/GNP	Sep-24	Feb-25	A	Q	Q	...	2Q	...
Gross External Debt	Sep-24	Dec-24	Q	Q	Q	...	2Q	...
International Investment Position	Dec-24	Dec-24	A	Q	A	...	3Q	...

[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] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("I") irregular; and ("NA") not available.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

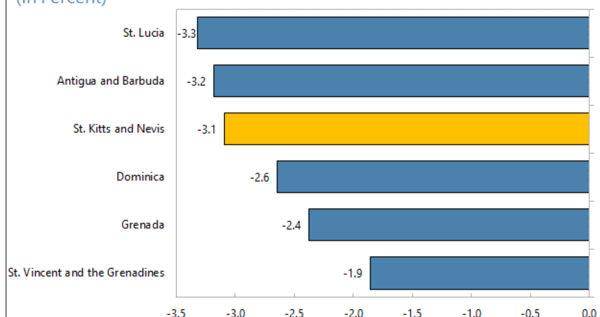
[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Annex VII. Potential Growth and Productivity[1]

This annex reviews potential growth and productivity developments in St. Kitts and Nevis, drawing on aggregate and firm-level survey data. Aggregate data indicate that slow growth in productivity and human capital is a key driver of declining potential growth. The firm-level survey identifies access to finance, limited workforce skills, and tax, customs, and trade regulations as the top obstacles to resource allocation and firm-level productivity. Cross-Caribbean regression analysis finds that addressing these obstacles is associated with higher productivity.

1. **St. Kitts and Nevis has a relatively high GDP per capita among Caribbean countries; however, growth has slowed over the past decades.** Average economic growth since 2000 has been lower than in the two decades prior (Figure 1). This slowing growth has concerning implications for the pace of convergence in living standards with advanced economies. Per capita GDP levels in St. Kitts and Nevis relative to those in the U.S. have stalled since 1990; however, this trend is not unique to St. Kitts and Nevis but is shared among ECCU countries. More broadly, the IMF (2024) indicates that weakening growth is a global phenomenon, with low productivity growth as a key driver. Understanding these trends and prospects is essential for developing effective policies.

Economic Growth, 2001-23 vs. 1980-2000 Averages
(In Percent)



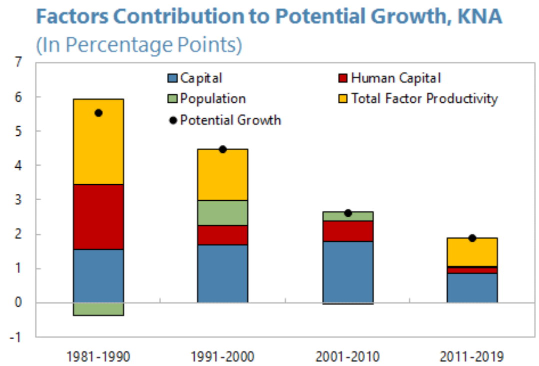
Sources: IMF Worl Economic Outlook; and IMF staff calculations.

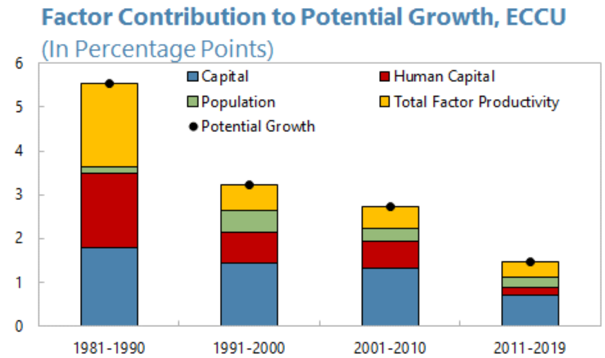
2. **To examine long-run growth trends and their drivers, staff estimate potential output growth using a growth accounting method.** This method defines potential growth as an economy's maximum noninflationary growth given its resources and technological capacities, and disentangles contributions from total factor productivity (TFP), physical capital, human capital, and labor. It also allows for estimates over a longer historical horizon given the available data. Additionally, the impact of natural disasters (NDs) is considered in estimating contributions to potential growth. This addresses distortions in estimates of potential growth, such as production inefficiencies during and immediately after NDs. The measurement of physical capital stock is adjusted for NDs since post-disaster investment reflects reconstruction needs unrelated to potential growth (see Box 1 for details on the methodology). This adjustment is particularly relevant for Caribbean countries, which frequently experience severe NDs.

3. **The estimates of aggregate data indicate that potential growth in St. Kitts and Nevis has significantly declined over the last three decades,** from 5.6 percent in the 1980s to 1.9 percent in the decade prior to COVID-19. All components, except for population, contribute to this decline. The two most important factors are lower growth in TFP and human capital, each

[1] Prepared by Sophia Chen and Sinem Kilic Celik.

contributing nearly two-fifths of the total decline. This declining trend in potential growth is also observed in other ECCU countries.





Sources: Barro and Lee (2015); EM-DAT dataset; IADB dataset; Penn World Table (10.1 version): World Bank; and IMF staff calculations.

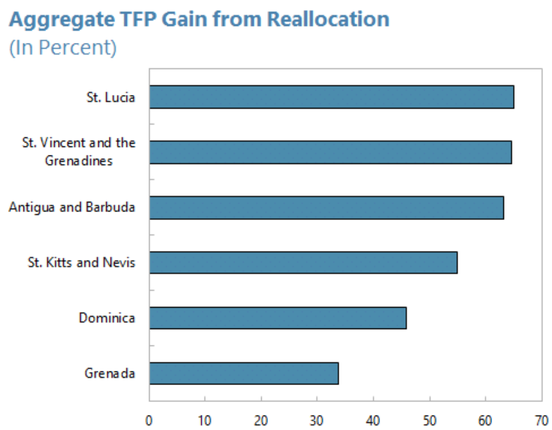
4. **Firm-level survey provides evidence on the drivers of productivity.** The analysis utilizes the 'Innovation, Firm Performance, and Gender (IFPG)' survey in 2020, conducted across 1,979 firms across 13 Caribbean countries.[2] The survey includes 119 firms in St. Kitts and Nevis, representing 51 percent of manufacturing firms and 11 percent of service firms. The dataset offers information on firms' balance sheets, statements of income, and responses to questions regarding firm performance. In the survey, the sectors are broadly defined as manufacturing and services. The survey was conducted in 2020, and the data used in the analysis refer to the fiscal year 2019, prior to the COVID-19 pandemic. TFP is estimated using the factor share approach.[3]

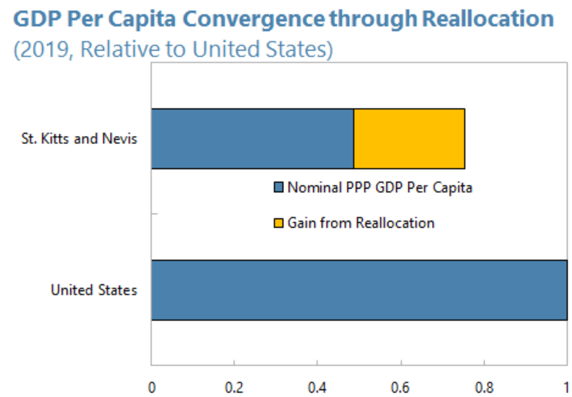
5. **The survey indicates significant scope to enhance the allocation of resources in St. Kitts and Nevis.** Using the Hsieh and Klenow (2009) approach, misallocation is measured as the dispersion in the marginal revenue products of capital and labor between firms. This misallocation results in firms producing at a sub-optimal level, leading to lower aggregate productivity. The degree of misallocation varies across Caribbean countries. The potential TFP gain from eliminating misallocation in St. Kitts and Nevis is 55 percent, placing it in the mid-range among the ECCU countries (between 34 percent and 65 percent). This gain is substantial and would imply significant improvements in living standards. A back-of-the-envelope calculation suggests that addressing this

[2] The dataset is available at: [PROTEqIN & IFPG DATASETS - Compete Caribbean Partnership Facility.](#)

[3] The factor share approach equates an input's cost share to its respective output elasticity under the assumptions of cost minimization by firms, perfect competition, and constant returns to scale. The lack of panel data and the limited availability of certain variables hinder the use of other elaborate TFP measures. In the TFP estimates, firms are excluded if they have missing values or if they fall within the top and bottom 2 percent of productivity to address outliers. The sectors in the survey are broadly defined, which does not allow for an analysis of narrowly defined industries.

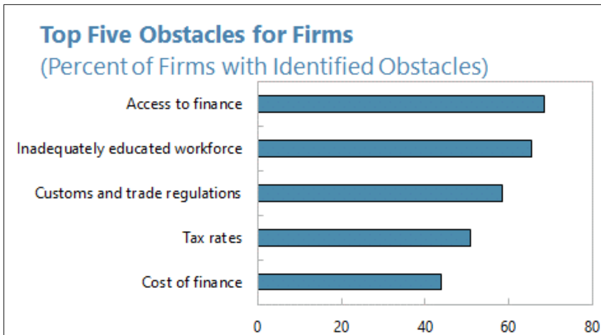
misallocation in St. Kitts and Nevis could narrow its GDP per capita gap with the U.S. by 27 percentage points.[4]



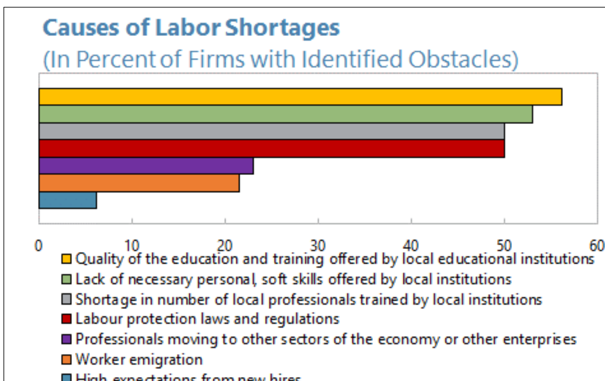


Sources: Innovation, Firm Performance and Gender (IFPG) survey; and IMF staff calculations.

6. The misallocation of resources and its underlying distortions highlight obstacles that firms encounter. Of 18 potential obstacles identified in the survey, the major obstacles are access to finance and an inadequately educated workforce, followed by customs and trade regulations, tax rates, and the cost of finance. Despite the recent strong credit growth and the largest positive credit gap in the region, the identified constraint on access to finance reflects persistent weaknesses in the banking system and limited financial infrastructure, such as credit bureaus and a collateral framework. The identified inadequacy of workforce quality aligns with the aggregate data showing low human capital growth. Specifically, in the survey, firms attribute the causes of inadequate labor skills to weaknesses in the education and training offered by local institutions, particularly regarding their quality, the lack of necessary personal and soft skills,



Sources: Innovation, Firm Performance and Gender (IFPG) survey; and IMF staff calculations.



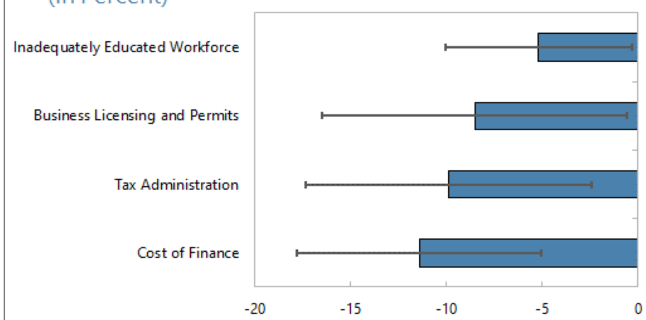
Sources: Innovation, Firm Performance and Gender (IFPG) survey; and IMF staff calculations.

[4] This back-of-the-envelope calculation assumes that the gains in labor productivity are the same as the gains in TFP and that labor participation does not change.

and the shortage in professionals. Meanwhile, worker emigration and professionals moving to other sectors are relatively less important factors.

7. In addition to creating misallocation, these obstacles can impact firm productivity by affecting financing, the workforce, and the business environment. Cross-Caribbean regression analysis suggests that addressing these obstacles is associated with higher firm-level TFP.[5] The results indicate that eliminating these obstacles can significantly boost firm-level TFP. Specifically, improving workforce quality could increase firm-level productivity by 3.5 percentage points, resolving issues related to finance costs and tax administration could increase productivity by 2.6 percentage points respectively, while addressing obstacles in business licensing and permits could improve productivity by over 1.7 percentage points (text chart). These results highlight the potential for aggregate TFP gains: if these four top obstacles were addressed for firms in St. Kitts and Nevis, the overall increase in aggregate TFP could total 10 percent (text table).

Obstacles Associated with Lower Firm-Level TFP
(In Percent)



Sources: Innovation, Firm Performance and Gender (IFPG) survey; and IMF staff calculations.

Aggregate TFP Gain from Removal of Structural Obstacles
(In Percent)

Inadequately educated workforce	3.5
Cost of finance	2.6
Tax administration	2.6
Business license and permits	1.7

Sources: Innovation, Firm Performance and Gender (IFPG) survey; and IMF staff calculations.

8. The analysis emphasizes policy priorities aimed at strengthening productivity and human capital development to enhance potential growth. The key obstacles associated with aggregate growth and firm-level performance provide a basis for the authorities to target their efforts. Particularly, improving workforce quality can be achieved by enhancing the quality of education and vocational training, building on recent efforts in the ELEVATE and STEP programs, and modernizing the system to align with evolving economic needs, including leveraging digitalization and artificial intelligence. Access to finance can be improved by strengthening the soundness of the banking system and developing the necessary financial infrastructure (Annex VIII). Improving customs and tax administration, as well as trade regulations, can be supported by adopting the single electronic window system.

[5] Firm-level TFP is regressed on dummy variables that indicate when firms encounter "major or very severe" obstacles identified in the survey, while controlling for industry and country fixed effects.

Box 1. Methodology of Potential Growth Estimation

Production function is defined as: $Y_t = A_t \theta_t K_t^{\alpha} L_t^{1-\alpha}$, where Y is output, K is physical capital, L is labor input. θ_t measures inefficiencies in production during and immediately after NDs. In addition, physical capital stock is adjusted for NDs because post-disaster investment reflects reconstruction needs that are unrelated to potential growth. The followings steps are taken to adjust capital stock for NDs and estimate inefficiency and potential growth:

Step 1. Estimate investment excluding the impact of NDs ($\widetilde{I_t}$) using an ARIMA model: $I_t = \phi(L) I_t + A(L)\epsilon_t + \gamma_1 z_t + \gamma_2 z_{t+1}$, where z_t is a dummy variable for the year of an ND and the year after a disaster.

Step 2. Calculate capital stock excluding the impact of NDs ($\widetilde{K_t}$) using perpetual inventory method: $\widetilde{K}_{t+1} = (1-\delta)\widetilde{K}_t + \widetilde{I_t}$

Step 3. Estimate output excluding the impact of NDs ($\widetilde{Y_t}$) using an ARIMA model: $Y_t = \phi(L) Y_t + A(L)\epsilon_t + \gamma_1 z_t + \gamma_2 z_{t+1}$, where z_t is the dummy variable defined in step 1.

Step 4. Calculate $\theta_t = \frac{\widetilde{Y_t}}{Y_t}$ for the year of ND and the following year. Define θ_t as 1 for other years.

Step 5. Calculate actual TFP as $A_t = Y_t / \theta_t \widetilde{K}_t^{\alpha} L_t^{1-\alpha}$

Step 6. Estimate the trend TFP using a Hodrick–Prescott filter to obtain potential TFP A_t^{pot}

Step 7. Calculate potential output as $Y_t = A_t^{Pot} \theta_t \widetilde{K}_t^{\alpha} L_t^{1-\alpha}$

Labor is measured as human capital augmented population $L_t = h_t P_t$, where h_t is human capital and P_t is population. Human capital is calculated using average schooling years: $h_t = \exp\left(\frac{\vartheta}{1-\omega} s_t^{1-\omega}\right)$, where s_t is years of schooling of the population aged 24 or older. The values of the parameters ($\vartheta = 0.32$ and $\omega = 0.58$) are set following the literature (Guerson et al. 2017, Bils and Klenow 2000; Sosa et al. 2013). Average schooling years are estimated using skill-specific emigration rates from IAB database, and secondary enrollment rates from WDI.

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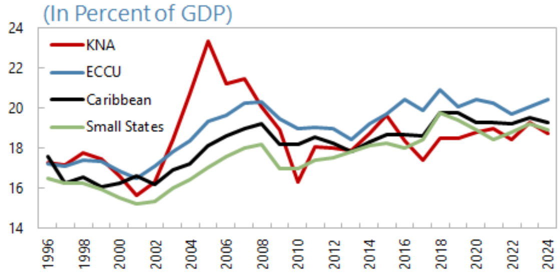
Sosa, S., E. Tsounta, and H.S. Kim, 2013, "Is the Growth Momentum in Latin America Sustainable?", IMF Working Paper 13/1

Annex VIII. Tax Revenue Mobilization[1]

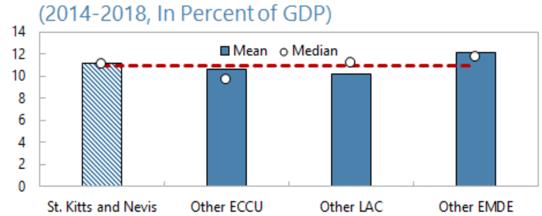
1. St. Kitts and Nevis faces the urgent challenge of implementing comprehensive tax reform to mobilize revenue. Tax revenue to GDP has edged up since 2010 but has remained below the ECCU average over the last decade (Figure). Staff estimates indicate that tax collection is approximately 11 p.p. of GDP below its potential (Figure).[2] The weak fiscal performance reflects a set of historical factors, including VAT and import-duty exemptions granted in 2014-15, reduced business taxes, expanded VAT exemptions introduced in response to the pandemic, and costly tax expenditures and incentives.[3, 4] Continued reliance on CBI-related revenue has delayed the implementation of comprehensive tax reform. Growth around potential in the near-term should make it easier to launch tax reform, with manageable short-term costs.[5]

Tax Revenue
(In Percent of GDP)



Sources: National authorities; World Economic Outlook; and IMF staff calculations.

Tax Gap: Difference Between Tax Revenues and Tax Potential
(2014-2018, In Percent of GDP)



Sources: IMF (July 2022); and IMF staff calculations.
Note: Calculated using stochastic frontier analysis with 2000-2019 data from 127 emerging and developing economies.

2. The sequencing of reforms should consider the ease of implementation and the associated benefits (Table). In addition to enhancing revenue collection, these actions would contribute to promoting equity and fairness and improving efficiency and compliance.

- As a starting point, pandemic-era tax support measures should be reversed, followed by other reforms that do not require legislative changes. These include broadening the VAT base (which would yield at least 1.5 percent of GDP and improve equity across sectors); collecting assessed taxes from delinquent commercial and residential high-value properties more forcefully (which

[1] Prepared by Juan Trevino with input from Sergei Antoshin.

[2] Based on IMF (2022), "Revenue Mobilization for a Resilient and Inclusive Recovery in the Middle East and Central Asia," DP/2022/013. The bars depict the mean of the difference between potential tax revenue (the level of tax revenue that can be raised given structural characteristics and policies) and actual tax collection. This difference represents the scope for additional tax revenue. A higher bar indicates lower actual revenue collection relative to potential.

[3] St. Kitts and Nevis 2016 Article IV Consultation Staff Report. These exemptions were granted in an attempt to support the transition to alternative sources of energy over the medium term.

[4] Tax expenditures average 5.8 percent of GDP in the ECCU (2019 ECCU Staff Report). For instance, the foregone tax revenue from tourism incentives was estimated at 5.8 percent of GDP, on average, for the ECCU. Based on past St. Kitts and Nevis Staff Reports, the foregone tax revenue is estimated at 6.7 percent of GDP.

[5] See IMF October 2024 Fiscal Monitor (Box 1.1).

would double current property tax revenues); increase excise rates for fossil fuels, alcohol, and tobacco; and increase the progressivity of the labor income tax.

- In addition, other measures that require legislative work and/or could be more difficult to implement should be initiated. These include legislative work to abolish negotiated tax concession packages that favor large international firms (especially in the hospitality sector); bring unincorporated businesses under CIT; continue efforts to update the real estate valuations (starting with high-end properties); review import duties and close duty-free shops; and introduce taxation of investment income.

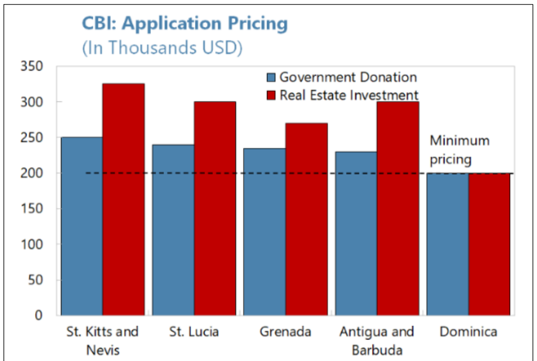
High Ease of Implementation	
Action	**Benefit**
Reverse pandemic-era tax support measures	Rapid revenue gains with no change in legislation needed
Eliminate discretionary tax relief	Increase accountability and ensure fairness
Enhance property tax collection	Potentially significant revenue gains and relatively minimal economic disruption
Adjust excise taxes on fossil fuels, alcohol, and tobacco products	Discourage potentially unhealthy or externally negative consumption and cover 60 percent of needed adjustment
Medium Ease of Implementation	
Implement a broad-based VAT at 15 percent; eliminate exemptions and zero-ratings—complement with targeted social support	Simplify tax system; broaden tax base; enhance revenue stability and cover 60 percent of needed adjustment
Make HSD Levy more progressive; tax non-labor (investment, rental) income	Ensure fairness and equity
Update property assessments; consider higher and progressive recurring tax rates & cut stamp duties	Increase progressivity and growth-friendliness; support the real estate market
Reform CIT	Broaden tax base and increase compliance
Review import duties; close duty-free shops	Ensure fairness and capture revenue from online transactions
Low Ease of Implementation	
Introduce digital tax compliance for non-residents	Ensure compliance; and capture revenue from online transactions
Monitor and evaluate tax incentives; abolish tax concessions	Improve fairness (international vs domestic, large vs small, tourism vs other, profitable vs other) and tax morale
Establish comprehensive framework for taxation on capital investment	Attract foreign investment and ensure equity
Other Policies	
Strengthen fiscal framework inclusive of a (set of) fiscal rule(s)	Enhance transparency and predictability of fiscal policy and instill fiscal restraint

3. **Improving tax administration is also essential.** The overarching objective should be to minimize compliance costs for taxpayers and administration costs for the government, while making tax avoidance and evasion as difficult as possible. Auditing and inspection capabilities must be enhanced to meet regional standards. Improving taxpayer access and digital services, reducing the perception of impunity for tax avoidance and evasion, and fostering a strong culture of compliance are also critical. Additionally, efforts to collect arrears should continue.

Annex IX. Citizenship by Investment: An Update

Reform Efforts

1. **The authorities have recently implemented several reforms to improve the governance and institutional framework of the CBI program.** The Citizenship by Investment Unit (CIU) was re-registered as an independent statutory body in 2023, reporting directly to the Prime Minister and the National Assembly. To oversee the CIU, a Board of Governors was formed, and a Technical Committee was also created in 2023 and tasked with ensuring comprehensive and thorough background checks. Based on this improved framework, the authorities have conducted reviews of past approvals and have reportedly revoked citizenships obtained unlawfully, especially through the opaque investment option.



Sources: National authorities; and IMF staff calculations.

2. **St. Kitts and Nevis has made progress to strengthen the program via international and regional cooperation**. The U.S. and five ECCU countries with CBI programs agreed on key principles in 2023 to strengthen the governance and due diligence of the CBI programs and subsequently held three roundtables.[1] As well, following consultations with the EU, the ECCU countries signed a regional Memorandum of Agreement (MoA) in March 2024, including setting the minimum pricing of US$200,000 and enhanced standards.[2] St. Kitts and Nevis doubled the pricing of the cash option to US$250,000 in 2023, as well as of the other, more expensive options, the first mover in the region, but afterward somewhat lowered the prices in 2024, while maintaining the highest pricing in the region (see Box).

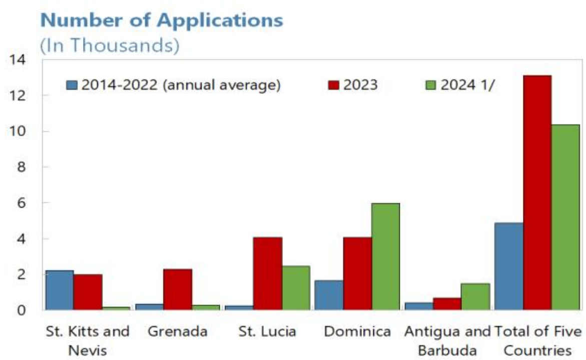
Developments in Revenue and Medium-Term Projections

3. **CBI applications in St. Kitts and Nevis sharply declined in 2024, amid highly varied regional trends, highlighting the volatility and unpredictability of CBI flows.** In the aftermath of the tighter due diligence and pricing hike in 2023, St. Kitts and Nevis saw an over 50 percent decline in CBI revenue y/y in 2024. Meanwhile, the other countries saw relatively stable levels or an uptick in CBI revenues, likely due to backlogs of the large number of applications before the price increases effective in 2024H2. For the ECCU region, total applications declined by 21 percent (y/y) in 2024H1, but with mixed trends by country. Grenada (-88 percent) and St. Lucia (-40 percent) experienced sharp declines, while Dominica (+47 percent) and Antigua and Barbuda (+115 percent) saw surges.

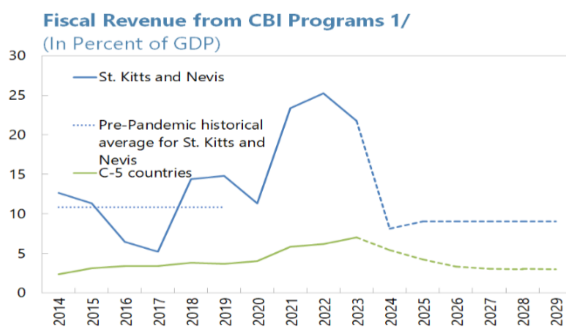
[1] See a joint FATF/OECD report.

[2] The memorandum also includes a commitment to: (i) share information on applicants; (ii) implement enhanced transparency measures; (iii) establish a regional regulation authority; (iv) strengthen their security screening frameworks; and (v) establish common standards for agents, marketing, and promotion of schemes (EC, 2024).

4. The decline in St. Kitts and Nevis CBI fiscal revenue in 2024 is expected to be lasting. CBI revenue declined to 8 percent of GDP in 2024 from 22 percent of GDP in 2023. CBI revenue underperformed in nearly each month of 2024, including the most recent ones, suggesting the weakness will likely continue into 2025, given the processing time of several months. Fundamentally, the tightening of the application requirements and due diligence processes amid international scrutiny, as well as the regional minimum for the price of the program, are expected to be permanent, leading to a structurally lower number of applications. Nonetheless, the government implemented several price reductions in 2024—while still remaining above the price floor—in an attempt to boost demand for the program, which has not so far materialized as of early 2025. For St. Kitts and Nevis, CBI revenue is projected to remain at the current level of 9 percent of GDP in the medium term, slightly below the pre-pandemic average of 11 percent of GDP for 2014-2019. This aligns broadly with projections for the ECCU region, where regional CBI revenue is expected to gradually decline from 7 percent of ECCU GDP in 2024 to 4 percent of GDP in 2029, although there is significant uncertainty surrounds the projections (IMF, 2025, forthcoming). Finally, CBI revenue is inherently volatile and uncertain, posing substantial two-sided risks to the economy and public finances.



Sources: European Commission (2024); and IMF staff calculations.
1/ The data is as of end-June 2024 and annualized for the whole year.



Sources: Forthcoming 2025 ECCU Article IV Staff Report; and IMF staff calculations.
1/ Actual outturns until 2023; and projections for 2024 onward.

Policy Implications

5. The structural lower CBI revenue in the medium term calls for reducing reliance on CBI and mobilizing tax revenue. The heavy reliance on CBI inflows has induced macroeconomic vulnerabilities, exposing the economy to highly uncertain and volatile factors. Furthermore, this dependence has disincentivized and limited tax revenue growth in St. Kitts and Nevis through growing tax expenditures, resulting in the lowest tax-to-GDP ratio in the region. Given the structural decline in CBI revenue and the need to support the government's development agenda, it is critical to mobilize tax revenue via a comprehensive tax reform (see Annex VII). To address the issue of the high volatility and unpredictability of the CBI, it is imperative to introduce fiscal rules linked to conservative assumptions of CBI revenue and establish a SRF to absorb the upside to the CBI.

Box 1. Recent Timeline of *Changes* to the CBI Program

December 2022. A new CEO of the CIU, Michael Martin, was appointed. He pledged to strengthen the program primarily through the introduction of a Board of Governors and a Technical Committee but concurrently announced a "limited time offer" (LTO) from 1/1/2023 to 6/30/2023 when applications would be processed within 60 days down from 90 days and the prices would be reduced from $150K for single applicant via the cash option to $125K, as well as reductions for families and via the real estate options.

June 2023. CIU CEO announced that the LTO would be extended by seven months until 1/31/24 due to "an overwhelming demand".

July 2023. Effective immediately and overriding the extension above, the CIU announced the doubling of the prices and changes to application process. The cash option for a single applicant and for a family of four doubled from $125K and $170K to $250K and $350K, respectively. The real estate share and home investments doubled as well to $400K and $800K, respectively. The alternative cash option (public benefit) rose from $175K to $250K. Due diligence fees increased as well. Interviews became mandatory, and financial sponsorship was no longer possible.

July 2024. CIU announced that the cash option for a family up to 4 people was reduced from $350K to $250K (as for a single applicant).

September 2024. CEO Michael Martin resigned from the CIU. The CBI oversight mechanism was restructured, so that the technical committee would include the PS for National Security, two civil servants appointed by the Minister, the CIU CEO, and a BoG representative.

October 2024. PM Drew said that the CBI revenue dropped 60 percent yoy and that the country had been "on the brink of losing that precious visa-free access [to the EU and the UK]" which necessitated rushed reforms in July 2023. The real estate share and home investments were reduced from $400K and $800K to $325K and $600K, respectively.

Sources: press reports; and staff analysis.

References

European Commission, 2024, "Report from the Commission to the European Parliament and the Council, Seventh Report under the Visa Suspension Mechanism"

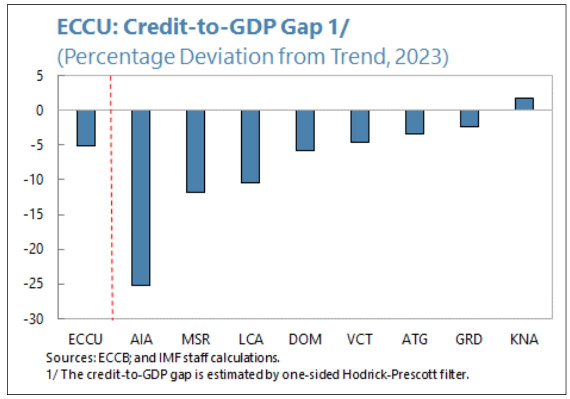
FATF/OECD, 2023, "Misuse of Citizenship and Residency by Investment Programmes – A Joint FATF/OECD Report"

International Monetary Fund, 2025 (forthcoming), "Eastern Caribbean Currency Union: Staff Report for the 2025 Article IV Consultation"

Surak, K., 2024, "Do passports pay off? Assessing the economic outcomes of citizenship by investment programs", London School of Economics

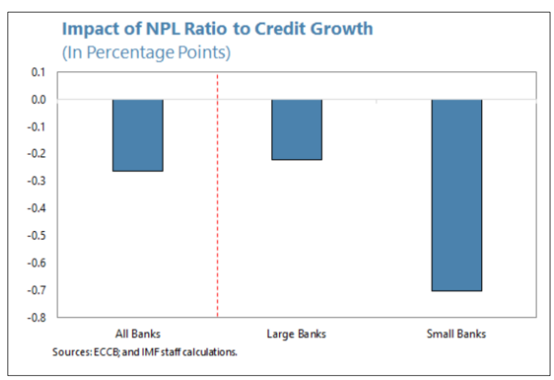
Annex X. Credit Growth in the Banking Sector[1]

1. Bank credit to the private sector is projected to moderate due to structural constraints. The currently rapid bank credit growth in St. Kitts and Nevis—largely driven by credit to households (particularly mortgages) amid strong competition from credit unions—stands out compared to the rest of the ECCU where it is subdued, and the credit gap is the highest in the region (Figure). However, credit growth is expected to slow and converge toward nominal GDP growth over the medium term. The country faces structural constraints like those in other ECCU economies, which could limit credit expansion. These include bank balance sheet weaknesses—high NPLs, the need to increase provisioning and capital to meet regulatory requirements—and legislative gaps related to insolvency, collateral resolution, and foreclosure frameworks. Heightened competition from credit unions on the supply side, as well as stringent loan-qualification requirements and burdensome application processing on the demand side, also put a lid on banking credit expansion.



2. Financial stability should be strengthened to promote healthy credit growth. To this end, banks should meet the ECCB's 60 percent requirement on loan loss buffers, shifting to adequate provisions rather than relying on prudential reserves, in line with Fund advice. Proper NPL recognition and provisioning is also needed. Any potential impact on bank capital ratios calls for restoring capital among banks with insufficient capital, including through reducing operating costs, selling assets, and suspending dividends. Given banks' ample liquidity and foreign investment portfolios, investment prudence should be maintained, with a strong preference for international government bonds and high-grade corporate bonds and avoidance of risky instruments.

3. Progress in reducing NPLs and closing legislative gaps to improve credit growth in the medium term should continue. Persistently high NPLs depress credit growth for some banks—especially for SMEs and micro firms. Preliminary analysis suggests that a one percentage point increase in NPLs would reduce credit growth by 0.06 percentage points for all banks, and as much as 0.16 percentage points for small banks (Figure). Therefore, a multi-pronged approach to reduce NPLs can spur economic activity while fostering financial stability:[2]



[1] Prepared by Sergei Antoshin and Juan Trevino with collaboration from Junghwan Mok.

[2] IMF (2015) "A Strategy for Resolving Europe's Problem Loans".

- Prudential oversight should be strengthened. Banks should promptly meet the ECCB's 100 percent provisioning requirement for legacy NPLs, while supervisory enforcement should be improved. The supervising authority could increase capital charges or time limits for carrying legacy NPLs.[3]

- Reforms are needed to enhance debt enforcement regimes and to address information gaps. More progress is needed to develop a collateral resolution framework and strengthen insolvency and foreclosure regimes. The credit reporting bureau is expected to improve credit conditions, but the participation of all the banks and large credit unions is crucial to make it effective.

- Market infrastructure for distressed debt and repossessed properties needs improvement. Regional cooperation should be strengthened to improve the capitalization and capacity of the Eastern Caribbean Asset Management Company to facilitate the disposal of impaired assets. The government, banks, and realtors should collaborate to develop a comprehensive cadaster of real properties, which would help with valuations, reviving the secondary real estate market, and developing a market for repossessed properties. Reducing transfer taxes can also help to support the market.

4. On the demand side, more coordinated public-private efforts are needed to improve financial literacy and foster access to financial services. Financial literacy initiatives through outreach and engagement with potential clients, complemented by government efforts could broaden the client base and support financial stability through the diffusion of better practices and financial prudence. Collateral constraints could also be addressed through more coordinated support of the EC partial credit guarantee scheme.

[3] See "Problem Loans in the Caribbean: Determinants, Impact and Strategies for Resolution" (Beaton et al., 2017).

INTERNATIONAL MONETARY FUND

ST. KITTS AND NEVIS

March 27, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | The Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of February 28, 2025)

Membership Status: Joined August 15, 1984; Article VIII

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	12.50	100.00
Fund holdings of currency	11.52	92.15
Reserve Tranche Position	0.98	7.86

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	20.48	100.00
Holdings	16.31	79.64

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

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

Projected Payments to the Fund[1]

	Forthcoming				
	2025	2026	2027	2028	2029
Principal					
Charges/Interest	0.10	0.13	0.13	0.13	0.13
Total	0.10	0.13	0.13	0.13	0.13

Outright Loans: None

Implementation of HIPC Initiative: Not Applicable

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

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

[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.

Exchange Rate Arrangements: St. Kitts and Nevis participates in the Eastern Caribbean Currency Union (ECCU) with seven other members and has no separate legal tender. The Eastern Caribbean Central Bank (ECCB) manages monetary policy and the exchange system for the ECCU's eight members. The exchange rate arrangement is a currency board. The common currency, the Eastern Caribbean dollar, has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. St. Kitts and Nevis accepted the obligations under Article VIII, Sections 2(a), 3, and 4 of the IMF's Articles of Agreement in December 1984, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

Safeguards Assessment: The ECCB made progress in addressing the 2021 safeguards recommendations. The only outstanding recommendation is the need for legal reforms to further strengthen operational autonomy of the ECCB and align its Agreement Act with leading practices. Staff continues to follow up with the authorities.

Article IV Consultation: St. Kitts and Nevis is on a 12-month cycle. The last Article IV consultation was concluded on May 2, 2024, by the Executive Board: Meeting 24/94.

Technical Assistance: Several missions from MCM, FAD, STA, supported by the Caribbean Regional Technical Assistance Centre (CARTAC), have visited the country. Below the compilation of the TA delivered from 2019–February 2025.

St. Kitts and Nevis: Fund Technical Assistance, 2019–February 2025		
Start date	**End date**	**Mission description**
May 20, 2019	May 31, 2019	CARTAC: Assist with the compilation of the SUT
Oct. 21, 2019	Nov. 1, 2019	CARTAC: BOP/IIP - Enhance Source Data
Jun. 2, 2020	Jun. 5, 2020	CARTAC: Training - (Remote TA) Enhancing the Medium Term Macro-Fiscal Framework
Aug. 31, 2020	Sep. 15, 2020	(Remote TA) CARTAC: Longer BPM6 BOP time series
Oct. 4, 2020	Oct. 21, 2020	CARTAC: Developing a Compliance Program for Large & Medium Taxpayers (WFH)
Apr. 5, 2021	Apr. 30, 2021	(Remote TA) CARTAC: National Accounts - VT Improving estimates of GDP
Apr. 19, 2021	Apr. 30, 2021	(Remote TA) CARTAC: VT Consumer Prices/Producer Price - Finalize the new CPI series build capacity
May 1, 2021	Apr. 30, 2022	St. Kitts and Nevis - LTX Desk Work
May 3, 2021	Aug. 31, 2021	FY21 St Kitts and Nevis - National Accounts
Jun. 7, 2021	Jun. 22, 2021	STX - Development of a CRMS Implementation Plan
Nov. 15, 2021	Dec. 3, 2021	STX - Strengthening Core Business Functions - Audit Capacity (RTAT)
Nov. 22, 2021	Nov. 26, 2021	St. Kitts and Nevis - Develop Quarterly BOP Data
Jan. 10. 2022	Jan. 28, 2022	(Virtual mission) Review of the Nevis Intl Banking Ordinance
Aug. 8, 2022	Aug. 26, 2022	(Virtual mission) ICT support - SIGTAS Clean up
Aug. 8, 2022	Aug. 12, 2022	St. Kitts and Nevis - BOP Source data
Sep. 1, 2022	Oct. 31, 2022	Mission LTX/STX Agile PEFA Assessment FY23
Sep. 6, 2022	Sep. 9, 2022	Building capacity in medium-term macro framework
Mar. 22, 2023	Apr. 4. 2023	Diagnostic: assess tax mix, VAT base, property tax, adding a PIT to the CIT
Mar. 27, 2023	Mar. 31 2023	TA- BOP - Enhance Travel credits
May 1, 2023	May 1, 2023	MID 23FAS68 - Under Accrual (TA 462920)
May 8, 2023	May 12, 2023	Follow-up TA to develop capacity in macro-fiscal analysis, forecasting, and risk analysis
May 15, 2023	Jul. 3, 2023	Mission LTX/STX Supporting Audit FY24
Jun. 5, 2023	Jun. 16, 2023	St. Kitts and Nevis-STARE-Real Sector-National Accounts-NAR-FY24-1
Oct. 2, 2023	Oct. 13, 2023	STX - Strengthening Compliance Program - VAT and Income Tax Cross Matching
Nov. 13, 2023	Nov. 24, 2023	St Kitts and Nevis-TA-BOP-Source data
Nov. 20, 2023	Nov. 24, 2023	STX - Supporting Strategic Management and HQ functions
Dec. 4, 2023	Dec. 8, 2023	Strengthening HQ function (Peer to Peer engagement with TAJ)
Jan. 22, 2024	Feb. 16, 2024	Mission LTX/STX Training Audit Planning (HYBRID) FY24
Jan. 31, 2024	Feb. 13, 2024	HQ Mission LTX/STX Sovereign Wealth Fund FY24
May 13, 2024	May 24, 2024	STX – Support to update Strategic Plan
Aug. 26, 2024	Aug. 30, 2024	St. Kitts and Nevis-TA-BOP-Enhance source data
Oct. 14, 2024	Oct. 18, 2024	St. Kitts and Nevis-TA-CPP-Consumer Prices
Nov. 4, 2024	Nov. 15, 2024	STX - Strengthening Governance Arrangements - Strategic Management Framework

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

RELATIONS WITH OTHER FINANCIAL INSTITUTIONS

(As of March 11, 2025)

- World Bank

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

- Caribbean Development Bank

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

INTERNATIONAL MONETARY FUND

ST. KITTS AND NEVIS

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

April 29, 2025

Prepared By: Western Hemisphere Department
(In consultation with other departments)

The supplement provides information that became available after the staff report was issued to the Executive Board on April 3, 2025. The thrust of the staff appraisal remains broadly unchanged.

1. **Global trade tensions and policy uncertainty are expected to have negative repercussions for the St. Kitts and Nevis economy mainly through tourism.** Compared to the staff report, economic growth for 2025 has been downgraded by 0.4 percentage point, to 1.6 percent (y/y).[1] This is primarily driven by a downward revision in tourism associated with lower growth in the U.S.—the principal source market, which accounts for two-thirds of tourist arrivals (see Figure 4 in the staff report). Inflation is anticipated to remain broadly stable. Despite lower tourism receipts, the current account balance is projected to improve slightly, driven by lower imports.[2] For 2026, similar but smaller impacts on the outlook are projected, while medium-term forecasts remain broadly unchanged.

2. **Lower growth would slightly widen the fiscal deficit and increase the path of public debt.** Tax revenue is expected to decline slightly as share of GDP in 2025, mainly due to lower income taxes. Current expenditures are projected to remain unchanged in nominal terms and increase somewhat as a share of GDP. As a result, the fiscal deficit is projected to widen by 0.3 percentage point to 10 percent of GDP in 2025, raising public debt by 1 percentage point of GDP in the medium term.

3. **Risks have shifted further to the downside.** A further escalation of trade tensions, along with increased global policy uncertainty, could have a more adverse impact on tourism. Tighter global financial conditions could dampen growth, through reduced FDI and higher financing costs, while market volatility could affect the systemic bank's performance through its exposure to US financial markets.

[1] These projections are based on the reference forecast in the April 2025 WEO.

[2] This is primarily due to lower oil prices. Exports of goods to the U.S. account for just 0.3 percent of St. Kitts and Nevis's GDP.

4. **The thrust of the staff appraisal remains broadly unchanged.** Amid higher expected public debt and financing costs, staff advice on fiscal policy remains appropriate. If the shock proves significant, fiscal policy could be tailored to mitigate its impact, protecting the most vulnerable through targeted short-term measures while continuing fiscal consolidation over the medium term.

Statement by Gina Fitzgerald, Alternative Executive Director for St. Kitts and Nevis and Sylvia Gumbs, Advisor to Executive Director

May 7, 2025

On behalf of our St. Kitts and Nevis authorities, we thank Mr. Jongsoon Shin and his team for their constructive engagement during the Article IV consultations. **Our authorities welcome staff's advice and broadly concur with the thrust of the appraisal and policy recommendations**.

St. Kitts and Nevis, a twin-island Federation, is actively advancing its Sustainable Island State agenda – an ambitious development strategy centered on building resilience, fostering inclusivity, and shaping a modern, sustainable economy and society. The country holds significant potential for growth, guided by the recently formulated Sustainable Economic Expansion Diversification (SEED) initiative. This framework includes projects aimed at enhancing energy and water security, among other development goals.

Recent Developments, Outlook, and Risks

St. Kitts and Nevis remains on a path of steady economic progress, with growth projected to improve from 1.5 percent in 2024 to 1.6 percent in 2025, driven primarily by a strong recovery in the tourism sector. This follows a moderation from 4.3 percent growth in 2023. Over the medium-term, growth is expected to rise to 2.5 percent, supported by significant progress in renewable energy projects, notably in geothermal and solar. Despite the positive outlook, the current account deficit (CAD) widened to 15 percent of GDP in 2024, from 12 percent in 2023, reflecting pressures from declining Citizenship by Investment (CBI) inflows and a widening fiscal deficit. However, the CAD is expected to narrow to around 12 percent of GDP over the medium-term, aided by reduced import demand from the shift to renewable energy and steady growth in the tourism industry. Our authorities' commitment to renewable energy and the anticipated boost in tourism are expected to underpin economic stability and medium-term growth.

Inflation trends have been favorable. Headline inflation is estimated to have declined to 1.0 percent by end-2024, down from 1.6 percent in 2023, driven largely by lower global commodity prices and subdued domestic activity. Core inflation remained contained at 0.7 percent. Looking ahead to 2025, inflation is projected to remain stable around 2.0 percent, consistent with global price expectations.

Our authorities are strategically navigating challenges by prioritizing revenue mobilization and prudent expenditure management. The 2025 budget aims to reduce the fiscal deficit, anticipating a recovery in CBI revenues as a result of the reforms that were implemented in 2024, alongside expenditure rationalization. While the fiscal deficit is expected to remain elevated in the near term and public debt is projected to reach 73.3 percent of GDP by 2030, our authorities' ongoing investment in renewable energy and structural reforms presents a pathway to fiscal sustainability. These initiatives are expected to create new growth engines and broaden the tax base, helping to mitigate risks. Key risks to the outlook include global policy uncertainties, increased trade protectionism, global financial instability, fluctuations in CBI revenue, a downturn in key tourism source markets, and commodity price volatility. Additionally, the country remains highly vulnerable to natural disasters, which could strain fiscal resources and infrastructure. Nonetheless, proactive policy measures and strategic reforms place St. Kitts and Nevis in a strong position to maintain fiscal health and advance toward a more resilient and sustainable future.

Stabilizing Public Finances

Our authorities agree that accelerating fiscal consolidation is essential for strengthening economic resilience and achieving long-term debt sustainability. Key priorities include bolstering the fiscal framework, reducing over-reliance on CBI revenue, and promoting economic diversification in line with the Sustainable Island State agenda. Immediate steps include improving tax administration, updating property tax assessments, and exploring increases in excise rates on alcoholic beverages, tobacco, and petroleum products to enhance equity and revenue generation. The recently established Income Tax Appeals Commission and the Property Tax Valuation Review Board will play a central role in ensuring due process in addressing arrears related to property, corporate income, and value added taxes. Additionally, our authorities have reinstated the fuel excise tax at the pump, which had been temporarily suspended three years ago to mitigate inflationary pressures amid rising oil prices. They also plan to phase out other temporary relief measures introduced during the pandemic as well as in 2025.

Controlling current expenditure while safeguarding capital investments is central to the fiscal strategy. Measures to rationalize public transfers, manage the public wage bill, and better target social programs are already underway. Tariff adjustments for water and electricity services are also under consideration to reduce fiscal pressures and improve cost recovery. Our authorities intend to prioritize spending, particularly in resilient infrastructure and natural disaster preparedness, to support long-term sustainable development.

Advancing structural fiscal reforms is a key focus. Our authorities will establish a Sovereign Wealth Fund (SWF) to better manage CBI revenue and are considering the adoption of a set of statutory fiscal rules to ensure fiscal discipline. Ensuring the long-term viability of the Social Security Fund (SSF) is a priority, with parametric reforms to be implemented soon. These reforms include raising the contribution rate, increasing the minimum contribution period, and adjusting the retirement age. Efforts to diversify the SSF's investment portfolio are also underway. The reforms will enhance fiscal credibility and ensure a more resilient and equitable economic future.

Strengthening Financial Stability

Enhancing financial system stability remains a core priority. Our authorities have made meaningful progress in strengthening the systemic bank's balance sheet and de-risking its investment portfolio. They plan to engage with external advisors to revitalize the bank's business model with a stronger focus on lending. Recognizing the importance of financial inclusion and literacy, our authorities have launched the Achieving Success through Personal Investment, Resources, and Education (ASPIRE) program. This initiative aims to build financial awareness among children while encouraging long-term saving and investment habits. Plans are in place to expand educational aspects of the program to adults, with a focus on promoting sound credit practices. Given the increasing role of non-bank financial institutions (NBFIs), particularly credit unions, our authorities will continue to enhance regulatory oversight. They welcome the Eastern Caribbean Central Bank's efforts to implement a common minimum regulatory framework for bank and non-bank sectors in the region. Our authorities remain committed to continue to strengthen the AML/CFT framework and supervisory practices to safeguard financial system integrity.

Our authorities agree that the Development Bank needs to be reformed, with efforts focused on improving accountability and financial performance. They emphasized the need for the legal framework governing the Bank to be revised to significantly strengthen its regulation and supervision. The findings from the ongoing external audit will guide decisions on the Bank's long-term viability. Our authorities acknowledge the contingent fiscal risks posed by the Bank and, together with its management, will assess its financial condition and determine an appropriate course of action that balances viability with fiscal responsibility.

Boosting Sustainable, Inclusive, and Resilient Growth

Our authorities will pursue comprehensive structural reforms to counteract the slowdown in medium-term growth prospects. Efforts are underway to improve government service delivery through digitalization, modernization of tax and customs administrations, and simplification of trade regulations. Structural reforms will also target productivity and competitiveness by enhancing resource allocation, labor market skills, access to finance, and energy resilience. Our authorities are reviewing technical and vocational training programs to address skill mismatches and reduce dependence on imported labor. Initiatives such as the pre-nursing program and the establishment of the National Institute of Training aim to equip locals for opportunities in healthcare, construction and hospitality.

Advancing the energy transition is essential to improving competitiveness and fostering resilient growth. Significant strides have been made in securing financing for the first phase of the geothermal project, which is expected to become operational within two years and reduce dependence on imported fossil fuels.

Improving Preparedness to Natural Disasters

Given St. Kitts and Nevis' high vulnerability to climate change and extreme weather events, building climate and disaster resilience is a strategic imperative. Our authorities are focused on both infrastructure and financial resilience, with efforts to strengthen the public investment framework. They agree that integrating public sector-financed projects into the broader Public Sector Investment Program will enhance medium-term fiscal planning, better align investment with resilience goals, and help unlock concessional financing. Plans to upgrade the power grid to complement the geothermal project, along with the construction of two new desalination plants, will enhance disaster preparedness, improve energy sustainability, and address water supply challenges. To support effective project delivery, the Ministry of Public Infrastructure has onboarded a new team of professionals to ensure alignment with the fiscal framework and efficient execution. Our authorities remain confident that these efforts will help advance the Sustainable Island State agenda.