SAINT KITTS AND NEVIS

ECONOMIC BRIEF

Eastern Caribbean Dollar (EC$); United States Dollar (US$) US$1 = EC$2.70

Overview

In 2022, Saint Kitts and Nevis (SKN) began its recovery from the impacts of COVID-19 pandemic. The recovery was supported by a resurgence in international travel demand amid a waning pandemic that allowed the Government to remove all entry restrictions in August 2022. Large receipts from the Citizenship-by-Investment (CBI) programme helped to stem deterioration in the fiscal accounts and limit public borrowing. CBI inflows also aided in augmenting the external position, mitigating some of the impact of higher import prices. The financial system remained stable, despite some weakening in financial soundness indicators.

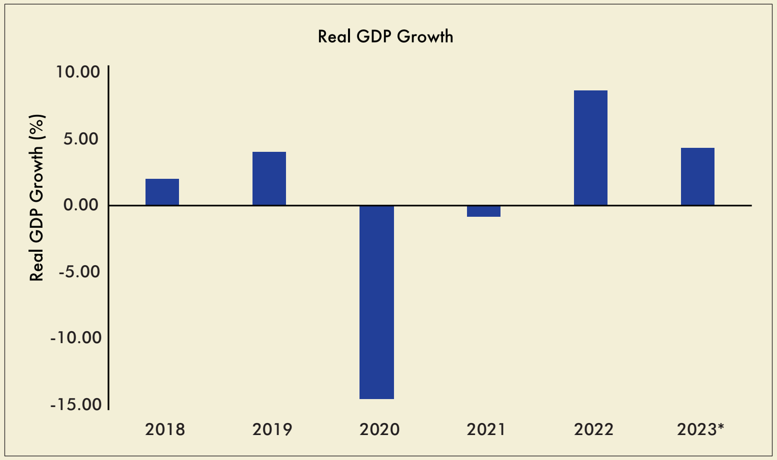
Macroeconomic conditions are likely to strengthen in 2023, albeit within a challenging external environment. The economy is projected to grow by 4.8%, returning close to pre-pandemic output levels. Growth forecasts could be tempered by tighter global financial conditions and resulting slowdown in advanced economies, particularly the United States of America – SKN's main tourism source market.

KEY DEVELOPMENTS IN 2022[1]

Following two years of decline, real gross domestic product (GDP) grew by 8.8% (see Chart 1). The rebound was driven by a much-improved tourism[2] performance, though not to the level prior to the pandemic. Border entry restrictions, which were in place since 2020 to minimise the spread of COVID-19, were fully removed in August. Supported by the ramping up of airlift to meet rising travel demand during the winter season, stayover arrivals recovered to 79,767, 66.4% of 2019 arrivals. The cruise sector, a major tourism segment which reopened in July 2021, registered 331 calls in 2022, relative to 478 in 2019; and cruise passengers, numbering 452,433, were only 43.0% of the 2019 outturn.

[1]All comparisons are with respect to 2021, unless otherwise stated.

Chart 1: Gross Domestic Product Growth



Sources: *Eastern Caribbean Central Bank (ECCB). *Caribbean Development Bank (CDB) estimate.*

Increased international arrivals spurred growth across several sectors. After two years of decline, the hotel and restaurant and transport, storage and communications sectors registered growth of 133.8% and 12.4%, respectively. Similarly, wholesale and retail activity was up by 23.1%.

Construction and agriculture declined. Value added in the construction sector, usually a strong driver of economic growth, fell by 3.8% as some planned projects were delayed. Despite continued government investment in agriculture to promote food security, drought conditions adversely affected agricultural output, leading to a decline of 10.8%.

Consumer price inflation accelerated. The change in the Consumer Price Index indicated a 2.7% average rise in overall prices. This price movement was driven by increases in food and non-alcoholic beverages of 11.9% and in transport of 9.9%. Notably, prices of housing, utilities, gas and fuels declined by 0.9% as the Government instituted relief measures including electricity subsidies and

[2] Pre-crisis, travel and tourism's total contribution to GDP amounted to 52% (World Travel and Tourism Council).

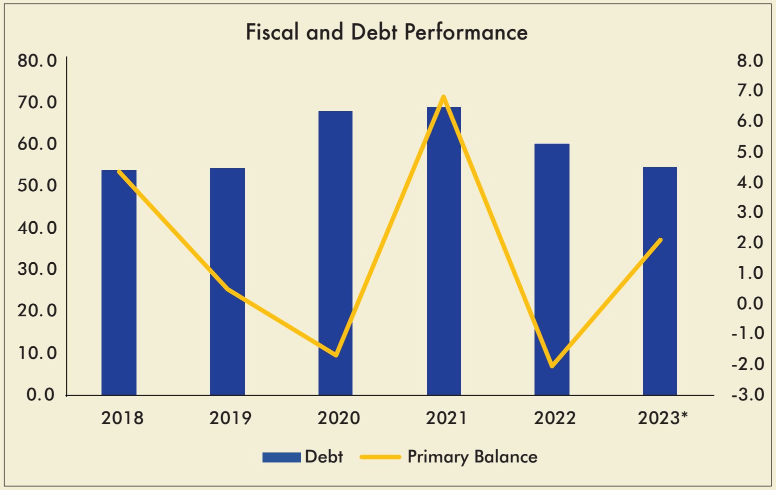
a reduction in excise tax on fuel imports.

Anecdotal evidence suggests that the unemployment situation improved. Although official data on unemployment trends are unavailable, employment is expected to have increased with the lifting of COVID-19 restrictions, hotels and other tourism-related businesses reopening, and the resumption of normal business activity. With this, the Government phased out its income support programme which aided individuals whose employment was impacted by the pandemic.

The overall fiscal position deteriorated as large expenditures outstripped a sizeable increase in CBI receipts. An overall fiscal deficit of 3.3% of GDP was recorded in 2022, a significant turnaround from the previous year's surplus. Similarly, the primary surplus moved into a deficit position of 2.1% of GDP in 2022 (see Chart 2). Although CBI revenues remained robust, totalling EC$678.2 million (mn), the highest since the inception of the CBI programme and accounting for just over half of overall government revenue, government expenditure ended higher increasing by 38.3% (EC$398.4 mn) in what was an election year; snap elections were held in August.

The surge in expenditure was driven mainly by a land buyback (EC$205.5 mn)[3]. Government repurchased land sold in land-for-debt swap arrangements to make them available under its land allocation programme. Electricity subsidies to shield consumers from the impact of rising fuel prices, salary increases of 10% to public servants in Saint Kitts and 5% to those in Nevis, and higher outlays on goods and services also added to government expenditure. Tax collection grew by 13.0% (EC$57.3 mn) but remained below pre-pandemic levels. Increased economic activity and higher commodity prices supported higher levels of taxes on domestic goods and services, and on trade taxes. Taxes on income and profits fell by 5.4% (EC$7.0 mn) as pandemic-related tax relief measures[4] remained in place.

Chart 2: Fiscal and Debt Performance



Sources: *ECCB, Ministry of Finance (MOF). *CDB forecast.*

Public debt as a percent of GDP fell. After spiking at 69.1% in 2021, improvement in economic output led to a reduction in the debt ratio to 60.6% (see Chart 2), marginally above the Eastern Caribbean Currency Union 60% debt target. This improvement occurred despite the deterioration in fiscal balances as the Government drew on its sizeable stock of accumulated deposits to finance its deficits. These deposits remained sizeable at EC$572.5 mn (21.8% of GDP).

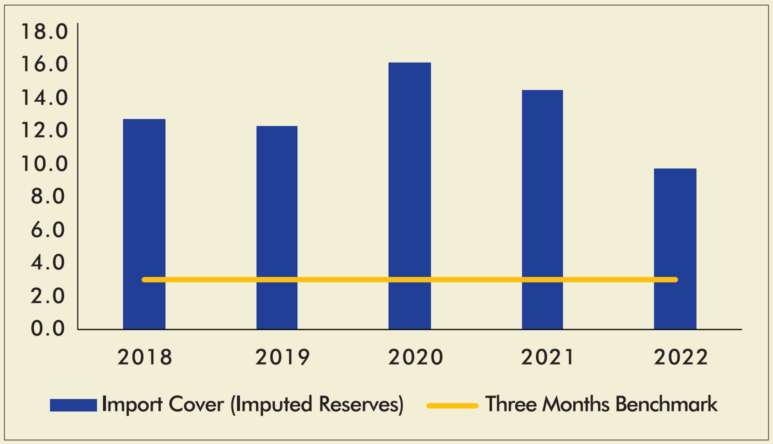
External operations resulted in a slight improvement in the current account balance. A smaller deficit of

[3] A debt-for-land swap was a part of the Government's 2012-14 debt restructuring programme which provided for the vesting of 1,200 acres of government land to the SKN-Anguilla National Bank to settle EC$900 mn of debt with the bank.

[4] Covid-19 response measures included a reduction in the Corporate Income Tax rate from 33% to 25% for firms which maintained 75% of their staff complement, and a reduction in the Unincorporated Business Tax Rate from 4% to 2%.

-3.4% of GDP was recorded on the current account, compared with -5.9% in 2021. In 2022, a rebound in visitor expenditure and higher CBI receipts helped to mitigate the impact of elevated import prices. Foreign reserves declined indicated by the imputed international reserves which stood at EC$729.9 mn (9.8 months of import cover), EC$114.7 mn (13.6%) less than in 2021.

Chart 3: Gross Foreign Reserves



Sources: *ECCB, CDB staff estimates.*

The financial system remained stable. Regulatory capital at 11.1% of risk-weighted assets in December 2022, though declining, stayed above the 8.0% benchmark. Liquidity in the banking system also remained high, indicated by a liquid asset ratio of 51.8% at end-December 2022. Bank profitability, however, weakened significantly as indicated by a return on average assets of -3.5 at December 2022, compared with 1.9 at end-December 2021 due to losses on overseas investments amid tighter global financial conditions. Non-performing loans at commercial banks, which were high prior to the pandemic at 24.0% of total loans, were in double digits at 21.8% in December 2022, although remaining relatively steady after the March 2022 expiry of moratoria extended to clients during the height of the pandemic. Commercial banks' loans and advances increased by 4.8% from December 2021, driven mainly by increased lending for real estate activities.

2023 OUTLOOK

Economic recovery is expected to continue in 2023, notwithstanding a challenging external environment. The economy is estimated to grow by 4.8%, returning close to pre-pandemic output levels. Global travel demand has picked up and contributed to a strong 2022/23 winter season tourism performance. The construction sector is also expected to expand with scheduled upgrades to public infrastructure, along with private construction of housing. Downside risks stem from the ongoing Russia-Ukraine conflict, commodity price volatility, and monetary tightening in advanced economies that could weaken external travel demand. Progress in renewable energy transition, through investment in geothermal energy in Nevis with financing support from CDB, presents an opportunity to improve competitiveness and boost growth over the medium term.

Return to a fiscal surplus and further reduction in the debt ratio is expected in 2023. On the back of a raft of measures introduced in January 2023 to enhance the CBI programme, CBI receipts have remained robust thus far for 2023. This provides needed space to maintain cost of living response measures and spending to support recovery and economic diversification. However, the inherent volatility of CBI receipts and increased scrutiny by the European Union and the United Kingdom present significant fiscal risks and underscore a need to reduce dependence on these flows.

DATA

The table below summarises the key economic and social indicators underpinning this Country Brief. These data are taken from several sources and are the latest available at time of publication. 2023 data are estimates and subject to revision.

Selected Indicators

	2019	2020	2021	2022	2023e
Real GDP Growth (%)	4.1	-14.6	-0.9	8.8	4.8
Average Inflation (%)	-0.3	-1.2	1.2	2.7	2.3
Primary Balance (% of GDP)	0.5	-1.7	6.8	-2.1	2.1
Public Sector Debt (% of GDP)	54.4	68.0	69.1	60.6	54.3

Sources: *ECCB Statistics Department; CDB.*

Note: e-estimate.