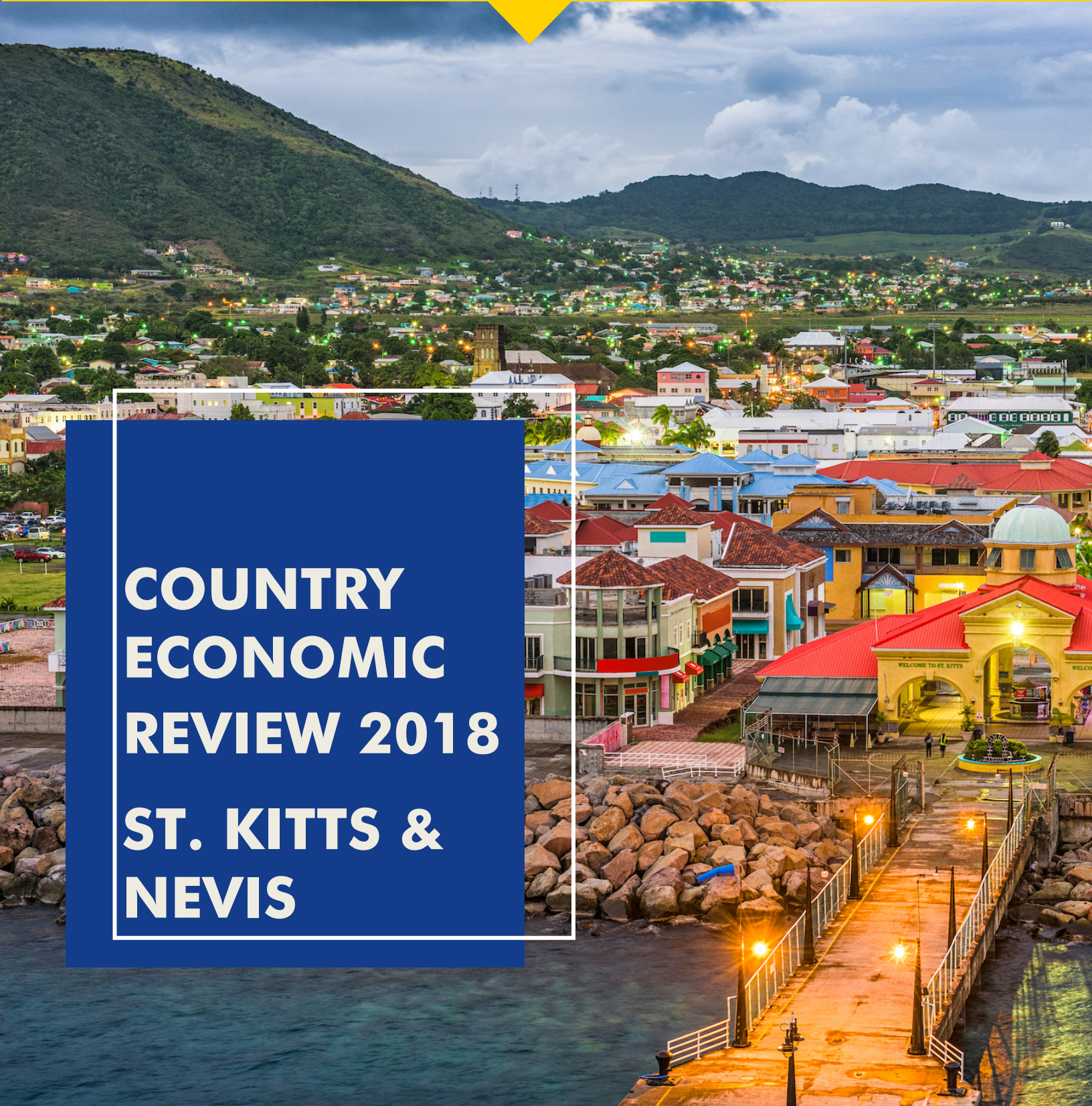




COUNTRY ECONOMIC REVIEW 2018

ST. KITTS & NEVIS



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ST. KITTS AND NEVIS ECONOMIC BRIEF 2018

OVERVIEW

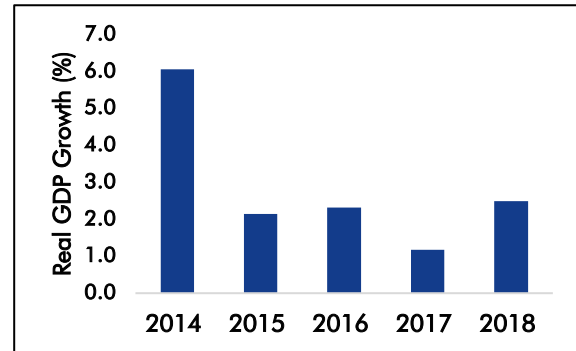
Economic growth in St. Kitts and Nevis increased in 2018. Growth hinged mainly on the tourism industry. There was a significant increase in airlift, additional room stock, and strong growth in cruise ship arrivals at the start of the year. The transport sector also displayed robust growth, while construction activity decelerated after a strong 2017 performance.

KEY DEVELOPMENTS IN 2018

It is estimated that economic growth in 2018 increased to 2.5% from 1.2% in the previous year (see Chart 1). Tourism was the main contributor, with the hotel and restaurants sector performing very well, followed by the transport, storage and communications sectors. Overnight arrivals increased by 4.2% year-on-year¹, helped by additional direct flights from Atlanta, New York and Miami. Cruise ship arrivals were also up². The room stock was enhanced by the first full year of operation of a new luxury hotel³. Growth in the construction sector fell following the completion of this hotel in 2017. Major public investments included completion of the East Line Bus Terminal, ongoing rehabilitation of the island main road, and the start of the construction of the second cruise ship berth (all in St. Kitts). The real estate and business activities sectors added very little to economic growth, as did the

financial sector, which was burdened by high levels of non-performing loans (NPLs).

Chart 1: Real GDP Growth



Source: Eastern Caribbean Central Bank (ECCB), CDB staff estimates.

Inflation was negative in 2018. Consumer prices dropped by 1.1% following a 0.5% increase in 2017. The main reasons for the fall in prices - inflation had already been negative in the years 2015 and 2016 – were the declines in the prices for transport, housing and utilities. Transport prices fell by 7.7% and prices for housing and utilities declined by 1.3%, while prices for food and non-alcoholic beverages increased by 5.6%.

The introduction of the People Employment Programme in 2012 (two years ago renamed and reorganised as the Skills Training and Empowerment Programme (STEP)), has lowered unemployment significantly. No official unemployment data have been published since 2009, but according to the Government of St. Kitts and Nevis (GOSKN) the STEP still employed 2,000 persons as at February 2018, giving major relief to the labour market.

¹ By 6.7% in 2018 to close to 150,000 according to the West Indies News Network; Source: <https://www.winnfm.com/news/local/28682-rlb-to-undergo-expansion>.

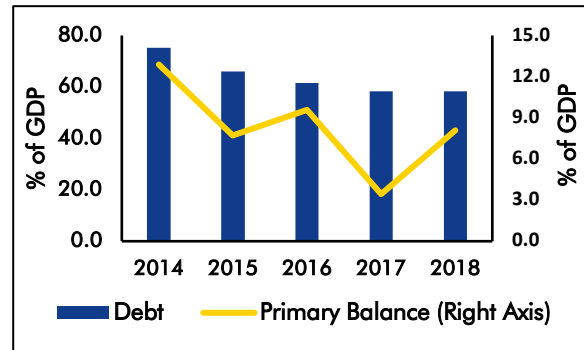
² By 4.2% year-on-year to 1,103,571. Source: <https://www.thestkittsnevisobserver.com/featured/visitors-arriving-by-air-sea-break-records/>.

³ The Park Hyatt St. Kitts Christophe Harbour opened in November 2017. 2018 was the first full year of operation.

Central Government's fiscal position improved following the introduction of a new citizenship-by-investment (CBI) option. The 2018 launch of the Sustainable Growth Fund led to a strong rise in CBI revenue flowing directly to the Consolidated Fund⁴. GOSKN achieved a primary surplus of \$195 million (mn) – or 7.1% of gross domestic product (GDP) – and an overall surplus equivalent to 5.6% of GDP. (See Chart 2). While full-year data are not yet available for CBI receipts, inflows reached \$287 mn – or 39% of total GOSKN revenue – between January and September. Total revenue rose 23.5%, mainly due to the CBI-driven 84.0% increase in non-tax revenue, while tax revenue was just 8.0% higher. Total expenditure rose by 11.4%, as capital expenditure and net lending increased by 29.3%.

Total public sector debt as a percentage of GDP remained stable in 2018. The ratio of debt to GDP fell marginally from 58.4% to 58.2%. This partly reflected restructuring of a portion of the Nevis Island Administration's debt. Domestic debt represented 75.0% of total debt and the remaining 25.0% was foreign debt. New debt included the financing of the second cruise ship berth, as well as loans for the National Housing Corporation and a water-drilling project in Nevis.

Chart 2: Fiscal and Debt Performance



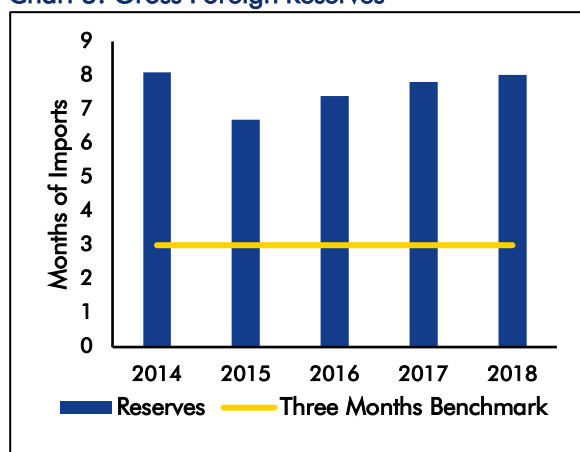
Source: CDB, IMF, GOSKN.

The domestic banking system remains under pressure from worsening asset quality. The ratio of NPLs to gross loans increased from 16.5% in September 2017, to 24.9% in September 2018. Net of loan loss provisions, NPLs as a percentage of banks' capital rose from 33.4% to 55.7% putting banks' solvency at higher risk. Against the backdrop of worsening credit quality, domestic banks raised their precautionary liquidity provisioning by increasing their liquid assets as a proportion of total assets to 58.6%. The regulatory capital of banks in terms of their risk-weighted assets, increased slightly from 19.2% to 19.8%.

Gross international reserves were comfortably above the recommended benchmark of three months of imports. (See Chart 3). The current account deficit improved slightly to 6.4% in 2018 from 8.7% of GDP in 2017, due to stronger services exports, including tourism.

⁴ Until 2017, CBI contributions to the Sugar Industry Diversification Foundation (SIDF) citizenship option were booked under SIDF.

Chart 3: Gross Foreign Reserves



Source: CDB, IMF.

The capital account surplus increased from \$91.8 mn to \$140.2 mn, mainly because of stronger CBI inflows. These inflows also contributed to a \$78.3 mn rise in international reserves.

OUTLOOK

CDB projects an increase in growth to 3.0% in 2019, mainly on the back of expanding construction and tourism activities. Construction activity is expected to accelerate with ongoing public infrastructure investments at the St. Kitts airport and seaport, and on each of the islands' main roads. The strong 2018 CBI inflows and resulting construction activity in hotel and condominium projects, are expected to add to sector growth this year, as is the planned start of a \$162 mn medical facility at Christophe Harbour.

Tourism activity is expected to rise following a further increase in airlift, including a new direct flight from Minneapolis. The hotels and restaurants sector and the transport sector will be the main beneficiaries of this expansion.

GOSKN is targeting a lower primary surplus for 2019. With total revenue expected to decline by 8.1% and total expenditure likely to grow by 5.7%, the primary surplus is projected to fall to 2.1% of GDP. The decline in revenue is due to a projected 29.1% drop in non-tax revenue – mainly CBI receipts – although this will remain the main revenue category. On the expenditure side, capital expenditure is expected to increase by 21.8%, with one third of the funds being earmarked for improving the public infrastructure. Major proposed investments include the rehabilitation of the main roads on both islands, the upgrade to the airport and the construction of the second cruise ship berth in St. Kitts, and the expansion of the hospital in Nevis.

The main risks to the macroeconomic and the fiscal outlook stem from external factors. The growth of the tourism industry could decelerate significantly if there is a stronger than expected slowdown in global economic activity. Fiscal consolidation may be necessary if the CBI programme or the financial sector are adversely affected by the international regulatory environment.

DATA

The table below summarises the key economic and social indicators underpinning this Country Brief. These data are taken from a number of sources, and are the latest available at time of publication. Some are subject to revision. The 2018 data are CDB estimates.

Selected Indicators

	2013	2014	2015	2016	2017	2018 ^e
Real GDP Growth (%)	5.5	6.1	2.2	2.3	1.2	2.5
Average Inflation (%)	0.9	0.0	-2.1	-0.5	0.5	-1.1
Unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Primary Balance (% of GDP)	15.8	12.9	7.7	9.6	3.4	7.1
Public Sector Debt (% of GDP)	101.1	75.2	66.1	61.5	58.4	58.2

Sources: ECCB, CDB, IMF, GOSKN.

Notes: e – estimate; n.a. – not available.