



# **COUNTRY ECONOMIC REVIEW 2019**

## **ST. KITTS AND NEVIS**



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## ST. KITTS AND NEVIS ECONOMIC BRIEF 2019

### OVERVIEW

**In 2019, economic growth in St. Kitts and Nevis was based on strong tourism activity.** An increase in stayover arrivals benefited hotels and restaurants, and the distributive trades. At the same time, construction of new tourism facilities and public infrastructure on both islands continued.

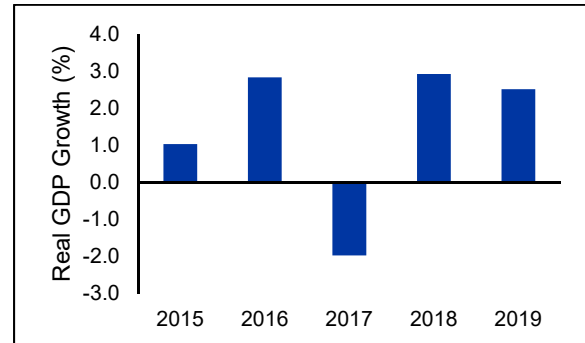
Although expenditure growth outpaced tax revenue growth, the fiscal situation remained upbeat as record Citizenship by Investment (CBI) revenue led to a large fiscal surplus.

### KEY DEVELOPMENTS IN 2019

**Economic growth weakened slightly from the previous year** (see Chart 1). Economic activity rose by 2.5%, after a 2.9% increase in 2018. Tourism drove growth with stayover arrivals increasing by 10.8% to 128,827, surpassing the previous visitor record set in 2008. Cruise ship passengers declined for the first time since 2012, albeit at a marginal rate of 0.9%. Total visitor expenditure grew by a strong 22.8%. Increased tourism activity contributed to heightened activity in hotels and restaurants, in wholesale and retail trade, and in transport, storage and communications. Construction activity expanded slightly, benefitting from the ongoing development of several major hotel projects and the completion of the second cruise ship pier at Port Zante in Basseterre. The rehabilitation of the islands' two main roads and of the airport in St. Kitts also contributed

contributed to the positive construction sector outturn.

**Chart 1: Real GDP Growth**



*Source: ECCB, Caribbean Development Bank (CDB) Staff estimates.*

**Consumer prices fell by 0.4%, following a 0.9% decline in 2018<sup>1</sup>.** Prices for transport, and for housing and utilities decreased by 2.2% and 0.9%, respectively, due to slightly lower oil prices. Meanwhile, prices for food and alcoholic beverages, and for clothing and footwear increased by 2.0% and 1.0%, respectively.

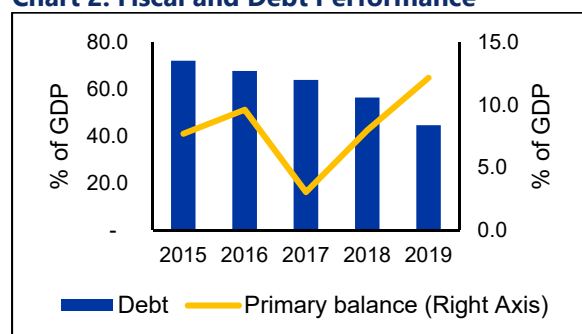
**The overall fiscal position improved further in 2019** (see Chart 2). CBI revenue reached an estimated EC\$500 million (mn) in 2019, leading to a 17.7% jump in total revenue and pushing the overall fiscal surplus up to 10.2% of gross domestic product (GDP).

While tax revenue rose by 4.3%, expenditure expanded by 5.7%. Spending on goods and services increased by 7.5% and on transfers and subsidies by 11.8% following the introduction in December 2018 of a new social welfare scheme to alleviate poverty.

<sup>1</sup> January to September.

The Central Government primary surplus reached 12.2% of GDP in 2019 and the public debt fell to an estimated 44.6% of GDP from 56.4% of GDP in 2018<sup>2</sup>. Based on these estimates, St. Kitts and Nevis reached the Eastern Caribbean Central Bank's (ECCB) 2030 debt target of 60% of GDP more than ten years ahead of schedule. Long-term fiscal sustainability still depends crucially on CBI revenue. The exclusion of CBI revenue results in fiscal deficits of more than 7% of GDP in 2018 and 2019.

**Chart 2: Fiscal and Debt Performance**



Source: ECCB, CDB Staff estimates.

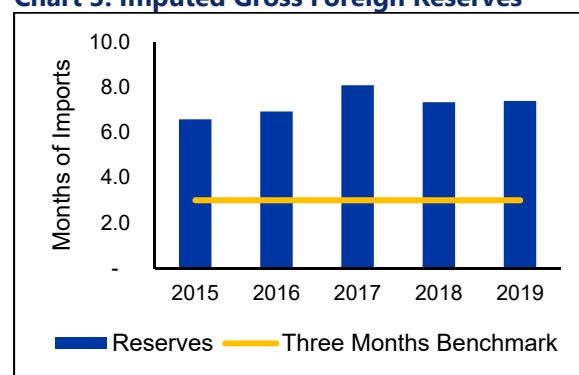
**The financial sector's abundant capital and liquidity levels are overshadowed by serious challenges with credit quality.** The liquid assets ratio stood at a very high 58.9%, and capital adequacy increased to 20.6% of risk-weighted assets, up from 17.4% in 2018. Non-performing loans remained unchanged and stubbornly high at 24.7% of total loans. Accordingly, financial institutions applied a great deal of caution when advancing loans to customers; and domestic credit growth further slowed to 0.4% in 2019, from 1.4% in 2018.

**Gross international reserves rose further.** International reserves grew from EC\$980.7 mn (7.3 months of imports) in 2018

to an estimated EC\$1,036.3 mn (7.4 months of imports) in 2019 (see Chart 3).

The current account deficit widened to 8.9% of GDP from 7.2% in 2018, as the merchandise trade deficit widened and the surplus in the services account narrowed – notwithstanding strong tourism activity – due to strong services imports.

**Chart 3: Imputed Gross Foreign Reserves**



Source: ECCB, CDB staff estimates.

## OUTLOOK

**The outlook for St. Kitts and Nevis has become clouded by the outbreak of COVID-19, which has significantly affected developed and developing economies.** Tourism and construction activity were both expected to be buoyant. However, in early 2020 the tourism sector has seen mass cancellations. Construction activity has slowed, and government finances have come under increasing pressure.

Given the uncertainty as to how long this situation will persist, it is very difficult to forecast how the economy will perform in 2020 and beyond. This will be addressed in an updated Economic Brief later this year.

<sup>2</sup> One key assumption underlying CDB's estimate of the debt-to-GDP ratio is that the fiscal surplus is completely used to lower public sector debt.

## 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. 2019 data are estimates.

### Selected Indicators

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019<sup>e</sup></b>
Real GDP Growth (%)	2.2	2.3	-2.0	2.9	2.5
Average Inflation (%)	-2.1	-0.5	0.5	-0.9	-0.4*
Unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Primary Balance (% of GDP)	7.7	9.6	3.0	8.0	12.2
Public Sector Debt (% of GDP)	72.1	67.7	63.9	56.4	44.6

*Sources: ECCB, CDB staff estimates.*

*Notes: e – estimate (as at January 31, 2020); n.a – not available;*

*\*Inflation in 2019, average 12 months to the end of September.*



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