# ST. KITTS AND NEVIS

## COUNTRY ECONOMIC REVIEW 2020

Eastern Caribbean dollar (EC$); United States dollar (US$). **US$1 = EC$2.70**

### OVERVIEW

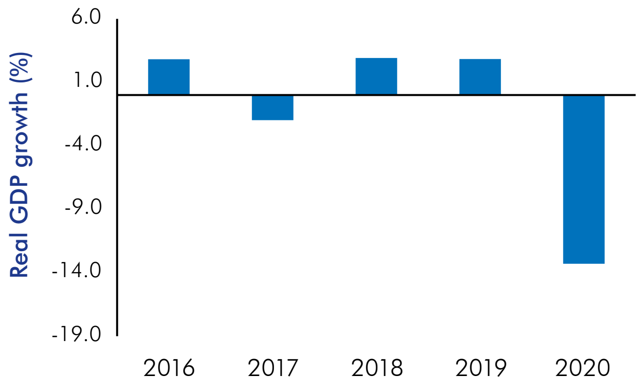
**In 2020, the economy contracted by 13%.** The country kept its borders closed to tourism from the end of March to October to contain the spread of COVID-19. Because of this decision, and of actions to restrict non-essential activity and maintain physical distancing, confirmed cases of COVID-19 were limited to 32 and there were no related deaths, but most sectors of the economy experienced double-digit decline.

**The year 2020 represented a rupture for the fiscal sector as the overall balance swung to a deficit for the first time since 2010.** All major revenue categories recorded double-digit decreases while current expenditure increased amid pandemic-related spending.

### KEY DEVELOPMENTS IN 2020

**The economy contracted in 2020 following moderate growth in the previous year.** The Caribbean Development Bank (CDB) estimates a contraction of 13.0%, after 2.1% growth in 2019 (see Chart 1). The contraction was driven by a COVID-19-induced drop in tourism as the number of stay-over arrivals decreased by an estimated 72.1% to less than 37,000, mainly due to a prolonged border closure. For the same reason, cruise ship passenger arrivals fell by 74.6% and total visitor expenditure declined by 74.6%. The halt to tourism activity and restrictions on the mobility of the local population to counter the spread of COVID-19 were both major contributors to the contraction in the value added of hotels, which decreased by 74.5%, to the lower activity in the wholesale and retail trade, and in the transport, storage and communications sectors. Construction activity fell by 16.0%, even though the Government fast-tracked public investments to help stabilise employment levels in the sector.

**Chart 1: Real gross domestic product growth**




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

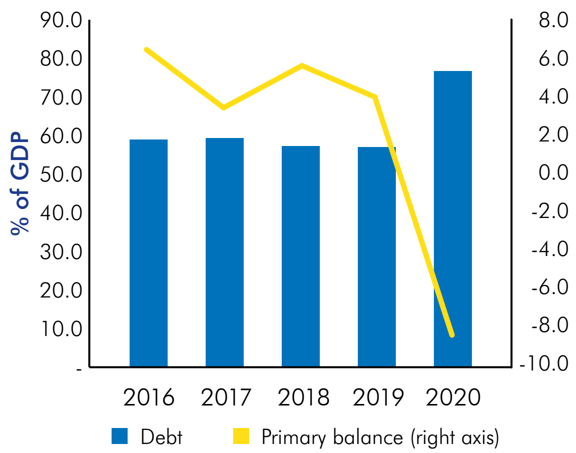
**Consumer prices dropped, on average, by 1.1% following a 0.5% fall in 2019.** The drop in prices was especially pronounced during the lockdown in the first half of the year. Prices for transport decreased by 7.2% due to lower oil prices; and prices for housing, utilities gas and fuels by 0.3%. Prices for food and non-alcoholic beverages increased a meagre 0.2% while prices for communication rose by 3.8% due to higher pandemic-related demand.

**The overall fiscal position deteriorated in 2020** (see Chart 2). CDB estimates that the public overall fiscal deficit widened to 6.7% of gross domestic product (GDP). Citizenship-by-Investment (CBI) revenue of EC$269 million (mn) mitigated the pandemic's dramatic effect on public finances.

Tax revenue declined by 18.5% due mainly to the economic decline, but the Government managed to keep current expenditure growth flat despite the introduction of broad-based social support measures to alleviate the impact of COVID-19. Total expenditure fell by 9.5% as capital expenditure dropped 30.5%.

The public sector debt-to-GDP ratio is estimated to have increased to 67.7% from 57.4% in 2019, as approximately half of the public primary deficit was financed by drawing down on cash reserves. In the absence of fiscal consolidation measures, fiscal sustainability continues to rely crucially on CBI revenue as the underlying fiscal position, excluding CBI, displayed deficits averaging 7.7% of GDP between 2015 and 2019, and close to 18% in 2020. CBI revenue accounted for 29% of total public revenue in the 2016-2020 period.

### Chart 2: Fiscal and debt performance

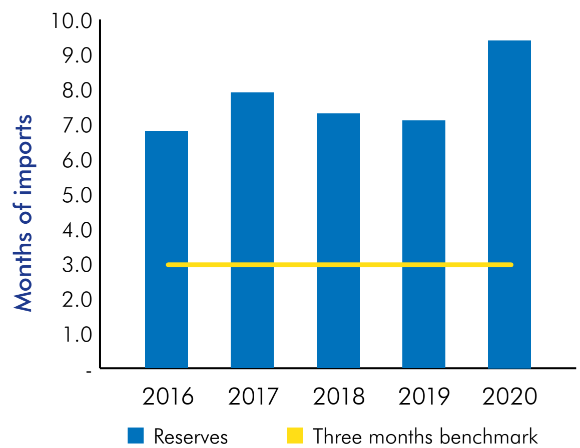



***Sources:*** *ECCB, CDB staff estimates.*

**The financial sector's abundant capital and liquidity levels continue to be overshadowed by serious challenges to credit quality.** As at June 2020, the liquid assets ratio stood at a very high 59.1%, and capital adequacy increased to 19.0% of risk-weighted assets (from 17.8% in 2019). Non-performing loans (NPLs) as a share of total loans rose to a worryingly high 25.0% (from 24.0%). NPLs net of provisions as a share of banks' capital declined marginally but remained above 50%, seriously constraining the banking sectors capacity to advance loans to households and businesses. Loans to domestic non-financial corporations fell by 3.0% and loans to households declined by 0.6% between January and July.

**Gross international reserves are expected to have declined in 2020.** International reserves stood at EC$1,036.3 mn in 2019, corresponding to 7.4 months of imports (see Chart 3), but the border closure in 2020 led to an EC$440-mn drop in visitor expenditure. The current account deficit is expected to widen from 2.1% of GDP in 2019 amid a widening services balance deficit while the goods balance deficit is expected to have narrowed as the trade deficit with the United States of America (USA) declined by around EC$135 mn[1].

### Chart 3: Gross foreign reserves




***Sources:*** *ECCB, CDB staff estimates.*

## OUTLOOK

**CDB projects a solid economic recovery of 4.4% in 2021.** Tourism activity is expected to rebound from low levels given better prospects to combat the global pandemic in 2021, but a meaningful recovery over the medium-term might be slow. The speed of recovery of tourism is also contingent on the strength of the economic rebound in the main tourism source markets, which in turn depends on the success of mainly Canada, the United Kingdom and the USA in dealing with the pandemic locally.

Hotels and restaurants, the distributive trades and transport, storage and communications are all expected to gain from a recovery of tourism and a stabilisation in domestic activity. The return of several

1 The country's goods balance deficit versus the rest of the world stood at EC$743 mn in 2019.

hundred students of the offshore medical schools to the country at the end of summer 2020, will benefit the domestic economy. The construction sector is also likely to gain from a modest recovery in tourism activity as several tourism-related developments are expected to see an increase in activity in 2021.

**The Government is expected to keep capital expenditure at elevated levels over the medium term to stimulate employment and economic growth.** In 2020, the Government appointed more than 3,000 workers of the Skills Training Empowerment Programme as permanent government auxiliary workers. Further to this, ECCB and the Government extended the pandemic-related debt service moratorium for households and businesses well into 2021 to help stimulate the economy.

**Revenue from the CBI programme significantly supports the Government in the response to the pandemic, in its capital investment and social programmes.** However, CBI revenue, which is subject to external conditions, constitutes significant downside risks for economic, fiscal, and social developments. Fiscal sustainability, given the relative volatility in CBI revenue, could be better safeguarded by broadening the revenue base; especially by lowering the fiscal leakage from tax exemptions on international trade[2].

**Structural reforms remain vital for improving the growth outlook.** A better business environment will help achieve this. St. Kitts and Nevis ranks 139th out of 190 countries in the 2020 World Bank Doing Business index. Notwithstanding the passing of legislation for introducing a dedicated land registry in 2017, registering a property remains burdensome. Paying taxes and getting electricity are further main hurdles after opening a business.

## 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. Some are subject to revision. 2020 data are estimates.

### Selected indicators

| | 2016 | 2017 | 2018 | 2019 | 2020$^{e}$ |
|---|---|---|---|---|---|
| Real GDP growth (%) | 2.8 | -2.0 | 2.9 | 2.8 | -13.3 |
| Average inflation (%) | -0.5 | 0.5 | -0.9 | -0.5 | -0.6 |
| Unemployment (%)[3] | 2.0 | n.a. | n.a. | n.a. | n.a. |
| Primary balance (% of GDP) | 6.3 | 3.4 | 5.7 | 4.1 | -8.4 |
| Public sector debt (% of GDP) | 59.0 | 59.3 | 57.3 | 57.0 | 76.7 |

***Sources:*** *ECCB, Statistics Department, CDB staff estimates.*

*Note: e – estimate (as at April 15, 2021); n.a. – not available.*

2 Revenue loss from total tax exemptions in 2016 was estimated at 6.4% by the International Monetary Fund (IMF). IMF St. Kitts and Nevis – 2017 Article IV Consultation Staff Report www.imf.org.

3 No unemployment rate was published since 2016.

## Disclaimer