

SAINT CHRISTOPHER AND NEVIS

JUNE 2022



ECONOMIC AND FINANCIAL REVIEW

Eastern Caribbean Central Bank



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**Economic and
Financial Review**
HALF-YEAR REVIEW

**SAINT CHRISTOPHER
(ST KITTS) AND NEVIS**

EASTERN CARIBBEAN CENTRAL BANK





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Saint Christopher (St Kitts) and Nevis

Economic and Financial Review: 2022 Half-Year (2022H1)

Research, Statistics and Data Analytics Department

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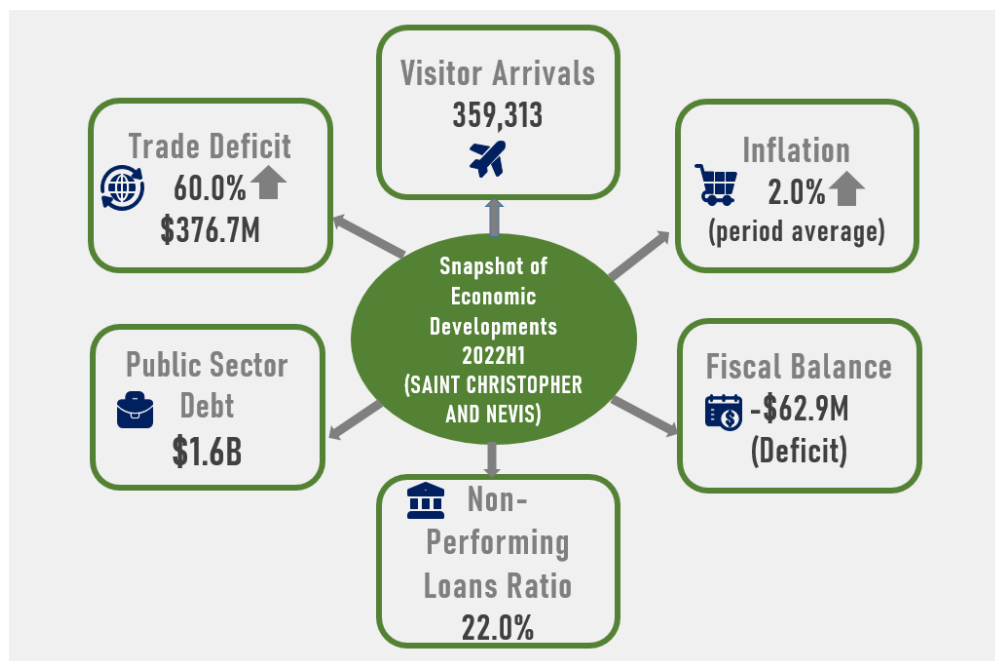


Figure 1: Snapshot of Economic and Financial Developments for 2022H1

1 Overview

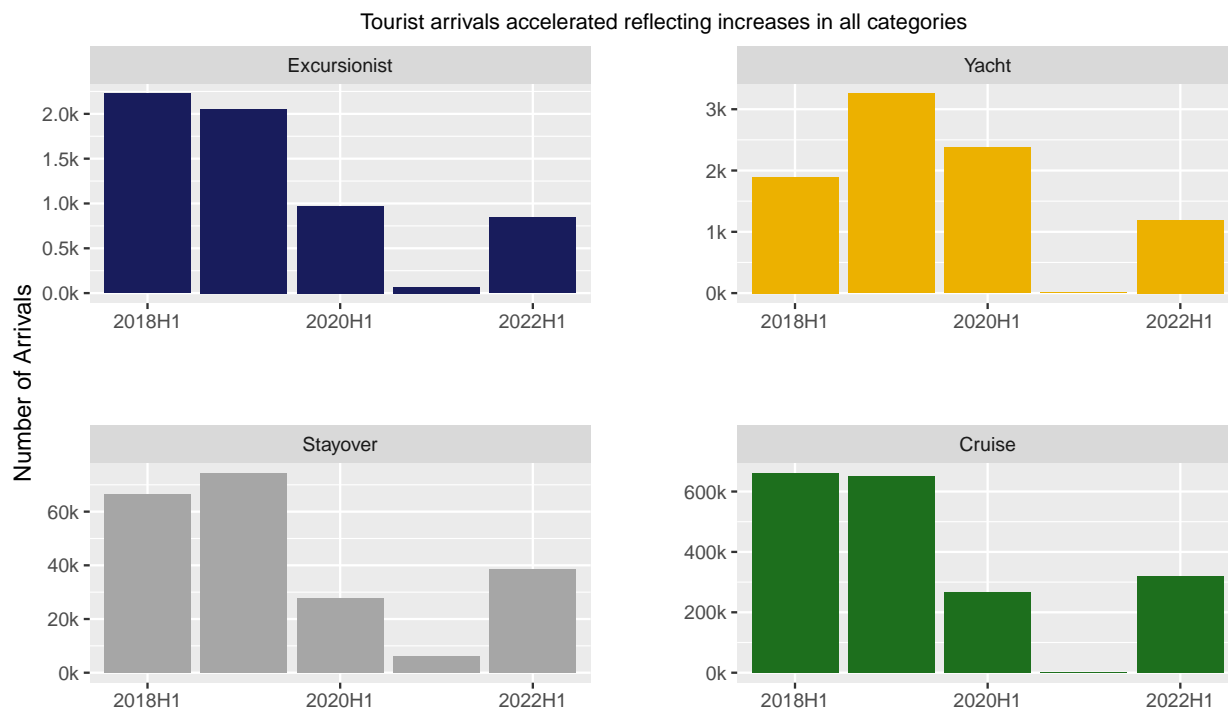
- Following a marginal decline in the first half of last year, economic activity in Saint Christopher (St Kitts) and Nevis is estimated to have expanded in the first six months of 2022. ¹
- The economy continues to rebound from the effects of the COVID-19 pandemic as most major sectors registered growth during the first half of the year.
- However, pent up travel demand, the recovery of advanced economies and fiscal support by the federal government could accelerate the economic recovery.

2 The Economy (Real Sector)

Economic activity in the first half of 2022 reflected increases in critical sectors of the economy, as the Federation continued to rebound from the effects of COVID-19 pandemic.

Activity in the tourism industry rebounded in the first six months of 2022, relative to the same period last year, as entry protocols for visitors have eased. The total number of visitor arrivals is estimated to have increased to 359,313, reflecting a rise in stay-over visitors from all source markets, yacht passengers, excursionists and cruise passengers(see Figure 2).

¹The review period for this report is the first 6 months of 2022, and is abbreviated 2022H1 in this report



Source:ECCB

Figure 2: Visitor Arrivals to St Christopher and Nevis by Category

While activity is estimated to have remained below pre-pandemic levels in the construction sector, several private sector projects in the hotels sub-sector, including a luxury villa project at the Royal St Kitts Hotel and the Hillsboro Suites and Residences projects continue. Additionally, in the public sector, the government continued to spend on key capital projects.

Positive developments in other productive sectors, also, helped to buoy economic activity. Agricultural output is estimated to have increased in the first half of 2022, partially reflecting increased public investment targeted at boosting agricultural production. Total crop production rose by 4.5 per cent to 632.8 tonnes above the past five years' average. Livestock production is also estimated to have improved. Output in the fishing sector, which also benefitted from increased public investment, is also estimated to have risen.

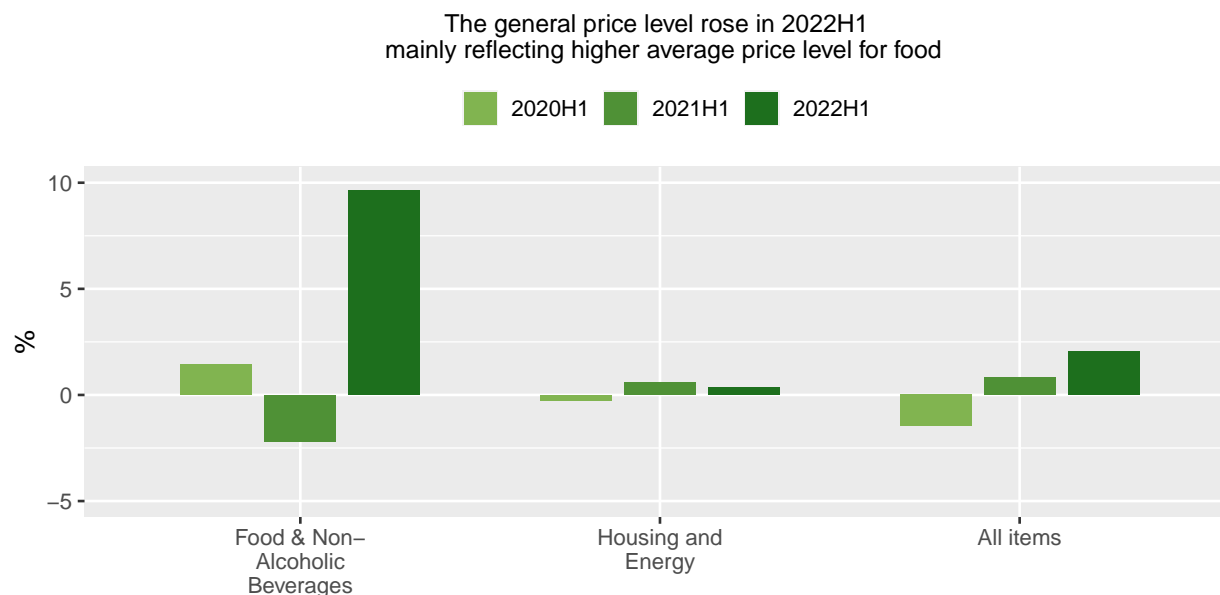
The increase in activity in key productive sectors would have contributed to higher output in significant service sectors such as transport, storage, and communications. Production in the manufacturing sector declined in the current period relative to the corresponding period of the previous year, as a key manufacturing plant has started it will be closing its operations in the Federation.

2.1 Consumer Prices

The general price level increased in the first six months of 2022 (Figure 3). More specifically, the consumer price index rose by 2.0 per cent, on a period average basis, compared with of the 0.8 per cent increase recorded one year earlier (see Figure 3). The inflationary pressures mainly reflected increases in the price of



food and non-alcoholic beverages (9.7 per cent), alcoholic beverages, tobacco and narcotics (6.9 per cent), and household furnishings, supplies and maintenance (2.2 per cent).



Source: ECCB

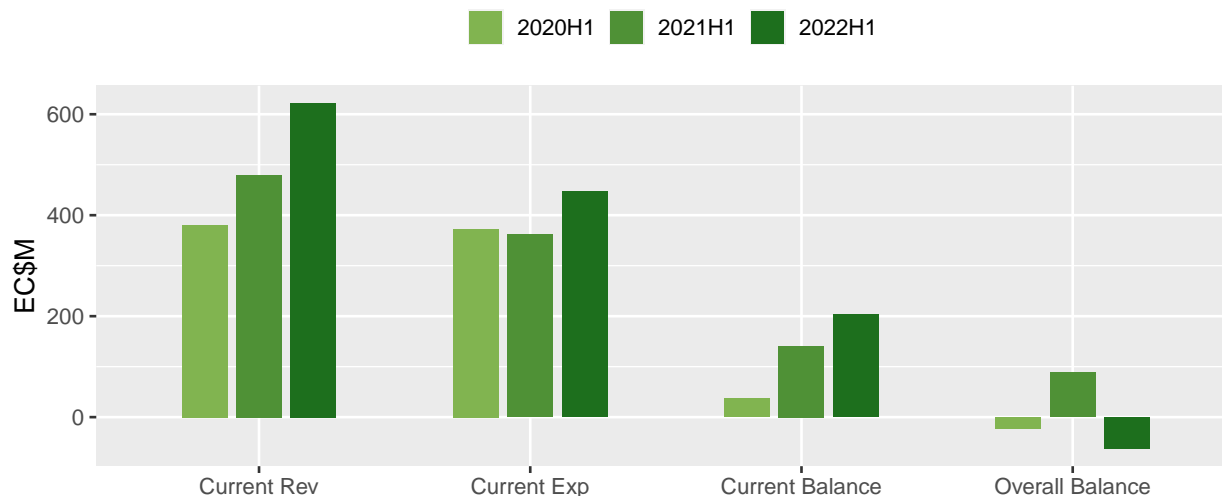
Figure 3: Half-Year Trends in Period-Average Inflation for Saint Christopher (St Kitts) and Nevis.

3 Government Operations

In the first half of 2022, the government has moved to a fiscal deficit position from a fiscal surplus position in the same period in 2021 (Figure 4). An overall deficit of \$62.9m was recorded, following an overall surplus of \$88.7m in the corresponding period of 2021.

Developments on the capital expenditure account mainly influenced the deterioration in the fiscal balance. The capital expenditure grew over three-fold to \$274.8m. The main driving force behind such a drastic increase in capital expenditure was the purchase of land by the government under the land redemption programme where the government repurchased land valued at \$205.5m.

The government shifted to a fiscal deficit position in 2022H1 from a fiscal surplus position in the comparative period in 2021



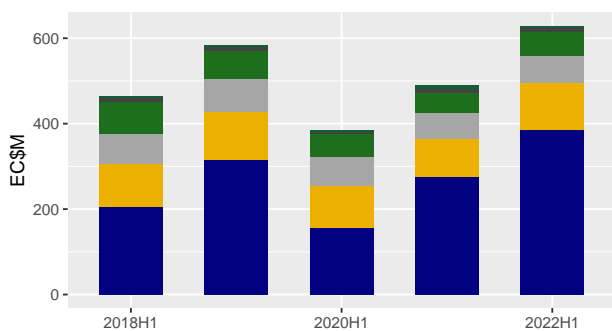
Source: ECCB

Figure 4: Half-Year Trends in Fiscal Operations

Meanwhile, current expenditure also increased by 23.6 per cent to \$446.8m (see figure 5B) reflecting higher outlays in all categories of expenses, in particular goods and services and transfers. The decline was however tempered by an increase in current revenue.

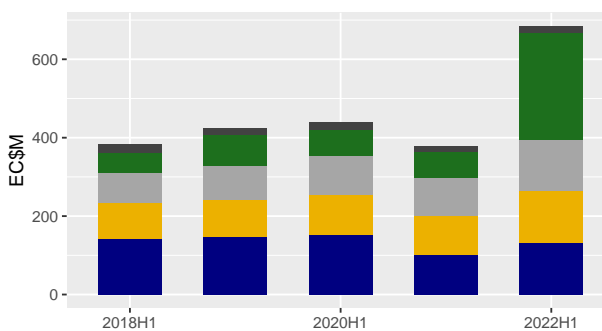
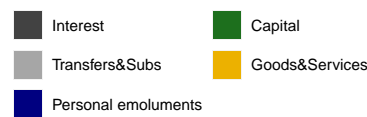
Current revenue is estimated to have increased by 29.7 per cent to \$622.3m, associated with a 40.0 per cent expansion in non-tax revenue (Citizenship by Investment receipts being the most significant component). There was also a 15.9 per cent expansion in tax revenue as the economy continues to recover from the COVID-19 pandemic. (See Figure 5A).

A Total Revenue Composition



Source: ECCB

B Total Expenditure Composition



Source: ECCB

Figure 5: Fig 4: Half-Year Trends in the Composition of Revenue and Expenditure

3.1 Debt

The total disbursed outstanding public sector debt trended downward by \$23.1m (or by 1.4 per cent) to \$1,595.1m at the end of June 2022, as the government continued to service its obligations (Figure 6). The lower total debt level was driven exclusively by regular amortization of \$19.3m in total public sector external debt.

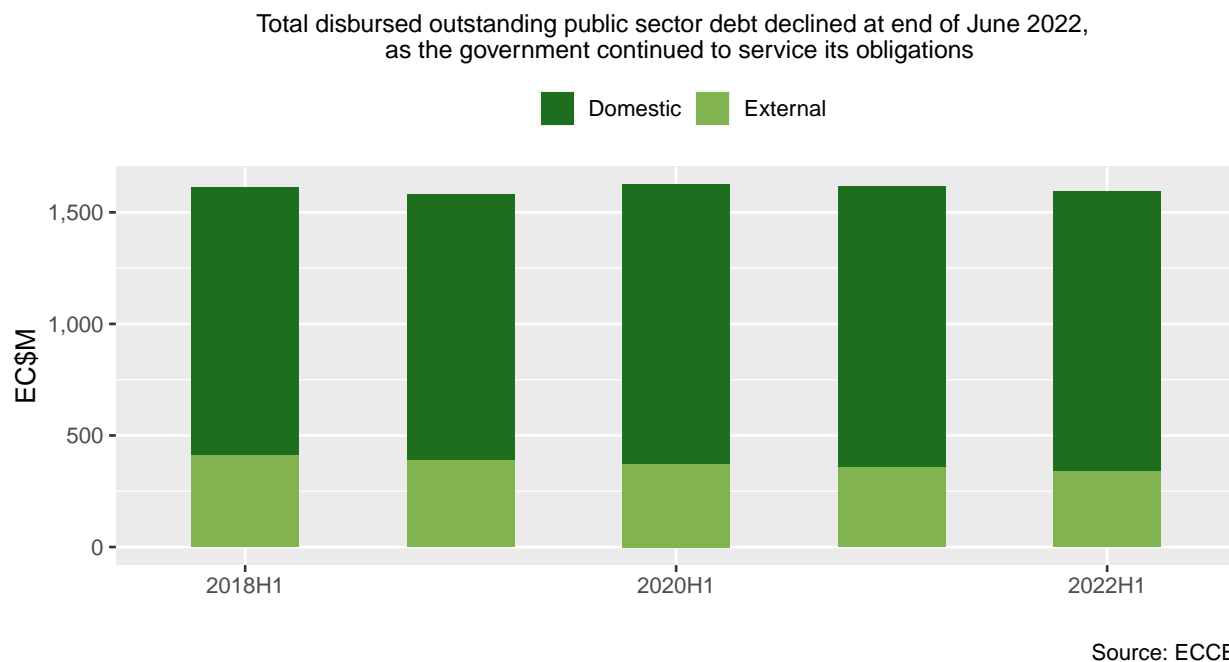


Figure 6: Half-Year Trends in Outstanding Public Sector Debt

4 Banking Developments (Monetary)

Broad money liabilities (M2), which comprises currency in circulation and deposits, rose by 6.5 per cent to \$3,046.5m in the first six months of 2022. This increase mainly reflected an uptick in transferable deposits in national currency (mainly demand deposits and current accounts) and foreign currency deposits, but was partly mitigated by a decline in other deposits in national currency (Figure 7).

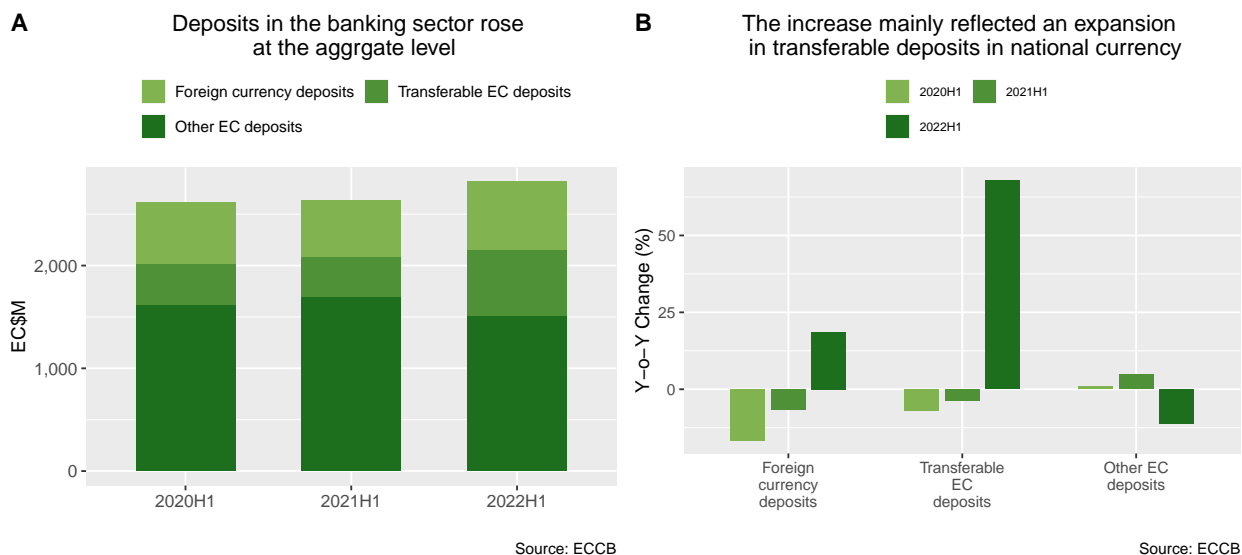


Figure 7: Domestic Deposit Trends

Domestic claims (credit) rose by 25.5 per cent to \$787.8 in the first half of 2022, more than double the average domestic claims recorded over the past five years, as private sector claims increased during the period under review. A 7.1 per cent increase in private sector claims, reflecting an uptick in both household (5.3 per cent) and business (5.4 per cent) claims (Figure 8).

Also, the government continued to draw down on its deposits amidst the pandemic. Hence, a 2.4 per cent decline in net liabilities (deposits) to the general government was observed (see Figure 8).

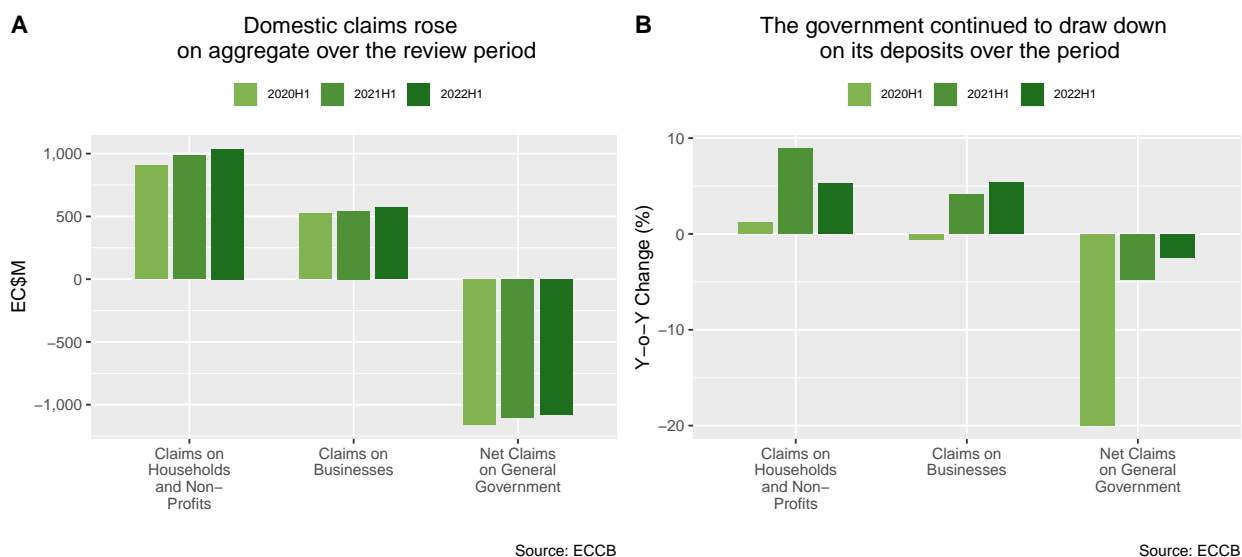


Figure 8: Claims to Selected Sectors

The ratio of nonperforming loans to gross loans in the banking sector stood at 22.0 per cent, 17 percentage points above the ECCB's tolerable limit and 1.3 percentage points lower than the average ratio over the



prior five years (Figure 9). Notwithstanding, the Federation's banking system remained liquid at the end of June 2022.

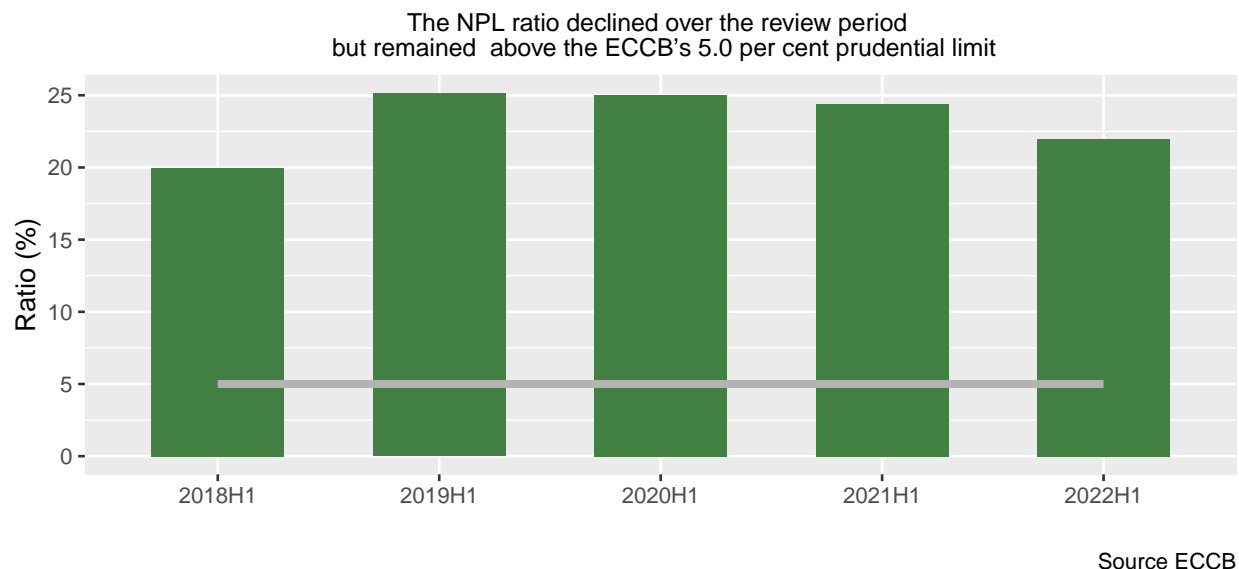
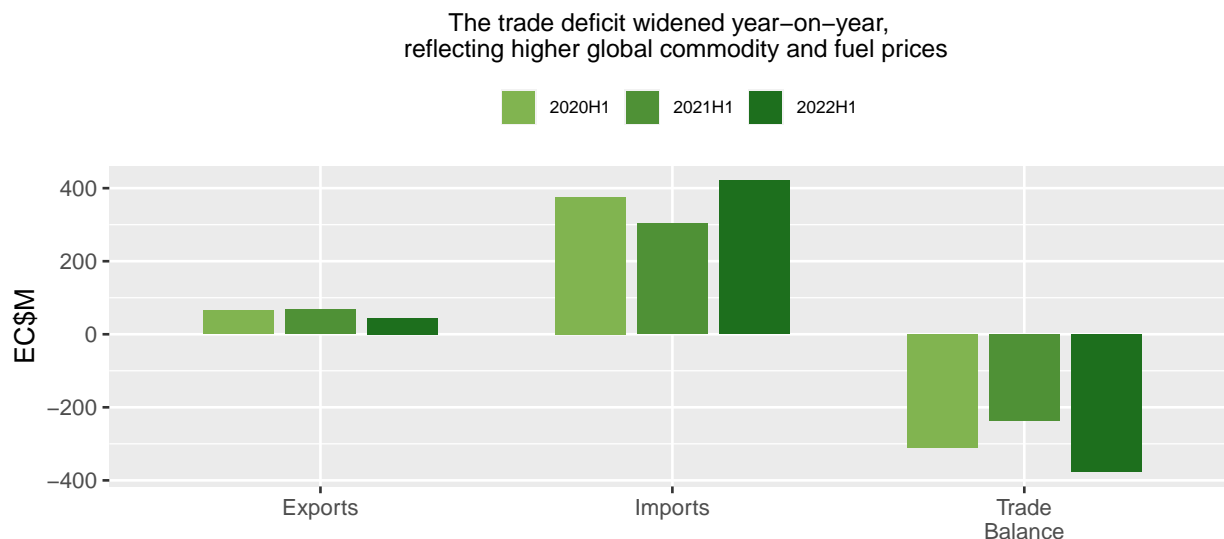


Figure 9: Half-Year Trends in Non-Performing Loans.

5 External Trade

The merchandise trade deficit expanded by 60.0 per cent to \$376.7m during the first half of 2022, higher than in past five years. This development was mainly driven by the growth in import payments. A decline in export receipts also contributed to the expansion of the trade balance (see Figure 10). However, with the increase in visitor arrivals, gross travel receipts are estimated to have increased by seven-fold per cent to \$162.3m in the first six months of 2022.



Source: ECCB

Figure 10: Half-Year Trends in External Trade

6 Outlook

Following a marginal contraction in 2021, economic activity in St Kitts and Nevis is projected to expand in 2022 as the country continues to rebound for the effects of the COVID-19 pandemic.

- While activity in the tourism industry recovered in the first half of the year, tourist arrivals are expected to increase in the latter half, particularly in the last quarter, as stringent entry protocols have been eased within the Federation.
- Agricultural output is expected to continue to expand. Ongoing public and private sector projects will contribute to construction activity in the last half of the year.
- Risks to this outlook are, however, skewed to the downside. The Federation's growth prospects depend on geopolitical tensions in the world, slower than expected global growth, rising commodity prices and supply chain disruptions.
- Also, a reduction in proceeds from Citizenship by Investment could also have an impact the government's fiscal account.
- Saint Christopher (St Kitts) and Nevis remain vulnerable to natural disasters, particularly in the second half of the year;
- On the upside, pent up travel demand could accelerate demand for tourism services in St Kitts and Nevis and boost economic activity in the latter part of the year. Moreover, the continued fiscal support by the Federal Government could continue to bolster economic activity.



7 Selected Economic Indicators

Indicator	2018H1	2019H1	2020H1	2021H1	2022H1
Current Revenue (EC\$M)	458.7	579.0	380.6	479.7	622.3
Current Expenditure (EC\$M)	329.4	346.6	372.6	361.3	446.8
Current Balance (EC\$M)	144.4	248.2	37.3	141.2	203.7
Primary Balance (EC\$M)	127.0	197.0	-4.1	103.2	-45.2
Overall Balance (EC\$M)	105.7	179.2	-22.3	88.7	-62.9
Total Public Sector Debt (EC\$M)	1612.4	1580.0	1622.8	1618.2	1595.1
Inflation (Period Average %)	-0.6	-0.1	-1.5	0.8	2.0
Total Visitor Arrivals ('000)	732.1	731.3	298.8	6.4	293.4
Total Visitor Expenditure (EC\$M)	289.5	315.9	117.1	20.3	154.7
Net Foreign Assets (EC\$M)	2511.0	2614.5	2579.4	2637.0	2645.9
Domestic Credit (EC\$M)	189.7	157.8	470.8	627.6	787.8
M2 (EC\$M)	2907.7	2955.7	2830.9	2861.6	3046.6
Currency in Circulation (EC\$M)	213.9	222.8	239.6	238.7	257.0
Liquid assets to total assets	60.3	61.1	59.1	53.1	51.9
Liquid assets to short-term liabilities	62.9	66.5	75.3	61.4	60.8
Customer deposits to total (noninterbank) loans	238.7	234.6	203.9	190.4	192.1
Weighted Average Deposit Rate (%)	1.7	1.7	1.9	2.0	1.7
Weighted Average Lending Rate (%)	8.4	8.0	7.2	6.9	6.7
Interest Rate Spread (%)	6.7	6.3	5.3	5.0	5.0
Non-Performing Loans to Total Loans (%)	20.0	25.1	25.0	24.4	22.0



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