

SAINT CHRISTOPHER AND NEVIS

EASTERN CARIBBEAN CENTRAL BANK

ANNUAL ECONOMIC AND FINANCIAL REVIEW 2023

EASTERN CARIBBEAN CENTRAL BANK



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ECONOMIC AND FINANCIAL REVIEW

SAINT CHRISTOPHER
(ST KITTS) AND NEVIS

EASTERN CARIBBEAN CENTRAL BANK





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Saint Christopher (St Kitts) and Nevis Annual Economic and Financial Review - 2023

Eastern Caribbean Central Bank

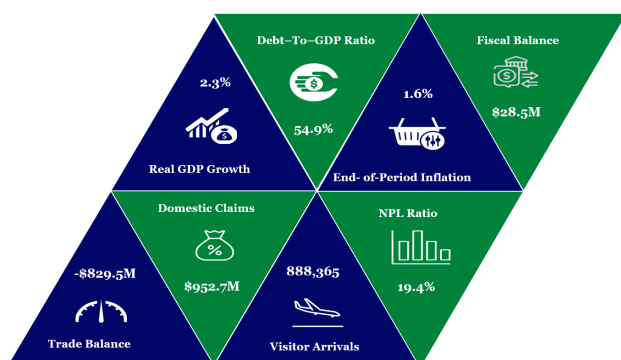
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Overview¹

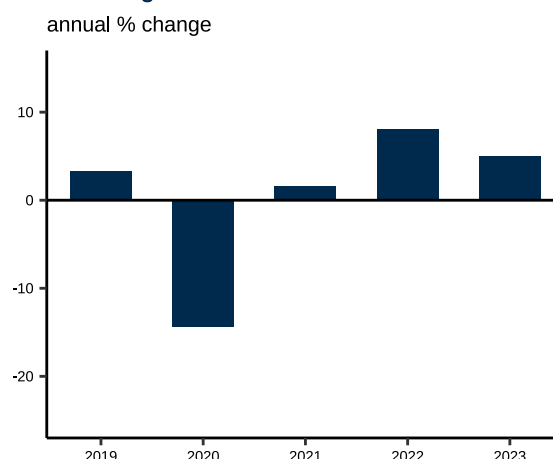
- Further solidifying the economic recovery post COVID-19, real GDP in Saint Christopher (St Kitts) and Nevis is estimated to have expanded by 2.3 per cent in 2023.
- Real sector developments underpinned by increased visitor arrivals and a rebound in agriculture, livestock and forestry contributed to the expansion in the economy, and lay the basis for a positive outlook in 2024 based on investments made to enhance tourism competitiveness and planned public and private sector construction.
- Economic prospects are clouded by a deteriorating geo-political global environment, inflationary pressures, threats to the sustainability of the Federation's vital Citizenship by Investment programme and adverse weather conditions.



The Economy (Real Sector)

Following a robust economic recovery in 2022, economic activity expanded further in 2023, albeit at a slower rate, as buoyancy in the real sector signaled an expansionary economy as economic activity normalized post COVID-19. The economy is estimated to have expanded by 2.3 per cent in real terms compared with an 10.5 per cent increase in 2022, driven by activity in the major economic sectors (see Figure 1).

Figure 1: Real GDP Growth Rates

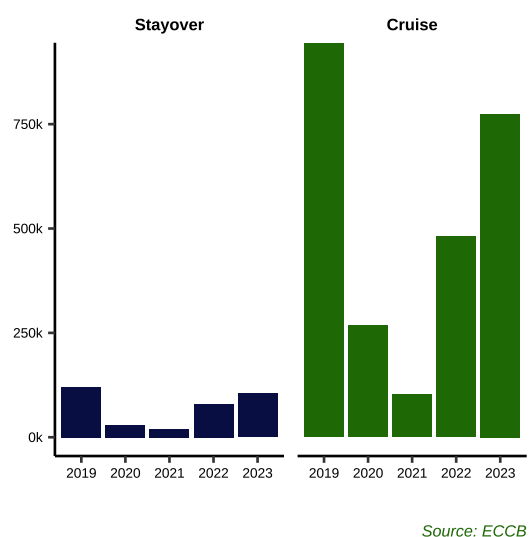


Source: ECCB

¹Photo Credit: St Kitts Tourism Authority

Value added in the hotels and restaurants sector is estimated to have expanded by 31.0 per cent, consistent with a surge in visitor arrivals, as travel normalized post COVID-19, coupled with intensified marketing. Total visitor arrivals rose by more than half (57.0 per cent) to 888,365, largely influenced by higher cruise passengers and stay-overs of 61.0 per cent and 31.0 per cent respectively (See Figure 2). For the most part arrivals remained below pre-pandemic levels except for excursionists and yacht passengers.

Figure 2: Visitor Arrivals in Selected Categories



Value added increased in the agriculture, livestock and forestry sector (10.5 per cent) which also contributed to the economic expansion.

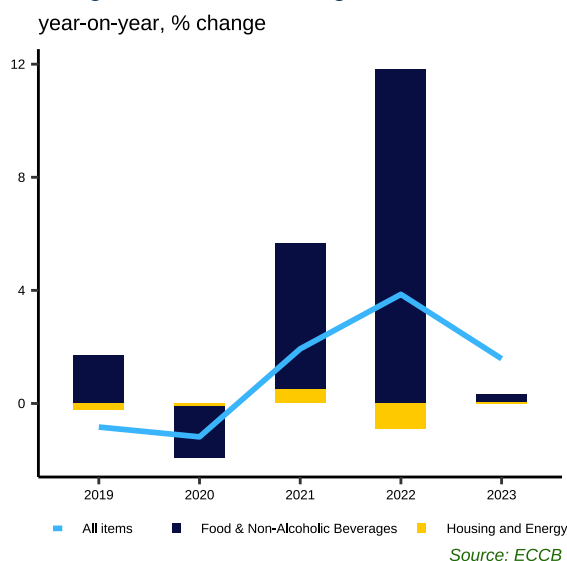
The increase in tourism activity in particular created positive externalities impacting related sectors including transport, storage and communication and real estate, renting and business activities, which were estimated to have expanded by 10.7 per cent and 4.3 per cent respectively.

In contrast, construction another major driver of economic activity contracted by 1.5 per cent, as did manufacturing (1.5 per cent) representing major constraints to the economic performance. The decrease in value added in construction reflected the paucity of major private sector projects coupled with lower public sector investment. Manufacturing continues to be adversely impacted by external competition.

Consumer Prices

The rate of inflation as measured by the consumer price index, rose by 1.6 per cent on an end of period basis, compared with an increase of 3.9 per cent in the previous year, as pandemic related supply chain disruptions gradually eased. Lower prices for education (3.3 per cent) and transport (2.5 per cent) along with slower price increases of food and non-alcoholic beverages, and alcoholic beverages, tobacco and narcotics of 0.3 per cent and 3.8 per cent respectively, tempered inflationary pressures during the review period. In 2022, prices for food and Non-alcoholic beverages rose by 11.9 per cent and those for alcoholic beverages, tobacco and narcotics by 8.4 per cent.

Figure 3: Selected Categories of Inflation



Government Operations

The government reversed the outturn of its fiscal operations by recording an overall surplus of \$28.5m (1.0 per cent of GDP) in 2023, in contrast to an overall deficit of \$92.1m (3.5 per cent of GDP) in the previous year.

Likewise, the primary balance increased to a surplus of \$62.7m (2.1 per cent of GDP) from a deficit \$59.2m (2.2 per cent of GDP) in 2022 (See Table 1).

Table 1: Central Government Fiscal Operations (EC\$M)

| Item | 2019 | 2020 | 2021 | 2022 | 2023 |
|--|---------|-------|---------|---------|---------|
| Current Revenue | 1,097.3 | 798.1 | 1,090.1 | 1,243.5 | 1,238.6 |
| Tax Revenue | 553.8 | 448.9 | 441.6 | 488.6 | 537.7 |
| Non-Tax Revenue | 543.5 | 349.2 | 648.5 | 754.9 | 700.9 |
| Current Expenditure | 820.5 | 774.0 | 848.0 | 1,053.8 | 1,046.7 |
| Current Account Balance (after Grants) | 318.4 | 90.6 | 299.8 | 266.6 | 277.5 |
| Capital Revenue | 8.5 | 10.4 | 18.3 | 12.5 | 7.6 |
| Grants | 64.1 | 83.4 | 72.4 | 91.8 | 105.0 |
| Capital Expenditure and Net Lending | 332.0 | 178.8 | 192.9 | 386.1 | 275.9 |
| Primary Balance (after Grants) | 53.1 | -28.5 | 168.2 | -59.2 | 62.7 |
| Overall Balance (after Grants) | 17.5 | -61.0 | 139.9 | -92.1 | 28.5 |
| Financing | -17.5 | 61.0 | -139.9 | 92.1 | -28.5 |

Note:

Sources: ECCB and National Statistics Office

Developments on the capital account largely influenced the change to an overall fiscal surplus, as capital expenditure and net lending decreased by 28.5 per cent to \$276.0m (9.4 per cent of GDP) on account of the completion of the repurchase of land (in excess of \$200.0m) by the government in 2022.

Developments in the current fiscal account were marked by an estimated decrease in current revenue by 0.4 per cent to \$1,238.6m (43.4 per cent of GDP), associated with a 7.2 per cent decline in non-tax revenue. Lower Citizenship by Investment receipts accounted for lower non-tax revenue inflows.

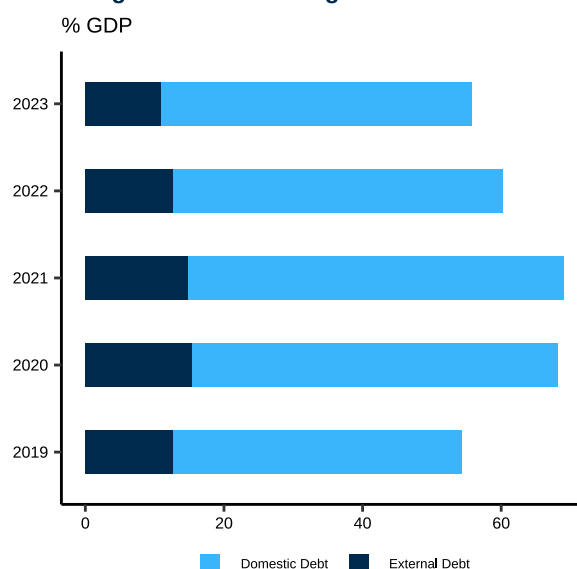
Meanwhile, tax revenue rose for a third consecutive year by 10.1 per cent to \$537.7m, aided by higher inflows of all major tax categories. Current expenditure also declined by 0.7 per cent to \$1,046.7m (36.7 per cent of GDP) constrained by a reduction in transfers and subsidies by 11.2 per cent. The decline in current expenditure was tempered mainly by increased outlays of goods and services, and personal emoluments of 7.9 per cent and 2.4 per cent respectively. As a consequence of the decline in current expenditure outpacing that of current revenue, a current account surplus of \$277.5m (9.7 per cent of GDP) above the \$266.6m (10.1 per cent of GDP) in 2022 was recorded.

²ECCB estimates

Debt

The total disbursed outstanding public sector debt remained relatively unchanged at \$1,594.6m² at the end of December 2023 compared with December last year. As a percent of GDP, the public sector debt reverted to its pre-pandemic level of 54.9 per cent, having exceeded the ECCU 60.0 per cent debt target for the past three years (Figure 4). The stock of debt reflected a decline of 1.7 per cent (\$8.6m) in the indebtedness of public corporations, partly offset by an increase of 0.7 per cent (\$8.0m) in the debt of the central government. The central government accounted for 69.3 per cent (37.7 per cent of GDP) of the total public debt portfolio, while public corporations accounted for the remainder.

Figure 4: Outstanding Public Sector Debt



Source: ECCB

Banking Developments

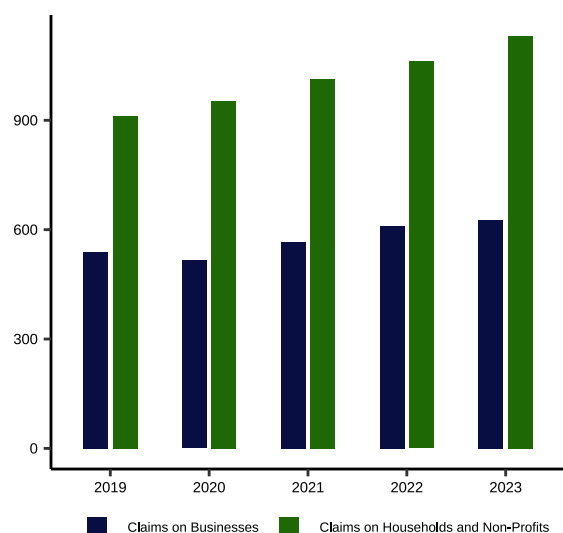
Broad money liabilities (M2) decreased by 1.9 per cent to \$3,071.9m at the end of 2023, attributable a decline in foreign currency deposits. This outturn was mainly attributable to lower inflows from the Citizenship by Investment program relative to 2022.

Domestic claims (credit) expanded by 11.4 per cent to \$952.7m at the end of 2023, appreciably slower than

the 41.5 per cent increase observed at the end of the previous year. This outturn was mainly influenced by increases in claims on the private sector and on general government of 5.2 per cent 2.8 per cent respectively, consistent with the slower pace of economic growth. An increase in liabilities to general government (1.3 per cent) in contrast to a decline of 9.3 per cent in the 2022, tempered the overall rise in domestic claims (See Figure 5).

The ratio of nonperforming loans to gross loans in the banking sector fell to 19.4 at the end of December 2023, from 21.8 per cent. Notwithstanding the improvement in loan quality, the ratio was 14.4 percentage points above the ECCB's prudential benchmark. Banking system liquidity remained well in excess of the ECCB minimum of 20.0 per cent as indicated by a net liquid assets to total deposits ratio of 50.7 at the end of December 2023.

Figure 5: Claims (Credit) on Selected Sectors
EC\$M'



Source: ECCB

External Trade

A merchandise trade deficit of \$829.5m (29.0 per cent of GDP) was recorded in 2023, representing a 3.6 per cent widening in the imbalance compared with the previous year. The trade deficit was the highest recorded in the past five years and was mainly due to an expansion in import payments, consistent with higher real sector activity. A 26.3 per cent

decline in domestic export receipts also contributed to the expanded deficit.

As a corollary to the surge in visitor arrivals, gross travel receipts are estimated to have increased to \$428.5m in 2023 from \$314.4m in 2022.

Activity in the construction sector is expected to accelerate as the Government ramps up its investment in smart houses in St Kitts and road rehabilitation on both islands.

Outlook

After two years of positive growth post COVID-19, the economy of Saint Christopher (St Kitts) and Nevis is projected to expand by 5.5 per cent in 2024, buttressed by steady global economic growth. On the domestic front, an uptick in construction in both the public and private sectors and intensified tourism activity would fuel the expansion. Some upside risks include inter-alia:

- A gradual strengthening of activity in the tourism industry is anticipated consistent with global developments in the industry. Investment in airlift and stepped up marketing are expected to yield positive returns.
- Consistent with the authorities' investments in the agricultural sector to comply with the CARICOM 25 by 25 (25.0 per cent reduction in imports by 2025), output in the sector is projected to increase.
- Activity in the construction sector is expected to accelerate as the Government ramps up its investment in smart houses in St Kitts and road rehabilitation on both islands. Private sector developments will be underscored by the commencement of work on the Hotel INDIGO at Potato Bay and on-going residential projects.
- On the downside, intensifying risks include; geopolitical tensions associated with the Russian/Ukraine war, the Israel/Hamas war and the China-Taiwan impasse.

- Rising commodity prices associated with increased geo-political tensions and consequent supply chain disruptions.
- Reduced inflows from the Citizenship by Investment programme due to regional competition
- Weather related threats comprising hurricanes, flood and drought persist.
- could pose a major fiscal setback for the Federation.



Selected Economic Indicators

| ...1 | 2019 | 2020 | 2021 | 2022 | 2023 |
|--|----------|----------|----------|----------|----------|
| National Income and Prices (Annual % change) | | | | | |
| Nominal Gross Domestic Product (GDP) at Market Prices | 2.9 | -20.2 | -2.9 | 14.3 | 7.8 |
| Real GDP at Market Prices | 2.8 | -15.4 | 0.5 | 10.5 | 2.3 |
| Consumer Prices (end of period) | -0.8 | -1.2 | 1.9 | 3.9 | 1.6 |
| Consumer Prices (period average) | -0.3 | -1.2 | 1.2 | 2.7 | 3.6 |
| Real Gross Value Added (GVA) at basic prices (%) | | | | | |
| Agriculture, Livestock and Forestry | 12.2 | -8.1 | 5.8 | -12.7 | 10.5 |
| Manufacturing | 16.8 | -12.0 | 24.6 | -47.1 | -1.5 |
| Construction | 5.7 | -16.3 | 14.8 | -0.2 | -1.5 |
| Wholesale and Retail Trade | 1.4 | -21.6 | -3.7 | 23.5 | -1.0 |
| Hotels and Restaurants | -2.0 | -63.3 | -17.7 | 135.2 | 31.0 |
| Transport, Storage and Communications | 6.1 | -15.2 | -4.1 | 10.3 | 10.7 |
| Financial Intermediation | 3.6 | -3.3 | 3.7 | 2.5 | -1.9 |
| Real Estate, Renting and Business Activities | 2.5 | -3.6 | 1.9 | 1.8 | 4.3 |
| Public Administration, Defence & Compulsory Social Security | 4.9 | -1.7 | -0.7 | 9.0 | 8.0 |
| Total Public Sector Debt (% GDP) | | | | | |
| Total Public Sector Debt | 54.3 | 68.1 | 69.1 | 60.2 | 54.9 |
| Public Sector External Debt (end-of-period) | 12.8 | 15.4 | 14.9 | 12.7 | 11.0 |
| Central Government Finances (in XCD millions) | | | | | |
| Current Account Balance | 318.4 | 90.6 | 299.8 | 266.6 | 277.5 |
| Current Revenue | 1,097.3 | 798.1 | 1,090.1 | 1,243.5 | 1,238.6 |
| Current Expenditure | 820.5 | 774.0 | 848.0 | 1,053.8 | 1,046.7 |
| Capital Expenditure and Net Lending | 332.0 | 178.8 | 192.9 | 386.1 | 275.9 |
| Overall Fiscal Balance | 17.5 | -61.0 | 139.9 | -92.1 | 28.5 |
| Monetary Sector (% p.a.) | | | | | |
| Weighted Deposit Interest Rates | 1.7 | 2.0 | 1.8 | 1.7 | 1.8 |
| Weighted Lending Interest Rates | 7.9 | 7.0 | 6.8 | 6.8 | 6.4 |
| Non-Performing Loans Ratio (%) | 24.0 | 23.5 | 20.9 | 21.8 | 19.4 |
| Memorandum items (in XCD millions, unless otherwise stated) | | | | | |
| Nominal GDP at Market Prices | 2,991.2 | 2,386.6 | 2,318.3 | 2,649.9 | 2,856.3 |
| Real GDP at Market Prices | 2,374.2 | 2,009.7 | 2,019.3 | 2,231.8 | 2,283.2 |
| GDP per capita (EC\$) | 53,626.9 | 42,302.2 | 41,002.7 | 46,258.4 | 49,398.9 |
| Merchandise Imports (f.o.b) | 912.8 | 733.0 | 701.2 | 880.3 | 897.9 |
| Merchandise Exports | 155.7 | 140.7 | 127.4 | 79.5 | 68.4 |
| Gross Visitor Expenditure | 509.7 | 122.9 | 77.0 | 314.4 | 428.5 |
| Net Foreign Assets | 2,554.5 | 2,542.9 | 2,794.2 | 2,582.5 | 2,381.5 |
| Domestic Credit | 334.1 | 585.6 | 604.4 | 854.9 | 952.7 |
| Money Supply (M2) | 3,016.6 | 2,771.5 | 3,017.1 | 3,129.9 | 3,071.9 |
| Currency in Circulation | 258.7 | 258.6 | 265.6 | 285.8 | 288.8 |

Note:

Data as at 23 February 2024

¹ Sources: Central Statistics Office and Eastern Caribbean Central Bank (ECCB)

2023

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