SAINT CHRISTOPHER (ST KITTS) AND NEVIS

ECONOMIC AND FINANCIAL REVIEW

June 2024

Eastern Caribbean Central Bank

JUNE 2024

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SAINT CHRISTOPHER (ST KITTS) AND NEVIS

EASTERN CARIBBEAN CENTRAL BANK

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Saint Christopher (St Kitts) and Nevis
Economic and Financial Review - June 2024

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Total visitors fell by **13.4 per cent** to **524,752**, largely reflecting a decrease in cruise passengers.

The consumer price index advanced by **0.7 per cent**, compared with a **1.3 per cent** increase recorded one year earlier.

Total disbursed outstanding public sector debt fell by an estimated **1.2 per cent ($18.5m)** to **$1,576.8m** at the end of June 2024.

An overall deficit of **$59.1m** was recorded, at the end of June 2024, reversing an overall surplus of **$182.9m** in the corresponding period of 2023.

The ratio of nonperforming loans to gross loans stood at **18.7 per cent**, above the **5.0 per cent** tolerable limits prescribed by the ECCB

The merchandise trade deficit rose by **0.2 per cent** to 399.1m during the first half of 2024, compared to a **5.7 per cent** expansion in the corresponding period of 2023.

> **"The economic prospects for the Federation of Saint Christopher and Nevis will largely reflect macro-economic developments in the external environment."**

Overview

- Economic activity in St Christopher (St Kitts) and Nevis is estimated to have expanded in the first six months of 2024 when compared with the corresponding period in 2023. The post-pandemic recovery has been moderate but steady.

- A rebound in tourism was the major driver of economic growth as construction was subdued and agriculture and manufacturing declined. The modest pace of the expansion will likely not see output converging to pre-pandemic levels prior to next year.

- Risks to the economic performance are tilted to the downside and include worsening geo-political tensions, inflationary fears and moderate global growth, while domestically, a constrained recovery and reductions in receipts from the Citizen by Investment Programme.

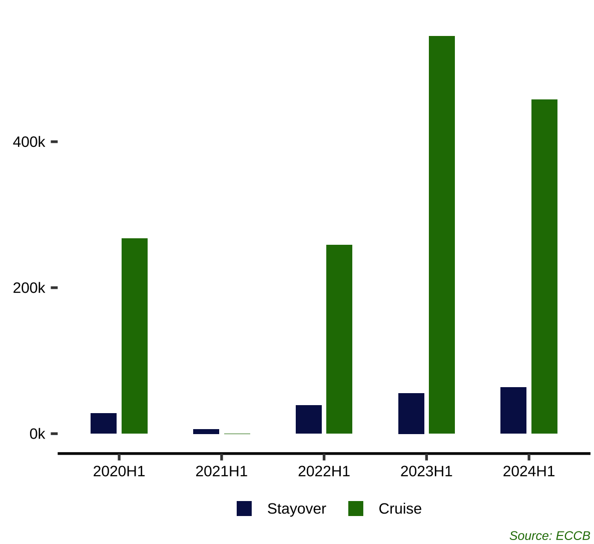
The Economy (Real Sector)

Economic activity in the first half of 2024 reflected increases in critical sectors of the economy, as the Federation continued to rebound albeit not back to pre-COVID-19 pandemic levels. Notwithstanding a decline (13.4 per cent) in overall visitors to 524,752, the relatively more important subcategory of stay-over visitors increased by 14.3 per cent to 63,541, reflecting increases from most of the major source markets.

The US market led the increase (5,170) followed by the Caribbean (2,798), while visitors from the UK fell (82). Declines were also recorded for cruise passengers (86,878), on account of reduced cruise ship calls. Excursionists and yacht passengers trended lower relative to the corresponding period of 2023 (see Figure 1).

Data on construction sector activity suggest that activity fell as capital expenditure declined by 35.2 per cent in the first half of 2024, compared with a 54.8 per cent during the corresponding period last year. Imports of construction related material were mixed, as higher cement and lumber imports of 16.6 per cent and 1.6 per cent respectively was, moderated by a 3.1 per cent reduction in the import of building materials. Public sector construction projects included major road rehabilitation and residences, while private sector activity consisted of residential and commercial building construction.

Figure 1: Visitor Arrivals in Selected Categories



Agricultural sector output identified as one of the key transformational sectors, on balance, appeared to have recorded lower activity. The output of crops and eggs fell by 26.3 per cent and 27.9 per cent respectively tempered somewhat by increases in the output of livestock (11.5 per cent) and fish (5.5 per cent).

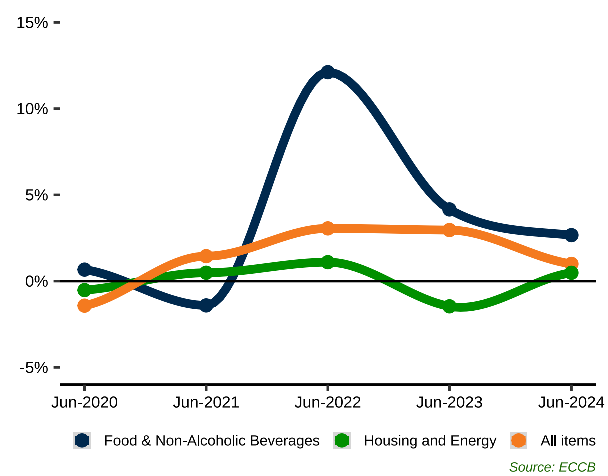
Favourable developments in the hotels and restaurants sector would have created positive externalities in related service sectors such as transport, storage, and communications, real estate and renting.

Consumer Prices

Inflationary pressures slowed during the first six months of 2023 relative to the first six months of 2023. The consumer price index advanced by 0.7 per cent (end of period), compared with a 1.3 per cent increase recorded one year earlier (Figure 2). The major upward influences on the index reflected higher prices for transport (2.3 per cent), food and non-alcoholic beverages (1.9 per cent) housing utilities, gas and fuels (0.7 per cent) and household furnishings, supplies (1.5 per cent). Downward movements in the sub-indices for alcoholic beverages tobacco and narcotics (5.7 per cent), education (5.9 per cent) and hotels and restaurants (2.2 per cent) partially offset these effects.

Figure 2: Selected Categories of Inflation

end-period, y-o-y



On an end of period basis year-on-year however, the CPI rose by 1.0 per cent driven by increases in food and non-alcoholic beverages, and housing and energy of 2.7 per cent and 0.5 per cent respectively (Figure 2).

Government Operations

In the first six months of 2024 the overall fiscal position of the government reverted to a deficit from a surplus in the same period in 2023. An overall deficit of $59.1m was recorded, reversing an overall surplus of $182.9m in the corresponding period of 2023 (Figure 3).

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

Item	2020H1	2021H1	2022H1	2023H1	2024H1
Current Revenue	380.6	479.7	621.8	775.5	**484.5**
Tax Revenue	224.6	204.3	236.9	281.1	**277.4**
Non-Tax Revenue	156.0	275.4	384.9	494.3	**207.1**
Current Expenditure	372.6	361.0	446.4	510.6	**513.9**
Current Account Balance (after Grants)	37.3	141.6	203.7	303.0	**9.3**
Capital Revenue	3.2	9.5	5.9	5.0	**2.9**
Grants	31.8	28.7	30.7	38.8	**49.0**
Capital Expenditure and Net Lending	65.3	80.2	278.4	125.9	**81.6**
Primary Balance (after Grants)	-4.1	91.2	-48.7	200.7	**-39.6**
Overall Balance (after Grants)	-22.3	76.7	-66.4	182.9	**-59.1**

* Sources: ECCB and National Statistics Office

A reduction in the surplus on the current account represents the main contributing factor to the overall fiscal position. Current revenue declined by 37.5 per cent to $484.5m, largely influenced by reduced non-tax revenue receipts (58.1 per cent). Citizenship by Investment inflows fell by $291.3m and represented 74.8 per cent of non-tax revenue, significantly lower than the 90.3 per cent proportion during the same period of 2023. A decline in tax revenue of 1.3 per cent also contributed to lower current revenue receipts.

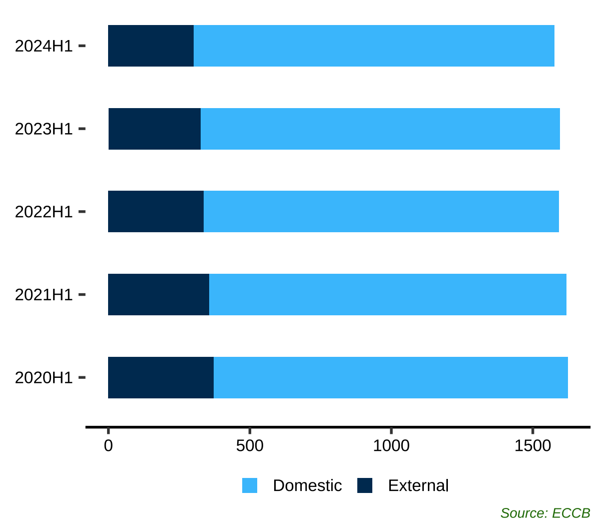
Partly contributing to the larger current fiscal imbalance, current expenditure increased by 0.7 per cent to $513.9m (see figure 5) reflecting higher outlays in all categories of expenses, except goods and services which fell largely on account of a sharp reduction in production, advertising and marketing expenses. Capital expenditure fell by 35.2 per cent to $81.6m as a number of government projects have been delayed in their implementation.

Debt

Total disbursed outstanding public sector debt fell by an estimated 1.2 per cent ($18.5m) to $1,576.8m at the end of June 2024, compared with an outstanding amount of $1,595.3m at the end of June 2023 due to repayments far in excess of its borrowings. The reduction in outstanding debt largely reflected decreases in both external and domestic debt stocks by 3.6 per cent and 0.5 per cent respectively (Figure 3). The central government accounted for most of the reduction in external debt, while developments with public corporations accounted for lower domestic liabilities.

Figure 3: Outstanding Public Sector Debt (EC$M)

Stock, end-period



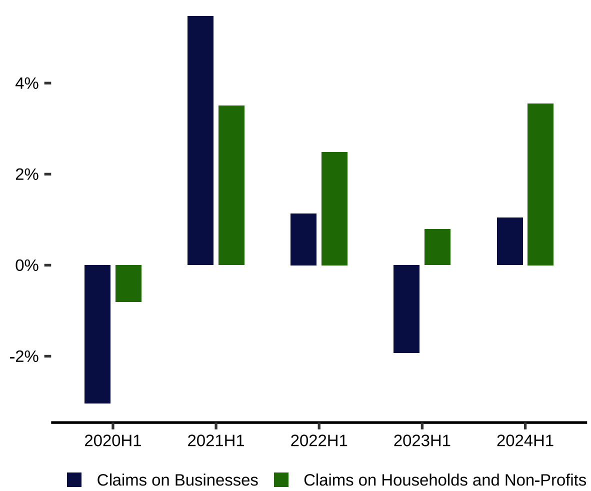
Banking Developments

Domestic claims (credit) expanded by 8.5 per cent to $1,033.8m as at June 2024, as private sector claims rose by 2.6 per cent and the net deposit position of the general government fell during the period under review, due to a reduction (6.1 per cent) in liabilities to the general government. The overall increase in domestic claims was influenced by a 1.7 per cent increase in claims on the general government. The increase in private sector claims was driven by households (3.6 per cent) and businesses (1.0 per cent) (Figure 4).

Broad money (M2), which comprises currency in circulation and deposits, rose by 2.6 per cent to $3,150.6m for the year ended June 2024, in contrast to a 1.3 per cent contraction. This increase mainly reflected an uptick in other deposits in national currency and transferrable deposits (mainly demand deposits and current accounts).

Figure 4: Claims (Credit) on Selected Sectors

percentage change



Source: ECCB

The financial system remained stable supported by ample liquidity as indicated by the loans-to-deposits ratio of 177.2 per cent at the end of June 2024, when compared with one of 182.0 per cent at the end of December 2023. Additionally, the ratio of nonperforming loans to gross loans in the banking sector stood at 18.7 per cent above the 5.0 per cent tolerable limits prescribed by the ECCB, but lower than the ratio of 20.3 per cent twelve months prior, and the ratio of 19.4 per cent at the end of December 2023.

External Trade

There was a marginal increase (0.2 per cent) in the merchandise trade deficit to $399.1m during the first half of 2024, compared to a 5.7 per cent expansion in the corresponding period of 2023. The larger deficit was driven by an increase in import payments ($5.3m) which slightly outpaced a recovery ($4.7m) in total export receipts (see figure 10). Gross travel receipts, are estimated to have increased by 5.8 per cent to $257.9m in the first six months of 2023, compared with a 56.9 per cent expansion in the first half of 2023. Lower cruise passengers was the major factor which tempered the increase in gross travel receipts.

Outlook

The economic prospects for the Federation of St Kitts and Nevis will largely reflect macroeconomic developments in the external environment. Global economic growth is moderating, inflation remains high but is trending downward, and geopolitical tensions persist, making economic projections less certain. Notwithstanding the mixed international outlook, continued expansion in the hotels and restaurants sector, the implementation of planned public sector projects and continued private sector investments could bolster growth prospects for St Kitts and Nevis. Risks to the outlook are elevated and include:

- A deteriorating geopolitical environment punctuated by trans-national conflicts with no near-term resolution. The current environment on balance may not encourage significant international investment, potentially hindering future growth.
- Climate-related risks threaten to derail the post-pandemic economic recovery. Continued threats from hurricanes, drought, and flooding adversely impact the major productive sectors as well as the broader economy.
- A further decline in Citizenship by Investment inflows. This potential decrease could negatively affect government finances, reducing available funding for social programmes and forestall the implementation of some capital projects.
- Low rate of implementation. On the upside, a low implementation rate for capital projects in the past has created a backlog of potential capital investments, which if implemented could significantly boost economic activity. Major social and sporting events such as Culturama, the St Kitts Music Festival and the Caribbean Premier League, usually concurrent with the 'off-season, could strengthen visitors and boost economic activity in the latter part of the year.

Box 1: Increasing the Minimum Wage

Effective 1 January 2024, the Federal Government increased the minimum wage from $9.00 to $10.75 per hour, with the option to increase it to $12.50 per hour effective 1 January 2025. This implies an increase in the weekly wage from $430.00 to $500.00. The policy measure provides relief for lower income earners who have felt the brunt of the economic downturn brought on by the COVID-19 pandemic of 2020 to 2021, by increasing their disposable income.

The impact of the COVID-19 pandemic has been far reaching, but mostly negative on consumers. The disruption of critical supply chains, impeded transportation links and drove up the cost of commodities. In response to distribution and supply pressures globally, central banks in advanced and emerging economies took an accommodative stance and lower interest rates, facilitating cheaper borrowing with the objective of stimulating economic activity. When the economic recovery commenced the environment of lower borrowing costs helped to fuel even faster inflation adding to already high prices.

The recent increase in the minimum wage will augment the purchasing power of lower income earners and alleviate some of the hardships to citizens whose purchasing power has been eroded by inflationary pressures over the past three years. As member governments begin to consider wage options, some factors may be useful for consideration:

- To ensure that support is allocated effectively, it is necessary to assess the needs of individuals and households through a means-testing process. By accurately identifying those in need, resources can be targeted to those who require assistance the most.
- Careful monitoring of the rate of inflation subsequent to the implementation of the minimum-wage would assist policy-makers in determining any potential impact of such policy measures.

In addition to the positive effects to consumers through the immediate increase in their non-taxable income, the effects of the policy measure could stimulate a round of spending, particularly among lower income groups, which will positively impact real sector activity. To the extent that the increase in disposable incomes is channeled more to investment spending than consumption, this policy measure could both enhance welfare while bolstering economic growth.

Selected Economic Indicators

Item	2020H1	2021H1	2022H1	2023H1	2024H1
Banking and Monetary					
Net Foreign Assets (EC$M)	2,579.4	2,637.0	2,647.4	2,686.8	2,352.5
Domestic Credit (EC$M)	470.8	627.6	788.6	659.9	1,033.8
M2 (EC$M)	2,830.8	2,861.6	3,046.6	3,090.7	3,150.6
Currency in Circulation (EC$M)	239.6	238.7	257.0	257.3	259.7
Liquid assets to total assets	59.1	53.1	51.8	51.5	48.4
Liquid assets to short-term liabilities	75.3	61.4	60.8	56.7	54.2
Customer deposits to total (noninterbank)loans	203.9	190.4	192.0	197.1	177.2
Weighted Average Deposit Rate (%)	1.9	2.0	1.7	1.7	1.8
Weighted Average Lending Rate (%)	7.2	6.9	6.7	6.5	6.4
Interest Rate Spread (%)	5.3	5.0	5.0	4.8	4.6
Non-Performing Loans to Total Loans (%)	25.0	24.4	21.9	20.3	18.7
Real Sector and Prices					
Inflation Rate (year-on-year)(end-June) (%)	−1.4	1.4	3.1	3.0	1.0
Inflation Rate (half-year) (%)	−1.5	1.1	2.2	1.3	0.7
Total Visitor Arrivals	298,789	6,392	299,114	606,080	524,752
Total Visitor Expenditure (EC$M)	117.1	20.3	155.4	243.8	257.9
Government Finances					
Current Revenue (EC$M)	380.6	479.7	621.8	775.5	484.5
Current Expenditure (EC$M)	372.6	361.0	446.4	510.6	513.9
Current Balance (EC$M)	37.3	141.6	203.7	303.0	9.3
Primary Balance (EC$M)	−4.1	91.2	−48.7	200.7	−39.6
Overall Balance (EC$M)	−22.3	76.7	−66.4	182.9	−59.1
Total Public Sector Debt (EC$M)	1,622.8	1,618.2	1,592.2	1,595.3	1,576.8

Data as at August 2024

2024

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