SAINT CHRISTOPHER AND NEVIS

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EASTERN CARIBBEAN CENTRAL BANK

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ECONOMIC AND FINANCIAL REVIEW

SAINT CHRISTOPHER AND NEVIS

EASTERN CARIBBEAN CENTRAL BANK

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The analysis in this report uses data available as at September 2024 to estimate 2024 full-year figures. For the most recent updates and detailed statistics, please refer to the Statistics page on the ECCB's website.

Saint Christopher and Nevis
Economic and Financial Review - December 2024

Eastern Caribbean Central Bank

Contents

Overview

- The economy of St Christopher (St Kitts) and Nevis[1] continued its expansionary path post-pandemic, sustained by a rebound in the hotel and restaurant sectors.

- Following the dramatic contraction of the economy in 2020, economic activity has steadily recovered, initially slowly, then more quickly as the recovery gathered pace

- Economic growth has expanded at a more moderate rate of 1.2 per cent in 2024 compared to 4.3 per cent in 2023.

- Notwithstanding the rebound in the economy, significant fiscal scarring remains from the effects of the pandemic and a decline in CBI receipts.

- In line with economic growth, monetary liabilities on aggregate expanded while further strengthening in economic activity was boosted by a resumption in credit to the private sector, particularly to businesses.

- Debt levels remained moderate by regional standards and below the ECCU long-target of 60 per cent of GDP; however, the trajectory could change as borrowing requirements increase to finance rising fiscal imbalances.

[1] The data presented for 2024 in this report reflect estimates based on data available through September 2024. Readers should note that these figures are subject to change as more complete data becomes available. Updated data for 2024 may be accessed via the statistics page on our website, and readers are encouraged to refer to this resource for the latest information.

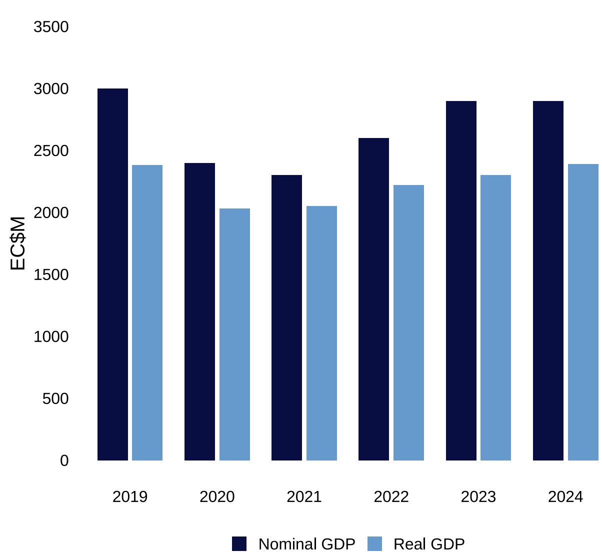
Recent Economic Developments

Real Sector Developments

The recovery in economic activity post–pandemic was underpinned by recouped lost output from the legacy effects of the pandemic. During the height of COVID-19 the economy lost approximately six years of output of which 95.0 per cent has been regained since 2021 placing the economy on track to converge to pre-pandemic (2019) levels of GDP in real terms by 2026.

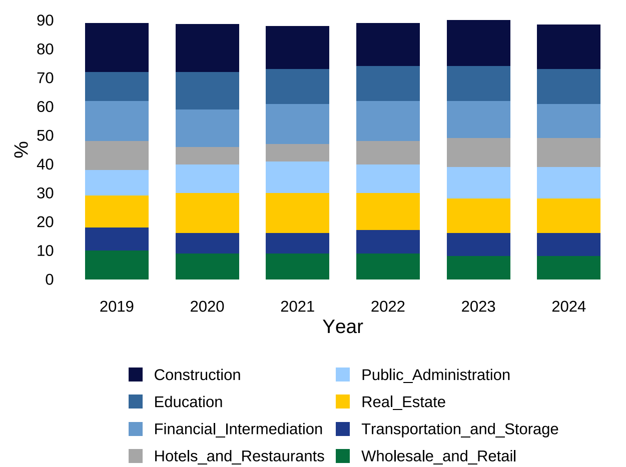
Real growth averaged 4.1 per cent (2021 to 2024) buttressed by average expansions in hotels and restaurants and construction of 37.4 per cent and 2.5 per cent respectively with positive spillovers on transport and storage (5.4 per cent); communications (4.2 per cent); real estate renting and business activities (1.5 per cent) and financial intermediation (1.2 per cent). A significant expansion in public administration, defense and compulsory social security (5.1 per cent) also supported the baseline performance. Consequently, economic growth averaged 5.3 per cent over the medium term (2022 to 2024) favorably impacting real sector activity. (Figures 1 and 2)

Figure 1: Real and Nominal GDP



In 2024 economic activity is estimated to have expanded by 1.2 per cent in real terms, a marked deceleration from a 4.3 per cent expansion the previous year. Higher economic activity was largely driven by vibrancy in the hotel and restaurants sectors, a proxy of the tourism industry, which expanded by 8.2 per cent coupled with increases from transportation and storage (4.8 per cent), communications (4.1 per cent) and public administration defense and compulsory social security (1.7 per cent). In contrast, construction activity declined by 1.0 per cent.

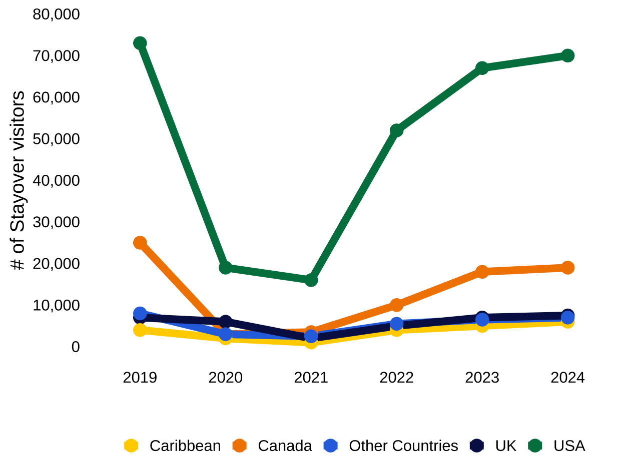
Figure 2: Sectoral Contribution to GDP



Sources: Central Statistics Office, Saint Christopher and Nevis and ECCB

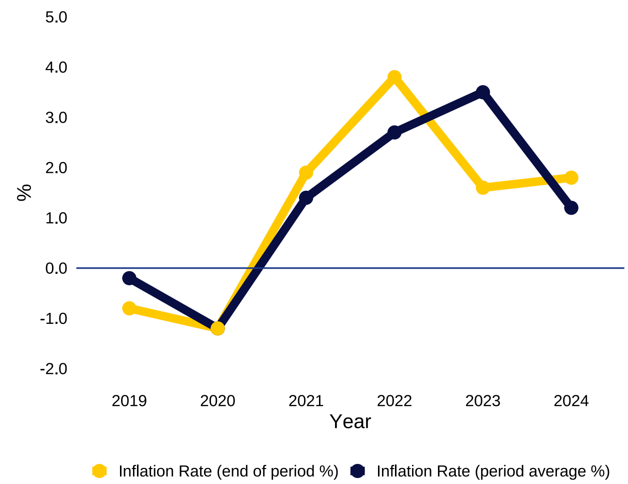
Stayovers, the major contributor to value added in tourism, rebounded from the COVID-19, pandemic during which time visitors to the destination collapsed. The subsequent removal of travel restrictions in August 2022, led to the resumption of visitors to the destination. Stay-over visitors are estimated to have exceeded the previous year's totals by 5.0 per cent to 109,686 in 2024 (Figure 3). Improvements from all four major source markets accounted for the increase bringing stay-over visitors to near pre-pandemic totals. Based on the current trajectory, long-stay visitors is expected to converge with 2019 totals by 2026.

Figure 3: Trends in Stay-over Visitors



Sources: Central Statistics Office and ECCB

Figure 4: Inflation Trends: Period Average and End of Period (2019-2024)



Sources: Central Statistics Office, Saint Christopher and Nevis and ECCB

A gradual return of airlift capacity and the full opening of tourism-related facilities contributed to the increase. The stay-over performance was also complemented by an estimated 10.0 per cent increase in cruise passengers to 851,963 as cruise lines steadily increased cruise ship occupancy. Total visitors are estimated to have risen by 8.8 per cent to 966,600.

Price developments were underscored by a gradual moderation in the consumer price index (CPI) after elevated inflationary pressures in previous years (Figure 4). The CPI rose by 1.9 per cent on average relative to a 1.6 per cent increase in 2023. Major contributors to upward price pressures were food and non-alcoholic beverages (3.2 per cent), clothing and footwear (3.5 per cent) and transport and health of 5.0 per cent and 3.5 per cent respectively. The gradual deceleration in inflationary pressures was consistent with falling inflation rates globally and the unravelling of transportation bottlenecks after the COVID-19 pandemic.

Fiscal Developments

Central Government fiscal operations largely reflected intensified regional competition to the St Kitts and Nevis' Citizenship by Investment (CBI) programme resulting in declines in CBI receipts, particularly in 2024, which altered the trajectory of government's fiscal outcomes.

Consequently, an overall deficit of $244.3m (8.5 per cent of GDP) is estimated for 2024 compared with a surplus of 0.8 per cent of GDP in 2023. A primary balance deficit of $208.3m (7.2 per cent of GDP) is also estimated for the period.

Current revenue declined, principally due to lower non-tax revenue reflecting a sharp decline (56.4 per cent) in receipts from the CBI programme to 8.5 per cent of GDP from 21.8 per cent in the prior year. In contrast, increased economic activity resulted in a 3.6 per cent increase in tax revenue to 19.3 per cent of GDP from 18.8 per cent in the previous year. Increases were registered across the board for all major tax categories except taxes on income profit and capital gains. Over-

[2] Part of the reason for the high ratio of revenue to GDP in the period prior to 2024 was the low level of economic output relative to the relative stability of non-tax revenue associated with the CBI inflows.

all, total revenue was 24.5 per cent below the outturn for 2023 amounting to 35.9 per cent of GDP compared with 48.0 per cent in 2024 and the lowest ratio over the last six years[2] (Table 1).

Table 1: Central Government Fiscal Operations

as a per cent of GDP unless stated otherwise

Indicator	2019	2020	2021	2022	2023	2024E
Total Revenue	39.1	37.4	50.9	50.9	48.0	35.9
Current Revenue	36.7	33.4	47.0	47.0	44.1	31.7
of which CBI	14.8	11.3	23.4	25.3	21.8	8.5
Tax Revenue	18.5	18.8	19.0	18.5	18.8	19.3
Total Grants	2.1	3.5	3.1	3.5	3.7	4.0
Total Expenditure	38.5	39.9	44.9	54.4	47.3	48.4
Current expenditure	27.4	32.4	36.6	39.8	36.7	40.0
Interest Payments	1.2	1.4	1.2	1.2	1.2	1.3
Capital expenditure	11.1	7.5	8.3	14.6	10.6	8.3
Current Account (after Grants)	10.6	3.8	12.9	10.1	10.4	−5.1
Overall balance (after Grants)	0.6	−2.6	6.0	−3.5	0.8	−8.5
Primary balance (after Grants)	1.8	−1.2	7.3	−2.2	2.0	−7.2
Financing	−0.6	2.6	−6.0	3.5	−0.8	8.5
Domestic	−0.1	3.2	−5.3	3.7	0.2	9.1
External	−0.4	−0.7	−0.8	−0.3	−1.0	−0.6
Total Public Sector Debt (ECSM)	1,625.5	1,625.0	1,602.0	1,595.2	1,594.5	1,575.0
Debt-to-GDP Ratio	54.3	68.1	69.1	60.3	55.9	54.7

Sources: Minstry of Finance and ECCB

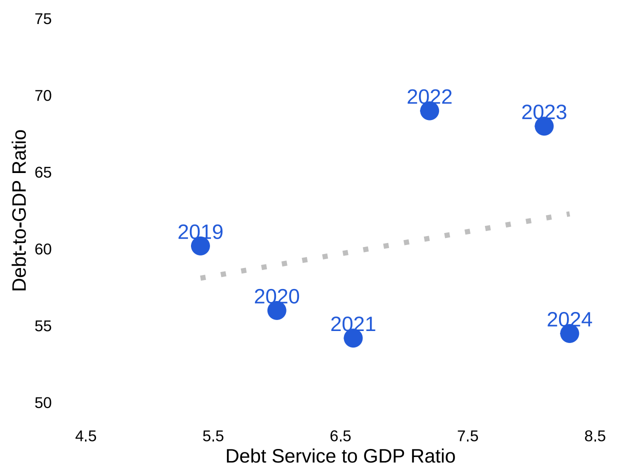
By contrast total expenditure rose (3.3 per cent) to 48.4 per cent of GDP, the highest ratio over the last six years. The performance was for the most part influenced by current expenditurewhich trended higher by 10.1 per cent to 40.0 per cent of GDP, associated with increases in both transfers and subsidies (34.0 per cent)[3] and personal emoluments (12.0 per cent). The granting of an 8.0 per cent salary increase to public servants drove the increase in personal emoluments.

The movement of the debt service to GDP generally correlates positively to the debt-GDP ratio (Figure 5.). Notwithstanding the positive co-movement of these debt indicators, interest payments were marginally higher at 1.3 per cent of GDP compared with 1.2 per cent of GDP ratio in 2023.

Capital expenditure decreased by 20.3 per cent to 8.3 per cent of GDP, the lowest since 2020 and below the recommended minimum of 10.0 per cent of GDP.[4]

Public sector outstanding debt is provisionally estimated to have declined by 1.2 per cent to $1,575.0m thereby reducing the debt to GDP ratio by 1.2 percentage points to 54.7 per cent by the end of 2024 (Figure 5). The debt dynamics of the public sector for the most part, reflected limited borrowing and a greater reliance on commercial bank deposits to finance development and fiscal imbalances.

Figure 5: Co-Movement of Debt-GDP and Debt Service-G



Sources: Ministry of Finance, Saint Christopher and Nevis and ECCB

However, to the extent that the fiscal accounts remain in deficits potentially due to a further decline in CBI inflows, it is likely that the debt-GDP ratio may trend upwards in the short to medium term. Despite reaching the debt target as early as 2023 based on current debt dynamics of Saint Christopher (St Kitts) and Nevis may face difficulties in maintaining the debt to GDP target in the near to medium term if CBI inflows continue at their current level.

External Developments

Increased economic activity fueled higher imports and contributed to a widening in the current account deficit

[3] Higher transfers and subsidies were mainly attributable to grants and contributions and pensions.
[4] Based on an Expenditure Commission recommendation

to 13.6 per cent of GDP, compared with an imbalance of 11.6 per cent of GDP in 2023 (Table 2). The trade deficit ballooned to 34.4 per cent of GDP relative to 29.1 per cent of GDP last year, moderated by inflows on the services account (19.8 per cent of GDP).

Higher imports sustained the continued recovery in real sector activity and to a lesser extent provided critical inputs into the tourism industry. Developments in the service account were dominated by travel receipts which helped to moderate the size of the deficit on the current account. Travel receipts were estimated to have increased in nominal terms, and amounted to 33.2 per cent, marginally lower than the 33.4 per cent of GDP in the previous year. The increase in travel receipts was concurrent with higher visitor arrivals.

Developments on the capital account were underscored by a lower surplus (3.4 per cent of GDP) compared with one of 8.0 per cent a year earlier. Meanwhile, the deficit on the financial account widened to 10.6 per cent of GDP compared with a 9.3 per cent in 2023 while Foreign Direct Investment (FDI) inflows narrowed to 1.8 per cent of GDP from 3.0 per cent of GDP in last year.

Table 2: Selected External Sector Indcators

per cent of GDP unless stated otherwise

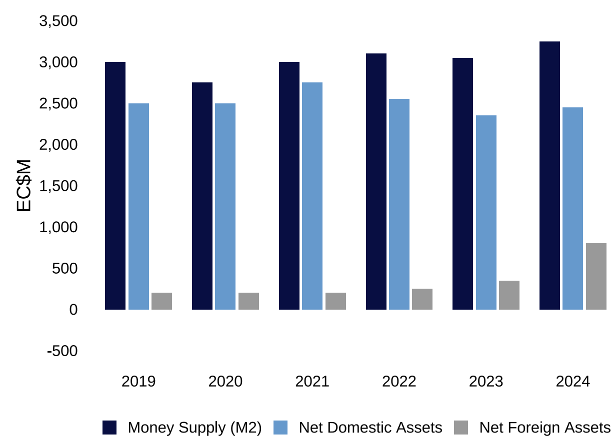
Indicator	2019	2020	2021	2022	2023	2024E
Current Account	−4.8	−10.8	−3.4	−11.4	−11.6	−15.8
Balance of Trade	−27.5	−28.0	−24.8	−34.7	−32.8	−34.7
Exports	4.1	3.1	4.9	3.6	2.7	3.2
Imports	31.6	31.1	29.7	38.3	35.5	37.9
Services	24.2	19.4	24.1	28.2	24.3	21.9
Travel	32.6	12.1	17.7	30.2	33.4	33.2
Primary Income	−1.5	−2.6	−3.2	−3.1	−1.6	−1.2
Secondary Income	0.0	0.4	0.6	−1.8	−1.5	−1.7
Capital Account	6.3	5.2	9.2	9.5	8.0	3.4
Financial Account	1.3	−5.4	5.8	−1.5	−9.3	−10.6
of which: Direct Investment	−4.5	0.1	−4.0	−5.2	−3.0	−1.8
Current Account (ECSM)	−143.1	−258.7	−77.7	−301.6	−330.4	−455.9
Balance of Trade (ECSM)	−821.2	−668.5	−575.2	−918.3	−935.4	−1,000.0

Source: ECCB

Banking and Monetary Developments

Money supply increased broadly in line with strengthened economic activity. Broad money (M2) expanded by 8.0 per cent to $3.318.8m in 20247 after contracting by 1.9 per cent in 2023. An increase in net domestic assets contributed to the expansion in broad money (Figure 6).

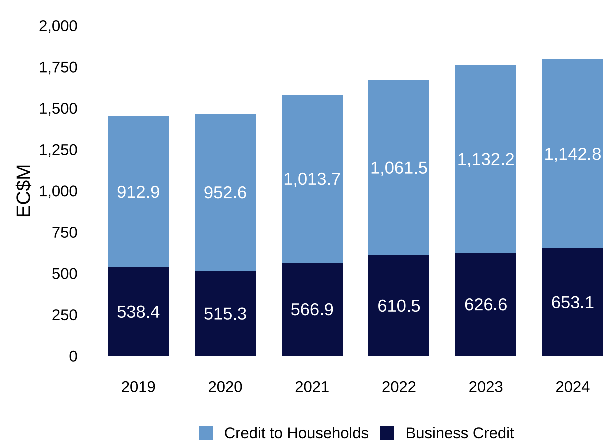
Figure 6: Trends in Monetary Aggregates 2019 - 2024



Source: ECCB

Lending to the general government and the private sector particularly households rose to meet the financing needs of the central government and the increasing demand for credit from individuals and businesses (See Figure 7).

Figure 7: Trends in Private Sector Credit 2019 - 2024



Source: ECCB

The general soundness of the financial system was also reflected in several of the banking indicators. Liquidity ratios remained well in excess of the ECCB minimum requirement of 20.0 per cent, registering a 1.4 percentage point decrease to 46.4 per cent for the liquid assets to total assets ratio (Table 3).

Table 3: Selected Financial Stability Indicators

Indicator	2019	2020	2021	2022	2023	2024E.
Capital adequacy (%)						
NPL Ratio	24.0	23.5	20.9	21.8	19.4	18.1
PLL/NPL Ratio	24.7	42.5	58.9	55.9	55.9	53.1
Liquidity Ratios						
Liquid assets to total assets	55.9	58.4	51.6	51.7	47.8	46.4
Liquid assets to short-term liabilities		76.6	60.4	57.4	53.7	53.8
Customer deposits to total (non-interbank) loans		46.2	44.6	46.9	48.5	55.0

Source: ECCB

Increases in the liquid assets to short-term liabilities and customer deposits to total loans ratios also confirmed the high levels of liquidity in the banking system indicative of the cautionary stance of commercial banks. As it relates to the quality of lending, the ratio of nonperforming loans to gross loans in the banking sector fell slightly to 18.1 per cent from 19.4 per cent in 2024. (Table 3.)

Outlook and Risks

Outlook

The April 2025 World Economic Outlook (WEO) of the International Monetary Fund (IMF) estimates global growth of 2.8 per cent in 2024 and projects a 3.3 per cent expansion in 2025 and 2026, below the historical (2000–2019) average of 3.7 per cent. In relation to Saint Christopher (St Kitts) and Nevis' major trading partner, the United States of America, a 2.8 per cent rate of growth for 2024 is estimated with slowing expansions forecasted for 2025 and 2026 of 2.7 per cent and 2.1 per cent respectively. It should be noted, however, that the outlook by the IMF preceded the rising trade tensions with the changes in US trade policy, which are likely to have negative impacts on global, trade, growth and US GDP.

Table 4: Medium-Term Outlook Indicators

per cent GDP unless otherwise stated

Indicator	2025	2026
Real Sector		
Nominal GDP (EC$M)	2,970.8	3,089.7
Nominal GDP (per cent growth rate)	3.2	4.0
Real GDP (EC$M)	2,411.8	2,491.1
Inflation (end of period; per cent)	2.2	2.0
Government Sector		
Current Revenue	31.4	31.4
Current Expenditure	39.4	38.8
Capital Expenditure	6.1	4.9
Primary Balance	−9.6	−7.8
Overall Balance	−10.6	−8.9
Debt Servicing:Current Revenue (%)	4.5	4.0
Financing	10.6	8.9
External Sector		
Balance of trade	−1,010.9	−1,056.0
Travel receipts	973.5	996.3
Current account	−494.7	−505.8
Foreign Direct Investment	−139.3	−145.5
Monetary Sector		
Money Supply	3,337.2	3,421.2
Net Foreign Assets	2,295.1	1,481.5
Net Domestic Assets	1,042.1	1,939.7
Domestic Credit	1,138.5	1,337.7
Of which credit to the private sector	1,873.9	1,946.1
Of which credit to businesses	695.1	720.1
Of which credit to households	1,178.9	1,226.0
Memo Items:		
Total public sector debt (EC$M)	1,891.1	2,166.2
Total public sector debt to GDP	63.7	70.1

Sources: Government of Saint Christopher and Nevis and ECCB

Notwithstanding the modest global economic outlook the economy of Saint Christopher (St Kitts) and Nevis is forecasted to record accelerated growth in the near-term, on the strength of a continued improvement in tourism activity and some rebound in construction as a number of major public sector projects commence. The tourism outlook is buttressed by increased airlift particularly from the north-eastern US along with seasonal service from Canada and bi-weekly flights out of the UK. Enhanced marketing efforts and further investment in the tourism product should sustain interest in the destination after the commendable performance in 2024.

Major construction projects include the new Basseterre High School, a new smart hospital and completion work on a desalination plant and the commencement of work on another. Work is also expected to begin on a new 50 megawatt solar farm in 2025 (Box 1) and work advances on geothermal exploration and the construction of related infrastructure on Nevis. The announcement in the 2025 budget of the construction of a Ritz Carlton branded resort on St Kitts, coupled with ongoing residential construction on both St Kitts and Nevis should augur well for the recovery in construction activity in 2025.

Accelerated real sector activity is expected to increase the demand for imports resulting in a widening of the trade deficit and will be translated to a larger current account imbalance on the external accounts. Inflows on the travel account could moderate the imbalance on the current account as tourism activity strengthens. The money supply is projected to expand in line with GDP influenced by continued lending to households and businesses. Going forward the debt to GDP ratio is forecasted to increase consistent with increased borrowing needs.

Risks

In the context of heightened geopolitical tensions, the threat of accelerated inflationary pressures associated with the trade war and pervasive threats from weather related events, risks are therefore, tilted to the downside.

Table 5: Risks

Risks	Likelihood	Impact
Global/External Risks		
Heightened Geopolitical tensions. Negotiations to bring the conflict in Ukraine to an end are uncertain while the partial ceasefire in the Middle East remains fragile at best. The conflicts have constrained supply chains and restricted global investment. Recent significant changes in US trade policy have intensified trade tensions that could impact global growth, inflation and trade with negative consequences for local inflationary pressures and growth. Consequently, there is a high risk of a contraction in global trade through the creation of new trade blocks an escalation in import prices and a move to unilateralism.	High	**High.** Saint Christopher (St Kitts) and Nevis as a net importer is highly susceptible to import price inflation which threatens all levels of the economic activity by increasing commodity prices and the overall cost of production tourism services. The knock on effects include reductions in disposable incomes, inflationary pressures and lower investment due to higher costs and business uncertainty. Increased costs could translate into larger fiscal deficits due to the increased cost of fuel and the need to increase social transfers to vulnerable groups. A secondary outcome of the fomenting geopolitical relations is heightened uncertainty which may reduce international travel and negatively impact the nascent tourism industry.
A resumption in inflationary pressures. Logistical impediments brought on by uncertainty crimp supply chains and increase food and energy costs. Higher commodity prices could result in broad based and sustained increases in the cost of living.	High	**High.** Higher commodity prices could adversely lower consumption, increase economic hardships, reduce aggregate demand and lower economic growth.
Domestic/Local Risks		
Intensified Climatic Events. Saint Christopher (St Kitts) and Nevis is vulnerable to the effects of climate change. Risks include inter alia: hurricane, flood drought, land slippage and sea level rise.	Medium/ High	**High.** The recurrence of climatic events adversely impacts capital stocks, increases economic hardships and contributes to rapid debt accumulation. The effects of sea level rise also threaten costal settlements and impair the tourism product of which coastal areas are a major component.
Fiscal and Debt Sustainability. Medium-term fiscal projections put Saint Christopher (St Kitts) and Nevis at risk of incurring substantial fiscal imbalances. This is magnified by a steep drop in CBI receipts and large and expansive social transfers. Any negative swing in the business cycle will magnify pre-existing risks.	Medium/ High	**High.** Large overall fiscal imbalances, threaten the policy makers' developmental agenda and could quickly place the country on an unsustainable fiscal and debt path. With the fall in CBI revenues there is less fiscal space for counter-cyclical fiscal policy which would require significant paring of social transfers and quite possibly fixed capital investment.

Upside Risks

- On the upside several delayed public sector projects have begun or are in advanced stages of commencement. These include road works on both St Kitts and Nevis, a new climate smart hospital and the new Basseterre High School, which could improve economic growth prospects. Public investments on both islands to alleviate chronic water deficits have been implemented, with one reverse osmosis desalination plant having been completed on Nevis and the other on St Kitts in an advanced stage of construction.

- Work has advanced on the geothermal energy project after protracted delays due to financing issues. Steady progress on the project coupled with other green initiatives offers the potential for greater energy security in the near future (See Box 2).

- The recovery in tourism albeit modest in the initial post-pandemic period relative to the decline in 2020 and 2021 is steadily converging with pre COVID-19 levels. The performance is projected to strengthen through the securing of airlift and additional investments planned to enhance the appeal of the destination.

Policy Recommendations

The main policy focus should be aimed at strengthening the medium-term fiscal framework to ensure long-term fiscal and debt sustainability to meet the ECCU's long-term debt target. These include:

- Reform the Citizenship by Investment (CBI) programme to reverse the decline in receipts and provide support to the administration's Sustainable Island State agenda. The Citizenship by Investment Unit has been reformulated into a statutory body which is vital to increasing transparency and enhancing the legitimacy of the application approval process. These reforms are expected to support a reversal in the decline in CBI receipts. The importance of the CBI cannot be understated in relation to its relevance to achieving the policy objectives of making Saint Christopher (St Kitts) and Nevis a sustainable island state.

- Revenues from the CBI programme should lay the basis for the establishment of fiscal buffers to insulate the country from the vagaries of economic swings and the impact of natural disasters. Fiscal buffers could take the form of a fund held in reserve at a reputable institution or in the form of a sovereign wealth fund (SWF). Regardless of how the fund is structured, it should be managed by a reputable investment manager and only accessible when specific requirements are fulfilled. The authorities have recently reaffirmed its plans to soon establish a SWF. The fund is intended to capture any surplus in projected CBI revenue, reduce the impact of volatile and uncertain CBI revenue on the budget, and help create fiscal buffers against natural disasters. Considering the current uncertainty facing the CBI programmes, the proposal to establish and fund such a fiscal buffer should be seen as a priority.

Closely allied to the reforms to the CBI programme, is the return to a sustainable fiscal and debt path. Current prospects for the debt suggest that it is unlikely that the authorities would meet the 60.0 per cent debt to GDP target by the stipulated 2035 period (Appendix 1, Box 1). Fiscal reforms will be necessary to ensure a sustainable fiscal and debt path.

- In addressing the growing public debt, the authorities will be required to generate primary surpluses to drive down the debt to GDP ratio. However, as an initial measure to stabilize the debt to GDP ratio, analysis indicates that a primary deficit of 0.4 per cent of GDP over the forecast period could maintain the debt to GDP ratio at of 55.9 per cent of GDP indefinitely. However, if current policies continue, the debt to GDP ratio will likely rise in the medium-term[5] (Appendix 1 - Box 1).

- Besides the decline in CBI inflows, another reason for the imbalances is the high level of current expenditure. Much of the expenditure is attributable to social transfers (social assistance) that have taken the form of subsidies, cash transfers and public assistance. The social assistance has taken the form of subsidies in relation to LPG (cooking gas), electricity and water and more targeted assistance to persons below a specified threshold income (monthly income).

- The authorities have consistently attempted to address income disparity and commodity price volatility through subsidies of utilities and social transfers. However, the global landscape has changed, and combined with the recent decline in CBI inflows, fewer resources will be available to shield consumers from inflation. Overall, the

[5] The policy choice of allowing the incurrence of primary deficits from 2024 to 2027 is based on the unlikelihood of major reforms being implemented in the short to medium- term, as these may have significant growth effects and the likelihood of elections which are constitutionally due in 2027.

efficacy and sustainability of the current social transfer mechanism therefore requires scrutiny to better align expenditures with medium-term fiscal targets.[6]

[6] The Government of Saint Christopher (St Kitts) and Nevis related in its most recent 2025 Budget that it proposes to spend $320.0m on social transfers. This amounts to approximately $6,400.00 per person in 2025.

Box 1: St Chrisopher and Nevis: Fiscal and Debt Dynamics

The fiscal evolution of Saint Christopher (St Kitts) and Nevis reflects some debt distress beginning in the latter 2000s when the country accepted an International Monetary Fund (IMF) structural adjustment programme (2010 to 2012) to correct some fiscal and external imbalances following a rapid accumulation of debt, culminating with a sudden stop in economic activity associated with the effects of the Great Recession. Post-IMF programme, fiscal balances strengthened, buttressed by large inflows of revenue from the burgeoning citizenship by investment programme, which recorded significant inflows beginning in 2012 and peaking at 25.3 per cent of GDP in 2022. As a corollary to the surge in revenue, expenditure rose correspondingly then exponentially to a peak of 54.4 per cent of GDP in 2022. With the advent of the pandemic in 2020, expenditure rigidities intensified as economic activity virtually halted resulting in large fiscal imbalances. As a hangover from the pandemic a number of social programmes that were augmented or introduced during the pandemic persisted, post-pandemic further exacerbating the fiscal imbalances. Based on current projections the imbalances are likely to persist in the shot–run and have implications for fiscal and debt sustainability.

An analysis using the debt dynamics tool (DDT) projects, based on current policies, the debt to GDP ratio will increase to 64.8 per cent of GDP at the end of 2024 and steadily increase to 86.4 per cent of GDP by 2035. Based on current policies and the current debt trajectory the targeted 60.0 per cent of GDP debt target will not be met by 2035 or by the end of the forecast period (2038). The major factors contributing to the baseline debt dynamics are the debt creating effects of large primary deficits in the forecast period as well as the negative (debt enhancing) effects of the real interest rate on the debt to GDP ratio as more debt is assumed to finance the large projected imbalances. If baseline projections are realised, in all probability achieving the debt to GDP target of 60.0 per cent of GDP in 2035 is unlikely and that of achieving a debt ratio lower than 55.9 per cent of GDP ratio at the end of 2023 is also unlikely (0.0 per cent).

St. Kitts and Nevis Public Sector Debt Dynamics - Baseline Scenario

(in percent of GDP unless otherwise indicated)

Debt and Economic Indicators 1/

	Actual		Est.	Projections							32.0	-5.2							
	2015-2021 2/	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Nominal gross public debt	64.8	60.3	**55.9**	**64.8**	**72.8**	**79.1**	**83.2**	**85.8**	**87.9**	**89.3**	**89.9**	**89.9**	**89.3**	**88.1**	**86.4**	**84.1**	81.3	78.1
Of which: guarantees (uncalled) 3/	15.6	18.8	17.2	19.3	18.4	18.3	18.7	18.5	18.5	18.6	18.5	18.5	18.5	18.5	18.5	18.5	18.5	18.5
Real GDP growth (in percent)	-1.1	10.3	4.3	1.2	2.5	3.3	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Inflation (GDP deflator, in percent)	1.8	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.0	1.0
Nominal GDP growth (in percent)	0.7	11.7	5.6	2.4	3.8	4.6	5.5	5.4	5.4	5.4	5.4	5.4	5.3	5.3	5.3	5.3	5.3	5.3
Effective interest rate (in percent) 4/	2.5	2.0	2.1	1.5	1.9	1.8	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8

Contribution to Changes in Public Debt

	Actual		Est.	Projections						
	2015-2021	2022	2023	2024	2025	2026	2027	2028	2029	cumulative
Change in gross public sector debt	-1.3	-8.8	-4.4	8.9	7.9	6.3	4.1	2.6	2.1	32.0
Identified debt-creating flows	0.2	-5.0	-5.0	8.9	7.9	6.3	4.1	2.6	2.1	32.0
Primary deficit	-1.9	2.2	-2.0	7.1	9.7	7.9	5.9	5.1	4.4	40.0
Automatic debt dynamics	0.8	-4.1	-1.4	-0.4	-0.8	-1.4	-2.2	-2.2	-2.3	-9.3
Interest rate/growth differential	0.8	-4.1	-1.4	-0.4	-0.8	-1.4	-2.2	-2.2	-2.3	-9.3
Of which: real interest rate	0.4	0.3	0.3	0.1	0.3	0.3	0.3	0.3	0.4	1.6
Of which: real GDP growth	0.5	-4.4	-1.7	-0.4	-1.1	-1.7	-2.4	-2.6	-2.7	-10.9
Exchange rate depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SFA due to intra-year exchange rate changes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in guarantees (uncalled)	1.3	-3.2	-1.7	2.2	-0.9	-0.1	0.4	-0.2	0.0	1.3
Residual 6/	-1.4	-3.8	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Realism and Fiscal Adjustments	
debt levels in 2035: historical and constant pb scenarios	
40.1	116.6
debt-reducing primary balance in 2026 and in 2035	
-5.9	1.0
el and yearly change of the primary balar that yield a 60% debt ratio in 2035 7/	
1.0	1.5
probability of debt below: end-2023 and 60 percent in 2035	
0.0	0.0

Fiscal reforms will be required to drive the debt trajectory down, however, in the initial stages in order to stabilise the debt dynamic by maintaining the debt at a 55.9 per cent ratio at the end of 2023, a debt stabilizing primary deficit of 0.4 per cent of GDP and a debt stabilising overall deficit of 0.9 per cent of GDP would be required. To ensure that the debt to GDP ratio converges with the 60.0 per cent target by 2035, after running primary deficits averaging 7.6 per cent of GDP from 2024 to 2027, a primary surplus of 1.05 per cent of GDP will be required from 2028 to 2035 in order to meet the target. How the primary surpluses would be achieved could be a combination of reductions in current and/ or capital revenue and /or enhancements to the growth outlook through improved sectoral outcomes, of which tourism and construction readily come to mind. Likewise, adverse growth or interest rate shocks to this scenario will lengthen the convergence period or increase the fiscal effort (primary balances and overall balances) necessary to achieve the 60.0 per cent debt to GDP target.

Box 2: The Role of Green Energy in St Kitts and Nevis' Bid to Becoming a Sustainable Island State

The government of Saint Christopher (St Kitts) and Nevis in its 2024 Budget formerly revealed its intent to champion the cause of sustainability in the Caribbean by becoming a Sustainable Island State. By definition; a Sustainable Island State is 'characterised by its commitment to sustainable practices across various sectors, including energy, agriculture, tourism, and waste management. These states implement policies and initiatives aimed at reducing environmental impact while promoting social equity and economic viability.'

The transformation of the nation into a Sustainable Island State is based on seven (7) key pillars of the Federation's Sustainable Island State Agenda, namely, (1) food security, (2) green energy transition, (3) economic diversification, (4) sustainable industries, (5) the creative economy, (6) COVID-19 recovery, and (7) social protection.

Pivotal among the seven pillars in the advance of the sustainable island state agenda, is the transition to green energy. This second plank was underscored by a ground breaking ceremony in December 2020 between the state–owned St Kitts Electricity company (SKELEC) and the Swiss based Leclanché, a world leading provider of high quality energy storage solutions, to establish the largest solar photovoltaic (PV) and battery energy storage project in the Caribbean. The US$70.0m project to be owned and operated by a subsidiary of Leclanché, SOLEC Power Ltd, comprised an innovative, fully integrated solar photovoltaic generation and lithium-ion battery energy storage system to displace 30-35.0 per cent of the islands' diesel-generated baseload power. Two elements to the project included a fully integrated 35.7 MW solar photovoltaic system (solar field) and a 14.8 MW / 45.7 MWh lithium-ion battery energy storage system (BESS).

Following a change of administration in 2022 the power purchase agreement was reviewed as per an agreement with SOLEC to improve the terms of the agreement for SKELEC and by extension the government and people of St Kitts and Nevis. Subsequently, a new power purchase agreement was signed on 28 November 2023. However, after several failed attempts by SOLEC to issue a full notice to proceed, the renegotiated Power Purchase Agreement (PPA) with SOLEC Power Ltd agreement was terminated. A statement by SKELEC to that effect was issued on 9 December 2024.

More recently, however, the Prime Minister on 7 January 2025 announced that the government has reached an agreement with the Republic of China on Taiwan through the Taiwanese Foreign Minister for Taiwan to spearhead the development of a 50-megawatt solar farm with construction expected to begin in 2025. On Nevis, a solar project is planned to supplement the preexisting wind turbine (1.85MW).

Aligned with the government's green energy initiative is the exploration of geothermal energy particularly on the island of Nevis. To date three exploratory wells have been sunk and a contingently recoverable grant of US$17.0m was secured from the Caribbean Development Bank for the sinking of wells. Additionally, the Saudi Fund for Development provided a loan for US$20.0m to assist in the sinking of 3 production wells. The bid for drilling is out, once an agreement is arrived at the drilling will commence. The estimated total cost of geothermal development including the production wells, power stations and submarine cables is approximately $505.0m and represents the Federation's greatest potential for a transition to green energy.

Selected Economic Indicators

Selected Economic Indicators

in EC$M, unless otherwise stated

Indicator	2019	2020	2021	2022	2023	2024	2025	2026
Real Sector								
Nominal GDP	2,991.2	2,386.6	2,318.3	2,646.5	2,853.2	2,880.0	2,970.8	3,089.7
Real GDP	2,376.7	2,013.0	2,020.4	2,229.4	2,325.9	2,353.0	2,411.8	2,491.1
Real GDP Growth (per cent)	2.9	−15.3	0.4	10.3	4.3	1.2	2.5	3.3
Inflation (end of period; per cent)	−0.8	−1.2	1.9	3.9	1.6	1.9	2.2	2.0
Government Sector								
Current Revenue	1,097.3	798.1	1,090.1	1,243.5	1,258.1	912.5	932.6	969.9
Current Expenditure	820.5	774.0	848.0	1,053.8	1,046.8	1,152.6	1,170.5	1,198.0
Capital Expenditure	332.6	179.5	193.3	386.1	301.4	240.3	180.0	150.9
Primary Balance	53.1	−28.5	168.2	−59.2	56.6	−208.3	−286.5	−240.6
Overall Balance	17.5	−61.0	139.9	−92.1	22.4	−244.3	−316.0	−275.2
Debt Servicing:Current Revenue (%)	5.0	6.6	3.3	2.6	4.0	3.7	4.5	4.0
Financing	−17.5	61.0	−139.9	92.1	−22.4	244.3	316.0	275.2
External Sector								
Balance of trade	−821.2	−668.5	−575.2	−918.3	−935.4	−1,000.0	−1,010.9	−1,056.0
Travel receipts	976.5	289.3	410.0	799.9	952.8	957.3	973.5	996.3
Current account	−143.1	−258.7	−77.7	−301.6	−330.4	−455.9	−494.7	−505.8
Foreign Direct Investment	−135.4	3.0	−92.9	−136.9	−86.1	−52.6	−139.3	−145.5
Monetary Sector								
Money Supply	3,016.6	2,771.5	3,017.1	3,129.9	3,071.9	3,318.8	3,337.2	3,421.2
Net Foreign Assets	2,554.5	2,542.9	2,794.2	2,582.5	2,381.5	2,497.4	2,295.1	1,481.5
Net Domestic Assets	215.6	−27.6	−44.9	265.8	390.3	821.4	1,042.1	1,939.7
Domestic Credit	87.7	87.7	329.4	336.6	573.3	652.6	1,138.5	1,337.7
Of which credit to the private sector	1,451.3	1,467.9	1,580.6	1,672.0	1,758.8	1,795.9	1,873.9	1,946.1
Of which credit to businesses	538.4	515.3	566.9	610.5	626.6	653.1	695.1	720.1
Of which credit to households	912.9	952.6	1,013.7	1,061.5	1,132.2	1,142.8	1,178.9	1,226.0
Memo Items:								
Total public sector debt (EC$M)	1,625.5	1,625.0	1,602.0	1,595.2	1,594.5	1,575.0	1,891.1	2,166.2
Total public sector debt to GDP	54.3	68.1	69.1	60.3	55.9	54.7	63.7	70.1

Source: Central Statistics Office and ECCB Data as at September 2024