

## International Monetary Fund

[St. Kitts and Nevis](#)  
and the IMF

**St. Kitts and Nevis:** Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

**Press Release:**  
[IMF Executive Board](#)  
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January 25, 2012

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The following item is a Letter of Intent of the government of St. Kitts and Nevis, which describes the policies that St. Kitts and Nevis intends to implement in the context of its request for financial support from the IMF. The document, which is the property of St. Kitts and Nevis, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

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Basseterre, St. Kitts  
January 12, 2012

Ms. Christine Lagarde  
Managing Director  
International Monetary Fund  
Washington DC, 20431

Dear Ms. Lagarde:

Since the approval of the Stand-By Arrangement in July 2011, economic activity has slowed in St. Kitts and Nevis reflecting the increasingly adverse global environment. With a number of major construction projects in the pipeline and an improvement in tourism activity, prospects for 2012 remain, however, broadly unchanged. In addition, given our prudent macroeconomic management, we are on track to meet our 2011 fiscal targets under the program. This achievement has been possible thanks to the sacrifice and efforts of the people of St. Kitts and Nevis, and with strong support from the donor community and international financial institutions, including the IMF.

Our Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) of July 13, 2011, requesting an arrangement under the Fund's Stand-By Arrangement (SBA), outlined the government's strategy under its home-grown medium-term reform program to put public finances on a sustainable trajectory, implement a comprehensive debt restructuring to address the debt overhang, and further strengthen the financial system. While the broad objectives and policies of our economic program remain unchanged from those outlined in the MEFP, we have further refined these policies in the context of the first review of the program.

The Government of St. Kitts and Nevis reaffirms its commitment to making this program a success. The success of the program would not only benefit the people of St. Kitts and Nevis but could also become a model for other countries in the region. Since the SBA was approved in July 2011, we have been determined to move forward with our reform agenda and to successfully implement our policies. This is reflected in the fact that we met our fiscal target, as well as all other quantitative performance criteria and structural benchmarks for end-September 2011, except for the structural benchmarks on the registration/valuation of 600 acres of land and updating the existing stress tests of banks. These three delayed benchmarks, as well as approving the 2012 budget consistent with the program objectives, were made prior actions for the first review and were completed before the end of 2011. Furthermore, we have made progress with our comprehensive debt restructuring process. We welcome your continued strong support for these initiatives.

In the attached Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU), we set out our plans to achieve the 2012 objectives laid out in our program supported by the IMF. Based on the strength of these policies, and in light of our performance under the program and our continued commitment, we request the completion of the first program and financing assurances reviews, waiver of applicability for the end-December 2011 performance criteria, and the release of the second tranche of SDR 11.47 million. We also request modification of one PC.

We are confident that the policies set forth in the Letter of Intent of July 13, 2011 and this letter are adequate to achieve the objectives of our program. However, we need to remain vigilant to downside risks of lower-than expected growth in the global economy and the impact on government's revenue and unemployment. We stand ready to take additional corrective actions that may become appropriate for this purpose as circumstances change. We will continue to consult with the Fund on the adoption of such actions in advance of necessary revision of policies contained in this letter and the attached Memorandum, in accordance with the Fund's policies on such consultation.

The Government authorizes the Fund to make public the contents of this letter, the attached MEFP, an accompanying letter from the Governor of the Eastern Caribbean Central Bank, and the Staff Report to clearly communicate our policies and to signal the seriousness of our commitment to the program to the people of St. Kitts and Nevis and the international community.

Sincerely,

/s/

Rt. Hon. Dr. Denzil Douglas  
Prime Minister and Minister of Finance  
St. Kitts and Nevis

## MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

1. St. Kitts and Nevis has made important progress in implementing its economic program set forth in our Memorandum of Economic and Financial Policies (MEFP) dated July 13, 2011. Our homegrown economic reform program continues to focus on putting public finances on a sustainable trajectory, implementing a comprehensive debt restructuring to address the debt overhang, and further strengthening the financial system. This MEFP updates these policies in the context of the first review of the SBA.

### I. PERFORMANCE UNDER THE PROGRAM

2. We have been determined in successfully implementing our policies since the SBA was approved in July 2011 and fulfilled our commitments under the program at end-September 2011, including some that were initially delayed. In addition, we are well on track to meet the program's end-December 2011 quantitative and structural reform targets. In this context, we request completion of the first program and financing assurances reviews and waiver of applicability for end-December 2011 performance criteria. We also request clarification on the classification of RGSM bonds as domestic debt for monitoring purposes, and to modify the PC on the central government budget expenditure arrears to exclude the domestic debt service arrears related to the debt restructuring, in line with the design of the external arrears PC.

- **Growth and inflation.** Real GDP growth in 2011 is estimated to be flat, reflecting the adverse global environment. Notwithstanding the effects of the increase in food and oil prices, the introduction of the VAT, and adjustments in electricity tariffs, year-on-year inflation declined to 1.6 percent at end-November 2011.
- **Fiscal policy.** Despite the weaker and more volatile global environment, the government's economic program, supported by a Stand-By Arrangement (SBA) by the IMF, has yielded positive results. The overall fiscal deficit at end-September 2011 reached EC\$26.5 million, which is well above the adjusted program floor, and the primary surplus exceeded the program's indicative floor. We are also on track to observe the program's target on the overall fiscal deficit for 2011 as a whole. The disbursements of the fixed tranches of the programmed EU 2008 and 2009 sugar grants, amounting to €11.3 million, were made in December 2011.
- **Other performance criteria and structural benchmarks.** The ceiling on central government budget expenditure arrears, stock of external short-term debt, and on central government or guaranteed external arrears accumulation have all been met. While the registry and valuation of at least 600 acres of land and the update of bank stress tests were initially delayed, they were made prior actions under the first review and have since been completed. Furthermore, the bill for the corporatization of the Electricity Department was approved by Parliament in April 2011.

- **Debt restructuring.** Substantial progress has been made with respect to the comprehensive debt restructuring. The process is on track to meet the objectives set out in the program to achieve a substantial debt reduction, close the financing gaps, and put the public debt on a firmly downward trajectory to meet the ECCU target of 60 percent debt-to-GDP ratio by 2020. We are in active negotiations with external commercial and domestic creditors and have secured financial assurances from the Paris Club in July 2011. At the same time, discussions regarding the resolution of debt owed to domestic creditors are ongoing. In particular, the broad outlines of a Special Purpose Vehicle (SPV) structure that will play an important role in the debt/land swap envisaged in the program have been determined. Also, in support of the Government's debt restructuring effort, the Caribbean Development Bank's Board approved to partially guarantee debt service payments of the new exchange instruments.
  - **Financial sector.** The domestic banking sector remains well capitalized and liquid. Domestic commercial banks' ratio of net liquid assets-to-total deposits improved slightly from 50.4 percent at end-December 2010 to 52.6 percent at end-September 2011, while the ratio of NPLs has remained relatively low at 5.5 percent compared with 14.8 percent for the ECCU region. Commercial banks' capital adequacy ratio is well above the ECCB's regulatory requirement of 8 percent and there has been no request to access the Banking Sector Reserve Fund (BSRF) set up under the SBA.
3. **The fiscal outturn for 2011 is expected to be in line with program targets.** Current revenue increased from 28.2 percent of GDP in 2010 to an estimated 30.9 percent of GDP in 2011. Grants amounted to 3.5 percent of GDP, 0.8 percentage points of GDP higher than under the program, reflecting transfers from the Sugar Industry Diversification Foundation. At the same time, total expenditure and net lending decreased from 38.8 percent of GDP in 2010 to an estimated 36.5 percent of GDP. As a result, the overall balance is expected to have reached -2.1 percent of GDP, well below the program target of -3.1 percent of GDP.

## II. POLICIES DURING 2012

4. **The outlook for 2012 and the medium term remain cautiously optimistic.** Economic growth is projected to reach 1.5 percent in 2012, supported by FDI-related construction projects and an improvement in tourism activity. However, the more adverse global environment continues to highlight increasing downside risks. Our plans, as outlined below, should ensure that our fiscal program for 2012 is in line with the program.

### A. Fiscal Policy

5. Our 2012 fiscal program targets an overall deficit of 3.0 percent of GDP. The external debt service payments made by the central government on behalf of three public enterprises are now included in the current transfers, resulting in the overall deficit target 0.5 percentage

point of GDP larger than in the original program target. This deficit, along with appropriately prudent fiscal policies in the coming years, will accommodate capital expenditure needed to address pressing development needs, while allowing us to reach our debt target of 60 percent of GDP by 2020.

## Revenue

6. **We are taking a number of measures to improve tax compliance.** First, we are intensifying auditing of taxpayers to make our tax system fairer and more efficient. Second, we intend to make the threshold on personal income only deductible for the corporate income tax from one cost center in a corporation or other business entity. Third, we plan to improve collection of taxes and guard against the accumulation of arrears. The Inland Revenue Department is also taking steps to improve the collection of tax arrears. To this end, we intend to request TA from our development partners, including the Caribbean Regional Technical Assistance Center (CARTAC), in the following areas: (i) best practices in enhancing strategic planning and performance; (ii) strengthening audit capacity; (iii) collections training; (iv) taxpayer services training; and (v) a new tax administration review.

7. **In addition, we will avoid eroding the tax base.** We will continue to employ the oil price pass-through mechanism, which incorporates adjustments on a regular basis.

## Spending

8. **Achieving our 2012 fiscal target requires exerting tight control over expenditure.** The budgeted recurrent expenditure declines sharply in 2012, reflecting the reduction in goods and services expenditure, including the fuel purchase expenses following the corporatization of the Electricity Department in August 2011. In addition and in line with our commitments under the program, the 2012 budget freezes the wage bill, and continues to constrain the growth of expenditure on goods and services. While the overall capital expenditure is projected to increase (1.7 percent of GDP) due to the start of a grant-financed project, other capital expenditures remain largely in line with the 2011 estimates. As a result, total expenditure is expected to decline by 3.5 percentage points of GDP.

9. **In addition, we have identified specific contingent measures to meet program targets, if needed.** These include: (i) ensuring that customs duty and customs service charge concessions are in line with the law (0.3 percent of GDP); (ii) beginning to phase out subsidies on LPG, while protecting the most vulnerable groups (0.1 percent of GDP), and (iii) a reduction in capital expenditure relative to the approved 2012 budget (0.6 percent of GDP). With these measures, we will ensure that the fiscal program is financed in a sustainable manner, while reducing expenditure arrears.

## **Fiscal reforms**

10. **We will continue to enhance our in-house capability to manage public expenditure.** With CDB's assistance, we will continue to strengthen our Public Sector Investment Program (PSIP) and our capability to evaluate projects.
11. **We will continue to enhance our control over expenditure commitments.** To control expenditure, we intend to strengthen our procurement regulation and the Ministry of Finance will carefully review proposals to increase spending before they are submitted to Cabinet. To avoid accumulation of arrears, we will seek further technical assistance from CARTAC in public expenditure management.
12. **We will redouble our efforts to improve fiscal transparency.** In this context, we will disseminate quarterly information on the overall fiscal situation and gross financing needs starting July 2012. We remain committed to ensuring that all expenditures are reported in the budget and that the newly established Electricity Company can adjust tariffs to recover its operating costs.
13. **We are improving our capability to monitor economic developments and program performance.** We have established a system for quarterly monitoring of below-the-line financing of the central government's overall balance, and will update this on a quarterly basis. To this end, we will ensure the consistency of Ministry of Finance and ECCB data on the position of the government with the banking system.

## **B. Other Program-Related Issues**

14. **We intend to launch the debt offer in the first quarter of 2012.** Although discussions with creditors have at times been complex, a clear consensus has emerged for those restructuring terms that are needed to place our debt on a sustainable footing. We remain committed to engaging our creditors, both external and domestic, in good faith negotiations, with a view to completing the debt exchange during the first quarter of 2012. Regarding collateralized domestic debt, key elements of the design of the debt-land swap program have been resolved [and the structure of the SPV has been agreed.] We expect to submit a draft proposal for the establishment of the SPV by June 2012.
15. **The financial sector continues to be healthy.** Financial soundness indicators suggest that the banking sector remains liquid and well capitalized. As a result, we do not envisage that the BSRF will be tapped for bank support. It will merely serve as an insurance policy. Consistent with the IMF's safeguards policy requirement and current practice, we will maintain all foreign exchange balances at the ECCB.
16. **Prior actions and structural benchmarks.** The delayed structural benchmark to update the registry and undertake valuation of the remaining 52 acres of land, update bank stress tests, and the approval of a 2012 budget consistent with program commitments are all

prior actions for Board consideration of the first review. They have since been completed. The structural benchmark on reviewing the borrowing capacity of public enterprises is on track to be met by end-December 2011. Quarterly updates of banking sector stress tests by the ECCB and the registration of an additional 600 acres of land to facilitate the debt restructuring process are new quarterly benchmarks under the program for end-June 2012.

Table 1. St. Kitts and Nevis: Schedule of Review and Purchases

Availability date	Amount of Purchase		Conditions
	Millions of SDR	Percent of Quota	
July 27, 2011	22.150	248.9	Approval of arrangement
November 15, 2011	11.470	128.9	First review and end-September 2011 performance criteria
February 15, 2012	3.161	35.5	Second review and end-December 2011 performance criteria
May 15, 2012	3.161	35.5	Third review and end-March 2012 performance criteria
August 15, 2012	3.161	35.5	Fourth review and end-June 2012 performance criteria
November 15, 2012	3.161	35.5	Fifth review and end-September 2012 performance criteria
February 15, 2013	1.105	12.4	Sixth review and end-December 2012 performance criteria
May 15, 2013	1.105	12.4	Seventh review and end-March 2013 performance criteria
August 15, 2013	1.105	12.4	Eighth review and end-June 2013 performance criteria
November 15, 2013	1.105	12.4	Ninth review and end-September 2013 performance criteria
February 15, 2014	0.913	10.3	Tenth review and end-December 2013 performance criteria
May 15, 2014	0.913	10.3	Eleventh review and end-March 2014 performance criteria
<b>Total</b>	<b>52.510</b>	<b>590.0</b>	

Source: Fund staff estimates

Table 2. St. Kitts and Nevis: Quantitative Performance Criteria and Indicative Targets, 2011-12  
(In millions of Eastern Caribbean dollars)

	Performance Criteria			Indicative Targets	
	End-Dec. 2011	End-Mar. 2012	End-Jun. 2012	End-Sep. 2012	End-Dec. 2012
<i>Performance Criteria:</i>					
Central government overall balance including grants (floor) 1/ 2/	-60	-24	-53	-91	-60
Stock of central government budget expenditure arrears accumulation (ceiling) 3/	0	0	0	0	0
Stock of external short term debt (ceiling)	0	0	0	0	0
Central government or guaranteed external arrears accumulation (ceiling) 4/	0	0	0	0	0
<i>Indicative Target:</i>					
Central government primary balance (floor) 1/ 2/	76	7	19	8	68

1/ Cumulative within each calendar year.

2/ See the TMU for a description of adjusters.

3/ The stock of arrears related to the fuel purchase is being audited by international auditors and the authorities are in the process of reconciliation.

4/ To be monitored on a continuous basis.



Table 3. St. Kitts and Nevis: Performance and Proposed Prior Actions for the First Review and Structural Benchmarks 1/

Action	Target Date	Objectives	Status
<b>I. Structural Benchmarks for the First Review</b>			
Update the registry of at least 600 acres of land	End-September 2011		Partially met
Undertake a valuation of at least 600 acres of land	End-September 2011		Partially met
Make substantial progress on the consultative phase of restructuring with creditors	End-September 2011		√
Submit the bill for the corporatization of the Electricity Department to Parliament	End-September 2011		√
Update the existing stress tests of financial institutions	End-September 2011		delayed
<b>II. Prior Actions for the First Review</b>			
Update the registry of the remaining 52 acres of land	End-December 2011		
Undertake a valuation of the remaining 52 acres of land	End-December 2011		
Update the existing stress tests of financial institutions	End-December 2011		
Parliament to approve a 2012 budget consistent with program commitments	End-December 2011		
<b>III. New Structural Benchmark</b>			
Update the registry of additional 600 acres of land	End-June 2012	Strengthen public financial management	
Undertake valuation of additional 600 acres of land	End-June 2012	Strengthen public financial management	
Update the existing stress tests of banks	To be monitored on a quarterly basis	Financial sector stability	
<b>IV. Fiscal and Public Sector Reforms</b>			
<b>Public financial management</b>			
Submit to Cabinet proposal to rationalize the subsidy on liquefied petroleum gas (LPG)	End-March 2012	Streamline social safety nets	
Submit draft of new Procurement Act to Parliament	End-June 2012	Strengthen institutional framework	
Draft proposal for the establishment of an asset management company	End-June 2012	Strengthen public financial management	
Establish a medium-term expenditure framework with agreed fiscal targets	End-June 2012	Improve medium-term orientation of the budget	
<b>Civil service reform</b>			
Cabinet to approve a plan for civil service reform covering human resource policy, reviewing the organization and structure of the civil service and addressing wage policy and payroll management	End-June 2012	Strengthen public financial management	
<b>Actuarial review of Social Security</b>			
Regular review of the Social Security Scheme.	End-September 2012	Strengthen public financial management	
<b>Public enterprise reform</b>			
Review borrowing capacity of public enterprises	End-December 2011	Strengthen public financial management	
Rationalize public land sales and development agencies	End-September 2012	Strengthen public financial management	
<b>Strengthen social safety net</b>			
Submit social safety net reform strategy to Cabinet	End-March 2012	Streamline social safety nets	
<b>V. Medium-term benchmark</b>			
Develop and explicit medium-term debt management strategy that takes account of the cost-risk tradeoff of alternative financing options, within the context of the overall macroeconomic environment	to accompany the 2013 Budget	Improve medium-term orientation of the budget	
Draft proposal for a comprehensive pension reform	End-June 2013	Strengthen public financial management	

Sources: St. Kitts and Nevis authorities; and Fund staff.

1/ Referenced as table 4 in Attachment II.

## TECHNICAL MEMORANDUM OF UNDERSTANDING

1. St. Kitts and Nevis' performance under the Stand-By Arrangement (SBA) will be assessed on the basis of the quantitative performance criteria and indicative targets, as well as the structural benchmarks. This Technical Memorandum of Understanding (TMU) defines the variables set out in Table 2 of the Memorandum of Economic and Financial Policies (MEFP). It also lays down the reporting requirements to adequately monitor the program.
2. For the purposes of the program, the exchange rate of the East Caribbean dollar (EC\$) to the U.S. dollar is set at EC\$2.70 = US\$1. Foreign currency accounts denominated in currencies other than the U.S. dollar, excluding SDRs, will be first valued in the U.S. dollar at actual end-of-period exchange rates used by the ECCB to calculate the official exchange rates. SDR-denominated accounts will be valued at the program exchange rate of U.S. dollar 1.6 per SDR.

### I. COVERAGE

3. For the purpose of the program, **central government** will cover all items included in the government budgets of the Federation (both St. Kitts and Nevis).
4. The **nonfinancial public sector** is defined as the total central government and nonfinancial public enterprises. Public enterprises consist of the Development Bank of St. Kitts and Nevis, Financial Services Regulatory Commission, Frigate Bay Development Corporation, La Vallee Greens Ltd, National Housing Corporation, Nevis Air and Sea Port Authority, Nevis Cultural Development Foundation, Nevis Electricity Corporation, Nevis Housing and Land Development Corporation, Nevis Solid Waste Management Authority, Nevis Tourism Authority, St. Christopher and Nevis Solid Waste Management Corporation, St. Christopher Tourism Authority, St. Kitts Urban Development Corporation, St. Christopher Air and Sea Ports Authority, WhiteGate Development Corporation, and ZIZ Broadcasting Corporation.
5. **External debt** is defined as all debt owed to creditors residing outside of St. Kitts and Nevis, while **domestic debt** covers all debt owed to residents of St. Kitts and Nevis. The latter covers all T-bills, including those held by creditors residing outside of St. Kitts and Nevis, and the bond issued at the Regional Government Securities Market (RGSM).

### II. QUANTITATIVE PERFORMANCE CRITERIA

#### A. Central Government's Overall Deficit (PC)

6. The **central government overall balance** will cover all of its revenue, grants, expenditure, and transfers. Revenues will exclude any proceeds from the sale of public assets such as land, which will be considered as financing below the line. Expenditures will exclude clearance of arrears, which will be considered as financing below the line.

7. The central government's overall balance will be measured from the financing side as the sum of the net domestic financing, net external financing, plus proceeds from the sale of public assets, minus clearance of arrears.

8. **Net domestic financing** of the central government is defined as the sum of:

- net domestic bank financing as measured by the change in the domestic banking system credit to the central government net of deposits, as reported by the consolidated balance sheet of the monetary authorities and commercial banks, including special tranches from the ECCB;
- net nonbank financing as measured by the net changes in holdings of government securities by nonbanks, and net borrowing from nonbank institutions;
- the changes in the stock of domestic arrears of the central government defined as net changes in unpaid checks issued, unprocessed claims, pending invoices, plus accrued interest payments, and other forms of expenditures recorded above the line but not paid;
- gross receipts from divestment defined as proceeds received from any privatization, divestment, and sale of asset (land); and
- any exceptional financing, including rescheduled principal and interest.

9. **Net external financing** of the central government is defined as the sum of:

- disbursements of project and non-project loans, including securitization;
- proceeds from bonds issued abroad (with an original maturity of one year or greater);
- net changes in short-term external debt (with an original maturity of less than one year), excluding exceptional financing;
- net changes in cash deposits held outside the domestic banking system;
- any changes in arrears on external interest payments and other forms of external expenditures recorded above the line but not paid;
- any exceptional financing, including rescheduled principal and interest;

less:

- payments of principal on current maturities for bonds and loans on a due basis, including any prepayment of external debt.

10. The **floor on the overall balance of the central government** will be adjusted as follows:

- **downward** (i.e., a larger overall deficit target would apply) to the extent that budgetary grants fall short of the programmed amounts by less than EC\$3 million.
- **upward** to the extent that budgetary grants exceed the annual amounts specified in the program.
- **downward** by the cumulative amount of up to EC\$15 million spent on bank recapitalization and support to the British American Insurance Companies or CLICO as part of a regional solution—any amounts spent in excess of this programmed contingency will need to be funded within the program limit on the overall deficit.
- **upward** to the extent that clearance of arrears fall short of the amounts specified.
- **upward** to the extent of exceptional financing achieved through debt restructuring.

Table 1. Programmed Disbursements of Budgetary Grants in 2012  
(in EC\$ millions)

Quarters	I	II	III	IV
Grants	0.0	0.0	0.0	27.4

Sources: St. Kitts and Nevis authorities; and Fund staff estimates.

Note: Values presented are cumulative and Euro 1 = US\$1.3.

## B. Stock of Central Government Short-Term External Debt (PC)

11. The **limit on short-term external debt** applies to debt owed or guaranteed by the central government of St. Kitts and Nevis, with an original maturity of up to and including one year. Excluded from the limit are any rescheduling operations (including the deferral of interest on commercial debt) and normal import-related credits. Normal import credit is understood to be a self-liquidating operation where the proceeds from sales of imports are used to retire the debt. Debt falling within the limit shall be valued in U.S. dollars at the time of the contract or guarantee becomes effective.

### C. External Arrears of the Public Sector (PC)

12. The **non-accumulation of arrears to external creditors** will be a continuous performance criterion under the program. This performance criterion applies to arrears accumulated related to debt contracted or guaranteed by central government. External payment arrears consist of external debt service obligations (principal and interest) falling due after December 31, 2010 that have not been paid at the time due, taking into account the grace periods specified in contractual agreements. Arrears resulting from nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is being sought are excluded from this definition.

### D. Budget Expenditure Arrears (PC)

13. A ceiling is set on central government budget expenditure arrears, equal to the stock of such arrears as at December 31, 2010 (Table 2). The ceiling applies to the increase in the sum of: (1) any invoice that has been received by a spending agency from a supplier of goods, services, and capital goods delivered and verified, and for which payment has not been made within the contractually agreed period, or in the absence of a grace period, within 60 days; and (2) unpaid wages, pensions, or transfers, pending for longer than 60 days to domestic or foreign residents, irrespective of the currency denomination of the debt. Interest and amortization arrears on domestic debt resulting from nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is being sought are excluded from this ceiling. For ease of monitoring, all debt issued on the Regional Government Securities Market (RGSM), irrespective of who holds it, will be regarded as domestic debt.

Table 2. Stock of Budget Expenditure Arrears at end-December, 2010  
(in EC\$ millions)

Stock of arrears 1/	183
Unpaid checks issued	...
Unprocessed invoices	...
Pending invoices	...
Interest and amortization arrears on domestic debt	0
<b>Total</b>	<b>183</b>

Source: St. Kitts and Nevis authorities.

1/ The stock of arrears related to the fuel purchase is being audited by international auditors and the authorities are in the process of reconciliation.

### III. INDICATIVE TARGET ON THE PRIMARY BALANCE OF THE CENTRAL GOVERNMENT

14. The **central government's primary balance** is defined as revenue and grants minus non-interest expenditures. As in the definition of the overall balance, revenue will exclude any proceeds from the sale of public assets. Net lending is a non-interest expenditure item

(negative net lending is a revenue item). Interest expenditures include interest payments on outstanding arrears, as defined above in sections IIC and IID (at their contractual rates) converted to a cash basis.

15. The **floor on the primary balance of the central government** will be monitored from the financing side as the sum of the net domestic financing, net external financing, proceeds from the sale of public assets, plus domestic and external interest payments on a due basis.

16. The floor on the primary balance of the central government will be adjusted as follows:

- **downward** (i.e., a smaller primary surplus target would apply) to the extent that budgetary grants fall short of the programmed amounts by less than EC\$3 million.
- **upward** to the extent that budgetary grants exceed the annual amounts specified in the program.
- **downward** by the cumulative amount of up to EC\$15 million spent on bank recapitalization and support to the British American Insurance Companies or CLICO as part of a regional solution.
- **upward** to the extent of exceptional financing achieved through debt restructuring.

#### IV. DATA AND INFORMATION

17. To enable monitoring of performance relative to the above quantitative performance criteria and indicative targets, the St. Kitts and Nevis authorities will provide Fund staff with the following specific data and information within 8 weeks after the end of each month.

##### **Fiscal sector**

- Central government budgetary accounts.
- Capital expenditure.
- Total monthly disbursements and grants receipts, disaggregated into: (a) budgetary support (by type—either loans, external “bonds” and/or other securities); (b) project loans; (c) budgetary grants; and (d) project grants.
- Central government domestic debt data (St. Kitts and Nevis).

- Stock of domestic arrears, including unpaid checks issued, stock of unprocessed claims due and invoices pending; interest and amortization on domestic debt.
- Stock of external arrears by creditor.
- Detailed monthly external debt report from the Debt Unit in the Ministry of Finance, showing fiscal year-to-date disbursements, amortization, interest payments and outstanding stocks, for the central government and public enterprises.
- Copies of loan agreements for any new loans contracted, including financing involving the issue of government paper, and of any renegotiated agreements on existing loans.

### **Financial sector**

- Monetary survey for St. Kitts and Nevis as prepared by the Eastern Caribbean Central Bank.

### **Real sector**

- Consumer price index.

18. Reporting on a **quarterly basis** will include the following:

### **Fiscal**

- A detailed overview of capital expenditures on a project by project basis and the composition of financing.
- Financial position of the public enterprises (as listed in paragraph 4).

### **Real sector**

- Economic indicators under the real sector.

### **External sector**

- Economic indicators under the external sector.

19. Reporting on an **annual basis** will include the following:

### **External and real sectors**

- GDP and its components.

- Balance of payments accounts.
20. **Other reporting** will include:
- Reports of legislative changes pertaining to economic matters.
  - Notification of any establishment of new public enterprises.
  - All disbursements and outstanding balances from the use of the Banking Sector Reserve Fund on a weekly basis.