

# St. Kitts and Nevis: Staff Concluding Statement of the 2026 Article IV Mission

March 2, 2026

## Washington, DC:

### Recent Developments, Outlook, and Risks

**Real GDP growth is estimated to have slowed to 1.5 percent in 2025 and is expected to pick up to 2.2 percent in 2026.** The slowdown in 2025 reflects weaker-than-expected construction activity, despite a recovery in tourism, as well as headwinds from low Citizenship-by-Investment (CBI) inflows and fiscal consolidation. The projected acceleration in 2026 is expected to be supported by robust construction activity, agriculture, renewable energy projects, and a continued tourism recovery. Over the medium term, growth is expected to strengthen to about 2.5 percent, driven by renewable energy investments, construction and expanding tourism activity. Inflation is estimated at 1.5 percent at end-2025, supported by lower energy and food prices, and is projected to gradually increase to around 1.8 percent in 2026.

**As the CBI windfall in recent years—which led to higher primary spending—fades, fiscal deficits are expected to remain high, with public debt edging up further.** The economy experienced another windfall from CBI revenue between 2021 and 2023, which prompted a significant increase in current spending. Following a sharp decline in CBI revenue since 2024, the authorities have been implementing reforms to streamline current expenditure and mobilize tax revenue. Nonetheless, the fiscal deficit in 2025 is estimated to be high at 11.7 percent of GDP. Public debt picked up modestly to 58.4 percent of GDP, but government deposits continued to decline. Persistently low CBI revenue is expected to keep fiscal deficits elevated in 2026 and over the medium term, with public debt projected to rise above the regional threshold this year to support development needs. Debt

sustainability is maintained; however, contingent liabilities from public banks and the social security fund (SSF) pose considerable risks.

**Against the backdrop of large fiscal deficits, the current account deficit also remains wide at 14.6 percent of GDP in 2025, well above its pre-pandemic average.** This reflects elevated non-fuel imports—partly driven by temporary VAT reductions—and lower CBI applications, despite moderating fuel imports, resilient tourism activity and stable remittances. The external position in 2025 is assessed as weaker than implied by medium-term fundamentals and desirable policies. International reserves remained stable.

**The banking system remains broadly stable, supported by strengthening capital positions and a continued decline in NPL ratios, although vulnerabilities persist.** Credit growth in 2025 was strong, at 8.2 percent, driven mainly by mortgages, construction, and tourism-related activities, while corporate lending remained subdued. Credit risk remains the primary source of vulnerability, while market risk has eased somewhat following banks' rebalancing of investment portfolios away from equities. Nonetheless, vulnerabilities remain elevated, reflecting large and concentrated NPLs, weaknesses in provisioning quality, and still sizable and relatively risky investment portfolios.

**Near-term risks to growth are tilted to the downside.** External risks include heightened global policy uncertainty—including related to CBI programs—geopolitical tensions, and volatility in commodity and financial markets, which could weigh on CBI inflows and tourism and adversely affect banks' investment portfolios. Domestically, financial-sector weaknesses and exposure to natural disasters (ND) could pose fiscal risks. On the upside, a successful energy transition could strengthen medium-term growth.

## **Fiscal Policies**

### *1) Implementing Fiscal Consolidation*

**Fiscal consolidation, supported by a strong fiscal resilience framework, is critical to stabilize debt, restore buffers, and reduce vulnerability to shocks.** Under a moderately frontloaded active policy scenario encompassing expenditure rationalization (4.4 percentage points of GDP) and tax revenue mobilization (2.7 percentage points of GDP), public debt would stabilize at the regional 60 percent ceiling by 2031. This would allow government deposits to increase to 10 percent of GDP, providing a buffer to hedge against potential declines in CBI revenues and strengthening resilience to NDs. Combined with structural reforms and a potential decline in the interest bill, this scenario would lift medium-term growth by creating space for higher capital investment.

**Current expenditure requires further rationalization.** At about 34 percent of GDP in 2025, it remains significantly above both the pre-pandemic average of 23 percent and the ECCU regional average of 24 percent. Streamlining should focus on continued rationalization of goods and services, tighter control of wage bill growth, the phasing out of electricity and water subsidies alongside tariff reforms, and time-bound, better-targeted social programs. Beyond incremental expenditure rationalization, a more strategic and holistic review of government functions would help identify activities that could be scaled back or discontinued—particularly those overlapping functions and programs—supporting a leaner, more focused and cost-effective public sector.

**Tax revenue—below the ECCU average—has ample room to increase.** Covid-era concessions should be rolled back, including those for unincorporated business taxes and duty exemptions for tourism operators. Suggested measures include introducing more progressive property-tax rates, broadening the VAT base, increasing excises on alcohol, tobacco, and fossil fuels, raising rates for top earners, and taxing non-labor income. Tax administration should be further strengthened through enhanced enforcement and compliance, continued digitalization, and improved auditing.

## *2) Strengthening the Fiscal Resilience Framework*

**Formally adopting fiscal rules anchored in the adjusted primary balance is essential to reduce reliance on CBI revenue and strengthen the credibility of the fiscal consolidation path.** While the stated objective of reaching the regional 60-percent debt ceiling by 2035 signals commitment, this target is not legally binding, and St. Kitts and Nevis remains among the few ECCU countries without formal fiscal rules—contributing to fiscal procyclicality and limited buffers. Progress toward formalizing fiscal rules could include adopting the ECCU debt ceiling as the overarching fiscal anchor, with clearly defined public-sector coverage and well-specified operational targets to help mitigate procyclicality and improve expenditure control. Operational targets could include a floor on the adjusted primary balance (excluding CBI revenue and transfers to banks) and a ceiling on primary current expenditure. Clearly defined escape clauses and correction mechanisms—including in the event of ND—and the support of independent oversight, would also be important.

**The fiscal rules could incorporate post-disaster financing instruments, such as the Caribbean Catastrophe Risk Insurance Facility (CCRIF), as well as a Sovereign Wealth and Resilience Fund (SWRF),** which the authorities plan to establish. Effective implementation would be supported by a strong Medium-Term Fiscal Framework—embedding near-term targets in a rolling, annually updated framework, alongside a robust public financial management system and a strengthened Public Sector Investment Program.

**Debt management practices should continue to be strengthened, anchored by a more robust Medium-Term Debt Management Strategy (MTDMS).** Gross financing needs are elevated at about 30 percent of GDP, posing significant rollover risks. Priorities include increasing maturities and diversifying financing sources. Public disclosure of the MTDMS and an annual borrowing plan, along with regular quarterly debt bulletins and an annual debt management

report, would help enhance transparency, strengthen investor confidence, and reduce borrowing costs.

**Efforts to further strengthen the integrity of the CBI program should continue.** CBI programs in the Caribbean (and other regions) continue to face significant risks amid heightened international scrutiny, underscoring the importance of continued reforms. Publishing annual externally audited reports with comprehensive data—including information on applications and financial operations—would further enhance the program’s transparency, integrity, and long-term sustainability.

**The mission welcomes progress in establishing the SWRF.** The authorities plan to establish the SWRF to (a) ring-fence high quality liquid assets for rapid recovery from natural disasters without destabilizing public finances; and (b) provide a counter-cyclical buffer to reduce the need for emergency borrowing, amongst others. Implementation of the SWRF bill, in line with the IMF’s technical assistance recommendations, would help mitigate the volatility of CBI revenues, enhance resilience to NDs, and support long-term fiscal sustainability.

**Parametric reforms to the SSF should proceed without delay, as reserves could otherwise be depleted by 2040.** Timely reforms to adjust contribution rates, raise the retirement age, and extend minimum contribution periods are critical. In parallel, strengthening the SSF’s investment capacity—supported by reforms to its legal framework—would facilitate greater diversification and improve risk-adjusted returns.

### *3) Strengthening ND-Resilience through a Multi-Layered Post-Disaster Financing Framework*

**The post-disaster financing framework should be further strengthened.** Supported by the rebuilding of fiscal buffers, a multi-layered financial preparedness strategy would help ensure sufficient

and timely response capacity. The use of ND-contingent financing instruments could also be expanded, including through a review of the adequacy of insurance coverage, the development of sectoral insurance for critical areas such as utilities via CCRIF, and agriculture via the Regional Economical Agri-Insurance Program (REAP), the gradual buildup of the SWRF, and consideration of a World Bank Catastrophe Deferred Drawdown Option (Cat DDO) contingent credit line.

## **Financial Sector Policies**

### **Financial stability should be strengthened by resolving legacy NPLs, improving provisioning quality, and further de-risking investment portfolios.**

To facilitate NPL resolution, targeted adjustments to valuation-related prudential standards in court processes could be considered. Consistent recognition and application of such adjustments by courts would help streamline foreclosure processes and enhance recovery efficiency. Strengthening cooperation for the effective use of the regional asset management company would help with NPL disposal. Preventing a renewed buildup of NPLs will require sound underwriting standards and robust risk-management practices. In addition, provisioning should be strengthened through higher direct provisioning, reduced reliance on reallocated reserves, and full coverage of long-dated NPLs. Continued de-risking of investment portfolios, together with improvements in lending operations, would support financial stability.

### **Comprehensive reform of the Development Bank is essential to safeguard financial and fiscal stability.**

The bank is heavily undercapitalized, with a high NPL ratio, persistent losses, and significant reliance on public funding—particularly from the SSF—posing a growing contingent liability to the government. While several reforms are under way—including NPL restructuring, increased provisioning, and improvements in underwriting standards—the bank’s long-term viability should be carefully assessed in light of fiscal prudence. To further strengthen the institution, there is a need for deeper reforms to

restore its solvency, including a credible recapitalization plan, decisive NPL resolution with full provisioning for impaired assets, alongside transparent communication of the resulting recapitalization needs and associated fiscal risk to the public. In parallel, strengthening prudential regulation and supervision—including through legal reforms that provide the Financial Services Regulatory Commission (FSRC) with stronger corrective and enforcement powers—is essential.

**Oversight of the non-banking sector, including credit unions (CUs) and the non-life insurance sector, should be strengthened to address regulatory gaps and rising risks.**

- Prudential requirements—including lending standards, provisioning rules, and supervisory actions—should be tightened to curb regulatory arbitrage between banks and the rapidly expanding CU sector, particularly among large CUs. These measures should be supported by the adoption of minimum standards at the regional level. Reinforcing the FSRC’s supervisory framework also requires legal amendments to enhance data reporting obligations, limit dividend distributions, and broaden enforcement powers, alongside a more risk-based supervisory approach and consistent asset classification and provisioning practices.
- **Non-life insurers.** Rising ND risks have driven up regional reinsurance costs and insurers’ combined ratios, weakening profitability and potentially leading to reduced insurance coverage and higher post-disaster costs affecting all of society. These vulnerabilities underscore the need to enforce compliance, enhance supervisory monitoring, strengthen ND stress-testing frameworks, and ensure robust catastrophe-related provisioning practices.

**The AML/CFT framework should be strengthened to address emerging risks and the heightened scrutiny of CBI programs.**

Rising risks related to virtual assets, beneficial ownership, and asset-recovery mechanisms underscore the need to reinforce AML/CFT safeguards and further strengthen CBI regulatory regimes to mitigate

regional risk perceptions and to protect correspondent banking relationships. Ensuring the effective application of the AML/CFT requirements to all development programs is also important.

## **Structural Policies**

**Potential growth has declined over the past decade, reflecting weak investment and declining contributions from human capital.**

Firm-level evidence points to key obstacles, including access to finance, skills shortages, and restrictive trade regulations.

**Given constrained fiscal and human-resource capacity, adopting a focused national development strategy is critical.** The strategy could consider concentrating limited resources on a small number of high-impact sectors (such as tourism, selected services, the green and digital economy) and aligning education and skills development, focusing on renewable energy transition and infrastructure investment. Such prioritization, supported by public-private collaboration, will be essential to lift potential growth.

**Accelerating renewable energy projects would help reduce energy costs for businesses, mitigate external vulnerabilities, and support economic diversification.** Achieving this transition will require stronger institutional capacity to ensure timely project execution, continued concessional financing from development partners—anchored in well-prepared, investment-ready projects—and a sound macroeconomic and debt-management framework. Addressing institutional gaps—including adopting modern, harmonized energy legislation across the Federation and establishing an independent energy regulator—would facilitate a sustainable energy transition.

**Strengthening the investment climate is critical to lifting growth potential.** Improving access to finance—through greater use of the regional credit bureau infrastructure and the partial credit guarantee scheme, and stronger legal frameworks for collateral and insolvency—would support investment, particularly for Micro, Small and Medium

Enterprises. Streamlining and time-bounding the approval process, strengthening institutional capacity to originate and assess bankable, pre-structured projects, and developing a modern and transparent investment code could further stimulate investment by improving predictability and reducing administrative burdens. Public-private partnerships should be reinforced by robust legal and regulatory frameworks to ensure transparency, sound risk-sharing, and fiscal discipline, especially for energy transition projects. Strengthening institutional capacity to design, negotiate, and implement complex PPP projects is essential.

**Enhancing trade regulations and procedures would help unlock trade potential and improve competitiveness.** Restrictive trade regulations, high freight costs, heavy reliance on regional transshipment hubs, and concentrated import sources heighten vulnerability to external shocks. Updating laws and regulations to fully support digital trade workflows—including a single window for trade and inter-agency data sharing—together with stronger coordination and further harmonization of customs legislation and procedures within OECS and CARICOM, would help enhance competitiveness and deepen regional integration.

**Addressing labor-market skills mismatches—exacerbated by an ageing population—is critical for boosting productivity.** The economy faces persistent shortages of skilled labor in areas such as technical occupations, professional services, and tourism and hospitality. This reflects important gaps in education and training systems, limited soft-skill development, and a relatively small pool of locally trained professionals amid outward migration. Addressing these constraints will require modernizing education and vocational training to better align with labor-market needs in priority sectors, including through stronger public-private collaboration, such as structured internship and apprenticeship programs linking firms and training institutions.



Real effective exchange rate appreciation (+) (end-of- period)	-3.1	-1.4	-0.7	-2.1	...	...	...	...	...	...
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## Money and credit 1/

Broad money	8.9	3.7	-1.9	2.5	16.0	9.8	7.9	5.9	6.2	6.3
Change in net foreign assets	9.1	-7.1	-6.3	-12.8	-2.3	-2.0	-1.8	-1.8	-1.6	-1.4
Net credit to general government	-4.8	4.9	0.3	9.3	11.7	7.7	6.3	4.7	4.7	4.6
Credit to private sector	7.7	5.9	5.1	10.8	10.0	6.5	5.3	4.7	4.9	4.7

(In percent of GDP)

## Public sector 2/

Total revenue and grants	47.5	46.1	43.9	33.1	30.7	32.2	32.7	33.2	33.2	33.2
o/w Tax revenue	19.4	18.8	19.7	19.9	19.5	20.2	20.2	20.2	20.2	20.2
o/w CBI fees	23.8	25.8	22.2	8.6	5.3	6.0	6.5	7.0	7.0	7.0

Total expenditure and net lending	42.0	50.4	43.7	44.4	42.4	40.4	39.9	38.7	38.9	39.0
Overall balance	5.5	-4.2	0.2	-11.3	-11.7	-8.2	-7.2	-5.6	-5.7	-5.8
Total public debt (end-of-period)	73.0	64.5	60.0	58.1	58.4	63.6	68.0	70.5	72.9	75.5
General government deposits (percent of GDP) 3/	31.0	22.0	20.8	11.0	7.2	3.0	2.9	2.7	2.6	2.5

## External sector

External current account balance	-3.4	-10.8	-13.7	-13.0	-14.6	-14.0	-13.5	-13.2	-12.6	-12.1
Trade balance	-25.3	-35.3	-35.4	-35.6	-34.1	-34.9	-35.3	-35.1	-33.7	-33.1

## Memorandum items

Net international

reserves, end-  
of-period

Holdings of  
SDRs, in  
millions of U.S.  
dollars

312.8	270.3	262.4	270.7	269.0	267.3	265.5	261.4	260.2	259.
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Nominal GDP  
at market  
prices (in  
millions of  
EC\$)

2,277	2,599	2,793	2,836	2,921	3,080	3,223	3,375	3,540	3,70
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Sources: St. Kitts and Nevis authorities; ECCB; UNDP; World Bank; and IMF staff estimates and projections.

1/ The series for monetary aggregates have been revised consistent with the Monetary and Financial Statistics Manual and Compilation Guide.

2/ Consolidated general government balances. Primary and overall balances are based on above-the-line data.

3/ Includes only central government deposits at the commercial banks.

## MEDIA RELATIONS

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