# GOVERNMENT OF ST. KITTS AND NEVIS

---

# MEDIUM-TERM DEBT MANAGEMENT STRATEGY

# 2015 - 2017

**Prepared by:**

**Ministry of Finance**
**November 2014**

# TABLE OF CONTENTS

**ACRONYMS** .......... **1**

**I. INTRODUCTION** .......... **2**

**II. MEDIUM-TERM DEBT MANAGEMENT OBJECTIVES** .......... **3**

**III. OVERVIEW OF 2013 - 2015 MEDIUM-TERM DEBT MANAGEMENT STRATEGY (MTDS)** .......... **3**

**IV. KEY DEVELOPMENTS SINCE 2013 - 2015 MTDS** .......... **4**

**V. REVIEW OF THE DEBT PORTFOLIO AND THE MEDIUM-TERM FORECAST** .......... **5**

- i. Total Public Sector Debt Dynamics: 2011 – 2017 .......... 5
- ii. Currency Composition of the Total Debt Portfolio .......... 6
- iii. Interest Rate Composition of the Total Debt Portfolio .......... 7

**VI. KEY ASSUMPTIONS** .......... **7**

- i. Macroeconomic .......... 7
- ii. Financing and Sources of Funding .......... 8

**VII. DEBT STRATEGY IMPLEMENTATION** .......... **8**

Debt Strategy Focus .......... 8

- i. Action Plan 2015 - 2017 .......... 9
- ii. Risk Parameters .......... 10

**VIII. COST AND RISK OF THE TOTAL DEBT PORTFOLIO - BASELINE** .......... **12**

- i. Interest Rate and Foreign Currency Risk .......... 12
- ii. Refinancing Risk .......... 13

**IX. CONSTRAINTS THAT MAY AFFECT THE IMPLEMENTATION OF THE DEBT MANAGEMENT STRATEGY** .......... **14**

**X. DEBT SUSTAINABILITY OUTLOOK** .......... **16**

**XI. APPENDICES** .......... **18**

## ACRONYMS

| | | |
|---|---|---|
| ATM | - | Average Time to Maturity |
| ATR | - | Average Time to Re-fixing |
| CBI | - | Citizenship by Investment |
| DMU | - | Debt Management Unit |
| ECCB | - | Eastern Caribbean Central Bank |
| EC$ | - | Eastern Caribbean Currency |
| GDP | - | Gross Domestic Product |
| GOSKN | - | Government of St. Kitts and Nevis |
| IMF | - | International Monetary Fund |
| KWD | - | Kuwaiti Dinar |
| MTDS | - | Medium-Term Debt Management Strategy |
| RGSM | - | Regional Government Securities Market |
| SBA | - | Stand-By Arrangement |
| SDR | - | Special Drawing Rights |
| USAID | - | United States Agency for International Development |
| US$ | - | United States Currency |

# I. INTRODUCTION

After several years of steady growth, the economy of St. Kitts and Nevis was adversely impacted by the global economic and financial crisis. Consequently, between 2009 and 2011, economic activity contracted resulting in a deterioration of Government's fiscal balances. In light of the challenges encountered, and the desire to ensure fiscal and debt sustainability, the Government embarked on a home-grown Economic Recovery Programme. The Programme was supported by the International Monetary Fund (IMF) via a three year Stand-By Arrangement (SBA) which was approved by its Executive Board in July 2011. One aspect of the Economic Recovery Programme was the comprehensive restructuring of the public sector debt. Hence, in 2011 the Government sought the co-operation of some of its creditors (holders of bonds and some loans) in the restructuring of the public debt. Implementation of the debt restructuring exercise began in April 2012.

In order to maintain the gains realized from the debt restructuring exercise and to ensure debt sustainability over the medium to long term, the Government formulated its first Medium-Term Debt Management Strategy (MTDS) in 2012 for the period 2013 to 2015. The primary focus of the 2013 – 2015 MTDS was to reduce the debt stock to manageable levels mainly through further debt restructuring. The strategy is now being updated to cover the period 2015 to 2017, and is also premised on debt reduction and sustainability with a focus on risk identification, monitoring and mitigation.

Given that a number of risks are inherent in the debt portfolio, risk parameters have been developed and form part of the 2015 – 2017 MTDS. These will allow for the continuous monitoring of risk indicators that will highlight improvements and identify potential breaches so that action could be taken to prevent such breaches.

## II. MEDIUM-TERM DEBT MANAGEMENT OBJECTIVES

The fundamental debt management objective of the Government of St. Kitts and Nevis (GOSKN) is to continue its efforts to steadily reduce the public debt to ensure debt sustainability over the medium to long term. This would be done in a manner that reduces cost and risk, and is consistent with the sound management of the public finances and the macroeconomic framework. To achieve the above, the Government intends to:

- Achieve a Debt-to-GDP ratio of 57.3 percent by 2017, ahead of the Eastern Caribbean Central Bank's (ECCB's) target of 60.0 percent by 2020;
- Complete the debt restructuring exercise;
- Minimize existing risks inherent in the debt portfolio;
- Achieve an Average Time to Maturity (ATM) of 8 years or above;
- Re-establish the Government's presence on the capital market; and
- Accelerate efforts to create sinking funds to secure financing for large future debt service obligations and other contingencies.

## III. OVERVIEW OF 2013 - 2015 MEDIUM-TERM DEBT MANAGEMENT STRATEGY (MTDS)

The MTDS that was developed in 2012 for the period 2013 - 2015 focused on the Government's main debt management objectives of reducing the public debt burden over the medium term and minimizing costs and risks embedded in the debt portfolio. The achievement of the Government's debt management objectives as outlined in the 2013 - 2015 MTDS was largely hinged upon the Government's ability to restructure and reduce the net stock of debt where possible. The strategy also recommended limiting borrowing and, where necessary, borrowing on concessional terms to reduce debt servicing cost.

## IV. KEY DEVELOPMENTS SINCE 2013 - 2015 MTDS

Subsequent to the preparation of the 2013 - 2015 MTDS, the Government advanced its debt restructuring activities and achieved substantial gains in the form of a reduction in the debt stock, cash flow relief through debt service cost savings and minimization of refinancing risk by lengthening the maturity profiles of some instruments. The key developments are listed below:

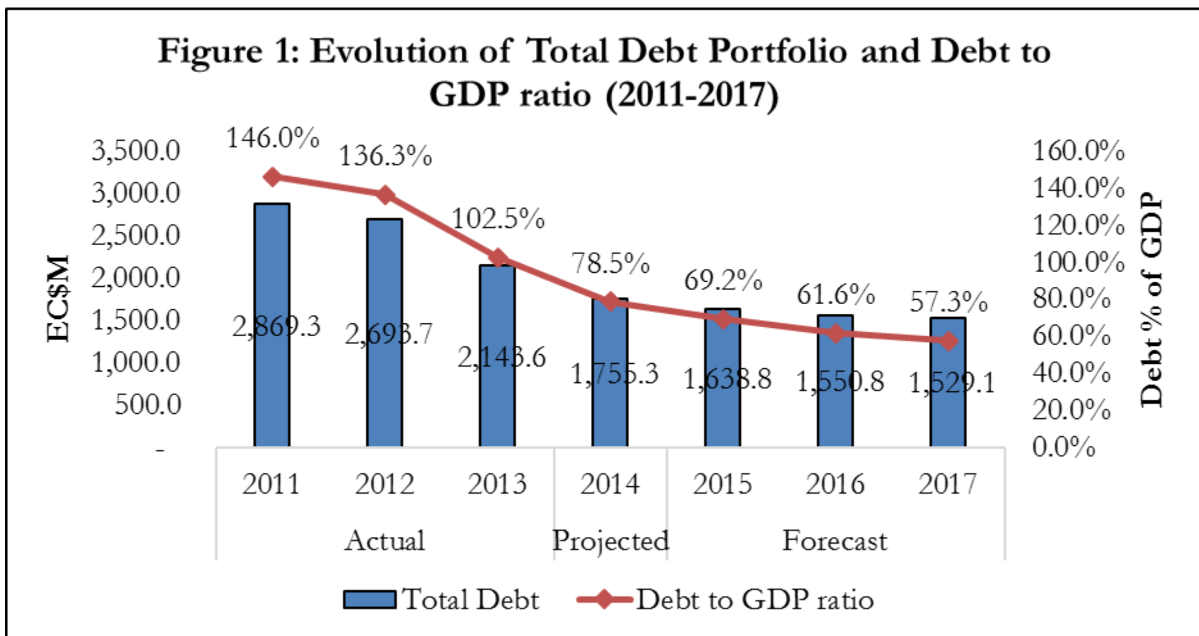
- January 2013 - The terms of the debt consolidation/refinancing agreement between GOSKN and the United States Agency for International Development (USAID) were finalized. The agreement consolidated four USAID loans with more favorable terms through an extended maturity profile, lower interest rate and a grace period.
- April 2013 - GOSKN restructured the remaining balance of a Public Corporation's debt which led to a reduction in the debt stock of $0.6m and a reduction of an estimated $0.1m in interest payments from April 2013 to December 2017.
- July 2013 - Phase 1 of the Debt for Land swap in St. Kitts was executed and resulted in a reduction of $565.0m or 20.9% in the debt stock. Interest payments were also reduced by approximately $88.8m over the medium term.
- August 2013 - The Government refinanced its loans and that of a Public Corporation with a domestic creditor. The agreement consolidated three loans with more favorable terms including an extended maturity profile and lower interest rate.
- June 2014 – The Government repaid the IMF $46.1m that was borrowed to establish a Banking Sector Reserve Fund.
- August 2014 – Phase 2 of the Debt for Land swap in St. Kitts was executed and resulted in a reduction of $203.1m in the debt stock. In addition, the Government concluded negotiations with the Social Security Board on behalf of itself and two Public Corporations.
- August 2014 – The Government revised the interest rates paid on its Treasury Bills portfolio which resulted in a reduction in the cost of borrowing and interest savings of $1.3m on the August 2014 issue. The rates moved from 6.75 percent to 5.00 percent on the 365-day instrument, 6.65 percent to 4.85 percent on the 182-day Bill and 6.50 percent to 4.75 percent on the 91-day Bill.

- October 2014 – Phase 1 of the Debt for Land swap in Nevis was executed and resulted in a reduction of $29.0m in the debt stock.

## V. REVIEW OF THE DEBT PORTFOLIO AND THE MEDIUM-TERM FORECAST

### i. Total Public Sector Debt Dynamics: 2011 – 2017

At the end of 2013, total public sector debt stood at $2,143.6m or 102.5 percent of GDP. This represented a significant decline of $725.7m or 25.3 percent when compared to the pre-restructured stock balance of $2,869.3m at the end of 2011. The contraction in the debt stock was mainly attributable to the impact of the debt restructuring and the achievement of strong Primary and Overall Balances on the fiscal account.




The debt is projected to decline further to $1,755.3m (78.5 percent of GDP) at the end of 2014. It is expected that the debt will continue to decrease by an average of 7.7 percent over the period 2015 to 2017 to reach an estimated 57.3 percent of GDP at the end of 2017 (see Figure 1 above).

### ii. Currency Composition of the Total Debt Portfolio

The public sector debt was comprised of five currencies at the end of 2013. Debt denominated in EC dollars represented the largest portion (61.7 percent) of the total debt followed by debt contracted in US dollars (27.8 percent). Debt denominated in Special Drawing Rights (SDR) represented 9.8 percent of the total debt portfolio while debt contracted in Kuwaiti Dinars and EURO dollars represented 0.5 percent and 0.3 percent respectively (see Figure 2).

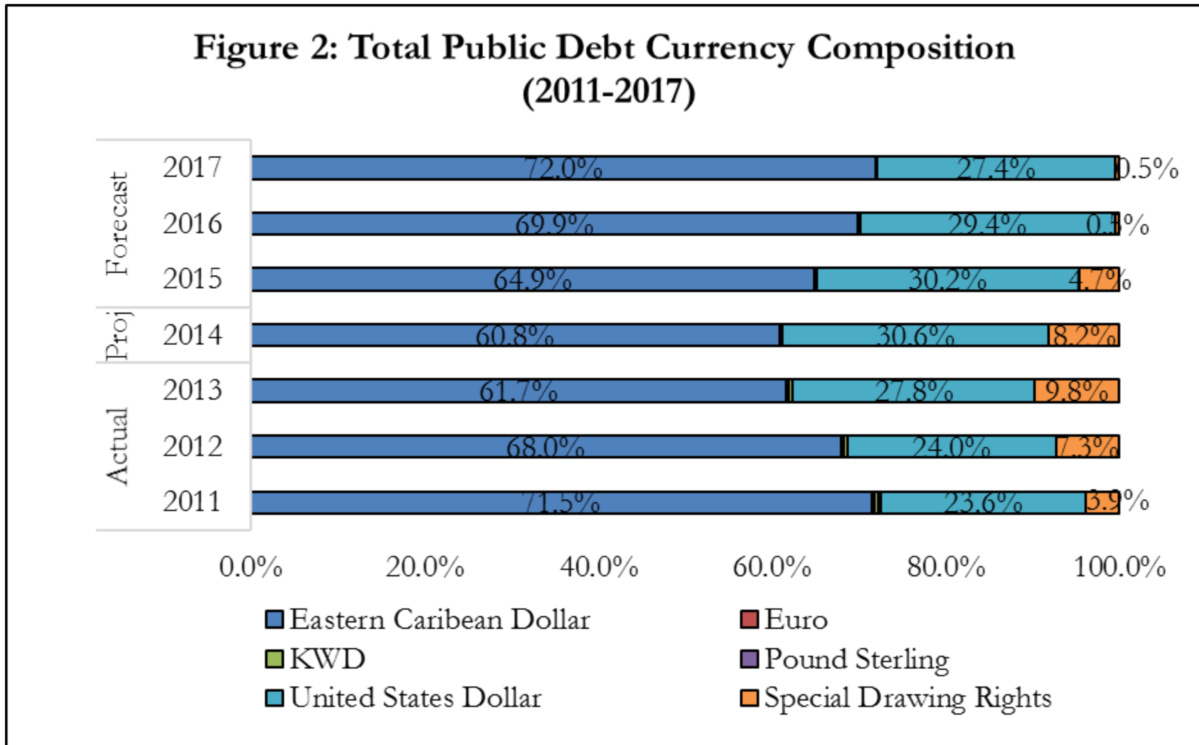
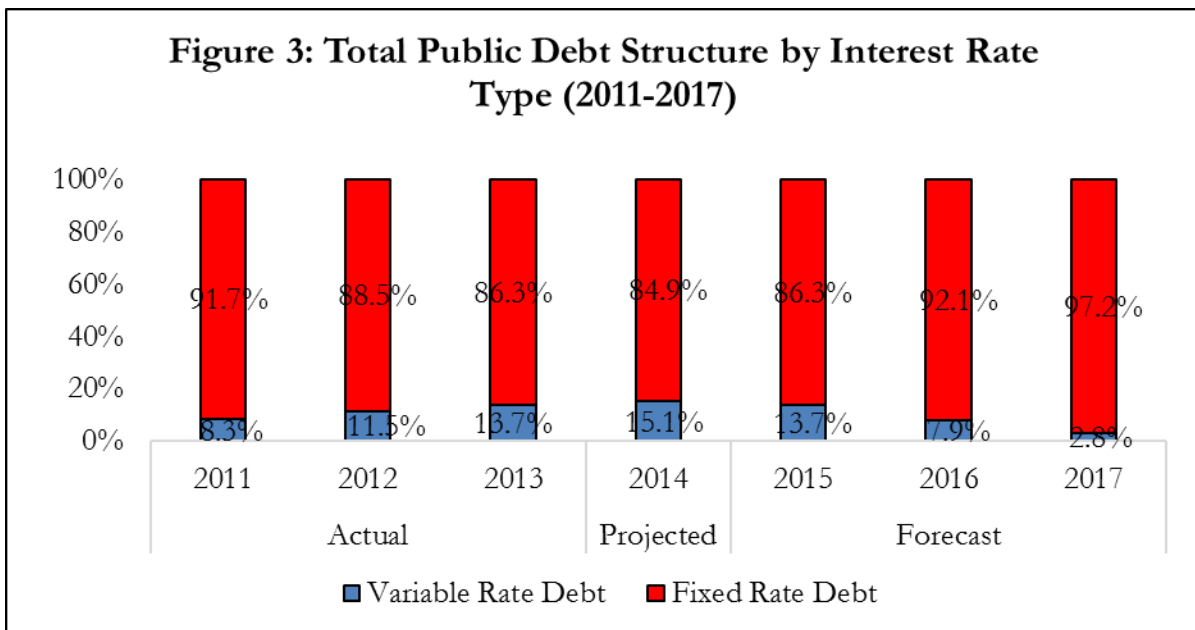


**Figure 2: Total Public Debt Currency Composition (2011-2017)**

For the projected and forecasted period, the EC dollar is expected to remain the dominant currency in the debt portfolio. The share of the EC dollar debt is projected to decline to 60.8 percent at the end of 2014 as a result of the impact of debt restructuring activities that were implemented in 2014. Nonetheless, the percentage share of the EC dollar debt is forecasted to increase to 72.0 percent at the end of 2017 while the share of the US dollar and SDR currency debt is expected to fall to 27.4 percent and 0.5 percent respectively. The decline in the projected share of SDR denominated debt is primarily due to the repayment of the IMF SBA loan over the forecasted period.

### iii. Interest Rate Composition of the Total Debt Portfolio

The total public debt portfolio comprised of mainly fixed rate debt with this category consistently above 80.0 percent over the period. At the end of 2013, the share of fixed rate debt was 86.3 percent while variable rate debt represented 13.7 percent. During 2011 to 2013, fixed rate debt contracted annually while variable rate debt grew primarily on account of disbursements from the IMF SBA loan.




The share of variable rate debt is projected to grow at the end of 2014 to 15.1 percent, however the proportion of variable rate debt is projected to decrease at the end of 2017 to 2.8 percent as a result of the repayment of the IMF SBA loan over the period. The reduction of the variable rate debt marks an improvement to the projected debt dynamics as the decline in the share of variable rate debt reduces the level of interest rate risk within the debt portfolio.

## VI. KEY ASSUMPTIONS

### i. Macroeconomic

The key macroeconomic assumptions of the 2015 to 2017 Debt Management Strategy are real and current GDP growth. Growth in the forecast period is expected to average 3.4 percent. The outlook is for the economy to continue to achieve positive growth at a projected growth rate of

4.6 percent for 2014. Real GDP is expected to grow by 3.5 percent over the period 2015 to 2016 and by 3.3 percent in 2017.

### ii. Financing and Sources of Funding

Fiscal surpluses are projected for the period 2015 to 2017; hence, there should be no borrowing requirements over the forecast period. However, in the event that borrowing becomes necessary, financing will be sourced primarily from multilateral or bilateral creditors on concessional terms.

## VII. DEBT STRATEGY IMPLEMENTATION

The 2015 – 2017 MTDS focuses on managing the external and domestic debt portfolios to ensure that debt sustainability is maintained. The strategy is anchored on debt stock and cost reduction as well as the development of risk parameters to be used as a monitoring mechanism. For effective implementation, the strategy will be monitored on a quarterly basis and recommendations will be made to mitigate against risks. The strategy will be updated annually to incorporate any changes to the debt, fiscal and macroeconomic framework taking into account progress with implementing the strategy over the past year.

### Debt Strategy Focus

1. **Debt Stock Reduction** – The total public sector debt is projected to decline to 57.3 percent of GDP at the end of 2017. This is contingent upon the completion of certain aspects of the debt restructuring exercise along with the achievement of an average Primary Surplus of approximately 6.9 percent of GDP and average real growth of 3.4 percent over the medium term. The Government will evaluate the possibility of further reducing the debt stock and debt service cost through the implementation of an accelerated Debt Reduction Strategy. Emphasis will be placed on high cost debt.

2. **Debt Service Cost Reduction** – GOSKN remains steadfast in its commitment to reduce the cost of its debt by continuing to refinance instruments within the debt portfolio in order to benefit from lower interest rates. GOSKN will continue to pursue its refinancing agenda with key creditors, both domestic and external, to lower debt service cost.

3. **Concessional Borrowing** – No borrowing is anticipated for Central Government for the period 2015 to 2017. If the need to borrow does arise, financing should be acquired on concessional terms, preferably from multilateral or bilateral creditors.

### i. Action Plan 2015 - 2017

To ensure that the debt management objectives are achieved, the following will be pursued over the medium term:

1. **Complete all remaining restructuring/refinancing activities.** An assessment of the status of the debt restructuring exercise will be undertaken with a view to concluding negotiations with three remaining creditors.

2. **Treasury Bills – Cap the value of the Treasury Bills portfolio to reduce debt service cost and risk.** The following will be examined to contain the growth of the debt portfolio and the cost and risk associated with Treasury Bills:
   - An assessment of the Treasury Bills portfolio will be undertaken to determine the maximum level that the Government can accommodate without unduly increasing the debt stock and refinancing risk.
   - The rate of each instrument will be reviewed periodically to ensure that the rates offered are in line with market rates.
   - Consideration will be given to utilizing the Regional Government Securities Market (RGSM) for issuing a portion of the Treasury Bills at market rates.

3. **Seek Concessional Financing for any new borrowing for capital projects –** Multilateral and bilateral debt attract the most favorable terms within the external debt portfolio. Hence, the maintenance of this structure would aid in reducing refinancing, interest rate and foreign exchange risks.

4. **Establish a Growth and Stabilization Fund –** Recognizing the importance of the need for financial buffers, the Government will establish a Growth and Stabilization Fund. The Fund will be used to build policy buffers against exogenous shocks, secure financing for

major capital projects and reduce the debt burden by the prepayment of high cost debt. This is a policy response to set aside and manage excess surpluses generated by the Citizenship by Investment programme (CBI) to guard against threats to the macroeconomic, fiscal and debt medium term framework.

5. **Strengthen the Debt Management Unit (DMU) –** In order to increase efficiency within the DMU and to better manage the debt portfolio, the Government will centralize the functions of the Unit's Front, Middle, and Back Offices. This arrangement should lead to better monitoring and assessment of the debt stock, improved information flows and improved quality of output and productivity.

6. **Contain Government Guaranteed Debt** – Government guaranteed debt will continue to be managed and granted only after conducting risk assessments to measure the impact of new borrowing on the public sector debt portfolio.

### ii. Risk Parameters

In order to effectively manage the costs and risks of the debt portfolio, the following safety thresholds have been established to prevent the cost, risks and debt levels from exceeding sustainable levels. The risk parameters will be monitored on a quarterly basis to ensure that the risks embedded in the debt portfolio are controlled and managed.

**Table 1: - Risk Parameters 2015 – 2017**

| Risk Indicators | Pre-Restructure Dec 2010 | Baseline Dec 2013 | Projection | Forecast | | | Risk Parameters (Targets) |
|---|---|---|---|---|---|---|---|
| | | | Dec-14 | Dec-15 | Dec-16 | Dec-17 | |
| **Debt-to-GDP ratio** | 151.8% | 102.5% | 78.5% | 69.2% | 61.6% | 57.3% | 57.3% of GDP by 2017 |
| **Central Government Debt Service to Tax Revenue** | 65.4% | 35.1% | 37.4% | 40.2% | 29.4% | 11.7% | Should not exceed 35.0% of Tax Revenue. |
| **Central Government Debt service to exports** | 32.0% | 16.7% | 20.1% | 21.9% | 16.7% | 6.8% | Should not exceed 15.0%. |

| Risk Indicators | Pre-Restructure Dec 2010 | Baseline Dec 2013 | Projection | Forecast | | | Risk Parameters (Targets) |
|---|---|---|---|---|---|---|---|
| | | | Dec-14 | Dec-15 | Dec-16 | Dec-17 | |
| **Central Government Debt service to GDP** | 9.6% | 5.6% | 6.5% | 6.8% | 5.1% | 2.1% | Should not exceed 5.0% of GDP. |
| **Interest Expenditure as a % of Tax Revenue** | 41.1% | 19.4% | 12.4% | 9.7% | 8.0% | 6.7% | Should not exceed 15.0% of Tax Revenue. |
| **Average Time to Maturity (ATM) in Years** | 5.6 | 8.5 | 9.6 | 9.8 | 10.0 | 10.6 | Should not fall below 8 years. |
| **Average Time to Re-fixing (ATR) in Years** | 6.2 | 8.1 | 9.3 | 9.5 | 9.8 | 10.5 | Should not fall below 8 years. |
| **Cost of Debt (Weighted Average Interest Rate)** | 6.5% | 5.6% | 4.2% | 4.6% | 4.7% | 4.6% | Should not exceed 5.0%. |
| **Total Debt Re-fixing in 1 Year (% of Total)** | 45.5% | 40.8% | 43.7% | 41.5% | 39.4% | 37.6% | Should not exceed 40.0%. |
| **Total Debt Maturing in 1 Year (% of Total)** | 35.2% | 28.2% | 34.0% | 35.3% | 35.0% | 34.4% | Should not exceed 25.0% of total debt. |
| **% of FX debt (Excluding US dollar)** | 1.9% | 10.5% | 9.3% | 6.8% | 3.4% | 1.7% | Should not exceed 10.0% of total debt. |
| **% Share of Variable Rate Debt** | 5.4% | 13.7% | 13.0% | 10.3% | 6.6% | 4.5% | Should not exceed 15.0% of total debt. |
| **% Share of Publicly Guaranteed Debt** | 32.4% | 38.4% | 34.5% | 34.9% | 34.9% | 33.4% | Should not exceed 40.0% total debt. |
| **% of Non-Concessional Borrowing** **Domestic** | 97.7% | 80.1% | 78.6% | 78.0% | 77.8% | 77.0% | Should not exceed 60% |
| **External** | 42.6% | 17.9% | 13.6% | 13.6% | 14.3% | 13.8% | Should not exceed 30% |

## VIII. COST AND RISK OF THE TOTAL DEBT PORTFOLIO - BASELINE

At the end of the projected period (December 2014), the level of concessionality in the domestic debt portfolio is expected to improve following Government's restructuring activities in 2014. The effect of the restructuring resulted in a weighted average interest rate on the total domestic debt of 4.9 percent per annum (see Table 2). The external debt portfolio is predominantly concessional and carries a lower weighted average interest rate of 3.2 percent per annum. As a result, the weighted average interest rate on the total debt portfolio is projected to be 4.2 percent per annum at the end of 2014. Of note is that post 2016, the level of concessional debt within the debt portfolio is projected to be reduced primarily as a result of the repayment of the IMF Stand-By Arrangement loan.

**Table 2: Cost and Risk Indicators - 2014**

| Risk Indicators | | **External debt** | **Domestic debt** | **Total debt** |
|---|---|---|---|---|
| Amount (in millions of EC$) | | 769.6 | 985.7 | 1,755.3 |
| Nominal debt as % GDP | | 35.2 | 45.1 | 78.5 |
| PV as % of GDP | | 33.2 | 53.4 | 86.6 |
| Cost of debt | Weighted Av. IR (%) | 3.2 | 4.9 | 4.2 |
| Refinancing risk | ATM (years) | 8.2 | 10.7 | 9.6 |
| | Debt maturing in 1yr (% of total) | 14.0 | 49.6 | 34.0 |
| Interest rate risk | ATR (years) | 7.4 | 10.7 | 9.3 |
| | Debt re-fixing in 1yr (% of total) | 36.0 | 49.6 | 43.6 |
| | Fixed rate debt (% of total) | 70.3 | 100.0 | 87.0 |
| FX risk | FX debt (% of total debt) | | | 43.8 |
| | ST FX debt (% of reserves) | | | 15.9 |

### i. Interest Rate and Foreign Currency Risk

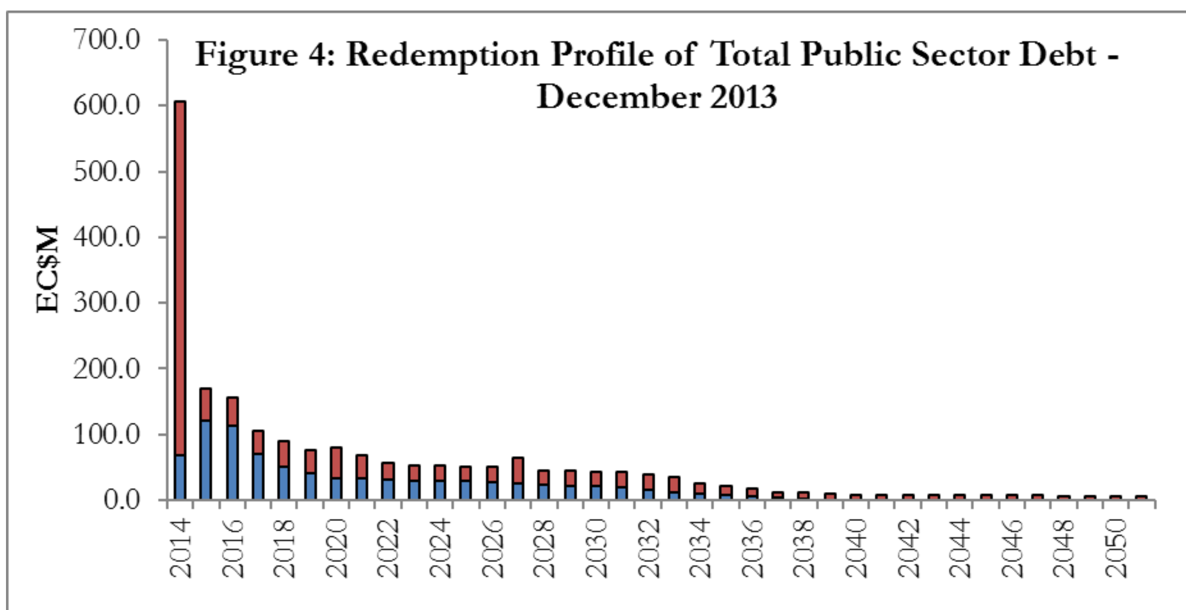
Fixed rate debt as a percentage of total debt is projected to represent 87.0 percent of the debt portfolio at the end of 2014 (see Table 2). Fixed rate debt accounted for 70.3 percent of the external debt and 100.0 percent of the domestic debt.

The Average Time to Re-fixing (ATR), which measures the exposure to interest rate fluctuations or the period for which the cost of the debt is fixed, was estimated at 9.3 years at the end of 2014. The percentage of the external debt that is due for re-fixing in one year is 36.0 percent while 49.6 percent of the domestic debt portfolio is scheduled for re-fixing in one year (2015). The domestic ATR was high due to the combined proportion (46.6 percent) of T-Bills and overdraft facilities in the domestic debt portfolio which will mature in one year or less. Refinancing risk is therefore present as the total outstanding balances for these instruments could be called for payment upon maturity. An assessment of the debt portfolio will be undertaken to determine the most appropriate strategy to reduce the variable share of the external debt portfolio in order to improve the ATR ratio.

An analysis of the foreign currency risk showed that 43.8 percent of the total debt stock was comprised of foreign currency debt. However, the exposure to exchange rate fluctuations was much lower if the US dollar denominated debt, which is pegged to the local currency, is removed from the analysis. This exclusion provides an accurate reflection of the foreign currency exposure which was estimated at 9.3 percent. Despite the low exposure, there still exists some risk in the debt stock as 97.6 percent of the foreign currency debt (excluding US dollar debt), is comprised of SDR currency. The majority of the debt denominated in this currency is scheduled for redemption during 2015 to 2016.

### ii. Refinancing Risk

At the end of 2014, the Average Time to Maturity (ATM), which is a measure of the refinancing risk expressed in years for which existing debt (principal repayments) has to be repaid was estimated at 9.6 years (see Table 2). The proportion of the total debt portfolio to be refinanced within one year is expected to be 34.0 percent at the end of 2014 mainly due to the level of the ATM in the domestic debt portfolio (49.6 percent).




There is exposure to refinancing risk particularly in years 2015 and 2016. The spike observed in these years is mainly reflective of the IMF SBA loan repayments[1].

## IX. CONSTRAINTS THAT MAY AFFECT THE IMPLEMENTATION OF THE DEBT MANAGEMENT STRATEGY

The implementation of the Debt Management Strategy is dependent upon the outcome of scheduled debt restructuring activities and the reform agenda over the medium term as well as the robustness of the macroeconomic, external and fiscal projections. Any downturn in these projections could inhibit the implementation of the strategy.

In light of this, a series of variables were tested to assess the volatility of the debt portfolio to potential downside risks which may affect the implementation of the Debt Management Strategy. Three shocks were chosen based on the likelihood of occurrence and the degree of impact on the debt dynamics.

[1] Instruments such as T-Bills and Overdraft facilities for public sector entities that are usually rolled over upon maturity were excluded from the calculations to avoid distorting the final results of the profile (see Figure 4).

1. **Real GDP Shock** – This shock becomes relevant if the macroeconomic indicators do not perform as expected. The shock to real GDP (baseline minus one and a half standard deviations) could be triggered by the occurrence of a natural disaster or a weakening in global market conditions. This shock is significant as the level of growth is contingent upon the continued recovery of tourism, sustained recovery of construction and the resumption of growth in the manufacturing sector. Consequently, the shock to GDP resulted in the Debt-to-GDP ratio peaking at 77.5 percent at the end of 2017 and may not reach the target of 60.0 percent by 2020. A shock to real GDP could impede the implementation of the debt strategy as slow or negative growth will impact revenue performance, result in a deterioration of the fiscal balances and may lead to increased borrowing and consequently higher debt service cost. The shock highlights the importance of growth to the debt dynamics.
2. **Fiscal Shock** – The Fiscal accounts remain vulnerable on both the revenue and expenditure side as economies have not fully recovered from the global recession. The main risk to expenditure is an unsustainable build-up of non-discretionary expenditure. There is also the risk of lower revenue collection. Consequently, revenues (contraction of 2%) and expenditure (growth of 1%) were shocked to assess the impact on the debt dynamics. The Debt-to-GDP ratio is projected to increase to 73.0 percent at the end of 2017 compared to 57.3 percent in the baseline. If this scenario materializes, several risks and debt burden indicators would be negatively affected and consequently impact the implementation of the strategy.
3. **Real Interest Rate Shock** – If interest rates increase by baseline plus one standard deviation, this would lead to an increase in debt service cost as the average nominal interest rate on the public debt would increase by 1.0 percentage point. Although this shock registered a low level of vulnerability, it could affect the implementation of the strategy as the Debt-to-GDP ratio would decline at a slower pace to reach an estimated 67.1 percent at the end of 2017.

## X. DEBT SUSTAINABILITY OUTLOOK

Based on the fiscal, debt and macroeconomic parameters of the 2014 Debt Sustainability Analysis framework, the debt outlook is on a downward sustainable path and is likely to fall to 57.3 percent of GDP in 2017 below the ECCB's Debt-to-GDP target of 60.0 percent by 2020. Factors such as a downturn in the global economy, the robustness of fiscal management and the pace and level of further debt restructuring and refinancing activities could impact the Debt Management Strategy. Therefore, benchmarks will be continuously monitored to ensure that the Strategy is being implemented as intended and that debt targets are met over the medium term.

**Table 3: Risks to Sustainability**

| Key Risks | Impact | Risk Mitigation Measures |
|---|---|---|
| *1) Reduced access to concessional financing* | If borrowing becomes necessary, the MTDS envisions continued access to concessional financing. An exogenous shock could reduce available financing—increasing the residual financing gap | On a quarterly basis, the Government will evaluate the investment portfolio and monitor the implementation of the MTDS to ensure that the debt sustainability targets are met. |
| *2) Divergent borrowing* | The MTDS envisions carefully coordinated debt management across the Federal Government, public enterprises, and the NIA. A lack of adequate fiscal control or a divergence in fiscal frameworks could result in the overall debt burden increasing despite execution of the MTDS at the Federal level | Government will establish an enhanced and formal framework for debt coordination and / or creation |
| **Other Risks** | | |
| *3) Weak/ Negative Growth* | A contraction in GDP growth for St. Kitts and Nevis as a result of a weakening in global market conditions or a major storm could limit revenue growth, increase pressure for spending, and increase the Debt / GDP ratio | Government will use the results of quarterly economic performance reviews to inform decisions on actions to ensure that the debt sustainability targets remain attainable throughout the period covered by the strategy. |

| Key Risks | Impact | Risk Mitigation Measures |
|---|---|---|
| *4) Fiscal Slippage* | A sharp decline in revenue including from the Citizenship by Investment Programme, or growth in expenditure could create financing gaps | Government will maintain strict adherence to primary targets through the implementation of fiscal measures to close financing gaps or source financing in line with the framework of the debt management strategy. |
| *5) Interest Rate* | With 38% of external debt featuring floating interest rates, a 25% increase in medium – long term global interest rates would increase interest costs by approximately 2.5% | Floating rate debt would be considered for prepayment, where necessary. Fixed rate debt will be targeted if any new financing is required. |
| *6) Refinancing Risk* | Inability to locate suitable concessional financing for projects | The restructuring and fiscal consolidation have dramatically reduced financing requirements and boosted credibility and access to concessional financing |

# XI. APPENDICES

**Appendix I: Public Sector Debt Stock**

*2012- 2014, Figures in EC$m and % GDP*

| | Dec-2012 | | Dec-2013 | | Sep-2014 | |
|---|---|---|---|---|---|---|
| | EC$ | %GDP | EC$ | %GDP | EC$ | %GDP |
| **TOTAL PUBLIC SECTOR** | **2,694** | ***136*** | **2,143** | ***103*** | **1,810** | **81** |
| **TOTAL ST KITTS** | **2,300** | ***116*** | **1,756** | ***84*** | **1,423** | **64** |
| **Central Government** | **1,816** | ***92*** | **1,320** | ***63*** | **1,177** | **53** |
| External | 700 | *35* | 746 | *36* | 678 | 30 |
| Loans | 543 | *28* | 619 | *30* | 578 | 26 |
| Bonds | 155 | *8* | 125 | *6* | 118 | 5 |
| Other Liabilities | 2 | *0* | 2 | *0* | 2 | 0 |
| Domestic | 1,116 | *57* | 574 | *27* | 499 | 22 |
| Loans | 639 | *32* | 85 | *4* | 26 | 1 |
| Overdraft | 0 | *0* | 0 | *0* | 0 | 0 |
| Treasury Bills | 312 | *16* | 322 | *15* | 321 | 14 |
| Debentures/Bonds | 141 | *7* | 140 | *7* | 123 | 6 |
| Other Liabilities | 24 | *1* | 27 | *1* | 29 | 1 |
| **Public Corporations** | **484** | ***26*** | **436** | ***24*** | **247** | **11** |
| External | 50 | *3* | 44 | *2* | 38 | 2 |
| Domestic | 434 | *22* | 392 | *19* | 208 | 9 |
| **TOTAL NEVIS** | **393** | ***20*** | **387** | ***19*** | **387** | **17** |
| **Nevis Island Administration** | **353** | ***18*** | **351** | ***17*** | **353** | **16** |
| External | 56 | *3* | 52 | *2* | 54 | 2 |
| Loans | 56 | *3* | 52 | *2* | 54 | 2 |
| Bonds | 0 | *0* | 0 | *0* | 0 | 0 |
| Domestic | 297 | *15* | 299 | *14* | 299 | 13 |
| Loans | 144 | *7* | 153 | *7* | 148 | 7 |
| Overdrafts | 70 | *4* | 66 | *3* | 68 | 3 |
| Treasury Bills | 83 | *4* | 78 | *4* | 81 | 4 |
| Other Liabilities | 0 | *0* | 2 | *0* | 2 | 0 |
| **Public Corporations** | **40** | ***2*** | **36** | ***2*** | **34** | **2** |
| External | 24 | *1* | 22 | *1* | 20 | 1 |
| Domestic | 16 | *1* | 14 | *1* | 14 | 1 |

Source: Ministry of Finance

**Appendix II: Combined St. Kitts and Nevis Macroeconomic, Fiscal and Financing Framework Key Indicators**

*As % GDP unless otherwise indicated*

| | Actual | | | | Projected | Forecast | | |
|---|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| **Economic Indicators** | | | | | | | | |
| Real GDP (% annual change) | -3.8 | -1.9 | -0.9 | 3.8 | 4.6 | 4.0 | 3.5 | 3.3 |
| Nominal GDP (EC$m) | 1,870 | 1,966 | 1,976 | 2,091 | 2,236 | 2,369 | 2,516 | 2,668 |
| **Fiscal Indicators** | | | | | | | | |
| Overall balance | -7.2 | 4.0 | 5.2 | 12.1 | 11.3 | 6.0 | 7.3 | 6.8 |
| Primary balance | -1.1 | 9.1 | 10.1 | 15.2 | 12.4 | 7.9 | 8.8 | 8.1 |
| **Financing** | | | | | | | | |
| Financing | -2.9 | -0.5 | -3.8 | -0.7 | 0.6 | -3.4 | -3.7 | -1.0 |
| Net foreign financing | -2.4 | -1.0 | -1.6 | 0.2 | -1.4 | -4.9 | -4.1 | -1.2 |
| Drawings | 2.0 | 5.4 | 4.8 | 2.1 | 0.4 | 0.1 | 0.1 | 0.1 |
| Amortization | 4.3 | 6.4 | 6.4 | 1.9 | 1.8 | 5.1 | 4.2 | 1.3 |
| Net domestic financing | -1.1 | -0.8 | -2.5 | -3.2 | -0.6 | -1.2 | -0.9 | -1.0 |
| Sale/purchase of assets | 0.6 | 0.4 | 0.3 | 1.2 | 1.5 | 1.7 | 0.4 | 0.4 |
| Exceptional financing | -- | -- | -- | 1.1 | 1.1 | 1.0 | 0.9 | 0.8 |
| Financing Surplus | -- | -- | -- | -- | 11.6 | 2.8 | 4.1 | 6.3 |

Source: Ministry of Finance and Ministry of Sustainable Development