

September 15, 2010

EXECUTIVE SUMMARY

The economy is heavily dependent upon banking, construction and tourism. Sugar used to be the mainstay of the economy but it began a terminal decline in the 1970s. After the 2005 harvest, the government closed the sugar industry after many years of losses that were equal to 3-4% of GDP annually. To bolster the economy a program of investment incentives that includes tax holidays, duty-free import of equipment and materials, and subsidies for training to local workers has been introduced. The biggest problem facing the economy is the massive public debt (external and domestic) which was equal to a staggering 185% of GDP at the end of 2009.

Geography and Demographics

St. Kitts and Nevis are composed of two islands: St. Kitts and Nevis, which are located in the Caribbean Sea, about one-third of the distance between Puerto Rico and Trinidad and Tobago. St. Kitts island accounts for 64.4% of the area of the country. About three km of water separates the two islands. The total land area is approximately 1.5 times that of Washington DC. The climate is tropical. There is little seasonal variation in the temperature with the yearly average temperature 79 degrees. The rainy season lasts from May to November and the rainiest months are August to November. The population is only 49,898 and the population density is 191.2 per sq. km. Only six other countries in the world have a smaller population. Basseterre on St. Kitts is the capital, the largest city, the commercial capital, and the major port. It has a population of 13,000. Arable land accounts for 15.4% of the country, there are 135 km of coastline; 32.4% of the population lives in urban areas; 20.4% of the country is covered by forests; and 2.78% of the land area is devoted to permanent crops. The median age is 31.5 years; the birth rate is 14.2 per 1,000 people. The death rate is 7.1 per 1,000 people; the fertility rate is 1.79 children per female; 23.1% of the population is under 15; 30.9% is between 25 and 44; and 7.5% is 65 and over. The US Census Bureau is projecting a population growth rate of 0.80% between 2010 and 2015. The time zone is four hours behind Greenwich meantime. There are two spoken languages. English is the official language and Creole English is the most spoken language. St. Kitts and Nevis is a former British colony that received its independence on September 19, 1983.



The constitution grants Nevis considerable autonomy. It has its own assembly, a premier, and a deputy governor general. Nevis pays for all of its own services except for those involving police and foreign relations. Under certain conditions, Nevis can secede from the federation. A 1998 referendum about separating from St. Kitts fell short of the two-thirds requirement for passage. Most Nevisians feel they are neglected by the central government.

SECTION SUMMARY AND TREND

Political Environment - Government & Civil Liberties	Trend
There are regular elections that are deemed to be free and fair. Freedom of expression, the press, movement, assembly, association, religion and academic freedom are respected. The judiciary is independent.	Positive
Economic Overview	Trend
Infrastructure The road network is in good condition. A renovation program that was finished in 2006 enabled the main airport to handle jumbo jets. Virtually all of the population has access to piped water and improved sanitation facilities.	Stable
Energy Sector St. Kitts and Nevis have no indigenous sources of oil, coal, natural gas or hydropower. There is no oil refinery and as a result, all petroleum products must be imported. All of electricity is generated from diesel. There is near universal access to reliable power.	Stable
External Accounts St. Kitts and Nevis has a large trade deficit because it has to import all of its petroleum products and capital goods requirement, and much of its food and consumer goods needs. Another factor for the large trade deficit is the paltry level of exports. In 2009, merchandise exports were equivalent to just 9.3% of GDP.	Negative
External Debt The indebtedness (both external and domestic) of the government has escalated sharply in recent years. Between 2003 and 2008, the total stock of debt climbed by 46.9% to US\$969.9 million and was equal to 177.6% of GDP. Of the total debt, 34% was external and the remainder was domestic. The St. Kitts government is responsible for 65.4% of the debt, the Nevis Island Administration has 10.7% share and public enterprises have 22.3% of the total.	Negative
Agriculture Sector Sugar was a mainstay of the economy and a major source of employment. However, on July 31, 2005, the government closed the entire sugar industry because of the huge losses of the state-run sugar company. Following the cessation of sugar production, the government initiated a program to diversify the agriculture sector. There has been some success in this regard with increased output of livestock, peppers, white and sweet potatoes and vegetables. Despite the diversification of the farm sector, St. Kitts and Nevis remain a net food importer.	Negative
Informal Economy There is a lack of public information on the informal economy.	N/A
Business Environment	Trend
Openness to Foreign Investment There are no limitations or restrictions on the repatriation of profits, dividends and capital, foreign companies can own land and many investors are eligible for tax holidays.	Positive
Financial Sector The June 2009 IMF Article IV Consultation report noted that, "Prudential indicators point to some weakening of the banking system, which also remains vulnerable to high public sector exposure. While liquidity in the banking system remained ample through 2008, the nonperforming loans ratio rose by 1 percentage point over the course of the year to 5.2 percent."	Negative
Corruption There are laws that penalize official corruption and they are generally enforced.	Positive

Human Capital	Trend
St. Kitts and Nevis ranks 62 of 182 in the 2009 UNDP HDI. The infant mortality rate is 9.9 per 1,000 live births; the probability of dying between birth and age 1 is 14 per 1,000 live births; 100% of births are attended to by a skilled health care professional; the per capita income is \$10,259 (IMF estimate for 2010); the life expectancy is 74.4 years and the adult literacy rate is 97.8%.	Stable
Economic Outlook	Trend
The recent economic boom that saw the economy expand at annual average rate of 5.1% between 2001 and 2008 came to an abrupt end in 2009 when the economy slipped by 5.5% in response to the global economic downturn which eroded exports and reduced tourist inflows. The recovery from the severe recession is expected to be tepid with the IMF forecasting a further 1.0% contraction in 2010 and growth of just 1.6% per annum is projected between 2011 and 2015.	Negative

I. Political Environment

Index	Rank	Score
Freedom House Index 2010	Status: Free	Political Rights: 1.0/7.0 Civil Rights: 1.0/7.0
Bertelsmann Transformation Index 2010	N/A	N/A
Fund for Peace - Failed State Index 2010	N/A	N/A
World Bank Gov Indicator 2009, Political Stability	76.6 Percentile	0.85

1. Government

The chief of state is Queen Elizabeth II. She has been represented by Governor General Cuthbert Montraville Sebastian since January 1, 1996. Prime Minister Dr. Denzil Douglas, who has been in office since July 6, 1995, is the head of the government. The cabinet is appointed by the governor general in consultation with the prime minister. The governor general is appointed by Queen Elizabeth and the prime minister is the leader of the majority party in parliament or the leader of the coalition that has the largest number of seats. The deputy prime minister is appointed by the governor general.

There is a unicameral National Assembly. It has 15 members of which three are appointed: one is the Attorney General and 11 are popularly elected to a five-year term. Suffrage is 18 years. The Saint Kitts and Nevis Labor Party (SKNLP) has six seats and the Concerned Citizen Movement and the People's Action Movement both have two seats. The last election was held on January 25, 2010 and the next one will be conducted in January 2015. The leader of the People's Action Movement alleged voting irregularities in his constituency, contending that "outsiders" were brought into vote. A NGO Coalition composed of the St. Kitts-Nevis Chamber of Industry and Commerce, the Evangelical Association and the Christian Council, issued a report noting the balloting was, "generally conducted in a free and fair manner in most instances," but claimed that Prime Minister Douglas interfered in the voting process in the constituency where the leader of People's Action Movement was running. Douglas said the charge against him was, "not only false, it is malicious." He indicated that the election was viewed favorably by other organizations that sent monitors including the Caribbean Community (CARICOM), the Commonwealth and the Organization of American States.

There are no campaign finance regulations or prohibitions on political parties paying for the transportation of overseas nationals to return to the country to vote.

2. Civil Liberties

Freedom House has designated St. Kitts and Nevis as “free” and has assigned it a rating of one out of seven for political rights and one out of seven for civil rights. The lower the rating the higher the degree of political and civil liberties. St. Kitts and Nevis are not ranked in the Bertelsmann Transformation Index and the Fund for Peace Failed State Index. It is ranked at the 76.6 Percentile in the World Bank’s Political Stability Governance Indicator.

The constitution guarantees freedoms of expression and the press and these freedoms are respected. The only local television station is government owned but is managed by a Trinidadian company. There are some restrictions on the opposition’s access to the television station. The government radio station was privatized in 1997. There are eight radio stations and two newspapers, one of which is a daily and the other is a weekly. There are no restrictions on the use of the Internet. The government does not monitor e-mail correspondences or chatrooms nor does it block Web sites. Freedom House ranks St. Kitts and Nevis 30 of 196 in its Freedom of the Press survey for 2010 and characterizes the press as “free.”

Freedom of religion, movement, assembly, association and academic freedom are respected. Workers are allowed to form and join trade unions. About 10% of the workforce is unionized. While the right to strike is not specified in the law, it is respected. The main labor union, the St. Kitts Trades and Labor Union, is associated with the ruling SKNLP. Police and civil service are allowed to have associations that serve as unions. Workers who provide essential services, such as the police and civil servants, are not allowed to strike. Labor unions can engage in collective bargaining. The law prohibits antiunion discrimination. It does not however require employers found guilty of such practices to rehire employees fired for union activities. They must though pay lost wages and make severance payments to employees who worked at least one year.

The judiciary is independent. The highest court is the Eastern Caribbean Supreme Court on Saint Lucia, but under certain circumstances, appeals can be made to the Trinidad-based Caribbean Court of Justice and the Privy Council in London.

The constitution prohibits arbitrary arrest and detention, and the government observes these prohibitions. The constitution also prohibits torture. There are allegation however of abuses committed by the 412 member police force. The police have the authority to arrest a person based on the “suspicion” of criminal activity without a warrant. Detainees must be charged within 48 hours of an arrest or be released. There is a functioning bail system. Detainees can be held for a maximum of seven days awaiting a bail hearing. Defendants have the right to consult with an attorney, are presumed to be innocent, can question witnesses and appeal a verdict. Free legal assistance is available for indigent defendants only in capital cases. Juries are used at the High Court level for criminal matters.

II. Economic Overview

The economy is heavily dependent upon banking, construction and tourism. Sugar used to be the mainstay of the economy but it began a terminal decline in the 1970s. After the 2005 harvest, the government closed the sugar industry because of many years of large losses that were equal to 3-4% of GDP annually. To bolster the economy, a program of investment incentives that includes tax holidays, duty-free import of equipment and materials, and subsidies for training local workers has been introduced. The biggest problem facing the economy is the massive public debt (external and domestic) which was equal to a staggering 185% of GDP at the end of 2009.

An economic boom that saw the economy expand at an annual average rate of 5.1% between 2001 and 2008 came to an abrupt halt in 2009 when the economy slipped by 5.5%. Business activity was impaired by the impact of Hurricane Omar which hit the country in October 16 and 17, 2008. It caused severe flooding, damaged the largest hotel on Nevis and damaged roads and the infrastructure. The economy was also undermined by the global recession, which caused a fall in tourist arrivals. The IMF is forecasting a further 1% contraction in economic activity in 2010 and a 0.5% rise in 2011.

St. Kitts and Nevis are members of the Caribbean Community (CARICOM), which is an organization of Caribbean nations whose main purpose is to “promote economic integration and cooperation among its members...and to coordinate foreign policy.” Its major activities involve coordinating economic policies and development planning. Besides St. Kitts and Nevis, the members of CARICOM are: Antigua and Barbuda; the Bahamas; Barbados; Belize; Dominica; Grenada; Guyana; Haiti; Jamaica; Montserrat; St. Lucia; St. Vincent and the Grenadines; Suriname; and Trinidad and Tobago. The objective of CARICOM is to harmonize economic and financial policies among member states, form a common market and adopt a single currency by 2015.

St. Kitts and Nevis are beneficiaries of the US Caribbean Basin Initiative (CBI) program, which forms part of the U.S.-Caribbean Basin Trade Partnership Act. Most goods exported to the US are entitled to lower tariff rates. The other countries and territories that benefit from the CBI program are: Antigua and Barbuda; Aruba, Bahamas; Barbados; Belize; British Virgin Islands; Costa Rica; Dominica; Grenada; Guyana; Haiti; Jamaica; Montserrat; Netherlands Antilles; Panama; St. Lucia; St. Vincent; and the Grenadines, Trinidad and Tobago.

Banking and insurance were the largest sectors of the economy in 2006, accounting for 17.0% of the total. Government services had a 14.1% share; construction 11.4%; and transportation represented 8.2%. As of 2001, 70.7% of the workforce was employed in services; 25.8% in industry; and 3.5% were in agriculture. The unemployment rate in 2006 was 5.1%.

The economy rose at an annual average rate of 2.8% between 2000 and 2009. This compares to annual increases of 1.0% for the Saint Lucia; 1.5% for Grenada; and 3.0% for St. Vincent and the Grenadines. According to the IMF, the per capita income in 2009 was \$10,315. This was 38.8% above the level of 2000 and it placed St. Kitts and Nevis 51 of 180 nations and territories that the IMF compiles per capita data for.

Consumer prices rose by an average annual rate of 2.0% in 2009. This compares to a 5.4% increase in 2008 and a 4.5% in 2007. For 2010, the IMF predicts a 2.5% advance and for 2011, an increase of 2.2% is foreseen. The average annual inflation rate from 2000 and 2009 was 3.5%.

The main crops are cabbages, carrots, cassava, onions, pumpkins, sweet potatoes, breadfruit, bananas, mangoes, and passion fruit. Fish is the only major natural resource. Tourism, clothing, beverages, banking and construction are the main industries.

The minimum wage was last increased in October 2008 when it was set at EC\$8.00 (\$3.00) an hour. Any increase in the minimum wage is debated in parliament. The minimum wage is effectively enforced. The standard work week is 40 hours. The law provides for premium pay for work above the standard workweek.

The minimum age for employment is 16 years old. It is generally enforced in the formal economy but children do work in agriculture and as domestic servants.

1. Infrastructure

There are 383 km of roads of which 42.6% are paved. According to the US Department of State travel advisory, “Traffic moves on the left-hand side of the road. Roads are reasonably well paved but narrow and sometimes poorly marked...Public Transportation consists of mini-buses and taxis.”

There are two airports, both of which are paved. The main airport is Robert L. Bradshaw International Airport, which is located northeast of the capital on the island of Saint Kitts. It underwent a major renovation which was completed in December 2006. The parking apron was expanded, the 8,000 foot runway was resurfaced and a new taxiway was built. The airport can now accommodate jumbo jets. The US\$17 million project was financed by loans from the St. Kitts-Nevis-Anguilla National Bank and Taiwan. In 2008, the airport handled 299,706 passengers. The airlines that service the airport are American Airlines, British Airways, Delta, LIAT and US Airways. There are flights to Antigua, Atlanta, Charlotte, London (Gatwick), Miami, New York (JFK), Saint Maarten, San Juan and Philadelphia. There is also an

airport on Nevis, Vance W. Amory International Airport. It has a 4,002 feet runway. LIAT and Winair service the airport. There are flights to Antigua and Saint Maarten.

St. Kitts has 58 km of narrow gauge railway, which circles the island. The railway line was originally built to transport sugarcane to the central sugar factory in Basseterre. It is now used as a tourist attraction.

The only deepwater port is at Basseterre. It was constructed in 1980 and can accommodate vessels of up to 900 feet in length with a draught of 27 feet. In 2007, the port handled almost 300,000 tons of cargo. Port Zante on the Basseterre waterfront is the main facility for cruise ships. It comprises a single pier and can accommodate two of the largest ocean liners at the same time. In 2007, Port Zante received 225 cruise ship calls. Most of the major cruise companies operating in the Caribbean, call at St. Kitts, including: Carnival Cruises; Celebrity Cruises; Easy Cruise; P&O Cruises; Royal Caribbean; Seabourn Cruises; Sea Cloud; Star Clipper; and Windjammer. Basseterre also has a marina that can accommodate as many as 65 boats of up to 350 feet in length. There are numerous daily ferry trips between Basseterre and Charlestown on Nevis. Nevis does not have a deep water port but it has a mooring basin for yachts. Work is under way on the development of a port at Long Point on Nevis to handle cargo and provide space for mini cruise ships.

The St. Christopher Air and Sea Ports Authority, a government entity formed in 1993, operates the Port Zante Cruise Ship Terminal, the Robert Llewellyn Bradshaw International Airport, and the Basseterre Deep Water (Cargo) Port.

Much of the population has access to piped water and improved sanitation facilities.

The water is safe to drink. Most of the water is collected from precipitation, mountain springs, and wells and is chemically treated for purification.

2. Energy Sector

St. Kitts and Nevis has no indigenous sources of oil, coal, natural gas or hydropower. Oil imports are about 1,000 barrels a day. There is no oil refinery and as a result, all petroleum products including gasoline, diesel and jet fuel must be imported. All of the electricity is generated from diesel. Electricity on St. Kitts is provided by the St Kitts Electricity Department, which is a department of the Government of St Kitts and Nevis. It operates under the direction, control and budget allocation of the Ministry of Public Works, Utilities, Transport and Posts. It has about 16,000 customers and operates three diesel powered plants. The installed capacity is 41.5 MW. In May, the government indicated that, "some tens of millions of dollars" is owed to the St. Kitts Electricity Department, which it intends to collect on." The Nevis Electricity Company provides electricity on Nevis. It is owned by the government of Nevis and it operates two diesel powered plants.

Access to electricity is near universal.

A wind farm is being built on St. Kitts to reduce the country's dependence on imported oil. The government intends to build 10 windmill towers. Each will generate 1 megawatt of power and will provide 25% of St. Kitts' electricity. There are future plans to build an additional five windmill towers which would bring the wind energy up to just under 40% of electricity output. The windmills will be built to withstand hurricane force winds. A wind farm is also being built on Nevis.

On March 24, 2010, the West Indies Power Company (a Netherlands Antilles based company) signed an agreement with the Bank of Nova Scotia (Scotiabank), for the financing of a 10 MW geothermal power plant on Nevis. It is expected to begin to produce power in June 2011. The agreement also calls for arranging financing for a 30 MW geothermal power plant on Nevis at a later date.

3. External Accounts

St. Kitts and Nevis has a large trade deficit because it has to import all of its petroleum product and capital goods requirement and much of its food and consumer goods needs. Another factor for the large trade deficit is the paltry level of exports. In 2009, merchandise exports were equivalent to just 9.3% of GDP. The IMF estimated the trade deficit declined by 42.2% in 2009 to EC\$329.8 mn. Exports faltered by 9.1% and imports plunged 34.6% in response to weak domestic demand conditions and lower oil and food prices. The shortfall was equal to 19.9% of GDP.

Electrical and electronic equipment was the largest export category in 2008 accounting for 77.8% of the total (St. Kitts and Nevis has the largest electronics assembly industry in the Eastern Caribbean). Electrical and electronic equipment was also the largest import category at 12.2%, while mineral fuels (oil and petroleum products) had a 12.0% share. The US is the dominant export market, accounting for 62.3% of the total in 2009, followed by Canada with 7.9%, and Azerbaijan had a 6.7% share. With respect to imports, the US was once again in first place with a 42.4% share. In second position was Trinidad and Tobago at 15.3%, and in third place was Italy at 11.8%.

Remittances are a very important source of transfer income that helps to bolster private consumption. According to census data compiled by the U.S. Citizenship and Immigration Services, 11,056 people born in St. Kitts and Nevis were living in the US as of 2000. The largest concentration of immigrants from the two islands live in New York City. Remittances totaled US\$37 million in 2007 and were equal to 7.2% of GDP.

Tourism is a very important source of services income and employment. The Euromonitor Travel and Tourism Report said, "The harmful effects of the economic recession have been strongly evident since 2008 when tourist arrivals from the main inbound source countries such as the US, the UK and Canada decreased substantially. In 2009, tourist arrivals continued decreasing to almost reach the same number of arrivals as 2003...no growth is expected in arrivals in 2010, although slow but stable growth is expected from 2011...St. Kitts is a high-end luxury destination that attracts high-income tourists...The country is working on aggressive, niche-driven tourism promotion focusing on weddings and honeymoons...eco-tourism, sports tourism and diving tourism. The authorities are trying to attract travelers with higher incomes by offering high-end luxury tourism products. More than US\$2 billion is being invested in tourism projects in St. Kitts... Health and wellness tourism as an increasing trend."

The IMF estimated that tourism receipts in 2009 dropped by 37.1% in 2009 to EC\$179.6 million and was equal to 12.1% of GDP. In 2008, tourist receipts were equal to 19.4% of GDP and in 2007; they were 24.6% of GDP. The World Travel and Tourism Council estimates that the travel and tourist sectors will be equivalent to 8.3% of GDP (direct impact) and 9.5% of employment this year.

Much of the foreign investment is in the tourist sector. A 648-room Marriott hotel and convention center opened in December 2002. On the southeast peninsula of Saint Kitts, the Christophe Harbor project is under construction with an expected completion date of 2011. It will have a mega-yacht harbor and marina village, an 18-hole golf course, oceanfront homes, hotel residences, luxury villas, hotels including a Mandarin Oriental Hotel, shops and six beaches. The cost of the project is estimated at \$500 million. It is being financed by US investors.

The IMF estimated the current account deficit in 2009 dropped by 21.6% to EC\$329.8 million and was equal to 22.1% of GDP. Much of the shortfall was covered by FDI.

4. External Debt and Budget Balance

Between 2003 and 2008, the total stock of debt (external and domestic) climbed by 46.9% to US\$969.9 million and was equal to 177.6% of GDP. Of the total debt, 34% was external and the remainder was domestic. The St. Kitts government is responsible for 65.4% of the debt, the Nevis Island Administration has 10.7% share and public enterprises have 22.3% of the total. Of the external debt 34.0% is owed to the Caribbean Development Bank. With respect to the domestic debt, 64.4% is owed to commercial banks. The IMF estimated the external public debt at the end of 2009 was equal to 211.4% of the

exports of goods and non-factor services and the external debt service (both principle and interest) ratio was 31.7% of the exports of goods and non-factor services.

In its last Article IV Consultation Report which was released in June, 2009, the IMF noted that although the debt, “has fallen by about 20 percent since 2005, the public debt ratio is still 178 percent of GDP. Most critically, debt service costs have increased about threefold over the past decade, and the government is under increasing stress to meet debt service obligations. Liquidity risks posed by the large rollover needs of short-term debt have also risen in the current difficult climate. Interest payments alone represent 24 percent of total government revenue in 2008, crowding out social and other development-related spending and leaving little room for maneuver to respond to adverse shocks. Borrowing from commercial banks – increasingly in the form of tapping the expensive overdraft facility (with interest rates and penalties as high 11.5 percent) - has exacerbated the heavy debt service burden. Interest payments are expected to swell from about 8 percent of GDP in 2007 to 15 percent in 2014.”

The IMF estimated that budget revenue (including grants) dropped by 5.0% in 2009 as a result of the recession. Taxes on international trade and transactions represented 35.9% of receipts and income taxes were 23.3%. Spending meanwhile climbed 6.7%. Wages and salaries accounted for 31.3% of the total expenditures, interest (domestic and external) was 23.8% and payments for goods and services represented 21.9%. The budget deficit was 8.2% of GDP.

In his budget presentation for this year’s budget in March, Prime Minister Douglas, who also serves as the Finance Minister, announced that a VAT of about 20% will be introduced on November 1. It will replace the Consumption Tax, Hotel and Restaurant Tax, Cable TV Tax, Traders Tax, Vehicle Rental Levy, Export and Rum Duty, Telecommunications Levy and the Parcel Tax. The VAT will not apply to interest and loan payments; some medicines for chronic diseases; bus fares; residential rent; local farm produce; gasoline; cooking gas; kerosene; printed reading material; and some imported food.

The budget for 2010 was quite austere. Current spending was cut by 4.5% and capital expenditures were slashed 10.4%. Prime Minister Douglas indicated that, “a serious attempt would be made to cut the government’s payroll as part of a comprehensive plan to control public expenditure.” No new positions will be approved or filled, “unless it can be proven to be absolutely necessary and all civil servants who have reached the mandatory age of 55 will be required to proceed onward towards retirement” instead of remaining in government employment. A special unit in the Finance Ministry would be established to manage the EC\$3 billion (US\$1.1 billion) public debt.

In June, the government announced that it would take measures to restrain the public debt by streamlining tax exemptions to save EC\$15.2 million a year, close loopholes in the Duty Free Shopping System, revise the structure of the Social Security levy to raise EC\$8 million a year, lift the license fees for casinos and impose a race track fee.

5. Agriculture Sector

Sugar was a mainstay of the economy and a major source of employment. However, on July 31, 2005, the government closed the entire sugar industry because of the huge losses of the state run sugar company. The decision to close the sector was also precipitated by the phasing out of EU sugar preferences for 79 ACP (African, Caribbean and Pacific) nations. Under the terms of the Cotonou Agreement, sugar exports to the EU benefited from preferential treatment and high price supports. The sugar preferential provisions however were declared to be in violation of WTO regulations and therefore are being phased out. The closing of the sugar industry resulted in the direct loss of over 1,200 workers, which represented about 8% of the total work force and over 50% of the agricultural labor force. It also resulted in the loss of economic output that was equal to around 2.7% of GDP. As recently as 2004, sugar accounted for 16.2% of total exports. Sugar however is no longer exported.

Following the cessation of sugar production, the government initiated a program to diversify the agriculture sector. There has been some success in this regard with increased output of livestock, peppers, white and sweet potatoes and vegetables. Despite the diversification of the farm sector, St. Kitts and Nevis remain a net food importer.

About 80% of the land is owned by the government. This large concentration of ownership resulted from the compulsory acquisition of sugar estates in 1975 by the government. Until the closing of the sugar industry, land policy was designed to support the sugar sector. Since the demise of the sugar industry, much of the land has been idle. The government has begun to sell off some of its holdings to real estate developers.

III. Business Environment

Index	Rank	Score
Economic Freedom of the World Index 2009	N/A	N/A
Heritage Foundation Economic Freedom Index 2010	N/A	N/A
World Economic Forum – Global Competitive Index 2010-2011	N/A	N/A
Milken Institute Capital Access Index 2009	N/A	N/A
UNCTAD – Inward Potential Performance Index 2005-2007	N/A	N/A
World Bank Ease of Doing Business 2010	76/183	N/A
World Bank Gov Indicator 2009, Regulatory Quality	66.2 Percentile	0.58
World Bank Gov Indicators 2009, Rule of Law	72.7 Percentile	0.75
Transparency International Corruption Perception Index 2009	N/A	N/A

1. Summary of Indices

St. Kitts and Nevis is ranked 76 of 183 in the World Bank’s 2010 ease of doing business survey. In the previous year survey, it was ranked 70. It is ranked 86 for starting a business; 19 employing workers; 87 in getting credit; 114 in enforcing contracts; 153 in registering property; 27 in protecting investors; 100 in paying taxes; 53 for trading across borders; 8 for dealing with construction permits; and placed 183rd in closing a business. With respect to the World Bank’s governance indicators, it is ranked at the 66.2 percentile for regulatory quality and at the 72.7 percentile for rule of law.

St. Kitts and Nevis is not ranked in any of the major international economic and competitiveness indices.

2. Openness to Foreign Investment

In October 2007, the government of St. Kitts approved the establishment of an Investment Promotion Agency (IPA) as a, “one stop shop [to] provide a range of services to local and foreign investors to ensure quick, hassle-free and successful business development.” The IPA has its own Board of Directors and is not a government agency. St. Kitts offers a very liberal investment framework. Profits, dividends, capital and interest payments can be freely remitted without limitations and restrictions. There are no legal distinctions made between foreign and domestic companies. Foreign companies can own 100% of a domestic company. Generous incentives are offered including tax holidays and exemptions from import duties on raw materials and machinery. Hotels with a capacity of 30 beds or more are granted a tax holiday for ten years. Work permits are usually granted as long as there are no local workers that can fill the position. Foreign investors can own land.

Companies that want to invest in St. Kitts must apply for a Business and Occupations License, register with the Inland Revenue as a taxpayer and with the St. Christopher Social Security Board as an employer, apply for an Alien Landholding License, submit proposals for the review of the St. Kitts Investment Promotion Agency and apply for incentives and work permits. Submitted business proposals must include: the description of the project including size; capital investment; concept, and layout designs; impact on the economy with regard to number of jobs to be created; required work permits; and a timeframe for the completion of the project. Also necessary is an Environmental Impact Assessment; licenses and/or concessions required; the amount of government owned land required; and background

information on the principals of the business and their experience in the area of business they are applying to establish. According to the World Bank Ease of Doing Business Survey, it takes eight procedures and 45 days to start a business. This compares to an average of 9.5 procedures and 61.7 days for Latin American and the Caribbean.

On May 22, 2008, Nevis established its own investment promotion authority. Dwight Cozier, the Junior Minister with responsibility for Trade and Industry, Consumer Affairs, Import and Export, said that the creation of the agency, "was in response to the interest shown by both local and foreign investors who were eager to place their confidence in a small but stable and growing economy. The broad purpose of the agency is to create a healthy business climate that will encourage increased investment and assist investors in understanding the relevant laws and policies to sustain their interests and investments."

3. Taxes

There is no personal income tax. The corporate tax rate is 35% of net profits. Qualified companies however are granted full exemption from corporate taxes for a period not exceeding 15 years. Individuals and companies remitting payments to persons outside the country must deduct a 10% withholding tax for profits; administration; management or head office expenses; technical services fees; accounting and audit expenses; royalties; non-life insurance premiums; and rent. The withholding tax does not apply to exempt trusts, limited partnerships or foundations. A consumption tax of 4% applies to the gross revenue of services provided by professionals such as doctors, lawyers and dentists. There is a 9% tax levied on the charge for a hotel room or guest house and on the cost of food and beverage sold by a restaurant. There is a 10% tax on admission fees to places of entertainment. The consumption, hotel and entertainment taxes will be abolished on November 1 and replaced by a VAT. Foreign investors buying land are charged an "Alien Landholding" fee of 10% of the value of the land being purchased. A foreign investor wishing to acquire one-third or more of the shares in a company or become a director of a company is required to pay a fee of EC\$250.00 per application. There are no gift or wealth taxes. The capital gains tax is 20% on profits which are disposed of within one year of the date of acquisition.

Employers and employees pay 5% of wages into the social security fund. The ceiling on wages for social security contributions is EC\$6,500 per month. The maximum contribution on behalf of any single employee in any month is EC\$65.00 for an employee under 16 and or over 62 years; and EC\$715 for an employee between the ages of 16 to 63 years. Employer's contribute 3% of total wages/salaries to a Housing and Social Development Levy except when earnings are less than EC\$1,083.33 per month. Wages/salaries between EC\$6,500.01 and EC\$8,000.00 per month are subjected to an 8% levy and wages/salaries in excess of EC\$8,000.00 per month are subjected to a 10% levy. The land tax is US\$1.48 per acre for all cultivated land on St. Kitts, US\$0.37 per acre for all uncultivated land on St. Kitts and US\$0.37 per acre for all cultivated and uncultivated land on Nevis.

4. Foreign Investment

Data from the UNCTAD indicate that FDI in 2009 were \$139 million. This was below the \$178 million level in 2008 and represented 77.7% of gross fixed capital formation. The total stock of FDI (book value) at the end of 2009 was \$1.456 billion, which was 199.0% above the level of 2000 and equal to 267.1% of GDP.

Foreign investment is largely concentrated in the tourism and property development sectors. Cable and Wireless (UK) has a joint venture with the government to provide all domestic and international telecommunications services. Cable and Wireless also provides mobile phone service as does Digicel (incorporated in Bermuda and based in Jamaica).

5. Financial Sector

The banking system consists of: St. Kitts-Nevis Anguilla National Bank (the largest bank in the country); the Development Bank of St. Kitts and Nevis (government owned); the Bank of Nevis; First Caribbean International (controlled by CIBC of Canada); Royal Bank of Canada; Bank of Nova Scotia; the Nevis Co-operative Credit; the Nevis Co-operative Credit Union; and the St. Kitts Co-operative Credit Union.

The June 2009 IMF Article IV Consultation report noted that, “Prudential indicators point to some weakening of the banking system, which also remains vulnerable to high public sector exposure. While liquidity in the banking system remained ample through 2008, the nonperforming loans ratio rose by 1 percentage point over the course of the year to 5.2 percent...Gross government exposure to total capital of the banking system, stood at an uncomfortably high 207 percent at end-2008, with the banking system’s public sector exposure at 51 percent of total loans. For locally incorporated banks, public sector exposure was even higher, at 79 percent of total loans.”

In 2000, St. Kitts and Nevis were placed on the OECD blacklist (countries viewed as uncooperative in their transparency of tax affairs and exchange of information) and the Financial Action Task Force blacklist (countries that are non-cooperative in the global fight against money laundering and the fight against terrorism). It was subsequently removed from the blacklists after enacting measures that increased tax transparency and tightened anti-money laundering and combating terrorism regulations. In 2009 however, St. Kitts and Nevis was placed on the OECD “grey” list for non cooperation. At the end of March 2010, it was “graduated” to the white list after enacting additional steps to ensure that OECD nationals could not use it for tax avoidance.

St. Kitts belongs to the Eastern Caribbean Central Bank (ECCB), which operates a fixed exchange rate regime among its member states. The Eastern Caribbean Dollar has been pegged at 2.70 per US dollar since July 1976. The ECCB controls monetary policy for the member states. It was established in October 1983 and acts as the monetary authority for Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia and St. Vincent and Grenadines. The mission of the ECCB is to, “maintain the stability of the EC dollar and the integrity of the banking system to facilitate the balanced growth of member states.” It issues a single currency that is used by the member states, manages a common pool of foreign exchange and, “regulates the availability of money and credit to promote and maintain monetary stability.”

6. Corruption and Transparency

St. Kitts and Nevis have not ratified the UN Convention Against Corruption and are not ranked in the Transparency International’s 2009 corruption perception index. It has ratified the Inter-American Convention on Corruption.

There are criminal penalties for official corruption and they are generally enforced. Public officials are not subject to financial disclosure laws. There is no agency that is tasked with the specific responsibility of combating corruption.

The government has vehemently denied allegations cited in the Sunday Times (UK) that it accepted bribes to support Japan’s pro-whaling stance. St. Kitts and Nevis is a member of the International Whaling Commission.

8. Standards Compliance Assessments

IMF Dissemination Standard	Subscription Status
Special Data Dissemination Standard	Not a Subscriber
General Data Dissemination Standard	Yes, a Subscriber

IMF Assessment	Standards Assessed	Dates	Compliance Level
Reports on Standards and Codes (ROSCs)	Data Dissemination	Aug, 21, 2007	Low
Financial Sector Assessment Programs (FSAPs)	N/A	Sept. 14, 2004	Out of Date

St. Kitts and Nevis has been assessed for Data Dissemination through the IMF ROSC program. The report reviewed the data standards of the Eastern Caribbean Central Bank, whose members include St. Kitts and Nevis. It said that “methodological soundness”, the “transparency” and the “timeliness” of monetary statistics needed improvement. The IMF has conducted a FSAP for the Eastern Caribbean Currency Union. It was released on September 14, 2004. The report is out of date as it does not comment on the impact of the global financial crisis on banks that the ECCB monitors.

IV. Human Capital

Index	Rank	Score
UNDP Human Development Index 2009	62/182	0.838/1.000

1. Social Indicators

St. Kitts and Nevis ranks 62 of 182 in the 2009 UNDP HDI. The infant mortality rate is 9.9 per 1,000 live births; the probability of dying between birth and age 1 is 14 per 1,000 live births; 100% of births are attended to by a skilled health care professional; the under 5 mortality rate is 15 per 1,000 people. Ninety-nine percent of infants 12-23 months are fully immunized against measles; there are 59.3 birth defects per 1,000 live births; 99% of infants 12-23 months have been immunized against diphtheria; pertussis (whooping cough); and tetanus. Ninety-nine percent of the population have access to clean drinking water; 96% of the population have access to improved sanitation facilities; the probability of dying between the ages of 15 and 60 is 13.8%; the neonatal mortality rate is 11 per 1,000 live births; and 15% of the population is undernourished. Eleven percent of babies are born with low birth weight; 100% of pregnant women receive prenatal care; the immunization rate of 1 year-olds for hepatitis B is 98%; and for polio, it is also 98%. Twenty-six percent of pregnant women are anemic; the per capita emission of CO2 is 2.80 metric tons; and the life expectancy (2010 projections of the US Census Bureau) is 74.4 years (76.8 years for females and 72.0 years for males).

According to the FAO, the per capita calorie consumption in 2003/2005 was 2,488 (in the US, it was 3,825). Sugar is the main staple food, accounting for 15.9% of caloric intake; wheat had a 15.3% share; rice was responsible for 9.4%; and chicken contributed 6.3%.

There are 551 prisoners per 100,000 people: pretrial detainees are 20.7% of the prison population; 2.5% of prisoners are women; 14.7% are under 18; and the prison capacity utilization rate is 174.7%.

2. Access to Technology

There are 415 mainline telephone lines and 1,626 cellular subscribers per 1,000 people. Internet use is 325 per 1,000 people. There are 234 personal computers per 1,000 people; 256.7 televisions per 1,000 people; and 718.7 radios per 1,000 people. The per capita consumption of electricity is 2,498 kilowatt hours (in the US, it is 13,652 kilowatt hours).

3. Health Indicators

There are 470 nurses and midwives per 100,000 people; 110 physicians per 100,000 people; 40 dentists per 100,000 people; 50 pharmacists per 100,000 people; 40 environmental and public health workers per 100,000 people; 150 community health workers per 100,000 people; and 550 hospital beds per 100,000 people.

The prevalence of tuberculosis is 3.4 per 100,000 people (in the US, it is 2.5 per 100,000 people). The prevalence of diabetes is 9.0% of the population between 20 and 79 (the average for North America and the Caribbean is 11.7%). According to the International Diabetes Federation, there are 2,200 people between the ages of 20 and 79 who have diabetes. The prevalence of smoking for men 13-15 years old is 18.2% and for females aged 13-15, it is 13.6%. The per capita health expenditure in 2007 was \$623 and the total expenditures on health were 6.3% of GDP.

In 2004, half of all deaths were the result of cardiovascular diseases. The mortality rate for cancer in 2004 was 103.1 per 100,000 people; for diabetes, it was 27.4 per 100,000 people; for cardiovascular diseases, it was 420.4 per 100,000 people. Road traffic accidents were 13.7 per 100,000 people; HIV/AIDS, five per 100,000 people; respiratory infections, 70.5 per 100,000 people. For prenatal conditions, it was 24.2 per 100,000 people; and for digestive disorders, it was 38.4 per 100,000 people.

The homicide rate in 2008 was 35.2 per 100,000 people (in the US, it was 5.2 per 100,000 people).

The US Department of State Travel Advisory noted that, “Medical care is limited”. Pharmacies are well stocked but there are no 24-hour pharmacies.

A 2008 Health Report by the Pan American Health Organization noted that, “During the period 2000-2005, life-style related chronic diseases, such as diabetes and hypertension, accounted for the majority of medical visits and hospital discharges...substantial segments of the population are overweight...53.6% of the population has at least one chronic disease...The number of vaccine preventable diseases has decreased largely due to near universal coverage of the national immunization program. The majority of cases reported were attributable to chickenpox because the preventive vaccine is not included in the immunization schedule.”

4. Education Indicators

Education is compulsory, free and universal up to the age of 16 years old. Primary school starts at the age of five and lasts for seven years. The pupil/ teacher ratio in primary school is 16:1. Secondary education begins at age 12 and is completed in five years.

The literacy rate is 97.8% for those 15 years and older. This compares to an average for Latin America and the Caribbean of 91.0%. The net enrollment rate in primary school is 88% for girls and 86% for boys. This compares to a regional average of 93% for girls and 84% for boys. The ratio of primary school aged children who are not attending school is 4.0%. Two percent of students in primary school repeat a grade. The survival rate to grade 5 is 82%. The primary to secondary school transition rate is 90%. The net enrollment rate in secondary school is 80% for girls and 89% for boys. This compares to a regional average of 73% for girls and 68% for boys. The school life expectancy is 12.3 years. The regional average is 13.4 years.

V. Economic Data, Outlook and Credit Rating

IMF Country Data Overview 2010 (Est.)						
GDP Growth	GDP:	GDP per capita:	CPI:	Current Account as % of GDP	Budget balance as % of GDP	FDI (UNCTAD 2009)
-1.0%	\$565 mn	\$10,259	2.5%	-27.7%	-8.2% (2009)	\$139 mn

1. Latest IMF Consultation

There has not been an IMF Article IV Consultation Report since June 2009.

2. Economic Outlook

The recent economic boom that saw the economy expand at annual average rate of 5.1% between 2001 and 2008 came to an abrupt end in 2009 when the economy retreated by 5.5% in response to the global economic downturn which eroded exports and reduced tourist inflows. The rebound from the severe recession is expected to be tepid with the IMF forecasting a further 1.0% contraction in 2010 and growth of just 1.6% per annum between 2011 and 2015. Economic activity will be restrained by the need to reduce the unsustainable burden of the public debt (both domestic and external) which at the end of 2009 was 185% of GDP. As a result, fiscal policy is likely to be austere over the next few years as the government seeks to reduce the budget deficit which surged to 8.2% of GDP in 2009.

St. Kitts and Nevis' small population, lack of natural resources and modest manufacturing base suggests the economic base will remain very narrow with tourism, banking and construction continuing to be the main pillars of the economy.

3. Country Credit Ratings

Credit Rating	Standard & Poor's	Moody's	Fitch Ratings
(as of date of publication)	N/A	N/A	N/A

St Kitts and Nevis have not been rated by any of the major rating agencies.

VI. Membership in international organizations

Financial Action Task Force (FATF)	Not a member
International Center for Settlements of Investment Disputes (ICSID)	Entry into convention on September 3, 1995
International Federation of Accountants (IFAC)	Not a member
Multinational Investment Guarantee Agency (MIGA)	Yes, a member
United Nations Convention Against Corruption	Not ratified
World Intellectual Property Organization (WIPO)	Yes, a member
World Trade Organization (WTO)	A member since February 21, 1996

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