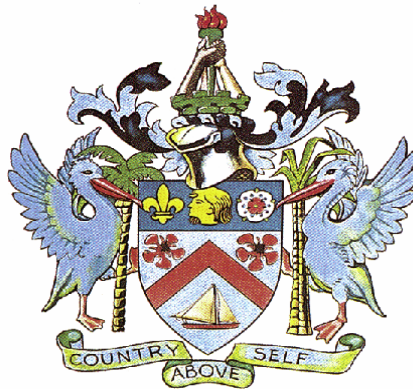


# Economic and Financial Review

Quarter 1, 2014



Ministry of Finance  
NEVIS ISLAND ADMINISTRATION

## Introduction

The Nevis Island Administration has embraced the overarching objective of facilitating economic expansion and job creation by undertaking policies to improve the government's financial position and providing the impetus for business creation and growth. Indications are pointing to the realization of such objective. Despite the severity of the economic downturn and heavy debt burden that we inherited when we returned to office in January of 2013, we are witnessing signs of improvement in the key sectors of tourism, financial services and construction. We have confidence that there will be a continued uptick in these sectors over the 2014 period and are hopeful that they will prove to be resilient over the medium term.

Moreover, the prominent sentiment of the business community is that business activity has begun to trend upwards and the first quarter of 2014 has produced better outcomes than that of 2013. A total of 60 new business license applications were approved in the first quarter of 2014 compared to 46 during the first quarter of 2013, for an impressive gain of 30.4 percent. In an environment when starting a business is difficult, the Nevis Island Administration is providing assistance in the areas of concessions for startup

equipment for these small businesses. The Small Enterprise Development Unit of the Department of Trade, continues to provide assistance in accounting and business plan development. These activities are geared towards ensuring the start and survival of these businesses. Thus taking the process from a mere business license application to the realization of an actual business.

## Tourism

In Tourism, our aggressive marketing efforts led primarily by the Nevis Tourism Authority (NTA) continues to yield positive results. Preliminary data shows growth in the total visitor arrival from one period to the next. Visitor arrivals in the first quarter of 2013 was 6040. This grew to 8196 persons at the end of quarter one of 2014; representing an increase of 35.70 percent.

Moreover, hoteliers are very optimistic about the next season as the American and British economies, in particular, begin to show signs

Total Visitor Arrivals to Nevis			
	Q1 2013	Q1 2014	Variance
Air (Excl. Tradewinds)	1,639	2,042	24.59%
Yacht	1,907	3,589	88.20%
Cruise Ships	2,494	2,565	2.85%
<b>Total</b>	<b>6,040</b>	<b>8,196</b>	<b>35.70%</b>

of improvement.

Of significant note is that the two percent Tourism Levy which is derived directly from activities in the Tourism Sector generated \$1.31 million in the first quarter as compared to \$0.92 million for the corresponding period last year. These funds go directly to the Nevis Tourism Authority to assist in their marketing effort.

Of the total visitor arrivals, 2,042 or 24.91 percent were air arrivals, while Yacht and Cruise Ship passengers together accounted for 6,154, or 75.09 percent. Data received from Cape Air, Winair and Seaborne Airlines indicates that there was an increase in tourist arrivals at the Vance Amory International Airport of 24.59 percent over the corresponding period of the prior year. Similarly, yacht passenger arrivals grew by 88.20 percent and cruise passenger arrivals grew by 2.85 percent, respectively, when compared to the same period in 2013. This is as a direct result of our renewed efforts to increase the number of passengers to our shores.

Stay-over visitors during the first quarter of 2014, had a marginal increase of 4.20 percent when compared to quarter one of 2013. An expansion in arrivals from the USA and Caribbean markets were the main

contributors to the higher number of visitor arrivals during the first quarter of 2014.

The United States continues to be the primary tourist market for Nevis, recording a total of 947 visitors. Europe, the Caribbean and Canada recorded a total of 148; 147; and 70 visitors respectively. Activity in the tourism industry is anticipated to expand based on an expected increase in visitor arrivals going forward. The addition of new airlift through direct flights into Nevis from San Juan will assist in facilitating this growth in visitor arrivals.

Yacht and Cruise Ship calls to Nevis decreased for the first quarter of 2014. There were a total of 377 calls when compared to 397 calls during the first quarter of 2013. Despite this modest decrease in Yacht and Cruise Ship calls, the number of passengers increased from 4,401 to 6,154; a 39.83 percent increase.

The continued improvement in the efficiency and the quality of service to visitors coupled with the marketing of the Nevis product by our international and regional public relation consultants and the staff at the NTA are expected to continue to boost tourism activity in Nevis.

## Construction

The construction sector continues to show gradual signs of returning to normalcy. Data provided by our Physical Planning Department show a total of 157 building applications were approved for fiscal year 2013 and an additional 47 approved for the first quarter of 2014. The extension to midyear in the concession package for individuals under the first time homeowners program should prove vital in advancing activities in this key sector. It is our intention to move applications quickly through the approval process so that we can restore some vibrancy to our construction sector.

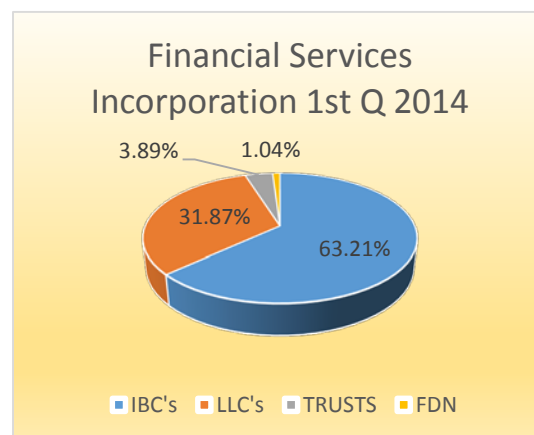
The extra liquidity in the banking sector coupled with the need for asset growth should serve as catalysts to re-energize the construction sector.

In addition, there are a number of lucrative investment projects anticipated for the near future. On April 25, 2014 we witnessed the ground breaking ceremony of a US\$60 million expansion project for an additional 36 units at the Mount Nevis Hotel. Another Villa Development is expected to commence shortly in the Liburd Hill area. This involves the construction of 24 buildings with a total of 74 units at a cost of EC\$24 million. Both projects will be done by local contractors and

will increase economic activity and employment. Paradise Resort, formerly Villa Paradiso is on the last leg of its renovation and is scheduled to reopen in the high season of October 2014. Work also continues at the Four Seasons Villa Project, Tamarind Cove Project and Hurricane Cove Bungalows to name a few. In fact the sentiments of some key players in the sector is that there is a definite overall improvement; and employment in the sector has improved over the corresponding period.

## International Financial Services

Despite the many challenges associated with this sector from regional and international regulating agencies, our Financial Services Sector continues to show growth in the first quarter. Revenue generated by this sector in the first quarter of 2014 grew by some 4.40 percent over the corresponding period last year.



In 2013, the total annual incorporation of entities in this sector grew by 3.60 percent over 2012, with the incorporation of IBC's being the main contributor, registering a growth of five percent over 2012. The first quarter of 2014 has seen a growth of 15.20 percent in new registration of entities in this sector compared to the first quarter of 2013. Leading the chart was international business companies that comprised 63.21 percent of new business incorporation; followed by 31.87 percent for limited liability companies.

### Fiscal Performance

The outcome of the fiscal operations for the first quarter of 2014 has improved in the area of current revenue collection.

Despite the setback caused by the fire that destroyed the offices of the Nevis Treasury Department, Inland Revenue Department and the VAT Unit, current revenue collection expanded over the first quarter of 2013 by 5.71 percent to \$30.61 million, which is 24.33 percent of the 2014 annual current revenue budget of \$125.81 million.

I wish to commend the persons within these Departments for their outstanding efforts in rising beyond this tragedy and in reorganizing their revenue collection measures in a manner that enabled the

administration to surpass the revenue collected for the same period in 2013.

The NIA received no budget support for the period in review. With limited scope for an increase in its overdraft, revenue collection was the only source of funding for the NIA during this challenging time.

Total current revenue collected in the quarter amounted to \$30.61 million which represents an increase of \$1.65 million over the amount collected during the same period of 2013.

Moderate improvements in the economy have positively affected tax revenues such as Social Services Levy, Stamp Duties and

NIA Revenue and Expenditure		
	Q1	Q1
ITEMS	2014	2013
	\$ (M)	\$ (M)
<b>Revenue</b>		
Capital Revenue (Grant)	0.10	3.50
Current Revenue	30.61	28.96
<b>Total Revenue</b>	<b>30.71</b>	<b>32.46</b>
<b>Expenditure</b>		
Capital Expenditure	2.68	1.04
Current Expenditure	28.40	25.41
<b>Total Expenditure</b>	<b>31.08</b>	<b>26.45</b>
<b>Capital Surplus (Deficit)</b>	<b>-2.58</b>	<b>2.46</b>
<b>Current Surplus (Deficit)</b>	<b>2.21</b>	<b>3.55</b>
<b>Total Surplus (Deficit)</b>	<b>-0.37</b>	<b>6.01</b>

VAT. Social Services Levy increased slightly in the 2014 period, moving from \$2.06 million to \$2.17 million. The total collection

for 2013 was \$8.30 million. The data provided by the Social Security Office shows that, on average, the number of persons engaged in formal employment in the economy on a monthly basis in the first quarter of 2013 was 5,992; steadily increasing to an annual monthly average of 6,267 persons by the end of said year. While the quarter average employment for 2014 is still to be finalized, this trend indicates that an increasing number of persons are finding formal employment in the private sector. Stamp Duties have also increased by 15.09 percent over the 2013 period. The island has seen a rise in the sale and transfer of lands for development sectors driven mainly by the Citizenship by Investment Program.

Value Added Tax (VAT) continued to show growth, increasing by 4.12 percent over the first quarter of 2013.

Other noticeable revenue areas are:-

1. Revenue from the Offshore Financial Services Sector; 3.29 million for the review period in comparison to \$2.74 million in quarter one of 2013.
2. Water rates of \$1.21 million compared to \$1.37 million in 2013.
3. Property tax of \$0.14 million compared to \$0.17 million in 2013.

4. Import Duties of \$2.47 million compared to \$2.02 million in 2013.

Higher levels of current and capital expenditures contributed to a reduction in the substantial surplus that is reported for the prior quarter of last year.

SUMMARY TABLE (in EC\$Million)		
	Q1 2014	Q1 2013
Current Revenue	30.61	28.96
Capital Revenue	0.10	3.50
Current Expenditure	28.40	25.41
Capital Expenditure	2.68	1.04
Current Account Surplus	2.21	3.55
Overall Surplus/(Deficit)	(0.37)	6.01

Current Expenditure for 2014 first quarter increased from \$25.41 million to \$28.40 million or 11.76 percent. The primary area contributing to this increase was Personal Emoluments which moved from \$13.60 million to 14.42 million; an increase of 6.01 percent.

The contributing factor to this increase was the four percent increase in Wages and Salaries introduced in January coupled with and the unfreezing of increments for all Civil Servants.

<b>NEVIS ISLAND ADMINISTRATION (EC\$M)</b>			
<b>CURRENT REVENUE</b>			
	2014	2014	2013
	Annual Budget	Q1 Actual	Q1 Actual
<b>Current Revenue</b>	<b>125.81</b>	<b>30.61</b>	<b>28.96</b>
<b>Taxes on Income &amp; Profits</b>	<b>13.95</b>	<b>3.03</b>	<b>2.90</b>
Of which: Social Services Levy	8.50	2.17	2.06
<b>Taxes on Property</b>	<b>3.00</b>	<b>0.14</b>	<b>0.17</b>
<b>Taxes on Domestic G&amp;S</b>	<b>37.12</b>	<b>11.59</b>	<b>10.93</b>
Of which: Stamp Duties	13.50	3.28	2.85
Un-Incorporated Business Tax	1.25	0.27	0.25
VAT	18.00	6.59	6.30
Licenses	1.45	0.86	0.90
<b>Taxes on Int'l Trade</b>	<b>39.21</b>	<b>8.37</b>	<b>7.72</b>
Of which: Import Duties	9.94	2.47	2.02
Excise and Export Duty	4.94	0.55	0.54
Customs Service Charge	7.07	1.36	1.31
VAT	16.42	3.78	3.66
<b>Non-Tax Revenue</b>	<b>32.53</b>	<b>7.48</b>	<b>7.23</b>
Of which: Passport, Permits, etc.	1.64	0.44	0.40
Hospital	1.02	0.19	0.09
Financial Services	13.36	3.29	2.74
Supply Office	7.00	1.26	1.89
Water Services	6.27	1.21	1.37

## Capital Projects

During the first quarter, capital spending totaled \$2.68 million, up from \$1.04 million in the prior year. This increase of \$1.64 million represents a gain of 57.69 percent when compared to the first quarter of 2013. The Ministry of Communications accounted for 63.18 percent of this expenditure as work continues on the Renovation and Expansion of Government Buildings as well as the construction of Secondary Village Roads and the Hamilton Road projects. Work also commenced on the Water Enhancement Project funded by the Caribbean Development Bank, which saw the completion of the water storage tanks at Spring Hill, Camps and Maddens. Site preparation has begun for the construction of additional storage tanks at Morgan Estate and Stoney Hill. The lands have been cleared and graded at the Fothergills site in preparation for construction of the tank base and the erecting of the tank. The next phase of the project is the laying of pipelines for water distribution. This phase is estimated to cover 80 percent of the full scope of the work to be completed under this project. The pipes are already on site and awaiting other machinery for installation. Training in the correct

installation of these pipelines will commence shortly. Overall, the project is running on schedule and is approximately eight percent completed.

Work continues to progress steadily on the Hamilton Road Project. Despite slight setbacks due to unforeseen weather, the contractors continue to make a concerted effort to have the project completed by the end of June 2014. To date, the project is approximately 45 percent completed.

### Debt

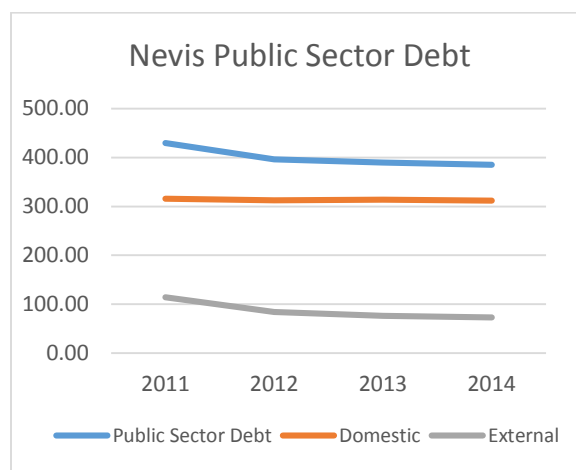
The Administration understands the repercussions of high debt levels and will make every effort to honor its obligation to the St. Kitts-Nevis-Anguilla National Bank under the Land for Debt Swap. To date, we have completed the first transfer of lands to the bank and this will reduce our debt level by \$29.10 million, thereby reducing interest costs. The process has been a tedious one and we will continue to work closely with the bank to ensure its speedy completion.

At this point I would like to again apologize to all who were affected by the unfortunate incident whereby civil servants were unable to receive their salary on the scheduled pay date. Despite the obstacles strewn in our path, we have worked tirelessly to resolve the issues that led to this mishap and hope that

we can move forward with a common understanding.

In the area of debt management, the Ministry of Finance is committed to maintaining an updated Debt Recording and Management System (CS-DRMS). This is in an effort to ensure that accurate debt information could be available in a timely manner.

The administration has sought to live within its means and continue to make substantial monthly debt service payments on our cumulative outstanding debts. The total outstanding stock of public sector debt (NIA and Public Corporations) at the end of March 2014 fell to \$385.11 million, as compared to \$389.80 million at the end of 2013. Of this amount, domestic debt stood at \$312.09 million with the remaining \$73.02 million being external debt.



Additionally, the administration continues to make monthly payments to its suppliers with



large outstanding balances. Worthy of note is that the current amount owing by NEVLEC for fuel purchased now stands at approximately \$2.10 million in comparison \$7.80 million that was owed at January 31, 2013.

For the remainder of the year it is our intention to:

- Continue to negotiate with the Federal Government for an appropriate share of the SIDF resources for budget support and capital project funding
- Complete the International Monetary Fund (IMF) fiscal adjustment programme to ensure fiscal and debt sustainability while continuing to protect the most vulnerable;
- Conclude the debt restructuring negotiations with National Bank and begin the process of accessing additional financing for the Administration;
- Eliminate arbitrary tax concessions and target resources on strategic sectors of the economy.

- Strategically implement our capital budget by focusing the scarce resources on projects that generate growth and employment; and
- Continue to implement policies to create the enabling environment for private sector expansion and foreign direct investment in the area of Tourism and the Services Sector through our concession program

I want to assure the Nevisian public that the Administration will continue to take the necessary measures to bring about stability to the fiscal position and ensure a positive economic outlook and improved quality of life for all.