2018

Economic and Financial Review

Ministry of Finance
Nevis Island Administration

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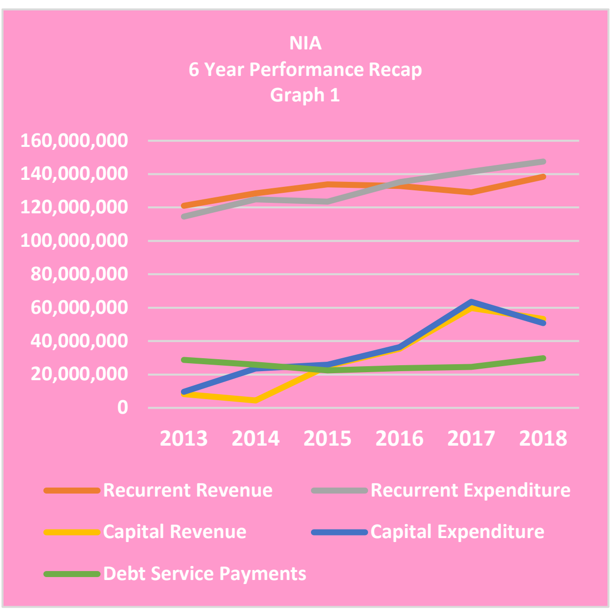
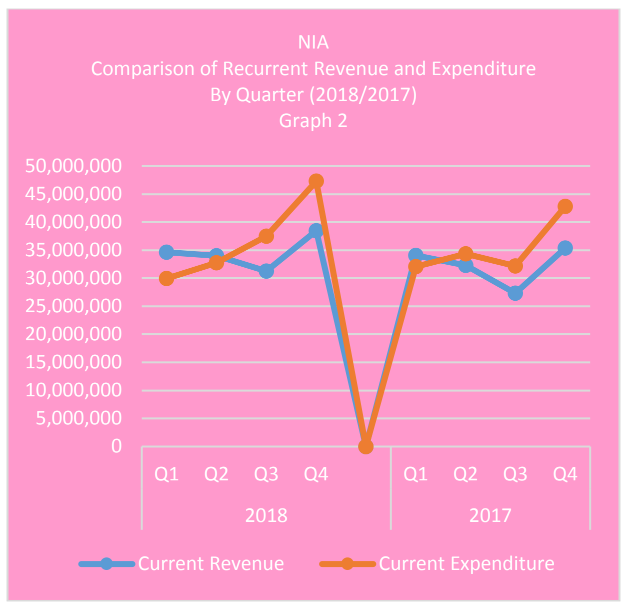
Overview

The end of 2018 marked the third consecutive year of positive global economic growth. The challenge for both developing and emerging market economies was to be able to channel this growth spell into tangible economic and social change within their own borders. With most global forecasts depicting an impending slowdown in the very near future, it becomes increasingly more important for these economies to take advantage of the opportunities that exist, build resilience to secure any gains achieved and find innovative ways to improve and maintain their long-term prospects with regards to both continued economic development and their desired level of social and environmental change.

As a small island developing state (SIDS) it is important to identify and measure national vulnerabilities then develop multilayer strategies to counteract both endogenous and exogenous risks. A risk based approach to public financial management is a good foundation upon which sustainable resilience to these types of shocks could be built. The Administration has acknowledged this and the 2019 Budget Address speaks towards the development of a plan to incorporate such an approach in the operations of the Government[1]. The incorporating of the achievement of the United Nation's Sustainable Development Goals (SDGs) 2030 into the National Strategy is one method by which economic development could be both inclusive and sustainable.

The Nevis Island Administration's (NIA) fiscal year 2018 was marked by both triumphs and shortfalls. While deficits were significantly reduced some operational gaps remained unchanged.





Overall, the results for the period were generally favourable with recurrent revenue trending upwards. The pace of this recovery has been a little slower than expected and has not been as broad base as hoped.

[1] Nevis Island Administration Budget Address 2019: Harnessing the Synergies of Innovation and Entrepreneurship: while Increasing global Competitiveness to achieve our Socio-Economic Goals

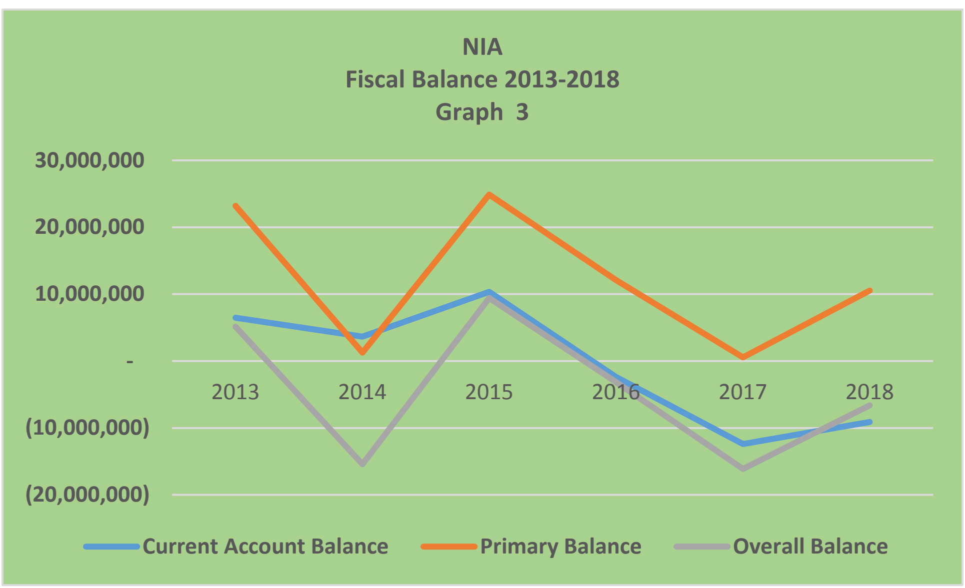
Recurrent expenditure continues to rise, even though the Administration has outlined efforts to prioritize and curtail spending. Debt service payments are on the rise after about three years of relative stability while capital expenditure is on the decline after four years of year on year increase with the largest outlay in six years occurring in 2017.

One triumph for the Administration was the successful conclusion of the debt restructuring exercise with the St. Kitts Nevis Anguilla National Bank Limited, which was finalized in August 2018 affording the NIA a clearer vision in regards to its debt management strategy. However, during the year some public investment projects were beleaguered with delays which would have likely resulted in scheduled completion dates and budgets having to be revised.

The Nevis Island Administration's fiscal performance for the year 2018 showed improvements in most areas in relation to Central Government operations. The fiscal balances as listed in Table 1 below all showed improvements when compared to fiscal year 2017.

Table 1: Comparison of Fiscal Balances 2018/2017 (in millions of EC$ in Economic Classification Format)

Fiscal Balances	Actual 2018	Actual 2017 (restated)	Budget 2018
Current A/c	(9.09)	(12.40)	(11.86)
Primary Balance	10.54	0.55	(17.31)
Overall Balance	(6.64)	(16.13)	(35.08)



The Primary Balance is in a surplus position as at the 31 December, 2018. The deficits that existed in the previous fiscal year[2] have been reduced and the Administration's financial position at the end of 2018.

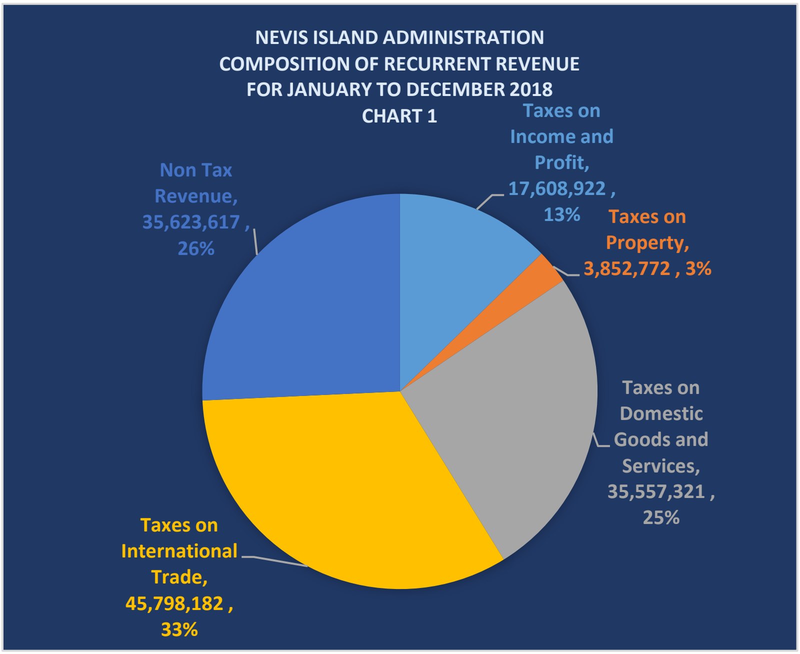
However, with the expected slowdown in global growth for the next two years and the ongoing challenges being faced by the island from International Financial Regulatory Bodies, the Administration will need to be creative in its efforts to maintain its positive growth prospects, to realize tangible expansion in economic activity across all sectors especially the productive

[2] Primary Balance as at 31st December 2017 restated as at 31st December 2018.

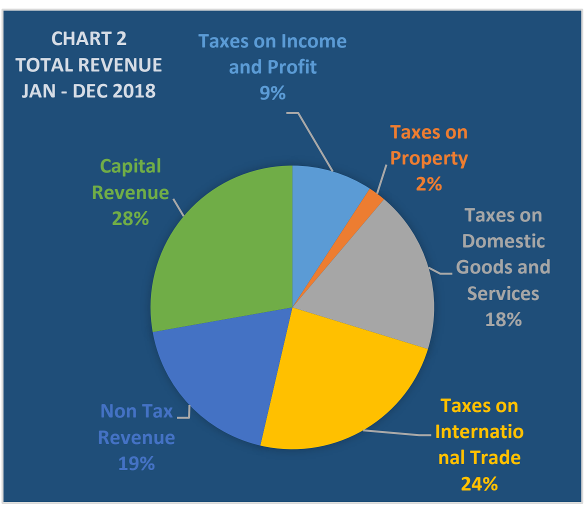
sectors, to achieve meaningful levels of job creation and to keep pace with and utilize innovative technology to help fuel these initiatives.

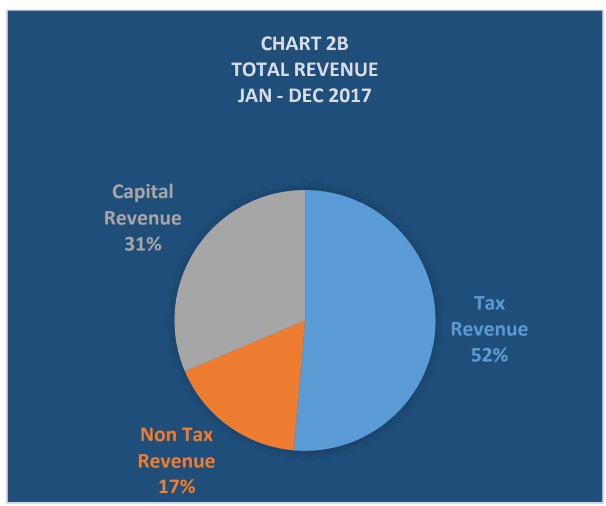
Fiscal Performance

Revenue

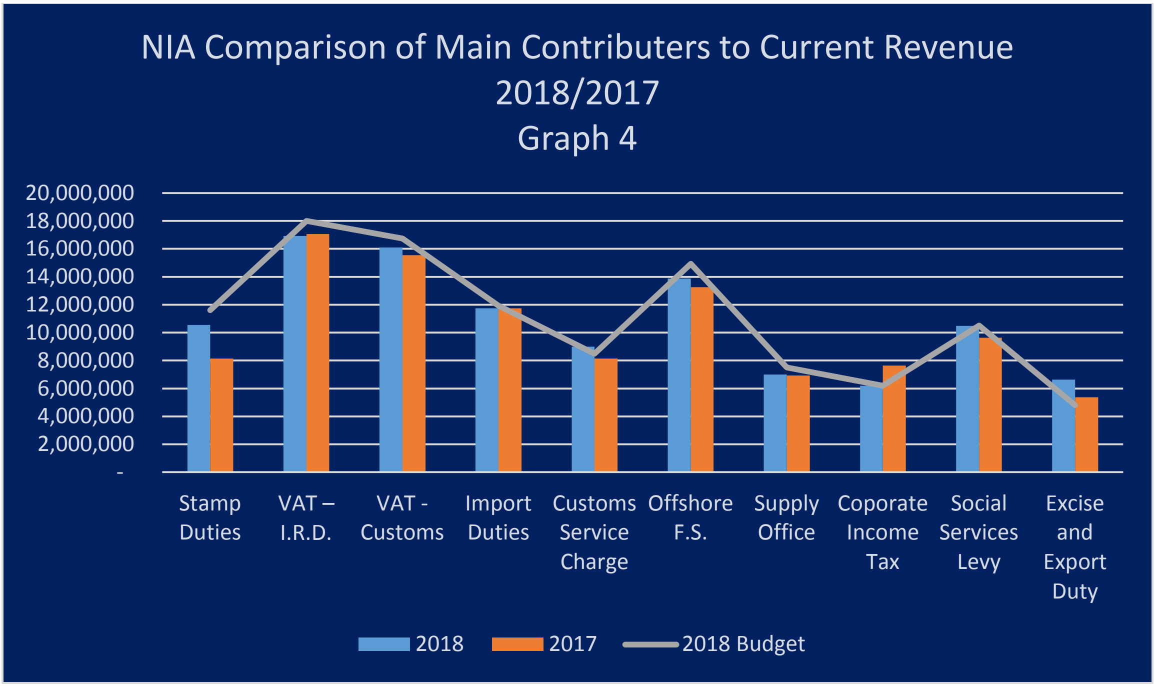


Recurrent Revenue for the year 2018 ($138.44 million) surpassed that of 2017 ($129.06 million) by 7.27 percent. The major contributor to revenue continues to be tax revenue at 53 percent, non-tax revenue at 19 percent and capital/grant revenue at 28 percent as depicted in Chart 2 below. In Chart 2B we see that the share of tax revenue has marginally increased from the 2017 level. The main contributor to tax revenue as illustrated in the adjoining Chart 1 is taxes on international trade at 33 percent.





The NIA relies on several sources of revenue and some of these are considered to be significant contributors to both tax and non-tax revenue. Graph 4 and Table 2 below provides some insight into the performance of these key sources.



Graph 3 and Table 2 indicate that on average these key sources either met or exceeded their 2017 levels. However, only two came in above budgeted levels for the current period, which were customs service charge and excise and export duty.

Table 2: Comparison of Main Contributors to Recurrent Revenue (in millions EC$)

	Actual 2018	Actual 2017	Budget 2018	Variance 2018/2017	Variance Budget 2018
Stamp Duties	10.56	8.15	11.60	2.41	(1.04)
VAT-I.R.D	16.93	17.05	18.00	(0.12)	(1.07)
VAT-Customs	16.11	15.56	16.75	0.55	(0.64)
Import Duties	11.75	11.74	11.94	0.01	(0.19)
Customs Service Charge	8.86	8.14	8.50	0.72	0.36
Offshore F.S.	13.18	13.26	14.92	(0.08)	(1.74)
Supply Office	7.01	6.94	7.50	0.07	(0.49)
Corporate Income Tax	6.20	7.64	6.20	(1.44)	0
Social Services Levy	10.49	9.63	10.50	0.86	(0.01)
Excise and Export Duty	6.64	5.38	4.80	1.26	1.26

Table 3 below highlights the revenue forgone by the Customs Department for the periods 2017 and 2018 due to the granting of concessions. In 2018, the total value of the revenue lost fell by 8.47 percent when compared to 2017.

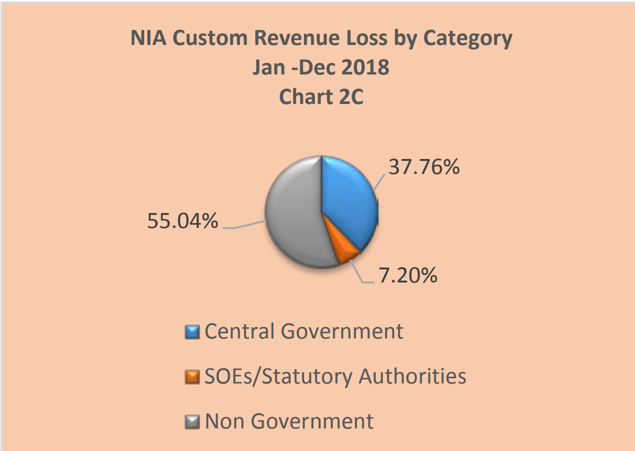


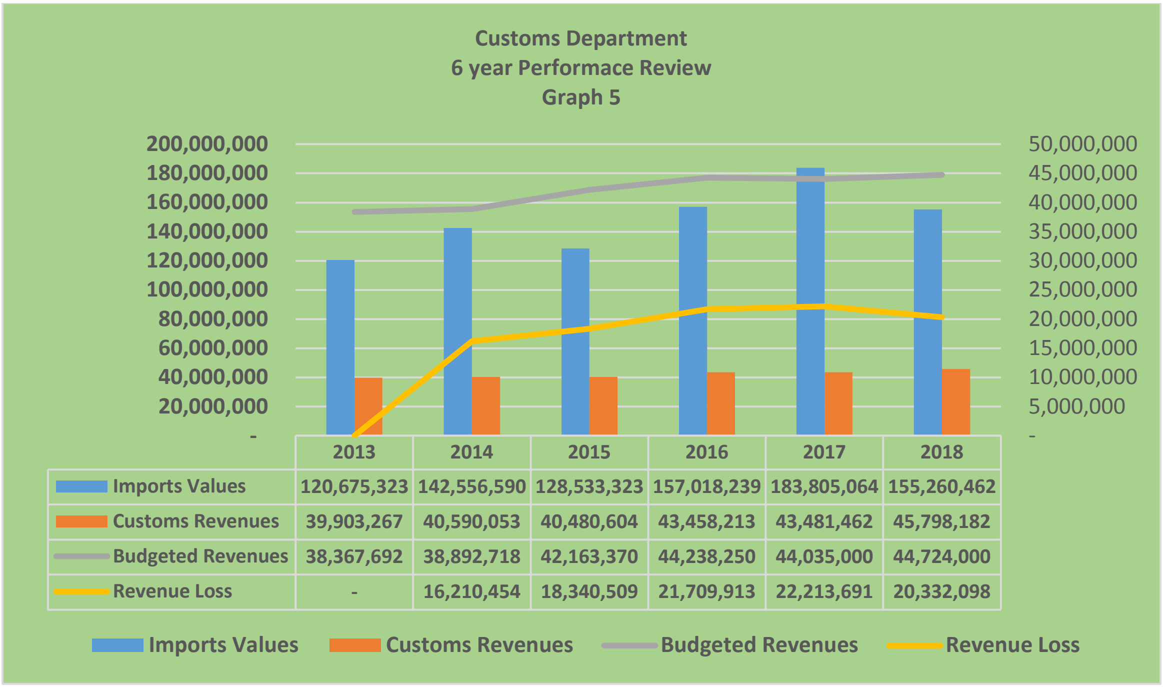
Chart 2C indicates that the Non-Government category (which includes the Private Sector, Individuals/Households and NPISH) received the largest share of the concessions for the review period. Within this category restaurants were granted the largest value of concessions ($6.36 million). Concessions granted to small and medium sized businesses amounted to $0.74 million in 2018, a decline of 17.05 percent over the amount granted in 2017.

The Administration's new concession policy which came into effect in 2016 grants Duty exemptions for capital and other related items for new business startups. Exemptions on vehicles in particular are only granted if the business owner can prove that the vehicle is an essential part of the delivery of its products and services to clients.

Concessions granted to businesses in operation for more than a year are done on a case by case basis and the overall economic impact of the operations of the entities is taken into consideration. The NIA is heading in the right direction in regards to its position on streamlining and curtailing the misuse of this policy.

Table 3

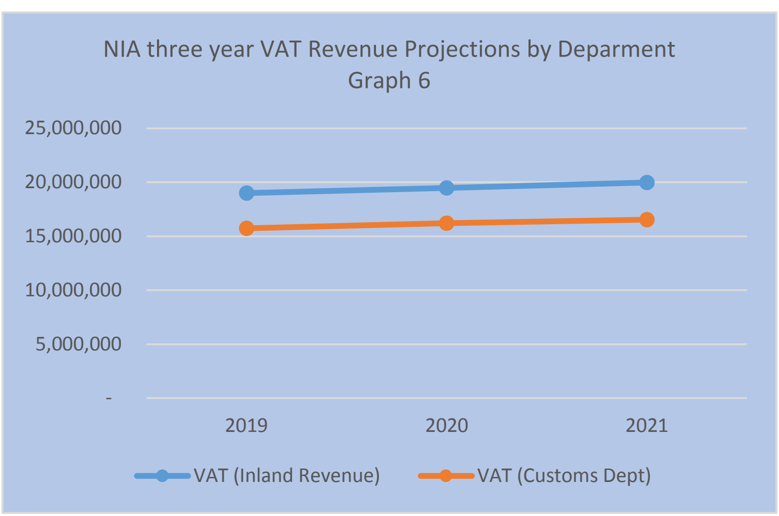
NEVIS ISLAND ADMINISTRATION CUSTOMS DEPARTMENT REVENUE LOSS FOR PERIOD 2017/2018		
Sector	2017	2018
A1 - Agriculture & Forestry purposes	201,907.36	142,800.35
B1 Statutory Bodies	337,874.36	1,463,860.04
C1 - Pure Culture	1,226.29	261,236.99
D1 - Diplomatic Missions	0.00	30,199.88
E1 - Schools (Private)	29,252.00	98,198.52
F1 - Renewable Energy/Energy Saving	48,755.20	32,683.73
G1- Government	7,774,315.02	6,842,465.01
H1 - Health	6,443.39	5,071.63
I2 - Local Manufacturers	48,970.26	109,231.43
J 1 Imports under Exemption for Small and Medium Businesses (Previously under Code O	887,591.21	734,885.52
K1 - Communication Company	56,045.53	74,733.60
L - Barrel Trade	811,570.60	1,004,658.38
M1 - Military Forces (Foreign)	0.00	0.00
N1-Non-Profit Organization	79,946.60	139,620.27
O1 - Other Approved purposes	1,150,159.55	1,631,272.44
P Movement of persons & Returning Nationals	370,913.79	282,669.43
R1 - Miscellaneous Cabinet Relief	554,522.93	835,437.70
S1 - Marine	166,165.84	131,226.74
T2 - Restaurants	9,594,440.91	6,356,278.85
V1 - First Time (Home Owner)	93,590.44	155,567.48
Summary	22,213,691.28	20,332,097.99



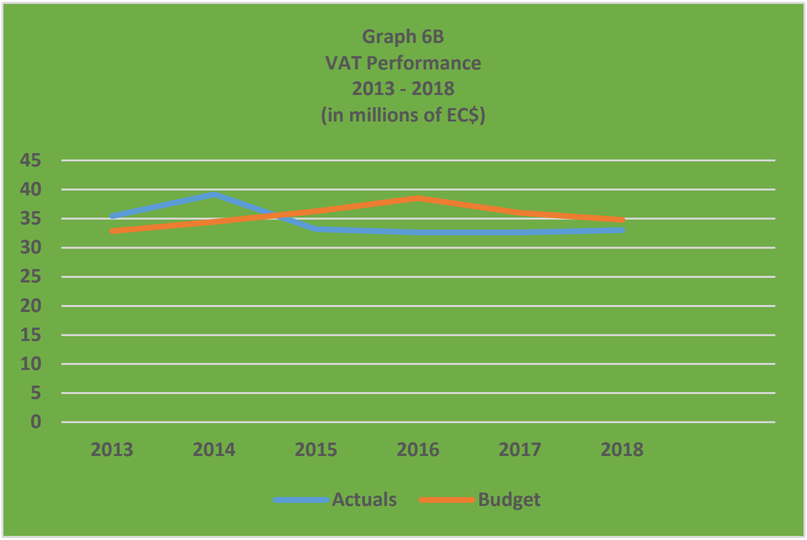
	2013	2014	2015	2016	2017	2018
Imports Values	120,675,323	142,556,590	128,533,323	157,018,239	183,805,064	155,260,462
Customs Revenues	39,903,267	40,590,053	40,480,604	43,458,213	43,481,462	45,798,182
Budgeted Revenues	38,367,692	38,892,718	42,163,370	44,238,250	44,035,000	44,724,000
Revenue Loss	-	16,210,454	18,340,509	21,709,913	22,213,691	20,332,098

In 2018 the Customs Department generated revenue in excess of $2.32 million more than the level achieved in 2017. 2018 was one of the best years for the Department as it generated the highest amount of revenue when compared to the last five years and it was able to reduce its revenue loss to pre-2016 levels. The Department's efforts played a significant role in enabling the Administration to meet its revenue targets for 2018.

VAT collected at the Customs Department surpassed its 2017 level by 3.53 percent. However VAT collected at the Inland Revenue Department fell by 0.75 percent when compared to its 2017 level. Overall VAT collections for the period ($33.04 million) increased by 1.29 percent over its value in 2017 ($32.61 million). Graph 6 below depicts the six year performance of VAT.



Graph 6 illustrates the three year projections for VAT revenue. There is little change expected in the revenue to be collected over the next three years. In the last quarter of 2018 (as has been the case for the last 5 years) there was a VAT day(s), where the tax rate was conditionally reduced from 17 to 5 percent on most taxable items. Commercial entities that registered to participate were required to be in good standing with regards to the payment of their tax obligations. The reduced VAT day (s) is a short term incentive intended to increase the level of domestic consumption and to stimulate economic activity on the island.



VAT is an important source of revenue for the NIA. Although it is a regressive tax regime, which generally negatively impacts the poor more than the wealthy, its value is a good sounding board to provide some guidance as to the level of economic activity on the island. The graph indicates that from 2015 VAT collections have remained relatively stable after the initial decline due to a regime change that saw the tax removed from food and a number of other consumer goods and services. Expectations also began falling more in line with what was actually happening in the economy. The largest portion of total VAT is collected domestically at the Inland Revenue Department with a significant amount coming from the Tourism Sector and the remainder coming from the Merchandising and Retail Sectors which have been struggling for the last three years because many consumers are choosing to purchase goods from online global retailers. The data indicates that domestic consumption is somewhat sluggish, that is, there is not much change taking place year on year. This is an area that the Administration and the private sector will have to address if the economy is to grow.

Revenue collected from Stamp Duties on the sale or transfer of property was once a promising source of income for the Administration. However, over the past three years actual revenue collection as well as expectations have fallen off sharply. This is very much due to the fact that most of this revenue was dependent on the Citizenship by Investment Program (CBI).

The program has changed over the years in that it has shifted its focus away from property acquisition to direct financial inflows into a Government managed Fund. There has also been increased competition and the program itself has garnered a lot of negative international press. This has had a negative effect on both the domestic real estate market and Government revenue generated from Stamp Duties associated with the acquisition of property under this scheme. However, the Federal Government has over the last two years invested both time and resources to revamp the program on both a structural and organizational level.

Though there were no new taxes introduced in 2018, Water rates were increased in April of 2018 by 30 percent. This came as a recommendation from the Caribbean Development Bank (CDB), who is also a major partner in the Administration's drive to develop a resilient and modernized water supply and distribution system. There are still operational issues in regards to efficiency that need to be addressed and corrected, but the increase in the rate is a step in the right direction to help maintain the sustainability of the program's objectives. Water revenue in 2018 ($5.68 million) is up by 19.65 percent over that of 2017 ($4.75 million) but still below expectations ($6.35 million) by 10.51 percent.

Capital revenue for the period under review consisted of grants only and amounted to $53.26 million. This represents a reduction of 10.93 percent over the amount received in 2017 ($59.80 million). A portion of the grants received in December 2018 included an amount of $7,110,077 to facilitate the payment of a 'bonus salary' to Public Sector workers. Included in this amount was $766,114.20 which was transferred to the Statutory Bodies.

The grants received also contained $30 million from the Federal Government as transfers from the CBI Program and this amount has been consistently transferred to the Administration over the past two years as budgetary support. Though this type of transfer is not legislated it can be seen as a direct effort on the part of the Federal Government to foster inclusive economic development on both islands. Grants and development aid air marked and received for capital projects in 2018 amounted to $16.15 million. Included in this was an amount of $3.5 million as a transfer from the Federal Hurricane Resilience Fund.

For the period under review the Administration was able to meet and exceed both its tax revenue and overall revenue targets. The only revenue component that fell below budget was Taxes on Domestic Goods and Services. The two main sources of revenue for this component are VAT (IRD) and Stamp Duties which came in below expectations, while encouragingly revenue from Unincorporated Business Tax exceeded expectations by 16.42 percent. The three year average (2016-2018) of new business licenses issued was 271, which is noteworthy especially for an island with an estimated population of only 12,000 people. The more new and viable businesses that open, as well as the growth and expansion of pre-existing businesses in all sectors will produce a positive effect on the health of the local economy and by extension an increase in the Government's tax base and revenue.

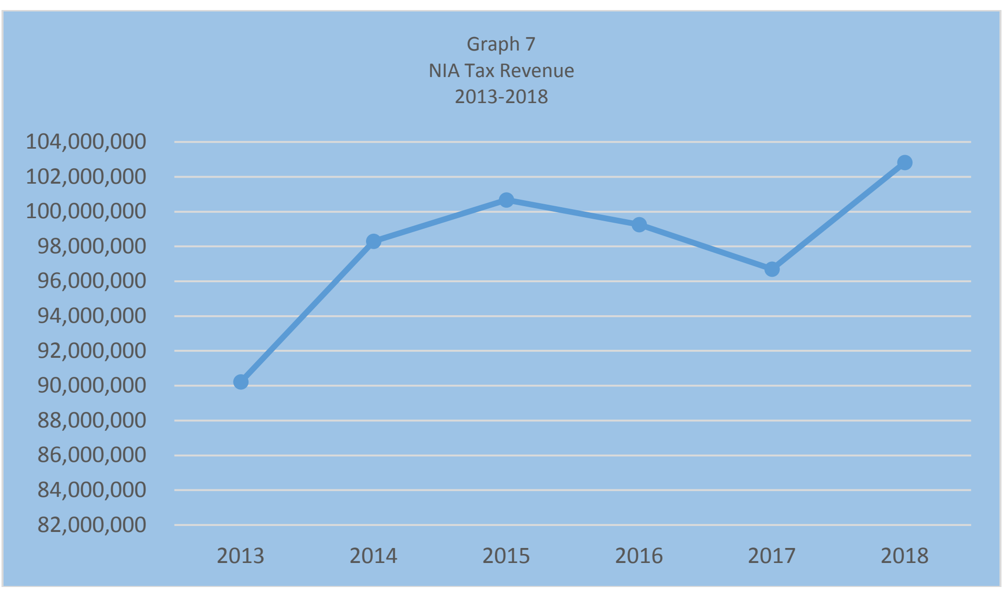


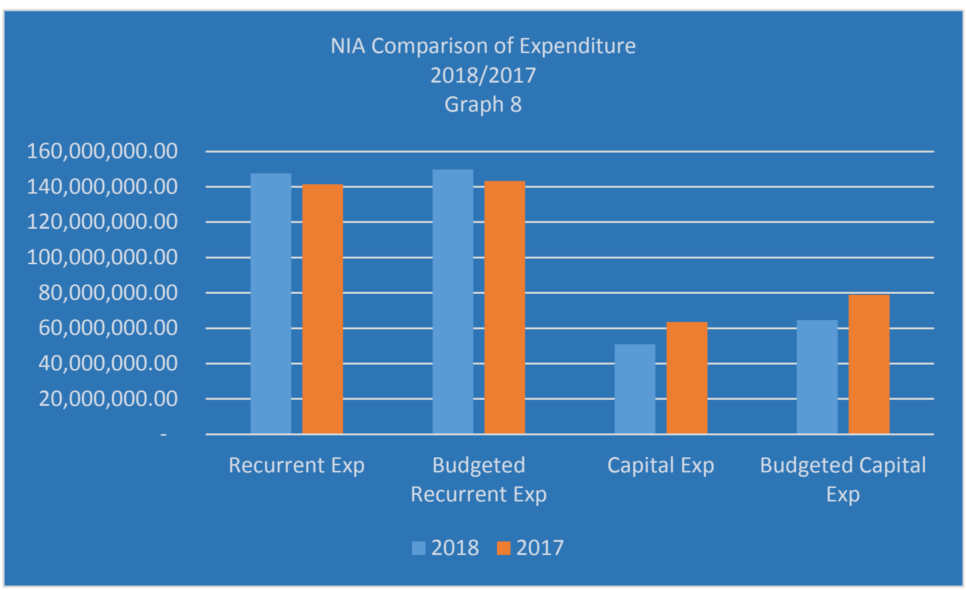
Table 4: Comparison of Revenue 2013-2018 (in millions of EC$)

	2013	2014	2015	2016	2017	2018
Tax Revenue	90.22	98.29	100.64	99.25	96.70	102.82
Non Tax Revenue	30.84	30.18	33.19	33.65	32.37	35.62
Current Revenue	121.06	128.47	133.85	132.90	129.06	138.44
Capital Revenue	8.27	4.43	25.00	35.50	59.04	53.26

In summary, current revenue is moving in the right direction as indicated by the illustrations above. The Administration's inclusive approach to economic and social development, as well as the improvements made to the revenue collection system have both contributed to this favourable performance.

Expenditure

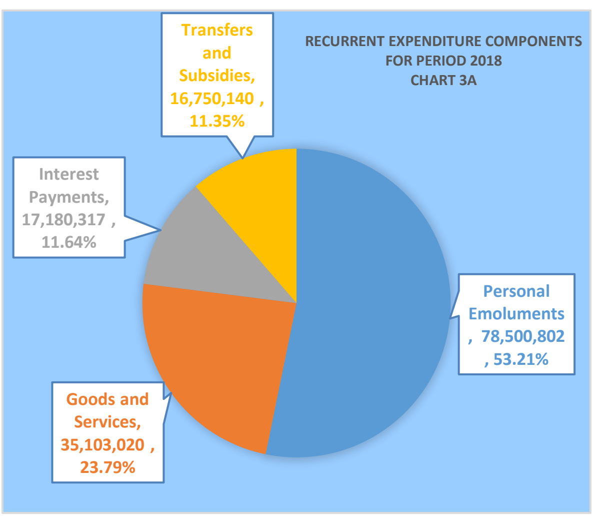
Graph 8 below depicts the year on year comparison of the Administration's expenditure. Though recurrent expenditure for 2018 (Budget $149.78 million) was predicted to be greater than that of 2017 (Budget $143.18 million), the Administration was able to contain actual outlays below budgeted expectations by a margin of 1.50 percent.

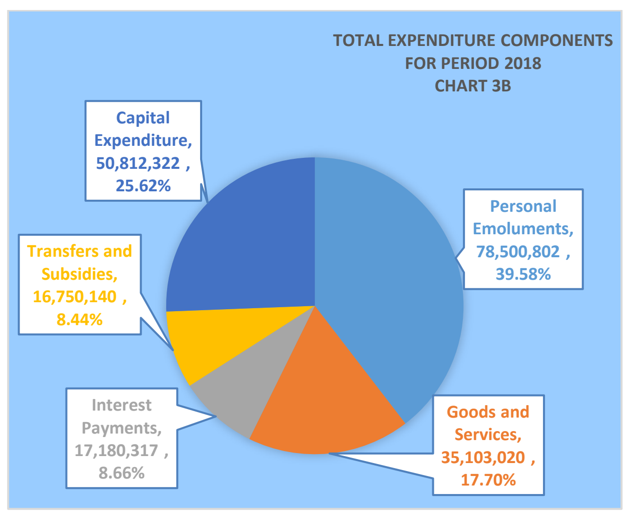


Key fiscal outcomes (in economic classification format) in regards to the Administration's management of expenditure for the period include:

1. 2018 recurrent expenditure amounted to $147.53 million, which is 4.29 percent more than the $141.47 million accumulated in 2017
2. 2018 total expenditure amounted to $198.35 million compared to $204.99 million in 2017, which represents an overall decrease of 3.24 percent.
3. This reduction in total expenditure can be attributed to a smaller capital outlay in 2018 than in 2017.
4. The largest contributor to recurrent expenditure was Personal Emoluments which amounted to $78.50 million which represents 53.21 percent of current expenditure.
5. The amount for Personal Emoluments was above normal due to the payment of a bonus salary to Public Sector employees in December 2018. This bonus was funded by the Federal Government by means of a transfer of funds.
6. The second largest contributor to recurrent expenditure was Goods and Services which amounted to $35.10 million, representing a share of 23.79 percent of current expenditure.

Graphs 3A and 3B illustrate the components of both recurrent expenditure and total expenditure for the period 2018. In both illustrations Personal Emoluments takes up the largest share of the pie. The size of the wage bill continues to be an area of concern, one which the Administration has attempted to address by prioritizing hiring and putting into practice a performance management appraisal system to guide heads of departments in regards to staff salary increases.





It is commendable that capital expenditure (2018-$50.81 million) came in below the level reached in 2017 ($63.52 million) which is in keeping with the Administration's current policy. The actual capital expenditure was 21.48 percent less than what was budgeted. In 2017 the capital expenditure was $63.52 million which was also below budget ($79.01 million) by 19.60 percent.

One of the challenges faced by SIDS is the scarcity of resources therefore, care must be taken to ensure that these resources are allocated efficiently and effectively. Projects must be prioritized, designed and implemented in a sound manner. The tables below provide a picture of the Administration's public sector investment programs.

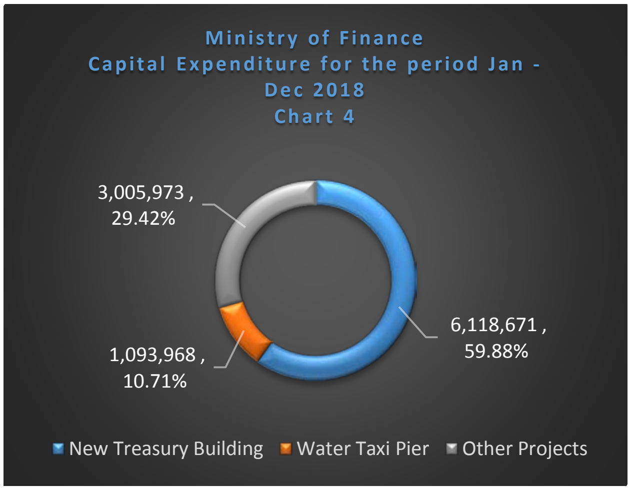
Table 5 Capital Expenditure

Ministry	Expenditure $	Percentage of Total
Premier's Ministry	4,535,702	8.93%
Ministry of Finance	10,218,612	20.11%
Ministry of Com.	21,967,812	43.23%
Ministry of Agriculture	1,543,891	3.04%
Ministry of Health	4,732,514	9.31%
Ministry of Tourism	1,079,407	2.13%
Ministry of Education	1,904,993	3.75%
Ministry of Soc. Dev.	4,829,391	9.50%
Total	50,812,322	100.00%

Table 5B Capital Expenditure Budget

Ministry	Expenditure Budgets $	Percentage used
Premier's Ministry	4,970,000	91.26%
Ministry of Finance	9,000,000	113.54%
Ministry of Com.	21,585,000	101.77%
Ministry of Agriculture	2,496,700	61.84%
Ministry of Health	10,460,000	45.24%
Ministry of Tourism	3,130,000	34.49%
Ministry of Education	4,071,000	46.79%
Ministry of Soc. Dev.	9,000,000	43.66%
Total	64,712,700	78.52%

The bulk of the activities for the period occurred in relation to projects under the Ministry of Finance and the Ministry of Communication et.al. The Ministry of Finance has two major projects under way which include, the Reconstruction of the Treasury Building and the construction of the Water Taxi Pier. Both projects are capital intensive and should be completed during this fiscal cycle. The Ministry of Communication et al also has some very large capital intensive projects which include the Water Development and Water Drilling projects as well as Major and Secondary Road Renovation projects.



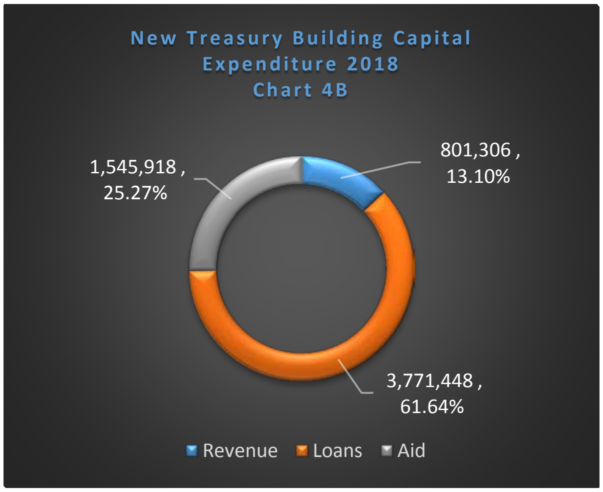
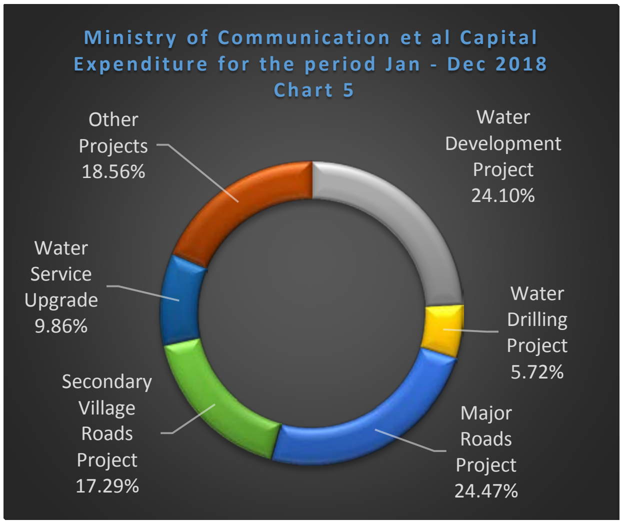
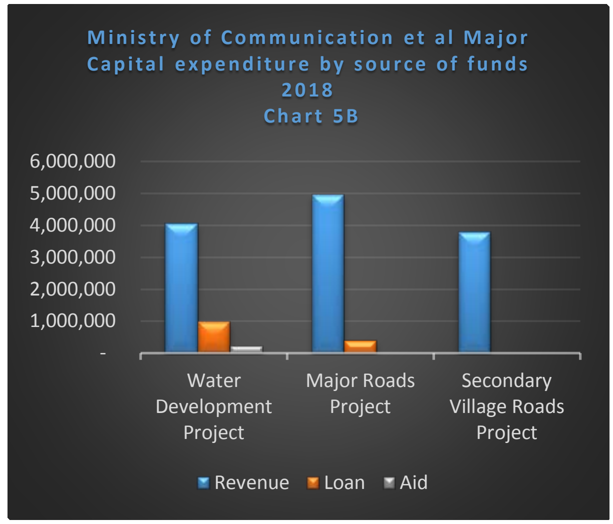


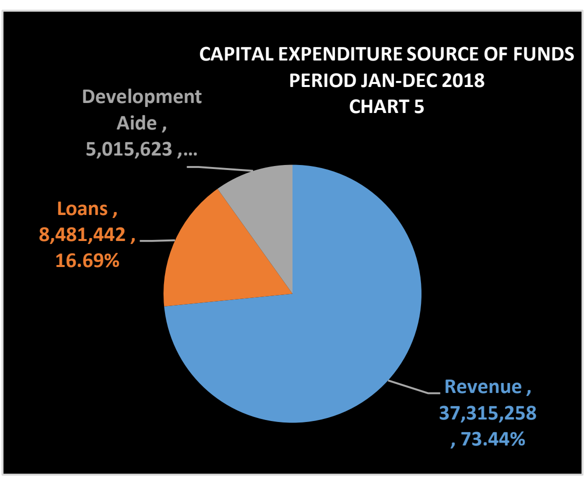
Chart 4 above indicates that for 2018 both projects combined consumed 80.14 percent of the resources allotted to the Ministry of Finance and of the $10. 22 million actually spent by the Ministry 71 percent of that amount was used for these two projects alone. Chart 4B shows the source of funds for this outlay for the New Treasury Building, with 61.64 percent of the funding coming from loans. In the case of the Water Taxi Pier all $1.09 million was provided by grant funds.

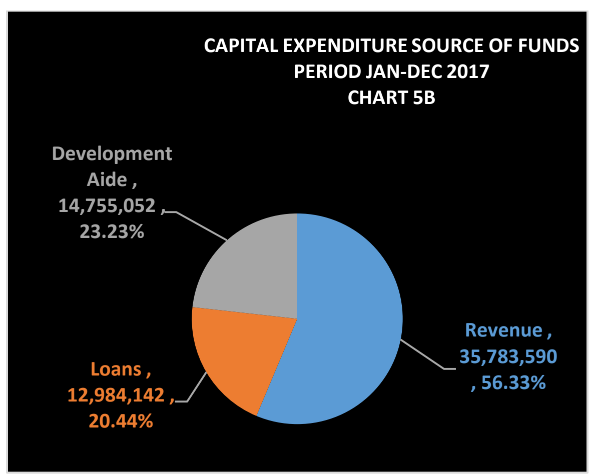




In the case of the Ministry of Communication et al, illustrated by Graphs 5 and 5B above, we see that when combined Major and Secondary Road Rehabilitation Projects and the Water Development Projects occupy the largest share of the pie to a combined portion of 65.86 percent. All three of these projects are primarily funded through the consolidated fund for the review period.

Overall, for the period 2018 the Administration's capital expenditure was primarily funded through the consolidated fund. Though in 2018 capital expenditure fell below that of 2017, a larger portion of revenue was used to cover the period's outlay. Some projects may be in the final stages, others may be faced with delays and associated loans and grants may have been fully dispersed, therefore requiring the Administration to rely current revenue to support its predominantly infrastructural public sector projects. As well as some projects such as the Secondary Roads Rehabilitation project was primarily budgeted to be funded through current revenue for 2018.

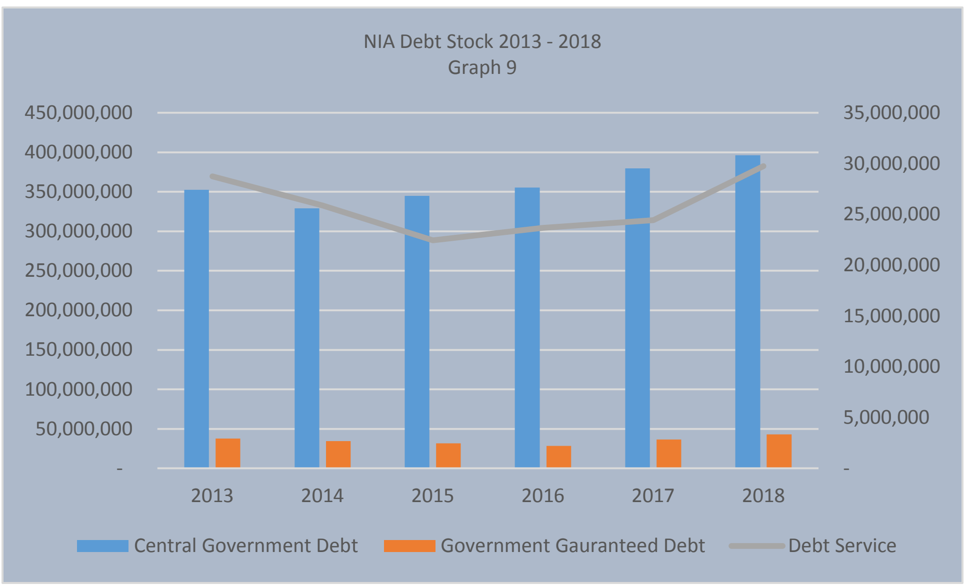




One of the many bottle necks for growth in SIDS is the accumulation of capital bot physical in the form of infrastructure and human. Amassing the resources to put such things in place can be very difficult and often requires a tradeoff. Government is most beneficial when it is balanced (associated macroeconomic risks should be carefully measured) and purposeful. Spending should be targeted and should result in measurable outcomes. In regards to public sector investment projects specifically, options such as public private partnerships (PPP) as well as privatization could be considered as a means to provide some fiscal space and enhancing private sector activities.

Debt Management

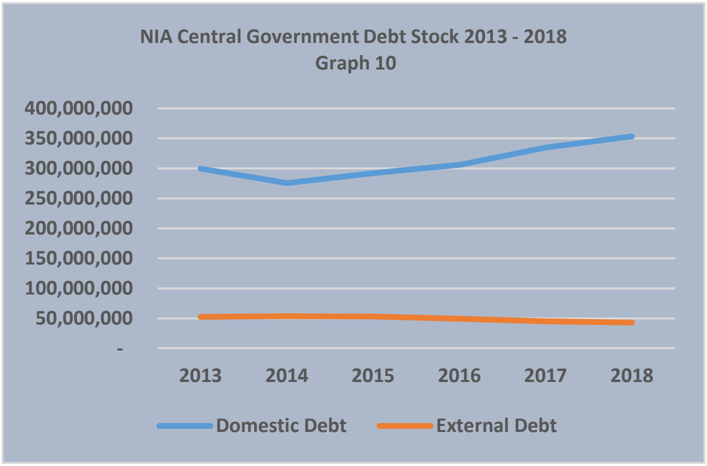
During the fiscal year 2018, the Administration was able to finalize a restructured loan agreement with the St. Kitts-Nevis- Anguilla National Bank. This agreement resulted in the consolidation of several debt instruments into one long term loan instrument in the amount of EC$142 million. These funds were used to retire the principal balances on the old debt instruments. $100,011,439.39 was used to clear the balance on the Overdraft account. For the review period the Public Sector Debt rose by 5.44 percent ($416.53 million Dec 2017, $439.18 million Dec 2018).

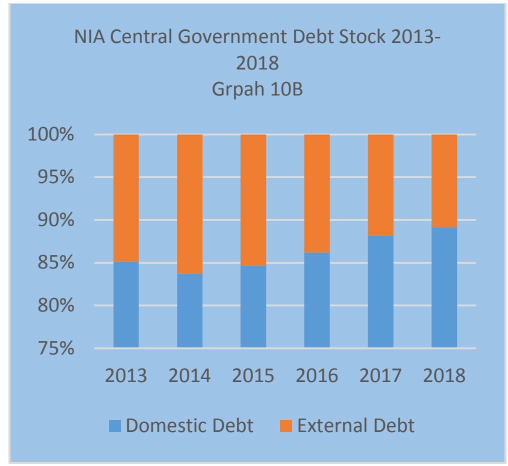


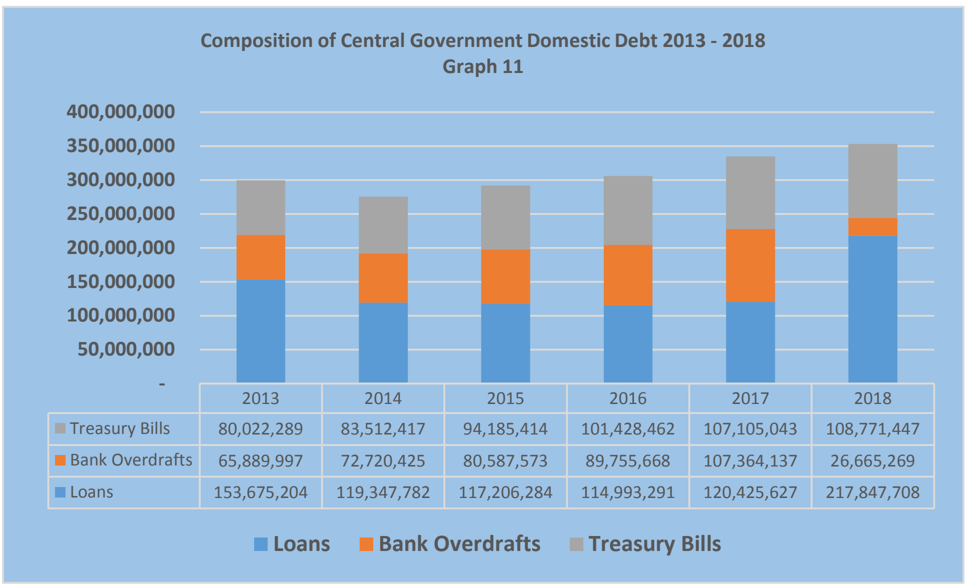
Graph 9 shows that Central Government debt continues to increase year on year, with the driving force being rising domestic short term debt.

On average Central Government debt has been increasing by 2.09 percent over the last 5 years. In 2018 ($396.24 million) Central Government debt grew by 4.33 percent over its 2017 level ($379.78 million). The domestic portion of the debt on average over the five year period grew at rate of 3.53 percent. For the comparative period 2018/2017 this domestic debt increased by 5.4 percent which was a decline from the previous period 2017/2016 where the debt had increased by 9.38 percent. Graphs 10 and 10B shows that Central Government external debt has remained relatively stable (in some cases declining over the period) averaging around 10 to 15 percent of total Central Government Debt.

Graph 11 highlights the changes in the domestic debt stock over the last six years and it is evident that with the exception of the year 2018 the Administration’s stock of Treasury Bills and Bank Overdrafts grew at a faster rate than Loans.







	2013	2014	2015	2016	2017	2018
Treasury Bills	80,022,289	83,512,417	94,185,414	101,428,462	107,105,043	108,771,447
Bank Overdrafts	65,889,997	72,720,425	80,587,573	89,755,668	107,364,137	26,665,269
Loans	153,675,204	119,347,782	117,206,284	114,993,291	120,425,627	217,847,708

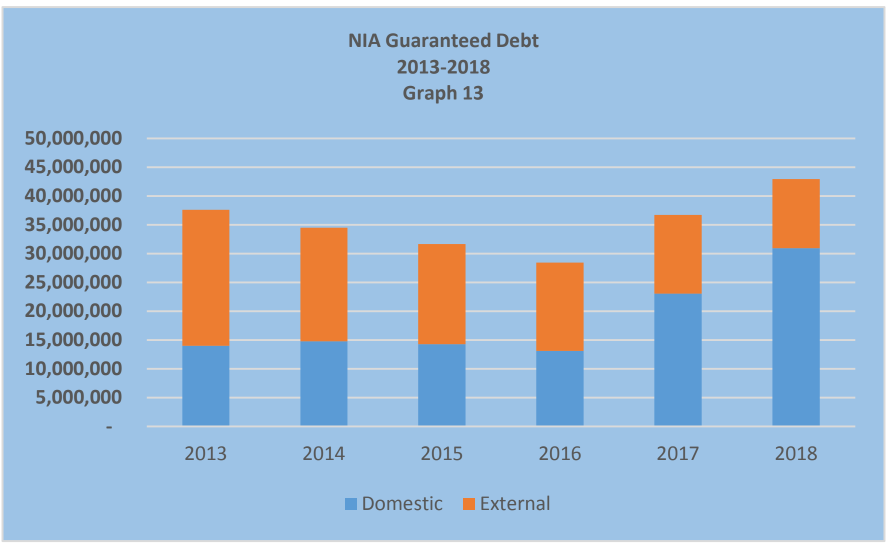
However, in 2018 the Administration was able to reduce some of its short term domestic debt through the restructuring agreement with the St. Kitts-Nevis Anguilla National Bank Ltd, which allowed it convert a number of loan accounts and a its very large overdraft account into a single new loan instrument at a concessional rate. The discount rate for the Administration's over the counter Treasury Bills over the years ranged from 4.50 percent to 7.00 percent.

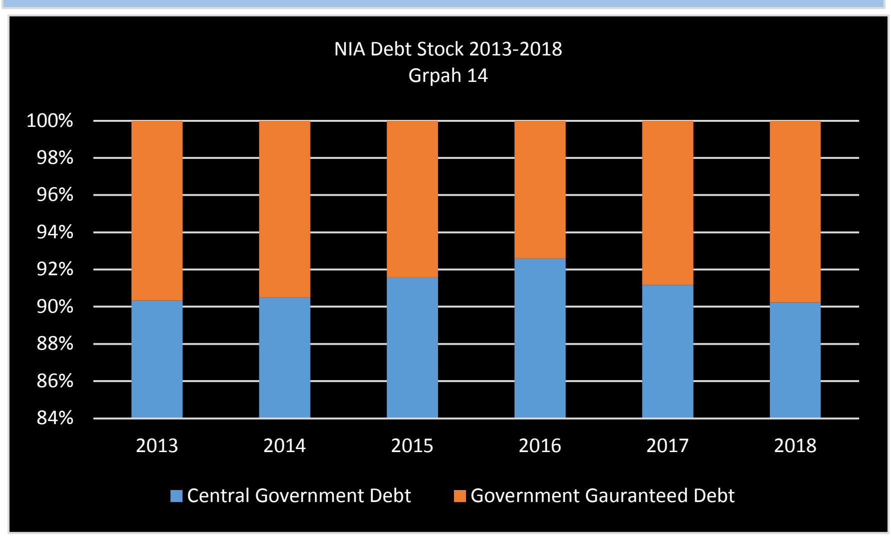
In 2017 the Administration advised its 365 Day T/Bill investors of its intention to reduce the rate to 5.50 and 4.50 percent. A similar rate change has been considered for the over the counter 91 Day T/Bill holders where the rate currently ranges from 6.50 percent to 7 percent.

The Administration does not currently issue any Treasury Bills on the Regional Government Securities Exchange. The high cost of servicing short term debt can be burdensome. Similar to a run on the bank, any unsavory news about the Administration could result in these investors calling in their debt. Short term debt is often contracted as means to support a current account deficit but should be managed in such a way as to reduce risk of default and add further strains on monthly cash flows.

The utilization of tools such as Debt Sustainability Analyses and Medium Term Debt Strategies that are updated and reviewed periodically as new information becomes available is one way to reduce this type of risk when contracting new debt. It also helps to ensure that the best returns are achieved from the leveraging of the country's resources.

The Administration has several State Owned Enterprises (SOEs) and the debt contracted by these entities along with the Central Government Debt constitutes the total Public Sector Debt. The stock of Guaranteed Debt as illustrated in Graph 9 above has remained relatively stable when compared to the movements in value of the Domestic portion of the debt and there has also been a few periods where the stock has been in decline over the last 6 years. However, between 2016 and 2018 this stock of debt has increased from $28.45 million to $42.93 million. Graph 13 below indicates that over the last three years there has been uptick in the contraction of domestic debt by the SOEs, with the bulk of debt being held by the Nevis Housing and Land Development Corporation to the tune of $29.43 million (see appendix 3). This debt has been primarily contracted to fund the institution's housing programs.





The debt stock grew by 50.90 percent over the period 2016-2018, with 16.82 percent of that growth occurring for the period 2018/2017. All though the stock of Guaranteed Debt only contributes 8 to 10 percent in value to total public sector debt as illustrated by Graph 14, this presents an additional area of risk for the Central Government. This type of debt is a contingent liability for the Administration and as such should be factored into its debt management strategy especially bearing in mind the recent significant increases in this stock. Appropriate oversight should be exercised over the SOEs not only in regards to operational matters but also the financial health and wellbeing of these institutions. This will help to ensure their viability and further the Administration's goal of maintaining a macro-economically stable country.

Nevis Tourism Authority

The largest productive sector on the island is the Tourism Sector. Economic activity in this sector contributes significantly to Government revenue. The Nevis Tourism Authority (NTA) is Statutory Authority that is tasked with not only the promoting of the island of Nevis as a tourist destination but to help maintain the viability of the sector by engaging in activities that will lead to further development and growth in the sector.

The NTA's main source of revenue comes from the Tourism Levy receipts. This is a 2 percent tax that is levied on hotels and restaurants that operate on the island. For the fiscal year 2018, the NTA expected to collect Tourism Levy receipts to the tune of $3.00 million. This was in part based on the projections received from the hotels on the island in regards to their anticipated levels of business for the entire year. However, the outturn for the period fell short of this expectation by $0.36 million. Actual receipts collected for the period totaled only $2.64 million.

For the period June to December 2018, $0.86 million was collected in revenue. This represents 32.58 percent of the total receipts for the year and the remaining 67.42 percent was collected between January to May. This highlights the cyclical nature of this sector. The majority of the revenue was collected during what is termed the peak tourist season, when the major target tourist markets are experiencing their winter seasons. Bearing in mind the economic characteristics of the sector and the challenges normally faced by SIDs that rely heavily on their Tourism Sectors, the NTA's strategy for 2019 has been optimized with this anticipated seasonal revenue pattern in mind.

The largest hotel on the island has advised that it will be temporarily shuttering its doors for renovations for the period July to September 2019, and as such the NTA has factored this into its outlook for 2019. The table below provides some insights into the possible impact of this closure of the NTA's revenue flows.

Table 6: Contributions of largest Hotel to NTA Revenue June to September 2016-2018

Year	Actual Rev from Hotel Jun-Sept	Total Actual NTA Rev Jun-Sept	% of Total NTA Rev Jun-Sept
2016	$364,148.88	$561,358.52	64.87 %
2017	$508,288.52	$686,961.63	73.99 %
2018	$326,523.06	$560,299.70	58.28 %

Source: Nevis Tourism Authority

Table 6 above highlights how significant this hotel's business is to the Authority's bottom line and the fragile nature of the NTA's revenue flows. The Authority has estimated that it will lose $399,653 in revenue during the period of the hotel's closure in 2019, which represents 66.29 percent of the receipts it expects to collect between June to September 2019.

During the review period the NTA was able to accomplish a number of goals which includes;

1. The airlift agreement with Sun Country Airlines out of Minneapolis
2. The successful hosting of the largest on record Nevis Travel Symposium of Romance
3. The successful hosting of the 6th NTA Marketing Retreat

The NTA believes that Nevis must have more direct involvement in international airlift into the Robert Llewelyn Bradshaw International airport in order for Nevis' Tourism Sector to be more successful. Therefore, a key aspect of the 2019 strategy involves the building of relationships with international airlines that can provide direct air service from international locations (especially targeted markets) to both the Robert Llewellyn Bradshaw and the Vance W. Amory airports on St. Kitts and Nevis.

The NTA will continue to strive to make Nevis an year round tourist destination. It is NTA's belief that this will be realized if they are able to ensure that the Federation's air service is characterized by routes and fares from source markets that facilitate well timed visitor arrivals that are sufficient to eliminate the challenging characteristic of seasonality of the sector. However, this will require ongoing collaboration between the tourism authorities on both St. Kitts and Nevis.

Employment Notes

One of the priorities of the Government is to encourage sustainable economic growth. One clear indicator of an economy that is expanding is an increase in the number of jobs being created and also an increase in the number of employed persons each year. The movement in these numbers can be used to predict future financial and economic conditions on the island.

It must be noted that for the purposes of this report, the employment review for the island is based on the data collected by the Statistics Department of the St. Christopher and Nevis Social Security Board. This data covers primarily the formal sector and to some extent it also includes data in relation to self-employed individuals who have registered with the Agency.

Table 7: Employee Registration by Age Group

Age Group	Registrants	Registrants	Variance	% change
	2018	2017	2018/2017	2018/2017
Under 16	5	7	-2	-28.57
16-19	208	156	52	33.33
20-24	76	55	21	38.18
25-29	49	40	9	22.50
30-34	48	34	14	41.18
35-39	26	26	0	0
40-44	29	24	5	20.83
45-49	9	16	-7	-43.75
50-54	18	3	15	500.00
55-59	3	5	-2	-40.00
60-62	2	1	1	100.00
63+	2	0	2	0
Total	**475**	**367**	**108**	**29.43**

The data for the review period indicates that there were 475 new individual registrants, that is, these individuals represent new entrants into the labour force for the period January – December 2018. This for a small island with an equally small population of around 12,277 (2011 census data) is significant. Among these registrants were 246 (51.79 percent) females and 229 (48.21 percent) males. The monthly data during the review period also revealed that registration figures averaged 36.5 registrants per month. Table 7 indicates that there were 108 more new entrants to the labour that in 2017. A look at the Age distribution of the registrants revealed that 333 (70.11 percent) fell in the 16-29 age range, 135 (28.42 percent) fell in the 30-62 age range, 5 (1.05 percent) fell in the Under 16 age group while 2 (0.42 percent) registrants fell in the Over 62 age category. The 2011 population census highlighted that the working age portion of the population (people aged 16-64) was 69.33 percent (8,512 persons), which bodes well for the island.

Table 7B below highlights the sectors of the economy where these new entrants were absorbed.

Table 7B: Employee Registration by Sector

	Registrants	Registrants	Variance	% change
Sectors	**2018**	**2017**	**2018/2017**	**2018/2017**
Agriculture, Fishing, Livestock	17	13	4	30.77
Fishing	1	2	-1	-50.00
Mining & Quarrying	1	0	1	0
Manufacturing	13	14	-1	-7.14
Electricity, Gas & Water Supply	6	5	1	20.00
Construction	79	39	40	102.56
Wholesale & Retail Trade	89	74	15	20.27
Hotels & Restaurants	78	67	11	16.42
Transport, Storage & Communication	12	27	-15	-55.56
Financial Intermediation	18	6	12	200.00
Real Estate, Renting & Business Activities	24	16	8	50.00
Public Administration & Defence	103	74	29	39.19
Education	10	7	3	42.86
Health and Social Work	4	4	0	0
Other Community, Social & Personal Services	16	12	4	33.33
Private Households with Employed Persons	4	6	-2	-33.33
Extra-Territorial Organizations & Bodies	0	0	0	0
No Employer Assigned	0	1	-1	-100.00
Total	**475**	**367**	**108**	**29.43**

The data indicates that the largest portion of the registrants were employed in The Public Administration & Defence Sector which saw 103 persons (21.68 percent) followed by the Wholesale & Retail Trade sector which employed 89 persons (18.74 percent).

There were 67 New Self - Employed registrants for 2018. This represents an increase of 10 (17.54 percent) persons over the 57 persons that registered in 2017. Of the 67 new registrants 28 (41.79 percent) were female and 39 (58.21 percent) were male. The ages of these registrants are as follows:

- 11 (16.42 percent) of the registrants are aged 16-29
- 38 (56.72 percent) of the registrants are aged 30-49
- 18 (26.87 percent) of the registrants are aged 50-61

- 18 (26.87 percent) of the registrants are employed in the Wholesale and Retail Trade Sector
- 9 (13.43 percent) of the registrants are employed in the Manufacturing Sector
- 8 (11.94 percent) of the registrants are employed in the Real Estate, Renting & Business Activities Sector

The average number of employed persons on Nevis for the period Jan-Dec 2018 was 5,564 persons. This represents a decline of 27 persons or 0.48 percent when compared to 2017 where the average number of employed persons stood at 5,591.

On average 6.70 percent (373) of employees had multiple jobs in a given month on Nevis in 2018, which shows an increase of 3.61 percent (13) over the 2017 average of 360 employees.

The number of new entrants into the labour force went up by 29.43 percent and 17.54 percent for both salaried and self-employed respectively, however on average the total number of persons employed fell by 0.48 percent when compared to the year 2017.

Table 8: Comparison of Average Number of Jobs by Entity

Entity	Jobs	Jobs	Variance	% Change
	2018	2017	2018/2017	2018/2017
STEP	0	0	0	0
Statutory	236	251	-15	-5.98
Local	1,829	1,829	0	0
Other	3,884	3,885	-1	-0.03
Total	**5,949**	**5,965**	**-16**	**-0.27**

Table 8 indicates that the average number of jobs on Nevis for the period Jan-Dec 2018 was 5,949. This represents a decline of 16 jobs when compared to 2017 where the average number of jobs stood at 5,965. Of the 5,949 jobs, 3266 are held by females and 2683 are held by males. 15 Jobs were lost from the Statutory Category – 5 jobs held by females and 10 held by males. Overall, on the supply side of the labour market we see 542 new entrants, on the demand side we see a decline as average number of persons employed and the average number of jobs on the island both fell when compared to 2017 results.

Table 9: Average Earned Goss Wages by Entity

Entity	Jobs	Average gross wage bill (in millions EC$)	Average gross wage bill (in millions EC$)	% Change in wage bill
	2018	2018	2017	2018/2017
STEP	0	0	0	0
Statutory	236	0.76	0.77	-1.30
Local	1,829	5.80	5.78	0.35
Other	3,884	12.48	11.99	4.09
Total	**5,949**	**19.04**	**18.54**	**2.70**

Table 9 shows that Average Gross Monthly Wages increased from $18.54 million in 2017 to $19.04 million in 2018. This represents a 2.70 percent or $0.50 million increase for the period under review. Average gross monthly wages per employee stood at $3,423 per month which represents an increase of $108 or 3.26 percent when compared to wages in 2017 ($3,315). The average gross monthly wages per job was $3,200 per month, which represents an increase of $93.16 or 3 percent when compared to 2017. There was a decline of 1.30 percent in the average gross monthly wages by entity for the Statutory jobs category due in part to the loss of jobs in this category. All other categories experienced a rise in average gross wage bill. Of the $19.04 million in averages gross monthly wages, $9.75 million was paid to females and $9.29 million was paid to males.

Table 10: Average Weekly Earnings per Employee

Wage Tiers	Number of Employees	Number of Employees	Variance	% Change
	2018	2017	2018/2017	2018/2017
$0 - $360.00	812	702	110	15.67
$360.01 - $500.00	1,163	1,159	4	0.35
$500.01 - $700.00	1,183	1,236	-52	-4.21
$700.01 - $900.00	737	901	-166	-18.42
$900.01 - $1,100.00	561	575	-13	-2.26
$1,100.01 - $1,300.00	407	385	22	5.71
$1,300.01 - $1,500.00	255	240	15	6.25
$1,500.01 and Over	446	393	53	13.49
Total	**5,564**	**5,591**	**-27**	**-0.48**

Table 10 adjoining indicates that 812 persons earned within the minimum wage tier. This represents 14.59 percent of the total number of persons employed for the review period. 446 persons earned within the $1,500.01 and over tier, which represents 8.02 percent of the total number of persons employed. Table 10 also indicates that the number of persons employed in both the minimum wage ($0-$360) and $1,500.01 and over categories increased significantly when compared to 2017.

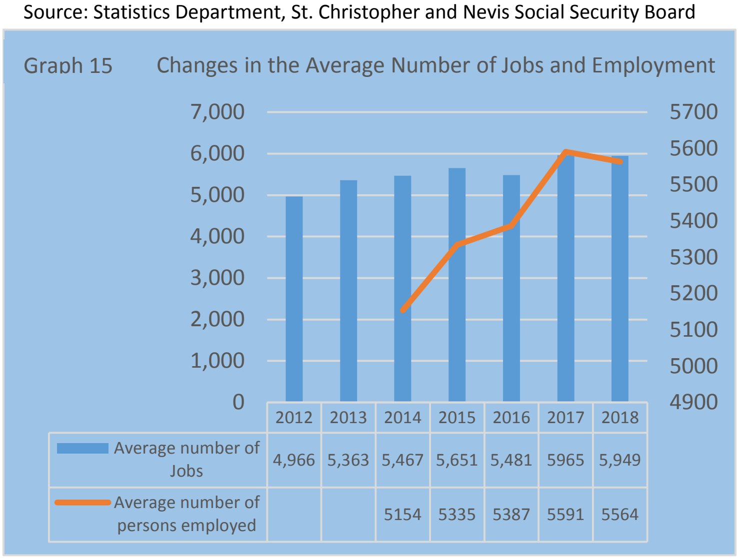
Table 10B below shows that of the 5,949 jobs on Nevis, 1,018 of these fall within the minimum wage tier which represents 17.11 percent of the total average number of jobs on Nevis. Also, 21.89 percent of the average number of jobs on Nevis fall within the second wage tier of $360.01-$500.00, while 7.26 percent of the jobs fall within the $1,500.01 and over tier. 59.54 percent of all the jobs (or 3,542 jobs) fall within the first three wage tiers.

For the period under review Nevis recorded 547.30 active employers on average each month. This number has remained constant over the period 2017 to 2018. The majority of these active employers are categorized as "Other", that is, Private Sector jobs. Of the 547.30 active employers, (5) are Statutory Bodies, (2) are categorized as Local Government and the remaining (540.30) are in the Other category (Private Sector).

Table 10B: Average Weekly Earnings by Job

Wage Tiers	Jobs 2018	Jobs 2017	Variance 2018/2017	% Change 2018/2017
$0 - $360.00	1,018	1,003	15	1.50
$360.01 - $500.00	1,302	1,277	25	1.96
$500.01 - $700.00	1,222	1,290	-68	-5.27
$700.01 - $900.00	863	901	-38	-4.22
$900.01 - $1,100.00	522	550	-28	-5.09
$1,100.01 - $1,300.00	353	357	-4	-1.12
$1,300.01 - $1,500.00	237	220	17	7.73
$1,500.01 and Over	432	367	65	17.71
Total	**5,949**	**5,965**	**-16**	-0.27

Source: Statistics Department, St. Christopher and Nevis Social Security Board



Graph 15 illustrates the average number of jobs and employed persons over the past seven and four years respectively. It shows a 19.79 percent increase in the average number of jobs over the period. However, the majority of that upward movement in the numbers took place prior to 2016, with only 8.54 percent of growth taking place from 2016 to 2018. For the four year period 2014-2018, the average number of employed persons peaked at 5,591 in 2017, then in 2018 these numbers began to decline.

In summary, the 2018 employment conditions have marginally deteriorated when compared to 2017. Although we saw an increase in the number of new registrants, the overall number of employed persons fell. The number of active employers on the island has remained stagnant. This number can be used as an indicator for growth and expansion in the private sector and as such it indicates that the private sector is not growing as hoped. This may be due to the existence of a difficult business environment, high costs of doing business as well as low demand for domestic goods and services. A thriving private sector and a healthy investment climate can drive job growth and creation. On the upside, employees were better off in 2018 than they were in 2017 due to the increase in average weekly gross wages. Overall, in 2018 the labour market exhibits some degree of slackness and the market lacks robustness.

International Financial Services

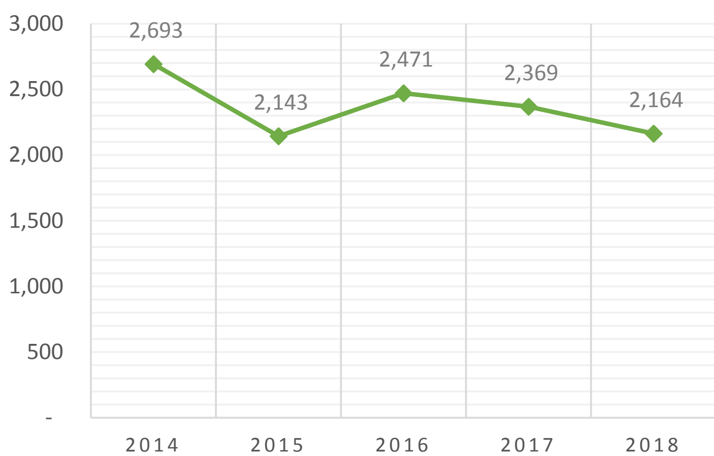
During 2018, there was a total of two thousand one hundred and sixty-four (2,164) new incorporations. Table 11 outlines the differences between incorporations for the years 2018 and 2017.

Table 11: 2018 and 2017 Incorporations

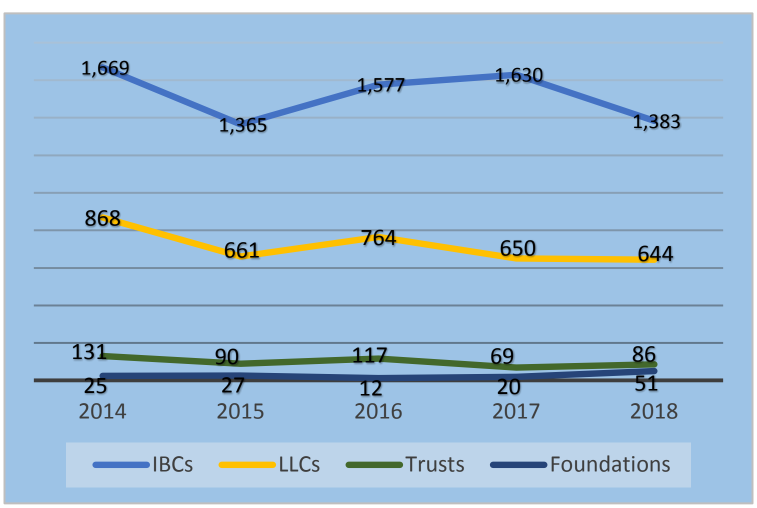
Product Type	*2018*	*2017*	*% Change*
IBCs	1383	1630	↓15.15%
LLCs	644	650	↓ 0.92%
Trusts	86	69	↑24.64%
Foundations	51	20	↑155.00%
Total	**2164**	**2369**	**↓ 8.65%**

Overall, there has been 8.65 percent decline in total incorporations for 2018 when compared to incorporations in 2017. During 2018, incorporations increased for Trusts and Multiform Foundations while the other product types decreased.

Graph 16: Five Year Trend Analysis



Incorporations/ registrations over the past five years, has continuously fluctuated. Graph 16 shows that over a five year period, the largest change occurred between 2014 and 2015 where incorporations/ registrations fell by 20.42 percent. The other periods experienced a mixture of positive and negative changes in incorporations/ registrations. This year's reported total incorporations is the second lowest recorded over the five-year period.



Graph 17: Comparison of Product

Throughout the five year period, all of the product types fluctuated. There were no similarities noted between the changes for the product types. The largest increase for IBCs, LLCs and Trusts occurred between 2015 and 2016. The largest increase for Multiform Foundations occurred between 2017 and 2018.

When an entity fails to pay its annual fees, the system automatically strikes that entity from the digital register after a two year period of unpaid fees. For 2018, one thousand nine hundred and forty-seven (1,947) entities have been struck from the register. This total is comprised of one thousand one hundred and eighty-five (1,185) IBCs, six hundred and fifty-four (654) LLCs, eighty-eight (88) Trusts, nineteen (19) Multiform Foundations, and one (1) Insurance Broker. In Comparison to 2017, two thousand five hundred and thirty-seven (2,537) entities had been struck off the register. Therefore, the total number of struck entities has decreased by 23.26 percent.

A struck entity has a three year period in which to be reinstated. All necessary fees must be paid to the Department, and all necessary filing requirements met before the entity can be reinstated. A certificate of Reinstatement will be issued once requirements are met. As at the 31 December, 2018 240 entities were reinstated.

The total number of active entities takes into account the entities that have been newly incorporated/ registered, dissolved or were struck off of the register, and entities that have been reinstated. As at 08 January, 2019 there were 16,222 active entities on the register, comprised of:

- IBCs – 11,128
- LLCs – 4,289
- Trusts – 672
- Multiform Foundations – 118
- Insurance Managers – 14
- International Bank – 1

In regards to entity dissolutions in 2018, there has been a 2 percent increase in entities dissolved over that of 2017.

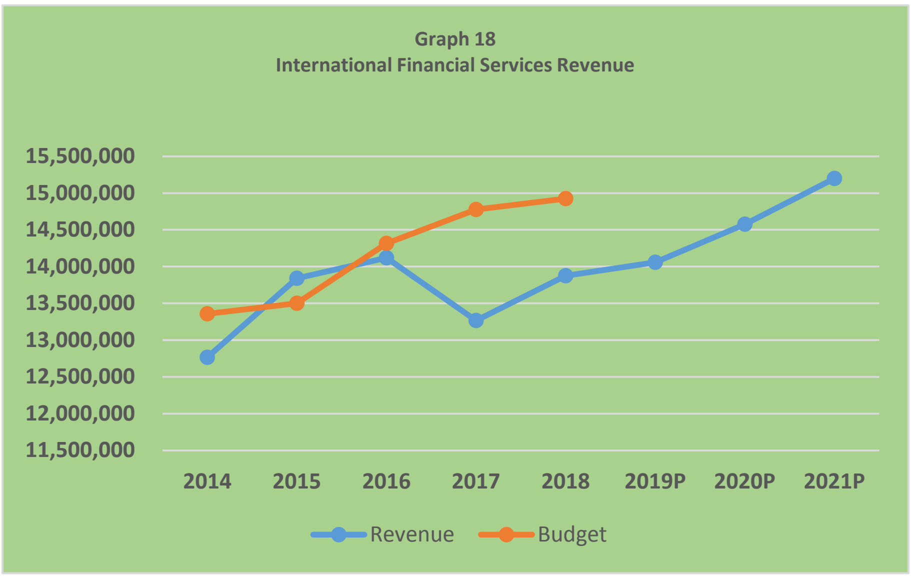
Total revenue generated by the Department for the year was $13.87 million (as recorded in Economic Classification Format by the Treasury) which represents an increase of 4.6 percent over the revenue generated in 2017 ($13.26 million). The top three revenue generators were Annual Renewals, Registration and Late Renewal Penalties. The largest increase in revenue was experienced by Due Diligence Fees which increased by 234 percent over the 2017 receipts and the largest decrease was experienced by Multiform Foundations which declined by 57 percent when compared to 2017.

Graph 18 below depicts the five year movement in the Department's revenue and the 2019-2021 projections. Post the 2017 significant drop in revenue we see that revenue has begun to marginally rise in 2018. The Department has projected that this upward movement in revenue will continue for the period 2019-2021.

There are many bottlenecks to growth in this Sector that have to be circumspectly addressed and in manner that yields measurable outcomes. Some of these concerns include but are not limited to:

- The enormous legal and financial burden being placed on the island's Financial Services Sector by organizations such as the Organization for Economic Cooperation and Development (OECD):

Global Forum and the European Union Council. These organizations hold countries hostage by unilaterally forcing them to enact financial Services legislation and regulations that would limit the growth of this sector under the guise of safe guarding their own tax base. They threaten sanctions and impede the growth of our fragile financial markets by removing corresponding banking relationships. Thus, making it more difficult for SIDs such as Nevis to develop a resilient and robust economy.



- This Sector lacks scale and depth. The number of participants, the quantity and the level of substantive services that are offered would need to increase and improve.

- There is not enough qualified professionals available currently in the sector or to support future expansions and growth.

- The Sector lacks innovation and presence. There is a significant amount of competition globally and if the Sector is to grow it will have to be innovative in its product and service offerings and ensure that its marketing strategy is coherent and productive.

The International Financial Services Sector on average contributes 10 percent to recurrent revenue. This Sector has the potential to contribute greatly to economic growth on the island, through job creation, by contributing to an increase in Government revenue, as an aid in the development of a resilient and diversified economy, and as a pathway through which the lives of citizens can continue to improve.

Appendix I

NEVIS ISLAND ADMINISTRATION FOR JANUARY - DECEMBER 2018/2017 in economic classification format			
	2018	2018	2017
Categories	Annual Budget	Annual	Annual
	Budget	Actual	Actual
	$	$	$
Current Revenue and Grants	**179,409,100**	**191,703,395**	**188,863,322**
Current Revenue	**137,922,400**	**138,440,813**	**129,064,593**
Tax Revenue	**102,676,000**	**102,817,196**	**96,698,367**
Taxes on Income & Profits	**17,100,000**	**17,608,922**	**17,679,211**
Corporate Income Tax	6,200,000	6,199,266	7,635,710
Withholding Tax	400,000	920,521	409,710
Social Services Levy	10,500,000	10,489,135	9,633,791
Taxes on Property	**3,500,000**	**3,852,772**	**3,219,059**
Property Tax	3,500,000	3,852,772	3,219,059
Taxes on Domestic Goods & Services	**37,352,000**	**35,557,321**	**32,318,634**
Wheel Tax	2,600,000	2,736,536	2,652,126
Consumption Tax (Inland Rev.)	-	-	6,779
Stamp Duties	11,600,000	10,563,717	8,152,391
Coastal Environmental Levy	350,000	184,090	224,180
Insurance Levy/Fees	465,000	484,789	485,491
Un Incorporated Business Tax	1,800,000	2,095,643	1,996,415
Unclassified	500,000	-	-
VAT	18,000,000	16,926,295	17,053,884
Licenses : Gaming Levy	500,000	752,199.28	-
Licenses	1,537,000	1,814,050	1,747,370
of w hich: Banks Licence	120,000	-	104,000
Business & Occupation Licence	600,000	739,030	683,820
Drivers Licence	730,000	862,946	822,319
Taxes on International Trade	**44,724,000**	**45,798,182**	**43,481,462**
Import Duties	11,940,000	11,756,055	11,743,681
Excise and Export Duty	4,800,000	6,644,679	5,383,818
Environmental Levy	2,056,000	1,853,164	2,388,845
Consumption Tax	100,000	326,167	49,705
Travel Tax	350,000	123,763	219,177
Customs Service Charge	8,500,000	8,985,852	8,137,624
VAT	16,750,000	16,108,503	15,558,612
Other	228,000	-	-
Non-Tax Revenue	**35,246,400**	**35,623,617**	**32,366,227**
Rent of Government Property	424,500	387,294	313,029
Fees, Fines & Sales	255,000	180,782	122,762
Post Office	728,500	521,149	569,343
Passport, Permits, etc.	1,665,000	1,383,536	1,599,623
Hospital	875,000	910,775	853,578
Financial Services	14,923,500	13,873,875	13,263,902
Supply Office	7,500,000	7,010,864	6,937,578
Water Service	6,347,500	5,680,162	4,747,462
Agricultural Sector	579,500	401,250.54	357,548.05
Other Non-Tax Revenue	1,947,900	4,573,055	3,601,403
Interest and Dividends	-	700,875	-
Source: Ministry of Finance Feb 2019			

NEVIS ISLAND ADMINISTRATION			
FOR JANUARY - DECEMBER 2018/ 2017			
in economic classification format			
EC$	2018	2018	2017
Categories	Annual	Annual	Annual
	Budget	Actual	Actual
	$	$	$
Current Expenditure	**149,779,850**	**147,534,279**	**141,469,337**
Personal Emoluments	**81,129,800**	**78,500,802**	**78,547,160**
Salaries	54,332,900	52,241,110	51,627,762
Wages	25,544,600	25,097,581	25,651,409
Allow ances	1,252,300	1,162,110	1,267,989
Goods and Services	**37,147,750**	**35,103,020**	**31,386,486**
Interest Payments	**17,775,800**	**17,180,317**	**16,682,983**
Domestic	16,461,500	14,433,100	15,709,852
Foreign	1,314,300	2,747,217	973,131
Principal Repayment	**12,831,700**	**12,574,261**	**7,747,568**
Domestic	7,805,150	4,642,744	2,540,912
Foreign	5,026,550	7,931,517	5,206,656
Transfers & Subsidies	**13,726,500**	**16,750,140**	**14,852,707**
Pensions and Gratuities	8,500,000	11,093,751	9,782,331
Regional and Int'l Contributions	3,518,000	4,069,018	3,754,363
Public Assistance	1,708,500	1,587,371	1,316,013
Current Account Balance	**(11,857,450)**	**(9,093,466)**	**(12,404,743)**
Grants	**41,486,700**	**53,262,582**	**59,798,729**
Budgetary Grants	30,000,000	37,110,077	30,813,404
Capital Grants	11,486,700	16,152,505	28,985,325
Capital Expenditure	**64,712,700**	**50,812,322**	**63,522,786**
Fixed Investment	64,712,700	50,812,322	63,522,786
Below the line expenditure	-	-	-
Unrecorded Expenditure	-	-	
Net Lending	-	-	-
Overall Balance	**(35,083,450)**	**(6,643,207)**	**(16,128,800)**
Primary Balance	**(17,307,650)**	**10,537,110**	**554,183**
Source: Ministry of Finance Feb 2019			

Appendix II

AVERAGE MONTHLY EMPLOYMENT: January-December [2018]

12	Females			Males				Totals		
	No. of Jobs	Weeks Worked	Total Wages	No. of Jobs	Weeks Worked	Total Wages	No. of Employers	No. of Jobs	Weeks Worked	Total Wages
NEV										
Agriculture, Hunting & Forestry	25	107	69,593	97	416	316,603	23	123	524	386,196
Fishing	0	0	0	2	6	1,294	2	2	6	1,294
Mining & Quarrying	1	4	3,400	1	4	1,650	1	2	9	5,050
Manufacturing	38	159	68,761	50	205	133,092	26	88	363	201,853
Electricity, Gas & Water Supply	34	148	98,009	60	265	235,151	5	95	413	333,160
Construction	83	357	243,678	461	1,803	1,548,734	78	544	2,160	1,792,412
Wholesale & Retail Trade	387	1,652	863,406	288	1,232	865,036	70	675	2,884	1,728,442
Hotels & Restaurants	773	3,274	2,416,953	550	2,370	2,094,435	61	1,323	5,644	4,511,388
Transport, Storage & Communications	225	980	636,456	172	735	522,338	30	396	1,715	1,158,794
Financial Intermediation	165	718	762,232	42	183	289,816	27	206	901	1,052,048
Real Estate, Renting & Business Activities	159	681	419,760	117	500	353,565	80	276	1,181	773,325
Public Administration & Defence	1,119	4,859	3,488,396	690	2,911	2,264,162	1	1,809	7,770	5,752,558
Education	80	349	382,465	42	187	402,444	10	122	536	784,909
Health & Social Work	30	120	50,849	5	20	15,390	10	35	140	66,239
Other Community, Social & Personal Services	49	210	99,927	60	258	162,464	29	109	468	262,391
Private Household with Employed Persons	100	424	146,150	47	203	86,310	95	147	627	232,460
Extra-Territorial Organization & Bodies	0	0	0	0	0	0	0	0	0	0
NEV AVERAGE	3,266	14,042	9,750,037	2,683	11,297	9,292,483	547	5,949	25,339	19,042,520