NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION IN OR INTO THE UNITED STATES.

FEDERATION OF SAINT CHRISTOPHER (ST. KITTS) AND NEVIS
(THE "FEDERATION")

US$ AMORTISING BONDS FKG200432 (THE "NEW DISCOUNT BONDS")
PARTIALLY GUARANTEED BY THE CARIBBEAN DEVELOPMENT BANK (THE "GUARANTOR")

AND

EC$ AMORTISING BONDS KNG450457 (THE "NEW PAR BONDS")

DISCLOSURE MEMORANDUM

THIS DOCUMENT PROVIDES INFORMATION ON THE NEW BONDS ISSUED BY THE GOVERNMENT OF THE FEDERATION OF SAINT CHRISTOPHER (ST. KITTS) AND NEVIS THAT ARE TO BE LISTED ON THE EASTERN CARIBBEAN SECURITIES EXCHANGE. IT DOES NOT CONSTITUTE AN OFFER OF, OR AN INVITATION BY OR ON BEHALF OF, THE ISSUER OR ANY OF ITS AGENCIES IN ANY JURISDICTION. IT IS PROVIDED FOR INFORMATION ONLY.

PRESENTATION OF ECONOMIC, FINANCIAL AND STATISTICAL INFORMATION

Certain figures included in this Disclosure Memorandum have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Economic and financial data and statistical information provided in this Disclosure Memorandum may be subsequently revised in accordance with our ongoing review of such data and information, and the Issuer is not obligated to distribute such revised data and information to any creditor or other institution or individual. In addition, some economic and financial data and statistical information for the period 2011 – 2016 presented in this Disclosure Memorandum include estimates and forecasts based on available data and, accordingly, are subject to revision.

Unless otherwise indicated, estimates in this Disclosure Memorandum are estimates of the Ministry of Finance of the Federation of St. Kitts and Nevis, the Statistical Department of the Ministry of Sustainable Development of the Federation of St. Kitts and Nevis or the Eastern Caribbean Central Bank (the "**Monetary Authority**") and the International Monetary Fund ("**IMF**"). Unless otherwise indicated, references to years are to the relevant calendar years and references to fiscal years are to the fiscal year of the Federation, which begins on January 1 of each year and ends on December 31 of the same year.

The historical financial information presented herein as of, or for, the fiscal years ended 31 December 2011 and the nine-month period ended 30 September 2011, where available, is derived from unaudited financial statements which are prepared and presented on a cash basis.

In this Disclosure Memorandum, references to "**GDP**" are to gross domestic product; references to "**real GDP**" are to real gross domestic product at constant 2006 prices (which is GDP at 2006 market prices less net indirect taxes); and references to "**nominal GDP**" are to nominal gross domestic product (which is GDP at current market prices less net indirect taxes). References to "**GDP per capita**" are to nominal GDP divided by the mid-year population for the relevant year.

The GDP data and related information presented herein are estimates only and such data has been prepared based on the United Nations' System of National Accounts (1993 revision) (the "**United Nations' System of National Accounts**").

The current account balance data, overall balance of payments data and other related information presented herein are estimates only.

In this Disclosure Memorandum, references to the "**Federal Government**" are to the government of Saint Kitts, which, except for foreign affairs and national security does not have jurisdiction over Nevis' affairs..

Unless otherwise indicated, financial data and statistical information relating to us in this Disclosure Memorandum relate solely to the Federation of St. Kitts and Nevis and do not include data and information relating to statutory authorities and Federal Government companies of the Federation of St. Kitts and Nevis, except to the extent that the Federation guarantees the debts of, or subsidises, or makes transfers to, such authorities or companies. Public companies are either statutory authorities or state-owned enterprises established to carry out specific functions and some of these companies are at least partially Federal Government funded. These entities include, among others, the St. Christopher Air and Sea Ports Authority ("**SCASPA**"), the Urban Development Corporation ("**UDC**") and the Solid Waste Management Corporation ("**SWMC**").

Totals in certain tables in this Disclosure Memorandum may differ from the sum of the individual items in such tables due to rounding.

TERMS AND CONDITIONS OF NEW DISCOUNT BONDS

(A) The US$ Denominated Amortising Discount Bonds due 2032 (the "**Bonds**") of the Federal Government of the Federation of Saint Christopher (St. Kitts) and Nevis (the "**Issuer**") are issued in registered uncertificated form.

(B) The Bonds are constituted by a trust deed dated 18 April 2012 (the "**Trust Deed**") and made between the Issuer and Fidesco Trust Corporation (the "**Trustee**") as trustee for the holders of the Bonds (the "**Bondholders**").

(C) The Eastern Caribbean Central Securities Registry Limited, a wholly-owned subsidiary of the Exchange, is the registrar (the "**Registrar**") and the transfer and paying agent (the "**Transfer and Paying Agent**") for the Bonds.

(D) Copies of the Trust Deed and the Guarantee Agreement are available for inspection at the office of operations for the time being of the Trustee.

(E) The statements set out in these Conditions include summaries of, and are subject to, the provisions of the Trust Deed. The Bondholders are entitled to the benefit of, and are deemed to have notice of all the provisions of the Trust Deed, the Guarantee Agreement and the Bonds, all of which are binding on them.

1. DEFINITIONS

1.1 In these Conditions:

Unless otherwise defined in these Conditions, capitalised terms have the meanings given to them in the Trust Deed.

"**Agents**" means the Registrar and the Transfer and Paying Agent, or either of them.

"**Business Day**" means a day on which commercial banks are open for banking business in the Federation of Saint Kitts and Nevis.

"**Closing Date**" means 18 April 2012.

"**Due Date**" means the date upon which any payment of principal or interest in relation to any Bond is expressed to be payable under these Conditions and shall include a Payment Date.

"**Event of Default**" means any event of default referred to in clause 7 of the Trust Deed.

"**Exchange**" means the Eastern Caribbean Securities Exchange, whose registered office is at P.O. Box 94, Bird Rock, Basseterre, St Kitts.

"**Extraordinary Resolution**" means an extraordinary resolution of the Bondholders passed in accordance with the provisions of paragraph 20 of the Second Schedule to the Trust Deed.

"**Guarantee Agreement**" means the guarantee agreement made on or about the date of the Trust Deed between the Issuer, the Guarantor, the Trustee and the Transfer and Paying Agent.

"**Guarantor**" means the Caribbean Development Bank, an international organisation established by agreement dated 18 October 1969 and existing in the Federation of St Kitts and Nevis by virtue of the Caribbean Development Bank Act, No. 16 of 1969 of the laws of the Federation of St Kitts and Nevis, and having its headquarters at Wildey in the parish of St. Michael in the Island of Barbados.

"**Issue Date**" means 18 April 2012.

"**Maturity Date**" means 18 April 2032.

"**Ordinary Capital Resources**" includes the Guarantor's subscribed capital stock plus funds derived from borrowings to which the commitment to calls is applicable, funds received in repayment of, or income derived from, loans or for guarantees made with those resources and any other funds or income received by the Guarantor which does not form part of its Special Funds Resources.

"**Outstanding Bonds**" means all the Bonds other than:

(a) those in respect of which the Due Date for repayment has occurred in accordance with the provisions of the Trust Deed and the repayment moneys whereof (including all interest (if any) accrued thereon to the Due Date of such repayment) have been duly paid to the relative Bondholders or have been duly paid to the Trustee or to the Transfer and Paying Agent or these presents (and where appropriate notice to that effect has been given to the relative Bondholders in accordance with Condition 16) and remain available for payment;

(b) those which have been purchased beneficially by or for the account of the Issuer and cancelled;

(c) those which have been redeemed in accordance with the provisions of the Trust Deed; and

(d) those which have become void under Condition 11;

Provided that for each of the following purposes, namely:

(i) the right to attend and vote at any meeting of the Bondholders or any of them;

(ii) the determination of the number of Outstanding Bonds for the purposes of clause 9 of the Trust Deed, Condition 10 and paragraphs 2, 5, 6, 7, 9 and 10 of the Second Schedule to the Trust Deed;

(iii) any discretion, power or authority contained in the Trust Deed which the Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the Bondholders or any of them; and

(iv) the determination by the Trustee whether in its opinion any circumstances, matters or things are or would be materially prejudicial to the interests of the Bondholders or any of them;

those Bonds if any, which are beneficially held by or for the account of the issuer, but are not for the time being cancelled or required to be cancelled under Condition 7.3 shall (unless and until ceasing to be so held by or for the account of the Issuer) be deemed not to be Outstanding Bonds.

"**Payment Arrears** " has the meaning ascribed to it in Condition 6.2.

"**Payment Date**" means each of the dates which is the Relevant Day in each successive month after the Issue Date, up to and including the 240th month after the Issue Date. If a Payment Date falls on a day which is not a Business Day (as defined above) then that Payment Date shall be deemed to be the next succeeding day which is a Business Day.

"**Register**" means the register of Bonds and Bondholders to be maintained in accordance with the requirements of The Securities Act, 2001 and the Securities (Uncertificated Securities) Regulations, No 32 of 2003 and with the rules of the Exchange and of the Registrar.

"**Registry Agreement**" means the registry agreement relating to the Bonds dated 18 April 2012 between the Issuer and the Registrar and Transfer and Paying Agent.

"**Special Funds Resources**" means, in relation to the Guarantor, the resources of any special fund and includes the resources initially contributed to any special fund, funds accepted by the Guarantor for inclusion in any special fund, funds repaid in respect of loans or guarantees financed from the resources of any special fund which are received by such special fund, income derived from operations of the Bank that accrues to any special fund and any other resources placed at the disposal of any special fund.

"**Specified Office**" means in relation to any Agent, either the office identified with its name in Condition 16 or any other office notified to any relevant parties pursuant to the Trust Deed and the Registry Agreement or in accordance with Condition 9.2.

"**Taxes**" includes any present or future taxes, levies, duties, imposts, deductions, charges, fees, assessments, governmental charges or withholding of any nature levied, charged or assessed under the laws of the Federation or other jurisdiction (including without limitation any value added tax) together with any interest thereon or any penalty with respect thereto and "**Tax**", "**tax**" and "**taxation**" shall be construed accordingly.

1.2 For the purposes of the definition of Payment Date in Condition 1.1 and the reference therein to "Relevant Day", the Issue Date shall be regarded as comprising three elements, namely, a day, a month and a year. This day (expressed as a number) is the "**Relevant Day**". If the Relevant Day is the 29^{th}, 30^{th} or 31^{st}, then the Relevant Day in any month which does not have a 29^{th}, 30^{th} or 31^{st} day shall be the last day in that month.

2. TITLE AND DENOMINATION

2.1 Title to the Bonds will pass upon registration of transfer in accordance with the Securities (Uncertificated Securities) Regulations and the rules of the Exchange. The Issuer, the Guarantor, the Trustee, the Transfer and Paying Agent and the Registrar may treat the registered Bondholder(s) of any Bond as the absolute owner thereof (whether or not such Bond will shall be overdue and notwithstanding any notice of trust or other interest therein) and the Register of Bondholders shall (in the absence of wilful default, bad faith and manifest error) at all times be conclusive evidence of the amount of Bonds held by each Bondholder for the purpose of making payment and for all other purposes.

2.2 The Bonds are issued in a minimum denomination of US$100 and in integral multiples of US$10 thereafter.

3. STATUS

3.1 The Bonds will constitute the direct, general, unconditional, unsubordinated and unsecured obligations of the Issuer (and by unsecured obligations is meant obligations not secured by a charge, mortgage, pledge, or lien over, assignment of, or other security interest in, governmental assets) and shall be supported by the guarantee of the Guarantor in the manner set out in the Guarantee Agreement. Repayment of the Bonds and payment of any interest thereon shall be charged upon and payable out of the Consolidated Fund of the Issuer into which all revenues and other monies raised or received by the Issuer (not being revenues or other monies that are payable, by or under any law, into some other fund of the Issuer established for a specific purpose) are payable. The Bonds shall at all times rank *pari passu* and without preference among themselves and at least equally and rateably with all other direct, general, unconditional, unsubordinated and unsecured obligations of the Issuer which are charged upon and payable out of the Consolidated Fund in similar manner. The Issuer hereby pledges its full faith and credit for the due and punctual payment of principal and of interest on the Bonds.

3.2 The Bonds will be guaranteed by the Guarantor in the manner provided in the Guarantee Agreement, in accordance with the provisions of which the Guarantor has agreed to guarantee, on a rolling, reinstatable and non-accelerable basis, the payment of principal and/or interest on the Bonds subject to an aggregate guarantee maximum amount of US$12 million. Recourse by the Bondholders under the Guarantee Agreement will be limited to the Guarantor's Ordinary Capital Resources.

3.3 The interest payable on the Bonds is exempt from all Taxes in the Federation of Saint Kitts and Nevis.

4. CURRENCY INDEMNITY AND TAXES INDEMNIFICATION

4.1 If under any applicable law or regulations or pursuant to a judgment or order made or registered against the Issuer or without limitation for any other reason any payment under or in connection with the Bonds is made or required to be satisfied in a currency other than US Dollars then to the extent that the amount of such payment actually received by the Bondholders (the "**Payment Currency**") when converted on or about the date of payment at the rate of exchange falls short of the amount payable under the Bonds the Issuer as a separate and independent obligation shall pay as an additional payment such shortfall.

For the purpose of this Condition 4.1, "**rate of exchange**" means the rate at which US Dollars may be lawfully purchased on or about the date of such payment with the Payment Currency and shall take into account any premium and other costs of exchange with respect to such transaction and the Issuer shall be liable for any premium and other cost of exchange including any taxes or duties incurred by reason of any such exchange.

4.2 All payments to be made by the Issuer shall be made free and clear of and without deduction for or on account of Taxes unless the Issuer is required to make such a payment subject to the deduction or withholding of Taxes, in which case the amount payable by the Issuer shall be increased to the extent necessary to ensure that, after the making of such deduction or withholding, the Transfer and Paying Agent receives (free from any liability in respect of any such deduction or withholding) a net amount equal to the sum which it would have received had no such deduction or withholding been made or required to be made.

4.3 If at any time the Issuer is required by law to make any deduction or withholding from any sum payable by it with respect to any of the Bonds (or if subsequently there is any change in the rates at which or the manner in which such deductions or withholdings are calculated), it shall promptly notify the Trustee upon becoming aware of the same.

4.4 If the Issuer is required to make any deduction or withholding from any payment hereunder, it shall pay the full amount required to be deducted or withheld to the relevant taxation or other authority within the time allowed for such payment under applicable law and shall deliver to the Trustee within thirty (30) days after it has made such payment to the applicable authority an original receipt issued by such authority and any other appropriate evidence of the payment to such authority of all amounts so required to be deducted or withheld.

4.5 The Issuer shall indemnify and hold harmless the Trustee against, and reimburse it on demand, the amount of any Taxes so deducted withheld or accounted for and paid by the Issuer whether or not such Taxes were correctly or legally assessed or demanded.

5. GOODWILL PAYMENT

The Issuer shall make a goodwill payment to the Bondholders of US$130 per US$1,000 of face amount of Bonds on the first Payment Date following the Issue Date (the "**Goodwill Payment**").

6. INTEREST AND PRINCIPAL REINSTATEMENT

6.1 Level Payments

Payments under the Bonds, each of which comprise a combination of interest and principal, shall be made by the Issuer on a monthly basis commencing on the date which falls one month after the Issue Date. These monthly payments shall be in the amount equal to US$11,102.05 per US$1,000,000 original face amount of the Bonds for the period up to and including the Payment Date falling in the 48th month following the Issue Date. Thereafter these monthly payments shall reduce and be in the amount equal to US$4,397.40 per US$1,000,000 original face amount of the Bonds. The full schedule of monthly payments showing the amount of such payments to be made by the Issuer is set out in the Trust Deed. This schedule also shows composition of each payment in terms of interest and principal and the reducing outstanding principal amount under the Bonds after each monthly payment has been made on the associated Payment Date. The Issuer shall make each such payment on the corresponding Payment Date. The amount of these monthly payments will be reduced in the manner described in Condition 7.1 if the Issuer prepays the Bonds in accordance with Condition 7.1.

6.2 Interest ceasing to accrue

(a) Interest on any Bond becoming liable for repayment shall cease to accrue immediately after the final Due Date for repayment of such Bond unless, on a Bondholder demanding payment of the repayment moneys payable on that Bond on or after the date fixed for repayment of such Bond, such payment is refused.

(b) Any payment of interest or principal in respect of the Bonds not paid on a Payment Date, together with any other interest or principal in respect thereof not paid on any other Payment Date, shall so long as the same remains unpaid, constitute " **Payment Arrears**".

(c) Payment Arrears may at the option of the Issuer be paid in whole or (subject as provided in the Trust Deed) in part at any time upon the expiration of not less than 5 days' notice to such effect being given to the Trustee and to the Bondholders in accordance with Condition 16 below, but all Payment Arrears in respect of all Outstanding Bonds shall become due in full on the next immediately succeeding Payment Date or on the Maturity Date, whichever is the earlier.

(d) If notice is given by the Issuer of its intention to pay the whole or any part of Payment Arrears, the Issuer shall be obliged to do so upon the expiration of such notice. Payment Arrears shall themselves bear interest at a rate of:

(i) 6.0 per cent. per annum for the period commencing on the Issue Date and ending on the Payment Date falling in the 48th month following the Issue Date; and

(ii) 3.0 per cent. per annum thereafter,

until the same is paid in full as provided hereunder. Where Payment Arrears are paid in part, each part payment shall be in respect of the full amount of the Payment Arrears accrued due to the Payment Date or consecutive Payment Date furthest from the date of payment.

6.3 **Principal Reinstatement**

If the Relevant Event has not occurred by 31 March 2014, the Issuer shall deliver Par Bonds to the holders thereof on the next Payment Date. Such Par Bonds shall be in an amount equal to 40 per cent. of the face amount of the Bonds issued on the Issue Date (the "**Principal Reinstatement**") having the same terms and conditions as the Par Bonds in all respects except that interest shall only accrue from the date of such further issuance and no scheduled payments (including the Goodwill Payment thereunder) under the Par Bonds falling on or prior to the date of such further issuance will be made. The Principal Reinstatement shall be rounded, as necessary, to the nearest EC$100. For these purposes, "**Par Bonds**" means the EC$ Denominated Amortising Par Bonds of the Issuer due 2057 and "**Relevant Event**" means that a press release has been issued by the International Monetary Fund (the "**IMF**") confirming that the IMF Executive Board has approved the sixth review under the IMF Stand-By Arrangement with the Issuer existing at the time of the issue of the Bonds. If Principal Reinstatement occurs, the Issuer shall issue a press release indicating the principal amount of Par Bonds issued in connection therewith and the total principal amount of Par Bonds following such Principal Reinstatement.

7. **PREPAYMENT, PURCHASE AND CANCELLATION**

7.1 The Issuer may prepay all or any part of the outstanding principal amount of the Bonds on any Payment Date, if it has made all payments required under Condition 6.1 at that time (including the payment required on that Payment Date). If the Issuer does so prepay the Bonds then the amounts which the Issuer is thereafter required to pay under Condition 6.1 shall be reduced by the Relevant Portion. For these purposes "**Relevant Portion**" is a fraction the numerator of which is the principal amount prepaid on that Payment Date and the denominator of which is the outstanding principal amount of the Bonds on that Payment Date immediately before the making of that prepayment (but after the scheduled payment required on that Payment Date pursuant to Condition 6.1). If the Issuer so prepays the Bonds on more than one Payment Date then the reduction by the Relevant Portion shall be applied to the payments then required to be made by the Issuer under Condition 6.1 after all previous such prepayments.

7.2 Subject to these Conditions, the Issuer may at any time purchase beneficially or procure others to purchase beneficially for its account Bonds by trades on the market or by tender or by private treaty.

7.3 If any time during the period from the Issue Date to the date falling 10 years thereafter:

(a) the Issuer raises finance through the issuance of public debt securities with a maturity of more than two years and the net proceeds of such issuance (either individually or when aggregated with any other such issuance within this period) exceeds US$10,000,000 then the Issuer shall promptly elect to either effect a prepayment in accordance with Condition 7.1 above or offer to purchase such proportion of the Bonds as may, in each case, be prepaid or purchased with an amount which is at least equal to 25 per cent. of the net proceeds so raised; or

(b) the Issuer offers to the public or private purchasers all or substantially all of its shares or interests in any company or enterprise under its control by way of a privatisation and the net proceeds of such privatisation (either individually or when aggregated with the net proceeds of all other such privatisations within this period) exceeds US$10,000,000, then the Issuer shall promptly elect to either effect a prepayment in accordance with Condition 7.1 above or offer to purchase such proportion of the Bonds as may, in each case, be prepaid or purchased with an amount which is at least equal to 17.5 per cent. of the net proceeds so raised,

whereupon, in each case, it shall do so. In the case of any purchase, such purchase shall be made in the secondary market at par using an appropriate mechanism to be announced at the time.

7.4 All Bonds which are purchased by or on behalf of the Issuer will forthwith be cancelled and, accordingly, may not be re-issued or re-sold and the Guarantor shall be notified of all such cancellations.

8. METHOD OF PAYMENT

8.1 Payment of principal, interest and the Goodwill Payment shall be made to each Bondholder whose name appears on the Register by:

(a) cheque at the address appearing on the Register for such Bondholder;

(b) direct deposit to such account at a bank that is a member of the Eastern Caribbean Central Bank's Clearing House, as such Bondholder may specify in writing;

(c) wire transfer to the account specified in writing by such Bondholder; or

(d) at the sole cost of such Bondholder and at the option of the Issuer, any other form of payment specified by such Bondholder in writing, **provided that** such specified form of payment is acceptable to the Issuer and the Transfer and Paying Agent.

8.2 Upon any payment being made under any of the provisions of clauses 10 and 11 of the Trust Deed and Conditions 5, 6 and 7 hereof the Registrar shall cause an entry to be made in the record of corporate actions evidencing such payment to each Bondholder and such entry shall be *prima facie* proof of the payment of such principal and interest by the Transfer and Paying Agent to a Bondholder.

9. TERMINATION AND APPOINTMENT OF NEW TRANSFER AND PAYING AGENT

9.1 Subject to any applicable rules of the Exchange in force from time to time, the Issuer may, with the prior approval of the Trustee and in accordance with the Paying Agency and Registry Agreement vary or terminate the appointment of the Transfer and Paying Agent and/or approve any change in the Specified Office of the Transfer and Paying Agent, **provided that** so long as there are any Outstanding Bonds the Issuer will maintain a Transfer and Paying Agent with a Specified Office in the Federation of Saint Kitts and Nevis. The Issuer shall notify the Trustee and the Trustee shall notify the Bondholders of the appointment of any new Transfer and Paying Agent inclusive of the effective date of such appointment.

9.2 In the event of any such variation, termination, appointment or change in Specified Office, notice thereof will be given by the Issuer, to the Guarantor and the Trustee and the Trustee shall notify the Bondholders in accordance with Condition 16.

10. DEFAULT

10.1 The Bonds shall become immediately due and payable together with accrued interest, if any Event of Default occurs and (a) the Trustee so determines or (b) is requested in writing by Bondholders together holding at least seventy-five per cent. (75%) in principal amount of the Outstanding Bonds or is requested by an Extraordinary Resolution to demand repayment.

10.2 At any time after the Bonds shall have become immediately due and repayable, the Trustee (to the exclusion of the Bondholders) may, at its discretion, and shall, on the request in writing of the Bondholders holding not less than seventy-five per cent. (75%) of the principal amount of the Outstanding Bonds or, if so requested by an Extraordinary Resolution (but, in either case, subject to the Trustee being indemnified to its satisfaction against all proceedings, claims and demands to which the

Trustee may be liable and all costs, charges and expenses which may be incurred by the Trustee in connection therewith), and without notice take such proceedings against the Issuer as it may deem fit.

10.3 No Bondholders shall in any circumstances be entitled to any remedy (whether by way of action, petition or otherwise howsoever) for the recovery of any Bond or any part thereof or any interest thereon, unless the Trustee, having become bound to take proceedings in accordance with the Trust Deed, fails to do so within a reasonable time and such failure shall be continuing. In that case any Bondholder may, on giving the Trustee an indemnity satisfactory to the Trustee against all proceedings claims and demands to which it may be liable and all costs, charges and expenses which may be incurred by it in connection therewith, in the name of the Trustee (but not otherwise) himself take such proceedings against the Issuer. The Trustee shall apply any moneys so received in the manner provided in the Trust Deed.

11. PRESCRIPTION

Each Bond shall become void in respect of a payment if such payment remains unclaimed as of the date falling 10 years after the date on which such payment first becomes due.

12. NEGATIVE PLEDGE

12.1 So long as there are any Outstanding Bonds, the Issuer undertakes that, except as the Trustee and the Guarantor shall otherwise agree in writing, if any lien shall be created by the Issuer on any governmental assets as security for any external debt, such lien will, ipso facto, and at no cost to the Trustee equally and rateably secure all amounts payable by the Issuer under the Outstanding Bonds and that in the creation of any such lien express provision will be made to that effect. The Issuer shall promptly inform the Trustee and the Guarantor of the creation of any such lien.

12.2 Condition 12.1 above shall not apply to:

(a) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; or

(b) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one (1) year after its date.

12.3 As used in this Condition 12, the term:

(a) "**external debt**" means any debt payable by the Issuer in any medium other than the currency which at the time in question is legal tender in St. Kitts and Nevis whether such debt is payable absolutely or at the option of the creditor in such other medium; and

(b) "**governmental assets**" means assets of the Issuer, of any of its political sub-divisions and of any agency of the Issuer or of any such political sub-division, including any institution performing the functions of a central bank (other than any institution performing the function of a multi-state central bank).

13. MODIFICATION OF TERMS AND CONDITIONS

13.1 The Second Schedule of the Trust Deed contains provisions for convening meetings of the Bondholders to consider any matters affecting their interest, including the modification by Extraordinary Resolution of these Conditions or the provisions of the Trust Deed.

13.2 The quorum at any meeting for passing an Extraordinary Resolution will be persons holding or representing not less than a clear majority in principal amount of the Outstanding Bonds, **provided that** for certain matters set out in paragraph 5 of the Second Schedule to the Trust Deed the quorum will be persons holding or representing not less than 75 per cent. of the principal amount of the Outstanding Bonds. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not.

13.3 The Trustee may agree, without the consent of the Bondholders, to any modification of, or to any waiver or authorisation of any breach or proposed breach of any provision of, the Trust Deed which, in the opinion of the Trustee, is not materially prejudicial to the interest of the Bondholders, and which does not in the opinion of the Guarantor materially affect the Guarantor's rights and obligations under the Guarantee Agreement and which does not affect the obligation of the Issuer to make payments of interest and of principal in the amounts and at the times specified in the Trust Deed or in these Conditions or to any modification which is of a formal or technical nature or which is made to correct a manifest error.

13.4 Any such modification, waiver or authorisation shall be binding on the Bondholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Bondholders as soon as practicable thereafter in accordance with Condition 16.

14. INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, without accounting for any profit resulting therefrom or disclosing to the Bondholders any confidential information which is thereby obtained.

15. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Bondholders to create and issue further notes or bonds upon such terms as to interest, conversion, repayment, security and otherwise as the Issuer may at the time of issue thereof determine.

16. NOTICES

16.1 All notices to the Bondholders will be valid if sent by pre-paid post to the addresses of the Bondholders appearing in the Register. Such notice shall be deemed to have been given within such time as is the normal course of delivery following the date of posting.

16.2 Notice to the Trustee shall be addressed to:

Attention: The Managing Director
Fidesco Trust Corporation
Amory Building
Victoria Road
Basseterre, St. Kitts
Saint Kitts & Nevis
West Indies

16.3 Any notice to the Registrar and/or the Transfer and Paying Agent shall be addressed to:

Attention: The General Manager
Eastern Caribbean Central Securities Registry Limited
Bird Rock
Basseterre
St. Kitts
West Indies

16.4 Any notice to the Guarantor shall be addressed to:

Attention: Director, Finance and Corporate Planning
Caribbean Development Bank
Wildey
St. Michael
Barbados
West Indies

17. GOVERNING LAW

The Trust Deed and the Bonds are governed by and will be construed in accordance with the laws of the Federation of St Kitts and Nevis and the courts of the Federation of St Kitts and Nevis will have jurisdiction in connection with the Trust Deed and the Bonds.

TERMS AND CONDITIONS OF NEW PAR BONDS

(A) The EC$ Denominated Amortising Par Bonds due 2057 (the "**Bonds**") of the Federal Government of the Federation of Saint Christopher (St. Kitts) and Nevis (the "**Issuer**") are issued in registered uncertificated form.

(B) The Bonds are constituted by a trust deed dated 18 April 2012 (the "**Trust Deed**") and made between the Issuer and Fidesco Trust Corporation (the "**Trustee**") as trustee for the holders of the Bonds (the "**Bondholders**").

(C) The Eastern Caribbean Central Securities Registry Limited, a wholly-owned subsidiary of the Exchange, is the registrar (the "**Registrar**") and the transfer and paying agent (the "**Transfer and Paying Agent**") for the Bonds.

(D) Copies of the Trust Deed are available for inspection at the office of operations for the time being of the Trustee.

(E) The statements set out in these Conditions include summaries of, and are subject to, the provisions of the Trust Deed. The Bondholders are entitled to the benefit of, and are deemed to have notice of all the provisions of the Trust Deed and the Bonds, all of which are binding on them.

1. DEFINITIONS

1.1 In these Conditions:

Unless otherwise defined in these Conditions, capitalised terms have the meanings given to them in the Trust Deed.

"**Agents**" means the Registrar and the Transfer and Paying Agent, or either of them.

"**Business Day**" means a day on which commercial banks are open for banking business in both the Federation of Saint Kitts and Nevis and the Republic of Trinidad and Tobago.

"**Closing Date**" means 18 April 2012.

"**Due Date**" means the date upon which any payment of principal or interest in relation to any Bond is expressed to be payable under these Conditions and shall include a Payment Date.

"**Event of Default**" means any event of default referred to in clause 7 of the Trust Deed.

"**Exchange**" means the Eastern Caribbean Securities Exchange, whose registered office is at P.O. Box 94, Bird Rock, Basseterre, St Kitts.

"**Extraordinary Resolution**" means an extraordinary resolution of the Bondholders passed in accordance with the provisions of paragraph 20 of the Second Schedule to the Trust Deed.

"**Issue Date**" means 18 April 2012.

"**Maturity Date**" means 18 April 2057.

"**Outstanding Bonds**" means all the Bonds other than:

(a) those in respect of which the Due Date for repayment has occurred in accordance with the provisions of the Trust Deed and the repayment moneys whereof (including all interest (if any) accrued thereon to the Due Date of such repayment) have been duly paid to the relative Bondholders or have been duly paid to the Trustee or to the Transfer and Paying Agent or these presents (and where appropriate notice to that effect has been given to the relative Bondholders in accordance with Condition 16) and remain available for payment;

(b) those which have been purchased beneficially by or for the account of the Issuer and cancelled;

(c) those which have been redeemed in accordance with the provisions of the Trust Deed; and

(d) those which have become void under Condition 11;

Provided that for each of the following purposes, namely:

(i) the right to attend and vote at any meeting of the Bondholders or any of them;

(ii) the determination of the number of Outstanding Bonds for the purposes of clause 9 of the Trust Deed, Condition 10 and paragraphs 2, 5, 6, 7, 9 and 10 of the Second Schedule to the Trust Deed;

(iii) any discretion, power or authority contained in the Trust Deed which the Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the Bondholders or any of them; and

(iv) the determination by the Trustee whether in its opinion any circumstances, matters or things are or would be materially prejudicial to the interests of the Bondholders or any of them;

those Bonds if any, which are beneficially held by or for the account of the issuer, but are not for the time being cancelled or required to be cancelled under Condition 7.3 shall (unless and until ceasing to be so held by or for the account of the Issuer) be deemed not to be Outstanding Bonds.

"**Payment Arrears**" has the meaning ascribed to it in Condition 6.2.

"**Payment Date**" means each of the dates which is the Relevant Day in each successive month after the Issue Date, up to and including the 540th month after the Issue Date. If a Payment Date falls on a day which is not a Business Day (as defined above) then that Payment Date shall be deemed to be the next succeeding day which is a Business Day.

"**Register**" means the register of Bonds and Bondholders to be maintained in accordance with the requirements of The Securities Act, 2001 and the Securities (Uncertificated Securities) Regulations, No 32 of 2003 and with the rules of the Exchange and of the Registrar.

"**Registry Agreement**" means the registry agreement relating to the Bonds dated 18 April 2012 between the Issuer and the Registrar and Transfer and Paying Agent.

"**Specified Office**" means in relation to any Agent, either the office identified with its name in Condition 16 or any other office notified to any relevant parties pursuant to the Trust Deed, the Paying Agency and Registry Agreement or in accordance with Condition 9.2.

"**Taxes**" includes any present or future taxes, levies, duties, imposts, deductions, charges, fees, assessments, governmental charges or withholding of any nature levied, charged or assessed under the laws of the Federation or other jurisdiction (including without limitation any value added tax) together with any interest thereon or any penalty with respect thereto and "**Tax**", "**tax**" and "**taxation**" shall be construed accordingly.

1.2 For the purposes of the definition of Payment Date in Condition 1.1 and the reference therein to "Relevant Day", the Issue Date shall be regarded as comprising three elements, namely, a day, a month and a year. This day (expressed as a number) is the "**Relevant Day**". This day (expressed as a number) is the "**Relevant Day**". If the Relevant Day is the 29th, 30th or 31st, then the Relevant Day in any month which does not have a 29th, 30th or 31st day shall be the last day in that month.

2. TITLE AND DENOMINATION

2.1 Title to the Bonds will pass upon registration of transfer in accordance with the Securities (Uncertificated Securities) Regulations and the rules of the Exchange. The Issuer, the Trustee, the Transfer and Paying Agent and the Registrar may treat the registered Bondholder(s) of any Bond as the absolute owner thereof (whether or not such Bond will shall be overdue and notwithstanding any notice of trust or other interest therein) and the Register of Bondholders shall (in the absence of wilful default, bad faith and manifest error) at all times be conclusive evidence of the amount of Bonds held by each Bondholder for the purpose of making payment and for all other purposes.

2.2 The Bonds are issued in a minimum denomination of EC$100 and in integral multiples of EC$10 thereafter.

3. **STATUS**

3.1 The Bonds will constitute the direct, general, unconditional, unsubordinated and unsecured obligations of the Issuer (and by unsecured obligations is meant obligations not secured by a charge, mortgage, pledge, or lien over, assignment of, or other security interest in, governmental assets). Repayment of the Bonds and payment of any interest thereon shall be charged upon and payable out of the Consolidated Fund of the Issuer into which all revenues and other monies raised or received by the Issuer (not being revenues or other monies that are payable, by or under any law, into some other fund of the Issuer established for a specific purpose) are payable. The Bonds shall at all times rank *pari passu* and without preference among themselves and at least equally and rateably with all other direct, general, unconditional, unsubordinated and unsecured obligations of the Issuer which are charged upon and payable out of the Consolidated Fund in similar manner. The Issuer hereby pledges its full faith and credit for the due and punctual payment of principal and of interest on the Bonds.

3.2 The interest payable on the Bonds is exempt from all Taxes in the Federation of Saint Kitts and Nevis.

4. **CURRENCY INDEMNITY AND TAXES INDEMNIFICATION**

4.1 If under any applicable law or regulations or pursuant to a judgment or order made or registered against the Issuer or without limitation for any other reason any payment under or in connection with the Bonds is made or required to be satisfied in a currency other than EC Dollars then to the extent that the amount of such payment actually received by the Bondholders (the "**Payment Currency**") when converted on or about the date of payment at the rate of exchange falls short of the amount payable under the Bonds the Issuer as a separate and independent obligation shall pay as an additional payment such shortfall. For the purpose of this Condition 4.1, "**rate of exchange**" means the rate at which EC Dollars may be lawfully purchased on or about the date of such payment with the Payment Currency and shall take into account any premium and other costs of exchange with respect to such transaction and the Issuer shall be liable for any premium and other cost of exchange including any taxes or duties incurred by reason of any such exchange.

4.2 All payments to be made by the Issuer shall be made free and clear of and without deduction for or on account of Taxes unless the Issuer is required to make such a payment subject to the deduction or withholding of Taxes, in which case the amount payable by the Issuer shall be increased to the extent necessary to ensure that, after the making of such deduction or withholding, the Transfer and Paying Agent receives (free from any liability in respect of any such deduction or withholding) a net amount equal to the sum which it would have received had no such deduction or withholding been made or required to be made.

4.3 If at any time the Issuer is required by law to make any deduction or withholding from any sum payable by it with respect to any of the Bonds (or if subsequently there is any change in the rates at which or the manner in which such deductions or withholdings are calculated), it shall promptly notify the Trustee upon becoming aware of the same.

4.4 If the Issuer is required to make any deduction or withholding from any payment hereunder, it shall pay the full amount required to be deducted or withheld to the relevant taxation or other authority within the time allowed for such payment under applicable law and shall deliver to the Trustee within thirty (30) days after it has made such payment to the applicable authority an original receipt issued by such authority and any other appropriate evidence of the payment to such authority of all amounts so required to be deducted or withheld.

4.5 The Issuer shall indemnify and hold harmless the Trustee against, and reimburse it on demand, the amount of any Taxes so deducted withheld or accounted for and paid by the Issuer whether or not such Taxes were correctly or legally assessed or demanded.

5. **GOODWILL PAYMENT**

The Issuer shall make a goodwill payment to the Bondholders of EC$11.25 per EC$1,000 of Bonds on the first Payment Date following the Issue Date (the "**Goodwill Payment**").

6. **INTEREST**

6.1 **Level Payments**

Payments under the Bonds shall be made by the Issuer on a monthly basis commencing on the date which falls one month after the Issue Date. These monthly payments shall be in the amount equal to EC$1,250 per EC$1,000,000 original face amount of the Bonds for the period up to and including the Payment Date falling in the 180th month following the Issue Date and thereafter. EC$3,451.20 per EC$1,000,000 original face amount of the Bonds for the period up to and including the Maturity Date. The full schedule of monthly payments showing the amount of such payments to be made by the Issuer is set out in the Trust Deed. This schedule also shows composition of each payment in terms of interest and principal and the reducing outstanding principal amount under the Bonds after each monthly payment has been made on the associated Payment Date. For the period up to the date which falls 180 months after the Issue Date, each monthly payment represents only interest. Thereafter, each monthly payment represents interest and principal. The Issuer shall make each such payment on the corresponding Payment Date. The amount of these monthly payments will be reduced in the manner described in Condition 7.1 if the Issuer prepays the Bonds in accordance with Condition 7.1.

6.2 **Interest ceasing to accrue**

(a) Interest on any Bond becoming liable for repayment shall cease to accrue immediately after the final Due Date for repayment of such Bond unless, on a Bondholder demanding payment of the repayment moneys payable on that Bond on or after the date fixed for repayment of such Bond, such payment is refused.

(b) Any payment of interest or principal in respect of the Bonds not paid on a Payment Date, together with any other interest or principal in respect thereof not paid on any other Payment Date, shall so long as the same remains unpaid, constitute " **Payment Arrears**".

(c) Payment Arrears may at the option of the Issuer be paid in whole or (subject as provided in the Trust Deed) in part at any time upon the expiration of not less than 5 days' notice to such effect being given to the Trustee and to the Bondholders in accordance with Condition 16 below, but all Payment Arrears in respect of all Outstanding Bonds shall become due in full on the next immediately succeeding Payment Date or on the Maturity Date, whichever is the earlier.

(d) If notice is given by the Issuer of its intention to pay the whole or any part of Payment Arrears, the Issuer shall be obliged to do so upon the expiration of such notice. Payment Arrears shall themselves bear interest at a rate of 1.5 per cent. per annum until the same is paid in full as provided hereunder. Where Payment Arrears are paid in part, each part payment shall be in respect of the full amount of the Payment Arrears accrued due to the Payment Date or consecutive Payment Date furthest from the date of payment.

7. **PREPAYMENT, PURCHASE AND CANCELLATION**

7.1 The Issuer may prepay all or any part of the outstanding principal amount of the Bonds on any Payment Date, if it has made all payments required under Condition 6.1 at that time (including the payment required on the Payment Date). If the Issuer does so prepay the Bonds then the amounts which the Issuer is thereafter required to pay under Condition 6.1 shall be reduced by the Relevant Portion. For these purposes "**Relevant Portion**" is a fraction the numerator of which is the principal amount prepaid on that Payment Date and the denominator of which is the outstanding principal amount of the Bonds on that Payment Date immediately before the making of that prepayment (but after the scheduled payment required on that Payment Date pursuant to Condition 6.1). If the Issuer so prepays the Bonds on more than one Payment Date then the reduction by the Relevant Portion shall be applied to the payments then required to be made by the Issuer under Condition 6.1 after the previous such prepayment.

7.2 Subject to these Conditions, the Issuer may at any time purchase beneficially or procure others to purchase beneficially for its account Bonds by trades on the market or by tender or by private treaty.

7.3 All Bonds which are purchased by or on behalf of the Issuer will forthwith be cancelled and, accordingly, may not be re-issued or re-sold.

8. **METHOD OF PAYMENT**

8.1 Payment of principal, interest and the Goodwill Payment shall be made to each Bondholder whose name appears on the Register by:

(a) cheque at the address appearing on the Register for such Bondholder;

(b) direct deposit to such account at a bank that is a member of the Eastern Caribbean Central Bank's Clearing House, as such Bondholder may specify in writing;

(c) wire transfer to the account specified in writing by such Bondholder; or

(d) at the sole cost of such Bondholder and at the option of the Issuer, any other form of payment specified by such Bondholder in writing, **provided that** such specified form of payment is acceptable to the Issuer and the Transfer and Paying Agent.

8.2 Upon any payment being made under any of the provisions of clauses 10 and 11 of the Trust Deed and Conditions 5, 6 and 6.2(b) hereof the Registrar shall cause an entry to be made in the record of corporate actions evidencing such payment to each Bondholder and such entry shall be *prima facie* proof of the payment of such principal and interest by the Transfer and Paying Agent to a Bondholder.

9. **TERMINATION AND APPOINTMENT OF NEW TRANSFER AND PAYING AGENT**

9.1 Subject to any applicable rules of the Exchange in force from time to time, the Issuer may, with the prior approval of the Trustee and in accordance with the Registry Agreement vary or terminate the appointment of the Transfer and Paying Agent and/or approve any change in the Specified Office of the Transfer and Paying Agent, **provided that** so long as there are any Outstanding Bonds the Issuer will maintain a Transfer and Paying Agent with a Specified Office in the Federation of Saint Kitts and Nevis. The Issuer shall notify the Trustee and the Trustee shall notify the Bondholders of the appointment of any new Transfer and Paying Agent inclusive of the effective date of such appointment.

9.2 In the event of any such variation, termination, appointment or change in Specified Office, notice thereof will be given by the Issuer to the Trustee and the Trustee shall notify the Bondholders in accordance with Condition 16.

10. **DEFAULT**

10.1 The Bonds shall become immediately due and payable together with accrued interest, if any Event of Default occurs and (a) the Trustee so determines or (b) is requested in writing by Bondholders together holding at least seventy-five per cent. (75%) in principal amount of the Outstanding Bonds or is requested by an Extraordinary Resolution to demand repayment.

10.2 At any time after the Bonds shall have become immediately due and repayable, the Trustee (to the exclusion of the Bondholders) may, at its discretion, and shall, on the request in writing of the Bondholders holding not less than seventy-five per cent. (75%) of the principal amount of the Outstanding Bonds or, if so requested by an Extraordinary Resolution (but, in either case, subject to the Trustee being indemnified to its satisfaction against all proceedings, claims and demands to which the Trustee may be liable and all costs, charges and expenses which may be incurred by the Trustee in connection therewith), and without notice take such proceedings against the Issuer as it may deem fit.

10.3 No Bondholders shall in any circumstances be entitled to any remedy (whether by way of action, petition or otherwise howsoever) for the recovery of any Bond or any part thereof or any interest thereon, unless the Trustee, having become bound to take proceedings in accordance with the Trust Deed, fails to do so within a reasonable time and such failure shall be continuing. In that case any Bondholder may, on giving the Trustee an indemnity satisfactory to the Trustee against all proceedings claims and demands to which it may be liable and all costs, charges and expenses which may be incurred by it in connection therewith, in the name of the Trustee (but not otherwise) himself take such proceedings against the Issuer. The Trustee shall apply any moneys so received in the manner provided in the Trust Deed.

11. **PRESCRIPTION**

Each Bond shall become void in respect of a payment if such payment remains unclaimed as of the date falling 10 years after the date on which such payment first becomes due.

12. **NEGATIVE PLEDGE**

12.1 So long as there are any Outstanding Bonds, the Issuer shall not, without the prior consent in writing of the Trustee, create or permit to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its International Monetary Assets to secure any Public Debt unless such Security Interest will, ipso facto, and at no cost to the Trustee equally and rateably secure all amounts payable by the Issuer under this Trust Deed. The Issuer shall promptly inform the Trustee of the creation of any such Security Interest.

12.2 As used in this Condition 12 the term:

(a) "**Debt**" means any indebtedness (whether incurred as principal or surety) of any person (whether natural or otherwise) or other agency or entity (whether having separate legal personality or not) for or in respect of monies borrowed or any bond, debenture, note or similar securities or instruments;

(b) "**External Debt**" means any obligation, and guarantees of obligations, in respect of existing or future Debt denominated or payable, or at the option of the holder thereof payable, in a currency other than the lawful currency of the Federation of St. Kitts and Nevis;

(c) "**International Monetary Assets**" means all of the Federation's official holdings of gold and all of the Federation's holdings of "Special Drawing Rights", "Reserve Positions in the Fund" and "Foreign Exchange", each of which shall have, as to the types of assets included, the meanings given to them in the International Monetary Fund's publication entitled "International Financial Statistics", or such other meaning as shall be formally adopted by the International Monetary Fund from time to time;

(d) "**Public Debt**" means External Debt which (i) is in the form of, or represented by, bonds, notes or other similar securities or any guarantees thereof and (ii) is, or may be, quoted, listed or ordinarily purchased and sold on any stock exchange, automated trading system or over-the-counter or other securities market;

(e) "**Security Interest**" means any lien, pledge, hypothecation, mortgage, security interest, charge or any other encumbrance, agreement or arrangement which has a similar legal and economic effect including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

(f) "**Permitted Security Interest**" means:

(i) any Security Interest on property to secure Public Debt arising in the ordinary course of business to finance export, import or other trade transactions, which Public Debt matures (after giving effect to all renewals and refinancings thereof) not more than one year after the date on which such Public Debt was originally incurred;

(ii) any Security Interest on property to secure Public Debt incurred solely for the purpose of financing any acquisition by the Issuer (or, in the case of Public Debt guaranteed by the Issuer, the obligor in respect of such debt) of such property, and any renewal or extension of any such Security Interest which is limited to the original property covered thereby and which secures any renewal of extension of the original financing without any increase in the amount thereof;

(iii) any Security Interest on property arising by operation of law other than the law of the Federation of St. Kitts and Nevis (or pursuant to any agreement establishing a Security Interest equivalent to one which would otherwise exist under relevant local law other than the law of the Federation of St. Kitts and Nevis) in connection with Public Debt, including without limitation any right of set-off with respect to demand or time deposits with financial institutions and bankers' liens with respect to property held by financial institutions (in each case deposited with or delivered to such financial institutions in the ordinary course of the depositor's activities);

(iv) any Security Interest existing on property at the time of acquisition, and any renewal or extension of any such Security Interest which is limited to the original property covered thereby and which secures any renewal or extension of the financing secured by such Security Interest at the time of such acquisition without any increase in the amount thereof;

(v) any Security Interest in existence as of the date of the issuance of the Bonds; and

(vi) any Security Interest securing Public Debt incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project, **provided that** (a) the holders of such Public Debt agree to limit their recourse to the assets and revenues of such project as the principal source of repayment of such Public Debt (and associated insurances) and (b) the property over which such Security Interest is granted consists solely of such assets and revenues;

13. MODIFICATION OF TERMS AND CONDITIONS

13.1 The Second Schedule to the Trust Deed contains provisions for convening meetings of the Bondholders to consider any matters affecting their interest, including the modification by Extraordinary Resolution of these Conditions or the provisions of the Trust Deed.

13.2 The quorum at any meeting for passing an Extraordinary Resolution will be persons holding or representing not less than a clear majority in principal amount of the Outstanding Bonds, **provided that** for certain matters set out in paragraph 5 of the Second Schedule to the Trust Deed the quorum will be persons holding or representing not less than 75 per cent. of the principal amount of the Outstanding Bonds. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not.

13.3 The Trustee may agree, without the consent of the Bondholders, to any modification of, or to any waiver or authorisation of any breach or proposed breach of any provision of, the Trust Deed which, in the opinion of the Trustee, is not materially prejudicial to the interest of the Bondholders and which does not affect the obligation of the Issuer to make payments of interest and of principal in the amounts and at the times specified in the Trust Deed or in these Conditions or to any modification which is of a formal or technical nature or which is made to correct a manifest error.

13.4 Any such modification, waiver or authorisation shall be binding on the Bondholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Bondholders as soon as practicable thereafter in accordance with Condition 16.

14. INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, without accounting for any profit resulting therefrom or disclosing to the Bondholders any confidential information which is thereby obtained.

15. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Bondholders to create and issue further notes or bonds upon such terms as to interest, conversion, repayment, security and otherwise as the Issuer may at the time of issue thereof determine.

16. NOTICES

16.1 All notices to the Bondholders will be valid if sent by pre-paid post to the addresses of the Bondholders appearing in the Register. Such notice shall be deemed to have been given within such time as is the normal course of delivery following the date of posting.

16.2 Any notice to the Registrar and/or the Transfer and Paying Agent shall be addressed to:

Attention: The General Manager
Eastern Caribbean Central Securities Registry Limited
P.O. Box 94
Bird Rock
Basseterre
St. Kitts
West Indies

16.3 Any notice to the Trustee shall be addressed to:

Attention: The Managing Director
Fidesco Trust Corporation
Amory Building
Victoria Road
P.O. Box 1058
Basseterre, St. Kitts
Saint Kitts & Nevis
West Indies

17. GOVERNING LAW

The Trust Deed and the Bonds are governed by and will be construed in accordance with the laws of the Federation of St Kitts and Nevis and the courts of the Federation of St Kitts and Nevis will have jurisdiction in connection with the Trust Deed and the Bonds.

Potential challenges to payment on the New Bonds

Creditors have in the past used litigation tactics against sovereign debtors that have defaulted on their sovereign debt to attach or interrupt subsequent payments made by these sovereign debtors and this could extend to the payments contemplated pursuant to the New Bonds. There can be no assurance that a creditor will not be able to interfere with payments made in connection with the New Bonds.

Risks relating to the Issuer

Issuer is exposed to commodity price fluctuations

Changes in commodity prices, such as oil, and foreign exchange movements are able to affect the economy's resource allocation and consequently its performance and may also reduce government revenue available to service payments under the New Bonds.

Issuer is dependent on tourism

Any development that affects travel patterns globally, such as the performance of the global economy has the potential to affect adversely the Issuer's tourism industry, which the Issuer believes to be the single most important sector of the Issuer's economy in terms of direct and indirect employment and tax revenue. Any negative development in the Issuer's tourism industry may reduce government revenue available to service payments under the New Bonds.

Climatic or Geological Occurrences

The Federation is an island nation in an area prone to hurricanes and tropical storms. High winds and rainfall are also significant risk factors. In addition, much of the island's construction is concentrated in few urban centres where there is little protection from the direct impact of wind forces. The Federation is regularly exposed to low-level earthquake activity, and the associate tsunami risk, related to the volcanic centres of the islands of St. Kitts and Nevis and their proximity to active plate boundaries. Due to the exposure to the sea, the Federation is also particularly susceptible to flooding and storm surge events. Such climatic and geological occurrences may have an adverse effect on tourism.

Currency Union

The Federation is a member of the Eastern Caribbean Currency Union (the "**ECCU**"), together with Anguilla, Barbuda, Dominica, Grenada, Montserrat, St. Lucia and St. Vincent and the Grenadines. The monetary policy of the Federation is determined by the Eastern Caribbean Central Bank, the central bank of the ECCU, which takes into account the circumstances of all members states of the ECCU in making its decisions, including setting of interest rates. This means the Federation is unable to pursue an independent monetary policy, which could limit its ability to respond to changes in circumstances.

IMF Programme

The Federation is participating in an IMF Programme supported by a 36-month stand-by arrangement approved by the IMF on 27 July 2011 (the "**SBA**"). Under the SBA the Federation will receive up to US$84 million. 42 per cent. of that amount has already been drawn down and following the completion of the first review under the SBA on 25 January 2012 another US$17.6 million was disbursed. Future disbursements under the SBA are dependent upon the Federation meeting the performance criteria under the SBA, which include a floor on the Federation's overall fiscal deficit and a ceiling on expenditure arrears, or the IMF agreeing to amend the performance criteria. If the Federation is unable to draw down further disbursements under the SBA, its ability to service payments under the New Bonds may be adversely affected.

Statistics

Statistical data appearing in this Disclosure Memorandum has, unless otherwise stated, been obtained from public sources and documents. Similar statistics may be obtainable from other sources, but the underlying assumptions, methodology and consequently the resulting data may vary from source to source. Unless indicated, the information and figures presented in this Disclosure Memorandum have not been restated to reflect the effects of inflation. Investors should be aware that distortions caused by inflation may be present in such information and figures. As a result period-to-period comparisons may not be directly comparable.

Risks relating to the market generally and to the structure of the New Bonds generally

Credit Rating

The New Bonds will not be assigned a credit rating by any ratings agency.

The secondary market

It is intended that the New Bonds will be listed for secondary trading on the ECSE. However, there is no guarantee that an active and liquid market for the New Bonds will develop, which may have an adverse effect on the market value of the New Bonds.

The New Bonds may be redeemed prior to maturity

The conditions of each of the New Bonds provide that the New Bonds are redeemable at the relevant issuer's option in certain circumstances and, accordingly, the relevant issuer may choose to redeem the New Bonds at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that payable under the respective New Bonds.

The conditions of the New Discount Bonds and the conditions of the New Par Bonds may be modified or waived without the consent of all of the holders of those instruments.

The conditions of the New Discount Bonds and the conditions of the New Par Bonds each contain provisions for convening meetings of the relevant Bondholders to consider matters affecting their interests. These provisions permit defined majorities to bind all such Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted against the majority.

Tax Consequences of Exchange

The exchange of Eligible Claims into New Bonds may give rise to tax consequences for investors (for example capital gains or losses) whether as a result of a tender for New Bonds or if the Extraordinary Resolutions described in the Exchange Offer Materials are passed and the investor holds the New Discount Bonds as of the Settlement Date. Different categories of investor may be subject to different rules. Investors should consult their own tax advisers as to the consequences of the Exchange Offer Materials under the tax laws of the country in which they are resident.

Risks relating to the Guarantor

Enforcement of Civil Liabilities and Immunity

The Guarantor is a supra-national organisation which enjoys immunity from every form of legal process except in cases arising out of the exercise of its borrowing or guaranteeing powers when it may be sued only in a court of competent jurisdiction in the territory of a member state in which the Guarantor has its principal or a branch office, or in the territory of a member or non-member state where it has appointed an agent for the purpose of accepting service or notice of process or has issued or guaranteed securities. No actions shall, however, be brought by members or persons acting for or deriving claims from members of the Guarantor.

The property and assets of the Guarantor are immune from all forms of seizure, attachment or execution prior to the delivery of final judgment against the Guarantor.

Risks relating to the Guarantee Agreement

New Discount Bonds and Guarantee Agreement

The guarantee of the New Discount Bonds under the Guarantee Agreement (the "**Guarantee**") is subject to an aggregate guarantee maximum amount of US$12 million (the "**Guarantee Limit**"). Investors should be aware that any amounts owing under the New Discount Bonds in excess of this amount are not guaranteed by the Guarantor under the Guarantee.

This amount does not vary with the level of take up in respect of New Discount Bonds. Accordingly, the greater the take up of New Discount Bonds the lower the proportionate level of payment protection for holders of New Discount Bonds.

Under the Conditions of the New Discount Bonds, the Issuer may, subject to the limitations described in "*Terms of Exchange Offer – New Bonds*", issue further New Discount Bonds. The Guarantee Limit is not required to be increased if further New Discount Bonds are issued and so, in these circumstances, the level of payment protection provided by the Guarantee Agreement for existing holders of New Discount Bonds will be reduced.

Guarantee Agreement on a "rolling, reinstatable" basis

The Guarantee has been granted on a "rolling, reinstatable" basis, which means that if the Guarantor is reimbursed in full for any payment which has been made by the Guarantor pursuant to the Guarantee, the portion of the Guarantee Limit which had been utilised by that payment will be reinstated. However, there can be no assurance that any such reimbursement will be made upon terms which would facilitate such reinstatement at the relevant time. For the avoidance of doubt and subject to "*Guarantee Agreement on a "non-accelerable" basis*" below, the Guarantee shall continue to "roll" for so long as it remains undrawn.

Guarantee Agreement on a "non-accelerable" basis

The terms of the Guarantee Agreement provide that it is only available for so long as the relevant New Discount Bonds have not been accelerated. Accordingly, if the New Discount Bonds have been accelerated in full pursuant to Condition 11 (*Default*), the Guarantor shall not be obliged to make any further payments to the Holders of the relevant New Discount Bonds. Similarly, if the relevant New Discount Bonds have been accelerated in part, the Guarantor shall not be obliged to make any further payments to the Holders of the New Discount Bonds with respect to that part of the New Discount Bonds which has been accelerated.

THE FEDERATION OF SAINT KITTS AND NEVIS

Overview

The Federation of Saint Kitts and Nevis (the "**Federation**"), also known as the Federation of Saint Christopher and Nevis, located in the Leeward Islands, is a federation of two islands with a combined area of about 104 square miles (269 square kilometres) and a current estimated population of 50,330 inhabitants, approximately 76 per cent. of whom reside in Saint Kitts. The Federation is situated about 225 miles southeast of Puerto Rico in the Eastern Caribbean. Basseterre is the capital of Saint Kitts and the administrative capital of the Federation. The currency is the Eastern Caribbean dollar (the "**EC Dollar**" or "**EC$**") which has been pegged to the United States Dollar (the "**US dollar**" or "**US$**") at a rate of EC$2.70 to US$1.00 since 1976.

The Federation is a constitutional monarchy with a parliamentary system of government. The head of state is the British Monarch who is represented in the Federation by a Governor General. The Governor General appoints the Prime Minister, and executive authority is vested in the Prime Minister and Cabinet, which the Prime Minister usually selects from his party members in the Parliament. The Federation is a common law jurisdiction, which has a stable and democratic system of government, and it became an independent nation on 19 September 1983. The present constitution provides for the separation of powers under the Governor General, Parliament, the Executive, the Judiciary and the Public Service. The constitution grants significant autonomy to the island of Nevis, which has a semi-autonomous Nevis Island Administration ("**NIA**") and a Deputy Governor-General who names the Premier.

History

At the time of European discovery, Carib Indians inhabited the islands of Saint Kitts and Nevis. Christopher Columbus landed on the larger island in 1493 on his second voyage and named it after Saint Christopher, his patron saint. Columbus also discovered Nevis on his second voyage, reportedly calling it Nevis because of its resemblance to a snow-capped mountain (in Spanish, "*nuestra senora de las nieves*" or our lady of the snow). European settlement did not officially begin until 1623, when first English, and then French, settlers arrived on Saint Christopher's Island, whose name the English shortened to Saint Kitts Island. As the first English colony in the Caribbean, Saint Kitts served as a base for further colonization in the region.

The English and French held Saint Kitts jointly from 1628 to 1713. During the 17th century, intermittent warfare between French and English settlers ravaged the island's economy. Meanwhile Nevis, settled by English settlers in 1628, grew prosperous under English rule. Saint Kitts was ceded to Great Britain under the Treaty of Utrecht in 1713. The French seized both Saint Kitts and Nevis in 1782. The Treaty of Paris in 1783 definitively awarded both islands to Britain. They were part of the colony of the Leeward Islands from 1871-1956, and of the West Indies Federation from 1958-62. In 1967, together with Anguilla, they became a self-governing state in association with Great Britain; Anguilla seceded later that year and remains a British dependency. The Federation attained full independence on 19 September 1983.

While historically sugar was a significant part of the Federation's economy, as a result of the unprofitable performance of the Saint Kitts Sugar Manufacturing Corporation ("**SSMC**") and the loss of preferential treatment which resulted in the increased tariffs in Europe, the Federation no longer grows sugarcane or produces sugar. The Federal Government has assumed the debt of the Saint Kitts Sugar Manufacturing Corporation. For a further discussion of the Federation's diversification of its economy away from the sugar industry, see "The Economy of Saint Kitts and Nevis—Overview" and "The Economy of Saint Kitts and Nevis—Principal Economic Activities."

Territory and Population

The Federation consists of two islands, Saint Kitts and Nevis. It is located about 225 kilometres southeast of Puerto Rico in the Leeward Islands group of the Lesser Antillean segment of the Caribbean Archipelago (i.e. in the Eastern Caribbean), with a total landmass of 104 square miles (269 square kilometres). The island of Saint Kitts is 23 miles long and 5 miles across at its widest, encompassing an area of 68 square miles (176 square kilometres). Nevis, the smaller island, is approximately 7 miles in diameter, covering a total of 36 square miles (93 square kilometres) and located approximately 2 miles (3 kilometres) southeast of Saint Kitts, across a shallow channel called "The Narrows". The Federation has a coastline of 84 miles (135 kilometres). The islands are generally mountainous, with the highest elevations of 1,156 miles (3,792 ft.) at Mt. Liamuiga on the island of Saint Kitts and 985 miles (3,232 ft.) at Nevis peak on the island of Nevis. Both islands are volcanic in origin with central mountain ranges that dominate the landscape and radiate downwards to the coasts. The islands have a tropical maritime climate largely influenced by the north-eastern trade winds and a mean temperature of 27˚C (80.6 F) with only small daily and seasonal variations. The primary urban hubs in Saint Kitts are the capital Basseterre, and the small towns of Sandy Point and Cayon. In Nevis, the population is concentrated in the capital, Charlestown.

The current population is estimated at 50,330 with approximately 76 per cent. residing in Saint Kitts. Basseterre, the administrative capital of the Federation and also the capital of Saint Kitts, has a population of approximately 13,000 inhabitants. The population is predominantly of African origin, with some of British, Portuguese, and Lebanese descent. According to current estimates, the average annual growth rate of the total population is 1.3 per cent., the median age is 32 years old and the average life expectancy at birth is 74.6 years old. The current estimate of the net immigration (immigration less emigration) rate is approximately 0.125 per cent. Out of the population that is over fifteen years old, about 97.8 per cent. has attended school.

Demographics Characteristics

	Year ended 31 December 2011 (est.)
Total population	50,330
Urban population (% of total population)	32
Population growth rate (% of total population)	1.3
Functional age – groups	
Child (0-14) (% of total population)	22.8
Age group (15-64) (% of total population)	69.6
Elderly (65 years and over) (% of total population)	7.6
Total median age	32
Life expectancy	
Life expectancy at birth (total population)	74.6
Fertility Rate (children born/women)	1.79
Birth Rate (% of total population)	1.407
Death Rate (% of total population)	0.71
Sex ratio	
Total population (male(s)/female)	1
At birth (male(s)/female)	0.99
Under 15 years (male(s)/female)	1.02
15-64 years (male(s)/female)	1.03
65 years and over (male(s)/female)	0.78

Source: Ministry of Finance.

Political and Legal System

The Federal Government Structure

The Federation is a common law jurisdiction with a constitutional monarchy and a parliamentary system of government. The British Monarch is the head of state and is represented in the country by a Governor General. Executive authority is vested in the British Monarch, the Prime Minister and the Cabinet, which is comprised of the Prime Minister, other ministers and the Attorney General, to carry on the functions of the government. The Governor General appoints the Prime Minister based on his ability to command the support of the majority of Parliament members. The Governor General appoints Cabinet ministers based on the advice of the Prime Minister. In the event of a no confidence vote by a majority of the members of Parliament, the Governor General could remove the Prime Minister. During this three-day period, the Prime Minister could resign or call for new elections after three days.

The Federation's unicameral legislature, called the National Assembly (the "**Assembly**") is responsible for making laws and is comprised of fourteen or fifteen members, eleven of whom are directly elected representatives while three are senators appointed by the Governor General (two on the advice of the Prime Minister and the third on the advice of the leader of the opposition). In addition, the Attorney General will automatically become a member of the Assembly if he is not appointed or elected. Of the eleven elected members, eight represent constituencies in Saint Kitts and the remaining three represent Nevis seats. The Assembly is elected every five years; the next election is constitutionally due in 2015.

The Federation has 14 parishes, which serve as administrative units of the Federal Government. Saint Kitts is divided into nine parishes, but it does not have a local government. Nevis is divided into five parishes, and it has a single island authority, the Nevis Island Administration ("**NIA**"), which is a local government within the

Federation. The Federation has four main political parties, which are Saint Kitts and Nevis Labour Party ("**SKNLP**"), the current ruling party; People's Action Movement ("**PAM**"), Concerned Citizens Movement ("**CCM**"); and Nevis Reformation Party ("**NRP**"). The CCM and NRP are Nevis-based parties.

Principal Government Officials of the Federal Government

Titles	Officials
Head of State	Queen Elizabeth II
Governor General	Dr. Cuthbert Montraville Sebastian
Prime Minister	Dr. Denzil Douglas
Deputy Prime Minister	Sam Condor
Minister of Education	Nigel Carty
Minister of Finance, Sustainable Development, Human Resource Development and National Security	Dr. Denzil Douglas
Minister of Health, Social Services, Community Development, Culture and Gender Affairs	Marcella Liburd
Minister of Homeland Security, Foreign Affairs, Labour and Social Security	Sam Condor
Minister of International Trade, Industry, Commerce, Agriculture, Consumer Affairs, Constituency Empowerment and Marine Resources	Dr. Timothy Harris
Minister of Justice and Legal Affairs	Patrice Nisbett
Minister of Public Works, Housing, Energy and Utilities	Dr. Earl Asim Martin
Minister of Tourism and International Transport	Richard Skerrit
Minister of Youth Empowerment, Sports, Information Technology, Telecommunications and Post	Glen Phillip
Attorney General	Patrice Nisbett
Ambassador to the United States	Jacinth Henry-Martin
Permanent Representative to the United Nations, New York	Delano Frank Bart

The Legal System

The Federation is a unicameral parliamentary democracy. Its judicial system is modelled on British practice and procedure and its jurisprudence is based upon English common law and statutory acts of the Assembly. In 2005, the Federation joined other Caribbean Community and Common Market ("**CARICOM**") member states in establishing the Caribbean Court of Justice ("**CCJ**"), a regional court with both original and exclusive jurisdiction for interpreting the provisions of the Revised Treaty of Chaguaramas 2001 (the "**CARICOM Treaty**") and appellate jurisdiction for municipal appeals from the member states. Although the Federation has signed on to CCJ's original jurisdiction, the necessary legislative approvals are not yet in place for accession to CCJ's appellate jurisdiction. Consequently, the London-based Privy Council remains as the country's highest court of appeal other than for disputes relating to election laws or the CARICOM Treaty.

Elections

The Federation has enjoyed a long history of free and fair elections, although the outcome of elections in 1993 was strongly protested by the opposition and the Regional Security System (the "**RSS")** was briefly deployed to restore order. The elections in 1995 were contested by all four major parties - the ruling PAM party, the SKNLP, the CCM and the NRP. The SKNLP won seven of the eleven seats, with Dr. Denzil Douglas becoming Prime Minister. In the 2010 elections, Dr. Denzil Douglas and the SKNLP returned to power, winning six of the eight seats allotted to Saint Kitts in the Parliament. The Nevis-based CCM won two seats, the NRP won one seat, and the PAM party won two seats. The next elections are constitutionally due in November 2015.

Nevis

The NIA consists of the Nevis Island Assembly, a Premier, and a Deputy Governor General. The Nevis Island Assembly is composed a cabinet headed by the Premier. The Premier appoints the cabinet from members elected to the assembly.

Principal Government Officials of Nevis

Titles	Officials
Deputy Governor General	Hon. Eustace John cmg
Premier	Hon. Joseph Walcott Parry
Deputy Premier	Hon. Hensley Daniel
Minister of Finance, Statistics & Economic Planning, Education & Library Services, Human Resources, Tourism and Labour	Hon. Joseph Walcott Parry

Titles	Officials
Minister of Health, Gender and Social Affairs, Youth and Sports, Community Affairs, Trade and Industry, Culture, Telecommunications and Information	Hon. Hensley Daniel
Minister of Communications, works, Public Utilities, Posts, Physical Planning, Natural Resources and Environment, Agriculture, Lands, Housing, Co-operatives and Fisheries	Hon. E. Robelto Hector

Nevis has the power to borrow money and pass laws, but the Federation controls its foreign policy and national security. Nevis has its own consolidated fund, the Nevis Island Administration's Consolidated Fund, and has the full authority to manage these financial resources and negotiate repayments. With respect to debt issued by Nevis or public entities based in Nevis without an explicit guarantee from the Federal Government, the Federal Government does not have any obligation to guarantee that debt.

Under certain specified conditions, Nevis may secede from the Federation. In accordance with its rights under the constitution, in 1996 the NIA, under the leadership of the former Premier, Vance Amory, initiated steps towards secession from the Federation, including a referendum in 1998 that failed to secure the required two-thirds majority of eligible voters for secession.

National Security

The Federation has both a police force and a defence force. The defence force includes the coast guard, and it works in concert with the RSS. The Federation is not currently involved in any hostilities.

International Relations

The Federation maintains diplomatic relations with the United States (the "**U.S.**"), Canada, the United Kingdom, France, Russia, Taiwan, Cuba, and South Korea, as well as with many Latin American countries and neighbouring Eastern Caribbean states. It is a member of the Commonwealth, the United Nations (the "**UN**"), the International Bank for Reconstruction and Development (the "**World Bank**"), the International Monetary Fund (the "**IMF**"), the Caribbean Development Bank (the "**CDB**") the Organization of American States (the "**OAS**"), the Organization of Eastern Caribbean States (the "**OECS**"), the RSS, the African, Caribbean and Pacific States and the CARICOM. The Eastern Caribbean Central Bank (the "**ECCB**") is headquartered in Saint Kitts.

Association of Caribbean States

The Federation is a full member of the Association of Caribbean States (the "**ACS**"). The ACS was created by treaty in July 1994, and other members include the fifteen signatories to CARICOM (the regional common market established by the Treaty of Chaguaramas in 1973 to promote the integration and development of the economies of its fifteen member states, including the twelve independent English-speaking Caribbean territories, Haiti, Suriname and Montserrat), other non-Commonwealth countries in the Caribbean and several Latin American nations. The ACS was established primarily to further regional economic integration and cooperation in the areas of science and technology, energy, tourism, transport, education and culture, as well as to coordinate the participation of member states in multilateral forums and to undertake concerted action to protect the environment, in particular the Caribbean Sea.

The Organization of Eastern Caribbean States

The Federation is a full member of OECS, which became effective on 18 June 1981, when seven Eastern Caribbean countries, including Antigua and Barbuda, Commonwealth of Dominica, Grenada, Montserrat, Saint Lucia, Saint Vincent and the Grenadines and the Federation signed a treaty in Basseterre (known as the Treaty of Basseterre), the Federation's capital city, agreeing to cooperate with each other and promote unity and solidarity among the members. In addition to the initial seven signatories, the OECS also has two associate members, Anguilla and the British Virgin Islands. OECS was created to promote co-operation and economic integration among the member states and the regional and international level.

The Caribbean Financial Action Task Force

The Caribbean Financial Action Task Force against money laundering (the "**CFATF**"), is the Caribbean sister organization of the Financial Action Task Force (the "**FATF**"), which was established in Paris in 1989 as an independent international institution designed to promote cooperation in combating criminal money laundering. The Federation joined CFATF in 2001 and has implemented most of the recommendations of both the FATF and the CFATF, most notably the establishment of a Financial Intelligence Unit to monitor unusual transactions and the reforms in the offshore regime and the Free Zone. The Federal Government takes an active role in the CFATF and is committed to implementing of further recommendations on an ongoing basis.

European Union

The Federation is a party to the multilateral Economic Partnership Arrangement, which is an agreement between the European Union (the "**EU**") and several countries in Africa, the Caribbean and the Pacific. This agreement was negotiated with the EU on a regional level by CARICOM. The arrangement grants the Federation greater access to European markets for both consumer goods and professional services. This agreement also provides technical support to the Federation, and the EU is currently one of the largest grant providers to the Federation.

United States of America

In addition to membership in the international organizations above, the Federation currently has a wide variety of areas of cooperation and agreements with the United States, with an emphasis on law enforcement in general, and drug interdiction and enforcement in particular.

The Federation is a beneficiary of the U.S. Caribbean Basin Initiative (the "**CBI**"), which became effective on 1 January 1984 and was amended in 1990. It is a program of economic assistance by the United States to Caribbean countries designed to stimulate economic growth and to present new opportunities for development in the region. Under the CBI, the Caribbean Basin Economic Recovery Act provides for duty-free access of Caribbean products exported to the United States if certain requirements are met. Because Saint Kitts' and Nevis' economy is predominantly service-oriented and it has minimal merchandise exports, the benefits under the CBI are relatively limited.

The Federation also receives assistance from the United States through multilateral agencies such as the World Bank and the CDB, as well as the U.S. Agency for International Development ("**USAID**") office in Bridgetown, Barbados. In addition, it benefits from U.S. military exercises and humanitarian civic action construction projects. The Federal Government also cooperates with the United States in the fight against illegal narcotics. In 1995, the Federation signed a maritime law enforcement treaty with the United States, later amended with an overflight/order-to-land amendment in 1996. It also signed an updated extradition treaty with the United States in 1996, and a mutual legal assistance treaty in 1997.

In December 2011 the Federation became the first country in the OECS to sign an Open Skies Agreement with the United States. This initiative is expected to support the move towards a more liberal, market-based aviation environment and reduce the lead time for negotiating new market access arrangements.

Healthcare

The public health care delivery system is comprised of a network of hospitals and health clinics on both islands. The main hospital in Saint Kitts is the Joseph N. France Hospital which has approximately 150 beds. The Alexandra Hospital in Nevis has approximately 50 beds. There are also two district hospitals in Saint Kitts that offer basic inpatient services. In addition, there are eleven health centres in Saint Kitts and six health centres in Nevis. As of the date of the Disclosure Memorandum the Federal Government provides funding for healthcare for children under age 18, senior citizens over the age of 62, prisoners and indigent people. In 2011, the Federal Government spent EC$54.9 million on healthcare for citizens of the Federation. The Federal Government allocates healthcare funding from its annual budget.

Education

Human capital development is one of the major components of the country's economic and social strategy. Through sustained investment in education, the Federation has been able to provide universal access to primary education for over four decades and was one of the first Caribbean countries to achieve the goal of universal access to secondary education. At the tertiary level, the public system provides access to local community colleges and a vocational training. Public funds are also used to support a student loan scheme and a merit-based scholarship programme for university level training. The findings of the 2009 Labour Force Survey show that approximately 44.4 per cent. of the labour force has completed a 5 year secondary school programme, 17 per cent. has completed post secondary programmes (sixth form, community college and vocational) and 7.2 per cent. has completed university level training.

Since 2006 the Federation has been able to meet or exceed all targets for the Millennium Development Goals ("**MDGs**") and Caribbean Millennium Development Goals ("**CMDGs**") in relation to gender parity participation in basic education and the empowerment of women in higher education.

The education system is governed through a well-defined and up-to-date policy and regulatory framework which includes the Education Act (2005); an Education Plan (2007-2011) and a White Paper on Education Development and Policy (2009-2019). Standardised testing and measurement systems are in place, and there is a common and evolving curriculum for both the pre-primary and primary levels. Public expenditures on education was estimated to be $86.8 million (4.5 per cent. of GDP) in 2011. The Federal Government allocates funding for education from its annual budget.

Pension System

The Federation offers social security benefits, and both Saint Kitts and Nevis have government pension systems. The social security system is funded through a payroll tax of all employees, and pension benefits are available to citizens upon reaching the age of 62. The social security program is solvent. The government pension system is funded as part of the Saint Kitts and NIA annual budget and is available to Federal Government employees after reaching the age of 55. Civil Servants who have been employed for at least 15 years but are not yet 55 are also eligible to receive a pension at age 50. The government pension benefits are based on a percentage of the average salary and wages of the three years of employment prior to eligibility to receive benefits. Saint Kitts and Nevis are both considering reform of their pension systems as part of a regional pension reform initiative.

Infrastructure

Airport and Air Services

The Federation has one major commercial international airport, the Robert L. Bradshaw International Airport, located in Saint Kitts, which receives flights from a variety of locations including but not limited to the United States, Canada, the United Kingdom and Puerto Rico. On average there are 6,500 commercial flights per year into Saint Kitts. The airport is serviced by American Airlines, American Eagle, Delta Air Lines, Sky Services, US Airways, British Airways and LIAT, the regional airline. Air cargo services are provided by various freight forwarders, including Amerijet, DHL, Fedex, and UPS. Since 2005, the Federation has invested in excess of US$10 million in the development of the airport. The Federation is also building a new private plane terminal in Saint Kitts, which is scheduled to be completed by December 2012. Annual passenger arrivals have exceeded 350,000 for the last 5 years.

Nevis also has a smaller international commercial airport, which does not receive commercial jet aircraft. Currently Nevis plans to increase the 4,000-foot runway by 1,000 feet, which would allow larger jets, including personal jets for tourists visiting the Four Seasons, to land..

Ports

Port Zante, which is also located in Basseterre is capable of accommodating any of today's largest ships, including the "Oasis" and "Eagle" class vessels. Port Zante is one of only two ports in the English-speaking Caribbean that can accommodate the world's largest cruise vessels, and it offers a wide range of products and services to visiting cruise passengers, including duty free shopping, restaurants, taxi stands, tour operators and banking facilities. For the last three years, Port Zante has received an annual average of 275 cruise ship calls. Cruise passenger arrivals expanded by 13.7 per cent. in 2010 and, based on berthing bookings, it is projected that approximately 650,000 cruise passengers will arrive in Saint Kitts during the current season. 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.

Saint Kitts also has the deep water port in Basseterrere, which has been outfitted with the necessary facilities and expertise to handle a diverse range of goods while providing quick turnaround for ships and their cargo. The port can accommodate vessels of up to 900 ft. in length with a draught of 27 ft. The port averages a five-hour turnaround time on cargo vessels and offers 24-hour pilotage services. Other services include container storage next to each berth as well a spacious park to accommodate the port's growing traffic in containers. The main imports handled at the port include building materials, cement, fuel oils, lumber and vehicles. Total port throughput has averaged 300,000 tons for the last 5 years with imports accounting for about

270,000 tons (90 per cent.) and transshipment cargo accounted for the remaining 30,000 tons (10 per cent.). Tropical Shipping, Bernuth Lines, Seaboard Marine and Geest Line provide liner services.

Saint Kitts also has a marina that can accommodate as many as 65 boats of up to 350 ft. in length. The marina offers refuelling facilities, cable television, electricity and water. A private investor is also currently constructing a marina for mega yachts as part of a resort development complex on the south east peninsula of the island.

Nevis has a small port that can accommodate smaller cruise ships that can be tendered. The port handles some import and export of goods.

Road Network

The road infrastructure in the Federation has 320 kilometres (199 miles) of roads of which 136 kilometres (84 miles) are paved. There are 58 kilometres (36 miles) of railway track in Saint Kitts which was previously used for transportation of sugar cane. Since the closure of the sugar industry in 2005, the railway system has been used for sightseeing.

Electricity/Telecommunications

Saint Kitts and Nevis has no natural power resources and must import fuel, mostly oil from Venezuela, for electricity generation. Telecommunications have improved in recent years with widespread access to telephones and the increased use of cellular phones and the Internet. There are no recent statistics, however, regarding telecommunications.

Public Infrastructure

The Federal Government invested EC$8.1 million (US$3.0 million) in the transportation sector in Saint Kitts in 2010 and EC$8.6 million (US$3.2 million) during the first three quarters of 2011. The main expenditures consisted of the construction of the West Basseterre By-Pass Road (EC$5.0 million (US$1.8 million) in 2010 and EC$2.4 million (US$0.9 million) in 2011); the restoration of a sea defence wall and the construction of a guard rail (EC$3.2 million (US$1.2 million) in 2010 and EC$3.1 million (US$1.1 million) in 2011); the construction of a storm drain (EC$1.9 million (US$0.7 million) in 2011) and repairs to the Irishtown Bay Road (EC$1.1 million (US$0.4 million) in 2011). Other public infrastructure in Saint Kitts and Nevis includes water, sewage and waste management, health and education.

Litigation

The Federal Government is currently litigating against a number of foreign landowners regarding compensation to landowners in connection with compulsory acquisitions of their property. In many of the cases, the landowners have challenged the amounts that judicial tribunals have awarded them. The Federation expects these cases to be resolved without any material effect on its interests. The Federal Government and the NIA are not parties to any other litigation that would be considered material in the context of the transactions contemplated by the Disclosure Memorandum.

Narcotics

The Federation is not a source of illegal narcotics. However, the proximity of the Federation to South America makes it an attractive transhipment point for narcotics destined for the United States. At present, most narcotics transhipments affecting the Federation occur in or through its coastal waters. The RSS has responsibility for investigating large-scale drug trafficking crimes. The governments of the United States and the Federation have agreed to work more closely to combat drug trafficking on a coordinated basis.

THE ECONOMY OF SAINT KITTS AND NEVIS

Overview

The economy of the Federation was traditionally based on the manufacturing of sugar but decreasing world prices and the collapse of the preferential price system negatively affected the industry, which led to the eventual closure of the industry in 2005. Since that time, the service sectors have dominated economic activity and the main economic drivers have been international financial services, real estate, construction, wholesale and retail trading, transport and communications and tourism. Together, these activities accounted for about 80 per cent. of gross domestic product ("**GDP**") in 2011. In the last decade, two major external events interrupted the country's growth process – the September 2001 terrorist attacks and the 2008 global financial and economic crisis in the aftermath of which real GDP contracted by 5.6 per cent. in 2009 and by 2.7 per cent. in 2010. Preliminary estimates indicate that the economy remained flat in 2011 and the Federal Government projects a 1.9 per cent. growth rate for 2012. The table below provides an overview of the sectoral composition of GDP from 2007 to 2011.

ST KITTS AND NEVIS
PERCENTAGE CONTRIBUTION OF GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY AS BASIC PRICES, IN CONSTANT (2006) PRICES

	2007	2008	2009	2010	2011 Proj.
Agriculture, Livestock and Forestry	**0.93**	**0.92**	**0.89**	**0.96**	**0.98**
Fishing	**0.48**	**0.51**	**0.47**	**0.41**	**0.45**
Mining and Quarrying	**0.18**	**0.12**	**0.20**	**0.15**	**0.15**
Manufacturing	**7.19**	**7.61**	**6.48**	**6.81**	**7.22**
Electricity and Water	**1.47**	**1.45**	**1.64**	**1.61**	**1.72**
Electricity	0.95	0.91	0.98	1.03	1.04
Water	0.53	0.54	0.66	0.58	0.67
Construction	**20.21**	**18.48**	**16.59**	**15.01**	**13.82**
Wholesale Retail and Trade	**7.24**	**7.72**	**6.92**	**6.75**	**6.35**
Hotels and Restaurants	**7.15**	**7.13**	**5.53**	**5.87**	**6.22**
Hotels	6.93	6.91	5.34	5.67	6.01
Restaurants	0.22	0.21	0.19	0.20	0.21
Transport, Storage and Communications	**11.13**	**11.93**	**12.65**	**14.02**	**14.22**
Transport and Storage	5.98	6.46	6.57	7.17	7.27
Communications	5.15	5.48	6.08	6.84	6.95
Financial Intermediation	**14.09**	**13.45**	**13.34**	**13.35**	**13.37**
Real Estate, Renting and Business Activities	**16.26**	**16.56**	**18.07**	**19.15**	**19.17**
Public Administration, Defence and Compulsory Social Security	**7.73**	**7.87**	**9.69**	**8.46**	**8.55**
Education	**4.51**	**4.58**	**5.13**	**5.56**	**5.71**
Health and Social Work	**2.58**	**2.53**	**2.79**	**2.66**	**2.65**
Other community, social and personal services	**0.87**	**0.97**	**1.08**	**0.91**	**0.86**
Private Households with Employed Persons	**0.35**	**0.33**	**0.34**	**0.33**	**0.35**
Less FISIM	**2.37**	**2.17**	**1.80**	**1.99**	**1.79**
TOTAL	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

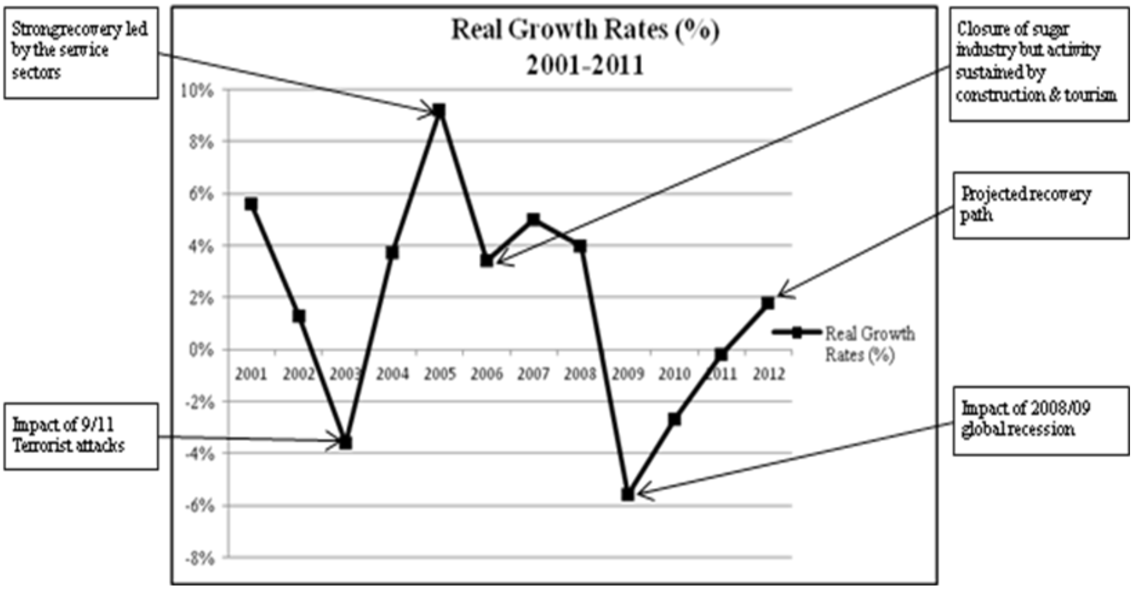
SOURCE: ST KITTS AND NEVIS STATISTICS DEPARTMENT / ECCB

The Federation was ranked 72nd out of 187 countries in the 2011 United Nations Human Development Index ("**HDI**"), down from 62nd in 2009. Among the Anglophone Caribbean countries, the Federation ranked 5th behind Barbados (47th), The Bahamas (53rd), Antigua and Barbuda (60th) and Trinidad and Tobago (62nd).

While the country's ranking has fallen, its HDI score has remained unchanged. The 2011 estimate of per capita income is US$12,791 and public expenditure on health and education is estimated at 1.8 per cent. and 3.1 per cent. of GDP, respectively. Life expectancy at birth is 74.6 years and infant mortality is 9.6 per thousand live births.

The Federation is a member of the Eastern Caribbean Currency Union (the "**ECCU**"). The Eastern Caribbean Central Bank (the "**ECCB**") issues the EC Dollar for all members of the ECCU. The ECCB also manages monetary policy, and regulates and supervises commercial banking activities in its member countries. The ECCB has kept the EC$ pegged at EC$2.7 to US$1.

Recent Economic Performance and Near Term Prospects



Following a 5.6 per cent. decline in 2009, the economy declined by a further 2.7 per cent. in 2010. The tourism sector declined 26.7 per cent. due to weakened demand in the Federation's major source markets and the closure of a major resort hotel in Nevis, which employed 500 workers, as a result of hurricane damage. The construction sector contracted by 15.3 per cent. in 2008 and 11.3 per cent. in 2010 as work slowed on several tourism-related investment projects. Net foreign direct investment flows fell from 24 per cent. of GDP in 2008 to 19 per cent .and 16.1 per cent. in 2009 and 2010, respectively. Additionally, the primary balance of the fiscal account was negative in 2010.

A steady recovery was experienced in the first half of 2011 led by improved performances in the financial intermediation, tourism and manufacturing sectors. On a period to period basis, the rate of inflation in 2010 was about 1 per cent. as compared with the 2.1 per cent. recorded in 2009. Principally as a result of the pass-through effect of the rising fuel and corresponding utility prices and the introduction of the Value-Added Tax ("**VAT**") in November 2010, it is estimated that the rate of inflation increased to 6.3 per cent. (on a period average basis) in 2011. The external trade balance improved marginally as a result of reduced domestic demand levels and higher levels of re-exports. Projected fiscal results for the Federal Government for 2011 indicate that, mainly due to ongoing fiscal adjustment efforts, the consolidated account will record a primary surplus of EC$89.3 million and an overall deficit of EC$40.5 million for the fiscal year ended December 31, 2011. This would be a significant improvement over the previous year in which the primary deficit was EC$14.9 million and the overall deficit was EC$141.9 million.

The total public sector debt stock was EC$2,802.8 million as at September 30, 2011. Available indicators suggest that the economy remained flat in 2011, particularly in light of continued uncertainty in external market conditions. The following table presents some of the key indicators of recent economic performance along with a summary of the 2012 outcomes targeted by the Federal Government’s current policy agenda.

	2005	2006	2007	2008	2009	Prel. 2010[8]	Proj. 2011[9]	Proj. 2012[9]
	(Annual percentage change; unless otherwise specified)							
National income and prices								
Real GDP (factor cost)	9.2	3.5	5.0	4.0	(5.6)	(2.7)	0.0	1.5
Consumer prices, end-of-period	6.0	7.9	2.9	6.5	1.2	5.0	1.4	2.2
Consumer prices, period average	3.4	8.5	4.5	5.3	2.1	0.7	6.3	2.3
Real effective exchange rate (end-of-period)[1]	2.8	2.2	(5.5)	12.8	(3.8)	(5.6)	-	-
Banking system								
Net foreign assets[1]	7.8	6.4	6.9	11.6	(8.4)	1.1	4.7	1.5
Net domestic assets[1]	(1.2)	7.3	5.0	(10.0)	14.3	7.8	1.3	2.5
Of which								
Credit to private sector[1] [2]	5.8	8.4	8.6	4.3	4.1	2.6	2.0	2.6
Broad money[2]	6.6	13.6	11.9	1.6	5.9	8.9	6.0	4.1
Of which								
Money	2.3	14.5	12.2	11.4	(3.1)	43.1	6.0	4.1
Quasi-money	7.3	13.5	11.9	0.0	7.5	3.3	6.0	4.1
	(In percent of GDP)							
Public sector[3]								
Primary balance	3.3	3.7	2.7	2.6	3.7	(0.8)	4.6	3.4
Overall balance	(3.3)	(3.9)	(3.5)	(3.9)	(2.9)	(7.8)	(2.1)	(3.0)
Current revenue	30.0	28.5	27.8	27.2	29.0	28.2	30.9	26.1
Grants	2.2	2.1	1.5	1.4	3.6	2.8	3.5	4.0
Current expenditure	30.1	28.4	26.7	27.3	30.4	31.7	32.4	27.2
Capital expenditure and net lending	5.4	6.2	6.1	5.3	5.1	7.1	4.2	5.9
Foreign financing	(3.3)	(0.3)	(1.2)	3.5	0.2	1.3	0.7	(4.1)
Domestic financing	14.5	4.7	2.8	(4.4)	2.1	6.2	(4.4)	0.4
Sale of assets	0.3	0.4	2.0	3.1	1.7	0.7	3.2	0.2
Statistical discrepancy	-8.1	-0.9	0.0	1.0	(2.2)	(2.9)	-	-
Financing gap[4]	-	-	-	-	-	-	0.0	14.0
Total public debt (end-of-period)	159.9	145.3	134.0	128.4	145.1	163.0	151.3	148.2
Of which								
Central government[5]	101.0	108.8	101.5	97.9	111.5	127.4	120.0	118.1
Public enterprises[5]	58.9	36.5	32.5	30.5	33.5	35.7	31.3	30.1
Public debt service (percent of total revenue and grants) [6]	32.5	34.3	30.1	28.4	25.2	25.9	29.3	60.3
External sector								
External current account balance	(14.9)	(15.8)	(18.1)	(25.6)	(26.0)	(21.4)	(22.5)	(21.4)
Trade balance	(22.7)	(25.6)	(26.4)	(29.3)	(28.6)	(24.4)	(27.4)	(26.9)
Services, net	12.7	12.1	10.3	5.5	4.7	4.5	5.2	5.7
Of which								
Tourism receipts	22.6	20.9	18.1	14.9	12.1	12.2	12.7	13.2
Transfers, net	4.5	5.1	4.2	4.5	4.2	4.6	4.7	4.7
Net capital inflow[7]	13.7	18.5	19.1	26.8	26.7	23.7	20.6	14.2
FDI (net)	17.3	17.5	19.5	24.0	19.0	16.1	16.4	16.7
External financing gap	-	-	-	-	-	-	0.0	14.5
External public debt (end-of-period)	62.5	52.3	43.7	43.6	46.5	50.5	46.5	35.4
	(In percent of exports of goods and nonfactor services)							
External public debt service	22.0	22.7	21.0	18.8	21.8	19.6	33.2	24.3
External public debt (end-of-period)	147.8	139.7	130.6	140.3	172.4	183.0	163.9	122.3
Memorandum items								
Net imputed reserves, end-of-period								
(in millions of U.S. dollars)	71.5	88.6	95.6	110.2	122.9	155.7	171.1	169.3
(in percent of broad money)	15.1	16.5	15.9	18.0	19.0	22.1	22.9	21.8
Holding of SDRs , millions of U.S. dollars	-	-	-	-	13.3	12.8	12.8	12.8
Nominal GDP at market prices (in millions of EC dollars)	1,448.3	1,699.7	1,861.6	1,998.3	1,859.4	1,817.6	1,927.2	2,005.5

Economic and Financial Indicators, 2005-12

Sources: Saint Kitts and Nevis authorities; ECCB; UNDP; World Bank; and Fund staff estimates and projections.

(1) In relation to broad money at the beginning of the period.

(2) Data from 2009 includes non-bank financial institutions and subsidiaries and affiliates as parts of private sector to reflect the changes in definition in Jan 2009.

(3) Central government unless otherwise noted.

(4) The financing gap to be closed through debt restructuring and IMF financing.

(5) St. Kitts Sugar Manufacturing Corporation (SSMC) debt included in central government debt since 2006.

(6) Includes interest and external amortisation of central government.

(7) Includes errors and omissions

(8) Preliminary only

(9) Projections only

The medium term outlook is cautiously optimistic but limited fiscal space will constrain the country's flexibility to respond to any adverse external shocks related to either the continuing uncertainty in global market or weather conditions. The pace of public sector investment will depend on grant contributions which account for about 69 per cent. of planned capital expenditures. Private sector construction activity is expected to increase with the advancement of major resort development projects and the continuation of tax incentives for new home construction. During the course of 2012, a mega yacht facility at Christophe Harbour is scheduled to become operational, and the first phase of the five star Kittitian Hill hotel development project is scheduled for completion. Major renovations will also begin at another hotel facility.

The tourism sector is expected to continue its recovery , supported by increased visitor arrivals and the implementation of a number of policy and investment initiatives aimed at product diversification. Based on berthing bookings, cruise ship visitor arrivals are projected to exceed 650,000 in 2012, while the stay-over segment, which has declined in recent years, should benefit from improved access to the North American market as a result of the inauguration of direct weekly flights from Toronto. Stay-over visitor arrivals are expected to grow approximately 5 per cent. in 2012. On the policy front, in December 2011 the Federation became the first country in the OECS to sign an Open Skies Agreement with the United States. New infrastructure investments include the construction of a private jet terminal and the development of an agro-tourism demonstration farm. These projects are expected to be completed over the next two years.

The manufacturing sector is also expected to rebound after recording positive growth of 2.2 per cent. in 2010 and 6.6 per cent. for the first six months of 2011 - a marked improvement from the decline of 19.6 per cent. recorded in 2009. This is attributed to an increase in the export of electronic components. Notwithstanding the soft market conditions in the US, the outlook is for continued expansion of output by the manufacturing sector which is expected to benefit from the imminent conclusion of a Partial Scope Agreement with Brazil and access to new markets in Eastern Europe. Output in the agricultural sector is forecasted to rebound as the Federal Government continues to provide training, equipment and product development support to the farming community. Infrastructure development in this area will focus on providing water to farmers who cultivate in the higher altitudes.

Economic Development Strategy

The National Sugar Adaptation Strategy 2006-13 sets out a framework for economic development. The Adaptation Strategy was approved in 2006 and its preparation involved a comprehensive analysis of the major development issues and challenges facing the economy in the aftermath of the closure of the sugar industry, which had dominated the socio-economic landscape of the Federation for more than three hundred and fifty years. The Adaptation Strategy lays out five main strategic lines of action for adjusting to a post-sugar economy and accelerating and sustaining economic growth. These pillars are:

(i) **Macroeconomic Policies to Reduce Vulnerability and Facilitate Investment**: This focuses on the achievement of fiscal sustainability through improved management of fiscal deficits, the reduction of debt to GDP ratios and the restoration of debt sustainability. To achieve these objectives, the Federal Government will create a fiscal consolidation programme which combines tax reforms and expenditure management initiatives, as well as programmes to strengthen fiscal institutions.

Improving Competitiveness in the Production and Export of Goods and Services: The planned actions target the transformation of the agriculture sector and the expansion of the services sector. In the agriculture sector, the strategy focuses on supporting competitive commercial farming through a combination of infrastructure development and enterprise development interventions. The key service sectors targeted are tourism and information and communications technology ("**ICT**"). In tourism, the strategy emphasizes responsiveness to changing market demands, infrastructure upgrades and new product development and promotional initiatives. The ICT plan emphasizes a selective approach to the mix of products, a realistic entry strategy and the upgrade and reform of the Federation's telecommunications infrastructure and legislative framework.

Social Policies to Support Economic Development and Protect the Most Vulnerable: This action line focuses on strengthening the country's human capital base by strengthening social safety net programmes, increasing investments in education and training (especially at the technical level) and the implementing comprehensive crime reduction plans.

Ensuring an Environmentally Sustainable Development Agenda: To mitigate potential environmental management risks resulting from the closure of the sugar industry, this plan focuses on systems to provide conservation services that were previously supplied by the Sugar Manufacturing Company. It also includes land use planning and management, watershed management, coastal management and disaster management.

Cross-Cutting Issues: These focus on supply side interventions that are necessary to make the Federation more competitive. These include modernizing public services, preparing for effective participation in the CARICOM Single Market and developing infrastructure.

Principal Economic Activities

Tourism

Tourism is a major driver of economic growth, employment and foreign exchange earnings. While the hotel and restaurant sector only accounts for about 7 per cent. of GDP, tourism related activities underpin performance in other key sectors like construction, wholesale and retail, real estate renting and transport. Tourism is the largest private sector employer, directly accounting for about 2,500 jobs or about 12 per cent. of the employed labour force. Tourism receipts account for about 65 per cent. of foreign exchange inflows generated by the service sectors and play an important role in containing the external current account deficit. Tourism related construction activity has been the dominant contributor to recent foreign direct investment flows, which have been averaging about 21 per cent. of GDP over the last five years.

The countries which account for the majority of stayover visitors are the US, which accounts for 60 per cent. of arrivals, Caribbean countries (22 per cent.); the United Kingdom (9 per cent.) and Canada (6 per cent.). The number of arrivals from Caribbean countries includes tourists coming from other countries through the Caribbean nations. Current market conditions reflect the generally slow pace of economic recovery in the major source markets, intensifying competition for market share and the continuing reconfiguration of the composition of visitor arrivals as the rate of growth of cruise ship visitors continues to outpace the rate of growth of stay-over visitors. While the Federation has welcomed the increase in cruise ship visitors, the daily spend of stay-over visitors is significantly higher.

Reflecting the impact of the recent global downturn on the household incomes in the major source markets, the sector decreased sharply by an estimated 26.8 per cent. in 2009. Since then, the sector recorded a 3.3 per cent. growth rate in 2010 and is projected to grow by 5.9 per cent. in 2011. Main drivers of the turnaround have been increases in arrivals from the main source markets of the United States, United Kingdom and Europe and the re-opening of the Four Seasons Resort in late 2010. The increases in visitor arrivals have been driven by the cruise ship segment since stay-over arrivals still remain approximately 30 per cent. below the peak level attained in 2006. Cruise passenger arrivals expanded by 13.7 per cent. in 2010 and, based on berthing bookings, it is projected that approximately 650,000 cruise passengers will arrive in Saint Kitts during the current season. Port facilities are currently capable of accommodating any of today's largest ships, including the "Oasis" class vessels.

The table below summarizes visitor arrivals and expenditure performance over the five year period 2007-2011. An important feature of recent performance is the on-going restructuring of the composition of total visitor arrivals, which increased by 79 per cent. over the period. While cruise ship arrivals increased by about 126 per cent., arrivals in the higher spending stay-over category declined by 16 per cent. and total visitor expenditure fell by 22 per cent.

Visitor Arrivals and Expenditures

	2007	**2008**	**2009**	**2010**	**2011**
Total Visitor Arrivals	**379,473**	**533,353**	**547,561**	**622,151**	**679,396**
Stay-over Arrivals	**123,062**	**127,705**	**93,081**	**98,682**	**103,616**
USA	69,894	76,455	54,410	58,945	N/A(2)
Canada	7,116	7,805	6,413	6,075	N/A(2)
UK	12,162	9,970	6,496	8,456	N/A(2)
Other Europe	2,327	2,262	1,394	1,707	N/A(2)
Caribbean(1)	28,822	28,982	22,410	21,266	N/A(2)
Other/Not Stated	2,741	2,231	1,958	2,233	N/A(2)
Excursionist	5,177	3,920	3,718	6,961	7,657
Cruise Ship/Yacht Passenger	251,234	401,728	450,762	516,508	568,123
Cruise Ship Passengers	249,323	400,916	450,553	515,787	567,366

	2007	2008	2009	2010	2011
Yacht Passengers	1,911	812	209	721	757
Stay-Over					
Hotel and other Paid Accommodation	67,684	70,238	51,195	54,275	56,989
Private Homes and Other Not States	55,378	57,467	41,886	44,407	46,627
Average Length of stay (days)					
Excursionist	1.0	1.0	1.0	1.0	1.0
Cruise Ship/Yacht Passenger	1.0	1.0	1.0	1.0	1.0
Cruise Ship Passengers	1.0	1.0	1.0	1.0	1.0
Yacht Passengers	1.0	1.0	1.0	1.0	1.0
Stay-Over					
Hotel and other Paid Accommodation	7.0	7.0	7.0	7.0	7.0
Private Homes and Other Not States	12.5	12.5	12.5	12.5	12.5
Number of Cruise Ship Calls	**242**	**232**	**235**	**293**	**N/A**(2)
Visitor Expenditure EC$ Millions	**336.92**	**297.17**	**225.41**	**242.78**	**261.53**

(1) Includes tourists coming from other countries through the Caribbean nations.
(2) Not available

Federal Government Initiatives

In addition, the investments made in support of the marketing strategy and direct airlift capacity continue to play an important role in the recovery of the sector and in laying a sound foundation for consolidating the full revitalization of the sector when external market conditions stabilize. At the same time, in the face of intensifying competition in the market place, the Federal Government is committed to focusing on a safe and secure visitor experience, convenient airlift and a more sophisticated tourism infrastructure. The marketing strategy will continue to be carefully targeted, cost-effective and closely aligned with the product offerings of Federation.

Recognizing the volatility in the global market, the Federal Government has taken a proactive approach to building and supporting international airlift services to ensure that both visitors and nationals can travel more easily to and from their destinations. The Federal Government therefore instituted a policy of increasing supported airlift with several airlines. This ensures that flights are available for people wishing to travel to the islands. Over the last year, this strategy has resulted in the addition by American Eagle of two new weekend rotations between San Juan and Saint Kitts and the inauguration of a new weekly service from Air Canada for the peak winter 2011/2012 travel season which ends in April 2012. By the inclusion of this new flight from Canada, the Federation has become a more viable winter destination choice for travellers from this key North American market and the Federation is optimistic that this new service to Toronto could be further developed into a year round service by 2013.

The Federation was the first country in the OECS to sign the Open Skies Agreement with the United States. This initiative is expected to support the movement towards a more liberal, market-based aviation environment and reduce the lead time for negotiating market access arrangements.

The Federation also created the Island Enhancement Fund, which is a tax on car rentals, tours and other tourist related activity. The resources generated by this Fund are used to further develop, promote, market and sustain the tourism sector.

Tourism Developments

In 2007, construction began on "Christophe Harbour", a US-investor funded US$500 million resort project currently under construction. This luxury residential resort development consists of 2,500 acres across the south east peninsula of Saint Kitts. When completed, the development will involve various property ownership options, a mega yacht marina, 18 hole golf course, restaurants, shopping and membership clubs. The area will be a designated port of entry into Saint Kitts, and will include customs and immigration facilities. Construction of the main membership club was completed in 2011, and the mega yacht facility is scheduled to be completed in 2012.

There is also construction work on several other upscale residential facilities, including the Kittitian Hill spa/resort development and the Ocean’s Edge and Silver Reef townhouse and apartment complexes.

In addition, to further expand arrivals from the higher end of the air passenger market, construction has recently started on a private jet terminal in Saint Kitts, which is scheduled to be completed by December 2012. This project is synergistic with other premium facilities, which are already being developed to serve a more upscale clientele.

In 2010, the owners of the Four Seasons resort in Nevis reopened this resort, and in March 2011, Nevis broke ground on the new six star Aman Hotel. Construction on the Aman Hotel is expected to begin in January 2013. To further appeal to the luxury tourist segment, uthe Charlestown Harbour Village project in Nevis will include an additional 25 exclusive shops. The NIA predicts that these changes will lead to further growth in the tourism sector in Nevis.

Manufacturing

The manufacturing sector accounted for about 7.2 per cent. of GDP in 2011 and employed about 2,000 persons. The three main industries are beverage and bottled water production mainly for the domestic market, cement block masonry production for the domestic market and electrical and electronic components for export. As was the case with tourism, the manufacturing sector contracted sharply in 2009 with output declining by 19.6 per cent as demand for electronic components weakened in the US market. Since the downturn in 2009, the sector has rebounded mainly due to an increase in the production of electronic parts for export and beverages for local consumption. In the medium term, the sector is expected to be an important beneficiary of the partial scope trade agreement that is currently being finalized with Brazil. This agreement should allow for certain goods manufactured in the Federation to be exported to Brazil without tariff.

Financial Services

Overview

The Federation's financial system is comprised of commercial banks, mutual funds, captive, international and domestic insurance companies, companies and partnerships, trusts, foundations and ship registration. As of December 2011, there were eight licensed financial institution operating in Nevis, including one offshore bank, four money services business, one credit union and two mutual fund administrators/managers. In Saint Kitts there were fourteen licensed financial institutions (five domestic banks, six money services business and three credit unions). In addition, there were 525 local companies, 10,999 international business companies, 4,361 limited liability companies, 290 international insurance companies, 983 international exempt trusts and 86 multiform foundations in Nevis. In Saint Kitts, there were 1,360 ordinary companies, 1,572 exempt companies, 170 exempt captive insurance companies, 10 limited partnerships, 48 trusts and 476 foundations registered.

The laws of Saint Kitts and the ordinances of Nevis are generally consistent. In effect, these laws allow foreign companies to register in the Federation free of local corporate income tax as long as they do not conduct business within the Federation. Companies that establish themselves in Nevis or Saint Kitts pay licensing and registration fees to either the Federal Government or the NIA depending on whether they are located in St Kitts or Nevis. More recently, both Nevis and Saint Kitts have begun to focus on the regulation of the non-bank financial sector, including insurance companies and credit unions to further diversify and streamline these sectors.

The Federation is a member of the Organization for Economic Co-operation and Development ("**OECD**") Global Forum on Transparency and Exchange of Information for Tax Purposes. In 2011, the Federation's legal and regulatory framework was examined by the Global Forum's Peer Review Group for effective tax co-operation and was found to be in full compliance with all elements of the Global Forum's standards with the exception of one minor issue pertaining to the availability of information for domestic general partnerships.

Regulation and Supervision of the Banking System

The ECCB is the main regulatory and supervisory authority for the financial sector. The ECCB was established in October 1983 and is the Monetary Authority for the eight island economies that participate in the ECCU. Monetary arrangements involve a single common currency, the flow of which is unrestricted among its members and a common pool of foreign exchange reserves. The ECCB is the Central Monetary Authority, which decides on the Union's monetary policy.

The ECCB regulates the availability of money and credit, promotes and maintains monetary stability and promotes credit and exchange conditions and a sound financial structure conducive to the balanced growth and development of the economies in the ECCU.

The governing bodies of the ECCB are the Monetary Council and the Board of Directors. The Monetary Council is the highest decision making authority. It is comprised of one Minister appointed by each government of the participating countries. The function of the Council is to provide directives and guidelines on matters of monetary and credit policy to the Bank. Each ECCU member country also has representation on the Board of Directors.

The regulatory framework of the domestic banking system has 2 main legislative components. First, there is the ECCB Agreement Act, 1983 and its amendments, which under Article 3 paragraph 2(e) of the ECCB Agreement Act give the ECCB the power to "regulate banking business on behalf of and in collaboration with Participating Governments." Second, there are the Banking Acts of the various territories of the Participating Governments which govern the regulation of banking business in those territories. These Banking Acts are uniform across member countries and their adoption facilitated the harmonization of banking business within the ECCU area. Over the period 2004 to 2006, the Banking Acts in the territories of the Participating Governments were revised and upgraded in relation to the Basel core principles.

The harmonized Banking Acts recognize the ECCB as the ECCU's Central Bank, with primary responsibility for the supervision of domestic banks. The ultimate authority for regulating institutions covered by this Act is jointly vested in the Minister of Finance and the ECCB. The Minister of Finance is normally required to act in consultation with, and on the recommendation of the ECCB with respect to those areas where the Minister of Finance has ultimate responsibility.

All commercial banks and other institutions deemed to be carrying on banking business are required to be licensed under the Banking Act and are regulated by the ECCB. As part of the ongoing supervision, licensed financial institutions are required to submit monthly, quarterly and annual returns to the ECCB. These returns provide essential information to assess the performance of the institutions and the financial system, and to inform policy decisions. In addition, periodic visits are made to the institutions to verify the information submitted.

Regulation and Supervision of International Financial Services

The regulation of the international financial services sector in the OECS countries is primarily the responsibility of the national regulators.

The ECCB provides support, primarily in the credit unions and insurance sectors. These sectors are supervised by the relevant government authorities. However, there is an ongoing initiative to establish single regulatory units within the territories of the Participating Governments to regulate all non-bank financial institutions.

Overall, the regulation and supervision of the financial sector in the ECCU is being enhanced with the ultimate objective being the establishment of harmonized laws that the Federation believes are consistent with international best practices and a regulatory and supervisory unit for financial services in each member state.

The Financial Services Regulatory Commission is the supervisory authority for the non-bank financial institutions which comprise insurance businesses, private pension plans, money services agencies, credit unions and trust and corporate service providers. The Commission derives its powers from the Financial Services Regulatory Commission Act No. 22 of 2009. In addition to monitoring compliance with the law, the Commission's responsibilities include the promotion of trust in the system and consumer protection and awareness.

The Financial Intelligence Unit ("**FIU**") is the national centralized agency with responsibility for the collection, receipt and analysis of information on financial transactions/activities that are suspected of being related to money laundering and terrorist financing. In the discharge of its responsibilities, the FIU liaises with domestic law enforcement agencies, financial institutions and foreign counterparts. The Unit regularly publishes reports on suspicious transactions. The FIU derives its legal authority from 3 main pieces of legislation, namely: the FIU Act No. 15 of 2000; the Anti-Terrorism Act No. 21 of 2002 and the Proceeds of Crime Act No. 16 of 2000. All information forwarded to and requested by the FIU is held in strict confidence.

Based on available indicators, the banking sector remains well-capitalized with relatively strong capital adequacy and liquidity ratios. Pre-tax returns on average assets declined from 4.7 per cent. in 2008 to 1.1 per cent. in 2010 and the ratio of non-performing loans to total loans increased by one per cent. over the same period. However, elevated exposure to the public sector is a concern. Gross exposure of the banking system to the public sector has consistently been higher than the regional average. Over the 2008-2010 period, the ratio of gross Federal Government exposure to total assets declined marginally from 28.2 per cent. to 26.3 per cent. as compared with the ECCU average which ranged between 13.1 per cent. and 14.2 per cent. The table below provides a comparison of some selected financial soundness indicators with the rest of the ECCU region.

	2008		2009		2010	
Item	**SKN**	**ECCU**	**SKN**	**ECCU**	**SKN**	**ECCU**
Capital Adequacy	40.5	20.4	46.5	22.7	41.9	23.1
Liquid Assets/Total Assets	39.5	22.2	43.7	22.3	41.6	20.0
Liquid Assets/Deposits	63.6	33.2	66.7	33.5	66.2	29.3
Pre-tax Return on Average Assets	4.7	2.6	2.1	2.0	1.1	1.4
Non-performing loans/Total loans	4.5	7.6	4.3	7.5	5.5	10.6
Loans to the private sector/Total loans	18.9	37.6	18.6	38.4	16.4	39.4
Gross Federal Government Exposure/Total Assets ...	28.2	14.2	26.1	14.1	26.3	13.1

Offshore Education

The island of Saint Kitts hosts the campus of the Ross University School of Veterinary Medicine (the School of Medicine is located in Dominica) and the Ross University International School of Nursing. As of 2009, the veterinary school had graduated more than 2,200 veterinarians. More than 95 per cent. of its students are American or Canadian citizens. The school received American Veterinary Medical Association accreditation in March 2011. The graduates are eligible to be licensed in all 50 U.S. states, Canada, and Puerto Rico. The School of Veterinary Medicine also has a scholarship program for citizens of the Federation.

The Federation also has three medical schools, which are the University of Medicine and Health Sciences and the Windsor University School of Medicine located on the island of Saint Kitts; as well as the Medical University of the Americas located on the island of Nevis.

These schools have led to real estate growth in the Federation, as rental homes are needed to accommodate students.

Remittances

Remittances are a substantial source of income for the populations of Saint Kitts and Nevis, especially for the poorer population. According to the Country Poverty Assessment, in 2007/2008, remittances accounted for over 30 per cent. of income for the poorest 20 per cent. of the population of Saint Kitts. Additionally, according to this assessment remittances accounted for 12 per cent. of household income in Saint Kitts and 8.2 per cent. of household income in Nevis. The following chart provides estimates of remittance inflows into Saint Kitts and Nevis over the period 2007-2010:

	2007	2008	2009	2010
Remittances (in EC$ million)	96.78	107.65	104.17	105.24
As a % of GDP	6.98	6.99	7.33	7.82

Agriculture

The principal agricultural products of the Federation are sweet potatoes, carrots, tomatoes and peanuts. Most of these products are grown for local consumption on both islands, mostly by individual farmers, as well as for export to neighbouring islands. During the first nine months of 2011, crop output in crops increased by 0.6 per cent. when compared to the same period in 2010 as a result of the expansion in plant acreage.

Following the 2005 harvest, the Federal Government closed the sugar industry after decades of financial losses. Following the decision of the EU to no longer grant the Federation's sugar preferential treatment, the export of sugar became uneconomical, and sugarcane is no longer grown in Saint Kitts and Nevis. To compensate for the loss of the sugar industry, the Federal Government formed the "Sugar Industry Diversification Foundation" to diversify the agricultural sector and to stimulate the development of other sectors of the economy. For further information about this program, see "—Sugar Industry Diversification Foundation".

Construction

The construction sector accounted for an estimated 14 per cent. of GDP in 2011 and accounted for an estimated 8 per cent. of the employed labour force. The sector has experienced four consecutive years of decline since 2007, when construction accounted for 20 per cent. of GDP and recorded a growth rate of 11. per cent. The strong performance in the 2006-07 period was associated with the preparation for the 2007 Cricket World Cup. Since then, public sector infrastructure development and the construction of tourism-related facilities have been the main drivers of activity in the sector.

The sector recorded a 12.0 per cent. decline in economic activity in 2010, which is a slight improvement when compared to the 15.3 per cent. decline in 2009. The sector continued its recovery in 2011, although this year is also estimated to have negative growth. For the first half of 2011, the recovery was led by home construction projects, predominantly by private individuals. Additionally, there is a Federal Government incentive programme for first time homeowners, which is expected to stimulate private home construction and lead to a 3 per cent. growth rate in 2012.

Sugar Industry Diversification Foundation

Following the closure of its sugar industry, the Federal Government has taken various measures to take care of the welfare of the displaced sugar workers and to accelerate the transformation of the country's economy. Of particular importance is the formation of the Sugar Industry Diversification Foundation (the "**SIDF**") in September 2006. The SIDF was established for the purpose of supporting the former sugar workers, funding economic projects to advance the growth and transformation of the economy, reducing poverty, funding projects to mitigate environmental impacts of the closure, funding projects to provide income for women, providing financial and technical assistance for small business, and providing new employment for former sugar workers.

The SIDF is financed by contributions under the Citizenship-by-Investment program, which allows citizenship applications for those who make contributions of at least US$350,000 in real estate or a contribution of US$250,000 to the SIDF. The SIDF is also financed by contributions of institutional donors and individuals who wish to make a difference in the lives of the many families in the country who have been affected by the closure of the sugar industry.

The Foundation has its own organization separate from the Federal Government and is managed by an independent Board composed of well-respected individuals from the Federation. The account of the Foundation is independent from the Federation's, and cannot be used to pay the creditors of the Federation.

The Foundation is audited by PricewaterhouseCoopers. Audited accounts of the Foundation will be published in the near future.

Employment and Labour

The Federation produced statistics regarding labour force participation and employment levels in June 2009. The Federation has not produced any labour and employment statistics since that date. The June 2009 survey estimated that the working age population in St. Kitts and Nevis consists of 36,543 people of which 24,598 were employed and 1,736 were unemployed. This corresponds to a labour force participation rate of 73 per cent. and an employment rate of 6.5 per cent. While there is no information available since June 2009, the Federation believes that since 2009 unemployment rates in the Federation may have increased due to the effects of the global financial crisis.

The table below shows labour force participation and employment status by age groups as reflected in the June 2009 report.

Employment Status

Age Category	Employed	Unemployed	Labour Force Participation Rate (%)	Unemployment Rate (% of cohort)
15-19	1,229	366	33.9	22.9
20-24	3,134	428	84.6	12.0
25-29	3,198	178	91.8	5.3
30-34	3,247	89	91.4	2.7
35-39	2,757	178	93.1	6.1
40-64	10,699	451	81.6	3.9
65+	562	44	15.5	7.3
Not stated	131	0	86.0	0.0
Total	24,958	1,736	73	6.5

Source: Labour Force Survey 2009 – Final Report (June 2009)

Over the past ten years, the economy of St. Kitts and Nevis transformed from an agricultural based economy reliant on sugar production to the service-based economy of today. In addition to tourism, which is linked to the construction, wholesale and retail, hotels and restaurants, transport and real estate sectors, the Federal Government is also a significant employer. The chart below sets out the distribution of employed persons by sector as set forth in the June 2009 labour force survey:

Distribution of Employed Persons by Sector (per cent. of Total)

Economic Sector	Share of Total (%)
Agriculture and Fisheries	1.9
Manufacturing	8.8
Construction[(1)]	13.0
Wholesale and Retail[(1)]	9.3
Hotels and Restaurants[(1)]	11.1
Transport and Communications[(1)]	4.9
Banking and Insurance	5.0
Real Estate, Renting and Business Services[(1)]	5.8
Public Administration	16.7
Education	9.9
Health and Social Work	5.5
Other Community, Social and Personal Services	8.0
Total	100.0

(1) A significant percentage of these sectors relate to tourism.

Environment

The country faces several environmental challenges including its vulnerability to hurricanes due to its geographical location. Coastline erosion and the threat of flooding at lower elevations are two of the main threats. The risk of flooding has become more pronounced as a result of the closure of the sugar industry, the removal of the sugar cane cover in certain areas and the growth in the housing sector. The Federal Government is cognizant of the need to build disaster resilience, and it is attempting to improve its disaster mitigation efforts, which were identified in the regional initiative on Comprehensive Disaster Management strategy. The National Emergency Management Agency coordinates activities with respect to the management of these risks.

The most serious environmental problems facing Nevis are water run-off and hurricanes. Due to the topography of Nevis, heavy rains flow down the mountain-side and can cause serious infrastructure damage. Additionally, strong hurricane winds and rain can also cause infrastructure damage. In the past, Tropical Storm Omar seriously damaged the Four Seasons hotel, causing it to close for a period of time.

EXTERNAL ECONOMY

Balance of Payments

The balance of payments account records transactions with the rest of the world. It provides information about the relative flow of goods, services and capital into and out of the country. Two major accounts comprise the balance of payments:

the current account which analyzes financial flows related to the import and export of goods and services, financial and investment income and current transfers and

the capital and financial account, which comprises financial and capital outflows, including portfolio investments, direct investments and loans.

The table below provides information on the performance of the external account from 2007 to 2011, as well as the medium term projections through to 2016. Due to the small size of the economy and its narrow resource, population and skill base, imports consistently exceed exports, and there is a current account deficit which has averaged 24 per cent. of GDP over the last 3 years. Inflows on the services account, particularly tourism receipts, play an important role in maintaining the current account deficit at this level.

Balance of Payments, 2007-16

		Preliminary Program			Projections					
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
					(In millions of Eastern Caribbean dollars)					
Current account	(336.8)	(510.8)	(482.7)	(389.3)	(432.9)	(429.2)	(419.4)	(409.7)	(402.0)	(405.5)
Trade balance	(490.9)	(585.6)	(532.2)	(443.3)	(527.3)	(540.3)	(550.7)	(564.4)	(579.0)	(606.6)
Exports, f.o.b.	155.8	186.2	145.2	155.6	166.9	175.3	185.8	198.1	211.5	226.0
Imports f.o.b.	(646.7)	(771.8)	(677.4)	(598.9)	(694.2)	(715.6)	(736.5)	(762.5)	(790.6)	(832.6)
Of which										
Mineral fuel	(39.5)	(62.2)	(27.2)	(34.7)	(45.9)	(46.1)	(45.5)	(45.3)	(45.7)	(46.6)
Services and transfers (net)	154.1	74.7	49.5	54.0	94.5	111.1	131.3	154.7	177.0	201.1
Services (net)	192.6	110.7	86.8	82.7	100.3	114.6	129.5	147.6	168.3	192.0
Services (receipts)	467.1	435.0	356.1	346.0	379.4	405.1	434.6	469.8	510.0	554.6
Of which										
Tourism receipts	336.9	297.2	225.4	222.2	245.2	265.4	287.1	313.8	344.5	379.0
Services (payments)	(274.4)	(324.3)	(269.3)	(263.3)	(279.1)	(290.5)	(305.1)	(322.2)	(341.7)	(362.5)
Factor income (net)	(117.3)	(125.4)	(115.4)	(111.4)	(97.3)	(97.7)	(95.9)	(94.6)	(97.6)	(102.4)
Of which										
Public sector interest	(52.5)	(55.6)	(53.3)	(50.7)	(32.9)	(30.8)	(25.5)	(20.3)	(18.8)	(18.8)
Transfers (net)	78.8	89.4	78.2	82.7	91.5	94.3	97.6	101.7	106.4	111.4
Official (net)	12.4	12.4	(2.1)	(2.1)	(2.1)	(2.1)	(2.1)	(2.1)	(2.1)	(2.1)
Private (net)	66.4	77.0	80.3	84.8	93.6	96.4	99.8	103.8	108.5	113.5
Capital and financial account	271.6	479.2	552.5	431.5	396.8	285.1	277.5	357.5	345.3	338.3
Official	(13.2)	33.5	(11.9)	45.5	89.5	44.3	(49.3)	(32.3)	(59.7)	(41.5)
Capital transfers (net)	27.8	49.1	11.9	50.7	67.5	80.1	48.1	6.0	6.0	6.0
Long-term borrowing (net)	(41.0)	(15.5)	(23.8)	(5.2)	22.0	(35.9)	(97.4)	(38.3)	(65.7)	(47.5)
Disbursements	37.4	45.7	32.3	42.2	170.5	74.4	27.4	23.4	26.2	31.8
Amortization	78.4	61.3	56.0	47.4	148.5	110.2	124.8	61.7	91.9	79.3
Private Capital	284.8	445.6	564.4	385.9	307.3	240.8	326.9	389.8	405.0	379.8
Capital transfers (net)	10.5	11.1	11.9	12.7	12.5	12.4	12.2	12.1	11.9	11.8
Foreign direct investment (net)	363.1	480.3	353.0	292.5	315.7	335.8	361.2	382.6	404.3	432.8
Portfolio Investment (net)	(35.0)	28.3	(28.4)	(28.4)	(28.4)	(28.4)	(28.4)	(28.4)	(28.4)	(28.4)
Commercial banks	(80.5)	(149.6)	148.7	69.7	11.9	(35.3)	(39.5)	(39.2)	(47.9)	(25.1)
Other private (net)	26.7	75.5	79.3	39.5	(4.3)	(43.7)	21.4	62.8	65.1	(11.3)
Errors and omissions	84.4	56.5	(56.6)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	19.1	24.8	13.3	42.1	(36.1)	(144.1)	(141.9)	(52.2)	(56.7)	(67.3)
Overall financing	(19.1)	(24.8)	(13.3	(42.1)	36.1	144.1	141.9	52.2	56.7	67.3
Net international reserves	(19.1)	(39.4)	(34.3)	(88.4)	(41.6)	2.4	0.5	3.0	5.5	5.9
Gross reserve (increase =)	(19.1)	(39.4)	(43.2)	5.5	(41.6)	4.7	4.9	5.2	5.5	5.9
IMF reserve liabilities (purchase +)	0.0	0.0	9.0	0.0	0.0	(2.3)	(4.5)	(2.3)	0.0	0.0
Financing gap	-	-	-	-	0.0	291.6	141.4	49.2	51.2	61.4
IMF financing (1)	-	-	-	-	0.0	90.5	28.0	6.3	(0.6)	(34.8)
Residual financing gap	-	-	-	-	0.0	201.1	113.4	42.9	51.8	96.2
Banking Sector Reserve Fund	-	-	-	-	46.1	0.0	0.0	(5.8)	(23.1)	(17.3)
						(In percent of GDP)				
Current account	(18.1)	(25.6)	(26.0)	(21.4)	(22.5)	(21.4)	(19.9)	(18.4)	(17.0)	(16.2)
Exports of goods and nonfactor service	33.5	31.1	27.0	27.6	28.3	28.9	29.4	30.0	30.6	31.2
Merchandise exports	8.4	9.3	7.8	8.6	8.7	8.7	8.8	8.9	9.0	9.0
Nonfactor services	25.1	21.8	19.1	19.0	19.7	20.2	20.6	21.1	21.6	22.2
Of which										
Tourism receipts	18.1	14.9	12.1	12.2	12.7	13.2	13.6	14.1	14.6	15.1
Import of goods and nonfactor service	(49.5)	(54.8)	(50.9)	(47.4)	(50.5)	(50.2)	(49.4)	(48.8)	(48.0)	(47.7)
Merchandise exports	(34.7)	(38.6)	(36.4)	(33.0)	(36.0)	(35.7)	(35.0)	(34.3)	(33.5)	(33.3)
Nonfactor services	(14.7)	(16.2)	(14.5)	(14.5)	(14.5)	(14.5)	(14.5)	(14.5)	(14.5)	(14.5)
Foreign direct investment (net)	19.5	24.0	19.0	16.1	16.4	16.7	17.1	17.2	17.1	17.3
Stock of external arrears	0.7	1.9	3.7	3.9	0.0	0.0	0.0	0.0	0.0	0.0
External financing gap	-	-	-	-	0.0	14.5	6.7	2.2	2.2	2.5

	2007	Preliminary Program 2008	2009	2010	Projections 2011	2012	2013	2014	2015	2016
					(In millions of Eastern Caribbean dollars)					
					(Annual percentage change)					
Merchandise exports	(1.0)	19.5	(22.0)	7.2	7.3	5.0	6.0	6.6	6.8	6.8
Tourism receipts	(5.2)	(11.8)	(24.1)	(1.4)	10.3	8.2	8.2	9.3	9.8	10.0
Merchandise imports	9.1	19.3	(12.2)	(11.6)	15.9	3.1	2.9	3.5	3.7	5.3
Terms of trade	(1.5)	(2.3)	3.4	(3.8)	(3.2)	0.9	0.8	1.0	0.8	0.8
					(In percent of exports of goods and nonfactor services)					
External debt service	21.0	18.8	21.8	19.6	33.2	24.3	24.2	12.3	15.3	12.6
Of which										
Interest	7.9	8.6	10.1	9.6	5.7	5.0	3.9	2.9	2.5	2.3

Sources: ECCB; and Fund staff estimates and projections.
(1) Negative indicates repayment to the IMF.

Current Account

Current account deficits are also balanced by regular surpluses on the capital and financial account, which reflects direct investment and monetary flows. For Saint Kitts and Nevis, the flows associated with foreign direct investment play a major role in balancing current account deficits, as they have consistently accounted for inflows equivalent to between 16 per cent. and 19 per cent. of GDP over the last 3 years. In large measure, recent foreign direct investment levels are driven by the pace of construction of tourism related facilities.

In 2009, as a result of weak external market conditions, both merchandise exports and tourism receipts recorded sharp declines of 22 per cent. and 24 per cent. respectively. These accounts have since recovered, and consistent growth is expected over the medium term. In the context of the country’s debt burden, the external public debt is another key indicator that needs to be monitored. After peaking at 163 per cent. of exports in 2011, this ratio is expected to decline consistently over the medium term to reach 59 per cent. by the year 2016.

Foreign Trade

As a result of the small population, production and resource base, imports consistently exceed exports. As a result, the current account deficit has averaged 22.7 per cent. of GDP over the last five years, peaking at 26 per cent. of GDP in 2009 when both merchandise exports and tourism receipts contracted sharply as external market conditions weakened. In addition to the weakening of external markets, volatile food and fuel prices as well as imports related to major private sector projects affected current accounts.

International Reserves

Imputed reserves rose by 47.8 per cent. (EC$200.9 million) in the nine months ended September 30, 2011, while net foreign assets of commercial banks increased by 9.6 per cent. (EC$21.3 million) in the nine months ended September 30, 2011. The growth in imputed reserves is principally due to the receipt EC$46.1 million as part of the IMF Programme in order to create a Banking Sector Reserve Fund to provide emergency liquidity support to the locally incorporated banks.

Foreign Direct Investment

Over the last decade, foreign direct investment ("**FDI**") has played an increasingly important role as a driver of investment and growth in the Federation. While FDI activity has been mainly focused on tourism related construction, several other important investments have been made in the export manufacturing sector. Over the last five years, FDI flows have been fairly constant. After peaking at 24.0 per cent. of GDP in 2008, FDI levels have fallen off to about 17 per cent. of GDP over the last three years as progress slowed on some of the major construction projects in response to weakening tourism demand and the tight credit market conditions. Available indicators point to an ongoing resurgence of activity with the restart of some of the major projects.

In order to attract foreign investment, the Federal Government offers a range of incentives to potential investors, particularly in the areas of tourism and hotel accommodation, and manufacturing. Fiscal incentives for foreign investment are granted under the Fiscal Incentives Act of 1974 (the "Act") and also available under different acts for investment in the tourism sector. Remittances to persons or entities abroad are subject to a 10 per cent. withholding tax. Additionally, where a company is not exempt, there is a 20 per cent. capital gains tax on profits unless an exemption is granted under the Act from the disposal of assets located in Saint Kitts within a year of their acquisition.

Foreign investors may hold up to 100 per cent. of an investment in a local commercial entity. Foreign investment in the Federation is not subject to any restrictions, and foreign investors receive national treatment, except for the requirement of an Alien Landholders License for foreign investors seeking to purchase property for residential or commercial purposes. The cost of these licenses is 10 per cent. of the value of the land or of the interest in the real estate to be purchased. Licenses are granted once properly submitted to Cabinet for consideration and payment of the license fees. Foreign investors do not require a landholding license for the purchase of land in certain parts of the island, such as Frigate Bay or the South East Peninsula.

After the slowdown in the 2009 and 2010 period, there was an increase in FDI financed construction activity in 2011. Ongoing projects include additional hotel rooms, condominium and villa construction and the development of ancillary facilities including spas, a golf course and a mega yacht marina. Anticipated benefits from these investments include a more diversified product base, more balanced visitor arrival patterns and the strengthening of the linkages between the tourism sector and the rest of the economy.

Investment promotion efforts are pursued in close tandem with the country's "Citizenship by Investment Programme" under which foreign individuals can obtain citizenship in accordance with subsection 5 of Section 3 of the Citizenship Act of 1984, which grants the right of citizenship on the basis of making a an investment of at least US$350,000 in real estate or a contribution of US$250,000 to the SIDF.

PUBLIC FINANCE

Public Sector Budget

The budget of the Federal Government covers all operations in the Federation with the exception of those areas for which the NIA has constitutional authority. The NIA produces a budget that covers the areas under its purview. The analysis that follows is based on a consolidation of both budgets.

Overview

The Constitution provides the legal foundation for public financial management and vests the Minister of Finance with the lead responsibility for the preparation and management of the annual budget. The Finance Administration Act of 2007 introduced new and amended provisions for the management of public revenues, expenditures, treasury management operations, public debt, public accounts and the oversight of statutory bodies.

In discharging its responsibility for formulating and monitoring fiscal policy, the Ministry of Finance is guided by the provisions of the Finance Administration Act. The Ministry prepares the Annual Budget Statement, revenue and expenditure estimates and the Appropriations Bill, and it allocates Ministry spending throughout the fiscal year which runs from January 1 to December 31. The Fiscal and Regulatory Division of the Ministry of Finance (the "**Division**") is responsible for providing strategic guidance to the Minister of Finance on fiscal issues, monitoring macroeconomic performance and preparing regular reports and analyses on the budget and the implications of policy measures. As part of the preparation of the annual budget, the Division also prepares medium term fiscal projections which assist in the allocation of funds to each Ministry.

The Budget Division of the Ministry of Finance is responsible for preparing annual expenditure estimates and administering the release of funds. The Budget Division provides spending agencies with guidance and support in the management of budgetary allocations based on the achievement of objectives agreed upon when preparing the budget.

The Office of the Accountant General is responsible for managing the treasury, which has a computerized treasury management system. In accordance with the provisions of the Constitution, all Federal Government revenues and expenditures are made through the Consolidated Fund, which is the bank account managed by the Office of the Accountant General.

Audit operations are handled by the Director of Audit who is appointed by the Governor General.

The budgeting process is well documented, and decisions on the amount of resources allocated to a given Ministry or project are made based on the results of an annual financial programming exercise. This information is communicated to spending prior to their submissions.

The Ministry of Sustainable Development is responsible for national development planning, which includes collecting and compiling economic statistics, coordinating relationships with external development lending and donor agencies; monitoring the implementation of the national development plan and preparing and monitoring the Public Sector Investment Programme (PSIP). The National Adaptation Strategy in response to the new EU Sugar Regime provides the long term framework for the Ministry of Sustainable Development actions, and it provides overall strategic economic development guidance.

Revenue and Expenditures

The table below summarizes the performance of the consolidated fiscal account over the period 2008-2011, the projected performance in 2011, the approved budget for the current fiscal year and medium term projections which were generated based on the latest round of consultations with IMF, which were based on projections for 2011, given that preliminary results were not available at that time. It allows an analysis of the progress of the fiscal correction effort, the structure of the fiscal account and the expected results of the strategy to be pursued over the medium term.

Projections for 2011 are generally in line with the short term objective of recovery of fiscal space through the restoration of a positive primary balance. However, medium-term projections indicate fiscal space will remain tight with total non-discretionary expenditure (salaries and wages plus interest payments) estimated to exceed 50 per cent. of both total revenue and expenditure throughout the period 2012-2014. Of note here is that, based on the results of a recently published IMF comparative analysis of available fiscal space, according to the IMF:

Regional Economic Outlook – Western Hemisphere (October 2011), the Federation ranks lowest among the ECCU countries – slightly behind Antigua and Barbuda and only ahead of Jamaica in the English-speaking Caribbean.

Federal Government Fiscal Operations 2008-14 (EC$ millions)

	2008	2009	2010	2011(1)	2012(2)	2013(3)	2014(3)
I. TOTAL REVENUE	**544.6**	**539.4**	**513.5**	**596.1**	**524.1**	**569.0**	**600.5**
Current revenue	544.6	539.4	513.5	594.6	524.1	569.0	600.5
Tax revenue	422.1	396.1	342.5	409.9	420.6	451.5	476.8
Taxes on income	135.7	148.7	92.6	85.3	83.2	91.4	96.5
Taxes on property	6.6	8.8	9.4	8.1	10.4	11.6	12.3
Taxes on domestic goods	83.9	69.6	84.2	209.6	216.4	232.3	245.3
Taxes on international trade	195.9	169.0	156.3	106.9	110.6	116.2	122.7
Nontax revenue	122.5	143.3	171.0	184.7	103.5	117.5	123.7
Capital revenue	0.0	0.0	0.0	1.5	0.0	0.0	0.0
II. TOTAL EXPENDITURE AND LENDING	**650.4**	**661.1**	**706.1**	**704.1**	**664.0**	**661.7**	**683.5**
Current expenditure	545.3	565.6	576.3	623.6	546.3	554.6	570.5
Wages and salaries	204.5	233.4	224.0	225.5	225.1	225.1	230.7
Goods and services	151.8	150.1	169.1	195.4	108.7	109.4	112.5
Interest	128.7	123.2	127.0	129.9	127.7	143.0	149.2
Domestic	86.8	81.6	86.7	103.4	103.3	123.0	133.5
Foreign	41.9	41.6	40.3	26.5	24.4	20.0	15.7
Transfers	60.3	58.9	56.2	72.8	84.8	77.1	78.1
Net lending	15.4	7.6	5.8	1.0	1.0	1.0	1.0
Capital expenditure	89.7	87.9	124.0	79.5	116.7	106.1	112.0
III. CURRENT BALANCE	**(0.7)**	**(26.2)**	**(62.8)**	**(29.0)**	**(22.2)**	**14.4**	**30.0**
Overall balance (before grants)	(105.8)	(121.7)	(192.6)	(108.0)	(139.9)	(92.7)	(83.0)
Grants	28.3	67.5	50.7	67.5	80.1	48.1	6.0
VI. OVERALL BALANCE (after grants)	**(77.5)**	**(54.2)**	**(141.9)**	**(40.5)**	**(59.8)**	**(44.6)**	**(77.0)**
V. PRIMARY BALANCE	**51.2**	**69.0**	**(14.9)**	**89.4**	**67.9**	**98.4**	**72.2**

(1) Preliminary data.
(2) Budget data.
(3) Projected data.

Revenue

Taxes are the mainstay of the Federation's revenue base, accounting for approximately 68 per cent. of total revenue in 2011 and averaging 73 per cent. of total revenue over the last five years. Approximately 20 per cent.-25 per cent. of tax revenues is derived from income taxes, which consist of the Housing and Social Development Levy and corporation taxes. The recently introduced value added tax ("VAT") is the largest single contributor to the tax base, accounting for 28 per cent. to 30 per cent. of total taxes.

Prior to the corporatisation of the Electricity Department in August 2011, the main components of non-tax revenue were receipts from the sale of electricity and the Citizenship-by-Investment programme . However, once electricity services are removed from the fiscal accounts, the relative importance of non-tax revenues will decline to about 22 per cent. of total revenue, which is 5 per cent. less than historical trends.

Expenditure

The most significant challenge related to expenditures is the relatively high amount of non-discretionary spending (personnel and interest costs) which consistently account for more than 50 per cent. of total expenditures. These large amounts make it difficult to create a surplus, and this, in turn, limits the ability of Federal Government to contribute to its investment programme.

Prior to the corporatization of electricity services, expenditures on goods and services were largely driven by fuel costs, which trended upwards in the 2008-09 period. With the removal of fuel costs, it is expected that, over the medium term, inflation rates will be the key variable affecting expenditure amounts on goods and services.

As indicated above, the ability to finance the investment programme is significantly constrained by the inability to generate a current surplus on a consistent basis. Public investment activity has thus been very dependent on grant and loan flows. Over the five year period 2006-2010, the Federation's ratio of public investment to GDP has averaged 5.2 per cent. as compared with the ECCU average of 6.6 per cent. Additionally, in 2010 when capital expenditure peaked at 6.8 per cent. of GDP and exceeded the ECCU average, the primary balance was negative.

2011 Fiscal Results

The structural adjustment programme ended its first full fiscal year of implementation on December 31, 2011. The fiscal consolidation elements of the programme were approved in November 2010 and included the both revenue and expenditure measures.

The revenue measures included a comprehensive restructuring of the tax system that included the introduction of a VAT, which replaced the consumption tax and a number of other taxes that were previously levied on imports and domestic production. The VAT has a two tiered rate structure with a standard rate of 17 per cent. and a 10 per cent. rate for hotel accommodations, restaurant meals and some tourism activities. Other elements of the tax reform package included the introduction of a new excise tax; the restructuring of the Housing and Social Development Levy and a commitment to reduce exemptions on customs service charges.

On the expenditure side, the Federal Government continued the freeze on wages and new hirings, exercised more stringent control over expenditures and contained capital expenditure levels.

In addition to these measures, the Federal Government implemented an arrears reduction initiative and the transferred the responsibility for the provision of electricity services to the Saint Kitts Electricity Company ("**SKELEC**").

Results as of 30 September 2011 reflect good progress with the implementation of the fiscal consolidation agenda. All the agreed fiscal targets for the first quarterly review under the IMF programme were comfortably met. In spite of a relatively flat real sector performance, tax revenues increased by an estimated EC$67.5 million from EC$342.4 million in 2010 to a projected EC$409.9 million (about 2.5 per cent. of GDP). Principally on account of the reconfiguration of the tax structure, the relative contribution to tax revenue of taxes on domestic goods and consumption increased from 24.5 per cent. of total tax revenue in 2010 to 51 per cent. in 2011, while the share of taxes on international trade fell commensurately from 45 per cent. in 2010 to about 26 per cent. in 2011. The VAT was the main contributor to the overall increase in tax revenue – accounting for 28 per cent. of tax revenue in 2011 as compared to the 20 per cent. contributed by consumption taxes in 2010.

Medium Term Fiscal Policy

The major focus of the medium term fiscal policy will be to continue the recovery process and keep debt service ratios on a downward trajectory. The 2012 fiscal programme targets an overall deficit of 3 per cent. of GDP and a primary surplus of 3.4 per cent. of GDP.

In order to achieve these targets, there will be a strong focus on tax compliance. Auditing activity will be intensified in order to make the tax system fairer and more efficient. The Federal Government also plans to restrict deductible, and, the Inland Revenue Department will increase its attempts to collect tax arrears. The Federal Government will seek external technical assistance to strengthen strategic planning, monitoring and audit capabilities; to provide collections training; to strengthen taxpayer services and to conduct a tax administration review. Finally, protection of the tax base will be a priority and Federal Government will continue to employ the oil price pass through mechanism, which incorporates adjustments on a regular basis.

The Federal Government will continue to exert tight control over expenditures. The recurrent expenditure allocation for 2012 reflects a sharp decline in expenses mainly due to a reduction in planned expenditures on goods and services. This reduction also reflects lower levels of fuel purchases as a result of the divestment of the Electricity Services Department. The public sector wage freeze will continue, while the planned increase in overall capital expenditures will be financed from grant resources that have already been negotiated. Other capital expenditures will remain largely in line with the allocations in the 2011 budget. As a result of these measures, total expenditures are projected to decline by 3.5 per cent. of GDP.

The Federal Government is committed to an institutional structural reform agenda that focuses on improving the efficiency of public expenditure. Major components of this programme are:

(a) Strengthening public financial management which will include strengthening financial management, reporting and auditing of line ministries; approving new public procurement legislation and related institutional strengthening; improving the public investment management process and strengthening the systems and capabilities for preparing and updating medium term macroeconomic projections;

Making Social Security Reforms aimed at strengthening and preserving the sustainability of the scheme. The Federal Government is also committed to continued participation in the wider OECS pension reform program which is expected to produce an agreed policy and operational framework for the sub-region;

Reforming the Civil service in order to rationalize the employment and wage structure in the public sector; and

Strengthening the social safety net system by sharpening the focus and coherence of state funded poverty reduction initiatives. A detailed assessment of the social protection system has already been completed and the findings of this assessment will be used to create a National Social Protection Strategy.

The public financial management improvement initiative is ongoing and activities in 2012 will focus on strengthening the capacity to monitor public finance policy and operational issues. The first draft of a new public procurement law has been completed, and parliamentary approval is expected by the end of the year.

PUBLIC DEBT

Background

The global recession of 2008-09 resulted in a sharp deterioration of the economic situation of the Federation. Whereas in the preceding 5 year period, the effects of the already high public sector debt burden were partially mitigated by positive real growth trends (averaging 5 per cent. a year over the period 2004 through 2008), the 5.6 per cent. contraction in real output of 2009 exposed the underlying fragility of the country's macroeconomic situation.

Two major factors accounted for the debt build up - the reliance on debt financing for the replacement of infrastructure damaged by a succession of natural disasters in the preceding decade and the closure of the centuries old sugar industry in 2005 as the Federal Government assumed the debt of the Saint Kitts Sugar Manufacturing Corporation. Corresponding increases in debt service requirements outpaced the growth of both revenue and exports with resultant pressures on the fiscal and external accounts. The primary balance, which had averaged a positive 3.2 per cent. of GDP in the period 2005-09, turned negative in 2010, and the overall deficit increased by about 5 per cent. of GDP as tax revenue declined and capital outlays increased. Moreover, with domestic debt comprising an estimated 71 per cent. of the debt stock, the relatively high exposure of the financial system to sovereign risk emerged as a matter of policy concern.

In 2010, in response to these challenges, the Federal Government mounted a fiscal consolidation effort with to strengthen public finances, significantly reduce public debt levels and support the return to a sustainable growth path. The strong fiscal adjustment, coupled with a comprehensive debt restructuring, will significantly reduce the debt service burden and help firmly set the public debt-to-GDP ratio on a downward path toward the ECCU debt target of 60 per cent. of GDP by 2020.

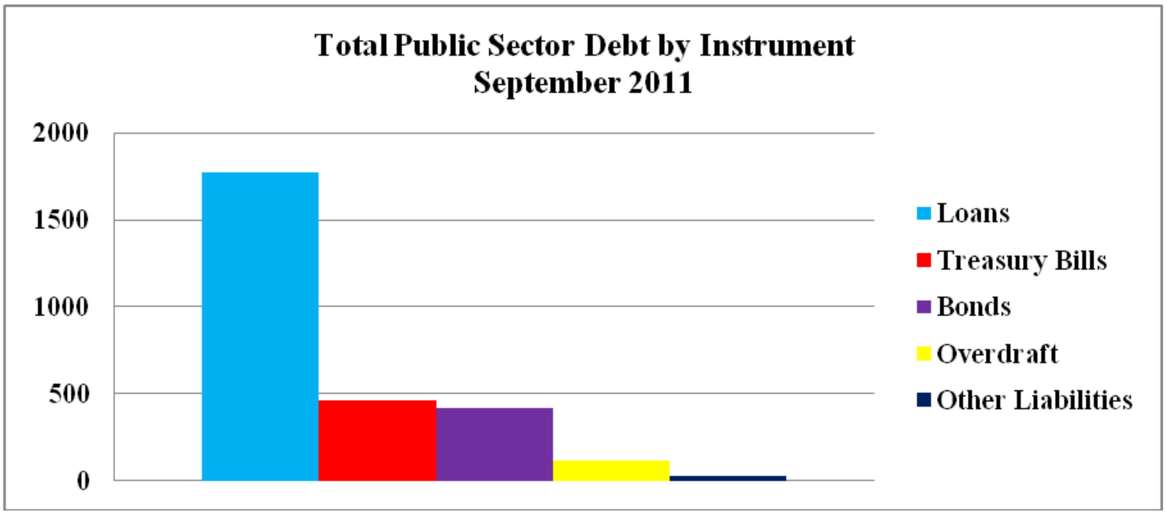
Debt Analysis

At the end of September 2011, the total public sector debt was EC$2.8 billion (146.4 per cent. of GDP). Seventy-one per cent. of the public sector debt was owed to domestic creditors while twenty-nine per cent. represented external debt. The four borrowing entities of public sector debt are the Federal Government, the NIA, public corporations in Saint Kitts and public corporations in Nevis.

The following table shows total external and domestic public sector debt by category of borrower as of 30 September 2011.

Category of Borrower	External	% Share	Domestic	% Share	Total	% Share
	(EC$ million)		*(EC$ million)*		*(EC$ million)*	
Federal Government	573.41	71%	1,260.86	63%	1,834.27	66%
Public Corporations (Saint Kitts)	118.28	15%	426.19	21%	544.47	20%
NIA	75.73	9%	292.59	15%	368.32	13%
Public Corporations (Nevis)	40.10	5%	15.77	1%	55.88	2%
Total	807.52	100%	995.41	100%	2802.94	100%

The public sector's debt is primarily comprised of loans (63.2 per cent.). The debt stock is also comprised of Treasury Bills (16.6 per cent.), bonds (14.9 per cent.), Overdraft facilities (4.1 per cent.) and other liabilities (1.1 per cent.). Under the Finance Administration Act of 2007, the Minister of Finance has the authority to permit the Federal Government to borrow and issue guarantees .

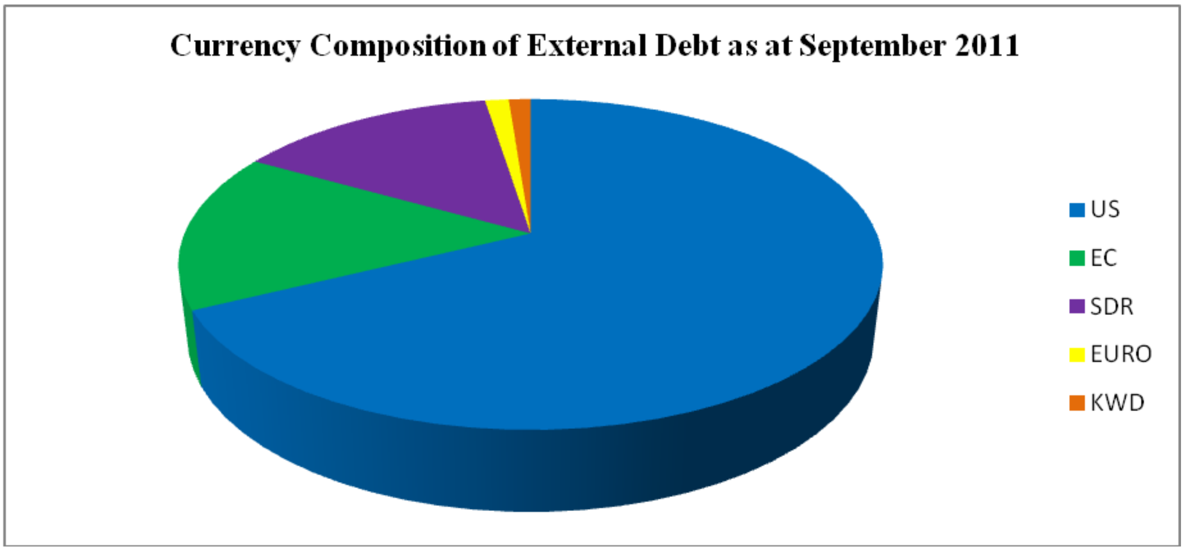


External Debt

The total external debt of the public sector was EC$0.8 billion at the end of September 2011, which is an increase of EC$39.7 million (5.2 per cent.) when compared to the end of December 2010. From 2006 to September 2011, the share of external debt to total debt declined steadily from 35 per cent. in 2006 to 29 per cent. at the end of September 2011.

Currency Composition of External Debt

The public sector's external debt is denominated in the following currencies: US Dollars, EC Dollars, Special Drawing Rights ("**SDR**"), Euro, and Kuwaiti Dinar ("**KWD**"). At the end of September 2011, the external debt stock was primarily denominated in United States Dollars (67.7 per cent.). Eastern Caribbean currency accounted for 15.5 per cent. of the external debt portfolio, while SDR represented 14.3 per cent., Euro 1.3 per cent. and KWD 1.2 per cent.



As the external debt is predominantly in US dollars, and the EC dollar is pegged to the US dollar at an exchange rate of EC$2.70=USD$1.00, there is limited exposure to any volatility in exchange rate movements.

External Debt by Creditor

The majority (EC$419.2 million or 51.9 per cent.) of the public sector's external debt is owed to multilateral creditors and has concessionary interest rates. The CDB was the largest multilateral creditor, and outstanding debt to CDB was EC$278.7 million as of 30 September 2011. As at September 30, 2011, commercial bank debt was EC$89.6 million or 11.1 per cent. while bilateral debts outstanding amounted to EC$64.5 million or 8.0 per cent. For further information on the CDB see "Caribbean Development Bank" below.

Domestic Debt

The total domestic debt stock was EC$2.0 billion at the end of September 2011, a marginal increase of 0.7 per cent. as compared to the end of December 2010. Of the total domestic debt, 67.3 per cent. was contracted from commercial banks at an average interest rate of 7.0 per cent. Funds borrowed from the Social Security Board accounted for 15.8 per cent. of domestic debt, while debt contracted from other financial institutions represented 5.8 per cent.

Maturity Profile

At the end of September 2011, the debt stock was comprised of:

- 59.3 per cent. of long term debt, which is due to mature beyond 2018;
- 11.9 per cent. medium term debt, which is due to mature between 2013 and 2017; and
- 28.8 per cent. of short term debt, which is due to mature in less than one year.

Based on the Average Weighted Time to Maturity ("**AWTM**"), the average time to maturity of the Federation's public sector debt is 8.4 years. On average, it will take an estimated eight years before the total stock of debt matures and becomes due for repayment or rollover.

Interest Rate Composition

Interest rate risk is minimal as fixed rate debt accounts for 92.9 per cent. of the total debt stock. Variable rate debt accounts for 7.1 per cent. In the external debt portfolio, the share of variable rate debt is 24.8 per cent. while there is no variable rate debt in the domestic debt portfolio.

Trends in Public Sector Debt Indicators

As of 30 September 2011, the Debt to GDP ratio stood at 146.4 per cent., 4.4 percentage points over the 2006 ratio of 142.0 per cent. Fluctuations in the ratio over the 2006 to 2011 period (see table below) were primarily due to changes in the national GDP. The stock of Public Sector Debt does not include budgetary arrears.

Domestic debt to GDP increased from 92.6 per cent. in 2006 to 104.2 per cent. as of 30 September 2011, whereas the external debt to GDP ratio declined from 49.4 per cent. at the end of 2006 to 42.2 per cent. as of 30 September 2011. The Federal Government's debt to GDP ratio was 115.1 per cent. as of 30 September 2011, an increase of 6.9 per cent. when compared to 2006.

As of 30 September 2011, the debt service to revenue ratio was 37.2 per cent. while the interest payment to revenue ratio was 18.8 per cent. The debt service and interest payment to revenue ratios averaged 35.8 per cent. and 20.8 per cent. respectively from 2006 to September 2011. The debt service to GDP ratio reported minor fluctuations over the six-year period moving from 12.1 per cent. in 2006 to 9.5 per cent. at the end of September 2011.

Debt Indicators	**2006**	**2007**	**2008**	**2009**	**2010**	**Sept 2011**
Total Public Sector Debt/GDP	**142.0**	**135.4**	**127.9**	**142.1**	**151.2**	**146.4**
Total Domestic Debt/GDP	92.6	91.3	85.4	98.6	109.0	104.2
Total External Debt/GDP	49.4	44.1	42.5	43.5	42.2	42.2
Federal Government Debt/GDP	108.2	101.9	97.3	108.7	116.8	115.1
Public Corporations Debt/GDP	33.8	33.5	30.6	33.5	34.4	31.4
Total Debt Service/Revenue	37.3	34.8	33.4	32.5	39.4	37.2
Interest Service/Revenue	23.4	20.0	20.2	20.2	22.2	18.8
Total Debt Service/GDP	12.1	10.9	10.6	10.9	12.5	9.5

Public Debt of Nevis

As of September 30, 2011, NIA's debt totalled EC$368.3 million (US$136.4 million)

External public debt was EC$75.7 million (US$28.0 million) and domestic public debt was EC$292.6 million (US$108.4 million). Additionally, total debt of public corporations in Nevis was EC$55.9 million (US$20.7 million). External debt of public corporations in Nevis was EC$40.1 million (US$14. 9 million) and domestic debt of public corporations in Nevis was EC$15.8 million (US$5.8 million).

Reform Agenda – Description and Status

The design of the reform program features a front-loading of fiscal adjustment measures which focus on achieving a large and sustainable reduction in the public debt. In this context, the program targets the achievement of average primary fiscal surpluses of about 4.4 per cent. of GDP during the 2011–13 period (compared with -0.4 per cent. of GDP in 2010). The projected improvements in the fiscal position rely upon a combination of revenue and expenditure measures which are supported by institutional strengthening measures. The reform program is supported and monitored by the IMF under the terms of a Stand-By Arrangement which was approved in July 2011.

The revenue enhancement agenda involves a combination of tax policy and administration initiatives designed to expand the tax base, promote compliance and enhance equity. The policy reforms include: (i) the introduction of a VAT, which replaces the consumption tax and a number of other indirect taxes on imports and domestic production; (ii) the restructuring of the excise tax system; (iii) the introduction of an unincorporated business tax to replace the traders' tax and (iv) the restructuring of the housing and social development levy. These measures were formally approved and implemented between November 2010 and January 2011, which was prior to the negotiation and approval of the IMF Stand-By Arrangement.

Expenditure containment measures are focused on the reduction of the share of non-discretionary expenditure in total spending, the strengthening of control systems and the prioritization of capital expenditure. In pursuit of these objectives, the Federal Government implemented a wage freeze covering the period 2010-2012, suspended the payment of increments for the same period and froze the hiring of new personnel. These measures were complemented by the strict enforcement of the retirement age regulations.

Within the framework of the IMF Stand-By Arrangement, the Federal Government has agreed on a set of quarterly targets for monitoring the progress of these measures over the period 2011-12. The first formal review of the progress of these measures was concluded on January 25, 2012, and the results indicated that all the quantitative targets set for the third quarter of 2011 have been met. Specifically, the primary surplus as at 30 September 2011 was EC$69.9 million as compared with the agreed target of EC$55.9 million, and the overall deficit was EC$26.5 million as compared to the target of EC$45.3 million.

The Federal Government has sought and obtained the cooperation of the CDB whose Board of Directors recently approved a package of measures that includes: a partial credit guarantee of US$12.0 million; conversion of a previous US$8.3 million guarantee to a soft loan (25 year repayment period, 5 year grace period and 2.5 per cent. interest) and the conversion of a US$9.46 million package of previous Ordinary Capital Resources ("**OCR**") loans to soft loans on similar terms. Collectively, these measures will result in an easing of the country's debt service commitments.

Alongside the fiscal consolidation agenda, the Federal Government is implementing a series of structural reforms to sustain the growth effort by strengthening the public financial management system, improving public sector efficiency and addressing any growth constraints . The key components of the institutional reform program are: (i) the strengthening public financial management systems; (ii) reforming the civil service; (iii) restructuring the social safety net delivery arrangements and (iv) reforming the social security and pension systems.

Financial Administration and Management

Transparency and Accountability

The Federal Government continues to work towards enhancing the levels of accountability and transparency in the management of public resources. The Finance Administration Act of 2007 provides the legislative framework for the management of public debt. The Ministry of Finance prepares and submits formal monthly and quarterly reports to Cabinet on the Federal Government's fiscal position. The budget estimates, which are made by Parliament, also include the amortization schedule for the upcoming year. This is a public document.

In an attempt to improve its systems of transparency and accountability, the Federal Government is also moving towards the publication of debt statistics bulletins. The ECCB, the regional monetary regulatory agency, reports quarterly on the economic and financial position of member states, including the Federation of Saint Kitts and Nevis. A comprehensive regular economic assessment is also conducted by the IMF as part of its Article IV Country Review process. The findings of this assessment are reviewed by the Board of the IMF and subsequently published on the Fund's website. Additionally, as part of the contractually agreed monitoring arrangements for the ongoing structural adjustment program, the IMF staff conducts detailed quarterly reviews of the country's economic and financial performance. The results of these assessments are also published on the Fund's website.

Institutional Framework

Two units in the Ministry of Finance share responsibility for the management of debt. The Debt Unit (Back Office) of the Accountant General's Department is responsible for managing the debt portfolio day-to-day and ensuring complete coverage, verification and accuracy of debt data. This Unit also manages the CS-DRMS database which uses international reporting standards and is capable of supporting debt sustainability analysis. The Back Office is also responsible for preparing monthly and quarterly reports of the public sector's debt and the management and reconciliation of the Treasury Bills portfolio. The Debt Management Unit (Front and Middle Office) is directly accountable to the Deputy Financial Secretary within the Ministry of Finance. The Front and Middle Offices are responsible for managing and monitoring the debt portfolio which involves ensuring compliance with policies and procedures, executing market transactions, undertaking risk assessments and formulating strategies. The staff of both units regularly participates in training and capacity building programs hosted by international agencies.

Debt Management Objectives

The debt management objective of the Federal Government is to ensure that all costs relating to debt are minimized with prudent degree of risks, and reduce the stock of debt to a sustainable level. The Federal Government is also intent on using the proceeds of debt in the most effective manner and ensuring that repayment schedules are consistent with the cash flow availability.

Risk Management Framework

Risk management is a fundamental component of the country's debt management strategy and a capacity development priority. Consequently, debt management responsibilities have been expanded and involve risk management activities which are vital to the effective management of the debt portfolio. These activities include, but are not limited to developing and implementing a debt management strategy and conducting quarterly debt sustainability and risk analyses. The Federal Government is seeking to reduce the risks associated with contingent liabilities by strengthening its supervision and monitoring of Public Corporations. For this purpose, the Government Entities Oversight Board was recently established.

Operations and Oversight of Public Corporations

There are fourteen public corporations currently operating in Saint Kitts and Nevis. As of September 30, 2011 the debt of the public corporations accounted for 21.5 per cent. of the public sector's debt. Improving the transparency and accountability of these public entities is a priority of the Federal Government's financial management strategy. Towards this end, the Federal Government has been pursuing legislative and policy initiatives to monitor the financial operations of these entities and minimize the risk to the Federal Government's fiscal consolidation efforts.

The Finance Administration Act of 2007 requires statutory bodies to submit their business plans to the Minister of Finance and other appropriate ministers for approval. It also requires that these bodies provide the appropriate minister, the Minister of Finance and the Director of Audit with a copy of their audited financial statements, the auditor's report and their annual report.

In 2007, the Federal Government established a Government Entities Oversight Board ("**GEOB**") to monitor these institutions to ensure that their debt levels are efficiently managed and that the risks to the Federal Government and the financial system in general are minimized. The responsibilities of the GEOB also include providing reports to the Cabinet (which includes the submission of a risk profile report) recommending operational improvements and annual borrowing limits for these public entities.

To support the operations of the GEOB, a Government Entities Monitoring Unit ("**GEMU**") was established within the Fiscal and Regulatory Division of the Ministry of Finance. Officers of the GEMU are required to monitor the operations of the public corporations, review their financial statements and other reports as required under the Finance Administration Act and report their findings to the GEOB.

Treatment of Other Debt Categories

All debts owed by the Federal Government and its public sector, with the exception of Treasury Bills and debts owed to multilateral creditors, fall within the scope of the comprehensive debt restructuring process announced on 1 June 2011. The general approach towards the restructuring of debt categories that fall within the scope of the general debt restructuring but that are not being treated through this exchange offer is described below:

Loans and overdrafts owed to domestic banks

A material amount of the loans and overdrafts outstanding to domestic banks are owed to the Saint Kitts Nevis Anguilla National Bank ("**National Bank**"). As these facilities are secured with land, the Federal Government and the National Bank will shortly establish a co-owned, professionally managed special purpose vehicle that will be charged with selling the encumbered land assets. A term sheet with National Bank is already in place, and the execution of the transaction – which will automatically extinguish all of National Bank's claims on the Federal Government and its public sector – is expected by the end of the first quarter of 2012. A similar structure, albeit on a smaller scale, may be put in place to close out the secured claims of other domestic banks.

The Federal Government is committed to implementing a restructuring of any loans and overdrafts owed to domestic banks and not backed by land on terms that generate extensive cash flow relief for the Federal Government whilst ensuring stability in the domestic and regional financial systems. This category of liabilities is expected to represent only a modest percentage of total loans and overdrafts owed to domestic banks.

Eligible claims currently held by the domestic banks are subject to this exchange offer in the same way as eligible claims being held by any other creditor.

Intra-Government debt

The debts owed by the Federal Government to other public sector entities, including the Social Security Board, also fall within the scope of the general debt restructuring. The Federal Government expects to issue these creditors a long-dated par bond in exchange for existing unsecured claims. The treatment of a modest amount of secured claims held by intra-governmental debt is still being studied.

Debts owed to the Paris Club group of official bilateral creditors

The country's modest stock of Paris Club debt is owed to the United Kingdom and the United States. Saint Kitts and Nevis has informed the Paris Club of its intentions to make a formal request for debt relief upon the conclusion of the exchange offer. The Federal Government will be seeking restructuring terms that are in line with its capacity to pay and therefore comparable to those contained in this exchange offer, and expects that negotiations with the Paris Club will take place before the end of the second half of 2012.

Debts owed to non-Paris Club official bilateral creditors

The non-Paris Club official bilateral creditors of Saint Kitts and Nevis include The Republic of China (Taiwan), Kuwait, and Venezuela. The Republic of China (Taiwan) has agreed to provide the Federal Government with debt relief, and advanced discussions with this creditor are ongoing.

The governments of Kuwait and Venezuela have both been informed of the Federal Government's financial situation and the need for extensive debt relief in the context of the current IMF programme. The Federal Government is awaiting a response to its initial communications.

Excluded Claims

The Excluded Claims are being paid out.

Arrangements with the NIA and certain statutory authorities /corporations

Separate agreements have been or will be entered into between the Federal Government and certain of its statutory authorities/corporations and between the Federal Government and the NIA and its statutory authorities/corporations, requiring certain payments to be made to the Federal Government in respect of its payments under the New Bonds.

CARIBBEAN DEVELOPMENT BANK

General

The Guarantor is The Caribbean Development Bank ("**CDB**").

CDB is a multilateral financial institution dedicated to the development of the economies of its Borrowing Member Countries (as defined below), primarily through project loans and technical assistance to those countries and to public agencies and other entities in those countries. Its main goals are to promote sustainable economic development and to reduce poverty in its Borrowing Member Countries. Its main financial objective is to earn adequate net income to ensure its financial strength and to sustain its development activities.

CDB was established pursuant to an agreement, which was signed on 18 October 1969, accepted and ratified by all the signatories thereto and entered into force on 26 January 1970 (the "**Charter**"). The Charter is an international treaty which, together with the instruments of ratification and accession by CDB's members, has been deposited with the United Nations Secretary General. CDB commenced operations on 31 January 1970. Its principal office is located at Wildey, St. Michael, Barbados.

Membership and Shareholdings

CDB's members consist of the following 18 Borrowing Member Countries, three regional non-borrowing countries (one of which is a member of the OECD) and five non-regional countries (four of which are members of the OECD):

Borrowing Member Group – Anguilla, Antigua and Barbuda, The Commonwealth of The Bahamas, Barbados, Belize, British Virgin Islands, Cayman Islands, The Commonwealth of Dominica, Grenada, the Co-operative Republic of Guyana, The Republic of Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, the Republic of Trinidad and Tobago and the Turks and Caicos Islands (the "Borrowing Member Countries");

Regional Non-Borrowing Group – Colombia, Mexico and the Bolivarian Republic of Venezuela; and

Non-Regional Group – Canada, Germany, Italy, the People's Republic of China and the United Kingdom.

Privileges and Immunities

Although the Charter specifies that CDB enjoy immunity from every form of legal process, specific exceptions are made for cases arising out of, or in connection with, the exercise of CDB's powers to borrow money, guarantee obligations or to buy, sell or underwrite the sale of securities. In such cases, legal actions may be brought against CDB in a court of competent jurisdiction in the territory of any member in which CDB has its principal or a branch office, or in a territory of a member or non-member state where CDB has appointed an agent for the purpose of accepting service or notice of process, or in a jurisdiction in which CDB has guaranteed securities. Under the Charter, no action may be brought against CDB by any of its members or persons acting for or deriving claims from members.

CDB's property and assets are immune from all forms of seizure, attachment or execution before the delivery of final judgment against it. Such property and assets are also immune from search, requisition, confiscation, expropriation or any form of taking or foreclosure by executive or legislative action.