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CENTRALE BANK VAN CURAÇAO EN SINT MAARTEN

Centrale Bank van Curaçao en Sint Maarten

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CONTENT

I REPORT OF THE PRESIDENT

Global economic growth weakened during the second quarter of 2019, reflecting a slowdown in the advanced as well as the emerging market and developing economies. The slower pace of growth was primarily the result of a slowdown in industrial production due to weaker external demand and heightened trade tensions.

Meanwhile, the economic performance diverged within the monetary union of Curaçao and Sint Maarten during the second quarter of 2019. Curaçao recorded a real GDP contraction of 1.3%, somewhat slower than the decline of 1.6% registered in the second quarter of 2018. Meanwhile, Sint Maarten continued on the path of recovery as real GDP turned around from a contraction of 9.0% in the June quarter of 2018 into an expansion of 6.2% in the June quarter of 2019. The development in inflation also diverged between Curaçao and Sint Maarten. In Curaçao, inflation rose to 2.8% due mainly to higher food and electricity prices. However, inflation in Sint Maarten eased to 0.6% as the increase in electricity prices was mitigated by a decline in food prices.

The decline in Curaçao's real GDP during the second quarter of 2019 was the result of a drop in domestic demand, while net foreign demand increased. Both private and public spending were accountable for the drop in domestic demand. Private spending shrank because of a decline in private consumption as the higher inflation eroded the purchasing power and the labor market worsened. Meanwhile, private investments remained muted. Public spending went down on the back of lower government consumption and investment. By contrast, net foreign demand contributed positively to GDP due to a decline in the import of goods & services, moderated by lower exports.

A review of the performance of the economic sectors shows that the manufacturing, transport, storage & communication, and wholesale & retail trade sectors were primarily responsible for Curaçao's second-quarter real GDP contraction. The negative outcome in the manufacturing sector was attributable to the marked decline in production and trading activities at the Isla refinery. However, following the expansion with two floating docks in 2018 that increased the island's shipyard capacity, ship repair activities increased, thereby mitigating the contraction in the manufacturing sector. The transport, storage, & communication sector registered a decline as harbor activities fell, reflected by a decline in the number of oil tankers piloted into the port. The latter decline was related to the lower production at the Isla refinery. However, more container movements and an increase in the number of freighters and cruise ships moderated the decline in the harbor. Contrary to the harbor, the airport

performed well as reflected by an increase in passenger traffic and commercial landings. Air transportation services dropped, however, as a result of the demise of the domestic carrier InselAir. The lower real value added in the wholesale & retail trade sector was caused by the decline in domestic spending, moderated by increased tourism spending and more re-exports by the free-zone companies. The construction sector also posted negative results due mainly to lower maintenance work at the Isla refinery and the decline in public investments. Furthermore, real output shrank in the utilities sector due to lower water production while electricity production increased.

By contrast, the restaurants & hotels and financial intermediation sectors recorded a growth during the second quarter of 2019. The expansion in the restaurants & hotels sector was supported by an increase in both stay-over and cruise tourism. The buoyant performance of tourism was reflected by increases in the number of stay-over arrivals, visitor nights, cruise tourists, and cruise calls. The gain in the financial intermediation sector was driven by the domestic financial services as indicated by an increase in net interest income and fees & other income. By contrast, the international financial services sector contracted as reflected by lower wages & salaries.

Real GDP growth in Sint Maarten turned positive in the second quarter of 2019, driven mainly by net foreign demand as exports increased considerably and imports dropped slightly. Domestic demand rose also, supported by increased private investment, private consumption, and public consumption. The rise in private investment reflected both ongoing reconstruction activities and new investment projects taking place in Sint Maarten. Private consumption rose sustained by the improved labor market, while public consumption went up because the government spent more on goods & services. However, real GDP growth was dampened by a decline in public investments attributable largely to financial constraints.

An analysis of the economic expansion by sector reveals that the 2019 second quarter's growth in Sint Maarten was accounted for primarily by the restaurants & hotels, transport, storage, & communication, and wholesale & retail trade sectors. Following a deep contraction in the second quarter of 2018, the restaurants & hotels sector grew significantly during the second quarter of 2019 due mainly to a surge in stay-over tourism supported by a gradual increase in hotel room inventory and improved operational capacity at the airport. The number of stay-over visitors increased significantly across all main travel markets but was still below pre-hurricane levels. By contrast, cruise tourism shrank because of increased competition in the region and the redeployment of some cruise ships to other itineraries. The positive outcome in the transport, storage, & communication sector reflected increases at both the airport and the harbor. Airport-related activities rose as reflected by an increase in the number of passengers handled. Furthermore, air transportation services provided by domestic carrier Winair went up. Meanwhile, the increase in activities at the harbor was sustained by a rise in the number of tankers and freighters piloted into the port, moderated by a decline in the number of cruise ships. The growth

in the wholesale & retail trade sector was ascribable to higher domestic demand and more tourism spending.

Real value added rose also in the construction sector, albeit at a slower pace than in the second quarter of 2018, driven by an increase in private investments, moderated by a decrease in public investments. Meanwhile, increased production of electricity resulted in real output growth in the utilities sector. Furthermore, real value added in the manufacturing sector went up largely as a result of an increase in ship repair activities as more yachts visited Sint Maarten. In line with the surge in stay-over tourism, the real estate, renting, & business activities sector performed well supported by an increase in activities that cater to the tourism sector and a growth in the timeshare sector. Real value added in the financial intermediation sector also rose, driven by an increase in domestic financial services reflected by higher net interest income and other fees & income earned by the commercial banks in Sint Maarten.

In the area of public finances, the governments of Curaçao and Sint Maarten reduced their current budget deficit during the second quarter of 2019 compared to the second quarter of 2018. In Curaçao, the current budget deficit dropped by NAf.53.3 million as a result of an increase in revenues combined with lower expenditures. Government revenues rose driven by more proceeds from taxes, in particular, profit tax, sales tax, and property tax, reflecting the government's efforts to improve tax compliance and collection. Meanwhile, the drop in government expenditures was the result of a decline in the outlays on goods & services and wages & salaries.

The current budget deficit of the government of Sint Maarten narrowed by NAf.26.1 million in the June quarter of 2019, supported by an increase in revenues moderated by higher expenditures. The increase in revenues was primarily the result of more tax earnings as the proceeds increased across most categories. Furthermore, the revenues from concessions & fees and licenses rose. Meanwhile, government expenditures went up on the back of more outlays on goods & services and an increase in interest expenses.

Gross official reserves of the central bank dropped by NAf.154.8 million in the second quarter of 2019 as the external financing and capital transfers from abroad were lower than the deficit on the current account of the balance of payments. The import coverage dropped from 4.6 months at the end of March 2019 to 4.3 months at the end of June 2019 due to the decline in gross official reserves, moderated by a lower import bill.

The deficit on the current account of the balance of payments widened in the second quarter of 2019 compared to the second quarter of 2018 caused by a decline in net current transfers received from abroad. This decline reflected primarily a lower inflow of funds related to the claims of local insurance companies to pay their clients in Sint Maarten whose properties were damaged by the hurricanes in 2017, as most of these claims were settled in 2018. By contrast, the net export of goods & services rose and the income balance improved, moderating the increase in the current account deficit.

The net export of goods & services rose because of a decline in imports combined with higher exports. The lower import bill reflected primarily a decline in oil imports in Curaçao as a result of the drop in international oil prices and lower volumes purchased. Furthermore, non-oil merchandise imports shrank in both Curaçao and Sint Maarten. Also, the import of construction services dropped in Curaçao reflecting less maintenance work at the Isla refinery and the construction of the hospital reaching its final stages. In addition, foreign operational expenses by the trust companies in Curaçao dropped. The growth in exports was sustained primarily by more foreign exchange receipts from tourism activities in both Curaçao and Sint Maarten. Also, foreign exchange earnings from ship repair activities in Curaçao and construction services in Sint Maarten contributed to the gain in exports. The rise in revenues from construction services reflected mainly the reconstruction of real estate owned by nonresidents in Sint Maarten that was damaged by the hurricanes in 2017. However, the growth in exports was dampened by lower foreign exchange revenues from refining activities, bunkering activities, and international financial services in Curaçao. Also, the re-export of merchandise dropped in both Curaçao and Sint Maarten. Meanwhile, the income balance improved as a result of more labor income earned from abroad combined with an increase in dividend earned on foreign assets. In addition, interest paid on foreign liabilities dropped. However, more dividend paid to foreign shareholders and less interest earned on foreign investments moderated the improvement of the income balance.

External financing into the monetary union rose during the second quarter of 2019. As a result, the International Investment Position (i.e., the monetary union's external balance sheet or IIP) deteriorated. The increase in external financing reflected a worsening of the loans & credits, portfolio investment, and direct investment balances. The loans & credits balance deteriorated because of a drop in foreign deposits of residents of Curaçao and Sint Maarten, an increase in the deposits of nonresidents in the monetary union, the repayment of trade credits extended in the past on exports, and more trade credits received on imports. The worsening of the portfolio investment balance was caused by the net sale of foreign equity by local institutional investors and the liquidity support that the government of Sint Maarten received through a bond loan purchased by the Dutch State. Furthermore, a part of the matured foreign debt securities in the portfolio of institutional investors was not reinvested abroad. Meanwhile, net direct investments into the monetary union rose mainly because of increased liabilities of local companies towards their foreign affiliates and the purchase of real estate in Curaçao and Sint Maarten by nonresidents. Net capital transfers into the monetary union also increased during the June quarter of 2019 because of the transfer of funds by the World Bank from the Sint Maarten Recovery, Reconstruction and Resilience Trust Fund for the financing of reconstruction projects.

The monetary aggregates continued to expand in the second quarter of 2019 as a result of an increase in net domestic assets, moderated by a decrease in net foreign assets. Net foreign assets dropped

at both the commercial banks and the central bank. The growth in net domestic assets was supported by an increase in net claims on the government, a rise in credit extension to the private sector, and an increase in memorandum balance sheet items not related to transactions. The increase in net claims on the government reflected lower demand deposits of the government of Curaçao. Meanwhile, credit extension to the private sector rose as a result of an increase in loans extended in Curaçao, moderated by a decline in the outstanding loans in Sint Maarten.

During the second quarter of 2019, the Bank kept the reserve requirement percentage unchanged at 18.00%. Nevertheless, the required reserves rose as a result of an increase in the base upon which it is calculated. Meanwhile, as was the case in the first quarter of 2019, the Bank did not issue any certificates of deposit (CDs) during the second quarter of 2019. Consequently, there were no outstanding CDs.

The governments of Curaçao and Sint Maarten put much effort into reducing the deficit on their current budgets during the second quarter of 2019. This is a daunting task for Curacao in an environment of negative economic growth caused mainly by external shocks. With the aim of reaching a balanced current budget again, emphasis to date has been primarily on measures that raise tax revenues. Though necessary, these measures will slow economic recovery and negatively impact the business climate. Therefore, a more balanced fiscal austerity package is required by putting more effort into a structural reduction of government expenditures.

Reaching a balanced budget also is a challenge for Sint Maarten as the country recovers from a natural disaster and the government needs to restore key public services and repair infrastructure. While liquidity support from the Dutch State provides some relief for the short term, the focus should lie in the medium term on reforms towards an efficient and effective tax system and the efficient provision of government services to attain sustainable public finances.

The agreement with the Klesch Group regarding the operations of the oil refinery in Curaçao towards the continuation of refining activities in 2020 and beyond after the expiration of the refinery's lease by the Venezuelan oil company, PDVSA, on December 31, 2019, may contribute to lessen the economic contraction in 2020. In the coming period, the Bank will devote resources to further assess the impact of this development for the economy of Curaçao.

Dr. J. Jardim
President a.i.

II INTERNATIONAL ECONOMIC DEVELOPMENTS

The most important trading partners of Curaçao and Sint Maarten are the United State and the Netherlands, while Venezuela traditionally is also an important trading partner. Hence, a brief analysis of the main economic developments in each of these countries during the second quarter of 2019 is provided.

THE UNITED STATES

The U.S. economy grew by 2.3% in real terms during the second quarter of 2019, a slowdown compared to the 3.2% growth recorded in the second quarter of 2018 (see Table 1). The growth in real output was driven by increased domestic demand, offset by a decline in net foreign demand.

Output growth in the second quarter of 2019 was driven by the domestic demand as both private and public demand rose. The increase in private demand was caused by more consumption and investment. Consumers spent more on goods and services during the second quarter of 2019, sustained by better labor market conditions and lower consumer price inflation. Private investments also grew, albeit at a slower pace than in the second quarter of 2018, due largely to more investments in intellectual property mitigated by less residential investments. Public demand increased because of higher spending by federal, state, and local governments in the second quarter of 2019 compared to the second quarter of 2018. By contrast, the contribution of net foreign demand to real output growth was negative because imports increased while exports declined.

From a sectoral perspective, the growth in private sector activities was driven mainly by the professional & business services, real estate, retail trade, and mining (oil and gas extraction) sectors.

The U.S. unemployment rate declined to 3.6%, the lowest in nearly 50 years, attributable mainly to job gains in the professional & business services, leisure

Table 1 Economic indicators of the United States

	2018-II	2019-II
Real GDP (% change)	3.2	2.3
Consumer prices (%)	2.7	1.8
Unemployment rate (%)	3.9	3.6

Sources: US Bureau of Economic Analysis; US Bureau of Labor Statistics.

& hospitality, and health care sectors. In addition, the number of long-term unemployed and the number of workers employed part-time for economic reasons dropped.

The increase in average consumer prices in the United States remained subdued (1.8%) during the June quarter of 2019, due primarily to the lower international crude oil prices, energy prices, and apparel prices, mitigated by price increases of food & beverages, housing, and medical care.

The Federal Reserve maintained the target range for the federal funds at 2.25% - 2.50% based on a projected strong labor market, moderate economic growth, and an inflation rate around the 2 percent target in 2019. However, risks to the outlook for real GDP growth had tilted to the downside and include international trade tensions and foreign economic developments that could have significant negative effects on the U.S. economy.

THE NETHERLANDS

Real GDP growth in the Netherlands weakened from 3.0% in the second quarter of 2018 to 1.8% in the second quarter of 2019. The expansion in 2019's second quarter was attributable primarily to increased private and public demand mitigated by a contraction in net foreign demand. Meanwhile, inflation almost doubled from 1.5% in the second quarter of 2018 to 2.7% in the second quarter of 2019. (See Table 2)

The increase in real GDP in the second quarter of 2019 was due primarily to increased private consumption and fixed investment. Private consumption rose because of more spending on durable goods, such as clothing & textiles, home furnishings, and electrical appliances. Dutch consumers also spent more on other goods and services such as medical services and energy & water. The growth in private consumption was in line with the increase in employment and the improvement in consumer confidence. Private investments grew as businesses invested more in building construction, transport vehicles (mainly aircraft), and telecommunication equipment. The growth in private investment was consistent with the increased confidence of producers. In addition, public spending grew as both government consumption and investments increased.

In contrast, net foreign demand contributed negatively to GDP growth as imports grew

Table 2 Economic indicators of the Netherlands

	2018-II	2019-II
Real GDP (% change)	3.0	1.8
Consumer prices (%)	1.5	2.7
Unemployment rate* (%)	3.9	3.3

Source: Central Bureau of Statistics of the Netherlands.
**International definition.*

at a faster pace than exports. Imports increased as more textiles, apparel and leather, petroleum products, chemical & pharmaceutical products, machines, and electrical equipment were imported. Exports rose primarily because of more re-exports. However, the exports of agriculture, forestry & fishery products, and electrical equipment dropped.

A sectoral analysis reveals that the gain in private sector activities occurred particularly in the construction, energy, trade, transportation, and hospitality, rental & property management services sectors. This growth was mitigated, however, by a contraction in the agriculture, mining, and financial services sectors.

The unemployment rate fell from 3.9% in second quarter of 2018 to 3.3% in the second quarter of 2019 as the improved economic conditions in the Netherlands resulted in a higher number of vacancies and more people finding employment. Meanwhile, inflation rose to 2.7% as prices increased for various goods and services such as food & beverages, housing, water & energy, transport, and restaurants & hotels.

VENEZUELA

The International Monetary Fund (IMF) and Business Monitor International (BMI) expect the Venezuelan economy to contract between 14.2% and 35.0% in 2019, following an estimated contraction of 13.2% to 18.0% in 2018 (see Table 3). Moreover, the exodus of the population is putting a drag on the country's ability to rebound from this crisis.

Venezuela's economic situation remains delicate. Decreasing oil production, hyperinflation, and a poor business environment keep the economy in a deep recession. Private demand is expected to decline because of decreases in both consumption and investment. The decline in private consumption is the result of the hyperinflation that has been affecting consumers' purchasing power significantly for some years. In addition, investments decreased mainly because of low investor confidence, shortages of foreign currency, and the deteriorating business climate in the country. Meanwhile, public demand is expected to contract largely as a result of lower revenues from oil exports.

In contrast, net foreign demand is expected to contribute positively to real output despite historically low oil prices because

Table 3 Economic indicators of Venezuela

	2018	2019
Real GDP (% change)	-13.2 to -18.0	-14.2 to -35.0
Consumer prices (%)	65.374 to 255.538	200.000 to 2.662.975
Unemployment rate* (%)	10.0 - 35.0	9.5 - 44.0

Sources: International Monetary Fund; Business Monitor International

the significant drop in imports offsets lower oil exports. Imports are expected to drop as a result of the foreign currency restrictions, while exports will contract because of fewer oil barrels sold as well as significantly lower international oil prices.

Meanwhile, Venezuela's central bank published data on economic growth and inflation for the first time since the third quarter of 2014. According to Banco Central de Venezuela (BCV), the economy contracted by 19.6% in 2018 as private consumption fell sharply, while annual inflation was at 130,060%. The published figures confirm the magnitude of the economic recession with annual GDP declines after 2013 of 3.9% in 2014 to 15.7% in 2017. The most recent publication shows an economic contraction of 26.8% in the first quarter of 2019[1] compared to the first quarter of 2018, due mainly to declines in oil activities, non-oil activities, especially manufacturing, and government spending. Furthermore, inflation reached 160,120% in the June quarter of 2019, lower than the projections by the IMF and BMI for 2019.

Aside from the ongoing political and economic crisis, the country is experiencing an exodus of Venezuelans[2] , which will have long-term deleterious effects for the recovery of the country.

[1] *The BCV has not yet published data for the second quarter of 2019.*

[2] *According to the UN Refugee Agency, the total number of migrants leaving Venezuela will reach about 4.5 million in 2019.*

III GENERAL ECONOMIC DEVELOPMENTS

GENERAL ECONOMIC DEVELOPMENTS IN CURAÇAO

The Curacao economy contracted by 1.3% in the June quarter of 2019, a slower decline than the 1.6% recorded in the June quarter of 2018. The output contraction resulted from a decrease in domestic demand, moderated by a positive contribution of net foreign demand (see Table 4). Meanwhile, the inflation rate rose to 2.8%, mainly because of higher food and electricity prices.

An analysis of GDP by expenditure shows that the economy contracted in the second quarter of 2019 as a result of a decline in private and public demand, offset by an increase in net foreign demand. Private

Table 4 Curaçao - GDP by expenditure[ab]

	2015-II	2016-II	2017-II	2018-II	2019-II
Domestic expenditure, of which:	**0.4**	**-0.1**	**-0.1**	**-0.3**	**-2.5**
Private sector	-0.3	-0.5	-0.2	-0.5	-1.3
Investment	0.1	0.1	-0.2	0.0	-0.7
Consumption	-0.4	-0.6	0.0	-0.5	-0.6
Government sector	0.3	0.4	-0.1	-2.0	-0.3
Investment	0.5	0.2	0.1	-0.2	-0.5
Consumption	-0.4	0.1	0.3	0.1	-1.5
Changes in inventory	**0.2**	**0.0**	**-0.1**	**0.1**	**0.0**
Foreign net expenditure, of which:	**-0.2**	**-0.8**	**-1.0**	**-1.4**	**1.2**
Export of goods and services	-2.1	-0.3	0.1	-0.7	-0.2
Import of goods and services	-1.4	0.7	1.5	-1.9	-0.8
GDP	**0.4**	**-0.8**	**-1.2**	**-1.6**	**-1.3**

Source: Estimates by the Centrale Bank van Curaçao en Sint Maarten.
[a]Expenditure categories data are weighted contributors to GDP growth.
[b]Real percentage changes.

demand declined because of lower private consumption as a result of, among other things, a decline in disposable income because of the higher inflation and a worsened labor market. Public demand fell as both government investment and consumption declined. The government invested less during the second quarter of 2019 as the construction of the new hospital reached its final stages. Similarly, public consumption recorded a decline as a result of less spending on goods & services and wages & salaries. Meanwhile, net foreign demand contributed positively to GDP as the decline in imports surpassed the decrease in exports. Exports dropped mainly due to lower production at the Isla refinery, fewer bunkering activities, and less international financial services provided to abroad, moderated by more tourism and ship repair activities. Imports dropped because of lower merchandise imports by the wholesale & retail trade, utilities, manufacturing, and construction sectors combined with lower volumes of oil products purchased from abroad.

DOMESTIC PRODUCTION

An analysis of the production side of GDP shows that the transport, storage, & communication, manufacturing, construction, and wholesale & retail trade sectors were the main contributors to the real GDP contraction in the second quarter of 2019 (see Table 5). Growth in the restaurants & hotels and financial intermediation sectors mitigated the decline in real GDP.

Real value added in the transport, storage, & communication sector (-1.1%) shrank in the second quarter of 2019, albeit at a slower pace than in the second quarter of 2018, as the significant decline in harbor activities was moderated by an increase in airport-related activities. The poor performance of the harbor reflected the sharp decline in the number of oil tankers as a result of the lower production at the Isla refinery. By contrast, increases in container movements and the number of freighters and cruise ships piloted into the port mitigated the contraction in the harbor. Meanwhile, airport-related activities increased due to the higher number of commercial landings, and passenger arrivals and departures, mitigated by fewer transit passengers. However, air transportation services dropped as the other local carriers did not fill the gap left by the closure of the domestic carrier InselAir in February 2019.

Real output in the manufacturing sector declined further in the second quarter of 2019 (-11.6%) because of a sharp decrease in oil refining activities. The refinery has been performing far below its capacity since January 2018 due mainly to a lack of crude oil as a result of, among other things, the international embargo against the Venezuelan oil company, PDVSA. In contrast, more ship repair activities mitigated the drop in the manufacturing sector. Meanwhile, the construction sector also posted negative results, due mainly to a decline in maintenance work at the refinery and lower public investments, particularly the construction of the new hospital.

Furthermore, real value added in the wholesale & retail trade sector dwindled in the second quarter of 2019 (-1.3%) due to less domestic spending mitigated by an increase in activities at the free zone and more tourism spending. Output declined also in the utilities sector (-0.3%) because

of less production of water, mitigated by more electricity production.

In contrast, the restaurants & hotels sector recorded a double-digit increase (10.2%) in the second quarter of 2019, a strong acceleration compared to the growth recorded in the second quarter of 2018. All main indicators increased, i.e., the number of stay-over visitors, the number of visitor nights, the number of cruise tourists and the number of cruise calls, except the occupancy rate. Almost all the focus markets, i.e., the European, Caribbean, and South American markets, recorded double digit growth. The expansion in the European market was driven largely by increases in the number of visitors from the Netherlands, Germany, and Belgium. The South American market performed well because of more visitors from Brazil, Colombia, and Surinam. The expansion of the Caribbean market came from more visitors from the Dominican Republic,

Table 5 Curaçao - GDP by sector[a]

	2015-II	2016-II	2017-II	2018-II	2019-II
Agriculture, fishery, & mining	-2.6	1.3	-1.8	-4.1	0.7
Manufacturing	4.0	-7.0	-4.1	-5.8	-11.6
Electricity, gas, & water	-1.2	1.0	0.8	0.3	-0.3
Construction	-0.2	1.3	3.5	-1.1	-0.6
Wholesale & retail trade	1.0	-0.7	-2.3	-2.2	-1.3
Restaurants & hotels	0.8	-7.0	3.5	1.7	10.2
Transport, storage, & communication	1.0	-1.4	-4.1	-2.9	-1.1
Financial intermediation	-0.4	0.5	-1.1	-2.5	0.4
Real estate, renting, & business activity	-0.6	-1.7	0.7	0.4	0.8
Other community, social, & personal services	0.7	0.7	3.2	-5.8	-5.9
Private households	0.5	0.2	1.2	-2.1	-3.1
Total private sector	0.3	-1.0	-0.5	-1.5	-0.8
Public sector	-0.4	0.0	-0.4	0.1	-0.4
Taxes minus subsidies	0.5	0.2	-0.3	-0.2	-0.1
GDP by sector	**0.4**	**-0.8**	**-1.2**	**-1.6**	**-1.3**

Source: Estimates by the Centrale Bank van Curaçao en Sint Maarten.
[a]Real percentage changes.

Aruba, and Trinidad & Tobago. Meanwhile, the North American market grew at a slower pace in the June quarter of 2019 as the increase in the number of visitors from the United States was mitigated by fewer Canadian visitors. Furthermore, the number of visitor nights recorded double-digit growth, which also supported the increase in tourism spending. (See Table 11A in the Appendix for more details.) Meanwhile, cruise tourism grew, albeit at a slower pace compared to the second quarter of 2018, as reflected by an increase in the number of cruise passengers; the number of cruise calls remained stable. Finally, the decline in the occupancy rate may be attributable to more tourists staying in alternative accommodations.

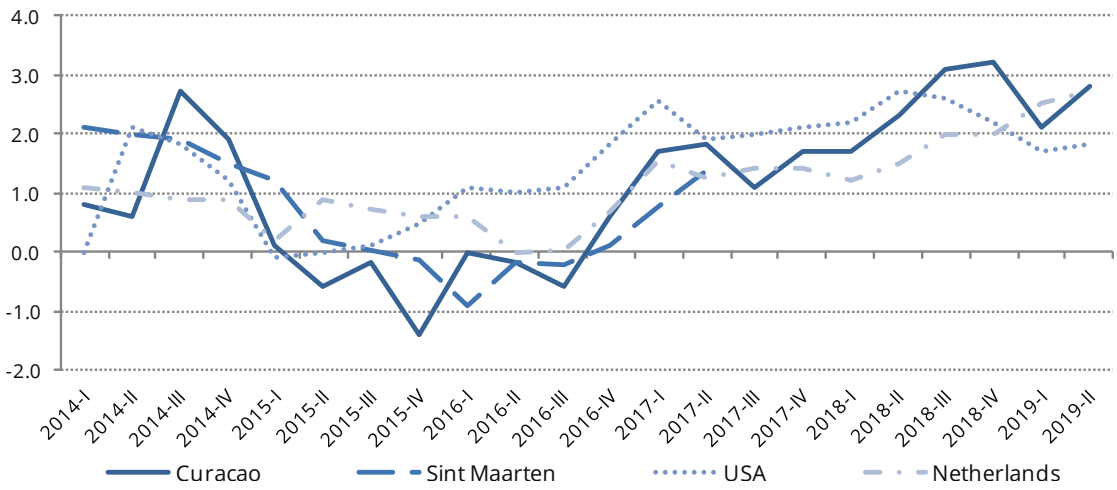
The financial intermediation sector also recorded an increase (0.4%) in real value added as a result of a growth in domestic financial services moderated by a contraction in international financial services. The increase in domestic financial services reflects higher net interest income and other fees and income of the commercial banks. Meanwhile, the drop in real value added in the international financial services followed from lower wages & salaries mitigated by an increase in the other operational expenses.

INFLATION

The quarterly inflation of Curaçao increased from 2.3% in the second quarter of 2018 to 2.8% in the second quarter of 2019 due mainly to rising food and utility prices. As shown in Graph 1, the development in Curaçao differs from that in the United States. While average prices accelerated in Curaçao, the United States recorded a slowdown during the second quarter of 2019 compared to the second quarter of 2018. Given the peg of the NAf. to the US dollar, this diverging development points to an appreciation of the real exchange rate and hence, a deterioration of Curaçao's competitiveness.

An analysis of the development in the CPI components reveals that prices rose across

Graph 1 Developments in consumer prices[a] (percentage)



Source: Central Bureau of Statistics Curaçao, Department of Statistics Sint Maarten, Centraal Bureau voor de Statistiek Nederland, and U.S. Bureau of Economic Analysis.
[a]Annual percentage change.

all categories, but were most pronounced in the categories "Food", "Housing" and "Clothing & footwear". Prices accelerated in the category "Food" (5.6%) primarily as a result of price gains of potatoes, vegetables & fruits, and meat & fish. In the "Housing" category also, prices increased at a faster pace (4.8%) due mainly to higher utility costs related to increased prices for fuel used in the production of electricity and water. Prices accelerated also in the category "Clothing & footwear" (2.6%). Meanwhile, prices eased significantly in the category "Transport & communication" (0.3%) due to a decline in gasoline prices. (See Table 12 in the Appendix for a detailed overview.)

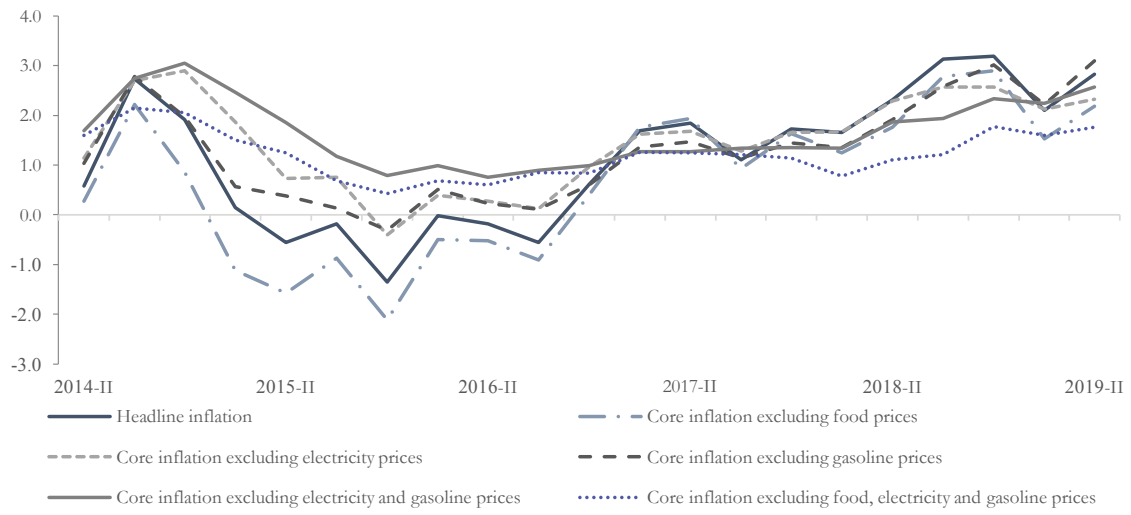
Graph 2 shows the development of the headline inflation and core inflation rates of Curaçao on a quarterly basis over the period 2014-II to 2019-II. Core inflation is measured in five ways, namely, (1) the inflation rate excluding electricity prices, (2) the inflation rate excluding fuel prices, (3) the inflation rate excluding electricity and fuel prices, (4) the inflation rate excluding food prices, and (5) the inflation rate excluding food, fuel, and electricity prices.

A comparison between the headline and core inflation rates reveals that the food and electricity prices exerted an upward pressure on the general inflation rate during the second quarter of 2019. Both the core inflation excluding food prices (2.2%) and excluding electricity prices (2.3%) were lower than the headline inflation (2.8%). By contrast, the decline in the gasoline prices eased the inflationary pressures during the June quarter of 2019. The core inflation rate excluding gasoline prices (3.1%) was higher than the headline inflation rate (2.8%). Meanwhile, the core inflation excluding electricity and gasoline prices was 2.6%, and the core inflation excluding food, electricity, and gasoline prices was 1.8%.

GENERAL ECONOMIC DEVELOPMENTS IN SINT MAARTEN

Sint Maarten's real GDP grew by 6.2% during the second quarter of 2019, a robust turnaround compared to the 9.0% contraction experienced in the second quarter of 2018 (see Table 6). The turnaround came largely on the back of a rebound in the number of stay-

Graph 2 Comparison between consumer prices and core consumer prices



over arrivals to Sint Maarten and an uptick in tourism-related activities. Meanwhile, inflation eased to 0.6% as the increase in energy prices was moderated by a decline in food prices.[3]

An expenditure analysis reveals that the turnaround in real GDP during the second quarter of 2019 was driven primarily by net foreign demand. Following a strong decline in the second quarter of 2018, net foreign demand surged as exports rose sharply while the import bill shrank. The rise in exports was attributable mainly to the rebound in stay-over arrivals, mitigated by a drop in cruise tourism arrivals. The import bill decreased mainly as a result of lower international oil prices. Lower merchandise imports by the retail trade and hotels & restaurants sectors also contributed to the drop in the import bill, moderated by an increase in construction services acquired from abroad. Meanwhile, the rise in domestic demand was due solely to the private sector. Private investments increased, albeit at a slower pace than in the second quarter of 2018, as construction and

[3] *2018 is now the base year for the Consumer Price Inflation (CPI) index, compiled and published by the Sint Maarten Department of Statistics.*

Table 6 Sint Maarten - GDP by expenditure[ab]

	2015-II	2016-II	2017-I-II[c]	2018-II	2019-II
Domestic expenditure, of which:	**-0.5**	**-0.5**	**0.1**	**0.3**	**0.9**
Private sector	-0.3	1.1	-0.2	0.6	0.9
Investment	-0.2	2.5	0.8	2.4	0.7
Consumption	-0.1	-1.4	-1.0	-1.8	0.2
Government	-0.2	-1.6	0.3	-0.3	0.0
Investment	-0.2	-0.6	0.0	-0.8	-0.3
Consumption	0.0	-1.0	0.3	0.5	0.3
Changes in inventory	**0.1**	**0.1**	**0.0**	**0.1**	**-0.6**
Foreign net expenditure, of which:	**-0.3**	**0.1**	**0.3**	**-9.4**	**5.9**
Export of goods and services	-2.0	-0.5	0.2	-8.9	5.7
Import of goods and services	-1.7	-0.6	-0.1	0.5	-0.2
GDP	**-0.7**	**-0.3**	**0.3**	**-9.0**	**6.2**

Source: Estimates of the Centrale Bank van Curaçao en Sint Maarten.
[a]Expenditure categories data are weighted contributors to GDP growth.
[b]Real percentage changes.
[c]The 2017 Sint Maarten public finance data were released only for the first six months of the year by the government instead of on a quarterly basis. Therefore, the Bank analyzed the general economic and public sector developments in Sint Maarten on a half-year basis for consistency purposes.

refurbishment continued throughout the country. Private consumption increased due to, among other things, the improved labor market after the reopening of some major hotels and other tourism-related businesses. By contrast, the public sector's contribution to real GDP was muted. Although public consumption increased mainly as a result of a rise in outlays on goods & services, the increase was insufficient to offset the decline in public investments due to financial constraints.

DOMESTIC PRODUCTION

An analysis of the production side of GDP shows that the positive turnaround in Sint Maarten's real GDP during the second quarter of 2019 was supported primarily by more economic activities in the private sector, buoyed by the surge in stay-over arrivals, albeit tempered by a decline in the number of cruise tourism arrivals. The contribution by the public sector remained muted, but the collection of turnover taxes increased.

Nearly all economic sectors experienced a positive turnaround during the second quarter of 2019 following the sharp contractions in the second quarter of 2018 caused by Hurricane Irma's severe damage to Sint Maarten's productive capacity. Activities in the manufacturing, utilities, construction, wholesale & retail trade, restaurants & hotels, transport, storage, & communication, financial intermediation, and real estate, renting, & business activities sectors rebounded or grew further compared to the second quarter in 2018 (see Table 7).

Construction activities continued to grow strongly (6.6%) during the second quarter of 2019 because of ongoing reconstruction activities, such as the refurbishment of some major hotels as well as the start of new projects, e.g., condominiums in the Maho and Mullet Bay areas. However, no major public projects were started during the second quarter of 2019 as they awaited the necessary financing arrangements.

Real value added in the manufacturing sector grew by 2.8% in the second quarter of 2019, an acceleration compared to the second quarter of 2018. The growth was attributable largely to an increase in ship repair activities after many yachts, including mega-yachts, returned to private marinas in the Simpson Bay Lagoon and in Philipsburg harbor for the start of the 2019 yachting season.

In addition, activities in the utilities sector rebounded sharply during the second quarter of 2019 (5.1%). Electricity production accelerated as demand from households and major consumers, such as hotels and other tourism-related businesses, rose significantly after their repair and re-opening for business. Meanwhile, water production remained muted as more storage tanks became operational, decreasing the need for continuous water production.

Because of increases in both domestic and tourism spending, activities in the wholesale & retail trade sector in the second quarter of 2019 showed a robust turnaround (6.8%) compared to the deep contraction in the second quarter of 2018.

Furthermore, real value added in the restaurants & hotels sector rebounded markedly (20.3%) as regular economic activities returned with the rise in tourism

Table 7 Sint Maarten - GDP by sector[a]

	2015-II	2016-II	2017-II	2018-II	2019-II
Agriculture, fishery, & mining	0.0	0.0	0.0	0.0	0.0
Manufacturing	-0.4	4.0	2.0	1.5	2.8
Electricity, gas, & water	3.2	1.4	-0.5	-12.4	5.1
Construction	-2.1	1.1	1.7	6.8	6.6
Wholesale & retail trade	-1.9	-1.5	-0.7	-9.7	6.8
Restaurants & hotels	-3.0	-2.4	2.9	-28.4	20.3
Transport, storage, & communication	-0.7	-0.4	1.4	-12.1	14.4
Financial intermediation	1.5	0.0	-2.0	-1.3	0.3
Real estate, renting, & business activity	-0.3	-0.1	0.4	-7.2	2.5
Other community, social, & personal services	-4.2	-0.3	-1.0	0.1	0.8
Private households	0.3	1.2	-1.0	-2.2	-0.5
Total private sector	-0.7	-0.2	0.2	-6.4	5.2
Public sector	-0.2	0.2	0.1	0.1	0.0
Taxes minus subsidies	0.2	-0.3	0.0	-2.7	1.0
GDP	**-0.7**	**-0.3**	**0.3**	**-9.0**	**6.2**

Source: Estimates of the Centrale Bank van Curaçao en Sint Maarten.
[a]Real percentage changes.

arrivals and the reopening of some major tourism-related infrastructure, such as some large hotels. Stay-over arrivals surged (119.6%) in the second quarter of 2019 compared to the second quarter of 2018, largely because of better operational capacity at the Princess Juliana International Airport and the gradual increase in hotel room inventory. Stay-over arrivals from all of Sint Maarten's main travel markets rose sharply, albeit still below pre-Irma levels in absolute terms.[4]

Stay-over arrivals from North America, Sint Maarten's main tourism market, rebounded strongly during the second quarter of 2019 (230.5%), a profound turnaround compared to the deep contraction seen during the second quarter of 2018. Visitors from the United States soared (221.6%),

[4] *The year-on-year change in stay-over arrivals reflects a percentage change. In absolute terms, stay-over arrivals remained below average pre-Irma levels.*

along with a surge in those from Canada (325.3%). Likewise, stay-over arrivals from Europe turned around positively (30.0%) compared to the deep contraction seen during the second quarter of 2018. Visitor numbers from France, Sint Maarten's second biggest travel market, rebounded positively (34.6%), along with those from the Netherlands (16.6%). Also, the number of visitors from South America turned around dramatically (101.3%) as well as those from the Caribbean (30.4%). (See Table 11B in the Appendix for more details.)

By contrast, cruise tourism did not perform as well as stay-over tourism. Cruise tourism arrivals at the A C Wathey Cruise & Cargo Facilities during the second quarter of 2019 contracted (-12.2%) compared to the growth seen in the second quarter of 2018. The contraction was caused by a number of factors, including increased regional competition from other islands once their cruise facilities became operational again in the aftermath of the 2017 hurricane season as well as the redeployment of some ships by the major cruise lines to other itineraries.

The transport, storage, & communication sector rebounded significantly (14.4%) in the second quarter of 2019 due largely to a surge in stay-over arrivals moderated by the decline in cruise tourism. Activities in the sector turned around and rose steeply, due mainly to the partial re-opening of the main terminal building at the Princess Juliana International Airport, enabling it to handle higher volumes of passengers than in the second quarter of 2018, along with a rise in harbor-related activities. Sint Maarten's domestic carrier, Winair, also experienced growth, in line with the sharp overall rise in total passenger traffic. Harbor-related activities increased in line with the rise in the number of tankers and freighters piloted into the harbor, moderated by the drop in cruise ship calls.

As a corollary to the sharp uptick in stay-over arrivals, the real estate, renting, & business activities sector also experienced a positive turnaround (2.5%) in the second quarter of 2019, including the timeshare sector and the many companies that cater to the industry.

Finally, the financial intermediation sector contributed positively (0.3%) to Sint Maarten's real GDP in the second quarter of 2019 because the interest income of the domestic commercial banks increased at a faster pace than interest expenses, and fees and other income rose mainly as a result of more bank transactions.

DEVELOPMENTS IN THE PUBLIC FINANCES

Public finances of Curaçao

The current budget deficit of the government of Curaçao narrowed to NAf.21.6 million[5] in the second quarter of 2019 compared to the NAf.74.9 million deficit recorded in the second quarter of 2018.[6] This improvement was the result of higher revenues combined with a decline in expenditures. Even though the government incurred a deficit in the second quarter of 2019, it still expects to

[5] *When the income and expenditures of the social security bank, SVB, are included in the 2018 budget, the current budget deficit would narrow by NAf.58.7 million in the second quarter of 2019 compared to the second quarter of 2018.*

[6] *As of May 2018, the government no longer includes the social security bank, SVB, in the fiscal data and also made a correction to remove the expenditures and income of the SVB during the period January–April 2018 from its current budget in May. The current budget for the second quarter of 2018 excludes the income and expenditures of the SVB.*

reach a balanced budget at the end of 2019 due to income-increasing measures, including an increase of the turnover tax rate on imported goods from 6% to 9%.[7]

During the second quarter of 2019, government revenues rose by NAf.37.4 million compared to the second quarter of 2018, while expenditures decreased by NAf.15.9 million. As a result, the current budget deficit improved by NAf.53.3 million. Revenues went up due to NAf.38.4 million more in tax proceeds during the April-June period of 2018. Tax revenues rose in all categories, but was most pronounced in the profit tax (NAf.22.0 million),[8] sales tax (NAf.9.6 million), and property tax (NAf.3.6 million) categories. The positive development in tax revenues reflects increased compliance. The drop in expenditures was caused mainly by less spending on goods & services (NAf.18.0 million) and wages & salaries (NAf.2.4 million). Part of the decline in goods & services was due to a reclassification to the category "transfers & subsidies." (See Tables 13A and 13B in the Appendix for a detailed overview.)

Public sector debt of Curaçao

The total outstanding public debt of Curaçao reached NAf.2.86 billion at the end of June 2019, a decrease of NAf.21.2 million compared to the end of March 2019. This decline was the result of a drop in the domestic debt component of NAf.28.8 million, as the government reduced its outstanding arrears with, particularly, the public pension fund, APC, and the social security bank, SVB. By contrast, the foreign debt component increased by NAf.7.6 million due mainly to more arrears towards the Dutch government related to the coast guard and the common court of justice. Consequently, the debt-to-GDP ratio dropped from 51.2% at the end of March 2019 to 50.8% at the end of June 2019. (See Table 13C in the Appendix for a detailed overview.)

Public finances of Sint Maarten

The deficit on the current budget of the government of Sint Maarten dropped from NAf.31.0 million in the second quarter of 2018 to NAf.4.9 million in the second quarter of 2019. To cover the deficit on the current budget and settle part of its outstanding arrears, the government of Sint Maarten received the second tranche of liquidity support through a bond loan from the Dutch State.[9] In addition, the government received a bridge loan purchased by the Dutch State for the reconstruction of the Princess Juliana International Airport. As a result of these loans, the debt-to-GDP ratio of Sint Maarten rose by 2.2 percentage points reaching 41.6% at the end of June 2019.

The public finances of Sint Maarten improved during the April-June quarter of 2019 due to an increase of NAf.30.8 million in government revenues, mitigated by an increase of NAf.4.7 million in expenditures. Revenues went up due to NAf.28.2 million more tax revenues, NAf.3.3 million more concessions and fees, and NAf.2.3 million more licenses collected. All tax categories recorded higher revenues, reflecting

[7] The tax amendment came into force on September 1st, 2019.

[8] Nevertheless, the collection of profit tax during the second quarter of 2018 was less than budgeted.

[9] The second tranche of liquidity support for 2018. The liquidity support for 2019 has not yet been requested.

the country's economic recovery in the post-Irma period, with the increases in wage tax (NAf.9.3 million), turnover tax (NAf.8.4 million), and profit tax (NAf.7.3 million) the most pronounced. However, a decline in the proceeds from vehicle tax (NAf.2.0 million) mitigated the rise in taxes. Meanwhile, expenditures increased due mainly to NAf.3.4 million more outlays on goods & services and NAf.3.0 million more interest expenses. (See Tables 14A and 14B in the Appendix for a detailed overview.)

Public sector debt of Sint Maarten

The total public debt of Sint Maarten increased by NAf.41.3 million during the second quarter of 2019. The higher debt was the result of a rise in the foreign debt component due to the bond loan of NAf.32.9 million issued for liquidity support and a NAf.27.0 million bridge loan for the reconstruction of the airport the government of Sint Maarten received from the Dutch State. In contrast, the domestic debt component dropped by NAf.18.6 million because the government paid part of its arrears towards the public pension fund, APS, mitigated by a rise of NAf.1.4 in the outstanding arrears towards the social security bank, SZV. Consequently, the debt-to-GDP ratio increased to 41.6% at the end of June 2019 compared to 39.4% at the end of March 2019. (See Table 14C in the Appendix for a detailed overview.)

DEVELOPMENTS IN THE BALANCE OF PAYMENTS OF THE MONETARY UNION

The deficit on the current account of the balance of payments of the monetary union rose from NAf.453.5 million in the second quarter of 2018 to NAf.479.5 million in the second quarter of 2019. The higher deficit was caused by a decline in net current transfers received from abroad, moderated by an increase in the net export of goods and services and an improvement of the income balance. As the external financing and capital transfers from abroad were not sufficient to cover the deficit on the current account, gross official reserves dropped by NAf.154.8 million (see Table 8).

CURRENT ACCOUNT

Net export of goods and services in the monetary union rose by NAf.255.7 million due to a decline in imports (NAf.226.0 million) combined with an increase in exports (NAf.29.7 million). In both Curaçao and Sint Maarten, the net export of goods and services went up during the second quarter of 2019. However, the underlying causes differ between the two countries. While the increase in the net export of goods and services in Curaçao was caused primarily by a sharp decline in imports, the increase in Sint Maarten was driven mainly by higher exports. Below follows an analysis of the developments in the net export of goods and services in Curaçao and Sint Maarten.[10]

Developments in the net export of goods and services in Curaçao

In Curaçao, the net export of goods and services increased by NAf.130.3 million due to a decline in imports (NAf.220.8 million) moderated by lower exports (NAf.90.6 million). The decline in imports can be ascribed largely to a drop in the oil import bill reflecting lower international oil

[10] *The current account of the monetary union is not equal to the sum of the current accounts of Curaçao and Sint Maarten due to the unregistered transactions between the two countries.*

prices and a decline in volumes purchased from abroad. In addition, merchandise imports by the wholesale & retail trade, utilities, manufacturing, and construction sectors went down in line with the decline in domestic demand during the June quarter of 2019. Furthermore, the import of construction services dropped mainly due to less maintenance work at the Isla refinery and the construction of the new hospital reaching its final stages. Also, foreign operational expenses of trust companies dropped. More merchandise imports by the free-zone companies and an increase in financial services, advertising & marketing services, and technical services acquired from abroad moderated the decline in imports.

The poor export performance reflected primarily a decline in foreign exchange earnings from bunkering, refining, international financial services, and legal & management consulting services. The drop in foreign exchange receipts from bunkering activities was caused by a decline in international oil prices during 2019's second quarter combined with

Table 8 Balance of payments summary (in millions NAf.)

	2015-II	2016-II	2017-II	2018-II	2019-II
Current account	**-312.5**	**-321.3**	**-269.9**	**-453.5**	**-479.5**
Capital transfers	0.2	0.3	-0.1	0.1	14.3
External financing of the government	0.1	4.4	-0.4	-2.8	0.0
External financing of the private sector	79.8	375.8	239.1	470.2	313.5
Direct investment	62.6	27.7	59.3	-111.9	38.0
Loans and credits	-43.0	219.1	130.5	582.6	185.6
Portfolio investment	60.1	129.1	49.3	-0.6	89.9
Change in gross reserves of the central bank	**-178.1**	**116.3**	**-5.4**	**56.9**	**-154.8**
Foreign exchange	-201.4	25.5	10.0	82.0	-31.8
held at foreign central banks	-183.0	-58.6	141.2	59.2	-289.5
held at foreign commercial banks	-18.4	84.1	-131.2	22.8	257.7
Other claims	23.3	90.8	-15.4	-25.1	-122.9
Statistical discrepancies	54.6	57.2	25.1	37.3	-3.0

lower volumes sold. Meanwhile, the lower revenues from refining activities (i.e., the refining fee) was caused by the lower production at the Isla refinery during the second quarter of 2019. The decline in international financial services was related mainly to less trust services provided to abroad. By contrast, foreign exchange earnings from tourism and ship repair activities rose, thereby moderating the contraction in exports. In line with the increases in the number of stay-over and cruise visitors, foreign exchange earnings from both stay-over and cruise tourism went up during the second quarter of 2019. The revenues from ship repair activities in Curaçao increased, following the investment in two floating docks in 2018 that expanded the island's shipyard capacity.

Developments in the net export of goods and services in Sint Maarten

The net export of goods and services in Sint Maarten rose by NAf.118.2 million mainly as a result of an increase in exports (NAf.112.4 million). The higher exports reflect the recovery of Sint Maarten's tourism sector after the damage caused by the hurricanes in 2017. In particular, foreign exchange revenues from stay-over tourism surged during the second quarter of 2019 compared to the second quarter of 2018. However, earnings from cruise tourism dropped consistent with the decline in the number of cruise tourists. More construction services provided to abroad also contributed to the gain in exports and was related mainly to the reconstruction of real estate owned by nonresidents. However, a decline in merchandise exports by the wholesale & retail trade sector moderated the increase in exports.

Imports dropped slightly (NAf.5.8 million) caused largely by a decline in merchandise imports by the retail trade and hotels & restaurants sectors, moderated by more imports of oil products and construction services. The increase in construction services was related primarily to the ongoing reconstruction activities and new investment projects in Sint Maarten.

Developments in the income balance and current transfers balance

The income balance improved by NAf.11.7 million as a result of an increase in labor income earned from abroad combined with more dividend income received on foreign assets. In addition, interest paid on foreign liabilities dropped. However, an increase in dividend payments to foreign shareholders and a decline in interest income earned on foreign investments moderated the improvement of the income balance.

The current transfers balance worsened by NAf.293.4 million during the second quarter of 2019 compared to the second quarter of 2018, due mainly to a decline in current transfers received from abroad. In the second quarter of 2018, the inflow of funds related to the claims of local insurance companies to pay their clients in Sint Maarten whose properties were damaged, resulted in a strong increase in current transfers received from abroad. Because most of these claims have been settled, the inflow of insurance claims dropped in the second quarter of 2019.

Overall, the deficit on the current account increased by NAf.26.0 million to NAf.479.5 million in the second quarter of 2019 compared to the second quarter of 2018.

(See Table 15 in the Appendix for a detailed overview.)

Developments in the financial and capital account

External financing into the monetary union increased by NAf.313.5 million caused by a deterioration of the loans & credits, portfolio investment, and direct investment balances. The loans & credits balance deteriorated by NAf.185.6 million as a result of, among other things, a decline in foreign deposits of residents of Curaçao and Sint Maarten. Also, trade credit extended in the past on exports were repaid while local merchants received more trade credit on imports. In addition, the deposits of nonresidents in the monetary union rose.

The portfolio investment balance worsened by NAf.89.9 million due to, among other things, the net sale of foreign equity securities by local institutional investors. Furthermore, a part of the foreign debt securities in the portfolios of institutional investors that matured was not reinvested abroad. The liquidity support that the government of Sint Maarten received through a bond loan purchased by the Dutch State also contributed to the worsening of the portfolio investment balance.

Meanwhile, the deterioration of the direct investment balance by NAf.38.0 million was the result of increased liabilities of local companies towards their foreign affiliates and more investments in real estate in Curaçao and Sint Maarten by nonresidents.

Meanwhile, net capital transfers into the monetary union rose by NAf.14.2 million in the second quarter of 2019 compared to the second quarter of 2018. This increase was ascribable to the transfer of funds by the World Bank from the Sint Maarten Recovery, Reconstruction and Resilience Trust Fund towards the government of Sint Maarten to finance reconstruction projects.[11] As the inflow of external financing and capital transfers was not sufficient to cover the current account deficit, gross official reserves dropped by NAf.154.8 million in the June quarter of 2019. (See Table 16 in the Appendix for a detailed overview.)

[11] *The Sint Maarten Recovery, Reconstruction and Resilience Trust Fund supports recovery efforts, helps the government of Sint Maarten prepare projects with well-defined development objectives, and provides capacity support for effective, efficient, and transparent project execution. The Dutch government has made €470 million (NAf.1.0 billion) available for the fund, which is managed by the World Bank.*

IV MONETARY DEVELOPMENTS

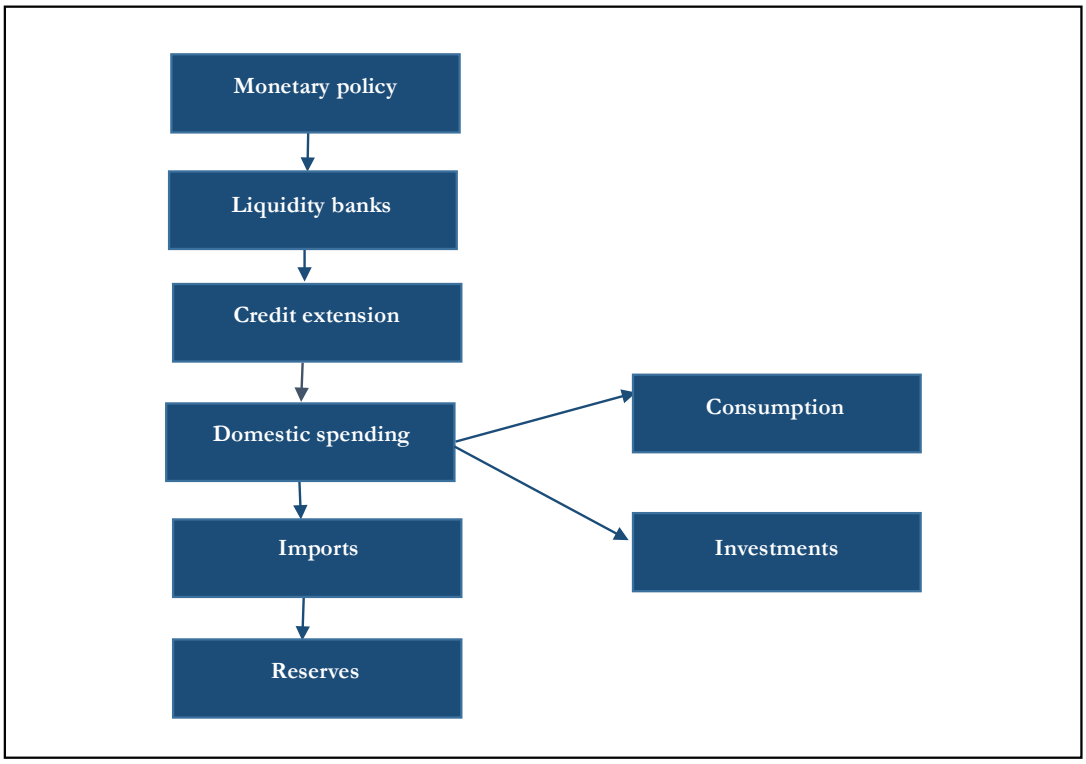
INTRODUCTION

The main objective of the monetary policy in the monetary union of Curaçao and Sint Maarten is maintaining the external stability of the common currency, which is still the Netherlands Antillean guilder (NAf). This objective is pursued by maintaining a fixed peg with the US$ and guaranteeing the convertibility between these two currencies. To this aim, the Bank strives for a level of official reserves equal to approximately three months of goods and services imports (i.e., the import coverage) to guarantee an unhampered flow of international transactions.

The Bank's monetary policy instruments are aimed primarily at influencing the commercial banks' available liquidity, which is reflected by their current account balances at the Bank.[12] Limiting the excess liquidity should have an impact on the growth of domestic credit extension, domestic spending,

[12] *Liquidity is a subset of the monetary liabilities of the Bank. In principle, liquidity comprises the domestic currency- denominated, non-interest-bearing liabilities of the Bank held by the private sector.*

Figure 1 Monetary transmission mechanism



imports, and ultimately, the level of official reserves (see Figure 1). In the end, this action will affect, through the transmission mechanism of monetary policy, the level of interest in the economy. Currently, the monetary policy instruments used by the Bank are the reserve requirement, open market operations--specifically the issuing of certificates of deposit (CDs), and the pledging rate.

LIQUIDITY OF THE COMMERCIAL BANKS

Graph 3 shows development in the liquidity of the commercial banks. Following a NAf.36.6 million drop in the first quarter of 2019, liquidity dropped by NAf.174.4 million in the second quarter of 2019, due mainly to the net purchase of foreign exchange and the withdrawal of dollar deposits by the commercial banks at the Bank.

CREDIT EXTENSION TO THE PRIVATE SECTOR

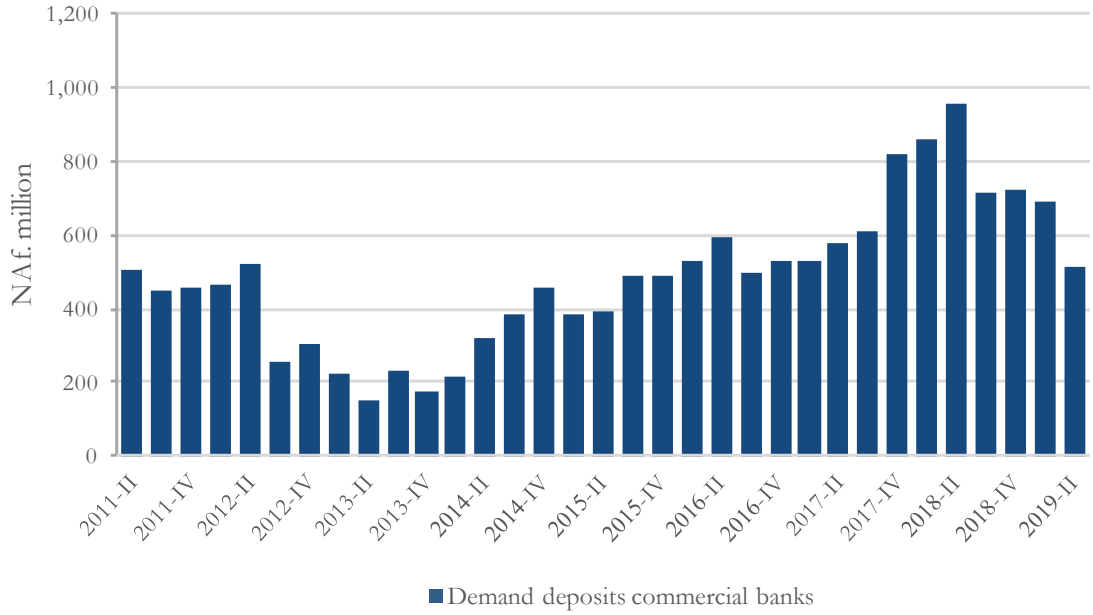
Credit extension to the private sector in the monetary union grew by 1.0% in the second quarter of 2019 after recording zero growth in the first quarter of 2019. The development in the June quarter of 2019 was supported by business loans (6.6%) and the "other" loan category[13] (59.1%), moderated by a decline in mortgages (-6.0%). Meanwhile, consumer loans remained muted (0.0%).

The increase in loans extended to the private sector was accounted for by a growth in Curaçao (1.6%), while Sint Maarten recorded a decline (-0.8%). The growth in Curaçao was driven by increases in business loans (8.6%)[14] and the

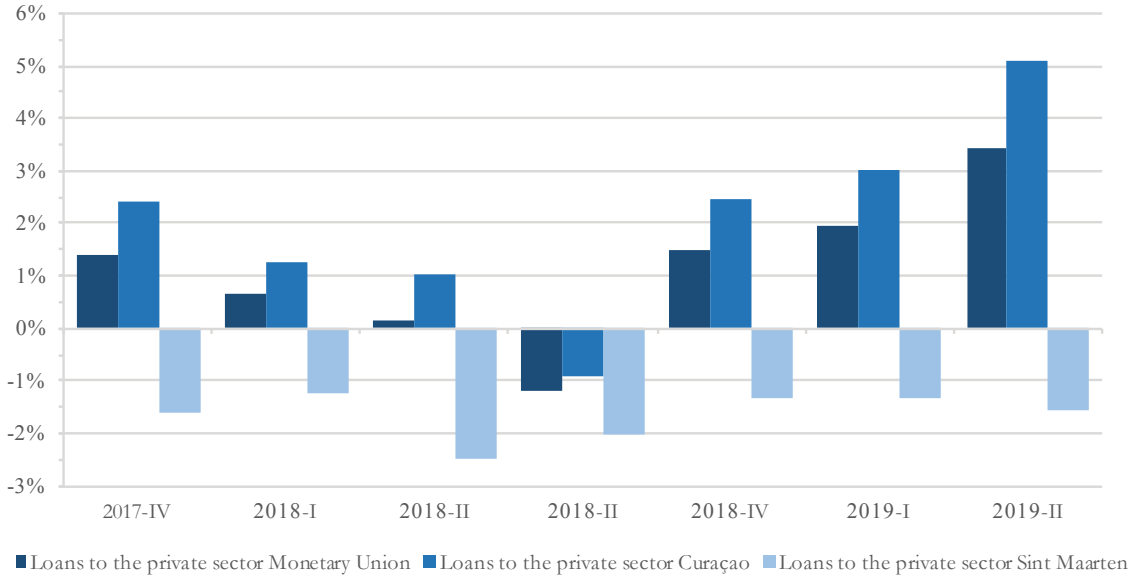
[13] *The other loan category contains loans that cannot be classified under consumer loans, business loans, or mortgages, (e.g., credit card loans).*

[14] *Part of the increase in business loans was due to a reclassification from mortgages.*

Graph 3 Development of the commercial banks' liquidity



Graph 4 Development in private credit extension (year-on-year)



"other" loan category (61.6%), mitigated by declines in outstanding mortgages (-9.0%) and consumer loans (-0.2%). In Sint Maarten, private credit extension contracted because of declines in business loans (-3.5%) and the "other" loan category (-18.2%), moderated by an increase in consumer loans (0.8%). Outstanding mortgages remained about the same during the second quarter of 2019. (See Table 19 in the Appendix for a detailed overview.)

On an annual basis, private credit extension in the monetary union rose by 3.5% in the second quarter of 2019 driven by an increase in outstanding loans in Curaçao (5.1%) moderated by a decline in Sint Maarten (-1.5%) (see Graph 4).

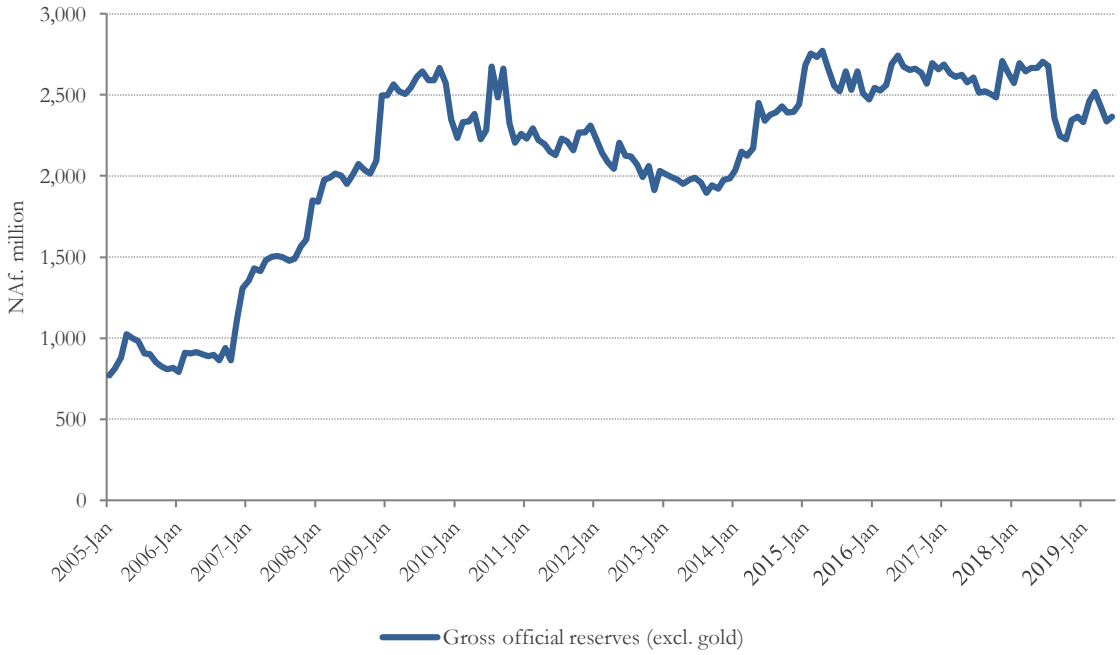
IMPORT OF GOODS AND SERVICES

As discussed in more detail in section 3, the import of goods & services in the monetary union declined by NAf.266.0 million during the second quarter of 2019 compared to the second quarter of 2018. Both Curaçao and Sint Maarten recorded lower imports. In Curaçao, the decline was attributable mainly to a drop in the oil import bill. Furthermore, merchandise imports shrank in line with the decline in domestic demand. Also, the import of construction services went down. The contraction in Sint Maarten reflected mainly lower merchandise imports by the retail trade and restaurants & hotels sectors.

FOREIGN EXCHANGE RESERVES

Following an expansion by NAf.153.0 million in the March quarter of 2019, gross official reserves contracted by NAf.154.7 million in the June quarter of 2019. This contraction was caused primarily by the withdrawal of dollar deposits and the net purchase of foreign exchange by the commercial banks (see Graph 5).

Graph 5 Development in gross official reserves



IMPORT COVERAGE

The import coverage, calculated as the number of months the foreign exchange reserves of the Bank (excluding gold) can cover the import of goods and services, dropped from 4.6 months at the end of March 2019 to 4.3 months at the end of June 2019 (see Graph 6). The decrease in the import coverage was the result of the decline in official reserves, moderated by lower imports.

MONETARY POLICY

The Bank deploys its current monetary policy instruments to influence bank reserves, i.e., liquidity. By imposing a

Graph 6 Development in the import coverage

reserve requirement and conducting open market operations, the Bank can influence to a certain extent the balances of the commercial banks on its balance sheet. However, a variety of autonomous factors outside the control of the Bank also influence the liquidity in the banking system, e.g., changes in the stock of net foreign assets of the banks. and government deposits with the Bank.

Reserve requirement

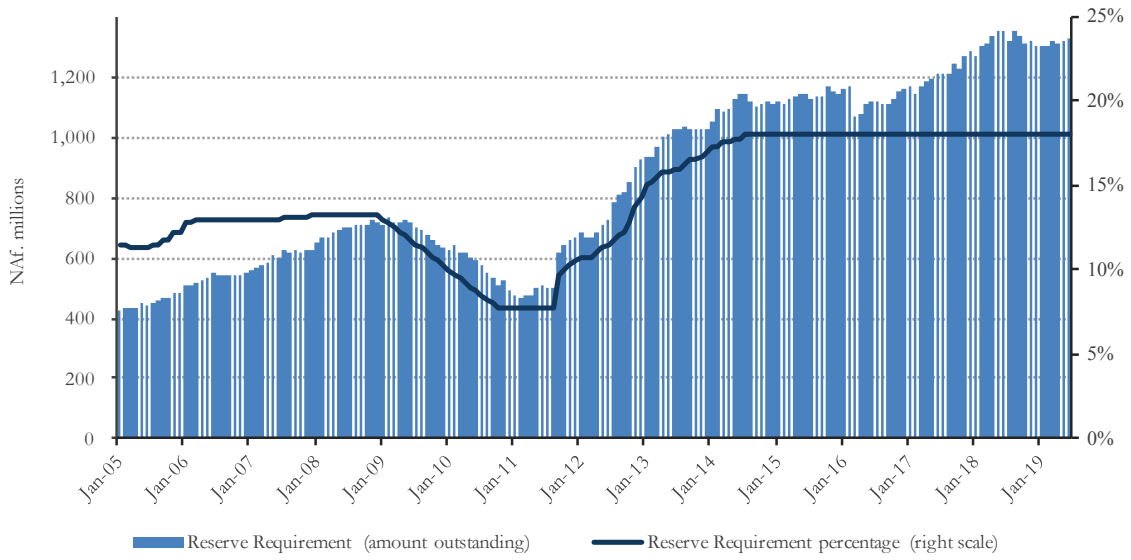
The reserve requirement is an instrument of monetary policy aimed primarily at influencing the money-creating capacity of the domestic banks. In addition, it serves to manage liquidity and to achieve macroprudential goals. Under the reserve requirement, the banks have to place a non-interest-bearing deposit on a blocked account with the Bank for a certain period. An increase in the reserve requirement reduces the liquidity, as these funds are not available for transaction purposes.

In the monetary union of Curaçao and Sint Maarten, the reserve requirement currently is the main monetary policy instrument and is fixed for a four-week period. Since June 16, 2014, the percentage of the reserve requirement has remained unchanged at 18.00% of the adjusted domestic debt of the banks.[15] Furthermore, as of March 1, 2016, commercial banks that are placed under the emergency measure by the Court of First Instance are exonerated from the reserve requirement.

The current excess reserves have not translated into excessive credit growth. Consequently, the percentage of the reserve requirement was kept at 18.00% during the second quarter of 2019. Nevertheless, the amount of required reserves rose as a result of the higher base amount upon which it is calculated (see Graph 7).

[15] *The domestic debt, i.e., the deposit base minus long-term deposits, because of the low chance these will be withdrawn for spending and, hence, imports.*

Graph 7 Reserve requirement



Open market operations

The Bank also uses open market operations, an indirect instrument, to conduct monetary policy. Through open market operations, the liquidity in the banking system can be influenced and, hence, the extension of credit. Open market operations include the issuing of certificates of deposit (CDs), and the purchase or sale of government securities and bonds of government-owned corporations. Currently, only the issuing of certificates of deposit is being used as an open market instrument in the monetary union of Curaçao and Sint Maarten.

Certificates of deposit

The Bank has been issuing its own securities, i.e., certificates of deposit (CDs), via a bi-weekly tender system. Through the issuance of these securities, the Bank tries to influence the liquidity of the commercial banks, complementing the reserve requirement while simultaneously offering an investment opportunity.

Beginning in the second quarter of 2016, the Bank focused only on the refinancing of maturing CDs during the bi-weekly auctions. As of August 18, 2017, the Bank began gradually reducing the amount of outstanding CDs by offering lower amounts than matured at the auctions. Furthermore, the CDs were offered at an increasing haircut relative to the US dollar libid rate.[16] This policy was pursued because of the high import coverage of over 5 months and the low growth rate of private credit. As a result, by the end of 2018, there were no more outstanding CDs and the auctions were suspended temporarily. Therefore, during the first and second quarters of 2019, no CD auctions were held[17] (see Graph 8).

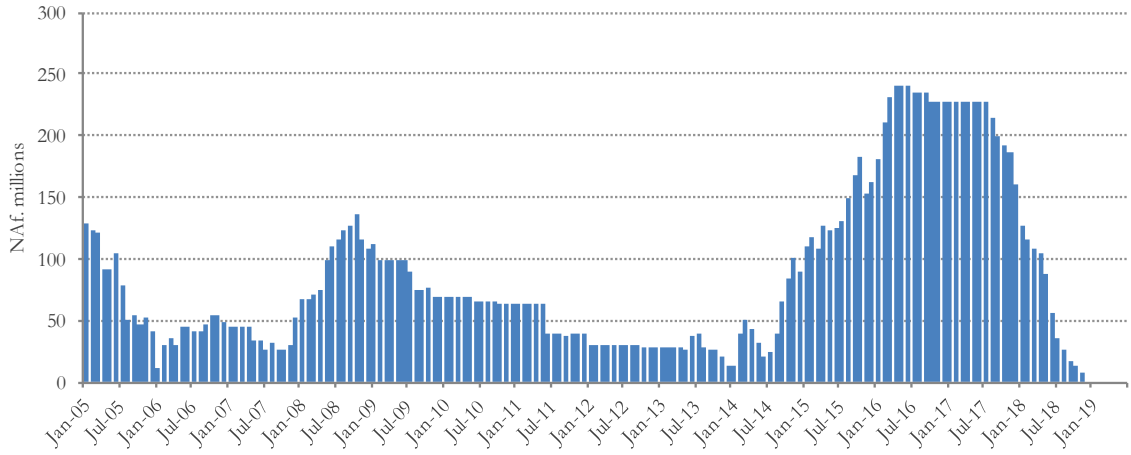
Pledging rate

The pledging rate is the rate at which the commercial banks can borrow at the Bank

[16] *The libid rate (London Interbank Bid Rate) is derived from the libor rate (London Interbank Offered Rate). Libor is a widely used international benchmark for short-term interest rates. It currently is calculated and published by the Intercontinental Exchange and called ICE libor.*

[17] *The CD auctions were resumed in August 2019.*

Graph 8 Outstanding certificates of deposit



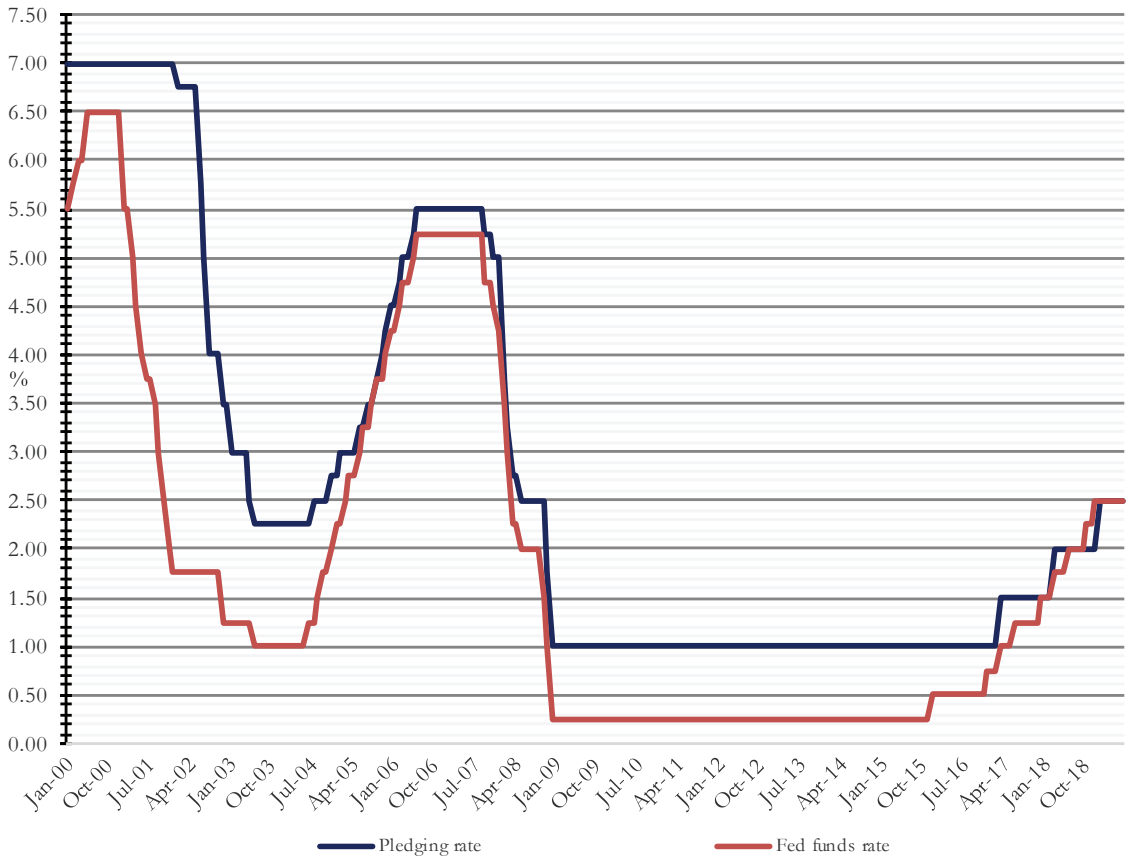
in case of a liquidity shortage. Because of the peg of the NAf. to the US dollar, the interest rates in the international money market affect the interest rates in the money market of the monetary union of Curaçao and Sint Maarten. For example, the interest rates offered by the Bank on the biweekly auctions of certificates of deposit (CDs) for the banks are based on the international US dollar libor rate. An increase of the Fed funds rate[18] affects the international money market rates immediately. Therefore, the Bank generally adjusts its pledging rate in line with the changes in the Fed funds rate.

[18] *The interest rate at which banks and other depository institutions in the United States lend money to each other, usually on an overnight basis. The Fed funds rate is targeted by the Federal Open Market Committee of the Federal Reserve System (i.e., central bank) of the United States.*

The Bank increased the pledging rate from 2.00% to 2.50% on January 1st, 2019, following the upward adjustments in the Fed funds rate. This was the third increase since the historical low level of 1.00% that had been effective since December 29, 2008. The previous increases took place on March 20, 2017 and March 27, 2018 (see Graph 9 and Table 20 in the Appendix).

However, due to the current environment of excess liquidity whereby the commercial banks do not have to borrow from the Bank to fund their activities, no transmission takes place from the Bank's policy interest rate (i.e., pledging rate) to the lending rates of the commercial banks.

Graph 9 Development in the pledging rate and the US effective Fed Funds rate

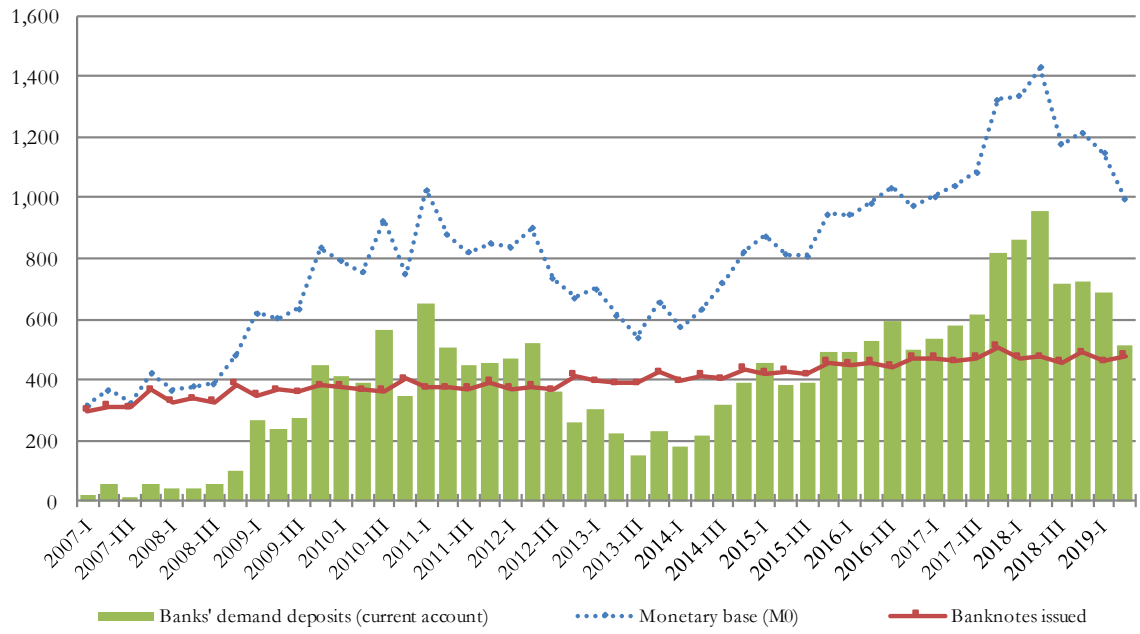


MONETARY BASE

The monetary base, M0, is a measure of the Bank's monetary liabilities and consists of currency in circulation and the commercial banks' current account balances with the Bank. Following a NAf.65.9 million (5.4%) decline in the first quarter of 2019, the monetary base contracted further by NAf.154.0 million (13.4%) in the second quarter of 2019 caused by a drop in the commercial bank's current account balances with the Bank (NAf.174.3 million or 25.3%). This drop was due mainly to the net purchase of foreign exchange and the withdrawal of dollar deposits. By contrast, currency in circulation increased by NAf.20.3 million (4.4%) (see Graph 10). Consequently, on an annual basis, the monetary base contracted more in June 2019 (30.5%) than in March 2019 (14.0%).

Changes in the monetary base can be explained in terms of movements in the Bank's assets and its other, nonmonetary liabilities. Other things being equal, a drop in the Bank's assets leads to a decline in the monetary base. Conversely, when the Bank's nonmonetary liabilities drop, the monetary base increases. The 2019 second-quarter contraction in M0 was caused by a decline in the Bank's assets combined with an increase in its nonmonetary liabilities. The decline in the assets was due mainly to a drop in foreign assets as a result of the net purchase of foreign exchange and the withdrawal of dollar deposits by the commercial banks, moderated by the higher value of the Bank's gold stock. Meanwhile, the nonmonetary liabilities rose mainly due to increases in capital and reserves, foreign liabilities, and government deposits. The increase in the Bank's capital and reserves stemmed from the higher value of the Bank's gold stock. Meanwhile, the rise in foreign liabilities was attributable to an increase in the balances of the commercial banks in Bonaire and the Central Bank of Aruba. The increase in government deposits was attributable to

Graph 10 Development in the monetary base and its components



the government of Sint Maarten, because the deposits of the government of Curaçao dropped. The deposits of the government of Sint Maarten rose as a result of the issuance of a bond loan and the receipt of the second tranche of the bridge loan provided by the Dutch State.

The drop in private sector deposits moderated the increase in the nonmonetary liabilities. However, the drop in private sector deposits was dampened by an increase in outstanding time deposits of the commercial banks with the Bank, reflecting an absorption of liquidity from the banking system through the reserve requirement (see Table 17 in the Appendix).

MONETARY AGGREGATES

Following an increase of 1.9% in the first quarter of 2019, broad money expanded further, but at a slower pace of 0.4%, during the second quarter of 2019. The growth in broad money in the June quarter of 2019 was the result of an increase in the near money component (1.1%) as the private sector's time deposit holdings rose (NAf.73.5 million or 4.0%). Savings deposits, on the other hand, declined (NAf.26.5 million or -1.1%). Meanwhile, narrow money (M1) contracted during the June quarter of 2019 (-0.2%), resulting from a drop in demand deposits (NAf.27.9 million or 0.7%) mitigated by an increase in currency in circulation (NAf.18.5 million or 5.2%). The drop in demand deposits resulted from a decline in foreign currency denominated deposits (NAf.76.3 million or 5.6%). The demand deposits in Netherlands Antillean guilders, by contrast, increased by NAf.48.4 million or 1.7%. On an annual basis, M2 contracted by 0.5% and M1 by 1.1% at the end of the June quarter of 2019.

An increase in net domestic credit caused the monetary growth in the second quarter of 2019 (see Table 18 in the Appendix) as the net foreign assets of the banking system declined. Net domestic credit expanded by NAf.87.3 million (1.4%), reflecting increases in both the net claims on the government and the private sector. Net claims on the government increased by NAf.37.9 million (7.7%) reflecting mainly a drop in deposits of the government of Curaçao. Claims on the private sector grew by NAf.49.3 million (0.7%) during the second quarter of 2019, mainly because of a growth in loans extended (NAf.62.2 million or 1.0%). (See Tables 18 and 19 in the Appendix for more details.)

Developments in domestic interest rates

Due to the standing subscription by the Dutch State Treasury Agency (DSTA), which subscribes on local government bond issues at rates prevailing in the Netherlands, all debt paper issued by the governments of Curaçao and Sint Maarten is in the hands of DSTA. Therefore, no domestic government debt market exists anymore, and the yields on government paper issued are determined by the developments in the Dutch capital market. The average effective yield on 5-year government bonds dropped from -0.38% in the first quarter of 2019 to -0.57% in the second quarter of 2019. The indicative yield on 12-month treasury bills dropped also, from -0.62% to -0.67. The negative nominal interest rates are the result of the large-scale asset buying programs by the central banks and still prevail in Europe. (See Table 20 in the Appendix for a detailed overview.)

V OUTLOOK

GLOBAL ECONOMY

Following a projection of 3.0% in 2019, the weakest growth rate since the global financial crisis in 2008, global economic growth is expected to accelerate slightly to 3.4% in 2020[19] (see Table 9). This improvement reflects a growth pickup in the emerging market & developing economies mitigated by a further slowdown in the advanced economies. However, risks to the global economic outlook for 2020 are tilted to the downside and include, among other things, a further escalation of trade and geopolitical tensions, a worsening of financial market sentiment, and a surge of international oil prices due to supply disruptions.

Both the United States and the Netherlands, two of the main trading partners of Curaçao and Sint Maarten, are projected to grow at a slower pace in 2020[20]. In the United States, real GDP growth is projected to weaken from 2.4% in 2019 to 2.1% in 2020. Private consumption and investment will increase at a slower pace as the support of the fiscal stimulus package gradually is fading. Furthermore, increased trade tariffs will put a drag on private sector investment and export growth. However, the strong labor market conditions will continue to support consumer spending.

[19] *IMF World Economic Outlook, October 2019.*

[20] *IMF World Economic Outlook, October 2019.*

Economic growth in the Netherlands is expected to decline from 1.8% in 2019 to 1.6% in 2020 as the worsening of the external environment will weaken export growth and affect business confidence and investments. Meanwhile, private consumption will increase, sustained by higher disposable income, and public demand will grow because of expansive fiscal policy by the Dutch government. [21]Moreover, the deep economic crisis in Venezuela, which is an important trading partner of Curaçao in particular, is projected to continue.

CURAÇAO

Outlook 2019

According to preliminary figures of the Bank, Curaçao's economy is expected to contract by 1.9% in 2019,[22] a slightly slower contraction than in 2018. The outlook is 0.3 percentage point higher than in the Quarterly Bulletin 2019-I. The upward revision reflects primarily the better export performance of the tourism sector. Meanwhile, consumer price inflation rose

[21] *CPB Netherlands Bureau for Economic Policy Analysis, Macro Economic Outlook 2020, September 2019.*

[22] *This projection includes the increase of excises on tobacco, liquor, beer, and wine, and the sales tax rate on imports from 6% to 9% as of September 1st, 2019. In addition, the projection assumes that the Isla refinery remains open throughout 2019, but its real value added drops by 20% compared to 2018 and will be at the minimum level needed to comply with its operational expenses including the payment of salaries.*

Table 9 International indicators

	2016	2017	2018	2019	2020
Real GDP growth (%)					
World	3.4	3.8	3.6	3.0	3.4
Advanced economies	1.7	2.5	2.3	1.7	1.7
Emerging & developing economies	4.6	4.8	4.5	3.9	4.6
USA	1.6	2.4	2.9	2.4	2.1
Netherlands	2.2	2.9	2.6	1.8	1.6
Venezuela	-17.0	-15.7	-18.0	-35.0	-10.0

Source: IMF World Economic Outlook Database, October 2019

to 2.8% in 2019, reflecting mainly increases in food and electricity prices. (See Table 10).

An analysis of GDP by expenditure shows that the economic contraction in 2019 was caused by a decrease in both net foreign and domestic demand. Net foreign demand declined as the decrease in exports exceeded the lower import bill. Exports dropped largely due to lower production at the Isla refinery, fewer activities in the harbor, and less air transportation activities provided to abroad, moderated by more tourism and ship repair activities. Imports dropped mainly because of lower construction services and materials imported from abroad related to fewer investment projects. Domestic demand contracted as both private and public spending dropped. Private spending went down because of lower consumption and investment. Consumer spending dropped as a result of, among other things, a decline in disposable income because of the higher inflation and a worsened labor market. Furthermore, public spending decreased because of declines in both government investment and consumption. Public consumption dropped as the government spent less on goods & services and wages & salaries to reduce the fiscal deficit.

A review of GDP by sector shows that the decline in private sector activities in 2019 was attributable mainly to the transport, storage, & communication, manufacturing, construction, and wholesale & retail trade sectors, mitigated by an increase in activities in the restaurants & hotels and financial intermediation sectors.

Outlook 2020

The Bank has calculated two scenarios for Curaçao's GDP in 2020. The economy is projected to decline by 2.3% in the baseline scenario, as the decrease in domestic demand will surpass the increase in net foreign demand (see Table 10). Compared to the outlook presented in the Quarterly Bulletin 2019-I, the growth estimate has been revised upward by 1.2 percentage

points as the government intends to introduce the general consumption tax (Algemene Bestedingsbelasting or ABB) in April 2020 instead of January 2020. Furthermore, the baseline scenario assumes that the Isla refinery will remain open in 2020 with real value added at the same level as in 2019, which is the minimum level needed to comply with all operational expenses including the payment of salaries. Meanwhile, inflation is expected to surge to 4.0% in 2020, primarily because of the introduction of the general consumption tax of 15% in April.

In the baseline scenario, the decrease in domestic demand surpasses the increase in net foreign demand. The drop in domestic demand is caused by decreases in private and public spending. Private investment will decline in real terms as the growth in investments in the tourism and utilities sectors is not enough to compensate for the higher inflation. Private consumption will decline because the higher inflation will erode consumers' purchasing power. Also, the worsened situation in the labor market will put a drag on private consumption. Public consumption will decline reflecting, among other things, austerity measures to reduce the wage bill and the outlays on goods & services. By contrast, public investment is projected to increase by investments in the infrastructure, among other things.

Net foreign demand is projected to contribute positively to real output growth because, in real terms, imports will decline at a faster pace than exports. The real contraction in exports reflects largely the appreciation of the real exchange rate as a result of the introduction of the general consumption tax. By contrast, foreign exchange receipts from tourism and ship repair activities are expected to increase. Despite more tourism demand, imports will decline largely because of less merchandise imports by the wholesale & retail trade sector due to lower domestic spending.

The second scenario assumes both the closure of the refinery as of January 1st, 2020, and the introduction of a general consumption tax of 15% on April 1st, 2020. As a result, real GDP is projected to decline by 5.2% in 2020, while inflation will rise to 4.0%

In this scenario, the decrease in domestic demand will surpass the increase in net foreign demand. The drop in domestic demand is caused by decreases in both private and public demand. Private investment will be affected by the closure of the refinery and a decline of investors' confidence to start new projects, mitigated by planned investment projects in the tourism and utilities sectors. Private consumption will decline considerably as a result of an even more worrisome labor market situation due to the approximately one thousand laid-off refinery workers and eroded purchasing power from the higher inflation. Public consumption will decline because of the austerity measures by the government.

In contrast, net foreign demand is projected to contribute positively to real output growth because imports will decline at a faster pace than exports. Exports will decline in real terms reflecting an appreciation of the real exchange rate. Foreign exchange earnings from refining will drop, while receipts from tourism

and ship repair activities will increase. Imports will decline due to less domestic demand and less construction material and services imported because of fewer private investments.

Downside risks to outlook

Venezuela remains a downside risk to the economy. The economic crisis in Venezuela and a possible expansion of international sanctions against Venezuela may further affect the activities in key economic sectors of the Curaçao economy such as the refinery, harbor, and financial services.

Finding a solution for the future of the refinery also is very important as it affects private consumption and investors' confidence. The continuation of the refinery is essential to economic stability in terms of value added and employment. Apart from the 5.2% real economic contraction in case of the closure of the refinery, emigration and brain drain will have long-term effects on the population and the labor force. However, note that the recently signed agreements with the Klesch Group may result in an upward revision of the projection. [23]

Furthermore, the de-risking of local clients by domestic banks can put a drag on the economy in 2020 as it affects local businesses and cross-border transactions, thereby increasing macroeconomic uncertainties.

Other risks to the outlook include delays in the implementation of structural measures in the labor and capital markets and the reduction of administrative barriers that hinder economic recovery.

[23] *The Bank does not yet have the detailed information regarding the agreement that Refineria di Kòrsou signed with the Klesch Group end December 2019 to adjust the projection.*

Table 10 Real GDP and inflation 2016-2020

	2016	2017	2018	2019*	2020*
Real GDP growth (%)					
Curaçao	-1.0	-1.7	-2.2	-1.9	-2.3
Sint Maarten	0.4	-4.8	-6.6	5.5	3.0
Monetary Union	-0.7	-2.5	-3.3	0.0	-1.0
Inflation (%)					
Curaçao	0.0	1.6	2.6	2.8	4.0
Sint Maarten	0.1	2.2	2.7	1.8	2.5
Monetary Union	0.0	1.8	2.6	2.6	3.6

** Projections CBCS December 2019*

SINT MAARTEN

Outlook 2019

According to the Bank's estimates, Sint Maarten's real GDP is expected to expand by 5.5% in 2019, a robust turnaround compared to the 6.6% contraction in 2018 brought on by Hurricane Irma. The upward revision compared to the estimate in the Quarterly Bulletin 2019-I reflects a sharp rebound in both stay-over and cruise tourism arrivals. Meanwhile, inflation eased to 1.8%, largely because of a deceleration in the prices of consumer goods and a decline in energy prices. The decline in energy prices was consistent with the drop in international oil prices. (See Table 10.)

An expenditure analysis of Sint Maarten's GDP reveals that the estimated economic expansion in 2019 was driven primarily by a sharp increase in domestic demand along with a rise in net foreign demand. Domestic demand rose because of increases in both the private and public sectors. Private investments rose as reconstruction efforts continued in addition to, among other things, new projects in the Maho and Mullet Bay areas. Meanwhile, private consumption increased due to the improved labor market, particularly in the tourism sector as hotels and other tourism-related businesses reopened. In addition, public consumption increased because of higher disbursements on goods & services. However, public investments remained muted due to financial constraints. Net foreign demand rose because of an increase in the export of goods and services mitigated by higher imports. The improved export performance reflected primarily higher foreign exchange earnings from the return of tourism activities. Likewise, imports rose as a result of construction-related services as well as increased imports by the wholesale & retail trade sector of Sint Maarten, in line with higher tourism spending and the rise in private consumption.

Outlook 2020

Sint Maarten's real GDP is projected to grow by 3.0% in 2020 driven by an increase in domestic demand. The growth estimate has been revised downward by 1.0 percentage point compared to the Quarterly Bulletin 2019-I estimate. The outlook is predicated on the assumption that the number of cruise passenger arrivals will contract in 2020 for a variety of reasons including increased regional competition and fleet redeployment by the major cruise lines. Private investments will increase as a result of, among other things, the start of the second phase of reconstruction of the airport, the construction of a new 400+ room hotel in Philipsburg, and other ongoing projects. Notwithstanding higher inflation, consumer spending will rise due to higher employment among other things. Public investments also will increase due to the planned construction of the new hospital. Furthermore, public consumption is projected to rise.

In contrast, net foreign demand is projected to put a drag on real output growth because imports will increase at a faster pace than exports. The increase in exports will be driven mainly by the growth in tourism arrivals, particularly stay-over arrivals. In addition to the higher tourism demand, imports by the wholesale & retail trade sector will increase because of the higher domestic

spending and more construction-related materials and services imported from abroad. Meanwhile, inflation is expected to increase to 2.5% in 2020, in line with the forecast rise in the US inflation rate, Sint Maarten's main trading partner. (See Table 10.)

Downside risks to outlook

A lack of clear policy direction caused by political instability can trigger hesitation with potential investors, both domestic and foreign. Coupled with the unknown outcome of the January 2020 parliamentary elections, a high degree of uncertainty may still surround some large projects. Further delays in their execution will hamper Sint Maarten's economic recovery. In addition, a real GDP slowdown in Sint Maarten's main tourism markets, such as the United States, may affect the tourism sector adversely.

Furthermore, the de-risking of local clients by domestic banks can put a drag on the economy in 2020 as de-risking affects local businesses and cross-border transactions, thereby increasing macroeconomic uncertainties.

Finally, ongoing social unrest in French Saint Martin could dissuade visitors from coming to the island.

APPENDIX

Table 11A Stay-over tourism development in Curaçao[ab]

	Curaçao			
	2018-II		2019-II	
North America, of which:	18.8	(4.3)	3.0	(0.6)
U.S.A.	17.8	(3.4)	5.8	(1.0)
Europe, of which:	6.3	(3.3)	14.4	(7.4)
The Netherlands	14.5	(6.3)	9.8	(4.0)
South & Central America, of which:	-29.6	(-4.0)	43.8	(7.3)
Venezuela	-71.4	(-1.5)	-35.1	(-0.4)
Colombia	-6.1	(-0.3)	99.4	(7.6)
Surinam	7.1	(0.1)	31.3	(0.7)
Caribbean, of which:	-11.2	(-0.7)	70.5	(6.3)
Dominican Republic	-54.2	(-0.3)	21.4	(0.1)
Total	**2.4**	**-**	**16.9**	**-**

Source: Curacao Tourist Board (CTB)
[a]Percentage change.
[b]The weighted growth rates are depicted between brackets.

Table 11B Stay-over tourism development in Sint Maarten[ab]

	Sint Maarten			
	2018-II		2019-II	
North America, of which:	-81.0	(-34.6)	230.5	(148.0)
U.S.A.	-80.2	(-31.3)	221.6	(126.5)
Europe, of which:	-50.6	(-21.5)	30.0	(7.6)
The Netherlands	-37.0	(-7.0)	16.6	(1.7)
France	-53.2	(-9.1)	34.6	(3.6)
South & Central America, of which:	-73.9	(-1.9)	101.3	(2.4)
Venezuela	-51.0	(-0.3)	1.2	(0.0)
Caribbean, of which:	-41.1	(-2.9)	30.4	(1.3)
Dominican Republic	-37.2	(-0.6)	12.4	(0.1)
Total	**-71.0**	**-**	**119.6**	**-**

Source: Sint Maarten Tourist Bureau
[a]Percentage change.
[b]The weighted growth rates are depicted between brackets.

Table 12 Development in the consumer price index of Curaçao[a]

	2018-II	2018-III	2018-IV	2019-I	2019-II
Food	4.8	4.7	4.5	4.6	5.6
Beverages & tobacco	2.5	2.0	1.9	2.4	2.5
Clothing & footwear	0.4	-1.2	7.0	4.2	2.6
Housing	2.6	4.9	4.9	2.4	4.8
Housekeeping & furnishings	-0.5	0.1	0.6	0.8	0.7
Health	2.2	1.0	1.0	0.9	0.5
Transport & communication	2.6	3.5	2.0	0.7	0.3
Recreation & education	0.3	1.0	0.7	0.2	0.2
Other	0.9	0.8	1.1	1.0	1.2
General inflation rate	**2.3**	**3.1**	**3.2**	**2.1**	**2.8**

Source: Central Bureau of Statistics of Curaçao.
[a]Annual quarterly percentage change.

Table 13A Budgetary overview of Curaçao (in millions NAf.)

	2015-II	2016-II	2017-II	2018-II	2019-II
Revenues	**357.6**	**572.5**	**559.6**	**354.6**	**392.0**
Tax revenues, of which:	328.1	355.0	326.4	321.8	360.2
Taxes on income and profit	144.4	161.5	142.0	140.0	160.4
Taxes on property	16.6	17.0	13.0	14.6	18.2
Taxes on goods and services	123.8	131.8	128.4	126.5	140.0
Taxes on international trade and transactions	41.4	42.4	40.0	39.2	39.5
Nontax and other revenues	29.5	217.5	233.2	32.8	31.8
Expenditures	**437.6**	**643.7**	**642.2**	**429.5**	**413.6**
Wages and salaries	186.4	197.1	189.6	192.9	190.5
Goods and services	37.3	40.0	50.8	51.8	33.8
Transfers and subsidies	176.9	357.0	341.1	137.2	136.8
Interest payments	23.1	29.0	27.8	28.3	28.1
Other expenditures	13.9	20.6	32.9	19.3	24.4
Current budget balance	**-80.0**	**-71.2**	**-82.6**	**-74.9**	**-21.6**

Source: The data for the second quarters of 2015-2019 were taken from the Financiële Management Rapportage of the government of Curaçao of June for each year.

Table 13B Overview of selected tax revenues for Curaçao (in millions NAf.)

	2015-II	2016-II	2017-II	2018-II	2019-II
Taxes on income & profit, of which:	**144.4**	**161.5**	**190.4**	**140.0**	**160.4**
Profit tax	32.9	49.2	78.6	25.9	47.9
Wage tax	114.9	113.0	108.7	108.1	108.2
Taxes on property, of which:	**16.6**	**17.0**	**14.6**	**14.6**	**18.2**
Land tax / OZB[1]	12.0	11.5	6.8	7.6	9.6
Property transfer tax	4.4	4.2	6.2	5.9	7.9
Taxes on goods and services, of which:	**123.8**	**131.8**	**163.8**	**126.5**	**140.0**
Sales tax	93.7	98.3	109.0	98.0	107.6
Excises, of which:	18.9	21.7	23.9	22.3	24.5
Gasoline	11.8	12.7	12.5	11.0	12.0
Motor vehicle tax	5.1	4.8	24.9	4.3	5.4
Taxes on international trade and transactions, of which:	**41.4**	**42.4**	**40.0**	**39.2**	**39.5**
Import duties	41.2	42.4	39.9	39.2	39.4

[1] *OZB (Onroerende Zaakbelasting) is a real estate tax that replaced the land tax as of January 1, 2014.*
Source: The data for the second quarters of 2015-2019 were taken from the Financiële Management Rapportage of the government of Curaçao of June of each year.

Table 13C Total outstanding public debt[1] of Curaçao (in millions NAf.)

	2018-II	2018-III	2018-IV	2019-I[2]	2019-II
Domestic debt, of which:	**585.5**	**648.1**	**618.3**	**488.3**	**459.5**
Long-term securities	18.4	18.4	18.4	18.4	18.4
Short-term securities	-	-	-	-	-
APC	199.4	231.0	201.4	53.5	37.6
SVB	192.7	213.0	207.6	223.7	218.3
Foreign debt	**2,338.9**	**2,338.6**	**2,338.6**	**2,392.8**	**2,400.4**
Total debt	**2,924.4**	**2,986.7**	**2,956.9**	**2,881.1**	**2,859.9**
(% of GDP)	52.2%	53.3%	52.8%	51.2%	50.8%

[1] Debt figures do not comprise the entire collective sector.
[2] Note: The government transferred the ownership of two buildings to the APC as settlement of part of the outstanding arrears until December 2018. Furthermore, to ensure sustainable future payments, the government made an arrangement with APC to pay off its remaining arrears over a 10-year period in 120 monthly installments, beginning January 2019.

Table 14A Budgetary overview of Sint Maarten (in millions NAf.)

	2015-II	2016-II	2017-II	2018-II	2019-II
Revenues	**104.0**	**108.7**	**132.0**	**85.4**	**116.2**
Tax revenues	83.0	92.0	89.0	67.1	95.3
Concessions and fees	9.8	9.7	12.5	8.5	11.8
Licenses	4.8	3.5	3.2	4.1	6.4
Other revenues	6.4	3.4	27.3	5.7	2.7
Expenditures	**116.7**	**108.0**	**104.6**	**116.4**	**121.1**
Wages & salaries	50.3	52.2	46.3	52.1	51.5
Goods & services	18.0	16.7	21.5	23.6	27.0
Subsidies	28.1	26.5	23.9	25.4	26.7
Social security	5.9	5.4	4.1	7.9	6.7
Interest	3.1	3.2	6.1	3.1	6.1
Other expenditures	2.2	4.0	2.7	4.3	3.1
Current budget balance	**-12.7**	**0.7**	**27.4**	**-31.0**	**-4.9**

Sources: Financiële Concernrapportage/Uitvoeringsrapportage, tweede kwartaal 2018 and Financiële Concernrapportage/ Uitvoeringsrapportage, tweede kwartaal 2019 of the government of Sint Maarten.

Table 14B Overview of selected tax revenues for Sint Maarten (in millions NAf.)

	2015-II	2016-II	2017-II	2018-II	2019-II
Taxes on income and profits, of which:	**36.4**	**45.8**	**42.1**	**30.3**	**49.1**
Profit tax	4.7	10.2	6.1	2.0	9.3
Wage tax	33.0	34.7	36.0	29.3	38.6
Taxes on property, of which:	**3.5**	**5.1**	**4.5**	**2.9**	**3.9**
Land tax	1.6	1.4	0.6	0.8	1.2
Property transfer tax	1.9	3.7	3.9	2.1	2.7
Taxes on goods and services, of which:	**51.6**	**50.0**	**49.3**	**38.4**	**51.0**
Turnover tax	36.9	34.2	35.8	28.4	36.8
Vehicle tax	0.4	0.6	0.6	2.9	0.9
Excise on gasoline	3.3	3.5	2.3	2.2	2.6

Sources: Financiële Concernrapportage/Uitvoeringsrapportage, tweede kwartaal 2018 and Financiële Concernrapportage/ Uitvoeringsrapportage, tweede kwartaal 2019 of the government of Sint Maarten.

Table 14C Total outstanding public debt of Sint Maarten (in millions NAf.)

	2018-II	2018-III	2018-IV	2019-I	2019-II
Domestic debt, of which:	**74.9**	**170.0**	**171.0**	**157.5**	**138.9**
Long-term securities	0.1	0.1	0.1	0.1	0.1
Short-term securities	-	-	-	-	-
APS	20.0	43.0	43.0	43.0	23.0
SZV	38.4	90.2	90.2	76.7	78.1
Foreign debt	**569.9**	**601.1**	**600.1**	**600.1**	**660.0**
Total debt	**644.9**	**771.1**	**771.1**	**757.6**	**789.9**
(% of GDP)	36.0%	43.0%	43.0%	39.4%	41.6%

Table 15 Detailed overview of the balance of payments (in millions NAf.)

	2015-II	2016-II	2017-II	2018-II	2019-II
Trade balance	**-828.1**	**-748.8**	**-702.5**	**-903.0**	**-812.8**
Exports	229.7	224.3	234.1	315.7	232.1
Imports	1,057.8	973.1	936.6	1,218.8	1,045.0
Services balance	**545.3**	**472.1**	**446.2**	**198.9**	**364.5**
Receipts, of which:	1,097.1	989.2	1,006.7	841.5	954.8
Travel	563.7	525.9	565.7	398.2	554.5
Transportation	102.9	77.0	56.9	46.4	43.8
Manufacturing services, of which:	150.8	111.5	95.1	71.7	37.2
Refining fee	142.3	103.6	95.1	71.7	37.2
Other services, of which:	279.8	274.7	289.1	325.2	319.3
Int. fin & bus. services sector	53.3	69.2	67.7	66.8	35.5
Expenses, of which:	551.8	517.1	560.5	642.6	590.3
Travel	193.4	185.5	205.5	241.1	238.6
Transportation	78.1	70.5	75.7	80.5	70.0
Manufacturing services	2.4	2.9	6.2	17.6	20.9
Other services, of which:	277.9	258.2	273.2	303.4	260.8
Int. fin & bus. services sector	32.9	37.1	41.6	55.1	8.9
Income balance[1]	6.4	1.1	26.9	-8.3	3.4
Current transfers balance [2]	-36.1	-45.7	-40.6	258.9	-34.6
Current account balance	**-312.5**	**-321,3**	**-269.9**	**-453.5**	**-479.5**
Capital & financial account balance	**-257.5**	**-263.6**	**-245.0**	**-416.0**	**-454.0**
Capital account balance	0.2	0.3	-0.1	0.1	14.3
Financial account balance	-257.7	-263.9	-244.9	-416.1	-468.3
Net errors & omissions	**54.6**	**57.2**	**25.1**	**37.3**	**-3.0**

[1] *Labor and investment income.*
[2] *Public and private transfers.*

Table 16 Breakdown of net changes in the financial account[1] (in millions NAf.)

	2015-II	2016-II	2017-II	2018-II	2019-II
Direct investment	**-62.6**	**-27.7**	**-59.3**	**111.9**	**-38.0**
Abroad	15.6	30.0	12.3	34.5	-4.9
In Curaçao and Sint Maarten	78.2	57.6	71.6	-77.3	33.1
Portfolio investment	**-60.1**	**-129.1**	**-49.3**	**0.6**	**-89.9**
Other investment, of which:	**148.1**	**-294.8**	**-111.4**	**-390.1**	**-93.5**
Assets	178.2	-446.4	-34.4	-235.6	-79.5
Liabilities	30.0	-151.6	77.0	154.5	14.1
Net lending/borrowing, of which:	**-105.0**	**71.4**	**-19.5**	**-195.3**	**-92.1**
Assets	-14.2	-46.2	-31.8	-4.0	-19.8
Liabilities	90.8	-117.6	-12.3	191.3	72.3
Reserves	**-178.1**	**116.3**	**-5.4**	**56.9**	**-154.8**
Total assets	**-58.7**	**-475.4**	**-108.7**	**-147.7**	**-348.8**
Total liabilities	**199.0**	**-211.5**	**136.2**	**268.4**	**119.4**
Balance	**-257.7**	**-263.9**	**-244.9**	**-416.1**	**-468.3**

[1] *Transaction basis*

Table 17 The monetary base and its sources (in millions NAf.)

			Change	
	2019-I	2019-II	Amount	%
Currency in circulation	459.1	479.4	20.3	4.4
Banks' demand deposits (current account)	688.1	513.7	-174.3	-25.3
Monetary base (M0)	**1,147.2**	**993.1**	**-154.0**	**-13.4**
Central Bank assets				
Foreign assets (including gold)	3,493.9	3,424.7	-69.2	-2.0
Claims on deposit money banks	282.0	271.3	-10.7	-3.8
Claims on the government	0.1	0.1	0.0	0.0
Claims on government agencies and institutions	233.4	231.7	-1.7	-0.7
Fixed and other assets	134.1	137.6	3.5	2.6
less: Central Bank remaining liabilities				
Private sector deposits, of which:	1,560.1	1,512.0	-48.1	-3.1
Time deposits commercial banks	1,314.0	1,324.3	10.2	0.8
Government deposits	196.6	206.2	9.6	4.9
Foreign liabilities	263.7	290.6	26.9	10.2
Other liabilities	62.3	58.5	-3.9	-6.2
Capital and reserves	913.5	1,004.8	91.3	10.0

Table 18 Monetary aggregates (quarterly changes, in millions NAf.)

	2018-IV		2019-I		2019-II	
	Amount	%	Amount	%	Amount	%
Money (M1)	**-36.9**	**-0.8**	**213.1**	**5.0**	**-9.4**	**-0.2**
Coins & notes with the public	25.9	7.2	-27.9	-7.3	18.5	5.2
Total demand deposits, of which:	-62.7	-1.6	241.0	6.2	-27.9	-0.7
Netherlands Antillean guilders	20.0	0.8	163.9	6.2	48.4	1.7
Foreign currency	-82.7	-6.0	77.1	6.0	-76.3	-5.6
Near money	**55.4**	**1.3**	**-52.5**	**-1.2**	**47.0**	**1.1**
Time deposits	29.8	1.6	-72.2	-3.7	73.5	4.0
Savings	25.6	1.1	19.7	0.8	-26.5	-1.1
Money supply (M2)	**18.5**	**0.2**	**160.6**	**1.9**	**37.6**	**0.4**
Net domestic assets	**150.5**	**2.4**	**-179.9**	**-2.8**	**87.3**	**1.4**
Net claims on the government	117.5	-27.8	-187.4	61.6	37.9	-7.7
Claims on the private sector	33.0	0.5	7.5	0.1	49.3	0.7
Net foreign assets	**-78.6**	**-1.5**	**522.6**	**10.4**	**-107.4**	**-1.9**
Central bank	143.5	5.1	245.4	8.2	-96.2	-3.0
Commercial banks	-222.1	-9.9	277.2	13.7	-11.3	-0.5
Memorandum items	**-53.7**	**2.0**	**-182.1**	**6.7**	**57.9**	**-2.0**

Table 19 Monetary survey (in millions NAf.)

	2018-II	2018-III	2018-IV	2019-I	2019-II
Money supply (M2)	**8,922.0**	**8,660.7**	**8,679.2**	**8,839.8**	**8,877.5**
Money (M1)	**4,556.6**	**4,339.4**	**4,302.5**	**4,515.6**	**4,506.2**
Coins & notes with the public	383.6	359.5	385.3	357.4	375.9
Total demand deposits, of which:	4,172.9	3,979.9	3,917.2	4,158.2	4,130.3
Netherlands Antillean guilders	2,832.2	2,608.0	2,628.0	2,791.9	2,840.4
Foreign currency	1,340.8	1,371.9	1,289.2	1,366.3	1,290.0
Near money	**4,365.5**	**4,321.3**	**4,376.7**	**4,324.2**	**4,371.2**
Time deposits	1,955.5	1,902.2	1,932.0	1,859.8	1,933.3
Savings	2,410.0	2,419.1	2,444.7	2,464.4	2,438.0
Factors affecting the money supply					
Net domestic assets	**3,661.3**	**3,571.6**	**3,668.4**	**3,306.5**	**3,451.8**
Government sector	-479.4	-421.9	-304.5	-491.8	-453.8
Former central government	-12.0	-12.1	-12.1	-12.2	-1.11
Curaçao	-349.0	-313.2	-198.5	-382.7	-329.4
Sint Maarten	-118.4	-96.6	-93.8	-96.9	-113.3
Private sector	6,620.7	6,651.2	6,684.2	6,691.7	6,741.1
Memorandum items	-2,480.0	-2,657.6	-2,711.3	-2,893.5	-2,835.6
Net foreign assets	**5,260.6**	**5,089.3**	**5,010.8**	**5,533.3**	**5,425.9**
Central bank	3,362.8	2,841.3	2,984.8	3,230.2	3,134.0
Commercial banks	1,897.9	2,248.0	2,026.0	2,303.1	2,291.9

Table 19 Monetary survey (in millions NAf.) cont.

	2018-II	2018-III	2018-IV	2019-I	2019-II
Government loans	**17.6**	**18.1**	**26.4**	**17.0**	**23.3**
Government of Curaçao	3.8	3.5	4.8	0.8	0.5
Government of Sint Maarten	13.8	14.5	21.6	16.2	22.8
Private sector loans Curaçao	**4,575.5**	**4,585.1**	**4,731.0**	**4,734.2**	**4,807.7**
Mortgages	1,801.4	1,816.5	1,790.8	1,791.2	1,630.8
Consumer loans	925.7	916.7	905.1	905.7	904.2
Business loans	1,757.8	1,762.5	1,921.9	1,922.4	2,086.8
Other	90.6	89.3	113.1	115.0	185.8
Private sector loans Sint Maarten	**1,487.9**	**1,494.2**	**1,477.5**	**1,476.4**	**1,465.0**
Mortgages	869.3	876.7	869.6	870.0	870.2
Consumer loans	237.3	234.0	234.9	230.9	232.8
Business loans	375.9	378.2	369.3	371.9	359
Other	5.4	5.3	3.8	3.7	3.0

Table 20 Developments in domestic interest rates (in %)

	2018-II	2018-III	2018-VI	2019-I	2019-II
Central bank					
Pledging rate	2.0	2.0	2.0	2.5	2.5
Maximum CD rate (1 month)	0.40	0.27	0.25	-	-
Government securities					
Government bonds (5-year effective yield)	-0.18	-0.03	-0.21	-0.38	-0.57
Treasury bills (12 -month)	-0.66	-0.60	-0.73	-0.62	-0.67