

NOTE ECONOMIC DEVELOPMENTS SINT MAARTEN

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CENTRALE BANK VAN CURAÇAO EN
SINT MAARTEN



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GENERAL ECONOMIC DEVELOPMENTS

According to the Bank's estimates, Sint Maarten's real GDP contracted by 4.4% in 2017, a deepening of the 0.1% contraction in 2016. 2017's real GDP contraction was primarily caused by the severe damage Hurricane Irma inflicted on Sint Maarten's production capacity. Meanwhile, inflationary pressures rose to 1.4% in 2017, largely influenced by a rise in electricity prices and health care premiums.

An analysis of the expenditure side of GDP shows that the economic contraction in 2017 was caused by a decline in net foreign demand because the drop in the export of goods and services surpassed the lower imports. Exports dropped mainly because of a decline in the foreign exchange earnings from tourism activities. Also, foreign exchange earnings from the sectors that cater the tourism sector contracted. Meanwhile, the lower imports were caused primarily by a decline in merchandise imports by the wholesale & retail trade sector reflecting lower tourism spending and private consumption. An increase in domestic demand moderated 2017's economic contraction. Both private and public spending contributed to the increase in domestic demand. Private investments increased mainly due to the construction activities during the first 8 months of

2017. Moreover, businesses started to reconstruct following Hurricane Irma. Private consumption dropped due to the decline in economic activities, particularly in the tourism sector. Following Hurricane Irma, many persons left Sint Maarten, including foreign workers, resulting in a lower population and, hence, less consumption. Meanwhile, public spending rose because of more outlays on goods & services moderated by a decline in public investment.

A sectoral analysis shows that Sint Maarten's real GDP growth during the first half of 2017 stemmed from positive developments in both the private and public sectors. The positive contribution of the public sector was the result of an increase in disbursements on wages & salaries.

The manufacturing, construction, restaurants & hotels, transport, storage & communication, and real estate, renting & business activities sectors were the drivers of Sint Maarten's real GDP growth during the first half of 2017, due largely to a better performance of the tourism sector, notably cruise tourism. However, this growth was dampened by contractions in the wholesale & retail trade, financial intermediation, and utilities sectors.

Activities in the manufacturing sector grew during the first half of 2017, albeit slower than during the first half of 2016, because of increased yacht repair activities reflecting a higher number of yachts visiting Sint Maarten. The increase of real value added in the restaurants & hotels sector was attributable mainly to a positive turnaround in cruise tourism and some growth in stay-over arrivals. The increase in stay-over visitor arrivals was mainly the result of more South American and European visitors, mitigated by fewer visitors from North America and the Caribbean. The European market grew as the number of stay-over arrivals from France, in particular, rose sharply. The South American market grew mainly because of increases in the number of visitors from Venezuela and Brazil. The decline in the Caribbean market was caused mainly by a drop in arrivals from Haiti and the Dominican Republic. The contraction in the Caribbean market can be ascribed to, among other things, a decline in airlift, as InselAir and PAWA both struggled with financial and operating problems and, hence, cancelled flights to several destinations in the region. Meanwhile, the North American market shrank primarily because of a contraction in the number of Canadian visitors, albeit moderated by more visitors from the United States. In contrast, cruise tourism performed well, driven by more cruise calls and, consequently, more cruise tourists. The number of cruise tourists visiting Sint Maarten rebounded during the first half of 2017, accompanied by a small increase in the number of cruise calls. The positive turnaround in cruise tourism was attributable, in part, to less concern over the presence of the Zika virus.

Growth in the transport, storage & communication sector was fueled by increased activities at both the airport and the harbor. Airport-related activities and air transportation activities of domestic carrier Winair grew, although at a slower pace than during the first six months of 2016, in line with the increase in stay-over tourism. The growth in harbor activities was reflected by a higher number of ships piloted into the port of Sint Maarten, particularly tankers and cruise ships. Meanwhile, there were slightly fewer freighters during the first half of 2017 compared to the first half of 2016, although container movements increased.

Additionally, real output in the construction sector accelerated during the first half of 2017, largely because of more private investments, such as the construction of condominiums in the Maho area and the renovation of the cargo facilities at the Princess Juliana International Airport, among other things.

By contrast, real value added in the wholesale & retail trade sector contracted because the increase in tourism spending was not enough to offset the contraction in private consumption.

Furthermore, activities in the utilities sector shrank in the first half of 2017, a negative turnaround compared to the first half of 2016, because the slight increase in water production was insufficient to offset the decline in electricity production.

Finally, the financial intermediation sector contracted in 2017's first half compared to the first half of 2016 because interest income of the domestic commercial banks dropped at a faster pace than interest expenses.

DEVELOPMENTS IN THE PUBLIC FINANCES

The government of Sint Maarten recorded a surplus of NAf.65.0 million on its current budget during the first half of 2017, more than double the NAf.25.8 million recorded in the first half of 2016. This improvement was caused primarily by an increase in government revenues because expenditures remained practically unchanged. Revenues went up by 17.4%, while expenditures rose only by 1.0%. The increase in revenues was the result of a more than tripling of nontax revenues in the first two quarters of 2017 compared to the first two quarters of 2016, combined with an increase of 5.1% in tax revenues. Nontax revenues increased particularly as a result of funds received from the settlement of the division of the assets and liabilities of the former Netherlands Antilles and the dissolution of the Economic Development Foundation (SEO). Furthermore, the government received dividend from the public utility company, GEBE. Meanwhile, tax revenues went up because of more proceeds from taxes on income & profit, goods & services, and property. Higher revenues from turnover tax contributed mainly to the increase in taxes on goods & services, reflecting more efforts to improve compliance. The increase in property taxes was attributable to higher property transfer tax receipts. Expenditures remained practically unchanged because the higher spending on goods & services and social security was offset by a drop in

other expenditures.

Following the devastation caused by Hurricane Irma, the government of Sint Maarten has not been able to publish any fiscal data, given that much of the infrastructure to compile and report fiscal statistics was damaged. According to the government's estimates, a deficit of NAf.153.0 million was recorded on the current budget during 2017.¹ Although there are no data on government revenues and expenditures in the last months of 2017, there are indications that the deficit in 2017 will be lower than the estimated NAf.153.0 million. As a consequence of the situation in the months after the passing of the hurricane, the government of Sint Maarten has been coping with liquidity problems reflected by an estimated liquidity shortage of NAf.70.0 million for 2017. The CFT indicated that there were still unspent loan proceeds for capital expenditures of NAf.21.7 million² in 2017, which the government of Sint Maarten could use to cover part of the higher current expenditures. In addition, the Dutch government sent a proposal to Sint Maarten for a loan of NAf.50 million with no repayments in the first five years to bridge the liquidity gap.

¹ Press conference held by the CFT on February 9, 2018, in Sint Maarten.

² The government of Sint Maarten has already spent NAf.10.0 million of this loan for current expenditures.

Sint Maarten has not published information regarding its outstanding public debt since June 2017, when it amounted to NAf.589.1 million. This is a decline of NAf.63.7 million compared to the end of December 2016. The lower debt was due entirely to a decline in the domestic debt component moderated by an increase in the foreign debt component. The domestic component declined as a result of the settlement of part of the government's arrears towards the public pension fund, APS.³ Meanwhile, the increase in the foreign debt component was the result of the issuance of a bond loan (NAf.21.7 million) purchased entirely by the Dutch State Treasury Agency. Consequently, Sint Maarten's debt-to-GDP ratio decreased from 34.2% at the end of 2016 to 31.7% at the end of June 2017.

³ In the second quarter of 2017, the settlement of the division of the assets and liabilities of the former Netherlands Antilles was finalized. The government of Sint Maarten used part of the amount received to payoff outstanding arrears towards the APS.

DEVELOPMENTS IN THE BALANCE OF PAYMENTS

According to estimates of the Bank, the deficit on the current account of the balance of payments widened by NAf.397.2 million in 2017 compared to 2016 as a result of a drop in the net export of goods and services and a worsening of the income balance. In contrast, the current transfers balance improved. In line with the development on the current account, external financing into the monetary union rose. However, as the external financing was not sufficient to cover the current account deficit, the gross official reserves of the Bank decreased by NAf.17.6 million in 2017, a turnaround compared to the NAf.187.5 million increase in 2016.

During the first nine months of 2017, according to preliminary data and the Bank's estimates, the current account of the balance of payments recorded a deficit of NAf.930.3 million, compared to a deficit of NAf.743.3 million in the first nine months of 2016. The development on the current account reflected a decrease in the net export of goods and services combined with a deterioration of the current transfers balance. However, the income balance improved.

In Sint Maarten, net foreign demand is estimated to have contracted in the first nine months of 2017 because exports dropped at a faster pace than imports. Exports dropped primarily because of lower earnings from tourism activities in

the month of September 2017 following Hurricane Irma. Meanwhile, imports fell mainly because of lower merchandise imports by the wholesale & retail trade sector consistent with the lower private consumption.

The current transfers balance is estimated to have worsened by NAf.14.6 million in the first nine months of 2017 compared to the first nine months of 2016 because the drop in current transfers received from abroad exceeded the decline in current transfers paid to abroad. However, the income balance improved by an estimated NAf.58.5 million because the growth in dividend and interest received on foreign investments was higher than the increase in investment income paid to abroad.

As the external financing was not sufficient to cover the current account deficit in the first nine months of 2017, gross official reserves dropped by NAf.151.5 million.

MONETARY DEVELOPMENTS

During the January – July period of 2017, the monetary policy instruments were deployed in a neutral manner by focusing only on the refinancing of maturing CDs during the bi-weekly auctions while the reserve requirement was maintained at 18.00%. Nevertheless, the amount of required reserves rose as a result of the higher base amount upon which it is calculated.

Furthermore, the Bank increased its official interest rate, the pledging rate, by 0.50 percentage point to 1.50% on March 20, 2017. After being kept at the historically low level of 1.00% since December 2008, the Bank took this step following the upward adjustments of the federal funds rate and its impact on the international interest rates and, hence, the domestic money market rates.

However, as of August 2017⁴, the Bank started gradually reducing the amount of CDs while keeping the reserve requirement percentage at 18.00%. Consequently, the amount of outstanding CDs dropped by NAf.66.6 million in the second half of 2017. Meanwhile, the amount of required reserves increased by NAf.79.6 million due to an increase in the base upon which it is calculated.

At the end of the December 2017, the current account balances of the commercial banks with the Bank were NAf.316.6 million higher compared to December 2016. The increase in these balances occurred mostly in the second half of 2017 because of debt service payments on matured securities by the DSTA.⁵ Through its monetary instruments, the Bank mopped up NAf.59.8 million in liquidity during 2017.

Broad money expanded by 6.9% in 2017 due to increases in both the net foreign assets (13.2%) and net domestic assets (0.9%) of the banking system.

In 2017, credit to the private sector in the monetary union grew by 1.4%. Outstanding loans in Curaçao increased by 2.5% while Sint Maarten recorded a decline of 1.6%. The drop in Sint Maarten was the result of declines in business loans (-3.1%) and mortgages (-1.7%), moderated by increases in consumer loans (0.1%) and in the other loans category (37.7%).

⁴ After an evaluation, the Bank concluded that the auctioning of CDs is not an effective instrument during a prolonged period of excess liquidity.

⁵ Related to debt securities taken over by the Dutch government under the debt relief program.

Monetary and liquidity conditions

- The current account balances of the commercial banks at the central bank are still high (see Table 1).
- Low international interest rates; Fed funds rate between 1.25 - 1.50%.
- On March 7, 2018, the 1M USD Libor rate stood at 1.72%, while the 3M USD Libor was 2.06%.
- Auctioning of CDs: the amount outstanding was NAf.113.0 million on March 16, 2018. The latest CD interest rates offered on the auction of March 12, 2018 was 0.29% for 4 weeks.
- For the March – April 2018 period, the reserve requirement percentage remained unchanged at 18.00% and the outstanding amount was NAf. 1,313.3 million.
- The pledging rate stands at 1.50% since March 20, 2017.

Table 1 Liquidity conditions in the monetary union (in millions NAf.)

	Dec 31, 2013	Dec 31, 2014	Dec 28, 2015	Dec 30, 2016	Dec 31, 2017	Mar 9, 2018
Current account balance commercial banks	231.2	388.5	490.7	500.4	817.7	892,2

OUTLOOK FOR 2018

Global economic activity is projected to accelerate in 2018 (3.9%) because of increased output growth in the advanced economies as well as the emerging & developing economies.⁶ However, risks to the medium-term global economic outlook are tilted to the downside as reflected by, among other things, inward-looking policy plans including renegotiation of economic partnership agreements, tightening global financial conditions, and noneconomic factors such as geopolitical tensions. The U.S. economy -the main trading partner of Sint Maarten- is projected to expand in 2018 at a slightly faster pace than in 2017, reflecting supportive financial conditions and strong business and consumer confidence.

In 2018, the economy of Sint Maarten is projected to contract by 9.5% in real terms. The projected economic contraction is the result of a sharp decline in net foreign demand moderated by an increase in domestic demand. Net foreign demand will drop because of a decline in the export of goods and services combined with higher imports. The dismal export performance reflects primarily lower foreign exchange earnings from tourism activities. By contrast, imports will rise related to construction material and services for the reconstruction of Sint Maarten. However, the imports by

the wholesale & retail trade sector will drop due to lower tourism spending and a decline in private consumption. Domestic demand will go up driven mainly by increased investments by the private and public sectors. In addition, public consumption will rise because of more disbursements on goods & services. The increase in domestic demand will be dampened by lower private consumption. The decline in private consumption is caused by increased unemployment, particularly in the tourism sector, and reduced wealth. However, more purchases of construction material and durable goods by those who were covered by insurance will moderate the decline in private consumption.

The inflationary pressures are projected to increase by 1.6% during 2018, largely because of a general hike in insurance premiums as well as price increases in household goods and building materials due to increased demand.

⁶ IMF World Economic Outlook, January 2018.

ATTACHMENT

Table 2 Economic key figures of Sint Maarten (in millions NAf.)

	2014	2015	2016	2017
Real sector				
Real GDP growth (% change)	1.7	0.4	-0.1	-4.4
Inflation (% change)	1.9	0.3	0.1	1.4
Public finances				
Budget balance	-8.2	-18.4	26.4	-153.0
Debt-to-GDP ratio (%)	36.9	36.4	34.3	31.4
Balance of payments of the monetary union				
Current account balance	-1,089.8	-886.6	-1,032.7	-1,429.9
Capital transfers	23.1	-7.1	3.0	-2.3
External financing	1,426.1	841.4	1,170.6	1,348.1
Direct investments	128.7	278.3	239.4	309.9
Loans and credits	509.6	-25.1	563.6	654.9
Portfolio investments	787.8	588.2	367.6	383.2
Change in reserves	-459.9	-27.8	-187.5	17.6
Net errors and omissions	100.4	80.1	46.6	66.5
Import coverage (months)	3.9	4.9	5.1	5.0

Table 2 Economic key figures of Sint Maarten (in millions NAf.) cont.

	2014	2015	2016	2017
Monetary survey (monetary union)				
Net domestic credit	3,744.1	3,787.1	4,156.1	4,191.7
Net domestic credit to government	-429.3	-589.7	-670.3	-597.4
Net domestic credit to private sector	6,148.3	6,145.6	6,627.9	6,686.5
Miscellaneous	-1,974.8	-1,768.8	-1,801.5	-1,897.4
Net foreign assets	4,041.8	4,186.0	3,973.9	4,499.4
Money supply	7,785.9	7,973.1	8,130.1	8,691.1
Annual growth in private sector loans				
Mortgages	3.5%	0.0%	0.9%	-1.7%
Consumer loans	-7.9%	-1.2%	7.0%	0.1%
Business loans	-3.8%	6.2%	1.4%	-3.1%
Other	-	-	-51.4%	37.7%

Table 3 Economic key figures 2017

	Curaçao	Sint Maarten	Monetary Union
Real GDP growth (% change)	-1.3	-4.4	-2.1
Inflation (% change)	1.6	1.4	1.6

Table 4 Economic key figures 2018 (projection)

	Curaçao	Sint Maarten	Monetary Union
Real GDP growth (% change)	0.3	-9.5	-2.2
Inflation (% change)	1.7	1.6	1.7

Table 5 Monetary survey monetary union (in millions NAf.)

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Money supply (M2)	8,337.7	8,557.2	8,546.8	8,624.4	8,691.1
Money (M1)	3,912.0	4,178.5	4,124.7	4,150.7	4,316.6
Coins & notes with the public	365.7	378.5	375.0	364.7	388.1
Total demand deposits, of which:	3,546.2	3,800.0	3,749.7	3,786.0	3,928.5
Netherlands Antillean guilders	2,411.1	2,632.8	2,542.5	2,547.2	2,661.1
Foreign currency	1,135.1	1,167.2	1,207.1	1,238.9	1,267.4
Near money	4,425.8	4,378.7	4,422.1	4,473.7	4,374.6
Time deposits	2,211.5	2,157.4	2,142.8	2,150.4	2,016.9
Savings	2,214.3	2,221.3	2,279.3	2,323.2	2,357.6
Factors affecting the money supply					
Net domestic assets	4,163.0	4,179.8	4,244.1	4,150.3	4,191.7
Government sector	-578.5	-582.8	-550.7	-606.7	-597.4
Former central government	-11.4	-11.5	-11.5	-11.5	-11.6
Curaçao	-371.8	-396.9	-392.4	-470.4	-474.2
Sint Maarten	-195.2	-174.4	-146.8	-124.8	-111.7
Private sector	6,700.1	6,742.4	6,730.5	6,730.9	6,686.5
Memorandum items	-1,958.6	-1,979.8	-1,935.6	-1,973.9	-1,897.4
Net foreign assets	4,174.7	4,377.3	4,302.6	4,474.1	4,499.4
Central bank	3,032.1	3,148.8	3,102.8	3,358.1	3,360.7
Commercial banks	1,142.6	1,228.6	1,199.8	1,116.0	1,138.7

Table 5 Monetary survey monetary union (in millions NAf.) cont.

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Government loans by commercial banks	19.6	21.4	18.1	22.2	22.0
Government of Curaçao	5.4	5.6	3.0	6.1	7.3
Government of Sint Maarten	14.2	15.8	15.0	16.2	14.7

Private sector loans Curaçao	4,568.4	4,628.1	4,614.7	4,622.1	4,620.3
Mortgages	1,863.6	1,866.6	1,856.6	1,853.5	1,849.1
Consumer loans	888.8	893.2	896.1	900.2	900.1
Business loans	1,712.7	1,765.2	1,762.1	1,767.6	1,772.7
Other	103.3	103.1	99.9	100.8	98.4

Private sector loans Sint Maarten	1,526.8	1,524.9	1,524.3	1,529.8	1,502.8
Mortgages	897.6	893.5	893.8	891.9	884.2
Consumer loans	223.9	226.0	225.2	227.2	223.9
Business loans	397.7	397.8	397.7	404.2	383.6
Other	7.6	7.6	7.6	6.5	11.1

Table 6 Monetary sector growth rates

	2016-IV	2017-I	2017-II	2017-III	2017-IV
Money supply (M2)	1.4%	1.6%	0.3%	3.2%	1.6%
Demand deposits					
N.A. guilders	-2.2%	0.9%	1.8%	10.2%	1.1%
Foreign currency	3.1%	11.0%	-1.0%	9.3%	8.6%
Near money					
Time deposits	3.8%	-0.8%	-2.4%	-3.2%	-6.5%
Saving deposits	1.6%	1.2%	2.0%	-0.1%	6.1%

