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CBCS Publishes 2017 Annual Report

External shocks caused economic contractions

WILLEMSTAD/PHILIPSBURG - Adverse external shocks were the primary reason the monetary union of Curaçao and Sint Maarten experienced an economic contraction in 2017, acting Centrale Bank van Curaçao en Sint Maarten (CBCS) president Leila Matroos explained in the CBCS's 2017 Annual Report. "In Curaçao, real GDP dropped by 1.7% in 2017 as activities in key economic sectors were affected by the deep recession and unstable situation in Venezuela, one of Curaçao's main trading partners. Meanwhile, Sint Maarten recorded a real GDP contraction of 4.8% attributable to the severe damage Hurricane Irma caused to the island when it passed in September 2017," Matroos stated. "Inflationary pressures rose in both Curaçao and Sint Maarten. Following zero inflation in 2016, Curaçao recorded an inflation rate of 1.6% in 2017 on the back of higher international fuel and food prices. In Sint Maarten, the inflation rate accelerated to 2.2% in 2017 from 0.1% in 2016 ascribable to higher energy prices and an increase in healthcare premiums," she added.

Matroos explained that, when looking at the disappointing economic performance in Curaçao by sector, analysis shows there were declines in the wholesale & retail trade, restaurants & hotels, transport, storage & communication, manufacturing, and financial intermediation sectors. "The contraction in the wholesale & retail trade sector was the result of declines in private consumption and tourism spending, moderated by an increase in activities in the free zone. Real value added dropped in the restaurants & hotels sector in 2017, albeit less pronounced than in 2016, on the back of a decline in stay-over tourism," she pointed out. The acting central bank president further explained that the gloomy performance of stay-over tourism in Curaçao can be ascribed to both a decline in airlift to the Caribbean, South America, and Europe and the economic crisis in Venezuela – one of Curaçao's main tourism markets. By contrast, she said, cruise tourism grew strongly because of, among other things, the opening of the second mega-pier and the fact that Curaçao's cruise tourism benefitted from the changes in itineraries of the cruise lines because of the devastation caused by hurricanes Irma and Maria in other Caribbean destinations.

The contraction in the transport, storage, & communication sector was the result of declines in both air and sea transport. "The financial issues and downsizing of the local carrier, InselAir, was the main cause of the unfavorable development at the airport," Matroos explained. "Meanwhile, the

harbor in Curaçao handled fewer ships, particularly tankers and freighters. By contrast, increased cargo movements and oil storage activities moderated the decline in the harbor,” she said.

The acting central bank president pointed out that real output shrank in the manufacturing sector due mainly to lower activities at the Isla refinery. The financial intermediation sector also posted negative results because of declines in both domestic and international financial services, she further noted.

By contrast, Matroos explained that the construction sector expanded during 2017 supported by public and private investment projects such as the construction of the new hospital, the mega-pier, and hotel projects. The utilities sector also grew, sustained by increased production of both water and electricity.

Turning to Sint Maarten, Matroos said that, “Sint Maarten’s economic downturn in 2017 was primarily because of the massive destruction Hurricane Irma caused to the country’s productive capacity and key infrastructure.” When viewed by sector, Matroos pointed out, it shows that real value added contracted in Sint Maarten’s utilities, wholesale & retail trade, restaurants & hotels, transport, storage, & communication, financial intermediation, and real estate, renting, and business activities sectors. The negative outcome in the utilities sector, she said, reflected a decline in both water and electricity production in the aftermath of the storm. “In the wholesale & retail trade sector, real value added dropped significantly as a result of lower domestic and tourism spending. The severe contraction in the restaurants & hotels sector can be ascribed to the enormous damage that Hurricane Irma caused to tourism-related infrastructure including the Princess Juliana International Airport, the AC Wathey Cruise and Cargo Facility, and major hotels. Consequently, both the number of stay-over and cruise tourists dropped significantly in 2017 compared to 2016,” Matroos stated.

“The decline in the transport, storage, & communication sector was related to the damage that the hurricane caused to the harbor and airport infrastructure of Sint Maarten. Hence, the number of ships that visited the harbor of Sint Maarten dropped. Meanwhile at the airport, total passenger traffic and the number of commercial landings shrank. In addition, air transportation activities by the domestic carrier, Winair, dropped compared to 2016,” Matroos continued.

In the financial intermediation sector, the acting central bank president explained that real value added dropped as a result of lower net interest income earned by the domestic commercial banks. “The negative performance of the real estate, renting, & business activities sector can be explained by the decline in activities that cater to the tourism sector and a contraction in the timeshare sector,” she added.

“By contrast,” Matroos continued, “the manufacturing and construction sectors recorded positive figures. The expansion in the manufacturing sector in 2017, albeit at a slower pace than in 2016, reflected mainly more activities in the first half of 2017 mitigated by a sharp decline following Hurricane Irma that caused severe damage to the marine infrastructure.” Matroos concluded her comments on Sint Maarten by noting that growth in the construction sector was partially driven by increased private investments in the Maho and Cupecoy areas prior to the passage of Hurricane Irma, and subsequent repairs and reconstruction activities following the storm.

The complete text of the Report of the President and the Bank's 2017 Annual Report can be viewed on the Bank's website at www.centralbank.cw under the Publications & Research section.

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CENTRALE BANK VAN CURACAO EN SINT MAARTEN