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*Curaçao contracts further, while Sint Maarten modestly expands*

## Monetary union diverges in first quarter of 2015

**WILLEMSTAD/PHILIPSBURG** - “Developments diverged in the monetary union of Curaçao and Sint Maarten during the first quarter of 2015,” the president of the Centrale Bank van Curaçao en Sint Maarten, Dr. Emsley Tromp, said in the Bank’s Quarterly Bulletin. “In Curaçao, real GDP contracted by 0.2%, while Sint Maarten recorded an expansion of 1.6%.”

Both countries have benefitted from the significant drop in international oil prices, leading to lower inflationary pressures, he explained. In Curaçao, the inflation rate dropped from 0.8% in the first quarter of 2014 to 0.1% in the first quarter 2015. Meanwhile in Sint Maarten, the quarterly inflation eased to 1.2%, down from 2.1% a year earlier.

“The economic contraction in Curaçao stemmed from a decline in private demand. Both private consumption and investment dropped during the March quarter of 2015. By contrast, public spending and net foreign demand contributed positively to GDP,” Tromp said. “The increase in public spending was driven by a rise in public investment due largely to the construction of a new hospital in Curaçao. Meanwhile, net foreign demand increased, as export growth surpassed the rise in imports.”

The financial intermediation, construction, and transport, storage & communication sectors were primarily responsible for the contraction in Curaçao’s private sector activities, Tromp explained. The poor performance of the construction sector was partially offset by the construction of the new hospital. Harbor activities fell with fewer container movements and a drop in oil storage activities. Tromp explained, however, that airport-related activities were up because of increases in total passenger traffic and commercial landings.

The restaurants & hotels, manufacturing and wholesale & retail trade sectors on Curaçao grew in the January – March period of 2015, Tromp said. “Following a decline in the first quarter of 2014, real value added in the restaurants & hotels sector rose in the first quarter of 2015, driven by a robust growth in stay-over tourism. However, the number of cruise tourists dropped despite an increase in

the number of cruise calls.” Tromp emphasized the importance of increased airlift for the further development of stay-over tourism in Curaçao.

“Although at a slower pace compared to 2014, real output expansion in the manufacturing sector stemmed from a positive contribution of the Isla refinery. The refinery’s contribution was primarily the result of increased refining activities. However, output growth in the manufacturing sector was offset partly by a drop in ship repair activities,” Tromp said. “The expansion in the wholesale & retail trade sector was attributable to the increase in tourism spending, mitigated by the contraction in private demand and lower activities at the free zone because of the unstable conditions and currency restrictions in Venezuela.

“According to the Bank’s estimates, real GDP growth in Sint Maarten was driven by increases in both domestic and net foreign demand. The increase in domestic demand was led primarily by private spending, as both private investments and consumption rose,” Tromp continued. “Furthermore, public spending increased on the back of higher investments, notably in public infrastructure and the remodeling of public schools. In contrast, public consumption dropped, due mainly to lower outlays on goods and services. Net foreign demand contributed positively to Sint Maarten’s real GDP expansion as export growth was accompanied by a lower import bill.”

Sint Maarten’s restaurants & hotels and wholesale & retail sectors were the main contributors to real GDP growth during the January – March period of 2015, Tromp pointed out in the report, due mostly to an estimated increase in tourism. Growth in the wholesale & retail trade sector was supported by both increased domestic demand as well as more tourism spending. Following a contraction in the first quarter of 2014, the construction sector posted positive results owing to increased private and public investments, the central bank president said. The transport, storage & communication sector also grew, although at a slower pace than in 2014. Airport-related activities rose in line with the growth in stay-over tourism. Activities in the Philipsburg harbor increased, with a higher number of ships piloted into the port and more container movements. The utilities sector also contributed positively to real GDP growth as both water and electricity production were up.

The financial intermediation and manufacturing sectors, however, put a drag on Sint Maarten’s first quarter growth in 2015, Tromp noted, with a drop in the net interest income of the commercial banks and lower yacht repair activities, respectively.

As for the monetary union, Tromp said that “according to preliminary data and estimates of the Bank, the current account deficit of the balance of payments narrowed during the first quarter of 2015 compared to the first quarter of 2014. This outcome was the result of an increase in net exports of goods and services as exports rose while imports dropped. “Gross official reserves rose significantly during the first quarter of 2015 due mainly to the issuance of debt securities by the Curaçao government that were allotted 100% to the Dutch State Treasury Agency (DSTA) and the transfer of dividend tax by the Dutch authorities related to the BRK,” he said.

“The tightening of monetary policy was helpful during the past few years in reducing credit growth, bringing some improvement in the deficit on the current account of the balance of payments, and strengthening reserves,” Tromp said of the Bank’s monetary policy. “The Bank will conduct a monetary policy that is sufficiently accommodative to facilitate private credit extension, particularly for private investments which are the drivers of sustainable economic growth,” he added.

“Nevertheless, private investments will only pick up if investor confidence is restored. The governments of Curaçao and Sint Maarten can contribute to restoring investor confidence through policy consistency and transparency. At the same time, the financial sector, in particular institutional investors, need to take a more proactive role and provide the necessary funds for local private sector investments,” Dr. Tromp concluded in his report on the monetary union during the first quarter of 2015.

The complete text of the Report of the President and the Quarterly Bulletin for the first quarter of 2015 can be viewed on the Bank’s website [www.centralbank.cw](http://www.centralbank.cw) under the *Publications & Research* section / *Publications Overview*.

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**CENTRALE BANK VAN CURACAO EN SINT MAARTEN**