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CENTRALE BANK VAN CURAÇAO EN
SINT MAARTEN



Centrale Bank van Curaçao en Sint Maarten

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I REPORT OF THE PRESIDENT

The global economy sustained broad-based growth in the first quarter of 2018 with the major advanced economies recording a solid expansion. In addition, the emerging market and developing economies grew strongly driven by increased world trade and a pick-up in investments.

By contrast, the monetary union registered a real economic contraction in the first quarter of 2018. Following a contraction of 1.2% in the first quarter of 2017, real GDP dropped in Curaçao by 1.6% in the first quarter of 2018. Meanwhile, Sint Maarten recorded a deep real GDP contraction of 9.5% in the March quarter of 2018 after a mild decline of 0.5% in 2017's first quarter. Inflationary pressures increased in both Curaçao and Sint Maarten. In Curaçao, the inflation rate rose to 1.7% driven by higher electricity and fuel prices. Sint Maarten's inflation is also estimated to have increased on the back of higher prices of consumer goods and construction materials.¹

Domestic and net foreign demand caused the economic contraction in Curaçao during the first quarter of 2018. The decline in domestic demand was the result of a drop in both private and public demand. Private demand shrank

due to lower private consumption and investments. The negative contribution of public demand stemmed from lower public consumption, as outlays on goods & services and wages & salaries dropped, while public investments rose slightly. Meanwhile, net foreign demand declined because, in real terms, exports contracted while imports rose.

Sectoral data reveal that output contracted in the transport, storage, & communication, wholesale & retail trade, manufacturing, and construction sectors during the first quarter of 2018. Real value added contracted in the transport, storage, & communication sector as a result of fewer activities at the airport and the harbor. The drop in airport-related activities was reflected by a decline in the number of commercial landings and total passenger traffic, notably transit passengers. Furthermore, air transportation activities continued to drop because of the downsizing of InselAir. The harbor recorded negative results because of a drop in the number of ship calls, particularly freighters and tankers. By contrast, container movements and the number of cruise ships rose.

The poor performance of the wholesale & retail trade sector was the result of the decline in domestic spending and fewer activities in the free zone, moderated by an increase in tourism spending. Output

¹ No Consumer Price Inflation (CPI) data for the first quarter of 2018 was available at the time of publication. Therefore, the Bank made an estimate of the development in Sint Maarten's CPI.

dropped also in the manufacturing sector because of a decline in the refining activities by the Isla refinery due to, among other things, insufficient steam delivery by the CRU plant. Meanwhile, the construction sector posted negative results as private investments dropped.

By contrast, activities rose in the restaurants & hotels sector driven by more stay-over and cruise tourists. The growth in the number of stay-over tourists was supported by more visitors from North America and Europe, while the South American and Caribbean markets recorded a decline. The buoyant performance of cruise tourism can be explained by the opening of the second megapier in 2017 and the change in itineraries by major cruise lines because of the devastation caused by hurricanes Irma and Maria in major Caribbean cruise destinations. The utilities sector also expanded as reflected by an increase in the production of both water and electricity. The contribution of the financial intermediation sector was positive as real value added from domestic financial services rose, reflecting an increase in other fees & income. By contrast, real value added from international financial services dropped as reflected by a decline in wages & salaries and other operational expenses.

The deep real GDP contraction in Sint Maarten was caused mainly by a decline in net foreign demand as exports of goods and services dropped sharply, moderated by a decline in imports. Domestic demand also dropped because of a decline in private consumption reflecting the worsened situation in the labor market. By contrast, private investments rose driven by repair and reconstruction activities by

the business sector following Hurricane Irma. Furthermore, public consumption increased, sustained by more outlays on goods & services, and public investments went up.

An analysis of the production side shows that output contracted in most sectors of the economy of Sint Maarten because of the severe shock caused by Hurricane Irma. The negative outcome in the restaurants & hotels sector was the result of a sharp decline in both stay-over and cruise tourism. Cruise tourism suffered from the rerouting by major cruise lines to other destinations in the Caribbean not affected by the hurricanes in 2017 and a lack of tourism-related attractions and activities. Meanwhile, critical infrastructure for Sint Maarten's stay-over tourism, including hotels and the Princess Juliana International Airport, were severely damaged by the hurricane. Consequently, the number of stay-over visitors dropped across all markets. The sharp decline in the number of stay-over visitors also explains the contraction recorded in the real estate, renting & business activities sector during the first quarter of 2018 compared to the first quarter of 2017.

The transport, storage, & communication sector also suffered from Hurricane Irma and recorded a marked decline in both air and sea transport. The negative development in airport-related activities was reflected by a decline in the number of passengers handled and a drop in the number of commercial landings. Meanwhile, the harbor of Sint Maarten performed poorly because of a decline in the number of ships piloted into the port. Activities in the wholesale & retail trade sector went down due to the drop in private

consumption and tourism spending. Real output shrank in the utilities sector on the back of lower production of both water and electricity. In the manufacturing sector, production dropped as a result of a decline in repair activities on yachts because of the damage caused to Sint Maarten's marine infrastructure. Meanwhile, the financial intermediation sector contracted as indicated by a decline in net interest income and other fees & income of the commercial banks. By contrast, output rose in the construction sector driven by reconstruction and repair activities following the hurricane.

The budget surplus of the government of Curaçao rose in the first quarter of 2018 compared to the first quarter of 2017 due to an increase in revenues combined with a decrease in expenditures. However, the realized surplus still was lower than budgeted, putting additional pressure on the government to compensate for the 2017 deficit.

The increase in revenues was supported by a rise in nontax revenues resulting from a windfall in withholding tax grants related to the tax arrangement between Curaçao and the Netherlands, BRNC.² Furthermore, tax revenues went up as a result of an increase in the proceeds from taxes on goods & services, notably sales tax, and taxes on income & profits. The increased earnings from the taxes on income & profits stemmed from more wage tax revenues, while the receipts from profit tax dropped. Government expenditures went down mainly because of a decline in the outlays on transfers & subsidies and

goods & services. However, the additions to the buffer fund of the social security bank, SVB, rose to absorb funds deficits.

Sint Maarten's fiscal performance deteriorated sharply following Hurricane Irma, reflected by a decline in government revenues combined with higher expenditures in the first quarter of 2018 compared to the first quarter of 2017. Consequently, Sint Maarten recorded a budget deficit in the March quarter of 2018, following a surplus a year earlier. The lower revenues were attributable primarily to a decline in tax revenues across all tax categories. Furthermore, income from concessions and fees dropped. Meanwhile, government expenditures rose driven by more spending on goods & services, social security, and wages & salaries. Given the precarious situation of the public finances, the Dutch State agreed to purchase a NAf.50.0 million zero-interest bond from Sint Maarten in March 2018. However, the government is expected to need more liquidity support to meet its financial obligations.

In the external sector, the deficit on the current account of the balance of payments widened during the first quarter of 2018 compared to the first quarter of 2017, caused by a decline in the net export of goods and services. By contrast, the income and current transfers balances improved. The decline in net exports resulted from significantly lower exports caused primarily by a marked decline in tourism activities and business services that cater to the tourism industry in Sint Maarten in the wake of Hurricane Irma. Furthermore, foreign exchange receipts from transportation services shrank in both Curaçao and Sint Maarten. Lower

² *Belastingregeling Nederland-Curaçao.*

revenues from refining activities and re-exports by the free-zone companies in Curaçao also contributed to the contraction in exports during the March quarter of 2018. Meanwhile, imports dropped slightly on the back of lower oil imports in both Curaçao and Sint Maarten combined with a decline in merchandise imports by the wholesale & retail trade sector in Sint Maarten. The latter decline is largely the result of the drop in tourism activities in Sint Maarten during the first quarter of 2018. In addition, following the completion of the windmill park in Curaçao in 2017, imports by the utilities sector went down. By contrast, some activities in Curaçao moderated the decline in the import bill, particularly more tourism expenditures abroad by residents, more merchandise imports by the wholesale & retail trade sector, and more goods sent abroad for processing related to the construction of the new hospital. Meanwhile, the improvement of the income balance was the result of a decline in dividend and interest paid to foreign investors, moderated by less dividend and interest earned on foreign assets. Net current transfers into the monetary union increased significantly due mainly to the inflow of funds related to the claims of local insurance companies abroad to pay their clients in Sint Maarten whose properties were damaged by Hurricane Irma.

External financing into the monetary union rose in the first quarter of 2018, reflected by a worsening of the portfolio investment balance. This worsening was caused largely by matured debt securities held by institutional investors that were only partly reinvested abroad. Furthermore, local institutional investors sold foreign equity, and the government of Sint Maarten issued

a zero-interest bond that was purchased by the Dutch State. By contrast, the direct investment balance improved due to a decline in liabilities of local companies towards their foreign direct investors. In addition, local companies invested more into their subsidiaries in Aruba and Bonaire. The loans and credits balance also improved, driven mainly by an increase in foreign deposits of residents of Curaçao and Sint Maarten. Furthermore, deposits of non-residents in the monetary union dropped. Because the financing from abroad exceeded the current account deficit, gross official reserves rose by NAf.4.9 million during the first quarter of 2018.

The money supply expanded in the first quarter of 2018 driven by an increase in net foreign assets. In contrast, net domestic assets contracted due to a decline in miscellaneous balance sheet items not related to transactions. Furthermore, net claims on both the government and the private sector dropped. The drop in net claims on the government was largely the result of an increase in government deposits with the Bank reflecting primarily the proceeds of the zero-interest loan from the Dutch State to Sint Maarten for liquidity support. The decline in the claims on the private sector was the result of a drop in net credit extension to the private sector.

During the January-March period of 2018, the reserve requirement percentage was kept unchanged at 18.00%. Nevertheless, the required reserves rose because of an increase in the base upon which it is calculated. Furthermore, the Bank continued its policy to gradually reduce the amount of outstanding CDs. Consequently,

at the bi-weekly CD auctions, the Bank offered a lower amount of CDs than matured combined with a higher haircut on the interest rate offered, resulting in a lower amount of outstanding CDs. Following the upward adjustments in the federal funds rate and its impact on international interest rates and, hence, domestic money market rates, the Bank increased the pledging rate by 0.50 percentage point to 2.00% in March 2018.

Since becoming an autonomous country in the Kingdom, the governments of Curaçao and Sint Maarten have to adhere to the strict budgetary norms of the Kingdom Law of Financial Supervision of Curaçao and Sint Maarten. Consequently, it became much more challenging to prioritize the available means among the different policy intentions of the governments. Although budgetary norms are an important precondition for macroeconomic stability, especially in times of external shock-inflicted economic crises, these norms can act counterproductive and dampen prospects of economic recovery.

More flexibility should be introduced into the budgetary norms, making it possible to temporarily deviate from the norms in periods of economic crisis caused by external shocks that affect the public finances. For example, because of the impact of Hurricane Irma, the government of Sint Maarten is already allowed to have a deficit on its current budget in 2017 and 2018. However, the costs associated with the path to economic recovery after 2018 should also be taken into consideration. In the case of Curaçao, the economy has been trapped in a vicious circle of low economic growth, worsening public finances, and social decline largely due

to the spillover from the worsening crisis in main trading partner Venezuela. The implementation of structural reforms combined with temporary extra budget room for remedying measures could break this vicious circle and provide prospects on a resumption of growth.

If temporary deviations from the budgetary norms are allowed, then an important condition should be that the government must implement a realistic plan, including structural reforms, to comply again with the norms within an agreed time frame. That way, the fiscal framework as set by the Kingdom Law on Financial Supervision on Curaçao and Sint Maarten will not only enforce fiscal discipline but also support a quicker recovery from external shocks in these countries.

L.A. Matroos - Lasten

President a.i.

II INTERNATIONAL ECONOMIC DEVELOPMENTS

THE UNITED STATES

The U.S. economy grew by 2.8% in the first quarter of 2018, an acceleration compared to the 2.0% growth recorded in the first quarter of 2017 (see Table 1). The higher real GDP growth was attributable to an expansion in domestic demand, mitigated by a contraction in net foreign demand.

Domestic demand in the United States increased in the first quarter of 2018 because of growth in both private and public demand. The increase in private demand was due mainly to a robust growth in private investment, including equipment, fixed assets, structures, intellectual property products, and construction of nonresidential buildings. Higher consumer spending also contributed to the increase in private demand. Consumers spent more on durable goods, such as motor vehicles & parts, furnishings & household equipment, recreational goods & vehicles, and on services such as healthcare,

transportation, accommodations, and finance & insurance. In addition, public demand grew because of higher spending by the federal government, while spending by the state and local governments remained flat. Meanwhile, net foreign demand contributed negatively to real GDP growth because exports increased at a slower pace than imports.

The U.S. unemployment rate fell to 4.1%, attributable mainly to job gains in the professional & business services, education & health services, and manufacturing sectors, albeit mitigated by job losses in the retail trade sector. In addition, the number of long-term unemployed increased while the number of part-time workers remained unchanged.

Inflationary pressures eased slightly to 2.2% during the first quarter of 2018. The decline in inflation was a result of lower increases in energy costs, fuel prices, and medical care costs, mitigated by higher

Table 1 Economic indicators of the United States

	2017-I	2018-I
Real GDP (% change)	2.0	2.8
Consumer prices (%)	2.5	2.2
Unemployment rate (%)	4.7	4.1

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

gains in food prices and transportation costs.

Given the realized and expected labor market conditions and inflation, the Federal Reserve increased the target range of the federal funds rate from 1.25%-1.50% to 1.50%-1.75% percent in March 2018. The monetary policy stance remained accommodative, thereby supporting strong labor market conditions and a sustained return to the 2% inflation target over the medium term.

THE NETHERLANDS

The Dutch economy grew by 2.8% in the first quarter of 2018, a slight deceleration compared to the 3.0% growth in the first quarter of 2017 (see Table 2). Domestic demand was the driver of 2018's first quarter growth in the Netherlands, as net foreign demand remained negative.

Real GDP growth in the Netherlands during the first quarter of 2018 was driven by higher domestic demand, attributable to both private and public demand. Private investment growth was due to increased spending on houses, transport vehicles, computers & telecommunication equipment, and costs related to the transfer

of land. Private consumption increased as consumers spent more on beverages & tobacco products and durable goods such as transport equipment and parts. Consumers also spent more on transport & communication and recreational & cultural services. Public demand grew primarily because of an increase in public consumption, mitigated by a decline in public investments.

Meanwhile, net foreign demand contributed negatively to real output growth because the import of goods and services outpaced the increase in exports. The export growth reflected mainly more exports of machinery & electrical equipment, textiles, wearing apparel, & leather. Moreover, the higher import bill was caused primarily by more imports of transport equipment and mining & quarrying materials as well as transport and business services.

An analysis of the Dutch economy by sector reveals that the economic growth in the first quarter of 2018 was led particularly by more activities in the manufacturing, construction, trade, transportation, hospitality, rental & property management, and business services sectors, mitigated by fewer activities in the mining, financial, and agriculture sectors.

Table 2 Economic indicators of the Netherlands

	2017-I	2018-I
Real GDP (% change)	3.0	2.8
Consumer prices (%)	1.5	1.2
Unemployment rate* (%)	5.6	4.4

Source: Central Bureau of Statistics.
*International definition.

The inflation rate in the Netherlands eased to 1.2% in the first quarter of 2018, down from 1.5% in the first quarter of 2017. The lower inflationary pressures were caused mainly by lower prices of food & beverages, clothing & footwear, furnishings & household equipment, communication, and transport. The labor market improved further resulting in an unemployment rate of 4.4% in the first quarter of 2018, down from the 5.6% rate recorded in the first quarter of 2017.

VENEZUELA

According to the estimates of the International Monetary Fund (IMF) and Business Monitor International (BMI), the Venezuelan economy is expected to contract between 3.5% and 15.0% in 2018 (see Table 3), similar to 2017's estimated contraction of between 4.7% and 12.0%. Low oil prices, hyperinflation, and a poor business environment will keep the economy in recession.

The collapse of the bolívar will continue to be a major factor in Venezuela's economic depression. Its current political environment and fiscal and monetary

policies do not contribute to moving the economy out of recession as weak oil exports, hyperinflation, and the poor business environment continue to stifle economic growth. The ongoing political crisis and the government's hostile stance towards the private sector will keep private investment muted. Meanwhile, Venezuelan consumers are experiencing rapid purchasing power loss because of hyperinflationary pressures. Moreover, public demand is expected to contract in 2018 despite the political pressure to maintain the level of public spending by relying on seigniorage revenues to fund these expenditures. The steep decline in oil prices has halved government revenues from oil, historically the single largest source of government income, consequently limiting government consumption.

However, the contribution of net foreign demand to real GDP will be positive in 2018 because the lower imports will not exceed the comparatively steady (oil) exports. The lack of hard currency, high tariff rates, and government price controls will sharply reduce the volume of imports while exports will remain relatively steady.

Table 3 Economic indicators of Venezuela

	2017	2018
Real GDP (% change)	-4.7 to -12.0	-3.5 to -15.0
Consumer prices (%)	652.7 to 1,998.1	2,376.0 to 13,864.6
Unemployment rate (%)	20.6	26.4

Sources: International Monetary Fund; Business Monitor International; Economic Commission for Latin America and the Caribbean and International Labor Organization

Inflation is estimated to range between 2,376.0% and 13,864.6% in 2018 as a result of expansionary fiscal policy and the devaluation of the bolívar, which is fueling hyperinflation and eroding purchasing power.

Venezuela likely will remain in an economic crisis because of the continuing political instability, hyperinflation, and poor business environment. Because of these developments, the region is facing a humanitarian crisis, and the ensuing mass migration of Venezuelans into neighboring countries may further exacerbate Venezuela's economic crisis in the foreseeable future.

III GENERAL ECONOMIC DEVELOPMENTS

GENERAL ECONOMIC DEVELOPMENTS IN CURAÇAO

Real GDP in Curaçao dropped further by 1.6% in the first quarter of 2018, following a contraction of 1.2% in the first quarter of 2017. The poor economic performance during 2018's first quarter resulted from declines in domestic and net foreign demand. Meanwhile, the inflation rate rose

to 1.7% due mainly to higher electricity and fuel prices.

An analysis of GDP by expenditure (Table 4) shows that domestic and net foreign demand in Curaçao dropped during the first quarter of 2018 compared to 2017's first quarter. Domestic demand declined as both private and public spending dwindled. The decrease in private spending stemmed

Table 4 GDP by expenditure of Curaçao* (real percentage changes)

	2017-I	2018-I
Domestic expenditure, of which:	0.8	-1.2
Private sector	0.4	-0.8
Investment	0.3	-0.5
Consumption	0.1	-0.3
Government sector	0.4	-0.4
Investment	0.1	0.1
Consumption	0.3	-0.5
Changes in inventory	-0.2	0.1
Foreign net expenditure, of which:	-1.8	-0.5
Export of goods and services	1.3	-0.1
Import of goods and services	3.1	0.4
GDP	-1.2	-1.6

Source: Estimates by the Centrale Bank van Curaçao en Sint Maarten.
* Expenditure categories data are weighted contributors to GDP growth.

from less investment and consumption. The lack of new private investment projects following the completion of major projects such as the second megapier in 2017 resulted in lower investments during the first quarter of 2018. Private consumption declined as higher inflationary pressures limited the purchasing power of consumers. Public spending fell because of lower expenditures on wages & salaries and goods & services. Furthermore, government investments increased slightly, reflecting largely the final phase of construction of the new hospital.

In addition, net foreign demand dropped because, in real terms, exports declined while imports increased. The poor export performance was the result of lower foreign exchange earnings from refining, air transportation, and re-exports by the free-zone companies. Meanwhile, the import growth was driven by more travel expenses by residents, more goods sent abroad for processing, and increased merchandise imports by the wholesale & retail trade sector.

DOMESTIC PRODUCTION

The analysis of GDP by sector shows that the decline in private sector activities during the first quarter of 2018 was attributable mainly to the transport, storage, & communication, wholesale & retail trade, manufacturing, and construction sectors (see Table 5).

Real value added in the transport, storage & communication sector declined by 3.9% in the first quarter of 2018 as activities dropped at the airport and the harbor. The decline at the airport was due to lower

passenger traffic and a drop in the number of commercial landings. The downsizing of the domestic carrier InselAir because of operational and financial problems has been affecting activities at the airport since 2016. Meanwhile, the poor performance of the harbor was the result of a decline in the number of ships, notably freighters and tankers, piloted into the port of Curaçao. By contrast, container movements and the number of cruise ships increased during the first quarter of 2018.

The wholesale & retail trade sector recorded a slower decline (-1.3%) in the first quarter of 2018 compared to first quarter of 2017, as the drop in free-zone activities and domestic demand was moderated by an increase in tourism spending. The negative outcome in the free-zone reflected a decline in merchandise re-exports and number of visitors, particularly from Jamaica, the Dominican Republic, Trinidad, and Venezuela.

Meanwhile, the construction sector posted negative results (-2.5%) compared to the first quarter of 2017 because of a decline in private investments. Real output in the manufacturing sector declined also (-5.6%) in the first quarter of 2018 due primarily to lower refining activities at the Isla refinery. Since January 2018, the refinery has been performing below its capacity due mainly to insufficient steam delivery by the CRU plant.

In contrast, the restaurants & hotels, utilities, and financial intermediation sectors contributed positively to GDP. Following a contraction in the first quarter of 2017, the restaurants & hotels sector showed a turnaround and increased by 1.7% in the first quarter of 2018. All

Table 5 GDP by sector of Curaçao (real percentage changes)

	2017-I	2018-I
Agriculture, fishery, & mining	9.4	-5.2
Manufacturing	1.4	-5.6
Electricity, gas, & water	-0.4	0.6
Construction	3.8	-2.5
Wholesale & retail trade	-1.8	-1.3
Restaurants & hotels	-10.1	1.7
Transport, storage, & communication	-3.7	-3.9
Financial intermediation	0.4	0.1
Real estate, renting, & business activity	-1.9	-1.4
Other community, social, & personal services	-3.6	3.0
Private households	-1.5	-1.8
Total private sector	-1.1	-1.2
Public sector	0.0	-0.5
Taxes minus subsidies	-0.1	0.1
GDP	-1.2	-1.6

Source: Estimates by the Centrale Bank van Curaçao en Sint Maarten.

indicators in the sector recorded an increase, i.e., the number of stay-over visitors, the number of visitor nights, the occupancy rate, the number of cruise tourists, and the number of cruise calls. An analysis of the developments in stay-over tourism by source market illustrates that the North American and European markets grew, while the Caribbean and South American markets contracted. The North American market recorded a growth (7.0%) as the number of visitors from both

the United States and Canada increased. The positive development in the European market (6.2%) was driven largely by increases in the number of visitors from the Netherlands and Belgium, moderated by a decrease in the number of German visitors. In contrast, the South American market declined significantly (-25.3%) mostly because of fewer visitors from Venezuela and Surinam, mitigated by an increase in the number of visitors from Colombia and Brazil. The continued decline in the

number of Venezuelan tourists during the last few years is the result of the country's deep political and economic crisis. The Caribbean market also recorded a decline (-20.5%), as the airlift was reduced since the downsizing of the local carrier InselAir. The poor performance of the Caribbean market reflected fewer visitors from the Dominican Republic, Haiti, Jamaica, and Trinidad & Tobago, moderated by more visitors from Aruba.

In contrast, cruise tourism increased significantly as both the number of cruise calls and the number of cruise tourists rose (by 14.7% and 64.6%, respectively). The buoyant performance of cruise tourism was related to the opening of the second megapier and a change in itineraries by the cruise lines because of the devastation caused by hurricanes Irma and Maria in popular cruise destinations in the Caribbean. (See Table 11 in Appendix I for more details.)

Furthermore, real output in the utilities sector in the first quarter of 2018 increased

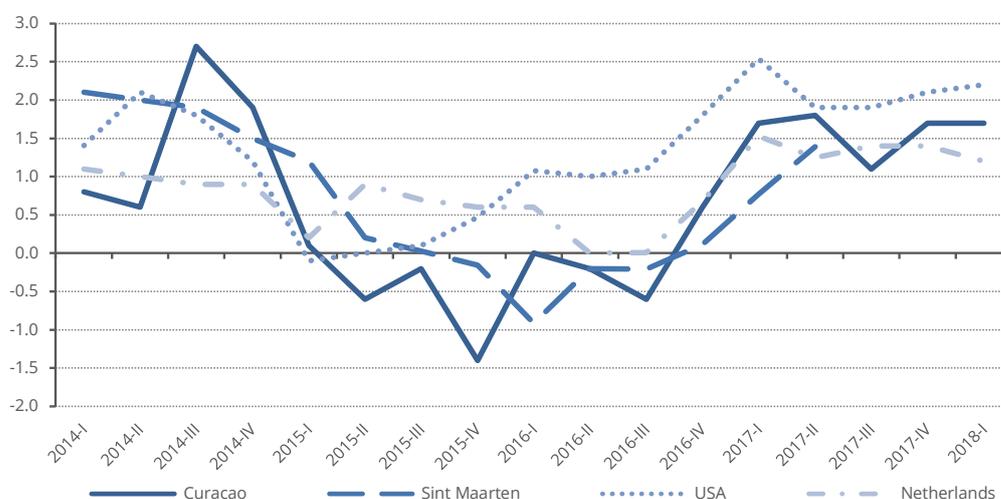
(0.6%), following a decline in the first quarter of 2017 because the production of both water and electricity rose.

The slight increase (0.1%) in the financial intermediation sector was the result of a growth in domestic financial services, moderated by a decrease in international financial services. Real value added in the domestic financial services industry grew because of an increase in the other fees & income mitigated by a drop in net interest income. Meanwhile, the decline in the international financial services sector reflects lower wages & salaries and other operational expenses.

INFLATIONARY PRESSURES

During the first quarter of 2018, consumer price inflation in Curaçao remained unchanged at 1.7% compared to the first quarter of 2017. The higher average consumer prices stemmed largely from increases in electricity and fuel prices (see Graph 1).

Graph 1 Developments in consumer prices (annual percentage change)



Source: Central Bureau of Statistics Curaçao, Department of Statistics Sint Maarten, Centraal Bureau voor de Statistiek Nederland, US Bureau of Economic Analysis and US Bureau of Labor Statistics.

An analysis of the developments in the consumer price inflation (CPI) components in Curaçao reveals that during the January-March period of 2018, average prices increased in most categories but were more pronounced in the categories “Food” (3.5%), “Housing” (2.2%), Health (2.2%), “Beverages & tobacco” (2.1%), and “Transport & communication” (2.0%). Following an increase in prices in 2017’s first quarter, prices fell in the categories “Clothing & footwear” (-4.1%) and “Housekeeping & furnishings” (-0.6%). The price decline in the “Housekeeping & furnishings” category was caused by lower prices of upholstery & furnishing fabrics, household appliances and tools, and furniture & lighting, mitigated by a slight increase in the prices of household articles. The price gain in the “Food” category resulted primarily from increases in the prices of potatoes, vegetables & fruit, outdoor consumption, dairy products, fats & cooking oils, and grain products, mitigated by a slight decline in the prices of sugar and chocolate products. Similar to the first quarter of 2017, the price rise in the category “Housing” in the first quarter of 2018 was due largely to gains in electricity and water prices. Furthermore, the rise in the “Health” category was due primarily to a 3% increase of medicine prices (both prescribed and nonprescribed). Meanwhile, the price rise in the category “Transport & communication” was driven mainly by an increase in fuel prices. (See Table 12 in Appendix I for more details.)

GENERAL ECONOMIC DEVELOPMENTS IN SINT MAARTEN

Sint Maarten’s real GDP contracted by 9.5% in the first quarter of 2018, a deep and dramatic acceleration of the 0.5% contraction seen during the first quarter of 2017 (see Table 6), largely because of the profound damage to the country’s production capacity and the consequent sharp downturn in tourism-related activities in the aftermath of Hurricane Irma. Predominantly, the deterioration in net foreign demand caused Sint Maarten’s real GDP contraction during the January–March period of 2018. According to the Bank’s estimates, inflationary pressures increased in the first quarter of 2018, primarily the result of higher prices for consumer goods and construction materials.³

The private sector’s contribution to real GDP was negative during the first quarter of 2018 in the wake of the considerable damage to Sint Maarten caused by Hurricane Irma in September 2017. Although private investments rose at the same pace as in the first quarter of 2017, mainly because of the reconstruction efforts, it was not enough to offset the contraction in private consumption. Private consumption dropped due to, among other things, higher unemployment after the closure of major hotels and other tourism-related businesses. By contrast, the public sector’s contribution to real GDP was positive. Public consumption

³ No Consumer Price Inflation (CPI) data for the first quarter of 2018 were available at the time of publication. Therefore, the Bank made an estimate of the development in Sint Maarten’s CPI.

Table 6 GDP by expenditure of Sint Maarten* (real percentage changes)

	2017-I	2018-I
Domestic expenditure, of which:	-0.6	-0.1
Private sector	-0.3	-2.2
Investment	0.1	0.1
Consumption	-0.4	-2.3
Government sector	-0.3	2.1
Investment	-0.3	0.2
Consumption	-0.0	1.9
Changes in inventory	-0.1	0.1
Foreign net expenditure, of which:	0.2	-9.5
Export of goods and services	-0.2	-11.7
Import of goods and services	-0.4	-2.2
GDP	-0.5	-9.5

Source: Estimates by the Centrale Bank van Curaçao en Sint Maarten.
 * Expenditure categories data are weighted contributors to GDP growth.

increased mainly as a result of a rise in outlays on goods & services for the clean-up and removal of hurricane debris. In addition, public investments also increased due to repair and reconstruction activities. But unlike the positive contribution of the public sector, net foreign demand contracted dramatically as exports collapsed while imports dropped at a slower pace. The severe decline in exports was attributable primarily to Hurricane Irma's destruction of hotels and other tourism-related infrastructure, such as the Princess Juliana International Airport. The import bill shrank mainly as a consequence of damage to storage facilities and lower tourism-related imports.

DOMESTIC PRODUCTION

When analyzed at the sectoral level, it shows that Sint Maarten's severe economic contraction during the first quarter of 2018 came from both the private and public sectors in the aftermath of the historic hurricane. The public sector put a drag on GDP growth, reflected by lower taxes on goods and services, in particular, lower turnover tax collected due to the complete or partial shutdown of many businesses.

With the exception of the construction and private households sectors, virtually every sector in Sint Maarten experienced either a negative turnaround or a faster

contraction during the first quarter of 2018 compared to 2017's first quarter as a direct consequence of Hurricane Irma (see Table 7).

Growth in the construction sector accelerated (5.0%) during the first quarter of 2018 compared to the first quarter of 2017, due mainly to wide-scale repair and reconstruction activities after the passing of the storm. In addition, activities in the private households sector turned around

positively (2.6%) as clean-up efforts continued apace.

Meanwhile, all other sectors recorded moderate to severe contractions as a result of the shock caused by Hurricane Irma. During the first quarter of 2018, the manufacturing sector experienced a negative turnaround (-5.0%) compared to the first quarter of 2017 because of the damage to marine infrastructure and because the efforts to remove many

Table 7 GDP by sector of Sint Maarten (real percentage changes)

	2017-I	2018-I
Agriculture, fishery, & mining	0.0	0.0
Manufacturing	1.4	-5.0
Electricity, gas, & water	0.5	-17.7
Construction	0.9	5.0
Wholesale & retail trade	-2.1	-12.6
Restaurants & hotels	-2.2	-23.4
Transport, storage, & communication	-0.5	-12.4
Financial intermediation	0.9	-9.6
Real estate, renting, & business activity	-0.5	-4.9
Other community, social, & personal services	-0.8	1.0
Private households	-1.4	2.6
Total private sector	-0.5	-7.1
Public sector	-0.1	0.0
Taxes minus subsidies	0.1	-2.5
GDP	-0.5	-9.5

Source: Estimates by the Centrale Bank van Curaçao en Sint Maarten.

sunken boats in the Simpson Bay Lagoon subsequently hampered normal yacht repair and marina-related activities.

Real value added in the utilities sector registered a sharp contraction during the first quarter of 2018 (-17.7%), a reversal compared to the mild growth of the first quarter of 2017. This development was in line with the dramatically reduced demand for electricity and water because of the shutdown of large consumers like hotels and supermarkets and damage to critical utilities infrastructure such as water tanks.

The contraction in activities in the wholesale & retail trade sector during the first quarter of 2018 (-12.6%) accelerated compared to the first quarter of 2017 due to declines in both domestic and tourism spending. The damage and subsequent shutdown of many retailers in Philipsburg, particularly on Front Street, also contributed to the sharp decline in the wholesale & retail trade sector.

Real value added in the restaurants & hotels sector fell significantly during the first quarter of 2018 (-23.4%), a severe worsening of the contraction seen in the first quarter of 2017, largely because of the near-complete cessation of tourism and tourism-related activities in the aftermath of the hurricane. Stay-over arrivals fell by unprecedented levels (-78.0%) mainly because of the full or partial shutdown of most major hotels and the critical damage the hurricane inflicted on the Princess Juliana International Airport, limiting severely its ability to process large volumes of passengers. All major source markets were thus adversely affected.

During the first quarter of 2018, stay-over

arrivals from North America, Sint Maarten's main tourism market, fell sharply (-87.5%) compared to the milder contraction during the first quarter of 2017. Visitors from the United States dropped off precipitously (-85.8%), along with those from Canada (-93.8%). Likewise, stay-over arrivals from Europe fell sharply (-59.7%) compared to the relatively mild contraction during the first quarter of 2017. Visitor numbers from France declined steeply (-61.2%), along with a similar decline in those from the Netherlands (-46.0%). Also, the number of visitors from South America fell drastically (-82.0%) as well as those from the Caribbean (-43.4%).

Similarly, cruise tourism experienced a sharp and accelerated decrease (-45.2%) during the first quarter of 2018 compared to the first quarter of 2017. This deterioration was caused by the rerouting of some cruise ships to other regional destinations unaffected by hurricanes and the general lack of cruise tourism-related attractions and activities in the aftermath of Hurricane Irma.

Activities in the transport, storage, & communication sector contracted at a faster pace during the first quarter of 2018 (-12.4%) than in the first quarter of 2017. The accelerated contraction was due mainly to the drastically reduced airport-related activities and the decline in harbor activities. Airport-related and air transportation activities decreased in line with the decrease in stay-over tourism. The harbor-related activities contracted in line with the sharp decline in the number of cruise ships, tankers, and freighters piloted into the harbor during the first quarter of 2018. By contrast, container movements increased, reflecting the

shipment of emergency relief supplies, military support, and other reconstruction-related items.

The contraction in the real estate, renting, & business activities sector also accelerated in the first quarter of 2018 (-4.9%) compared to the first quarter of 2017, as the sector suffered from the sharp and sudden drop in stay-over tourism.

Finally, a decrease in activities in the financial intermediation sector (-9.6%) also put a drag on Sint Maarten's real GDP growth in the first quarter of 2018, as interest income of the domestic commercial banks dropped at a faster pace than interest expenses, and transaction fees declined due to far fewer bank transactions.

PUBLIC FINANCES

PUBLIC FINANCES OF CURAÇAO

The first quarter of 2018 was characterized by a current budget surplus of NAf.88.3 million,⁴ an increase of NAf.37.4 million compared to the first quarter of 2017.⁵ Nevertheless, the surplus in the first quarter of 2018 was NAf.3.6 million lower than budgeted for that period, making it a more daunting task to compensate for the 2017 budget deficit in 2018. Furthermore, the debt-to-GDP ratio declined for the first time since the first quarter of 2017.

Curaçao's fiscal position improved

during the January-March period of 2018 compared to the first quarter of 2017, due to an increase of NAf.30.4 million in government revenues combined with a decline of NAf.7.0 million in expenditures. Revenues rose because of an increase in both nontax (NAf.22.2 million) and tax revenues (NAf.8.2 million). The increase in nontax revenues reflected a windfall in withholding tax grants related to the BRNC⁶ tax arrangement between the Netherlands and Curaçao. Furthermore, tax revenues went up due to an increase in the proceeds from taxes on goods & services, particularly sales tax, and income & profits. The rise in taxes on income & profits was driven by more wage tax earnings while profit tax revenues dropped. The increase in tax revenues was mitigated, however, by lower proceeds from excises and taxes on property. Meanwhile, expenditures dropped due mainly to fewer outlays on transfers & subsidies (NAf.13.2 million) and less spending on goods & services (NAf.3.2 million), mitigated by a rise in the category "other expenditures" (NAf.9.1 million). Expenditures on transfers & subsidies went down mainly as a result of fewer transfers to public companies and institutions, while spending on goods & services dropped largely because of lower spending on public housing. Meanwhile, "other expenditures" went up due in particular to additions to the buffer fund of the social security bank, SVB, to absorb deficits incurred in the Old-age pension (AOV), Widows, widowers & orphans pension (AWW), Sickness & accident insurance (ZV/OV), and the General

⁴ Source: *Financiële Management Rapportage of the government of Curaçao of March 2018.*

⁵ Source: *Financiële Management Rapportage of the government of Curaçao of March 2017.*

⁶ As part of the BRNC (Belastingregeling Nederland-Curaçao) tax arrangement, all withholding tax collected on dividends paid by Dutch companies to their parent companies in Curaçao is transferred to the government of Curaçao.

Table 8 Financing of the budget balance of Curaçao (in millions NAf.)

	2017-I	2018-I
Monetary financing	-11.3	7.2
Central bank	-1.9	8.6
Commercial banks	-9.4	-1.4
Nonmonetary financing	-39.6	-95.5
Government securities with nonbanks	-8.1	-8.2
Other	-31.5	-87.3
Cash balance	50.9	88.3

insurance for special medical expenses (AVBZ) funds. (See Tables 13A and 13B in Appendix I for a detailed overview.)

During the first quarter of 2018, the government of Curaçao used its budget surplus together with a withdrawal of NAf.8.6 million from its account at the central bank to lower its outstanding liabilities with nonbanks by NAf.95.5 million. The withdrawal from the central bank contributed to a monetary expansion of NAf.7.2 million (see Table 8).

Public sector debt of Curaçao

The total outstanding public debt of Curaçao dropped by NAf.22.6 million at the end of March 2018 compared to the end of December 2017, reaching NAf.2.783 billion. The public debt went down because both the foreign and domestic debt components dropped. The foreign debt component declined by NAf.13.8 million primarily because of an amortization of a sinking bond issued in January 2015 for the financing of the new hospital. Furthermore, the domestic debt dropped

by NAf.8.9 million, resulting from a decline in the liabilities towards the public pension fund, APC, mitigated by an increase in arrears towards the social security bank, SVB. Consequently, the debt-to-GDP ratio dropped slightly from 50.3% in December 2017 to 49.7% at the end of March 2018. (See Table 13C in Appendix I for a detailed overview.)

PUBLIC FINANCES OF SINT MAARTEN

Sint Maarten has yet to recover from the devastation caused by Hurricane Irma that affected both the economy and the public finances. Consequently, following a surplus of NAf.44.3 million in the first quarter of 2017,⁷ the government of Sint Maarten recorded a deficit of NAf.12.9 million in the first quarter of 2018.⁸ However, the realized deficit is lower than

⁷ Source: Voorlopige Financiële Concernrapportage/Uitvoeringsrapportage, eerste kwartaal 2018 of the government of Sint Maarten.

⁸ Source: Voorlopige Financiële Concernrapportage/Uitvoeringsrapportage, eerste kwartaal 2018 of the government of Sint Maarten.

initially projected because the government collected more taxes and spent less on wages & salaries. Due to the consequences of Hurricane Irma, the Kingdom Council of Ministers agreed on March 16, 2018,⁹ that the government of Sint Maarten is allowed a deficit on the current budget for the years 2017 and 2018. Nevertheless, the public finances remain precarious as Sint Maarten will likely need additional liquidity support to meet its financial obligations.

An analysis of the development in the current budget of the government of Sint Maarten shows that the NAf.57.2 million deterioration of the balance in the first quarter of 2018 was caused by an increase of NAf.14.5 million in government expenditures combined with a decline of NAf.42.7 million in revenues. Expenditures rose mainly due to increases in spending on goods & services, social security, and wages & salaries. The increase in the outlays on goods & services largely reflects

post-hurricane spending on the cleanup and repair of roads, a 2% deductible on the insurance payout for government buildings, and the collection of debris and garbage. Meanwhile, revenues declined mainly because of lower tax revenues (NAf.37.0 million) and less income from concessions and fees (NAf.2.2 million). Tax revenues shrank in every category during the first quarter of 2018 compared to the first quarter of 2017 with the declines in profit tax (NAf.12.7 million) and turnover tax (NAf.11.2 million) being the most pronounced. The income from concessions and fees dropped because the government received less telecom concession, and casino and lottery fees during the January–March period of 2018. (See Tables 14A and 14B in Appendix I for a detailed overview.)

In the March quarter of 2018, Sint Maarten's government covered its budget deficit mainly by drawing down its deposits

Table 9 Financing of the budget balance of Curaçao (in millions NAf.)

	2017-I	2018-I
Monetary financing	-9.0	-36.2
Central bank	6.4	-48.5
Commercial banks	-15.4	12.3
Nonmonetary financing	-35.3	49.1
Government securities with nonbanks	0.0	50.0
Other	-35.3	-0.9
Cash balance	44.3	-12.9

⁹ Based on article 25 of the Kingdom Law on Financial Supervision of Curaçao and Sint Maarten.

at the commercial banks (NAf.12.3 million). Moreover, the government received a NAf.50.0 million zero-interest loan for liquidity support from the Dutch State in March 2018. The proceeds of the loan were deposited on the government's account at the central bank, thereby explaining the monetary contraction of NAf.48.5 million. These developments led to a net monetary contraction of NAf.36.2 million in the first quarter of 2018 (see Table 9).

Public sector debt of Sint Maarten

The total outstanding debt of the government of Sint Maarten increased by NAf.50.0 million to NAf.657.3 million at the end of March 2018 compared to the end of 2017. The public debt rose solely because of an increase in the foreign debt component, since the domestic debt remained unchanged. Sint Maarten's foreign debt rose because of the zero-interest loan of NAf.50.0 million from the Dutch State for liquidity support following Hurricane Irma. Consequently, Sint Maarten's debt-to-GDP ratio rose from 32.6% in the fourth quarter of 2017 to 38.0% in the first quarter of 2018. (See Table 14C in Appendix I).

DEVELOPMENTS IN THE BALANCE OF PAYMENTS OF THE MONETARY UNION

During the first quarter of 2018, the deficit on the current account of the balance of payments of the monetary union widened by NAf.12.8 million compared to the first quarter of 2017. The higher deficit was the result of a decline in the net export of goods and services, moderated by an improvement in both the income and current transfers balances. Following a decline by NAf.45.9 million in the first quarter of 2017, gross official reserves of the central bank rose by NAf.4.9 million in the first quarter of 2018 because the external financing was more than sufficient to cover the current account deficit (see Table 10).

CURRENT ACCOUNT

During the January-March period of 2018, the net export of goods and services in the monetary union plummeted by NAf.343.0 million as a result of a sharp decline in exports (NAf.352.3 million) while the import bill shrank slightly (NAf.9.3 million). Below follows an analysis of the developments in the net export of goods and services in Curaçao and Sint Maarten¹⁰ during the first quarter of 2018.

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.

Table 10 Balance of payments summary (in millions NAf.)

	2016-I	2017-I	2018-I
Current account	-53.2	-181.7	-194.5
Capital transfers	0.8	0.0	3.3
External financing of the government	7.3	3.3	13.5
External financing of the private sector	88.2	147.1	175.2
Direct investment	42.9	136.8	-60.5
Loans and credits	-87.9	-43.6	-205.7
Portfolio investment	133.2	53.9	441.4
Change in gross reserves of the central bank*	-88.5	45.9	-4.9
Foreign exchange	-180.6	77.3	90.0
held at foreign central banks	-105.5	38.3	44.3
held at foreign commercial banks	-75.1	39.0	45.6
Other claims	92.1	-31.4	-94.8
Statistical discrepancies	45.4	-14.5	7.4

* A minus sign implies an increase.

Developments in the net export of goods and services in Curaçao

In Curaçao, the net export of goods and services dropped by NAf.38.7 million driven by higher imports (NAf.38.8 million), while exports remained practically unchanged (NAf.0.1). The higher imports reflected, among other things, higher tourism expenditures abroad by residents. In addition, more goods were sent abroad for processing in connection with the

construction of the new hospital,¹¹ and merchandise imports by the wholesale & retail trade sector rose. However, following the completion of the new windmill park in 2017, merchandise imports by the utilities sector shrank and, hence, dampened the overall growth in imports. Furthermore, despite an increase in

¹¹ A resident contractor sent goods abroad for processing. When the processing abroad is completed, these goods will be returned to the resident contractor and used in the construction of the new hospital.

average international oil prices, oil imports dropped. This decrease can be ascribed to a decline in the volume of oil products imported.

Exports remained practically unchanged as the increase in foreign exchange revenues from bunkering activities, tourism activities, international financial services, and other business services provided to abroad were offset by lower earnings from the re-exports by the free zone, transportation services, and refining activities. The increase in the foreign exchange receipts from bunkering activities was supported by higher average international fuel prices and more volume sold. Foreign exchange earnings from tourism activities rose, driven mainly by more receipts from cruise tourism in line with the sharp increase in the number of cruise visitors. Meanwhile, despite a growth in the number of stay-over visitors, foreign exchange receipts from stay-over tourism remained flat due mainly to a decline in the average length of stay of Dutch and Canadian tourists. The rise in foreign exchange revenues from business services reflected primarily more engineering, business management, and legal services provided to abroad during the March quarter of 2018. The lower earnings from transportation services provided to abroad were caused by a decline in air transportation services provided by the domestic carrier InselAir. Furthermore, revenues from activities in the port of Curacao, such as harbor and towing fees, went down in line with the decline in the number of ships piloted into the harbor. The downward development in the fee for refining activities was consistent with the drop in production activities by the Isla refinery during the first quarter of 2018.

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

In Sint Maarten, net exports of goods and services fell by NAf.308.2 million because of a steep decline in exports (NAf.354.5 million) moderated by lower imports (NAf.46.3 million). In the aftermath of Hurricane Irma, foreign exchange earnings from tourism activities plummeted as most of the tourism infrastructure in Sint Maarten was destroyed, resulting in the decline in exports during the first quarter of 2018. Foreign exchange receipts from both stay-over and cruise tourism fell considerably (-78% and -44%, respectively). In addition, foreign exchange earnings from activities that cater to the tourism industry, such as the real estate and renting sectors, dropped. Furthermore, foreign exchange revenues from the transportation sector went down reflecting lower cruise fees earned at the harbor and a decline in ground handling activities at the airport.

The decline in imports was the result of both lower oil and non-oil merchandise imports. In line with the lower economic activities in Sint Maarten, volumes of oil products purchased from abroad dropped during 2018's first quarter. Meanwhile, the decline in non-oil merchandise imports was caused mainly by lower imports by the wholesale & retail trade sector consistent with the sharp decline in tourism activities. By contrast, merchandise imports by the construction, hotels & restaurants, and real estate sectors rose reflecting reconstruction efforts following the hurricane.

Developments in the income balance and the current transfers balance

The income balance improved by NAf.12.8 million as a result of a decline in dividend and interest paid to foreign investors. However, less dividend and interest earned on foreign assets moderated the improvement of the income balance.

Meanwhile, net current transfers into the monetary union rose by NAf.334.3 million during the first quarter of 2018 compared to the first quarter of 2017. This marked increase was largely the result of the inflow of funds related to the claims of local insurance companies to pay their clients in Sint Maarten whose insured properties were damaged by Hurricane Irma in September 2017.

Overall, the deficit on the current account dropped by NAf.12.8 million reaching NAf.194.5 million in the first quarter of 2018. (See Table 15 in Appendix I for a detailed overview.)

FINANCIAL AND CAPITAL ACCOUNT

External financing into the monetary union increased by NAf.188.7 million during the first quarter of 2018. This increase was the result of a worsening of the portfolio investment balance, while the direct investment and loans & credits balances improved.

The portfolio investment balance deteriorated by NAf.441.4 million due largely to funds received from matured foreign debt securities held by institutional investors that were only partly reinvested abroad. These debt securities were issued

in the past by the entities of the former Netherlands Antilles and taken over by the Dutch State in October 2010 as part of the debt relief agreement. Furthermore, the net sale of foreign equity held in the portfolios of the institutional investors contributed to the worsening of the portfolio investment balance. In addition, the government of Sint Maarten issued a zero-interest bond loan in March 2018 that was purchased entirely by the Dutch State because of the standing subscription agreement.

Net direct investments into the monetary union dropped by NAf.60.5 million during the January -March period of 2018 largely as a result of a decline in liabilities of local companies, particularly in the construction, wholesale & retail trade, and insurance services sectors, towards their foreign direct investors. Furthermore, local companies in the wholesale & retail trade and insurance services sectors invested more in their subsidiaries in Aruba and Bonaire.

The loans & credits balance improved by NAf.205.7 million due to, among other things, an increase in foreign deposits of residents of Curacao and Sint Maarten. Furthermore, a decline in nonresidents' deposits in the monetary union contributed to the improvement of the loans & credits balance. Also, the net trade credits balance deteriorated as a result of repayments from broad on trade credits extended in the past by local merchants combined with an increase in trade credits received on imports.

As the external financing was more than sufficient to cover the current account deficit during the March quarter of 2018,

gross official reserves grew by NAf.4.9 million. (See Table 16 in Appendix I for a detailed overview.)

APPENDIX I

Table 11 Stay-over tourism development by island^{ab}

	Curaçao				Sint Maarten			
	2017-I		2018-I		2017-I		2018-I	
North America, of which:	-1.8	(-0.4)	7.0	(1.8)	-6.8	(-4.5)	-87.5	(-32.5)
U.S.A.	-4.3	(-0.7)	10.5	(1.7)	-7.8	(-4.0)	-85.8	(-28.5)
Europe, of which:	-3.6	(-1.8)	6.2	(3.3)	-2.3	(-0.6)	-59.7	(-29.1)
The Netherlands	2.3	(0.9)	8.4	(3.5)	6.0	(0.4)	-46.0	(-8.1)
South & Central America, of which:	-40.1	(-7.0)	-25.3	(-3.2)	7.9	(0.2)	-82.0	(-1.7)
Venezuela	-61.0	(-4.6)	-74.6	(-1.4)	-5.7	(0.0)	-70.4	(-0.3)
Colombia	1.6	(0.0)	40.7	(1.8)	-	-	-	-
Surinam	-20.6	(-0.3)	-8.8	(-0.1)	-	-	-	-
Caribbean, of which:	-18.3	(-1.0)	-20.5	(-0.9)	-4.5	(-0.1)	-43.4	(-2.9)
Dominican Republic	0.1	(0.0)	-56.5	(-0.2)	27.9	(0.2)	-47.8	(-0.9)
Total	-14.4	-	1.1	-	-5.6	-	-78.0	-

Source: Curaçao Tourist Board (CTB) and Sint Maarten Tourist Bureau.

^aPercentage change.

^bThe weighted growth rates are depicted between brackets.

Table 12 Development in the consumer price index of Curaçao^a

	2017-I	2017-II	2017-III	2017-IV	2018-I
Food	1.4	1.4	1.8	2.2	3.5
Beverages & tobacco	2.8	2.5	2.6	2.5	2.1
Clothing & footwear	0.9	-1.3	0.0	-2.4	-4.1
Housing	1.9	2.2	1.1	2.5	2.2
Housekeeping & furnishings	2.5	3.6	2.4	1.6	-0.6
Health	1.0	0.7	2.2	2.2	2.2
Transport & communication	2.1	2.4	0.3	2.0	2.0
Recreation & education	0.4	1.2	0.2	0.0	0.6
Other	1.2	1.1	1.0	1.2	0.8
General inflation rate	1.7	1.8	1.1	1.7	1.7

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

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

	2016-I	2017-I	2018-I
Revenues	603.4	634.9	665.3
Tax revenues, of which:	390.3	409.5	417.7
Taxes on income and profits	182.1	190.4	193.8
Taxes on property	12.1	14.6	13.0
Taxes on goods and services	157.4	163.8	168.4
Taxes on international trade and transactions	37.5	40.0	40.3
Nontax and other revenues	213.1	225.4	247.6
Expenditures	548.8	584.0	577.0
Wages and salaries	165.1	168.4	168.0
Goods and services	19.7	27.0	23.8
Transfers and subsidies	353.6	371.6	358.4
Interest payments	-1.8	0.7	1.4
Other expenditures	12.2	16.3	25.4
Budget balance	54.6	50.9	88.3

Source: The data for the first quarter of 2016, 2017, and 2018 were taken from the Financiële Management Rapportage of the government of Curaçao of March for each year.

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

	2016-I	2017-I	2018-I
Taxes on income and profits, of which:	182.1	190.4	193.8
Profit tax	67.9	78.6	69.0
Wage tax	115.6	108.7	119.4
Taxes on property, of which:	12.1	14.6	13.0
Land tax/OZB ¹	6.7	6.8	6.6
Property transfer tax	3.7	6.2	5.1
Taxes on goods and services, of which:	157.4	163.8	168.4
Sales tax	108.0	109.0	115.5
Excises, of which:	20.9	23.9	21.5
Excise on gasoline	12.5	12.5	11.9
Motor vehicle tax	25.4	24.9	27.7
Taxes on international trade and transactions, of which:	37.5	40.0	40.3
Import duties	37.4	39.9	40.2

¹ OZB (Onroerende Zaakbelasting) is a real estate tax that replaced the land tax as of January 1, 2014.

Source: The data for the first quarter of 2016, 2017, and 2018 were taken from the Financiële Management Rapportage of the government of Curaçao of March of each year.

Table 13C Total outstanding public debt¹ of Curaçao (in millions NAf.)

	2017-I	2017-II	2017-III	2017-IV	2018-I
Domestic debt	288.5	389.7	446.2	459.2	450.3
of which:					
Long-term securities	18.4	18.4	18.4	18.4	18.4
Short-term securities	-	-	-	-	-
APC	126.8	148.0	176.9	219.3	197.2
SVB	35.4	158.1	156.7	136.5	142.9
Foreign debt	2,290.4	2,286.3	2,286.3	2,346.3	2,332.5
Total debt	2,578.9	2,676.0	2,732.5	2,805.5	2,782.8
(% of GDP)	46.2%	47.9%	49.0%	50.3%	49.7%

¹ Debt figures do not comprise the entire collective sector.

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

	2016-I	2017-I	2018-I
Revenues	129.1	146.9	104.2
Tax revenues	110.0	123.3	86.3
Concessions and fees	10.9	11.0	8.8
Licenses	2.7	3.4	2.1
Other revenues	5.5	9.2	7.0
Expenditures	104.0	102.6	117.1
Wages and salaries	48.1	48.0	49.9
Goods and services	19.9	20.6	27.8
Subsidies	22.3	25.3	25.1
Social security	5.4	4.4	6.4
Interest payments	3.2	0.0	3.2
Other expenditures	5.1	4.3	4.7
Budget balance	25.1	44.3	-12.9

Sources: Voorlopige Financiële Concernrapportage/Uitvoeringsrapportage, eerste kwartaal 2016 and Voorlopige Financiële Concernrapportage/Uitvoeringsrapportage, eerste kwartaal 2018 of the government of Sint Maarten.

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

	2016-I	2017-I	2018-I
Taxes on income and profits, of which:	52.7	62.4	47.0
Profit tax	16.0	23.2	10.5
Wage tax	36.7	38.5	35.7
Taxes on property, of which:	3.3	4.8	2.8
Land tax	1.7	1.5	0.7
Property transfer tax	1.6	3.3	2.1
Taxes on goods and services, of which:	51.8	55.9	37.3
Turnover tax	39.2	40.8	29.6
Vehicle tax	8.7	9.2	5.0
Excise on gasoline	2.4	2.1	1.8

Sources: Voorlopige Financiële Concernrapportage/Uitvoeringsrapportage, eerste kwartaal 2016 and Voorlopige Financiële Concernrapportage/Uitvoeringsrapportage, eerste kwartaal 2018 of the government of Sint Maarten.

Table 14C Total outstanding public debt¹ of Sint Maarten (in millions NAf.)

	2017-I	2017-II	2017-III	2017-IV	2018-I
Domestic debt	87.9	87.9	87.9	87.4	87.4
of which:					
Long-term securities	0.1	0.1	0.1	0.1	0.1
Short-term securities	-	-	-	-	-
APC	20.0	20.0	20.0	20.0	20.0
SVB	50.8	50.8	50.8	50.8	50.8
Foreign debt	499.3	499.3	521.0	519.9	569.9
Total debt	587.1	587.1	608.8	607.3	657.3
(% of GDP)	31.5%	31.5%	32.7%	32.6%	38.0%

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

	2016-I	2017-I	2018-I
Trade balance	-826.4	-818.8	-742.1
Exports	225.2	290.5	318.6
Imports	1,051.6	1,109.3	1,060.7
Services balance	821.8	694.7	275.0
Receipts, of which:	1,036.8	1,239.5	859.1
Travel	856.0	776.1	467.9
Transportation	83.6	73.7	44.4
Other services, of which:	367.2	389.7	346.8
Int. fin & bus. services sector	63.3	63.6	80.7
Expenses, of which:	485.0	544.8	584.1
Travel	193.2	188.3	229.2
Transportation	61.3	72.9	67.7
Other services, of which:	230.4	283.5	287.2
Int. fin & bus. services sector	28.5	52.8	46.2
Income balance*	-24.3	-15.6	-2.8
Current transfers balance**	-24.3	-42.1	275.4
Current account balance	-53.2	-181.7	-194.5
Capital & financial account balance	7.8	196.3	187.1
Capital account balance	0.8	0.0	3.3
Financial account balance	6.9	196.3	183.8
Net errors & omissions	45.4	-14.5	7.4

* Labor and investment income.

** Public and private transfers.

Table 16 Breakdown of net changes in the financial account* (in millions NAf.)

	2016-I	2017-I	2018-I
Direct investment	42.9	136.8	-60.5
Abroad**	-11.3	-15.2	-15.0
In Curaçao and Sint Maarten***	54.1	152.0	-45.5
Portfolio investment**	133.2	53.9	441.4
Other investment, of which:	-123.0	-46.5	-255.2
Assets**	-261.8	28.4	-261.2
Liabilities***	138.9	-74.9	6.0
Net lending/borrowing, of which:	42.4	6.1	63.0
Assets**	28.8	-4.4	38.8
Liabilities***	13.6	10.5	24.2
Reserves****	-88.5	45.9	-4.9
Total assets**	-199.6	108.7	199.1
Total liabilities***	206.6	87.6	-15.3
Balance	6.9	196.3	183.8

* Transaction basis.

** A minus sign means an increase in assets.

*** A minus sign means a decrease in liabilities.

**** A minus sign means an increase in reserve.

IV MONETARY DEVELOPMENTS

MONETARY POLICY

During the first quarter of 2018, the Bank kept the reserve requirement, one of its main monetary policy instruments, unchanged at 18.00%. However, the adjusted domestic debt of the commercial banks, i.e., the base on which the reserve requirement is calculated,¹² increased. As a consequence, the amount of required reserves increased by NAf.26.5 million (2.1%) to NAf.1,313.3 million at the end of the March quarter of 2018. Meanwhile, the Bank continued its policy to gradually reduce the amount of outstanding certificates of deposit (CDs).¹³ Therefore, at the bi-weekly CD auctions, the Bank offered a lower amount of CDs than matured combined with a higher haircut on the interest rate offered, which resulted in a decline in outstanding CDs from NAf.160.8 million at the end of December 2017 to NAf.109.0 million at the end of March 2018.

Effective March 27, 2018, the Bank increased its official interest rate, the pledging rate, from 1.50% to 2.00%. This was the second increase since the historical low level of 1.00% that became effective on December 29, 2008. The

¹² The base amount is equal to the commercial banks' domestic liabilities excluding long-term deposits.

¹³ After an evaluation, the Bank concluded that the auctioning of CDs is not an effective instrument during a prolonged period of excess liquidity.

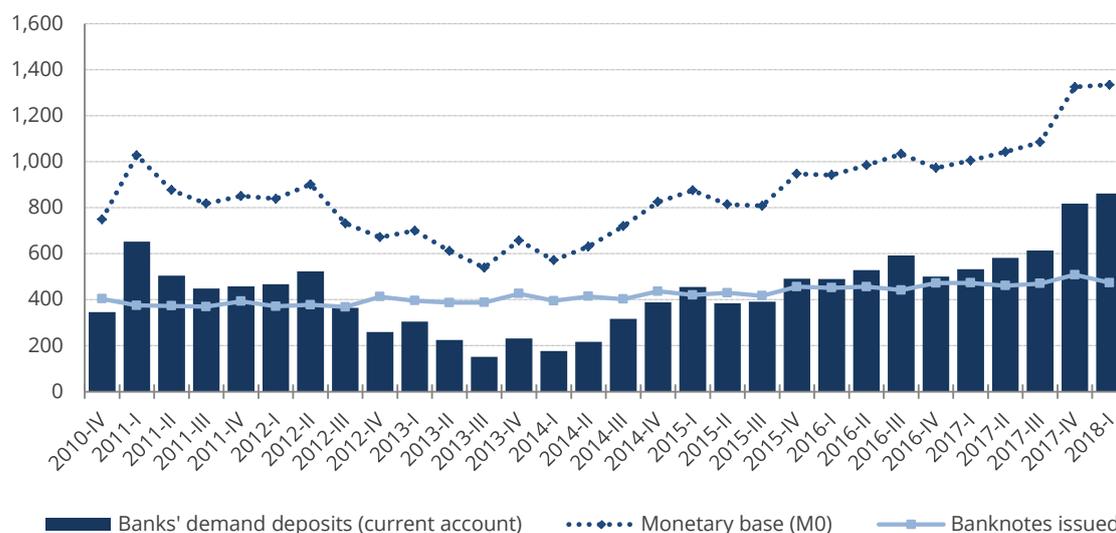
previous increase took place on March 20, 2017. The Bank took this step following the upward adjustments in the federal funds rate and its impact on international interest rates and, hence, domestic money market rates.

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. The monetary base expanded by NAf.9.1 million (0.7%) during the first quarter of 2018, after a surge of NAf.240.7 million (22.2%) in the fourth quarter of 2017. The first quarter increase in M0 was the result of a rise in the commercial banks' current account deposits with the Bank (NAf.43.8 million) mitigated by a drop in currency in circulation (NAf.34.8 million). The annual rate of growth of M0 dropped from 36.2% in December 2017 to 32.7% in March 2018 (see Graph 2 for the development in the monetary base).

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. As Table 17

Graph 2 Development in the monetary base (in millions NAf.)



in Appendix II shows, the growth in the monetary base during the first quarter of 2018 was caused by an increase in the Bank's assets moderated by an increase in its nonmonetary liabilities.

The increase in the Bank's assets was mainly the result of an expansion in the Bank's claims on deposit money banks, which reflected increased borrowing by commercial banks in need of short-term liquidity during the first quarter of 2018. Furthermore, an increase in the Bank's foreign assets resulting from the higher value of the Bank's gold stock contributed to the growth in the Bank's assets.

Meanwhile, the rise in the nonmonetary liabilities was driven by increases in government deposits and the Bank's capital and reserves. The increase in government deposits was due mainly to the proceeds from a zero-interest loan that the government of Sint Maarten obtained from the Dutch government for liquidity support. The increase in the Bank's capital and reserves stemmed from the higher value of the Bank's gold stock.

MONETARY AGGREGATES

Broad money (M2) expanded by 2.6% (NAf.223.9 million) during the March quarter of 2018 following a 1.5% growth (NAf.131.8 million) in the fourth quarter of 2017. The first quarter growth was caused by a 5.5% increase in the narrow money component (M1) moderated by a 0.3% decline in the near money component. M1 maintained its upward trend with the 2018 first quarter growth driven entirely by an increase in demand deposits (NAf.251.1 million or 6.4%) mitigated by a small decline in currency in circulation (NAf.12.8 million or -3.3%). The increase in demand deposits was attributable to both foreign currency deposits (NAf.128.8 million or 10.2%) and the Netherlands Antillean guilder deposits (NAf.122.3 million or 4.6%).

The decline in the near money component was caused by a drop in time deposits (NAf.114.1 million or 5.7%) mitigated by an increase in savings deposits (NAf.99.8 million or 4.2%). Meanwhile, the annual growth rate of M2 reached 7.9% at the end of March 2018, an acceleration compared

to the 6.9% growth at the end of December 2017. (See Table 18 in Appendix II for more details.)

FACTORS AFFECTING THE MONEY SUPPLY

The monetary expansion during the first quarter of 2018 was caused by an increase in net foreign assets (NAf.380.6 million or 7.6%) mitigated by a drop in net domestic assets (NAf.156.7 million or 4.2%). The increase in net foreign assets was attributable to a NAf.362.1 million (22.2%) expansion at the commercial banks complemented by a NAf.18.5 million (0.6%) growth at the Bank.

The drop in net domestic assets was mainly the result of a drop in miscellaneous balance sheet items not related to transactions (NAf.107.8 million). In addition, both net claims on the government and on the private sector declined. The drop in net claims on the government¹⁴ (NAf.29.3 million) was caused mostly by a rise in government deposits with the Bank due largely to the proceeds of the zero-interest loan from the Dutch State to Sint Maarten for liquidity support.

Following a decline of NAf.59.3 million during the fourth quarter of 2017, claims on the private sector dropped by NAf.19.6 million during the first quarter of 2018. The first quarter drop was caused by sluggish demand for credit causing the loan component to contract by NAf.27.4 million (-0.4%). The contraction in the loan component resulted from declines in

¹⁴ Net claims on the government are negative because government deposits are larger than government loans.

outstanding mortgages (-0.7%), business loans (-0.4%), and the “other” loan category¹⁵ (-7.7%) mitigated by an increase in consumer loans (0.9%).

In Curaçao, total loans dropped by 0.5%, the result of contractions in consumer loans (-0.7%), business loans (-0.6%), and the “other” loan category (-4.1%). Outstanding mortgages remained unchanged (0.0%) during the March quarter of 2018. A similar development is noticed in Sint Maarten as the amount of private sector loans outstanding declined by 0.4%. This decline resulted from contractions in outstanding mortgages (-2.3%) and the “other” loan category (-39.2%) moderated by increases in consumer loans (7.4%) and business loans (0.3%). (see Table 19 in Appendix II for a detailed overview.)

DEVELOPMENTS IN DOMESTIC INTEREST RATES

The Bank absorbs part of the excess liquidity of the commercial banks through, among other things, the auctioning of certificates of deposit (CDs). When setting the rates offered on CDs during the bi-weekly auctions, the Bank takes into account developments in the international financial markets. The Fed kept the federal funds rate at 1.25%-1.50% during the first two months of 2018, but raised it by 25 basis points to 1.50%-1.75% on March 21, 2018. As a consequence, the benchmark one-month US dollar *libor* rate¹⁶ increased by 32 basis points at the end of March

¹⁵ The other loan category contains loans that cannot be classified under consumer loans, business loans, or mortgages, e.g., credit card loans.

¹⁶ London interbank offered rate, the main gauge of interbank lending.

2018 compared to December 2017. The CD rates offered by the Bank are based on the US dollar libid rates,¹⁷ which are derived from the US dollar libor rates. As the Bank applied an increasing haircut on the libid rate, the maximum rate offered on a 1-month CD at the end of the March quarter of 2018 (0.55%) actually declined compared to that offered at the end of the fourth quarter of 2017 (0.70%).

Due to the standing subscription by the Dutch State Treasury Agency (DSTA),¹⁸ which subscribes on local bond issues at rates prevailing in the Netherlands, changes in the yields on government paper are determined by the developments in the Dutch capital market. The average effective yield on 5-year government bonds increased from -0.12% in the December quarter of 2017 to -0.07% in the first quarter of 2018. Similarly, the indicative yield on 12-month treasury bills increased from -0.70% at the end of December 2017 to -0.66% at the end of March 2018. The negative nominal interest rates as a consequence of the large-scale asset buying programs by the central banks still prevails in Europe while the Fed reduced its purchase programs in 2017 and increased the Fed funds rate three times in 2017 and one more time towards the end of March 2018. (see Table 20 in Appendix II for a detailed overview.)

¹⁷ London interbank bid rate.

¹⁸ As part of the debt relief program, the Dutch government agreed to subscribe on all new loans issued by the governments of Curaçao and Sint Maarten at rates prevailing in the Dutch capital market during the period that financial supervision by the Kingdom is in effect.

APPENDIX II

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

	2017-IV	2018-I	Change	
			Amount	Percentage
Currency in circulation	507.9	473.2	-34.8	-6.8
Banks' demand deposits (current account)	817.0	860.9	43.8	5.4
Monetary base (M0)	1,325.0	1,334.0	9.1	0.7
Central bank assets				
Foreign assets (including gold)	3,616.0	3,641.5	25.5	0.7
Claims on deposit money banks	137.0	193.7	56.7	41.4
Claims on the government	-	-	-	-
Claims on government agencies and institutions	346.4	340.4	-6.0	-1.7
Fixed and other assets	146.2	137.3	-8.9	-6.1
less:				
Central bank remaining liabilities				
Private sector deposits, of which:	1,496.8	1,488.1	-8.7	-0.6
Time deposits commercial banks	1,447.6	1,422.3	-25.3	-1.7
Government deposits	192.4	232.4	40.0	20.8
Foreign liabilities	260.1	262.2	2.1	0.8
Other liabilities	63.2	60.2	-2.9	-4.7
Capital and reserves	908.2	936.0	27.8	3.1

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

	2017-III		2017-IV		2018-I	
	Amount	%	Amount	%	Amount	%
Money supply (M2)	266.5	3.2	131.8	1.5	223.9	2.6
Money (M1)	339.9	8.9	136.0	3.3	238.3	5.5
Coins & notes with the public	-2.7	-0.7	9.9	2.6	-12.8	-3.3
Total demand deposits, of which:	342.6	9.9	126.1	3.3	251.1	6.4
Netherlands Antillean guilders	243.8	10.2	26.3	1.0	122.3	4.6
Foreign currency	98.8	9.3	99.8	8.5	128.8	10.2
Near money	-73.4	-1.6	-4.1	-0.1	-14.3	-0.3
Time deposits	-71.9	-3.2	-140.4	-6.5	-114.1	-5.7
Savings	-1.5	-0.1	136.3	6.1	99.8	4.2

Table 19 Monetary survey (in millions NAf.)

	2017-I	2017-II	2017-III	2017-IV	2018-I
Money supply (M2)	8,261.9	8,290.7	8,557.2	8,689.0	8,912.9
Money (M1)	3,796.7	3,838.6	4,178.5	4,314.4	4,552.7
Coins & notes with the public	370.2	381.2	378.5	388.4	375.6
Total demand deposits, of which:	3,426.6	3,457.4	3,800.0	3,926.0	4,177.1
Netherlands Antillean guilders	2,347.4	2,389.0	2,632.8	2,659.1	2,781.4
Foreign currency	1,079.2	1,068.4	1,167.2	1,266.9	1,395.8
Near money	4,465.2	4,452.1	4,378.7	4,374.6	4,360.2
Time deposits	2,285.1	2,229.3	2,157.4	2,016.9	1,902.8
Savings	2,180.0	2,222.8	2,221.3	2,357.6	2,457.4
Factors affecting the money supply					
Net domestic assets	3,634.8	3,645.6	3,745.7	3,699.2	3,542.5
Government sector	-690.8	-633.2	-582.8	-597.4	-626.7
Former central government	-74.4	-11.4	-11.5	-11.6	-12.0
Curaçao	-475.2	-400.4	-396.9	-474.2	-467.0
Sint Maarten	-141.2	-221.4	-174.4	-111.7	-147.8
Private sector	6,681.8	6,650.7	6,742.4	6,683.1	6,663.5
Memorandum items	-2,356.2	-2,371.9	-2,413.9	-2,386.4	-2,494.2
Net foreign assets	4,627.1	4,645.1	4,811.5	4,989.7	5,370.4
Central bank	3,102.1	3,096.7	3,148.8	3,360.7	3,379.2
Commercial banks	1,525.0	1,548.4	1,662.7	1,629.0	1,991.1

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

	2017-I	2017-II	2017-III	2017-IV	2018-I
Government loans by commercial banks	11.1	13.1	21.4	22.0	13.8
Government of Curaçao	0.6	1.6	5.6	7.3	0.1
Government of Sint Maarten	10.5	11.5	15.8	14.7	13.7
Private sector loans Curaçao	4,538.5	4,529.3	4,628.1	4,617.5	4,596.6
Mortgages	1,859.2	1,863.5	1,866.6	1,846.0	1,845.7
Consumer loans	875.1	876.2	893.2	900.4	894.3
Business loans	1,685.5	1,681.7	1,765.2	1,772.7	1,762.2
Other	118.8	107.9	103.1	98.4	94.4
Private sector loans Sint Maarten	1,514.9	1,526.1	1,524.9	1,502.8	1,496.2
Mortgages	895.6	898.3	893.5	884.2	864.2
Consumer loans	225.6	224.7	226.0	223.9	240.6
Business loans	385.8	395.5	397.8	383.6	384.7
Other	7.8	7.7	7.6	11.1	6.8

Table 20 Developments in domestic interest rates (in percentage)

	2017-I	2017-II	2017-III	2017-IV	2018-I
Central bank					
Pledging rate	1.5	1.5	1.5	1.5	2.0
Maximum CD rate (1 month)	0.54	0.50	0.52	0.70	0.55
Government securities					
Government bonds (5-year effective yield)	-0.27	-0.13	-0.21	-0.12	-0.07
Treasury bills (12-month)	-0.70	-0.62	-0.69	-0.70	-0.66

