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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

Global economic growth softened during the third quarter of 2018 reflecting tightened financial conditions and a slowdown in trade activity and industrial production. As for the main trading partners of the monetary union, growth picked up speed in the United States but slowed in the Netherlands. Meanwhile, Venezuela remained in a deep recession.

Amidst these developments, negative growth continued in the monetary union of Curaçao and Sint Maarten during the third quarter of 2018. Real GDP fell in Curaçao by 1.7%, while Sint Maarten recorded a 4.7% contraction. Furthermore, inflation accelerated in both countries. In Curaçao, inflation edged up to 3.1% in the third quarter of 2018 from 1.1% in the third quarter of 2017 driven mainly by higher international oil prices. Sint Maarten's inflation also is estimated to have risen as a result of higher prices of consumer goods, construction materials, and insurance premiums.¹

The contraction in Curaçao's real GDP during the September quarter of 2018 was ascribable to declines in both net foreign demand and domestic demand. Net foreign demand went down because

the increase in the import of goods & services offset the growth in exports. Lower private and public spending both caused the decline in domestic demand. Private spending dropped as a result of lower investments and consumption. Meanwhile, the negative contribution of the public sector to GDP reflected a decline in public investments, moderated by higher consumption.

A review by sector shows that the manufacturing, construction, wholesale & retail trade, and transport, storage, & communication sectors were primarily accountable for the contraction in private sector activities in Curaçao. Real output dropped significantly in the manufacturing sector due to a lower production level of the Isla refinery, owing mainly to the limited supply of crude oil from Venezuela and disruptions in the steam delivery by the CRU plant. Construction activities shrank as several large projects were completed or reached their final stages. Meanwhile, the decline in the wholesale & retail trade sector was caused by lower domestic demand and fewer free-zone activities, moderated by increased tourism spending. The transport, storage, & communication sector reported a contraction because activities dropped at both the airport and the harbor. The negative outcome at the airport reflected a decline in the number of passengers handled and the number of commercial landings. Meanwhile, the poor

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

performance of the harbor was the result of a marked decline in the number of tankers that visited the port of Willemstad related primarily to the lower production at the refinery. By contrast, the number of cruise ships and freighters piloted into the port and the number of container movements rose. The utilities sector also recorded a slight contraction on the back of lower electricity production, mitigated by an increase in water production.

By contrast, activities in the restaurants & hotels and financial intermediation sectors developed positively in the third quarter of 2018. The buoyant performance of the restaurants & hotels sector was the result of a strong increase in the number of stay-over and cruise tourists. Also, the number of visitor nights and the occupancy rate rose. Meanwhile, growth in the financial intermediation sector stemmed from the international financial services sector only, which recorded higher wages & salaries and other operational expenses. However, domestic financial services recorded zero-growth as net interest income remained unchanged.

One year after Hurricane Irma, Sint Maarten still struggled with the massive destruction caused to the country's production capacity, in particular its tourism infrastructure. Consequently, Sint Maarten's real GDP contracted further during the third quarter of 2018, albeit less pronounced than in the third quarter of 2017, due to a decline in net foreign demand caused by an increase in the import of goods & services combined with a drop in exports. By contrast, domestic demand rose, supported by more private investments only, particularly reconstruction efforts by the business

sector. Meanwhile, private and public consumption went down with the former reflecting primarily the worsened labor market situation. Meanwhile, public investment remained unchanged due mainly to delays in the approval of funding and execution of reconstruction projects.

On the production side, Sint Maarten's economic contraction was attributable to the restaurants & hotels, wholesale & retail trade, real estate, renting, & business activities, and transport, storage, & communication sectors. Real value added dropped considerably in the restaurants & hotels sector due to a sharp decline in stay-over tourism across all source markets. This decline was the result of Hurricane Irma's destruction of the tourism infrastructure including major hotels and the terminal building of the Princess Juliana International Airport. By contrast, cruise tourism recorded robust growth reflecting some loyal cruise lines returning to Sint Maarten, the quick and effective recovery of the harbor, and the reopening of cruise tourism-related attractions and activities. Activities in the wholesale & retail trade sector contracted because of the decline in private consumption and lower tourism spending. The sharp decline in stay-over tourism also caused the contraction in the real estate, renting, & business activities sector, in particular the timeshare sector. Meanwhile, the negative outcome in the transport, storage, & communication sector was the result of a decline in airport-related activities moderated by more activities in the harbor. The decline in airport-related activities was consistent with the development in stay-over tourism, while the growth in the harbor reflected more cruise calls and increased container movements.

By contrast, real value added rose in the construction, financial intermediation, utilities, and manufacturing sectors. Growth in the construction sector stemmed from ongoing repair and reconstruction activities, while the expansion in the financial intermediation sector reflected an increase in net interest income and fees & other income earned by the banking sector. Output went up in the utilities sector driven by an increase in water production moderated by lower electricity production. Meanwhile, the gain in the manufacturing sector was the result of more repair activities on yachts, consistent with the return of yachts following the restoration of the marinas and related businesses in and around the Simpson Bay Lagoon.

During the third quarter of 2018, fiscal developments in Curaçao were characterized by a widening of the deficit on the current budget compared to the third quarter of 2017, as the decline in revenues exceeded the drop in expenditures. The developments were partially related to the exclusion of the income and expenditures of the social security bank, SVB, from the current budget. Consequently, nontax revenues fell, while transfers & subsidies and “other expenditures” dropped. Furthermore, a decline in tax proceeds in all categories contributed to the drop in government revenues as the compliance efforts of the government did not achieve the expected results.

Meanwhile, the government of Sint Maarten posted a lower deficit on the current budget of the third quarter of 2018 compared to the third quarter of 2017. The improvement in the fiscal situation was the result of an increase in government

revenues, moderated by higher expenditures. The rise in government revenues reflected largely the resumption of government operations, including tax collection, after most of these came to a halt following Hurricane Irma in September 2017. As a result, tax revenues and income from concessions & fees rose. Meanwhile, the growth in expenditures was driven by more spending on social security, interest expenses, and goods & services.

According to preliminary data and estimates of the Bank, the current account deficit on the balance of payments rose during the third quarter of 2018 compared to the third quarter of 2017 as a result of a deterioration in the net export of goods & services and the income balance. The decline in net exports was ascribable to an increase in the imports of goods and services while exports dropped. Imports rose in both Curaçao and Sint Maarten. The higher import bill in Curaçao can be explained by an increase in both oil and non-oil merchandise imports, while merchandise imports in Sint Maarten rose mainly because of reconstruction activities. The contraction in exports was caused by, among other things, lower earnings from stay-over tourism in Sint Maarten in the wake of Hurricane Irma and a decline in the refining fee earned by the Isla refinery in Curaçao because of lower production. Furthermore, foreign exchange receipts dropped from transportation activities at both the airport and the harbor of Curacao, and re-exports by the free-zone sector declined further. By contrast, foreign exchange earnings from tourism, ship repair, and bunkering activities in Curacao rose. The income balance worsened during the July-September period of 2018 due to a decline in net

interest income from abroad. By contrast, the current transfers balance improved significantly. This outcome was the result of 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. Gross official reserves dropped considerably during the third quarter of 2018 related primarily to an increase in net portfolio investments abroad reflecting more appetite of institutional investors to invest abroad given the gradually rising international interest rates and improving securities markets.

The monetary aggregates contracted during the third quarter of 2018 as both net foreign assets and net domestic assets dropped. Net foreign assets dropped because of a worsening of the central bank's net foreign position, mitigated by an increase in the net foreign holdings of the commercial banks. The net foreign position of the central bank worsened largely because of the net purchase of foreign exchange by the commercial banks at the Bank to meet the increased demand of investments in foreign securities. A drop in memorandum balance sheet items was the main cause of the decline in net domestic assets. By contrast, net claims on the government sector and the private sector rose. The increase in the claims on the government sector reflected a drawdown of deposits of the governments of Curaçao and Sint Maarten with the banking system. Meanwhile, the claims on the private sector rose as a result of primarily an increase in private credit extension in both Curaçao and Sint Maarten.

The Bank kept the reserve requirement

unchanged at 18.00% during the July–September period of 2018. Nevertheless, the required reserves dropped due to a decline in the base on which they are calculated. Furthermore, the Bank continued its policy of gradually reducing the amount of outstanding CDs. Consequently, at the bi-weekly auctions, the Bank offered a lower amount of CDs than matured combined with a higher haircut on the interest rate offered, leading to a lower amount of outstanding CDs.

Since 2010, the gross official reserves of the Bank and our import coverage have been exceptionally high. However, the development in gross official reserves and the import coverage did not reflect our economic reality, but rather the impact of the debt relief program. As part of the dismantling of the Netherlands Antilles, the Dutch State took over approximately 70% of the outstanding debt of the entities of the former Netherlands Antilles, the bulk of which was held in the portfolios of local private and institutional investors. Consequently, the Dutch State paid off principal and interest according to the maturity schedule of the outstanding debt resulting in considerable inflows on the portfolio investment balance of the balance of payments. However, only part of the received interest and principal payments was reinvested abroad because of the very low international interest rates and the instability in the securities markets. These circumstances led to a strong increase in gross official reserves between 2010 and 2017 and an import coverage well above the norm of 3 months of goods and services imports.

However, in June 2018, the Dutch government paid off the final bond loan of

the former Netherlands Antilles taken over under the debt relief program, thereby ending the associated inflow of foreign exchange.² Meanwhile, since international interest rates are gradually increasing and the securities markets have improved, appetite has increased to invest more funds abroad to realize higher returns than can be realized domestically. This development explains to a great extent the drop in gross official reserves in 2018. With an import coverage still in excess of 3 months, concern is not warranted at this moment. Nevertheless, the Bank closely monitors developments in the official reserves and will take timely measures if the decline appears structural. At the same time, the governments of Curaçao and Sint Maarten must take actions to strengthen our export sectors and attract foreign direct investments to improve the foreign exchange-generating capacity of the economies. The recently launched growth strategy of Curaçao and the various projects aimed at the recovery and increased resiliency of the economy of Sint Maarten are welcome steps in this direction.

L.A. Matroos - Lasten

President a.i.

² The Dutch government is still paying off an annuity loan in the portfolios of the public pension funds of Curaçao (APC) and Sint Maarten (APS). The last payment will take place at the end of 2030.

II INTERNATIONAL ECONOMIC DEVELOPMENTS

THE UNITED STATES

During the third quarter of 2018, the U.S. economy continued to expand by 3.0% in real terms. This expansion is an acceleration compared to the 2.3% growth recorded in the third quarter of 2017 (see Table 1). The economic expansion during the September quarter of 2018 was attributable to the growth of domestic demand mitigated by a decline in net foreign demand.

The growth of domestic demand stemmed from both the private and public sectors. During the three-month period ending September 2018, U.S. households spent more on goods, especially durable goods such as motor vehicles & parts and nondurable goods such as clothing and footwear, and on services such as restaurants & accommodations. Additionally, private investment spending increased as a result of a rise in both nonresidential and residential fixed investment. The growth in private

consumption and investment was triggered by a tax cut package implemented to boost annual growth to a sustained 3.0%. Meanwhile, the increase in public demand reflected higher spending by the federal, state, and local governments. Contrary to domestic demand, net foreign demand contributed negatively to economic growth, as the increase in imports surpassed the rise in exports during the third quarter of 2018 compared to the third quarter of 2017.

The U.S. unemployment rate declined to 3.8%, mainly attributable to tightening labor market conditions. More job gains occurred particularly in the mining, construction, manufacturing, real estate, and professional & business services sectors in the third quarter of 2018 compared to the third quarter of 2017.

Meanwhile, consumer price inflation rose from 2.0% during the third quarter of 2017 to 2.6% during the third quarter of 2018. The increased inflationary pressures were

Table 1 Economic indicators of the United States

	2017-III	2018-III
Real GDP (% change)	2.3	3.0
Consumer prices (%)	2.0	2.6
Unemployment rate (%)	4.3	3.8

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

due to higher energy and food prices, and rises in shelter, medical care, and transportation costs.

Against this background, the Federal Reserve increased the target range for the federal funds rate to between 2.00% and 2.25% in September 2018. The Fed's monetary policy remained accommodative, aiming to support a further economic expansion, strong labor market conditions, and a return of the inflation rate to its target level of 2.0% over the medium term.

THE NETHERLANDS

The Dutch economy grew by 2.4% during the third quarter of 2018, a slowdown compared to the third quarter of 2017 (see Table 2). Dutch GDP went up as a result of an increase in domestic demand mitigated by a decline in net foreign demand.

Both private and public demand rose during the third quarter of 2018. The increase in private demand was supported by higher consumption, particularly more spending on passenger cars and electrical appliances. Also, consumers spent more on services such as transport, communication, and hotels & restaurants.

Additionally, private investment increased due to higher investments in fixed assets, such as commercial buildings, residential property, infrastructure, and machinery. The increase in private investment was triggered by higher producer confidence. Meanwhile, public demand rose solely due to higher public consumption, as public investment remained practically unchanged in the third quarter of 2018 compared to the third quarter of 2017.

By contrast, net foreign demand dropped because of an increase in imports, moderated by higher exports. The higher import bill was largely the result of more imports of fuels & lubricants, chemicals, and machinery & transport equipment, while exports increased largely because of more exports of machinery & transport equipment.

An analysis of the Dutch economy by sector shows that economic growth in the third quarter of 2018 was driven mainly by more activities in the construction, business services, manufacturing, and transportation sectors, moderated by fewer activities in the mining and quarrying sectors.

The inflation rate in the Netherlands went up 60 basis points to 2.0% in the third

Table 2 Economic indicators of the Netherlands

	2017-III	2018-III
Real GDP (% change)	2.8	2.4
Consumer prices (%)	1.4	2.0
Unemployment rate* (%)	4.7	3.8

Source: Central Bureau of Statistics.
*International definition.

quarter of 2018 compared to 2017's third quarter, due primarily to higher prices of housing, water and energy, transport, and food & beverages.

In line with the positive economic conditions in the Netherlands, the unemployment rate dropped considerably to 3.8% in the third quarter of 2018, because more than 260,000 jobs were created compared to the July-September period of 2017.

VENEZUELA

Venezuela's economic situation continued to deteriorate during 2018 and was characterized by the world's highest inflation rate and a drastic decline in crude oil prices, causing constraints on the country's main source of hard currency. According to estimates of the International Monetary Fund (IMF) and Business Monitor International (BMI), the country's economy is expected to contract between 9.1% and 18.0% in 2018, against a negative growth of between 14.0% and 10.6% in 2017 (see Table 3).

The economy of Venezuela has been in a freefall for several years with hyperinflation, power cuts, and shortages of food and medicine driving millions of

citizens out of the country. The economic contraction estimated by the IMF and BMI for the first nine months of 2018 was caused by hampering private consumption and subdued investment combined with a drastic decline in government consumption. However, net foreign demand contributed positively to Venezuela's economy. Private consumption declined due to the rapid erosion of purchasing power caused by the hyperinflation combined with a lag in income growth. The government tried to mitigate these negative effects by controlling retail prices of basic goods, but this effort worsened the situation by creating shortages of goods and long queues. Even though the production of oil, which generates more than 90% of government revenues, is falling drastically, the government focused on maintaining domestic spending, fueling world-leading inflation rates. According to estimates, private investment shrank as a result of lower investor confidence and currency restrictions that impede the import of capital goods.

Furthermore, net foreign demand contributed positively to GDP in real terms, as the lack of hard currency and government restrictions sharply reduced the volume of imports. Meanwhile, exports dropped due to a steady decline

Table 3 Economic indicators of Venezuela

	2017	2018
Real GDP (% change)	-14.0 to -10.6	-18.0 to -9.1
Consumer prices (%)	1,087 to 1,243	105,810 to 1,370,000
Unemployment rate (%)	27.1	34.3

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

in oil production but the drop was less pronounced than the decline in imports.

According to estimates by the IMF and BMI, the inflation rate is expected to exceed 1,000,000% in 2018, fueled by the domestic shortages of goods and the decline in confidence in the bolívar. Moreover, Venezuela's unemployment rate is projected to remain in double-digit territory, reaching 34.3% in 2018.³

³ *International Monetary Fund, World Economic Outlook: Too Slow for Too Long. Washington, July 2018.*

III GENERAL ECONOMIC DEVELOPMENTS

GENERAL ECONOMIC DEVELOPMENTS IN CURAÇAO

Following the 1.4% decrease in the third quarter of 2017, Curaçao's economy contracted further by 1.7% in the third quarter of 2018 because of a decline in both domestic and net foreign demand (see Table 4). In addition, Curaçao's consumer price inflation rose to 3.1%, caused mainly

by the steep increase in international oil prices.

On the expenditure side of GDP, the economic contraction recorded in the third quarter of 2018 was the result of declines in public, private, and net foreign demand. Public demand dwindled because of lower investments as the construction of the new hospital is in its completion

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

	2017-III	2018-III
Domestic expenditure, of which:	-1.5	-0.9
Private sector	-0.6	-0.7
Investment	0.2	-0.3
Consumption	-0.8	-0.4
Government sector	-0.8	-0.2
Investment	-0.3	-0.4
Consumption	-0.5	0.2
Changes in inventory	-0.2	-0.1
Foreign net expenditure, of which:	0.3	-0.9
Export of goods and services	-5.2	1.8
Import of goods and services	-5.5	2.7
GDP	-1.4	-1.7

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

phase and maintenance work on the road infrastructure dropped. However, increased government consumption mitigated the decline in public demand reflecting more disbursements on both wages & salaries and goods & services. Meanwhile, decreases in both private consumption and investment resulted in the decline in private demand. Consumer spending shrank as higher inflationary pressures limited the purchasing power of consumers. The contraction in private investment stemmed from fewer construction activities in the third quarter of 2018. In addition, net foreign demand put a drag on economic growth because imports grew at a faster pace than exports.

DOMESTIC PRODUCTION

An analysis by sector shows that the decline in private sector activities was caused mainly by poor performances of the construction, manufacturing, transport, storage, & communication, utilities, and wholesale & retail trade sectors (see Table 5).

Real output in the construction sector saw a negative turnaround (-2.1%) in the third quarter of 2018, following an expansion in the third quarter of 2017, as several large construction projects were finished or reached their final stages. Real value added in the manufacturing sector dropped significantly by 8.4% as the oil production at the Isla refinery dropped. The continued decline in oil production is related to the ongoing operational difficulties facing the refinery, including the supply of crude oil from Venezuela and limited steam delivery by the CRU plant.

Activities in the transport, storage, & communication sector shrank by 1.5% in the third quarter of 2018 as both harbor and airport-related activities declined. The harbor performed poorly due to a marked decline in the number of tankers piloted into the port of Curaçao. This decline was related largely to the drop in production activities at the refinery. However, more cruise ships, freighters, and container movements moderated the contraction at the harbor. Meanwhile, airport-related activities dropped, reflecting a decline in total passenger traffic and number of commercial landings.

The utilities sector contracted in the third quarter of 2018 (-0.8%) following an increase in the third quarter of 2017. This negative turnaround was caused by less electricity production moderated by more water production.

Similar to the third quarter of 2017, the wholesale & retail trade sector performed poorly in the in the July-September period of 2018 (-1.5%) as both free-zone activities and consumer spending decreased while tourism spending increased.

In contrast, both the financial intermediation and restaurants & hotels sectors contributed positively to GDP during the third quarter of 2018. Following a contraction in the third quarter of 2017, real value added in the financial intermediation sector improved by 0.3% in the third quarter of 2018 because of an increase in international financial services reflected by higher wages & salaries and other operational expenses. Meanwhile, growth remained muted in the domestic financial services sector because net interest income remained unchanged.

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

	2017-III	2018-III
Agriculture, fishery, & mining	-1.8	-1.0
Manufacturing	-3.9	-8.4
Electricity, gas, & water	1.7	-0.8
Construction	3.5	-2.1
Wholesale & retail trade	-2.0	-1.5
Restaurants & hotels	-8.9	10.1
Transport, storage, & communication	-1.0	-1.5
Financial intermediation	-1.0	0.3
Real estate, renting, & business activity	-0.6	0.3
Other community, social, & personal services	0.2	-3.1
Private households	-0.5	-1.6
Total private sector	-1.0	-0.7
Public sector	-0.4	-0.2
Taxes minus subsidies	0.0	-0.8
GDP	-1.4	-1.7

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

Real value added in the restaurants & hotels sector expanded by 10.1% in 2018's third quarter as a result of increases in the number of stay-over visitors (14.4%), the number of visitor nights (8.2%), and the number of cruise tourists (33.5%). The increase in the number of stay-over visitors was in line with the increase in the occupancy rate (12.1%), while the growth in the number of cruise tourists was consistent with the increase in the number of cruise calls (5.0%). The growth in the

number of stay-over visitors was caused by increases in all key markets. The North American market recorded significant growth due to a double-digit increase in the number of visitors from the United States (31.9%) in the third quarter of 2018. The expansion of the number of seats on American carriers contributed to this result. Additional flights were scheduled from Miami, Charlotte, and New York by American Airlines and JetBlue. The higher number of visitors from Brazil, Colombia,

and Surinam was the main contributor to the expansion of the South American market. Furthermore, the European market grew mostly because of more Dutch and Belgian visitors, mitigated by fewer German visitors. The increase in the number of Belgian visitors can be ascribed to the direct flights from Brussels to Curaçao during July-September executed by TUI. Meanwhile, the Caribbean market increased mainly as a result of more visitors from Haiti and Aruba, mitigated by fewer visitors from Trinidad & Tobago and the Dominican Republic. (See Table 11A in Appendix I for more details on stay-over tourism development.)

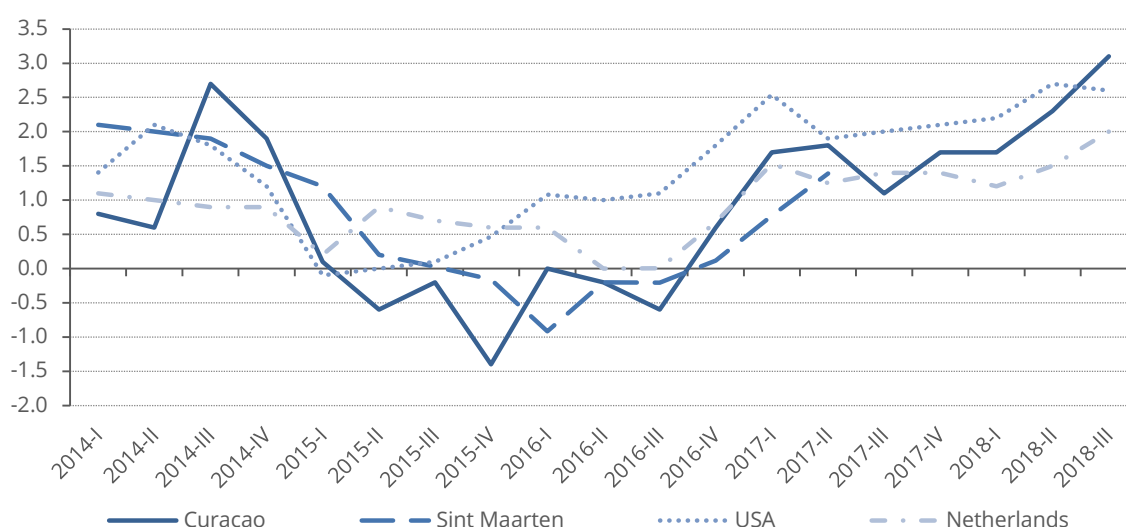
INFLATIONARY PRESSURES

Third quarter inflation in Curaçao accelerated to 3.1% in 2018 from 2.3% in the third quarter of 2017. The higher inflation was caused primarily by the sharp increase in international oil prices and was in line with the inflation development in

the United States (see Graph 1).

An analysis of the developments in the Consumer Price Inflation (CPI) components in Curaçao reveals that in the quarter ending September 2018, average prices rose in all categories except for "Clothing & footwear" (-1.2%). The increases in the categories "Housing" (4.9%), "Food" (4.7%), "Transport & communication" (3.5%), and "Beverages & tobacco" (2.0%) comprised the largest contributions to the inflation in the third quarter of 2018. The price gain in the "Food" category resulted primarily from increases in the prices of vegetables & fruits, fats and cooking oils, dairy products, meat and fish, outdoor consumption, and grain products, mitigated by a decline in the prices of sugar and chocolate. In the "Housing" category, average prices rose at a faster pace than in the third quarter of 2017, due largely to higher electricity and water tariffs and an increase in the costs of rent. Furthermore, prices in the "Transport & communication" category accelerated mainly because of an increase

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.

in fuel prices. (See Table 12 in Appendix I for more details.)

GENERAL ECONOMIC DEVELOPMENTS IN SINT MAARTEN

Sint Maarten's real GDP shrank by 4.7% during the third quarter of 2018, a deceleration compared to the 8.4% contraction experienced in the third quarter of 2017 (see Table 6). The significant decline in economic activity

was due largely to the shutdown of much of the country's production capacity for repair and reconstruction since the passing of Hurricane Irma. The drop in net foreign demand was the main factor in Sint Maarten's real GDP contraction during the July–September period of 2018. According to the Bank's estimates, inflationary pressures increased during the third quarter of 2018, primarily the result of a rise in prices of consumer goods, construction materials, and insurance premiums.⁴

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

	2017-III	2018-III
Domestic expenditure, of which:	-3.6	0.5
Private sector	-3.9	0.6
Investment	-1.9	3.6
Consumption	-2.0	-3.0
Government sector	0.3	-0.1
Investment	-0.1	0.0
Consumption	0.4	-0.1
Changes in inventory	-0.9	0.5
Foreign net expenditure, of which:	-3.9	-5.7
Export of goods and services	-8.9	-2.5
Import of goods and services	-5.0	3.2
GDP	-8.4	-4.7

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

* Expenditure categories data are weighted contributors to GDP growth.

⁴ Consumer Price Inflation (CPI) data for the third quarter of 2018 was unavailable at the time of publication. Therefore, the Bank made an estimate of the development in Sint Maarten's CPI.

The private sector contributed positively to real GDP during the third quarter of 2018, mainly because of reconstruction activities in the wake of Hurricane Irma. Private investment turned around positively compared to the third quarter of 2017, and this turnaround was significant enough to offset the contraction in private consumption. Private consumption dropped due to, among other things, higher unemployment after the closure of several major hotels and other tourism-related businesses. By contrast, the public sector's contribution to real GDP was negative. Public consumption decreased because, in real terms, the slight rise in wages & salaries was offset by the decrease in outlays on goods & services. Public investments remained muted as reconstruction projects waited approval for funding. The contraction in net foreign demand accelerated because of a fall in exports combined with higher imports. The decline in exports was attributable mainly to Hurricane Irma's destruction of much of Sint Maarten's tourism-related infrastructure, including its hotels and the Princess Juliana International Airport. The import bill increased mainly as a result of higher construction-related imports.

DOMESTIC PRODUCTION

When viewed at the sectoral level, analysis shows that Sint Maarten's economic contraction during the third quarter of 2018 came solely from the private sector as the country still reeled from the aftermath of Irma's devastation of its productive capacity and tourism-related infrastructure. However, the public sector contributed positively to GDP growth as reflected by higher taxes on goods and

services, particularly the turnover tax, collected due to the resumption of certain business and government activities.

The manufacturing, construction, utilities, and financial intermediation sectors either demonstrated accelerated growth or a positive turnaround during the third quarter of 2018 compared to 2017's third quarter. Meanwhile, the wholesale & retail trade, restaurants & hotels, transport, storage, & communication, and real estate, renting, & business activities sectors in Sint Maarten experienced further contractions in the fallout after Hurricane Irma (see Table 7).

Activities in the manufacturing sector grew slightly (0.5%) during the third quarter of 2018, a positive turnaround from the contraction experienced in the third quarter of 2017. This improvement stemmed largely from increased yacht repair activities, in line with the return of yachts to restored marinas and marine-related businesses in and around the Simpson Bay Lagoon. In addition, activities in the construction sector accelerated during the third quarter of 2018 (6.0%) as repair and reconstruction efforts continued apace across the country.

Real value added in the utilities sector displayed a positive turnaround in the third quarter of 2018 (1.3%) as the increase in water production was sufficient to offset the contraction in electricity production. This development was consistent with the reduced demand for electricity from large consumers such as hotels, while increased water demand was in line with the restoration of previously damaged water tanks and the production of concrete in the construction process.

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

	2017-III	2018-III
Agriculture, fishery, & mining	0.0	0.0
Manufacturing	-3.1	0.5
Electricity, gas, & water	-9.4	1.3
Construction	2.1	6.0
Wholesale & retail trade	-10.0	-17.6
Restaurants & hotels	-16.3	-15.4
Transport, storage, & communication	-10.7	-6.2
Financial intermediation	-3.6	1.9
Real estate, renting, & business activity	-4.6	-11.4
Other community, social, & personal services	-0.6	-5.7
Private households	-2.2	-3.3
Total private sector	-5.4	-6.6
Public sector	-0.4	0.2
Taxes minus subsidies	-2.6	1.7
GDP	-8.4	-4.7

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

In addition, activities in the financial intermediation sector increased during the third quarter of 2018 (1.9%), as interest income of the domestic commercial banks rose at a faster pace than interest expenses, in line with the growth in mortgages and business loans. Furthermore, fees & other income increased as more bank transactions were completed.

Meanwhile, the declines in both domestic and tourism spending caused a worsening

of the contraction in the wholesale & retail trade sector during the third quarter of 2018 (-17.6%) compared to the third quarter of 2017. The severe drop in stay-over tourism and the prolonged shutdown of several hotels also accounted for the sharp decline in the wholesale & retail trade sector, since several wholesalers are suppliers to Sint Maarten's hotel industry.

Real value added in the restaurants & hotels sector dropped sharply during the

third quarter of 2018 (-15.4%), roughly the same rate as in the third quarter of 2017. Stay-over arrivals fell precipitously (-51.4%). This drop resulted mainly because of the full or partial shutdown of most major hotels and the prolonged closure of the Princess Juliana International Airport's main terminal building, crippling its ability to process large volumes of passengers. Arrival numbers from all major tourism-source markets were thus negatively affected.

The number of stay-over arrivals from North America, Sint Maarten's main tourism market, plunged during the third quarter of 2018 (-66.7%), a deepening of the contraction seen during the third quarter of 2017. The number of visitors from the United States dropped significantly (-66.2%), along with those from Canada (-69.6%). Likewise, stay-over arrivals from Europe fell sharply (-29.3%), an acceleration of the contraction seen during the third quarter of 2017. Visitor numbers from France declined steeply (-31.8%), followed by a somewhat less severe drop in those from the Netherlands (-13.0%). Also, the number of visitors from South America fell drastically (-54.9%) as well as those from the Caribbean (-24.0%). (See Table 11B in Appendix I for more details).

By contrast, cruise tourism demonstrated remarkable resilience and recovery in the aftermath of Irma. Cruise tourism arrivals during the third quarter of 2018 grew robustly (49.9%), a dramatic improvement compared to the contraction in the third quarter of 2017. This growth was caused by, among other things, the return of several loyal cruise lines to Sint Maarten, the continued efforts of the management

of the A C Wathey Cruise & Cargo Facilities to promote the destination, and the partial return of certain cruise tourism-related attractions and activities.

Activities in the transport, storage, & communication sector also contracted during the third quarter of 2018 (-6.2%), although to a lesser extent than in the third quarter of 2017. The contraction was due mainly to the drastically reduced airport-related activities, as the small increase in harbor activities was insufficient to offset the negative developments at the airport. Airport-related and air transportation activities decreased in line with the sharp decrease in stay-over tourism. The harbor-related activities increased in line with the higher number of cruise ships piloted into the harbor during the third quarter of 2018. In addition, container movements increased, reflecting mainly the shipment of reconstruction-related items and consumer goods.

Finally, activities in the real estate, renting, & business activities sector contracted further in the third quarter of 2018 (-11.4%), as the sector, including the timeshare industry, suffered from the sharp drop in stay-over tourism.

PUBLIC FINANCES

PUBLIC FINANCES OF CURAÇAO

The fiscal challenges for the government of Curaçao continued during the third quarter of 2018 with the current budget deficit widening by NAf.21.8 million to NAf.47.1 million compared to the

third quarter of 2017.⁵ Additionally, the government recorded an increase in its debt-to-GDP ratio from 50.2% at the end of June 2018 to 51.2% at the end of September 2018. Consequently, the Board of Financial Supervision, CFT, expressed its concerns and urged the government to work on structural solutions to ensure the sustainability of the public finances.

The fiscal deterioration in the third quarter of 2018 was caused by a fall in revenues that surpassed the decline in expenditures. Revenues fell by NAf.223.5 million due mainly to a decline of NAf.188.5 million in nontax revenues combined with a drop of NAf.35.0 million in tax proceeds. The drop in nontax revenues reflected that the government no longer included the income of the social security bank, SVB, in its current budget of the third quarter of

2018.⁶ Meanwhile, tax revenues dropped because the compliance efforts of the government did not achieve the expected results. Tax revenues dropped in every tax category but was most pronounced in the categories “taxes on goods & services” and “taxes on property”. Furthermore, expenditures went down by NAf.201.7 million due to fewer outlays on transfers & subsidies and less spending in the category “other expenditures”, reflecting that the government no longer included the expenditures of the social security bank, SVB, in its budget. (See Tables 13A and 13B in Appendix I for a detailed overview.)

When the income and expenditures of the SVB also are excluded from the 2017 budget, the government of Curaçao recorded a deficit of NAf.19.0 million on its current budget in the third quarter of 2017 compared to NAf.25.3 million when the

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

	2017-III	2018-III
Monetary financing	4.8	35.6
Central bank	-9.9	3.6
Commercial banks	14.7	32.0
Nonmonetary financing	20.5	11.5
Government securities with nonbanks	0.0	0.0
Other	20.5	11.5
Cash balance	-25.3	-47.1

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

⁶ Based on advice from the government's auditor (SOAB), the government of Curaçao decided to no longer consolidate the expenditures and income of the social security bank, SVB, in the government's current budget. Therefore, as of May 2018, SVB income and expenditures are no longer included in the budget.

SVB is included. Hence, the deterioration of the current budget deficit was more pronounced without the SVB in both years.

The government of Curaçao covered its 2018 third quarter current budget deficit by withdrawing NAf.35.6 million from its accounts at the central bank and the commercial banks and accumulating NAf.11.5 million in arrears towards nonbanks (see Table 8).

Public sector debt of Curaçao

The total outstanding public debt of Curaçao increased by NAf.57.6 million during the third quarter of 2018, reaching NAf.2.874 billion. This increase reflects solely the NAf.57.9 million rise in the domestic debt component because the foreign debt component remained practically unchanged. The domestic debt rose as a result of more arrears towards the public pension fund, APC, and the social security bank, SVB. Consequently, the debt-to-GDP ratio went up from 50.2% in June 2018 to 51.2% in September 2018. (See Table 13C in Appendix I for a detailed overview.)

PUBLIC FINANCES OF SINT MAARTEN

On March 16, 2018, based on Article 25 of the Kingdom Act financial supervision (Rft), the Kingdom Council of Ministers decided that in the aftermath of Hurricane Irma, the government of Sint Maarten could deviate from the norm that the current budget be balanced in 2017 and 2018. The deficits incurred during these years will be compensated in subsequent years. In the third quarter of 2018, the government recorded a deficit of NAf.28.0

million,⁷ NAf.29.0 million lower than initially budgeted, due mainly to higher tax proceeds combined with lower personnel costs.

An analysis of the government expenses and revenues shows that 2018's third quarter deficit was NAf.37.2 million lower than the deficit recorded in the third quarter of 2017. This improvement was the result of higher revenues that surpassed the rise in expenditures. After much of the government operations, including tax collection, came to a halt following Hurricane Irma in September 2017, government revenues returned to pre-hurricane levels in the third quarter of 2018. Government revenues increased by NAf.40.3 million, driven by higher tax revenues and more income from concessions and fees. Taxes increased by NAf.23.5 million on the back of higher proceeds from wage tax, turnover tax, and excises on gasoline. Meanwhile, income from concessions and fees went up by NAf.2.7 million because the government received more concession fees, especially from the public utility company, GEBE. Expenditures rose by NAf.3.1 million due to higher spending on social security, more interest expenses, and an increase in the outlays on goods & services. The increased spending on social security was related to the 35% increase in the Sint Maarten Medical Center (SMMC) tariffs.⁸ Spending

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

⁸ Pending a ministerial decree regarding the increase of the SMMC tariffs, the government included this adjustment in the social security expenditures of the current budget as it will be charged higher tariffs by the Social & Health Insurance Agency (SZV) for the health care costs of (retired) government workers.

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

	2017-III	2018-III
Monetary financing	47.0	21.8
Central bank	20.5	28.4
Commercial banks	26.5	-6.6
Nonmonetary financing	18.2	6.2
Government securities with nonbanks	21.7	0.0
Other	-3.5	6.2
Cash balance	-65.2	-28.0

on goods & services rose primarily because of more costs related to the cleanup and reconstruction following Hurricane Irma. However, a decline in subsidies moderated the rise in expenditures. (See Tables 14A and 14B in Appendix I for a detailed overview.)

The cash deficit in the third quarter of 2018 was financed primarily by a NAf.28.4 million drawdown of deposits at the central bank (see Table 9).

Public sector debt of Sint Maarten

Sint Maarten's total outstanding debt grew by NAf.95.1 million to NAf.740.0 million during the third quarter of 2018. This increase was due entirely to the higher domestic debt attributable particularly to the accumulation of arrears towards the Social & Health Insurances Agency, SZV, (NAf.51.8 million) and the public pension fund, APS, (NAf.23.0 million). Consequently, Sint Maarten's debt-to-GDP ratio increased considerably from 36.6% at the end of June 2018 to 42.0% at the end of September 2018. (See Table 14C in Appendix I).

DEVELOPMENTS IN THE BALANCE OF PAYMENTS OF THE MONETARY UNION

Based on preliminary data and the Bank's estimates,⁹ the deficit on the current account of the balance of payments of the monetary union widened by NAf.181.3 million to NAf.441.6 million in the third quarter of 2018 compared to the third quarter of 2017. The higher current account deficit stemmed from a sharp decline in the net export of goods and services and a worsening of the income balance. However, the current transfers balance improved.

Meanwhile, gross official reserves shrank considerably by NAf.455.5 million reflecting mainly a growth in net portfolio investments abroad and financing the current account deficit. The growth in

portfolio investments can be explained by the increased appetite of local institutional investors to invest funds abroad because of the gradually increasing international interest rates and improving securities markets (see Table 10).

Developments in the net export of goods and services in Curaçao

In Curaçao, the net export of goods and services is estimated to have dropped because imports increased at a faster pace than exports. Both oil and non-oil merchandise imports contributed to the increase in the import bill. The rise in oil imports was consistent with the higher average international oil prices in the July-September period of 2018. Furthermore, oil products were purchased at higher costs from other suppliers besides the Isla refinery.¹⁰ Non-oil merchandise imports

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

	2016-III	2017-III	2018-III
Current account	-407.4	-260.3	-441.6*
Change in gross reserves of the central bank**	39.9	100.2	455.5
Foreign exchange	157.8	70.8	415.7
held at foreign central banks	39.4	198.2	29.1
held at foreign commercial banks	118.5	-127.4	386.6
Other claims	-117.9	29.4	39.8

* Estimate of CBCS.

** A minus sign implies an increase.

⁹ When all data on the balance of payments are available, a full analysis of the current, capital, and financial accounts will be made available as a supplement to this Quarterly Bulletin on the website of the CBCS.

¹⁰ Because of fewer oil products produced by the Isla refinery, Curoil N.V. purchased more oil products from suppliers abroad.

grew as a result of an increase in tourism spending in the third quarter of 2018 compared to the third quarter of 2017. In addition, residents' tourism expenditures abroad increased.

The growth in exports was driven mainly by more foreign exchange revenues from bunkering activities in line with the higher international oil prices. Additionally, foreign exchange income from tourism activities rose because both stay-over and cruise tourism performed well. Foreign exchange revenues from ship-repair activities and merchandise exports by the wholesale & retail trade sector grew as well. However, the Isla refinery earned a lower refining fee due to fewer refining activities in the third quarter of 2018. Moreover, the decline in foreign exchange earnings in the transportation sector resulted from fewer activities at both the harbor and the airport. Finally, the re-exports by the free-zone companies contracted mainly because of the unstable situation in Venezuela.

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

In Sint Maarten, the net export of goods and services is estimated to have dropped as exports decreased while imports increased. Exports decreased particularly because of lower foreign exchange revenues from tourism activities in the wake of Hurricane Irma. The increase in imports resulted mainly from more merchandise imports related to the reconstruction activities in Sint Maarten.

Developments in the income balance and the current transfers balance

The income balance deteriorated by an estimated NAf.7.5 million in 2018's third quarter compared to 2017's third quarter because the decrease in interest income earned on foreign investments exceeded the drop in interest income paid to foreign investors. Yet, net current transfers into the monetary union increased by an estimated NAf.116.3 million in the September quarter of 2018. This increase was related to the inflow of funds concerning the claims of local insurance companies to pay their clients in Sint Maarten whose insured properties were damaged by Hurricane Irma in September 2017.



APPENDIX I

Table 11A Stay-over tourism development in Curaçao^{ab}

	Curaçao			
	2017-III		2018-III	
North America, of which:	-2.2	(-0.4)	27.6	(5.1)
U.S.A.	-3.7	(-0.5)	31.9	(5.3)
Europe, of which:	-2.9	(-1.5)	5.2	(2.5)
The Netherlands	-1.8	(-0.8)	9.2	(3.7)
South & Central America, of which:	-34.7	(-6.9)	13.8	(2.7)
Venezuela	-55.4	(-3.9)	-22.8	(-1.1)
Colombia	-1.2	(0.0)	51.8	(2.7)
Surinam	-16.4	(-0.4)	19.7	(0.6)
Caribbean, of which:	-30.1	(-2.1)	7.4	(0.5)
Dominican Republic	1.2	(0.0)	-35.4	(-0.2)
Total	-15.3	-	14.4	-

Source: Curaçao Tourist Board (CTB).

^aPercentage change.

^bThe weighted growth rates are depicted between brackets.

Table 11B Stay-over tourism development in Sint Maarten^{ab}

	Sint Maarten			
	2017-III		2018-III	
North America, of which:	-21.4	(-12.0)	-66.6	(-25.7)
U.S.A.	-18.8	(-66.2)	-9.5	(-23.3)
Europe, of which:	-15.7	(-5.0)	-29.3	(-13.5)
The Netherlands	-18.4	(-1.8)	-13.0	(-2.3)
France	-13.9	(-2.3)	-31.8	(-7.4)
South & Central America, of which:	-26.2	(-0.7)	-54.9	(-1.4)
Venezuela	-49.0	(-0.2)	-41.4	(-0.2)
Caribbean, of which:	-30.0	(-1.5)	-24.0	(-1.9)
Dominican Republic	-26.6	(-0.3)	-7.9	(-0.2)
Total	-20.4	-	-51.4	-

Source: 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-III	2017-IV	2018-I	2018-II	2018-III
Food	1.8	2.2	3.5	4.8	4.7
Beverages & tobacco	2.6	2.5	2.1	2.5	2.0
Clothing & footwear	0.0	-2.4	-4.1	0.4	-1.2
Housing	1.1	2.5	2.2	2.6	4.9
Housekeeping & furnishings	2.4	1.6	-0.6	-0.5	0.1
Health	2.2	2.2	2.2	2.2	1.0
Transport & communication	0.3	2.0	2.0	2.6	3.5
Recreation & education	0.2	0.0	0.6	0.3	1.0
Other	1.0	1.2	0.8	0.9	0.8
General inflation rate	1.1	1.7	1.7	2.3	3.1

Source: Central Bureau of Statistics of Curaçao.

^a Annual quarterly percentage change.

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

	2016-III	2017-III	2018-III
Revenues	588.5	575.2	351.7
Tax revenues, of which:	340.4	338.5	303.5
Taxes on income and profits	141.3	141.1	135.9
Taxes on property	16.3	20.3	11.6
Taxes on goods and services	134.8	133.5	115.2
Taxes on international trade and transactions	46.1	41.2	38.4
Nontax and other revenues	248.1	236.7	48.2
Expenditures	602.0	600.5	398.8
Wages and salaries	163.3	162.1	162.7
Goods and services	46.2	44.1	50.0
Transfers and subsidies	374.0	361.8	161.2
Interest payments	2.3	2.9	2.8
Other expenditures	16.2	29.6	22.1
Budget balance	-13.5	-25.3	-47.1

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.

Note: Based on advice from the government's auditor (SOAB), the government of Curaçao decided to no longer consolidate the expenditures and income of the social security bank, SVB, in the government's current budget. In May 2018, the government excluded all income and expenditures of the SVB over the period January–April 2018 from its current budget. In addition, as of May 2018, SVB income and expenditures are no longer included in the budget.

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

	2016-III	2017-III	2018-III
Taxes on income and profits, of which:	141.3	141.1	135.9
Profit tax	29.6	27.3	24.7
Wage tax	106.7	108.4	102.4
Taxes on property, of which:	16.3	20.3	11.6
Land tax/OZB ¹	10.9	13.6	5.5
Property transfer tax	4.6	5.7	5.3
Taxes on goods and services, of which:	134.8	133.5	115.2
Sales tax	101.1	99.2	94.1
Excises, of which:	20.6	21.7	13.4
Excise on gasoline	12.1	12.3	5.1
Motor vehicle tax	5.3	5.9	5.3
Taxes on international trade and transactions, of which:	46.1	41.2	38.4
Import duties	46.0	41.1	38.3

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

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

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

	2017-III	2017-II	2018-I	2018-II	2018-III
Domestic debt	446.2	459.2	450.3	477.1	535.0
of which:					
Long-term securities	18.4	18.4	18.4	18.4	18.4
Short-term securities	-	-	-	-	-
APC	176.9	219.3	197.2	199.4	231.0
SVB	156.7	136.5	142.9	192.7	213.6
Foreign debt	2,286.3	2,346.3	2,332.5	2,338.9	2,338.6
Total debt	2,732.5	2,805.5	2,782.8	2,816.0	2,873.6
(% of GDP)	49.0%	50.3%	49.6%	50.2%	51.2%

¹ Debt figures do not comprise the entire collective sector.

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

	2016-III	2017-III	2018-III
Revenues	100.7	52.1	92.4
Tax revenues	76.3	56.1	79.6
Concessions and fees	7.6	7.4	10.1
Licenses	5.2	4.0	4.5
Other revenues*	11.6	-15.4	-1.8
Expenditures	112.0	117.3	120.4
Wages and salaries	48.6	52.1	52.8
Goods and services	24.2	29.0	28.1
Subsidies	28.3	28.3	24.1
Social security	5.6	4.1	7.3
Interest payments	3.2	0.0	3.2
Other expenditures	2.1	3.8	4.9
Budget balance	-11.2	-65.2	-28.0

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

* The government temporarily booked various revenues on this category due to IT problems up to the first half of 2017. Thereafter, these revenues were transferred to their proper revenue accounts causing a negative value of the category "Other revenues".

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

	2016-III	2017-III	2018-III
Taxes on income and profits, of which:	38.2	29.5	41.5
Profit tax	2.4	2.4	3.4
Wage tax	35.1	27.1	39.1
Taxes on property, of which:	4.1	3.6	4.3
Land tax	1.3	0.9	1.9
Property transfer tax	2.8	2.7	2.4
Taxes on goods and services, of which:	40.4	31.1	38.9
Turnover tax	29.4	20.5	29.6
Vehicle tax	0.2	0.1	1.3
Excise on gasoline	2.3	1.1	3.7

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

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

	2017-III	2017-IV	2018-I	2018-II	2018-III
Domestic debt	87.9	87.4	87.4	74.9	170.0
of which:					
Long-term securities	0.1	0.1	0.1	0.1	0.1
Short-term securities	-	-	-	-	-
APS*	20.0	20.0	20.0	20.0	43.0
SZV**	50.8	50.8	50.8	38.4	90.2
Foreign debt	521.0	519.9	569.9	569.9	569.9
Total debt	608.8	607.3	657.3	644.9	740.0
(% of GDP)	32.7%	32.6%	37.3%	36.6%	42.0%

* Public pension fund of Sint Maarten.

** Social & Health Insurances of Sint Maarten.



IV MONETARY DEVELOPMENTS

MONETARY POLICY

As was the case during the first half of 2018, the Bank left the percentage of the reserve requirement, one of its monetary policy instruments, unchanged at 18.00% during the September quarter of 2018. However, the base on which the reserve requirement is calculated, the adjusted domestic debt of the commercial banks, declined during the quarter. As a consequence, the amount of required reserves dropped by NAf.13.8 million (1.0%) to NAf.1,333.4 million at the end of September 2018.

Meanwhile, the Bank continued its policy to gradually reduce the amount of outstanding certificates of deposit (CDs)¹¹, its other monetary policy instrument. Therefore, at the bi-weekly CD auctions, the Bank offered a lower amount of CDs than had matured, combined with a higher haircut on the interest rate offered. The result was a decline in outstanding CDs from NAf.56.0 million at the end of June 2018 to NAf.18.0 million at the end of September 2018.

The Bank's official interest rate, the pledging rate, remained unchanged at 2.00% during the third quarter of 2018, after it was increased by 50 basis points on March 27, 2018.

¹¹ After an evaluation, the Bank concluded that the auctioning of CDs is not an effective instrument during a prolonged period of excess liquidity.

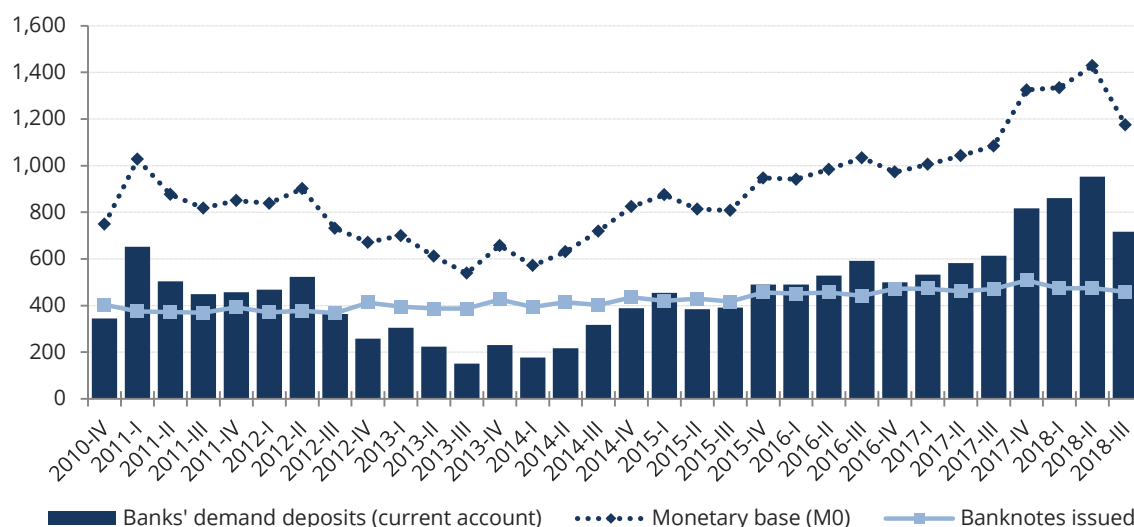
MONETARY BASE

The monetary base, M0, which consists of currency in circulation and commercial banks' current account deposits with the Bank, fell sharply during the third quarter of 2018. As Table 15 in Appendix II shows, M0 contracted by NAf.253.9 million (-17.8%) because of a sizeable decline in the commercial banks' deposits with the Bank (NAf.236.5 million) combined with a drop in currency in circulation (NAf.17.3 million). Consequently, the annual growth rate of the monetary base fell from 37.0% in June to 8.3% in September 2018.

Changes in the monetary base can be explained in terms of movements in the Bank's assets and its other, nonmonetary liabilities. Other things being equal, a drop in the Bank's assets leads to a decline in the monetary base. Conversely, when the Bank's nonmonetary liabilities drop, the monetary base increases. The contraction in the monetary base during the September quarter of 2018 was the result of a decline in the Bank's assets moderated by a drop in its nonmonetary liabilities.

The decline in the Bank's assets was the result of a sharp decline in the Bank's foreign assets (NAf.503.0 million) reflecting mostly the net purchase of foreign exchange by the commercial banks at the Bank combined with the lower value of the Bank's gold stock. The significant increase

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



in the net purchase of foreign exchange by the commercial banks can be explained primarily by the increased appetite of local institutional investors to invest more funds abroad because of the gradually increasing international interest rates and improving securities markets. However, the decline in the Bank's assets was moderated by an increase in the claims on the commercial banks (NAf.99.9 million) reflecting the extension of short-term credit to some commercial banks.

Meanwhile, the drop in the nonmonetary liabilities was caused by declines in private sector deposits (NAf.80.9 million), particularly time deposits of the commercial banks (NAf.51.8 million), and government deposits (NAf.32.1 million). Furthermore, the Bank's capital and reserves dropped due to the lower value of the Bank's gold stock. See Graph 2 for the development in the monetary base.

MONETARY AGGREGATES

Broad money (M2) contracted by NAf.261.6

million (-2.9%) during the third quarter of 2018, following a slight expansion of NAf.9.0 million (0.1%) in the second quarter. The third-quarter contraction of M2 was caused by declines in both the narrow money (M1) and near money components. As a result, the annual growth rate of M2 fell from 7.6% at the end of June to 1.2% at the end of September 2018.

The contraction of 4.8% in the narrow money component (M1) during the September quarter of 2018 resulted from declines in both demand deposits (NAf.193.3 million or -4.6%) and currency in circulation (NAf.24.2 million or -6.3%). The decline in demand deposits was attributable to Netherlands Antillean guilder deposits, which dropped by NAf.213.6 million (-7.5%). By contrast, foreign currency deposits increased by NAf.20.3 million (1.5%).

The near money component fell by -1.0% because of a drop in time deposits (NAf.53.3 million or -2.7%), mitigated by an increase in savings deposits (NAf.9.2 million or 0.4%). With the exception

of a small increase in the near money component in the June quarter of 2018 (0.1%), it has been declining since the June quarter of 2017. On an annual basis, the near money component dropped by -1.3% compared to -0.9% in the second quarter of 2018. Near money now accounts for 49.9% of broad money, compared to 51.2% at the end of September 2017. (See Table 16 in Appendix II for more details.)

FACTORS AFFECTING THE MONEY SUPPLY

The monetary contraction during the September quarter of 2018 stemmed from declines in both the net foreign assets and net domestic assets of the banking system.

Following a 2.0% decline (NAf.109.7 million) during the June quarter of 2018, net foreign assets dropped further by 3.3% (NAf.172.1 million) in the September quarter of 2018 attributable to a NAf.521.5 million (15.5%) decline at the Bank mitigated by a NAf.349.4 million (18.4%) increase at the commercial banks. The decline in the foreign exchange reserves of the Bank during the September quarter of 2018 resulted mostly from the net purchase of foreign exchange by the commercial banks. Because part of the commercial banks' purchases was invested in foreign securities, a shift occurred in the net holding of foreign exchange from the Bank to the commercial banks.

The drop in net domestic assets (NAf.89.6 million) was entirely the result of a contraction in memorandum balance sheet items (NAf.177.4 million) mitigated by an expansionary impact of both the government sector (NAf.57.5 million or 12.0%) and the private sector (NAf.30.4

million or 0.5%). The expansionary impact of the government reflected a drawdown of demand deposits by the government of Curaçao (NAf.36.0 million) at both the Bank and the commercial banks as well as by the government of Sint Maarten (NAf.28.4 million) at the Bank.

The expansion in credit to the private sector during the third quarter of 2018 was due mostly to increases in loans extended (NAf.15.8 million or 0.3%) and amounts receivable (NAf.3.7 million). The expansion in the loan component was the result of increases in outstanding mortgages (0.8%) and the "other" loan category¹² (119.1%), mitigated by declines in consumer loans (-9.8%) and business loans (-0.3%)

In Curaçao, total loans increased by 0.2% due to expansions in outstanding mortgages (0.8 %) and business loans (0.3%). Consumer loans (-1.0%) and the "other" loan category (-1.4%) declined during the September quarter of 2018. This development was mirrored in Sint Maarten as the amount of private sector loans outstanding increased by 0.4% due to increases in mortgages (0.9%) and business loans (0.6%). The increase was mitigated by declines in consumer loans (-1.4%) and the "other" loan category (-2.7%). (See Table 17 in Appendix II for a detailed overview.)

DEVELOPMENTS IN DOMESTIC INTEREST RATES

One of the instruments the Bank uses

¹² The other loan category contains loans that cannot be classified under consumer loans, business loans, or mortgages, e.g., credit card loans.

to absorb part of the excess liquidity of the commercial banks at the Bank is the auctioning of certificates of deposit (CDs). The rates offered on CDs during the bi-weekly auctions are based on international financial market rates. During the third quarter of 2018, the federal funds rate, the policy rate of the Fed, was raised from 1.75%-2.00% to 2.00%-2.25%. Consequently, the benchmark one-month US dollar libor rate¹³ increased by 11 basis points to 2.18% at the end of September 2018. However, as the Bank increased the haircut on the US dollar libid rate¹⁴, the maximum rate offered on a 1-month CD actually declined to 0.27% during the September 2018 quarter compared to the 0.40% rate for the June quarter of 2018.

Due to the standing subscription by the Dutch State Treasury Agency (DSTA),¹⁵ 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 rose from -0.18% in the second quarter of 2018 to

-0.03% in the third quarter of 2018, while the indicative yield on 12-month treasury bills increased from -0.66% to -0.60. The negative nominal interest rates resulting from the large-scale asset buying programs by the central banks still prevail in Europe.

In 2017, the Fed reduced this program and increased the Fed fund rate three times followed by three more interest hikes up to the third quarter of 2018. (see Table 18 in Appendix II for a detailed overview.)

¹³ The London interbank offered rate, the main gauge of interbank lending.

¹⁴ The London interbank bid rate, which is linked to the libor rate.

¹⁵ 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 15 The monetary base and its sources (in millions Naf.)

	2018-II	2018-III	Change	
			Amount	%
Currency in circulation	475.4	458.1	-17.3	-3.6
Banks' demand deposits (current account)	952.6	716.1	-236.5	-24.8
Monetary base (M0)	1,428.0	1,174.2	-253.9	-17.8
Central bank assets				
Foreign assets (including gold)	3,643.1	3,140.1	-503.0	-13.8
Claims on deposit money banks	177.7	277.7	99.9	56.2
Claims on the government	0.1	0.1	0.0	10.3
Claims on government agencies and institutions	339.3	347.5	8.2	2.4
Fixed and other assets	140.1	139.6	-0.5	-0.3
less:				
Central bank remaining liabilities				
Private sector deposits, of which:	1,495.7	1,414.8	-80.9	-5.4
Time deposits commercial banks	1,403.2	1,351.4	-51.8	-3.7
Government deposits	149.0	116.9	-32.1	-21.5
Foreign liabilities	280.4	298.8	18.4	6.6
Other liabilities	64.9	59.5	-5.4	-8.3
Capital and reserves	882.3	840.7	-41.6	-4.7

Table 16 Monetary aggregates (changes, in millions NAf.)

	2018-I		2018-II		2018-III	
	Amount	%	Amount	%	Amount	%
Money supply (M2)	223.9	2.6	9.1	0.1	-261.6	-2.9
Money (M1)	238.3	5.5	3.9	0.1	-217.4	-4.8
Coins & notes with the public	-12.8	-3.3	8.1	2.2	-24.2	-6.3
Total demand deposits, of which:	251.1	6.4	-4.2	-0.1	-193.3	-4.6
Netherlands Antillean guilders	122.3	4.6	50.8	1.8	-213.6	-7.5
Foreign currency	128.8	10.2	-55.0	-3.9	20.3	1.5
Near money	-14.3	-0.3	5.2	0.1	-44.2	-1.0
Time deposits	-114.1	-5.7	52.7	2.8	-53.3	-2.7
Savings	99.8	4.2	-47.5	-1.9	9.2	0.4

Table 17 Monetary survey (in millions NAf.)

	2017-III	2017-IV	2018-I	2018-II	2018-III
Money supply (M2)	8,557.2	8,689.0	8,912.9	8,922.0	8,660.4
Money (M1)	4,178.5	4,314.4	4,552.7	4,556.6	4,339.1
Coins & notes with the public	378.5	388.4	375.6	383.6	359.5
Total demand deposits, of which:	3,800.0	3,926.0	4,177.1	4,172.9	3,979.6
Netherlands Antillean guilders	2,632.8	2,659.1	2,781.4	2,832.2	2,618.6
Foreign currency	1,167.2	1,266.9	1,395.8	1,340.8	1,361.0
Near money	4,378.7	4,374.6	4,360.2	4,365.5	4,321.3
Time deposits	2,157.4	2,016.9	1,902.8	1,955.5	1,902.2
Savings	2,221.3	2,357.6	2,457.4	2,410.0	2,419.1
Factors affecting the money supply					
Net domestic assets	3,745.7	3,699.2	3,542.5	3,661.3	3,571.8
Government sector	-582.8	-597.4	-626.7	-479.4	-421.9
Former central government	-11.5	-11.6	-12.0	-12.0	-12.1
Curaçao	-396.9	-474.2	-467.0	-349.0	-313.2
Sint Maarten	-174.4	-111.7	-147.8	-118.4	-96.6
Private sector	6,742.4	6,683.1	6,663.5	6,620.7	6,651.1
Memorandum items	-2,413.9	-2,386.4	-2,494.2	-2,479.9	-2,657.4
Net foreign assets	4,811.5	4,989.7	5,370.4	5,260.6	5,088.6
Central bank	3,148.8	3,360.7	3,379.2	3,362.8	2,841.3
Commercial banks	1,662.7	1,629.0	1,991.1	1,897.9	2,247.3

Table 17 Monetary survey (in millions NAf.) cont.

	2017-III	2017-IV	2018-I	2018-II	2018-III
Government loans by commercial banks	21.4	22.0	13.8	17.5	18.1
Government of Curaçao	5.6	7.3	0.1	3.8	3.5
Government of Sint Maarten	15.8	14.7	13.7	13.8	14.5
Private sector loans Curaçao	4,628.1	4,617.5	4,596.6	4,575.5	4,585.1
Mortgages	1,866.6	1,846.0	1,845.7	1,801.4	1,816.5
Consumer loans	893.2	900.4	894.3	925.7	916.7
Business loans	1,765.2	1,772.7	1,762.2	1,757.8	1,762.5
Other	103.1	98.4	94.4	90.6	89.3
Private sector loans Sint Maarten	1,524.9	1,502.8	1,496.2	1,487.9	1,494.2
Mortgages	893.5	884.2	864.2	869.3	876.7
Consumer loans	226.0	223.9	240.6	237.3	234.0
Business loans	397.8	383.6	384.7	375.9	378.2
Other	7.6	11.1	6.8	5.4	5.3

Table 18 Developments in domestic interest rates (in percentage)

	2017-III	2017-IV	2018-I	2018-II	2018-III
Central bank					
Pledging rate	1.5	1.5	2.0	2.0	2.0
Maximum CD rate (1 month)	0.52	0.70	0.55	0.40	0.27
Government securities					
Government bonds (5-year effective yield)	-0.21	-0.12	-0.07	-0.18	-0.03
Treasury bills (12-month)	-0.69	-0.70	-0.66	-0.66	-0.60

