QUARTERLY BULLETIN

2019 - I

CENTRALE BANK VAN CURAÇAO EN SINT MAARTEN

Centrale Bank van Curaçao en Sint Maarten

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CONTENT

I REPORT OF THE PRESIDENT

Global economic growth weakened in the first quarter of 2019 reflecting primarily a slowdown in manufacturing activities and global trade. Also, uncertainties regarding trade tensions between the United States and China worsened business confidence and investment while risk appetite in the international financial markets weakened.

Amid these international developments, the economic performance in the monetary union of Curaçao and Sint Maarten was mixed. While real GDP of Curaçao dropped by 1.0% in the first quarter of 2019 compared to 2018's first quarter, Sint Maarten recorded a robust growth of 8.4%. The asymmetric development in the monetary union can be explained by the differences in the current business cycles of the two countries. Curaçao has been experiencing a structural cycle as the Isla refinery's contribution to economic growth is steadily declining whereas the tourism sector is gathering speed. Experience teaches that recovery in the case of a structural cycle tends to take time to emerge (U or L-shaped). Meanwhile, Sint Maarten is recovering from a deep recession caused by Hurricane Irma in 2017 – 2018. The contraction period in the business cycle caused by such a shock tends to be short (V-shaped).

Consumer price inflation also diverged in the monetary union during the first quarter of 2019. In Curaçao, inflation rose to 2.1% compared to the first quarter of 2018, reflecting primarily increased food and electricity prices. Sint Maarten's inflation dropped to 0.6% as price gains slowed following a hike after Hurricane Irma in 2018.

Curaçao's real GDP contraction during the first quarter of 2019 was caused by a decline in domestic demand, moderated by an increase in net foreign demand. Declines in public investment, private investment, and private consumption caused the decline in domestic demand. Only public consumption rose slightly as the government's outlays on goods & services grew. Meanwhile, the increase in net foreign demand was the result of a decline in the import of goods and services consistent with the drop in domestic spending, moderated by lower exports.

An analysis by sector reveals that the real GDP contraction in Curaçao was primarily the result of a decline in real value added in the manufacturing, transport, storage, & communication, wholesale & retail trade, and construction sectors. Real output contracted in the manufacturing sector due to lower refining activities at the Isla refinery attributable to a lack of crude oil resulting from, among other things, the international sanctions against Venezuela. The transport, storage, & communication sector posted negative results because of a sharp decline in harbor activities reflecting a lower number of ships piloted into the port, particularly oil tankers, and a drop in container movements. Also, air transportation services decreased as a result of the demise of the domestic carrier, InselAir, in February 2019. By contrast, airport-related activities rose, as reflected by increases in total passenger traffic and the number of commercial landings. Activities contracted in the wholesale & retail trade sector as a result of the decline in consumer spending, moderated by more free-zone activities and an increase in tourism spending. Meanwhile, the negative outcome in the construction sector was in line with the decline in private and public investments during the first quarter of 2019.

By contrast, activities in the restaurants & hotels and financial intermediation sectors developed positively during the January – March period of 2019. The restaurants & hotels sector performed buoyantly reflecting an increase in both stay-over and cruise tourism. Stay-over tourism grew as all focus markets recorded double digit increases. Meanwhile, the gain in cruise tourism was consistent with an increase in the number of cruise calls, albeit at a slower pace than in the first quarter of 2018. Real value added of the financial intermediation sector rose slightly, supported by an increase in both domestic financial services and international financial services.

In Sint Maarten, real GDP growth turned positive in the first quarter of 2019 following a deep contraction in the first quarter of 2018. The positive outcome in 2019's first quarter was driven by an increase in net foreign demand. Exports surged as tourism is getting back to pre-hurricane levels. However, higher imports reflecting mainly reconstruction activities moderated the increase in net foreign demand. Domestic demand contributed negatively to real GDP growth due to a decline in public demand. Both public consumption and investment shrank as the government is gradually lowering the budget deficit. By contrast, private demand rose sustained by more investments and more consumption, thereby mitigating the decline in domestic demand.

All main sectors of the economy of Sint Maarten recorded positive growth figures during the first quarter of 2019. However, the growth was most pronounced in the restaurants & hotels, and transport, storage, & communication sectors. The robust growth in the restaurants & hotels sector was sustained by a strong increase in both stay-over and cruise tourism. The gain in stay-over tourism reflected growth in all major tourism markets of Sint Maarten and was supported by the reopening of some major hotels and the partial restoration of operations at the Princess Juliana International Airport. The increase in cruise tourism was the result of the return of regular cruise lines to Sint Maarten and the re-opening of tourism-related activities and attractions. In line with the gain in stay-over tourism, activities increased also in the real estate, renting, and business activities sector.

The positive turnaround in the transport, storage, & communication sector was driven by increased harbor and airport-related activities. Growth at the harbor reflected more ships piloted into the harbor of Philipsburg. Meanwhile, airport-related activities rose consistent with the surge in stay-over tourism. Real value added also rose in the wholesale & retail trade sector driven by the increases in private consumption and tourism spending, while the gain in the manufacturing sector was the result of an increase in yacht-repair activities. Furthermore, real output rose in the utilities sector as reflected by an increase in the production of both water and electricity. Meanwhile, the positive outcome in the financial intermediation sector reflected an increase in net interest income and other fees & income of the domestic commercial banks in Sint Maarten. Finally, production rose in the construction sector, albeit at a slower pace than in the first quarter of 2018, due to the increase in private investments.

The development in the fiscal situation in Curaçao and Sint Maarten was consistent with the two countries' economic performance. In Curaçao, the public finances deteriorated in the first quarter of 2019 as reflected by an increase in the deficit on the current budget. This increase was caused by a decline in government revenues, moderated by lower expenditures to contain the deficit. The development on both the revenue and the expenditure sides can be ascribed largely to the exclusion of the income and expenditures of the social security bank, SVB, from the current budget of the government of Curaçao as of May 2018. Furthermore, a decline in tax revenues contributed to the overall drop of government revenues reflecting primarily less proceeds from profit tax and import duties in line with the decline in economic activities. By contrast, the revenues from property tax, wage tax, and excises rose. The drop of expenditures reflected measures to contain the deficit on the current budget but was moderated by an increase of the government's disbursements on goods & services.

Sint Maarten's public finances improved consistent with the country's economic recovery. As a result, the current budget turned around from a deficit in the first quarter of 2018 to a surplus in the first quarter of 2019. The improvement in 2019's first quarter stemmed from an increase in government revenues combined with lower expenditures. The higher government revenues reflected primarily more tax earnings, notably turnover and vehicle tax, combined with a rise in licenses and concessions & fees. Meanwhile, the drop in government expenditures was caused by a decline in the disbursements on goods & services and lower interest expenses.

Gross official reserves of the central bank rose by NAf.153.0 million in the first quarter of 2019 as the external financing exceeded the current account deficit of the balance of payments of the monetary union. The average import coverage rose from 3.7 months at the end of December 2019 to 4.8 months at the end of March 2019 due to a decline in the import of goods & services combined with an increase in official reserves.

The current account deficit of the balance of payments of the monetary union narrowed in the first quarter of 2019 compared to the first quarter of 2018. The lower deficit was caused by an increase in exports combined with lower imports. By contrast, net current transfers into the monetary union dropped, reflecting lower inflow of funds related to the claims of local insurance companies to pay their clients in Sint Maarten whose properties were damaged by the hurricanes in 2017, as most of these claims were settled in 2018.

The gain in exports reflected mainly more foreign exchange earnings from tourism activities in both Curaçao and Sint Maarten. Furthermore, the revenues from bunkering activities in Curaçao went up due to more volumes sold. In Sint Maarten, receipts from transportation and business services provided to abroad rose. However, the growth in exports was moderated by a decline of the foreign exchange revenues from refining activities, air transportation services, and international financial services in Curaçao.

The lower import bill can be ascribed to a decline in the import of goods & services in Curaçao. In particular, merchandise imports by the wholesale & retail trade and manufacturing sectors dropped. Also the import of construction services shrank due to less maintenance work at the Isla refinery and the construction of the hospital reaching its final stages. Furthermore, the import of business services such as legal & management consulting services, advertising & marketing services, and insurance & pension services dropped in Curaçao. In Sint Maarten by contrast, the import of goods & services rose in line with the continued reconstruction activities taking place on the island. During the first quarter of 2019, construction services were acquired from abroad to restore key infrastructure that was damaged by the hurricanes in 2017. In addition, the import of other business services such as legal & management services rose.

External financing into the monetary union went up during the first quarter of 2019 and, hence, worsened the International Investment Position (i.e., the monetary union's external balance sheet or IIP). The rise in external financing reflected a worsening of the loans & credits, direct investment, and portfolio investment balances. The worsening of the loans & credits balance was largely the result of a decline in foreign deposits of residents of Curaçao and Sint Maarten, moderated by a drop in nonresidents' deposits in the monetary union, more trade credit extended on exports, and the net repayment of trade credit received in the past on imports.

The direct investment balance deteriorated mainly as a result of the acquisition of the state-owned telecommunication company of Curaçao, UTS N.V., by the foreign telecommunication company Liberty Latin America. Also, the increase of liabilities of local companies towards their foreign parent companies and the investment in real estate by nonresidents in Curaçao and Sint Maarten contributed to the deterioration of the direct investment balance. Meanwhile, the portfolio investment balance worsened due mainly to the issuance of a bond loan by the government of Curaçao in January 2019 that was purchased entirely by the Dutch State, and the purchase of equity securities issued by local insurance companies. However, the increase in investments in foreign bonds and notes by local commercial banks and institutional investors moderated the worsening of the portfolio investment balance.

The money supply expanded in the first quarter of 2019 driven by an increase in net foreign assets, while net domestic assets dropped. Net foreign assets grew at both the commercial banks and the central bank. The drop in net domestic assets was caused by a decline in net claims on the government reflecting primarily higher demand deposits of the government of Curaçao related to the issuance of a bond loan in January 2019 and to the funds received from abroad related to the privatization of UTS N.V. Moreover, memorandum balance sheet items not related to transactions decreased. Meanwhile, credit extension to the private sector remained rather flat in the monetary union during the first quarter of 2019. Private credit extension in Curaçao increased slightly, supported by more consumer loans and loans in the “other” category, while mortgages and business loans remained practically unchanged. The opposite occurred in Sint Maarten where private credit extension contracted on the back of lower consumer loans while outstanding mortgages and business loans grew.

On January 1st, 2019, the Bank increased its official interest rate, i.e., the pledging rate from 2.00% to 2.50% following the upward adjustments in the Fed funds rate. Furthermore, the reserve requirement percentage was maintained at 18.00%. Nevertheless, the amount of required reserves rose due to an increase in the base upon which they are calculated. Also, no auctions of CDs were held during the January – March period of 2019 as the auctions were suspended temporarily at the end of 2018.

The monetary union currently is going through two asymmetric shocks. In 2017, a massive category 5 hurricane caused significant damage to Sint Maarten and, consequently, a deep economic contraction in 2018 followed by a rebound. The economy of Curaçao has been negatively influenced by the deepening economic crisis in Venezuela, one of the country’s main trading partners. Initially, the crisis in Venezuela affected the tourism, air transportation, and free-zone sectors. More recently, the impact has become more intense as a result of the international sanctions on Venezuela that have limited the supply of crude oil to the Isla refinery, causing a deep contraction in activities at the refinery and in the harbor, with spillover effects to other economic sectors. Thus, growth in the two countries is currently moving in opposite directions.

As a result, these asymmetric shocks create different economic conditions in the two countries of the monetary union. The scope for monetary policy to affect demand is limited and, instead, is targeted first toward maintaining external stability through the exchange rate peg to the US dollar. The room for expansionary fiscal policy to stimulate economic growth is also constrained, namely by the need to limit the growing debt and due to commitments with respect to the Kingdom Law of Financial Supervision of Curaçao and Sint Maarten. With two out of three policy areas held within bounds, the current conditions call for special emphasis on the implementation of structural reforms to achieve a higher growth path and prosperity.

* * *

The content of the Quarterly Bulletin of the Bank has been modified by adding a new chapter on the economic outlook for the monetary union. Forecasts play a crucial role in economic policymaking because the consequences of policy decisions made today will unfold over time. Therefore, beginning with the first quarter of 2019, the Bank will publish as part of its Quarterly Bulletin its most recent outlook for the monetary union and in some cases for different economic scenarios. The outlook should be interpreted with caution, however, as forecasts are surrounded by uncertainties, particularly in the case of small and open economies such as Curaçao and Sint Maarten.

Furthermore, the chapter on monetary developments has been extended by a detailed analysis of the indicators the Bank uses to determine its monetary policy based on the monetary transmission as well as a more extensive discussion of the policy instruments used. By providing a more detailed explanation, we hope to make the Bank's monetary policy more transparent and understandable to the public.

Dr. Bob Traa
President a.i.

II INTERNATIONAL ECONOMIC DEVELOPMENTS

The most important trading partners of Curaçao and Sint Maarten are the United State and the Netherlands, while Venezuela traditionally is also an important trading partner. Hence, a brief analysis of the main economic developments in each of these countries during the first quarter of 2019 is provided.

THE UNITED STATES

The growth of the U.S. economy accelerated in the first quarter of 2019 with real GDP expanding by 3.2% against 2.6% in the first quarter of 2018 (see Table 1). The increase in real GDP reflects an expansion in both domestic and net foreign demand. The lower increase in consumer prices supported the increase in domestic demand.

Domestic demand grew in the first quarter of 2019 as both public and private demand increased. The growth in private demand, albeit at a slower pace compared to the first quarter of 2018, was due mainly to more private investments in intellectual property, construction of nonresidential buildings, equipment, and fixed assets. Higher consumer spending on goods and services added to the increase in private demand. Private consumption grew because consumers spent more on goods such as furnishings & household equipment, recreational goods & vehicles, clothing & footwear, and on services such as healthcare, food & accommodations, and finance & insurance. In addition, public demand grew because of higher spending by the federal, state, and local governments. Inventory buildup also contributed to the increase in real GDP. Furthermore, net foreign demand rose because exports increased at a higher pace than imports.

The unemployment rate in the United States dropped to 3.9%, the lowest level in nearly half a century. This milestone is attributable to job gains in the construction, manufacturing, professional & business services, education & health services, and hospitality sectors. Moreover, the number

Table 1 Economic indicators of the United States

	2018-I	2019-I
Real GDP (% change)	2.6	3.2
Consumer prices (%)	2.2	1.7
Unemployment rate (%)	4.1	3.9

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

of part-time workers and long-term unemployed decreased.

Inflation eased to 1.7% during the first quarter of 2019 as prices of transport, energy, apparel, and medical care rose at a slower pace than in the first quarter of 2018. By contrast, prices of food & beverages, housing, and financial services accelerated.

The Federal Reserve maintained the target range for the federal funds at 2.25%-2.50% based on a projected strong labor market but a slower economic expansion in 2019 compared to 2018. However, the outlook for 2019 is surrounded by significant uncertainties including those related to the global economic and financial developments. 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

In the Netherlands, real GDP grew by 1.7% in the first quarter of 2019, a deceleration compared to the 2.8% growth in the first quarter of 2018 (see Table 2). Growth in the first quarter of 2019 was driven by higher domestic demand mitigated by a decline in net foreign demand. Meanwhile, inflationary pressures doubled from 1.2% in the first quarter of 2018 to 2.5% in the first quarter of 2019.

Economic growth in the Netherlands in the first quarter of 2019 was the result of higher private and public demand. Private investment grew because of more spending on houses, transport vehicles, equipment, buildings, and land improvement. Meanwhile, private consumption increased as consumers spent more on durable goods such as home furnishings & decorations, and electrical devices. Spending on services such as transport & communication and medical & health care also increased. However, lower spending on vehicle parts and energy & water mitigated the increase in private consumption. Public demand grew as both government consumption and investment increased.

In contrast, net foreign demand contributed negatively to GDP growth as the growth in import of goods and services surpassed the increase in exports. Imports increased on the back of more machines & electrical equipment, chemical & pharmaceutical products, and rubber,

Table 2 Economic indicators of the Netherlands

	2018-I	2019-I
Real GDP (% change)	2.8	1.7
Consumer prices (%)	1.2	2.5
Unemployment rate* (%)	4.4	3.7

Source: Central Bureau of Statistics of the Netherlands.
**International definition.*

plastic & mineral products bought abroad. Meanwhile, the growth in exports reflected mainly more trade of textiles, apparel & leather products, wood, paper & printing products, petroleum products, rubber, plastic & mineral products, and machinery & electrical equipment.

An analysis of the Dutch economy by sector reveals that more activities in the construction, trade, transportation & hospitality, information & communication, and rental & property management services sectors led to 2019's first quarter economic growth. Fewer activities in the mining, agriculture, forestry & fishing, and financial services sectors mitigated the growth.

The inflation rate doubled in the first quarter of 2019 compared to 2018's first quarter because of price hikes in various goods and services such as food & beverages, clothing & footwear, furnishings & household appliances, transport, housing, water & energy, and restaurants & hotels. Price increases were particularly significant in the categories energy, and food & beverages causing consumer prices in the Netherlands to rise twice as fast as the Eurozone average. In addition, the labor market improved further as the unemployment rate fell from 4.4% in first quarter of 2018 to 3.7% in first quarter of 2019.

VENEZUELA

The International Monetary Fund (IMF) and Business Monitor International (BMI) expect the Venezuelan economy to contract between 14.2% and 25.0% in 2019, following an estimated contraction of 13.2% to 18.0% in 2018 (see Table 3). Decreasing oil production, hyperinflation, and a poor business environment will keep the economy in a deep recession.

Venezuela is experiencing another year of double digit contraction as the economic and political crisis entered its sixth year in 2019. The persistent economic downturn is expected to continue as the current political environment and fiscal and monetary policies do not help to move the economy out of recession. The sharp fall in oil production, the country's main source of foreign exchange income accounting for approximately 90% of exports, also constrains the resources available for non-oil activities. In addition, the lack of investments and imposed sanctions weaken oil exports. The ongoing political crisis and the government's hostile stance

Table 3 Economic indicators of Venezuela

	2018	2019
Real GDP (% change)	-13.2 to -18.0	-14.2 to -25.0
Consumer prices (%)	225,538 to 929,789	2,662,975 to 10,000,000
Unemployment rate* (%)	35.0	44.3

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

towards the private sector will keep private investment subdued. Moreover, the sharp decline in oil production, the largest source of government income, has led to a fall in revenues, limiting government consumption and putting pressure on the government deficit. To compensate for the lack of financing, the government is relying on the monetization of its deficits and oil-for-loan deals with Russia and China.

By contrast, net foreign demand is expected to contribute positively to real GDP because the significantly lower imports will not exceed the decline in (oil) exports. The lower imports reflect largely the devaluation of the bolivar, high tariffs, and government price controls.

The fall of the bolivar will remain a major factor in Venezuela's economic depression. By far the most important factor impacting Venezuelan consumers is the pace at which their incomes are losing value. Inflation is estimated to skyrocket between 2,662,975% to 10,000,000% in 2019 as the re-denomination of the bolivar is not addressing the root causes of the price inflation. The monetization of the massive fiscal deficits is primarily fueling hyperinflation and rapidly eroding households' purchasing power.

Venezuela's depression is expected to continue because of the lingering political instability, hyperinflation, and poor business environment. In addition, the country is experiencing a mass exodus of its population, the largest refugees crisis[1] recorded in the Americas, which may deepen the economic crisis even further.

[1] *The number of refugees and migrants from Venezuela reached 4 million in June 2019 according to the UN Refugee Agency (UNHCR).*

III GENERAL ECONOMIC DEVELOPMENTS

GENERAL ECONOMIC DEVELOPMENTS IN CURAÇAO

Following a contraction of 1.6% in the first quarter of 2018, Curaçao's real GDP dropped by 1.0% in the first quarter of 2019. This slower economic contraction was the result of a decline in domestic demand mitigated by an increase in net foreign demand (see Table 4). Meanwhile, the inflation rate rose to 2.1% due mainly to higher food and electricity prices.

An analysis of the expenditure side of GDP shows that the contraction recorded in 2019's first quarter was caused by declines in private and public demand moderated by an increase in net foreign demand.

Table 4 Curaçao - GDP by expenditure[ab]

	2015-I	2016-I	2017-I	2018-I	2019-I
Domestic expenditure, of which:	**-0.7**	**-0.2**	**0.8**	**-1.2**	**-1.6**
Private sector	-0.7	0.4	0.4	-0.8	-1.3
Investment	-0.5	0.3	0.3	-0.5	-0.7
Consumption	-0.2	0.1	0.1	-0.3	-0.6
Government sector	0.1	-0.6	0.4	-0.4	-0.3
Investment	0.1	0.4	0.1	0.1	-0.5
Consumption	0.0	-1.0	0.3	-0.5	0.2
Changes in inventory	**-0.1**	**0.0**	**-0.2**	**0.1**	**0.0**
Foreign net expenditure, of which:	**0.6**	**-0.6**	**-1.8**	**-0.5**	**0.6**
Export of goods and services	-0.5	-1.4	1.3	0.4	-0.8
Import of goods and services	-1.1	-0.8	3.1	0.4	-0.8
GDP	**-0.1**	**-0.8**	**-1.2**	**-1.6**	**-1.0**

Source: Estimates by the Centrale Bank van Curaçao en Sint Maarten.
[a]Expenditure categories data are weighted contributors to GDP growth.
[b]Real percentage changes.

Private demand declined because of less private investment and consumption. With the exception of the tourism sector, private investments were down in most sectors of the economy, including the manufacturing and transportation sectors. Private consumption declined as the worsened situation on the labor market and the higher inflationary pressures limited the purchasing power of consumers. Public demand dropped on the back of a decline in private investment, moderated by an increase in public consumption. The increase in public consumption resulted from more outlays on goods and services mitigated by slightly less spending on wages and salaries. Furthermore, government investments decreased reflecting largely the finalization of the construction of the new hospital.

In contrast, net foreign demand contributed positively to GDP as imports declined at a faster pace than exports. Imports dropped mainly because of lower construction services from abroad and a decrease in merchandise imports by the wholesale & retail trade and manufacturing sectors. The lower exports reflected less foreign exchange earnings from refining, air transportation, and international financial services, moderated by increases from bunkering and tourism activities.

DOMESTIC PRODUCTION

An analysis of the production side of GDP reveals that the economic contraction recorded in the three months ending March 2019 can be attributed particularly to the transport, storage, & communication, wholesale & retail trade, manufacturing, and construction sectors (see Table 5).

Activities in the transport, storage, & communication sector declined but at a slower pace in 2019's first quarter (-1.3%) than in the first quarter of 2018 due mainly to a decline in the number of ships piloted into the port of Curaçao. The decline in the number of ships piloted reflects the sharp decline of incoming oil tankers related to the lower refining activities at the Isla refinery. Container movements also declined. By contrast, the increase in the number of freighters and cruise ships mitigated the decline in harbor activities. Meanwhile, airport-related activities increased due to higher total passenger traffic as reflected by increased arriving, departing, and transit passengers. Furthermore, the number of commercial landings rose. On the other hand, domestic air transportation activities fell as other local carriers did not fill the gap left by the closure of InselAir in February 2019.

The wholesale & retail trade sector shrank (-3.3%) in the first quarter of 2019 because the decline in domestic spending exceeded the increases in activities at the free zone and in tourism spending.

Real output in the manufacturing sector continued to drop in the first quarter of 2019 (-8.7%) compared to first quarter of 2018, reflecting mainly the decline in refining and trading activities at the Isla refinery. The refinery has been performing below its capacity since January 2018 due mainly to a lack of crude oil as a result of, among other things, the international embargo against the Venezuelan oil company PDVSA. In contrast, increased ship repair activities mitigated the drop in the manufacturing sector. Meanwhile, the construction sector also posted negative results (-1.1%) because of a decline in private and public investments.

In contrast to the above, the restaurants & hotels and financial intermediation sectors contributed positively to GDP. The restaurants & hotels sector showed continuing expansion (10.6% in real terms) in the first quarter of 2019. Every indicator of the sector's performance recorded growth, 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. In addition, all source markets recorded double digit growth figures, i.e., the North American, European, Caribbean, and South American markets. The increasing number of visitors from the United States and Canada resulted in the growth in the North American market (21.1%). The expansion of the European market (12.2%) was driven largely by increases in the

Table 5 Curaçao - GDP by sector[a]

	2015-I	2016-I	2017-I	2018-I	2019-I
Agriculture, fishery, & mining	-6.1	3.1	9.4	-5.2	0.7
Manufacturing	-1.2	-3.7	1.4	-5.6	-8.7
Electricity, gas, & water	-1.2	2.4	-0.4	0.6	-0.4
Construction	-1.2	3.0	3.8	-2.5	-1.1
Wholesale & retail trade	0.3	-0.3	-1.8	-1.3	-3.3
Restaurants & hotels	4.8	-6.7	-10.1	1.7	10.6
Transport, storage, & communication	-0.8	-0.3	-3.7	-3.9	-1.3
Financial intermediation	-0.9	-0.5	0.4	0.1	0.2
Real estate, renting, & business activity	1.0	-0.9	-1.9	-1.4	1.1
Other community, social, & personal services	5.0	-2.8	-3.6	3.0	-1.9
Private households	0.2	-2.0	-1.5	-1.8	-0.9
Total private sector	0.0	-0.7	-1.1	-1.2	-0.6
Public sector	-0.3	-0.6	0.0	-0.5	-0.2
Taxes minus subsidies	0.2	0.5	-0.1	0.1	-0.2
GDP	**-0.1**	**-0.8**	**-1.2**	**-1.6**	**-1.0**

Source: Estimates by the Centrale Bank van Curaçao en Sint Maarten.
[a]Real percentage changes.

number of visitors from the Netherlands, Germany, and France, moderated by a decrease in the number of Belgian visitors. Meanwhile, the South American market performed well (24.4%) because of more visitors from Brazil, Colombia, and Venezuela. The Caribbean market also recorded double digit growth figures (36.7%) as more visitors came from the Dominican Republic and Jamaica, helped by more flights[2] between the Caribbean islands. (See Table 11 in the Appendix for more details.)

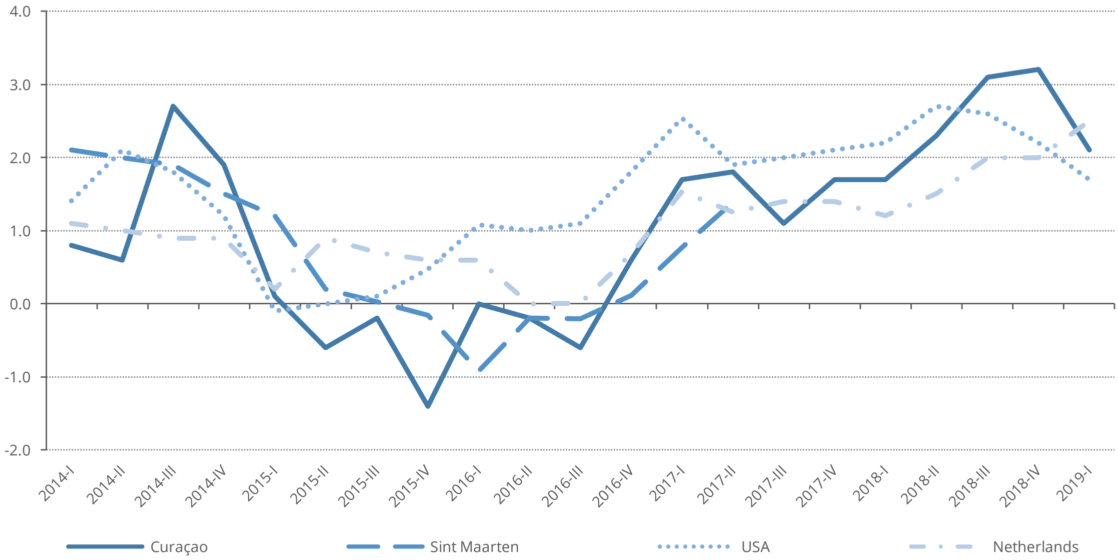
Furthermore, the number of cruise tourists increased in the first quarter of 2019 (5.2%) but at a slower pace compared to the first quarter of 2018 (31.6%). The slower growth may be related to cruise lines returning to their regular Caribbean itineraries after these routes were changed temporarily in the 2017-2018 cruise season due to the damage that hurricanes Irma and Maria caused in popular Caribbean destinations.

Real value added by the financial intermediation sector increased as a result of a growth in domestic financial services, moderated by a decrease in international financial services. The domestic financial services industry grew because of increases in net interest income and other fees & income. Meanwhile, the increase in wages & salaries and other operational expenses of the international financial services was not significant enough to compensate for the higher inflation.

INFLATION

Inflation in Curaçao accelerated from 1.7% in the first quarter of 2018 to 2.1% in the first quarter of 2019. As shown in Graph 1, inflation in Curaçao was in line with one of

Graph 1 Developments in consumer prices[a] (percentage)



Source: Central Bureau of Statistics Curaçao, Department of Statistics Sint Maarten, Centraal Bureau voor de Statistiek Nederland, and U.S. Bureau of Economic Analysis.
[a]Annual percentage change.

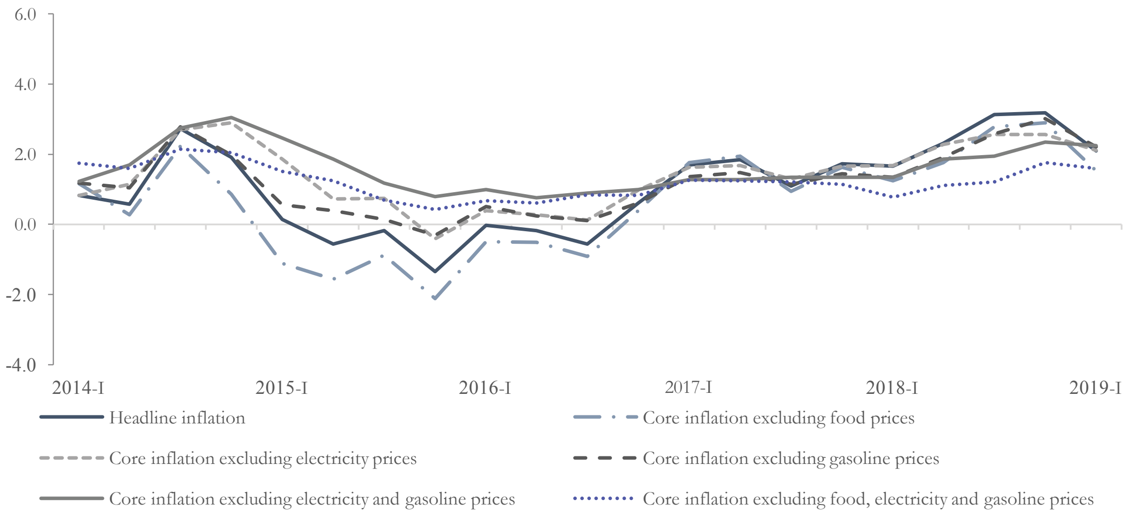
[2] Several airlines added more flights or began services to/from Curacao, namely, Divi Divi Air, Aruba Airlines, WinAir, Fly Allways, and Air Century.

its main trading partners, the Netherlands (2.5%), and higher than its other main trading partner, the United States (1.7%).

All CPI components recorded a price increase during the first quarter of 2019 (see Table 12 in the Appendix for more details). However, the price gain was most pronounced in the categories “Food”, “Clothing & footwear”, and “Housing”. The increase in the category “Food” (4.6%) was primarily related to price gains of meat & fish, potatoes, vegetables & fruits, and outdoor consumption. In the category “Clothing and footwear” (4.2%), prices particularly of clothing rose, following a decline in the first quarter of 2018. Meanwhile, the higher inflationary pressures in the category “Housing” (2.4%) were fueled by increases in dwelling costs, energy prices, and maintenance costs, moderated by a decline in water tariffs. Prices accelerated also in the category “Beverages & tobacco” (2.5%) but decelerated in the category “Transport & communication” (0.7%). The deceleration in the latter category reflected a slowdown in gasoline price increases mitigated by a stronger increase in the prices of transport vehicles.

Graph 2 shows the development of the headline inflation and core inflation rates of Curaçao on a quarterly basis over the period 2014-I to 2019-I. In this case, core inflation is measured in five ways, namely (1) the inflation rate excluding electricity prices, (2) the inflation rate excluding fuel prices, (3) the inflation rate excluding electricity and fuel prices, (4) the inflation rate excluding food prices, and (5) the inflation rate excluding food, fuel and electricity prices.

Graph 2 Comparison between consumer prices and core consumer prices[a]



A comparison between the headline inflation and the core inflation rates reveals that the food prices, in particular, exerted an upward pressure on the general inflation rate during the first quarter of 2019. The core inflation excluding food prices was 1.5% compared to the general inflation rate of 2.1%. Meanwhile, the core inflation excluding gasoline prices was 2.2%. Hence, the slowdown in gasoline prices moderated the increase in the headline inflation. The moderate increase in electricity prices did not affect the general inflation rate during the first quarter of 2019; the core inflation excluding electricity prices was at the same level as the general inflation rate, i.e., 2.1%. Meanwhile, the core inflation excluding both electricity prices and gasoline prices was 2.2%. In addition, the core inflation excluding food, electricity and gasoline prices rose from 0.8% in the first quarter of 2018 to 1.6% in the first quarter of 2019.

GENERAL ECONOMIC DEVELOPMENTS IN SINT MAARTEN

Real GDP expanded by 8.4% in Sint Maarten during the first quarter of 2019 compared to 2018, a robust turnaround compared to the 9.5% contraction experienced in the first quarter of 2018 (see Table 6). Net foreign demand was the main driver behind the country's real GDP growth propelled by a rebound in both stay-over and cruise tourism arrivals and a subsequent uptick in tourism-related activities. Meanwhile, inflationary pressures increased slightly (0.6%) in the first quarter of 2019.[3]

An expenditure analysis of GDP shows that Sint Maarten's domestic expenditure contributed negatively to real GDP in the first quarter of 2019 because of a drop in public demand. Public consumption fell mainly as outlays on goods & services dropped due to liquidity shortfalls, i.e., a financing constraint. Public investments declined due to, among other things, delays in the approval of the 2019 budget. By contrast, the private sector contributed positively to real GDP growth. Private investments rose at a faster pace in the first quarter of 2019 than in the first quarter of 2018 as widespread reconstruction, refurbishment, and repair activities continued apace. Private consumption increased on the back of, among other things, higher employment because of the reopening of some hotels and other tourism-related businesses.

Meanwhile, the turnaround in net foreign demand was the primary driver of real GDP expansion as exports accelerated at a faster pace than imports. The boost in exports was driven by the surge in stay-over and cruise tourism arrivals and the increase in tourism-related activities compared to the first quarter of 2018. The import bill rose mainly as a result of the ongoing reconstruction activities.

[3] The Sint Maarten Department of Statistics (STAT) adopted a new methodology for collecting and measuringConsumer Price Inflation (CPI) with 2018 as the base year.

Table 6 Sint Maarten - GDP by expenditure[ab]

	2015-I	2016-I	2017-I	2018-I	2019-I
Domestic expenditure, of which:	**1.3**	**-1.2**	**-0.6**	**-0.1**	**-0.1**
Private sector	0.8	-1.0	-0.3	-2.2	1.5
Investment	0.3	0.4	0.1	0.1	0.8
Consumption	0.5	-1.4	-0.4	-2.3	0.7
Government	0.5	-0.2	-0.3	2.1	-1.6
Investment	1.0	-0.7	-0.3	0.2	-0.2
Consumption	-0.6	0.5	-0.0	1.9	-1.4
Changes in inventory	**-0.3**	**-0.2**	**-0.1**	**0.1**	**-0.2**
Foreign net expenditure, of which:	**0.6**	**1.8**	**0.2**	**-9.5**	**8.7**
Export of goods and services	-0.1	0.5	-0.2	-11.7	10.6
Import of goods and services	-0.7	-1.3	-0.4	-2.2	1.9
GDP	**1.6**	**0.4**	**-0.5**	**-9.5**	**8.4**

Source: Estimates of the Centrale Bank van Curaçao en Sint Maarten.
[a]Expenditure categories data are weighted contributors to GDP growth.
[b]Real percentage changes.

DOMESTIC PRODUCTION

An analysis of GDP by sector (production) shows that both the private and public sectors were responsible for Sint Maarten's recovery in the first quarter of 2019. The public sector contributed to real GDP growth because of higher taxes collected on goods and services, in particular, turnover tax, due to more private spending and tourism-related business activities.

Activities in nearly every economic sector in Sint Maarten experienced a positive turnaround during the first quarter of 2019 compared to 2018's first quarter (see Table 7).

Activities in the construction sector grew (3.5%) during the first quarter of 2019, albeit at a slower pace than in the first quarter of 2018, due mainly to ongoing repair and reconstruction efforts following the passage of Hurricane Irma and the start of new projects.

In addition, the manufacturing sector experienced a positive turnaround (2.4%) compared to the first quarter of 2018 because of an increase in ship-repair

Table 7 Sint Maarten - GDP by sector[a]

	2015-I	2016-I	2017-I	2018-I	2019-I
Agriculture, fishery, & mining	0.0	0.0	0.0	0.0	0.0
Manufacturing	-0.4	3.0	1.4	-5.0	2.4
Electricity, gas, & water	0.3	0.1	0.5	-17.7	8.8
Construction	1.0	1.3	0.9	5.0	3.5
Wholesale & retail trade	1.6	-0.8	-2.1	-12.6	8.6
Restaurants & hotels	4.6	5.8	-2.2	-23.4	28.4
Transport, storage, & communication	0.8	0.6	-0.5	-12.4	20.1
Financial intermediation	-1.4	-1.2	0.9	-9.6	3.9
Real estate, renting, & business activity	0.9	1.5	-0.5	-4.9	4.7
Other community, social, & personal services	0.7	1.4	-0.8	1.0	-2.3
Private households	2.7	1.9	-1.4	2.6	2.5
Total private sector	0.9	0.8	-0.5	-7.1	7.4
Public sector	0.3	-0.1	-0.1	0.0	0.0
Taxes minus subsidies	0.4	-0.3	0.1	-2.5	1.0
GDP	**1.6**	**0.4**	**-0.5**	**-9.5**	**8.4**

Source: Estimates of the Centrale Bank van Curaçao and Sint Maarten.
[a]Real percentage changes.

activities as many yachts, including mega-yachts, returned to the harbor of Philipsburg and to marinas in the Simpson Bay Lagoon during the 2019 yachting high season.

Real value added in the utilities sector rebounded positively during the first quarter of 2019 (8.8%), compared to the severe contraction seen in the first quarter of 2018. This development was in line with robust growth in the demand for electricity and water as some large consumers such as hotels and supermarkets re-opened after prolonged closure, and the restoration of damaged water tanks which helped boost water production.

Activities in the wholesale & retail trade sector turned around positively during the first quarter of 2019 (8.6%) compared to the severe contraction seen in the first quarter of 2018, due to the rise in both private and tourism spending. The reopening of many retailers in Philipsburg also contributed to the turnaround in the wholesale & retail trade sector.

Real value added in the restaurants & hotels sector grew robustly during the first quarter of 2019 (28.4%), a strong turnaround from the deep contraction seen in the first quarter of 2018, largely because of the return of tourism and tourism-related activities. Stay-over arrival levels surged (142.1%) mainly because of the reopening of some major hotels and the partial restoration of operations at the main terminal building of the Princess Juliana International Airport, allowing for the processing of higher volumes of passengers and flights. All major tourism markets demonstrated positive turnarounds, albeit still below pre-Irma levels in absolute terms.

During the first quarter of 2019, stay-over arrivals from North America, Sint Maarten's main tourism market, soared (302.1%) compared to the profound contraction experienced during the first quarter of 2018. The number of visitors from both the United States (286.6%) and Canada (582.0%) surged dramatically. In addition, stay-over arrivals from Europe grew robustly (43.0%). Visitor numbers from France rebounded sharply (51.2%) along with a milder increase in visitors from the Netherlands (11.3%). The number of visitors from South America also rebounded sharply (166.1%) while those from the Caribbean increased as well, albeit at a slower pace (7.4%). (See Table 11 in the Appendix for more details.)

Similarly, cruise tourism experienced a robust turnaround (84.4%) during the first quarter of 2019 compared to the first quarter of 2018. This turnaround was the result of the return of regular cruise ship visits, whose itineraries are booked well in advance, and the increase or re-opening of cruise tourism-related attractions and activities in the country, such as shore excursions and zip-lining, among other things.

Correspondingly, activities in the transport, storage, & communication sector turned around positively during the first quarter of 2019 (20.1%) compared to the severe drop in activities in the first quarter of 2018. The rebound was driven by the positive turnarounds in both airport-related activities and harbor activities. Airport-related and air transportation activities increased (51.4%) in line with the sharp rise in stay-over tourism. Harbor-related activities rose (34.3%) in line with the positive turnaround in the number of cruise ships, tankers, and freighters piloted into the harbor during the first quarter of 2019.

The real estate, renting, & business activities sector also turned around positively in the first quarter of 2019 (4.7%) compared to the first quarter of 2018, as the sector was buoyed by the sharp increase in stay-over tourism, including the time-share industry.

Finally, activities in the financial intermediation sector rebounded (3.9%) in the first quarter of 2019 and contributed positively to Sint Maarten's real GDP growth, as interest income of the domestic commercial banks increased at a faster pace than interest expenses, and transaction fees increased due to more bank transactions.

DEVELOPMENTS IN THE PUBLIC FINANCES

Public finances of Curaçao

The public finances of Curaçao worsened during the first quarter of 2019 compared to the first quarter of 2018[4] as the surplus on the current budget dropped by NAf.23.1 million reaching NAf.65.2 million.[5] Despite this deterioration, the government managed to realize a budget surplus close to the projection for the first quarter of 2019. Furthermore, the debt-to-GDP ratio declined slightly from 52.8% at the end of December 2018 to 51.1% at the end of March 2019.

The deterioration of the fiscal position during the January to March period of 2019 was caused by a decline in government revenues (NAf.220.9 million) mitigated by a drop in expenditures (NAf.197.8 million). Revenues went down mainly as a result of NAf.218.3 million less in nontax revenues, combined with a slight decrease of NAf.2.6 million in tax proceeds. Nontax revenues declined because as of May 2018, the revenues of the social security bank, SVB, are excluded from the current budget of the government of Curaçao. Tax revenues went down due to less proceeds from profit tax (NAf.4.4 million) and import duties (NAf.2.8 million). However, the decline in tax revenues was mitigated by an increase in the proceeds from taxes on property (NAf.4.3 million), reflecting an improvement in compliance, an increase in proceeds from wage tax (NAf.3.8 million), and more revenues from excises (NAf.2.4 million), particularly tobacco. Meanwhile, expenditures decreased due primarily to NAf.198.9 million less spending on transfers & subsidies caused by the exclusion of SVB's expenditures from the government's current budget as of May 2018. The rise of NAf.6.5 million in the outlays on goods & services mitigated the fall in expenditures slightly. (See Tables 13A and 13B in the Appendix for a detailed overview.)

Excluding the revenues and expenditures of the SVB also from the current operations in the first quarter of 2018, the government of Curaçao would have recorded a surplus of NAf.85.1 million on its current budget in the first quarter of 2018. This figure compares to NAf.88.3 million when including the SVB. Hence, excluding the SVB would result in a deterioration in the current budget of NAf.19.9 million in the first quarter of 2019, compared to 2018's first quarter.

Public sector debt of Curaçao

The total outstanding public debt of Curaçao reached NAf.2.881 billion at the end of March 2019, a drop of NAf.75.8 million compared to the end of December 2018. This drop was caused by a decline in the domestic debt component, while the foreign debt component increased. The domestic debt dropped by NAf.130.0 million in the first quarter of 2019 because of a settlement[6] of NAf.147.9 million in outstanding arrears towards the public pension fund, APC, moderated by an increase in outstanding arrears towards the social security bank, SVB (NAf.16.1 million). Meanwhile, the foreign

[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 2019.*

[6] *The government made an arrangement with APC to settle and pay off its arrears*

debt component increased by NAf.54.2 million, due to a bond of NAf.69.1 million issued in January 2019 moderated by the amortization of a sinking bond issued in January 2015 for the financing of the new hospital. Consequently, the debt-to-GDP ratio dropped by 1.7 percentage points to 51.1% at the end of March 2019 compared to the end of December 2018. (See Table 13C in the Appendix for a detailed overview.)

Public finances of Sint Maarten

The 2019 budget of the government of Sint Maarten was not approved by Parliament until July 2019. This significant delay hampered the execution of capital investments and policy measures to achieve sound public finances and support the recovery of the economy. Nevertheless, during the first quarter of 2019, the government recorded a surplus of NAf.3.8 million on its current budget. This surplus is a turnaround compared to the deficit of NAf.12.9 million that was recorded in the first quarter of 2018.

An analysis of the fiscal operations during the first quarter of 2019 shows that the improvement of the current budget was attributable to an increase of NAf.7.8 million in the government revenues combined with a decline of NAf.8.9 million in expenditures. Revenues went up mainly due to higher tax proceeds, especially NAf.5.5 million and NAf.4.1 million more proceeds from turnover tax and vehicle tax, respectively. The higher proceeds from turnover tax, in particular, is in line with the gradual recovery of economic activities in Sint Maarten following the hurricane in 2017. Furthermore, taxes on property increased by NAf.2.0 million. On the other hand, taxes on income and profits dropped by NAf.7.7 million, mitigating the rise in tax revenues. In addition, more earnings from licenses and concessions & fees contributed to the increase in government revenues. The higher earnings from licenses were in line with an increase of private investment projects for reconstruction. Meanwhile, consistent with the economic recovery of Sint Maarten, revenues from concessions & fees reached pre-hurricane levels.

Expenditures dropped due to NAf.5.7 million lower outlays on goods & services, particularly NAf.3.7 million less spending on projects and activities. Furthermore, interest payments were down by NAf.3.0 million during the first quarter of 2019 compared to 2018's first quarter. (See Tables 14A and 14B in the Appendix for a detailed overview.)

Public sector debt of Sint Maarten

The government of Sint Maarten lowered its outstanding public debt slightly by NAf.13.5 million during the first quarter of 2019. This decline was caused by a drop in the domestic debt component as the foreign debt component remained unchanged. Domestic debt fell because the government paid off part of its outstanding arrears towards the social security bank, SZV. Consequently, Sint Maarten's debt-to-GDP ratio went down from 43.1% at the end of the fourth quarter of 2018 to 40.4% at the end of the first quarter of 2019. (See Table 14C in the Appendix for a detailed overview.)

DEVELOPMENTS IN THE BALANCE OF PAYMENTS OF THE MONETARY UNION

During the first quarter of 2019, the current account deficit of the balance of payments of the monetary union narrowed to NAf.136.3 million from NAf.192.6 million in the first quarter of 2018. The lower deficit was caused by an increase in the net export of goods and services, moderated by a worsening of the current transfers balance. Meanwhile, gross official reserves increased by NAf.153.0 million as the external financing was more than sufficient to cover the current account deficit (see Table 8).

Table 8 Balance of payments summary (in millions NAf.)

	2015-I	2016-I	2017-I	2018-I	2019-I
Current account	**-3.2**	**-53.1**	**-181.8**	**-192.6**	**-136.3**
Capital transfers	0.2	0.5	0.6	3.3	0.4
External financing of the government	1.2	7.3	3.3	13.5	0.6
External financing of the private sector	263.4	102.9	154.0	179.8	326.1
Direct investment	29.9	42.9	136.8	-77.3	108.9
Loans and credits	-99.9	-73.2	-36.7	-184.0	164.8
Portfolio investment	333.4	133.2	53.9	441.1	52.4
Change in gross reserves of the central bank*	**290.9**	**88.5**	**-45.9**	**4.8**	**153.0**
Foreign exchange	10.3	180.6	-77.3	-90.0	233.0
held at foreign central banks	2.7	105.5	-38.3	-44.3	658.3
held at foreign commercial banks	7.7	75.1	-39.0	-45.6	-425.3
Other claims	280.6	-92.1	31.4	94.8	-79.9
Statistical discrepancies	31.7	45.7	-15.4	27.9	-36.6

** Plus-sign is an increase*

CURRENT ACCOUNT

Net export of goods and services in the monetary union increased by NAf.305.4 million reflecting a growth in exports (NAf.236.4 million) combined with lower imports (NAf.69.0 million). The tourism sector in both Curaçao and Sint Maarten contributed greatly to the gain in exports. Below follows an analysis of the developments in the net export of goods and services in Curaçao and Sint Maarten.[7]

Developments in the net export of goods and services in Curaçao

In Curaçao, the net export of goods and services rose by NAf.77.0 million as a result of a decline in imports (NAf.81.3 million). During the first quarter of 2019, the import of construction services shrank reflecting less maintenance work at the Isla refinery and the construction of the new hospital reaching its final stages. Furthermore, merchandise imports by the wholesale & retail trade sector dropped, in line with the contraction in domestic demand. The manufacturing sector also imported less merchandise in the first quarter of 2019 than in the first quarter of 2018 due to a decline in refining activities and maintenance work at the Isla refinery. In addition, the import of legal & management consulting services, advertising & marketing services, and insurance & pension services dropped. By contrast, the oil import bill rose, reflecting an increase in the average purchase price for fuel[8] and higher volumes purchased.

[7] 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.

[8] Because of fewer oil products produced by the Isla refinery, Curoil N.V. purchased more oil products from other suppliers abroad at higher costs.

Exports dropped slightly (NAf.4.2 million) during the first quarter of 2019 as the decline in foreign exchange receipts from refining, transportation, and international financial services offset the increases in the earnings from tourism and bunkering activities. The foreign exchange revenues from refining activities (i.e., the refining fee) continued to drop during the March quarter of 2019 due to lower production activities at the Isla refinery. Meanwhile, the drop in the earnings from transportation services provided to abroad was related primarily to the bankruptcy of the domestic airline InselAir in February 2019. The decline in international financial services reflects mainly less trust and other business services provided to abroad. On the other hand, foreign exchange revenues from tourism activities rose, driven by more stay-over tourism in line with the increase in the number of stay-over visitors. However, despite a growth in the number of cruise tourists, foreign exchange earnings from cruise tourism dropped because of a decline in the average spending of cruise visitors. The gain in foreign exchange revenues from bunkering activities reflected mainly more volumes sold.

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

Sint Maarten registered an increase of NAf.229.6 million in the net export of goods and services driven by a considerable growth in exports (NAf.240.1 million), moderated by higher imports (NAf.10.5 million). The growth in exports was caused primarily by a surge in the foreign exchange revenues from tourism activities. Following a deep contraction in the first quarter of 2018 due to the damage Hurricane Irma caused to Sint Maarten's tourism infrastructure, foreign exchange earnings from stay-over tourism rose considerably during the first quarter of 2019 in line with the increase in the number of stay-over visitors. However, foreign exchange earnings are still below pre-hurricane levels. In addition, earnings from cruise tourism rose, consistent with an increase in the number of cruise tourists that visited Sint Maarten.

Foreign exchange earnings from transportation services provided to abroad also turned around from a decline in the first quarter of 2018 to an increase in the first quarter of 2019. The increase in 2019's first quarter reflected more cruise fees earned at the harbor and more air transportation services provided by the domestic carrier Winair. Furthermore, foreign exchange revenues from business services rose, particularly real estate services provided to abroad.

The increase in the import bill was related primarily to the ongoing reconstruction activities in Sint Maarten. The main economic sectors of the country, i.e., restaurants & hotels, real estate, and transportation imported more construction services to restore key infrastructure that was damaged by the hurricane in 2017. Furthermore, other business services, such as legal & management consulting services, were imported by the retail and transportation sectors. However, the increase in the import bill was dampened by lower merchandise imports by the wholesale sector. Also, oil imports dropped in line with the decline in average international oil prices during the first quarter of 2019 compared to the first quarter of 2018.

Developments in the income balance and current transfers balance

The income balance remained practically unchanged as the growth in labor income earned from abroad and the rise in dividend and interest income received on foreign assets were offset by more dividend and interest paid to foreign investors.

The current transfers balance deteriorated by NAf.247.8 million during the first quarter of 2019 compared to the first quarter of 2018, due mainly to a decline in current transfers received from abroad. In the first quarter of 2018, the inflow of funds related to the claims of local insurance companies to pay their clients in Sint Maarten whose properties were damaged, resulted in a marked increase in the current transfers received from abroad. Because most of these claims have been settled, the inflow of insurance claims dropped in the first quarter of 2019.

Overall, the deficit on the current account dropped by NAf.56.4 million, reaching NAf.136.3 million in the first quarter of 2019. (See Table 15 in the Appendix for a detailed overview.)

Developments in the financial and capital account

External financing into the monetary union rose by NAf.325.5 million as a result of a worsening of the loans & credits, direct investment, and portfolio investment balances.

The loans & credits balance deteriorated by NAf.164.8 million due mainly to a decline in foreign deposits of residents of Curaçao and Sint Maarten. However, a decline in nonresidents' deposits in the monetary union moderated the deterioration of the loans & credits balance. In contrast, the net trade credit balance improved, reflecting an increase in trade credit extended on exports by local merchants combined with the net repayment of trade credit received in the past on imports.

The direct investment balance worsened by NAf.108.9 million primarily because of the acquisition of the state-owned telecommunication company of Curaçao, UTS N.V., by the foreign telecommunication company Liberty Latin America. Furthermore, liabilities of local companies towards their foreign parent companies rose in, among other things, the financial intermediation sector. The investment in real estate in Curaçao and Sint Maarten by non-residents also contributed to the increase in net direct investments into the monetary union.

The deterioration of the portfolio investment balance by NAf.52.4 million was largely the result of the issuance of a bond loan by the government of Curaçao in January 2019 that was entirely purchased by the Dutch State because of the standing subscription agreement. Also, the purchase by foreign investors of equity securities issued by local insurance companies contributed to the deterioration of the portfolio investment balance. However, this deterioration was moderated by an increase of investments in foreign bonds and notes by local commercial banks and institutional investors.

As the external financing was more than sufficient to cover the current account deficit during the March quarter of 2019, gross official reserves grew by NAf.153.0 million. (See Table 16 in the Appendix for a detailed overview.)

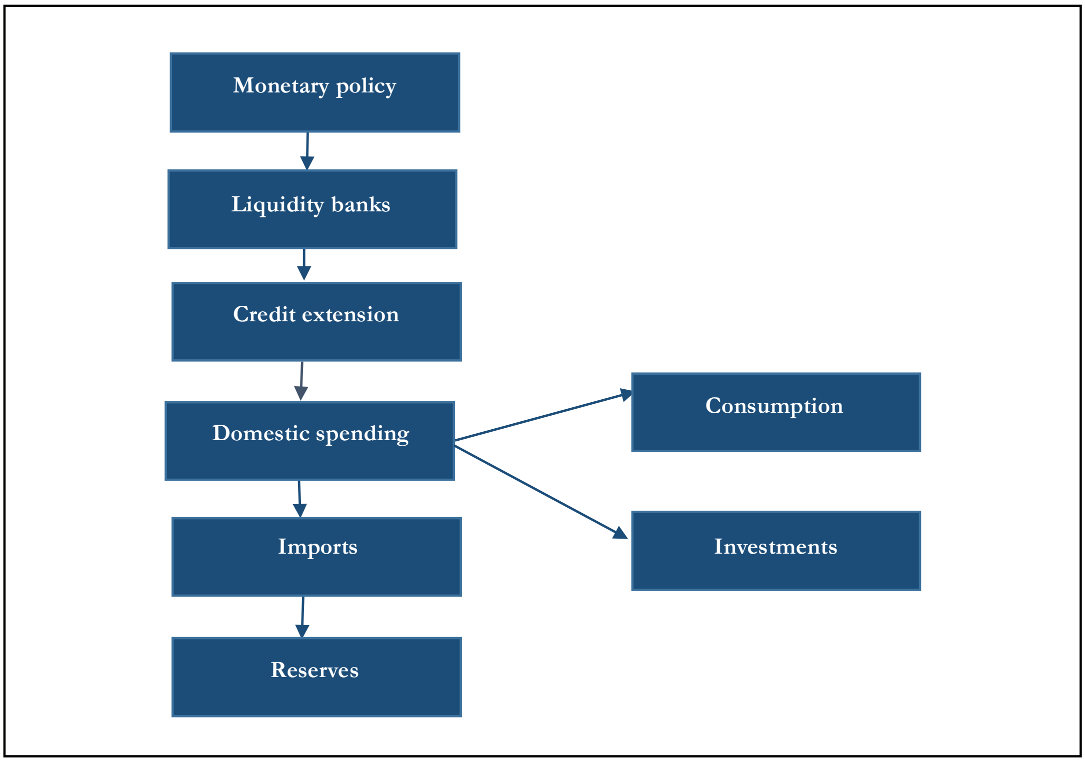
IV MONETARY DEVELOPMENTS

INTRODUCTION

The main objective of the monetary policy in the monetary union of Curaçao and Sint Maarten is maintaining the external stability of the common currency, the Netherlands Antillean guilder (NAf). This objective is pursued by maintaining a fixed peg with the US$ and guaranteeing the convertibility between these two currencies. To this aim, the Bank applies an operational target for the level of official reserves equal to approximately three months of goods and services imports (i.e., the import coverage), thus guaranteeing unhampered payments for international transactions.

The Bank's monetary policy instruments are aimed primarily at influencing the amount of domestic base money, or more specifically, the commercial banks' available liquidity, which is reflected by their current account balances at the Bank. In the end, the liquidity intervention should have an impact on the growth of domestic credit extension, domestic spending, imports, and ultimately, the level of official

Figure 1 Monetary transmission mechanism



reserves (see Figure 1). Currently, the monetary policy instruments used by the Bank are the reserve requirement, open market operations, specifically the issuing of certificates of deposit (CDs), and the pledging rate.

LIQUIDITY OF THE COMMERCIAL BANKS

Graph 3 shows the development in the liquidity of the commercial banks. In the first quarter of 2019, bank liquidity dropped slightly compared to the fourth quarter of 2018 caused mainly by the net purchase of foreign exchange and the withdrawal of dollar deposits by the commercial banks at the Bank, and the increase in the required reserves.

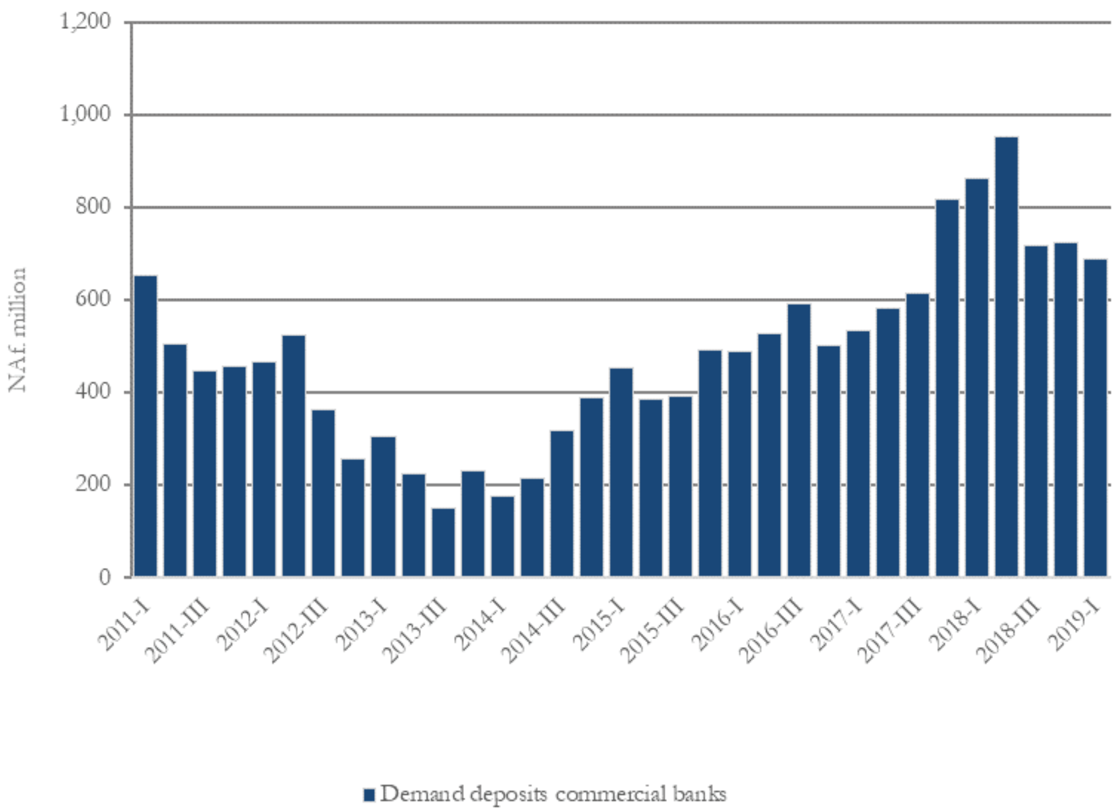
CREDIT EXTENSION TO THE PRIVATE SECTOR

Following an increase of 2.1% in the fourth quarter of 2018, credit extension to the private sector grew at a slower pace of 0.1% in the first quarter of 2019 as the increase in business loans (0.1%) and the "other" loan category[9] (1.5) was moderated by a decline in consumer loans (-0.2%). Meanwhile, the outstanding mortgages remained unchanged (0.0%).

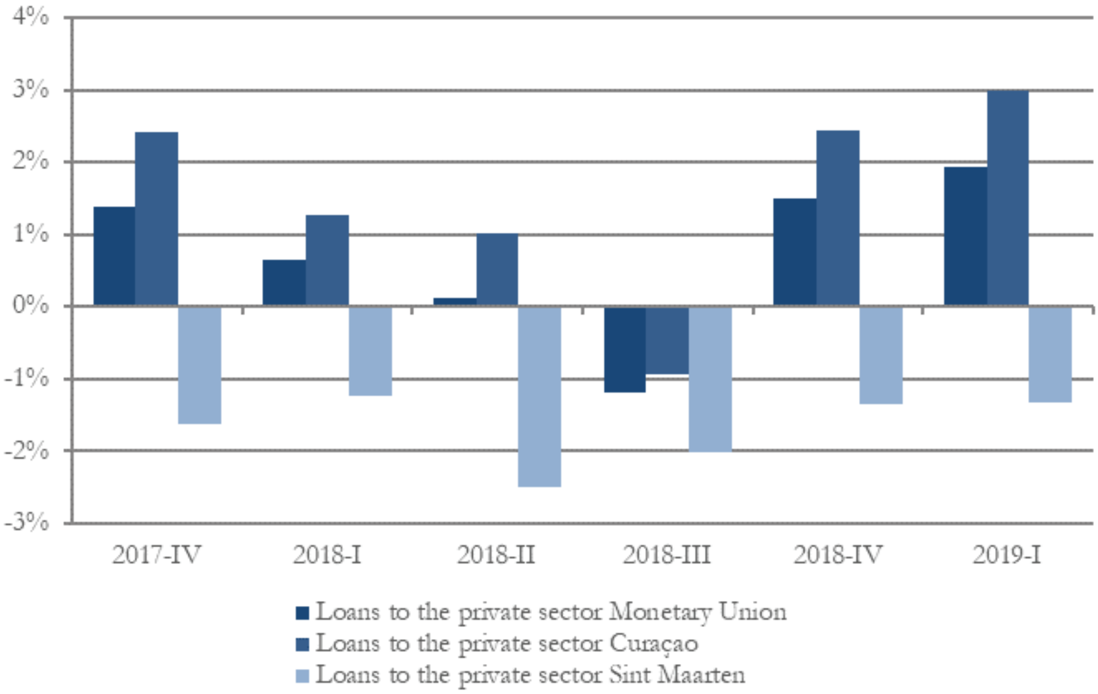
In Curaçao, total loans increased by 0.1% reflecting a growth in consumer loans (0.1%) and the "other" loan category (1.7%).

[9] *The other loan category contains loans that cannot be classified under consumer loans, business loans, or mortgages, e.g., credit loans.*

Graph 3 Development of the commercial banks' liquidity



Graph 4 Development in private credit extension (year-on-year)



Outstanding mortgages and business loans remained practically unchanged during the March quarter of 2019. Total loans declined in Sint Maarten (-0.1%) as consumer loans (-1.7%) and the "other" loan category (-4.0%) declined. By contrast, business loans (0.7%) and mortgages (0.1%) recorded a slight increase. (See Table 19 in the Appendix for a detailed overview.)

On an annual basis, private credit extension in the monetary union rose by 1.9% in the first quarter of 2019 driven by an increase in outstanding loans in Curaçao (3.0%) moderated by a decline in Sint Maarten (-1.3%) (see Graph 4).

IMPORT OF GOODS AND SERVICES

As discussed in more detail in the section on the balance of payments developments, the import of goods & services in the monetary union dropped by NAf.69.0 million during the first quarter of 2019 compared to the first quarter of 2018. The lower import bill was caused primarily by a decline in merchandise imports by the wholesale & retail trade and manufacturing sectors in Curaçao. Also, the merchandise imports by the wholesale sector in Sint Maarten went down.

FOREIGN EXCHANGE RESERVES

During the first quarter of 2019, gross official reserves[10] rose by NAf.153.0 million compared to the fourth quarter of 2018, reflecting primarily the inflow of funds from abroad related to the privatization of the state-owned telecommunication company of Curaçao, UTS N.V., and the

[10] The Bank discloses an overview of the foreign exchange reserves of the monetary union through the publication of the weekly international reserves statement on its website.

repatriation of funds from abroad by an institution under the emergency rule (see Graph 5).

IMPORT COVERAGE

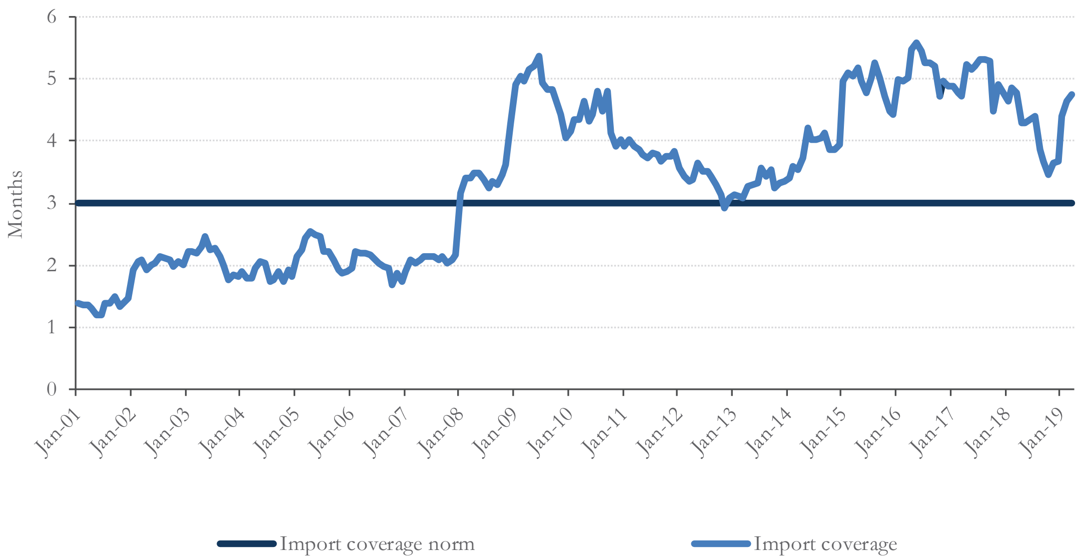
The import coverage, calculated as the number of months the foreign exchange reserves of the Bank (excluding gold) can cover the import of goods and services, rose from 3.7 months at the end of 2018 to 4.8 months at the end of March 2019. The increase in the import coverage was the result of the rise in official reserves combined with lower imports (see Graph 6).

MONETARY POLICY

The Bank deploys its current monetary policy instruments to influence bank reserves, i.e., liquidity. By imposing a reserve requirement and conducting open market operations, the Bank can to

Graph 5 Development in gross official reserves

Graph 6 Development in the import coverage



a certain extent influence the balances of the commercial banks on its balance sheet. However, a variety of autonomous factors outside the control of the Bank also influence the liquidity in the banking system, e.g., changes in the stock of net foreign assets of the banks and government deposits with the Bank.

Reserve requirement

The reserve requirement is an instrument of monetary policy aimed primarily at influencing the money-creating capacity of the domestic banks. Under the reserve requirement, the banks have to place a non-interest-bearing deposit (reserve requirement) on a blocked account with the Bank for a certain period of time.

In the monetary union of Curaçao and Sint Maarten, the reserve requirement is a key monetary policy instrument and is fixed for a four-week period. Since June 16, 2014, the percentage of the reserve requirement has remained unchanged at 18.00% of the adjusted domestic debt of the banks.[11] Furthermore, as of March 1, 2016, commercial banks that are placed under the emergency measure by the Court of First Instance are exonerated from the reserve requirement.

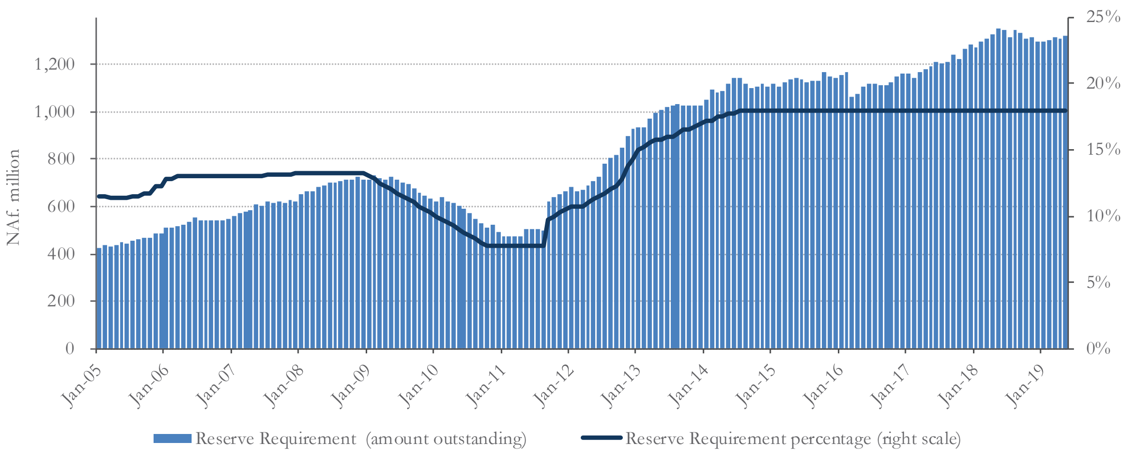
The percentage of the reserve requirement is high compared to the region. Although a gradual further increase of the percentage can effectively reduce the level of excess reserves of the banking system, the Bank has been reluctant to take this step. Moreover, the current excess reserves have not translated into excessive credit growth. Consequently, during the first quarter of 2019, the Bank kept the reserve requirement percentage at 18.00%. Nevertheless, the amount of required reserves rose as a result of the higher base amount upon which it is calculated (see Graph 7).

Open market operations

Open market operations are an indirect monetary policy instrument. Also through

[11] *The domestic debt, i.e., the deposit base minus long-term deposits because of the low chance these will be withdrawn for spending and, hence, imports.*

Graph 7 Reserve requirement



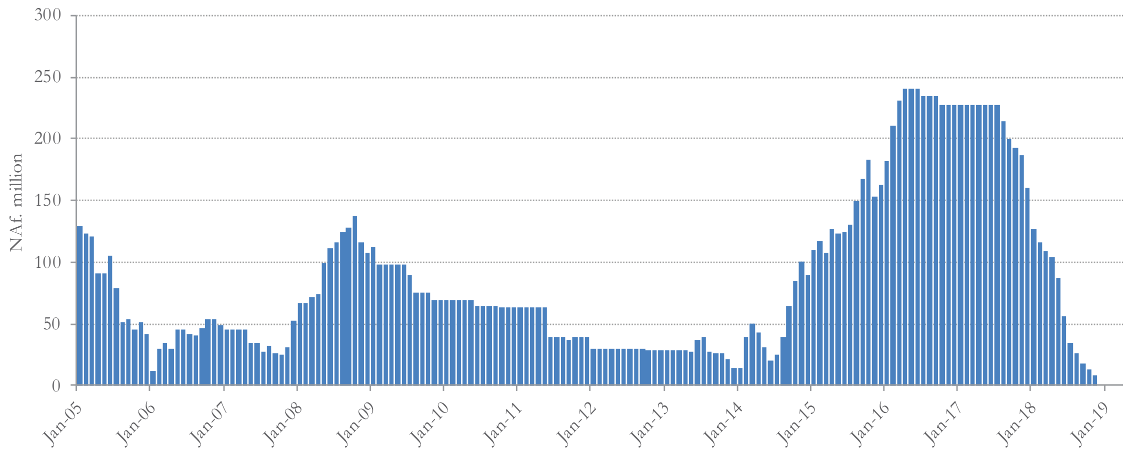
open market operations, the liquidity in the banking system and, hence, the extension of credit, can be influenced. Open market operations include the issuing of certificates of deposit (CDs) and the purchase or sale of government securities (treasury bills and bonds) and bonds of government-owned corporations. Up to the fourth quarter of 2018, only the issuing of certificates of deposit has been used as an open market instrument in the monetary union of Curaçao and Sint Maarten.

Certificates of deposit

The Bank has been issuing its own securities, i.e., certificates of deposit (CDs), via a bi-weekly tender system. Through the issuance of these securities, the Bank tries to influence the liquidity of the commercial banks, complementing the reserve requirement while simultaneously offering an investment opportunity.

Beginning in the second quarter of 2016, the Bank focused only on the refinancing of maturing CDs during the bi-weekly auctions. As of August 18, 2017, the Bank began gradually reducing the amount of outstanding CDs by offering lower amounts than matured at the auctions. Furthermore, the CDs were offered at an increasing haircut on the US dollar libid rate[12] to which the CD rates are linked. This policy was pursued because of the high import coverage of over 5 months and the low growth rate of private credit. As a result, by the end of 2018, no CDs were outstanding, and the auctions were suspended temporarily. Therefore, during the first quarter of 2019, no CD auctions were held [13] (see Graph 8).

Graph 8 Outstanding certificates of deposit



[12] The libid rate (London Interbank Bid Rate) is derived from the libor rate (London Interbank Offered Rate). These rates are determined in the London interbank market and are used internationally as reference rates.

[13] The CD auctions were resumed in August 2019.

Pledging rate

The pledging rate is the rate at which the commercial banks can borrow at the Bank. Because of the peg of the NAf. to the US dollar, the interest rates in the international money market affect the interest rates in the money market of the monetary union of Curaçao and Sint Maarten. For example, the interest rates offered by the Bank on the biweekly auctions of certificates of deposit (CDs) for the banks are based on the international US dollar libid rate.[14]

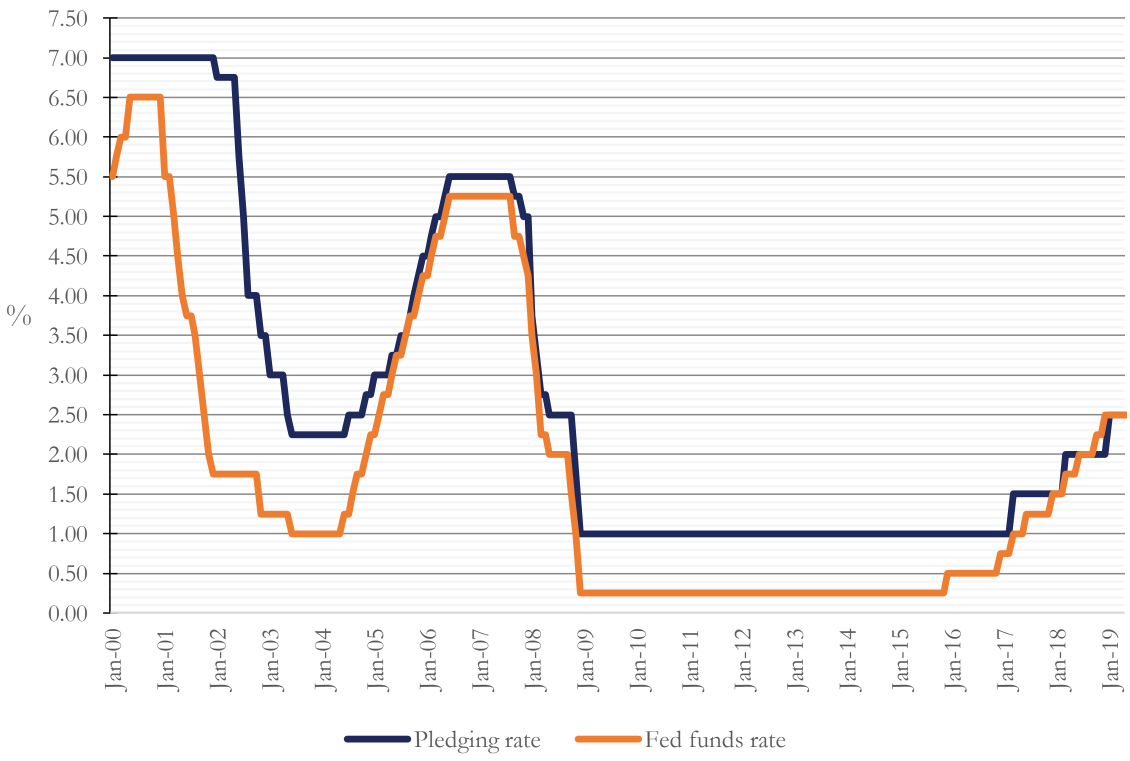
[14] *The London Interbank Bid Rate (LIBID) is the average interest rate at which major London banks bid for eurocurrency deposits from other banks in the interbank market. It is the bid rate that banks are willing to pay for eurocurrency deposits and other banks' unsecured funds in the London interbank market. Eurocurrency deposits refer to money in the form of bank deposits of a currency outside that currency's issuing country. They may be of any currency in any country. The most common currency deposited as eurocurrency is the U.S. dollar.*

An increase of the Fed funds rate[15] immediately affects the international money market rates. Therefore, the Bank adjusts its pledging rate in line with the changes in the Fed funds rate.

The Bank increased its official interest rate, the pledging rate, from 2.00% to 2.50% on January 1st, 2019, following the upward adjustments in the Fed funds rate. This was the third increase since the historical low level of 1.00% that had been effective since December 29, 2008. The previous increases took place on March 20, 2017, and March 27, 2018 (see Graph 9).

[15] *The interest rate at which banks and other depository institutions in the United States lend money to each other, usually on an overnight basis. The Fed funds rate is targeted by the Federal Open Market Committee of the Federal Reserve System (i.e., central bank) of the United States.*

Graph 9 Development in the pledging rate and the US effective Fed Funds rate



However, due to the current environment of excess liquidity whereby the commercial banks do not have to borrow at the Bank for funding their activities, no transmission occurred from the Bank's policy interest rate (i.e., pledging rate) to the lending rates of the commercial banks.

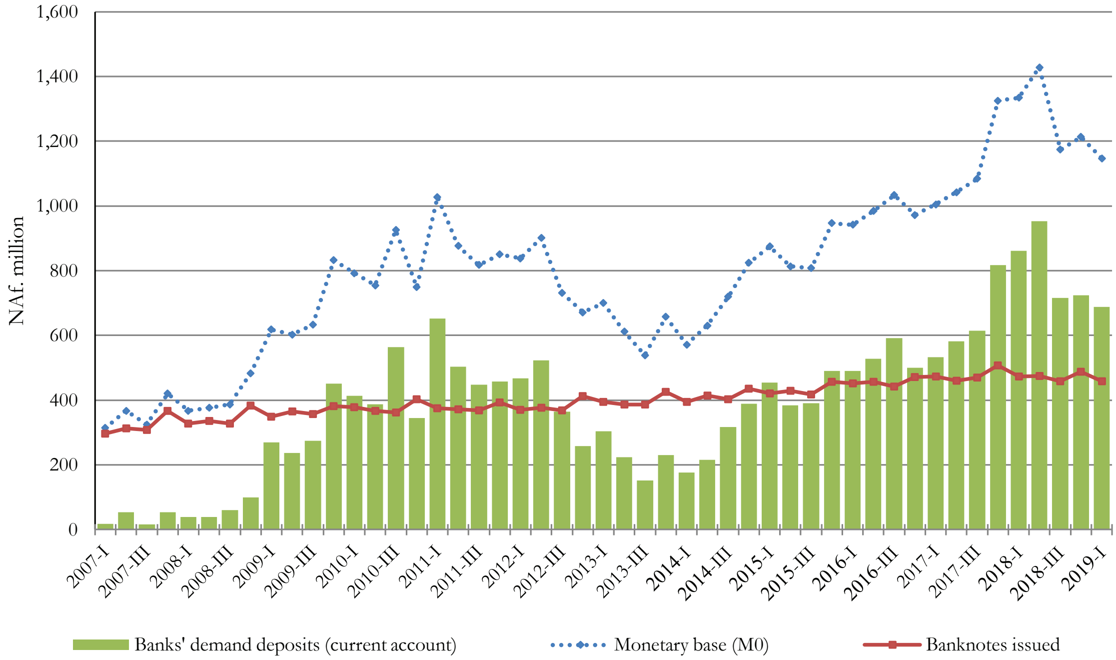
MONETARY BASE

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 contracted by NAf.65.9 million (5.4%) during the first quarter of 2019, following an increase by NAf.38.9 million (3.3%) in the fourth quarter of 2018. A drop in both the commercial banks' current account deposits with the Bank (NAf.36.6 million) and the currency in circulation (NAf.29.3 million) caused the decline in the monetary base. The decline in the currency in circulation is characteristic for the first quarter of the year when the public's demand decreases compared to the December holidays. Consequently, on an annual basis, the monetary base dropped by 14.0% in March 2019 compared to a contraction of 8.4% in December 2018. (See Graph 10.)

Changes in the monetary base can be explained in terms of movements in the Bank's assets and 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 decline in the monetary base during the first quarter of 2019 was caused by an increase in the Bank's nonmonetary liabilities moderated by an increase in assets.

The rise in the nonmonetary liabilities was driven by increases in private sector and government deposits. The

Graph 10 Development in the monetary base and its components



increase in private sector deposits was due largely to the transfer of funds from abroad by a financial institution under the emergency measure. Meanwhile, government deposits rose as a result of the transfer of funds from abroad related to the privatization of the state-owned telecommunication company of Curaçao, UTS N.V. Also, the issuance of a bond loan by the government of Curaçao and a bridge loan obtained by the government of Sint Maarten contributed to the increase in the government deposits. The Dutch State purchased all the bonds issued by the government of Curaçao[16] and extended the bridge loan to the government of Sint Maarten. For these transactions, the Dutch State used funds from its account at the Bank causing a decline of the foreign liabilities of the Bank, thereby moderating the increase in the Bank's remaining liabilities. Meanwhile, the increase in the Bank's assets was the result of a growth in foreign assets related mainly to transfer of funds from abroad by the financial institution under the emergency measure. (See Table 17 in the Appendix for a detailed overview.)

MONETARY AGGREGATES

The growth acceleration in broad money from 0.2% in the December quarter of 2018 to 1.9% in the March quarter of 2019 was caused by an increase in the narrow money component (M1). In contrast, near money contracted. (See Table 18 in the Appendix). On an annual basis, M2 contracted by 0.8% in March 2019.

[16] *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 (i.e., the standing subscription).*

Narrow money (M1) accounted for 51.1% of broad money at the end of March 2019 compared to 49.6% at the end of December 2018, reflecting a shift from near money to the narrow money category.

The increase by 5.0% in the narrow money component (M1) during the first quarter of 2019 resulted from an increase in demand deposits (NAf.241.0 million or 6.2%) mitigated by a drop in currency in circulation (NAf.27.9 million or -7.2%). The increase in demand deposits was driven by increases in both Netherlands Antillean guilder deposits (NAf.163.9 million or 6.2%) and foreign currency deposits (NAf.77.1 million or 6.0%).

The near money component fell by 1.2% in the first quarter of 2019 because of a drop in time deposits (NAf.72.2 million or -3.7%) mitigated by an increase in savings deposits (NAf.19.7 million or 0.8%). A shift occurred within near money from time deposits to savings deposits. Since mid-2017, the outstanding amount of savings deposits has outgrown time deposits, reflecting a move to cheaper funding as the commercials banks try to preserve their interest margin.

Factors affecting the money supply

The monetary expansion during the March quarter of 2019 stemmed from an increase in the net foreign assets of the banking system. This increase was mitigated by a contraction in net domestic assets.

Following a 1.5% decline (NAf.78.6 million) during the December quarter of 2018, net foreign assets increased by 10.5% (NAf.522.6 million) in the first quarter of 2019. This increase resulted from increases in the net foreign assets of both the commercial banks (NAf.277.2 million, or 13.7%) and the Bank (NAf.245.4 million or 8.2%). The increase in the net official reserves of the Bank resulted from the transfer of funds from abroad related to the privatization of the state-owned telecommunication company of Curaçao and the repatriation of funds from abroad by an institution under the emergency rule. Furthermore, the increase in the market value of gold contributed to the increase in net official reserves.

The drop in net domestic assets (NAf.362.0 million or 9.9%) was the result of a contraction in net claims on the government (NAf.187.3 million or 61.5%) and memorandum balance sheet items not related to transactions (NAf.182.2 million or 6.7%). The contraction in net claims on the government was due mainly to higher demand deposits of the government of Curaçao (NAf.184.2 million) at both the Bank and the commercial banks related to the issuance of a bond loan in January 2019 and funds received from abroad related to the privatization of the state-owned telecommunication company, UTS N.V.

Growth in credit to the private sector was rather flat (NAf.9.0 million, or 0.1%) during the first quarter of 2019. Amounts receivable (NAf.3.7 million), securities and participations (NAf.4.0 million), and credit extension to the private sector (NAf.3.5 million) increased slightly. (See Table 19 in the Appendix for a detailed overview.)

Developments in domestic interest rates

One of the instruments the Bank has used to absorb the excess liquidity of the commercial banks at the Bank is the auctioning of certificates of deposit (CDs). As of August 18, 2017, the Bank began gradually reducing the amount of outstanding CDs. By the end of 2018, there were no outstanding CDs left and no other local money market instruments to invest short-term funds. Consequently, the local commercial banks started to invest short-term funds abroad.

Due to the standing subscription by the Dutch State Treasury Agency (DSTA), which subscribes on local government 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 dropped from -0.21% in the December quarter of 2018 to -0.38% in the first quarter of 2019. By contrast, the indicative yield on 12-month treasury bills increased from -0.73% to -0.62. As a consequence of the large-scale asset-buying programs by the central banks, the negative nominal interest rates still prevail in Europe while the Fed completed a balance sheet normalization program by gradually reducing its securities holdings in 2017 and increased the Fed Fund rate three times in 2017 and four times in 2018. (See Table 20 in the Appendix for a detailed overview.)

V OUTLOOK

GLOBAL ECONOMY

The world economy is projected to grow at 3.0% in 2019[17], the weakest growth rate since the global financial crisis in 2008. The pace of expansion will weaken in both the advanced and the emerging & developing economies. The subdued global growth is being caused primarily by a slowdown in manufacturing activities and global trade. In addition, rising trade and geopolitical tensions have increased uncertainty about the future global trade and are taking a toll on business confidence and investment while affecting risk sentiment in the financial markets. However, accommodative monetary policy by major central banks is supporting aggregate demand.

Global economic growth is expected to accelerate slightly to 3.4% in 2020,[18] reflecting a growth pickup in the emerging market & developing economies mitigated by a further slowdown in the advanced economies. However, risks to the global economic outlook for 2019 and 2020 are tilted to the downside and include, among other things, a further escalation of trade and geopolitical tensions, a worsening of financial market sentiment, and a surge of international oil prices due to supply disruptions.

[17] IMF World Economic Outlook, October 2019.

[18] IMF World Economic Outlook, October 2019.

Both the United States and the Netherlands, two of the main trading partners of Curaçao and Sint Maarten, are projected to grow at a slower pace in 2019 and 2020.[19] In the United States, real GDP growth is projected to weaken from 2.9% in 2018 to 2.4% in 2019 and 2.1% in 2020. Private consumption and investment will increase at a slower pace as the support of the fiscal stimulus package gradually is fading. Furthermore, increased trade tariffs will put a drag on private sector investment and export growth. However, the strong labor market conditions will continue to support consumer spending.

The Dutch economic growth is expected to decline from 2.6% in 2018 to 1.8% in 2019 and 1.6% in 2020 as the worsening of the external environment will weaken export growth and affect business confidence and investments. Meanwhile, sustained by higher disposable income, private consumption will increase, and public demand will grow reflecting expansive fiscal policy by the Dutch government.[20]

Meanwhile, the deep economic crisis in Venezuela, which is an important trading partner particularly of Curaçao, is projected to continue. (See Table 9.)

[19] IMF World Economic Outlook, October 2019.

[20] CPB Netherlands Bureau for Economic Policy Analysis, Macro Economic Outlook 2020, September 2019.

Table 9 International indicators

	2016	2017	2018	2019	2020
Real GDP growth (%)					
World	3.4	3.8	3.6	3.0	3.4
Advanced economies	1.7	2.5	2.3	1.7	1.7
Emerging & developing economies	4.6	4.8	4.5	3.9	4.6
USA	1.6	2.4	2.9	2.4	2.1
Netherlands	2.2	2.9	2.6	1.8	1.6
Venezuela	-17.0	-15.7	-18.0	-35.0	-10.0

Source: IMF World Economic Outlook Database, October 2019

CURAÇAO

Outlook 2019

Curaçao's real GDP is expected to contract by 2.2% in 2019, the same pace as in 2018. The 2019 outlook is 0.4 percentage point lower than the one presented in August 2019.[21] The downward revision reflects primarily the increase of excises on tobacco, liquor and beer, and the sales tax rate on imports from 6% to 9% as of September 1st, 2019. It is assumed in this outlook that the Isla refinery remains open throughout 2019 but that its real value added drops by 20% compared to 2018 and will be at the minimum level needed to comply with its operational expenses including the payment of salaries. Meanwhile, consumer price inflation is expected to rise to 2.8% in 2019, reflecting mainly an increase in the prices of food and electricity. (See Table 10.)

An analysis of GDP by expenditure shows that the economic contraction in 2019 is being caused by a decrease in both net foreign demand and domestic demand. Net foreign demand will decline as the decrease in exports will exceed the lower import bill. Exports will drop due largely to lower refining activities, fewer activities in the harbor, and less air transportation activities provided to abroad, moderated by more tourism and ship repair activities. Imports will drop mainly because of lower construction services and materials imported from abroad related to fewer investment projects. Domestic demand is expected to contract as both private and public spending will drop. Private spending will go down because of lower private consumption and investment. Consumer spending will drop as a result of, among other things, a decline in disposable income because of the higher inflation and a worsened labor market. Furthermore, public spending will decrease because of declines in both government investment and consumption. Public consumption will

[21] *The August 2019 outlook was published in the presentation of the Annual Report 2018 of the CBCS.*

drop as the government will spend less on goods & services and wages & salaries to close the budget gap.

A review of GDP by sector shows that the decline in private sector activities in 2019 will be attributable mainly to the transport, storage, & communication, manufacturing, construction, and wholesale & retail trade sectors, mitigated by an increase in the activities in the restaurants & hotels and financial intermediation sectors.

Outlook 2020

The economy of Curaçao is projected to decline by 3.5% in 2020,[22] as the decrease in domestic demand will surpass the increase in net foreign demand. Compared to the outlook presented in August 2019, the growth estimate has been revised downward by 3.4 percentage points reflecting primarily the implementation of a general consumption tax of 15% (Algemene Bestedingsbelasting or ABB) as of January 1st, 2020, that will replace the current turnover tax (omzetbelasting or OB). In addition, it is assumed that the Isla refinery will remain open in 2020 with real value added at the same level as in 2019, which is the minimum level needed to comply with all operational expenses including the payment of salaries.

Meanwhile, inflationary pressures are expected to surge to 5.0% in 2020, primarily because of the implementation of the general consumption tax of 15%.

The drop in domestic demand is caused by decreases in both private and public spending. Private investment will decline in real terms as the growth in investments in the tourism and utilities sectors will not compensate for the higher inflation. Private consumption will decline as the higher inflation will erode consumers' purchasing power. Also, the worsened situation on the labor market will put a drag on private consumption. Public consumption will decline, reflecting, among other things, measures to reduce the wage bill and reduced outlays on goods & services. By contrast, public investment is projected to increase, reflecting investments in, among other things, infrastructure.

In contrast, net foreign demand is projected to contribute positively to real output growth because imports will decline at a faster pace than exports. The contraction in exports, in real terms, reflects largely the appreciation of the real exchange rate as a result of the introduction of the general consumption tax. However, foreign exchange receipts from tourism and ship repair activities are expected to increase. Despite more tourism demand, imports will decline due largely to less merchandise imports by the wholesale & retail trade sector because of the lower domestic spending.

The Bank also calculated a scenario that includes the closure of the refinery and the introduction of the general consumption tax of 15% as per January 1st, 2020. In this scenario, the Curaçao economy is projected to decline by 6.9% in 2020,[23] as the decrease in domestic demand will surpass

[22] *This estimate assumes the continuation of the refinery operations on a minimum level in 2020 and that the government will replace the sales tax (OB) by a general import tax (ABB) as of January 1, 2020. It is assumed that the ABB rate will be 15%.*

[23] *This estimate includes the government plan to replace the sales tax (OB) with a general consumption tax (ABB) and closure of the Isla refinery as of January 1, 2020.*

the increase in net foreign demand. The closure of the refinery combined with the tax measures will have significant negative macroeconomic consequences for Curaçao, including higher inflationary pressures, an increase in the unemployment rate, and a real appreciation of the exchange rate that will translate into a decline in exports.

The drop in domestic demand is caused by decreases in both private and public demand. Private investment will be affected by the closure of the refinery and a decline in investor confidence to start new projects, mitigated by more investment projects in the tourism and utilities sectors. Private consumption will decline considerably as a result of an even more worrisome labor market situation with the approximately 1,000 unemployed refinery workers and eroded purchasing power due to the higher inflationary pressures. Public consumption will decline reflecting the government's austerity measures.

In contrast, net foreign demand is projected to contribute positively to real output growth because imports will decline at a faster pace than exports. Exports will decline in real terms reflecting an appreciation of the real exchange rate. Foreign exchange earnings from refining and bunkering activities will drop while receipts from tourism and ship repair activities will increase. Imports will decline due to less domestic demand and less construction material and services imported because of fewer private investments.

Downside risks to outlook

To prevent an even worse economic outcome in 2019 and 2020, certain risks must be taken into consideration. The ongoing economic and humanitarian crisis in Venezuela remains a downside risk to the economy as the rising number of refugees may increase risks that Curaçao cannot handle on its own (e.g., diseases and crime rate). The Venezuelan crisis also may further affect the activities in key economic sectors of the Curaçao economy, such as the refinery, harbor, and financial services.

Finding a solution for the future of the refinery also is very important as it affects private consumption and investor confidence. The continuation of the refinery will contribute to more economic stability in terms of value added and employment. Apart from the 6.9% economic contraction mentioned above, emigration and brain drain will have long-term effects on the population and the labor force.

Furthermore, the de-risking of local clients by domestic banks can put a drag on the economy in 2019 as it affects local businesses and cross-border transactions, thereby increasing macroeconomic uncertainties.

Other risks to the outlook include delays in the implementation of structural measures in the labor and capital markets and the reduction of administrative barriers that hinder economic recovery.

SINT MAARTEN

Outlook 2019

Sint Maarten's real GDP is expected to expand by 5.3% in 2019, a resilient turnaround compared to the deep contraction in 2018. The 2019 outlook was revised upward by 2.2 percentage points over the one presented in August 2019.

The upward revision reflects primarily the better-than-expected performance in both stay-over and cruise tourism arrivals that resulted in an uptick in tourism-related business activities and higher employment during the first quarter of 2019. This positive trend is expected to continue throughout the year. Meanwhile, consumer price inflation is expected to ease to 2.0% in 2019, reflecting mainly decelerating food prices and lower energy costs. (See Table 10.)

An expenditure analysis of GDP shows that the economic expansion in 2019 will be driven by increases in both domestic demand and net foreign demand. Domestic demand is expected to rise as both private and public spending will increase. Private spending will go up because of higher private consumption and investment. Private investment will increase as reconstruction continues along with the start of new projects. Consumer spending will rise as a result of, among other things, an increase in disposable income from the improved labor market. In addition, public spending will go up because of a rise in both government investment and public consumption. Public consumption will increase due to higher outlays on goods & services. Net foreign demand will grow as the rise in exports will exceed the higher import bill. Exports will grow largely on the back of higher stay-over and cruise tourism arrivals and increased tourism spending. The import bill will increase mainly because of more construction services and materials imported from abroad related to reconstruction and refurbishment.

A review of GDP by sector (production) shows that both the private and public sectors are responsible for Sint Maarten's turnaround in 2019. Activities in nearly every economic sector in Sint Maarten will experience a positive turnaround following the sharp contraction caused by Hurricane Irma's severe damage. The restaurants & hotels and transportation, storage, & communication sectors in particular will be buoyed by the positive rebound in stay-over and cruise tourism. The public sector will contribute positively to real GDP growth because of higher taxes on goods and services collected due to more private spending and tourism-related business activities.

Outlook 2020

The Sint Maarten economy is projected to expand by 4.0% in 2020, as the increase in domestic demand will offset the decline in net foreign demand. Compared to the outlook presented in August 2019, the growth projection has been revised upward by 1.2 percentage points, reflecting primarily higher private and public spending. This outlook is predicated on the assumption that private investments will increase due to, among other things, the start of the second phase of reconstruction at the airport, the construction of a new hotel in Philipsburg, and ongoing projects. Despite higher inflationary pressures, consumer spending will rise as a result of, among other things, higher employment due to the improved labor market. Public investments also will increase due to the construction of the new hospital.

In contrast, net foreign demand is projected to put a drag on real output growth because imports will increase at a faster pace than exports. The increase in exports will be driven mainly by the growth in tourism arrivals, in particular stay-over arrivals. In addition to higher tourism demand, imports will increase largely due to more merchandise imports by the wholesale & retail trade sector because of the higher domestic spending and more construction-related materials and services from abroad.

Meanwhile, inflationary pressures are expected to increase to 2.5% in 2020, in line with a forecast rise in the US inflation rate, Sint Maarten's main trading partner.

Downside risks to outlook

Following a natural disaster, resources should be channeled quickly, flexibly, and efficiently while ensuring that they reach those most affected. However, progress in the reconstruction of critical infrastructure such as the airport has been rather slow. Further delays will hamper Sint Maarten's economic recovery. Furthermore, a lower than projected real GDP growth in Sint Maarten's main tourism markets will affect the tourism sector adversely. In addition, insurance premiums will increase significantly because of Hurricane Irma, which could discourage businesses and individuals from insuring their property adequately, making the country even more vulnerable to future disasters.

The lack of a clear policy direction caused by political instability often triggers hesitation with potential investors. Coupled with the unknown outcome of the January 2020 parliamentary election, a high degree of uncertainty may still surround large projects such as the reconstruction of the airport and the planned new hospital.

In addition, the Florida Caribbean Cruise Association (FCCA) has expressed its dissatisfaction with the possible outsourcing of the port's management to a third party, which could result in a sharp drop in the number of cruise calls and cruise passengers.

Table 10 Real GDP and inflation 2016-2020

	2016	2017	2018	2019*	2020*
Real GDP growth (%)					
Curaçao	-1.0	-1.7	-2.2	-2.2	-3.5
Sint Maarten	0.4	-4.8	-6.6	5.3	4.0
Monetary Union	-0.7	-2.5	-3.3	-0.3	-1.5
Inflation (%)					
Curaçao	0.0	1.6	2.6	2.8	5.0
Sint Maarten	0.1	2.2	2.7	2.0	2.5
Monetary Union	0.0	1.8	2.6	2.6	4.3

** Projections CBCS October 2019*

APPENDIX

Table 11 Stay-over tourism development by island[ab]

	Curaçao				Sint Maarten			
	2018-I		2019-I		2018-I		2019-I	
North America, of which:	7.0	(1.8)	21.1	(5.6)	-87.5	(-32.5)	302.1	(186.3)
U.S.A.	10.5	(1.7)	21.9	(3.8)	-85.8	(-28.5)	268.6	(135.7)
Europe, of which:	6.2	(3.3)	6.2	(3.3)	-59.7	(-29.1)	43.8	(12.7)
The Netherlands	8.4	(3.5)	12.2	(3.5)	-46.0	(-8.1)	11.3	(0.9)
France	-	-	-	-	-61.2	(-13.2)	51.2	(6.9)
South & Central America, of which:	-25.3	(-3.2)	24.4	(3.4)	-82.0	(1.7)	166.1	(3.8)
Venezuela	-74.6	(-1.4)	61.0	(1.6)	-70.4	(-0.3)	40.4	(0.1)
Colombia	40.7	(1.8)	24.3	(1.2)	-	-	-	-
Surinam	-8.8	(-0.1)	-8.8	(-0.1)	-	-	-	-
Caribbean, of which:	-20.5	(-0.9)	36.7	(1.9)	-43.4	(-2.9)	7.4	(0.2)
Dominican Republic	-56.5	(-0.2)	10.2	(0.0)	-47.8	(-0.9)	14.3	(0.1)
Total	**1.1**	-	**15.2**	-	**78.0**	-	**142.1**	-

Source: Curacao Tourist Board (CTB) and St. Maarten Tourist Bureau
[a]Percentage change.
[b]The weighted growth rates are depicted between brackets.

Table 12 Development in the consumer price index of Curaçao[a]

	2018-I	2018-II	2018-III	2018-IV	2019-I
Food	3.5	4.8	4.7	4.5	5.9
Beverages & tobacco	2.1	2.5	2.0	1.9	2.6
Clothing & footwear	-4.1	0.4	-1.2	7.0	4.3
Housing	2.2	2.6	4.9	4.9	3.4
Housekeeping & furnishings	-0.6	-0.5	0.1	0.6	0.6
Health	2.2	2.2	1.0	1.0	0.9
Transport & communication	2.0	2.6	3.5	2.0	1.1
Recreation & education	0.6	0.3	1.0	0.7	0.5
Other	0.8	0.9	0.8	1.1	1.3
General inflation rate	**1.7**	**2.3**	**3.1**	**3.2**	**2.7**

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

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

	2015-I	2016-I	2017-I	2018-I	2019-I
Revenues	**515.0**	**603.4**	**634.9**	**665.3**	**444.4**
Tax revenues, of which:	409.2	390.3	409.5	417.7	415.1
Taxes on income and profit	206.0	182.1	190.4	193.8	190.3
Taxes on property	11.6	12.1	14.6	13.0	17.3
Taxes on goods and services	152.5	157.4	163.8	168.4	167.7
Taxes on international trade and transactions	37.2	37.5	40.0	40.3	37.4
Nontax and other revenues	105.8	213.1	225.4	247.6	29.3
Expenditures	**382.1**	**548.8**	**584.0**	**577.0**	**379.2**
Wages and salaries	169.6	165.1	168.4	168.0	166.7
Goods and services	22.5	19.7	27.0	23.8	30.3
Transfers and subsidies	169.5	353.6	371.6	358.4	159.5
Interest payments	9.1	-1.8	0.7	1.4	0.8
Other expenditures	11.4	12.2	16.3	25.4	21.9
Current budget balance	**132.9**	**54.6**	**50.9**	**88.3**	**65.2**

Source: The data for the first quarter of 2017, 2018, and 2019 were taken from the Financiële Management Rapportage of the government of Curaçao of March for each year

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

	2015-I	2016-I	2017-I	2018-I	2019-I
Taxes on income & profit, of which:	**206.0**	**182.1**	**190.4**	**193.8**	**190.3**
Profit tax	76.2	67.9	78.6	69.0	64.6
Wage tax	128.9	115.6	108.7	119.4	123.2
Taxes on property, of which:	**11.6**	**12.1**	**14.6**	**13.0**	**17.3**
Land tax / OZB[1]	6.4	6.7	6.8	6.6	10.3
Property transfer tax	4.8	3.7	6.2	5.1	6.1
Taxes on goods and services, of which:	**152.5**	**157.4**	**163.8**	**168.4**	**167.7**
Sales tax	100.0	108.0	109.0	115.5	116.7
Excises, of which:	21.7	20.9	23.9	21.5	23.9
Gasoline	12.1	12.5	12.5	11.9	12.4
Motor vehicle tax	24.7	25.4	24.9	27.7	24.6
Taxes on international trade and transactions, of which:	**37.2**	**37.5**	**40.0**	**40.3**	**37.4**
Import duties	37.2	37.4	39.9	40.2	37.4

[1] 1OZB (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 debt[1] of Curaçao (in millions NAf.)

	2018-I	2017-II	2018-III	2018-IV	2019-I
Domestic debt, of which:	**538.7**	**585.5**	**648.1**	**618.3**	**488.3**
Long-term securities	18.4	18.4	18.4	18.4	18.4
Short-term securities	-	-	-	-	-
APC	197.2	199.4	231.0	201.4	53.5
SVB	142.9	192.7	213.0	207.6	223.7
Foreign debt	**2,332.5**	**2,338.9**	**2,338.6**	**2,338.6**	**2,392.8**
Total debt	**2,871.2**	**2,924.4**	**2,986.7**	**2,956.9**	**2,881.1**
(% of GDP)	51.3%	52.2%	53.3%	52.8%	51.1%

[1] *Debt figures do not comprise the entire collective sector.*

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

	2015-I	2016-I	2017-I	2018-I	2019-I
Revenues	**137.6**	**129.1**	**146.9**	**104.2**	**112.0**
Tax revenues	117.5	110.0	123.3	86.3	90.5
Concessions and fees	11.0	10.9	11.0	8.8	11.3
Licenses	2.7	2.7	3.4	2.1	5.4
Other revenues	6.4	5.5	9.2	7.0	4.8
Expenditures	**100.0**	**104.0**	**102.6**	**117.1**	**108.2**
Wages & salaries	48.5	48.1	48.0	49.9	50.7
Goods & services	18.0	19.9	20.6	27.8	22.1
Subsidies	22.5	22.3	25.3	25.1	24.7
Social security	5.0	5.4	4.4	6.4	6.5
Interest	3.2	3.2	0.0	3.2	0.2
Other expenditures	2.9	5.1	4.3	4.7	4.0
Current budget balance	**37.6**	**25.1**	**44.3**	**-12.9**	**3.8**

Sources: Financiële Concernrapportage/Uitvoeringsrapportage, eerste kwartaal 2018 and Financiële Concernrapportage/Uitvoeringsrapportage, eerste kwartaal 2019 of the government of Sint Maarten.

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

	2015-I	2016-I	2017-I	2018-I	2019-I
Taxes on income and profits, of which:	**55.7**	**52.7**	**62.4**	**47.0**	**39.3**
Profit tax	20.3	16.0	23.2	10.5	6.6
Wage tax	35.6	36.7	38.5	35.7	32.8
Taxes on property, of which:	**4.2**	**3.3**	**4.8**	**2.8**	**4.8**
Land tax	1.3	1.7	1.5	0.7	1.9
Property transfer tax	2.9	1.6	3.3	2.1	2.9
Taxes on goods and services, of which:	**56.2**	**51.8**	**55.9**	**37.3**	**46.3**
Turnover tax	43.1	39.2	40.8	29.6	35.1
Vehicle tax	8.5	8.7	9.2	5.0	9.1
Excise on gasoline	2.0	2.4	2.1	1.8	2.0

Sources: Financiële Concernrapportage/Uitvoeringsrapportage, eerste kwartaal 2018 and Financiële Concernrapportage/Uitvoeringsrapportage, eerste kwartaal 2019 of the government of Sint Maarten.

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

	2018-I	2018-II	2018-III	2018-IV	2019-I
Domestic debt, of which:	**87.4**	**74.9**	**170.0**	**171.0**	**157.5**
Long-term securities	0.1	0.1	0.1	0.1	0.1
Short-term securities	-	-	-	-	-
APS	20.0	20.0	43.0	43.0	43.0
SZV	50.8	38.4	90.2	90.2	76.7
Foreign debt	**569.9**	**569.9**	**602.5**	**601.5**	**601.5**
Total debt	**657.3**	**644.9**	**772.6**	**772.6**	**759.1**
(% of GDP)	36.7%	36.0%	43.1%	43.1%	40.1%

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

	2015-I	2016-I	2017-I	2018-I	2019-I
Trade balance	**-834.1**	**-856.5**	**-845.2**	**-765.7**	**-696.8**
Exports	267.9	193.1	261.1	282.9	315.6
Imports	1,102.0	1,049.6	1,106.3	1,048.7	1,012.4
Services balance	**867.7**	**847.7**	**716.2**	**298.8**	**535.4**
Receipts, of which:	1,384.3	1,332.0	1,262.3	905.8	1,109.6
Travel	862.1	856.0	776.1	467.9	717.0
Transportation	106.5	84.0	74.1	44.6	60.7
Manufacturing services, of which:	150.9	108.5	138.4	84.4	42.4
Refining fee	146.1	102.2	129.0	75.5	37.9
Other services, of which:	264.8	283.6	273.6	308.8	289.4
Int. fin & bus. services sector	45.5	63.3	63.6	84.4	43.5
Expenses, of which:	512.5	483.4	544.0	593.1	561.3
Travel	171.0	193.2	188.3	229.2	225.6
Transportation	73.5	61.4	73.0	67.9	73.7
Manufacturing services	4.1	0.9	2.1	13.9	12.9
Other services, of which:	268.1	228.7	282.7	295.9	262.0
Int. fin & bus. services sector	27.8	28.5	52.8	48.1	19.8
Income balance[1]	3.0	-0.8	11.9	4.8	3.4
Current transfers balance [2]	-39.7	-43.5	-64.8	269.5	21.8
Current account balance	**-3.2**	**-53.1**	**-181.8**	**-192.6**	**-136.3**
Capital & financial account balance	**28.9**	**-6.6**	**-196.0**	**-158.1**	**-172.0**
Capital account balance	0.2	0.5	0.6	3.3	0.4
Financial account balance	28.7	-7.0	-196.6	-161.4	-172.4
Net errors & omissions	**31.7**	**45.7**	**-15.4**	**27.9**	**-36.6**

[1] *Labor and investment income.*

[2] *Public and private transfers.*

Table 16 Breakdown of net changes in the financial account[1] (in millions NAf.)

	2015-I	2016-I	2017-I	2018-I	2019-I
Direct investment	-29.9	-42.9	-136.8	77.3	-108.9
Abroad	14.3	11.3	15.2	15.1	-1.1
In Curaçao and Sint Maarten	44.2	54.1	152.0	-62.3	107.8
Portfolio investment	-333.4	-133.2	-53.9	-441.1	-52.4
Other investment, of which:	73.5	123.0	46.3	336.4	-315.3
Assets	6.5	261.8	-28.4	279.1	-460.9
Liabilities	-67.0	138.9	-74.7	-57.3	-145.7
Net lending/borrowing, of which:	27.6	-42.5	-6.2	-138.8	151.1
Assets	-31.4	-28.9	4.4	-51.5	145.9
Liabilities	-59.0	13.6	10.6	87.4	-5.2
Reserves	290.9	88.5	-45.9	4.8	153.0
Total assets	-53.1	199.6	-108.7	-193.7	-215.5
Total liabilities	-81.8	206.6	87.9	-32.2	-43.0
Balance	28.7	-7.0	-196.6	-161.4	-172.4

[1] *Transaction basis*

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

			Change	
	2018-IV	2019-I	Amount	%
Currency in circulation	488.4	459.1	-29.3	-6.0
Banks' demand deposits (current account)	724.7	688.1	-36.6	-5.1
Monetary base (M0)	**1,213.1**	**1,147.2**	**-65.9**	**-5.4**
Central Bank assets				
Foreign assets (including gold)	3,330.6	3,493.9	163.4	4.9
Claims on deposit money banks	287.8	282.0	-5.8	-2.0
Claims on the government	0.1	0.1	0.0	0.0
Claims on government agencies and institutions	235.2	233.4	-1.7	-0.7
Fixed and other assets	138.5	134.1	-4.5	-3.2
less: Central Bank remaining liabilities				
Private sector deposits, of which:	1,395.9	1,560.1	164.3	11.8
Time deposits commercial banks	1,298.5	1,314.0	15.5	1.2
Government deposits	82.4	196.6	114.2	138.6
Foreign liabilities	345.8	263.7	-82.0	-23.7
Other liabilities	57.3	62.3	5.0	8.8
Capital and reserves	897.7	913.5	15.8	1.8

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

	2018-III		2018-IV		2019-I	
	Amount	%	Amount	%	Amount	%
Money supply (M2)	**-261.4**	**-2.9**	**18.5**	**0.2%**	**160.6**	**1.9**
Money (M1)	**-217.2**	**-4.8**	**-36.9**	**-0.9**	**213.1**	**5.0**
Coins & notes with the public	-24.2	-6.3	25.8	7.2	-27.9	-7.2
Total demand deposits, of which:	-193.0	-4.6	-62.7	-1.6	241.0	6.2
Netherlands Antillean guilders	-224.2	-7.9	20.0	0.8	163.9	6.2
Foreign currency	31.1	2.3	-82.7	-6.0	77.1	6.0
Near money	-44.2	-1.0	55.4	1.3	-52.5	-1.2
Time deposits	-53.3	-2.7	29.8	1.6	-72.2	-3.7
Savings	9.2	0.4	25.6	1.1	19.7	0.8

Table 19 Monetary survey (in millions NAf.)

	2018-I	2018-II	2018-III	2018-IV	2019-I
Money supply (M2)	8,912.9	8,922.0	8,660.7	8,679.2	8,839.8
Money (M1)	4,552.7	4,556.6	4,339.4	4,302.5	4,515.6
Coins & notes with the public	375.6	383.6	359.5	385.3	357.4
Total demand deposits, of which:	4,177.1	4,172.9	3,979.9	3,917.2	4,158.2
Netherlands Antillean guilders	2,781.4	2,832.2	2,608.0	2,628.0	2,791.9
Foreign currency	1,395.8	1,340.8	1,341.0	1,289.2	1,366.3
Near money	4,360.2	4,365.5	4,321.3	4,376.7	4,324.2
Time deposits	1,902.8	1,955.5	1,902.2	1,932.0	1,859.8
Savings	2,457.4	2,410.0	2,419.1	2,444.7	2,464.4
Factors affecting the money supply					
Net domestic assets	3,542.5	3,661.3	3,571.8	3,668.4	3,306.4
Government sector	-626.7	-479.4	-421.9	-304.5	-491.8
Former central government	-12.0	-12.0	-12.1	-12.1	-12.2
Curaçao	-467.0	-349.0	-313.2	-198.5	-382.7
Sint Maarten	-147.8	-118.4	-96.6	-93.8	-96.9
Private sector	6,663.5	6,620.7	6,651.1	6,684.2	6,691.7
Memorandum items	-2,494.2	-2,479.9	-2,657.4	-2,711.3	-2,893.5
Net foreign assets	5,370.4	5,260.6	5,089.3	5,010.7	5,533.3
Central bank	3,379.2	3,362.8	2,841.3	2,984.8	3,230.2
Commercial banks	1,991.1	1,897.9	2,248.0	2,025.9	2,303.1

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

	2018-I	2018-II	2018-III	2018-IV	2019-I
Government loans by commercial banks	**13.8**	**17.5**	**18.0**	**26.4**	**17.0**
Government of Curaçao	0.1	3.8	3.5	4.8	0.8
Government of Sint Maarten	13.7	13.8	14.5	21.6	16.2
Private sector loans Curaçao	**4,596.6**	**4,575.5**	**4,585.1**	**4,730.9**	**4,734.3**
Mortgages	1,845.7	1,801.4	1,816.5	1,790.8	1,791.2
Consumer loans	894.3	925.7	916.7	905.1	905.7
Business Loans	1,762.2	1,757.8	1,762.5	1,921.9	1,922.4
Other	94.4	90.6	89.3	113.1	115.0
Private sector loans Sint Maarten	**1,496.2**	**1,487.9**	**1,494.2**	**1,477.6**	**1,476.4**
Mortgages	864.2	869.3	876.7	869.6	870.0
Consumer loans	240.6	237.3	234.0	234.9	230.9
Business Loans	384.7	375.9	378.2	369.3	371.9
Other	6.8	5.4	5.3	3.8	3.7

Table 20 Developments in domestic interest rates (in %)

	2018-I	2018-II	2018-III	2018-VI	2019-I
Central bank					
Pledging rate	2.0	2.0	2.0	2.0	2.5
Maximum CD rate (1 month)	0.55	0.40	0.27	0.25	-
Government securities					
Government bonds (5-year effective yield)	-0.07	-0.18	-0.03	-0.21	-0.38
Treasury bills (12 -month)	-0.66	-0.66	-0.60	-0.73	-0.62