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CENTRALE BANK VAN CURAÇAO EN SINT MAARTEN

Centrale Bank van Curaçao en Sint Maarten

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CONTENT

I REPORT OF THE PRESIDENT

The outbreak of the coronavirus (COVID-19) in China and subsequent outbreaks across the world are disrupting global supply chains, weakening global demand for goods and services, and affecting international tourism and business travel. Furthermore, the outbreak has increased risk aversion in the financial markets and decreased business and consumer confidence. The pandemic's adverse economic impact is projected to weaken world economic growth sharply in 2020.

The effects of the outbreak of the coronavirus on the global economy will also significantly deteriorate the economic outlook for Curaçao and Sint Maarten. The inevitable closure of the borders of both countries and increasing restrictions for businesses and individuals to minimize the spread of the virus will have severe economic consequences. The most important economic pillar, i.e., tourism, will stall entirely, while activities in other sectors will slow significantly. The magnitude of the adverse effects on the economies of Curaçao and Sint Maarten depends on the duration of the border closure and the pace of recovery of economic activities once the borders are reopened. Preliminary estimates of the economic impact of the border closure indicate that the economy of Curaçao will contract by 4.5% in real terms in the best case scenario and by 19.4% in the worst case scenario. For Sint Maarten, real GDP will slow to a 0.8% growth in the best case scenario and decline by 29.2% in the worst case scenario. As a result, unemployment will increase rapidly, businesses and individuals cannot meet their financial obligations anymore, government budget deficits will increase significantly because of a sharp drop in tax revenues and increasing expenditure pressures, and the balance of payments and foreign reserves will come under growing stress.

The financial support needed to cope with this extreme crisis cannot be borne alone by the countries. Therefore, substantial financial aid by the Dutch government is indispensable together with the temporary lifting of the fiscal rules pertaining to the Kingdom Act Financial Supervision Curaçao and Sint Maarten. The aid should comprise liquidity support to finance the budget deficits including the funding of relief funds for businesses and individuals and balance of payments support when foreign reserves reach a critical level.

Another development that currently poses a threat to global economic growth is the ongoing oil price war between Saudi Arabia and Russia due to a disagreement over whether oil production should be cut to stabilize oil prices that fell considerably because of lower economic activities and travel restrictions around the world. As a result, instead of cutting production, Saudi Arabia raised its output resulting in

a historical collapse of world oil prices. An escalation of the oil price war will affect global economic growth as capital spending in oil producing countries will be down and global financial conditions will tighten further. However, consumers, including those in Curaçao and Sint Maarten, may benefit from lower fuel prices.

In the monetary union of Curaçao and Sint Maarten, the economic performance continued to diverge between the two countries during the third quarter of 2019. Real GDP in Curaçao fell by 2.1% in the third quarter of 2019 compared to a contraction of 1.7% in the third quarter of 2018. By contrast, Sint Maarten's economic growth rebounded to 5.6% following a deep contraction of 4.7% in 2018's third quarter. Meanwhile, inflation eased in both Curaçao and Sint Maarten. In Curaçao, consumer price inflation slowed from 3.1% in the third quarter of 2018 to 2.8% in the third quarter of 2019. Meanwhile, average consumer prices remained practically unchanged in Sint Maarten in the July-September period of 2019 with an inflation of 0.1%.

The economic contraction in Curaçao during 2019's third quarter stemmed from a decline in domestic demand as both public and private spending were down. Public spending dropped on the back of lower government consumption, notably lower outlays on goods and services, while investments went up. The latter increase reflected primarily spending to complete the construction of the hospital. Meanwhile, private spending shrank as both consumption and investment dropped. By contrast, net foreign demand rose as the decline in the import of goods and services outweighed the drop in exports.

A review by sector shows that the manufacturing, construction, wholesale and retail trade, and transport, storage, and communication sectors contributed primarily to 2019's third-quarter economic contraction in Curaçao. Real output dropped in the manufacturing sector due mainly to lower production activities at the Isla refinery stemming primarily from a lack of crude oil. The construction sector posted negative results due to the completion of several major projects in the tourism sector and a drop in maintenance work at the Isla refinery. Meanwhile, real value added shrank in the wholesale and retail trade sector on the back of the drop in domestic demand, moderated by an increase in tourism spending and more re-exports by the free-zone companies. The poor performance of the transport, storage, and communication sector was caused by a decline in both airport-related and harbor activities. The decline in airport-related activities reflected a drop in passenger traffic moderated by an increase in the number of commercial landings. Meanwhile, the harbor registered a drop in both the number of ships piloted into the port, particularly the number of oil tankers, and container movements. Real value added also contracted in the utilities sector as reflected by a decrease in water production moderated by an increase in electricity production.

By contrast, activities in the restaurants and hotels and financial intermediation sectors developed positively in the third quarter of 2019. Real value added expanded in the restaurants and hotels sector, although at a slower pace than in 2018, reflecting weakened growth in stay-over tourism combined with a decline in cruise tourism. The developments in stay-

over tourism were marked by an increase in the number of visitors from the European and Caribbean markets, moderated by a decline in the North American and South American markets. The financial intermediation sector performed well, reflected by an increase in net interest income and fees and other income of the local domestic banks, moderated by a decline in wages and salaries and other operational expenses recorded by the international financial services sector.

Sint Maarten's real GDP growth in the third quarter of 2019 was spurred by increased net foreign demand. The export of goods and services surged driven mainly by a sharp increase in stay-over tourism, while imports dropped. Domestic demand also was up, sustained by both private and public spending. The growth in private spending stemmed from increased consumption combined with a rise in investments. However, private investment rose at a slower pace compared to the third quarter of 2018 as widespread post-Irma reconstruction activities neared completion. Meanwhile, the gain in public spending was supported by increased government consumption driven by more outlays on goods and services. Meanwhile, public investment remained muted.

The upturn in private sector activities in Sint Maarten was primarily the result of output growth in the restaurants and hotels, manufacturing, wholesale and retail trade, and real estate, renting, and business activities sectors. Growth in the restaurants and hotels sector was driven by a sharp increase in stay-over tourism, moderated by a decline in cruise tourism. The growth in stay-over tourism was supported by increased hotel room inventory and the partial restoration of the Princess Juliana International Airport. All major tourism markets recorded positive gains, but the increase was most pronounced in the North American and South American markets. The disappointing performance of cruise tourism was in line with the decline in the number of cruise ships that visited Philipsburg. The decline in the number of ships was related to, among other things, the reopening of other cruise destination ports in the Caribbean in the aftermath of the hurricanes in 2017, fleet redeployment by some major cruise lines, and increased competition in the region.

Real output growth in the manufacturing sector was sustained by increased yacht repair and services activities. In the wholesale and retail trade sector, real value added went up supported by the increase in domestic demand and more tourism spending. Meanwhile, the gain in the real estate, renting, and business activities sector, particularly the timeshare industry, was in line with the sharp increase in stay-over tourism, notably from North America. The utilities and financial intermediation sectors also contributed positively to real GDP growth during the third quarter of 2019. The expansion in the utilities sector was driven by a sharp increase in the production of both water and electricity. Meanwhile, real value added growth in the financial intermediation sector was consistent with the increase in net interest income and fees and other income of the local commercial banks. Furthermore, growth in the construction sector remained flat as the increase in new construction projects was offset by the winding down of repair and reconstruction activities following the hurricane in 2017. The transport, storage,

and communication sector, however, recorded a contraction due to a decline in harbor activities as reflected by a drop in the number of ships piloted into the harbor, notably freighters and cruise ships, and a decline in container movements. By contrast, airport-related activities rose as reflected by an increase in passenger traffic in line with the rise in stay-over arrivals. Also, the domestic airline, Winair, transported more passengers.

The governments of Curaçao and Sint Maarten recorded a lower current budget deficit during the third quarter of 2019 than in the third quarter of 2018. The current budget deficit of Curaçao narrowed by NAf.45.1 million reaching NAf.2.7 million due primarily to increased government revenues, while expenditures remained practically unchanged. Both nontax and tax revenues increased in the September quarter of 2019. The gain in nontax revenues was driven mainly by a windfall in tax grants related to the BRNC[1] tax agreement between the Netherlands and Curaçao. Meanwhile, the ongoing efforts to improve tax compliance caused the rise in tax revenues, particularly earnings from wage tax, sales tax, and excises. Furthermore, the government of Curaçao raised the excises on tobacco, liquor, beer, and wine, and the sales tax rate on imports as of September 1st, 2019.[2]

Sint Maarten recorded a deficit of NAf.22.6 million on its current budget in the third quarter of 2019, down from the deficit of NAf.28.0 million registered in the third quarter of 2018. The improvement in the fiscal stance was the result of an increase in revenues, moderated by higher expenditures. Sustained by Sint Maarten's economic recovery, both tax and nontax revenues went up during the September quarter of 2019. The increase in tax revenues was due mainly to more proceeds from turnover tax while the growth in nontax revenues was driven by more earnings from business license and building permit fees. Meanwhile, government expenditures rose on the back of more outlays on goods and services and more disbursed subsidies, moderated by a decline in expenses on wages and salaries.

On the external front, the deficit on the current account of the balance of payments narrowed during the third quarter of 2019 compared to the third quarter of 2018 due to an increase in the net export of goods and services, moderated by a worsening of the current transfers and income balances. The current transfers balance deteriorated as a result of a decline in current transfers received from abroad as most of the claims of local insurance companies to pay their clients in Sint Maarten whose properties were damaged by the hurricane in 2017 were settled in 2018. Meanwhile, the worsening of the income balance was the result of an increase in dividend paid to foreign investors, moderated by a growth in labor income earned from abroad and dividend received on foreign assets. Furthermore, interest payments to abroad dropped.

The increase in the net export of goods and services was ascribable to a decline in imports, moderated by lower exports. Merchandise imports by particularly the wholesale and retail trade and construction sectors in both Curaçao and Sint Maarten shrank during the third quarter of 2019.

[1] *Belastingregeling Nederland en Curaçao.*

[2] *The sales tax rate on imports was raised from 6% to 9%.*

Furthermore, the oil import bill in Curaçao dropped, reflecting lower international oil prices and lower volumes purchased from abroad. Moreover, the import of construction services in both Curaçao and Sint Maarten went down. Foreign operational expenses of international banks and trust companies in Curaçao also decreased. Meanwhile, the contraction in exports reflected lower foreign exchange earnings from bunkering activities, refining activities, wholesale trade, international financial services, and legal and management consulting services in Curaçao. In addition, the receipts from cruise tourism in Sint Maarten dropped. However, higher revenues from stay-over tourism in both Curaçao and Sint Maarten and increased merchandise exports by the wholesale trade sector in Sint Maarten and the free-zone sector in Curaçao moderated the contraction in exports during the September quarter of 2019.

External financing into the monetary union rose during the July-September period of 2019, consequently worsening the International Investment Position (i.e., the monetary union's external balance sheet or IIP). The increase in external financing reflected a deterioration of the loans and credits, direct investment, and portfolio investment balances. The deterioration of the loans and credits balance was the result of a drop in foreign deposits of residents of Curaçao and Sint Maarten, an increase in nonresident deposits in the monetary union, more loans received from abroad, and a worsening of the net trade credits balance. However, the windfall in dividend tax transferred by the Dutch tax authorities to the government of Curaçao related to the BRNC moderated the worsening of the loans and credits balance. Meanwhile, the deterioration of the portfolio investment balance was caused by accrued interest to be paid by the government of Curaçao to the Dutch State related to issued bonds in the past, moderated by an increase in foreign debt securities held by local institutional investors. Finally, the direct investment balance worsened due to an increase in liabilities of local companies towards their foreign direct investors and more nonresidents' investments in real estate in Curaçao and Sint Maarten, moderated by an increase in investments by local companies in their foreign subsidiaries. Net capital transfers into the monetary union dropped as the transfer of funds by the World Bank from the Sint Maarten Recovery, Reconstruction and Resilience Trust Fund towards the government of Sint Maarten to finance reconstruction projects was lower in the third quarter of 2019 than in the third quarter of 2018.

As the external financing and capital transfers from abroad were lower than the deficit on the current account of the balance of payments, gross official reserves dropped by NAf.197.8 million during the third quarter of 2019. Meanwhile, the import coverage went down from 4.5 months at the end of June 2019 to 3.6 months at the end of September 2019 due to the decline in the gross official reserves and a projected increase in the import of goods and services in the fourth quarter of 2019.

The money supply contracted in the third quarter of 2019 as a result of a decline in net foreign assets complemented by lower net domestic assets. The decline in net foreign assets occurred at both the central bank and the commercial banks. Meanwhile, net domestic assets dropped as a result of declines in the claims on the private sector and in memorandum balance sheet items

moderated by a drawdown of deposits with the banking system by the governments of Curaçao and Sint Maarten. Private credit extension dropped slightly during the third quarter of 2019 due to a decline in loans extended in Curaçao, while Sint Maarten recorded an increase.

In light of the downward trend in gross official reserves and the import coverage, the Bank decided to tighten its monetary policy during the third quarter of 2019. As of mid-August 2019, the Bank resumed the bi-weekly auctions of CDs after these had been suspended temporarily in December 2018. CDs were offered to the commercial banks in both guilders (NAf.) and US dollars leading to NAf.115.7 million in outstanding CDs at the end of the third quarter of 2019. Meanwhile, the reserve requirement percentage was kept unchanged at 18.00%. Nevertheless, the amount of required reserves dropped during the July-September period of 2019 due to the lower base amount upon which it is calculated.

Dr. J. Jardim

President a.i.

II INTERNATIONAL ECONOMIC DEVELOPMENTS

The most important trading partners of Curaçao and Sint Maarten are the United States 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 third quarter of 2019 is provided.

THE UNITED STATES

The U.S. economy grew by 2.1% in real terms during the third quarter of 2019, which indicates a slower pace in the year-on-year growth compared to the 3.1% expansion in the third quarter of 2018 (see Table 1). The increase in real output in the United States was due solely to the growth in domestic demand, offset partly by a negative foreign demand contribution.

The growth in 2019's third quarter was driven by domestic demand as a result of increases in both private and public demand. The increase in private demand was caused by more domestic consumption and investment. U.S. consumers spent more on goods and services during the third quarter of 2019 compared to the third quarter of 2018, sustained by better labor market conditions and a slowdown in consumer prices. Especially recreational goods and vehicles recorded an increase (12.1%). Private investments also grew, albeit at a much slower pace than in the third quarter of 2018, due largely to more investment in intellectual properties mitigated by fewer investments in equipment. Public demand increased because of higher spending by the federal, state, and local governments in the third quarter of 2019 compared to the third quarter of 2018. Moreover, the contribution of net foreign demand to real output growth was negative since the increase in imports was higher than the rise in exports.

From a sectoral perspective, the growth in private sector activities was driven mainly by the agriculture, professional and business services, real estate (rental

Table 1 Economic indicators of the United States

	2018-III	2019-III
Real GDP (% change)	3.1	2.1
Consumer prices (%)	2.6	1.8
Unemployment rate (%)	3.8	3.6

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

& leasing), retail trade, ICT, and mining (oil and gas extraction) sectors.

The U.S. unemployment rate declined to 3.6%, the lowest unemployment rate in nearly 50 years, attributable mainly to job gains in the professional and business services, leisure & hospitality, manufacturing, and construction sectors. In addition, the number of long-term unemployed dropped to 9% and the number of workers employed part-time for economic reasons dropped in the third quarter from 8.5% in 2018 to 6.9% in 2019.

Average consumer price increases in the United States remained subdued (1.8%) during the September quarter of 2019, due primarily to the lower international crude oil and energy prices (-3.7%), mitigated by price increases in food & beverages (1.8%), housing (3.0%), and medical care (3.2%).

The Federal Reserve maintained the target range for the federal funds rate at 1.5% - 1.75% based on a projected strong labor market, moderate economic growth, and an inflation rate around the 2 percent target in 2019. However, uncertainties about the outlook may increase related to global economic and financial developments.

THE NETHERLANDS

The Dutch economy grew by 1.9% in the third quarter of 2019, a decrease compared to the 2.5% real GDP growth recorded in the third quarter of 2018 (see Table 2). GDP growth in the Netherlands was attributable primarily to increased private and public demand mitigated by a drop in net foreign demand due to higher imports. GDP growth was constrained by the trade tensions between the United States and China and uncertainties regarding the Brexit. Meanwhile, inflation reached 2.7% in the third quarter of 2019, compared to 2.0% in the third quarter of 2018.

The increase in GDP in the third quarter of 2019 was due primarily to private consumption and fixed investment. Private consumption rose because of more spending on durable goods, such as home furnishings and electrical & optical appliances. Dutch consumers also spent more on other goods and services such as medical services, financial services, and energy & water. The growth in private consumption was in line with the increase in employment and the improvement in consumer confidence. Private investments grew as businesses invested more in building construction,

Table 2 Economic indicators of the Netherlands

	2018-III	2019-III
Real GDP (% change)	2.5	1.9
Consumer prices (%)	2.0	2.7
Unemployment rate* (%)	3.6	3.2

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

transportation vehicles, and ICT equipment (mainly computers). In addition, public consumption remained unchanged while public investments increased, leading to an increase in public spending.

In contrast, net foreign demand contributed negatively to GDP growth as imports grew at a slightly faster pace than exports. Imports increased as more transportation goods, textiles, apparel and leather, petroleum products, chemical & pharmaceutical products, machines and electrical & optical equipment were imported. Exports grew in the agriculture, fishing, & forestry, textile, apparel, and leather, and petroleum sectors, mitigated by a drop in the electrical & optical equipment sector.

A sectoral analysis reveals that private sector activities reflected growth in the agriculture, fishing, & forestry, energy, trade, and specialist business services sectors in particular. This growth was mitigated, however, by a contraction in the financial services and the water & waste management sectors.

The unemployment rate fell from 3.6% in the third quarter of 2018 to 3.2% in the third quarter of 2019. This drop resulted from improved economic conditions in the Netherlands with an increased number of vacancies and more people finding employment. Meanwhile, inflation increased to 2.7% in the third quarter of 2019 as prices rose of various goods and services, such as food & beverages, housing, water & energy, transport, and restaurant & hotels.

VENEZUELA

The International Monetary Fund (IMF) and Business Monitor International (BMI) expect the Venezuelan economy to contract between 34.1% and 35.0% in 2019, following an estimated contraction of 18.0% to 19.6% in 2018 (see Table 3). Moreover, declining oil production, hyperinflation, and a poor business environment will keep the economy in a deep recession.

Venezuela's economic situation remains delicate. According to the projections of the IMF and Business Monitor International, significant headwinds will keep Venezuela's economy in recession until the country has a change in government. Private demand is expected to decline because of lower consumption and investment. Private consumption will drop

Table 3 Economic indicators of Venezuela

	2018	2019
Real GDP (% change)	-18.0 to -19.6	-34.1 to -35.0
Consumer prices (%)	34,068 – 65,374	142,961 – 200,000
Unemployment rate* (%)	10.0 – 35.0	9.5 – 44.0

Sources: International Monetary Fund; Business Monitor International

due to the rapid erosion of purchasing power associated with hyperinflation. The government has attempted to mitigate inflation by subsidizing and controlling retail prices of basic goods, reducing economic efficiency, which ultimately undercut private consumption. In addition, investments decreased for a number of reasons, including low investor confidence, shortages of foreign currency, and the deteriorating business climate. Meanwhile, public demand is expected to contract largely because of lower revenues from oil exports. Political risk remains extremely elevated due to severe shortages of essential goods and failing public services.

In contrast, net foreign demand is expected to contribute positively to real output despite historically low oil prices because the significant drop in imports offset lower oil exports. Imports are expected to drop as a result of the foreign currency restrictions in Venezuela, while exports will contract because of fewer oil barrels sold as well as significantly lower international oil prices.

Meanwhile, Venezuela's central bank published data on economic growth and inflation for the first time since 2015. According to Banco Central de Venezuela (BCV), the economy contracted by 19.6% in 2018 as private consumption fell sharply, while annual inflation reached 130,060%. Furthermore, the published figures confirm the magnitude of the economic recession over the years with a slight growth in 2013, followed by year-on-year GDP declines of 3.9% in 2014 increasing to a 15.7% contraction in 2017. The most recent publication shows an economic contraction of 26.8% in the first quarter of 2019 [3] compared to the first quarter of 2018, due mainly to declines in both oil activities and non-oil activities, particularly the manufacturing sector and government spending. Furthermore, the inflation rate for the third quarter of 2019 was 49,708%, following an inflation of 30,827% in the third quarter of 2018, much lower than the projections of the IMF and BMI.

Aside from the ongoing political and economic crisis, the country is experiencing a mass exodus of Venezuelans, [4] which will have long-term effects for the recovery of the country's economy.

[3] BCV did not publish data yet for the second and third quarters of 2019.

[4] According to the UN Refugee Agency, the total number of migrants leaving Venezuela reached about 4.5 million in 2019.

III GENERAL ECONOMIC DEVELOPMENTS

GENERAL ECONOMIC DEVELOPMENTS IN CURAÇAO

During the third quarter of 2019, real GDP in Curaçao contracted further by 2.1%, following the 1.7% decrease in the third quarter of 2018. The 2019 third-quarter economic contraction was attributable to a decline in domestic demand, mitigated by an increase in net foreign demand (see Table 4). In addition, Curaçao's consumer price inflation rose to 2.8%, caused mainly by an increase in food and oil prices.

An analysis of GDP by expenditure indicates that the poor economic performance in Curaçao was caused mainly by a decrease in private demand. Private demand declined

Table 4 Curaçao - GDP by expenditure[ab]

	2015-III	2016-III	2017-III	2018-III	2019-III
Domestic expenditure, of which:	**0.4**	**0.4**	**-1.5**	**-0.9**	**-2.7**
Private sector	-0.2	0.4	-0.6	-1.3	-2.4
Investment	0.3	0.3	0.2	-0.9	-1.2
Consumption	-0.5	0.1	-0.8	-0.4	-1.2
Government	0.6	-0.1	-0.8	0.4	-0.3
Investment	0.3	0.1	-0.3	0.2	0.3
Consumption	0.3	-0.2	-0.5	0.2	-0.6
Changes in inventory	**0.0**	**-0.1**	**-0.2**	**0.1**	**-0.1**
Foreign net expenditure, of which:	**-0.1**	**-0.9**	**0.3**	**-0.9**	**0.7**
Export of goods and services	-0.6	-1.1	-5.2	1.8	-3.9
Import of goods and services	-0.5	-0.2	-5.5	2.7	-4.6
GDP	**0.3**	**-0.7**	**-1.4**	**-1.7**	**-2.1**

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.

due to decreases in private consumption and investments. Private consumption dropped as a result of a decline in disposable income due mainly to higher inflation related to, among other things, tax measures[5] and worsened labor market conditions. The decline in private investment stemmed from fewer construction activities and less maintenance work at the refinery. Public demand dwindled as public consumption declined while public investment increased. Public consumption declined as a result of less spending on goods & services. The gain in public investment reflected mainly investment spending by the government to complete the construction of the hospital. In addition, net foreign demand contributed positively to output growth because imports declined at a faster pace than exports. The decline in imports is in line with the lower domestic demand.

DOMESTIC PRODUCTION

An analysis by sector shows that economic activities shrank in the manufacturing, construction, transport, storage, & communication, utilities, and wholesale & retail trade sectors (see Table 5). However, the economy benefited from growth in the financial intermediation and restaurants & hotels sectors.

Real value added in the manufacturing sector dropped further (-14.6%) in the third quarter of 2019 compared to the third quarter of 2018 because of less production at the Isla refinery. The continued decline in oil production was related mainly to a lack of crude oil as a result of, among other things, the international sanctions against the Venezuelan oil company, PDVSA.

[5] The government raised the excises on tobacco, liquor, beer, and wine, and the sales tax rate on imports as of September 1st, 2019.

Real output in the construction sector (-8.4%) was affected by fewer large construction projects compared to the third quarter of 2018. In particular, the completion of construction projects in the tourism sector and a decline in maintenance work at the refinery caused the contraction in the construction sector.

Furthermore, real value added in the wholesale & retail trade sector dwindled in the second quarter of 2019 (-1.3%) due to less domestic spending mitigated by an increase in activities at the free zone and more tourism spending. Output declined also in the utilities sector (-0.3%) because of less production of water, mitigated by more electricity production.

Activities in the transport, storage, & communication sector contracted by 3.3% in the third quarter of 2019 as both harbor and airport-related activities declined. The drop in airport-related activities was reflected by a decline in total passenger traffic due to fewer arriving and transit passengers. However, the increase in commercial landings mitigated the decline in airport activities. The harbor performed poorly due mainly to the decline in the number of tankers piloted into the port of Curaçao. This decline was related largely to the drop in production activities at the refinery. In addition, fewer freighters, cruise ships, and container movements contributed to the drop in harbor activities.

Similar to the third quarter of 2019, the utilities sector shrank (-1.0%) because of less water production moderated by more electricity production. Real value added in the wholesale & retail trade sector declined (-4.6%) as the lower domestic demand surpassed the increase in free-zone activities and tourism spending.

In contrast, both the financial intermediation and restaurants & hotels sectors contributed positively to GDP during the July-September period of 2019. Real value added in the financial intermediation sector rose by 0.6% because of an increase in domestic financial services mitigated by a decline in international financial services. The increase in domestic financial services was reflected by higher net interest income and other fees and income of the commercial banks. Meanwhile, the drop in real value added in the international financial services industry stemmed from lower wages & salaries mitigated by an increase in the other operational expenses.

Output in the restaurants & hotels sector expanded (4.7%), although at a slower pace compared to the third quarter of 2018. This slowdown is attributable mainly to a deceleration of the growth in the number of stay-over visitors (3.6%) combined with a lower number of cruise tourists (-6.5%).

Table 5 Curaçao - GDP by sector[a]

	2015-III	2016-III	2017-III	2018-III	2019-III
Agriculture, fishery, & mining	3.1	9.4	-1.8	-1.0	-4.8
Manufacturing	1.8	0.1	-3.9	-8.4	-14.6
Electricity, gas, & water	-2.7	1.4	1.7	-0.8	-1.0
Construction	4.3	4.1	3.5	-2.1	-8.4
Wholesale & retail trade	-0.5	0.0	-2.0	-1.6	-4.6
Restaurants & hotels	1.4	-6.4	-8.9	10.1	4.7
Transport, storage, & communication	0.6	-0.8	-1.0	-1.5	-3.3
Financial intermediation	-0.4	0.6	-1.0	0.3	0.6
Real estate, renting, & business activities	0.5	-1.8	-0.6	0.2	0.7
Other community, social, & personal services	-0.5	-1.6	0.2	-2.1	0.5
Private households	0.3	-0.7	-0.5	-1.6	-1.9
Total private sector	0.3	-0.4	-1.0	-0.7	-2.0
Public sector	-0.6	-0.2	-0.4	-0.2	-0.2
Taxes minus subsidies	0.5	-0.1	0.0	-0.8	0.1
GDP by sector	**0.3**	**-0.7**	**-1.4**	**-1.7**	**-2.1**

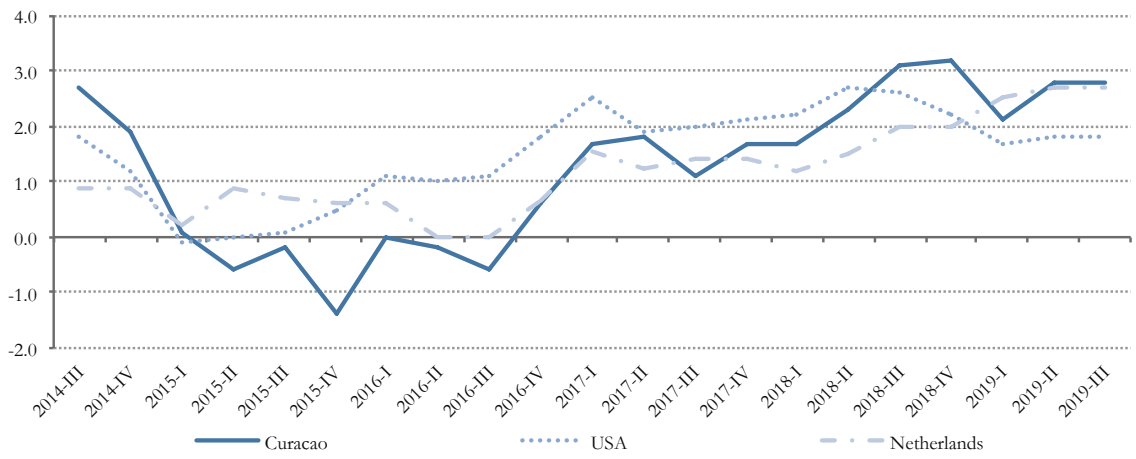
Source: Estimates by the Centrale Bank van Curaçao en Sint Maarten.
[a]Real percentage changes.

In addition, the hotel occupancy rate fell (-5.8%), which may be attributable to more tourists staying in alternative accommodations. By contrast, the number of visitor nights (4.7%) contributed positively to the sector's growth. The growth in the number of stay-over visitors was caused by increases in the European and Caribbean markets, mitigated by fewer visitors from the North American and South American markets. The European market grew largely because of more Dutch and German visitors, mitigated by fewer Belgian visitors. The Caribbean market recorded double-digit growth as more visitors came from Jamaica, Trinidad & Tobago, and Aruba, while fewer visitors arrived from the Dominican Republic and Haiti. Meanwhile, the fewer number of US and Venezuelan visitors affected mainly the North American and South American markets. However, the increase in the number of Canadians mitigated the decline in North American visitors, while the increase in the number of Colombian and Surinam visitors mitigated the decrease in the number of South American visitors. (See Table 13 in the Appendix for more details on stay-over tourism development.) Meanwhile, cruise tourism declined in the third quarter of 2019 compared to the growth in the third quarter of 2018 as both the number of cruise tourists and the number of cruise calls declined. (See Table 13A in the Appendix for more details.)

INFLATION

The quarterly inflation of Curaçao dropped from 3.1% in the third quarter of 2018 to 2.8% in the third quarter of 2019, as the increase in food prices was moderated by a decline in gasoline prices. As shown in Graph 1, the development in Curaçao differs from that in the United States. The average prices in Curaçao recorded a higher increase than the price gain in the United States during the third quarter of 2019. The increase in prices in Curaçao was mainly the result of higher excises on tobacco, liquor, beer, and wine, and the increased sales tax rate on

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.

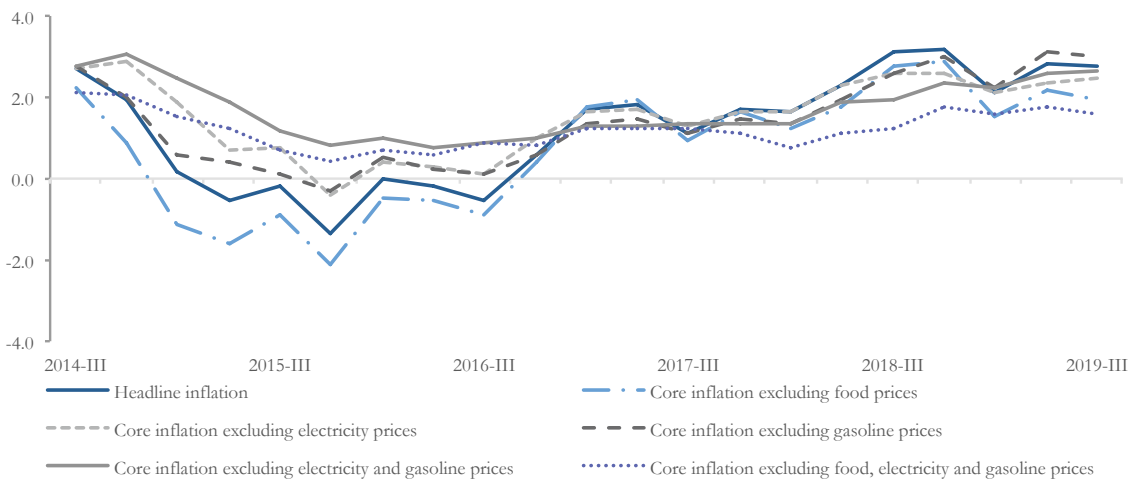
imports from 6% to 9%. Given the fixed peg of the NAf. to the US dollar, this diverging development points to an appreciation of the real exchange rate and, hence, a deterioration of Curaçao's competitiveness.

An analysis of the development in the CPI components reveals that prices rose across all categories but were most pronounced in the categories "Food", "Housing", and "Clothing & footwear". Prices accelerated in the category "Food" (6.6%) primarily as a result of price gains of potatoes, vegetables, and fruits. In the "Housing" category prices also increased (3.8%), albeit at a slower pace compared to the third quarter of 2018, due mainly to higher utility costs related to increased prices for fuel used in the production of electricity and water. Prices accelerated also in the category "Clothing & footwear" (2.3%). Meanwhile, prices eased significantly in the category "Transport & communication" (0.6%) due to a decline in gasoline prices. (See Table 14 in the Appendix for more details.)

Graph 2 shows the development of the headline inflation and core inflation rates of Curaçao on a quarterly basis over the period 2014-III to 2019-III. 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.

A comparison between the headline and core inflation rates reveals that food and electricity prices exerted an upward pressure on the general inflation rate during the third quarter of 2019. The core inflation rate excluding food prices (1.9%) and excluding electricity prices (2.5%) was lower than the headline inflation rate (2.8%). Food prices increased due to higher prices of potatoes, vegetables, and fruit as a result of the closed border between Curaçao and Venezuela. By contrast, the decline in gasoline prices eased the inflationary pressures during the third quarter of 2019. The core inflation rate excluding gasoline prices (3.0%) was higher than the headline inflation rate (2.8%). Meanwhile, the core inflation rate excluding

Graph 2 Comparison between consumer prices and core consumer prices



electricity and gasoline prices was 2.7%, and the core inflation rate excluding food, electricity and gasoline prices was 1.6%.

GENERAL ECONOMIC DEVELOPMENTS IN SINT MAARTEN

Real GDP in Sint Maarten grew by 5.6% during the third quarter of 2019, a positive turnaround compared to the 4.7% contraction experienced in the third quarter of 2018 (see Table 6). The increase in net foreign demand was the main driver of Sint Maarten's real GDP growth during the third quarter of 2019. The increased economic activity came largely on the back of a sharp rise in stay-over arrivals, albeit mitigated by a pronounced drop in cruise tourism. Meanwhile, inflation eased (0.1%) during the third quarter of 2019, primarily the result of lower food costs and international oil prices.[6]

An analysis of GDP by expenditure shows that the private sector contributed positively to real GDP during the third quarter of 2019, mainly because of a rise in private consumption. Growth in private investment decelerated compared to the third quarter of 2018 as widespread post-Irma reconstruction activities neared completion. The deceleration was tempered, however, by the start of new private projects. Private consumption rose due to, among other things, an improved labor market after the reopening of hotels and other tourism-related businesses. In addition, the public sector's contribution to real GDP was positive. Public consumption rose because of higher outlays on goods & services. However, public investments remained muted as reconstruction projects awaited approval for funding. Meanwhile, the rise in net foreign demand was the prime driver of real GDP growth as exports grew while imports dropped. The increase in exports came largely as a result of higher stay-over arrivals, although moderated by the drop in cruise tourism during the third quarter of 2019. The import bill dropped mainly as a result of a decline in merchandise imports and construction services.

[6] *2018 is now the base year for the Consumer Price Inflation (CPI) index compiled and published by the Sint Maarten Department of Statistics.*

Table 6 Sint Maarten - GDP by expenditure[ab]

	2015-III	2016-III	2017-III	2018-III	2019-III
Domestic expenditure, of which:	**-0.4**	**-0.1**	**-3.6**	**0.5**	**0.8**
Private sector	0.1	-0.3	-3.9	0.6	0.6
Investment	0.3	0.1	-1.9	3.6	0.1
Consumption	-0.2	-0.4	-2.0	-3.0	0.5
Government	-0.5	0.2	0.3	-0.1	0.2
Investment	-0.1	0.7	-0.1	0.0	0.0
Consumption	-0.4	-0.5	0.4	-0.1	0.2
Changes in inventory	**0.2**	**0.0**	**-0.9**	**0.5**	**-0.5**
Foreign net expenditure, of which:	**-0.1**	**-0.2**	**-3.9**	**-5.7**	**5.3**
Export of goods and services	-0.8	-0.5	-8.9	-2.5	4.6
Import of goods and services	-0.7	-0.3	-5.0	3.2	-0.7
GDP	**-0.3**	**-0.3**	**-8.4**	**-4.7**	**5.6**

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 the production side of GDP shows that the positive turnaround in Sint Maarten's real GDP during the second quarter of 2019 was supported primarily by more economic activities in the private sector, buoyed by the surge in stay-over arrivals, albeit tempered by a decline in the number of cruise tourism arrivals. The contribution by the public sector remained muted, but the collection of turnover taxes increased.

Nearly all economic sectors experienced a positive turnaround during the second quarter of 2019 following the sharp contractions in the second quarter of 2018 caused by Hurricane Irma's severe damage to Sint Maarten's productive capacity. Activities in the manufacturing, utilities, construction, wholesale & retail trade, restaurants & hotels, transport, storage, & communication, financial intermediation, and real estate, renting, & business activities sectors rebounded or grew further compared to the second quarter in 2018 (see Table 7).

Activities in the manufacturing sector surged (15.3%) during the third quarter of 2019, compared to the mild growth

Table 7 Sint Maarten - GDP by sector[a]

	2015-III	2016-III	2017-III	2018-III	2019-III
Agriculture, fishery, & mining	0.0	0.0	0.0	0.0	0.0
Manufacturing	-1.0	2.0	-3.1	0.5	15.3
Electricity, gas, & water	1.6	2.5	-9.4	1.3	8.0
Construction	-0.6	1.3	2.1	6.0	0.0
Wholesale & retail trade	-0.6	-2.1	-10.0	-17.6	9.6
Restaurants & hotels	3.6	0.6	-16.3	-15.4	20.0
Transport, storage, & communication	-0.2	0.1	-10.7	-6.2	-2.5
Financial intermediation	-1.1	-0.5	-3.6	1.9	4.4
Real estate, renting, & business activities	0.2	0.1	-4.6	-11.4	4.0
Other community, social, & personal services	0.2	0.5	-0.6	-5.7	3.1
Private households	-0.5	-0.5	-2.2	-3.3	0.0
Total private sector	0.0	-0.1	-5.4	-6.6	4.4
Public sector	-2.6	2.4	-0.4	0.2	-0.1
Taxes minus subsidies	-0.8	-4.3	-2.6	1.7	1.3
GDP	**-0.3**	**-0.3**	**-8.4**	**-4.7**	**5.6**

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

experienced in the third quarter of 2018. The accelerated growth stemmed largely from increased yacht repair and service activities, in line with the higher number of yachts, particularly smaller sailing yachts and motorboats, in and around the Simpson Bay Lagoon and the Philipsburg harbor.

Real value added in the utilities sector accelerated (8.0%) in the third quarter of 2019. Both water and electricity production increased robustly. This development was consistent with the increased demand for electricity and water, particularly from large consumers such as hotels and supermarkets.

In addition, the increase in both domestic and tourism spending led to the positive turnaround in the wholesale & retail trade sector during the third quarter of 2019 (9.6%) compared to the third quarter of 2018. Besides an improved labor market, the robust growth in stay-over

tourism coupled with the increased hotel room inventory also accounted for the improvement in the wholesale & retail trade sector, since several wholesalers are suppliers to Sint Maarten's hotel industry.

Real value added in the restaurants & hotels sector increased sharply during the third quarter of 2019 (20.0%) compared to the steep contraction in the third quarter of 2018 as stay-over arrivals accelerated significantly (65.6%). This increase came on the back of bigger hotel room inventory and the partial restoration of the Princess Juliana International Airport's main terminal building, allowing it to process higher volumes of passengers. Arrival numbers of tourists from all major source markets went up.

The number of stay-over arrivals from North America, Sint Maarten's main tourism market, surged during the third quarter of 2019 (155.2%), a significant turnaround compared to the deep contraction seen during the third quarter of 2018. The number of visitors from the United States rebounded sharply (151.0%), as well as the number of Canadian visitors (197.3%). Likewise, the number of visitors from South America grew (57.3%). Meanwhile, the positive turnaround in the number of visitors from Europe was less pronounced (8.3%) mainly because the growth in the number of arrivals from France (16.7%) was partially offset by the contraction in the number of arrivals from the Netherlands (-16.0%). Similarly, the positive reversal in the number of stay-over arrivals from the Caribbean was mild (4.6%), mainly because the contraction in the number of visitors from the Dominican Republic (-12.0%) offset the positive gains from the rest of the region. (See Table 13B in the Appendix for more details.)

By contrast, cruise tourism performance worsened during the third quarter of 2019 (-23.9%), a steep contraction compared to the robust growth experienced in the third quarter of 2018. The contraction was caused by a variety of factors, including the reopening of other cruise destination ports, such as Tortola, in the aftermath of the devastating 2017 hurricanes, fleet redeployment by some major cruise lines, and an increasingly competitive region.

Real value added in the financial intermediation sector increased during the third quarter of 2019 (4.4%), an acceleration compared to the third quarter of 2018, as interest income of the domestic commercial banks rose at a faster pace than interest expenses. Furthermore, fees & other income increased as more bank transactions were conducted.

Activities in the real estate, renting, & business activities sector turned around positively in the third quarter of 2019 (4.0%), as the sector, including the timeshare industry, benefitted from the sharp increase in stay-over tourism, particularly from North America.

Meanwhile, activities in the construction sector remained muted during the third quarter of 2019 (0.0%) as the start of new construction projects, such as large condominiums, was offset by the winding down of widespread repair and reconstruction efforts.

Finally, activities in the transport, storage, & communication sector continued to contract during the third quarter of 2019 (-2.5%), putting a drag on real GDP growth.

The contraction was due mainly to the decline in harbor-related activities, as the increase in airport-related activities was insufficient to offset the negative developments at the port. Airport-related and air transportation activities increased in line with the sharp rise in stay-over tourism. Sint Maarten's domestic carrier, Winair, also experienced strong growth, in line with the overall rise in passenger traffic. The harbor-related activities decreased in line with the steep drop in the number of cruise ships and freighters piloted into the harbor during the third quarter of 2019, albeit mitigated by an increase in the number of tankers. In addition, container movements decreased, reflecting mainly the decline in the import of reconstruction-related items.

DEVELOPMENTS IN THE PUBLIC FINANCES

Public finances of Curaçao

After three consecutive years showing a deterioration in the current budget balance, the government of Curaçao managed to improve its fiscal situation during the third quarter of 2019. As a result, the deficit on the current budget dropped from NAf.47.1 million in the third quarter of 2018 to NAf.2.7 million in the third quarter of 2019. Furthermore, the primary balance improved as the government conducted a contractionary fiscal policy.

The fiscal improvement during the third quarter of 2019 was caused mainly by an increase of NAf.43.3 million in government revenues. Revenues went up particularly in the nontax category (NAf.24.8 million), due mainly to a windfall in tax grants related to the BRNC tax arrangement between the Netherlands and Curaçao.[7] Also, an increase of NAf.18.5 million in tax revenues contributed to the rise in revenues. The increase in tax revenues was attributable primarily to NAf.10.1 million more proceeds from the wage tax, NAf.9.1 million more in sales tax revenues, and NAf.6.6 million more in excises on gasoline. These developments reflected, among other things, the ongoing efforts to improve tax compliance in Curaçao. Also, as part of the measures to increase revenues, the government raised the excises on tobacco, liquor, beer, and wine, and the sales tax rate on imports[8] as of September

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

[8] The sales tax rate on imports was raised from 6% to 9%.

Table 8 Primary balance of Curaçao

	2015-III	2016-III	2017-III	2018-III	2019-III
Current budget balance	17.1	-13.5	-25.3	-47.1	-2.7
Interest payments	2.9	2.3	2.9	2.8	2.2
Primary balance	20.0	-11.2	-22.4	-44.3	-0.5
% of GDP	0.4%	-0.2%	-0.4%	-0.8%	0.0%
Change in primary balance	0.7%	-0.6%	-0.2%	-0.4%	0.8%

1, 2019. Expenditures went down slightly by NAf.1.1 million due to less spending on transfers & subsidies. (See Tables 15A and 15B in the Appendix for a detailed overview.)

Furthermore, the primary balance of the government of Curaçao, which is defined as the budget balance excluding interest payments, improved by 0.8 percentage point of GDP in the third quarter of 2018 to 0.0% in the third quarter of 2019. This improvement was caused by a drop in non-interest expenditures while revenues increased and indicates that the government adopted a contractionary fiscal stance (see Table 8).

Public sector debt of Curaçao

The total outstanding public debt of Curaçao decreased by NAf.7.4 million during the third quarter of 2019, reaching NAf.2.853 billion. This decrease reflects entirely the drop of NAf.7.6 million in the foreign debt component because the domestic debt component remained practically unchanged. The foreign debt dropped because the government paid off its arrears towards the Dutch government related to the coast guard and the common court of justice. Consequently, the debt-to-GDP ratio dropped slightly from 50.6% in June 2019 to 50.5% in September 2019. (See Table 15C in the Appendix for a detailed overview.)

Public finances of Sint Maarten

The current budget deficit of the government of Sint Maarten narrowed from NAf.28.0 million in the third quarter of 2018 to NAf.22.6 million in the third quarter of 2019. In addition, 2019's third-quarter deficit was lower than budgeted, due mainly to higher tax proceeds. The primary balance also improved while the debt-to-GDP ratio dropped.

The lower budget deficit in the third quarter of 2019 compared to the third quarter of 2018 can be ascribed to NAf.9.0 million higher revenues mitigated by an increase of NAf.3.6 million in expenditures. Tax proceeds went up by NAf.3.2 million, particularly as a result of more proceeds from turnover tax (NAf.3.2 million) and property transfer tax (NAf.1.8 million). The increase in earnings from turnover tax can be attributed to the economic recovery of the country, particularly in the construction and the tourism sectors, supported by the ongoing reconstruction projects in 2019. The rise in tax revenues was mitigated, however, by a decline in the proceeds from wage tax (NAf.2.8 million) and from excises on gasoline (NAf.1.4 million). Furthermore, nontax revenues went up because of more income from licenses, particularly business license fees, due to an improvement of the administration system, and building permit fees, owing to the construction of new buildings which translated into more building permits issued. Meanwhile, expenditures increased due to NAf.3.5 million higher spending on goods & services and NAf.1.3 million more subsidies. On the other hand, the rise in expenditures was mitigated by a fall in the outlays on wages & salaries of NAf.1.4 million mainly as a result of a one-off reduction by the Social & Health Insurances Agency (SZV) of the medical costs of civil servants (OZR [9]). (See Tables 16A and 16B in the Appendix for more details.)

[9] *The "overheidsziektekostenregeling" (OZR) is the regulation for compensation of medical costs of civil servants. This scheme is administered by the SZV.*

Furthermore, the primary balance of the government of Sint Maarten, which is defined as the budget balance excluding interest payments, improved from -1.4% of GDP in the third quarter of 2018 to -1.0% in the third quarter of 2019. This improvement was caused by revenues increasing at a faster pace than non-interest expenditures. However, the primary balance improved at a slower pace than in the third quarter of 2018 (see Table 9).

Public sector debt of Sint Maarten

Sint Maarten's total outstanding debt declined by NAf.10.8 million to NAf.789.9 million during the July-September quarter of 2019. This drop was due primarily to the lower domestic debt attributable partly to a reduction of arrears towards the Social & Health Insurances Agency, SZV, (NAf.5.0 million). The foreign debt component declined by NAf.1.5 million. Consequently, Sint Maarten's debt-to-GDP ratio went down from 41.7% at the end of June 2019 to 41.1% at the end of September 2019. (See Table 16C in the Appendix.)

DEVELOPMENTS IN THE BALANCE OF PAYMENTS OF THE MONETARY UNION

The deficit on the current account of the balance of payments of the monetary union dropped from NAf.483.2 million in the third quarter of 2018 to NAf.457.6 million in the third quarter of 2019. The lower deficit was caused by an increase in the net export of goods and services, moderated by a decline in net current transfers received from abroad and a deterioration of the income balance. As the external financing and capital transfers from abroad were not sufficient to cover the deficit on the current account, gross official reserves dropped by NAf.197.8 million (see Table 10).

CURRENT ACCOUNT

The net export of goods and services in the monetary union rose by NAf.192.7 million in the third quarter of 2019 due to a significant decline in imports (NAf.260.1 million), moderated by a drop in exports (NAf.67.5 million). Both Curaçao and Sint Maarten recorded an increase in the net export of goods and services but the underlying causes differed. The increase in the net export of goods and services in

Table 9 Primary balance of Sint Maarten

	2015-III	2016-III	2017-III	2018-III	2019-III
Current budget balance	-15.9	-11.2	-65.2	-28.0	-22.6
Interest payments	3.4	3.2	0.0	3.2	3.5
Primary balance	-12.6	-8.0	-65.2	-24.8	-19.1
% of GDP	-0.7%	-0.4%	-3.5%	-1.4%	-1.0%
Change in primary balance	0.0%	0.2%	-3.1%	2.1%	0.4%

Curaçao was caused primarily by a sharp decline in imports, while the increase in Sint Maarten was driven mainly by higher exports. Below follows an analysis of the developments in the net export of goods and services in Curaçao and Sint Maarten.[10]

[10] *The current account of the monetary union is not equal to the sum of the current accounts of Curaçao and Sint Maarten due to the unregistered transactions between the two countries.*

Developments in the net export of goods and services in Curaçao

In Curaçao, the net export of goods and services increased by NAf.104.9 million due to a decline in imports (NAf.226.6 million) moderated by lower exports (NAf.121.7 million). The decline in imports can be ascribed largely to a drop in the oil import bill reflecting lower international oil prices and a decline in volumes purchased from abroad. In addition, merchandise imports by the wholesale & retail trade, utilities, manufacturing, and construction

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

	2015-III	2016-III	2017-III	2018-III	2019-III
Current account	**-331.1**	**-407.4**	**-260.2**	**-483.2**	**-457.6**
Capital transfers	0.1	0.3	0.3	28.6	4.5
External financing of the government	-1.4	-0.3	-4.0	0.1	-0.7
External financing of the private sector	298.9	368.8	123.6	-25.6	233.2
Direct investment	117.3	136.4	330.8	94.1	17.7
Loans and credits	41.4	193.9	-390.5	16.7	190.3
Portfolio investment	140.1	38.5	183.3	-136.4	25.2
Change in gross reserves of the central bank	**-25.2**	**-39.9**	**-100.1**	**-455.5**	**-197.8**
Foreign exchange	-97.5	-157.8	-70.8	-415.7	-109.9
held at foreign central banks	-203.3	-39.4	-198.2	-29.1	-226.8
held at foreign commercial banks	105.7	-118.5	127.4	-386.6	116.8
Other claims	72.3	117.9	-29.4	-39.8	-87.8
Statistical discrepancies	5.5	-1.9	32.2	24.9	21.4

sectors went down in line with the decline in domestic demand during the third quarter of 2019. Furthermore, the import of construction services dropped mainly as a result of less maintenance work at the Isla refinery and the construction of the new hospital reaching its final stages. Moreover, foreign operational expenses of banks and trust companies dropped. More merchandise imports by the free-zone companies, accompanied by higher imports by the restaurants & hotels and real estate sectors moderated the decline in imports.

The poor export performance reflected primarily a decline in foreign exchange earnings from bunkering, refining, international financial services, wholesale trade, and legal & management consulting services. The drop in foreign exchange receipts from bunkering activities was caused by a decline in international oil prices during 2019's third quarter combined with lower volumes sold. Meanwhile, the lower revenue from refining activities (i.e., the refining fee) was caused by the lower production at the Isla refinery during the third quarter of 2019. The decline in international financial services was related mainly to less banking and trust services provided to abroad. By contrast, foreign exchange earnings from tourism, communication services, and the free zone increased, thereby moderating the contraction in exports. More receipts from stay-over tourism drove the gain from tourism activities because the revenues from cruise tourism remained practically unchanged. Meanwhile, foreign exchange earnings from ship repair activities remained about the same in the third quarter of 2019 as in the third quarter of 2018.

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

The net export of goods and services in Sint Maarten rose by NAf.84.2 million mainly as a result of an increase in exports (NAf.52.0 million) combined with a drop in imports (NAf.32.1 million). The higher exports reflect the recovery of Sint Maarten's tourism sector after the damage caused by the hurricanes in 2017. In particular, foreign exchange revenues from stay-over tourism surged during the third quarter of 2019 compared to the third quarter of 2018. However, earnings from cruise tourism dropped consistent with the decline in the number of cruise ships and cruise tourists. Moreover, the export of merchandise by the wholesale trade sector increased.

Imports dropped largely because of a decline in merchandise imports by the wholesale trade and construction sectors, moderated by more import of oil products. In addition, the import of construction services fell, following the surge recorded in the third quarter of 2018 related to the reconstruction activities.

Developments in the income balance and current transfers balance

The income balance worsened by NAf.8.7 million as a result of an increase in dividend paid to foreign shareholders. However, an increase in labor income and dividend earned on foreign investments combined with lower interest payments to abroad moderated the deterioration of the income balance.

The current transfers balance deteriorated by NAf.158.4 million during the third quarter

of 2019 compared to the third quarter of 2018, due mainly to a decline in current transfers received from abroad. In the third 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 strong increase in current transfers received from abroad. Because most of these claims have been settled, the inflow of insurance claims dropped in the third quarter of 2019.

Overall, the deficit on the current account dropped by NAf.25.6 million to NAf.457.6 million in the third quarter of 2019 compared to the third quarter of 2018. (See Table 17 in the Appendix for a detailed overview.)

Developments in the financial and capital account

External financing into the monetary union increased by NAf.232.5 million caused by a deterioration of the loans & credits, portfolio investment, and direct investment balances. The loans & credits balance deteriorated by NAf.190.3 million as a result of, among other things, a drop in foreign deposits of residents of Curaçao and Sint Maarten. In addition, an increase in trade credits received on imports by local merchants and more loans received from abroad by particularly the hotels & restaurants sector contributed to the worsening of the loans & credits balance. In addition, deposits of nonresidents in the monetary union rose. The deterioration of the loans & credits balance was moderated, however, by more trade credit extended on exports and the windfall in dividend tax transferred by the Dutch tax authorities to the government of Curaçao as part of the tax arrangement between the Netherlands and Curaçao (BRNC).

The portfolio investment balance worsened by NAf.25.2 million due mainly to accrued interest to be paid by the government of Curaçao to the Dutch State related to debt securities issued in the past. However, an increase in foreign debt securities held by local institutional investors mitigated the worsening of the portfolio investment balance.

Furthermore, the deterioration of the direct investment balance by NAf.17.7 million was the result of increased claims of foreign direct investors on their subsidiaries in the monetary union and more investments in real estate in Curaçao and Sint Maarten by nonresidents. The higher claims of nonresidents were moderated by an increase of investments by local companies in their foreign affiliates.

Meanwhile, net capital transfers into the monetary union dropped by NAf.24.1 million as the transfer of funds by the World Bank from the Sint Maarten Recovery, Reconstruction and Resilience Trust Fund towards the government of Sint Maarten to finance reconstruction projects was lower in the third quarter of 2019 than in the third quarter of 2018.[11] As the external financing and net capital transfers were not sufficient to cover the current account deficit, gross official reserves dropped by NAf.197.8 million in the September quarter of 2019. (See Table 18 in the Appendix for a detailed overview.)

[11] *The Sint Maarten Recovery, Reconstruction and Resilience Trust Fund supports recovery efforts, helps the government of Sint Maarten prepare projects with well-defined development objectives, and provides capacity support for effective, efficient, and transparent project execution. The Dutch government has made €470 million (NAf.1.0 billion) available for the fund, which is managed by the World Bank.*

MACROECONOMIC SCENARIO ANALYSIS OF THE SINT MAARTEN RECOVERY, RECONSTRUCTION AND RESILIENCE TRUST FUND

On September 5-6, 2017, Hurricane Irma caused severe destruction in Sint Maarten. The category 5 hurricane destroyed homes, infrastructure, and commercial and public property. Consequently, Sint Maarten's production capacity was diminished significantly.

In response to the devastation caused by Hurricane Irma, the Sint Maarten Recovery, Reconstruction and Resilience Trust Fund was established on April 16, 2018, to support recovery efforts, to help the government of Sint Maarten prepare projects with well-defined development objectives, and to provide capacity support for effective, efficient, and transparent project execution for the medium and longer term. The Dutch government pledged up to €470.0 million (NAf.1.0 billion or US$550.0 million) for the fund, which is managed by the World Bank.[12]

However, the disbursement of the reconstruction aid from the Trust Fund has been rather slow. Up to January 27, 2020, only NAf.62.3 million (US$34.8 million) of the NAf.363.9 million (US$ 203.3 million) committed to finance projects has been disbursed and NAf.43.8 million (US$ 24.5 million) had been spent. [13]

Nevertheless, the economy of Sint Maarten has been showing signs of recovery supported mainly by funding from insurance payments to the private sector. Up to February 2019, NAf.704.0 million in insurance claims had been settled.[14] Also, in 2018 and 2019 the government of Sint Maarten received a total of NAf.145.6 million in liquidity support from the Dutch State to meet its financial obligations for the years 2017 and 2018.

The Centrale Bank van Curaçao en Sint Maarten (CBCS) conducted a macroeconomic analysis of the disbursements from the Sint Maarten Recovery, Reconstruction and Resilience Trust Fund. To this end, six scenarios were calculated vis-à-vis a baseline scenario to assess the possible impact this aid would have on the medium–term GDP growth of Sint Maarten. The projections were made for the period 2020-2025.

The baseline scenario includes CBCS's real GDP growth and inflation estimates for the years 2017 – 2019. In addition, for the period 2020 –

[12] As of February 2020, the government of the Netherlands has deposited US$ 305 million into the World Bank trust fund.

[13] Monthly update by the National Recovery Program Bureau, January 2020.

[14] Source: CBCS. Up to February 2019, 98.5% of all insurance claims were settled. Since February 2019, the insurance companies are no longer required to submit monthly reports of the settlement of the insurance claims related to Hurricane Irma.

2025, it is assumed that the economy of Sint Maarten follows the same growth path existing prior to the hurricane. Also, it is assumed that no reconstruction aid and no liquidity support are granted to Sint Maarten.

The six alternative growth scenarios are:

1. *Growth scenario assuming spending of NAf.20.0 million on reconstruction aid per year.*

   In this scenario, the real GDP growth figures in 2017-2019 are the same as in the baseline and, hence, include the reconstruction aid spending and liquidity support in this period. For the period 2020-2025, it is assumed that the spending of reconstruction aid will continue at roughly the same pace as in 2018 and 2019 (i.e., NAf.20.0 million per year).

2. *Growth scenario assuming spending of NAf.84.0 million on reconstruction aid per year over the period 2020-2025.*

   According to the Interim Report on Sint Maarten Recovery, Reconstruction and Resilience Trust Fund,[15] the Trust Fund has received NAf.547.0 million (US$ 305.0 million) so far from the Dutch government. From this amount, NAf.54.0 million (or US$ 30.0 million) has been disbursed. Hence, NAf.493.0 million is still available for disbursements. It is assumed in this scenario that the NAf.493.0 million will be disbursed in equal amounts of NAf.84.0 million per year over the period 2020-2025.

3. *Growth scenario assuming spending of NAf.121.0 million on reconstruction aid per year over the period 2018 -2025.*

   According to the Interim Report on Sint Maarten Recovery, Reconstruction and Resilience Trust Fund[16], the government of the Netherlands committed NAf.965.0 million (or US$ 539.0 million) for the Trust Fund. In this scenario, it is assumed that this amount would have been spent in equal amounts per year over the period 2018 – 2025. In that case, NAf.121.0 million would be spent on reconstruction aid per year.

4. *Growth scenario assuming no reconstruction aid.*

   In this scenario, it is assumed that no Trust Fund was established and that Sint Maarten does not receive reconstruction aid. However, the liquidity support that the government received in 2018 and 2019 is included in this scenario.

[15] *June 2019.*

[16] *June 2019.*

5. *Growth scenario assuming no liquidity support.*

   In this scenario, it is assumed that the government of Sint Maarten does not receive any liquidity support. Furthermore, only the reconstruction aid that Sint Maarten received in 2018 and 2019 is included in this scenario (NAf.43.8 million).

6. *Growth scenario assuming no reconstruction aid and no liquidity support.*

This scenario excludes all reconstruction aid and liquidity support received in 2017-2019. Also, it is assumed that Sint Maarten will not receive reconstruction aid and liquidity support in 2020-2025. Basically, the reconstruction will be financed by the payout of insurance claims.

To assess the contribution of the Trust Fund and the liquidity support to the country's recovery pace, a projection was made of the real GDP levels in each scenario for the period 2017-2025.

The table shows that in the baseline scenario, Sint Maarten would reach its pre-hurricane level in terms of real GDP in 2022. Furthermore, scenario 3, where NAf.121.0 million of reconstruction aid per year would be spent over the period 2018-2025, shows the fastest recovery. Sint Maarten already would have reached its pre-hurricane level in 2019. In both scenario 5 (no liquidity support) and scenario 6 (no reconstruction aid and no liquidity support), Sint Maarten will not be able to reach the pre-hurricane level in the medium term.

From these scenarios one can be conclude that both the reconstruction

Comparison between different scenarios – year of reaching the pre-hurricane GDP level

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Baseline scenario										
Scenario 1										
Scenario 2										
Scenario 3										
Scenario 4										
Scenario 5										
Scenario 6										

aid from the Trust Fund and the liquidity support to the government of Sint Maarten, and particularly the size of the yearly disbursements, are crucial for the country's pace of recovery. Delays in the disbursement and actual spending of the funds will hamper Sint Maarten's optimal economic recovery. However, note that the absorption capacity of the economy of Sint Maarten was not taken into consideration in these calculations. Not only is the availability of funds important but also whether the required human, financial, and technical resources are available to absorb the funds effectively. For example, an additional spending of NAf.85.0 million per year may result in higher projected growth figures, but the question remains whether this level of spending is feasible.

IV MONETARY DEVELOPMENTS

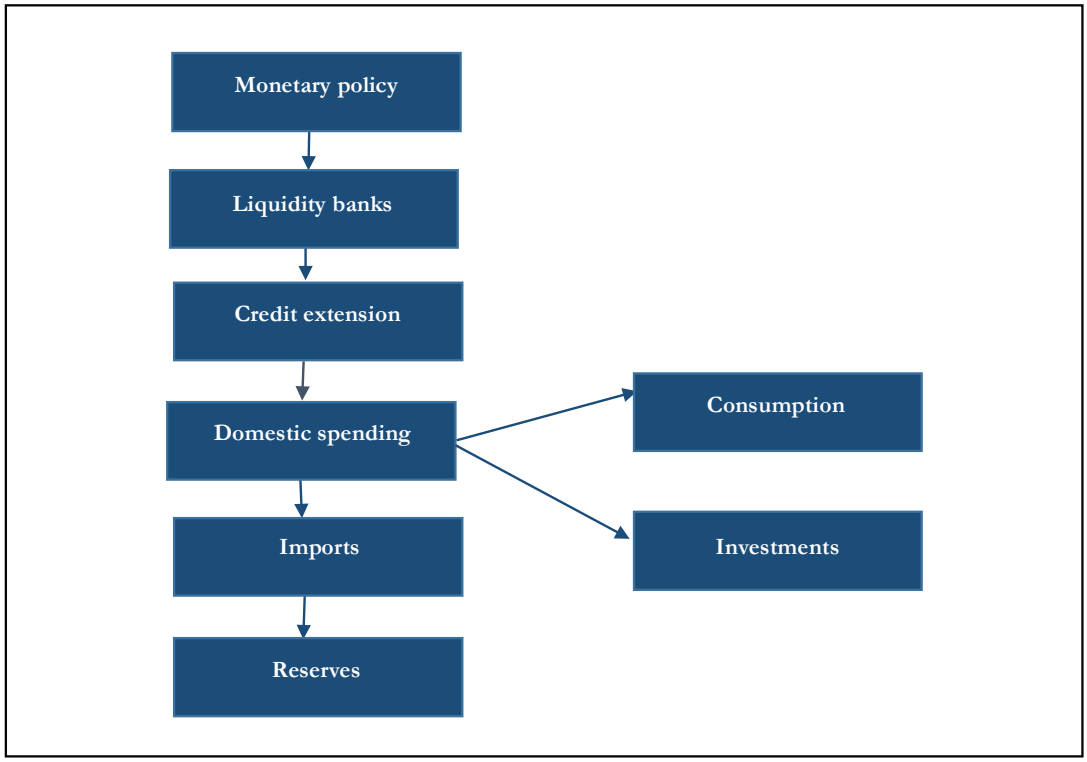
INTRODUCTION

The primary objective of the monetary policy in the monetary union of Curaçao and Sint Maarten is maintaining the external stability of the common currency, which is still 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 strives for a level of official reserves (excluding gold) equal to approximately three months of goods and services imports (i.e., the import coverage) to guarantee an unhampered flow of international transactions.

The Bank's monetary policy instruments are aimed primarily at influencing the commercial banks' available liquidity, which is reflected by their current account balances at the Bank.[17] Limiting the excess liquidity should have an impact on the growth of domestic credit extension, domestic

[17] *Liquidity is a subset of the monetary liabilities of the Bank. In principle, liquidity comprises the domestic currency denominated, non-interest-bearing liabilities of the Bank held by the private sector.*

Figure 1 Monetary transmission mechanism



spending, imports, and ultimately, the level of official reserves (see Figure 1). In the end, through the transmission mechanism of monetary policy, this action will affect the level of interest in the economy. 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

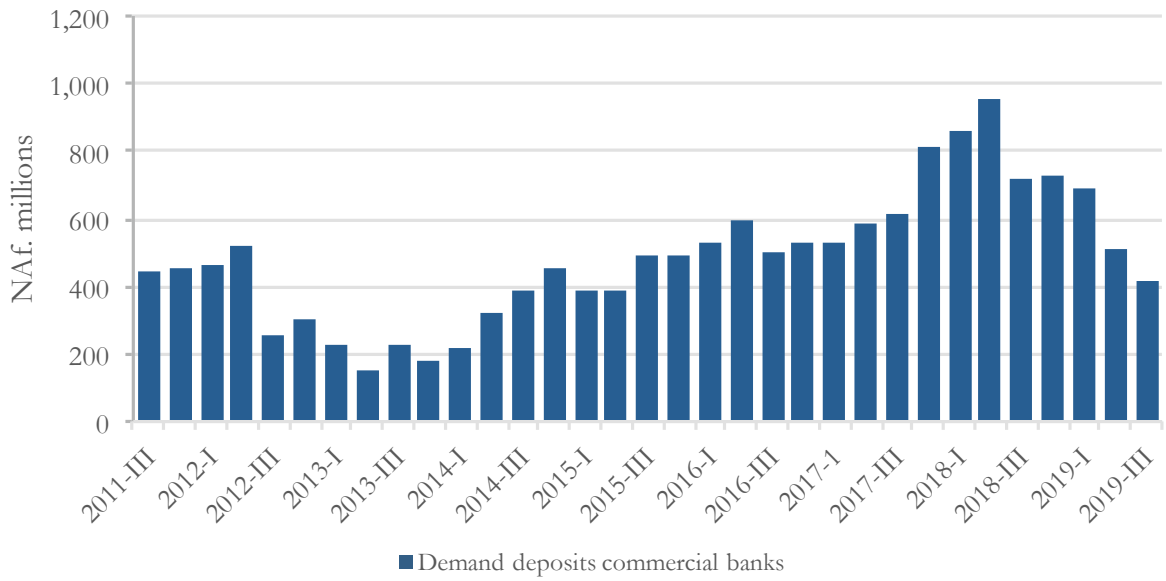
Graph 3 shows the development in the liquidity of the commercial banks. The demand deposits of the commercial banks with the Bank fell during the first nine months of 2019. Following declines of NAf.36.6 million in the first quarter and NAf.174.4 million in the second quarter, liquidity dropped further by NAf.101.8 million in the third quarter of 2019. The decline in 2019's third quarter was due to, among other things, the net purchase of foreign exchange by the commercial banks and the use of part of their dollar deposits at the Bank for investments abroad. Furthermore, the Bank tightened its monetary policy by again offering certificates of deposit (CDs) in both guilders (NAf.) and US dollars (US$) to the commercial banks through bi-weekly auctions beginning mid-August 2019. Consequently, the purchase of CDs by the commercial banks also affected liquidity during the third quarter of 2019.

CREDIT EXTENSION TO THE PRIVATE SECTOR

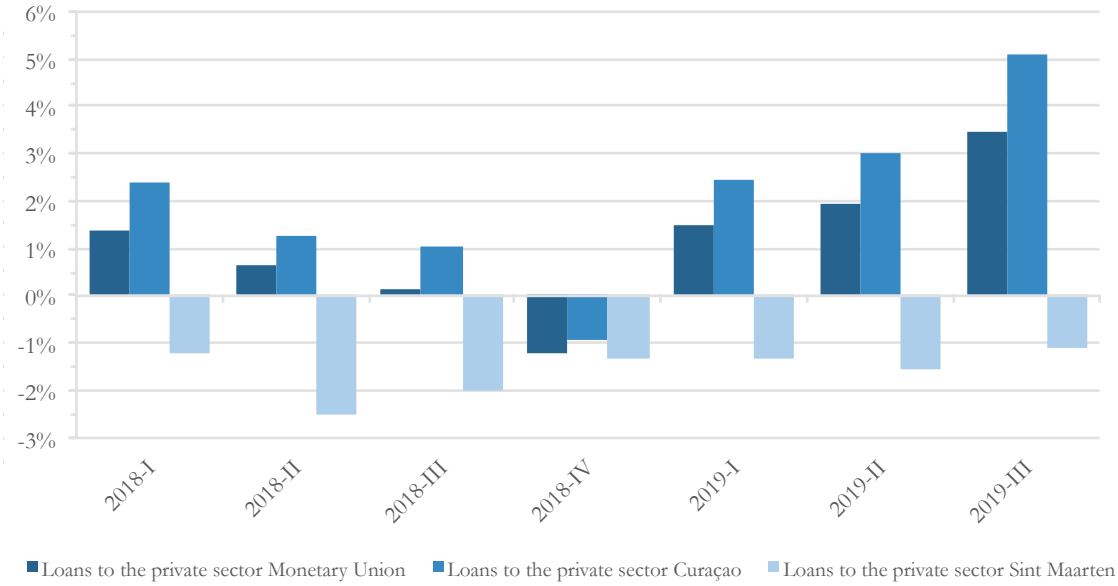
Private credit extension in the monetary union dropped by 0.1% in the third quarter of 2019, following an increase of 1.0% in the second quarter. The drop during the third quarter of 2019 was ascribable to a decline in business loans (-2.0%) and the "other" loan category[18] (-6.1%), moderated

[18] *The "other loan" category contains loans that cannot be classified under consumer loans, business loans, or mortgages (e.g., credit card loans).*

Graph 3 Development of the commercial banks' liquidity



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



by a growth in mortgages (1.4%) and consumer loans (1.5%).

The drop in loans extended to the private sector was attributable to a decline in Curaçao (-0.4%), as Sint Maarten recorded an increase (0.9%). The decline in credit extended in Curaçao was caused by declines in business loans (-2.0%) and the "other" loan category (-6.4%) mitigated by increases in mortgages (1.8%) and consumer loans (0.3%). In Sint Maarten, all loan categories increased: business loans by 1.8%, mortgages by 0.5%, consumer loans by 0.4%, and the "other" loan category by 14.6%. (See Table 21 in the Appendix for a detailed overview.)

On an annual basis, private sector credit extension in the monetary union rose by 3.0% in the September quarter of 2019 supported by an increase in outstanding loans in Curaçao (4.4%) moderated by a decline in Sint Maarten (-1.1%) (see Graph 4).

IMPORT OF GOODS AND SERVICES

As discussed in more detail in section 3, the import of goods & services in the monetary union dropped considerably (NAf.260.1 million) during the third quarter of 2019 compared to the third quarter of 2018. The lower imports were ascribable to declines in both non-oil and oil merchandise imports. Furthermore, the import of construction services shrank while the foreign operational expenses of companies in the international financial services sector dropped.

FOREIGN EXCHANGE RESERVES

Following a contraction by NAf.154.7 million in the June quarter of 2019, gross official reserves fell by NAf.197.8 million in the September quarter of 2019 due mainly to the net purchase of foreign exchange by the commercial banks and the use of their dollar deposits to make investments abroad (see Graph 5).

Graph 5 Development in gross official reserves

IMPORT COVERAGE

The import coverage is calculated as the number of months the foreign exchange reserves of the Bank (excluding gold) can cover the import of goods and services. In that regard, the import of goods and services is based on the projected imports for the coming three months (i.e., forward looking). In September 2019, the import coverage stood at 3.6 months, down from the 4.5 months registered in June 2019 (see Graph 6). The lower import coverage reflected primarily the decline in the gross official reserves complemented by a projected increase in the import of goods and services in the fourth quarter of 2019.

Graph 6 Development in the import coverage

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 influence to a certain extent 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

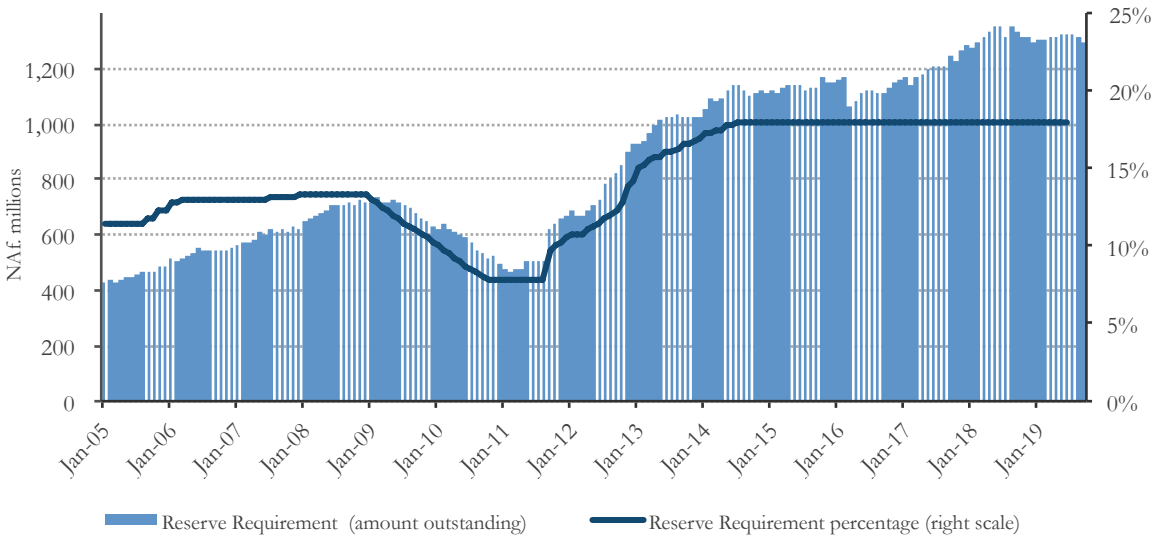
The reserve requirement is an instrument of monetary policy aimed primarily at influencing the money-creating capacity of the domestic banks. In addition, it serves to manage liquidity and to achieve macroprudential goals. Under the reserve requirement, the banks have to place a non-interest-bearing deposit on a blocked account with the Bank for a certain period. The reserve requirement reduces the banks' liquidity, as these funds are not available for transaction purposes.

In the monetary union of Curaçao and Sint Maarten, the reserve requirement currently is the main 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. [19] 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 Bank kept the percentage of the reserve requirement at 18.00% during the third quarter of 2019. Nevertheless, the amount of required reserves dropped due to the lower base amount upon which it is calculated (see Graph 7).

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

Graph 7 Reserve requirement



Open market operations

The Bank also uses open market operations, an indirect instrument, to conduct monetary policy. Through open market operations, the liquidity in the banking system can be influenced and, hence, the extension of credit. Open market operations include the issuing of certificates of deposit (CDs) and the purchase or sale of government securities and bonds of government-owned corporations. Currently, only the issuing of certificates of deposit is being used as an open market instrument in the monetary union of Curaçao and Sint Maarten.

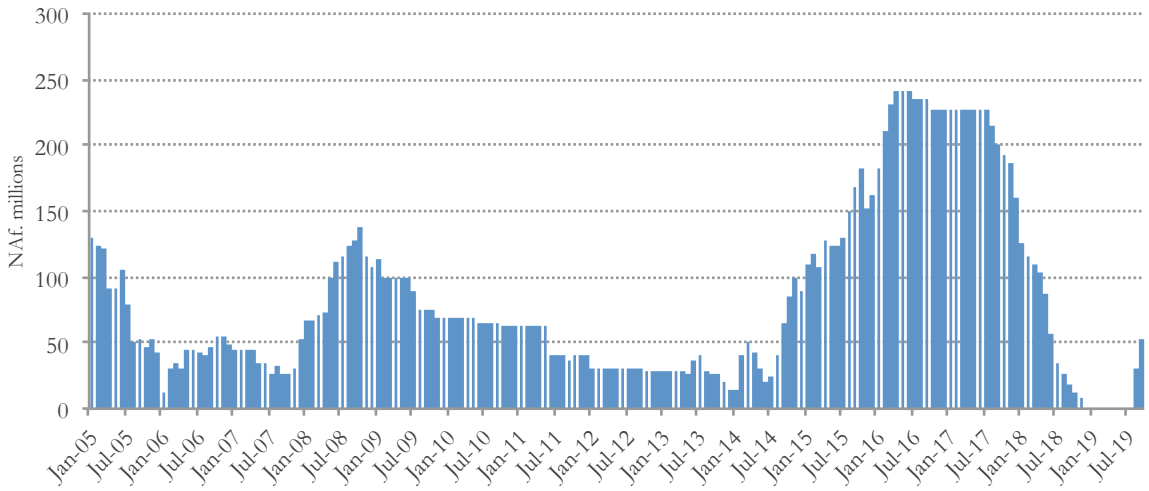
Certificates of deposit

The Bank has been issuing its own securities, i.e., certificates of deposit (CDs), via bi-weekly auctions. 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.

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 relative to the US dollar libid rate.[20] 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 more CDs were outstanding, and the auctions were suspended temporarily. However, in light of the downward trend in gross official reserves and the import coverage, the Bank decided to tighten its monetary policy by offering CDs again in both guilders (NAf.) and US dollars to the commercial banks through bi-weekly auctions as of mid-August 2019. As a result, the outstanding amount of CDs rose to NAf.115.7 million in the third quarter of 2019 (see Graph 8).

[20] *The libid rate (London Interbank Bid Rate) is derived from the libor rate (London Interbank Offered Rate). Libor is a widely used international benchmark for short-term interest rates. It currently is calculated and published by the Intercontinental Exchange and called ICE libor.*

Graph 8 Outstanding certificates of deposit



Pledging rate

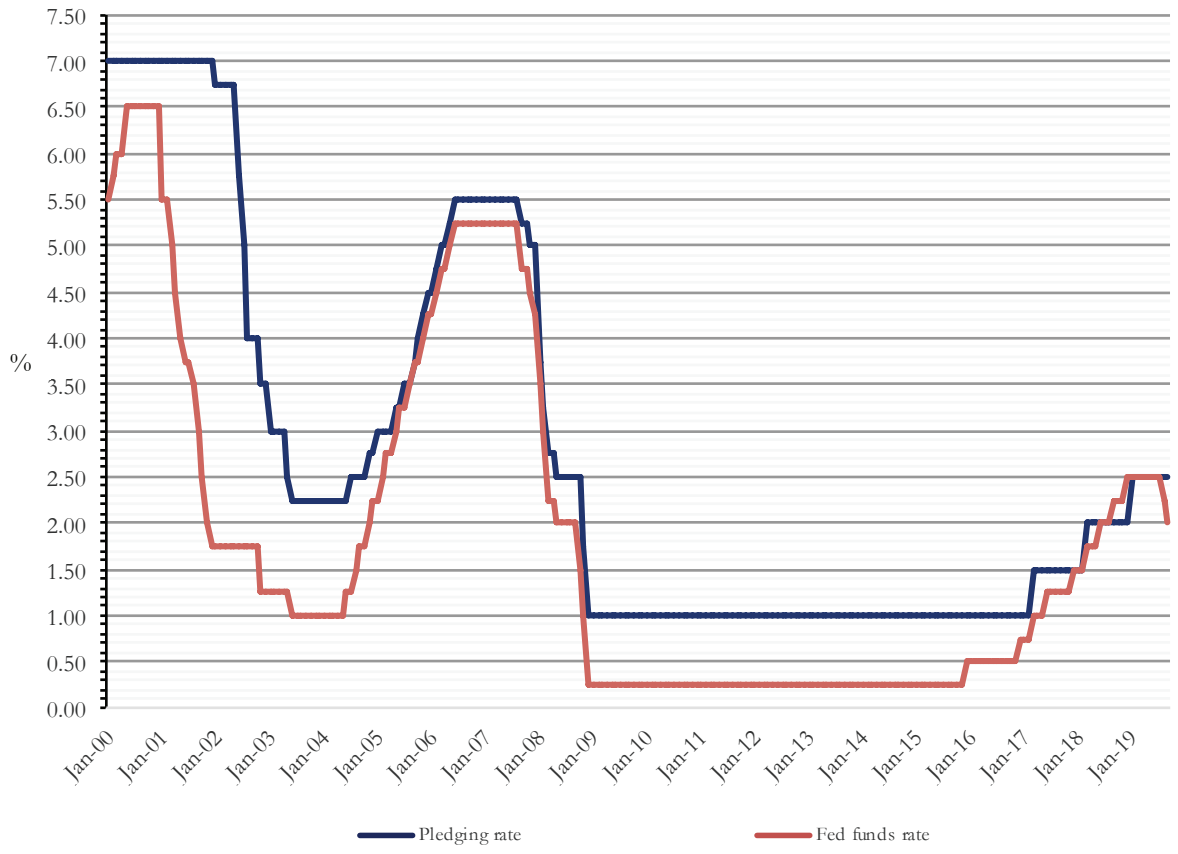
The pledging rate is the rate at which the commercial banks can borrow at the Bank in case of a liquidity shortage. Because of the peg of the NAf. to the US dollar, the interest rates in the international money market affect the interest rates in the money market of the monetary union of Curaçao and 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 libor rate. An increase of the Fed funds rate[21] affects the international money market rates immediately. Therefore, the Bank generally adjusts its pledging rate in line with the changes in the Fed funds rate.

The Bank increased 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 in effect since December 29, 2008. The previous increases took place on March 20, 2017 and March 27, 2018 (see Graph 9 and Table 22 in the Appendix).

However, in light of the monetary policy tightening in the third quarter of 2019, the Bank did not follow the reductions of the Fed funds rate in August and September 2019.

[21] 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 Federal Open Market Committee of the Federal Reserve System (i.e., central bank) of the United States targets the Fed funds rate.

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



MONETARY BASE

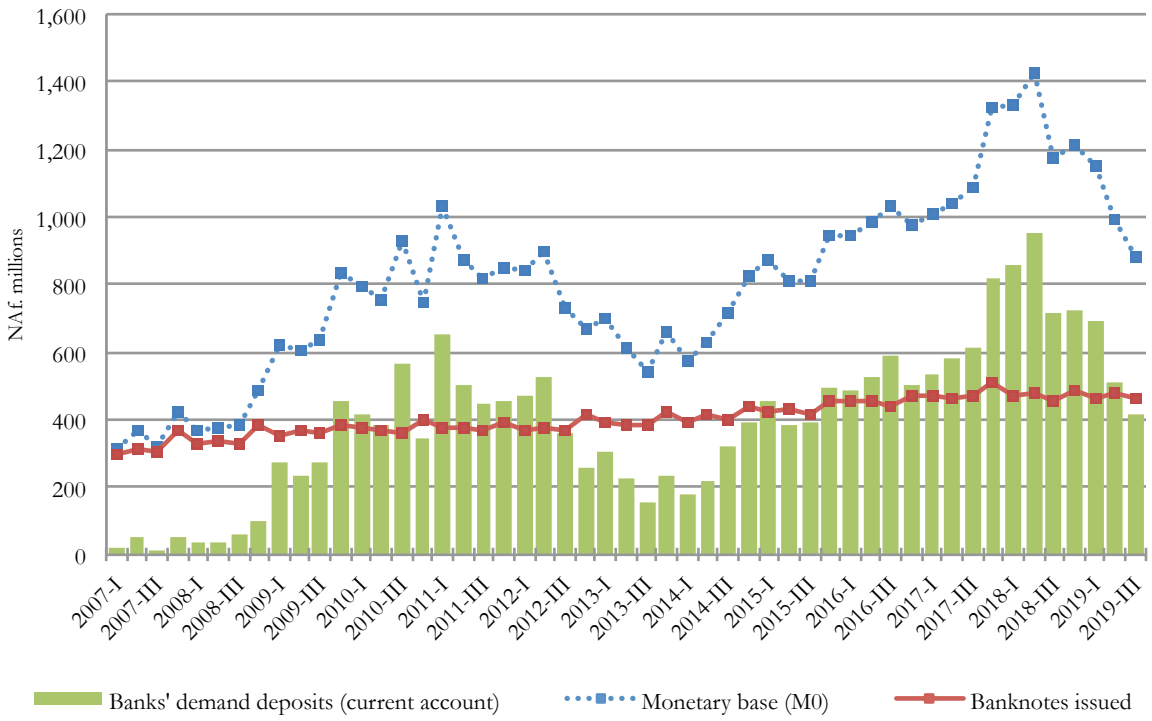
The monetary base, M0, is a measure of the Bank's monetary liabilities and consists of currency in circulation and the commercial banks' current account balances with the Bank.[22] Following a NAf.154.0 million (13.4%) decline in the second quarter of 2019, the monetary base contracted by NAf.115.3 million (11.6%) in the third quarter of 2019. The third quarter contraction reflected declines in both the commercial banks' current account balances with the Bank (NAf.101.7 million or 19.8%) and currency in circulation (NAf.13.7 million or 2.8%) (see Graph 10). Consequently, on an annual basis, the contraction in the monetary base was less pronounced in September 2019 (34.7%) than in June 2019 (25.2%).

[22] *The monetary base includes bank deposits with the Bank, except time deposits and currency issued, which comprises currency in circulation, and holdings of currency (coins and notes) by the banks.*

Changes in the monetary base can be explained in terms of movements in the Bank's assets and its other, nonmonetary liabilities. Other things being equal, a drop in the Bank's assets leads to a decline in the monetary base. Conversely, when the Bank's nonmonetary liabilities drop, the monetary base increases. The contraction in M0 in the third quarter of 2019 stemmed from a decline in the Bank's assets moderated by a drop in the remaining liabilities. The assets dropped mainly as a result of a decline in foreign assets because of the net purchase of foreign exchange and the transfer of dollar deposits for investments abroad by the commercial banks. However, the higher value of the gold stock moderated the drop in the Bank's assets.

Meanwhile, the nonmonetary liabilities dropped mainly because of declines in government deposits and foreign liabilities. Both the government of Curaçao

Graph 10 Development in the monetary base and its components



and Sint Maarten transferred funds towards their accounts at the commercial banks during the third quarter of 2019. Meanwhile, the drop in foreign liabilities was attributable to a drop in the balances of the commercial banks in Bonaire and the Central Bank of Aruba. By contrast, the increase in capital and reserves as a result of the higher value of the Bank's gold stock, moderated the drop in the nonmonetary liabilities. (See Table 19 in the Appendix.)

MONETARY AGGREGATES

Following a 0.4% increase during the second quarter of 2019, broad money contracted by 2.8% during the third quarter of 2018 due to declines in both the narrow money (M1) and near money components. Narrow money (M1) contracted by 4.4% as a result of declines in both demand deposits (NAf.196.2 million or 4.8%) and currency in circulation (NAf.3.5 million or 0.9%). Declines in both foreign currency-denominated deposits (NAf.44.1 million or -3.4%) and those in Netherlands Antillean guilders (NAf.152.1 million or -5.4%) caused the drop in demand deposits.

The near money component dropped by 1.1% as savings deposits declined (NAf.86.7 million or -3.6%). The private sector's time deposit holdings, on the other hand, increased (NAf.37.8 million or 2.0%).

On an annual basis, M2 and M1 contracted by 0.4% and 0.8%, respectively, while no growth was recorded in near money at the end of the September quarter of 2019.

The monetary contraction during 2019's third quarter was the result of a decline in both net foreign assets (NAf.160.4 million or 3.0%) and net domestic assets (NAf.88.0 million or 2.5%). Both the central bank and the commercial banks recorded a decline in net foreign assets. Meanwhile, the decline in net domestic assets reflected a drop in claims on the private sector and the memorandum balance sheet items, moderated by an increase in net claims on the government. The decline in claims on the private sector resulted from a NAf.22.9 million (18.5%) drop in amounts receivable. Loans to the private sector dropped only marginally (0.1%) during 2019's third quarter. Net claims on the government increased by NAf.46.7 million (10.3%) reflecting a drawdown of deposits by both the government of Curaçao and the government of Sint Maarten. (See Tables 20 and 21 in the Appendix for more details.)

Developments in domestic interest rates

Since the re-introduction of biweekly auctions of certificates of deposit (CDs), the maximum interest rate on 1-month CDs in Netherlands Antillean guilders offered by the Bank was 1.97% in the third quarter of 2019.

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, all debt paper issued by the governments of Curaçao and Sint Maarten is in the hands of DSTA. Therefore, no domestic government debt market exists anymore, and the yields on government paper issued are determined by the developments in the Dutch capital market. The average effective yield on 5-year government bonds dropped from -0.57%

in the second quarter of 2019 to -0.71% in the third quarter of 2019, while the indicative yield on 12-month treasury bills dropped from -0.67% to -0.74%. The negative nominal interest rates are the result of the large-scale asset buying programs by the central banks and still prevail in Europe. (See Table 22 in the Appendix for a detailed overview.)

V OUTLOOK

GLOBAL ECONOMY

Following an estimated expansion of 2.9% in 2019, the weakest growth rate since the global financial crisis in 2008, global economic growth is expected to slow further in 2020. In particular, the coronavirus (COVID-19) outbreak in China and subsequent outbreaks across the world will have significant adverse effects on global supply chains, weaken the global demand for goods and services, and affect international tourism and business travel. Furthermore, the outbreak has increased risk aversion on financial markets and reduced business and consumer confidence.[23]

Both the United States and the Netherlands, two of the main trading partners of Curaçao and Sint Maarten, were projected to grow at a slower pace in 2020.[24] Without taking the effects of the outbreak of the coronavirus into account, real GDP growth in the United States was projected to moderate from 2.3% in 2019 to 2.0% in 2020[25] (see Table 11). Private consumption and investment would increase at a slower pace as the support from the fiscal stimulus package gradually is fading. Furthermore, increased trade tariffs would put a drag on private sector investment and export growth. However, the strong labor market conditions would continue to support consumer spending.

Before the outbreak of the coronavirus in the Netherlands, economic growth was expected to decline from 1.7% in 2019 to 1.3% in 2020 as the worsening of the external environment would weaken export growth and affect business confidence and investments. Meanwhile, private consumption would increase, sustained by higher disposable income, and public demand would grow because of expansive fiscal policy by the Dutch government, albeit less than previously forecast due to projected underspending.[26] Moreover, the deep economic crisis in Venezuela, an important trading partner of Curaçao in particular, is expected to continue.

[23] *OECD Interim Economic Assessment, Coronavirus: The World Economy at Risk, March 2020.*

[24] *IMF World Economic Outlook, January 2020. The IMF has not yet published its revised projections for the impact of the coronavirus.*

[25] *IMF World Economic Outlook, January 2020, and Board of Governors of the Federal Reserve System, Monetary Policy Report, February 2020. The FED has not yet published its revised projections for the impact of the coronavirus.*

[26] *CPB Netherlands Bureau for Economic Policy Analysis, Macro Economic Outlook 2020, December 2019. CPB has not yet published its revised projections for the impact of the coronavirus.*

Table 11 International indicators

	2016	2017	2018	2019	2020
Real GDP growth (%)					
World	3.4	3.8	3.6	2.9	3.3
Advanced economies	1.7	2.5	2.2	1.7	1.6
Emerging & developing economies	4.6	4.8	4.5	3.7	4.4
USA	1.6	2.4	2.9	2.3	2.0
Netherlands	2.2	2.9	2.6	1.8	1.6
Venezuela	-17.0	-15.7	-18.0	-35.0	-10.0

Sources: IMF World Economic Outlook Database, October 2019 and IMF World Economic Outlook Update, January 2020

CURAÇAO

Outlook 2019

According to the latest estimates of the Bank, Curacao's GDP contracted by 1.4% in 2019,[27] a slower pace than the 2.2% contraction recorded in 2018. Furthermore, the current estimate is 0.5 percentage point less than the projection in Quarterly Bulletin 2019-II. The upward revision reflects primarily a lower inflation rate[28] and a higher contribution of net exports as imports dropped at a faster pace than in the previous projection. Consumer price inflation rose to 2.6% in 2019, reflecting mainly increases in food and electricity prices. (See Table 12.)

An analysis of GDP by expenditure shows that the economic contraction in 2019 was the result of a decline in domestic demand mitigated by an increase in net foreign demand. Domestic demand contracted as both private and public spending dropped. Private demand went down because of lower consumption and investment. Consumer spending dropped as inflation eroded purchasing power and the labor market worsened. Moreover, public demand decreased because of declines in both government consumption and investment. Public consumption dropped as the government spent less on goods & services and wages & salaries to reduce the fiscal deficit. In contrast, net foreign demand contributed positively to GDP as the decrease in imports exceeded the lower exports. Imports dropped mainly because of less merchandise imported related to lower domestic demand, and lower construction services and materials imported related to fewer investment projects. Exports dropped largely due to lower production at the Isla refinery,

[27] This projection includes the increases of excises on tobacco, liquor, beer, and wine, and the sales tax rate on imports from 6% to 9% as of September 1st, 2019. In addition, the projection assumes that the Isla refinery remains open throughout 2019, but 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.

[28] The nominal growth figures are deflated against the consumer price index.

fewer activities in the harbor, and less air transportation activities provided to abroad, moderated by more tourism and ship repair activities.

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

Outlook 2020

Curaçao's real GDP is projected to contract by 2.5% in 2020,[29] as the decrease in domestic demand will surpass the increase in net foreign demand. The outlook has been revised downward by 0.2 percentage point compared to the outlook presented in Quarterly Bulletin 2019-II (see Table 12). The higher pace of contraction reflects largely the current state of the Isla refinery.

The baseline projection presented in Quarterly Bulletin 2019-II 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. However, beginning January 1st, 2020, the refinery will go through a six months' transition period during which no production activities will take place. The basic salaries of the personnel excluding secondary benefits are paid by the CRU.[30] Therefore, the current outlook assumes that no production activities are taking place at the refinery during the first 6 months of 2020 and that the production activities will gradually resume in the second half of 2020. Thus, the fee earned by the refinery for production activities will be 40% below the 2019 level.

The current outlook also includes an increase in private investment growth as several projects in the tourism sector will be initiated during 2020. This higher growth of private investments will moderate the contraction in 2020.

Meanwhile, inflation is expected to surge to 4.0% in 2020, primarily because of the introduction of a general consumption tax (Algemene Bestedingsbelasting or ABB) in April.[31] Furthermore, the government has introduced a surcharge on oil products in March 2020.[32]

The projected drop in domestic demand is caused by decreases in private and public spending. Private demand will decline as the drop in private consumption surpasses the increase in investments. Private consumption will decline because the higher inflation will erode consumers' purchasing power. In addition, the worsened situation in the labor market will put a drag on consumption. Private investment will increase because of the ongoing investments in the utilities sector and numerous construction projects in the tourism sector that commenced

[29] *This projection includes the government's intention to introduce a general consumption tax (*Algemene Bestedingsbelasting *or ABB) in April 2020.*

[30] *Curaçao Refinery Utilities B.V.*

[31] *The proposed rates of the ABB are 12.84% for goods, 9.63% for services, and 7.49% for the short-term lease of real estate.*

[32] *On March 1, 2020, the government introduced a surcharge of NAf.0.023 per liter of gasoline and diesel, NAf.0.50 on LPG 20 lbs, and NAf.2.50 on LPG 100 lbs to cover the costs for the operation of part of the refinery to guarantee the fuel supply in Curaçao.*

or are planned to start in 2020. Public consumption will decline reflecting, among other things, austerity measures to reduce the wage bill and the outlays on goods & services. By contrast, public investment is projected to increase as a result of infrastructure projects.

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

Downside risks to outlook

Downside risks persist for the 2020 outlook and include the effect of the outbreak of the COVID-19 coronavirus on the global economy. Indirectly, the outbreak is affecting the transport and travel industries and, therefore, will affect Curaçao's projected tourism growth. Because of the threat this virus poses on public health, the government of Curacao took the inevitable precautionary measure of closing the borders for commercial flights. Furthermore, maritime traffic, with the exception of transport of oil products and freight, has been banned. This measure will have an adverse effect on the economy. The magnitude of this adverse effect depends on the duration of the border measure and the pace of recovery of economic activities after the borders are reopened. The Bank estimates that in the case of a fast recovery, the economy of Curacao will contract between 4.5% (duration of the closure of 1 month) and 14.2% (duration of the closure of 6 months) in real terms in 2020. In the case of a gradual recovery, the contraction of real GDP will be between 8.8% (duration of the closure of 1 month) and 19.4% (duration of the closure of 6 months).

Higher prices as a result of disruptions in the global supply chains that may lead to increased inflationary pressures are another risk to the outlook. Directly, a possible outbreak of the virus in Curaçao will affect economic activities and result in higher health care costs. [33]

In addition to the continuing political and economic crisis in Venezuela, the expanding humanitarian crisis puts a drag on the economy as the ongoing inflow of refugees presents several downside risks for Curaçao (e.g., diseases, illegal employment, and crime). The possible expansion of international sanctions against Venezuela further may affect the activities in key economic sectors of the Curaçao economy such as the harbor and the financial services sector.

The signed agreement with Klesch Group may result in an upward revision of the projection,[34] but several uncertainties regarding this deal need to be disclosed

[33] The Bank will present a scenario of the possible effects of the Coronavirus on the economy of Curaçao, following the updated forecasts and impact scenarios for the global economy by leading international institutions such as the IMF.

[34] The Bank does not yet have the detailed information regarding the agreement that Refineria di Kòrsou signed with the Klesch Group end December 2019 to adjust the projection.

(e.g., when operations will start, structure of the company, how many workers will be employed). The pace of investment and refining activities in the second half of 2020 will influence greatly the 2020 outlook for Curaçao.

Furthermore, delays in labor and capital market reforms and the reduction of administrative barriers may hinder economic recovery. Additional increases in the surcharge on fuel by the government also will result in higher inflation thereby putting a drag on real GDP growth.

Moreover, the de-risking of local clients by domestic banks can slow the economy in 2020 as this affects local businesses and cross-border transactions, thereby increasing macroeconomic uncertainties.

Other risks to the outlook include a possible bankruptcy of Girobank N.V. if no other solutions are found, and PDVSA's failure to pay the unemployment compensation to the former Isla refinery employees.

SINT MAARTEN

Outlook 2019

According to the Bank's estimates, Sint Maarten's real GDP expanded by 5.0% in 2019, a robust turnaround compared to the 6.6% contraction in 2018 brought on by Hurricane Irma. The growth estimate has been revised downward by 0.5 percentage point compared to the estimate in Quarterly Bulletin 2019-II and reflects a steeper contraction in cruise tourism arrivals in the second half of 2019. Meanwhile, inflation eased to 1.8%, largely because of a deceleration in the prices of consumer goods and a decline in energy prices consistent with the drop in international oil prices. (See Table 12.)

An expenditure analysis of Sint Maarten's GDP reveals that the estimated economic expansion in 2019 was driven primarily by a sharp increase in domestic demand along with a rise in net foreign demand. Domestic demand rose because of increases in both the private and public sectors. Private investments rose as reconstruction efforts continued in addition to new projects in the Maho and Mullet Bay areas, among other things. Meanwhile, private consumption increased due to the improved labor market, particularly in the tourism sector as hotels and other tourism-related businesses reopened. In addition, public consumption increased because of higher disbursements on goods & services. However, public investments remained muted due to financial constraints. Net foreign demand rose because of an increase in the export of goods and services mitigated by higher imports. The improved export performance reflected primarily higher foreign exchange earnings from the return of tourism

activities. Likewise, imports rose as a result of construction-related services as well as increased imports by the wholesale & retail trade sector of Sint Maarten in line with higher tourism spending and the rise in private consumption.

A sectoral assessment reveals that growth in 2019 was driven mainly by increased activities in the manufacturing, utilities, construction, wholesale & retail trade, restaurants & hotels, transport, storage, & communication, financial intermediation, and real estate, renting, & business activities sectors.

Outlook 2020

Sint Maarten's real GDP is projected to grow by 2.9% in 2020 driven by an increase in domestic demand. The growth estimate has been revised slightly downward compared to the Quarterly Bulletin 2019-II estimate. The outlook is predicated on the assumption that the number of cruise passenger arrivals will contract in 2020 for a variety of reasons including increased regional competition and fleet redeployment by major cruise lines. Private investments will increase as a result of, among other things, the start of the second phase of reconstruction of the airport, the construction of a new 400+ room hotel in Philipsburg, and other ongoing projects. Notwithstanding higher inflation, consumer spending will rise due to higher employment, among other things. Public investments also will increase due to the planned construction of a new hospital. Furthermore, public consumption is projected to rise.

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, particularly stay-over arrivals. In addition to the higher tourism demand, imports by the wholesale & retail trade sector will increase because of the higher domestic spending and more construction-related materials and services imported from abroad. Meanwhile, inflation is expected to increase to 2.5% in 2020, in line with the forecast rise in the US inflation rate, Sint Maarten's main trading partner.[35] (See Table 12.)

Downside risks to outlook

A lack of clear policy direction caused by political instability can trigger hesitation with potential investors, both domestic and foreign, which could hamper Sint Maarten's economic recovery. In addition, a real GDP slowdown in Sint Maarten's main tourism markets, such as the United States, or the negative impact of the novel coronavirus (COVID-19) on global travel will affect the tourism sector adversely.

Because of the threat the coronavirus poses to public health, the government of Sint Maarten also took the inevitable precautionary measure of closing the country's borders for commercial flights and banning maritime traffic, with the exception of the transport of oil products and freight. In particular, tourism, transportation services, and other services related to the tourism sector will be affected by the closure of the borders. The longer the closure of the borders lasts, the greater the negative effect will be on the

[35] *IMF World Economic Outlook, January 2020.*

economy. The magnitude of the adverse effects will also depend on how fast the economy will recover after the borders are reopened. The Bank has calculated that if the borders are reopened after 1 month, economic growth will slow to 0.8% in the case of a fast recovery. The economy will, however, contract when the borders remain closed longer. If the borders remain closed for 6 months, the economy would even contract by 15,0%. The outlook is worse in the case of a gradual recovery. The economy of Sint Maarten would then contract between 5,7% (1 month closure) and 29,2% (6 months closure).

Another downside risk to the outlook is higher prices as a result of virus-related disruptions in the global supply chains that may lead to increased inflationary pressures. A possible outbreak of the virus in Sint Maarten will put a more severe drag on economic activities and result in higher health care costs. [36]

Furthermore, the de-risking of local clients by domestic banks can put a drag on the economy in 2020 as this affects local businesses and cross-border transactions, thereby increasing macroeconomic uncertainties.

[36] *The Bank will present a scenario of the possible effects of the Coronavirus on the economy of Sint Maarten, following the updated forecasts and impact scenarios for the global economy by leading international institutions such as the IMF.*

Table 12 Real GDP and Inflation 2016-2020

	2016	2017	2018	2019	2020
Real GDP growth (%)					
Curaçao					
Current projection	-1.0	-1.7	-2.2	-1.4	-2.5
Projection in QB 2019-II	-1.0	-1.7	-2.2	-1.9	-2.3
Sint Maarten					
Current projection	0.4	-4.8	-6.6	5.0	2.9
Projection in QB 2019-II	0.4	-4.8	-6.6	5.5	3.0
Monetary Union					
Current projection	-0.7	-2.5	-3.3	0.2	-1.2
Projection in QB 2019-II	-0.7	-2.5	-3.3	0.0	-1.0
Inflation (%)					
Curaçao					
Current projection	0.0	1.6	2.6	2.6	4.0
Projection in QB 2019-II	0.0	1.6	2.6	2.8	4.0
Sint Maarten					
Current projection	0.1	2.2	2.7	1.8	2.5
Projection in QB 2019-II	0.1	2.2	2.7	1.8	2.5
Monetary Union					
Current projection	0.0	1.8	2.6	2.6	3.6
Projection in QB 2019-II	0.0	1.8	2.6	2.6	3.6

APPENDIX

Table 13A Stay-over tourism development in Curaçao[ab]

	Curaçao			
	2018-III		2019-III	
North America, of which:	27.6	(5.1)	-6.7	(-1.1)
U.S.A.	31.9	(5.3)	-7.8	(-1.2)
Europe, of which:	5.2	(2.5)	8.9	(4.6)
The Netherlands	9.2	(3.7)	8.9	(3.8)
South & Central America, of which:	13.8	(2.7)	-8.7	(-1.5)
Venezuela	-22.8	(-1.1)	-70.5	(-1.0)
Colombia	51.8	(2.7)	28.3	(1.9)
Surinam	19.7	(0.6)	15.1	(0.5)
Caribbean, of which:	7.4	(0.5)	78.0	(8.7)
Dominican Republic	-35.4	(-0.2)	-26.4	(-0.1)
Total	14.4	--	3.6	--

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

Table 13B Stay-over tourism development in Sint Maarten[ab]

	Sint Maarten			
	2018-III		2019-III	
North America, of which:	-66.5	(-25.7)	155.2	(90.4)
U.S.A.	-66.2	(-23.3)	151.0	(78.7)
Europe, of which:	-29.3	(-13.5)	8.3	(2.4)
The Netherlands	-13.0	(-2.3)	-16.0	(-1.4)
France	-31.8	(-7.4)	16.7	(2.4)
South & Central America, of which:	-54.9	(-1.4)	57.3	(-1.4)
Venezuela	-41.4	(-0.2)	-21.6	(0.0)
Caribbean, of which:	-24.0	(-1.9)	4.6	(0.3)
Dominican Republic	-7.9	(-0.2)	-12.0	(-0.1)
Total	**-51.4**	--	**65.6**	--

Source: Sint Maarten Tourist Bureau
[a]Percentage change.
[b]The weighted growth rates are depicted between brackets.

Table 14 Development in the consumer price index of Curaçao[a]

	2018-III	2018-IV	2019-I	2019-II	2019-III
Food	4.7	4.5	4.6	5.6	6.6
Beverages & tobacco	2.0	1.9	2.4	2.5	3.1
Clothing & footwear	-1.2	7.0	4.2	2.6	2.3
Housing	4.9	4.9	2.4	4.8	3.8
Housekeeping & furnishings	0.1	0.6	0.8	0.7	0.5
Health	1.0	1.0	0.9	0.5	0.6
Transport & communication	3.5	2.0	0.7	0.3	0.6
Recreation & education	1.0	0.7	0.2	0.2	0.3
Other	0.8	1.1	1.0	1.2	1.1
General inflation rate	**3.1**	**3.2**	**2.1**	**2.8**	**2.8**

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

Table 15A Budgetary overview of Curaçao (in millions NAf.)

	2015-III	2016-III	2017-III	2018-III	2019-III
Revenues	**414.5**	**588.5**	**575.2**	**351.7**	**395.0**
Tax revenues, of which:	353.1	340.4	338.5	303.5	322.0
Taxes on income and profit	155.5	141.3	141.1	135.9	134.0
Taxes on property	23.9	16.3	20.3	11.6	10.0
Taxes on goods and services	130.4	134.8	133.5	115.2	137.9
Taxes on international trade and transactions	41.4	46.1	41.2	38.4	37.4
Nontax and other revenues	61.4	248.1	236.7	48.2	73.0
Expenditures	**397.4**	**602.0**	**600.5**	**398.8**	**397.7**
Wages and salaries	163.2	163.3	162.1	162.7	163.7
Goods and services	52.6	46.2	44.1	50.0	44.8
Transfers and subsidies	166.1	374.0	361.8	161.2	159.7
Interest payments	2.9	2.3	2.9	2.8	2.2
Other expenditures	12.6	16.2	29.6	22.1	27.3
Current budget balance	**17.1**	**-13.5**	**-25.3**	**-47.1**	**-2.7**

Source: The data for the third quarters of 2015-2019 were taken from the Financiële Management Rapportage of the government of Curaçao of September for each corresponding year.

Table 15B Overview of selected tax revenues for Curaçao (in millions NAf.)

	2015-III	2016-III	2017-III	2018-III	2019-III
Taxes on income & profit, of which:	**155.5**	**141.3**	**141.1**	**135.9**	**134.0**
Profit tax	30.8	29.6	27.3	24.7	14.9
Wage tax	121.8	106.7	108.4	102.4	112.5
Taxes on property, of which:	**23.9**	**16.3**	**20.3**	**11.6**	**10.0**
Land tax / OZB[1]	13.6	10.9	13.6	5.5	5.1
Property transfer tax	4.9	4.6	5.7	5.3	4.2
Taxes on goods and services, of which:	**130.4**	**134.8**	**133.5**	**115.2**	**137.9**
Sales tax	95.0	101.1	99.2	94.1	103.2
Excises, of which:	22.5	20.6	21.7	13.4	22.1
Gasoline	11.6	12.1	12.3	5.1	11.7
Motor vehicle tax	5.3	5.3	5.9	5.3	5.7
Taxes on international trade and transactions, of which:	**41.4**	**46.1**	**41.2**	**38.4**	**37.4**
Import duties	41.4	46.0	41.1	38.3	37.4

[1] OZB (Onroerende Zaakbelasting) is a real estate tax that replaced the land tax as of January 1, 2014.
Source: The data for the third quarters of 2015-2019 were taken from the Financiële Management Rapportage of the government of Curaçao of September for each corresponding year.

Table 15C Total outstanding public debt[1] of Curaçao (in millions NAf.)

	2018-III	2018-IV	2019-I	2019-II	2019-III
Domestic debt, of which:	**648.1**	**618.3**	**488.3**	**459.5**	**459.7**
Long-term securities	18.4	18.4	18.4	18.4	18.4
Short-term securities	-.-	-.-	-.-	-.-	-.-
APC	231.0	201.4	53.5	37.6	51.4
SVB	213.0	207.6	223.7	218.3	208.6
Foreign debt	**2,338.6**	**2,338.6**	**2,392.8**	**2,400.4**	**2,392.8**
Total debt	**2,986.7**	**2,956.9**	**2,881.1**	**2,859.9**	**2,852.5**
(% of GDP)	53.3%	52.8%	51.0%	50.6%	50.5%

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

Table 16A Budgetary overview of Sint Maarten (in millions NAf.)

	2015-III	2016-III	2017-III	2018-III	2019-III
Revenues	**96.3**	**100.7**	**52.1**	**92.4**	**101.4**
Tax revenues	79.0	76.3	56.1	79.6	82.8
Concessions and fees	10.0	7.6	7.4	10.1	8.3
Licenses	3.3	5.2	4.0	4.5	5.7
Other revenues	3.9	11.6	-15.4	-1.8	4.6
Expenditures	**112.2**	**112.0**	**117.3**	**120.4**	**124.0**
Wages & salaries	45.4	48.6	52.1	52.8	51.4
Goods & services	27.3	24.2	29.0	28.1	31.6
Subsidies	26.7	28.3	28.3	24.1	25.4
Social security	5.2	5.6	4.1	7.3	8.2
Interest	3.4	3.2	0.0	3.2	3.5
Other expenditures	4.2	2.1	3.8	4.9	3.9
Current budget balance	**-15.9**	**-11.2**	**-65.2**	**-28.0**	**-22.6**

Sources: Voorlopige Financiële Concernrapportage/Uitvoeringsrapportage, derde kwartaal 2015-2019 of the government of Sint Maarten for each corresponding year.

Table 16B Overview of selected tax revenues for Sint Maarten (in millions NAf.)

	2015-III	2016-III	2017-III	2018-III	2019-III
Taxes on income and profits, of which:	**40.4**	**38.2**	**29.5**	**41.5**	**40.3**
Profit tax	1.8	2.4	2.4	3.4	2.6
Wage tax	38.5	35.1	27.1	39.1	36.3
Taxes on property, of which:	**4.1**	**4.1**	**3.6**	**4.3**	**5.4**
Land tax	1.0	1.3	0.9	1.8	1.2
Property transfer tax	3.1	2.8	2.7	2.4	4.2
Taxes on goods and services, of which:	**42.4**	**40.4**	**31.1**	**38.9**	**46.3**
Turnover tax	29.7	29.4	20.5	29.6	32.8
Vehicle tax	0.2	0.2	0.1	1.3	0.2
Excise on gasoline	2.9	2.3	1.1	3.7	2.3

Sources: Voorlopige Financiële Concernrapportage/Uitvoeringsrapportage, derde kwartaal 2015-2019 of the government of Sint Maarten for each corresponding year.

Table 16C Total outstanding public debt of Sint Maarten (in millions NAf.)

	2018-III	2018-IV	2019-I	2019-II	2019-III
Domestic debt, of which:	**170.0**	**171.0**	**166.4**	**140.7**	**131.3**
Long-term securities	0.1	0.1	0.1	0.1	0.1
Short-term securities	-.-	-.-	-.-	-.-	-.-
APS	43.0	43.0	43.0	23.0	24.5
SZV	90.2	90.2	83.1	77.1	72.1
Foreign debt	**601.1**	**600.1**	**600.1**	**660.0**	**658.5**
Total debt	**771.1**	**771.1**	**766.5**	**800.7**	**789.9**
(% of GDP)	43.0%	43.0%	39.9%	41.7%	41.1%

Table 17 Detailed overview of the balance of payments (in millions NAf.)

	2015-III	2016-III	2017-III	2018-III	2019-III
Trade balance	**-767.8**	**-756.9**	**-655.9**	**-840.7**	**-741.0**
Exports	210.8	210.5	230.7	297.0	277.6
Imports	978.6	967.4	886.6	1,137.7	1,018.6
Services balance	**528.7**	**435.4**	**359.0**	**229.7**	**322.7**
Receipts, of which:	1,059.9	987.9	890.1	921.2	873.0
Travel	560.1	519.8	459.2	416.4	509.7
Transportation	64.8	65.1	49.6	36.0	31.6
Manufacturing services, of which:	153.4	145.7	111.7	84.5	40.0
Refining fee	142.3	138.0	101.4	55.9	30.0
Other services, of which:	281.6	257.3	269.6	384.3	291.8
Int. fin & bus. services sector	63.0	55.0	52.7	90.4	32.6
Expenses, of which:	531.1	552.5	531.1	691.5	550.4
Travel	207.7	223.2	214.5	263.2	212.3
Transportation	80.7	73.5	69.7	70.4	83.1
Manufacturing services	5.4	3.5	1.6	36.9	19.0
Other services, of which:	237.4	252.3	245.3	320.9	236.0
Int. fin & bus. services sector	25.2	35.9	35.3	37.2	7.2
Income balance[1]	-36.9	-24.0	17.2	5.0	-3.6
Current transfers balance [2]	-55.2	-62.0	19.5	122.8	-35.7
Current account balance	**-331.1**	**-407.4**	**-260.2**	**-483.2**	**-457.6**
Capital & financial account balance	**-325.3**	**-408.8**	**-227.5**	**-401.2**	**-427.2**
Capital account balance	0.1	0.3	0.3	28.6	4.5
Financial account balance	-325.5	-409.0	-227.8	-429.8	-431.7
Net errors & omissions	**5.5**	**-1.9**	**32.2**	**24.9**	**21.4**

[1] *Labor and investment income.*

[2] *Public and private transfers.*

Table 18 Breakdown of net changes in the financial account[1] (in millions NAf.)

	2015-III	2016-III	2017-III	2018-III	2019-III
Direct investment	**-117.3**	**-136.4**	**-330.8**	**-94.1**	**-17.7**
Abroad	18.6	12.2	-263.9	17.9	26.6
In Curaçao and Sint Maarten	135.9	148.6	66.9	111.9	44.3
Portfolio investment	**-140.1**	**-38.5**	**-183.3**	**136.4**	**-25.2**
Other investment, of which:	**-40.2**	**-126.9**	**402.3**	**105.6**	**-84.0**
Assets	-188.1	44.7	243.0	-29.7	-65.9
Liabilities	-147.9	171.5	-159.3	-135.3	18.1
Net lending/borrowing, of which:	**-2.6**	**-67.4**	**-15.9**	**-122.2**	**-107.0**
Assets	-19.6	-20.6	29.5	6.7	42.2
Liabilities	-16.9	46.8	45.3	128.9	149.3
Reserves	**-25.2**	**-39.9**	**-100.1**	**-455.5**	**-197.8**
Total assets	**-354.4**	**-42.2**	**-274.8**	**-324.2**	**-220.0**
Total liabilities	**-28.9**	**366.9**	**-47.1**	**105.6**	**211.7**
Balance	**-325.5**	**-409.0**	**-227.8**	**-429.8**	**-431.7**

[1] *Transaction basis*

Table 19 The monetary base and its sources (in millions NAf.)

			Change	
	2019-II	2019-III	Amount	%
Currency in circulation	479.4	465.8	-13.7	-2.8
Banks' demand deposits (current account)	513.7	412.0	-101.7	-19.8
Monetary base (M0)	**993.1**	**877.8**	**-115.3**	**-11.6**
Central Bank assets				
Foreign assets (including gold)	3,424.7	3,284.3	-140.4	-4.1
Claims on deposit money banks	271.3	267.0	-4.3	-1.6
Claims on the government	0.1	0.1	0.0	0.0
Claims on government agencies and institutions	231.7	229.9	-1.8	-0.8
Fixed and other assets	137.6	141.0	3.4	2.5
less: Central Bank remaining liabilities				
Private sector deposits, of which:	1,512.0	1,516.2	4.2	0.3
Time deposits commercial banks	1,324.3	1,410.3	86.0	6.5
Current account deposits commercial banks in US$	214.7	127.1	-87.6	-40.8
Government deposits	206.2	135.9	-70.2	-34.1
Foreign liabilities	290.6	267.0	-23.6	-8.1
Other liabilities	58.5	59.9	1.5	2.5
Capital and reserves	1,004.8	1,065.6	60.8	6.0

Table 20 Monetary aggregates (quarterly changes, in millions NAf.)

	2019-I		2019-II		2019-III	
	Amount	%	Amount	%	Amount	%
Money (M1)	**213.1**	**5.0**	**-9.4**	**-0.2**	**-199.7**	**-4.4**
Coins & notes with the public	-27.9	-7.2	18.5	5.2	-3.5	-0.9
Total demand deposits, of which:	241.0	6.2	-27.9	-0.7	-196.2	-4.8
Netherlands Antillean guilders	163.9	6.2	48.4	1.7	-152.1	-5.4
Foreign currency	77.1	6.0	-76.3	-5.6	-44.1	-3.4
Near money	**-52.5**	**-1.2**	**47.0**	**1.1**	**-48.9**	**-1.1**
Time deposits	-72.2	-3.7	73.5	4.0	37.8	2.0
Savings	19.7	0.8	-26.5	-1.1	-86.7	-3.6
Money supply (M2)	**160.6**	**1.9**	**37.6**	**0.4**	**-248.6**	**-2.8**
Net domestic assets	**-362.0**	**-9.9**	**145.2**	**4.4**	**-88.0**	**-2.5**
Net claims on the government	-187.3	61.6	37.9	-7.7	46.7	-10.3
Claims on the private sector	7.3	0.1	49.4	0.7	-30.4	-0.5
Memorandum items	-182.1	6.7	57.9	-2.0	-104.4	3.7
Net foreign assets	**522.6**	**10.4**	**-107.4**	**-1.9**	**-160.4**	**-3.0**
Central bank	245.4	8.2	-96.2	-3.0	-116.7	-3.7
Commercial banks	277.2	13.7	-11.3	-0.5	-43.7	-1.9

Table 21 Monetary survey (in millions NAf.)

	2018-III	2018-IV	2019-I	2019-II	2019-III
Money supply (M2)	**8,660.7**	**8,679.2**	**8,839.8**	**8,877.5**	**8,628.9**
Money (M1)	**4,339.4**	**4,302.5**	**4,515.6**	**4,506.2**	**4,306.6**
Coins & notes with the public	359.5	385.3	357.4	375.9	372.5
Total demand deposits, of which:	3,979.9	3,917.2	4,158.2	4,130.3	3,934.1
Netherlands Antillean guilders	2,608.0	2,628.0	2,791.9	2,840.4	2,688.2
Foreign currency	1,371.9	1,289.2	1,366.3	1,290.0	1,245.9
Near money	**4,321.3**	**4,376.7**	**4,324.2**	**4,371.2**	**4,322.3**
Time deposits	1,902.2	1,932.0	1,859.8	1,933.3	1,971.0
Savings	2,419.1	2,444.7	2,464.4	2,438.0	2,351.3
Factors affecting the money supply					
Net domestic assets	**3,571.6**	**3,668.4**	**3,306.5**	**3,451.7**	**3,363.5**
Government sector	-421.9	-304.5	-491.8	-453.9	-407.1
Central government	-12.1	-12.1	-12.2	-11.2	-11.0
Curacao	-313.2	-198.5	-382.7	-329.4	-302.9
Sint Maarten	-96.6	-93.8	-96.9	-113.3	-93.2
Private sector	6,651.2	6,684.2	6,691.7	6,741.1	6,710.7
Memorandum items	-2,657.6	-2,711.3	-2,893.5	-2,835.6	-2,940.0
Net foreign assets	**5,089.3**	**5,010.7**	**5,533.3**	**5,425.9**	**5,265.5**
Central bank	2,841.3	2,984.8	3,230.2	3,134.0	3,017.3
Commercial banks	2,248.0	2,025.9	2,303.1	2,291.9	2,248.2

Table 21 Monetary survey (in millions NAf.) cont.

	2018-III	2018-IV	2019-I	2019-II	2019-III
Government loans	**18.1**	**26.4**	**17.0**	**23.3**	**28.9**
Government of Curaçao	3.5	4.8	0.8	0.5	0.6
Government of Sint Maarten	14.5	21.6	16.2	22.8	28.3
Private sector loans Curaçao	**4,585.1**	**4,731.0**	**4,734.2**	**4,807.7**	**4,786.3**
Mortgages	1,816.5	1,790.8	1,791.2	1,630.8	1,660.1
Consumer loans	916.7	905.1	905.7	904.2	906.8
Business Loans	1,762.5	1,921.9	1,922.4	2,086.9	2,045.5
Other	89.3	113.1	115.0	185.8	174.0
Private sector loans Sint Maarten	**1,494.2**	**1,477.5**	**1,476.4**	**1,465.0**	**1,477.6**
Mortgages	876.7	869.6	870.0	870.2	874.9
Consumer loans	234.0	234.9	230.9	232.8	233.8
Business loans	378.2	369.3	371.9	359.0	365.5
Other	5.3	3.8	3.7	3.0	3.4

Table 22 Developments in domestic interest rates (in %)

	2018-III	2018-IV	2019-I	2019-II	2019-III
Central bank					
Pledging rate	2.00	2.00	2.50	2.50	2.50
Maximum CD rate (1 month)	0.27	0.25	-	-	1.97
Government securities					
Government bonds (5-year effective yield)	-0.03	-0.21	-0.38	-0.57	-0.71
Treasury bills (12 -month)	-0.60	-0.73	-0.62	-0.67	-0.74