NOTE ECONOMIC DEVELOPMENTS SINT MAARTEN

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CENTRALE BANK VAN CURAÇAO EN SINT MAARTEN

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GENERAL ECONOMIC DEVELOPMENTS

According to estimates of the CBCS, Sint Maarten's real GDP contracted further by 8.1% in 2018, following a contraction of 4.8% in 2017, because of the crippling damage Hurricane Irma inflicted on much of the country's production capacity. Meanwhile, inflationary pressures increased in 2018, largely because of a rise in the prices of consumer goods and insurance premiums.

Analysis of Sint Maarten's GDP by expenditure shows that the economic contraction in 2018 was the result of a sharp decline in net foreign demand moderated by an increase in domestic demand. Net foreign demand dropped because of a steep decline in the export of goods and services combined with higher imports. The dismal export performance reflected primarily lower foreign exchange earnings from diminished tourism activities. By contrast, imports rose related to construction material and services for the reconstruction of Sint Maarten. However, the imports by the wholesale & retail trade sector dropped due to lower tourism spending and a decline in private consumption. Domestic demand went up driven mainly by increased investments by the private and public sectors. In addition, public consumption increased because of higher disbursements on goods & services. Meanwhile, private consumption dropped due to increased unemployment, particularly in the tourism sector, and reduced wealth. However, more purchases of construction material and durable goods by those who were covered by insurance moderated the decline in private consumption.

A sectoral analysis reveals that the pronounced contraction in Sint Maarten's real GDP during the first nine months of 2018 was predominantly caused by the dramatic disruption of economic activities in both the private and public sectors in the aftermath of the historic hurricane. The negative contribution of the public sector was primarily the result of a marked decrease in turnover tax collected.

Activities in the restaurants & hotels, transportation, storage & communication, financial intermediation, utilities, and wholesale & retail trade contracted sharply in the hurricane's aftermath. By contrast, only the construction and manufacturing sectors experienced growth.

Activities in the construction sector accelerated in the first nine months of 2018. Real value added grew mainly due to the repair and reconstruction activities that began almost immediately after the hurricane and continued apace throughout the country. There were, however, no major public projects started

in the January – September period of 2018 as they awaited the necessary financing arrangements.

Real value added in the manufacturing sector rose slightly in the first nine months of 2018, because of increased yacht repair activities in line with the return of yachts to restored marinas and marine-related businesses in and around the Simpson Bay Lagoon.

Meanwhile, real value added in the restaurants & hotels sector contracted dramatically as a direct consequence of the aftermath of the hurricane's disruption to regular economic activities and damage to tourism-related infrastructure, such as the Princess Juliana International Airport and major hotels. Stay-over arrivals experienced a profound contraction in the first nine months of 2018, largely because of severely limited airport operational capacity, hampering its ability to process several flights at once, and the acute shortage of hotel room inventory as a direct result of the hurricane's damage. Stay-over arrivals from all of Sint Maarten's main travel markets therefore fell dramatically. In contrast to the dismal drop in stay-over arrivals, cruise passenger arrivals to Sint Maarten increased in the January – September period of 2018 mainly due to the return of some loyal cruise lines, the quick and effective recovery of operations at the A C Wathey Cruise & Cargo Facilities, and the partial return or recovery of tourism-related attractions and activities, such as tours and retail shops.

Activities in the transport, storage, & communication sector turned around and fell sharply during the first nine months of 2018 due mainly to the drastically reduced airport-related activities, along with relatively smaller declines in harbor-related activities. Airport-related activities shrank in line with the decline in total passenger traffic because of the substantial damage to the airport terminal and reduced capacity. Harbor-related activities decreased in line with the relatively small decline in the number of cruise ships and a larger decline in freighters piloted into the harbor, while the number of tankers that visited remained largely unchanged. Meanwhile, container movements increased, reflecting the shipment of reconstruction-related items and consumer goods. Sint Maarten's domestic carrier, Winair, also experienced a contraction, in line with the overall decline in total passenger traffic at the Princess Juliana International Airport due to its limited operational state.

The financial intermediation sector also contributed negatively to Sint Maarten's real GDP because interest income of the domestic commercial banks decreased at a faster pace than their interest expenses, and fees and other income declined due mainly to fewer bank transactions.

In addition, real output shrank sharply in the utilities sector. Both water and electricity production dropped in the wake of Hurricane Irma, as demand for both from major consumers, such as hotels and other tourism-related businesses, along with households, dropped significantly and because of the severe damage to the country's utilities infrastructure.

The sharp, negative turnaround in

activities in the wholesale & retail trade sector in the first nine months of 2018 was largely because of the adverse impact of the hurricane on both domestic consumption and tourism spending.

DEVELOPMENTS IN THE PUBLIC FINANCES

The government of Sint Maarten recorded a deficit of NAf.71.9 million on its current budget during the first nine months of 2018 compared to the NAf.6.5 million surplus recorded during the first nine months of 2017.[1] This negative turnaround was caused by a decrease in government revenues (NAf.49.0 million) combined with a rise in expenditures (NAf.29.4 million). The lower revenues were the result of a decline in both tax and nontax revenues. Tax revenues dropped because of less proceeds from taxes on income & profits and on goods & services. Nontax revenues declined because the government decided to temporarily refrain from transfers of dividend, surpluses, and other settlements by government-owned companies, particularly the utility company, GEBE, in the aftermath of Hurricane Irma. Meanwhile, expenditures went up due to more social security spending and more outlays on wages & salaries and goods & services.

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

[1] *Financiele Concernrapportage/Uitvoeringsrapportage derde kwartaal 2018 of the government of Sint Maarten.*

DEVELOPMENTS IN THE BALANCE OF PAYMENTS

The deficit on the current account of the balance of payments widened significantly from NAf.712.0 million in the first nine months of 2017 to NAf.1,146.3 million in the first nine months of 2018. The higher deficit was the result of a marked decline in the net export of goods and services and a worsening of the income balance, moderated by an improvement of the current transfers balance. Meanwhile, gross official reserves dropped considerably by NAf.393.7 million[2] as the external financing was not sufficient to cover the current account deficit.

In Sint Maarten, net exports dropped by NAf.778.9 million in the first nine months of 2018 compared to the first nine months of 2017 because of a considerable decline in exports (NAf.529.7 million) combined with higher imports (NAf.249.3 million). In the aftermath of Hurricane Irma, foreign exchange earnings from tourism activities plummeted as most of the tourism infrastructure in Sint Maarten was destroyed, resulting in the decline in exports. Particularly, foreign exchange receipts from stay-over tourism fell considerably. Furthermore, foreign exchange revenues from the transportation sector went down reflecting mainly a decline in ground handling activities at the airport. The decline in exports was, however, moderated by an increase in exports of merchandise by the wholesale & retail trade sector.

The increase in imports reflected mainly the ongoing reconstruction activities following Hurricane Irma. Consequently, imports by the wholesale & retail trade and construction sectors went up. In addition, the import of construction services rose due to, among other things, the first phase of the reconstruction of the terminal of the Princess Juliana International Airport. Oil imports also rose, driven by higher international oil prices.

The income balance worsened by NAf.23.6 million as a result of a decline in dividend received on foreign equity securities and interest earned on foreign debt securities. However, a drop in dividend and interest payments to foreign investors and an increase in labor income earned abroad moderated the worsening of the income balance.

Meanwhile, net current transfers into the monetary union rose by NAf.701.4 million due mainly to the inflow of funds related to the claims of local insurance companies to pay their clients in Sint Maarten whose properties were damaged by Hurricane

[2] *Net official reserves dropped by NAf.432.4 million while the net foreign assets of the commercial banks improved by NAf.409.9 million. As a result, the net foreign assets of the monetary union dropped by NAf.22.5 million.*

Irma.

External financing into the monetary union rose by NAf.633.6 million as reflected by a worsening of the portfolio investment and loans & credits balances. The portfolio investment balance deteriorated largely because of funds received from matured foreign debt securities held by institutional investors that were only partly reinvested abroad. These debt securities were issued in the past by the former Netherlands Antillean entities and taken over by the Dutch State under the debt relief program. Furthermore, the zero-interest loan that the government of Sint Maarten received for liquidity support from the Dutch State contributed to the deterioration of the portfolio investment balance. The worsening of the loans & credits balance was related to a significant deterioration of the net trade credit balance and a decline in residents' foreign deposits, mitigated by a drop in nonresidents' foreign deposits. The direct investment balance, on the contrary, improved as a result of increased claims by domestic direct investors on their foreign subsidiaries. Also, liabilities of domestic companies towards their foreign affiliates dropped.

Meanwhile, capital transfers into the monetary union rose by NAf.31.0 million due to 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.[3]

[3] *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 that is managed by the World Bank.*

MONETARY DEVELOPMENTS

During 2018, the Bank kept the reserve requirement, one of its monetary policy instruments, unchanged at 18.00%.[4] Nevertheless, the amount of required reserves rose by NAf.11.7 million in 2018, as a result of the higher base amount upon which it is calculated.

Furthermore, the Bank increased its official interest rate, the pledging rate, by 0.50 percentage point to 2.00% on March 27, 2018. After being kept at the historically low level of 1.00% since December 2008, the Bank adjusted the pledging rate earlier on March 20, 2017, also by 0.50 percentage point. The pledging rate was left unchanged at 2.00% during the rest of 2018. After three more upward adjustments of the federal funds rate (June 13th, September 26th and December 19th 2018) and the impact thereof on the international interest rates and, hence, the domestic money market rates, the Bank raised the pledging rate again to 2.50% effective January 1, 2019.

During 2018, the Bank continued[5] to gradually reduce the amount of outstanding certificates of deposit (CDs) by offering a lower amount of CDs than matured combined with a higher haircut on the interest rates offered. As a result, by the end of December 2018, there were no outstanding CDs anymore and the auctions were temporarily suspended.

Broad money remained practically unchanged in 2018 compared to 2017 as net foreign assets as well as net domestic assets remained about the same.

Credit extension to the private sector in the monetary union increased by 1.5% in 2018 compared to 2017. Outstanding loans in Curaçao increased by 2.5% while a 1.4% decline was registered in Sint Maarten. The contraction in Sint Maarten was the result of declines in mortgages (-1.7%), business loans (-2.4%), and in the "other loans" category (-65.6%), moderated by an increase in consumer loans (4.3%).

Monetary and liquidity conditions

- Despite the current account balances of the commercial banks at the Bank dropped by NAf.93.0 million during 2018, the outstanding balance is still high (see Table 1).
- Low international interest rates; Fed funds rate between 2.25 - 2.50% since December 19, 2018.

[4] The last adjustment of the reserve requirement percentage occurred in June 2014.

[5] The policy of gradually reducing the outstanding amount of CDs was introduced in August 2017 after an evaluation concluded that the auctioning of CDs is not an effective instrument during a prolonged period of excess liquidity.

- On December 31, 2018, the 1M USD Libor rate stood at 2.50% while the 3M USD Libor was 2.81%. On February 26, 2019, the 1M USD Libor rate stood at 2.49% while the 3M USD Libor was 2.63%.
- Auctioning of CDs: the amount outstanding was NAf.5.4 million on December 3, 2018. The latest CD interest rate offered on the auction of December 3, 2018 was 0.18% for 4 weeks. No CD auctions were held after this date and maturing CDs were paid back.
- For the February – March 2019 period, the reserve requirement percentage remained unchanged at 18.00% and the outstanding amount was NAf. 1,304.9 million.
- The pledging rate stands at 2.50% since January 1, 2019.

Table 1 Liquidity conditions in the monetary union (in millions NAf.)

	Dec 31, 2013	Dec 31, 2014	Dec 28, 2015	Dec 30, 2016	Dec 31, 2017	Dec 31, 2018
Current account balance commercial banks	231.2	388.5	490.7	500.4	817.7	724.7

OUTLOOK FOR 2019

The global economic expansion is expected to continue in 2019 (3.5%), although at a somewhat weaker pace than in 2018. Nevertheless, risks to the medium-term global economic outlook are skewed to the downside as reflected by, among other things, policy uncertainties, rising trade barriers and tariff escalations, tightening financial conditions, uncertainty related to the outcome of the Brexit negotiations, an accelerated slowdown of the Chinese economy, and noneconomic factors such as geopolitical tensions. The economy of the United States, Sint Maarten's main trading partner, is projected to grow at a slower pace in 2019.

Real GDP in Sint Maarten is projected to grow by 2.3% in 2019. This positive economic turnaround is the result of increases in both net foreign demand and domestic demand. Net foreign demand will rise because of a faster increase in the export of goods and services than in imports. The improved export performance reflects primarily higher foreign exchange earnings from tourism activities. Additionally, imports will rise related to construction material and services for the continuing reconstruction of Sint Maarten. The higher domestic demand will be driven solely by the private sector. Private investments will increase along with a moderate rise in private consumption due to both higher tourism spending and domestic spending as employment prospects improve. Meanwhile, the public sector is expected to put a drag on growth as the rise in public investments will be insufficient to offset the drop in public consumption. Public consumption is estimated to decrease because of lower disbursements on goods & services.

Inflationary pressures are projected to ease slightly during 2019, largely due to a projected drop in international oil prices mitigated by an increase in international food prices.[6]

[6] *IMF World Economic Outlook, January 2019.*

DOWNSIDE RISKS TO OUTLOOK 2019

Following a natural disaster, resources should be channeled quickly, flexibly, and efficiently while ensuring that they reach those most severely affected. However, delays in the reconstruction of Sint Maarten will hamper its economic recovery. Furthermore, a lower than projected real GDP growth in Sint Maarten's main tourism markets will affect the recovery of it's tourism sector. In addition, because of Hurricane Irma, insurance premiums will increase significantly, which could discourage businesses and individuals from insuring their property and, hence, make the country even more vulnerable to future disasters.

ATTACHMENT

Table 2 Economic key figures of Sint Maarten (in millions NAf.)

	2015	2016	2017	2018
Real sector				
Real GDP growth (% change)	0.4	0.4	-4.8	-8.1
Inflation (% change)	0.3	0.1	2.2	2.7
Public finances				
Budget balance[1]	-18.4	26.4	-72.4	-144.4
Debt-to-GDP ratio (%)	36.3	34.0	32.6	42.0
Balance of payments of the monetary union				
Current account balance	-887.4	-1,080.8	-1,120.3	-1,644.6
Capital transfers	-7.1	3.0	-2.7	28.5
External financing	804.2	1,183.8	1,004.5	1,203.7
Direct investments	278.3	241.0	628.8	45.2
Loans and credits	-62.4	569.7	52.7	971.9
Portfolio investments	588.2	373.2	323.1	186.6
Change in reserves	-27.8	-187.5	17.6	274.3
Net errors and omissions	118.1	81.5	100.9	138.1
Import coverage (months)	4.9	5.1	5.0	4.5

[1] *Source 2017 & 2018 figures: IMF Staff Preliminary Concluding Statement of the 2018 Article IV Mission, November 2018.*

Table 2 Economic key figures of Sint Maarten (in millions NAf.) cont.

	2015	2016	2017	2018
Monetary survey (monetary union)				
Net domestic credit	3,744.1	3,753.2	3,699.2	3,678.9
Net domestic credit to government	-429.3	-670.2	-597.4	-304.5
Net domestic credit to private sector	6,148.3	6,625.0	6,683.1	6,684.4
Miscellaneous	-1,974.8	-2,201.6	-2,386.4	-2,701.1
Net foreign assets	4,041.8	4,377.0	4,989.7	5,006.4
Money supply	7,785.9	8,130.2	8,689.0	8,685.3
Annual growth in private sector loans[2]	1.7%	1.3%	-1.6%	1.4%
Mortgages	0.0%	0.9%	-1.7%	-1.7%
Consumer loans	-1.2%	7.0%	0.1%	4.3%
Business loans	6.2%	1.4%	-3.1%	-2.4%
Other	-	-51.4%	37.7%	-65.6%

[2] *2016 refers to July – December 2018.*

Table 3 Economic key figures 2018

	Curaçao	Sint Maarten	Monetary Union
Real GDP growth (% change)	-1.9	-8.1	-3.5
Inflation (% change)	2.6	2.7	2.6

Table 4 Economic key figures 2019 (projection)

	Curaçao	Sint Maarten	Monetary Union
Real GDP growth (% change)	0.4	2.3	0.9
Inflation (% change)	2.2	2.5	2.3

Table 5 Monetary survey monetary union (in millions NAf.)

	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
Money supply (M2)	8,685.5	8,660.7	8,622.3	8,651.3	8,685.3
Money (M1)	4,354.9	4,339.4	4,219.4	4,290.6	4,308.6
Coins & notes with the public	371.6	359.5	359.2	365.6	392.6
Total demand deposits, of which:	3,983.3	3,979.6	3,860.2	3,925.0	3,916.0
Netherlands Antillean guilders	2,628.5	2,608.0	2,608.2	2,662.4	2,628.0
Foreign currency	1,354.8	1,371.9	1,252.0	1,262.6	1,288.0
Near money	4,330.6	4,321.3	4,402.9	4,360.7	4,376.7
Time deposits	1,932.0	1,902.2	1,988.5	1,945.3	1,932.0
Savings	2,398.6	2,419.1	2,414.5	2,415.5	2,444.7
Factors affecting the money supply	-	-	-	-	-
Net domestic assets	3,504.1	3,571.8	3,591.6	3,621.5	3,678.9
Government sector	-460.0	-421.9	-357.1	-348.5	-304.5
Former central government	-13.5	-12.1	-12.1	-12.1	-12.1
Curaçao	-324.0	-313.2	-231.5	-235.2	-198.5
Sint Maarten	-122.5	-96.6	-113.4	-101.2	-93.8
Private sector	6,609.4	6,651.1	6,658.4	6,711.2	6,684.4
Memorandum items	-2,645.3	-2,657.4	-2,709.8	-2,741.3	-2,701.1
Net foreign assets	5,181.4	5,089.3	5,030.7	5,029.8	5,006.4
Central bank	2,958.9	2,841.3	2,808.3	2,919.9	2,984.8
Commercial banks	2,222.4	2,248.0	2,222.4	2,109.9	2,021.6

Table 5 Monetary survey monetary union (in millions NAf.) cont.

	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
Government loans by commercial banks	15.6	18.1	22.6	21.9	26.4
Government of Curaçao	1.6	3.5	0.5	0.0	4.8
Government of Sint Maarten	14.1	14.5	22.1	21.9	21.6
Private sector loans Curaçao	4,562.2	4,585.1	4,608.4	4,646.5	4,730.6
Mortgages	1,829.1	1,816.5	1,825.7	1,838.4	1,790.8
Consumer loans	903.1	916.7	899.7	902.1	905.3
Business loans	1,742.2	1,762.5	1,790.4	1,807.5	1,921.4
Other	87.9	89.3	92.5	98.5	113.1
Private sector loans Sint Maarten	1,487.8	1,494.2	1,484.3	1,478.1	1,481.2
Mortgages	879.0	876.7	879.2	871.5	869.6
Consumer loans	235.9	234.0	233.0	235.4	233.6
Business loans	367.5	378.2	366.4	367.4	374.3
Other	5.5	5.3	5.7	3.7	3.8

Table 6 Monetary sector growth rates

	2017-IV	2018-I	2018-II	2018-III	2018-IV
Money supply (M2)	1.6%	2.6%	0.1%	-2.9%	0.3%
Demand deposits					
N.A. guilders	1.0%	4.6%	1.8%	-7.9%	0.8%
Foreign currency	8.5%	10.2%	-3.9%	-3.9%	-2.8%
Near money					
Time deposits	-6.5%	-5.7%	2.8%	-2.7%	1.6%
Saving deposits	6.1%	4.2%	-1.9%	0.4%	1.1%