

# NOTE ECONOMIC DEVELOPMENTS CURAÇAO

MARCH 2018

CENTRALE BANK VAN CURAÇAO EN  
SINT MAARTEN





# Centrale Bank van Curaçao en Sint Maarten

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Curaçao

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March 2018

Simon Bolivar Plein 1  
Willemstad,  
Curaçao  
Phone: (599 9) 434-5500  
Fax: (599 9) 461-5004  
E-mail: [info@centralbank.cw](mailto:info@centralbank.cw)

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## GENERAL ECONOMIC DEVELOPMENTS

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According to the estimates of the Bank, Curacao's real GDP contracted by 1.3% in 2017, following a decline by 1.0% in 2016. Meanwhile, inflationary pressures increased as consumer prices rose by 1.6% in 2017, following zero inflation in 2016. The higher inflationary pressures were due mainly to an increase in international oil and food prices.

The GDP by expenditure analysis shows that the economic contraction in 2017 was caused by a decrease in net foreign demand mitigated by an increase in domestic demand. Net foreign demand dropped reflecting a decline in exports combined with higher imports. Exports contracted on the account of lower foreign exchange earnings from stay-over tourism and air transportation services provided to abroad. In addition, re-exports by the free-zone companies and the refining fee earned by the Isla refinery declined. Imports increased because of more oil imports driven primarily by higher international oil prices. Furthermore, imports of construction material for various investment projects went up. In contrast, domestic demand expanded as both private and public spending increased. The rise in private spending was attributable to an increase in private investment mitigated by a decrease in private consumption. The growth in private investment reflected large projects including the second megapier, the windmill park, the remodeling and

expansion of the airport, and several hotel projects. Private consumption dropped as a result of, among other things, a decline in disposable income because of the higher inflationary pressures and the worsened situation in the labor market. Furthermore, public spending rose because of an increase in government investment mitigated by a decrease in public consumption. The increase in public investment was driven largely by the construction of the new hospital, while the decrease in public consumption was caused by less spending on wages & salaries and on goods & services. The lower public consumption was the result of, among other things, the introduction of a commitment stop in November 2017 to contain the worsening of the budget deficit.

An analysis of GDP by sector in the first nine months of 2017 demonstrates that the economic contraction was caused by a decline in activities in the transport, storage, & communication, restaurants & hotels, wholesale & retail trade, financial intermediation, and manufacturing sectors moderated by an increase in activities in the construction and utilities sectors.

Real value added in the transport, storage & communication sector shrank in the first three quarters of 2017 because both airport and harbor activities contracted. The activities related to the airport declined

because total passenger traffic, notably transit passengers, and commercial landings contracted. This outcome was caused mainly by the cancellation of most flights by the domestic carrier InselAir as a result of the financial problems the company has been facing. The harbor also performed poorly due to a drop in oil storage activities, fewer container movements, and fewer tankers and freighters piloted into the port of Curaçao. By contrast, the number of cruise calls rose.

The restaurants & hotels sector recorded a decline during the first nine months of 2017 due to a drop in the number of stay-over visitors. However, the number of visitor nights rose. The decrease in the number of stay-over visitors was the result of fewer South American, Caribbean and European visitors, moderated by more visitors from North America. The South American market contracted mainly because of declines in number of visitors from Venezuela and Surinam, mitigated by an increase in number of visitors from Colombia. Furthermore, the decline in the Caribbean market was caused by fewer arrivals from Jamaica, Haiti, Trinidad & Tobago and Aruba, mitigated by a slight increase in the number of visitors from the Dominican Republic. The contraction in the Caribbean and South American markets can be ascribed to, among other things, a decline in airlift, as the local carrier InselAir struggled with financial and operating problems and, hence, cancelled flights to several destinations in the region. The European market fell as the number of tourists from Belgium and Germany declined, while the number of Dutch visitors increased. The increase in the Dutch market largely explains the rise

in the number of visitor nights. Meanwhile, the North American market improved because of a growth in the number of Canadian visitors, mitigated by fewer visitors from the United States. In contrast, cruise tourism performed well, driven by more cruise calls and, consequently, more cruise tourists.

Activities in the wholesale & retail trade sector dropped due to lower domestic spending and less activities in the free-zone industry. The poor performance of the free-zone sector was in line with the decline in number of free-zone visitors, notably visitors from Jamaica, Haiti, the Dominican Republic, Trinidad, Guyana, India and, especially, Venezuela. The merchants in the free-zone have experienced a drop in sales to the Venezuelan market because of the currency restrictions and political and economic crisis the country is facing. Also, the lack of airlift to Caribbean destinations affected the free-zone sector.

Real output in the financial intermediation sector declined during the first nine months of 2017, because the increase in net interest income and other fees & income earned by the domestic commercial banks was not enough to compensate for the inflation. Moreover, real value added in the international financial services dropped as a result of lower wages & salaries and other operational expenses. Meanwhile, output in the manufacturing sector declined because of a drop in oil refining activities by the Isla refinery.

In contrast, output rose in the utilities and construction sectors throughout the first three quarters of 2017. The utilities sector expanded because of higher water and electricity production. The construction sector also performed well, although



growth was slower compared to 2016 because the construction of the second mega-pier and the new hospital are entering their final stages.

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## DEVELOPMENTS IN THE PUBLIC FINANCES

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In 2017, the government of Curaçao recorded a deficit of NAf.80.2 million on its current budget, more than twice the deficit of NAf.38.2 million recorded in 2016. This deterioration was caused by an increase of 1.4% in government expenditures combined with a drop of 0.4% in revenues. Expenditures increased particularly due to additions to the buffer fund of the social security bank, SVB, to cover the deficits of several funds, while revenues declined partly because of less proceeds from import duties.

During the first nine months of 2017, the government of Curaçao recorded a deficit of NAf.57.0 million on its current budget, a widening by 89.2% compared to the deficit of NAf.30.1 million in the January-September period of 2016. The higher deficit was attributable to an increase of 1.8% in government expenditures as government revenues remained practically unchanged. Expenditures rose primarily because of an increase in other expenditures (60.8%) and more outlays on goods & services (15.1%). The other expenditures category recorded an increase due to, among other things, higher additions to the buffer fund of the Social Security Bank, SVB. Furthermore, the government made contributions to the SVB to cover the costs related to assistant physicians. Meanwhile, revenues remained stable because the increase in nontax revenues, particularly more proceeds from social security premiums (3.0%), was offset

by a drop in tax revenues. In particular, less import duties (3.8%) and fewer proceeds from profit tax (4.8%) and wage tax (3.7%) resulted in the lower tax revenues.

Curaçao's total outstanding public debt increased to NAf.2.806 billion at the end of 2017 compared to NAf.2.545 billion recorded at the end of 2016. This increase was caused by a NAf.202.1 million rise in the domestic debt component combined with NAf.58.0 million more in foreign debt. The domestic debt went up particularly because of more arrears towards the SVB and the public pension fund, APC, while the foreign debt increased due to a NAf.60.0 million bond issued at the end of November, 2017. This bond was allocated entirely to the Dutch State Treasury Agency (DSTA). Consequently, the government recorded a debt-to-GDP ratio of 50.1% at the end of December 2017 compared to 45.6% at the end of December 2016.

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## DEVELOPMENTS IN THE BALANCE OF PAYMENTS

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According to estimates of the Bank, the deficit on the current account of the balance of payments widened by NAf.397.2 million in 2017 compared to 2016 as a result of a drop in the net export of goods and services and a worsening of the income balance. In contrast, the current transfers balance improved. In line with the development on the current account, external financing into the monetary union rose. However, as the external financing was not sufficient to cover the current account deficit, the gross official reserves of the Bank decreased by NAf.17.6 million in 2017, a turnaround compared to the NAf.187.5 million increase in 2016.

During the first nine months of 2017, the deficit on the current account of the balance of payments was, according to preliminary data and the Bank's estimates, NAf.930.3 million compared to the deficit of NAf.743.3 million recorded in the first nine months of 2016. The development on the current account reflected a decrease in the net export of goods and services combined with a deterioration of the current transfers balance. However, the income balance improved.

In Curaçao, net foreign demand shrank as exports dropped, while imports grew. The contraction in exports can be attributed primarily to a drop in the foreign exchange earnings from tourism and transportation services provided to abroad. Foreign

exchange revenues from tourism activities went down because of a decline in the number of stay-over visitors in the first nine months of 2017 compared to the first nine months of 2016. However, revenues from cruise tourism increased consistent with the rise in the number of cruise tourists. The drop in foreign exchange income from transportation services provided to abroad can be explained by the discontinuation of several flights by the domestic airline, InselAir, caused by its ongoing financial problems. Also, the refining fee dropped due to fewer refining activities. However, foreign exchange receipts from bunkering activities rose consistent with the higher international oil prices.

The import growth resulted particularly from more oil imports in line with the higher international oil prices in the first nine months of 2017. In contrast, non-oil merchandise imports dropped reflecting lower private consumption.

The current transfers balance is estimated to have worsened by NAf.14.6 million in the first nine months of 2017 compared to the first nine months of 2016 because the drop in current transfers received from abroad exceeded the decline in current transfers paid to abroad. However, the income balance improved by an estimated NAf.58.5 million because the growth in dividend and interest received on foreign investments was larger than the increase

in investment income paid to abroad.

As the external financing was not sufficient to cover the current account deficit in the first nine months of 2017, gross official reserves dropped by NAF.151.5 million.

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## MONETARY DEVELOPMENTS

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During the January – July period of 2017, the monetary policy instruments were deployed in a neutral manner by focusing only on the refinancing of maturing CDs during the bi-weekly auctions while the reserve requirement was maintained at 18.00%. Nevertheless, the amount of required reserves rose 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 1.50% on March 20, 2017. After being kept at the historically low level of 1.00% since December 2008, the Bank took this step following the upward adjustments of the federal funds rate and its impact on the international interest rates and, hence, the domestic money market rates.

However, as of August 2017<sup>1</sup>, the Bank started gradually reducing the amount of CDs while keeping the reserve requirement percentage at 18.00%. Consequently, the amount of outstanding CDs dropped by NAf.66.6 million in the second half of 2017. Meanwhile, the amount of required reserves increased by NAf.79.6 million due to an increase in the base upon which it is calculated.

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<sup>1</sup> After an evaluation, the Bank concluded that the auctioning of CDs is not an effective instrument during a prolonged period of excess liquidity.

At the end of the December 2017, the current account balances of the commercial banks with the Bank were NAf.316.6 million higher compared to December 2016. The increase in these balances occurred mostly in the second half of 2017 because of debt service payments on matured securities by the DSTA<sup>2</sup>. Through its monetary instruments, the Bank mopped up NAf.59.8 million in liquidity during 2017.

Broad money expanded by 6.9% in 2017 due to increases in both the net foreign assets (13.2%) and net domestic assets (0.9%) of the banking system.

In 2017, credit to the private sector in the monetary union grew by 1.4%. Outstanding loans in Curaçao increased by 2.5% while Sint Maarten recorded a decline of 1.6%. The increase in Curaçao was the result of increases in business loans (7.6%) and consumer loans (4.5%) moderated by decreases in mortgages (-1.6%) and in the other loans category (-18.6%).

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<sup>2</sup> Related to debt securities taken over by the Dutch government under the debt relief program.

## Monetary and liquidity conditions

- The current account balances of the commercial banks at the central bank are still high (see Table 1).
- Low international interest rates; Fed funds rate between 1.25 - 1.50%.
- On March 7, 2018, the 1M USD Libor rate stood at 1.72%, while the 3M USD Libor was 2.06%.
- Auctioning of CDs: the amount outstanding was NAf.113.0 million on March 16, 2018. The latest CD interest rates offered on the auction of March 12, 2018 was 0.29% for 4 weeks.
- For the March – April 2018 period, the reserve requirement percentage remained unchanged at 18.00% and the outstanding amount was NAf. 1,313.3 million.
- The pledging rate stands at 1.50% since March 20, 2017.

**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	Mar 9, 2018
Current account balance commercial banks	231.2	388.5	490.7	500.4	817.7	892,2

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## OUTLOOK FOR 2018

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Global economic activity is projected to accelerate in 2018 (3.9%) because of increased output growth in the advanced economies as well as the emerging & developing economies.<sup>3</sup> However, risks to the medium-term global economic outlook are tilted to the downside as reflected by, among other things, inward-looking policy plans including renegotiation of economic partnership agreements, tightening global financial conditions, and noneconomic factors such as geopolitical tensions. Real output for both the United States and the Netherlands, two of the main trading partners of Curaçao, is projected to grow in 2018. Similar to the previous three years, Venezuela - Curacao's third important trading partner- will remain in a deep economic crisis.<sup>4</sup>

The Curaçao economy is estimated to grow by 0.3% in 2018, as the expected increase in domestic demand will offset the decline in net foreign demand. Growth in domestic demand will be supported by increased public demand while private demand will remain muted. Public demand is projected to expand driven by both public investment and consumption. Private demand is expected to remain stable because the growth in private investment will be offset by the decline in private consumption. The decline in private consumption is

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<sup>3</sup> IMF World Economic Outlook, January 2018.

<sup>4</sup> IMF World Economic Outlook, January 2018.

related to a worsening of the labor market as several companies have announced cuts in personnel. The growth in private investment is supported by investments in primarily the tourism and ship repair sectors. In contrast, net foreign demand is expected to contribute negatively to real output growth because the increase in imports will exceed the higher exports. Imports will grow, albeit less pronounced than in 2017, due mainly to investments in the tourism and ship repair sectors. The export growth reflects primarily higher foreign exchange earnings from tourism activities, mitigated by lower refining fee earnings. The projected development in tourism is related to a growth in the main stay-over markets of Curacao, particularly the United States and Europe. In addition, cruise tourism is expected to increase at a faster pace as a result of the opening of the second mega-pier in November 2017 and the changes of itineraries by the cruise lines because of the devastation caused by hurricanes Irma and Maria in popular destinations in the Caribbean.

Meanwhile, consumer price inflation is projected to rise to 1.7% in 2018 caused mainly by the projected increase in food prices due to, among other things, the trade ban imposed by the government of Venezuela, while international oil prices will remain practically stable.<sup>5</sup>

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<sup>5</sup> IMF World Economic Outlook, January 2018.

## ATTACHMENT

**Table 2 Economic key figures of Curaçao (in millions NAf.)**

	2014	2015	2016	2017
<b>Real sector</b>				
Real GDP growth (% change)	-1.1	0.3	-1.0	-1.3
Inflation (% change)	1.5	-0.5	0.0	1.6
<b>Public finances</b>				
Budget balance <sup>1)</sup>	-11.4	-1.6	-38.1	-80.2
Debt-to-GDP ratio (%)	38.6	44.2	45.6	50.1
<b>Balance of payments of the monetary union</b>				
Current account balance	-1,089.8	-886.6	-1,032.7	-1,429.9
Capital transfers	23.1	-7.1	3.0	-2.3
External financing	1,426.1	841.4	1,170.6	1,348.1
Direct investments	128.7	278.3	239.4	309.9
Loans and credits	509.6	-25.1	563.6	654.9
Portfolio investments	787.8	588.2	367.6	383.2
Change in reserves	-459.9	-27.8	-187.5	17.6
Net errors and omissions	100.4	80.1	46.6	66.5
<b>Import coverage (months)</b>	3.9	4.9	5.1	5.0

<sup>1)</sup> The figures presented in this table may differ from the figures in the annual accounts of the Curaçao government as the Bank calculates the government's budget balance based on the Government Finance Statistics methodology of the IMF, while the government uses the national accounts methodology prescribed by national law.

**Table 2 Economic key figures of Curaçao (in millions Naf.) cont.**

	2014	2015	2016	2017
<b>Monetary survey (monetary union)</b>				
Net domestic credit	3,744.1	3,787.1	4,156.1	4,191.7
Net domestic credit to government	-429.3	-589.7	-670.3	-597.4
Net domestic credit to private sector	6,148.3	6,145.6	6,627.9	6,686.5
Miscellaneous	-1,974.8	-1,768.8	-1,801.5	-1,897.4
Net foreign assets	4,041.8	4,186.0	3,973.9	4,499.4
Money supply	7,785.9	7,973.1	8,130.1	8,691.1
Annual growth in private sector loans <sup>2)</sup>	-2.7%	-1.3%	-1.1%	2.5%
Mortgages	0.8%	-2.4%	-1.4%	-1.6%
Consumer loans	-1.0%	-3.0%	1.6%	4.5%
Business loans	-8.3%	1.3%	-2.9%	7.6%
Other	-	-	8.7%	-18.6%

<sup>2)</sup> 2016 data compare December vis-à-vis July.

**Table 3 Economic key figures 2017**

	Curaçao	Sint Maarten	Monetary Union
Real GDP growth (% change)	-1.3	-4.4	-2.1
Inflation (% change)	1.6	1.4	1.6

**Table 4 Economic key figures 2018 (projection)**

	Curaçao	Sint Maarten	Monetary Union
Real GDP growth (% change)	0.3	-9.5	-2.2
Inflation (% change)	1.7	1.6	1.7

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

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
<b>Money supply (M2)</b>	8,337.7	8,557.2	8,546.8	8,624.4	8,691.1
<b>Money (M1)</b>	3,912.0	4,178.5	4,124.7	4,150.7	4,316.6
Coins & notes with the public	365.7	378.5	375.0	364.7	388.1
Total demand deposits, of which:	3,546.2	3,800.0	3,749.7	3,786.0	3,928.5
Netherlands Antillean guilders	2,411.1	2,632.8	2,542.5	2,547.2	2,661.1
Foreign currency	1,135.1	1,167.2	1,207.1	1,238.9	1,267.4
<b>Near money</b>	4,425.8	4,378.7	4,422.1	4,473.7	4,374.6
Time deposits	2,211.5	2,157.4	2,142.8	2,150.4	2,016.9
Savings	2,214.3	2,221.3	2,279.3	2,323.2	2,357.6
<b>Factors affecting the money supply</b>					
<b>Net domestic assets</b>	4,163.0	4,179.8	4,244.1	4,150.3	4,191.7
Government sector	-578.5	-582.8	-550.7	-606.7	-597.4
Former central government	-11.4	-11.5	-11.5	-11.5	-11.6
Curaçao	-371.8	-396.9	-392.4	-470.4	-474.2
Sint Maarten	-195.2	-174.4	-146.8	-124.8	-111.7
Private sector	6,700.1	6,742.4	6,730.5	6,730.9	6,686.5
Memorandum items	-1,958.6	-1,979.8	-1,935.6	-1,973.9	-1,897.4
<b>Net foreign assets</b>	4,174.7	4,377.3	4,302.6	4,474.1	4,499.4
Central bank	3,032.1	3,148.8	3,102.8	3,358.1	3,360.7
Commercial banks	1,142.6	1,228.6	1,199.8	1,116.0	1,138.7

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

	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
<b>Government loans by commercial banks</b>	19.6	21.4	18.1	22.2	22.0
Government of Curaçao	5.4	5.6	3.0	6.1	7.3
Government of Sint Maarten	14.2	15.8	15.0	16.2	14.7

<b>Private sector loans Curaçao</b>	4,568.4	4,628.1	4,614.7	4,622.1	4,620.3
Mortgages	1,863.6	1,866.6	1,856.6	1,853.5	1,849.1
Consumer loans	888.8	893.2	896.1	900.2	900.1
Business loans	1,712.7	1,765.2	1,762.1	1,767.6	1,772.7
Other	103.3	103.1	99.9	100.8	98.4

<b>Private sector loans Sint Maarten</b>	1,526.8	1,524.9	1,524.3	1,529.8	1,502.8
Mortgages	897.6	893.5	893.8	891.9	884.2
Consumer loans	223.9	226.0	225.2	227.2	223.9
Business loans	397.7	397.8	397.7	404.2	383.6
Other	7.6	7.6	7.6	6.5	11.1

**Table 6 Monetary sector growth rates**

	2016-IV	2017-I	2017-II	2017-III	2017-IV
<b>Money supply (M2)</b>	1.4%	1.6%	0.3%	3.2%	1.6%
<b>Demand deposits</b>					
N.A. guilders	-2.2%	0.9%	1.8%	10.2%	1.1%
Foreign currency	3.1%	11.0%	-1.0%	9.3%	8.6%
<b>Near money</b>					
Time deposits	3.8%	-0.8%	-2.4%	-3.2%	-6.5%
Saving deposits	1.6%	1.2%	2.0%	-0.1%	6.1%

