ECONOMIC DEVELOPMENTS IN 2018 AND OUTLOOK FOR 2019

Foreword

Preliminary data suggest that real GDP contracted in the monetary union of Curaçao and Sint Maarten in 2018 as economic activity dropped in both economies. Following a contraction of 1.7% in 2017, real GDP fell further by 1.9% in Curaçao in 2018. Meanwhile, Sint Maarten recorded a deep economic contraction of 8.1% after a decline by 4.8% in 2017. In addition, inflationary pressures rose in both Curaçao and Sint Maarten.

The real GDP contraction in Curaçao was the result of a decline in both net foreign and domestic demand. The negative contribution of net foreign demand was the result of a decline in the export of goods & services combined with higher imports. The drop in domestic demand was caused by both private and public demand. The decline in private demand was the result of lower consumer spending, while private investment spending remained muted in 2018 compared to 2017. Meanwhile, public demand shrank on the back of lower investments and consumption by the government. A sectoral assessment reveals that Curaçao's real GDP contraction was ascribable to less activity in the transport, storage & communication, manufacturing, construction, financial intermediation, and wholesale & retail trade sectors.

Sint Maarten's real GDP contraction during 2018 was caused by a decline in net foreign demand as exports of goods & services dropped significantly while imports went up. By contrast, domestic demand rose and thereby moderated the economic contraction. The ongoing clean-up and reconstruction efforts in the aftermath of Hurricane Irma caused the increase in domestic demand that was reflected by higher private investment, public investment, and public consumption. However, private consumption dropped because of the increased unemployment and reduced wealth. With the exception of the construction sector, real value added dropped in all sectors of the economy of Sint Maarten because of the severe shock caused by Hurricane Irma.

On the fiscal front, challenges remained for both Curaçao and Sint Maarten during 2018. The government of Curaçao continued with its efforts to realize a balanced budget and comply with the fiscal rules as stipulated by the Kingdom Law of Financial Supervision of Curaçao and Sint Maarten. According to the latest projections, the government of Curaçao will register a surplus on its current budget, following a deficit in 2017. Meanwhile, Sint Maarten has yet to recover from the enormous damage caused by Hurricane Irma that affected both the economy and the public finances. As a result, the deficit on the current budget of the government of Sint Maarten is projected to widen further in 2018 compared to 2017.

The economic prospects for the monetary union in 2019 are brighter. In Curaçao, real GDP is projected to grow by 0.4% sustained by increased domestic and net foreign demand. For Sint Maarten, a real expansion of 2.3% is forecasted supported also by gains in domestic and net foreign demand. However, risks to this outlook are tilted to the downside and include a further deepening of the crisis in Venezuela, delays in the process of finding a strategic partner for the refinery, the loss of correspondent banking relations, delays in the execution of planned private sector investments due to lengthy and complex administrative procedures, and delays in the disbursement of funds intended for the reconstruction of Sint Maarten.

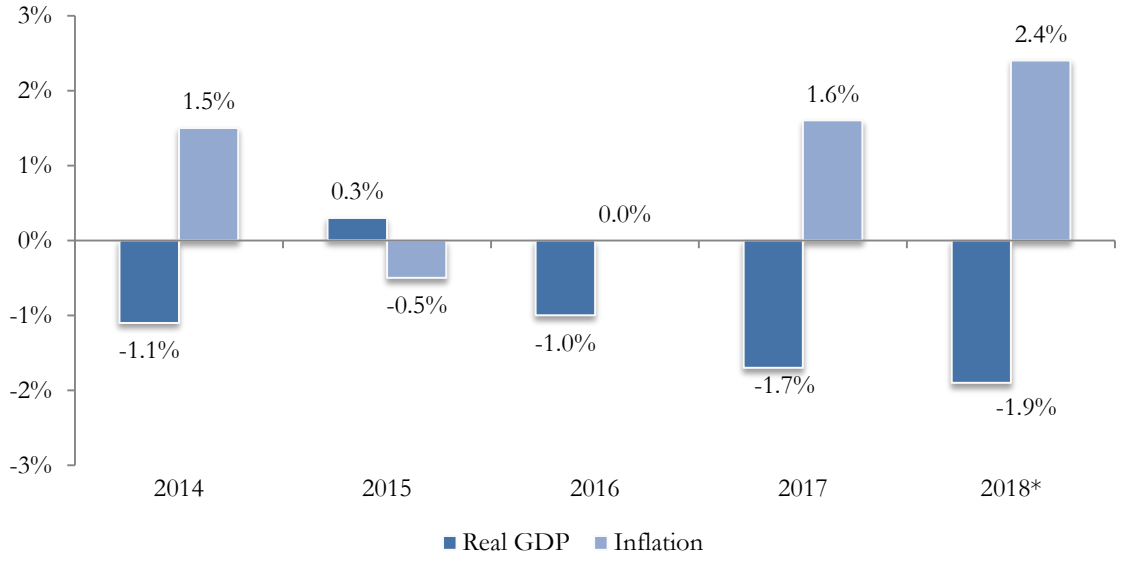
L. Matroos - Lasten
President a.i.

Curaçao

Developments in 2018

According to preliminary figures, Curaçao's real GDP contracted further by 1.9% in 2018, following a decline of 1.7% in 2017. Meanwhile, consumer price inflation rose to 2.4% in 2018, reflecting mainly an increase in international oil and food prices.

Figure 1. Curaçao: economic growth and inflation



**2018 is projection of the CBCS.*

An analysis of the GDP by expenditure shows that the expected economic contraction in 2018 was caused by a decrease in both net foreign and domestic demand. The decline in net foreign demand was the result of a drop in exports combined with higher imports. In addition, domestic demand shrank as both private and public spending contracted. Private spending went down on the back of lower private consumption while private investment remained muted. Private consumption dropped as a result of, among other things, a decline in disposable income because of the higher inflationary pressures and a worsened labor market. Furthermore, public spending dropped because of a decrease in both government investment and consumption. Public investment declined as the construction of the new hospital is reaching its final stages and because of fewer road infrastructure projects. The lower public consumption was caused by less disbursements on goods & services and wages & salaries.

A review of GDP by sector shows that the decline in private sector activities during the first half of 2018 was attributable mainly to the transport, storage, & communication, manufacturing, construction, financial intermediation, and wholesale & retail trade sectors, mitigated by an increase in the activities in the utilities and restaurants & hotels sectors.

Real value added contracted in the transport, storage & communication sector in the first half of 2018 as a result of a decline in both harbor and airport-related activities. The poor performance of the harbor was the result of a significant drop in the number of ships piloted into the port of Curaçao, notably freighters and tankers. The decline in the number of tankers was largely related to the headwinds the refinery was facing. Meanwhile, airport-related activities dropped due to lower total passenger traffic mitigated by an increase in the number of commercial landings. The

increase in commercial landings was the result of additional flights by various air carriers, including KLM, TUI, American Airlines, Copa Airlines, Jet Blue, West Jet, and Fly Always.

Real output in the manufacturing sector shrank in the first six months of 2018, primarily because of lower refining activities at the Isla refinery. The decline in crude oil supply from Venezuela, the seizure of PDVSA assets by the American oil company ConocoPhillips, and the limited steam deliveries by the CRU plant resulted in lower production activities at the refinery. The construction sector also posted negative results because several major construction projects were finished or in their final stages.

The negative contribution of financial intermediation to real GDP during the first half of 2018 was the result of a drop in real value added of both the domestic and international financial services sectors. The decline in domestic financial services sector reflected a drop in net interest income of the commercial banks, moderated by an increase in other fees & income. Meanwhile, lower wages & salaries and other operational expenses reflected in the decline in the international financial services sector.

Furthermore, the wholesale & retail trade sector recorded a contraction in the first six months of 2018 due to fewer activities in the free zone and less domestic demand, moderated by an increase in tourism spending.

By contrast, the restaurants & hotels and utilities sectors contributed positively to GDP in the first half of 2018. Growth in the restaurants & hotels sector reflected an increase in the number of stay-over visitors, the number of visitor nights, the occupancy rate, and the number of cruise tourists. The number of stay-over visitors increased mainly because of more visitors from North America and Europe, specifically the United States, Canada, and the Netherlands. The South American and Caribbean markets declined largely due to the lack of airlift to regional destinations because of the cancellation of flights by InselAir and the continued crisis in Venezuela. The buoyant performance of cruise tourism was related to the opening of the second mega pier and a change in itineraries by cruise lines because of the devastation caused by hurricanes Irma and Maria in popular cruise destinations in the Caribbean. The hotel occupancy rate rose also but probably reflected the increase in the number of visitors combined with fewer available hotel rooms attributable to the closure or renovation of several hotels.[1]

Finally, the gain in the utilities sector was supported by more water and electricity production in the first six months of 2018 compared to the first six months of 2017.

During the first nine months of 2018, the deficit on the current budget of the government of Curaçao reached NAf.39.1 million, a drop of NAf.17.9 million compared to the first nine months of 2017. The lower deficit was caused by a decline in government expenditures (NAf.619.1 million) that surpassed the decline in revenues (NAf.601.2 million). However, this development was to a great extent the result of a decision of the government of Curaçao to no longer include the income and expenditures of the social security bank, SVB, in the current budget.[2] As a result of this correction, the outlays on transfer & subsidies dropped by NAf.615.4 million while nontax revenues declined by NAf.569.8 million.

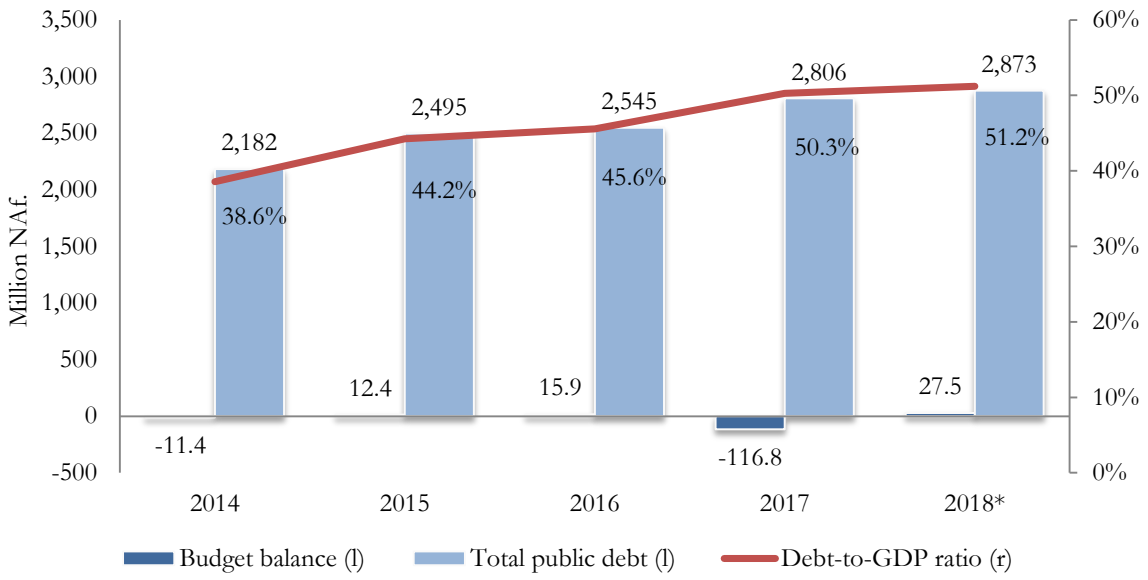
[1] The Marriott Beach Resort & Casino has been temporary closed for renovation, while the Plaza Hotel Curaçao and Howard Johnson Curaçao were closed.

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

When the income and expenditures of the SVB are also excluded in 2017, the government of Curaçao registered a budget surplus of NAf.180.8 million at the end of the first nine months of 2018 compared to the NAf.146.2 million surplus at the end of the first nine months of 2017. This improvement was caused by an increase in government revenues combined with a decline in expenditures. Revenues went up by NAf.6.7 million due to more nontax revenues, mitigated by a fall in tax revenues. The rise in nontax revenues (NAf.38.1 million) reflected a windfall in withholding tax grants related to the BRNC tax arrangement between the Netherlands and Curaçao.[3] Tax revenues dropped by NAf.31.4 million reflecting mostly fewer proceeds from taxes on goods & services (NAf.15.6 million), taxes on property (NAf.8.7 million), and profit tax (NAf.20.0 million). Expenditures dropped by NAf.27.9 million due mainly to lower spending on transfers & subsidies (NAf.24.2 million) caused by fewer transfers to public companies and institutions. Furthermore, government spending on "other expenditures" (NAf.12.0 million) dropped, whereas the disbursements on wages & salaries (NAf.3.5 million) and on goods & services (NAf.3.7 million) increased.

According to the latest projections,[4] the government of Curaçao expects a surplus of NAf.27.5 million on the 2018 current budget, a turnaround compared to the deficit of NAf.116.8 million recorded in 2017. This improvement is caused by a projected increase in government revenues combined with a decline in expenditures. Revenues are projected to go up mainly as a result of higher tax proceeds, particularly taxes on income & profit and goods & services. Expenditures will drop, reflecting lower subsidies paid to public entities and lower disbursements on goods & services.

Figure 2. Curaçao: development in the public finances



**Note: 2018 is a projection.*
Soure: FMR of the government of Curaçao, IMF 2018 Article IV Mission – Staff Concluding Statement, November 2018, and projections of the CBCS.

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from its current budget. In addition, as of May 2018, SVB income and expenditures are no longer included in the budget.

[3] 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.

[4] Source: IMF 2018 Article IV Mission - Staff Concluding Statement, November 2018.

The debt-to-GDP ratio of the government of Curaçao will rise to 51.2% at the end of 2018, up from 50.3% at the end of 2017. The increase in the outstanding public debt is the result of a rise in the domestic debt component only, because the foreign debt component drops. The higher domestic debt component is due particularly to the increase in outstanding arrears towards the social security bank, SVB, and the public pension fund, APC. The foreign debt component drops due to the yearly redemption of the sinking bond issued in January 2015.

Outlook 2019

Following an accelerated expansion in both 2017 and 2018, global growth is projected to continue at a somewhat weaker pace of 3.7% in 2019 because the expansion has become less balanced and may have peaked in some major economies.[5] The momentum is still strong but the recently announced trade measures have lowered economic prospects. 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, tightening financial conditions, and noneconomic factors such as geopolitical tensions. Both the United States and the Netherlands, two of the main trading partners of Curaçao, are projected to grow at a slower pace in 2019. Curaçao's third important trading partner Venezuela, is suffering from an economic crisis since 2014 which is expected to continue in 2019 and beyond.

The economy of Curaçao is projected to grow by 0.4% in 2019, as both domestic and net foreign demand are projected to contribute positively to GDP. The growth in domestic demand will be supported by increases in both private and public spending. Private spending will be driven by private investment growth while private consumption will drop. The growth in private investment is supported primarily by investments in the tourism sector such as the renovation and expansion of the Marriott Hotel, and the Majestic and Corendon projects. Furthermore, investments in the utilities and wholesale & retail trade sectors will contribute to the rise in private investments. Private consumption will decline, albeit at a slower pace than in 2018, as a result of lower disposable income due to inflationary pressures. Also, the vulnerable labor market situation as reflected by layoff petitions of several companies, will affect private consumption. In addition, net foreign demand is projected to contribute positively to real output growth because of higher exports combined with lower imports. Exports will increase primarily due to higher foreign exchange earnings from tourism, air transportation, and ship repair activities, mitigated by lower earnings from refining and bunkering activities. The gain in foreign exchange earnings from tourism activities will be supported by a growth in both stay-over tourism, notably from the United States and Europe, and cruise tourism. In addition, ship repair activities will rise as the investment in the floating docks increased the repair capacity. Despite higher private investments, imports will decline due to less construction services imported as the construction of the hospital is reaching its final stages. Also, the oil-import bill will drop due to lower international oil prices.

Meanwhile, inflationary pressures are expected to reach 2.2% in 2019 due to a projected drop in international oil prices, mitigated by an increase in international food prices.[6]

There are a couple of risks that can affect the growth prospects of Curaçao in 2019. One of the main downside risks is the exposure to Venezuela, one of Curaçao's main trading partners. The crisis in Venezuela may further affect the activities in key economic sectors of the Curaçao

[5] IMF World Economic Outlook, October 2018.
[6] IMF World Economic Outlook, October 2018.

economy such as the refinery, the tourism, harbor, and financial services sectors. Furthermore, the continuing crisis can aggravate the inflow of refugees that Curaçao cannot handle on its own.

Another downside risk to the projection is the uncertain future of the refinery. Finding a strategic partner is key for the future of the refinery, as it is a vital contributor to the economy in terms of value added and employment. Further delays in the process of finding such a partner can affect private consumption and investment. Consumption may be affected because financial institutions may become reluctant to provide loans and credits to workers of the refinery and related companies.

Furthermore, the loss of correspondent banking relations can put a drag on economic growth in 2019 as it affects cross-border transactions and, thereby, increases macroeconomic uncertainties.

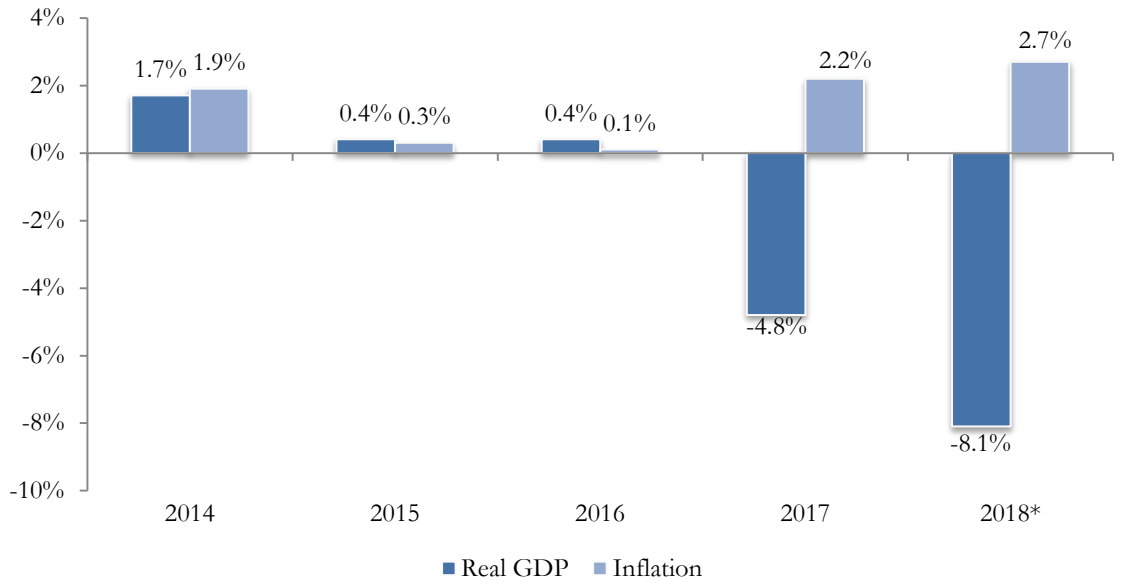
Another risk to the outlook is delays in the execution of private investment projects due to lengthy administrative procedures and bureaucracy. Finally, the pace of implementation of structural measures, including labor and capital markets reforms and reducing administrative barriers, may hinder the resumption of growth.

Sint Maarten

Developments in 2018

According to estimates of the Bank, 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.

Figure 3. Sint Maarten: economic growth and inflation



**Source: estimates of the CBCS*

Analysis of Sint Maarten's GDP by expenditure shows that the estimated 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 half 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 manufacturing, utilities, wholesale & retail trade, restaurants & hotels, transportation, storage & communication, financial intermediation, and real estate, renting & business activities sectors contracted sharply in the hurricane's aftermath. By contrast, only the construction sector experienced growth.

Activities in the construction sector accelerated in the first half 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 first half of 2018 as they awaited the necessary financing arrangements.

By contrast, real value added in the manufacturing sector contracted in the first half of 2018, largely because of the catastrophic damage Hurricane Irma caused to marine sector infrastructure. Private marinas in the Simpson Bay Lagoon and docks in Philipsburg harbor were adversely affected and could not provide normal services at optimal levels at the start of the 2018 yachting season.

In addition, activities in the utilities sector contracted sharply in the first half of 2018. Both water and electricity production dropped in the wake of Hurricane Irma, as demand from major consumers, such as hotels and other tourism-related businesses, along with households, dropped significantly after the severe damage to the country's utilities infrastructure caused by the hurricane.

Sint Maarten's transport, storage, & communication sector continued to suffer because of Hurricane Irma's aftermath. Activities in the sector turned around and fell sharply during the first half 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 sharp, negative turnaround in activities in the wholesale & retail trade sector in the first half of 2018 was largely because of the adverse impact of the hurricane on both domestic consumption and tourism spending.

In addition, 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 half 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 first half of 2018, a positive turnaround compared to 2017, mainly due to, among other things, 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 real estate, renting, & business activities sector contracted in the first half of 2018, primarily because of the sudden shock Hurricane Irma caused to tourism-related activities, such as the timeshare sector and many companies that cater to the industry.

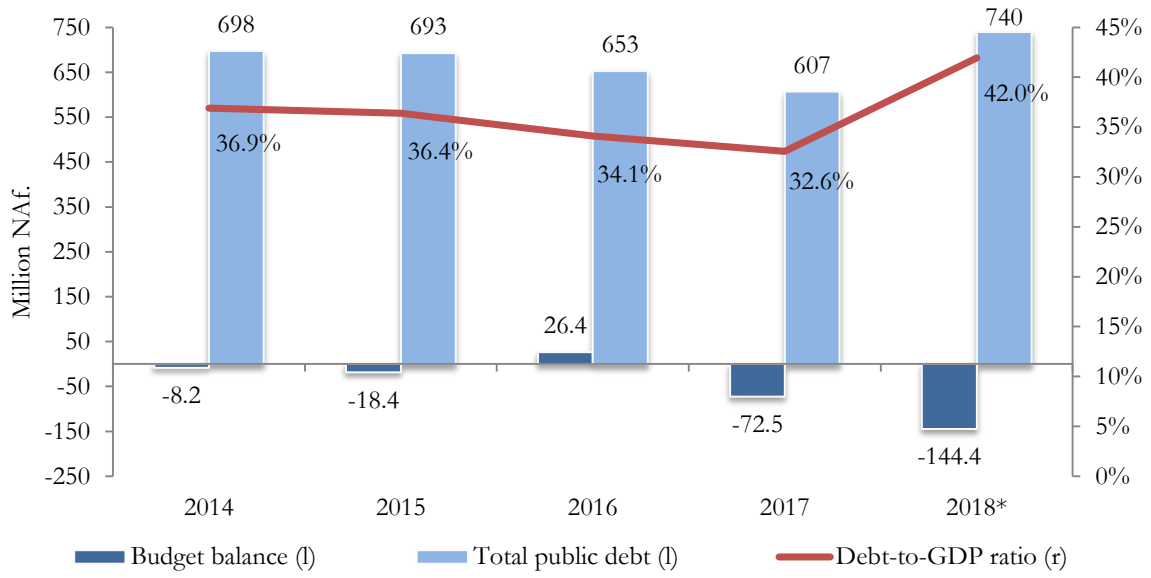
Finally, the financial intermediation sector also contributed negatively to Sint Maarten's real GDP in the first half of 2018, because the interest income of the domestic commercial banks decreased at a faster pace than their interest expenses, and fees and other income declined due mainly to fewer bank transactions.

The government of Sint Maarten recorded a deficit of NAf.71.9 million on its current budget during the first nine months of 2018,[7] a turnaround compared to the NAf.6.5 million surplus recorded during the first nine months of 2017. This deterioration 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. The decline in tax revenues was caused by a drop in the proceeds from taxes on income & profits, mitigated by an increase in the proceeds from taxes 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.

Also for the entire year 2018, the fiscal position of the government of Sint Maarten is expected to deteriorate. The government expects a budget deficit of NAf.144.4 million[8] in 2018, a worsening of NAf.71.9 million compared to 2017. Hence, the government of Sint Maarten remains dependent on liquidity support from the Dutch State to finance part of the higher budget deficit.

[7] Source: Financiële Concernrapportage/Uitvoeringsrapportage, derde kwartaal 2018 of the government of Sint Maarten.
[8] Source: IMF 2018 Article IV Mission - Staff Concluding Statement, November 2018.

Figure 4. Sint Maarten: development in the public finances



**Note: 2018 is a projection.*
Source: estimates of the CBCS, the Financiële Concernrapportage/Uitvoeringsrapportage, derde kwartaal 2018 of the government of Sint Maarten, and the IMF 2018 Article IV Mission - Staff Concluding Statement, November 2018.

Sint Maarten's total outstanding public debt will increase during 2018 because of a rise in both the domestic and the foreign debt components. The domestic debt is projected to increase due to more arrears towards the social security bank, SZV, and the public pension fund, APS. Meanwhile, the increase in the foreign debt component reflects a zero-interest loan from the Dutch State for liquidity support following Hurricane Irma. Consequently, Sint Maarten's debt-to-GDP ratio is projected to reach 42.0% in 2018, up from the 32.6% recorded in 2017.

Outlook 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 compared to the growth 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. Meanwhile, the public sector is expected to put a drag on growth as the expected 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.[9]

Following a natural disaster, resources should be channeled quickly, flexibly, and efficiently while ensuring that they reach those most severely affected. However, progress in the reconstruction of Sint Maarten has been rather slow. Further delays will hamper Sint Maarten's economic recovery. Furthermore, a lower than projected real GDP growth in Sint Maarten's main tourism

[9] IMF World Economic Outlook, October 2018.

markets will affect the recovery of Sint Maarten'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.

Monetary union

Balance of payments developments

According to estimates of the Bank, the deficit on the current account of the balance of payments widened in 2018 compared to 2017 as a result of a decline in the net export of goods and services and a worsening of the income balance. In contrast, the current transfers balance improved. The decline in net exports was caused by a drop in exports combined with higher imports. The poor export performance reflected, among other things, a decline in the foreign exchange earnings from stay-over and cruise tourism in Sint Maarten in the wake of Hurricane Irma. Foreign exchange earnings from activities that cater to Sint Maarten's tourism industry dropped also. Meanwhile in Curaçao, the refining fee of the Isla refinery dropped because of the lower oil production during 2018 compared to 2017. The low production can be ascribed to the lower supply of crude oil from Venezuela, the seizure of PDVSA assets by the American oil company ConocoPhillips, and the limited steam deliveries by the CRU-plant. Furthermore, the foreign exchange earnings from air transportation activities and the re-exports by the free zone companies in Curaçao went down. By contrast, foreign exchange receipts from tourism activities in Curaçao increased driven by a growth in both stay-over and cruise tourism. In addition, foreign exchange revenues from bunkering activities rose sustained by higher international oil prices.

The increase in imports can largely be ascribed to a higher oil import bill in Curaçao due to the increase in international oil prices. In addition, oil products were purchased at higher costs from other suppliers besides the Isla refinery.[10] In Sint Maarten, by contrast, oil imports dropped. Furthermore, an increase in the import of construction material in both Curaçao and Sint Maarten contributed to the higher imports. This increase was related to the ongoing investment projects in Curaçao and the reconstruction activities in Sint Maarten. Furthermore, merchandise imports by the wholesale & retail trade and utilities sectors, and tourism expenditures abroad by residents went up in Curaçao. The growth in imports was moderated by a decline in the merchandise imports by the wholesale & retail trade sector in Sint Maarten and by the free zone companies in Curaçao.

The income balance worsened because the decline in interest income received from abroad was more pronounced than the drop in interest income paid to abroad. By contrast, the current transfers balance improved significantly as a result of the inflow of funds related to the claims of local insurance companies to pay their clients in Sint Maarten whose insured properties were damaged by Hurricane Irma in September 2017.

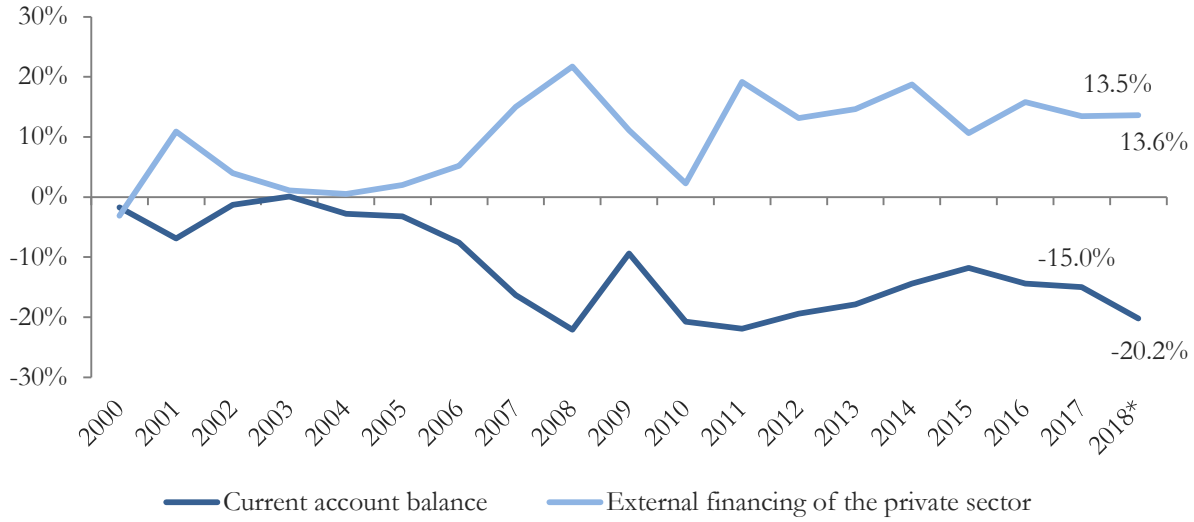
In line with the development on the current account, external financing into the monetary union is projected to rise, reflecting a worsening of the loans & credits, portfolio investment, and direct investment balances. The worsening of the loans & credits balance is caused by a deterioration of the net trade credits balance and a rise in non-residents' deposits in the monetary union, moderated by an increase in foreign deposits of residents of Curaçao and Sint Maarten. The considerably less pronounced deterioration of the portfolio investment balance in 2018 than in

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

2017 can be explained by the increased appetite of local institutional investors to invest more funds abroad because of the gradually increasing international interest rates and improving securities markets. The associated outflow caused a significant decline in the official reserves in August and September 2018. Meanwhile, net direct investments into the monetary union rose, albeit at a much slower pace compared to 2017, mainly as a result of an increase in the claims of foreign direct investors on their subsidiaries in the monetary union. Because the current account deficit widened while the external financing remained about the same in 2018 compared to 2017, gross official reserves decreased considerably by an estimated NAf.350 million in 2018.

As depicted in Figure 5, the current account deficit as a percentage of GDP of the monetary union rose from 15.0% in 2017 to 20.2% in 2018. An increase in the current account deficit caused primarily by a decline in exports points to competitiveness problems, which needs to be addressed in both Curaçao and Sint Maarten. Meanwhile, the external financing as a percentage of GDP remained about the same in 2018 (13.6%) compared to 2017 (13.5%).

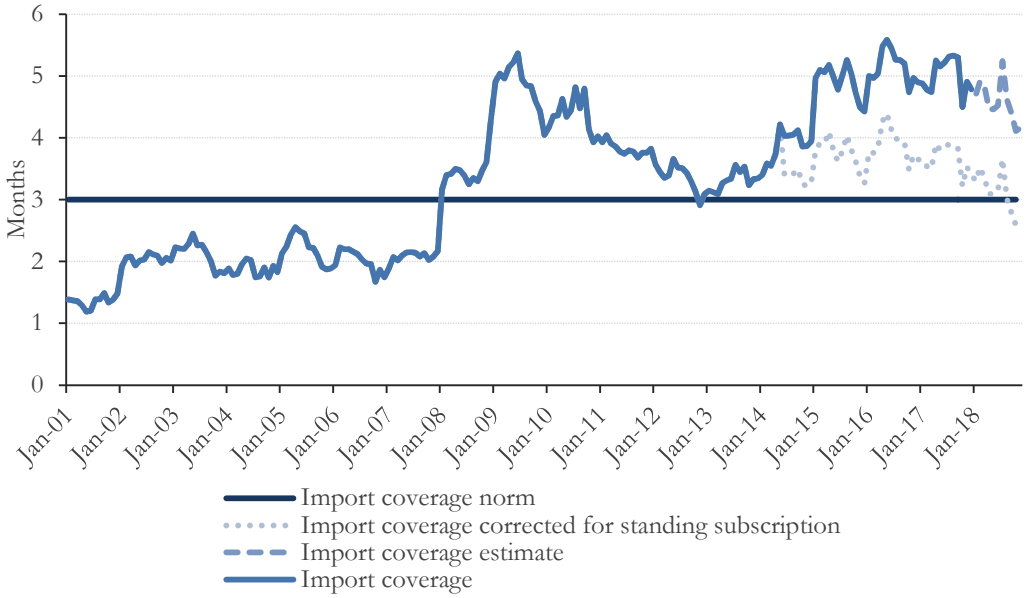
Figure 5. Monetary union: development of the balance of payments as a percentage of GDP



**2018 is projection of the CBCS.*

As shown in Figure 6, the import coverage dropped from 4.8 months in December 2017 to 4.2 months in November 2018 because of the decline in official reserves combined with higher imports. If corrected for the inflow of funds related to the bond issuances by the governments of Curaçao and Sint Maarten, the import coverage would have been 3.4 months in December 2017 and 2.6 months in November 2018.

Figure 6. Monetary union: development in the import coverage



Monetary developments

Throughout 2018, the Bank kept the reserve requirement, one of its main policy instruments, unchanged at 18.00%. Nevertheless, the amount of required reserves rose as a result of the higher base amount upon which it is calculated. Meanwhile, the Bank continued its policy to gradually reduce the amount of outstanding certificates of deposit (CDs), the other monetary policy instrument. Therefore, at the bi-weekly CD-auctions, the Bank offered a lower amount of CDs than matured, combined with a higher haircut on the interest rate offered. Consequently, by the end of December 2018, there will be no outstanding CDs anymore and the auctions will be temporarily suspended.

In addition, on March 27, 2018, the Bank increased its official interest rate, the pledging rate, from 1.50% to 2.00%. This was the second increase since the historical low level of 1.00% that was effective from December 29, 2008. The previous increase took place on March 20, 2017. The Bank took this step following the upward adjustments in the federal funds rate and its impact on international interest rates and, hence, domestic money market rates.

Up to October 2018, loans extended to the private sector contracted by 0.8% on an annual basis in the monetary union. In Curaçao, total loans dropped by 0.1%, the result of contractions in outstanding mortgages (-2.7%), and the "other" loan category (-7.4%). By contrast, business loans (1.6%) and consumer loans (0.4%) increased. In Sint Maarten, private credit extension dropped by 2.6% due to declines in mortgages (-1.6%), business loans (-7.9%) and the "other" loan category (-24.7%), moderated by an increase in consumer loans (3.5%).

Outlook 2019

The deficit on the current account of the balance of payments will increase further in 2019 as a result of a worsening of the income and current transfers balances. The worsening of the income balance will be caused by an increase of interest income paid to abroad while interest income received from abroad will remain about the same. Meanwhile, net current transfers into the monetary union are projected to drop due to a lower inflow of funds related to the claims of local insurance companies to pay their clients in Sint Maarten whose insured properties were

damaged by Hurricane Irma in 2017. By contrast, the net export of goods and services is projected to increase because of a rise in exports, moderated by higher imports. The rise in exports will be driven by more foreign exchange earnings from tourism activities in both Curaçao and Sint Maarten. Furthermore, foreign exchange receipts from air transportation services and ship repair activities will go up. However, a decline in the foreign exchange revenues from refining and bunkering activities in Curaçao will moderate the growth in exports. The higher imports will largely be caused by the reconstruction activities in Sint Maarten. However, a decline in the import of construction services in Curaçao because of the completion of the construction of the hospital and lower oil imports due to a projected decline in the average international oil prices, will moderate the increase in imports.

Capital transfers into the monetary union are projected to increase in 2019 because of the inflow of financial aid from the Netherlands through the World Bank for the reconstruction of Sint Maarten. As the external financing and capital transfers will be insufficient to cover the deficit on the current account in 2019, gross official reserves will drop further but the import coverage will remain well above the target of 3 months.

APPENDIX

Table 1. Economic key figures Curaçao
(in millions NAf.)

	2015	2016	2017	2018*	2019*
Real economy					
GDP	5,641.9	5,587.4	5,581.8	5,609.7	5,755.6
Nominal growth	-0.2%	-1.0%	-0.1%	0.5%	2.6%
Real growth	0.3%	-1.0%	-1.7%	-1.9%	0.4%
Inflation	-0.5%	0.0%	1.6%	2.4%	2.2%
Public finances					
Budget balance (cash basis)	12.4	15.9	-116.8	27.5	21.5
% GDP	0.2%	0.3%	-2.1%	0.5%	0.4%
Public debt	2,495.5	2,545.3	2,805.5	2,873.1	3,004.5
% GDP	44.2%	45.6%	50.3%	51.2%	52.2%
Domestic	253.2	257.1	459.2	535.0	
% GDP	4.5%	4.6%	8.2%	9.5%	
Foreign	2,242.3	2,288.3	2,346.3	2,338.1	
% GDP	39.7%	41.0%	42.0%	41.7%	
Monetary					
Private credit extension (annualized growth) **	-1.3%	-1.1%	2.4%	-0.1%	
Consumer loans	-3.0%	1.6%	4.5%	0.4%	
Mortgages	-2.4%	-1.4%	-1.7%	-1.7%	
Business loans	1.3%	-2.9%	7.6%	1.6%	
Other	-	8.7%	-18.6%	-7.4%	

* Projection CBCS
** 2016 compares December vis-à-vis July and 2018 is annualized per October.

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

	2015	2016	2017	2018*	2019*
Real economy					
GDP	1,904.4	1,913.9	1,864.1	1,763.5	1,848.1
Nominal growth	0.7%	0.5%	-2.6%	-5.4%	4.8%
Real growth	0.4%	0.4%	-4.8%	-8.1%	2.3%
Inflation	0.3%	0.1%	2.2%	2.7%	2.5%
Public finances					
Budget balance (cash basis)	-18.4	26.4	-72.4	-144.4	-88.4
% GDP	-1.0%	1.4%	-3.9%	-8.2%	-4.8%
Public debt	691.7	650.8	607.3	739.9	746.7
% GDP	36.3%	34.0%	32.6%	42.0%	40.7%
Domestic	191.5	151.5	87.4	170.0	
% GDP	10.1%	7.9%	4.7%	9.6%	
Foreign	500.3	499.3	519.9	569.9	
% GDP	26.3%	26.1%	27.9%	32.3%	
Monetary					
Private credit extension (annualized growth)**	1.7%	1.3%	-1.6%	-2.6%	
Consumer loans	-1.2%	7.0%	0.1%	3.5%	
Mortgages	0.0%	0.9%	-1.7%	-1.6%	
Business loans	6.2%	1.4%	-3.1%	-7.9%	
Other	-	-51.4%	37.7%	-24.7%	

* Projection CBCS
** 2016 compares December vis-à-vis July and 2018 is annualized per October.

Table 3. Economic key figures monetary union
(in millions NAf.)

	2015	2016	2017	2018*	2019*
Balance of payments					
Current account	-887.4	-1,080.8	-1,120.3	-1,491.5	-1,806.3
Capital account	-7.1	3.0	-2.7	16.4	192.9
External financing	804.2	1,183.8	1,004.5	1,003.3	1,348.1
Direct investments	*278.3*	*241.0*	*628.8*	*30.4*	*308.2*
Loans and credits	*-62.4*	*569.7*	*52.7*	*939.4*	*1,174.8*
Portfolio investments	*588.2*	*373.2*	*323.1*	*33.5*	*-134.8*
Change in reserves[1)]	-27.8	-187.5	17.6	350.8	90.0
Statistical discrepancies	118.1	81.5	100.9	121.1	175.2
Import coverage (average, in months)	4.9	5.1	5.0	4.5	3.9
Monetary					
Private credit extension** (annualized growth)	-0.5%	-0.5%	1.4%	-0.8%	

* Projection CBCS
** 2016 compares December vis-à-vis July and 2018 is annualized per October.
[1)] A negative sign means an increase; excluding gold.