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 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 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 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 2018. 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 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. Air transportation 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 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 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.

DEVELOPMENTS IN THE PUBLIC FINANCES

The government of Sint Maarten recorded a deficit of NAf.43.9 million[1] on its current budget during the first half of 2018, a turnaround compared to the NAf.71.7 million[2] surplus registered in the first half of 2017. This fiscal worsening was the result of a marked decline in government revenues combined with higher expenditures. Revenues dropped by NAf.89.3 million during the first six months of 2018 due mainly to lower tax revenues. Tax revenues dropped in every category with the declines in profit tax and turnover tax being the most pronounced. In addition, the category "other revenues" went back to its normal level after the transitory high amount in the first half of 2017 because the government temporarily recorded several income items on the "other revenues" account.[3] Furthermore, the income from concessions and fees dropped because the revenues from several government-owned companies, such as the utilities company GEBE, declined considerably following Hurricane Irma putting their cashflow under pressure.

The increase in expenditures of NAf.26.3 million was driven by more outlays on goods & services, wages & salaries, and social security. The higher outlays on goods & services reflect increased expenditures for the cleanup and reconstruction of Sint Maarten following Hurricane Irma. Meanwhile, the disbursements on wages & salaries rose due to, among other things, the hiring of more border protection personnel. Finally, the higher spending on social security was ascribable primarily to the increase by 35% in the Sint Maarten Medical Center (SMMC) tariffs.[4]

Sint Maarten's total outstanding public debt rose by NAf.37.6 million, reaching NAf.644.9 million at the end of 2018's second quarter compared to the end of 2017. The higher public debt was due to an increase in the foreign debt component as the government received a NAf.50.0 million zero-interest loan for liquidity support from the Dutch State in March 2018. By contrast, the domestic debt component dropped as the government settled part of its outstanding arrears towards the Social & Health Insurances Agency, SZV. Hence, Sint

[1] Source: Financiële Concernrapportage/ Uitvoeringsrapportage, eerste kwartaal 2018 and Financiële Concernrapportage/Uitvoeringsrapportage, tweede kwartaal 2018 of the government of Sint Maarten.

[2] Source: Financiële Concernrapportage/ Uitvoeringsrapportage, eerste kwartaal 2017 and Financiële Concernrapportage/Uitvoeringsrapportage, tweede kwartaal 2017 of the government of Sint Maarten.

[3] The government made these bookings due to the IT-problems faced in 2017. Thereafter, these amounts were transferred to their proper revenue accounts.

[4] Pending a ministerial decree regarding the adjustment of the SMMC tariffs, the government included this adjustment in the social security expenditures in the current budget as the government will be charged higher tariffs by the Social & Health Insurance Agency (SZV) for the health care costs of (retired) government workers.

Maarten's debt-to-GDP ratio rose from 32.6% at the end of 2017 to 36.6% at the end of June 2018.

DEVELOPMENTS IN THE BALANCE OF PAYMENTS

The deficit on the current account of the balance of payments widened by NAf.262.6 million in the first half of 2018 compared to the first half of 2017 as a result of a large drop in the net export of goods and services. In addition, the income balance deteriorated while the current transfers balance improved. As the external financing into the monetary union was more than sufficient to cover the current account deficit, the gross official reserves of the Bank grew by NAf.61.8 million in the first six months of 2018, a turnaround compared to the NAf.51.3 million drop in the first six months of 2017. The average import coverage shrank from 5.0 months in 2017's first two quarters to 4.7 months in 2018's first two quarters, caused by a considerable increase in imports.

In Sint Maarten, net foreign demand dropped due to significantly lower exports mitigated by a decline in imports. The large drop in exports resulted mainly from a decline in both stay-over and cruise tourism, and fewer transportation activities following the passing of Hurricane Irma in September 2017 that caused enormous damage to the tourism and transportation infrastructure. Also, foreign exchange receipts from business services provided to abroad, especially related to real estate and transportation, contracted.

Imports dropped mainly because oil imports fell due to lower volumes of fuel purchased from abroad, reflecting mainly reduced electricity production. In addition, transportation and tourism expenditures abroad by residents shrank. However, non-oil merchandise imports by the construction, hotels & restaurants, real estate, and transportation sectors increased and foreign exchange expenses for business services were up. These increases can be attributed to the reconstruction activities following the hurricane.

The deficit on the income balance of the monetary union widened by NAf.9.0 million because the decline in dividend and interest income earned from abroad exceeded the drop in dividend and interest paid to foreign investors.

Meanwhile, net current transfers into the monetary union rose by NAf.479.2 million mostly because of an increase in transfers received from reinsurers abroad. This increase stemmed largely from 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.

External financing into the monetary union rose as reflected by a worsening of the portfolio investment and loans &

credits balances. In contrast, the direct investment balance improved. The portfolio investment balance deteriorated largely because of funds received from matured foreign debt securities held by institutional investors that were not 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 deterioration of the net trade credit balance and an increase in nonresidents' deposits, mitigated by an increase in residents' foreign deposits. Net direct investments into the monetary union dropped because of increased claims of domestic direct investors on their foreign subsidiaries. Also, liabilities of domestic companies towards their foreign affiliates dropped.

MONETARY DEVELOPMENTS

During 2018, the Bank kept the reserve requirement, one of its monetary policy instruments, unchanged at 18.00%.[5] Nevertheless, the amount of required reserves rose by NAf.27.6 million up to November 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 by 0.50 percentage point. These increases followed after the upward adjustments of the federal funds rate, its impact on the international interest rates and, hence, the domestic money market rates.

During 2018, the Bank continued to gradually reduce the amount of outstanding certificates of deposit (CDs)[6]. Consequently, the amount of outstanding CDs dropped from NAf.160.8 million at the end of December 2017 to NAf.8.0 million at the end of November 2018.

The current account balances of the commercial banks at the Bank were NAf.14.3 million higher at the end of November 2018 compared to December 2017.

Up to the third quarter of 2018, broad money contracted by 0.3% due to a decrease in net domestic assets while net foreign assets increased.

Credit extension to the private sector developed rather sluggish in 2018. On an annual basis, private credit extension in the monetary union dropped by 1.2% in September 2018. Outstanding loans in both Curaçao and Sint Maarten declined by 0.9% and 2.0%, respectively. The contraction in Sint Maarten was the result of declines in mortgages (-1.9%), business loans (-4.9%) and in the "other loans" category (-30.2%), moderated by an increase in consumer loans (3.6%).

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 2.00 - 2.25%.
- On November 30, 2018, the 1M USD Libor rate stood at 2.35% while the 3M USD Libor was 2.74%.
- Auctioning of CDs: the amount

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

[6] *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.*

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.

- For the November – December 2018 period, the reserve requirement percentage remained unchanged at 18.00% and the outstanding amount was NAf. 1,314.4 million.
- The pledging rate stands at 2.00% since March 27, 2018.

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	Nov 30, 2018
Current account balance commercial banks	231.2	388.5	490.7	500.4	817.7	832.0

OUTLOOK FOR 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.[7] 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 non-economic 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 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 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 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.[8]

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, 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

[7] *IMF World Economic Outlook, October 2018.*

[8] *IMF World Economic Outlook, October 2018.*

in Sint Maarten's main tourism 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.

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	-1,491.5
Capital transfers	-7.1	3.0	-2.7	16.4
External financing	804.2	1,183.8	1,004.5	1,003.3
Direct investments	278.3	241.0	628.8	30.4
Loans and credits	-62.4	569.7	52.7	939.4
Portfolio investments	588.2	373.2	323.1	33.5
Change in reserves	-27.8	-187.5	17.6	350.8
Net errors and omissions	118.1	81.5	100.9	121.1
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.

	2014	2015	2016	2017
Monetary survey (monetary union)				
Net domestic credit	3,744.1	4,156.2	4,161.0	-
Net domestic credit to government	-429.3	-670.2	-597.4	-
Net domestic credit to private sector	6,148.3	6,627.9	6,683.8	-
Miscellaneous	-1,974.8	-1,801.5	-1,925.4	-
Net foreign assets	4,041.8	3,973.9	4,528.0	-
Money supply	7,785.9	8,130.2	8,689.0	-
Annual growth in private sector loans[2]	1.7%	1.3%	-1.6%	-2.0%
Mortgages	0.0%	0.9%	-1.7%	-1.9%
Consumer loans	-1.2%	7.0%	0.1%	3.6%
Business loans	6.2%	1.4%	-3.1%	-4.9%
Other	-	-51.4%	37.7%	-30.2%

[2] *2016 refers to July – December 2018 and 2018 refers to September (annualized).*

Table 3 Economic key figures 2018

	Curaçao	Sint Maarten	Monetary Union
Real GDP growth (% change)	-1.9	-8.1	-3.5
Inflation (% change)	2.4	2.7	2.5

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.)

	May-18	Jun-18	Jul-18	Aug-18	Sep-18
Money supply (M2)	8,765.9	8,922.0	8,844.6	8,685.5	8,660.4
Money (M1)	4,404.3	4,556.6	4,489.4	4,354.9	4,339.1
Coins & notes with the public	366.8	383.6	377.9	371.6	359.5
Total demand deposits, of which:	4,037.6	4,172.9	4,111.5	3,983.3	3,979.6
Netherlands Antillean guilders	2,680.9	2,832.2	2,781.4	2,628.5	2,618.6
Foreign currency	1,356.7	1,340.8	1,330.1	1,354.8	1,361.0
Near money	4,361.5	4,365.5	4,355.2	4,330.6	4,321.3
Time deposits	1,978.9	1,955.5	1,950.7	1,932.0	1,902.2
Savings	2,382.6	2,410.0	2,404.5	2,398.6	2,419.1
Factors affecting the money supply					
Net domestic assets	3,571.9	3,661.3	3,657.9	3,504.1	3,571.8
Government sector	-532.9	-479.4	-466.1	-460.0	-421.9
Former central government	-12.0	-12.0	-12.0	-13.5	-12.1
Curaçao	-385.9	-349.0	-331.2	-324.0	-313.2
Sint Maarten	-135.0	-118.4	-122.9	-122.5	-96.6
Private sector	6,606.8	6,620.7	6,604.2	6,609.4	6,651.1
Memorandum items	-2,502.0	-2,479.9	-2,480.1	-2,645.3	-2,657.4
Net foreign assets	5,193.9	5,260.6	5,186.6	5,181.4	5,088.6
Central bank	3,366.3	3,362.8	3,304.1	2,958.9	2,841.3
Commercial banks	1,827.6	1,897.9	1,882.5	2,222.4	2,247.3

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

	May-18	Jun-18	Jul-18	Aug-18	Sep-18
Government loans by commercial banks	12.8	17.5	13.8	15.6	18.1
Government of Curaçao	0.3	3.8	0.5	1.6	3.5
Government of Sint Maarten	12.5	13.8	13.4	14.1	14.5
Private sector loans Curaçao	4,555.6	4,575.5	4,562.3	4,562.2	4,585.1
Mortgages	1,830.3	1,801.4	1,853.2	1,829.1	1,816.5
Consumer loans	896.8	925.7	878.2	903.1	916.7
Business loans	1,739.3	1,757.8	1,745.4	1,742.2	1,762.5
Other	89.3	90.6	85.5	87.9	89.3
Private sector loans Sint Maarten	1,487.8	1,487.9	1,484.1	1,487.8	1,494.2
Mortgages	868.6	869.3	870.5	879.0	876.7
Consumer loans	237.5	237.3	235.9	235.9	234.0
Business loans	376.1	375.9	372.1	367.5	378.2
Other	5.7	5.4	5.7	5.5	5.3

Table 6 Monetary sector growth rates

	2017-III	2017-IV	2018-I	2018-II	2018-III
Money supply (M2)	3.2%	1.6%	2.6%	0.1%	-2.9%
Demand deposits					
N.A. guilders	10.2%	1.0%	4.6%	1.8%	-7.5%
Foreign currency	9.3%	8.5%	10.2%	-3.9%	1.5%
Near money					
Time deposits	-3.2%	-6.5%	-5.7%	2.8%	-2.7%
Saving deposits	-0.1%	6.1%	4.2%	-1.9%	0.4%