INTERNATIONAL MONETARY FUND

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KINGDOM OF THE NETHERLANDS—CURAÇAO AND SINT MAARTEN

August 2014

2014 ARTICLE IV CONSULTATION DISCUSSIONS—STAFF REPORT AND PRESS RELEASE

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2014 Article IV consultation discussions with the Kingdom of the Netherlands—Curaçao and Sint Maarten, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 30, 2014, following discussions that ended on May 19, 2014, with the officials of the Kingdom of the Netherlands—Curaçao and Sint Maarten on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 11, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Debt Sustainability Analysis** prepared by the IMF.
- A **Press Release**

The publication policy for staff reports and other documents allows for the deletion of market-sensitive information.

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KINGDOM OF THE NETHERLANDS—CURAÇAO AND SINT MAARTEN

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION DISCUSSIONS

July 11, 2014

KEY ISSUES

Context: The union's current account deficit—the key economic vulnerability flagged in the previous (2011) consultation—has declined over the past few years, including thanks to fiscal adjustment in Curaçao. But it remains large. Curaçao's growth and job creation remain lackluster, due to weak competitiveness, adverse sectoral trends (e.g., in the international financial center), red tape, and rigid labor laws. Sint Maarten's tourism-based economy is recovering but remains vulnerable to shocks and suffers from weak administrative capacity—as underscored, for example, by weakening tax collection.

Risks: Both Curaçao and, especially, Sint Maarten are exposed to shifts in tourism demand. Curaçao is vulnerable to the uncertain situation in Venezuela, its main trading partner. If long-discussed flexibility- and competitiveness-enhancing structural reforms are not implemented, both countries' capacity to absorb shocks may prove limited, and pressures on FX reserves and, ultimately, the peg may intensify.

Policy recommendations: Fiscal policies should entrench recent gains to facilitate continued external adjustment (especially in Curaçao) and build buffers against shocks. Curaçao should extend the reform of its pension system to public sector workers, further streamline its administrative apparatus, and address weak governance and finances in state companies. Sint Maarten needs to increase revenues to support an expanding administration, including through stronger tax collection and greater contribution from its profitable state companies. The common central bank must monitor closely the deterioration in banks' loan portfolios and refrain from direct financing of non-financial companies. It should also use more standard sterilization tools to control banks' excess liquidity. Urgent action is required to lower the cost of doing business and remove pervasive disincentives to both supply and demand of labor.

Approved By
Ranjit Teja and Bob Traa

Discussions took place in Willemstad (May 6-12 and May 19) and Philipsburg (May 13-19). The staff team comprised Messrs. Lombardo (head), Winnekens (both EUR), and Quayyum (FIN). Messrs Mosch and Snel (OED) participated, respectively, in all (Mosch)/the key policy (Snel) meetings. In Curaçao the mission met with Central Bank of Curaçao and Sint Maarten's President Tromp, Prime Minister Asjes, Finance Minister Jardim, Minister of Economic Development Palm, other senior officials, and financial and industry representatives. In Sint Maarten, the mission met with Prime Minister Wescot-Williams, Finance Minister Hassink, Minister of Tourism, Economic Affairs, Traffic and Telecommunication Richardson, other members of the Cabinet, senior officials, and financial, industry and union representatives.

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INTRODUCTION

1. **Curaçao and Sint Maarten share many similarities but also important differences.** Both are small open island economies but, while Sint Maarten's economy is essentially tourism-based, Curaçao's is more diversified, featuring also an international financial center (IFC), a transshipment port, a dry dock, and the oil refinery. Trading partners are also different: Sint Maarten relies mostly on tourists from the US and Europe, while Curaçao has important trade and tourism links also with close-by Venezuela and Latin America. Having been established as autonomous countries (out of the dissolution of the Netherlands Antilles) as recently as late 2010, both need to right-size and increase the effectiveness of their administrations. But while Curaçao needs to extract efficiency gains from merging the two pre-existing levels of governments (the Netherlands Antilles' central government and Curaçao's island government), Sint Maarten needs to *expand* its capacity to perform some of the functions previously carried out by the Netherlands Antilles' central government.

2. **Both countries face many of the challenges of other Caribbean islands** (Figure 1), especially in terms of boosting growth while safeguarding external stability. This is particularly the case for Curaçao, which has trailed its regional peers at least since the early 2000s. Sint Maarten has done better, benefiting from a boom in cruise tourism which, however, may face diminishing returns and could also adversely impact the quality and appeal of stay-over tourism. On the plus side, both countries' public debt is low, thanks to the 2010 debt relief, whereby the Netherlands took over all the Netherlands Antilles' outstanding public debt in exchange for a significantly smaller amount of very long-term/low-cost debt issued by the two new countries.

3. **Against these challenges, staff's advice is predicated on an analytical framework based on the fixed exchange rate.** Curaçao and Sint Maarten form a currency union, whose currency—the Netherlands Antilles Florin, or *guilder* (NA.f)—has been pegged to the US dollar at 1.79 since 1971. Since the dissolution of the Netherlands Antilles, there has been some debate whether the two countries should keep the currency union (the two island nations are far apart—over 550 miles—and trade between them is limited). This debate, partly economic and partly political, appears to have subsided of late in favor of the *status quo*. But even if, in consideration of their economic differences and geographic distance, the two countries were in the future to decide to adopt separate monetary arrangements, they would still be best served by a fixed exchange rate regime, given their small open economies. Such a regime helps by preventing unnecessary exchange rate uncertainty, but it also affords very limited scope for active monetary policy. It thus puts a premium on creating and keeping fiscal buffers, and requires maintaining competitiveness and flexibility primarily via structural reforms.

4. **Major data gaps hamper effective macro-economic analysis and surveillance**. National account data are produced only with very long lags. In Curaçao, there is no official breakdown for

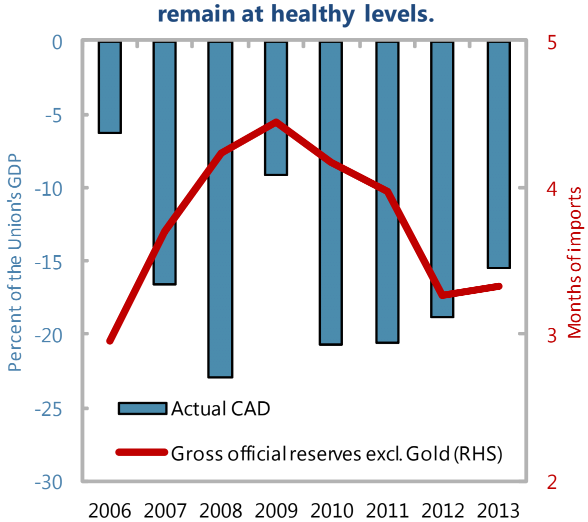
GDP into its demand components after 2009, while for Sint Maarten there are nominal series, but these often seem difficult to reconcile with all the available information.[1] Balance of payments data for the union as a whole are not consistent with those for the two component countries, and there are no data on the two countries' international investment position—a key input in the assessment of the sustainability of the union's external position.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

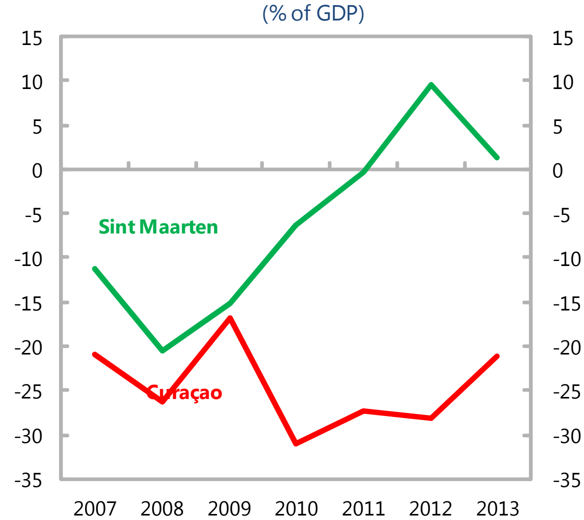
A. Recent Economic Developments

5. **The union's current account deficit has declined since the last Article IV Consultation discussions in 2011, but remains a source of vulnerability.** In part this improvement reflects tightened monetary and, especially, fiscal policies in line with staff advice (Annex I). Curaçao's fiscal adjustment, in particular, appears to have triggered a significant retrenchment in private domestic demand—as witnessed, for example, in the imports of cars, which declined by 12 percent in 2013 after growing by 18 percent over the previous 3 years (Figure 2). At 16 percent of GDP, the current account deficit remains large (see left chart below), pointing to lingering competitiveness issues (Box). Individual country data, which the Central Bank of Curaçao and Sint Maarten (CBCS) however cautions are likely incomplete, suggest that the deficit stems from Curaçao (right chart below). Despite double-digit deficits, there have been no pressures on the *guilder* and the union's international reserves have consistently met the CBCS' objectives in terms of coverage of imports of goods and services, reflecting strong capital inflows. However, these inflows are adding to net external debt, as non-debt creating FDI have averaged a modest 2 percent of GDP over 2009-13 (see Debt Sustainability Analysis, DSA).

The CAD is receding from its peak and reserves remain at healthy levels.



The CAD in the two countries diverged
(% of GDP)



Sources: CBCS, and IMF Staff calculations. For 2009 the low current account deficit reflects debt-relief inflows.

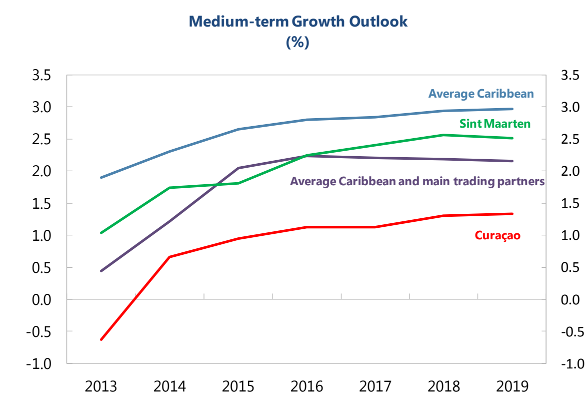
[1] For example, official data, which use CPI as deflator, show only a shallow decline in real GDP in the wake of the 2009 global crisis, despite sharp drops in both cruise (10 percent) and stay-over (7 percent) tourist arrivals.

6. **Growth has remained lackluster in Curaçao, while a recovery from the global recession appears underway in Sint Maarten.** Curaçao's real GDP is estimated to have contracted by about ½ percent on average per year over 2011-13, reflecting—in addition to long-standing structural weaknesses (discussed below)—the continued decline in the IFC, the slow global recovery, and necessary fiscal adjustment in 2012-13. After contracting by an estimated 1¾ in 2011, Sint Maarten's real GDP is estimated to have grown by an average of 1¼ percent over 2012-13, benefiting from the ongoing recovery in the US (which accounts for 60 percent of its tourists) and the construction of the Simpson Bay causeway. Private investment spending has reportedly remained subdued, including as a result of policy uncertainty (Sint Maarten has had three governments in the past three years and new elections are scheduled for August 2014).

B. Outlook and Risks

7. **The improving global outlook is expected to support activity in the near term.** Increasing tourism expenditure would boost activity in both countries, and especially in Sint Maarten, which could grow by about 2 percent, given the much larger share of tourism in its GDP. Curaçao may revert to positive growth (about ½ percent) this year if the planned construction of a new hospital starts without further delay.

8. **Growth should accelerate in the medium term, especially if structural bottlenecks are finally addressed**. Curaçao could grow by around 1-1¼ percent as the decline in the IFC bottoms out, the tourism sector continues to expand, and a sizeable pipeline of budgeted large public infrastructure projects is implemented. Sint Maarten could grow by around 2½ percent in the medium term, based on current projections for growth in demand of the tourist origin countries. Faster and sustained long-run growth would require structural reforms that enhance both countries' competitiveness and flexibility (see page 12).



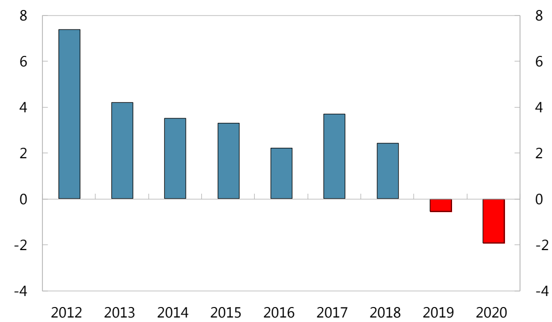
Sources: IMF WEO; and staff projections.

9. **Risks are tilted towards the downside, especially for Curaçao (see Risk Assessment Matrix, RAM)**. Both countries would be affected if the euro area recovery proves weaker than anticipated, for example as a result of recent geopolitical tensions. Further disruption of economic activity in Venezuela might affect Curaçao's ability to raise funds for the necessary upgrade of the Isla refinery in time for the expiration of the current lease to PdVSA in 2019. Failure to overcome its institutional gaps could weigh on Sint Maarten's growth potential. An orderly normalization of US interest rates would lead to some capital outflows and pressures on the union's international reserves, but should be otherwise manageable in light of the banks' ample liquidity (see below) and the two governments' access to low-cost funding from the Netherlands. If US rates increase more rapidly, however, pressures on international reserves could prove more intense (as incentives to circumvent existing capital controls and bring money out of the country would increase) and may

require a sharp policy tightening, resulting in weaker growth. Upside risks, on the other hand, stem primarily from stronger than expected growth in the US and Europe and earlier and larger than expected benefits from ongoing attempts at diversification (catering tourism to faster-growing developing markets in Asia and Latin America, a revitalization of the dry dock and the ship repair business, or new activities such as Curaçao's new data center for cloud computing).

10. **The peg appears solid but over time could come under pressure if competitiveness- and flexibility-enhancing reforms are not implemented.** Curaçao's (and the union's) current account deficit is expected to continue to decline steadily, reflecting rebounding external demand, coupled with slightly declining oil and food prices and still subdued private domestic demand (Figure 2). It is essential, however, that this improvement is supported by reforms boosting both countries' competitiveness and their capacity to adjust to shocks, since pressures on international reserves can be expected to increase over time. In particular, the debt-relief related inflows, which have thus far provided significant support to international reserves, are slated to decline gradually over the next few years and to turn into outright net outflows in 2019 (see chart to the right), as the debt issued by Curaçao and Sint Maarten as partial offset for the debt relief begins to mature. In 2019 the lease of Curaçao's oil refinery to Venezuela—which currently accounts for some 16 percent of FX income—is also set to expire, as are some preferential tax treatments for companies in Curaçao's IFC (another major source of FX for the union).

Flows from the Netherlands' debt relief will reverse in 2019
(% of Union's GDP)



Sources: CBCS; and IMF staff calculations.

REDUCING VULNERABILITIES AND CREATING BUFFERS

Macroeconomic policies should be steered towards supporting continued external adjustment (especially in Curaçao) and creating fiscal buffers to deal with possible shocks.

A. Fiscal Policy

Background

11. **As a quid-pro quo for the 2010 debt relief, both countries agreed to a rule-based fiscal framework.** This consists of a "golden rule" (i.e., borrowing only for investment) and an "interest burden rule" (i.e., a cap on the ratio of debt service to revenue). Compliance with these rules is assessed by the Netherlands-headed Council for Financial Oversight (CFT in Dutch). Only once the CFT ascertains compliance does it permit borrowing, in which case the Dutch treasury stands ready to offer financing at long maturities and its own borrowing rates.

12. **Initially both countries failed to comply with the requirements of the framework**, because their budgets were not consistent with a current balance from a multi-annual perspective and/or because of deep procedural flaws (e.g. Sint Maarten's budgets for 2011, 2012 and 2013 were approved by Parliament only very late in the year or even after the year's completion). This led the CFT to issue a series of advices/warnings and, eventually, injunctions for remedial measures to both the government of Curaçao (mid-2012) and of Sint Maarten (September 2013).

13. **More recently, however, the framework has gained traction and helped steer both countries' fiscal policies in the right direction:**

- **Curaçao has put its public finances on a sustainable footing, including by addressing decisively its age-related fiscal pressures.** Following the CFT injunction, Curaçao reformed the basic pension system by increasing the general retirement age from 60 to 65 (with very limited grandfathering and a short transition period) and overhauled the health care system by (i) introducing a basic medical insurance scheme (now covering some 80 percent of the population), (ii) raising premiums by 2.9 percent, and (iii) lowering the medicine bill by some 16 percent (by favoring generics and changing the co-pay system). The authorities also embarked on an ambitious plan to gradually decrease the number of public servants from around 4200 (in 2011) to a target of 3350 in 2017, to exploit the scope for synergies and streamlining from the merger of the former Netherlands Antilles government and the Curaçao island government. The fiscal adjustment was completed on the revenue side by the introduction of an additional sales tax category of 9 percent for luxury goods and an overhaul of the property tax, including to increase its progressivity. In its 2013 annual report, the CFT estimates that this adjustment improved Curaçao's long term fiscal position by some 10 percent of GDP, relative to a no-policy change scenario.

- **Sint Maarten has brought its current budget in balance in the context of the 2014 budget, and achieved some improvement in its financial management.** Faced with the daunting task of setting up a new administration, Sint Maarten initially needed some correction to achieve the current balance, even though it benefited from more benign demographics.[2] The government increased the turnover tax rate (from 3 to 5 percent) in 2011, shifted its share of the health insurance premiums onto the employees, and tried to reign in the wage bill (by freezing bonuses and the cost of living adjustment in 2013) and expenditures on subsidies. The 2014 budget was also approved by Parliament in January of this year, which—while still not quite timely—represented a major improvement over previous years' processes.

14. **These improvements have allowed the CFT to certify compliance with the framework** and paved the way for significant borrowing by both countries from the "standing subscription" window offered by the Dutch treasury. In 2014, Curaçao plans to borrow some NA.f 436 million

[2] In 2001, population aged 20-59 was 8 times larger than that aged 60+ in Sint Maarten, but only 3 times in Curaçao.

(8 percent of GDP) to pre-finance the entire cost of the construction of a new hospital. Sint Maarten plans to borrow NAf143 million (8 percent of GDP), to finance planned investment (including the purchase of a new government building, which has laid incomplete and unused for many years) and to replenish its bank deposits, which were run down over the last three years when the government was not allowed to borrow by the CFT.

Staff's Views

15. **Both countries should entrench recent gains and overperform on the balanced current budget rule to build fiscal buffers.** The current fiscal framework is beneficial for both countries, as it gives them access to an independent auditor and very cheap funding. However, since the current level of low borrowing costs cannot be taken for granted, the interest burden rule does not provide a sufficiently conservative benchmark to ensure continued debt sustainability. Thus both countries should aim at maintaining current surpluses in the order of ¾-1 percent of GDP over the medium-term. Based on current investment plans, this would ensure that public debt peaks under the baseline at about 37 percent of GDP in Curaçao and 32 percent of GDP in Sint Maarten (see DSA), thus creating the fiscal space that both countries need, given their vulnerability to sizeable shocks in the future (e.g., the renovation/clean-up of the refinery in Curaçao, or a weather-related shock to Sint Maarten). It is also important to ensure that public investments have a sufficiently high internal social return, irrespective of how low the costs of borrowing might be.

16. **Curaçao must extend the 2013 reform of the old age pension to the public sector workers' pension system in a timely manner**, given the latter's fast deteriorating financial position.[3] Sint Maarten's needs in this area are less pressing, given its younger population.[4] Nevertheless its government has appropriately set out to increase the general retirement age to 62, with a motion to this effect currently in Parliament. Considering foreseeable demographic pressures, a further gradual increase of the retirement age to 65 could be considered.

17. **Sint Maarten needs to strengthen tax collection.** This is essential to sustain the necessary expansion of the administration in line with its increased responsibilities post-autonomy. Yet revenue, which stands at only 18.5 percent of GDP, compared to over 21 percent of GDP for other Caribbean countries, failed to keep pace with economic growth in the past few years. To tackle this apparent decline in tax compliance, the tax administration needs more suitably trained tax inspectors and administrators. Synergies could also be exploited with the strong collection efforts of social funds.

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[3] The pension fund APC reports that its coverage ratio, which is currently just below 100 percent, would deteriorate by some 20 percent over the next 15 years with unchanged policies.

[4] Sint Maarten's general basic pension fund is actually accumulating surpluses, because the system is based on the demographics of the former Netherlands Antilles, whereas Sint Maarten has a much younger population. On this basis the government has recently increased the pension *level,* as recommended by Sint Maarten's Social and Economic Council. Even with this higher benefit level, the fund is projected to continue accumulating surpluses until 2020 with a pension age of 62 (2032 if the pension age is increased to 65).

18. **Transparency and oversight of SOEs need to be improved and a clear dividend policy established.** There is an obvious tension between keeping state-owned enterprises (SOEs) at arm's-length, thus minimizing undue political interference, and ensuring that they maximize the interest of the public shareholder. Some SOEs have in practice soft budget constraints, and translate their accumulated inefficiencies and above-market wages into higher costs of doing business for the rest of the economy (e.g., Curaçao's Aqualectra). Even when they are profitable, in the absence of a solid governance framework, SOEs might gear their operations towards maximizing their own short-term profits, including by minimizing their contribution to the public budget (this is, for example, the case for Sint Maarten's airport and harbor companies). Therefore, the governance of SOEs must be improved, including—as a start—by ensuring the timely availability of reliable financial statements and establishing a clear dividend policy.

19. **A further shift from direct to indirect taxation in the medium term would be desirable.** To boost competitiveness, both countries should consider a further and gradual shift of taxes from income to consumption, along the lines of the 2009 FAD technical assistance, and replace the existing turnover tax—with its negative cascading effects—with a value-added tax (VAT). This has served well many other Caribbean countries.[5]

Authorities' Views

20. **Authorities in both countries agreed with the need to create fiscal buffers and strengthen their medium-term fiscal position:**

- In **Curaçao**, they emphasized that negotiations on pension reform with public sector unions are ongoing, and that they see scope for further expenditure savings.[6] They acknowledged that SOEs' continued financial woes, despite the greater and timelier pass-through of their input costs to retail prices, imply that more work is needed in this key area, which has important implications for the economy's overall efficiency and competitiveness.

- In **Sint Maarten**, they intend to strengthen tax administration by deploying new IT systems and additional tax inspectors, and centralizing the tax office. They also expect to enhance administrative effectiveness (and generate some savings) by moving most government departments into the new building. Finally, they see merits in staff's suggestion to introduce a further gradual increase of the retirement age to 65 in the draft pension reform bill, and pledged to consider it carefully.

[5] Cebotari, Aliona, et al, 2013, "Enhancing Fiscal Revenue," in *The Eastern Caribbean Currency Union: Macroeconomics and Financial Systems*, ed. by Alfred Schipke, Aliona Cebotari, and Nita Thacker (International Monetary Fund).

[6] The authorities expect to save an additional NA.f 130 million by 2017 (about 2 percent of GDP) by cutting personnel expenses (by NA.f 50 million), expenditures on goods and services (by NA.f 50 million), and subsidies (by NA.f 30 million) through such measures as centralizing procurement of goods and moving different ministries to a central government office (to be built).

21. **Both authorities also agreed in principle with the merits of shifting the tax burden towards consumption and away from income.** In Curaçao, however, they indicated that they intend to fully pursue their efficiency-enhancing reforms first, as these might provide scope for an overall reduction of the direct tax burden over time. In Sint Maarten they noted that it is essential to proceed with care, and as much as possible in close coordination with the French side, to avoid any revenue loss from implementation pitfalls, lack of reliable data, and/or tax arbitrage.

B. Financial Sector Policies

Background

22. **Ample bank liquidity has continued to fuel rapid credit expansion, especially in Curaçao, until late 2013** (Figure 3). Absence of government bonds to invest in, low interest rates prevailing abroad, and continued large inflows from the debt relief operation have resulted in ample and growing liquidity for domestic banks, fueling rapid credit growth. When this started to exert pressures on international reserves, the CBCS attempted to induce banks to reduce lending by raising reserve requirements multiple times (to 17.5 percent as of May 2014) and, as from March 2012, by imposing temporary bank-level credit ceilings, which have since been recalibrated and renewed every six months. These measures notwithstanding, credit growth continued unabated in Curaçao until late 2013, when it abruptly turned negative. Since banks kept excess reserves throughout and the ceilings were first not observed and then undershot, it would appear that the slowdown in credit reflects not CBCS measures per se but a reduction in credit demand (likely triggered by the reduction in disposable income from the fiscal adjustment) and a more cautious supply of loans by banks (including because of the acceleration in non-performing loans, NPLs, see below).

23. **Banks still have relatively healthy capital levels, but NPLs are on the rise.** At end-2013, NPLs jumped to 11.9 percent, from 8.6 percent in 2010, and there is a growing concern about asset quality in general. So far, NPLs seem to be concentrated in certain sectors (tourism and air transportation), but there is anecdotal evidence—no hard data—that the sustained growth in mortgages, combined with steady inflows of Dutch retirees and IFC professionals, may have created froth in some segments of the real estate market in Curaçao. As of end 2013, banks report adequate capital (12 percent tier-1 capital ratio) and liquidity (30 percent liquid asset ratio), but one bank has been intervened (reportedly because of the stress caused by a defaulting airline). The situation warrants continued close monitoring by the CBCS.

Staff's Views

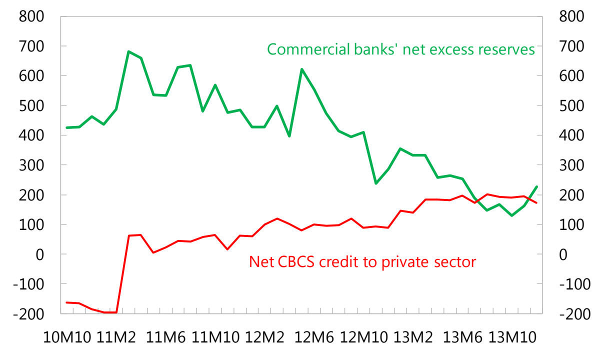
24. **The CBCS is appropriately trying to slow down credit growth, but should do so more consistently and rely on more standard sterilization tools:**

- **Dealing with excess liquidity:** The CBCS should be prepared to pay a higher interest rate on its certificates of deposits even though this would lower its profits. It could also raise reserve requirements further, while simultaneously increasing the interest it charges banks for liquidity. Finally, it could use macro-prudential tools to contain growth of specific types of loans, e.g. reducing maximum loan-to-value ratios to slow down the growth in mortgages. Over time, it should gradually eliminate remaining limits on outward investments by pension funds. This would allow the excess liquidity to flow out of the system gradually, removing distortions on domestic interest rates.

- **Refraining from direct financing of non-financial companies:** While raising reserve requirements and imposing bank-by-bank credit ceilings, the CBCS has continued to provide funding to private corporations and SOEs (the liquidity thus created is now bigger than the banks' excess liquidity which the CBCS is trying to control—chart to the right). This funding is not part of a standard central bank toolkit and moreover is not justified in a situation where the central bank is concerned with *excess* liquidity resulting in overall excessive and subpar lending.

Credit extended by the CBCS created additional liquidity

(NA.f Million)



Sources: CBCS and Fund staff calculations.

Authorities' Views

25. **The authorities agreed with the thrust of the staff advice.** They reported that they do plan to increase reserve requirements further and raise interest rates on their CDs, as needed, as well as to further alleviate over time the restrictions on outward investments by pension funds. On the financing of SOEs, CBCS management indicated that this policy was initially conceived as a way to facilitate the development of a corporate debt market, but that it has since been discontinued and that they intend to divest their holdings of non-financial companies' debt as soon as market conditions allow.

INCREASING FLEXIBILITY, COMPETITIVENESS, AND GROWTH

Increasing growth and resilience to shocks requires dealing with long-standing structural bottlenecks, including stifling red tape and inflexible and dysfunctional labor markets.

Background

26. **Both countries suffer from a rigid labor market and high costs of doing business.** Labor laws are very rigid. For example, laying off workers requires the approval of the labor ministry, even for bankrupt companies. Welfare support for the unemployed is quite generous (for example, in Curaçao it is reportedly roughly equivalent to what one would earn from a minimum wage job once free medical insurance, rent and other subsidies are factored in, and can be received for an

unlimited amount of time). And there are pervasive wage indexation clauses, which can lead wages to diverge from productivity, thus harming competitiveness. Employers in both countries, as well as independent observers, decry a cumbersome permit regime, with unclear procedures and responsibilities, which results in long and unpredictable delays.

27. **These structural weaknesses have been detrimental to economic performance, especially in Curaçao,** whose more diversified economy needs greater scope for reallocation of labor from declining sectors to growing ones. Curaçao's growth has been weaker than its regional peers' since at least the early 2000's (see Figure 1), and unemployment higher (currently at 13 percent). But limited price and labor market flexibility also adversely affect the competitive position of Sint Maarten, as underscored by the recent spell of high inflation, especially vis-à-vis the US, its key source market (see box).

28. **Little progress has been achieved on competitiveness- and flexibility-enhancing reforms since the previous consultations (Annex I):**

- **In Curaçao, many structural bottlenecks appear to have in fact worsened.** The still incomplete merger of the two levels of government in the Netherlands Antilles' structure, for example, has reportedly generated additional uncertainty as to which agencies retain the responsibility for processing business permits and licenses in the new setup. The capacity of the administration to audit and control also appears to have weakened, which is potentially leading to greater abuse of the welfare system.

- **In Sint Maarten, there appears to be more focus on monitoring active job search and to improve training opportunities for unemployed.** But the labor market remains overly regulated, especially when it comes to work permits for foreigners, and receiving permits to open and operate a business still takes a fairly long time.

Staff's Views

29. **Price and labor market flexibility are important avenues through which both economies are expected to adjust to external shocks**, given that the fixed exchange rate regime and the current fiscal framework—both of which have served the countries well—constrain the scope for stabilization policies.

30. **The labor market must be rendered more flexible and dynamic, especially in Curaçao.** Welfare support for unemployed should be limited in time and eligibility requirements (including active job search) enforced vigorously, as Sint Maarten has sought to do. Both countries should render labor dismissal laws more conducive to cyclical shifts in labor demand, so as to raise employment durably, and ease restrictions on hiring foreign workers while enforcing adequate labor conditions, to facilitate FDI and the associated inflow of financial resources and know-how.

31. **The costs of doing business need to be lowered**. In particular, the business licensing and permit regimes should be substantially streamlined. This would also help bringing more activity out

of the shadow economy. Both governments could consider introducing automatic approval for some classes of permits/licenses if they are not processed in a set period of time. The efficiency and governance of public utilities and other SOEs need to be enhanced, to lower direct costs of production and reduce distortions, including in the labor market.

Authorities' Views

32. **The business environment needs to be strengthened.** This is important also to support external adjustment. In Curaçao, the focus is on improving governance and performance of SOEs, and proposals are being considered to speed up license and permit procedures by tasking the Chamber of Commerce with the relevant issuing authority (staff cautioned that this may raise issues of conflict of interests, as incumbents would effectively be called on to authorize the entry of potential competitors). In Sint Maarten, the authorities are launching an online business license information system, which they expect will lead to a significant streamlining of the application procedures. Reduced red tape would also result into stronger competition and put downward pressures on domestic prices.

33. **While labor market regulations do result in suboptimal outcomes, reforming them is difficult and there is scope to make progress within the current system.** Authorities in both countries, for example, noted that rigid labor dismissal laws in practice result in the proliferation of short-term contracts, with potential perverse effects on workers' security. At the same time, they felt that forging the necessary consensus for reform is politically difficult given both countries' heterogeneous governing coalitions and thin majorities. Nevertheless, Sint Maarten authorities reported that soon-to-be-released official survey results will show that unemployment has declined markedly, to around 8 percent as of 2013, and attributed this progress to their intensified controls of eligibility for various unemployment benefits (including active search for jobs) and greater focus on training for unemployed. Both authorities considered that further easing hiring of foreign workers would aggravate the domestic unemployment situation.

SOME QUESTIONS AND ANSWERS ON STAFF ANALYSIS

The question and answer format of this section is intended to probe further into the reasoning behind staff recommendations.

34. ***Question:* On the call for relaxing constraints on hiring foreign workers, would this not exacerbate the unemployment problem?** Unemployment is already high in both countries. Making it easier to hire foreign workers would reduce the chances for local unemployed people to find jobs. Foreign workers also often work long hours in conditions which are not ILO-compliant, thus undercutting the islands' social fabric and workers' rights.

35. ***Answer:*** Liberalizing the hiring of foreign workers is necessary to ensure that firms can have access to all the skills needed in a modern economy, which the two islands are unlikely to produce,

given their small size. Even when the skills required for a particular job are available locally, a foreign firm may still want to bring in some foreign workers in order to operate on the islands, for example because these workers have firm-specific know-how and/or experience in the firm's operations elsewhere. In the presence of overly restrictive regulations, for instance quantitative targets on the number of foreign workers, this firm can decide to locate elsewhere. In today's highly globalized economy, therefore, the alternative for the local economy is between having a firm operate competitively with a mix of foreign and local workers versus not having the firm at all. Clearly, the former outcome is more beneficial to the local economy, including because foreign workers can provide effective on-the-job training to local workers. Thus less restrictions on foreign workers should over time result in greater investment and employment for local workers. Finally, as regards the possibility that foreign workers undercut local labor conditions, there needs to be greater enforcement of labor laws more generally to ensure that no workers, local or foreign, are abused. The still incomplete capacity to enforce such standards by the two administrations should not be a reason to block hiring of foreign workers, especially those who have special expertise and contribute positively to the local economy.

36. ***Question:* Would not the use of more standard sterilization tools result in higher sterilization costs?** Raising the interest rates on certificates of deposits, currently near zero, to—say—some 0.75 percent would cost approximately NA.f 1.5 million per year. This would negatively impact the CBCS' operational profit (around NA.f 3.5 million for the last two years).

37. ***Answer:*** Yes, but it would also increase transparency and reduce other distortions. Raising the interest rate on certificate of deposits is a more efficient, more transparent and less distortionary way to absorb the system's excess liquidity than the current bank level credit ceilings, which are a rather brunt instrument and expose the CBCS to lobbying for exemptions. The central bank's mandate is, first and foremost, to conduct sound monetary policy. It is, therefore, quite common for central banks to utilize their profits for effective monetary policy. If absorbing excess liquidity is deemed an important enough monetary policy objective, the central bank needs to be prepared to incur the associated costs, even if this results in less transfer of seignorage to the government.

38. ***Question:* On the advice to over-perform on the current balance rule, does this imply that the rule-based fiscal framework is not sufficient to ensure sustainability?** Currently public debt is very low in both Curaçao (around 31 percent of GDP) and Sint Maarten (24 percent of GDP), especially in a regional comparison, and the debt service is well within the cap imposed by the interest-burden rule. Thus the rule-based fiscal framework, which is widely seen as appropriate for the two countries, does not require going beyond a balanced current account, and doing so would be unduly contractionary.

39. ***Answer*:** The current low interest rates cannot be assumed to be permanent, which means that the interest burden rule does not presently provide a sufficiently prudent benchmark for debt sustainability. Moreover, both island countries are vulnerable to external shocks and have no scope for monetary stabilization given the currency peg. Thus they need to build up fiscal buffers. Both governments have ample room to increase revenues (e.g. improved tax collection in Sint Maarten) and/or reduce expenditures (e.g. rightsizing of the public apparatus in Curaçao), so that maintaining

a surplus of the current budget to the tune of ¾ to 1 percent of GDP, as advocated by staff, should be feasible. As to whether this would be unduly contractionary, it needs to be kept in mind that fiscal multipliers are small in small open economies, so that the stimulus that would result from unwinding the current balances all the way down to zero would likely be very small.

40. ***Question:* Might the liberalization of outward investment by pension funds not result in a loss of FX reserves?** Liberalizing the current restrictions for the pension funds to invest abroad would lead to an outflow of funds from the economy and hence would lower international reserves.

41. ***Answer*:** There is indeed a risk of disruptions and pressures on FX reserves. Staff advice is therefore for such liberalization to proceed gradually. It is important to keep in mind the rationale for liberalization. The impediments to outward investments by pension funds distort local interest rates and can generate locally a search for yields, resulting in a build-up of risks to financial stability. Moreover, they unduly limit the pension funds' capacity to pursue greater returns and risk diversification on their investments. This is especially problematic given the domestic economies' small size and their vulnerability to large shocks. Failure to appropriately diversify can ultimately result in significant shortfalls between the pension funds' obligations and their resources, which would have to be borne by higher taxes or higher contributions by workers—both of which would be detrimental to growth and jobs.

STAFF APPRAISAL

42. **The authorities of both countries have made important efforts to strengthen their underlying fiscal positions.** Curaçao, in particular, has decisively tackled the spending pressures from its ageing society, with difficult but necessary reforms of the general pension and health system. Sint Maarten has attempted to expand its administrative capacity while keeping costs in check, in particular by freezing bonuses and cost-of-living adjustments in 2013, and has appropriately embarked on a reform of the pension system to safeguard its strength from foreseeable, albeit not imminent, demographic pressures.

43. **Looking forward, they should continue to gear fiscal policy towards supporting ongoing external adjustment and building buffers.** Curaçao should reform the public sector pension system, achieve further efficiency gains in the public apparatus, and improve the governance of its public companies. Sint Maarten needs to strengthen its tax administration to tackle declining tax compliance and to fund its newly acquired functions. The latter could also be further bolstered by increased contributions to the budget by public companies. The next government after the coming elections should build on the current administration's efforts to keep public wage developments in check, including by reviewing the existing indexation mechanisms. These policies would allow both countries to maintain public debt at sustainable levels despite important investment needs, and build buffers to respond to future shocks. Keeping public sector wage growth firmly in line with productivity is also important for its signaling effect on private sector wages.

44. **The central bank should encourage prudent lending behavior and closely monitor banks' deteriorating asset quality.** Banks' excess liquidity should be sterilized through a more aggressive use of certificates of deposits, and further reserve requirement increases as appropriate. Over time, the existing limits and penalties on outward investment by pension funds should be gradually removed. As planned, the central bank should divest its holdings of non-financial corporates' bonds, and refrain from direct financing of SOEs in the future. To underpin the sustainable development of Curaçao's IFC and reduce risks, the authorities are encouraged to further strengthen the implementation of the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) international standards.

45. **Significantly greater effort is needed in tackling structural impediments to growth and job creation.** A dynamic private sector, which is the linchpin of sustained growth in the medium term, requires tackling the maze of permits and licenses, which has hampered investment and innovation, especially in Curaçao. Rigid labor laws and the system of welfare payments for unemployed should be reviewed, to shift emphasis from protecting jobs to protecting workers, facilitate needed cyclical adjustments in the workforce, and ensure adequate incentives and support for job search by the unemployed. Restrictions to hiring foreign workers should be removed, while at the same time ensuring that all workers (local and domestic) are afforded adequate labor conditions.

46. **These policies and reforms are necessary to increase the economies' flexibility, competitiveness, and capacity to withstand shocks.** This is essential to underpin the peg, which has provided both countries with a stable macroeconomic environment since 1971, and in light of the limited scope for active stabilization policies.

47. **Finally, staff urges both governments to improve the statistical infrastructure and data.** Presently available data are not adequate for effective macroeconomic analysis and surveillance. This hinders an accurate diagnosis of the problems and the identification and calibration of the most appropriate policy responses. Both countries' statistical agencies are making efforts to improve on the situation, but more investments, including in human capital, are needed. Staff encourages the authorities to give this issue the strategic priority it deserves, and pursue timely advances including, where appropriate, through technical assistance.

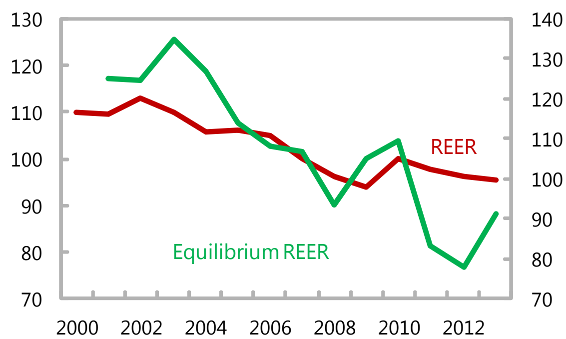
48. It is proposed that the next Article IV consultation discussions with Curaçao and Sint Maarten will be held in 24 months time.

Box 1. Competitiveness

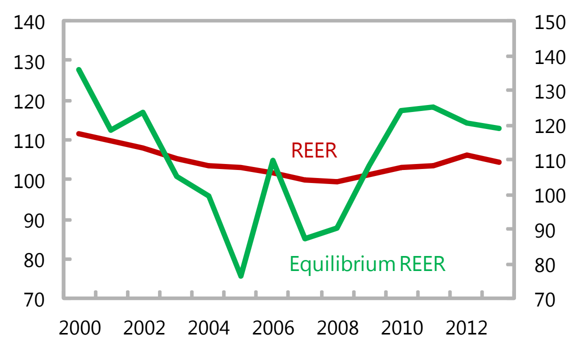
Competitiveness indicators offer a mixed picture, though on the whole Curaçao seems to face more challenges than Sint Maarten:

- A comparison of the real effective exchange rates (REERs) with their estimated equilibrium values (charts below) suggests that, though on a depreciating trend, Curaçao's REER remained slightly overvalued as of end 2013, while Sint Maarten's appears to be below its equilibrium level, despite some upward trend due to its recent relatively high inflation. The equilibrium values are derived from a PPP-based panel estimation of a sample of Caribbean and South and Central American countries for the period 1985-2013. These should be treated with caution as many relevant variables (e.g., net foreign assets) had to be left out of the model because of data limitations.

Curaçao: Real Effective Exchange Rate
(Index, REER: 2007 = 100)

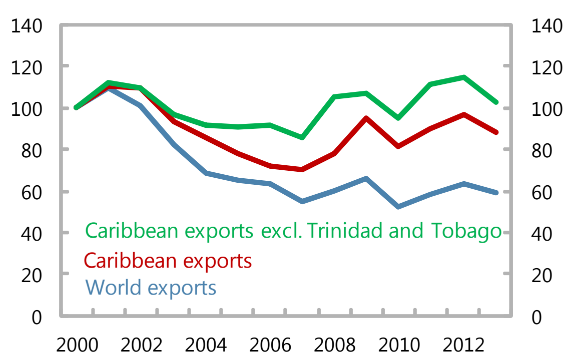


Sint Maarten: Real Effective Exchange Rate
(Index, REER: 2007 = 100)

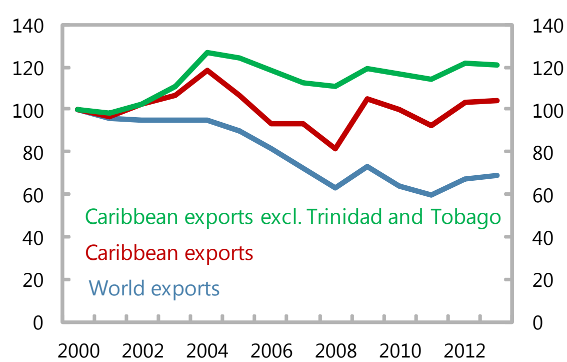


- The countries' shares in world exports have been on a secular decline, though recently at a slowing rate (in 2012 they have recovered slightly). Given both countries' relative specialization, with Sint Maarten in particular basically exporting only tourism, this metric might be misleading: these shares would be expected to be falling, regardless of the two countries' competitiveness, if world trade in goods that the two countries do not produce increases. Comparing the two countries' export performance only with that of their Caribbean peers (possibly excluding Trinidad and Tobago, which is a relatively large energy exporter) does give a more favorable picture, suggesting that, as far as tourism is concerned, the two countries are doing relatively well (charts below).

Curaçao: Export Market Share
(Index, 2000 = 100)



Sint Maarten: Export Market Share
(Index, 2000 = 100)



Sources: Caribbean Tourism Organization, National authorities, World Bank Development Indicators, and IMF staff calculations.

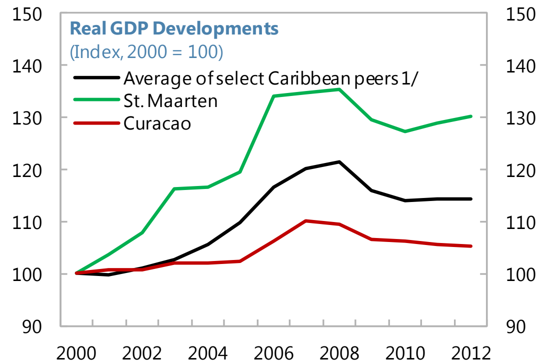
Box 1. Competitiveness (Concluded)

Curaçao's wide (though declining) current account deficit also points to underlying competitiveness issues (see text chart on page 4). To the extent that its share of stay-over tourists in the Caribbean is bouncing back from its 2010 trough, Curaçao's lingering competitiveness woes and overall lackluster growth seem to stem from an inability of the economy to absorb effectively declining productivity in other major sectors, such as the oil refining and financial sectors, and relocate effectively workers from declining to more promising activities, as attested by the stubbornly high unemployment.

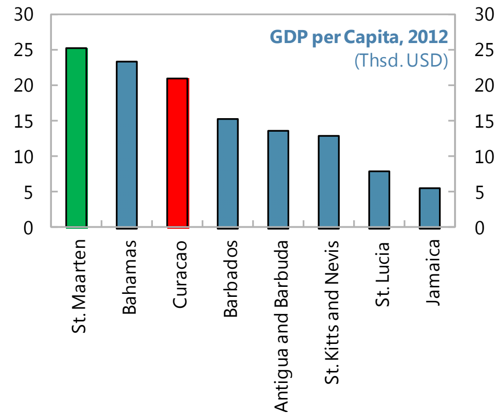
This underscores the importance of competitiveness-enhancing structural reforms. In particular, greater wage and price flexibility would allow both countries to enhance their competitiveness, reduce unemployment, and increase their economies' resilience to shocks. This is especially important given the limited room for policy maneuver resulting from the fixed exchange rate.

Figure 1. Key indicators for Curaçao and Sint Maarten in a Regional Comparison

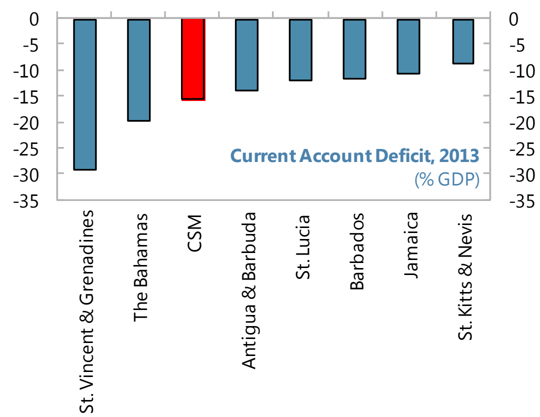
Real GDP growth shows a mixed picture for the two countries…



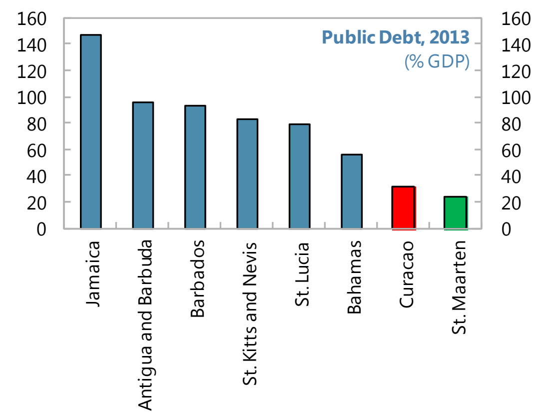
…while per capita GDP fares favorably compared to regional peers.



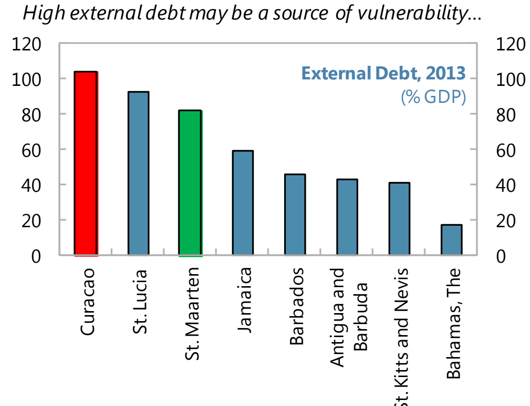
The CA deficit is large though not unusual for the region…



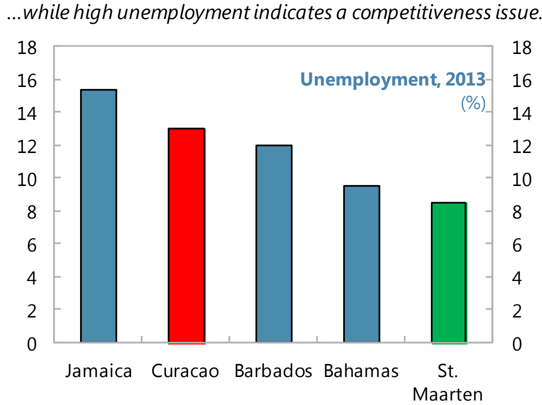
…while public debt is low thanks to the debt relief of 2010.



High external debt may be a source of vulnerability…

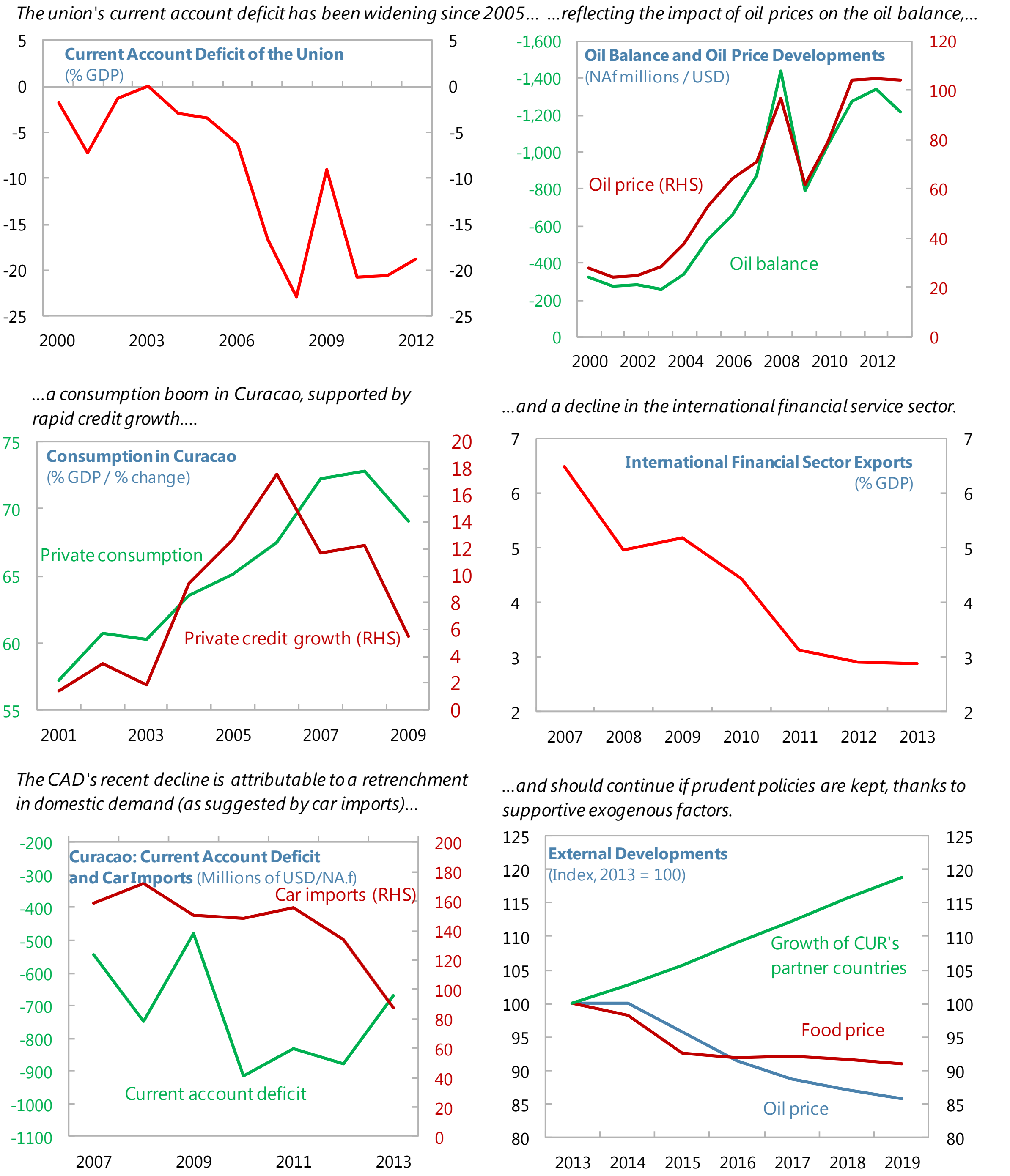


…while high unemployment indicates a competitiveness issue.



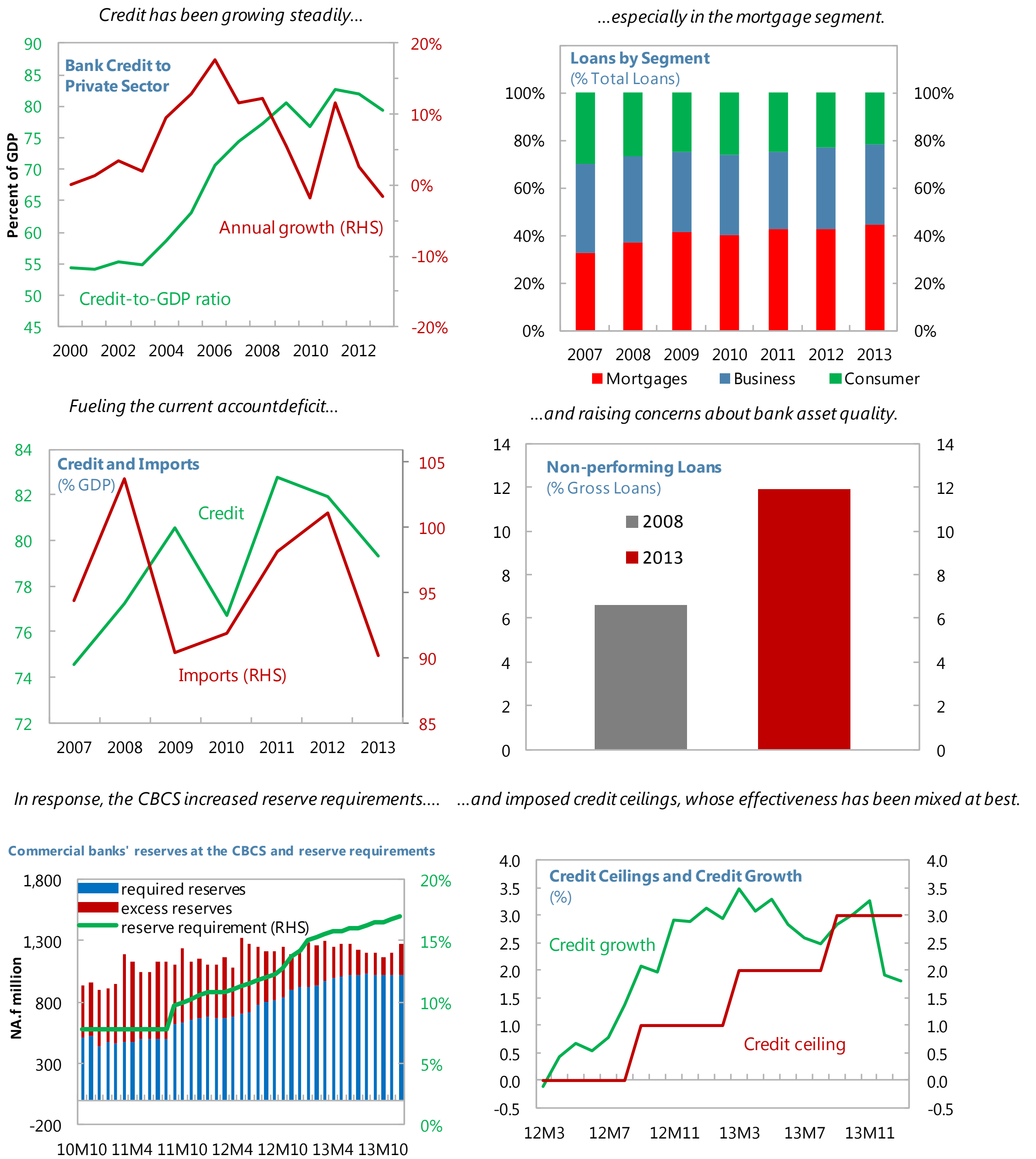
Sources: IMF World Economic Outlook, CBCS, National Authorities; and IMF staff calculations.

Figure 2. Curaçao: Current Account Developments



Sources: CBCS; National authorities; IMF World Economic Outlook; and IMF staff calculations and estimates.

Figure 3. Curaçao and Sint Maarten: Credit Developments



Sources: CBCS; and IMF staff calculations.

Table 1. Curaçao: Selected Economic and Financial Indicators, 2009–15

Area	444 (km^2)	Population, thousand (2013)	152.8
Percent of population below age 15 (2013)	20.5	Literacy rate, in percent (2010)	96.7
Percent of population aged 65+ (2013)	13.7	Life expectancy at birth, male (2012)	74.4
Infant mortality, over 1,000 live births (2012)	11.3	Life expectancy at birth, female (2012)	80.7

	2009	2010	2011	2012	2013	2014	2015
						Proj.	
Real economy (change in percent)							
Real GDP 1/	-0.6	-3.6	-0.5	-0.5	-0.6	0.7	0.9
Private consumption	-5.5	7.0	0.0	-0.5	-2.5	-1.0	0.3
Public consumption	2.9	1.6	-2.0	-0.1	-3.8	0.1	0.3
Gross fixed investment	1.3	-2.8	0.4	0.2	0.1	2.5	0.4
Net foreign balance 2/	1.0	-8.5	3.0	-0.1	1.6	0.4	0.4
CPI (12-month average)	1.8	2.8	2.3	3.2	1.3	1.9	2.0
Unemployment rate (in percent)	9.6	9.7	9.8	11.5	13.0	12.4	11.9
General government finances (in percent of GDP) 3/							
Primary balance	10.4	11.5	-2.1	-0.5	-1.1	-1.6	-1.6
Primary balance w/o debt relief	2.1	5.4	-2.1	-1.5	-1.1	-1.6	-1.6
Current balance	8.1	10.0	-1.5	0.3	1.5	1.2	1.0
Overall balance	7.8	9.6	-3.0	-1.4	-2.0	-2.4	-2.4
Public debt	43.6	28.1	34.5	29.9	31.3	37.6	36.2
Balance of payments (in percent of GDP)							
Goods trade balance	-37.0	-41.3	-39.5	-41.7	-38.3	-37.1	-36.4
Exports of goods	23.5	23.1	30.5	30.3	22.4	22.6	22.5
Imports of goods	60.5	64.4	70.1	72.0	60.8	59.7	58.9
Service balance	13.7	8.4	14.3	17.4	21.7	23.4	25.3
Exports of services	37.1	32.4	40.4	45.4	49.7	50.5	51.4
Imports of services	23.4	23.9	26.2	28.0	28.0	27.1	26.1
Current account	-16.7	-30.9	-27.3	-28.1	-21.1	-17.1	-13.3
Capital and financial account	8.5	26.7	26.4	24.8	19.5	18.1	16.1
Net FDI	1.7	2.4	3.2	1.4	1.0	2.4	2.4
Net official reserves (in millions of US dollars)	929.4	1,234.0	1,244.1	1,246.3	1,220.6	1,293.8	1,440.4
(in months of imports of goods)	6.4	7.8	7.0	6.6	7.6	7.9	8.6
(In percent of short-term debt)	76.2	83.8	90.5	109.9	124.6	119.9	122.9
External debt (in percent of GDP)	74.2	107.3	102.8	93.2	103.3	109.6	114.7
Memorandum items:							
Nominal GDP (in millions of US dollars)	2,871	2,951	3,039	3,131	3,162	3,282	3,407
Per capita GDP (change in percent)	-4.1	2.3	2.5	2.0	0.0	2.8	2.8
Real effective rate (2007=100)	93.8	100.1	97.6	96.3	95.6 ..		…
Fund position	Curaçao is part of the Kingdom of the Netherlands and does not have a separate quota.						
Exchange rate	The Netherlands' Antilles guilder is pegged to the U.S. dollar at NA.f 1.79 = US$1.						

Sources: Data provided by the authorities; and IMF staff estimates.

1/ Based on IMF staff estimates of deflators.

2/ Contribution to GDP growth.

3/ Data from 2009-2010 reflect the fiscal operations of the local island government. Data from 2011 onwards refer to the new island government that has integrated the fiscal operations of the previous central government of the Netherlands Antilles.

Table 2. Sint Maarten: Selected Economic and Financial Indicators, 2009–15

Area	34 (km^2)	Population (2012)	39
Percent of population below age 15 (2010)	23.4	Literacy rate, in percent (2010)	95.8
Percent of population aged 65+ (2010)	3.6	Life expectancy at birth, male (2010)	73.1
Infant mortality, over 1,000 live births (2010)	6.0	Life expectancy at birth, female (2010)	78.2

	2009	2010	2011	2012	2013	2014	2015
						Proj.	
Real economy (change in percent)							
Real GDP 1/	-5.0	0.0	-1.7	1.3	0.9	1.7	1.8
Private consumption	-5.0	-6.9	-2.0	0.5	0.0	1.1	3.0
Public consumption	6.2	-0.9	2.0	1.7	-1.7	1.5	1.5
Gross fixed investment	1.2	-10.7	-1.3	2.8	0.7	1.4	2.1
Net foreign balance 2/	3.0	7.2	-1.5	0.1	0.8	0.5	-0.4
CPI (12-month average)	0.7	3.2	4.6	4.0	2.5	2.1	2.1
Unemployment rate (in percent)	12.2	12.0	12.0	10.4	8.5	8.4	8.2
General government finances (in percent of GDP) 3/							
Primary balance	-1.0	7.0	-1.0	-0.3	-0.5	-1.6	-1.5
Primary balance w/o debt relief	-1.0	2.9	-1.0	-0.1	-0.5	-1.6	-1.5
Current balance	-0.2	7.8	-0.3	0.9	-0.3	0.0	0.5
Overall balance	-1.0	7.0	-1.7	-1.0	-1.1	-2.0	-2.0
Public debt	33.4	15.4	25.0	24.6	24.3	30.8	31.5
Balance of payments (in percent of GDP)							
Goods trade balance	-71.0	-66.9	-65.1	-64.8	-73.5	-76.1	-78.5
Exports of goods	15.2	13.8	13.6	13.3	17.3	14.9	14.8
Imports of goods	86.2	80.7	78.7	78.1	90.7	91.0	93.4
Service balance	63.4	67.0	71.5	79.4	78.4	82.6	84.9
Exports of services	89.3	90.7	96.8	105.7	104.2	107.4	109.1
Imports of services	25.9	23.7	25.4	26.3	25.9	24.8	24.3
Current account	-15.1	-6.2	-0.3	9.6	1.4	1.5	2.2
Capital and financial account	12.4	-0.2	-0.2	-18.5	-8.8	1.0	1.3
Net FDI	4.6	3.3	-5.3	1.8	3.0	3.0	3.3
Net official reserves (in millions of US dollars)	293.5	389.7	249.1	249.5	239.6	277.2	333.5
(in months of imports of goods)	4.8	6.5	4.1	3.9	3.1	3.4	3.8
(In percent of short-term debt)	62.0	82.1	54.7	60.3	63.6	76.3	95.4
External debt (in percent of GDP)	113.2	126.3	111.3	95.1	82.0	75.4	69.6
Memorandum items:							
Nominal GDP (in millions of US dollars)	855	892	932	983	1,021	1,070	1,117
Per capita GDP (change in percent)	3.9	7.9	2.7	3.9	1.0	4.1	3.8
Real effective rate (2000=100)	101.4	103.0	103.5	106.2	104	…	…
Fund position	St. Maarten is part of the Kingdom of the Netherlands and does not have a separate quota.						
Exchange rate	The Netherlands' Antilles guilder is pegged to the U.S. dollar at NA.f 1.79 = US$1.						

Sources: Data provided by the authorities; and IMF staff estimates.

1/ Based on IMF staff estimates of deflators.

2/ Contribution to GDP growth.

3/ Data from 2009-2010 reflect the fiscal operations of the local island government. Data from 2011 onwards refer to the new island government that has integrated the fiscal operations of the previous central government of the Netherlands Antilles.

Table 3. Curaçao and Sint Maarten: Monetary Survey, 2007–13 1/

(In millions of Netherlands' Antilles Guilders; end of period)

	2007	2008	2009	2010	2011	2012	2013
Net Foreign Assets	2,121.6	2,600.6	3,232.3	4,520.5	4,080.6	3,899.8	3,565.7
Central Bank	1,620.6	2,010.7	2,188.9	2,906.4	2,886.3	2,845.3	2,609.0
Gross Foreign Assets	2,285.1	3,041.9	2,984.9	3,573.3	3,707.1	3,451.1	3,140.5
Gross Foreign Liabilities	664.5	1,031.2	796.0	666.9	820.8	605.8	531.5
Valuations							
Commercial Banks	501.0	589.9	1,043.4	1,614.1	1,194.3	1,054.6	956.7
Gross Foreign Assets	2,083.8	2,856.7	3,553.8	4,279.8	3,504.9	3,114.0	3,450.4
Gross Foreign Liabilities	1,582.8	2,266.8	2,510.4	2,665.7	2,310.6	2,059.4	2,493.7
Net domestic assets	2,762.4	2,720.9	2,595.7	551.2	920.9	1,134.6	1,884.3
Domestic credit	3,961.8	4,257.2	4,225.9	2,696.0	3,227.5	3,541.4	3,921.1
Net Claims on the Government of Curacao	276.2	325.9	50.4	-347.6	-333.6	-180.7	-192.7
Net Claims on the Government of St. Maarten	-38.5	-47.7	-62.4	-245.4	-181.6	-131.9	-76.2
Deposits	38.5	47.7	62.5	245.5	181.7	132.0	76.3
Claims on the Private Sector	4,532.9	5,091.4	5,634.0	5,545.9	6,155.7	6,373.8	6,307.4
From Central Bank	-	-	263.9	270.3	272.5	339.0	367.7
From Commercial Banks	4,532.9	5,091.4	5,370.1	5,275.6	5,883.2	6,034.8	5,939.7
Securities	183.5	232.6	99.9	88.2	400.3	290.3	266.2
Amounts Receivable	74.8	75.1	71.1	91.2	100.9	102.5	84.6
Loans	4,274.6	4,783.7	5,199.1	5,096.2	5,382.0	5,641.9	5,588.9
Business	1,610.8	1,736.8	1,754.4	1,714.6	1,772.7	1,952.4	1,873.9
Mortgage	1,385.6	1,784.8	2,145.0	2,055.8	2,276.4	2,396.6	2,495.6
Consumer	1,288.7	1,277.1	1,317.1	1,335.5	1,334.3	1,293.5	1,219.3
Other Items Net	-1,199.4	-1,536.3	-1,630.2	-2,144.8	-2,306.6	-2,406.8	-2,036.8
Money supply (M2)	6,083.4	6,857.8	7,458.2	7,216.5	7,308.1	7,441.2	7,486.8
Money (M1)	2,298.6	2,896.4	3,266.9	3,131.2	3,148.8	3,365.3	3,450.7
Currency in Circulation Outside Banks	304.4	315.1	334.1	320.6	301.3	331.8	340.6
Demand Deposits	1,994.2	2,581.3	2,932.8	2,810.6	2,847.5	3,033.5	3,110.2
Local Currency	1,441.5	1,923.3	2,265.0	2,218.6	2,174.7	2,292.3	2,325.7
Foreign Currency	552.7	658.0	667.8	592.0	672.8	741.2	784.5
Quasi Money	3,784.8	3,961.4	4,191.3	4,325.5	4,357.6	4,253.9	4,214.9
Savings Deposits	1,530.5	1,720.0	2,016.0	1,898.7	1,892.9	1,926.4	1,943.6
Local Currency	1,291.0	1,469.0	1,805.0	1,652.0	1,640.3	1,665.7	1,669.4
Foreign Currency	239.5	251.0	211.0	246.7	252.7	260.7	274.2
Time Deposits	2,254.3	2,241.4	2,175.3	2,426.8	2,464.6	2,327.5	2,271.3
Local Currency	1,669.0	1,818.0	1,972.0	1,875.1	1,921.9	1,840.2	1,724.6
Foreign Currency	585.3	423.4	203.3	551.7	542.8	487.3	546.7
(Percent change, year-on-year)							
Net foreign assets	19.7	22.6	24.3	39.9	-9.7	-4.4	-8.6
Net domestic assets	3.2	-1.5	-4.6	-78.8	67.1	23.2	66.1
Broad money	12.1	12.7	8.8	-3.2	1.3	1.8	0.6
(Percent change, by contribution to the broad money)							
Net foreign assets	6.4	7.9	9.2	17.3	-6.1	-2.5	-4.5
Net domestic assets	1.6	-0.7	-1.8	-27.4	5.1	2.9	10.1
(Percent of GDP)							
Loans to the private sector	74.5	77.2	80.6	76.7	82.8	81.9	78.1
Broad money	100.0	104.0	111.8	104.9	102.8	101.0	100.0
(Percent)							
Pledging rate	5.0	1.0	1.0	1.0	1.0	1.0	1.0

Sources: Central Bank of Curaçao and Sint Maarten, IMF staff calculations.

1/ Data prior to 2010 is estimated based on data for the Netherlands' Antilles.

Table 4. Curaçao and Sint Maarten: Financial Soundness Indicators, 2007–13

(in percent)

	2007	2008	2009	2010	2011	2012	2013
Mortgage credit (in percent of total assets)	16.7	18.9	20.4	20.8	23.0	23.8	24.7
Consumer credit (in percent of total assets)	15.5	23.1	22.9	24.2	25.5	24.5	24.7
Corporate credit (in percent of total assets)	22.9	21.9	28.8	30.3	31.5	32.3	32.1
Capital							
Tier 1 Capital to Risk Weighted Assets	11.7	12.7	13.2	13.1	12.5	12.9	12.1
Tier 1 and Tier 2 Capital to Risk Weighted Assets	14.3	14.9	15.5	15.8	15.1	15.6	15.2
Asset Quality							
NPLs/Gross Loans	10.3	6.6	8.0	8.6	10.9	11.3	11.9
NPLs Net of All Provisions/Gross Loans	4.6	4.0	5.5	5.8	7.9	8.0	8.1
Earnings and Profitability							
ROA Before Taxes	1.9	1.9	1.7	1.5	1.6	1.4	0.9
ROE Before Taxes	19.5	18.8	16.0	13.6	14.7	12.2	8.3
Interest Margin/Gross Income	47.1	59.0	65.1	67.5	67.2	66.6	67.6
Non-Interest Expenses to Gross Income	51.4	68.3	70.8	73.5	71.9	76.2	86.0
Liquidity							
Liquid Assets/Total Assets	29.1	28.8	32.3	27.0	25.3	27.5	30.1
Liquid Assets/Short Term Liabilities	37.3	36.9	40.5	34.3	33.4	36.1	38.6
Loans/Deposits	61.4	64.5	63.2	67.2	70.6	71.0	70.8
Sensitivity to Market Risk							
NFA/Regulatory Capital	68.4	65.4	95.6	97.2	73.8	74.9	77.0
Interest Rate Margin	4.6	4.1	4.4	4.3	4.5	4.6	4.5

Source: Central Bank of Curaçao and Sint Maarten.

Table 5. Curaçao and Sint Maarten: Balance of Payments, 2008–19

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
						Proj.						
	(In millions of US dollars, unless otherwise indicated)											
Current account	-922	-609	-968	-833	-784	-655	-545	-427	-372	-322	-319	-307
Goods and services balance	-895	-735	-968	-709	-619	-477	-382	-307	-259	-214	-181	-165
Exports of goods and services	2926	2634	2572	3185	3539	3522	3708	3903	4085	4263	4452	4647
Goods	1076	805	807	1055	1079	886	901	934	960	985	1009	1033
Services	1849	1829	1765	2130	2461	2635	2806	2969	3125	3278	3444	3614
Imports of goods and services	3821	3369	3540	3895	4158	3998	4089	4210	4344	4478	4634	4812
Goods	2989	2474	2622	2863	3022	2848	2934	3050	3176	3301	3444	3604
Services	832	894	918	1031	1136	1150	1155	1161	1168	1176	1190	1208
Income	-34.1	-79.2	-43.2	-48.3	-70.4	-69.0	-71.1	-60.4	-50.9	-46.8	-74.3	-77.0
Compensation of employees	-24.6	-13.2	-5.0	1.2	-4.8	7.3	-7.5	-2.4	-2.8	-9.3	-38.4	-40.3
Investment income	-9.5	-66.0	-38.2	-49.5	-65.7	-76.3	-63.6	-58.0	-48.1	-37.5	-35.9	-36.7
Current transfers	7.4	204.6	43.5	-75.4	-94.2	-109.1	-92.4	-59.2	-62.0	-60.7	-63.0	-65.4
(percent of GDP)	0.2	5.5	1.1	-1.9	-2.3	-2.6	-2.1	-1.3	-1.3	-1.3	-1.3	-1.3
Capital and financial account	845	358	809	825	603	549	628	579	590	597	579	488
Capital account	33	34	641	69	39	35	35	35	35	35	35	35
Financial account	812	324	169	756	564	515	593	545	556	562	544	454
Direct investment	218	89	104	49	63	64	114	121	129	127	132	137
Portfolio investment	-45	-66	-869	106	333	139	183	185	181	181	150	47
Financial derivatives	0	0	0	0	0	0	0	0	0	0	0	0
Other investment	639	301	934	600	168	312	296	239	246	254	262	270
Reserve assets	-77	167	14	-27	155	27	-83	-152	-218	-275	-260	-181
Reserves and external debt												
Gross Reserves, excluding gold	1395	1311	1405	1290	1135	1108	1191	1343	1562	1837	2097	2278
Net Official reserves	1123	1223	1624	1493	1496	1460	1571	1774	2063	2423	2765	3004
in months of goods imports	4.5	5.9	7.4	6.3	5.9	6.2	6.4	7.0	7.8	8.8	9.6	10.0
over short term debt	2.2	0.7	0.8	0.8	1.0	1.1	1.1	1.2	1.3	1.4	1.6	1.7
Gross external debt (percent of GDP)	34.4	83.2	111.7	104.8	93.7	98.1	101.2	103.5	106.0	108.5	110.0	109.6
of which short term debt	13.7	45.4	50.7	46.1	37.6	32.4	33.1	33.6	34.2	34.8	35.1	34.8
Memorandum item:												
GDP at current prices	3684	3726	3844	3970	4114	4183	4352	4524	4680	4848	5024	5197
	(In percent of GDP)											
Current Account												
Curacao and St. Maarten	-25.0	-16.4	-25.2	-21.0	-19.0	-15.7	-12.5	-9.4	-7.9	-6.6	-6.3	-5.9
St. Maarten	-20.6	-15.1	-6.2	-0.3	9.6	1.4	1.5	2.2	1.8	1.0	1.0	0.8
Curacao	-26.4	-16.7	-30.9	-27.3	-28.1	-21.1	-17.1	-13.3	-11.2	-9.2	-8.9	-8.3
G & S Balance												
Curacao and St. Maarten	-24.3	-19.7	-25.2	-17.9	-15.0	-11.4	-8.8	-6.8	-5.5	-4.4	-3.6	-3.2
St. Maarten	-12.6	-7.6	0.2	6.3	14.6	4.9	6.5	6.3	5.9	5.2	5.0	4.8
Curacao	-27.8	-23.3	-32.9	-25.3	-24.3	-16.7	-13.7	-11.1	-9.3	-7.6	-6.6	-6.0
	(In millions of US dollars)											
Exports of Goods												
St. Maarten	133	130	123	127	130	177	159	166	172	179	187	195
Curacao	943	675	683	928	948	710	742	768	787	806	822	837
Exports of Services												
St. Maarten	824	763	809	902	1040	1064	1149	1219	1299	1386	1486	1593
Curacao	1025	1066	956	1228	1421	1571	1657	1750	1825	1892	1957	2021
Imports of Goods and Services												
St. Maarten	1065	958	931	970	1027	1190	1239	1314	1404	1503	1609	1724
Curacao	2756	2411	2609	2925	3131	2808	2850	2896	2940	2975	3024	3088

Sources: Central bank of Curaçao and St. Maarten; and IMF staff projections.
1/ Overall numbers are the sum of the two countries' BOP.

Table 6. Curaçao: Macroeconomic Framework, 2008–19

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
									Proj.			
	(Percentage change, unless otherwise indicated)											
Output and demand (volumes)												
GDP	3.5	-0.6	-3.6	-0.5	-0.5	-0.6	0.7	0.9	1.1	1.1	1.3	1.3
Domestic demand	3.1	-1.4	4.3	-2.1	-0.3	-2.0	0.1	0.3	0.4	0.5	0.7	0.8
Private consumption	3.1	-5.5	7.0	0.0	-0.5	-2.5	-1.0	0.3	0.4	0.6	0.6	0.7
Public consumption	-2.0	2.9	1.6	-2.0	-0.1	-3.8	0.1	0.3	0.4	0.6	0.8	0.9
Gross fixed capital formation	-3.1	1.3	2.3	0.4	0.2	0.1	2.5	0.4	0.5	0.1	1.0	1.0
Private investment	-2.9	0.9	2.2	0.4	0.2	0.1	0.3	0.4	0.5	1.0	1.0	1.0
Exports of goods and services	12.4	-7.4	-9.1	23.8	8.8	1.0	3.1	3.9	3.8	3.2	3.0	2.9
Imports of goods and services	9.5	-7.1	5.1	12.1	6.6	-1.0	2.0	2.7	2.5	2.2	2.2	2.1
Net exports (contribution to growth in percent of GDP)	-0.1	1.0	-8.5	3.0	-0.1	1.6	0.4	0.4	0.4	0.4	0.3	0.2
Prices, costs, and income												
Consumer price inflation (harmonized, average)	6.9	1.8	2.8	2.3	3.2	1.3	1.9	2.0	2.0	2.1	2.1	2.1
Consumer price inflation (harmonized, end-year)	7.9	0.4	1.9	3.0	2.5	0.7	1.9	2.0	2.0	2.1	2.1	2.1
GDP deflator	5.5	1.9	6.6	3.5	3.5	1.6	3.1	2.8	2.0	0.2	2.0	1.7
Labor productivity	-1.0	-0.7	-8.0	-4.9	-1.6	-1.8	-1.1	-0.5	-0.1	2.1	0.4	0.4
Labor market												
Labor force	2.1	4.4	0.5	1.0	1.5	1.3	1.0	1.0	1.0	1.0	0.8	0.5
Employment	4.6	0.1	0.0	0.5	1.8	1.8	1.8	1.5	1.3	1.0	0.8	0.8
Unemployment rate (in percent)	10.3	9.6	9.7	9.8	11.5	13.0	12.4	11.9	11.7	11.7	11.7	11.5
	(In percent of GDP)											
General government finances 1/												
Overall balance	-1.5	7.8	9.6	-3.0	-1.4	-2.0	-2.4	-2.4	-1.8	-1.1	-0.9	-0.9
Primary balance	1.4	10.4	11.5	-2.1	-0.5	-1.1	-1.6	-1.6	-1.0	-0.3	-0.2	-0.2
Gross debt	51.7	43.6	28.1	34.5	29.9	31.3	37.6	36.2	34.6	34.6	34.4	34.4
Balance of payments												
Current account balance	-26.4	-16.7	-30.9	-27.3	-28.1	-21.1	-17.1	-13.3	-11.2	-9.2	-8.9	-8.3
Goods trade balance	-42.9	-37.0	-41.3	-39.5	-41.7	-38.3	-37.1	-36.4	-35.9	-35.2	-34.9	-34.9
Service trade balance	15.1	13.7	8.4	14.3	17.4	21.7	23.4	25.3	26.6	27.6	28.3	28.9
Net FDI	5.2	1.7	2.5	3.3	1.4	1.1	2.5	2.5	2.5	2.5	2.5	2.5
Gross external debt	30.4	74.2	107.3	102.8	93.2	103.3	109.6	114.7	119.9	125.1	129.2	130.7
Exchange rates (period average)												
LCU per US$	1.79	1.79	1.79	1.79	1.79	1.79	…	…	…	…	…	…

Sources: Central Bank of Curaçao and St. Maarten; and IMF staff estimations and projections.

1/ Data from 2008-2010 reflects the fiscal operations of the local island government. Data from 2011 onwards refers to the new island government that has integrated the fiscal operations of the previous central government of the Netherlands' Antilles.

Table 7. Sint Maarten: Macroeconomic Framework, 2008–19

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
									Proj.			
							(Percentage change, unless otherwise indicated)					
Output and demand (volumes)												
GDP	0.3	-5.0	0.0	-1.7	1.3	0.9	1.7	1.8	2.2	2.4	2.6	2.5
Domestic demand	4.2	-7.7	-7.2	-0.1	1.2	-0.3	1.2	2.5	2.7	3.1	3.1	3.1
Private consumption	13.0	-5.0	-6.9	-2.0	0.5	0.0	1.1	3.0	3.4	4.0	4.0	4.0
Public consumption	-1.5	6.2	-0.9	2.0	1.8	-1.7	1.5	1.5	1.5	1.5	1.5	1.5
Gross fixed capital formation	-1.9	1.2	-10.7	-1.3	2.8	0.7	1.4	2.1	2.1	2.0	2.0	2.0
Private investment	-0.9	0.8	-11.6	-1.3	0.5	0.8	2.3	2.3	2.3	2.0	2.0	2.0
Exports of goods and services	-8.6	-2.7	0.5	-0.2	2.0	2.4	3.4	3.8	4.2	4.3	4.5	4.5
Imports of goods and services	-4.7	-5.8	-7.1	1.5	2.1	1.6	3.1	4.5	4.7	4.9	5.0	5.0
Net exports (contribution to growth in percent of G	-3.9	3.0	7.2	-1.5	0.1	0.8	0.5	-0.4	-0.3	-0.4	-0.3	-0.4
Prices, costs, and income												
Consumer price inflation (harmonized, average)	4.6	0.7	3.2	4.6	4.0	2.5	2.1	2.1	2.1	2.1	2.1	2.1
Consumer price inflation (harmonized, end-year)	-0.4	6.0	1.4	5.1	3.6	2.7	2.3	2.1	2.1	2.1	2.1	2.1
GDP deflator	5.5	5.8	4.4	6.3	4.2	2.9	3.0	2.5	2.0	1.2	2.3	2.3
Labor productivity	-1.2	-6.5	-1.7	-3.2	-1.6	-2.5	0.4	0.3	1.0	2.1	1.3	1.4
Labor market												
Labor force	2.5	2.5	1.5	1.5	1.3	1.3	1.3	1.3	1.0	1.0	1.0	1.0
Employment	1.6	1.6	1.8	1.5	3.0	3.5	1.3	1.5	1.2	1.1	1.3	1.2
Unemployment rate (in percent)	11.4	12.2	12.0	12.0	10.4	8.5	8.4	8.2	8.0	7.9	7.6	7.5
							(In percent of GDP)					
General government finances 1/												
Overall balance	-0.3	-1.0	7.0	-1.7	-1.0	-1.1	-2.0	-2.0	-1.8	-1.7	-1.5	-0.8
Primary balance	-0.3	-1.0	7.0	-1.0	-0.3	-0.5	-1.6	-1.5	-1.4	-1.3	-1.1	-0.5
Gross debt	30.9	33.4	15.4	25.0	24.6	24.3	30.8	31.5	32.0	32.3	32.3	31.6
Balance of payments												
Current account balance	-20.6	-15.1	-6.2	-0.3	9.6	1.4	1.5	2.2	1.8	1.0	1.0	0.8
Goods trade balance	-81.7	-71.0	-66.9	-65.1	-64.8	-73.5	-76.1	-78.5	-81.8	-85.2	-88.2	-91.4
Service trade balance	69.1	63.4	67.0	71.5	79.4	78.4	82.6	84.9	87.6	90.4	93.3	96.2
Net FDI	8.3	4.6	3.3	-5.3	1.8	3.0	3.0	3.3	3.5	3.0	3.0	3.0
Gross external debt	47.7	113.2	126.3	111.3	95.1	82.0	75.4	69.6	64.1	58.9	53.7	48.9
Exchange rates (period average)												
LCU per US$	1.79	1.79	1.79	1.79	1.79	1.79	...	...	...	...	...	...

Sources: Central Bank of Curaçao and St. Maarten; and IMF staff estimations and projections.

1/ Data from 2008-2010 reflects the fiscal operations of the local island government. Data from 2011 onwards refers to the new island government that has integrated the fiscal operations of the previous central government of the Netherlands' Antilles.

Table 8. Curaçao: Government Operations, 2011–19

(In percent of GDP)

	2011	2012	2013	2014	2015	2016	2017	2018	2019
						Projection			
Total Revenue	29.2	29.8	28.5	28.3	28.3	28.3	28.3	28.3	28.3
Tax Revenue	26.2	25.5	25.3	25.5	25.5	25.5	25.5	25.5	25.5
Taxes on income and profits	12.9	12.7	11.9	11.9	11.9	11.9	11.9	11.9	11.9
Profit tax	3.6	3.6	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Wage tax	9.3	8.9	8.7	8.7	8.7	8.7	8.7	8.7	8.7
Taxes on property	0.9	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Taxes on goods and services	9.0	9.0	9.7	9.7	9.7	9.7	9.7	9.7	9.7
Excises	1.9	1.4	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Sales tax	5.7	6.6	6.9	6.9	6.9	6.9	6.9	6.9	6.9
Other taxes on goods and services	1.4	1.0	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Taxes on intenational transactions	3.3	3.0	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Other taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants 1/	0.3	1.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other revenue	2.5	3.1	2.9	2.5	2.5	2.5	2.5	2.5	2.5
Capital revenue	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Expenditure	32.2	31.2	30.5	30.7	30.6	30.1	29.3	29.2	29.2
Current Expenditure	30.7	29.5	27.0	27.1	27.2	27.3	27.3	27.3	27.4
Wage and Salaries	13.2	12.8	12.5	12.4	12.3	12.2	12.1	12.0	11.8
Goods and Services	3.9	3.8	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Social Benefits 2/	11.5	10.8	8.8	9.1	9.3	9.5	9.7	9.8	10.1
Subsidies	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Interest Payments	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.7	0.7
Capital Expenditure	1.5	1.7	3.5	3.6	3.4	2.8	2.0	1.9	1.8
Overall Balance	-3.0	-1.4	-2.0	-2.4	-2.4	-1.8	-1.1	-0.9	-0.9
Primary Balance	-2.1	-0.5	-1.1	-1.6	-1.6	-1.0	-0.3	-0.2	-0.2
Current Balance	-1.5	0.3	1.5	1.2	1.0	1.0	0.9	0.9	0.9
Memorandum item:									
Gross Government debt	34.5	29.9	31.3	37.6	36.2	34.6	34.6	34.4	34.4

Sources: Data provided by the authorities and IMF staff estimates.

1. Grants in 2012 reflect the debt relief to settle arrears.

2. Includes transfers to cover the deficit of funds not integrated into the central budget, such as those for social security/insurance.

Table 9. Sint Maarten: Government Operations, 2011–19

(In percent of GDP)

	2011	2012	2013	2014	2015	2016	2017	2018	2019
				Projection					
Revenue	24.1	25.6	23.1	23.1	23.3	23.5	23.7	23.8	23.9
Taxes	18.7	18.9	18.5	18.5	18.7	18.9	19.1	19.2	19.3
Taxes on income, profits, and capital gains	1.6	1.3	1.2	1.2	1.3	1.3	1.3	1.3	1.3
Taxes on payroll & workforce	7.3	7.1	7.0	7.0	7.0	7.1	7.2	7.3	7.4
Taxes on property	0.9	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Taxes on goods and services	8.9	9.8	9.7	9.7	9.8	9.9	10.0	10.0	10.0
Other taxes	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Capital Grants	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	5.2	6.7	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Expense	24.4	24.7	23.4	23.1	22.8	22.9	22.9	22.8	22.8
Compensation of employees	9.5	10.1	10.0	10.0	10.1	10.2	10.3	10.4	10.6
Goods and services	6.1	7.1	5.2	5.2	5.2	5.2	5.2	5.2	5.2
Consumption of fixed capital	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Social benefits 1/	1.5	1.4	2.3	2.4	2.5	2.6	2.7	2.8	2.9
Subsidies	6.2	4.9	4.7	4.5	4.0	3.9	3.8	3.5	3.3
Interest	0.7	0.7	0.6	0.5	0.4	0.4	0.4	0.4	0.3
Gross Operating Balance	0.2	1.4	0.2	0.5	1.0	1.2	1.3	1.5	1.5
Net Operating Balance 2/	-0.3	0.9	-0.3	0.0	0.5	0.6	0.8	1.0	1.0
Net Acquisition of Nonfinancial Assets	1.4	1.9	0.8	2.0	2.5	2.5	2.5	2.5	1.9
Overall Balance	-1.7	-1.0	-1.1	-2.0	-2.0	-1.8	-1.7	-1.5	-0.8
Memorandum items:									
Current Balance	-0.3	0.9	-0.3	0.0	0.5	0.6	0.8	1.0	1.0
Primary Balance	-1.0	-0.3	-0.5	-1.6	-1.5	-1.4	-1.3	-1.1	-0.5
Gross debt	25.0	24.6	24.3	30.8	31.5	32.0	32.3	32.3	31.6

Sources: Data provided by the authorities and IMF staff estimates.

1. Includes transfers to cover the deficit of funds not integrated into the central budget, such as those for social security/insurance.

2. Gross operating balance minus consumption of fixed capital.

CURAÇAO AND SINT MAARTEN: RISK ASSESSMENT MATRIX (RAM) /1

Nature/source of main risk	***Relative likelihood*** *(high, medium, low)*	***Potential impact if realized*** *(high, medium, low)*	***Suggested policy response***
Protracted period of slower growth in Europe (larger than expected deleveraging or negative surprises on potential growth.)	**High**	**Medium** Both countries, and Curaçao in particular, source a large share of their tourists from Europe	Any built fiscal margins could be used to buffer the brunt. Monetary policy needs to remain geared to remove distortions.
Financial stress in the Euro area re-emerges triggered by stalled or incomplete delivery of national and euro area policy commitments	**Medium**	**Medium** Both countries, and Curaçao in particular, source a large share of their tourists from Europe	Any built fiscal margins could be used to buffer the brunt. Monetary policy needs to remain geared to remove distortions.
Political and economic instability in Venezuela (ongoing protests result in major disruptions of economic activity, requiring tightened limits on exports of hard currency/travel)	**Medium**	**High for Curaçao** **Low for Sint Maarten** Venezuela is Curaçao's main trading partner, accounting for the second largest share of tourists. Oil price to Curaçao may also increase.	Any built fiscal margins could be used to buffer the brunt. Monetary policy needs to remain geared to remove distortions.
Surges in global financial market volatility (related to UMP exit), leading to economic and fiscal stress, and constraints on country policy settings.	**High**	**Medium** While capital controls should prevent immediate large outflows, intensified pressures on reserves might raise questions on the peg.	The peg should be defended, if necessary by tightening monetary policy and slowing down the planned public investments to reduce imports.

1/ The RAM shows events that could materially alter the baseline path discussed in this report (which is the scenario most likely to materialize in the view of the staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding this baseline. The RAM reflects staff's views on the source of risks and overall level of concerns as of the time of discussions with the authorities.

Annex 1: The authorities' response to Past IMF Policy Recommendations

IMF 2011 Article IV Recommendations	Authorities' Response
Fiscal Policy I	
Tighten fiscal policy in the order of 2-3 percentage point of GDP to mitigate external vulnerabilities.	Progress is ongoing, particularly in Curaçao where the need for adjustment was greatest.
Fiscal Policy II	
Shift tax burden from direct to indirect taxation.	Still being considered but details have yet to be worked out.
Fiscal Policy III	
Tax compliance in Sint Maarten needs to be enhanced.	Progress is ongoing.
Fiscal Policy IV	
Curaçao needs to review the generosity of unemployment benefits, particularly with regards to the duration.	No action taken.
Structural Reforms I	
Enhance labor market flexibility, liberalize the administered price regime and reduce red tape.	No action taken.
Structural Reforms II	
Implement measures to increase the efficiency and governance of public utilities and public enterprises,	Remained broadly unchanged though the pass-through of input costs to retail prices has been improved.
Monetary Policy I	
Strengthen financial crisis resolution mechanisms.	Plans for deposit insurance scheme are currently being reviewed in cooperation with the FDIC.
Monetary Policy II	
Use monetary and macroprudential tools to reduce credit growth below that of nominal GDP.	Reserve requirements have been gradually increased and bank level credit ceilings introduced.

INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS—CURAÇAO AND SINT MAARTEN

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 11, 2014

Prepared By European Department

CONTENTS

FUND RELATIONS

Mission: Willemstad (May 6-12 and May 19) and Philipsburg (May 13-19). The concluding statement of the mission is available at http://www.imf.org/external/np/ms/2014/052014.htm

Staff team: Messrs. Lombardo (head), Winnekens (both EUR), and Quayyum (FIN).

Country interlocutors: Central Bank of Curaçao and Sint Maarten's President Tromp, Curaçao's Prime Minister Asjes, Curaçao's Finance Minister Jardim, Curaçao's Minister of Economic Development Palm, Sint Maarten's Prime Minister Wescot-Williams, Sint Maarten's Finance Minister Hassink, Sint Maarten's Minister of Tourism, Economic Affairs, Traffic and Telecommunication Richardson, and other senior officials from both countries' governments. Mr. Snel, Executive Director, and Mr Mosch (advisor to the Executive Director) also participated in the discussions. Additional meetings took place with and financial sector, industry and union representatives.

Membership Status: The Kingdom of the Netherlands is an original member of the Fund. On February 15, 1961, the Kingdom accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement for all territories.

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	5162.40	100.00
Fund holdings of currency	3922.49	75.98
Reserve position in Fund	1239.99	24.02

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	4836.63	100.00
Holdings	4560.17	94.28

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Obligations to Fund (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2014	2015	2016	2017	2018
Principal					
Charges/interest	0.14	0.31	0.31	0.31	0.31
Total	0.14	0.31	0.31	0.31	0.31

Exchange Rate Arrangements:

The Netherland Antilles guilder has been pegged to the US dollar at NA.f 1.79 per US$1 since 1971.

Article IV Consultation discussions with Curaçao and Sint Maarten:

This is the second Article IV consultation discussions with Curaçao and Sint Maarten, following the dissolution of the Netherlands Antilles and the granting of autonomy to both countries on October 10, 2010. The board concluded the first Article IV consultation discussions on November 18, 2011, on the basis of IMF Country Report No. 11/342. It is currently envisaged that the next Article IV consultation discussions with Curaçao and Sint Maarten will be held in 24 months time.

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance	
General: Data provision has serious shortcomings that significantly hamper surveillance. Most affected areas are: national accounts, government finance, and external sector data.	
National Accounts: Data are compiled by the Central Bureau of Statistics (CBS) in Curaçao and by the Department of Statistics in Sint Maarten. Expenditure-side national accounts data have been published only up to 2009 in Curaçao and 2012 in Sint Maarten. Production-side data in current terms are partially available for Curaçao up to 2012. Detailed producer price indices to deflate national accounts aggregates are not available. Instead, the CBS uses the aggregate consumer price index (CPI) to deflate total nominal GDP—rather than more detailed CPI-data. This method gives rise to distortions in the measurement of real growth.	
Price Statistics: CPI data are compiled and published on a monthly basis but the baskets and weights have not been updated since 2004 (Curaçao) and 2005 (Sint Maarten).	
Government Finance Statistics: Neither Curaçao nor Sint Maarten compile or disseminate GFS data according to international standards. For surveillance purposes, the Ministry of Finance in Curaçao provides fiscal data that can broadly be bridged to the cash framework of the *2001 Government Financial Statistics Manual* (*GFSM 2001*). However, the fiscal reporting standards in Sint Maarten are significantly weaker, and improvements are needed in grouping and consolidating fiscal data according to the *GFSM 2001* Manual. Final data on fiscal operations through 2013 for Sint Maarten have only become available very recently and there are still some gaps, complicating the assessment of its fiscal policy. Data on the operations of the individual countries during the time of the Netherlands Antilles must be treated with caution, hampering the long-term analysis of public finances.	
Monetary and Financial Statistics: The methodology used by the Central Bank of Curaçao and Sint Maarten (CBCS) for compiling monetary statistics is broadly consistent with the IMF Monetary and Financial Statistics Manual. However, there is some lag in the publication of the data.	
Financial sector surveillance: The authorities do not provide any financial soundness indicators (FSIs) for the IMF FSI database.	
External sector statistics: Quarterly balance of payments (BOP) statistics are reported by the CBCS in accordance with the fifth edition of the *Balance of Payments Manual*. Monthly data on the official reserve position are published with a lag of one month. The offshore sector is not covered in the BOP and, therefore, an appropriate classification of financial account inflows and outflows is problematic. Other areas requiring improvement include information on intra-union flows and data on the international investment positions.	
II. Data Standards and Quality	
Not partaking in the IMF's data standard initiatives.	No data ROSC has been conducted.
III. Reporting to STA	
The only data currently reported to STA are quarterly BOP, exchange rates, and international liquidity data.	

Curaçao and Sint Maarten: Table of Common Indicators Required for Surveillance

(As of June 19, 2014)

	Date of Latest Observation	Date Received	Frequency of Data	Frequency of Reporting	Frequency of Publication
Exchange Rates	Current	Current	Daily and Monthly	Daily and Monthly	Daily and Monthly
International Reserve Assets and Reserve Liabilities of the Monetary Authorities	3/14	5/1/14	Weekly	Weekly	Monthly
Reserve/Base Money	3/14	5/1/14	Monthly	Monthly	Monthly
Broad Money	3/14	5/1/14	Monthly	Monthly	Monthly
Central Bank Balance Sheet	3/14	5/1/14	Monthly	Monthly	Monthly
Consolidated Balance Sheet of the Banking System	3/14	5/1/14	Monthly	Monthly	Monthly
Interest Rates /1	3/14	5/1/14	Monthly	Monthly	Monthly
Consumer Price Index	3/14	6/11/14	Monthly	Monthly	Monthly
Revenue, Expenditure, Balance and Composition of Financing—General Government /2	2013	5/14	Annual	Annual	Annual
Revenue, Expenditure, Balance and Composition of Financing—Central Government /2	2013	5/14	Annual	Annual	Annual
Stocks of Central (or General) Government and Central- (or General-) Government guaranteed debt 3/	2013	5/14	Annual	Annual	Annual
External Current Account Balance	Q4 2013	6/6/14	Quarterly	Quarterly	Quarterly
Exports and Imports of Goods and Services	Q4 2013	6/6/14	Quarterly	Quarterly	Quarterly
GDP/GNP	2012/2013	5/20/14	Annual	Annual	Annual
Gross External Debt	2013	5/10/14	Annual	Annual	Annual
International Investment Position /4			NA	NA	NA

1/ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
2/ The general government consists of the central government and the social security funds. The composition of financing distinguishes foreign, domestic bank and domestic nonbank financing.
3/ Including currency and maturity decompositions.
4/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS – CURAÇAO AND SINT MAARTEN

July 11, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION DISCUSSIONS— DEBT SUSTAINABILITY ANALYSIS

Approved By
Ranjit Teja (EUR) and Bob Traa (SPR)

Prepared by the Staff of the International Monetary Fund

FIGURES

TABLE

PUBLIC DEBT SUSTAINABILITY ANALYSIS

Curaçao and Sint Maarten experienced a significant debt relief upon their independence in October 2010, when the Netherlands took over all of the existing Netherlands Antilles' debt in exchange for a significantly smaller amount of very long-term/low-cost debt issued by the two new countries. Under the baseline scenario, public debt will jump in 2014 in light of significant borrowing needs in both countries but will then stabilize throughout the projection horizon and even decline in outer years. The debt path is somewhat sensitive to adverse growth, fiscal, and interest rate shocks. Overall, risks of public debt distress are low, in light of the low debt levels, manageable gross financing needs, and a growing share of long-term, local currency debt. However, contingent liabilities associated with state owned enterprises and exogenous shocks, such as weather, add certain risks to debt sustainability.

1. **Starting off from a low base, thanks to the 2010 debt relief, under the baseline scenario the public debt ratio in both countries would see an uptick in 2014 before stabilizing, with manageable gross financing needs and a growing share of long-term, local currency debt representing key strengths.** After a steep increase in 2014 as a result of the need to finance the new hospital in Curaçao (NAf 436 million) and replenish dilapidated cash deposits in Sint Maarten (NAf 60 million), the debt ratio would stabilize and even fall in outer years thanks to less capital expenditures. A forecast pick-up in growth, moderate in Curaçao and more pronounced in Sint Maarten, would also underpin the benign evolution of the public debt ratio. In addition, the golden rule (enforced by the CFT) safeguards debt sustainability through two channels: (i) it ensures that the current balance is, at a minimum, in balance; and (ii) it guarantees the two countries access to long-term/low-cost funding as any new debt issuance is essentially picked up by the Netherlands at Dutch public sector borrowing rates (the Netherlands also assumes the FX risk, as it lends in *guilders*).

2. **The analysis is based on the following main assumptions:**

- **Real GDP growth** will remain positive in both countries in the medium term (around 1 percent in Curaçao and slightly above 2 percent in Sint Maarten) as public investment projects kick off in Curaçao and a pick-up in tourism supports economic activity in Sint Maarten. Both growth forecasts face some downside risks (e.g., public investments projects in Curaçao might continue to stall, negotiations to upgrade Curacao's Isla refinery in time for the 2019 expiration of the current lease to Venezuela's PdVSA might fail, and weather-related disruptions might hurt tourism in Sint Maarten).
- **Inflation** (as measured by the change in the CPI), is expected to accelerate again and hover around 2 percent throughout the forecast horizon.
- **Fiscal consolidation** will continue to play an important role in ensuring debt sustainability. Both authorities have plans and significant scope to increase revenues (Sint Maarten) and decrease expenditures (Curaçao).

- **Market access** is assumed to remain adequate to cover maturing debt and the flow of deficits under the presumption that the arrangement with the Netherlands and CFT will remain in place, though interest rates will gradually increase over time in line with the forecast for the Netherlands' long-term borrowing rates.

3. **The analysis focuses on the central government as no separate data for other entities is available.** Important fiscal risks arise from contingent liabilities of state-owned enterprises (SOEs) and, as mentioned above, from potential sizable calls on public finances for either the necessary upgrade or the demolition/clean-up of the refinery in Curaçao or for weather-related shocks to Sint Maarten. For the latter shocks, a 10 percentage point increase in expenditures would translate into a 5-percentage point increase in the steady state levels of the public debt ratios. Recent reports indicate that, for some individual SOEs, debt could amount to as much as 5 percent of GDP. However, a fuller assessment of the actual risk is not possible, as financial statements are either not available or outdated due to very long publication delays.

4. **Sensitivity analysis shows that the debt path is somewhat susceptive to adverse growth and fiscal policy shocks.** In particular:

- The debt ratio would enter an increasing path and reach around 45 percent in Curaçao and 42 percent in Sint Maarten in 2019 if growth is temporarily (in 2015 and 2016) lower by one historical standard deviation.
- Similarly, a standard combined macro-fiscal shock would gradually bring the debt ratio to around 46 percent in Curaçao and 42 percent in Sint Maarten.
- The materialization of a debt shock (from unexpected expenditures on the refinery or because of other contingent liabilities in Curaçao, or a weather-related expenditure shock in Sint Maarten), as captured by a one-off 10 percent increase in expenditures in 2017 (Curaçao) and 2015 (Sint Maarten) respectively, would result in a debt path qualitatively similar to that in the baseline scenario, but correspondingly higher.

5. **The reliability of the assessment depends on the realism of assumptions/forecasts on the evolution of key economic variables.** With this in mind, the results have to be interpreted with caution. Data reliability and availability is a significant problem in both countries. For example, expenditure-side data for Sint Maarten have only recently become available and still have significant gaps. Regardless of the data shortcomings, staff considers that public debt should remain manageable in both countries as long as their policies are bound by the current rule-based framework. Compliance with said framework is currently enforced by the Dutch oversight council CFT. This arrangement is expected to be reviewed in 2015, and it would be important that the existing safeguards and the process improvements achieved under the oversight of the CFT are not foregone.

6. **The template's heat map underscores that the public debt held by non-residents could be a vulnerability.** However, it is important to note that this results from the peculiar institutional set-up, by virtue of which the Netherlands automatically subscribes to the full amount of debt issued by both countries once the CFT approves the budget as in line with the golden rule. A key concern is that the current arrangement may run out at some point, exposing both countries to significantly higher borrowing costs.

7. **The authorities broadly agree with staff's assessment that overperforming on the current budget rule is needed to safeguard debt sustainability in light of potential shocks.** Both authorities have plans for revenue and expenditure-side reforms that should help create and maintain fiscal space to keep public debt low even in the presence of shocks.

Figure 1. Curaçao: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(in percent of GDP unless otherwise indicated)

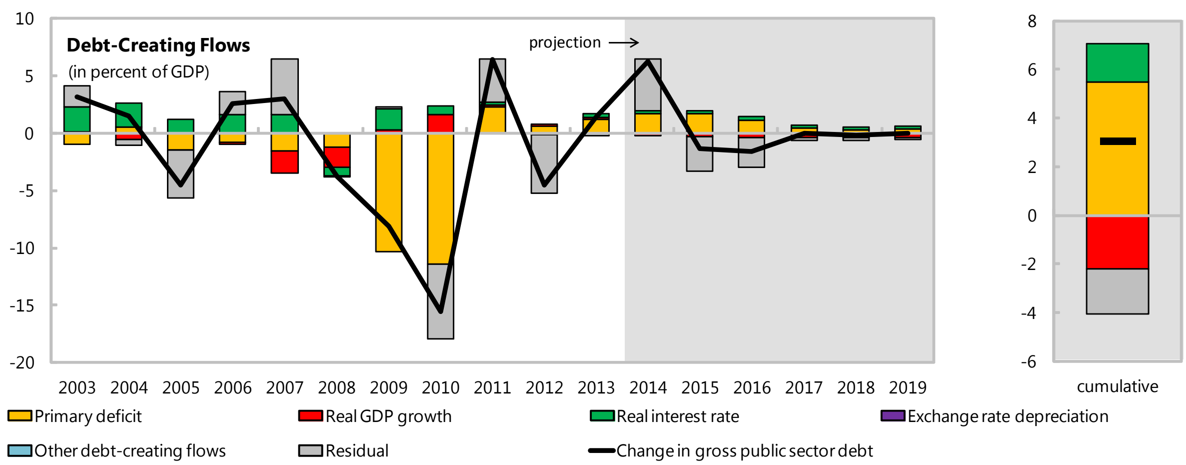
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2003-2011 [2/]	2012	2013	2014	2015	2016	2017	2018	2019
Nominal gross public debt	47.0	29.9	31.3	37.6	36.2	34.6	34.6	34.4	34.4
Public gross financing needs	-2.8	0.6	1.1	2.5	2.7	2.1	1.4	1.2	1.3
Real GDP growth (in percent)	0.5	-0.5	-0.6	0.7	0.9	1.1	1.1	1.3	1.3
Inflation (GDP deflator, in percent)	3.0	3.2	1.9	1.9	2.0	2.0	2.1	2.1	2.1
Nominal GDP growth (in percent)	3.9	3.0	1.0	3.8	3.8	3.2	3.3	3.1	2.9
Effective interest rate (in percent) [4/]	5.5	2.6	3.0	2.8	2.8	2.8	2.8	2.8	2.8

As of March 31, 2014		
Sovereign Spreads		
EMBIG (bp) 3/		35
5Y CDS (bp)		35
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	A-	A-
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-1.7	-4.5	1.4	6.2	-1.4	-1.6	0.0	-0.1	0.0	3.0	
Identified debt-creating flows	-1.9	0.6	1.7	1.8	1.6	1.0	0.3	0.1	0.1	4.9	
Primary deficit	-2.8	0.6	1.1	1.7	1.7	1.1	0.4	0.3	0.3	5.5	-0.2
Primary (noninterest) revenue and grants	23.5	29.7	28.5	28.2	28.2	28.2	28.1	28.1	28.1	168.9	
Primary (noninterest) expenditure	20.7	30.3	29.7	29.9	29.8	29.3	28.6	28.4	28.5	174.4	
Automatic debt dynamics [5/]	0.9	0.0	0.5	0.1	0.0	-0.1	-0.1	-0.2	-0.2	-0.6	
Interest rate/growth differential [6/]	0.9	0.0	0.5	0.1	0.0	-0.1	-0.1	-0.2	-0.2	-0.6	
Of which: real interest rate	1.2	-0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.2	1.6	
Of which: real GDP growth	-0.3	0.2	0.2	-0.2	-0.3	-0.4	-0.4	-0.4	-0.4	-2.2	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (1) (e.g., drawdown of de	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroar	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.2	-5.1	-0.3	4.5	-3.0	-2.6	-0.3	-0.2	-0.2	-1.8	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

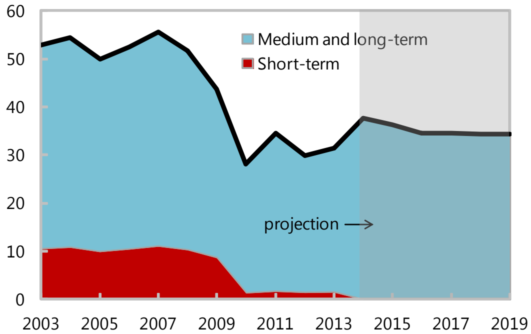
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

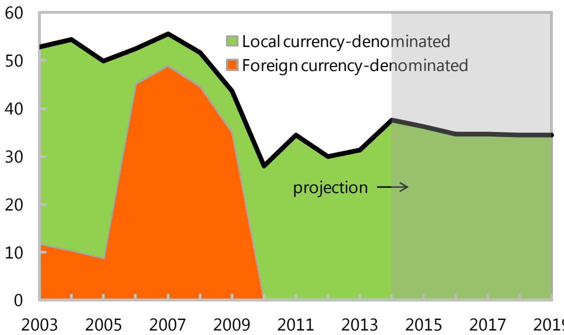
Figure 2. Curaçao: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



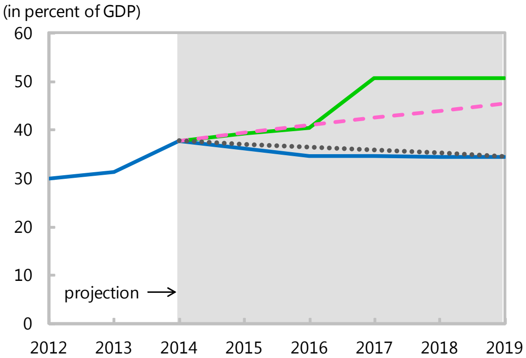
By Currency
(in percent of GDP)



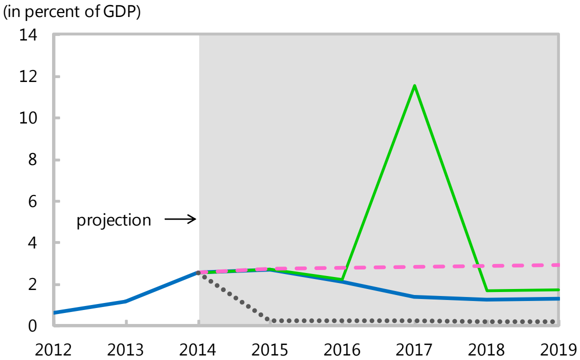
Alternative Scenarios

Baseline
Historical
Expenditure Shock - Refinery
Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

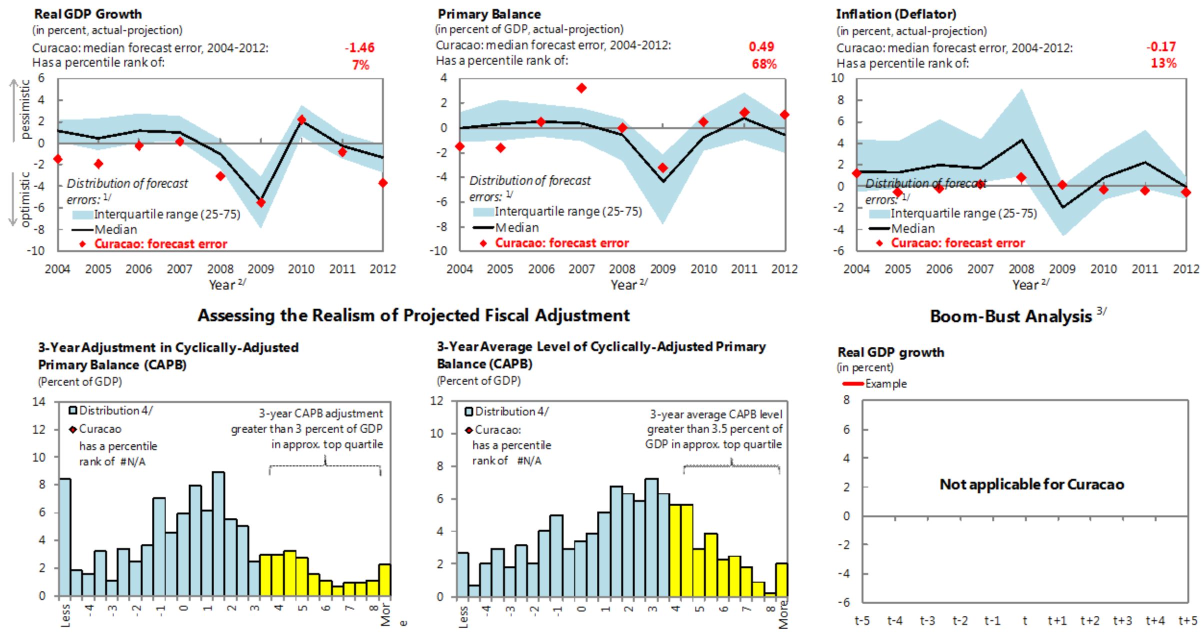
Baseline Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	0.7	0.9	1.1	1.1	1.3	1.3
Inflation	1.9	2.0	2.0	2.1	2.1	2.1
Primary Balance	-1.7	-1.7	-1.1	-0.4	-0.3	-0.3
Effective interest rate	2.8	2.8	2.8	2.8	2.8	2.8
Constant Primary Balance Scenario						
Real GDP growth	0.7	0.9	1.1	1.1	1.3	1.3
Inflation	1.9	2.0	2.0	2.1	2.1	2.1
Primary Balance	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7
Effective interest rate	2.8	2.8	2.8	2.8	2.8	2.9

Historical Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	0.7	0.3	0.3	0.3	0.3	0.3
Inflation	1.9	2.0	2.0	2.1	2.1	2.1
Primary Balance	-1.7	0.8	0.8	0.8	0.8	0.8
Effective interest rate	2.8	2.8	2.8	2.8	2.9	2.9

Source: IMF staff.

Figure 3. Curaçao: Public Sector Debt Sustainability Analysis (DSA) – Realism of Baseline Assumptions

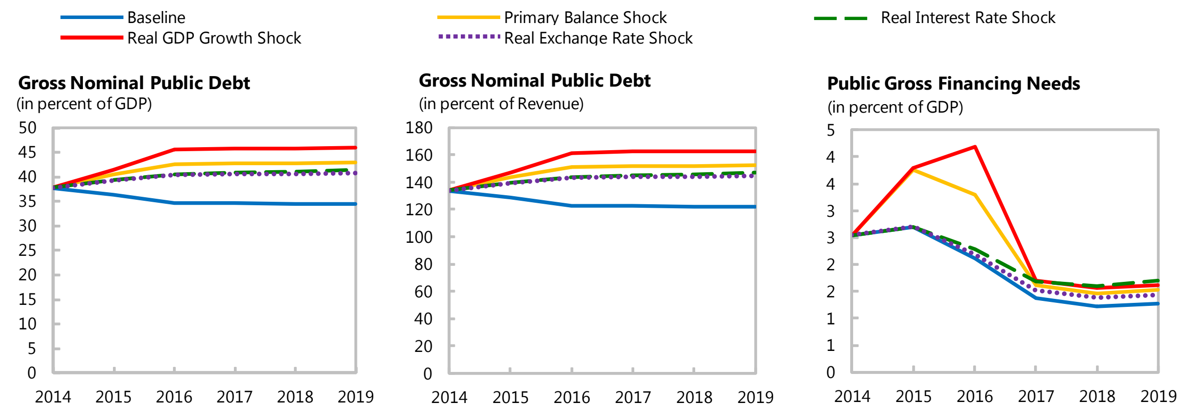
Forecast Track Record, versus all countries



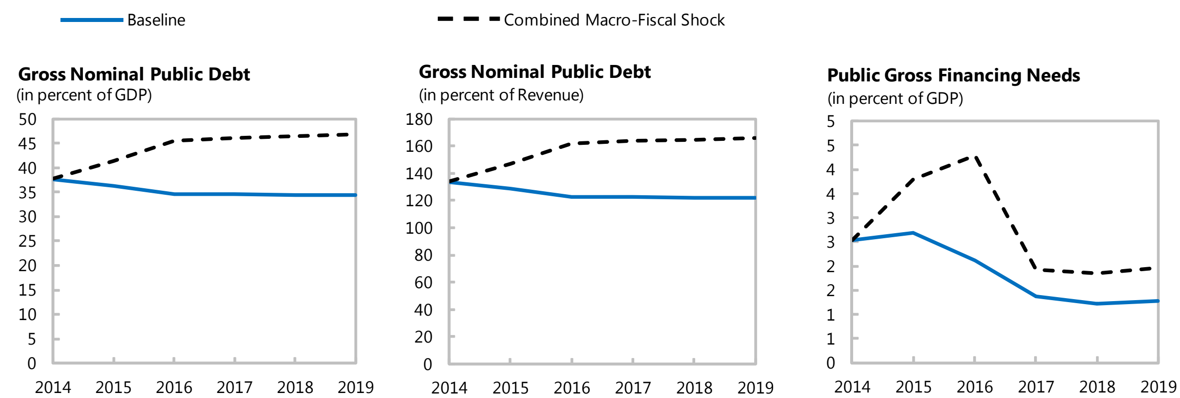
Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Example, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. Curaçao: Public Sector Debt Sustainability Analysis (DSA) – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2014	2015	2016	2017	2018	2019
Real GDP growth	0.7	0.9	1.1	1.1	1.3	1.3
Inflation	1.9	2.0	2.0	2.1	2.1	2.1
Primary balance	-1.7	-2.7	-2.2	-0.4	-0.3	-0.3
Effective interest rate	2.8	2.8	2.9	2.9	2.9	2.9
Real Interest Rate Shock						
Real GDP growth	0.7	0.9	1.1	1.1	1.3	1.3
Inflation	1.9	2.0	2.0	2.1	2.1	2.1
Primary balance	-1.7	-1.7	-1.1	-0.4	-0.3	-0.3
Effective interest rate	2.8	2.8	3.1	3.2	3.4	3.5
Combined Shock						
Real GDP growth	0.7	-1.2	-1.0	1.1	1.3	1.3
Inflation	1.9	1.5	1.5	2.1	2.1	2.1
Primary balance	-1.7	-2.7	-3.0	-0.4	-0.3	-0.3
Effective interest rate	2.8	2.8	3.1	3.4	3.5	3.7

Real GDP Growth Shock	2014	2015	2016	2017	2018	2019
Real GDP growth	0.7	-1.2	-1.0	1.1	1.3	1.3
Inflation	1.9	1.5	1.5	2.1	2.1	2.1
Primary balance	-1.7	-2.7	-3.0	-0.4	-0.3	-0.3
Effective interest rate	2.8	2.8	2.9	2.9	2.9	2.9
Real Exchange Rate Shock						
Real GDP growth	0.7	0.9	1.1	1.1	1.3	1.3
Inflation	1.9	2.2	2.0	2.1	2.1	2.1
Primary balance	-1.7	-1.7	-1.1	-0.4	-0.3	-0.3
Effective interest rate	2.8	2.8	2.8	2.8	2.8	2.9

Source: IMF staff.

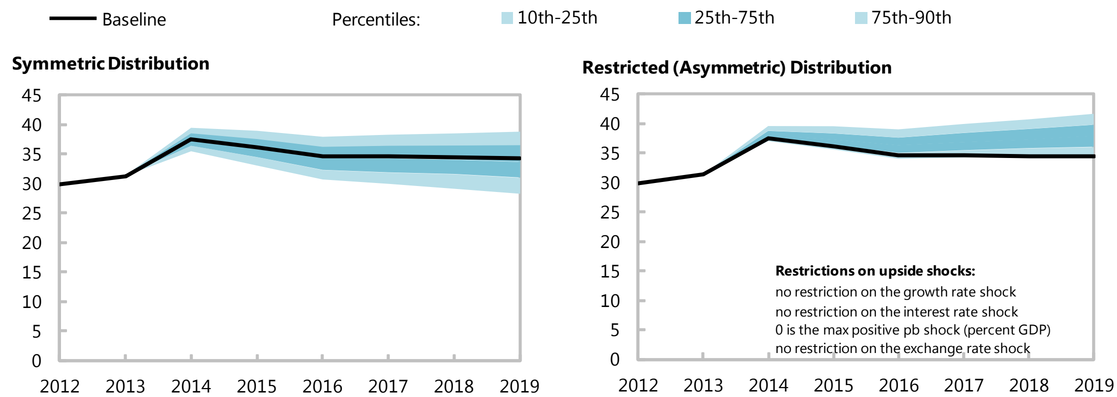
Figure 5. Curaçao: Public Sector Debt Sustainability Analysis (DSA) – Heat Map

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

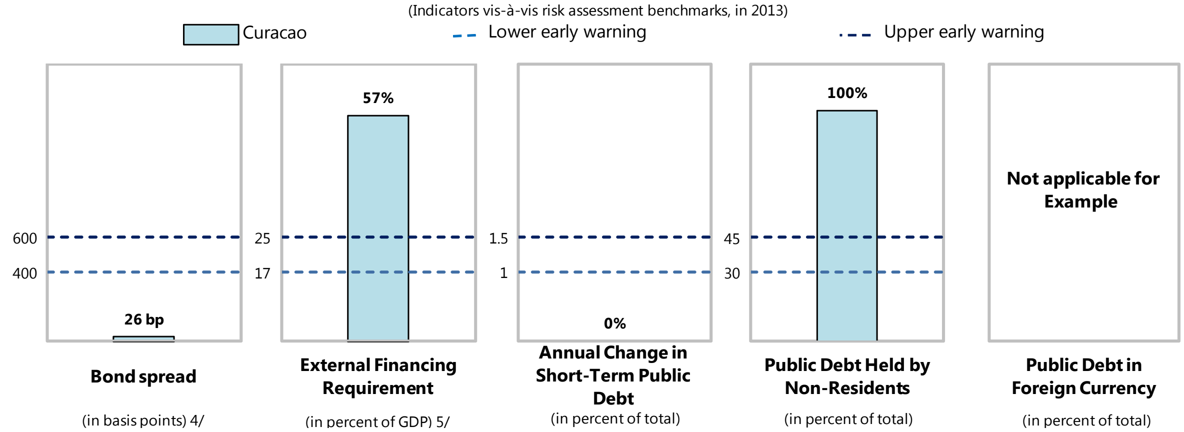
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2013)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 85% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 20% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 31-Dec-13 through 31-Mar-14.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 6. Sint Maarten: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(in percent of GDP unless otherwise indicated)

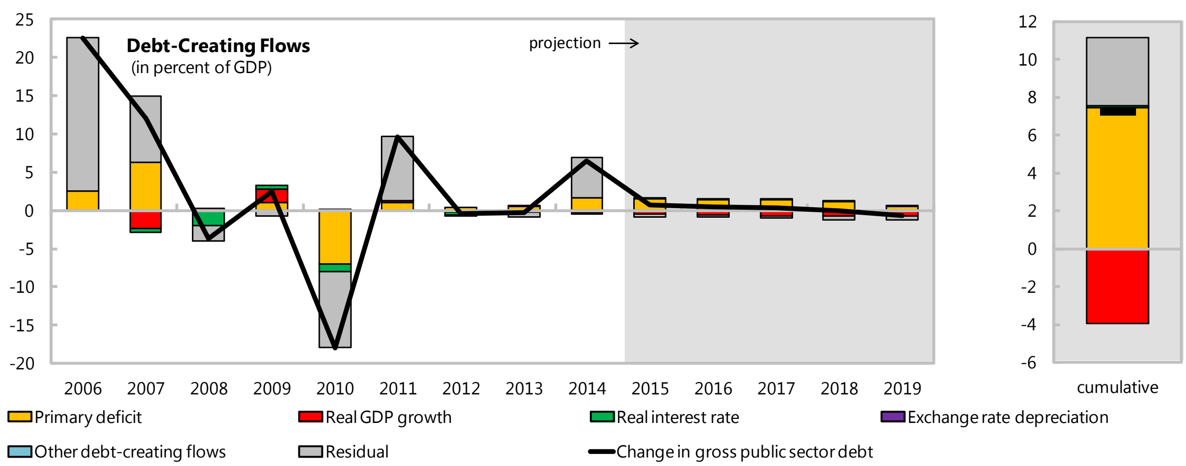
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2006-2011 [2/]	2012	2013	2014	2015	2016	2017	2018	2019
Nominal gross public debt	27.0	24.6	24.3	30.8	31.5	32.0	32.3	32.3	31.6
Public gross financing needs	0.7	0.3	0.5	2.0	2.2	1.9	1.8	1.5	0.9
Real GDP growth (in percent)	1.4	1.3	0.9	1.7	1.8	2.2	2.4	2.6	2.5
Inflation (GDP deflator, in percent)	2.7	4.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Nominal GDP growth (in percent)	4.8	5.5	3.8	4.8	4.4	4.3	4.5	5.0	5.0
Effective interest rate (in percent) [4/]	0.8	2.8	2.5	1.9	2.2	2.2	2.2	2.3	2.3

As of March 31, 2014		
Sovereign Spreads		
EMBIG (bp) 3/		35
5Y CDS (bp)		35
Ratings	Foreign	Local
Moody's	Baa1	Baa1
S&Ps	n.a.	n.a.
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2011	2012	2013	2014	2015	2016	2017	2018	2019	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	4.2	-0.5	-0.2	6.5	0.7	0.5	0.3	-0.1	-0.7	7.2	
Identified debt-creating flows	0.1	-0.3	0.4	1.1	1.0	0.8	0.6	0.4	-0.2	3.6	
Primary deficit	0.7	0.3	0.5	1.6	1.5	1.4	1.3	1.1	0.5	7.5	-0.7
Primary (noninterest) revenue and grants	18.5	25.6	23.1	23.1	23.3	23.5	23.7	23.8	23.9	141.4	
Primary (noninterest) expenditure	19.1	25.9	23.6	24.7	24.8	24.9	25.1	25.0	24.4	148.8	
Automatic debt dynamics [5/]	-0.6	-0.6	-0.1	-0.5	-0.5	-0.6	-0.7	-0.8	-0.7	-3.8	
Interest rate/growth differential [6/]	-0.6	-0.6	-0.1	-0.5	-0.5	-0.6	-0.7	-0.8	-0.7	-3.8	
Of which: real interest rate	-0.5	-0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	
Of which: real GDP growth	-0.1	-0.3	-0.2	-0.4	-0.5	-0.7	-0.7	-0.8	-0.8	-3.9	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (1) (e.g., drawdown of de	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroar	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	4.1	-0.1	-0.6	5.3	-0.3	-0.2	-0.3	-0.4	-0.5	3.6	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

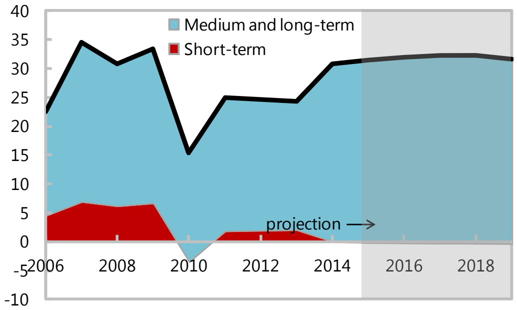
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

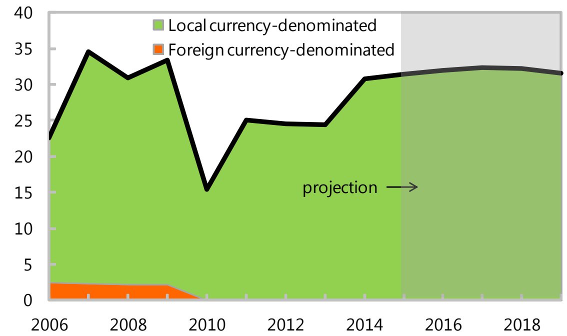
Figure 7. Sint Maarten: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



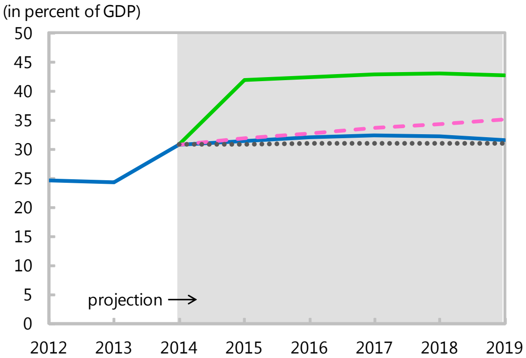
By Currency
(in percent of GDP)



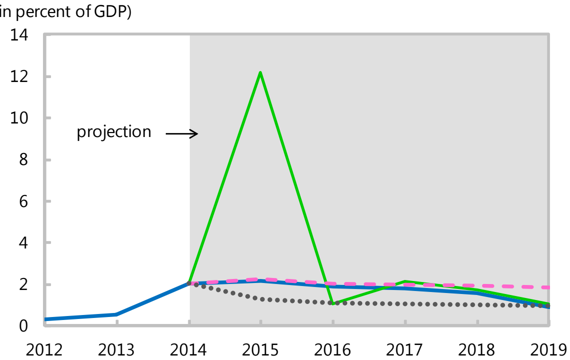
Alternative Scenarios

Baseline
Historical
Constant Primary Balance
Expenditure shock - Hurricane

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



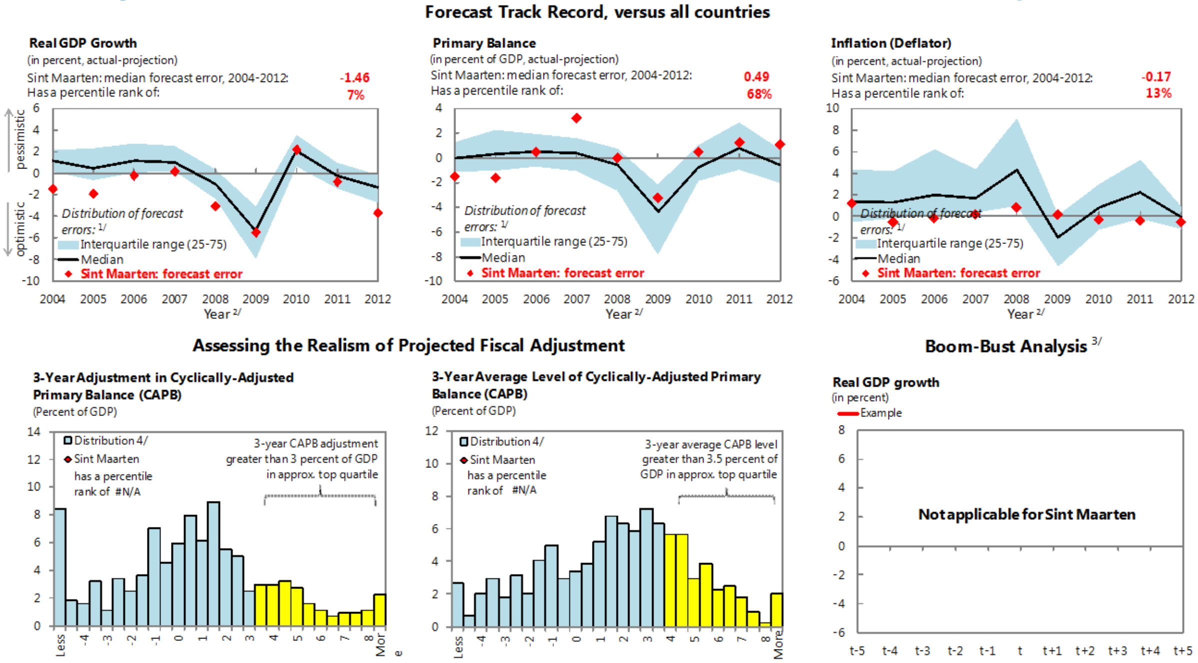
Underlying Assumptions
(in percent)

Baseline Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	1.7	1.8	2.2	2.4	2.6	2.5
Inflation	2.1	2.1	2.1	2.1	2.1	2.1
Primary Balance	-1.6	-1.5	-1.4	-1.3	-1.1	-0.5
Effective interest rate	1.9	2.2	2.2	2.2	2.3	2.3
Constant Primary Balance Scenario						
Real GDP growth	1.7	1.8	2.2	2.4	2.6	2.5
Inflation	2.1	2.1	2.1	2.1	2.1	2.1
Primary Balance	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6
Effective interest rate	1.9	2.2	2.2	2.2	2.3	2.3

Historical Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	1.7	1.9	1.9	1.9	1.9	1.9
Inflation	2.1	2.1	2.1	2.1	2.1	2.1
Primary Balance	-1.6	-0.6	-0.6	-0.6	-0.6	-0.6
Effective interest rate	1.9	2.2	2.2	2.1	2.0	2.0

Source: IMF staff.

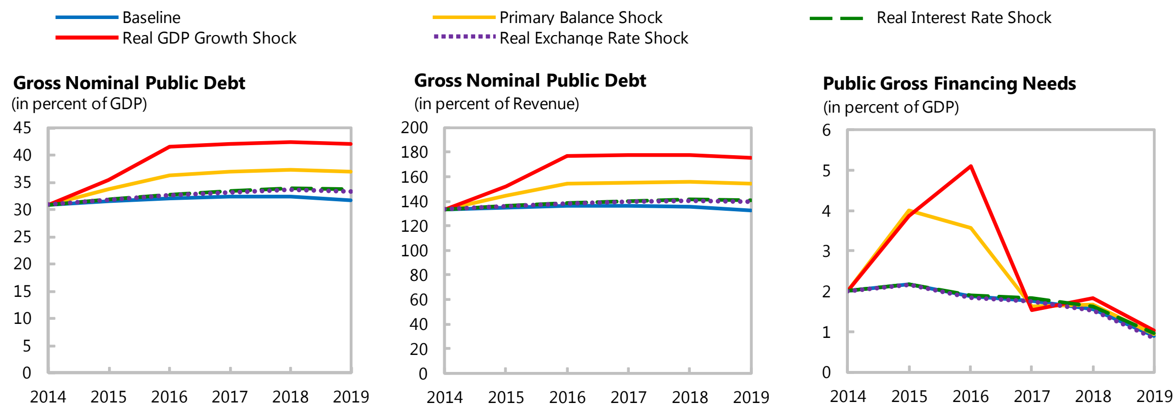
Figure 8. Sint Maarten: Public Sector DSA – Realism of Baseline Assumptions



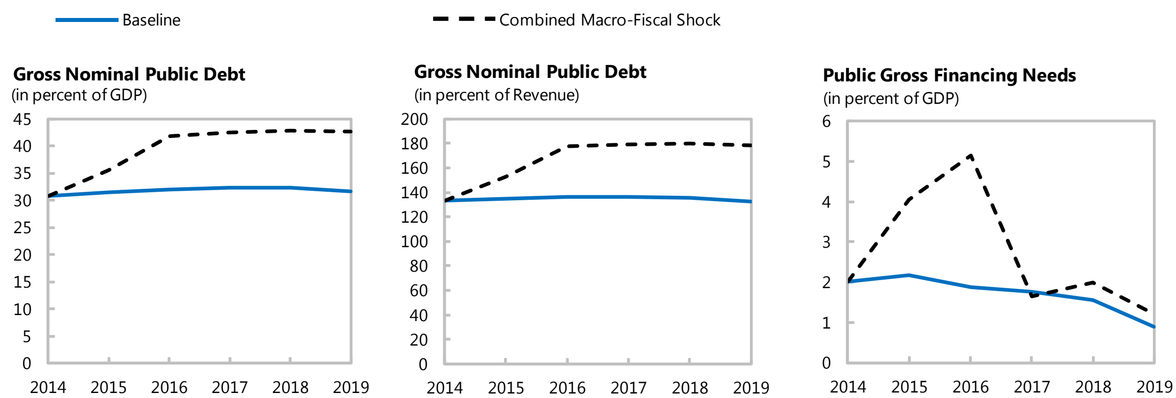
Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Example, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 9. Sint Maarten: Public Sector Debt Sustainability Analysis (DSA) – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2014	2015	2016	2017	2018	2019
Real GDP growth	1.7	1.8	2.2	2.4	2.6	2.5
Inflation	2.1	2.1	2.1	2.1	2.1	2.1
Primary balance	-1.6	-3.4	-3.2	-1.3	-1.1	-0.5
Effective interest rate	1.9	2.2	2.3	2.4	2.4	2.5
Real Interest Rate Shock						
Real GDP growth	1.7	1.8	2.2	2.4	2.6	2.5
Inflation	2.1	2.1	2.1	2.1	2.1	2.1
Primary balance	-1.6	-1.5	-1.4	-1.3	-1.1	-0.5
Effective interest rate	1.9	2.2	2.4	2.5	2.6	2.8
Combined Shock						
Real GDP growth	1.7	-3.0	-2.6	2.4	2.6	2.5
Inflation	2.1	0.9	0.9	2.1	2.1	2.1
Primary balance	-1.6	-3.4	-4.7	-1.3	-1.1	-0.5
Effective interest rate	1.9	2.2	2.5	2.8	2.9	3.0

Real GDP Growth Shock	2014	2015	2016	2017	2018	2019
Real GDP growth	1.7	-3.0	-2.6	2.4	2.6	2.5
Inflation	2.1	0.9	0.9	2.1	2.1	2.1
Primary balance	-1.6	-3.2	-4.7	-1.3	-1.1	-0.5
Effective interest rate	1.9	2.2	2.3	2.4	2.5	2.5
Real Exchange Rate Shock						
Real GDP growth	1.7	1.8	2.2	2.4	2.6	2.5
Inflation	2.1	2.3	2.1	2.1	2.1	2.1
Primary balance	-1.6	-1.5	-1.4	-1.3	-1.1	-0.5
Effective interest rate	1.9	2.2	2.2	2.2	2.3	2.3

Source: IMF staff.

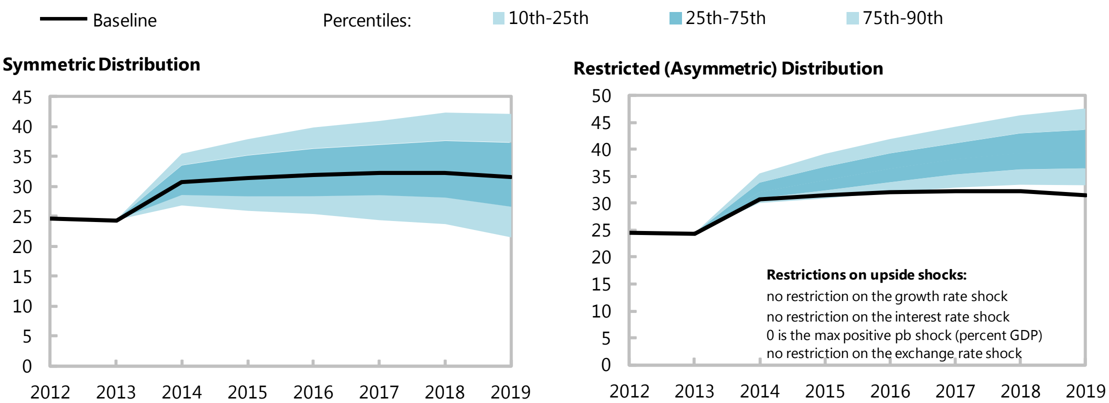
Figure 10. Sint Maarten: Public Sector Debt Sustainability Analysis (DSA) – Heat Map

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

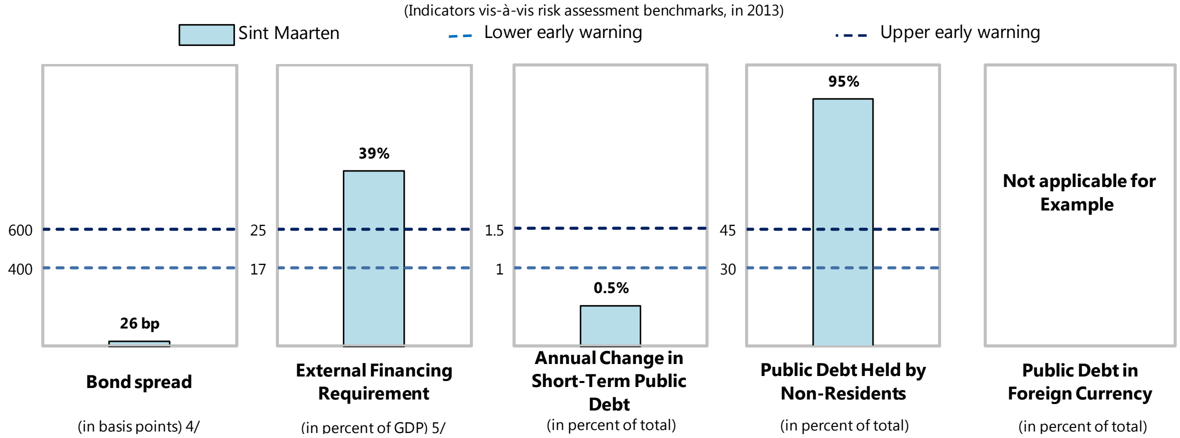
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2013)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 85% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 20% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 31-Dec-13 through 31-Mar-14.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

1. **The need to finance large external deficits and public investment budgets will push gross external debt higher over the projection horizon**. Under the baseline scenario, gross external debt would increase from 98 percent of the union's combined GDP to 110 percent in 2018, from where it would embark on a gradual decline. This forecast is based on the following assumptions:

1) Average non-debt creating FDI of about 2.5 percent of GDP, versus an average of 1.7% of GDP in the post-independence (2010-13) period, reflecting some increased appeal of the two islands to foreign investors from the pick-up in global tourism demand and assumed progress on structural reforms;

2) An average of about 3 percent over 2014-2018 in inflows associated to the repayment by the Netherlands of the Netherlands' Antilles' debt. This financing source is a reduction of the union's external assets and thus results in an increase of *net* external debt, but not of gross external debt.

3) Other macroeconomic variables as per the baseline macroeconomic framework.

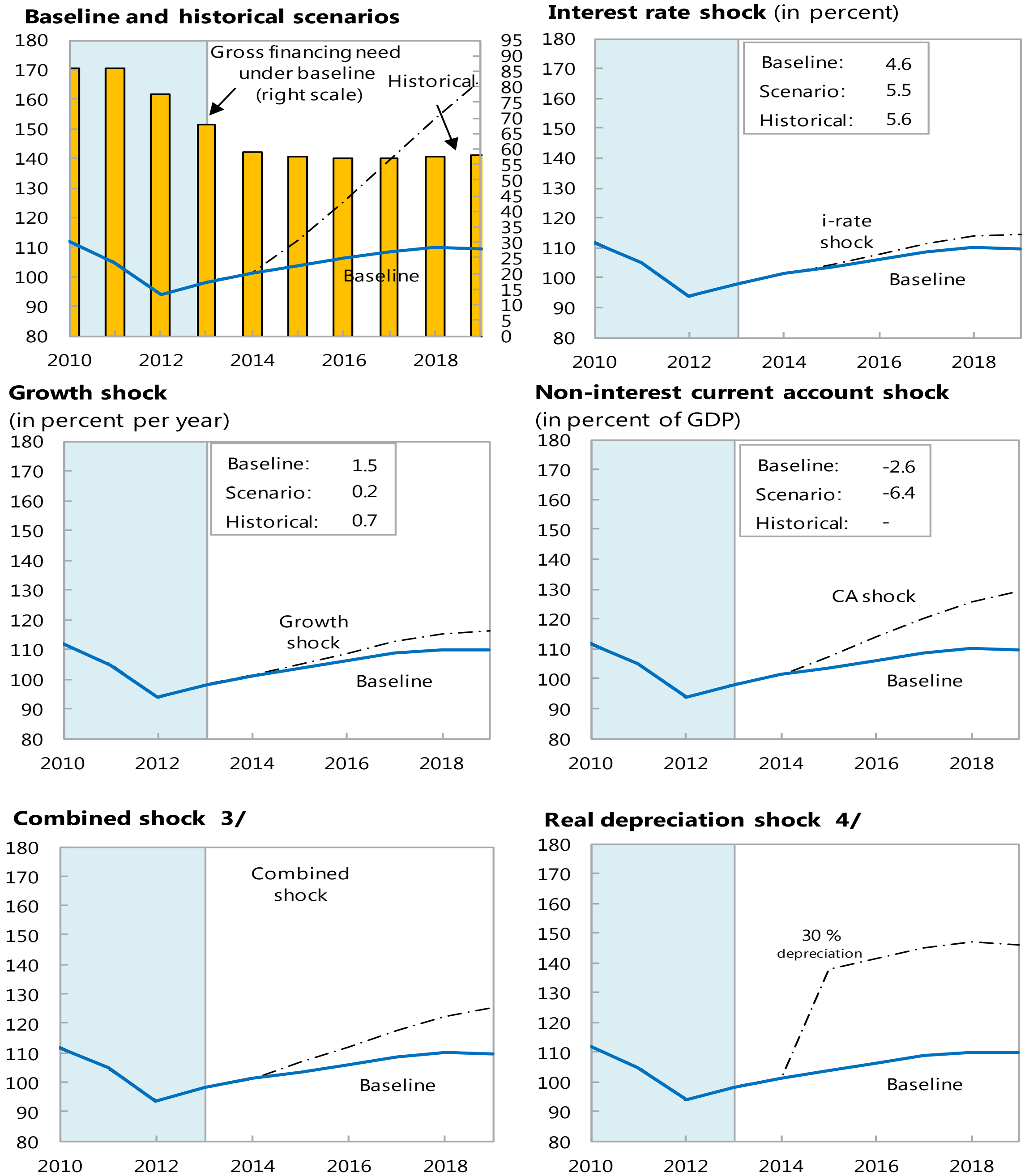
2. **A full assessment of whether this constitutes a threat to debt sustainability is hampered, however, by lack of information on the two countries' external assets.** These are presumed to be large, in line with the two countries' high per-capita income.[1] However, the fact that the gross debt is projected to reach levels in line with pre-debt relief peaks suggests that the associated vulnerabilities may stay in the period ahead.

3. **Gross external debt is sensitive to growth and especially current account shocks**, which further underscores the importance of flexibility- and competitiveness-enhancing reforms for overall sustainability. The impact of an exchange rate depreciation would be attenuated by the fact that public external debt is in local currency (and at very long maturities).

[1] In its March 2014 reaffirmation of Curacao's 'A-/A-2' (investment grade) ratings, Standard and Poor's indicated that it "estimates that Curacao is a large net external creditor, which mitigates its weak liquidity position," while noting that "official data on Curacao's international investment position are lacking, representing a significant gap in terms of statistical coverage."

Figure 11. Curaçao and Sint Maarten: External Debt Sustainability: Bound Tests [1/2/]

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

Table 1. Curaçao and Sint Maarten: External Debt Sustainability Framework, 2009–19

(In percent of GDP, unless otherwise indicated)

	Actual						Projections						
	2010	2011	2012	2013			2014	2015	2016	2017	2018	2019	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	111.7	104.8	93.7	98.1			**101.2**	**103.5**	**106.0**	**108.5**	**110.0**	**109.6**	**-1.7**
Change in external debt	28.6	-6.9	-11.1	4.4			3.1	2.4	2.5	2.4	1.5	-0.4	
Identified external debt-creating flows (4+8+9)	19.9	16.2	13.9	12.6			9.0	5.6	3.8	2.5	2.0	1.5	
Current account deficit, excluding interest payments	22.3	15.9	14.7	11.0			7.8	4.7	3.3	1.9	1.6	1.3	
Deficit in balance of goods and services	25.2	17.9	15.0	11.4			8.8	6.8	5.5	4.4	3.6	3.2	
Exports	66.9	80.2	86.0	84.2			85.2	86.3	87.3	87.9	88.6	89.4	
Imports	92.1	98.1	101.1	95.6			94.0	93.1	92.8	92.4	92.2	92.6	
Net non-debt creating capital inflows (negative)	-2.7	-1.2	-1.5	-1.5			-2.6	-2.7	-2.7	-2.6	-2.6	-2.6	
Automatic debt dynamics 1/	0.3	1.5	0.7	3.1			3.9	3.6	3.2	3.2	3.0	2.8	
Contribution from nominal interest rate	2.9	5.0	4.3	4.7			4.8	4.7	4.6	4.7	4.7	4.6	
Contribution from real GDP growth	2.2	0.9	0.1	0.2			-0.9	-1.1	-1.4	-1.5	-1.7	-1.7	
Contribution from price and exchange rate changes 2/	-4.8	-4.5	-3.7	-1.8			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	8.6	-23.1	-25.0	-8.2			-5.9	-3.3	-1.3	-0.1	-0.5	-2.0	
External debt-to-exports ratio (in percent)	167.0	130.6	108.9	116.5			118.8	120.0	121.5	123.3	124.1	122.5	
Gross external financing need (in billions of US dollars) 4/	3.3	3.4	3.2	2.8			2.6	2.6	2.7	2.8	2.9	3.0	
in percent of GDP	86.0	85.8	77.6	67.6	10-Year	10-Year	59.2	57.4	57.1	57.0	57.7	57.8	
Scenario with key variables at their historical averages 5/							**101.2**	**112.5**	**125.3**	**139.5**	**153.6**	**166.2**	**1.0**
					Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline					Average	Deviation							
Real GDP growth (in percent)	-2.8	-0.8	-0.1	-0.3	0.7	2.5	0.9	1.2	1.4	1.4	1.6	1.6	
GDP deflator in US dollars (change in percent)	6.1	4.2	3.7	1.9	3.3	2.1	3.1	2.7	2.0	2.1	2.0	1.8	
Nominal external interest rate (in percent)	3.6	4.7	4.3	5.1	5.6	1.8	5.1	4.8	4.6	4.6	4.5	4.3	
Growth of exports (US dollar terms, in percent)	-2.4	23.9	11.1	-0.5	6.2	9.7	5.3	5.3	4.7	4.4	4.4	4.4	
Growth of imports (US dollar terms, in percent)	5.1	10.0	6.8	-3.9	6.7	8.7	2.3	3.0	3.2	3.1	3.5	3.8	
Current account balance, excluding interest payments	-22.3	-15.9	-14.7	-11.0	-11.9	7.6	-7.8	-4.7	-3.3	-1.9	-1.6	-1.3	
Net non-debt creating capital inflows	2.7	1.2	1.5	1.5	1.6	2.2	2.6	2.7	2.7	2.6	2.6	2.6	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

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IMF Executive Board Concludes 2014 Article IV Consultation Discussions with the Kingdom of the Netherlands—Curaçao and Sint Maarten

On July 30, 2014, the Executive Board of the International Monetary Fund concluded the 2014 Article IV consultation discussions with Curaçao and Sint Maarten, two autonomous countries within the Kingdom of the Netherlands, and considered and endorsed the staff appraisal without a meeting.[1,2]

After some initial slippages, both countries have brought their fiscal policies in compliance with the fiscal rules that had been agreed with the Netherlands in 2010 in exchange for significant debt relief. Curaçao in particular has decisively addressed the spending pressures related to its aging population, which were especially acute. This supported a gradual but steady reduction in the union's current account deficit—the key economic vulnerability flagged by the 2011 Article IV Consultation discussions—though this remains large.

Curaçao's real GDP contracted by an estimated 0.5 percent in both 2012 and 2013 due to the needed fiscal adjustment, a continued decline in the international financial sector, and the slow global recovery, all combined with long-standing structural weaknesses. Sint Maarten has been recovering, growing by about 1 percent on average over 2012-13, thanks to the ongoing recovery in the United States (the source of 60 percent of its tourists) and the construction of the Simpson Bay causeway.

The improving global outlook and the recovery in tourism are expected to support economic activity in the near term, especially in Sint Maarten. Curacao's economic activity will also

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] Article IV consultations are concluded without a Board meeting when the following conditions apply: (i) there are no acute or significant risks, or general policy issues requiring Board discussion; (ii) policies or circumstances are unlikely to have significant regional or global impact; (iii) in the event a parallel program review is being completed, it is also being completed on a lapse-of-time basis; and (iv) the use of Fund resources is not under discussion or anticipated.

benefit from the construction of a large new hospital. Growth should accelerate in the medium term, especially if structural bottlenecks hampering investment, innovation, and competitiveness are addressed.

Executive Board Assessment

In concluding the 2014 Article IV consultation with Curaçao and Sint Maarten, Executive Directors endorsed the staff's appraisal, as follows:

The authorities of both countries have made important efforts to strengthen their underlying fiscal position. Looking forward, they should continue to gear fiscal policy toward supporting ongoing external adjustment and building buffers. Curaçao should reform the public sector pension system, achieve further efficiency gains in the public apparatus, and improve the governance of its public companies. For Sint Maarten, strengthening the tax administration to tackle declining tax compliance and fund its newly acquired functions is critical. The latter could also be bolstered by increased contributions to the budget by public companies. The next government after the coming elections should build on the current administration's efforts to keep public wage developments in check, including by reviewing the existing indexation mechanisms. These policies would allow both countries to maintain public debt at sustainable levels despite important investment needs, and build buffers to respond to future shocks. Keeping public sector wage growth firmly in line with productivity is also important for its signaling effect on private sector wages.

The central bank should encourage prudent lending behavior and closely monitor banks' deteriorating asset quality. Rather than resorting to bank-level credit ceilings, banks' excess liquidity should be sterilized through a more aggressive use of certificates of deposits and further reserve requirement increases as appropriate. Over time, the existing limits and penalties on outward investment by pension funds should be removed. As planned, the central bank should divest its holdings of non-financial corporates' bonds, and refrain from direct financing of non-financial companies in the future.

Significantly greater effort is needed in tackling structural impediments to growth and job creation. A dynamic private sector, which is the linchpin of sustained growth in the medium term, requires tackling the maze of permits and licenses, which has hampered investment and innovation, especially in Curaçao. Rigid labor laws and the system of welfare payments for unemployed should be reviewed, to shift emphasis from protecting jobs to protecting workers, facilitate needed cyclical adjustments in the workforce, and ensure adequate incentives and support for job search by the unemployed. Restrictions to hiring foreign workers should be removed, while at the same time ensuring that all workers (local and domestic) are afforded adequate labor conditions. These policies and reforms would also underpin the currency peg (which has provided both countries with a stable macroeconomic environment since 1971) via increased flexibility, competitiveness, and capacity to withstand shocks.

Finally, both governments should improve the statistical infrastructure and data—which are presently not adequate for effective macroeconomic analysis, surveillance, and policy response—through greater investment and, where appropriate, technical assistance.

Curacao: Selected Economic and Financial Indicators, 2009–15

Area	444 (km^2)	Population, thousand (2013)	152.8
Percent of population below age 15 (2013)	20.5	Literacy rate, in percent (2010)	96.7
Percent of population aged 65+ (2013)	13.7	Life expectancy at birth, male (2012)	74.4
Infant mortality, over 1,000 live births (2012)	11.3	Life expectancy at birth, female (2012)	80.7

	2009	2010	2011	2012	2013	2014	2015
						Proj.	
Real economy (change in percent)							
Real GDP 1/	-0.6	-3.6	-0.5	-0.5	-0.6	0.7	0.9
Private consumption	-5.5	7.0	0.0	-0.5	-2.5	-1.0	0.3
Public consumption	2.9	1.6	-2.0	-0.1	-3.8	0.1	0.3
Gross fixed investment	1.3	-2.8	0.4	0.2	0.1	2.5	0.4
Net foreign balance 2/	1.0	-8.5	3.0	-0.1	1.6	0.4	0.4
CPI (12-month average)	1.8	2.8	2.3	3.2	1.3	1.9	2.0
Unemployment rate (in percent)	9.6	9.7	9.8	11.5	13.0	12.4	11.9
General government finances (in percent of GDP) 3/							
Primary balance	10.4	11.5	-2.1	-0.5	-1.1	-1.6	-1.6
Primary balance w/o debt relief	2.1	5.4	-2.1	-1.5	-1.1	-1.6	-1.6
Current balance	8.1	10.0	-1.5	0.3	1.5	1.2	1.0
Overall balance	7.8	9.6	-3.0	-1.4	-2.0	-2.4	-2.4
Public debt	43.6	28.1	34.5	29.9	31.3	37.6	36.2
Balance of payments (in percent of GDP)							
Goods trade balance	-37.0	-41.3	-39.5	-41.7	-38.3	-37.1	-36.4
Exports of goods	23.5	23.1	30.5	30.3	22.4	22.6	22.5
Imports of goods	60.5	64.4	70.1	72.0	60.8	59.7	58.9
Service balance	13.7	8.4	14.3	17.4	21.7	23.4	25.3
Exports of services	37.1	32.4	40.4	45.4	49.7	50.5	51.4
Imports of services	23.4	23.9	26.2	28.0	28.0	27.1	26.1
Current account	-16.7	-30.9	-27.3	-28.1	-21.1	-17.1	-13.3
Capital and financial account	8.5	26.7	26.4	24.8	19.5	18.1	16.1
Net FDI	1.7	2.4	3.2	1.4	1.0	2.4	2.4
Net official reserves (in millions of US dollars)	929.4	1,234.0	1,244.1	1,246.3	1,220.6	1,293.8	1,440.4
(in months of imports of goods)	6.4	7.8	7.0	6.6	7.6	7.9	8.6
(In percent of short-term debt)	76.2	83.8	90.5	109.9	124.6	119.9	122.9
External debt (in percent of GDP)	74.2	107.3	102.8	93.2	103.3	109.6	114.7
Memorandum items:							
Nominal GDP (in millions of US dollars)	2,871	2,951	3,039	3,131	3,162	3,282	3,407
Per capita GDP (change in percent)	-4.1	2.3	2.5	2.0	0.0	2.8	2.8
Real effective rate (2007=100)	93.8	100.1	97.6	96.3	95.6	..	…
Fund position	Curaçao is part of the Kingdom of the Netherlands and does not have a separate quota.						
Exchange rate	The Netherlands' Antilles guilder is pegged to the U.S. dollar at NA.f 1.79 = US$1.						

Sources: Data provided by the authorities; and IMF staff estimates.
1/ Based on IMF staff estimates of deflators.
2/ Contribution to GDP growth.
3/ Data from 2009-2010 reflect the fiscal operations of the local island government. Data from 2011 onwards refer to the new island government that has integrated the fiscal operations of the previous central government of the Netherlands Antilles.

St. Maarten: Selected Economic and Financial Indicators, 2009–15

Area	34 (km^2)	Population (2012)	39
Percent of population below age 15 (2010)	23.4	Literacy rate, in percent (2010)	95.8
Percent of population aged 65+ (2010)	3.6	Life expectancy at birth, male (2010)	73.1
Infant mortality, over 1,000 live births (2010)	6.0	Life expectancy at birth, female (2010)	78.2

	2009	2010	2011	2012	2013	2014	2015
						Proj.	
Real economy (change in percent)							
Real GDP 1/	-5.0	0.0	-1.7	1.3	0.9	1.7	1.8
Private consumption	-5.0	-6.9	-2.0	0.5	0.0	1.1	3.0
Public consumption	6.2	-0.9	2.0	1.7	-1.7	1.5	1.5
Gross fixed investment	1.2	-10.7	-1.3	2.8	0.7	1.4	2.1
Net foreign balance 2/	3.0	7.2	-1.5	0.1	0.8	0.5	-0.4
CPI (12-month average)	0.7	3.2	4.6	4.0	2.5	2.1	2.1
Unemployment rate (in percent)	12.2	12.0	12.0	10.4	8.5	8.4	8.2
General government finances (in percent of GDP) 3/							
Primary balance	-1.0	7.0	-1.0	-0.3	-0.5	-1.6	-1.5
Primary balance w/o debt relief	-1.0	2.9	-1.0	-0.1	-0.5	-1.6	-1.5
Current balance	-0.2	7.8	-0.3	0.9	-0.3	0.0	0.5
Overall balance	-1.0	7.0	-1.7	-1.0	-1.1	-2.0	-2.0
Public debt	33.4	15.4	25.0	24.6	24.3	30.8	31.5
Balance of payments (in percent of GDP)							
Goods trade balance	-71.0	-66.9	-65.1	-64.8	-73.5	-76.1	-78.5
Exports of goods	15.2	13.8	13.6	13.3	17.3	14.9	14.8
Imports of goods	86.2	80.7	78.7	78.1	90.7	91.0	93.4
Service balance	63.4	67.0	71.5	79.4	78.4	82.6	84.9
Exports of services	89.3	90.7	96.8	105.7	104.2	107.4	109.1
Imports of services	25.9	23.7	25.4	26.3	25.9	24.8	24.3
Current account	-15.1	-6.2	-0.3	9.6	1.4	1.5	2.2
Capital and financial account	12.4	-0.2	-0.2	-18.5	-8.8	1.0	1.3
Net FDI	4.6	3.3	-5.3	1.8	3.0	3.0	3.3
Net official reserves (in millions of US dollars)	293.5	389.7	249.1	249.5	239.6	277.2	333.5
(in months of imports of goods)	4.8	6.5	4.1	3.9	3.1	3.4	3.8
(In percent of short-term debt)	62.0	82.1	54.7	60.3	63.6	76.3	95.4
External debt (in percent of GDP)	113.2	126.3	111.3	95.1	82.0	75.4	69.6
Memorandum items:							
Nominal GDP (in millions of US dollars)	855	892	932	983	1,021	1,070	1,117
Per capita GDP (change in percent)	3.9	7.9	2.7	3.9	1.0	4.1	3.8
Real effective rate (2000=100)	101.4	103.0	103.5	106.2	104	…	…

Fund position	St. Maarten is part of the Kingdom of the Netherlands and does not have a separate quota.
Exchange rate	The Netherlands' Antilles guilder is pegged to the U.S. dollar at NA.f 1.79 = US$1.

Sources: Data provided by the authorities; and IMF staff estimates.

1/ Based on IMF staff estimates of deflators.

2/ Contribution to GDP growth.

3/ Data from 2009-2010 reflect the fiscal operations of the local island government. Data from 2011 onwards refer to the new island government that has integrated the fiscal operations of the previous central government of the Netherlands Antilles.