INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/186

KINGDOM OF THE NETHERLANDS—CURAÇAO AND SINT MAARTEN

2021 ARTICLE IV CONSULTATION DISCUSSIONS—PRESS RELEASE; AND STAFF REPORT

August 2021

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 2021 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:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on June 17, 2021, 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 15, 2021.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2021 Article IV Consultation with the Kingdom of the Netherlands—Curaçao and Sint Maarten

FOR IMMEDIATE RELEASE

Washington, DC – **August 2, 2021:** On July 29, 2021, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation discussions[1] with the Kingdom of the Netherlands—Curaçao and Sint Maarten and endorsed the staff appraisal without a meeting on a lapse-of-time basis.[2] These consultation discussions form part of the Article IV consultation with the Kingdom of the Netherlands.

The COVID-19 pandemic inflicted another major shock on the economies of Curaçao and Sint Maarten. It followed major hurricanes in Sint Maarten in 2017 and the spillovers of the Venezuelan crisis on Curaçao that caused a decline of the oil refining sector, one of Curaçao's major economic pillars. The pandemic led to a collapse of tourism in both countries. Despite significant response measures swiftly designed by the authorities and financed by the Netherlands, real GDP is estimated to have fallen 20 percent in Curaçao and 24 percent in Sint Maarten in 2020 due to the high dependence on tourism. A particularly severe outbreak of COVID-19 in Curaçao in March-April 2021 required a near-lockdown and brought tourism to a halt again. A combination of depressed fiscal revenue and higher spending needs due to COVID-19 response measures widened fiscal deficits in 2020, increasing government debt stocks to about 89 and 65 percent of GDP in Curaçao and Sint Maarten, respectively.

The economic recovery is likely to be protracted as tourism is expected to reach its pre-pandemic levels only in 2024. Zero real GDP growth is projected in Curaçao in 2021 due to the effects of the COVID-19 outbreak, followed by 6.5 percent growth in 2022 as tourism partially recovers. Unless the refinery resumes operations in a sustainable way, it could take a decade for real GDP to recover to its pre-pandemic (2019) level as the refinery-related sectors decline. In Sint Maarten, real GDP growth is projected at 4 percent in 2021 and 15 percent in 2022 driven by the recovery of tourism and the implementation of post-hurricane projects including reconstruction of the airport. Real GDP is likely to recover to the pre-pandemic level in 2024. In both countries, inflation is likely to accelerate in 2021 due to higher fuel and other import prices. Elevated primary fiscal deficits in 2021 are likely to increase the government debt ratios to 103 and 82 percent of GDP in Curaçao and Sint Maarten, respectively, although the debt ratios would gradually decline in the medium term as fiscal deficits subside and the economies recover. The outlook is subject to elevated uncertainty and risks, including the risk of another COVID-19 outbreak and delays in securing the required liquidity support.

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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] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

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USA

Executive Board Assessment

The comprehensive economic support measures, put in place with help from The Netherlands, cushioned the COVID-19 shock and saved livelihoods. They supported employment and helped avoid mass bankruptcies. However, the economic contraction was severe and the outlook is challenging and subject to elevated uncertainty and risks.

The near-term focus should be on safe reopening of the economies, providing support where necessary, and setting the stage for inclusive recovery and medium-term sustainability. Accelerating vaccination campaigns, particularly in Sint Maarten, would support recovery of the hospitality sector. It would be important to provide adequate resources to critical areas such as the health sector, tax administration, AML/CFT, and data and information frameworks. Agreements with The Netherlands (*landspakketten*) present a window of opportunity to implement structural reforms to support a recovery and ensure medium-term sustainability.

Strong implementation of fiscal reforms and a sustainable economic recovery are needed to achieve medium-term debt sustainability. Both countries need to strengthen tax administration as a matter of urgency and implement tax policy reforms to widen the tax base. It is essential to strengthen public financial management through better planning, stronger expenditure controls, better tracking of fiscal risks, and improved transparency. In the long term, both countries would benefit from moving towards a Fiscal Responsibility Framework including government debt as a long-term anchor. As the debt anchor of 40 percent of GDP recommended previously is unfeasible unless a part of liquidity support is converted into grants, the new target can be set when uncertainty subsides.

Monetary policy should aid the recovery while supporting the peg. The excess liquidity should be monitored closely and sterilized if the international reserves come under pressure. The CBCS is encouraged to remove capital flow measures introduced in March 2020 as soon as the recovery takes hold and if the international reserve cushion remains comfortable. Staff does not recommend approval of the exchange restriction as the conditions for approval are not met.

The authorities' efforts to address financial sector vulnerabilities are welcome and need to be sustained to address the banking sector fragilities. Developing a comprehensive Financial Sector Reform Program was a significant step forward. Careful sequencing of measures and implementation would be key for addressing the vulnerabilities. Efforts to transition to risk-based supervision, strengthen supervisory enforcement, and upgrade the bank resolution framework should be frontloaded. The CBCS should develop a roadmap for addressing results of a planned asset quality review.

Finding new areas of growth, supported by strong across-the-board structural reforms, would help mitigate exposure to shocks and boost potential growth. The authorities could foster new areas of growth by improving the business environment and reducing the cost of doing business. Facilitating various permits—including through better transparency and eliminating red tape—would increase incentives for investment, including FDI. Phasing in more labor market flexibility while fine-tuning safety nets and addressing skills gaps would improve competitiveness and adaptability. Expanding green energy (such as solar and wind) or pursuing green projects could generate new investment.

Significant efforts are needed to improve planning, implementation capacity, and governance in the public sector, particularly in Sint Maarten. As gaps in data availability and quality hamper effective macroeconomic analysis and policymaking, it is essential to address the shortages of personnel and financial resources in this area.

Table 1. Curaçao: Selected Economic and Financial Indicators, 2017–22

	2017	2018 Prel.	2019 Prel.	2020 Est.	2021 Proj.	2022 Proj.
Real economy (percent change)						
Real GDP	-1.7	-2.2	-3.4	-20.0	0.0	6.5
CPI (12-month average)	1.6	2.6	2.6	2.2	2.8	3.3
Unemployment rate (percent)	14.1	13.4	17.4	19.1	24.3	21.0
Central government finances (percent of GDP)						
Net operating (current) balance	-2.1	-1.2	-0.5	-17.0	-14.3	-5.7
Primary balance	-2.6	-1.4	-0.4	-14.9	-13.5	-5.5
Overall balance	-3.5	-2.4	-1.9	-17.8	-15.0	-7.0
Central government debt 1/	54.5	54.5	55.9	89.1	103.2	100.2
General government finances (percent of GDP) 2/						
Overall balance	-3.5	-2.4	-1.9	-17.8	-15.0	-7.0
Balance of payments (percent of GDP)						
Current account	-21.8	-26.0	-17.4	-26.7	-31.3	-26.5
Goods trade balance	-33.5	-37.4	-34.3	-36.4	-39.4	-40.7
Exports of goods	13.6	18.7	12.8	10.5	13.7	13.7
Imports of goods	47.1	56.2	47.1	46.9	53.1	54.4
Service balance	12.1	11.5	16.3	9.4	8.9	14.5
Exports of services	43.0	43.1	44.4	28.8	30.6	37.6
Imports of services	30.9	31.6	28.0	19.4	21.7	23.1
External debt (percent of GDP)	133.3	152.0	156.4	208.0	227.7	218.3
Memorandum items:						
Nominal GDP (millions of U.S. dollars)	3,117	3,128	3,103	2,581	2,577	2,849
Per capita GDP (U.S. dollars)	19,438	19,548	19,557	16,521	16,769	18,438
Credit to non-gov. sectors (percent change)	2.4	2.5	2.2	0.1	…	…

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

1/ Defined as balance sheet liabilities of the central government except equities. Includes central government liabilities to the social security funds.

2/ Budgetary central government consolidated with the social security fund (SVB).

Table 2. Sint Maarten: Selected Economic Indicators, 2017–22

	2017	2018 Prel.	2019 Est.	2020 Est.	2021 Proj.	2022 Proj.
Real economy (percent change)						
Real GDP 1/	-8.8	-9.1	8.0	-24.0	4.0	15.0
CPI (12-month average)	2.2	2.9	0.4	0.7	3.2	2.7
Unemployment rate (percent)	6.2	9.9	7.9	16.9	22.8	15.5
Government finances (percent of GDP)						
Primary balance excl. Trust Fund operations 2/	-3.2	-4.4	-1.3	-10.9	-16.8	-8.5
Current balance (Authorities' definition) 3/	-2.5	-3.7	-0.7	-10.2	-16.4	-8.3
Current balance (Authorities' definition)	-3.5	-4.5	-1.6	-11.3	-15.3	-6.1
Central government debt 4/	40.7	47.2	44.2	64.7	82.2	77.9
Balance of payments (percent of GDP)						
Current account	4.1	6.7	-12.6	-29.5	-37.4	-28.6
Goods trade balance	-55.7	-69.6	-60.5	-47.5	-57.2	-59.4
Exports of goods	10.7	13.4	14.8	13.8	15.1	13.7
Imports of goods	66.4	83.0	75.2	61.4	72.2	73.1
Service balance	50.0	31.7	49.0	23.7	26.3	38.7
Exports of services	73.2	58.9	74.2	40.4	44.2	57.2
Imports of services	23.2	27.2	25.2	16.7	17.9	18.5
External debt	236.1	232.4	222.3	285.6	306.1	269.8
Net international investment position	-134.6	-134.5	-137.6	-189.9	-212.6	-199.3
Memorandum items:						
Nominal GDP (millions of U.S. dollars)	1,147	1,108	1,226	970	989	1,177
Per capita GDP (U.S. dollars)	28,287	27,293	29,781	23,083	23,235	27,313
Credit to non-gov. sectors (percent change)	-1.6	-1.7	0.9	2.4	...	...

Sources: Data provided by the authorities; World Bank; and IMF staff estimates.
1/ GDP figures for 2017-2019 include adjustments by the IMF staff based on inputs from a technical assistance mission and are lower than the published figures.
2/ Excludes Trust Fund (TF) grants and TF-financed special projects.
3/ Revenue excl. grants minus interest income, current expenditure and depreciation of fixed assets.
4/ The stock of debt in 2016 is based on financial statements. Values in subsequent years are staff's estimates and are higher than the values under authorities' definition in quarterly fiscal reports.

INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS—CURAÇAO AND SINT MAARTEN

July 15, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION DISCUSSIONS

KEY ISSUES

Context. The COVID-19 pandemic inflicted another major shock on the economies of Curaçao and Sint Maarten, which followed category 5 hurricanes in Sint Maarten in 2017 and the spillovers of the Venezuelan crisis on Curaçao. Despite the substantial response measures financed by The Netherlands, the economic contraction in 2020 was severe.

Outlook and risks. As the pandemic is still unfolding, the near-term outlook remains challenging, with zero growth in Curaçao and only moderate recovery in Sint Maarten in 2021. A stronger recovery is expected in 2022–24 as tourism approaches pre-pandemic levels. Weak fiscal revenues and the need for supporting measures imply a further increase in public debt. The outlook for both countries is subject to elevated uncertainty and risks given the high dependence on tourism.

Policy recommendations. Near-term priorities include reaching vaccination objectives, protecting the vulnerable, supporting the economy as needed, and setting the basis for inclusive recovery and medium-term sustainability. The fiscal adjustment should avoid compromising the recovery while being consistent with available financing.

The agreements with The Netherlands (*landspakketten*) provide a window of opportunity to improve the overall policy framework needed to support the exchange rate peg, strengthen resilience, and support potential growth. The agreements present a chance to advance growth-enhancing structural reforms while providing necessary liquidity support and financing for key projects. In view of limited administrative capacity, prioritization and careful sequencing will be key to ensure implementation. Across-the-board improvements in public financial management, transparency, and governance are required to improve the Union's economic outlook.

Approved By
Patricia Alonso-Gamo (WHD) and Martin Sommer (SPR)

The 2021 Article IV consultation discussions were held remotely during May 12 – June 17, 2021. They form part of the Article IV consultation with The Kingdom of the Netherlands. The team comprised Dmitriy Kovtun (head), Thomas Dowling, and Atsushi Oshima, (all WHD). Geerten Michielse (FAD), Ian De Vere Carrington, Luisa Malcherek, and Maksym Markevych (all LEG), Minke Gort (MCM), Patrick Blagrave, Martin Bowen, Frode Lindseth, and Robin Youll (all CARTAC), Jesper Hanson and Paul Hilbers (OED) participated in the discussions. Grey Ramos, Sheng Tibung and Tianle Zhu provided valuable assistance.

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ANNEXES

PRE-PANDEMIC CONDITIONS

1. **Before the pandemic, the monetary union of Curaçao and Sint Maarten (Union) faced significant challenges.** In both countries, the real GDP in 2019 was lower than in 2010 (Figure 1).[1] The Union's external current account deficit averaged nearly 16 percent of GDP in 2017–19 exerting pressure on the international reserves. Both countries faced small-island constraints, structural impediments to growth, and rising government debt, although it was lower than their peers due to a 2010 debt operation followed by a system of fiscal supervision.

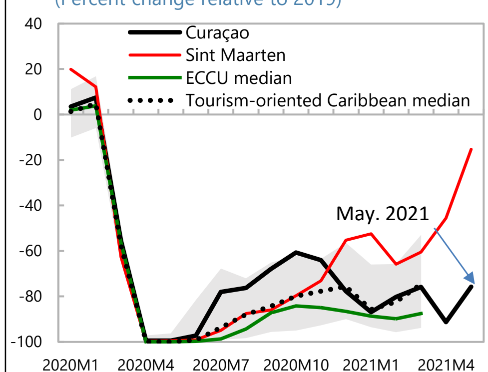
2. **Curaçao.** Since the dissolution of the Netherland Antilles in 2010, Curaçao has had only two years of positive growth. The protracted recession was partly due to the spillovers from the Venezuela crisis that ruptured historical trade linkages and led to a decline of the oil refining sector, a major economic pillar. The authorities were on a fiscal consolidation path since 2016, although many policy measures experienced delays. The failure of Girobank in late 2019 underscored vulnerabilities in the banking system that had accumulated due to external shocks and weaknesses in financial sector governance.

3. **Sint Maarten** had not fully recovered from the devastating 2017 hurricanes that produced damages and losses of 230 percent of GDP. Key reconstruction projects (e.g. the airport) took longer than expected and stayover arrivals in 2019 were still nearly 40 percent below their 2016 levels. Many reforms have been lagging due to the small-island constraints, lack of financing, and frequent changes in governments.[2]

COVID-19 IMPACT AND POLICY RESPONSE

4. **Similar to other tourism-dependent economies, the pandemic led to a collapse of tourism in both Curaçao and Sint Maarten.** The lockdowns and containment measures in Q2 2020 prevented the spread of COVID-19 but were followed by several waves afterwards, with the March-April 2021 outbreak in Curaçao being one of the strongest in per capita terms (Figure 2). In 2020, both countries lost about two-thirds of stayover arrivals and saw significantly lower economic activity in non-tourism sectors. The pandemic constrained the implementation of staff advice from the 2019 Article IV consultation discussions (Annex I).

Stayover Arrivals
(Percent change relative to 2019)



Sources: The Caribbean Tourism Organization, the national authorities and IMF staff calculations.

Note: The shaded area shows 10th to 90th percentile range for 18 tourism-oriented Caribbean countries.

[1] The 2015–18 nominal GDP series of Sint Maarten were adjusted by staff based on findings from a technical assistance mission on the national accounts. The adjusted 2018 GDP is about 6½ percent lower than published.

[2] General elections were held in 2014, 2016, 2018 and 2020. In both 2018 and 2020, these were snap elections two years ahead of schedule, following collapses of governments.

5. Both Curaçao and Sint Maarten implemented significant response measures with help from The Netherlands. They designed comprehensive packages (*Alivio* and *SSRP*, respectively) including payroll subsidies, support for the self-employed, and unemployment benefits (Annex II). The Centrale Bank van Curaçao en Sint Maarten (CBCS) took several measures to alleviate the shock. The Netherlands extended substantial zero-interest liquidity support, rolled over maturing debt at zero interest, and provided food packages for the vulnerable population and support for the health sectors, including COVID-19 vaccines.[3] In addition, The Netherlands provided a loan to Curaçao for resolution of Girobank. Financial support for Q3 2021 and beyond is subject to conditionality, including performance on the country packages of measures (*landspakketten*) agreed with the Netherlands in late 2020 (Annex III). The *landspakketten* also called for a study of advantages and disadvantages of dollarization in Curaçao and Sint Maarten. In response, staff prepared a study on the advantages and disadvantages of dollarization in general and specific considerations in the case of Curaçao and Sint Maarten (see accompanying Selected Issues Paper).

Financial Support from The Netherlands
(Percent of GDP)

	2020	2021	
		Q1-Q2	Q3 1/
Curaçao	**16.2**	**3.7**	**3.6**
New loans	14.4	3.7 2/	3.6
Debt rollovers	1.8	0.0	0.0
Sint Maarten	13.2	2.7	2.7
New loans	10.3	2.7	2.7
Debt rollovers	2.9	0.0	0.0
The Union	**15.4**	**3.4**	**3.4**
New loans	13.3	3.4	3.4
Debt rollovers	2.1	0.0	0.0

Sources: The national authorities.
1/ Approved by the Kingdom Council of Ministers on June 18, 2020 but not yet disbursed. The loans are subject to conditions.
2/ Curaçao received NAf 170 for Girobank resolution. There were no liquidity support disbursements in Q1-Q2 2021.

A. Curaçao

6. Despite the significant response measures, the pandemic inflicted a deep economic shock. Real GDP declined by an estimated 20 percent in 2020 and the unemployment rate increased to 19.1 percent despite a slump in the labor force (Table 1). Formal private sector employment kept declining in 2021 (Figure 3). The slump in domestic demand and lower fuel prices reduced the inflation rate to 2.2 percent from 2.6 percent in 2019. In May 2021, the government-owned company Refineria di Korsou reached an agreement with a local company (Curaçao Oil Refinery Complex) to operate the oil refinery, taking a step towards its reopening.

7. Higher expenditure and lower revenue widened the fiscal deficit, contributing to much higher government debt. The primary fiscal deficit of the government rose from 0.4 percent of GDP in 2019 to 14.9 percent of GDP in 2020 (Tables 2 and 3). Fiscal revenue fell by 16 percent (y/y), although it marginally

Curaçao: Key Fiscal Factors, 2020
(Budgetary Central Government, Percent of GDP)

	2020
Primary balance	-14.9
Change since 2019	**-14.5**
Change in revenue (non-policy) 1/	**-5.6**
Changes in expenditure 1/	**8.8**
Alivio measures	3.2
Transfers to SVB	0.5
Payment for early retirement	0.0
Girobank resolution	5.8
Other expenditure	-0.7
Residual 2/	0

Source: IMF staff estimates.
1/ Changes in nominal values divided by GDP.
2/ Due to changes in nominal GDP.

[3] As of end-June 2021, 51 and 42 percent of total population of Curaçao and St. Maarten, respectively, have been fully vaccinated.

increased as a ratio to GDP (Figure 4). The primary expenditure increased significantly due to the COVID-19 response measures and the takeover of Girobank's liability to the CBCS by the budget, although the increase was partially contained by fiscal consolidation measures (Annex III). As a result, the government debt reached 89.1 percent of GDP in 2020.

B. Sint Maarten

8. Given Sint Maarten's strong dependence on tourism, real GDP shrunk by an estimated 24 percent in 2020. The estimated unemployment rate increased from 7.9 percent in 2019 to 16.9 percent in 2020, although it does not account for an increase in underemployment (Table 5).[4] The inflation rate remained low at 0.7 percent, given the slump in domestic demand and low fuel prices, showing a pattern similar to regional peers (Figure 1). The shock was partially cushioned by SSRP support measures and an acceleration of the recovery projects under the Trust Fund, which disbursed US$ 62 million in 2020, twice as much as in 2018-19 combined. Stayover tourism rebounded strongly in the second quarter of 2021. The launch of cruise ship homeporting in early June paves a way for reviving cruise tourism.

9. The revenue shock and crisis response spending widened the primary fiscal deficit, excluding the Trust Fund projects, to 10.2 percent of GDP in 2020 (Tables 6 and 7). The fiscal revenue in 2020 dropped by 18 percent (y/y), although its ratio to GDP rose (Figure 4). Primary expenditure increased due to SSRP measures, although the fiscal consolidation measures helped to contain the increase (Annex III). Higher fiscal deficits and lower GDP increased the estimated government debt ratio to 64.7 percent of GDP in 2020.

Sint Maarten: Key Fiscal Factors, 2020
(Budgetary Central Government, Percent of GDP)

	2020
Primary balance excl. Trust Fund	-10.2
Change since 2019	**-9.5**
Change in revenue (non-policy) 1/	**-4.6**
Change in primary expenditure 1/	**4.7**
SSRP	4.4
Other current expenditure	0.3
Capital expenditure	0.0
Residual 2/	**-0.2**

Source: IMF staff estimates.
1/ Nominal changes since 2019 as a ratio of GDP.
2/ Due to changes in nominal GDP.

C. The Monetary Union

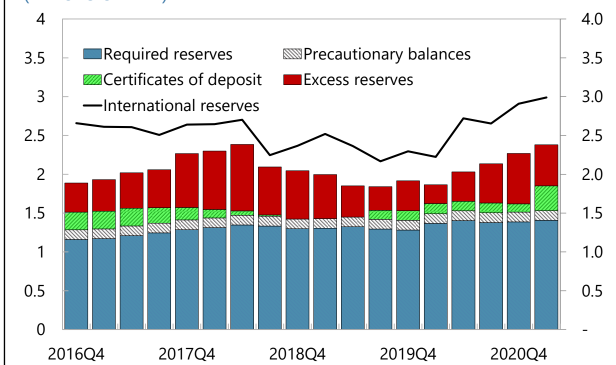
10. The COVID-19 shock widened the current account deficit (CAD) to 27.5 percent of GDP in 2020 (Table 9). Exports of goods and services collapsed by 46 percent y/y, although the decline was partially offset by a 31 percent contraction in imports (y/y). Despite the wider CAD, the international reserves increased from $1.3 billion in 2019 to $1.6 billion (6.9 months of next year's imports of goods and services) in 2020, mostly on account of liquidity support from The Netherlands. In order to reduce the risk of capital outflows and to support the peg, the CBCS suspended the issuance of foreign exchange licenses for some of the outgoing capital transactions and transfers abroad in March 2020 (Annex II). The external position of both countries is weaker than implied by fundamentals and policies (Annex IV). The large CADs in both countries and the

[4] The last labor force survey took place in 2018.

estimated net debtor status of Sint Maarten warrant a combination of medium-term fiscal adjustment and structural reforms to restore external sustainability.

11. The CBCS implemented measures to cushion the impact of the pandemic on borrowers and the banking system. In March 2020, the CBCS reduced the pledging rate from 2.5 to 1 percent and introduced debt service deferrals (Annex II). Deposits in the banking system remained stable in both countries and excess liquidity significantly increased, broadly mirroring the accumulation of international reserves as substantial external loans financed government spending. Despite ample excess liquidity, private sector credit grew just 1.2 percent (y/y) in March 2021 in Curaçao (Figure 5 and Table 10). In Sint Maarten, credit growth increased to 3.8 percent.

Central Bank Liabilities to Banks and International Reserves
(Billions of NAf)



Sources: The CBCS and IMF staff estimates.

12. The financial system remained subject to fragilities as the pandemic took a further toll on asset quality and profitability. The reported capital adequacy ratio increased from 16.9 percent in December 2019 to 18 percent in March 2021, although relatively low provisioning (at only 34.7 percent) indicates that capital buffers could come under pressure when provisioning levels are adjusted (Table 12). The NPL ratio increased from 9.4 to 11.8 percent in the same period and profitability indicators worsened significantly, limiting the banks' capacity for provisioning and organic capital growth.

13. The CBCS and the Curaçao government made progress in resolving several problem institutions. The government took over Girobank's liability to the CBCS (5.8 percent of GDP) in late 2020 and received a loan from The Netherlands (3.7 percent of GDP) to repay all Girobank depositors up to NAf 1.2 million per account. The government set up a special purpose vehicle to manage Girobank's portfolio and will use the proceeds to repay the loan and, if sufficient funds are available, the remaining deposits. The Girobank resolution will increase government debt by the total of 9.5 percent of GDP in 2020–21. A smaller bank Postspaarbank (PSB) was acquired by the civil service pension fund (APC) in 2020 and will be merged with Centrale Hypotheekbank (CHB, also owned by APC) into APC Bank. The latter has been capitalized and been granted a liquidity facility by the parent, while the strategy for the integration of PSB and CHB is being implemented.

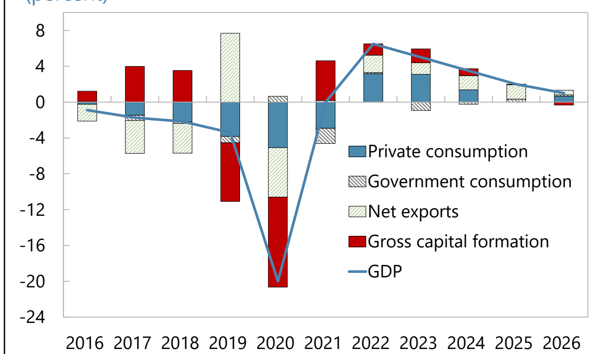
OUTLOOK AND RISKS

14. Curaçao and Sint Maarten face a challenging near-term outlook and a long recovery to return to pre-pandemic levels (Tables 1-9). In both countries, stayover tourism is expected to reach 65 percent of its pre-pandemic (2019) levels in 2022 and recover to these levels in 2024. The projections assume that both countries would adhere to the consolidation measures agreed with

The Netherlands and make progress with implementation of *landspaketten*, unlocking much-needed financing for 2021 and the coming years.[5]

15. Zero growth in 2021 is projected in Curaçao, followed by a recovery in 2022–24. The vaccination program is expected to support a tourism recovery in H2 2021, keeping stayover arrivals in 2021 flat (62 percent below the 2019 levels). Given the substantial uncertainty around restarting the refinery, particularly the timing of reaching agreement with the government and complying with environmental standards, it is viewed as an upside risk rather than included in the projections. This implies that it could take a decade for real GDP to recover to its pre-pandemic (2019) level as the remaining manufacturing sector shrinks. The unemployment rate could increase to nearly 24 percent this year and remain at double-digit levels in the medium term. Inflation is expected to accelerate to 2.8 percent in 2021 and to 3.3 percent in 2022 reflecting higher fuel and other import prices but will revert to around 2 percent in the medium term.

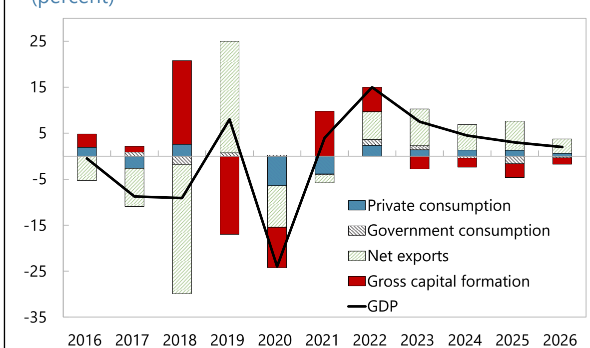
Curaçao: Contributions to Real GDP Growth
(percent)



Sources: Curaçao authorities and IMF staff estimates and projections.

16. In Sint Maarten, brisk recovery of stayover tourism and the reconstruction projects would support real GDP growth of 4 percent in 2021. Stayover arrivals in 2021 are projected to increase to 55 percent of the 2019 level, although cruise tourism would be much lower than in 2020 and produce a negative growth contribution. In 2022, continued tourism recovery, particularly on the cruise side, and further acceleration of Trust Fund projects would support 15 percent real GDP growth. Inflation is projected to increase to 3.2 percent in 2021 on account of higher import prices and stabilize at around 2.2 percent in the medium term.

Sint Maarten: Real GDP and Contributions to Growth
(percent)



Sources: Authorities' data and IMF staff estimates.

17. The Union's external position is projected to weaken further this year. The CAD is projected to widen from 27.5 percent of GDP in 2020 to 33 percent of GDP in 2021 due to higher investment-driven imports while exports remain weak. The projections assume that liquidity support from The Netherlands would support the international reserves in the near term. Over the medium

[5] Whereas the baseline projections assume that governments make progress with *landspakketten*, information presented in the implementation agendas is insufficient to quantify their macro effects as there is no indication of overall revenue and spending objectives needed to assess their overall macro impact.

term, the CAD would gradually decline in line with tourism recovery and the international reserves would subside as external financing returns to pre-pandemic levels.

18. The growth outlook is subject to unprecedented uncertainty and risks. A resurgence of COVID-19 or a natural disaster, particularly hurricanes in Sint Maarten, could undermine the recovery. On the domestic side, a delay in securing liquidity support for the budget and the economic support measures would force abrupt fiscal adjustment and a spike in arrears with significant adverse impact on the economy and employment. In Sint Maarten, a delay in airport reconstruction could jeopardize the recovery. On the upside, the tourism recovery could be faster in the event of a speedier vaccine rollout. In Curaçao, a sustainable reopening of the refinery could improve the outlook.

Authorities' Views

19. Both Curaçao and Sint Maarten authorities broadly shared staff's view on the outlook, noting that the high uncertainty makes it challenging to develop medium-term scenarios. The Curaçao authorities expected either zero or negative growth in 2021 and stressed that fostering an inclusive recovery is their utmost priority. The new Curaçao government is working on the National Recovery Plan aimed to save lives, protect the poor and vulnerable, ensure sustainable business growth and job creation, and strengthen policies, institutions, and investments for rebuilding better. The Sint Maarten authorities believed that the outcomes could be better under right policies, also pointing out to a robust recovery of stayover arrivals in the recent months. They stressed the importance of liquidity support from the Netherlands to support the economy in the near and medium term. Both Curaçao and Sint Maarten authorities shared the staff's assessment of risks.

POLICY ISSUES: BALANCING SUPPORT FOR THE ECONOMY WITH LONG-TERM SUSTAINABILITY

Discussions focused on near-term priorities, including supporting the economy where needed, protecting the vulnerable, and setting the basis for inclusive recovery and medium-term sustainability. A fiscal adjustment path for reducing debt over the medium term, financial sector policies, and necessary structural reforms to support potential GDP were also discussed.

A. Fiscal Policy: Near-Term Priorities

20. Near-term priorities include reaching the vaccination objectives, providing support where necessary, and setting the stage for inclusive recovery and medium-term sustainability. Supporting measures—especially for the vulnerable—are necessary to avoid long-term scarring and would be especially important in the case of a more adverse scenario. If warranted by the economic and social developments, some of the measures should continue in 2022. In addition, critical areas including the health sectors, tax administration, AML/CFT, and data and information frameworks, require adequate resources to perform their functions. The short-term increase in debt would be justified as long as the authorities are putting in place measures to place debt firmly on a downward path in the medium term. Liquidity support ought to be planned to ensure adequate contingency buffers. Both countries should initiate across-the-board structural fiscal reforms focusing on tax administration, public financial management, and better handling of the fiscal risks. Better communication across government entities and with other stakeholders, including the private sector, would improve outcomes.

Curaçao

21. The baseline projections assume continuation of Alivio support, higher transfers to the social insurance bank (SVB) in 2021, and adherence to measures agreed with the Netherlands. In 2021, the projections include Alivio spending of 4.3 percent of GDP, somewhat lower than envisaged in the 1st budget amendment prepared by the previous government and a transfer of 8.7 percent of GDP to SVB to cover its operational deficit. On the cost-savings side, the projections include the reduction of compensation packages and a "zero-line" (nominal wage freeze) policy agreed with the Netherlands in 2020 (Annex III) and an early retirement program with a fixed cost of 0.7 percent of GDP followed by a 1 to 3 attrition policy. These measures, alongside phasing out of Alivio spending and a robust recovery of revenue, allow a significant reduction of the primary deficit in 2022.

Curaçao: Key Changes in Government Fiscal Accounts Since 2019, 2020–22

(Change Since 2019, Percent of GDP)

	2020	2021	2022
Primary balance	-14.9	-13.5	-5.5
Change since 2019	**-14.5**	**-13.1**	**-5.1**
Change in revenue (non-policy) 1/	**-5.6**	**-6.7**	**-2.9**
Changes in expenditure 1/	**8.8**	**6.4**	**2.4**
Alivio measures	3.2	4.3	0.0
Transfers to SVB	0.5	2.5	1.8
Payment for early retirement	0.0	0.2	0.5
Girobank resolution	5.8	0.0	0.0
Other expenditure	-0.7	-0.6	0.1
Residual 2/	-0.1	0.0	0.2

Source: IMF staff estimates.

1/ Nominal change since 2019 as a ratio to GDP.

2/ Due to changes in nominal GDP.

22. It is essential for the new Curaçao government to reach an agreement with the Netherlands to unlock much-needed support for 2021 and the coming years. A combination of depressed revenue and the need for supporting measures implies significant financing needs in 2021 and the coming years. A premature end to Alivio measures or excessive retrenchment would hurt the recovery and leave permanent scars on the economy. Deploying a guaranteed lending facility for viable SMEs would support their survival, although this should be based on a best-practice governance arrangement and adequate supervision to minimize fiscal risks. It would be important to set out a strong but growth friendly fiscal adjustment path, legislate the adjustment measures agreed with the Netherlands in 2020, make progress on key reforms, and reach an agreement to unlock needed financing.

23. The pandemic underscores the importance of providing adequate resources to the health sector. The Curaçao Medical Center needs a realistic budget while the authorities are pursuing measures for optimizing spending. It is also important to provide adequate liquidity to the SVB to cover its operating deficits. Baseline projections assume a significant increase in transfers to the SVB (from an average of 5.2 percent of GDP in 2017–19 to an average of 7 percent of GDP in

2021-26), underscoring the need to implement durable measures to rationalize spending over the medium term.

Authorities' Views

24. The Curaçao authorities are committed to the reforms necessary for an inclusive recovery and are working towards an agreement with the Netherlands that would unlock the required liquidity support. They regret that prior actions imposed as conditions for liquidity support may lead to delays, requiring significant cuts in spending and a negative impact on the economy. They remain focused on the measures for economic recovery—including gradual easing of protocols for visiting Curaçao—while setting up longer-term measures by commencing tax policy reforms and reforms that will make it more attractive for real estate investments. They are planning to prepare further amendments to the 2021 budget as necessary.

Sint Maarten

25. Similar to Curaçao, support from the Netherlands is essential to ensure the continuity of critical public sector functions. Staff's baseline projections assume that liquidity support would be sufficient to cover the current expenditure in the draft budget, including COVID-19 response measures of 7.2 percent of GDP. Given the delays in the 2021 budget, projections assume only part of budgeted capital expenditure. On these assumptions, the primary fiscal deficit would reach 16.4 percent of GDP in 2021, increasing the debt stock to 82.2 percent of GDP. In 2022, the economic recovery and reducing SSRP expenditure would lower the deficit to 8.3 percent of GDP and the debt stock to about 78 percent of GDP.

Sint Maarten: Key Changes in Government Accounts since 2019, 2020–22 1/
(Change since 2019, Percent of GDP)

	2020	2021	2022
Primary balance excluding Trust Fund	-10.2	-16.4	-8.3
Change since 2019	**-9.5**	**-15.7**	**-7.6**
Changes in revenue (non-policy) 2/	**-4.6**	**-4.9**	**-0.7**
Changes in primary expenditure 2/	**4.7**	**10.4**	**6.4**
SSRP	4.4	7.2	1.4
Other current expenditure	0.3	1.1	1.7
Capital expenditure	0.0	2.1	3.3
Residual 3/	**-0.2**	**-0.5**	**-0.5**

Source: IMF staff estimates.
1/ Excluding Tust Fund operations.
2/ Nominal changes since 2019 as a ratio of GDP.
3/ Due to changes in nominal GDP.

26. It is important to secure resources for the much-needed reforms of tax administration and public financial management and implement them as a matter of priority. Understaffing of tax administration and lack of financing for the reforms need to be urgently addressed. The tax administration would benefit from a strategic management framework comprising long-term objectives and operational work plans. It is necessary to ensure the continuity in support of the vulnerable groups, especially via the food support program.

Authorities' Views

27. The Sint Maarten authorities agreed with staff's near-term priorities. They assign high priority to reaching an 85 percent vaccination rate and have announced that businesses will be allowed to remain open until 2 am once the vaccination rate reaches 50 percent. They share staff's view that the vulnerable groups need to be protected and noted that the takeover of the food program by the Sint Maarten Development Fund, previously administered by Red Cross, is proceeding smoothly. The near-term priorities include improving the information and data systems to guide policymaking and strengthening the public information system.

B. Fiscal Policy: Improving the Fiscal Framework and Securing Fiscal Sustainability

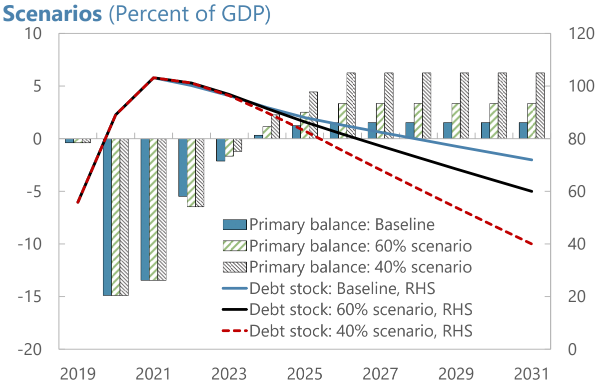
28. **The sharp increases in the government debt heightened debt sustainability concerns in both countries.** Whereas government debt is still sustainable (Annex V), the sustainability is conditional on continued access to external financing at favorable terms from the Netherlands and implementation of consolidation measures. It is important to design strong consolidation packages to reduce government debt in the medium term, although the pace should be as gradual as feasible, given the pandemic, and subject to available financing. Therefore, the fiscal measures agreed with The Netherlands in 2020 (Annex III) should be maintained until the fiscal deficits subside to sustainable levels. Both countries need strong public financial management reforms, including stronger internal controls and procedures, better handling of fiscal risks, and improved transparency, including ex-post audits of COVID-19-related spending. It is also important to foster economic recovery to strengthen fiscal revenue.

29. **In the long term, both countries would benefit from moving towards a Fiscal Responsibility Framework.** It could incorporate a government debt ratio as a long-term anchor and operational rules calibrated to meet it, such as targets for the primary balance and current expenditure. Given the pandemic shock, reaching a long-term target of 40 percent of GDP in 10 years recommended previously appears unfeasible, unless the coronavirus loans are converted into grants. The new target can be set, considering the debt sustainability analysis and possible impact of debt on investment, when the uncertainty subsides.

Curaçao

30. **In the staff's baseline projections, the primary fiscal balance improves to a small surplus in 2024 and further to 1.5 percent of GDP in 2026, gradually reducing the debt stock.** The main factors are the end of *Alivio* spending and the consolidation measures. Staff assume that the nominal wage freeze will be maintained through 2024, reducing the wage bill to 9.8 percent of GDP in 2026. The projections also assume that the authorities improve tax administration and provide sufficient liquidity to the SVB to cover

Curaçao: Government Debt and Primary Balance Illustrative Scenarios (Percent of GDP)



Source: IMF staff projections.

its operating deficits. Under these assumptions, the debt-to-GDP ratio would decline from 103 percent of GDP in 2021 to 86 percent of GDP in 2026.

31. The risks associated with the elevated debt stock could be reduced faster with a more forceful debt reduction trajectory. With the primary surplus of 3.3 percent of GDP, for example, the debt-GDP ratio would be about 60 percent by 2031 (Table 4).[6] An additional adjustment of about 1.8 percent of GDP by 2026 relative to baseline projections should be achievable and could be attained by a combination of tax and expenditure policy measures.

32. On the revenue side, it is important to improve tax administration, streamline the tax system and make it growth friendly. The planned reorganization of the tax administration (including the large taxpayer unit, improving compliance, developing customer service, and strengthening the procedures) should be given high priority. While the planned reform of the turnover tax intends to strengthen compliance and moves it closer to a value-added tax (VAT), significant deviations persist.[7] Curaçao would benefit from moving to a full-fledged VAT with parameters calibrated to increase revenue. The timeline should be ambitious but realistic, while paying due attention to cyclical conditions and the social impact.

33. The authorities' plans to strengthen public financial management need to be implemented promptly. The findings of the General Court of Audit on the 2019 financial statements need to be addressed, including rationalizing the human resources and the compensation system, adhering to regulations in subsidies and transfers to public entities, taking stock of the government assets and improving the procurement procedures. The government should strengthen its fiscal risk monitoring function in line with the recommendations of the 2020 CARTAC mission on fiscal risks. The authorities should undertake an assessment of the contingent liabilities stemming from both financial and the broader public sector and incorporate them transparently into their macroeconomic framework. Publishing information on performance of Alivio measures and their audit results would improve confidence that their objectives are met.

Authorities' Views

34. The Curaçao authorities emphasized that inclusive recovery remains an indispensable condition for medium-term fiscal sustainability. They would like to ensure that the reforms set out in the *landspakket* are growth friendly. They would like to apply a phased approach to transitioning to a VAT. First, they will implement a reform of the turnover tax to increase tax compliance and strengthen tax administration's capacity required for a VAT. A full-fledged VAT as recommended by IMF technical assistance will follow in the longer term. They believed that refinancing the government debt using the standing subscription arrangement would provide

[6] The illustrative scenario incorporates some Alivio spending in 2022 to account for possible support needs.

[7] The plan envisages a single tax rate of 7 percent on goods sold domestically while keeping 9 percent tax on imports. The proposal lacks credits for taxes paid on imports.

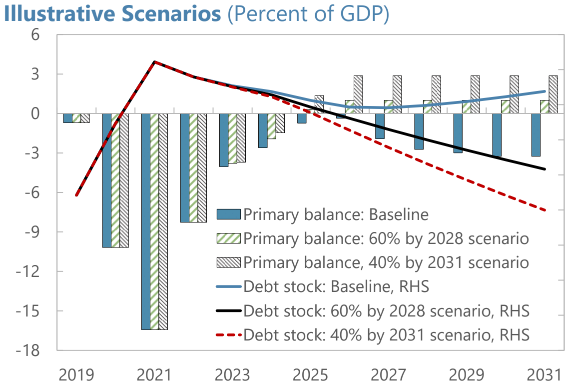
additional fiscal space. The authorities agreed that uncertainty obstructs long-term planning and the new debt target could be set when the uncertainty subsides.

Sint Maarten

35. Sint Maarten's fiscal position is projected to improve by 2026 but is likely to worsen in the long term unless further measures are taken in the health and basic pension areas. In the baseline projections, a combination of economic recovery, phasing out SSRP measures, and maintaining the nominal wage freeze through 2024 are likely to improve Sint Maarten's primary balance to -0.4 percent of GDP by 2026 and reduce the debt stock to 69 percent of GDP. However, without further reforms in the health and basic old-age pension funds—which are currently financed by the reserves of the Social and Health Insurance Implementing Body of Sint Maarten (SZV), which is outside the budget perimeter—the fiscal position would deteriorate in the long term as these funds would require a subsidy of about 3 percent of GDP annually by 2030 after SZV's reserves are depleted.

36. Reducing debt sustainability risks calls for a robust reduction of debt in the medium term and addressing the fiscal risk related to SZV. An illustrative scenario suggests that reaching a primary surplus of about 1 percent of GDP by 2026 and maintaining it would reduce the debt-GDP ratio to 60 percent of GDP by 2028 (Table 8). Relative to the baseline, this implies the need for additional adjustment of 1.4 percent of GDP by 2026 and taking necessary measures to restore financial sustainability of the health and basic pension systems. Given the need to preserve competitiveness, the bulk of adjustment should be on the expenditure side, although improvements in the tax system could generate higher revenue without imposing higher tax rates.

Sint Maarten: Government Debt and Primary Balance Illustrative Scenarios (Percent of GDP)



Source: IMF staff projections.

37. The authorities are planning a tax policy reform designed to broaden the tax base, streamline the system, and improve collections. The turnover tax should be maintained unless Sint Maarten and Saint Martin agree on a harmonized general consumption tax, although it would be important to introduce a tax for online purchases currently not captured by the turnover tax. The authorities should tax gambling activities and explore options for introducing a real estate tax. Staff advise against introducing the financial transactions tax in lieu of the profit tax, as transactions taxes pose risks of financial disintermediation and could negatively affect economic growth. A tax policy reform requires a significant improvement in tax administration.

38. Improving public financial management will be key for regaining fiscal sustainability. The authorities' plan to upgrade the outdated financial information management system (FMIS) for a better PFM workflow is a step in the right direction, although this should be done in conjunction with improving business practices and procedures to avoid the risks around digitizing the existing manual processes. Priority should be given to improving the budget classification, the chart of accounts, and adopting a treasury single account (TSA) system. It would also be important to improve timeliness of the financial statements and the budget process.

39. Restoring the financial sustainability of the health and pension schemes is needed to reduce the medium- and long-term fiscal risks. As the current health model is inefficient and financially unsustainable, the authorities need to design a health financing strategy elaborating a plan for overall system architecture and governance. Short-term measures could include: (i) extending eligibility for SZV coverage to all workers regardless of income; (ii) increasing the health insurance (ZV) income limit beyond which premiums are not collected; and (iii) increasing contribution rates for public sector employees to the levels in the private sector, thus reducing the budget cost of their health care. Despite the increase in the pension age legislated in 2020, further reforms are needed in the general pension fund to avoid structural deficits in the medium term due to population ageing.

Authorities' Views

40. The Sint Maarten authorities are concerned about medium-term public debt sustainability. They are preparing action plans for tax administration reform, conducting an analysis of work processes, working on action plans for analyzing the budget process, and cleaning of critical fiscal data, including the taxpayer database. Work on digitalization through the National Recovery and Program Bureau and cleaning of the taxpayer database is expected to help improve tax administration. They are considering introducing a General Health Insurance model, which would broaden the base and strengthen the health sector. The authorities viewed that converting some of coronavirus loans into grants would be vital for addressing debt sustainability concerns.

C. Monetary and Financial Sector Policies

41. Monetary policy should aid the recovery while supporting the peg. It would be important to monitor the excess liquidity closely and stand ready to sterilize it if the international reserves come under pressure. Strengthening the CBCS' capacity to respond to liquidity pressures in the banking system is a key priority. Staff advises to develop a new emergency liquidity assistance (ELA) framework clearly articulating the objectives, governance, and decision-making arrangements in line with advice from the IMF technical assistance. In the longer term, the authorities could consider revising the current standing subscription framework to enable the development of the domestic debt market needed for monetary policy operations. The suspension of issuance of foreign exchange licenses constitutes a capital flow measure (CFM) assessed as appropriate under the Institutional View at the time of introduction, given the crisis. When economic recovery takes hold, this measure ought to be unwound if the reserve cushion remains comfortable. The restriction on payment of dividends and profits to nonresidents gives rise to an exchange restriction under Article VIII as it limits payments and transfers for transactions considered current by the Fund (Informational Annex), and it should be removed as soon as possible.

42. The Financial Sector Reform Program published by the CBCS in April 2021 is a step in the right direction. The priorities for 2021 include improving liquidity reports by banks, further elaborating and implementing specific intervention strategies for problem institutions, assessing the viability of bank business models, establishing a Financial Stability Committee to institutionalize policy discussions with the governments, publishing financial soundness indicators (FSIs) and the Financial Stability Report, strengthening the ELA framework, performing asset quality reviews (AQRs) in large banks, strengthening enforcement tools, and implementing a Deposit Insurance System (DIS). In 2022–24, they plan to conduct a strategic review of the financial sector, complete the transition to risk-based supervision, expand stress-testing models and the early-warning monitoring system and develop macro-prudential instruments. The authorities also plan to further strengthen enforcement, review resolution legislation, and to conduct a review of the CBCS charter. The CBCS supervision department has already been restructured to allow better tracking of risks, improved information flow, and faster responsiveness.

43. The CBCS should fine-tune the sequencing of planned reforms and devise a strategy for following up on the outcome of the AQRs. Strengthening the supervisory enforcement and the legislative work on resolution should be frontloaded, while introduction of the DIS should be done when the fragilities are addressed. As NPLs are expected to increase sharply in some entities, the application of IFRS 9 and an increased focus on collateral valuations are likely to add to provisioning needs, with negative capital implications. Authorities should develop a roadmap for addressing AQR results, including the envisaged timeline for the submission and implementation of recapitalization plans, if needed, using the outcomes of the business model and strategic financial sector assessments as an input. To strengthen the insurance sector, the authorities should finalize a strategy for Ennia's exit from the CBCS's special administration regime. Efforts to improve CBCS governance are welcome, including through amendments of the CBCS Statute, such as the introduction of staggered terms of the Supervisory Board. These efforts would lead to improved decision-making and enhanced oversight, while also strengthening overall CBCS autonomy.

44. Both Curaçao and Sint Maarten authorities should take further steps to reduce the risk of losing Correspondent Banking Relationships (CBRs). The CBCS's efforts to monitor CBRs via periodic surveys are welcome. Whereas the risk of CBR losses stems from a multitude of factors, further improvements are needed to increase transparency and effectiveness of the AML/CFT supervisory regimes and provide adequate resources to the relevant authorities tasked with AML/CFT supervision. The Curaçao authorities should also monitor and analyze cross-border financial flows. They should strengthen risk-based AML/CFT supervision and finalize and publish the National Risk Assessment, which should analyze cross-border financial flows, including links to international financial centers. The supervisory authorities require adequate resources and sufficient powers to issue penalties for non-compliance with AML/CFT obligations. In view of Curaçao's plans to develop the online gaming sector, the AML/CFT framework needs to be strengthened as a matter of priority. Accordingly, the Sint Maarten authorities should provide an updated timeline for their National Risk Assessment, which was rescheduled due to the pandemic. The Sint Maarten authorities should also strengthen the AML/CFT regulatory and supervisory framework for the gaming industry, e.g. by setting up a gaming control board.

Authorities' Views

45. The authorities were in broad agreement on monetary and financial sector policies. They shared staff's assessment of vulnerabilities, pointing to the significant impact of the pandemic on banks' profitability. The CBCS is committed to addressing the vulnerabilities through the financial sector reform program and has already restructured the supervision department as part of transitioning to risk-based supervision. The CBCS plans to phase out the restrictions on foreign exchange transactions when the recovery takes hold. The new Curaçao administration would like to appoint new members of the CBCS Supervisory Board that would have adequate qualifications and considered that CBCS autonomy would be maintained. The Sint Maarten authorities were in favor of introducing supervision of the gaming industry.

D. Strengthening Post-Pandemic Recovery and Potential Growth

46. Across-the-board structural improvements are needed to support the recovery and potential growth. The immediate priority should be on reforms facilitating adaptation to the depressed tourism flows and volatility. Longer-term reforms could improve the value-added of current activities or find additional areas for expanding activities such as developing green energy.

47. Phasing in more labor market flexibility while fine-tuning safety nets and addressing skills gaps will help businesses operate more competitively and adjust to changing conditions. The Curaçao authorities could consider introducing a Labor Court to speed up dispute resolution. Active labor market policies in both countries with the focus on training would improve outcomes. To alleviate the current skills gaps, the authorities should consider removing restrictions on hiring foreign skilled labor. When economic conditions improve, the restrictive dismissal provisions in both countries' labor laws should be amended to reduce disincentives for permanent employment and the design of severance (*cessantia*) payments should be adjusted to reduce disincentives for mobility. These adjustments need to be accompanied by ensuring adequate safety nets.

48. Improving the business environment is critical for economic recovery. Facilitating business permits and licenses—including through enhancing transparency and eliminating red tape—would increase incentives for investment, including FDI. In Sint Maarten, the immediate priority is to remove any bottlenecks for absorbing Trust Fund resources and advance the reconstruction projects, which will create positive spillover effects.

49. Finding new areas of growth will help mitigate exposure to shocks in the longer term. Whereas the small size of the economies—especially in Sint Maarten—limit opportunities for diversification, the authorities could foster new areas of growth. Improving the business model of tourism and improving value added would reduce exposure to shocks to the tourism industry. Expanding green energy (such as solar and wind) or developing water treatment plants could generate investment.

50. Building resilience to natural disasters. Sint Maarten would benefit from a comprehensive disaster resilience strategy.

Authorities' Views

51. Both Curaçao and Sint Maarten authorities assign high priority to reforms that would strengthen the recovery. They are committed to improving the business climate by cutting red tape. The Curaçao authorities are considering improving the labor arbitrage system—possibly through a labor court—to expedite labor disputes and agreed that reduction of red tape would help stimulate the economy and incentivize diversification. They would like to facilitate restarting of the oil refinery and consider further developing the online gaming business with proper supervision. The Sint Maarten authorities are working on developing e-government that would automate various permits. They noted that labor mediation functions adequately and that the labor market in Sint Maarten has significant *de facto* flexibility despite outdated labor laws.

E. Statistical Issues

52. A significant improvement in data availability and quality is needed as current gaps hamper effective macroeconomic analysis and surveillance. Both Curaçao and Sint Maarten should address the shortages of human and financial resources limiting data collection, coverage and timeliness, particularly for the National Accounts statistics. The authorities could seek technical support from the international community.

Authorities' Views

53. The authorities are committed to improving the data frameworks. In Curaçao, the authorities recognize the importance of data and the need to fund the production of data. The Sint Maarten authorities added establishing an independent Statistic Department to the list of government priorities. They are planning to carry out the population census in 2022. They are preparing projects to clean the existing databases, streamlining data collection and dissemination, including by integrating the IT systems at the Sint Maarten Port Authority and the customs.

STAFF APPRAISAL

54. The comprehensive economic support measures put in place with help from The Netherlands cushioned the COVID-19 shock and saved livelihoods. They supported employment and helped avoid mass bankruptcies. However, the economic contraction was severe and the outlook is challenging and subject to elevated uncertainty and risks.

55. The near-term focus should be on safe reopening of the economies, providing support where necessary, and setting the stage for inclusive recovery and medium-term sustainability. Accelerating vaccination campaigns, particularly in Sint Maarten, would support recovery of the hospitality sector. It would be important to provide adequate resources to critical areas such as health sector, tax administration, AML/CFT, and data and information frameworks. Agreements with The Netherlands (*landspakketten*) present a window of opportunity to implement structural reforms to support a recovery and ensure medium-term sustainability.

56. Strong implementation of fiscal reforms and a sustainable economic recovery are needed to achieve medium-term debt sustainability. Both countries need to strengthen tax administration as a matter of urgency and implement tax policy reforms to widen the tax base. It is essential to strengthen public financial management through better planning, stronger expenditure controls, better tracking of fiscal risks, and improved transparency. In the long term, both countries would benefit from moving towards a Fiscal Responsibility Framework including government debt as a long-term anchor. As the debt anchor of 40 percent of GDP recommended previously is unfeasible unless a part of liquidity support is converted into grants, the new target can be set when uncertainty subsides.

57. Monetary policy should aid the recovery while supporting the peg. The excess liquidity should be monitored closely and sterilized if the international reserves come under pressure. The CBCS is encouraged to remove capital flow measures introduced in March 2020 as soon as the recovery takes hold and if the international reserve cushion remains comfortable. Staff do not recommend approval of the exchange restriction as the conditions for approval are not met.

58. The authorities' efforts to address financial sector vulnerabilities are welcome and need to be sustained to address the banking sector fragilities. Developing a comprehensive Financial Sector Reform Program was a significant step forward. Careful sequencing of measures and implementation would be key for addressing the vulnerabilities. Efforts to transition to risk-based supervision, strengthen supervisory enforcement, and upgrade the bank resolution framework should be frontloaded. The CBCS should develop a roadmap for addressing results of a planned asset quality review.

59. Finding new areas of growth, supported by strong across-the-board structural reforms, would help mitigate exposure to shocks and boost potential growth. The authorities could foster new areas of growth by improving the business environment and reducing the cost of doing business. Facilitating various permits—including through better transparency and eliminating red tape—would increase incentives for investment, including FDI. Phasing in more labor market flexibility while fine-tuning safety nets and addressing skills gaps would improve competitiveness and adaptability. Expanding green energy (such as solar and wind) or pursuing green projects could generate new investment.

60. Significant efforts are needed to improve planning, implementation capacity, and governance in the public sector, particularly in Sint Maarten. As gaps in data availability and quality hamper effective macroeconomic analysis and policymaking, it is essential to address the shortages of personnel and financial resources in this area.

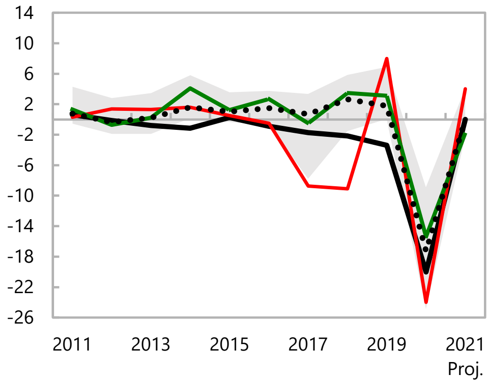
61. It is envisaged that the next Article IV consultation discussions with the Kingdom of the Netherlands—Curaçao and Sint Maarten will be held on a 12-month cycle.

Figure 1. Curaçao and Sint Maarten: Regional Comparison 1/

Curaçao — Sint Maarten — Tourism-oriented Caribbean — ECCU

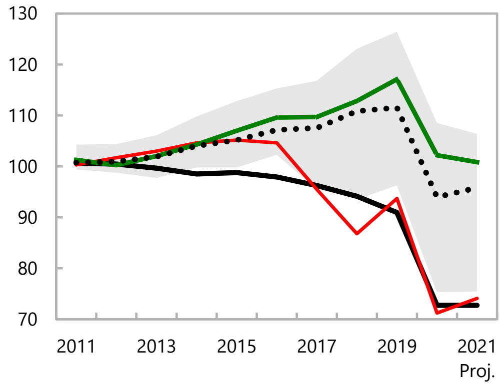
Real GDP growth rates in Curaçao and Sint Maarten have been volatile and lower than in most peers.

Real GDP
(Percent change)



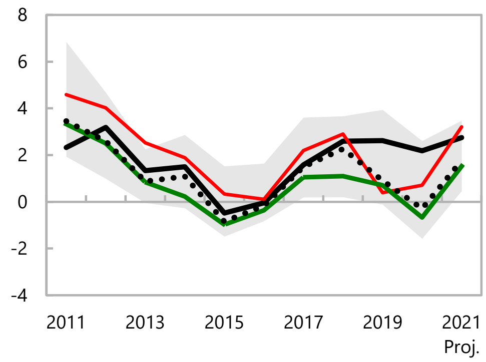
Both economies have contracted since 2010.

Real GDP Index
(2010 = 100)



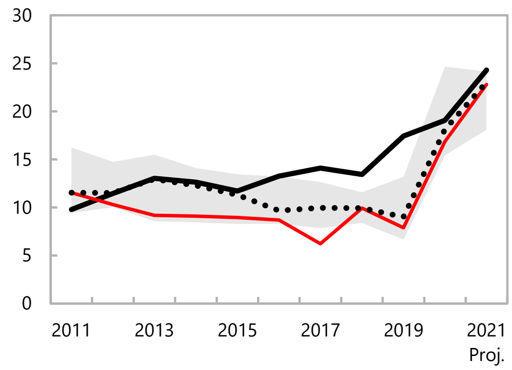
Inflation in Sint Maarten has been broadly consistent with patterns in the tourism-oriented Caribbean.

Inflation
(Percent; end of period)



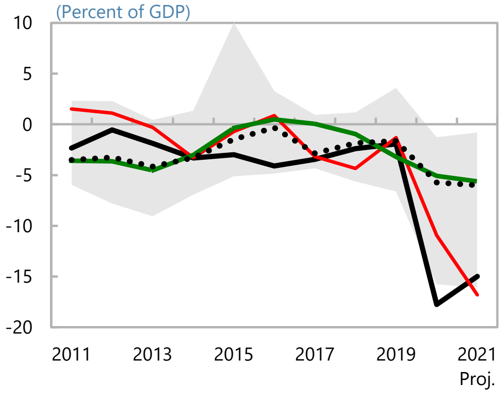
In both countries, the pandemic increased the unemployment rates.

Unemployment rate 2/
(Percent of labor force)



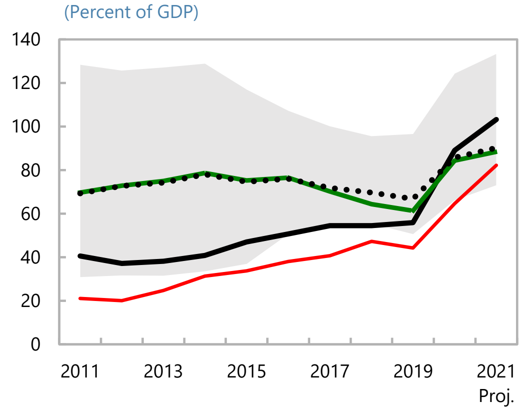
The pandemic led to a significant widening of the fiscal deficits in both countries...

Government fiscal balance 3/
(Percent of GDP)



...contributing to a sharp increase of government debt stocks.

Government debt
(Percent of GDP)

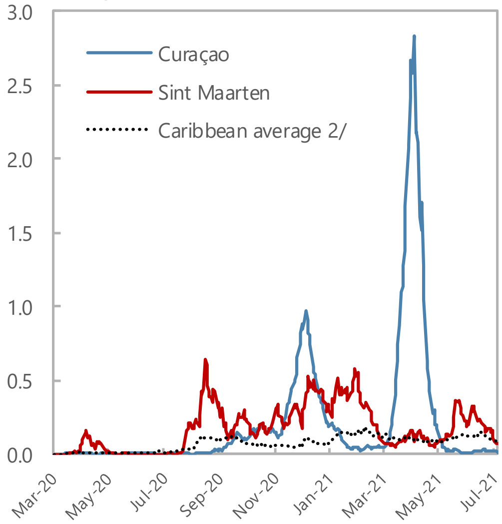


Sources: IMF World Economic Outlook; IMF Information Notice System; and IMF staff calculations.
1/ Figure reports medians for 15 tourism-oriented Caribbean countries, and the subgroup of countries in the Eastern Caribbean Currency Union (ECCU). 10th to 90th percentile range (light shading) are for all tourism-oriented Caribbean countries.
2/ Due to data availability, Caribbean-oriented comparators do not include ECCU countries.
3/ Sint Maarten fiscal balance excludes operations of the Trust Fund. The comparator figures are on general government basis.

Figure 2. Curaçao and Sint Maarten: COVID-19 Developments 1/

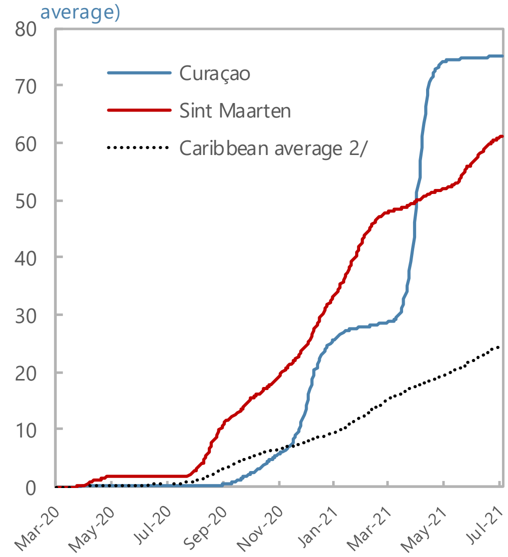
Curaçao and St. Maarten contained COVID-19 at the beginning of the pandemic but suffered several waves afterwards.

New COVID-19 Cases
(Number of new cases per 1,000 of population, 7-day average)



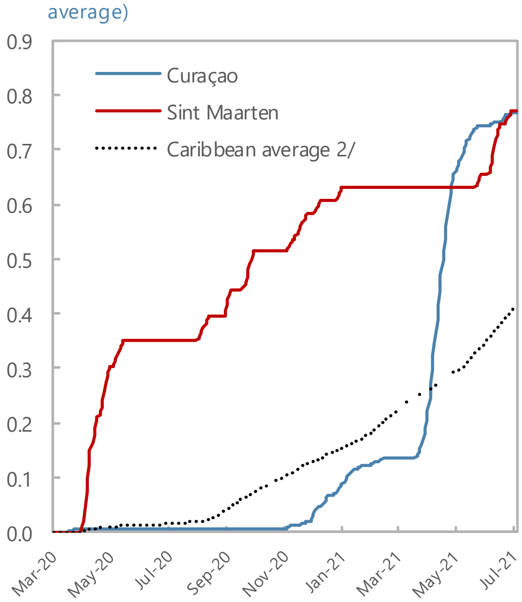
Total COVID-19 cases per capita significantly exceeded the Caribbean average…

Total COVID-19 Cases
(Number of total cases per 1,000 of population, 7-day average)



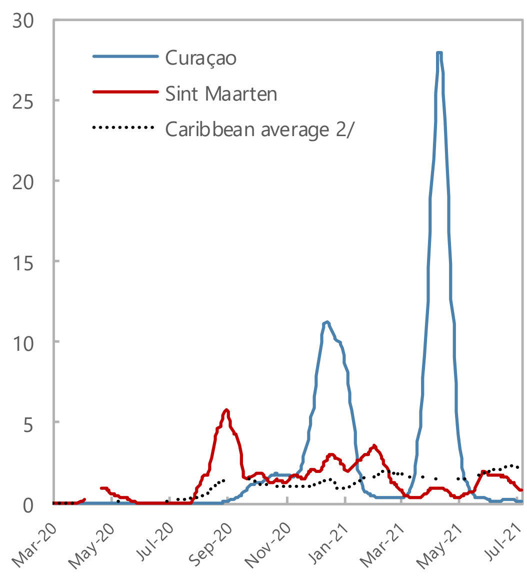
…resulting in fatalities above the Caribbean average.

COVID-19 fatalities
(Number of total deaths per 1,000 of population, 7-day average)



After a spike during the April COVID-19 outbreak in Curaçao, the active cases declined significantly.

Active COVID-19 Cases
(Number of active cases per 1,000 of population, 7-day average)

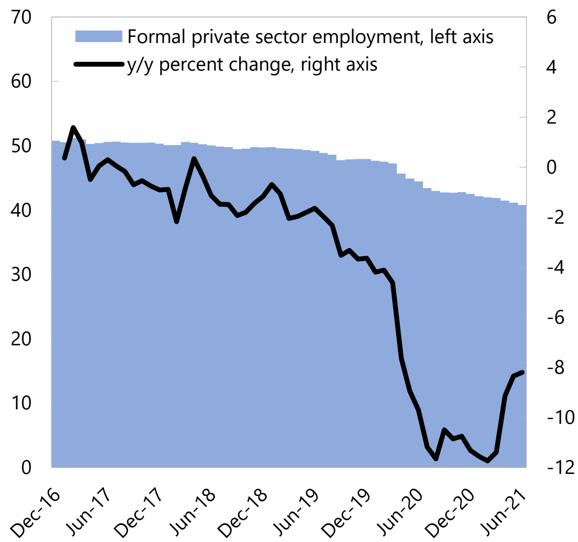


Sources: Johns Hopkins University and IMF staff calculations.
1/ Last observation: July 6, 2021.
2/ Average of 16 Caribbean countries excluding Curaçao and St. Maarten.

Figure 3. Curaçao and Sint Maarten: Formal Employment and Wages in the Private Sector

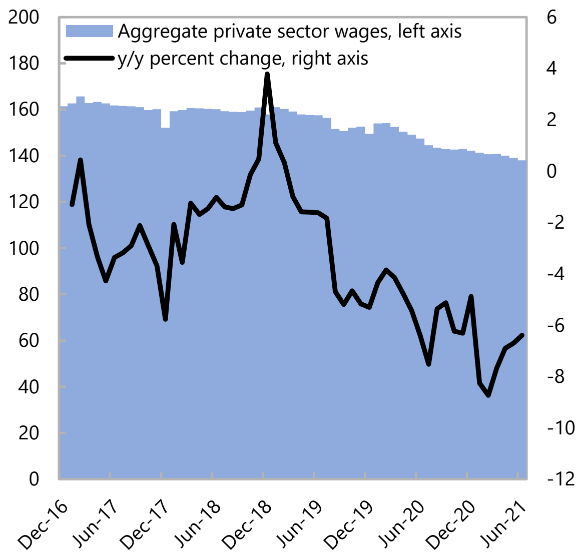
Formal private sector employment in Curacao fell sharply during the pandemic, exacerbating the negative trend observed in the past years.

Curaçao: Formal Private Sector Employment
(Thousands, left; Percent change, right)



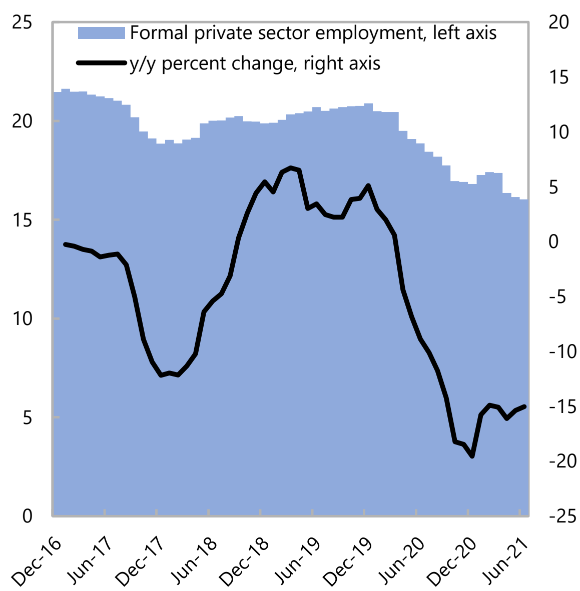
Wages in Curacao have also declined during the pandemic, although at a lower rate.

Curaçao: Wages in the Private Sector
(Millions of NAf, left; Percent change, right)



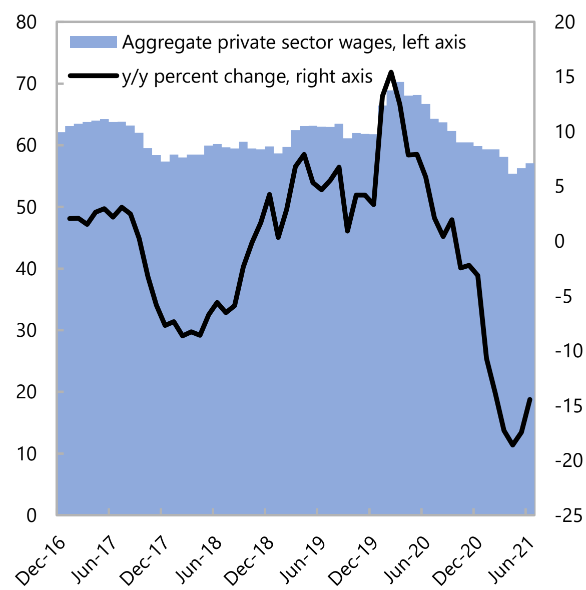
In Sint Maarten, the shock to private employment during the pandemic was stronger than after category 5 hurricanes in 2017.

St. Maarten: Formal Private Sector Employment
(Thousands, left; Percent change, right)



Private sector wages in Sint Maarten also declined.

St. Maarten: Wages in the Private Sector
(Millions of NAf, left; Percent change, right)

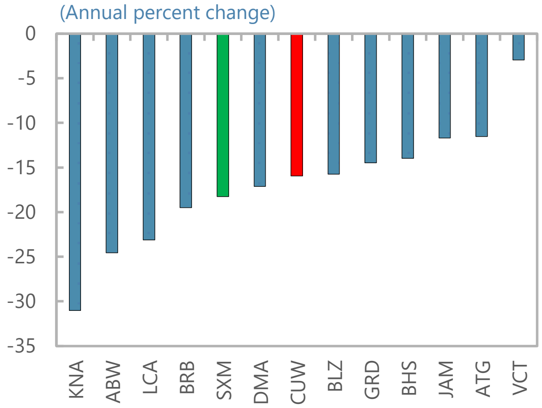


Sources: SVB, SZV and IMF staff calculations.

Figure 4. Curaçao and Sint Maarten: Fiscal Developments

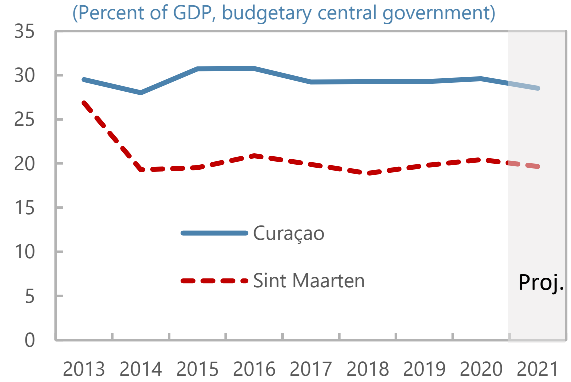
The pandemic led to a double-digit revenue shock in 2020...

Government Revenue, 2020
(Annual percent change)



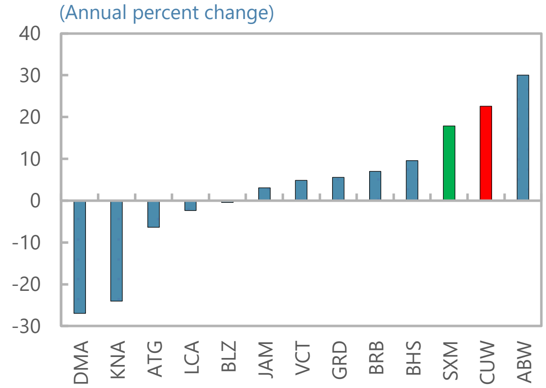
...although the revenue-to-GDP ratio remained broadly unchanged as nominal GDP shrank.

Government Revenue, 2013 - 21
(Percent of GDP, budgetary central government)



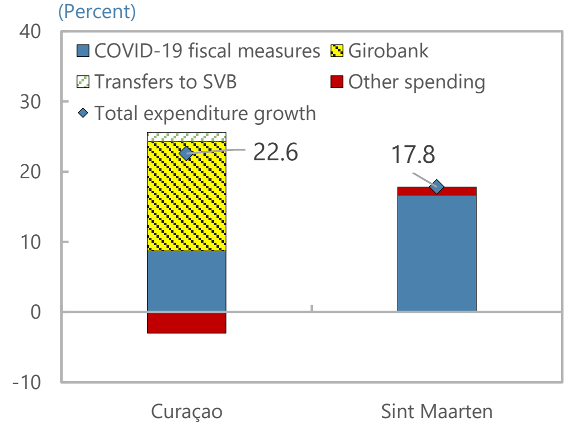
The y/y increases in Curaçao and Sint Maarten's fiscal expenditure were among the largest in the region...

Government Expenditure, 2020
(Annual percent change)



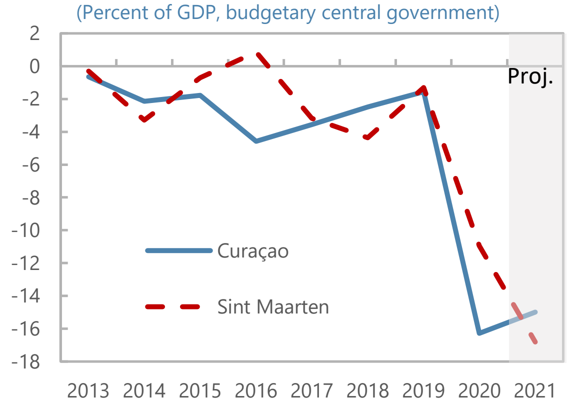
...due to fiscal response measures in both countries and Girobank resolution in Curaçao.

Government Expenditure Growth Contributions, 2020
(Percent)



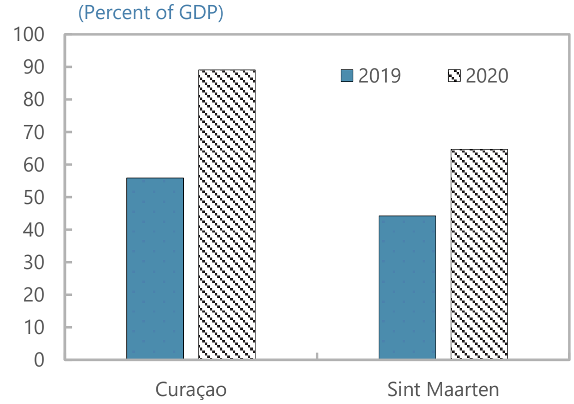
The fiscal deficits widened sharply...

Fiscal Overall Balance, 2013 - 21
(Percent of GDP, budgetary central government)



...contributing to significant increases in the government debt-to-GDP ratios.

Government Debt, 2019 vs 2020
(Percent of GDP)

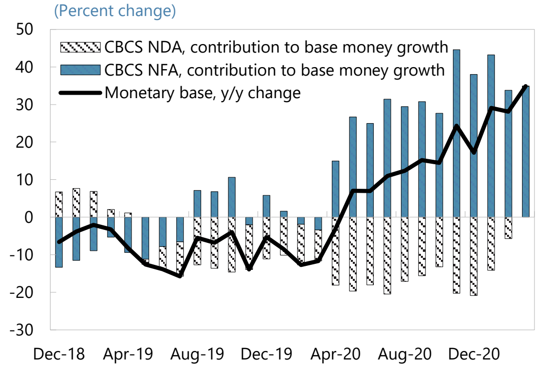


Sources: Curaçao and Sint Maarten authorities; IMF World Economic Outlook; and IMF staff projections.

Figure 5. Curaçao and Sint Maarten: Monetary Developments, Dec. 2018–March 2021

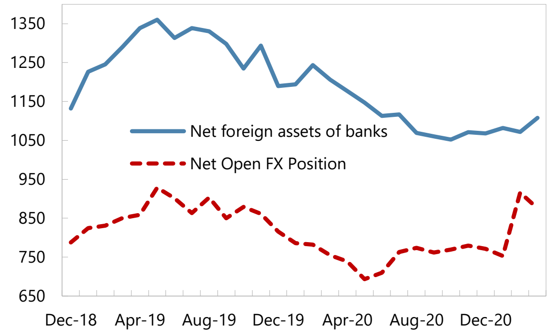
The monetary base has been growing since the beginning of the pandemic driven by the net foreign assets of the CBCS.

Monetary base and components
(Percent change)



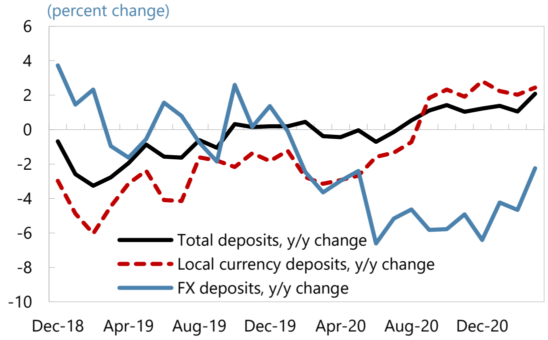
Since the beginning of the pandemic, banks have reduced their net foreign assets but increased their net open FX position.

Banks NFA and Exposure to FX
(Millions of US dollars)



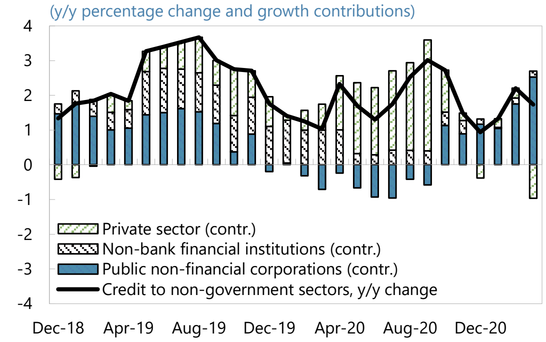
Total bank deposits grew, driven by local currency deposits.

Banking sector deposits
(percent change)



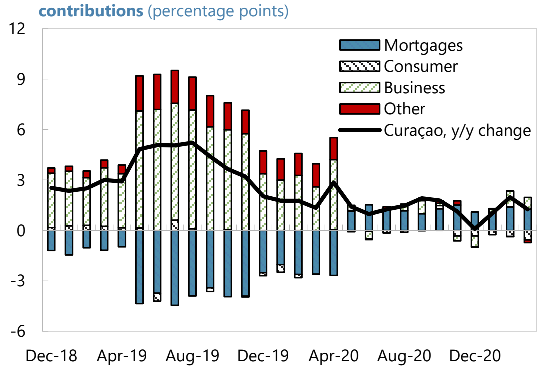
Credit to non-government sectors remains sluggish.

Claims on non-government sectors
(y/y percentage change and growth contributions)



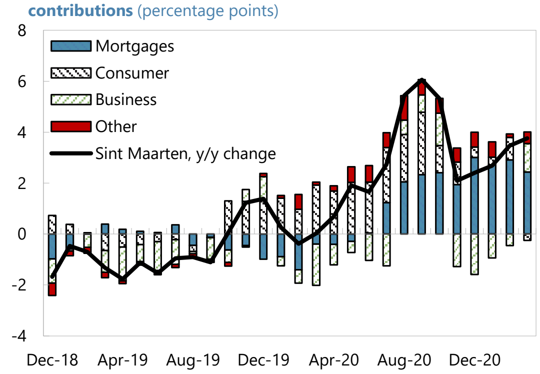
In Curaçao, bank loans to non-government sectors are growing at a low rate...

Curaçao: Loans to non-government sectors and growth contributions (percentage points)



... whereas they are picking up faster in Sint Maarten.

Sint Maarten: Loans to non-government sectors and growth contributions (percentage points)



Sources: CBCS, and IMF staff estimates.

Table 1. Curaçao: Selected Economic and Financial Indicators, 2017–26

Area	444 (km2)	Population, thousand (2021)	154
Percent of population below age 15 (2021)	17.0	Literacy rate, in percent (2010)	96.7
Percent of population aged 65+ (2021	19.0	Life expectancy at birth, male (2017)	74.7
Infant mortality, over 1,000 live births (2020)	5.7	Life expectancy at birth, female (2017)	81.5

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
		Prel.	Prel.	Est.			Proj.			
Real economy (percent change)										
Real GDP	-1.7	-2.2	-3.4	-20.0	0.0	6.5	5.0	3.5	2.0	1.0
CPI (12-month average)	1.6	2.6	2.6	2.2	2.8	3.3	2.3	2.2	2.1	2.0
Unemployment rate (percent)	14.1	13.4	17.4	19.1	24.3	21.0	17.6	13.9	11.9	11.3
Central government finances (percent of GDP)										
Net operating (current) balance	-2.1	-1.2	-0.5	-17.0	-14.3	-5.7	-2.4	0.1	1.1	1.4
Primary balance	-2.6	-1.4	-0.4	-14.9	-13.5	-5.5	-2.1	0.3	1.2	1.5
Overall balance	-3.6	-2.5	-1.6	-16.3	-15.0	-7.0	-3.7	-1.1	-0.2	0.2
Central government debt 1/	54.5	54.5	55.9	89.1	103.2	100.2	96.4	91.8	88.0	85.2
General government finances (percent of GDP) 2/										
Overall balance	-3.5	-2.4	-1.9	-17.8	-15.0	-7.0	-3.7	-1.1	-0.2	0.2
Balance of payments (percent of GDP)										
Current account	-21.8	-26.0	-17.4	-26.7	-31.3	-26.5	-22.5	-18.3	-14.6	-13.1
Goods trade balance	-33.5	-37.4	-34.3	-36.4	-39.4	-40.7	-41.8	-42.5	-42.9	-43.1
Exports of goods	13.6	18.7	12.8	10.5	13.7	13.7	12.8	12.1	11.8	11.6
Imports of goods	47.1	56.2	47.1	46.9	53.1	54.4	54.5	54.6	54.7	54.7
Service balance	12.1	11.5	16.3	9.4	8.9	14.5	18.6	22.1	24.8	25.8
Exports of services	43.0	43.1	44.4	28.8	30.6	37.6	41.4	44.5	46.8	47.9
Imports of services	30.9	31.6	28.0	19.4	21.7	23.1	22.7	22.3	22.0	22.1
External debt	133.3	152.0	156.4	208.0	227.7	218.3	211.6	206.5	204.0	203.9
Net international investment position	241.8	242.9	167.4	175.8	144.8	104.5	74.4	51.8	35.1	21.0
Memorandum items:										
Nominal GDP (millions of U.S. dollars)	3,117	3,128	3,103	2,581	2,577	2,849	3,075	3,264	3,407	3,510
Per capita GDP (U.S. dollars)	19,438	19,548	19,557	16,521	16,769	18,438	19,794	20,902	21,719	22,273
Credit to non-government sectors (percent change)	2.4	2.5	2.2	0.1	…	…	…	…	…	…

Fund position	Curaçao is part of the Kingdom of the Netherlands and does not have a separate quota.
Exchange rate	The Netherlands Antillean guilder is pegged to the U.S. dollar at NAƒ 1.79 = US$1.

Sources: Data provided by the authorities; and IMF staff estimates.
1/ Defined as balance sheet liabilities of the central government except equities. Includes central government liabilities to the social security funds.
2/ Budgetary central government consolidated with the social security fund (SVB).

Table 2. Curaçao: Government Operations, 2017–26 1/
(Millions of NA*f* unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Prel.	Prel.			Proj.			
					Budgetary Central Government					
Revenue	**1630**	**1639**	**1625**	**1367**	**1315**	**1478**	**1618**	**1760**	**1880**	**1963**
Tax	1490	1484	1525	1279	1226	1373	1496	1621	1725	1803
Taxes on income and profits	643	646	664	580	465	515	558	615	670	712
Taxes on property	39	33	30	34	34	39	43	47	50	52
Taxes on goods and services	582	572	621	501	530	592	644	688	721	745
Taxes on international trade and transactions	226	233	210	164	197	227	250	271	284	293
Grants	29	46	32	30	31	32	34	35	36	37
Other revenue	111	109	68	59	58	73	88	104	119	123
Expenditure	**1829**	**1778**	**1711**	**2119**	**2007**	**1833**	**1819**	**1826**	**1891**	**1952**
Expense (current expenditure)	1749	1707	1653	2153	1976	1769	1750	1753	1814	1873
Compensation of labor	586	585	585	595	580	592	566	571	596	614
Wages and salaries 2/	487	483	482	494	475	490	468	472	493	507
Social contributions	99	101	103	101	105	103	98	99	103	106
Goods and services	188	196	171	211	170	191	188	187	196	202
Consumption of fixed capital	82	88	93	100	102	103	104	105	110	113
Interest payments	63	70	68	68	74	79	89	91	91	91
Subsidies 3/	0	0	0	95	139	0	0	0	0	0
Grants	577	588	558	846	616	597	607	603	617	643
Social benefits	203	179	174	231	292	205	195	195	203	210
Other expense	51	2	3	8	2	2	2	2	2	2
Net acquisition of nonfinancial assets	80	71	59	-34	31	64	69	73	77	79
Net acquisition of nonfinancial assets (capital)	162	159	152	66	133	167	173	178	186	192
Net operating (current) balance	**-119**	**-68**	**-28**	**-786**	**-661**	**-291**	**-132**	**6**	**66**	**89**
Overall balance	**-199**	**-139**	**-87**	**-752**	**-692**	**-355**	**-201**	**-67**	**-11**	**11**
Primary balance	**-145**	**-79**	**-21**	**-688**	**-621**	**-280**	**-117**	**20**	**76**	**97**
Financing, net	**-200**	**-311**	**-210**	**-705**	**-692**	**-355**	**-201**	**-67**	**-11**	**11**
Net acquisition of financial assets 4/	12	-303	-157	308	-50	-3	-7	-7	-7	-7
Net incurrence of liabilities	212	9	52	1014	642	352	194	60	4	-18
Loans	52	-8	52	903	642	352	194	60	4	-18
Borrowing	60	0	99	1016	668	892	281	159	308	180
Amortization	8	8	47	114	26	540	87	100	304	198
Other accounts payable, incl. arrears	160	17	0	111	0	0	0	0	0	0
Statistical discrepancies	1	172	123	-47	0	0	0	0	0	0
					General Government 5/					
Revenue	**2432**	**2447**	**2423**	**2087**	**1997**	**2202**	**2364**	**2544**	**2695**	**2793**
of which : Social contributions	782	777	772	699	661	700	721	757	787	802
Expenditure	**2625**	**2581**	**2530**	**2908**	**2689**	**2556**	**2566**	**2611**	**2705**	**2783**
Expense	2545	2510	2471	2941	2658	2492	2496	2537	2629	2704
of which : Social benefits	1253	1232	1232	1280	1331	1260	1283	1316	1359	1401
Net acquisition of nonfinancial assets	80	71	59	-34	31	64	69	73	77	79
Overall balance	**-193**	**-134**	**-107**	**-820**	**-692**	**-355**	**-201**	**-67**	**-11**	**11**
Primary balance	**-139**	**-74**	**-42**	**-756**	**-621**	**-280**	**-117**	**20**	**76**	**97**
Memorandum items:										
Current account balance, authorities' definition	-117	-58	-45	-780	-444	-303	-139	0	0	0
Of which : Compensation for past deficits (+: payment)	47	4	17	0	0	0	0	0	59	83
Interest rule (interest/revenue) (percent) 6/	2.6	2.9	2.7	2.8	3.2	3.6	4.2	4.1	3.8	3.6
Government debt service	71	78	84	181	100	619	176	190	395	288
Gross government debt 7/	3042	3050	3103	4116	4758	5110	5304	5364	5368	5350
Net government debt	2560	2847	2895	3596	4454	4795	4982	5035	5032	5007
Government deposits	481	203	208	520	304	315	322	329	336	343
Nominal GDP	5579	5599	5554	4620	4613	5100	5504	5842	6099	6283

Sources: Curaçao authorities; and IMF staff calculations.

1/ The presentation follows the 2014 Government Finance Statistics Manual.
2/ Includes teacher salaries.
3/ Payroll subsidies to the private sector for 2020 and 21.
4/ Mostly changes in deposits.
5/ Consolidated table including the budgetary central government and social security funds (SVB).
6/ The denominator is the average of total revenue in the previous three years.
7/ Defined as balance sheet liabilities of the central government except equities. Includes central government liabilities to the social security funds.

Table 3. Curaçao: Government Operations, 2017–26 1/

(Percent of GDP unless otherwise indicated)

	2017	2018	2019 Prel.	2020 Prel.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.
					Budgetary Central Government					
Revenue	**29.2**	**29.3**	**29.3**	**29.6**	**28.5**	**29.0**	**29.4**	**30.1**	**30.8**	**31.2**
Tax	26.7	26.5	27.5	27.7	26.6	26.9	27.2	27.7	28.3	28.7
Taxes on income and profits	11.5	11.5	11.9	12.5	10.1	10.1	10.1	10.5	11.0	11.3
Taxes on property	0.7	0.6	0.5	0.7	0.7	0.8	0.8	0.8	0.8	0.8
Taxes on goods and services	10.4	10.2	11.2	10.9	11.5	11.6	11.7	11.8	11.8	11.9
Taxes on international trade and transactions	4.1	4.2	3.8	3.6	4.3	4.5	4.5	4.6	4.7	4.7
Grants	0.5	0.8	0.6	0.6	0.7	0.6	0.6	0.6	0.6	0.6
Other revenue	2.0	2.0	1.2	1.3	1.3	1.4	1.6	1.8	1.9	2.0
Expenditure	**32.8**	**31.8**	**30.8**	**45.9**	**43.5**	**35.9**	**33.1**	**31.3**	**31.0**	**31.1**
Expense (current expenditure)	31.3	30.5	29.8	46.6	42.8	34.7	31.8	30.0	29.7	29.8
Compensation of labor	10.5	10.4	10.5	12.9	12.6	11.6	10.3	9.8	9.8	9.8
Wages and salaries 2/	8.7	8.6	8.7	10.7	10.3	9.6	8.5	8.1	8.1	8.1
Social contributions	1.8	1.8	1.9	2.2	2.3	2.0	1.8	1.7	1.7	1.7
Goods and services	3.4	3.5	3.1	4.6	3.7	3.7	3.4	3.2	3.2	3.2
Consumption of fixed capital	1.5	1.6	1.7	2.2	2.2	2.0	1.9	1.8	1.8	1.8
Interest payments	1.1	1.2	1.2	1.5	1.6	1.5	1.6	1.5	1.5	1.4
Subsidies 3/	0.0	0.0	0.0	2.1	3.0	0.0	0.0	0.0	0.0	0.0
Grants	10.3	10.5	10.1	18.3	13.4	11.7	11.0	10.3	10.1	10.2
Social benefits	3.6	3.2	3.1	5.0	6.3	4.0	3.5	3.3	3.3	3.3
Other expense	0.9	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	1.4	1.3	1.1	-0.7	0.7	1.3	1.3	1.3	1.3	1.3
Net acquisition of nonfinancial assets (capital)	2.9	2.8	2.7	1.4	2.9	3.3	3.1	3.1	3.1	3.1
Net operating (current) balance	**-2.1**	**-1.2**	**-0.5**	**-17.0**	**-14.3**	**-5.7**	**-2.4**	**0.1**	**1.1**	**1.4**
Overall balance	**-3.6**	**-2.5**	**-1.6**	**-16.3**	**-15.0**	**-7.0**	**-3.7**	**-1.1**	**-0.2**	**0.2**
Primary balance	**-2.6**	**-1.4**	**-0.4**	**-14.9**	**-13.5**	**-5.5**	**-2.1**	**0.3**	**1.2**	**1.5**
Financing, net	**-3.6**	**-5.6**	**-3.8**	**-15.3**	**-15.0**	**-7.0**	**-3.7**	**-1.1**	**-0.2**	**0.2**
Net acquisition of financial assets 4/	0.2	-5.4	-2.8	6.7	-1.1	-0.1	-0.1	-0.1	-0.1	-0.1
Net incurrence of liabilities	3.8	0.2	0.9	21.9	13.9	6.9	3.5	1.0	0.1	-0.3
Loans	0.9	-0.1	0.9	19.5	13.9	6.9	3.5	1.0	0.1	-0.3
Borrowing	1.1	0.0	1.8	22.0	14.5	17.5	5.1	2.7	5.0	2.9
Amortization	0.1	0.1	0.8	2.5	0.6	10.6	1.6	1.7	5.0	3.1
Other accounts payable, incl. arrears	2.9	0.3	0.0	2.4	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancies	0.0	3.1	2.2	-1.0	0.0	0.0	0.0	0.0	0.0	0.0
					General Government 5/					
Revenue	**43.6**	**43.7**	**43.6**	**45.2**	**43.3**	**43.2**	**43.0**	**43.5**	**44.2**	**44.5**
of which : Social contributions	14.0	13.9	13.9	15.1	14.3	13.7	13.1	13.0	12.9	12.8
Expenditure	**47.1**	**46.1**	**45.6**	**62.9**	**58.3**	**50.1**	**46.6**	**44.7**	**44.4**	**44.3**
Expense	45.6	44.8	44.5	63.7	57.6	48.9	45.4	43.4	43.1	43.0
of which : Social benefits	22.5	22.0	22.2	27.7	28.9	24.7	23.3	22.5	22.3	22.3
Net acquisition of nonfinancial assets	1.4	1.3	1.1	-0.7	0.7	1.3	1.3	1.3	1.3	1.3
Overall balance	**-3.5**	**-2.4**	**-1.9**	**-17.8**	**-15.0**	**-7.0**	**-3.7**	**-1.1**	**-0.2**	**0.2**
Primary balance	**-2.5**	**-1.3**	**-0.8**	**-16.4**	**-13.5**	**-5.5**	**-2.1**	**0.3**	**1.2**	**1.5**
Memorandum items:										
Current account balance, authorities	-2.1	-1.0	-0.8	-16.9	-9.6	-5.9	-2.5	0.0	0.0	0.0
Of which : Compensation for past deficits (+: payment)	0.8	0.1	0.3	0.0	0.0	0.0	0.0	0.0	1.0	1.3
Interest rule (interest/revenue) (percent) 6/	2.6	2.9	2.7	2.8	3.2	3.6	4.2	4.1	3.8	3.6
Government debt service	1.3	1.4	1.5	3.9	2.2	12.1	3.2	3.3	6.5	4.6
Gross government debt 7/	54.5	54.5	55.9	89.1	103.2	100.2	96.4	91.8	88.0	85.2
Net government debt	45.9	50.8	52.1	77.8	96.6	94.0	90.5	86.2	82.5	79.7
Government deposits	8.6	3.6	3.7	11.3	6.6	6.2	5.9	5.6	5.5	5.5
Nominal GDP	5579	5599	5554	4620	4613	5100	5504	5842	6099	6283

Sources: Curaçao authorities; and IMF staff calculations.

1/ The presentation follows the 2014 Government Finance Statistics Manual.

2/ Includes teacher salaries.

3/ Payroll subsidies to the private sector for 2020 and 21.

4/ Mostly changes in deposits.

5/ Consolidated table including the budgetary central government and social security funds (SVB).

6/ The denominator is the average of total revenue in the previous three years.

7/ Defined as balance sheet liabilities of the central government except equities. Includes central government liabilities to the social security funds.

Table 4. Curaçao: Baseline Projections and Illustrative Scenario, 2019–31 1/

(Millions of NA*f* unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
(Baseline Projection)													
Primary balance	-21	-688	-621	-280	-117	20	76	97	100	103	106	109	112
percent of GDP	-0.4	-14.9	-13.5	-5.5	-2.1	0.3	1.2	1.5	1.5	1.5	1.5	1.5	1.5
Net operating (current) balance 1/	-28	-786	-661	-291	-132	6	66	89	95	101	107	113	119
percent of GDP	-0.5	-17.0	-14.3	-5.7	-2.4	0.1	1.1	1.4	1.5	1.5	1.6	1.6	1.6
Government debt stock	3103	4116	4758	5110	5304	5364	5368	5350	5336	5319	5299	5275	5248
percent of GDP	55.9	89.1	103.2	100.2	96.4	91.8	88.0	85.2	82.4	79.8	77.1	74.5	72.0
(Illustrative Scenario)													
Primary balance	-21	-688	-621	-330	-91	67	153	210	217	223	230	237	244
percent of GDP	-0.4	-14.9	-13.5	-6.5	-1.7	1.2	2.5	3.3	3.3	3.3	3.3	3.3	3.3
Net operating (current) balance 1/	-28	-786	-661	-341	-107	54	144	205	216	227	238	250	263
percent of GDP	-0.5	-17.0	-14.3	-6.7	-1.9	0.9	2.4	3.3	3.3	3.4	3.5	3.5	3.6
Government debt stock	3103	4116	4758	5160	5329	5341	5267	5135	5000	4857	4705	4544	4373
percent of GDP	55.9	89.1	103.2	101.2	96.8	91.4	86.4	81.7	77.3	72.8	68.5	64.2	60.0

1/ Defined according to the GFSM. It is different from the current fiscal balance in authorities' definition.

Table 5. Sint Maarten: Selected Economic and Financial Indicators, 2017–26

Area	34 (km^2)	Population, thousand (2021)	42.6
Percent of population below age 15 (2018)	20.0	Literacy rate, in percent (2011)	93.8
Percent of population aged 65+ (2018)	7.9	Life expectancy at birth, male (2016)	74
Infant mortality, over 1,000 live births (2010)	6.0	Life expectancy at birth, female (2016)	82.8

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
		Prel.	Est.	Est.			Proj.			
Real economy (percent change)										
Real GDP 1/	-8.8	-9.1	8.0	-24.0	4.0	15.0	7.5	4.5	3.0	2.0
CPI (12-month average)	2.2	2.9	0.4	0.7	3.2	2.7	2.4	2.4	2.3	2.2
Unemployment rate (percent)	6.2	9.9	7.9	16.9	22.8	15.5	12.0	10.2	9.3	9.0
Government finances (percent of GDP)										
Primary balance excl. Trust Fund operations 2/	-2.5	-3.7	-0.7	-10.2	-16.4	-8.3	-4.0	-2.6	-0.7	-0.4
Current balance (Authorities' definition) 3/	-3.5	-4.5	-1.6	-11.3	-15.3	-6.1	-3.4	-2.1	-0.4	0.0
Overall balance excl. TF activities	-3.2	-4.4	-1.3	-10.9	-16.8	-8.5	-4.6	-3.2	-1.4	-1.0
Central government debt 4/	40.7	47.2	44.2	64.7	82.2	77.9	75.4	73.7	71.2	69.3
Balance of payments (percent of GDP)										
Current account	4.1	6.7	-12.6	-29.5	-37.4	-28.6	-19.5	-13.5	-7.1	-3.8
Goods trade balance	-55.7	-69.6	-60.5	-47.5	-57.2	-59.4	-57.4	-56.2	-54.2	-53.9
Exports of goods	10.7	13.4	14.8	13.8	15.1	13.7	13.0	12.6	12.4	12.3
Imports of goods	66.4	83.0	75.2	61.4	72.2	73.1	70.3	68.8	66.6	66.3
Service balance	50.0	31.7	49.0	23.7	26.3	38.7	46.0	50.9	55.3	58.2
Exports of services	73.2	58.9	74.2	40.4	44.2	57.2	64.3	69.2	73.2	76.2
Imports of services	23.2	27.2	25.2	16.7	17.9	18.5	18.3	18.3	18.0	18.0
External debt	236.1	232.4	222.3	285.6	306.1	269.8	252.7	242.6	234.8	229.6
Net international investment position	-134.6	-134.5	-137.6	-189.9	-212.6	-199.3	-192.9	-189.6	-184.9	-180.2
Memorandum items:										
Nominal GDP (millions of U.S. dollars) 1/	1,147	1,108	1,226	970	989	1,177	1,301	1,397	1,476	1,543
Per capita GDP (U.S. dollars) 1/	28,287	27,293	29,781	23,083	23,235	27,313	29,862	31,705	33,150	34,291
Credit to non-gov. sectors (percent change)	-1.6	-1.7	0.9	2.4	…	…	…	…	…	…

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

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

1/ GDP figures for 2017-2019 include adjustments by the IMF staff based on inputs from a technical assistance mission and are lower than the published figures.

2/ Excludes Trust Fund (TF) grants and TF-financed special projects.

3/ Revenue excl. grants minus interest income, current expenditure and depreciation of fixed assets.

4/ The stock of debt in 2016 is based on financial statements. Values in subsequent years are staff's estimates and are higher than the values under authorities' definition in quarterly fiscal reports.

Table 6. Sint Maarten: Government Operations, 2017–26
(Millions of NA*f* unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Prel.	Prel.	Prel.	Est.			Proj.			
				Budgetary Central Government						
Revenue	**408**	**375**	**434**	**355**	**348**	**419**	**464**	**504**	**539**	**569**
Taxes	340	320	371	299	286	342	379	411	438	462
Taxes on income and profits	170	154	168	160	133	159	175	190	203	216
Taxes on goods and services	157	155	190	131	144	173	193	208	222	233
Property and other taxes	12	12	13	9	9	10	11	12	13	14
Grants	0	0	0	0	0	0	0	0	0	0
Other revenue	68	54	63	56	62	77	85	94	101	107
of which : Capital revenue	0	0	0	0	6	10	10	10	10	9
Expenditure	**473**	**461**	**463**	**545**	**646**	**599**	**571**	**585**	**576**	**597**
Expense	470	454	458	541	604	525	520	534	526	544
Compensation of employees	218	202	206	194	190	211	216	221	205	213
of which : Wages	160	139	140	135	143	150	154	158	143	150
Goods and services	120	108	107	108	108	111	113	116	119	124
Social benefits 1/	34	28	28	42	40	39	37	38	39	40
Subsidies	85	104	104	184	254	149	130	134	137	140
Interest	13	13	13	13	12	15	23	25	27	27
Capital expenditure	3	7	5	4	42	74	51	51	50	53
Overall balance	**-65**	**-86**	**-29**	**-190**	**-298**	**-180**	**-107**	**-81**	**-37**	**-28**
Primary balance	**-52**	**-74**	**-15**	**-177**	**-291**	**-174**	**-94**	**-65**	**-19**	**-10**
Financing transactions (+: increasing net assets)	-65	-86	-29	-89	-298	-180	-107	-81	-37	-28
Net acquisition of financial assets	-84	15	5	64	35	6	7	7	2	4
Net incurrence of liabilities	-19	101	34	153	332	186	114	88	39	32
Domestic	-41	28	8	-14	-60	0	0	0	0	0
External	22	73	25	167	392	186	114	88	39	32
Disbursements	23	74	33	225	401	573	158	137	171	97
Amortization	1	1	8	58	9	387	43	49	133	65
Statistical discrepancies	0	0	0	-101	0	0	0	0	0	0
				Budgetary Central Government consolidated with Trust Fund operations						
Revenue and grants	**408**	**406**	**459**	**466**	**544**	**590**	**625**	**593**	**582**	**585**
Central government revenue	408	375	434	355	348	419	464	504	539	569
Trust Fund grants	0	32	25	111	196	170	161	89	43	16
Total expenditure	**473**	**476**	**487**	**607**	**732**	**699**	**710**	**707**	**663**	**653**
Central government expenditure	473	461	463	545	646	599	571	585	576	597
Trust Fund special projects	0	16	24	62	86	100	139	122	88	56
Overall balance	**-65**	**-70**	**-27**	**-141**	**-188**	**-110**	**-85**	**-114**	**-81**	**-68**
Net acquisition of financial assets	-84	31	6	113	234	76	29	-26	-48	-42
Net incurrence of liabilities	-19	101	34	153	332	186	114	88	39	32
Memorandum Items:										
Current account balance, authorities' definition 2/	-72	-90	-35	-197	-271	-128	-79	-53	-11	0
of which : Liquidity compensation	0	0	0	0	0	0	0	0	0	1
of which : Depreciation	10	11	11	11	9	13	13	14	14	15
Fiscal rules and sustainability indicators										
Interest rule (interest/revenue) (percent) 3/	2.9	2.9	3.1	3.1	2.8	3.1	4.3	4.3	4.5	4.5
Gross central government debt 4/	835	937	970	1,123	1,456	1,642	1,756	1,844	1,883	1,914
Budgetary central government deposits (eop) 5/	126	115	64	123	63	63	63	63	63	65
Net central government debt	709	821	907	1,000	1,392	1,578	1,693	1,781	1,819	1,850
Nominal GDP, millions of NAf	2,052	1,984	2,195	1,737	1,771	2,107	2,329	2,501	2,642	2,761

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/ Revenue excl. grants minus interest income, current expenditure and depreciation of fixed assets.

3/ The denominator is the average of total revenue in the previous three years.

4/ The stock in 2016 is based on financial statements. Values in subsequent years are staff's estimates and are higher than ones under authorites' definition.

5/ From the CBCS monetary survey. Includes deposits of entities in the broader public sector.

Table 7. Sint Maarten: Government Operations, 2017–26
(Percent of GDP unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Prel.	Prel.	Prel.	Est.			Proj.			
				Budgetary Central Government						
Revenue	**19.9**	**18.9**	**19.8**	**20.4**	**19.7**	**19.9**	**19.9**	**20.2**	**20.4**	**20.6**
Taxes	16.6	16.1	16.9	17.2	16.1	16.3	16.3	16.4	16.6	16.7
Taxes on income and profits	8.3	7.7	7.7	9.2	7.5	7.6	7.5	7.6	7.7	7.8
Taxes on goods and services	7.7	7.8	8.6	7.5	8.2	8.2	8.3	8.3	8.4	8.5
Property and other taxes	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	3.3	2.7	2.9	3.2	3.5	3.7	3.6	3.7	3.8	3.9
of which : Capital revenue	0.0	0.0	0.0	0.0	0.3	0.5	0.4	0.4	0.4	0.3
Expenditure	**23.1**	**23.2**	**21.1**	**31.4**	**36.5**	**28.4**	**24.5**	**23.4**	**21.8**	**21.6**
Expense	22.9	22.9	20.9	31.1	34.1	24.9	22.3	21.4	19.9	19.7
Compensation of employees	10.6	10.2	9.4	11.2	10.7	10.0	9.3	8.9	7.7	7.7
of which : Wages	7.8	7.0	6.4	7.8	8.0	7.1	6.6	6.3	5.4	5.4
Goods and services	5.8	5.4	4.9	6.2	6.1	5.3	4.9	4.6	4.5	4.5
Social benefits 1/	1.6	1.4	1.3	2.4	2.3	1.9	1.6	1.5	1.5	1.4
Subsidies	4.2	5.2	4.7	10.6	14.4	7.1	5.6	5.3	5.2	5.1
Interest	0.6	0.7	0.6	0.8	0.7	0.7	1.0	1.0	1.0	1.0
Capital expenditure	0.2	0.3	0.2	0.2	2.4	3.5	2.2	2.0	1.9	1.9
Overall balance	**-3.2**	**-4.4**	**-1.3**	**-10.9**	**-16.8**	**-8.5**	**-4.6**	**-3.2**	**-1.4**	**-1.0**
Primary balance	**-2.5**	**-3.7**	**-0.7**	**-10.2**	**-16.4**	**-8.3**	**-4.0**	**-2.6**	**-0.7**	**-0.4**
Financing transactions (+: increasing net assets)	-3.2	-4.4	-1.3	-5.1	-16.8	-8.5	-4.6	-3.2	-1.4	-1.0
Net acquisition of financial assets	-4.1	0.7	0.2	3.7	2.0	0.3	0.3	0.3	0.1	0.1
Net incurrance of liabilities	-0.9	5.1	1.5	8.8	18.8	8.8	4.9	3.5	1.5	1.1
Domestic	-2.0	1.4	0.4	-0.8	-3.4	0.0	0.0	0.0	0.0	0.0
External	1.1	3.7	1.1	9.6	22.2	8.8	4.9	3.5	1.5	1.1
Gross borrowing	1.1	3.7	1.5	12.9	22.7	27.2	6.8	5.5	6.5	3.5
Amortization	0.0	0.1	0.4	3.3	0.5	18.4	1.9	1.9	5.0	2.4
Statistical discrepancies	0.0	0.0	0.0	-5.8	0.0	0.0	0.0	0.0	0.0	0.0
				Budgetary Central Government consolidated with Trust Fund operations						
Revenue and grants	**19.9**	**20.5**	**20.9**	**26.8**	**30.7**	**28.0**	**26.8**	**23.7**	**22.0**	**21.2**
Central government revenue	19.9	18.9	19.8	20.4	19.7	19.9	19.9	20.2	20.4	20.6
Trust Fund grants	0.0	1.6	1.2	6.4	11.1	8.1	6.9	3.5	1.6	0.6
Total expenditure	**23.1**	**24.0**	**22.2**	**34.9**	**41.3**	**33.2**	**30.5**	**28.3**	**25.1**	**23.6**
Central government expenditure	23.1	23.2	21.1	31.4	36.5	28.4	24.5	23.4	21.8	21.6
Trust Fund special projects	0.0	0.8	1.1	3.6	4.9	4.8	6.0	4.9	3.3	2.0
Overall balance	**-3.2**	**-3.5**	**-1.3**	**-8.1**	**-10.6**	**-5.2**	**-3.7**	**-4.6**	**-3.1**	**-2.5**
Net acquisition of financial assets	-4.1	1.6	0.3	6.5	13.2	3.6	1.3	-1.1	-1.8	-1.5
Net incurrance of liabilities	-0.9	5.1	1.5	8.8	18.8	8.8	4.9	3.5	1.5	1.1
Memorandum Items:										
Current account balance, authorities' definition 2/	-3.5	-4.5	-1.6	-11.3	-15.3	-6.1	-3.4	-2.1	-0.4	0.0
of which : Liquidity compensation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
of which : Depreciation	0.5	0.5	0.5	0.6	0.5	0.6	0.6	0.5	0.5	0.5
Fiscal rules and sustainability indicators										
Interest rule (interest/revenue) (percent) 3/	0.1	0.1	0.1	0.2	0.2	0.1	0.2	0.2	0.2	0.2
Gross central government debt 4/	40.7	47.2	44.2	64.7	82.2	77.9	75.4	73.7	71.2	69.3
Budgetary central government deposits (eop) 5/	6.2	5.8	2.9	7.1	3.6	3.0	2.7	2.5	2.4	2.3
Net central government debt	34.5	41.4	41.3	57.6	78.6	74.9	72.7	71.2	68.9	67.0
Nominal GDP, millions of NAf	2052	1984	2195	1737	1771	2107	2329	2501	2642	2761

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/ Revenue excl. grants minus interest income, current expenditure and depreciation of fixed assets.

3/ The denominator is the average of total revenue in the previous three years.

4/ The stock in 2016 is based on financial statements. Values in subsequent years are staff's estimates and are higher than ones under authorites' definition.

5/ From the CBCS monetary survey.

Table 8. Sint Maarten: Baseline Projections and Illustrative Scenario, 2019–31
(Millions of NA*f* unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
(Baseline Projection)													
Primary balance	-15	-177	-291	-174	-94	-65	-19	-10	-55	-82	-94	-106	-111
percent of GDP	-0.7	-10.2	-16.4	-8.3	-4.0	-2.6	-0.7	-0.4	-1.9	-2.7	-3.0	-3.3	-3.3
Net operating (current) balance 1/	-24	-186	-256	-106	-56	-30	13	25	-18	-44	-55	-66	-98
percent of GDP	-1.1	-10.7	-14.5	-5.0	-2.4	-1.2	0.5	0.9	-0.6	-1.5	-1.8	-2.0	-2.9
Government debt stock	970	1123	1456	1642	1756	1844	1883	1914	1992	2099	2221	2359	2509
percent of GDP	44.2	64.7	82.2	77.9	75.4	73.7	71.2	69.3	69.1	69.8	70.9	72.3	73.8
(Illustrative Scenario)													
Primary balance	-15	-177	-291	-174	-88	-48	8	28	29	30	31	33	34
percent of GDP	-0.7	-10.2	-16.4	-8.3	-3.8	-1.9	0.3	1.0	1.0	1.0	1.0	1.0	1.0
Net operating (current) balance 1/	-24	-186	-256	-106	-50	-13	41	63	68	73	78	83	72
percent of GDP	-1.1	-10.7	-14.5	-5.0	-2.2	-0.5	1.5	2.3	2.4	2.4	2.5	2.5	2.1
Government debt stock	970	1123	1456	1642	1750	1821	1832	1826	1814	1802	1788	1772	1755
percent of GDP	44.2	64.7	82.2	77.9	75.1	72.8	69.3	66.1	63.0	60.0	57.1	54.3	51.6

1/ Defined according to the GFSM. It is different from the current fiscal balance in authorities' definition.

Table 9a. Curaçao and Sint Maarten: Balance of Payments, 2017–26
(Millions of U.S. dollars unless otherwise indicated)

	2017	2018	2019 Prel.	2020 Prel.	2021 Proj.	2022	2023	2024	2025	2026
					(millions of U.S. dollars)					
Current account	**-624**	**-738**	**-694**	**-975**	**-1,176**	**-1,091**	**-945**	**-786**	**-601**	**-519**
Goods and services	-721	-1,230	-697	-928	-1,092	-989	-859	-740	-602	-540
Exports of goods and services	2,746	2,736	2,866	1,539	1,727	2,297	2,669	2,990	3,260	3,453
Goods	548	734	579	405	502	552	561	572	584	597
Services	2,198	2,002	2,286	1,134	1,225	1,744	2,108	2,418	2,676	2,856
Imports of goods and services	3,467	3,966	3,562	2,468	2,819	3,285	3,528	3,730	3,862	3,993
Goods	2,230	2,677	2,384	1,806	2,083	2,410	2,591	2,745	2,846	2,942
Services	1,237	1,290	1,179	662	736	875	937	985	1,016	1,052
Income	-8.4	3.0	-4.6	25.7	-9.9	-3.6	14.1	43.0	94.8	120.0
Of which: Investment income	-31.6	-25.4	-57.7	-2.1	-38.9	-33.6	-17.5	9.9	60.7	85.5
Current transfers	105.0	488.7	7.5	-72.3	-73.8	-98.8	-99.8	-88.6	-94.1	-98.3
Capital and financial account	**636**	**605**	**617**	**1,204**	**1,063**	**810**	**784**	**732**	**673**	**597**
Capital account	-2	19	16	50	110	95	90	50	24	9
Financial account	637	586	601	1,154	953	714	694	683	648	588
Direct investment	380	44	143	174	142	161	190	219	230	237
Portfolio investment	178	199	102	91	110	119	190	180	157	156
Other investment	79	343	355	889	701	435	314	283	262	195
Net errors and omissions	**-21**	**-21**	**38**	**113**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-10**	**-153**	**-39**	**342**	**-113**	**-281**	**-161**	**-53**	**71**	**79**
Reserve assets	**10**	**153**	**39**	**-342**	**113**	**281**	**161**	**53**	**-71**	**-79**
					(percent of GDP)					
Current account	**-14.6**	**-17.4**	**-16.0**	**-27.5**	**-33.0**	**-27.1**	**-21.6**	**-16.9**	**-12.3**	**-10.3**
Goods and services	-16.9	-29.0	-16.1	-26.1	-30.6	-24.6	-19.6	-15.9	-12.3	-10.7
Income	-0.7	-0.6	-1.3	-0.1	-1.1	-0.8	-0.4	0.2	1.2	1.7
Current transfers	2.5	11.5	0.2	-2.0	-2.1	-2.5	-2.3	-1.9	-1.9	-1.9
Capital and financial account	**14.9**	**14.3**	**14.2**	**33.9**	**29.8**	**20.1**	**17.9**	**15.7**	**13.8**	**11.8**
Direct investment	8.9	1.0	3.3	4.9	4.0	4.0	4.3	4.7	4.7	4.7
Portfolio investment	4.2	4.7	2.4	2.6	3.1	3.0	4.3	3.9	3.2	3.1
Other investment	1.9	8.1	8.2	25.0	19.7	10.8	7.2	6.1	5.4	3.9
Net errors and omissions	**-0.5**	**-0.5**	**0.9**	**3.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-0.2**	**-3.6**	**-0.9**	**9.6**	**-3.2**	**-7.0**	**-3.7**	**-1.1**	**1.5**	**1.6**
Memorandum items:										
Gross official reserves, excl. gold	1,475	1,322	1,282	1,625	1,512	1,230	1,069	1,016	1,088	1,166
in months of imports	4.5	4.5	6.2	6.9	5.5	4.2	3.4	3.2	3.3	3.4
over short-term debt	1.4	1.0	1.0	1.1	0.9	0.7	0.6	0.5	0.6	0.6
Gross external debt, percent of GDP	160.9	173.0	175.1	229.2	249.5	233.3	223.8	217.3	213.3	211.7
Of which: short-term debt	24.0	32.5	31.1	41.9	45.6	42.7	40.9	39.8	39.1	38.8

Sources: Centrale Bank van Curaçao en Sint Maarten, and IMF staff estimates.

Table 9b. Curaçao: Balance of Payments, 2017–26
(Millions of U.S. dollars unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Prel.	Prel.			Proj.			
					(millions of U.S. dollars)					
Current account	**-680**	**-813**	**-539**	**-689**	**-806**	**-754**	**-691**	**-597**	**-497**	**-460**
Goods and services	-667	-810	-556	-697	-787	-745	-711	-666	-618	-606
Exports of goods and services	1,766	1,935	1,775	1,013	1,141	1,462	1,665	1,847	1,995	2,087
Goods	425	586	398	271	353	391	392	396	401	406
Services	1,341	1,349	1,377	742	787	1,071	1,272	1,451	1,595	1,681
Imports of goods and services	2,433	2,745	2,331	1,710	1,927	2,207	2,376	2,513	2,613	2,693
Goods	1,469	1,757	1,461	1,210	1,369	1,549	1,676	1,783	1,863	1,919
Services	964	988	870	500	559	658	699	729	750	774
Income	18	31	45	57	14	30	67	114	170	197
Of which: Investment income	-32	-27	-43	6	-41	-30	2	45	98	123
Current transfers	-31	-34	-28	-49	-33	-39	-47	-45	-49	-51
Capital and financial account	**671**	**706**	**494**	**909**	**699**	**572**	**589**	**592**	**585**	**520**
Capital account	-1	2	5	0	0	0	0	0	0	0
Financial account	673	704	489	909	698	571	589	592	584	520
Direct investment	318	96	89	149	103	114	138	163	170	175
Portfolio investment	177	164	84	106	102	113	122	129	135	139
Financial derivatives	0	0	0	0	0	0	0	0	0	0
Other investment	178	444	316	654	493	345	329	299	279	205
Net errors and omissions	**1**	**-7**	**16**	**33**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-7**	**-113**	**-29**	**253**	**-107**	**-182**	**-101**	**-5**	**88**	**60**
Reserve assets	**7**	**113**	**29**	**-253**	**107**	**182**	**101**	**5**	**-88**	**-60**
					(percent of GDP)					
Current account	**-21.8**	**-26.0**	**-17.4**	**-26.7**	**-31.3**	**-26.5**	**-22.5**	**-18.3**	**-14.6**	**-13.1**
Goods and services	-21.4	-25.9	-17.9	-27.0	-30.5	-26.2	-23.1	-20.4	-18.1	-17.3
Exports of goods	13.6	18.7	12.8	10.5	13.7	13.7	12.8	12.1	11.8	11.6
Imports of goods	47.1	56.2	47.1	46.9	53.1	54.4	54.5	54.6	54.7	54.7
Exports of services	43.0	43.1	44.4	28.8	30.6	37.6	41.4	44.5	46.8	47.9
Imports of services	30.9	31.6	28.0	19.4	21.7	23.1	22.7	22.3	22.0	22.1
Income	0.6	1.0	1.5	2.2	0.5	1.1	2.2	3.5	5.0	5.6
Current transfers	-1.0	-1.1	-0.9	-1.9	-1.3	-1.4	-1.5	-1.4	-1.4	-1.4
Capital and financial account	**21.5**	**22.6**	**15.9**	**35.2**	**27.1**	**20.1**	**19.2**	**18.1**	**17.2**	**14.8**
Of which										
Direct investment	10.2	3.1	2.9	5.8	4.0	4.0	4.5	5.0	5.0	5.0
Portfolio investment	5.7	5.2	2.7	4.1	4.0	4.0	4.0	4.0	4.0	4.0
Other investment	5.7	14.2	10.2	25.3	19.1	12.1	10.7	9.2	8.2	5.9
Net errors and omissions	**0.0**	**-0.2**	**0.5**	**1.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-0.2**	**-3.6**	**-0.9**	**9.8**	**-4.2**	**-6.4**	**-3.3**	**-0.2**	**2.6**	**1.7**

Sources: Centrale Bank van Curaçao en Sint Maarten, and IMF staff estimates.

Table 9c. Sint Maarten: Balance of Payments, 2017–26
(Millions of U.S. dollars unless otherwise indicated)

	2017	2018 Prel.	2019 Prel.	2020 Est.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.
				(millions of U.S. dollars)						
Current account	**47**	**75**	**-155**	**-286**	**-370**	**-337**	**-254**	**-189**	**-105**	**-59**
Goods and services	-65	-419	-141	-232	-306	-243	-148	-74	16	66
Exports of goods and services	962	802	1091	526	586	835	1005	1143	1265	1366
Goods	123	148	181	134	149	161	169	176	183	190
Services	839	653	910	392	437	673	836	967	1081	1175
Imports of goods and services	1027	1221	1231	758	892	1078	1153	1217	1248	1300
Goods	761	919	923	595	715	860	915	962	983	1022
Services	266	301	309	162	177	217	238	255	265	278
Income	-26	-28	-50	-31	-24	-34	-53	-71	-75	-77
o/w Investment income	1	2	-14	-8	2	-4	-20	-35	-37	-38
Current transfers	138	522	36	-24	-40	-60	-53	-43	-46	-48
Capital and financial account	**-28**	**-101**	**122**	**295**	**364**	**238**	**195**	**141**	**88**	**77**
Capital account	0	16	11	50	110	95	90	49	24	9
Financial account	-27	-117	111	245	255	143	105	91	64	68
Direct investment	62	-52	54	25	39	47	52	56	59	62
Portfolio investment	1	35	18	-14	8	6	68	51	22	17
Financial derivatives	0	0	0	0	0	0	0	0	0	0
Other investment	-91	-101	39	235	208	90	-15	-16	-17	-10
Net errors and omissions	**-22**	**-14**	**22**	**80**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-3**	**-40**	**-10**	**89**	**-6**	**-99**	**-59**	**-48**	**-17**	**18**
Reserve assets	**3**	**40**	**10**	**-89**	**6**	**99**	**59**	**48**	**17**	**-18**
				(percent of GDP)						
Current account	**4.1**	**6.7**	**-12.6**	**-29.5**	**-37.4**	**-28.6**	**-19.5**	**-13.5**	**-7.1**	**-3.8**
Goods and services	-5.7	-37.8	-11.5	-23.9	-30.9	-20.7	-11.4	-5.3	1.1	4.3
Exports of goods	10.7	13.4	14.8	13.8	15.1	13.7	13.0	12.6	12.4	12.3
Imports of goods	66.4	83.0	75.2	61.4	72.2	73.1	70.3	68.8	66.6	66.3
Exports of services	73.2	58.9	74.2	40.4	44.2	57.2	64.3	69.2	73.2	76.2
Imports of services	23.2	27.2	25.2	16.7	17.9	18.5	18.3	18.3	18.0	18.0
Income	-2.3	-2.6	-4.1	-3.2	-2.4	-2.9	-4.1	-5.1	-5.1	-5.0
Current transfers	12.1	47.1	2.9	-2.4	-4.1	-5.1	-4.1	-3.1	-3.1	-3.1
Capital and financial account	**-2.4**	**-9.1**	**10.0**	**30.4**	**36.8**	**20.2**	**15.0**	**10.1**	**6.0**	**5.0**
of which										
Direct investment	5.4	-4.7	4.4	2.5	3.9	4.0	4.0	4.0	4.0	4.0
Portfolio investment	0.1	3.2	1.5	-1.5	0.8	0.5	5.2	3.7	1.5	1.1
Other investment	-7.9	-9.1	3.2	24.2	21.0	7.6	-1.2	-1.2	-1.2	-0.7
Net errors and omissions	**-1.9**	**-1.2**	**1.8**	**8.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-0.2**	**-3.6**	**-0.8**	**9.2**	**-0.6**	**-8.4**	**-4.6**	**-3.4**	**-1.1**	**1.2**

Sources: Centrale Bank van Curaçao en Sint Maarten, and IMF staff estimates.

Table 10. Curaçao and Sint Maarten: Monetary Survey, 2017–21
(Millions of The Netherlands Antillean guilders unless otherwise indicated)

	2017	2018	2019	2020				2021
				Mar.	Jun.	Sep.	Dec.	Mar.
				(millions of NAf, end of period)				
Net foreign assets	5254	5011	5268	5297	5755	5658	5998	5962
Claims on nonresidents	7843	7588	7804	7894	8126	8268	8377	8063
Central bank	3621	3331	3442	3434	4051	4074	4331	4260
Other depository corporations	4222	4258	4363	4461	4075	4194	4046	3804
Liabilities to nonresidents	-2589	-2577	-2537	-2597	-2371	-2610	-2379	-2101
Central bank	-260	-346	-303	-296	-288	-314	-245	-280
Other depository corporations	-2329	-2231	-2234	-2301	-2083	-2296	-2135	-1821
Net domestic assets	3435	3674	3407	3350	3047	3120	2837	3184
Net domestic claims	5989	6283	6309	6212	5981	6268	6274	6488
Net claims on central government	-597	-281	-275	-328	-637	-453	-375	-225
CBCS' claims on non-government sectors 1/	342	235	145	145	149	147	149	205
Banks' claims on non-government sectors	6245	6328	6439	6396	6469	6573	6500	6507
Claims on public non-financial corporations	130	222	209	163	176	191	285	324
Claims on non-bank financial institutions	104	122	192	194	198	201	202	205
Claims on private sector	6010	5984	6038	6039	6095	6181	6013	5978
Other items, net	-2553	-2609	-2902	-2862	-2934	-3148	-3437	-3304
Broad money	8689	8685	8675	8648	8802	8778	8835	9146
Currency in circulation	388	393	391	373	411	411	424	417
Transferable deposits	3926	3916	3911	3949	4054	4042	4069	4393
Other deposits	4375	4377	4372	4326	4337	4325	4341	4336
Securities	0	0	0	0	0	0	0	0
Other liabilities	0	0	0	0	0	0	0	0
				(annual percentage change)				
Monetary survey								
Net foreign assets	13.4	-4.6	5.1	-4.4	4.9	5.9	13.9	12.5
Net domestic assets	-1.8	6.9	-7.3	1.5	-10.3	-5.2	-16.8	-5.0
o/w Banks' claims on non-government sectors	1.2	1.3	1.8	1.0	1.3	3.0	0.9	1.7
Claims on public non-financial corporations (contribution)	0.6	1.5	-0.2	-0.7	-0.9	-0.6	1.2	2.5
Claims on non-bank financial institutions (contribution)	0.0	0.3	1.1	1.0	0.3	0.4	0.1	0.2
Claims on private sector (contribution to growth)	0.6	-0.4	0.8	0.7	1.9	3.2	-0.4	-1.0
Broad Money	6.9	0.0	-0.1	-2.2	-0.9	1.7	1.8	5.8
Memorandum items:								
Velocity (GDP/Broad Money)	0.88	0.87	0.89	0.86	0.80	0.76	0.7	0.9
Foreign currency deposits to total deposits	25.5	26.6	26.9	26.3	25.2	25.0	25.1	25.2
Bank loans to non-government sectors, y/y percent change	1.4	1.5	1.8	1.0	1.1	2.9	0.7	1.8
Curaçao	2.4	2.5	2.0	1.3	1.0	1.9	0.1	1.2
Sint Maarten	-1.6	-1.7	1.4	0.0	1.7	6.1	2.4	3.8

Sources: Centrale Bank van Curaçao en Sint Maarten, and IMF staff estimates.
1/ The bulk of these claims are on public non-financial corporations.

Table 11. Curaçao and Sint Maarten: Central Bank Survey, 2017–21
(Millions of The Netherlands Antillean guilders unless otherwise indicated)

	2017	2018	2019	2020				2021
				Mar.	Jun.	Sep.	Dec.	Mar.
	(millions of NAf, end of period)							
Net foreign assets (NFA)	3361	2985	3139	3138	3762	3760	4086	3979
Foreign assets	3621	3331	3442	3434	4051	4074	4331	4260
Foreign liabilities	-260	-346	-303	-296	-288	-314	-245	-280
Net domestic assets (NDA)	-542	-352	-644	-725	-1068	-981	-1164	-724
Net domestic claims	287	465	368	351	113	285	104	385
Net claims on central government	-192	-58	-44	-60	-326	-130	-45	179
Claims on public nonfinancial corporations	315	209	109	108	108	107	108	165
Claims on private sector	26	26	26	26	26	26	26	26
Claims on other depository corporations	137	288	267	267	290	267	0	0
Claims on other financial corporations	0	0	10	10	15	14	14	14
Capital and other items, net	-829	-817	-1013	-1077	-1181	-1266	-1267	-1108
Monetary base (MB)	2819	2633	2494	2413	2694	2779	2923	3255
Currency in circulation	504	488	505	478	527	518	556	522
Liabilities to other depository corporations	2265	2047	1916	1865	2031	2135	2267	2379
Liabilities to other sectors	50	98	73	70	136	126	100	353
	(annual percentage change)							
Monetary base	16.0	-6.6	-5.3	-11.6	6.9	15.2	17.2	34.9
NFA, contribution to MB growth	13.4	-13.3	5.8	-3.4	24.9	30.8	38.0	34.9
NDA, contribution to MB growth	2.6	6.7	-11.1	-8.3	-18.0	-15.6	-20.8	0.1

Sources: Centrale Bank van Curaçao en Sint Maarten, and IMF staff estimates.

Table 12. Curaçao and Sint Maarten: Financial Soundness Indicators, 2018–21 1/
(Percent)

	2018	2019	2020				2021
		Dec.	Mar.	Jun.	Sep.	Dec.	Mar.
Capital adequacy							
Capital adequacy ratio 2/	15.3	16.9	16.9	16.5	16.5	17.5	18.0
Core capital adequacy ratio 3/	13.9	15.2	15.1	14.9	14.7	15.9	16.4
Tier 1 capital to assets	11.7	11.3	11.5	11.5	11.3	11.7	12.0
NPL net of provisions to capital	21.8	27.8	25.8	28.2	26.8	28.3	31.0
Asset quality							
NPLs to gross loans	9.4	9.4	9.4	10.6	10.3	11.3	11.8
Provisions to NPL	39.3	31.4	34.2	37.3	39.7	38.6	34.7
Large exposures to capital	99.8	99.4	100.1	94.3	104.6	108.8	106.9
Earnings and profitability							
Return on assets	1.4	1.4	1.0	0.6	0.2	0.6	0.0
Return on equity	12.2	11.6	8.7	4.8	1.8	5.2	-0.4
Net interest income to gross income	57.0	55.2	63.3	62.0	63.1	63.2	60.2
Non-interest expenses to gross income	86.7	72.9	95.4	88.1	90.8	73.6	90.1
Liquidity							
Liquid assets to total assets	30.2	27.4	26.5	27.8	27.2	27.9	30.5
Liquid assets to short-term liabilities	38.4	37.9	36.3	38.6	37.3	38.3	41.9
Loans to total deposits	60.2	65.0	64.0	65.2	64.4	64.1	65.5
Sensitivity to market risk							
Net open position in foreign exchange to capital	84.3	85.9	78.0	73.8	81.0	80.6	92.8
FX-denominated loans to total loans	27.0	31.4	31.4	31.2	31.9	30.8	29.5
FX-denominated deposits to total deposits	40.0	39.6	39.6	38.2	39.1	38.0	35.4

Source: Centrale Bank van Curaçao en Sint Maarten.
1/ The CBCS has conducted a data validation exercise in April-May 2021, leading to a significant revision of the FSIs.
2/ Tier 1 and tier 2 capital to risk-weighted assets.
3/ Tier 1 capital to risk-weighted assets.

Annex I. Implementation of the Recommendations of the 2019 Article IV Consultation Discussions

Policy Advice	Progress
Strengthening Fiscal Frameworks and Building Resilience	
Both Curaçao and Sint Maarten	
Update fiscal framework with debt as a long-term anchor. Set the long-term debt anchor at 40 percent of GDP.[1]	No progress in developing a long-term fiscal anchor.
Curaçao	
Implement recommendations of IMF technical assistance on tax policy (October 2019), including moving towards a VAT.	No progress.
Strengthen public financial management through better expenditure controls and better assessment of fiscal risks (especially in the financial system and the health sector) and design appropriate contingency measures.	Some progress with establishing an internal control unit. CARTAC provided technical assistance (TA) on fiscal risks.
The early retirement program should be accompanied by a structural reduction of the number of positions to secure long-term savings while safeguarding resources for key areas.	Some progress. A national ordinance on early retirement was legislated.
Sint Maarten	
Strengthen public financial management. Upgrade the outdated and weak procurement system, monitoring fiscal risks, improve timeliness of preparation and publication of fiscal financial reports, and eliminate domestic arrears.	Some progress with monitoring fiscal risks in quarterly fiscal reports and reducing domestic arrears.
Strengthen tax administration.	No progress
Introduce excises on alcohol and tobacco (while maintaining competitiveness with Saint Martin) and rationalize existing tax expenditures.	No progress
Perform a functional review of the civil service.	No progress
Restore financial sustainability of the health sector.	No progress

[1] Advice to set government debt ceiling at 40 percent of GDP as a long-term anchor is no longer applicable due to the pandemic.

Policy Advice	Progress
Supporting the Peg and Improving Financial Sector Resilience	
Monetary union of Curaçao and Sint Maarten	
Strengthen monetary policy to support the peg. Develop the policy rate to communicate the stance of monetary policy, widen operations with its certificates of deposit (CD), and introduce an overnight standing credit facility.	Some progress. The CBCS intensified its CD operations and set out the Financial Sector Reform Program.
Develop a strategy for addressing financial sector vulnerabilities. Conduct a thorough diagnostic of deposit takers and develop a strategy to address the results. Strengthen supervision, including the corrective action regime and overhaul the bank resolution framework. Develop a strategy to facilitate the resolution of NPLs.	Significant progress. The Financial Sector Reform Program has been prepared and transition to risk-based supervision has begun.
Develop a plan to resolve Girobank in a way that preserves financial stability while minimizing the fiscal cost and design a strategy for Ennia's successful exit from the CBCS's special administration regime.	Significant progress. Deposits up to NAf 1.2 million have been made available to Girobank depositors.
Complete the Executive Board of the CBCS by appointing a President.	Implemented.
Improving Governance	
Both Curaçao and Sint Maarten	
Provide adequate resources to the relevant authorities tasked with AML/CFT oversight and ensure proper implementation of AML/CFT preventive measures by reporting entities.	No progress.
Operationalize the integrity bodies to combat corruption and promote integrity within the public administration. CBCS' De-Risking Task Force should develop an action plan to minimize risks of CBR losses.	Some progress. The CBCS discussed with Fund staff potential impact of observed financial flows on CBRs with view to possible further TA.
Curaçao	
Finalize and publish the results of the National Risk Assessment and ensure that regulatory authorities have sufficient powers to issue fines for noncompliance with AML/CFT regulations.	Some progress. The National Risk Assessment continues.

Policy Advice	Progress
Sint Maarten	
Pass the remaining required pieces of AML/CFT legislation and ensure their strong implementation.	Significant progress. Legislation has been passed, allowing exit from the CFATF 3rd Round Follow-Up Process.
Strengthen the supervision framework of the gaming industry in Sint Maarten (set up a Gaming Control Board).	No progress.
Enhancing Potential Growth and Overcoming Small Island Constraints	
Facilitate building permits, business licenses and other permits—including through enhancing transparency and eliminating red tape.	No progress.
Remove restrictions on hiring foreign skilled labor in both countries, re-design social assistance in Curaçao, and introduce flexibility to the labor laws.	No progress.
Sint Maarten: Develop a Disaster Resilience Strategy.	No progress.
Improving Data Availability and Quality	
Both Curaçao and Sint Maarten	
Address the shortages of personnel and financial resources limiting data collection, coverage, and timeliness. Take measures to increase the response rates to statistical surveys.	No progress.
Reduce lags in producing national accounts. Compile GDP deflator.	In progress. CARTAC provided TA on the national accounts in Sint Maarten.
Improve consistency between IIP and BOP data and compile and publish external debt data.	In progress.
Compile and publish fiscal data in line with GFSM 2014.	No progress.

Annex II. COVID-19 Response Measures

A. Curaçao

1. **The authorities designed two economic support packages (*Alivio 1* and *2*) with a combined size of about NAf 350 million (7.6 percent of GDP).** The first package ("*Alivio 1*") envisaged 3-month tax deferrals of NAf 33 million (0.7 percent of GDP) and contained immediate expenditure for the health sector. The second, more comprehensive package ("*Alivio 2*") elaborated the following assistance programs for April–June 2020: (i) payroll subsidies to support employment in the private sector, replacing up to 80 percent of pre-crisis payroll, conditional on revenue loss; (ii) support for the self-employed; (iii) job-loss benefits for workers laid off since mid-March 2020; (iv) resilience benefits for welfare recipients and others (available only to legal residents and not to undocumented workers/immigrants); (v) credit facilities to SMEs via a local development bank, Korpodeko; (vi) social support and counseling services not covered by the existing safety net for the vulnerable groups including undocumented workers, the handicapped, the elderly, and the homeless; and (vii) transfers to the Social Security Bank (SVB) which is responsible for the universal health care in Curaçao to compensate for the loss of premium revenues.

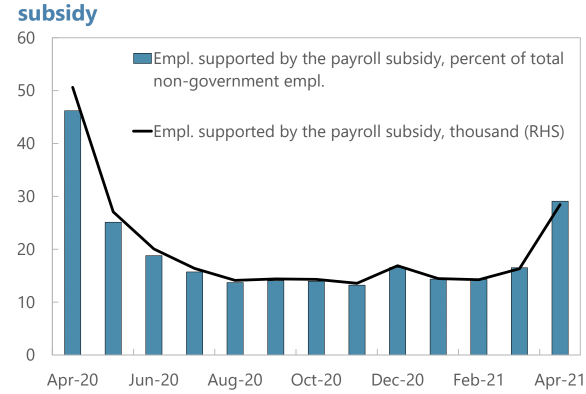
Curaçao: COVID-19 Response Measures (Alivio packages)
(Percent of GDP)

	Planned for Q2 2020	Actual 2020	Budget 1/ 2021
Alivio 1 (tax deferrals)	**0.7**	**0.7**	**0**
Alivio 2 (expenditure measures)	**6.9**	**3.2**	**5.3**
Payroll and fixed-cost subsidies (NOW) 2/	2.7	2.1	3.8
Income support for self-employed	0.6	0.5	0.5
Job loss benefits	0.4	0.4	0.6
Resilience benefits	0.4	0.3	0.5
Other social support programs	0.6	0.0	0.0
Loans for SMEs	0.8	0.0	0.0
Social security bank (SVB) 3/	1.2	...	...
Total	**7.6**	**3.9**	**5.3**

Source: Curaçao Ministry of Finance and Fund staff estimates.
1/ As elaborated in the draft 1st budget amendment for 2021.
2/ The 2020 value includes the payroll subsidy only. The fixed-cost subsidy is included into the 2021 budget.
3/ The authorities increased transfers to the SVB but did not attribute them to the Alivio package.

2. **The package was instrumental for preserving employment, although implementation was weaker than planned.** Expenditure (*Alivio 2*) measures amounted to 3.2 percent of GDP in 2020, compared with the 6.9 percent of GDP planned for Q2 2020. The payroll subsidy covered 46 percent of non-government employment during the April/May 2020 lockdown, but the coverage subsided substantially afterwards. The credit facilities have been deferred due to the lack of financing. In the first five months of 2021, *Alivio* spending amounted to 2.6 percent of GDP. A part of that was for retroactive fixed-cost subsidy for 2020. The Netherlands provided food support through the Red Cross (Annex III). The authorities increased

Curaçao: Employment supported by the Alivio payroll subsidy



Source: SVB.

transfers to the SVB by NAf 22 million (0.5 percent of GDP) in 2020, although they did not attribute this to the *Alivio* package.

B. Sint Maarten

3. Prepared in April 2020, the Sint Maarten Stimulus and Relief Plan (SSRP) envisaged measures amounting to 10.4 percent of GDP. The package outlined: (i) payroll support for qualifying businesses replacing up to 80 percent of payroll; (ii) income support for sole proprietors, vendor license holders, and bus and independent taxi drivers; (iii) unemployment support for those who lost jobs due to the pandemic; (iv) a soft loan program for businesses; (v) additional spending in the health sector comprising COVID-19-related healthcare expenses, liquidity support for the Social and Health Insurances Implementing Body of Sint Maarten (SZV) and the hospital; and (vi) in-kind emergency relief in the form of food vouchers for the most vulnerable groups, and meals for the elderly. The 2021 budget allocates NA*f* 128 million (7.2 percent of GDP) to the SSRP including a new fixed cost subsidy and the food program, which is being taken over by the government.

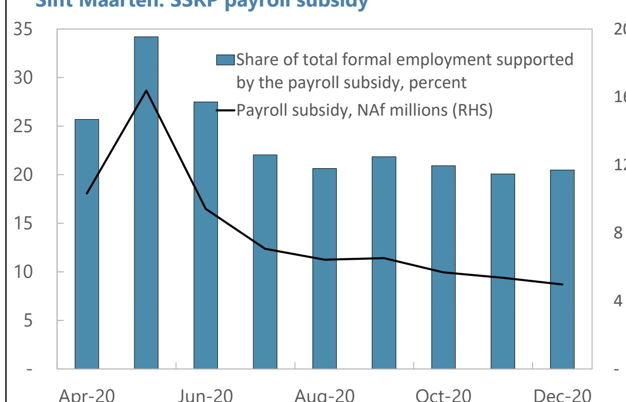
Sint Maarten: Stimulus and Relief Plan (SSRP)
(Percent of GDP)

	Planned	Actual 2020	Budget 2021
Payroll subsidy	4.3	4.0	3.0
Income support for self-employed	0.2	0.2	0.3
Unemployment support	0.2	0.2	0.5
Fixed costs subsidy	-	-	2.3
SME subsidy	-	-	0.6
Loans for SMEs	1.9	0.0	-
In-kind emergency support 1/	0.5	0.0	-
Food stamps	-	-	0.0
Health sector	3.2	0.0	0.6
Social security fund (SZV)	1.4	0.0	-
Health care for civil service (OZR)	0.5	0.0	-
Hospital liquidity support	1.0	0.0	-
Additional healthcare expenses	0.3	0.0	0.6
Total SSRP expenditure measures	**10.4**	**4.4**	**7.2**

Sources: Sint Maarten authorities and IMF staff estimations.
1/ The Netherlands provided food packages to the vulnerable via Red

4. The SSRP cushioned the shock, although payout backlogs and weaker-than-expected absorption posed challenges. The authorities have implemented the payroll subsidy, income support for self-employed, and unemployment support, with total spending of 4.4 percent of GDP in 2020. The payroll subsidy supported 34 percent of total formal employment in May 2020, although the share declined to about 21 percent by December 2020. There were significant delays in administering the subsidy, partly due to the uncertainty about financing. The Netherlands provided food packages via the Red Cross to 4.8 thousand households (about 37 percent of the total population). Loans to SMEs were not implemented due to lack of financing, but the Trust Fund has launched the Enterprise Support Program that has similar objectives.

Sint Maarten: SSRP payroll subsidy



Source: SZV and IMF staff calculations.

C. The Union

5. The CBCS implemented measures to alleviate the impact of the pandemic on the economy and safeguard the reserves. The CBCS reduced the pledging rate, at which the commercial banks can borrow from the CBCS, by 150 basis points to 1 percent and suspended the 200 basis points surcharge on the pledging rate on loans exceeding NAf 20 million. In addition, the CBCS: (i) allowed commercial banks and credit institutions to provide a 3 to 6-month payment moratorium on interest and principal of all outstanding loans, without having to make an adequate provision; (ii) announced that commercial banks might exceed the debt service ratio (37 percent), to a maximum of 50 percent; and (iii) allowed life insurance companies and pension funds to provide clients a 3 to 6-month payment moratorium on policy premiums without having to make an adequate provision. To reduce the risk of capital outflows, the CBCS suspended the extension of foreign exchange licenses for the following transactions equal or exceeding NAf 150,000:[1]

i) Extension of a loan to a nonresident.
ii) Transfers to own foreign bank account by legal entities.
iii) Transfers to current account with foreign related companies by legal entities.
iv) Transfers by individuals to their private foreign bank account.
v) Investments abroad.
vi) Participation in a foreign company by a resident.
vii) Distribution of dividends or profits to nonresidents.
viii) Early redemption of loans received.

[1] A CBCS license is required for most capital transactions equal to or exceeding NAf 150,000.

Annex III. Netherlands Support during the Pandemic, Conditionality, and Structural Reform Agreements

1. The Netherlands provided substantial in-kind and financial support to Aruba, Curaçao and Sint Maarten to strengthen their health sectors, make up fiscal revenue losses, and fund several COVID-19 response measures. The in-kind aid included equipment, supplies and staff for the health sector, and food packages for vulnerable groups. The Netherlands also provided COVID-19 vaccines at zero cost. Financial support was comprised of zero-interest liquidity support loans maturing in April 2022 and zero-interest debt rollovers with 15-year maturity. The liquidity loans were structured in tranches subject to conditionality. The size of tranches was set by periodic decisions of the Kingdom Council of Ministers (RMR, Rijksministerraad) on recommendations from the *College financieel toezicht* (Cft), the financial supervisory agency for Curaçao and Sint Maarten. The Netherlands indicated that it would consider the possibility of refinancing loans or converting loans into grants based on progress in reforms. In addition to liquidity support loans, the Netherlands extended a loan for Girobank resolution to Curaçao.

Financial Support from The Netherlands

	2020	2021	
		Q1 and Q2	Q3 1/
	(millions of NAf)		
Curaçao	**749**	**170**	**168**
New loans	667	170 2/	168
Debt rollover	82	0	0
Sint Maarten	**229**	**48**	**48**
New loans	179	48	48
Debt rollover	50	0	0
	(percent of GDP)		
Curaçao	**16.2**	**3.7**	**3.6**
New loans	14.4	3.7 2/	3.6
Debt rollover	1.8	0.0	0.0
Sint Maarten	13.2	2.7	2.7
New loans	10.3	2.7	2.7
Debt rollover	2.9	0.0	0.0
The Union	**15.4**	**3.4**	**3.4**
New loans	13.3	3.4	3.4
Debt rollover	2.1	0.0	0.0

Source: The national authorities.

1/ Approved by the Kingdom Council of Ministers on June 18, 2020 but not yet disbursed. The loans are subject to conditions.

2/ Curaçao received NAf 170 for Girobank resolution. There were no liquidity support disbursements.

A. 2020 Financial Support and Conditionality

2. The 1st tranche provided support for the first 6 weeks of the pandemic (April 1–May 15, 2020) and was conditional on preparing COVID-19 economic response packages and incorporating these measures in the 2020 budgets. Curaçao received the first tranche (3.8 percent of GDP) in early April 2020. Sint Maarten received it in early May 2020 (1.2 percent of GDP), along with liquidity support discussed before the pandemic (2.9 percent of GDP).

3. The 2nd tranche provided support through end-June 2020 and was subject to an agreement in principle to a list of conditions common to all three countries and several country-specific conditions. ***The common conditions*** included: (i) reducing compensation in the public sector by 12.5 percent followed by a freeze until further notice; (ii) cutting compensation of ministers and members of parliament by 25 percent followed by a freeze until further notice; (iii) introducing wage caps for salaries of executives in the broader public sector; and (iv) preparing structural reform plans. ***Curaçao and Sint Maarten*** were required to: (i) amend the conditions of the payroll subsidy by adding a requirement to reduce worker compensation by 20 percent in businesses receiving the subsidy; and (ii) ensure that the CBCS Executive Board has at least 3 members and that they are subject to the highest independence and fit and proper standards. ***Sint Maarten*** was requested to increase the retirement age in both general old-age pension and the civil service pension from 62 to 65 years (and adjust the base definition in the former). The conditionality for ***Curaçao*** included providing resolution plans for problem financial institutions in Curaçao to the Dutch National Bank (DNB) and sharing data on public entities with the Cft. Total amounts associated with this tranche were 4.4 percent of GDP for Curaçao and 3.4 percent of GDP for Sint Maarten.

4. **The 3ᵈ tranche** covered the financing needs in the second half of 2020. As prior actions for this tranche, both Curaçao and Sint Maarten had to: (i) implement the conditions stipulated in the second tranche; (ii) agree to create a special Caribbean Entity for Reform and Development (COHO) with the purpose of promoting reforms, improving the sustainability of public finances, and bolstering economic resilience; (iii) agree to their respective packages of structural measures (*landspakketten*); and (iv) agree to amend the Kingdom Act on Financial Supervision (governing the fiscal area) to provide for sanctions, provision of information to the Cft, and supplementary standards for fiscal management.

5. Financing needs in Q1 2021 were to be covered by **the 4th tranche**. Sint Maarten received an advance disbursement of 0.5 percent of GDP in early 2021 due to acute liquidity need. On February 1, the RMR decided, on advice from the Cft, that previously provided liquidity to Curaçao and Sint Maarten was sufficient to cover Q1 2021 needs. Separately from the coronavirus bullet loans, Curaçao received NAf 170 million (3.7 percent of GDP) for Girobank resolution.

6. **The 5th tranche** covered the liquidity needs in Q2 2021. Prior actions included: (i) awarding a contract to review the financial sector by an independent external party and (ii) providing an overview of the legislation needed to mitigate the shortcomings, including at least the introduction of the deposit guarantee system. Sint Maarten received a loan of 2.2 percent of GDP.

7. **The 6th tranche covers the liquidity needs in Q3 2021.** On June 18, 2021, the RMR approved liquidity support of 3.6 and 2.7 percent of GDP to Curaçao and Sint Maarten, respectively. For Curaçao, the tranche is divided into two parts. The first part (1.6 percent of GDP) will be disbursed when the new administration: (i) reconfirms the agreement of the 2nd of November 2020 with The Netherlands, (ii) legislates the national ordinances on reducing compensation and benefits for MPs and ministers and on reducing compensation in the public sector; (iii) shares information on the tax system with The Netherlands; and (iv) provides requested information to the Cft. The second part (2 percent of GDP) is conditional on agreement on the implementation agenda for Q3 2021—which needs to include measures to improve sustainability of the SVB and reduce expenditure related to the Curaçao Medical Center—and plans of actions for tax policy and tax administration reforms. Sint Maarten will receive the 6th tranche conditional on finalizing several action plans, implementing measures related to the detention facilities, improving the governance of the Princess Juliana International Airport (PJIA), and submitting required information to the Cft.

8. The RMR also discussed on **the 7th tranche** that will cover the financing needs in Q4 2021. Although the amount and other details are yet to be determined, the disbursement will require sufficient reform progress under the country packages and cooperation on the establishment of the COHO and governance improvement of the PJIA (Sint Maarten).

B. Structural Reform Packages (*Landspakketten*)

9. The structural reform packages consist of priority reforms for stronger growth and resilience and include 4 pillars: (i) government and finance; (ii) economic reforms; (iii) healthcare and education; and (iv) reinforcing the rule of law. They were subdivided into 8 themes as follows:

A. ***Public financial management (PFM).*** The PFM theme focuses on the monitoring framework of government policy and operations, data and recording system and capacity, subsidy schemes, and procurement systems. A grant of up to €15 million is envisaged for Sint Maarten. Strengthening risk management, especially natural disaster risk, is an additional reform agenda for Sint Maarten.

B. ***Costs and effectiveness of the public sector.*** The objective is to increase the efficiency of the public sector, reduce the wage bill to 10 percent of GDP, and increase the quality and effectiveness of entities in the broader public sector, including by strengthening governance and operational management.

C. ***Tax system.*** The objective is to broaden the tax base, achieve fairer distribution of income and improve efficiency. An introduction of VAT with a rate of 12.5 percent or ABB tax system operating in the Dutch Caribbean should be explored.

D. ***Financial sector.*** This theme stipulates third-party reviews of the financial sector and market supervision and reform of the governance of the CBCS. Implementation of a deposit guarantee system is part of the reform package for all countries. The theme also calls for the completion of a study of advantages and disadvantages of dollarization in Curaçao and Sint Maarten by an independent party. In response, staff has prepared a study on the advantages and disadvantages of dollarization in general and specific considerations in the case of Curaçao and Sint Maarten (see accompanying Selected Issues Paper).

E. ***Economic reforms.*** The aim of this theme is to improve growth, resilience, and create a robust and affordable social security system with the right incentives. It envisages reviews of the labor market situation and reforms based on the situation, including in the areas of the informal economy and undocumented employment. For Sint Maarten, legislative reforms are included that allow foreign companies and laborers to enter the domestic market to accelerate the recovery and reconstruction from the 2017 hurricanes. The theme also seeks to reform the social security system and evaluate the retirement age. Finally, the theme intends to promote entrepreneurship and the business climate based on a review of laws and regulations and develop and implement land and spatial planning policies.

F. ***Health reforms.*** These reforms look to strengthen capacity to manage COVID-19, guarantee continuity of emergency care, reduce medical costs, and eliminate inefficient practices.

G. ***Education reforms.*** The first step will be a review of the sector by an expert group. Based on the results, the reforms will seek to improve the level of education and strengthen the connection between education and the labor market. The pillar envisages a grant of NAf 30 million for Curaçao.

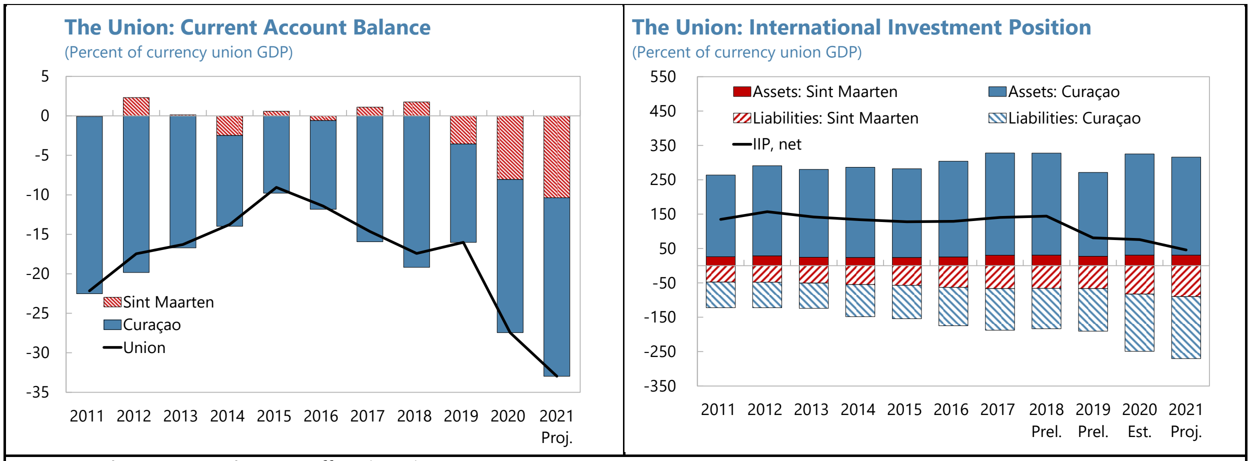
H. ***Reinforcing the rule of law.*** The priority is on strengthening border controls, tackling financial and economic crime, and improving the prison system (Sint Maarten's package envisages a grant of €30 million for improving the prison system). The theme envisages a review of the gambling sector with the purpose of reforming the sector and increasing government revenue. The authorities will agree on specific action plans and COHO will monitor and support the implementation.

10. Specific measures are elaborated in implementation agendas covering a period of one quarter. The first (February-March 2021) and second (April-June 2021) implementation agendas were agreed for Curaçao and the first implementation agenda (April-June 2021) was agreed for Sint Maarten.

Annex IV. External Sustainability Assessment

The assessment is performed using a basic indicator approach as data constraints and inconsistencies preclude model-based analysis. The external positions in both Curaçao and Sint Maarten are assessed to be weaker than warranted by fundamentals and desired policy settings, on account of large and persistent current account deficits in both countries and a significant negative net international investment position in Sint Maarten. Structural reforms and fiscal adjustment are important for strengthening the external position of the Union and improving its functioning. A review of the statistical methodologies is also needed to identify weaknesses in compilation.

1. **The current account deficit (CAD) of the Union grew sharply in 2020 from 16 percent of GDP in 2019 to 27.5 percent of GDP in 2020.** This increase was due to significant widening in the CADs of both Curaçao and St. Maarten and the contraction of nominal GDP (Figure A4.1). In both countries, the pandemic caused a collapse in tourism exports, although it was partially offset by the decline in imports from lower consumption and investment (Figure A4.1). Alongside the collapse of tourism, merchandise exports contracted 30 percent y/y while the income balance remained fairly steady despite a fall in remittances.



Sources: The CBCS and IMF staff estimations.

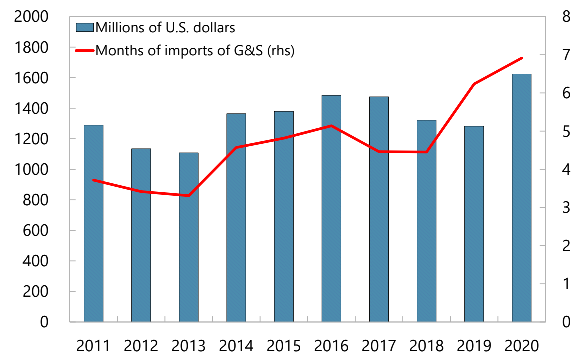
2. **Despite the persistent current account deficits, the Union is estimated to be a net creditor.** The net international investment position (NIIP) of the Union averaged around 140 percent of GDP during 2011-18 and declined to 81 percent of GDP in 2019.[1] In 2019, Curaçao was a net creditor with an NIIP of 176 percent of GDP and Sint Maarten was a net debtor with an NIIP of -138 percent of GDP (Annex IV, Figure 1). External assets in Curaçao amounted to US$10.6 billion (340 percent of GDP), with about US$6.9 billion (222 percent of GDP) in portfolio investments held by non-bank financial institutions (e.g. insurance companies and pension funds). The reported NIIPs pose questions about data quality as the persistent CAD in Curaçao is not consistent with its steady

[1] The 2018-2019 IIP values are preliminary and subject to future revisions.

position as a net creditor while St. Maarten's relatively balanced current account does not suggest it is such a deep net debtor.

3. **Gross international reserves of the Union were decreasing in 2017–19 but increased in 2020 due in part to the liquidity injection from The Netherlands, the collapse of imports, and the imposition of capital controls.** Gross external reserves declined from US$1.5 billion (5.1months of imports of G&S) in 2016 to US$1.3 billion in 2019 before increasing to US$1.6 billion (6.9 months of imports) in 2020. In 2020, international reserves were more than double the 3 months of imports of goods and services, covered 110 percent of short-term debt and more than 20 percent cover of broad money. Nevertheless, they were below the IMF's risk-weighted measure.[2] They are projected to decline to around 5.5 months of imports in 2021 and further to around 3.4 months of imports in the medium term.

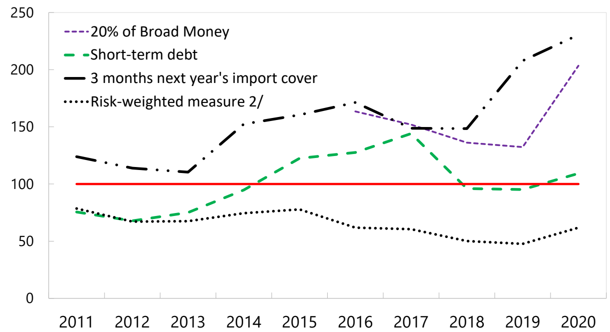
The Union: Gross International Reserves



Sources: The CBCS and IMF staff estimations.

Reserve Adequacy 1/

(Reserves as a percent of target)



Source: IMF staff estimates.
1/ Values >100 indicate reserves in excess of the metric recommended level.
2/ Based on IMF policy paper *Assessing Reserve Adequacy,* 2011.

4. **The real effective exchange rate (REER) indexes and the "Week at the beach" (W@TB) index do not suggest a price competitiveness issue**.[3] In Curaçao, the REER estimated using trading partner weights over the past 10 years suggests a sharp appreciation due to Venezuela. The REER excluding Venezuela—which is more appropriate given that the trade with Venezuela shrank significantly in recent years—is flat, and the W@TB index suggests that Curaçao remains a relatively low-cost destination. In Sint Maarten, REER has depreciated by around 1 percent since 2015 and the W@TB index for Sint Maarten is still lower than the regional average.

External Debt of the Union

5. **The external debt of the Union increased from 175 percent of GDP in 2019 to an estimated 229 percent of GDP in 2020.** The Union's debt liabilities are estimated as a sum of corresponding debt liabilities of Curaçao and Sint Maarten. This approach may overestimate the total external debt of the Union as cross-claims between its members should be treated as domestic debt, although the discrepancy is likely to be small given the low volume of cross-border financial

[2] IMF, 2011, Assessing Reserve Adequacy, available from https://www.imf.org/external/np/pp/eng/2011/021411b.pdf

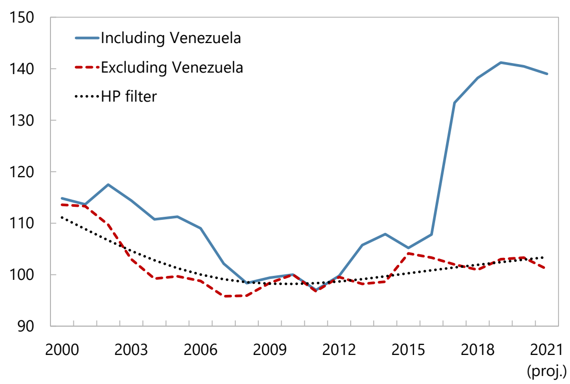
[3] The W@TB index is based on Laframboise, Mwase, Park, and Zhou (2014), IMF Working Paper No. 14/229.

linkages between Curaçao and Sint Maarten. The main drivers of the increase were government borrowing from The Netherlands (13.3 percent of GDP) and automatic dynamics including an 18 percent drop in nominal GDP.

6. The stock of external debt would peak at about 250 percent of GDP in 2021 and gradually decrease afterwards to 212 percent of GDP. The external current account deficits are the primary contributors, although they are likely to be financed not only by debt liabilities but also by drawing down substantial foreign assets, which limits the accumulation of external debt. External debt of the Union is vulnerable to several macro shocks which result in a rising debt path. Under the growth shock and combined shock, the external debt would not be on the decreasing trend in the medium term.

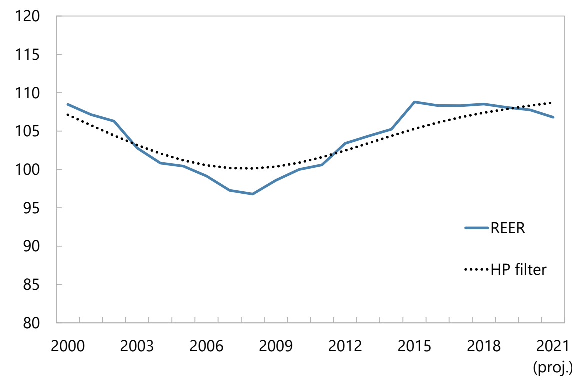
Curaçao: Real Effective Exchange Rate, 2000-2021

(Index: 2010=100)



Sint Maarten: Real Effective Exchange Rate, 2000-2021

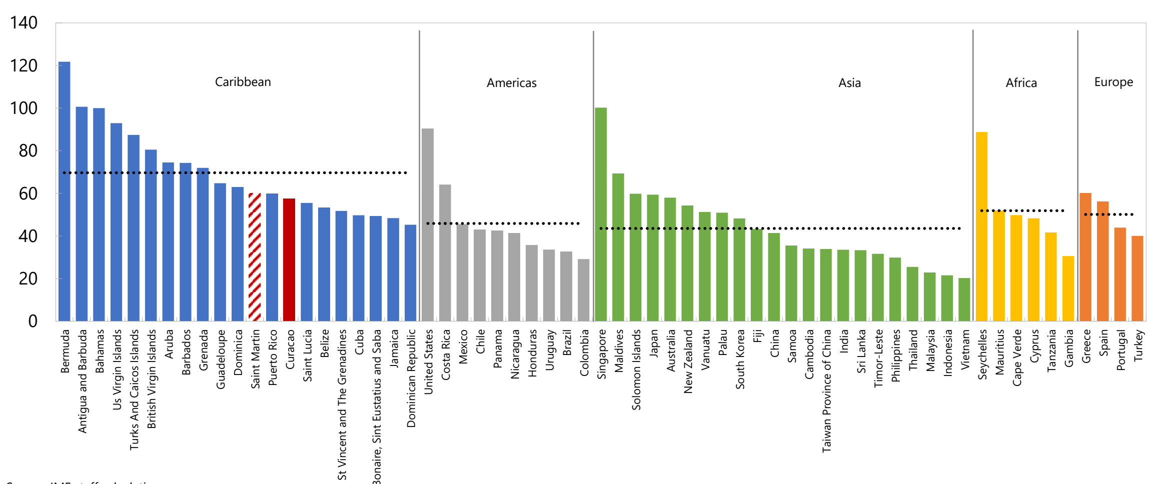
(Index: 2010=100)



Sources: CBCS and Fund staff estimations.

Week at the Beach Index, May 2021 1/

(12-month moving average)

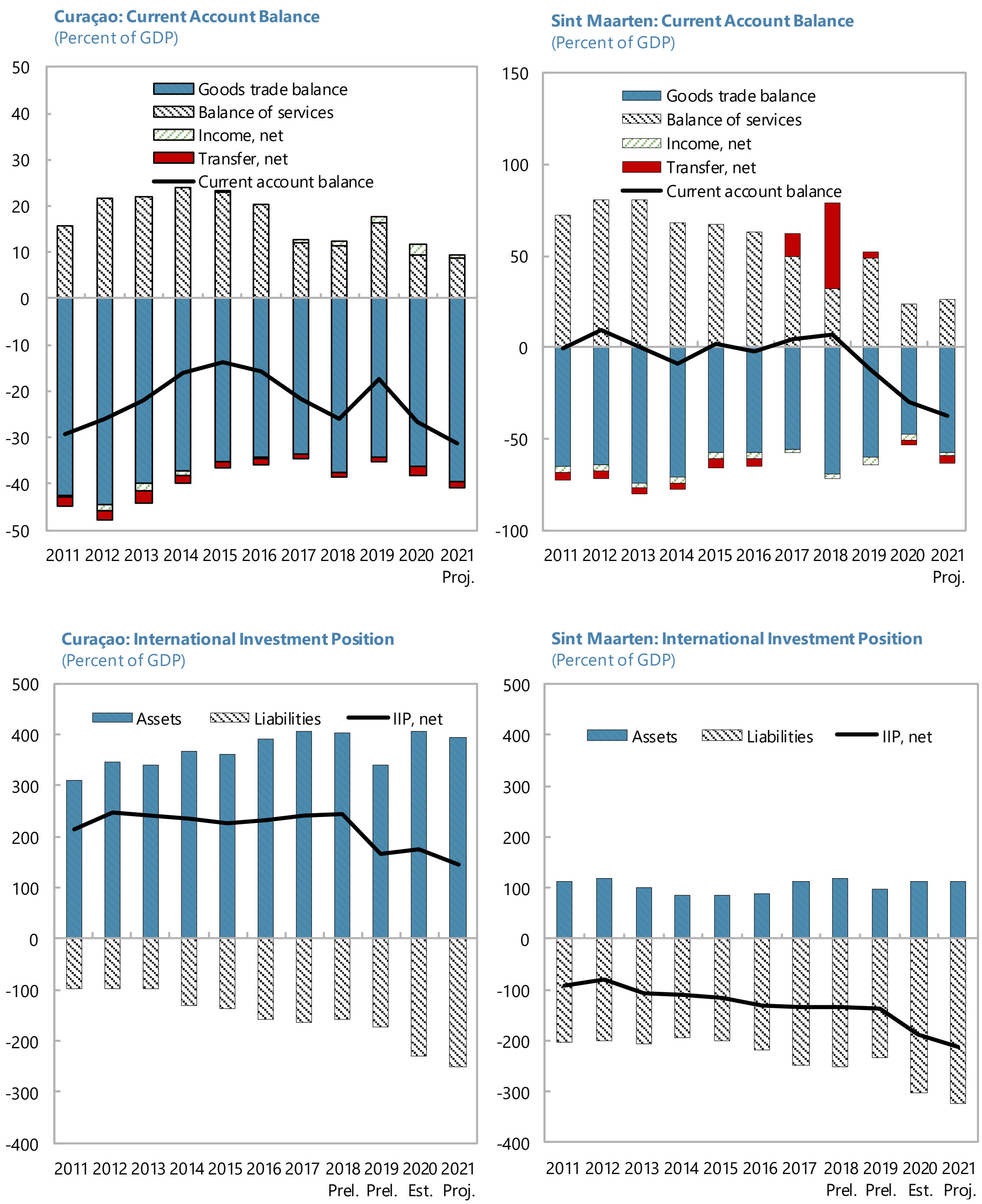


Source: IMF staff calculations.

1/ "Week at the Beach Index (W@TB)" measures the average cost of a 7-day-trip in a country's beach destinations.

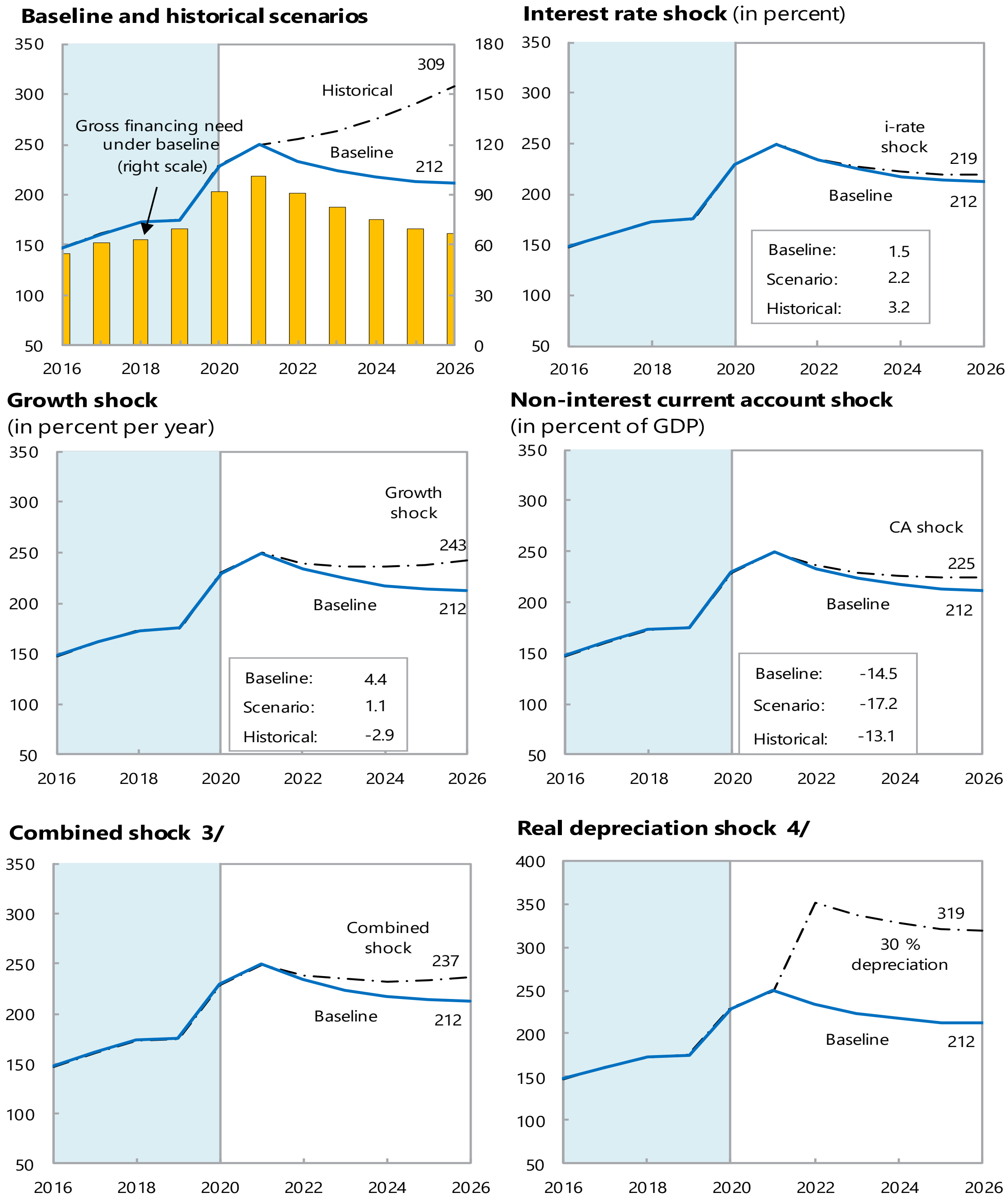
The index is a composition of an average hotel price (3 to 4 'bubble' rating) from TripAdvisor and over 80 million crowdsourced data on meals, taxi fares, water, coffee, and beer.

Figure 1. Curaçao and Sint Maarten: External Current Account Balance and International Investment Position, 20011–21



Source: The CBCS and IMF staff estimations.

Figure 2. Curacao 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.
4/ One-time real depreciation of 30 percent occurs in 2022.

Table 1. Curaçao and Sint Maarten: External Debt Sustainability Framework, 2016–2026

	Actual							Projections						
	2016	2017	2018	2019	2020			2021	2022	2023	2024	2025	2026	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	147.3	160.9	173.0	175.1	229.2			**249.5**	**233.3**	**223.8**	**217.3**	**213.3**	**211.7**	**-4.6**
Change in external debt	22.2	13.6	12.1	2.1	54.1			20.2	-16.1	-9.6	-6.5	-4.0	-1.6	
Identified external debt-creating flows (4+8+9)	12.7	14.6	19.2	11.2	65.2			29.4	6.2	8.1	7.7	6.3	6.4	
Current account deficit, excluding interest payments	7.5	11.0	14.2	12.3	24.7			30.7	24.8	18.7	13.5	8.7	6.5	
Deficit in balance of goods and services	7.9	16.9	29.0	16.1	26.1			30.6	24.6	19.6	15.9	12.3	10.7	
Exports	70.7	64.4	64.6	66.2	43.3			48.4	57.0	61.0	64.1	66.8	68.3	
Imports	78.6	81.3	93.6	82.3	69.5			79.1	81.6	80.6	80.0	79.1	79.0	
Net non-debt creating capital inflows (negative)	0.4	-4.0	0.7	-1.1	-0.6			-1.0	-1.0	-1.1	-1.2	-1.2	-1.2	
Automatic debt dynamics 1/	4.8	7.6	4.2	0.1	41.1			-0.2	-17.5	-9.5	-4.7	-1.2	1.0	
Contribution from nominal interest rate	3.9	3.7	3.2	3.8	2.7			2.3	2.3	2.9	3.3	3.6	3.7	
Contribution from real GDP growth	1.0	5.5	6.5	0.3	45.0			-2.5	-19.9	-12.3	-8.0	-4.8	-2.7	
Contribution from price and exchange rate changes 2/	-0.1	-1.6	-5.4	-4.0	-6.7			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	9.5	-1.0	-7.1	-9.1	-11.1			-9.2	-22.3	-17.7	-14.1	-10.3	-7.9	
External debt-to-exports ratio (in percent)	208.3	249.8	267.9	264.5	528.9			515.1	409.1	366.9	338.8	319.5	309.8	
Gross external financing need (in millions of US dollars) 4/	2404.3	2628.3	2658.8	3008.1	3260.1			3601.8	3654.9	3601.2	3516.8	3394.4	3366.0	
in percent of GDP	54.9	61.7	62.8	69.5	91.8	10-Year	10-Year	101.0	90.8	82.3	75.5	69.5	66.6	
Scenario with key variables at their historical averages 5/								**249.5**	**255.8**	**263.7**	**274.9**	**290.3**	**308.6**	**11.0**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	-0.8	-3.6	-4.0	-0.2	-21.1	-2.9	6.6	1.1	9.0	5.7	3.8	2.3	1.3	
GDP deflator in US dollars (change in percent)	0.1	1.1	3.5	2.4	4.0	2.4	1.9	-0.7	3.6	2.8	2.6	2.4	2.1	
Nominal external interest rate (in percent)	3.1	2.4	2.0	2.2	1.3	3.2	1.4	1.0	1.1	1.3	1.6	1.7	1.8	
Growth of exports (US dollar terms, in percent)	-6.8	-11.3	-0.4	4.7	-46.3	-3.8	17.3	12.2	33.0	16.2	12.0	9.0	5.9	
Growth of imports (US dollar terms, in percent)	-4.0	0.8	14.4	-10.2	-30.7	-3.0	12.6	14.2	16.5	7.4	5.7	3.5	3.4	
Current account balance, excluding interest payments	-7.5	-11.0	-14.2	-12.3	-24.7	-13.1	5.6	-30.7	-24.8	-18.7	-13.5	-8.7	-6.5	
Net non-debt creating capital inflows	-0.4	4.0	-0.7	1.1	0.6	0.6	1.6	1.0	1.0	1.1	1.2	1.2	1.2	

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.

Annex V. Risk Assessment Matrix[1]

Source of Risks	Direction of Risk	Relative Likelihood	Expected Impact	Policy Response
Uncontrolled COVID-19 outbreaks and subpar/volatile growth.	↓	Medium	**High** COVID-19 outbreaks in slow-to-vaccinate countries could force new lockdowns. Outbreaks either in Curaçao/Sint Maarten or their main tourism markets would disrupt tourism recovery, leading to subpar growth. Policy response to cushion the economic impact is constrained by lack of policy space.	Accelerate vaccination campaigns. Maintain vigorous testing and other mitigation measures as necessary while providing adequate resources for the health sector and social support services.
Disorderly transformations	↓	Medium	**Medium** COVID-19 triggers structural transformations, but the reallocation of resources is impeded by labor market rigidities, debt overhangs, and inadequate bankruptcy resolution framework. This, coupled with a withdrawal of Covid-19-related policy support, undermines growth prospects and increases unemployment, with adverse social/political consequences.	Implement structural reform measures to improve flexibility of the economy. Work towards an agreement with the Netherlands to unlock necessary financing for providing support where needed.
Widespread social discontent and political instability	↓	High	**High** Social tensions erupt as a withdrawal of pandemic-related policy support results in unemployment and, amid increasing prices of essentials, hurts vulnerable groups (often exacerbating pre-existing inequities).	Protect the vulnerable groups. Social support within the feasible fiscal envelope should be considered to help cushion the shock for the broader economy.
Delays in securing necessary budget financing	↓	High	**Curaçao and Sint Maarten: High** Delays in securing necessary budget financing lead to premature termination of COVID-19 support measures, abrupt spending cuts and widespread arrears. This produces significant adverse impact on the economy and employment.	Work towards an agreement with the Netherlands on the governance of COHO and make progress in structural reform implementation agendas, unlocking necessary financing.
Loss of correspondent banking relationships (CBRs)	↓	High	**Curaçao: High** Correspondent banks end their relationships with local banks resulting in a decrease or halt of cross-border payments. This could have deleterious effects on trade finance, remittances, and online transactions. The cost of remittances or trade payments could rise with lower quality CBRs. It could also tighten domestic liquidity conditions, increase the cost of finance, and put pressure on reserves and therefore the peg.	Implementing risk-based supervision, improving the AML/CFT framework including CFATF recommendations, providing appropriate resources to supervisory bodies, and close monitoring will help maintain CBRs. Completing and publishing the National Risk Assessment will help increase transparency.
Reopening of the oil refinery	↑	Medium	**Curacao: Medium** Reopening the oil refinery would generate growth, employment, and increase potential growth.	Reopening should not entail increasing fiscal risks through debt or contingent liabilities. Authorities should consider the environmental impact and sustainability.
Natural disasters	↓	High	**Sint Maarten: High** Sint Maarten is located in the hurricane belt, affected, on average, by one hurricane every year and a half since the mid-1990s.	Accelerate post-Hurricane Irma reconstruction, build resilient infrastructure, and fiscal buffers.
Slower pace of implementation of post-Hurricane Irma reconstruction	↓	Medium	**Sint Maarten: Medium** Implementation risks relating to the reconstruction projects, reflecting a low absorption capacity or slow progress in setting up necessary frameworks for implementation could delay the recovery and lead to lower growth.	Address institutional, regulatory, and capacity bottlenecks to facilitate speedy implementation of reconstruction projects.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Annex VI. Public Debt Sustainability Assessment

A. Public Debt

Recent Developments

1. **In both Curaçao and Sint Maarten, the COVID-19 pandemic led to sharp accumulation of government debt stocks.** In both cases, the government debt is defined as debt liabilities of budgetary central government. Thus, it does not cover liabilities issued by other government entities, such as state-owned enterprises (SOEs) or social security/health insurance funds (SVB and SZV). A significant improvement in data framework is needed to expand DSA coverage to the public sector. A combination of much lower fiscal revenue and higher spending needs opened significant financing requirements that were filled by zero-interest bullet loans from the Netherlands maturing in 2022. The loans are denominated in local currency (i.e. not subject to the currency risk for Curaçao/Sint Maarten), but transferred mostly in the US dollars.

2. **Curaçao.** The debt-to-GDP ratio increased from 55.9 percent of GDP in 2019 (preliminary data) to 89.1 percent of GDP in 2020. The primary fiscal deficit contributed 14.9 percent of GDP, of which 5.8 percent of GDP (NAf 267 million) was attributed to a takeover of CBCS' claim on Girobank by the budget giving rise to a corresponding liability to the CBCS to be repaid over long term. The automatic debt dynamics—stemming mainly from the collapse of nominal GDP—contributed 14 percent of GDP.

3. **Sint Maarten.** As the latest available financial statements—that show final debt stock figures—are as of 2016, the debt stocks for 2017-20 are estimated using a combination of preliminary data on liabilities and operating data, suggesting that the debt in 2020 was 64.7 percent of GDP. However, the stock-flow analysis suggests that it could be underestimated by about 6 percent of GDP. The increase in 2020 was due to a combination of the primary deficit (10.2 percent of GDP) and automatic debt dynamics (12.4 percent of GDP). The government reduced the legacy arrears by NA*f* 14 million (0.8 percent of GDP) to domestic creditors, including the social security fund (SZV) and the public pension fund (APS).

Baseline Projections

4. **In both countries, the debt-to-GDP ratio is expected to peak in 2021 and to gradually decrease over the medium term.** Staff assume that the gross financing need (GFN) would be financed mainly by local-currency denominated loans from The Netherlands with long maturities and low interest rates from the standing subscription arrangement.

5. **Curaçao.** The debt stock is projected to reach 103.2 percent of GDP in 2021 and remain above 85 percent of GDP even in 2026. In 2021, the increase is driven by the primary fiscal deficit (contributing 13.5 percent of GDP) and a loan from the Netherlands for resolving Girobank, which is on-lent to the special purpose vehicle (3.7 percent of GDP). Afterwards, the debt-to-GDP ratio would decline due to the economic recovery.

6. Sint Maarten. The debt stock is projected to peak at 82.2 percent of GDP in 2021 and gradually subside to 69.3 percent of GDP in the medium term. In 2021, the main factors are the primary deficit, which is expected to widen to 16.4 percent of GDP, and US$ 50 million (5.1 percent of GDP) loan from the European Investment Bank (EIB) for the reconstruction of the Princess Juliana International Airport. This loan will be the only foreign exchange-denominated loan for Sint Maarten. Similarly to Curaçao, coronavirus bullet loans will mature in 2022, increasing the GFN to 17.5 percent of GDP. The economic recovery and the repayment of EIB loan would reduce government debt to slightly below 70 percent of GDP in the medium term.

Stress Testing

7. Curaçao. Under various shock scenarios, the medium-term debt-to-GDP ratio could remain above 100 percent of GDP. Combined macro-fiscal shock—aggregating shocks to all macro variables—could place the government debt to a non-decreasing path with the debt ratio of 116 percent of GDP. With a contingent liability shock—one-off expenditure of 8½ percent of GDP in 2021 to address financial system fragilities combined with 1 percent growth shock and 25 basis point higher inflation—the government debt would peak at 121 percent of GDP in 2023, remaining at 108 percent of GDP even in 2026. Real GDP growth shock scenario—one-standard deviation shock on GDP growth for 2022 and 2023 with lower inflation and revenue—would show a similar pattern with a lower debt peak (113 percent of GDP).

8. Sint Maarten. Similar to Curaçao, real GDP growth shock, contingent liability shock, and combined macro-fiscal shock would significantly raise the debt ratio. In these scenarios, the peak of the debt exceeds 100 percent, and the 2026 debt ratio would remain above 90 percent of GDP. Another major hurricane could increase the government debt, assuming that reconstruction would be financed by loans rather than grants. The hurricane scenario assumes GDP growth shocks of 7 and 10 percentage points in 2022 and 2023, respectively, and wider fiscal deficits over the medium term. Under such scenario, the debt would increase to 97 percent of GDP and stay at 95 percent even in 2026.

Assessment

9. In both countries, the government debt is vulnerable to shocks, although remains sustainable subject to continued access to financing at favorable terms from the Netherlands and implementation of consolidation measures. Relative to the 2019 Article IV consultation discussions, the heatmaps for both countries show much higher vulnerability indicators related to the debt level and GFN. The medium-term baseline debt trajectory is on the downward trend for both countries, although this depends on the terms of financing and implementation of the fiscal consolidation measures. Robust implementation of the reforms envisaged in the *landspakket* could enhance the fiscal consolidation, and thus debt sustainability.

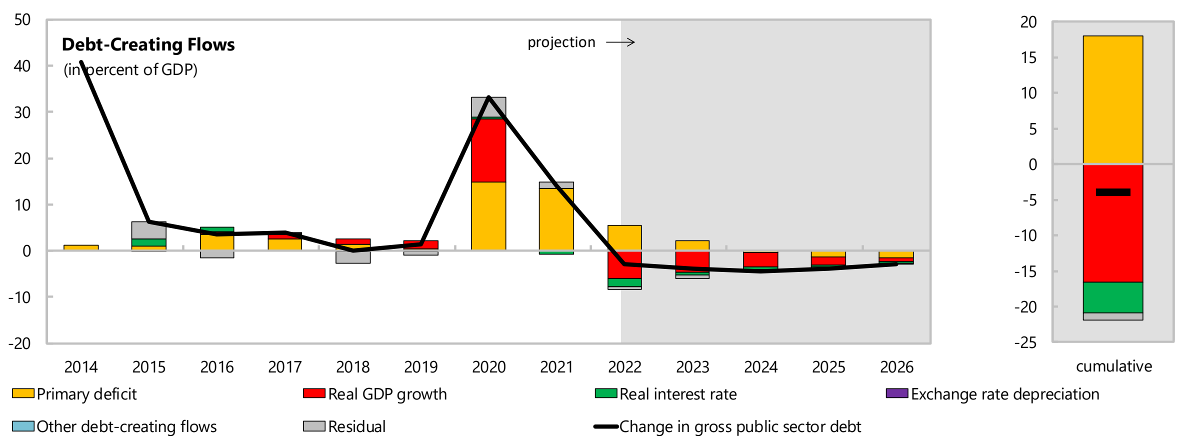
Figure 1. Curaçao: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of June 30, 2021		
	2015-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026	Sovereign Spreads		
Nominal gross public debt	51.7	55.9	89.1	103.2	100.2	96.4	91.8	88.0	85.2	EMBIG (bp) 3/		n.a.
Public gross financing needs	3.3	1.9	18.7	15.6	17.5	5.2	2.8	5.2	3.0	5Y CDS (bp)		n.a.
Real GDP growth (in percent)	-1.1	-3.4	-20.0	0.0	6.5	5.0	3.5	2.0	1.0	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	0.9	2.6	2.2	2.8	3.2	2.3	2.2	2.1	2.0	Moody's	n.a.	n.a.
Nominal GDP growth (in percent)	-0.2	-0.8	-16.8	-0.2	10.6	7.9	6.1	4.4	3.0	S&Ps	BBB-	BBB-
Effective interest rate (in percent) [4/]	2.5	2.2	2.2	1.8	1.7	1.7	1.7	1.7	1.7	Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2015-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	3.4	1.4	33.2	14.1	-3.0	-3.8	-4.5	-3.8	-2.9	-3.9	
Identified debt-creating flows	3.5	2.1	28.9	12.6	-2.3	-3.2	-4.0	-3.4	-2.7	-3.0	
Primary deficit	2.2	0.4	14.9	13.5	5.5	2.1	-0.3	-1.2	-1.5	17.9	-1.1
Primary (noninterest) revenue and grants	29.7	29.2	29.5	28.4	28.9	29.3	30.0	30.8	31.2	178.6	
Primary (noninterest) expenditure	31.9	29.6	44.4	41.9	34.4	31.4	29.7	29.5	29.6	196.6	
Automatic debt dynamics [5/]	1.3	1.7	14.0	-0.8	-7.8	-5.3	-3.7	-2.2	-1.1	-20.9	
Interest rate/growth differential [6/]	1.3	1.7	14.0	-0.8	-7.8	-5.3	-3.7	-2.2	-1.1	-20.9	
Of which: real interest rate	0.7	-0.2	0.3	-0.8	-1.7	-0.6	-0.5	-0.4	-0.3	-4.3	
Of which: real GDP growth	0.6	1.9	13.7	0.0	-6.1	-4.7	-3.2	-1.8	-0.9	-16.6	
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	
Residual, including asset changes [8/]	0.0	-0.7	4.4	1.4	-0.6	-0.7	-0.5	-0.4	-0.2	-1.0	

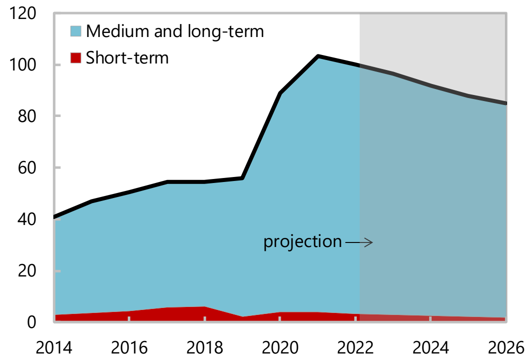


Source: IMF staff.
1/ Public sector is defined as general government.
2/ Based on available data.
3/ Long-term bond spread over German bonds.
4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) 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.

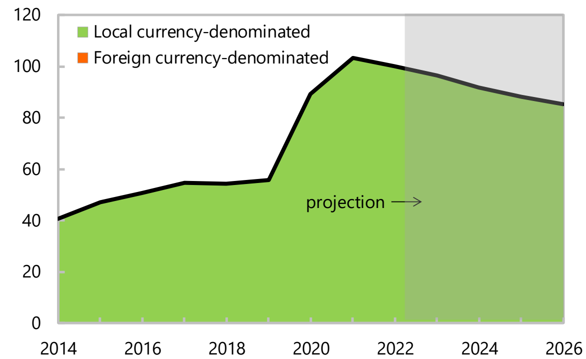
Figure 2. Curaçao: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



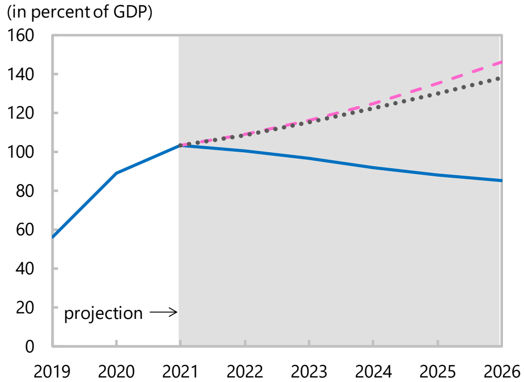
By Currency
(in percent of GDP)



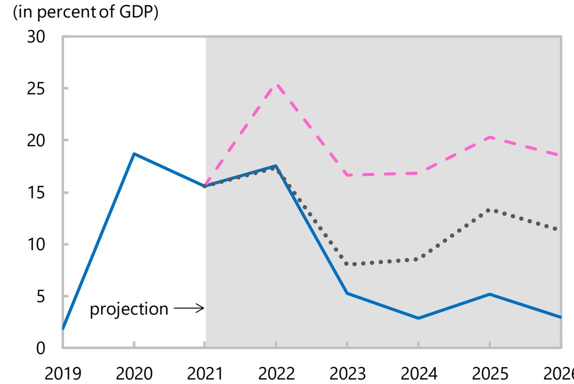
Alternative Scenarios

Baseline — Historical — Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

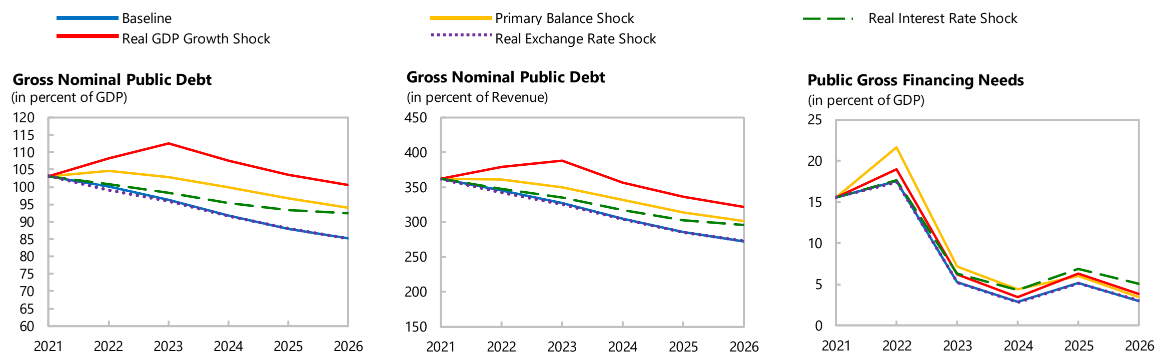
Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	0.0	6.5	5.0	3.5	2.0	1.0
Inflation	2.8	3.2	2.3	2.2	2.1	2.0
Primary Balance	-13.5	-5.5	-2.1	0.3	1.2	1.5
Effective interest rate	1.8	1.7	1.7	1.7	1.7	1.7
Constant Primary Balance Scenario						
Real GDP growth	0.0	6.5	5.0	3.5	2.0	1.0
Inflation	2.8	3.2	2.3	2.2	2.1	2.0
Primary Balance	-13.5	-13.5	-13.5	-13.5	-13.5	-13.5
Effective interest rate	1.8	1.7	1.7	1.6	1.5	1.5

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	0.0	-2.9	-2.9	-2.9	-2.9	-2.9
Inflation	2.8	3.2	2.3	2.2	2.1	2.0
Primary Balance	-13.5	-4.0	-4.0	-4.0	-4.0	-4.0
Effective interest rate	1.8	1.7	2.0	2.1	2.1	2.3

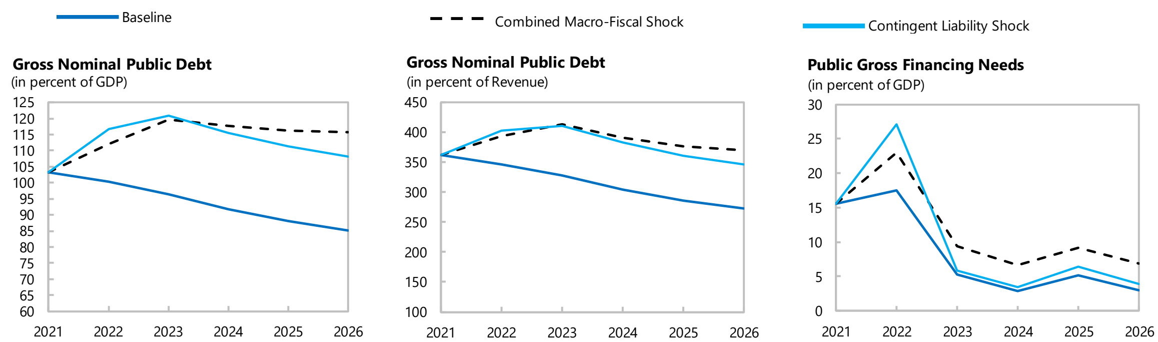
Source: IMF staff.

Figure 3. Curaçao: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Primary Balance Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	0.0	6.5	5.0	3.5	2.0	1.0
Inflation	2.8	3.2	2.3	2.2	2.1	2.0
Primary balance	-13.5	-9.5	-3.8	-0.9	0.8	1.4
Effective interest rate	1.8	1.7	1.9	1.9	1.9	1.9
Real Interest Rate Shock						
Real GDP growth	0.0	6.5	5.0	3.5	2.0	1.0
Inflation	2.8	3.2	2.3	2.2	2.1	2.0
Primary balance	-13.5	-5.5	-2.1	0.3	1.2	1.5
Effective interest rate	1.8	1.7	2.9	3.2	3.4	3.8
Combined Shock						
Real GDP growth	0.0	0.4	-1.1	3.5	2.0	1.0
Inflation	2.8	2.0	1.1	2.2	2.1	2.0
Primary balance	-13.5	-9.9	-4.3	-0.9	0.8	1.4
Effective interest rate	1.8	1.7	3.0	3.4	3.7	4.1

Real GDP Growth Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	0.0	0.4	-1.1	3.5	2.0	1.0
Inflation	2.8	2.0	1.1	2.2	2.1	2.0
Primary balance	-13.5	-5.9	-2.6	0.3	1.2	1.5
Effective interest rate	1.8	1.7	1.8	1.7	1.7	1.7
Real Exchange Rate Shock						
Real GDP growth	0.0	6.5	5.0	3.5	2.0	1.0
Inflation	2.8	3.2	2.3	2.2	2.1	2.0
Primary balance	-13.5	-5.5	-2.1	0.3	1.2	1.5
Effective interest rate	1.8	1.7	1.7	1.7	1.7	1.7
Contingent Liability Shock						
Real GDP growth	0.0	0.4	-1.1	3.5	2.0	1.0
Inflation	2.8	1.7	0.8	2.2	2.1	2.0
Primary balance	-13.5	-14.0	-2.1	0.3	1.2	1.5
Effective interest rate	1.8	1.7	1.7	1.7	1.7	1.6

Source: IMF staff.

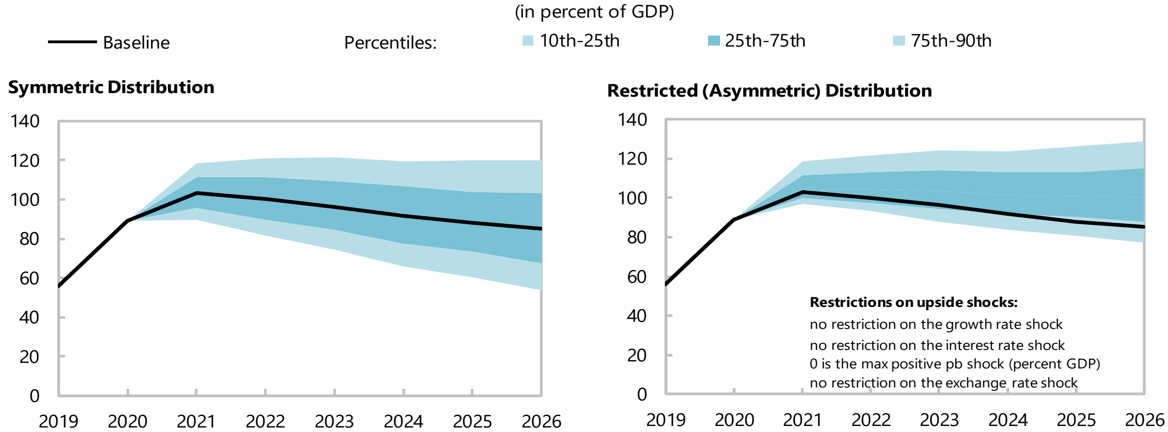
Figure 4. Curaçao: Public DSA Risk Assessment

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

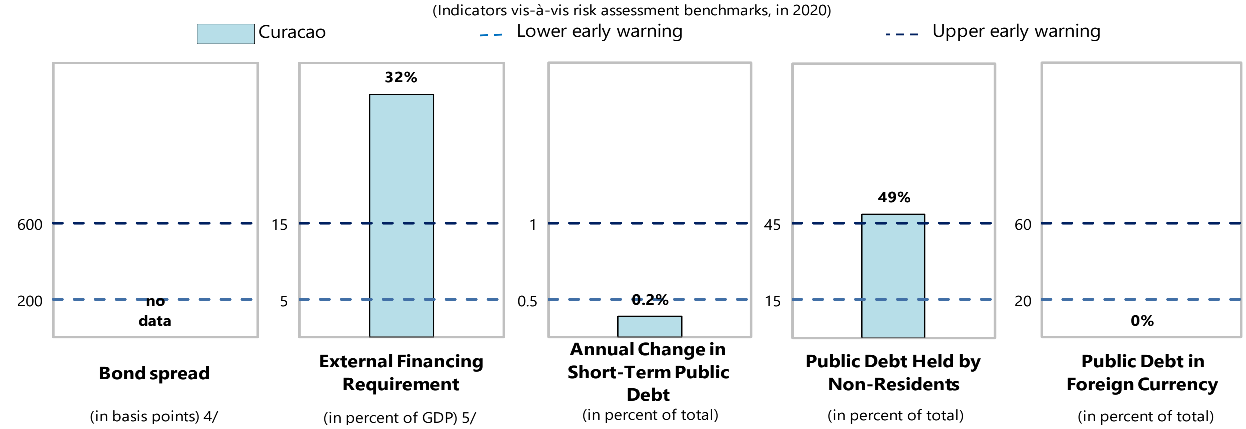
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% 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 15% 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:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 01-Apr-21 through 30-Jun-21.

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

(In percent of GDP unless otherwise indicated)

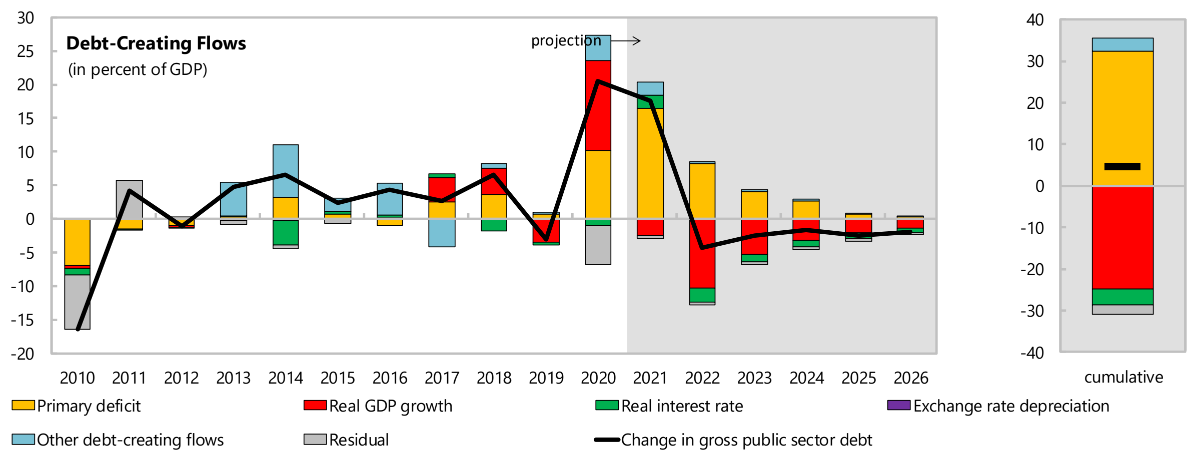
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026
Nominal gross public debt	30.4	44.2	64.7	82.2	77.9	75.4	73.7	71.2	69.3
Public gross financing needs	2.1	1.3	15.1	17.3	26.9	6.5	5.2	6.4	3.4
Real GDP growth (in percent)	-1.4	8.0	-24.0	4.0	15.0	7.5	4.5	3.0	2.0
Inflation (GDP deflator, in percent)	4.6	2.4	4.1	-2.0	3.4	2.9	2.7	2.6	2.5
Nominal GDP growth (in percent)	3.2	10.6	-20.9	1.9	19.0	10.6	7.4	5.7	4.5
Effective interest rate (in percent) [4/]	2.2	1.4	1.4	1.1	1.0	1.4	1.4	1.5	1.4

As of June 30, 2021		
Sovereign Spreads		
EMBIG (bp) 3/		n.a.
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	Ba2	Ba2
S&Ps	n.a.	n.a.
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.5	-3.0	20.5	17.5	-4.3	-2.5	-1.6	-2.5	-1.9	4.7	
Identified debt-creating flows	1.9	-3.0	26.3	17.9	-3.8	-2.1	-1.3	-2.1	-1.6	7.0	
Primary deficit	0.0	0.7	10.2	16.4	8.3	4.0	2.6	0.7	0.4	32.4	-2.0
Primary (noninterest) revenue and grants	22.1	19.8	20.4	19.3	19.4	19.5	19.8	20.0	20.3	118.3	
Primary (noninterest) expenditure	22.1	20.5	30.6	35.8	27.7	23.5	22.4	20.8	20.6	150.8	
Automatic debt dynamics [5/]	0.1	-3.9	12.4	-0.5	-12.4	-6.5	-4.2	-2.9	-2.1	-28.5	
Interest rate/growth differential [6/]	0.1	-3.9	12.4	-0.5	-12.4	-6.5	-4.2	-2.9	-2.1	-28.5	
Of which: real interest rate	-0.6	-0.5	-1.0	2.0	-2.0	-1.2	-1.0	-0.8	-0.7	-3.7	
Of which: real GDP growth	0.7	-3.4	13.4	-2.5	-10.4	-5.3	-3.2	-2.1	-1.4	-24.8	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	1.8	0.2	3.7	2.0	0.3	0.3	0.3	0.1	0.1	3.1	
Net acquisition of financial assets (negative)	1.8	0.2	3.7	2.0	0.3	0.3	0.3	0.1	0.1	3.1	
Contingent liabilities	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/]	-0.4	0.0	-5.8	-0.3	-0.5	-0.4	-0.4	-0.4	-0.3	-2.3	



Source: IMF staff.

1/ Public sector is defined as central 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).

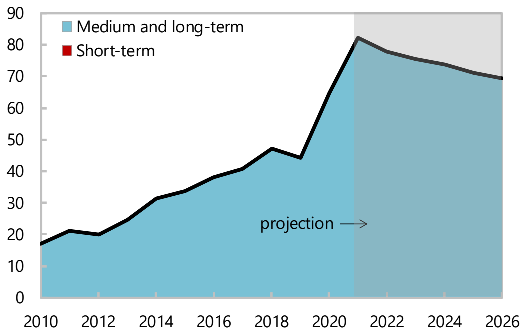
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

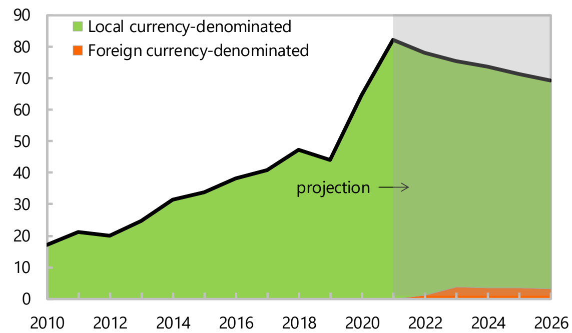
Figure 6. Sint Maarten: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



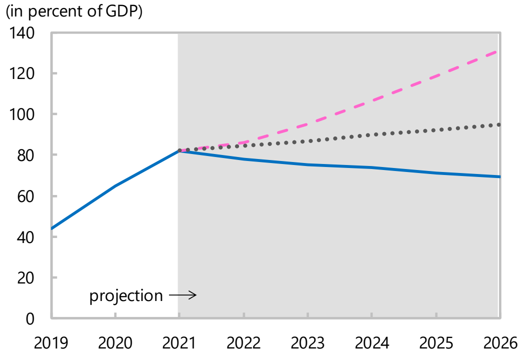
By Currency
(in percent of GDP)



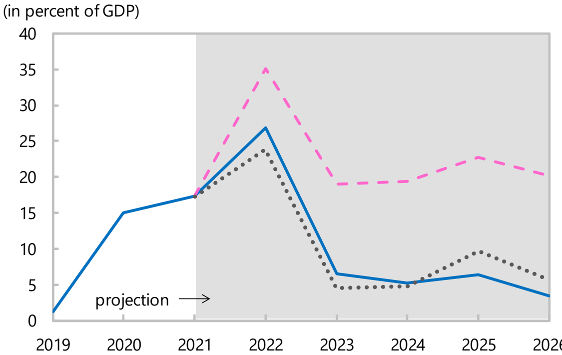
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

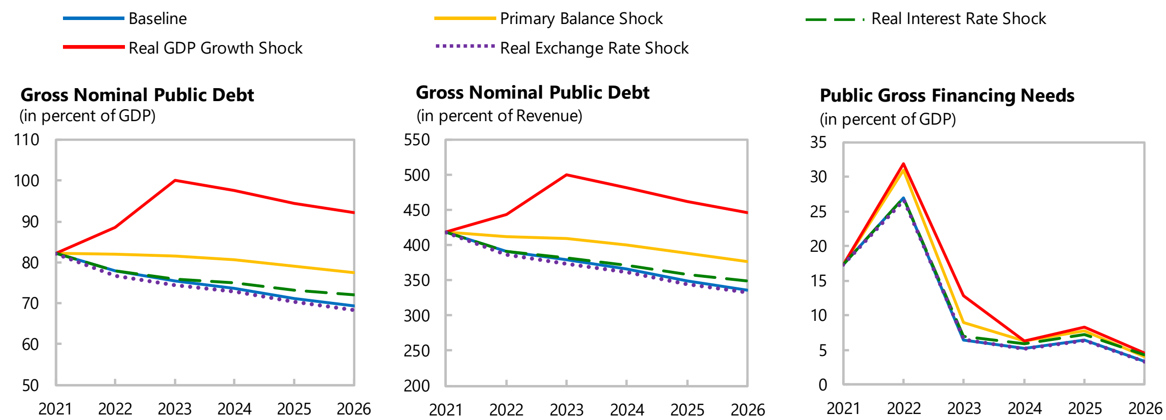
Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	4.0	15.0	7.5	4.5	3.0	2.0
Inflation	-2.0	3.4	2.9	2.7	2.6	2.5
Primary Balance	-16.4	-8.3	-4.0	-2.6	-0.7	-0.4
Effective interest rate	1.1	1.0	1.4	1.4	1.5	1.4
Constant Primary Balance Scenario						
Real GDP growth	4.0	15.0	7.5	4.5	3.0	2.0
Inflation	-2.0	3.4	2.9	2.7	2.6	2.5
Primary Balance	-16.4	-16.4	-16.4	-16.4	-16.4	-16.4
Effective interest rate	1.1	1.0	1.4	1.6	1.6	1.6

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	4.0	-2.9	-2.9	-2.9	-2.9	-2.9
Inflation	-2.0	3.4	2.9	2.7	2.6	2.5
Primary Balance	-16.4	-1.8	-1.8	-1.8	-1.8	-1.8
Effective interest rate	1.1	1.0	1.0	1.0	0.9	0.8

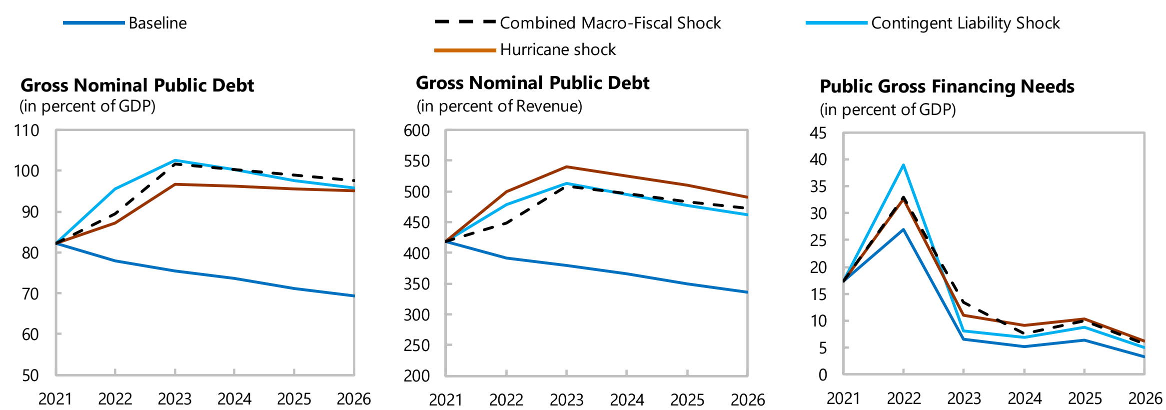
Source: IMF staff.

Figure 7. Sint Maarten Public DSA Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	4.0	15.0	7.5	4.5	3.0	2.0
Inflation	-2.0	3.4	2.9	2.7	2.6	2.5
Primary balance	-16.4	-12.3	-6.2	-3.3	-1.7	-0.5
Effective interest rate	1.1	1.0	1.8	1.9	1.9	1.9
Real Interest Rate Shock						
Real GDP growth	4.0	15.0	7.5	4.5	3.0	2.0
Inflation	-2.0	3.4	2.9	2.7	2.6	2.5
Primary balance	-16.4	-8.3	-4.0	-2.6	-0.7	-0.4
Effective interest rate	1.1	1.0	2.2	2.4	2.5	2.7
Combined Shock						
Real GDP growth	4.0	6.1	-1.4	4.5	3.0	2.0
Inflation	-2.0	1.2	0.6	2.7	2.6	2.5
Primary balance	-16.4	-12.3	-9.6	-3.3	-1.7	-0.5
Effective interest rate	1.1	1.0	2.2	2.5	2.7	2.8
Hurricane shock						
Real GDP growth	4.0	7.7	-3.0	5.5	3.0	2.0
Inflation	-2.0	3.4	2.9	2.7	2.6	2.5
Primary balance	-16.4	-12.8	-8.1	-6.0	-3.4	-2.5
Effective interest rate	1.1	1.0	1.4	1.5	1.5	1.5

Real GDP Growth Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	4.0	6.1	-1.4	4.5	3.0	2.0
Inflation	-2.0	1.2	0.6	2.7	2.6	2.5
Primary balance	-16.4	-11.3	-9.6	-2.6	-0.7	-0.4
Effective interest rate	1.1	1.0	1.7	1.9	1.9	1.9
Real Exchange Rate Shock						
Real GDP growth	4.0	15.0	7.5	4.5	3.0	2.0
Inflation	-2.0	5.1	2.9	2.7	2.6	2.5
Primary balance	-16.4	-8.3	-4.0	-2.6	-0.7	-0.4
Effective interest rate	1.1	1.0	1.4	1.4	1.5	1.4
Contingent Liability Shock						
Real GDP growth	4.0	6.1	-1.4	4.5	3.0	2.0
Inflation	-2.0	1.2	0.6	2.7	2.6	2.5
Primary balance	-16.4	-18.3	-4.0	-2.6	-0.7	-0.4
Effective interest rate	1.1	1.1	2.4	2.4	2.4	2.3

Source: IMF staff.

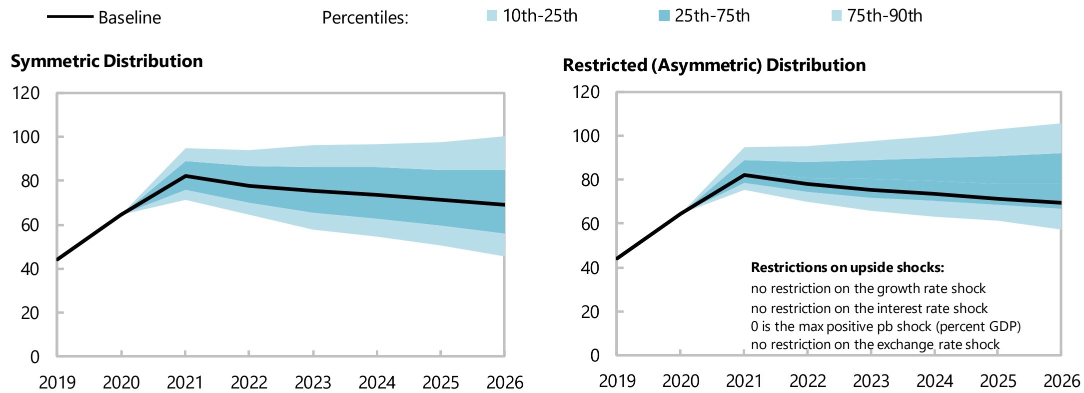
Figure 8. Sint Maarten: Public DSA Risk Assessment

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

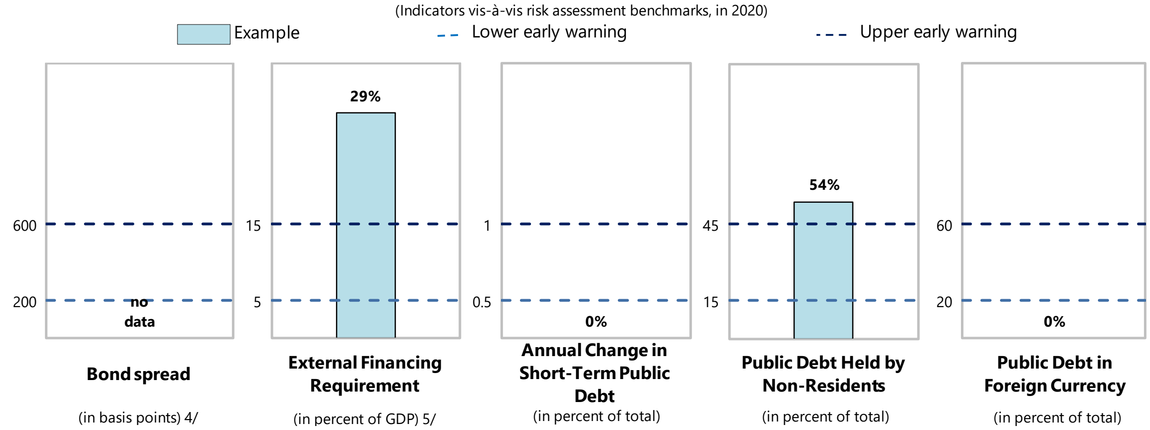
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% 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 15% 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:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 01-Apr-21 through 30-Jun-21.

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.

INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS—CURAÇAO AND SINT MAARTEN

July 15, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION DISCUSSIONS—INFORMATIONAL ANNEX

Prepared By

The Western Hemisphere Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

The 2021 Article IV consultation discussions were held remotely during May 12–June 17, 2021. They form part of the Article IV consultations with The Kingdom of the Netherlands. The team comprised Dmitriy Kovtun (head), Thomas Dowling, and Atsushi Oshima, (all WHD). Geerten Michielse (FAD), Ian De Vere Carrington, Luisa Malcherek, and Maksym Markevych (all LEG), Minke Gort (MCM), Patrick Blagrave, Martin Bowen, Frode Lindseth, and Robin Youll (all CARTAC), Jesper Hanson and Paul Hilbers (OED) participated in the discussions. Grey Ramos, Sheng Tibung and Tianle Zhu provided valuable assistance.

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

Kingdom of the Netherlands: The Financial Position in the Fund as of June 30, 2021

II. General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	8736.50	100.00
IMF Holdings of Currency	6,690.42	76.58
Reserve Tranche Position	2,047.66	23.44
Lending to the Fund		
New Arrangement to Borrow	126.39	

III. SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	4,836.63	100.00
Holdings	4,911.59	101.55

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Sep 12, 1957	Mar 12, 1958	68.75	0.0

VI. Overdue Obligations and Projected Payments to Fund 1/
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2021	**2022**	**2023**	**2024**	**2025**
Principal					
Charges/Interest		0.08	0.08	0.08	0.08
Total		0.08	0.08	0.08	0.08

1/ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

IX. Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Exchange Rate Arrangements: The exchange rate arrangement is a conventional peg arrangement. The Netherlands Antillean guilder has been pegged to the U.S. dollar at NA*f* 1.79 per US$1 since 1971.

On March 23, 2020, in order to reduce the risk of capital outflows, the Central Bank of Curaçao and Sint Maarten suspended the extension of foreign exchange licenses for the following transactions equal or exceeding NAf 150,000:

(i) Extension of a loan to a nonresident.
(ii) Transfers to own foreign bank account by legal entities.
(iii) Transfers to current account with foreign related companies by legal entities.
(iv) Transfers by individuals to their private foreign bank account.1
(v) Investments abroad.
(vi) Participation in a foreign company by a resident.
(vii) Distribution of dividends or profits to nonresidents.
(viii) Early redemption of loans received.

Limitation on distribution of dividends or profits to nonresidents gives rise to an exchange restriction under Article VIII, Section 2(a) of the Fund's Articles of Agreement.

Last Article IV Consultation Discussions: The Executive Board concluded the 2019 Article IV Consultation Discussions with Curaçao and Sint Maarten on March 17, 2020, on the basis of IMF Country Report No. 19/23.

Technical Assistance (2019–June 2021):

Curaçao

1. IFRS implementation (CARTAC, May 2019)
2. Curaçao customs: strengthening risk management capacity and developing a trusted trader program (CARTAC, June 2019)
3. Tax administration modernization through implementation of a new tax information system (CARTAC, July/August 2019)
4. Public financial management: developing the internal audit function (CARTAC, August 2019)
5. Government financial reporting and government financial statistics (CARTAC/STA, September 2019)
6. Tax policy (FAD, October 2019)

7. Monetary policy instruments and domestic debt market (MCM, October-November 2019)
8. Contingency planning (MCM, December 2019)
9. Banking supervision and regulation: Basel II-III implementation (CARTAC, January 2020)
10. External statistics (CARTAC, January 2020)
11. Contingency planning for crisis preparedness and management and deposit insurance (MCM, follow-up, March 2020)
12. Fiscal risks (CARTAC, April 2020)
13. Contingency planning for crisis preparedness and management and deposit insurance (MCM, follow-up, October 2020)
14. Emergency liquidity assistance (MCM, November 2020)
15. Central bank governance (MCM / LEG, January – February 2021)
16. Macro modeling (CARTAC, February 2021 and June 2021)
17. Foreign reserve management (MCM, April 2021)
18. Customs administration (CARTAC, follow-up, May 2021)

Sint Maarten

1. Macro-fiscal framework (WHD, May 2019, November 2019, July 2020, and December 2020)
2. Scoping mission in tax administration and customs areas (CARTAC, November 2019)
3. Tax upgrade and financial management (CARTAC, February 2020)
4. Cleaning of taxpayer registration database (CARTAC, March 2020)
5. National account statistics (CARTAC, October 2020)
6. Tax policy (FAD, March 2021)

STATISTICAL ISSUES

(As of June 30, 2021)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has serious shortcomings that hamper surveillance. Response rates in statistical surveys such as national accounts, balance of payments (BoP), and international investment position (IIP) are low. National Accounts data need to improve in terms of timeliness and quality. Both countries should start compiling and reporting fiscal data in alignment with the *Government Finance Statistics Manual 2014* (GFSM 2014). Financial soundness indicators (FSIs) should be compiled and reported not only for the Union but also separately for Curaçao and Sint Maarten.
National accounts: Data are compiled by the Central Bureau of Statistics (CBS) in Curaçao and the Department of Statistics (DoS) in Sint Maarten. The CBS compiles annual current price estimates of GDP by economic activity (GDP-P) and by expenditure (GDP-E), as well as other aggregates up to net lending/borrowing. Final survey-based national accounts for Curaçao are available only through 2016. For 2017-18, the CBS produced indicator-based preliminary estimates for GDP-P. In Sint Maarten, DoS compiles annual current price estimates of GDP-P and GDP-E. In the aftermath of the 2017 hurricanes, the final survey-based data have been delayed. In May 2020, STAT disseminated revised GDP estimates for 2014 to 2018, after rebasing from 2011 to 2014. CARTAC technical assistance mission (October 2020) reviewed the new data and found significant room for improving the methodology. DoS is implementing the recommendations. In both countries, GDP in constant prices is derived by deflating nominal GDP by the CPI due to the lack of the deflators.
Price statistics: Neither country compiles a producer price index or export/import price indexes. Curaçao compiles a monthly CPI and Sint Maarten a quarterly CPI. Measures of core inflation are not compiled. In Sint Maarten, the DoS has released the new quarterly CPI with the base year of 2018=100, although the series are not linked to the old data and therefore inflation data for 2018 are not available.
Government finance statistics: The Ministries of Finance of Curaçao and Sint Maarten provide fiscal data that can broadly be bridged to the cash framework of the *GFSM* format. Fiscal reporting standards follow national presentations, and some improvements are needed in mapping and consolidating fiscal data according to the *GFSM 2014* standards. The authorities should compile and publish the fiscal data in line with *GFSM 2014* and report it to the IMF Statistics Department (STA). The authorities' reports do not consolidate the social security schemes (administered by the SVB in Curaçao and the SZV in Sint Maarten). In Sint Maarten, there are large discrepancies between the stock of government liabilities in the annual financial statements that only are produced with a long lag and the operational debt data from quarterly reports, causing large *ex-post* revisions.
Monetary and financial statistics (MFS): The CBCS compiles regular monetary and financial statistics. The CBCS has submitted preliminary Union-level MFS, starting in 2016, based on the Standardized Report Forms (SRFs), as recommended in the *Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG)*, for review by STA. Separate SRFs for Curaçao and Sint Maarten are not compiled. Data on other depository corporations include only commercial banks (excluding credit unions and savings banks), and data for other financial corporations, including international (offshore) financial institutions (banks and insurance) which hold significant amounts of financial assets, are not reported. The implementation of a new Chart of Accounts Reporting System for credit institutions in July 2016 resulted in a structural break in MFS. FSIs are provided on staff request but are not reported to STA on a regular basis for publication on the IMF's FSI website. FSIs are reported only on the level of the Union. Bank lending and borrowing interest rates are not compiled.
External sector statistics: BoP data are reported to STA on a quarterly basis and IIP data on an annual basis. Data are reported following the sixth edition of the *Balance of Payments and International Investment Position Manual*, but a key deviation is that offshore sector (flexible corporate structures with little or no

physical presence) is not covered. The published IIP data are outdated due to low response rate and there are significant stock-flow inconsistencies between the BoP and the IIP. Monthly data on the official reserves position are reported to STA with a lag of one month. Authorities also report weekly international reserve data on their national website. In addition, the authorities participate in the Coordinated Direct Investment Survey and Coordinated Portfolio Investment Survey.	
II. Data Standards and Quality	
Not an Enhanced General Data Dissemination System participant.	No data ROSC is available.

Curaçao and Sint Maarten: Table of Common Indicators Required for Surveillance
(As of June 30, 2021)

	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	May 2021	June 2021	Weekly and monthly	Weekly and monthly	Weekly and monthly
Reserve/Base Money	March 2021	May 2021	Monthly	Monthly	Monthly
Broad Money	March 2021	May 2021	Monthly	Monthly	Monthly
Central Bank Balance Sheet	March 2021	May 2021	Monthly	Monthly	Monthly
Consolidated Balance Sheet of the Banking System	March 2021	May 2021	Monthly	Monthly	Monthly
Interest Rates 1/	…	…	N/A	N/A	N/A
Consumer Price Index: Curaçao	Feb. 2021	May 2021	Monthly	Monthly	Monthly
Consumer Price Index: Sint Maarten	Q4/2020 2/	May 2021	Quarterly	Quarterly	Quarterly
Revenue, Expenditure, Balance and Composition of Financing—General Government 3/	…	…	…	…	…
Revenue, Expenditure, Balance and Composition of Financing—Central Government: Curaçao	April 2021	June 2021	Monthly	Monthly	Monthly
Revenue, Expenditure, Balance and Composition of Financing—Central Government: Sint Maarten	Q4 2020	Feb 2021	Quarterly	Quarterly	Quarterly
Stocks of Central (or General) Government and Central- (or General-) Government guaranteed debt: Curaçao 4/	March 2021	May 2021	Monthly	Monthly	Monthly
Stocks of Central (or General) Government and Central- (or General-) Government guaranteed debt: Sint Maarten 4/	Q4 2020	Feb 2020	Quarterly	Quarterly	Quarterly
External Current Account Balance	Q4 2020	June 2021	Quarterly	Quarterly	Quarterly
Exports and Imports of Goods and Services	Q4 2020	June 2021	Quarterly	Quarterly	Quarterly
GDP/GNP: Curaçao	2019	Feb. 2020	Annual	Annual	Annual
GDP/GNP: Sint Maarten	2018	May 2020	Annual	Annual	Annual
Gross External Debt 5/	…	…	…	…	…
International Investment Position 6/	2019	June 2021	Annual	Annual	Annual

1/ Bank deposit/lending interest rates are not compiled.
2/ The Sint Maarten Department of Statistics discontinued the CPI processing system in end-2017 and is working on a new system which will be rolled out in January 2019, with the base year of 2018.
3/ The general government data defined as the central government and the social security funds are not compiled.
4/ Including currency and maturity decompositions.
5/ The external debt data are not compiled, but it can be derived from the international investment position.
6/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

COLLABORATION WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

Collaboration with the World Bank Group.

World Bank country web-page for Sint Maarten:

- http://www.worldbank.org/en/country/sintmaarten

List of recently approved projects:

- http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=SX

Dashboard for the Sint Maarten Recovery, Reconstruction and Resilience Trust Fund financed by the Netherlands and managed by the World Bank:

- https://www.sintmaartenrecovery.org/