INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/296

KINGDOM OF THE NETHERLANDS—CURAÇAO AND SINT MAARTEN

2024 ARTICLE IV CONSULTATION DISCUSSIONS—PRESS RELEASE AND STAFF REPORT

September 2024

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 2024 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 21, 2024, 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 August 22, 2024.
- An **Informational Annex** prepared by the IMF staff.

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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PRESS RELEASE

PR 24/330

IMF Executive Board Concludes 2024 Article IV Consultation Discussions with the Kingdom of the Netherlands—Curaçao and Sint Maarten

FOR IMMEDIATE RELEASE

Washington, DC – **September 17, 2024:** On September 10, 2024, 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.

Context. Curaçao and Sint Maarten have continued to experience a vigorous post-pandemic recovery underpinned by strong stayover tourism, which is outperforming Caribbean peers. Headline inflation has declined rapidly led by international oil price developments, notwithstanding a recent uptick, while core inflation remains elevated. In both countries, current account deficits improved markedly from pandemic years but remain high. Fiscal positions remained strong and in compliance with the fiscal rule. The *landspakket*, the structural reform package agreed with the Netherlands in 2020, continues to guide both countries' reform agenda.

Curaçao outlook. Growth is expected to accelerate in 2024 before gradually converging to its potential over the medium term. Stayover tourism supported by fiscal expansion is projected to drive economic growth at a robust 4.5 percent in 2024 due to new airlifts and further expansion in hotel capacity. Growth is then expected to moderate to reach 1.5 percent over the medium term, given subpar investment and productivity growth coupled with sustained population decline and beginning saturation in tourism flows, assuming no further reforms and diversification. Headline inflation is projected to decline mildly to 3.2 percent in 2024 from 3.5 percent in 2023, but to continue falling towards its steady state of around 2 percent by 2027 reflecting international price developments. Fiscal balances would be guided by the fiscal rule and debt would continue to decline, while surpluses narrow as investments return and social spending pressures mount. The current account deficit is expected to improve in the medium term but would remain elevated.

Sint Maarten outlook. Growth is expected to moderate in the medium term as tourism recovery and the reconstruction taper off. Growth is expected to be 2.7 percent in 2024 and 3 percent in 2025, supported by a delayed recovery in cruise passengers towards pre-pandemic levels. However, the near-term outlook is threatened by the electricity load shedding (since June) and political instability. From 2026 onwards, growth is expected to gradually converge towards 1.8 percent as the stimulus from the reconstruction peters out, and tourism growth

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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.

becomes constrained by the island's carrying capacity and ailing infrastructure. Inflation is expected to remain broadly contained while remaining vulnerable to international price developments. Over the medium term, the government will continue to comply with the golden fiscal rule and capacity constraints will continue to weigh on public investment.

Monetary Union. Monetary policy is appropriately targeted towards maintaining the peg. Efforts to absorb excess liquidity should continue while closely monitoring developments in core inflation driven by tourism-related services. The financial sector is sound and risks to financial stability have substantially diminished as the CBCS advances its reform agenda. Banks are highly liquid and adequately capitalized and systemic risks are contained. Building on the CBCS's strong progress in strengthening supervisory and regulatory capacity, and the recent resolution agreement for ENNIA, staff welcomes CBCS's continued efforts in its reform agenda, including financial stability and crisis management.

Executive Board Assessment[3]

Curaçao

Curaçao's economy successfully embraced the pivot towards tourism-led growth, giving rise to a strong near-term outlook. After losing key traditional industries, Curaçao quickly and successfully leveraged its tourism potential to grow, attract new hotels, and create jobs. While this is serving the economy well in the near term – growth is projected to accelerate to 4½ in 2024 – structural shifts have started to emerge, including a low-skilled, informal recovery of the labor market amidst low investment in non-tourist sectors. Growth is expected to moderate over the medium term given saturation in tourism flows, sustained population decline, and subpar investment. Notwithstanding the economy's recent overperformance, inflation declined significantly and only reversed some of its gains recently on the back of higher international oil prices and unfavorable base effects. Inflation is expected to gradually converge towards its steady state rate of around 2 percent. Fiscal policy remains guided by the fiscal rule, albeit past surpluses are expected to unwind, allowing for the reversal of pandemic wage cuts and a return of public investments. The current account markedly improved thanks to lower oil prices but the deficit remains elevated.

Risks to the outlook are broadly balanced. Growth slowdown in major economies could negatively impact tourism receipts, while positive surprises could boost foreign demand. Domestically, a successful expansion of renewable energy and faster-than-expected development of hotel capacity and yachting marinas would boost growth, while delays in public investment and more persistent core inflation could dent tourist experience and competitiveness.

Efforts to safeguard recently created fiscal space are welcome. Overall surpluses in 2022 and 2023 helped reduce debt and granted access to favorable financing terms from the Netherlands. Safeguarding this space and avoiding procyclical impetus is warranted, including through more gradual unwinding of pandemic wage cuts in 2024, prudent liquidity management to repay a bullet loan in 2025, and general efforts to strengthen tax administration, review procurement and domestic arrears management, and streamline transfers to public entities. Ensuing room for maneuver could be used for priority investments,

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[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

including for climate adaptation, guided by a medium-term fiscal framework steering towards the island's debt anchor.

Healthcare and pension reforms are needed to lock in a sustainable expenditure path and mitigate medium-term fiscal risks. Growing health and old-age pension deficits, exacerbated by an aging population, pose risks to the sustainability of public finances. Recent initiatives to incentivize the use of generics and raise the pension age are commendable, and more needs to be done to put the system on a sustainable path. Staff sees a broad range of efficiency gains in health spending, including lowering pharmaceuticals and laboratory costs and enhancing primary care's gatekeeping role. Reforms on the revenue side, including broadening the contributor base and increasing co-payments, are politically more difficult.

Sustaining the positive growth momentum in the medium term requires investments in capital and labor and resolving existing growth bottlenecks. First, moving up the value chain with high-end resorts and complementary recreational activities would help sustain valuable income growth from tourism but requires scaling up investments in infrastructure and deregulating the transportation sector. Second, further investments in electricity grid and energy storage, as well as a revised pricing strategy, are needed to accompany the ongoing energy transition and reap its vast benefits, including lower fuel imports, emissions, and electricity prices. The envisaged floating offshore wind park for hydrogen production would be a game changer for the island. Boosting public investment to achieve these objectives, however, requires ramping up capacity in planning and execution. Third, to further stimulate growth and offset the sustained population decline, formal labor markets and skills would need to be strengthened. And fourth, continued improvements in the business climate in line with the *landspakket's* economic reform pillar could help overcome decade-low productivity growth.

Important strides in reducing ML/FT vulnerabilities are welcome and could be built upon. The draft online gaming law, implementation of risk-based supervision, and a new law to address EU grey listing and enable automatic information exchange represent important strides in enhancing Curaçao's defenses against ML/FT and related reputational risks. Curaçao can further improve upon these important accomplishments, including by passing and implementing the aforementioned legislations in a timely manner and enhancing coordination and monitoring across relevant agencies.

Sint Maarten

Near-term growth is strongly anchored but preserving the positive momentum hinges on investments to revamp an ailing infrastructure and improve tourism's value added. The economic recovery is well underway, underpinned by tourism recovery and the reconstruction. GDP is expected to surpass its pre-Irma level in 2025. However, without investments to upgrade an ailing infrastructure, growth will falter as the island approaches its maximum carrying capacity. Strategies should continue to focus on enhancing tourist's experience, differentiating from other Caribbean destinations, and improving tourism's value added.

A comprehensive strategy is required to durably resolve the electricity crisis. Mobile electricity generators have been leased and efforts to replace old engines are underway. Once the immediate crisis is resolved, efforts should be devoted towards developing a detailed masterplan for the energy transition with targets, projects, costing, timeline, and a comprehensive assessment of ancillary investments. The Trust Fund could receive a new mandate, beyond 2028, to operate as a public investment agency in charge of planning, securing the financing, and implementing plans for the energy transition.

Revenue mobilization efforts are essential to ensure fiscal sustainability. Plans to lower tax rates, to make the country more competitive with neighboring islands, should be avoided as this would reduce government's revenues and endanger fiscal sustainability. Instead, additional revenues are required to satisfy the fiscal rule, service loans with the Netherlands, raise public wages to attract and retain talent, increase transfers to cover public health costs, and clear public arrears with the SZV. Envisaged reforms to enhance the tax administration and to digitize and interface government systems should be complemented with plans to i) tax casinos' profits, turnover, and winnings; ii) enforce the lodging tax on short-term rentals, and income and profit tax on the proceeds from such rentals; iii) update the price of land leases; and iv) institute a tourist levy at the airport.

Without reforms, the healthcare and pensions funds are unsustainable. Health premiums and government transfers are insufficient to cover health costs, which are being cross-financed with pension savings. With unchanged policies, given population aging and rising administrative costs, both health and pensions funds will run deficits by 2027, and the SZV would deplete its liquid assets by 2027. By 2030, the government would need to transfer about 4 percent of GDP per year to sustain the system. Reforms are urgently needed to contain health costs including: i) introducing the General Health Insurance, ii) rationalizing benefits, iii) extending the use of generics, iv) optimizing referrals, v) strengthening preventing care, and vi) adopting out-of-pocket payments. Given the rapid pace of population aging, additional measures such as increasing the contribution rates and linking the retirement age to life expectancy, should also be considered.

Strengthening the implementation of AML/CFT measures is necessary to increase effectiveness of the AML/CFT regime. Laws for an effective AML/CFT framework were approved but their implementation is lagging. UBO registration is yet to begin, while the investigation and prosecution of suspicious activities is lacking. Granting the FIU full independence to investigate and prosecute cases, and increasing its budget for recruitment and operations could strengthen the AML/CFT framework.

The Monetary Union of Curaçao and Sint Maarten

The current account deficit is expected to improve in the medium term but would remain elevated, while international reserves are expected to remain broadly stable. Large CADs in both countries are expected to improve and remain well-financed, leading to a stable and broadly adequate level of international reserves over the medium term. Curaçao's external position is assessed to be weaker than implied by fundamentals and desired policy settings due to an elevated CAD and sustained appreciation of the real effective exchange rate, while that of Sint Maarten is considered in line with fundamentals and desired policy settings.

Monetary policy is appropriately targeted towards maintaining the peg. In line with global monetary policy tightening, the CBCS increased its benchmark rate during 2022-23 and has kept it unchanged since September 2023. Efforts to absorb excess liquidity should continue while closely monitoring developments in core inflation driven by tourism-related services. Even though credit growth declined further and reached negative territory in real terms amidst monetary tightening, the transmission mechanism of monetary policy remains weak. Structural factors include the absence of interbank and government securities markets. The continued increase in mortgages, the only credit component to display growth, was accompanied by a broadly stable loan-to-value ratio on aggregate, albeit more granular data is needed to monitor potential vulnerabilities. Further acceleration in mortgage credit could warrant introducing a macro prudential limit below the currently by banks self-imposed ratio.

The financial sector is sound and risks to financial stability have substantially diminished as the CBCS advances its reform agenda. Banks are highly liquid and adequately capitalized and systemic risks are contained. Near-term risks to financial stability have substantially diminished with the agreement for a controlled wind-down of ENNIA and the start of the restructuring process, as well as the CBCS's continued improvements in supervision, regulation, and governance. Staff welcomes CBCS's initiatives to establish a financial stability committee, further refine stress-testing, and enhance crisis management capacities, including lender of last resort and a deposit insurance scheme.

Table 1. Curaçao: Selected Economic and Financial Indicators, 2020–25

(Percent of GDP unless otherwise indicated)

	2020	2021	2022	2023	2024	2025
	Prel.	Prel.	Prel.	Prel.	Proj.	
Real Economy						
Real GDP (percent change)	-18.0	4.2	7.9	4.2	4.5	3.5
CPI (12-month average, percent change)	2.2	3.8	7.4	3.5	3.2	2.4
CPI (end of period, percent change)	2.2	4.8	8.4	3.1	3.2	2.4
GDP deflator (percent change)	2.2	3.8	4.0	3.5	3.2	2.4
Unemployment rate (percent) 1/	13.1	13.5	7.2	7.0	6.9	6.6
Central Government Finances 2/						
Net operating (current) balance	-15.0	-10.6	0.7	0.6	0.0	0.5
Primary balance	-13.2	-8.8	2.0	2.5	2.0	1.9
Overall balance	-14.5	-10.0	1.0	1.3	0.1	0.5
Central government debt 3/	87.1	90.3	81.6	70.8	65.4	61.1
General Government Finances 2, 4/						
Overall balance	-15.7	-10.4	0.3	0.9	-0.3	-0.1
Balance of Payments						
Current account	-27.2	-18.6	-26.8	-19.7	-17.9	-16.5
Goods trade balance	-37.0	-41.6	-47.9	-38.3	-40.4	-39.9
Exports of goods	10.7	12.5	18.0	16.9	16.5	16.2
Imports of goods	47.7	54.1	65.9	55.2	56.9	56.1
Service balance	9.6	21.7	20.5	18.4	22.6	23.7
Exports of services	29.3	37.2	48.6	46.6	50.3	51.3
Imports of services	19.7	15.6	28.1	28.2	27.7	27.6
External debt	197.3	194.8	180.9	177.1	169.1	164.0
Memorandum Items						
Nominal GDP (millions of U.S. dollars)	2,534	2,740	3,075	3,318	3,578	3,789
Per capita GDP (U.S. dollars)	16,492	18,135	20,648	22,160	23,775	25,065
Credit to non-government sectors (percent change)	0.1	-9.7	3.2	2.5	…	…

Sources: The Curaçao authorities and IMF staff estimates and projections.
1/ Staff understands that the unemployment rate of 7.0 percent published in the 2023 Census data is not comparable to the historically published unemployment rates from the labor force survey by the Curacao Bureau of Statistics. As such, staff estimated the unemployment rate and overall labor force for the period of 2012 to 2022. Staff understands that the Curacao Bureau of Statistics intends to revise the historical series in the near future.
2/ Defined as balance sheet liabilities of the central government except equities. Includes central government liabilities to the social security funds.
3/ Budgetary central government consolidated with the social security fund (SVB).
4/ The latest available datapoint is as of 2018. Values for 2019-2023 are IMF staff estimates based on BOP flow data.

Table 2. Sint Maarten: Selected Economic Indicators 2020–25

(Percent of GDP unless otherwise indicated)

	2020	2021	2022	2023	2024	2025
	Est.	Est.	Est.	Est.	Proj.	
Real Economy						
Real GDP (percent change) 1/	-20.4	7.1	13.9	3.5	2.7	3.0
CPI (12-month average, percent change)	0.7	2.8	3.6	2.1	2.5	2.3
Unemployment rate (percent) 2/	16.9	10.8	9.9	8.6	8.5	8.2
Government Finances						
Primary balance excl. Trust Fund operations 3/	-8.7	-5.4	-0.6	1.5	0.9	0.9
Current balance (Authorities' definition) 4/	-9.6	-6.3	-1.5	0.5	-0.1	0.0
Overall balance excl. TF operations	-9.3	-5.9	-1.1	1.0	0.2	0.2
Central government debt 5/	56.1	55.3	49.3	49.0	46.2	44.1
Balance of Payments						
Current account	-25.5	-24.6	-3.9	-7.5	-7.8	-3.0
Goods trade balance	-40.7	-49.8	-59.2	-59.3	-62.4	-60.5
Exports of goods	11.8	11.4	14.1	14.8	13.1	11.2
Imports of goods	52.4	61.2	73.2	74.1	75.5	71.7
Service balance	20.2	33.1	62.8	60.3	62.6	65.2
Exports of services	34.4	51.0	78.7	81.4	81.5	83.9
Imports of services	14.3	17.9	15.9	21.1	18.9	18.7
External debt 6/	274.3	253.7	213.6	206.3	200.8	194.0
Memorandum Items						
Nominal GDP (millions of U.S. dollars)	1,141	1,268	1,479	1,563	1,645	1,733
Per capita GDP (U.S. dollars)	26,796	29,646	34,437	36,088	37,570	39,160
Credit to non-gov. sectors (percent change)	2.4	1.3	4.5	1.0	...	...

Sources:

1/ Central Bank of Curacao and Sint Maarten and IMF staff estimates.

2/ The size of the 2022 labor force reported by the 2023 Census was adjusted to ensure consistency with the reported total population.

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

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

5/ The stock of debt in 2018 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.

6/ The latest available datapoint is as of 2018. Values for 2019-2022 are IMF staff estimates based on BOP flow data.

KINGDOM OF THE NETHERLANDS—CURAÇAO AND SINT MAARTEN

August 22, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION DISCUSSIONS

KEY ISSUES

Context. Curaçao and Sint Maarten experienced a vigorous post-pandemic recovery. Growth was underpinned by strong stayover tourism, which is outperforming Caribbean peers. Headline inflation has declined rapidly, notwithstanding a recent uptick, led by international oil price developments, while core inflation remains elevated. In both countries, current account deficits improved markedly from pandemic years but remain high. Fiscal positions remained strong and in compliance of the fiscal rule. Both countries strive to adopt sound macroeconomic policies, broadly in line with past IMF advice (Annex I). The *landspakket*, the structural reform package agreed with the Netherlands in 2020, continues to guide both countries' reform agenda.

Outlook and risks. In both countries, growth is envisaged to accelerate in the near term and moderate over the medium term, while inflation would decline gradually in Curacao beginning 2024 and in Sint Maarten beginning 2025. In Sint Maarten, the fiscal position will remain strong while a fiscal expansion is expected in Curaçao in 2024. Risks to the outlook are broadly balanced. A faster-than-expected global disinflation and more resilient growth in trading partners could boost tourism. An intensification of regional conflicts could disrupt supply chains and raise import prices. Domestic downside risks include delays in public investment, while a successful expansion in renewable energy, and earlier-than-expected completion of tourism infrastructure in Curaçao could lift potential growth.

Policy recommendations. Policies are needed to reinvigorate potential growth and safeguard fiscal sustainability.

- *Fiscal policy*. For both countries, it is essential to: (i) improve revenue collection (in Sint Maarten, this includes taxing the large short-term rental market); (ii) address public arrears; (iii) restore the competitiveness of public wages to preserve service provision (albeit more gradual in Curaçao); (iv) improve their medium-term fiscal frameworks; and (v) mitigate medium-term risks from pensions and healthcare. In

Curaçao, a review of expenses for goods and services and transfers to SOEs could further help contain spending pressures, and help generate space for priority investments, including on climate adaptation.

- *Structural reforms*. Both countries need more public investments and strategies to improve tourist experience and enhance tourism's value added, including adequate infrastructure to allow for timely ground transportation and continued efforts to improve the quality of services provided. Curaçao would benefit from a diversification strategy after losing major industries in the past, while Sint Maarten needs to adapt to the fast growth of short-term rentals. Seizing existing opportunities to expand renewable energy generation and successfully managing the energy transition would further lift medium-term growth. In Sint Maarten, proper maintenance of the climate resilient infrastructure is crucial. Extending the duration of the Trust Fund, with a new mandate to support the energy transition, could help overcome the long-standing capacity constraints that hamper public investment. Policies to address population decline, improve skill sets, and tackle informality, would help support the labor force. Strengthening governance remains critical to limit corruption and ML/TF vulnerability.

- *Monetary and exchange rate and financial sector*. Monetary policy is appropriately targeted towards maintaining the peg and efforts to absorb excess liquidity should continue while closely monitoring developments in core inflation driven by tourism-related services. The banking sector is sound with ample liquidity and profitability and systemic risks are contained. Building on the CBCS's strong progress in strengthening supervisory and regulatory capacity, as well as turning the page on ENNIA with the recent resolution agreement, staff welcomes CBCS's initiatives to establish a financial stability committee and further refine stress-testing.

- *Building capacity and improving data*. Data quality and availability remain a challenge, including for surveillance, while ongoing technical assistance continues to build capacity in critical areas.

Approved By
Patricia Alonso-Gamo (WHD) and Dora Iakova (SPR)

Discussions were held in Willemstad (June 10–14, 2024) and Philipsburg (June 17–21, 2024). The Curaçao mission comprised Christina Kolerus (head), Ziad Amer, Vu Chau, Daniel Jenya (all WHD), and Emine Hanedar (FAD). Jose Torres joined the Union-related meetings in Curaçao. The Sint Maarten mission comprised Jose Torres (head), Ziad Amer, Vu Chau, and Daniel Jenya (all WHD). Emanuele Massetti (FAD) contributed inputs on adaptation investment. Evelyn Carbajal, Natalia Martinez-Camelo, Spencer Siegel, Laila Azoor, Sheng Tibung, and Soungbe Coquillat (all WHD) provided valuable assistance from headquarters.

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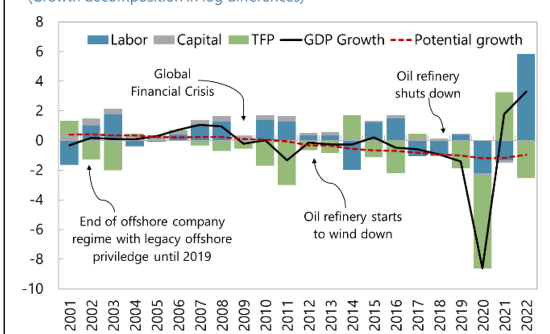
CURAÇAO

A. Context

1. Curaçao's economy has pivoted towards a tourism-led growth model. Following the decline of the country's offshore financial and oil refining industries, tourism has become the main growth engine. While this served the economy well during the post-COVID recovery, structural shifts have started to emerge, including a low-skilled, informal recovery of the labor market amidst low capital investment and sluggish productivity. The authorities are seeking to build a diversified tourism-based economy that can generate sustainable, inclusive, and green growth. Recent high-end hotel openings have furthered efforts to move up the value chain. The authorities also envision the online game industry and green energy as new growth pillars and efforts towards regulating the markets are under way. In addition, the *landspakket*—a structural reform package agreed with the Netherlands in 2020 to strengthen government finances, financial sector resilience, and the overall economic environment—continues to underpin the country's reform agenda.

Two Decades of (Negative) Growth

(Growth decomposition in log differences)



Sources: Curacao Bureau of Statistics, CBCS and IMF staff calculations.

2. In early 2024, the governments of Curaçao, Sint Maarten, and the Central Bank of Curaçao and Sint Maarten (CBCS) agreed on a resolution strategy for life insurer ENNIA. ENNIA Caribe Leven was the largest life insurer in Curaçao and Sint Maarten with an estimated 30,000 clients in the Union of which 93 percent in Curaçao, corresponding to one fifth of the island's population. In 2018, the systemically important financial institution became insolvent due to mismanagement and was placed under administration by the CBCS. After several years of negotiations, the relevant authorities agreed on a controlled wind-down, striking an appropriate balance between safeguarding financial and social stability but requires significant transfers over the long term (Box 1). The Netherlands agreed to the resolution, unlocking discussions on more favorable refinancing terms for pandemic loans, which are expected to lower interest rates from 5.1 to 3.2 percent.

B. Recent Developments

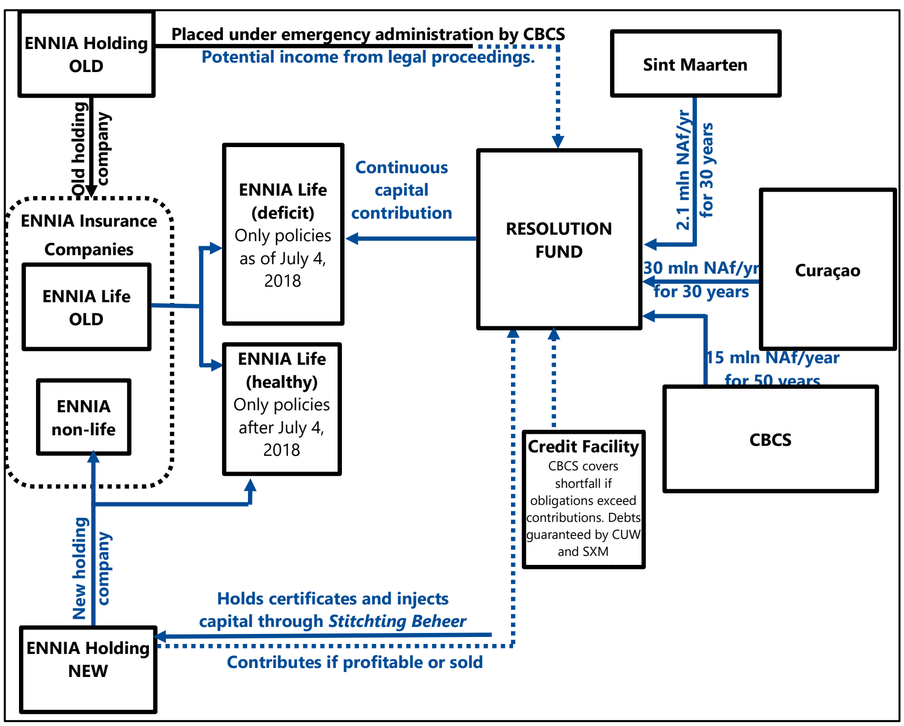
3. Economic activity expanded by 4.2 percent in 2023, driven by booming tourism. Stayover tourist arrivals grew by 20.3 percent in 2023 and drove Curaçao's growth overperformance—even though the average duration of stay per tourist declined, returning to its pre-pandemic average, and real spending per tourist fell by 9.4 percent. Visits of cruise passengers grew by 32.2 percent to 705,000 but remained below pre-pandemic levels. Tourism-related construction activity continued to expand, also reflected in strong mortgage lending, while overall bank credit to consumers and corporates contracted in real terms signaling weaknesses in other parts of the economy outside tourism. Growth in electricity generation was the highest on record, supported by the ongoing expansion of capacity in solar and wind energy generation, with renewable electricity having grown by 45 percent from 2016 to 2022.

Box 1. ENNIA Resolution Strategy

In 2023, the Curaçao and Sint Maarten authorities decided against recapitalizing ENNIA, opting instead for a controlled wind-down. A new holding company would be established to continue the healthy operations of ENNIA, which include general non-life insurance (ENNIA Caribe Schade), healthcare insurance (ENNIA Caribe Zorg), and life insurance policies issued after July 2018 by the troubled ENNIA Caribe Leven (ECL). Should this entity be profitable or sold, proceeds would contribute to the ENNIA deficit (described below).

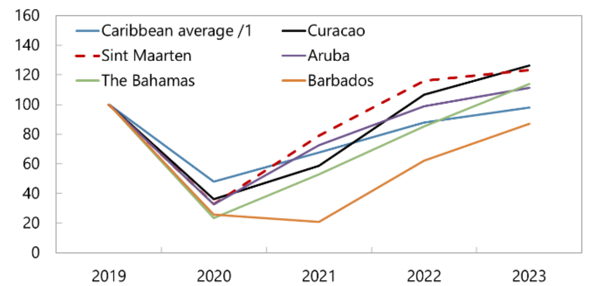
The Curaçao and Sint Maarten governments and the CBCS will finance the "deficit" part of ENNIA through yearly contributions to a Resolution Fund, ensuring full compensation of policy holders. The deficit part of ENNIA consists of life insurance policies issued before July 2018. Policyholders are expected to continue the full payouts (no haircut) under the resolution strategy. A Resolution Fund will be established to finance the obligations of these policies. The governments of Curaçao and Sint Maarten agreed to annual contributions of 30 and 2.1 million NAf, or 0.8 and 0.1 percent of 2024 GDP, respectively. The CBCS is expected to distribute additional profits of NAf 15 million annually to be used towards the Resolution Fund. Additionally, the CBCS will provide an initial capital injection to the Resolution Fund as well as a credit facility of up to NAf 500 million, guaranteed by the two governments, to cover potential funding gaps should obligations exceed annual contributions.

The CBCS increased its yearly expected profit stream through FX transactions into fixed income assets. In January 2024, the CBCS realized valuation gains on gold (selling 30 percent of its gold holdings) and invested in 30-year US Treasury bonds to prepare for its annual contribution. The sale was conducted within the CBCS' broader objective of diversifying its reserve portfolio, and in line with IMF Technical Assistance (TA) recommendations and CBCS statutes. The transaction changed the composition of reserves but did not affect the union's total FX reserve level.



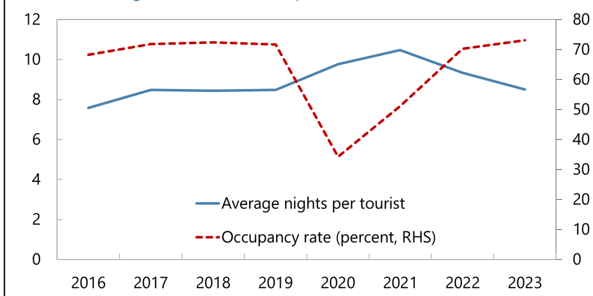
Sources: ENNIA Resolution Agreement adopted on April 11, 2024, and IMF staff elaboration.

Stayover Arrivals
(Index, 2019 =100)



Sources: Caribbean Tourism Board, Statistical bureaus in the Caribbean, CBCS and IMF staff calculations.
1/ Average of Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Anguilla, The Bahamas, Barbados, Belize, Guyana, Jamaica, Trinidad and Tobago, Aruba, Curaçao, Sint Maarten, U.S. Virgin Islands, Dominican Republic, Costa Rica, Mexico.

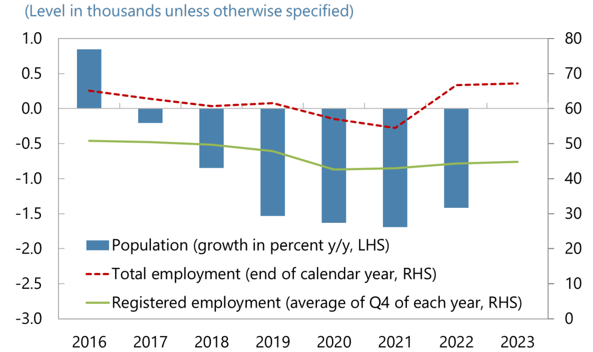
Average Stay Duration and Occupancy Rate
(Number of nights unless otherwise specified)



Sources: Caribbean Tourism Board, Statistical bureaus in the Caribbean, CBCS and IMF staff calculations.
1/ Average of Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Anguilla, The Bahamas, Barbados, Belize, Guyana, Jamaica, Trinidad and Tobago, Aruba, Curaçao, Sint Maarten, U.S. Virgin Islands, Dominican Republic, Costa Rica, Mexico.

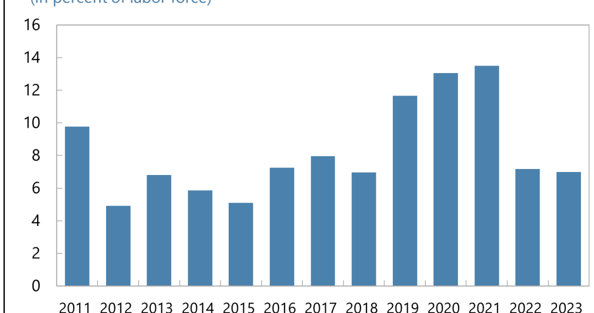
4. **The labor-intensive economic recovery reduced unemployment to below pre-pandemic levels but boosted predominantly informal jobs.** The unemployment rate declined to 7 percent in 2023, the lowest since 2018, while employment on the island is the highest on record, despite a sustained decline in the population over the past years.[1] Job creation, however, has mainly taken place in the informal sector, with registered (formal) employment remaining 8 percent below its pre-pandemic level.[2] Weaknesses in the formal labor market are also reflected in the sustained decline in the registered real wages, albeit the pace was moderating to -0.8 percent in 2023, from -7.2 in 2022.

Labor Market Indicators
(Level in thousands unless otherwise specified)



Sources: Curaçao Bureau of Statistics, Social Insurance Bank and IMF staff calculations.
Note: Population growth available until end of period 2022 only.

Unemployment Rate 1/
(In percent of labor force)



Sources: Curaçao Bureau of Statistics, Social Insurance Bank and IMF staff calculations.
1/ Staff estimated the unemployment rate via adjusting the labor force for the period between 2012 and 2022, to be in line with the 2023 Census results.

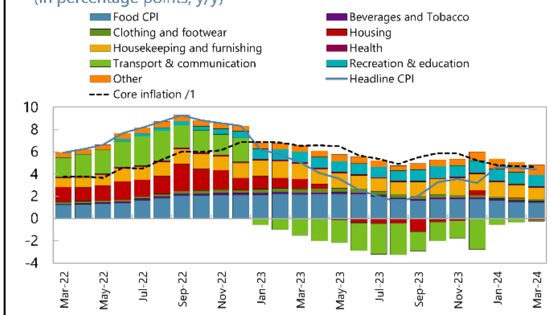
5. **The fast pace of disinflation and its partial reversal reflect high pass-through of external factors while tourism-related services kept core inflation elevated.** Average headline inflation declined to 3.5 percent in 2023, compared to 7.4 percent in 2022, but accelerated to 4.5 percent in 2024 Q1, in line with international oil price developments and inflation in the US, Curaçao's main trading partner. Headline inflation was driven by price movements in transportation and energy and supported

[1] IMF staff estimated the unemployment rate by adjusting the labor force for the period between 2012 and 2022 to be in line with the 2023 census results.

[2] Registered with and contributing to the Social Insurance Bank (SVB). Some part-time jobs are not socially insured and therefore not counted towards formal employment.

by unfavorable base effects in 2024. Meanwhile, price increases of food, house furnishings, recreation, and clothing persisted. Core inflation, which excludes food, electricity, and fuel for transportation, peaked at 6.9 percent end 2022 and declined only gradually to still elevated 4.6 percent in March 2024, reflecting strong demand for tourism-related services in an economy that is approaching full capacity.

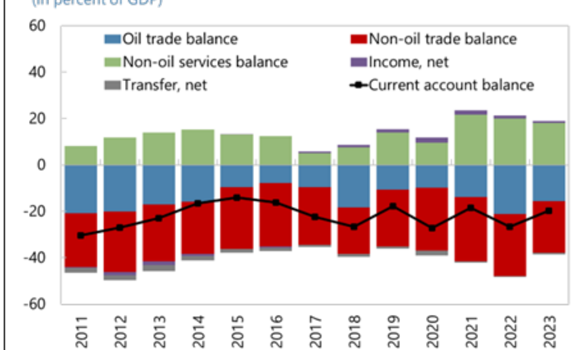
Contribution to Headline Inflation
(In percentage points, y/y)



Source: Curacao Bureau of Statistics and IMF staff calculations.
1/ Core inflation follows the CBCS methodology of excluding food, electricity and fuel

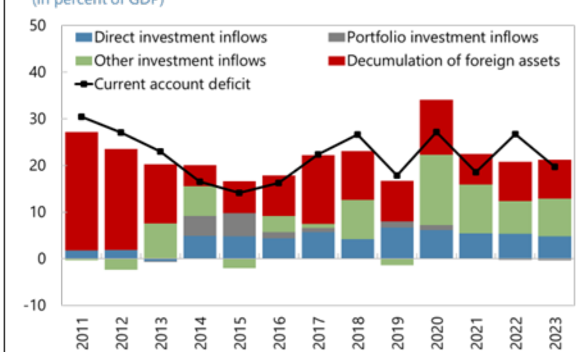
6. The current account improved markedly on the back of lower oil prices. The current account deficit (CAD) narrowed significantly to 19.7 percent of GDP in 2023 from 26.8 percent in 2022, led primarily by lower imports due to falling oil prices. The income balance worsened slightly due to lower net investment income. The CAD continued to be financed by divestment of foreign currency deposits, trade credits, and direct investment inflows, without putting pressure on reserves. However, the net international investment position (NIIP) is estimated to have further declined as foreign liabilities rose and assets were decumulated.[3] Staff considers Curaçao's external position weaker than warranted by fundamentals (Annex II), though data challenges could cloud the assessment of external sustainability (Box 2).

Current Account
(In percent of GDP)



Sources: CBCS and IMF staff calculations.

Financial Account
(In percent of GDP)



Sources: CBCS and IMF staff calculations.

7. The authorities achieved the second fiscal surplus in a row, continuing a significant compression in expenditures. Having reached a net operating surplus in 2022, in compliance with the fiscal rule, fiscal policy tightened further in 2023. The overall balance increased to 1.3 percent of GDP, from 1 percent of GDP in 2022, as the decline in expenditures more than offset lower revenue collection. Total revenues reached 30.0 percent of GDP, down from a record of 31.8 percent of GDP in 2022 due to one-off collection of profit and property taxes. In line with the pivot towards tourism and the expansion in lower-income and informal labor, the post-pandemic composition of tax revenues shifted towards taxes on goods and services while taxes on personal income, notably wages, declined by more than 1

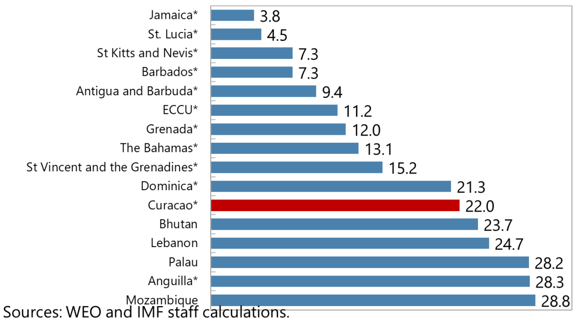
[3] International investment positions (IIP) data is only available up to 2018, as the authorities are revising and compiling data from 2019 onwards to ensure stock-flow consistency with BOP data.

Box 2. Data Challenges in Assessing External Sustainability for Curaçao

Curaçao has one of the world's largest persistent current account deficits. During 2011–23, the country ran an average annual deficit of 22.0 percent of GDP, the sixth largest in the world and highest among Caribbean islands. Nevertheless, the large, persistent CAD has not exerted pressure on reserves and the fixed exchange rate regime, raising questions about whether trade statistics have been adequately measured, especially given the rise and fall of the offshore financial and oil refining sectors and the role of Curaçao as a transshipment hub for goods to other islands.

Average Current Account Deficit, 2011-2023

(In percent of GDP)



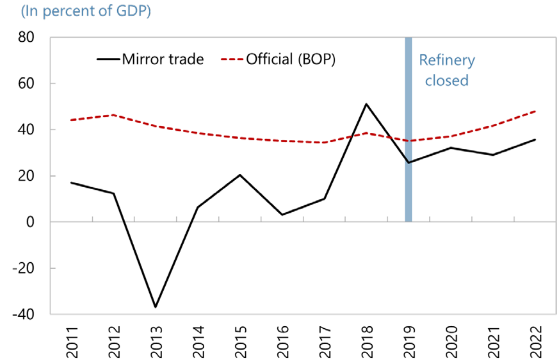
Sources: WEO and IMF staff calculations.

Note: This chart plots the top 6 countries with highest deficits worldwide (from Mozambique to Curaçao) and additional selected Caribbean islands (marked with asterisk).

Mirror trade data shows that Curaçao's trade and CADs might have been over-estimated when the oil refinery was active. By comparing Curaçao's reported imports from (exports to) the rest of the world against the sum of exports to (imports from) Curaçao reported by trade partners, we find that the trade deficit was overstated on average by 18.6 percent per year during 2011–19, almost the entire size of the current account deficit in this period.[1] One explanation could be that the refinery's exports were treated as offshore (and excluded from BOP statistics) while refinery-related imports were not fully excluded from imports.

Trade Deficit, Official vs Mirror Estimates

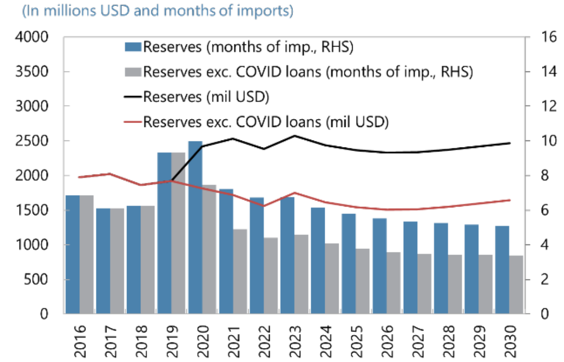
(In percent of GDP)



Sources: UN COMTRADE and IMF staff calculations.

International Reserves of the Union

(In millions USD and months of imports)



Sources: CBCS and IMF staff calculations.

The high trade deficits since 2020 are broadly matched by mirror statistics and could exert pressures on international reserves. While pre-pandemic deficits might have been overstated and did not exert pressure on reserves, the high trade and CADs present in both official and mirror statistics could raise fresh concerns about external sustainability. Indeed, the high CADs during pandemic years would have led to a sizable reduction of reserves in the absence of pandemic support from the Netherlands. Going forward, continued high trade and CA deficits would be expected to translate into lower reserves.

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[1] In practice, discrepancies between official and mirror trade statistics could arise due to reporting practices (c.i.f versus f.o.b) and re-exports. We adjust for insurance and freight costs by applying a 10 percent markup on free-on-board data, though more elaborate product-level adjustment could be done (see Morgenstern (1963), Bhagwati (1967), Schuster and Davis (2020)). Re-exports could lead to discrepancies of both imports and exports but should not affect the trade balance.

percent of GDP relative to their pre-pandemic average.[4] Expenditure compression in 2023 was led by compensation of employees (-1.0 percent of GDP), transfers to social security funds (SVB) (-0.6 percent of GDP), and gross public investment (-0.4 percent of GDP) reflecting a lack of absorption capacity. Gross public debt continued to decline strongly reaching 70.8 percent of GDP, from 81.6 percent of GDP in 2022, helped by early redemption of loans for the resolution of Giro Bank (0.8 percent of GDP) and domestic arrears clearance (4 percent of GDP). The Treasury's cash buffer amounting to 6.1 percent of GDP accumulated in 2022 was reduced to 3.7 percent of GDP in 2023.

C. Outlook and Risks

8. Growth is expected to accelerate in 2024 before gradually converging to 1.5 percent over the medium term. Stayover tourism is projected to drive economic growth at a robust 4.5 percent in 2024, thanks to new airlifts and further expansion in hotel capacity, and further supported by fiscal expansion.[5] Growth is then expected to moderate to reach 1.5 percent over the medium term, given sustained population decline, beginning saturation in tourism flows given the island's carrying capacity, and subpar investment and productivity growth assuming no further reforms and diversification. Against this backdrop, factors further supporting growth include continued expansion in onshore renewable energy as well as infrastructure projects under the *Road Maintenance Plan*. Given relative price stickiness in the US, recent oil price increases, a positive output gap, and tight labor market segments, headline inflation is projected to decline only mildly to 3.2 percent in 2024 from 3.5 percent in 2023, but to continue falling towards its steady state of around 2 percent by 2027, in line with the moderation in international oil prices.

9. Fiscal balances would be guided by the fiscal rule, while surpluses are expected to narrow as investments return and social spending pressures mount. On the back of unwinding pandemic wage cuts and increasing investments in 2024, staff expects the central government overall balance to decline to close to zero, from a 1.3 percent of GDP surplus in 2023, implying a positive fiscal impulse of 2 percent of GDP. To settle a bullet loan in 2025, staff expects the authorities to generate some additional space through expenditure moderation and tap liquidity reserves, albeit negotiations are ongoing about possible refinancing from the Netherlands. While complying with the zero net operating balance rule, the overall fiscal balance would gradually fall towards a deficit of 0.7 percent of GDP in the medium term, due to a welcome expansion in investments for the *Road Maintenance Plan* (5 percent of 2024 GDP), staggered across several years respecting capacity constraints on the island and credit financed by the Netherlands. Over the medium to longer term, budgets would have to absorb ENNIA related payments of 0.4 percent of GDP, mounting deficits from pension and health funds of around 8 percent of GDP (in the absence of reforms), and possible adaptation costs to protect against sea level rise (Annex III). Under the baseline, with moderate assumptions on health and pension deficits and excluding adaptation costs, staff expects debt to decline from 65 percent of GDP in 2024 to 54 percent of GDP in 2029.

[4] Job creation in the lower-income segment can also partially explain the divergence between social security contributions and wage taxes, as the latter are only charged above a certain income bracket.

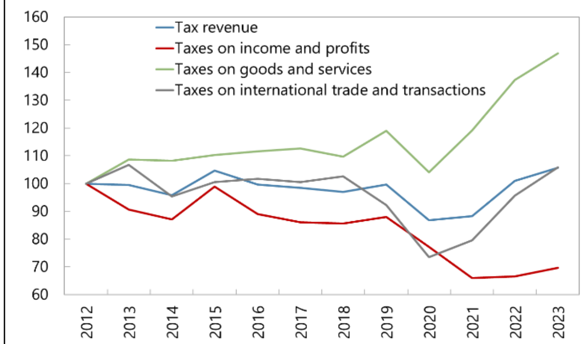
[5] Hotel capacity is expected to expand by 47.1 percent between 2023 and 2026.

Recent Fiscal Developments, 2020-23
(Percent of GDP)

	2021	2021 2022 IV	2022	2023 Prel.
Revenue	30.6	31.0	31.8	30.0
Tax revenue	27.8	28.7	29.4	27.5
Grants and other	2.8	2.3	2.4	2.5
Expenditure	40.6	33.5	30.8	28.7
Current expenditure	41.2	32.9	31.1	29.4
Compensation of labor	12.0	11.4	10.5	9.5
Goods and services	4.3	4.3	4.1	4.1
Interest	1.4	1.4	1.2	1.2
Other expense	23.6		15.3	14.6
Capital expenditure	-0.6	0.6	-0.2	-0.7
Primary fiscal balance	-8.8	-1.2	2.0	2.5
Overall fiscal balance	-10.0	-2.5	1.0	1.3
Net operating balance (authorities' definition)	-7.4	-2.2	1.0	0.6

Sources: Curaçao authorities; and IMF staff estimates.

Real Revenue by Type, 2012-2023
(Index, 2012 =100)



Sources: Curaçao authorities and IMF staff calculations.

10. The current account deficit is expected to improve in the medium term but would remain elevated. A positive tourism outlook and a projected moderation of energy prices and construction activity, whose upticks contributed to raising the CAD in the post-pandemic years, would lead to an important current account improvement in the medium term, with the CAD stabilizing at around 13 percent of GDP. This includes the expansion of electricity generation through additional onshore windmills in 2024, which would reduce Curaçao's energy dependence on fuel imports by lowering the latter by an estimated 0.6 percent of GDP per year. Foreign direct investment inflows and decumulation of foreign assets are expected to continue financing the structurally high CAD, though this would imply a rapid deterioration of the NIIP, with the NIIP turning negative in 2029. The persistent trade deficit may have been overstated before the closure of the refinery in 2019 due to incomplete accounting of related exports, explaining the absence of pressures on the fixed exchange rate regime up to then. However, continued high trade deficits as in recent years, which can broadly be corroborated using trade partners flows, could lead to mounting concerns about external sustainability going forward.

11. Risks to the outlook are broadly balanced (Annex IV). A growth slowdown in major economies, including due to supply disruptions and tight monetary policy, could adversely impact tourism arrivals and receipts, while positive growth surprises from monetary easing, productivity gains from Artificial Intelligence, and/or strong performance of large EMDEs could boost external demand for tourism. An intensification of regional conflicts and worsening geopolitical fragmentation could disrupt supply chains, raise import prices, and hamper FDI and remittance flows. Upside domestic risks include a successful expansion in renewable energy, including progress on the floating wind park and green hydrogen production; additional high end accommodation capacity; and earlier than expected expansion in yachting marinas. On the downside, delays in public investment would weigh on growth, while higher-than-expected core inflation fueled by tourist spending on services could dent competitiveness. Buffers include access to favorable refinancing conditions from the Netherlands, subject to compliance with the fiscal rule.

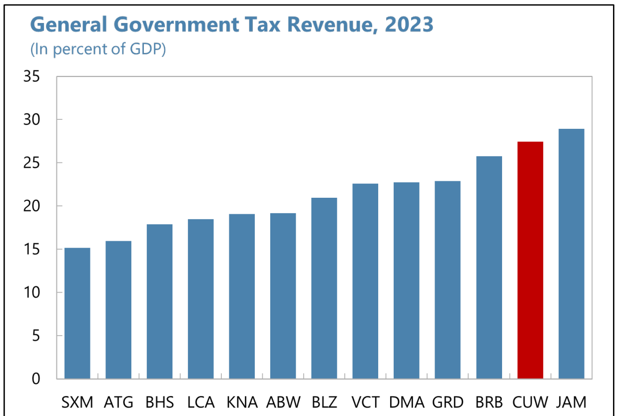
Authorities' Views

12. The authorities broadly agreed with staff on the near-term outlook and expected a more sustained momentum for the medium-term. They saw growth in 2024 driven by additional airlift and hotel capacity as the economy continues to shift to a tourism based economic model, also supported by strong construction activity. Planned investments in infrastructure and high-end hotels coupled with destination marketing were expected to attract more high-end tourists to the island. In the medium term, the authorities saw real GDP growth between 2 and 3 percent, boosted by renewable energy projects and a possible rebound of refinery activities. The authorities noted that headline inflation would gradually continue its downward trend and broadly agreed with the drivers of still-elevated core inflation, including tight labor market segments and a positive output gap. While acknowledging headwinds from the uncertainty around global developments, the authorities viewed domestic risks as being tilted to the upside. Possible growth surprises from Curaçao's rapidly growing tourism industry and renewable energy would outweigh downside risks, which include delays in reform implementation, bottlenecks in tourism infrastructure, and a less benign assessment by CFATF on Curaçao's AML/CFT framework.

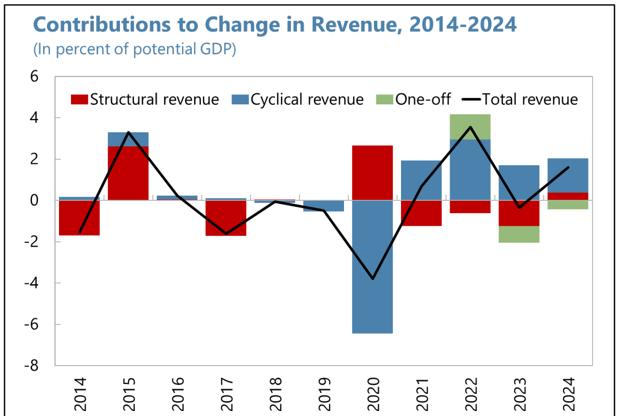
D. Policy Discussions

Safeguarding Fiscal Space and Managing Medium-Term Spending Pressures

13. Efforts to safeguard recently created fiscal space are welcome. Overall surpluses in 2022 and 2023 helped reduce debt to GDP from a high of 90.3 percent of GDP in 2021 to 70.8 percent of GDP in 2023, mainly through early redemptions and clearance of domestic arrears which declined to 2 percent from over 5 percent of GDP in 2022. In addition, conditional on compliance with the fiscal rule, Curaçao has access to favorable financing terms from the Netherlands, which grants the island substantial fiscal space, notably for capital spending and in case of an emergency. However, as the authorities drive public debt towards their medium-term target of 55 percent, while abiding by the zero net operating balance rule and safeguarding service delivery, improvements in revenue collection to compensate for falling personal income taxes and streamlining expenditures to create space for priority spending are warranted. In the near term, this could balance the following considerations:



Sources: Curaçao authorities and IMF staff calculations.



Sources: Curaçao authorities and IMF staff calculations.

- **Further administrative improvements could help boost revenue collection, complemented by the envisaged tax reform aimed at rebalancing direct and indirect taxation.** Recent improvements in tax administration through audits, recruitment of new staff, and institutional strengthening, also guided by TADAT assessments, are commendable albeit materialization of higher structural revenues could take more time. Staff estimates that structural revenues as a share of potential GDP declined by 1 percent on average during 2021–23, while cyclical revenues came in strongly (complemented by one-offs in 2022). A modest rebound of 0.4 percent of potential GDP of the structural component is expected for 2024. The envisaged tax reform, including the possible introduction of a value added tax, could further improve efficiency and equity, modernize the tax system, and compensate for personal income tax shortfalls, while weighing efforts against a relatively high tax burden compared with peers. [6] Gaming licenses under the new law, to be finalized in 2024, are expected to generate 0.2-0.5 percent of GDP annually.

- **A review of goods and services expenses, as suggested in the *landspakket,* could generate savings, and help address domestic arrears, complemented by streamlining transfers to public entities**. Centralizing and harmonizing the procurement of goods and services would generate important savings and further disincentivize Ministries from procuring without purchase orders and outside of the financial management system, which contributed to the significant arrears accumulation in 2022 and, to a smaller extent, in 2023. Transfers to SOEs (2.4 percent of GDP) should be systematically scrutinized, in particular as the government's shareholder role for all SOEs is highly fragmented, with no focal point to ascertain budgetary impact of likely fiscal risks, and weak fiscal risk monitoring.[7] Key actions should include clarifying monitoring and supervisory responsibilities between parent Ministries and the Ministry of Finance; instituting quarterly reporting by SOEs to both parent Ministries and the Ministry of Finance; and developing within the Ministry of Finance a fiscal function with initial focus on SOEs.

- **Wage increases to overcome capacity constraints are welcome but need to be balanced against preserving fiscal space**. Pandemic-era public wage cuts have helped contain fiscal pressures, but some unwinding is needed to attract personnel, particularly as the sizable 2023 under-execution was related to difficulties in hiring and retaining skilled labor. The 2024 budget foresees fully unwinding the pandemic freezes, raising the wage bill to 10.4 percent of GDP (still below pre-pandemic levels), and introducing indexation to preserve real public wages. Measures to overcome capacity constraints are welcome but need to be balanced against preserving fiscal space. Consideration should be given to a smaller and gradual increase (vs. planned 1.1 percent of GDP), in particular against the backdrop of a sizable procyclical fiscal expansion in 2024.

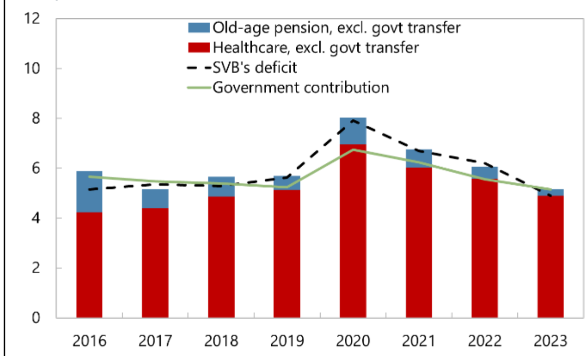
14. Healthcare and pension reforms are urgently needed to lock in a sustainable expenditure path and mitigate medium-term fiscal risks. In 2023, the government transferred 5.2 percent of GDP to the Social Insurance Bank (SVB), of which over 90 percent for basic health

[6] Plans for a tax reform after the 2025 elections are currently being prepared, supported by IMF technical assistance in July 2024.

[7] Technical Assistance on Managing Emerging Fiscal Risks, IMF October 2020.

insurance, and 0.3 percent of GDP to the Curaçao Medical Center (CMC). These transfers correspond to one fifth of the government's total expenses yet fail to cover SVB and CMC deficits in most years. As a consequence, both the SVB's legal reserves and the swing funds (precautionary reserves) have fallen below their required thresholds and the CMC has accumulated 3.5 percent of GDP in arrears.[8] Given fundamental demographic changes, including aging and emigration of younger Curaçaoans, spending pressures on both healthcare and pensions are poised to rise in the medium-term (Annex V).

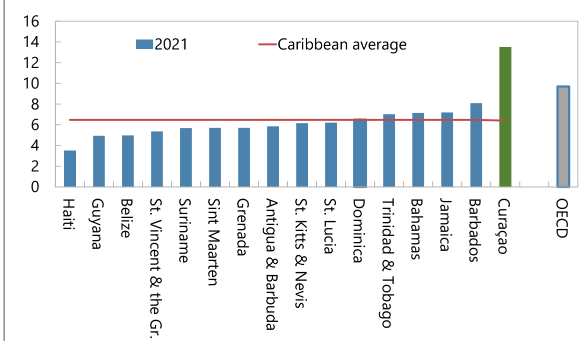
SVB's Deficits and Government Contribution, 2016-2023
(In percent of GDP)



Sources: The authorities and IMF staff calculations.

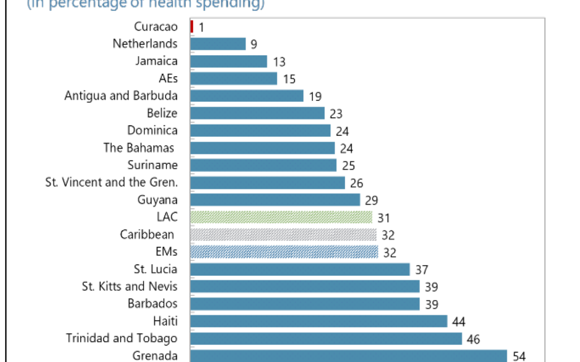
- **Health**. Curaçao's health care expenses, around 13 percent of GDP, stand out relative to regional peers and surpass the OECD average. The aging population will exert further pressure on health costs and staff expects the deficit of the SVB healthcare fund to rise to 5 ¾ (7 ½) percent of GDP by 2029 (2040), absent wide-ranging reforms in the sector. Recent initiatives to incentivize the use of generics and expand primary care and triage prior to hospital admission are commendable, and more needs to be done to put the system on a sustainable path. A wide set of reform options has already been identified by various stakeholders, with challenging implementation decisions ahead. Given per capita health expense significantly above peers, notably on curative care, staff sees important efficiency gains on the spending side. These include additional volume and price measures for pharmaceuticals, further expansion of primary care to contain hospital visits, re-evaluation of laboratory service tariffs, and improvements in preventive care and in the operations of the Curaçao Medical Center. Revenue side reform options would imply a deeper revamp of the health system and include a broadening of the contributor base, including working migrants and

Current Health Expenditure, Latest Available
(In percent of GDP)



Sources: IMF staff calculations, and WHO's Global Health Expenditure database.

Out-of-pocket Spending by Country
(In percentage of health spending)



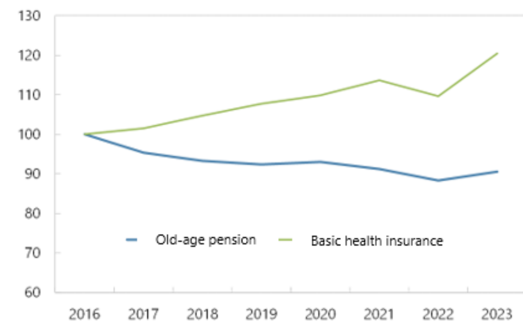
Sources: PAHO and IMF staff calculations.

[8] The CMC has been making losses equivalent to 1 percent of GDP per year since it was opened in 2019.

dependents, increasing co-payments,[9] allowing for price differentiation for privately insured (as practiced with patients from neighboring islands), exploring options to charge for add-on services, with a possible secondary, private insurance market for these services, and expanding the potential in medical tourism (Annex VI).

- **Pensions**. The old-age pension system has been making losses of about ½ percent of GDP per year since 2016, broadly financed by government transfers, and despite a decline in real per capita benefits by 10 percent between 2016 and 2022. Assuming benefits to increase with inflation and given population growth among the 65 and older, staff estimates the old-age pension deficit to widen to around 1 percent of GDP by 2029, in line with the authorities estimate. The authorities' considerations on raising the pension age from 65 to 67 and linking future increases to life expectancy are welcome. Continued expansion in employment and broadening the contributor base would further help closing the gap.

Old-Age Pension and Basic Health Benefits, 2016-2023
(Average monthly per capita real benefits index, 2016=100)



Sources: The authorities, and IMF staff projections.

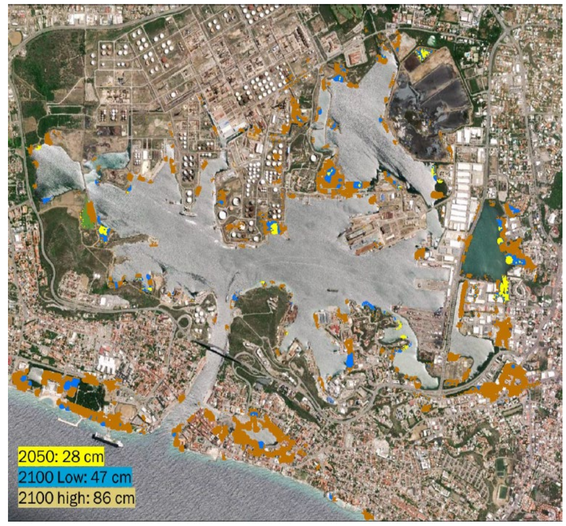
- **Government contribution and SVB deficits**. The authorities' projections reflect a constant transfer to SVB in real terms, despite rising SVB deficits. This would generate a gap of close to 2 percent of GDP by 2029, to be financed out of remaining SVB reserves. To narrow the gap to ½ percent of GDP under the baseline and preserve the SVB's legal reserves and swing funds, staff factors in higher government contributions (4.5 percent of GDP) and lower SVB deficits—assuming reforms will be passed and arrears with the hospital settled.

15. Further improvements to the medium-term budget framework will be important for fiscal risk monitoring and mitigation. In 2023, the authorities adopted a medium-term debt anchor of 50-55 percent of GDP, which is welcome by staff. The next step would be to operationalize the debt anchor with corresponding (and published) multi-year general government budget balance targets and medium-term budget forecasting. It should also comply with the framework's current anchor of a net operational balance, with sanction mechanisms tied to this metric's annual performance. Developing a debt management strategy could complement efforts to operationalize the target and avoid volatile arrears build-up and redemption. As proposed in the *landspakket*, the authorities have recently adopted a roadmap to achieve unqualified budget audits by 2026.[10]

[9] Expansion of out-of-pocket contributions would also constitute a measure to reduce health spending, as it usually incentivizes a more prudent use of resources.

[10] The roadmap to an unqualified auditor's report of the budget seeks to address audit disclaimers and qualifications in the past, including filling of vacant finance positions in the government, ensuring accuracy of numbers, and assigning proper valuation of assets.

Permanently Flooded Areas of Willemstad Port By Emission Scenario



Source: Kelder et al. (2022), Climate Risk Assessment Roadmap Report, Curacao Ports Authority, Figure 16, p. 18.
Notes: Yellow represents flooded area by 2050 under high emissions scenario. Blue and tanned represent flooded areas by 2100 under low emission and high emission climate scenarios, corresponding to the SSP1-1.9 and the SSP5-8.5 scenarios, respectively, that were created by the IPCC (6th report).

16. Making space for adaptation investments could effectively lower damage from sea level rise. Even with strong international efforts to keep the global temperature increase in line with the Paris Agreement goals, sea levels will continue to rise, with an estimated 0.7 m in 2100 with respect to the year 2000 under a moderate 2°C emission scenario (RCP 2.6). Such rise would imply that parts of Curaçao's coastline are permanently flooded whereas others are exposed to storm surges. Using a model of sea-level rise impacts and adaptation costs, IMF staff estimate that the cost of SLR can be equal to 3.3 percent of GDP annually on average during the century, without adaptation.[11] In the case of Curaçao such adaptation is feasible, and effective coastline protection can prevent inundation and relocation costs. Annual public investment needs are estimated to equal approximately 0.6 percent of GDP, on average until the end of the century (2099). More granular analysis is necessary to exactly determine the optimal adaptation mix, and cost-benefit analysis can play a significant role (Annex III).

Authorities' Views

17. The authorities reaffirmed their commitment to the fiscal rule and broadly concurred with measures to address sustainability concerns in health and pension systems. The authorities emphasized that the strong surpluses during the past two years helped build up liquidity buffers. They noted that fiscal policy is turning pro-cyclical in 2024 but underscored the need to unwind pandemic wage cuts to restore competitiveness, highlighting resistance to a more gradual approach. The authorities viewed their efforts in improving revenue collection through administrative reforms as bearing fruits, to be complemented by a tax review and VAT reform in the coming years. They noted that, in line with the *landspakket*, measures towards harmonizing the procurement of goods and services and achieving unqualified audits are in train. The authorities agreed on growing challenges for health and pension funds from demographic change, took note of staff's recommendation on increasing the pension age, and strongly welcomed the health sector diagnostics. The authorities concurred that

[11] These estimates are somewhat lower than the ones derived in Annex VII of the Article IV 2023, as the focus of the two studies is slightly different. The latter considers a general equilibrium model that studies the long-run macro effects based on different land depletion assumptions. This study is based on a global optimization model for cost-benefit analysis of adaptation. It calibrates the Coastal Impact and Adaptation Model (CIAM) by Diaz 2016, which leverages worldwide information on coastlines, further divided into areas of different elevation. For each coastline segment, the model has data on capital, population, and wetland coverage at different elevations. By using projections of local sea-level rise from Kopp et al. (2014), it is possible to estimate the areas that will be inundated and the amount of capital and population at risk.

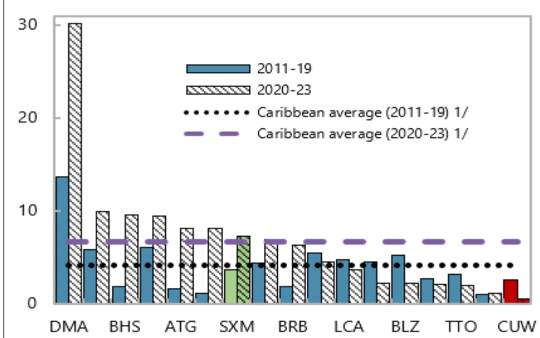
significant efficiency gains could be achieved on the spending side, including by lowering pharmaceuticals and laboratory costs and enhancing primary care, but underscored that reforms on the revenue side, notably increasing co-payments, are politically more difficult. The authorities concurred that operationalizing the recently adopted debt anchor would help entrench medium-term fiscal planning and create space for priority investment, including for climate adaptation. They agreed with the need for such investments to protect against sea level rise but noted that these remain outside the planning horizon.

Reinvigorating Potential Towards a Diversified Tourism Economy

18. Curaçao has only recently exited a decade of negative growth, recovering from deep structural changes. The decline of the country's offshore financial sector and the closure of the oil refinery led to negative potential growth for a sustained period, arrested only by the recent boom in tourism. Sustaining the positive momentum and raising potential growth requires reforms and investments across four pillars: increasing value added from tourism, seizing opportunities in renewable energy, strengthening formal labor markets, and improving the business climate.

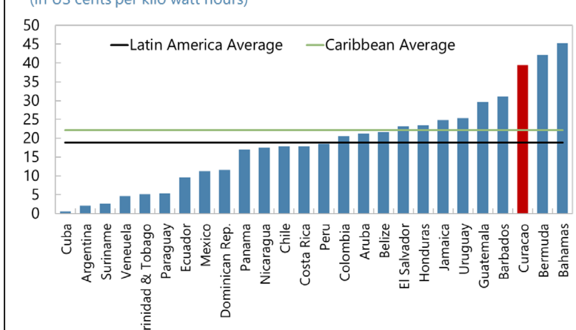
19. Improving tourist experiences and investing in infrastructure would help boost value added from tourism. Curaçao's tourism sector is among the highest contributors to GDP growth, adding 1.8 percentage points to real GDP growth on average since the pandemic, without accounting for spillovers to other sectors such as transportation and construction.[12] Estimates by the World Travel and Tourism Council show that tourism directly and indirectly employed 12.6 percent of total employment in 2022. To mitigate future capacity constraints—notwithstanding a still moderate carrying factor—efforts should be directed towards moving up the value chain via high-end resorts and complementary recreational attractions that would increase daily spending of both overnight guests as well as cruise tourists (which spend relatively less in Curaçao than in other destinations). For instance, guided by the *National Export Strategy*, three new marinas are currently under construction to boost yachting.[13] Improving tourist experiences would also require investments in adequate infrastructure to

Public Investment, 2011-2023
(Percent of GDP)



Sources: National Authorities; WEO database and IMF staff estimates.

Electricity Prices for Households in September 2023
(In US cents per kilo watt hours)



Sources: Global Petrol Prices Website, Bureau Telecommunicatie en Post and IMF staff calculations.

[12] Tourism satellite accounts are not available for Curaçao.

[13] Curaçao's geographical location outside the hurricane belt lends itself to hosting boats during the hurricane season from other Caribbean islands within the belt.

allow for timely ground transportation and adjustments to regulatory frameworks to absorb the influx in tourists, including the heavily regulated transportation sector where the number of taxi and tourist bus licenses has been held constant since 1992.

20. Seizing opportunities from renewable energy would lift growth while reducing the island's carbon footprint. Curaçao has one of the highest electricity prices in the region and uses imported fuel to generate a significant share of its energy. A successful energy transition has the potential to lower both electricity prices and current account deficits, while improving the carbon footprint and stimulating growth.[14] Renewable electricity generation has expanded since 2000, and a new wind farm (Koral Tabaak), operational by the end of 2024, would lift the share of renewable electricity generation to 50 percent. A planned solar park and upgrades to older wind parks would further increase the share to 70 percent by 2027. To reach the goals of the *National Energy Policy*, more investment in grid and storage capacity is needed as well as a revised pricing strategy to better incentivize decentralized solar production and eliminate cross-subsidies between household and commercial tariffs. Renewing the island's energy policy (a *landspakket* recommendation) could create further momentum. The envisaged floating offshore wind park of 5–10 GW for hydrogen production would be a game changer for the island, eliminating net imports of fuel in the ballpark of 17 percent of GDP (if accompanied by the electrification of the transport sector) and open new export sources (Box 3).

21. Boosting public investment to achieve the above growth pillars requires ramping up capacity in public investment management. Public investment was close to Caribbean averages before the pandemic but has fallen back significantly. Capacity in planning and execution must be addressed to administer the needed increase of 2-3 percent of GDP in the coming years. A centralized investment planning unit to lead in the appraisal of projects would be essential to create a pipeline of projects across sectors and build absorption capacity. Given ample domestic liquidity, such a pipeline would also enable crowding-in private capital, as also successfully proven by the recent investment in the Koral Tabaak onshore windfarm.[15]

22. Strengthening formal labor markets and skills would help offset a negative growth contribution from the projected population decline. Recent positive trends in employment have successfully offset worsening demographics and emigration—this is even more remarkable against the backdrop of continuously declining population since 2016. Underlying compositional shifts, however, suggest that emigration of the educated youth has left Curaçao's pre-retirement work force with higher average skills than its youth. Data from the 2023 census show that education levels of new entrants to the labor force (aged 25–34 years) are below the levels of the pre-retirement cohort (aged 55–64 years), and young employees tend to work in more precarious positions, often with contracts of less than 1 year or without contracts. Going forward, labor market policies should

[14] Wind power on the island is currently remunerated at around USD 9 cents/KWh, while fuel-generated electricity costs more than double and is highly volatile.

[15] The joint project between Aqualectra and NuCapital Aspiravi, with an investment of NAf 110 million, was mostly financed through a loan by the civil servants pension fund APC.

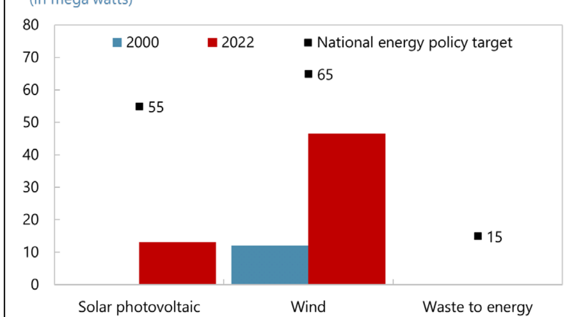
be targeted towards mobilizing the underemployed and attracting graduates back to the island, and consideration could be given to integrating migrants into the formal labor market. Ongoing and

Box 3. Curaçao's Carbon Footprint and Investments in Renewables

Energy consumption in Curaçao remains highly dependent on imported oil products, lagging regional peers and causing carbon emissions. While emissions have decreased considerably to almost one third of their level in 2000 thanks to the closing of the oil refinery, they remain elevated in per capita terms and the share of oil products in total energy consumption remains high. Between 2012 and 2021, both the residential and industrial sectors increased their dependency on electricity, but the transportation sector remains fully oil-dependent, in particular on heavy fuel and diesel.

Meanwhile, investments in renewable energy increased steadily, significantly expanding wind and solar electricity generation. The share of electricity generation attributed to on-grid renewable resources has reached 23 percent of total generation capacity, driven by onshore wind turbines. The Koraal Tabak wind park would expand renewables generation to 50 percent of total production by end 2024 reaching the national target for wind energy ahead of time. An additional solar park and retrofitting older wind parks would lift the renewables share to 70 percent by 2027. More investments are needed to keep up with increasing demand, particularly from the influx of tourists. In 2023, electricity generation grew by 9.4 percent annually, the highest on record, but the island witnessed three major blackouts in the same year. Plans to address peak demand, notably during the low-wind season, include additional fuel-based generators—which could eventually be powered by greener energy sources.

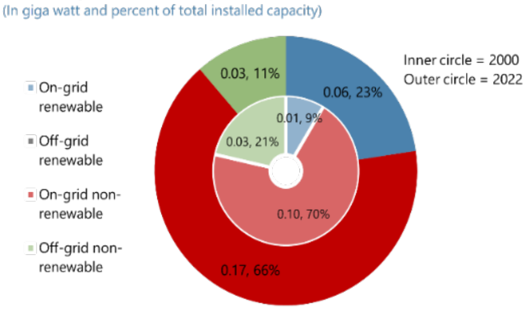
Renewable Energy, Installed Capacity vs. Targets
(In mega watts)



Sources: International Renewable Energy Agenxy, National Energy Policy (2018 and IMF staff calculations.

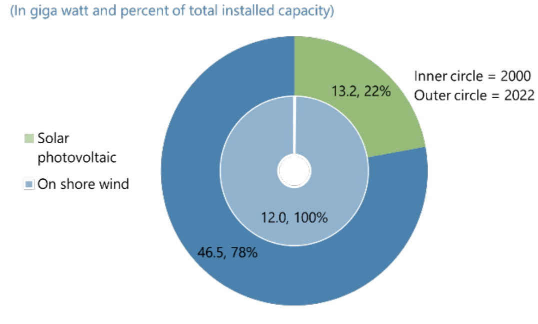
The envisaged floating offshore wind park for hydrogen production with a capacity of 5 to10 GW would be a game changer for the island. The wind park would make Curaçao's electricity generation (currently around 0.3 GW) fully renewable and power the production of green hydrogen for exportation. Overseen by a ministerial steering committee comprising several ministries as well as state owned companies, the project's first phase (feasibility and exploration, including mapping the seabed) has been successfully completed and financing for the second phase (research) has been secured. Electricity production of 72 MW is envisaged to start in 2027, scaling up to 600 MW by 2032 and reaching full capacity of up to 10 GW by 2037. Staff estimates that adding 1 GW to the grid could lead to additional GDP growth of 0.5 percent annually.

Electricity Generation by Source
(In giga watt and percent of total installed capacity)



Sources: International Renewable Energy Agency and IMF Staff calculations.

Renewable On-grid Electricity Generation Capacity
(In giga watt and percent of total installed capacity)

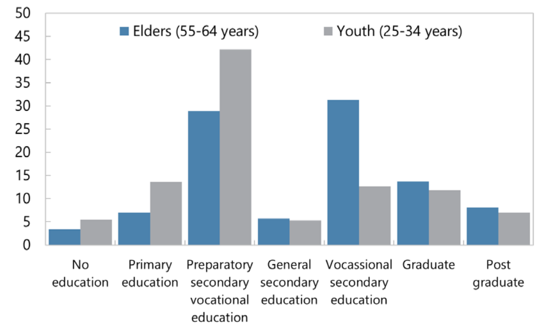


Sources: International Renewable Energy Agency and IMF Staff calculations.

planned investments in education (digital and physical infrastructure) are very welcome and should include vocational training to lift the overall skill level and reduce skill mismatches in the labor market, such as the labor force training programs related to the tourism and recycling sectors. Progress on related reform targets by the *landspakket* on combating the informal sector, improving educational quality, and better linking the education system to the labor force could be accelerated.

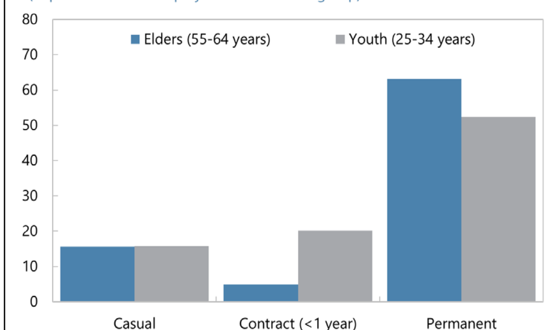
23. Further improving the business climate could help overcome decade-low productivity growth. Total factor productivity declined at 1 percent per year between 2010 and 2019. Productivity-enhancing measures are essential to achieving sustainable medium-term growth and diversification and targets are well-specified in the *landspakket's* economic reform pillar. Building on recent successful reforms to expedite business permits and promote digitalization, regulation could further be streamlined to reduce red tape, and address sectoral bottlenecks to enhance productivity, in particular in non-tourism sectors.

Selected Age Groups and Education Attainment in 2023
(In percent of total age group within the population not attending day school)



Sources: Curaçao Bureau of Statistics and IMF staff calculations.

Employment Classification by Select Age Groups
(In percent of total employment within each group)



Sources: Curaçao Bureau of Statistics and IMF staff calculations.

24. The authorities' commitment to lower corruption vulnerabilities and strengthen the AML/CFT regime is welcome. Increasing cross-border financial flows, the ongoing expansion of the gaming industry, as well as continued listing on the European Union's list of non-cooperative jurisdictions for tax purposes pose significant ML/TF and related reputational risks. Against this backdrop, the Council of Ministers agreed to initiate the ratification of the UN Convention against corruption.[16] The authorities, supported by IMF technical assistance, also continued developing capacity for analyzing ML/TF risks from cross-border payments for risk-based AML/CFT supervision and Financial Intelligence Unit operations, including to prepare for the 2024 mutual evaluation by the Caribbean Financial Action Task Force (CFATF). The new online gaming law, currently debated in parliament, would regulate the licensing process more stringently and support better monitoring of the sector through a reformed and expanded Gaming Control Board, an important step towards meeting the *landspakket's* rule of law target. The enactment of a new law to enable automatic information exchange for tax purposes with the OECD represents an important stride for Curaçao to be removed from the EU grey list of non-cooperative jurisdictions.

[16] The Government of the Kingdom of the Netherlands notified the Secretary-General of the United Nations in June 2024 that the Convention would apply to Curacao.

Authorities' Views

25. Ministries concurred with staff's proposals to boost medium-term growth. They viewed increasing value added in tourism as essential to the National Export Strategy, highlighting recent success in attracting high-end hotel chains and constructing marinas. On renewables, the authorities confirmed that a new onshore wind farm would lift the renewable share of electricity to 50 percent by end 2024, meeting the National Energy Policy's objectives, and additional solar and wind projects, complemented by storage facilities, are in the pipeline. They saw the large-scale offshore wind park for hydrogen production on track, as evidenced by the recent financing agreement for the second phase. The authorities emphasized the need to expand public investments gradually given binding capacity constraints. The authorities agreed with staff on the challenges posed by recent trends in the labor force, including emigration and the expansion of lower-skilled informal labor, and highlighted investments in education (physical and digital infrastructure), and initiatives to expedite high-skilled work permits. They confirmed their commitment to continue with landspakket reforms to improve the business environment. The authorities underscored that recent initiatives have significantly improved governance and the AML/CFT environment, including the new online gaming draft law; further improvements in risk-based financial supervision; the creation of the National Committee AML/CFT/CFP for enhanced coordination and monitoring; and legislation necessary to remove Curaçao from the EU grey list of non-cooperative tax jurisdictions.

Developing Capacity and Improving the Data Framework

26. Data quality and timely availability have some shortcomings that somewhat hamper surveillance and remain important challenges (Annex VII). The Central Bureau of Statistics publishes annual GDP by production estimates on a regular basis, but granularity, frequency, and timeliness are lagging behind relevant benchmarks. A more recent base year as well as accompanying supply-use tables would further enhance data quality and consistency. The recent initiative of a roadmap to establish tourism satellite accounts is welcome, given the increasing footprint of tourism in the economy. While BOP statistics have significantly improved through expanding staffing, training, and reporter coverage, the IIP data continues to face challenges, including untimely survey responses, and large stock-flow inconsistencies, and has not been provided since 2021. Similarly, fiscal data is not compiled in GFSM format, available only with significant delays and not published. While price and monetary data are broadly adequate for surveillance, and financial sector indicators are shared with relatively long delays. Continued digitalization, also building on the *landspakket's* target on government efficiency, and possible use of Artificial Intelligence could help overcome some capacity constraints which are a common feature of small island states.

27. Curaçao received a moderate amount of IMF's TA over the past five years, and there is room to improve traction (Annex VIII). Recent TA has helped improve national accounts (2023), balance of payments (2020), financial sector, and government finance statistics (2019); supported the development of the CBCS's macroeconomic framework; and built capacity in value added tax (VAT) modeling, tax policy review, public financial and investment management, including conducting a tax-gap assessment. Recent capacity development activities at the CBCS were in the areas of reserves management, risk-based supervision, and financial stability. In the near term, the authorities are looking to further build capacity in balance of payments statistics, especially focusing on IIP, external debt statistics, and measurement improvements in trade statistics; improvements in tax and customs administration, including a TADAT assessment; and strengthening financial supervision and regulation. The authorities requested follow up assistance to continue the health sector diagnostics and to develop a VAT.

Authorities' Views

28. The authorities reiterated their intention to improve data provision, welcomed past technical assistance, and expressed interest in further support. The authorities acknowledged significant shortcomings in national accounts data, highlighting understaffing as key constraint, and noted additional resources for developing tourism satellite accounts. For the balance of payments, the authorities recognized challenges with the survey approach and the large stock-flow inconsistencies for several years and welcomed the upcoming TA. The authorities noted staff's recommendation on leveraging digitalization to overcome capacity constraints and reach the *landspakket's* target for government efficiency and emphasized continued revenue administration improvements, including through TADAT assessments. Building on past successes, the central bank viewed IMF assistance as helpful in strengthening financial supervision and regulation.

SINT MAARTEN

A. Context

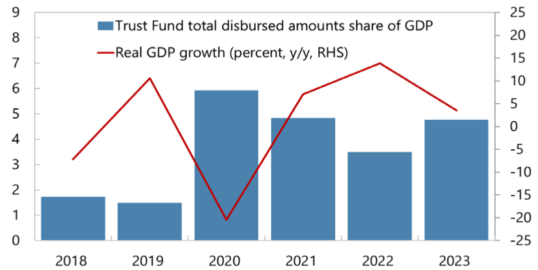
29. The administration of Prime Minister Mercelina collapsed before completing its first month in office, further delaying urgent reforms. Following the parliamentary elections in January, a new coalition government of four political parties was formed in early May. However, within 18 days, one of the members of the coalition withdrew his support, leading to a snap election in August 2024. The economy has fully recovered from the pandemic, but the next government will have to confront long-standing structural challenges, including boosting medium-term growth, restoring the government's competitiveness to recruit and retain talent, and dealing with mounting deficits in the healthcare insurance fund. In the near term, the top policy priority is to restore electricity generation capacity. Reforms would continue to be guided by the *landspakket,* while challenged by a fractioned Parliament.

B. Recent Developments

30. Sint Maarten's economic recovery is well underway, led by a rapid improvement in stayover tourism and vigorous reconstruction activity. GDP growth is estimated at 3.5 percent in 2023, following a sharp rebound of 13.9 percent in 2022. High-frequency indicators point towards healthy growth rates across various sectors, led by stayover tourism and accelerated construction activity on the airport (funded with large disbursements from the Trust Fund, of about 4.7 percent of GDP).[17]

GDP Growth and Trust Fund Disbursments

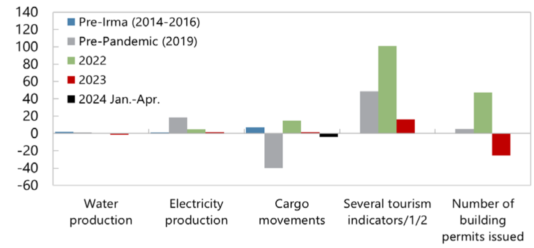
(In percent of nominal GDP unless otherwise stated)



Sources: World Bank Annual Reports titled: Sint Maarten Recovery, Reconstruction and Resilience Trust Fund from 2018 to 2023 and IMF staff calculations.
Note: Disbursement figures for 2018 are for the period of April to December 2018.

High Frequency Indicators

(In percent, y/y)

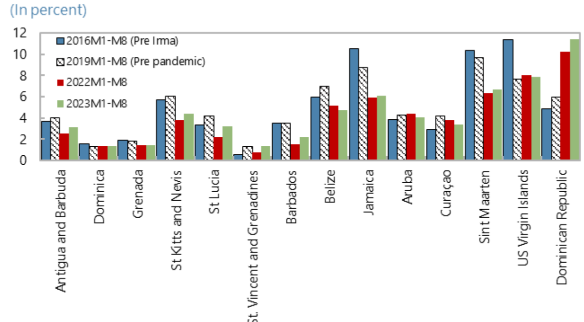


Sources: CBCS and IMF staff calculations.
1/ Average of annual growth of the following indicators stayover tourist arrivals, cruise passengers, number of flight landings at the airport and the number of pax at the airport. Note that data for the latter two for the pre-Irma period stands for 2014 only. 2/ the average for 2024 January to April is for stayover tourists and cruise passengers only.

31. While stayover tourism outperforms regional peers, cruise arrivals remain lackluster. Stayover tourism grew by 6 percent in 2023, outperforming the recovery across the Caribbean, after an outstanding 50 percent growth in 2022. Average spending per tourist is about 19 percent higher in 2023 than the historical average, although the average duration of stay has declined to 7 nights from a historical average of 8 nights.[18] Despite the increase in stayover tourism, the hotel occupancy rate remained unchanged at 65 percent likely due to an increase in short-term rentals (Box 4). The number of cruise passengers, which are about three-times larger than stayover tourists, remain 23 percent below their pre-pandemic level and lagged the recovery in other Caribbean destinations. Cruise passengers' average spending has stagnated (in nominal terms) for a decade.

Share of Total Cruise Passengers in the Caribbean /1

(In percent)



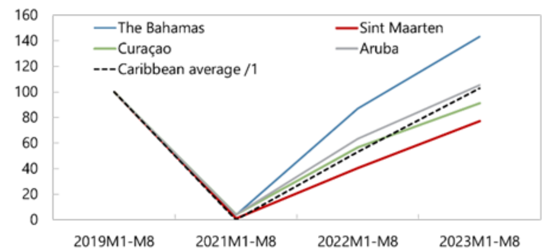
Sources: Caribbean Tourism Board, Statistical Bureaus in the Caribbean, and IMF Staff calculations.
Notes: 1/ The shares are in percent of the total cruise passengers in the above countries in addition to the Bahamas. The latter's shares are 29.8, 30.3, 42.5, and 38.8 percent on average during the first eight months of 2016, 2019, 2022 and 2023, respectively. 2023 data across the Caribbean is available until August 2023. To control for differences between high and low seasons across the islands, the average of the first eight months was also used in the previous years.

32. Daily electricity load shedding began in June, following years of under-investment in power generation, exposing the need for infrastructure upgrade and maintenance. In May and June, three electricity generators, which were operating beyond their designed life span, broke down, lowering the generation capacity to only 70 percent of peak demand. As a result, daily electricity load shedding, extending to several hours, is taking place since June to preserve the remaining generators. This electricity crisis resulted from years of underinvestment and poor maintenance, which endangers short-term growth prospects and investment decisions in the tourism sector until a permanent solution is implemented.

[17] The Sint Maarten Recovery, Reconstruction and Resilience Trust Fund was established to respond to the devastation caused by Hurricane Irma in September 2017. It is fully financed by the Netherlands (for up to 470 million euros, about US $553 million) and managed by the World Bank. The airport departure hall was reopened in late 2023 and the arrival hall will reopen in 2024 Q4.

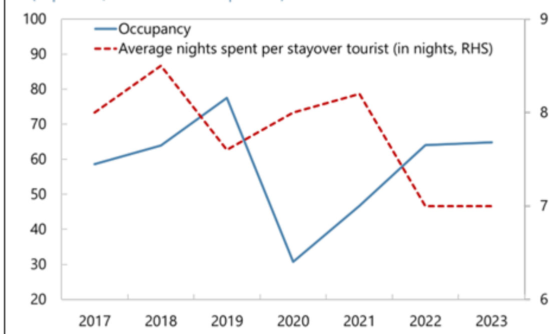
[18] Historical average during 2013–22, excluding hurricanes and pandemic years.

Cruise Passengers in the First 8 Months of Each Year
(Index, 2019 =100)



Sources: Caribbean Tourism Board, Statistical bureaus in the Caribbean.
1/ Average of Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Anguilla, The Bahamas, Barbados, Belize, Guyana, Jamaica, Trinidad and Tobago, Aruba, Curaçao, Sint Maarten, U.S. Virgin Islands, Dominican Republic, Costa Rica, Mexico.

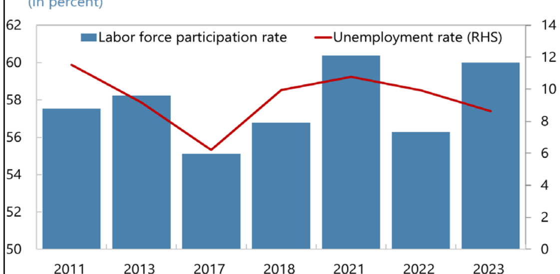
Occupancy Rate and Average Stay per Tourist
(In percent, unless otherwise specified)



Sources: CBCS and IMF staff calculations.

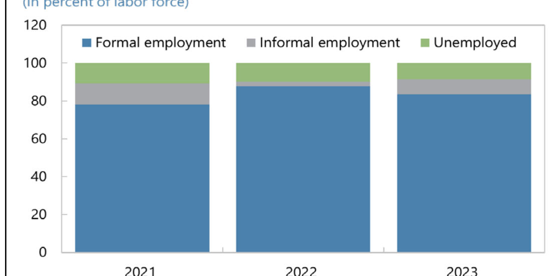
33. Despite the recovery of the unemployment rate to its pre-pandemic level, the formal labor market recovery continues to lag growth. The unemployment rate is estimated to have returned to its pre-pandemic level of 8.6 percent in 2023, from 9.9 percent a year earlier, but still above the pre-Irma rate of 6.2 percent.[19] Employment grew mostly in the informal sector, while formal employment continues to lag growth, remaining 8 percent below its 2019 level.[20] Formal employment is highly sensitive to tourism developments, as the share of employment in tourism-related sectors[21] (54 percent in April 2023) is higher than the weight of those sectors in GDP (44 percent). The sluggish recovery of formal employment could therefore be related to the lackluster behavior of cruise arrivals and to the increasing supply of short-term rentals which have a lower labor demand than hotels (Box 4).

Labor Market Indicators 1/
(In percent)



Sources: Sint Maarten Department of Statistics and IMF Staff calculations.
1/ The 2022 labor force reported in the 2023 Census is adjusted to be consistent with overall population figure.

Labor Force Breakdown 1/
(In percent of labor force)



Sources: Sint Maarten Department of Statistics and IMF staff estimates.
1/ The 2022 labor force reported in the 2023 Census is adjusted to be consistent with overall population figure.

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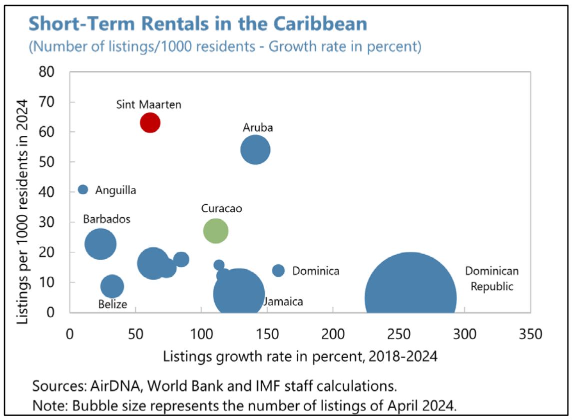
[19] The size of the labor force in the 2023 census was adjusted to ensure consistency with overall population estimate.

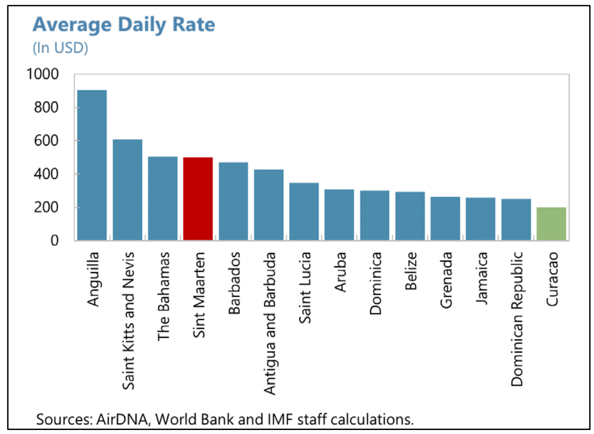
[20] The informal sector is defined as non-insured employees, which can also include part-time jobs.

[21] The tourism-related sectors are accommodation and food services activities, wholesale and retail trade and repair of motor vehicles and motorcycles, transportation and storage, and other services sectors (arts, entertainment and recreation, activities of households as employers and other services activities).

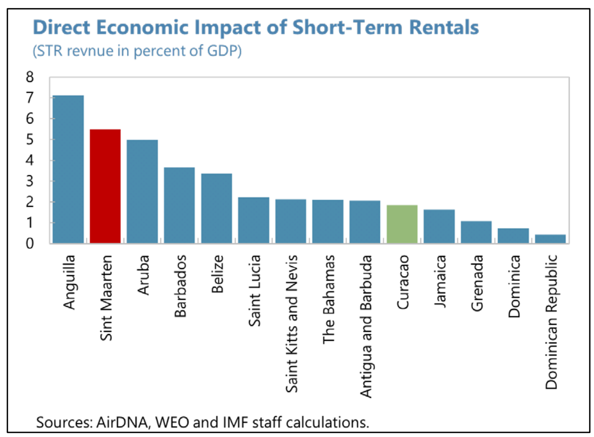
Box 4. Implications of the Rapid Growth of Short-Term Rentals in Sint Maarten 1/

Short-term rentals (STRs) on digital platforms have grown rapidly to rival traditional hotels. The number of STR listings on Airbnb and VRBO (mostly entire-place properties like villas and apartments) have grown by 50 percent since before the pandemic to reach 2,700 listings in 2024, equivalent to two-thirds of the number of hotel rooms (about 3,300). Among Caribbean islands, Sint Maarten appears to be a well-developed STR market, with the highest number of listings (relative to its population). The STR market is more mature in Sint Maarten, with the highest density (listings per resident) and lower growth rate among Caribbean islands. STRs in Sint Maarten also earn a higher average daily rate (ADR) than in most Caribbean peers, suggesting that the composition of listings is skewed towards higher-end villas rather than apartments (while Curaçao has the lowest ADR in the region). The French side of the island has more listings and earns higher ADR but behaves similarly in terms of occupancy and the average length of stay.





Revenues from STRs are sizable (relative to GDP) and represent a relevant source of untapped tax revenues. Total STR revenues in Sint Maarten are estimated to be about 5.5 percent of GDP, the second highest among Caribbean countries. With a lodging tax rate of 5 percent, the revenue potential from STRs could amount to about 0.3 percent of GDP per year. The total tax potential of STRs—including taxes on profits and incomes of hosts, management companies, and cleaning services—is even larger and estimated at 1 percent of GDP.

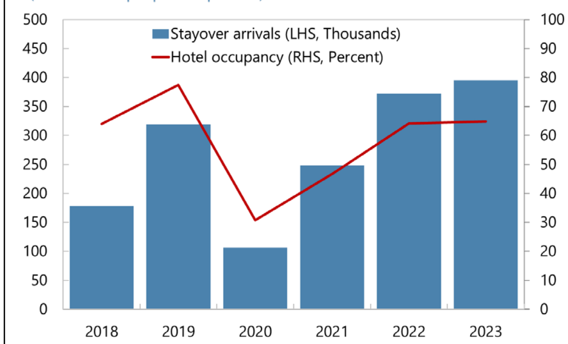


STRs have an unfair tax advantage compared to traditional hotels. Tax collection from short-term rentals is limited due to a lack of arrangement for direct tax collection by platform companies, leading to an unfair tax advantage. This has led to an uninspiring performance of hotels during the post-pandemic travel boom, where more tourist arrivals did not translate into higher occupancy rates. Policies should focus on creating a level playing field between emerging STRs and traditional hotels, ensuring adequate revenue collection as the tourism landscape shifts towards more STRs.

Box 4. Implications of the Rapid Growth of Short-Term Rentals in Sint Maarten 1/ (concluded)

STRs could also negatively impact the labor market as they have a lower labor demand. Unlike traditional hotels, which have a daily room service, STRs only have a one-time cleaning fee for the entire stay and thus have a lower labor demand. The growth of STRs could lead to a lower labor income share in the economy and dampen the tourism benefits for the island. Incipient signs of this phenomenon include the sluggish recovery in employment, the wage bill (as a share of GDP), and income tax receipts, despite a strong post-pandemic recovery.

Stayover Tourists and Occupancy
(thousands of people and percent)

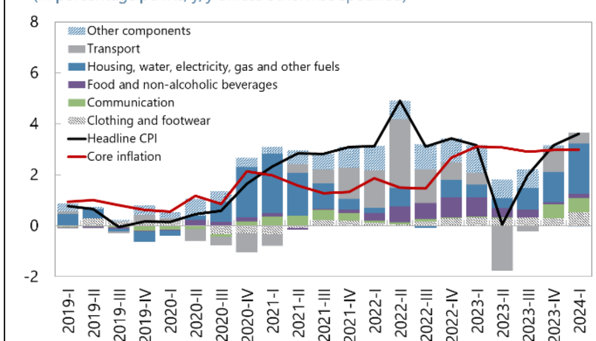


Sources: AirDNA, World Bank and IMF staff calculations.

1/ As detailed listing data is not provided by Airbnb and VRBO, this box uses information from AirDNA, which provides estimates of STRs on these platforms using web-scraping techniques and listing matching algorithms.

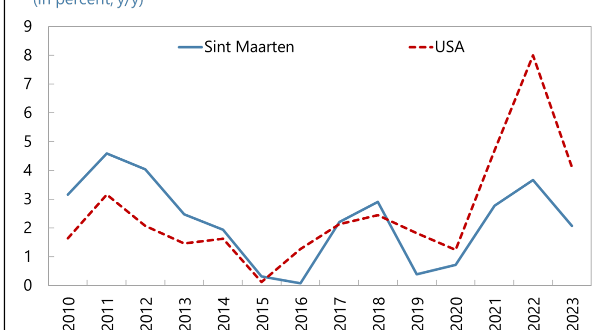
34. **Inflation declined in 2023, in line with the developments in the US and oil price dynamics, but underlying pressures persist in key sub-categories.** Average headline inflation declined to 2.1 percent in 2023, compared to 3.6 percent in 2022. After peaking at 4.9 percent in 2022 Q2, headline inflation rapidly decelerated to zero percent in 2023 Q2, before increasing to 3.6 percent in 2024 Q1. Inflation dynamics were mostly driven by the effect of fuel prices to the transportation sub-category, and the electricity price developments within the housing, and utilities sub-category, both of which mostly follow international oil price developments. Core inflation, which excludes fuel, electricity, and food prices, increased from 1.9 percent in 2022 to 3 percent in 2023 and remained stable in 2024 Q1. The increase was mostly driven by housing and utility prices (excluding electricity) and to a lesser extent clothing and footwear, which more than offset the decline in transportation prices (excluding fuel), reflecting persistent underlying price pressures.

Contribution to Inflation
(In percentage points, y/y unless otherwise specified)



Sources: Sint Marteen Department of Statistics and IMF staff calculations.
1/ Excluding food, electricity and fuel prices.

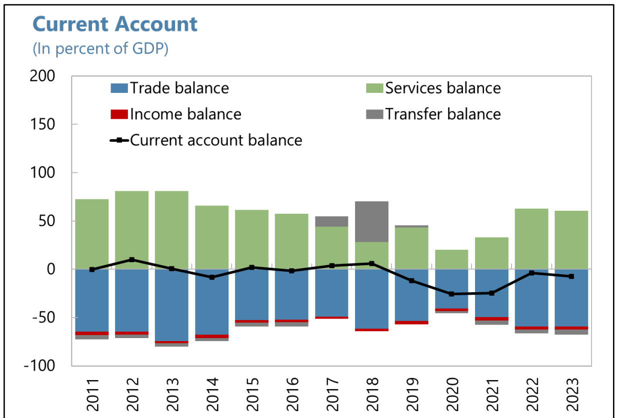
Headline Inflation
(In percent, y/y)



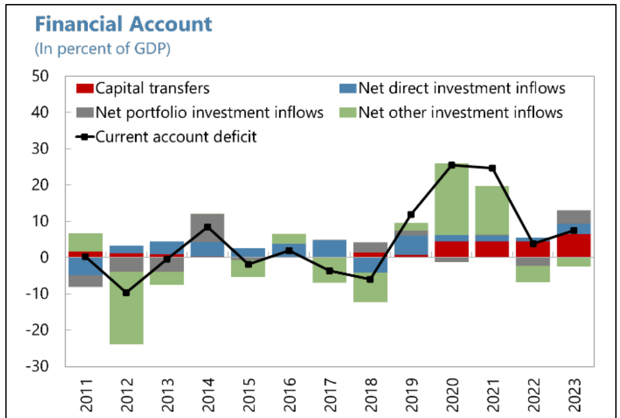
Sources: International Financial Statistics, Sint Maarten Department of Statistics and IMF staff calculations.

35. **The current account deficit worsened in 2023 due to intensified reconstruction activities.** The CAD, which had sharply narrowed to 3.9 percent of GDP in 2022 from double-digit

deficits during the pandemic, worsened to 7.5 percent in 2023. This increase can be attributed to intensified reconstruction activities, as Trust Fund disbursements peaked in 2023, and the import of construction services, which increased by 3 percent of GDP. The CA deterioration was partly mitigated by falling oil prices and higher tourism receipts, though the increase of foreign earnings from tourism (1.1 percent of GDP) was underwhelming given a much stronger growth of tourist arrivals. Robust capital inflows from Trust Fund-related activities, direct investment (mostly in real estates), and government loans for capital expenditures led to a slight increase in reserves despite a larger CAD.



Sources: CBCS and IMF staff calculations.



Sources: CBCS and IMF staff calculations.

36. **The fiscal outturn returned to a surplus in 2023, thanks to stronger revenues and spending under-execution**. The overall fiscal balance improved to a surplus of 1 percent of GDP in 2023, from a deficit of 1.1 percent of GDP in 2022, compliant with the golden fiscal rule. Revenues were 0.5 percent of GDP higher than budgeted, partly due to an accelerated processing of the tax filings backlog and improved collection of tax arrears.[22] The spending on wages and salaries, as well as on goods and services, were 0.2 and 0.4 percent of GDP lower than budgeted, due to the inability to fill public vacancies and the late approval of the budget (which had knock-on effects on procurement). Public investment was 3.2 percentage points of GDP lower than budgeted, due to capacity constraints and the late disbursement of funds.[23] If the government had recruited all the desired

Recent Fiscal Developments
(Percent of GDP)

	2015-19 Average	2022 Act.	2023 Budget	2023 Prel.
Revenue	17.7	16.6	17.7	18.2
Tax revenue	14.7	13.7	14.7	15.2
Other revenue	3.1	2.9	3.0	3.0
Expenditure	**19.5**	**17.7**	**20.7**	**17.2**
Expense	19.1	17.7	17.5	17.2
Compensation of employees	8.8	7.9	7.9	7.7
Goods and services	4.4	4.3	4.6	4.2
Social benefits	1.2	1.2	1.1	1.2
Subsidies	4.1	3.8	3.5	3.6
Interest	0.5	0.5	0.4	0.5
Capital expenditure	0.4	0.1	3.2	0.0
Overall balance	**-1.8**	**-1.1**	**-3.0**	**1.0**
Primary balance	**-1.2**	**-0.6**	**-2.6**	**1.5**

Source: Sint Maarten authorities, and IMF staff calculations.

22 Taxes on profits increased to 1.6 percent of GDP (close to the pre-pandemic high of 1.7 percent of GDP reached in 2016), while wage taxes increased to 5.9 percent of GDP (from 5.4 percent of GDP in 2022).

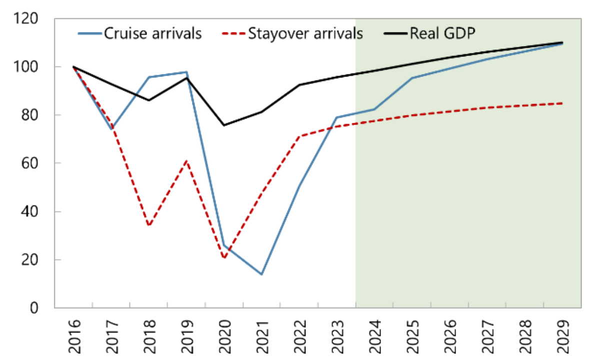
23 A bond to finance public investments from the 2023 Budget for NAf 60.9 million (2 percent of GDP) was issued in November 2023 (fully acquired by the Netherlands). The delay in obtaining the funds was partly due to the late approval of the budget (in April 2023).

positions and cleared all payment obligations, the 2023 overall surplus would only have been 0.2 percent of GDP (compared to the outturn of 0.9 percent of GDP).[24] Notwithstanding the new borrowing for public investment from the Netherlands, public debt marginally declined to 49 percent of GDP on account of robust economic growth.

C. Outlook and Risks

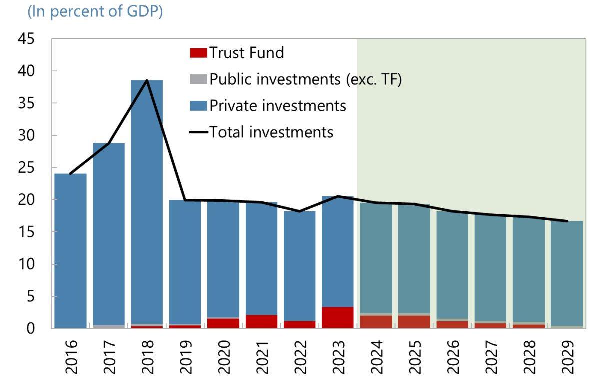
37. Growth would moderate over the medium term as tourism recovery and the reconstruction taper off. Growth is expected to be 2.7 percent in 2024 and 3 percent in 2025, supported by a delayed recovery in cruise passengers towards pre-pandemic levels. However, the near-term outlook is threatened by the electricity load shedding (since June) and political instability. From 2026 onwards, growth is expected to gradually converge towards 1.8 percent over the medium term as the stimulus from the reconstruction peaked in 2023, and tourism growth becomes constrained by the island's carrying capacity and ailing infrastructure, worsened by years of low public investment. Inflation is expected to remain broadly contained while remaining vulnerable to international price developments. Over the medium term, the government will continue to comply with the golden fiscal rule and capacity constraints will continue to weigh on public investment.

Tourists Arrivals and Real GDP
(Index, 2016 =100)



Sources: CBCS and IMF staff estimates.

Investment Outlook
(In percent of GDP)



Sources: CBCS and IMF staff estimates.

38. Risks are broadly balanced (Annex VIII). External risks include an intensification of regional conflicts and/or worsening geopolitical fragmentation that lead to higher prices of energy and traded goods, hampering the timely completion of important infrastructure projects (like the airport and the medical center), while positive developments could support a normalization of international prices. Growth slowdown in major economies, including due to supply disruptions and tight monetary policy, could adversely impact tourism receipts, while growth surprises from monetary easing, productivity gains from AI, and/or strong performance of large EMDEs could boost external demand for tourism. Tighter-than-expected global financial conditions could negatively impact foreign investment and growth. Domestic risks include the possibility of a prolonged energy

[24] The government has also accumulated arrears of 4 percent of GDP with the Social Insurance Bank (SZV), as its contributions are insufficient to cover the healthcare costs of civil servants, justice employees and for those receiving unemployment benefits.

crisis due to delays in repairing broken generators or further failures of aged generators, which would severely disrupt livelihoods, production, and tourism growth prospects. Climate-related shocks could damage the infrastructure and disrupt tourism. A lack of investment in infrastructure and hotels, to adequately serve higher stayover arrivals, could lead to a slowdown in tourism.

D. Policy Issues

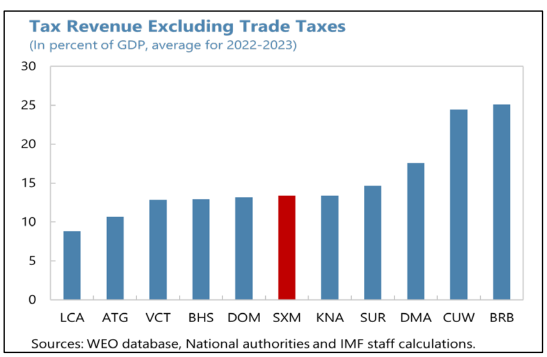
Securing Long-Term Fiscal Sustainability

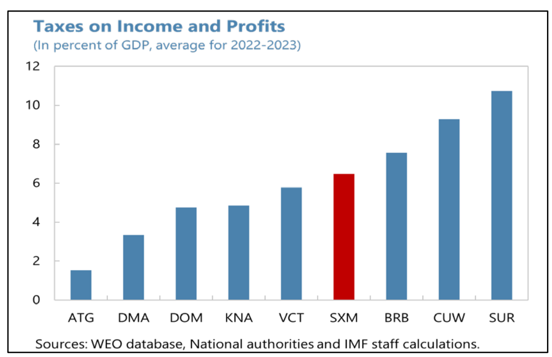
39. A smaller fiscal surplus is expected for 2024, compliant with the fiscal rule, due to lower revenue and higher public investment. Sint Maarten has access to favorable financing terms from the Netherlands, conditional on fiscal discipline[25], which grants the island substantial fiscal space, notably for capital spending. The 2024 budget aims to enhance revenue mobilization, accelerate public investment, and restore civil service competitiveness. The budget increases the spending in wages by 0.7 percent of GDP, due to real wage increases for staff at the Ministry of Justice (following a functional review approved by the Council of Ministers in 2023) and recruitment efforts to fill vacancies. The budget also increases capital spending by 2 percent of GDP, financed with the 2023 capital loans from the Netherlands.[26] However, the wage bill under-execution is likely to continue as recruitment efforts are hindered by uncompetitive wages. The budget also foresees an overly optimistic 6 percent growth and includes revenue measures that may not materialize, such as SOE dividends that have not been firmed up,

2024 Budget against IMF Staff Projections
(Percent of GDP)

	2023	2024	
	Est.	Budget	IMF Proj.
Revenue	**18.2**	**19.5**	**17.9**
Tax	15.2	15.4	14.7
Other	3.0	4.1	3.1
Measures	0.0	0.5	0.0
Expenditure	**17.2**	**21.1**	**17.7**
Expense	17.2	19.0	17.3
Compensation of employees	7.7	8.4	7.7
Other	9.5	10.6	9.6
Capital expenditure	0.0	2.1	0.4
Overall balance	**1.0**	**-1.6**	**0.2**
Primary balance	**1.5**	**-0.7**	**0.9**

Sources: National authorities, and IMF staff estimates.





[25] The authorities can borrow from the Netherlands to finance capital investment if (i) the approved budget meets the golden fiscal rule, and (ii) they meet the interest rule—interest payment on total debt does not exceed 5 percent of average revenue for the past three years. The Netherlands provided grants for reconstruction after Hurricane Irma in 2017 and loans for liquidity during the COVID-19 pandemic.

[26] Planned investments include ICT equipment for the Tax Administration, a new financial management system for the Ministry of Finance, investment in roads, a new market structure, the renovation of public schools, and transport equipment.

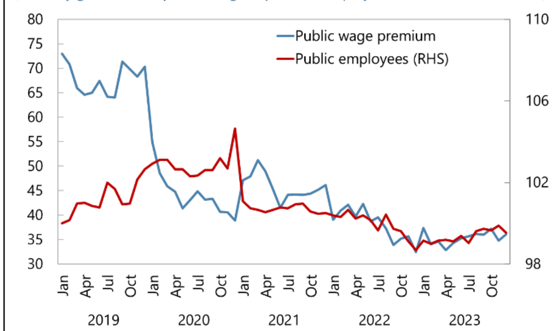
revenue measures that are pending parliamentary approval, and expected yields from revenue administration measures. An upcoming amendment is expected to bring the budget closer to staff's projections.

Box 5. A Challenging Medium-Term Fiscal Outlook

Having returned to a fiscal surplus in 2023, the government should focus on restoring public service delivery and addressing public arrears. Real public wages are 10 percent lower in 2023 than in 2012 due to modest pay increases, which were constrained by unadjusted pay scales. The average public wage premium, compared to the private sector, declined by 37 percent (to 36 percent) between 2019–23. In line with the declining competitiveness of public wages, the number of civil servants declined by 3 percent between 2019 and 2023 (to 12 percent of total employment).[1/]

Public Wage Premium and Employment

(Monthly government/private wage in precent, employment index 2019M1 = 100)



Sources: National authorities and IMF staff calculations.

Ensuring service delivery by filling vacancies while addressing public arrears will require some restraint. The government will need to reduce expenditures by about 0.8 percent of GDP over the medium term to: (i) meet the golden fiscal rule (balancing recurrent expenditure with domestic revenue); (ii) service the pandemic liquidity support loans from the Netherlands;, (iii) restore public employment to the 2020 level; (iv) stay current with its contributions to the Social Insurance Bank; (v) budget for adequate goods and services; and (vi) avoid incurring in public arrears.

1/ Lower public wages make it difficult to attract talent from the Netherlands, as local students tend to remain in Europe upon graduation, due to higher wages and better career prospects.

40. Raising revenues can help abate fiscal pressures. At 14.1 percent of GDP in 2023, Sint Maarten's tax collection is at the median of regional peers, suggesting some room to boost revenues. A 2021 IMF TA suggested that Sint Maarten could boost revenue collection through base broadening, as the structure of the country precludes indirect tax changes with a meaningful yield.[27] Taxing casino's profits, turnover, and winnings is a notable source of untapped revenue as they are currently only subject to a small fee (which constitutes about 3 percent of overall tax revenues). The TA also recommended including gambling winnings in the taxable income of individuals (with a

Summary of Revenue Measures

Recommendation	**Yield estimate** (Percent of GDP)
Impose a 12.5 percent withholding tax on all gambling winnings (to be collected by the casino and remitted by the casino to tax administration). In the case of nonresidents, the withholding tax would be a final withholding tax. In the case of resident taxpayers, the withholding tax would be non-final, with final adjustments made as part of income tax filing.	+
Impose a 5 percent sales tax on short term rentals.	0.5
Impose tourist fee.	0.5
Digitizatize and interface government systems (compare social security and tax filing to improve compliance)	n.a.

Source: National authorities, and IMF staff.

[27] Sint Maarten shares an open border with the French overseas territory of Saint Martin and has been marketed as a duty-free Island since 1939. See Kingdom of the Netherlands—Sint Maarten: Technical Assistance Report—Sustainable Tax Reforms (imf.org)

12.5 percent withholding tax). Enforcing the lodging tax on short-term rentals, and income and profit tax on the proceeds from such rentals, could generate revenues of about 1 percent of GDP. (Box 4). The approval of a tourist fee could generate an additional 0.5 percent of GDP. Revenues could also be increased by enhancing tax administration and by digitizing and interfacing of government systems (for example, by identifying informal workers who pay social premiums but not income taxes).

41. Persistent healthcare deficits are cross financed with pension savings, endangering the sustainability of the system (Box 6). Health premiums and public transfers have been insufficient to cover healthcare costs since 2010, leading to a cumulative deficit of the healthcare insurance funds of about 15 percent of GDP by 2023. More than one-half of the accumulated reserves of the old-age pension fund (about 12 percent of GDP as of 2023) have been used to cross subsidize growing deficits of the healthcare funds, endangering the sustainability of the system. With population aging, and rising healthcare and administrative costs, the financial situation of both healthcare and pension funds will continue to deteriorate.

42. Reforms are urgently required to ensure the sustainability of the Social Security system. Staff simulations signal that both pension and healthcare funds would have deficits by 2027 and that the liquid reserves of the Social Insurance Bank (SZV) would be depleted by 2026. Thereafter the system would become dependent on public support, with government transfers expected to exceed 4 percent of GDP by 2030. The government envisages a set of reforms to preserve sustainability, including (i) the introduction of the new General Health Insurance to expand collection; and (ii) plans to contain costs by rationalizing benefits, extending the use of generic drugs, optimizing medical referrals, and greater emphasis on preventive care. With old-age dependency ratios rapidly increasing, additional measures will be required such as increasing contribution rates and the retirement age—which are currently broadly aligned with regional peers—or the introduction of out-of-pocket payments for health services, which are about 30 percent of healthcare costs in emerging markets on average.

Box 6. Financial Outlook of the Social Insurance Bank (SZV)

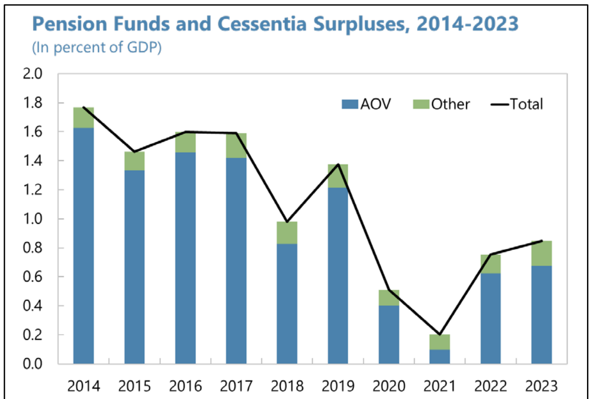
The SZV is a quasi-fiscal institution responsible for the administration and financial management of the social and health insurance in Sint Maarten. Its funds can be grouped into three main categories:

- Healthcare funds: The Sickness Insurance Fund (ZV) provides a contribution for the coverage of medical treatments, nursing, and disability due to illness to private sector employees or their survivors and the Accident Insurance (OV) to those affected by a company accident. The General Insurance for Exceptional Medical Expenses (AVBZ) covers the costs of treatment, nursing, and care for chronically ill individuals (i.e., who can no longer function independently in society and require full assistance). The Medical Expenses Fund for Government Retirees (FZOG) provides medical care coverage for retired government civil servants and their family. SZV also administers medical expenses for civil servants, justice employees and those receiving unemployment benefits. The government is required to reimburse the full cost of treatment but has accumulated arrears amounting to 4 percent of GDP.
- Pension funds: The General Old Age Insurance (AOV) pays a retirement pension for persons older than 65 years. The Widow/widower and Orphan Insurance (AWW) pays a pension to a surviving spouse up to the age of 65, and to the surviving children younger than 15 (or 25 if studying or mentally disabled).

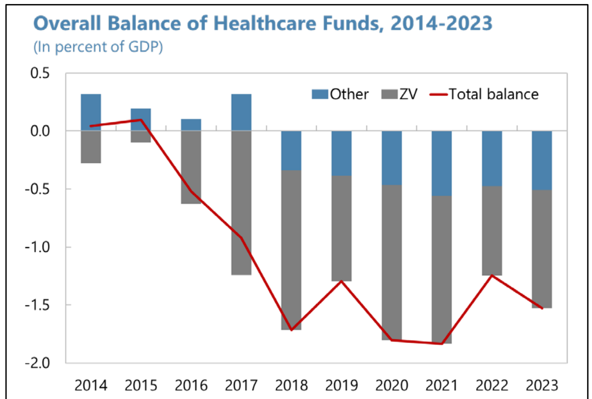
Box 6. Financial Outlook of the Social Insurance Bank (SZV) (continued)

- Other: The Cessantia makes one-time payment (based on the years of service) to employees upon termination of an employment contract, not due to a fault of the employee.

Cross-subsidies between the healthcare and the old-age pension funds. Sint Maarten's relatively young population, mainly due to vigorous immigration, allowed the old-age pension fund to accumulate substantial savings since its inception in 2010. However, more than one-half of the accumulated reserves of the old-age pension fund (about 12 percent of GDP as of 2023) have been used to cross subsidize large and growing deficits of the healthcare funds, endangering the sustainability of the system. With population aging, the problem will become more acute as the surpluses from old-age pension have declined to 0.9 percent of GDP in 2023 from 1.7 percent of GDP in 2014.

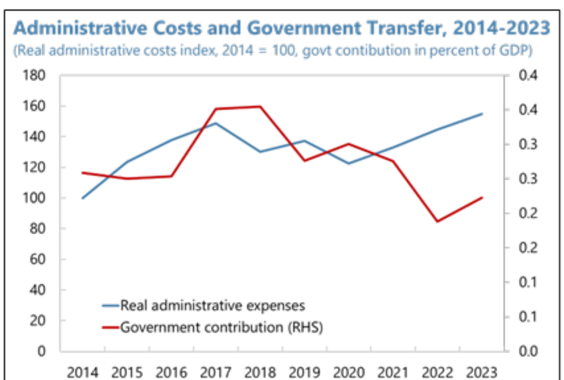


Sources: SZV and IMF staff claculations.

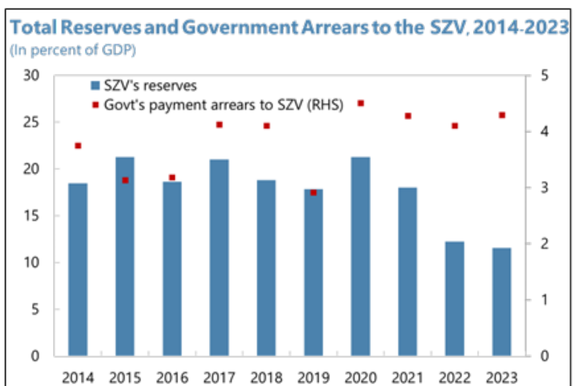


Sources: SZV and staff calculations.

Growing administrative expenses and declining investment income are adding to the financial pressures of the SZV. Real administrative expenses have increased by about 55 percent since 2014. The government is also adding to the liquidity pressures of SZV by accumulating arrears, as its contributions to cover for the healthcare costs of civil servants, justice employees and for those receiving unemployment benefits are insufficient (especially in recent years), and moreover there is no plan to settle these arrears. Because of cross-subsidization, growing administrative expenses, government's insufficient contributions, and most recently due to investment losses, SZV's reserves[1] have been rapidly declining.



Sources: SZV and IMF staff calculations.

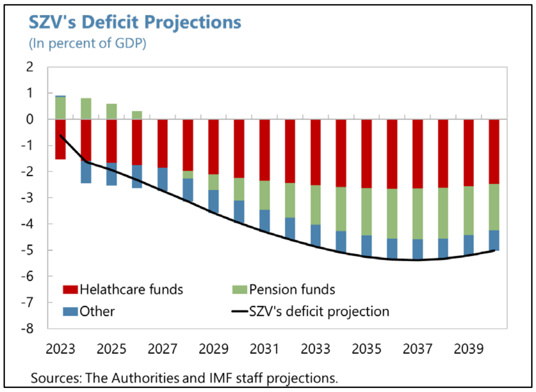


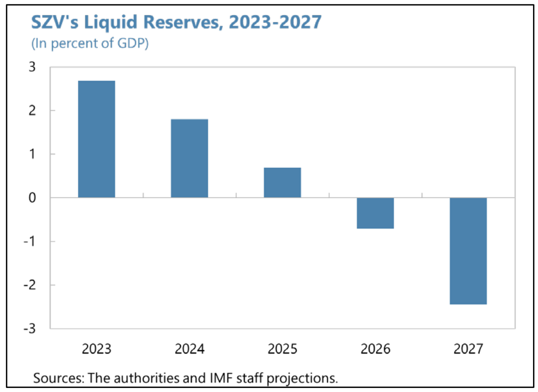
Sources: The authorities and IMF staff calculations.

SZV could deplete its liquid assets by 2026 and become reliant on public support. Staff simulated the impact of population aging on SZV's financial situation to determine the possible timing and magnitude of future fiscal transfers. We assume that: (i) old-age pensions are adjusted with inflation to maintain their real value; (ii) old-age pension payments and healthcare costs evolve with changing demographics; and

Box 6. Financial Outlook of the Social Insurance Bank (SZV) (concluded)

(iii) declining working age population reduces the premium income for the SZV. Simulations indicate that the old-age pension fund may tip into deficits by 2025 with the growing AOV and ZV deficits depleting SZV's reserves by 2027. The system would then becoming reliant on government transfers from 2028 onwards. Government support would rapidly become a large fiscal burden, reaching 4 percent of GDP by 2030.





Urgent reforms are needed to preserve the sustainability of the system. The government envisages a set of reforms to preserve the sustainability of the system: (i) a new general health insurance to be enacted by 2025, which requires universal participation, and is expected to collect premiums from those who currently benefit but are not contributing to the system; and (ii) plans to reduce costs by limiting benefits, extending the use of generic drugs, and greater focus on preventive care.

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1/ Only 2.7 percent of GDP of SZV's total reserves are held in liquid assets with the balance held in illiquid assets including the government's main office building and the hospital which generate rental income. Liquid assets could be depleted before 2026.

Strengthening Public Finance Management

43. Strengthening medium-term budgeting can help to better address fiscal challenges. Medium-term budgeting is vital for adequate risk management. The 2023 and 2024 budgets introduced medium-term forecasts, and the authorities are receiving CARTAC support to improve macro-fiscal forecasting. While the Ministry of Finance has been continuously improving its multi-annual budgeting, capacity in line ministries is lacking as noted by a 2023 IMF TA mission. The mission also recommended: (i) preparing a medium-term expenditure framework which includes forward spending estimates; (ii) identifying, quantifying, and publishing a Statement of Contingent Liabilities as an annex to the annual budget (including the probable financial impact of legal judgements against the government); and (iii) sensitizing the Council of Ministers on adequate budgeting practices.

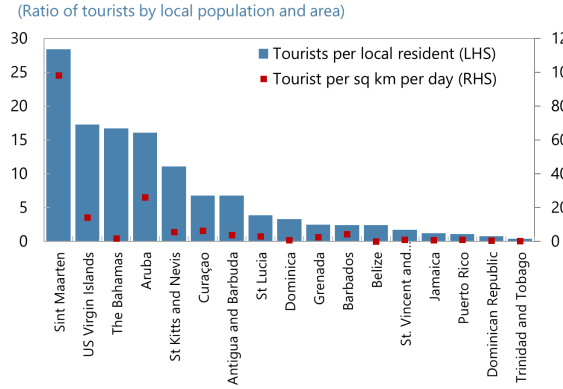
44. Improving adherence to the budget cycle is key to maximizing access for public investment financing from the Netherlands. In 2023, for the first time in more than five years, Sint Maarten was able to borrow money for public investment from the Netherlands. However, the funds were disbursed late into the fiscal year due to delays in the approval of the budget (as several iterations were required with the *College financieel toezicht* (Cft)[28] to agree on a credible fiscal plan). Building on the macro-fiscal forecasting capacity being developed in the Ministry of Finance, the authorities should seek to have the next year's budget approved by mid-December to improve access to public-investment financing from the Netherlands.

Boosting Potential Growth

45. Sint Maarten faces tourism capacity constraints that could become binding in the medium term. As a small island, Sint Maarten has the highest tourism density among Caribbean peers, defined as the number of tourists (stayover plus cruises) per local resident or per square kilometer.[29] Having more tourists than the carrying capacity of the island could strain the existing infrastructure, which has not kept up due to low public investment, and diminish the tourist experience, leading to future reversals in the number of visitors. The stock of traditional hotels and timeshare rooms remains below pre-Irma levels, although short-term rentals on digital platforms (AirBnB and VRBO) have expanded available room capacity in recent years.[30]

Carrying Capacity, Toursim Density

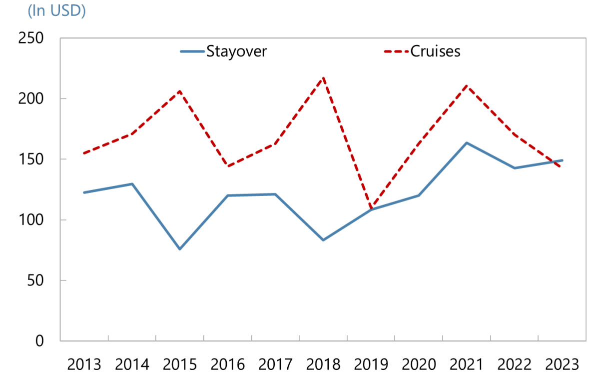
(Ratio of tourists by local population and area)



Sources: Haver, World Bank and IMF staff calculations.

Average Daily Spending Per Tourist

(In USD)



Sources: Tourism Exit Surveys and IMF staff calculations.

46. Given capacity constraints, shifting strategies from increasing quantity towards increasing value added could boost medium-term growth. Between 2015 and 2023, Sint Maarten has become relatively cheaper compared to other Caribbean destinations, possibly also reflecting relatively lower value added from tourism services.[31] Average daily spending per tourist

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[28] The Cft is a Kingdom level organization responsible for the enforcement of the fiscal rule in Curaçao and Sint Maarten.

[29] Based on 2022 data, except for Puerto Rico which uses 2019 data. This measure was even higher before hurricane Irma, when Sint Maarten had more arrivals and a smaller population.

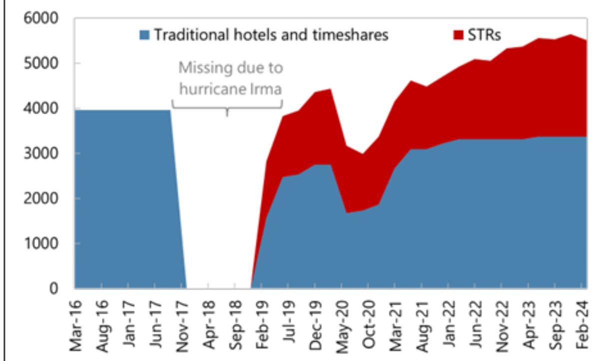
[30] A timeshare is a type of shared ownership of a vacation property where the purchaser owns and/or has the right to exclusively use the property for a specific period of the year, often for multiple years. A short-term rental is a one-time rental of a vacation property without any long-term commitment.

[31] The Week-At-The-Beach index compares the average weekly cost of a hotel with a three-bubble Tripadvisor rating, food, and transportation across destinations. Cross-country differences could be due to currency misalignments, competitiveness, or differences in the quality of tourism services.

has also stagnated, especially for cruises. Instead of focusing solely on the number of tourists, strategies to enhance tourist experience, differentiate from other destinations, and improve the value added from tourism would help boost medium-term growth.

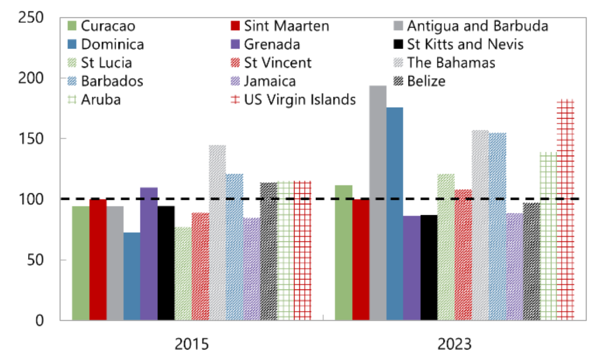
47. Short-term solutions to the electricity crisis need to be complemented with medium-term plans for renewable energy. The authorities have developed a three-pillar solution to the electricity crisis which includes leasing container generators, repairing the damaged generator, and replacing old generators. Financing of the immediate and short-term pillars, with a combined minimum cost of about 0.6 percent of GDP, would be borne by the government and the electricity SOE. Meanwhile, the government is in discussions with several stakeholders including the Netherlands, regarding the financing of the long-term permanent solution, with a cost of about 2.7 percent of GDP. These solutions should be complemented with a comprehensive masterplan to reap the benefits from the country's abundant solar energy, which would cut emissions, reduce the fuel import bill, and lower the electricity costs for businesses and households.

Room Stock, Traditional and Short-Term Rentals
(Number of rooms)



Sources: Sint Marteen SHTA, AirDNA and IMF staff calculations.

Week-at-the-Beach Comparison
(Index, Sint Maarten = 100)



Sources: TripAdvisor and IMF staff calculations.

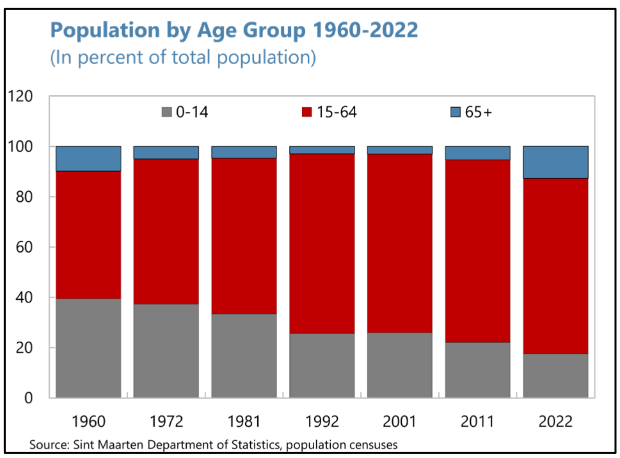
Text Table 1. Solution to the Electricity Crisis

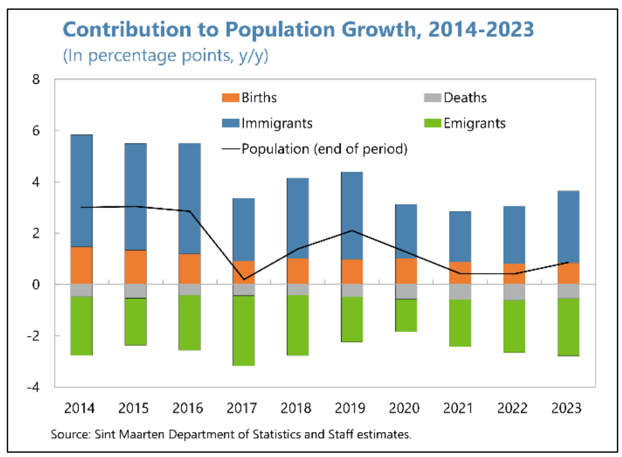
	Description of the solution	Generation Capacity MW	Costs excluding fuel in USD million: USD million	Costs excluding fuel in USD million: percent of GDP	Timeline
Immediate	Three months container generators	10	1.9	0.1	Operational by mid-August 2024 for three months.
	Disconnecting large hotels from the grid	4	n/a	n/a	In effect until pillar 2 comes on-stream.
Short term	Repairing one of the three generators	3	n/a	n/a	Operational by mid July 2024.
	Lease to own diesel-run-container generators	20	7.7	0.5	3-year lease period, operational by mid-September 2024.
Long term	Purchasing three permanent generators	27	42	2.7	Operational after 2 years from contract date.

Source: National Authorities and local news media.

48. The Trust Fund's projects face key challenges which are delaying implementation and raising costs. Due to delays in project implementation, the cumulative budget of the Trust Fund's projects was revised upwards to USD 478 million as of 2023 (28 percent of GDP), almost 3.5 times the original budget from 2018. Limited legal and infrastructure related staffing within the government is constraining project implementation. The local labor market, specifically in the construction sector, is saturated with regulations preventing contractors from importing labor. The Emergency Debris Management Project and the Waste-Water Management Project were recently granted approval but are yet to begin their implementation and will likely extend beyond the Trust Fund's planned phase out (in December 2028). Labor constraints, implementation delays, and rising procurement costs, hamper investments in climate resilient infrastructure.

49. Policies to ensure a well-functioning labor market, including work permits and immigration policies for foreign labor, are necessary for boosting growth. The recent recovery in net migration to the island could be utilized more efficiently if channeled towards higher formal employment, tax revenues and potential growth, especially given the rapidly aging population. Overly protective labor regulations, particularly regarding the issuance of work and residency permits for foreign labor, limit formal employment growth and fuel informal labor. Tailoring labor regulations to a sectoral case basis could revitalize growth by alleviating capacity absorption constraints. This is particularly critical for the construction sector, which only hired about 6 percent of the socially insured employees in April 2023 despite large ongoing Trust Fund's projects. Increasing on the job training should also be considered to alleviate acute skills mismatches in key sectors.





50. During the reconstruction, Sint Maarten made significant investments in climate-resilient infrastructure which will need to be properly maintained (Annex IX). The number of category 4-5 hurricanes making landfall on Sint Maarten or passing within 40 miles off the island has increased compared to the pre-industrial era 1850–1900. Hurricanes have severe economic costs, affecting infrastructure, tourism, and electricity generation. The World Bank estimates the total damages and losses from Hurricane Irma at about 255 percent of GDP.[32] Staff simulations, using the IMF DIGNAD model, show that the Trust Fund's investments in adaptive infrastructure allowed the economy to fully recover from Hurricane Irma (contributing to a 5.4 percent higher economic output) and would result in higher GDP growth of about 0.5 to 0.8 percentage points in case of a future category 5 hurricane shock. These estimates highlight the criticality of investments in climate-

[32] Roughly split between losses (assets that could not be recovered) and damages (assets that could be repaired).

resilient infrastructure and the urgency of proper maintenance going forward (particularly after the phase out of the Trust Fund in December 2028). Extending the duration of the Trust Fund, with a new mandate to support the energy transition, could help to design, secure the financing, and implement various projects to overcome the long-standing capacity constraints that hamper public investment.

51. Prioritizing implementation of AML/CFT measures remains critical to address ML/TF risks. A draft National Risk Assessment, to inform the CFATF's mutual evaluation scheduled for September 2024, was submitted to the Council of Ministers in December 2023 but awaits approval. The draft shows progress in the legal framework for AML/CFT but supervision remains weak due to lack of resources and ineffective coordination across entities. The FIU and prosecutor's office face severe understaffing and operational budget shortfalls which hamper their operations, investigation, and effective prosecution of suspicious transactions. Registration by the Chamber of Commerce of Ultimate Beneficial Ownership (UBO), which was expected to start in March 2024, five years after the approval of UBO law, has been delayed to November. Ensuring sufficient resources for the FIU and the prosecutor's office and expediting the UBO registration process are priority areas to reduce ML/TF risks.

Capacity Building and Data Quality

52. Data quality and availability have some shortcomings that somewhat hamper surveillance and remain a challenge (Annex XII). Annual GDP data is published with long delays, due to severe understaffing in the Department of Statistics, and GDP by expenditure is not produced. The level of GDP is unreliable as it is based on a survey with low response rates. Price statistics are only available on a quarterly basis and the imputation methods need to be revamped. Improvements in the Balance of Payments data are needed, especially in the estimation of imports, and a TA mission is planned for later this year. The authorities produce quarterly fiscal reports which are only shared with delays of 3-5 months and are not publicly available. The classification of accounts needs to be updated to GFSM 2014 and TA has been provided to support the transition.

53. Although a low user of IMF's capacity building over the past five years, IMF's TA is improving capacity in critical areas (Annex XIII). TA should continue to focus on supporting the authorities' reform agenda, as outlined in the country package, and boosting capacity in macro-critical areas. Building on the recent functional book review of the Ministry of Justice, the Ministry of Finance wants to conduct a functional review to create an appropriate structure with clearly defined functions. They also wish to build capacity in multi-annual budgeting, macro-fiscal forecasting, and debt management. Further improvements to BOP statistics, especially refining the methodologies for estimating imports given the lack of trade statistics, is important for the CBCS.

Authorities' Views

54. The authorities are concerned that although the near-term outlook is positive, various risks could derail the momentum. They consider that the ongoing recovery is firmly supported by the prospects for cruise and stayover arrivals. However, they emphasized that an immediate and permanent solution to the electricity crisis, together with a longer-term plan to properly maintain and upgrade all infrastructure, are essential to safeguard the favorable momentum. They underscored that the difficulty to retain talent and fill public vacancies significantly impacts the government's administrative capacity and overall efficiency. They believe that domestic risks also include political instability and stagnated wages, which have not kept up with cost-of-living increases.

55. The authorities broadly agree with the need to raise tax revenues to cover both existing and emerging spending needs. However, they clarified that they would prefer to alter the composition of revenues towards indirect taxes to shift the revenue burden towards tourists and away from residents. They envision that introducing import and value-added taxes would be very difficult, as this would need to be coordinated with the other side of the island, which is a French overseas territory, and alter the historical designation of the island as a duty-free destination. They foresee that taxing casinos and short-term rentals could yield significant additional revenues but anticipate that the latter would require increased effort from the tax office, which is already severely understaffed.

56. The authorities recognize that without reforms the Social Security Administration is unsustainable. They know that, under current trends, both the health and pension funds would soon be in deficit and the SZV would deplete its liquid assets over the next three years. They believe that the introduction of the General Health Insurance would be part of the solution, but that more options would need to be explored to ensure that healthcare remains affordable and accessible. They see an urgent need for greater emphasis on preventive care to improve health outcomes and reduce long-term costs. They recognize the need to scale-up the use of generics and optimize medical referral. However, they worry that introducing out-of-pocket payments or rationalizing coverage, would be politically difficult and hard to communicate to the public. They expressed interest for more analysis in future reports on the determinants of the rising healthcare costs and how to integrate informal workers.

57. The authorities envision a three-step solution to resolve the electricity crisis. First, the electricity company has already rented mobile generators to ease the blackouts. Second, new generators would be purchased to replace those that are past their technical lifespan, while discussions are still ongoing to secure the required financing. Third, once the immediate crisis has been resolved, they would pursue renewable projects. They concur that extending the duration of the Trust Fund beyond 2028, with a new mandate to support the energy transition, could help to design, secure the financing, and implement various projects to overcome the long-standing capacity constraints that hamper public investment.

58. The authorities are working to bolster tourism. They are making efforts to enhance tourism's value added, including by attracting more affluent visitors and introducing diverse experiences (such as sport, music, and culinary) for tourists. However, they acknowledge that the tourism advertising budget would need to be substantially increased to better compete with other Caribbean destinations. They concur that short-term rentals should compete with hotels on a level playing field. They stress that, given the island's extraordinary tourism density, policies such as tourism fees and increases to the lodging tax are essential for tourists to better contribute towards maintaining and upgrading the island's infrastructure.

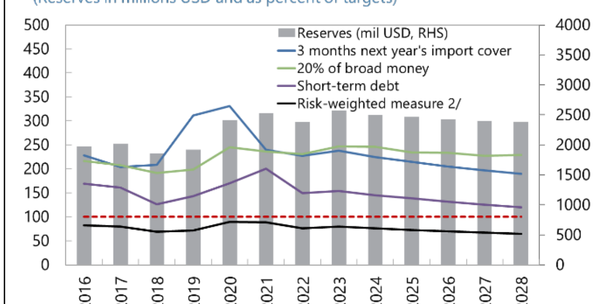
59. The authorities accede that the very low public investment and maintenance over the past decade is responsible for the ailing infrastructure. They signaled that the persistently low execution was partly related to political instability, which also hinders long-term planning. They also noted that public investment is severely affected by the government's weak capacity and understaffing. They explained that stagnant wages are preventing the government from attracting and retaining the talent it needs for planning, securing financing and executing projects; and from properly maintaining existing infrastructure. They see merit in the possibility of having a designated agency for large infrastructure projects. They recognize that a detailed public investment masterplan is lacking which would help to achieve the goals from the National Development Vision.

THE MONETARY UNION OF CURAÇAO AND SINT MAARTEN

60. The CAD of the Union improved markedly in 2023 but remains elevated. The Union's CAD stayed close to 20 percent of GDP in 2021–22, on account of a sharp increase in import prices and an uptick in construction activity on both islands. Import prices, in particular for oil, reversed in 2023 leading to a remarkable CAD improvement to 15.7 percent of the Union's GDP. Going forward, a positive tourism outlook, coupled with a projected decline of the international oil prices and moderating construction activities, would support further contraction of the CAD, stabilizing at slightly above 8½ percent of GDP in the medium term. The Union's CAD would continue to be financed by private investment inflows and decumulation of assets (mostly by Curaçao). The Union's NIIP would decline as assets fall and liabilities rise, mainly due to public borrowing. The NIIP is projected to turn negative in 2026, which would weigh negatively on the CAD as the Union pays higher net investment income abroad as a net debtor.

Reserves and Adequacy Metrics 1/

(Reserves in millions USD and as percent of targets)

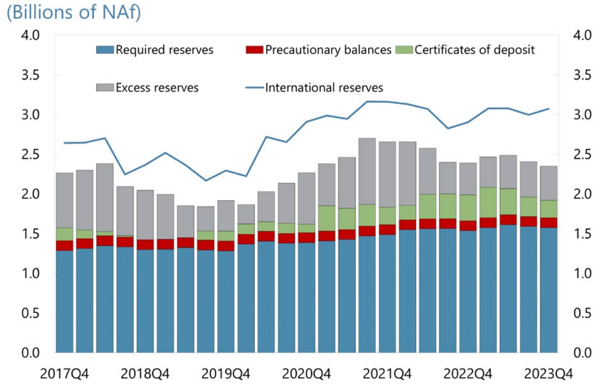


Sources: CBCS and IMF staff estimates.
1/ Reserves include gold. In millions USD in bars (RHS) and as percent of target levels in lines (LHS). Values > 100 indicate reserves higher than adequate level for a given metric.
2/ Based on IMF policy paper Assessing Reserves Adequacy, 2011.

61. The stock of international reserves would remain stable and broadly adequate over the medium term. International reserves, which rose substantially in 2020 as both islands received pandemic support from the Netherlands, are projected to remain stable, as the union's large CAD is expected to improve and remain well-financed. Reserves are adequate, according to various elements of the ARA metric (except for the risk-weighted measure). Some reserve adequacy measures indicate a slight deterioration during 2021–23 that is expected to continue over the medium term, including due to an expected stronger transmission of CADs to NIIPs and reserves in Curaçao after likely mismeasurement when the refinery was operational. The recent transaction by the CBCS, which realized valuation gains by selling one-third of its gold reserves and re-investing in 30-year US Treasury bonds, altered the composition of reserves while preserving the overall level of reserves including gold. Reserves metrics excluding gold display a net increase in 2024 of USD 178 million.

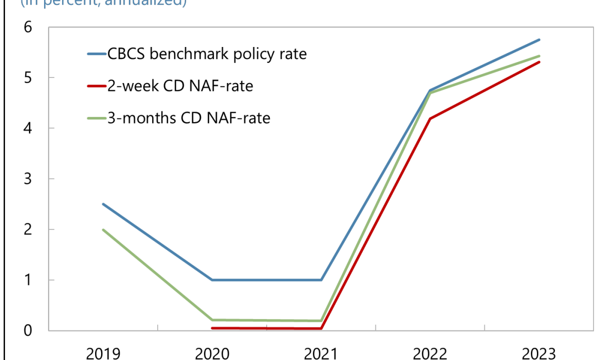
62. The monetary policy stance is appropriate and continues to support the peg. In line with global monetary policy tightening, the CBCS increased its benchmark rate to 5.75 percent in September 2023 (from 1 percent in May 2022) and has kept it unchanged since then, while continuing efforts to absorb excess liquidity.[33] Interest rates on CBCS's 2-week certificates of deposits (CDs) increased in parallel, following the US Secured Overnight Financing Rate (SOFR), while interest rates for 5-year local government bonds, which follow yield developments on the Dutch capital markets, rose somewhat less.[34] Broad money growth increased by 3.3 percent in 2023, driven by higher net foreign assets of the banking sector and the CBCS, household mortgages, and loans to public non-financial corporations. Reflecting tighter monetary policy as well as the one-off repatriation of a subsidiary's loan book, bank credit growth moderated further and contracted in real terms throughout 2023, with the exception of strong (and rising) mortgage lending which reached 10.5 percent in March 2024 in Curaçao. Notwithstanding these contractions, the transmission mechanism of monetary policy remains weak due to structural factors such as the absence of an interbank liquidity market and a government securities market. Against this backdrop, and while international reserves continue to serve as the main anchor for monetary policy, developments in core inflation, driven by tourism-related services, should be monitored closely and further analysis of its drivers and persistence is welcome.

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



Sources: CBCS and IMF staff calculations.

CBCS Benchmark Policy and Certificates of Deposits Rates
(In percent, annualized)

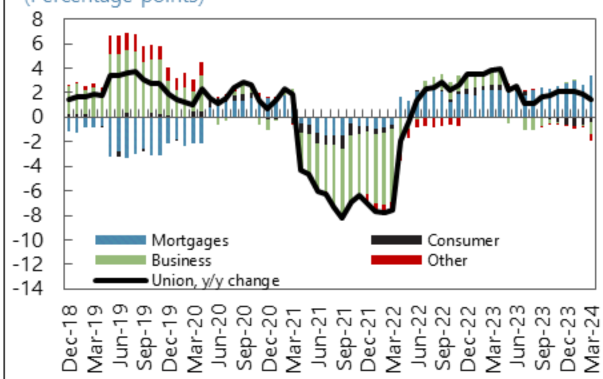


Sources: CBCS and IMF staff calculations.

[33] Recent declines in liquidity can be attributed to improved appetite for CDs and increased investments abroad.

[34] Government bonds of Curaçao and Sint Maarten are subscribed by the Dutch State Treasury Agency.

Loans to Non-Government Sectors and Growth Contributions
(Percentage points)



Sources: CBCS and IMF staff calculations.

63. While the banking sector is sound and systemic risks are contained, enhancements in data and toolkit could help monitoring rapid mortgage growth. Solvency indicators improved throughout 2023 as capital adequacy reached the highest level on record and substantially above the minimum benchmark. Liquidity and asset quality also improved thanks to the strong rebound in economic activity in 2022, with non-performing loans to gross loans dropping to 6.7 percent in 2023, albeit their provisioning declined slightly. Systemic institutions remained broadly stable in size, even though higher operational expenses led to a deterioration in profitability across institutions. Given the importance that residential mortgage lending has gained over the past two years, growing at 6.2 percent in 2023 and now representing 26 percent of the banking sector's loan portfolio, continued monitoring is warranted, in particular as more than half of all mortgages displayed loan-to-value ratios above 70 percent in 2023.[35] Further acceleration in mortgage credit could warrant introducing a macro prudential limit below the currently by banks self-imposed average ratio of 94 percent. However, data collection on loan-to-value ratios remains coarse and could be refined, in particular with a view towards expanding the macroprudential toolkit. Data on debt-service-to-income would further improve the understanding of household indebtedness and help underpin assessments of vulnerabilities.

Selected Indicators for Liquidity and Capital Adequacy in the Monetary Union
(In percent, latest quarter available)

Indicators	Minimum requirement	2018-2022 average	2022/1	2023/1
Tier 1 and tier 2 capital to risk weighted assets	10.5	17.6	21.2	22.3
Return on assets	-	1.2	2.0	1.7
Return on equity	-	8.6	13.5	12.0
Net interest margin to gross income	-	50.0	44.3	42.2
Noninterest expenses to gross income	-	74.5	69.7	70.2
Liquid assets to total assets	20.0	31.8	31.7	34.8
Provisions to non performing loans	-	35.7	32.1	29.7
Nonperforming loans to total gross loans	-	10.6	9.0	6.7

Source: CBCS 2023 Financial Stability Report, IMF Financial Soundness Database and Staff calculations. 1/ Data as of Q4 of the calendar year.

64. Risks to financial stability have substantially diminished as the CBCS advances its reform agenda, including preparations for the introduction of the Caribbean Guilder in 2025. Near-term risks to financial stability have subsided with the agreement for a controlled wind-down of ENNIA and the start of the restructuring process (in line with CBCS statutes), as well as the CBCS's continued improvements in supervision, regulation, and governance. The CBCS' financial reform

[35] A reclassification of consumer loans as mortgages could partially explain stronger-than-expected growth in 2023.

agenda has advanced further, covering several pillars, including financial stability, crisis management, lender of last resort, and a deposit insurance scheme. Plans to conduct a review of the bank statutes, further develop stress testing, and establish a financial stability committee will be supported by IMF TA. In March 2025, the Caribbean Guilder will replace the Netherlands Antillean Guilder that has been in circulation since 1952. The currency will remain pegged to the US dollar at the same rate of 1.79, guaranteeing continuity in the monetary policy regime.

Authorities' Views

65. The authorities agreed with staff's assessment of external sustainability, financial stability, and reform priorities. They agreed with staff that Curaçao's external position was weaker than implied by fundamentals and desirable policies but expected the Union's sizable current account deficit to gradually decline, supported by a positive tourism outlook in both countries, and continue to be well-financed. As a result, the Union's international reserves would remain stable and adequate over the medium term. They emphasized that monetary policy has been appropriately tight, in line with international developments. They recognized the recent upward pressures on core inflation but noted that deeper analysis on its persistence is warranted, while emphasizing that the exchange rate peg remains the primary policy anchor. The authorities concurred that financial sector risks have significantly diminished after the resolution of ENNIA and systemic risks are contained. They saw the recent uptick in mortgage credit as partially related to a reclassification and agreed that more granular data on loan-to-value and debt-service-to-income ratios are warranted to enhance monitoring and eventually expand the macroprudential toolkit. The CBCS reaffirmed its commitment to continue enhancing financial stability—through addressing legacy issues of troubled institutions, improving supervision, and developing a crisis management framework (including the deposit insurance scheme and lender of last resort)—as part of a broader reform agenda that also includes incorporating climate risks and improving financial digitalization.

STAFF APPRAISAL

A. Curaçao

66. Curaçao's economy successfully embraced the pivot towards tourism-led growth, giving rise to a strong near-term outlook. After losing key traditional industries, Curaçao quickly and successfully leveraged its tourism potential to grow, attract new hotels, and create jobs. While this is serving the economy well in the near term—growth is projected to accelerate to 4 ½ in 2024— structural shifts have started to emerge, including a low-skilled, informal recovery of the labor market amidst low investment in non-tourist sectors. Growth is expected to moderate over the medium term given saturation in tourism flows, sustained population decline, and subpar investment. Notwithstanding the economy's recent overperformance, inflation declined significantly and only reversed some of its gains recently on the back of higher international oil prices and unfavorable base effects. Inflation is expected to gradually converge towards its steady state rate of around 2 percent. Fiscal policy remains guided by the fiscal rule, albeit past surpluses are expected to unwind, allowing for the reversal of pandemic wage cuts and a return of public investments. The current account markedly improved thanks to lower oil prices but the deficit remains elevated.

67. Risks to the outlook are broadly balanced. Growth slowdown in major economies could negatively impact tourism receipts, while positive surprises could boost foreign demand. Domestically, a successful expansion of renewable energy and faster-than-expected development of hotel capacity and yachting marinas would boost growth, while delays in public investment and more persistent core inflation could dent tourist experience and competitiveness.

68. Efforts to safeguard recently created fiscal space are welcome. Overall surpluses in 2022 and 2023 helped reduce debt and granted access to favorable financing terms from the Netherlands. Safeguarding this space and avoiding procyclical impetus is warranted, including through more gradual unwinding of pandemic wage cuts in 2024, prudent liquidity management to repay a bullet loan in 2025, and general efforts to strengthen tax administration, review procurement and domestic arrears management, and streamline transfers to public entities. Ensuing room for maneuver could be used for priority investments, including for climate adaptation, guided by a medium-term fiscal framework steering towards the island's debt anchor.

69. Healthcare and pension reforms are needed to lock in a sustainable expenditure path and mitigate medium-term fiscal risks. Growing health and old-age pension deficits, exacerbated by an aging population, pose risks to the sustainability of public finances. Recent initiatives to incentivize the use of generics and raise the pension age are commendable, and more needs to be done to put the system on a sustainable path. Staff sees a broad range of efficiency gains in health spending, including lowering pharmaceuticals and laboratory costs and enhancing primary care's gatekeeping role. Reforms on the revenue side, including broadening the contributor base and increasing co-payments, are politically more difficult.

70. Sustaining the positive growth momentum in the medium term requires investments in capital and labor and resolving existing growth bottlenecks. First, moving up the value chain with high-end resorts and complementary recreational activities would help sustain valuable income growth from tourism but requires scaling up investments in infrastructure and deregulating the transportation sector. Second, further investments in electricity grid and energy storage, as well as a revised pricing strategy, are needed to accompany the ongoing energy transition and reap its vast benefits, including lower fuel imports, emissions, and electricity prices. The envisaged floating offshore wind park for hydrogen production would be a game changer for the island. Boosting public investment to achieve these objectives, however, requires ramping up capacity in planning and execution. Third, to further stimulate growth and offset the sustained population decline, formal labor markets and skills would need to be strengthened. And fourth, continued improvements in the business climate in line with the *landspakket's* economic reform pillar could help overcome decade-low productivity growth.

71. Important strides in reducing ML/FT vulnerabilities are welcome and could be built upon. The draft online gaming law, implementation of risk-based supervision, and a new law to address EU grey listing and enable automatic information exchange represent important strides in enhancing Curaçao's defenses against ML/FT and related reputational risks. Curaçao can further improve upon these important accomplishments, including by passing and implementing the aforementioned legislations in a timely manner and enhancing coordination and monitoring across relevant agencies.

B. Sint Maarten

72. Near-term growth is strongly anchored but preserving the positive momentum hinges on investments to revamp an ailing infrastructure and improve tourism's value added. The economic recovery is well underway, underpinned by tourism recovery and the reconstruction. GDP is expected to surpass its pre-Irma level in 2025. However, without investments to upgrade an ailing infrastructure, growth will falter as the island approaches its maximum carrying capacity. Strategies should continue to focus on enhancing tourist's experience, differentiating from other Caribbean destinations, and improving tourism's value added.

73. A comprehensive strategy is required to durably resolve the electricity crisis. Mobile electricity generators have been leased and efforts to replace old engines are underway. Once the immediate crisis is resolved, efforts should be devoted towards developing a detailed masterplan for the energy transition with targets, projects, costing, timeline, and a comprehensive assessment of ancillary investments. The Trust Fund could receive a new mandate, beyond 2028, to operate as a public investment agency in charge of planning, securing the financing, and implementing plans for the energy transition.

74. Revenue mobilization efforts are essential to ensure fiscal sustainability. Plans to lower tax rates, to make the country more competitive with neighboring islands, should be avoided as this would reduce government's revenues and endanger fiscal sustainability. Instead, additional revenues are required to satisfy the fiscal rule, service loans with the Netherlands, raise public wages to attract and retain talent, increase transfers to cover public health costs, and clear public arrears with the SZV. Envisaged reforms to enhance the tax administration and to digitize and interface government systems should be complemented with plans to (i) tax casinos' profits, turnover, and winnings; (ii) enforce the lodging tax on short-term rentals, and income and profit tax on the proceeds from such rentals; and (iii) update the price of land leases; and iv) institute a tourist levy at the airport.

75. Without reforms, the healthcare and pensions funds are unsustainable. Health premiums and government transfers are insufficient to cover health costs, which are being cross-financed with pension savings. With unchanged policies, given population aging and rising administrative costs, both health and pensions funds will run deficits by 2027, and the SZV would deplete its liquid assets by 2027. By 2030, the government would need to transfer about 4 percent of GDP per year to sustain the system. Reforms are urgently needed to contain health costs including: (i) introducing the General Health Insurance; (ii) rationalizing benefits; (iii) extending the use of generics; (iv) optimizing referrals; (v) strengthening preventing care; and (vi) adopting out-of-pocket payments. Given the rapid pace of population aging, additional measures such as increasing the contribution rates and linking the retirement age to life expectancy, should also be considered.

76. Strengthening the implementation of AML/CFT measures is necessary to increase effectiveness of the AML/CFT regime. Laws for an effective AML/CFT framework were approved but their implementation is lagging. UBO registration is yet to begin, while the investigation and prosecution of suspicious activities is lacking. Granting the FIU full independence to investigate and prosecute cases, and increasing its budget for recruitment and operations could strengthen the AML/CFT framework.

C. The Monetary Union of Curaçao and Sint Maarten

77. The current account deficit is expected to improve in the medium term but would remain elevated, while international reserves are expected to remain broadly stable. Large CADs in both countries are expected to improve and remain well-financed, leading to a stable and broadly adequate level of international reserves over the medium term. Curaçao's external position is assessed to be weaker than implied by fundamentals and desired policy settings due to an elevated CAD and sustained appreciation of the real effective exchange rate, while that of Sint Maarten is considered in line with fundamentals and desired policy settings.

78. Monetary policy is appropriately targeted towards maintaining the peg. In line with global monetary policy tightening, the CBCS increased its benchmark rate during 2022–23 and has kept it unchanged since September 2023. Efforts to absorb excess liquidity should continue while closely monitoring developments in core inflation driven by tourism-related services. Even though credit growth declined further and reached negative territory in real terms amidst monetary tightening, the transmission mechanism of monetary policy remains weak. Structural factors include the absence of interbank and government securities markets. The continued increase in mortgages, the only credit component to display growth, was accompanied by a broadly stable loan-to-value ratio on aggregate, albeit more granular data is needed to monitor potential vulnerabilities. Further acceleration in mortgage credit could warrant introducing a macro prudential limit below the currently by banks self-imposed ratio.

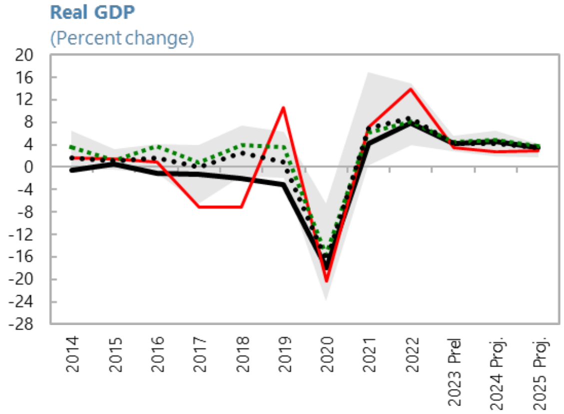
79. The financial sector is sound and risks to financial stability have substantially diminished as the CBCS advances its reform agenda. Banks are highly liquid and adequately capitalized and systemic risks are contained. Near-term risks to financial stability have substantially diminished with the agreement for a controlled wind-down of ENNIA and the start of the restructuring process, as well as the CBCS's continued improvements in supervision, regulation, and governance. Staff welcomes CBCS's initiatives to establish a financial stability committee, further refine stress-testing, and enhance crisis management capacities, including lender of last resort and a deposit insurance scheme.

80. 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-months cycle.

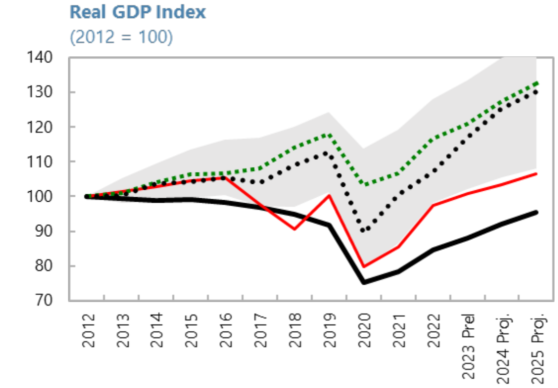
Figure 1. Curaçao and Sint Maarten: Regional Comparison 1/

Curaçao   Sint Maarten   Tourism-oriented Caribbean   ECCU

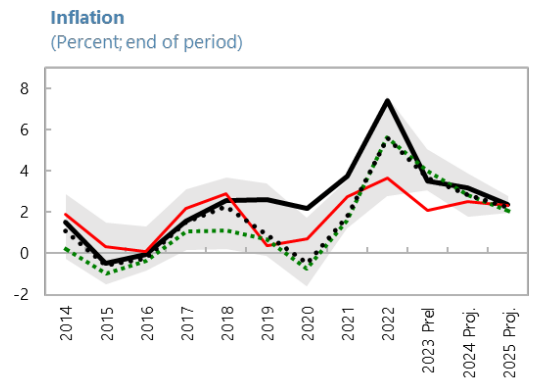
Real GDP growth in Curaçao and Sint Maarten reflects idiosyncratic shocks but caught up with peers recently.



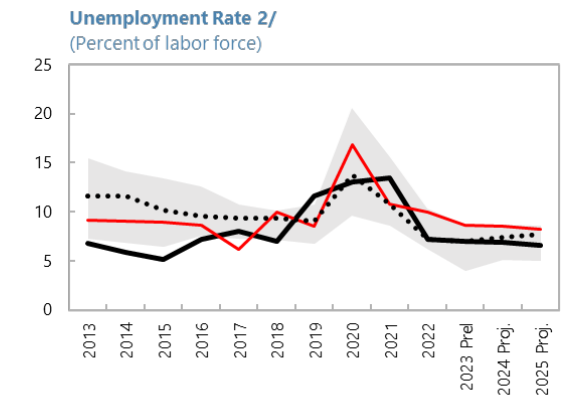
Curaçao reaches pre-pandemic levels in 2024, later than peers, while Sint Maarten recovered to pre-hurricane level.



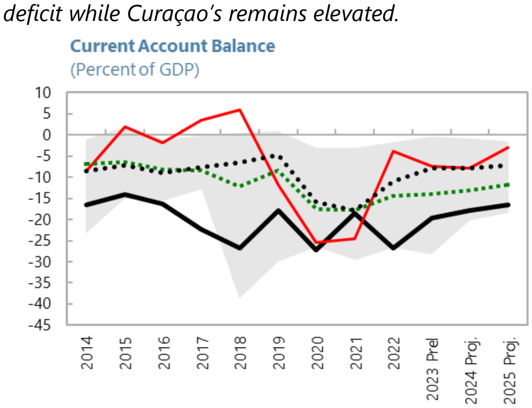
Inflation tracked regional patterns in Curaçao but was relatively low in Sint Maarten.



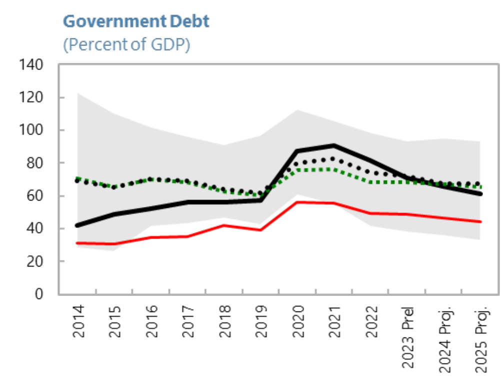
In both countries, unemployment rates recovered to below pre-pandemic levels.



Sint Maarten rebalanced its pandemic current account deficit while Curaçao's remains elevated.



Curaçao's debt ratio has been declining since 2022 while Sint Maarten's has been stable.

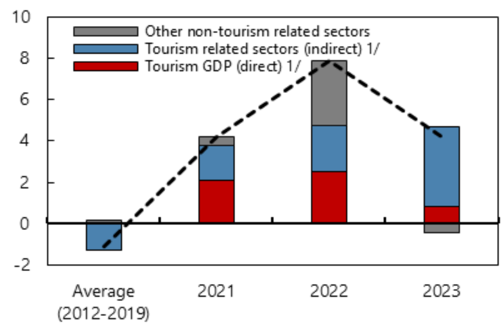


Sources: IMF World Economic Outlook; IMF Information Notice System; and IMF staff calculations.
1/ Figure reports medians for 15 tourism-oriented Caribbean countries, and the subgroup of countries in the Eastern Caribbean Currency Union (ECCU). 10th to 90th percentile range (light shading) are for all tourism-oriented Caribbean countries.
2/ Due to data availability, Caribbean-oriented comparators do not include ECCU countries.

Figure 2. Curaçao: Real Sector Developments

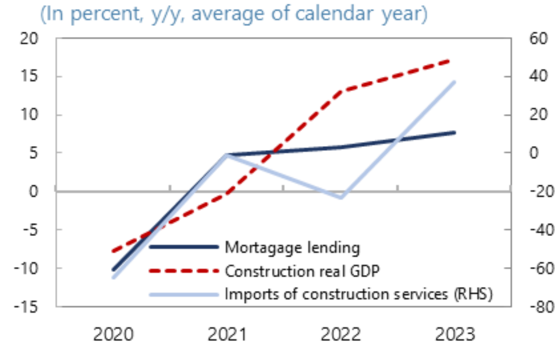
Curaçao's economy has shifted to a tourism-led growth model.

Contribution to Real GDP Growth
(In percentage points, y/y)



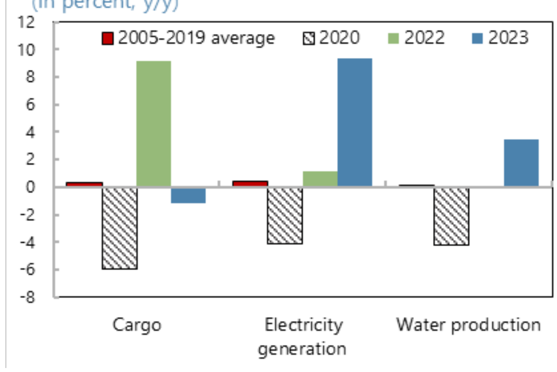
Construction of hotels and apartments for short-term rentals has flourished.

Contruction Sector Activity Indicators
(In percent, y/y, average of calendar year)



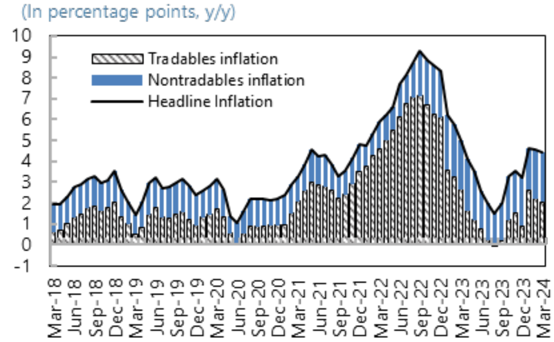
Utilities growth has kept pace with the tourism influx.

High Frequency Indicators
(In percent, y/y)



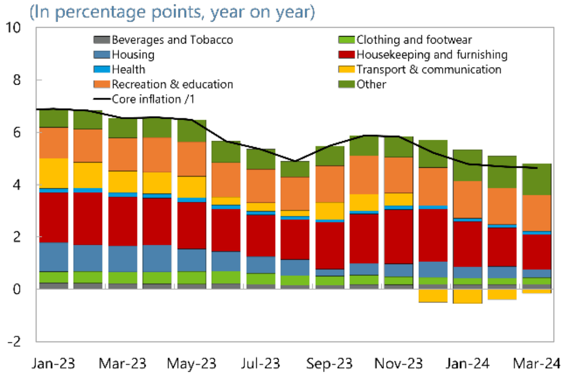
Inflation was driven by volatility in tradables.

Contribution to Headline Inflation by Tradables and Non-Tradables
(In percentage points, y/y)



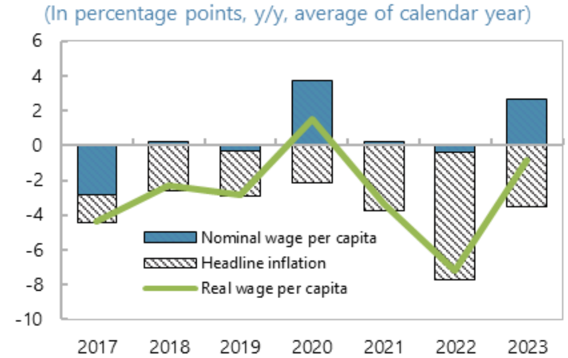
And core inflation remains elevated.

Contribution to Core inflation
(In percentage points, year on year)



Real wages have been declining for a sustained period, with the exception of 2020.

Contribution to Wages of Registered Employees
(In percentage points, y/y, average of calendar year)

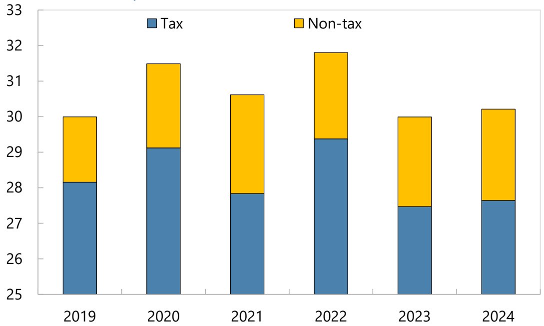


Sources: CBCS, and IMF staff estimates.
1/ Tourism GDP (direct) captures accommodation and food services, whereas the tourism-related sectors (indirect) sums construction, real estate, transportation, communication, wholesale and retail trade, professional and scientific services, and administrative and support services activities.

Figure 3. Curaçao and Sint Maarten: Fiscal Developments

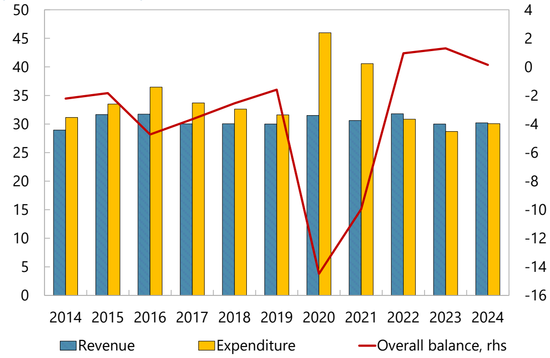
In 2023, revenue-to-GDP ratio decreased in Curaçao after significant one-off measures in 2022.

Curaçao: Central Government Revenue, 2019-2024
(Percent of GDP)



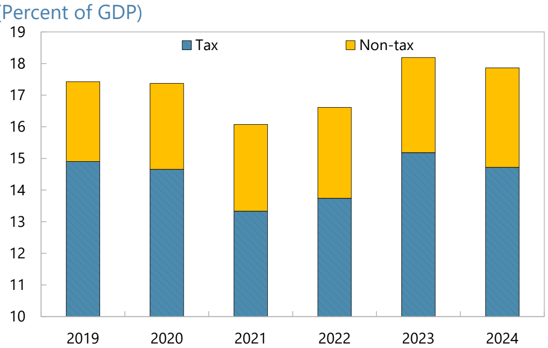
However, compressed expenditure led to a second surplus in a row in 2023.

Curaçao: Fiscal Balance, 2015-2024
(Percent of GDP)



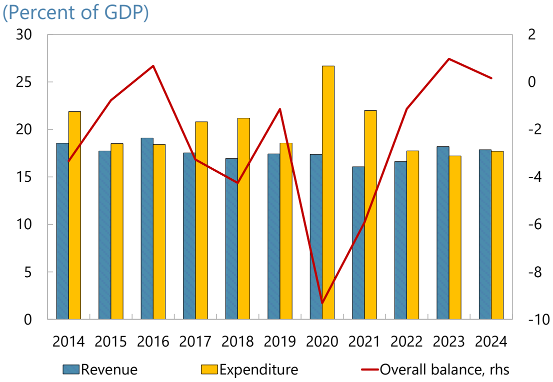
In Sint Maarten, revenue increased by ½ percent of GDP.

Sint Maarten: Central Government Revenue, 2019-2024
(Percent of GDP)



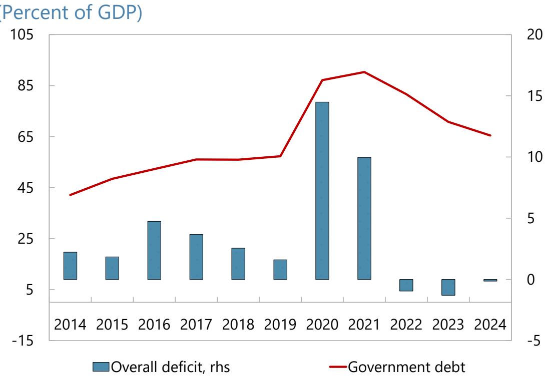
Good revenue performance and expenditure containment resulted in strong fiscal consolidation.

Sint Maarten: Fiscal Balance, 2015-2024
(Percent of GDP)



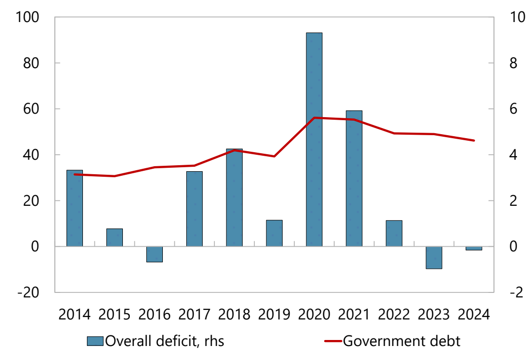
In Curaçao, GDP recovery and strong fiscal adjustment reduced government debt in 2022 and 2023.

Curaçao: Government Debt and Overall Deficit, 2015-2024
(Percent of GDP)



In Sint Maarten, the public debt ratio has remained broadly stable.

Sint Maarten: Public Debt and Overall Deficit, 2015-2024
(Percent of GDP)

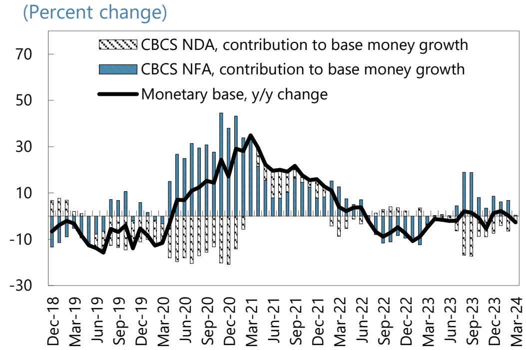


Sources: National authorities, and IMF staff estimates.

Figure 4. Curaçao and Sint Maarten: Monetary Developments, 2018–24

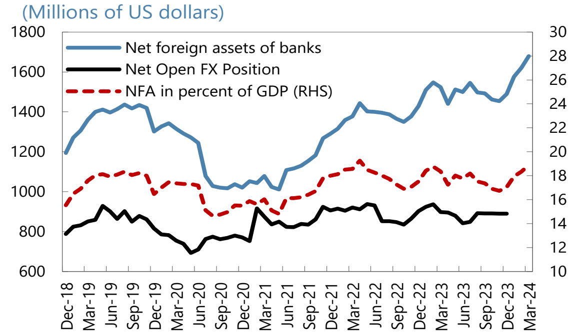
The monetary base has been relatively stable.

Monetary Base and Components
(Percent change)



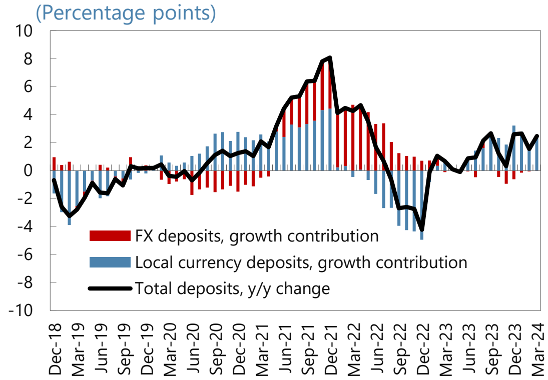
Bank NFAs plateaued in 2023 but increased steeply in early 2024.

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



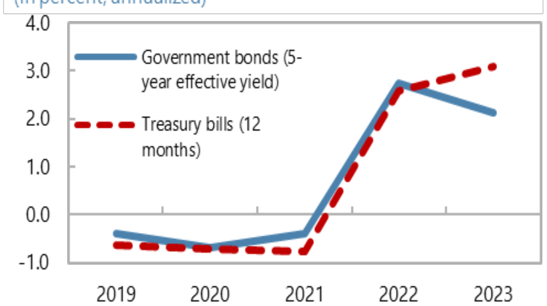
Total bank deposits have increased markedly since mid-2023 due to higher contribution from LC deposit growth.

Bank Deposits
(Percentage points)



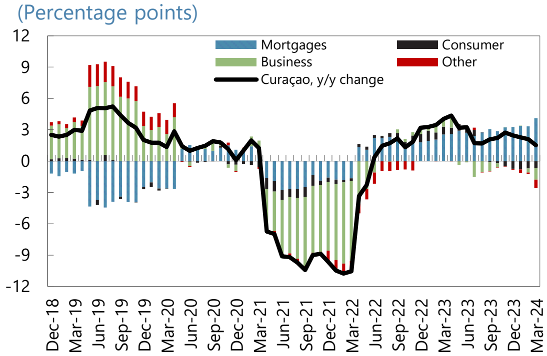
Government bond yields increased during the tightening cycle, following Dutch capital market terms.

Curacao and Sint Maarten Government Bonds and Treasury bill yields
(In percent, annualized)



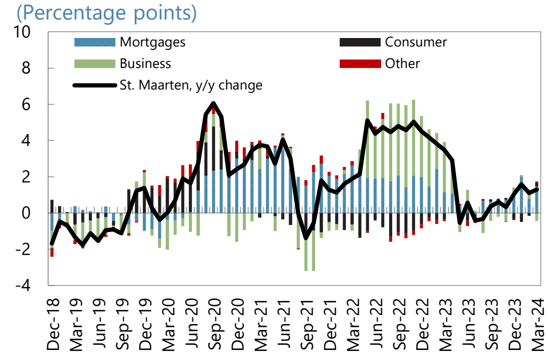
In Curaçao, mortgages pushed overall private credit into positive territory, while business and consumer credit are contracting.

Curaçao: Loans to Non-Government Sectors and Growth Contributions 1/
(Percentage points)



In Sint Maarten, nominal credit growth is only recently driven by mortgages.

Sint Maarten: Loans to Non-Government Sectors and Growth Contributions 1/
(Percentage points)



Sources: CBCS, and IMF staff estimates.
1/ The decline in credit in 2021 is due to the resolution of Girobank.

Table 1. Curaçao: Selected Economic and Financial Indicators, 2020–29

Area	444 (km2)	Population, thousand (2023)	155.8
Percent of population below age 15 (2023)	14.1	Literacy rate, in percent (2010)	96.7
Percent of population aged 65+ (2023)	24.7	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

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Prel.	Prel.	Prel.	Prel.			Proj.			
Real Economy										
Real GDP	-18.0	4.2	7.9	4.2	4.5	3.5	2.5	1.5	1.5	1.5
CPI (12-month average)	2.2	3.8	7.4	3.5	3.2	2.4	2.3	2.1	2.1	2.1
CPI (end of period)	2.2	4.8	8.4	3.1	3.2	2.4	2.3	2.1	2.1	2.1
GDP deflator	2.2	3.8	4.0	3.5	3.2	2.4	2.3	2.1	2.1	2.1
Unemployment rate (percent) 1/	13.1	13.5	7.2	7.0	6.9	6.6	6.3	6.3	6.3	6.3
Central Government Finances										
Net operating (current) balance	-15.0	-10.6	0.7	0.6	0.0	0.5	0.0	0.0	0.0	0.0
Primary balance	-13.2	-8.8	2.0	2.5	2.0	1.9	1.2	0.7	0.7	0.7
Overall balance	-14.5	-10.0	1.0	1.3	0.1	0.5	-0.2	-0.7	-0.7	-0.7
Central government debt 2/	87.1	90.3	81.6	70.8	65.4	61.1	58.5	56.9	55.4	53.9
General Government Finances 3/										
Overall balance	-15.7	-10.4	0.3	0.9	-0.3	-0.1	-0.7	-1.2	-1.2	-1.1
Balance of Payments										
Current account	-27.2	-18.6	-26.8	-19.7	-17.9	-16.5	-15.5	-14.6	-13.7	-13.1
Goods trade balance	-37.0	-41.6	-47.9	-38.3	-40.4	-39.9	-39.2	-38.8	-38.5	-38.3
Exports of goods	10.7	12.5	18.0	16.9	16.5	16.2	16.1	16.2	16.3	16.3
Imports of goods	47.7	54.1	65.9	55.2	56.9	56.1	55.3	55.0	54.8	54.6
Service balance	9.6	21.7	20.5	18.4	22.6	23.7	24.0	24.6	25.2	25.6
Exports of services	29.3	37.2	48.6	46.6	50.3	51.3	51.6	52.4	53.3	53.9
Imports of services	19.7	15.6	28.1	28.2	27.7	27.6	27.7	27.9	28.1	28.3
External debt 4/	197.3	194.8	180.9	177.1	169.1	164.0	162.0	162.1	162.2	162.3
Memorandum Items										
Nominal GDP (millions of U.S. dollars)	2,534	2,740	3,075	3,318	3,578	3,789	3,973	4,118	4,267	4,423
Per capita GDP (U.S. dollars)	16,492	18,135	20,648	22,160	23,775	25,065	26,161	27,000	27,871	28,781
Credit to non-government sectors (percent change)	0.1	-9.7	3.2	2.5	...	...	...	...	...	...

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 NA*f* 1.79 = US$1.

Sources: The Curaçao authorities and IMF staff estimates and projections.

1/ 2023 unemployment rate is based on the Census. For comparability, staff estimated unemployment rate and overall labor force for the period 2012-22.
2/ Defined as balance sheet liabilities of the central government except equities. Includes central government liabilities to the social security funds.
3/ Budgetary central government consolidated with the social security fund (SVB).
4/ The latest available datapoint is as of 2018. Values for 2019-2023 are IMF staff estimates based on BOP flow data.

Table 2. Curaçao: Government Operations, 2020–29 1/

(Millions of NA*f* unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.			Proj.			
					Budgetary Central Government					
Revenue	**1,428**	**1,501**	**1,751**	**1,781**	**1,935**	**2,063**	**2,169**	**2,248**	**2,332**	**2,416**
Tax	1,321	1,365	1,617	1,631	1,770	1,877	1,974	2,047	2,124	2,202
Taxes on income and profits	580	503	525	530	561	599	637	661	685	709
By individuals	396	399	389	402	423	453	484	501	520	539
By corporations	184	104	137	128	138	146	154	159	165	171
Taxes on property	34	51	114	85	92	97	102	106	110	114
Taxes on goods and services	541	629	750	774	846	896	939	974	1,012	1,049
Taxes on international trade and transactions	166	183	227	243	271	285	296	307	318	330
Grants	40	63	55	54	57	59	62	64	66	69
Other revenue	67	73	79	96	108	127	133	137	141	146
Expenditure	**2,085**	**1,990**	**1,698**	**1,704**	**1,926**	**2,031**	**2,184**	**2,296**	**2,382**	**2,468**
Expense (current expenditure)	2,109	2,020	1,712	1,745	1,934	2,027	2,168	2,247	2,331	2,416
Compensation of labor	597	586	577	562	665	705	739	766	794	822
Wages and salaries 2/	494	482	475	463	550	583	611	633	656	680
Social contributions	103	104	102	98	115	122	128	133	138	143
Goods and services	216	211	224	246	254	296	332	314	327	340
Consumption of fixed capital	90	76	71	76	91	91	91	94	98	101
Interest payments	69	68	67	69	116	98	98	100	102	104
Subsidies 3/	95	102	0	0	0	0	0	0	0	0
Transfers	802	566	602	615	622	640	701	759	789	818
o/w Ennia 4/	0	0	0	0	15	15	15	47	47	47
Social benefits	231	238	168	175	185	196	205	213	220	228
Other expense	8	174	4	3	2	2	2	2	2	2
Net acquisition of nonfinancial assets	-23	-30	-14	-41	-9	4	16	49	51	53
Net acquisition of nonfinancial assets (capital)	66	45	57	35	82	95	111	147	153	158
Net Operating (current) Balance	**-680**	**-519**	**39**	**36**	**0**	**36**	**0**	**0**	**0**	**0**
Overall Balance	**-657**	**-489**	**53**	**77**	**9**	**32**	**-15**	**-49**	**-50**	**-52**
Primary Balance	**-597**	**-430**	**110**	**146**	**126**	**130**	**83**	**51**	**51**	**52**
Financing, Net	**-643**	**-372**	**-33**	**127**	**9**	**32**	**-15**	**-49**	**-50**	**-52**
Net acquisition of financial assets 5/	206	105	32	-164	-5	-15	5	-15	-15	-15
Net incurrence of liabilities	849	477	65	-291	-14	-47	20	33	35	37
Loans	908	406	-57	-61	-14	-47	21	34	36	37
Borrowing	1,016	415	911	911	912	109	58	122	127	134
Amortization	108	8	968	972	926	156	38	88	92	96
Other accounts payable, incl. arrears	-59	71	121	-230	0	0	0	0	0	0
Statistical discrepancies	-14	-116	86	-50	0	0	0	0	0	0
					General Government 6/					
Revenue	**2,160**	**2,266**	**2,521**	**2,620**	**2,838**	**3,015**	**3,161**	**3,273**	**3,394**	**3,517**
of which : Social contributions	701	729	767	817	890	937	978	1,010	1,047	1,085
Expenditure	**2,871**	**2,777**	**2,504**	**2,569**	**2,861**	**3,020**	**3,213**	**3,362**	**3,482**	**3,607**
Expense	2,894	2,808	2,518	2,610	2,870	3,016	3,197	3,313	3,432	3,554
of which : Social benefits	1,277	1,289	1,240	1,306	1,390	1,454	1,517	1,573	1,626	1,684
Net acquisition of nonfinancial assets	-23	-30	-14	-41	-9	4	16	49	51	53
Overall Balance	**-711**	**-512**	**17**	**51**	**-22**	**-5**	**-51**	**-90**	**-88**	**-90**
Primary Balance	**-651**	**-452**	**75**	**119**	**94**	**93**	**47**	**10**	**13**	**14**
Memorandum Items										
Current account balance, authorities' definition	-719	-363	54	36	0	0	0	0	0	0
Of which : Compensation for past deficits (+: payment)	44	16	-15	0	0	36	0	0	0	0
Interest rule (interest/revenue) (percent) 7/	3	3	3	3	5	4	3	3	3	3
Government debt service	177	76	1,034	1,271	1,042	255	136	187	193	200
Gross government debt 8/	3,952	4,429	4,494	4,203	4,188	4,142	4,162	4,196	4,232	4,269
Net government debt	3,645	4,176	4,157	3,980	3,966	3,919	3,920	3,953	3,989	4,027
Government deposits	306	252	336	222	222	222	243	243	243	243
Nominal GDP	4,536	4,904	5,505	5,939	6,404	6,783	7,112	7,371	7,639	7,917

Sources: The Curaçao authorities and IMF staff estimates and projections.

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

2/ Includes teacher salaries.

3/ 2020-21 values show pandemic-related payroll subsidies to the private sector.

4/ Ennia transfer includes the expected average contribution by the CBCS, with the expected additional profit distribution accounted for under other revenues.

5/ Mostly changes in deposits.

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

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

8/ 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, 2020–29 1/

(Percent of GDP unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.			Proj.			
				Budgetary Central Government						
Revenue	**31.5**	**30.6**	**31.8**	**30.0**	**30.2**	**30.4**	**30.5**	**30.5**	**30.5**	**30.5**
Tax	29.1	27.8	29.4	27.5	27.6	27.7	27.8	27.8	27.8	27.8
Taxes on income and profits	12.8	10.3	9.5	8.9	8.8	8.8	9.0	9.0	9.0	9.0
By individuals	8.7	8.1	7.1	6.8	6.6	6.7	6.8	6.8	6.8	6.8
By corporations	4.0	2.1	2.5	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Taxes on property	0.7	1.0	2.1	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Taxes on goods and services	11.9	12.8	13.6	13.0	13.2	13.2	13.2	13.2	13.2	13.2
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.9	1.3	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Other revenue	1.5	1.5	1.4	1.6	1.7	1.9	1.9	1.9	1.9	1.8
Expenditure	**46.0**	**40.6**	**30.8**	**28.7**	**30.1**	**29.9**	**30.7**	**31.2**	**31.2**	**31.2**
Expense (current expenditure)	46.5	41.2	31.1	29.4	30.2	29.9	30.5	30.5	30.5	30.5
Compensation of labor	13.2	12.0	10.5	9.5	10.4	10.4	10.4	10.4	10.4	10.4
Wages and salaries 2/	10.9	9.8	8.6	7.8	8.6	8.6	8.6	8.6	8.6	8.6
Social contributions	2.3	2.1	1.8	1.7	1.8	1.8	1.8	1.8	1.8	1.8
Goods and services	4.8	4.3	4.1	4.1	4.0	4.4	4.7	4.3	4.3	4.3
Consumption of fixed capital	2.0	1.5	1.3	1.3	1.4	1.3	1.3	1.3	1.3	1.3
Interest payments	1.5	1.4	1.2	1.2	1.8	1.4	1.4	1.4	1.3	1.3
Subsidies 3/	2.1	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers	17.7	11.5	10.9	10.3	9.7	9.4	9.9	10.3	10.3	10.3
o/w Ennia 4/	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.6	0.6	0.6
Social benefits	5.1	4.9	3.1	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Other expense	0.2	3.5	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	-0.5	-0.6	-0.2	-0.7	-0.1	0.1	0.2	0.7	0.7	0.7
Acquisition of nonfinancial assets (capital)	1.5	0.9	1.0	0.6	1.3	1.4	1.6	2.0	2.0	2.0
Net Operating (current) Balance	**-15.0**	**-10.6**	**0.7**	**0.6**	**0.0**	**0.5**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance	**-14.5**	**-10.0**	**1.0**	**1.3**	**0.1**	**0.5**	**-0.2**	**-0.7**	**-0.7**	**-0.7**
Primary Balance	**-13.2**	**-8.8**	**2.0**	**2.5**	**2.0**	**1.9**	**1.2**	**0.7**	**0.7**	**0.7**
Financing, Net	**-14.2**	**-7.6**	**-0.6**	**2.1**	**0.1**	**0.5**	**-0.2**	**-0.7**	**-0.7**	**-0.7**
Net acquisition of financial assets 5/	4.6	2.1	0.6	-2.8	-0.1	-0.2	0.1	-0.2	-0.2	-0.2
Net incurrence of liabilities	18.7	9.7	1.2	-4.9	-0.2	-0.7	0.3	0.5	0.5	0.5
Loans	20.0	8.3	-1.0	-1.0	-0.2	-0.7	0.3	0.5	0.5	0.5
Borrowing	22.4	8.5	16.5	15.3	14.2	1.6	0.8	1.6	1.7	1.7
Amortization	2.4	0.2	17.6	16.4	14.5	2.3	0.5	1.2	1.2	1.2
Other accounts payable, incl. arrears	-1.3	1.4	2.2	-3.9	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancies	-0.3	-2.4	1.6	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
					General Government 6/					
Revenue	**47.6**	**46.2**	**45.8**	**44.1**	**44.3**	**44.4**	**44.5**	**44.4**	**44.4**	**44.4**
of which : Social contributions	15.5	14.9	13.9	13.8	13.9	13.8	13.8	13.7	13.7	13.7
Expenditure	**63.3**	**56.6**	**45.5**	**43.3**	**44.7**	**44.5**	**45.2**	**45.6**	**45.6**	**45.6**
Expense	63.8	57.3	45.7	43.9	44.8	44.5	45.0	45.0	44.9	44.9
of which : Social benefits	28.2	26.3	22.5	22.0	21.7	21.4	21.3	21.3	21.3	21.3
Net acquisition of nonfinancial assets	-0.5	-0.6	-0.2	-0.7	-0.1	0.1	0.2	0.7	0.7	0.7
Overall Balance	**-15.7**	**-10.4**	**0.3**	**0.9**	**-0.3**	**-0.1**	**-0.7**	**-1.2**	**-1.2**	**-1.1**
Primary Balance	**-14.4**	**-9.2**	**1.4**	**2.0**	**1.5**	**1.4**	**0.7**	**0.1**	**0.2**	**0.2**
Memorandum Items										
Current account balance, authorities' definition	-15.8	-7.4	1.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Of which : Compensation for past deficits (+: payment)	1.0	0.3	-0.3	0.0	0.0	0.5	0.0	0.0	0.0	0.0
Interest rule (interest/revenue) (percent) 7/	2.8	2.9	2.9	3.0	4.7	3.7	3.5	3.3	3.2	3.2
Government debt service	3.9	1.6	18.8	21.4	16.3	3.8	1.9	2.5	2.5	2.5
Gross government debt 8/	87.1	90.3	81.6	70.8	65.4	61.1	58.5	56.9	55.4	53.9
Net government debt	80.4	85.2	75.5	67.0	61.9	57.8	55.1	53.6	52.2	50.9
Government deposits	6.8	5.1	6.1	3.7	3.5	3.3	3.4	3.3	3.2	3.1
Nominal GDP	4,536	4,904	5,505	5,939	6,404	6,783	7,112	7,371	7639	7917

Sources: Curaçao authorities and IMF staff estimates and projections.

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

2/ Includes teacher salaries.

3/ 2020-21 values show pandemic-related payroll subsidies to the private sector.

4/ Ennia transfer includes the expected average contribution by the CBCS, with the expected additional profit distribution accounted for under other revenues.

5/ Mostly changes in deposits.

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

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

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

Table 4. Curaçao: Balance of Payments, 2020–29
(Millions of U.S. dollars unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.			Proj.			
Current Account	**-689**	**-509**	**-823**	**-655**	**-640**	**-625**	**-617**	**-599**	**-586**	**-580**
Goods and services	-694	-546	-845	-658	-636	-615	-607	-586	-569	-560
Exports of goods and services	1,014	1,363	2,046	2,107	2,391	2,557	2,690	2,825	2,967	3,109
Goods	271	344	553	560	592	614	639	666	694	723
Services	743	1,019	1,493	1,546	1,799	1,943	2,051	2,159	2,273	2,386
Imports of goods and services	1,709	1,910	2,891	2,764	3,027	3,172	3,297	3,411	3,536	3,669
Goods	1,209	1,483	2,027	1,830	2,037	2,126	2,198	2,263	2,337	2,415
Services	500	426	864	935	990	1,046	1,099	1,148	1,199	1,253
Income	56	51	37	27	10	1	0	-1	-3	-4
Of which: Net investment income	5	4	-19	-33	-55	-66	-69	-73	-78	-82
Current transfers	-51	-14	-15	-24	-13	-11	-10	-12	-14	-16
Capital and Financial Account	**863**	**618**	**633**	**663**	**556**	**552**	**608**	**619**	**622**	**625**
Capital account	-2	3	12	6	2	2	2	2	2	2
Financial account	865	614	621	657	554	550	607	617	621	624
Direct investment	149	168	157	129	137	146	153	159	165	172
Portfolio investment	131	20	-33	5	73	77	81	84	87	90
Financial derivatives	0	0	0	0	0	0	0	0	0	0
Other investment	586	426	497	523	345	327	373	374	369	362
Net Errors and Omissions	**79**	**-4**	**83**	**61**	**0**	**0**	**0**	**0**	**0**	**0**
Overall Balance	**253**	**105**	**-107**	**70**	**-84**	**-73**	**-8**	**19**	**36**	**46**
Reserve Assets	**253**	**105**	**-107**	**70**	**-84**	**-73**	**-8**	**19**	**36**	**46**
Current Account	**-27.2**	**-18.6**	**-26.8**	**-19.7**	**-17.9**	**-16.5**	**-15.5**	**-14.6**	**-13.7**	**-13.1**
Goods and services	-27.4	-19.9	-27.5	-19.8	-17.8	-16.2	-15.3	-14.2	-13.3	-12.7
Exports of goods	10.7	12.5	18.0	16.9	16.5	16.2	16.1	16.2	16.3	16.3
Imports of goods	47.7	54.1	65.9	55.2	56.9	56.1	55.3	55.0	54.8	54.6
Exports of services	29.3	37.2	48.6	46.6	50.3	51.3	51.6	52.4	53.3	53.9
Imports of services	19.7	15.6	28.1	28.2	27.7	27.6	27.7	27.9	28.1	28.3
Income	2.2	1.9	1.2	0.8	0.3	0.0	0.0	0.0	-0.1	-0.1
Current transfers	-2.0	-0.5	-0.5	-0.7	-0.4	-0.3	-0.3	-0.3	-0.3	-0.4
Capital and Financial Account	**34.1**	**22.5**	**20.6**	**20.0**	**15.5**	**14.6**	**15.3**	**15.0**	**14.6**	**14.1**
Of which										
Direct investment	5.9	6.1	5.1	3.9	3.8	3.8	3.9	3.9	3.9	3.9
Portfolio investment	5.2	0.7	-1.1	0.2	2.0	2.0	2.0	2.0	2.0	2.0
Other investment	23.1	15.6	16.2	15.8	9.6	8.6	9.4	9.1	8.6	8.2
Net Errors and Omissions	**3.1**	**-0.2**	**2.7**	**1.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance	**10.0**	**3.8**	**-3.5**	**2.1**	**-2.4**	**-1.9**	**-0.2**	**0.5**	**0.8**	**1.0**

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

Table 5. Sint Maarten: Selected Economic and Financial Indicators, 2020–29

Area	34 (km^2)	Population, thousand (2022)	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

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Prel.	Prel.	Prel.	Est.			Proj.			
Real Economy					(Percent change, unless otherwise noted)					
Real GDP 1/	-20.4	7.1	13.9	3.5	2.7	3.0	2.6	2.2	1.8	1.8
CPI (12-month average)	0.7	2.8	3.6	2.1	2.5	2.3	2.0	2.0	2.0	2.0
Unemployment rate (percent) 2/	16.9	10.8	9.9	8.6	8.5	8.2	8.0	8.0	8.0	8.0
Government Finances					(Percent of GDP)					
Primary balance excl. Trust Fund operations 3/	-8.7	-5.4	-0.6	1.5	0.9	0.9	0.9	1.0	1.0	1.0
Current balance (Authorities' definition) 4/	-9.6	-6.3	-1.5	0.5	-0.1	0.0	0.0	0.0	0.0	0.0
Overall balance excl. Trust Fund operations 3/	-9.3	-5.9	-1.1	1.0	0.2	0.2	0.2	0.4	0.4	0.4
Central government debt 5/	56.1	55.3	49.3	49.0	46.2	44.1	41.8	39.4	37.3	35.6
Balance of Payments					(Percent of GDP)					
Current account	-25.5	-24.6	-3.9	-7.5	-7.8	-3.0	-2.5	-0.9	0.2	1.1
Goods trade balance	-40.7	-49.8	-59.2	-59.3	-62.4	-60.5	-60.3	-59.4	-58.6	-58.0
Exports of goods	11.8	11.4	14.1	14.8	13.1	11.2	10.1	10.0	9.8	9.8
Imports of goods	52.4	61.2	73.2	74.1	75.5	71.7	70.4	69.4	68.5	67.8
Service balance	20.2	33.1	62.8	60.3	62.6	65.2	65.4	65.9	66.1	66.2
Exports of services	34.4	51.0	78.7	81.4	81.5	83.9	84.0	84.3	84.2	84.1
Imports of services	14.3	17.9	15.9	21.1	18.9	18.7	18.5	18.3	18.1	17.9
External debt 6/	274.3	253.7	213.6	206.3	200.8	194.0	188.1	182.7	178.2	174.2
Memorandum Items										
Nominal GDP (millions of U.S. dollars) 1/	1,141	1,268	1,479	1,563	1,645	1,733	1,813	1,891	1,963	2,039
Per capita GDP (U.S. dollars) 1/	26,796	29,646	34,437	36,088	37,570	39,160	40,561	41,882	43,090	44,368
Credit to non-gov. sectors (percent change)	2.4	1.3	4.5	1.0	...	...	...	...	...	...

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 NAf 1.79 = US$1.

Sources: The Sint Maarten authorities, World Bank, and IMF staff estimates and projections.
1/ Central Bank of Curacao and Sint Maarten and IMF staff estimates.
2/ The size of the 2022 labor force reported by the 2023 Census was adjusted to ensure consistency with the reported total population.
3/ Excludes Trust Fund (TF) grants and TF-financed special projects.
4/ Revenue excl. grants minus interest income, current expenditure and depreciation of fixed assets.
5/ The stock of debt in 2018 is based on financial statements. Values in subsequent years are staff's estimates.
6/ The latest available datapoint is as of 2018. Values for 2019-2022 are IMF staff estimates based on BOP flow data.

Table 6. Sint Maarten: Government Operations, 2020–29
(Millions of NA*f* unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Prel.	Prel.	Prel.	Est.			Proj.			
					Budgetary Central Government					
Revenue	**355**	**365**	**440**	**509**	**526**	**552**	**575**	**599**	**624**	**648**
Taxes	299	303	364	425	433	455	474	494	514	534
Taxes on income and profits	160	146	170	212	210	219	227	236	247	256
Taxes on goods and services	131	143	177	197	207	218	228	238	247	256
Property and other taxes	9	13	17	16	17	18	19	20	20	21
Grants	0	0	0	0	0	0	0	0	0	0
Other revenue	56	62	76	84	93	97	102	106	110	114
of which : Capital revenue	0	0	0	0	4	4	4	4	4	4
Expenditure	**545**	**499**	**470**	**482**	**521**	**544**	**568**	**587**	**610**	**634**
Expense	541	498	467	482	510	533	555	573	596	618
Compensation of employees	194	197	208	215	228	239	249	259	271	280
of which : Wages	135	132	131	142	151	159	166	173	182	189
Goods and services	108	95	113	117	113	117	121	120	125	131
Social benefits 1/	34	35	32	35	37	39	41	43	44	46
Subsidies	191	159	102	102	107	113	118	125	130	135
Interest	13	12	13	14	25	25	26	26	26	26
Capital expenditure	4	1	2	0	11	12	13	14	14	16
Overall Balance	**-190**	**-134**	**-30**	**27**	**5**	**7**	**7**	**12**	**14**	**14**
Primary Balance	**-177**	**-122**	**-17**	**42**	**26**	**29**	**29**	**35**	**36**	**36**
Financing Transactions (+: increasing net assets)	-104	-147	-22	22	5	7	7	12	14	14
Net acquisition of financial assets	64	-38	-3	75	-6	-2	-4	-4	-3	7
Net incurrence of liabilities	168	110	19	53	-11	-9	-11	-17	-17	-7
Domestic	-7	12	0	5	0	0	0	0	0	0
External	175	97	19	49	-11	-9	-11	-17	-17	-7
Disbursements	225	118	326	377	0	75	0	0	0	69
Amortization	58	9	307	329	11	84	11	17	17	75
Statistical discrepancies	-86	13	-8	5	0	0	0	0	0	0
					Budgetary Central Government Consolidated with Trust Fund Operations					
Revenue and Grants	**466**	**473**	**528**	**640**	**624**	**660**	**637**	**652**	**665**	648
Central government revenue	355	365	440	509	526	552	575	599	624	648
Trust Fund grants	111	108	88	131	98	108	62	52	41	0
Total Expenditure	**607**	**592**	**530**	**670**	**639**	**670**	**642**	**639**	**651**	634
Central government expenditure	545	499	470	482	521	544	568	587	610	634
Trust Fund special projects	62	93	60	188	118	126	74	52	41	0
Overall Balance	**-141**	**-119**	**-2**	**-29**	**-15**	**-10**	**-5**	**12**	**14**	14
Net acquisition of financial assets	113	-23	114	16	-26	-2	-16	-10	-9	1
Net incurrence of liabilities	168	110	108	53	-11	8	-11	-23	-23	-13
Memorandum Items										
Current account balance, authorities' definition 2/	-197	-142	-40	14	-2	0	0	0	0	0
of which : Liquidity compensation	0	0	0	14	0	0	0	6	7	8
of which : Depreciation	11	9	13	14	14	15	16	16	17	18
Fiscal Rules and Sustainability Indicators										
Interest rule (interest/revenue) (percent) 3/	3.1	2.7	2.8	2.9	4.6	4.2	4.1	4.1	4.0	4.0
Gross central government debt 4/	1,146	1,255	1,304	1,370	1,359	1,368	1,357	1,335	1,312	1,299
Budgetary central government deposits (eop) 5/	123	95	102	141	131	124	116	120	124	139
Net central government debt	1,022	1,160	1,202	1,229	1,229	1,244	1,241	1,215	1,188	1,161
Nominal GDP, millions of NAf 6/	2,042	2,269	2,647	2,798	2,945	3,102	3,246	3,384	3514	3650

Sources: The Sint Maarten authorities and IMF staff estimates and projections.

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 2018 is based on financial statements. Values in subsequent years are staff's estimates and are higher than under authorities' definition.

5/ Historical data are from the CBCS monetary survey. The data include deposits of entities in the broader public sector.

6/ GDP estimates for 2019-21 reflect the authorities' recently released growth estimates and IMF staff's deflator estimates in anticipation of the forthcoming update to the authorities' estimates.

Table 7. Sint Maarten: Government Operations, 2020–29

(Percent of GDP unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Prel.	Prel.	Prel.	Est.			Proj.			
					Budgetary Central Government					
Revenue	**17.4**	**16.1**	**16.6**	**18.2**	**17.9**	**17.8**	**17.7**	**17.7**	**17.7**	**17.7**
Taxes	14.7	13.3	13.7	15.2	14.7	14.7	14.6	14.6	14.6	14.6
Taxes on income and profits	7.8	6.5	6.4	7.6	7.1	7.1	7.0	7.0	7.0	7.0
Taxes on goods and services	6.4	6.3	6.7	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Property and other taxes	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	2.7	2.7	2.9	3.0	3.1	3.1	3.1	3.1	3.1	3.1
of which : Capital revenue	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Expenditure	**26.7**	**22.0**	**17.7**	**17.2**	**17.7**	**17.6**	**17.5**	**17.3**	**17.4**	**17.4**
Expense	26.5	21.9	17.7	17.2	17.3	17.2	17.1	16.9	17.0	16.9
Compensation of employees	9.5	8.7	7.9	7.7	7.7	7.7	7.7	7.6	7.7	7.7
of which : Wages	6.6	5.8	5.0	5.1	5.1	5.1	5.1	5.1	5.2	5.2
Goods and services	5.3	4.2	4.3	4.2	3.8	3.8	3.7	3.6	3.6	3.6
Social benefits 1/	1.7	1.6	1.2	1.2	1.3	1.3	1.3	1.3	1.3	1.3
Subsidies	9.4	7.0	3.8	3.6	3.6	3.6	3.6	3.7	3.7	3.7
Interest	0.7	0.5	0.5	0.5	0.9	0.8	0.8	0.8	0.7	0.7
Capital expenditure	0.2	0.1	0.1	0.0	0.4	0.4	0.4	0.4	0.4	0.4
Overall Balance	**-9.3**	**-5.9**	**-1.1**	**1.0**	**0.2**	**0.2**	**0.2**	**0.4**	**0.4**	**0.4**
Primary Balance	**-8.7**	**-5.4**	**-0.6**	**1.5**	**0.9**	**0.9**	**0.9**	**1.0**	**1.0**	**1.0**
Financing Transactions (+: increasing net assets)	-5.1	-6.5	-0.8	0.8	0.2	0.2	0.2	0.4	0.4	0.4
Net acquisition of financial assets	3.1	-1.7	-0.1	2.7	-0.2	-0.1	-0.1	-0.1	-0.1	0.2
Net incurrence of liabilities	8.2	4.8	0.7	1.9	-0.4	-0.3	-0.3	-0.5	-0.5	-0.2
Domestic	-0.3	0.5	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
External	8.6	4.3	0.7	1.7	-0.4	-0.3	-0.3	-0.5	-0.5	-0.2
Gross borrowing	11.0	5.2	12.3	13.5	0.0	2.4	0.0	0.0	0.0	1.9
Amortization	2.8	0.4	11.6	11.7	0.4	2.7	0.3	0.5	0.5	2.1
Statistical discrepancies	-4.2	0.6	-0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0
					Budgetary Central Government Consolidated with Trust Fund Operations					
Revenue and Grants	**22.8**	**20.8**	**19.9**	**22.9**	**21.2**	**21.3**	**19.6**	**19.3**	**18.9**	**17.7**
Central government revenue	17.4	16.1	16.6	18.2	17.9	17.8	17.7	17.7	17.7	17.7
Trust Fund grants	5.5	4.8	3.3	4.7	3.3	3.5	1.9	1.5	1.2	0.0
Total Expenditure	**29.7**	**26.1**	**20.0**	**23.9**	**21.7**	**21.6**	**19.8**	**18.9**	**18.5**	**17.4**
Central government expenditure	26.7	22.0	17.7	17.2	17.7	17.6	17.5	17.3	17.4	17.4
Trust Fund special projects	3.0	4.1	2.3	6.7	4.0	4.1	2.3	1.5	1.2	0.0
Overall Balance	**-6.9**	**-5.3**	**-0.1**	**-1.0**	**-0.5**	**-0.3**	**-0.2**	**0.4**	**0.4**	**0.4**
Net acquisition of financial assets	5.5	-1.0	4.3	0.6	-0.9	-0.1	-0.5	-0.3	-0.3	0.0
Net incurrence of liabilities	8.2	4.8	4.1	1.9	-0.4	0.3	-0.3	-0.7	-0.6	-0.3
Memorandum Items										
Current account balance, authorities' definition 2/	-9.6	-6.3	-1.5	0.5	-0.1	0.0	0.0	0.0	0.0	0.0
of which : Liquidity compensation	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.2	0.2	0.2
of which : Depreciation	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Fiscal Rules and Sustainability Indicators										
Interest rule (interest/revenue) (percent) 3/	3.1	2.7	2.8	2.9	4.6	4.2	4.1	4.1	4.0	4.0
Gross central government debt 4/	56.1	55.3	49.3	49.0	46.2	44.1	41.8	39.4	37.3	35.6
Budgetary central government deposits (eop) 5/	6.0	4.2	3.9	5.0	4.4	4.0	3.6	3.5	3.5	3.8
Net central government debt	50.1	51.1	45.4	43.9	41.7	40.1	38.2	35.9	33.8	31.8
Nominal GDP, millions of NAf 6/	2,042	2,269	2,647	2,798	2,945	3,102	3,246	3,384	3,514	3650

Sources: The Sint Maarten authorities and IMF staff estimates and projections.

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 2018 is based on financial statements. Values in subsequent years are staff's estimates and are higher than ones under authorities' definition.

5/ Historical data are from the CBCS monetary survey. The data include deposits of entities in the broader public sector.

6/ GDP estimates for 2019-21 reflect the authorities' recently released growth estimates and IMF staff's deflator estimates in anticipation of the forthcoming update to the authorities' estimates.

Table 8. Sint Maarten: Balance of Payments, 2020–29
(Millions of U.S. dollars unless otherwise indicated)

	2020	2021	2022 Prel.	2023 Prel.	2024 Proj.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
					(Millions of US Dollars)					
Current Account	**-290**	**-312**	**-57**	**-117**	**-128**	**-53**	**-45**	**-17**	**4**	**22**
Goods and services	-234	-212	54	15	3	81	92	123	146	168
Exports of goods and services	527	791	1,372	1,504	1,557	1,649	1,706	1,782	1,847	1,916
Goods	134	144	208	231	216	194	183	189	193	200
Services	393	647	1,164	1,273	1,341	1,454	1,523	1,594	1,653	1,716
Imports of goods and services	761	1,003	1,318	1,489	1,554	1,567	1,614	1,659	1,700	1,748
Goods	598	775	1,083	1,158	1,242	1,243	1,277	1,312	1,344	1,382
Services	163	227	235	330	312	325	336	347	356	366
Income	-31	-41	-47	-49	-50	-54	-57	-60	-62	-65
o/w Investment income	-8	-17	-14	-11	-10	-11	-13	-14	-14	-15
Current transfers	-26	-59	-65	-83	-81	-80	-80	-80	-80	-81
Capital and Financial Account	**282**	**250**	**-21**	**164**	**74**	**56**	**17**	**4**	**-3**	**-21**
Capital account	50	56	65	100	55	60	35	29	23	0
Financial account	232	194	-86	64	19	-4	-18	-25	-26	-21
Direct investment	21	20	15	45	45	47	50	52	54	56
Portfolio investment	-14	4	-35	58	-2	-2	-2	-2	-2	-2
Financial derivatives	0	0	0	0	0	0	0	0	0	0
Other investment	225	169	-67	-39	-24	-50	-66	-75	-78	-75
Net Errors and Omissions	**-97**	**-99**	**-41**	**22**	**0**	**0**	**0**	**0**	**0**	**0**
Overall Balance	**-106**	**-161**	**-119**	**69**	**-54**	**3**	**-28**	**-13**	**1**	**1**
Reserve Assets	**89**	**37**	**-38**	**25**	**-54**	**3**	**-28**	**-13**	**1**	**1**
					(Percent of GDP)					
Current Account	**-25.5**	**-24.6**	**-3.9**	**-7.5**	**-7.8**	**-3.0**	**-2.5**	**-0.9**	**0.2**	**1.1**
Goods and services	-20.5	-16.7	3.7	1.0	0.2	4.7	5.1	6.5	7.4	8.2
Exports of goods	11.8	11.4	14.1	14.8	13.1	11.2	10.1	10.0	9.8	9.8
Imports of goods	52.4	61.2	73.2	74.1	75.5	71.7	70.4	69.4	68.5	67.8
Exports of services	34.4	51.0	78.7	81.4	81.5	83.9	84.0	84.3	84.2	84.1
Imports of services	14.3	17.9	15.9	21.1	18.9	18.7	18.5	18.3	18.1	17.9
Income	-2.7	-3.2	-3.2	-3.1	-3.1	-3.1	-3.1	-3.2	-3.2	-3.2
Current transfers	-2.2	-4.7	-4.4	-5.3	-4.9	-4.6	-4.4	-4.2	-4.1	-4.0
Capital and Financial Account	**24.7**	**19.7**	**-1.4**	**10.5**	**4.5**	**3.2**	**0.9**	**0.2**	**-0.1**	**-1.0**
of which										
Direct investment	1.8	1.6	1.0	2.9	2.7	2.7	2.7	2.7	2.7	2.8
Portfolio investment	-1.3	0.3	-2.4	3.7	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Other investment	19.8	13.4	-4.5	-2.5	-1.4	-2.9	-3.6	-4.0	-4.0	-3.7
Net Errors and Omissions	**-8.5**	**-7.8**	**-2.8**	**1.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance	**-9.3**	**-12.7**	**-8.1**	**4.4**	**-3.3**	**0.2**	**-1.5**	**-0.7**	**0.1**	**0.0**

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

Table 9. Curaçao and Sint Maarten Monetary Union: Balance of Payments, 2020–29
(Millions of U.S. dollars unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
							Proj.			
					(Millions of U.S. Dollars)					
Current Account	**-962**	**-810**	**-865**	**-764**	**-769**	**-678**	**-662**	**-616**	**-582**	**-558**
Goods and services	-911	-748	-776	-635	-634	-534	-514	-463	-423	-392
Exports of goods and services	1,563	2,166	3,439	3,622	3,948	4,205	4,396	4,607	4,813	5,025
Goods	405	488	763	791	808	809	822	854	887	923
Services	1,158	1,678	2,677	2,831	3,140	3,397	3,574	3,753	3,927	4,102
Imports of goods and services	2,474	2,914	4,215	4,257	4,581	4,739	4,910	5,070	5,237	5,417
Goods	1,809	2,259	3,112	2,989	3,279	3,369	3,475	3,575	3,681	3,798
Services	665	655	1,103	1,268	1,302	1,371	1,435	1,495	1,555	1,619
Income	25.3	10.5	-9.9	-21.8	-40.9	-52.5	-56.5	-60.7	-64.9	-69.4
Of which: Net investment income	-2.9	-12.8	-34.0	-43.9	-65.8	-77.4	-82.0	-86.9	-92.2	-97.7
Current transfers	-76.2	-72.7	-79.5	-107.2	-94.2	-91.0	-90.9	-92.4	-93.7	-96.5
Capital and Financial Account	**1,147**	**868**	**612**	**794**	**630**	**608**	**625**	**623**	**620**	**605**
Capital account	50	60	77	106	56	62	36	31	25	2
Financial account	1,097	808	535	688	574	546	589	592	595	603
Direct investment	170	189	172	174	182	193	203	211	219	228
Portfolio investment	116	24	-68	63	71	75	79	82	85	88
Other investment	811	596	430	450	321	277	307	299	291	287
Net Errors and Omissions	**157**	**84**	**109**	**65**	**0**	**0**	**0**	**0**	**0**	**0**
Overall Balance	**342**	**141**	**-144**	**95**	**-139**	**-70**	**-36**	**7**	**38**	**47**
Reserve Assets	**342**	**141**	**-144**	**95**	**-139**	**-70**	**-36**	**7**	**38**	**47**
					(Percent of GDP)					
Current Account	**-26.2**	**-20.2**	**-19.0**	**-15.7**	**-14.7**	**-12.3**	**-11.4**	**-10.3**	**-9.3**	**-8.6**
Goods and services	-24.8	-18.7	-17.0	-13.0	-12.1	-9.7	-8.9	-7.7	-6.8	-6.1
Income	-0.1	-0.3	-0.7	-0.9	-1.3	-1.4	-1.4	-1.4	-1.5	-1.5
Current transfers	-2.1	-1.8	-1.7	-2.2	-1.8	-1.6	-1.6	-1.5	-1.5	-1.5
Capital and Financial Account	**31.2**	**21.7**	**13.4**	**16.3**	**12.1**	**11.0**	**10.8**	**10.4**	**9.9**	**9.4**
Direct investment	4.6	4.7	3.8	3.6	3.5	3.5	3.5	3.5	3.5	3.5
Portfolio investment	3.2	0.6	-1.5	1.3	1.4	1.4	1.4	1.4	1.4	1.4
Other investment	22.1	14.9	9.4	9.2	6.1	5.0	5.3	5.0	4.7	4.4
Net Errors and Omissions	**4.3**	**2.1**	**2.4**	**1.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance	**9.3**	**3.5**	**-3.2**	**1.9**	**-2.7**	**-1.3**	**-0.6**	**0.1**	**0.6**	**0.7**
Memorandum Items										
Gross official reserves, incl. gold	2,420	2,531	2,384	2,573	2,435	2,365	2,329	2,336	2,373	2,420
Gross official reserves, excl. gold	1,625	1,766	1,622	1,717	1,831	1,762	1,725	1,732	1,770	1,816
in months of imports	6.7	5.0	4.6	4.5	4.6	4.3	4.1	4.0	3.9	3.9
over short-term debt	1.1	1.4	1.0	1.0	1.1	1.0	1.0	0.9	0.9	0.9
Gross external debt, percent of GDP 1/	221.2	213.4	191.5	186.4	179.1	173.4	170.2	168.5	167.2	166.1
Of which: short-term debt	38.8	31.5	34.5	33.7	32.4	31.5	31.0	30.8	30.7	30.5
Net IIP, percent of GDP	93.5	69.1	45.9	30.0	14.4	2.5	-8.5	-17.9	-26.2	-33.9

Sources: Centrale Bank van Curaçao en Sint Maarten and IMF staff estimates and projections.
1/ The latest available datapoint is as of 2018. Values for 2019-2023 are IMF staff estimates based on BOP flow data.

Table 10. Curaçao and Sint Maarten: Monetary Survey, 2018–23 1/

(Millions of NAf unless otherwise indicated)

	2018	2019	2020	2021	2022	2023
Net Foreign Assets	**5,123**	**5,469**	**5,912**	**6,623**	**6,547**	**6,925**
Claims on nonresidents	6,972	7,343	8,108	8,535	8,311	9,467
Central bank	3,331	3,442	4,331	4,531	4,267	4,606
Other depository corporations	3,642	3,902	3,777	4,004	4,044	4,860
Liabilities to nonresidents	-1,849	-1,874	-2,196	-1,912	-1,764	-2,541
Central bank	-346	-303	-245	-217	-276	-346
Other depository corporations	-1,503	-1,571	-1,951	-1,695	-1,487	-2,195
Net Domestic Assets	**3,562**	**3,206**	**2,925**	**2,977**	**2,717**	**2,647**
Net domestic claims	6,492	6,460	6,493	6,177	6,308	6,532
Net claims on central government	-281	-275	-372	-257	-330	-284
Claims on private sector 1/2/	6,684	6,667	6,737	6,323	6,532	6,662
Claims on other sectors	88	68	128	111	106	154
Other items, net	-2,930	-3,254	-3,567	-3,200	-3,590	-3,885
Broad Money	**8,685**	**8,675**	**8,838**	**9,600**	**9,265**	**9,572**
Currency in circulation	393	391	424	449	439	462
Transferable deposits	3,916	3,911	4,072	4,748	4,505	4,662
Other deposits	4,377	4,372	4,341	4,402	4,320	4,448
			Contribution to Broad Money			
Monetary Survey						
Net Foreign Assets	**-1.1**	**4.0**	**5.1**	**8.0**	**-0.8**	**4.1**
Net Domestic Assets	**1.1**	**-4.1**	**-3.2**	**0.6**	**-2.7**	**-0.8**
Claims on private sector	0.2	-0.2	0.8	-4.7	2.2	1.4
Broad Money	**0.0**	**-0.1**	**1.9**	**8.6**	**-3.5**	**3.3**
Currency in circulation (contribution)	0.0	0.0	0.4	0.3	-0.1	0.2
Local currency deposits (contribution)	-1.0	-0.5	2.9	4.9	-4.0	3.7
Foreign currency deposits (contribution)	0.9	0.3	-1.4	3.4	0.7	-0.6
Memorandum Items						
Velocity (GDP/Broad money)	0.89	0.91	0.74	0.75	0.88	0.91
Foreign currency deposits to total deposits	35.0	35.6	35.8	36.5	34.7	35.6
Claims on the private sector, y/y percent change 1/3/	1.5	1.9	0.6	-7.0	3.5	2.1
Curaçao 1/	2.5	2.0	0.1	-9.7	3.2	2.5
Sint Maarten	-1.7	1.4	2.4	1.3	4.5	1.0
Mortgage lending in the Monetary Union, y/y percent change 1/	-2.6	-5.0	3.9	-1.7	4.2	6.2
Curaçao 1/	-3.0	-6.6	3.2	-4.4	4.8	8.5
Sint Maarten	-1.7	-1.7	5.3	3.5	3.3	2.0

Sources: Centrale Bank van Curaçao en Sint Maarten (CBCS) and IMF staff estimates.
1/ The decline in 2021 is caused by unwinding of Girobank's portfolio.
2/ Includes private sector investments and loans by the CBCS.
3/ Excludes private sector investments and loans by the CBCS.

Table 11. Curaçao and Sint Maarten: Central Bank Survey, 2018–23
(Millions of NAf unless otherwise indicated)

	2018	2019	2020	2021	2022	2023
			(Millions of NAf, End of Period)			
Net Foreign Assets (NFA)	**2,985**	**3,139**	**4,086**	**4,314**	**3,990**	**4,260**
Foreign assets	3,331	3,442	4,331	4,531	4,267	4,606
Foreign liabilities	-346	-303	-245	-217	-276	-346
Net Domestic Assets (NDA)	**-352**	**-644**	**-1,164**	**-925**	**-851**	**-1,082**
Net domestic claims	465	368	104	268	272	246
Net claims on central government	-58	-44	-45	69	87	64
Claims on other depository corporations	288	267	0	0	0	0
Claims on other sectors	235	145	149	199	186	182
Capital and other items, net	-817	-1,013	-1,267	-1,193	-1,124	-1,328
Monetary Base (MB)	**2,633**	**2,494**	**2,923**	**3,389**	**3,139**	**3,178**
Currency in circulation	488	505	556	566	564	562
Liabilities to other depository corporations	2,047	1,916	2,267	2,657	2,383	2,335
Liabilities to other sectors	98	73	100	165	191	281
			(Annual Percentage Change)			
Monetary Base	**-6.6**	**-5.3**	**17.2**	**15.9**	**-7.4**	**1.2**
NFA, contribution to MB growth	-13.3	5.8	38.0	7.8	-9.5	8.6
NDA, contribution to MB growth	6.7	-11.1	-20.8	8.1	2.2	-7.4

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

Table 12. Curaçao and Sint Maarten: Financial Soundness Indicators, 2018–23 1/

(In percent)

	2018	2019	2020	2021	2022	2023
			Curaçao 1/			
Capital Adequacy						
Regulatory capital to risk-weighted assets	16.2	17.2	18.6	22.3	22.5	23.1
Tier 1 capital to risk-weighted assets	15.1	15.8	17.3	21.0	21.4	22.2
Nonperforming loans net of provisions to capital	20.0	23.1	22.4	19.5	14.7	10.9
Tier 1 Capital to assets (leverage ratio)	13.4	12.4	12.6	14.0	15.3	15.7
Asset Quality						
Nonperforming loans to total gross loans	8.9	9.5	10.8	10.6	8.1	5.9
Provisions to nonperforming loans	31.6	32.0	38.2	36.4	35.0	31.7
Earnings and Profitability						
Return on assets 3/	1.1	1.0	0.7	1.4	2.2	2.0
Return on equity 3/	7.6	8.5	6.1	9.4	13.8	12.8
Interest margin to gross income 4/	39.4	40.4	50.6	40.9	38.2	34.2
Noninterest expenses to gross income 4/	71.1	72.9	64.1	69.9	66.6	66.6
Liquidity						
Liquid assets to total assets	31.6	31.9	46.5	40.5	36.5	37.6
Liquid assets to short-term liabilities	45.4	47.5	61.4	56.5	52.0	53.3
Sensitivity to Market Risk						
Net open position in foreign exchange to capital	4.3	3.7	2.2	1.7	2.3	1.6
FX loans to total loans	16.1	15.6	15.0	14.9	15.0	15.8
FX deposits to total deposits	22.4	25.5	40.8	28.5	28.4	30.4
			Sint Maarten 2/			
Asset Quality						
Nonperforming loans to total gross loans	13.9	10.0	12.3	10.0	11.2	8.2
Provisions to nonperforming loans	38.9	25.5	33.3	32.3	26.4	27.6
Earnings and Profitability						
Return on assets 3/	1.9	1.7	-0.4	0.7	0.6	0.6
Interest margin to gross income 4/	62.1	62.7	66.9	61.1	54.5	57.5
Noninterest expenses to gross income 4/	82.5	82.5	82.5	82.5	82.5	82.5
Liquidity						
Liquid assets to total assets	56.5	56.5	56.5	56.5	56.5	56.5
Liquid assets to short-term liabilities	70.7	77.7	85.5	72.9	71.9	72.9
Sensitivity to Market Risk						
FX loans to total loans	68.1	67.4	69.7	69.7	70.0	70.2
FX deposits to total deposits	70.0	72.4	81.0	75.5	75.6	76.2

Source: Centrale Bank van Curaçao en Sint Maarten.
1/ Some indicators were compiled using the cross border, cross-sector consolidation basis for all domestically incorporated entities (CBCSDI) method.
2/ FSIs are consolidated on a domestic basis.
3/ Historical series revised by CBCS in line with IMF TA recommendations.
4/ Historical series revised by CBCS in line with IMF definition of gross income.

Table 13. Curaçao and Sint Maarten Monetary Union: Financial Soundness Indicators, 2018–23 1/
(In percent)

	2018	2019	2020	2021	2022	2023
Capital Adequacy						
Capital adequacy ratio 2/	15.3	16.9	17.5	19.3	21.2	22.3
Core capital adequacy ratio 3/	13.9	15.2	15.9	17.8	19.8	20.9
Tier 1 capital to assets	12.7	12.0	12.2	13.0	14.3	14.4
NPL net of provisions to capital	26.5	27.6	28.4	24.4	19.1	13.8
Asset Quality						
NPLs to gross loans	10.2	9.6	11.2	10.4	9.0	6.7
Provisions to NPL	34.2	30.4	36.9	35.3	32.1	29.7
Large exposures to capital 4/	99.8	99.4	108.8	92.1	83.9	…
Earnings and Profitability						
Return on assets 5/	1.5	1.5	0.6	1.4	2.0	1.7
Return on equity 5/	11.0	11.3	4.6	10.2	13.5	12.0
Net interest income to gross income 6/	47.2	46.5	56.7	48.8	44.3	42.2
Non-interest expenses to gross income 6/	77.6	74.9	69.9	71.5	69.7	70.2
Liquidity						
Liquid assets to total assets	30.1	30.9	33.1	33.4	31.7	34.8
Liquid assets to short-term liabilities	43.0	44.6	46.4	47.4	45.7	49.3
Loans to total deposits	67.2	67.5	65.9	61.2	63.6	62.8
Sensitivity to Market Risk						
Net open position in foreign exchange to capital 7/	4.1	3.8	2.7	1.8	3.2	2.0
FX-denominated loans to total loans	29.8	28.7	29.6	29.9	29.9	30.5
FX-denominated deposits to total deposits	35.0	35.6	35.8	36.5	34.7	35.6

Source: Centrale Bank van Curaçao en Sint Maarten.

1/ FSIs are consolidated on a domestic basis, excluding subsidiaries and branches outside the union and intercompany placements between Curaçao and Sint Maarten.

2/ Tier 1 and tier 2 capital to risk-weighted assets.

3/ Tier 1 capital to risk-weighted assets.

4/ Excludes branches' positions but includes intraday interbank positions.

5/ Historical series revised by CBCS in line with IMF TA recommendations.

6/ Historical series revised by CBCS in line with IMF definition of gross income.

7/ Excludes branches' positions, USD and Arubaanse net foreign liabilities.

Annex I. Recommendations of the 2023 Article IV Consultation Discussions and Authorities' Actions

A. Curaçao

Fund Recommendation	Policy Action
Fiscal Policy	
Improving the quality of spending, including by emphasizing growth-enhancing investment and budgeting resources for the implementation of the *landspakket* and retaining talent. Improving tax administration and working towards growth-friendly tax policy reforms (e.g., replacing the distortionary sales tax by a VAT).	***Moderate progress.*** The 2024 budget unwinds some wage cuts and adjusts for inflation. Tax administration has been improved, with strengthened audit function. The automatic withholding of sales tax has been delayed allowing for a smoother technological adoption by banks. The authorities are preparing the introduction of a VAT tax after the 2025 general elections. The authorities adopted a roadmap to clean audits last year and set up a dedicated team in the Ministry of Finance to monitor implementation.
Increasing public investment and strengthening public investment management, including by setting a multiyear agenda and establishing dedicated oversight and project management.	***Moderate progress.*** The application process for investment projects has been improved, with help from the Netherlands to enhance planning. The *Road Maintenance Plan* has been conditionally approved for financing, while construction has started. However, they have not implemented the advice of establishing a dedicated public investment institution.
Developing a medium-term fiscal framework (MTFF) supported by a debt anchor.	***Limited progress.*** The authorities adopted a debt anchor last year and are yet to take steps towards building a MTFF, guided by operational fiscal targets consistent with the debt anchor. Policies continue to be guided by the golden fiscal rule.
Structural Reforms	
Implementing a comprehensive health sector reform to ensure financial sustainability and continuity of health services.	***Limited progress.*** Recommendations from the efficiency study commissioned by the Ministry are yielding some savings. First-stop primary care facilities have been developed to reduce loads on the hospital. Some initiatives to rein in costs, including the adoption of generic drugs have been instituted but have faced political resistance. The government has recently committed to paying medical costs for undocumented immigrants. The combined deficit of the hospital and the health insurance remains on an upward trajectory.
Developing a national development strategy setting out a long-term vision for the economy with buy-in from key stakeholders. Improving business environment, including by simplifying permit processes and reducing energy costs.	***Moderate progress.*** A National Recovery Plan is being developed by the Ministry of Economic Development to set growth strategies following the loss of major economic sectors, though it is unclear whether key stakeholders are being consulted. An online permit application process which centralizes decision-making from multiple Ministries is in place, significantly simplifying the application process. An additional onshore wind park will become operational in 2024, which would increase the renewable share of power generation on the island to 50 percent (from 27 percent), reducing the reliance on oil imports and stabilizing electricity prices for businesses.

Fund Recommendation	Policy Action
Improving the AML/CFT framework. Finalizing gaming legislation, in line with AML/CFT international standards. Working towards removing Curaçao from the EU's list of non-cooperative jurisdictions for tax purposes.	***Moderate progress.*** A new gaming legislation, the National Ordinance for Game of Chance, was submitted to parliament in December 2023. The government has also enacted a new law to facilitate automatic information exchange with the EU, which is required to be taken off the EU's list of non-cooperative jurisdictions for tax purposes. Amendments to the regulation of indicators of unusual transactions for Curacao were passed in June 2024.

B. Sint Maarten

Fund Recommendation	Policy Action
Fiscal Policy	
Reversing the compression of high-quality expenditures.	***Substantial progress.*** The authorities have completed the functional review of the Ministry of Justice, which includes retrospective pay adjustments. Functional reviews would continue in other ministries, including the Ministry of Finance. The 2024 budget includes an increase in holiday pay, inflation-indexed wage increases, and recruitment.
Increasing public investment and its execution, including by establishing public investment institutions.	***Moderate progress.*** Sint Maarten recently issued a bond, subscribed by the Netherlands, to fund public investment. The fund was allocated towards capital expenditure projects in the 2024 Budget, but execution has been limited. The capacity to write applications for capital projects (to be approved by the Netherlands) has also been improved but is still constraining borrowing. Public investment institutions are still not established.
Working towards a medium-term fiscal framework (MTFF).	***Moderate progress.*** The Ministry of Finance took initial steps to develop a macroeconomic framework and fiscal forecasting, though a full-fledged MTFF is still not possible due to the lack of capacity for multi-year budget projection at other ministries.
Structural Reforms	
Improving the business environment, including by simplifying the residency and work permit processes. Giving adequate resources for the Financial Intelligence Unit (FIU).	***Severely limited progress.*** Slow permit processes continue to prevent the island to obtain the foreign workers it needs, including for important Trust Fund projects. The only improvement is a legislation that allows a Sint Maarten resident to apply for residency for an unmarried partner if they are in a "concubine" relationship. The FIU continues to be understaffed, and the National Risk Assessment (NRA), which was due in 2024 Q1, has not been published.

C. Monetary Union

Fund Recommendation	Policy Action
Monetary Policy and Financial Issues	
Adjusting monetary policy to support the peg and further developing the monetary policy toolkit.	***Substantial progress.*** The CBCS has appropriately adjusted the monetary policy stance, to reflect global financial conditions, while continuing efforts to absorb excess liquidity.
Finalizing a resolution strategy for ENNIA.	***Achieved.*** See Box 1.

Fund Recommendation	Policy Action
Finalizing the legal framework for the launch of a deposit guarantee scheme.	***Substantial progress.*** Legislation drafted but awaits enactment by Parliament.
Enhancing AML/CFT supervisory legislations by the CBCS, including to address suspicious transaction reporting and politically exposed persons, and developing a schedule of penalties for non-compliance with the NRA.	***Achieved.*** Amendment to the Law allowing the CBCS to engage in supervision of AML activities was passed in May 2024. The CBCS also issued the following regulations and guidelines between June 2023 and June 2024: Guidance on the systematic AML/CFT/CFP Risk Assessment for Curaçao and Sint Maarten; regulation requiring supervised institutions to do independent testing for AML/CFT/CFP; provisions and guidelines on combating money laundering and financing terrorism and proliferation for life insurance companies, credit institutions, trust service providers and factoring companies.

Annex II. External Sustainability Assessment

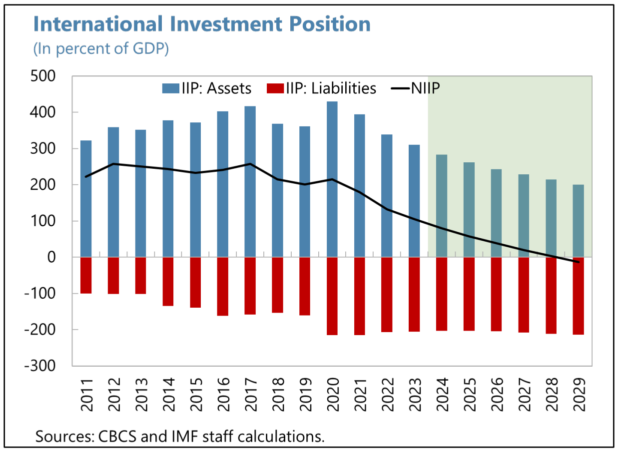
The assessment relies on a basic indicator approach as data constraints and inconsistencies preclude model-based analyses. The external position in Curaçao is assessed to be weaker than warranted by fundamentals and desired policy settings on account of a large and persistent current account deficit, while the almost balanced current account and stable REER in Sint Maarten suggest that its external position is broadly in line with fundamentals. The assessment for the Union is the same as that of Curaçao due to its larger size and CADs. In the medium term, the absence of exchange rate flexibility requires fiscal policy and structural measures to bear the burden of adjustment to restore sustainability.

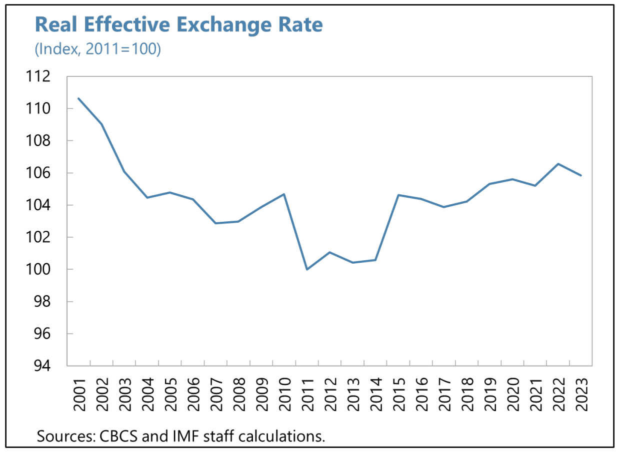
A. Curaçao

1. Curaçao continues to run a high CAD despite a remarkable improvement in 2023. Between 2011–19, Curaçao ran an average annual CAD of around 20 percent of GDP, though much of this might have been a measurement error related to the treatment of the refinery in BOP statistics (Box 2). After the refinery closed in 2019, the CAD spiked again to nearly 30 percent of GDP in 2020 and 2022, as the pandemic choked tourism receipts while the large pandemic support from the Netherlands helped sustain imports despite rising international prices. As these trends reversed in 2023, the CAD improved remarkably but remained elevated at 19.7 percent of GDP. The CA improvement was hampered by weak services exports, as booming tourist arrivals did not translate into commensurate tourism receipts. The CAD continued to be financed by divestment of foreign currency deposits, trade credits, and direct investment inflows without putting pressure on reserves. However, the NIIP is estimated to have further declined as foreign liabilities rose and assets were decumulated.

2. Curaçao remains a net creditor in 2023, though the NIIP is expected to turn negative in 2029 as assets are expected to continue declining. Latest estimates by the CBCS indicate that Curaçao's NIIP stood at 215 percent of GDP in 2018. Financial flows from the BOP imply that the NIIP might have declined significantly to only 109 percent of GDP in 2023. As the CAD is expected to stay elevated in coming years, the NIIP will continue to decline in the medium term and would turn negative by 2029, further straining the current account balance as Curaçao has to pay increasingly higher net investment income abroad as a net debtor.[1]

[1] The CBCS submitted IIP data to STA up until 2021 but later advised the team to treat 2018 as the latest observation in the official data due to large stock-flow inconsistencies with the BOP data. IIP data since 2019 is estimated using BOP flows.





3. The real effective exchange rate (REER) index has appreciated moderately over time, suggesting potential overvaluation. The real effective exchange rate against major trade partners (excluding Venezuela) has appreciated by more than 5 percent since 2011.[2] The real appreciation of the currency does not seem to be driven by macroeconomic fundamentals, including variables typically included in the EBA framework. In particular, the EBA (2019) framework suggests that the REER would tend to appreciate in countries with:[3]

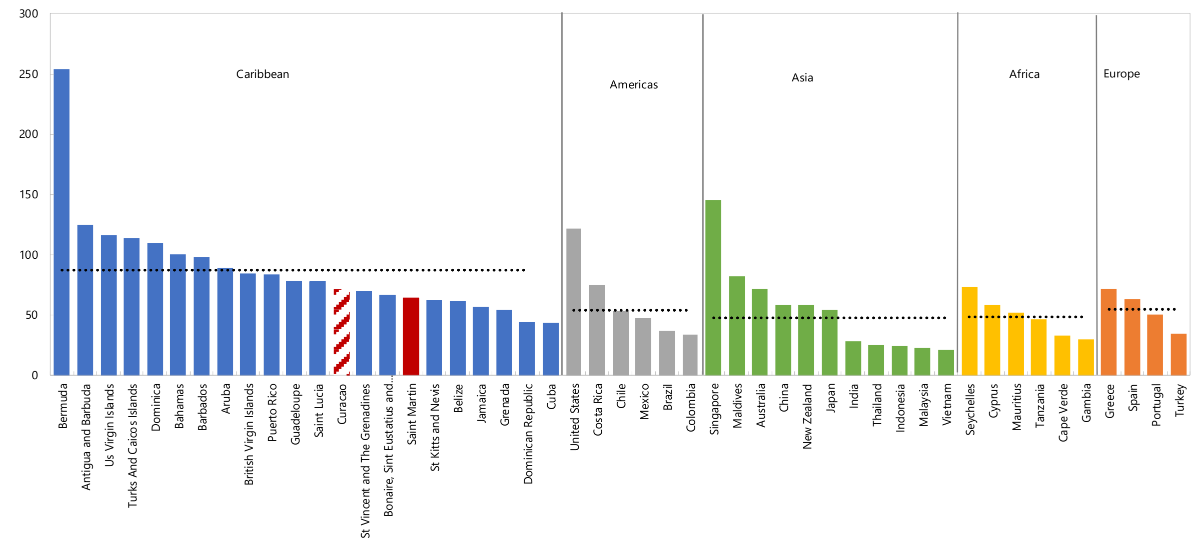
- Higher output per worker: This is not the case for Curaçao as the economy has had multiple years of economic contraction.
- Higher expected GDP growth: This is not the case for Curaçao. While expectation data is not available and given negative growth in many years for two decades, staff has not revised growth upward.
- Reserve currency status: Not applicable for Curaçao.
- Higher population growth: This is not the case for Curaçao. The population has been declining since 2017 due to negative net migration.
- Lower trade openness, which increases the price of traded goods: This is not the case for Curaçao. Trade openness, measured by total exports and imports to GDP, increased from around 140 percent in 2016 to 150–160 percent during following years (except during the pandemic).
- High share of administered prices which helps lower consumer prices: This is not the case for Curaçao.

[2] The REER including Venezuela appreciated sharply as Venezuela's currency was in freefall, though Venezuela trade dropped significantly from 30 percent in early 2010s to less than 5 percent currently.

[3] The only fundamentals variable that could be consistent with an REER appreciation is the positive net foreign asset, as bringing NFA to balance requires the country to run trade deficit over time (Lane and Milesi-Ferretti, 2004). However, we do not put emphasis on this variable, the expected coefficient on this variable is inconsistent between the different EBA models (current account, REER index, and REER level). This tension is highlighted by the fact that in practice, countries with large positive NFA also tend to have higher CA surpluses, which is not the case for Curaçao.

The W@TB index, which compares the cost of one-week vacation across popular destinations, shows that Curaçao appears to be cost-competitive (see below); although it could suggest a lower quality of service and tourism value added in Curaçao compared to other destinations.[4] Overall, considering jointly the persistent current account deficit and the sustained REER appreciation, staff assesses Curaçao's external position as weaker than warranted by fundamentals and desired policy settings.

Week at the Beach Index, April 2023 1/
(12 Month Moving Average, Bahamas = 100)



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.

B. Sint Maarten

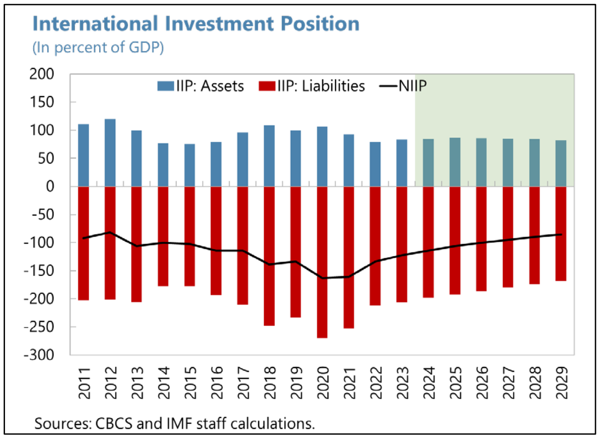
4. The large external imbalance observed during the pandemic has been corrected, though the CAD remains high. The CAD, which had narrowed from above 20 percent during the pandemic to 3.9 percent in 2022, worsened to 7.5 percent in 2023 due to heightened construction activity, mitigated by lower oil prices. Robust capital inflows from Trust Fund-related activities, private direct investment, and government loans for capital expenditures led to an increase in reserves of 1.6 percent of GDP.

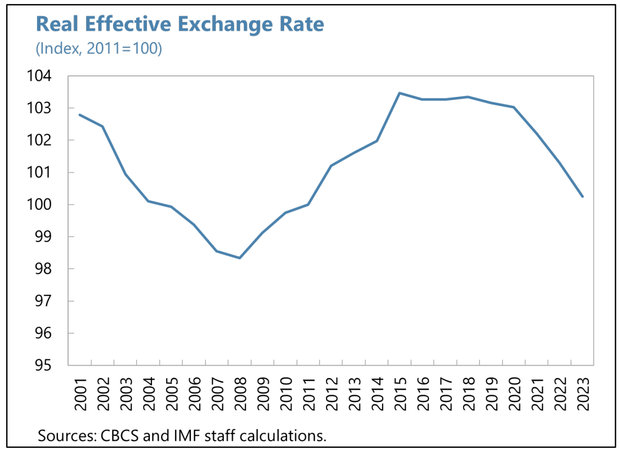
5. The NIIP is estimated to be negative. Preliminary IIP estimates indicate a negative NIIP of 140 percent of GDP in 2018.[5] Estimating NIIP based on BOP flows suggest that the NIIP remained stable at that level in 2023 after worsening during the pandemic. The NIIP is likely to improve over the medium term as the CAD continues to close, reaching close to negative 100 percent of GDP. Unlike that of Curaçao, the REER for Sint Maarten has generally been stable, fluctuating within 3

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

[5] Like Curaçao's, the latest available IIP data for Sint Maarten are only through 2018.

percent of the level in 2011, despite major shocks. The W@TB index also indicates that Sint Maarten does not have a competitiveness concern.





Gross International Reserves of the Union

6. While the stock of international reserves is expected to remain stable in the medium term, adequacy measures are falling. International reserves, which rose substantially in 2020 as both islands received pandemic support from the Netherlands, is projected to remain stable over the medium term, as large current account deficits in both countries are expected to remain well-financed. The level of reserves (including gold) would remain adequate in the medium term by key ARA metrics (except for the risk-weighted measure), but adequacy measures fell during 2021–23 and are projected to continue falling in the medium terms. Without a sufficient correction of the CAD in Curaçao, reserves could fall below adequate levels in the future.

External Debt of the Union

7. The pandemic caused a significant increase in the external debt of the Union. The external debt-to-GDP ratio increased from 173 percent of GDP in 2018 (the last available factual datapoint) to an estimated 221 percent of GDP in 2020, driven by government borrowing from the Netherlands and a decline in nominal GDP.[6] By 2023, the external debt-to-GDP ratio is estimated to have declined to 186 percent of GDP thanks to the recovery of GDP. The stock of external debt is expected to gradually decrease in the medium term to around 166 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 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 tail shock scenarios other than the interest rate shock, the external debt would not be on the decreasing trend in the medium term.

[6] The Union's external debt is estimated as a sum of debt liabilities of Curaçao and Sint Maarten compiled from corresponding IIP data. 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 linkages between Curaçao and Sint Maarten. In 2019–22, external debt is estimated using debt-creating flows from the BOP data.

Annex II. Table 1. Curaçao and Sint Maarten: External Debt Sustainability Framework, 2012–28

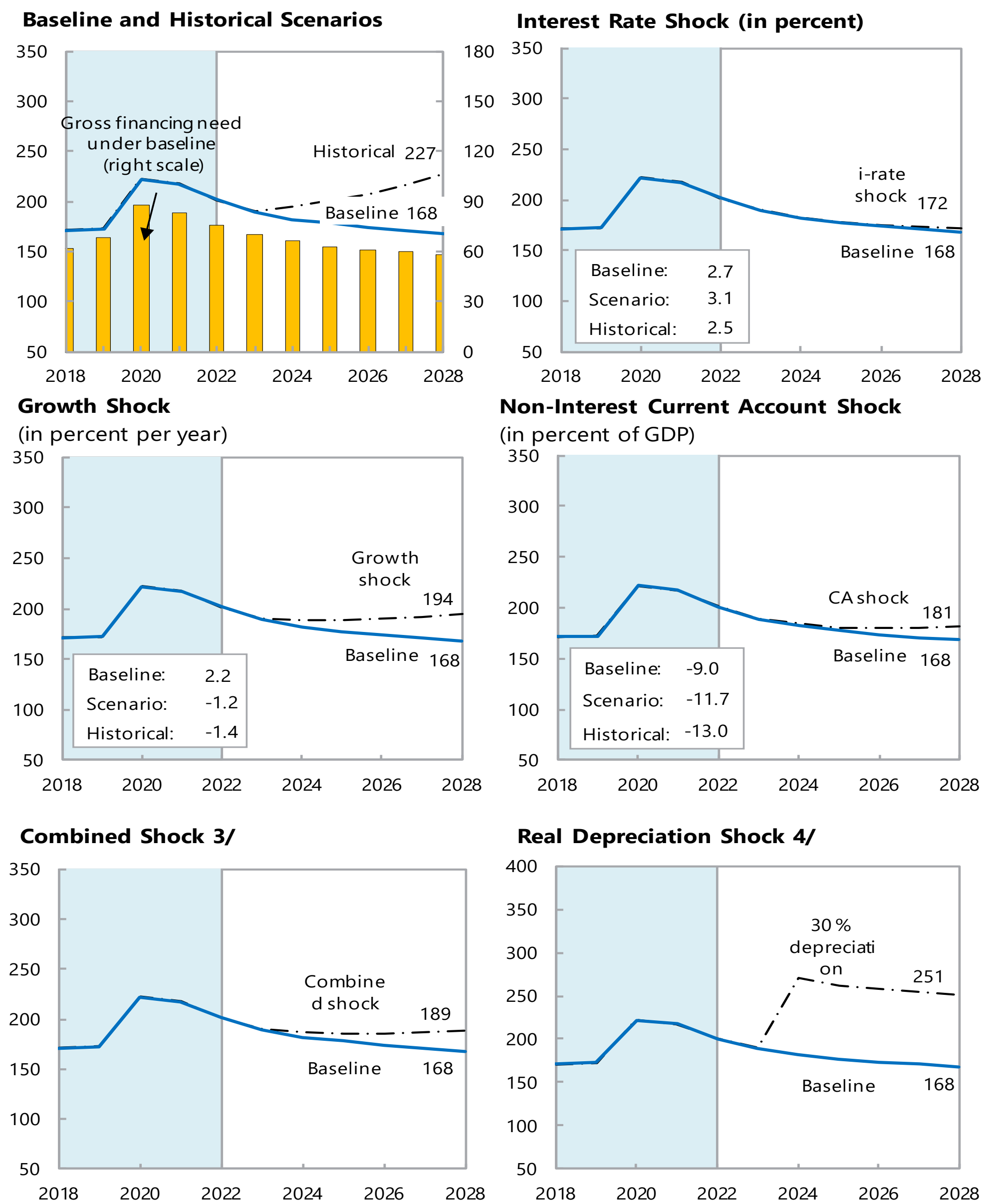
(In percent of GDP, unless otherwise indicated)

	Actual													Projections						
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022			2023	2024	2025	2026	2027	2028	Debt-stabilizing non-interest current account 6/
Baseline: External debt	103.2	104.4	116.6	123.4	144.8	157.7	171.3	172.3	222.0	217.4	200.8			189.3	182.1	177.6	173.9	171.0	168.1	-6.3
Change in external debt		1.2	12.2	6.8	21.4	13.0	13.5	1.1	49.6	-4.6	-16.6			-11.5	-7.2	-4.5	-3.7	-2.9	-2.9	
Identified external debt-creating flows (4+8+9)		15.5	2.0	8.9	11.9	13.8	20.4	5.1	59.4	4.8	-7.9			5.6	5.4	5.4	5.6	5.7	5.5	
Current account deficit, excluding interest payments		12.8	10.0	5.3	7.4	10.7	13.9	11.9	22.8	19.8	15.3			11.3	10.0	8.9	9.1	8.5	8.3	
Deficit in balance of goods and services		12.0	9.8	5.8	7.7	16.6	28.6	15.6	24.7	21.0	16.3			12.3	11.0	9.9	10.1	9.5	9.3	
Exports	90.2	86.1	80.1	74.3	69.5	63.1	64.3	65.6	42.4	52.5	73.8			72.7	74.9	75.9	76.9	79.4	81.4	
Imports		98.1	89.9	80.1	77.2	79.7	92.8	81.2	67.1	73.5	90.1			85.1	85.9	85.8	87.0	89.0	90.7	
Net non-debt creating capital inflows (negative)		0.1	-2.2	0.1	0.2	-3.9	0.7	-6.0	-0.1	-2.1	-3.5			-4.6	-4.5	-4.4	-4.3	-4.2	-4.2	
Automatic debt dynamics 1/		2.6	-5.8	3.5	4.3	7.1	5.7	-0.9	36.6	-13.0	-19.7			-1.1	-0.1	0.8	0.8	1.3	1.4	
Contribution from nominal interest rate		3.9	3.6	3.7	3.9	3.6	3.1	3.7	3.3	2.4	3.8			5.7	5.6	4.9	4.2	4.1	4.1	
Contribution from real GDP growth		0.3	0.3	-0.4	0.6	5.0	7.9	-0.8	36.6	-10.7	-13.2			-6.8	-5.6	-4.0	-3.4	-2.8	-2.7	
Contribution from price and exchange rate changes 2/		-1.6	-9.7	0.3	-0.1	-1.6	-5.4	-3.8	-3.2	-4.7	-10.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/		-14.3	10.2	-2.1	9.5	-0.9	-6.8	-4.1	-9.8	-9.3	-8.7			-17.2	-12.6	-9.9	-9.3	-8.7	-8.4	
External debt-to-exports ratio (in percent)	114.4	121.3	145.6	166.0	208.3	249.8	266.6	262.7	523.3	413.9	272.1			260.2	243.1	234.0	226.3	215.3	206.5	
Gross external financing need (in millions of US dollars) 4/		####	####	####	2403.7	####	2,651.2	3,004.1	3,247.1	3,290.9	3,340.1			3,377.9	3,380.4	3,363.6	3,407.8	3,436.3	3,488.7	
in percent of GDP		73.3	61.8	57.4	54.0	60.4	62.0	68.3	88.1	83.1	75.3	10-Year	10-Year	70.5	66.3	63.0	61.2	59.4	58.1	
Scenario with key variables at their historical averages 5/												Historical	Standard	189.3	195.7	203.2	211.1	219.2	227.5	1.1
Key Macroeconomic Assumptions Underlying Baseline												Average	Deviation							
Real GDP growth (in percent)		-0.3	-0.3	0.4	-0.5	-3.4	-5.0	0.5	-17.8	5.2	6.8	-1.4	6.7	3.7	3.2	2.3	2.0	1.7	1.7	
GDP deflator in US dollars (change in percent)		1.6	10.2	-0.2	0.1	1.1	3.5	2.3	1.9	2.2	4.9	2.8	3.0	4.2	3.1	2.3	2.3	2.1	2.1	
Nominal external interest rate (in percent)		3.8	3.8	3.1	3.1	2.4	2.0	2.2	1.6	1.2	2.0	2.5	0.9	3.1	3.1	2.8	2.5	2.5	2.5	
Growth of exports (US dollar terms, in percent)		-3.3	2.3	-7.1	-6.8	-11.3	0.1	4.9	-45.8	33.1	57.5	2.4	27.3	6.4	9.5	6.1	5.7	7.2	6.4	
Growth of imports (US dollar terms, in percent)		-4.3	0.8	-10.8	-4.0	0.8	14.6	-10.1	-30.7	-17.6	37.5	1.1	18.6	1.9	7.4	4.6	5.8	6.2	5.8	
Current account balance, excluding interest payments		-12.8	-10.0	-5.3	-7.4	-10.7	-13.9	-11.9	-22.8	-19.8	-15.3	-13.0	5.3	-11.3	-10.0	-8.9	-9.1	-8.5	-8.3	
Net non-debt creating capital inflows		-0.1	2.2	-0.1	-0.2	3.9	-0.7	6.0	0.1	2.1	3.5	1.6	2.2	4.6	4.5	4.4	4.3	4.2	4.2	

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 II. Figure 1. Curaçao and Sint Maarten: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and IMF 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.

Annex III. Curaçao: Adaptation Investments to Manage Sea-Level Rise[1]

Sea-level rise presents long-term risks in Curaçao that can lead to sizable permanent costs with potentially large macroeconomic and fiscal consequences. Curaçao cannot control global sea-level, but it can manage how it affects the country by adapting. Using the state-of-the-art model CIAM, IMF Staff estimates finds that planned coastline protection—in the form of dykes, revetment, floodgates, costal dunes, etc.—can reduce losses by approximately 80 percent by avoiding permanent inundation of land and relocation of population. Estimates of protection costs in Curaçao range from 0.4 to 0.9 percent of annual GDP with a moderate emission scenario and do not grow. This will likely require a commensurate increase in public spending as coastal protections are public infrastructure.

1. **Curaçao cannot control global sea-level, but it can manage how it affects the country by adapting**. Even with strong international efforts to keep global temperature increase in line with the Paris Agreement goals, the sea level will continue increasing throughout this century and beyond. Median sea-level is projected to increase by 0.6 m in 2100 with respect to the year 2000 using an emission scenario in line with the 2°C Paris target (RCP 2.6). With the continuation of present emission trends and policies (RCP 4.5), sea-level is projected to increase by 0.7 m in 2100. With an extreme, unlikely, level of emissions (RCP 8.5), sea-level is projected to increase by 0.9 m. Faster than expected sea-level rise (SLR) for each of these emission scenarios may push sea-level 1 m above its level in the year 2000.[2] The probabilistic range of SLR projections accounts for uncertain speed in melting of Greenland and Antarctic Ice sheets, thus including the possibility of tipping points. The estimates also include natural vertical movements of the coastline in Curaçao and the uneven rise of sea-level around the world (Kopp et al., 2014). Taking all this into account, SLR in Curaçao is expected to be larger than the global average. Mitigation policy is key to limiting the speed of SLR during this century and the overall extent of SLR in future centuries, but adaptation plays a crucial role to limit the unavoidable impacts of SLR.

2. **Using a state-of-the-art model, staff estimates the cost of SLR under three main adaptation scenarios (Box 1).** The three scenarios include:

i. **No adaptation**—Society reacts to SLR by relocating reactively, after land is inundated. No protection is built, and capital losses are large.

ii. **Protection**—Society chooses the protection plan against SLR with the largest net-present value by anticipating its effects without relocating people or assets.

[1] Prepared by Emanuele Massetti.

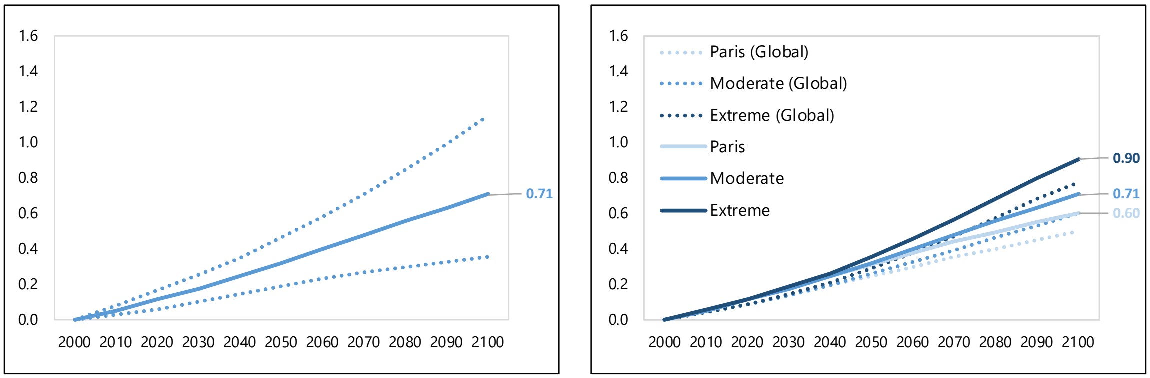
[2] The latest IPCC report considered the possibility of even faster SLR this century and it concluded that it cannot be excluded but there is limited evidence (*low-confidence* assessment in the IPCC characterization of uncertainty) to support this scenario. In the most recent set of IPCC projections (Fox-Kemper et al., 2021), median SLR projections using the new SSP2-4.5 and SSP5-8.5 scenarios are very similar to the RCP 4.5 and RCP 8.5 projections in Kopp et al. (2014). See Garner et al. (2021) for SLR data on Curaçao.

iii. **Retreat**—Society plans retreat from the coastline by anticipating SLR, letting capita depreciate and eventually abandoning, and moving population before it is at risk.

Variations of the Protection scenario assume construction of defenses to avoid storm flooding for various (1/10, 1/100, 1/1,000 and 1/10,000 years) storm-surge events. Variations of the Retreat scenario assume a retreat perimeter to deal with permanent sea-level inundation alone (Retreat 1), or also including 1/10 to 1/10,000 years storm-surge events. Finally, the Least-Cost scenario is calculated by comparing costs across all scenarios for each coastal segment independently.

Sea-Level Rise Projections Relative to 2000 Level

(In Meters)



Source: Sea-level rise projections from Kopp et al. (2014) derived from the CIAM model database (Diaz, 2016).
Notes: (left} Local (solid) and Global (dotted) Sea-Level Rise (SLR) probabilistic projections until 2100 under three emission scenarios (Paris - RCP 2.6; Moderate - RCP 4.5; Extreme - RCP 8.5). Median SLR for each emission scenario. (right) local SLR probabilistic projections using the Moderate (RCP 4.5) emission scenario. Solid lines depict median SLR, dotted lines depict the 5th and 95th percentiles of the distribution.

Box AIII.1. Estimating the Cost of Sea-Level Rise and Adaptation

The analysis of sea-level rise impacts, and adaptation options is done using complex models that rely on necessary simplifications but provide important insights. While there is uncertainty on the exact extent and cost of damages from SLR and on the cost of protection measures, there is consensus in this literature that long-term planning of adaptation can be highly effective at containing physical impacts and costs of SLR. For example, the large EU-funded research project PESETA IV finds that coastal protection can reduce SLR damages in the EU by approximately 90 percent (Vousdoukas et al. 2020, Table 6). Model simulations fully agree that adaptation can be highly effective but may differ on the optimal mix of adaptation measures—e.g., hard protection, nature-based solutions, planned retreat—because they use different data, use different climate scenarios, or work under different normative criteria. There is also consensus that the transformations needed to adapt to SLR, while technologically feasible and economically sound, are complex and require strong governance (Hinkel et al., 2018).

IMF staff uses the state-of-the-art Coastal Impact and Adaptation Model (CIAM) to estimate the cost of sea-level rise under alternative adaptation strategies. CIAM is a global model used to estimate the economic cost and benefits of adaptation to sea-level rise (Diaz, 2016). The global coastline is divided into more than 12,000 segments of different length grouped by country. Curaçao's coastline is modeled using only one segment due to its relatively small size. Each segment is further divided into areas of different elevation. For each segment, the model has data on capital, population, and wetland coverage at different elevations. By using projections of local sea-level rise from Kopp et al. (2014), it is possible to estimate the areas that will be inundated and the amount of capital and population at risk. Storms cause periodic inundations on top of sea-level rise. The model does not consider increased risks from river floods. See Annex IV for additional information.

Box AIII.1. Estimating the Cost of Sea-Level Rise and Adaptation (concluded)

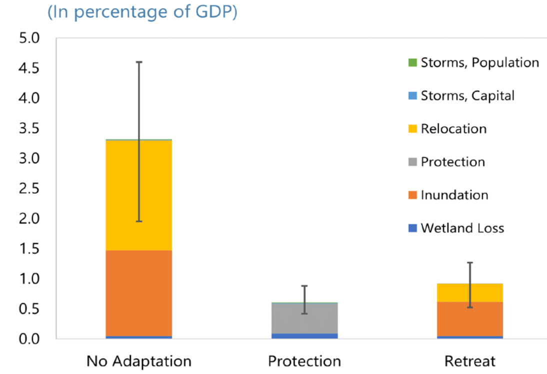
The model calculates the cost of SLR—protection costs plus residual losses—under alternative adaptation options:

- The ***no-adaptation*** scenario assumes that population does not move until the sea inundates the area where they live and then relocates to areas with higher elevation. Society keeps building and maintaining capital until inundation causes irreversible losses and capital is abandoned. The cost of sea-level rise is calculated as the sum of the residual value of capital that is abandoned, demolition costs, and the value of land that is inundated. The model uses the rental value of agricultural land in proximity of the coastline, following Yohe et al. (1990), because as SLR progresses, coastal proximity rents will shift from land that is inundated to adjacent land. Population density and development opportunity costs are assumed to be capitalized in agricultural land values. The disutility cost of reactive migration is monetized.
- At the opposite, a ***protection*** scenario assumes that society invests in cost-effective seawalls and other barriers along the entire coastline to avoid inundation from sea-level rise, but storms can still periodically inundate protected areas if protection is not sufficiently high. Capital and land are not lost, the population does not move, but storms periodically cause capital and human losses. The cost of SLR is equal to the cost of protection plus the expected value of the cost of storms.
- Another adaptation option relies on ***planned retreat*** from areas that will be subject to inundation. The goal of retreat is to keep using coastal areas without building new capital and by letting the existing capital depreciate. For example, a coastal road is used until it needs major retrofitting investment. Then, a new coastal road is built in-land on higher grounds. This strategy accepts that land and some residual value of capital will be lost, but it avoids coastal protection costs. The population gradually moves to higher grounds before areas are inundated. This usually does not require migration to distant places, but rather relocation within the same coastal area. The cost of SLR is equal to the sum of the residual cost of capital, the value of inundated land, and the disutility cost of relocation.
- The model considers variants of protection and retreat scenarios to deal with risks from storm surge floods. For example, the model calculates the height of the coastal protections to contain SLR and increasingly large storm surges (1/10, 1/100, 1/1,000 and 1/10,000 year events). In the base scenario (Retreat 1), the retreat perimeter is calculated to only deal with permanent inundation of land, but the retreat perimeter can be pushed to also avoid storm surges (from 1/10 to 1/10,000 year events).
- For each coastal segment, the model calculates the net present value of SLR costs for each adaptation strategy. Loss of life is monetized using the Value of Statistical Life and loss of wetland due to either SLR or protection of barriers that impede the normal circulation of tidal waters is monetized using estimates of willingness to pay for biodiversity preservation.
- The cost of building and maintaining seawalls, and other key parameters are from the literature. Storm surge costs are incremental with respect to a baseline scenario in which storms occur without SLR.
- By comparing SLR costs across all scenarios it is possible to find the ***least-cost adaptation strategy*** for each coastal segment and to calculate the lowest possible cost of SLR for the country. Coastal protection is usually the least-cost strategy in areas with large existing capital and high population density. Planned retreat is usually the least-cost strategy in areas with low capital and population density. The optimal height of coastal protection infrastructure and the optimal retreat perimeter vary on many factors, including projected incremental costs of protection, the opportunity cost of not using land that would normally not be flooded, capital and population at risk, sea-level rise scenarios.

Despite many uncertainties and some necessary simplifying assumptions, CIAM provides a useful framework to systematically study costs and benefits of alternative adaptation strategies to SLR. More granular coastal modeling and more accurate mapping of assets can provide a more precise assessment of costs and benefits, but the key insights developed with a baseline version provide a useful starting point to deal with a complex, multidecadal challenge.

3. The cost of SLR can be equal to 3.3 percent of GDP annually without adaptation, using the median projection from the moderate emission scenario. Risks associated with lower or higher SLR are balanced, with 80 percent of projections using the moderate RCP 4.5 scenario falling in the 2-4.6 percent range.[3] With an emission scenario in line with the Paris 2°C goal, the cost of SLR is estimated to be equal to 2.9 percent of GDP, ranging from 1.6 to 4.0 percent. With an extreme emission scenario (RCP 8.5), costs increase to 4.0 percent of GDP on average annually, ranging from 3.2 to 5.5 percent. Virtually all costs are caused by permanent loss of land and not fully depreciated assets (Inundation), and to the disutility of relocating population without sufficient long-term planning (Relocation). These costs measure welfare losses and are the appropriate metric to estimate the full economic impact of SLR. However, they cannot be translated into GDP losses or other fiscal impacts without other models or additional assumptions. The literature uses general equilibrium models to translate loss of capital and land into long-term macroeconomic impacts, including global trade effects (e.g., Bosello et al., 2012). Alternatively, it is possible to derive first-order approximations of the fiscal costs of SLR by assuming how much of the social cost of SLR is either suffered by the public sector or compensated with public finances. Direct losses may derive from reconstruction costs of public assets and purchase of new land for public use. Losses of private capital and private land may have an impact on public finances if they affect tax revenues, or if the government compensates private losses. Increased spending on social programs aimed at easing disutility costs of relocation from inundated area can lead to higher expenses. If the government assumes full responsibility for all losses, including the adverse effects of relocation, the costs presented in Figure 2 can be interpreted as an upper bound to government financing needs.

Annual Average Cost of Sea-Level Rise, 2020-99
(In percentage of GDP)

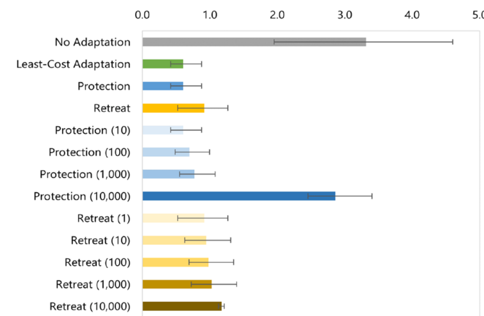


Source: IMF Staff using the CIAM model (Diaz, 2016).
Notes: Average annual cost. Whiskers on top of each bar indicate the range of total cost using the 5th and 95th percentile of the probabilistic distribution of sea-level rise. Due to the highly non-linear nature of coastal impacts, adaptation costs, and effectiveness of adaptation measures, ranges are not always symmetric around total costs.

4. Coastline protection can prevent inundation and relocation costs but will likely require public investment approximately equal to 0.6 percent of annual GDP, on average. Analysis with CIAM suggests that protection of assets and population at risks from SLR in Curaçao is cost-effective and the least-cost strategy. Protection—in the form of dykes, revetment, floodgates, costal dunes, etc.—can reduce costs by approximately 80 percent, from 3.3 to 0.6 percent of GDP annually. The

[3] In CIAM, Curaçao and Bonaire are part of one single economic entity, but two independent coastline segments cover Curaçao and Bonaire, respectively. This analysis considers only data for the coastline segment that corresponds to Curaçao. SLR scenarios, coastline characteristics, economic data, wetland areas, and population density, are segment specific and thus reflect conditions in Curaçao. SLR costs are calculated separately for each segment and thus correspond to Curaçao alone. However, total GDP and population growth assumptions are the same for Curaçao and Bonaire. As these assumptions drive SLR impacts and adaptation costs, this analysis presents calculates costs as share of GDP by assuming that the relative ratio of GDP per capita in Curaçao and Bonaire observed in 2010 remains constant over the century.

Full Range of Estimates of the Annual Average Cost of Sea-Level Rise, 2020–99
(In percentage of GDP)



Source: IMF Staff using the CIAM model (Diaz, 2016).
Notes: Average annual cost. Whiskers on top of each bar indicate the range of total cost using the 5th and 95th percentile of the probabilistic distribution of sea-level rise. Due to the highly non-linear nature of coastal impacts, adaptation costs, and effectiveness of adaptation measures, ranges are not always symmetric around total costs.

cost of protection ranges from 0.4 to 0.9 percent of GDP with the moderate emission scenario, and it is up to 1 percent of GDP in the highest SLR scenario. Although there is substantial uncertainty on the absolute level of costs, similar benefit-to-cost ratios of protection are found by many studies (see Box 1). Also in this case, protection costs cannot be immediately converted into GDP losses. However, as coastal protection likely requires public financing, adaptation to SLR will likely require spending approximately 0.6 percent of GDP annually on average until the end of the century (2099). Planned retreat from the coastline is cost-effective, but not the least-cost solution in Curaçao according to CIAM. As large storm surge floods are rare in the island, increasing the height of protections or the retreat perimeter to account for damages caused by storms is not cost-effective.

5. **More granular analysis is necessary to exactly determine the optimal adaptation mix, and cost-benefit analysis (CBA) can play a significant role.** For example, a high-resolution map shows the likely inundated land around the Schottegat area in 2050 and 2100 (Kelder et al., 2022). Maps like this allow to precisely estimate the cost of different adaptation strategies. CBA can be challenging, but even preliminary and incomplete assessments are useful to identify trade-offs and the most attractive policy options using a transparent and systematic approach (Bellon and Massetti, 2022). Best practices can be drawn from coastal protection analysis and policies in other countries, for instance in the Netherlands, where there is a long-standing tradition of using CBA and cost-effectiveness analysis for flood risk management and water governance. This tradition started in 1954 with the pioneering CBA of the Delta Works by Tinbergen (1954) and continues to this day (Bos and Zwaneveld, 2017).

Box AIII.2. The Coastal Impacts and Adaptation Model (CIAM)[1]

The Coastal Impact and Adaptation Model (CIAM) is a global optimization model for cost-benefit analysis of adaptation to sea-level rise (SLR) (Diaz, 2016). The model starts from coastal characteristics of more than 12,000 coastal segments covering the entire global coastline from the Dynamic Integrated Vulnerability Assessment model (DIVA), a tool to assess the biophysical and socioeconomic impacts of SLR. The DIVA tool estimates the SLR impacts by considering coastal erosion, coastal flooding, wetland change and saltwater intrusion (DIVA Modeling Framework). For each coastal segment, CIAM develops economic, population, and SLR scenarios. The SLR scenarios are from Kopp et al (2014). On top of SLR, the model considers the expected value of storm surges to include rare but potentially high-impact events.

Using data on costs of alternative coastal protections, land values, value of coastline assets, the statistical value of life, willingness to pay for the preservation of coastal ecosystems, and assumptions on the social cost of relocation. CIAM determines costs and benefits of alternative adaptation strategies (including no adaptation) for each coastal segment. The efficient (optimal) coastal protection strategy has the largest net present value among all considered strategies. Protection can be full (excluding any inundation also under extreme storm surges), partial (accepting some storm costs) or minimal (with capital and population progressively moving away from the coastline).

The model can be used to develop insights on different costs from SLR (Table A1) and different protection strategies (Table A2) in each coastal segment or at higher levels of aggregation.

Several impacts have been omitted from the analysis, which could underestimate the cost of no protection, but protection and retreat decisions are fixed for many decades, which could overestimate adaptation costs. Omitted impacts include saltwater intrusion, ocean acidification, erosion, coastal tourism, and loss of recreation. The model assumes that protection and retreat decisions are made at the beginning of the planning horizon and remain constant for several decades. A smoother response to SLR would reduce adaptation costs.

The general equilibrium effects of all impacts are omitted, with uncertain effects on cost estimates. Several studies have used global General Equilibrium Models to calculate the macro-economic cost of sea-level rise impacts and adaptation costs (e.g., Bosello et al. 2012). In some countries secondary effects lead to an increase of costs estimated by simulation models like CIAM. In other countries, global market effects (redistribution of tourism flows for example) lead to positive secondary effects.

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[1] A detailed description of the model can be found in Diaz (2016) and the documentation of the model is available in the following link (https://github.com/delavane/CIAM/blob/master/CIAM%20Documentation.pdf)

Annex III. Table 1. Cost Specification in the CIAM

Category	Explanation of the Costs	Measurement of Cost[1]
Protection cost	Constructing and maintaining protection (generalized as sea walls) to shield the land behind the sea walls from the SLR-caused inundation.	A function of the coastline length, the height of the sea walls, and the value of the land occupied by the sea walls.
Retreat cost	Relocation of population and assets from the affected areas, including the forced emigration in case of no planned adaptation and the planned retreat.	The cost of relocating population and mobile capital in the incremental area of retreat, as well as the cost of demolishing the immobile capital.
Inundation cost	The loss of land and assets due to the SLR-caused inundation. In case of no planned retreat the full value of capital assets is lost. In case of planned retreat only the depreciated level of capital assets is lost.	The cost is based on the extent of land endowment lost and the associated value of the land and the capital stock
Wetland loss cost	The loss of wetland due to the inability to migrate inland naturally, constrained by the rate of SLR and the lack of space.	The wetland losses take two forms, (1) the total service value of the wetland occupied by the sea walls; (2) the service value of the wetland lost related to the rate of SLR.
Storm cost	The damage to population and assets due to floods caused by storm surge.	The expected damage associated with the risk of the storm surge. The likelihood of storm surge follows the generalized extreme value distribution by using the local surge frequency data from the DIVA tool, while the total land affected by the extreme surge depends on the elevation exposed to a given flood water height.

[1] Measurement of the cost per period. The model optimizes the adaptation strategies over 50 years.

Annex III. Table 2. Adaptation Strategies in the CIAM

Category	Explanation
No planned adaptation	As sea-level rises inundation and floods due to storm surges damage capital and force people to relocate. All asset values in inundated land are lost. Forced retreat is more costly than planned retreat.
Protection	A mix of coastal protection barriers which include dikes, floodgates, coastal dunes, and others. Protection is assumed to be 100 percent reliable. Protection can be sized to sea-level only, or to avoid 10-year, 100-year, 1,000-year, or 10,000-year storm surge levels. Country-level costs in the Optimal Protection scenario presented in Box 1 are calculated by summing the costs for the least-cost protection grade at each segment level. Protection is planned over a 50-year time horizon in which the social planner has perfect foresight. After this period protection is re-optimized for the following 50 years.
Planned Retreat	Coastal land is intentionally abandoned. Population moves and capital is rebuilt behind the retreat perimeter. Immobile capital is efficiently depreciated in preparation of planned retreat. The population incurs relocation costs. The retreat perimeter can be chosen to ensure protection against sea-level rise alone, or to also avoid 10-year, 100-year, 1,000-year, or 10,000-year storm surge levels.

Both protection and planned retreat are planned until 2050 and from 2050 to 2100. Over these limited time horizons there is perfect foresight and sea-level is known with certainty. There is no edging against uncertain sea-level rise.

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Annex IV. Curaçao: Risk Assessment Matrix

Source of Risks (Likelihood in Color)	Expected Impact	Policy Response
Global growth surprises: • **Slowdown.** Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction (e.g., in China), with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs. **Medium.** • **Acceleration.** Positive supply-side surprises, monetary policy easing, productivity gains from AI, and/or stronger performance of large EMDEs increase global demand, promote trade, and ease global financing conditions. **Low.**	**High:** The Netherlands and the U.S. make up the majority of Curaçao's tourist arrivals. An economic slowdown in these economies could negatively impact tourism receipts and, consequentially, economic growth. The positive effect is symmetric in the case of faster disinflation and more resilient trading partners.	Diversify the source of tourism markets to help maintain stable tourism inflows and reduce exposure to idiosyncratic risks from a given country, consistent with the 2022–26 Strategic Tourism Destination Development Plan.
Commodity price volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability. **High.**	**High:** Curaçao imports most consumption and investment goods—including oil—and thus is highly vulnerable to fluctuations in global prices. A sharp rise in commodity price could dent growth and worsen the already-high trade deficit.	Allow a gradual pass-through of international prices and phase out generalized subsidies. Targeted support for the most vulnerable may be used if there is fiscal space. Intensify the expansion of renewable electricity generation and electrify the transportation sector.
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows. **High.**	**Medium:** Curaçao, as a small open economy, would be vulnerable to rising prices of both energy and non-energy imports. Regional conflicts could also dent growth in advanced economies, affecting remittances and financial flows.	Use targeted fiscal instruments within the feasible fiscal envelope to protect vulnerable groups and help cushion the shock for the broader economy.
Systemic financial instability. High interest rates and risk premia and asset repricing amid economic slowdowns and political uncertainty (e.g., from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs. **Medium.**	**Medium:** Curaçao's financial institutions' balance sheets are vulnerable to repricing risk, and unrealized losses may become realized. Uncertainty can also delay inward foreign investment and hamper medium-term growth.	The authorities can develop contingency plans and a deeper understanding of financial linkages. As the lender of last resort, the CBCS is ready to intervene.

Source of Risks (Likelihood in Color)	Expected Impact	Policy Response
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth. **High.**	**High:** Geoeconomic fragmentation could lead to inefficient supply chain arrangements and higher prices of traded goods, which would hurt Curaçao due to the high reliance on imports. However, fragmentation could potentially benefit Curaçao due to rechanneled capital flows.	Continue to diversify trade partners and reduce vulnerability to a particular market. Implement reforms to improve the business environment to potentially benefit from nearshoring trends.
Cyberthreats. Cyberattacks on physical or digital infrastructure and service providers (including digital currency and crypto assets) or misuse of AI technologies trigger financial and economic instability. **High.**	**High:** Cyberattacks on critical infrastructures could jeopardize operational, financial, and economic stability. Cyberattacks on state-owned enterprises could imply serious fiscal risks.	Ensuring critical systems are properly protected and backup systems are available. Insurance could help mitigate some of the fiscal risk.
Curaçao-Specific Risks		
Delays in public investment. Prolonged period of unsustainably low public investment due to delays in planning and implementation. **High.**	**High.** Delays in public investment, which has frequently been below depreciation, could lead to damaged and inadequate infrastructure, dampen economic activity, and hurt tourism.	Commitment to the process is needed by all parties. Improvements to public investment management, planning, procurement, and governance can assist in implementation.
Stronger tourism capacity expansion. Additional hotel openings attracted by recent high-end brands and fast growth of short-term rentals; faster-than expected completion in tourism infrastructure, including marinas. **Medium.**	**High.** Additional hotel openings, especially high-end brands, and yachting activities would attract new tourists. Faster growth of short-term rentals could also diversify stay options for tourists.	Tax policies to strike a balance between attracting investment and collecting revenues to share the tourism benefits with the local economy.
Large renewable energy projects. The materialization of the large offshore windfarm and hydrogen value chain projects, which are currently at an exploratory phase, provides another important economic pillar to the economy that is consistent with the global energy transition agenda. **Medium.**	**High.** Large offshore windfarm projects could help harvest Curaçao's renewables potential and establish the island as a major energy exporter in the region. This would serve as a new high value-added, high-skilled economic pillar that could replace the closed oil refinery.	Careful assessment of Curaçao's windfarm potential and implementation with experienced counterparts, including the Netherlands. Policies to encourage investment and ensure the supply of skilled labor that could meet the demand of these 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 scenarios 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. G-RAM operational guidance is available from the SPR Risk Unit website.

Annex V. Curaçao: Fiscal Risks from Healthcare and Old-Age Pension[1]

1. **Transfers to public entities are sizable and dominated by healthcare spending.** Transfers amount to 10 percent of GDP and make up one-third of total central government spending. Nearly half is transferred to the Social Insurance Bank (SVB) of which 90 percent is for healthcare funds. Other entities receiving transfers from the government include the Curaçao Medical Center (CMC—the main hospital on the Island), with a transfer or 0.3 percent of GDP, part of which is for treatment of uninsured patients; education institutions (2 percent of GDP); and beginning 2024, life-insurer ENNIA, with 0.2 percent of GDP per year increasing to 0.6 percent of GDP in 2027.[2] This annex focuses on healthcare and the old-age pension given their importance to medium-term fiscal sustainability although a review of all transfers to public entities is warranted to fully understand risks to public finances.

Transfers to Public Entities, 2023

	Average 2016-19			2023		
	(NAf mln)	% of GDP	% of total	(NAf mln)	% of GDP	% of total
Total transfers to public entities	580	10.7	100.0	615	10.3	100.0
Transfer to Social Insurance Bank	295	5.4	50.9	306	5.1	49.7
o/w Basic healthcare	273	5.0	47.0	278	4.7	45.2
Education instituions	133	2.5	23.0	116	1.9	18.8
Other	152	2.8	26.1	193	3.3	31.5

Sources: Curacao authorities, and IMF staff calculations.

2. **The SVB is a quasi-fiscal institution responsible for the administration and financial management of health and social insurance in Curaçao**. Healthcare funds include the *basic health insurance* (BVZ), which provides a uniform insurance for all residents of Curaçao, and the *accident insurance* (OV), which provides coverage for employees for the costs of medical care and loss of income as a consequence of an accident. The pay-as-you-go *general old age insurance* (AOV) pays a retirement pension to all Curaçaoans 65 or older, guaranteeing a basic income to retirees. The *widow/widower and orphan insurance* (AWW) pays a pension to a surviving spouse up to the age of 65, and to the surviving children younger than 15 (or 25 if studying or mentally disabled). Other funds include the *sickness insurance* which provides coverage up to the maximum wage limit in case of loss of income as a consequence of sickness (ZV) and the *Cessantia* which makes a one-time payment (based on the years of service) to employees upon termination of an employment contract, not due to a fault of the employee. The BVZ and AOV are the largest funds.

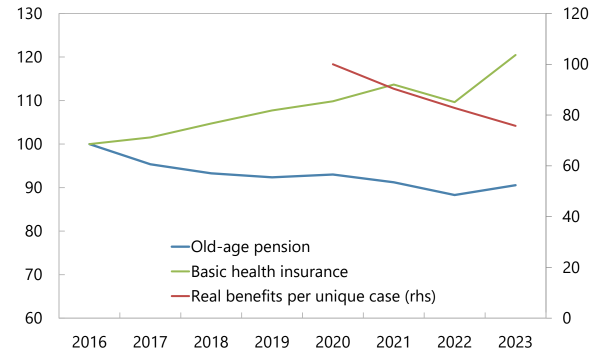
3. **Reserve decumulation and some benefit moderation helped stabilize SVB deficits recently—albeit at relatively high levels**. Reserves, both legal and pre-cautionary, provided an important cushion to support SVB's operations during the pandemic declining by 1.8 percent of GDP between 2018 and 2022. Deficits of the SVB, excluding government transfers, declined to pre-

[1] Prepared by Daniel Jenya and Evelyn Carbajal.

[2] NAf 15 million will be paid by the Centrale Bank van Curaçao et Sint Maarten through a dividend to the government while the government will pay about NAf 30 million per year from 2027.

pandemic levels of 5 percent of GDP in 2023, due to the strong economic recovery leading to a 4 percent real increase in premium income and some moderation in benefits. Albeit still sizable, the 2023 SVB deficit was broadly in balance with government transfers while achieving a 0.4 percent of GDP increase in SVB reserves. Real per capita monthly pension benefits declined by 10 percent between 2016 and 2023 while real per capita healthcare benefits increased by 20 percent between 2016 and 2023, reflecting rising healthcare costs and rising demand for healthcare services especially after the opening of the new hospital in 2019. However, if adjusted for rising demand, real per capita healthcare benefits have fallen by 25 percent since 2020.

Old-Age Pension and Basic Health Benefits, 2016–2023
(Average monthly per capita real benefits index, 2016=100)

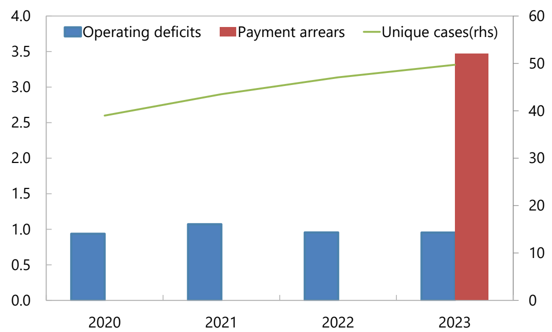


Sources: National authorities, and IMF staff calculations.

CMC and SVB Financial Situation

The CMC incurred deficits of 1 percent of GDP per year 2020–23 leading to arrears of 3.5 percent of GDP by 2023.

CMC's Financial Situation, 2020-23
(Unique cases in units, arrears and deficits in percent of GDP)



Sources: Curcacao Medical Center, and IMF staff calculations.

Reserves decumulation during the pandemic helped to sustain social security.

SVB's Reserves, 2016-23
(Percent of GDP)

Sources: The authorities, and IMF staff calculations.

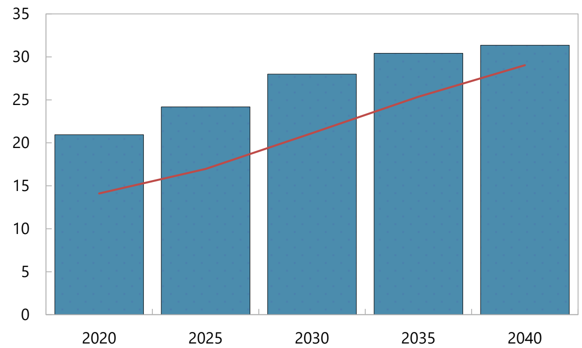
4. The Curaçao Medical Center (CMC) faces a challenging financial situation. The CMC has been incurring deficits of about 1 percent of GDP per year since it opened in 2019. The government partially financed 0.3 percent of GDP of the deficit in 2022 and 2023 but there is no commitment for future financing, except for covering the treatment of uninsured patients, mainly undocumented residents who the CMC is required to treat in emergency situations. Demand for the hospital's services is rising rapidly with the number of unique cases increasing by an average of 8 percent per year since 2021.[3] The CMC has accumulated payment arrears amounting to 3.5 percent of GDP mostly to other government entities that own and maintain the hospital structure and equipment.

[3] The new hospital is equipped with modern technology and staffed with specialists. Diversion of demand from other hospitals is possible especially when the triage before admission is weak.

5. The old-age insurance fund has been accumulating small deficits so far. With relatively high premium collection, above Caribbean average, and moderate benefit generosity, the maximum monthly benefit is 47 percent of the minimum wage, deficits have been contained. Since March 2013, the contribution rate is 15 percent (6 percent employee and 9 percent employer) on income up to NAf 100,000 per year and an additional 1 percent by the employee on income above NAf 100,000 per year. Deficits range between 0.3 and 0.5 percent of GDP since 2016 and were fully financed by government transfers. A premium of around 18 percent would be required to make the old-age pension sustainable. Curaçao's contributor to working age population ratio of 49 is above the regional average although reducing the large informal sector would increase the ratio further.

6. Fundamental demographic changes are poised to increase healthcare and pension benefits. Curacao's spending on healthcare of 13 percent of GDP is twice the Caribbean average and 5 percentage points of GDP higher than the OECD average (Annex VI). In addition, at 21 percent in 2020, Curaçao's old-age dependency ratio is higher than the 14 percent Caribbean average. The old-age dependency ratio is expected to continue rising, surpassing 30 percent by 2040 and remaining above the Caribbean average. Net emigration, especially of working and college age people, exacerbate the pace of aging.

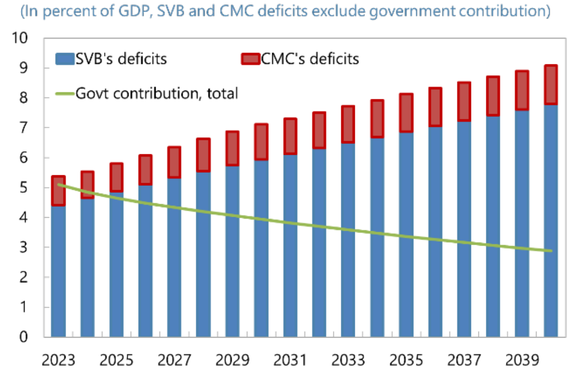
Old-Age Dependency Ratio, 2020-40
(Population aged 65+ as percent of population aged 15-64)



Sources: United Nations, and IMF staff calculations.

7. Long-term simulations of healthcare and pension funds show growing deficits, putting pressure on fiscal sustainability. Staff projects SVB's health and pension spending and revenues until 2040 under the following assumptions:

SVB Healthcare and CMC's Deficits, 2023–40
(In percent of GDP, SVB and CMC deficits exclude government contribution)



Sources: The authorities, and staff projections using FAD healthspending tool.

- **Health**. Healthcare for individuals aged 65 and above is assumed to cost, on average, three times more than healthcare for those below 65, in line with the spending profile in the Netherlands.[4] In addition, healthcare costs are assumed to grow with inflation, demographics, and an excess cost growth of 1 percent (Clemens *et al*. 2015). Shrinking working age population would affect premium collection. All in all, aging population and rising healthcare costs imply a 3.4 percent of GDP increase in SVB health deficits by 2040, reaching 7.8 percent of GDP, excluding government contributions. The

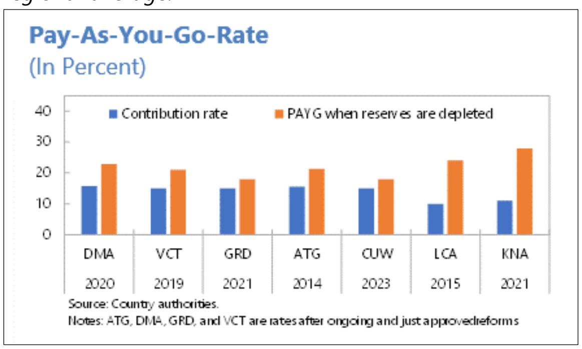
[4] The SVB uses the same expenditure profile. Dividing the expenditure profile into two or more buckets does not alter the results.

CMC is expected to continue incurring deficits of 1 percent of GDP per year. Against this backdrop, current budgeting by the Treasury assumes a constant contribution in nominal terms.

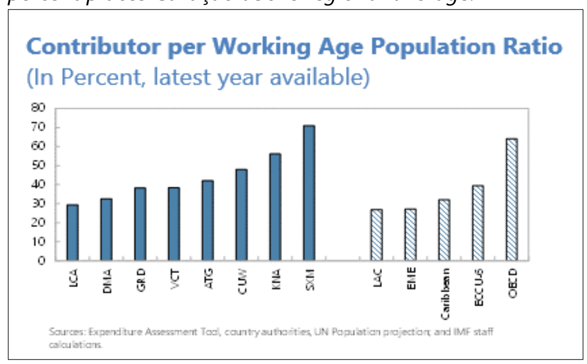
- **Pensions.** The AOV incurred a deficit of 0.3 percent of GDP in 2023 while receiving a transfer of 0.4 percent of GDP from the government. Assuming that pension benefits increase with inflation and in line with demographics, pension deficits are expected to increase by 0.6 percent of GDP by 2033 and remain around this level until 2040. The largest increase would occur in the coming years reaching a deficit of around 1 percent of GDP by 2029, double the current deficit, mainly due to population aging. Like health funds, the Treasury expects the government contribution to the AOV to remain constant in nominal terms.

Figure AV.1. Old-Age Pension System: Parameters and Simulations

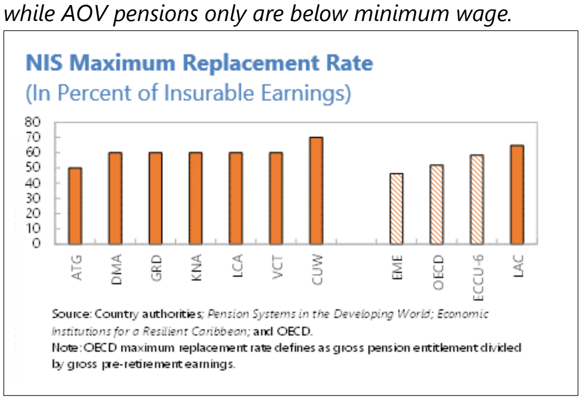
Curaçao's 15 percent contribution rate is in line with regional average.



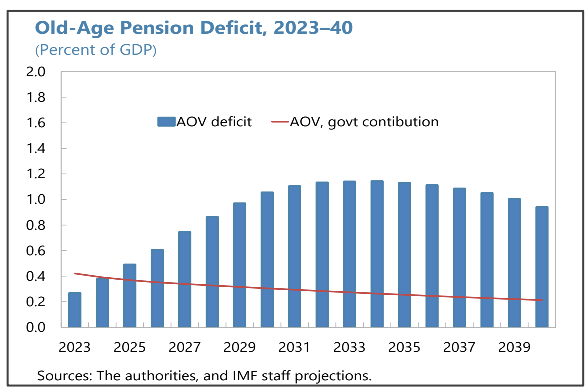
A contributor-per-working age population ratio of 49 percent places Curaçao above regional average.



Curaçao's 70 percent maximum pension replacement rate (pillar I and II) is slightly higher than regional average while AOV pensions only are below minimum wage.



With aging population, pension deficits would increase to 1.1 by 2033 from the 0.3 percent of GDP in 2023.



References

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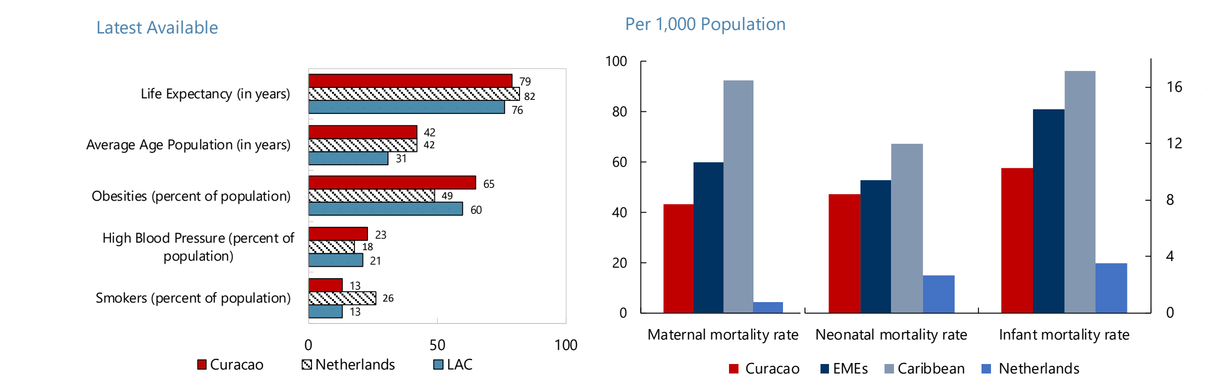
Annex VI. Curaçao: Healthcare Diagnostics[1]

A. Benchmarking Health Care Outcomes, Spending and Financing

1. Health outcomes in Curacao exceed regional averages, yet there is considerable room for better management of preventable diseases. Despite the high prevalence of preventable diseases, life expectancy in Curaçao is relatively high compared to regional peers. The average life expectancy is 79 years, surpassing the Latin America and Caribbean (LAC) average of 76 years but lower than the Netherlands at 82 years. Curaçao has an aging population, with an average age of 42 years, significantly higher than the LAC average of 31 years, and similar to the Netherlands. The prevalence of obesity is high, affecting 65 percent of the population, compared to 60 percent in LAC and 49 percent in the Netherlands. The incidence of high blood pressure is slightly higher than in LAC and the Netherlands. The percentage of smokers is similar to LAC and well below that in the Netherlands. Maternal mortality rates, neonatal mortality rates (infants below 28 days), and infant mortality rates (infants below 1 year) are much lower than the average for Emerging Market Economies (EMEs) and the Caribbean but higher than in the Netherlands.

Health Status and Risk Factors



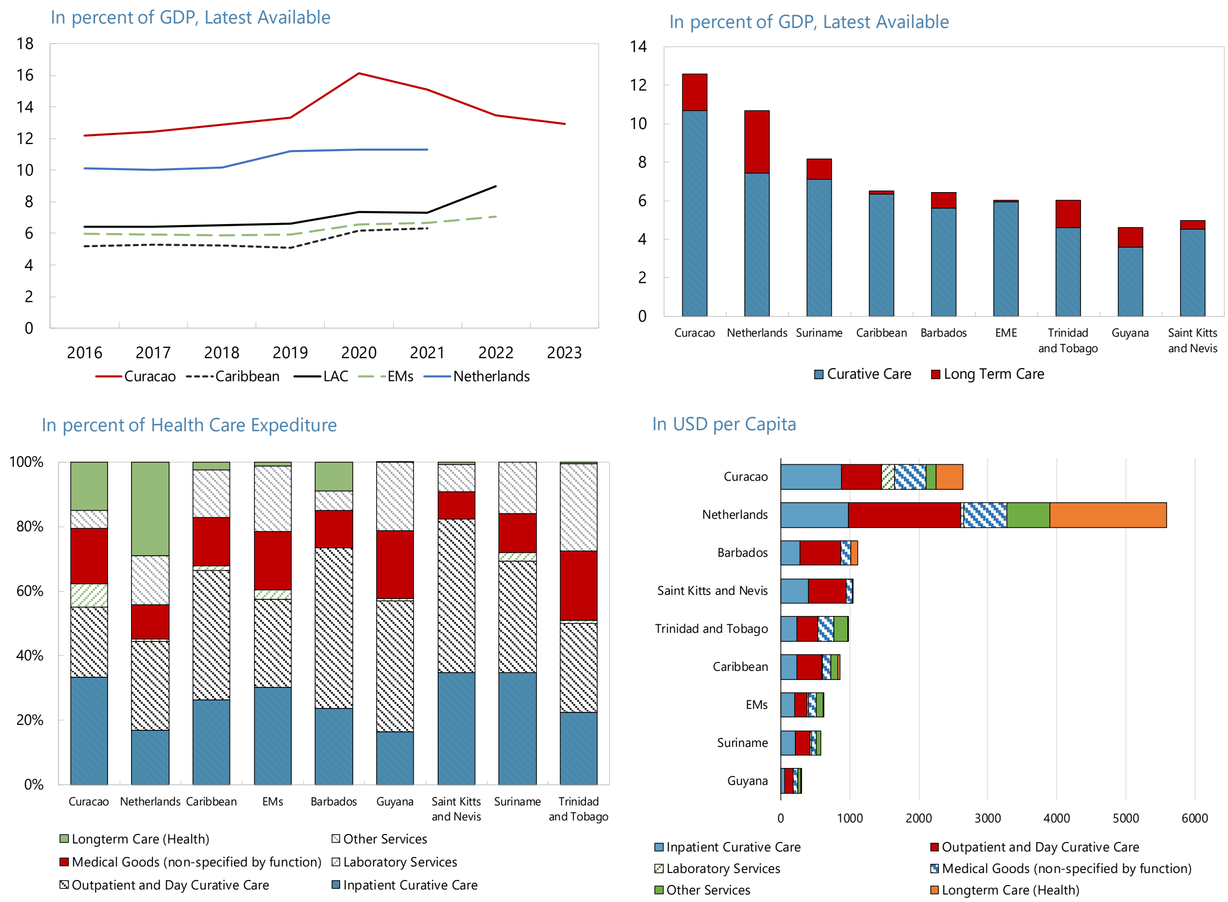
Source: WHO Global Health Expenditure database, PAHO, Curacao authorities
Note: Blood Pressure is self-reported for Curacao

2. Health care spending in Curaçao has been significantly above peers and differs notably in its composition. Total health spending as a percentage of GDP is 2.5 times higher than the Caribbean average, nearly twice that of Latin America and the Caribbean (LAC), and more than double the level in Emerging Markets (EMs). Curaçao's health care spending as a share of GDP is also higher than in the Netherlands. Compared to the region and other EMs, Curaçao allocates more funds to long-term care, though less than the Netherlands, where long-term care spending is among the highest globally. A further breakdown shows that the share of Curaçao’s medical goods expenses to total health spending, including pharmaceuticals, aligns with the Caribbean and EMs but exceeds that of the Netherlands. Spending on laboratory services, a relatively small share of total spending, is about three times higher than in the Caribbean and EMs, and seven times higher than in the

[1] Prepared by Emine Hanedar.

Netherlands. There are also striking differences with peers when considering per capita expenses. Total per capita health care spending in USD is three times higher than in the Caribbean and four times higher than in EMs, but 50 percent lower than in the Netherlands. In USD per capita, Curaçao's spending on laboratory services is 20 times higher than the Caribbean, nine times higher than EMs, and four times higher than the Netherlands. For medical goods, mainly pharmaceuticals, Curaçao spends about four times more per capita in USD than the Caribbean and EMs, but 30 percent less than the Netherlands.

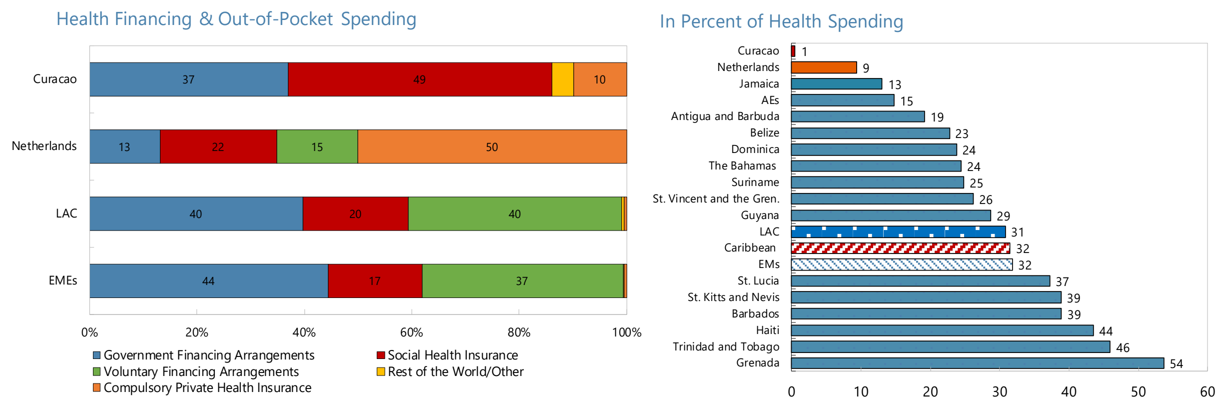
Health Care Spending by Function



Source: WHO Global Health Expenditure database, Curacao authorities
Note: Inpatient curative care for Curacao includes all spending of the CMC hospital which includes both inpatient and outpatient care.

3. Health spending in Curaçao is primarily financed through social health insurance premiums and government funding, with record low out-of-pocket payments. In 2013, the government introduced the Basic Health Insurance, covering medical expenses for nearly all residents, except those privately insured as of 2013, employees of self-insured employers, and other specific exceptions outlined in the law. The privately insured population is about 12 percent and is expected to decline gradually as post-2013 households are not allowed to obtain private insurance. Given the near-universal health care system, combined with the "right to care act," additional private/voluntary health insurance schemes are nonexistent. This is in stark contrast to the region and EMs, where voluntary financing accounts for 40 percent of total health care spending, and the Netherlands, where voluntary health insurance covers some services not included in the public basic package. Out-of-pocket payments in Curaçao are minimal, with insured individuals paying only NAf 1 per prescription, corresponding to 1 percent of total health care spending. In comparison, out-of-pocket spending is about 30 percent in the Caribbean and EMs, and around 9 percent in the Netherlands.

Health Care Spending by Function



Source: WHO, PAHO, Curacao authorities

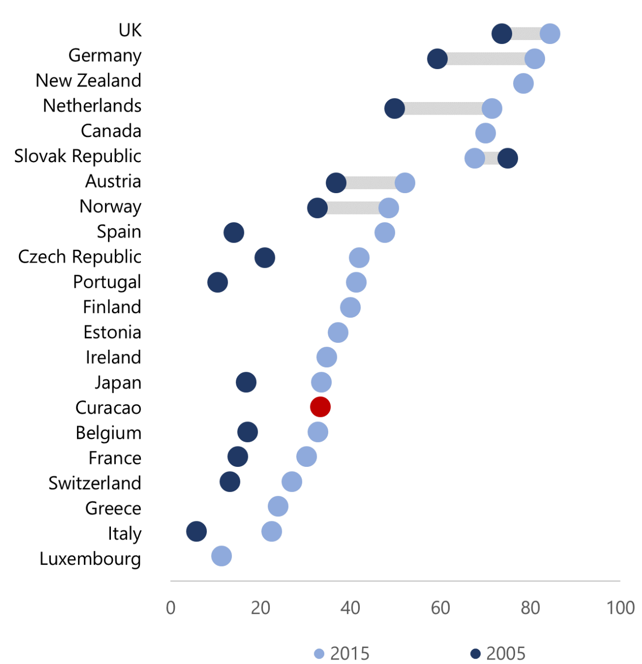
B. Issues and Recommendations

Measures to Lower Spending and Enhance Efficiency

4. The cost of pharmaceuticals can be significantly reduced through both volume and price measures while regulatory changes are needed to increase the use of generics. Currently, generics constitute about 33 percent of all pharmaceuticals in Curaçao, compared to approximately 70 percent in the Netherlands. To increase the use of generics, regulatory and other measures are necessary. Aligning early registration processes with international standards, such as those in Europe (Netherlands), the USA, and Canada, could be a first step. Responsibility for early registration could be given to an independent expert authority to approve generic drug usage, rather than relying on importers. Additionally, mandating physicians and pharmacists to prescribe using International Non-proprietary Names (INN) and covering only pre-approved generic and non-generic drugs under basic insurance can reinforce this initiative. Financial incentives for pharmaceutical importers can complement these regulatory policies as current margins, computed in percent of sales prices, make the import of non-generics more profitable for importers. Patient-focused policies should include informational campaigns to clarify the equivalence of generic drugs to their brand-name counterparts. Other measures to generate savings could focus on enhancing competition and bundling of pharmaceutical purchases to leverage bulk-buying for better pricing as started by the CMC, potentially in collaboration with partners like the Netherlands and other islands such as Aruba and Sint Maarten. Regarding volume, Curaçao's medicine usage is high, with about 20 prescriptions per capita compared to 14 in Aruba and 12 in the Netherlands. Implementing stricter criteria for prescribing medicines and excluding over-the-counter medicines from basic coverage will reduce the number of prescriptions per capita. Finally, reassessing the fixed fee pharmacies receive for drug delivery, currently set at NAf 7, could help increase revenues and manage collective pharmaceutical costs more effectively.

5. Primary care in Curaçao could be reorganized to fulfill a strong gatekeeping function, thereby reducing secondary care costs. This approach can lower the number of non-essential treatments or those that could be managed more cost-effectively by primary care doctors, reducing expenses for medical specialists and the CMC. For instance, the robust gatekeeping function in the Netherlands contributes to low hospital admission rates (OECD 2021). To strengthen primary care's gatekeeping role, several measures should be implemented. Hospital treatment options should require stricter referral procedures to prevent non-essential treatments that could be managed by primary care without violating the "right to healthcare" court decision. Retraining and reorganizing primary care may be necessary to enhance services and improve the gatekeeper function. Additionally, a public campaign should be launched to address any negative perceptions about primary care and highlight its role and value. Alongside reducing non-essential admissions, efficiency measures should be explored to lower the average cost of treatments in secondary care. Finally, a study could assess the potential of introducing “Diagnosis Treatment Combinations” (Diagnose Behandel Combinatie) to increase efficiency and reduce costs.

Trends in Generic Market Shares
Percent of Total, In Volume



Source: OECD Health Statistics (2016).
Note: Data refer only to reimbursed pharmaceutical market.

6. Laboratory service tariffs should be re-evaluated based on ongoing comparisons with NZA tariffs. These tariffs have not been revised for over 10 years, despite significant decreases in average lab service costs due to technological improvements. Adjusting these tariffs could lead to savings of 8 million NAf across the three laboratory institutions. The Taskforce Report (2019) estimated that a 20 percent tariff reduction could result in annual savings of approximately 7 million NAf. Additionally, laboratory services should be streamlined to avoid multiple equivalent procedures ordered by different care providers.

7. A public health campaign could be launched to inform the public about health and reduce the cost of preventable diseases. The campaign should inform people on the types of preventable diseases, their risks, and how a healthy lifestyle and prevention can mitigate these risks. This public health campaign should be an integral part of the healthcare service, including education during primary care, hospital, and other healthcare visits.

C. Revenue Raising Measures

8. Increasing out-of-pocket payments could generate additional revenue and reduce non-essential spending, but careful design is essential to guarantee accessibility. While universal health care with low out-of-pocket expenses is desirable, there is room to improve incentives. The main objectives of out-of-pocket payments is to reduce moral hazard, encourage efficient use of healthcare resources and generate additional revenues. Requiring patients to contribute to their healthcare costs can help reduce the overuse of medical services, ensuring that patients seek only necessary treatments and make cost-effective choices. However, out-of-pocket payments can disproportionately impact poor households and patients with chronic diseases when copayments are high or when they require frequent healthcare services. The design should therefore be guided by the Sustainable Development Goals indicator for catastrophic spending (household expenditures on health greater than 10% of total household expenditure or income). To avoid moral hazard, out-of-pocket payments should ideally be applied to preventable treatments or visits, such as primary care visits. To maintain accessibility and provide consistent incentives, a small co-payment on several treatments or visits is preferred over a large less frequent copayment. This approach helps keep accessibility high, especially if the primary care doctor serves as the main entry point into the healthcare system. Concerns about the impact on vulnerable populations can be addressed through additional measures, such as allowances to compensate the poor or patients with chronic diseases. For instance, in the Netherlands, patients with chronic diseases have adjusted out-of-pocket payments to account for more frequent and unavoidable costs.

9. Broadening the contributor base, in combination with aligning premiums, while providing necessary compensation for the poor is another viable option to boost revenues. Broadening the contributor base would include measures to reduce informality in the economy and include undocumented workers, working migrants, and dependents in the contributor base. In addition, options could be explored to align premiums to developments in healthcare costs. To protect vulnerable households, the government could enhance existing social assistance programs or introduce an allowance, similar to the "Zorgtoeslag" in the Netherlands, to offset the higher healthcare premiums. Other options to explore include allowing price differentiation for privately insured patients (similar to the practice with patients from neighboring islands or with health tourists) and charging for add-on services, with the possibility of a secondary, private insurance market for these services.

10. Exploring medical tourism options without compromising healthcare quality and access for residents could also be beneficial. The CMC hospital has surplus capacity in some areas that could be utilized for medical tourism to generate additional revenue without affecting current residents' wait times or healthcare quality. Identifying areas with excess capacity for profitable use and offering premium services at the CMC, priced to enable top-end hires and extra-hour staffing, could also help generate supplementary income for the institution.

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Annex VII. Curaçao: Data Issues

Annex VII. Table 1. Curaçao: Data Adequacy Assessment Rating 1/

C

Questionnaire Results 2/

Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	D	B	C	C	C	C	C

Detailed Questionnaire Results

Data Quality Characteristics						
Coverage	C	B	C	B	B	
Granularity 3/	D		B	C	C	
			C		C	
Consistency			C	D		C
Frequency and Timeliness	D	B	D	C	B	

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.

1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF Review of the Framework for Data Adequacy Assessment for Surveillance, January 2024, Appendix I).

3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Rationale for staff assessment. Some data is available on timely basis and of good quality, but others are unavailable or have substantial delays. As of July 10th 2024, national accounts for Curacao, which are published by the Central Bureau of Statistics, are available only on the production side on a nominal basis at annual frequency up to 2023, while expenditure-side data is available only up to 2018. The Central Bureau of Statistics also publishes monthly inflation with two digit level of disaggregation, but quality improvements and increased timely publications for both national accounts and inflation are still needed. The fiscal data is not compiled in GFSM format, available only with significant delays, and not published. On external sector statistics, the rating "C" represents an average rating for the BOP data, which has been submitted timely and consistently and has sufficient coverage, granularity, and consistency for surveillance; and the IIP data, which has large stock-flow consistencies, suffers from low timely response rate, and has stopped being shared since 2021 (see box 2 for an example of data challenges). Monetary data is published on time, though recently the authorities stopped sharing the Standardized Report Forms (1SR and 2SR, which offer the highest level of granularity) since January 2024. Foreign exchange intervention data is not shared while financial sector indicators are shared with long delays.

Annex VII. Table 1. Curaçao: Data Adequacy Assessment Rating (Concluded)
Changes since the last Article IV consultation discussions. The submission of 1SR and 2SR is suspended as the authorities want to incorporate the recommendations from a recent TA. A CARTAC mission on national accounts in March 2024 found further flaws in the production of GDP estimates after 2019 and limited progress on previously planned improvements (e.g., on producing supply-use tables). The compilation of the BOP data continues to be strengthened through increased staffing, training, and reporter coverage.
Corrective actions and capacity development priorities. The process to compile GDP-production data has been improved, while other items such as the Institutional Sector Accounts have been suspended due to the lack of survey data. The CARTAC mission on national accounts urged the development of the household survey and supply-use tables. A TA mission for balance of payments statistics has been lined up for October 2024 to review the survey approach to compiling IIP statistics and imports data. The authorities are implementing the recommendations of the TA on monetary-financial statistics.
Use of data and/or estimates different from official statistics in the Article IV consultation discussions. The 2023 real GDP numbers were estimated from high-frequency indicators and estimates provided by the Central Bank of Curacao and Sint Maarten. Labor market data in 2023 were sourced from the 2023 census as the labor force survey has not been published yet, and staff estimated historical labor force data up to 2022 to allow for comparison with the 2023 census data. IIP data after 2019 continues to be estimated using BOP flows.
Other data gaps. Social indicators (inequality, crime, etc.) are not available. The authorities are encouraged to consider publishing climate related data, such as emissions, temperature, precipitation, and sea level rise.

Annex VII. Table 2. Curaçao: Data Standards Initiatives
Curaçao, Kingdom of the Netherlands does not participate in the IMF Data Standards Initiatives.

Annex VII. Table 3. Curaçao: Table of Common Indicators Required for Surveillance

(As of July 10, 2024)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Curaçao, Kingdom of the Netherlands[8]	Expected Timeliness[6,7]	Curaçao, Kingdom of the Netherlands[8]
Exchange Rates	N/A (Fixed exchange rate)				D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Jun-24	Jun-24	W	W	M	...	1M	...
Reserve/Base Money	Apr-24	Jun-24	M	M	M	...	2M	...
Broad Money	Mar-24	Jun-24	M	M	M	...	1Q	...
Central Bank Balance Sheet	Apr-24	Jun-24	M	M	M	...	2M	...
Consolidated Balance Sheet of the Banking System	Mar-24	Jun-24	M	M	M	...	1Q	...
Interest Rates[2]	Apr-24	Jun-24	M	M	M	...	...	...
Consumer Price Index	Mar-24	Jul-24	M	M	M	...	2M	...
Revenue, Expenditure, Balance, and Composition of Financing[3]–General Government[4]	Mar-24	May-24	M	I	A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Mar-24	May-24	M	I	Q	...	1Q	...
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Mar-24	May-24	M	I	Q	...	2Q	...
External Current Account Balance	Dec-24	Jun-24	Q	Q	Q	...	1Q	...
Exports and Imports of Goods and Services	Dec-24	Jun-24	Q	Q	M	...	12W	...
GDP/GNP	Dec-24	Jul-24	A	A	Q	...	1Q	...
Gross External Debt	Dec-24	Dec-24	A	I	Q	...	2Q	...
International Investment Position	Dec-24	Dec-24	A	I	A	...	3Q	...

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: (“D”) daily; (“W”) weekly or with a lag of no more than one week after the reference date; (“M”) monthly or with lag of no more than one month after the reference date; (“Q”) quarterly or with lag of no more than one quarter after the reference date; (“A”) annual.; (“SA”) semiannual; (“I”) irregular; (“NA”) not available or not applicable; and (“NLT”) not later than;.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as “...”

Annex VIII. Curaçao: Capacity Development Note

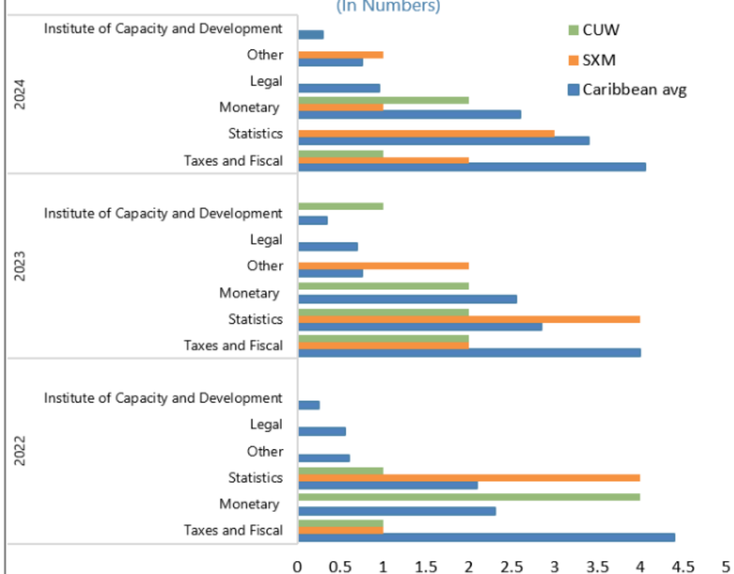
A. Context

1. Curaçao's economy is transiting to a new growth model after the oil refinery shut down in 2019, with tourism becoming the main driver after the pandemic. In 2020, the economy contracted by 18 percent due to COVID-19 pandemic, but a strong recovery in tourism generating average growth of 5 percent 2021–23 is expected to return the economy to pre-pandemic levels by 2025. The economy has become less diversified due to the shrinking manufacturing and offshore financial sectors while the public investment needed to support medium-term growth remains below the regional average.

2. Vulnerabilities in the financial and fiscal sectors are hindering development. The failures of large and systemic financial institutions in 2018 and 2019 incurred large fiscal costs and exposed supervisory and regulatory weakness at the central bank. A sharp deterioration in fiscal outturn during the pandemic due to revenue loss from tourism and expanded support to the economy was mitigated by loans from the Netherlands. Fiscal consolidation after the pandemic has enabled Curaçao to meet the golden fiscal rule required by the Kingdom Law on Financial Supervision. Capital spending can be financed through the capital subscription window, an arrangement with the Netherlands for Curaçao to finance public investment. It is the main avenue for financing capital projects of the government but has rarely been used due to inadequate capacity across the project cycle. Macroeconomic assessment is affected by lack of data, for example, GDP by expenditure.

B. Fund's CD Engagement with Curaçao

Capacity Development by Topic from 2022 to 2024
(In Numbers)



Sources: IMF Capacity Development Database and IMF staff calculations.

3. Curaçao has received moderate technical assistance (TA) since becoming semi-autonomous in 2010 and joining the Caribbean Regional Technical Assistance Center (CARTAC) in 2017, though progress has stalled in recent years. Curaçao is a surveillance country with a 12-month Article IV cycle. Recent technical assistance has helped improve national accounts (2024), and public financial and public investment management (2023); supported the development of the macroeconomic framework at the Centrale Bank van Curaçao et Sint Maarten (CBCS); and built capacity in value added tax (VAT) modeling, tax policy review. Recent CD to the CBCS were in the areas of reserves management, risk-based supervision, and financial stability. Progress was mixed, with TA projects with CBCS achieving better results and completion rates than those with the Ministry of Finance. Outcomes in Macroeconomic programming and real sector national accounts and prices surpassed regional averages, while achievements in public financial management and customs were lagging.

C. Integration of CD in Fund's Surveillance

4. CD has been aligned with the authorities' reform objectives and coordinated by the country team. The technical assistance projects have been useful in improving the authorities' analysis of economic developments and forecasting and provided key inputs for the Article IV consultation discussions.

D. Collaboration with Other Partners

5. The Netherlands has also served as an important TA provider to Curaçao with significant complementarities with the Fund. Through the country package, the Netherlands has been providing TA in public finance management, tax administration, national accounts statistics, financial crisis management and financial and fiscal law reform.

E. CD Priorities for 2024 and 2025

6. Capacity development in Curaçao's CD should continue to build capacity in macro-critical areas. In the near term, the authorities will need follow-up support on:

- Balance of payments statistics to improve compilation of NIIP, external debt statistics, the current account.
- Tax and customs administration (TADAT self-assessment helped the authorities to identify gaps but will need a formal assessment)
- Strengthening financial supervision and regulation, and
- Health sector diagnosis and reform options.

In the medium term, technical assistance to develop a VAT will be valuable.

Annex IX. Curaçao: Public Debt Sustainability Analysis

Annex IX. Table 1. Curaçao: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	Moderate	The overall risk of sovereign stress is moderate, reflecting medium vulnerability in the medium term.
Near term 1/			
Medium term	Low	Moderate	Medium-term risks are assessed as moderate due to fiscal risks arising from changing demographics.
Fanchart	Moderate	…	
GFN	Low	…	
Stress test	...	…	
Long term	…	Moderate	Long-term risks are moderate. GFNs are vulnerable to rollover risk w hen bullet payments mature but remain below 10 percent of GDP, although w ith a spike in 2030 due to maturity of a bullet loan. There is also risk of contingent debt liabilities.
Sustainability assessment 2/	Not required for surveillance countries	Sustainable	The projected debt path is expected to decline as GFNs recede to manageable levels, conditional on refinancing bullet loans in 2025 and 2030, containing fiscal risks emanating from healthcare and old-age pension, and implementing fiscal adjustment measures and PFM reforms in the Country Package.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Curaçao is at moderate overall risk of sovereign stress and debt is sustainable. Debt-to-GDP ratio continued to decline in 2023 due to robust GDP recovery and strong fiscal adjustment. The debt ratio is expected to decline further in 2023 due to higher than debt stabilizing primary surplus and real GDP grow th. Medium-term liquidity risks as analyzed by the GFN Financeability Module are low although spikes due to bullet loans pose some liquidity risk in those years. The sustainability is conditional on preserving the fiscal consolidation gains achieved so far, maintaining access to external financing at favorable terms, reducing fiscal risks especially healthcare and old age pension, and continued economic recovery.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress w ithout its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases w here there is a disbursing IMF arrangement. In surveillance-only cases or in cases w ith precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases w here there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases w ith IMF arrangements w ith normal access, the qualifier indicating probability of sustainable debt ("w ith high probability" or "but not w ith high probability") is deleted before publication.

Annex IX. Figure 1. Curaçao: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					0	
2. Subsectors included in the chosen coverage in (1) above:						

Coverage		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	No	
CPS / NFPS / GG: expected	4	State governments	No	Not applicable
CPS / NFPS / GG: expected	5	Local governments	No	Not applicable
CPS / NFPS	6	Public nonfinancial corporations	No	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

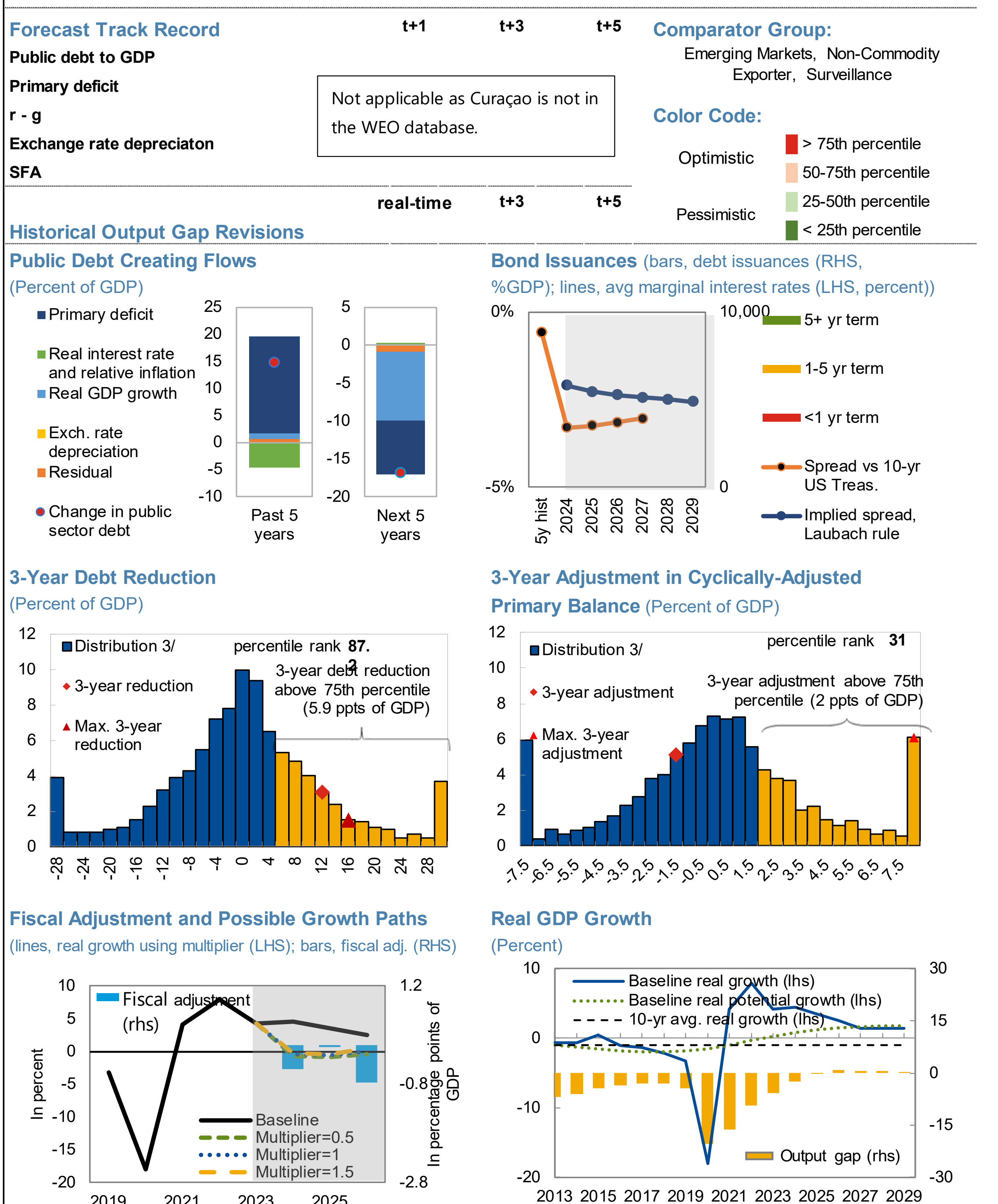
Reporting on Intra-Government Debt Holdings

Coverage		Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt									0
CPS / NFPS / GG: expected / CG	2	Extra-budget. funds									0
CPS / NFPS / GG: expected / CG	3	Social security funds									0
CPS / NFPS / GG: expected	4	State govt.									0
CPS / NFPS / GG: expected	5	Local govt.									0
CPS / NFPS	6	Nonfin pub. corp.									0
CPS	7	Central bank									0
CPS	8	Oth. pub. fin. corp									0
		Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The SRDSA uses Curaçao's public sector debt, which comprises budgetary central government debt. The Social Security Bank (SVB) is not treated as part of the budgetary central government.

Annex IX. Figure 2. Curaçao: Realism of Baseline Assumptions



Commentary: The sharp decline in real economic activity during the pandemic lowers the 10-year average growth while the borrowing it necessitated increased the primary deficit far above historical norms. However, the projected fiscal adjustment in the baseline is as implied by adherence to the golden fiscal rule which is guiding the fiscal stance. Forecast track record and historical output gap revisions are not available because of Curacao's exclusion from the WEO.

Annex IX. Figure 3. Curaçao: Baseline Scenario

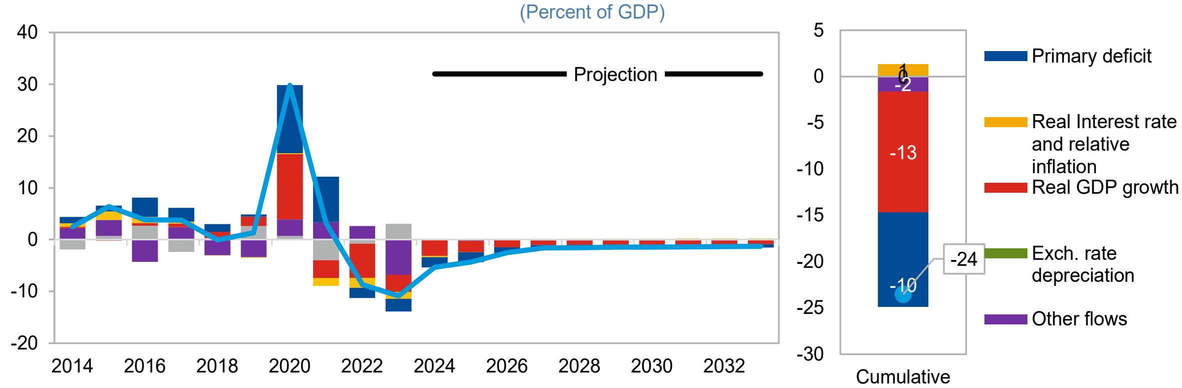
(Percent of GDP unless indicated otherwise)

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	70.8	65.4	61.1	58.5	56.9	55.4	53.9	52.5	51.1	49.8	48.4
Change in public debt	-10.9	-5.4	-4.3	-2.5	-1.6	-1.5	-1.5	-1.5	-1.4	-1.3	-1.3
Contribution of identified flows	-13.9	-5.4	-4.3	-2.5	-1.6	-1.5	-1.5	-1.5	-1.4	-1.3	-1.3
Primary deficit	-2.5	-2.0	-1.9	-1.2	-0.7	-0.7	-0.6	-0.6	-0.6	-0.6	-0.6
Noninterest revenues	30.0	30.2	30.4	30.5	30.5	30.5	30.5	30.5	30.5	30.5	30.5
Noninterest expenditures	27.5	28.3	28.5	29.3	29.8	29.9	29.9	29.9	29.9	29.9	29.9
Automatic debt dynamics	-4.7	-3.3	-2.2	-1.4	-0.7	-0.7	-0.6	-0.6	-0.6	-0.5	-0.5
Real interest rate and relative inflation	-1.4	-0.3	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Real interest rate	-1.4	-0.3	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-3.3	-3.1	-2.2	-1.5	-0.8	-0.8	-0.8 .	-0.8	-0.8	-0.8	-0.7
Real exchange rate	0.0	…	…	…	…	…	… .	…	…	…	…
Other identified flows	-6.8	-0.1	-0.2	0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-6.8	-0.1	-0.2	0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Contribution of residual	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	15.2	14.3	1.8	0.8	1.9	1.9	1.9	6.4	2.0	2.0	2.0
of which: debt service	17.7	16.3	3.8	1.9	2.5	2.5	2.5	7.0	2.7	2.7	2.7
Local currency	17.5	16.3	3.8	1.9	2.5	2.5	2.5	7.0	2.7	2.7	2.7
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	4.2	4.5	3.5	2.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Inflation (GDP deflator; percent)	3.5	3.2	2.4	2.3	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Nominal GDP growth (percent)	7.9	7.8	5.9	4.8	3.6	3.6	3.6	3.7	3.7	3.7	3.7
Effective interest rate (percent)	1.5	2.8	2.3	2.4	2.4	2.4	2.5	2.5	2.6	2.6	2.6

Contribution to Change in Public Debt

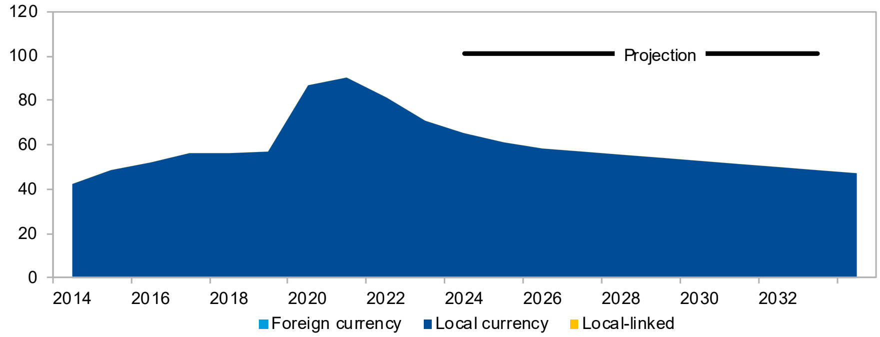
(Percent of GDP)



Staff commentary: Public debt will continue to decline in the medium-term, reflecting higher primary surpluses than needed to stabilize debt and economic growth. The Ennia resolution strategy has been agreed by all statekholders and trigerred lower interest rate of 3.4 percent from the 5.6 percent applicable at rollover in 2023. The loans are amortized over 20 years. Bullet loans maturing in 2025 and 2030 heighten financing needs in those years and may need to be rolled over.

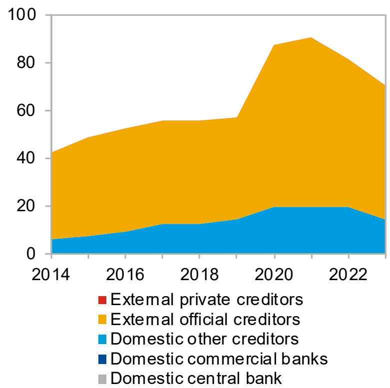
Annex IX. Figure 4. Curaçao: Public Debt Structure

Debt by Currency (percent of GDP)



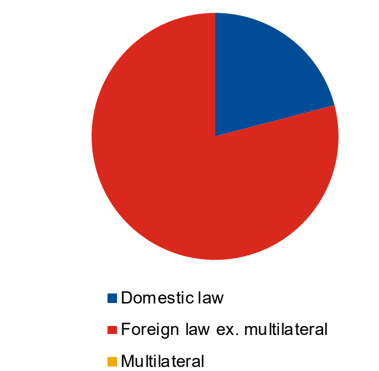
Note: The perimeter shown is central government.

Public Debt by Holder (percent of GDP)



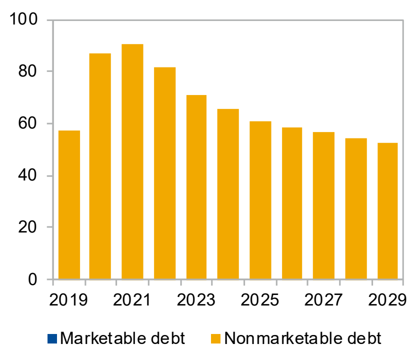
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (percent)



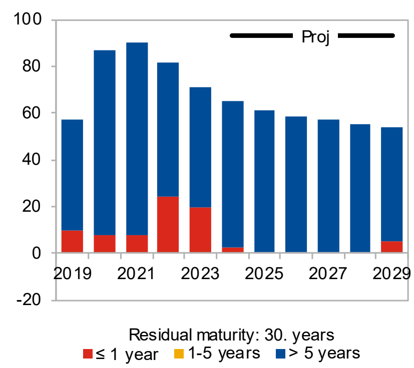
Note: The perimeter shown is general government.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (percent of GDP)



Note: The perimeter shown is general government.

Commentary: The government relies on foreign debt held by the Netherlands for financing its GFNs. Curaçao borrows from the Netherlands in local currency, but debt contracts are governed by the relevant laws applicable in the Netherlands.

Annex IX. Figure 5. Curaçao: Medium-Term Risk Analysis

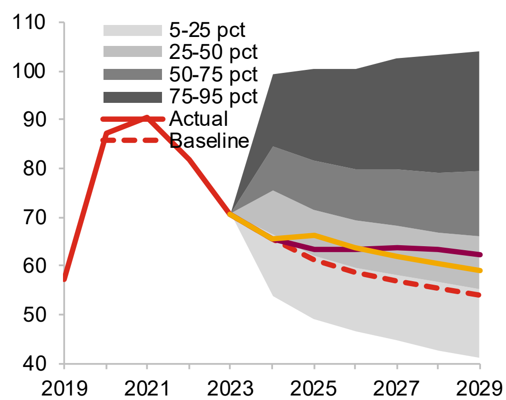
Debt Fanchart and GFN Financeability Indexes

(Percent of GDP unless otherwise indicated)

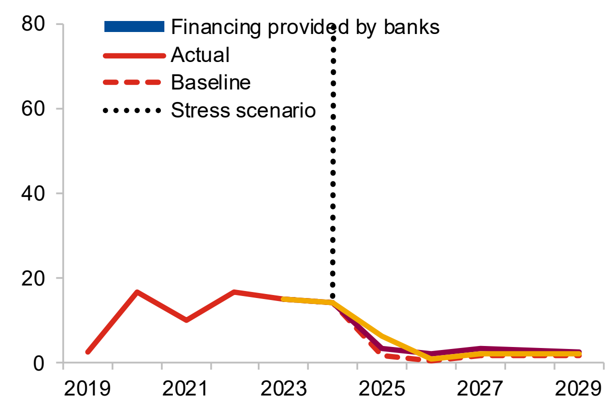
Module	Indicator	Value	Risk index	Risk signal	Adv. Econ., Non-Com. Exp, Program (0 / 25 / 50 / 75 / 100)
Debt fanchart module	Fanchart width	62.7	0.9	…	
	Probability of debt not stabilizing (pct)	16.8	0.1	…	
	Terminal debt level x institutions index	25.5	0.6	…	
	Debt fanchart index	**…**	**1.6**	**Moderate**	
GFN finance-ability module	Average GFN in baseline	3.8	1.3	…	
	Bank claims on government (pct bank assets)	0.0	0.0	…	
	Chg. in claims on govt. in stress (pct bank assets)	0.0	0.0	…	
	GFN financeability index	**…**	**1.3**	**Low**	

Legend: Interquartile range; Curaçao

Final Fanchart (percent of GDP)



Gross Financing Needs (percent of GDP)

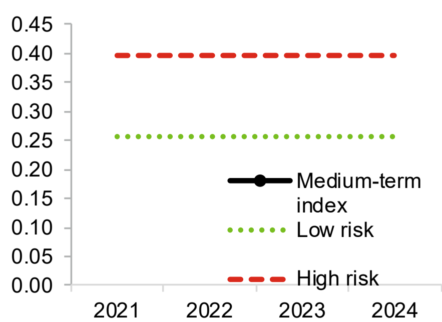


Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index

(Index number)



Medium-Term Risk Analysis

	Low risk threshold	High risk threshold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.4
GFN finaceability index	7.6	17.9	0.5	0.0
Medium-term index (MTI)	0.3	0.4	…	0.2, Low

Prob. of missed crisis, 2024-2029 (if stress not predicted): 9.1 pct.

Prob. of false alarm, 2024-2029 (if stress predicted): 58.0 pct.

Commentary: Of the two medium-term tools, the Debt Fanchart Module is pointing to moderate level of risk, while the GFN Financeability Module suggests low level of risk. Even with stress tests for commodity prices and natural disasters, Curaçao's debt is projected to continue falling in the medium-term, albeit at a slow pace as the authorites increase public investment financed with borrowing from the Netherlands.

Annex X. Sint Maarten: Risk Assessment Matrix

Source of Risks (Likelihood in Color)	Expected Impact	Policy Response
Global growth surprises: • **Slowdown**. Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction (e.g., in China), with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs. **Medium.** • **Acceleration**. Positive supply-side surprises, monetary policy easing, productivity gains from AI, and/or stronger performance of large EMDEs increase global demand, promote trade, and ease global financing conditions. **Low.**	**High:** The U.S. makes up most of Sint Maarten's tourist arrivals, and an economic slowdown in the U.S. could negatively impact tourism receipts and, consequentially, economic growth.	Diversify the source of tourism markets to help maintain stable tourism inflows and reduce exposure to idiosyncratic risks from a given country. Enhance tourist experience to maintain competitiveness.
Commodity price volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability. **High.**	**High:** Sint Maarten imports most consumption and investment goods—including oil—and is thus vulnerable to fluctuations in global prices. A sharp rise in commodity price could dent growth and worsen the trade balance.	Allow a gradual pass-through of international prices. Targeted support for the most vulnerable may be used if there is fiscal space.
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows. **High.**	**Medium:** Sint Maarten, as a small open economy, would be vulnerable to rising prices of both energy and non-energy imports. Regional conflicts could also dent growth in advanced economies, affecting remittances and financial flows.	Use targeted fiscal instruments within the feasible fiscal envelope to protect vulnerable groups and help cushion the shock for the broader economy.
Systemic financial instability. High interest rates and risk premia and asset repricing amid economic slowdowns and political uncertainty (e.g., from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs. **Medium.**	**Medium:** Sint Maarten relies on foreign capital inflows for investment to expand tourism capacity. Uncertainty can delay such investment and hamper medium-term growth. Asset repricing could hurt the balance sheets of financial institutions on the island.	The authorities can develop contingency plans and a deeper understanding of financial linkages. As the lender of last resort, the CBCS is ready to intervene.

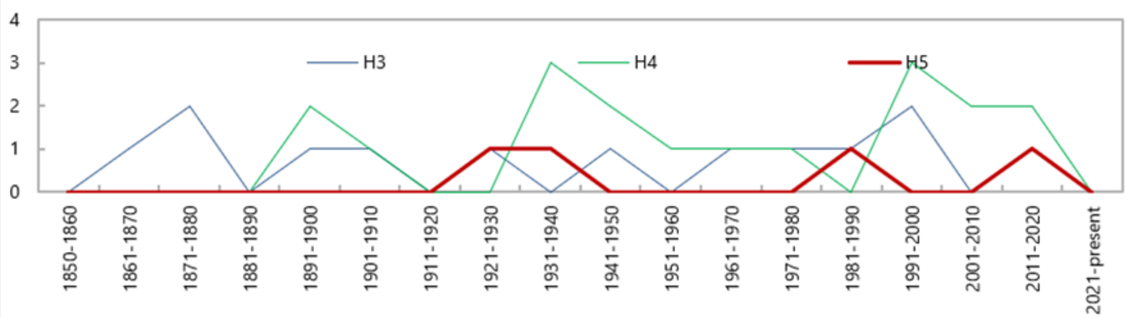
Source of Risks (Likelihood in Color)	Expected Impact	Policy Response
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth. **High.**	**High:** Geoeconomic fragmentation could lead to inefficient supply chain arrangements and higher prices of traded goods, which would hurt Sint Maarten due to the high reliance on imports.	Continue to diversify trade partners and reduce vulnerability to a particular market.
Cyberthreats. Cyberattacks on physical or digital infrastructure and service providers (including digital currency and crypto assets) or misuse of AI technologies trigger financial and economic instability. **High.**	**High:** Cyberattacks on critical infrastructures, such as the attack on GEBE in 2022 could jeopardize operational, financial, and economic stability. Cyberattacks on state-owned enterprises could imply serious fiscal risks.	Ensuring critical systems are properly protected and backup systems are available. Insurance could help mitigate some of the fiscal risk.
Sint Maarten-Specific Risks		
Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth. **Medium.**	**High:** Sint Maarten is particularly vulnerable to hurricanes which have severe short-term impacts (damaging infrastructures and the loss of human lives and livelihoods) and damage the country's reputation as a tourism destination. Slow-moving hazards such as sea-level rise and droughts could also hamper the development of the island.	Building and maintaining climate-resilient infrastructure is critical. Insurance, such as through CRIF, could help offset fiscal costs. Developing a Disaster Resilience Strategy would help prepare contingencies and could unlock funding for climate adaptation.
Prolonged energy crisis. Delays in replacing broken generators and the failures of more generators could lead to insufficient energy supply to meet peak demand, leading to rotating blackouts and diminishing tourist experience. **Medium.**	**High:** Sint Maarten relies exclusively on diesel engine generators for electricity, which is crucial for tourism and domestic residents' livelihoods. Large hotels have their own generators, but they are a much more expensive source of electricity and not meant to service on a frequent basis.	Focusing on replacing old generators in the near-term and investing in renewables to diversify and expand energy production capacity in the medium term.

Source of Risks (Likelihood in Color)	Expected Impact	Policy Response
Delayed implementation of public investment and the landspakket. Delays in the implementation of public investment projects and structural reforms lower medium-term growth. **Medium.**	**High:** Timely implementation of public investment and structural reforms could boost potential growth and improve the outlook, while delays hamper economic development.	Commitment to the process is needed by all parties. Improvements to public investment, procurement, and governance can assist the implementation. Develop a master plan for medium-term public investment, and establish a dedicated agency to plan, apply for fundings, and execute public investment.
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 scenarios 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. G-RAM operational guidance is available from the SPR Risk Unit website.		

Annex XI. Sint Maarten: The Economic Benefits from Climate-Resilient Investments in Infrastructure[1]

Sint Maarten is vulnerable to tropical cyclones with acute economic costs on the island's tourism and infrastructure. Evidence shows that the intensity of hurricanes and peak wind speeds is likely to increase with climate change. While average temperature on the island is expected to continue its upward trend, precipitation rates are expected to drop, making it difficult to predict with certainty whether cyclone frequency is going to increase or decrease, in line with the absence of consensus in the economic literature. Staff estimate that investing in adaptive infrastructure that are prone to category 5 hurricanes not only lowers the economic impact on the short to medium term, but also helps boost income convergence which is materially impacted under the alternative scenario that does not have such investments. The launch of the Trust Fund in 2018, to increase infrastructure resilience to category 5 hurricanes and avoid the significant damages caused by Hurricane Irma in 2017, is helping position the island on a sustainable path of recovery. However, the authorities need to put in place mechanisms that can help maintain such infrastructure even beyond the Trust Fund's planned phaseout in late 2028.

Frequency of Hurricanes with Categories 3 to 5
(Number of hurricanes with categories 3-5 within 40 miles of Sint Maarten's coast)



Sources: National Oceanic and Atmospheric Administration-International Best Track Archive for Climate Stewardship (IBTrACS) data, accessed on April 16th, 2024, and Staff calculations. 1/The Category classification of hurricanes can differ depending on the data source, the date and time at which the intensity of the hurricane (in terms of wind speed) was measured and the distance from Sint Maarten's weather station (usually the airport).

1. **Sint Maarten is highly vulnerable to storms and tropical cyclones with acute economic costs.** Situated within the hurricane belt, Sint Maarten is subject to annual tropical storms mostly between July and November, some of which develop into high intensity hurricanes with severe economic consequences. The number of category 3–5 hurricanes has increased since 1900, compared to the pre-industrial era (1850–1900). Damages from the most recent category 5 Hurricane (Irma, September 2017) were particularly severe (255 percent of GDP), affecting 90 percent of all infrastructure and large parts of the natural environment, as the recovery was also delayed by the pandemic, with GDP remaining below its 2016 level up until 2022.

[1] Prepared by Ziad Amer and Filippos Tagklis.

2. Evidence shows that the intensity of hurricanes and peak wind speeds is likely to increase with climate change.[2] The IPCC's Sixth Assessment Report shows that the average and peak wind speeds associated with intense hurricanes (category 3-5) are likely to increase globally in the future, even if the frequency of hurricanes may remain constant or decrease somewhat with global warming. Acevedo (2016) estimates that the average annual hurricane damages in the Caribbean would increase between 22 and 77 percent by the year 2100 in a global warming scenario of high CO2 concentrations and high global temperatures. He argues that historical economic damages from hurricanes in the Caribbean can be underestimated by 38 to 72 percent, likely due to underreporting of damages historically as well as the difficulty to measure hurricane intensity prior to the satellite era (1980s onwards). Chand et al. (2022) finds a decline in tropical cyclone frequency as well and note that there is general consensus from observationally based records that suggest an increase in the proportion of severe storms with anthropogenic-induced warming.

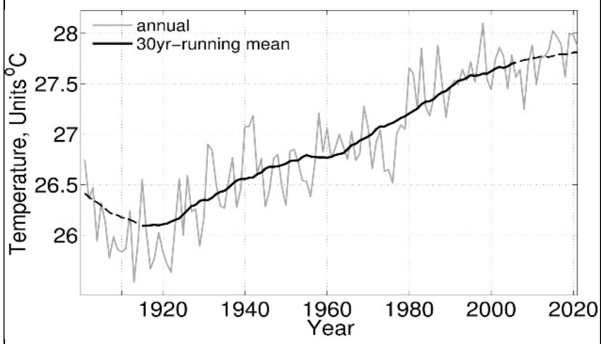
3. Sint Maarten's average temperature has been increasing since 1900, while the average precipitation is expected to drop. In collaboration with FAD, some 20-30 estimation techniques were used to project median temperature increase as well as median precipitation by 2050 under different climate change scenarios as devised by the Intergovernmental Panel on Climate Change IPCC-Sixth Assessment Report (2021). Under the baseline median scenario[3], the results show that Sint Maarten's average temperature is expected to increase by 1.1 degree Celsius compared to the average temperature between 1985 and 2014. On the other hand, average precipitation per year, which has been broadly stable over the past 120 years, is expected to drop by 4 percent by 2050. Additional more optimistic/pessimistic scenarios by the IPCC have different results in terms of magnitudes, but the increasing trend for temperature and the decreasing trend for precipitation does not change direction.

[2] The United Nations Framework Convention on Climate Change (UNFCCC) defines climate change as the modification of climate (either directly or indirectly) due to human activity (anthropogenic) in a way that alters the global atmospheric composition observed over comparable time periods. The later distinction separates human-induced climate change from natural causes of climate variability.

[3] This is the median scenario, which assumes that CO2 emissions will hover around current levels before starting to fall in the mid-century, but do not reach net-zero by 2100. Socioeconomic factors follow their historic trends, with no notable shifts and the temperatures rises by 2.7C by the end of the century.

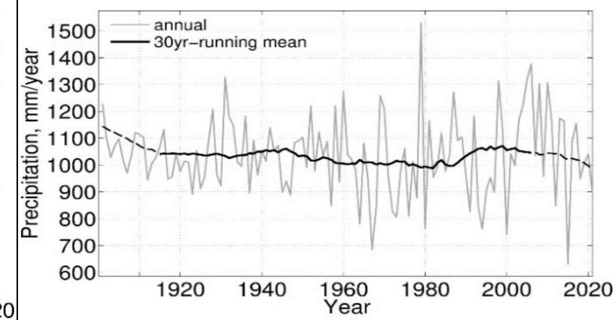
Historical Average Temperature

(Grey volatile line represents average annual temperature in degree Celsius, while the black line is the 30-year rolling mean)



Historical Average Precipitation

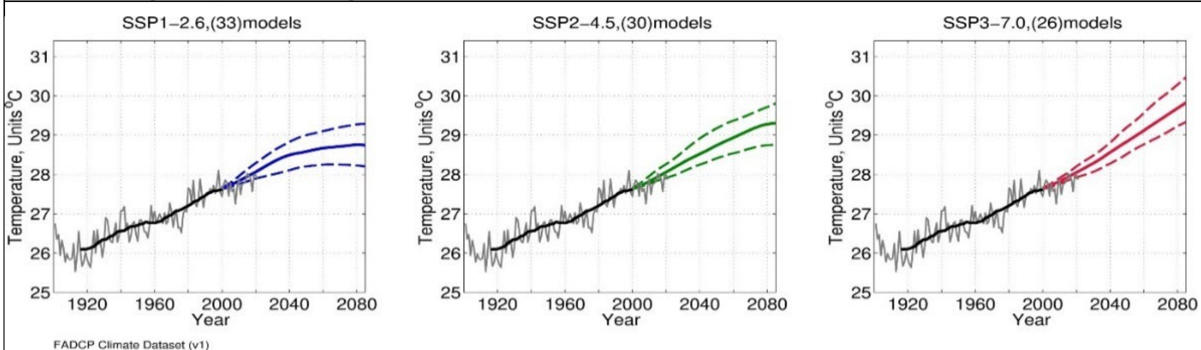
(Grey volatile line represents average annual precipitation in milli meters per year, while the black line is the 30-year rolling mean)



Sources: IMF FADCP Climate Dataset (Massetti and Tagklis, 2024), using CRU data (Harris et al., 2020), and CMIP6 data (Copernicus Climate Change Service, Climate Data Store, 2021: CMIP6 climate projections).

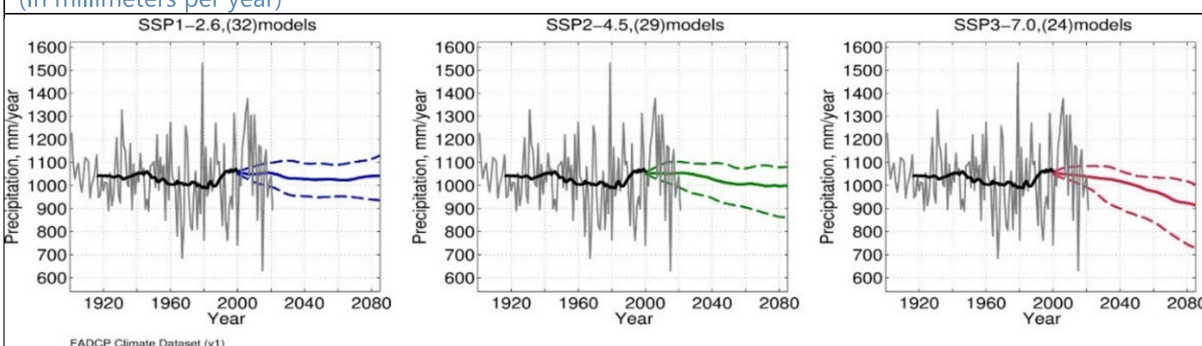
Temperature Forecasts Under Different Climate Change Scenarios 1/

(Annual average temperature in degree Celsius)



Rainfall Precipitation Forecasts 1/

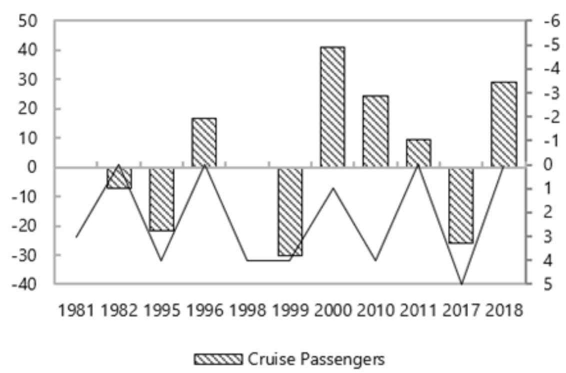
(In millimeters per year)



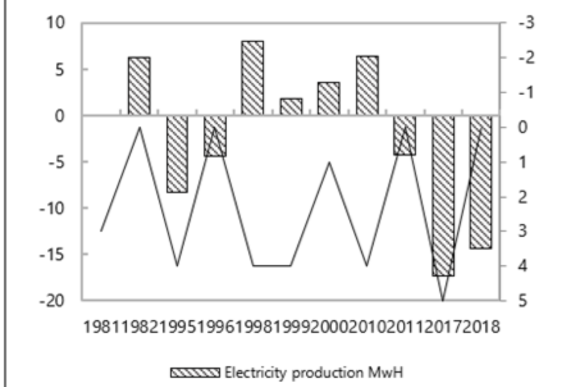
Sources: IMF FADCP Climate Dataset (Massetti and Tagklis, 2024), using CRU data (Harris et al., 2020), and CMIP6 data (Copernicus Climate Change Service, Climate Data Store, 2021: CMIP6 climate projections).

[1] Grey volatile line represents average annual temperature in degree Celsius or annual average precipitation in mm/year, while the black and thick blue/green/red line is the 30-year rolling mean and the median forecast using different climate projection models. Dotted lines in the forecast depict forecast uncertainty, number of estimation techniques used is in parenthesis. IPCC Scenario description: SSP1-2.6 scenario is the second to most optimistic scenario by the IPCC, it assumes that global CO2 emissions are cut severely but not as fast as what is required by the Paris accords, with the world reaching net-zero after 2050. SSP2-4.5 scenario: considered the baseline/median scenario by the IPCC, where CO2 emissions hover around current levels before starting to fall by the mid-century, but do not reach net-zero by 2100. SSP3-7.0 scenario: This scenario assumes that emissions and temperatures rise steadily and CO2 emissions roughly double from current levels by 2100. By the end of the century, average temperatures have risen by 3.6 degree Celsius, compared to the 1.5 degrees under the Paris Accords.

Hurricanes versus Cruise Passenger Developments on Impact and in the Subsequent Year of Impact
(In percent, y/y unless otherwise specified)

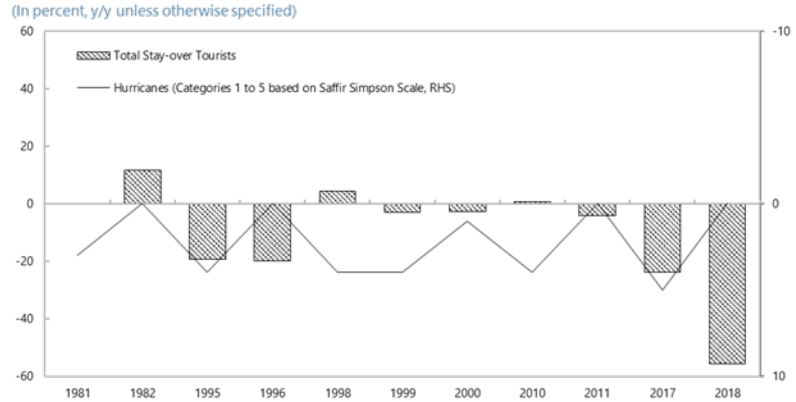


Hurricanes versus Electricity Generation Developments on Impact and in the Subsequent Year of Impact
(In percent, y/y unless otherwise specified)



Source: Central Bank of Curacao and Sint Maarten, National Oceanic and Atmospheric Administration-International Best Track Archive for Climate Stewardship (IBTrACS) data, accessed on April 16th, 2024, and Staff calculations. 1/ Category classification of the hurricane can be different depending on the database used, the date and time at which the intensity of the hurricane (in terms of wind speed) was measured and the distance from Sint Maarten's weather station (usually the airport). The charts depict the hurricanes whom Staff found to have had anecdotal and contemporaneous effects on the indicators used. Additional hurricanes that may have had severe effects but are not obvious on the high frequency indicators were discarded from the charts.

Hurricanes versus Tourist Arrival Developments on Impact and in the Subsequent Year of Impact
(In percent, y/y unless otherwise specified)



Source: Central Bank of Curaçao and Sint Maarten, National Oceanic and Atmospheric Administration-International Best Track Archive for Climate Stewardship (IBTrACS) data, accessed on April 16th, 2024, and Staff calculations. 1/ Category classification of the hurricane can be different depending on the database used, the date and time at which the intensity of the hurricane (in terms of wind speed) was measured and the distance from Sint Maarten's weather station (usually the airport). The charts depict the hurricanes whom Staff found to have had anecdotal and contemporaneous effects on the indicators used. Additional hurricanes that may have had severe effects but are not obvious on the high frequencyindicators were discarded from the charts.

4. **Hurricanes have acute economic consequences for Sint Maarten's, some of which have coincided with lower growth in tourism and damages to key infrastructure.** While data availability remains a constraint for rigorously quantifying the impact of hurricanes on the economy, staff tracked 6 hurricanes,[4] using high frequency data since 1980, that coincided with a negative impact on key indicators across the tourism and electricity sectors. As most hurricanes impact the

[4] Hurricanes: Luis (category 4, August 1995), Georges (category 4, September 1998), Lenny (category 4, November 1999), Debby (category 1, August 2000), Earl (category 3, August 2010), IRMA (category 5, September 2017).

island in the last four months of the year, Staff calculated the two-year cumulative declines in cruise passengers, stayover tourist arrivals and electricity generation following the impact. Results show that Hurricanes Luis (category 4, August 1995) and Irma (category 5, 2017) had coincided with broad based cumulative declines across the three indicators. Stayover tourists witnessed a two-year cumulative decline of 35.4 and 66.4 percent for the two hurricanes, whereas cruise passengers reported a two-year cumulative decline of 8.5 and 4.3 percent. Meanwhile, electricity generation capacity was also impacted negatively, witnessing a two-year cumulative decline of 12.3 and 29.1 percent. Hurricane Georges (category 4, September 1998) had a much higher two-year cumulative impact on cruise passengers (negative 30.5 percent) compared to stayover tourists (positive 1.3 percent), while electricity generation increased by a cumulative 10.1 percent, thanks to the government's investment in underground electricity cables following Hurricane Luis in 1995. Despite these efforts, the recent Hurricane Irma had a devastating effect on Sint Maarten, with the economy contracting by 13.9 percent between 2018 and 2016, and is expected to fully compensate the losses by 2025, nine years after the impact, with the pandemic also prolonging the recovery period.

5. Since Hurricane Irma, concerted efforts to invest in adaptive infrastructure that can be immune to category 5 hurricanes has taken place. With an initial budget of USD305.9 million in 2018 (10.1 percent of nominal GDP in the same year), the Trust Fund's budget has grown rapidly over the past six years to overcome several implementation challenges such as limited government absorption, increasing procurement costs and implementation delays, to record USD443.3 million as of December 2023 (26.3 percent of GDP). The Fund encompasses 14 projects that aim at supporting recovery and climate resilience on the island on several sectors such as but not limited to education, healthcare, transportation, and utilities (electricity and water). Despite sluggish implementation at first, as evidenced by low disbursements to budgeted allocations in 2018 and 2019, accelerated efforts were undertaken to increase the pace of disbursements recently, reaching 63 percent of the total budget as of December 2023. Successful implementation of the climate resilient projects has nonetheless raised concerns about sustainability post the planned phase out of the Fund by December 2028, especially regarding maintenance of the climate resilient infrastructure, among other factors.

6. Using the IMF's DIGNAD Model[5], Staff estimate that investing in adaptive infrastructure post Hurricane Irma could materially mitigate the impact on economic activity in the island and help accelerate income convergence. Staff ran three scenarios that assess the impact of the Trust Fund's investments in adaptive infrastructure from 2018 till present. All scenarios begin from 2018 (the year the Trust Fund was launched) and assume a hypothetical Hurricane category 5 will make landfall on Sint Maarten in 2025. Immediate damages from the hurricane were

[5] The Debt-Investment-Growth and Natural Disasters toolkit-DIGNAD is a Dynamic stochastic General Equilibrium Model that was created by the IMF's Research Department, building on the extension of the Debt, Investment and Growth model of Buffie et al. (2012) to natural disasters following Marto, Papageorgiou and Klyuev (2018). The model captures the challenges of closing infrastructure gaps in developing countries that frequently face natural disasters, in addition to allowing natural disasters to cause temporary losses of productivity, inefficiencies during the reconstruction process, and damages to the sovereign's creditworthiness, in addition to permanent damages to public and private capital. The toolkit then evaluates debt sustainability risks following natural disasters amidst the need to rebuild public infrastructure through the lens of a rich general equilibrium structure.

unified across all scenarios and calibrated to mimic the loss in real GDP witnessed by Hurricane Irma. The baseline scenario considers staff estimates of public sector investments in adaptive infrastructure, calibrated to be equal to the Trust Fund disbursements in percent of nominal GDP from 2018 till present, while assuming a gradual albeit decreasing rate of disbursements, in line with the remaining budgeted commitments by the Fund (USD 172 million) until it is phased out by December 2028. The second scenario is like the baseline but assumes a hypothetical case where all the investments made by the Trust Fund did not consider increasing resilience of infrastructure to category 5 hurricanes. The third scenario assumes that the increase in investments between 2018 and 2028, amid the launch of the Trust Fund, never took place, with public investments being calibrated to its pre-Irma annual average of 1 percent of nominal GDP, all of which is also not being directed to adaptive infrastructure. Under all three scenarios, the recovery from the 2025 shock takes ten years, in line with the current trajectory with respect to Hurricane Irma. Results show that scenario III can have lower real GDP growth compared to the baseline by 0.5 to 0.8 percentage points in 2025 and 2026, with the difference gradually fading by 2036. However, real GDP level under scenario III becomes permanently lower than the baseline by 5.4 percent annually. These results are in line with Cantelmo et al (2019) who show that weather shocks can significantly alter the income convergence path of disaster-prone countries.

Key Project Targets Related to Climate Resilience and Adaptation

Emergency Recovery Project I:
- 89 percent of households would have electrical services resilient to hurricanes.
- 4 year access to sovereign catastrophe risk insurance.
- Restoration and financing of utility companies.
- 11 emergency shelters and repairing 535 homes to be climate resilient.

Airport project: Reconstructing Terminal Buildings to be resilient in front of category 5 hurricanes.

Child Resilience and Protection Project: Strengthen the resilience of schools and ministry to disasters.

Digital Government Transformation Project:
- Digitalizing 1 million public records, including tax records, titles and land deeds.
- Increasing public services that can be started online by 25 percent.

Emergency Debris Management Project: Establishing 1 debris and waste processing facility.

Enterprise Support Project:
- Training 200 enterprises and loan officers in business continuity planning.
- Providing financing for 600 medium, small and micro enterprises on purchasing and repairing assets and capital, 240 of which are women owned or managed.

Fostering Resilient Learning Project:
- Restore access to adequate and inclusive learning environments for two primary schools damaged by Hurricane Irma in the Middle Region and Cole Bay districts.
- Finance the reconstruction of and provision of furniture and equipment to Sister Marie Laurence and Charles Leopold Bell primary schools.
- Develop maintenance plans for both schools.
- Support both schools to integrate inclusive and adaptive education aspects into school design.

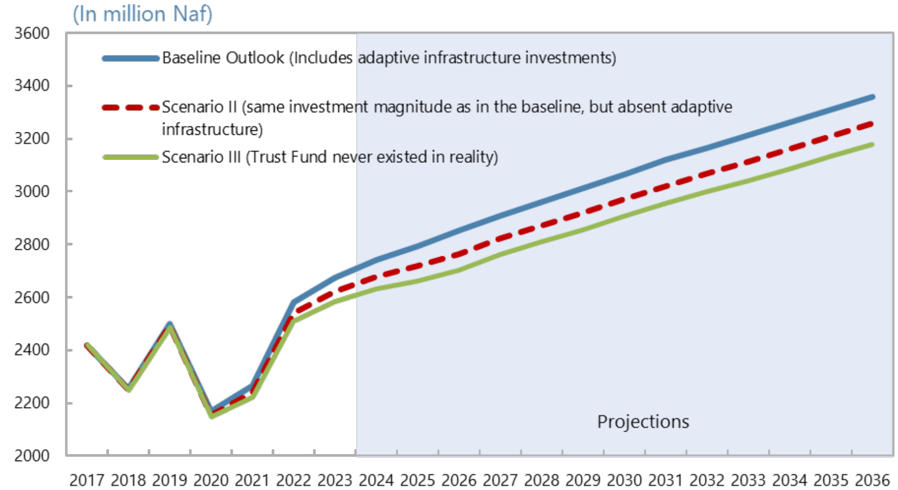
Hospital Resiliency and Preparedness Project: Update Emergency Disaster Preparedness Plan and Evacuation plan.

Red-Cross Roof Repair Project:
- Repair 200 roofs in hurricane damaged areas.
- Reconstruct roofs to safe higher quality standards.
- Improve knowledge of hurricane resistant building practices.

Sources: The Sint Maarten Trust Fund online dashboard and staff analysis.

7. Overcoming challenges to the implementation of the Trust Fund Projects is key, while devising a mechanism to ensure proper maintenance of infrastructure post the phase out of the Trust Fund is crucial to unlock long term benefits. Staff welcomes the concerted efforts by all stakeholders (the World Bank, the National Recovery Program Bureau, the Netherlands, and the Trust Fund) that aim at resolving ongoing challenges that continue to emerge since the inception of the Fund till present. Devising ways to boost government absorption and implementation capacity can help lessen the frequent delays in implementing the projects. Targeted labor market regulations at select sectors that are approaching saturation, such as encouraging formal migration and/or easing the regulation regarding work permits, particularly in the construction sector can also help accelerate the implementation of the projects and ensure proper maintenance of the infrastructure post 2028. Finally, overcoming procurement of equipment and facilitating the budgeting and planning stages can help avoid delays and increased costs going forward.

Real GDP Projections under the Baseline, Scenarios II and III, under a Hypothetical Hurricane Category 5 Making Landfall in 2025
(In million Naf)



Sources: Staff estimates using IMF DIGNAD toolkit. 1/ Differences between the three scenarios prior to the shock in 2025 reflect increased productivity because of the investment in adaptive infrastructure.

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Annex XII. Sint Maarten: Data Issues

Annex XII. Table 1. Sint Maarten: Data Adequacy Assessment Rating 1/

C							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	D	C	C	C	C	C	C
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	D	C	C	B	B		
Granularity 3/	D		B	C	B		
			B		C		
Consistency			C	D		C	
Frequency and Timeliness	D	C	D	C	C		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.

1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).

3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund Is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. GDP data is published with long delays, does not include GDP by expenditure, and is unreliable due to low survey response rates. Price statistics are only available on a quarterly basis. The authorities produce quarterly fiscal reports, but they are not publicly available and only shared with the IMF with substantial delays. The classification of accounts needs to be updated to GFSM 2014, for which TA has been provided. On external sector statistics, BOP statistics is hampered by the low quality of the Tourism Exit Survey (which is important given the dominant role of tourism in the economy) and the shared-border without customs with the French side of the island. Similar to Curacao, IIP data for Sint Maarten also suffers from large stock-flow consistencies and low timely response rate, and has not been shared since 2021. Monetary data is published on time, though recently the authorities has stopped sharing the Standardized Report Forms (1SR and 2SR, which offer the highest level of granularity for the Central Bank and other Depository Corporations balance sheets) since January 2024. Foreign exchange intervention data is not shared while financial sector indicators are shared with long delays.

Annex XII. Table 1. Sint Maarten: Data Adequacy Assessment Rating (Concluded)
Changes since the last Article IV consultation discussions. The submission of 1SR and 2SR is suspended as the authorities want to incorporate the recommendations from a recent TA.
Corrective actions and capacity development priorities. The authorities have received TA to improve national accounts and price statistics. TA on balance of payments statistics is expected in October this year, focusing on improving IIP statistics and reviewing methodologies for the Tourism Exit Survey.
Use of data and/or estimates different from official statistics in the Article IV consultation discussions. As the last labor force survey was conducted in 2018, labor market data for 2019–23 are estimated using alternative data sources (e.g., 2022 data from 2023 population census, social security, smaller-scale labor surveys, model-based estimates). IIP data for 2019–23 are estimated based on BOP flows, as the authorities have advised to treat 2018 as the last observation due to large stock-flow inconsistencies between the BOP and IIP data.
Other data gaps. There is no indicator tracking short-term rentals, which are growing in importance. Social indicators (such as crime. inequality, and health) are missing. The authorities have started publishing new climate data, but shortcomings remain (e.g., missing data during episodes of hurricane/storm).

Annex XII. Table 2. Sint Maarten: Data Standards Initiatives
Sint Maarten, Kingdom of the Netherlands does not participate in the IMF Data Standards Initiatives.

Annex XII. Table 3. Sint Maarten: Table of Common Indicators Required for Surveillance

(As of July 10, 2024)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Sint Maarten, Kingdom of the Netherlands[8]	Expected Timeliness[6,7]	Sint Maarten, Kingdom of the Netherlands[8]
Exchange Rates	N/A (Fixed exchange rate)				D	...	…	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Jun-24	Jun-24	W	W	M	...	1M	...
Reserve/Base Money	Apr-24	Jun-24	M	M	M	...	2M	...
Broad Money	Mar-24	Jun-24	M	M	M	...	1Q	...
Central Bank Balance Sheet	Apr-24	Jun-24	M	M	M	...	2M	...
Consolidated Balance Sheet of the Banking System	Mar-24	Jun-24	M	M	M	...	1Q	...
Interest Rates[2]	Apr-24	Jun-24	M	M	M	...	…	...
Consumer Price Index	Mar-24	Jun-24	Q	Q	M	...	2M	...
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Mar-24	Jun-24	Q	I	A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Mar-24	Jun-24	Q	I	Q	...	1Q	...
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Mar-24	Jun-24	Q	I	Q	...	2Q	...
External Current Account Balance	Dec-24	Jun-24	Q	Q	Q	...	1Q	...
Exports and Imports of Goods and Services	Dec-24	Jun-24	Q	Q	M	...	12W	...
GDP/GNP	Dec-24	Feb-24	A	A	Q	...	1Q	...
Gross External Debt	Dec-24	Dec-24	A	I	Q	...	2Q	...
International Investment Position	Dec-24	Dec-24	A	I	A	...	3Q	...

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: (“D”) daily; (“W”) weekly or with a lag of no more than one week after the reference date; (“M”) monthly or with lag of no more than one month after the reference date; (“Q”) quarterly or with lag of no more than one quarter after the reference date; (“A”) annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than;.

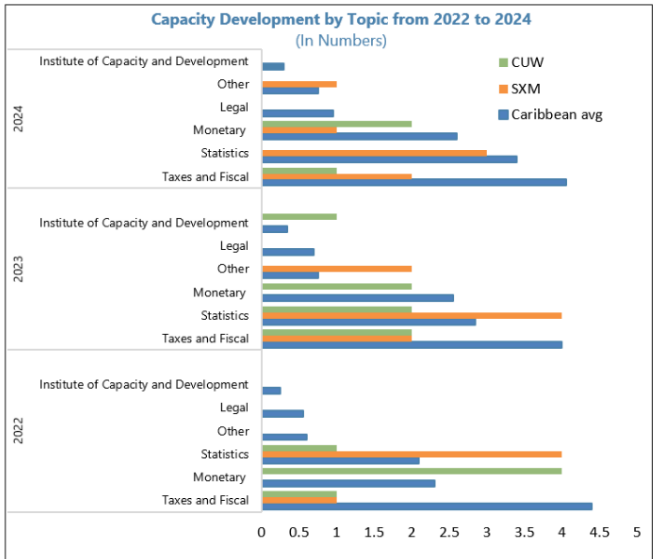
[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Annex XIII. Sint Maarten: Capacity Development Note

A. Context

1. Sint Maarten, a small tourism dependent island located in the Caribbean hurricane belt, is still recovering from the pandemic and the devastation from hurricane Irma in 2017. These shocks resulted in a cumulative contraction of the economy of about 30 percent. Since then, the economy has recovered to its pre-Irma level. Inflation surged in 2022 but returned to historical levels in 2023.



Sources: IMF Capacity Development Database and IMF staff calculations.

2. In compliance with the golden fiscal rule, public finances returned to net operating surpluses in 2023. The unwinding of COVID-19 expenditure measures and strong recovery in both cruise and stay-over tourist arrivals supported the return to surpluses. The authorities are looking to use the fiscal space to improve service delivery and ramp up public investment spending. The capital subscription window, an arrangement with the Netherlands to finance Sint Maarten's public investment, has rarely been used due to inadequate capacity across the project cycle. Many critical functions of the government like the Department of Statistics, the Financial Intelligence Unit are hampered by inadequate staffing.

B. Fund's CD Engagement with Sint Maarten

3. Despite being a below regional average user of IMF TA over the past 5 years, Sint Maarten's usage of TA has recently increased and focused on developing capacity in key macro areas. Sint Maarten's below average usage reflects capacity constraints and its joining of the MIF's Caribbean Regional Technical Assistance Center (CARTAC) halfway into its 5-year program. Recent TA has been intensive in areas, such as macroeconomic programming and tax administration, which are above the regional average usage. The country also benefited from TA in price and national accounts statistics, government finance statistics, multi-annual budgeting, and public investment management. The Centrale Bank van Curaçao et Sint Maarten (CBCS) also received Sint Maarten related TA on balance of payments statistics and macroeconomic modeling with very good track record of implementation. Sint Maarten is a surveillance country with a 12-month Article IV cycle.

C. Integration of CD in Fund's Surveillance

4. CD has been aligned with the authorities' reform objectives and has been coordinated with the country team. TA has been useful in improving the authorities' analysis of economic developments and forecasting and provided key inputs for the Article IV consultation discussions.

D. Collaboration with Other Partners

5. The Netherlands has also served as an important TA provider to Sint Maarten with significant complementarities with the Fund. To support the implementation of the country package, the Netherlands has been providing TA in public finance management, tax administration, national accounts statistics, financial crisis management and financial and fiscal law reform.

E. CD Priorities

6. TA should continue to focus on supporting the authorities' reform agenda as outlined in the country package and boosting capacity in macro-critical areas. Building capacity in multi-annual budgeting, macro-fiscal forecasting, and debt management in the Ministry of Finance are critical to support the Ministry's functions. A functional book review of the Ministry of Finance could support an appropriate structure with clearly defined functions and grading that support talent acquisition and retention. Further improvements to BOP statistics, especially refining the methodologies for estimating imports given the lack of trade statistics, will be important for the CBCS.

Annex XIV. Sint Maarten: Public Debt Sustainability Analysis

Annex XIV. Table 1. Sint Maarten: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	The overall risk of sovereign stress is moderate, reflecting medium vulnerability in both the near-term and the medium term.
Near term 1/			
Medium term	Low	Low	With the refinancing of pandemic loans at favorable terms, GFNs have fallen below 1 percent of GDP the medium-term.
Fanchart	Moderate	...	
GFN	Low	...	
Stress test	...	...	
Long term	...	Moderate	Long-term risks are moderate. GFNs are vulnerable to rollover risk w hen bullet payments mature but remain w ell below 10 percent of GDP. Aging population could reduce primary fiscal surpluses.
Sustainability assessment 2/	Not required for surveillance countries	Sustainable	The projected debt path is expected to decline and GFNs w ill remain manageable, conditional on refinancing bullet loans in 2025, 2029 and 2030, and implementing fiscal adjustment measures and PFM reforms in the Country Package.
Debt stabilization in the baseline			Yes

DSA summary assessment

Commentary: Sint Maarten is at a moderate overall risk of sovereign stress and debt is sustainable. Notw ithstanding new borrow ing for infrastructure, debt-to-GDP ratio marginally declined in 2023 to 49.0 percent of GDP from 49.3 percent of GDP in 2022 due to GDP grow th. The debt ratio is expected to continue declining in the medium term. Medium-term liquidity risks as analyzed by the GFN Financeability Module are low . The sustainability is conditional on preserving the fiscal consolidation gains achieved so far, impelementing healthcare and pension reforms to contain costs in the long-term, and making progress in structural reforms to improve PFM and public investment management.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress w ithout its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases w here there is a disbursing IMF arrangement. In surveillance-only cases or in cases w ith precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases w here there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases w ith IMF arrangements w ith normal access, the qualifier indicating probability of sustainable debt ("w ith high probability" or "but not w ith high probability") is deleted before publication.

Annex XIV. Figure 1. Sint Maarten: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					0	
2. Subsectors included in the chosen coverage in (1) above:						

					Subsectors captured in the baseline	Inclusion	Comments
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes	
				2	Extra budgetary funds (EBFs)	No	Not applicable
				3	Social security funds (SSFs)	No	
				4	State governments	No	Not applicable
				5	Local governments	No	Not applicable
				6	Public nonfinancial corporations	No	
				7	Central bank	No	
				8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

code: chosen coverage | Missing from recommended coverage | Not applicable

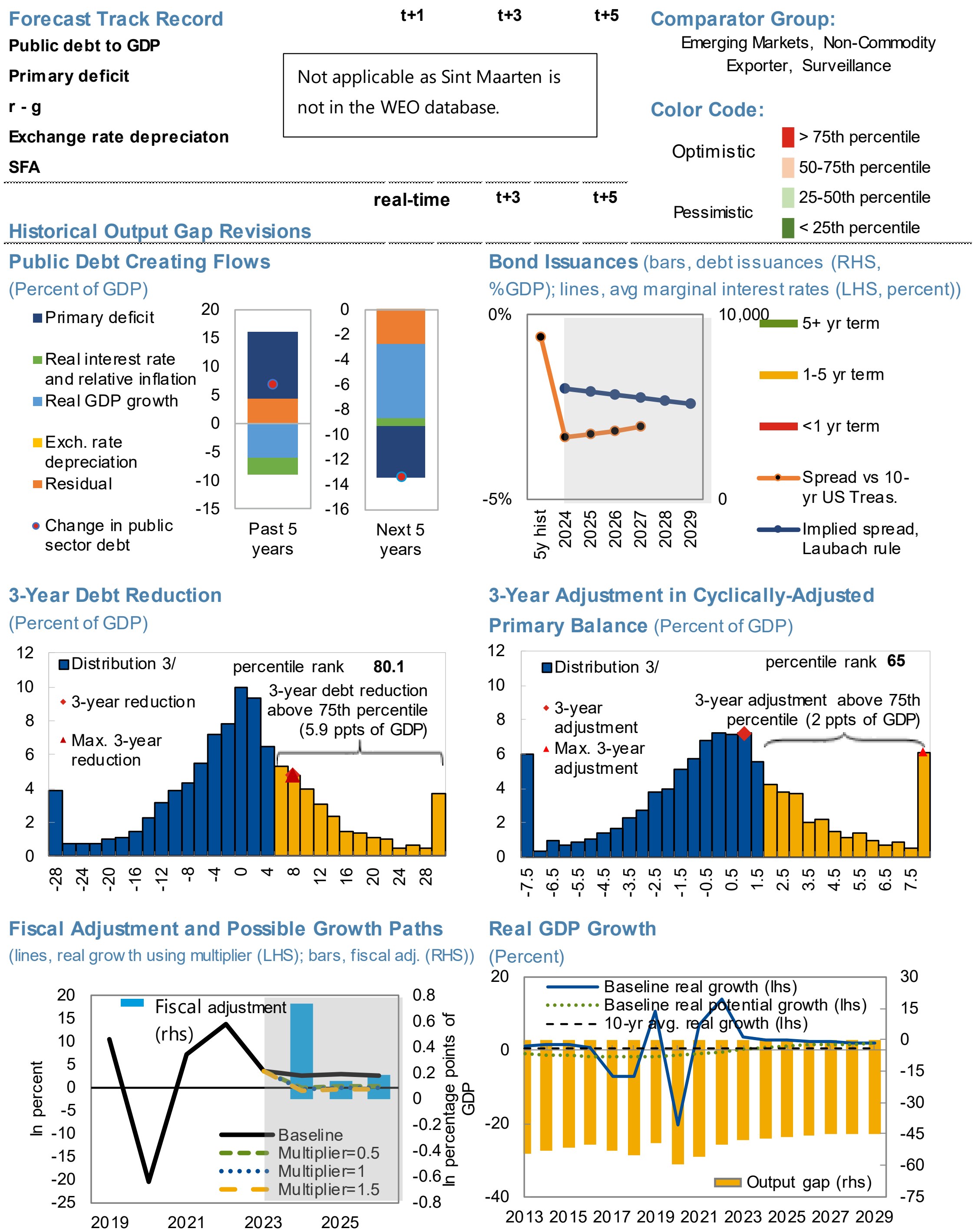
Reporting on Intra-Government Debt Holdings

					Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
				2	Extra-budget. funds									0
				3	Social security funds									0
				4	State govt.									0
				5	Local govt.									0
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
					Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor ow es to the creditor. It reflects the value of the instrument at creation and subsequent economic flow s (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they w ere acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The SRDSA uses Sint Maarten's public sector debt, w hich comprises central government debt and external financial and non-financial public sector debt. The Social Security Bank (SZV) is not treated as part of the general government.

Annex XIV. Figure 2. Sint Marteen: Realism of Baseline Assumption



Commentary: The sharp decline in real economic activity during the pandemic lowers the 10-year average growth while the borrowing it necessitated increased the primary deficit far above historical norms. However, the projected fiscal adjustment in the baseline is as implied by adherence to the golden fiscal rule which is guiding the fiscal stance. Forecast track record and historical output gap revisions are not available because of Sint Maarten's exclusion from the WEO.

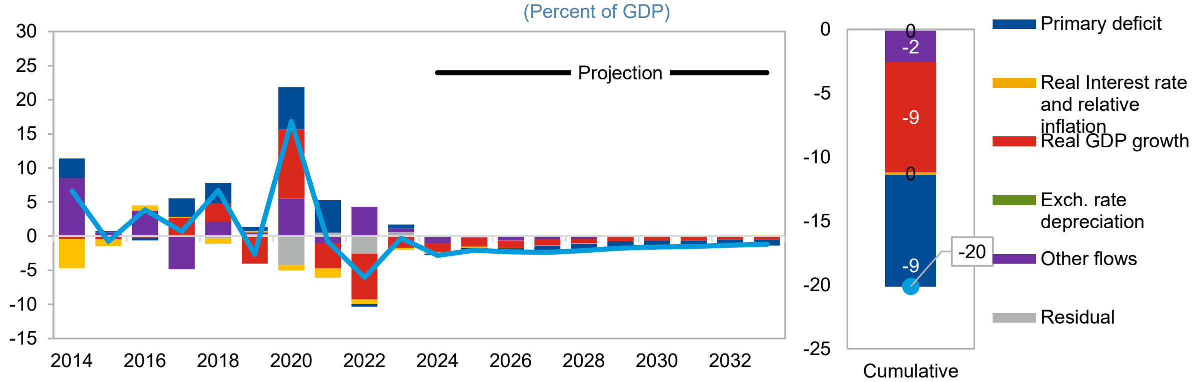
Annex XIV. Figure 3. Sint Maarten: Baseline Scenario

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	49.0 .	46.2	44.1	41.8	39.4	37.3	35.6	34.0	32.5	31.2	30.0
Change in public debt	-0.3	-2.8	-2.1	-2.3	-2.4	-2.1	-1.7	-1.6	-1.5	-1.3	-1.2
Contribution of identified flows	-0.9	-2.7	-2.1	-2.3	-2.4	-2.1	-1.7	-1.6	-1.5	-1.3	-1.2
Primary deficit	0.5	-0.2	-0.3	-0.5	-1.0	-1.0	-1.0	-1.0	-0.9	-0.9	-0.9
Noninterest revenues	22.9	21.0	21.1	19.5	19.1	18.8	17.6	17.6	17.6	17.6	17.6
Noninterest expenditures	23.4	20.8	20.8	19.0	18.1	17.8	16.7	16.7	16.7	16.7	16.7
Automatic debt dynamics	-2.0	-1.6	-1.5	-1.1	-0.9	-0.7	-0.7	-0.6	-0.5	-0.4	-0.4
Real interest rate and relative inflation	-0.3	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Real interest rate	-0.3	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-1.7	-1.3	-1.3	-1.1	-0.9	-0.7	-0.7 .	-0.6	-0.6	-0.5	-0.5
Real exchange rate	0.0	…	…	…	…	…	… .	…	…	…	…
Other identified flows	0.6	-0.9	-0.2	-0.6	-0.4	-0.4	-0.1	0.0	0.0	0.0	0.1
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.6	-0.9	-0.2	-0.6	-0.4	-0.4	-0.1	0.0	0.0	0.0	0.1
Contribution of residual	0.6	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	12.9	0.9	3.1	0.5	0.3	0.3	1.9	2.3	0.2	0.2	0.2
of which: debt service	12.4	1.2	3.5	1.1	1.4	1.4	2.9	3.4	1.3	1.3	1.2
Local currency	12.3	1.1	3.4	1.0	1.1	1.1	2.7	3.1	1.0	1.0	1.0
Foreign currency	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.2	0.2
Memo:											
Real GDP growth (percent)	3.5	2.7	3.0	2.6	2.2	1.8	1.8	1.8	1.8	1.5	1.5
Inflation (GDP deflator; percent)	2.1	2.5	2.3	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	5.7	5.3	5.3	4.6	4.3	3.8	3.9	3.8	3.8	3.6	3.5
Effective interest rate (percent)	1.4	1.8	1.9	1.9	1.9	2.0	2.0	2.1	2.2	2.2	2.3

Contribution to Change in Public Debt

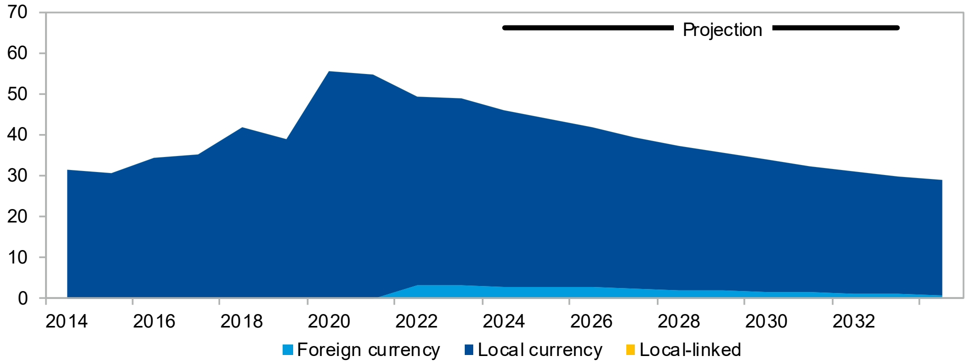
(Percent of GDP)



Staff commentary: Public debt will continue to decline in the medium-term, reflecting higher primary surpluses than needed to stabilize debt and economic growth. The Ennia resolution strategy has been agreed by all statekholders andconfirmed favorable terms for Sint Maarten: a 20-year bullet loan at 3.4 percent per annum. Bullet loans maturing in 2025, 2029 and 2030 heighten financing needs in those years and may need to be rolled over.

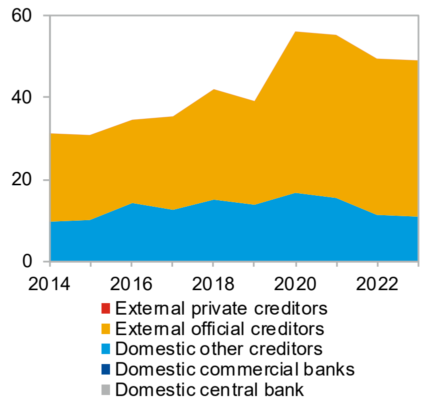
Annex XIV. Figure 4. Sint Maarten: Public Debt Structure

Debt by Currency (percent of GDP)



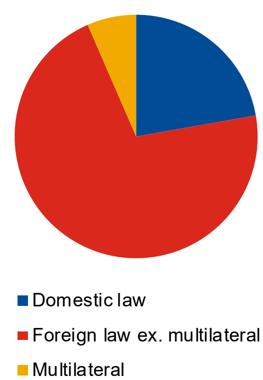
Note: The perimeter show n is central government.

Public Debt by Holder (percent of GDP)



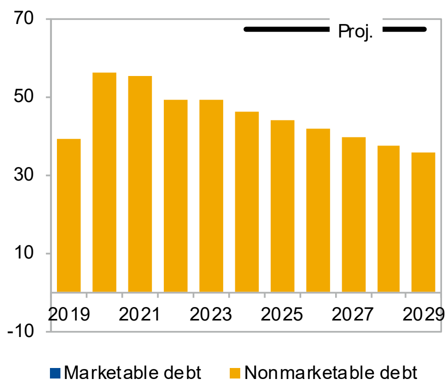
Note: The perimeter show n is general government.

Public Debt by Governing Law, 2023 (percent)



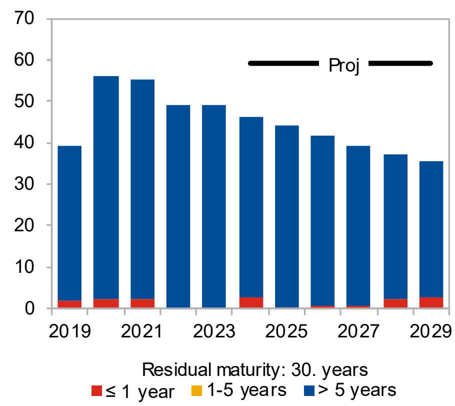
Note: The perimeter show n is general government.

Debt by Instruments (percent of GDP)



Note: The perimeter show n is general government.

Public Debt by Maturity (percent of GDP)



Note: The perimeter show n is general government.

Commentary: The government relies on foreign debt held by the Netherlands for financing its GFNs. Sint Maarten borrow s from the Netherlands in local currency, but debt contracts are governed by the relevant law s applicable in the Netherlands. Post hurricane Irma reconstruction also relied on a foreign currency loan from the European Investment Bank.

Annex XIV. Figure 5. Sint Maarten: Medium-Term Risk Analysis

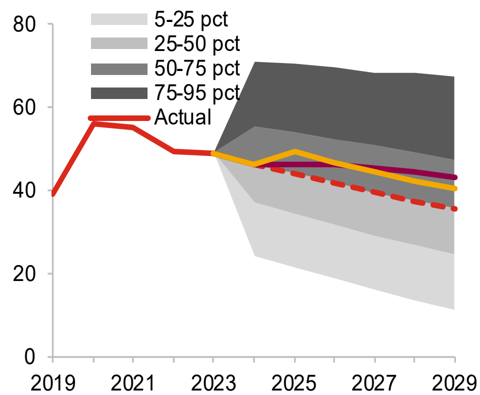
Debt Fanchart and GFN Financeability Indexes

(Percent of GDP unless otherwise indicated)

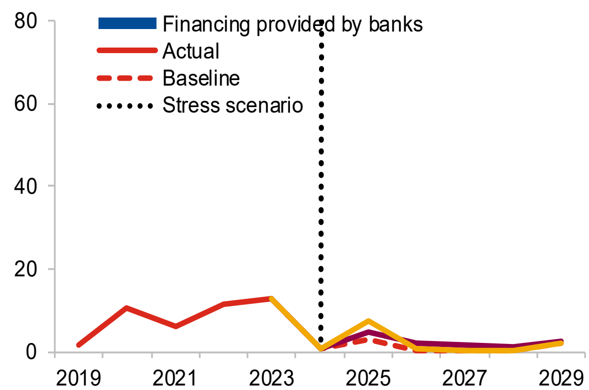
Module	Indicator	Value	Risk index	Risk signal	Adv. Econ., Non-Com. Exp, Program (0 – 25 – 50 – 75 – 100)
Debt fanchart module	Fanchart width	56.2	0.8	…	
	Probability of debt not stabilizing (pct)	9.7	0.1	…	
	Terminal debt level x institutions index	13.7	0.3	…	
	Debt fanchart index	**…**	**1.2**	**Moderate**	
GFN finance-ability module	Average GFN in baseline	1.1	0.4	…	
	Bank claims on government (pct bank assets)	0.0	0.0	…	
	Chg. in claims on govt. in stress (pct bank assets)	0.0	0.0	…	
	GFN financeability index	**…**	**0.4**	**Low**	

Legend: Interquartile range; Sint Maarten

Final Fanchart (percent of GDP)



Gross Financing Needs (percent of GDP)

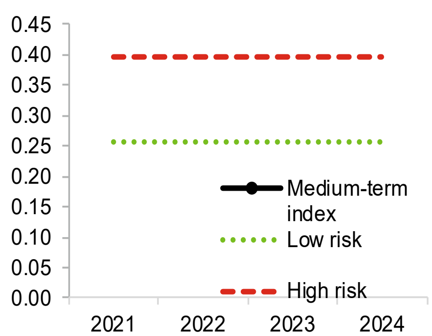


Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index

(Index number)



Medium-Term Risk Analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.3
GFN finaceability index	7.6	17.9	0.5	0.0
Medium-term index (MTI)	0.3	0.4	…	0.1, Low

Prob. of missed crisis, 2024-2029 (if stress not predicted): 0.0 pct.

Prob. of false alarm, 2024-2029 (if stress predicted): 75.0 pct.

Commentary: The Debt Fanchart Module is pointing to moderate level of risk while the GFN Financeability Module suggests low level of risk.Stress tests for commodity prices and natural disasters indicate that debt is projected to continue falling in the medium-term while GFNs are expected to be low .

INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS—CURAÇAO AND SINT MAARTEN

August 22, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION DISCUSSIONS—INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

The 2024 Article IV consultation discussions with Curaçao were held in Willemstad during June 10-14, 2024 and with Sint Maarten June 17-21, 2024. They form part of the Article IV consultation with The Kingdom of the Netherlands. The Curaçao team comprised Christina Kolerus (head), Ziad Amer, Vu Chau, Daniel Jenya (all WHD), and Emine Hanedar (FAD). Jose Torres joined the Union-related meetings in Curaçao. The Sint Maarten team comprised Jose Torres (head), Ziad Amer, Vu Chau, and Daniel Jenya (all WHD). Emanuele Massetti (FAD) contributed inputs on adaptation investment. Carlijn Eijking (OED) participated in the discussions. Soungbe Coquillat and Evelyn Carbajal provided valuable assistance from headquarters.

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 March 31, 2024

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	8,736.50	100.00
IMF Holdings of Currency	6,457.85	73.92
Reserve Tranche Position	2,280.20	26.10
Lending to the Fund		

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	13,210.17	100.00
Holdings	13, 894.23	105.18

Outstanding Purchases and Loans: None

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

Overdue Obligations and Projected Payments to Fund 1/

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2024	2025	2026	2027	2028
Principal					
Charges/Interest	0.17	0.17	0.17	0.17	0.17
Total	0.17	0.17	0.17	0.17	0.17

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.

Implementation of HIPC Initiative: Not Applicable

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

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. The Centrale Bank van Curaçao en Sint Maarten is working towards the introduction of the Caribbean Guilder, the new currency for Curaçao and Sint Maarten, in March 2025. The Caribbean Guilder will be legally pegged to the U.S. dollar at an exchange rate of 1.79 Caribbean guilders per US$1. The Netherlands Antillean guilder and the Caribbean Guilder are of equal value. Curaçao and Sint Maarten maintain an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions.

Last Article IV Consultation Discussions: The Executive Board concluded the 2023 Article IV Consultation Discussions with Curaçao and Sint Maarten on July 24, 2023, IMF Country Report No. 2023/285.

Technical Assistance (2020–June 2024):

Curaçao

1. Fiscal risks (CARTAC, April 2020)

2. Macro modeling (CARTAC, February 2021, June 2021, March 2022, April 2022, and check-ins May 10–November 25, 2022)

3. Tax Administration: Organizational Structure and Institutional Arrangements (CARTAC, November 2020-April 2021).

4. Customs administration (CARTAC, follow-up, May 2021)

5. Price statistics (STA, September 2021)

6. National Accounts statistics (STA, September 2021)

7. VAT modelling and tax policy review (FAD, January 16-30, 2023)

8. Strengthening Engagement in Public Financial Management and gap assessment for public investment management (CARTAC, May 22-26, 2023)

9. Improving GDP (CARTAC, March 11-22, 2024)

Sint Maarten

1. Tax upgrade and financial management (CARTAC, February 2020)

2. Cleaning of taxpayer registration database (CARTAC, March 2020)

3. National account statistics (CARTAC, October 2020)

4. Tax policy (FAD, March 2021)

5. National Account statistics, follow-up (August 2021), second follow up (March 13-24, 2023)

6. Cleaning taxpayer database (November, December 2021)

7. IT investment planning for sustainability (March - April 2022)

8. Price statistics (March – April 2022)

9. Government finance statistics (STA, January 9 – February 2, 2023)

10. Strengthening medium term budget planning (CARTAC, May 15 – 18, 2023)

11. Medium-term financing strategy - scoping mission (CARTAC, May 15 – 19, 2023)

12. Macro-fiscal forecasting – scoping mission (May 16 –18, 2023)

13. Strengthening Core Business Function - Audit Capacity (FAD, June 05-16, 2023)

14. Developing Capacity for Public Investment Management FY24 (CARTAC, August 07 – 11, 2023)

15. Strengthened RA management and governance arrangements and ITMS contract negotiation (MCM, September 1, 2023 – January ,2024)

16. Strengthening Multi-Annual Budgeting (CARTAC, October 30 – November 06, 2023)

17. Building capacity in Medium-term macro-fiscal framework (CARTAC, November 13-17, 2023, February 5-9, 2024)

18. Real Sector - Rebasing GDP (CARTAC, November 15-24, 2023)

Union

1. Banking supervision and regulation: Basel II-III implementation (CARTAC, January 2020)

2. External statistics (CARTAC, January 2020)

3. Contingency planning for crisis preparedness and management and deposit insurance (MCM, follow-up, March 2020)

4. Contingency planning for crisis preparedness and management and deposit insurance (MCM, follow-up, October 2020)

5. Emergency liquidity assistance (MCM, November 2020)

6. Central bank governance (MCM / LEG, January – February 2021)

7. Foreign reserve management (MCM, April 2021)

8. Central Bank governance (MCM, July 2021)

9. Risk-Based Supervision implementation (CARTAC, December 2021)

10. Basel II-III implementation (CARTAC, March – April 2022)

11. Financial Soundness Indicators (STA, April 2022)

12. Monetary and Financial Statistics (STA, October 2022, and June 2023)

13. CBCS Business Continuity and Risk Management (MCM, March 2023)

14. Financial Stability Report Mission (CARTAC, October 4-12, 2023)

15. Annual Global Research Conference on Empirical Approaches to Anti-Money Laundering & Financial Crime (CARTAC, January 17 – 19, 2024)

COLLABORATION WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

Collaboration with the World Bank Group.

World Bank country webpage 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/