December 2011
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# Kingdom of the Netherlands—Curaçao and Sint Maarten: 2011 Article IV Consultation—Staff Report; Informational Annex; and Public Information Notice on the Executive Board Discussion

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 2011 Article IV consultation with the Kingdom of the Netherlands—Curaçao and Sint Maarten, the following documents have been released and are included in this package:

- The staff report for the 2011 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on September 19, 2011 with the officials of 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 November 3, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- An Informational Annex to the staff report.
- A Public Information Notice (PIN).

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# KINGDOM OF THE NETHERLANDS—CURAÇAO AND SINT MAARTEN

## STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION DISCUSSIONS

November 3, 2011

## KEY ISSUES

**Background**: The two newly-autonomous countries within the Kingdom of the Netherlands face substantial challenges. Growth has been low, and unemployment is high. The current account deficit has widened to worrisome levels, increasing the vulnerability of the peg to the dollar and stimulating calls for dollarizing or dissolving the currency union. International reserves however have risen in recent years, and have been stable in 2011. Major data gaps significantly complicate diagnosis, but available indicators point to anemic competitiveness. Fiscal spending pressures are considerable.

**Challenges**: The key challenge is to develop and implement policies to mitigate external vulnerabilities, entrench fiscal soundness, and advance structural reforms to enhance competitiveness and growth. Given the scale of the current account deficit, frontloaded action will be needed to prevent pressures against the peg over the medium term.

**Policy recommendations**: Contain credit growth with monetary and macroprudential measures, including higher reserve requirements and gradual relaxation of the limits on foreign investment by domestic nonbank financial institutions to reduce the growth of bank deposits. Tighten fiscal policy primarily through expenditure measures to help contain the current account deficits. Substantially increase wage and price flexibility, cut red tape, and shift from direct to indirect taxes. The authorities broadly agreed with these recommendations, and in several areas policy responses are at an advanced stage of preparation.

Approved By
**Juha Kähkönen and Aasim Husain**

Discussions were held during September 7–19. The mission comprised Mr. Kanda (Head), Mr. Weber, and Ms. Zhang (all EUR). Mr. Bakker (Executive Director) and Ms. Barendregt (Senior Advisor to the Executive Director) also participated in the discussions. In Curaçao, the mission met Governor Goedgedrag, Prime Minister Schotte, Minister of Finance Jamaloodin, Minister of Economic Affairs Hakim, Central Bank Governor Tromp, other senior officials, and representatives of financial institutions, companies, and unions. In Sint Maarten, the mission met Governor Holiday, Prime Minister Wescot-Williams, Minister of Finance Shigemoto, Minister of Tourism, Economic Affairs, Transport and Telecommunication Meyers, Central Bank Governor Tromp, other senior officials, and representatives of companies and unions.

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# BACKGROUND

1. **Following the dissolution of the Netherlands Antilles on October 10, 2010 Curaçao and Sint Maarten became autonomous countries within the Kingdom of the Netherlands, with a currency union.** Alongside, the Dutch government gave substantial debt relief to both countries, and agreement was reached on new fiscal frameworks to help sustain sound fiscal positions. The other islands of the Netherlands Antilles—Bonaire, Saba, and Sint Eustatius—became municipalities of the Netherlands and adopted the U.S. dollar in January 2011.

- The Bank of Netherlands Antilles (BNA) became the Central Bank of Curaçao and Sint Maarten (CBCS), overseeing a common monetary policy and financial supervision. The Netherlands Antilles guilder (NA.f) is still the legal tender, but there was agreement to transition to a new Dutch Caribbean guilder by 2012, pegged to the U.S. dollar at the same rate as the NA.f.

- Debt relief was based on 2005 data, and was intended to reduce interest payments to 5 percent of fiscal revenues. In addition, grants were provided for the clearance of documented government arrears. Thus, over 2009–10 the overall debt burden of Curaçao and Sint Maarten (from each island's own debt plus its share of the debt of the Netherlands Antilles central government) declined by 57 and 33½ percentage points of GDP, respectively.

Curacao and St. Maarten: Comparison 1/

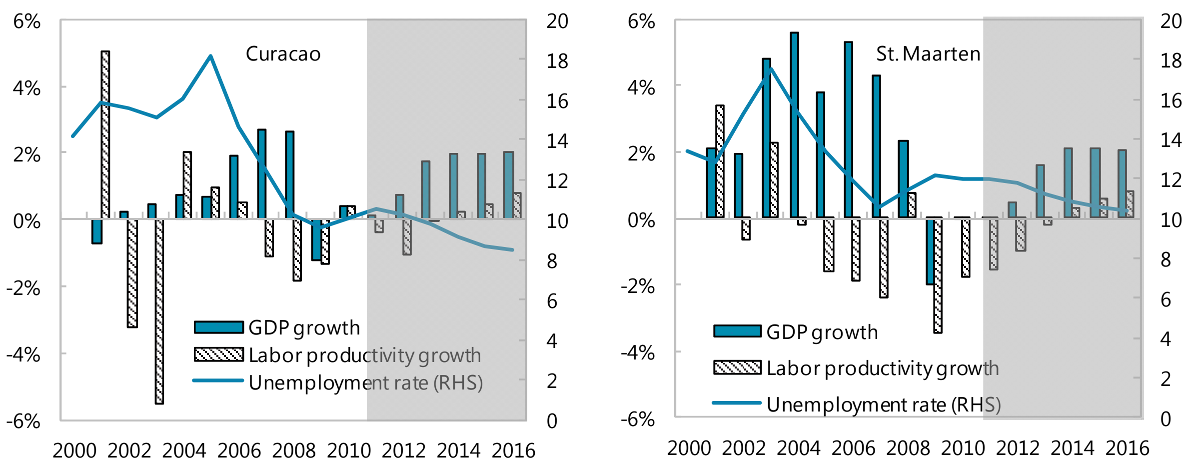
| | **Curacao** | **St. Maarten** |
|---|---|---|
| Population (thousand) | 142 | 34 |
| GDP (million U.S. dollar) | 2951 | 819 |
| | (percent) | |
| Unemployment rate | 10.1 | 12.0 |
| Youth unemployment 2/ | 24.7 | 29.4 |
| | (percent, average 2001-2010) | |
| GDP growth | 0.8 | 2.8 |
| Inflation | 2.7 | 2.2 |
| | (percent of GDP) | |
| Openess to trade 3/ | 144 | 226 |
| Tourism exports | 13.0 | 82.4 |
| Imports from U.S. | 27 | 78 |
| Exports to U.S. | 7 | 55 |
| Public debt | 34.6 | 28.3 |
| GG balance | 5.4 | 3.6 |
| Primary balance | 7.3 | 3.6 |
| CA defict | -30.9 | -6.8 |
| External debt | 54.6 | 40.7 |
| Short term to total external debt | 0.29 | 0.43 |
| Net FDI | 2.5 | 3.6 |
| Net official reserves | 32.5 | 37.0 |
| | (months of goods imports) | |
| Net official reserves | 6.1 | 5.1 |

Sources: Data provided by the authorities; and IMF staff estimates.
1/ Values refer to 2010 unless indicated differently.
2/ Value refers to 2009.
3/ Openess to trade is measured by the sum of exports and imports.

- New fiscal frameworks prohibit current budget deficits, cap interest payments to 5 percent of fiscal revenues, and require medium term budgeting and a common fiscal supervisory agency—the College Financieel Toezicht (CFT)—with Dutch participation in its Board and staff. Borrowing is only permitted for capital expenditure, and fiscal outturns are to be reported on a quarterly basis to the CFT. The agreement of the CFT is needed to issue debt or breach the fiscal rule in emergency cases.

**2. The two countries have similarities, but distinct differences as well (Figures 1–4).** Both are small highly open island economies, but Curaçao's economy is more than three times larger than that of Sint Maarten, and more diversified. Tourism exports are much more important for Sint Maarten than for Curaçao, accounting for 82½ percent of GDP and 13 percent of GDP, respectively. Curaçao has other important sectors including an oil refinery, a free zone, and international financial services (IFS). Success in increasing cruise tourism has boosted Sint Maarten's GDP growth significantly above that of Curaçao over the past decade. Nevertheless, per capita growth rates in both countries have been low compared with the Caribbean average, and unemployment rates are in double digits, with youth unemployment particularly high. Population aging is a challenge, particularly for Curaçao, and is generating significant fiscal spending pressures. Sint Maarten also needs to upgrade and establish institutions to provide a range of services previously provided by the Netherlands Antilles government.

Curacao and St. Maarten: Growth, Productivity and Unemployment (percent)




Source: National authorities, IMF staff calculations.

**3. Macroeconomic challenges are substantial.** In addition to low growth, high unemployment, and aging, the current account deficit for the currency union has widened rapidly to reach 25¾ percent of GDP in 2010, increasing the vulnerability of the currency peg. However, a strong increase in international reserves in recent years, to about five months of imports in 2010, has provided some cushion, and there is no indication currently of pressures against the guilder.

In 2011, international reserves have been broadly stable through August.

- Even after eliminating identifiable temporary factors, such as increases in FDI inflows and the breakdown of Curaçao's oil refinery, staff estimate that the underlying current account deficit remains large at over 15 percent of GDP.

- Pronounced weaknesses in export performance, demand pressures primarily from rapid bank credit growth, and inadequate pass-through of recent increases in international oil and food prices particularly in 2010, appear to be the main drivers of the external deficit. The oil price pass-through has, however, strengthened since July 2011, with the domestic-international price gap broadly eliminated and monthly adjustment to international price movements.

- Data gaps, including on re-exports from Curaçao to Sint Maarten, potentially bias estimates of individual island current account deficits, but available data indicate that in 2010, while Curaçao's external deficit widened to an estimated 31 percent of GDP, that of Sint Maarten declined to about 7 percent of GDP.

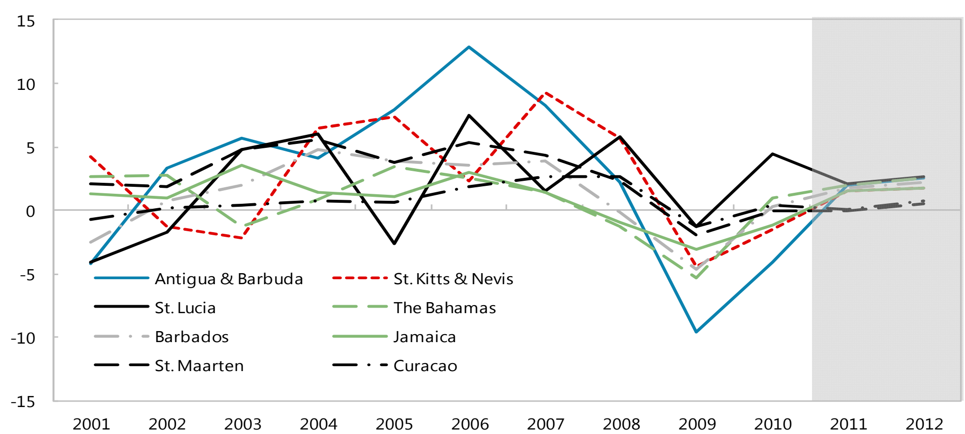
4. **Major data gaps, related in part to the dissolution of the Netherlands Antilles and lack of institutional capacity, significantly impede macroeconomic diagnosis.** Nominal expenditure-side national accounts data have not been published since 2006, and there are no data on deflators or real GDP. Data on fiscal expenditures for Sint Maarten are not yet available for 2009–10, and there are significant gaps in its debt data, complicating the assessment of fiscal policy. Moreover, data on the operations of the Netherlands Antilles central government in 2010 are limited, hampering a proper assessment of the degree of fiscal tightening in the currency union in 2011. Fiscal reporting standards need improvement. And the current account deficit could possibly be mismeasured given limitations in the statistical infrastructure.

5. **Policy coordination is complicated by fractious relations between the governments and the central bank, with rising sentiments against continuing the currency union.** Relations between the central bank and the Curaçao government have turned acrimonious, and a recent Dutch government investigation raised serious concerns about governance in Curaçao. Curaçao's government has expressed a preference for obtaining full monetary autonomy. Also, the Sint Maarten government has instructed the central bank to beef up its personnel and operations on the island, with a view to ultimately having their own central bank. And plans to print the new currency are likely to be delayed beyond 2012, amid calls (supported by the central bank, but recently repudiated by Curaçao's government) to adopt the dollar as legal tender.

# RECENT ECONOMIC DEVELOPMENTS

6. **The global crisis caused only moderate contractions in both countries in 2009 (Tables 1–2).** Staff estimates that Curaçao's GDP contracted by 1¼ percent in 2009, following growth of 2½ percent in 2008, while Sint Maarten's GDP contracted by two percent in 2009, following growth of 2¼ percent in 2008. Exports contracted substantially, led by declines in tourism. However, imports also contracted sharply, leading to a positive contribution of net exports to growth in both countries. In addition, public demand remained supportive, particularly in Curaçao, helping to partly offset the impact of sharp declines in private domestic demand as the crisis adversely affected business and household confidence. Overall, the contractions in activity were modest compared to other Caribbean countries.

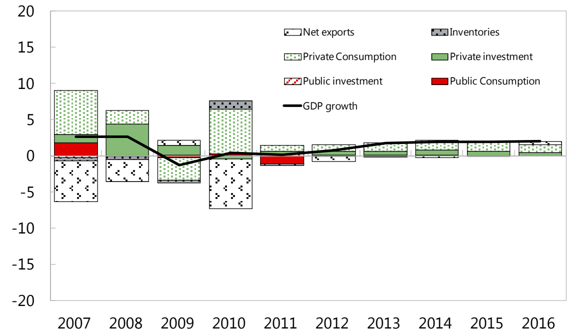
**Curacao and Sint Maarten: Growth in the Caribbean**
**(Percent)**




**Source: IMF WEO.**

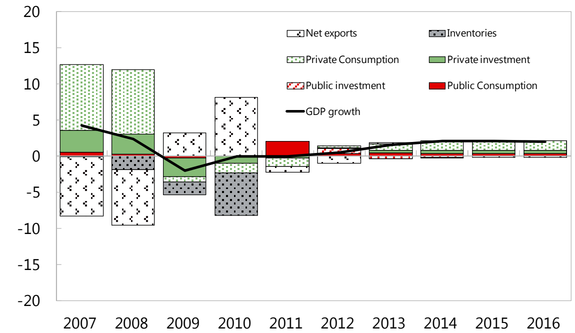
7. **Activity remained anemic in 2010.** Staff estimates GDP growth of ½ percent and roughly zero in Curaçao and Sint Maarten, respectively. Exports in Curaçao further declined as a result of a sharp fall in oil refinery output. Consequently, the contribution of net exports turned negative, largely offsetting the impact of strengthening private domestic demand. In contrast, the contribution of net exports increased in Sint Maarten as tourism recovered while private domestic demand and imports remained subdued. Unemployment stayed around 10 percent in Curaçao over 2009–10, after steady declines since 2007, while, in Sint Maarten, it stayed around 12 percent after steadily declining since 2003.

**Curacao**
(percent, contribution to GDP growth)



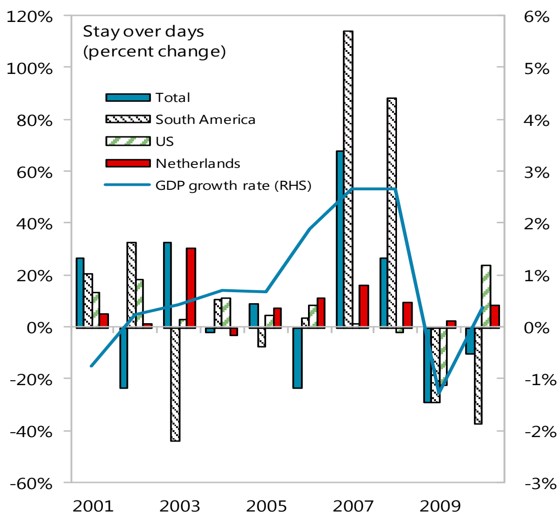

**Sources: National authorities, IMF staff estimates**

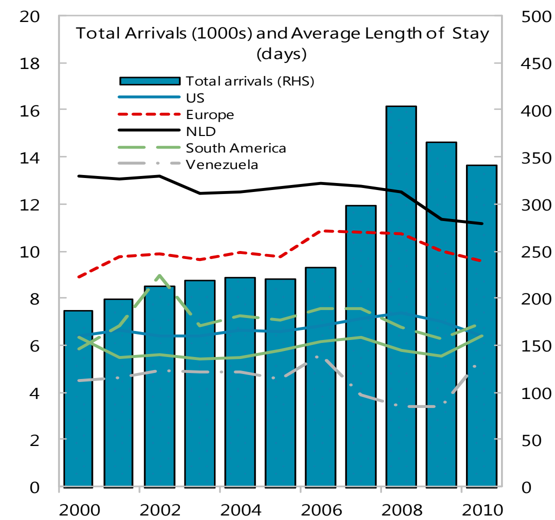
**St. Maarten**
(percent, contribution to GDP growth)



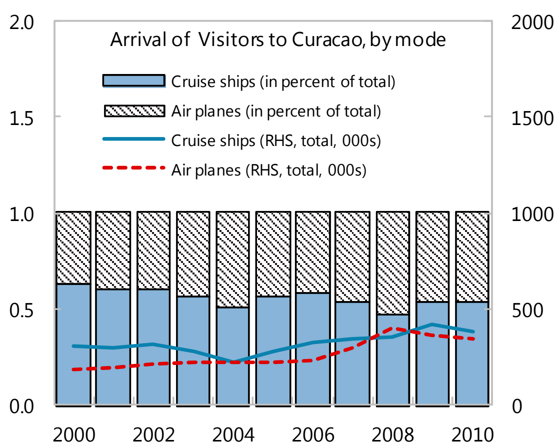

**Sources: National authorities, IMF staff estimates**

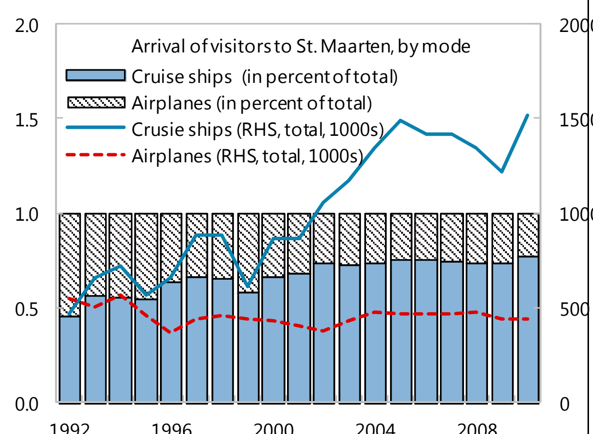
## Curaçao: Arrivals and Length of Stay




**Source: Curacao Tourist Board, IMF staff**



8. **Inflation declined sharply during the crisis, but has started to increase on account of renewed oil and food price pressures.** As demand pressure fell in the crisis and commodity prices declined temporarily, inflation decelerated in 2009 to 1¾ percent in Curaçao and ¾ percent in Sint Maarten. However, driven by renewed oil and food price increases, inflation started picking up again in 2010 and reached 2¾ and 3¼ percent on average in Curaçao and Sint Maarten, respectively.

9. **Rapid credit growth moderated in 2010, but is rising in 2011 (Tables 3–4).** Aggregate data for the currency union indicate that private sector credit growth has averaged about 10½ percent since 2004, raising the credit/GDP ratio by more than 20 percentage points to over 75 percent in 2010 (Figure 5). Corporate credit and mortgages have grown rapidly in this period. In 2010, credit growth decelerated to 4½ percent, down from 7½ percent in 2009, but still above nominal GDP growth. However, in 2011 credit growth has picked up, and rose to 7 percent (y/y) as of June. Bank lending rates have trended downward since 2000, supporting credit growth (Figure 6). Lending rates have been rather insensitive to movements in the central bank's pledging rate and the reserve requirement ratio, primarily because of large excess bank reserves.

10. **Excluding the impact of debt relief, both island governments ran modest fiscal deficits over 2009–10.** Both governments received substantial grants as part of the debt relief process, as a result of which Curaçao had fiscal surpluses in 2009 and 2010. Excluding those grants, Curaçao would have had fiscal deficits of ¾ percent of GDP in both 2009 and 2010. Fiscal expenditure data for 2009–10 for Sint Maarten are still unavailable, but staff estimates, based on debt data, indicate fiscal deficits of about one percent of GDP in both 2009 and 2010, excluding debt relief grants. As of end-2010 public debt stood at 34½ percent of GDP and 28¼ percent of GDP in Curaçao and Sint Maarten, respectively.

11. **A number of indicators suggest anemic competitiveness and moderate real exchange rate overvaluation, particularly in Curaçao (Figure 7).**

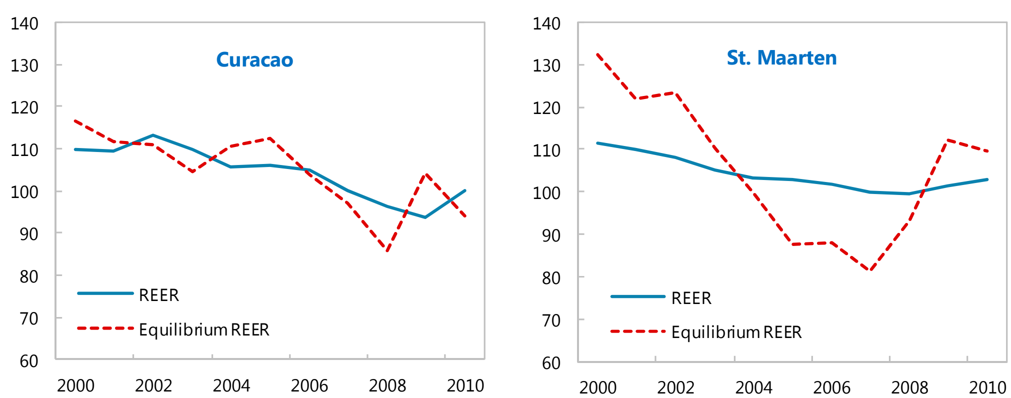
- While export market shares have held up in comparison with other tourism dominated countries in the Caribbean, they have declined substantially as a share of global exports, pointing to anemic competitiveness.
- The scale and rapid widening of Curaçao's current account deficit suggest that it is now above equilibrium levels. Over 2000–06, current account deficits in the Netherlands Antilles averaged 3½ percent of GDP and never exceeded 7½ percent of GDP, well below current levels.
- Pervasive structural rigidities also suggest anemic competitiveness. In both countries,

wages are rigid downward, and it is difficult to dismiss workers for any reason. Procedures for obtaining business licenses and permits are very long and of uncertain duration. And there is a widespread use of administered prices on basic goods and petroleum products, hampering adjustment.

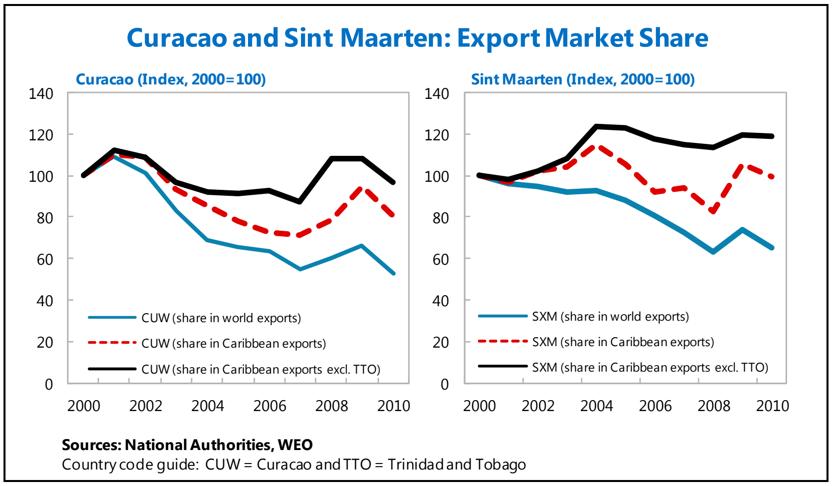
- CPI-based real effective exchange rates (REERs) in both countries have depreciated modestly in the past decade. Nevertheless, estimates of the equilibrium REER based on purchasing power parity (PPP) considerations and fundamental determinants—which however should be interpreted with some caution as such estimates are subject to significant model uncertainty—indicate overvaluation in Curaçao in most years since 2006. In contrast, for Sint Maarten overvaluation appears to have been reversed, with the REER becoming undervalued since 2009.

- For Curaçao, one significant reason why the REER has been depreciating has been the high inflation rate in Venezuela, one of its main trading partners, suggesting that competitiveness against other trading partners (and relative to new markets), may have deteriorated.

**Curacao and Sint Maarten: Equilibrium Real Exchange Rate 1/**




**Source: WDI Devlopment indicators, national authorities, and IMF staff estimates.**
1/ Equilibrium rate is derived from a PPP-based panel estimation of a sample of South American and Caribbean countries for the period form 1985-2010. Extending the set to include all developing countries or all countries of which data is available keeps the main results unchanged. Similarly, excluding the crisis years has no major impact on the results. The base year of the real effective exchange rate is 2007 (2007=100).




Current Account: Curacao and Sint Maarten

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| Current account | -19.0% | -25.4% | -16.6% | -25.7% | -24.3% |
| Temporary factors[1)] | -5.7% | -12.2% | -2.1% | -8.9% | -8.9% |
| Current account free of temporary factors | -13.3% | -13.2% | -14.5% | -16.8% | -15.4% |

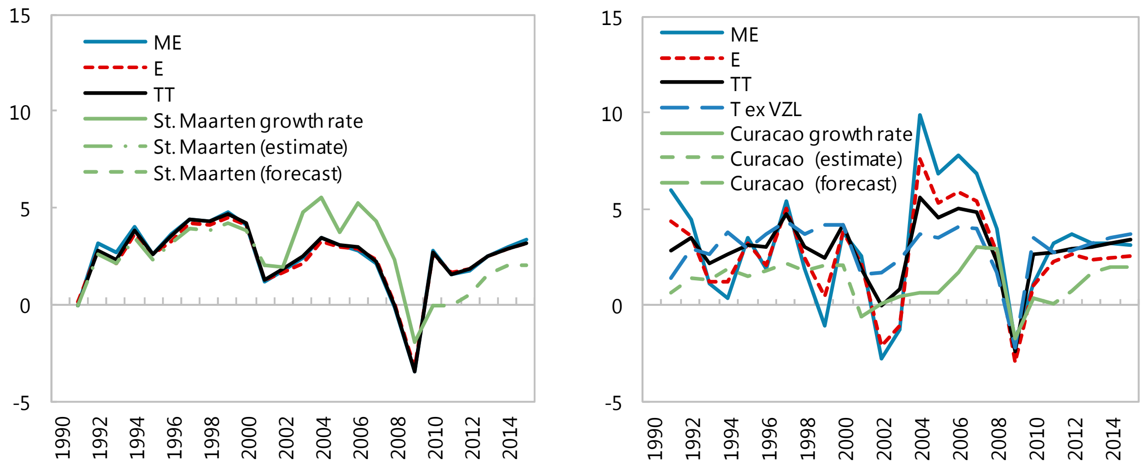
Source: National Authorities, IMF staff calculations
1) Temporary factors include: changes in imports due to FDI and investment related boom, and oil price hikes, changes in exports due to cyclical drop in tourism, and oil refinery breakdown, and temporary change in investment income.

# OUTLOOK AND RISKS

## Macro Outlook

12. **Low growth is expected to persist over 2011–12 (Tables 6–7).** In Curaçao, available indicators suggest that domestic demand is decelerating in 2011, likely reflecting declining consumer confidence and a tighter fiscal stance. However, exports appear to be growing modestly, led by tourism—with increased hotel capacity and new flight connections—and renewed activity in the oil refinery. In Sint Maarten, continued declines in stayover tourism have offset the strong rebound in cruise tourism. In this context, GDP is expected to be broadly flat in both countries in 2011, and to grow by ¾ percent and ½ percent in Curaçao and Sint Maarten, respectively, in 2012, well below WEO projections for the Caribbean region. Alongside, unemployment rates are expected to stay elevated. Inflation is projected to increase to around 2¾–3¾ percent in both countries. The current account deficit is likely to improve somewhat, but remain substantial.

**Curacao and St. Maarten: Weighted Trading Partner's Growth (percent) 1/**




**Source: IMF WEO, Central Bank of Curacao and Sint Maarten, and IMF staff estimates.**
1/ ME: based on Merchandise export weights, E: based on total export weights, TT: based on total trade weights, and TT ex VZL as TT but excluding Venezuela. All weights are an average over the period from 2007 to 2010.

**13. But some pickup is anticipated over the medium and long terms if needed reforms are promptly implemented.** With the current regulatory framework and policy uncertainties exerting a significant drag on activity, growth potential will be heavily influenced by the pace of implementation of reforms to improve competitiveness, wage and price flexibility, and the business environment. Moreover, the future of Curaçao's oil refinery is increasingly in doubt because of its high polluting nature, and the IFS sector has been in trend decline over the past decade. On the other hand, both countries have upgraded their tourism development strategies. Overall, staff project growth rising to about 2 percent in both countries by 2016, still below the average of the latest WEO projections for the Caribbean. Low exposure to the faster growing Asian and Latin American countries will limit upside potential in both countries. And aging will weigh on potential growth over the medium and long run. Space constraints may also limit the long term scope for increasing tourism, which would particularly affect Sint Maarten. Overall, the currency union should continue to be viable over the long term, if reform measures are adopted in both countries.

## Risks

**14. Risks to the outlook are tilted downwards, with heightened uncertainties.** Growth rates in both countries are highly correlated with those in major trading partners, particularly the U.S. and European countries, which themselves are confronted with major downside risks to economic activity. If those risks materialize, spillover effects on Curaçao and Sint Maarten could be substantial. Specifically:

- With risks from the sovereign debt crisis rising, any new shocks in funding markets are likely to prove highly disruptive for the European and global economies, with consequent negative impact on tourism and other exports in both countries.

- Analysis in the October 2010 WEO confirms that fiscal consolidation typically has a sizable contractionary impact on growth. With several countries in Europe envisaging significant simultaneous tightening, and new plans for tightening in the U.S. amid signs of weakening activity, the contractionary effects on the global outlook might surpass current estimates, with consequent downward impact on tourism and other exports in both countries.

- In contrast, banking sector linkages to Europe are modest, as the banking system is dominated by local and regional banks, and any spillovers from this channel are likely to be limited.

- Domestic risks are largely related to the large current account deficit and constrained policy options for responding to shocks. Shocks to external financing flows could cause a sharp adjustment in domestic demand and growth. With monetary policy constrained by the peg, fiscal policy constrained by the new framework, and significant structural rigidities, any adverse shocks could have a more pronounced and prolonged impact on the outlook than currently envisaged.

- Upside risks, on the other hand, originate primarily from unexpectedly strong emerging market growth which raises global growth, and the possibility of attracting large investment projects into both countries.

# POLICY DISCUSSIONS

**15. Against this background, discussions focused on policies to mitigate external vulnerabilities, entrench fiscal soundness, and advance structural reforms to enhance competitiveness and growth.**

- A reduction of about 10 percentage points of GDP is needed to bring the underlying current account deficit to historically sustainable levels over the medium term. This could be facilitated by measures to restrain credit growth, supported by fiscal consolidation. Keeping credit growth some 2–3 percentage points below that of nominal GDP, together with a 2–3 percentage point of GDP improvement in the fiscal position, would likely be needed to help generate the required adjustment over the medium term. Fiscal tightening should not bear the brunt of adjustment, as it is not the primary driver of the external deficit. In addition, structural reforms to generate wage and price flexibility and improve the business environment will be needed to produce durable gains in competitiveness.

- Given the scale of the external deficit, frontloaded implementation of measures is required to minimize the possibility of pressures rising against the guilder. If efforts lag, international reserves could come under pressure over the medium term, and at that point a devaluation—supported by policy tightening—would need to be considered.

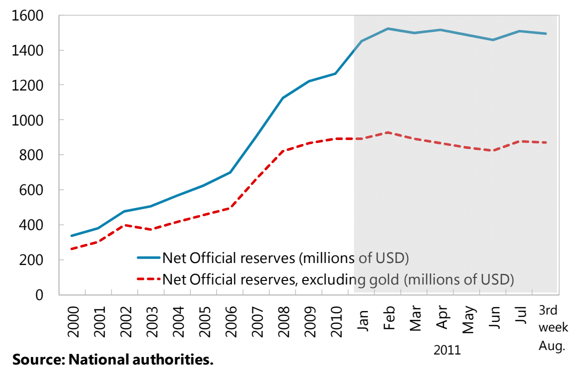
## A. Monetary and Financial Sector Policies

**16. There was agreement that the currency peg has delivered credible exchange rate stability and relatively low inflation.** Domestic inflation rates have generally mimicked U.S. inflation rates closely, with domestic policy rates closely tracking or even anticipating the U.S. policy rate, particularly since 2002 (Figure 8).

**17. And there was no consensus on dollarization as the way forward.** The CBCS has argued that dollarization will eliminate the risk of currency crisis and enhance trade and financial transactions with the U.S. However, Curaçao's government rejected this option, preferring the existing arrangement, while Sint Maarten's government saw dollarization more as a medium term ambition rather than something to be implemented immediately. The mission observed that in principle, the existing exchange rate peg remains appropriate, though dollarization could also be adopted under the right conditions. Either the current peg or dollarization would deliver a fixed exchange rate regime and limit the volatility of nominal and real exchange rates that floating would likely bring given thin foreign exchange markets. However, dollarization, while removing the threat of currency crisis, would also permanently remove exchange rate adjustment from the policy toolkit, leaving wage and price flexibility as the primary means to recover competitiveness.

**18. Staff recommended that any decisions on dollarization should wait until the competitiveness and the flexibility of both economies have been substantially enhanced.** There are no indications of pressures against the guilder. Also, membership in the Kingdom of the Netherlands deters speculation against the currency. Thus there is no particular urgency to dollarize. Moreover, dollarization would also constrain the lender of last resort function of the CBCS. Given current anemic competitiveness, dollarizing without first enhancing wage and price flexibility risks locking-in protracted low growth, with adverse effects on fiscal sustainability and employment.

**International Reserve Developments**



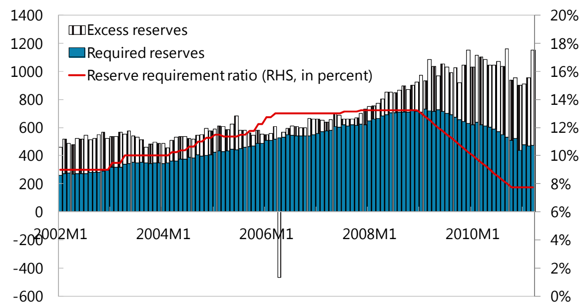

Source: National authorities.

**19. The mission also observed that there is little economic rationale currently for dissolving the currency union**. It would fracture the domestic banking system and raise both banking and supervisory costs. The credibility of the CBCS may also not carry over to the successor central banks. And Sint Maarten does not currently have the personnel and infrastructure to set up a central bank and financial supervisor. Staff also stressed that continued public efforts in this direction could undermine confidence and the investment climate in both countries. Both governments, however, remained unenthusiastic about continuing the currency union over the longer term.

**20. Staff emphasized that if external adjustment efforts lagged, international reserves could come under pressure over the medium term.** Under such circumstances, a devaluation would become necessary. However, given current structural rigidities, policy tightening would also be needed to ensure that any gains from devaluation are not eroded by pressures for wage increases. Moreover, the supply side stimulus from devaluation is likely to be limited given the narrow production base. Both governments responded that they were already working hard to promptly take the necessary measures, and had little enthusiasm for devaluation, given its likely adverse impact on the credibility of the peg and the unfavorable social implications.

**21. There was agreement that restraining bank credit would help curb the current account deficit, and tightening has begun.** The CBCS raised the rate of required reserves by 2 percentage points in mid-September, and signaled that further increases would take place. It is also developing plans to further contain credit growth by gradually relaxing limits on foreign investment by domestic financial institutions. Currently, domestic nonbank financial institutions can invest no more than 40–60 percent of their assets abroad without penalty. With limited domestic opportunities for sound investments, this has forced pension funds and insurers to invest large portions of their portfolios in bank deposits. Recent global turmoil has also caused them to invest more in local instruments. In turn, ample deposits have stimulated rapid credit growth, boosting demand and contributing significantly to the current account deficit. Substantial bank excess reserves have also blunted the effectiveness of monetary policy instruments. Incentives for bank lending to the private sector have intensified with the debt relief and new fiscal frameworks, which have substantially reduced the scope for banks to invest in public debt. The CBCS is also considering other macroprudential tools, including higher risk weights or tougher provisioning rules. Higher policy rates could also support this effort as excess reserves decline.

**Commercial bank reserves at the central bank**
(in millions of NA.f.)




Sources: National authorities

**22. Bank capital and liquidity buffers appear robust, though credit quality has declined (Figure 9).** The risk weighted capital adequacy ratio stood at 18¼ percent in 2010, well above the regulatory minimum. Bank liquidity buffers also appear sound, with a loan to deposit ratio of 75 percent and reserves well above regulatory requirements. But the nonperforming loan (NPL) ratio increased by 2 percentage points from 2008 to 2010, to 8.6 percent. However, loan-loss provisions are also sizeable at close to 70 percent of NPLs, and they rose in 2010. Banks remain profitable, with a return on assets above the Caribbean average. Staff noted that as the limits on investment abroad are relaxed, banks' deposits and liquidity are likely to tighten, requiring greater supervisory vigilance to ensure continued financial sector stability.

**23. Staff also urged the authorities to press ahead with plans to enhance crisis resolution arrangements.** The authorities are moving towards setting up an ex-ante funded Deposit Guarantee Scheme (DGS), which is welcome, but progress has been stalled by the discussions on dissolving the currency union. The mission urged that efforts be redoubled, and also recommended that to enhance its effectiveness as a crisis resolution tool the DGS should be authorized to fund bank resolution operations (by financing the transfer of insured deposit books to assist "purchase and assumption" transactions) if they reduce costs, and enjoy depositor preference. The CBCS also indicated that there are robust understandings with parent banks on the financial support that would be forthcoming for distressed subsidiaries, and clear regimes governing the intervention and liquidation of banks. Staff emphasized that clear understandings should also be developed on the roles of the two governments in the event that public bailout is ever contemplated.

## B. Fiscal Policy

**24. The 2011 fiscal outturns in both countries are on track with respect to the fiscal rules.** Data on budget execution indicate that Curaçao will achieve a current budget surplus of almost one percent of GDP in 2011, well above budget targets, as savings on expenditure on goods and services due to efficiencies from the integration of

Netherlands Antilles and Island Curaçao government operations are realized. Sint Maarten is also on track to achieve a balanced current budget outcome in 2011. Including capital expenditure, Curaçao is expected to run a balanced overall budget, while in Sint Maarten significant delays in major planned infrastructure spending imply an overall deficit of ½ percent of GDP, well below the 5¼ percent of GDP deficit budgeted for 2011. Public debt is projected to be broadly stable in both countries. Gaps in the Netherlands Antilles government data impede the assessment of the change in the overall fiscal stance in 2011, but staff's rough estimates suggest tightening of about 1½ percent of GDP for the currency union in 2011.

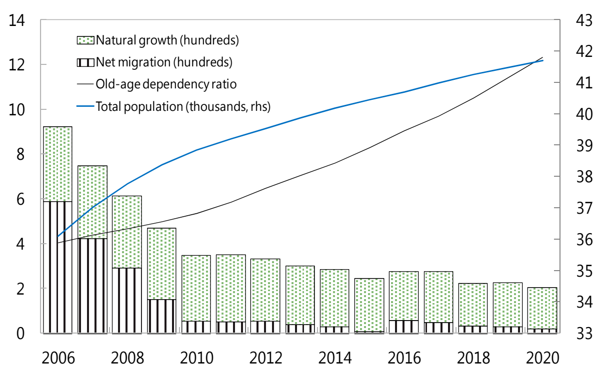
**Overall Fiscal Position 2010-2011 1/**
(In percent of GDP)

| | 2010 | 2011 |
|---|---|---|
| **Curacao** | | |
| Revenue | 30.8 | 31.4 |
| CG on Curacao 2/ | 12.7 | ... |
| Island government | 18.1 | ... |
| Expenditure | 33.1 | 31.4 |
| CG on Curacao 2/ | 10.8 | ... |
| Island government | 22.2 | ... |
| Overall Fiscal Balance | -2.3 | 0 |
| **St.Maarten** | | |
| Revenue | 28.3 | 27.9 |
| CG on St.Maarten 2/ | 10.9 | ... |
| Island government | 17.4 | ... |
| Expenditure | 27.3 | 28.5 |
| CG on St.Maarten 2/ | 9.1 | ... |
| Island government | 18.2 | ... |
| Overall Fiscal Balance | 0.9 | -0.5 |
| **Currency Union** | | |
| Revenue | 30.3 | 30.8 |
| Expenditure | 31.8 | 30.8 |
| Overall Fiscal Balance | -1.6 | -0.1 |

1. Excluding debt relief. Estimates are subject to substantial uncertainty given limited data on the Netherlands Antilles government operations in 2010.
2. CG refers to the former central government of the Netherlands Antilles.

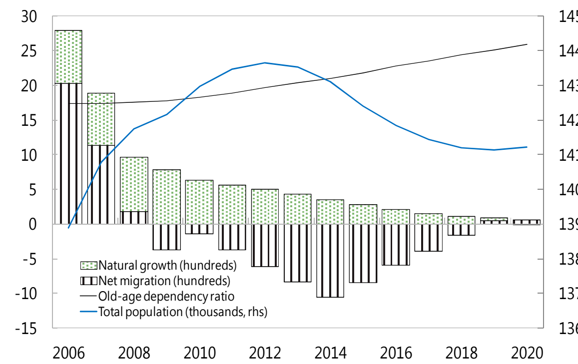
**25. Staff welcomed further efforts planned for the 2012 budgets and beyond to ensure continued adherence to the fiscal rules.** For 2012, Sint Maarten faces significant spending pressures related to institutional build-up, and efforts are underway to streamline current spending to match current revenues. Moreover, plans are well advanced to set up a new national health insurance scheme with premiums and coverage adjusted to ensure sustainability ahead of the onset of spending pressures. For Curaçao, aging pressures are already significant and the financial positions of the various public health and pension funds are worsening. However—spurred in part by the CFT—comprehensive measures are planned shortly to integrate the health funds, increase the health insurance premium, and contain costs through re-examining insurance coverage and deductibles and reducing the rate of growth of spending on equipment, pharmaceuticals, and personnel. To contain pension pressures, plans are being developed to increase the statutory retirement age from the current 60 years to 65. Other measures are also being considered for the public sector pension funds, such as reducing the rate of accrual of benefits and redefining the pension base over a longer time period. Staff's fiscal projections assume that Sint Maarten will continue to take expenditure measures to enable adherence to the fiscal rules over the medium term. Projections for Curaçao do not take into account the envisaged measures to contain aging pressures, as they are yet to be fully specified.

**St. Maarten**




Sources: National authorities; IMF staff calculations.

**Curacao**




Sources: National authorities; IMF staff calculations.

26. **Public debt appears sustainable in both countries over the medium term, assuming continued adherence to the fiscal rules (Appendix).** Staff projections indicate that for Curaçao, the debt ratio is on a slightly declining path over the medium term, while, for Sint Maarten, debt rises temporarily in the near term on account of the substantial public investment but stabilizes thereafter. These projections are robust to exchange rate and interest rate shocks, but more sensitive to shocks to growth or the primary balance—though debt remains modest even with the latter shocks.

27. **The mission emphasized that fiscal tightening of about 2–3 percentage points of GDP is needed over the near to medium term to support the external adjustment effort.** There was agreement that the bulk of the adjustment will need to come from Curaçao, given its relative size and its responsibility for the bulk of the current account deficit, and significant tightening is already occurring in Curaçao. Staff observed that additional measures, beyond those needed to contain aging and institutional buildup-related pressures and remain within the fiscal rules, would be needed. Areas that could be targeted in this effort include social benefits, goods and services, and wages.

- Social welfare benefits are relatively generous, including cash payments, free healthcare, and subsidized rent and utilities for recipients, and appear to be poorly targeted and with no clear maximum time limit on the drawing of benefits. Thus consideration should be given to reducing the generosity of benefits as the duration of unemployment rises, and instituting a maximum period for individuals to receive social benefits.

- Scope for savings on expenditure on goods and services appears substantial, given pronounced under-utilization of budgeted amounts in the 2011 budget.

- Moderating public sector wage growth would make a significant contribution to consolidation efforts while also providing a strong signal for private sector wage restraint.

In Sint Maarten, scope for reducing expenditures appears limited, given institutional gaps. However, the revenue-GDP ratio is relatively low, and moderately revenue enhancing measures are needed.

**28. Comprehensive tax reforms, which will help enhance competitiveness by reducing tax rates on labor and profits, are being prepared in both countries.** Staff welcomed new tax legislation recently passed in Curaçao, envisaging revenue-neutral reforms that broaden the tax base, raise the turnover tax rate by one percentage point to 6 percent, and significantly lower personal income and corporate tax rates. The authorities also indicated that they would go further in phases in subsequent years, along the lines recommended by the 2009 FAD TA mission, which included a corporate tax rate at 20 percent, the top income tax rate at 35 percent, and a VAT at 10 percent. Similar reforms are now under planning in Sint Maarten. Staff urged that this process be accelerated, and noted that synchronization of tax policy with the French side of the island would be critical to avoid arbitrage across borders. The mission also suggested that membership in the Caribbean Regional Technical Assistance Center (CARTAC) would provide useful technical assistance in this endeavor.

**Regional Comparions of Tax Rates**
(In Percent, last updated in June 2011)

| Country | PIT (Highest rate) | CIT | VAT |
|---|---|---|---|
| Antigua and Barbuda | 25 | 25 | 15 |
| Aruba | 58.95 | 28 | 1.5 |
| Barbados | 35 | 25 | 17.5 |
| Belize | 1/ | 25 | 12.5 |
| **Curacao** | **49.4** | **34.5** | **5 2/** |
| **St. Maarten** | **47.5** | **34.5** | **5 2/** |
| Dominica | 35 | 30 | 15 |
| Dominican Republic | 25 | 25 | 16 |
| Guyana | 33.33 | 45 | 16 |
| Jamaica | 25 | 33.33 | 17.5 |
| St. Kitts and Nevis | nil | 35 | 15.0 2/ |
| St. Lucia | 30 | 30 | 3/ |
| St. Vincent and the Grenadines | 32.5 | 32.5 | 15 |
| Trinidad and Tobago | 25 | 25 | 15 |
| Venezuela | 34 | 34 | 12 |
| Unweighted average | 33.1 | 32.1 | 12.5 |

Source: IBFD.
1/ Schedular system.
2/ No VAT.
3/ Consumption tax with rates from 5 percent to 40 percent.

## C. Structural Reforms

**29. There was agreement that deep structural reforms are needed to enhance price and wage flexibility, improve the business environment, and strengthen competitiveness.** Both governments indicated that they were developing plans to increase labor market flexibility, liberalize administered prices, and improve the business environment. Staff welcomed these efforts, and called for prompt implementation of the measures. Both governments also indicated that consultation between government, employers, and workers, would be strengthened to facilitate consensus by all major stakeholders on the reforms (particularly to the labor market), as has been done successfully in many countries including the Netherlands and Aruba.

- Both governments should overhaul labor market regulations to substantially enhance wage flexibility, the ease of adjusting company workforces, and incentives for job search. Staff noted that these reforms would also help reduce the proliferation of short-term contracts and the grey economy, which the unions have protested about.
- Both governments have decided to cut red tape and streamline the business licensing and permit regimes, so that the process of forming new businesses becomes timely and predictable.
- The widespread use of administered prices on basic goods is to be phased out and replaced by strong competition legislation and competition authorities. Staff also stressed that the pricing of petroleum products should continue to be adjusted on a monthly basis in line with international prices to stimulate appropriate demand responses.
- Staff noted also that measures to increase the efficiency and governance of public utilities and public enterprises would help improve the business environment.

## STAFF APPRAISAL

**30. Both countries face substantial challenges, requiring sustained adjustment efforts over the near and medium terms.** In addition to low growth, high unemployment, and aging pressures, the current account deficit for the currency union has risen to worrisome levels. The real exchange rate also appears moderately overvalued, particularly in Curaçao. Anemic competitiveness, rapid credit growth, and inadequate pass-through of recent increases in international oil and food prices particularly in 2010, appear to be the main drivers of the external deficit. While international reserves have risen in recent years, vulnerabilities are substantial, and strong efforts are needed to reduce the current account deficit to sustainable levels. If efforts lag, international reserves could come under pressure over the medium term, requiring a devaluation. Moreover, devaluation would only yield temporary adjustment unless it is buttressed with policy tightening and structural measures to improve competitiveness.

**31. A substantial adjustment is needed to bring the underlying current account deficit to historically sustainable levels over the medium term**. This could be facilitated by measures to restrain credit growth, supported by fiscal consolidation. In addition, structural reforms to generate wage and price flexibility and improve the business environment will be needed to realize durable gains in competitiveness. In several areas policy responses are being prepared, but prompt implementation will be key.

**32. Clarity is needed on dollarization and the future of the currency union to avoid undermining confidence in the economy and the guilder.** The current peg has delivered credible exchange rate stability and relatively low inflation for a prolonged period. Given anemic competitiveness, dollarizing without first enhancing wage and price flexibility risks locking-in protracted low growth, with adverse effects on fiscal sustainability and employment. Also, dissolving the currency union would fracture the domestic banking system and raise both banking and supervisory costs, and the credibility of the CBCS may not carry over to the successor central banks. Continued public discussion of these issues and the divergent views of the different authorities could undermine investor confidence and adversely impact the growth outlook, and should be avoided.

**33. Monetary and macroprudential tools should be used firmly to aid adjustment by reducing credit growth below that of nominal GDP.** The recent increase in the rate of required reserves is welcome, but more increases are needed, together with a gradual relaxation of the limits on foreign investment by domestic nonbank financial institutions and the use of other macroprudential instruments. Supervisory vigilance should also be intensified as the tightening, together with the frail near term outlook, could increase strains in the banking system.

**34. Financial crisis resolution mechanisms should be further strengthened.** The authorities should press ahead with plans to set up a funded deposit guarantee scheme, and develop clear understandings on the roles of the two governments in the event that public bailout of a bank is ever contemplated.

**35. The new fiscal frameworks appear to be entrenching fiscal soundness.** The 2011 fiscal outturns in both countries are on track with respect to the fiscal rules, and incentives to address spending pressures related to aging and institutional buildup have been strengthened. The CFT appears to be providing effective guidance on fiscal policy, and its assessments are a major input in the setting of budget parameters and both short and longer term fiscal efforts.

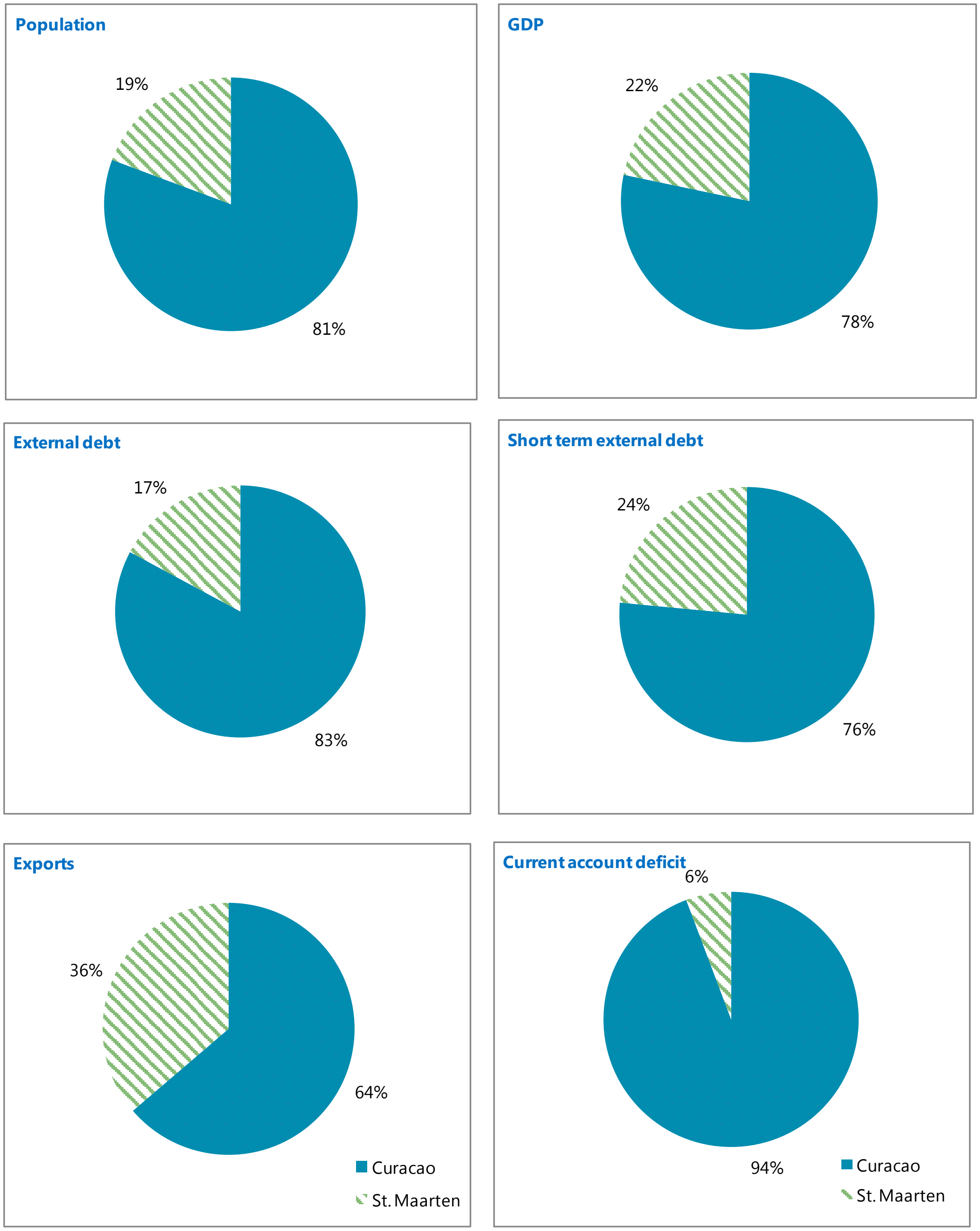
**36. However, significant fiscal tightening is needed over the near to medium term to support the efforts to reduce the current account deficit.** Given the relative size of Curaçao and data suggesting that it is primarily responsible for the widening of the current account deficit, the bulk of the adjustment will need to come from Curaçao. The significant tightening already expected in Curaçao for 2011 is therefore a step in the right direction. In addition to efforts to contain aging and institutional buildup-related pressures, areas that could be targeted in this effort include social benefits, goods and services, and wages. In Sint Maarten, scope for reducing expenditures appears limited, given the need to fill institutional gaps. However, tax reforms as well as compliance increasing measures being developed will likely need to be moderately revenue enhancing.

37. **Planned tax reforms will help improve the business environment and competitiveness by reducing rates on labor and profits and raising indirect taxes.** Rebalancing from direct to indirect taxes would also support productive activity and moderate consumption, thus contributing to a reduction of the underlying current account deficit. The new legislation in Curaçao is a commendable start, and the authorities' plans to go further along the lines proposed by the FAD TA mission are in the right direction. For Sint Maarten, the timing of implementation of tax reforms should be brought forward as much as possible. Given the shared border with the French side, synchronization of tax policy on both sides would be critical to avoid arbitrage across borders.

38. **Deep structural reforms are needed to enhance price and wage flexibility and improve the business environment.** With a currency peg, domestic price and wage flexibility is the primary channel by which the economy adjusts to shocks and sustains competitiveness. However, structural rigidities are pervasive in both countries, hampering adjustment and limiting growth potentials. Wide-ranging reforms are needed to substantially enhance labor market flexibility, liberalize the administered price regime, and sharply reduce administrative red tape.

39. **It is currently envisaged that the next Article IV consultation discussions with Curaçao and Sint Maarten will be held in 24 months time.**

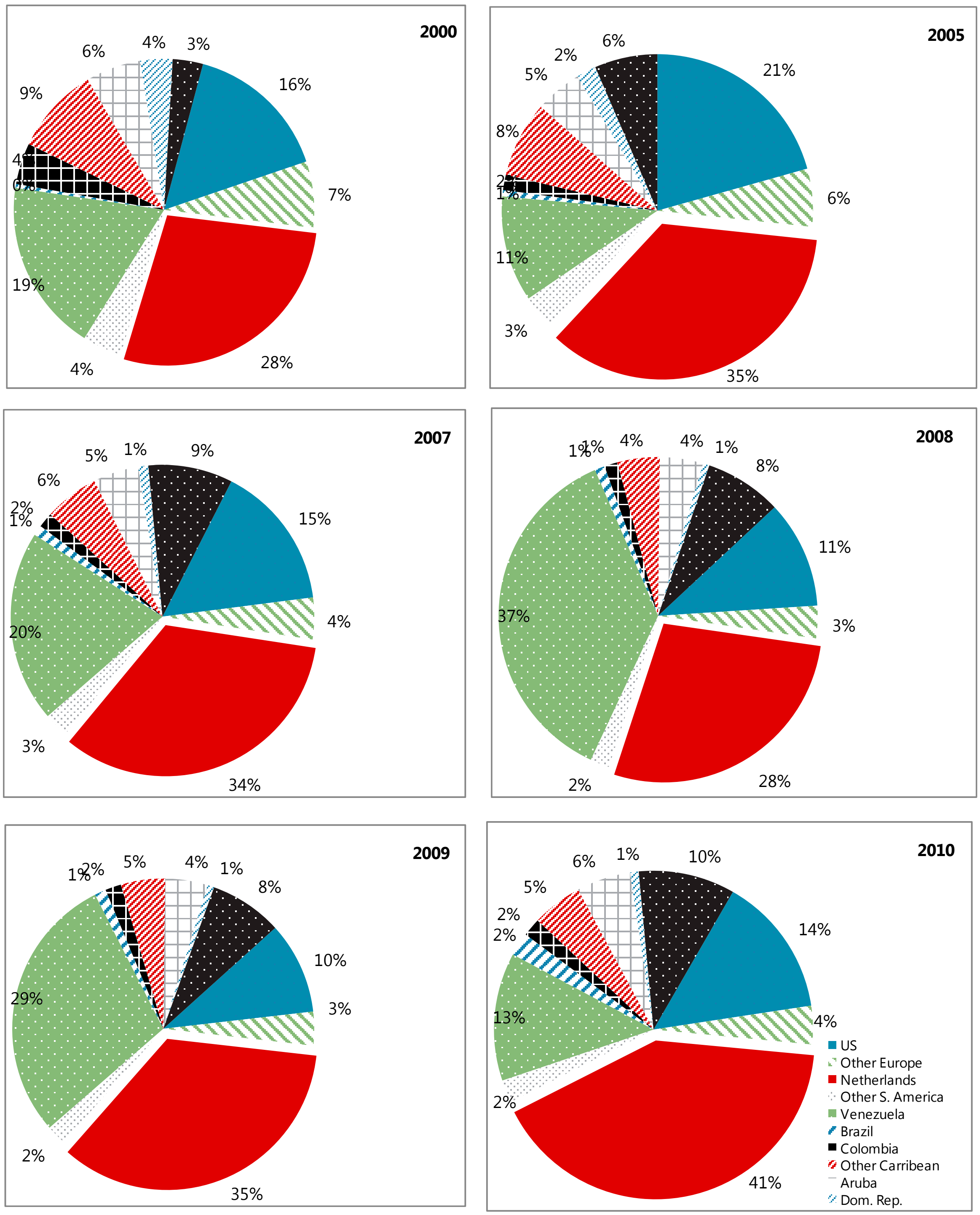
**Figure 1. Curaçao and Sint Maarten: Comparison**




Source: National authorities, and IMF staff calculations

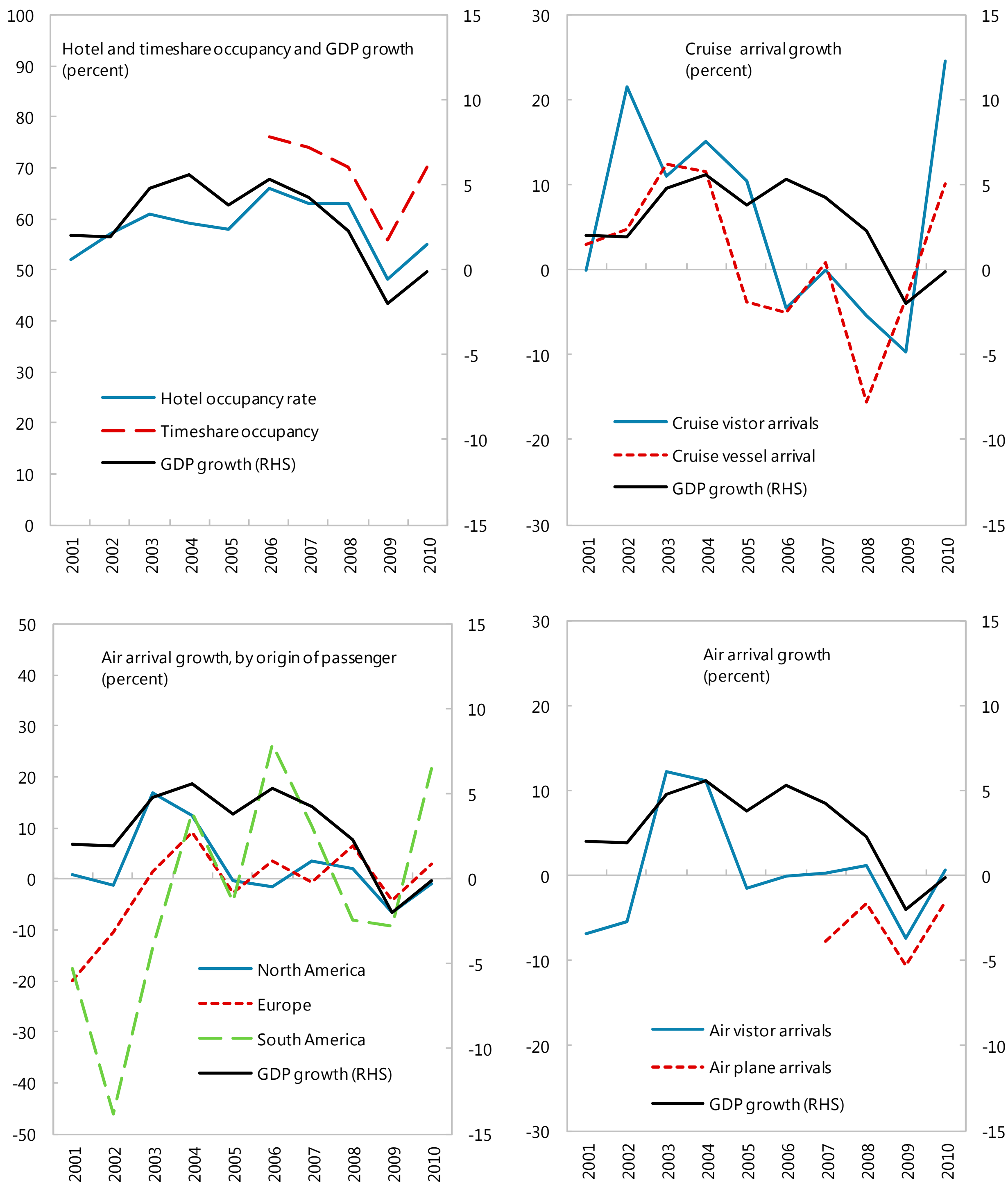
**Figure 2. Curaçao: Visitor Arrival, by Origin**

(Percent of total visitor arrivals)




Source: Curacao Tourist Board, IMF staff calculations

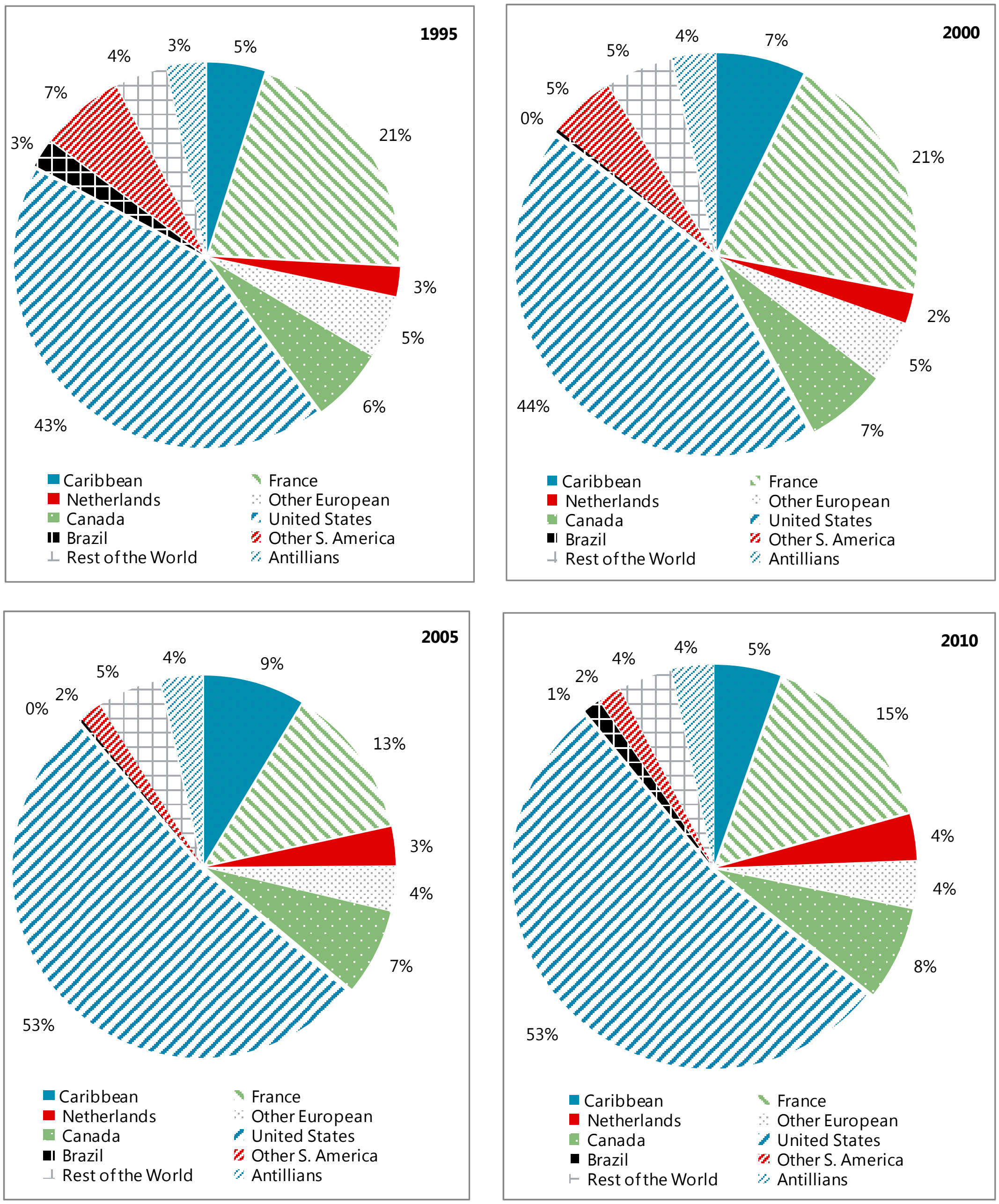
**Figure 3. Sint Maarten: Tourism Developments**




Source: St. Maarten Tourist Bureau, St. Maarten Hospitality & Trade Association, and IMF

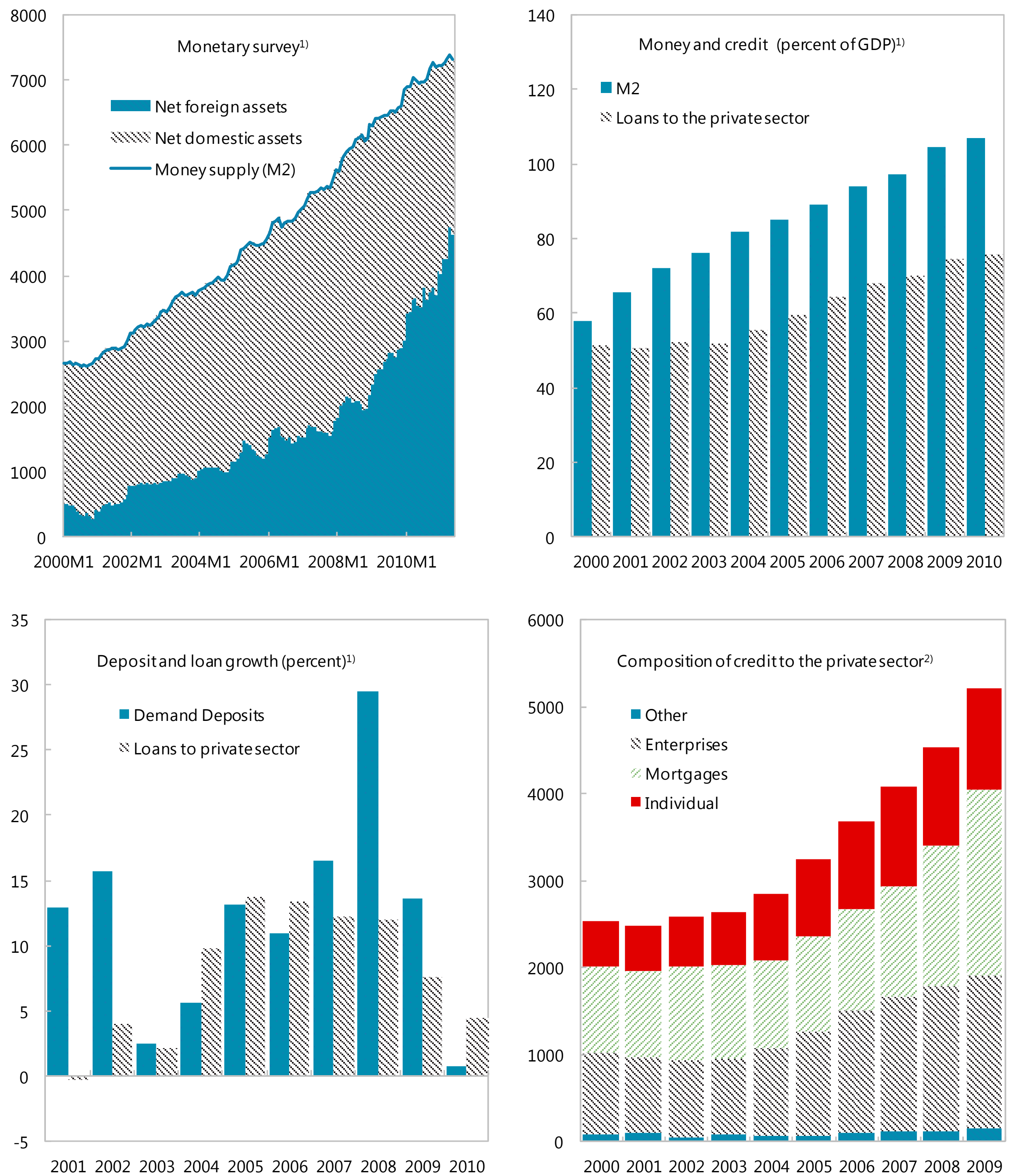
**Figure 4. Sint Maarten: Airplane Passenger Arrival, by Origin**

(Percent of total tourist arrivals)




Sources: St. Maarten Tourist Bureau; and IMF staff calculations.

**Figure 5. Curaçao and Sint Maarten: Developments in the Monetary Sector**

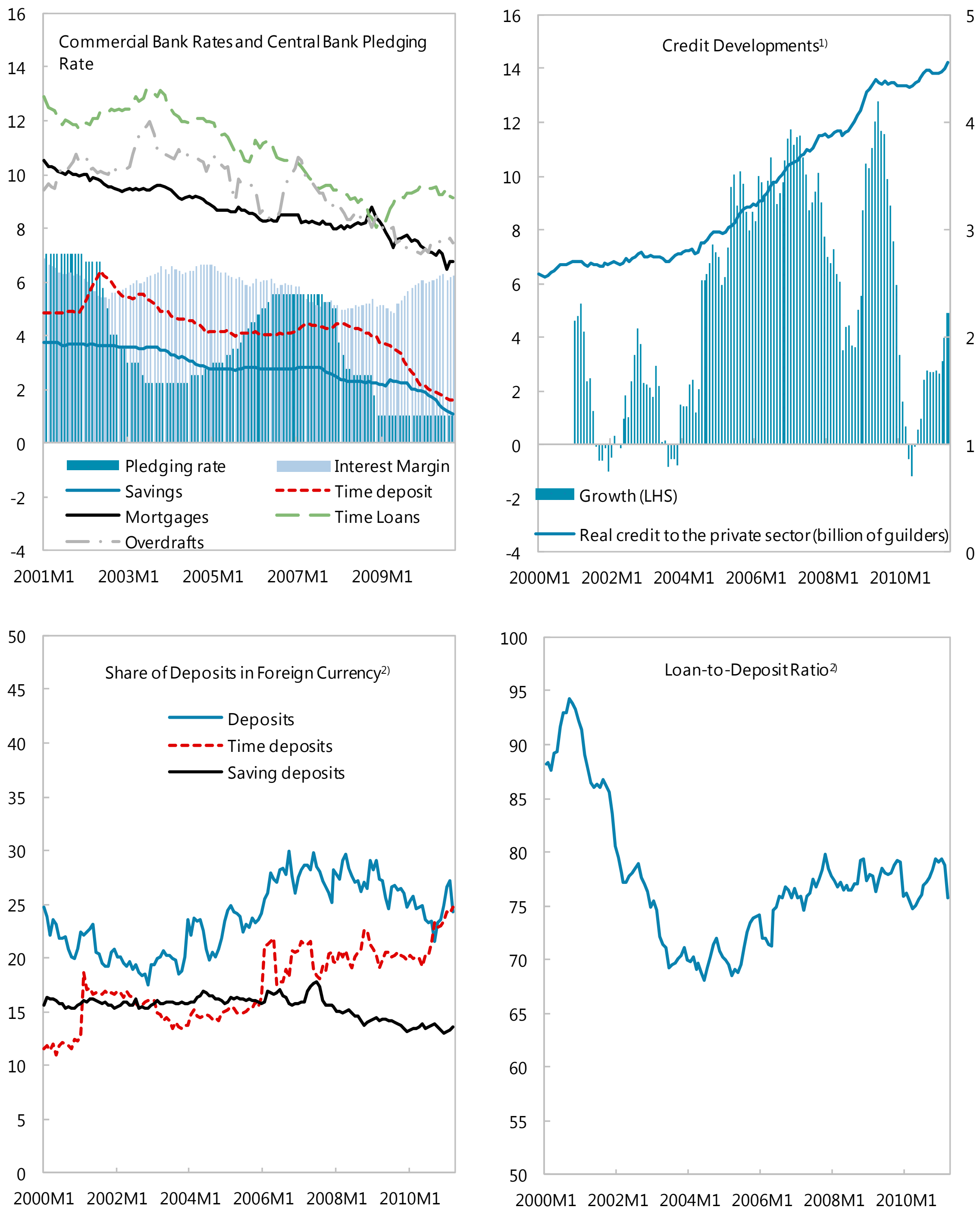



Source: Central Bank, and IMF staff calculations

1) There is a break in the series in 2010M10 due to the dissolution of the Netherlands Antilles and elimination of the BES islands from the monetary survey. Thus, data up to 2010M10 are constructed using growth rates of the Netherlands Antilles data, spliced onto the recent data for Curacao and St. Maarten. Loans to the private sector include loans to enterprises and housholds.

2) Based on the Netherlands Antilles data.

**Figure 6. Curaçao and Sint Maarten: Banking Sector Developments**



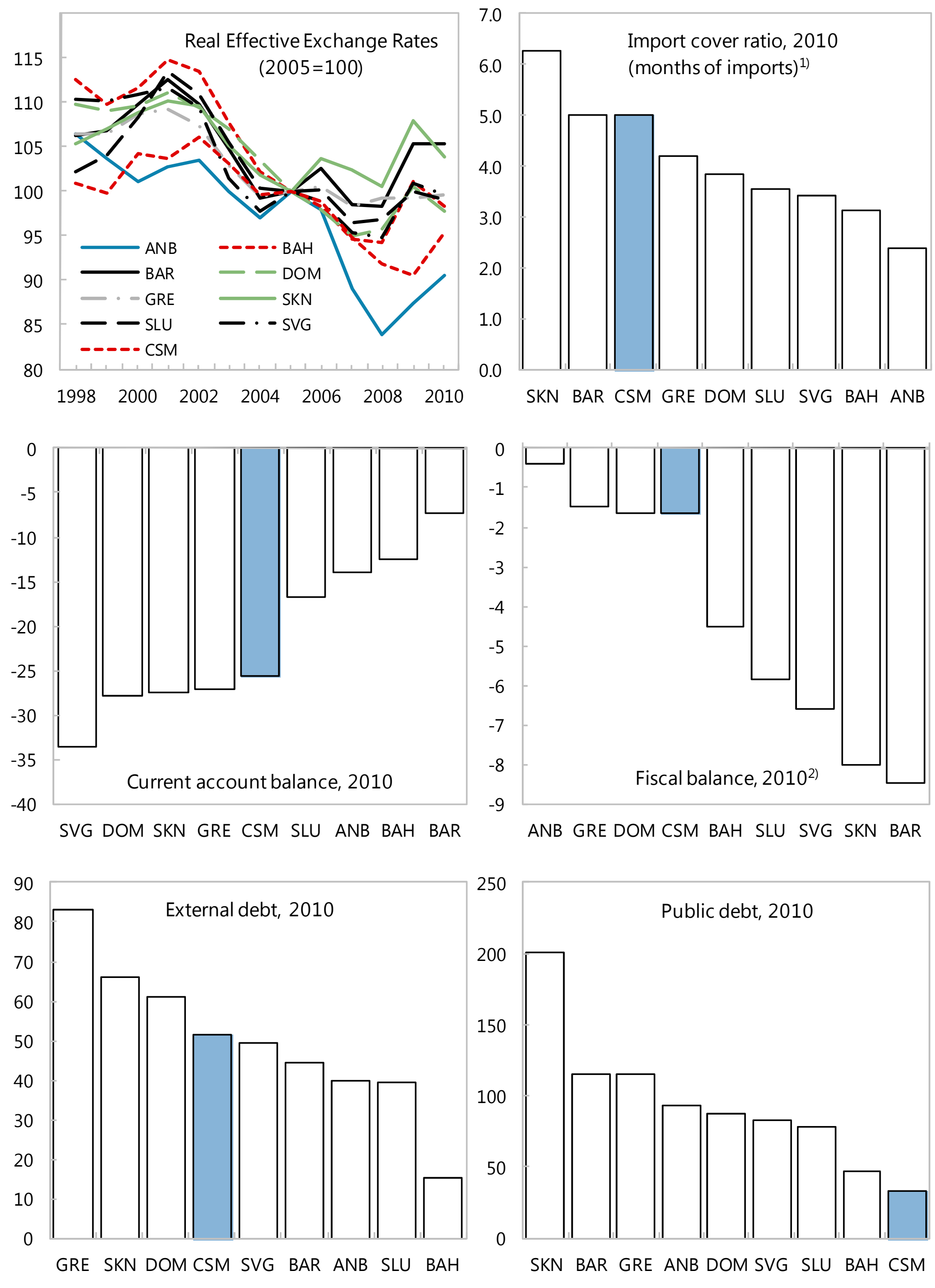

Source: National Authorities, and IMF staff calculations

1) There is a break in the series in 2010M10 due to the dissolution of the Netherlands Antilles and elimination of the BES Islands from the monetary survey. Thus, data up to 2010M10 are constructed using monthly growth rates of the Netherlands Antilles data, spliced onto the recent data for Curacao and St. Maarten. Loans to the private sector include loans to enterprises and housholds.

2) Based on the Netherlands Antilles data until 2010M10 and on Curacao and St. Maarten thereafter.

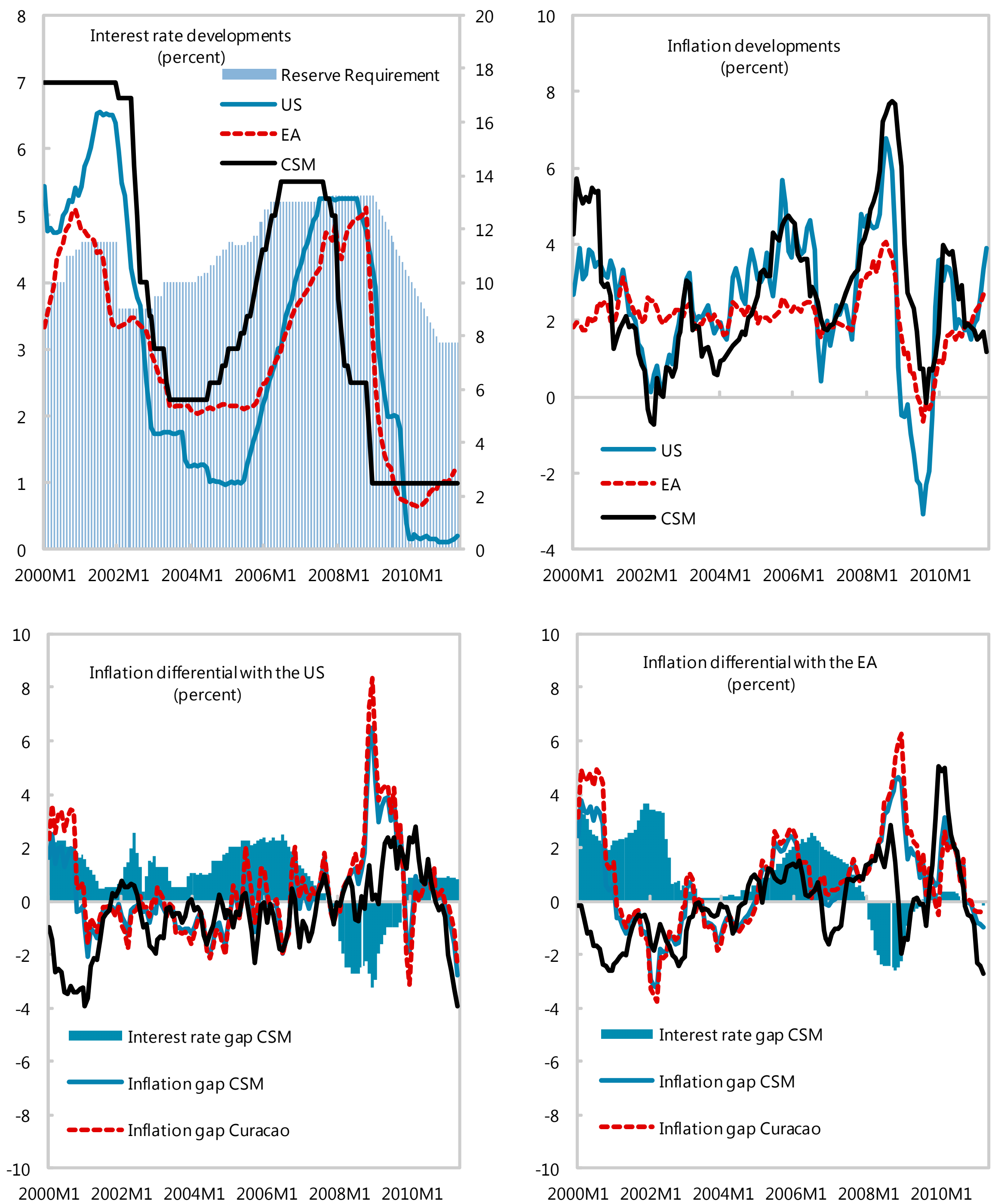
**Figure 7. Curaçao and Sint Maarten: Competitiveness and Vulnerability Indicators**

(In percent of GDP, unless otherwise indicated)




Source: National authorities and IMF, IFS.
Curacao and St. Maarten=CSM, Antigua and Barbuda=ANB, Bahamas= BAH, Barbados=BAR, Dominica=DOM, Grenada=GRE, St. Kitts and Nevis=SKN, St. Lucia =SLU, St. Vincent and the Grenadines=SVG.
1) Refers to the ratio of gross reserves excluding gold to imports of goods and services.
2) Excluding the debt relief for Curacao and Sint Maarten.

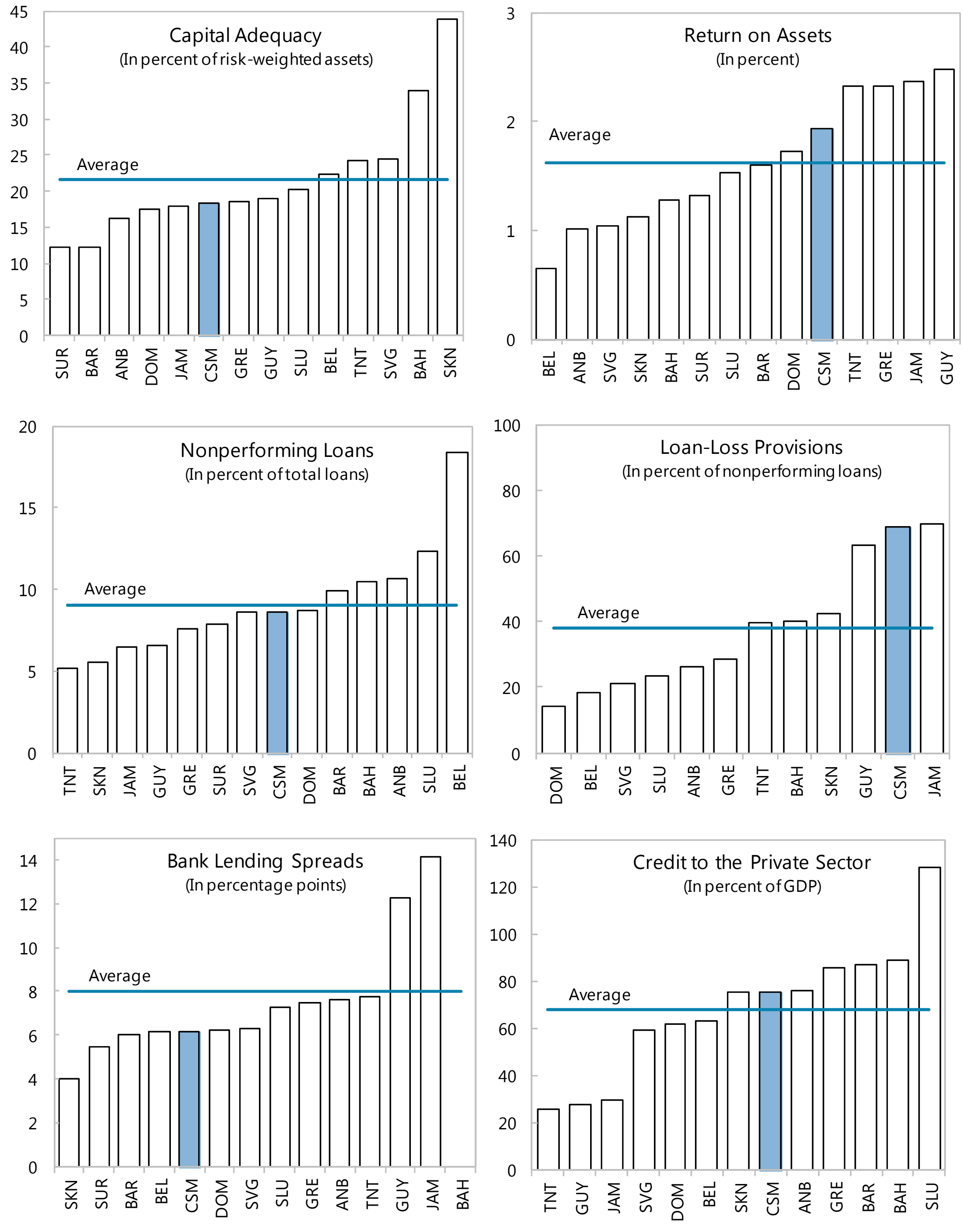
**Figure 8. Curaçao and Sint Maarten: Inflation and Interest Rate Developments**




Source: National Authorities, Haver Analytics, IMF staff calculations

**Figure 9. Curaçao and Sint Maarten: Regional Financial Sector Indicators**

(2010, or latest available observation)




Sources: Central Bank of Curacao and St. Maarten, *International Financial Statistics*, and Fund staff estimates.
CSM–Curacao and St Maarten; ANB–Antigua & Barbuda; BAH–The Bahamas; BAR–Barbados; BEL–Belize; DOM–Dominica; GRE–Grenada; GUY–Guyana; JAM–Jamaica; SKN–St. Kitts & Nevis; SLU–St. Lucia; SUR–Suriname; SVG–St. Vincent & the Grenadines; TNT–Trinidad & Tobago.

## Table 1. Curaçao: Selected Economic and Financial Indicators, 2007–12

| | | | |
|---|---|---|---|
| Area | 444 ($km^2$) | Population, thousand (2010) | 142 |
| Percent of population below age 15 (2010) | 21.0 | Literacy rate, in percent (2010) | 96.7 |
| Percent of population aged 65+ (2010) | 12.2 | Life expectancy at birth, male (2010) | 73.3 |
| Infant mortality, over 1,000 live births (2010) | 9.0 | Life expectancy at birth, female (2010) | 80.3 |

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| | | | | | Proj. | |
| Real economy (change in percent) | | | | | | |
| Real GDP 1/ | 2.7 | 2.6 | -1.3 | 0.4 | 0.1 | 0.7 |
| Private consumption | 9.2 | 2.7 | -4.5 | 8.9 | 1.0 | 1.2 |
| Public consumption | 11.7 | -0.4 | -1.3 | 1.6 | -7.0 | 1.0 |
| Gross fixed investment | 2.6 | 13.1 | 4.0 | -0.9 | 1.8 | 1.1 |
| Net foreign balance 2/ | -5.6 | -3.1 | 0.7 | -6.9 | -0.1 | -0.7 |
| CPI (12-month average) | 3.0 | 6.9 | 1.8 | 2.8 | 2.8 | 3.7 |
| Unemployment rate (in percent) | 12.4 | 10.3 | 9.7 | 10.1 | 10.5 | 10.3 |
| General government finances (in percent of GDP) 3/ | | | | | | |
| Primary balance | 1.4 | 1.2 | 10.2 | 7.3 | 1.3 | 1.7 |
| Overall balance | -1.8 | -1.7 | 7.6 | 5.4 | 0.0 | 0.8 |
| Public debt | 56.3 | 52.6 | 47.3 | 34.6 | 33.6 | 31.4 |
| Balance of payments (in percent of GDP) | | | | | | |
| Trade balance | -43.7 | -42.9 | -37.0 | -41.3 | -40.7 | -40.9 |
| Exports of goods | 33.3 | 23.5 | 23.1 | 24.9 | 25.8 | 26.6 |
| Imports of goods | 76.2 | 60.6 | 64.4 | 65.6 | 66.8 | 67.5 |
| Current account | -21.0 | -26.4 | -16.7 | -30.9 | -29.2 | -28.5 |
| Capital and financial account | 16.4 | 25.4 | 8.8 | 20.5 | 28.3 | 24.3 |
| Net FDI | 4.4 | 5.2 | 1.7 | 2.5 | 2.0 | 3.5 |
| Net official reserves (in millions of U.S. dollars) | 688.1 | 853.7 | 929.4 | 959.7 | 1,003.0 | 953.8 |
| (in months of next year's imports of goods) | 3.8 | 5.9 | 5.9 | 5.8 | 5.7 | 5.1 |
| (In percent of short-term debt) | 458.6 | 603.0 | 626.1 | 663.7 | 620.9 | 557.3 |
| External debt (in percent of GDP) | 33.7 | 30.5 | 26.9 | 54.6 | 62.0 | 65.5 |
| Memorandum items: | | | | | | |
| Nominal GDP (in millions of U.S. dollars) | 2,593 | 2,831 | 2,869 | 2,951 | 3,047 | 3,179 |
| Per capita GDP (change in percent) | 1.3 | 1.9 | -1.6 | -0.2 | -0.2 | 0.6 |
| Real effective rate (2007=100) | 100.0 | 96.2 | 93.8 | 100.1 | .. | .. |
| Fund position | Curacao is part of the Kingdom of the Netherlands and does not have a separate quota. | | | | | |
| Exchange rate | The Netherlands Antilles guilder is pegged to the U.S. dollar at NA f. 1.79 = US$1. | | | | | |

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

1/ Based on IMF staff estimates of deflators.

2/ Contribution to GDP growth.

3/ Data from 2007-2010 reflect the fiscal operations of the local island government. Data from 2011 onwards refer to the new island government that has integrated the fiscal operations of the previous central government of the Netherlands Antilles.

## Table 2. Sint Maarten: Selected Economic and Financial Indicators, 2007–12

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

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| | | | | | Proj. | |
| Real economy (change in percent) | | | | | | |
| Real GDP 1/ | 4.3 | 2.3 | -2.0 | -0.1 | -0.1 | 0.5 |
| Private consumption | 20.8 | 17.8 | -1.2 | -2.2 | -2.0 | 0.5 |
| Public consumption | 2.7 | 1.4 | -1.0 | 0.0 | 10.0 | 1.8 |
| Gross fixed investment | 15.5 | 12.7 | -10.7 | -4.6 | -1.3 | 3.8 |
| Net foreign balance 2/ | -8.3 | -7.7 | 3.2 | 8.1 | -0.8 | -1.0 |
| CPI (12-month average) | 2.3 | 4.6 | 0.7 | 3.2 | 3.7 | 3.5 |
| Unemployment rate (in percent) | 10.6 | 11.4 | 12.2 | 12.0 | 12.0 | 11.8 |
| General government finances (in percent of GDP) 3/ | | | | | | |
| Primary balance | -6.5 | -2.4 | -0.9 | 3.6 | 0.2 | -5.1 |
| Overall balance | -6.5 | -2.4 | -0.9 | 3.6 | -0.5 | -6.0 |
| Public debt | 30.7 | 29.0 | 31.8 | 28.3 | 27.6 | 32.7 |
| Balance of payments (in percent of GDP) | | | | | | |
| Trade balance | -90.0 | -87.4 | -76.5 | -72.9 | -74.0 | -75.6 |
| Exports of goods | 14.3 | 16.7 | 16.3 | 15.1 | 14.3 | 14.1 |
| Imports of goods | 104.3 | 104.2 | 92.9 | 87.9 | 88.4 | 89.7 |
| Current account | -12.0 | -22.0 | -16.3 | -6.8 | -6.7 | -7.0 |
| Capital and financial account | 7.7 | 15.9 | 13.3 | 4.0 | 10.0 | 8.7 |
| Net FDI | 9.1 | 8.8 | 4.9 | 3.6 | 3.5 | 3.3 |
| Net official reserves (in millions of U.S. dollars) | 217.3 | 269.6 | 293.5 | 303.1 | 326.7 | 339.8 |
| (in months of next year's imports of goods) | 3.1 | 4.4 | 4.9 | 4.8 | 5.0 | 4.9 |
| (In percent of short-term debt) | 144.8 | 190.4 | 197.7 | 209.6 | 202.3 | 198.5 |
| External debt (in percent of GDP) | 34.5 | 29.9 | 25.3 | 40.7 | 42.2 | 43.3 |
| Memorandum items: | | | | | | |
| Nominal GDP (in millions of U.S. dollars) | 750 | 795 | 793 | 819 | 851 | 879 |
| Per capita GDP (change in percent) | 2.2 | 0.7 | -3.2 | -1.0 | -1.0 | -0.4 |
| Real effective rate (2000=100) | 100.0 | 99.7 | 101.4 | 103.0 | .. | … |
| Fund position | St. Maarten is part of the Kingdom of the Netherlands and does not have a separate quota. | | | | | |
| Exchange rate | The Netherlands Antilles guilder is pegged to the U.S. dollar at NA f. 1.79 = US$1. | | | | | |

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

1/ Based on IMF staff estimates of deflators.
2/ Contribution to GDP growth.
3/ Data from 2007-2010 reflect the fiscal operations of the local island government. Data from 2011 onwards refer to the new island government that has integrated the fiscal operations of the previous central government of the Netherlands Antilles.

## Table 3. Curaçao and Sint Maarten: Monetary Survey 1/

(In millions of guilder; end of period)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|
| Net Foreign Assets | 1,136 | 1,256 | 1,520 | 1,777 | 2,174 | 2,990 | 4,070 |
| Central Bank | 789 | 863 | 1,074 | 1,357 | 1,681 | 2,025 | 2,906 |
| Gross Foreign Assets | 789 | 865 | 1,436 | 1,914 | 2,543 | 2,761 | 3,573 |
| Gross Foreign Liabilities | 0 | 2 | 362 | 557 | 862 | 736 | 667 |
| Commercial Banks | 347 | 394 | 446 | 420 | 493 | 965 | 1,164 |
| Gross Foreign Assets | 1,057 | 1,514 | 1,793 | 1,745 | 2,388 | 3,287 | 3,829 |
| Gross Foreign Liabilities | 710 | 1,121 | 1,346 | 1,326 | 1,895 | 2,322 | 2,666 |
| Net domestic assets | 3,035 | 3,304 | 3,493 | 3,839 | 4,137 | 3,866 | 3,152 |
| Domestic credit | 3,605 | 3,986 | 4,523 | 5,084 | 5,752 | 5,429 | 5,330 |
| Net Claims on the Government of Curacao | 257 | 224 | 211 | 233 | 274 | -16 | 29 |
| Net Claims on the Government of St. Maarten | 0 | 0 | 0 | 0 | 0 | 0 | -245 |
| Claims on the Private Sector | 3,013 | 3,396 | 3,982 | 4,487 | 5,084 | 5,226 | 5,547 |
| From Central Bank | 172 | 180 | 189 | 247 | 311 | 243 | 271 |
| From Commercial Banks | 2,841 | 3,216 | 3,793 | 4,240 | 4,773 | 4,983 | 5,276 |
| Securities | 31 | 22 | 175 | 181 | 230 | 95 | 170 |
| Loans and Advances | 2,809 | 3,194 | 3,618 | 4,060 | 4,543 | 4,888 | 5,106 |
| Enterprise Loans | 1,005 | 1,182 | 1,400 | 1,547 | 1,671 | 1,647 | … |
| Mortgages | 995 | 1,073 | 1,132 | 1,250 | 1,616 | 2,009 | … |
| Individuals Loans | 753 | 873 | 1,000 | 1,154 | 1,135 | 1,095 | … |
| Other | 56 | 65 | 85 | 109 | 121 | 137 | … |
| Other Items Net | -570 | -682 | -1,030 | -1,245 | -1,615 | -1,563 | -2,178 |
| Money supply (M2) | 4,171 | 4,560 | 5,014 | 5,616 | 6,311 | 6,856 | 7,222 |
| Money (M1) | 1,477 | 1,649 | 1,826 | 2,122 | 2,666 | 3,003 | 3,137 |
| Currency in Circulation Outside Banks | 214 | 222 | 244 | 281 | 290 | 307 | 326 |
| Demand Deposits | 1,263 | 1,427 | 1,582 | 1,841 | 2,376 | 2,696 | 2,811 |
| Local Currency | 972 | 1,098 | 1,152 | 1,331 | 1,770 | 2,082 | 2,219 |
| Foreign Currency | 291 | 329 | 430 | 510 | 606 | 614 | 592 |
| Quasi Money | 2,694 | 2,911 | 3,187 | 3,494 | 3,646 | 3,853 | 4,085 |
| Savings Deposits | 1,038 | 1,111 | 1,198 | 1,413 | 1,583 | 1,853 | 1,899 |
| Local Currency | 856 | 918 | 986 | 1,192 | 1,352 | 1,659 | 1,725 |
| Foreign Currency | 182 | 193 | 212 | 221 | 231 | 194 | 174 |
| Time Deposits | 1,656 | 1,800 | 1,989 | 2,081 | 2,063 | 2,000 | 2,187 |
| Local Currency | 1,461 | 1,482 | 1,492 | 1,541 | 1,673 | 1,813 | 1,945 |
| Foreign Currency | 195 | 318 | 496 | 540 | 390 | 187 | 242 |
| (Percent change, year-on-year) | | | | | | | |
| Net foreign assets | 11.7 | 10.6 | 21.0 | 16.9 | 22.4 | 37.5 | 36.1 |
| Net domestic assets | 9.8 | 8.8 | 5.7 | 9.9 | 7.8 | -6.5 | -18.5 |
| Credit by commercial banks to the private sector | 9.7 | 13.7 | 13.3 | 12.2 | 11.9 | 7.6 | 4.5 |
| Broad money | 10.3 | 9.3 | 9.9 | 12.0 | 12.4 | 8.6 | 5.3 |
| (Percent change, by contribution to the broad money) | | | | | | | |
| Net foreign assets | 3.2 | 2.9 | 5.8 | 5.1 | 7.1 | 12.9 | 15.7 |
| Net domestic assets | 7.2 | 6.4 | 4.2 | 6.9 | 5.3 | -4.3 | -10.4 |
| (Percent of GDP) | | | | | | | |
| Loans to the private sector | 55.1 | 59.4 | 64.0 | 67.8 | 69.9 | 74.5 | 75.5 |
| Broad money | 81.8 | 84.8 | 88.7 | 93.8 | 97.1 | 104.5 | 106.8 |
| (Percent) | | | | | | | |
| Pledging rate | 2.8 | 4.5 | 5.5 | 5.0 | 1.0 | 1.0 | 1.0 |

Sources: Central Bank of Curacao and Sint Maarten, IMF staff calculations.
1/ Data prior to 2010 is estimated based on data for the Netherlands Antilles.

## Table 4. Curaçao and Sint Maarten: Indicators of External and Financial Vulnerability, 2004–10

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|
| **External indicators** | | | | | | | |
| Exports (annual percent change, in U.S. dollars) 1/ | 9.5 | 7.0 | 8.2 | 3.3 | 13.3 | -9.9 | -2.7 |
| Imports (annual percent change, in U.S. dollars) 1/ | 9.7 | 9.7 | 10.6 | 12.8 | 18.1 | -11.3 | 4.6 |
| Current account balance 2/ | -3.5 | -4.0 | -7.2 | -19.0 | -25.4 | -16.6 | -25.7 |
| Net of transfers | .. | .. | .. | -19.2 | -25.6 | -22.2 | -26.8 |
| Net foreign direct investment | 0.0 | -0.6 | -1.9 | 5.4 | 6.0 | 2.4 | 2.7 |
| Net portfolio investment | .. | .. | .. | -2.9 | -1.2 | -1.8 | -10.5 |
| Net official reserves (in months of imports) 1/ | | | | 3.4 | 3.5 | 4.3 | 4.3 |
| Net official reserves (in percent of short-term debt) | | | | 175.1 | 220.8 | 247.6 | 205.2 |
| Net foreign assets (banking system) | 22.3 | 23.4 | 26.9 | 29.7 | 33.5 | 45.6 | 60.2 |
| Broad money to net foreign assets (ratio) | 3.7 | 3.6 | 3.3 | 3.2 | 2.9 | 2.3 | 1.8 |
| Total external debt 3/ | 28.8 | 28.3 | 32.4 | 33.9 | 30.4 | 26.5 | 51.6 |
| Total external debt to exports (ratio in percent) 3/ | 37.3 | 36.1 | 40.2 | 43.0 | 37.0 | 36.2 | 74.4 |
| Exchange rate (per U.S. dollar, period average) | 1.79 | 1.79 | 1.79 | 1.79 | 1.79 | 1.79 | 1.79 |
| **Financial sector risk indicators** | | | | | | | |
| Mortgage credit (in percent of total assets) | 17.9% | 17.1% | 16.4% | 16.7% | 18.2% | 20.5% | |
| Consumer credit (in percent of total assets) | 14.1% | 14.3% | 14.9% | 15.5% | 13.2% | 11.5% | |
| Business credit (in percent of total assets) | 21.8% | 22.2% | 23.9% | 22.9% | 21.5% | 19.7% | |
| Capital adequacy | | | | | | | |
| Tier 1 Capital to Risk Weighted Assets | 9.5% | 10.6% | 11.0% | 11.7% | 13.9% | 14.6% | 15.3% |
| Tier 1 and Tier 2 Capital to Risk Weighted Assets | 12.7% | 13.1% | 13.8% | 14.3% | 16.3% | 17.2% | 18.3% |
| Asset quality | | | | | | | |
| Nonperforming loans (in percent of total loans) | 7.9% | 6.1% | 7.0% | 7.0% | 6.6% | 8.0% | 8.6% |
| Provision for loan losses (in percent of nonperforming loans) | 97.2% | 102.4% | 93.8% | 78.8% | 79.7% | 65.9% | 68.7% |
| Earnings and profitability | | | | | | | |
| Return on assets (before taxes and dividends) | 1.8% | 2.6% | 2.2% | 1.9% | 2.2% | 1.9% | 1.9% |
| Return on equity (before taxes and dividends) | 21.5% | 28.1% | 24.1% | 19.5% | 21.7% | 16.6% | 16.0% |
| Interest margin to gross income | 49.5% | 48.9% | 46.9% | 47.1% | 44.7% | 51.4% | 56.3% |
| Noninterest expenses to gross income | 56.7% | 53.0% | 49.5% | 51.4% | 51.6% | 56.2% | 61.3% |
| Sensitivity to market risk | | | | | | | |
| Interest rate margin | 5.1% | 5.8% | 4.7% | 4.6% | 4.1% | 4.5% | 4.8% |
| Net foreign assets to regulatory capital | 132.8% | 103.7% | 81.3% | 68.4% | 60.4% | 91.7% | 96.7% |

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

1/ Refers to exports or imports of goods and services.
2/ Refers to the sum of the two countries since no consoldiated data is available before 2010 Q4.
3/ Refers to the sum of the two countries external debt, excluding the external debt of the central governemnt of the Netherlands Antillies prior to 2010.

## Table 5. Curaçao and Sint Maarten: Balance of Payments, 2007–16 1/

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Proj. | | | |
| | *(In millions of US dollars, unless otherwise indicated)* | | | | | | | | | |
| **Current account** | -635 | -922 | -609 | -968 | -947 | -968 | -919 | -889 | -875 | -871 |
| Goods and services balance | -666 | -895 | -735 | -968 | -980 | -1014 | -995 | -997 | -1009 | -1022 |
| Exports of goods and services | 2540 | 2926 | 2634 | 2572 | 2767 | 2939 | 3155 | 3395 | 3672 | 3975 |
| Goods | 649 | 1076 | 805 | 807 | 882 | 945 | 1018 | 1105 | 1203 | 1308 |
| Services | 1890 | 1849 | 1829 | 1765 | 1885 | 1993 | 2137 | 2290 | 2470 | 2666 |
| Imports of goods and services | 3205 | 3821 | 3369 | 3540 | 3747 | 3953 | 4151 | 4392 | 4681 | 4997 |
| Goods | 2458 | 2989 | 2474 | 2622 | 2752 | 2911 | 3084 | 3298 | 3553 | 3830 |
| Services | 747 | 832 | 894 | 918 | 995 | 1042 | 1067 | 1094 | 1128 | 1167 |
| Income | 25.1 | -34.1 | -79.2 | -43.2 | 5.3 | 8.6 | 32.7 | 52.3 | 62.4 | 68.5 |
| Compensation of employees | -24.0 | -24.6 | -13.2 | -5.0 | -5.7 | -7.3 | -11.9 | -7.5 | -2.7 | -1.2 |
| Investment income | 49.1 | -9.5 | -66.0 | -38.2 | 11.0 | 15.9 | 44.6 | 59.7 | 65.2 | 69.7 |
| Current transfers \2 | 5.4 | 7.4 | 204.6 | 43.5 | 27.8 | 37.2 | 43.9 | 55.1 | 71.2 | 82.4 |
| (percent of GDP) | 0.2 | 0.2 | 5.6 | 1.2 | 0.7 | 0.9 | 1.0 | 1.2 | 1.5 | 1.7 |
| **Capital and financial account** | 483 | 845 | 358 | 637 | 947 | 848 | 840 | 812 | 809 | 813 |
| Capital account | 23 | 33 | 34 | 38 | 38 | 38 | 38 | 38 | 38 | 38 |
| Financial account | 459 | 812 | 324 | 598 | 909 | 810 | 802 | 774 | 771 | 775 |
| Direct investment | 181 | 218 | 89 | 104 | 91 | 140 | 178 | 186 | 198 | 219 |
| Portfolio investment | -97 | -45 | -66 | -398 | -55 | -105 | -155 | -205 | -205 | -205 |
| Financial derivatives | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other investment | 376 | 639 | 301 | 892 | 874 | 775 | 780 | 792 | 778 | 761 |
| Reserve assets | -46 | -83 | 167 | 187 | -78 | 42 | 0 | 0 | -12 | -19 |
| **Reserves and external debt** | | | | | | | | | | |
| Gross Reserves, excluding gold | 1032 | 1395 | 1311 | 1481 | 1560 | 1517 | 1517 | 1517 | 1529 | 1548 |
| Net Official reserves | 905 | 1123 | 1223 | 1263 | 1330 | 1294 | 1293 | 1293 | 1303 | 1320 |
| in months of goods imports | 4.4 | 4.5 | 5.9 | 5.8 | 5.8 | 5.3 | 5.0 | 4.7 | 4.4 | 4.1 |
| over short term debt | 1.8 | 2.2 | 2.5 | 2.1 | 1.8 | 1.6 | 1.5 | 1.5 | 1.4 | 1.4 |
| Gross external debt (percent of GDP) | 33.9 | 30.4 | 26.5 | 51.6 | 57.7 | 60.7 | 61.9 | 61.6 | 61.1 | 60.6 |
| of which short term debt | 15.5 | 14.0 | 13.5 | 16.3 | 18.7 | 19.6 | 20.0 | 19.9 | 19.7 | 19.5 |
| **Memorandum item:** | | | | | | | | | | |
| GDP at current prices | 3342 | 3626 | 3662 | 3770 | 3898 | 4058 | 4250 | 4459 | 4675 | 4887 |
| | *(In percent of GDP)* | | | | | | | | | |
| Current Account | | | | | | | | | | |
| Curacao and St. Maarten | -19.0 | -25.4 | -16.6 | -25.7 | -24.3 | -23.9 | -21.6 | -19.9 | -18.7 | -17.8 |
| St. Maarten | -12.0 | -22.0 | -16.3 | -6.8 | -6.7 | -7.0 | -6.3 | -5.4 | -4.2 | -3.6 |
| Curacao | -21.0 | -26.4 | -16.7 | -30.9 | -29.2 | -28.5 | -25.8 | -23.9 | -22.6 | -21.6 |
| G & S Balance | | | | | | | | | | |
| Curacao and St. Maarten | -19.9 | -24.7 | -20.1 | -25.7 | -25.1 | -25.0 | -23.4 | -22.4 | -21.6 | -20.9 |
| St. Maarten | -4.6 | -13.5 | -8.2 | 0.2 | -0.2 | -1.0 | -0.8 | -0.6 | -0.5 | -0.6 |
| Curacao | -24.4 | -27.8 | -23.3 | -32.9 | -32.1 | -31.6 | -29.6 | -28.3 | -27.3 | -26.4 |
| | *(In millions of US dollars)* | | | | | | | | | |
| Exports of Goods | | | | | | | | | | |
| St. Maarten | 108 | 133 | 130 | 123 | 122 | 124 | 130 | 138 | 147 | 156 |
| Curacao | 542 | 943 | 675 | 683 | 760 | 822 | 889 | 968 | 1056 | 1152 |
| Exports of Services | | | | | | | | | | |
| St. Maarten | 854 | 824 | 763 | 809 | 846 | 880 | 925 | 979 | 1042 | 1108 |
| Curacao | 1037 | 1025 | 1066 | 956 | 1039 | 1113 | 1212 | 1311 | 1428 | 1558 |
| Imports of Goods and Services | | | | | | | | | | |
| St. Maarten | 996 | 1065 | 958 | 931 | 970 | 1013 | 1061 | 1122 | 1193 | 1271 |
| Curacao | 2210 | 2756 | 2411 | 2609 | 2777 | 2940 | 3089 | 3270 | 3488 | 3726 |

Sources: Central bank of Curacao and St. Maarten; and IMF staff projections.
1/ Overall numbers are the sum of the two countries BOP.
2/ Assumes a payment by the Netherlands of arrears In 2012 as part of the debt relief program.

## Table 6. Curaçao: Macroeconomic Framework, 2008–16

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Proj. | | | | | |
| | *(Percentage change, unless otherwise indicated)* | | | | | | | | |
| **Output and demand (volumes)** | | | | | | | | | |
| GDP | 2.6 | -1.3 | 0.4 | 0.1 | 0.7 | 1.7 | 1.9 | 1.9 | 2.0 |
| Domestic demand | 4.7 | -1.6 | 5.9 | 0.2 | 1.1 | 1.3 | 1.7 | 1.5 | 1.2 |
| Private consumption | 2.7 | -4.5 | 8.9 | 1.0 | 1.2 | 1.5 | 1.8 | 1.7 | 1.5 |
| Public consumption | -0.4 | -1.3 | 1.6 | -7.0 | 1.0 | 0.5 | 0.5 | 0.0 | 0.0 |
| Gross fixed capital formation | 13.1 | 4.0 | -0.9 | 1.8 | 1.1 | 1.5 | 1.9 | 1.7 | 1.2 |
| Private investment | 13.7 | 3.9 | -1.0 | 1.1 | 1.3 | 1.6 | 2.0 | 1.8 | 1.3 |
| Exports of goods and services | 15.2 | -11.5 | -5.6 | 1.8 | 3.4 | 5.4 | 5.6 | 5.8 | 6.0 |
| Imports of goods and services | 15.0 | -9.3 | 4.2 | 1.4 | 3.1 | 3.6 | 4.0 | 4.0 | 3.7 |
| Net exports (contribution to growth in percent of GDP) | -3.1 | 0.7 | -6.9 | -0.1 | -0.7 | 0.0 | -0.2 | -0.1 | 0.4 |
| **Prices, costs, and income** | | | | | | | | | |
| Consumer price inflation (harmonized, average) | 6.9 | 1.8 | 2.8 | 2.8 | 3.7 | 2.6 | 2.6 | 2.6 | 2.6 |
| Consumer price inflation (harmonized, end-year) | 7.9 | 0.4 | 1.9 | 4.5 | 2.4 | 2.6 | 2.6 | 2.6 | 2.6 |
| GDP deflator | 6.4 | 2.7 | 2.5 | 3.1 | 3.6 | 3.2 | 3.1 | 3.0 | 2.6 |
| Labor productivity | -1.9 | -1.3 | 0.4 | -0.4 | -1.0 | 0.0 | 0.2 | 0.4 | 0.8 |
| **Labor market** | | | | | | | | | |
| Labor force | 2.1 | -0.6 | 0.5 | 1.0 | 1.5 | 1.3 | 1.0 | 1.0 | 1.0 |
| Employment | 4.6 | 0.1 | 0.0 | 0.5 | 1.8 | 1.8 | 1.8 | 1.5 | 1.3 |
| Unemployment rate (in percent) | 10.3 | 9.7 | 10.1 | 10.5 | 10.3 | 9.8 | 9.2 | 8.7 | 8.5 |
| | *(In percent of GDP)* | | | | | | | | |
| **General gvernment finances 1/** | | | | | | | | | |
| Overall balance | -1.7 | 7.6 | 5.4 | 0.0 | 0.8 | -0.2 | -0.3 | -0.3 | -0.3 |
| Primary balance | 1.2 | 10.2 | 7.3 | 1.3 | 1.7 | 0.7 | 0.6 | 0.6 | 0.6 |
| Gross debt | 52.6 | 47.3 | 34.6 | 33.6 | 31.4 | 30.1 | 28.9 | 27.8 | 26.9 |
| | *(In percent of GDP)* | | | | | | | | |
| **Balance of payments** | | | | | | | | | |
| Current account balance | -26.4 | -16.7 | -30.9 | -29.2 | -28.5 | -25.8 | -23.9 | -22.6 | -21.6 |
| Goods trade balance | -42.9 | -37.0 | -41.3 | -40.7 | -40.9 | -40.9 | -41.2 | -42.0 | -43.0 |
| Service trade balance | 15.1 | 13.7 | 8.4 | 8.6 | 9.3 | 11.3 | 12.9 | 14.7 | 16.6 |
| Net FDI | 5.2 | 1.7 | 2.5 | 2.0 | 3.5 | 4.5 | 4.5 | 4.5 | 4.8 |
| Gross external debt | 30.5 | 26.9 | 54.6 | 62.0 | 65.5 | 66.7 | 66.4 | 66.0 | 65.6 |
| **Exchange rates (period average)** | | | | | | | | | |
| LCU per US$ | 1.79 | 1.79 | 1.79 | ... | ... | ... | ... | ... | ... |

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

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

## Table 7. Sint Maarten: Macroeconomic Framework, 2008–16

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Proj. | | | | | |
| | | | | *(Percentage change, unless otherwise indicated)* | | | | | |
| **Output and demand (volumes)** | | | | | | | | | |
| GDP | 2.3 | -2.0 | -0.1 | -0.1 | 0.5 | 1.6 | 2.1 | 2.1 | 2.0 |
| Domestic demand | 9.7 | -4.7 | -7.6 | 0.7 | 1.5 | 1.4 | 2.1 | 2.2 | 2.2 |
| Private consumption | 17.8 | -1.2 | -2.2 | -2.0 | 0.5 | 1.5 | 2.5 | 2.5 | 2.5 |
| Public consumption | 1.4 | -1.0 | 0.0 | 10.0 | 1.8 | 2.0 | 1.5 | 1.5 | 1.5 |
| Gross fixed capital formation | 12.7 | -10.7 | -4.6 | -1.3 | 3.8 | 0.4 | 1.6 | 2.1 | 2.1 |
| Private investment | 13.1 | -11.2 | -4.8 | -1.3 | 0.5 | 2.0 | 2.3 | 2.3 | 2.3 |
| Exports of goods and services | -4.9 | -5.7 | 1.5 | 0.8 | 1.2 | 2.4 | 3.6 | 4.0 | 4.0 |
| Imports of goods and services | 1.2 | -7.7 | -5.5 | 1.5 | 2.1 | 2.3 | 3.5 | 4.1 | 4.1 |
| Net exports (contribution to growth in percent of GDP) | -7.7 | 3.2 | 8.1 | -0.8 | -1.0 | 0.2 | 0.0 | -0.1 | -0.2 |
| **Prices, costs, and income** | | | | | | | | | |
| Consumer price inflation (harmonized, average) | 4.6 | 0.7 | 3.2 | 3.7 | 3.5 | 2.2 | 2.1 | 2.1 | 2.0 |
| Consumer price inflation (harmonized, end-year) | -0.4 | 6.0 | 1.4 | 5.4 | 2.3 | 2.4 | 2.3 | 2.1 | 2.0 |
| GDP deflator | 3.7 | 1.8 | 3.3 | 4.0 | 2.8 | 2.2 | 2.2 | 2.2 | 2.0 |
| Labor productivity | 0.7 | -3.5 | -1.8 | -1.5 | -1.0 | -0.2 | 0.3 | 0.6 | 0.8 |
| **Labor market** | | | | | | | | | |
| Labor force | 2.5 | 2.5 | 1.5 | 1.5 | 1.3 | 1.3 | 1.3 | 1.3 | 1.0 |
| Employment | 1.6 | 1.6 | 1.8 | 1.5 | 1.5 | 1.8 | 1.8 | 1.5 | 1.3 |
| Unemployment rate (in percent) | 11.4 | 12.2 | 12.0 | 12.0 | 11.8 | 11.3 | 10.8 | 10.6 | 10.4 |
| | | | | *(In percent of GDP)* | | | | | |
| **General gvernment finances 1/** | | | | | | | | | |
| Overall balance | -2.4 | -0.9 | 3.6 | -0.5 | -6.0 | -5.6 | -2.9 | -1.2 | -0.6 |
| Primary balance | -2.4 | -0.9 | 3.6 | 0.2 | -5.1 | -4.6 | -1.9 | -0.2 | 0.4 |
| Gross debt | 29.0 | 31.8 | 28.3 | 27.6 | 32.7 | 37.1 | 38.4 | 38.0 | 37.1 |
| | | | | *(In percent of GDP)* | | | | | |
| **Balance of payments** | | | | | | | | | |
| Current account balance | -22.0 | -16.3 | -6.8 | -6.7 | -7.0 | -6.3 | -5.4 | -4.2 | -3.6 |
| Goods trade balance | -87.4 | -76.5 | -72.9 | -74.0 | -75.6 | -76.8 | -78.5 | -81.0 | -83.8 |
| Service trade balance | 74.0 | 68.3 | 73.0 | 73.8 | 74.6 | 76.0 | 77.9 | 80.5 | 83.2 |
| Net FDI | 8.8 | 4.9 | 3.6 | 3.5 | 3.3 | 3.0 | 3.0 | 3.3 | 3.5 |
| Gross external debt | 29.9 | 25.3 | 40.7 | 42.2 | 43.3 | 44.1 | 44.2 | 43.1 | 42.1 |
| **Exchange rates (period average)** | | | | | | | | | |
| LCU per US$ | 1.79 | 1.79 | 1.79 | ... | ... | ... | ... | ... | ... |

Sources: Central Bank of Curacao and St. Maarten; and IMF staff estimations and projections.
1/ Data from 2008-2010 reflects the fiscal operations of the local island government. Data from 2011 onwards refers to the new island government that has integrated the fiscal operations of the previous central government of the Netherlands Antilles.

## Table 8. Curaçao: Government Operations, 2007–16 1/

(In percent of GDP)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Projection | | | | | |
| **Revenue** | 18.7 | 19.3 | 29.1 | 27.6 | 31.4 | 32.1 | 31.0 | 30.9 | 30.8 | 30.8 |
| Taxes | 14.9 | 14.9 | 15.6 | 15.5 | 27.1 | 27.1 | 27.1 | 27.1 | 27.1 | 27.1 |
| Taxes on income, profits, and capital gains | 4.0 | 4.1 | 4.3 | 4.5 | 4.5 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 |
| Taxes on payroll & workforce | 9.3 | 9.2 | 9.5 | 9.5 | 9.5 | 9.2 | 9.2 | 9.2 | 9.2 | 9.2 |
| Taxes on property | 0.8 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Taxes on goods and services 2/ | 0.9 | 1.0 | 1.1 | 1.0 | 9.2 | 10.4 | 10.4 | 10.4 | 10.4 | 10.4 |
| Taxes on intenational trade&transactions 2 | 0.0 | 0.0 | 0.0 | 0.0 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Grants 3/ | 3.2 | 3.4 | 11.7 | 11.4 | 0.7 | 1.7 | 0.7 | 0.7 | 0.6 | 0.6 |
| o/w Capital grants | 0.0 | 0.1 | 8.5 | 6.3 | 0.4 | 1.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Other revenue | 0.6 | 0.9 | 1.9 | 0.7 | 3.6 | 3.3 | 3.2 | 3.1 | 3.1 | 3.1 |
| **Expense** | 20.3 | 20.8 | 21.2 | 21.8 | 30.1 | 30.2 | 30.1 | 30.1 | 30.1 | 30.1 |
| Compensation of employees | 5.9 | 7.0 | 7.2 | 7.8 | 8.8 | 8.3 | 8.1 | 7.9 | 7.8 | 7.8 |
| Use of goods and services | 6.9 | 6.3 | 6.7 | 7.3 | 4.0 | 4.6 | 4.4 | 4.2 | 4.1 | 3.9 |
| Consumption of fixed capital | 0.2 | 0.2 | 0.2 | 0.2 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 |
| Interest | 3.2 | 2.9 | 2.7 | 1.9 | 1.3 | 1.0 | 0.9 | 0.9 | 0.9 | 0.9 |
| Subsidies | 0.9 | 0.9 | 1.0 | 1.0 | 0.8 | 1.1 | 1.1 | 1.0 | 1.0 | 1.0 |
| Social Benefits 4/ | 3.2 | 3.5 | 3.6 | 3.7 | 14.2 | 14.3 | 14.7 | 15.1 | 15.3 | 15.5 |
| Other expense | 0.0 | 0.0 | 0.0 | 0.0 | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 | 0.7 |
| **Gross Operating Balance** | -1.4 | -1.3 | 8.1 | 6.0 | 1.7 | 2.3 | 1.2 | 1.1 | 1.1 | 1.0 |
| **Net Operating Balance** | -1.6 | -1.5 | 7.9 | 5.8 | 1.3 | 1.9 | 0.9 | 0.7 | 0.8 | 0.7 |
| **Net Acquisition of Nonfinancial Assets** | 0.2 | 0.2 | 0.3 | 0.4 | 1.3 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| **Net lending / borrowing** | -1.8 | -1.7 | 7.6 | 5.4 | 0.0 | 0.8 | -0.2 | -0.3 | -0.3 | -0.3 |
| **Memorandum items:** | | | | | | | | | | |
| Net lending/borrowing without debt relief | -1.8 | -1.7 | -0.7 | -0.7 | 0.0 | -0.2 | -0.2 | -0.3 | -0.3 | -0.3 |
| Current Budget Balance | -1.7 | -1.7 | -0.6 | -0.5 | 0.9 | 0.6 | 0.6 | 0.4 | 0.5 | 0.5 |
| Primary Balance | 1.4 | 1.2 | 10.2 | 7.3 | 1.3 | 1.7 | 0.7 | 0.6 | 0.6 | 0.6 |
| Health care fund balance | 0.1 | -0.8 | -0.4 | -1.2 | -0.5 | -0.6 | -0.7 | -0.8 | -0.9 | -1.0 |
| General old age pension (AOV) balance | 0.2 | 0.3 | 1.3 | 0.3 | 0.2 | 0.1 | -0.2 | -0.3 | -0.4 | -0.5 |
| Gross Government debt | 56.3 | 52.6 | 47.3 | 34.6 | 33.6 | 31.4 | 30.1 | 28.9 | 27.8 | 26.9 |
| o/w Arrears | 7.4 | 4.2 | 4.4 | 3.1 | 3.0 | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 |
| Pension premium arrears | 3.3 | 0.2 | 0.3 | 1.1 | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other arrears | 4.1 | 4.0 | 4.1 | 2.0 | 1.9 | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 |
| Netherlands Antillies debt borne by Curacao | 39.4 | 39.1 | 34.8 | 0.0 | … | … | … | … | … | … |

Sources: Data provided by the authorities and staff estimates.

1/ Data from 2007–10 reflects the fiscal operations of the local island government. Data from 2011 onwards refers to the new island government that has integrated the fiscal operations of the previous central government of the Netherlands Antilles. The government has adopted a new coding system in 2011. As a result, data on goods and services spending and social benefits are not comparable between 2010 and 2011.

2/ Before the dissolution of the Netherlands Antilles, indirect taxes ( including excises, sales tax and taxes on interntional transactions) were levied by the central government of the Netherlands Antilles.

3/ Grants in 2009 and 2010 reflect the debt relief from the Netherlands. Grants in 2012 reflect the debt relief to settle arrears.

4/ Includes transfers to cover the deficit of the extra-budgetary funds which are not integrated into government operations accounts.

## Table 9. Sint Maarten: Government Operations, 2007–16 1/

(In percent of GDP)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Projection | | | | | |
| **Revenue** | 16.7 | 15.8 | 17.3 | 21.8 | 27.9 | 30.4 | 27.8 | 27.8 | 27.8 | 27.8 |
| Taxes | 16.5 | 15.6 | 14.3 | 14.3 | 21.9 | 21.9 | 21.9 | 21.9 | 21.9 | 21.9 |
| Taxes on income, profits, and capital gains | 3.5 | 2.9 | 3.2 | 2.6 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| Taxes on payroll & workforce | 9.6 | 9.5 | 8.5 | 7.8 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 |
| Taxes on property | 0.4 | 0.4 | 0.0 | 0.1 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| Taxes on goods and services 2/ | 3.0 | 2.9 | 2.6 | 3.8 | 10.8 | 10.8 | 10.8 | 10.8 | 10.8 | 10.8 |
| Other taxes | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Grants 3/ | 0.1 | 0.3 | 2.0 | 6.2 | 0.8 | 3.4 | 0.8 | 0.8 | 0.8 | 0.8 |
| *of which:* Capital grants | 0.0 | 0.0 | 0.0 | 4.5 | 0.2 | 2.8 | 0.2 | 0.2 | 0.2 | 0.2 |
| Other revenue | 0.0 | 0.0 | 1.1 | 1.3 | 5.1 | 5.1 | 5.1 | 5.1 | 5.1 | 5.1 |
| **Expense** | 19.1 | 17.4 | 17.4 | 17.4 | 27.6 | 27.6 | 27.6 | 27.6 | 27.5 | 27.4 |
| Compensation of employees | 4.7 | 4.6 | 4.6 | 4.6 | 9.4 | 9.3 | 9.3 | 9.3 | 9.2 | 9.2 |
| Use of goods and services | 14.2 | 12.6 | 12.6 | 12.6 | 14.3 | 14.3 | 14.2 | 14.2 | 14.2 | 14.1 |
| Consumption of fixed capital | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.7 | 0.9 | 0.9 | 1.0 | 1.0 | 1.0 |
| Subsidies | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Social benefits 4/ | 0.0 | 0.0 | 0.0 | 0.0 | 2.8 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 |
| **Gross Operating Balance** | -2.2 | -1.4 | 0.1 | 4.6 | 0.4 | 3.0 | 0.4 | 0.5 | 0.5 | 0.6 |
| **Net Operating Balance** | -2.4 | -1.6 | -0.1 | 4.4 | 0.2 | 2.8 | 0.2 | 0.3 | 0.3 | 0.4 |
| **Net Acquisition of Nonfinancial Assets** | 4.1 | 0.8 | 0.8 | 0.8 | 0.8 | 8.8 | 5.8 | 3.1 | 1.5 | 1.0 |
| **Net lending / borrowing** | -6.5 | -2.4 | -0.9 | 3.6 | -0.5 | -6.0 | -5.6 | -2.9 | -1.2 | -0.6 |
| **Memorandum items:** | | | | | | | | | | |
| Net lending/borrowing without debt relief | -6.5 | -2.4 | -0.9 | -0.9 | -0.5 | -8.5 | -5.6 | -2.9 | -1.2 | -0.6 |
| Current Budget Balance | -2.4 | -1.6 | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.2 |
| Primary Balance | -6.5 | -2.4 | -0.9 | 3.6 | 0.2 | -5.1 | -4.6 | -1.9 | -0.2 | 0.4 |
| Gross debt 5/ | 30.7 | 29.0 | 31.8 | 28.3 | 27.6 | 32.7 | 37.1 | 38.4 | 38.0 | 37.1 |
| *of which:* Arrears | 16.0 | 14.5 | 15.4 | 5.5 | 2.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Netherlands Antilles debt borne by St.Maarten | 32.5 | 33.2 | 30.0 | 0.0 | … | … | … | … | … | … |

Sources: Data provided by the authorities and staff estimates.
1/ Data from 2007–10 reflects the fiscal operations of the local island government. Data from 2011 onwards refers to the new island government that has integrated the fiscal operations of the previous central government of the Netherlands Antilles.
2/ Before the dissolution of the Netherlands Antilles, most taxes on goods and services were levied by the central government of the Netherlands Antilles.
3/ Data for 2010 and 2012 include debt relief covering marketable debt as well as arrears.
4/ Includes transfers to cover the deficit of the extra-budgetary funds which are not integrated into government operations accounts.
5/ Data for 2010–12 include the impact of debt relief covering marketable debt as well as arrears.

# APPENDIX I. DEBT SUSTAINABILITY ANALYSIS

1. **Public debt is on a sustainable path due to the recent debt relief and in view of the new fiscal framework.** After receiving substantial debt relief from the Dutch government, both Curaçao and Sint Maarten started with low debt/GDP ratios of less than 35 percent at the time of autonomy. The recently established fiscal rule requires both governments to run a balanced current budget and issue bonds only for capital expenditures. For Curaçao, no major public investment projects are envisaged, and the debt/GDP to ratio is expected to decline to 27 percent in the medium term. For Sint Maarten, major infrastructure spending related also to building new institutions will imply a temporary increase of public debt. Over the medium term, the debt/GDP ratio is expected to stabilize at 37¼ percent.

2. **The projected public debt path is robust to exchange rate and interest rate shocks, while sensitive to growth and primary balance shocks.** Since both countries' external public debt is issued in domestic currency, exchange rate risk does not have a direct effect on the debt level. Interest rate risk also plays a negligible role. Shocks to growth and the primary balance have a more significant effect on the debt/GDP ratio, though it remains modest under standard scenarios.

3. **External debt appears on a sustainable path, but financing related risks remain considerable.** In 2010, external debt increased sharply as the Netherlands subscribed to most of the new public debt issuance agreed under the debt relief program.[1] This debt is denominated in local currency and will mostly not mature before 2025. However, the remaining private debt is largely short term. Combined with the large current account deficit, the private external debt level implies high financing needs throughout the projection horizon. Historically, Curaçao and Sint Maarten have been able to finance the current account using a significant share of non-debt creating flows. Thus, despite the size of the current account deficit, external debt is projected to decline in the medium term. However, in the short run external debt is expected to rise.

4. **A shock to the current account constitutes the largest risk to external debt sustainability.** A persistently wider current account deficit would imply a rising external debt to GDP ratio, exceeding 80 percent by 2015. This highlights the need to reduce the current account deficit as non debt creating financing means are insufficient to buffer against such shocks. A one-off depreciation raises the debt to GDP ratio also significantly

[1] The debt issuance was part of the transfer of the former central government debt (in excess of the debt relief), to the members of the former Netherlands Antilles. This raised the individual countries' external debt level.

but the large fraction of locally denominated public debt cushions the effect. Negative shocks to output or the interest rate are of minor concern, provided the shocks remain in the historical range and they do not materialize simultaneously.

# Table A1. Curaçao: Public Sector Debt Sustainability Framework, 2006–16

Table A1. Curacao: Public Sector Debt Sustainability Framework, 2006-2016

(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Debt-stabilizing primary balance 9/ |
| **Baseline: Public sector debt 1/** | 53.6 | 56.3 | 52.6 | 47.3 | 34.6 | **33.6** | **31.4** | **30.1** | **28.9** | **27.8** | **26.9** | **-0.4** |
| o/w foreign-currency denominated | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Change in public sector debt | 1.4 | 2.8 | -3.8 | -5.2 | -12.7 | -1.1 | -2.2 | -1.3 | -1.1 | -1.1 | -1.0 | |
| Identified debt-creating flows (4+7+12) | -0.1 | -1.2 | -3.1 | -8.4 | -6.8 | -0.5 | -1.8 | -0.7 | -0.7 | -0.5 | -0.3 | |
| Primary deficit | -0.8 | -1.6 | -1.2 | -10.4 | -7.4 | -0.7 | -1.4 | -0.2 | -0.1 | 0.0 | 0.1 | |
| Revenue and grants | 19.2 | 18.7 | 19.1 | 29.1 | 27.5 | 31.4 | 32.0 | 30.8 | 30.7 | 30.7 | 30.7 | |
| Primary (noninterest) expenditure | 18.4 | 17.1 | 17.9 | 18.7 | 20.1 | 30.7 | 30.6 | 30.6 | 30.6 | 30.7 | 30.8 | |
| Automatic debt dynamics 2/ | 0.7 | 0.4 | -1.9 | 2.0 | 0.6 | 0.2 | -0.4 | -0.6 | -0.6 | -0.5 | -0.4 | |
| Contribution from interest rate/growth differential 3/ | 0.7 | 0.4 | -1.9 | 2.0 | 0.6 | 0.2 | -0.4 | -0.6 | -0.6 | -0.5 | -0.4 | |
| Of which contribution from real interest rate | 1.7 | 1.7 | -0.5 | 1.3 | 0.8 | 0.2 | -0.2 | -0.1 | 0.0 | 0.0 | 0.1 | |
| Of which contribution from real GDP growth | -0.9 | -1.4 | -1.4 | 0.7 | -0.2 | 0.0 | -0.2 | -0.5 | -0.6 | -0.5 | -0.5 | |
| Contribution from exchange rate depreciation 4/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | ... | ... | ... | ... | ... | ... | |
| Other identified debt-creating flows | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Privatization receipts (negative) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Recognition of implicit or 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 (specify, e.g. bank recapitalization) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Residual, including asset changes (2-3) 5/ | 1.4 | 3.9 | -0.7 | 3.2 | -5.9 | -0.6 | -0.3 | -0.6 | -0.4 | -0.6 | -0.7 | |
| Public sector debt-to-revenue ratio 1/ | 279.5 | 301.7 | 274.9 | 162.8 | 125.8 | 107.0 | 98.1 | 97.7 | 94.3 | 90.6 | 87.5 | |
| **Gross financing need 6/** | 29.4 | 29.8 | 28.8 | 17.8 | 14.8 | 3.9 | 0.8 | 1.1 | 1.5 | 2.1 | 2.6 | |
| in millions of U.S. Dollars | 722.6 | 772.7 | 814.7 | 510.3 | 436.4 | 119.6 | 25.7 | 37.2 | 53.9 | 79.1 | 101.7 | |
| **Scenario with key variables at their historical averages 7/** | | | | | | **33.6** | **31.2** | **28.5** | **25.9** | **23.1** | **20.1** | **0.4** |
| **Scenario with no policy change (constant primary balance) in 2011-2016** | | | | | | **33.6** | **32.1** | **30.3** | **28.6** | **26.8** | **25.0** | **-0.4** |
| **Key Macroeconomic and Fiscal Assumptions Underlying Baseline** | | | | | | | | | | | | |
| Real GDP growth (in percent) | 1.9 | 2.7 | 2.6 | -1.3 | 0.4 | 0.1 | 0.7 | 1.7 | 1.9 | 1.9 | 2.0 | |
| Average nominal interest rate on public debt (in percent) 8/ | 6.2 | 6.3 | 5.5 | 5.1 | 4.1 | 3.8 | 3.0 | 3.1 | 3.1 | 3.1 | 3.1 | |
| Average real interest rate (nominal rate minus change in GDP deflator, in percent) | 3.4 | 3.5 | -0.8 | 2.5 | 1.7 | 0.6 | -0.6 | -0.1 | 0.0 | 0.1 | 0.5 | |
| Nominal appreciation (increase in Euro value of local currency, in percent) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | ... | ... | ... | ... | ... | ... | |
| Inflation rate (GDP deflator, in percent) | 2.8 | 2.8 | 6.4 | 2.7 | 2.5 | 3.1 | 3.6 | 3.2 | 3.1 | 3.0 | 2.6 | |
| Growth of real primary spending (deflated by GDP deflator, in percent) | -14.5 | -4.3 | 7.4 | 3.1 | 8.2 | 52.5 | 0.4 | 1.8 | 1.8 | 2.4 | 2.4 | |
| Primary deficit | -0.8 | -1.6 | -1.2 | -10.4 | -7.4 | -0.7 | -1.4 | -0.2 | -0.1 | 0.0 | 0.1 | |

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; $\pi$ = growth rate of GDP deflator; g = real GDP growth rate; $\alpha$ = share of foreign-currency denominated debt; and $\varepsilon$ = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi (1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

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

# Table A2. Sint Maarten: Public Debt Sustainability Framework, 2006–16

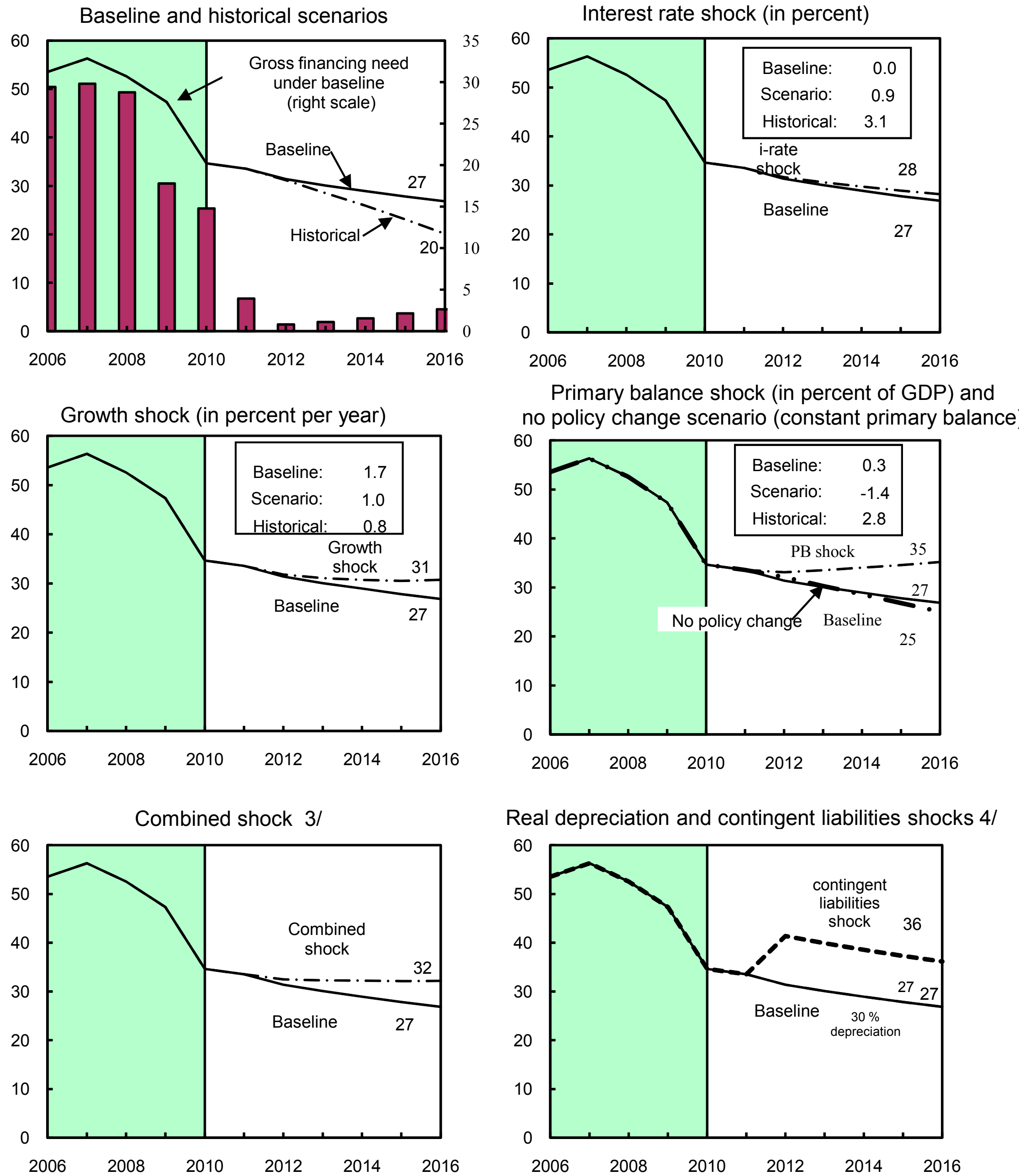
(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Debt-stabilizing primary balance 9/ |
| **Baseline: Public sector debt 1/** | 17.6 | 30.7 | 29.0 | 31.8 | 28.3 | **27.6** | **32.7** | **37.1** | **38.4** | **38.0** | **37.1** | **-0.5** |
| o/w foreign-currency denominated | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Change in public sector debt | 5.4 | 13.0 | -1.6 | 2.8 | -3.5 | -0.7 | 5.1 | 4.4 | 1.4 | -0.4 | -0.9 | |
| Identified debt-creating flows (4+7+12) | 1.4 | 5.4 | 0.6 | 1.0 | -4.6 | -0.5 | 5.1 | 4.4 | 1.4 | -0.4 | -0.9 | |
| Primary deficit | 2.2 | 6.5 | 2.4 | 0.9 | -3.6 | -0.2 | 5.1 | 4.6 | 1.9 | 0.2 | -0.4 | |
| Revenue and grants | 15.9 | 16.7 | 15.8 | 17.3 | 21.8 | 27.9 | 30.4 | 27.8 | 27.8 | 27.8 | 27.8 | |
| Primary (noninterest) expenditure | 18.1 | 23.1 | 18.2 | 18.2 | 18.2 | 27.7 | 35.5 | 32.5 | 29.7 | 28.0 | 27.4 | |
| Automatic debt dynamics 2/ | -0.8 | -1.1 | -1.8 | 0.1 | -1.0 | -0.3 | 0.0 | -0.2 | -0.5 | -0.6 | -0.5 | |
| Contribution from interest rate/growth differential 3/ | -0.8 | -1.1 | -1.8 | 0.1 | -1.0 | -0.3 | 0.0 | -0.2 | -0.5 | -0.6 | -0.5 | |
| Of which contribution from real interest rate | -0.2 | -0.4 | -1.1 | -0.5 | -1.0 | -0.3 | 0.1 | 0.3 | 0.2 | 0.2 | 0.3 | |
| Of which contribution from real GDP growth | -0.6 | -0.7 | -0.7 | 0.6 | 0.0 | 0.0 | -0.1 | -0.5 | -0.7 | -0.8 | -0.7 | |
| Contribution from exchange rate depreciation 4/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | ... | ... | ... | ... | ... | ... | |
| Other identified debt-creating flows | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Privatization receipts (negative) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Recognition of implicit or 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 (specify, e.g. bank recapitalization) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Residual, including asset changes (2-3) 5/ | 4.0 | 7.6 | -2.2 | 1.8 | 1.1 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Public sector debt-to-revenue ratio 1/ | 110.7 | 183.9 | 183.2 | 183.4 | 129.6 | 99.0 | 107.4 | 133.2 | 138.1 | 136.5 | 133.2 | |
| **Gross financing need 6/** | 10.1 | 19.6 | 17.4 | 16.9 | 2.6 | 0.5 | 6.0 | 5.6 | 2.9 | 1.2 | 0.6 | |
| in millions of U.S. Dollars | 71.4 | 146.9 | 138.6 | 134.1 | 21.1 | 4.6 | 52.6 | 51.0 | 27.3 | 11.5 | 5.9 | |
| **Scenario with key variables at their historical averages 7/** | | | | | | **27.6** | **27.0** | **26.5** | **25.9** | **25.4** | **25.0** | **-1.3** |
| **Scenario with no policy change (constant primary balance) in 2011-2016** | | | | | | **27.6** | **27.4** | **27.0** | **26.4** | **25.8** | **25.3** | **-0.3** |
| **Key Macroeconomic and Fiscal Assumptions Underlying Baseline** | | | | | | | | | | | | |
| Real GDP growth (in percent) | 5.3 | 4.3 | 2.3 | -2.0 | -0.1 | -0.1 | 0.5 | 1.6 | 2.1 | 2.1 | 2.0 | |
| Average nominal interest rate on public debt (in percent) 8/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.7 | 3.3 | 3.0 | 2.8 | 2.7 | 2.7 | |
| Average real interest rate (nominal rate minus change in GDP deflator, in percent) | -1.8 | -2.2 | -3.7 | -1.8 | -3.3 | -1.3 | 0.4 | 0.8 | 0.7 | 0.5 | 0.7 | |
| Nominal appreciation (increase in Euro value of local currency, in percent) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | ... | ... | ... | ... | ... | ... | |
| Inflation rate (GDP deflator, in percent) | 1.8 | 2.2 | 3.7 | 1.8 | 3.3 | 4.0 | 2.8 | 2.2 | 2.2 | 2.2 | 2.0 | |
| Growth of real primary spending (deflated by GDP deflator, in percent) | 16.9 | 33.0 | -19.5 | -1.8 | 0.0 | 51.5 | 29.0 | -7.2 | -6.7 | -3.8 | -0.1 | |
| Primary deficit | 2.2 | 6.5 | 2.4 | 0.9 | -3.6 | -0.2 | 5.1 | 4.6 | 1.9 | 0.2 | -0.4 | |

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; $\pi$ = growth rate of GDP deflator; g = real GDP growth rate; $\alpha$ = share of foreign-currency denominated debt; and $\varepsilon$ = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - $\pi$ (1+g) and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ Derived as nominal interest expenditure divided by previous period debt stock.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

**Figure A1. Curaçao: Public Debt Sustainability: Bound Tests 1/ 2/**

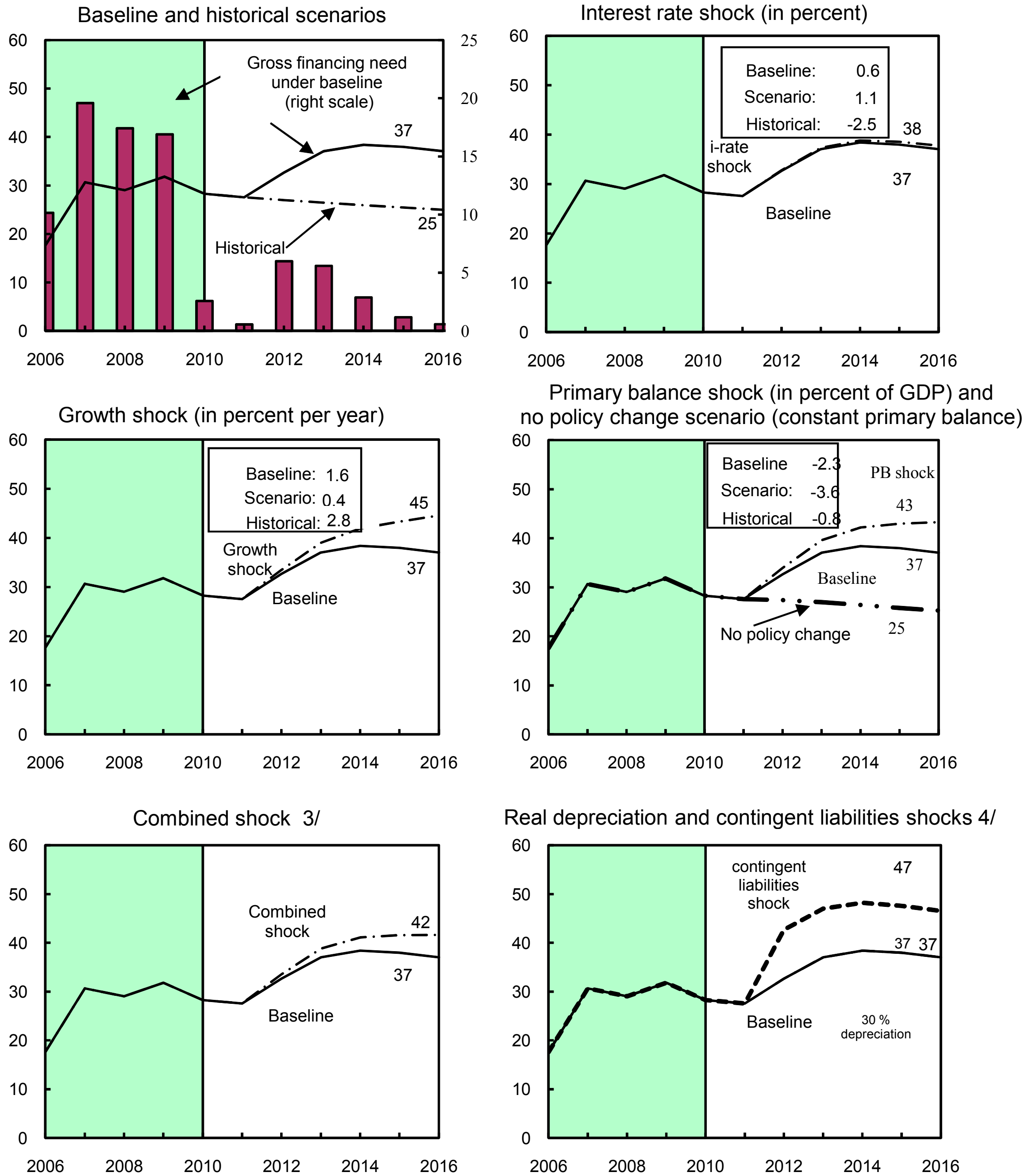
(Public debt in percent of GDP)




Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2012, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

**Figure A2. Sint Maarten: Public Debt Sustainability: Bound Tests 1/ 2/**

(Public debt in percent of GDP)




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

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

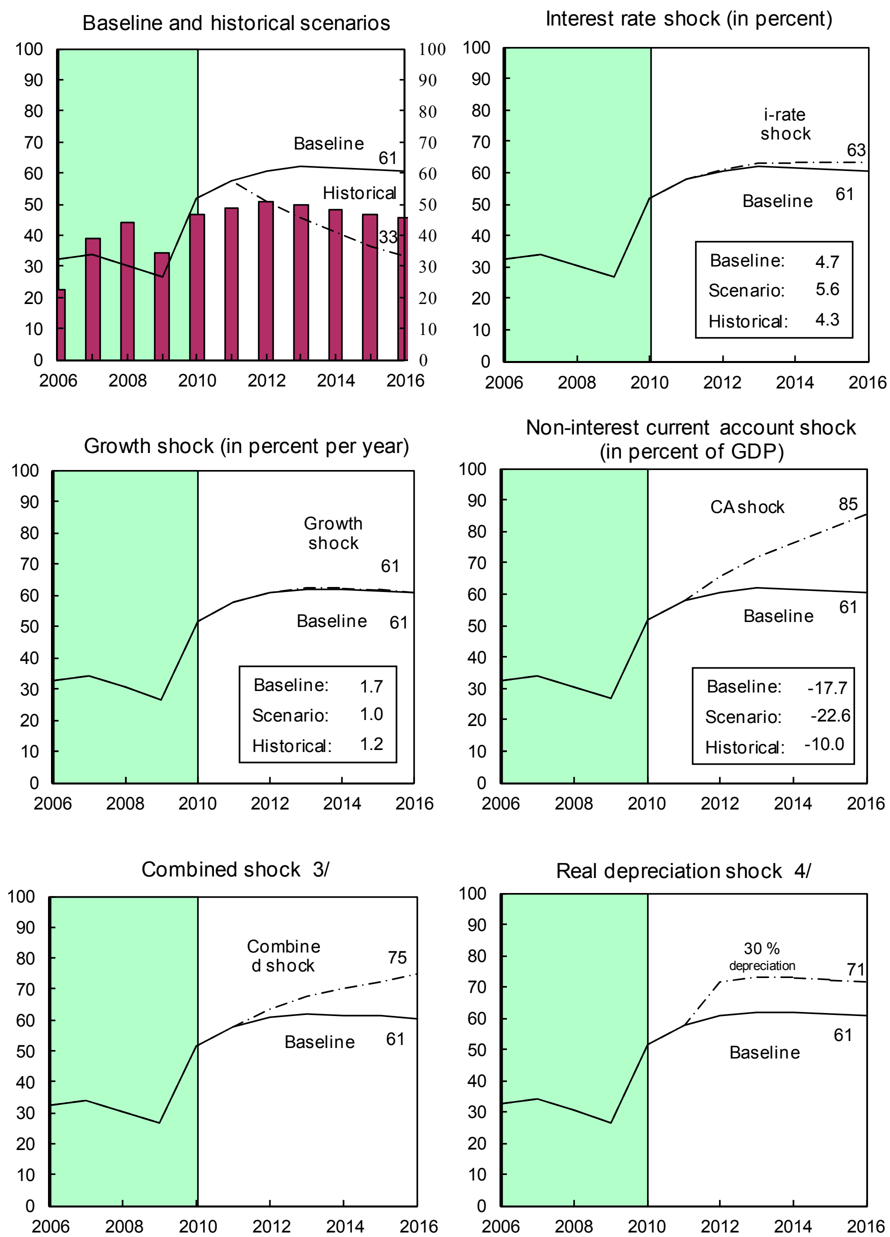
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

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

4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2012, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

**Figure A3. Curaçao and Sint Maarten: External Debt Sustainability: Bound Tests 1/ 2/**

(External debt in percent of GDP)




Sources: Central bank of Curacao and St. Maarten, International Monetary Fund, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2012.

INTERNATIONAL MONETARY FUND

# KINGDOM OF THE NETHERLANDS—CURAÇAO AND SINT MAARTEN

## STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION DISCUSSIONS—INFORMATIONAL ANNEX

November 3, 2011

Prepared By European Department

## CONTENTS

# FUND RELATIONS

(As of September 30, 2011)

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

**II. General Resources Account:**

| | SDR Million | Percent Quota |
|---|---|---|
| Quota | 5162.40 | 100.00 |
| Fund holdings of currency | 3693.02 | 71.54 |
| Reserve position in Fund | 1469.47 | 28.46 |

**III. SDR Department:**

| | SDR Million | Percent Allocation |
|---|---|---|
| Net cumulative allocation | 4836.63 | 100.00 |
| Holdings | 4739.58 | 97.99 |

**IV. Outstanding Purchases and Loans:** None

**V. Latest Financial Arrangements:** None

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

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 |
| Principal | | | | | |
| Charges/interest | 0.05 | 0.33 | 0.33 | 0.33 | 0.33 |
| Total | 0.05 | 0.33 | 0.33 | 0.33 | 0.33 |

**VII. Exchange Rate Arrangements:**

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

**VIII. Article IV Consultation:**

This is the first Article IV consultation discussion with Curaçao and Sint Maarten, following the dissolution of the Netherlands Antilles and the granting of autonomy to both countries on October 10, 2010. The board concluded the last Article IV consultation discussions for the Netherlands Antilles on September 15, 2008, on the basis of IMF Country Report No. 08/315. It is currently envisaged that the next Article IV consultation discussions with Curaçao and Sint Maarten will be held in 24 months time.

# STATISTICAL ISSUES

**I. Assessment of Data Adequacy for Surveillance**

| | |
|---|---|
| **General:** Data provision has serious shortcomings that significantly hamper surveillance. Nominal expenditure-side national accounts data have not been published since 2006, and there are no data on deflators or real GDP. Data on fiscal expenditures for Sint Maarten are not yet available for 2009–10, and there are significant gaps in its debt data, complicating the assessment of fiscal policy. Moreover, data on the operations of the Netherlands Antilles central government in 2010 are limited, hampering a proper assessment of the degree of fiscal tightening in the currency union in 2011. Fiscal reporting standards need improvement. And the current account deficit could possibly be mismeasured given limitations in the statistical infrastructure. | |
| **National accounts:** Data are compiled by the Central Bureau of Statistics (CBS). The CBS has published expenditure side national accounts data only up to 2006, though production-side data are available through 2009. Preliminary unpublished expenditure-side estimates for 2007–09 are available for Curaçao but not for Sint Maarten. Detailed price indices to deflate national accounts aggregates are not available. The CBS uses the total consumer price index (CPI) to deflate total GDP. This method gives rise to distortions in the measurement of real growth. | |
| **Price statistics:** CPI data are compiled and published on a monthly basis, although with some lag for Sint Maarten. | |
| **Government finance statistics:** The Ministry of Finance in Curaçao provides fiscal data that can broadly be bridged to the cash framework of the *2001 Government Financial Statistics Manual* (*GFSM 2001*). However, the fiscal reporting standards in Sint Maarten are significantly weaker, and improvements are needed in grouping and consolidating fiscal data according to the *GFSM 2001* manual. Final data on fiscal operations for Sint Maarten are still not available for 2009–10, complicating the assessment of its fiscal policy. | |
| **Monetary statistics:** The methodology used by the Central bank of Curaçao and Sint Maarten (CBCS) for compiling monetary statistics is broadly consistent with the IMF Monetary and Financial Statistics Manual. However, there is some lag in the publication of the data. | |
| **Balance of payments**: Balance of payments (BOP) statistics are reported on a transactions basis in accordance with the fifth edition of the BOP Manual. The CBCS reports quarterly BOP data. No data on intra-currency union flows is available. Monthly data on the official reserve position are published with a lag of one month. The diversified and changing structure of the offshore sector makes an appropriate classification of capital account inflows and outflows problematic. Areas requiring improvement include: a) maturity schedules for private sector external debt, b) more detailed information on individual financing components, and c) information on intra-union flows | |
| **II. Data Standards and Quality** | |
| Not a General Data Dissemination System participant. | No data ROSC is available. |
| **III. Reporting to STA** | |
| No data are currently reported to STA. | |

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

(As of September 30, 2011)

| | Date of Latest Observation | Date Received | Frequency of Data | Frequency of Reporting | Frequency of Publication |
|---|---|---|---|---|---|
| Exchange Rates | Current | Current | Daily and Monthly | Daily and Monthly | Daily and Monthly |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities | 8/11 | 9/01/11 | Weekly | Weekly | Monthly |
| Reserve/Base Money | 3/11 | 6/10/11 | Monthly | Monthly | Monthly |
| Broad Money | 3/11 | 6/10/11 | Monthly | Monthly | Monthly |
| Central Bank Balance Sheet | 3/11 | 6/10/11 | Monthly | Monthly | Monthly |
| Consolidated Balance Sheet of the Banking System | 3/11 | 6/10/11 | Monthly | Monthly | Monthly |
| Interest Rates /1 | 3/11 | 6/10/11 | Monthly | Monthly | Monthly |
| Consumer Price Index | 6/11 | 9/20/11 | Monthly | Monthly | Monthly |
| Revenue, Expenditure, Balance and Composition of Financing—General Government /2 | 9/11 | 9/11 | Annual | Annual | Annual |
| Revenue, Expenditure, Balance and Composition of Financing—Central Government /2 | 9/11 | 9/11 | Annual | Annual | Annual |
| Stocks of Central (or General) Government and Central- (or General-) Government guaranteed debt 3/ | 9/11 | 9/11 | Annual | Annual | Annual |
| External Current Account Balance | Q4 2010 | 9/20/11 | Quarterly | Quarterly | Quarterly |
| Exports and Imports of Goods and Services | Q4 2010 | 9/20/11 | Quarterly | Quarterly | Quarterly |
| GDP/GNP | 2010 | 9/20/11 | Annual | Annual | Annual |
| Gross External Debt | 2010 | 6/10/11 | Annual | Annual | Annual |
| International Investment Position /4 | | | NA | NA | NA |

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

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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

# IMF Executive Board Concludes 2011 Article IV Consultation Discussions with the Kingdom of the Netherlands—Curaçao and Sint Maarten

On November 18, 2011 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Kingdom of the Netherlands—Curaçao and Sint Maarten,[1] on a lapse-of-time basis.[2]

**Background**

Following the dissolution of the Netherlands Antilles on October 10, 2010 Curaçao and Sint Maarten became autonomous countries within the Kingdom of the Netherlands, with a currency union and a peg to the U.S. dollar. Alongside, the Dutch government gave substantial debt relief to both countries, and new fiscal frameworks were installed to help sustain sound fiscal positions.

Macroeconomic challenges are substantial. In addition to low growth, high unemployment, and aging, the current account deficit for the currency union has widened rapidly to 25¾ percent of Gross Domestic Product (GDP) in 2010. However, a strong increase in international reserves in recent years, to about five months of imports

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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. 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.

[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.

in 2010, has provided some cushion, and there is no indication currently of pressures against the guilder. In 2011, international reserves have been broadly stable thus far. A number of indicators suggest weak competitiveness and moderate real exchange rate overvaluation, particularly in Curaçao.

The global crisis caused relatively modest contractions in both countries in 2009, and activity remained anemic in 2010. Curaçao's GDP is estimated to have contracted by 1¼ percent in 2009, and grown by ½ percent in 2010, while Sint Maarten's GDP contracted by 2 percent in 2009, and was flat in 2010. With weaker growth, unemployment stayed around 10 percent in Curaçao over 2009 and 2010, after steady declines since 2007, while, in Sint Maarten, it stayed around 12 percent after steadily declining since 2003. As demand pressure fell in the crisis and commodity prices declined temporarily, inflation decelerated in 2009 to 1¾ percent in Curaçao and ¾ percent in Sint Maarten. However, driven by renewed oil and food price increases, inflation started picking up again in 2010 and reached 2¾ and 3¼ percent on average in Curaçao and Sint Maarten, respectively.

Bank capital and liquidity buffers appear robust, though credit quality has declined. The risk weighted capital adequacy ratio stood at 18¼ percent in 2010, well above the regulatory minimum. Bank liquidity buffers also appear sound, with a loan to deposit ratio of 75 percent and reserves well above regulatory requirements. But the nonperforming loan (NPL) ratio has increased by 2 percentage points over 2008 and 2010 to 8½ percent. However, loan-loss provisions are also sizeable at close to 70 percent of NPLs, and they rose further in 2010. Banks remain profitable, with a return on assets above the Caribbean average.

Excluding the impact of debt relief, both island governments run modest fiscal deficits over 2009–10. Excluding grants received as part of debt relief, Curaçao would have had fiscal deficits of ¾ percent of GDP in both 2009 and 2010. Fiscal expenditure data for 2009–10 for Sint Maarten are still unavailable, but fiscal deficits of about one percent of GDP in both 2009 and 2010 are estimated, excluding debt relief grants. As of end-2010 public debt stood at 34½ percent of GDP and 28¼ percent of GDP in Curaçao and Sint Maarten, respectively. In 2011, both countries are on track with respect to the fiscal rules, and Curaçao is expected to have an overall balanced budget outturn, while Sint Maarten is expected to an overall deficit outcome of ½ percent of GDP.

**Executive Board Assessment**

In concluding the 2011 Article IV consultation discussions with the Kingdom of Netherlands—Curaçao and Sint Maarten, Executive Directors endorsed the staff's appraisal, as follows:

Both countries face substantial challenges, requiring sustained adjustment efforts over the near and medium terms. In addition to low growth, high unemployment, and aging pressures, the current account deficit for the currency union has risen to worrisome levels. The real exchange rate also appears moderately overvalued, particularly in Curaçao. Anemic competitiveness, rapid credit growth, and inadequate pass-through of recent increases in international oil and food prices particularly in 2010, appear to be the main drivers of the external deficit. While international reserves have risen in recent years, vulnerabilities are substantial, and strong efforts are needed to reduce the current account deficit to sustainable levels. If efforts lag, international reserves could come under pressure over the medium term, requiring a devaluation. Moreover, devaluation would only yield temporary adjustment unless it is buttressed with policy tightening and structural measures to improve competitiveness.

A substantial adjustment is needed to bring the underlying current account deficit to historically sustainable levels over the medium term. This could be facilitated by measures to restrain credit growth, supported by fiscal consolidation. In addition, structural reforms to generate wage and price flexibility and improve the business environment will be needed to realize durable gains in competitiveness. In several areas policy responses are being prepared, but prompt implementation will be key.

Clarity is needed on dollarization and the future of the currency union to avoid undermining confidence in the economy and the guilder. The current peg has delivered credible exchange rate stability and relatively low inflation for a prolonged period. Given anemic competitiveness, dollarizing without first enhancing wage and price flexibility risks locking-in protracted low growth, with adverse effects on fiscal sustainability and employment. Also, dissolving the currency union would fracture the domestic banking system and raise both banking and supervisory costs, and the credibility of the Central Bank of Curaçao and Sint Maarten may not carry over to the successor central banks. Continued public discussion of these issues and the divergent views of the different authorities could undermine investor confidence and adversely impact the growth outlook, and should be avoided.

Monetary and macroprudential tools should be used firmly to aid adjustment by reducing credit growth below that of nominal GDP. The recent increase in the rate of required reserves is welcome, but more increases are needed, together with a gradual relaxation of the limits on foreign investment by domestic nonbank financial institutions and the use of other macroprudential instruments. Supervisory vigilance should also be intensified as the tightening, together with the frail near term outlook, could increase strains in the banking system.

Financial crisis resolution mechanisms should be further strengthened. The authorities should press ahead with plans to set up a funded deposit guarantee scheme, and develop clear understandings on the roles of the two governments in the event that public bailout of a bank is ever contemplated.

The new fiscal frameworks appear to be entrenching fiscal soundness. The 2011 fiscal outturns in both countries are on track with respect to the fiscal rules, and incentives to address spending pressures related to aging and institutional buildup have been strengthened. The College Financieel Toezicht (CFT) appears to be providing effective guidance on fiscal policy, and its assessments are a major input in the setting of budget parameters and both short and longer term fiscal efforts.

However, significant fiscal tightening is needed over the near to medium term to support the efforts to reduce the current account deficit. Given the relative size of Curaçao and data suggesting that it is primarily responsible for the widening of the current account deficit, the bulk of the adjustment will need to come from Curaçao. The significant tightening already expected in Curaçao for 2011 is therefore a step in the right direction. In addition to efforts to contain aging and institutional buildup-related pressures, areas that could be targeted in this effort include social benefits, goods and services, and wages. In Sint Maarten, scope for reducing expenditures appears limited, given the need to fill institutional gaps. However, tax reforms as well as compliance increasing measures being developed will likely need to be moderately revenue enhancing.

Planned tax reforms will help improve the business environment and competitiveness by reducing rates on labor and profits and raising indirect taxes. Rebalancing from direct to indirect taxes would also support productive activity and moderate consumption, thus contributing to a reduction of the underlying current account deficit. The new legislation in Curaçao is a commendable start, and the authorities' plans to go further along the lines proposed by the IMF's Fiscal Affairs Department Technical Assistance mission are in the right direction. For Sint Maarten, the timing of implementation of tax reforms should be brought forward as much as possible. Given the shared border with the French side, synchronization of tax policy on both sides would be critical to avoid arbitrage across borders.

Deep structural reforms are needed to enhance price and wage flexibility and improve the business environment. With a currency peg, domestic price and wage flexibility is the primary channel by which the economy adjusts to shocks and sustains competitiveness. However, structural rigidities are pervasive in both countries hampering adjustment and limiting growth potentials. Wide-ranging reforms are needed to substantially enhance labor market flexibility, liberalize the administered price regime, and sharply reduce administrative red tape.

## Curaçao and Sint Maarten: Selected Economic Indicators

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 1/ |
|---|---|---|---|---|---|---|
| Real economy (change in percent) | | | | | | |
| Curaçao | | | | | | |
| Real GDP | 1.9 | 2.7 | 2.6 | -1.3 | 0.4 | 0.1 |
| Domestic demand | 3.8 | 7.1 | 4.7 | -1.6 | 5.9 | 0.2 |
| CPI | 1.3 | 3.0 | 6.9 | 1.8 | 2.8 | 2.8 |
| Unemployment rate (percent) | 14.6 | 12.4 | 10.3 | 9.7 | 10.1 | 10.5 |
| Sint Maarten | | | | | | |
| Real GDP | 5.3 | 4.3 | 2.3 | -2.0 | -0.1 | -0.1 |
| Domestic demand | 14.9 | 13.2 | 9.7 | -4.7 | -7.6 | 0.7 |
| CPI | 2.3 | 2.3 | 4.6 | 0.7 | 3.2 | 3.7 |
| Unemployment rate (percent) | 11.9 | 10.6 | 11.4 | 12.2 | 12.0 | 12.0 |
| Public finance (percent of GDP) 2/ | | | | | | |
| Curaçao | | | | | | |
| General government balance | -2.3 | -1.8 | -1.7 | 7.6 | 5.4 | 0.0 |
| General government debt | 53.6 | 56.3 | 52.6 | 47.3 | 34.6 | 33.6 |
| Sint Maarten | | | | | | |
| General government balance | -2.2 | -6.5 | -2.4 | -0.9 | 3.6 | -0.5 |
| General government debt | 17.6 | 30.7 | 29.0 | 31.8 | 28.3 | 27.6 |
| Balance of payments (in percent of GDP, unless otherwise indicated) 3/ | | | | | | |
| Trade balance | … | -54.1 | -52.7 | -45.6 | -48.2 | -48.0 |
| Current account | … | -19.0 | -25.4 | -16.6 | -25.7 | -24.3 |
| Exports of goods and services | … | 76.0 | 80.7 | 71.9 | 68.2 | 71.0 |
| Imports of goods and services | … | 95.9 | 105.4 | 92.0 | 93.9 | 96.1 |
| Net foreign direct investment | … | 5.4 | 6.0 | 2.4 | 2.7 | 2.3 |
| Net official reserves (U.S.$ mill.) | … | 905 | 1123 | 1223 | 1263 | 1330 |
| Exchange rate | | | | | | |
| Guilder per US$ | 1.79 | 1.79 | 1.79 | 1.79 | 1.79 | 1.79 |
| Real effective rate (2007=100) 4/ | | | | | | |
| Curaçao | … | 100.0 | 96.2 | 93.8 | 100.1 | ... |
| Sint Maarten | … | 100.0 | 99.7 | 101.4 | 103.0 | … |

Sources: National authorities; and IMF staff estimates.
1/ Staff projections.
2/ Data from 2006–2010 reflects the fiscal operations of the local island government. Data from 2011 onwards refers to the new island government that has integrated the fiscal operations of the previous central government of the Netherlands Antilles.
3/ Refers to the sum of the BOP of the two island economies.
4/ Based on CPI.