INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/276

KINGDOM OF THE NETHERLANDS—CURACAO AND SINT MAARTEN

August 2016

2016 ARTICLE IV CONSULTATION DISCUSSIONS—PRESS RELEASE; STAFF REPORT AND INFORMATIONAL ANNEX

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 2016 Article IV consultation discussions with the Kingdom of the Netherlands—Curacao and Sint Maarten, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis on July 27, 2016, following discussions that ended on May 25, 2016, with the officials of the Kingdom of the Netherlands—Curacao and Sint Maarten economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 12, 2016.
- An **Informational Annex** prepared by the IMF staff.

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

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IMF Executive Board Concludes 2016 Article IV Consultation Discussions with the Kingdom of the Netherlands-Curaçao and Sint Maarten

On July 27, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the 2016 Article IV Consultation discussions with Curaçao and Sint Maarten, two autonomous countries within the Kingdom of the Netherlands, and considered and endorsed the staff appraisal without a meeting.[1,2]

The currency union of Curaçao and Sint Maarten has important strengths, including a high level of development, good infrastructure, and relatively low public debt, however, preserving these going forward will require surmounting some critical challenges. GDP per capita is already at high-income country levels, but growth is lackluster and unemployment levels are high. The fiscal situation remains relatively stable, following the debt relief in 2010, but progress on necessary fiscal and structural reforms has been slow.

For several years now, both countries have experienced stagnant growth, trailing behind regional peers. Curaçao experienced modest growth in 2015 of 0.1 percent, reflecting a turnaround from the contraction of 1.1 percent in 2014. Growth in Curaçao mainly reflected an increase in investment (both public and private), driven largely by the construction of the new hospital and the upgrade of road infrastructure. Meanwhile, the economy of Sint Maarten expanded by 0.5 percent in 2015, a slowdown compared to the 1.5 percent recorded in 2014. The expansion in Sint Maarten's GDP mainly reflected an increase in stay-over tourist arrivals, though at a slower pace than in 2014. With the exception of the recent expansion project at the Princess Juliana International Airport, there were no major private investment in 2015, underscoring the need to boost investor confidence.

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

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

Real GDP growth in 2016 is expected to reach 0.5 percent in Curaçao and 0.7 percent in Sint Maarten. For Curaçao, economic activity is projected to accelerate reflecting continued economic recovery in main trading partners (especially the U.S.) and a continuation of both private and public investment projects, mostly supported by the hospital construction. Higher growth in Sint Maarten reflects expectations for higher private spending, particularly in the tourism and transportation sectors, and a moderate increase of tourism flows.

Over the medium term, growth is expected to moderately pick up to 0.9 percent and 1.3 percent for Curaçao and Sint Maarten, respectively. The expansion in both countries will mainly depend on the implementation of structural reforms aimed at attracting more FDI, relaxing restrictions on hiring foreign labor, and reducing costs of doing business.

Executive Board Assessment

In concluding the 2016 Article IV consultation discussions with Curaçao and Sint Maarten, Executive Directors endorsed the staff's appraisal, as follows:

The economic recovery and a stronger fiscal position have helped reduce near-term risks. Curaçao ended a three-year recession in 2015, despite the deterioration in macroeconomic conditions in Venezuela—one of the island's main trading partners. Expansion in Sint Maarten's economy continued into the fourth consecutive year, despite a modest deceleration. The Union's external and fiscal imbalances have also declined, with favorable external conditions and the authorities' fiscal consolidation efforts, but vulnerabilities to external shocks remain given its reliance on a narrow scope of products and markets.

However, risks to medium-term growth prospects remain to the downside. Continued low growth in the euro area could have serious economic repercussions for Curaçao and Sint Maarten through various channels, given that both islands remain heavily reliant on the euro area. Further disruptions in Venezuela could worsen Curaçao's growth prospects and balance of payments if no alternative export markets are identified. Meanwhile, a loss of CBRs could hinder cross-border transactions, adding to the macroeconomic uncertainties. In addition, slow progress in implementing needed structural forms also poses an important downside risk to growth prospects going forward.

Unlocking growth through economic diversification and investment promotion is therefore imperative in this environment. In this respect, the authorities' national development plans are an important step toward charting a clearer direction for strategic sectors and markets and removing impediments to private sector activity. Implementation of the plans is key, in particular, on decisive structural reforms to improve the labor market and doing business conditions, as well as energy sector reforms to diversify energy generation via renewable sources.

A sound medium term fiscal framework will help reinforce macro stability anchored by the fixed exchange rate. With the limited effective monetary and exchange rate policy instruments, given the fixed exchange rate regime, fiscal policy is the authorities' only available option to cushion economic shocks. A sound medium term fiscal framework, equipped with clear objectives and targets and supported by a proven track record could improve credibility, bolster investor confidence, and promote investment.

In this regard, important structural fiscal reforms are needed to further strengthen fiscal discipline. In particular, weaknesses in tax administration and public financial management have been identified in both islands. Staff welcome the authorities' efforts to strengthen tax administration to enhance revenue mobilization, improve taxpayer services, and increase tax compliance. These are important prerequisites for future tax policy reforms contemplated by the authorities. In addition, an action plan is greatly needed to ensure timely and decisive implementation of measures to strengthening public financial management, in line with PEFA assessment recommendations.

Strengthened financial supervision has become more important given increasing international scrutiny. The authorities are advised to strengthen risk-based financial supervision and effective implementation of cross-border tax information sharing, as well as AML/CFT frameworks in line with international standards. In a context of evolving regulatory requirements and enforcement landscape, Curaçao and Sint Maarten's ability to strengthen transparency, including in Curaçao's international financial center, will help reduce the perceived reputational risks. A stable financial sector is also critical to supporting economic growth and private sector activities.

Capacity building is needed to strengthen public institutions. Policy implementation has been greatly challenged by capacity issues in both islands, as in most other Caribbean small states. Investment in human capital development is critical to strengthening public institutions and improving productivity. Staff urge the authorities to engage with their international partners in seeking technical assistance to support capacity building.

Data provision should be improved to allow adequate surveillance. The statistical offices in both countries expressed concerns over lack of capacity, ability to hire qualified personnel, and delays in data submission from the private sector and government entities. While some efforts have been made to streamline data collection and digitalize surveys, staff highlights the need to allocate additional resources to increase personnel and obtain technical assistance to address shortcomings.

Table 1. Curaçao: Selected Economic and Financial Indicators, 2012-17

Area	444 (km^2)	Population, thousand (2015)	155
Percent of population below age 15 (2015)	18.9	Literacy rate, in percent (2010)	96.7
Percent of population aged 65+ (2015)	15.3	Life expectancy at birth, male (2015)	74.8
Infant mortality, over 1,000 live births (2015)	12.2	Life expectancy at birth, female (2015)	81.0

	2012	2013	2014	2015	2016	2017
					Proj.	
Real econom (change in percent)						
Real GDP 1/	-0.1	-0.8	-1.1	0.1	0.5	0.7
CPI (12-month average)	3.2	1.3	1.5	-0.5	0.8	1.5
Unemployment rate (in percent)	11.5	13.0	12.6	11.7	11.4	11.1
General government finances (in percent of GDP)						
Primary balance	0.2	0.2	-0.7	-1.7	-1.4	-1.5
Current balance 2/	0.2	2.3	0.6	1.1	1.0	0.8
Overall balance	-0.7	-0.7	-1.8	-2.8	-2.5	-2.7
Public debt	33.1	34.1	38.6	44.3	44.5	44.5
Balance of payments (in percent of GDP)						
Goods trade balance	-41.7	-38.3	-35.4	-32.9	-32.1	-31.6
Exports of goods	30.3	22.3	22.1	15.2	14.6	14.7
Imports of goods	72.0	60.5	57.6	48.1	46.6	46.3
Service balance	17.4	21.7	26.5	19.1	18.2	18.9
Exports of services	45.4	49.9	54.2	47.8	46.0	46.5
Imports of services	27.9	28.2	27.7	28.6	27.8	27.6
Current account	-27.9	-21.0	-11.9	-15.3	-15.2	-13.8
Capital and financial account	23.6	20.2	16.8	14.5	15.8	14.1
Net FDI	1.9	1.1	0.8	2.8	3.5	3.6
Net official reserves (in millions of US dollars)	1,246.3	1,096.4	1,337.0	1,344.9	1,366.0	1,378.5
(in months of imports of goods and services)	4.8	4.7	6.0	6.7	6.9	6.9
(In percent of short-term debt)	146.9	109.3	125.0	125.9	128.9	121.3
External debt (in percent of GDP)	81.3	86.9	93.7	103.4	110.9	116.4
Memorandum items:						
Nominal GDP (in millions of US dollars)	3,133	3,148	3,160	3,146	3,186	3,256
Per capita GDP (in US dollars)	20,979	20,879	20,622	20,260	20,154	20,396
Per capita GDP (change in percent)	2.1	-0.5	-1.2	-1.8	-0.5	1.2
Private sector credit (change in percent)	6.4	1.1	-1.5	-1.0	…	…
Fund position	Curaçao is part of the Kingdom of the Netherlands and does not have a separate quota.					
Exchange rate	The Netherlands' Antilles guilder is pegged to the U.S. dollar at NA.f 1.79 = US$1.					

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

1/ Based on IMF staff estimates of deflators.

2/ Excludes consumption of fixed capital.

Table 2. Sint Maarten: Selected Economic and Financial Indicators, 2012-17

Area	34 (km^2)	Population, thousand (2015)	38
Percent of population below age 15 (2015)	21.2	Literacy rate, in percent (2011)	93.8
Percent of population aged 65+ (2015)	6.4	Life expectancy at birth, male (2012)	69.2
Infant mortality, over 1,000 live births (2010)	6.0	Life expectancy at birth, female (2012)	77.1

	2012	2013	2014	2015	2016	2017
					Proj.	
Real economy (change in percent)						
Real GDP 1/	1.7	0.9	1.5	0.5	0.7	0.9
CPI (12-month average)	4.0	2.5	1.9	0.3	1.0	1.7
Unemployment rate (in percent)	10.3	9.2	9.1	8.9	8.7	8.6
General government finances (in percent of GDP)						
Primary balance	1.0	-0.3	-3.9	-0.6	-0.1	-0.3
Current balance 2/	2.7	0.6	0.2	0.7	1.7	1.5
Overall balance	0.4	-0.8	-4.5	-1.3	-0.8	-1.0
Public debt	20.0	24.3	37.1	36.5	36.7	36.7
Balance of payments (in percent of GDP)						
Goods trade balance	-64.8	-74.8	-83.8	-71.8	-72.5	-72.4
Exports of goods	13.3	16.2	12.6	12.2	12.1	12.1
Imports of goods	78.1	91.0	96.4	84.0	84.6	84.5
Service balance	79.0	78.8	78.8	80.3	79.8	78.9
Exports of services	106.0	104.8	106.6	106.7	106.0	104.8
Imports of services	27.0	26.1	27.8	26.4	26.2	25.9
Current account	9.5	0.4	-10.5	2.2	2.3	2.6
Capital and financial account	-18.9	-6.3	14.1	-3.4	-1.6	-1.0
Net FDI	1.6	4.3	4.4	2.6	3.5	3.0
Net official reserves (in millions of US dollars)	249.5	219.5	267.7	269.3	279.2	302.1
(in months of imports of goods and services)	4.8	2.9	2.2	2.5	2.8	2.8
(In percent of short-term debt)	91.9	77.0	96.3	91.4	94.7	106.1
External debt (in percent of GDP)	60.4	58.6	65.1	65.0	60.8	57.2
Memorandum items:						
Nominal GDP (in millions of US dollars)	976	1,015	983	1,016	1,051	1,059
Per capita GDP (in US dollars)	25,157	25,294	25,967	26,025	26,290	26,807
Per capita GDP (change in percent)	7.5	2.3	-4.7	0.5	2.7	0.2
Private sector credit (change in percent)	-4.9	-2.1	-1.9	0.4	…	…
Fund position	Sint 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/ Excludes consumption of fixed capital.

INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS—CURAÇAO AND SINT MAARTEN

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION DISCUSSIONS

July 12, 2016

KEY ISSUES

Context. The currency union of Curaçao and Sint Maarten has important strengths, including a high level of development, good infrastructure, and relatively low public debt. However, preserving these going forward will require surmounting some critical challenges. GDP per capita is already at high-income country levels, but the islands must combat lackluster growth and high unemployment levels by addressing weak competitiveness and improving the investment environment. The fiscal situation remains relatively stable, following the debt relief in 2010, but sustained efforts on fiscal and structural reforms are required to lock in gains and ensure continued fiscal and debt sustainability. The authorities' structural reform plans are welcomed, but continuity in policy will be essential going forward, particularly in the context of the upcoming elections in both countries, scheduled for September 2016.

Unlocking growth. The authorities have identified strategic areas for structural reforms, but sustained efforts and decisive implementation are needed, particularly in removing the impediments to private sector-led growth. Increasing labor productivity and improving competitiveness are key for unlocking growth potential.

Strengthening the fiscal framework and building buffers. Important progress has been made to improve the fiscal positions in both islands through compliance with the fiscal rules. The current fiscal policy framework could be further strengthened with a clear medium term debt target to safeguard fiscal and debt sustainability, while providing a policy cushion and flexibility to accommodate external shocks.

Maintaining financial stability. While the financial sector appears to be generally stable, private credit remains weak and there are signs of deteriorating asset quality in the banking sector, following years of subdued economic growth. In addition, the recent loss of correspondent banking relationships by small banks in Curaçao underscores the need for greater efforts to strengthen financial supervision, cross-border sharing of tax information, and the AML/CFT framework, with a particular focus on Curaçao's international financial center.

Approved By
Jorge Roldos (WHD) and Petya Koeva Brooks (SPR)

Discussions took place in Willemstad and Philipsburg during May 11-25, 2016. The staff team comprised Arnold McIntyre (head), Xin Mike Li, Daniela Cortez (all WHD), and Rasheeda Smith Yee (SEC). Representatives from the Central Bank of Curaçao and Sint Maarten participated in the meetings and the team was joined by Menno Snel (OED).

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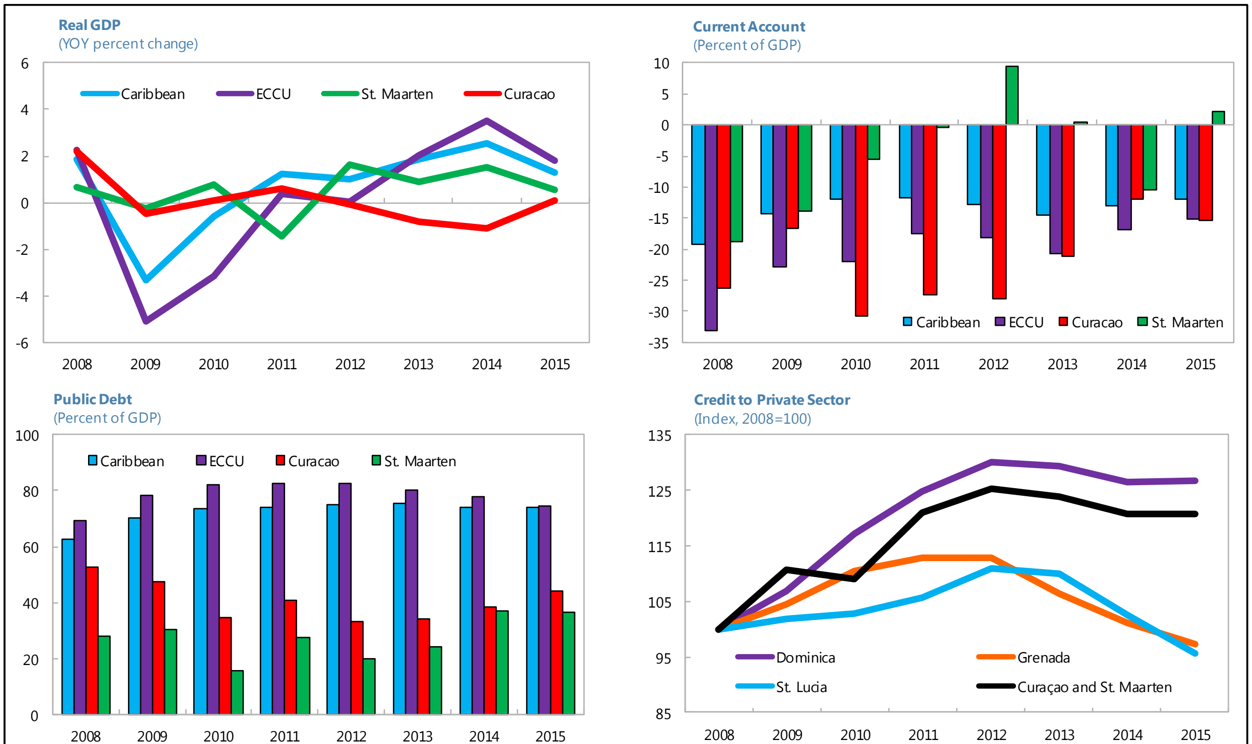
BACKGROUND

1. Macroeconomic conditions in Curaçao and Sint Maarten are similar to those in the Eastern Caribbean Currency Union (ECCU) countries, with some important differences. Curaçao and Sint Maarten formed a currency union following the dissolution of the Netherlands Antilles in 2010, and kept the guilder, which has been pegged to the U.S. Dollar at 1.79 since 1971. Both islands suffer from stagnant growth, with growth rates trailing regional peers for nearly a decade. Nevertheless, per-capita GDP remains among the highest in the Caribbean (US$26,457 for Sint Maarten and US$20,587 for Curaçao in 2015). While the Union's current account deficit has steadily declined over the last few years, external sustainability continues to be challenged by persistent large current account deficits (predominantly from Curaçao). As in most ECCU countries, credit growth has been negative since 2013, despite ample liquidity in the banking system, which was in part fueled by large portfolio investment inflows from the Kingdom of the Netherlands. Both countries have made significant progress on fiscal consolidation and are now fully compliant with the legislated fiscal rules. After considerable assistance in the form of debt relief from the Netherlands in 2009-10, public debt ratios in Curaçao and Sint Maarten are now low by regional standards.[1]



Source: WEO; and IMF Staff Estimates.

[1] Details on the debt relief operations are provided in the staff report for 2011 Article IV Consultation discussions (IMF Country Report 11/342).

2. Efforts have been made to implement the policy recommendations from the 2014 Article IV Consultation discussions, however, progress has been slow (Box 1). Considerable progress in reducing risks associated with pension funds and state-owned enterprises (SOEs) has been made, and additional reforms are forthcoming. While neither island has formally adopted a VAT as recommended by the technical assistance provided by the IMF's Fiscal Affairs Department in 2009, the fiscal position has benefited from progress in keeping public wage developments in check. The central bank has also made steady progress in implementing monetary and financial policy recommendations to ensure financial stability. Less progress has been made however, in implementing recommendations to improve labor market conditions.

Box 1. Progress on 2014 Article IV Policy Recommendations

Recommendations	Implementation status
The Union	
Fiscal policy	
Tax policy: Replace turnover tax with value-added tax (VAT).	Both countries continue to maintain a turnover tax.
Wages: Efforts to keep public wage developments in check, including by reviewing the indexation mechanism.	Progress is ongoing.
Financial sector policy	
Excess liquidity: Utilize more conventional tools (CD's with attractive rates, higher reserve requirements, and higher interest charges to banks for liquidity). Utilize macro-prudential tools to address growth in mortgages. Gradually eliminate remaining limits on outward investments by pension funds.	Progress is ongoing.
Direct financing of non-financial companies: CBCS should discontinue funding to private corporations and SOEs.	The CBCS has discontinued these streams of funding and is making efforts to onwind existing loans.
Competitiveness and growth	
Labor market: Render labor laws more conducive to cyclical shifts in labor demand. Ease restrictions on hiring foreign workers.	No progress made.
Doing business: Streamline business licensing and permit regimes. Consider introducing automatic approval for some classes of permits/licenses.	Progress is ongoing, Curaçao has taken steps to centralize processes and are looking at digitalizing processes.
Statistical Infrastructure	
Data: Improve the availability of data, including by investing more in human capital.	Budgetary contraints limit progress in this area.
Curaçao	
Fiscal policy	
Tax policy: Gradually towards more indirect taxes (2009 FAD technical assistance).	Progress is ongoing.
Pension reform: Extend the 2013 old age pension reform to the public sector.	Public sector pensions no longer indexed to inflation.
State-owned enterprises: Improve transparency and oversight, including through timely financial statements and a clear dividend policy.	Progress is ongoing.
Financial sector policy	
AML/CFT: Further strengthen and implementation of Anti-Money Laundering/Combating the Financing of Terrorism international standards.	Progress is ongoing.
Competitiveness and growth	
Labor market: Limit welfare support to unemployed (time and eligibility).	No progress made.
Sint Maarten	
Fiscal policy	
Tax administration: Strengthen tax administration, by increasing the number of suitably trained tax inspectors and administrators.	Progress is ongoing
State-owned enterprises: Improve transparency and oversight, including through timely financial statements and a clear dividend policy.	Progress is ongoing. Dividend policy drafted.
Pension reform: Follow through with proposal to increase retirement age to 62. Consider gradually increasing to retirement age to 65.	In discussions towards implementing pension reform in 2018

3. Staff urges the authorities to implement measures to improve the quality of statistics, to better support effective macro-economic surveillance. There is significant room for improvement in the coverage and timeliness of data, in particular on national accounts, public finance in GFS format, and international investment positions (IIP). In both countries, staff noted large data gaps with GDP estimates, with lags as far back as 2006 for various expenditure components.[2] Besides, with no reliable deflator, or deflators by sector, the real GDP series are derived based on the consumer price index. In addition, some components of Sint Maarten's balance of payments (BOP) statistics have been compiled as the difference between the Union and Curaçao's, inevitably resulting in large unexplained swings in the island's BOP developments in certain years.

RECENT ECONOMIC DEVELOPMENTS

4. Economic performance remains weak in both countries. For several years now, both countries have experienced lackluster growth, trailing behind regional peers. Curaçao experienced modest growth in 2015 of 0.1 percent, reflecting a turnaround from the contraction of 1.1 percent in 2014. Growth in Curaçao mainly reflected an increase in investment (both public and private), driven largely by the construction of the new hospital and the upgrade of road infrastructure. Meanwhile, the economy of Sint Maarten expanded by 0.5 percent in 2015, a slowdown compared to the 1.5 percent recorded in 2014. The expansion in Sint Maarten's GDP mainly reflected an increase in stay-over tourist arrivals, though at a slower pace than in 2014. With the exception of the recent expansion project at the Princess Juliana International Airport, there was no major private investment in 2015, underscoring the need to boost investor confidence. Unemployment in both countries remains relatively high at 11.7 percent and 8.9 percent for Curaçao and Sint Maarten, respectively. However, youth unemployment is estimated to be significantly higher, in the region of 30 percent for Curaçao and 25 percent for Sint Maarten.

Curaçao and Sint Maarten vis-à-vis Regional Peers (2015)

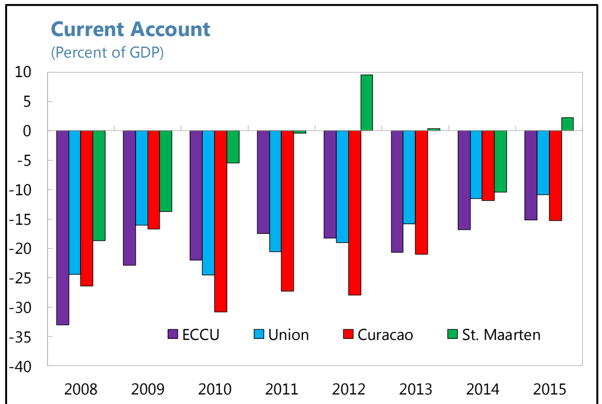
	Real GDP Growth (%)	FDI (% of GDP)	Real GDP per Capita (US$)
Antigua and Barbuda	2.2	12.0	14,753
Bahamas	0.5	2.0	24,213
Barbados	0.5	5.8	16,044
Belize	1.5	-0.4	4,866
Curaçao	**0.1**	**2.8**	**20,260**
Grenada	0.5	5.8	16,044
Guyana	3.0	6.7	4,335
Jamaica	0.8	5.1	4,909
Sint Maarten	**0.5**	**2.6**	**26,025**
St. Kitts and Nevis	6.6	18.2	16,794
St. Lucia	1.6	6.2	8,188
St. Vincent and the Grenadines	1.6	18.6	7,124

Sources: National Authorities; CBCS; WEO; and IMF Staff Estimates.

[2] Production approach GDP statistics are not available.

5. Inflation remains subdued, reflecting low pressure from international commodity prices. Following a period of moderate inflation during 2010–14, averaging 2.2 percent in Curaçao and 2.8 percent in Sint Maarten, inflation in Curaçao stood at -0.5 percent in 2015 and 0.3 percent in Sint Maarten, largely reflecting lower international oil prices. However, core inflation in Curaçao, which excludes food and energy, decelerated only modestly from 1.3 percent in 2014 to 1.1 percent in 2015.[3]

6. The Union's current account deficit improved in 2015, for the fifth consecutive year, but remains in double-digits. The Union's current account deficit narrowed to 10.9 percent of GDP in 2015 from 11.5 percent in 2014, reflecting a significant improvement in Sint Maarten's external position, which was mostly offset by the deterioration in Curaçao. Sint Maarten recorded a surplus of 2.2 percent of GDP in 2015, relative to a deficit of 10.5 percent in 2014, primarily reflecting lower oil prices and higher tourism arrivals. In contrast, Curaçao's current account deficit widened to 15.3 percent of GDP in 2015 from 11.9 percent in 2014, largely due to lower refining and transportation exports, and lower bunkering activities with the decline in oil prices. These were only partly offset by lower oil imports associated with the decline in oil prices.



Sources: WEO; and IMF Staff Estimates.

7. Curaçao and Sint Maarten were both fully compliant with their fiscal rules in 2015. Both countries complied with the rules-based fiscal framework, which comprises an "interest burden rule" (a cap on the interest payments to revenue ratio), and a "golden rule" of borrowing only for investment. Nonetheless, the public debt of the Union increased from 30.5 percent of GDP in 2013 to 41.5 percent of GDP in 2015—partly but not entirely reflecting pre-financing—and fiscal performance for the two countries diverged noticeably.

a. **Curaçao**'s fiscal position deteriorated in 2015 with its primary balance widening to 1.7 percent of GDP from 0.7 percent in 2014. This reflected an increase in capital expenditure, with the construction of a new hospital, and budgetary transfers to cover

Curaçao: Operations of the Government
(in percent of GDP)

	2011	2012	2013	2014	2015
Total Revenue and Grants	29.0	29.7	29.8	28.4	30.9
o.w. Tax Revenue	26.2	25.5	25.3	24.8	25.7
Total Expenditure	32.2	31.2	31.4	31.0	34.6
o.w. Wages and Salaries	13.0	12.5	12.6	12.3	12.3
o.w. Capital Expenditure	1.5	1.7	4.0	3.5	4.8
Primary Balance	-1.4	0.2	0.2	-0.7	-1.7
w/o Debt Relief Grants	-2.3	-1.4	-0.7	-1.5	-2.3
Overall Balance	-2.3	-0.7	-0.7	-1.8	-2.8
Public Debt	40.6	33.1	34.1	38.6	44.3

Sources: CBCS; and IMF Staff Estimates.

[3] Core inflation for Sint Maarten is not available.

operational deficits of the SEHOS hospital and the national health insurance fund. The tax-to-GDP ratio moderately recovered to 25.7 percent in 2015, ending a four-year downward trend, due to improved tax compliance and increases in property tax rates. With interest payments at around 1 percent of GDP (or around 3½ percent of total government revenue), the overall fiscal deficit was 2.8 percent of GDP in 2015. The government issued three long term loans during 2014-15, totaling NAf 526 million (or 9.3 percent of 2015 GDP) to pre-finance the new hospital, resulting in a rapid buildup in public debt to 44.3 percent of GDP at end 2015 (compared with 34.6 percent in 2010).

b. **In contrast, Sint Maarten's** underlying fiscal position improved in 2015 with lower spending and higher tax revenues. The primary deficit narrowed to 0.6 percent of GDP in 2015, from 3.9 percent in 2014, largely due to a decrease in capital spending and lower wage bill (which declined to 10.1 percent of GDP from 10.6 percent in 2014). Tax revenues increased to 20.3 percent of GDP from 19.7 percent in 2014, largely reflecting higher taxes on income and profits. The debt ratio declined to 36.5 percent in 2015 from 37.1 percent at end 2014.

Sint Maarten: Operations of the Government
(in percent of GDP)

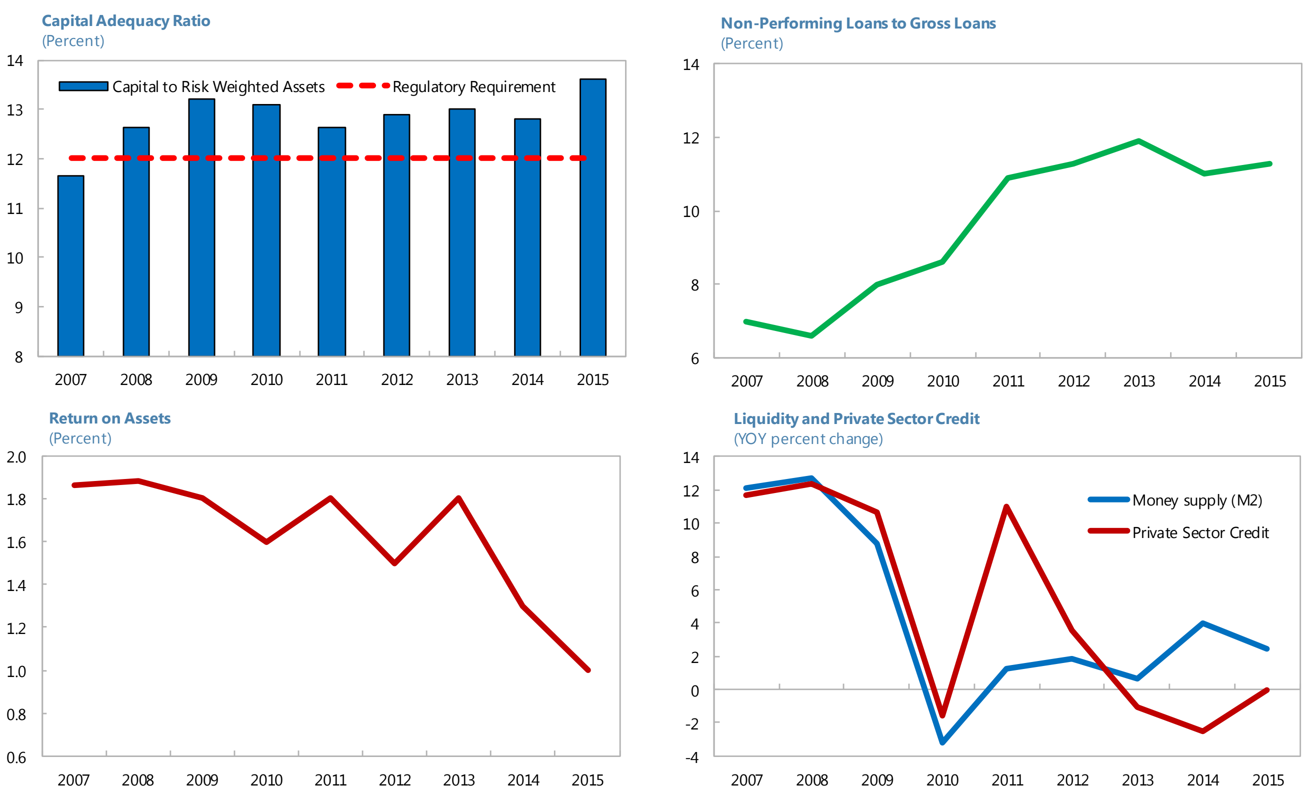
	2011	2012	2013	2014	2015
Total Revenue and Grants	22.1	25.6	27.0	22.9	23.1
o.w. Tax Revenue	17.8	19.7	19.5	19.7	20.3
Total Expenditure	21.5	25.3	27.9	27.4	24.4
o.w. Wages and Salaries	7.7	9.1	10.8	10.6	10.1
o.w. Capital Expenditure	0.7	2.3	1.4	4.6	2.0
Primary Balance	1.3	1.0	-0.3	-3.9	-0.6
w/o Debt Relief Grants	1.3	1.0	-0.3	-3.9	-0.6
Overall Balance	0.7	0.4	-0.8	-4.5	-1.3
Public Debt	27.3	20.0	24.3	37.1	36.5

Sources: CBCS; and IMF Staff Estimates.

8. Credit growth remained weak despite ample liquidity in the banking system. Despite robust deposit growth, which has led to further accumulation of bank reserves to well above the regulatory requirement, private sector credit remains weak.[4] This in part reflects a deterioration of asset quality (¶9), which has dampened banks risk appetites. Meanwhile, as credit demand remained subdued with long term investment decisions deterred by macroeconomic uncertainties, bank lending to private sector remained flat in 2015.

[4] Since 2014 (when the bank level credit ceilings were lifted) the central bank has relied solely on the auctioning of Certificates of Deposits to mop up excess liquidity, by offering more attractive rates and various maturities.

9. Despite a recent deterioration in asset quality and profitability, the banking sector appears to be generally stable, supported by adequate capital buffers. The nonperforming loans (NPL) to total loans ratio remains elevated at 11.3 percent in 2015, as bank asset quality deteriorated during the recent economic downturn.[5] This, along with a lower net interest margin and increased competition among banks, has negatively affected bank profitability. Banks' capital buffers, however, appears to be adequate with a capital adequacy ratio of 13.6 percent in 2015, above the 10 percent regulatory requirement. Some local banks have recently reported a loss of correspondent banking relationships (CBRs), which calls for a proactive policy response by the authorities (¶34).



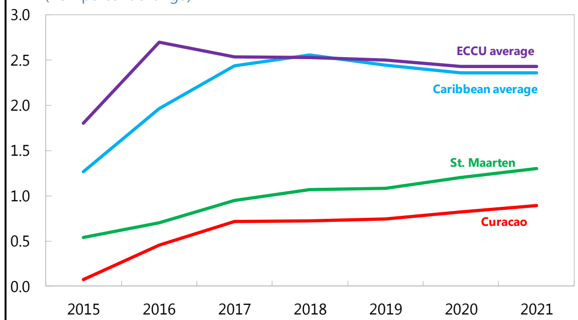
Source: CBCS.

[5] The commercial banks undertook some adjustments in 2014 to lower their NPL ratios and increase their loan-loss provisioning, and in 2015 to increase their capital buffers, as precautionary measures to cover their credit risk and increase their ability to withstand possible macroeconomic shocks.

OUTLOOK AND RISKS

10. Growth is expected to pick up slightly in the near term. Real GDP growth in 2016 is expected to reach 0.5 percent in Curaçao and 0.7 percent in Sint Maarten. For Curaçao, economic activity is projected to accelerate reflecting continued economic recovery in their main trading partners (especially the U.S.) and a continuation of both private and public investment projects (e.g. the hospital construction). Higher growth in Sint Maarten reflects expectations for higher private spending, particularly in the tourism and transportation sectors, and a moderate increase of tourism flows. Meanwhile, inflation is expected to accelerate gradually to 0.8 percent in Curaçao and 1 percent in Sint Maarten, as the effect of lower oil prices is countered by an increase in prices in the U.S. and the Netherlands, the Union's main trading partners.

Medium-Term Growth Outlook 1/
(YOY percent change)



Sources: WEO; and IMF Staff Estimates.
1/ Growth rates for Curaçao and Sint. Maarten are based on IMF staff estimates of deflators.

11. Medium-term prospects remain broadly positive but will depend on the authorities' efforts to address structural bottlenecks. Over the medium term, growth is expected to moderately pick up to 0.9 percent and 1.3 percent for Curaçao and Sint Maarten, respectively. The expansion in both countries will mainly depend on the timely implementation of structural reforms aimed at attracting more FDI, relaxing restrictions on hiring foreign labor, and reducing costs of doing business (¶18-21).

Selected Medium-Term Indicators

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Curaçao											
Real GDP growth (% change)	0.6	-0.1	-0.8	-1.1	0.1	0.5	0.7	0.7	0.7	0.8	0.9
Current account (% of GDP)	-27.3	-27.9	-21.0	-11.9	-15.3	-15.3	-13.6	-12.7	-12.0	-10.5	-8.9
Fiscal balance (% of GDP)	-2.3	-0.7	-0.7	-1.8	-2.8	-2.5	-2.7	-2.7	-2.0	-2.0	-2.1
Public debt (% of GDP)	40.6	33.1	34.1	38.6	44.3	44.5	44.5	44.2	44.8	45.5	46.2
Sint Maarten											
Real GDP growth (% change)	-1.5	1.7	0.9	1.5	0.5	0.7	0.9	1.1	1.1	1.2	1.3
Current account (% of GDP)	-0.5	9.5	0.4	-10.5	2.2	2.3	2.6	2.3	2.5	2.5	2.9
Fiscal balance (% of GDP)	0.7	0.4	-0.8	-4.5	-1.3	-0.8	-1.0	-0.8	-0.7	-0.7	-0.7
Public debt (% of GDP)	27.3	20.0	24.3	37.1	36.5	36.7	36.7	36.3	35.7	35.0	34.3

Sources: Central Bank; and IMF Staff Estimates.

12. On the external side, the Union's current account deficit is projected to gradually improve over the medium term. The deficit is expected to narrow in 2016, reflecting projections for lower oil prices and higher tourism receipts, notwithstanding higher imports of construction material related to public investment projects (particularly the construction of a new hospital in Curaçao). Given adequate external financing, including from foreign direct investments, debt issues, and a decrease in foreign assets, the Union's net international reserves are projected to increase in 2016. Going forward, the Union's external imbalances are expected to gradually decline as tourism demand picks up. Nevertheless, given the reliance on a narrow scope of products and markets, considerable risks remain, underscoring the need to improve competitiveness, reduce vulnerabilities to external shocks, and build external buffers to ensure external sustainability going forward. Staff estimates, which are based on limited data and subject to considerable uncertainty, suggest that Curaçao's REER is somewhat undervalued, while that of Sint Maarten is somewhat overvalued (Annex II).

13. On current policies, Curaçao's fiscal position is expected to gradually improve, but public debt will continue to build up. The primary deficit is projected to narrow to 1.4 percent of GDP in 2016, and will further decline to 0.8 percent of GDP over the medium term, as the hospital construction gradually winds down. The tax-to-GDP-ratio is projected to decrease moderately as another round of profit tax rate cut (from 25 percent to 22 percent) became effective in 2016, with revenue losses expected to be only partially offset by reduced deductions and strengthened compliance.[6] The government's current account balance (after accounting for the consumption of fixed capital, i.e. depreciation), is just above zero in 2016. Close expenditure management and strict budget execution will be needed to ensure compliance with the fiscal rules (¶26).

Curaçao: Selected Medium-Term Fiscal Indicators
(In percent of GDP)

	2015	2016	2017	2018	2019	2020	2021
Total revenue	30.9	43.7	42.8	42.1	41.6	41.5	41.4
Tax revenue	25.7	25.1	25.3	25.3	25.2	25.2	25.2
Total expenditure	29.7	42.6	41.9	41.3	40.7	40.6	40.6
Overall balance	-2.8	-2.5	-2.7	-2.7	-2.0	-2.0	-2.1
Primary balance	-1.7	-1.4	-1.5	-1.5	-0.8	-0.8	-0.8
Public Debt	44.3	44.5	44.5	44.2	44.8	45.5	46.2

Sources: Central Bank; and IMF Staff Estimates.

14. Sint Maarten's fiscal position is expected to improve, with higher revenue mobilization. The primary deficit is expected to decline slightly to 0.1 percent of GDP in 2016, from 0.6 percent in 2015. The tax -to-GDP ratio is expected to increase to 20.5 percent in 2016, from 20.3 percent in 2015, based on stronger tax collection (including on casino tax). Other revenues are also expected to increase in 2016, with the projected receipt of dividends from the central bank. The debt-to-GDP ratio will increase marginally to 36.7 percent of GDP at end 2016, relative to 36.5 percent at end 2015.

Sint Maarten: Selected Medium-Term Fiscal Indicators
(In percent of GDP)

	2015	2016	2017	2018	2019	2020	2021
Total revenue	23.1	23.9	23.6	23.7	23.8	23.8	23.8
Tax revenue	20.3	20.5	20.4	20.5	20.5	20.5	20.5
Total expenditure	24.4	24.7	24.6	24.6	24.6	24.5	24.5
Overall balance	-1.3	-0.8	-1.0	-0.8	-0.7	-0.7	-0.7
Primary balance	-0.6	-0.1	-0.3	-0.2	-0.2	-0.2	-0.2
Pubilc Debt	36.5	36.7	36.7	36.3	35.7	35.0	34.3

Sources: Central Bank; and IMF Staff Estimates.

15. Risks to the macroeconomic outlook are tilted to the downside (Annex I). Continued low growth in the euro area could negatively affect Curaçao and Sint Maarten through trade, tourism, remittances, and investment channels. Persistent strengthening in the U.S. dollar could lead to further appreciation of the REER, and a loss in competitiveness vis-à-vis European and Canadian

[6] The profit tax (levied on corporate income) rate has been reduced from 34.5 percent to 27.5 percent in 2012, and then from 27.5 percent to 25 percent in 2015.

tourists. Reduced financial services by global/regional banks could result in disruptions to banking services, hindering cross-border financial transactions. Given the close trade relationship, Curaçao remains vulnerable to a further disruption of economic activity in Venezuela (Annex IV). Other downside risks include slow implementation of planned structural reforms, an outbreak of Zika, and a natural disaster in Sint Maarten. Upside risks include improving economic prospects in the U.S. generating tourism for Sint Maarten, higher investment flows through major tourism projects, and spillover and productivity gains through higher public investment if managed prudently.

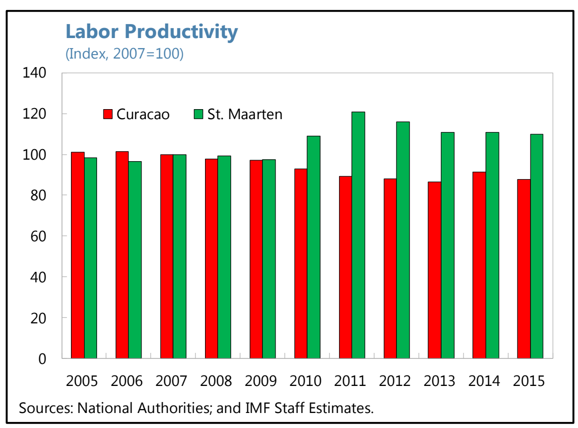
16. With the current low levels and favorable public and external debt dynamics for Curaçao and Sint Maarten, the Debt Sustainability Analysis (DSA) finds the risk of debt distress low, but the debt paths are sensitive to shocks (Annex III). In Curaçao, while public debt is already on an upward trend, a combined macro-fiscal shock[7] could add another 10 percentage points to its debt-to-GDP ratio. Besides, under a full-blown Venezuela shock scenario (where all trade links between the two countries are removed and the refinery business comes to a complete stop in 2019), Curaçao's debt-to-GDP ratio could end up 7½ percentage points above the baseline by 2021. In Sint Maarten, the debt-to-GDP ratio is projected to increase by 10 percentage points under a hurricane scenario (assuming a 10 percent of GDP increase in government expenditure in 2017 to cover post-disaster reconstruction needs). Both island's significant vulnerability to shocks calls for the authorities' sustained efforts on reforms to strengthen their fiscal frameworks, build policy buffers, improve external competitiveness, and unlock growth potential.

POLICY DISCUSSIONS

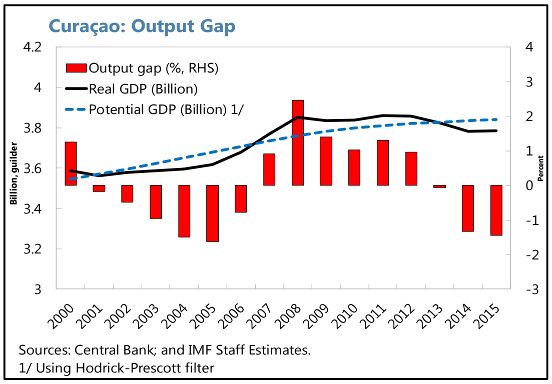
A. Growth and Competitiveness

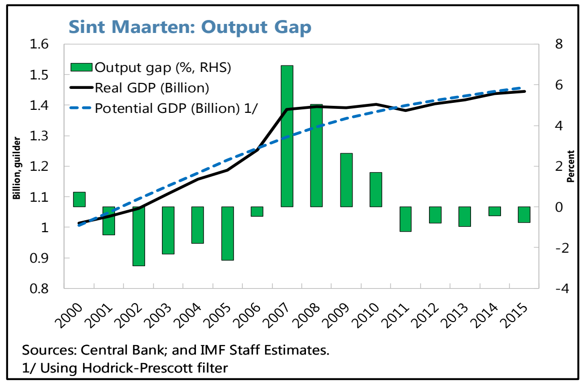
Background

17. Both economies continue to operate below capacity, exhibiting low convergence towards potential growth. Labor productivity growth remains low, negatively impacting output growth and competitiveness (text chart), particularly in Curaçao, where labor productivity growth has averaged -0.2 percent over 2012-15. Meanwhile, broader competitiveness indicators are mixed, pointing to high labor costs, subdued inflation and a moderate increase in the number of stay-over tourist arrivals (but a decline in market share) in both countries (Annex II).



[7] Real growth one standard deviation lower and primary balance one half standard deviation lower than the baseline in 2017-18





Policy Discussions

18. The mission welcomes the authorities' ambitious plans to strengthen competiveness and reinvigorate their economies through important structural reforms. In Curaçao, the National Development Plan 2015-30 aims at encouraging foreign direct investment, stimulating priority sectors with potential for higher value added (including the free zone, maritime and aviation sectors), ensuring inclusive quality education, and promoting good governance. In Sint Maarten, where tourism represents the highest share of the economy, a tourism authority has been recently established and a development plan is currently being discussed, to diversify the tourism sector, reduce its seasonality, and increase value-added.

19. Given the Union's small population base, a flexible labor market equipped with appropriate skills is needed to improve competitiveness and growth potential. In Curaçao, labor market reforms should focus on addressing restrictive dismissal laws and protective work permit policies (for foreign labor) that hinder labor market flexibility (Box 2). Although the labor market in Sint Maarten is less restrictive, efforts are needed to improve efficiency and timeliness in granting required permits for foreign workers. To address mismatches in skills, the authorities in both islands have recognized the need to refocus the education system. The mission recommends renewed efforts to improve vocational education and develop targeted training programs to strengthen skills and improve productivity. The Sint Maarten authorities have recently embarked on a government-sponsored employment program to address high youth unemployment. Close monitoring and assessment of program deliverables will be critical to ensure the effective deployment of public resources.

Box 2. Labor Market Issues

Low growth and high unemployment underscore the need to address declining labor market productivity and improve labor market flexibility in the Union. Unemployment remains high, especially among the youth in both Curaçao and Sint Maarten. At the same time, the work force cannot adequately meet the demand for labor. The focus of labor market policy, including on flexibility, has shifted frequently and contributes to uncertainty.

Education systems and technical and vocational training are currently not fully aligned to meet the countries' needs. This exacerbates issues related to small populations and migration, which also contribute to a mismatch between the supply and the demand for labor. There are also limited quality technical and vocational training institutions and no certifying institutions. The authorities also recognize the need for greater focus on building soft skills and on career mentoring to help better prepare young people for the work place.

Generous welfare benefits act as a disincentive to employment in the formal sector contributing to a high reservation wage, particularly in Curaçao. Unemployment benefits in Curaçao often exceed the minimum wage, covering, among other things, housing, healthcare costs, and provide subsidies for water and electricity. This could incentivize persons to work in the informal sector while collecting benefits. Although Curaçao has implemented reforms to reduce fraud and now requires that persons receiving welfare undergo training and actively seek employment, controls are often weak. Sint Maarten's welfare benefits are less generous at approximately 67 percent of the minimum wage.

Restrictions on hiring foreign workers limit the ability to fill employment gaps. Both countries require that persons seeking employment are sponsored by an employer, and that the employer initiates the application for the work permit. In addition, the employer must show that the vacancy was advertised in the local market without success. In Curaçao, the Permit department is faced with a number of challenges, including an insufficient budget, understaffing, and inadequate office space, which has led to a backlog in permits, beyond the six weeks' maximum required by law. While Sint Maarten processes work permits in 2 weeks, the process is lengthened by the need to first obtain a landing permit, which can take 3-4 weeks.

Dismissal laws are also inflexible in both countries. This has encouraged the use of short-term contracts rather than the creation of stable employment. As such, even where the skills required are available locally, these posts may not be filled, given the limited job security they provide.

20. Staff emphasized that improving the business climate is critical to reigniting investor confidence, promoting private sector activity, and attracting foreign direct investment. The mission therefore welcomes the authorities' efforts in both islands to rationalize business licensing requirements, reduce transportation costs, and promote fair competition. The mission also endorses the authorities' plan to proactively address red tape through centralization and streamlining of business registration processes, and to improve efficiency in government services and reduce transaction costs. In addition, maintaining a stable political environment and ensuring policy continuity is critical to promoting long term business investment decisions.

21. Staff urged the authorities to quickly advance implementation of energy sector reforms geared toward cost reduction and long term sustainability to improve competitiveness and build resilience. As in many other Caribbean islands, energy costs are high in Curaçao and Sint Maarten, where high reliance on imported-fossil-fuel-based generation increases their vulnerability to external shocks.[8] The authorities in both islands have recognized, through their national development plans, the importance of diversifying the generation mix through the development of renewable energy. Follow through with steadfast implementation is critical to reducing energy costs and achieving a stable, sustainable and clean energy future. Moreover, the energy sector regulatory framework needs to be strengthened in Sint Maarten by introducing an independent regulator.[9]

22. Authorities' views. The authorities concurred with staff about the importance of removing impediments to private sector activity by enhancing the doing business and labor market conditions. They stressed that vocational education and skills training are among the key priorities for addressing skills mismatches, unlocking growth, and improving competitiveness over the medium term. Regarding energy sector reforms, the authorities noted that several initiatives for renewable energy have been considered, including wind and solar power, seawater cooling, and "waste-to-energy", under their national development plans.

B. Strengthening Fiscal Framework and Building Buffers

Background

23. The Union has a rules-based fiscal policy framework monitored by the Board for Financial Supervision (Cft in Dutch). Each island submits its budget to the Cft, who verifies the realism of the assumptions and the adherence to the rules-based framework, and if necessary recommends changes to the budget. The Cft's function is reviewed every three years, to ascertain whether there remains a need for continued oversight and the accompanying low-cost "standing subscription" borrowing arrangement, which allows both countries to borrow at prevailing rates in

[8] In both Curaçao and Sint Maarten, electricity generation is provided by a single government-owned company with a monopoly also on distribution. Although state-owned, no subsidy currently exists and the electricity tariffs comprise two components: i) the base component to cover all non-direct production costs, and ii) the fuel component that is determined by international oil prices and adjusted monthly.

[9] Energy pricing has been regulated by an independent regulator in Curaçao since 2010.

the Dutch capital market. The most recent review was undertaken in 2015, which extended the Cft's function till 2018.

Policy Discussions

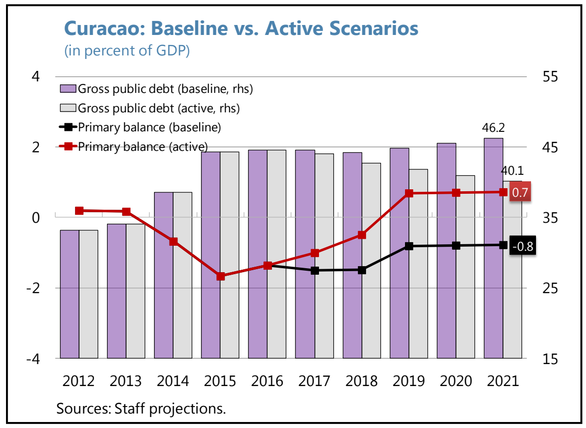
24. Staff proposed that the current rules-based framework be strengthened to ensure fiscal and debt sustainability. While the framework provides a strong basis for containing short-term fiscal risks, it does not provide a sufficient medium term anchor for debt sustainability. A strengthened fiscal framework is particularly important in the context of the upcoming 2018 review of the Board for Financial Supervision (Cft in Dutch) oversight function and the current low-cost "standing subscription" borrowing arrangement.[10] If the agreement was to be discontinued following the review without an agreement for the refinancing of debt incurred under the current access to low rate financing, net flows from the Dutch borrowing arrangement could turn negative, resulting in higher interest costs going forward. The increase in borrowing costs, would over time erode the gains from debt relief and put public debt on an upward trend. Moreover, rising interest costs will make it increasingly difficult to satisfy the "interest burden rule" and accelerate debt accumulation. Hence, staff proposes that the rules be supported by adopting a medium-term macro-fiscal framework that includes a primary balance target consistent with a long-run debt anchor of 40 percent of GDP, which is around the median level of developing and emerging countries. The 40 percent of GDP target is also the benchmark debt ratio used in the standard Fiscal Monitor long-term adjustment needs scenario for emerging market economies, and is consistent with the debt norm proposed by the Cft for Curaçao and Sint Maarten.

25. In addition, the fiscal framework should allow adequate flexibility and be complemented by improved effectiveness of public spending and capacity building to strengthen public institutions and fiscal discipline. Staff's proposed strengthened framework would ensure the flexibility needed to accommodate the investment in skills development, crucial to unlocking growth, and allows adequate flexibility to accommodate temporary deviations over economic cycles and in the case of natural disasters and other emergencies. The fiscal framework should also include a corrective mechanism with clearly spelt out fiscal measures to correct for any temporary deviations from the target.

[10] There has been no formal commitment that the Cft oversight and the "standing subscription" arrangement will or will not be extended after the 2018 review. However, staff suggested to the authorities that a stronger fiscal framework would increase their ability to avoid and/or withstand a potential large interest rate risk.

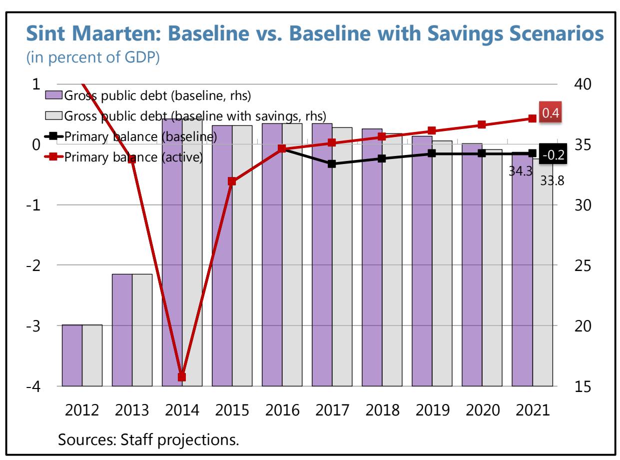
(i) Curaçao

26. To mitigate medium-term risks, staff discussed with the authorities a fiscal framework that envisages a 1.5 percent of GDP adjustment phased evenly over 2017-19. This framework is anchored by a 40 percent of GDP long term debt target, and is operated via targets on the primary balance. The adjustments in the primary balance needed for the public debt to gradually decline and stabilize at 40 percent could be achieved by: (i) improving tax compliance (0.5 percent of GDP), (ii) reducing personnel expenditure through attrition and implementation of merit-based salary increments (0.4 percent of GDP), and (iii) containing national health insurance expenses through cost restructuring (0.6 percent of GDP). In this respect, the authorities have made significant efforts to strengthen tax administration (¶29). Important progress has also been made in improving the financial performance of state-owned enterprises, except for the financially-challenged postal corporation, for which an action plan is being finalized (Box 3). However, despite recent reforms, the national health insurance fund (BVZ) remains in deficit and heavily reliant on budgetary transfers, which could pose a risk to medium-term fiscal sustainability (¶29 and Annex V).



(ii) Sint Maarten

27. Staff recommended that policy focus on building fiscal buffers for natural disasters, and strengthening institutional capacity to support prudent fiscal management and preserve fiscal and debt sustainability. As public debt in Sint Maarten is projected to remain below 40 percent of GDP under staff's baseline scenario, staff does not envision a need for immediate upfront fiscal consolidation. However, unlike Curaçao, Sint Maarten lies within the Hurricane belt, underscoring the need to build fiscal buffers for natural disasters. The authorities agree with staff's recommendation to set aside budget resources annually as precautionary savings for natural disasters, and indicate that while the annual budget already includes a buffer for natural disasters, unspent amounts are not saved. The staff recommended the authorities establish a dedicated account for this purpose to support immediate rehabilitation needs. The mission proposes that the authorities target saving a minimum of 0.1 percent of GDP per annum, relative to staff's baseline projections, based on estimated damages from previous natural disaster events in the region. In this



regard, the authorities agree that this goal can be achieved through measures to improve tax administration, and mobilize revenues. In addition, future consideration could be given to replacing the sales turnover tax with an efficient and sufficiently broad based value added tax (VAT). While the authorities do not see much room to adjust expenditures, staff encouraged the authorities to explore measures to contain the wage bill, which remains above 10 percent of GDP, to make room for other critical spending, including on human capital development.

28. Staff welcomes the authorities' capacity building efforts, particularly to improve tax administration and public financial management (PFM), and achieve compliance with the fiscal rules. The mission welcomes steps taken by the authorities in Curaçao to improve tax administration, by reducing backlogs in tax assessments and the treatment of objections, rationalizing tax receivables, as well as efforts to improve compliance (including the introduction of fiscal cash registers). Staff encourages Sint Maarten to implement similar measures and, importantly, to take steps to develop human capacity in tax administration. Further efforts are needed in both islands to improve budget formulation and cash flow management, and other key areas highlighted in the 2015 Public Expenditure and Financial Accountability (PEFA) assessments, supported by the Cft. Addressing these weaknesses will require a clear action plan supported by systematic technical assistance to assist the authorities to implement the plan. It is also critical that both governments implement measures to support the production of timely fiscal and macroeconomic statistics, essential to public policy formulation.

29. Staff welcomed the progress made in reducing risks associated with state-owned-enterprises (SOEs) and social security systems. The financial position of SOEs has improved significantly, however, further steps should be taken to address deficit making institutions, in particular Curaçao's post office, and to ensure transparency and good governance (Box 3). Recent reforms to the social security and pension systems have helped mitigate short term risks, but policy focus should shift toward addressing medium to long term system shortfalls, and ensuring their sustainability. Strong efforts are also required to reduce risks related to increasing healthcare costs.

Box 3. Fiscal Risks and State-owned Enterprises

State-owned enterprises (SOEs) are a key source of fiscal risk for Curaçao and Sint Maarten. Risks related to unexpected changes in macroeconomic variables are relatively low, following the debt relief program, which assures low cost financing in local currency. However, SOEs present a potentially significant source of fiscal risk, underscoring the need to ensure transparency and accountability within these institutions, and for measures to address inefficiencies.

At the time of the 2014 Article IV Consultation discussions, staff identified several issues related to transparency and oversight of SOEs. For Curaçao, above-market wages and other inefficiencies translated into a high cost of doing business. While in Sint Maarten, in the absence of a clear dividend policy, profitable SOEs minimized their contribution to the public budget.

Since then, Curaçao has made significant progress in strengthening the financial position of SOEs. The financial situation in all but one of four high-risk state-owned enterprises has improved significantly over the last two years, based on reforms instituted by the authorities.

- **Aqualectra**, the utility company, took steps to better align employee compensation with market norms, and to ensure that prices reflect the full pass-through of oil prices. Importantly, Aqualectra has been able to recover losses from previous years by adding a "recovery price" to the regular price. The authorities are also negotiating the return of assets, previously distributed to the refinery at no cost.
- **Analytic Diagnostic Center**, the medical laboratory, in addition to realigning employee compensation, took steps to reduce overstaffing, improve the invoicing process, contain operational costs, and improve debt collection.
- **Curaçao Dry Dock Company (CDM)** settled claims from previous employees, related to poor working conditions and underpayment, and prospects for the company have improved with the signing of a LOI with an international strategic partner. The partnership is expected to bring in new investments and increase the Dry Dock's capacity to meet the demand for its main line of business, ship repair services.
- **CPost**, the post office, remains a high-risk entity as the action plan, developed to improve its financial position, has not been fully implemented. The cost of providing services remains higher than revenues, with losses amounting to NA f. 3-4 million guilders (US$1.7 million – US$2.2 million) annually. This in part reflects discounts to the government and the Social Security Bank, making the plans politically challenging to implement.

In Sint Maarten, SOEs have historically not been a drain on government resources. The authorities have recently drafted a dividend policy to provide a framework for remitting dividends to the government. While the draft policy identifies the relevant financial ratios that can be used to determine whether a dividend can be paid to the government, the decisions to pay a dividend and the amount are left to the shareholders. The authorities believe that the SOEs are better able to decide when they can pay a dividend, based on their position and future plans, and prefer not to set explicit terms.

30. Authorities' views. The authorities agreed in principle on the appropriateness of staff's proposed medium–term fiscal framework, but were of the view that, while 40 percent is a reasonable target, the decision on the level of the debt target should be left to the individual governing authorities. In the area of tax administration, the Sint Maarten authorities highlight human capital as the most significant challenge, and note that the need to balance the current budget constrains spending on skills development and capacity building, therefore limiting progress in this area. The authorities are taking steps to integrate the tax administration function, which is currently separated into two departments, the Tax Assessment Department and the Audit and Control Department. They are also exploring the possibility of utilizing the financial tax software system shared by the Dutch municipalities (Bonaire, St Eustatius, and Saba) and Curaçao. This would not only be an improvement over the current system, which is outdated, but would allow for shared costs. They recognize the potential benefits from adopting a VAT but indicate their first priority is improving tax administration.

C. Maintaining Financial Stability

Policy Discussions

31. The financial sector is generally stable with no imminent systemic risk, supported by strengthened supervision at both sector and institution levels. The central bank's Early Warning Monitoring System has been enhanced to allow better assessment of financial sector soundness and to enable the central bank to perform regular stress tests to assess financial sector resilience. A risk-based rating model is also embedded in the system to detect financial sector weak spots, complementing targeted supervision. Stability indices, on financial sector soundness, tracked by the central bank for the domestic banking, insurance and pension sectors (which account for approximately 95 percent of total financial sector assets) have remained stable over the past five years.[11] However, given macroeconomic uncertainties going forward and recent deterioration in bank asset quality and profitability, staff encouraged the authorities to continue their efforts to strengthen financial oversight (especially in the non-bank sector), through on-site and off-site supervision.

32. Sustained efforts are needed to strengthen the AML/CFT framework in line with the FATF standard and mitigate perceived ML/TF risks. In this regard, the authorities have recently updated their AML/CFT legislation and issued new compliance guidelines and criteria to the financial institutions based on FATF recommendations. An action plan to address strategic deficiencies identified following Sint Maarten's assessment of its AML/CFT framework by the CFATF is currently under review. The authorities are encouraged to fully address remaining regulatory gaps and ensure effective risk-based implementation of the AML/CFT regime.

[11] Stability indices comprise five indicators including asset quality, capital adequacy, liquidity, profitability, and sensitivity to market risk.

33. Some small local banks in Curaçao have recently experienced a loss of CBRs. While existing CBRs with large European banks could provide a temporary buffer in the short run, staff encouraged the authorities to continue monitoring the status of CBRs and address reputational risk by strengthening their compliance with AML/CFT and transparency of tax information standards.

34. Staff continued to emphasize that the central bank should refrain from direct lending to SOEs, which could cause market distortions. The central bank embarked on an asset purchase program to build a portfolio of corporate bonds with an ultimate goal to create a substitute for the conduct of open-market operations, as the short term government security market dried up since 2010.[12] There has been no new purchase since 2012 and currently there are two loans (both to SOEs) in the portfolio. Staff has urged the authorities to restrain from further central bank direct lending and to continue their efforts to further develop a corporate bond market, to provide financing alternative to bank financing for SOEs and private entities, and to create more local investment opportunities.

35. Authorities' views. The authorities concurred with staff about the importance of strengthening financial regulation and supervision. They noted that draft legislation to harmonize and update prevailing supervision laws, which is in the last phase of the legislative process, will enable the central bank to execute its supervisory tasks more effectively, and a new Chart of Accounts reporting system will further strengthen the central bank's oversight function. The authorities expressed their deep concerns over the recent and potential further loss of CBRs and are committed to proactively identifying and addressing vulnerabilities in the financial sector.[13] Regarding the central bank's lending to SOEs, the authorities committed to bring it to a close once the two existing loans mature.[14]

STAFF APPRAISAL

36. The economic recovery and a stronger fiscal position have helped reduce near-term risks. Curaçao ended a three-year recession in 2015, despite the deterioration in macroeconomic conditions in Venezuela—one of the island's main trading partners. Expansion in Sint Maarten's economy continued into the fourth consecutive year, despite a modest deceleration. The Union's external and fiscal imbalances have also declined, with favorable external conditions and the authorities' fiscal consolidation efforts, but vulnerabilities to external shocks remain given its reliance on a narrow scope of products and markets.

[12] The "standing subscription" arrangement under the 2010 debt relief agreement allows the governments to borrow at ultralow rates (Dutch levels) from the Dutch Treasury, which inadvertently caused the local market for government securities to dry up, depriving the central bank of an important policy instrument.

[13] A high level delegation (consisting of the central bank president and the ministers of finance from both islands) visited Washington and held discussions with the U.S. officials in June 2016.

[14] They are currently in discussion with a regional bank for divestment of one of the two loans before its maturity.

37. However, risks to medium-term growth prospects remain to the downside. Continued low growth in the euro area could have serious economic repercussions for Curaçao and Sint Maarten through various channels, given that both islands remain heavily reliant on the euro area. Further disruptions in Venezuela could worsen Curaçao's growth prospects and balance of payments if no alternative export markets are identified. Meanwhile, a loss of CBRs could hinder cross-border transactions, adding to the macroeconomic uncertainties. In addition, slow progress in implementing needed structural reforms also poses an important downside risk to growth prospects going forward.

38. Unlocking growth through economic diversification and investment promotion is therefore imperative in this environment. In this respect, the authorities' national development plans are an important step toward charting a clearer direction for strategic sectors and markets and removing impediments to private sector activity. Implementation of the plans is key, in particular, on decisive structural reforms to improve the labor market and doing business conditions, as well as energy sector reforms to diversify energy generation via renewable sources.

39. A sound medium term fiscal framework will help reinforce macro stability anchored by the fixed exchange rate. With the limited effective monetary and exchange rate policy instruments, given the fixed exchange rate regime, fiscal policy is the authorities' only available option to cushion economic shocks. A sound medium term fiscal framework, equipped with clear objectives and targets and supported by a proven track record could improve credibility, bolster investor confidence, and promote investment.

40. In this regard, important structural fiscal reforms are needed to further strengthen fiscal discipline. In particular, weaknesses in tax administration and public financial management have been identified in both islands. Staff welcome the authorities' efforts to strengthen tax administration to enhance revenue mobilization, improve taxpayer services, and increase tax compliance. These are important prerequisites for future tax policy reforms contemplated by the authorities. In addition, an action plan is greatly needed to ensure timely and decisive implementation of measures to strengthening public financial management, in line with PEFA assessment recommendations.

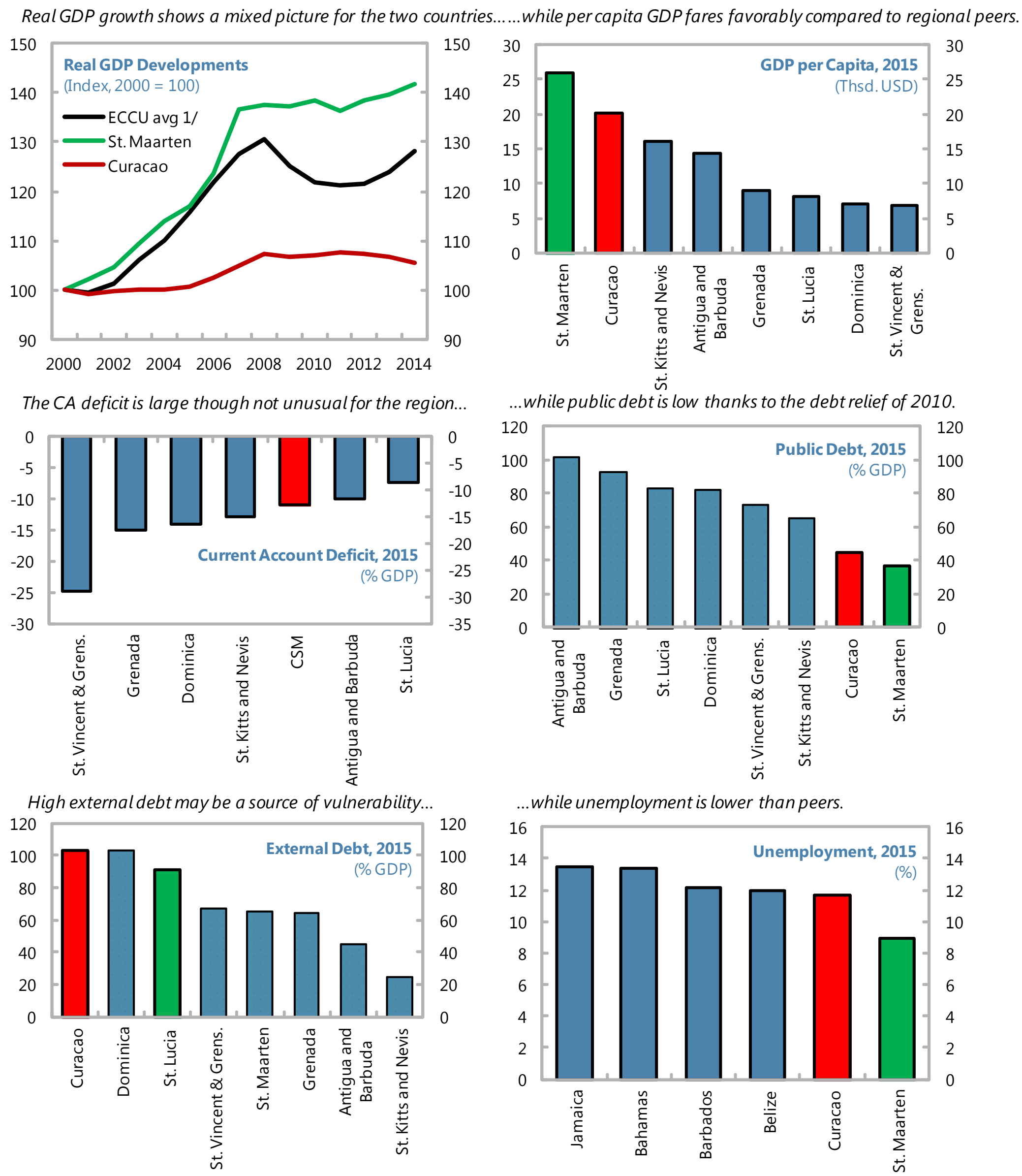
41. Strengthened financial supervision has become more important given increasing international scrutiny. The authorities are advised to strengthen risk-based financial supervision and effective implementation of cross-border tax information sharing, as well as AML/CFT frameworks in line with international standards. In a context of evolving regulatory requirements and enforcement landscape, Curaçao and Sint Maarten's ability to strengthen transparency, including in Curaçao's international financial center, will help reduce the perceived reputational risks. A stable financial sector is also critical to supporting economic growth and private sector activities.

42. Capacity building is needed to strengthen public institutions. Policy implementation has been greatly challenged by capacity issues in both islands, as in most other Caribbean small states. Investment in human capital development is critical to strengthening public institutions and improving productivity. Staff urge the authorities to engage with their international partners in seeking technical assistance to support capacity building.

43. Data provision should be improved to allow adequate surveillance. The statistical offices in both countries expressed concerns over lack of capacity, ability to hire qualified personnel, and delays in data submission from the private sector and government entities. While some efforts have been made to streamline data collection and digitalize surveys, staff highlights the need to allocate additional resources to increase personnel and obtain technical assistance to address shortcomings.

44. Staff recommends that the next Article IV Consultation discussions with the Kingdom of the Netherlands—Curaçao and Sint Maarten be held on the 24-month consultation cycle.

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



Sources: IMF World Economic Outlook, CBCS, National Authorities; and IMF Staff Estimates.

1/ Unweighted average of indices for Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines.

Table 1. Curaçao: Selected Economic and Financial Indicators, 2011-21

Area	444 (km^2)	Population, thousand (2015)	155
Percent of population below age 15 (2015)	18.9	Literacy rate, in percent (2010)	96.7
Percent of population aged 65+ (2015)	15.3	Life expectancy at birth, male (2015)	74.8
Infant mortality, over 1,000 live births (2015)	12.2	Life expectancy at birth, female (2015)	81.0

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
						Proj.					
Real economy (change in percent)											
Real GDP 1/	0.6	-0.1	-0.8	-1.1	0.1	0.5	0.7	0.7	0.7	0.8	0.9
CPI (12-month average)	2.3	3.2	1.3	1.5	-0.5	0.8	1.5	2.3	2.4	2.3	2.1
Unemployment rate (in percent)	9.8	11.5	13.0	12.6	11.7	11.4	11.1	11.3	11.6	11.8	12.0
General government finances (in percent of GDP)											
Primary balance	-1.4	0.2	0.2	-0.7	-1.7	-1.4	-1.5	-1.5	-0.8	-0.8	-0.8
Current balance 2/	-2.0	0.2	2.3	0.6	1.1	1.0	0.8	0.7	0.8	0.7	0.6
Overall balance	-2.3	-0.7	-0.7	-1.8	-2.8	-2.5	-2.7	-2.7	-2.0	-2.0	-2.1
Public debt	40.6	33.1	34.1	38.6	44.3	44.5	44.5	44.2	44.8	45.5	46.2
Balance of payments (in percent of GDP)											
Goods trade balance	-39.5	-41.7	-38.3	-35.4	-32.9	-32.1	-31.6	-30.9	-30.4	-29.7	-29.0
Exports of goods	30.6	30.3	22.3	22.1	15.2	14.6	14.7	14.8	14.8	14.9	15.1
Imports of goods	70.1	72.0	60.5	57.6	48.1	46.6	46.3	45.7	45.2	44.6	44.0
Service balance	14.3	17.4	21.7	26.5	19.1	18.2	18.9	19.4	19.7	20.5	21.2
Exports of services	40.4	45.4	49.9	54.2	47.8	46.0	46.5	46.6	46.6	47.0	47.5
Imports of services	26.2	27.9	28.2	27.7	28.6	27.8	27.6	27.2	26.9	26.6	26.2
Current account	-27.3	-27.9	-21.0	-11.9	-15.3	-15.2	-13.8	-12.6	-11.6	-10.2	-8.7
Capital and financial account	26.9	23.6	20.2	16.8	14.5	15.8	14.1	12.8	12.0	10.6	9.0
Net FDI	3.3	1.9	1.1	0.8	2.8	3.5	3.6	3.5	3.4	2.9	2.9
Net official reserves (in millions of US dollars)	1,244.1	1,246.3	1,096.4	1,337.0	1,344.9	1,366.0	1,378.5	1,386.6	1,402.2	1,419.7	1,430.3
(in months of imports of goods and services)	5.1	4.8	4.7	6.0	6.7	6.9	6.9	6.8	6.7	6.7	6.6
(In percent of short-term debt)	118.1	146.9	109.3	125.0	125.9	128.9	121.3	114.6	109.7	106.1	103.0
External debt (in percent of GDP)	89.1	81.3	86.9	93.7	103.4	110.9	116.4	120.2	123.1	125.1	126.0
Memorandum items:											
Nominal GDP (in millions of US dollars)	3,039	3,133	3,148	3,160	3,146	3,186	3,256	3,354	3,460	3,567	3,674
Per capita GDP (in US dollars)	20,551	20,979	20,879	20,622	20,260	20,154	20,396	20,803	21,247	21,687	22,118
Per capita GDP (change in percent)	2.5	2.1	-0.5	-1.2	-1.8	-0.5	1.2	2.0	2.1	2.1	2.0
Private sector credit (change in percent)	3.3	6.4	1.1	-1.5	-1.0	...	...	...	...	...	...

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

Sources: Data provided by the authorities; and IMF staff estimates.
1/ Based on IMF staff estimates of deflators.
2/ Excludes consumption of fixed capital.

Table 2. Sint Maarten: Selected Economic and Financial Indicators, 2011-21

Area	34 (km^2)	Population (2015)	38
Percent of population below age 15 (2015)	21.2	Literacy rate, in percent (2011)	93.8
Percent of population aged 65+ (2015)	6.4	Life expectancy at birth, male (2012)	69.2
Infant mortality, over 1,000 live births (2010)	6.0	Life expectancy at birth, female (2012)	77.1

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
								Proj.			
Real economy (change in percent)											
Real GDP 1/	-1.5	1.7	0.9	1.5	0.5	0.7	0.9	1.1	1.1	1.2	1.3
CPI (12-month average)	4.6	4.0	2.5	1.9	0.3	1.0	1.7	2.6	2.7	2.8	2.8
Unemployment rate (in percent)	11.5	10.3	9.2	9.1	8.9	8.7	8.6	8.4	8.2	8.0	8.0
General government finances (in percent of GDP)											
Primary balance	1.3	1.0	-0.3	-3.9	-0.6	-0.1	-0.3	-0.2	-0.2	-0.2	-0.2
Current balance 2/	1.4	2.7	0.6	0.2	0.7	1.7	1.5	1.7	1.8	1.8	1.8
Overall balance	0.7	0.4	-0.8	-4.5	-1.3	-0.8	-1.0	-0.8	-0.7	-0.7	-0.7
Public debt	27.3	20.0	24.3	37.1	36.5	36.7	36.7	36.3	35.7	35.0	34.3
Balance of payments (in percent of GDP)											
Goods trade balance	-59.7	-64.8	-74.8	-83.8	-71.8	-72.5	-72.4	-71.5	-70.4	-70.7	-70.9
Exports of goods	12.5	13.3	16.2	12.6	12.2	12.1	12.1	12.5	13.0	13.5	14.0
Imports of goods	72.2	78.1	91.0	96.4	84.0	84.6	84.5	84.0	83.3	84.2	84.9
Service balance	65.4	79.0	78.8	78.8	80.3	79.8	78.9	77.6	76.7	77.1	77.2
Exports of services	88.9	106.0	104.8	106.6	106.7	106.0	104.8	103.1	101.8	101.9	101.8
Imports of services	23.5	27.0	26.1	27.8	26.4	26.2	25.9	25.5	25.2	24.8	24.6
Current account	-0.5	9.5	0.4	-10.5	2.2	2.3	2.6	2.3	2.5	2.5	3.0
Capital and financial account	0.5	-18.9	-6.3	14.1	-3.4	-1.6	-1.0	-0.8	-1.9	-1.7	-1.9
Net FDI	-4.9	1.6	4.3	4.4	2.6	3.5	3.0	3.0	3.0	3.0	3.0
Net official reserves (in millions of US dollars)	249.1	249.5	219.5	267.7	269.3	279.2	302.1	323.7	332.1	344.9	362.3
(in months of imports of goods and services)	3.1	2.9	2.2	2.5	2.8	2.8	3.0	3.1	3.1	3.1	3.1
(In percent of short-term debt)	87.6	91.9	77.0	96.3	91.4	94.7	106.1	117.8	128.7	142.8	162.8
External debt (in percent of GDP)	66.4	60.4	58.6	65.1	65.0	60.8	57.2	53.3	48.2	43.4	38.4
Memorandum items:											
Nominal GDP (in millions of US dollars)	938	976	1,015	983	1,016	1,051	1,059	1,077	1,106	1,146	1,190
Per capita GDP (in US dollars)	26,386	25,157	25,294	25,967	26,025	26,290	26,807	27,640	28,533	29,516	30,559
Per capita GDP (change in percent)	3.9	7.5	2.3	-4.7	0.5	2.7	0.2	1.0	2.0	3.1	3.2
Private sector credit (change in percent)	1.0	-4.9	-2.1	-1.9	0.4	...	...	...	...	...	...

Fund position	Sint 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/ Excludes consumption of fixed capital.

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

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net Foreign Assets	2,121.6	2,600.6	3,232.3	4,520.5	4,080.6	3,899.8	3,565.7	4,041.8	4,186.0
Central Bank	1,620.6	2,010.7	2,188.9	2,906.4	2,886.3	2,845.3	2,609.0	3,046.6	2,937.0
Gross Foreign Assets	2,285.1	3,041.9	2,984.9	3,573.3	3,707.1	3,451.1	3,140.5	3,519.4	3,317.5
Gross Foreign Liabilities	664.5	1,031.2	796.0	666.9	820.8	605.8	531.5	472.8	380.5
Valuations									
Commercial Banks	501.0	589.9	1,043.4	1,614.1	1,194.3	1,054.6	956.7	995.3	1,249.0
Gross Foreign Assets	2,083.8	2,856.7	3,553.8	4,279.8	3,504.9	3,114.0	3,450.4	3,474.0	3,701.2
Gross Foreign Liabilities	1,582.8	2,266.8	2,510.4	2,665.7	2,310.6	2,059.4	2,493.7	2,478.7	2,452.1
Net domestic assets	3,961.8	4,257.2	4,225.9	2,696.0	3,227.5	3,541.4	3,921.1	3,744.1	3,787.1
Domestic credit	3,961.8	4,257.2	4,225.9	2,696.0	3,227.5	3,541.4	3,921.1	3,744.1	3,787.1
Net Claims on the Government of Curacao	276.2	325.9	50.4	-347.6	-333.6	-180.7	-192.7	-253.6	-460.5
Net Claims on the Government of St. Maarten	-38.5	-47.7	-62.4	-245.4	-181.6	-131.9	-76.2	-97.9	-56.0
Deposits	38.5	47.7	62.5	245.5	181.7	132.0	76.3	97.9	56.0
Claims on the Private Sector	4,532.9	5,091.4	5,634.0	5,545.9	6,155.7	6,373.8	6,307.4	6,148.3	6,145.6
From Central Bank	-	-	263.9	270.3	272.5	339.0	367.7	371.2	361.2
From Commercial Banks	4,532.9	5,091.4	5,370.1	5,275.6	5,883.2	6,034.8	5,939.7	5,777.0	5,784.5
Securities	183.5	232.6	99.9	88.2	400.3	290.3	266.2	246.7	280.0
Amounts Receivable	74.8	75.1	71.1	91.2	100.9	102.5	84.6	72.8	76.6
Loans	4,274.6	4,783.7	5,199.1	5,096.2	5,382.0	5,641.9	5,588.9	5,457.6	5,427.9
Business	1,610.8	1,736.8	1,754.4	1,714.6	1,772.7	1,952.4	1,873.9	1,740.2	1,785.8
Mortgage	1,385.6	1,784.8	2,145.0	2,055.8	2,276.4	2,396.6	2,495.6	2,533.0	2,487.9
Consumer	1,288.7	1,277.1	1,317.1	1,335.5	1,334.3	1,293.5	1,219.3	1,184.3	1,154.2
Other Items Net	-1,199.4	-1,536.3	-1,630.2	-2,144.8	-2,306.6	-2,406.8	-2,036.8	-1,974.8	-1,768.8
Money supply (M2)	6,083.4	6,857.8	7,458.2	7,216.5	7,308.1	7,441.2	7,486.8	7,785.9	7,973.1
Money (M1)	2,298.6	2,896.4	3,266.9	3,131.2	3,148.8	3,365.3	3,450.8	3,644.4	3,608.9
Currency in Circulation Outside Banks	304.4	315.1	334.1	320.6	301.3	331.8	340.6	351.3	367.5
Demand Deposits	1,994.2	2,581.3	2,932.8	2,810.6	2,847.5	3,033.5	3,110.1	3,293.2	3,241.4
Local Currency	1,441.5	1,923.3	2,265.0	2,218.6	2,174.7	2,292.3	2,325.6	2,408.1	2,336.9
Foreign Currency	552.7	658.0	667.8	592.0	672.8	741.2	784.5	885.1	904.6
Quasi Money	3,784.8	3,961.4	4,191.3	4,085.3	4,159.3	4,075.9	4,036.1	4,141.5	4,364.2
Savings Deposits	1,530.5	1,720.0	2,016.0	1,898.7	1,892.9	1,926.4	1,943.4	2,001.8	2,095.8
Local Currency	1,293.0	1,476.0	1,752.0	1,652.0	1,640.3	1,665.7	1,669.4	1,718.4	1,782.7
Foreign Currency	237.5	244.0	264.0	246.7	252.7	260.7	274.0	283.4	313.1
Time Deposits	2,254.3	2,241.4	2,175.3	2,186.6	2,266.4	2,149.5	2,092.7	2,139.7	2,268.4
Local Currency	1,669.0	1,818.0	1,972.0	1,681.0	1,779.2	1,690.0	1,619.8	1,683.2	1,818.3
Foreign Currency	585.3	423.4	203.3	505.6	487.1	459.5	472.9	456.5	450.1
(Percent change, year-on-year)									
Net foreign assets	19.7	22.6	24.3	39.9	-9.7	-4.4	-8.6	13.4	3.6
Net domestic assets	8.5	7.5	-0.7	-36.2	19.7	9.7	10.7	-4.5	1.1
Broad money	12.1	12.7	8.8	-3.2	1.3	1.8	0.6	4.0	2.4
(Percent change, by contribution to the broad money)									
Net foreign assets	6.4	7.9	9.2	17.3	-6.1	-2.5	-4.5	6.4	1.9
Net domestic assets	5.7	4.9	-0.5	-20.5	7.4	4.3	5.1	-2.4	0.6
(Percent of GDP)									
Loans to the private sector	72.7	75.5	82.7	78.9	84.8	86.5	84.6	81.6	81.6
Broad money	97.6	101.7	109.4	102.7	100.7	101.0	100.4	103.3	105.9
(Percent)									
Pledging rate	5.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

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

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

Table 4. Curaçao and Sint Maarten: Financial Soundness Indicators, 2007–15

(in percent)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Mortgage credit (in percent of total assets)	16.7%	18.9%	20.4%	20.8%	23.0%	23.8%	24.7%	25.3%	24.2%
Consumer credit (in percent of total assets)	15.5%	23.1%	22.9%	24.2%	25.5%	24.5%	24.7%	23.0%	21.9%
Corporate credit (in percent of total assets)	22.9%	21.9%	28.8%	30.3%	31.5%	32.3%	32.1%	30.3%	29.2%
Capital									
Tier 1 Capital to Risk Weighted Assets	11.7%	12.6%	13.2%	13.1%	12.6%	12.9%	13.0%	12.8%	13.6%
Tier 1 and Tier 2 Capital to Risk Weighted Assets	14.3%	14.8%	15.4%	15.1%	14.4%	13.9%	15.8%	14.6%	13.9%
Asset Quality									
NPLs/Gross Loans	7.0%	6.6%	8.0%	8.6%	10.9%	11.3%	11.9%	11.0%	11.3%
NPLs Net of All Provisions/Gross Loans	4.6%	4.0%	5.5%	5.8%	7.9%	8.0%	8.1%	6.7%	7.0%
Earnings and Profitability									
ROA Before Taxes	1.9%	1.9%	1.8%	1.6%	1.8%	1.5%	1.8%	1.3%	1.0%
ROE Before Taxes	19.5%	19.3%	17.2%	15.1%	16.7%	14.7%	16.5%	13.8%	10.9%
Interest Margin/Gross Income	47.1%	56.7%	63.8%	66.4%	65.6%	65.4%	64.0%	63.9%	65.6%
Non-Interest Expenses to Gross Income	51.4%	61.5%	63.3%	64.0%	64.5%	65.5%	66.4%	69.5%	75.8%
Liquidity									
Liquid Assets/Total Assets	29.1%	28.8%	32.3%	27.0%	25.3%	27.5%	29.8%	27.4%	31.1%
Liquid Assets/Short Term Liabilities	37.3%	36.9%	40.5%	34.3%	33.4%	36.1%	38.6%	38.5%	41.2%
Loans/Deposits	61.4%	64.5%	63.2%	67.2%	70.6%	71.0%	70.8%	71.7%	70.8%
Sensitivity to Market Risk									
NFA/Regulatory Capital	68.4%	67.1%	96.6%	101.3%	77.6%	83.8%	73.5%	77.1%	108.6%
Interest Rate Margin	4.6%	4.1%	4.6%	4.5%	4.7%	4.8%	4.9%	4.7%	4.0%

Source: Central Bank of Curaçao and Sint Maarten.

Table 5. Curaçao and Sint Maarten: Balance of Payments, 2011–21

(In millions of US dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
								Proj.			
Current account	-835	-782	-659	-486	-458	-458	-420	-396	-373	-331	-282
(percent of GDP)	-20.6	-19.0	-15.8	-11.5	-10.9	-10.8	-9.5	-8.8	-8.2	-7.0	-5.8
Goods and services	-711	-619	-482	-336	-343	-363	-342	-317	-295	-249	-203
(percent of GDP)	-17.5	-15.0	-11.6	-8.0	-8.2	-8.6	-7.7	-7.1	-6.5	-5.3	-4.2
Exports of goods and services	3188	3543	3502	3663	3240	3203	3286	3383	3491	3637	3789
Goods	1057	1079	866	832	606	595	614	638	666	699	733
Services	2131	2464	2636	2832	2634	2608	2672	2745	2825	2938	3056
Imports of goods and services	3899	4163	3984	4000	3583	3565	3628	3700	3785	3886	3992
Goods	2865	3022	2831	2832	2402	2398	2443	2495	2555	2631	2711
Services	1033	1141	1154	1168	1181	1168	1185	1205	1231	1255	1281
Income	-48.8	-74.2	-76.6	-73.3	-50.0	-42.3	-28.2	-22.4	-21.5	-22.4	-16.9
Compensation of employees	1.2	-4.7	7.3	-0.8	6.5	7.2	13.6	18.6	19.8	20.2	27.0
Investment income	-50.0	-69.5	-83.9	-72.5	-56.5	-49.4	-41.9	-41.0	-41.3	-42.6	-43.9
Current transfers	-75.3	-88.7	-99.5	-76.5	-64.7	-53.1	-49.7	-56.3	-57.5	-59.6	-61.8
(percent of GDP)	-1.9	-2.2	-2.4	-1.8	-1.5	-1.3	-1.1	-1.3	-1.3	-1.3	-1.3
Capital and financial account	823	553	573	677	421	484	448	420	394	357	305
Capital account	69	39	35	13	-4	-4	-4	-4	-4	-4	-4
Financial account	754	514	538	664	425	488	452	424	397	360	308
Direct investment	49	74	78	72	116	148	149	151	153	141	146
Portfolio investment	103	327	157	440	326	204	192	193	163	134	108
Financial derivatives	0	0	0	0	0	0	0	0	0	0	0
Other investment	602	113	303	152	-17	136	112	80	81	85	54
Reserve assets	-27	155	27	-257	-16	-26	-29	-24	-20	-25	-23
Reserves and external debt	-115.5	-155.1	-27.0	256.9	15.5	26.1	28.9	24.1	20.2	25.3	23.0
Gross Reserves, excluding gold	1290	1135	1108	1365	1380	1406	1435	1459	1480	1505	1528
Net Official reserves	1493	1496	1316	1605	1614	1645	1681	1710	1734	1765	1793
in months of goods imports	6.3	5.9	5.6	6.8	8.1	8.2	8.3	8.2	8.1	8.0	7.9
over short term debt	1.1	1.3	1.0	1.2	1.2	1.2	1.2	1.2	1.1	1.1	1.1
Gross external debt (percent of GDP)	83.4	76.3	80.0	86.6	93.7	98.9	100.2	103.7	106.2	106.1	105.1
of which short term debt	33.0	27.2	30.9	32.0	32.4	32.0	32.2	33.1	33.7	33.5	33.0
Memorandum item:											
GDP at current prices	4054	4116	4164	4211	4206	4235	4413	4480	4553	4712	4875
Current Account (percent of GDP)											
St. Maarten	-0.5	9.5	0.4	-10.5	2.2	2.3	2.6	2.3	2.5	2.5	2.9
Curacao	-27.3	-27.9	-21.0	-11.9	-15.3	-15.3	-13.6	-12.7	-12.0	-10.5	-8.9
G & S Balance (percent of GDP)											
St. Maarten	5.7	14.3	4.0	-5.0	8.5	7.2	6.5	6.1	6.3	6.3	6.2
Curacao	-25.3	-24.2	-16.6	-9.0	-13.8	-14.0	-12.5	-11.6	-11.0	-9.5	-7.9
Exports of Goods											
St. Maarten	127	131	164	132	129	130	134	143	154	167	180
Curacao	930	948	701	699	477	465	480	496	512	532	553
Exports of Services											
St. Maarten	903	1043	1065	1120	1131	1142	1159	1182	1212	1260	1311
Curacao	1228	1422	1571	1712	1503	1466	1513	1563	1613	1678	1745
Imports of Goods and Services											
St. Maarten	972	1033	1190	1305	1169	1194	1221	1255	1291	1348	1409
Curacao	2926	3130	2795	2695	2414	2371	2407	2446	2494	2538	2583

Sources: Central Bank of Curaçao and St. Maarten; and IMF Staff Estimates.

Table 6. Curaçao: Balance of Payments, 2011–21

(In millions of US dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
								Proj.			
Current account	-830	-876	-663	-376	-481	-484	-448	-422	-403	-363	-320
(percent of GDP)	-27.3	-27.9	-21.0	-11.9	-15.3	-15.3	-13.6	-12.7	-12.0	-10.5	-8.9
Goods and services	-768	-760	-523	-283	-434	-441	-414	-387	-369	-328	-284
(percent of GDP)	-25.3	-24.2	-16.6	-9.0	-13.8	-14.0	-12.5	-11.6	-11.0	-9.5	-7.9
Exports of goods and services	2158	2370	2272	2412	1980	1931	1993	2058	2125	2210	2298
Goods	930	948	701	699	477	465	480	496	512	532	553
Services	1228	1422	1571	1712	1503	1466	1513	1563	1613	1678	1745
Imports of goods and services	2,926	3,130	2,795	2,695	2,414	2,371	2,407	2,446	2,494	2,538	2,583
Goods	2,132	2,254	1,906	1,819	1,512	1,486	1,508	1,532	1,563	1,590	1,618
Services	795	875	889	876	901	885	899	913	931	948	964
Income	-13.8	-43.6	-53.8	-27.5	0.9	-11.1	-1.7	-1.7	0.0	0.0	0.0
Compensation of employees	27.9	23.2	26.7	33.7	42.6	39.5	41.3	41.6	43.7	45.1	46.5
Investment income	-41.7	-66.8	-80.5	-61.2	-41.8	-50.5	-43.0	-43.3	-43.7	-45.1	-46.5
Current transfers	-48.0	-72.4	-86.1	-65.1	-48.4	-31.6	-33.0	-33.3	-33.6	-34.7	-35.8
(percent of GDP)	-1.6	-2.3	-2.7	-2.1	-1.5	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Capital and financial account	817	739	637	529	457	502	459	429	417	378	329
Capital account	54	27	26	9	-3	-3	-3	-3	-3	-3	-3
Financial account	764	712	611	520	460	505	463	433	420	381	333
Direct investment	99	58	34	25	88	111	116	117	118	104	107
Portfolio investment	132	365	198	340	335	205	182	183	168	139	118
Financial derivatives	0	0	0	0	0	0	0	0	0	0	0
Other investment	532	289	379	155	37	189	165	133	134	139	107
Reserve assets	-20	115	20	-190	-11	-18	-11	-7	-14	-15	-9
Reserves and external debt	22.9	-131.2	-22.8	217.3	13.1	18.3	10.8	7.0	13.5	15.2	9.2
Gross Reserves, excluding gold	1,091	960	937	1,154	1,167	1,186	1,197	1,204	1,217	1,232	1,242
Net Official reserves	1,244	1,246	1,096	1,337	1,345	1,366	1,378	1,387	1,402	1,420	1,430
in months of goods imports	7.0	6.6	6.9	8.8	10.7	11.0	11.0	10.9	10.8	10.7	10.6
over short term debt	1.2	1.5	1.1	1.2	1.3	1.3	1.2	1.1	1.1	1.1	1.0
Gross external debt (percent of GDP)	89.1	81.3	86.9	93.7	103.4	111.9	114.7	121.1	126.8	128.7	129.4
of which short term debt	34.7	27.1	31.9	33.9	34.0	33.6	34.4	36.3	38.0	38.6	38.8
Memorandum item:											
GDP at current prices	3,039	3,133	3,148	3,160	3,146	3,158	3,305	3,330	3,360	3,468	3,576

Sources: Central Bank of Curaçao and St. Maarten; and IMF Staff Estimates.

Table 7. Sint Maarten: Balance of Payments, 2011–21

(In millions of US dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
						Proj.					
Current account	-5	93	4	-110	23	25	29	26	30	31	38
(percent of GDP)	-0.5	9.5	0.4	-10.5	2.2	2.3	2.6	2.3	2.5	2.5	2.9
Goods and services	58	140	40	-53	90	78	72	70	75	79	81
(percent of GDP)	5.7	14.3	4.0	-5.0	8.5	7.2	6.5	6.1	6.3	6.3	6.2
Exports of goods and services	1,030	1,173	1,230	1,252	1,259	1,272	1,293	1,325	1,366	1,427	1,490
Goods	127	131	164	132	129	130	134	143	154	167	180
Services	903	1,043	1,065	1,120	1,131	1,142	1,159	1,182	1,212	1,260	1,311
Imports of goods and services	972	1,033	1,190	1,305	1,169	1,194	1,221	1,255	1,291	1,348	1,409
Goods	734	768	925	1,013	889	912	935	963	991	1,041	1,093
Services	239	265	265	292	279	282	287	292	300	307	316
Income	-35.0	-30.6	-22.8	-45.8	-50.9	-31.2	-26.6	-20.7	-21.5	-22.4	-16.9
Compensation of employees	-26.7	-27.9	-19.4	-34.5	-36.1	-32.3	-27.7	-23.0	-23.9	-24.9	-19.5
Investment income	-8.3	-2.7	-3.4	-11.3	-14.8	1.1	1.1	2.3	2.4	2.5	2.6
Current transfers	-27.3	-16.3	-13.5	-11.5	-16.4	-21.5	-16.6	-23.0	-23.9	-24.9	-26.0
(percent of GDP)	-2.7	-1.7	-1.3	-1.1	-1.5	-2.0	-1.5	-2.0	-2.0	-2.0	-2.0
Capital and financial account	5	-186	-65	148	-36	-17	-11	-9	-23	-21	-25
Capital account	15	12	9	4	0	0	0	0	0	0	0
Financial account	-10	-198	-73	144	-36	-17	-10	-9	-23	-21	-24
Direct investment	-50	16	44	47	28	38	33	34	36	37	39
Portfolio investment	-30	-38	-41	100	-9	-1	10	10	-5	-5	-10
Financial derivatives	0	0	0	0	0	0	0	0	0	0	0
Other investment	69	-176	-76	-2	-54	-54	-54	-54	-53	-53	-53
Reserve assets	-7	40	7	-67	-4	-8	-18	-17	-7	-10	-14
Reserves and external debt	-138.4	-23.9	-4.2	39.6	2.4	7.8	18.1	17.1	6.7	10.1	13.8
Gross Reserves, excluding gold	199	175	171	210	213	221	239	256	262	273	286
Net Official reserves	249	250	220	268	269	279	302	324	332	345	362
in months of goods imports	4.1	3.9	2.8	3.2	3.6	3.7	3.9	4.0	4.0	4.0	4.0
over short term debt	0.9	0.9	0.8	1.0	0.9	0.9	1.1	1.2	1.3	1.4	1.6
Gross external debt (percent of GDP)	66.4	60.4	58.6	65.1	65.0	60.8	57.1	53.1	48.1	43.1	38.1
of which short term debt	28.0	27.6	28.0	26.5	27.8	27.4	25.7	23.9	21.6	19.4	17.1
Memorandum item:											
GDP at current prices	1,015	983	1,016	1,051	1,059	1,077	1,108	1,150	1,193	1,244	1,300

Sources: Central Bank of Curaçao and St. Maarten; and IMF Staff Estimates.

Table 8. Curaçao: Government Operations, 2011–21

(In percent of GDP)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
								Proj.			
Total Revenue	29.0	29.7	29.8	28.4	30.9	43.7	42.8	42.1	41.6	41.5	41.4
Tax Revenue	26.2	25.5	25.3	24.8	25.7	25.1	25.3	25.3	25.2	25.2	25.2
Taxes on income, profits, and capital gains	3.6	3.6	3.1	2.8	3.0	2.7	2.6	2.6	2.6	2.6	2.6
Taxes on payroll & workforce	9.2	9.1	8.9	8.6	8.5	8.1	8.1	8.1	8.1	8.1	8.1
Taxes on property	0.9	0.8	0.8	0.8	1.3	1.1	1.1	1.1	1.1	1.1	1.1
Taxes on goods and services	9.0	9.0	9.6	9.6	9.8	10.1	10.4	10.4	10.4	10.4	10.4
Other taxes	3.4	3.1	2.9	2.9	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Social security contributions 1/	0.0	0.0	0.0	0.0	0.0	14.3	13.6	13.1	12.7	12.6	12.5
Grants 2/	0.3	1.1	0.3	0.3	1.9	1.0	0.6	0.4	0.4	0.4	0.4
Other revenue	2.3	3.0	4.2	3.1	3.2	3.3	3.3	3.3	3.2	3.2	3.2
Total Expenditure	30.7	29.5	27.4	27.5	29.7	42.6	41.9	41.3	40.7	40.6	40.6
Compensation of employees 3/	13.0	12.5	12.6	12.3	12.3	11.9	11.8	11.7	11.7	11.7	11.7
Goods and services	3.9	3.8	3.6	4.0	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Transfers 4/	11.8	11.0	9.1	8.8	11.5	5.2	5.2	5.1	5.1	5.1	5.1
Social security benefits	0.0	0.0	0.0	0.0	0.0	19.4	18.8	18.3	17.9	17.8	17.8
Subsidies	1.1	1.2	1.3	1.2	1.1	1.1	1.1	1.1	1.1	1.0	1.0
Interest	0.9	0.9	0.9	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.2
Gross Operating Balance	-1.7	0.2	2.4	0.9	1.1	1.1	0.9	0.8	0.9	0.8	0.7
Net Acquisition of Nonfinancial Assets	0.6	0.9	3.1	2.7	3.9	3.5	3.4	3.3	2.8	2.7	2.7
Overall Balance	-2.3	-0.7	-0.7	-1.8	-2.8	-2.5	-2.7	-2.7	-2.0	-2.0	-2.1
Primary Balance	-1.4	0.2	0.2	-0.7	-1.7	-1.4	-1.5	-1.5	-0.8	-0.8	-0.8
Current Balance	-2.0	0.2	2.3	0.6	1.1	1.0	0.8	0.7	0.8	0.7	0.6
Memorandum Items:											
Net government debt	34.5	29.9	30.7	34.1	36.1	38.2	40.0	41.5	42.2	43.0	43.8
Gross government debt	40.6	33.1	34.1	38.6	44.3	44.5	44.5	44.2	44.8	45.5	46.2

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

1. Social security and health insurance funds are integrated into the budget starting 2016.
2. Grants in 2012 reflect the debt relief grants from the Netherlands to settle arrears.
3. Includes payments on pension and health insurance premiums.
4. Includes budget contributions to social security and health insurance funds before 2016.

Table 9. Sint Maarten: Government Operations, 2011–21

(In percent of GDP)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
							Proj.				
Total Revenue	22.1	25.6	27.0	22.9	23.1	23.9	23.6	23.7	23.8	23.8	23.8
Taxes	17.8	19.7	19.5	19.7	20.3	20.5	20.4	20.5	20.5	20.5	20.5
Taxes on income, profits, and capital gains	1.5	1.3	1.2	1.4	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Taxes on payroll & workforce	6.7	7.2	7.0	7.1	7.3	7.2	7.2	7.2	7.2	7.2	7.2
Taxes on property	1.0	0.8	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Taxes on goods and services	8.5	10.3	10.4	10.5	10.4	10.7	10.5	10.6	10.7	10.7	10.7
Other taxes	0.0	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	4.4	5.9	7.6	3.2	2.8	3.4	3.3	3.3	3.3	3.3	3.3
Total Expenditure	21.5	25.3	27.9	27.4	24.4	24.7	24.6	24.6	24.6	24.5	24.5
Compensation of employees	7.7	9.1	10.8	10.6	10.1	10.0	10.0	10.0	10.0	10.0	10.0
Goods and services	5.6	7.1	6.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2
Social benefits 1/	1.1	1.2	4.1	1.3	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Subsidies	5.7	4.9	4.7	5.0	5.4	5.1	5.1	5.1	5.1	5.1	5.1
Interest	0.6	0.7	0.6	0.6	0.7	0.7	0.6	0.6	0.6	0.6	0.5
Gross Operating Balance	0.7	0.4	-0.8	-4.5	-1.3	-0.8	-1.0	-0.8	-0.7	-0.7	-0.7
Net Acquisition of Nonfinancial Assets	0.7	2.3	1.4	4.6	2.0	2.5	2.5	2.5	2.5	2.5	2.5
Overall Balance	0.7	0.4	-0.8	-4.5	-1.3	-0.8	-1.0	-0.8	-0.7	-0.7	-0.7
Primary Balance	1.3	1.0	-0.3	-3.9	-0.6	-0.1	-0.3	-0.2	-0.2	-0.2	-0.2
Current Balance	1.4	2.7	0.6	0.2	0.7	1.7	1.5	1.7	1.8	1.8	1.8
Memorandum Items:											
Net government debt	17.3	12.5	20.1	31.9	33.6	33.8	33.9	33.5	33.1	32.5	31.9
Gross government debt	27.3	20.0	24.3	37.1	36.5	36.7	36.7	36.3	35.7	35.0	34.3

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

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

Annex I. Curaçao and Sint Maarten: Risk Assessment Matrix (RAM)[1]

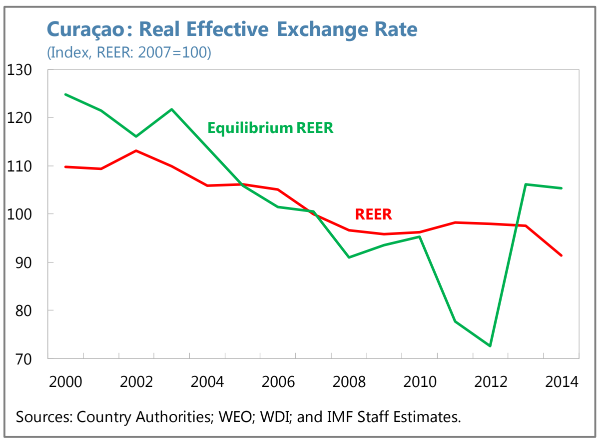
Nature/source of main risk	*Relative likelihood*	*Potential impact if realized*	*Suggested policy response*
Structurally weak growth in the euro area. Weak demand and persistently low inflation from a failure to fully address crisis legacies and undertake structural reforms lead to low medium-term growth.	**High**	**High** Slower growth in the euro area could directly dampen growth in Curaçao and Sint Maarten through lower tourism arrivals, remittances, and FDI. The fiscal position could also worsen with weaker revenues.	Support growth through effective public investment (and structural reforms). Build fiscal buffers to cushion potential shocks.
Surge in the US dollar. Improving U.S. economic prospects versus the rest of the world leads to a further dollar surge, boosting non-U.S. trade but creating balance sheet strains for dollar debtors.	**High**	**Medium** A surge in the U.S. dollar, to which the regional currency is pegged, could lead to further appreciation of the real exchange rate, making Curaçao and Sint Maarten a more expensive destination for tourists from Europe and Canada.	Increase productivity and reduce labor costs to improve competitiveness and promote tourism sector through better targeted marketing strategies.
Reduced financial services by global/regional banks: Further loss of correspondent banking services significantly curtails cross-border payments, trade finance, and remittances in small economies.	**Medium**	**Medium** Shock to remittance flows could have a short-run impact on BOP net inflows and reduced consumption spending. Disrupted banking services could also hinder cross-border financial transactions.	Strengthen AML/CFT compliance and risk-based supervision; ensure full compliance with international standards on transparency of tax information; continue monitoring the status of correspondent banking relationships.
Further deterioration of macroeconomic stability in Venezuela, while growth is plummeting and hyperinflation is settling in.	**High**	**High** for Curaçao **Low** for Sint Maarten Venezuela is one of Curaçao's main trading partners and accounts for a large share of tourists. Further disruption of economic activity in Venezuela could also complicate the fate of the refinery plant in Curaçao leased to PDVSA.	Build fiscal buffers to cushion potential shocks.
Outbreak of Zika Virus, a virus transmitted by mosquitoes that causes flu-like symptoms but is suspected to be associated with microcephaly.	**Medium**	**High** for Sint Maarten **Medium** for Curaçao Local mosquito transmission of Zika Virus has been reported in both Curaçao and Sint Maarten. An outbreak of the virus could significantly discourage tourist arrivals, widen current account deficit and dampen growth.	Raise public awareness of the virus and related health issues and urge proactive prevention measures by tourism facilities (e.g. regular mosquito fogging).
Natural disasters, mainly hurricanes, could cause severe damage to infrastructure and disrupt tourism flows.	**High** in Sint Maarten **Low** in Curaçao	**High** The cost of infrastructure rehabilitation would put pressure on the fiscal position. The disruption to the hotel sector would slow tourism inflows, reduce growth and widen the current account deficit.	Build fiscal buffers and increase coverage of natural disaster insurance. In the long-term, strengthen resilience to climate change.

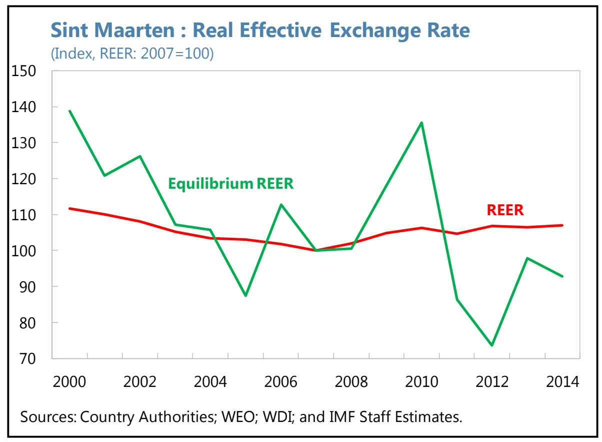
[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex II. External Sector Assessment

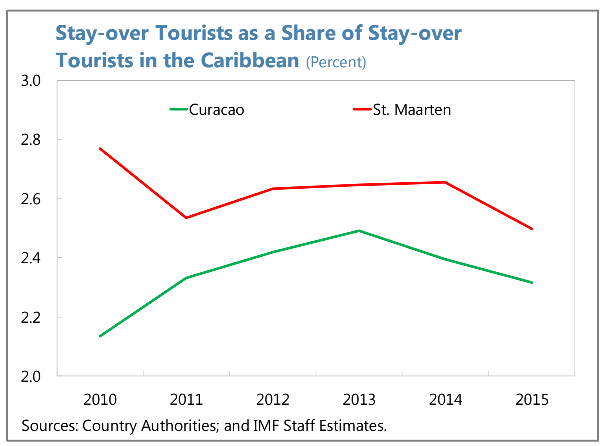
Competitiveness indicators for Curaçao and Sint Maarten are mixed, highlighting current and potential issues faced by the Union and the need for structural reforms to address impediments.

1. **Despite the same nominal peg, Curaçao and Sint Maarten's real effective exchange rates (REER) moved in different directions in 2015.** Curaçao's REER depreciated in 2015, largely reflecting lower inflation relative to one of its main trading partners—Venezuela. In contrast, Sint Maarten's REER appreciated in 2015, given the relatively low inflation in the United States, its main trading partner. A comparison of the REERs relative to equilibrium values suggest that Curaçao's REER is below its equilibrium level, while Sint Maarten's REER shows slight overvaluation.[1] However, staff cautions that these assessments are subject to large statistical errors given limited data availability and in some cases the quality is below that required for the standard IMF EBA-lite assessment.





2. **Curaçao and Sint Maarten's tourism market share in the Caribbean has declined.** Curaçao's share of stay-over tourists in the Caribbean declined, for a second consecutive year, to 2.3 percent in 2015 from 2.4 percent in 2014. Similarly, following three years of steady improvement, Sint Maarten's share of stay-over tourists in the Caribbean fell to 2.5 percent in 2015 from 2.7 percent in 2014.

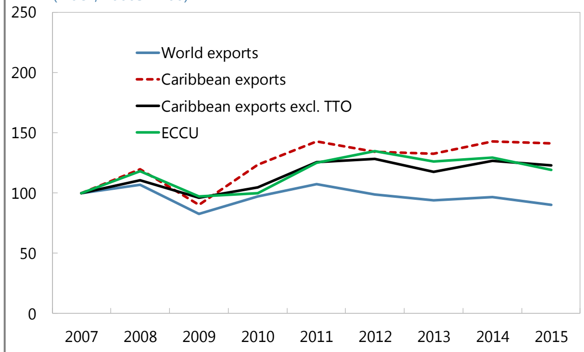


3. **The Union's share in world exports remained relatively unchanged, with contrasting results for Curaçao and Sint Maarten.**

[1] The equilibrium values are derived from a PPP-based panel estimation of a sample of Latin American and Caribbean countries for the period 1985-2014. These results should be treated with caution as many relevant variables had to be omitted from the model due to data limitations.

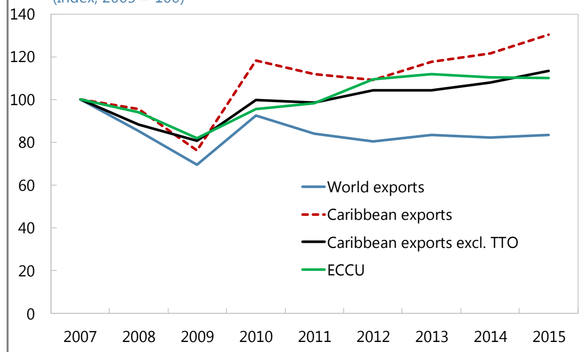
Curaçao's share in world exports declined in 2015, more than offsetting the increase in market share observed in 2014. Curaçao's share of exports also declined relative to its Caribbean peers in 2015. In contrast, Sint Maarten's share of world exports grew slightly in 2015, but remained unchanged relative to 2013. Compared with Caribbean peers, Sint Maarten expanded its share of exports for the third consecutive year.

Curaçao: Export Market Share
(Index, 20005= 100)



Sources: Country Authorities; WEO; and IMF Staff Estimates.

Sint Maarten: Export Market Share
(Index, 2005 = 100)



Sources: Country Authorities; WEO; and IMF Staff Estimates.

4. **Finally, the Unions' large current account deficits, albeit declining, and lackluster growth underscore the need for targeted reforms to address competitiveness issues.** Foreign reserves coverage appears adequate, at 10.7 months of imports in Curaçao and 3.6 months of imports in Sint Maarten. However, the Union's current account deficit remains high, and has been financed partly through growing external debt. Given the islands' significant vulnerability to external shocks, including natural disaster, international commodity prices, and adverse growth shocks in trading partners among others, strengthening competitiveness and efforts to build external buffers are critical to ensuring external sustainability and unlocking growth potential.

Annex III. Debt Sustainability Analysis

Curaçao and Sint Maarten both benefited from significant debt relief as part of the constitutional reform in 2010, when the Netherlands took over all existing debt of Netherlands' Antilles in exchange of a significantly smaller amount of long term debt issued in local currency at very low rates by the two islands. The public debt levels in the two islands are currently low compared to regional peers. The debt paths are, however, sensitive to adverse growth, fiscal and interest rate shocks, as well as contingent liabilities associated with state-owned-enterprises (SOEs) and social security funds. In addition, Sint Maarten is susceptible to natural disaster related risks, as the island sits in the Caribbean Hurricane Belt. Overall, risks of public debt distress are assessed to be low, in light of the current low debt levels, and the favorable maturity profile and currency composition of debt.

A. Public Debt Sustainability Analysis

Background

Public debt remains relatively low around 35-45 percent of GDP in Curaçao and Sint Maarten, despite the increase in recent (post-debt-relief) years. The debt relief in 2010 significantly lowered the debt burdens of the two islands and introduced a "standing subscription" arrangement, which allows the two island governments to access long-term borrowing in local currency at ultralow rates from the Dutch Treasury to finance their operations. The recent increases in debt levels in the two islands in part reflect loans issued during 2014-15 to pre-finance several large public investment projects, while the governments have made important progress to balance their current accounts to comply with the fiscal rules, which include a "golden rule" that permits government borrowing only for investment.

The authorities have made important progress in consolidating the public accounts and reducing contingent fiscal risks. Social security (including national health insurance) revenue and expenditure have been included in the central government budget, as of 2016, and are therefore also reflected in the baseline scenario. The authorities in both islands (particularly Curaçao) have also made considerable progress in reducing contingent fiscal risks associated with state-owned-enterprises (see paragraph 30 in the Staff Report).

Baseline scenario and main assumptions

Gross public debt, under the baseline scenario, is projected to gradually increase over the projection horizon to 46½ percent of GDP in 2021 (relative to 44⅓ percent in 2015) in Curaçao, as slow economic growth persists; and to slowly decline toward 34 percent of GDP (relative to 36½ percent in 2015) in Sint Maarten with lower deficits. Despite a slight upward trend in Curaçao's public debt trajectory, it is expected to remain low by regional standards, and gross financing needs are assessed to be broadly manageable.

Real GDP growth is expected to gradually pick up to 1 percent in Curaçao and 1⅓ percent in Sint Maarten, supported by the continuation of private and public investment projects and a moderate increase in tourism flows. However, downside risks to medium-term growth prospects remain, including structurally weak growth in the euro area, reduced financial services by global/regional banks, further deterioration of macroeconomic stability in Venezuela (in the case of Curaçao), and natural disasters (in the case of Sint Maarten), among others (see Annex I in the Staff Report).

Inflation is also expected to increase to around 2⅓ percent in Curaçao and 2¾ percent in Sint Maarten over the medium term, as the deflationary impact of the current low international oil prices dissipates and domestic demand gradually recovers.

The fiscal position, on current policies is expected to slowly improve in both islands over the latter part of the projection horizon, as large public investment projects begin to wind down and the authorities continue their efforts on increasing revenues. However, going forward, close expenditure management and strict budget execution will be needed to ensure compliance with the fiscal rules. The current fiscal policy framework could be further strengthened through the adoption of a medium term fiscal framework to ensure fiscal and debt sustainability, while providing policy cushion and flexibility to accommodate potential external shocks.

Market Access is assumed to remain adequate to cover fiscal deficits and maturing debt under the presumption that the current low cost "standing subscription" borrowing arrangement with the Netherlands (under the Cft's oversight) will remain in place throughout the projection horizon. However, interest rates are projected to gradually increase over time, in line with the forecast for the Netherlands' long-term borrowing costs.

Shocks and stress tests

Growth shock. In an adverse growth shock scenario with lower output growth of one standard deviation for 2 years starting 2017, the debt-to-GDP ratio would increase by 3⅓ percentage points in Curaçao and by 6 percentage points in Sint Maarten compared to the baseline.
Primary balance shock. A temporary shock equivalent to one-half of standard deviation in 2017-18 would entail a deterioration of 3⅓ percent of GDP in the primary balance in Curaçao and 1¾ percent in Sint Maarten. Accordingly, the debt-to-GDP ratio would increase by about 7 percent in Curaçao and 3 percent in Sint Maarten, as a result of the higher gross financing needs than in the baseline scenario.

Interest rate shock. The standard interest rate shock is expected to have relatively moderate impact over the projection horizon given the islands' favorable maturity profile with most borrowing at fixed rates and low refinancing needs. Combined with a permanent increase in the nominal interest rate by 300 bps starting 2019 (assuming the low cost "standing subscription" arrangement will lapse following the 2018 review of the Cft oversight), public debt would expand by 0.6 percent of GDP higher in Curaçao and by 0.1 percent of GDP higher in Sint Maarten, compared with the baseline scenario, which assumes the "standing subscription" arrangement will remain.

Combined macro-fiscal shock. A combination of the above shocks would bring the debt gradually up to 56 percent of GDP in Curaçao and 41 percent of GDP in Sint Maarten, and would continue to rise thereafter.

Customized shocks. Two customized shock scenarios are simulated for Curaçao and Sint Maarten respectively:

- *Venezuela shock (for Curaçao).* Under an extreme shock scenario, in which 1) Curaçao's trade and tourism links with Venezuela are completely removed starting from 2017 and 2) the refinery business completely stops in 2019 after the current lease expires (i.e. not renewed), Curaçao's debt-to-GDP ratio would increase by 7¾ percent over the baseline scenario.

- *Natural disaster shock (for Sint Maarten).* Given lack of detailed data on historical disaster damages and reconstruction-related government expenditure, a hypothetical disaster in 2017 is simulated. The shock, which assumes a one-time 10 percent of GDP increase in government expenditure to cover post-disaster reconstruction needs, would lead to an increase in the debt level by an amount similar to the size of the shock.

B. External Debt Sustainability Analysis

Financing needs to cover the Union's large current account deficits will push up gross external debt over the medium term. Under the baseline scenario, the gross external debt would increase from around 94 percent of GDP in 2015 to over 106 percent of GDP by 2019 before beginning a gradual decline. This forecast is based on the same assumptions for macroeconomic variables as per the baseline macroeconomic framework. In particular, average non-debt creating FDI is assumed to be about 3⅓ percent of GDP a year, compared with an average of 2½ percent of GDP over the past decade, reflecting a gradual pickup in tourism-related investment as global tourism demand increases. As such, current account deficits are also expected to gradually narrow over the medium term, largely due to an increase in the demand for the Union's tourism services.

The Union's external debt is sensitive to adverse current account or depreciation shocks, but is relatively resilient to an interest rate or growth shock. The shock scenarios find the gross external debt would increase by 16 percent of GDP by 2021 with a current account deficit path one-half of standard deviation above the baseline, and by 31 percent of GDP with a 30 percent real depreciation (given a large share of the Union's external debt is denominated in the local currency). A full assessment of external debt sustainability is, however, hampered by lack of information on the Union's international investment positions, in particular its foreign assets.

C. Conclusions

With the current low levels and favorable dynamics of Curaçao and Sint Maarten's public and external debt, the DSA finds the risk of debt distress low, but the debt paths are sensitive to shocks. While remaining relatively low levels compared with most of its regional peers, Curaçao's public debt is expected to gradually increase under the baseline scenario, posing a risk to the island's long term debt sustainability. As such, staff has proposed a medium term fiscal framework that aims to gradually reduce and stabilize Curaçao's public debt (see paragraph 27 in the Staff Report). Besides, both islands' public and external debt are found to be vulnerable to shocks, which calls for the authorities' sustained efforts and decisive reforms to strengthen their fiscal framework, build policy buffers, improve external competitiveness, and unlock growth potential.

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

(in percent of GDP unless otherwise indicated)

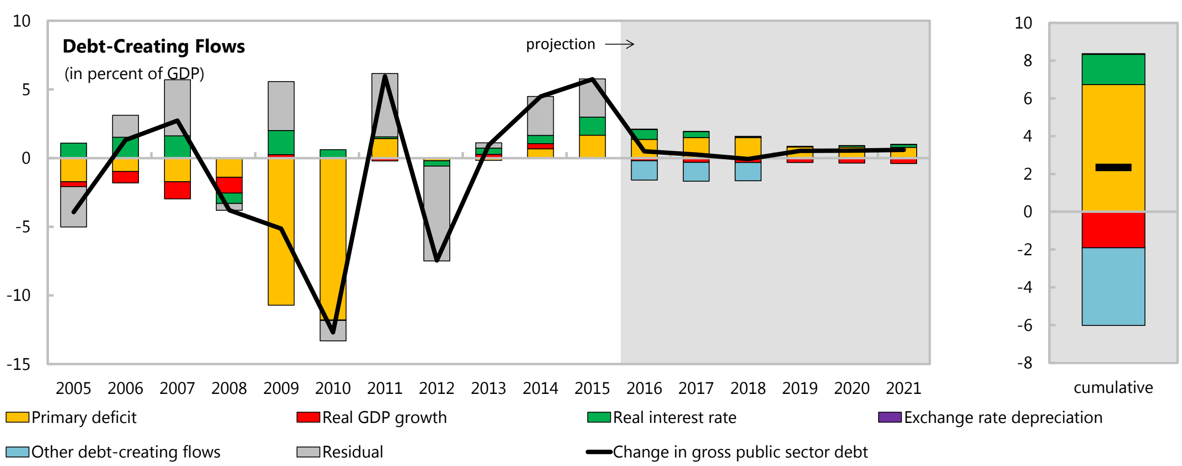
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2005-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	44.9	38.6	44.3	44.8	45.0	45.0	45.5	46.1	46.6
Public gross financing needs	-3.0	0.7	1.7	2.6	2.7	2.7	2.0	3.6	2.1
Real GDP growth (in percent)	0.7	-1.1	0.1	0.5	0.7	0.7	0.7	0.8	0.9
Inflation (GDP deflator, in percent)	3.2	1.5	-0.5	0.8	1.5	2.3	2.4	2.3	2.1
Nominal GDP growth (in percent)	3.9	0.4	-0.4	1.2	2.2	3.0	3.2	3.1	3.0
Effective interest rate (in percent) [4/]	4.6	3.3	2.9	2.5	2.5	2.5	2.5	2.5	2.6

As of December 31, 2015		
Sovereign Spreads		
EMBIG (bp) 3/		n.a.
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	A-	A-
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-2.5	4.5	5.7	0.5	0.3	-0.1	0.5	0.5	0.6	2.3	
Identified debt-creating flows	-2.7	1.7	3.0	0.5	0.2	-0.1	0.5	0.5	0.6	2.3	
Primary deficit	-3.0	0.7	1.7	1.4	1.5	1.5	0.8	0.8	0.8	6.7	-0.2
Primary (noninterest) revenue and grants	25.5	28.4	30.9	43.7	42.8	42.1	41.6	41.5	41.4	252.9	
Primary (noninterest) expenditure	22.5	29.1	32.5	45.0	44.3	43.6	42.4	42.2	42.1	259.6	
Automatic debt dynamics [5/]	0.3	1.0	1.3	0.5	0.1	-0.2	-0.3	-0.3	-0.2	-0.3	
Interest rate/growth differential [6/]	0.3	1.0	1.3	0.5	0.1	-0.2	-0.3	-0.3	-0.2	-0.3	
Of which: real interest rate	0.7	0.6	1.3	0.7	0.4	0.1	0.0	0.1	0.2	1.6	
Of which: real GDP growth	-0.4	0.4	0.0	-0.2	-0.3	-0.3	-0.3	-0.4	-0.4	-1.9	
Exchange rate depreciation [7/]	0.0	0.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	-1.4	-1.4	-1.3	0.0	0.0	0.0	-4.1	
Drawdown of government deposits	0.0	0.0	0.0	-1.4	-1.4	-1.3	0.0	0.0	0.0	-4.1	
Residual, including asset changes [8/]	0.3	2.8	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

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

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

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

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

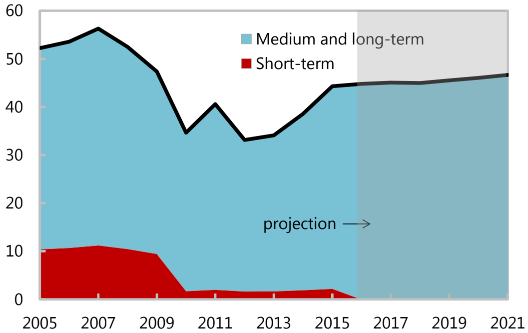
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

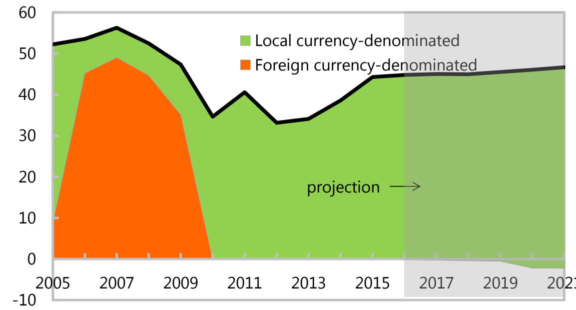
Figure 2. Curaçao: Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



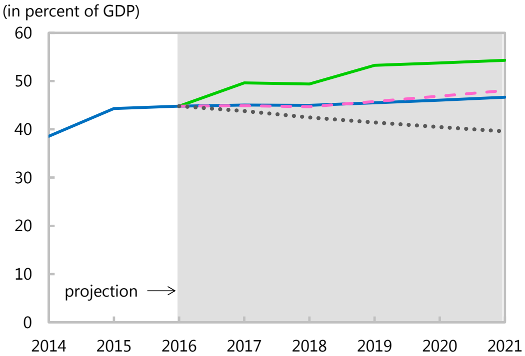
By Currency
(in percent of GDP)



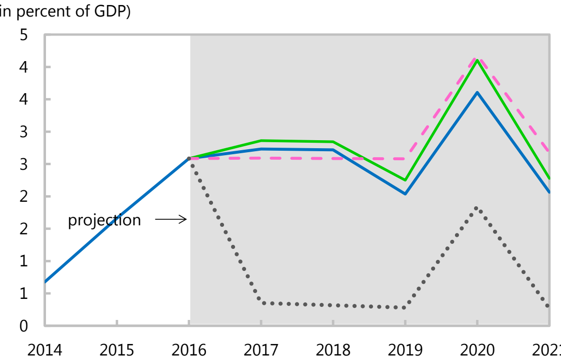
Alternative Scenarios

Baseline
Historical
Venezuela shock
Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



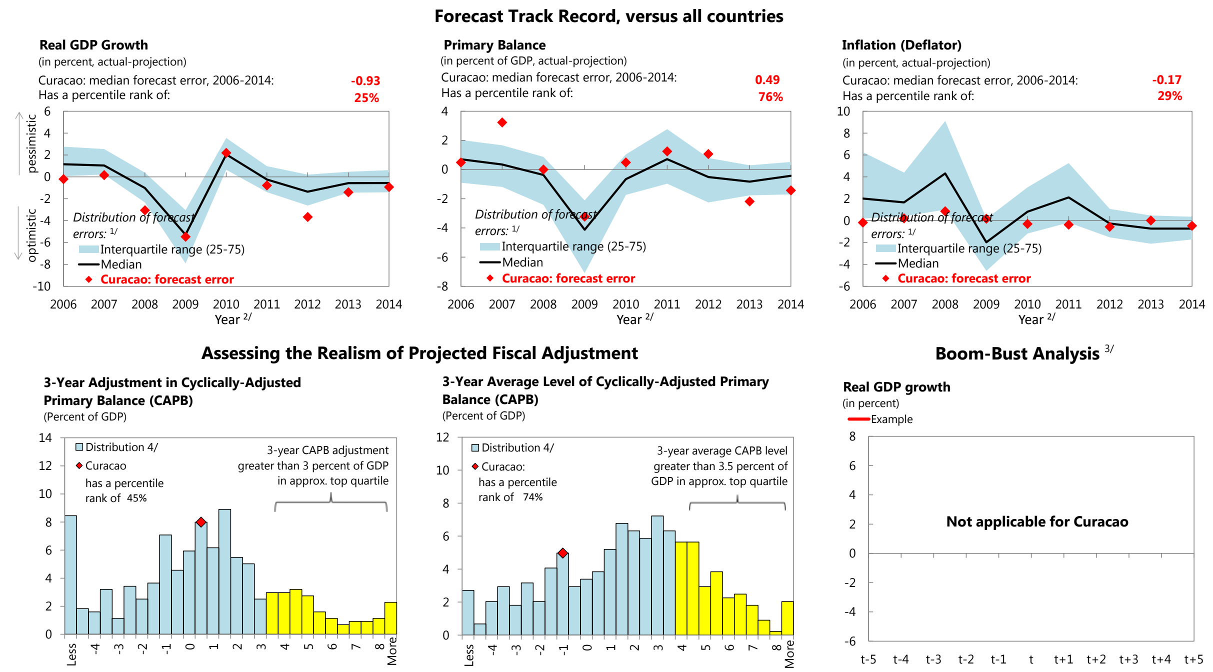
Underlying Assumptions
(in percent)

Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	0.5	0.7	0.7	0.7	0.8	0.9
Inflation	0.8	1.5	2.3	2.4	2.3	2.1
Primary Balance	-1.4	-1.5	-1.5	-0.8	-0.8	-0.8
Effective interest rate	2.5	2.5	2.5	2.5	2.5	2.6
Constant Primary Balance Scenario						
Real GDP growth	0.5	0.7	0.7	0.7	0.8	0.9
Inflation	0.8	1.5	2.3	2.4	2.3	2.1
Primary Balance	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Effective interest rate	2.5	2.5	2.5	2.5	2.5	2.6

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	0.5	0.5	0.5	0.5	0.5	0.5
Inflation	0.8	1.5	2.3	2.4	2.3	2.1
Primary Balance	-1.4	0.9	0.9	0.9	0.9	0.9
Effective interest rate	2.5	2.5	2.5	2.5	2.5	2.6

Source: IMF staff.

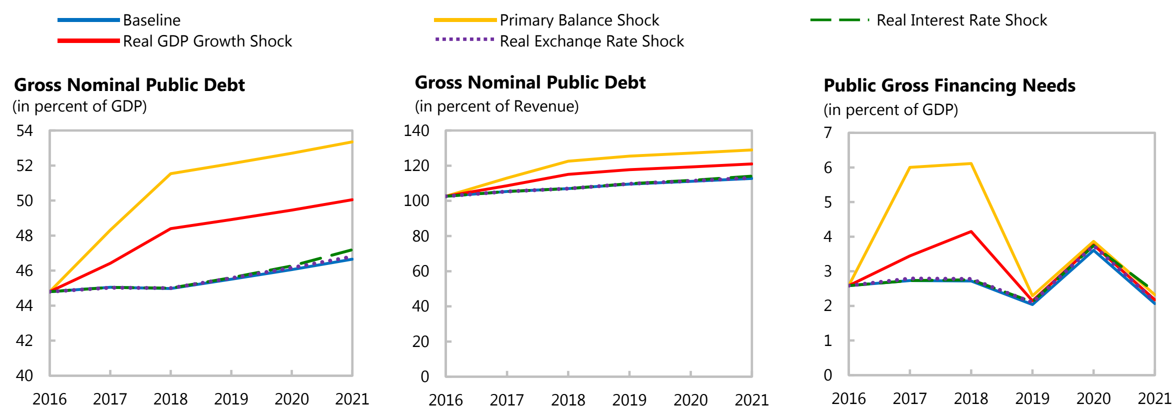
Figure 3. Curaçao: Public DSA - Realism of Baseline Assumptions



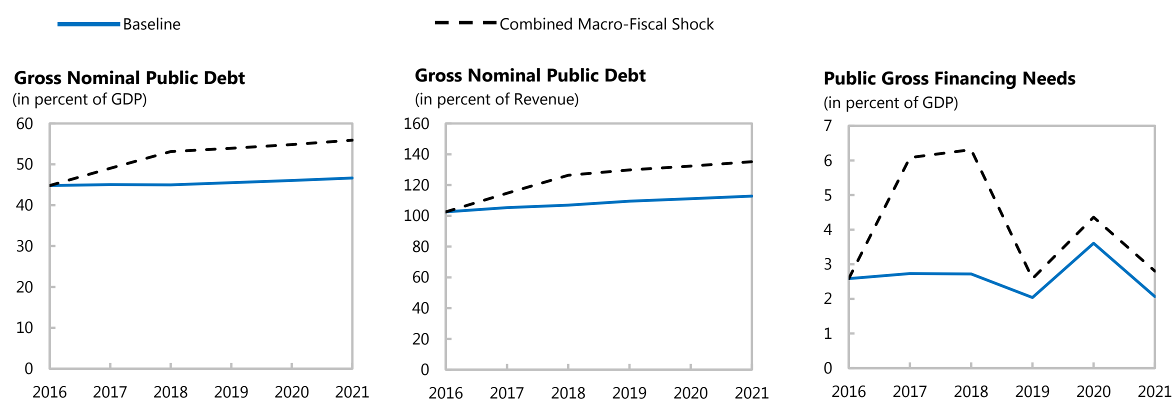
Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Example, as it meets neither the positive output gap criterion nor the private credit growth criterion.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

Figure 4. Curaçao: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	0.5	0.7	0.7	0.7	0.8	0.9
Inflation	0.8	1.5	2.3	2.4	2.3	2.1
Primary balance	-1.4	-4.8	-4.8	-0.8	-0.8	-0.8
Effective interest rate	2.5	2.5	2.6	2.7	2.7	2.8
Real Interest Rate Shock						
Real GDP growth	0.5	0.7	0.7	0.7	0.8	0.9
Inflation	0.8	1.5	2.3	2.4	2.3	2.1
Primary balance	-1.4	-1.5	-1.5	-0.8	-0.8	-0.8
Effective interest rate	2.5	2.5	2.6	2.7	2.8	3.4
Combined Shock						
Real GDP growth	0.5	-0.5	-0.5	0.7	0.8	0.9
Inflation	0.8	1.2	2.0	2.4	2.3	2.1
Primary balance	-1.4	-4.8	-4.8	-0.8	-0.8	-0.8
Effective interest rate	2.5	2.6	2.9	3.2	3.3	3.6

Real GDP Growth Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	0.5	-0.5	-0.5	0.7	0.8	0.9
Inflation	0.8	1.2	2.0	2.4	2.3	2.1
Primary balance	-1.4	-2.2	-2.9	-0.8	-0.8	-0.8
Effective interest rate	2.5	2.5	2.5	2.6	2.6	2.6
Real Exchange Rate Shock						
Real GDP growth	0.5	0.7	0.7	0.7	0.8	0.9
Inflation	0.8	1.7	2.3	2.4	2.3	2.1
Primary balance	-1.4	-1.5	-1.5	-0.8	-0.8	-0.8
Effective interest rate	2.5	2.6	2.6	2.6	2.7	2.7

Source: IMF staff.

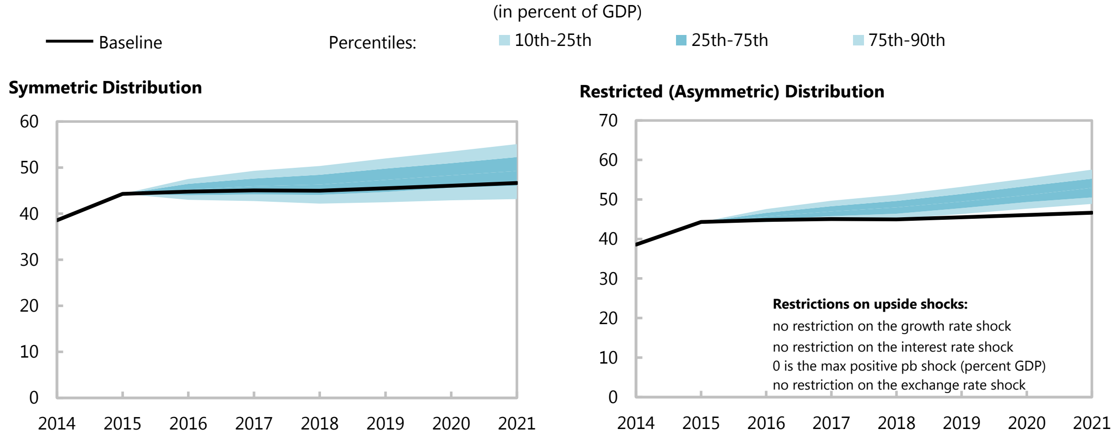
Figure 5. Curaçao: Public DSA Assessment

Heat Map

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

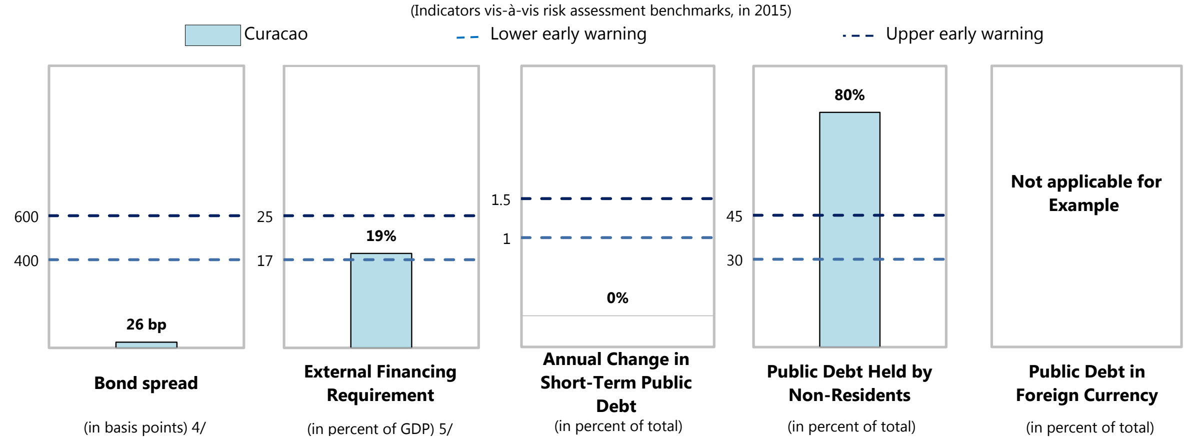
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)



Source: IMF staff.

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

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

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

Lower and upper risk-assessment benchmarks are:

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

4/ Long-term bond spread over German bonds, an average over the last 3 months, 02-Oct-15 through 31-Dec-15.

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

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

(in percent of GDP unless otherwise indicated)

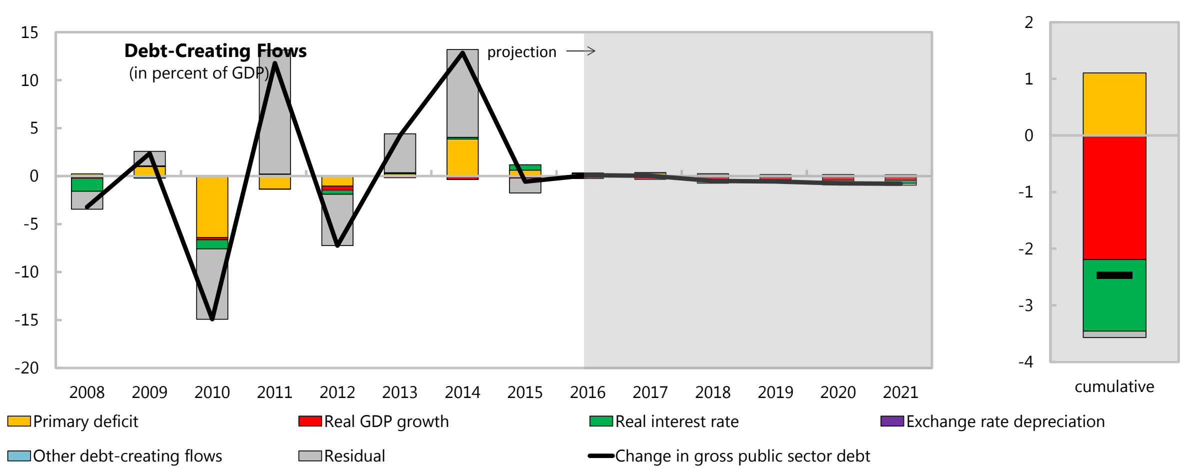
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2008-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	24.3	37.1	36.5	36.6	36.7	36.2	35.6	34.9	34.1
Public gross financing needs	-1.2	3.9	0.6	0.7	1.0	0.8	0.8	0.6	0.8
Real GDP growth (in percent)	0.4	1.5	0.5	0.7	0.9	1.1	1.1	1.2	1.3
Inflation (GDP deflator, in percent)	3.3	1.9	0.3	1.0	1.7	2.6	2.7	2.7	2.8
Nominal GDP growth (in percent)	2.3	3.4	0.8	1.7	2.6	3.7	3.8	4.0	4.1
Effective interest rate (in percent) [4/]	1.6	2.6	1.8	1.6	1.8	1.6	1.8	1.3	1.9

As of April 04, 2016		
Sovereign Spreads		
EMBIG (bp) 3/		n.a.
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	Baa2	Baa2
S&Ps	n.a.	n.a.
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2008-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-1.2	12.8	-0.6	0.1	0.0	-0.5	-0.6	-0.7	-0.8	-2.5	
Identified debt-creating flows	-1.8	3.7	1.0	0.0	0.0	-0.5	-0.6	-0.8	-0.6	-2.4	
Primary deficit	-1.2	3.9	0.6	0.1	0.3	0.2	0.2	0.2	0.2	1.1	-0.7
Primary (noninterest) revenue and grants	21.1	22.9	23.1	23.9	23.6	23.7	23.8	23.8	23.8	142.7	
Primary (noninterest) expenditure	19.9	26.7	23.8	24.0	24.0	24.0	24.0	24.0	24.0	143.8	
Automatic debt dynamics [5/]	-0.6	-0.2	0.4	0.0	-0.3	-0.7	-0.7	-0.9	-0.7	-3.5	
Interest rate/growth differential [6/]	-0.6	-0.2	0.4	0.0	-0.3	-0.7	-0.7	-0.9	-0.7	-3.5	
Of which: real interest rate	-0.5	0.2	0.6	0.2	0.0	-0.4	-0.3	-0.5	-0.3	-1.3	
Of which: real GDP growth	-0.1	-0.4	-0.2	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	-2.2	
Exchange rate depreciation [7/]	0.0	0.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (1) (e.g., drawdown of de	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroare	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.7	9.2	-1.6	0.1	0.0	0.0	0.0	0.0	-0.2	-0.1	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

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

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

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

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

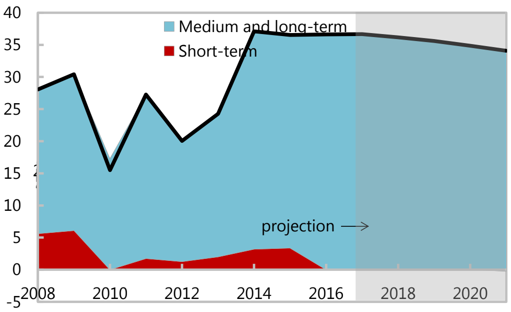
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

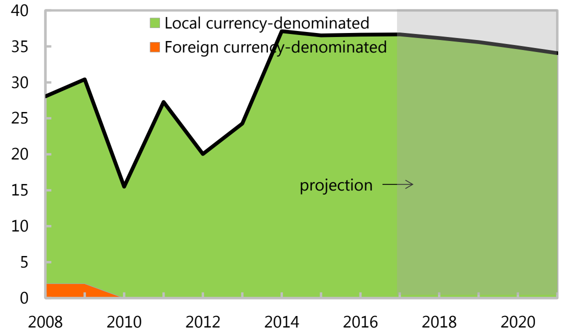
Figure 7. Sint Maarten: Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



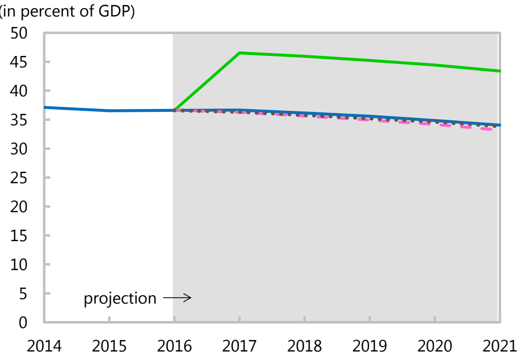
By Currency
(in percent of GDP)



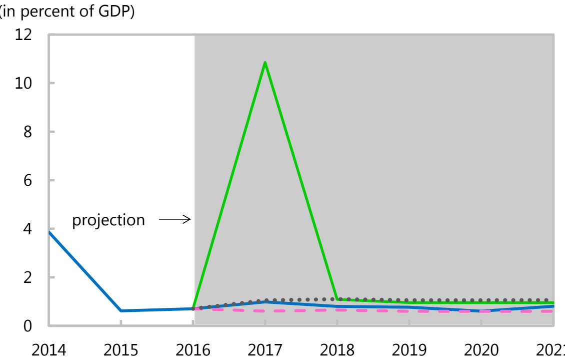
Alternative Scenarios

Baseline | Historical | Constant Primary Balance | Expenditure shock - Hurricane

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



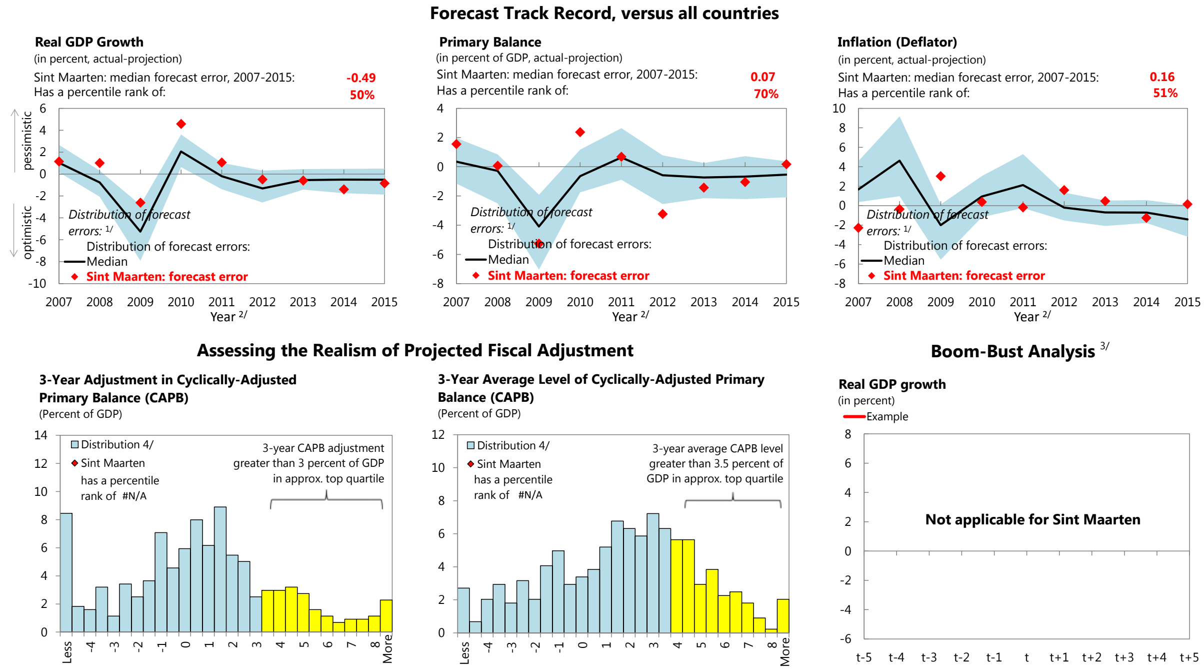
Underlying Assumptions
(in percent)

Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	0.7	0.9	1.1	1.1	1.2	1.3
Inflation	1.0	1.7	2.6	2.7	2.7	2.8
Primary Balance	-0.1	-0.3	-0.2	-0.2	-0.2	-0.2
Effective interest rate	1.6	1.8	1.6	1.8	1.3	1.9
Constant Primary Balance Scenario						
Real GDP growth	0.7	0.9	1.1	1.1	1.2	1.3
Inflation	1.0	1.7	2.6	2.7	2.7	2.8
Primary Balance	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Effective interest rate	1.6	1.5	1.6	1.5	1.5	1.6

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	0.7	2.0	2.0	2.0	2.0	2.0
Inflation	1.0	1.7	2.6	2.7	2.7	2.8
Primary Balance	-0.1	-0.5	-0.5	-0.5	-0.5	-0.5
Effective interest rate	1.6	1.5	1.6	1.5	1.6	1.6

Source: IMF staff.

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



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

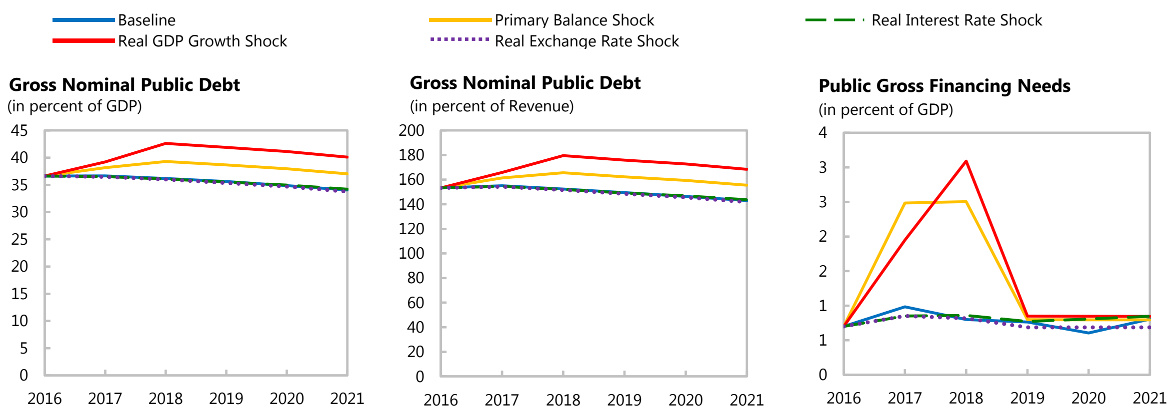
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Example, as it meets neither the positive output gap criterion nor the private credit growth criterion.

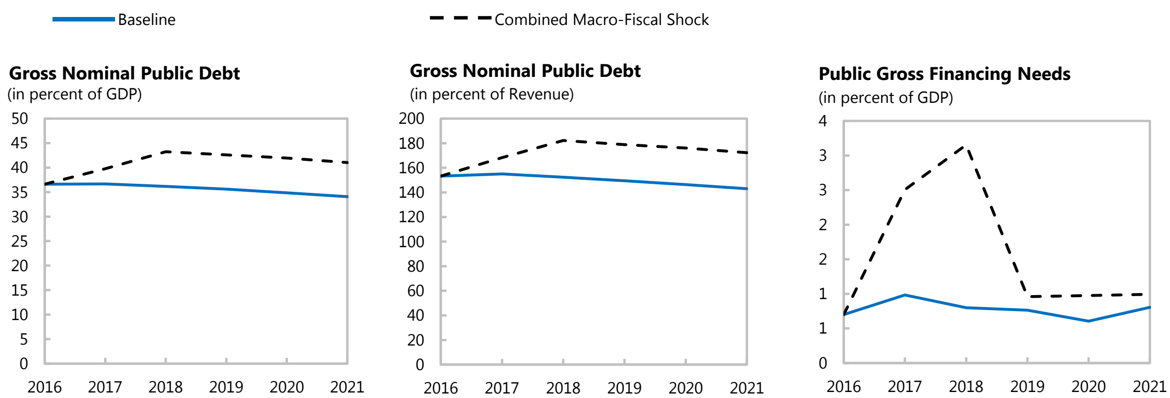
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 9. Sint Maarten: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

	2016	2017	2018	2019	2020	2021
Primary Balance Shock						
Real GDP growth	0.7	0.9	1.1	1.1	1.2	1.3
Inflation	1.0	1.7	2.6	2.7	2.7	2.8
Primary balance	-0.1	-2.0	-1.9	-0.2	-0.2	-0.2
Effective interest rate	1.6	1.5	1.7	1.7	1.7	1.8
Real Interest Rate Shock						
Real GDP growth	0.7	0.9	1.1	1.1	1.2	1.3
Inflation	1.0	1.7	2.6	2.7	2.7	2.8
Primary balance	-0.1	-0.3	-0.2	-0.2	-0.2	-0.2
Effective interest rate	1.6	1.5	1.8	1.8	1.9	2.1
Combined Shock						
Real GDP growth	0.7	-2.5	-2.4	1.1	1.2	1.3
Inflation	1.0	0.8	1.7	2.7	2.7	2.8
Primary balance	-0.1	-2.0	-2.4	-0.2	-0.2	-0.2
Effective interest rate	1.6	1.5	1.8	1.9	2.0	2.1

	2016	2017	2018	2019	2020	2021
Real GDP Growth Shock						
Real GDP growth	0.7	-2.5	-2.4	1.1	1.2	1.3
Inflation	1.0	0.8	1.7	2.7	2.7	2.8
Primary balance	-0.1	-1.4	-2.4	-0.2	-0.2	-0.2
Effective interest rate	1.6	1.5	1.7	1.7	1.7	1.8
Real Exchange Rate Shock						
Real GDP growth	0.7	0.9	1.1	1.1	1.2	1.3
Inflation	1.0	1.9	2.6	2.7	2.7	2.8
Primary balance	-0.1	-0.3	-0.2	-0.2	-0.2	-0.2
Effective interest rate	1.6	1.5	1.6	1.5	1.6	1.6

Source: IMF staff.

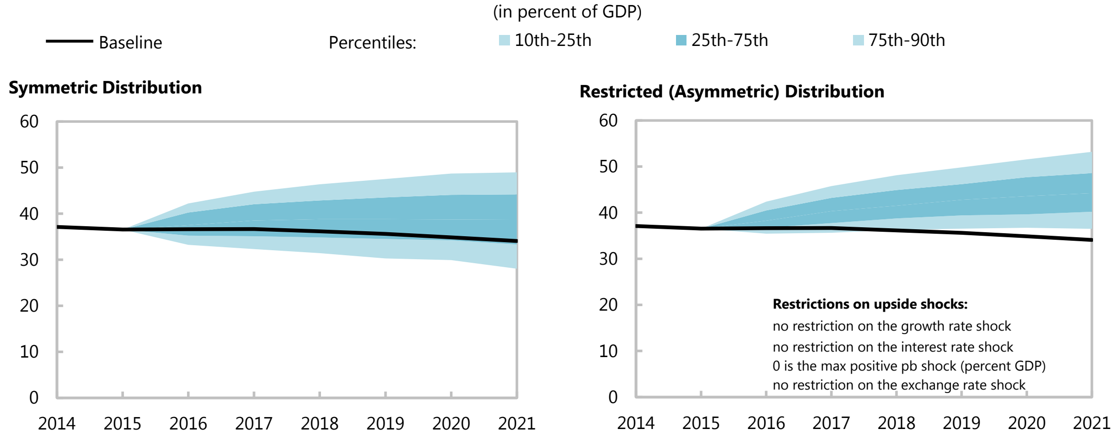
Figure 10. Sint Maarten: Public DSA Assessment

Heat Map

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

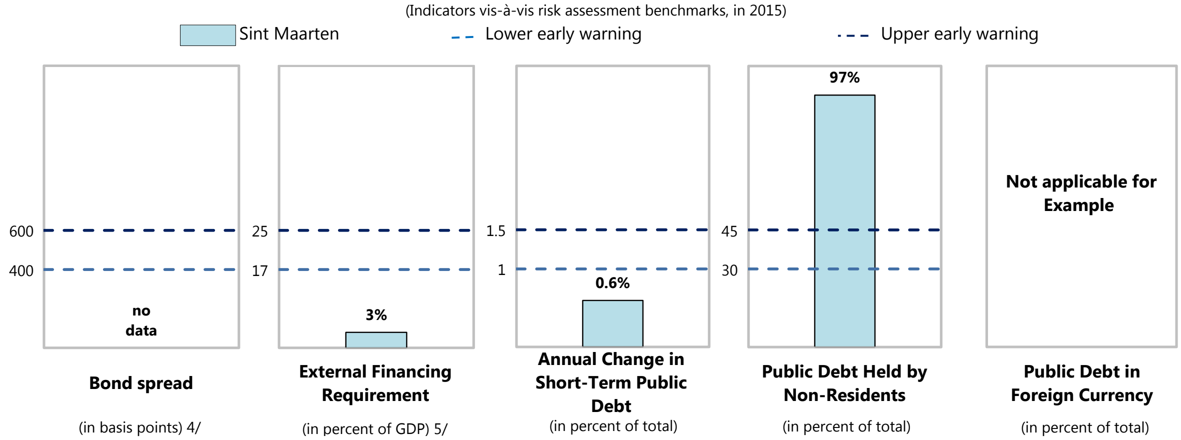
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)



Source: IMF staff.

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

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

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

Lower and upper risk-assessment benchmarks are:

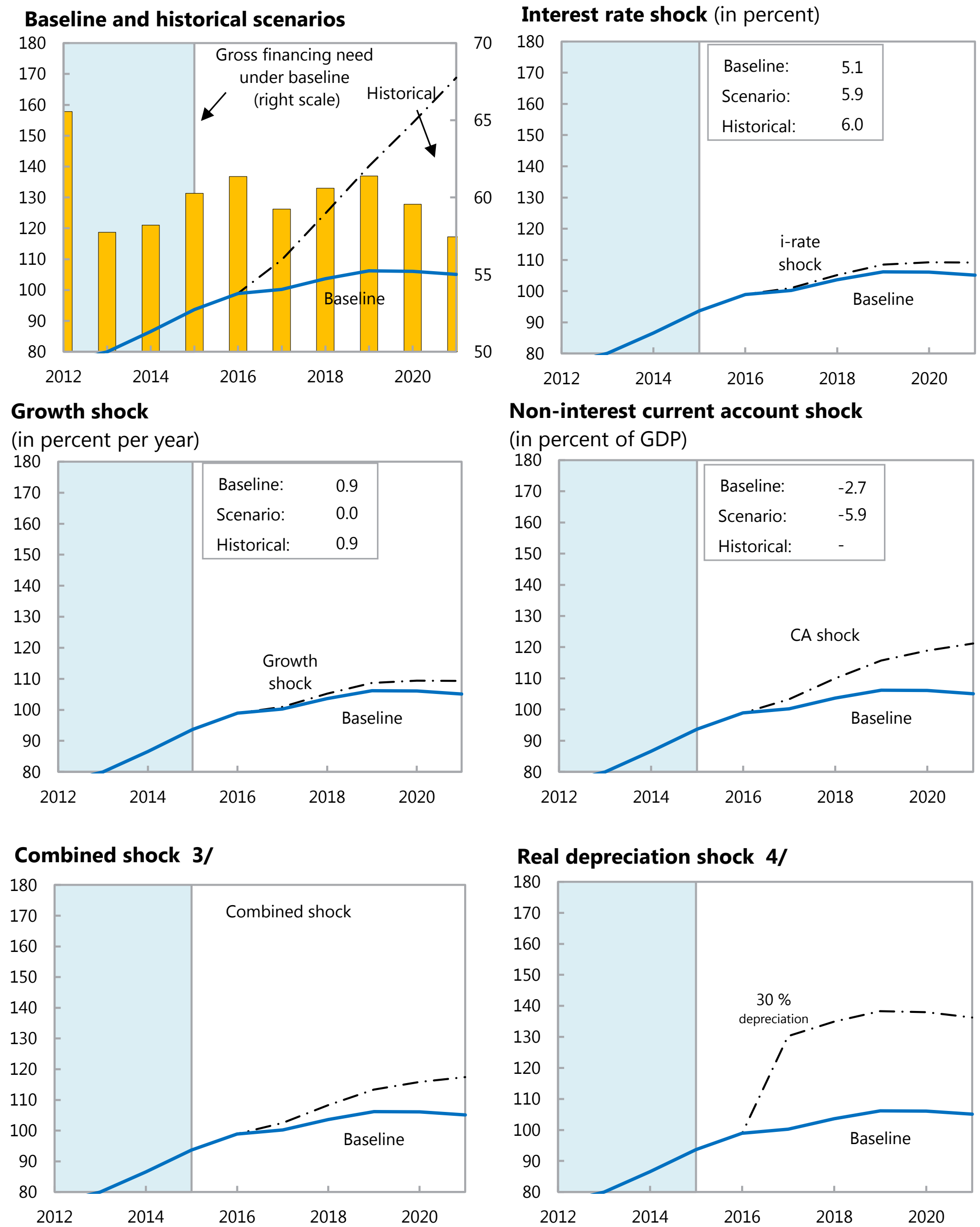
400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 05-Jan-16 through 04-Apr-16.

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

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

(External debt in percent of GDP)



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

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

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

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

Table 1. Curaçao and Sint Maarten: External Debt Sustainability Framework, 2012-2021

(In percent of GDP, unless otherwise indicated)

	Actual						Projections						
	2012	2013	2014	2015			2016	2017	2018	2019	2020	2021	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	76.3	80.0	86.6	93.7			**98.9**	**100.2**	**103.7**	**106.2**	**106.1**	**105.1**	**-1.5**
2 Change in external debt	-7.1	3.7	6.5	7.1			5.2	1.3	3.4	2.5	-0.1	-1.0	
3 Identified external debt-creating flows (4+8+9)	15.9	13.1	9.0	8.2			6.8	5.5	4.6	3.9	3.1	1.8	
4 Current account deficit, excluding interest payments	14.7	11.1	6.6	5.8			5.7	4.3	3.6	3.0	2.0	0.9	
5 Deficit in balance of goods and services	15.0	11.6	8.0	8.2			8.6	7.7	7.1	6.5	5.3	4.2	
6 Exports	86.1	84.1	87.0	77.0			75.6	74.5	75.5	76.7	77.2	77.7	
7 Imports	101.1	95.7	95.0	85.2			84.2	82.2	82.6	83.1	82.5	81.9	
8 Net non-debt creating capital inflows (negative)	-1.8	-1.9	-1.7	-2.8			-3.5	-3.4	-3.4	-3.4	-3.0	-3.0	
9 Automatic debt dynamics 1/	3.1	3.8	4.0	5.2			4.6	4.5	4.4	4.3	4.1	3.9	
10 Contribution from nominal interest rate	4.3	4.7	4.9	5.1			5.1	5.3	5.2	5.1	5.1	4.9	
11 Contribution from real GDP growth	-0.3	0.3	0.4	-0.2			-0.5	-0.7	-0.8	-0.8	-0.9	-1.0	
12 Contribution from price and exchange rate changes 2/	-1.0	-1.2	-1.2	0.3			-0.8	-1.5	-2.3	-2.5	-2.5	-2.4	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-23.0	-9.4	-2.4	-1.1			-0.8	-2.7	1.1	1.1	-0.7	-0.4	
External debt-to-exports ratio (in percent)	88.7	95.2	99.5	121.6			130.8	134.6	137.2	138.5	137.4	135.2	
Gross external financing need (in billions of US dollars) 4/	2.7	2.4	2.5	2.5			2.6	2.6	2.7	2.8	2.8	2.8	
in percent of GDP	65.6	57.7	58.2	60.3	10-Year	10-Year	61.0	59.9	60.3	60.1	58.4	56.4	
Scenario with key variables at their historical averages 5/							**98.9**	**109.8**	**124.8**	**140.2**	**154.1**	**168.8**	**2.1**
Key Macroeconomic Assumptions Underlying Baseline					Historical Average	Standard Deviation							
Real GDP growth (in percent)	0.3	-0.4	-0.4	0.2	0.9	1.6	0.5	0.8	0.8	0.8	0.9	1.0	
GDP deflator in US dollars (change in percent)	1.2	1.6	1.6	-0.3	2.4	1.7	0.8	1.5	2.4	2.5	2.4	2.3	
Nominal external interest rate (in percent)	5.3	6.2	6.2	5.9	6.0	1.5	5.5	5.4	5.3	5.1	4.9	4.8	
Growth of exports (US dollar terms, in percent)	11.2	-1.2	4.6	-11.6	3.7	10.8	-1.1	2.6	2.9	3.2	4.2	4.2	
Growth of imports (US dollar terms, in percent)	6.8	-4.3	0.4	-10.4	3.7	10.1	-0.5	1.8	2.0	2.3	2.7	2.7	
Current account balance, excluding interest payments	-14.7	-11.1	-6.6	-5.8	-13.3	6.2	-5.7	-4.3	-3.6	-3.0	-2.0	-0.9	
Net non-debt creating capital inflows	1.8	1.9	1.7	2.8	2.4	2.1	3.5	3.4	3.4	3.4	3.0	3.0	

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

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

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

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

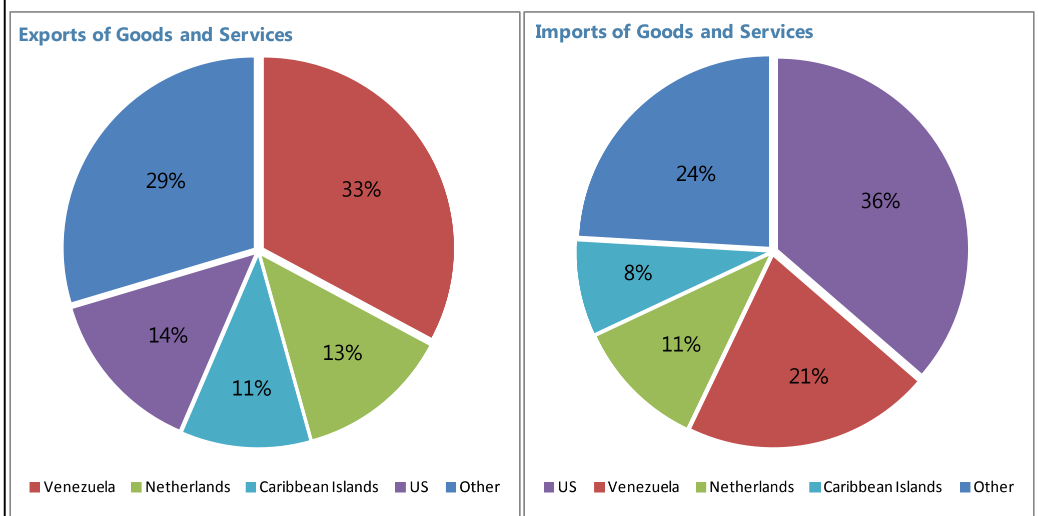
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

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

ANNEX IV. Curaçao's Exposure to a Potential Economic Disruption in Venezuela

As one of Curaçao's main trading partners, the worsening economic situation in Venezuela poses major risks to Curaçao's growth prospects. With a market share of 33 percent for exports and 21 percent for imports (see figure 1), a potential economic collapse in Venezuela could lead to serious economic repercussions for the island's near and medium-term outlook.

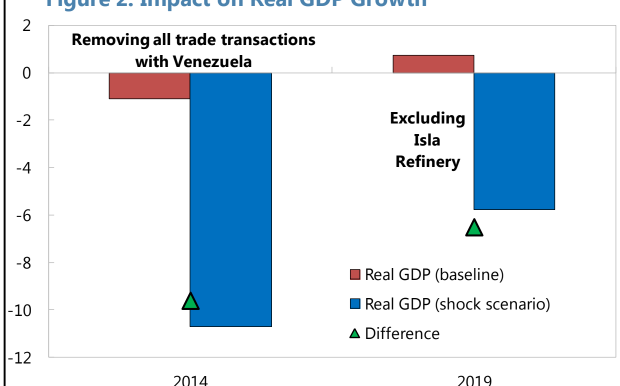
Figure 1. Venezuela's Share in Curaçao's Trade (2011-15)



Sources: Central Bank of Curaçao and Sint Maarten.

Trade disruptions with Venezuela pose a serious threat to Curaçao through various channels, including tourism, transportation, the free-zone, and the refinery. Tourism expenditure of Venezuelan tourists (18.9 percent of total) also declined, as more of them are traveling to Curaçao to obtain U.S. dollars that they can exchange for bolivars in their home country instead of for leisure. In the transportation industry, the unstable economic situation and currency restrictions in Venezuela seem to have affected this sector particularly in 2015 where both air and sea transportation services registered a decline. Moreover, since the devaluation of the bolívar and currency restrictions, there has also been a decline in foreign exchange income coming from re-exports of domestic free-zone companies. In addition, given that activities at the refinery represent 15.2 percent (2011-15) of foreign exchange income and are highly dependent on oil supply from Venezuela, any decline in this supply can have severe repercussions on foreign exchange and harbor activity.

Figure 2. Impact on Real GDP Growth



Sources: Central Bank of Curaçao and Sint Maarten; and IMF Staff Estimates.

To assess the impact of a potential Venezuelan economic collapse on Curaçao's real GDP, a shock scenario is estimated for 2014 in which all trade transactions between the two countries are removed.[1] As seen in Figure 2 (blue bar), a discontinuation in all trade transactions with Venezuela would have resulted in a larger GDP contraction of 10.7 percent in 2014 (a 9.6 percent drop from the actual figure of -1.1 percent). More especially, the contraction would have been exacerbated by a decline in net foreign demand as a result of lower exports of goods, primarily from an annulment of the refining fee, a decline in air transportation to Venezuela, a drop in harbor activities, and a loss of foreign exchange revenues from free-zone re-exports and tourism expenditures. In addition, a halt in activities at the refinery could cause lay-offs and an interruption of private investment projects.

A different shock scenario analysis that excludes Isla Refinery in 2019 shows that Curaçao has a high risk exposure towards a potential economic collapse in Venezuela. There is no doubt that over the past few years, some sectors of the economy have already been affected by the economic instability and currency restrictions in Venezuela. Consequently, with the recent dramatic drop in international oil prices and further deterioration of economic conditions in Venezuela, decisions about the upcoming renegotiations of the contract with PDVSA, which is scheduled to end in 2019, are to be carefully examined. As illustrated in Table 1, a simulation on the macro-economic impact of interrupting operations at Isla Refinery in 2019 could potentially signify a drop in real GDP of 6.5 percent. As such, staff urges authorities to take measures to reduce dependency on the Venezuelan market and build buffers to withstand the potentially damaging economic repercussions of a collapse.

Table 1. Macro-economic Impact of Interupting Operations at Isla Refinery in 2019

	Difference 1/
Real GDP	-6.5
Inflation	0.0
Consumption	-3.0
Public	-0.6
Private	-2.4
Investment	-0.9
Public	0.0
Private	-0.9
Exports of goods and services	-6.7
Imports of goods and services	-4.3

Sources: Central Bank; and IMF Staff Estimates.
1/ Difference between 2019 baseline projection and shock scenario.

[1] The 2014 simulation, in which all trade transactions between Curaçao and Venezuela are removed, is based on Central Bank's estimates and set of assumptions. Assumptions include the discontinuation of all refining activities, transportation services, tourist arrivals, oil imports, non-oil merchandise imports, and re-exports by the free-zone companies to Venezuela, and ceteris paribus. Similarly, the 2019 shock scenario relies on data provided by the Central Bank, complemented by IMF staff calculations.

ANNEX V. Risks Related to Pensions and Social Security

Curaçao and Sint Maarten have taken important steps to allay short term risks related to pensions funds, however, residual risks must be addressed to ensure long term sustainability. Sluggish growth, rising healthcare costs, and an aging population underscore the need to address inefficiencies in pension funds, and the social security system to ensure continued fiscal and debt sustainability.

Despite some successful reforms to Curaçao's basic pension system in 2013[1], it remains underfunded. The reforms included an increase in the retirement age from 60 years to 65 years, with a transition period of 3 years. The transition period ended recently, so there are no new retirees expected this year after February. The shortfall is, however, expected to remain in the near term, reflecting continued high unemployment and low growth. Recommendations made during the 2014 Article IV Consultation discussions included extending the pension reforms to public sector workers. At the time pension benefits were indexed to inflation. Since then the authorities have implemented reforms to ensure the sustainability of the public pensions, including by granting increases to pensioners only when the pension fund backing is over 105 percent and civil servants receive a salary increase.

Benefits related to healthcare remain the largest fiscal risk, reflecting inefficiencies in healthcare delivery. Of note, medical doctors are for the most part not employed by the hospital and have private practices, limiting cost savings from pooling resources. Only recently are new doctors required to work for the hospital. While premiums are considered high, rising costs and an aging population underscore the need to increase contributions through higher employment and improved compliance. The authorities have reduced old-age pension benefits to persons living outside Curaçao and are looking at further cuts to help reduce the shortfall. They are also considering a further increase in the retirement age (to 67 years).

A 2015 ALM study exposed underfunding in three funds managed by Sint Maarten's Social Security Bank (SSB), the Sickness Insurance, OV (Accident) Insurance, and the Retired Civil Servants Sickness funds. Low compliance, in the region of 60 to 65 percent, was highlighted as the main factor behind underfunding. On the expenditure side, high medical costs and waste in the pharmaceutical industry have also contributed to underfunding. The SSB is currently in the process of increasing its audit capacity, and automating systems to help reduce fraud. These measures are expected to improve compliance to 75 percent over the near term.

A recent audit of pension assets suggests underfunding of 95 percent at end 2015. Notably, eliminating arrears, including from the government, would improve the funded-status to 102 percent, in line with the pension fund, APS's target. The APS is exploring a number of local investments, including in the tourism and housing sectors to improve the return on assets. The age of retirement will be increased to 62 years, effective July 2016. The authorities are currently in

[1] Details on the 2013 pension reform are provided in IMF Country Report 14/239.

discussions with unions and other stakeholders towards implementing further pension reform, by 2018, to improve the viability of the pension fund and reduce the required contribution of the government.

Risks going forward relate to increasing healthcare costs and aging. These increasing cost also reflect the cost of sending persons abroad for treatment not available in the country. Notably, the Sint Maarten authorities are exploring a joint working relationship with St. Martin, which could allow for lower costs and a more efficient provision of healthcare.

ANNEX VI. Curaçao's Offshore Financial Sector

The termination of a U.S. tax treaty and the adoption of the New Fiscal Framework have led to gradual erosion of Curaçao's offshore financial sector. The post-war U.S.–Antilles tax treaty provided an opportunity for U.S. companies to avoid the withholding tax on interest payments to non-residents by setting up subsidiaries in Curaçao, which would issue Eurobonds in the London market and relend to their American parent. The tax treaty was terminated in 1998, and, as a result, Curaçao's offshore financial sector experienced a sharp decline as it lost much of its attraction for many customers. Shortly after, Curaçao adopted the "New Fiscal Framework (NFF)" in 2001, to avert inclusion on the OECD's threatened "black-list". The NFF abolished the ring-fenced treatment of offshore companies and nonresident investors, who were given preferential tax treatment. A grandfathering transition period (until 2019) was given to existing offshore companies; however, fears were created that many of these companies would abandon Curaçao after 2019.

Recent deterioration in the macroeconomic conditions in Venezuela also appears to have negatively affected the sector. There are several Venezuela-based international institutions registered in Curaçao, including 11 offshore banks (out of total 31 in Curaçao, but their assets share is not significant). It is reported that the recent disruptions in Venezuela have caused a loss of Venezuelan customers, although the direct impact cannot be easily qualified at this moment.

These changes have, however, created an opportunity to transition the sector. Curaçao's offshore financial sector survived these changes, albeit in weakened form, but the size of the sector has gradually diminished. The sector was the main foreign exchange provider in 2000, but it ranked at eighth position in 2012 according to the central bank, with its contribution shrunk from around 30 percent of total FX revenue to a single digit. Against rising international scrutiny on offshore financial centers, the authorities are rebranding the sector toward a destination for back-office type services for international companies.

INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS—CURAÇAO AND SINT MAARTEN

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION DISCUSSIONS—INFORMATIONAL ANNEX

July 12, 2016

Prepared By Western Hemisphere Department

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FUND RELATIONS

(For the Kingdom of the Netherlands, as of June 30, 2016)

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

General Resources Account:

	SDR Million	Percent Quota
Quota	8736.50	100.00
Fund holdings of currency	8482.52	97.09
Reserve position in Fund	254.04	2.91

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	4836.63	100.00
Holdings	4510.27	93.25

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

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

	Forthcoming				
	2016	2017	2018	2019	2020
Principal					
Charges/interest	0.08	0.33	0.33	0.33	0.33
Total	008	0.33	0.33	0.33	0.33

Exchange Rate Arrangements:

The Netherland Antilles guilder has been pegged to the US dollar at NAf. 1.79 per US$1 since 1971. The exchange regime is free of restrictions and multiple currency practices.

Article IV Consultation Discussions:

This is the third 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 Curaçao and Sint Maarten on July 30, 2014, on the basis of IMF Country Report No. 14/239. It is currently envisaged that the next Article IV consultation discussions with Curaçao and Sint Maarten will be held in 24 months.

STATISTICAL ISSUES

I. Curaçao and Sint Maarten: Assessment of Data Adequacy for Surveillance

<table>
<tr><td colspan="2">General: Data provision has serious shortcomings that significantly hamper surveillance. National accounts data have large lags, dating back to 2006. There are no data on GDP deflators or real GDP. Data on fiscal expenditures for both countries continue to be on cash basis, complicating the assessment of fiscal policy. Fiscal reporting standards need improvement, including the adoption of the Government Financial Statistics Manual (GFS). The current account deficit could possibly be mismeasured given limitations in the statistical infrastructure. Lastly, there are no data on the two countries' international investment position.</td></tr>
<tr><td colspan="2">National accounts: Data are compiled by the respective Central Bureau of Statistics (CBS) in both Curaçao and Sint Maarten. Expenditure-side national accounts components have been published only up to 2011 in Curaçao and 2006 in Sint Maarten, while there is still no production-side data. Detailed price indices to deflate national accounts aggregates are not available. The statistical offices and Central Bank continue to use the total consumer price index (CPI) to deflate nominal GDP, which gives rise to potential distortions in the measurement of real growth.</td></tr>
<tr><td colspan="2">Price statistics: CPI data are compiled and published on a monthly basis but measures of core inflation are not readily available, particularly for Sint Maarten.</td></tr>
<tr><td colspan="2">Government finance statistics: The Ministry of Finance in Curaçao provides fiscal data that can broadly be bridged to the cash framework of the GFSM format. However, the fiscal reporting standards in Sint Maarten are significantly weaker than in Curaçao, and improvements are needed in converging and consolidating fiscal data according to the GFSM manual. Final data on the 2016 fiscal budget for both countries have only become available during the mission, complicating timely fiscal policy assessment.</td></tr>
<tr><td colspan="2">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, monetary and financial indicators are only available for the Union.</td></tr>
<tr><td colspan="2">Balance of payments: Balance of payments (BOP) statistics are reported on a transactions basis in accordance with the sixth 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 reserves 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; c) information on intra-union flows, and d) data on net international investment positions.</td></tr>
<tr><td colspan="2">II. Data Standards and Quality</td></tr>
<tr><td>Not a General Data Dissemination System participant.</td><td>No data ROSC is available.</td></tr>
<tr><td colspan="2">III. Reporting to STA</td></tr>
<tr><td colspan="2">Standard report on the balance of payments is reported to STA on a quarterly basis.</td></tr>
</table>

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

(As of June 30, 2016)

	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	4/16	4/18/16	Weekly	Weekly	Monthly
Reserve/Base Money	4/16	4/18/16	Monthly	Monthly	Monthly
Broad Money	4/16	5/12/16	Monthly	Monthly	Monthly
Central Bank Balance Sheet	4/16	5/12/16	Monthly	Monthly	Monthly
Consolidated Balance Sheet of the Banking System	4/16	5/12/16	Monthly	Monthly	Monthly
Interest Rates /1	4/16	5/12/16	Monthly	Monthly	Monthly
Consumer Price Index	12/15	5/12/16	Monthly	Monthly	Monthly
Revenue, Expenditure, Balance and Composition of Financing—General Government /2	2016	5/19/16	Annual	Annual	Annual
Revenue, Expenditure, Balance and Composition of Financing—Central Government /2	2016	5/19/16	Annual	Annual	Annual
Stocks of Central (or General) Government and Central- (or General-) Government guaranteed debt 3/	2015	5/16	Annual	Annual	Annual
External Current Account Balance	Q4 2015	5/16/16	Quarterly	Quarterly	Quarterly
Exports and Imports of Goods and Services	Q4 2015	5/16/16	Quarterly	Quarterly	Quarterly
GDP/GNP	2015	5/16/16	Annual	Annual	Annual
Gross External Debt	2015	5/16/16	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.