

**LAPSE OF
TIME**

SM/21/138

Correction 1

July 29, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Kingdom of the Netherlands—Curaçao and Sint Maarten—Staff Report for the 2021 Article IV Consultation Discussions**

Board Action: The attached corrections to SM/21/138 (7/15/21) have been provided by the staff:

Evident Ambiguity **Pages 4 (para. 4) and 44 (line 1)**

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views **Pages 4 (para. 2), 14, 17, 24, 44 (para. 3, line 11), 45, 60**

Typographical Errors **Pages 6, 11, 18, 19, 40, 41, 43, 44 (para. 3, lines 12 and 16), 45, 49, 56, 64**

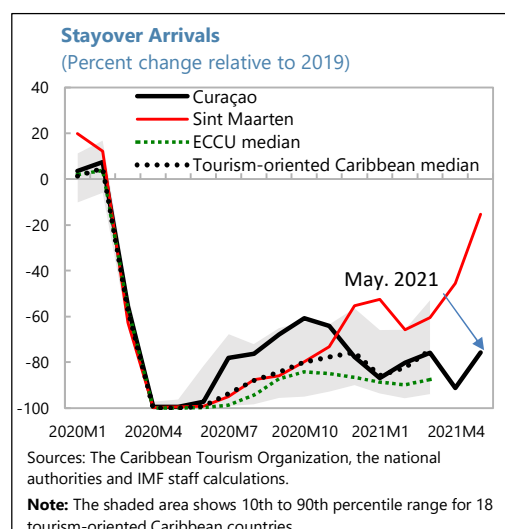
Questions: Mr. Kovtun, WHD (ext. 39785)
Mr. Dowling, WHD (ext. 39952)
Mr. Oshima, WHD (ext. 36670)

PRE-PANDEMIC CONDITIONS

1. **Before the pandemic, the monetary union of Curaçao and Sint Maarten (Union) faced significant challenges.** In both countries, the real GDP in 2019 was lower than in 2010 (Figure 1).¹ The Union's external current account deficit averaged nearly 16 percent of GDP in 2017–19 exerting pressure on the international reserves. Both countries faced small-island constraints, structural impediments to growth, and rising government debt, although it was lower than their peers due to a 2010 debt operation followed by a system of fiscal supervision.
2. **Curaçao.** Since the dissolution of the Netherland Antilles in 2010, Curaçao has had only two years of positive growth. The protracted recession was partly due to the spillovers from the Venezuela crisis that ruptured historical trade linkages and led to a decline of the oil refining sector, a Curaçao's major economic pillar. The authorities were on a fiscal consolidation path since 2016, although many policy measures experienced delays. The failure of Girobank in late 2019 underscored vulnerabilities in the banking system that had accumulated due to external shocks and weaknesses in financial sector governance.
3. **Sint Maarten** had not fully recovered from the devastating 2017 hurricanes that produced damages and losses of 230 percent of GDP. Key reconstruction projects (e.g. the airport) took longer than expected and stayover arrivals in 2019 were still nearly 40 percent below their 2016 levels. Many reforms have been lagging due to the small-island constraints, lack of financing, and frequent changes in governments.²

COVID-19 IMPACT AND POLICY RESPONSE

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



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

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

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

B. Sint Maarten

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

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

Sint Maarten: Key Fiscal Factors, 2020 (Budgetary Central Government, Percent of GDP)	
	2020
Primary balance excl. Trust Fund	-10.2
Change since 2019	-9.5
Change in revenue (non-policy) 1/	-4.6
Change in primary expenditure 1/	4.7
SSRP	4.4
Other current expenditure	0.3
Capital expenditure	0.0
Residual 2/	-0.2
Source: IMF staff estimates.	
1/ Nominal changes since 2019 as a ratio of GDP.	
2/ Due to changes in nominal GDP.	

C. The Monetary Union

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

⁴ The last labor force survey took place in 2018.

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

Authorities' Views

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

Sint Maarten

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

Sint Maarten: Key Changes in Government Accounts since 2019, 2020–22 1/ (Change since 2019, Percent of GDP)			
	2020	2021	2022
Primary balance excluding Trust Fund	-10.2	-16.4	-8.3
Change since 2019	-9.5	-15.7	-7.6
Changes in revenue (non-policy) 2/	-4.6	-4.9	-0.7
Changes in primary expenditure 2/	4.7	10.4	6.4
SSRP	4.4	7.2	1.4
Other current expenditure	0.3	1.1	1.7
Capital expenditure	0.0	2.1	3.3
Residual 3/	-0.2	-0.5	-0.5
Source: IMF staff estimates.			
1/ Excluding Trust Fund operations.			
2/ Nominal changes since 2019 as a ratio of GDP.			
3/ Due to changes in nominal GDP.			

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

Authorities' Views

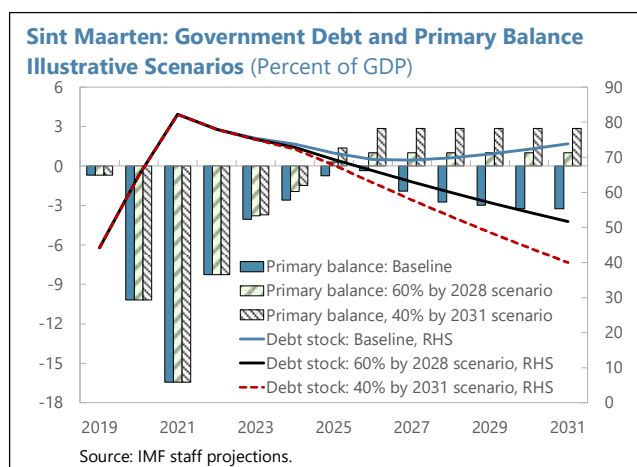
27. The Sint Maarten authorities agreed with staff's near-term priorities. They assign high priority to reaching an 85 percent vaccination rate and have announced that businesses will be allowed to remain open until 2 am once the vaccination rate reaches 50 percent. They share staff's

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

Sint Maarten

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

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



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

38. Improving public financial management will be key for regaining fiscal sustainability. The authorities' plan to upgrade the outdated financial information management system (FMIS) for a better PFM workflow is a step in the right direction, although this should be done in conjunction

Authorities' Views

45. The authorities were in broad agreement on monetary and financial sector policies.

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

D. Strengthening Post-Pandemic Recovery and Potential Growth

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

47. Phasing in more labor market flexibility while fine-tuning safety nets and addressing skills gaps will help businesses operate more competitively and adjust to changing conditions.

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

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

49. Finding new areas of growth will help mitigate exposure to shocks in the longer term.

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

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

Authorities' Views

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

E. Statistical Issues

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

Authorities' Views

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

STAFF APPRAISAL

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

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

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

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

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

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

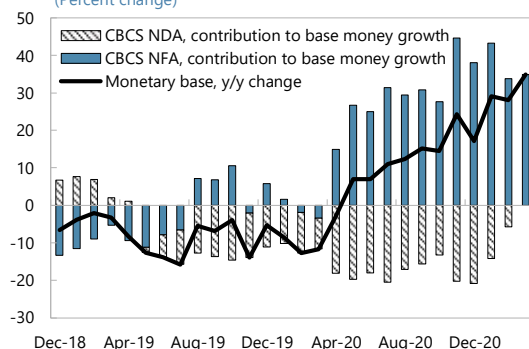
60. Significant efforts are needed to improve planning, implementation capacity, and governance in the public sector, particularly in Sint Maarten. As gaps in data availability and quality hamper effective macroeconomic analysis and policymaking, it is essential to address the shortages of personnel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

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

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

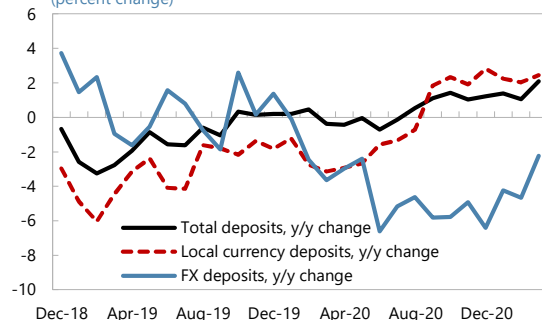
The monetary base has been growing since the beginning of the pandemic driven by the net foreign assets of the CBCS.

Monetary base and components (Percent change)



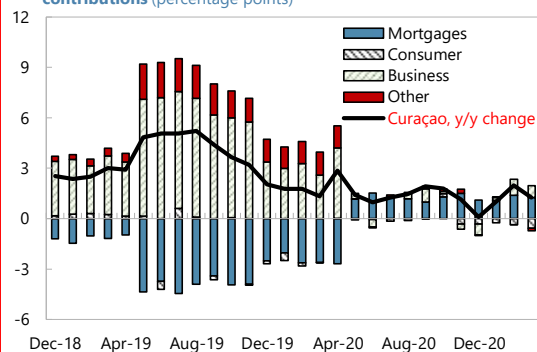
Total bank deposits grew, driven by local currency deposits.

Banking sector deposits (percent change)



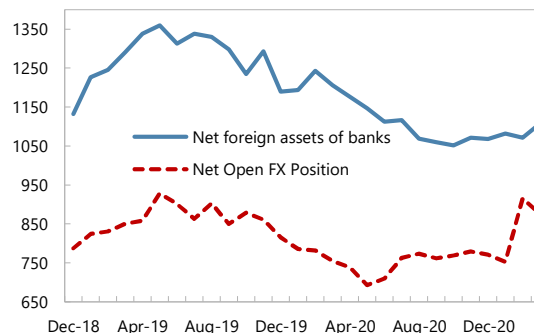
In Curaçao, bank loans to non-government sectors are growing at a low rate...

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



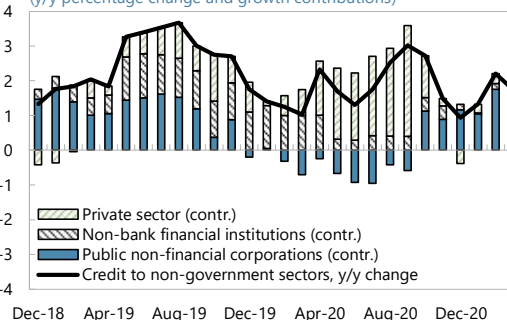
Since the beginning of the pandemic, banks have reduced their net foreign assets but increased their net open FX position.

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



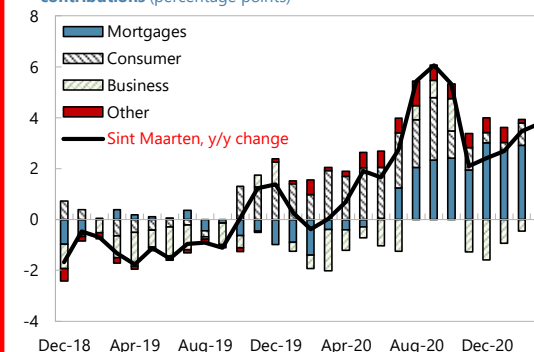
Credit to non-government sectors remains sluggish.

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



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

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



Sources: CBCS, and IMF staff estimates.

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

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

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

Annex II. COVID-19 Response Measures

A. Curaçao

1. The authorities designed two economic support packages (*Alivio 1* and *2*) with a combined size of about NAf 350 million (7.6 percent of GDP). The first package ("*Alivio 1*")

envisaged 3-month tax deferrals of NAf 33 million (0.7 percent of GDP) and contained immediate expenditure for the health sector. The second, more comprehensive package ("*Alivio 2*") elaborated the following assistance programs for April–June 2020: (i) payroll subsidies to support employment in the private sector, replacing up to 80 percent of pre-crisis payroll, conditional on revenue loss; (ii) support for the self-employed; (iii) job-loss benefits for workers laid off since mid-March 2020; (iv) resilience benefits for welfare recipients and others (available only to legal residents and not to undocumented workers/immigrants); (v) credit facilities to SMEs via a local

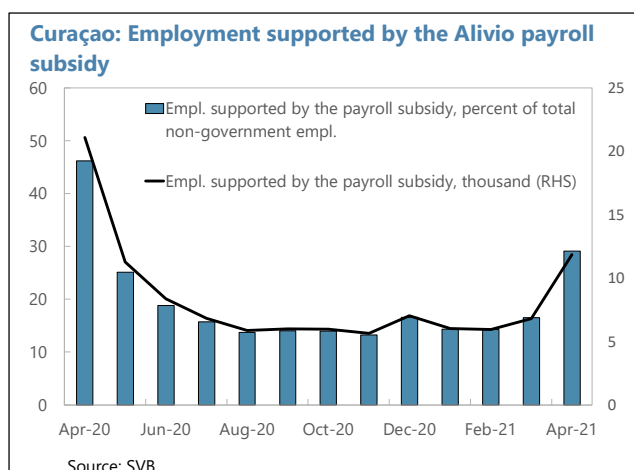
Curaçao: COVID-19 Response Measures (<i>Alivio</i> packages) (Percent of GDP)			
	Planned for Q2 2020	Actual 2020	Budget 1/ 2021
Alivio 1 (tax deferrals)	0.7	0.7	0
Alivio 2 (expenditure measures)	6.9	3.2	5.3
Payroll and fixed-cost subsidies (NOW) 2/	2.7	2.1	3.8
Income support for self-employed	0.6	0.5	0.5
Job loss benefits	0.4	0.4	0.6
Resilience benefits	0.4	0.3	0.5
Other social support programs	0.6	0.0	0.0
Loans for SMEs	0.8	0.0	0.0
Social security bank (SVB) 3/	1.2	...	...
Total	7.6	3.9	5.3

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

development bank, ~~Korpodeco~~Korpodeko; (vi) social support and counseling services not covered by the existing safety net for the vulnerable groups including undocumented workers, the handicapped, the elderly, and the homeless; and (vii) transfers to the Social Security Bank (SVB) which is responsible for the universal health care in Curaçao to compensate for the loss of premium revenues.

2. The package was instrumental for preserving employment, although implementation was weaker than planned. Expenditure (*Alivio 2*) measures amounted to 3.2 percent of GDP in

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



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

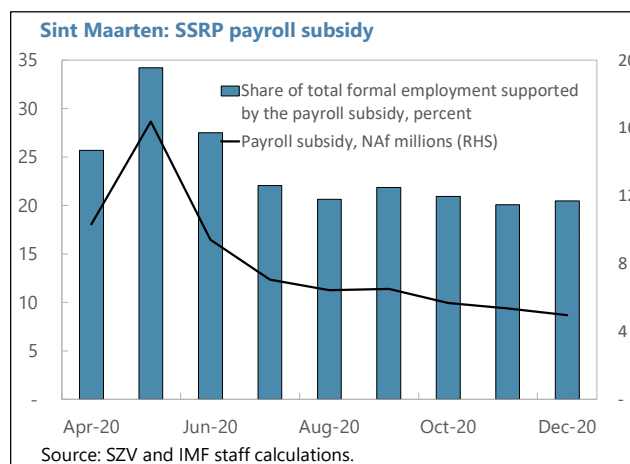
B. Sint Maarten

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

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

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

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



C. The Union

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

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

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

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

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

Annex V. Risk Assessment Matrix¹

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

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

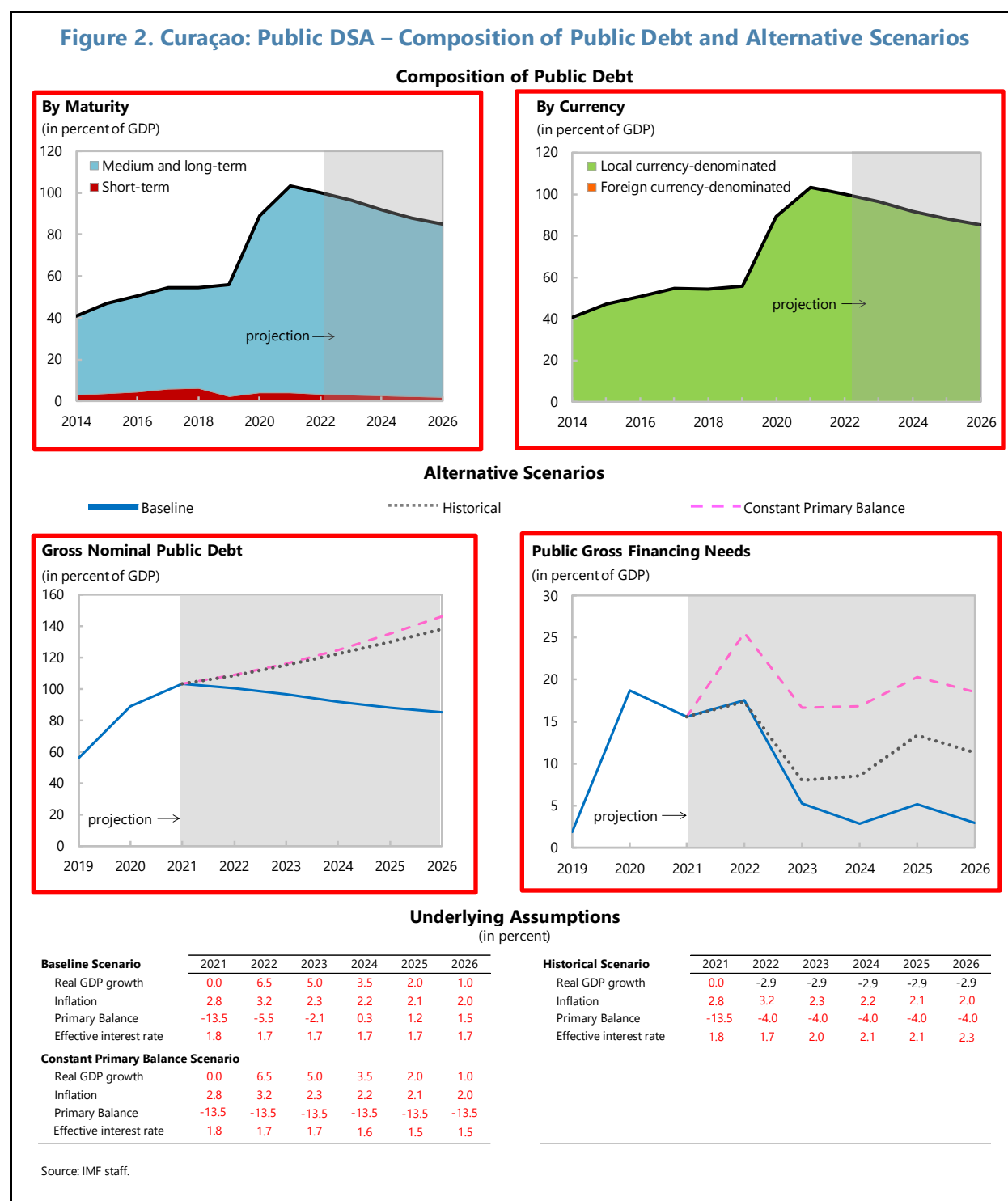
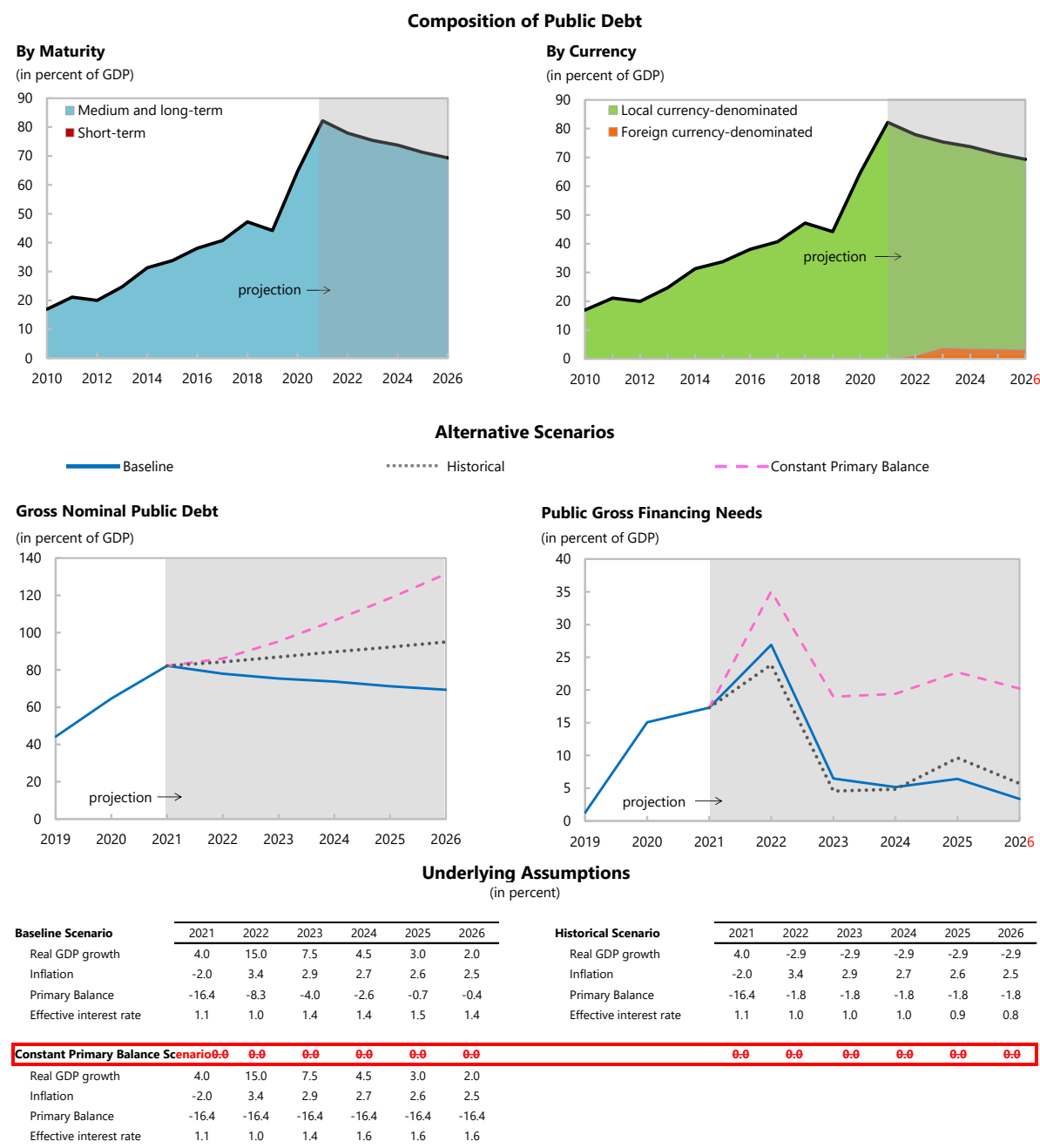
Figure 2. Curaçao: Public DSA – Composition of Public Debt and Alternative Scenarios

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

Source: IMF staff.