

**IMMEDIATE
ATTENTION**

SM/11/292

November 4, 2011

To: Members of the Executive Board

From: The Secretary

Subject: **Kingdom of the Netherlands—Curaçao and Sint Maarten—2011 Article IV Consultation Discussions**

Attached for consideration by the Executive Directors is the staff report for the 2011 Article IV consultation discussions with the Kingdom of the Netherlands—Curaçao and Sint Maarten, which meets the criteria for consideration on a lapse of time basis.

In the absence of a request by an Executive Director by **noon on Wednesday, November 16, 2011**, that this matter be brought to the agenda of the Executive Board, the consultation discussions will be deemed approved on Friday, November 18, 2011, by the Executive Board and the following decision will be recorded in the minutes of the next meeting thereafter:

The Executive Board endorses the thrust of the staff appraisal in the report for the 2011 Article IV consultation discussions with the Kingdom of the Netherlands—Curaçao and Sint Maarten (SM/11/292, 11/4/11).

It is expected that the next Article IV consultation discussions with the Kingdom of the Netherlands—Curaçao and Sint Maarten will take place on the standard 12-month cycle.

If an Executive Director requests that the matter be taken up at a Board meeting, the item will be tentatively scheduled for discussion on Friday, November 18, 2011.

Unless an objection from the authorities of the Kingdom of the Netherlands—Curaçao and Sint Maarten is received prior to the conclusion of the Board's consideration, the document will be published. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

If there is no request for a Board discussion, the Executive Board Assessment section of the Public Information Notice will be based on the staff appraisal as attached.

Questions may be referred to Mr. Kanda (ext. 35414) and Mr. Weber (ext. 37846) in EUR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the European Commission, following its consideration by the Executive Board.

This document, together with a supplement providing an informational annex, will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. The supplement, which is not being distributed in hard copy, will also be available in the Institutional Repository; a link can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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KINGDOM OF THE NETHERLANDS—CURACAO AND SINT MAARTEN

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION

November 3, 2011

DISCUSSIONS

KEY ISSUES

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

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

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

Approved By
Juha Kähkönen and
Aasim Husain

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

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BACKGROUND

1. Following the dissolution of the Netherlands Antilles on October 10, 2010 Curacao and Sint Maarten became autonomous countries within the Kingdom of the Netherlands, with a currency union.

Alongside, the Dutch government gave substantial debt relief to both countries, and agreement was reached on new fiscal frameworks to help sustain sound fiscal positions. The other islands of the Netherlands Antilles—Bonaire, Saba, and Sint Eustatious—became municipalities of the Netherlands and adopted the U.S. dollar in January 2011.

- The Bank of Netherlands Antilles (BNA) became the Central Bank of Curacao and Sint Maarten (CBCS), overseeing a common monetary policy and financial supervision. The Netherlands Antilles guilder (NA.f) is still the legal tender, but there was agreement to transition to a new Dutch Caribbean guilder by 2012, pegged to the U.S. dollar at the same rate as the NA.f.
- Debt relief was based on 2005 data, and was intended to reduce interest payments to 5 percent of fiscal revenues. In addition, grants were provided for the clearance of documented government arrears. Thus, over 2009–10 the overall debt burden of Curacao and Sint Maarten (from each island's own debt plus its share of the debt of the Netherlands Antilles central government) declined by 57 and

33½ percentage points of GDP, respectively.

Curacao and St. Maarten: Comparison 1/

	Curacao	St. Maarten
Population (thousand)	142	34
GDP (million US dollar)	2951	819
	(percent)	
Unemployment rate	10.1	12.0
Youth unemployment 2/	24.7	29.4
	(percent, average 2001-2010)	
GDP growth	0.8	2.8
Inflation	2.7	2.2
	(percent of GDP)	
Openess to trade 3/	144	226
Tourism exports	13.0	82.4
Imports from US	30	68
Exports to US	13	48
Public debt	34.6	28.3
GG balance	5.4	3.6
Primary balance	7.3	3.6
CA deficit	-30.9	-6.8
External debt	54.6	40.7
Short term to total external debt	0.29	0.43
Net FDI	2.5	3.6
Net official reserves	32.5	37.0
	(months of goods imports)	
Net official reserves	6.1	5.1

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

1/ Values refer to 2010 unless indicated differently.

2/ Value refers to 2009.

3/ Openess to trade is measured by the sum of exports and imports.

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

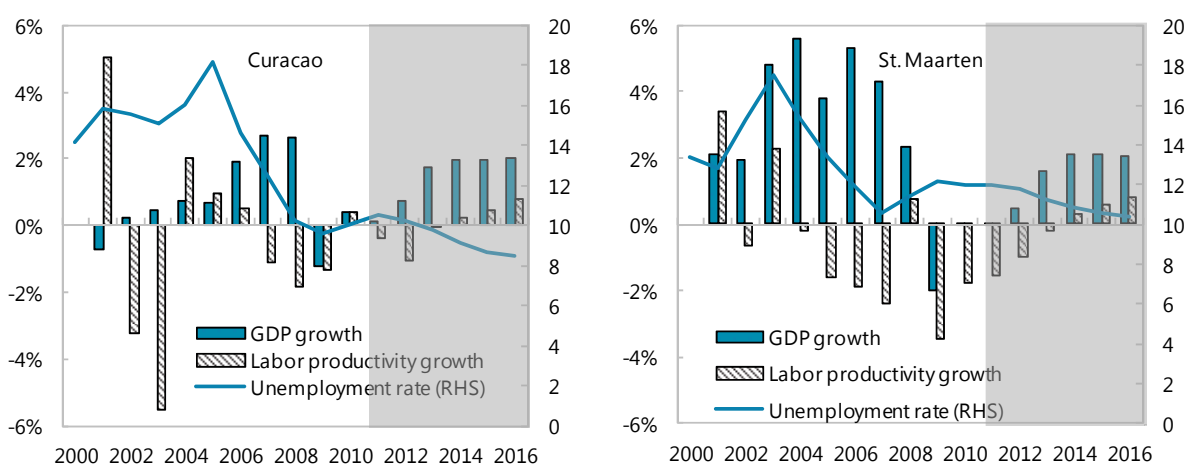
issue debt or breach the fiscal rule in emergency cases.

2. The two countries have similarities, but distinct differences as well (Figures 1–4).

Both are small highly open island economies, but Curacao's economy is more than three times larger than that of Sint Maarten, and more diversified. Tourism exports are much more important for Sint Maarten than for Curacao, accounting for 81¾ percent of GDP and 13 percent of GDP, respectively. Curacao has other important sectors including an oil refinery, a free zone, and international financial services (IFS).

Success in increasing cruise tourism has boosted Sint Maarten's GDP growth significantly above that of Curacao over the past decade. Nevertheless, per capita growth rates in both countries have been low compared with the Caribbean average, and unemployment rates are in double digits, with youth unemployment particularly high. Population aging is a challenge, particularly for Curacao, and is generating significant fiscal spending pressures. Sint Maarten also needs to upgrade and establish institutions to provide a range of services previously provided by the Netherlands Antilles government.

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



Source: National authorities, IMF staff calculations.

3. Macroeconomic challenges are substantial.

In addition to low growth, high unemployment, and aging, the current account deficit for the currency union has widened rapidly to reach 25¾ percent of GDP in 2010, increasing the vulnerability of the currency

peg. However, a strong increase in international reserves in recent years, to about five months of imports in 2010, has provided some cushion, and there is no indication currently of pressures against the guilder.

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

- Even after eliminating identifiable temporary factors, such as increases in FDI inflows and the breakdown of Curacao's oil refinery, staff estimate that the underlying current account deficit remains large at over 15 percent of GDP.
- Pronounced weaknesses in export performance, demand pressures primarily from rapid bank credit growth, and inadequate pass-through of recent increases in international oil and food prices particularly in 2010, appear to be the main drivers of the external deficit. The oil price pass-through has, however, strengthened since June 2011, with the domestic-international price gap broadly eliminated and monthly adjustment to international price movements.
- Data gaps, including on re-exports from Curacao to Sint Maarten, potentially bias estimates of individual island current account deficits, but available data indicate that in 2010, while Curacao's external deficit widened to an estimated 31 percent of GDP, that of Sint Maarten declined to about 7 percent of GDP.

4. Major data gaps, related in part to the dissolution of the Netherlands Antilles and lack of institutional capacity, significantly impede macroeconomic diagnosis. Nominal expenditure-side national

accounts data have not been published since 2006, and there are no data on deflators or real GDP. Data on fiscal expenditures for Sint Maarten are not yet available for 2009–10, and there are significant gaps in its debt data, complicating the assessment of fiscal policy. Moreover, data on the operations of the Netherlands Antilles central government in 2010 are limited, hampering a proper assessment of the degree of fiscal tightening in the currency union in 2011. Fiscal reporting standards need improvement. And the current account deficit could possibly be mismeasured given limitations in the statistical infrastructure.

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

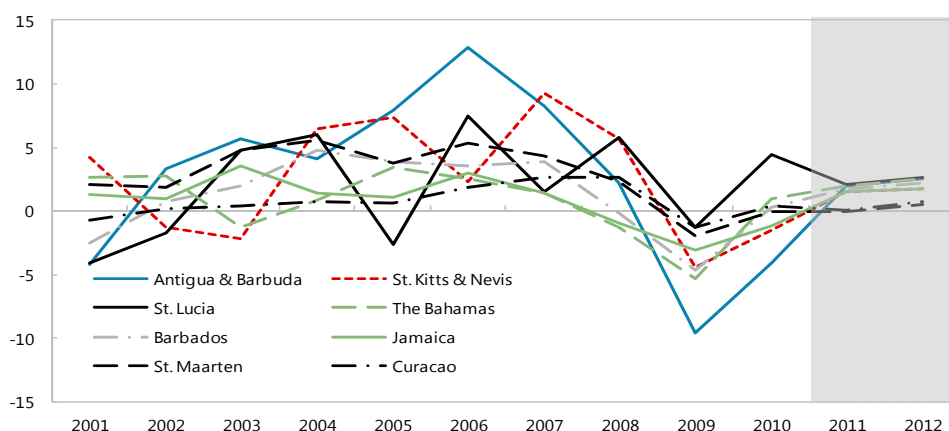
RECENT ECONOMIC DEVELOPMENTS

6. The global crisis caused only moderate contractions in both countries in 2009 (Tables 1–2).

Staff estimates that Curacao's GDP contracted by 1¼ percent in 2009, following growth of 2½ percent in 2008, while Sint Maarten's GDP contracted by two percent in 2009, following growth of 2¼ percent in 2008. Exports contracted substantially, led by declines in tourism. However, imports also contracted sharply,

leading to a positive contribution of net exports to growth in both countries. In addition, public demand remained supportive, particularly in Curacao, helping to partly offset the impact of sharp declines in private domestic demand as the crisis adversely affected business and household confidence. Overall, the contractions in activity were modest compared to other Caribbean countries.

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



Source: IMF WEO.

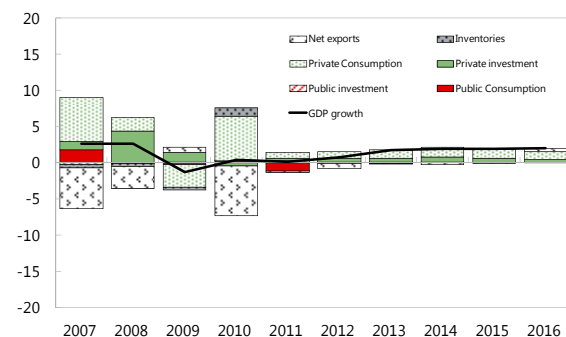
7. Activity remained anemic in 2010.

Staff estimates GDP growth of ½ percent and roughly zero in Curacao and Sint Maarten, respectively. Exports in Curacao further declined as a result of a sharp fall in oil refinery output. Consequently, the contribution of net exports turned negative, largely offsetting the impact of strengthening private domestic demand. In contrast, the contribution of net exports increased in Sint Maarten as tourism

recovered while private domestic demand and imports remained subdued. Unemployment stayed around 10 percent in Curacao over 2009–10, after steady declines since 2007, while, in Sint Maarten, it stayed around 12 percent after steadily declining since 2003.

Curacao

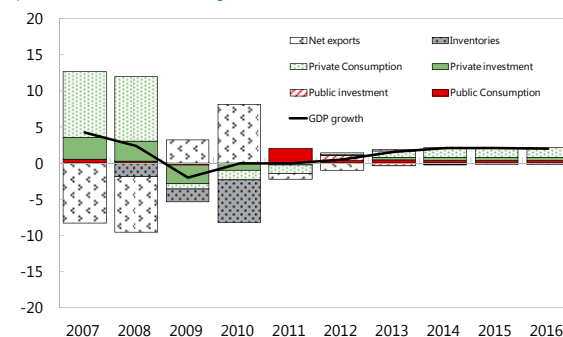
(percent, contribution to GDP growth)



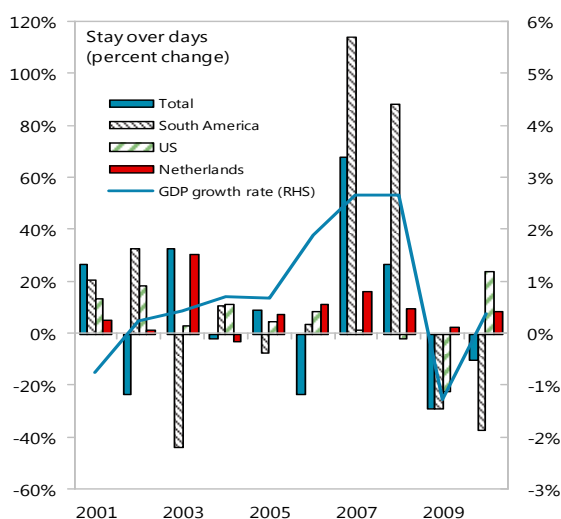
Sources: National authorities, IMF staff estimates

St. Maarten

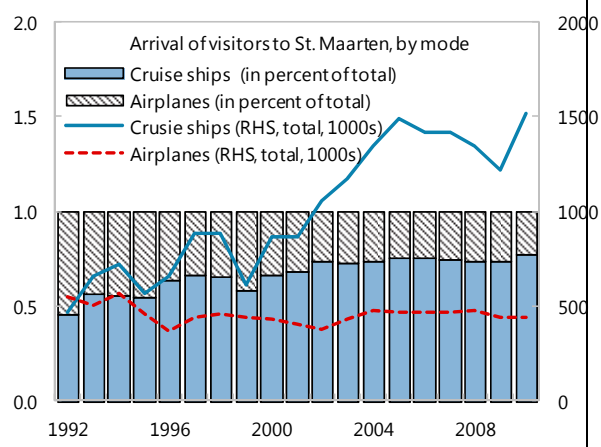
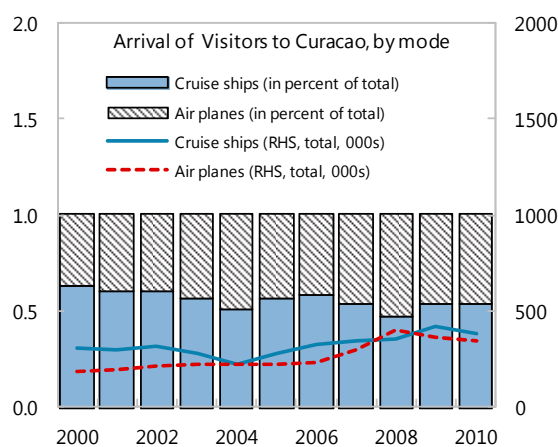
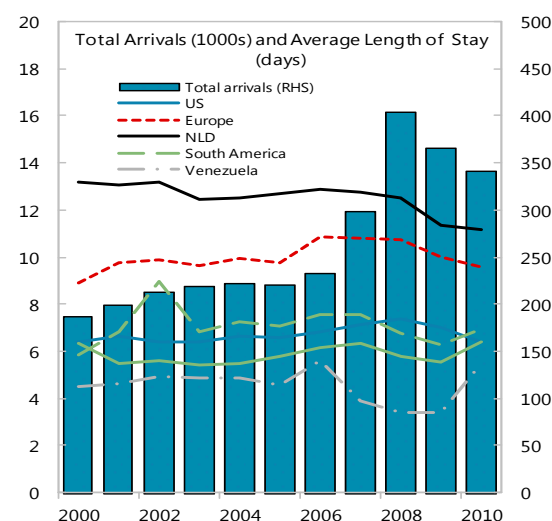
(percent, contribution to GDP growth)



Sources: National authorities, IMF staff estimates

Curacao: Arrivals and Length of Stay

Source: Curacao Tourist Board, IMF staff



8. Inflation declined sharply during the crisis, but has started to increase on account of renewed oil and food price pressures.

As demand pressure fell in the crisis and commodity prices declined temporarily, inflation decelerated in 2009 to 1¾ percent in Curacao and ¾ percent in Sint Maarten. However, driven by renewed oil and food price increases, inflation started picking up again in 2010 and reached 2¾ and 3 percent on average in Curacao and Sint Maarten, respectively.

9. Rapid credit growth moderated in 2010, but is rising in 2011 (Tables 3–4).

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

10. Excluding the impact of debt relief, both island governments ran modest fiscal

deficits over 2009–10. Both governments received substantial grants as part of the debt relief process, as a result of which Curacao had fiscal surpluses in 2009 and 2010. Excluding those grants, Curacao would have had fiscal deficits of ¾ percent of GDP in both 2009 and 2010. Fiscal expenditure data for 2009–10 for Sint Maarten are still unavailable, but staff estimates, based on debt data, indicate fiscal deficits of about one percent of GDP in both 2009 and 2010, excluding debt relief grants. As of end-2010 public debt stood at 34½ percent of GDP and 28¾ percent of GDP in Curacao and Sint Maarten, respectively.

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

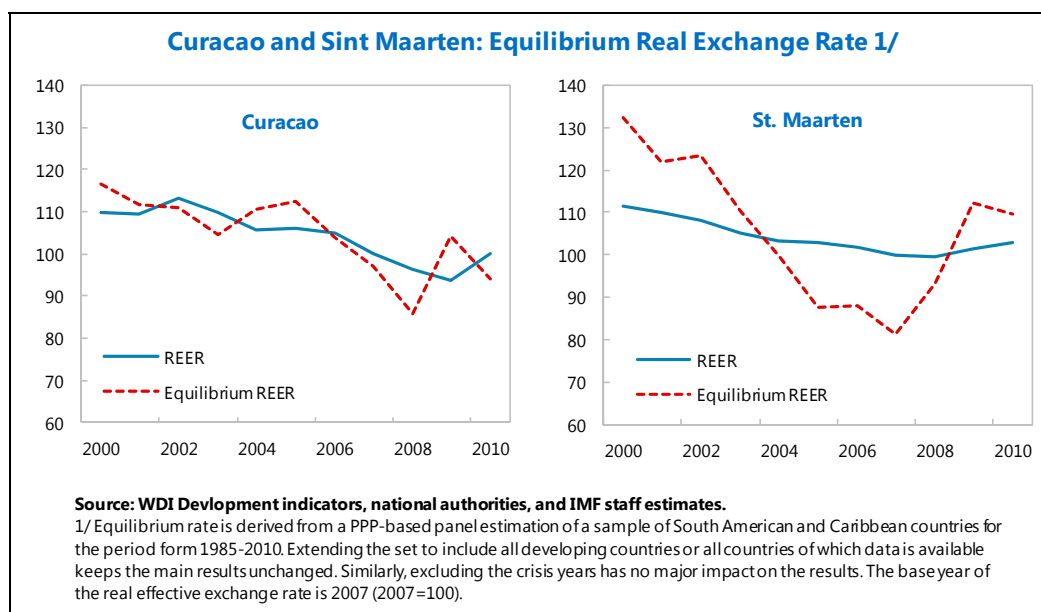
- While export market shares have held up in comparison with other tourism dominated countries in the Caribbean, they have declined substantially as a share of global exports, pointing to anemic competitiveness.
- The scale and rapid widening of Curacao's current account deficit suggest that it is now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

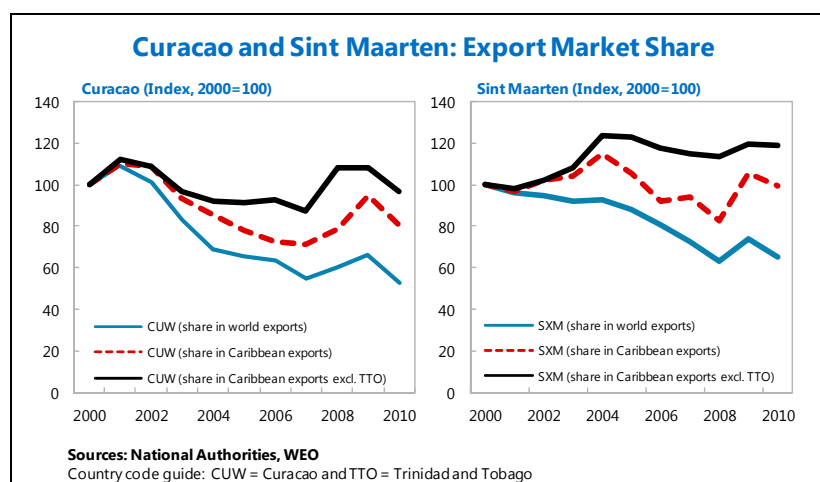
wages are rigid downward, and it is difficult to dismiss workers for any reason. Procedures for obtaining business licenses and permits are very long and of uncertain duration. And there is a widespread use of administered prices on basic goods and petroleum products, hampering adjustment.

- CPI-based real effective exchange rates (REERs) in both countries have depreciated modestly in the past decade. Nevertheless, estimates of the equilibrium REER based on purchasing power parity (PPP) considerations and fundamental determinants—which however should be

interpreted with some caution as such estimates are subject to significant model uncertainty—indicate overvaluation in Curacao in most years since 2006. In contrast, for Sint Maarten overvaluation appears to have been reversed, with the REER becoming undervalued since 2009.

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





Current Account: Curacao and Sint Maarten

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

Source: National Authorities, IMF staff calculations

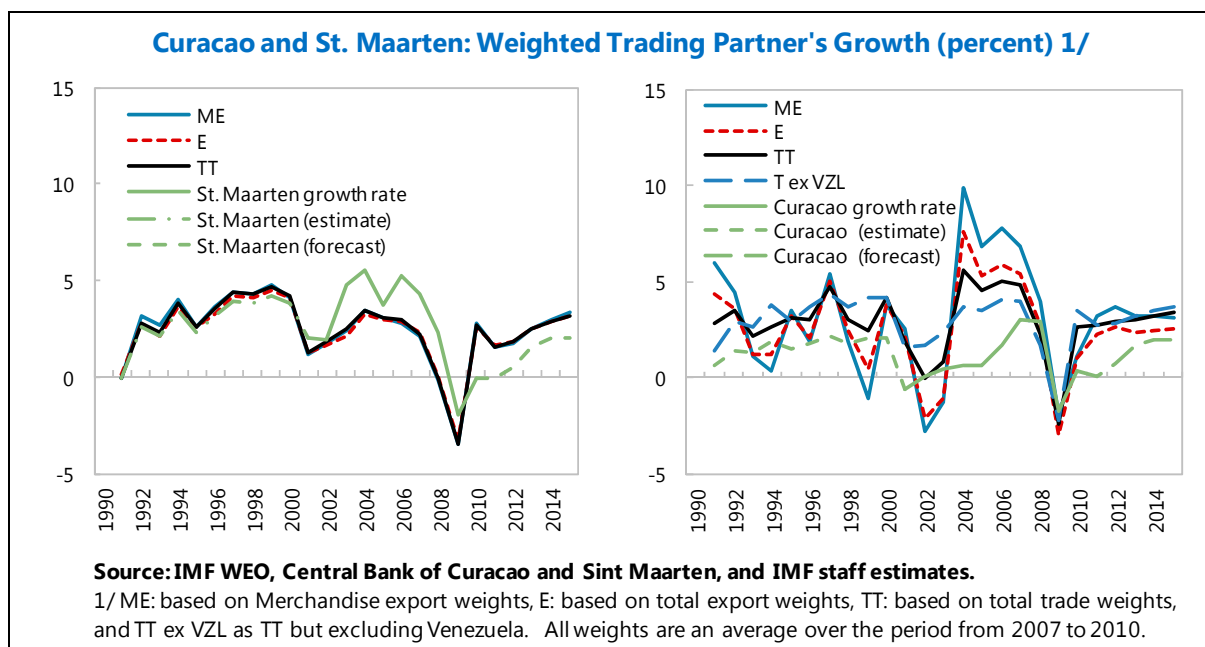
1) Temporary factors include: changes in imports due to FDI and investment related boom, and oil price hikes, changes in exports due to cyclical drop in tourism, and oil refinery breakdown, and temporary change in investment income.

OUTLOOK AND RISKS

Macro Outlook

12. Low growth is expected to persist over 2011–12 (Tables 6–7). In Curacao, available indicators suggest that domestic demand is decelerating in 2011, likely reflecting declining consumer confidence and a tighter fiscal stance. However, exports appear to be growing modestly, led by tourism—with increased hotel capacity and new flight connections—and renewed activity in the oil refinery. In Sint Maarten, continued declines in

stayover tourism have offset the strong rebound in cruise tourism. In this context, GDP is expected to be broadly flat in both countries in 2011, and to grow by $\frac{3}{4}$ percent and $\frac{1}{2}$ percent in Curacao and Sint Maarten, respectively, in 2012, well below WEO projections for the Caribbean region. Alongside, unemployment rates are expected to stay elevated. Inflation is projected to increase to around $2\frac{3}{4}$ – $3\frac{3}{4}$ percent in both countries. The current account deficit is likely to improve somewhat, but remain substantial.



13. But some pickup is anticipated over the medium and long terms if needed reforms are promptly implemented.

With the current regulatory framework and policy uncertainties exerting a significant drag on activity, growth potential will be heavily influenced by the pace of implementation of reforms to improve competitiveness, wage and price flexibility, and the business environment. Moreover, the future of Curacao's oil refinery is increasingly in doubt because of its high polluting nature, and the IFS sector has been in trend decline over the past decade. On the other hand, both countries have upgraded their tourism development strategies. Overall, staff project growth rising to about 2 percent in both countries by 2016, still below the average of the latest WEO projections for the Caribbean. Low exposure to the faster growing Asian and Latin American countries will limit upside

potential in both countries. And aging will weigh on potential growth over the medium and long run. Space constraints may also limit the long term scope for increasing tourism, which would particularly affect Sint Maarten. Overall, the currency union should continue to be viable over the long term, if reform measures are adopted in both countries.

Risks

14. Risks to the outlook are tilted downwards, with heightened uncertainties.

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

- With risks from the sovereign debt crisis rising, any new shocks in funding markets are likely to prove highly disruptive for the European and global economies, with consequent negative impact on tourism and other exports in both countries.
- Analysis in the October 2010 WEO confirms that fiscal consolidation typically has a sizable contractionary impact on growth. With several countries in Europe envisaging significant simultaneous tightening, and new plans for tightening in the U.S. amid signs of weakening activity, the contractionary effects on the global outlook might surpass current estimates, with consequent downward impact on tourism and other exports in both countries.
- In contrast, banking sector linkages to Europe are modest, as the banking system is dominated by local and regional banks, and any spillovers from this channel are likely to be limited.
- Domestic risks are largely related to the large current account deficit and constrained policy options for responding to shocks. Shocks to external financing flows could cause a sharp adjustment in domestic demand and growth. With monetary policy constrained by the peg, fiscal policy constrained by the new framework, and significant structural rigidities, any adverse shocks could have a more pronounced and prolonged impact on the outlook than currently envisaged.
- Upside risks, on the other hand, originate primarily from unexpectedly strong emerging market growth which raises global growth, and the possibility of attracting large investment projects into both countries.

POLICY DISCUSSIONS

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

- A reduction of about 10 percentage points of GDP is needed to bring the underlying current account deficit to historically sustainable levels over the medium term. This could be facilitated by measures to

restrain credit growth, supported by fiscal consolidation. Keeping credit growth some 2–3 percentage points below that of nominal GDP, together with a 2–3 percentage point of GDP improvement in the fiscal position, would likely be needed to help generate the required adjustment over the medium term. Fiscal tightening should not bear the brunt of adjustment, as it is not the primary driver of the external deficit. In addition, structural

reforms to generate wage and price flexibility and improve the business environment will be needed to produce durable gains in competitiveness.

- Given the scale of the external deficit, frontloaded implementation of measures is

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

A. Monetary and Financial Sector Policies

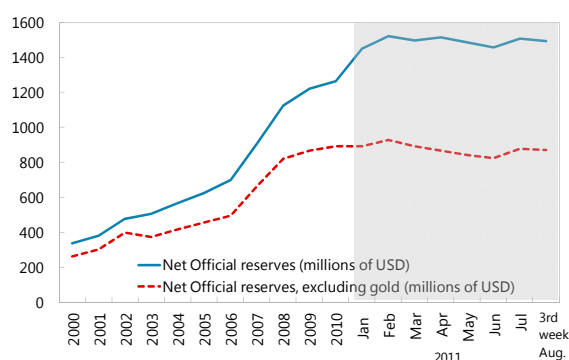
16. There was agreement that the currency peg has delivered credible exchange rate stability and relatively low inflation. Domestic inflation rates have generally mimicked U.S. inflation rates closely, with domestic policy rates closely tracking or even anticipating the U.S. policy rate, particularly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

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

foreign exchange markets. However, dollarization, while removing the threat of currency crisis, would also permanently remove exchange rate adjustment from the policy toolkit, leaving wage and price flexibility as the primary means to recover competitiveness.

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

International Reserve Developments



19. The mission also observed that there is little economic rationale currently for dissolving the currency union.

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

20. Staff emphasized that if external adjustment efforts lagged, international reserves could come under pressure over the medium term.

Under such circumstances, a devaluation would become necessary. However, given current structural rigidities, policy tightening would also be needed to ensure that any gains from devaluation are not eroded by pressures for wage increases. Moreover, the supply side stimulus from

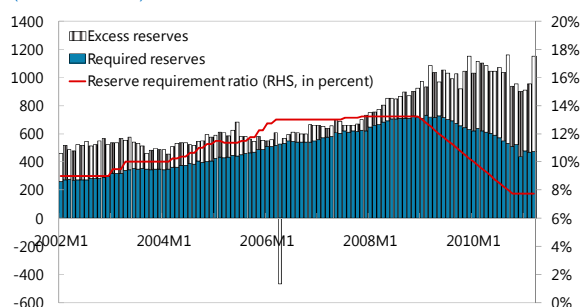
devaluation is likely to be limited given the narrow production base. Both governments responded that they were already working hard to promptly take the necessary measures, and had little enthusiasm for devaluation, given its likely adverse impact on the credibility of the peg and the unfavorable social implications.

21. There was agreement that restraining bank credit would help curb the current account deficit, and tightening has begun.

The CBCS raised the rate of required reserves by 2 percentage points in mid-September, and signaled that further increases would take place. It is also developing plans to further contain credit growth by gradually relaxing limits on foreign investment by domestic financial institutions. Currently, domestic nonbank financial institutions can invest no more than 40–60 percent of their assets abroad without penalty. With limited domestic opportunities for sound investments, this has forced pension funds and insurers to invest large portions of their portfolios in bank deposits. Recent global turmoil has also caused them to invest more in local instruments. In turn, ample deposits have stimulated rapid credit growth, boosting demand and contributing significantly to the current account deficit. Substantial bank excess reserves have also blunted the effectiveness of monetary policy instruments. Incentives for bank lending to the private sector have intensified with the debt relief and new fiscal frameworks, which have substantially reduced

the scope for banks to invest in public debt. The CBCS is also considering other macroprudential tools, including higher risk weights or tougher provisioning rules. Higher policy rates could also support this effort as excess reserves decline.

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



Sources: National authorities

22. Bank capital and liquidity buffers appear robust, though credit quality has declined (Figure 9). The risk weighted capital adequacy ratio stood at 18¼ percent in 2010, well above the regulatory minimum. Bank liquidity buffers also appear sound, with a loan to deposit ratio of 75 percent and reserves well above regulatory requirements. But the nonperforming loan (NPL) ratio increased by 2 percentage points from 2008 to 2010, to 8.6 percent. However, loan-loss provisions are also sizeable at close to 70 percent of NPLs, and they rose in 2010. Banks remain profitable, with a return on assets above the Caribbean

B. Fiscal Policy

24. The 2011 fiscal outturns in both countries are on track with respect to the fiscal rules. Data on budget execution indicate that Curacao will achieve a current budget

average. Staff noted that as the limits on investment abroad are relaxed, banks' deposits and liquidity are likely to tighten, requiring greater supervisory vigilance to ensure continued financial sector stability.

23. Staff also urged the authorities to press ahead with plans to enhance crisis resolution arrangements.

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

surplus of almost one percent of GDP in 2011, well above budget targets, as savings on expenditure on goods and services due to efficiencies from the integration of

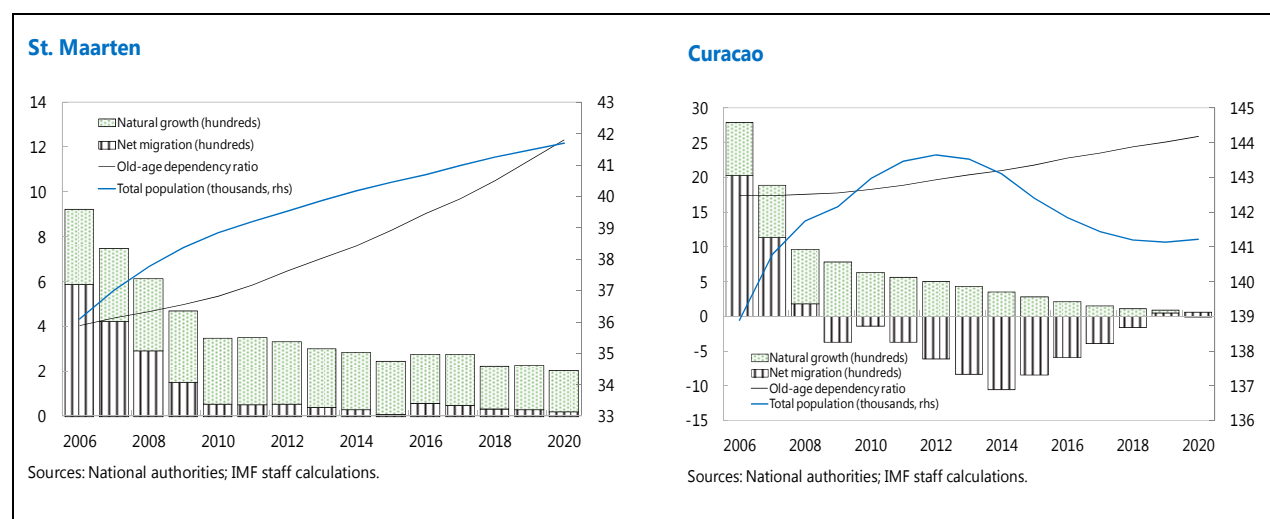
Netherlands Antilles and Island Curacao government operations are realized. Sint Maarten is also on track to achieve a balanced current budget outcome in 2011. Including capital expenditure, Curacao is expected to run a balanced overall budget, while in Sint Maarten significant delays in major planned infrastructure spending imply an overall deficit of $\frac{1}{2}$ percent of GDP, well below the $5\frac{1}{4}$ percent of GDP deficit budgeted for 2011. Public debt is projected to be broadly stable in both countries. Gaps in the Netherlands Antilles government data impede the assessment of the change in the overall fiscal stance in 2011, but staff's rough estimates suggest tightening of about $1\frac{1}{2}$ percent of GDP for the currency union in 2011.

Overall Fiscal Position 2010-2011 1/ (In percent of GDP)		
	2010	2011
Curacao		
Revenue	30.8	31.4
CG on Curacao 2/	12.7	...
Island government	18.1	...
Expenditure	33.1	31.4
CG on Curacao 2/	10.8	...
Island government	22.2	...
Overall Fiscal Balance	-2.3	0
St. Maarten		
Revenue	28.3	27.9
CG on St. Maarten 2/	10.9	...
Island government	17.4	...
Expenditure	27.3	28.5
CG on St. Maarten 2/	9.1	...
Island government	18.2	...
Overall Fiscal Balance	0.9	-0.5
Currency Union		
Revenue	30.3	30.8
Expenditure	31.8	30.8
Overall Fiscal Balance	-1.6	-0.1

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

25. Staff welcomed further efforts planned for the 2012 budgets and beyond

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



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

27. The mission emphasized that fiscal tightening of about 2–3 percentage points of GDP is needed over the near to medium term to support the external adjustment effort. There was agreement that the bulk of the adjustment will need to come from Curacao, given its relative size and its responsibility for the bulk of the current

account deficit, and significant tightening is already occurring in Curacao. Staff observed that additional measures, beyond those needed to contain aging and institutional buildup-related pressures and remain within the fiscal rules, would be needed. Areas that could be targeted in this effort include social benefits, goods and services, and wages.

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

given pronounced under-utilization of budgeted amounts in the 2011 budget.

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

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

28. Comprehensive tax reforms, which will help enhance competitiveness by reducing tax rates on labor and profits, are being prepared in both countries. Staff welcomed new tax legislation recently passed in Curacao, envisaging revenue-neutral reforms that broaden the tax base, raise the turnover tax rate by one percentage point to 6 percent, and significantly lower personal income and corporate tax rates. The authorities also indicated that they would go further in phases in subsequent years, along the lines recommended by the 2009 FAD TA

mission, which included a corporate tax rate at 20 percent, the top income tax rate at 35 percent, and a VAT at 10 percent. Similar reforms are now under planning in Sint Maarten. Staff urged that this process be accelerated, and noted that synchronization of tax policy with the French side of the island would be critical to avoid arbitrage across borders. The mission also suggested that membership in the Caribbean Regional Technical Assistance Center (CARTAC) would provide useful technical assistance in this endeavor.

Regional Comparisons of Tax Rates

(In Percent, last updated in June 2011)

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

Source: IBFD.

1/ Scheduled system.

2/ No VAT.

3/ Consumption tax with rates from 5 percent to 40 percent.

C. Structural Reforms

29. There was agreement that deep structural reforms are needed to enhance price and wage flexibility, improve the business environment, and strengthen competitiveness. Both governments indicated that they were developing plans to increase labor market flexibility, liberalize administered

prices, and improve the business environment. Staff welcomed these efforts, and called for prompt implementation of the measures. Both governments also indicated that consultation between government, employers, and workers, would be strengthened to facilitate consensus by all major stakeholders on the reforms

(particularly to the labor market), as has been done successfully in many countries including the Netherlands and Aruba.

- Both governments should overhaul labor market regulations to substantially enhance wage flexibility, the ease of adjusting company workforces, and incentives for job search. Staff noted that these reforms would also help reduce the proliferation of short-term contracts and the grey economy, which the unions have protested about.
- Both governments have decided to cut red tape and streamline the business licensing and permit regimes, so that the process of

forming new businesses becomes timely and predictable.

- The widespread use of administered prices on basic goods is to be phased out and replaced by strong competition legislation and competition authorities. Staff also stressed that the pricing of petroleum products should continue to be adjusted on a monthly basis in line with international prices to stimulate appropriate demand responses.
- Staff noted also that measures to increase the efficiency and governance of public utilities and public enterprises would help improve the business environment.

STAFF APPRAISAL

30. Both countries face substantial challenges, requiring sustained adjustment efforts over the near and medium terms.

In addition to low growth, high unemployment, and aging pressures, the current account deficit for the currency union has risen to worrisome levels. The real exchange rate also appears moderately overvalued, particularly in Curacao. Anemic competitiveness, rapid credit growth, and inadequate pass-through of recent increases in international oil and food prices particularly in 2010, appear to be the main drivers of the external deficit. While international reserves have risen in recent years, vulnerabilities are substantial, and strong efforts are needed to reduce the current account deficit to sustainable levels. If

efforts lag, international reserves could come under pressure over the medium term, requiring a devaluation. Moreover, devaluation would only yield temporary adjustment unless it is buttressed with policy tightening and structural measures to improve competitiveness.

31. A substantial adjustment is needed to bring the underlying current account deficit to historically sustainable levels over the medium term. This could be facilitated by measures to restrain credit growth, supported by fiscal consolidation. In addition, structural reforms to generate wage and price flexibility and improve the business environment will be needed to realize durable gains in

competitiveness. In several areas policy responses are being prepared, but prompt implementation will be key.

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

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

as the tightening, together with the frail near term outlook, could increase strains in the banking system.

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

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

36. However, significant fiscal tightening is needed over the near to medium term to support the efforts to reduce the current account deficit. Given the relative size of Curacao and data suggesting that it is primarily responsible for the widening of the current account deficit, the bulk of the adjustment will need to come from Curacao. The significant tightening already expected in Curacao for 2011 is therefore a step in the right direction. In addition to efforts to contain aging and institutional buildup-related

pressures, areas that could be targeted in this effort include social benefits, goods and services, and wages. In Sint Maarten, scope for reducing expenditures appears limited, given the need to fill institutional gaps. However, tax reforms as well as compliance increasing measures being developed will likely need to be moderately revenue enhancing.

37. Planned tax reforms will help improve the business environment and competitiveness by reducing rates on labor and profits and raising indirect taxes.

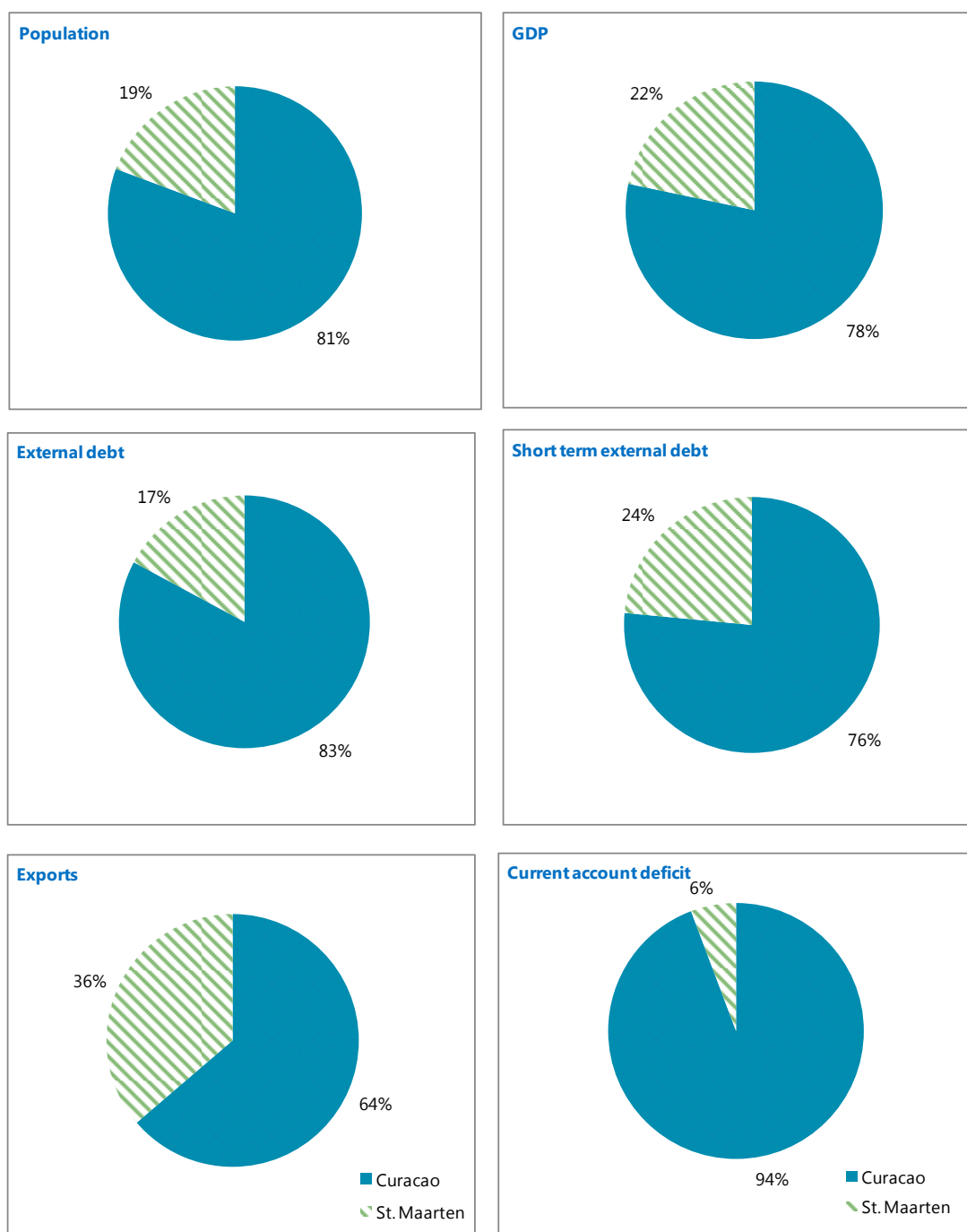
Rebalancing from direct to indirect taxes would also support productive activity and moderate consumption, thus contributing to a reduction of the underlying current account deficit. The new legislation in Curacao is a commendable start, and the authorities' plans to go further along the lines proposed by the FAD TA mission are in the right direction. For Sint Maarten, the timing of implementation of tax reforms should be brought forward as much as possible. Given the shared border

with the French side, synchronization of tax policy on both sides would be critical to avoid arbitrage across borders.

38. Deep structural reforms are needed to enhance price and wage flexibility and improve the business environment.

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

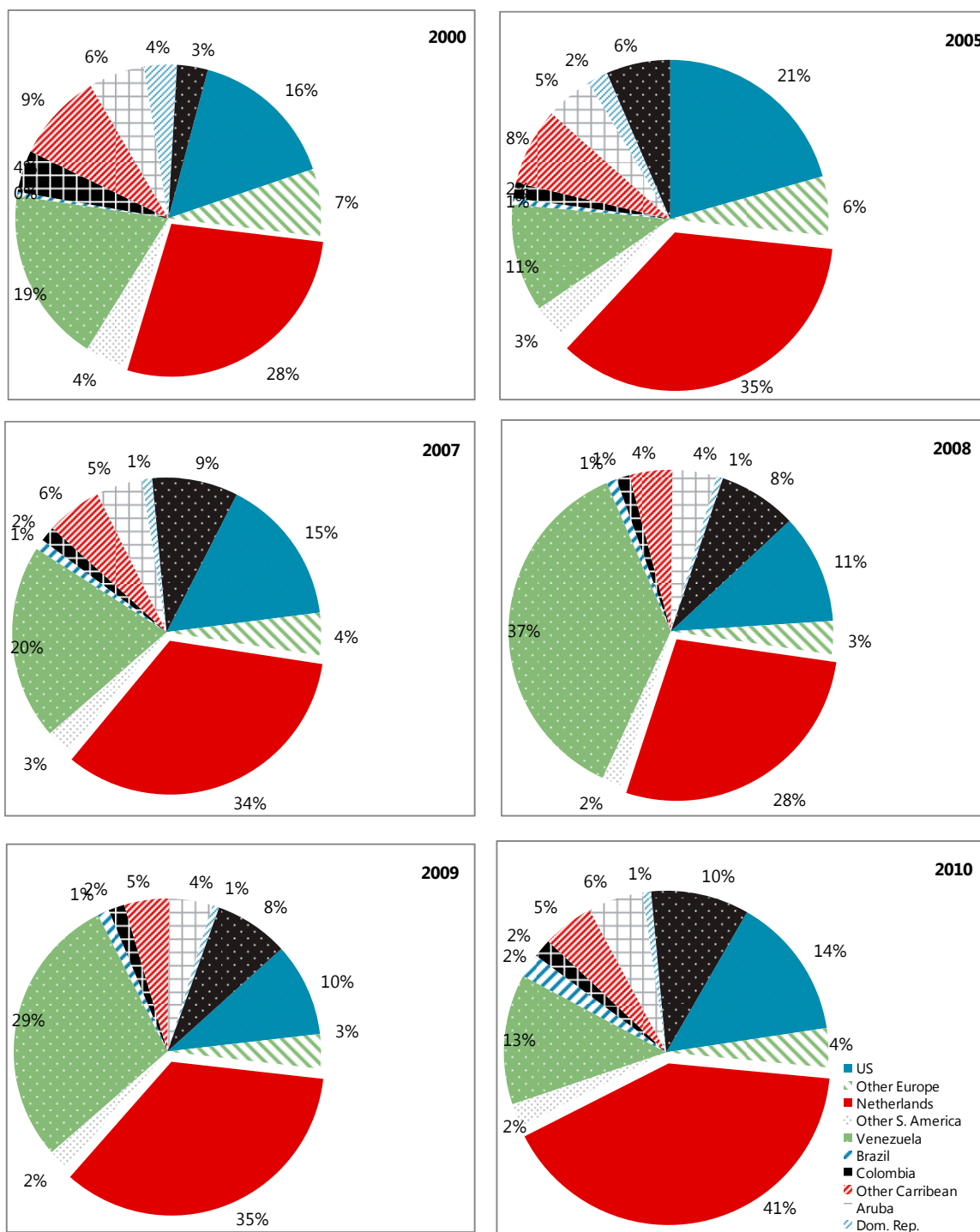
39. It is currently envisaged that the next Article IV consultation discussions with Curacao and Sint Maarten will be held in 24 months time.

Figure 1. Curacao and Sint Maarten: Comparison

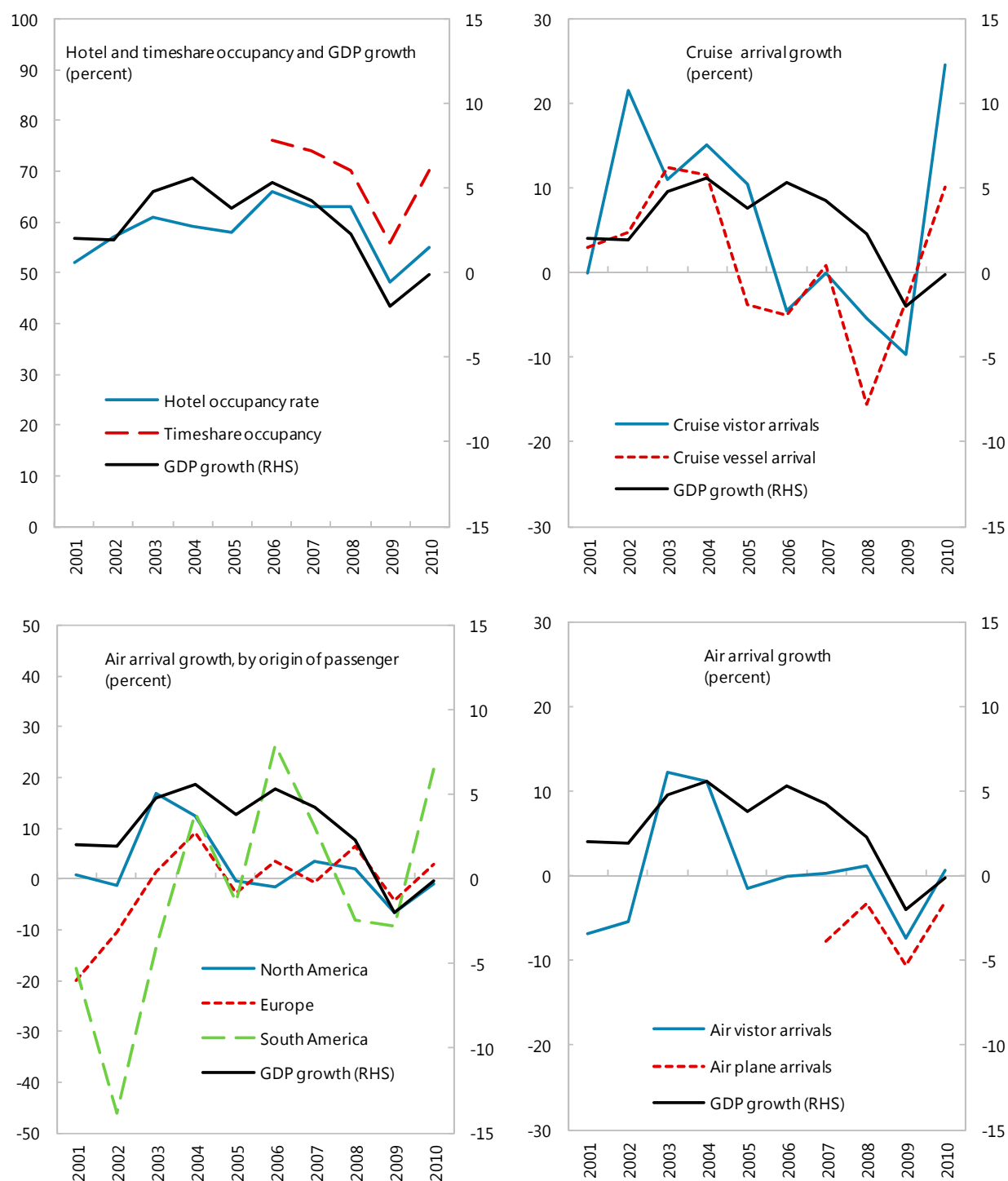
Source: National authorities, and IMF staff calculations

Figure 2. Curacao: Visitor Arrival, by Origin

(Percent of total visitor arrivals)



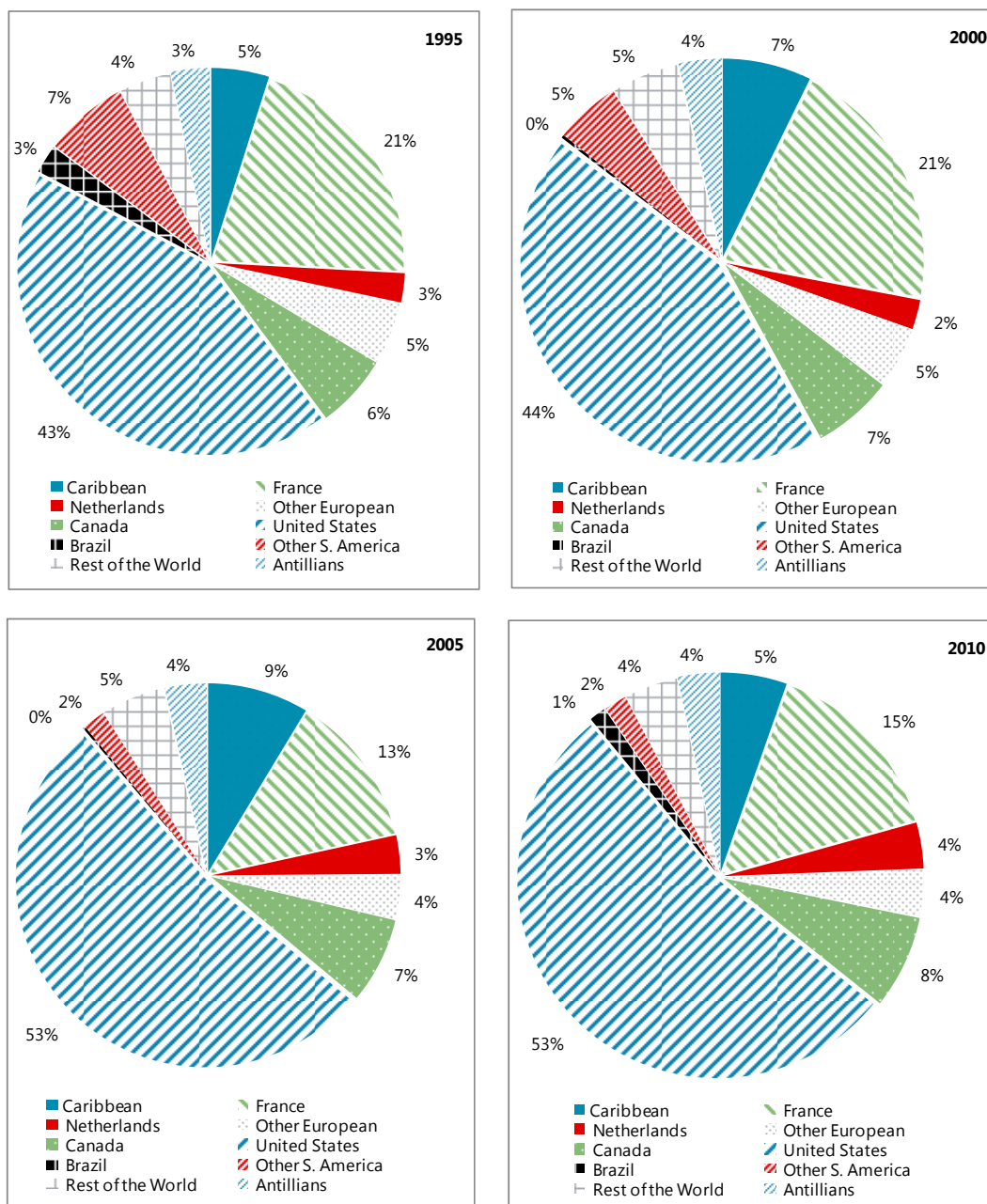
Source: Curacao Tourist Board, IMF staff calculations

Figure 3. Sint Maarten: Tourism Developments

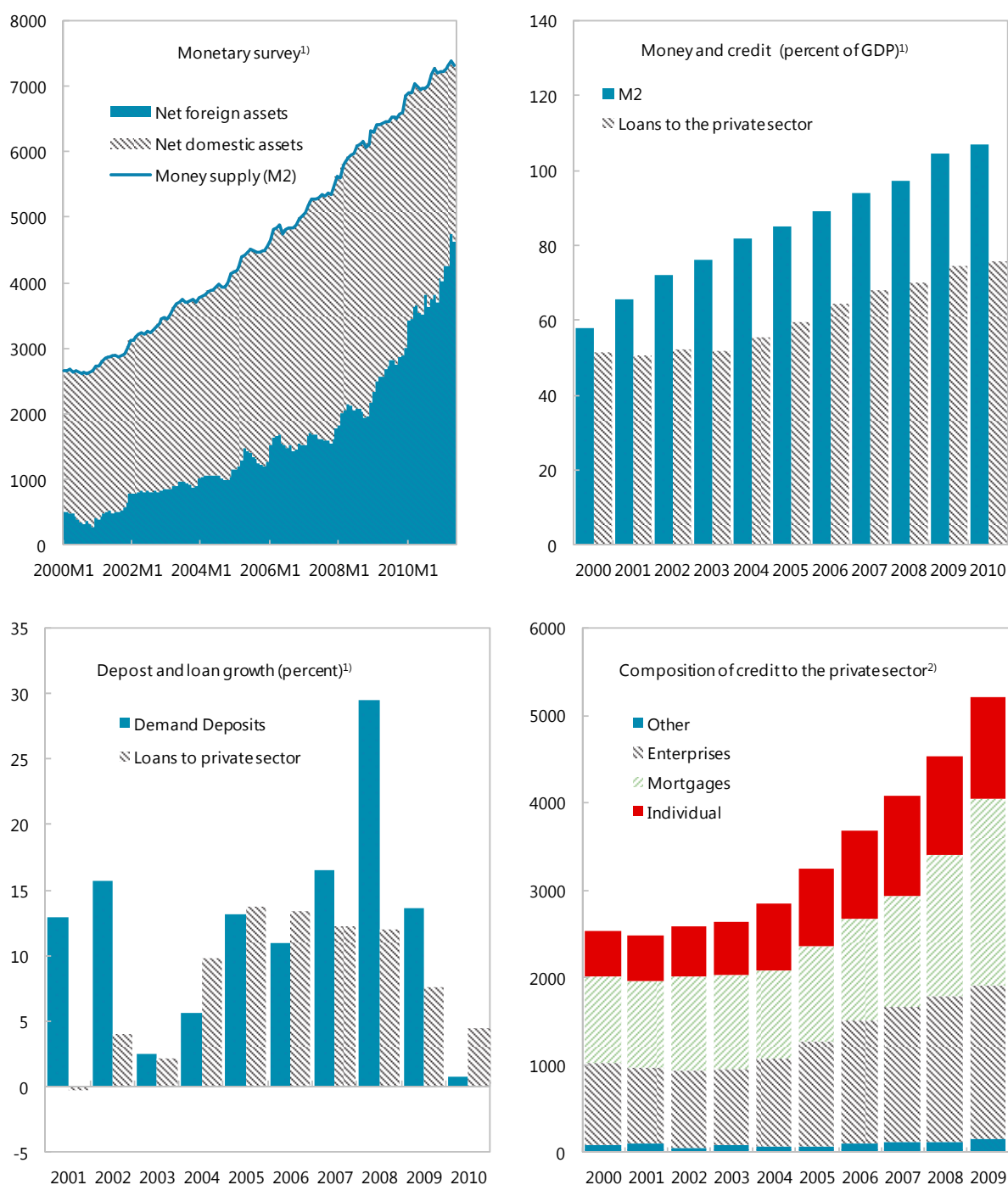
Source: St. Maarten Tourist Bureau, St. Maarten Hospitality & Trade Association, and IMF

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

(Percent of total tourist arrivals)



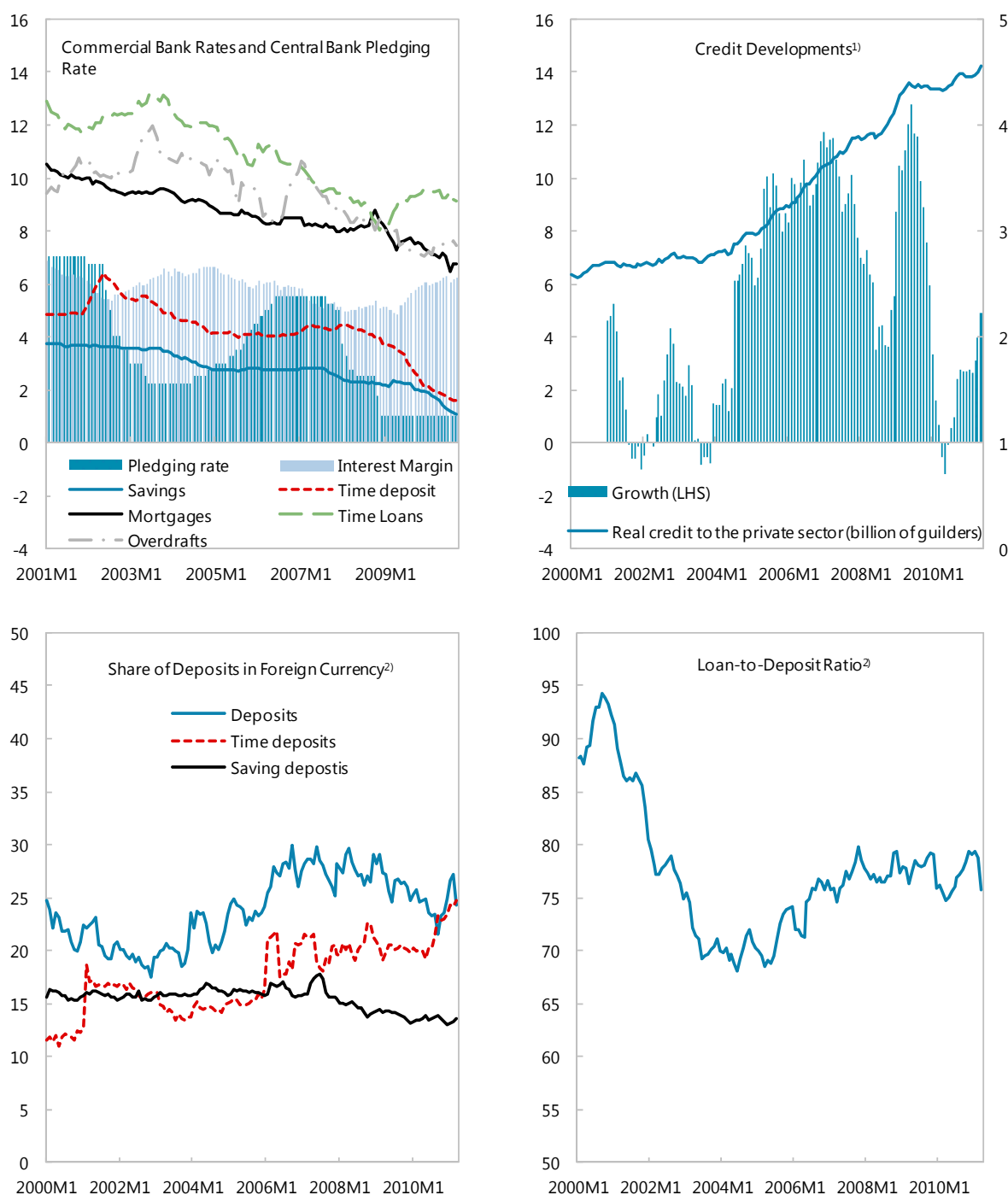
Sources: St. Maarten Tourist Bureau; and IMF staff calculations.

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

Source: Central Bank, and IMF staff calculations

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

2) Based on the Netherlands Antilles data.

Figure 6. Curacao and Sint Maarten: Banking Sector Developments

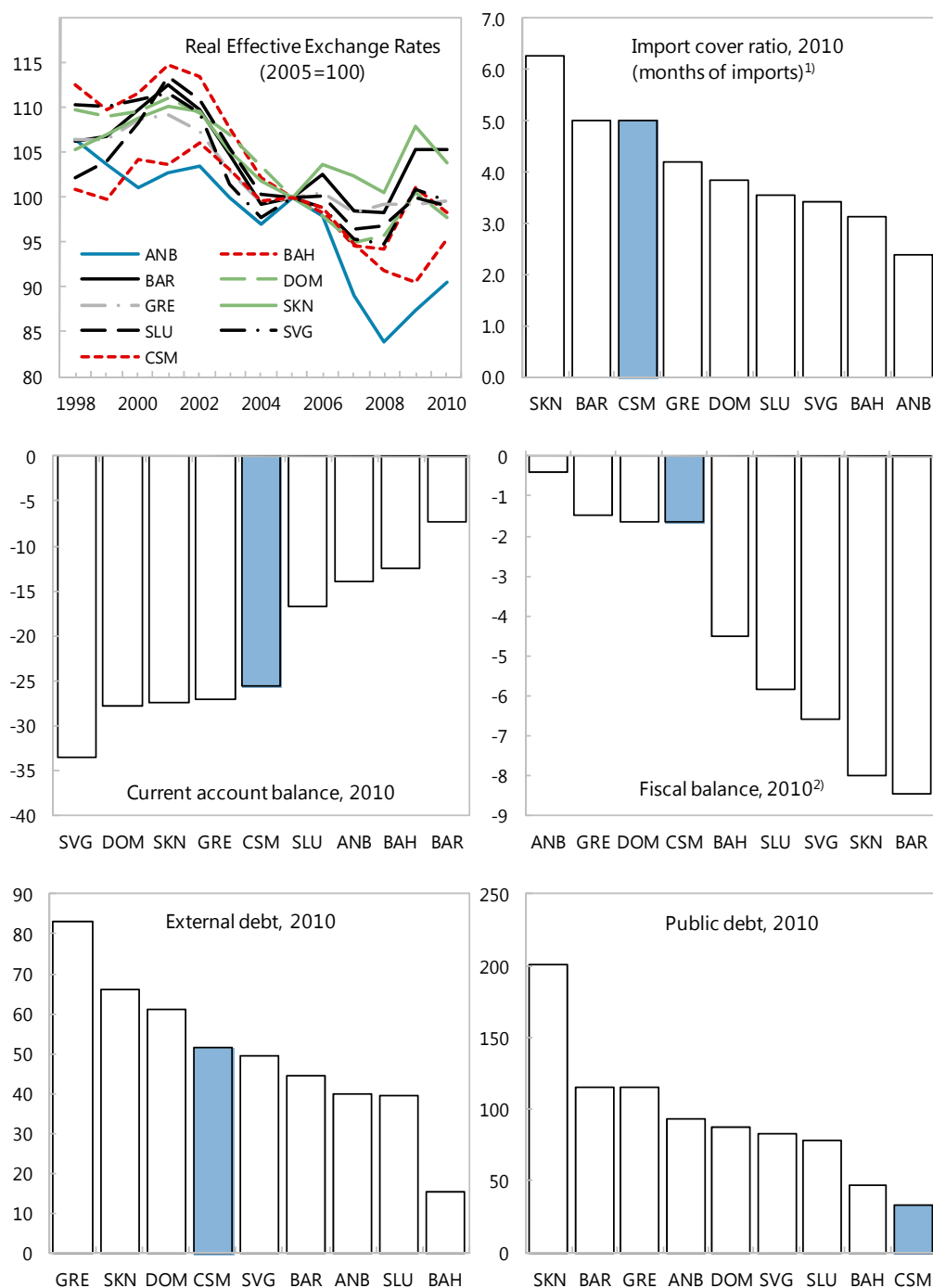
Source: National Authorities, and IMF staff calculations

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

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

Figure 7. Curacao and Sint Maarten: Competitiveness and Vulnerability Indicators

(In percent of GDP, unless otherwise indicated)

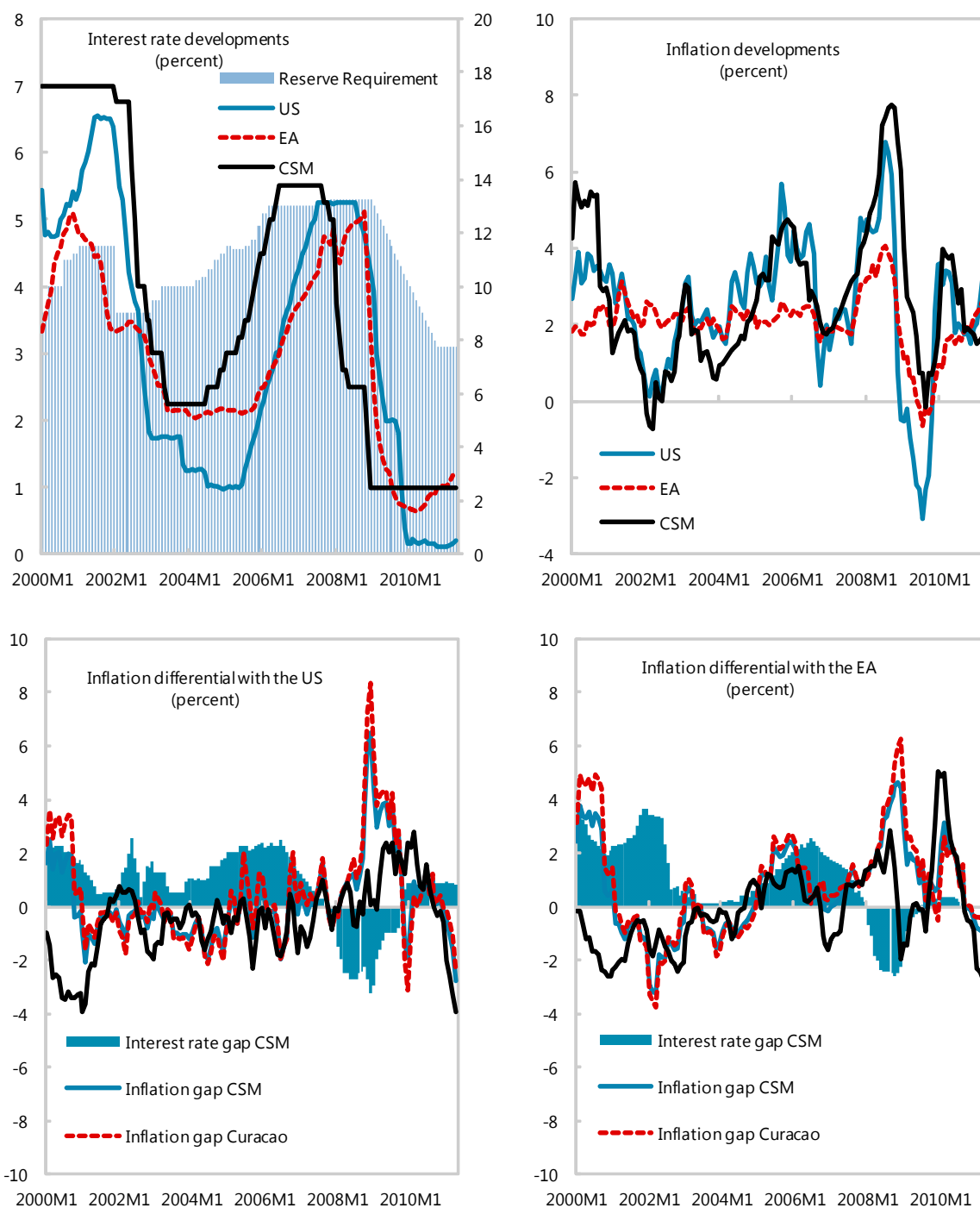


Source: National authorities and IMF, IFS.

Curacao and St. Maarten=CSM, Antigua and Barbuda=ANB, Bahamas=BAH, Barbados=BAR, Dominica=DOM, Grenada=GRE, St. Kitts and Nevis=SKN, St. Lucia=SLU, St. Vincent and the Grenadines=SVG.

1) Refers to the ratio of gross reserves excluding gold to imports of goods and services.

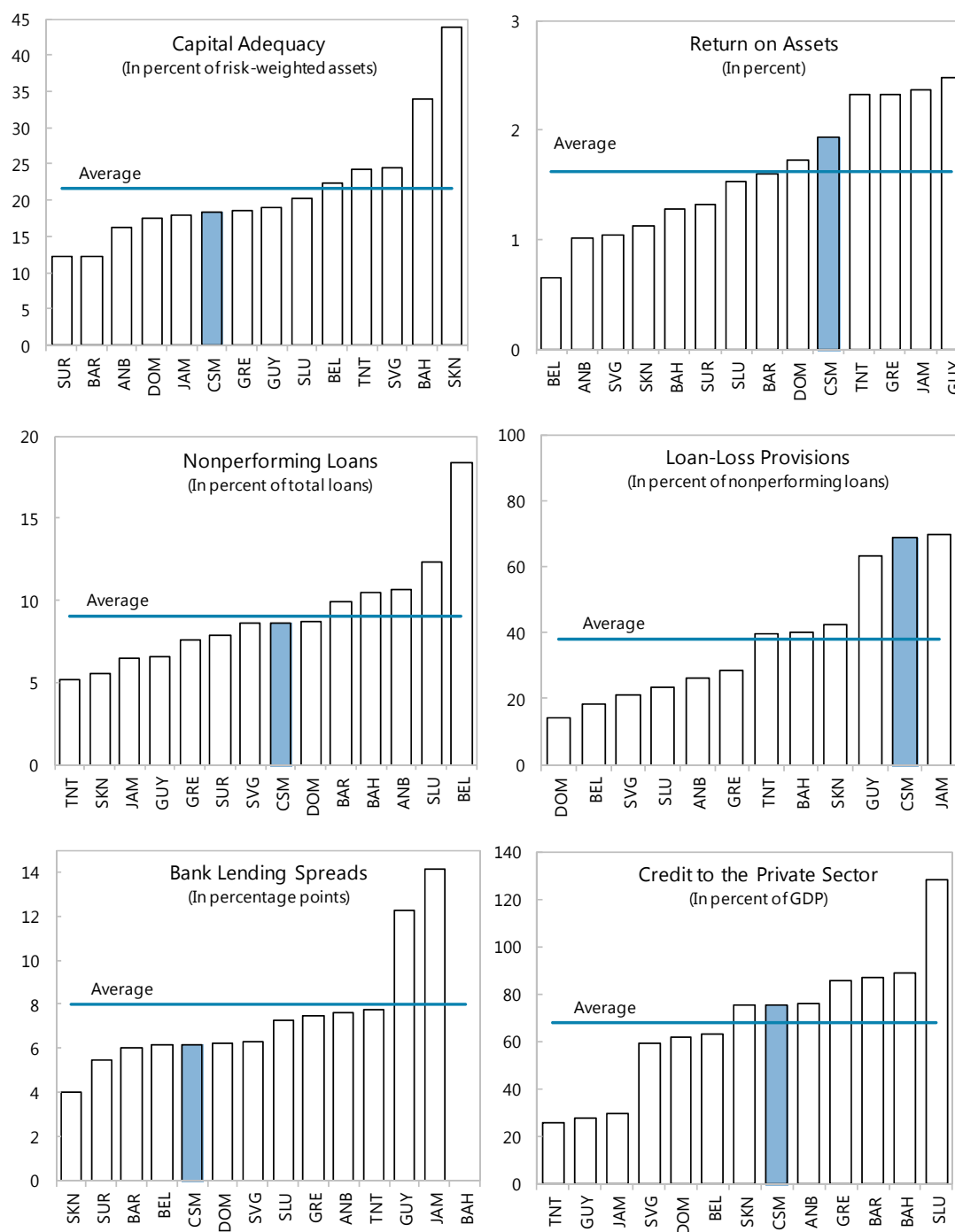
2) Excluding the debt relief for Curacao and Sint Maarten.

Figure 8. Curacao and Sint Maarten: Inflation and Interest Rate Developments

Source: National Authorities, Haver Analytics, IMF staff calculations

Figure 9. Curacao and Sint Maarten: Regional Financial Sector Indicators

(2010, or latest available observation)



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

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

Area	444 (km ²)	Population, thousand (2010)	142			
Percent of population below age 15 (2010)	21.0	Literacy rate, in percent (2010)	96.7			
Percent of population aged 65+ (2010)	12.2	Life expectancy at birth, male (2010)	73.3			
Infant mortality, over 1,000 live births (2010)	9.0	Life expectancy at birth, female (2010)	80.3			
	2007	2008	2009	2010	2011 Proj.	2012
Real economy (change in percent)						
Real GDP 1/	2.7	2.6	-1.3	0.4	0.1	0.7
Private consumption	9.2	2.7	-4.5	8.9	1.0	1.2
Public consumption	11.7	-0.4	-1.3	1.6	-7.0	1.0
Gross fixed investment	2.6	13.1	4.0	-0.9	1.8	1.1
Net foreign balance 2/	-5.6	-3.1	0.7	-6.9	-0.1	-0.7
CPI (12-month average)	3.0	6.9	1.8	2.8	2.8	3.7
Unemployment rate (in percent)	12.4	10.3	9.7	10.1	10.5	10.3
General government finances (in percent of GDP) 3/						
Primary balance	1.4	1.2	10.2	7.3	1.3	1.7
Overall balance	-1.8	-1.7	7.6	5.4	0.0	0.8
Public debt	56.3	52.6	47.3	34.6	33.6	31.4
Balance of payments (in percent of GDP)						
Trade balance	-43.7	-42.9	-37.0	-41.3	-40.7	-40.9
Exports of goods	33.3	23.5	23.1	24.9	25.8	26.6
Imports of goods	76.2	60.6	64.4	65.6	66.8	67.5
Current account	-21.0	-26.4	-16.7	-30.9	-29.2	-28.5
Capital and financial account	16.4	25.4	8.8	20.5	28.3	24.3
Net FDI	4.4	5.2	1.7	2.5	2.0	3.5
Reserves (in millions of U.S. dollars)	688.1	853.7	929.4	959.7	1,003.0	953.8
(in months of next year's imports of goods)	3.8	5.9	5.9	5.8	5.7	5.1
(In percent of short-term debt)	458.6	603.0	626.1	663.7	620.9	557.3
External debt (in percent of GDP)	33.7	30.5	26.9	54.6	62.0	65.5
Memorandum items:						
Nominal GDP (in millions of U.S. dollars)	2,593	2,831	2,869	2,951	3,047	3,179
Per capita GDP (change in percent)	1.3	1.9	-1.6	-0.2	-0.2	0.6
Real effective rate (2007=100)	100.0	96.2	93.8	100.1	..	..
Fund position	Curacao is part of the Kingdom of the Netherlands and does not have a separate quota.					
Exchange rate	The Netherlands Antilles guilder is pegged to the U.S. dollar at NA f. 1.79 = US\$1.					

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

1/ Based on IMF staff estimates of deflators.

2/ Contribution to GDP growth.

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

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

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

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

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

1/ Based on IMF staff estimates of deflators.

2/ Contribution to GDP growth.

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

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

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

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

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

1/ Based on IMF staff estimates of deflators.

2/ Contribution to GDP growth.

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

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

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

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

1/ Refers to exports or imports of goods and services.

2/ Refers to the sum of the two countries since no consolidated data is available before 2010 Q4.

3/ Refers to the sum of the two countries external debt, excluding the external debt of the central government of the Netherlands Antilles prior to 2010.

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	Proj.									
(In millions of US dollars, unless otherwise indicated)										
Current account	-635	-922	-609	-968	-947	-968	-919	-889	-875	-871
Goods and services balance	-666	-895	-735	-968	-980	-1014	-995	-997	-1009	-1022
Exports of goods and services	2540	2926	2634	2572	2767	2939	3155	3395	3672	3975
Goods	649	1076	805	807	882	945	1018	1105	1203	1308
Services	1890	1849	1829	1765	1885	1993	2137	2290	2470	2666
Imports of goods and services	3205	3821	3369	3540	3747	3953	4151	4392	4681	4997
Goods	2458	2989	2474	2622	2752	2911	3084	3298	3553	3830
Services	747	832	894	918	995	1042	1067	1094	1128	1167
Income	25.1	-34.1	-79.2	-43.2	5.3	8.6	32.7	52.3	62.4	68.5
Compensation of employees	-24.0	-24.6	-13.2	-5.0	-5.7	-7.3	-11.9	-7.5	-2.7	-1.2
Investment income	49.1	-9.5	-66.0	-38.2	11.0	15.9	44.6	59.7	65.2	69.7
Current transfers 1/2	5.4	7.4	204.6	43.5	27.8	37.2	43.9	55.1	71.2	82.4
(percent of GDP)	0.2	0.2	5.6	1.2	0.7	0.9	1.0	1.2	1.5	1.7
Capital and financial account	483	845	358	637	947	848	840	812	809	813
Capital account	23	33	34	38	38	38	38	38	38	38
Financial account	459	812	324	598	909	810	802	774	771	775
Direct investment	181	218	89	104	91	140	178	186	198	219
Portfolio investment	-97	-45	-66	-398	-55	-105	-155	-205	-205	-205
Financial derivatives	0	0	0	0	0	0	0	0	0	0
Other investment	376	639	301	892	874	775	780	792	778	761
Reserve assets	-46	-83	167	187	-78	42	0	0	-12	-19
Reserves and external debt										
Gross Reserves, excluding gold	1032	1395	1311	1481	1560	1517	1517	1517	1529	1548
Net Official reserves	905	1123	1223	1263	1330	1294	1293	1293	1303	1320
in months of goods imports	4.4	4.5	5.9	5.8	5.8	5.3	5.0	4.7	4.4	4.1
over short term debt	1.8	2.2	2.5	2.1	1.8	1.6	1.5	1.5	1.4	1.4
Gross external debt (percent of GDP)	33.9	30.4	26.5	51.6	57.7	60.7	61.9	61.6	61.1	60.6
of which short term debt	15.5	14.0	13.5	16.3	18.7	19.6	20.0	19.9	19.7	19.5
Memorandum item:										
GDP at current prices	3342	3626	3662	3770	3898	4058	4250	4459	4675	4887
	(In percent of GDP)									
Current Account										
Curacao and St. Maarten	-19.0	-25.4	-16.6	-25.7	-24.3	-23.9	-21.6	-19.9	-18.7	-17.8
St. Maarten	-12.0	-22.0	-16.3	-6.8	-6.7	-7.0	-6.3	-5.4	-4.2	-3.6
Curacao	-21.0	-26.4	-16.7	-30.9	-29.2	-28.5	-25.8	-23.9	-22.6	-21.6
G & S Balance										
Curacao and St. Maarten	-19.9	-24.7	-20.1	-25.7	-25.1	-25.0	-23.4	-22.4	-21.6	-20.9
St. Maarten	-4.6	-13.5	-8.2	0.2	-0.2	-1.0	-0.8	-0.6	-0.5	-0.6
Curacao	-24.4	-27.8	-23.3	-32.9	-32.1	-31.6	-29.6	-28.3	-27.3	-26.4
	(In millions of US dollars)									
Exports of Goods										
St. Maarten	108	133	130	123	122	124	130	138	147	156
Curacao	542	943	675	683	760	822	889	968	1056	1152
Exports of Services										
St. Maarten	854	824	763	809	846	880	925	979	1042	1108
Curacao	1037	1025	1066	956	1039	1113	1212	1311	1428	1558
Imports of Goods and Services										
St. Maarten	996	1065	958	931	970	1013	1061	1122	1193	1271
Curacao	2210	2756	2411	2609	2777	2940	3089	3270	3488	3726

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

1/ Overall numbers are the sum of the two countries BOP.

2/ Assumes a payment by the Netherlands of arrears in 2012 as part of the debt relief program.

Table 6. Curacao: Macroeconomic Framework, 2008–16

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

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

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

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

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

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

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

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

(In percent of GDP)

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

Sources: Data provided by the authorities and staff estimates.

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

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

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

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

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

(In percent of GDP)

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

Sources: Data provided by the authorities and staff estimates.

1/ Data from 2007–10 reflects the fiscal operations of the local island government. Data from 2011 onwards refers to the new island government that has integrated the fiscal operations of the previous central government of the Netherlands Antilles.

2/ Before the dissolution of the Netherlands Antilles, most taxes on goods and services were levied by the central government of the Netherlands Antilles.

3/ Data for 2010 and 2012 include debt relief covering marketable debt as well as arrears.

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

5/ Data for 2010–12 include the impact of debt relief covering marketable debt as well as arrears.

APPENDIX I. DEBT SUSTAINABILITY ANALYSIS

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

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

3. External debt appears on a sustainable path, but financing related risks

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

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

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

but the large fraction of locally denominated public debt cushions the effect. Negative shocks to output or the interest rate are of

minor concern, provided the shocks remain in the historical range and they do not materialize simultaneously.

Table A1. Curacao: Public Sector Debt Sustainability Framework, 2006–16Table A1. Curacao: Public Sector Debt Sustainability Framework, 2006-2016
(In percent of GDP, unless otherwise indicated)

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

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

2/ Derived as $[(r - \pi(1+g) - g + \alpha\epsilon(1+r))/(1+g+\pi+g\pi)]$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ϵ = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as $-g$.4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\epsilon(1+r)$.

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

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

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

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

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

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

(In percent of GDP, unless otherwise indicated)

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

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

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r))/(1+g+\pi+g\pi)]$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as $-g$.4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

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

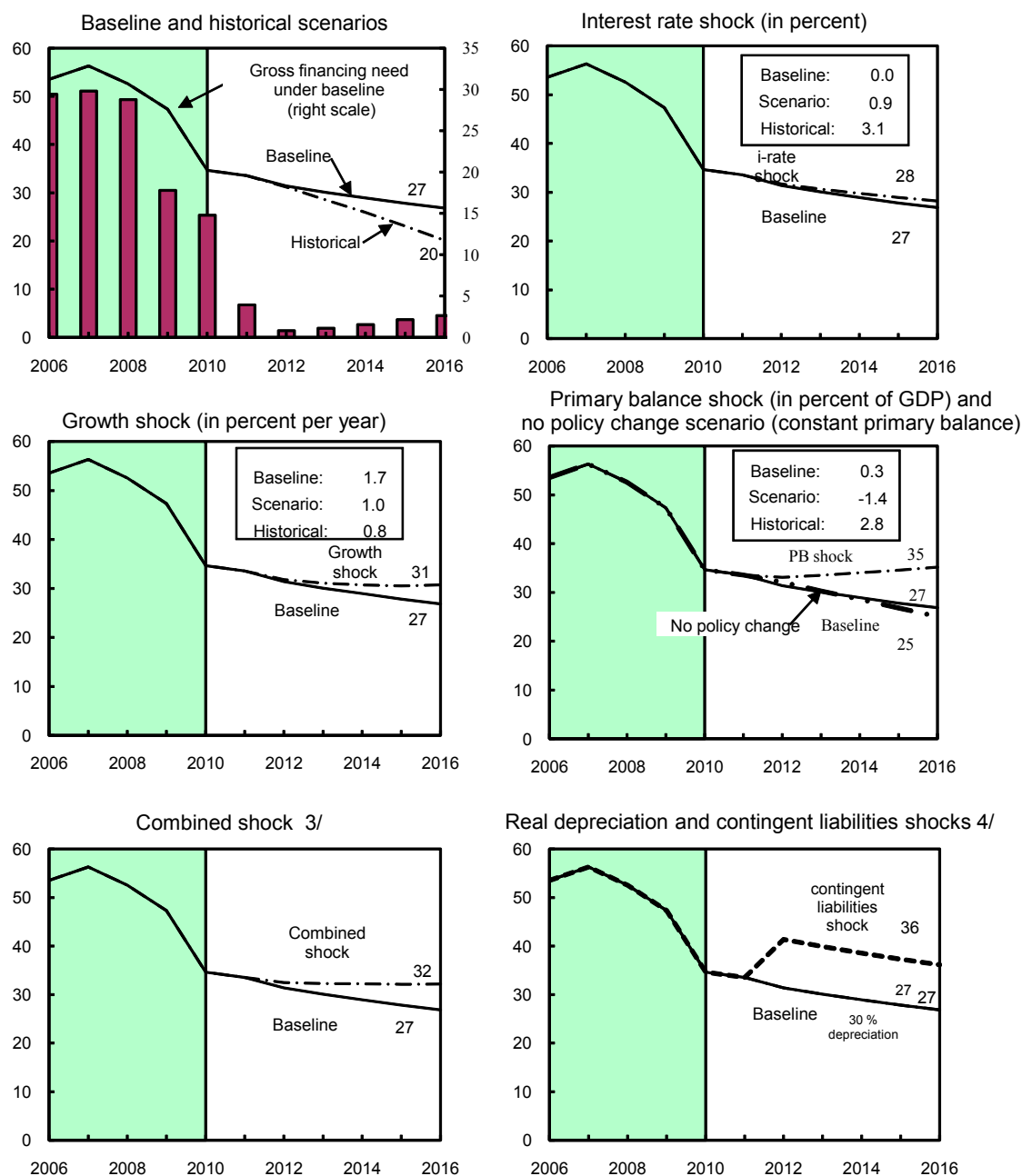
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

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

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

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

Figure A1. Curacao: Public Debt Sustainability: Bound Tests 1/ 2/
(Public debt in percent of GDP)



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

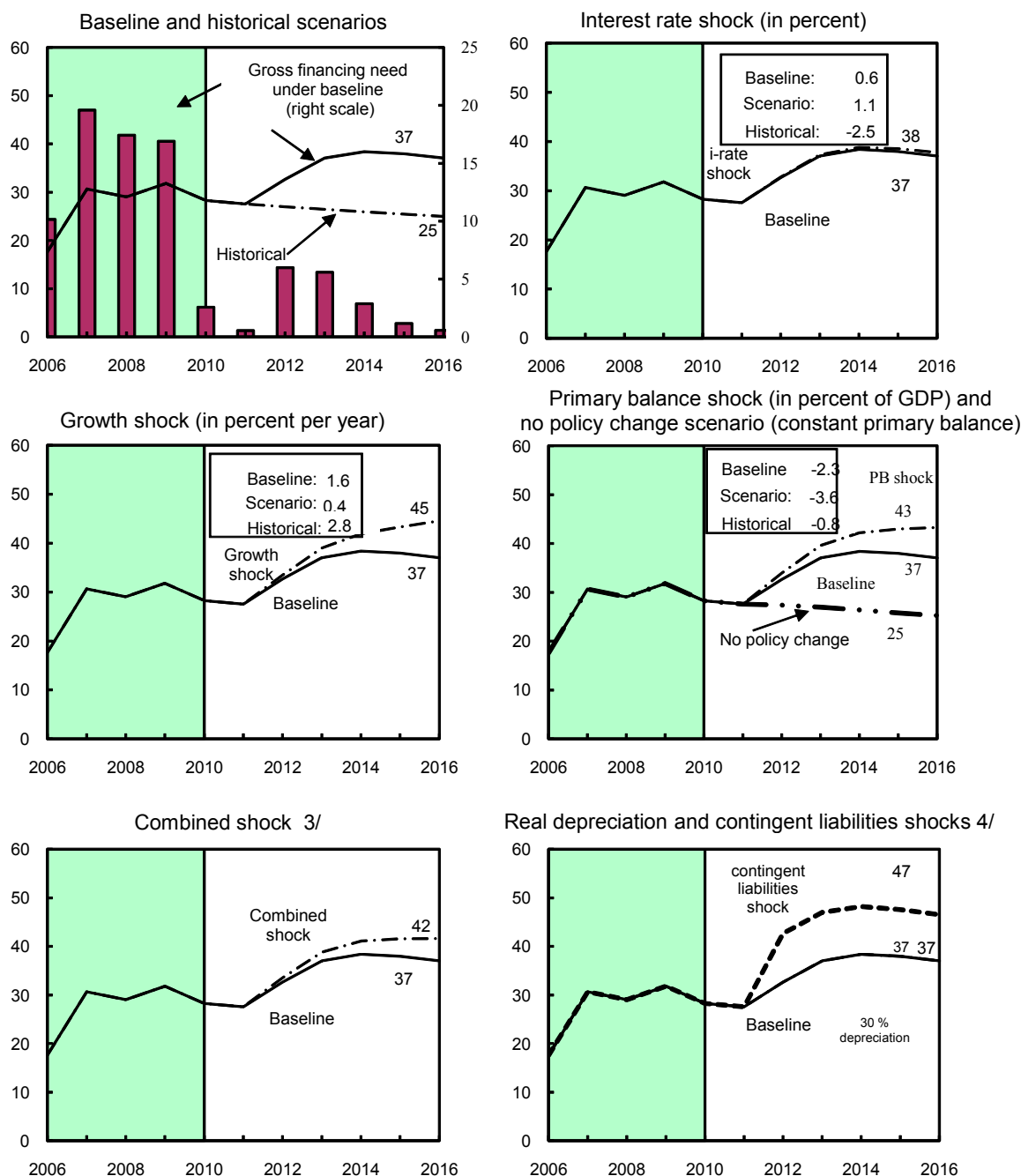
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

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

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

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

Figure A2. Sint Maarten: Public Debt Sustainability: Bound Tests 1/ 2/
(Public debt in percent of GDP)



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

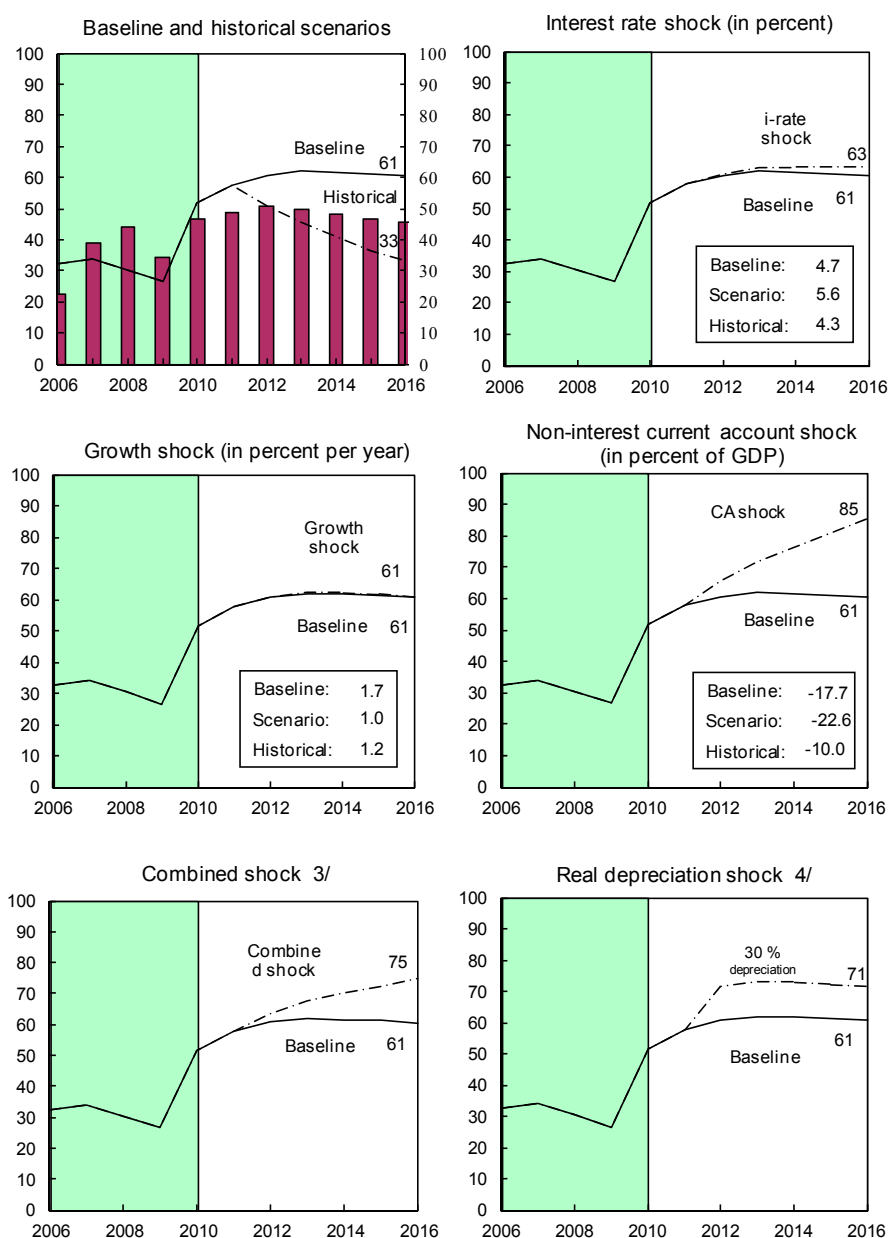
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

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

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

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

Figure A3. Curacao and Sint Maarten: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



Sources: Central bank of Curacao and St. Maarten, International Monetary Fund, and staff estimates.

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

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

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

4/ One-time real depreciation of 30 percent occurs in 2012.

APPENDIX II. DRAFT PUBLIC INFORMATION NOTICE



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

On November 18, 2011, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Kingdom of the Netherlands—Curacao and Sint Maarten.¹

Background

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

Macroeconomic challenges are substantial. In addition to low growth, high unemployment, and aging, the current account deficit for the currency union has widened rapidly to 25¾ percent of GDP in 2010, increasing the vulnerability of the currency peg. However, a strong increase in international reserves in recent years, to about 5 months of imports in 2010, has provided some cushion, and there is no indication currently of pressures against the guilder. In 2011, international reserves have been broadly stable thus far. A number of indicators suggest anemic external

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

competitiveness and moderate real exchange rate overvaluation, particularly in Curacao. The global crisis caused relatively modest contractions in both countries in 2009, and activity remained anemic in 2010. Staff estimates that Curacao's GDP contracted by 1¼ percent in 2009, and grew by ½ percent in 2010, while Sint Maarten's GDP contracted by 2 percent in 2009, and was flat in 2010. With lower growth, unemployment stayed around 10 percent in Curacao over 2009–10, after steady declines since 2007, while, in Sint Maarten, it stayed around 12 percent after steadily declining since 2003. As demand pressure fell in the crisis and commodity prices declined temporarily, inflation decelerated in 2009 to 1¾ percent in Curacao and ¾ percent in Sint Maarten. However, driven by renewed oil and food price increases, inflation started picking up again in 2010 and reached 2¾ and 3 percent on average in Curacao and St. Maarten, respectively.

Bank capital and liquidity buffers appear robust, though credit quality has declined. The risk weighted capital adequacy ratio stood at 18¼ percent in 2010, well above the regulatory minimum. Bank liquidity buffers also appear sound, with a loan to deposit ratio of 75 percent and reserves well above regulatory requirements. But the nonperforming loan (NPL) ratio has increased by more than 3 percentage points over 2008–11 to 7½ percent. However, loan-loss provisions are also sizeable at close to 50 percent of NPLs, and they rose further in 2010. Banks remain profitable, with a return on assets above the Caribbean average.

Excluding the impact of debt relief, both island governments run modest fiscal deficits over 2009–10. Excluding grants received as part of debt relief, Curacao would have had fiscal deficits of ¾ percent of GDP in both 2009 and 2010. Fiscal expenditure data for 2009–10 for Sint Maarten are still unavailable, but staff estimates indicate fiscal deficits of about one percent of GDP in both 2009 and 2010, excluding debt relief grants. As of end-2010 public debt stood at 34½ percent of GDP and 28¾ percent of GDP in Curacao and Sint Maarten, respectively. In 2011, both countries are on track with respect to the fiscal rules, and Curacao is expected to have an overall balanced budget outturn, while Sint Maarten is expected to an overall deficit outcome of ½ percent of GDP.

Executive Board Assessment

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Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Curacao and Sint Maarten: Selected Economic and Social Indicators

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

Sources: National authorities; and IMF staff estimates.

1/ Staff projections.

2/ Refers to the sum of the two island economies.

3/ Data from 2006-2010 reflects the fiscal operations of the local island government. Data from 2011 onwards refers to the new island government that has integrated the fiscal operations of the previous central government of the Netherlands Antilles.

4/ Based on CPI.