

**LAPSE OF
TIME**

SM/16/222
Correction 2

July 27, 2016

To: Members of the Executive Board

From: The Secretary

Subject: **Kingdom of the Netherlands—Curaçao and Sint Maarten—Staff Report for the 2016 Article IV Consultation Discussions**

Board Action:

The attached corrections to SM/16/222 (7/13/16) have been provided by the staff:

Typographical Errors

Pages 15, 27, 63

Questions:

Mr. McIntyre, WHD (ext. 34503)
Mr. Li, WHD (ext. 36917)

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

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

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

B. Strengthening Fiscal Framework and Building Buffers

Background

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

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

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

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

Area	34 (km ²)	Population (2015)		38							
Percent of population below age 15 (2015)	21.2	Literacy rate, in percent (2011)		93.8							
Percent of population aged 65+ (2015)	6.4	Life expectancy at birth, male (2012)		69.2							
Infant mortality, over 1,000 live births (2010)	6.0	Life expectancy at birth, female (2012)		77.1							
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	Proj.										
Real economy (change in percent)											
Real GDP 1/	-1.5	1.7	0.9	1.5	0.5	0.7	0.9	1.1	1.1	1.2	1.3
CPI (12-month average)	4.6	4.0	2.5	1.9	0.3	1.0	1.7	2.6	2.7	2.8	2.8
Unemployment rate (in percent)	11.5	10.3	9.2	9.1	8.9	8.7	8.6	8.4	8.2	8.0	8.0
General government finances (in percent of GDP)											
Primary balance	1.3	1.0	-0.3	-3.9	-0.6	-0.1	-0.3	-0.2	-0.2	-0.2	-0.2
Current balance 2/	1.4	2.7	0.6	0.2	0.7	1.7	1.5	1.7	1.8	1.8	1.8
Overall balance	0.7	0.4	-0.8	-4.5	-1.3	-0.8	-1.0	-0.8	-0.7	-0.7	-0.7
Public debt	27.3	20.0	24.3	37.1	36.5	36.7	36.7	36.3	35.7	35.0	34.3
Balance of payments (in percent of GDP)											
Goods trade balance	-59.7	-64.8	-74.8	-83.8	-71.8	-72.5	-72.4	-71.5	-70.4	-70.7	-70.9
Exports of goods	12.5	13.3	16.2	12.6	12.2	12.1	12.1	12.5	13.0	13.5	14.0
Imports of goods	72.2	78.1	91.0	96.4	84.0	84.6	84.5	84.0	83.3	84.2	84.9
Service balance	65.4	79.0	78.8	78.8	80.3	79.8	78.9	77.6	76.7	77.1	77.2
Exports of services	88.9	106.0	104.8	106.6	106.7	106.0	104.8	103.1	101.8	101.9	101.8
Imports of services	23.5	27.0	26.1	27.8	26.4	26.2	25.9	25.5	25.2	24.8	24.6
Current account	-0.5	9.5	0.4	-10.5	2.2	2.3	2.6	2.3	2.5	2.5	3.0
Capital and financial account	0.5	-18.9	-6.3	14.1	-3.4	-1.6	-1.0	-0.8	-1.9	-1.7	-1.9
Net FDI	-4.9	1.6	4.3	4.4	2.6	3.5	3.0	3.0	3.0	3.0	3.0
Net official reserves (in millions of US dollars)	249.1	249.5	219.5	267.7	269.3	279.2	302.1	323.7	332.1	344.9	362.3
(in months of imports of goods and services)	3.1	2.9	2.2	2.5	2.8	2.8	3.0	3.1	3.1	3.1	3.1
(In percent of short-term debt)	87.6	91.9	77.0	96.3	91.4	94.7	106.1	117.8	128.7	142.8	162.8
External debt (in percent of GDP)	66.4	60.4	58.6	65.1	65.0	60.8	57.2	53.3	48.2	43.4	38.4
Memorandum items:											
Nominal GDP (in millions of US dollars)	938	976	1,015	983	1,016	1,051	1,059	1,077	1,106	1,146	1,190
Per capita GDP (in US dollars)	26,386	25,157	25,294	25,967	26,025	26,290	26,807	27,640	28,533	29,516	30,559
Per capita GDP (change in percent)	3.9	7.5	2.3	-4.7	0.5	2.7	0.2	1.0	2.0	3.1	3.2
Private sector credit (change in percent)	1.0	-4.9	-2.1	-1.9	0.4
Fund position											
Curacao/Sint Maarten is part of the Kingdom of the Netherlands and does not have a separate quota.											
Exchange rate											
The Netherlands' Antilles guilder is pegged to the U.S. dollar at NA.f 1.79 = US\$1.											

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

1/ Based on IMF staff estimates of deflators.

2/ Excludes consumption of fixed capital.

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