LAPSE OF TIME

SM/20/58

March 3, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Kingdom of the Netherlands—Curaçao and Sint Maarten—Staff Report for the 2019 Article IV Consultation Discussions**

Board Action:	Executive Directors' **consideration** on a lapse of time basis
Deadline to Request Board meeting:	**Friday, March 13, 2020** **12:00 (noon)**
Proposed Decision Deemed Approved:	Tuesday, March 17, 2020
Provisional Board Meeting Date: (if requested)	Wednesday, March 18, 2020
Proposed Decision:	Page 25
Publication:	Not yet decided* Press Release will be based on the staff appraisal if there is no request for a Board discussion, as attached.
Questions:	Mr. Kovtun, WHD (ext. 39785)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—United Nations Development Programme

***At the time of circulation of this paper to the Board, the authorities have indicated that they need more time to consider whether they will consent to the Fund's publication of this paper. Publication will only proceed upon the receipt by the Fund of the member's explicit consent.**

INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS—CURAÇAO AND SINT MAARTEN

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION DISCUSSIONS

March 3, 2020

Context. The monetary union of Curaçao and Sint Maarten (Union) has been grappling with negative shocks. Curaçao experienced four years of recession mainly due to significant spillovers from the Venezuela crisis and has fragilities in the financial system. Sint Maarten's recovery after the devastating 2017 hurricanes has been uneven, demonstrating small island constraints and structural impediments. The external position of the Union worsened in the past two years, putting some pressure on international reserves. These shocks have exposed long-standing rigidities and highlighted the need for wide-ranging reforms. Governance concerns remain at the forefront in both countries.

Outlook and risks. The Union's growth outlook is improving but remains fragile. Curaçao's outlook is vulnerable to setbacks with reviving the oil refinery and to possible spillovers from financial sector fragilities. The ongoing recovery of Sint Maarten is vulnerable to delays in key projects such as reconstruction of the airport.

Policy recommendations. Improving the functioning of the Union requires better policy frameworks, stronger buffers, and a strong macro framework based on better data. Both countries need steady implementation of structural reforms in conjunction with gradual fiscal adjustment to raise potential growth and maintain fiscal sustainability. Sint Maarten should step up efforts in post-hurricane reconstruction and building resilience to natural disasters and climate change, which require enhanced capacity to absorb available reconstruction resources, as well as better planning and prioritization. At the Union level, the Centrale Bank van Curaçao en Sint Maarten (CBCS) needs to continue to implement monetary policy consistent with the pegged exchange framework. Financial sector vulnerabilities need to be addressed as a matter of priority, especially in Curaçao. Both countries need improvements in governance frameworks including better transparency, stronger public financial management, comprehensive implementation of the AML/CFT framework, operationalizing integrity bodies and improving financial supervision and resolution regimes in the CBCS.

Approved By
Patricia Alonso-Gamo (WHD) and Martin Sommer (SPR)

Discussions took place in Philipsburg (November 5-13, 2019) and Willemstad (November 14-22, 2019). Upon return to headquarters, the team met with a Sint Maarten delegation from the interim government. These consultation discussions form part of the Article IV consultation with the Kingdom of the Netherlands. The staff team comprised of Messrs. Dmitriy Kovtun (head), Caroline Flodberg, Oscar Hendrick, and Atsushi Oshima (all WHD). Jesper Hanson (OED) joined the discussions. Tianle Zhu, Cristina Barbosa and Soungbe Konate (all WHD) provided valuable assistance from headquarters.

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APPENDIX

CONTEXT

1. Over the last few years, Curaçao and Sint Maarten have faced significant challenges. Curaçao has been grappling with a protracted decline in labor productivity and four years of continuous recession, exacerbated by spillovers from the deep crisis in Venezuela in the last few years. The economy of Sint Maarten was severely damaged by Hurricanes Irma and Maria in 2017 and despite €550 million committed by The Netherlands to support reconstruction, rebuilding has been slow, highlighting challenges stemming from the small size of the island and structural impediments.[1] The reforms needed to address structural impediments to growth have been slow, in part due to political instability—since 2010, both countries have faced frequent changes in government, with the most recent elections in Sint Maarten in January 2020. Implementation of past Fund advice has been uneven (Annex I).

2. Despite these challenges, the monetary union of Curaçao and Sint Maarten has continued to deliver a stable exchange rate and low inflation rates (Box 1). Since the formation of the Union in 2010, there have been no major exchange rate pressures and inflation rates in both countries have been relatively low and highly correlated (Figure 1). The debt relief by The Netherlands in 2010 and subsequent fiscal supervision helped to contain government debt stocks, which remain lower than in most Caribbean peers.[2] The foreign exchange inflows related to the debt relief supported the international reserves.[3] The absence of monetary financing of the fiscal deficits and the rules-based fiscal system have been strong features of the Union, supporting the exchange rate peg to the U.S. dollar.

RECENT ECONOMIC DEVELOPMENTS

A. Curaçao

3. Curaçao experienced four years of consecutive recession mainly due to continued spillovers from the Venezuela crisis (Table 1 and Figure 2). Despite robust growth in tourism, real GDP declined by 2.2 percent in 2018 as the Isla refinery, managed by the Venezuelan state-owned company (PDVSA), effectively stopped production in mid-2018 although it retained most employees

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[1] To support the recovery, The Netherlands set up a €550 million reconstruction fund (about 60 percent of GDP), committing up to €470 million to be disbursed through a World Bank-administered Trust Fund until 2025.

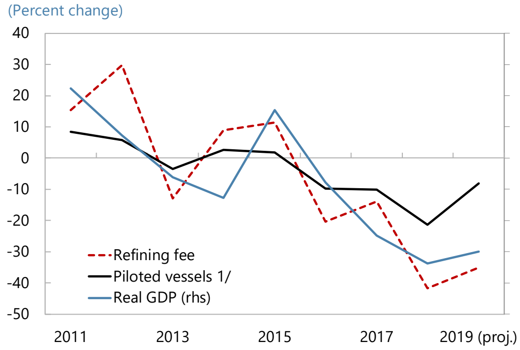
[2] The current fiscal framework was introduced in 2010. It prohibits current fiscal deficits (the "golden rule"), caps interest payments to 5 percent of fiscal revenues (averaged over 3 years), and requires multi-year budgeting. Borrowing is only permitted for capital expenditure. Under this framework, The Netherlands Treasury is obliged to bid on debt securities, allowing Curaçao and Sint Maarten to borrow long-term at the interest rates prevailing in the Dutch capital market. The framework is monitored by the Financial Supervision Board (Cft).

[3] In 2010, The Netherlands took over The Netherlands Antilles' outstanding government debt in exchange for a significantly smaller amount of very long-term/low-cost debt issued by the two new countries. The stock of this debt has been gradually repaid, with the last payment in June 2018. From the Union's perspective, the repayments constituted capital inflows.

(Annex II). GDP contracted by an estimated 2 percent in 2019 (Figure 2) as the low refinery utilization continued to spread to supporting sectors (e.g. port activities), more than offsetting the strong tourism performance. In late December, the authorities signed a binding Asset Purchase and Sale Agreement with the Klesch Group for the sale of Curaçao oil facilities comprising the refinery, the utilities plant, and the Bullen Bay transshipment terminal, with a takeover expected in the first half of the year pending finalizing of two remaining agreements. Inflation stood at 2.6 percent in 2019, in part driven by the tax measures introduced in September 2019. The unemployment rate increased steeply from 13.4 percent in 2018 to 21.2 percent in April 2019, among the highest in the region.[4]

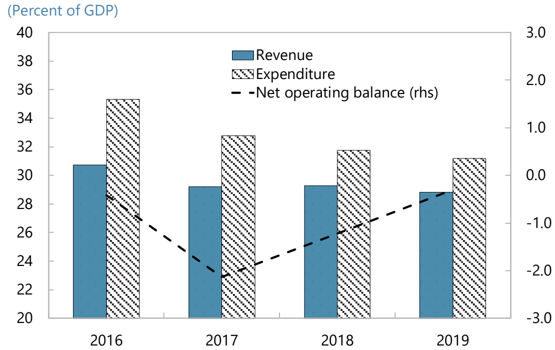
4. **Fiscal measures implemented in the past two years helped improve the fiscal position** (Tables 2, 3 and Figure 3). As a response to the significant deviation from the fiscal rule in 2017, the authorities canceled wage indexation and tightened transfers, reducing the overall deficit to 2.1 percent of GDP in 2018, although the current fiscal balance fell short of the target under the fiscal rule.[5] In 2019, the authorities introduced a 3:1 attrition rule in addition to the zero-indexation policy, strengthened expenditure controls and implemented short-term tax measures in September (increasing excises on alcohol and tobacco and raising the turnover tax on imported goods) in the framework of the Growth Accord with The Netherlands (Box 2). These measures and a windfall from the tax sharing system within the Kingdom of the Netherlands improved the net operating balance to -0.3 percent of GDP in 2019. In December 2019, the authorities passed legislation changing Curaçao's tax regime from a worldwide tax system to a stricter territorial system and introducing several anti-avoidance measures (e.g. abolishing the special e-zone tax rate) in line with the OECD and EU requirements.

Curaçao: Real GDP, Refinery Fee and Piloted Vessels
(Percent change)



1/ based on data up until October 2019.
Sources: Authorities' data and IMF staff estimates.

Curaçao: Budgetary Central Government Operations
(Percent of GDP)



Sources: Authorities' data and IMF staff estimates.

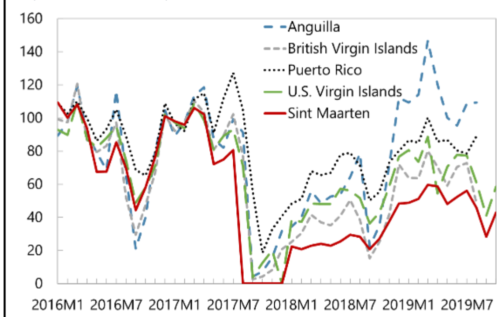
[4] The unemployment rate in 2018 was accompanied by a large drop in labor force participation, masking a significant decline in employment. The labor force participation rebounded in the April 2019 Labor Force Survey.

[5] The fiscal rule is focused on current fiscal deficits in national definition. The national definitions of revenue and current expenditure differ from the ones in the *Government Financial Statistics Manual 2014* (some financing operations are included in revenue and current expenditure), resulting in discrepancies between the fiscal current account balance compiled by the authorities and the net operating balance as defined by the GFSM 2014.

B. Sint Maarten

5. Sint Maarten is gradually recovering from the devastating 2017 hurricanes (Table 4 and Figure 2). The economy is estimated to have contracted by a cumulative 16.9 percent in 2017−18 as tourism plummeted.[6] The decline in stay-over tourism in 2018 (-56 percent y/y) was mitigated by a surge in construction activity supported by large private insurance payouts. While cruise tourism already has recovered to pre-hurricane levels, the stay-over tourism recovery has been slower than in other hurricane-affected regional peers. In November 2019, stay-over tourism reached about 60 percent of pre-hurricane levels, reflecting the slow progress of airport reconstruction (only using a third of its space) and the slow hotel room reconstruction (60 percent of the pre-hurricane level). However, compared to the even lower level in 2018, the growth in stay-over tourism in 2019 was significant and supported estimated GDP growth of 5 percent, although the broad recovery is constrained by slow project implementation. In December 2019, the authorities and the World Bank signed a US$72 million grant agreement for the airport terminal reconstruction project which aims to restore full service at the Princess Juliana International Airport in Sint Maarten.[7] Average inflation is likely to have increased to 2.9 percent in 2018 but stood at only 0.5 percent (y/y) in the first three quarters of 2019 according to newly published data, likely due to lower oil prices.[8] A Trust Fund-financed training program has supported employment after the hurricanes (Figure 2).

Stay-over Tourist Arrivals 1/
(Index, Q1 2017=100)



1/ Latest data available for 2019.
Sources: Authorities' data, Caribbean Tourism Organization, and IMF staff calculations.

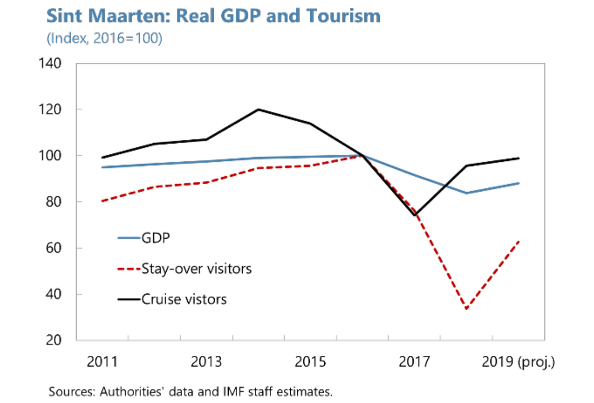
6. After a significant worsening in 2017-18 caused by the hurricanes, the fiscal position improved in 2019 (Tables 5−6 and Figure 3). The primary fiscal deficit excluding Trust Fund operations declined from 4 percent of GDP in 2018 to 0.8 percent of GDP in 2019, as revenue excluding grants rebounded by 2 percent of GDP and current expenditure fell. Spending on the budgeted capital projects, including in the tax and public financial management (PFM) reforms, has been close to zero due to the late approval of the 2019 budget and a delay in external project

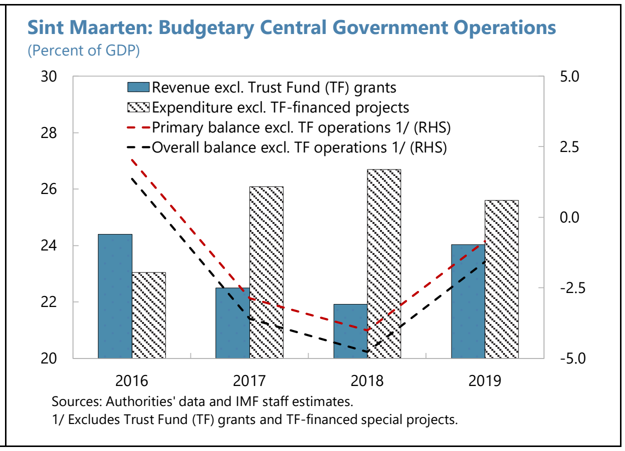
[6] This report incorporates the preliminary 2017 GDP estimate by Sint Maarten Department of Statistics.

[7] The project is a tripartite initiative that includes a US$72 million grant from the Sint Maarten Recovery and Reconstruction Trust Fund financed by The Netherlands and managed by the World Bank; US$50 million from the European Investment Bank; and US$7 million from the Princess Juliana International Airport Operating Company.

[8] There are no inflation data for 2018 as the Department of Statistics switched to a new (2018) base year and has not linked the new data with the pre-2018 index. The estimated increase in 2018 is based on preliminary estimates from the authorities, in view of higher oil prices and reported stronger demand from the French side of the island where recovery of stores and restaurants has been even slower. Given the historical correlation with U.S. inflation, reported inflation in 2019 appears low and raises some questions regarding the new data.

financing. Staff estimates that government debt increased from 44½ to 51⅓ percent of GDP between 2016 and 2019.[9]





C. The Monetary Union

7. The external position of the Union worsened in the past two years (Table 7). The current account deficit (CAD) widened from 15.2 in 2017 to an estimated 21.8 percent of the union GDP in 2019, mainly because of a larger CAD in Curaçao, where imports increased significantly due to spillovers from Venezuela (Annex II). Despite double-digit CADs and the end of foreign exchange inflows related to the 2010 debt relief, the pressure on international reserves has been relatively mild as they declined from 4.4 to 4 months of imports of goods and services between 2017 and 2019. The pressure on reserves was cushioned in part by decumulation of substantial foreign assets of the private sector, with inflows in 2018:Q4−2019:Q3 reaching 12 percent of GDP. Staff estimated that external debt reached about 180 percent of union GDP in 2019, although about 40 percent of the stock is *de facto* intercompany debt, mitigating the risk.[10] The external position of both Curaçao and Sint Maarten is assessed to be weaker than warranted by fundamentals and desired policy settings (Annex III), although issues with data availability and quality increases uncertainty about this assessment.

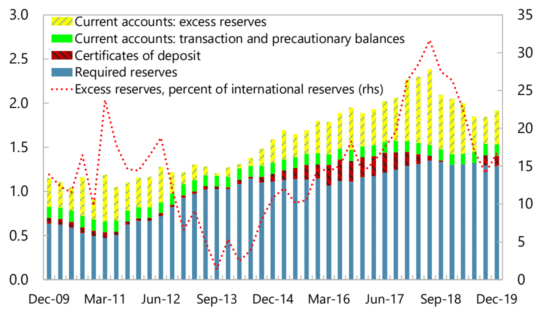
8. Union-wide credit to non-government sectors remains sluggish. The marginal acceleration of loans to non-government sectors in Curaçao to about 4-5 percent growth rate (y/y) in mid-2019 reflected bank refinancing of a loan to a local utility company that was originally extended by the CBCS. Growth of union-wide claims on the non-financial private sector is weak (Table 8). Banks' excess reserves peaked in mid-2018, in part due to the end of external inflows related to the 2010 debt relief and declined to 6.8 percent of GDP in December 2019, contributing to a contraction of the monetary base (Table 9). Nevertheless, at about 17 percent of international reserves, excess reserves are still substantial. To sterilize the excess liquidity, the CBCS reintroduced its local currency Certificates of Deposit (CD) auctions in August 2019 and increased the reserve

[9] The stock of government debt has been revised up since the 2018 Article IV discussions (Annex V).

[10] The external debt has been revised up substantially relative to the 2018 Article IV discussions (Annex V).

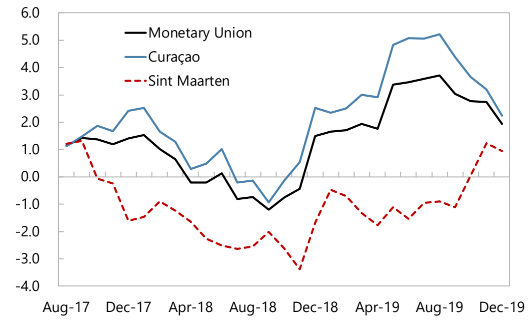
requirement ratio from 18 to 19 percent in mid-February 2020. It also introduced foreign exchange-denominated CDs to increase international reserves.

Central Bank Liabilities to Banks
(Billions of NA*f* unless otherwise indicated)



Source: The CBCS and IMF staff estimations.

Bank Loans to Non-Government Sectors
(y/y change)

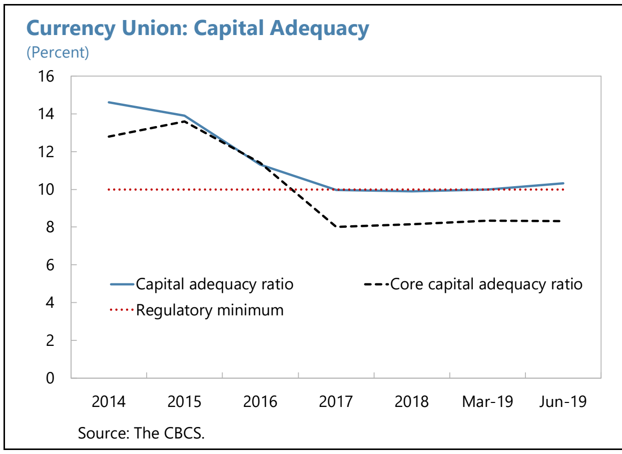


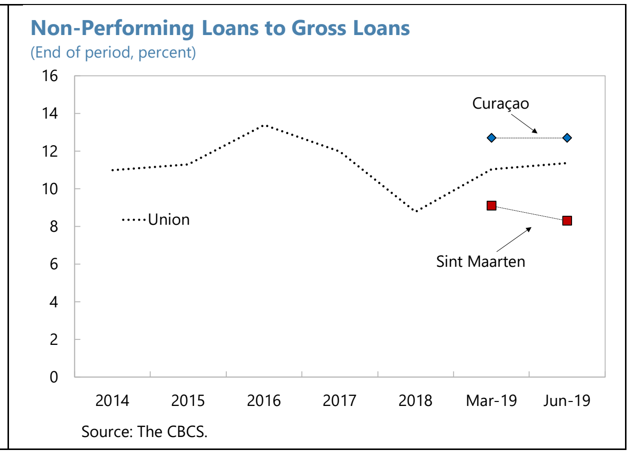
Source: The CBCS.

9. The negative shocks have heightened vulnerabilities in the banking system, particularly in Curaçao. As of June 2019, the union-wide capital adequacy ratio (CAR) was close to the regulatory minimum of 10 percent (Table 10), but it varied across banks. Nonperforming loans (NPLs) in Curaçao and Sint Maarten reached 12.7 and 8.3 percent of gross loans. Provisioning is low (32.1 and 39.1 percent in Curaçao and Sint Maarten, respectively), suggesting that bank capital may be overstated. In 2018, the CBCS placed Ennia, a large insurance company, under special administration. In September 2019, the CBCS also intervened in del Orinoco NV, an international (off-shore) bank, which was subsequently declared bankrupt by the court.[11] In December 2019, the CBCS froze large deposits of Girobank, a medium-size bank in Curaçao which had been under special CBCS' administration since 2013; the Curaçao authorities have since announced that a Deposit Guarantee System (to be established in 2020) will take over CBCS' claims related to the payout of small deposits in Girobank.[12] These cases emphasize the urgent need to improve financial sector supervision and regulation, governance, and the resolution framework. The potential loss of correspondent banking relationships (CBRs) also remains a significant risk. In 2017–18, the banking system lost 17 CBRs, which was partially offset by 10 new CBRs, and Deutsche Bank recently terminated its relationship with Curaçao. In 2018, the CBCS established the De-Risking Taskforce, which developed an action plan to address CBR risks.

[11] In Curaçao, the term "international bank" denotes institutions licensed to conduct business only with non-residents. International banks have limited linkages with the local economy.

[12] The deposit freeze was precipitated by a bank run. The CBCS announced that deposits up to NA*f* 10,000 will be paid out, and the government subsequently announced that it intends to protect all depositors. The CBCS has a significant exposure (close to 5 percent of GDP) to Girobank. The authorities are working on a strategy towards Girobank resolution.

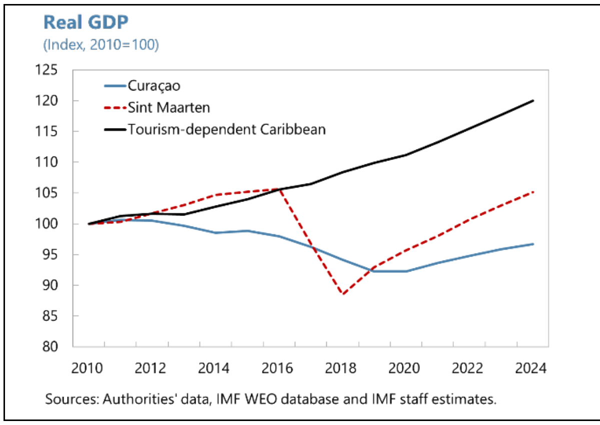


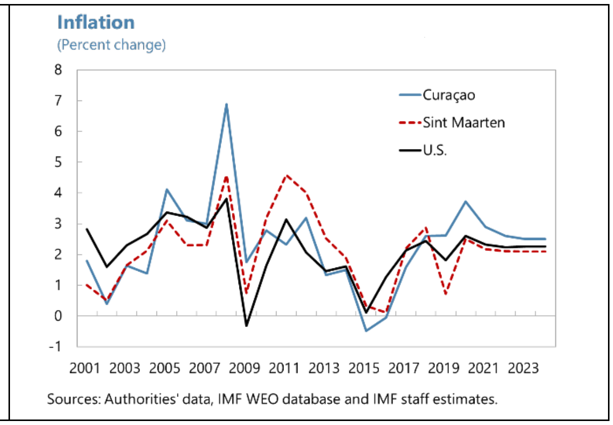


OUTLOOK AND RISKS

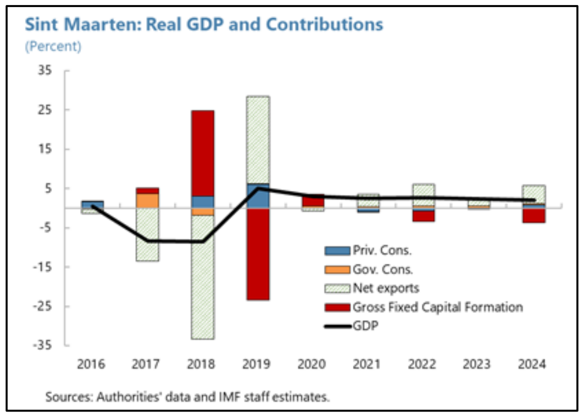
10. The expected resumption of production by the refinery would improve Curaçao's outlook. As long as the agreement with the Klesch Group is operational, the resumption would secure employment at the refinery and also increase activity in supporting sectors (Annex II). It would also increase balance of payments inflows and continue to raise public sector revenue.[13] Based on the assumption that the refinery production, over the period 2020H2−2025, gradually recovers to the pre-crisis historical levels (2014−15), real GDP could be unchanged in 2020, increase by 1½ percent in 2021 and by 1¼ percent in 2022-23 (Annex II). In the medium term, when the refinery production has reached higher levels and the maintenance backlog is addressed, growth would stabilize at around ½ percent, reflecting weak productivity growth. The economy is also supported by robust growth in tourism due to the ongoing and planned expansion of hotel capacity. Staff's baseline projections include the indirect tax system reform in end-Q1 2020 and implementation of other measures in line with the Growth Accord, which constrains growth in 2020. Inflation is projected to accelerate to 3.7 percent in 2020 driven by indirect tax measures, before stabilizing around 2.5 percent in the medium term.

[13] Fiscal revenue will be generated mainly through the payroll tax from direct employment (about 0.5 percent of GDP) and taxes from supporting sectors. In addition, the agreement envisages a leasing fee (US$15 million per year plus indexation) and a fee of US$0.15 per barrel of oil transported through the Bullen Bay oil terminal payable to Refineria di Kòrsou, a state-owned company that manages the land occupied by the refinery.

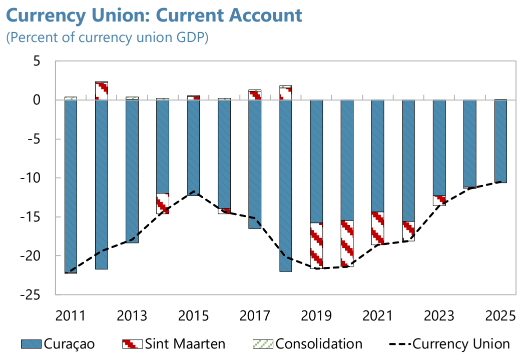




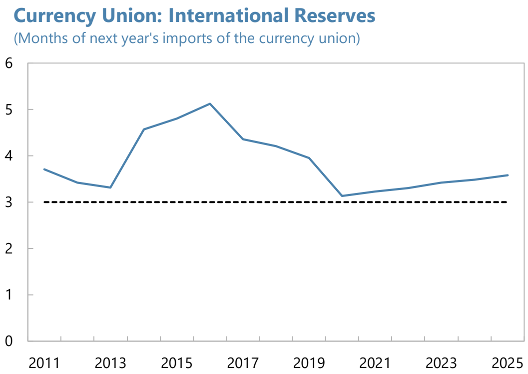
11. Real GDP growth in Sint Maarten is projected to converge to about 2 percent over the medium term, supported by stronger aid absorption. The continued rebound in tourism is projected to support GDP growth of about 3 percent in 2020, although the broad recovery is constrained by the slow pace of absorption of Trust Fund resources. Staff's projections assume that the airport and hotel reconstruction would be completed in 2022, implying a continued recovery in stay-over tourism over 2020-22. Cruise tourism is however expected to decline in 2020 due to scheduled changes in cruise itineraries. In the medium term, real GDP growth is projected to converge to around 2 percent, slightly higher than in the pre-hurricane historical period, as stronger aid absorption would support the economy. Inflation is expected to rebound to 2.5 percent in 2020 and remain around 2 percent afterward following U.S. inflation.



12. The Union's current account deficit is expected to narrow over the medium term. Curaçao's CAD would improve over the medium term as tourism and refinery receipts increase and imports decline, reflecting the phasing out of import-intensive refinery investments, a decline in oil prices and the planned fiscal adjustment. In Sint Maarten, higher imports due to reconstruction activity and a reduction in current transfers—as insurance claims have largely been settled—would result in CADs over 2019−23 before turning to a small surplus over the medium term. The elevated CAD in the Union will exert pressure on international reserves, which would decline from 4 months of imports of goods and services in 2019 to 3.1 months in 2020 and then increase slightly in the medium term. The external debt of the Union is projected to increase to about 188 percent of GDP in 2022 and decline thereafter, although the risks will be mitigated by a positive net international investment position on account of sizable foreign assets (Annex III).



Sources: The CBCS and IMF staff estimates.



Sources: The CBCS and IMF staff estimates.

13. There are substantial downside risks. Curaçao's growth outlook is vulnerable to setbacks with reviving the refinery and financial sector fragilities, which also could entail significant contingent liabilities for the public sector and higher debt (Annex V).[14] Delays in addressing these vulnerabilities could heighten uncertainty and lead to exchange rate pressures. The planned fiscal adjustment measures could reduce growth more than projected. A further surge of undocumented immigration from Venezuela could put pressure on labor markets, exert pressure on public finances and may cause tourists to postpone plans or seek other destinations. On the positive side, growth effects from reviving the refinery could be higher than expected. In Sint Maarten, political instability and small island capacity constraints could further delay reconstruction of the airport, constrain absorption of Trust Fund resources, and stall critical reforms, which would delay the recovery and undermine the sustainability of public finances. Sint Maarten also remains vulnerable to natural disasters. On the other hand, tourism recovery and growth effects from a prompt completion of the airport reconstruction could be stronger than expected. For both countries, weaker than expected growth in the Euro Area and the United States could reduce growth through lower tourism arrivals and FDI.

Authorities' Views

14. The authorities in both Curaçao and Sint Maarten broadly agreed with the staff's assessment of outlook and risks. In Curaçao, they emphasized that the resumption of the refinery operations after the transition period, in conjunction with the expected growth in the tourism sector, would improve the outlook significantly. The authorities noted that fiscal costs and negative effects of undocumented immigration from Venezuela on tourism have been limited. The Sint Maarten authorities pointed out that while utilization of the Trust Fund resources is slower than expected, the economy has demonstrated strong resilience. They expect that rebuilding of the airport will be completed in 2022. However, they saw downside risks for growth in 2020 due to the expected decline in cruise tourism. They also stressed that to fully rebuild Sint Maarten, they need to speed up

[14] In the stress-test scenario where the refinery is closed, government debt could increase significantly (61-62 percent of GDP) over the medium term.

utilization of Trust Fund resources and also obtain additional resources, possibly through higher borrowing.

POLICY ISSUES

The discussions focused on boosting potential growth, improving fiscal and external sustainability, reducing financial system vulnerabilities and building capacity.

A. Enhancing Potential Growth and Overcoming Small Island Constraints

15. The Union is facing structural rigidities. Both countries are saddled with long-standing structural impediments such as cumbersome permit processes, rigid labor market regulations, skills mismatches, infrastructure bottlenecks and slow implementation of structural reforms. These factors weigh on the Union's labor productivity, especially in Curaçao, and reduce its ability to adjust to shocks, as highlighted by the uneven post-hurricane recovery in Sint Maarten.

Sources: Authorities' data and IMF staff estimates.

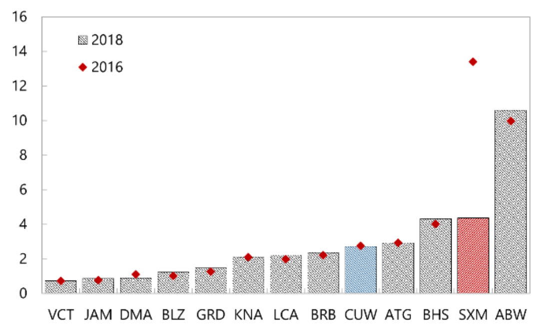
16. Strong structural reforms are needed to boost potential growth in both countries, sequenced to minimize hardship for the affected groups:

- ***Improving the business environment***. Facilitating building permits, business licenses and other permits—including through enhancing transparency and eliminating red tape—should be done as a priority. This would increase incentives for investment, including FDI.

- ***Increasing labor market flexibility while fine-tuning safety nets and addressing skills gaps*** (Annex IV). Removing restrictions on hiring foreign skilled labor in both countries could alleviate the skills gap, while re-designing social assistance in Curaçao would reduce disincentives for working in the formal sector. These reforms should be done expeditiously. When economic conditions improve, the restrictive dismissal provisions in both countries' labor laws should become more flexible and the dismissal process simplified to reduce disincentives for permanent employment and support investment and higher productivity. This needs to be accompanied by adequate safety nets, such as a proper unemployment benefits scheme and a corresponding revision of the severance payments framework. Such measures would increase labor market mobility while still protecting workers. Also, there is a need to mitigate brain drain, strengthen vocational training, and better align education curricula with private sector job needs.

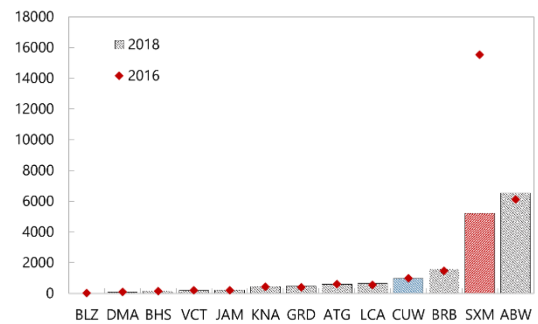
- ***Taking a longer-term perspective and fostering better planning.*** Both countries would benefit from updated tourism master plans with a long-term vision. In Sint Maarten, this plan could lay out a plan for reducing infrastructure bottlenecks, minimizing the environmental impact and safeguarding tourism quality in light of high tourism density. In Curaçao, the increasing importance of the tourism sector stresses the need to update the tourism master plan defining the appropriate business model.

Stay-Over Visitors Per Capita



Sources: Caribbean Tourism Organization and IMF staff estimates.

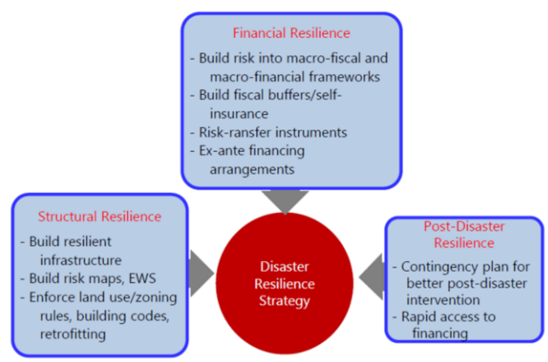
Stay-Over Visitors Per km^2



Sources: Caribbean Tourism Organization and IMF staff estimates.

- ***Building resilience to natural disasters.*** The Sint Maarten authorities could benefit from a comprehensive three-pronged Disaster Resilience Strategy (DRS). Sint Maarten's National Recovery and Resilience Plan contains some of the elements covered in a DRS, such as the "build back better" principle, and Trust Fund resources have been used for Sint Maarten's membership in the Caribbean Catastrophe Risk Insurance Facility (CCRIF), increasing the financial resilience through risk transfer. However, attention should also be given to measures such as early warning systems, building codes, post-disaster decision-making process and ensuring adequate capacity of the emergency services. When fiscal space allows, the authorities should build a fiscal buffer.

National Disaster Resilience Strategy



Authorities' Views

17. In both countries, the authorities acknowledged the need for broad-based structural reforms. The Curaçao authorities noted that structural reforms—including improving the business climate, strengthening public financial management and administration—are part of their policy priorities as evidenced by the Growth Accord and their Growth Strategy. They are working on legislation to cut red tape. They pointed out that people on social assistance are offered retraining for work within the hospitality sector but noted that this is not likely to be enough to address the lack of supply of human capital in the hospitality sector. In Sint Maarten, the authorities, business sector, and the unions have developed a Tripartite consensus document covering desired labor market reforms (promoting flexibility and security), although the reform has been put on hold. In both countries, the authorities agreed that the current setup of severance payments hinders labor market mobility but noted that any revision would need to be designed very carefully. Both countries also remarked that full liberalization of work permits for foreign skilled labor would be challenging as the necessary controls to verify education/skills are not in place.

B. Fiscal Policy: Strengthening Fiscal Frameworks and Building Resilience

18. The recent shocks have heightened challenges in public financial management (PFM) and exposed drawbacks of the current fiscal framework. While the fiscal framework has been instrumental in keeping fiscal deficits contained, it has drawbacks, including (i) only a partial link between the current balance rule and public debt sustainability, (ii) the absence of clearly identified escape clauses, which makes strict application of the fiscal rule highly pro-cyclical, and (iii) financing restrictions in the standing subscription arrangement with The Netherlands precluding market financing of current fiscal deficits. The financing restrictions preclude issuance of securities on the domestic debt market, impeding its development and resulting in an accumulation of arrears (mostly to the social security funds) when deposits are insufficient to finance current deficits. The Union would benefit from moving towards a Fiscal Responsibility Framework that incorporates a central government debt ratio as a long-term anchor and operational rules calibrated to meet the long-term debt target in the medium to long term. The operational rules could set targets for the primary balance and current expenditure. The framework should contain clearly articulated escape clauses that would establish the circumstances (including large economic downturns) justifying deviation from targets while retaining sustainable policies. Gradual loosening of the financing restrictions over the medium term could allow development of the domestic debt markets.

19. Consistent with previous Fund advice, staff recommends establishing a long-term central government debt anchor around 40 percent of GDP. As small island economies, both Curaçao and Sint Maarten are highly susceptible to external shocks and macroeconomic volatility, including natural disasters (mainly Sint Maarten). In this environment, setting a relatively low debt target would provide more fiscal space in the event of negative shocks. In addition, lower government debt would bolster the stability of the monetary union. As meeting long-term debt anchors requires primary surpluses, it might be compatible with the golden rule, although compensation for past fiscal deficits could take longer than envisaged under the current framework. To ensure social feasibility of the fiscal adjustment needed to reduce the debt, the reforms need to be well-communicated to the broad public, perceived as fair (e.g. closing loopholes in the tax system) and supported by effective social safety nets. Reforms promoting inclusive growth (e.g. more employment for youth) should be given priority.

Curaçao: Maintaining Fiscal Sustainability

20. The staff's baseline projections incorporate the main fiscal measures in the Growth Accord, improving the medium-term fiscal outlook. The projections assume the implementation of a total package of fiscal measures of about 4 percent of GDP in 2019−22, including a rollout of the new general consumption tax (ABB)[15], an early retirement plan, a continuation of the attrition rule and wage freeze, savings in the health area to offset the costs of the new hospital and containment of other expenditure. The authorities are also taking steps towards improving PFM, which should improve expenditure controls and reduce fiscal risks. On the negative side, the profit tax sharing system from multinational companies incorporated in the Kingdom of the Netherlands ended in 2019, reducing the expected tax revenue in 2020 by 0.6 percent of GDP. Also, the early retirement program will require an upfront fiscal cost of 0.6 percent of GDP in 2020. The combination of measures and negative factors would keep the primary deficit at about 1.3 percent of GDP in 2020, followed by an improvement in 2021−25, thus improving debt sustainability (Annex V). Government debt would decline from 56 percent of GDP this year to about 46 percent of GDP by 2025.

Curaçao: Fiscal policy measures in the baseline projections

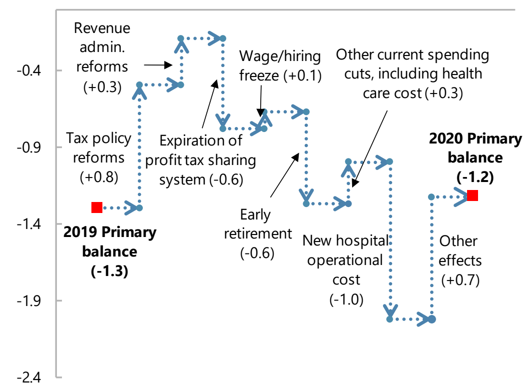
(Percent of GDP, cumulative)

	2019	2020	2021	2022
Revenue	0.6	1.7	2.0	2.0
Tax policy	0.5	1.3	1.6	1.6
Excises	0.2	0.5	0.5	0.5
Sales tax/ABB	0.3	0.7	0.9	0.9
Waste tax	0.1	0.1	0.1	0.1
Administration reforms	0.2	0.5	0.5	0.5
Property tax	-0.0	0.1	0.1	0.1
Compliance	0.2	0.4	0.4	0.4
Expenditure (+: spending cut)	1.0	0.9	1.4	2.1
Compensation of Labor	0.1	-0.4	0.1	0.8
of which: Cost of early retirement package	-	-0.6	-0.6	-0.6
Transfers and subsidies	0.8	1.3	1.3	1.3
Total	1.6	2.6	3.4	4.1

Source: IMF staff projections.

Curaçao: Primary Balance, 2019 vs 2020

(Percent of GDP)



Sources: IMF staff projections

Note: Other effects include macroeconomic factors such as nominal GDP growth.

21. Consistent implementation of good quality measures will be key for medium-term fiscal sustainability in Curaçao. Given the drawbacks of the planned general consumption tax (not taxing domestically produced goods, difficulties with differentiating between goods and services, and administrative complexities), the authorities should consider broadening its base to domestically produced goods in conjunction with a comprehensive tax offset mechanism, in line with advice from the Fund technical assistance mission in October 2019. The authorities should also consider reforms in personal and corporate income taxes, excise duties, and other taxes as suggested by the Fund technical assistance.[16] On the expenditure side, the early retirement program should be accompanied by a broader civil service reform that structurally reduces the number of positions to secure long-term savings while providing necessary human resources to key areas such as AML/CFT, statistics, and tax administration. The ongoing efforts to improve PFM (strengthening expenditure controls) are welcome and should continue expeditiously. Public investment

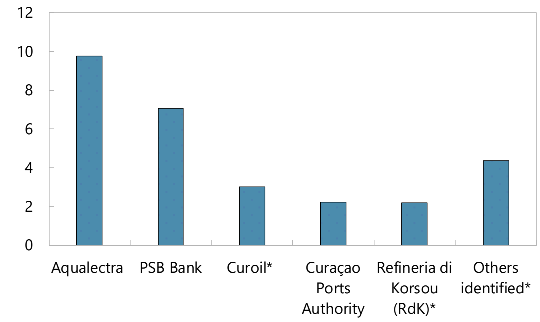
[15] Under the proposed ABB plan, goods will be taxed at import only and not in subsequent stages of production and distribution, while services would be taxed in full when supplied in the domestic market.

[16] The proposals related to the personal income tax include introducing a dual income tax; simplifying the progressive rate structure and replacing all special tax rates on capital income with a flat rate of 15 percent.

management should be also strengthened to optimize the available resources for medium- and long-term growth.

22. The authorities should assess fiscal risks (e.g. contingent liabilities related to addressing vulnerabilities in the financial system, extra costs in the health system) and design appropriate contingency measures. Available data suggest that the debt of public sector entities is substantial, although data limitations hamper detailed analysis. There is a risk that the expected savings from the legislative changes within health care (changes to the rules related to pharmaceuticals, medical specialists and medical referrals abroad) will be less than expected. The financing sources for the construction and operations of the new hospital should be clarified. The governance framework for public sector entities should be strengthened, including by compiling timely information on the balance sheets of all public sector entities, keeping track of arrears and guarantees and putting in place a dividend policy for state-owned enterprises. An envisaged investment guarantee fund (Invest-Curaçao) involves significant risks and would require a cautious approach, including proper risk management and strong supervision capable of assessing the risks. The authorities should assess contingent liabilities, minimizing fiscal outlays related to financial sector interventions, and prepare contingency measures—preferably focusing on reducing expenditure—as needed. They could consider recouping at least part of the costs related to financial sector interventions from the industry when conditions allow.

Curaçao: Debt by State-Owned Enterprises, 2018
(Percent of GDP)



Sources: Authorities' data; and IMF staff calculations.
* Data refer to 2017.

Authorities' Views

23. The authorities broadly agreed on the medium-term fiscal outlook while showing a strong commitment to achieving a current fiscal balance in 2020. The Curaçao authorities considered that their fiscal objectives—balanced current budget in 2020 and surpluses from 2021 onwards—are attainable, given the expected revival of refinery operations and the fiscal measures outlined in the Growth Accord. They believe that the fiscal risks from the health sector are fully addressed by the legislated savings measures. The authorities expect that the surpluses will be sufficient to compensate for the past deficits. The authorities took note of the recommendations of the technical assistance mission on tax policy and considered implementing some of the recommendations in the remaining time before introducing the new system. They pointed out that their efforts to create an internal audit unit and implementing a new contract management system would assist in their efforts to reduce expenditure. They agreed with the need to target social assistance better, prioritize infrastructure projects, and improve the PFM system but wanted to be mindful of social implications. The authorities are exploring possible approaches to protect Girobank depositors while limiting the fiscal cost.

Sint Maarten: Improving Fiscal Governance and Reducing Fiscal Risks

24. Fiscal reforms have been lagging. Suboptimal organizational structures and procedures and outdated IT systems pose fiscal and business continuity risks. The authorities have prepared plans to improve revenue mobilization (so far focusing largely on revenue administration), strengthen PFM (reforming internal organization, installing a new IT system, and upgrading procedures), reform civil service pension system (increase the retirement age from 62 to 65 years, adjust the base for the benefit calculation, and reduce premiums) and reform the currently unsustainable health system.[17] The authorities have requested a Development Policy Operation (DPO) from the World Bank to support their policy effort ($30 million for 2 years, financed by the Trust Fund). The implementation of these reforms has so far been lagging, in part due to political differences and lack of financing.

25. Fiscal deficits are likely to persist despite the continued economic recovery (Tables 5−6). Revenues excluding grants are expected to increase to 24½ percent of GDP in 2025, about 1 percent of GDP higher than the pre-hurricane average (2014−16) due to better tax administration. Current expenditure would gradually decline by 1½ percent of GDP over 2020-25, whereas capital spending would reach 3.1 percent of GDP in 2020 and stabilize at about 2 percent of GDP in the medium term. On this basis, the primary fiscal deficit excluding Trust Fund operations would decline from about 3 percent of GDP this year to 0.9 percent of GDP by 2025. Gross government debt would increase to 55⅓ percent of GDP in 2021 in part due to the airport reconstruction loan from the European Investment Bank and decline to 53 percent of GDP by 2025, although this trajectory is vulnerable to various shocks (Figure 3 and Annex V).[18] There are significant fiscal risks: a status quo in the health system is likely to deplete the reserves of the Social Security Fund (SZV) within a decade.

26. The sustainability of public finances hinges on the implementation of several critical reforms. The revenue and PFM reforms need to be implemented as a matter of priority and it is critical to secure financing for their implementation. The PFM reform should include upgrading the outdated and weak procurement system, crucial to improving fiscal governance, and which has proven to be a stumbling block for absorption of Trust Fund resources. These reforms would help with fiscal consolidation and support the authorities' efforts to eliminate the endemic domestic arrears. In addition, the authorities should monitor fiscal risks. For example, the health system reform

[17] The current system is unsustainable and running large deficits which has depleted the health fund reserves (currently the health system is being financed by the old-age pension fund). The authorities are planning to implement some short-term measures (cost-saving within pharmaceuticals and a reduction of costs for medical referrals abroad), and in 2021, they are envisaging a merger of the present health insurance funds into a General Health Insurance (GHI) for all legal residents.

[18] The projections are based on staff's estimates of gross government debt taking into account the debt stock as presented in the latest available (2016) financial statements. The authorities' operational debt data do not include some of the liabilities shown in the financial statements and therefore are lower than staff's estimates.

needs to be done in a way that avoids long-term fiscal risks. To improve transparency, the authorities should improve the timeliness of preparation and publication of fiscal financial reports.

27. Strong implementation of these reforms and additional measures are needed to reduce debt and build resilience to natural disasters. A fiscal path reducing debt to 40 percent of GDP by 2030 would be more consistent with the objectives of fiscal sustainability and resilience. This would require achieving a primary surplus excluding grants of about 0.3 percent of GDP by 2025, implying additional fiscal adjustment of about 1.2 percent of GDP relative to the staff's baseline projections. On the revenue side, the authorities could consider the feasibility of introducing excises on alcohol and tobacco (while maintaining competitiveness with the French part of the island) and rationalizing existing tax expenditures. On the expenditure side, a functional review of the civil service and rationalizing subsidies could find scope for some savings. Strong structural reform is needed to boost potential GDP and debt sustainability. In staff's illustrative active scenario, real GDP growth would be slightly lower in 2021–22 due to the additional fiscal consolidation but slightly higher afterward due to assumed higher capital expenditure and the implementation of growth-increasing structural measures.[19] These measures would also allow building a fiscal buffer to improve resilience to natural disasters (staff's projections include savings of 0.5 percent of GDP from 2022).

Sint Maarten: Selected Fiscal Indicators, 2019 - 30

(Percent of GDP, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					Baseline Projections							
Revenue	25.3	30.8	34.3	29.8	29.8	29.8	29.6	24.5	24.6	24.6	24.6	24.6
Expenditure	27.0	29.5	29.4	29.3	30.1	30.7	30.6	29.6	28.7	27.7	26.8	26.0
of which : Capital expenditure	0.3	3.1	2.8	2.3	2.3	2.2	2.1	2.1	2.2	2.2	2.3	2.3
of which: Accumulation of fiscal buffer	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance	-0.9	2.0	5.5	1.0	0.2	-0.4	-0.6	-4.7	-3.7	-2.7	-1.7	-0.9
Excl. Trust Fund grants and spending	-0.8	-3.1	-2.3	-1.5	-1.4	-1.1	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Gross central government debt	51.3	52.6	55.3	55.0	54.8	54.4	53.2	52.2	51.2	50.4	49.6	48.9
of which : EIB loan 1/		1.2	4.5	4.3	4.1	3.9	3.5	3.1	2.8	2.5	2.1	1.9
Real GDP growth (annual percent change)	5.0	2.9	2.5	2.7	2.3	2.1	2.0	2.0	2.0	2.0	2.0	2.0
					Illustrative Active Scenario							
Revenue	25.3	30.8	34.7	30.7	30.7	30.7	30.5	25.4	25.5	25.5	25.5	25.5
Expenditure	27.0	29.3	29.2	29.6	30.2	30.6	30.3	29.2	28.3	27.3	26.4	25.5
of which : Capital expenditure	0.3	3.1	2.8	2.3	2.3	2.2	2.2	2.2	2.2	2.3	2.3	2.4
of which: Accumulation of fiscal buffer	0.0	0.0	0.0	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Primary balance	-0.9	2.2	6.0	1.6	1.0	0.6	0.6	-3.4	-2.4	-1.4	-0.5	0.3
Excl. Trust Fund grants and spending	-0.8	-3.0	-1.8	-0.9	-0.6	-0.1	0.3	0.3	0.3	0.3	0.3	0.3
Gross central government debt	51.3	52.4	54.7	54.1	53.0	51.6	49.2	46.9	44.6	42.6	40.7	38.8
of which : EIB loan 1/		1.2	4.5	4.3	4.1	3.9	3.5	3.1	2.8	2.4	2.1	1.8
Real GDP growth (annual percent change)	5.0	2.9	2.3	2.3	2.3	2.3	2.3	2.5	2.5	2.4	2.4	2.4

Source: IMF staff projections.

1/ EIB loan is on-lent to the airport.

[19] Given the small economic size and high trade openness Sint Maarten, fiscal multipliers are likely to be small (0.4–0.6 upon impact), implying that the impact of fiscal adjustment on GDP could be limited. This is supported by empirical work on other small states (of which many in the Caribbean) that show that fiscal multipliers are close to zero over the medium term but somewhat larger on impact, see "Fiscal Policy Multipliers in Small States," IMF Working Paper No. 19/72. An exception is the multiplier for capital expenditure which tends to be larger.

28. Donor financing will remain critical in the near and longer term. In the baseline projections, liquidity needs stemming from current fiscal deficits in 2020-24 accumulate to NA*f* 74 million (3.7 percent of GDP) from 2020 to 2024. Repayments of arrears or other liabilities would increase these needs accordingly. Additional adjustment measures would reduce liquidity needs but not eliminate them—even with a more ambitious fiscal path, there would be a need for liquidity support of NA*f* 32 million (1.7 percent of GDP) over 2020−21. This underscores the need for continued liquidity support simultaneously with taking credible measures to reduce the deficits. In addition to liquidity support, access to loans for capital projects not supported by the Trust Fund will remain vital.

Authorities' Views

29. The authorities emphasized the importance of fiscal reforms, including in revenue and PFM areas, and stressed that adequate resources are needed to support the reforms and to rebuild the economy. They pointed out that financing constraints—in particular the suspension of the capital expenditure loan by The Netherlands—and political instability are hampering reform implementation. The draft legislation for the health sector reform—that intends to provide universal health care and to address persistent deficits within the health care funds—has been prepared but not sent to the parliament. They pointed out that the suspension of previously agreed liquidity support is likely to reduce the liquidity buffer to a precariously low level. The authorities noted that they will continue to rely on Trust Fund resources for rebuilding Sint Maarten and stressed that to improve competitiveness of the economy and disaster resilience, infrastructure investment should be enhanced. They acknowledged the usefulness of a fiscal anchor but emphasized that such an anchor should not be forced upon them and should also be set taking into account social feasibility. In the absence of committed financing to carry out the much-needed fiscal and PFM reforms, the Ministry of Finance hosted a Tax Summit in February 2020 with attendance by CARTAC and the World Bank. The results will be evident in the short term as technical assistance is expected to start as early as March 2020.

C. Monetary Policy and Financial Sector Policies: Supporting the Peg and Improving Financial Sector Resilience

30. Monetary policy needs to continue to support the exchange rate peg. The excess liquidity still poses a potential risk to international reserves if banks increase their open FX position at a faster pace (Figure 4). In the short term, the CBCS should develop the policy rate communicating the stance of monetary policy in line with recent IMF technical assistance and be prepared to increase interest rates to prevent capital outflows. Monetary policy instruments and operations need further development: the CBCS should widen operations with its certificates of deposit (CD) and introduce an overnight standing credit facility—in that regard, the changes of its CD framework in January 2020 are a welcome step forward.[20] The governments of Curaçao and Sint

[20] The CBCS replaced the 4-week auction with a fixed-rate 2-week auction and adjusted rules of the 12-, 26- and 52-week auctions.

Maarten should consider operationalizing the Treasury Single Accounts in the CBCS. Over the longer term, the authorities should consider revising the current standing subscription framework to enable the orderly development of the domestic debt market and therefore new monetary policy tools.

31. Significant risks in the financial system need to be addressed promptly, including by strengthening financial sector oversight and reforming the bank resolution framework. The protracted recession and incidents of mismanagement have increased financial system fragilities in Curaçao, which could spill over to the rest of the system and the broader economy, if not properly handled. The authorities should develop a plan to resolve Girobank in a way that preserves financial stability while minimizing the fiscal cost. They should also conduct a thorough diagnostic to assess the strength of other deposit takers and develop a strategy to deal with any issue that may be identified. This will require legal amendments to strengthen supervision, including the development of a prompt corrective action regime, and bring the bank resolution framework in line with international standards. Given elevated NPLs (especially in Curaçao), the authorities should also develop a strategy to facilitate their resolution. To strengthen the insurance sector, the authorities should design a strategy for Ennia's successful exit from the CBCS's special administration regime. The authorities have requested technical assistance from the Fund to help bring their banking and insurance supervision and resolution frameworks in line with international good practice. In the short term, the authorities should prioritize efforts to bolster financial system stability over diverting resources to the fintech area. Staff recommended that a Deposit Guarantee System be established only after financial sector vulnerabilities have been addressed.

Authorities' Views

32. The CBCS broadly agreed with staff's analysis. The CBCS agreed that monetary policy should support the peg more actively, but noted that absorbing more liquidity would entail costs for the CBCS. The Monetary Policy Committee will consider recommendations from the recent Fund technical assistance on monetary policy instruments. Moreover, the CBCS agreed that financial sector fragilities should be addressed as a matter of priority. The CBCS is planning to strengthen its supervision and resolution functions through hiring additional supervision staff and requesting technical assistance to advise on options for strengthening the bank resolution framework. The authorities expressed their intent to amend the legal framework and are considering introducing a deposit insurance scheme.

D. Improving Governance

33. Governance concerns remain at the forefront in both countries. The CBCS needs to complete its governance structure by appointing a President. A significant strengthening of supervision and an overhaul of the bank resolution framework are needed to improve governance in the financial sector. The Curaçao authorities should be prepared to recapitalize the CBCS if its capital buffer fell below the required norm due to addressing pockets of vulnerability in the financial sector or costs related to monetary policy. Both countries have taken steps to establish integrity bodies to combat corruption and promote integrity within the public administration. These bodies need to be operationalized.[21]

34. Increased efforts are required to strengthen the AML/CFT framework, including to alleviate pressures on CBRs. As international financial centers, both Curaçao and Sint Maarten have a high degree of exposure to illicit flows. Both jurisdictions should prepare for the upcoming assessments by the Caribbean Financial Action Task Force (CFATF): Curaçao will undergo its next review by CFATF in 2021 and Sint Maarten in 2024. Faring poorly in CFATF evaluation could result in further pressures on CBRs, which have declined in recent years. In this context, progress on an action plan developed by the CBCS' De-Risking Task Force would be key for limiting the risks of CBR losses.[22] The Curaçao authorities should finalize and publish the results of the National Risk Assessment and ensure that regulatory authorities have sufficient powers to issue fines for non-compliance with AML/CFT obligations. Sint Maarten needs to pass the remaining required pieces of AML/CFT legislation and ensure their strong implementation. The supervision framework of the gaming industry in Sint Maarten needs significant strengthening—setting up a Gaming Control Board would be a step in the right direction. Both countries need to provide adequate resources to the relevant authorities tasked with AML/CFT oversight and ensure proper implementation of AML/CFT preventive measures by reporting entities.

Authorities' Views

35. The authorities agreed with the need to strengthen governance in many areas. Both countries are committed to improving their AML/CFT frameworks. The Curaçao authorities noted that they have all required AML/CFT legislation in place and Sint Maarten authorities have passed most of the required legislative amendments in this area. The Sint Maarten authorities noted however that they will need help from the private sector to increase public awareness and ensure effective implementation of the legislation. The Curaçao authorities noted that they have increased legal action to enforce compliance with legislation. Both countries acknowledged the need to address the shortage of human resources in the AML/CFT area. The Union also acknowledged the importance of completing the governance structure of the CBCS through appointing a President of the CBCS.

E. Capacity Building and Improving the Data Framework

36. Significant capacity building efforts are needed in both countries. Strengthening institutions with a medium-term and macro-fiscal focus, addressing the weaknesses in IT systems, tax administration, and PFM would help improve policy implementation and contribute to stronger

[21] In Sint Maarten, the National Ordinance regulating the Integrity Chamber and the national decree on the implementation went into effect in December 2018.

[22] The action plan has the following actions: (i) Risk assessment of the banking sector; (ii) National Risk Assessment, (iii) developing a communication strategy, (iv) strengthening of the CBCS's AML/CFT framework, (v) enhancing sector's awareness of AML/CFT compliance, and (vi) engaging with the sector and government to develop initiatives to lower compliance costs.

growth. Sint Maarten can benefit from its recently acquired (August 2019) CARTAC membership by requesting technical assistance in the needed areas.

37. A major improvement in statistics is needed to inform policymaking. Data gaps hamper effective macroeconomic analysis and surveillance. Both Curaçao and Sint Maarten should address the shortages of human and financial resources limiting data collection, coverage and timeliness, particularly for the National Accounts statistics. National accounts need to be produced with shorter lags and GDP in constant prices needs appropriate deflators. The authorities should take measures to increase the response rates in statistical surveys such as national accounts, balance of payments (BOP) and international investment position (IIP) and compile and publish fiscal data in line with GFSM 2014. In Sint Maarten, operational balance sheet data (most notably government debt) should be reconciled with financial reports. The CBCS should improve consistency between IIP and BOP data and compile and publish external debt data.

Authorities' Views

38. The authorities agreed that improving the capacity in public administration and data availability and quality are critical for achieving policy objectives. At the same time, they pointed to resource constraints. In Curaçao, the authorities continue to draw on the technical assistance from the Fund and CARTAC to improve public administration and central bank operations. They are also strengthening public financial management through investing in human capital as part of the Growth Accord. The Sint Maarten authorities are planning to use the recently acquired CARTAC membership to support their capacity building efforts as early as March 2020.

STAFF APPRAISAL

39. The Union's growth outlook is improving but remains fragile. After 4 years of continuous recession, Curaçao's real GDP is expected to remain flat in 2020 and grow by 1½ percent in 2021 as the agreement with the Klesch Group is expected to revive the Isla refinery. However, growth would return to substandard, around ½ percent, in the medium term reflecting persistent structural challenges. In Sint Maarten, real GDP is expected to grow by 2.9 percent in 2020, gradually converging to 2 percent in the medium term as the economy recovers from the effects of the devastating 2017 hurricanes. The external positions in both Curaçao and Sint Maarten are weaker than warranted by fundamentals and desired policy settings.

40. Downside risks are substantial. Curaçao's outlook is vulnerable to setbacks with reviving the refinery and to possible spillovers from financial system fragilities. Delays in addressing these fragilities could heighten uncertainty and lead to exchange rate pressures. The recovery in Sint Maarten is vulnerable to delays in key projects such as airport reconstruction and frequent changes in government that impede the implementation of key reforms. Both countries remain vulnerable to a slowdown in main trading partners.

41. Improving the functioning of the Union requires better policy frameworks, stronger buffers and a consistent and credible macro framework based on better data. A significant improvement in data availability and quality is needed as current gaps hamper effective macroeconomic analysis and surveillance. In both countries, the macro framework should incorporate a gradual fiscal adjustment and be supported by strong broad-based structural reforms to raise potential growth—this would be critical for improving external sustainability. The framework should incorporate contingent measures to address fiscal risks, e.g. costs of resolving financial system vulnerabilities in Curaçao.

42. Both Curaçao and Sint Maarten would benefit from introducing a Fiscal Responsibility Framework. It could incorporate a central government debt ratio as a long-term anchor and operational rules calibrated to meet it. Setting a relatively low debt target of 40 percent of GDP would provide more fiscal space in the event of negative shocks. The framework should contain clearly articulated escape clauses setting out circumstances justifying deviations from targets while retaining sustainable policies.

43. Strong implementation of fiscal reforms will be key for maintaining the sustainability of public finances. In Curaçao, signing the Growth Accord with The Netherlands and implementing several measures are welcome steps forward. The base of the planned general consumption tax should be broadened to domestically produced goods in conjunction with a comprehensive tax offset mechanism. In Sint Maarten, the sustainability of public finances hinges on steady implementation of reforms, including improving revenue administration, strengthening PFM and restoring financial sustainability of the health sector. It will be important to secure financing for these reforms to avoid delays.

44. The CBCS should strengthen its monetary policy to support the peg. The CBCS should develop the policy rate communicating the stance of monetary policy and be prepared to increase interest rates to prevent capital outflows. It should use its certificates of deposit more vigorously to absorb the excess liquidity. Over the longer term, the authorities should consider revising the current standing subscription framework to allow the development of domestic debt markets.

45. Risks in the financial sector need to be addressed as a matter of priority. The authorities should develop a strategy for addressing financial sector vulnerabilities with the objective of preserving financial stability while minimizing fiscal costs. A thorough diagnostic of deposit takers, along with a strategy to deal with any issue that may be identified, would help support financial stability. Significant strengthening of supervision and a complete overhaul of the bank resolution framework are also urgently needed. The authorities should be prepared to recapitalize the CBCS if costs related to monetary policy or addressing financial system vulnerabilities reduce its capital buffer.

46. Broad structural reforms would be key to enhancing potential growth in both countries. Strong efforts to improve the business environment, increase labor market flexibility while fine-tuning safety nets and addressing skills gaps are needed in both countries. Both countries should update their tourism master plans and Sint Maarten would benefit from a comprehensive disaster resilience strategy.

47. An across-the-board improvement in the governance framework should be a key priority in both countries. Vulnerabilities in the financial system point to the need to strengthen governance in the financial sector. The CBCS needs to complete its governance structure by appointing a President. Increased efforts are required to strengthen the AML/CFT framework in both countries. In the fiscal area, stronger internal controls and public financial management are needed to reduce opportunities for corruption. Both countries need to operationalize their integrity bodies.

48. It will be important to continue developing the capacity of public institutions and enhance the quality of statistics. In Sint Maarten, the authorities should enhance the capacity to absorb aid. In both countries, data availability and quality need to be improved significantly for effective surveillance.

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

Proposed Decision

The Executive Board endorses the thrust of the staff appraisal in the report for the 2019 Article IV consultation discussions with the Kingdom of the Netherlands—Curaçao and Sint Maarten (SM/20/58, 3/3/2020).

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 12-month cycle.

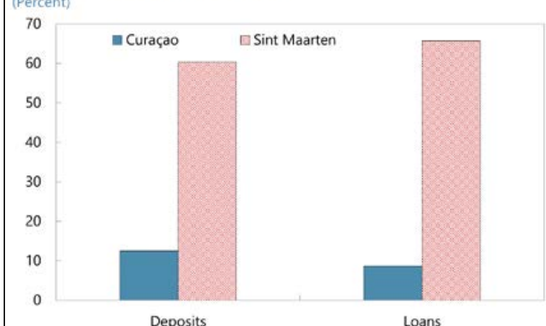
Box 1. Strengthening the Monetary Union of Curaçao and Sint Maarten

Since its formation in 2010, the Union has been facing significant external shocks and structural rigidities, resulting in disappointing growth and employment outcomes. The current account deficit has been persistently high in Curaçao, averaging more than 23 percent of GDP in 2010-18, and fragilities in the financial system point to gaps in the financial sector governance. At the same time, there have been no major exchange rate pressures and inflation rates in both countries have been relatively low and highly correlated. Government debt stocks are lower than in peer countries, in part explained by the debt relief provided by the Dutch government in connection with the dissolution of the former Netherlands Antilles in 2010, but also by the fiscal rule and supervision that kept a lid on fiscal deficits. The absence of monetary financing of fiscal deficits and the rules-based fiscal system have been strong features of the Union, supporting the exchange rate peg to the U.S. dollar.

The Union provides an important benefit of pooling resources for setting up various institutional structures (e.g. the CBCS, financial system infrastructure) and maintaining common buffers (e.g. international reserves). This helps mitigate significant small island constraints. Large geographical distance, asymmetric shocks, and other exogenous factors pose challenges but could be mitigated by stronger policy frameworks, larger buffers and deeper economic integration within the Union.

- **Stronger policy frameworks and buffers.** The fiscal framework needs to be improved by introducing a long-term debt anchor and making the system more flexible. The Union also needs a stronger monetary policy framework that enhances CBCS' ability to support the peg. This requires development of the domestic debt market. To support the transmission channel, financial dollarization in Sint Maarten needs to be addressed. In the financial area, a stronger banking union would improve financial intermediation and resilience to shocks—this requires stronger supervision, better bank resolution framework and a financial safety net (e.g. deposit insurance system). Persistent current account deficits in Curaçao and financial sector fragilities should be addressed to avoid possible pressures on the exchange rate. Stronger international reserves would safeguard the peg.

Dollarization, December 2018
(Percent)



Source: The CBCS.

- **Deepening the economic integration** within the Union would improve resource allocation and improve its capacity to adjust to shocks, including hurricanes. This would include pursuing free trade within the Union, removing barriers to the movement of businesses and services and stronger financial integration. Deeper integration would require harmonizing policy and regulatory frameworks (e.g. competition policy, investment policy). Building common institutions (e.g. financial sector infrastructure) and fostering functional cooperation would save resources and help to overcome small-island constraints. To maximize gains from integration, the Union could consider pursuing broader economic integration within the region (e.g. joining CARICOM) and globally.

Box 2. Curaçao: Growth Accord and Kingdom Instruction

In July 2019, the authorities and The Netherlands signed a Growth Accord (GA) intended to improve fiscal performance and promote economic recovery. The GA outlines fiscal measures and the direction of structural reforms through end-June 2022. Implementation is monitored by a joint commission with representatives from both Curaçao and The Netherlands, and in parallel with the reforms, the Accord envisages NA*f* 180 million (about 3 percent of GDP) for additional capital spending to boost the economy.

(i) **Fiscal reforms:** The GA outlines the following measures in 2019−21:

- **Short-term measures:** A mix of expenditure-lowering and compliance- and revenue-enhancing measures for 2019/2020, including increasing turnover tax rate on imports and excises on alcohol and tobacco (implemented in September 2019), improving revenue administration, and reducing expenditure.
- **Tax reform:** The current turnover tax will be replaced with a general consumption tax (ABB) that will tax goods at the import stage only, while services would be taxed in full when supplied in the domestic market.
- **PFM:** Curaçao aims to achieve an unqualified audit opinion in the 2021 financial statements. The budget process and execution are to be improved by adopting a set of rules to gain better control over public spending.
- **Subsidy policy:** Subsidies are to be disbursed based on net amounts (after deduction of the budgeted amount in taxes and social security premiums).
- **Social security:** The government's annual contribution to the health care fund is to be set to incentivize the Social Security Bank (SVB) to increase efficiency. The higher operational costs of the new hospital are to be covered through efficiency increasing measures.

(ii) **Structural reforms**: The reforms include optimizing the permit process; establishing a guarantee investment fund, preparing an action plan to align vocational education with the labor market, preparing a strategic land development policy and establishing an internal property development business. The GA also committed to reform labor market policies.

(iii) **Improving public administration:** The GA calls for the development or implementation of various action plans in the areas of organizational structure/staffing, human resources, and business practices. It also envisages and founding a Government Academy.

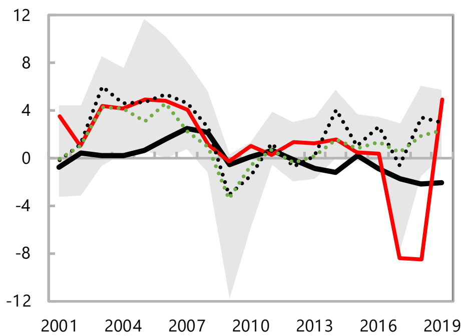
In parallel to the GA, the Kingdom of the Netherlands issued an Instruction. The Instruction aimed to achieve compliance with the fiscal rule (zero current deficit) in 2019 and maintain current account fiscal surpluses in 2020−22 to compensate for past deficits (cumulating to about 3.5 percent of GDP).

Figure 1. Curaçao and Sint Maarten: Regional Comparison 1/ 2/

Curaçao   Sint Maarten   Tourism-oriented Caribbean   ECCU

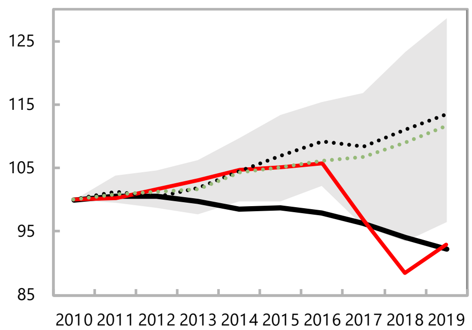
Real GDP growth rates in Curaçao and Sint Maarten have been volatile and relatvely low.

Real GDP
(Percent change)



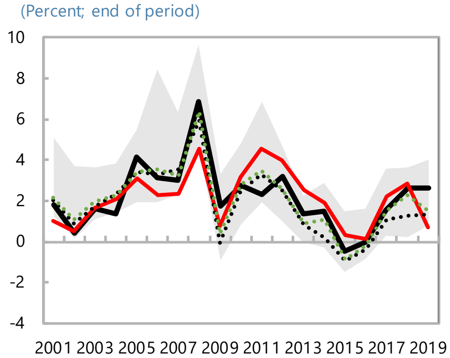
Both economies have contracted since 2010.

Real GDP
(2010 = 100)



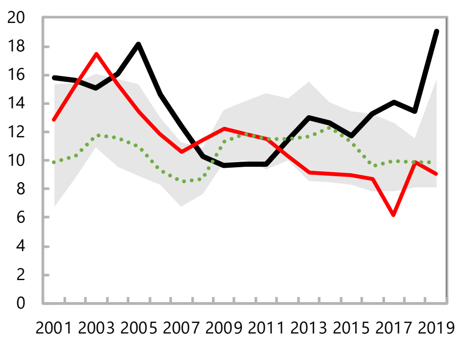
Inflation has been broadly consistent with patterns in the tourism-oriented Caribbean.

Inflation
(Percent; end of period)



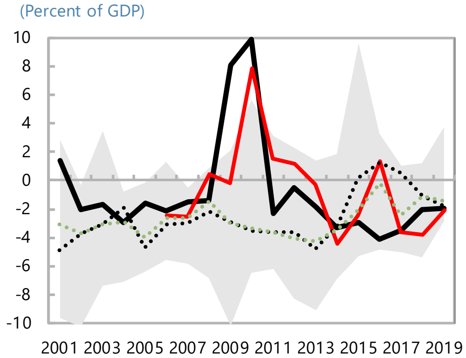
The unemployment rate in Curaçao has increased since 2010, whereas it was declining in Sint Maarten before

Unemployment rate 3/
(Percent of labor force)



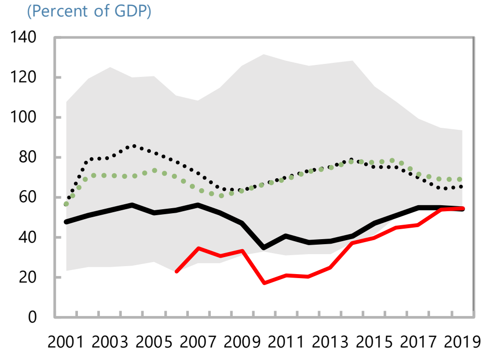
Fiscal deficits have been generally smaller than in the tourism-oriented Caribbean until the past several years.

General government fiscal balance
(Percent of GDP)



Despite that the government debt stocks have increased, they remain the lowest among their regional peers.

Government debt
(Percent of GDP)

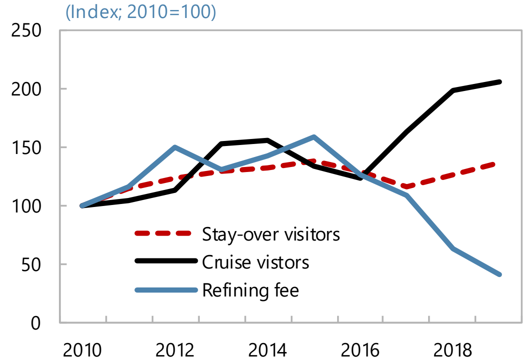


Sources: IMF World Economic Outlook; IMF Information Notice System; and IMF staff calculations.
1/ Figure reports medians for 15 tourism-oriented Caribbean countries, and the subgroup of countries in the Eastern Caribbean Currency Union (ECCU). 10th to 90th percentile range (light shading) are for all tourism-oriented Caribbean countires.
2/ 2019 values are Fund staff estimates.
3/ Due to data availability, Caribbean-oriented comparators do not include ECCU countries.

Figure 2. Curaçao and Sint Maarten: Real Sector Developments

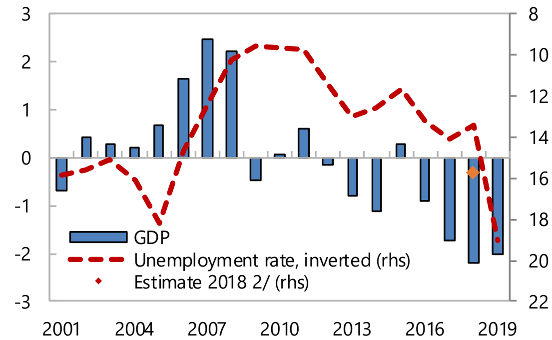
In Curaçao, strong tourism growth has not been able to offset the continued decline at the refinery in recent years...

Curaçao: Tourism Sector and Refinery Production 1/
(Index; 2010=100)



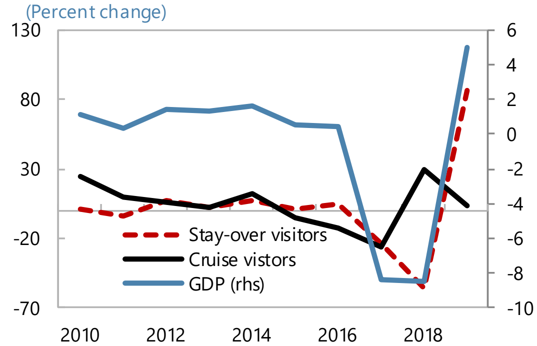
...causing a recession and increasing the unemployment rate.

Curaçao: Real GDP growth and Unemployment Rate 1/
(Percent change and percent of labor force)



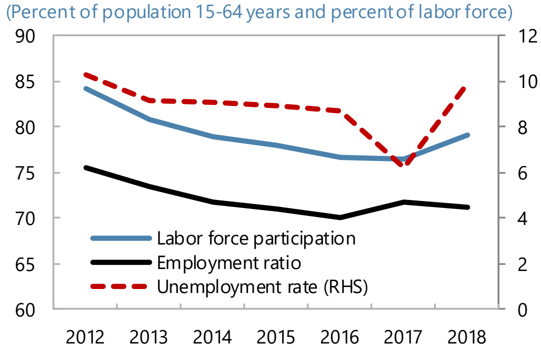
In Sint Maarten, tourism is rebounding strongly after the significant drop in 2017-18 caused by 2017 hurricanes.

Sint Maarten: real GDP and Tourism 1/
(Percent change)



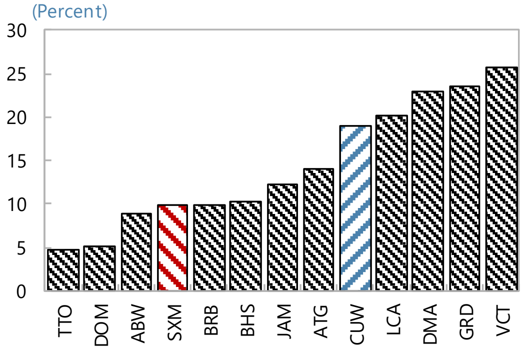
Despite the large drop in GDP in 2017-18, the employment rate in Sint Maarten has proven resilient.

Sint Maarten: Labor Market Variables
(Percent of population 15-64 years and percent of labor force)



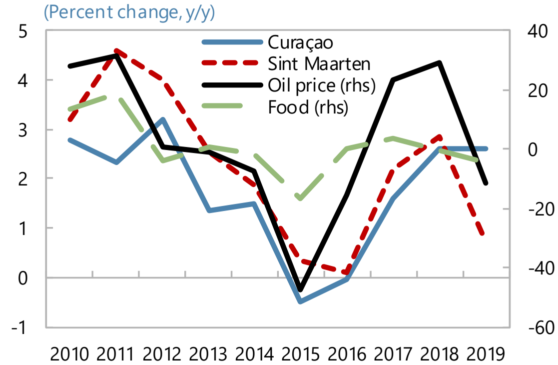
Compared to regional peers, the unemployment rate in Curaçao is relatively high, while it remains relatively low in Sint Maarten.

Unemployment Rate 3/
(Percent)



Inflation in Sint Maarten declined in 2019, in part due to lower international prices. In Curaçao, inflation stood at 2.6 percent in 2019, in part driven by the September 2019 tax measures.

Inflation and Global Prices
(Percent change, y/y)

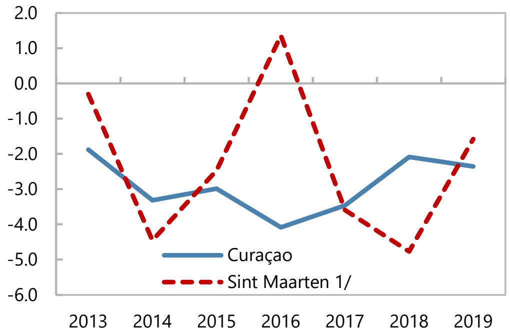


Sources: Authorities' data, IMF WEO database, and IMF staff estimates.
1/ 2019 is based on data for 2019H1 and IMF staff estimates.
2/ The unemployment rate estimate is based on staff's assumption of unchanged labor force participation over 2017-19. The unemployment rate in 2018 was accompanied by a large drop in labor force participation, masking a significant decline in employment. The labor force participation rebounded in the April 2019 Labor Force Survey.
3/ Latest data available over 2015–19.

Figure 3. Curaçao and Sint Maarten: Fiscal Developments 1/

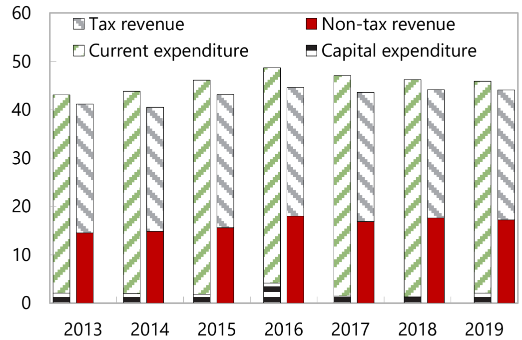
In Curaçao, the overall fiscal deficit increased slightly in 2019 driven by capital expenditure, while it declined in Sint Maarten.

Overall balance
(Percent of GDP)



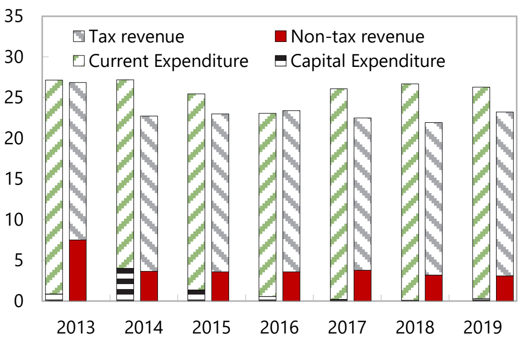
In Curaçao, current spending in 2018-19 declined while the tax measures implemented in September 2019 supported revenue.

Curaçao: Revenue and Expenditure 2/
(Percent of GDP)



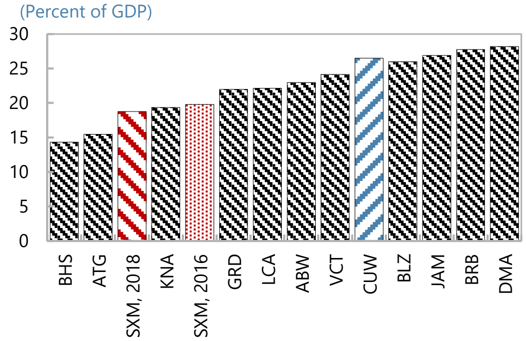
In Sint Maarten, after significant fiscal expansion in 2018, expenditure was contained and revenue started recovering.

Sint Maarten: Revenue and Expenditure
(Percent of GDP)



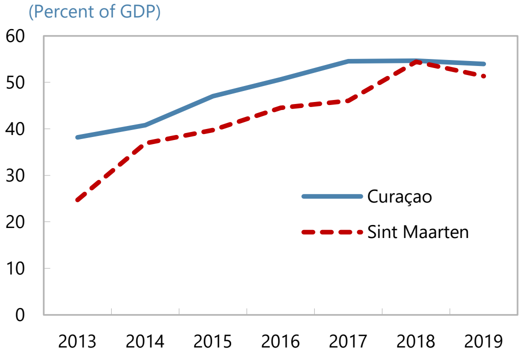
Even before the 2017 hurricanes, Sint Maarten tax revenue lagged behind regional peers.

Tax revenue, 2018
(Percent of GDP)



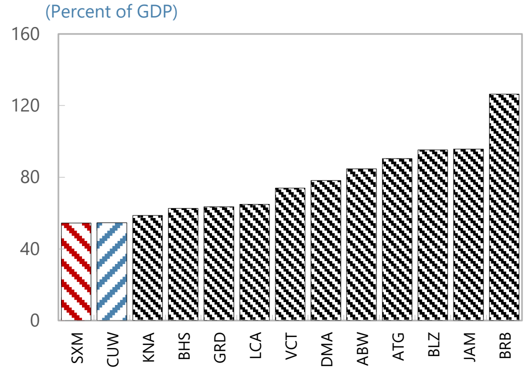
Since the debt relief in 2010, central government debt has increased in both countries...

Central Government Debt 3/
(Percent of GDP)



...although it still remains lower than in peer countries.

General Government Debt, 2018 3/
(Percent of GDP)

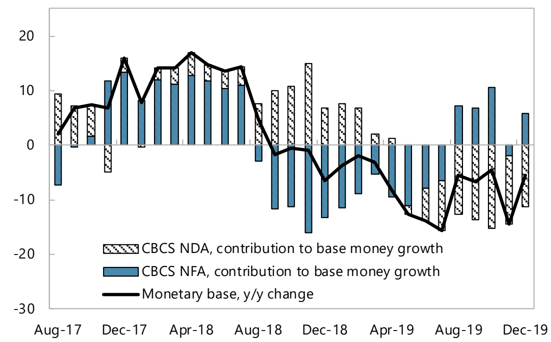


Sources: Curaçao and Sint Maarten authorities; IMF WEO database, and IMF staff estimates.
1/ Overall balance excluding Trust Fund-related grant and expenditure.
2/ From 2016, the Social Insurance Bank (SVB) is included in both revenue and expenditure.
3/ Values for Sint Maarten and Curaçao show debt of central budgetary government.

Figure 4. Curaçao and Sint Maarten: Monetary Developments

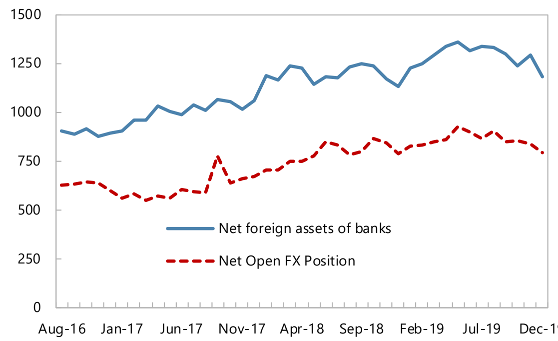
Base money has been declining since late 2018, driven mostly by loss of foreign assets.

Monetary base and components
(Percent change)



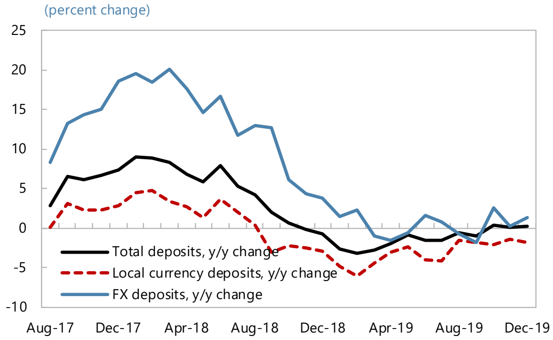
Banks continued to increase their net foreign assets and the overall open FX position.

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



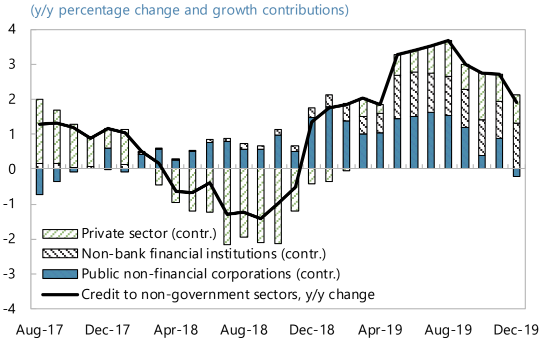
Growth of bank deposits slowed and turned into a small contraction…

Banking sector deposits
(percent change)



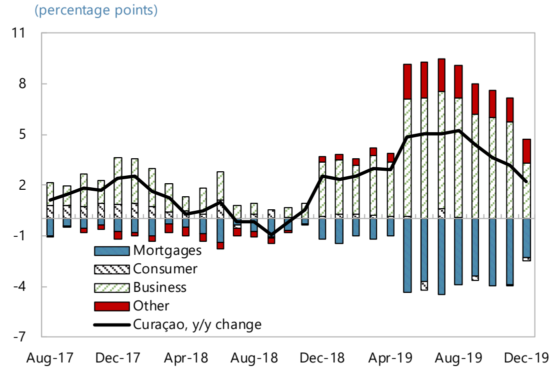
Credit to non-government sectors remains sluggish.

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



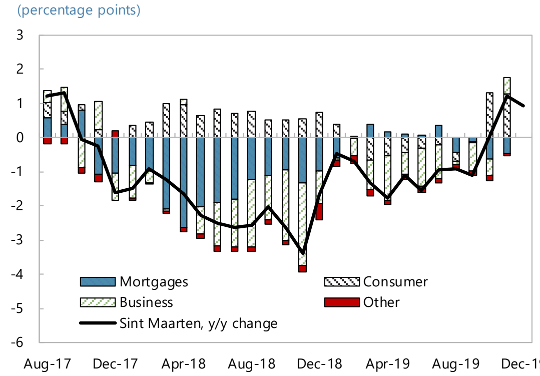
In Curaçao, bank loans to non-government sectors are growing on account of business loans.

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



In Sint Maarten, bank loans to non-government sectors are bottoming out after a period of decline.

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



Sources: CBCS, and IMF staff estimations.

Figure 5. Curaçao and Sint Maarten: Risk Assessment Matrix 1/

Source of Risks	Relative Likelihood	Expected Impact	Policy Response
Domestic risks			
Setbacks in reviving the Isla refinery or closure of the refinery.	**Medium**	**Curaçao: High** Setbacks in reviving the Isla refinery or its closure would prolong the recession, increase unemployment and reduce government revenue.	Accelerage structural reforms, particularly in the labor market area. Design and implement contingency fiscal measures to maintain fiscal sustainability.
Spillovers from financial sector fragilities.	**Medium**	**Curaçao: High** Financial sector fragilities could entail contingent liabilities for the public sector. The delays in addressing financial sector fragilities could create a drain on international reserves and exert pressure on the exchange rate.	Develop a plan to resolve Girobank in a way that preserves financial stability while minimizing the fiscal cost. Strengthen prudential oversight and reform the bank resolution framework.
Slower pace of post-hurricane reconstruction	**High**	**Sint Maarten: High** Implementation risks related to the reconstruction projects, reflecting a low absorption capacity or slow progress in setting up necessary frameworks for implementation could delay the recovery and lead to lower growth.	Address institutional, regulatory, and capacity bottlenecks to facilitate speedy implementation of reconstruction projects.
External risks			
Weaker-than-expected growth in the U.S.	**Medium**	**High** Slower growth in the U.S. and Europe could reduce growth in the Union through lower tourism arrivals, remittances, and FDI. Sint Maarten tourism sector is particularly vulnerable to a slowdown in the U.S., and Curaçao's tourism sector is vulnerable to a slowdown in Europe. The fiscal position could deteriorate further as revenues decline.	Accelerate structural reforms to enhance productivity, economic growth and competitiveness, while strengthening the fiscal position to provide countercyclical fiscal space. Expand the monetary policy toolkit to support the peg.
Weaker-than-expected growth in Europe	**High**		
Large swings in energy prices	**Medium**	**Medium** As an oil importer, the Union is vulnerable to volatility in oil prices. An oil price hike would lead to higher inflation, larger current account deficit and stronger pressures on the international reserves.	Implement planned tax and expenditure reforms to build fiscal buffers. Improve competitiveness. Expand the monetary policy toolkit to support the peg.
Sharp rise in risk premia and further build-up of financial vulnerabilities	**High**	**Medium** An abrupt deterioration in market sentiment could trigger risk-off events such as recognition of underpriced risk. Higher risk premia cause higher debt service and refinancing risks which could affect financing cost for the private sector. The public sector does not borrow from the market.	Implement reforms to increase productivity and competitiveness, and reduce costs of doing business. Also, enhance prudential oversight and reform bank resolution framework to reduce financial vulnerabilities.
Intensification of geopolitical tensions and security risks (spillovers from Venezuela)	**High**	**Medium** The crisis in Venezuela has already produced a strong impact on Curaçao through several channels, including industry linkages (the refinery), trade, tourism, and migration. A further surge of undocumented immigration from Venezuela could put additional pressure on labor markets and exert pressure on public finances.	Accelerate structural reforms, use international aid for migrants, including from The Netherlands, and seek further support from the international community. Continue to build fiscal buffers.

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

Figure 5. Curaçao and Sint Maarten: Risk Assessment Matrix (concluded) 1/

Source of Risks	Relative Likelihood	Expected Impact	Policy Response
Reduced financial services by global/regional banks	**Medium**	**Medium** Further loss of correspondent banking relationships (CBRs) would affect cross-border transactions, with negative effects on the balance of payments and growth.	Strengthen central bank governance; strengthen AML/CFT compliance and risk-based supervision; ensure full compliance with international standards on transparency of tax information; continue monitoring the status of CBRs.
Cyber-attacks	**Low**	**Low** Cyber-attacks on critical global financial systems, infrastructure and institutions trigger systemic financial instability or widespread disruptions in socio-economic activities.	Strengthen IT systems and further build capacity in the public sector.
Higher frequency and severity of natural disasters	**Medium**	**Sint Maarten: High** Sint Maarten is located in the hurricane belt, affected, on average, by one hurricane every year and a half since the mid-1990s.	Accelerate post-Hurricane Irma reconstruction, build resilient infrastructure, and fiscal buffers.

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

Table 1. Curaçao: Selected Economic and Financial Indicators, 2016–25

Area	444 (km^2)	Population, thousand (2017)	160.0
Percent of population below age 15 (2017)	18.7	Literacy rate, in percent (2010)	96.7
Percent of population aged 65+ (2017)	16.4	Life expectancy at birth, male (2016)	74.8
Infant mortality, over 1,000 live births (2016)	11.2	Life expectancy at birth, female (2016)	81.1

	2016	2017	2018 Est.	2019 Est.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.
Real economy (percent change)										
Real GDP	-0.9	-1.7	-2.2	-2.0	0.0	1.5	1.2	1.2	0.8	0.4
CPI (12-month average)	0.0	1.6	2.6	2.6	3.7	2.9	2.6	2.5	2.5	2.5
Unemployment rate (percent)	13.3	14.1	13.4	19.0	19.0	18.1	17.2	16.0	15.2	14.8
Government finances (percent of GDP)										
Net operating (current) balance, central government	-0.4	-2.1	-1.2	-0.3	-0.7	1.1	1.7	2.0	2.3	2.5
Primary balance, general government	-3.1	-2.5	-1.0	-1.3	-1.2	0.8	1.3	1.4	1.6	1.6
Overall balance, general government	-4.1	-3.5	-2.1	-2.4	-2.4	-0.4	0.1	0.3	0.5	0.6
Central government debt 1/	50.6	54.5	54.6	54.0	56.0	54.0	51.7	49.5	47.5	45.5
Balance of payments (percent of GDP)										
Current account	-18.7	-21.9	-28.7	-20.8	-20.5	-19.1	-20.7	-16.4	-14.9	-14.2
Goods trade balance	-34.1	-33.5	-38.6	-33.9	-33.5	-35.5	-36.9	-34.9	-34.7	-34.3
Exports of goods	11.6	13.6	16.9	15.0	13.8	13.4	13.1	13.0	12.9	12.8
Imports of goods	45.7	47.1	55.5	48.9	47.3	48.8	50.0	47.9	47.6	47.2
Service balance	17.2	11.8	9.7	12.7	13.6	17.0	16.8	19.2	20.4	20.7
Exports of services	45.5	43.0	44.5	42.8	44.7	48.2	48.1	50.6	51.9	52.1
Imports of services	28.3	31.3	34.9	30.2	31.1	31.2	31.2	31.4	31.4	31.4
External debt	125.5	133.3	145.7	153.7	158.9	162.8	168.2	169.7	169.8	169.7
Net international investment position	233.3	241.8	212.8	190.9	163.6	137.7	112.0	91.6	73.9	57.6
Memorandum items:										
Nominal GDP (millions of U.S. dollars)	3,122	3,117	3,128	3,146	3,263	3,408	3,538	3,670	3,792	3,903
Per capita GDP (U.S. dollars)	19,473	19,478	19,714	19,908	20,668	21,587	22,289	22,999	23,643	24,217
Per capita GDP (percent change)	-1.8	0.0	1.2	1.0	3.8	4.4	3.3	3.2	2.8	2.4
Credit to non-government sectors (percent change)	…	2.4	2.5	2.2	…	…	…	…	…	…

Fund position	Curaçao is part of the Kingdom of the Netherlands and does not have a separate quota.
Exchange rate	The Netherlands Antillean 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/ Defined as balance sheet liabilities of the central government except equities. Includes central government liabilities to the social security funds.

Table 2. Curaçao: Government Operations, 2016–25 1/

(Millions of NA*f* unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Prel.	Prel.			Proj.			
					Budgetary Central Government					
Revenue	**1718**	**1630**	**1639**	**1623**	**1727**	**1828**	**1902**	**1965**	**2029**	**2086**
Tax	1486	1490	1484	1517	1602	1697	1766	1824	1884	1937
Other revenue	232	140	155	107	125	131	136	140	145	149
Expense (Current expenditure)	**1741**	**1749**	**1707**	**1640**	**1767**	**1762**	**1794**	**1834**	**1871**	**1914**
Net operating (current) balance	**-23**	**-119**	**-68**	**-17**	**-40**	**66**	**108**	**131**	**158**	**172**
Net acquisition of nonfinancial assets (capital)	233	80	71	116	98	90	99	112	124	131
Overall balance	**-256**	**-199**	**-139**	**-132**	**-137**	**-24**	**9**	**19**	**33**	**42**
Primary balance	**-202**	**-145**	**-79**	**-73**	**-71**	**46**	**81**	**92**	**106**	**114**
					General Government 2/					
Revenue	**2492**	**2432**	**2471**	**2449**	**2546**	**2675**	**2784**	**2881**	**2982**	**3073**
Taxes	1486	1490	1484	1517	1602	1697	1766	1824	1884	1937
Taxes on income and profits	654	643	646	664	668	699	725	753	778	800
Taxes on property	40	39	33	30	39	41	43	44	46	47
Taxes on goods and services	567	582	572	621	691	739	768	796	823	847
Taxes on international trade and transactions	225	226	233	201	204	218	230	231	238	243
Social contributions	756	782	814	808	800	828	861	895	931	965
Grants	30	29	46	28	29	30	31	32	33	34
Other revenue	220	131	127	97	116	121	125	130	134	138
of which : Interest revenue	7	9	10	9	10	10	10	11	11	11
Expenditure	**2720**	**2625**	**2588**	**2581**	**2683**	**2700**	**2775**	**2862**	**2948**	**3032**
Expense	2487	2545	2517	2466	2585	2610	2676	2750	2824	2901
Compensation of employees 3/	584	622	622	618	668	628	627	644	662	683
Goods and services	186	195	202	180	196	211	227	233	239	244
Consumption of fixed capital	69	82	88	91	94	97	100	102	105	107
Interest payments	62	63	70	69	75	81	82	84	84	84
Grants	292	280	294	255	281	290	301	313	323	332
Social benefits	1253	1253	1239	1251	1268	1300	1335	1372	1409	1447
Other expense	41	51	2	2	3	3	3	3	3	3
Net acquisition of nonfinancial assets	233	80	71	116	98	90	99	112	124	131
Acquisition of nonfinancial assets	302	162	159	206	191	186	198	213	228	237
Overall balance	**-228**	**-193**	**-117**	**-132**	**-137**	**-24**	**9**	**19**	**33**	**42**
Primary balance	**-174**	**-139**	**-56**	**-73**	**-71**	**46**	**81**	**92**	**106**	**114**
Net acquisition of financial assets 4/	-178	-141	-96	-149	96	-5	-5	-5	6	-4
Net incurrence of liabilities	51	52	21	-17	233	19	-14	-24	-27	-46
Loans	51	52	-8	-47	195	87	96	27	-27	-46
Borrowing	59	60	0	0	303	105	118	53	0	122
Amortization	8	8	8	47	108	18	22	26	27	167
Other accounts payable, incl. arrears	0	0	29	28	38	-67	-110	-51	0	0
Memorandum items:										
Current account balance, authorities' definition	16	-117	-58	-15	-38	0	0	82	160	174
Of which : Compensation for past deficits (+: payment)	0	47	4	0	0	67	110	51	0	0
Interest rule (interest/revenue) (percent) 5/	2.7	2.6	2.9	2.8	3.1	3.2	3.2	3.1	3.0	2.9
Government debt service	71	71	78	84	184	166	214	161	112	251
Gross government debt 6/	2830	3041	3058	3039	3272	3291	3277	3254	3226	3181
Net government debt	2364	2560	2855	2830	2957	2978	2966	2945	2909	2866
Government deposits	465	481	203	208	314	312	311	309	317	315
Nominal GDP	5589	5579	5599	5631	5840	6100	6334	6570	6788	6986

Sources: Curaçao authorities; and IMF staff calculations.

1/ The presentation follows the 2014 Government Finance Statistics Manual.
2/ Consolidated table including the budgetary central government and social security funds (SVB).
3/ Includes teacher salaries.
4/ Mostly changes in deposits.
5/ The denominator is the average of total revenue in the previous three years.
6/ Defined as balance sheet liabilities of the central government except equities. Includes central government liabilities to the social security funds.

Table 3. Curaçao: Government Operations, 2016–25 1/

(Percent of GDP unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Prel.	Est.			Proj.			
					Budgetary Central Government					
Revenue	**30.7**	**29.2**	**29.3**	**28.8**	**29.6**	**30.0**	**30.0**	**29.9**	**29.9**	**29.9**
Tax	26.6	26.7	26.5	26.9	27.4	27.8	27.9	27.8	27.8	27.7
Other revenue	4.2	2.5	2.8	1.9	2.1	2.1	2.1	2.1	2.1	2.1
Expense (current expenditure)	**31.1**	**31.3**	**30.5**	**29.1**	**30.3**	**28.9**	**28.3**	**27.9**	**27.6**	**27.4**
Net operating (current) balance	**-0.4**	**-2.1**	**-1.2**	**-0.3**	**-0.7**	**1.1**	**1.7**	**2.0**	**2.3**	**2.5**
Net acquisition of nonfinancial assets (capital)	4.2	1.4	1.3	2.1	1.7	1.5	1.6	1.7	1.8	1.9
Overall balance	**-4.6**	**-3.6**	**-2.5**	**-2.4**	**-2.4**	**-0.4**	**0.1**	**0.3**	**0.5**	**0.6**
Primary balance	**-3.6**	**-2.6**	**-1.4**	**-1.3**	**-1.2**	**0.8**	**1.3**	**1.4**	**1.6**	**1.6**
					General Government 2/					
Revenue	**44.6**	**43.6**	**44.1**	**43.5**	**43.6**	**43.9**	**43.9**	**43.8**	**43.9**	**44.0**
Taxes	26.6	26.7	26.5	26.9	27.4	27.8	27.9	27.8	27.8	27.7
Taxes on income and profits	11.7	11.5	11.5	11.8	11.4	11.5	11.5	11.5	11.5	11.5
Taxes on property	0.7	0.7	0.6	0.5	0.7	0.7	0.7	0.7	0.7	0.7
Taxes on goods and services	10.1	10.4	10.2	11.0	11.8	12.1	12.1	12.1	12.1	12.1
Taxes on international trade and transactions	4.0	4.1	4.2	3.6	3.5	3.6	3.6	3.5	3.5	3.5
Social contributions	13.5	14.0	14.5	14.3	13.7	13.6	13.6	13.6	13.7	13.8
Grants	0.5	0.5	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Other revenue	3.9	2.3	2.3	1.7	2.0	2.0	2.0	2.0	2.0	2.0
of which : Interest revenue	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Expenditure	**48.7**	**47.1**	**46.2**	**45.8**	**45.9**	**44.3**	**43.8**	**43.6**	**43.4**	**43.4**
Expense	44.5	45.6	45.0	43.8	44.3	42.8	42.2	41.9	41.6	41.5
Compensation of employees 3/	10.5	11.1	11.1	11.0	11.4	10.3	9.9	9.8	9.8	9.8
Goods and services	3.3	3.5	3.6	3.2	3.4	3.5	3.6	3.5	3.5	3.5
Consumption of fixed capital	1.2	1.5	1.6	1.6	1.6	1.6	1.6	1.6	1.5	1.5
Interest payments	1.1	1.1	1.2	1.2	1.3	1.3	1.3	1.3	1.2	1.2
Grants	5.2	5.0	5.2	4.5	4.8	4.8	4.8	4.8	4.8	4.8
Social benefits	22.4	22.5	22.1	22.2	21.7	21.3	21.1	20.9	20.8	20.7
Other expense	0.7	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets (capital)	4.2	1.4	1.3	2.1	1.7	1.5	1.6	1.7	1.8	1.9
Acquisition of nonfinancial assets	5.4	2.9	2.8	3.7	3.3	3.1	3.1	3.2	3.4	3.4
Overall balance	**-4.1**	**-3.5**	**-2.1**	**-2.4**	**-2.4**	**-0.4**	**0.1**	**0.3**	**0.5**	**0.6**
Primary balance	**-3.1**	**-2.5**	**-1.0**	**-1.3**	**-1.2**	**0.8**	**1.3**	**1.4**	**1.6**	**1.6**
Net acquisition of financial assets 4/	-3.2	-2.5	-1.7	-2.6	1.6	-0.1	-0.1	-0.1	0.1	-0.1
Net incurrence of liabilities	0.9	0.9	0.4	-0.3	4.0	0.3	-0.2	-0.4	-0.4	-0.7
Loans	0.9	0.9	-0.1	-0.8	3.3	1.4	1.5	0.4	-0.4	-0.7
Borrowing	1.1	1.1	0.0	0.0	5.2	1.7	1.9	0.8	0.0	1.7
of which : Borrowing, external	1.1	1.1	0.0	0.0	5.2	1.7	1.9	0.8	0.0	1.8
Amortization	0.1	0.1	0.1	0.8	1.9	0.3	0.3	0.4	0.4	2.4
of which : Amortization, external	0.1	0.1	0.1	0.8	1.9	0.3	0.3	0.4	0.4	2.4
Other accounts payable, incl. arrears	0.0	0.0	0.5	0.5	0.6	-1.1	-1.7	-0.8	0.0	0.0
Memorandum items:										
Current account balance, authorities	0.3	-2.1	-1.0	-0.3	-0.6	0.0	0.0	1.2	2.4	2.5
Of which : Compensation for past deficits (+: payment)	0.0	0.8	0.1	0.0	0.0	1.1	1.7	0.8	0.0	0.0
Interest rule (interest/revenue) (percent) 5/	2.7	2.6	2.9	2.8	3.1	3.2	3.2	3.1	3.0	2.9
Debt service as a share of central government revenue	4.1	4.4	4.8	5.2	10.6	9.1	11.2	8.2	5.5	12.0
Gross government debt 6/	50.6	54.5	54.6	54.0	56.0	54.0	51.7	49.5	47.5	45.5
Net government debt	42.3	45.9	51.0	50.3	50.6	48.8	46.8	44.8	42.9	41.0
Government deposits	8.3	8.6	3.6	3.7	5.4	5.1	4.9	4.7	4.7	4.5

Sources: Curaçao authorities; and IMF staff calculations.
1/ The presentation follows the 2014 Government Finance Statistics Manual.
2/ Consolidated table including the budgetary central government and social security funds (SVB).
3/ Includes teacher salaries.
4/ Mostly changes in deposits.
5/ The denominator is the average of total revenue in the previous three years.
6/ Defined as balance sheet liabilities of the central government except equities. Includes central government liabilities to the social security funds.

Table 4. Sint Maarten: Selected Economic and Financial Indicators, 2016–25

Area	34 (km^2)	Population, thousand (2018)	40.6
Percent of population below age 15 (2018)	20.0	Literacy rate, in percent (2011)	93.8
Percent of population aged 65+ (2018)	7.9	Life expectancy at birth, male (2016)	74
Infant mortality, over 1,000 live births (2010)	6.0	Life expectancy at birth, female (2016)	80.6

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Prel.	Prel.	Est.	Proj.					
Real economy (percent change)										
Real GDP	0.4	-8.4	-8.5	5.0	2.9	2.5	2.7	2.3	2.1	2.0
CPI (12-month average)	0.1	2.2	2.9	0.7	2.5	2.2	2.1	2.1	2.1	2.1
Unemployment rate (percent)	8.7	6.2	9.9	9.1	8.7	8.4	7.9	7.7	7.5	7.5
General government finances (percent of GDP)										
Primary balance excl. Trust Fund operations 1/	2.0	-2.9	-4.0	-0.8	-3.1	-2.3	-1.5	-1.4	-1.1	-0.9
Current balance (Authorities' definition) 2/	1.0	-4.0	-5.3	-1.9	-1.4	-1.0	-0.6	-0.4	-0.3	0.0
Overall balance	1.4	-3.6	-3.8	-1.6	1.3	4.9	0.5	-0.3	-0.9	-1.0
Central government debt 3/	44.5	46.0	54.4	51.3	52.6	55.3	55.0	54.8	54.4	53.2
Balance of payments (percent of GDP)										
Current account	-2.5	4.6	6.7	-24.8	-24.0	-16.9	-9.6	-4.4	-1.9	0.5
Goods trade balance	-67.5	-63.0	-78.9	-75.3	-75.3	-74.7	-70.7	-67.3	-65.0	-63.2
Exports of goods	12.3	12.1	15.6	15.7	15.6	15.6	15.6	15.6	15.6	15.6
Imports of goods	79.8	75.1	94.4	91.1	90.9	90.2	86.3	82.9	80.5	78.8
Service balance	70.6	56.6	34.5	52.7	53.4	56.0	63.2	63.6	64.1	65.0
Exports of services	96.3	82.8	69.3	88.0	87.7	89.8	96.5	96.9	97.4	98.3
Imports of services	25.7	26.2	34.8	35.3	34.3	33.8	33.3	33.3	33.3	33.3
External debt	236.0	267.1	266.3	264.4	254.8	250.2	240.6	232.0	223.8	215.1
Net international investment position	-152.5	-152.2	-144.7	-158.3	-172.5	-180.2	-180.0	-175.4	-168.9	-160.3
Memorandum items:										
Nominal GDP (millions of U.S. dollars)	1,072	1,014	954	1,009	1,064	1,115	1,169	1,221	1,273	1,326
Per capita GDP (U.S. dollars)	27,203	25,010	23,495	24,526	25,545	26,423	27,381	28,277	29,152	30,053
Per capita GDP (percent change)	-2.4	-8.1	-6.1	4.4	4.2	3.4	3.6	3.3	3.1	3.1
Credit to non-government sectors (percent change)	...	-1.6	-1.7	0.9	...	...	...	...	...	...
Fund position	Sint Maarten is part of the Kingdom of the Netherlands and does not have a separate quota.									
Exchange rate	The Netherlands Antillean 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/ Excludes Trust Fund (TF) grants and TF-financed special projects.
2/ Revenue excl. grants minus interest income, current expenditure and depreciation of fixed assets.
3/ The stock of debt in 2016 is based on financial statements. Values in subsequent years are staff's estimates and are higher than the values under authorites' definition.

Table 5. Sint Maarten: Government Operations, 2016–25
(Millions of NA*f* unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Prel.	Prel.	Prel.			Proj.			
Total revenue	**468**	**408**	**406**	**458**	**586**	**684**	**624**	**652**	**679**	**702**
excl. grants	468	408	375	434	461	490	514	537	559	582
Taxes	380	340	320	371	392	411	432	451	470	490
Taxes on income and profits	184	170	154	168	178	186	196	204	213	222
Taxes on property	13	11	10	13	13	14	15	15	16	17
Taxes on goods and services	181	157	155	190	200	210	221	230	240	250
Other taxes	1	1	2	1	1	1	1	1	1	1
Grants	0	0	32	24	125	194	110	115	120	120
Other revenue	88	68	54	63	68	79	82	86	89	92
Total expenditure	**442**	**473**	**471**	**487**	**561**	**586**	**614**	**657**	**699**	**727**
Current expenditure	431	470	454	458	475	491	508	526	545	564
Compensation of employees	224	218	202	206	214	219	226	234	242	251
Of which : Wages	169	160	139	140	144	148	152	157	162	167
Goods and services	88	120	104	101	104	106	110	115	120	125
Social benefits 1/	22	34	32	34	36	38	40	41	43	45
Subsidies	85	85	104	104	107	111	114	118	122	125
Interest	13	13	13	13	15	17	17	17	17	17
Capital expenditure	11	3	2	5	60	55	49	51	51	50
Special projects	...	...	16	24	26	40	57	80	104	113
Fiscal buffer	...	...	...	...	0	0	0	0	0	0
Primary balance	**39**	**-52**	**-52**	**-16**	**39**	**109**	**21**	**5**	**-10**	**-14**
Primary balance excl. Trust Fund operations	**39**	**-52**	**-68**	**-15**	**-60**	**-45**	**-32**	**-30**	**-26**	**-21**
Overall balance	**26**	**-65**	**-65**	**-29**	**24**	**98**	**10**	**-6**	**-20**	**-25**
Financing transactions (+: increasing net assets)	**26**	**-65**	**-65**	**-30**	**24**	**98**	**10**	**-6**	**-20**	**-25**
Net acquisition of financial assets	122	-84	21	-32	99	200	58	40	21	1
Domestic	122	-84	21	-32	99	200	58	40	21	1
External	0	0	0	0	0	0	0	0	0	0
Net incurrance of liabilities	96	-19	86	-2	74	101	48	46	42	25
Domestic	0	0	0	-50	0	0	0	0	0	-6
External	96	-19	86	48	74	101	48	46	42	31
Gross borrowing	0	65	86	56	134	112	59	57	47	112
Amortization	-96	84	0	8	60	11	11	11	6	81
Memorandum Items:										
Fiscal rules and sustainability indicators										
Current balance (Authorities' definition) 2/	20	-72	-90	-35	-26	-19	-13	-10	-6	0
Current balance excl. grants	37	-62	-80	-24	-15	-8	-1	3	8	11
Interest rule (interest/revenue) (percent) 3/	2.9	2.9	2.9	3.1	3.4	3.6	3.0	2.7	2.6	2.7
Gross central government debt 4/	854	835	930	927	1,002	1,103	1,151	1,197	1,238	1,263
Government deposits (eop), incl. fiscal buffer 5/	141	126	115	64	111	171	224	259	275	282
Net central government debt	714	709	814	864	891	932	926	937	963	981
Debt service/revenue (percent)	8.5	3.3	4.3	5.2	16.8	17.9	5.5	3.7	2.8	13.0
Reconstruction financing (millions of euros)										
Reconstruction Fund, end-year balance	...	481	472	459	395	297	242	185	126	69
Use of Reconstruction Fund	...	67	15	12	62	95	53	56	58	58
Nominal GDP, millions of NAf	1919	1815	1708	1806	1905	1995	2092	2185	2278	2373

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

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

2/ Revenue excl. grants minus interest income, current expenditure and depreciation of fixed assets.

3/ The denominator is the average of total revenue in the previous three years.

4/ The stock in 2016 is based on financial statements. Values in subsequent years are staff's estimates and are higher than ones under authorites' definition.

5/ From the CBCS monetary survey.

Table 6. Sint Maarten: Government Operations, 2016–25

(Percent of GDP unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Prel.	Prel.	Prel.			Proj.			
Total revenue	**24.4**	**22.5**	**23.8**	**25.3**	**30.8**	**34.3**	**29.8**	**29.8**	**29.8**	**29.6**
excl. grants	24.4	22.5	21.9	24.0	24.2	24.6	24.6	24.6	24.5	24.5
Taxes	19.8	18.7	18.7	20.5	20.6	20.6	20.6	20.6	20.6	20.6
Taxes on income and profits	9.6	9.4	9.0	9.3	9.3	9.3	9.4	9.4	9.4	9.4
Taxes on property	0.7	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Taxes on goods and services	9.5	8.7	9.1	10.5	10.5	10.5	10.5	10.5	10.5	10.5
Other taxes	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.0	0.0	1.9	1.3	6.6	9.7	5.3	5.3	5.3	5.1
Other revenue	4.6	3.8	3.2	3.5	3.6	3.9	3.9	3.9	3.9	3.9
Total expenditure	**23.0**	**26.1**	**27.6**	**27.0**	**29.5**	**29.4**	**29.3**	**30.1**	**30.7**	**30.6**
Current expenditure	22.5	25.9	26.6	25.3	25.0	24.6	24.3	24.1	23.9	23.8
Compensation of employees	11.7	12.0	11.8	11.4	11.2	11.0	10.8	10.7	10.6	10.6
Of which : Wages	8.8	8.8	8.1	7.8	7.6	7.4	7.3	7.2	7.1	7.0
Goods and services	4.6	6.6	6.1	5.6	5.4	5.3	5.3	5.3	5.3	5.3
Social benefits 1/	1.1	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Subsidies	4.4	4.7	6.1	5.7	5.6	5.6	5.5	5.4	5.3	5.3
Interest	0.7	0.7	0.8	0.7	0.8	0.9	0.8	0.8	0.8	0.7
Capital expenditure	0.6	0.2	0.1	0.3	3.1	2.8	2.3	2.3	2.2	2.1
Special projects	…	…	0.9	1.3	1.4	2.0	2.7	3.7	4.6	4.8
Fiscal buffer	…	…	…	…	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance	**2.0**	**-2.9**	**-3.1**	**-0.9**	**2.0**	**5.5**	**1.0**	**0.2**	**-0.4**	**-0.6**
Primary balance excl. Trust Fund operations	**2.0**	**-2.9**	**-4.0**	**-0.8**	**-3.1**	**-2.3**	**-1.5**	**-1.4**	**-1.1**	**-0.9**
Overall balance	**1.4**	**-3.6**	**-3.8**	**-1.6**	**1.3**	**4.9**	**0.5**	**-0.3**	**-0.9**	**-1.0**
Financing transactions (+: increasing net assets)	**1.4**	**-3.6**	**-3.8**	**-1.6**	**1.3**	**4.9**	**0.5**	**-0.3**	**-0.9**	**-1.0**
Net acquisition of financial assets	6.4	-4.6	1.3	-1.8	5.2	10.0	2.8	1.8	0.9	0.0
Domestic	6.4	-4.6	1.3	-1.8	5.2	10.0	2.8	1.8	0.9	0.0
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrance of liabilities	5.0	-1.0	5.1	-0.1	3.9	5.1	2.3	2.1	1.8	1.1
Domestic	0.0	0.0	0.0	-2.8	0.0	0.0	0.0	0.0	0.0	-0.3
External	5.0	-1.0	5.1	2.7	3.9	5.1	2.3	2.1	1.8	1.3
Gross borrowing	0.0	3.6	5.1	3.1	7.0	5.6	2.8	2.6	2.1	4.7
Amortization	-5.0	4.6	0.0	0.4	3.1	0.5	0.5	0.5	0.2	3.4
Memorandum Items:										
Fiscal rules and sustainability indicators										
Current balance (Authorities' definition) 2/	1.0	-4.0	-5.3	-1.9	-1.4	-1.0	-0.6	-0.4	-0.3	0.0
Current balance excl. grants	1.9	-3.4	-4.7	-1.3	-0.8	-0.4	0.0	0.2	0.3	0.5
Interest rule (interest/revenue) (percent) 3/	2.9	2.9	2.9	3.1	3.4	3.6	3.0	2.7	2.6	2.7
Gross central government debt (percent of GDP) 4/	44.5	46.0	54.4	51.3	52.6	55.3	55.0	54.8	54.4	53.2
Government deposits (eop), incl. fiscal buffer 5/	7.3	7.0	6.8	3.5	5.8	8.6	10.7	11.9	12.1	11.9
Net central government debt (percent of GDP)	37.2	39.1	47.7	47.8	46.7	46.7	44.3	42.9	42.3	41.3
Debt service/revenue (percent)	8.5	3.3	4.3	5.2	16.8	17.9	5.5	3.7	2.8	13.0
Reconstruction financing (millions of euros)										
Reconstruction Fund, end-year balance	…	480.7	471.6	459.4	394.5	297.1	242.0	185.0	126.3	69.0
Use of Reconstruction Fund	…	67.4	15.1	11.8	61.7	94.9	53.4	55.5	57.5	57.5

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

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

2/ Revenue excl. grants minus interest income, current expenditure and depreciation of fixed assets.

3/ The denominator is the average of total revenue in the previous three years.

4/ The stock in 2016 is based on financial statements. Values in subsequent years are staff's estimates and are higher than ones under authorites' definition.

5/ From the CBCS monetary survey.

Table 7. Curaçao and Sint Maarten: Balance of Payments, 2016–25
(Millions of U.S. dollars unless otherwise indicated)

	2016	2017	2018 Prel.	2019 Est.	2020	2021	2022 Proj.	2023	2024	2025
					(millions of U.S. dollars)					
Current account	**-604**	**-626**	**-822**	**-905**	**-925**	**-839**	**-845**	**-654**	**-589**	**-547**
Goods and services	-475	-731	-1,317	-898	-883	-837	-798	-622	-551	-508
Exports of goods and services	2,973	2,747	2,746	2,867	3,008	3,272	3,475	3,705	3,893	4,043
Goods	494	548	676	631	617	628	646	666	687	707
Services	2,478	2,198	2,070	2,236	2,391	2,644	2,829	3,039	3,206	3,336
Imports of goods and services	3,448	3,478	4,064	3,764	3,891	4,109	4,273	4,327	4,444	4,551
Goods	2,282	2,230	2,637	2,458	2,511	2,670	2,778	2,769	2,829	2,885
Services	1,166	1,247	1,427	1,306	1,380	1,438	1,495	1,558	1,615	1,665
Income	-16.8	0.4	9.4	10.3	2.8	4.4	7.1	10.8	12.7	16.1
Of which: Investment income	-75.4	-22.7	-25.8	-54.5	-55.4	-67.6	-79.3	-91.1	-98.9	-105.3
Current transfers	-111.9	104.7	486.0	-17.9	-45.1	-6.3	-53.8	-42.9	-50.8	-55.4
Capital and financial account	**662**	**561**	**578**	**865**	**689**	**916**	**905**	**738**	**653**	**619**
Capital account	1	0	21	19	19	19	19	19	19	19
Financial account	661	561	557	846	670	896	885	719	634	599
Direct investment	135	351	-104	145	191	289	326	262	239	216
Portfolio investment	208	181	190	133	142	167	174	139	110	103
Other investment	318	29	471	568	337	441	384	318	284	280
Net errors and omissions	**46**	**55**	**91**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**105**	**-10**	**-153**	**-40**	**-236**	**77**	**60**	**84**	**64**	**71**
Reserve assets	**-105**	**10**	**153**	**40**	**236**	**-77**	**-60**	**-84**	**-64**	**-71**
					(percent of GDP)					
Current account	**-14.4**	**-15.2**	**-20.1**	**-21.8**	**-21.4**	**-18.5**	**-17.9**	**-13.4**	**-11.6**	**-10.5**
Goods and services	-11.3	-17.7	-32.3	-21.6	-20.4	-18.5	-17.0	-12.7	-10.9	-9.7
Income	-1.8	-0.6	-0.6	-1.3	-1.3	-1.5	-1.7	-1.9	-2.0	-2.0
Current transfers	-2.7	2.5	11.9	-0.4	-1.0	-0.1	-1.1	-0.9	-1.0	-1.1
Capital and financial account	**15.8**	**13.6**	**14.2**	**20.8**	**15.9**	**20.2**	**19.2**	**15.1**	**12.9**	**11.8**
Direct investment	3.2	8.5	-2.6	3.5	4.4	6.4	6.9	5.4	4.7	4.1
Portfolio investment	5.0	4.4	4.7	3.2	3.3	3.7	3.7	2.8	2.2	2.0
Other investment	7.6	0.7	11.5	13.7	7.8	9.7	8.2	6.5	5.6	5.4
Net errors and omissions	**1.1**	**1.3**	**2.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**2.5**	**-0.2**	**-3.8**	**-1.0**	**-5.5**	**1.7**	**1.3**	**1.7**	**1.3**	**1.4**
Memorandum items:										
Gross official reserves, excl. gold	1,485	1,475	1,322	1,282	1,046	1,124	1,183	1,267	1,331	1,402
in months of imports	5.1	4.4	4.2	4.0	3.1	3.2	3.3	3.4	3.5	3.6
over short-term debt	1.3	1.4	1.3	1.1	0.9	0.9	0.9	0.9	0.9	1.0
Gross external debt, percent of GDP	153.7	166.1	173.9	180.7	182.6	185.0	187.5	187.0	185.6	183.9
Of which: short-term debt	27.8	24.8	25.8	26.9	27.3	27.7	28.2	28.2	28.1	27.8

Sources: Centrale Bank van Curaçao en Sint Maarten, and IMF staff estimates.

Table 7a. Curaçao: Balance of Payments, 2016–25

(Millions of U.S. dollars unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Prel.	Est.			Proj.			
					(millions of U.S. dollars)					
Current account	**-585**	**-681**	**-898**	**-655**	**-669**	**-649**	**-733**	**-601**	**-565**	**-555**
Goods and services	-526	-677	-905	-669	-650	-629	-710	-576	-540	-532
Exports of goods and services	1,784	1,766	1,921	1,820	1,909	2,097	2,165	2,333	2,456	2,533
Goods	362	425	528	472	452	455	464	476	489	500
Services	1,422	1,341	1,393	1,348	1,457	1,642	1,702	1,856	1,966	2,032
Imports of goods and services	2,310	2,443	2,826	2,489	2,559	2,726	2,875	2,909	2,996	3,064
Goods	1,426	1,469	1,736	1,539	1,544	1,664	1,770	1,757	1,804	1,840
Services	884	974	1,091	950	1,015	1,062	1,105	1,152	1,191	1,224
Income	-16	27	35	37	13	13	13	12	13	16
Of which: Investment income	-68	-23	-27	-48	-61	-70	-79	-90	-98	-105
Current transfers	-43	-31	-28	-23	-32	-34	-36	-37	-38	-39
Capital and financial account	**622**	**645**	**770**	**626**	**641**	**802**	**826**	**665**	**586**	**563**
Capital account	1	0	4	3	3	3	3	3	3	3
Financial account	622	645	766	623	638	799	823	663	583	560
Direct investment	95	321	97	94	138	222	256	188	163	137
Portfolio investment	207	179	157	83	142	168	177	144	117	112
Financial derivatives	0	0	0	0	0	0	0	0	0	0
Other investment	320	145	512	446	359	409	389	330	303	312
Net errors and omissions	**40**	**29**	**14**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**78**	**-7**	**-113**	**-29**	**-28**	**152**	**93**	**64**	**21**	**9**
Reserve assets	**-78**	**7**	**113**	**29**	**28**	**-152**	**-93**	**-64**	**-21**	**-9**
					(percent of GDP)					
Current account	**-18.7**	**-21.9**	**-28.7**	**-20.8**	**-20.5**	**-19.1**	**-20.7**	**-16.4**	**-14.9**	**-14.2**
Goods and services	-16.8	-21.7	-28.9	-21.3	-19.9	-18.5	-20.1	-15.7	-14.2	-13.6
Exports of goods	11.6	13.6	16.9	15.0	13.8	13.4	13.1	13.0	12.9	12.8
Imports of goods	45.7	47.1	55.5	48.9	47.3	48.8	50.0	47.9	47.6	47.2
Exports of services	45.5	43.0	44.5	42.8	44.7	48.2	48.1	50.6	51.9	52.1
Imports of services	28.3	31.3	34.9	30.2	31.1	31.2	31.2	31.4	31.4	31.4
Income	-0.5	0.9	1.1	1.2	0.4	0.4	0.4	0.3	0.4	0.4
Current transfers	-1.4	-1.0	-0.9	-0.7	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Capital and financial account	**19.9**	**20.7**	**24.6**	**19.9**	**19.7**	**23.5**	**23.3**	**18.1**	**15.5**	**14.4**
Of which										
Direct investment	3.1	10.3	3.1	3.0	4.2	6.5	7.2	5.1	4.3	3.5
Portfolio investment	6.6	5.8	5.0	2.6	4.3	4.9	5.0	3.9	3.1	2.9
Other investment	10.2	4.6	16.4	14.2	11.0	12.0	11.0	9.0	8.0	8.0
Net errors and omissions	**1.3**	**0.9**	**0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**2.5**	**-0.2**	**-3.6**	**-0.9**	**-0.9**	**4.5**	**2.6**	**1.7**	**0.6**	**0.2**

Sources: Centrale Bank van Curaçao en Sint Maarten, and IMF staff estimates.

Table 7b. Sint Maarten: Balance of Payments, 2016–25
(Millions of U.S. dollars unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Prel.	Est.			Proj.			
					(millions of U.S. dollars)					
Current account	**-27**	**47**	**64**	**-250**	**-256**	**-189**	**-112**	**-53**	**-24**	**7**
Goods and services	33	-65	-424	-228	-233	-208	-88	-46	-11	24
Exports of goods and services	1,164	962	810	1,047	1,099	1,175	1,309	1,372	1,438	1,510
Goods	132	123	148	159	166	173	182	190	198	206
Services	1,032	839	661	888	934	1,001	1,128	1,182	1,240	1,304
Imports of goods and services	1,131	1,027	1,233	1,275	1,332	1,382	1,398	1,418	1,449	1,486
Goods	855	761	901	919	967	1,006	1,008	1,012	1,025	1,045
Services	275	266	332	356	365	377	389	407	424	442
Income	-0.3	-26.2	-26.0	-26.5	-10.2	-8.8	-5.8	-0.9	-0.7	-0.2
o/w Investment income	-7.7	0.6	1.3	-6.4	5.7	2.4	0.0	-0.9	-0.7	-0.2
Current transfers	-59	138	513	5	-13	27	-18	-6	-13	-16
Capital and financial account	**47**	**-76**	**-185**	**239**	**48**	**114**	**79**	**73**	**67**	**55**
Capital account	0	0	17	17	17	17	17	17	17	17
Financial account	47	-76	-201	223	32	97	62	56	50	39
Direct investment	39	30	-201	50	53	67	70	73	76	80
Portfolio investment	1	1	33	50	0	-1	-3	-5	-7	-9
Financial derivatives	0	0	0	0	0	0	0	0	0	0
Other investment	6	-107	-33	122	-22	32	-5	-12	-19	-32
Net errors and omissions	**6**	**26**	**81**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**27**	**-3**	**-40**	**-10**	**-208**	**-75**	**-33**	**20**	**43**	**63**
Reserve assets	**-27**	**3**	**40**	**10**	**208**	**75**	**33**	**-20**	**-43**	**-63**
					(percent of GDP)					
Current account	**-2.5**	**4.6**	**6.7**	**-24.8**	**-24.0**	**-17.0**	**-9.6**	**-4.4**	**-1.9**	**0.6**
Goods and services	3.1	-6.4	-44.4	-22.6	-21.9	-18.6	-7.6	-3.8	-0.9	1.8
Exports of goods	12.3	12.1	15.6	15.7	15.6	15.6	15.6	15.6	15.6	15.6
Imports of goods	79.8	75.1	94.4	91.1	90.9	90.2	86.3	82.9	80.5	78.8
Exports of services	96.3	82.8	69.3	88.0	87.7	89.8	96.5	96.9	97.4	98.3
Imports of services	25.7	26.2	34.8	35.3	34.3	33.8	33.3	33.3	33.3	33.3
Income	0.0	-2.6	-2.7	-2.6	-1.0	-0.8	-0.5	-0.1	-0.1	0.0
Current transfers	-5.5	13.6	53.8	0.5	-1.2	2.5	-1.5	-0.5	-1.0	-1.2
Capital and financial account	**4.4**	**-7.5**	**-19.3**	**23.7**	**4.5**	**10.2**	**6.8**	**6.0**	**5.3**	**4.2**
of which										
Direct investment	3.7	3.0	-21.1	5.0	5.0	6.0	6.0	6.0	6.0	6.0
Portfolio investment	0.1	0.1	3.4	5.0	0.0	-0.1	-0.3	-0.4	-0.6	-0.7
Other investment	0.6	-10.6	-3.4	12.1	-2.0	2.8	-0.4	-1.0	-1.5	-2.4
Net errors and omissions	**0.6**	**2.6**	**8.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**2.5**	**-0.3**	**-4.2**	**-1.0**	**-19.5**	**-6.7**	**-2.8**	**1.6**	**3.4**	**4.7**

Sources: Centrale Bank van Curaçao en Sint Maarten, and IMF staff estimates.

Table 8. Curaçao and Sint Maarten: Monetary Survey, 2016–19

(Millions of the Netherlands Antillean guilders unless otherwise indicated)

	2016	2017	2018	2019 Prel.
	(millions of NAf, end of period)			
Net foreign assets	4631	5254	5011	5253
Claims on nonresidents	7372	7843	7588	7790
Central bank	3541	3621	3331	3442
Other depository corporations	3831	4222	4258	4348
Liabilities to nonresidents	-2741	-2589	-2577	-2536
Central bank	-506	-260	-346	-303
Other depository corporations	-2235	-2329	-2231	-2233
Net domestic assets	3500	3435	3674	3418
Net domestic claims	5853	5989	6283	6366
Net claims on central government	-670	-597	-281	-229
CBCS' claims on non-government sectors 1/	351	342	235	145
Banks' claims on non-government sectors	6172	6245	6328	6449
Claims on public non-financial corporations	93	130	222	209
Claims on non-bank financial institutions	105	104	122	206
Claims on private sector	5975	6010	5984	6035
Other items, net	-2353	-2553	-2609	-2947
Broad money	8130	8689	8685	8672
Currency in circulation	374	388	393	389
Transferable deposits	3300	3926	3916	3911
Other deposits	4457	4375	4377	4372
Securities	0	0	0	0
Other liabilities	0	0	0	0
	(annual percentage change)			
Monetary survey				
Net foreign assets	...	13.4	-4.6	4.8
Net domestic assets	...	-1.8	6.9	-7.0
o/w Banks' claims on non-government sectors	...	1.2	1.3	1.9
Claims on public non-financial corporations (contribution)	...	0.6	1.5	-0.2
Claims on non-bank financial institutions (contribution)	...	0.0	0.3	1.3
Claims on private sector (contribution to growth)	...	0.6	-0.4	0.8
Broad Money	...	6.9	0.0	-0.2
Memorandum items:				
Velocity (GDP/Broad Money)	0.92	0.85	0.84	0.86
Foreign currency deposits to total deposits	23.1	25.5	26.6	26.9
Bank loans to non-government sectors, y/y percent change	...	1.4	1.5	1.9
Curaçao	...	2.4	2.5	2.2
Sint Maarten	...	-1.6	-1.7	0.9

Sources: Centrale Bank van Curaçao en Sint Maarten, and IMF staff estimates.

1/ The bulk of these claims are on public non-financial corporations.

Table 9. Curaçao and Sint Maarten: Central Bank Survey, 2016–19
(Millions of the Netherlands Antillean guilders unless otherwise indicated)

	2016	2017	2018	2019 Prel.
	(millions of NAf, end of period)			
Net foreign assets (NFA)	3035	3361	2985	3139
Foreign assets	3541	3621	3331	3442
Foreign liabilities	-506	-260	-346	-303
Net domestic assets (NDA)	-605	-542	-352	-651
Net domestic claims	110	287	465	368
Net claims on central government	-287	-192	-58	-44
Claims on public nonfinancial corporations	325	315	209	109
Claims on private sector	26	26	26	26
Claims on other depository corporations	45	137	288	267
Claims on other financial corporations	0	0	0	10
Capital and other items, net	-715	-829	-817	-1019
Monetary base (MB)	2430	2819	2633	2488
Currency in circulation	472	504	488	499
Liabilities to other depository corporations	1888	2265	2047	1916
Liabilities to other sectors	70	50	98	72
	(annual percentage change)			
Monetary base	...	16.0	-6.6	-5.5
NFA, contribution to MB growth	...	13.4	-13.3	5.8
NDA, contribution to MB growth	...	2.6	6.7	-11.3

Sources: Centrale Bank van Curaçao en Sint Maarten, and IMF staff estimates.

Table 10. Curaçao and Sint Maarten: Financial Soundness Indicators, 2014–19

(Percent)

	2014	2015	2016	2017	2018	2019	
						Mar	Jun
Capital adequacy							
Capital adequacy ratio 1/	14.6	13.9	11.3	10.0	9.9	10.0	10.3
Core capital adequacy ratio 2/	12.8	13.6	11.4	8.0	8.1	8.3	8.3
Capital to assets	9.2	9.2	8.6	7.4	7.7	8.0	7.8
NPL net of provisions to capital	42.0	46.0	18.8	26.1	15.3	31.4	35.4
Asset quality							
NPLs to gross loans	11.0	11.3	13.4	12.0	8.8	11.0	11.4
Provisions to NPL	39.0	38.0	41.0	41.5	43.4	37.7	36.9
FX-denominated loans to total loans	46.0	45.0	37.9	36.9	46.8	47.4	47.1
FX-denominated liabilities to total liabilities	54.0	53.0	40.4	39.2	54.6	54.4	54.1
Earnings and profitability							
ROA before taxes	1.3	1.0	1.1	0.7	1.2	1.0	0.7
ROE before taxes	14.0	11.2	11.9	8.5	15.0	12.8	9.8
Interest margin to gross income	64.0	66.0	57.7	64.2	66.8	64.2	65.5
Noninterest expenses to gross income	69.5	75.8	73.9	85.5	80.9	83.1	85.1
Personnel expenses to noninterest expenses	58.0	56.0	49.7	50.0	55.3	46.5	46.7
Liquidity							
Liquid assets to total assets	27.0	31.0	29.8	32.6	30.8	30.0	30.2
Liquid assets to short-term liabilities	39.0	41.0	39.5	42.5	39.3	38.5	38.8
Loans to total deposits	71.4	70.9	69.8	67.0	69.5	69.7	70.7
Sensitivity to market risk							
Net interest margin	4.7	4.0	4.4	3.7	3.8	1.0	2.1
Net open position in foreign exchange to capital	51.0	70.0	41.8	48.6	102.3	110.9	93.5
Net foreign assets to total capital	77.0	109.0	115.4	146.3	89.9	169.2	175.2

Source: Centrale Bank van Curaçao en Sint Maarten.

1/ Tier 1 and tier 2 capital to risk-weighted assets.

2/ Tier 1 capital to risk-weighted assets.

Annex I. Implementation of the Recommendations of the 2018 Article IV Consultation Discussions

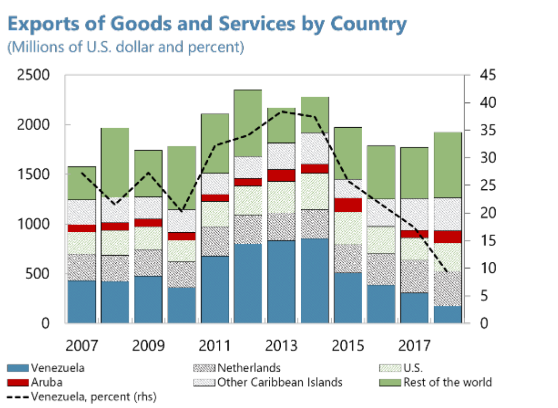
IMF Recommendations	Implementation Status
Growth and Competitiveness	
Labor market: Address mismatches through retraining and improvements in educational and vocational training programs. Regulations should facilitate economic adjustments.	Curaçao: the authorities are offering some retraining within the hospitality sector. Sint Maarten: some training programs financed by the Trust Fund.
Business climate: Simplify and streamline administrative requirements for businesses, including permit processes.	No progress.
Fiscal Policy	
Adopt a medium-term fiscal framework with a long-term debt anchor and operational rule(s) on fiscal aggregates that are under control of the government.	No progress.
Labor compensation: Reduce personnel expenditure.	Curaçao: in progress through an early retirement scheme. Sint Maarten: the wage bill is contained due to significant volume of unfilled vacancies.
Reform the existing social security systems (including health insurance) to ensure their financial viability.	Curaçao: the authorities have implemented some legislative changes to contain health care costs. Sint Maarten: pension reforms have been delayed, health care reform remains in the planning stage.
Introduce a clear framework for SOEs, including a predictable and balanced dividend policy.	Curaçao: Limited progress. Sint Maarten: the authorities have prepared a draft dividend policy.
Improve fiscal transparency, reporting and coverage, including by adopting international standards on government finance statistics.	Curaçao: The authorities worked with a TA mission on fiscal reporting and GFS. Sint Maarten: No progress.
Strengthen revenue collection, including through tax administration, simplifying tax filing and effectively utilizing new IT-systems.	Curaçao: the authorities are planning a tax reform. Sint Maarten: the authorities are preparing to clean up their taxpayer database and upgrading their IT system.
Financial Sector Oversight and Governance	
Continue efforts to comply with the international standards on AML/CFT.	Curaçao: the authorities are finalizing their National Risk Assessment. Sint Maarten: the authorities have passed several pieces of required legislation. Some amendments are still pending.
Strengthen financial sector oversight and addressing regulatory gaps.	The IMF provided technical assistance on implementing the IFRS 9 standard. The CBCS started compiling financial soundness indicators. Limited progress in other areas.
Address governance issues.	The Executive Board of the CBCS is not complete: a President of the CBCS was appointed in June 2019 on an *ad interim* basis but resigned in December 2019. The progress to establish integrity bodies in both countries has been slow.

IMF Recommendations	Implementation Status
Capacity Development	
Strengthening institutions with a medium-term and macro-fiscal focus (including through building capacity for macro-fiscal analysis).	Curaçao: No progress.
	Sint Maarten: in progress. The IMF is providing assistance to the authorities on macro-fiscal framework.
Address data gaps and strengthen statistics by allocating additional resources.	Curaçao: No progress. Sint Maarten: has become a member of CARTAC.

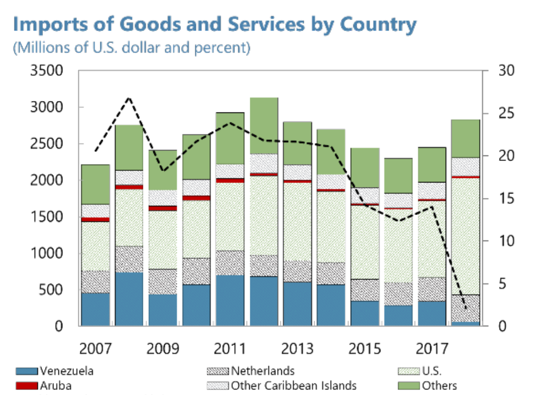
Annex II. Spillovers from the Venezuela Crisis

Historically, Venezuela has been one of Curaçao's main trading partners, but its relative trade importance—and other linkages—have declined significantly since 2014 as the Venezuelan crisis escalated. In 2019, PDVSAs contract to operate the refinery expired, severing one of the strongest links, and tourism from Venezuela dropped to a very low level. The influx of undocumented Venezuelan immigration is however continuing to generate pressures on public finances.

1. **Historically, Venezuela was one of Curaçao's main trading partners.** In 2014, before the Venezuelan crisis escalated, Venezuela was Curaçao's largest export destination and the second largest import source, with the share of exports/(imports) of goods and services to/(from) Venezuela reaching 37 and 21 percent, respectively. Since 2014, the share of exports and imports has however declined by almost 30 and 20 percentage points respectively. Re-exports of goods (mainly clothes) via Curaçao's Free Zone used to constitute a large share of total exports to Venezuela but in recent years, the majority of exports has been "other services", which is mainly foreign exchange earnings generated through the refining fee from the Isla refinery (Figure A2.1).[1] Additionally, the 2019 bankruptcy of the local airline (Insel Air), which had several flights between Venezuela and Curaçao, has reduced Curaçao's foreign exchange earnings from transportation services. In 2018, the closure of the border with Venezuela also constricted imports of fruit and vegetables, pushing up inflation due to price differentials with other countries and higher transportation costs. Moreover, Venezuelans used to play an important role in Curaçao's tourism sector. The proximity and close relationship between the two countries have also resulted in immigration flows.



Sources: CBCS and IMF staff estmates.



Sources: CBCS and IMF staff estmates.

2. **Venezuela also played a key role in Curaçao's refining industry and oil transshipment and storage activities.** Venezuela's state-owned oil and natural gas company (PDVSA) was the operator of the Isla refinery between 1985 and 2019 and was also leasing the Bullenbay oil terminal

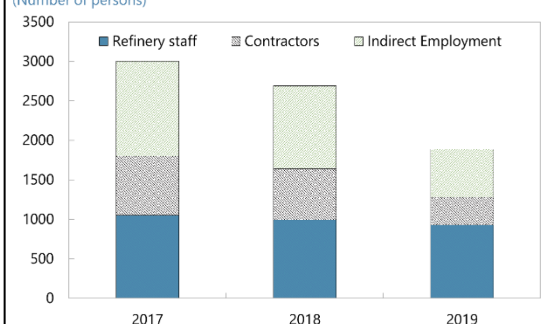
[1] In the balance of payments statistics, the activity at the refinery is recorded via two entries (i) the refinery fee as an export of manufacturing service and (ii) the sale of petroleum products by the refinery to local customers as an import for domestic consumption.

to supply oil to the refinery and for transshipment of Venezuelan oil, contributing to transportation and storage services. In 2014, the refinery's direct share of GDP is estimated to have been around 5–7[2] percent of GDP, while the total share of GDP (direct and indirect including transshipment, storage, and other supporting activities such as ship repairs) is estimated to have been around 7–11[3] percent. At the same time, the refinery employed around 1850 persons (2.6 percent of labor force) of which about 1100 were staff and 750 were contractors. Estimates of the total refinery-related employment in 2014 range 3–4 thousand (4–6 percent of the labor force).[4] In end-2019, the contract with PDVSA expired. The authorities signed a binding Asset Purchase and Sale agreement (APSA) with the Klesch Group selling its oil facilities (the refinery, the utilities plant and the Bullen Bay transshipment terminal) in late December 2019. The takeover is envisaged in the second quarter of 2020.

A. Isla Refinery

3. The deteriorating situation at the refinery over the years has lowered growth. Refining has declined significantly since 2015–16. In 2018, a legal dispute that allowed U.S. producer ConocoPhillips to seize PDVSA assets effectively forcing a production shutdown. The refinery was operational only during H1 2018 causing a large drop in both the volume of refined oil and the refinery fee, weighing heavily on GDP growth (charts below).[5] Furthermore, in 2019, the U.S. imposed several rounds of sanctions against Venezuela, further hampering the refinery's operations. This led to layoffs of hundreds of contractors and reducing indirect employment in 2018–19, while the majority of the refinery's staff were kept.[6] Moreover, the dire situation has led to a buildup of a large maintenance and investment backlog estimated at $0.3–$0.5 billion. Since the Isla refinery used to supply most of the island's fuel needs, the switch to more expensive fuel suppliers in 2018 pushed up inflation in both 2018 and 2019 and contributed to the external current account deficit.

Isla-related employment
(Number of persons)



Source: Refineria de Korsou.

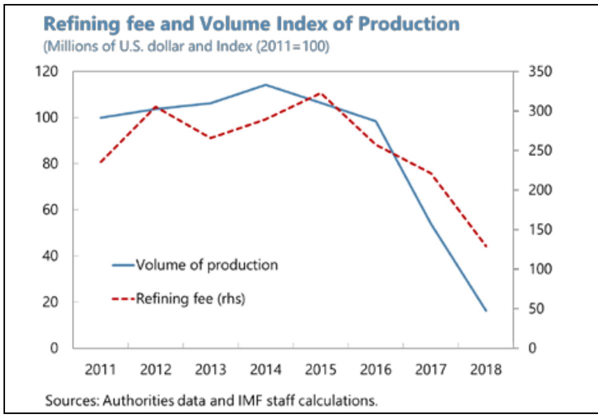
[2] Based on IMF estimates on data of value added by industry and previous assessments of the size of the refinery, see "Strategies for sustainable Long-Term Economic Development in Curaçao", Ministry of General Affairs, 2013.

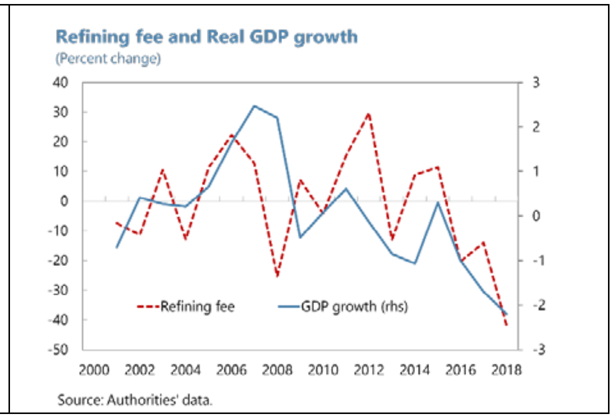
[3] Based on refinery-related employment and an assumption of slightly lower productivity (2/3) in the supporting sectors than at the refinery itself.

[4] See "Future of Isla Refinery", Multi Disciplinary Project Team, 2014.

[5] The refinery fee broadly reflects the operational costs of the refinery (including the salaries) and is used by the Curaçao Central Bureau of Statistics in the GDP estimations as a proxy of added value.

[6] Indirect employment includes employment in areas such as mechanical maintenance, electric and instrumentation engineering, audit and oil inspectors from third parties, chemical/parts services companies delivering to the refinery, Curaçao Port Authorities and shipping industry, and a number of other supporting services.

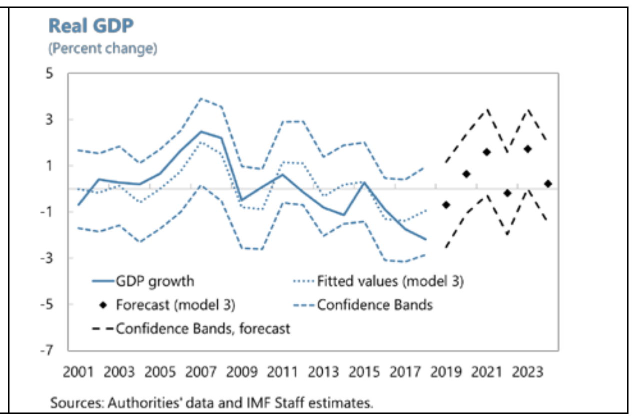




4. The takeover of the refinery by Klesch Group improves the outlook. The Klesch Group will not rely on Venezuelan oil and hence will not be affected by the U.S. sanctions. A model, based on data for GDP, the refinery fee (used as a proxy for the value added) and stay-over tourism for 2000–18, suggests that the takeover of the refinery would lead to resumption of growth (although the confidence bands indicate great uncertainty).[7] Based on discussions with the authorities, staff's projections assume that the Klesch Group will keep most employees and that production gradually will reach the historical levels of 2014-15 in the medium term. Additionally, the Asset Purchase and Sale agreement requires the new operator to address the maintenance backlog and undertake upgrades to comply with international environmental standards, implying substantial investments.

GDP models	(1)	(2)	(3)
Refinery fee	0.028***		0.030**
	(0.015)		(0.011)
Tourism		0.068*	0.070*
		(0.020)	(0.017)
Adjt. R^2	0.12	0.39	0.57

Note: * denotes significant at 1 percent level, ** denotes significant at 5 percent level and *** denotes significant at 10 percent level. Standard errors in parentheses.



B. Tourism

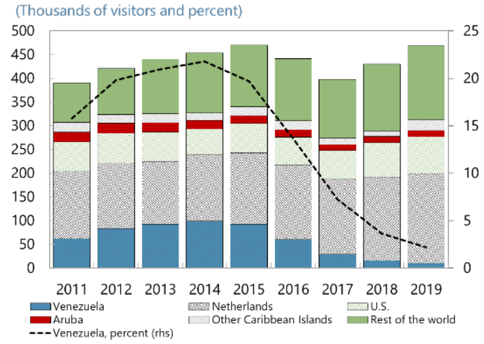
5. Stay-over tourism from Venezuela has fallen sharply since 2014-15, causing a large contraction in total stay-over tourism in 2016-17.[8] Historically, Venezuela was the second largest tourist source after The Netherlands. By 2019, the Venezuelan tourism share had declined to about 2

[7] Assuming a 35 percent decline in the refinery fee in 2019 (based on H1 data) and then that it, over 2020H2–2025, gradually recovers to 2014-15 levels (in 2022, a larger shutdown to perform maintenance is however foreseen which would affect production in that year). Tourism is expected to increase by 9 and 7 percent in 2019 and 2020 respectively and then gradually reach medium-term growth of about 1.5 percent.

[8] Some Venezuelan tourism in recent years were motivated by Venezuelan foreign exchange restrictions that induced travel for the purpose of foreign exchange transactions. This tourism generated less revenue than regular tourism.

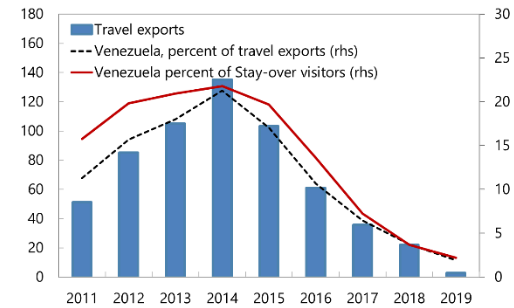
percent of total tourist arrivals, driven by the border closures and the bankruptcy of the local airline. The drop in Venezuelan tourism has, however, been replaced by tourism from other destinations, particularly from the U.S. and The Netherlands. In 2019 the total number of stay-over tourists in Curaçao is estimated to have rebounded to its 2015 level.

Stay-over Visitors 1/
(Thousands of visitors and percent)



Sources: CBCS and IMF staff calculations.
1/ 2019 forecast is based on data up until August 2019.

Venezuela, Travel exports and Tourism 1/
(Millions of U.S. dollar and percent)



Sources: CBCS and IMF staff calculations.
1/ 2019 forecast is based on available data for 2019.

C. Undocumented Immigration

6. The number of undocumented Venezuelan immigrants in Curaçao has increased, although estimates vary widely. Estimates based on Venezuelan legal entries at the Curaçao airport who subsequently have overstayed their visas ranges 4–6 thousand (3–4 percent of Curaçao's population). However, Venezuelans are also arriving by boat, which has become the only option for reaching Curaçao due to border closures.[9] Refugees International estimates the total number of undocumented Venezuelan immigrants to 10–13 thousand (6–8 percent of Curaçao's population).[10] The Response for Venezuelans Regional Interagency Coordination Platform (R4V) estimates a total of 16 thousand Venezuelans living in Curaçao (10 percent of Curaçao's population).[11]

7. The inflow of undocumented immigrants is exerting pressures on public finances. Curaçao has not signed the 1951 Refugee convention, and in general, discovered undocumented immigrants are detained and deported when possible.[12] Since undocumented Venezuelans cannot obtain legal work or residence permits, they are working in the informal sector. In many cases, they are being paid less than the domestic labor force, generating downward wage pressure and

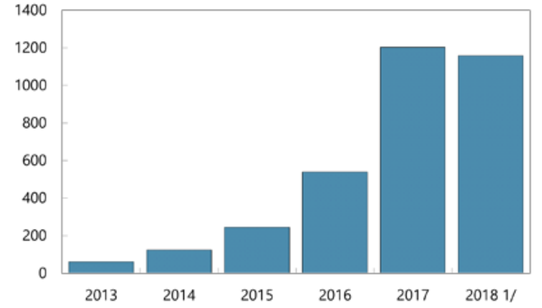
[9] In 2018, around 20–25 boats were intercepted by the coastguard but there are no estimates on the number of boats reaching the shore.

[10] See, Leghtas, I. and Thea, J., "Hidden and Afraid", Refugees International, April 2019.

[11] See, "Latin America and the Caribbean - Venezuelan Refugees & Migrants in the region", R4V, October 2019.

[12] According to R4V, by end October 2019, only 709 asylum claims had been recorded in Curaçao.

diminishing tax revenues and social security contributions. The surge in people trying to reach Curaçao has increased the costs for the judiciary system (detention, deportation, coastguard etc.), and is creating costs for education and healthcare. Schooling is provided for all children regardless of the parent's status. Medical treatments are also reportedly provided to undocumented immigrants for free in certain cases, despite that they are not entitled to the health care system in Curaçao.[13]



Source: Law Enforcement Council.
1/ Based on data for the first 4 months of 2018.

8. The costs could increase substantially if the inflows continue. Migration flows from Venezuela are likely to continue and the fiscal costs in Curaçao could increase substantially if a large share of them were to go to Curaçao. On the other hand, although the protracted recession limits employment opportunities, if the undocumented Venezuelans could seek employment in the formal sector (e.g. through an amnesty or temporary permits etc.), it could reduce the net fiscal cost as income taxes and social security contributions would increase and detention and deportation costs would decrease. A larger labor supply could also help the old-age dependency ratio and counter some of the adverse fiscal effects of an aging population.

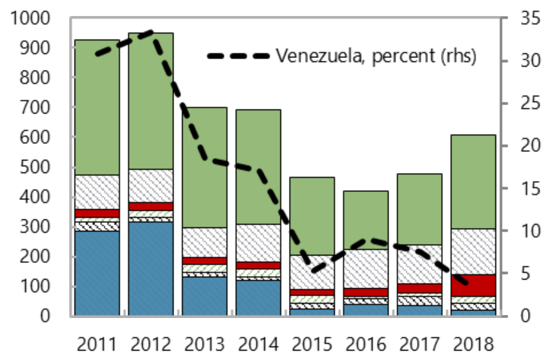
[13] Based on a request from Curaçao and Aruba, the Dutch government has announced that it will provide around $27 million in financial assistance during 2019 to manage the impact of the Venezuela crisis. Financial assistance has also previously been provided to Curaçao for improving the detention facilities for foreigners.

Figure A2.1. Curaçao trade linkages: Exports and Imports by Country

(Millions of U.S. dollar and percent)

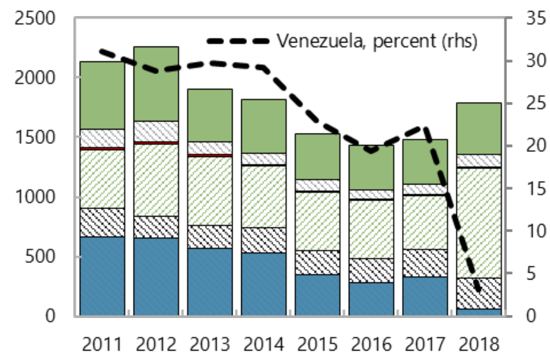
Exports of goods to Venezuela, mainly from the Freezone, have dropped to near zero.

Exports of Goods



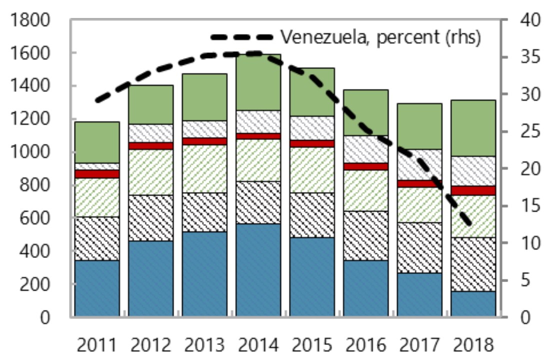
Imports of goods (mainly oil products and fruit and vegetables) from Venzuela fell sharply in 2018.

Imports of Goods



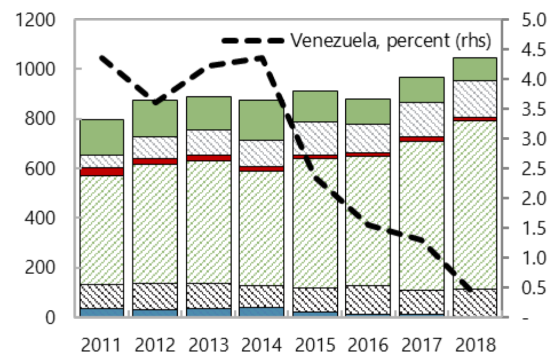
Exports of services to Venezuela have steadily diminished as tourism and refining have declined.

Exports of Services



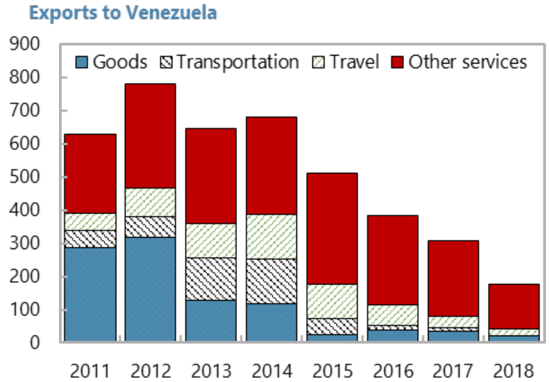
Imports of services from Venezuela have also declined, albeit from a lower level.

Imports of Services



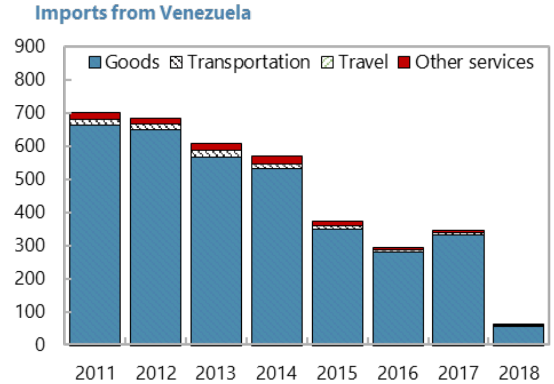
In recent years, as activity in the Freezone and tourism have declined, the remaining exports to Venezuela have constituted "other services", i.e. the refinery fee.

Exports to Venezuela



Imports from Venezuela constitute mostly oil products produced by the refinery. but also produce.

Imports from Venezuela



Sources: CBCS and IMF staff calculations.

Annex III. External Sector Assessment

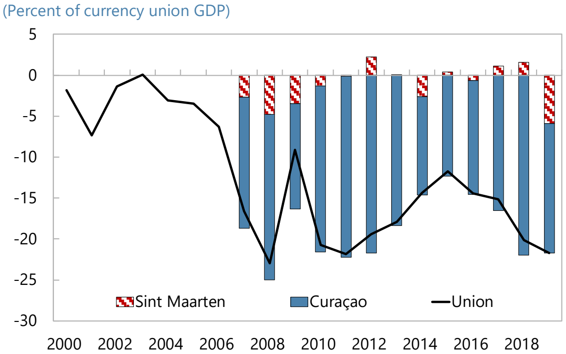
The assessment is performed using a basic indicator approach as data constraints and inconsistencies preclude model-based analysis. The external positions in both Curaçao and Sint Maarten are assessed to be weaker than warranted by fundamentals and desired policy settings, on account of a large current account deficit in Curaçao and significant negative net international investment position in Sint Maarten. Structural reforms and fiscal adjustment are important for strengthening the external position of the Union and improving its functioning.

1. **The current account deficit (CAD) of the Union widened from 12 percent of GDP in 2015 to an estimated 21.8 percent of GDP in 2019.** This was driven by a significant expansion of the CAD in Curaçao (Figure A3.1), which largely reflected spillovers from the Venezuela crisis: exports of goods and services to Venezuela since 2014 have dropped by 16 percent of GDP. In Sint Maarten, the loss of tourism receipts due to 2017 hurricanes was compensated by significant current transfers reflecting the insurance payouts, resulting in current account surpluses in 2017–18.

2. **Despite persistent CADs, the Union remains a net creditor, posing questions about stock/flow consistency in the data.** The reported net international investment position (NIIP) of the Union has been stable at around 140 percent of GDP on average during 2011–17. In 2017, Curaçao was a net creditor with a positive NIIP of 240 percent of GDP and Sint Maarten was a net debtor with a negative NIIP of -150 percent of GDP (Figure A3.1). External assets in Curaçao amounted to $12.7 billion (407 percent of GDP), with about $8.8 billion (290 percent of GDP) in portfolio investments held by non-bank financial institutions (e.g. insurance companies and pension funds). The reported NIIPs pose questions about stock-flow consistency as persistent CADs in Curaçao (averaging 22 percent annually during 2011–17) are inconsistent with its stable positive NIIP during the same period, and the worsening of the NIIP in Sint Maarten by 70 percent of GDP in 2012–16 is not consistent with and average CAD close to zero during the same period.

The Union: Current Account Balance

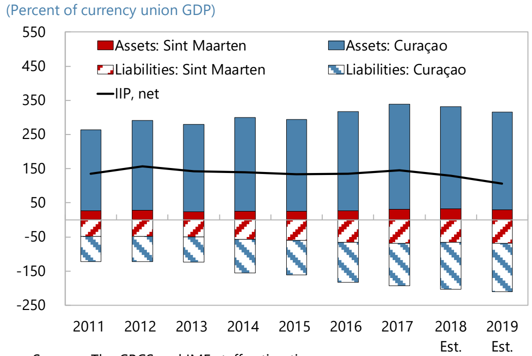
(Percent of currency union GDP)



Note: Country-level data are available only from 2007.
Sources: The CBCS and IMF staff esitmations.

The Union: International Investment Position

(Percent of currency union GDP)

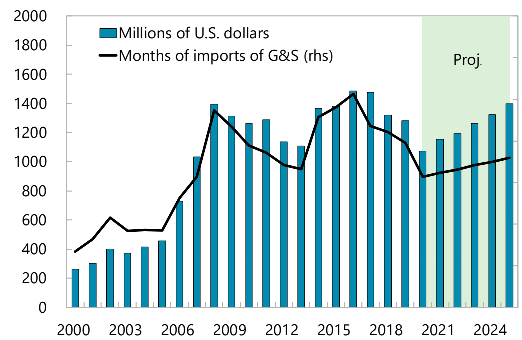


Sources: The CBCS and IMF staff estimations.

3. **Gross international reserves of the Union have been declining since 2016, although they remain above 3 months of imports.** Gross external reserves declined from $1.5 billion (5.1

4. months of imports of G&S) in 2016 to $1.3 billion (4 months of imports) in 2019. In 2019, international reserves were slightly above traditional measures of reserve adequacy (3 months of imports of goods and services, 100 percent cover of short-term debt, 20 percent cover of broad money), but below the IMF's risk-weighted measure.[1] They are projected to decline to around 3.1 months of imports in 2020 and increase slightly thereafter.

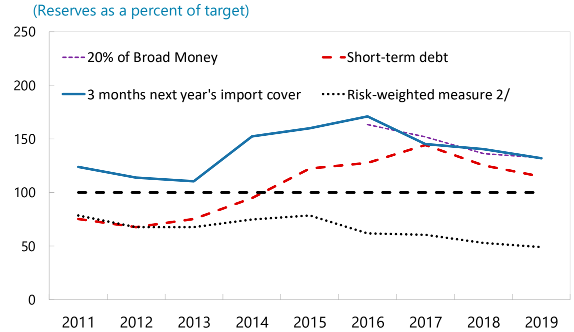
The Union: Gross International Reserves



Sources: The CBCS and IMF staff estimations.

Reserve Adequacy 1/

(Reserves as a percent of target)

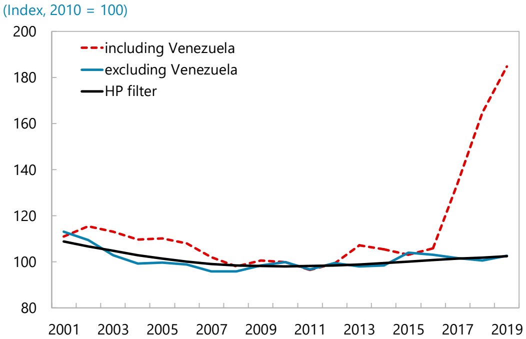


Sources: IMF staff estimates.
1/ Values >100 indicate reserves in excess of the metric recommended level.
2/ Based on IMF policy paper *Assessing Reserve Adequacy*, 2011.

5. The real effective exchange rate (REER) indexes and the "Week at the beach" (W@TB) index do not suggest a price competitiveness issue.[2] In Curaçao, the REER estimated using trading partner weights over the past 10 years suggests a sharp appreciation due to Venezuela. The REER excluding Venezuela—which is more appropriate given that the trade with Venezuela shrank significantly in recent years—is flat, and the W@TB index suggests that Curaçao remains a relatively low-cost destination. In Sint Maarten, REER has appreciated by 12 percent since 2008. However, the W@TB index for Sint Maarten is still lower than the regional average.

Curaçao: Real Effective Exchange Rate

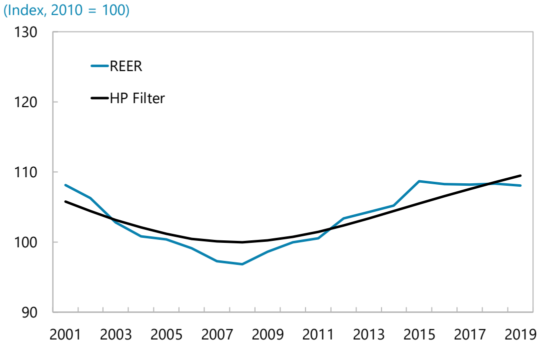
(Index, 2010 = 100)



Source: IMF staff estimations.

Sint Maarten: Real Effective Exchange Rate

(Index, 2010 = 100)



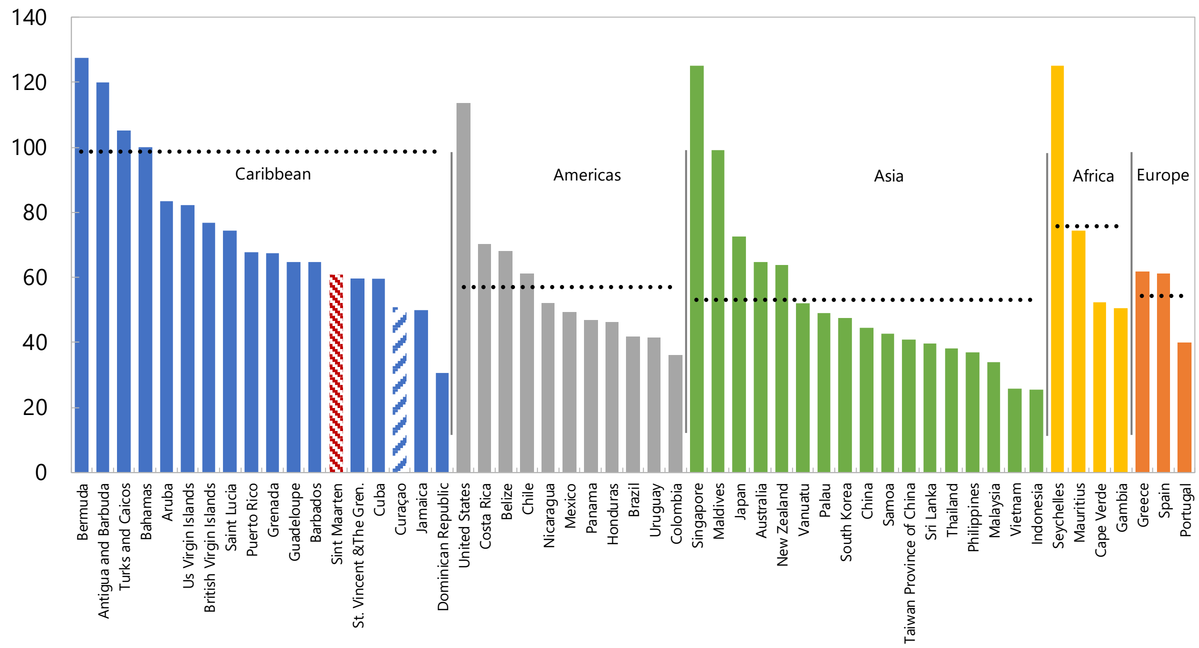
Source: IMF staff estimations.

[1] IMF, 2011, Assessing Reserve Adequacy, available from https://www.imf.org/external/np/pp/eng/2011/021411b.pdf

[2] The W@TB index is based on Laframboise, Mwase, Park, and Zhou (2014), IMF Working Paper No. 14/229.

Week at the Beach Index, December 2019 1/

(12 month moving average, Bahamas=100)

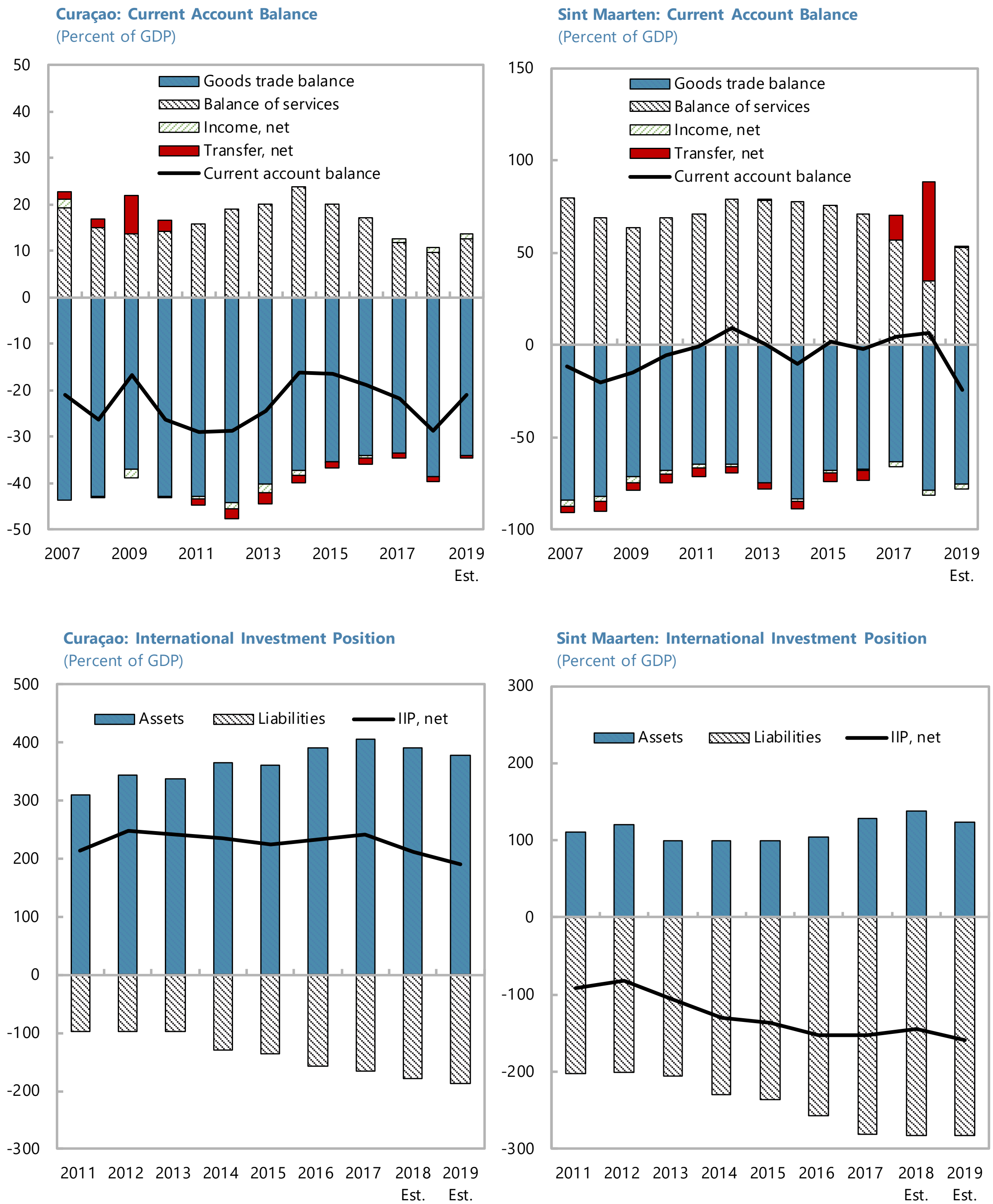


Source: IMF staff calculations.

1/ "Week at the Beach Index (W@TB)" measures the average cost of a 7-day-trip in a country's beach destinations.

The index is a composition of an average hotel price (3 to 4 'bubble' rating) from TripAdvisor and over 80 million crowdsourced data on meals, taxi fares, water, coffee, and beer.

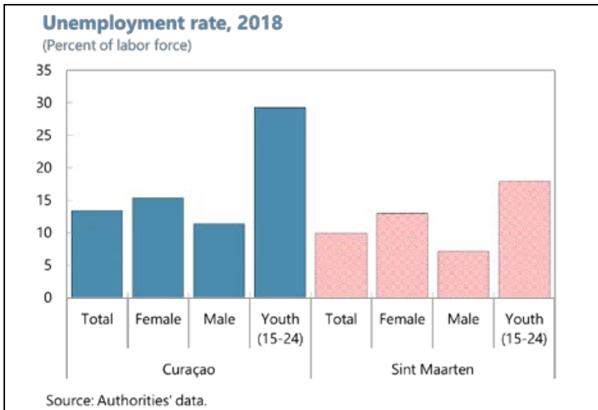
Figure A3.1 Curaçao and Sint Maarten: External Current Account Balance and International Investment Position, 2007-19

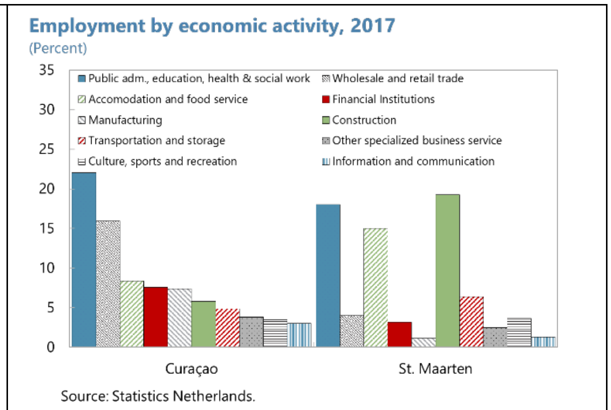


Source: The CBCS and IMF staff estimations.

Annex IV. Labor Market Challenges in the Union

1. The unemployment rate in the Union is high, especially among youth. In 2018, the unemployment rate in Curaçao and Sint Maarten reached 13.4 and 9.9 percent respectively, and April 2019 Labor Force Survey in Curaçao suggests that the unemployment rate rose to 21.2 percent.[1] However, among young people (15-24) the unemployment rate in 2018 reached more than 29 percent in Curaçao while it was about 18 percent in Sint Maarten. In both countries, the unemployment rate among women is higher than among men and this has been the pattern for many years.





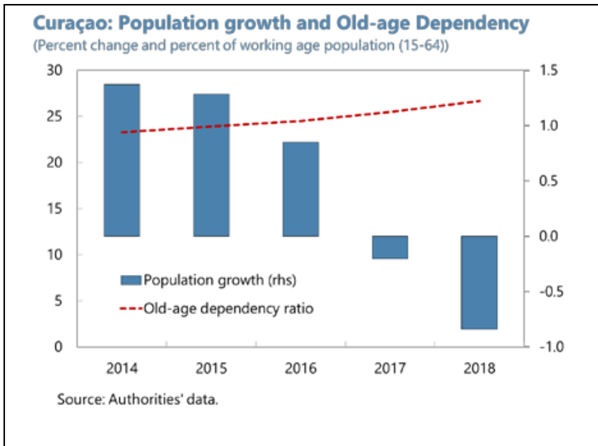
2. There are significant differences between Curaçao and Sint Maarten's employment structures. Curaçao is more diversified than Sint Maarten as it has several larger employment sectors (defined as sectors with more than 5 percent of total employment), including manufacturing (the refining industry), wholesale and retail trade (the free zone), financial services, construction and accommodation and food service (tourism). In Sint Maarten, employment is concentrated within fewer sectors, mainly construction, transportation and accommodation and food service (tourism), largely reflecting Sint Maarten's stronger dependence on tourism.[2] In both countries, the largest employment share is within Public administration, education, health and social work.

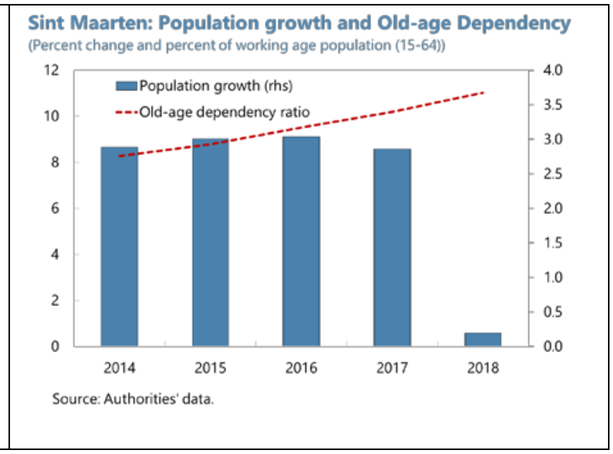
3. The labor supply in Curaçao is decreasing. In 2017-18, the population in Curaçao declined due to a decrease in the working-age population, driven by emigration.[3] At the same time, Curaçao is facing a relatively high, and increasing, old-age dependency ratio suggesting future fiscal risks. In Sint Maarten, population growth remains positive and the old-age dependency ratio, although increasing, is relatively favorable.

[1] April 2019 Labor Force Survey in Curaçao was streamlined and did not produce detailed breakdowns.

[2] Tourism exports in 2016 (pre-hurricane year) accounted for around 80 percent of GDP in Sint Maarten and around 18 percent of GDP in Curaçao.

[3] 81 percent of the people that emigrated from Curaçao in 2018, went to The Netherlands. About 5 percent emigrated to Bonaire, 2 percent to Aruba and 1.7 percent emigrated to Sint Maarten.





4. Cumbersome dismissal procedures appear to hamper employment growth and encourage the use of temporary contracts and employment agencies. Regardless of a firm's economic situation and unless there is a negotiated settlement agreement between the employer and the employee, the current dismissal procedures generally involve a lengthy process with the Ministry of Labor and/or court proceedings and economic settlements.[4] This incentivizes use of temporary contracts (around 20 percent of all employees in Curaçao and 25 percent in Sint Maarten).[5]

5. The legal framework for severance payments disincentives voluntarily resignations and decreases labor market mobility. In both countries, severance payments depend on years of service with the same employer, clearly hampering labor mobility. In Sint Maarten, the lack of a mandatory retirement age also clearly disincentives voluntarily resignations upon retirement as severance payments—accumulated over the years—are *de facto* perceived as an additional retirement benefit.

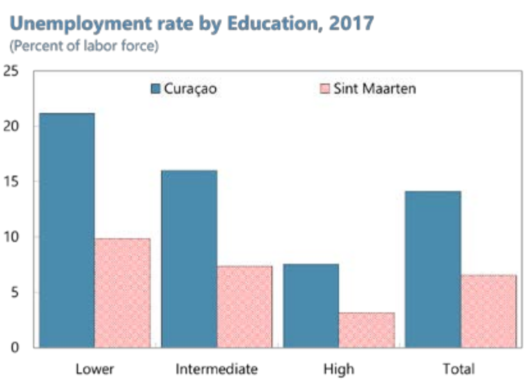
6. Hiring of foreign (non-Dutch) labor is cumbersome and may discourage foreign direct investments. In both Curaçao and Sint Maarten, employers that would like to hire a foreigner is required to report their vacancy to the Ministry of Labor and then look for local candidates. In Sint Maarten, the employer is required to look for a local candidate for 5 weeks, and in Curaçao for 12 weeks, respectively. After that, to seek the foreign work permit, the employer must submit a significant amount of documentation, supporting that the position needs to be filled by the specific foreign candidate (the foreign employee must also apply and obtain a residence permit to be able to work). The cumbersome process could deter FDI by firms that depend on foreign workers with specialized knowledge. Due to the common Dutch citizenship, labor movement is free within the

[4] The dismissal permit process takes between 6 to 12 weeks and is, if it is approved, followed by a period of notice (depending on the duration of the employment).

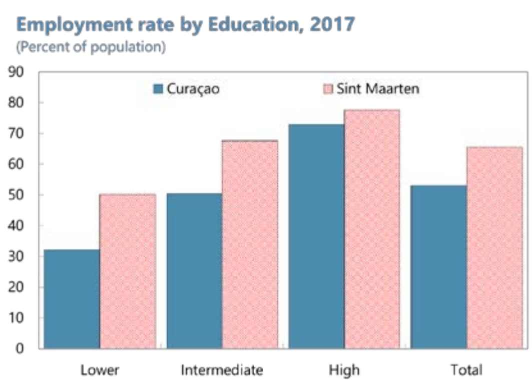
[5] See Hermans, B., and Kösters, L., "Labour force on the Dutch Caribbean Islands", Statistics Netherlands, 2019.

Kingdom of the Netherlands enabling some "foreign" labor movement although the main movement seems to be from Curaçao/Sint Maarten to The Netherlands.[6]

7. Educational mismatches could explain part of the high unemployment rate. Most of the labor force in Curaçao and Sint Maarten has at most intermediate education (73 percent in Curaçao and 66 percent in Sint Maarten in 2017). In both countries, the unemployment rate/(employment rate) is significantly higher/(lower) for intermediate and lower levels of education.[7] This is however not only an issue of low demand for labor with lower education levels but also of supply, i.e. educational mismatches. For instance, even though tourism has become a cornerstone of Curaçao's economy, there is a shortage of education focusing on tourism and local workers educated within tourism. Given the transition of Curaçao's economy to more service-based, addressing this problem would be even more important going forward.



Source: Statistics Netherlands.



Source: Statistics Netherlands.

8. The distortions in the design of social assistance in Curaçao creates disincentives to work in the formal sector. In Curaçao, social assistance (combined with in-kind subsidies such as utilities and housing) provided for groups below a certain income threshold, can exceed the minimum wage and are limitless in duration. Although the recipient must seek a job to receive the assistance, controls are relatively weak, reportedly leading to widespread misuse. In Sint Maarten, social assistance is less generous and does not exceed the minimum wage.

[6] In 2018, there were almost 85,000 first generation migrants from the former Netherlands Antilles (42 percent of the present population of Curaçao and Sint Maarten), and almost 73,000 second generation migrants (one parent born in the former Netherlands Antilles), living in the Netherlands, see www.cbs.nl.

[7] Lower education includes primary education, pre-vocational education, junior general secondary education and vocational education up to entry level. Intermediate education includes senior general secondary education, basic vocational education, vocational professional track and vocational middle management and specialist track. Higher education includes tertiary education. See Hermans, B., and Kösters, L., "Labour force on the Dutch Caribbean Islands", Statistics Netherlands, 2019.

Annex V. Debt Sustainability Analysis

A. Public Debt

Recent Developments

1. **In the past two years, the debt-to-GDP ratio in Curaçao remained broadly unchanged.**[1] In 2018, Curaçao's government debt stood at 54.6 percent of GDP, practically unchanged from 2017 (54½ percent of GDP) as the central government overall deficit (2½ percent of GDP) was financed mainly by government deposits. In 2019, the debt ratio marginally declined to an estimated 54 percent of GDP, as the sale of a local telecom company helped reduce some of the liabilities. The bulk of government debt (nearly 80 percent of the stock, or 43⅓ percent of GDP) is external, consisting mostly of capital project loans from The Netherlands with favorable terms compared to the ones in the global bond market. The average interest rate for these loans is 2⅔ percent, and the average remaining maturity is about 19 years. All external debt is denominated in local currency, thus eliminating the currency risk. The domestic debt consists of liabilities to private sector entities and arrears to the social security fund (SVB) and the public pension fund (APC).

2. **Sint Maarten's government debt increased from 46 percent of GDP in 2017 to an estimated 51⅓ percent of GDP in 2019.** The increase was driven by a combination of the revenue shortfall and higher expenditure after the devastating 2017 hurricanes. About 65⅔ percent of the debt is external but denominated in local currency. The average remaining maturity of the external debt is 16 years and the average interest rate is 2¼ percent. Similar to Curaçao, the domestic debt consists of liabilities to private sector entities and arrears to the social security fund (SZV) and the public pension fund (APS).

3. **Based on the 2016 financial statements, staff increased estimated government debt in Sint Maarten compared to the 2018 Article IV staff report.** The stock of government liabilities in the 2016 financial statements was NA*f* 168 million (8.8 percent of GDP) higher than in operational data previously provided to Fund staff. The discrepancy was related to liabilities to the domestic sectors, including social security and the public pension fund. The debt stocks in 2017-18 have been increased by the value of these liabilities accordingly. As the government is currently compiling financial statements for 2017 and 2018, debt data in the staff's macro framework are preliminary estimates.

Baseline Projections

4. **In staff's baseline projections, Curaçao's government debt would peak at 56 percent of GDP in 2020 and decrease to about 45½ percent of GDP by 2025**. In 2020, the one-time cost of

[1] The government debt is defined as debt liabilities of budgetary central government. Thus, it does not cover liabilities issued by other government institutes, such as state-owned enterprises (SOEs). While available information suggests that debt of Curaçao SOEs could be about 30 percent of GDP, a significant improvement in data framework is needed to expand DSA coverage to the public sector.

the early retirement package, the expected hike in operational costs for the new public hospital, and the expiration of profit tax sharing mechanism within the Kingdom of the Netherlands would keep the overall fiscal deficit at 2.4 percent of GDP despite the fiscal measures and therefore contribute to the further increase in government debt in 2020. Afterward, the fiscal measures implemented in 2019 through 2021 combined with the economic recovery would decrease government debt level over the medium term.

5. In Sint Maarten, government debt is expected to peak at 55 percent of GDP in 2021-22. It is partly explained by the loan from the European Investment Bank (EIB) for the reconstruction of the Princess Juliana International Airport (3 percent of GDP by end-2021). The debt stock is expected to decline to about 53 percent of GDP in 2025. Also, the pace of fiscal consolidation is likely to be slower than in Curaçao as primary deficits (excluding Trust Fund operations) are likely to persist through 2025.

6. In both countries, staff assumes that the deficits would be financed primarily by loans from The Netherlands. These loans would be favorable for these countries given their long maturities, grace periods, and low interest rates that apply to The Netherlands' sovereign bonds. Furthermore, these loans will be denominated in domestic currency, Netherlands Antilles Guilders, instead of Euro or U.S. dollars, avoiding exchange rate risks. The only exception is Sint Maarten's EIB loan, which is denominated in U.S. dollars, but it accounts only for only 7 percent of total government debt.

Stress Testing

7. In Curaçao, government debt is vulnerable to several shocks. A primary balance shock equal to half of the 10-year historical standard deviation combined with a higher borrowing cost would increase the debt ratio to 58 percent of GDP in 2022, although it would decline afterward. A combined macro shock—aggregating shocks to all macro variables—could increase the government debt ratio to nearly 67 percent of GDP in 2021 and put it on an unsustainable path afterward, although in practice this debt path is not likely given the financing constraints. A contingent liability shock—assuming one-off expenditure of 8½ percent of GDP in 2021 to address financial system fragilities combined with 1 percent growth shock and 25 basis point higher inflation—would increase government debt to 63⅓ percent of GDP in 2021, although it would decline thereafter. A scenario in which the refinery is closed in 2021 would increase the debt ratio to 60-61 percent over the medium term.

8. In Sint Maarten, another category 5 hurricane would put the debt onto a rising path. Under this scenario, real GDP growth and primary balance in 2020 through 2022 would be similar to the one in 2017 through 2019, and the debt would keep increasing over the medium term, reaching 80½ percent of GDP by 2025. Real GDP shock, primary balance shock, contingent liability shock, and combined macro shock increase the government debt substantially, compared to the baseline projection.

Assessment

9. **In both countries, government debt remains sustainable but vulnerable to shocks.** The heat map indicates a high risk due to a significant share of external government debt (in both countries). Also, the risk of external financing requirements is high for Curaçao and moderate for Sint Maarten. However, all existing external loans in both countries are denominated by their national currency and provided by The Netherlands under favorable conditions. At the same time, government debt in both countries is vulnerable to adverse shocks. The stock of government debt in Curaçao is vulnerable to adverse primary balance shock, a combined macro-fiscal shock, a contingent liability shock stemming from financial system fragilities and closure of the refinery. For Sint Maarten, research indicates that the hurricane risk would continue to rise due to climate changes, and 2017 hurricanes demonstrated that the government debt-to-GDP ratio could increase substantially after a disaster event.

B. External Debt

10. **The external debt of the Union increased from an estimated 131 percent of GDP in 2015 to an estimated 181 percent of GDP in 2019.** The estimates are based on individual international investment position (IIP) reports for Curaçao and Sint Maarten (for data through 2017) and the balance of payments (BOP) statistics (2018-19). The Union's debt liabilities are estimated as a sum of corresponding debt liabilities of Curaçao and Sint Maarten. This approach may overestimate the total external debt of the Union as cross-claims between its members should be treated as domestic debt, although the discrepancy is likely to be small given the low volume of cross-border financial linkages between Curaçao and Sint Maarten. In 2018-19, external debt liabilities are estimated using corresponding BOP flows.

11. **The stock of external debt is projected to increase to about 188 percent of GDP in 2022 and decline marginally afterward.** The external current account deficits are the primary contributors, although they are likely to be financed not only by debt liabilities but also by drawing down substantial foreign assets, which limits the accumulation of external debt. External debt of the Union is vulnerable to several macro shocks which result in a rising debt path. A real depreciation shock of 30 percent could increase the stock of external debt to more than 250 percent of GDP.

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

(in percent of GDP unless otherwise indicated)

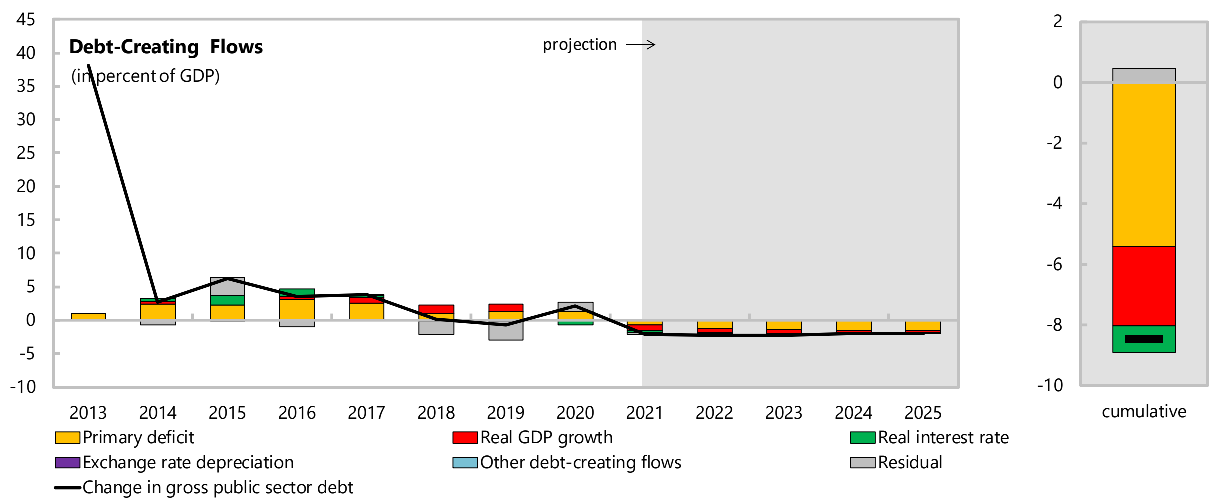
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2014-2017 [2]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	48.2	54.6	54.0	56.0	54.0	51.7	49.5	47.5	45.5
Public gross financing needs	3.6	2.2	2.6	4.2	1.8	1.9	0.9	-0.1	1.8
Real GDP growth (in percent)	-0.9	-2.2	-2.0	0.0	1.5	1.2	1.2	0.8	0.4
Inflation (GDP deflator, in percent)	0.6	2.6	2.6	3.7	2.9	2.6	2.5	2.5	2.5
Nominal GDP growth (in percent)	-0.2	0.4	0.6	3.7	4.4	3.8	3.7	3.3	2.9
Effective interest rate (in percent) [4]	2.6	2.3	2.2	2.5	2.5	2.5	2.6	2.6	2.6

As of February 04, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		n.a.
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	BBB+	BBB+
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2014-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	4.1	0.1	-0.7	2.1	-2.1	-2.2	-2.2	-2.0	-2.0	-8.4	
Identified debt-creating flows	3.8	2.1	2.2	0.6	-1.8	-2.0	-2.0	-1.9	-1.8	-8.9	
Primary deficit	2.6	1.0	1.3	1.2	-0.8	-1.3	-1.4	-1.6	-1.6	-5.4	-0.1
Primary (noninterest) revenue and gra	42.7	44.0	43.3	43.4	43.7	43.8	43.7	43.8	43.8	262.2	
Primary (noninterest) expenditure	45.3	45.0	44.6	44.6	42.9	42.5	42.3	42.2	42.2	256.8	
Automatic debt dynamics [5]	1.3	1.1	0.9	-0.6	-1.1	-0.7	-0.6	-0.4	-0.1	-3.5	
Interest rate/growth differential [6]	1.3	1.1	0.9	-0.6	-1.1	-0.7	-0.6	-0.4	-0.1	-3.5	
Of which: real interest rate	0.9	-0.1	-0.2	-0.6	-0.3	-0.1	0.0	0.0	0.0	-0.9	
Of which: real GDP growth	0.4	1.2	1.1	0.0	-0.8	-0.6	-0.6	-0.4	-0.2	-2.6	
Exchange rate depreciation [7]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8]	0.3	-2.0	-2.9	1.5	-0.2	-0.2	-0.2	-0.1	-0.2	0.5	



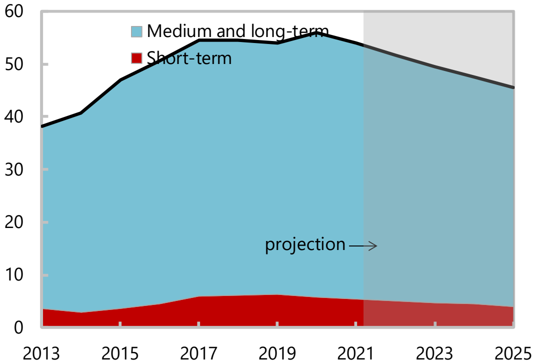
Source: IMF staff.
1/ Public sector is defined as general government.
2/ Based on available data.
3/ Long-term bond spread over German bonds.
4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Curaçao: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

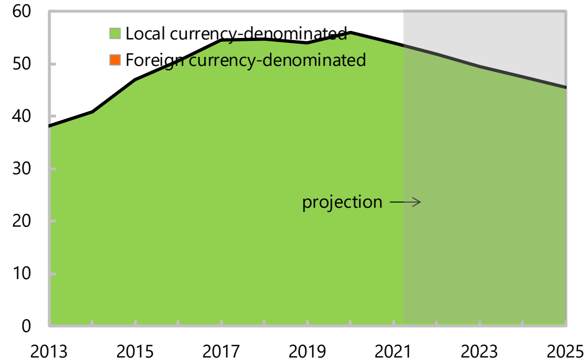
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

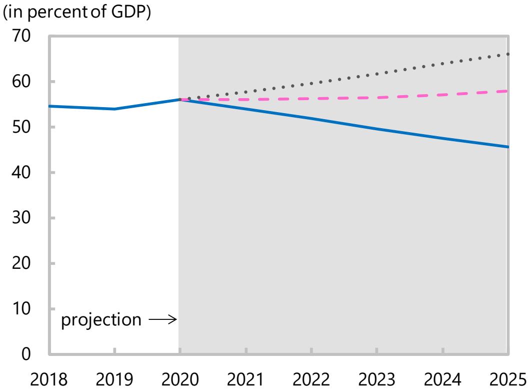


Alternative Scenarios

Baseline Historical Constant Primary Balance

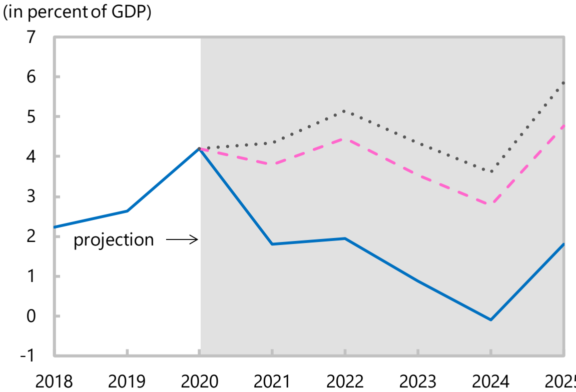
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

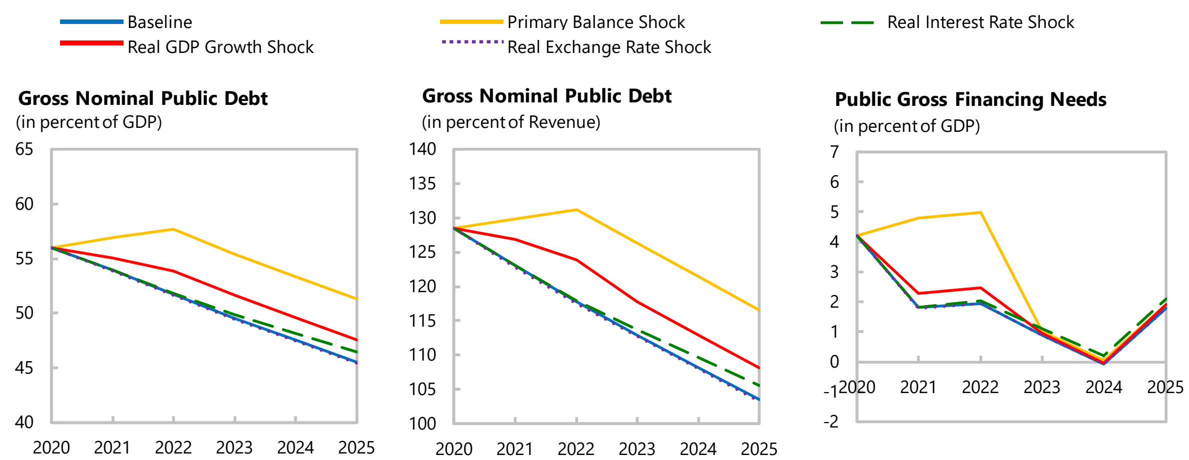
Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	0.0	1.5	1.2	1.2	0.8	0.4
Inflation	3.7	2.9	2.6	2.5	2.5	2.5
Primary Balance	-1.2	0.8	1.3	1.4	1.6	1.6
Effective interest rate	2.5	2.5	2.5	2.6	2.6	2.6
Constant Primary Balance Scenario						
Real GDP growth	0.0	1.5	1.2	1.2	0.8	0.4
Inflation	3.7	2.9	2.6	2.5	2.5	2.5
Primary Balance	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Effective interest rate	2.5	2.5	2.4	2.4	2.4	2.4

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	0.0	-0.8	-0.8	-0.8	-0.8	-0.8
Inflation	3.7	2.9	2.6	2.5	2.5	2.5
Primary Balance	-1.2	-1.7	-1.7	-1.7	-1.7	-1.7
Effective interest rate	2.5	2.5	2.5	2.6	2.7	2.7

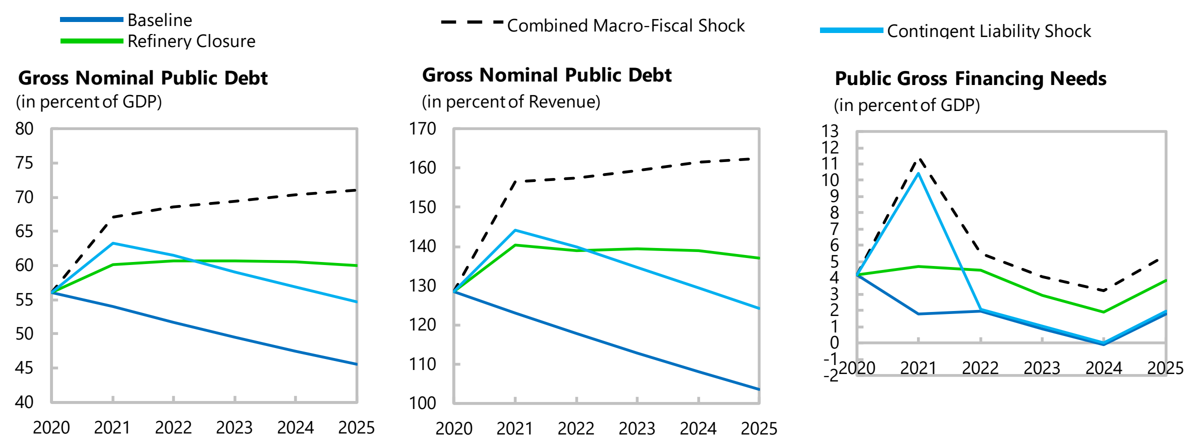
Source: IMF staff.

Curaçao: Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Primary Balance Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	0.0	1.5	1.2	1.2	0.8	0.4
Inflation	3.7	2.9	2.6	2.5	2.5	2.5
Primary balance	-1.2	-2.2	-1.7	1.4	1.6	1.6
Effective interest rate	2.5	2.5	2.5	2.5	2.5	2.6
Real Interest Rate Shock						
Real GDP growth	0.0	1.5	1.2	1.2	0.8	0.4
Inflation	3.7	2.9	2.6	2.5	2.5	2.5
Primary balance	-1.2	0.8	1.3	1.4	1.6	1.6
Effective interest rate	2.5	2.5	2.7	3.0	3.2	3.2
Combined Shock						
Real GDP growth	0.0	-4.5	0.2	0.3	0.4	0.4
Inflation	3.7	2.7	2.4	2.4	2.5	2.5
Primary balance	-1.2	-8.7	-1.2	-0.4	-0.2	0.0
Effective interest rate	2.5	2.5	3.4	3.8	4.1	4.3

Real GDP Growth Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	0.0	0.5	0.2	1.2	0.8	0.4
Inflation	3.7	2.7	2.4	2.5	2.5	2.5
Primary balance	-1.2	0.3	0.8	1.4	1.6	1.6
Effective interest rate	2.5	2.5	2.5	2.5	2.6	2.6
Contingent Liability Shock						
Real GDP growth	0.0	0.5	0.2	1.2	0.8	0.4
Inflation	3.7	2.7	2.4	2.5	2.5	2.5
Primary balance	-1.2	-7.7	1.3	1.4	1.6	1.6
Effective interest rate	2.5	2.7	2.3	2.3	2.4	2.4
Refinery Closure						
Real GDP growth	0.0	-4.5	0.3	0.3	0.4	0.4
Inflation	3.7	2.9	2.4	2.4	2.5	2.5
Primary balance	-1.2	-2.0	-1.0	-0.4	-0.2	0.0
Effective interest rate	2.5	2.5	2.4	2.4	2.4	2.4

* Combination of all previous shocks. Real GDP shock is the combination of the Venezuela Shock in 2019 and Growth Shock (1-SD) in 2020.

Source: IMF staff.

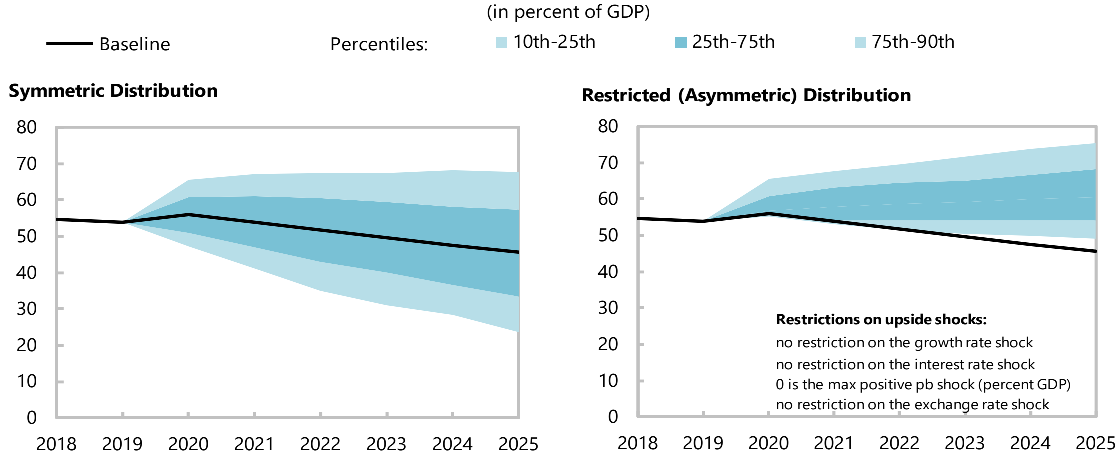
Curaçao: Public DSA Risk Assessment

Heat Map

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

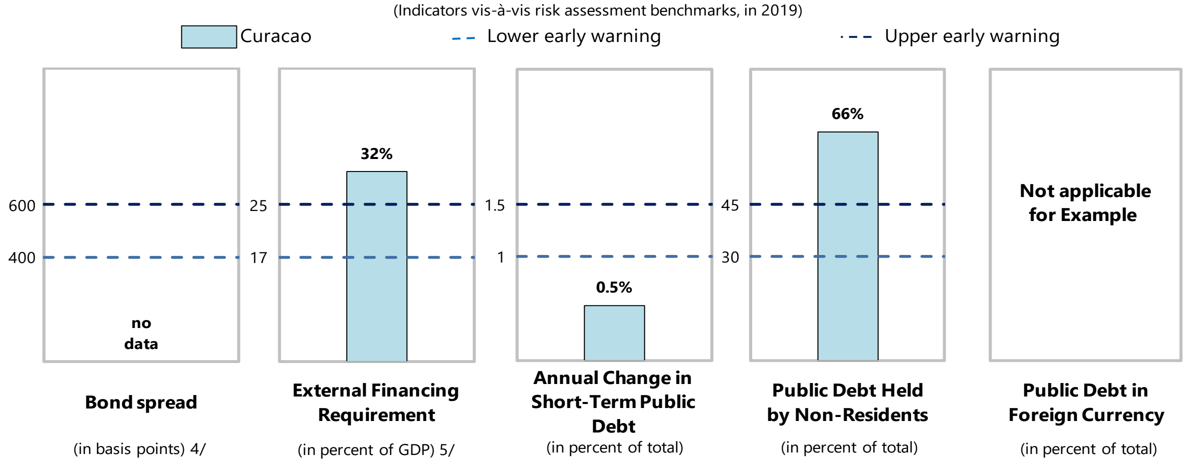
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)



Source: IMF staff.

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

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

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

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

4/ Long-term bond spread over German bonds, an average over the last 3 months, 06-Nov-19 through 04-Feb-20.

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

Sint Maarten Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(In percent of GDP unless otherwise indicated)

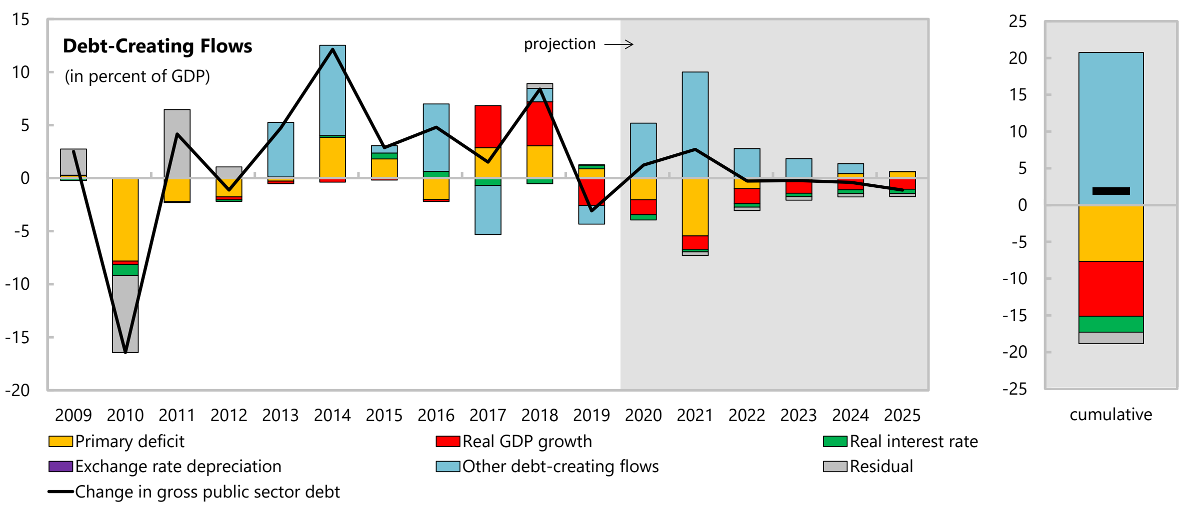
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2009-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	31.5	54.4	51.3	52.6	55.3	55.0	54.8	54.4	53.2
Public gross financing needs	1.3	3.8	4.8	1.8	-4.4	0.0	0.8	1.1	4.7
Real GDP growth (in percent)	-0.2	-8.5	5.0	2.9	2.5	2.7	2.3	2.1	2.0
Inflation (GDP deflator, in percent)	2.3	2.9	0.7	2.5	2.2	2.1	2.1	2.1	2.1
Nominal GDP growth (in percent)	2.0	-5.9	5.8	5.5	4.7	4.9	4.4	4.2	4.2
Effective interest rate (in percent) [4/]	2.0	1.5	1.4	1.6	1.7	1.6	1.5	1.4	1.4

As of February 24, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		n.a.
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	Baa3	A3
S&Ps	n.a.	n.a.
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.7	8.4	-3.1	1.2	2.7	-0.3	-0.2	-0.4	-1.1	1.9	-1.4
Identified debt-creating flows	1.4	7.9	-3.1	1.2	3.0	0.1	0.1	-0.1	-0.8	3.5	
Primary deficit	-0.6	3.1	0.88	-2.0	-5.5	-1.0	-0.2	0.4	0.6	-7.7	
Primary (noninterest) revenue and grant	23.2	23.8	25.3	30.8	33.9	29.5	29.5	29.5	29.3	182.5	
Primary (noninterest) expenditure	22.6	26.8	26.2	28.7	28.5	28.5	29.3	29.9	29.9	174.9	
Automatic debt dynamics [5/]	0.2	3.6	-2.2	-1.9	-1.5	-1.7	-1.6	-1.5	-1.5	-9.6	
Interest rate/growth differential [6/]	0.2	3.6	-2.2	-1.9	-1.5	-1.7	-1.6	-1.5	-1.5	-9.6	
Of which: real interest rate	-0.1	-0.5	0.3	-0.5	-0.2	-0.3	-0.3	-0.4	-0.4	-2.2	
Of which: real GDP growth	0.3	4.2	-2.6	-1.4	-1.3	-1.4	-1.2	-1.1	-1.0	-7.4	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	1.8	1.3	-1.8	5.2	10.0	2.8	1.8	0.9	0.0	20.8	
Net acquisition of financial assets (nega	1.8	1.3	-1.8	5.2	10.0	2.8	1.8	0.9	0.0	20.8	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroar	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.3	0.5	0.0	0.0	-0.3	-0.3	-0.3	-0.3	-0.3	-1.6	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

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

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

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

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

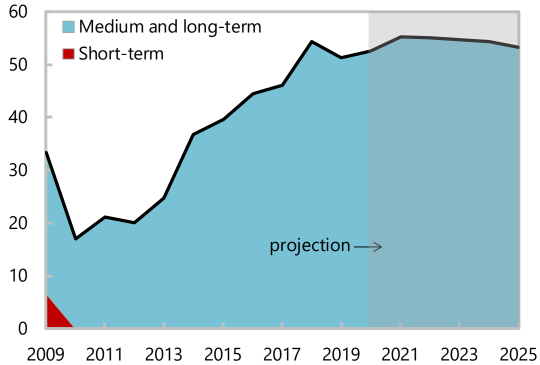
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

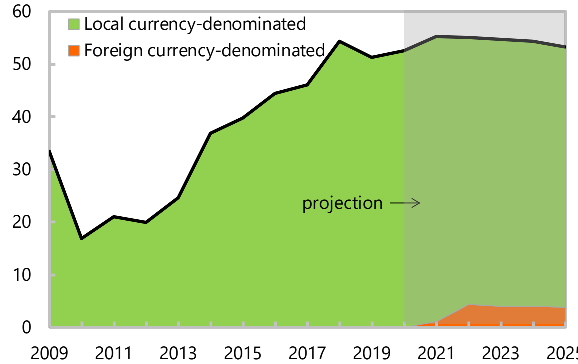
Sint Maarten Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



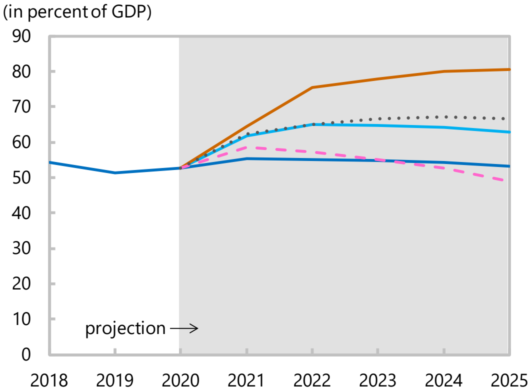
By Currency
(in percent of GDP)



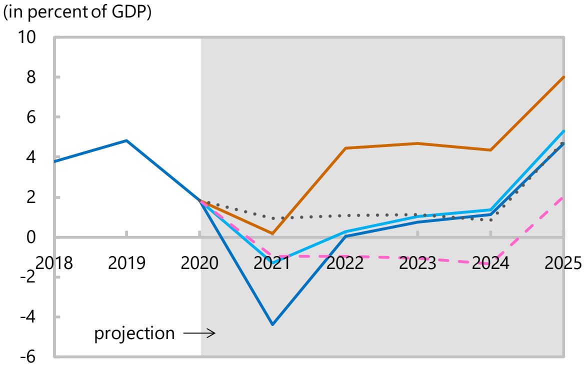
Alternative Scenarios

Baseline
Contingent Liability Shock
Historical
Constant Primary Balance
Hurricane shock

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

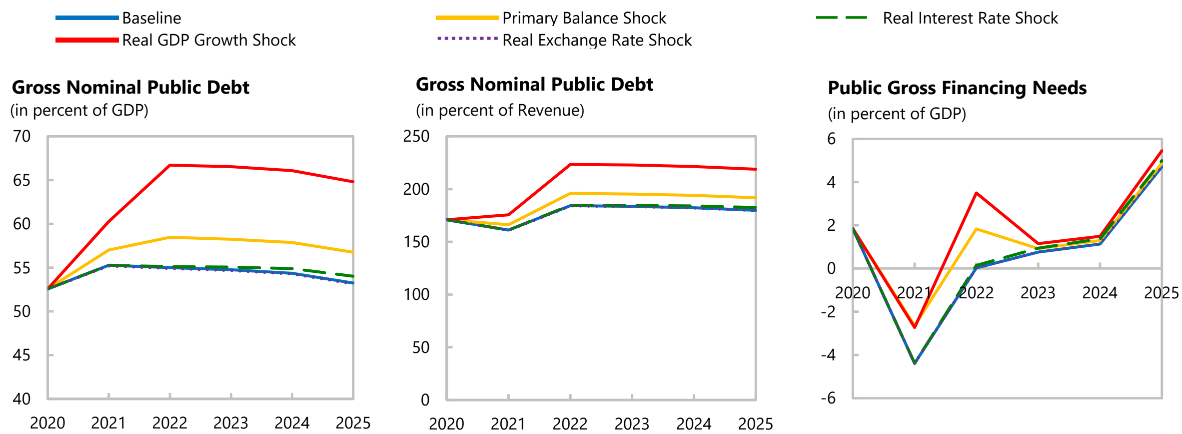
Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	2.9	2.5	2.7	2.3	2.1	2.0
Inflation	2.5	2.2	2.1	2.1	2.1	2.1
Primary Balance	2.0	5.5	1.0	0.2	-0.4	-0.6
Effective interest rate	1.6	1.7	1.6	1.5	1.4	1.4
Constant Primary Balance	0.0	0.0	0.0	0.0	0.0	0.0
Real GDP growth	2.9	2.5	2.7	2.3	2.1	2.0
Inflation	2.5	2.2	2.1	2.1	2.1	2.1
Primary Balance	2.0	2.0	2.0	2.0	2.0	2.0
Effective interest rate	1.6	1.7	1.6	1.5	1.4	1.4
Hurricane shock						
Real GDP growth	2.9	-4.8	-7.8	3.3	2.1	2.0
Inflation	2.5	2.2	2.1	2.1	2.1	2.1
Primary Balance	2.0	1.0	-3.1	-3.2	-3.1	-2.7
Effective interest rate	1.6	1.7	1.6	1.8	1.7	1.7

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	2.9	-0.5	-0.5	-0.5	-0.5	-0.5
Inflation	2.5	2.2	2.1	2.1	2.1	2.1
Primary Balance	2.0	0.2	0.2	0.2	0.2	0.2
Effective interest rate	1.6	1.7	1.7	1.7	1.7	1.6
Contingent Liability Shocl	0.0	0.0	0.0	0.0	0.0	0.0
Real GDP growth	2.9	-1.9	-1.7	2.3	2.1	2.0
Inflation	2.5	1.1	1.0	2.1	2.1	2.1
Primary Balance	2.0	2.5	1.0	0.2	-0.4	-0.6
Effective interest rate	1.6	1.8	1.7	1.6	1.6	1.5

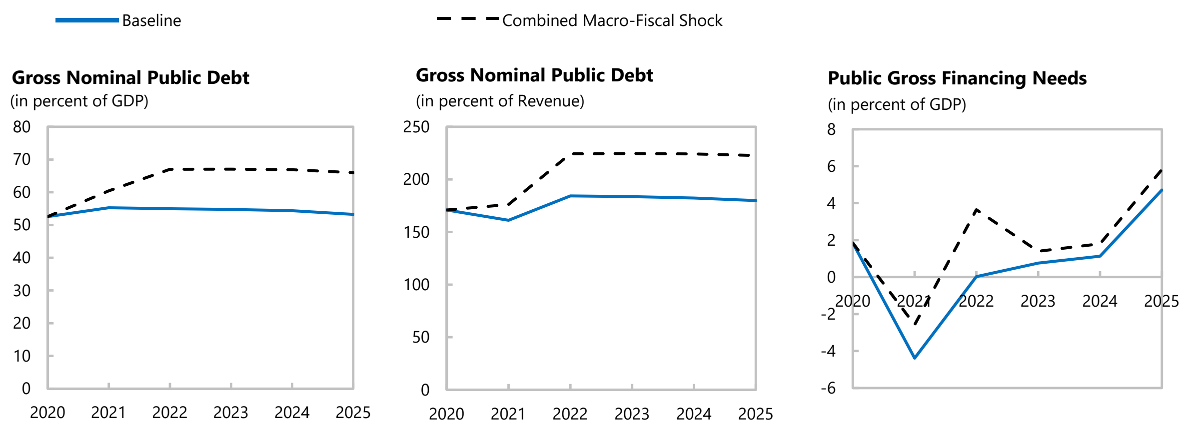
Source: IMF staff.

Sint Maarten Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	2.9	2.5	2.7	2.3	2.1	2.0
Inflation	2.5	2.2	2.1	2.1	2.1	2.1
Primary balance	2.0	3.7	-0.8	0.2	-0.4	-0.6
Effective interest rate	1.6	1.7	1.6	1.7	1.6	1.6
Real Interest Rate Shock						
Real GDP growth	2.9	2.5	2.7	2.3	2.1	2.0
Inflation	2.5	2.2	2.1	2.1	2.1	2.1
Primary balance	2.0	5.5	1.0	0.2	-0.4	-0.6
Effective interest rate	1.6	1.7	1.8	1.8	1.9	1.9
Combined Shock						
Real GDP growth	2.9	-1.9	-1.7	2.3	2.1	2.0
Inflation	2.5	1.1	1.0	2.1	2.1	2.1
Primary balance	2.0	3.7	-2.3	0.2	-0.4	-0.6
Effective interest rate	1.6	1.7	1.9	2.2	2.2	2.3

Real GDP Growth Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	2.9	-1.9	-1.7	2.3	2.1	2.0
Inflation	2.5	1.1	1.0	2.1	2.1	2.1
Primary balance	2.0	3.9	-2.3	0.2	-0.4	-0.6
Effective interest rate	1.6	1.7	1.6	1.8	1.8	1.7
Real Exchange Rate Shock						
Real GDP growth	2.9	2.5	2.7	2.3	2.1	2.0
Inflation	2.5	2.3	2.1	2.1	2.1	2.1
Primary balance	2.0	5.5	1.0	0.2	-0.4	-0.6
Effective interest rate	1.6	1.7	1.6	1.5	1.4	1.4

Source: IMF staff.

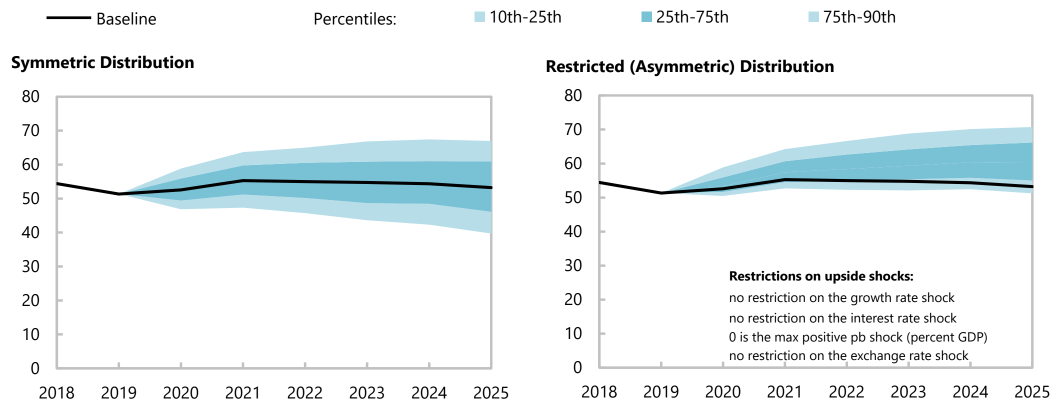
Sint Maarten Public DSA Risk Assessment

Heat Map

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

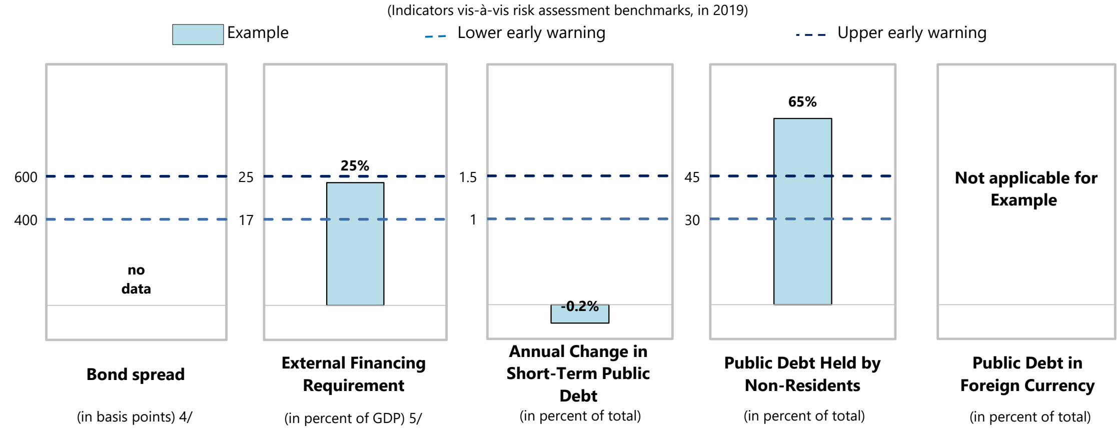
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)



Source: IMF staff.

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

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

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

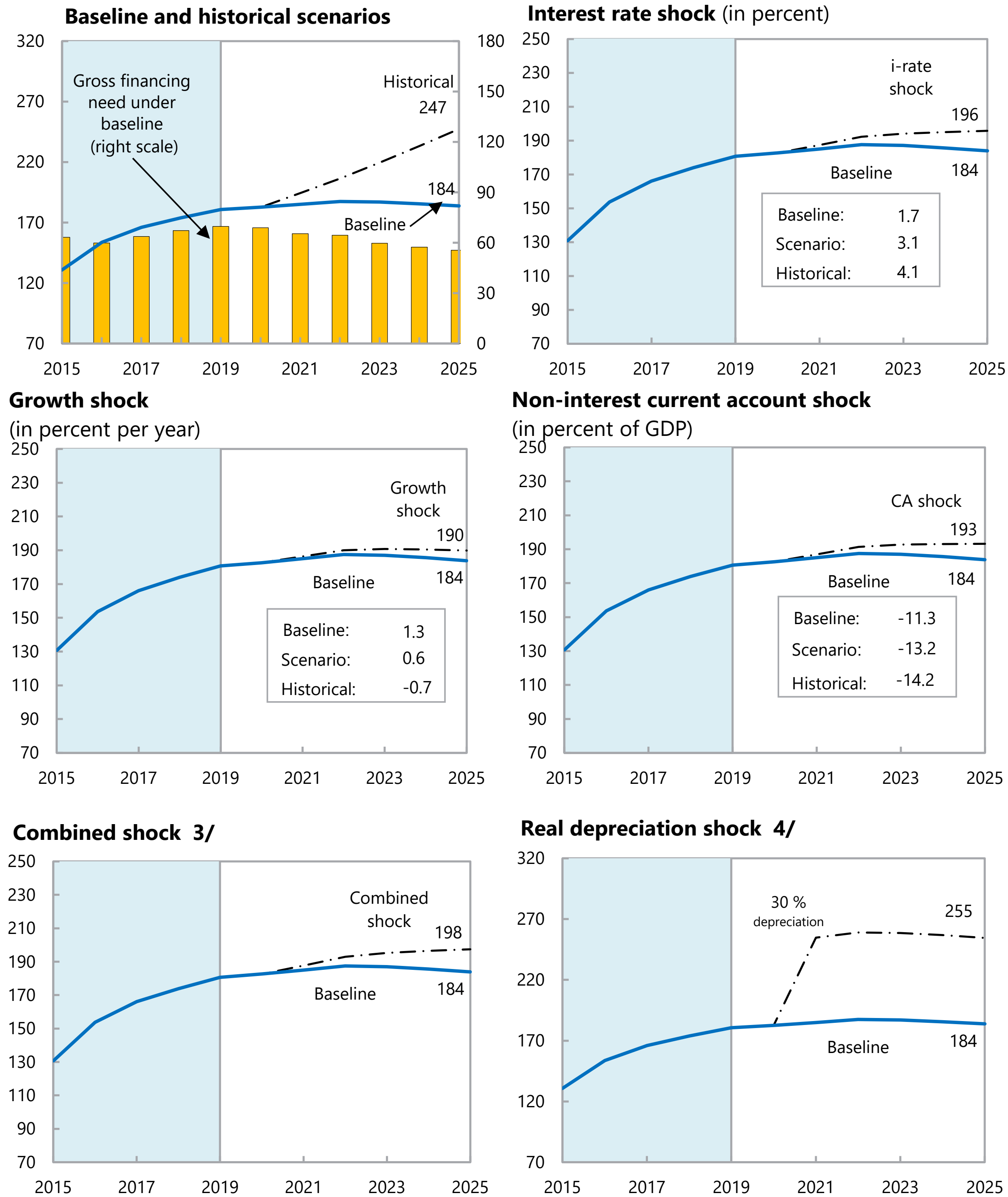
400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 26-Nov-19 through 24-Feb-20.

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

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

(External debt in percent of GDP)



Sources: International Monetary Fund, Curaçao and Sint Maarten desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2021.

Curaçao and Sint Maarten: External Debt Sustainability Framework, 2015-2025

(In percent of GDP, unless otherwise indicated)

Curacao and Sint Maarten: External Debt Sustainability Framework, 2015-2025

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2015	2016	2017	2018	2019			2020	2021	2022	2023	2024	2025	Debt-stabilizing non-interest current account 6/
Baseline: External debt	130.8	153.7	166.1	173.9	180.7			**182.6**	**185.0**	**187.5**	**187.0**	**185.6**	**183.9**	**-3.7**
Change in external debt	7.3	22.9	12.4	7.8	6.8			1.9	2.4	2.5	-0.5	-1.4	-1.7	
Identified external debt-creating flows (4+8+9)	11.9	15.7	12.8	22.5	17.8			19.1	14.0	13.5	9.4	8.4	7.9	
Current account deficit, excluding interest payments	7.9	10.3	11.6	16.8	18.2			18.7	15.7	14.9	10.2	8.5	7.3	
Deficit in balance of goods and services	9.2	11.3	17.7	32.3	21.6			20.4	18.5	17.0	12.7	10.9	9.7	
Exports	75.7	70.9	66.5	67.3	69.0			69.5	72.4	73.8	75.8	76.9	77.3	
Imports	84.9	82.2	84.2	99.5	90.6			89.9	90.9	90.8	88.5	87.8	87.0	
Net non-debt creating capital inflows (negative)	0.2	0.5	-4.7	0.4	-0.9			-1.1	-1.5	-1.6	-1.3	-1.2	-1.1	
Automatic debt dynamics 1/	3.8	4.8	5.9	5.3	0.6			1.5	-0.2	0.2	0.5	1.1	1.8	
Contribution from nominal interest rate	3.9	4.1	3.5	3.3	3.6			2.7	2.8	3.0	3.1	3.2	3.2	
Contribution from real GDP growth	-0.4	0.7	5.3	6.2	0.5			-1.2	-3.1	-2.8	-2.7	-2.0	-1.4	
Contribution from price and exchange rate changes 2/	0.4	0.0	-2.9	-4.2	-3.6			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-4.7	7.3	-0.4	-14.7	-11.1			-17.1	-11.6	-11.0	-9.9	-9.8	-9.7	
External debt-to-exports ratio (in percent)	172.7	216.9	249.8	258.5	261.9			262.7	255.7	254.0	246.9	241.4	237.8	
Gross external financing need (in billions of US dollars) 4/	2.7	2.5	2.6	2.7	2.9			3.0	3.0	3.0	2.9	2.9	2.9	
in percent of GDP	63.2	59.8	63.7	67.2	69.7	10-Year	10-Year	68.9	65.4	64.5	59.7	57.4	55.6	
Scenario with key variables at their historical averages 5/								**182.6**	**194.3**	**206.3**	**219.6**	**233.2**	**247.3**	**6.4**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Real GDP growth (in percent)	0.3	-0.6	-3.4	-3.7	-0.3	-0.7	1.5	0.7	1.7	1.6	1.5	1.1	0.8	
GDP deflator in US dollars (change in percent)	-0.3	0.0	1.9	2.6	2.1	1.9	1.2	3.4	2.7	2.5	2.4	2.4	2.4	
Nominal external interest rate (in percent)	3.2	3.1	2.3	2.0	2.1	4.1	2.7	1.6	1.6	1.7	1.7	1.8	1.8	
Growth of exports (US dollar terms, in percent)	-9.8	-6.9	-7.6	0.0	4.4	0.4	8.3	4.9	8.8	6.2	6.6	5.1	3.8	
Growth of imports (US dollar terms, in percent)	-10.6	-3.7	0.9	16.9	-7.4	0.9	8.1	3.4	5.6	4.0	1.3	2.7	2.4	
Current account balance, excluding interest payments	-7.9	-10.3	-11.6	-16.8	-18.2	-14.2	3.9	-18.7	-15.7	-14.9	-10.2	-8.5	-7.3	
Net non-debt creating capital inflows	-0.2	-0.5	4.7	-0.4	0.9	0.9	1.7	1.1	1.5	1.6	1.3	1.2	1.1	

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

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

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

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

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

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

INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Appendix I. Draft Press Release

Press Release No. 20/X
FOR IMMEDIATE RELEASE
March XX, 2020

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

IMF Executive Board Concludes 2019 Article IV Consultation Discussions with the Kingdom of the Netherlands—Curaçao and Sint Maarten

On March [18], 2020, the Executive Board of the International Monetary Fund (IMF) concluded the 2019 Article IV consultation discussions[1] with Curaçao and Sint Maarten, two autonomous constituent countries within the Kingdom of the Netherlands, and considered and endorsed the staff appraisal without a meeting.[2] These consultation discussions form part of the Article IV consultation with the Kingdom of the Netherlands.

Over the last few years, Curaçao and Sint Maarten have faced significant challenges. Curaçao has been in a recession since 2016 mainly due to continued spillovers from the Venezuela crisis, and real GDP contracted by an estimated 2 percent in 2019. The unemployment rate increased to 21.2 percent in April 2019, among the highest in the region. The economy of Sint Maarten was severely damaged by Hurricanes Irma and Maria in 2017 and despite €550 million pledged by The Netherlands to support reconstruction, rebuilding has been slow. Real GDP is estimated to have contracted by almost 17 percent in 2017−18 as tourism plummeted, although the economy rebounded strongly by an estimated 5 percent in 2019.

The fiscal position in Curaçao improved in the past two years, in part due to implemented fiscal measures. The primary fiscal deficit declined from 2½ percent of GDP in 2017 to 1.3 percent of GDP in 2019, as the net operating (current) deficit declined to 0.3 percent of GDP, due to measures to increase revenue and contain expenditure. In Sint Maarten, the hurricanes widened the primary fiscal deficit excluding Trust Fund operations to 4 percent of GDP in 2018, but it declined to 0.8 percent of GDP in 2019 on account of economic recovery.

[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. The IMF can also hold consultation discussions with parts of IMF members; these discussions form part of the Article IV consultation with the member.

[2] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

The external position of the Union worsened since 2016. The current account deficit (CAD) widened from 15.2 percent of the union GDP in 2017 to an estimated 21.8 percent of GDP in 2019 mainly because of a larger CAD in Curaçao, where imports increased significantly due to spillovers from Venezuela. Despite double-digit CADs, the pressure on international reserves has been mild as they declined from 4.4 to 4.0 months of imports of goods and services between 2017 and 2019.

Executive Board Assessment

The Union's growth outlook is improving but remains fragile. After 4 years of continuous recession, Curaçao's real GDP is expected to remain flat in 2020 and grow by 1½ percent in 2021 as the agreement with the Klesch Group is expected to revive the Isla refinery. However, growth would return to substandard, around ½ percent, in the medium term reflecting persistent structural challenges. In Sint Maarten, real GDP is expected to grow by 2.9 percent in 2020, gradually converging to 2 percent in the medium term as the economy recovers from the effects of the devastating 2017 hurricanes. The external positions in both Curaçao and Sint Maarten are weaker than warranted by fundamentals and desired policy settings.

Downside risks are substantial. Curaçao's outlook is vulnerable to setbacks with reviving the refinery and to possible spillovers from financial system fragilities. Delays in addressing these fragilities could heighten uncertainty and lead to exchange rate pressures. The recovery in Sint Maarten is vulnerable to delays in key projects such as airport reconstruction and frequent changes in government that impede the implementation of key reforms. Both countries remain vulnerable to a slowdown in main trading partners.

Improving the functioning of the Union requires better policy frameworks, stronger buffers and a consistent and credible macro framework based on better data. A significant improvement in data availability and quality is needed as current gaps hamper effective macroeconomic analysis and surveillance. In both countries, the macro framework should incorporate a gradual fiscal adjustment and be supported by strong broad-based structural reforms to raise potential growth—this would be critical for improving external sustainability. The framework should incorporate contingent measures to address fiscal risks, e.g. costs of resolving financial system vulnerabilities in Curaçao.

Both Curaçao and Sint Maarten would benefit from introducing a Fiscal Responsibility Framework. It could incorporate a central government debt ratio as a long-term anchor and operational rules calibrated to meet it. Setting a relatively low debt target of 40 percent of GDP would provide more fiscal space in the event of negative shocks. The framework should contain clearly articulated escape clauses setting out circumstances justifying deviations from targets while retaining sustainable policies.

Strong implementation of fiscal reforms will be key for maintaining the sustainability of public finances. In Curaçao, signing the Growth Accord with The Netherlands and implementing several measures are welcome steps forward. The base of the planned general consumption tax should be broadened to domestically produced goods in conjunction with a comprehensive tax offset mechanism. In Sint Maarten, the sustainability of public finances hinges on steady implementation of reforms, including improving revenue administration, strengthening PFM and restoring financial sustainability of the health sector. It will be important to secure financing for these reforms to avoid delays.

The CBCS should strengthen its monetary policy to support the peg. The CBCS should develop the policy rate communicating the stance of monetary policy and be prepared to increase interest rates to prevent capital outflows. It should use its certificates of deposit more vigorously to absorb the excess liquidity. Over the longer term, the authorities should consider revising the current standing subscription framework to allow the development of domestic debt markets.

Risks in the financial sector need to be addressed as a matter of priority. The authorities should develop a strategy for addressing financial sector vulnerabilities with the objective of preserving financial stability while minimizing fiscal costs. A thorough diagnostic of deposit takers, along with a strategy to deal with any issue that may be identified, would help support financial stability. Significant strengthening of supervision and a complete overhaul of the bank resolution framework are also urgently needed. The authorities should be prepared to recapitalize the CBCS if costs related to monetary policy or addressing financial system vulnerabilities reduce its capital buffer.

Broad structural reforms would be key to enhancing potential growth in both countries. Strong efforts to improve the business environment, increase labor market flexibility while fine-tuning safety nets and addressing skills gaps are needed in both countries. Both countries should update their tourism master plans and Sint Maarten would benefit from a comprehensive disaster resilience strategy.

An across-the-board improvement in the governance framework should be a key priority in both countries. Vulnerabilities in the financial system point to the need to strengthen governance in the financial sector. The CBCS needs to complete its governance structure by appointing a President. Increased efforts are required to strengthen the AML/CFT framework in both countries. In the fiscal area, stronger internal controls and public financial management are needed to reduce opportunities for corruption. Both countries need to operationalize their integrity bodies.

It will be important to continue developing the capacity of public institutions and enhance the quality of statistics. In Sint Maarten, the authorities should enhance the capacity to absorb aid. In both countries, data availability and quality need to be improved significantly for effective surveillance.

Curaçao: Selected Economic and Financial Indicators, 2016–21

Area	444 (km^2)	Population, thousand (2017)	160
Percent of population below age 15 (2017)	18.7	Literacy rate, in percent (2010)	96.7
Percent of population aged 65+ (2017)	16.4	Life expectancy at birth, male (2016)	74.8
Infant mortality, over 1,000 live births (2016)	11.2	Life expectancy at birth, female (2016)	81.1

	2016	2017	2018	2019	2020	2021
		Prel.	Prel.	Est.	Proj.	
Real economy (percent change)						
Real GDP	-0.9	-1.7	-2.2	-2.0	0.0	1.5
CPI (12-month average)	0.0	1.6	2.6	2.6	3.7	2.9
Unemployment rate (percent)	13.3	14.1	13.4	19.0	19.0	18.1
General government finances (percent of GDP)						
Net operating (current) balance, central government	-0.4	-2.1	-1.2	-0.3	-0.7	1.1
Primary balance, general government	-3.1	-2.5	-1.0	-1.3	-1.2	0.8
Overall balance, general government	-4.1	-3.5	-2.1	-2.4	-2.4	-0.4
Central government debt 1/	50.6	54.5	54.6	54.0	56.0	54.0
Balance of payments (percent of GDP)						
Current account	-18.7	-21.9	-28.7	-20.8	-20.5	-19.1
Goods trade balance	-34.1	-33.5	-38.6	-33.9	-33.5	-35.5
Exports of goods	11.6	13.6	16.9	15.0	13.8	13.4
Imports of goods	45.7	47.1	55.5	48.9	47.3	48.8
Service balance	17.2	11.8	9.7	12.7	13.6	17.0
Exports of services	45.5	43.0	44.5	42.8	44.7	48.2
Imports of services	28.3	31.3	34.9	30.2	31.1	31.2
External debt (percent of GDP)	125.5	133.3	145.7	153.7	158.9	162.8
Memorandum items:						
Nominal GDP (millions of U.S. dollars)	3,122	3,117	3,128	3,146	3,263	3,408
Per capita GDP (U.S. dollars)	19,473	19,478	19,714	19,908	20,668	21,587
Per capita GDP (percent change)	-1.8	0.0	1.2	1.0	3.8	4.4
Private sector credit (percent change)	…	2.4	2.5	2.2	…	…

Fund position	Curaçao is part of the Kingdom of the Netherlands and does not have a separate quota.
Exchange rate	The Netherlands Antillean 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/ Defined as balance sheet liabilities of the central government except equities. Includes central government liabilities to the social security funds.

Sint Maarten: Selected Economic and Financial Indicators, 2016–21

Area	34 (km^2)	Population, thousand (2018)	41
Percent of population below age 15 (2018)	20.0	Literacy rate, in percent (2011)	93.8
Percent of population aged 65+ (2018)	7.9	Life expectancy at birth, male (2016)	74.0
Infant mortality, over 1,000 live births (2010)	6.0	Life expectancy at birth, female (2016)	80.6

	2016	2017	2018	2019	2020	2021
		Prel.	Prel.	Est.	Proj.	
Real economy (percent change)						
Real GDP	0.4	-8.4	-8.5	5.0	2.9	2.5
CPI (12-month average)	0.1	2.2	2.9	0.7	2.5	2.2
Unemployment rate (percent)	8.7	6.2	9.9	9.1	8.7	8.4
General government finances (percent of GDP)						
Primary balance excl. Trust Fund operations 1/	2.0	-2.9	-4.0	-0.8	-3.1	-2.3
Current balance (Authorities' definition) 2/	1.0	-4.0	-5.3	-1.9	-1.4	-1.0
Overall balance	1.4	-3.6	-3.8	-1.6	1.3	4.9
Central government debt 3/	44.5	46.0	54.4	51.3	52.6	55.3
Balance of payments (percent of GDP)						
Current account	-2.5	4.6	6.7	-24.8	-24.0	-17.0
Goods trade balance	-67.5	-63.0	-78.9	-75.3	-75.3	-74.7
Exports of goods	12.3	12.1	15.6	15.7	15.6	15.6
Imports of goods	79.8	75.1	94.4	91.1	90.9	90.2
Service balance	70.6	56.6	34.5	52.7	53.4	56.0
Exports of services	96.3	82.8	69.3	88.0	87.7	89.8
Imports of services	25.7	26.2	34.8	35.3	34.3	33.8
External debt (in percent of GDP)	236.0	267.1	266.3	265.0	255.4	252.8
Memorandum items:						
Nominal GDP (millions of U.S. dollars)	1,072	1,014	954	1,009	1,064	1,115
Per capita GDP (U.S. dollars)	27,203	25,010	23,495	24,526	25,545	26,423
Per capita GDP (percent change)	-2.4	-8.1	-6.1	4.4	4.2	3.4
Private sector credit (percent change)	…	-1.6	-1.7	0.9	…	…

Fund position	Sint Maarten is part of the Kingdom of the Netherlands and does not have a separate quota.
Exchange rate	The Netherlands Antillean 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/ Excludes capital expenditure and Trust Fund-financed special projects.

2/ Revenue excl. grants minus interest income, current expenditure and depreciation of fixed assets.

3/ The 2016 stock is based on financial statements. Values in subsequent years are staff's estimates and are higher than under authorites' definition.