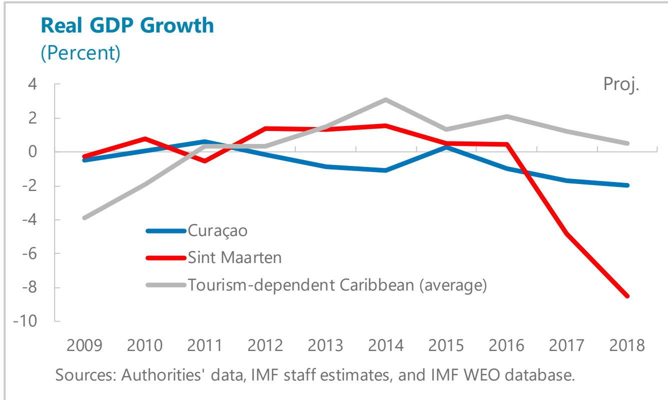
ANNEXES

CONTEXT: A UNION AT A DIFFICULT JUNCTURE

1. **Economic conditions in Curaçao and Sint Maarten, two autonomous constituent countries within the Kingdom of the Netherlands which comprise a monetary union, continued to deteriorate over the past years**. Negative external shocks further magnified the already-lackluster growth performance of both economies, exposing the underlying vulnerabilities and structural weaknesses. In Curaçao, the ongoing crisis in Venezuela—one of its main trading partners and just about 100km away—is taking a toll on the economy and creating major uncertainty for the outlook. In Sint Maarten, Hurricanes Irma and Maria had a devastating impact in September 2017, causing an estimated US$2.7 billion (over 250 percent of the island's GDP) in damages and losses.



2. **The political and institutional setting has been volatile**. In Curaçao, political instability dominated most of the early part of 2017, culminating in early general elections in April 2017. Facing challenges on both the growth and fiscal fronts, the authorities are looking into ways to boost investment. To support Sint Maarten's recovery, the Netherlands set up a reconstruction fund to be disbursed though a World Bank-administered Trust Fund, which became operational by July 2018. After a change of government following the hurricanes and early elections in February 2018, a new cabinet was sworn in in June, pursuing a program aimed at sustainable rebuilding and government restructuring.

RECENT ECONOMIC DEVELOPMENTS

A. Curaçao

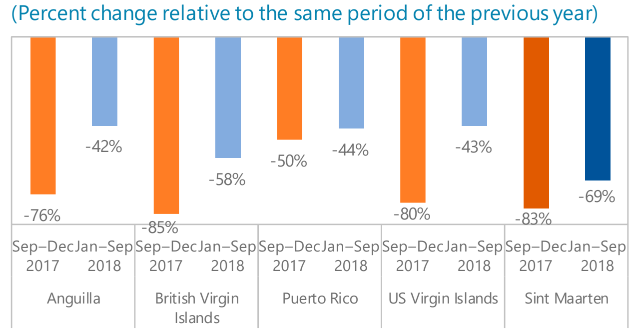
3. **Curaçao's economy contracted in 2016–17, marking five years of recession in the seven years since gaining autonomy in 2010** (Table 1 and Figure 1). Spillovers from Venezuela have been the main drag on growth, as trade shrunk, stay-over tourism from Venezuela dropped, and the Isla refinery operated by the Venezuelan state-owned oil and natural gas company, PDVSA, was underutilized and undermaintained. The construction sector, with a few major projects, was one of few bright spots amid an otherwise broad-based slowdown. Weak performance continued in the first half of 2018, as low refinery utilization more than offset the uptick in tourism. Inflation was zero in 2016 but rose to 1.6 percent (12-month moving average, y/y) by end-2017 driven by international prices, reaching 2.2 percent in September 2018. The unemployment rate increased from 11¾ percent in 2015 to about 14 percent in 2017.

4. **Curaçao's fiscal position worsened significantly, triggering corrective actions as stipulated by the rules of the union's fiscal supervision framework** (Table 2 and Figure 2). The current balance turned to a deficit of 0.6 percent in 2017 (from a surplus of close to 1 percent of GDP in 2015), as nontax revenues declined and spending on goods and services increased.[1] The overall balance also worsened due to construction outlays on a new hospital (1½ percent of GDP). Gross public debt rose to 50 percent of GDP in 2017 (from 44 percent of GDP at end-2015), mainly driven by the arrears to the public pension fund (APC) and the Social Insurance Bank (SVB). Given the breach of the rule, which prohibits current budget deficits, Curaçao is required to compensate NA*f* 117 million (2 percent of GDP) for past deficits by achieving current budget surpluses starting in 2018.

B. Sint Maarten

5. **Sint Maarten's growth has been decelerating since 2014, and the real GDP is estimated to have contracted by about 4¾ percent in 2017 following Hurricane Irma** (Table 3 and Figure 1).[2] With major tourism infrastructure (including the airport and big hotels) destroyed, cruise and stay-over tourist arrivals declined by about 25 percent (y/y) in 2017. Preliminary data suggest that the recovery, particularly in stay-over tourism, remains slower than in other hurricane-affected regional peers. Inflation increased in 2017 to 2.2 percent. With about half of the labor force engaged in the tourism sector, the labor market was severely affected although various arrangements to keep employees, such as via training and other programs helped cushion the impact. Total insurance claims amounted to about NA*f* 1 billion, of which about two thirds were paid by end-September 2018.

Stay-over Tourist Arrivals
(Percent change relative to the same period of the previous year)



Sources: Authorities' data, Caribbean Tourism Organization, and IMF staff calculations.

6. **While Sint Maarten's fiscal position was improving prior to Hurricane Irma, the large drop in tourism-related revenues and increase in expenditures significantly worsened the 2017 fiscal accounts** (Table 4 and Figure 2). The 2017 overall deficit reached 3½ percent of GDP, including about 2 percent of GDP in Irma-related expenditures. The liquidity shortfall was initially met by a drawdown in government deposits and eventually supported by a loan from the Netherlands of NA*f* 50 million. Gross public debt remained at about 34 percent of GDP by end-2017. In March 2018, the Kingdom Council of Ministers (the executive body of the Kingdom of the

[1] Using the authorities' definition of the current balance, which includes depreciation of fixed assets as an expenditure item, the current balance deteriorated from close to zero in 2015 to a deficit of 2.1 percent of GDP in 2017.

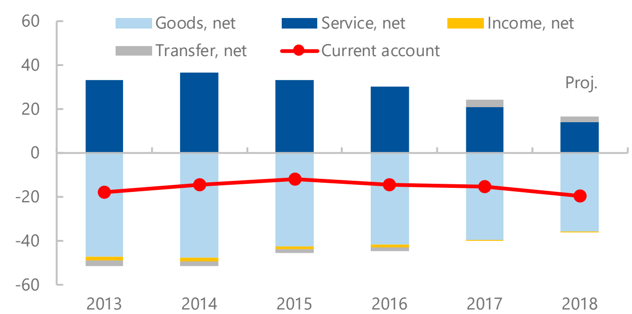
[2] According to the Centrale Bank van Curaçao en Sint Maarten, the real GDP contacted by 4.8 percent in 2017, while Sint Maarten's Department of Statistics estimates the contraction at 8.4 percent, reflecting a much larger drop in exports.

Netherlands) allowed for a temporary deviation from the balanced budget rule in 2017–18. To support the island's recovery, the Netherlands set up a €550 million reconstruction fund (about 65 percent of GDP), committing up to €470 million to be disbursed through a World Bank-administered Trust Fund until 2025. The operations of the Trust Fund are gradually stepping up, with three projects amounting to about US$103 million over 2018–23 approved as of mid-December 2018 and other projects under preparation.[3]

C. The Monetary Union

7. The external position of the union has deteriorated since 2015 (Table 5). The current account deficit continued to widen to 15 percent of the union GDP in 2017, as tourism receipts declined in both countries while imports increased in Curaçao due to higher oil prices and construction activities. In Sint Maarten, lower imports and insurance payouts kept the current account positive in 2017. Official reserves stood at US$1.3 billion (about 4½ months of imports) as of November 2018. External debt is estimated at about 74 percent of GDP in 2017, half of which is the government debt (in local currency) to the Netherlands. Curaçao's and Sint Maarten's real effective exchange rates (REERs) steadily appreciated in recent years. Staff's assessment, while complicated by data availability, suggests that the external positions of Curaçao and Sint Maarten are moderately weaker than justified by medium-term fundamentals and desirable policies (Annex II).

Monetary Union: Current Account
(Percent of GDP)



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

8. Broad money expanded strongly, and private credit grew despite the economic downturn in 2017 as excess liquidity remained high (Table 6 and Figure 3). The surge in demand deposits, likely reflecting inflows of post-hurricane insurance payouts, drove the growth in broad money supply. The increase in business and consumer loans in Curaçao more than offset the decline in private credit in Sint Maarten in 2017. Overall, private credit growth slowed in the first months of 2018. After keeping its pledging rate (at which commercial banks borrow from the central bank) at the historical low level of 1 percent since end-2008, the Centrale Bank van Curaçao en Sint Maarten (CBCS) increased it twice since 2017 to 2 percent, following the U.S. Federal funds rate hikes (given the exchange rate peg to the U.S. dollar).

9. Past weaknesses in the financial sector oversight have become evident. The CBCS has intervened by placing three financial institutions under emergency administration (including the largest private insurer and private pension administrator in Curaçao since July 2018) and has been providing short-term liquidity to some commercial banks (though there is high excess liquidity in

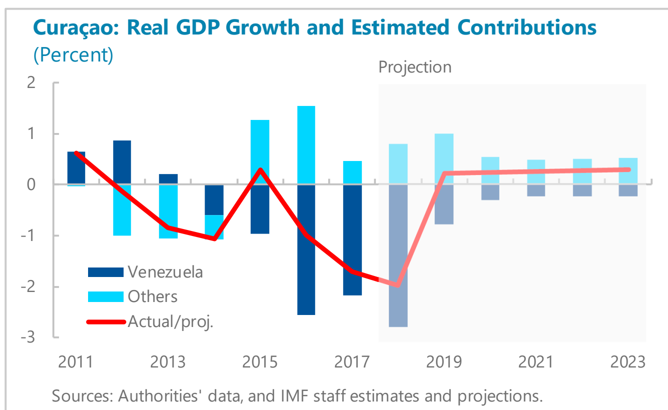
[3] See Informational Annex.

the banking system). Financial conditions of the banking sector deteriorated in 2017 (Table 7), including an increase in the NPL ratio. While the introduction by the CBCS of a New Chart of Accounts Reporting System for credit institutions in July 2016 created a break in the indicators and a data quality control is underway, preliminary data suggest that the net income of the banking sector was negative as of end-2017 (e.g., ROA was −0.5 percent) but improved somewhat in the first quarter of 2018, along with some improvements in the capital and NPL ratios.

10. Financial innovations are gaining traction. Curaçao officially licensed the first casino operating on a cryptocurrency platform in 2017. The first cryptocurrency investment fund was approved for listing on the Dutch Caribbean Securities Exchange in February 2018, and bitcoins are being accepted at a local supermarket. In August 2018, the CBCS signed a Memorandum of Understanding with a Barbados-based Fintech company to explore the feasibility of the CBCS issuing a digital currency, to facilitate digital financial payments within the monetary union.

OUTLOOK AND RISKS

11. Curaçao's economy is expected to start recovering in 2019 but remain on a subdued growth path. The staff's baseline—conditional on a continued negative outlook for Venezuela (as in the October 2018 World Economic Outlook)—assumes that (i) the Isla refinery would continue operations after the contract with PDVSA expires in 2019 but at a low capacity (given the lack of information on the new arrangement at this stage), and (ii) the gradual recovery in tourism will continue. Staff expects real GDP to contract further by 2 percent in 2018, before stabilizing at an average annual growth of 0.4 percent over the medium term, broadly in line with the CBCS projections. The negative output gap, estimated at about 2 percent in 2018, is expected to narrow gradually; however, absent major structural reforms, potential growth is estimated to remain negative and near zero (Annex III). Inflation will stabilize at 2½ percent.



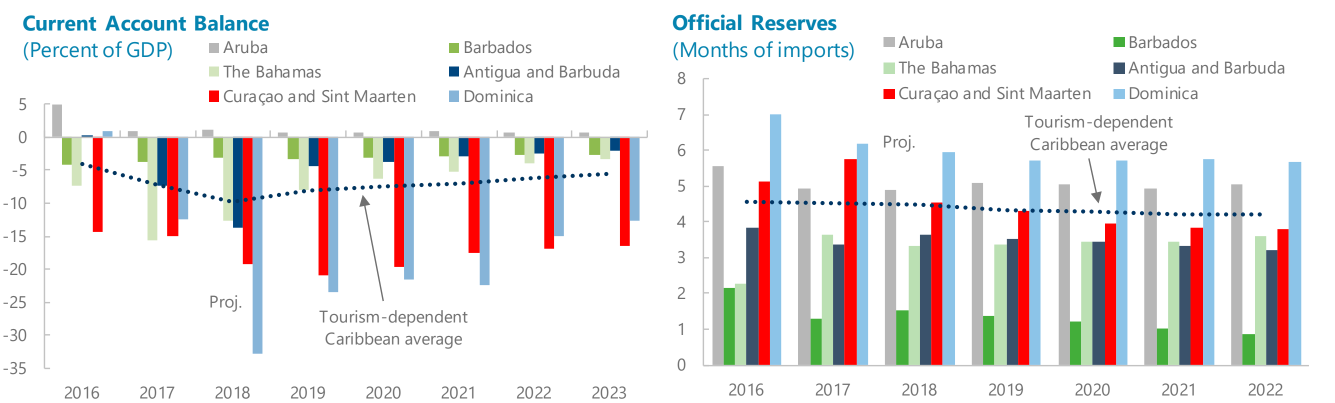
12. Sint Maarten's real GDP is projected to contract by 8½ percent in 2018 in the staff's baseline scenario, assuming a decline of about 45½ percent (y/y) in tourist arrivals. A combination of the recovery of the tourism industry and the strong investment for reconstruction is projected to turn output growth positive in 2019, and then to stay slightly above its historical trend of 1.8 percent real GDP growth over the medium term, remaining somewhat below regional peers. After a projected acceleration to 2¾ percent in 2018,[4] inflation is projected to remain at around 2 percent over the medium term. There is, however, significant uncertainty about the growth path

[4] There are no data on inflation for 2018 as the Department of Statistics discontinued the CPI processing system in end-2017 and is working on a new system which will be rolled out in January 2019, with the base year of 2018.

given limited information about the amount, types, and timing of reconstruction activities. The large gap between reconstruction needs (estimated at US$2.3 billion) and identified public and private financial resources (around US$1.2 billion) persists, slowing the pace of recovery.[5]

13. The union's current account deficit is projected to gradually narrow over the medium term but remain high compared to regional peers. Curaçao's current account deficit is expected to improve slightly as tourism receipts increase and construction-related imports decline. In Sint Maarten, post-hurricane construction imports are expected to keep the current account deficit in double digits as a share of GDP in 2018–20. Official reserves would stabilize close to 4 months of imports, in line with regional peers (Annex II).

Current Account Balance and Official Reserves



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

14. Risks to the outlook are mainly on the downside, reflecting external vulnerabilities and domestic structural weaknesses (Annex IV, Risk Assessment Matrix).

- *For the union*, weaker-than-expected global growth could curb tourism demand, slowing the much-needed tourism sector recovery. A stronger U.S. dollar (due to tightening of global financial conditions) could negatively impact the islands' competitiveness vis-à-vis non-U.S. tourist markets. The high current account deficit, especially if it widens further, and high excess liquidity in the banking system, if directed toward greater investments abroad, could pose a risk to external stability. A slow progress in strengthening financial sector oversight, AML/CFT frameworks, and central bank governance could lead to further losses of correspondent banking relationships (CBRs). The risk of cyber-attacks on public and other agencies is elevated due to weak IT systems and capacity.

[5] Historically, the speed of recovery following a natural disaster varied widely across countries, but in case of tropical cyclones (including hurricanes), studies find that their effects on output can be very persistent. For example, a comprehensive empirical study of the effects of tropical cyclones since 1950 finds that seven years after an average storm strikes, per capita output is almost 1 percent lower than if the storm had not happened (with 2.5 times larger losses experienced by small states), and even after 20 years, the economy has not fully recovered from the shock (October 2017 WEO, Chapter 3).

- *For Curaçao*, the continuing crisis in Venezuela is the main risk, causing also major uncertainty about the refinery's future. On the upside, quickly identifying a strategic partner for the refinery could boost growth and investment, while regional and cruise tourism could benefit from the recent port expansion and expected resumption of operations by a local air carrier.
- *For Sint Maarten*, where hurricanes remain a major risk, slower-than-expected progress on reconstruction, including the airport, implementation risks, and lower-than-projected re-investment of private insurance payouts pose further downside risks to the outlook and sustainability of the recovery. On the upside, availability of additional resources and faster implementation within well-defined priorities could speed up the recovery and raise growth.

Authorities' Views

15. The authorities broadly agreed with staff's views on the outlook and risks. In Curaçao, the authorities stressed the importance of the refinery as a key pillar of the economy and their efforts to secure short- and long-term solutions for its continued operations. They saw the ongoing infrastructure modernization and construction of new hotels, together with further investments in the tourism sector, as an upside risk to the outlook. On the downside, the authorities noted a risk of a refugee crisis from further disruptions in Venezuela. In Sint Maarten, the authorities pointed out the demand for hotel rooms and reconstruction, expecting hotel capacity to return to pre-hurricane levels by end-2020. They noted the downside risk from a hike in insurance premiums. Given the gap between the reconstruction needs and identified financial resources, the authorities' Governing Program 2018–2022 "Building a Sustainable Sint Maarten" stresses the need to find sufficient financing resources for rebuilding of Sint Maarten, including through prioritization, raising income, cutting costs, and seeking additional funding.

POLICY ISSUES

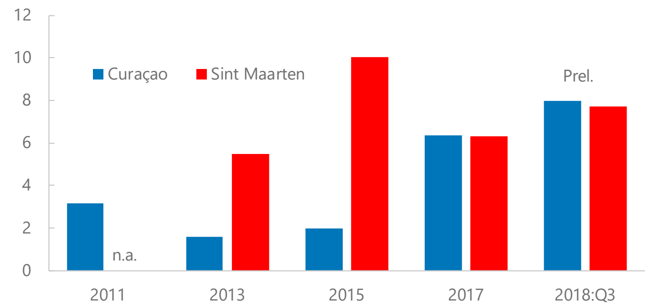
A. Fiscal Policy: Strengthening Fiscal Frameworks, Ensuring Fiscal Sustainability, and Building Resilience

16. Curaçao and Sint Maarten need to urgently adopt a medium-term fiscal framework with a long-term debt anchor. Fiscal challenges facing both economies and mixed compliance have exposed the shortcomings of the current rules-based framework. This includes the lack of a fiscal anchor, drawbacks of the balanced current budget rule, rigidities in capital spending, the lack of a well-defined 'escape clause' which allows for deviations from the rules in the face of major shocks, and stipulations to build fiscal buffers (Annex V). A well-designed fiscal framework should have a fiscal anchor linked to the final objective of fiscal policy (debt sustainability) and an operational rule (or rules) on fiscal aggregates, such as spending rules, that are under the control of the government. As recommended previously, the level of 40 percent of GDP can be used as a desirable long-term debt anchor; a further specialized assessment would be needed to look into both the country-specific design and calibration of the fiscal framework and rules.[6]

17. In both countries, fiscal risks should be addressed through structural measures and greater fiscal transparency.

- Budgetary arrears vis-à-vis the social security and pension funds have become endemic. While greater fiscal discipline and tight spending controls would prevent future arrears, further reforms to ensure financial viability of the social security funds and the healthcare systems are needed.

Stock of Government Domestic Arrears
(Percent of GDP)



Sources: Authorities' data, and IMF staff calculations.

- Reliance on one-off non-tax revenues from state-owned enterprises (SOEs) undermines fiscal discipline and potentially creates quasi-fiscal costs and contingent liabilities by shifting costs outside the budget. A clear framework for SOEs, including a predictable and balanced dividend policy, would need to be put in place.

- Fiscal transparency, reporting and coverage would need to improve significantly, to facilitate policy analyses and assess financing and liquidity needs, including by adopting international standards on government finance statistics (Government Finance Statistics Manual). It is important that the budgets have a comprehensive coverage to transparently and consistently account for social security funds, and in the case of Sint Maarten, also include the Dutch fund for reconstruction purposes. Use of extra-budgetary funds, including for investment, should be avoided; at a minimum, their data should be consolidated with the budget, and a coherent public investment management framework developed. Budgetary decisions should be aligned with the governments' policy priorities.

Curaçao: Significant Fiscal Deterioration and Risks Call for a Strong Structural Response

18. Curaçao's fiscal position is expected to improve from 2018, though falling short of the needed adjustment to compensate for the 2017 deficit (Table 2). The authorities are implementing a package of measures focused on multi-year cuts in personnel expenditure, across-the-board reductions in spending on goods and services, and revenue administration. The measures aim to achieve a cumulative current budget surplus of NA*f* 117 million in 2018–20. Staff projects the

[6] A debt ceiling should preferably be set first, including a sufficient safety margin to absorb shocks. The ceiling would then be used to calibrate operational rules consistent with it. The recommended level of 40 percent of GDP long-term debt anchor is close to the average debt ratio in emerging market and middle-income economies over the past decade, and to the median of countries with a similar credit rating as Curaçao and Sint Maarten.

current balance to improve by about 2½ percentage points of GDP in 2018, but still not reaching the current budget surplus expected in the amended 2018 budget.

Curaçao: Fiscal Projections and Comparison
(Millions of NA*f*)

	Prel.	2018 Proj.		2019 Proj.	
	2017	Budget Amend.	IMF	Draft Budget	IMF
Revenue	2,439	2,480	2,465	2,493	2,516
Revenue excl. SVB	*1,639*	*1,691*	*1,676*	*1,699*	*1,707*
Tax	1,447	1,468	1,478	1,502	1,525
Non-tax	972	990	969	974	973
Grants	20	22	18	17	19
Expenditure	2,632	2,494	2,494	2,515	2,556
Expenditure excl. SVB	*1,832*	*1,705*	*1,705*	*1,721*	*1,747*
Current	2,470	2,359	2,359	2,373	2,412
Capital expenditure	162	136	136	142	144
Overall balance	-193	-15	-29	-22	-40
Current balance, IMF	-35	121	106	120	103
Current balance 1/	-117	42	28	40	23

1/ Includes depreciation.

19. Additional structural fiscal measures would be needed to put the public debt on a sustainable downward path. Even with the authorities' target current balances expected to record surpluses over the medium term, the overall budget deficit will remain at about 1¼ of GDP in the staff's baseline. Importantly, this masks a continuing deterioration of the SVB accounts (which the authorities stopped consolidating in their reports in 2018), assumed to be covered through the SVB reserves. In the staff's baseline, the new hospital will have a negative fiscal impact as its higher operating costs are not fully offset by cost-saving measures (Annex VI). Gross public debt will decline slowly, remaining at about 47½ percent of GDP by 2023 (Annex VII). To bring debt down closer to 40 percent over the medium term, an improvement in the overall balance of about 1¾ percent of GDP relative to the baseline would be needed in 2019–23. A tighter fiscal policy stance would also help strengthen external stability.

Curaçao: Fiscal Scenarios
(Percent of GDP unless otherwise indicated)

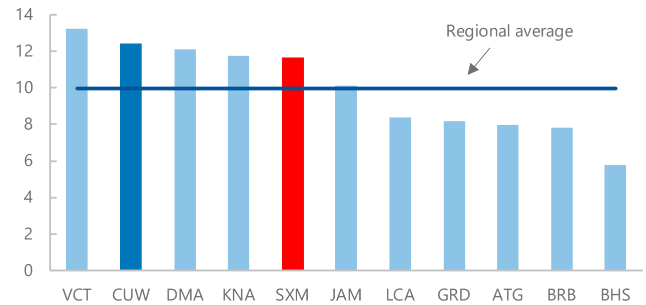
	2018	2019	2020	2021	2022	2023
Baseline						
Current balance - Auth., mln NA*f* 1/	27.8	23.3	8.1	8.9	13.9	15.6
Cumulative (mln NA*f*) 1/	27.8	51.2	59.2	68.1	82.0	97.6
Overall balance	-0.5	-0.7	-1.0	-1.0	-1.3	-1.3
Public debt	48.9	48.4	48.1	47.7	47.6	47.5
Alternative Scenario						
Current balance - Auth., mln NA*f* 1/	27.8	75.8	103.7	146.9	192.5	223.5
Cumulative (mln NA*f*) 1/	27.8	103.7	207.4	354.3	546.8	770.3
Overall balance	-0.5	0.0	0.3	0.6	0.5	0.5
Public debt	48.9	47.7	46.1	44.2	42.4	40.7

1/ Authorities' definition: includes depreciation.

20. Staff discussed a possible strategy to create space for fiscal buffers and public investment through further structural reductions in current spending and greater revenue mobilization. To support this effort and make it sustainable, the adjustments would need to be accompanied by structural improvements in revenue administration, adjustments in public services provision (such as through a comprehensive public expenditure review), organization of public administration, and stronger public financial management.

- *Public sector wage bill*. With about one quarter of total employed working in the public sector, Curaçao's public sector wage bill (at close to 12½ percent of GDP) is among the highest in the region. Reducing it closer to the regional average by 2023 would generate about 1½ percent of GDP in savings. Such reduction could be achieved through attrition, a hiring freeze, review of non-wage benefits, preferably within a broader civil service reform to modernize service delivery and make it more efficient and performance-oriented. The envisaged CARTAC technical assistance (TA) on personnel/payroll controls could contribute to this end.

Public Sector Wage Bill, 2017
(Percent of GDP)



Sources: Authorities' data, IMF WEO database, and IMF staff estimates.

- *Health and social insurance*. The persistent deficits of the largest health and social insurance schemes call for further measures (Annex VI). Despite past reforms, the general old-age pension fund (AOV) remains underfunded, and the APC struggles to meet its target coverage ratio. Consideration should be given to further increasing the retirement age. Despite expected savings on medical services, further cost-cutting measures should be identified to offset the higher operating costs of the new hospital (especially if contributions do not rise). The design of some social welfare schemes (like sickness insurance and unemployment benefits) appears to create serious disincentives to work and would need to be reformed. Ensuring that the operations of the new hospital would be budget-neutral and the AOV is more self-sustainable are assumed to provide additional savings of ¾ percent of GDP by 2023.

- *Revenue administration* reforms could help mobilize additional revenue of 0.2 percent of GDP annually, supported by TA in this area. Additional revenue from better tax administration could be saved to increase the fiscal buffers.

- *Fiscal buffers and public investment*. The created fiscal space, in addition to providing a fiscal buffer, would allow a gradual increase in public investment over the medium term.

Authorities' Views

21. **Maintaining a balanced current budget is one of the authorities' main priorities, and they emphasized their continuing efforts to compensate for the 2017 deficit**, in line with the agreement with the Cft (the Dutch-led Financial Supervision Board). They pointed out the multi-year nature of the ongoing cuts in personnel expenditure and across-the-board reductions in spending on goods and services and expressed readiness to look into possible implementation of the staff's recommendations for further structural reductions and reforms. The authorities were mindful of the need to reduce the government debt closer to 40 percent of GDP and are considering options to reduce the large stock of arrears to the APC. They have embarked on technical assistance in revenue

administration from the CARTAC, stepped up tax collection efforts, and noted the need to simplify tax filing and legislation. Sharing the concern about sustainability of social security schemes, the authorities are discussing solutions, including to reduce some non-contributory pension programs although excluding a further increase in the retirement age. They took note of the recommendations concerning the use of extra-budgetary funds, including for investment which they plan to finance primarily through privatization proceeds.

Sint Maarten: Post-Hurricane Response Requires Clear Prioritization and Strengthening Fiscal Resilience, with Critical Donor Support

22. After a significant deterioration in 2018, Sint Maarten's fiscal position is expected to improve from 2019, as the economy recovers, and the envisaged measures are enacted (Table 4).[7] The fiscal outturn in the first nine months of 2018 has been better than envisaged in the budget, with revenue collection overperforming budget expectations. Spending remained contained, reflecting in part delays in filling public sector vacancies. The stronger base would lead to higher revenue in 2019 compared to the authorities' draft budget. The 2018 budget amendment and the 2019 draft budget include some measures to contain spending such as enacting a civil service pension reform and lower personnel costs.

Sint Maarten: Fiscal Projections and Comparison
(Millions of NA*f*)

	Prel.	2018 Proj.		2019 Proj.	
	2017	Budget Amend.	IMF 1/	Draft Budget	IMF 1/
Total Revenue	*408.1*	*350.7*	*414.7*	*413.6*	*464.0*
Total Revenue excl. grants	408.1	350.7	378.9	413.6	404.0
Tax Revenue, o/w:	339.8	302.6	325.1	337.5	343.0
Wage Tax	135.3	134.6	138.8	148.1	146.0
Turnover Tax	117.6	108.8	116.8	118.9	121.6
Nontax Revenue	68.4	48.1	53.9	76.1	61.0
Grants	*0.0*	*0.0*	*35.8*	*0.0*	*60.0*
Total Expenditure	*473.4*	*531.6*	*538.5*	*578.2*	*540.5*
Current Expenditure, o/w:	470.2	481.0	481.0	487.9	450.5
Employee Compensation 2/	217.8	208.1	208.1	216.4	201.1
Goods & Services	153.8	151.6	151.6	149.0	133.5
Capital Expenditure	3.2	50.6	21.7	90.2	30.0
Special Projects	*0.0*	*0.0*	*35.8*	*0.0*	*60.0*
Current Balance incl. grants 3/	*-62.0*	*-130.3*	*-66.2*	*-74.3*	*13.5*
Current Balance excl. grants 3/	-62.0	-130.3	-102.0	-74.3	-46.5
Overall Balance	-65.2	-180.9	-123.7	-164.6	-76.5

1/ IMF projections incorporate Special Projects financed through Grants from the Trust Fund; these are not included in the authorities' budget. 2/ Social security payments to civil servants were reclassified from transfers to compensation. 3/ Excludes depreciation.

23. Donor budget support will be critical for 2018–20. Donor budget support, totaling NA*f* 256 million (about US$140 million)—of which one third for capital spending—remains critical in 2018–20. On July 7, 2018, the Kingdom Council of Ministers approved Sint Maarten's request for liquidity support in 2018, and the modalities for deficit financing have been under discussion as of end-November. The staff's baseline assumes that the World Bank-managed Trust Fund will be used for reconstruction projects though grant financing, while the overall budget deficits (that is both current budget deficit and non-Trust Fund capital expenditure) will be financed through loans, within the "standing subscription" arrangement (Annex V).

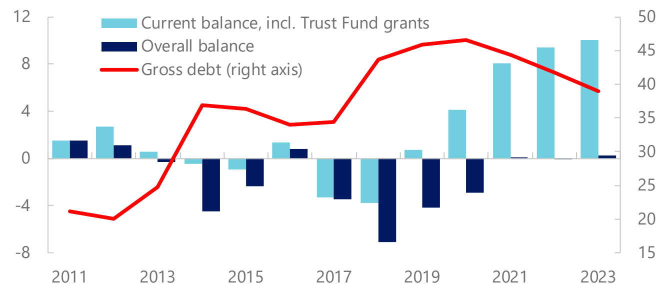
24. There is a need for clear prioritization of government spending independently of the source of financing. As a medium-term plan underpinning their Governing Program and based in

[7] The staff's baseline scenario assumes that the World-Bank managed projects are financed through grants and the remaining budgetary shortfall is financed through loans, with resources outside the Trust Fund.

part on staff's recommendations, the authorities have prepared a Financial Recovery Plan (FRP) 2018–2022. It envisages tax administration measures and tax reforms to increase revenue, plans to identify cost-cutting measures, repayment of arrears and building a fiscal buffer, as well as improvements in public financial management and government efficiency and modernization. In addition to the Trust Fund, the FRP assumes about US$410 million in loans over 2019–25 to finance capital expenditure and stimulate the economy. While the FRP assumptions may change (given the ongoing discussions on the modalities of deficit financing), such a borrowing scenario raises risks to fiscal sustainability. The program and implementation framework within the government should be strengthened around a comprehensive and clear budget plan, which should cover all priority projects (including the Trust Fund), be fiscally sustainable, and duly consider implementation and absorption capacity. The Ministry of Finance should build capacity to carry out medium-term macro-fiscal analysis, with a consolidated view on public finances and strong coordination within budget processes.

25. **Significant fiscal effort will be needed over the medium term to ensure debt sustainability and build fiscal resilience**. Fiscal measures leading to an overall budget surplus of ¼ percent of GDP by 2023 (an improvement of about 1 percent of GDP relative to pre-hurricane average deficit of 0.6 percent of GDP in 2011–16) would ensure a firm decline of the debt-to-GDP ratio. Government debt is projected to peak at 46½ percent of GDP in 2020 before declining toward 40 percent by 2023. The path, however, is sensitive to adverse shocks, peaking at 63¾ percent of GDP in 2020 under a combination of low growth and a natural disaster shocks (Annex VII).

Sint Maarten: Fiscal Balances and Gross Debt
(Percent of GDP)

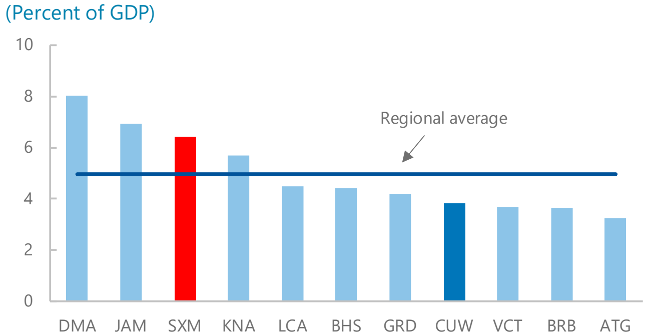


Sources: Authorities' data, and IMF staff estimates.

26. **Staff presented options for potential fiscal savings and building resilience over the medium term**.

- *Spending measures*. To rein in current spending, the authorities could, among other options, consider rationalizing spending on goods and services, reducing the cost of politics (such as wages and benefits of high public office holders), implementing a hiring freeze in the public sector and a pension reform. The envisaged introduction of a general health insurance should be budget-neutral (Annex VI).

Expenditures on Goods and Services, 2017
(Percent of GDP)



Sources: Authorities' data, IMF WEO database, and IMF staff estimates.

- *Revenue measures*. In addition to strengthening tax administration, simplifying tax filing, effectively utilizing new IT-systems, and expanding the taxpayer base to include new businesses (such as in the construction sector) could boost revenue.
- *Fiscal buffer*. Sint Maarten's recent membership of the Caribbean Catastrophe Risk Insurance Facility is a welcome step towards a broader disaster risk financing strategy which should include creating a fiscal buffer. The staff's baseline envisages annual allocations in the amount of ½ percent of GDP, using as a guidance estimates from the staff advice provided to peer countries (for example, The Bahamas).

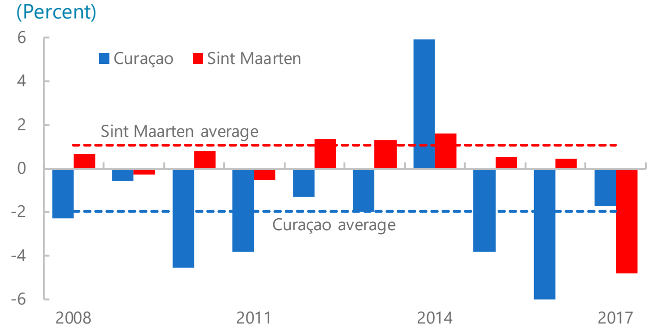
Authorities' Views

27. The authorities broadly concurred with the staff's assessment of the fiscal outlook for 2018–19 and expect to achieve current budget surpluses after 2020. They pointed out the initial steps taken to strengthen tax administration, also with technical assistance from the regional Dutch counterparts. They are also working on a health system reform, including a new hospital and a general health insurance which they expect will increase coverage and transparency and achieve financial sustainability. The authorities noted that their Financial Recovery Plan (FRP), based in part on the IMF recommendations, presents an alternative scenario where additional financing (other than the Trust Fund and insurance payouts) through loans is used to cover part of the reconstruction needs and other government priorities. While noting that, under the extraordinary circumstances, the public debt will increase over the recommended 40 percent of GDP norm (in the FRP, it peaks at 66½ percent of GDP), the authorities expressed interest in looking into a Sint Maarten-specific assessment of a public debt ceiling to be used as a long-term fiscal anchor.

B. Enhancing Potential Growth and Competitiveness

28. Recent developments in the union underscore the urgent need to address the long-standing underlying structural weaknesses and strengthen productivity and competitiveness. Cumbersome regulations, red tape, weak governance, antiquated tax and labor laws, skills mismatches and restrictive labor markets, high energy costs and infrastructure bottlenecks, combined with political volatility, are among the main structural impediments to growth in these economies. In Curaçao, the authorities' plans to simplify administrative procedures for business and work permits should be implemented without delay, supported by all involved ministries and agencies. In Sint Maarten, the government should streamline administrative requirements and regulations for businesses to facilitate the recovery. In both countries, labor market mismatches need to be addressed through retraining, improvements in educational and vocational training programs, and labor market regulations should facilitate

Labor Productivity Growth
(Percent)



Sources: Authorities' data, and IMF staff estmates and projections.

economic adjustments. Boosting productivity would also contribute to strengthening external competitiveness.

29. Improving the business environment is essential to promote diversification in tourism and other sectors and strengthen economic resilience. A strong tourism sector, with a modern and efficient infrastructure, high-quality accommodation, and a clean environment, could create further opportunities for other business, educational, and medical service sectors to develop around it. In Sint Maarten, improving resilience against natural disasters through enforcing hurricane-resistance building standards, regularly maintaining key infrastructure, and developing a crisis recovery framework could minimize hurricane damage as well as enhance long-term growth via stronger investor confidence. Ensuring policy continuity and political stability are critical factors for supporting business investment decisions.

Authorities' Views

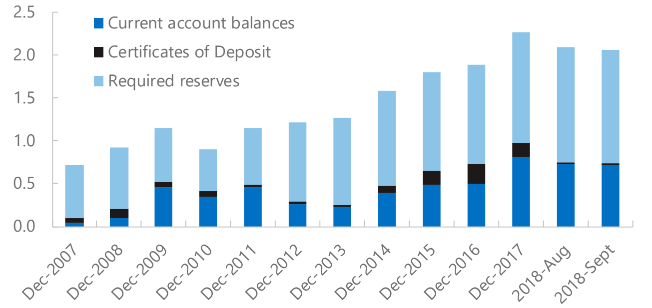
30. The authorities acknowledged the structural weaknesses affecting the economic performance and the need to eliminate the red tape, reduce cost of doing business and address labor market mismatches while promoting flexibility and security (flexicurity) in the labor market. In Curaçao, building on the National Development Plan 2015–2030 and the 2013 (TAC) report on "Strategies for Sustainable Long-Term Economic Development in Curaçao", the authorities are working on a growth strategy, which will focus on policies to boost private investment. They noted concrete plans to simplify administrative procedures for business and work permits, including launching an automated application system, implementing ex-post (as opposed to ex-ante) controls, and revising the 1946 Establishment Law. They plan to enact some of these measures before March 2019 and were optimistic that it would be possible to re/train the labor force within a short period of time to match new labor demands. As highlighted in Sint Maarten's Governing Program, the authorities see the post-hurricane recovery as a new opportunity for growth and general improvements. They noted the steps taken to facilitate building permits (by not requiring permits if just for rebuilding) and implement an expedited process for foreign worker permit for the construction sector. The authorities also stressed their plans to finalize the labor reform by executing the 2016 consensus document from the labor tripartite committee and, in this context, are revising the Civil Code to stem the misuse of short-term contracts.

C. Safeguarding External Stability

31. Policies in both countries and at the union level should contribute to strengthening external stability. A faster and sustainable improvement in the fiscal positions (Section A above) and structural reforms to boost competitiveness (Section B) would help safeguard external stability, especially over the medium term. High excess liquidity in the banking system—which largely reflects liquidity injections following the 2009–10 debt relief provided by the Dutch government and limited availability of domestic investment instruments—could put pressure on official reserves in the context of tightening U.S. monetary policy. The CBCS should continue to closely monitor developments in official reserves and remain ready to act if pressures emerge.

32. **The role of monetary policy in supporting external stability, including through a further reduction of excess liquidity, would need to be further evaluated**. While the CBCS has been increasing its policy rate in line with the U.S. Federal Reserve, competition among highly liquid banks and institutional investors has kept downward pressure on the interest rates domestically, creating incentives to search for higher returns abroad. Furthermore, according to the CBCS, the prolonged period of excess liquidity has also rendered the standard monetary policy instruments (auctioning of Certificates of Deposit and the reserve requirement) largely ineffective. Staff welcomes the CBCS's intention to improve liquidity management, while helping to create local investment opportunities, such as reducing its outstanding loans to SOEs.

Central Bank Liabilities to Deposit Money Banks
(Billions of NA*f*)



Source: Centrale Bank van Curaçao and Sint Maarten.

Authorities' Views

33. **The CBCS is looking into ways to improve the monetary policy framework and the effectiveness of its instruments for liquidity management and requested a TA in this area**. They noted that, in June 2018, the Dutch government paid off the final bond loan of the former Netherlands Antilles taken over under the debt relief program, ending the associated foreign exchange inflow (CBCS "Condensed Balance Sheet" August 2018). Previously, the holders of these securities (local private and institutional investors) reinvested only part of the received interest and principal payments abroad because of the very low international interest rates and the uncertainty in the securities markets. However, as the international interest rates are gradually rising, and the securities markets have improved, the appetite to invest more funds abroad increased. The CBCS monitors the developments in the official reserves closely and is committed to take timely measures as needed.

D. Reinforcing Financial Sector Oversight

34. **Staff discussed the ongoing regulatory changes in the financial sector, stressing the urgent need to further strengthen financial sector oversight**. Enforcement and gaps in the regulatory framework (such as inability to issue fines) are seen as the key areas of weakness in financial supervision and are the ones on which the authorities are currently focusing. The risks from withdrawal of CBRs persist, and the CBCS is strengthening its AML/CFT efforts and closely monitoring the institutions as regards to their CBRs, requiring those classified as medium risk to provide a de-risking contingency plan (or an action plan for high-risk institutions detailing how the forthcoming loss will be resolved). The process of updating macroprudential databases should conclude as quickly as possible to contribute to effective financial sector surveillance. As the authorities are working to develop a clear vision on Fintech companies and the application of new

technology-driven financial products and services, staff advised to remain cautious, balancing the tradeoffs between potential efficiency gains and risks to stability and integrity, especially given the need to strengthen regulation and supervision of the traditional banking sector.

Authorities' Views

35. The authorities fully recognize the need to further strengthen financial sector supervision and plan to intensify it, along with strengthening the penalty regime and enforcement and seeking TA. Following the meetings between the CBCS and the U.S. Department of the Treasury, the CBCS established a De–Risking Task Force which developed an action plan to help successfully address the CBR/de-risking problem. In Curaçao, the authorities are working intensively to comply with the international standards on transparency and exchange of information for tax purposes (including preferential tax regimes) to protect the financial sector. In Sint Maarten, the authorities plan to implement the OECD Common Reporting Standards in 2019.

E. Strengthening Governance

36. Governance concerns remain at the forefront in both countries. Weak revenue and spending outcomes, limited transparency, inefficient public administration, weaknesses in central bank governance, and cases of corruption, tax fraud, and money laundering point to important challenges in the areas of governance and integrity. Both countries have taken first steps towards establishing an integrity body to combat corruption and promote integrity within the public administration. In Sint Maarten, the recently established Integrity Chamber—an independent body with broad powers, including to investigate suspected misconduct in public office and issue binding recommendations—needs to be operationalized; in Curaçao, the draft national ordinance to establish an Integrity Bureau is yet to be adopted.

37. Staff was encouraged by recent changes in the CBCS governance. There have been important gaps in central bank governance as demonstrated by a long-lasting absence of the CBCS president, efforts to enhance internal oversight, and weaknesses in financial sector supervision. The Supervisory Board of the CBCS was completed by early 2018, the CBCS has adopted a new Strategic Plan, supported by all stakeholders, and has taken actions to address financial stability risks (paragraph 9). Completing the CBCS Executive Board as quickly as possible is key to further strengthening the central bank governance.

38. Progress is also being made on strengthening the AML/CFT framework, especially on the regulatory front, but implementation needs to be accelerated. Staff discussed the actions being taken on the implementation of the 2012 Financial Action Task Force (FATF) standard, including the National Risk Assessment (NRA), and on the measures taken to ensure the effectiveness of enhanced due diligence for politically exposed persons (PEPs). The CBCS has provided guidance on detection and deterrence of money laundering/terrorist financing, including PEPs in the customer-risk categories. Strengthening the asset declaration regime, in particular to broaden its scope (currently only applies to (candidate) ministers in Curaçao), would assist anti-corruption bodies' efforts to detect illicit enrichment and financial institutions' implementation of AML preventive measures on PEPs.

Authorities' Views

39. The authorities agreed with the need to strengthen the central bank governance and stressed their intention to complete the permanent CBCS Executive Board in a short period of time. Strengthening transparency is also one of the key objectives in the newly adopted CBCS Strategic Plan. The CBCS noted the progress being made on the NRA for Curaçao (to comply with the 2012 FATF Recommendation 1), with the help of the World Bank tool, which is expected to be completed by June 2019. The authorities are also revising regulations to strengthen the CBCS's AML/CFT framework on enforcement actions and enhancing the sector's awareness of AML/CFT compliance, including through training. To promote good governance, the authorities in Curaçao and Sint Maarten are working on establishing/operationalizing integrity chambers.

F. Building Capacity and Addressing Important Data Gaps

40. Current policy challenges have intensified the critical capacity- and institution-building needs that Curaçao and Sint Maarten have been facing. Strengthening institutions with a medium-term and macro-fiscal focus (including through building capacity for macro-fiscal analysis), addressing weaknesses in tax administration, public financial management, and IT systems, would help improve policy implementation and contribute to stronger growth. The authorities are encouraged to seek TA in these areas and consider Sint Maarten's membership to CARTAC, following Curaçao's membership in 2017.

41. Efforts to strengthen statistics and address critical data gaps should continue. Adequate resources would need to be allocated to this end, such as for revamping the National Accounts statistics in Curaçao in line with the recent CARTAC TA recommendations.

Authorities' Views

42. The authorities recognize the need to further strengthen capacity in public administration and improve data quality and availability. In Curaçao, the authorities plan to further collaborate with the CARTAC, while in Sint Maarten, they are seeking assistance primarily within the Kingdom of the Netherlands and remain engaged with the World Bank in the context of the Trust Fund and the IMF on macro-fiscal framework, while CARTAC is being considered as well.

STAFF APPRAISAL

43. Weak growth and underlying structural vulnerabilities persist in both Curaçao and Sint Maarten. Large negative external shocks—including spillovers from one of Curaçao's largest trading partners and the impact of Hurricanes Irma and Maria on Sint Maarten— have significantly magnified these weaknesses. The fiscal and external positions of both countries have deteriorated, and high uncertainty is weighing on economic activity and outlook.

44. After another year of recession in 2018 in both Curaçao and Sint Maarten, growth will pick up slowly over the medium term. However, without major structural reforms, growth in Curaçao will remain weak. In Sint Maarten, a speedy and sustainable recovery and post-hurricane rebuilding remain the main priority. Risks are mainly on the downside reflecting both external and domestic vulnerabilities. The union's current account deficit is expected to gradually improve over the medium term but remain elevated.

45. Curaçao and Sint Maarten should adopt a medium-term fiscal framework, with a long-term debt anchor, to help address structural fiscal challenges in a sustainable way. Further reforms are needed to ensure financial viability of the countries' social security funds and healthcare systems and to systemically address budgetary arrears and fiscal risks. To facilitate effective policy analyses and decision-making, it is imperative to improve fiscal transparency, reporting and coverage, including by adopting international standards on government finance statistics. Budgetary decisions should be aligned with the governments' policy priorities. Fiscal institutions and public financial management systems should be strengthened to support the implementation, monitoring, and enforcement of the medium-term fiscal framework and rules.

46. Fiscal effort should continue in both countries. Curaçao's fiscal position is expected to improve from 2018, reflecting the authorities' multiyear fiscal adjustment package. However, additional effort would be needed to put the public debt on a sustainable downward path. Further structural reductions in current spending and enhanced revenue mobilization would create space for fiscal buffers and public investment. After the sizeable post-hurricane deterioration, Sint Maarten's fiscal position is also expected to improve as the economy recovers. While donor budget support is critical in 2018–20, significant fiscal effort—within a well-prioritized and comprehensive fiscal plan—would be needed over the medium term to ensure debt sustainability and build fiscal resilience.

47. Structural impediments continue to stifle growth in the union and should be decisively tackled. Red tape, weak governance, antiquated regulations, skills mismatches, and infrastructure bottlenecks are among the key impediments facing the private sector in both countries. Reducing costs of doing business, including through streamlining and modernizing regulations, and facilitating economic adjustments and attracting investments through improved business environment, resilient infrastructure, and more dynamic labor markets should help enhance growth, productivity, and competitiveness of the economies.

48. Fiscal policy and structural reforms in both countries should contribute to safeguarding external stability. The external positions of Curaçao and Sint Maarten are moderately weaker than justified by medium-term fundamentals and desirable policies. While the fixed exchange rate regime limits the effectiveness of monetary policy, high excess liquidity in the banking system poses challenges to liquidity management and could put pressure on official reserves. The authorities' efforts to improve the monetary policy framework are welcome, and they should aim to reduce excess liquidity while continuing to closely monitor developments in official reserves, remaining ready to act if pressures emerge.

49. There is an urgent need to further reinforce financial sector oversight and monitor the risks from the withdrawal of CBRs. The authorities' emphasis on strengthening the enforcement, addressing regulatory gaps, and collaborating internationally to alleviate CBR pressures are steps in the right direction. Macroprudential databases should be completed and macroprudential policy framework utilized to bolster financial sector resilience. The efforts to comply with the international standards on AML/CFT, transparency and exchange of information for tax purposes (Curaçao) and the OECD Common Reporting Standards (Sint Maarten) should continue. The authorities' cautious approach to financial innovations is warranted, helping balance the tradeoffs between potential efficiency gains and risks to stability and integrity.

50. Efforts to improve governance should intensify, including by strengthening anti-corruption institutions, promptly taking steps to operationalize the Integrity Chamber for Sint Maarten and establishing one for Curaçao, completing the CBCS Executive Board, successfully carrying out the NRA, and effectively implementing the AML/CFT framework to comply with the 2012 FATF Recommendations.

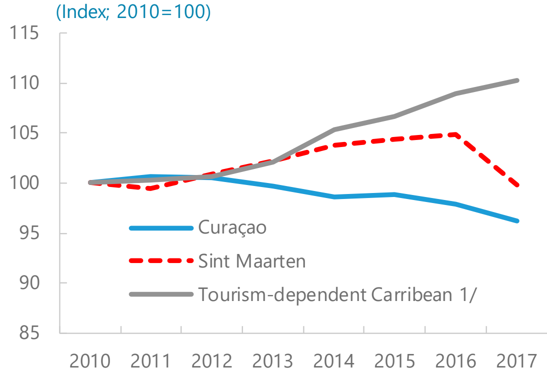
51. Developing capacity in public institutions and improving statistics remain a key priority. The authorities' efforts to seek TA in various fiscal and monetary policy areas are welcome. Data quality and availability need to be strengthened significantly for effective surveillance.

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

Figure 1. Curaçao and Sint Maarten: Real Sector Developments

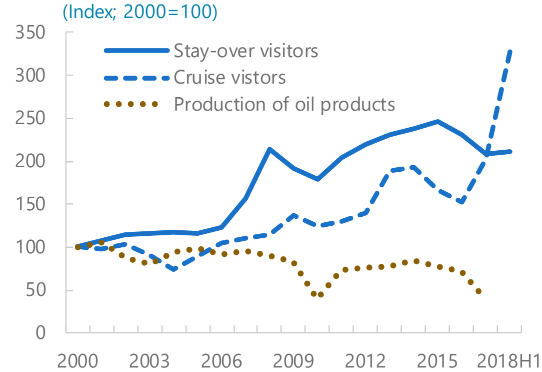
Economic activity continued decelerating in Curaçao, and real GDP plummeted in Sint Maarten after Hurricane Irma.

Real GDP
(Index; 2010=100)



In Curaçao, the refinery production nearly halved in 2017, while stayover tourism stabilized, and cruise tourism surged since 2017.

Curaçao: Tourism Sector and Refinery Production
(Index; 2000=100)

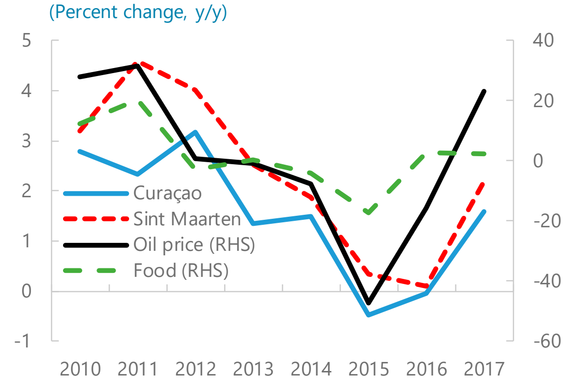


Tourist arrivals dropped significantly in Sint Maarten.

Sint Maarten: Tourism Sector
(Index; 2000=100)

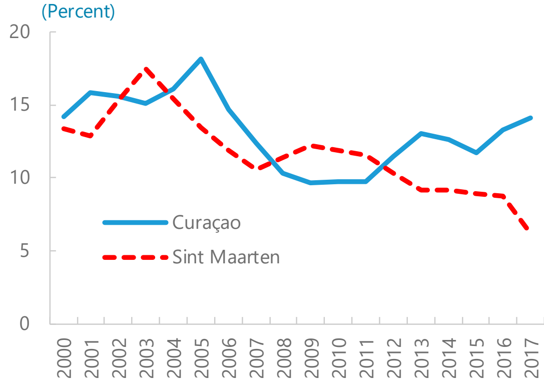
Inflation accelerated, mainly due to international prices.

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



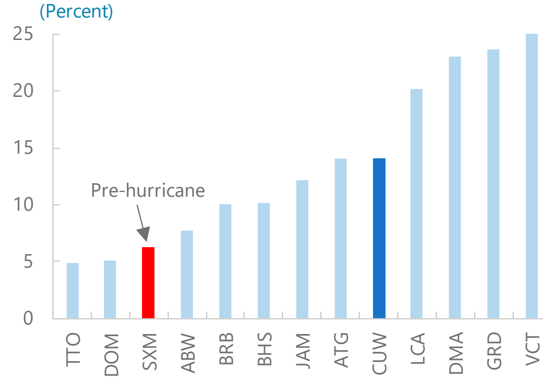
The unemployment rate in Curaçao increased in 2017,...

Unemployment Rate
(Percent)



...closer to the regional average, while Sint Maarten's unemployment rate was low prior to Hurricane Irma.

Unemployment rate 2/
(Percent)

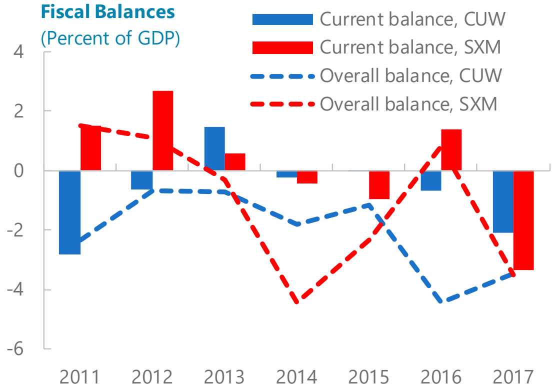


Sources: Authorities' data, IMF WEO database, and IMF staff estimates.
1/ The average for Antigua and Barbuda, Aruba, The Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.
2/ Latest data available over 2015–17.

Figure 2. Curaçao and Sint Maarten: Fiscal Developments

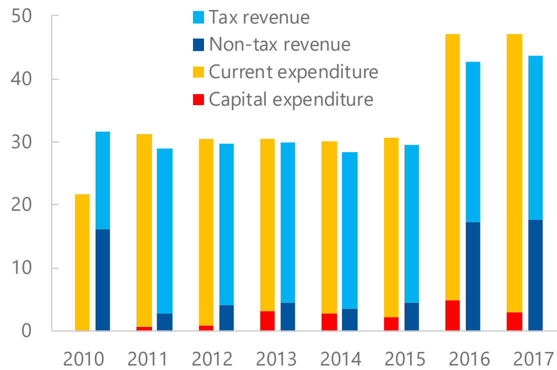
Fiscal position deteriorated in both Curaçao and Sint Maarten.

Fiscal Balances
(Percent of GDP)



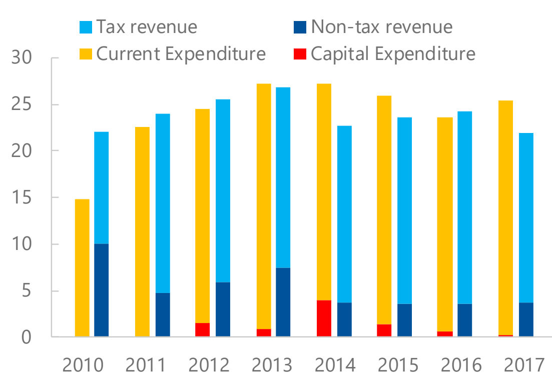
In Curaçao, the increase in current spending in 2017 was offset by the decline in capital expenditure.

Curaçao: Revenue and Expenditure 1/
(Percent of GDP)



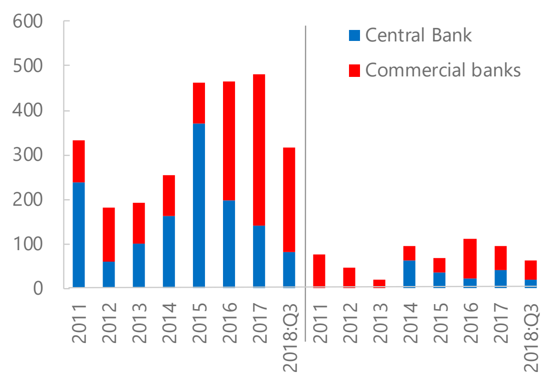
In Sint Maarten, revenues fell and spending increased in the wake of Hurricane Irma.

Sint Maarten: Revenue and Expenditure
(Percent of GDP)



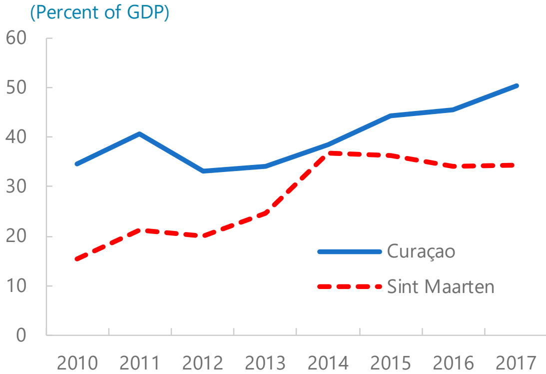
The governments' liquidity remained broadly unchanged until 2018 but declined recently.

Government Deposits in the Banking Sector
(Millions of NAf)



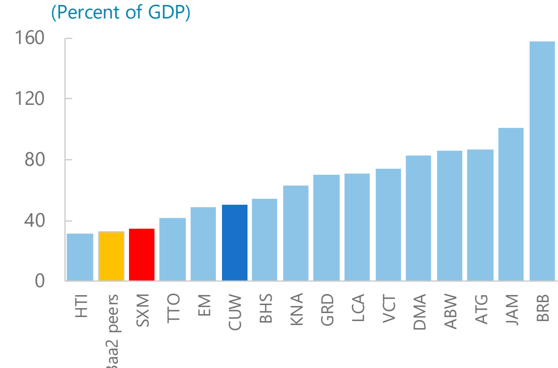
Debt increased in Curaçao, driven by domestic arrears.

Public Debt
(Percent of GDP)



Still, compared to regional peers, public debt remains low.

Public Debt, 2017
(Percent of GDP)

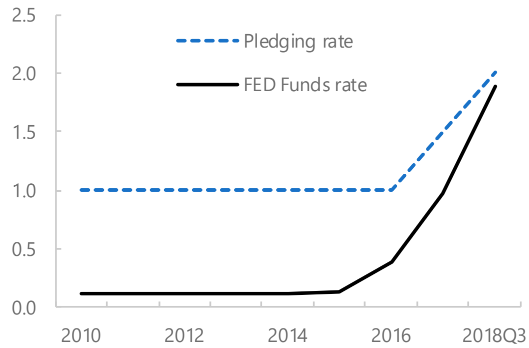


Sources: Authorities' data, IMF WEO database, and IMF staff estimates.
1/ From 2016, the Social Insurance Bank (SVB) is included in both revenue and expenditure.

Figure 3. Curaçao and Sint Maarten: Monetary Developments

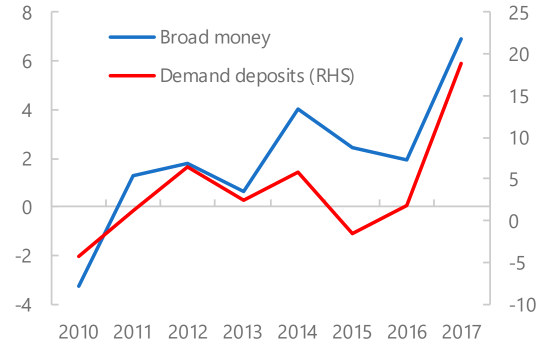
Given the exchange rate peg to the U.S. dollar, the CBCS has increased its pledging rate, following the U.S. Fed funds rate.

Pledging Rate
(Percent)



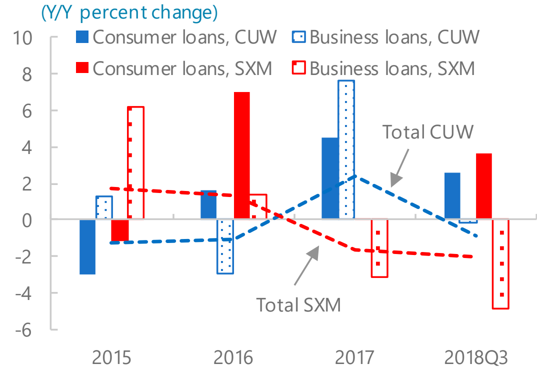
Driven by the increase in demand deposits, broad money expanded strongly in 2017, despite the economic downturn.

Broad Money and Demand deposits
(Y/Y percent change)



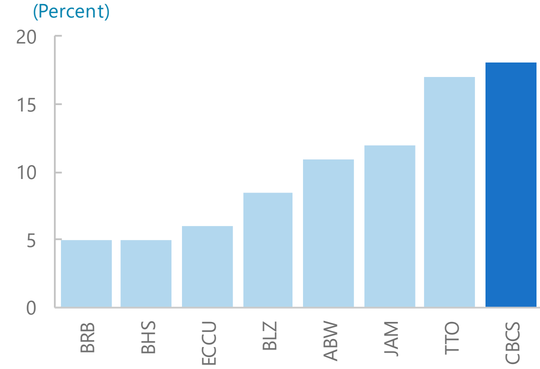
Demand for credit increased in Curaçao but declined in Sint Maarten in 2017, with both slowing as of September 2018.

Private Credit Growth
(Y/Y percent change)



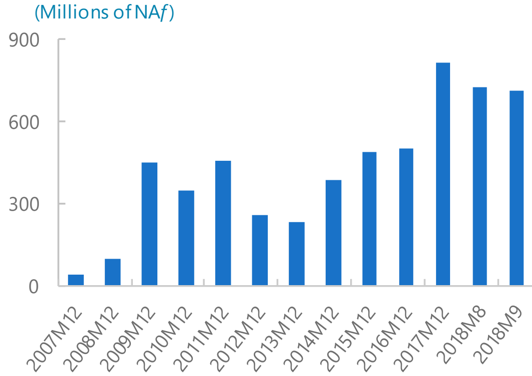
Despite already-high reserve requirement, kept at 18 percent since June 2014,...

Primary Reserve Requirement 1/
(Percent)



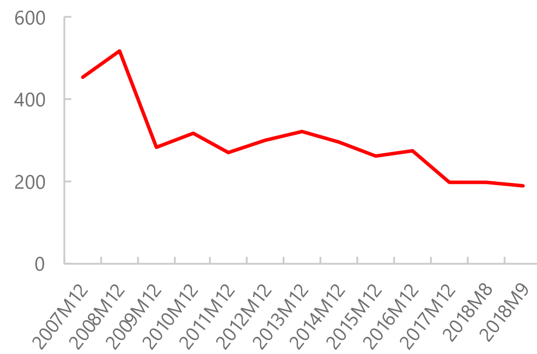
...balances on the banks' current accounts (demand deposits) at the CBCS remain high,...

Banks' Current Account Balances at the CBCS
(Millions of NAƒ)



...increasing potential pressures on the official reserves.

Ratio of Official Reserves to Monetary Base
(Percent)



Sources: Centrale Bank van Curaçao en Sint Maarten, IMF WEO database, and IMF staff calculations.
1/ For countries with differentiated reserve requirements (RR), the RR for commercial banks and domestic currency is shown.

Table 1. Curaçao: Selected Economic and Financial Indicators, 2013–23

Area	444 (km^2)	Population, thousand (2016)	160.3
Percent of population below age 15 (2016)	18.3	Literacy rate, in percent (2010)	96.7
Percent of population aged 65+ (2016)	16.1	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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Prel.	Proj.					
Real economy (percent change)											
Real GDP	-0.8	-1.1	0.3	-1.0	-1.7	-2.0	0.2	0.3	0.3	0.4	0.4
CPI (12-month average)	1.3	1.5	-0.5	0.0	1.6	2.4	2.2	2.5	2.5	2.5	2.5
Unemployment rate (percent)	13.0	12.6	11.7	13.3	14.1	14.5	14.3	14.2	14.1	14.0	13.8
General government finances (percent of GDP)											
Primary balance	0.2	-0.7	0.1	-3.4	-2.3	0.7	0.4	0.1	0.2	-0.3	-0.3
Current balance 1/	2.3	0.6	0.9	0.5	-0.6	1.9	1.8	1.5	1.5	1.6	1.6
Overall balance	-0.7	-1.8	-1.2	-4.4	-3.5	-0.5	-0.7	-1.0	-1.0	-1.3	-1.3
Public debt	34.1	38.6	44.2	45.5	50.4	48.9	48.4	48.1	47.7	47.6	47.5
Balance of payments (percent of GDP)											
Goods trade balance	-38.3	-35.7	-33.8	-32.4	-32.1	-28.5	-28.3	-28.3	-28.2	-28.2	-28.2
Exports of goods	22.3	21.9	14.8	13.4	15.3	12.7	12.5	12.3	12.1	12.0	11.8
Imports of goods	60.6	57.6	48.6	45.8	47.4	41.2	40.8	40.6	40.3	40.2	40.0
Service balance	18.4	22.6	18.8	15.7	10.4	7.5	7.7	8.1	8.6	9.1	9.6
Exports of services	46.7	50.3	47.7	43.9	41.4	34.5	34.2	34.2	34.3	34.6	34.8
Imports of services	28.2	27.7	28.9	28.2	31.0	26.9	26.5	26.1	25.7	25.5	25.2
Current account	-24.3	-16.0	-16.5	-18.7	-21.9	-22.4	-21.6	-20.9	-20.4	-19.6	-19.1
Memorandum items:											
Nominal GDP (millions of U.S. dollars)	3,146	3,159	3,153	3,122	3,118	3,131	3,207	3,296	3,390	3,488	3,591
Per capita GDP (U.S. dollars)	20,319	20,125	19,834	19,473	19,485	19,353	19,590	19,876	20,162	20,437	20,727
Per capita GDP (percent change)	-0.8	-1.0	-1.4	-1.8	0.1	-0.7	1.2	1.5	1.4	1.4	1.4
Private sector credit (percent change) 2/	1.1	-1.5	-1.3	-1.1	2.4	…	…	…	…	…	…

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/ Excludes consumption of fixed capital.
2/ The 2016 figure refers to July–December 2016.

Table 2. Curaçao: Government Operations, 2013–23
(Percent of GDP unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Prel.			Projections			
Total Revenue	29.8	28.4	29.5	42.7	43.7	44.0	43.8	44.0	44.1	44.1	44.2
Tax Revenue	25.3	24.8	25.1	25.4	25.9	26.4	26.6	26.8	26.9	26.8	26.9
Taxes on income and profits	12.0	11.5	11.3	11.3	11.5	11.8	11.9	12.0	12.1	12.1	12.1
Taxes on property	0.8	0.8	1.2	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.2
Taxes on goods and services	9.6	9.6	9.5	9.8	10.1	10.3	10.4	10.4	10.5	10.5	10.5
Taxes on international transactions	2.8	2.8	3.0	3.1	3.1	3.0	3.0	3.0	3.0	3.0	3.0
Other taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social security contributions 1/	0.0	0.0	0.0	13.8	14.3	14.1	14.1	14.1	14.1	14.1	14.1
Grants	0.3	0.3	1.9	0.7	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Other revenue	4.3	3.3	2.5	2.8	3.1	3.2	2.8	2.8	2.8	2.8	2.8
Total Expenditure	30.6	30.2	30.7	47.2	47.2	44.5	44.5	45.0	45.1	45.4	45.4
Current Expenditure	27.4	27.5	28.5	42.2	44.3	42.1	42.0	42.5	42.6	42.5	42.5
Compensation of employees	12.6	12.3	12.2	12.3	12.4	12.3	12.2	12.2	12.2	12.2	12.2
Goods and services	3.6	4.0	3.4	3.0	3.8	3.7	3.7	3.7	3.7	3.7	3.7
Social benefits and transfers 1/ 2/	9.1	8.8	10.6	24.6	24.8	24.1	24.1	24.6	24.6	24.6	24.6
Subsidies	1.3	1.2	1.1	1.2	1.3	0.9	1.0	1.0	1.0	1.0	1.0
Interest	0.9	1.1	1.2	1.1	1.1	1.2	1.1	1.1	1.1	1.0	1.0
Capital expenditure	3.1	2.7	2.1	4.9	2.9	2.4	2.5	2.5	2.5	2.9	2.9
Sinking fund and contingency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	-0.7	-1.8	-1.2	-4.4	-3.5	-0.5	-0.7	-1.0	-1.0	-1.3	-1.3
Primary Balance	0.2	-0.7	0.1	-3.4	-2.3	0.7	0.4	0.1	0.2	-0.3	-0.3
Memorandum items:											
Fiscal rules and sustainability indicators											
Interest rule (interest/revenue) (percent) 3/	3.1	3.8	4.2	3.6	3.3	3.1	2.7	2.6	2.7	2.4	2.4
Current Balance	2.3	0.6	0.9	0.5	-0.6	1.9	1.8	1.5	1.5	1.6	1.6
Current Balance excl. Grants	2.0	0.3	-1.1	-0.2	-1.0	1.6	1.5	1.2	1.2	1.3	1.3
Current Balance (Authorities' definition)	1.5	-0.2	0.0	-0.7	-2.1	0.5	0.4	0.1	0.1	0.2	0.2
Gross Debt/GDP (percent)	34.1	38.6	44.2	45.5	50.4	48.9	48.4	48.1	47.7	47.6	47.5
Net Debt/GDP (percent)	30.7	34.1	36.0	37.2	41.8	42.1	41.8	41.6	41.4	41.6	41.6
Debt service/revenue (percent)	3.0	3.9	4.6	2.8	2.9	3.1	2.9	6.7	2.8	2.6	2.5
Government deposits (eop, millions of Naƒ)	192.7	253.6	460.9	465.5	481.5	379.5	379.5	379.5	379.5	379.5	379.5

Sources: Data provided by the authorities and IMF staff estimates.
1/ From 2016, the central government operations include the social security bank (SVB).
2/ Includes transfers to cover the deficit of funds not integrated into the central government budget, such as those for social security/insurance.
3/ The denominator is the average of total revenue in the previous three years.

Table 3. Sint Maarten: Selected Economic and Financial Indicators, 2013–23

Area	34 (km^2)	Population, thousand (2015)	38.2
Percent of population below age 15 (2015)	21.2	Literacy rate, in percent (2011)	93.8
Percent of population aged 65+ (2015)	6.4	Life expectancy at birth, male (2012)	69.2
Infant mortality, over 1,000 live births (2010)	6.0	Life expectancy at birth, female (2012)	77.1

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Prel.			Proj.			
Real economy (percent change)											
Real GDP	1.3	1.6	0.5	0.4	-4.8	-8.5	2.1	2.0	2.0	2.0	2.1
CPI (12-month average)	2.5	1.9	0.3	0.1	2.2	2.7	2.5	2.0	2.0	2.1	2.1
Unemployment rate (percent)	9.2	9.1	8.9	8.7	6.2	9.2	8.7	8.3	8.0	8.0	8.0
General government finances (percent of GDP)											
Primary balance	0.3	-3.8	-1.7	1.5	-2.8	-6.3	-3.4	-2.1	0.8	0.7	1.0
Current balance 1/	0.6	-0.4	-1.0	1.4	-3.3	-3.8	0.7	4.1	8.1	9.4	10.0
Overall balance	-0.3	-4.5	-2.3	0.8	-3.5	-7.1	-4.2	-2.9	0.0	0.0	0.3
Public debt	24.7	36.9	36.3	34.0	34.3	43.6	45.8	46.6	44.4	41.8	39.0
Balance of payments (percent of GDP)											
Goods trade balance	-74.3	-83.2	-68.3	-67.6	-61.2	-57.4	-86.0	-82.2	-79.2	-82.2	-80.7
Exports of goods	16.1	12.5	12.1	12.3	11.8	11.3	13.5	16.2	17.1	17.3	17.4
Imports of goods	90.4	95.7	80.4	79.9	73.0	68.7	99.5	98.4	96.3	99.5	98.1
Service balance	78.3	78.2	76.3	70.9	52.0	34.4	54.5	59.9	68.1	70.5	68.6
Exports of services	104.1	105.7	102.4	96.8	77.6	62.3	82.4	87.8	96.1	98.4	96.5
Imports of services	25.8	27.5	26.0	25.9	25.7	27.9	28.0	27.9	27.9	27.9	27.8
Current account	0.4	-10.4	1.7	-2.5	4.5	-10.0	-19.8	-16.2	-9.5	-9.4	-9.3
Memorandum items:											
Nominal GDP (millions of U.S. dollars)	1,023	1,058	1,066	1,072	1,043	980	1,025	1,067	1,110	1,157	1,206
Per capita GDP (U.S. dollars)	25,462	26,149	26,201	26,163	25,284	23,622	24,587	25,463	26,349	27,322	28,348
Per capita GDP (percent change)	1.0	2.7	0.2	-0.1	-3.4	-6.6	4.1	3.6	3.5	3.7	3.8
Private sector credit (percent change) 2/	-2.1	-1.9	1.7	1.3	-1.6	...	...	...	...	...	...
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 NAƒ 1.79 = US$1.										

Sources: Data provided by the authorities; and IMF staff estimates.
1/ Excludes consumption of fixed capital.
2/ The 2016 figure refers to July–December 2016.

Table 4. Sint Maarten: Government Operations, 2013–23

(Percent of GDP unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Prel.	Projections					
Total Revenue	26.8	22.7	23.6	24.4	21.9	23.6	25.3	27.9	31.2	32.3	32.8
Taxes	19.3	19.1	20.0	20.6	18.2	18.5	18.7	19.5	21.2	21.6	21.6
Taxes on income, profits, and capital gains	1.2	1.4	1.8	2.2	1.8	1.2	1.2	1.3	1.4	1.4	1.4
Taxes on payroll & workforce	7.0	7.0	7.2	7.4	7.3	7.8	8.0	8.4	9.2	9.4	9.4
Taxes on property	0.8	0.7	0.8	0.9	0.7	0.5	0.5	0.5	0.6	0.6	0.6
Taxes on goods and services	10.3	9.9	10.1	9.9	8.3	8.9	8.9	9.2	9.9	10.1	10.1
Other taxes	0.1	0.0	0.1	0.3	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.0	0.0	0.0	0.0	0.0	2.0	3.3	4.5	5.5	6.3	6.7
Other revenue	7.5	3.7	3.6	3.7	3.7	3.1	3.3	3.9	4.4	4.4	4.4
Total Expenditure	27.1	27.2	25.9	23.6	25.4	30.7	29.5	30.8	31.2	32.3	32.5
Current Expenditure	26.3	23.2	24.5	23.0	25.2	27.4	24.5	23.7	23.1	22.9	22.8
Compensation of employees	11.8	11.5	11.0	11.1	11.7	11.9	11.0	10.7	10.6	10.5	10.5
Goods and services	6.2	5.2	5.5	4.5	6.4	6.8	5.5	5.2	5.0	5.0	4.9
Social benefits 1/	4.1	1.3	1.1	1.1	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Subsidies	3.7	3.9	4.0	4.2	4.6	6.1	5.5	5.2	5.0	4.9	4.8
Interest	0.6	0.6	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.7
Capital Expenditure	0.9	4.0	1.4	0.6	0.2	1.2	1.6	1.6	1.5	1.4	1.4
Special Projects						2.0	3.3	4.5	5.5	6.3	6.7
Fiscal Buffer								0.5	0.5	0.5	0.5
Compensation for past deficits and payment arrears								0.5	0.5	1.2	1.2
Overall Balance	-0.3	-4.5	-2.3	0.8	-3.5	-7.1	-4.2	-2.9	0.0	0.0	0.3
Primary Balance	0.3	-3.8	-1.7	1.5	-2.8	-6.3	-3.4	-2.1	0.8	0.7	1.0
Memorandum Items:											
Fiscal rules and sustainability indicators											
Interest rule (interest/revenue) (percent) 2/	2.6	2.6	2.8	2.8	3.0	3.2	3.5	3.7	3.3	2.9	2.5
Current Balance	0.6	-0.4	-1.0	1.4	-3.3	-3.8	0.7	4.1	8.1	9.4	10.0
Current Balance excl. Grants						-5.8	-2.5	-0.3	2.5	3.1	3.3
Current Balance (Authorities' definition)	0.0	-1.0	-1.6	0.5	-3.9	-6.6	-3.3	-1.1	1.7	2.3	2.5
Gross Debt/GDP (percent)	24.7	36.9	36.3	34.0	34.3	43.6	45.8	46.6	44.4	41.8	39.0
Net Debt/GDP (percent)	23.6	31.8	32.8	28.3	29.3	38.2	40.7	41.7	39.7	37.2	34.6
Debt service/revenue (percent)	1.7	2.3	2.9	2.8	3.3	3.7	4.9	13.8	3.8	3.5	4.3
Government deposits (mln NAƒ, eop)	20.6	96.6	67.1	110.4	94.1	94.1	94.1	94.1	94.1	94.1	94.1
Reconstruction financing (millions of euros)											
Reconstruction Fund, end-year balance					482	465	437	397	346	286	218
Use of Reconstruction Fund					7.3	2.0	3.3	4.5	5.5	6.3	6.7
of which, Grants					0.0	2.0	3.3	4.5	5.5	6.3	6.7
Government capital spending					0.0	0.0	0.0	0.0	0.0	0.0	0.0
Special projects					0.0	2.0	3.3	4.5	5.5	6.3	6.7
of which, Loans					2.8	0.0	0.0	0.0	0.0	0.0	0.0
Budget support					2.8	0.0	0.0	0.0	0.0	0.0	0.0

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

Table 5. Curaçao and Sint Maarten: Balance of Payments, 2013–23
(Millions of U.S. dollars unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Prel.			Proj.			
Current account	-747	-607	-496	-604	-626	-790	-886	-852	-785	-779	-784
(percent of GDP)	-17.9	-14.4	-11.7	-14.4	-15.0	-19.3	-21.0	-19.6	-17.5	-16.8	-16.4
Goods and services	-571	-457	-381	-468	-761	-877	-976	-894	-779	-791	-802
(percent of GDP)	-13.7	-10.8	-9.0	-11.2	-18.3	-21.4	-23.1	-20.5	-17.3	-17.1	-16.8
Exports of goods and services	3,417	3,550	3,204	2,985	2,719	2,210	2,495	2,658	2,846	2,978	3,066
Goods	866	824	595	551	600	510	539	578	600	617	634
Services	2,551	2,725	2,609	2,434	2,119	1,701	1,955	2,080	2,245	2,361	2,432
Imports of goods and services	3,987	4,007	3,585	3,453	3,480	3,087	3,470	3,552	3,624	3,770	3,869
Goods	2,831	2,832	2,389	2,288	2,240	1,964	2,328	2,387	2,435	2,552	2,621
Services	1,156	1,175	1,196	1,165	1,241	1,123	1,142	1,166	1,189	1,218	1,248
Income	-76.8	-73.6	-49.9	-59.6	-7.1	-20.9	-12.7	-6.9	1.3	9.7	9.3
Compensation of employees	7.1	-1.1	6.4	15.8	15.6	31.8	36.0	40.8	51.6	57.2	63.0
Investment income	-83.9	-72.5	-56.3	-75.4	-22.7	-52.7	-48.7	-47.7	-50.3	-47.5	-53.7
Current transfers	-99.7	-75.8	-64.8	-75.8	142.3	107.4	102.7	48.8	-7.7	2.3	8.8
(percent of GDP)	-2.4	-1.8	-1.5	-1.8	3.4	2.6	2.4	1.1	-0.2	0.0	0.2
Capital and financial account	644	803	445	663	566	623	856	766	799	799	798
Capital account	35	13	-4	2	-2	7	2	1	2	2	3
Financial account	609	790	449	661	568	616	853	765	797	797	796
Direct investment	59	72	155	135	351	181	218	225	232	239	210
Portfolio investment	157	440	329	208	181	245	264	256	246	260	284
Financial derivatives											
Other investment	393	278	-35	318	37	190	371	284	319	298	301
Reserve assets	27	-257	-16	-105	59	167	30	87	-13	-20	-14
Net errors and omissions	76	60	66	45	0	0	0	0	0	0	0
Reserves and external debt	-27	257	16	105	-10	-167	-30	-87	13	20	14
Gross official reserves, excl. gold	1,108	1,365	1,380	1,485	1,475	1,308	1,278	1,191	1,205	1,224	1,238
in months of imports	3.3	4.6	4.8	5.1	5.7	4.5	4.3	3.9	3.8	3.8	3.8
over short-term debt	2.4	3.1	4.3	3.9	3.4	3.0	2.7	2.4	2.3	2.3	2.2
Gross external debt (percent of GDP)	74.9	74.5	71.1	73.1	73.7	77.0	79.3	80.3	81.4	82.0	82.5
o/w: short-term debt	10.9	10.4	7.5	9.1	10.3	10.8	11.1	11.3	11.5	11.6	11.7
Memorandum item:											
GDP at current prices	4,169	4,217	4,220	4,194	4,161	4,103	4,222	4,353	4,489	4,631	4,778

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

Table 5a. Curaçao: Balance of Payments—Current Account, 2013–23

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Prel.			Proj.			
Current account	-764	-506	-519	-585	-681	-700	-693	-690	-691	-683	-685
(percent of GDP)	-24.3	-16.0	-16.5	-18.7	-21.9	-22.4	-21.6	-20.9	-20.4	-19.6	-19.1
Goods and services	-624	-413	-472	-522	-676	-657	-660	-665	-665	-666	-667
(percent of GDP)	-19.8	-13.1	-15.0	-16.7	-21.7	-21.0	-20.6	-20.2	-19.6	-19.1	-18.6
Exports of goods and services	2,171	2,282	1,971	1,791	1,769	1,478	1,497	1,533	1,573	1,624	1,676
Goods	701	692	466	419	477	399	401	405	410	417	425
Services	1,469	1,590	1,505	1,372	1,291	1,079	1,096	1,128	1,163	1,206	1,251
Imports of goods and services	2,795	2,695	2,443	2,313	2,444	2,134	2,157	2,198	2,238	2,289	2,343
Goods	1,906	1,819	1,532	1,432	1,478	1,291	1,309	1,337	1,365	1,401	1,438
Services	889	876	911	881	966	843	849	861	872	888	905
Income	-54	-27	1	-21	22	-5	4	11	14	22	22
Compensation of employees	27	34	43	47	45	50	55	60	66	72	79
Investment income	-80	-61	-42	-68	-23	-55	-51	-50	-53	-50	-56
Current transfers	-86	-65	-48	-43	-27	-39	-37	-36	-40	-40	-41
(percent of GDP)	-2.7	-2.1	-1.5	-1.4	-0.9	-1.3	-1.2	-1.1	-1.2	-1.1	-1.1

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

Table 5b. Sint Maarten: Balance of Payments—Current Account, 2013–23

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Prel.			Proj.			
Current account	4	-110	18	-27	47	-98	-203	-173	-105	-109	-112
(percent of GDP)	0.4	-10.4	1.7	-2.5	4.5	-10.0	-19.8	-16.2	-9.5	-9.4	-9.3
Goods and services	40	-53	86	36	-96	-226	-323	-238	-123	-136	-146
(percent of GDP)	4.0	-5.0	8.0	3.3	-9.2	-23.1	-31.5	-22.3	-11.1	-11.7	-12.1
Exports of goods and services	1,229	1,251	1,220	1,169	933	721	983	1,110	1,257	1,337	1,373
Goods	164	132	129	132	123	111	138	173	190	200	210
Services	1,065	1,118	1,092	1,037	810	610	845	937	1,067	1,138	1,163
Imports of goods and services	1,189	1,304	1,135	1,134	1,029	946	1,306	1,348	1,380	1,473	1,518
Goods	925	1,013	857	856	761	673	1,020	1,049	1,070	1,151	1,183
Services	264	291	278	277	268	273	287	298	310	322	335
Income	-22.7	-45.8	-50.9	-38.8	-28.8	-17.6	-18.5	-19.2	-14.4	-15.0	-15.7
Compensation of employees	-19.4	-34.5	-36.1	-31.0	-29.4	-19.6	-20.5	-21.3	-16.7	-17.4	-18.1
Investment income	-3.4	-11.3	-14.7	-7.7	0.6	2.0	2.1	2.1	2.2	2.3	2.4
Current transfers	-13.4	-11.5	-16.4	-24.0	172.0	145.2	138.5	84.3	32.1	42.2	49.5
(percent of GDP)	-1.3	-1.1	-1.5	-2.2	16.5	14.8	13.5	7.9	2.9	3.6	4.1

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

Table 6. Curaçao and Sint Maarten: Monetary Survey, 2010–17

(Millions of the Netherlands Antillean guilders unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017
Net foreign assets	4,520.5	4,080.6	3,899.8	3,566	4,042	4,186	4,377	4,990
Central Bank	2,906.4	2,886.3	2,845.3	2,609	3,047	2,937	3,035	3,361
Gross foreign assets	3,573.3	3,707.1	3,451.1	3,140	3,519	3,317	3,541	3,621
Gross foreign liabilities	666.9	820.8	605.8	532	473	380	506	260
Valuations								
Commercial Banks	1,614.1	1,194.3	1,054.6	957	995	1,249	1,342	1,629
Gross foreign assets	4,279.8	3,504.9	3,114.0	3,450	3,474	3,701	3,852	4,241
Gross foreign liabilities	2,665.7	2,310.6	2,059.4	2,494	2,479	2,452	2,510	2,612
Net domestic assets	2,696.0	3,227.5	3,541.4	3,921	3,744	3,787	3,753	3,699
Domestic credit	2,696.0	3,227.5	3,541.4	3,921	3,744	3,787	3,753	3,699
Net claims on the central gov. of Netherlands Antilles	-112.2	-106.4	-113.1	-81	-78	-73	-74	-12
Net claims on the Government of Curaçao	-347.6	-333.6	-180.7	-193	-254	-460	-464	-474
Net claims on the Government of Sint Maarten	-245.4	-181.6	-131.9	-76	-98	-56	-132	-112
Claims on the private sector	5,545.9	6,155.7	6,373.8	6,307	6,148	6,146	6,625	6,683
From Central Bank	270.3	272.5	339.0	368	371	361	351	342
From commercial banks	5,275.6	5,883.2	6,034.8	5,940	5,777	5,784	6,274	6,342
Other items net	-2,144.8	-2,306.6	-2,406.8	-2,037	-1,975	-1,769	-2,202	-2,386
Money supply (M2)	7,216.5	7,308.1	7,441.2	7,487	7,786	7,973	8,130	8,689
Money (M1)	3,131.2	3,148.8	3,365.3	3,451	3,644	3,609	3,673	4,314
Currency in circulation outside banks	320.6	301.3	331.8	341	351	367	374	388
Demand deposits	2,810.6	2,847.5	3,033.5	3,110	3,293	3,241	3,300	3,926
Local currency	2,218.6	2,174.7	2,292.3	2,326	2,408	2,337	2,327	2,659
Foreign currency	592.0	672.8	741.2	785	885	905	972	1,267
Quasi money	4,085.3	4,159.3	4,075.9	4,036	4,141	4,364	4,457	4,375
Savings deposits	1,898.7	1,892.9	1,926.4	1,943	2,002	2,096	2,154	2,358
Local currency	1,652.0	1,640.3	1,665.7	1,669	1,718	1,783	1,830	1,976
Foreign currency	246.7	252.7	260.7	274	283	313	324	382
Time deposits	2,186.6	2,266.4	2,149.5	2,093	2,140	2,268	2,303	2,017
Local currency	1,681.0	1,779.2	1,690.0	1,620	1,683	1,818	1,826	1,564
Foreign currency	505.6	487.1	459.5	473	456	450	477	453
	(Percent change, year-on-year)							
Net foreign assets	39.9	-9.7	-4.4	-8.6	13.4	3.6	4.6	14.0
Net domestic assets	-36.2	19.7	9.7	10.7	-4.5	1.1	-0.9	-1.4
Broad money	-3.2	1.3	1.8	0.6	4.0	2.4	2.0	6.9
	(Percent change, by contribution to the broad money)							
Net foreign assets	17.3	-6.1	-2.5	-4.5	6.4	1.9	2.4	7.5
Net domestic assets	-20.5	7.4	4.3	5.1	-2.4	0.6	-0.4	-0.7
	(Percent of GDP)							
Loans to the private sector	78.9	86.5	86.5	84.5	81.5	81.4	88.2	89.7
Broad money	102.7	102.7	101.0	100.3	103.1	105.6	108.3	116.7
	(Percent)							
Pledging rate	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.5

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

Table 7. Curaçao and Sint Maarten: Financial Soundness Indicators, 2010–17

(Percent unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017 1/
Capital								
Tier 1 Capital to risk-weighted assets	13.1	12.6	12.9	13.0	12.8	13.6	11.4	10.5
Tier 1 and Tier 2 Capital to risk-weighted assets	15.1	14.4	13.9	15.8	14.6	13.9	11.3	12.6
Asset quality								
NPLs/gross loans	8.6	10.9	11.3	11.9	11.0	11.3	13.4	15.1
NPLs net of all provisions/gross loans	5.8	7.9	8.0	8.1	6.7	7.0	9.1	10.9
Earnings and profitability								
ROA before taxes	1.6	1.8	1.5	1.8	1.3	1.0	1.1	1.0
ROE before taxes	15.1	16.7	14.2	16.7	14.0	11.2	11.9	10.5
Interest margin/gross income	66.4	65.6	65.4	64.0	63.9	65.6	57.7	59.3
Non-interest expenses to gross income	64.0	64.5	65.5	66.4	69.5	75.8	65.8	63.3
Liquidity								
Liquid assets/total assets	27.0	25.3	27.5	29.8	27.4	31.1	29.8	31.4
Liquid assets/short-term liabilities	34.3	33.4	36.1	38.6	38.5	41.2	39.5	39.2
Loans/deposits	67.2	70.6	71.0	70.8	71.7	70.8	68.9	68.9
Sensitivity to market risk								
NFA/regulatory capital	101.3	77.6	83.8	73.5	77.1	108.6	115.4	82.5
Interest rate margin	4.5	4.7	4.8	4.9	4.7	4.5	4.4	4.2
Credit (percent of total assets)								
Mortgage credit	20.2	22.0	23.1	23.8	22.3	23.5	25.0	21.8
Consumer credit	13.9	13.4	12.2	11.6	11.8	11.9	11.2	10.7
Corporate credit	19.2	19.4	20.6	19.9	17.1	17.6	20.3	20.2

Source: Centrale Bank van Curaçao en Sint Maarten.

1/ As of 2017:Q3; the financial indicators have not been produced for 2018 given the data quality control planned for the beginning of 2019.

Annex I. Implementation of the Recommendations of the 2016 Article IV Consultation Discussions

Recommendations	Implementation Status
Growth and Competitiveness	
Labor market: Improve vocational education and develop targeted training programs to strengthen skills and improve productivity.	Curaçao: under consideration. Sint Maarten: training programs within the reconstruction Trust Fund projects.
Labor market: Reform restrictive dismissal laws and protective work permit policies (for foreign labor).	Curaçao: no progress. Sint Maarten: some relaxation for the construction sector; signing of a tripartite consensus document in 2016.
Business climate: Centralize and streamline business registration processes.	Limited progress.
Energy cost: Reduce energy costs. Establish an independent regulator (Sint Maarten)	No progress.
Fiscal Policy	
Fiscal rule: Introduce fiscal rules supported by a medium-term macro-fiscal framework.	No progress.
Fiscal framework: Strengthen the fiscal framework to ensure flexibility for development policies, business cycles, and natural disasters and to include a corrective mechanism.	Sint Maarten: in progress. The IMF is providing assistance to the authorities on macro-fiscal framework.
Labor compensation: Reduce personnel expenditure.	Curaçao: in progress; CARTAC is providing TA on payroll controls.
Public financial management: Address the issues pointed out the 2015 PEFA assessments.	Curaçao: in progress.
Social security and pension system: Reform the existing systems to ensure their sustainability.	Sint Maarten: delayed.
Health insurance: Contain national health insurance expenses through cost restructuring.	In progress.
Tax administration: Improve tax compliance.	In progress. CARTAC is providing TA on tax administration in Curaçao.
Tax policy: Replace the sales turnover tax by VAT.	No progress.
Monetary and Financial Policy	
AML/CFT: Strengthen AML/CFT regime through 1) addressing the remaining regulatory gaps identified in past assessments and 2) ensuring effective risk-based implementation of the AML/CFT regime.	In progress.
Access to finance for SOEs and private sector: Strengthen financial access of SOEs through 1) further developing corporate bond market, 2) promoting bank financing for SOEs and private entities, and 3) creating more local investment opportunities.	No progress.
SOE lending: Restrain from further central bank direct lending.	In progress.
Statistics	
Capacity development: Allocate additional resources to increase personnel and obtain technical assistance to address shortcomings.	Curaçao: progress is ongoing. CARTAC is providing TA on National Accounts statistics.

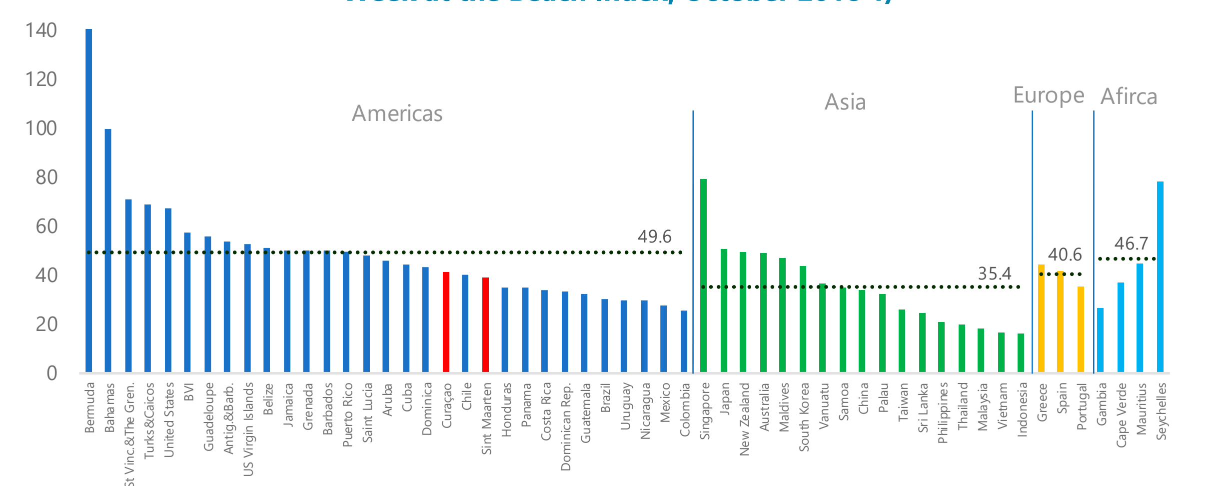
Annex II. External Sector Assessment

The external positions of Curaçao and Sint Maarten are moderately weaker than implied by medium-term fundamentals and desirable policies, as suggested by indicator-based approaches. Data availability is insufficient to conduct model-based assessments.

1. Curaçao's real effective exchange rate (REER) has appreciated in recent years (Figure 1A). The large exchange rate and inflation swings in Venezuela—which historically accounts for about one third of Curaçao's trade—complicate the analysis. However, even excluding Venezuela, the REER has appreciated since 2013, reflecting the U.S. dollar appreciation against the euro, and remains above its Hodrick-Prescott filtered trend. The average tourism cost in Curaçao—measured by the "Week at the Beach" index based on average cost of food and lodging—is still lower than in other Caribbean countries.

2. For Sint Maarten, the REER appreciated by more than 10 percent between 2008 and 2017, driven mostly by higher inflation, and, in recent years, the U.S. dollar appreciation. It is not possible to assess the impact of Hurricane Irma on prices as no CPI data is available for 2018. The "Week at the Beach" index shows that Sint Maarten's prices have declined relative to the regional averages so far in 2018, although this could be driven by the sample selection as many high-end hotels are still under reconstruction.

Week at the Beach Index, October 2018 1/

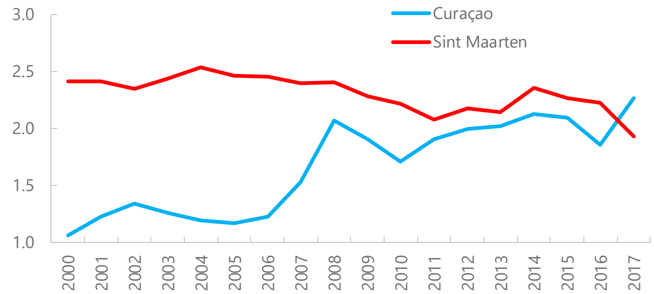


Source: IMF staff calculations.

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.

3. **The tourism shares in the Caribbean have increased for Curaçao but decreased somewhat for Sint Maarten in the last decade**. European tourists account for about a half of total arrivals in Curaçao but there has been an increase in tourism from Canada and the rest of the world. Further appreciation of the U.S. dollar relative to other trading partners may pose risks for Curaçao's competitiveness in the future. For Sint Maarten, tourist arrivals from North America—two thirds of total arrivals—grew steadily but have been offset by the decline in tourists from other Caribbean countries.

Tourism Market Shares
(Percent)



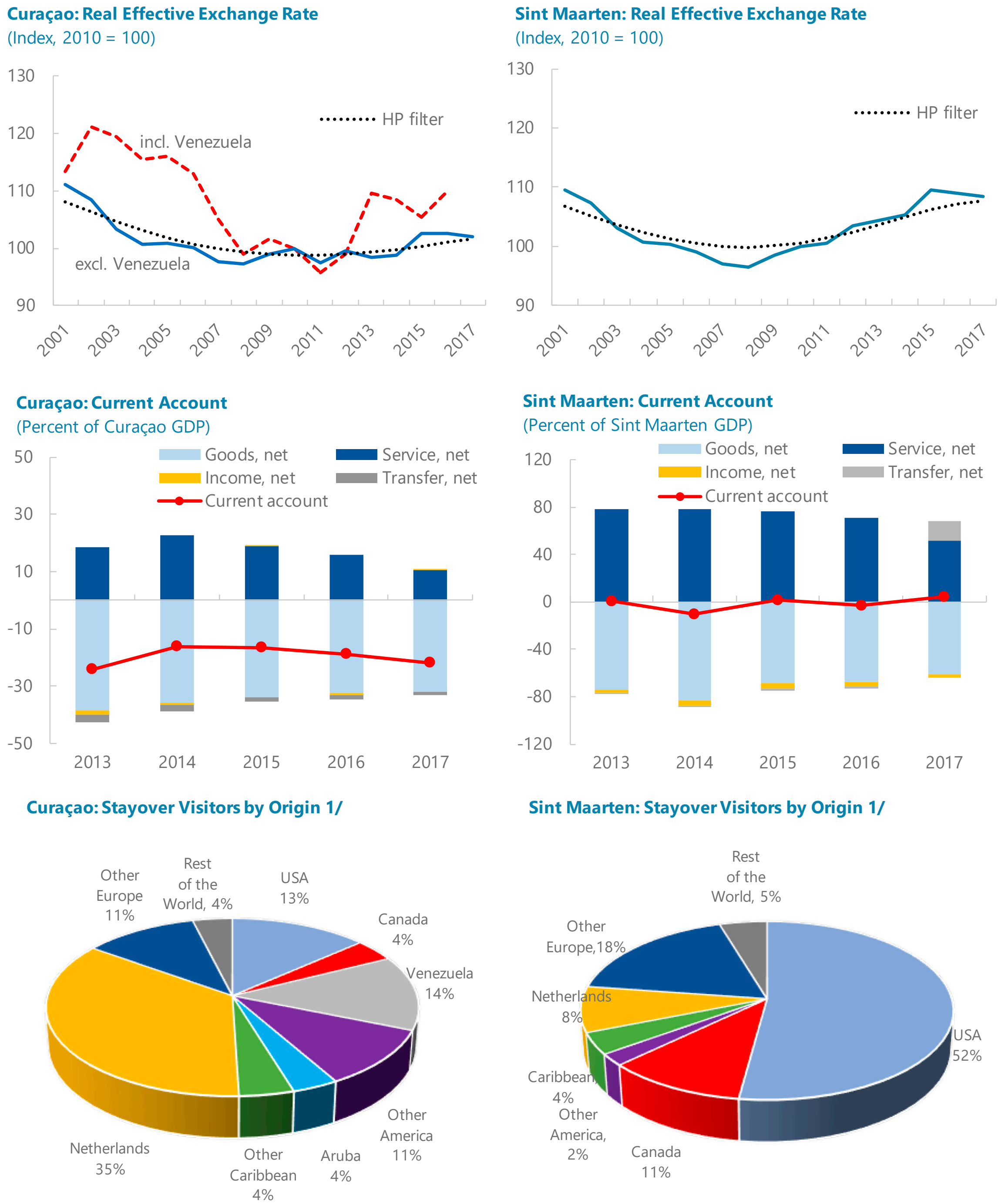
Source: IMF staff calculation.

4. **Official reserves of the monetary union declined since end-2017**. Gross external reserves amounted to 5.7 months of imports in 2017, higher than in most of tourism-dependent Caribbean countries. However, reserves declined by US$240 million in August and September of 2018 as local investors purchased foreign exchange to invest abroad. Official reserves stabilized at US$1.3 billion in November and are projected to stay at about four months of imports over the medium term, in line with the average in the region. The current account deficit is projected to remain large albeit narrowing over time.

5. **The persistently high current account deficit in Curaçao and large appreciation of the REER in Sint Maarten point to moderately weaker external positions**. Curaçao's current account deficit averaged about 20 percent of Curaçao's GDP since 2013, with a large deficit in the goods account more than offsetting the (declining) surplus in the services account (Figure 1A). In Sint Maarten, where the current account on average recorded a small deficit, the REER was strongly appreciating prior to 2017. For both countries, the need for further fiscal consolidation and for structural reforms to boost labor productivity suggests that Curaçao's and Sint Maarten's external positions are moderately weaker than justified by medium-term fundamentals and desirable policies.

6. **Limited availability and low quality of data preclude the model-based analyses for the external assessment**. In addition, potential inconsistencies between the net international investment position and the current account balance hinder the use of the external sustainability models in assessing the gap between the projected current account and its norm (the level that would stabilize the external position at a benchmark level).

Figure 1A. Curaçao and Sint Maarten: External Sector Developments



Sources: Authorities' data, IMF WEO database, and IMF staff calculations.
1/ Average shares during 2015–17.

Annex III. Curaçao: Potential Output Estimates

1. **Curaçao has historically suffered from negative labor productivity growth**. With the average real GDP growth at zero over the past decade, labor productivity contracted on average by 2 percent per year. Dare (2017)[1] finds that labor productivity contributed negatively to output growth over 2003–15; the negative contribution was mainly driven by the impact of within-industry contributions to overall productivity growth, and more recently, by the increase in the employment shares of sectors with below-average productivity growth (such as tourism sector).

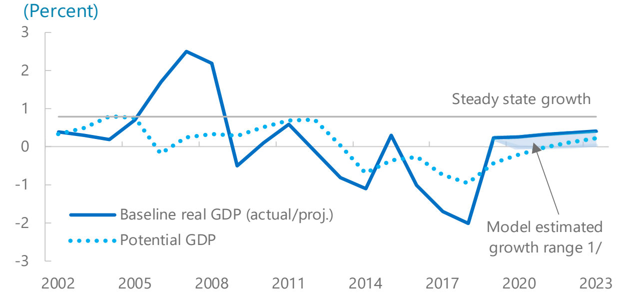
2. **Employment outlook is slightly positive under certain assumption**. While the working-age population has expanded slowly in recent years and is expected to continue to do so in the medium term due to aging, there has been a slight upward trend in labor force participation among men and women. Assuming that the labor force participation continues to increase of structural reasons (such as the recent pension reforms discussed in Annex VI) and using the average unemployment rate of 13.6 percent during 2000–17 as a proxy for the natural rate, the employment would grow by 0.7 percent annually in the medium term.

3. **Curaçao's potential growth in the long run would likely remain low, absent major structural reforms**. Using productivity growth of 0.1 percent per year, which assumes some potential positive effects from recent investment projects and the planned measures discussed in this report, and employment growth of 0.7 percent would result in a long-run potential growth of about 0.8 percent.

4. **A multivariate filter model is used to estimate Curaçao's potential output**.[2] A small structural model, including key macroeconomic equations for inflation (Phillips curve), unemployment (Okun's law), and a tourism block, is estimated. The model parameter values and the variances of shock terms are estimated using Bayesian estimation methods, with the data on GDP, CPI, unemployment rate, and stay-over tourist arrivals since 2000. The above-discussed estimate of the long-run potential growth is used as the steady-state value in the model.

5. **Model results**. Potential output growth has been negative since 2014 and is estimated to contract by about one percent in 2018, before converging slowly to zero growth over the medium term. The output gap (not shown here) is estimated at −2 percent in 2018 and will gradually close by 2023.

Curaçao: Real GDP and Potential Output Growth
(Percent)



Source: IMF staff estimates.
1/ The shaded area shows the paths of real GDP growth when the latter is estimated in the model after 2019.

[1] Dare (2017), "Measuring Labor Productivity in Curaçao," CBCS Working Paper.

[2] See, Alichi and others (2015), "Multivariate Filter Estimation of Potential Output for the Euro Area and the United States," IMF Working Paper WP/15/253; and IMF Country Reports No. 17/155 (Aruba) and No. 18/118 (The Bahamas).

Annex IV. Risk Assessment Matrix

Curaçao and Sint Maarten: Risk Assessment Matrix 1/

Source of Risks	Relative Likelihood	Expected Impact	Policy Response
Sharp tightening of global financial conditions	High	**Medium** A faster-than-expected rise in U.S. inflation and/or a sudden change in global risk appetite could lead to sharp increases to interest rates and appreciation of the real exchange rate, worsening external competitiveness of Curaçao and Sint Maarten vis-à-vis non-U.S. tourist markets. Official reserves could come under pressure in case of a large outflow of the high excess liquidity in the banking sector, driven by higher interest rates abroad.	Implement reforms to increase productivity and competitiveness, and reduce costs of doing business to encourage investment and diversification; continue closely monitoring official reserves and remain ready to act if pressures emerge.
Weaker than expected growth in key advanced economies	Medium	**High** Slower growth in the euro area and the United States could reduce growth in Curaçao and Sint Maarten through lower tourism arrivals, remittances, and FDI. The fiscal position could deteriorate further as revenues decline.	Accelerate structural reforms and build fiscal buffers.
Reduced financial services by global/regional banks	Medium	**Medium** Weaknesses in financial sector supervision could lead to further loss of correspondent banking relationships, affecting 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 correspondent banking relationships.
Cyber-attacks	Medium	**Low** Weak IT systems and capacity make public and other agencies vulnerable to cyber attacks.	Strengthen IT systems and further build capacity in the public sector.
Spillovers from Venezuela turmoil	High	**Curaçao: High** The crisis in Venezuela—one of Curaçao's main trading partners—has affected Curaçao through several channels, including trade, tourism, and operations of the Isla refinery leased to Venezuela's PDVSA until end-2019. The termination of the refinery operations before or after 2019 (in the event a successor operator is not found) could have significant negative effects on the economy and fiscal situation.	Accelerate structural reforms, speed up the selection process for a successor company to run the refinery plant, and build fiscal buffers.
Natural disasters	High	**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.
Slower pace of implementation of post-Hurricane Irma reconstruction	Medium	**Sint Maarten: Medium** Implementation risks relating to the reconstruction projects, reflecting a low absorption capacity or slow progress in setting up necessary frameworks for implementation could delay the recovery and lead to lower growth.	Address institutional, regulatory, and capacity bottlenecks to facilitate speedy implementation of reconstruction projects.

1/ The Risk Assessment Matrix (RAM) shows events that could materially 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.

Annex V. Fiscal Framework: Current Setup and Main Challenges

1. **In 2010, alongside the debt relief given by the Dutch government to Curaçao and Sint Maarten, a new rules-based fiscal framework was introduced**, enacted by the 2010 Kingdom Act on Financial Supervision of Curaçao and Sint Maarten (Kingdom Act 334, July 7, 2010). The framework is monitored by the Dutch-led Financial Supervision Board (Cft). The framework prohibits current budget deficits, caps interest payments to 5 percent of fiscal revenues (averaged over three years), and requires multi-year budgeting. Borrowing is only permitted for capital expenditure, with Cft agreement (so-called, 'golden rule'), and fiscal outturns are to be reported on a quarterly basis to the Cft. Under this framework, the Dutch State Treasury Agency is legally obliged to bid on the debt securities issued by Curaçao and Sint Maarten (referred to a "standing subscription" rule) which allows Curaçao and Sint Maarten to borrow long-term at the interest rates prevailing in the Dutch capital market. As envisaged in the Kingdom Act, the current supervision arrangement and the countries' compliance with it are being assessed in 2018 by an evaluation committee to advise, among other issues, on the continuation of the supervision beyond 2018.

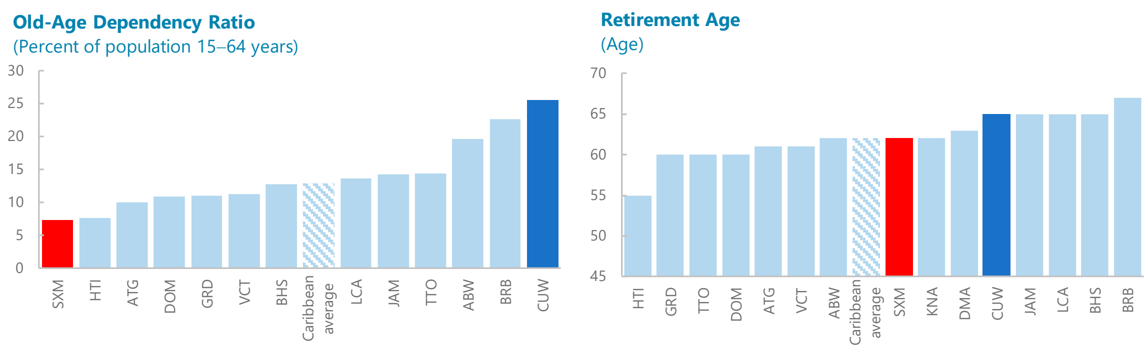
2. **The track record of Curaçao and Sint Maarten with complying with the fiscal framework has been mixed**. While the interest cap rule has not been binding (and the interest-to-revenue ratio remained well below 5 percent in recent years given the debt relief and concessional financing), the current balance was in deficit in most years in Curaçao and in 2014–15 in Sint Maarten. In Sint Maarten, in 2015, the government's failure to settle the arrears with the health insurance and the pension fund triggered a decision by the Kingdom Council of Ministers to issue several targeted instructions (including payment of arrears, compensation for the deficits accumulated prior to 2015, implementation of pension and healthcare reforms), the meeting of which was the necessary condition for allowing Sint Maarten to borrow for capital expenditures. In Curaçao, following the large current budget deficit recorded in 2017, negotiations with the Cft were held on the path and measures needed to compensate for the deficit (by achieving current budget surpluses) in 2018 and beyond.

3. **At the same time, the current fiscal framework has some drawbacks**. First, the framework does not have a long-term anchor, and the 'golden rule' provides a relatively weak link to debt sustainability. Second, the "standing subscription" agreement could allow for a large debt accumulation even if the interest cap rule holds. In addition, the government bond yields do not reflect the risk premium relevant for Curaçao and Sint Maarten, and when support and supervision from the Netherlands end, Curaçao and Sint Maarten will have to turn to the market, which would translate into higher borrowing costs. Third, while the Kingdom Act includes an escape clause that allows, in special circumstances (including natural disasters), deviating from the fiscal rules, the Act provides no further guidance on its implementation. Fourth, there is no formal requirement to have a fiscal buffer against natural disasters or other shocks despite Sint Maarten being in the hurricane belt (affected, on average, by one hurricane every year and a half since the mid-1990s).

Annex VI. Curaçao and Sint Maarten: Social Security Schemes

1. Curaçao and Sint Maarten have similar and relatively comprehensive social security schemes. The social security schemes—administered by the Social Insurance Bank in Curaçao (SVB) and the Social Insurance Fund in Sint Maarten (SZV)—offer a wide range of benefits such as old-age pension, survivor's pension, and severance pay, as well as benefits for sickness and employment injuries. Both schemes are broadly similar in design, with the current contributors paying for the current defined benefits and needs. In addition, both countries offer social welfare benefits for those who lack the means for subsistence. Public sector workers are also covered by public pension schemes (APC in Curaçao and APS in Sint Maarten). In 2013, Curaçao introduced a Basic Health Insurance to provide uniform insurance for all non-privately insured residents; a reform to introduce a similar general health insurance in Sint Maarten is under consideration.

Curaçao and Sint Maarten: Comparative Demographics and Retirement Age 1/



Sources: IMF FAD Expenditure Assessment Tool, and IMF staff calculations.
1/ Latest data available.

Pension Systems

- **Pension funds in Curaçao remain underfunded despite past reforms**. Several measures were implemented in 2013 to improve the financial situation of the general old-age pension fund (AOV), including a raise in the premiums and an increase of the retirement age from 60 to 65. However, premiums do not cover the current pension benefits, and the fund is reliant on budget transfers. With current policies, the AOV deficit is likely to increase in the coming years due to the weak growth outlook, longer life expectancy, and an ageing population. In 2016, major reforms were implemented to the public pension system (APC) as well.[1] Still, the coverage ratio (the relationship between the fund's capital and pension benefits) of the APC is only slightly above 100 percent and below the target ratio of 105 percent.

- **Pension reforms are underway in Sint Maarten**. While the retirement age within the old-age pension fund (AOV) is still 62 years, the premiums cover the pension benefits due to the

[1] The retirement age was increased to 65 years, premiums were lowered from 25 to 18 percent, the pension base was changed from the last two years of service to an average of the entire employment period, and the indexation of the pension allowance was changed from inflation to increases in civilian workers' salaries. Increases in the pension allowance were also conditioned on meeting the target of 105 percent coverage ratio.

relatively favorable old-age dependency ratio. However, the economic downturn in the wake of Hurricane Irma has had a negative effect on the contributions, and the government is considering an increase in the retirement age to 65 years in the coming years. The coverage ratio within the public pension fund (APS) is currently below the target of 105 percent. To address this and reduce the fiscal impact of the scheme, the government intends to raise the retirement age within the APS to 65 years from the beginning of 2019, lower the premium from 25 to 18 percent, and change the pension base from the last two years of service to an average of the employment period. Increases in the pension allowance will be conditional on meeting the coverage ratio target.

Health Care Systems

- **Curaçao's Basic Health Insurance fund (BVZ) remains heavily reliant on budget transfers**. Premiums to the BVZ—one of the SVB's largest schemes—have been raised in several steps since its introduction. Still, in 2017, health care costs per insured were almost 80 percent higher than the premiums per insured, necessitating large budgetary transfers. The new hospital, envisaged to be operational in the second half of 2019, is expected to decrease some expenses, such as costs for medical specialists and medical treatments abroad. However, the new hospital will have noticeably higher operating costs than the current one. Low contributions owing to weak growth and high unemployment, together with an ageing population, pose further challenges to the sustainability of the health care insurance in Curaçao in the coming years.

- **Sint Maarten's government has been preparing a major health care reform, aimed to broaden the health care insurance coverage and reduce costs**. The health care system in Sint Maarten is fragmented and non-transparent, with different health care insurance schemes and a relatively large segment of the population estimated to be uninsured. Some of the health care insurance funds within the SZV are running deficits, and the government is considering increasing the tariffs at the local hospital. As part of the envisaged health care reform, the government plans to merge some of the existing health insurance funds within the SZV into a General Health Insurance (GHI). To contain costs, the reform would also incorporate changes in the reimbursement of medicines and focus more on preventive health care. There are also advanced plans to build a new hospital, which could help reduce the need and expenses for medical referrals abroad.

2. Other parts of the social welfare schemes appear to create serious disincentives to work. The sickness insurance in both Curaçao and Sint Maarten covers medical costs and income loss due to sickness. While generous both in terms of reimbursement and duration, the design of the scheme creates disincentives to return to work after a period of illness. In Curaçao, unemployment benefits, in combination with subsidies for water, electricity and other benefits, can reportedly exceed the minimum wage, thus creating disincentives to work in the formal sector. Limitless duration combined with weak controls has also led to a large amount of non-eligible persons receiving these benefits. Sint Maarten has no formal unemployment benefits, but those lacking the means of subsistence can receive other social welfare benefits. These benefits are less generous and do not exceed the minimum wage.

Annex VII. Public Debt Sustainability Analysis

In Curaçao, gross government debt increased to over 50 percent of GDP in 2017, driven by domestic arrears, and is expected to decline only slightly over the medium term. In Sint Maarten, large deficit financing needs will increase debt from relatively low levels to its peak of about 46½ percent of GDP in 2020. For both countries, the debt path is sensitive to adverse growth, fiscal, and interest rate shocks, in addition to country-specific shocks. As a mitigating factor, all external public debt of Curaçao and Sint Maarten is owed to the Netherlands, in local currency, at very low rates and long maturities, within the "standing subscription" arrangement since 2010 (Annex V), which is assumed to remain in place during the projection period. Furthermore, total gross debt includes domestic debt, mainly in the form of payment arrears to the social security administration and pension funds, which the authorities plan to repay over the medium term.

A. Curaçao: Baseline Scenario

1. **Curaçao's gross government debt reached about 50½ percent of GDP at end-2017.**[1] The debt held by the Netherlands amounted to over 80 percent of total debt, while the majority of the remaining domestic debt was in the form of payment arrears to the public pension fund (APC) and the Social Insurance Bank (SVB), totaling almost 8½ percent of GDP. The significant build-up in these arrears was the main driver of the nearly 5 percentage points of GDP increase in gross debt in 2017. With just a small increase in the government's bank deposits in 2017, the net government debt increased by about the same magnitude as the gross debt. Preliminary data suggest that the government's arrears, especially to SVB increased further during 2018, while the government deposits in the banking sector fell.

Curaçao: Government Debt and Liquidity
(Millions of NA*f* unless otherwise indicated)

	2014	2015	2016	2017
Gross debt	2,181	2,495	2,545	2,813
Gross debt, percent of GDP	*38.6*	*44.2*	*45.5*	*50.4*
Domestic debt, o/w:	222	253	257	467
Arrears, o/w:	84	113	129	356
APC	51	71	97	219
SVB	33	42	33	137
Foreign debt (to Netherlands)	1,960	2,242	2,288	2,346
Gov. bank deposits/liquidity at:	254	461	465	481
Central bank	162	369	199	141
Commercial banks	92	92	267	340
Current account	90	90	221	314
Time deposits	2	2	46	26
Net debt (gross debt net of liquidity)	1,928	2,034	2,080	2,331

Sources: Authorities' data, and IMF staff calculations.

2. **In the staff's baseline, Curaçao's government debt is projected to decline slowly over time, as the primary deficit narrows while growth remains weak** (Figure 1A). Fiscal adjustment measures being implemented by the authorities would help bring the primary deficit of 2.3 percent of GDP in 2017 to close to zero over the medium term. Still, this would not be sufficient to put debt on a sustainable downward path, and it will remain above its 2016 level in 2023, similar to the levels

[1] The gross debt amount of NA*f* 2,813 million for 2017 differs from that in the CBCS 2017 Annual Report by an amount of NA*f* 7.3 million associated with end-year account-closing loans, which the CBCS is not including in the debt figure as these loans would have been repaid in early 2018.

of 2009. Gross financing needs would decrease from about 3½ percent of GDP in 2017 to the average of ¾ percent of GDP in 2018–19 and stabilize at around 1½ percent of GDP over the medium term. The high-risk assessment for the external financing requirements reflects the scheduled repayment of a loan to the Netherlands in 2020 which is expected to be rolled over (Figure 3A).

B. Sint Maarten: Baseline Scenario

3. **Sint Maarten's gross government debt amounted to 34¼ percent of GDP at end-2017 but has increased since then**. Both external (liquidity support from the Netherlands) and domestic (arrears) debt increased, reaching 40 percent of GDP by end-September 2018, while government deposits (liquidity) in the banking sector declined. Government arrears or accounts payable to the public pension fund (APS) and Social Insurance Fund (SZV) are estimated to amount to about NA*f* 136 million, more than twice the government's total liquidity position.

Sint Maarten: Government Debt and Liquidity
(Millions of NA*f* unless otherwise indicated)

	2014	2015	2016	2017	2018:Q3
Gross debt	698	693	653	641	709
Gross debt, percent of GDP	*36.9*	*36.3*	*34.0*	*34.3*	*40.4*
Domestic debt, o/w:	197	191	151	118	136
Arrears, o/w: 1/	196	191	151	118	136
APS	70	84	84	20	45
SZV	87	76	51	98	91
Foreign debt (to the Netherlands)	501	501	501	523	573
Gov. bank deposits/liquidity, at:	97	67	110	94	62
Central Bank	64	35	23	42	20
Non-earmarked				22	0
Earmarked (APS)				20	20
Commercial banks	33	32	87	52	42
Current account	13	12	67	32	22
Time deposits	20	20	20	20	20
Net debt (gross debt net of liquidity)	601	626	542	547	647

Sources: Authorities' data, and IMF staff calculations.
1/ Arrears figures for end-September 2018 are preliminary.

4. **Given the ongoing discussions on the modalities of deficit financing by the Netherlands, the staff's baseline scenario assumes the following**:

- The World-Bank managed projects are financed through grants (within the Trust Fund), while remaining budgetary shortfalls (current budget deficits and government's capital expenditure) are financed through loans (outside the Trust Fund).
- The loans are provided within the current "standing subscription" arrangement, and the maturing debt is rolled over with the terms consistent with this arrangement.
- All gross financing needs are financed by newly issued bullet bonds, with a grace period of 10 years (not uncommon in Sint Maarten's experience), 20-year maturity, and an annual interest rate based on the Dutch sovereign bond rate.

5. **In the staff's baseline, Sint Maarten's government debt is projected to increase to about 43½ percent of GDP in 2018 and peak at 46½ percent of GDP in 2020** (Figure 4A). Gross financing needs will double in 2018 to about 7 percent, from 3½ percent of GDP in 2017, and decline gradually after 2018 to zero after 2023, when the overall fiscal surplus offsets debt amortization. After 2020, the debt starts to decline toward 40 percent by 2023.

C. Curaçao and Sint Maarten: Stress Tests

6. In both Curaçao and Sint Maarten, the debt path is sensitive to adverse growth, fiscal, and interest rate shocks, in addition to country-specific shocks (Figures 2A and 5A).

- **Growth shock**. An adverse growth shock scenario assumes the negative growth continues in 2019–20, with the output growth lower by one standard deviation in Curaçao (a more negative growth shock is considered below) and two standard deviations in Sint Maarten. This implies the average annual growth in 2019–20 would be -0.9 percent instead of 0.2 percent in the baseline in Curaçao, and −1.7 percent instead of 2.1 percent in Sint Maarten. In Curaçao, the debt-to-GDP ratio would be about 2 percentage points higher compared to the baseline over the medium term, while it would exceed the baseline by 5½ percentage points in Sint Maarten.
- **Fiscal or contingent liability shock**. A temporary shock in 2019 weakens the fiscal situation—for example, because of contingent liabilities arising from SOEs in Sint Maarten or higher-than-expected healthcare costs in Curaçao—assumed to result in a 3 percentage points of GDP increase in the government expenditure. In both countries, the debt-to-GDP ratio would be 2½–3 percentage points of GDP higher over the medium term compared to the baseline.
- **Interest rate shock**. The standard interest rate shock is expected to have a relatively moderate impact over the projection horizon given the favorable maturity profile of the countries, with most borrowing at fixed rates and low refinancing needs. Instead, with a permanent increase in the nominal interest rate of 600 basis points starting in 2019, public debt will stay close to the baseline until 2021, and start diverging it thereafter, by 1 and 2 percentage points of GDP by 2023 in Curaçao and Sint Maarten, respectively.
- **Curaçao: Venezuela shock**. Under an extreme shock scenario, aligned with the authorities' views, if the current economic links with Venezuela (including the operation of the Isla refinery) collapse, this would lead to a broad-based contraction in GDP, resulting in about 3 percentage points increase in Curaçao's debt-to-GDP ratio over the baseline scenario.
- **Curaçao: Combined macro-fiscal shock**. A combination of the above shocks (including the Venezuela shock) would put the debt on an unsustainable path, raising it to about 56½ percent of GDP by year 2023 (over 9 percentage points of GDP higher than the baseline).
- **Sint Maarten: Natural disaster and combined shocks**. Another hurricane event in 2019, assumed to cause a 10 percent of GDP fiscal cost, would worsen the debt profile by a similar magnitude, resulting in the debt peaking at about 56 percent of GDP in 2020 and declining to just below 48 percent of GDP by 2023. Combing this shock with the growth and interest rate shocks would bring the debt up to a peak of 63¾ percent of GDP in 2020, with a gradual decline toward 59 percent by 2023.
- **Sint Maarten: No fiscal adjustment after 2018**. In the scenario without any adjustment on the revenue and spending side after 2018, the debt path will be unsustainable, with the debt rising to 49 percent of GDP in 2019 and reaching 72 percent by 2023.

Figure 1A. Curaçao: Public DSA—Baseline Scenario

(Percent of GDP, unless otherwise indicated)

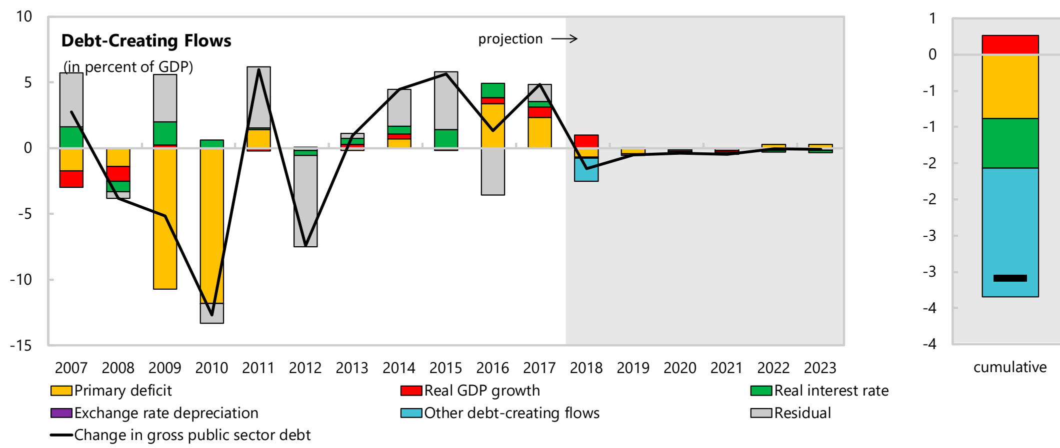
Debt, Economic and Market Indicators 1/

	Actual			Projections					
	2007-2015 2/	2016	2017	2018	2019	2020	2021	2022	2023
Nominal gross public debt	42.4	45.5	50.4	48.9	48.3	47.9	47.4	47.4	47.3
Public gross financing needs	1.4	4.6	3.6	0.6	0.8	2.8	1.0	1.4	1.4
Real GDP growth (in percent)	0.3	-1.0	-1.7	-2.0	0.2	0.3	0.3	0.4	0.4
Inflation (GDP deflator, in percent)	2.5	0.0	1.6	2.4	2.2	2.5	2.5	2.5	2.5
Nominal GDP growth (in percent)	2.8	-1.0	-0.1	0.4	2.4	2.8	2.9	2.9	2.9
Effective interest rate (in percent) 4/	3.9	2.4	2.5	2.2	2.3	2.2	2.2	2.2	2.2

As of November 30, 2018		
Sovereign Spreads		
EMBIG (bp) 3/		n.a.
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	A-	A-
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	cumulative	debt-stabilizing primary balance 9/
Change in gross public sector debt	-1.0	1.3	4.9	-1.5	-0.5	-0.4	-0.5	-0.1	-0.1	-3.1	
Identified debt-creating flows	-2.3	4.9	3.5	-1.5	-0.5	-0.4	-0.5	-0.1	-0.1	-3.1	
Primary deficit	-2.7	3.4	2.3	-0.7	-0.4	-0.1	-0.2	0.3	0.3	-0.9	-0.3
Primary (noninterest) revenue and grant	27.2	42.7	43.7	44.0	43.8	44.0	44.1	44.1	44.2	264.2	
Primary (noninterest) expenditure	24.5	46.1	46.0	43.3	43.4	43.9	44.0	44.4	44.4	263.4	
Automatic debt dynamics 5/	0.4	1.5	1.2	0.9	-0.1	-0.3	-0.3	-0.3	-0.3	-0.4	
Interest rate/growth differential 6/	0.4	1.5	1.2	0.9	-0.1	-0.3	-0.3	-0.3	-0.3	-0.4	
Of which: real interest rate	0.6	1.1	0.4	-0.1	0.0	-0.1	-0.2	-0.2	-0.2	-0.7	
Of which: real GDP growth	-0.2	0.4	0.8	1.0	-0.1	-0.1	-0.1	-0.2	-0.2	0.3	
Exchange rate depreciation 7/	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	-1.8	0.0	0.0	0.0	0.0	0.0	-1.8	
Please specify (1) (e.g., drawdown of de	0.0	0.0	0.0	-1.8	0.0	0.0	0.0	0.0	0.0	-1.8	
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/	1.2	-3.6	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

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

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

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

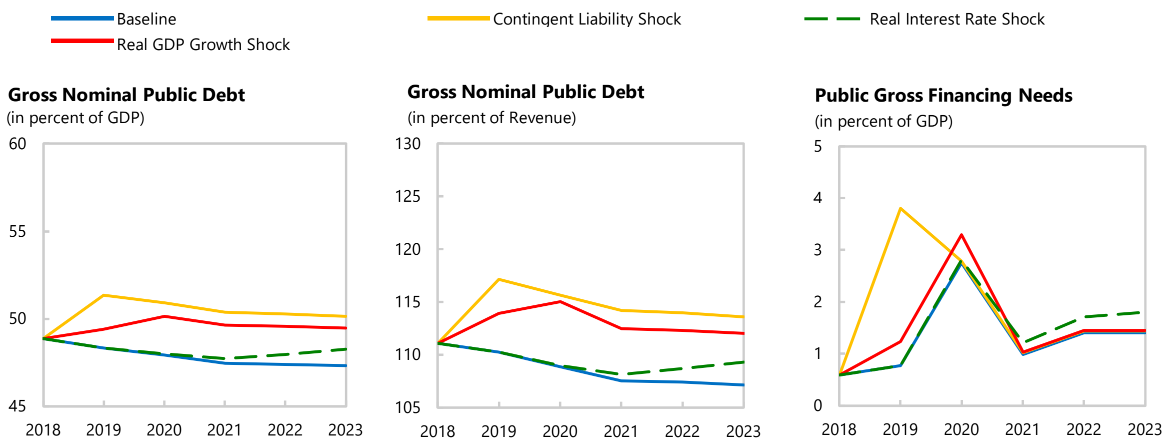
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

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

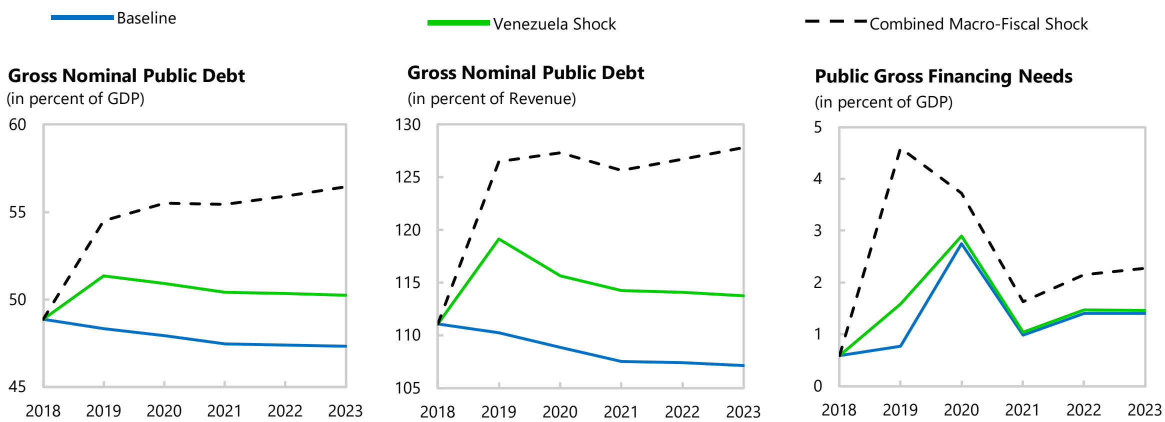
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2A. Curaçao: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	-2.0	0.2	0.3	0.3	0.4	0.4
Inflation	2.4	2.2	2.5	2.5	2.5	2.5
Primary balance	0.7	0.4	0.1	0.2	-0.3	-0.3
Effective interest rate	2.2	2.3	2.2	2.2	2.2	2.2
Growth Shock (1-SD)						
Real GDP growth	-2.0	-0.9	-0.8	0.3	0.4	0.4
Inflation	2.4	2.0	2.3	2.5	2.5	2.5
Primary balance	0.7	0.0	-0.3	0.2	-0.3	-0.3
Effective interest rate	2.2	2.3	2.2	2.2	2.2	2.2
Contingent Liability Shock						
Real GDP growth	-2.0	0.2	0.3	0.3	0.4	0.4
Inflation	2.4	2.2	2.5	2.5	2.5	2.5
Primary balance	0.7	-2.6	0.1	0.2	-0.3	-0.3
Effective interest rate	2.2	2.3	2.2	2.1	2.1	2.1

Real Interest Rate Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	-2.0	0.2	0.3	0.3	0.4	0.4
Inflation	2.4	2.2	2.5	2.5	2.5	2.5
Primary balance	0.7	0.4	0.1	0.2	-0.3	-0.3
Effective interest rate	2.2	2.3	2.3	2.7	2.8	3.0
Venezuela Shock						
Real GDP growth	-2.0	-4.3	0.3	0.3	0.4	0.4
Inflation	2.4	2.3	2.5	2.5	2.5	2.5
Primary balance	0.7	-0.3	0.1	0.2	-0.3	-0.3
Effective interest rate	2.2	2.3	2.2	2.2	2.2	2.2
Combined Shocks*						
Real GDP growth	-2.0	-4.3	-0.8	0.3	0.4	0.4
Inflation	2.4	2.0	2.3	2.5	2.5	2.5
Primary balance	0.7	-3.3	-0.3	0.2	-0.3	-0.3
Effective interest rate	2.2	2.3	2.7	3.1	3.2	3.4

* 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.

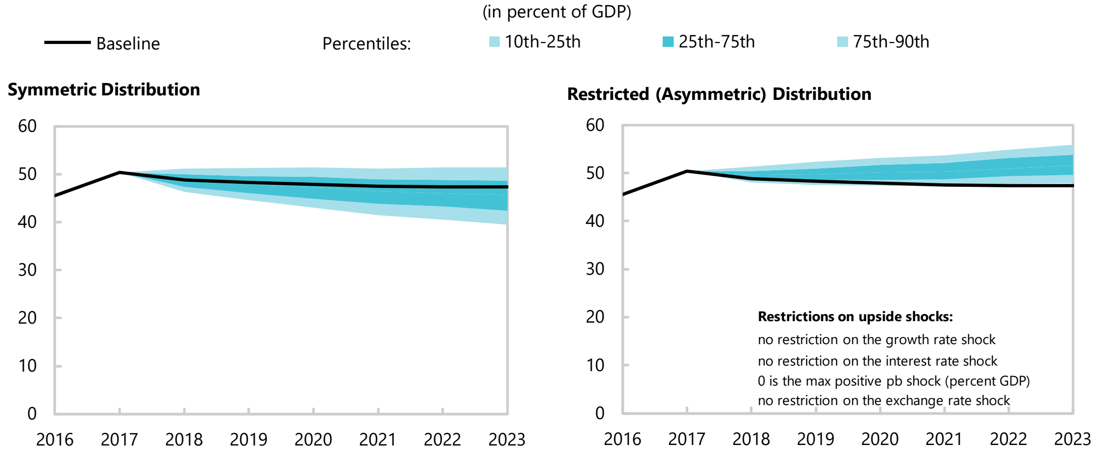
Figure 3A. Curaçao: Public DSA—Risk Assessment

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

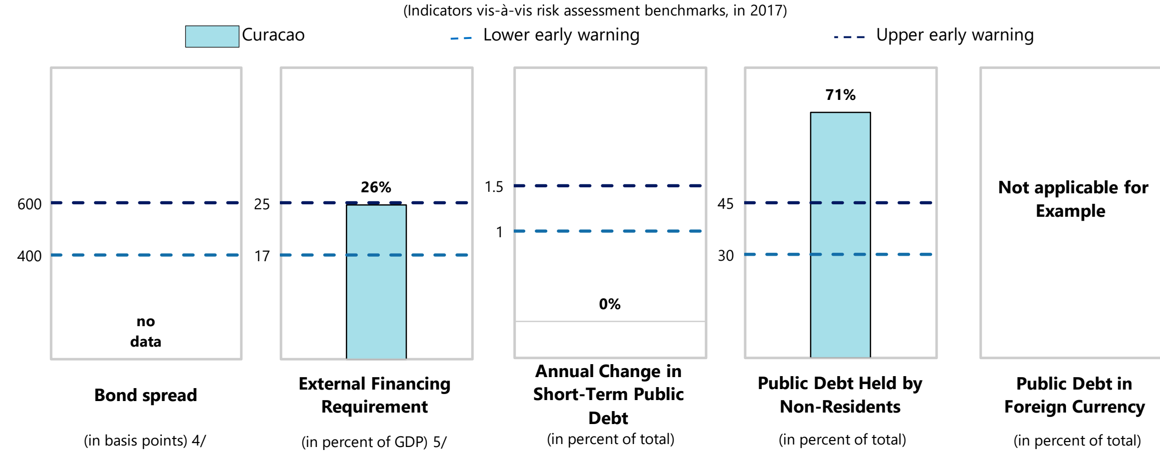
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2017)



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, 01-Sep-18 through 30-Nov-18.

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

Figure 4A. Sint Maarten: Public DSA—Baseline Scenario

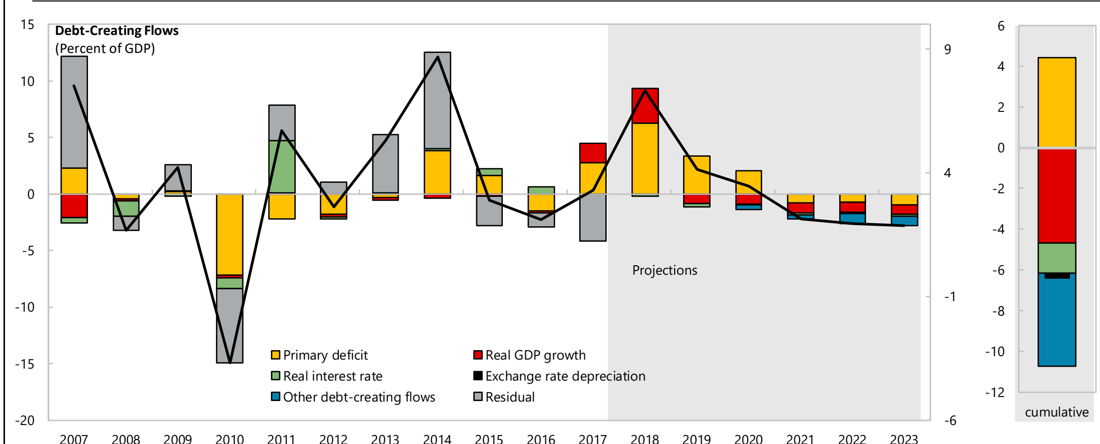
(Percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators 1/

	Actual			Projections						As of November 30, 2018		
	2007–2015 2/	2016	2017	2018	2019	2020	2021	2022	2023	Sovereign Spreads		
Nominal gross public debt	27.1	34.0	34.3	43.5	45.7	46.4	44.2	41.6	38.9	Spread (bp) 3/		n.a.
Public gross financing needs	0.8	-0.8	3.5	7.1	4.5	5.9	0.4	0.4	0.2	CDS (bp)		n.a.
Real GDP growth (percent)	1.8	0.4	-4.8	-8.5	2.1	2.0	2.0	2.0	2.1	Ratings	Foreign	Local
Inflation (GDP deflator, percent)	0.0	0.1	2.2	2.7	2.5	2.0	2.0	2.1	2.1	Moody's	Baa2	Baa2
Nominal GDP growth (percent)	3.6	0.5	-2.7	-6.1	4.6	4.1	4.1	4.2	4.3	S&Ps	n.a.	n.a.
Effective interest rate (percent) 4/	1.7	1.9	2.0	1.9	1.9	1.8	1.7	1.8	1.8	Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

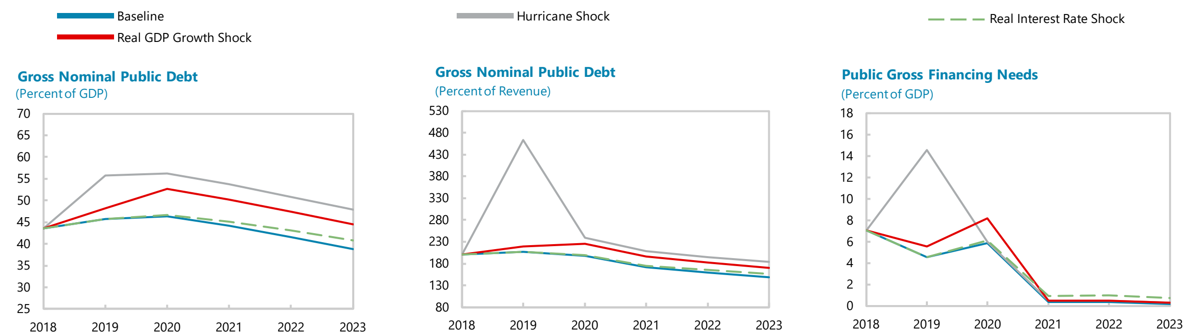
	Actual			Projections							
	2007–2015	2016	2017	2018	2019	2020	2021	2022	2023	Cumulative	Debt-stabilizing primary balance 9/
Change in gross public sector debt	1.6	-2.3	0.3	9.2	2.2	0.7	-2.2	-2.6	-2.8	-4.5	-0.7
Identified debt-creating flows	-0.6	-1.0	4.4	9.2	2.2	0.7	-2.2	-2.6	-2.8	-4.5	
Primary deficit	-0.4	-1.5	2.8	6.3	3.4	2.1	-0.8	-0.7	-1.0	5.5	
Primary (noninterest) revenue and grants	20.9	24.4	21.9	21.6	22.0	23.4	25.7	26.1	26.1	247.5	
Primary (noninterest) expenditure	20.5	22.9	24.7	27.9	25.4	25.5	24.9	25.3	25.1	253.1	
Automatic debt dynamics 5/	-0.1	0.5	1.7	2.9	-1.2	-1.0	-1.0	-1.0	-1.0	-5.5	
Interest rate/growth differential 6/	-0.1	0.5	1.7	2.9	-1.2	-1.0	-1.0	-1.0	-1.0	-5.5	
Of which: real interest rate	0.3	0.6	0.0	-0.2	-0.3	-0.1	-0.1	-0.1	-0.2	-1.4	
Of which: real GDP growth	-0.4	-0.2	1.7	3.1	-0.9	-0.9	-0.9	-0.9	-0.8	-4.1	
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	-0.4	-0.4	-0.9	-0.8	-4.6	
Net privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other liabilities (payment arrears)	0.0	0.0	0.0	0.0	0.0	-0.4	-0.4	-0.9	-0.8	-4.6	
Residual, including asset changes 8/	2.2	-1.3	-4.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	



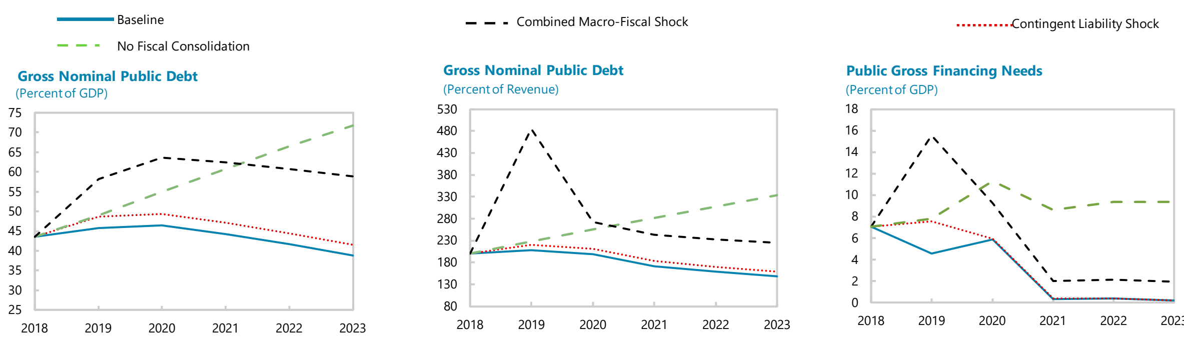
Source: IMF staff.
1/ Public sector is defined as general government.
2/ Based on available data.
3/ Long-term bond spread over German bonds.
4/ Defined as interest payments divided by debt stock at the end of previous year.
5/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period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

Figure 5A. Sint Maarten: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(Percent)

	2018	2019	2020	2021	2022	2023
Baseline						
Real GDP growth	-8.5	2.1	2.0	2.0	2.0	2.1
Inflation	2.7	2.5	2.0	2.0	2.1	2.1
Primary balance	-6.3	-3.4	-2.1	0.8	0.7	1.0
Effective interest rate	1.9	1.9	1.8	1.7	1.8	1.8
Real GDP Growth Shock						
Real GDP growth	-8.5	-1.6	-1.7	2.0	2.0	2.1
Inflation	2.7	2.5	2.0	2.0	2.1	2.1
Primary balance	-6.3	-4.3	-4.0	0.8	0.7	1.0
Effective interest rate	1.9	1.9	1.8	1.7	1.8	1.7
Combined Shock						
Real GDP growth	-8.5	-1.6	-1.7	2.0	2.0	2.1
Inflation	2.7	2.5	2.0	2.0	2.1	2.1
Primary balance	-6.3	-14.3	-4.0	0.8	0.7	1.0
Effective interest rate	1.9	1.9	3.3	4.0	4.1	4.2
No Fiscal Consolidation						
Real GDP growth	-8.5	2.1	2.0	2.0	2.0	2.1
Inflation	2.7	2.5	2.0	2.0	2.1	2.1
Primary balance	-6.3	-6.6	-7.5	-7.4	-8.0	-7.9
Effective interest rate	1.9	1.9	1.8	1.7	1.7	1.6

	2018	2019	2020	2021	2022	2023
Hurricane Shock						
Real GDP growth	-8.5	2.1	2.0	2.0	2.0	2.1
Inflation	2.7	2.5	2.0	2.0	2.1	2.1
Primary balance	-6.3	-13.4	-2.1	0.8	0.7	1.0
Effective interest rate	1.9	1.9	1.7	1.7	1.7	1.7
Real Interest Rate Shock						
Real GDP growth	-8.5	2.1	2.0	2.0	2.0	2.1
Inflation	2.7	2.5	2.0	2.0	2.1	2.1
Primary balance	-6.3	-3.4	-2.1	0.8	0.7	1.0
Effective interest rate	1.9	1.9	2.4	3.0	3.2	3.2
Contingent Liability Shock						
Real GDP growth	-8.5	2.1	2.0	2.0	2.0	2.1
Inflation	2.7	2.5	2.0	2.0	2.1	2.1
Primary balance	-6.3	-6.4	-2.1	0.8	0.7	1.0
Effective interest rate	1.9	1.9	1.8	1.7	1.8	1.7

Source: IMF staff.

Annex VIII. External Debt Sustainability Analysis

(Percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2013	2014	2015	2016	2017	10-Year Historical Average	10-Year Standard Deviation	2018	2019	2020	2021	2022	2023	Debt-stabilizing non-interest current account 6/
Baseline: External debt	74.9	74.5	71.1	73.1	73.7			**76.9**	**79.2**	**80.1**	**81.2**	**81.8**	**82.2**	**-7.9**
Change in external debt	3.2	-0.4	-3.4	2.0	0.6			3.2	2.3	0.9	1.1	0.6	0.5	
Identified external debt-creating flows (4+8+9)	11.8	1.4	0.2	6.6	2.9			11.5	9.0	8.0	6.3	5.4	5.4	
Current account deficit, excluding interest payments	13.2	9.5	6.7	9.2	9.6			13.5	15.3	14.1	12.1	11.6	11.4	
Deficit in balance of goods and services	13.7	10.8	9.0	11.2	18.3			21.3	23.1	20.5	17.3	17.0	16.7	
Exports	82.0	84.2	75.9	71.2	65.4			53.8	58.9	60.9	63.2	64.1	63.9	
Imports	95.6	95.0	85.0	82.3	83.6			75.1	82.0	81.4	80.5	81.2	80.7	
Net non-debt creating capital inflows (negative)	-5.2	-12.1	-11.5	-8.2	-12.8			-10.4	-11.4	-11.0	-10.6	-10.7	-10.3	
Automatic debt dynamics 1/	3.8	4.1	5.0	5.6	6.1			8.4	5.1	4.9	4.7	4.5	4.3	
Contribution from nominal interest rate	4.7	4.9	5.1	5.2	5.5			5.7	5.6	5.5	5.3	5.1	5.0	
Contribution from real GDP growth	0.2	0.3	-0.3	0.5	1.8			2.6	-0.5	-0.5	-0.6	-0.6	-0.7	
Contribution from price and exchange rate changes 2/	-1.1	-1.1	0.2	0.0	-1.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-8.7	-1.8	-3.6	-4.7	-2.2			-8.3	-6.8	-7.1	-5.2	-4.8	-4.9	
External debt-to-exports ratio (in percent)	91.4	88.5	93.6	102.7	112.8			143.0	134.3	131.5	128.4	127.5	128.6	
Gross external financing need (in billions of US dollars) 4/	1.9	1.7	1.7	1.7	1.8			2.1	2.3	2.3	2.2	2.2	2.3	
in percent of GDP	45.3	41.2	39.5	40.5	44.4			51.5	53.5	51.8	49.2	48.1	47.1	
Scenario with key variables at their historical averages 5/								**76.9**	**82.5**	**88.3**	**96.2**	**105.0**	**114.2**	**-0.5**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	-0.3	-0.4	0.4	-0.6	-2.5	-0.1	1.1	-3.5	0.7	0.7	0.7	0.8	0.8	
GDP deflator in US dollars (change in percent)	1.6	1.6	-0.3	0.0	1.7	1.9	1.9	2.4	2.3	2.4	2.4	2.4	2.4	
Nominal external interest rate (in percent)	6.6	6.6	6.8	7.2	7.4	7.7	2.0	7.7	7.5	7.1	6.8	6.5	6.3	
Growth of exports (US dollar terms, in percent)	-3.3	3.9	-9.7	-6.9	-8.9	1.2	10.3	-18.7	12.9	6.5	7.1	4.7	3.0	
Growth of imports (US dollar terms, in percent)	-4.4	0.5	-10.5	-3.7	0.8	1.2	9.5	-11.3	12.4	2.4	2.0	4.0	2.6	
Current account balance, excluding interest payments	-13.2	-9.5	-6.7	-9.2	-9.6	-13.4	5.0	-13.5	-15.3	-14.1	-12.1	-11.6	-11.4	
Net non-debt creating capital inflows	5.2	12.1	11.5	8.2	12.8	7.1	4.4	10.4	11.4	11.0	10.6	10.7	10.3	

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.