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KINGDOM OF THE NETHERLANDS—CURAÇAO AND SINT MAARTEN

January 2019

2018 ARTICLE IV CONSULTATION DISCUSSIONS—PRESS RELEASE AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2018 Article IV Consultation discussions with the Kingdom of the Netherlands—Curaçao and Sint Maarten, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis on January 15, 2019, following discussions that ended on November 9, 2018, with the officials of the Kingdom of the Netherlands—Curaçao and Sint Maarten on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 21, 2018.
- An **Informational Annex** prepared by the IMF staff.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes 2018 Article IV Consultation Discussions with the Kingdom of the Netherlands—Curaçao and Sint Maarten

On January 15, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the 2018 Article IV Consultation discussions[1] with Curaçao and Sint Maarten, two autonomous constituent countries within the Kingdom of the Netherlands, and considered and endorsed the staff appraisal without a meeting.[2]

Economic conditions in Curaçao and Sint Maarten continued to deteriorate over the past years. In Curaçao, spillovers from one of its largest trading partners is taking a toll on the economy, with real GDP contracting in 2016–18. In Sint Maarten, Hurricanes Irma and Maria had a devastating impact in September 2017, causing an over 250 percent of GDP in damages and losses and leading to a significant contraction in output in 2017–18. The fiscal positions of both countries have deteriorated, with the overall deficit reaching 3½ percent of GDP in both Curaçao and Sint Maarten in 2017. The current account deficit of the union continued to widen since 2016.

Economic growth is expected to resume in both economies in 2019. In Curaçao, real GDP growth is projected to turn slightly positive in 2019 and remain below ½ percent in the medium term. In Sint Maarten, a combination of the recovery in the tourism industry and the strong investment for reconstruction is projected to increase real GDP by about 2 percent, keeping it at slightly above its historical trend over the medium term. In both countries, the fiscal position is expected to improve going forward, as the economies recover and fiscal adjustment measures are being implemented. The union's current account deficit is projected to reach 21 percent of GDP in 2019 and gradually narrow over the medium term.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

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

Risks to the outlook are mainly on the downside. For the union, weaker-than-expected global growth could curb tourism demand, slowing the much-needed tourism sector recovery. For Curaçao, the continuing crisis in Venezuela is the main risk, while in Sint Maarten, where exposure to hurricanes remains a major vulnerability, slower-than-expected progress on reconstruction poses further downside risk.

Executive Board Assessment

In concluding the 2018 Article IV consultation with the Kingdom of the Netherlands—Curaçao and Sint Maarten, Executive Directors endorsed staff's appraisal, as follows:

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.

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.

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.

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.

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.

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.

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.

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.

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.

Curaçao: Selected Economic and Financial Indicators, 2015–19

Area	444 (km^2)	Life expectancy at birth, male (2016)	74.8
Population, thousand (2016)	160.3	Life expectancy at birth, female (2016)	81.1
Literacy rate, in percent (2010)	96.7	Infant mortality, over 1,000 live births (2016)	11.2

	2015	2016	2017	2018	2019
			Prel.	Proj.	Proj.
Real economy (percent change)					
Real GDP	0.3	-1.0	-1.7	-2.0	0.2
CPI (12-month average)	-0.5	0.0	1.6	2.4	2.2
Unemployment rate (percent)	11.7	13.3	14.1	14.5	14.3
General government finances (percent of GDP)					
Primary balance	0.1	-3.4	-2.3	0.7	0.4
Current balance 1/	0.9	0.5	-0.6	1.9	1.8
Overall balance	-1.2	-4.4	-3.5	-0.5	-0.7
Public debt	44.2	45.5	50.4	48.9	48.4
Balance of payments (percent of GDP)					
Goods trade balance	-33.8	-32.4	-32.1	-28.5	-28.3
Exports of goods	14.8	13.4	15.3	12.7	12.5
Imports of goods	48.6	45.8	47.4	41.2	40.8
Service balance	18.8	15.7	10.4	7.5	7.7
Exports of services	47.7	43.9	41.4	34.5	34.2
Imports of services	28.9	28.2	31.0	26.9	26.5
Current account	-16.5	-18.7	-21.9	-22.4	-21.6
Memorandum items:					
Nominal GDP (millions of U.S. dollars)	3,153	3,122	3,118	3,131	3,207
Per capita GDP (U.S. dollars)	19,834	19,473	19,485	19,353	19,590
Per capita GDP (percent change)	-1.4	-1.8	0.1	-0.7	1.2
Private sector credit (percent change) 2/	-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.