



KINGDOM OF THE NETHERLANDS—CURAÇAO AND SINT MAARTEN

August 2021

2021 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 2021 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, following discussions that ended on June 17, 2021, 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 July 15, 2021.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

Selected Issues

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IMF Executive Board Concludes 2021 Article IV Consultation with the Kingdom of the Netherlands—Curaçao and Sint Maarten

FOR IMMEDIATE RELEASE

Washington, DC – August 2, 2021: On July 29, 2021, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation discussions¹ with the Kingdom of the Netherlands—Curaçao and Sint Maarten and endorsed the staff appraisal without a meeting on a lapse-of-time basis.² These consultation discussions form part of the Article IV consultation with the Kingdom of the Netherlands.

The COVID-19 pandemic inflicted another major shock on the economies of Curaçao and Sint Maarten. It followed major hurricanes in Sint Maarten in 2017 and the spillovers of the Venezuelan crisis on Curaçao that caused a decline of the oil refining sector, one of Curaçao's major economic pillars. The pandemic led to a collapse of tourism in both countries. Despite significant response measures swiftly designed by the authorities and financed by the Netherlands, real GDP is estimated to have fallen 20 percent in Curaçao and 24 percent in Sint Maarten in 2020 due to the high dependence on tourism. A particularly severe outbreak of COVID-19 in Curaçao in March-April 2021 required a near-lockdown and brought tourism to a halt again. A combination of depressed fiscal revenue and higher spending needs due to COVID-19 response measures widened fiscal deficits in 2020, increasing government debt stocks to about 89 and 65 percent of GDP in Curaçao and Sint Maarten, respectively.

The economic recovery is likely to be protracted as tourism is expected to reach its pre-pandemic levels only in 2024. Zero real GDP growth is projected in Curaçao in 2021 due to the effects of the COVID-19 outbreak, followed by 6.5 percent growth in 2022 as tourism partially recovers. Unless the refinery resumes operations in a sustainable way, it could take a decade for real GDP to recover to its pre-pandemic (2019) level as the refinery-related sectors decline. In Sint Maarten, real GDP growth is projected at 4 percent in 2021 and 15 percent in 2022 driven by the recovery of tourism and the implementation of post-hurricane projects including reconstruction of the airport. Real GDP is likely to recover to the pre-pandemic level in 2024. In both countries, inflation is likely to accelerate in 2021 due to higher fuel and other import prices. Elevated primary fiscal deficits in 2021 are likely to increase the government debt ratios to 103 and 82 percent of GDP in Curaçao and Sint Maarten, respectively, although the debt ratios would gradually decline in the medium term as fiscal deficits subside and the economies recover. The outlook is subject to elevated uncertainty and risks, including the risk of another COVID-19 outbreak and delays in securing the required liquidity support.

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 the Board agrees that a proposal can be considered without convening formal discussions.

Executive Board Assessment

The comprehensive economic support measures, put in place with help from The Netherlands, cushioned the COVID-19 shock and saved livelihoods. They supported employment and helped avoid mass bankruptcies. However, the economic contraction was severe and the outlook is challenging and subject to elevated uncertainty and risks.

The near-term focus should be on safe reopening of the economies, providing support where necessary, and setting the stage for inclusive recovery and medium-term sustainability. Accelerating vaccination campaigns, particularly in Sint Maarten, would support recovery of the hospitality sector. It would be important to provide adequate resources to critical areas such as the health sector, tax administration, AML/CFT, and data and information frameworks. Agreements with The Netherlands (*landspakketten*) present a window of opportunity to implement structural reforms to support a recovery and ensure medium-term sustainability.

Strong implementation of fiscal reforms and a sustainable economic recovery are needed to achieve medium-term debt sustainability. Both countries need to strengthen tax administration as a matter of urgency and implement tax policy reforms to widen the tax base. It is essential to strengthen public financial management through better planning, stronger expenditure controls, better tracking of fiscal risks, and improved transparency. In the long term, both countries would benefit from moving towards a Fiscal Responsibility Framework including government debt as a long-term anchor. As the debt anchor of 40 percent of GDP recommended previously is unfeasible unless a part of liquidity support is converted into grants, the new target can be set when uncertainty subsides.

Monetary policy should aid the recovery while supporting the peg. The excess liquidity should be monitored closely and sterilized if the international reserves come under pressure. The CBCS is encouraged to remove capital flow measures introduced in March 2020 as soon as the recovery takes hold and if the international reserve cushion remains comfortable. Staff does not recommend approval of the exchange restriction as the conditions for approval are not met.

The authorities' efforts to address financial sector vulnerabilities are welcome and need to be sustained to address the banking sector fragilities. Developing a comprehensive Financial Sector Reform Program was a significant step forward. Careful sequencing of measures and implementation would be key for addressing the vulnerabilities. Efforts to transition to risk-based supervision, strengthen supervisory enforcement, and upgrade the bank resolution framework should be frontloaded. The CBCS should develop a roadmap for addressing results of a planned asset quality review.

Finding new areas of growth, supported by strong across-the-board structural reforms, would help mitigate exposure to shocks and boost potential growth. The authorities could foster new areas of growth by improving the business environment and reducing the cost of doing business. Facilitating various permits—including through better transparency and eliminating red tape—would increase incentives for investment, including FDI. Phasing in more labor market flexibility while fine-tuning safety nets and addressing skills gaps would improve competitiveness and adaptability. Expanding green energy (such as solar and wind) or pursuing green projects could generate new investment.

Significant efforts are needed to improve planning, implementation capacity, and governance in the public sector, particularly in Sint Maarten. As gaps in data availability and quality

hamper effective macroeconomic analysis and policymaking, it is essential to address the shortages of personnel and financial resources in this area.

Table 1. Curaçao: Selected Economic and Financial Indicators, 2017–22

	2017	2018	2019	2020	2021	2022
		Prel.	Prel.	Est.	Proj.	Proj.
Real economy (percent change)						
Real GDP	-1.7	-2.2	-3.4	-20.0	0.0	6.5
CPI (12-month average)	1.6	2.6	2.6	2.2	2.8	3.3
Unemployment rate (percent)	14.1	13.4	17.4	19.1	24.3	21.0
Central government finances (percent of GDP)						
Net operating (current) balance	-2.1	-1.2	-0.5	-17.0	-14.3	-5.7
Primary balance	-2.6	-1.4	-0.4	-14.9	-13.5	-5.5
Overall balance	-3.5	-2.4	-1.9	-17.8	-15.0	-7.0
Central government debt 1/	54.5	54.5	55.9	89.1	103.2	100.2
General government finances (percent of GDP) 2/						
Overall balance	-3.5	-2.4	-1.9	-17.8	-15.0	-7.0
Balance of payments (percent of GDP)						
Current account	-21.8	-26.0	-17.4	-26.7	-31.3	-26.5
Goods trade balance	-33.5	-37.4	-34.3	-36.4	-39.4	-40.7
Exports of goods	13.6	18.7	12.8	10.5	13.7	13.7
Imports of goods	47.1	56.2	47.1	46.9	53.1	54.4
Service balance	12.1	11.5	16.3	9.4	8.9	14.5
Exports of services	43.0	43.1	44.4	28.8	30.6	37.6
Imports of services	30.9	31.6	28.0	19.4	21.7	23.1
External debt (percent of GDP)	133.3	152.0	156.4	208.0	227.7	218.3
Memorandum items:						
Nominal GDP (millions of U.S. dollars)	3,117	3,128	3,103	2,581	2,577	2,849
Per capita GDP (U.S. dollars)	19,438	19,548	19,557	16,521	16,769	18,438
Credit to non-gov. sectors (percent change)	2.4	2.5	2.2	0.1
Sources: Data provided by the authorities; and IMF staff estimates.						
1/ Defined as balance sheet liabilities of the central government except equities. Includes central government liabilities to the social security funds.						
2/ Budgetary central government consolidated with the social security fund (SVB).						

Table 2. Sint Maarten: Selected Economic Indicators, 2017–22

	2017	2018 Prel.	2019 Est.	2020 Est.	2021 Proj.	2022 Proj.
Real economy (percent change)						
Real GDP 1/	-8.8	-9.1	8.0	-24.0	4.0	15.0
CPI (12-month average)	2.2	2.9	0.4	0.7	3.2	2.7
Unemployment rate (percent)	6.2	9.9	7.9	16.9	22.8	15.5
Government finances (percent of GDP)						
Primary balance excl. Trust Fund operations 2/	-3.2	-4.4	-1.3	-10.9	-16.8	-8.5
Current balance (Authorities' definition) 3/	-2.5	-3.7	-0.7	-10.2	-16.4	-8.3
Current balance (Authorities' definition)	-3.5	-4.5	-1.6	-11.3	-15.3	-6.1
Central government debt 4/	40.7	47.2	44.2	64.7	82.2	77.9
Balance of payments (percent of GDP)						
Current account	4.1	6.7	-12.6	-29.5	-37.4	-28.6
Goods trade balance	-55.7	-69.6	-60.5	-47.5	-57.2	-59.4
Exports of goods	10.7	13.4	14.8	13.8	15.1	13.7
Imports of goods	66.4	83.0	75.2	61.4	72.2	73.1
Service balance	50.0	31.7	49.0	23.7	26.3	38.7
Exports of services	73.2	58.9	74.2	40.4	44.2	57.2
Imports of services	23.2	27.2	25.2	16.7	17.9	18.5
External debt	236.1	232.4	222.3	285.6	306.1	269.8
Net international investment position	-134.6	-134.5	-137.6	-189.9	-212.6	-199.3
Memorandum items:						
Nominal GDP (millions of U.S. dollars)	1,147	1,108	1,226	970	989	1,177
Per capita GDP (U.S. dollars)	28,287	27,293	29,781	23,083	23,235	27,313
Credit to non-gov. sectors (percent change)	-1.6	-1.7	0.9	2.4

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

1/ GDP figures for 2017-2019 include adjustments by the IMF staff based on inputs from a technical assistance mission and are lower than the published figures.

2/ Excludes Trust Fund (TF) grants and TF-financed special projects.

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

4/ The stock of debt in 2016 is based on financial statements. Values in subsequent years are staff's estimates and are higher than the values under authorities' definition in quarterly fiscal reports.



KINGDOM OF THE NETHERLANDS— CURAÇAO AND SINT MAARTEN

July 15, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION DISCUSSIONS

KEY ISSUES

Context. The COVID-19 pandemic inflicted another major shock on the economies of Curaçao and Sint Maarten, which followed category 5 hurricanes in Sint Maarten in 2017 and the spillovers of the Venezuelan crisis on Curaçao. Despite the substantial response measures financed by The Netherlands, the economic contraction in 2020 was severe.

Outlook and risks. As the pandemic is still unfolding, the near-term outlook remains challenging, with zero growth in Curaçao and only moderate recovery in Sint Maarten in 2021. A stronger recovery is expected in 2022–24 as tourism approaches pre-pandemic levels. Weak fiscal revenues and the need for supporting measures imply a further increase in public debt. The outlook for both countries is subject to elevated uncertainty and risks given the high dependence on tourism.

Policy recommendations. Near-term priorities include reaching vaccination objectives, protecting the vulnerable, supporting the economy as needed, and setting the basis for inclusive recovery and medium-term sustainability. The fiscal adjustment should avoid compromising the recovery while being consistent with available financing.

The agreements with The Netherlands (*landspakketten*) provide a window of opportunity to improve the overall policy framework needed to support the exchange rate peg, strengthen resilience, and support potential growth. The agreements present a chance to advance growth-enhancing structural reforms while providing necessary liquidity support and financing for key projects. In view of limited administrative capacity, prioritization and careful sequencing will be key to ensure implementation. Across-the-board improvements in public financial management, transparency, and governance are required to improve the Union's economic outlook.

Approved By
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The 2021 Article IV consultation discussions were held remotely during May 12 – June 17, 2021. They form part of the Article IV consultation with The Kingdom of the Netherlands. The team comprised Dmitriy Kovtun (head), Thomas Dowling, and Atsushi Oshima, (all WHD). Geerten Michielse (FAD), Ian De Vere Carrington, Luisa Malcherek, and Maksym Markevych (all LEG), Minke Gort (MCM), Patrick Blagrove, Martin Bowen, Frode Lindseth, and Robin Youll (all CARTAC), Jesper Hanson and Paul Hilbers (OED) participated in the discussions. Grey Ramos, Sheng Tibung and Tianle Zhu provided valuable assistance.

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