IMF Executive Board Concludes 2020 Article IV Consultation with Curaçao and Sint Maarten

FOR IMMEDIATE RELEASE

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

The analysis below reflects discussions with the Kingdom of the Netherlands—Curaçao and Sint Maarten authorities in November 2019 and is based on the information available as of March 3, 2020. It focuses on Curaçao and Sint Maarten's near and medium-term challenges and policy priorities and was prepared before COVID-19 became a global pandemic and resulted in unprecedented strains in global trade, commodity and financial markets. It, therefore, does not reflect the implications of these developments and related policy priorities. The outbreak has significantly worsened the outlook and greatly amplified uncertainty and downside risks around it. Staff is closely monitoring the situation and will continue to work on assessing its impact and the related policy response in Curaçao and Sint Maarten and globally.

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

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

The external position of the Union worsened since 2016. The current account deficit (CAD) widened from 15.2 percent of the union GDP in 2017 to an estimated 21.8 percent of GDP in 2019 mainly because of a larger CAD in Curaçao, where imports increased significantly due to

[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.

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spillovers from Venezuela. Despite double-digit CADs, the pressure on international reserves has been mild as they declined from 4.4 to 4.0 months of imports of goods and services between 2017 and 2019.

Executive Board Assessment[3]

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

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

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

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

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

[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

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

Risks in the financial sector need to be addressed as a matter of priority. The authorities should develop a strategy for addressing financial sector vulnerabilities with the objective of preserving financial stability while minimizing fiscal costs. A thorough diagnostic of deposit takers, along with a strategy to deal with any issue that may be identified, would help support financial stability.

Significant strengthening of supervision and a complete overhaul of the bank resolution framework are also urgently needed. The authorities should be prepared to recapitalize the CBCS if costs related to monetary policy or addressing financial system vulnerabilities reduce its capital buffer.

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

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

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

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Curaçao: Selected Economic and Financial Indicators, 2016–21

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

	2016	2017	2018	2019	2020	2021
		Prel.	Prel.	Est.	Proj.	
Real economy (percent change)						
Real GDP	-0.9	-1.7	-2.2	-2.0	0.0	1.5
CPI (12-month average)	0.0	1.6	2.6	2.6	3.7	2.9
Unemployment rate (percent)	13.3	14.1	13.4	19.0	19.0	18.1
General government finances (percent of GDP)						
Net operating (current) balance, central government	-0.4	-2.1	-1.2	-0.3	-0.7	1.1
Primary balance, general government	-3.1	-2.5	-1.0	-1.3	-1.2	0.8
Overall balance, general government	-4.1	-3.5	-2.1	-2.4	-2.4	-0.4
Central government debt 1/	50.6	54.5	54.6	54.0	56.0	54.0
Balance of payments (percent of GDP)						
Current account	-18.7	-21.9	-28.7	-20.8	-20.5	-19.1
Goods trade balance	-34.1	-33.5	-38.6	-33.9	-33.5	-35.5
Exports of goods	11.6	13.6	16.9	15.0	13.8	13.4
Imports of goods	45.7	47.1	55.5	48.9	47.3	48.8
Service balance	17.2	11.8	9.7	12.7	13.6	17.0
Exports of services	45.5	43.0	44.5	42.8	44.7	48.2
Imports of services	28.3	31.3	34.9	30.2	31.1	31.2
External debt (percent of GDP)	125.5	133.3	145.7	153.7	158.9	162.8
Memorandum items:						
Nominal GDP (millions of U.S. dollars)	3,122	3,117	3,128	3,146	3,263	3,408
Per capita GDP (U.S. dollars)	19,473	19,478	19,714	19,908	20,668	21,587
Per capita GDP (percent change)	-1.8	0.0	1.2	1.0	3.8	4.4
Private sector credit (percent change)	…	2.4	2.5	2.2	…	…
Fund position	Curaçao is part of the Kingdom of the Netherlands and does not have a separate quota.					
Exchange rate	The Netherlands Antillean guilder is pegged to the U.S. dollar at NA*f* 1.79 = US$1.					

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

1/ Defined as balance sheet liabilities of the central government except equities. Includes central government liabilities to the social security funds.

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

Area (km²)	34	Population, thousand (2018)	41
Percent of population below age 15 (2018)	20	Literacy rate, in percent (2011)	93.8
Percent of population aged 65+ (2018)	7.9	Life expectancy at birth, male (2016)	74.0
Infant mortality, over 1,000 live births (2010)	6.0	Life expectancy at birth, female (2016)	80.6

	2016	2017	2018	2019	2020	2021
		Prel.	Prel.	Est.	Proj.	
Real economy (percent change)						
Real GDP	0.4	-8.4	-8.5	5.0	2.9	2.5
CPI (12-month average)	0.1	2.2	2.9	0.7	2.5	2.2
Unemployment rate (percent)	8.7	6.2	9.9	9.1	8.7	8.4
General government finances (percent of GDP)						
Primary balance excl. Trust Fund operations 1/	2.0	-2.9	-4.0	-0.8	-3.1	-2.3
Current balance (Authorities' definition) 2/	1.0	-4.0	-5.3	-1.9	-1.4	-1.0
Overall balance	1.4	-3.6	-3.8	-1.6	1.3	4.9
Central government debt 3/	44.5	46.0	54.4	51.3	52.6	55.3
Balance of payments (percent of GDP)						
Current account	-2.5	4.6	6.7	-24.8	-24.0	-17.0
Goods trade balance	-67.5	-63.0	-78.9	-75.3	-75.3	-74.7
Exports of goods	12.3	12.1	15.6	15.7	15.6	15.6
Imports of goods	79.8	75.1	94.4	91.1	90.9	90.2
Service balance	70.6	56.6	34.5	52.7	53.4	56.0
Exports of services	96.3	82.8	69.3	88.0	87.7	89.8
Imports of services	25.7	26.2	34.8	35.3	34.3	33.8
External debt (in percent of GDP)	236.0	267.1	266.3	265.0	255.4	252.8
Memorandum items:						
Nominal GDP (millions of U.S. dollars)	1,072	1,014	954	1,009	1,064	1,115
Per capita GDP (U.S. dollars)	27,203	25,010	23,495	24,526	25,545	26,423
Per capita GDP (percent change)	-2.4	-8.1	-6.1	4.4	4.2	3.4
Private sector credit (percent change)	…	-1.6	-1.7	0.9	…	…
Fund position	Sint Maarten is part of the Kingdom of the Netherlands and does not have a separate quota.					
Exchange rate	The Netherlands Antillean guilder is pegged to the U.S. Dollar at NAf 1.79 = US$1.					

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

1/ Excludes capital expenditure and Trust Fund-financed special projects.

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

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

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