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IMF Executive Board Concludes 2022 Article IV Consultation Discussions with the Kingdom of the Netherlands—Curaçao and Sint Maarten

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Washington, DC: On July 27, 2022, the Executive Board of the International Monetary Fund (IMF) concluded the 2022 Article IV consultation discussions [1] (file:///Q:/COM/MR/Press%20Releases/2022/PR22284%20-%20Cura%C3%A7ao%20and%20Sint%20Maarten%20-%20IMF%20Executive%20Board%20Concludes%202022%20Article%20IV%20Consultation%20Discussions%20with%20the%20 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] (file:///Q:/COM/MR/Press%20Releases/2022/PR22284%20-%20Cura%C3%A7ao%20and%20Sint%20Maarten%20-%20IMF%20Executive%20Board%20Concludes%202022%20Article%20IV%20Consultation%20Discussions%20with%20the%20 . These consultation discussions form part of the Article IV consultation with the Kingdom of the Netherlands.

Context. Both Curaçao and Sint Maarten are recovering from major shocks. Before the pandemic, Curaçao had been negatively affected by the closure of the refinery, one of its major economic pillars. Sint Maarten's recovery from catastrophic 2017 hurricanes was incomplete. The pandemic led to the collapse of tourism in both countries. Comprehensive economic support measures put in place by the authorities and financed by The Netherlands were instrumental for protecting lives and livelihoods and helped to limit the economic fallout. A strong rebound in tourism beginning in the second half of 2021—one of the strongest results in the Caribbean—supported a nascent economic recovery of 4.2 percent in Curaçao and an estimated growth of 8 percent in Sint Maarten. Despite a substantial external current account deficit of the Union, the international reserves remained comfortable at 6.3 months of imports. The banking system withstood the shock from the pandemic with help from appropriate policies as it remains relatively well capitalized and liquid, although pockets of vulnerability remain.

Curaçao outlook. The recovery from the pandemic is gaining momentum but is facing headwinds from inflation pressures driven by fuel, food and other import prices. The hospitality sector is demonstrating resilience and is likely to support growth of about 6 percent in 2022. Lingering effects from the closure of the refinery mean that growth is not yet broad-based and could delay full recovery to pre-pandemic levels to 2025-26. Inflation pressures stemming from surging global prices create headwinds. The outlook is subject to significant uncertainty and risks.

Sint Maarten outlook. Strong tourism recovery late last year has continued with only mild headwinds from the latest Covid-19 developments, implying an estimated growth of 8 percent last year and an expectation of 7½ percent growth this year. Economic activity is expected to recover to pre-pandemic levels next year and to pre-hurricane levels by the end of the forecast horizon. External inflation pressures, exacerbated by the war in Ukraine, is forecast to raise annual inflation in 2022 to nearly 6 percent. The external current account deficit is expected to widen on tourism-related imports and Trust Fund-related imports but close gradually going forward. Fiscal deficits are expected to decline, and debt-to-GDP fall, but they may reverse if the social security and health system is not reformed. The outlook is subject to substantial risks including shocks to tourism demand from the pandemic or partner country growth as well as ever-present hurricane-risk.

Executive Board Assessment

Curaçao

The recovery from the pandemic is gaining momentum, although the economy is facing multiple challenges. The comprehensive economic support measures put in place with significant help from The Netherlands cushioned the Covid-19 shock and saved livelihoods. The authorities appropriately phased out Covid-19 support in late 2021 as the economy started to recover. Inflationary pressures stemming from the war in Ukraine, lingering effects from the closure of the Isla refinery, emigration, and structural constraints endemic to small island states pose a drag on the recovery.

Keeping a clear vision of a sustainable and inclusive growth model for Curaçao would be key. Identifying new sources of growth would be important for diversifying the economy, improving resilience, and achieving fiscal sustainability. Implementing supply-side and governance reforms envisaged in the *landspakket* such as improving the business climate, the functioning of the labor market, and improving regulatory frameworks, would be key for supporting the recovery.

Fiscal policies should be calibrated to achieve growth-friendly fiscal consolidation and support the most vulnerable while placing public debt firmly on a downward path. The authorities are implementing strong frontloaded fiscal consolidation with an objective to return to their fiscal rule next year. There is scope for improving the quality of fiscal consolidation by budgeting adequate resources for efficient delivery of public services and implementing reforms. As the current hiring restriction hampers capacity to deliver public services in certain areas such as statistics, replacing it with a structural reform to modernize Curaçao's civil service would work better. Increasing public investment to more adequate levels would support employment, incentivize private investment, and support broad-based economic recovery. Special attention is needed to investments in climate resilience.

Adding a more medium-term perspective to policymaking and improving public financial management will be key for supporting sustainability. Curaçao would benefit from developing a well-articulated medium-term framework guided by a debt anchor. In view of high vulnerability to shocks, the debt objective could include a margin of safety to minimize the risk of debt distress. Strengthening public financial management would be key for ensuring fiscal sustainability. A significant improvement is needed in the institutional setup of public investment strategy and management. Such a framework should include a clear planning and decision-making process as well as adequate project appraisal incorporating risks from climate change.

Sint Maarten

The recovery in Sint Maarten is underway. Stayover tourism has exceeded pre-pandemic levels and cruise tourism is rebounding. Public investment supported by the Trust Fund is raising the prospect of matching the level of output seen before the 2017 hurricanes by the end of the forecast horizon. Nevertheless, downside risks cloud the outlook. Global price pressures are making a mark on the island and threatening real wages and the purchasing power of the most vulnerable. Disappointing investment execution, especially for the airport, a rebound in the economic consequences of the Covid-19 pandemic, spillovers from a slowdown in advanced economies, or another devastating hurricane season are key risks that could significantly derail recent gains.

Fiscal efforts should center on a higher-quality consolidation. The public wage bill freeze could be eased in light of the inflation shock and should eventually be replaced by a comprehensive reform focused on productivity and competitive wages. Attention should be given to hiring key skill areas where positions are difficult to fill. Temporary relief to households, in addition to the gasoline excise tax reduction, should employ more targeted measures. These steps can be financed by needed base-broadening tax reforms including taxes on sharing-economy holiday rentals, internet consumer sales, and the gambling industry. Higher premiums and cost-cutting measures are urgently needed to put the social security and health insurance system (SZV) on a sustainable financial footing and avoid becoming a fiscal burden in the medium-term.

Medium-term fiscal planning and institution-building would serve Sint Maarten well. Developing a medium-term fiscal framework, including establishing an appropriate debt anchor, would aid fiscal planning, coordinate expectations across the government, and facilitate investment project costing and financing. Sint Maarten should leverage the period of Trust Fund execution to build public investment management capacity. It will need to improve its public investment levels in the long run to secure sustained growth.

Increasing dynamism for businesses and workers and supporting green investment would help sustain the recovery. As the economy recovers from the pandemic, long run growth concerns return to the fore. Private sector dynamism would be supported by reducing barriers to new business and simplifying, centralizing, and speeding up permitting. Barriers to formal work should be reduced by increasing flexibility to multiple jobs and seasonal work as well as easing hiring and firing restrictions. Green infrastructure investments would support growth while improving Sint Maarten's living environment and global brand.

The Monetary Union of Curaçao and Sint Maarten

The external position of the union has improved on the heels of a nascent recovery. The Union's current account deficit declined, and international reserves remain at a comfortable level. Nevertheless, the external positions in both countries remain weaker than warranted by the fundamentals and desired policy settings. Across-the-board supply-side reforms remain vital for strengthening the external position of the union, as official financing is expected to wind down.

Monetary policy should continue supporting the peg. The CBCS has appropriately raised the reference rate in June 2022. Excess liquidity should be monitored closely and sterilized if necessary. It would be important to strengthen the transmission mechanism of monetary policy. Improving the financial infrastructure would lower impediments to lending and improve the productive use of deposits.

Strong implementation of financial sector reforms would help to alleviate financial sector vulnerabilities. The financial system withstood the shock from the pandemic with help from appropriate policies. Nevertheless, the pandemic took a toll on asset quality and financial sector vulnerabilities and risks remain elevated as the macro environment remains volatile. The authorities have made significant efforts in advancing their financial sector agenda, including transitioning to risk-based supervision, addressing legacy issues, and improving analysis and transparency. These efforts need to continue. Strong collaboration between the CBCS and the government is critical for addressing remaining legacy issues and advancing financial sector reforms. Continued monitoring of correspondent bank relationships remains important for the healthy functioning of the system.

Table 1. Curaçao: Selected Economic and Financial Indicators, 2018–23

	2018	2019	2020	2021	2022	2023
	Prel.	Prel.	Prel.	Prel.		Proj.
Real Economy			(Percent change unless otherwise indicated)			
Real GDP	-2.2	-3.4	-18.4	4.2	6.0	4.5
CPI (12-month average)	2.6	2.6	2.2	3.8	6.8	4.4
CPI (end of period)	3.6	2.3	2.2	4.8	7.2	3.0

GDP deflator	2.6	2.7	2.1	3.8	1.7	4.7	
Unemployment rate (percent)	13.4	17.4	19.1	19.7	19.2	16.6	
Central Government Finances						(Percent of GDP)	
Net operating (current) balance	-1.3	-0.5	-15.2	-6.9	-1.9	-0.1	
Primary balance	-1.5	-0.4	-13.4	-4.7	-1.2	0.7	
Overall balance	-2.6	-1.6	-14.7	-6.0	-2.5	-0.8	
Central government debt 1/	56.4	57.9	88.4	89.2	83.3	76.6	
General Government Finances 2/							
Overall balance	-2.5	-2.0	-15.9	-6.9	-5.6	-1.5	
Balance of Payments						(Percent of GDP)	
Current account	-26.9	-18.0	-27.6	-21.9	-21.6	-17.7	
Goods trade balance	-38.8	-35.5	-37.6	-42.2	-51.0	-48.9	
Exports of goods	19.4	13.3	10.9	12.7	16.0	14.2	
Imports of goods	58.2	48.8	48.4	54.9	67.0	63.1	
Service balance	11.9	16.9	9.8	18.7	27.8	29.7	
Exports of services	44.7	46.0	29.8	34.6	45.2	46.5	
Imports of services	32.7	29.0	20.0	15.9	17.3	16.8	
External debt	157.4	162.0	216.6	215.9	205.9	193.6	
Net international investment position	251.5	173.4	183.5	147.6	115.3	87.6	
Memorandum Items							

Nominal GDP (millions of U.S. dollars)	3,020	2,995	2,496	2,700	2,911	3,186
Per capita GDP (U.S. dollars)	19,037	19,173	16,244	17,870	19,160	20,863
Credit to non-gov. sectors (percent change) 3/	2.5	2.0	0.1	0.1	-0.6	...

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).

3/ 2020-21 values exclude Girobank. 2022 value shows the latest available data (April).

Table 2. Sint Maarten: Selected Economic and Financial Indicators, 2018–23

	2018	2019	2020	2021	2022	2023
	Prel.	Est.	Est.	Est.		Proj.
Real Economy	(Percent change, unless otherwise noted)					
Real GDP 1/	-9.4	10.5	-17.9	8.0	7.5	5.0
CPI (12-month average)	2.9	0.4	0.7	2.8	5.9	3.5
Unemployment rate (percent)	9.9	8.5	16.8	13.0	11.2	9.8
Government Finances	(Percent of GDP)					
Primary balance excl. Trust Fund operations 2/	-3.8	-0.7	-9.3	-6.0	-3.7	-2.3

Current balance (Authorities' definition) 3/	-4.5	-1.5	-10.4	-6.9	-4.2	-2.9
Overall balance excl. TF operations	-4.4	-1.3	-10.0	-6.6	-4.2	-2.9
Central government debt 4/	47.2	43.3	59.9	60.9	63.1	60.8
Balance of Payments						(Percent of GDP)
Current account	6.7	-13.3	-27.2	-16.5	-22.2	-19.7
Goods trade balance	-69.6	-59.7	-43.7	-35.0	-50.0	-45.6
Exports of goods	13.4	14.5	12.6	8.0	7.9	8.3
Imports of goods	83.0	74.2	56.3	43.0	57.9	54.0
Service balance	31.7	48.0	21.7	23.6	38.4	40.3
Exports of services	58.9	72.7	37.0	36.1	52.7	54.2
Imports of services	27.2	24.7	15.3	12.5	14.3	13.9
External debt	232.4	217.9	261.6	238.2	220.9	205.8
Net international investment position	-134.5	-134.8	-172.7	-168.4	-165.7	-163.8
Memorandum Items						
Nominal GDP (millions of U.S. dollars)	1,108	1,251	1,062	1,145	1,283	1,410
Per capita GDP (U.S. dollars)	26,920	29,762	24,935	26,889	29,765	32,357
Credit to non-gov. sectors (percent change) 5/	-1.7	1.4	2.4	1.3	2.1	…

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

1/ GDP estimates for 2019 and 2020 reflect the authorities' recently released growth estimates and IMF staff's deflator estimates in anticipation of the forthcoming update to the authorities' estimates.

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 2018 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.

5/ 2022 value shows the latest available data (April).

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[1] (file:///Q:/COM/MR/Press%20Releases/2022/PR22284%20-%20Cura%C3%A7ao%20and%20Sint%20Maarten%20-%20IMF%20Executive%20Board%20Concludes%202022%20Article%20IV%20Consultation%20Discussions%20with%20the%20 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] (file:///Q:/COM/MR/Press%20Releases/2022/PR22284%20-%20Cura%C3%A7ao%20and%20Sint%20Maarten%20-%20IMF%20Executive%20Board%20Concludes%202022%20Article%20IV%20Consultation%20Discussions%20with%20the%20 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.

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