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*Central bank reports on 3<sup>rd</sup> quarter of 2015*

### **Curaçao's economy grows, Sint Maarten's economy contracts**

**WILLEMSTAD/PHILIPSBURG – “Economic developments differed between Curaçao and Sint Maarten. While Curaçao recorded a modest expansion of 0.3% in real output, Sint Maarten’s economy contracted by 0.3% in real terms in the third quarter of 2015,” the president of the Centrale Bank van Curaçao en Sint Maarten, Dr. Emsley Tromp, said in the Bank’s third quarter report.**

“In addition, inflation dropped in both countries, reflecting primarily the impact of lower international oil prices,” he added, noting that Sint Maarten’s inflation remained flat at 0.0% compared to 1.9% the year before, while Curaçao’s inflation fell to -0.2%, down from 2.7% in the same period in 2014.

“Curaçao’s modest real economic growth during the third quarter of 2015 stemmed solely from an increase in public demand. Both government consumption and investment contributed to the increase in public demand,” Tromp said. “Consumption rose because of a larger outlay on goods and services, while investment increased as a result of the construction activities of the new hospital and the upgrading of Curaçao’s road infrastructure.

“Real GDP growth was dampened, however, by a decline in private demand due to a fall in private consumption offsetting the growth in investments. Furthermore, net foreign demand dropped, as the export of goods and services declined at a faster pace than imports,” he continued. Curaçao’s third quarter GDP growth in 2015 was largely in the construction, manufacturing, and transport, storage & communication sectors. “Real output in the construction sector expanded because of the increase in private and public investments,” he said, adding that “real value added growth at the Isla refinery and more ship repair activities led to the expansion in the manufacturing sector. The transport, storage, & communication sector performed well because both air transportation and harbor activities rose.

“Growth weakened in the restaurants & hotels sector as a result of a slowdown in stay-over tourism combined with a decline in cruise tourism,” Tromp said. “Stay-over tourism rose at a

slower pace compared to a year earlier because the increase in the North American, European, and Caribbean markets was mitigated by a contraction in the South American market.”

Tromp explained that real value added contracted, however, in the wholesale & retail trade, financial intermediation, and utilities sectors of Curaçao. The development in the wholesale & retail trade sector stemmed largely from lower domestic spending and fewer activities at the free zone, though offset by an increase in tourism spending. Activities in the financial intermediation sector dropped because of negative contributions of both the domestic and international banking sectors, he said.

“On the fiscal front, the government of Curaçao recorded a budget surplus of NAf 17.1 million in the third quarter of 2015, a turnaround compared to the NAf 0.4 million deficit registered in the third quarter of 2014,” he pointed out, which was driven by an increase in revenues, though mitigated by a growth in expenditures. “Government revenues rose as a result of increases in both tax and nontax proceeds. The rise in tax receipts was sustained by increases in property taxes, profit tax, and import duties, mitigated by a drop in wage and sales tax earnings,” he continued. Meanwhile, the increase in nontax revenues was supported primarily by the inflow of funds from the tax arrangement of the Kingdom (BRK). Higher disbursements on transfers & subsidies combined with more outlays on goods & services caused the rise in government expenditures, moderated, however, by a decline in wages & salaries expenditures.

“According to the Bank’s estimates, Sint Maarten’s third-quarter contraction was attributable to a decline in both domestic demand and net foreign demand,” Tromp explained. “The negative contribution of net foreign demand to real GDP growth was the result of exports dropping faster than imports. The decrease in domestic demand was related to lower public demand, partly offset by an increase in private demand. Public demand dropped because both public consumption and investment contracted. Meanwhile, private demand rose as a result of an increase in private investment, while consumer spending dropped.”

Available data reveal that real output in Sint Maarten contracted because the increase in the restaurants & hotels and utilities sectors was offset by declines in all other main sectors of the economy. “Activities in the restaurants & hotels sector increased during the third quarter of 2015, albeit at a slower pace compared to the third quarter of 2014, because of a growth in stay-over tourism as reflected by a higher hotel occupancy rate,” Tromp pointed out. “However, cruise tourism was down in line with the decline in the number of cruise ships that visited the port of Philipsburg,” he added.

Tromp said that Sint Maarten continued to face budgetary woes during the third quarter of 2015 reflecting the sizeable arrears to the Social & Health Insurances (SZV) and the General Pension Fund (APS). Consequently, based on advice from the Board of Financial Supervision (CFT), the Kingdom Council of Ministers gave the government of Sint Maarten an instruction on September 4, 2015, to settle these arrears. The instruction suggested that Sint Maarten also take measures to compensate for the deficits incurred between 2010 and 2014 and amend the 2015 budget to include all costs related to the old age pension fund (AOV) and the health care system.

“According to preliminary data and estimates of the Bank, the current account deficit on the balance of payments widened during the third quarter of 2015 compared to 2014’s third quarter as a result of a worsening of the net export of goods and services and the income balance,” Tromp stated. By contrast, net current transfers into the monetary union rose, mitigating the increase in the current account deficit. The decline in net export of goods and services was ascribable to a drop in exports that exceeded the lower import bill. “Exports dropped because of lower revenues from bunkering activities and lower re-exports by the free-zone companies in

Curaçao. In addition, foreign exchange receipts from tourism, particularly cruise tourism, were down in both Curaçao and Sint Maarten. Meanwhile, oil imports shrank in both countries, reflecting the sharp decline in international oil prices,” he explained. “Furthermore, merchandise imports by the wholesale & retail trade sector in the monetary union dropped because of a decline in domestic spending. Gross official reserves declined during the third quarter of 2015, as the external financing and capital transfers were insufficient to cover the current account deficit,” Dr. Tromp concluded.

The complete text of the Bank’s Quarterly Bulletin for the third quarter of 2015 can be viewed on its website <http://www.centralbank.cw/qb-2015-3>

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**CENTRALE BANK VAN CURACAO EN SINT MAARTEN**