



Press release 2019-011

Centrale Bank van Curaçao en Sint Maarten:
Curaçao and Sint Maarten economies contracted

WILLEMSTAD/PHILIPSBURG – Both economies in the monetary union of Curaçao and Sint Maarten contracted during the third quarter of 2018, the *Centrale Bank van Curaçao en Sint Maarten (CBCS)* stated in its latest Quarterly Bulletin. Real GDP fell in Curaçao by 1.7%, while Sint Maarten’s real GDP shrank by 4.7%. Furthermore, inflation accelerated in both countries. In Curaçao, inflation edged up to 3.1% in the third quarter of 2018 from 1.1% in the third quarter of 2017 driven mainly by higher international oil prices. Sint Maarten’s inflation is estimated to have risen also as a result of higher prices of consumer goods, construction materials, and insurance premiums.

In Curaçao, the manufacturing, construction, wholesale & retail trade, and transport, storage, & communication sectors were primarily responsible for the country’s economic contraction. Real output dropped significantly in the manufacturing sector due to a lower production level of the Isla refinery, owing mainly to the limited supply of crude oil from Venezuela and disruptions in the steam delivery by the CRU plant. Construction activities shrank as several large projects were completed or reached their final stages. Meanwhile, the decline in the wholesale & retail trade sector was caused by lower domestic demand and fewer free-zone activities, moderated by increased tourism spending. The transport, storage, & communication sector reported a contraction because activities dropped at both the airport and the harbor. The negative outcome at the airport reflected a decline in the number of passengers handled and the number of commercial landings. Meanwhile, the poor performance of the harbor was the result of a marked decline in the number of tankers that visited the port of Willemstad because of the lower production at the refinery. By contrast, the number of cruise ships and freighters piloted into the port and the number of container movements rose. The utilities sector also recorded a slight contraction on the back of lower electricity production, mitigated by an increase in water production.

By contrast, activities in the restaurants & hotels and financial intermediation sectors developed positively in the third quarter of 2018. The buoyant performance of the restaurants & hotels sector was the result of a strong increase in the number of stay-over and cruise tourists. Also, the number of visitor nights and the occupancy rate rose. Meanwhile, growth in the financial intermediation sector stemmed from the international financial services sector only, which recorded higher wages & salaries and other operational expenses. However, domestic financial services recorded zero-growth as net interest income remained unchanged.

In Sint Maarten, the restaurants & hotels, wholesale & retail trade, real estate, renting, & business activities, and transport, storage & communication sectors were behind the economic contraction. Real value added dropped considerably in the restaurants & hotels sector due to a sharp decline in stay-over tourism across all source markets mainly because of Hurricane Irma's damage to much of the country's tourism infrastructure, including major hotels and the terminal building of the Princess Juliana International Airport. By contrast, cruise tourism recorded robust growth reflecting some loyal cruise lines returning to Sint Maarten, the quick and effective recovery of the A C Wathey Cruise and Cargo Facilities, and the reopening of cruise tourism-related attractions and activities. Activities in the wholesale & retail trade sector contracted because of the decline in private consumption and lower tourism spending. The sharp decline in stay-over tourism also caused the contraction in the real estate, renting, & business activities sector, in particular the timeshare sector. Meanwhile, the negative outcome in the transport, storage & communication sector was the result of a decline in airport-related activities moderated by more activities in the harbor.

By contrast, real value added rose in the construction, financial intermediation, utilities, and manufacturing sectors. Growth in the construction sector stemmed from ongoing repair and reconstruction activities, while the expansion in the financial intermediation sector reflected an increase in net interest income and fees & other income earned by the banking sector. Output went up in the utilities sector driven by an increase in water production moderated by lower electricity production. Meanwhile, growth in the manufacturing sector was the result of more repair activities on yachts, consistent with the return of yachts following the restoration of marinas and related businesses in and around the Simpson Bay Lagoon.

On the fiscal front, developments in Curaçao were characterized by a widening of the deficit on the current budget during the third quarter of 2018 compared to the third quarter of 2017, as the decline in revenues exceeded the drop in expenditures. These developments were partially related to the exclusion of the income and expenditures of the social security bank, SVB, from the current budget. Consequently, nontax revenues fell, while transfers & subsidies and "other expenditures" dropped. Furthermore, a decline in tax proceeds in all categories contributed to the drop in government revenues as the compliance efforts of the government did not achieve the expected results.

Meanwhile, the government of Sint Maarten posted a lower deficit on the current budget of the third quarter of 2018 compared to the third quarter of 2017. The improvement in the fiscal situation was the result of an increase in government revenues, moderated by higher expenditures. The rise in government revenues reflected largely the resumption of government operations, including tax collection, after most of these came to a halt following Hurricane Irma in September 2017. As a result, tax revenues and income from concessions & fees rose. Meanwhile, the growth in expenditures was driven by more spending on social security, interest expenses, and goods & services.

The complete text of the Bank's third quarter 2018 Quarterly Bulletin can be viewed on the CBCS website at www.centralbank.cw under the Publications & Research section.

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CENTRALE BANK VAN CURACAO EN SINT MAARTEN