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## **Future economic growth in Curaçao and Sint Maarten demands sound macroeconomic and structural conditions**

**Willemstad/ Philipsburg - According to dr. Emsley Tromp, President of the Centrale Bank van Curaçao en Sint Maarten, the economic performance in the monetary union of Curaçao and Sint Maarten was mixed in 2013. While real GDP in Curaçao contracted, Sint Maarten's economy expanded.**

In 2013, real GDP in Curaçao contracted by 0.8%, while Sint Maarten's economy expanded in real terms by 0.9%. Inflationary pressures eased in both countries. Consumer price inflation in Curaçao dropped to 1.3% in 2013 from 3.2% in 2012, reflecting mainly lower fuel prices. In Sint Maarten, inflation moderated from 4.0% in 2012 to 2.5% in 2013 because of a slowdown in food price gains and lower electricity prices.

The negative growth of the economy in Curaçao was attributable entirely to domestic spending. The private sector particularly accounted for the decline in domestic spending, because private consumption and investment fell. The drop in private consumption was related to the measures taken by the government, including the increase in social premiums that affected disposable income, the worsening labor market conditions, and the decline in consumer credit. The contraction in government spending was of a consumptive nature, because investments grew due to an improvement program of Curaçao's road infrastructure. In contrast, net foreign demand increased as a result of imports dropping at a faster pace than exports.

An analysis by sector reveals that the disappointing economic performance in Curaçao was ascribable primarily to declines in the wholesale & retail trade, transport, storage, & communication, construction, and financial intermediation sectors. The contraction in the wholesale & retail trade sector was the result of the decline in domestic demand and fewer free-zone activities due largely to the devaluation of the bolivar in early 2013 and the ongoing currency restrictions in Venezuela. The contraction in the transport, storage, & communication sector was the result of declines in both air and sea transport. The decline in air transport was related to, among other things, the bankruptcy of the local carrier DAE, while the decline in sea transport was reflected mainly by fewer ships and freight handled in the harbor. Activities dropped in the construction sector as a result of lower private investments, mitigated by increased government investments. The financial intermediation sector contributed negatively to growth because of declines in both domestic and international financial services. In contrast, the restaurants & hotels sector expanded but at a slower pace in 2013 compared to 2012 due to a slowdown in both stay-over and cruise tourism.

In Sint Maarten, 2013's real GDP growth was driven solely by the private sector as the contribution of the public sector was negative. Private sector growth was supported primarily by the wholesale & retail trade and construction sectors. Activities in the wholesale & retail trade

sector rose as a result of increased domestic demand and more tourism spending. Real value added rose in the construction sector due to more public and private sector investments. Growth weakened in the restaurants & hotels sector in 2013 as the expansion in both stay-over and cruise tourism was less pronounced than in 2012. Activities in the manufacturing sector rose in 2013 because of increased repair activities on yachts that visited Sint Maarten. In contrast, real output dropped in the financial intermediation sector and the transport, storage, & communication sector. Activities in the transport, storage & communications sector shrunk due to a decline in harbor activities, mitigated by more air transportation and airport-related activities. Harbor activities declined due to a drop in the number of ships that visited Sint Maarten. Meanwhile, air transportation activities rose as Winair increased its capacity and number of destinations. Activities at the airport rose because of an increase in passenger traffic, although less pronounced than in 2012.

To bring about a dynamic growth trajectory for Curaçao and Sint Maarten will require greater flexibility to shift resources across sectors, particularly high productivity sectors, i.e., the dry dock, the refinery and the international financial sector. Furthermore, greater efforts to reduce misallocation of resources, and capacity to innovate and apply more knowledge and skills-intensive production techniques in our services sectors are imperative.

According to dr. Tromp, growth in the years to come will hinge on how well we succeed in establishing macroeconomic and structural conditions conducive to growth. The lackluster growth performance of the islands during the last years is not sufficient to bring the high unemployment to a socially acceptable level and to create the necessary fiscal room to address the social needs. To bring us to a higher growth path, a reform agenda has to be adopted and implemented, including educational, labor market and business climate reforms. This means that rather than being distracted by issues that run counter to these objectives, policymakers should direct their attention at promoting growth through appropriately designed growth policies. In this context, we need to realize that, among other things, we cannot achieve growth through foreign direct investment if the available sites are locked up in speculative options. We cannot achieve growth either if we do not address the current monopolistic structure in key sectors of the economy. Therefore, dialogue and cooperation between the public and private sectors are necessary.