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Dr. Tromp: mixed results for monetary union in 2014

WILLEMSTAD/PHILIPSBURG – “In the monetary union of Curaçao and Sint Maarten, economic developments diverged in 2014,” the President of the Centrale Bank van Curaçao en Sint Maarten, Dr. Emsley Tromp, said in the Bank’s annual report. Real GDP expanded by 1.5% in Sint Maarten, while the economy contracted for the third consecutive year in Curaçao, shrinking by 1.1%.

Inflationary pressures, however, converged, the president added. Consumer price inflation in Curaçao rose from 1.3% in 2013 to 1.5% in 2014, stemming predominantly from higher food prices. In Sint Maarten, consumer price inflation eased from 2.5% in 2013 to 1.9% in 2014, mainly due to the effects of lower international oil prices and inflationary developments in the United States.

“The dismal economic performance of Curaçao was primarily the result of a drop in domestic demand,” Tromp said, pointing out that lower import duties collected and declining consumer credit reflected a drop in consumer spending. Both private and public investment also contracted. Public consumption fell because of lower government outlays on goods and services. “The economic contraction was, however, dampened by a rise in net foreign demand,” Tromp continued, “because in real terms, exports rose while imports dropped.

“On the production side, output contracted in most industries of the Curaçao economy, but was most pronounced in the wholesale & retail trade, transport, storage & communication, construction, and utilities sectors,” Tromp said. “Output in the wholesale & retail trade sector dropped primarily because of lower domestic demand and less activities in the free-zone sector. In the transport, storage & communication sector, real value added dropped as a result of a decline in airport-related activities, reflected by less passenger traffic, notably transit passengers, and commercial landings. In contrast, harbor activities rose because of an increase in the number of ship calls and cargo movements. The disappointing performance of the construction sector was caused by a contraction in both private and public investments. The financial intermediation and manufacturing sectors also contributed negatively.

“The restaurants & hotels sector continued to perform well, however, reflecting an accelerated growth in the number of visitor nights,” Tromp noted. “The number of stay-over and cruise tourists increased, however, at a slower pace in 2014 compared to 2013.

“Sint Maarten’s economy, in comparison, benefited from a surge in the tourism sector in 2014,” Tromp pointed out. “Higher private and public spending reflected increased domestic demand. Both private consumption and investment contributed to the increase. Public spending growth was caused solely by government investment with the purchase of the Emilio Wilson Estate and the new government administration building,” Tromp indicated. “Government consumption, on the other hand, dropped mainly as a result of lower disbursement on goods and services. Net foreign demand dampened Sint Maarten’s growth during 2014, however, as the increase in imports from higher tourism and domestic spending exceeded higher exports.”

Dr. Tromp further explained that the restaurants & hotels, wholesale & retail trade, and transport, storage & communication sectors were the main contributors to Sint Maarten’s economic growth in 2014 because of robust increases in stay-over tourism, with more visitors from all major markets, and cruise tourism, which was the result of more and bigger cruise ships that visited the Sint Maarten port. Increased domestic demand and more tourism expenditures spurred growth in the wholesale & retail trade sector.

“The positive turnaround in the transport, storage & communication sector in 2014 was attributable to growth in both airport and harbor related activities. In addition, the local carrier Winair transported more passengers to the surrounding islands,” Tromp said. “Following a contraction in 2013, the manufacturing sector contributed positively to Sint Maarten’s real GDP expansion in 2014 owing to an increase in yacht repair activities as a result of more yachts, in particular mega yachts, visiting the island.

“The financial intermediation and construction sectors, however, put a drag on real economic growth in Sint Maarten during 2014,” he pointed out. Output dropped in the financial intermediation sector as reflected by a decline in the net interest income of the commercial banks. The contraction in the construction sector was ascribable to a decline in both private and public construction projects in 2014, especially in the wake of major projects like the Causeway, he added.

As for the monetary union, Dr. Tromp noted that “during 2014, there was a significant increase in the gross official reserves, resulting in a rise of the import coverage. Combined with a further decline in the current account deficit, it seems that the balance of payments has improved substantially. “However, this improvement should be interpreted with caution,” he warned. “The increase in the gross official reserves was to a large extent related to the issuance of bonds by the governments of Curacao and Sint Maarten bought by the Dutch government because of the standing subscription agreement.”

Dr. Tromp concluded by offering some policy recommendations for both governments to achieve a higher and more durable growth path. He warned that “sound public finances alone are not sufficient to realize sustainable economic growth. In the short term, the economies of Curacao and Sint Maarten will benefit from high public investments. However, in order to achieve a durable higher growth path, the governments must facilitate private investments.

“The improvement of the balance of payments does not reflect our economic performance and, hence, cannot be considered sustainable. Increasing our competitiveness vis-à-vis other countries in the region and broadening our export base are crucial steps to strengthen the balance of payments in a sustainable manner,” Tromp said.

“The capital market of the monetary union needs to be developed further in order to make capital for investments available at affordable cost. In this context, the Bank will continue its efforts to further develop a

corporate bond market,” he continued. “A growing corporate bond market will provide the countries of Curaçao and Sint Maarten with an attractive financing alternative to bank financing for government-owned and private entities, and will create more local investment opportunities. Hence, such a market can support the economic development of the countries. In addition, monetary policy will be sufficiently accommodative to allow a recovery of private sector credit growth once business confidence and investments pick up,” Dr. Tromp concluded.

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CENTRALE BANK VAN CURACAO EN SINT MAARTEN