



Economic Year End Report

2011 vs. 2010

Department of Economy, Transportation & Telecommunication

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EXECUTIVE SUMMARY

This annual year-end report presents an analysis and evaluation on the economic indicators for the year 2011 with a comparison to the year 2010. The International Monetary Fund (IMF) and the Central Bank of Curacao and St. Maarten were used as sources for giving an overall review of the regional and international developments against what has transpired within St. Maarten's economy for the year 2011. The central bank reported that the island's economy contracted by 1.5% last year. The contraction was accompanied by an escalated rate of inflation, averaging 4.6%. The higher- than- average inflation rate can be explained mainly by increase in the Turn-over-Tax from 3% to 5% as well as the impact of rising world oil prices. When the local government set up the 2011 budget, it projected a 1.8 percent growth. There were important indicators that showed a decline, despite having an increase in cruise tourism and turn-over-tax revenues. Two important indicators that showed a decline was the Occupancy Rate and Stay-over tourist arrivals, that was partly due to several contributing factors. At year-end of 2011, Cargo Developments had a significant growth, Government Revenues saw an overall increase of collected revenues along with the increase in Banking Deposits. Having looked at the international prospects at the end of 2011, the US had shown a slow recovery in both its unemployment and inflation segments. The economy in Europe experienced slight unrest with the euro and is expected to do so in 2012. The Caribbean has been affected negatively due to the fact that their major markets, the US and Europe not having performed well in 2011. In Summary, it is highly recommended that improving the overall performance of the economy on the island should be focus towards increasing investments, improving the employment situation, and embarkation of stimulating growth despite the global slowdown in the economy. The Government of St. Maarten would need to continue with providing and implementing advance structural reforms to alleviate external weaknesses and establish fiscal security in order to improve this growth. This was mentioned in the previous half year report. The IMF has recommended the contraction of the Central Bank and tighter fiscal policy would help to reduce the current account deficit to sustainable levels for the island.¹St. Maarten, however, will still need to find more competitive measures to boost and diversify the economy to maintain stability.

INTRODUCTION

Sint Maarten's economy is heavily reliant on one major sector, Tourism; which accounts for 82.5% of GDP. The economy experienced a slowdown in 2011 and could continue to do so in 2012. An improvement in the various sectors of the economy is in need of upgrading and restructuring in order to have a better outlook. In this report, the Fiscal Sector, Turn-over-Revenues, Tax Revenues (wage, timeshare, vehicle, room and rental), social premiums, cargo, utilities, and the Tourism sector are all examined to show the effects over the past two years.

Fiscal Sector

Overall, the Fiscal sector saw an increase when comparing 2011 to that of 2010. This increase can be generally attributed to St. Maarten becoming a country and managing its own finances.

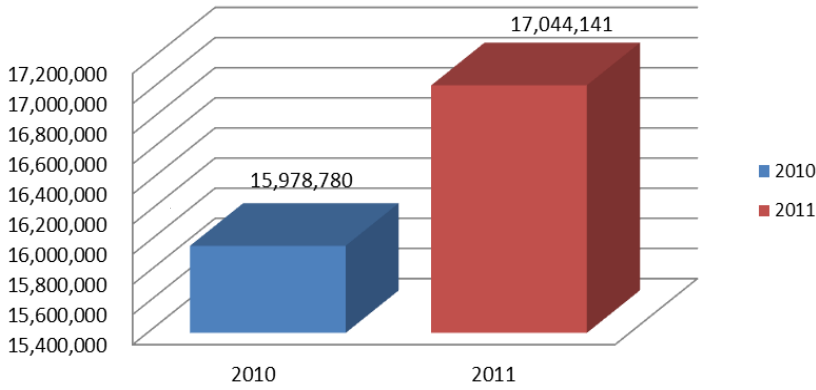
TOT – The Turn Over Tax increased by 41.29%. This significant increase is mostly due to the change from 3% to 5%, increased collection method by the Receivers Office and the compliance of persons to make payments.

AVBZ – The Algemene Verzekering Bijzondere Ziektekosten or General Insurance Sickness Expenses increased by 6.67% compared to that in 2010. This increase depicts that persons and establishments are complying with their payments of the AVBZ. At the same time, the Receivers Office has upgraded their collection methods.

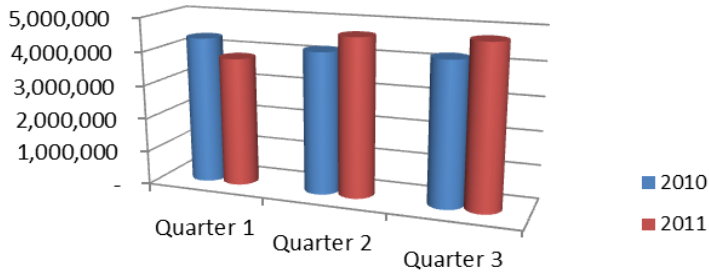
AVBZ	2010	2011	% Change
Quarter 1	4,352,523	3,810,109	-12.46%
Quarter 2	4,181,919	4,664,032	11.53%
Quarter 3	4,218,413	4,758,000	12.79%
Quarter 4	3,225,925	3,812,000	18.17%
Total	15,978,780	17,044,141	6.67%

¹ <http://www.imf.org/external/np/ms/2011/091911.htm>

AVBZ 2011/2010



AVBZ 2011/2010



	Quarter 1	Quarter 2	Quarter 3
■ 2010	4,352,523	4,181,919	4,218,413
■ 2011	3,810,109	4,664,032	4,758,000

Wage Tax – The Wage Tax has shown an 8.26% increase in 2011, when comparing that of 2010. This can be generally attributed to the increase in compliance along with the collection measures of the Receivers Office.

Timeshare Tax – The Timeshare Tax showed a noteworthy increase of 5.95%, although the Timeshare industry saw tumultuous times with the temporary closure of the Pelican Resort. The timeshare sector was impacted negatively impacted, however the sector is working on overcoming the hurdles.

Rental Tax – The Rental Tax show a decrease of 1.91%. This decrease could be attributed to decrease in Stay-over arrivals, as the Rental Tax is closely linked to Stay-over arrivals. On the other hand, it can also be said that visitors to St. Maarten have found other modes of transportation.

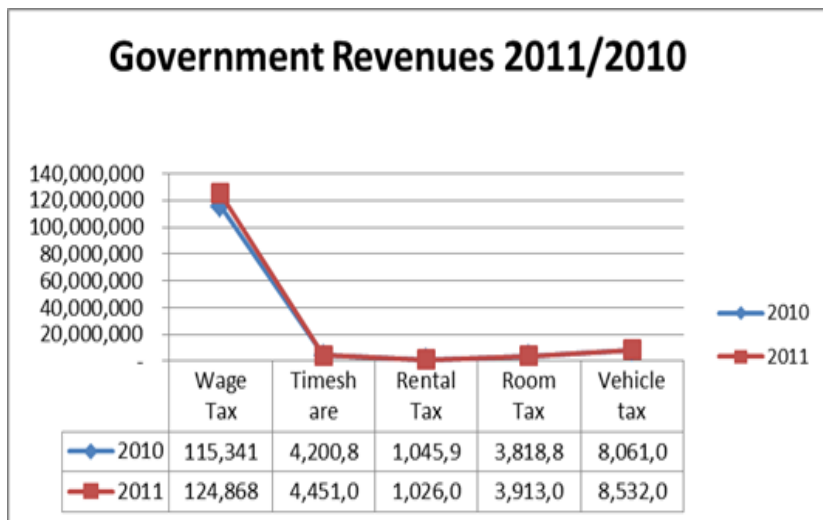
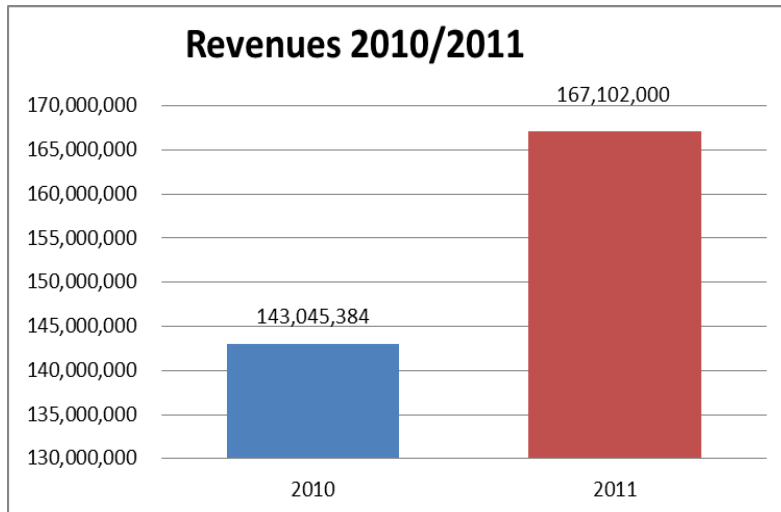
Room Tax – The Room Tax had an increase of 2.47%. This increase is in lieu of the decreased Stay-over arrivals, which brings compliance as the main reason for the increased Room Tax.

Vehicle Tax – The Vehicle Tax illustrate an increase of 5.84% for the year 2011 compared to that in 2010. This increase is directly linked to an increase in the number of vehicles on St. Maarten along with the compliance by owners to pay the Vehicle Tax yearly.

Other Revenues – The Other Revenues demonstrate a noteworthy increase of 129.86%. This significant increase can be attributed to St. Maarten becoming a country; as most of these funds were collected by the then Federal Government of the Netherlands Antilles.

The tables and graphs depicts the changes occurred between 2010 and 2011.

Taxes	2010	2011	% Change
Wage Tax	115,341,672	124,868,000	8.26%
Timeshare	4,200,866	4,451,000	5.95%
Rental Tax	1,045,928	1,026,000	-1.91%
Room Tax	3,818,822	3,913,000	2.47%
Vehicle tax	8,061,096	8,532,000	5.84%
Other Revenue	10,577,000	24,312,000	129.86%
Total	143,045,384	167,102,000	16.82%



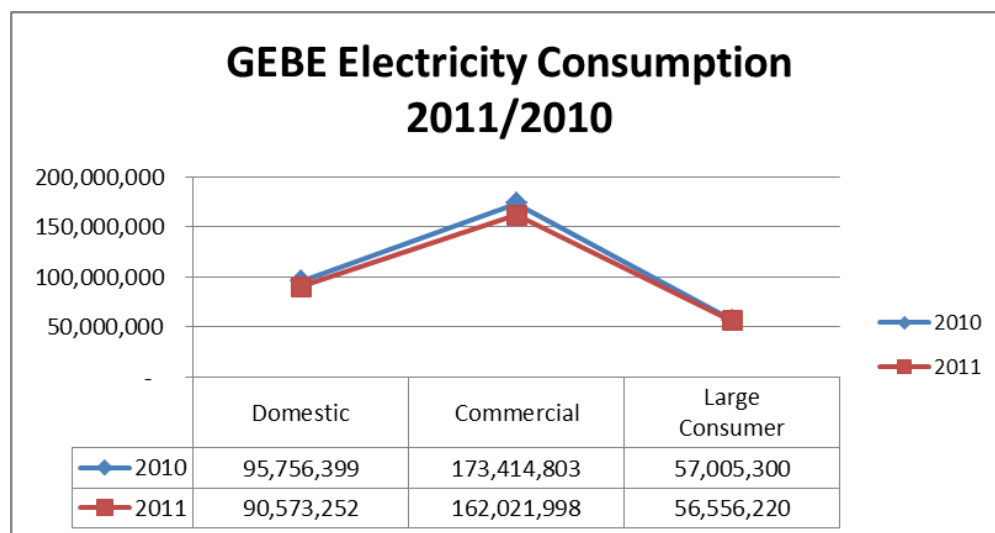
GEBE N.V.

GEBE N.V is the Government-owned utility company responsible for the production and distribution of electricity and water on St. Maarten. During the year 2011, evaluations of the developments within the utilities sector showed a reduction of approximately 5.22 % in electricity as well as a reduction in water by 1.37%. This decline can be attributed to the consumers conserving energy, as a result of the steep increases in fuel prices. The table below shows that the large consumer electricity saw a decrease of 0.79% difference between 2010 and 2011. The reason for this being, more large consumers opted use generators rather than from GEBE throughout the year. The commercial consumers saw a decreased difference of 6.57%. Reports indicate that this was due to the

implementation of new conserving policies by companies. On the domestic consumer side, there is a decrease of 5.41% which can be attributed to the conserving energy in homes secondly, the shift in the base rate that took place during the year is not directly related to the demand drop, as the average tariffs per year end (incl. the high fuel prices) showed an increase of approximately 8.2 % for electricity and for water about 10.3 % in the companies year end audit report.²

The table and chart below depicts the decrease in Electricity over the past 2 years.

Electricity	2010	2011	%change
Domestic	95,756,399	90,573,252	-5.41%
Commercial	173,414,803	162,021,998	-6.57%
Large Consumer	57,005,300	56,556,220	-0.79%
Total	326,176,502	309,151,470	-5.22%



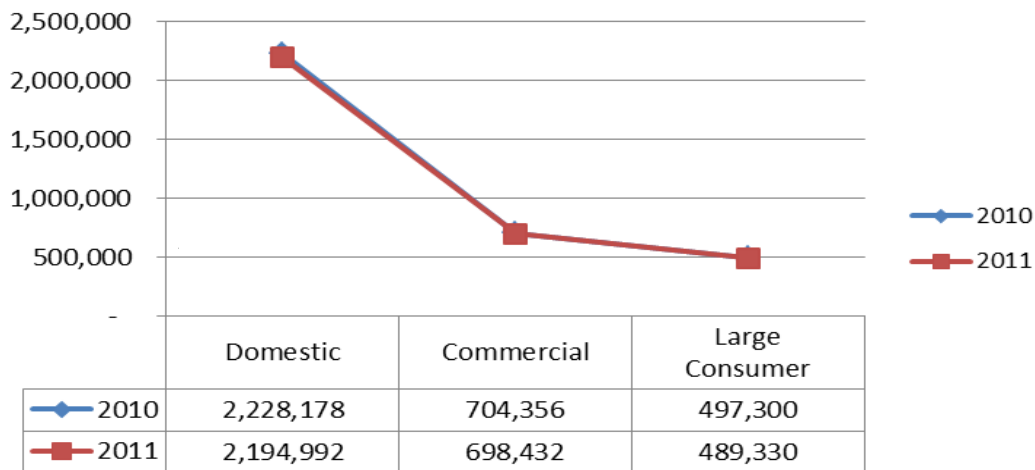
Water consumption saw a decrease of 0.84% for Commercial, Large Consumer showed a difference of 1.60%, and Domestic had a decline of 1.49%. Reports indicates that consumers are conserving water usage by possibly reverting to cisterns, rain water storage, turning their pools off, no longer using inflated pools and so forth.

The table and chart below shows the decline of water consumption over the past 2 years.

Water	2010	2011	%change
Domestic	2,228,178	2,194,992	-1.49%
Commercial	704,356	698,432	-0.84%
Large Consumer	497,300	489,330	-1.60%
Total	3,429,834	3,382,754	-1.37%

² Gebe NV.

GEBE Water Consumption 2011/2010



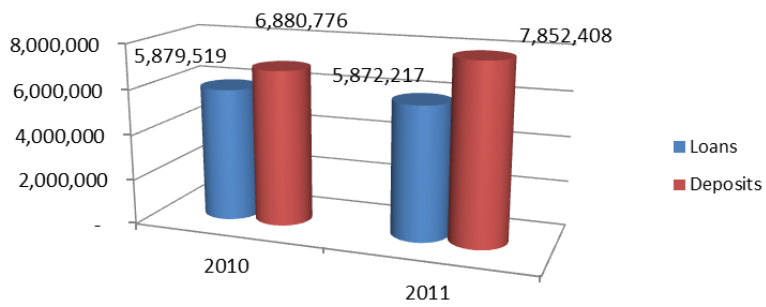
MONETARY SECTOR

Banking (Loans segment) - The loans segment showed a decrease of 0.12% for the year 2011. This decrease can be attributed to the low economic activity and skepticism within the economy. Commercial banking transactions have decreased drastically as establishments are more cautious. Some businesses has reported teaming up with partners in order to pay less for consignments. The decrease could also be ascribed to the less construction projects taking place on the island and the slowdown from foreign and local investments.

Banking (Deposits segment) - The deposit segment illustrate a 14.12% increase. This increase is attributed mostly to uncertainty in the economy, which is why businesses and individuals alike are saving more. It can also be attributed to the dismantling of the Netherlands Antilles, which led to the influx of revenue from the Pension Funds.

Quarter 1	2010	2011	% Change
Loans	1,431,166	1,461,453	2.12%
Deposits	1,691,654	2,011,269	18.89%
Quarter 2	2010	2011	% change
Loans	1,477,372	1,474,596	-0.19%
Deposits	1,718,214	2,003,459	16.60%
Quarter 3	2010	2011	% change
Loans	1,495,860	1,472,087	-1.59%
Deposits	1,743,886	1,988,216	14.01%
Quarter 4	2010	2011	% change
Loans	1,475,121	1,464,081	-0.75%
Deposits	1,727,022	1,849,464	7.09%
Total Jan -Dec	2010	2011	% change
Loans	5,879,519	5,872,217	-0.12%
Deposits	6,880,776	7,852,408	14.12%

Bank Totals 2011/2010



BUILDING PERMITS

Building Permits showed an increase of 16.67% in residential and 13.51% in commercial requests. There was however, a decrease in the segment Other by 58.44% for requests. It can be assumed that these changes occurred due to the following;

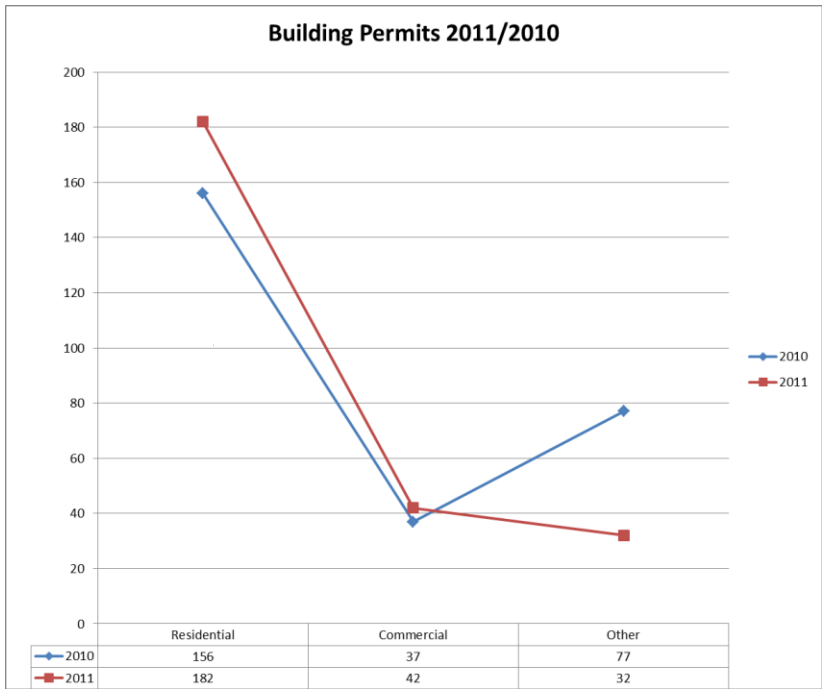
- the past investments in land, with persons now being able to build.
- more jobs becoming available within that past year and the possibility to invest more in property rather than to rent.
- fewer repairs done to home due to fewer storms.
- less demolition of structures.

The table and chart below indicates the changes between 2010 and 2011.

2010	Residential	Commercial	Other
Quarter 1	36	4	28
Quarter 2	31	5	25
Quarter 3	45	15	12
Quarter 4	44	13	12
Total	156	37	77

2011	Residential	Commercial	Other
Quarter 1	40	9	6
Quarter 2	35	13	8
Quarter 3	52	10	9
Quarter 4	55	10	9
Total	182	42	32

	2010	2011	%change
Residential	156	182	16.67%
Commercial	37	42	13.51%
Other	77	32	-58.44%



BUSINESS LICENSES

The Business License sector showed a decrease of 4.09% in requests and an increase of 20.83% in withdrawals when comparing both 2010 and 2011. Businesses have reported the downturn in the economic climate, as the reason for lower requests. Reports also indicate the high cost of doing business, and the increase cost of living. It can also be ascribed to the fact that more job vacancies had become available and there was no incentive to start up a business and go through the costly measures. The increase in withdrawals of business licenses, can be noted attributed to the above mentioned factors, in addition some of the withdrawals are administrative as some businesses have already stopped operating over the years, and are now requesting the cancellation of their business license.

The table and graph below depicts the comparison of 2010 and 2011 requests and withdrawals.

Business License	2010	2011	% Change
Quarter 1 requested	154	259	68.18%
Quarter 2 requested	179	160	-10.61%
Quarter 3 requested	296	198	-33.11%
Quarter 4 requested	202	180	-10.89%
TOTAL	831	797	-4.09%

Business License	2010	2011	% Change
Quarter 1 withdrawn	20	17	-15.0%
Quarter 2 withdrawn	14	27	92.86%
Quarter 3 withdrawn	17	16	-5.88%
Quarter 4 withdrawn	21	27	28.57%
TOTAL	72	87	20.83%



EXTERNAL SECTOR

Stay-over Tourism decreased by 4.28% for the year 2011. The global economic situation can account for this decrease. The entire Caribbean experience a decrease. Vacations are one of the first items to be slashed or decrease as discretionary income is decreased or if there is uncertainty. If clients opt for a vacation, the most cost efficient options are the mostly likely for choices, such as all-inclusive packages. Thus, persons seek the all inclusive vacation (with accommodation, vehicle and activities), which they have found through Cruise Tourism.

North American market - The North American is the primary market for St. Maarten and the rest of the Caribbean. The market showed a decline of 6.45% for the entire year. Although the United States began to recover from the economic crisis, persons are still cautious and travelling less or staying at home to vacation. This is evident as airline prices have increased steadily along with the rise in petroleum products.

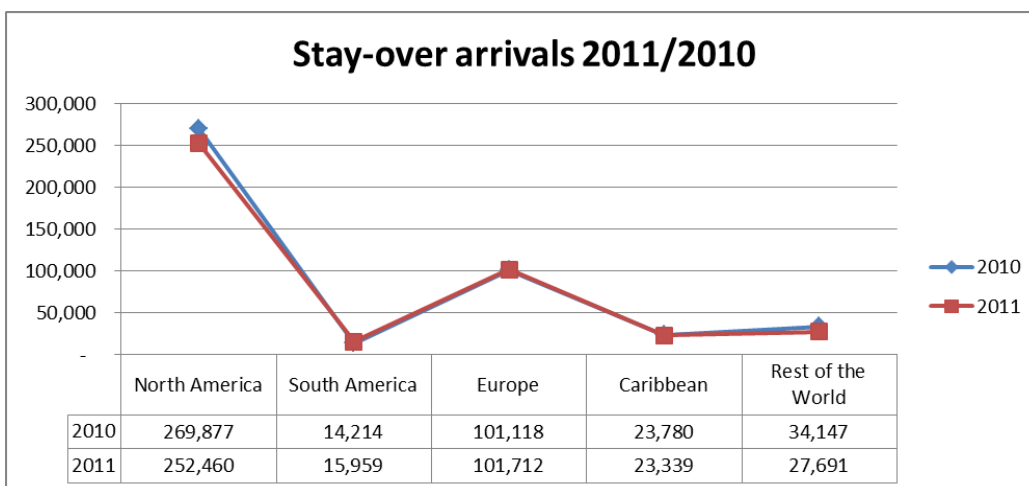
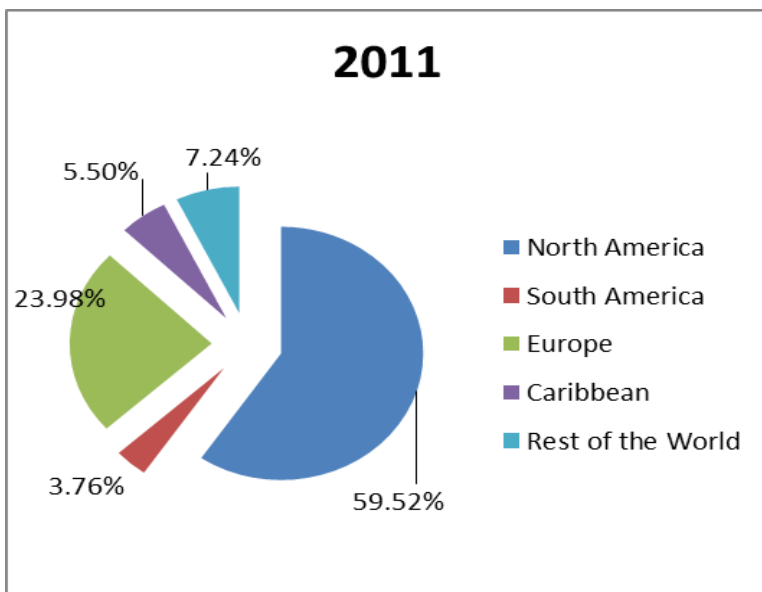
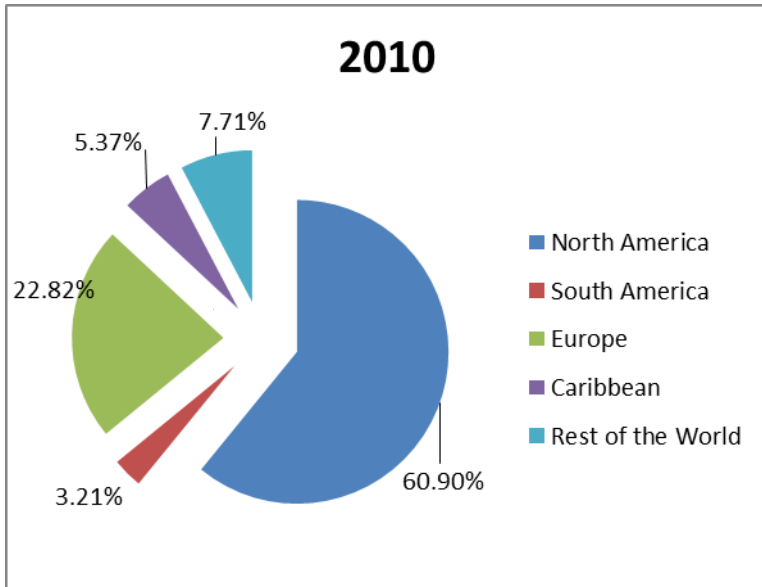
South American market - The South American market illustrated a 12.28% increase. This increase is the result of heavy marketing and advertising in the South American region. However in actual numbers, it is not as large as the North American Market, great strides has been made in the segment, and continued efforts will result in higher number over time.

The European market - The European market showed a conservative 0.59% increase in the year 2011, although there was trouble in the Euro Zone with Greece's debt stripping the country of sovereignty over its finances. The economic crisis in Greece had a negative impact on the entire E.U zone, as many European countries was concern about the trickling effect of Greece economy would impact the rest of Europe negatively. However, now that Greece has been granted another bail out, travel may have increased for Europeans, but a steady watch remains on the Euro Zone.

The Caribbean market - The Caribbean market saw an overall decrease of 1.85% in 2011 compared of that in 2010. There are a number of factors, the decline of the North American market was one of the primary factors, combined with limited airlift in some areas, and increasing airfares continue to plague travelling within the region.

The Rest of the World market - The Rest of the World market saw a 10.05% decrease in 2011 when compared to that of 2010. This significant drop can be related to a series of reasons such as change in spending habits and travel trends, as outline above.

Segments	2010	2011	% change
North America	269,877	252,460	-6.45%
South America	14,214	15,959	12.28%
Europe	101,118	101,712	0.59%
Caribbean	23,780	23,339	-1.85%
Rest of the World	34,147	30,714	-10.05%
Total	443,136	424,184	-4.28%



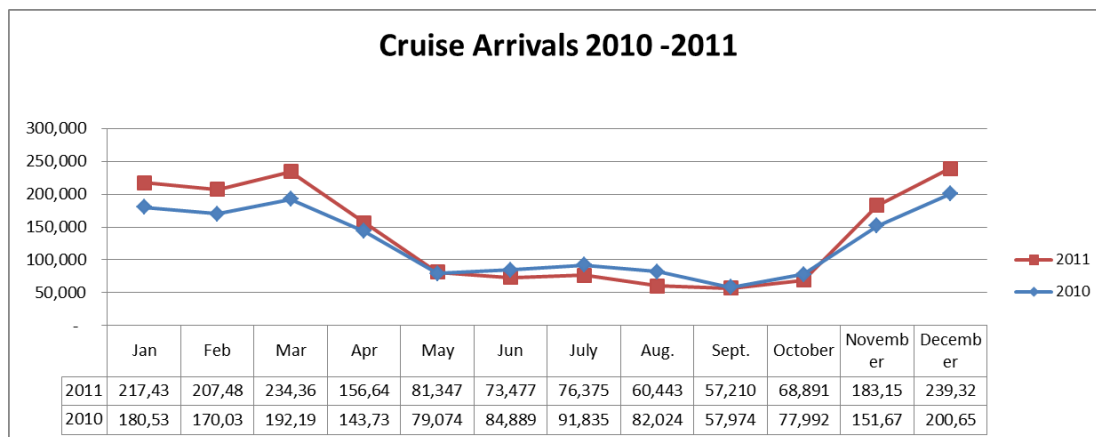
CRUISE ARRIVALS

The demand for cruising has been climbing globally for the past few years. The cruise arrivals for vessels on St. Maarten shows an increase of about 8.17%. The increase can be pointed to cheaper and all-inclusive destination

packages that cruises offer as well as the decline from travelers opting for hotel stays. Another contributing factor, is that cruise ships have become larger because of the increase in actual worldwide demand in cruising. By St. Maarten improving its port facilities and overall product by the addition of a second cruise pier that can accommodate the largest cruise vessels in the world, created positive effects. These positive effects are shown in the arrival figures for Cruise Tourism over the past two years, with the total increase number of cruise calls to the island along with the number of visiting passengers.

The table and graph below illustrates a comparison of cruise calls for year 2010 and 2011.

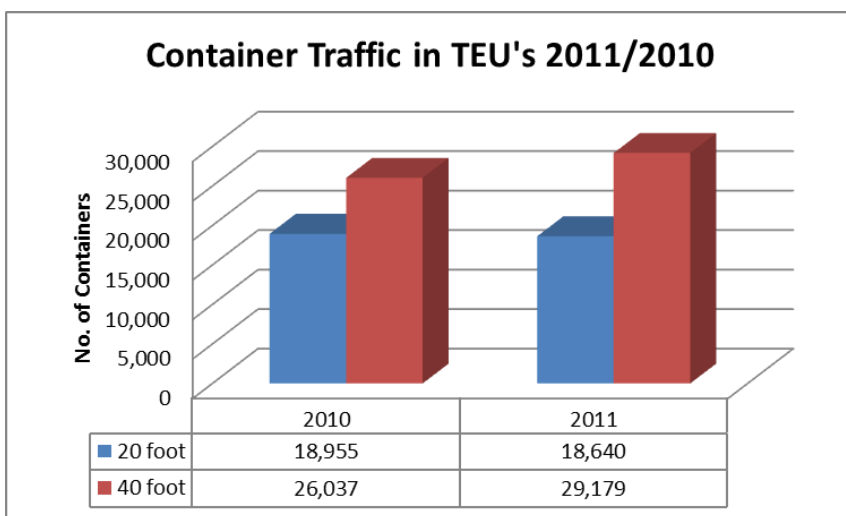
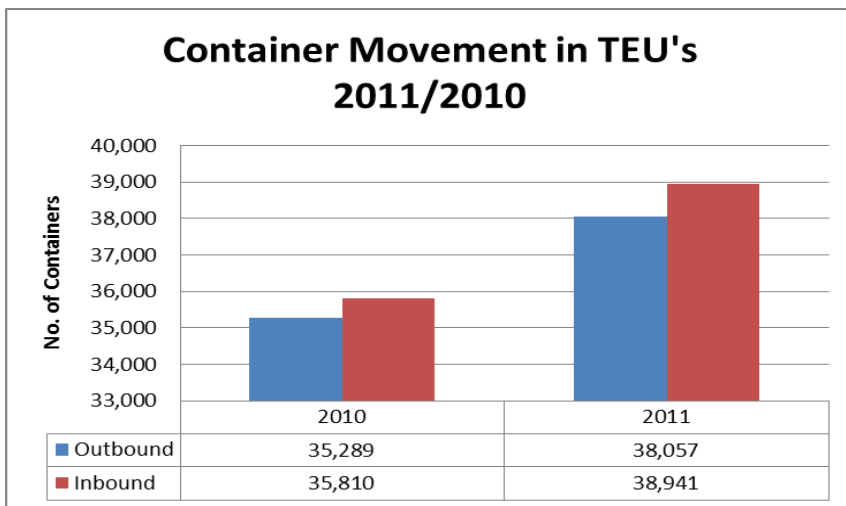
2010	2011	% change	Month
74	85	14.86%	Jan
70	89	27.14%	Feb
79	92	16.46%	March
53	58	9.43%	April
23	24	4.35%	May
22	17	-22.73%	June
321	365	13.71%	Half Year
23	18	-21.74%	July
21	14	-33.33%	August
16	15	-6.25%	September
25	21	-16.00%	October
60	68	13.33%	November
85	95	11.76%	December
551	596	8.17%	Total



St. Maarten has become a premier destination that enjoys high cruise customer satisfaction ratings. About 2 years ago, the Harbour accommodated cruise liners with a capacity of 4000 passengers; it now holds liners with a capacity of over 6000 passengers. An increase of 9.49% ship passengers came to St. Maarten for the year 2011. Cruise tourists stay approximately one day on the island, and their main activities during their stay include, water sports, duty-free shopping and organized tours. Despite the increase in passengers and vessels over the past two years, the all-inclusive packages that cruises predominantly offer, are now posing a competitive issue for the island. In the sense that, although St. Maarten has the second highest average daily spending by a cruise passenger in the area, the passengers are spending less when they disembark the ship, although crew spending has increased. Crew spending has been an important driver for the economy, as they have spent more per head than passengers over the past few years.

2010	2011	% change	Month
180,534	217,437	20.44%	Jan
170,036	207,486	22.02%	Feb
192,195	234,365	21.94%	March
143,734	156,647	8.98%	April
79,074	81,347	2.87%	May
84,889	73,477	-13.44%	June
850,462	970,759	14.14%	Half Year
91,835	76,375	-16.83%	July
82,024	60,443	-26.31%	August
57,974	57,210	-1.32%	September
77,992	68,891	-11.67%	October
151,672	183,152	20.76%	November
200,659	239,329	19.27%	December
1,512,618	1,656,159	9.49%	Total

The below table and graph show a comparison between the years 2010 and 2011 in cruise passenger arrivals.



CONCLUSION

Toward the end of year 2011, the Fiscal Sector of St. Maarten saw a change in the increase of the TOT from 3% to 5%. Government Revenues increased due to the following; the change in country status, funds collected from the federal government and due to compliance from persons making payments. The overall increase in revenues collected gave the Government of St. Maarten the incentive to encourage other departments to bring in revenue as well for following year. In the Monetary sector there were decreases in the Banking Loans segment and an increase in the Deposits segment. Despite the notable progress made by the banking sector, multiple risks remain. For instance, the factors that drove those increases could become detrimental if an eye is not kept on the way monies are being managed.

In the External sector, the results of St. Maarten's marketing efforts on Cruise Tourism have been quite elaborate. However, on the Stay over arrival level there were no improvements, but there were continued marketing efforts of South America since the half year report. St. Maarten has to revisit their goals and enhance their tourism product for this segment, in order to see the benefits of their marketing methods. The need for tapping into other sections of tourism, such as sports, culture and so forth requires a closer look. The Stay over figures in this report shows that St. Maarten stands to lose their market share in Stay over tourism if their marketing strategies are not heightened. Internationally, the Euro area crisis and inflation remains the key risk to the world's economy. Due to the conditions in Europe, there were increased risk in the U.S. credit markets. Concerns over European sovereign debt and economic health dominated the outlook of 2011; with domestic politics, fiscal policy, oil prices and regulatory uncertainties continuing to be significant risks. The outlook for 2011 did not have a positive view with the European Central Bank (ECB). It is of the opinion that the bank crisis could translate into a severe Europe-wide recession (Portugal, Spain Italy already showing this effect), just as the U.S. experienced in 2008 which created a severe recession in 2009. Banks within the Euro zone would stand to lose the value of their bonds.³The trickling Euro zone effect would be felt by Latin American & Caribbean countries alike if the Euro holding banks were to falter on their investments. The developments in Europe, the Middle East and the United States need to be monitored continuously to see the future outcome as it will also have an impact on St. Maarten.

Throughout the year 2011, St. Maarten had an increase of food products over short periods of time. These high prices indirectly led to negative outcomes in some parts of our economy. Due to economic conditions and business pressures; local businesses and individuals felt the negative impact with the increase in prices.⁴ The cost to run a business on St. Maarten had since tripled as owners are forced to: deal with high utility bills for their homes and businesses and the increased prices on items to make a profit to pay overhead.

The Cruise sector and TOT revenues showed some growth; however, the contraction of Stay-over tourism remains a concern, as it accounts for a large share of Government Revenues. On a global scale, there was a slowdown in the economy. St. Maarten continues to have several advantages over its competitors in the region namely; strategic location, one of the most modern airport facilities with various connections, and harbor facilities to rival any in the Caribbean. However, there should be continual implementation and upgrading of policies to better the overall performance of the economy for the coming year.

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³ <http://www.ecb.int/>

⁴ <http://www.centralbank.an/uploads/files/PB2011-012.pdf>