

Macro Monitor



Volume 1 | Issue 6 (Third Quarter 2013)

November 2013

Special points of interest:

- ◆ Tourism Developments
- ◆ Fiscal Sector Developments
- ◆ Inflation
- ◆ Thought Stimulation

Inside this Issue

Assumptions & Conventions

International Sector

External Sector

Fiscal Sector

Monetary Sector

Prognosis/Conclusion

St. Maarten Third Quarter 2013 Macro-Monitor Report

The analysis and projections contained in this Issue of the Macro Monitor Report that highlights the Third Quarter of 2013, are critical parts of the Department of Economic Affairs, Transportation & Telecommunications observation and monitoring of economic developments and policies in St. Maarten as well as internationally. The analysis, projections and policies are the product of a comprehensive interdepartmental review

that draws primarily on information received from key Government Departments and external stakeholders. Projections were also based on results generated by the department Macro-Economic Model.



Contributors

Department of Economic Affairs,
Transportation
& Telecommunications (EVT)
J. Yrausquin Blvd. #6 (2nd Fl)
Philipsburg, St. Maarten
E-mail:
EVT.Inquiries@sintmaartengov.org
Telephone: +721 549 0220 / Fax:
+721-542-3111

- ◆ Tourism Bureau
- ◆ Department of STAT
- ◆ Ministry of Finance
- ◆ Receivers Office
- ◆ St. Maarten Harbour Holding Company

The Department of EVT takes this opportunity to thank all contributors in the development of this publication.

CONTENTS

Assumptions and Conventions	2
Source Information and Data	2
Key Figures	2
Table 1: Overview of St. Maarten's Macro-Economic Key Figures	2
Chapter 1: International Sector	3
Table 2: Stay-over Contribution by Markets Jan-Sept 2012-2013	3
Table 3: North America Forecast 2012-2013	4
Table 4: Europe Forecast 2012-2013	4
Table 5: Caribbean Forecast 2012-2013	5
Table 6: South America Forecast 2012-2013	6
Chapter 2: External Sector	6
Table 7: Stay-over Arrivals Jan-Sept 2012-2013	6
Table 8: Stay-over Arrivals Market Estimates 2013	6
Table 9: Passenger Arrivals as per Region Jan-Sept 2012-2013	7
Table 10: Cruise Arrivals Jan- Sept 2012-2013	8
Graph1: Hotel Occupancy Rates Jan-Sept 2012-2013	8
Graph 2: Timeshare Occupancy Rates Jan-Sept 2012-2013	8
Graph 3: Combined Occupancy Rates Jan-Sept 2012-2013	9
Chapter 3: Fiscal Sector	9
Table 11: Government Revenues by Category Third Quarter 2012-2013	10
Table 12: Government Expenditures by Category Third Quarter 2012-2013	10
Graph 4: Government Revenues Jan- Sept 2012-2013	10
Graph 5: Government Expenditures Jan- Sept 2012-2013	10
Chapter 4: Monetary Sector	11
Table 13: Expenditure by Category	11
Conclusion	11
Thought Stimulation and Recommendation	12

ASSUMPTIONS AND CONVENTIONS

This Third Quarter 2013 publication provides a broad overview of the economic developments in St. Maarten and other parts of the world. It focuses on the past trends of key economic indicators as well as an analysis of the developments in St. Maarten for the third quarter of 2013. The developments for St. Maarten's economy are estimated as follows:

- St. Maarten's projected GDP growth for 2013 is 1.3%;
- Unemployment rate projected at 11% ;
- inflation projected to decrease to 2.5% for 2013;
- Imports value projected to increase for 2013;
- Exports value projected to increase for 2013.
- Percentage change in quantities for both export and imports projected to decrease.
- Cruise Arrivals preliminary projections show a decrease of 3% for 2013.
- Stay-over arrivals projects a slight increase of 0.9% for 2013.

The estimates and projections presented in this report for the third quarter of 2013 presented are preliminary and therefore should be observed as the best estimate based on all current quantitative economic data and expert knowledge available. Minor discrepancies between sums of basic figures and totals shown reflect rounding and hence, the forecast can include a minor margin of error.

The Department of Economic Affairs, Transportation and Telecommunication (EVT) will continue to monitor economic developments and update the estimates as the year progresses.

SOURCE INFORMATION AND DATA

The data appearing in this third quarter report are compiled by the Department of Economic Affairs,

Transportation and Telecommunication. Sources include the Central Bank of Curaçao and St. Maarten, the Department of Finance, the Statistical Department, the St. Maarten Tourism Bureau, the St. Maarten Harbour Holding Companies, PJIAE, and the St. Maarten Hospitality & Trade Association.

Within the Department of Economic Affairs Transportation and Telecommunication, data from stakeholders are compiled, collated and analyzed using an excel spreadsheet, termed "Smaartmodel". This macro model is an analytical tool used to present a holistic view of the developments of the economy. It was built from scratch using past historical data on the various sectors of the economy, and is now in its operational stage. The Smaartmodel is a tool to monitor the economy of St. Maarten, analyze the impact of policy measures in St. Maarten's economy and discuss developments with the various internal and external stakeholders on St. Maarten.

KEY FIGURES

Based on the short to medium term estimates of the "Smaartmodel", key indicators of St. Maarten's economy are selected and analyzed in Table 1. As the year 2013 draws to a closure, we expect updates on some of these indicators as they are reliant on the economic estimating and forecasting.

Table 1: St. Maarten's Macro-Economic Data Estimates

Indicators	2010	2011	2012e	2013f
Real GDP Growth %	1.1	0.3	1.5	1.3
Private consumption %	-7	-10	-15	8
Inflation	3	5	4	2
Unemployment Rate %	12	12	12	11
Employment by enterprises *1000	20	20	20	20
Export (mil Naf)	1670	1842	2095	2125
Imports (mil Naf)	1667	1736	1838	1906
Export (%)	3	7	11	-1
Imports (%)	-4	1	4	2
Current Account in % of GDP	-6	-3	7	5
Cruise Arrival(Thousand)	1513	1656	1754	1701
Stay over Tourist (Thousands)	443	424	457	461

Source: EVT, Ministry of Finance, STAT

Real GDP is projected to have a slower growth of 1.3% for 2013 when compared to 1.5% for 2012. This estimate is supported by the developments within the external sector in which St. Maarten experienced for the first nine months of the year a 3.11% decrease in cruise passengers and a slight increase of 1.3% in stay-over arrivals. EVT's preliminary forecast of declining cruise tourism and low growth in stay-over tourism for the remainder of 2013 could be foreseen as the possible cause of a contraction on the economy.

Sustainability of St. Maarten's economy for 2013 will depend on the slight growth in stay-over tourism along with support from the marine service activities, transport, storage and the communication sector.

EVT's estimation of unemployment for 2013 has remained in the double digit of 11%. This estimation is based on the latest Labour Force Survey conducted in 2009 by the Statistical Department which indicated then, a rate of 12%.

For the period January to September of 2013 public sector expenditures decreased by 1% when compared to the expenditures of the same period of 2012. Revenues likewise showed a decrease of 1% when compared to the same period for 2012.

Since the exports projected are slightly higher than imports; the net exports (exports minus imports) are estimated to have a slight improvement. However, quantities as a percentage change per year are projected to decline for both exports and imports as seen in table 1.

Inflation is projected to decrease to 2.5%, reflected mainly by lower projected international oil and food prices.

It should be noted however, that the key figures presented are primarily based on developments for the third quarter of the year 2013, with the exception of the proposed 2013 budget figures. Once this is approved and included we do expect updates in future reports.

CHAPTER 1: INTERNATIONAL SECTOR

For the third quarter of 2013, the contribution to St. Maarten's stay-over arrivals from the various markets were monitored. Analysis indicates an increase with the exception of the European market and the Rest of the World (which includes countries of the Asian Continent). These two markets showed a slight decrease in contribution by 0.88% and 0.68% respectively. The North American market, which is St. Maarten's leading contributing market, had a 1.16% contribution increase to overall stay over for the third quarter of 2013 when compared to 2012. Other markets with a slight increase in market contribution when compared to the same period for 2012 are the Caribbean market and the South American market which 0.28% and 0.12 % towards the percentages contribution to the overall arrival for the period January to September 2013. This is illustrated in table 2 below.

Markets	% contribution 2012	% contribution 2013	Difference 2012/2013
Caribbean	5.06	5.34	0.28
Europe	22.89	22.01	-0.88
North America	61.63	62.78	1.16
South America	3.37	3.49	0.12
Rest of the World	7.06	6.38	-0.68

Source: STB/PJAIE/EVT

RECENT GLOBAL EVENTS

EVT is continuously monitoring the international developments, as we are heavily dependent on tourism. Any developments within the international sector or environment can influence change in our local economy.

Focus is placed on three macro-economic indicators for selected countries of the various regions that are considered our target and emerging markets within our tourism industry. These indicators are the real GDP, the inflation and current account as a percentage of GDP.

NORTH AMERICA

Economic activity is slightly picking up in the U.S. Domestically, risks are still centered on fiscal policy and the costs of decreasing the rate of asset purchases (known as QE3), with lingering concerns related to labor market weakness and tight credit conditions. With regards to QE3, it is possible a disorderly exit from this monetary policy strategy could take place. However, the U.S. will likely experience slow-to-moderate economic growth for the rest of the year with a slowly improving employment situation.

As we are so reliant on this market, such developments if not improved can have ill effects for the island. Likewise, it should be noted that the development mentioned above of the first three quarters of 2013 in the U.S. has reflected in the tourism developments of St. Maarten. This is substantiated with the fact that arrivals from the U.S. have only increased 1.53% for third quarter of 2013. While Canada had a 13.73% increase for the same period. This increase in arrivals from Canada is due to the fact that during this year's low season months, the frequency of chartered flights to St. Maarten remained the same as during the last high season.

Table 3: North American Forecast 2012-2013

North America	Real GDP Growth (%)		Inflation (Average, %)		Current	Account
	2012e	2013f	2012e	2013f	2012e	2013f
USA	2.2	1.8	2.1	2.1	-3.0	-2.7
Canada	1.7	1.7	1.5	1.5	-3.1	-3.1

Source: Global Macro Monitor- September 2013

With focus on the key indicators of this region as depicted in table 3, the U.S. is presented with a slight decline in growth and stable rate of inflation for 2013, while Canada is projected to have stable growth of 1.7%. Inflation for both countries is forecasted to remain stable for 2013 with 2.1 and 1.7% respectively as illustrated above. With regards to the current account as a percentage of the Gross Domestic Product (GDP), the U.S. is forecasted to have a slight increase, however, remaining negative. For Canada this remains stable at negative 3.1% which basically means that the current

account of both countries is not contributing to their GDP.

Based on this illustrated forecast and the fact that this region constitutes 65% on average towards our stay over arrivals, EVT takes a conservative estimate of 0.7% growth for stay-over arrivals from the North American region for the year of 2013. The developments within this region should be noted quite keenly, since they are our largest contributor.

EUROPE

The Euro Zone economy has remained stuck in a recession. Europe's economy, which greatly depends on exports, especially to emerging markets, is finding other sources of demand in order to generate sustainable growth. Private consumption remains dormant as household deleveraging has been ongoing and disposable income falling. Governments in the crisis countries are in the process of repairing their balance sheets, but are not leaving any room to increase expenditure.

Table 4: Europe Forecast 2012-2013

Europe	Real GDP Growth (%)		Inflation (Average,%)		Current Account (% of GDP)	
	2012e	2013f	2012e	2013f	2012e	2013f
Netherlands	-1.1	0.6	1.7	2.5	6.8	7.1
Italy	-2.4	-1.5	3.3	1.5	-0.5	0.4
France	0.1	-0.3	2	1.4	-2.2	-2.0
Russia	3.4	2.6	5.1	6.8	3.7	2.7
Other Europe	1.1	0.8	2.8	2.8	3.6	3.4

Source: Global Macro Monitor- September 2013

According to table 4 illustrations of the selected countries above, on average slight growth is forecasted for 2013, with increasing inflation and decreasing of the current account as a percentage of GDP.

This development within the Euro Zone definitely has to be monitored closely, as it can have an impact on the arrivals from this region to St. Maarten. At present for 2013, arrivals from this region have decreased 2.6% and the percentage contribution to overall arrivals has also declined 0.88% when compared to 2012. This decrease

in the arrivals to St. Maarten can be considered a reflection of the ongoing recession in Europe and the policies embarked for reducing government's expenditures. EVT's preliminary projection for tourist arrivals from the European market to St. Maarten shows a 0.7% decrease when compared to 2012.

SOUTH AMERICA & CARIBBEAN

The region is once again showing an increase in arrivals and moderate growth across industry. Increasing investments in the hotel sector as well as in international transport means have also begun to see results as a number of projects that was under development have come to completion.

For the third quarter of 2013, the economies of the South America and Caribbean region continue to experience a moderate growth despite the slow recovery of the global economy. As shown in Table 5 and 6, economic indicators for the South American countries and the Caribbean Islands reflect differing trends.

Table 5: Caribbean Forecast 2012-2013

Caribbean	Real GDP Growth (%)		Inflation (Average,%)		Current Account (% of GDP)	
	2012e	2013f	2012e	2013f	2012e	2013f
Barbados	0	0.6	4.6	3.6	-4.8	-8.5
Guyana	4.8	4	2.4	3.7	-15.7	-13
Jamaica	-0.3	0.8	6.9	7.5	-11.4	-10.6
Puerto Rico	0.5	1.3	2.2	2.7	-1.2	-0.4
Trinidad & Tobago	1.2	2.5	9.3	6.5	5.1	10.6
Dominican Republic	3.9	2.5	3.7	4.9	-7.2	-5.8

Source: Global Macro Monitor- September 2013

For the Caribbean region as illustrated in Table 5, there is a projected overall improvement in the economies thus far for 2013. The Dominican Republic's GDP is expected to contract from 3.9% to 2.5% for this year. Consumer confidence is expected to improve in the next quarter of 2013 by the increase in tourism. Trinidad & Tobago's real GDP growth is expected to tick up to 2.5% in 2013 from 1.2% in 2012, while its inflation rate is expected to be lowered to 6.5% for 2013.¹ Public

¹ www.latinamericamonitor.com

spending is set to increase as part of efforts to stimulate this real GDP growth.

For the Eastern Caribbean region a modest economic recovery is anticipated in the coming quarters, with the more diversified economies benefitting from slightly stronger global growth, while those which are heavily reliant on tourism and financial services will continue to struggle. Rising debt burdens, fixed exchange rate regimes, and modest growth prospects lead us to believe that the Caribbean economies will make favorable economic strides in the coming years. As such, additional credit events or major balance of payments corrections in some of the small island economies going forward cannot be ruled out.

It is anticipated that the tourism industry growth throughout the Caribbean, usually a key driver of economic activity, will continue to slow in the years ahead, keeping real GDP growth fairly moderate. Moreover, while some countries are expected to outperform, weak fiscal revenues and higher borrowing costs will limit the capacity of most governments in the region to reverse the trend in slower growth. As external demand gradually strengthens, these economies are projected to grow by about an average 2.6% for the next two years.²

With regards to arrivals from the Caribbean region to St. Maarten, the region did well for the third quarter of 2013. It showed an increase of 6.95% totaling 1221 more passengers when compared to 2012. This market continues to be the highest of all the markets for the reporting period January to September. EVT's conservative projection for 2013 with regards to arrivals to St. Maarten from the Caribbean region is 10.4% increase.

For the South American region, the countries as illustrated in table 6 continue to be the targeted countries for 2013. These selected countries are still on the decline with the exception of Brazil with a projected

² Source: BMI

2.6% projected growth as the year end 2013 draws near. Inflation seems to be increasing with the exception of Chile, while their current account as a percentage of GDP is on the decline.

Brazil's economy experienced slow growth in the second quarter of 2013 which continued into the third quarter, with, excessive inflation, and a deteriorating external balance. In order to maintain stability in the currency and fight inflation, the central bank has tightened monetary policy, while the government is tightened fiscal policy in order to maintain fiscal accuracy.

South America	Real GDP Growth (%)		Inflation		Current Account	
	2012e	2013f	2012e	2013f	2012e	2013f
Argentina	1.9	1.8	10	25.0	0.1	0
Brazil	0.9	2.6	5.4	6.2	-2.4	-4.0
Chile	5.6	4.3	3.0	2.0	-3.5	-3.7

Source: Global Macro Monitor- September 2013

From this region there has been a decrease of 8.44% in stay-over arrivals for the third quarter of 2013 as compared to the same period in 2012. Conservative projection for 2013 stay-over arrivals from this region is negative 9.4% which is 1,477 less tourist despite the efforts in that region.

CHAPTER 2: EXTERNAL SECTOR

STAY-OVER TOURISM- ST. MAARTEN

For the reporting period July to September 2013, stay-over arrivals increase by 0.92% when compared to the same period of 2012, this amounted to 93,325 arrivals compared to 92,466 in 2012. The month of July is notably the month responsible for this increase as illustrated in table 7.

When comparing the nine months January to September, stay-over arrivals on St. Maarten increased by 1.3% during the period of 2013 when compared to

the same period for 2012, as illustrated in table 7. This represents 16,380 nights extra for the reporting period, with the assumption that stay-over per tourist is 4.5 nights on average. This increase can be attributed to the continuous marketing activities by the St. Maarten Tourism Bureau in the different markets and the continued frequency of inbound flights including charters from Canada and the South America/Caribbean region during the months of the low season.

	2012	2013	Difference	% change
Jan	47,899	47,812	-87	-0.18
Feb	48,523	48,052	-471	-0.97
Mar	50,189	54,369	4,180	8.33
Apr	41,815	40,882	-933	-2.23
May	33,893	33,896	3	0.01
Jun	32,505	33,453	948	2.92
Jul	38,643	37,056	-1,587	-4.11
Aug	33,766	36,678	2,912	8.62
Sept	20,057	19,591	-466	-2.32
Total	347,290	351,789	4,499	1.30

Source: St. Maarten Tourism Bureau

Total number of stay-over visitors up until September 2013 amounted to 351,789 visitors as compared to 347,290 visitors for the same period of 2012. For the period January to September, only 3 months have presented positive figures in terms of arrivals to St. Maarten when compared to 2012. These include; March with 8.33% change June with 2.92% change and August with 8.62% change. May had a relative flat change in terms of arrivals.

Markets	2012	Year End		Estimated % change
	Figures	Estimate	Difference	
	Actuals	2013		
Caribbean	24,235	26,763	2,528	10.4
North American	278,964	281,043	2,079	0.7
Europe	105,196	104,423	(773)	-0.7
South America	15,633	14,156	(1,477)	-9.4
Rest of the World	32,691	34,622	1,931	5.9
Total	456,719	461,007	4,288	0.9

Source: EVT/ St. Maarten Tourism Bureau

New estimates for 2013 indicate a relatively low growth rate of 0.9% which accounts for 461,007 stay-over arrivals. This estimate is based on the average of each calendar month for the past five years. Additionally, based on research as to developments within the various markets; this estimate can also be substantiated with the fact the U.S., which is our highest market, is still in its recovery stage and the debt ceiling issues that remains a determinant towards the decision on domestic policies which could have an adverse effect on consumer behavior and the working class as a whole.

A typical example is the sequestration of federal spending in which the U.S. administration cut federal expenditures by 86 billion dollars during the first quarter of this year. This inevitably affected the working class and could be seen as a possible cause for the very low growth in arrivals from that region. Additionally, the U.S. has reverted to promoting internal tourism whereby they are promoting domestic travel by marketing the individual states of the U.S.

With regards to the performance of the various regions, they have all showed positive signs for the first nine months of 2013, except that of the Rest of the World which had a fall in arrivals of 8.44% and Europe with 2.6%, as illustrated in table 9. For 2013, the Caribbean region showed an increase in arrivals of 6.95%, totaling 18,787 arrivals as compared to 17,566 from 2012. This constitutes 5.34% contribution of the overall arrivals to St. Maarten. Countries responsible for this increase include the Dominican Republic which had a 13.22% increase, St. Kitts and Nevis with 8.07% increase and Trinidad and Tobago with 51.19% increase. Decreasing arrivals were registered from Haiti with negative 3.59%, Antigua with -13.08% and the other British West Indian Islands combined at a rate of -2.71%, when compared to the third quarter of 2012. The reasoning for such increase from Trinidad is due to the recent charter flying from Ecuador to Trinidad then onward to St. Maarten. The arrivals from the Caribbean region also signify that St. Maarten is still considered the shopping hub of the region.

	2012	2013	2012/2013 % Change	2013 % contribution
Caribbean	17,566	18,787	6.95	5.34
Antigua	1,537	1,336	-13.08	0.38
British/BWI	6,890	6,703	-2.71	1.91
Dominican Republic	2,609	2,954	13.22	0.84
Haiti	2,370	2,285	-3.59	0.65
St. Kitts/Nevis	1,810	1,956	8.07	0.56
Trinidad/Tobago	2,350	3,553	51.19	1.01
Europe	79,485	77,416	-2.60	22.01
France	51,941	50,991	-1.83	14.49
Italy	2,996	2,692	-10.15	0.77
Netherlands	12,414	11,962	-3.64	3.40
Russia	619	627	1.29	0.18
Other Europe	11,515	11,144	-3.22	3.17
North America	214,021	220,867	3.20	62.78
Canada	29,295	33,317	13.73	9.47
United States	184,726	187,550	1.53	53.31
South America	11,691	12,261	4.88	3.49
Argentina	1,889	1,981	4.87	0.56
Brazil	3,489	3,526	1.06	1.00
Chile	241	391	62.24	0.11
Venezuela	2,509	2,477	-1.28	0.70
Other Americas	3,563	3,886	9.07	1.10
Rest of the World	24,527	22,458	-8.44	6.38
Total	347,290	351,789	1.30	100.00

For the reporting period, the European region which contributes 22.01% of St. Maarten's overall arrivals has registered 2.60% decrease in arrivals to St. Maarten. Arrivals from this region up to the third quarter of the year 2013 amounted to 77,416 when compared to 79,485 for 2012, during the period January to September 2013.

The South American region has shown signs of positive growth for the third quarter of 2013. This region represents 3.49% of the overall arrivals to St. Maarten and has grown 4.88% for the reporting period when compared to 2012. All of the selected countries have shown this positive growth trend, except for Venezuela which experienced a decrease of 1.28% for the period when compared to 2012.

CRUISE TOURISM-ST. MAARTEN

Cruise arrivals for the third quarter (July- September) of 2013 were higher than arrivals in same period of 2012.

This amounted to 18,690 passengers more. Possible reason is the increase in calls of 6 more ships to St. Maarten than the previous year during the month of July. This increase is shown in the month of July in table 10 below.

However, when comparing the nine months development in cruise arrivals a decrease is observed. Reasons for the slump in arrivals could be ascribed to several factors. According to the St. Maarten Harbour Holding Company, the decrease for this period January to September of 2013 when compared to 2012 was mainly due to fewer bookings and the usual effects of the low season months, which presents fewer ships and less passenger travel. Additionally, possible cause can be the economic instability and uncertainty faced by numerous economies in which economic measures and actions in recent times have forced persons to reconsider their consumption pattern and in turn became more conservative with their spending.

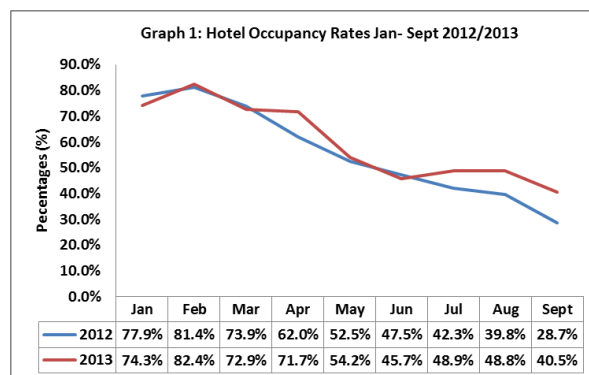
Table10: Cruise Arrivals Jan - Sept 2012/2013

Cruise	2012	2013	Difference	% change
Jan	250,610	256,050	5,440	2.17
Feb	247,064	206,031	-41,033	-16.61
Mar	235,854	218,997	-16,857	-7.15
April	184,276	171,109	-13,167	-7.15
May	76,476	80,681	4,205	5.50
Jun	77,211	79,904	2,693	3.49
Jul	74,707	95,684	20,977	28.08
Aug	82,290	80,226	-2,064	-2.51
Sept	59,864	59,641	-223	-0.37
Total	1,288,352	1,248,323	-40,029	-3.11

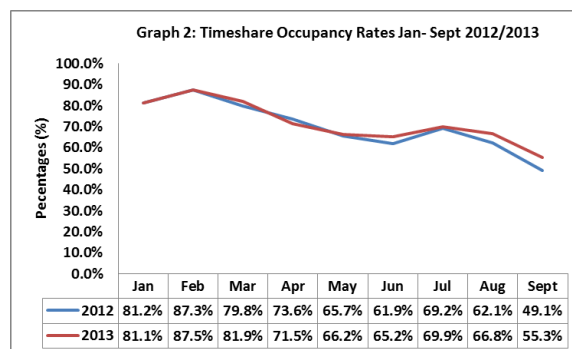
Source: St. Maarten Harbour Holding Company

As illustrated in table 10, cruise passenger arrivals for the year thus far amounted to 1,248,323 tourists compared to 1,288,352 in 2012 for the period January to September. This indicates a 3.11% decrease in cruise tourist arrivals when comparing the periods 2013 and 2012. Conservative estimates for the year ending 2013 is negative 4.8% totaling 1,668,687 passengers, assuming a conservative month by month increase of tourism of 8% for the balance of the year 2013.

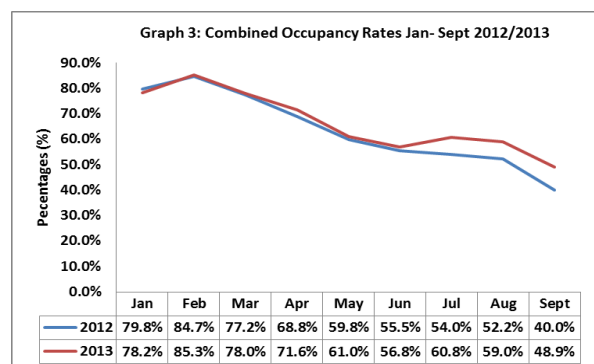
OCCUPANCY



Hotel and timeshare occupancy rates stood at 59.9% and 71.7% respectively for the nine months January to September of 2013. This represents an increase of 3.7% in hotel occupancy and 1.7% in timeshare occupancy, when compared to the same period for 2012. When focusing on the three months July- September of this third quarter it is realized that hotel occupancy stood on average 9% higher than the same period of 2012. This is illustrated in graph 1 above. Possible reasons for this third quarter spike is due to the fact that some hotels actually drop their rates taking into consideration the economic climate, also Maho which constitute a high portion of the SHTA room stock, had a successful promotion attracting a large number of guests from the US and Europe during the third quarter. It should be noted also that during the period a number of hotels were under renovation, this situation forced visitors to use other hotels which apparently are part of the SHTA body that do report on their occupancy rates.



With regards to timeshare occupancy rates, for the reporting period occupancy were on average 3.3% higher for the months July – September 2013 when compared to 2012. This is noted in graph 2 above. Reasoning behind this spike also has to do with the same renovation of some timeshare facilities which eventually created a shift to other facilities.



With combined hotel and occupancy rates for this third quarter, a spike of an average 7% is realized when compare to the same period July- September 2012. This is illustrated in graph 3 above.

Analysis of this development indicates that persons are more interested in the traditional format of accommodation of staying with friends and relatives as oppose to hotels. With timeshare, this is the type of accommodation which is already paid for in advance, thus persons are more or less obligated to use the time and it is more cost effective than having to pay large up front as in traditional hotel rooms. Furthermore, this accommodation could be utilized year round by others and not necessarily by the timeshare holder. This justifies the increase and the fact that timeshare is always above hotels in occupancy.

The performance of this sector indicates a form of stability of the tourism industry. Continued marketing efforts and the competitive rates and offers, are giving travelers more incentive to choose our island as their destination to vacation. It should be noted that there are approximately 4090 room stock on St. Maarten, in which 2700 or 66% are SHTA members.

CHAPTER 3: FISCAL SECTOR

Analysis of the fiscal sector for the third quarter of 2013 indicates a decrease in government revenues collected when compared to same period for 2012. With regards to government expenditures for the third quarter of 2013, this also shows a decrease when compared to 2012.

Total revenues collected for the period January to September 2013 amounts to Naf. 319.5 million, while expenditures amounted to Naf. 327.2 million. This development is an indication that for the period January to September 2013, the budget deficit has increased by Naf. 7.7 million. Therefore, alternative funding was sought to finance the expenditures incurred by the government during the past nine months.

GOVERNMENT REVENUES

Government revenues for the period January – September 2013, saw a decrease of 1% when compared to 2012. Indirect taxes to government (which comprises of Turnover Tax (ToT), timeshare, vehicle rental tax, room tax and gasoline excise tax) remained flat over the period. Contributing factors to this decrease has to do with the change in procedure on collection of road and vehicle tax. As indicated by the Minister of Finance road tax collection is performing below par for 2013 and this is because of the new measures implemented in early 2013 and the non-compliance factor of road users.

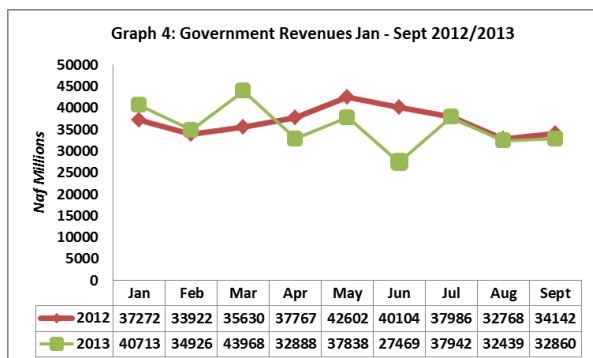
Decreasing revenue categories include: 15% decrease in resident deposits from foreigners which imply a drop in the number of persons seeking residency on St. Maarten and a 77% decrease in other revenues from enterprises. However, this 77% decline is not necessarily a loss in revenue, but the placing of all revenues collected in their relevant category for the period in 2013. This is illustrated in table 11.

Revenues(Naf Million) Jan- Sept 2013	2012	2013	Difference	% Change
Other income from Enterprises	18,784	4,307	-14,477	-77
Indirect Taxes	132,641	133,021	380	0
Direct taxes from Enterprises	17,739	20,663	2,924	16
Direct Taxes from Households	94,970	98,588	3,618	4
Tax on Households	57,737	62,036	4,299	7
Transfers from Abroad	1,074	916	-158	-15
Total revenues	322,945	319,531	-3,414	-1

Source: Ministry of Finance

Although revenues fell overall for the period in 2013, the category of direct taxes from household (wage tax), showed an increase of 4%. This basically implies there was an increase in employment over the period for 2013. Profit tax, which is the direct taxes on businesses, presented a 16% increase for the reporting period, this is an indication of compliance among the business community. Likewise, the tax on households had an increase of 7% for the reporting period.

The trend in month by month collection of revenues for each calendar month of this reporting period showed fluctuating patterns when compared to 2012. This is shown in graph 4 below, which depicts a high collection trend in the first three months of the year, then took a deep drop during the months April to May. This drop continued from July into September of 2013 but at a more moderate level when compared to 2012. From the months April to September the government has been losing an average of Naf. 4 million when compared to the amount collected in the same period of 2012.



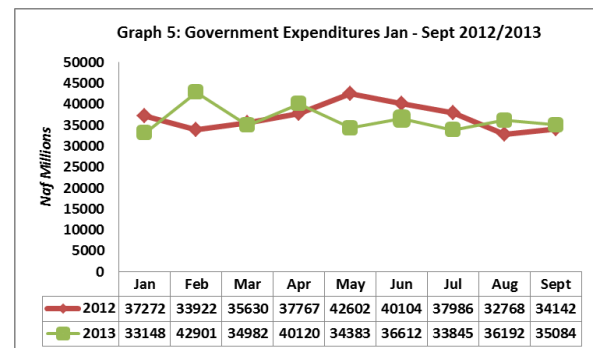
GOVERNMENT EXPENDITURES

Total government expenditures for the period January to September of 2013 saw a decrease of 1% when compared to the same period in 2012. This amounted to approximately Naf. 327 million when compared to Naf. 332 million collected for the same period of 2012. This is attributed to the decrease in the consumption of government of 7% which is basically expenses such as rent, AVBZ payments, instanties of departments etc. which is an estimated Naf. 8 million less in expenses for 2013. Similarly, a decrease in the transfers on household of 21% was realized, this amounted to Naf. 8.5 million. This transfer to households constitutes; expenses on buses, garbage collection, social insurance and study financing.

Expenditures (Naf Million) Jan- Sept 2013	2012	2013	Difference	% Change
Intermediate Consumption	117,717	109,710	-8,007	-7
Compensation of Employees(Wages and Sala	120,669	128,258	7,589	6
Interest	4,334	6,534	2,200	0
Subsidies	48,312	50,165	1,853	4
Transfers to HouseHolds	41,161	32,600	-8,561	-21
Total expenditures	332,193	327,267	-4,926	-1

Source: Ministry of Finance

Increased expenditures were observed among the subsidies paid by government of 4% and the wage bill that of government of 6%. This wage bill includes all social premium payments of government and wages paid to civil servants. This analysis is illustrated in table13.



The monthly trend in expenses by the government also shows fluctuating trend as that of the revenues for 2013. As observed in graph 5 the months of May –July are where government applied their most cost cutting

measures, likewise January and February since their expenses were lower than the months for 2012.

CHAPTER 4: MONETARY SECTOR

Inflation

Consumer Price Index for St Maarten is monitored by the Statistical Department bi-monthly. For the reporting period, the rate of inflation continues to ease. However, when comparing average consumer prices over a twelve month period (August 2012 to August 2013), an increase of 2.8 % was recorded compared to the same period one year earlier.

The consumer price index for St Maarten has increased in the month of August 2013 by 0.6% compared to that of June 2013. The price index recorded in August 2013 is 124.4. EVT's preliminary estimate of inflation for year end 2013 is 2.5% with a month by month change of 0.35%.

In depth analysis for the month of August 2013 indicates, seven of the nine expenditure categories have become moderately more expensive, whilst two remained unchanged. Amongst the more expensive were the categories; 'Food' (+0.7%), 'Housing' (+0.7%), 'Household Furnishing & Appliances' (+0.1%), 'Medical Care' (+1.0%) and 'Transport & Communication' (+0.8%), 'Recreation & Education' (+0.3%) and 'Miscellaneous' (+1.1%). Whereas, 'Clothing and Footwear' and 'Beverages and Tobacco' remained stable. This is illustrated in table 13.

Table13: Expenditure by Category

Expenditure Category	WEIGHT	INDEX JUNE 2013	INDEX AUGUST 2013	% CHANGE
Food	10%	168.4	169.5	0.7
Beverages and tobacco	1%	142.1	142.1	-
Clothing & footwear	7%	113.8	113.8	-
Housing	39%	122.4	123.2	0.7
Household furnishing & appliances	6%	138.3	138.4	0.1
Medical care	3%	104.9	106	1.0
Transport & communication	20%	110.7	111.6	0.8
Recreation & education	6%	108.2	108.5	0.3
Misc.	8%	117.2	118.5	1.1
TOTAL	100%	123.7	124.4	0.6

Source: STAT

CONCLUSION

In sum, over the last nine months the global economy continues to grow at a modest pace. Growth in the U.S. remains to be modest, while Europe remains in a recession, and the major emerging markets face slower growth. As we enter into the final quarter of the year 2013, the economic picture is likely to continue improving at a modest pace. All in all, the economy is slowly improving in terms of growth including St. Maarten as we have seen during this reporting period.

In order to maintain as well as improve the performances in both cruise arrivals and stay-over tourism based on the tourism figures presented for this reporting period, it is essential for all stakeholders within the industry to combine and strengthen the efforts for the remainder of the 2013. This has become necessary since cruise arrival has continued to drop and the projections for the whole year 2013 are on a decreasing trend. Additionally, stay-over tourism for an island that is heavily dependent on tourism, a 1.3% increase for the reporting period signifies that ongoing emphasis has to be placed in terms of marketing of the island and a possible enhancement of our tourism product for better growth possibilities. Once more, stakeholders combining efforts and effectively marketing and showcasing St. Maarten will be of utmost importance for the closing of 2013, entering of 2014.

Within the fiscal sector, government expenditures showed decreasing signs. This normally has the tendency to deflate the economy and can increase the surplus on our balance of payment through reduced Imports and increased exports. With regards to the revenues, the decrease experienced during this reporting period, implies; a need for proper planning of policy implementation, so that the drop that occurred in collections with the road and vehicle tax will not be repeated for the following year. Based on the current

trend of expenditures exceeding that of revenues collected, apart from the hampering of government's ability to properly implement its planned programs, special attention should be paid since we are still under financial supervisory by the CFT.

On the monetary sector, despite the decrease in inflation, we reckon that continued emphasis should be placed to ease the burden of high prices on consumers. In this regards, the government is examining the possibility of implementing a Competition Authority, which should aid in the alleviation of such burden on consumers.

Thought and Discussion Stimulation: Far "Reachingness" of U.S domestic policies

Introduction

The Department of Economic Affairs Transportation and Telecommunication takes the initiative to include in this quarter Macro-Monitor Economic Report a thought and discussion stimulation of how far reaching is the U.S. domestic policies. It is imperative for St. Maarten to be cognizant and as such always to bear in mind the far reaching implications the U.S. policies can have on our economy, since they are our main source of stay-over arrivals in the tourism sector and the largest supplier of both food and merchandise to St. Maarten.

Objectives

The objective of this article is to create the awareness of how the decisions and policies of the US can impact the economic developments of St. Maarten and other small island states within the region. Additionally, such reading should alert the general public and make more proactive measures that would mitigate the negative impact of the US domestic policies on St. Maarten.

Overview

One of the recent domestic policy occurrences in the US that we will examine is the partial shutdown of the entire federal government on 1st October 2013 and its possible impact on St. Maarten. This shutdown was caused due to ideological differences between the House Republicans and the Democrats in which they could not agree on the President's Health Care Law.

Within the US, this partial shutdown of the federal government has had an economic impact on various businesses as well as many countries internationally. It has been estimated to have taken \$24 billion out of the economy. The shutdown impacted all sectors of the economy as it did in 1995-1996, when Health and Welfare Services for military veterans were cut; the Centers for Disease Control and Prevention stopped disease surveillance; new clinical research patients were not accepted at the National Institutes of Health; and toxic waste clean-up work at 609 sites was halted.

Other impacts included: the closure of 368 National Park sites resulted in the loss of some seven million visitors; 200,000 applications for passports and 20,000 to 30,000 applications for visas by foreigners went unprocessed each day; U.S. tourism and airline industries incurred millions of dollars in losses; more than 20% of federal contracts, representing \$3.7 billion in spending, were adversely affected.

Possible Impact on St. Maarten and Other Small Economies

This recent shutdown could have impacted St. Maarten and other small island economies in a number of ways had it prolonged. With the temporary layoff of federal workers, this could have affected the travelling sector to which St. Maarten and other islands depend on heavily. Additionally, the U.S. accounts for 65% of arrivals to St. Maarten and the effects of having a decline in their tourist arrivals, means less customers which inevitably means less demand for goods and services. This can impact both the wholesale and retail sector of St. Maarten, since a drop in demand from restaurants &

hotels sector will trickle down negatively on these sectors.

With regards to food and merchandise, since an estimated 95% of our food imports are derived from the U.S., a halt in food inspection and disease control due to the shutdown could have had further negative implications on St. Maarten's local economy and the other islands through food shortages and increased prices. As the law of demand and supply states: The lower the supply the higher the price.

Recommendation

With the vulnerability of St. Maarten and its dependence on the U.S. for a boost in the tourism sector and the supply of consumable goods and services, it would be very remiss of us if no measures are put in place to more or less cushion the economic impact on St. Maarten of any US domestic policy and actions. These measures can vary from food production for domestic consumption to deeper analysis of our tourism product and refocusing of other markets.

With food production, the objective must be that of self-sufficiency, in that "we eat what we grow and grow what we eat", meaning that in the event that there is a short supply from the US market, we can have our own supply when required. This will require strategic planning and consultation while taking into consideration the scarcity of land and our climate. Therefore, proper planning and study must be conducted to explore what can be produce using technology in limited spacing areas. Additionally, with the land scarcity issue that we are faced with, possible well deep thought agreements with other neighboring countries can be considered with regards to food production and supply.

With regards to tourism product and marketing, it will be very important that deep analysis be conducted by the tourism bureau, to understand the tastes, likes and needs of persons from other markets so that proper planning and remodeling of our tourism market can be

done so as to lure these persons to our shores. This may require additional airlift from those regions and analysis of our current hotel stock. Additionally, the question of quantity or quality will have to be taken into consideration, since tourism is also the main focus or interest to the islands, hence making the industry very competitive.
