

# Macro Monitor



Year End 2014 & Outlook 2015

April 2015

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## St. Maarten Year-End 2014 Macro-Monitor Report & Outlook 2015

The Department of Economy, Transportation and Telecommunication continues to monitor local and international economic developments. These developments are further analyzed in perspective of St. Maarten's economy and are disseminated as valuable information to stakeholders, business community and investors alike. Additionally, possible macro-economic impact analysis of these occurrences are provided where necessary. This issue of the Macro Monitor, focuses primarily on the developments that occurred during the year 2014 and the prospective outlook on the key sectors for 2015. For quantitative projections presented in this report, the macro-economic model "SMAARTMODEL" was used. The analysis and projections are a product of a comprehensive interdepartmental review that draws primarily on information received from Government departments and key stakeholders.



## Contributors

Department of Economic Affairs,  
Transportation  
& Telecommunications (EVT)  
J. Yrausquin Blvd. #6 (2<sup>nd</sup> 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

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Table 1: St. Maarten's Macro-Economic Data Estimates			
Indicators	2013 Year end Estimates	2014 Year-end Estimates	2015 Forecast
<b>Real Sector</b>			
Government Investment	15.7	76.1	41.0
GDP (market prices)	1,825.4	1,901.4	1,957.2
Real GDP Growth %	1.0	1.6	1.3
Inflation (%)	2.5	1.9	1.4
<b>Fiscal Sector</b>			
Government Revenues (Naf Million)	491.5	430.2	442.3
<i>Tourism Related Revenues</i>			
<i>Room Tax</i>	6.6	6.7	8.0
<i>Timeshare</i>	4.2	4.7	5.9
<i>Vehicle Rental Tax</i>	1.0	1.5	1.6
Government Expenditures (Naf Million)	490.6	438.4	449.2
Current Account Financial Surplus (+) deficit (-)	-0.9	-8.2	-6.9
Public Sector Debt	576.4	701.6	724.6
Debt in % GDP	31.6	39.2	40.4
<b>External Sector</b>			
Export of Goods & Services (Naf mil)	2,222	2,424	2,507
<i>Tourism Exports</i>	1,535	1,720	1,788
<i>Non-Tourism Exports</i>	687	704	719
Import of Goods & Services (Naf mil)	2,129	2,214	2,293
Exports (%)	3.5	6.5	1.3
Imports (%)	0.6	1.6	1.6
Current Account in % of GDP	-1.6	4.6	4.9
Cruise Arrival('000)	1,787	2,002	2,040
Stay over Arrivals ('000)	467	500	509
Total Visitors ('000)	2,254	2,502	2,549
<b>Household Sector</b>			
Population*1000	36.0	37.2	38.2
Unemployment Rate %	9.2	9.2	8.5
GDP per Capita	49.1	51.1	49.9

Source: EVT, Ministry of Finance, STAT,CBCS

## *Overview St. Maarten's Economic Developments 2014/2015*

Sint Maarten's Economy has shown strength and resilience in 2014, despite the passing of a category 3 hurricane, the uncertainty usually experienced during an election year and some global occurrences in major source markets. When comparing 2014 to 2013, various sectors has displayed favorable activities; preliminary GDP estimates record a growth of 1.6 percent for 2014.

This growth is substantiated by the exemplary performance in the tourism sector that in turn triggered the 'hotel & restaurant sector' and 'wholesale & retail sector' among others. Stay-over arrivals to the island grew by 7.1 percent for the period 2014 when compared to 2013. This amounted to a near 500,000 visitors, which indicates 50,000 more visitors to the island when compared to average number of visitors over the past 20 years. Interestingly for the year 2014, visitor arrivals from all major markets to St. Maarten showed increased growth. When compared to the previous year 2013, the North American region had an 8.6 percent increase, while Europe, Caribbean, South American region and the considered Rest of the World region showed increasing growth between 3 and 7.5 percent. In the cruise sector, St. Maarten was able to achieve the milestone of accommodating over 2 million cruise arrivals for the year 2014. This indicates a growth of 12.1 percent when compared to the year 2013.

Indications from the Airport and Harbour, are that activities in the 'transport & communication sector' grew in 2014 as against the year 2013. For the period activities regarding transport at the airport grew by 6.7 percent. This was notable with the increased number of commercial and chartered flights to the island, which also resonates with the growth in stay-over visitors' arrival. For the period there was a 6 percent increase in the number of aircraft arrivals, increasing from 28,590 in 2013 to 30,493 in 2014. This increase was notable in airlifts from the North American and Europe and South American region. From the Harbour, there was increased activity in all areas of transport for the year 2014 when compared to 2013; directly in the Harbour cruise ships arrivals increased by 10 percent while cargo ships increased 3 percent. Other arrivals to St. Maarten based on data collected from other berthing areas; indicates that ship arrivals also increased 4 percent.

When looking at the business sector, there was a notable increase in the level of investment from the private sector. For the period there was the issuance of 334 new business licenses against 282 for 2013. This represents 18.4 percent increase in possible new businesses for 2014. However, it should be noted that most of these businesses were service oriented that did not require heavy startup capital. From the financial institutions, the value of business loans to local residents increased 1.7 percent for 2014, however there was an overall decreased of 2.9 percent value of business loans issued when compared to 2013. From the construction sector, although the quantity of building permits issued in 2014 was less than that of 2013, based on the information gathered from the Ministry of Public Works (VROMI), the estimated value of the construction projects for the period of 2014 surpassed that of 2013.

Inflation declined to 1.9 percent for 2014 down 0.6 percent from 2013. This decrease is substantiated with the drop in world oil price and inevitably the reduction in the cost of oil products, alike. Other indicators include: exports increasing by an estimated 9 percent moving from Naf 2.2 billion in 2013 to and estimated Naf 2.4 billion in 2014. On the other hand, imports are also estimated to have increase in 2014 by Naf 89 million. Again, a trade surplus is estimated for 2014, since the nominal value of exports is estimated higher than imports, as have been the experience over the last three years.

For 2014 government revenues amounted to an estimated Naf 430.2 million which is a Naf.61.3 million decrease when compared to the Naf 491.5 million collected during the same period for 2013. This reduction in revenues was mainly attributed to decreased fees and concession revenue and other income from business collected in 2014. Significant is that the revenues collected for 2013 included concession of Naf 10 million primarily from GEBE that related to the years 2015 and 2016.

With expenditures, this also decreased by 10.6 percent in 2014 when comparing the same period 2013. Total expenditures were Naf 438.4 million in 2014 compared to Naf.490.6 million in 2013. Analysis of the financial developments for 2013 indicates that there was a fiscal deficit of Naf 8.2 million, since the expenditures were more than the revenues.

Based on the department's research and analysis of the various economic developments within the region and on an international level, St. Maarten's economic outlook for 2015 is of a positive growth. Preliminary projections on key economic indicators are; real GDP growth of 1.3 percent, inflation to decrease to 1.4 percent, cruise arrival to increase 1.8 percent and stay-over arrivals to increase 1.8 percent. The projected increase in growth and the tourism developments for 2015 are attributed to the projected growth in the U.S. and other major economies for 2015. Additionally, there is the continued intent of government and a number of other private entities to embark on activities that will further trigger the construction, transport, hotel & restaurant and telecommunication sectors. Inflation is projected to decrease for 2015. This will likely be attributed to continued drop in the world oil prices and oil products. From the trade sector, exports are projected to grow 3.4 percent, while imports are also projected to grow 1.4 percent for 2015.

As the year 2015 prolongs, EVT will continue its economic monitoring and updating where necessary with regards to these preliminary projections.

## CHAPTER 1: GLOBAL OPPORTUNITIES AND CHALLENGES FOR ST. MAARTEN IN 2015

With St. Maarten's vulnerability to external shocks as a small island economy and the prospective effect of developed countries economic directions and policy decisions, monitoring global developments is of utmost importance for St. Maarten. Therefore, we are able to maximize the economic opportunities and minimize possible effects through proper planning. Based on EVT's analysis and monitoring of global economic developments, it is safe to say that the global opportunities for St. Maarten is quite favourable for 2015.

This assessment is supported by the World Bank's analysis of which global economic growth is projected to increase at 3.5 and 3.7 percent between 2015 and 2016 as illustrated in table 2. Focusing on the development in the North American region, which is the main market to St. Maarten's trade sector; the economies of the US and Canada rebounded ahead of expectations after the contraction in the first quarter of 2014. There was a reduction in the rate of unemployment, inflation pressure stayed

	2013	2014	2015	2016
<b>World Output</b>	<b>3.3</b>	<b>3.3</b>	<b>3.5</b>	<b>3.7</b>
<b>Advanced Economies</b>	<b>1.3</b>	<b>1.8</b>	<b>2.4</b>	<b>2.4</b>
United States	2.2	2.4	3.6	3.3
Euro Area	-0.5	0.8	1.2	1.4
Germany	0.2	1.5	1.3	1.5
France	0.3	0.4	0.9	1.3
Italy	-1.9	-0.4	0.4	0.8
Spain	-1.2	1.4	2	1.8
Japan	1.6	0.1	0.6	0.8
United Kingdom	1.7	2.6	2.7	2.4
Canada	2	2.4	2.3	2.1
<b>Other Advanced Economies</b>	<b>2.2</b>	<b>2.8</b>	<b>3</b>	<b>3.2</b>
<b>Emerging Market and Developing Economies</b>	<b>4.7</b>	<b>4.4</b>	<b>4.3</b>	<b>4.7</b>

Source:IMF World Economic Outlook Jan. 2015

more muted, the appreciation of the U.S. dollar and the decline in oil prices for 2014 that stimulated growth. These determinants are expected to continue into 2015, since growth is projected to grow from 2.4 percent in 2014 to 3.6 percent in 2015 for the U.S and a slight dip of 0.1 percent for Canada for 2015. This projected growth in the U.S. is supported by increasing domestic demand supported by lower oil prices, more moderate fiscal adjustment, and continued support from an accommodative monetary policy stance, despite the projected gradual rise in interest rates. The Euro area; St. Maarten's second largest contributing tourism market, recorded growth in the latter part of 2014 modestly weaker than was expected; weak investment and increasing inflation mainly influenced this, the outlook for 2015 is slightly more promising. Increased

economic activity is projected to be supported by lower oil prices, further monetary policy easing (already broadly anticipated in financial markets and reflected in interest rates), a more neutral fiscal policy stance, and the recent Euro depreciation. Although these factors are expected to be offset by weaker investment prospects again, partly reflecting the impact of weaker growth in emerging market economies on the export sector, the recovery is projected to be somewhat slow, but however positive, with annual growth projected at 1.2 percent in 2015.

With this positive outlook on the global economies including South America and the Caribbean region and considering St. Maarten's intention to upgrade, continued marketing focus, product diversification and service enhancement of our main trade commodity (Tourism), it is relatively safe to say that opportunities from a global perspective are optimistic for 2015. It is evident from past developments that increased growth in the global economies always trickles down to St. Maarten as well as the other competing islands of the region.

### **RISK TO THE OUTLOOK 2015**

It should be noted that there are risks to this global outlook and more so the opportunities that can be benefited by St. Maarten; these may include and not limited to:

1. Sizable uncertainty about the oil price path in the future and the underlying drivers of the price decline has added a new risk dimension to the global growth outlook.
2. Emerging market economies are particularly exposed, as they could face a reversal in capital flows. With the sharp fall in oil prices, these risks have risen in oil exporters, where external and balance sheet vulnerabilities have increased, while oil importers have gained buffers.
3. *Geopolitical risks* are expected to remain high, although related risks of global oil market disruptions have been downgraded in view of ample net flow supply.
4. In the *Euro area*, inflation has declined further, and adverse shocks—domestic or external—could lead to persistently lower inflation or price declines, as monetary policy remains slow to respond.

## **CHAPTER 2: REAL SECTOR DEVELOPMENTS & OUTLOOK 2015**

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The economic development of St. Maarten for 2014 was dependent on the performance within a number of sectors. Some sectors continued with their vibrant performance during the year, which is also the reason for the increase in overall economic growth. These sectors included the 'wholesale & retail sector', 'restaurant & hotels sector', 'storage & communication sector' and the 'utility sector' of the economy.

### ***Hotel Sector & Restaurant***

This sector was triggered by the increase in arrivals to the island both in cruise passengers and stay-over arrivals. According to data gathered from St. Maarten Hospitality and Trade Association, the occupancy rate of members that report their figures indicates an overall increase in 2014 when compared to 2013. Such development will inevitably impact other sectors considering for which provision has to be made.

The 2015 outlook for this sector is positive. Activities within this sector are expected to remain vibrant considering the projected increase in both stay-over and cruise arrivals for 2015. Additionally, not forgetting the increase marketing efforts by the Tourism Bureau and product enhancement by private stakeholders within the sector, there will be an inevitably triggered growth in this sector.

### ***Wholesale and Retail Sector***

With increased activity in the tourism sector, this again will inevitably increase the level of activity in the wholesale and retail sector. This is further cemented with the developments in the hotel and restaurant sector as previously mentioned. The wholesale and retail sector experienced unanticipated growth due to the passage of hurricane Gonzalo, a category three storm that caused thousands in structural damage throughout the country. Similarly, the passage of hurricane Gonzalo also resulted in an increase in employment in these sectors, a common effect experienced by small economies after disasters of this kind. Additionally, for the year 2014, this sector has seen continuous demand from the French side of the island considering the Euro's strength to the Dollar and demand from neighboring islands.

A positive outlook for this sector in 2015 will be dependent on the increase in purchasing power among residents on the island. Although increases in cruise and stay-over arrivals are projected, it should be noted that the demand from the French side may be in decline taking into consideration that the Euro of late is on a weakening trend against the dollar. Hence, a positive outlook will be dependent on an increase in local resident's disposable income and increased tourist spending on the Dutch side.

It should also be noted that with the increase in employment whether temporary or otherwise for 2014 and in the aftermath of the passage of hurricane Gonzalo, this should have created an increase in the level of disposable income in the economy. This effect normally stimulates demand in small economies. Additionally, for the year 2014, this sector has been well established by the demand it has from the French side of the island considering the Euro's strength against the Dollar and the demand from other neighboring islands.

### ***Storage & Transport Sector***

Within this sector for 2014, there has been an increase in storage and transport activity. This is notably in the Harbour and Airport which recorded increased volumes containers and other cargo movements, likewise increased inbound of both ships and flights for the period.

For 2015, with negotiations already on its way with regards to new airlift from Europe and the projected increase in cruise calls in the latter part of 2015, an increase is expected in this sector both at the Harbour and Airport, covering passenger arrivals, container movements and other forms of cargo.

### ***Utility Sector***

Utility consumption for the year 2014 increased from both a commercial and residential perspective. Increases in economic activity generally lead to increases in consumption in this sector so as to facilitate the rise in demand for goods and services. For 2015, production is projected to be relatively stable considering the slight increase in economic activity projected.

### ***Construction Sector***

In this sector, the activities for the year 2014 decreased when compared to 2013 both from a commercial and residential perspective when comparing the number of building permits issued. However, from information collected, the value of projects embarked on was more than that of 2013. These projects included a number of remodeling, renovations and remedial works among some hotels, and ongoing project the Walter Plant Square Project. Additionally, there were a number of private commercial structures constructed during the year. From the Government's standpoint a number of projects were placed on hold since it took Government some time to realize financing; however a number of road rehabilitation works were done during the period.



One observation gathered from the construction sector and its relation to investment is that despite increases in the value of projects for the period, banking figures indicate that there was a decrease in the number of commercial and residential loans from the local banking institution. This drives the assumption that most likely investors on St. Maarten resort to alternative source of funding apart from the local commercial banks.

The outlook for this sector and a number of other sectors are somewhat lukewarm for 2015. On St. Maarten, any real growth in these sectors will depend on increases in arrivals and tourist expenditure to the island. In this way, sectors like the hotel and restaurant and wholesale and retail will be stimulated. Likewise, measures to increase disposable income among the local population will also trigger these sectors. Additionally, once major projects are identified and embarked upon that can stimulate the productive sector of the economy 2015, the economy should experience some level of growth. One of these projects that are expected to commence in the latter part of 2015 is the construction and development of the 'Royal Caribbean for St. Maarten Quarter' that involve the development of the waterfront area of Philipsburg. This project is expected to cost an estimated Naf 216 million.

### CHAPTER 3: EXTERNAL SECTOR DEVELOPMENTS & OUTLOOK 2015

This section focuses mainly on St. Maarten's trade relationship with other countries as illustrated in table 3. Over the past 3 years St. Maarten has been able to obtain inflows (exports) over Naf 2 billion, with the trade of goods and services. From this

trade of goods and services an average of Naf 1.5 billion has been obtained through the provision of tourism related goods and services over the same period. Once again, this highlights the importance and strength of the tourism sector to the local economy. For the year 2014, exports of tourism related goods and services are

	Exports - Inflow				Imports - Outflow			
	2012	2013	2014	2015	2012	2013	2014	2015
Merchandise	234.0	316.7	307.8	318.5	1,374.6	1,654.7	1689.6	1749.8
Transportation	57.8	54.2	63.0	65.2	91.8	93.5	104.0	107.7
Travel (Tourism Receipts)	1,506.50	1,534.86	1,708.92	1,767.78	164.4	159.7	182.2	188.7
Other services	296.5	316.3	344.2	356.1	207.3	217.9	238.3	246.8
<b>Total Goods &amp; Services</b>	<b>2,094.80</b>	<b>2,222.01</b>	<b>2,423.90</b>	<b>2,507.49</b>	<b>1,838.10</b>	<b>2,125.68</b>	<b>2,214.01</b>	<b>2,292.98</b>
Wage Bill	21.94	39.0	39.0	39.0	72.04	73.7	73.7	73.7
Rest income	9.7	14.5	14.5	14.5	17.08	20.6	20.6	20.6
Transfers From Households	128.29	142.0	144.7	147.8	202.47	223.9	223.9	223.9
Direct investment	24.2	60.7	72.1	58.1	6.72	-6.2	-11.0	-4.8

Source: CBCS/EVT

projected to have increase to Naf 1.7 million from Naf 1.5 million in 2013. This trend is synonymous with the increase in both cruise and stay-over arrivals for 2014 and the increase in average daily expenditure by tourist as determined in the exit surveys conducted by the Statistical Department for 2014. Other exports which include merchandise, transportation service, financial services and other services are estimated at Naf 0.7 million for 2014.

The wage bill on the balance of payment generally signifies the flow of labour income from businesses in and out of St. Maarten. For the year 2014, the inflow of income wages from foreign countries to St. Maarten are estimated around Naf 39 million, this signifies a flat growth when compared to the year 2013 and is expected to continue into 2015. Concerning 'wages sent abroad'; this also presented a flat growth for 2014 and will likely continue into 2015. 'Labour income to abroad' from St. Maarten is estimated at Naf 73.7 million for 2014. Considering this trend of more labour income going to the abroad than coming in to St. Maarten, it can be assumed that more external services are contracted locally, whether by government or the private sector private than that of local services contracted outside of St. Maarten. Likewise with 'Rest income' (which includes the flow of investment and portfolio income) in and out of St. Maarten, this also shows a trend of more income leaving St. Maarten than that is entering.



Transfers from households on the balance of payment are basically the flow of workers remittances and other transfers in and out of St. Maarten. Over the past years Transfers out of St. Maarten were estimated between 40-45 percent more than what actually came in. For the year 2014, transfers out of St. Maarten are estimated at Naf 223.9 Million as against inflow of Naf 144.7 million. This trend is expected to continue into 2015. A number of factors can be responsible for this situation on St. Maarten, one of which is the composition of the labour force whereby more foreigners than locals are sending back their earnings to their country of origin.

Direct investments to St. Maarten have been positive over the years. During the 2 years 2012 and 2013, direct investment to St. Maarten has amounted to Naf 84.9 million, as illustrated in table 3. For the year 2014, this amount is estimated at Naf 72.1 million. Most direct investment to St. Maarten has been centered on the tourism and financial sectors of the country.

### Stay-over Sector

As mentioned earlier, the developments in the external sector are mainly driven by the developments in the tourism sector. For

the year 2014 there was an exceptional performance in both cruise and stay-over sectors of the economy. As illustrated in table 4, stay-over arrivals to the island increased by 7.1 percent when compared to 2013. This increase was realized from all the targeted markets, with the North American market being the most dominant with a growth of 8.6 percent deriving from a 10.5 percent increase in arrivals from Canada.

Major influencing factor for the increase in stay-over arrivals are; a number of hotels have upgraded their services to a more all-inclusive venture, continued marketing efforts by the Tourism Bureau and private stakeholders alike as well as the hosting of major conferences and events. Additionally, it should be noted that increased marketing of St. Maarten/St. Martin as one destination and the free marketing promotion received from major online travel sites also aided in the stay-over arrivals to the islands.

As for 2015, there is projected growth of 1.8 percent in stay-over arrivals. This growth is expected to stem from all targeted markets. With the intention to increase marketing efforts in the South American, European and North American region and considering projected economic outlook of the countries within those regions, this poses a level of optimism for the stay-over sector in 2015. Additionally, it should be noted that a number of hotels are considering a change of strategy and enhancement of activities to lure more visitors to the island.

**Table 4: Passenger Arrivals as per Region 2012-2015**

	2013	2014	% Change	% contr.	Projection 2015	2015 Projected Growth
<b>Caribbean</b>	24,967	26,390	5.7	5.3	27,409	3.9
Antigua	1,869	1,826	-2.3	0.4		
British/BWI	9,366	10,267	9.6	2.1		
Dominican Republic	3,815	3,713	-2.7	0.7		
Haiti	2,944	2,847	-3.3	0.6		
St. Kitts/Nevis	2,704	2,829	4.6	0.6		
Trinidad/Tobago	4,269	4,908	15.0	1.0		
<b>Europe</b>	103,643	106,848	3.1	21.4	108,266	1.3
France	66,716	65,767	-1.4	13.2		
Italy	3,870	4,240	9.6	0.8		
Netherlands	16,019	16,865	5.3	3.4		
Russia	935	1,253	34.0	0.3		
Other Europe	16,103	18,723	16.3	3.7		
<b>North America</b>	292,488	317,757	8.6	63.6	322,599	1.5
Canada	46,300	51,146	10.5	10.2		
United States	246,188	266,611	8.3	53.3		
<b>South America</b>	15,820	16,705	5.6	3.3	17,669	5.8
Argentina	2,398	2,621	9.3	0.5		
Brazil	4,725	5,668	20.0	1.1		
Chile	469	418	-10.9	0.1		
Venezuela	3,276	2,751	-16.0	0.6		
Other Americas	4,952	5,247	6.0	1.0		
<b>Rest of the World</b>	30,037	32,221	7.3	6.4	33,134	2.8
<b>Total</b>	<b>466,955</b>	<b>499,921</b>	<b>7.1</b>	<b>100.00</b>	<b>509,077</b>	<b>1.8</b>

Source: STB/EVT

## Cruise Sector

Cruise arrivals to the island for 2014 increased by 12.1 percent compared to the arrival for 2013. As illustrated in table 5, the generally considered low season performed well with significant growth in May and September. Possible reasons for this increase in cruise arrivals are the fact there was higher demand and increased bookings amongst a number of the cruise lines to the Caribbean region. This was also apparent in the increase in arrivals during this period for some of our competing cruise destinations in the region. Additionally, there was an increase in the number of ships for 2014. This amount increased from 631 calls in 2013 to 692 calls in 2014.

	2013	2014	2013/2014 % change	2015 Projections	Projected 2015 %
<b>Jan</b>	258,431	284,405	10.1	278,791.6	-2.0
<b>Feb</b>	206,031	218,037	5.8	245,385.0	11.1
<b>Mar</b>	218,995	233,603	6.7	260,912.8	10.5
<b>April</b>	171,109	188,198	10.0	197,487.6	4.7
<b>May</b>	84,588	115,385	36.4	102,227.6	-12.9
<b>Jun</b>	79,904	102,517	28.3	97,811.5	-4.8
<b>Jul</b>	95,684	119,121	24.5	107,106.9	-11.2
<b>Aug</b>	80,226	104,460	30.2	95,809.7	-9.0
<b>Sept</b>	59,641	93,507	56.8	76,797.9	-21.8
<b>Oct</b>	77,036	84,339	9.5	90,312.1	6.6
<b>Nov</b>	202,654	179,638	-11.4	205,308.1	12.5
<b>Dec</b>	251,371	278,786	10.9	280,109.2	0.5
<b>Total</b>	<b>1,785,670</b>	<b>2,001,996</b>	<b>12.1</b>	<b>2,038,060.0</b>	<b>1.8</b>

Source: St. Maarten Harbour Holding Company/EVT

Regarding the outlook for 2015, there is a projected 1.8 percent increase for cruise arrivals; this is illustrated in table 5. This increase can be substantiated by the fact that there is an increasing demand for cruise to the Caribbean region and the projected global economic growth among countries, triggered by the decreasing oil prices that will inevitably impact disposable income in a positive manner.

## CHAPTER 4: FISCAL SECTOR DEVELOPMENTS & OUTLOOK 2014

Analysis of the fiscal developments for 2014 indicates a decrease in both revenues and expenditures. Government revenues decreased by Naf 61.37 million in 2014 against 2013, while expenses decreased by Naf 52.63 million. In depth analysis of the revenues collected for 2014 as depicted in table 6, indicates that from the tax revenue category there was an increase of 10.35 percent when compared to 2013. Wage tax, income tax and profit tax were the major contributors towards this increase in this category. Likewise, the road tax and car rental tax, to a lesser extent, contributed to this increase. The increase in wage tax is subject to the indexation of salaries that automatically has an effect on the income tax payable. The increase in income tax is subject to bringing backlogs current, the imposition of penalties for late filings and an increase in compliance initiatives.

This overall increase reflects Government's position on compliance enforcement and change in strategy with regards to the road tax collection for 2014. However, it should be noted that the decrease in tourism related taxes signifies the need for more compliance mechanisms within this category considering the growing trend within the tourism industry.

Regarding revenues from permits and licenses, this category increased 4.43 percent for this reporting period. This increase stemmed from the collection of business license fees and building permits and residence permits. Revenues collected from the issuance of work permits decreased over the period when compared to 2013.

Revenues from fees and concession decreased 29.83 percent when compared to the year 2013. This decrease was due to the fact that in the year 2013 concession was prepaid for a 3 year period by government run entities. In this category only casino and lottery fees increased in 2014 when compared to 2013. Other income to government also decreased by 46.32 million in 2014 when compared to 2013. This is due to the fact that in 2013 there was a release of provision in the amount of Naf 46 million. Considering the government intentions to be more vigilant in collecting taxes and ensuring compliance as mentioned in the 2015 Budget speech, revenues are expected to increase for 2015 by an approximate Naf 12 million, totaling approximately Naf 442.3 million.

With regard to government expenditures for 2014, there was an overall decrease by Naf 52.63 million for 2014, as illustrated in table 7. This reduction was brought about mainly by the reduction in the consumption or purchase of goods and services by the Government and the strategy change by the Government to stop contributing to the employees' part of the health insurance.

These actions of reducing the consumption of goods and services and passing the health insurance premium of family members to the employees by Government have contributed to a combined reduction in expenditure by some Naf 64.51 million, when compared to 2013. Personnel cost, subsidies, interest payment and study financing cost

were the areas of increased expenditure of the Government for 2014, from the current account perspective.

For 2015, regarding the expenditures of government and considering the increase in cost by some ministries due to additional staffing and implementation of measures to ensure efficiency and quality services from the government sector, total

<b>Tax Revenues</b>	<b>2013</b>	<b>2014</b>	<b>Budget 2014</b>	<b>Diff 2014 Actuals/ Budget</b>	<b>2014/2013 Diff</b>
Wagetax /incometax	132.80	134.62	132.27	2.34	1.80
Income Tax	-5.00	-1.73	-5.00	3.27	3.27
Turnover tax	140.48	139.85	143.38	-3.53	-0.63
Profit tax	21.08	26.78	24.24	2.54	5.69
Road tax	7.18	8.90	8.59	0.31	1.71
Room tax	6.60	6.69	7.07	-0.38	0.10
Car rental tax	0.97	1.48	1.20	0.28	0.51
Time share fee	4.24	4.69	5.15	-0.46	0.45
Transfer tax	9.35	7.18	10.10	-2.92	-2.17
Other tax	1.24	0.85	2.00	-1.15	-0.39
Excise tax	9.87	9.88	11.00	-1.12	0.00
<b>Total tax ( incl excise tax)</b>	<b>328.84</b>	<b>339.19</b>	<b>340.00</b>	<b>-0.81</b>	<b>10.35</b>
<b>Permits Revenues</b>					
Business license fees	7.61	9.03	8.50	0.53	1.42
Work permit fees	3.79	3.73	7.67	-3.94	-0.06
Building permits and inspection	0.65	1.67	1.23	0.44	1.02
Residence Permit	0.00	2.04	3.00	-0.96	2.04
<b>Total permits</b>	<b>12.05</b>	<b>16.48</b>	<b>20.40</b>	<b>-3.92</b>	<b>4.43</b>
<b>Fees &amp; Concession Revenue</b>					
Bank License Fees	25.30	25.17	24.75	0.42	-0.13
Concession fees (Harbour, Gebe)	25.53	5.20	10.20	-5.00	-20.33
Telecom Concessions (via BTP)	3.50	3.18	0.00	3.18	-0.32
Casino and Lottery Fees	7.81	8.75	10.00	-1.25	0.94
Bureau Telecom result	9.99	0.00	7.00	-7.00	-9.99
<b>Total fees and concessions</b>	<b>72.12</b>	<b>42.30</b>	<b>51.95</b>	<b>-9.65</b>	<b>-29.83</b>
<b>Other Income Revenue</b>					
Casino controllers	2.52	2.51	2.19	0.33	-0.01
" Domeinbeheer"	5.41	5.51	3.80	1.71	0.10
Miscellaneous	70.61	24.19	12.34	11.85	-46.41
<b>Total other income</b>	<b>78.54</b>	<b>32.22</b>	<b>18.33</b>	<b>13.89</b>	<b>-46.32</b>
<b>Total Income</b>	<b>491.55</b>	<b>430.18</b>	<b>430.67</b>	<b>-0.49</b>	<b>-61.37</b>

Source: Minfin

expenditures for 2015 are projected to increase by an estimated Naf 11 million. This projected development is expected to create a slight deficit of Naf 6.9 million for 2015, with a projected expenditure of Naf 449.2 million.

Observed for 2014 is the fact that since expenditures was more than the revenues collected a current account deficit of Naf 8.2 million was realized.

	2013	2014	Budget 2014	Diff 2014 Actuals/Budget	2014/2013 Diff
Personnel expenses	197.03	198.69	181.24	17.44	1.66
Goods and services	113.14	97.80	103.41	-5.61	-15.34
Social Services	74.22	25.05	24.20	0.84	-49.17
Depreciation	6.52	7.03	5.28	1.75	0.51
Subsidies	86.14	94.16	100.78	-6.62	8.02
Study finance	3.31	4.02	11.25	-0.48	0.71
Interest	10.66	11.64	11.25	0.39	0.98
<b>Total Expenses</b>	<b>491.02</b>	<b>438.39</b>	<b>437.42</b>	<b>7.72</b>	<b>-52.63</b>

Source: Minfin

### Capital Expenditures

For the year 2014 the Government of St. Maarten was able to secure loans to finance capital projects and replenish reserves for works previously completed. Loan amounts secured for the period amounted to an estimated Naf 177 Million. From these, a number of capital expenditures was realized in the amount of Naf 76.1 million, which indicates an increase of Naf 60.4 million as against the previous year 2013. These expenditures as indicated in table 8 included the purchase of the Government building and remedial works to the same, the purchase of Emilio Wilson Estate and a Naf 2.8 million investment in Winair Airlines among others. EVT's projections on capital expenditures for 2015, is at a much slower rate than 2014. Preliminary projection on capital expenditures for 2015 is an estimated Naf 41 million, considering the mandated purchase of land property and other planned projects as outlined by various ministries within government.

As illustrated in table 9, from the loans obtained in 2014 to finance capital expenditures, the accumulative debt balance of the government increased to Naf 576.4 million to Naf 701.6 million. This amount is inclusive of outstanding amounts due to SZV and APS. For the plan capital expenditures for 2015, this accumulative debt balance is expected to increase to Naf 724.6 million, with

	2013	2014	2014/2013 diff
Terreinen	0.0	30.4	30.4
Gebouwen	10.9	30.0	19.1
Inventaris	1.2	3.5	2.3
Vervoersmiddelen	0.1	0.18	0.1
Overige (niet gespecificeerd)	0.0	5.8	5.8
Studie leningen	3.5	3.4	-0.1
Investment Winair	0.0	2.8	2.8
<b>Total Capital Expenditure</b>	<b>15.7</b>	<b>76.1</b>	<b>60.4</b>

Source: MinFin

	2011	2012	2013	2014	2015
Government Revenues	402.6	450.9	491.5	430.2	442.3
Government Expenditures	407.7	434.3	491.0	438.4	449.2
Fiscal Surplus/Deficit	-5.1	16.6	0.5	-8.2	-6.9
Capital Investment	10.3	25.9	15.9	76.1	41.0
Accumulative Debt Balance	587.2	593.7	576.4	701.6	724.6
Interest Payment	11.8	11.6	10.6	11.6	14.2
public sector revenues in % of G	24.7	26.1	29.3	24.6	24.6
public sector expenditures in % o	31.3	32.7	29.7	28.8	29.0
Debt to Gdp %	35.2	33.7	31.6	39.2	40.4

Source: MinFin/ EVT

interest payment also increasing from Naf 11.6 to Naf 14.2 million in 2015. However, it should be that the debt to GDP is gradually increasing, which can have serious repercussion in our ability to access loans if this trend continues. For 2014 it is estimated at 39.2 percent and is expected to further increase to 40.4 percent in 2015.

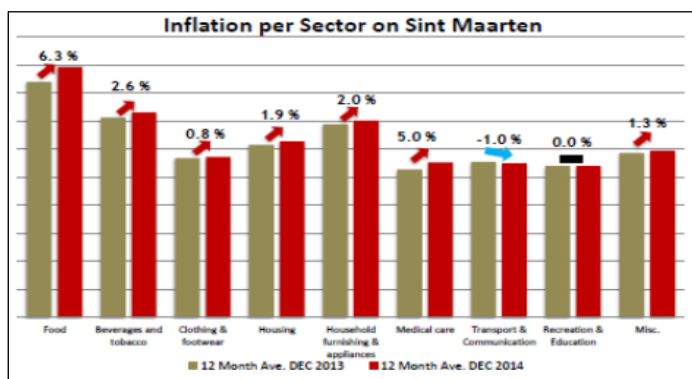
## CHAPTER 5: MONETARY SECTOR

### Inflation

With the compilation of consumer price index data gathered by the Statistical Department, analyses have indicated that when comparing average consumer prices over a twelve month period (Dec. 2013 to Dec. 2014), an increase of 1.9 percent was recorded compared to the same period one year earlier. Inflation has shown an overall decline in 2014 (1.9%) compared to the rate of inflation recorded in 2013 (2.5%).



When examining the expenditure, all seven expenditure categories recorded inflation in December 2014. 'Housing' at a rate of 1.9 percent whilst 'Transportation and Communication' recorded deflation of 1.0 percent and 'Food' prices saw inflation at a rate of 6.3 percent. Striking also, is the double-digit inflation seen in the expenditure category 'Household furnishing & appliances' (+13.4%) at the start of 2014 which rapidly declined by the end on 2014 (+2.0%). Though this category accounts for a small share (6%) of total expenditure, significant is the volatile developments over the last two years. Noteworthy are the developments recorded in the expenditure category 'Medical Care'; from the latter part of 2013 throughout 2014 the rate of inflation has steadily been increasing to a peak rate of 5.0 percent in December 2014.



The annual inflation recorded amongst the major expenditure categories 'Housing' (39%), 'Transport & Communication' (20%) and 'Food' (10%) over the past 7-year period is depicted in the bar chart below. Noteworthy is that food inflation recorded much instability as opposed to the other major expenditure categories. Equally notable is the low level of inflation recorded in 2013 for the expenditure categories 'Housing' and 'Transport & Communication'. Striking is that the major expenditure category 'Transport & Communication' has recorded deflation in 2014 of 1.0 percent.

Possible reasons for such development as outlined above are due to the fact that world oil prices have been dropping constantly during the year 2014. This drop in price is due to a drop in demand as most economies are exploring alternative energy sources. Since St. Maarten is a cost absorbing economy such decrease in cost is inevitable passed on to the consumer.

For 2015 a further decrease in the rate of inflation is projected. EVT's preliminary projection for 2015 is a rate of 1.4 percent. This projection is supported by the decreasing prices in oil and oil products on the international market and the fact that the

Euro currency is weakening against the U.S. dollar. If this trend is to continue into 2015, possible consequences on St. Maarten can be a reduction in aggregate demand from the French side consumers, which may force wholesalers and retailers on the Dutch side to lower prices so as to maintain market share.

### **Banking Sector Developments**

According to data gathered from the Central Bank of Curacao and St. Maarten on the banking performance of St. Maarten for the year 2014, total loans decreased by 1.9 percent, while total deposits increased 25.1 percent when compared to the year 2013. As illustrated in table 10, of the overall loans, business loan decreased and individual loans decreased 2.9 percent and 4.1 percent respectively for the reporting period. Other loans however saw an increase of 69.3 percent. For the categories with reducing trend for the period, possible reason for this can be link with the uncertainty of the election year of 2014, the reluctance of investors to re-invest and the reduction in the request for mortgage loans from an individual perspective.

<b>Table 10: Loans and Deposit Composition 2013/2014</b>			
	<b>2013</b>	<b>2014</b>	<b>% Change</b>
<b>Total Loans</b>	<b>1,816,905</b>	<b>1,781,710</b>	<b>-1.9</b>
<i>Business Loans</i>	928,641	901,854	-2.9
<i>Individual Loans</i>	850,641	816,176	-4.1
<i>Other Loans</i>	37,623	63,680	69.3
<b>Total Deposits</b>	<b>2,781,581</b>	<b>3,479,557</b>	<b>25.1</b>
<i>Demand Deposits</i>	1,354,084	2,117,754	56.4
<i>Saving Deposits</i>	560,210	599,169	7.0
<i>Time Deposits</i>	867,287	762,634	-12.1
<b>Composition</b>			
<b>Loans</b>	<b>2013</b>	<b>2014</b>	<b>% Change</b>
<i>Residents</i>	1,443,936	1,422,747	-1.5
<i>Non- Residents</i>	372,521	358,964	-3.6
<b>Deposits</b>			
<i>Residents</i>	1,666,522	1,754,237	5.3
<i>Non- Residents</i>	1,115,059	1,725,320	54.7

Source: CBCS

Regarding the total deposit for the period, there was a increase of 25.1 percent for the year 2014 when compared to 2013. This increase was due to increased demand for demand deposit of 56.4 percent and the increase in savings deposit of 7.0 percent. Time deposit showed a decrease by 12.1 percent for the reporting period. Possible reasons for this development during the year 2014 are the fact that persons continue saving more than before due the economic uncertainty and change in spending pattern of consumers. Also, the operation method of business needs to be considered; since it is evident that of recent most businesses are primarily focusing on getting rid of old stock rather than replenishing. This sort of behavior in most cases has the tendency to increase demand deposit of businesses.

Over the past 2 years, 79 percent of the loans obtain through the banking system were residents of St. Maarten, while the remaining 21 percent were non-residents. In 2014 however, the loans amount obtained by both residents and non-residents decreased 1.5 percent and 3.6 percent respectively when compared to the year 2014. As for deposits, over the 2 years period 55 percent were from residents while 45 percent were from non-residents. When comparing the deposits made however for 2014; deposits made by residents increased 5.3 percent while the amounts made by non-residents increased 54.7 percent.

### **Summary**

For the year 2014, the economy of St. Maarten showed its strength and resilience despite the few global occurrences in its major source markets, the passage of a category 3 hurricane and the uncertainty normally experienced in an election year. Preliminary indications are that the economy grew 1.6 percent for the year 2014. This growth is substantiated with the exemplary performance in the tourism sector that in turn triggered the hotel, restaurant, wholesale and retail sector among others. This growth is expected to continue throughout 2015, given the projected growth of the economies, especially those that St. Maarten is so dependable on within the North American region and Europe. Given this positive outlook on the global economies that also includes South America and the Caribbean region; and considering St. Maarten's intention to upgrade, continued marketing focus, product diversification and service enhancement of our main trade commodity (Tourism), it is

relatively safe to say that opportunities from a global perspective are optimistic for 2015. It is proven from past developments that increased growth in the global economies always trickles down to St. Maarten as well as the other competing islands of the region.

Over the past 3 years St. Maarten has been able to obtain inflows (exports) of over Naf 2 billion, with the trade of goods and services. This has created a surplus on the balance of payment over the years and is expected to continue likewise throughout 2015. The majority of St. Maarten's export commodity has been in the form of tourism related goods and services and this further cements the expected growth for 2015 given the projections in cruise and stay over arrivals. Both cruise and stay over arrivals are projected to grow by 1.8 percent for 2015. Regarding imports; this continues to grow likewise given the fact that St. Maarten does not produce consumable commodities and most merchandise is imported.

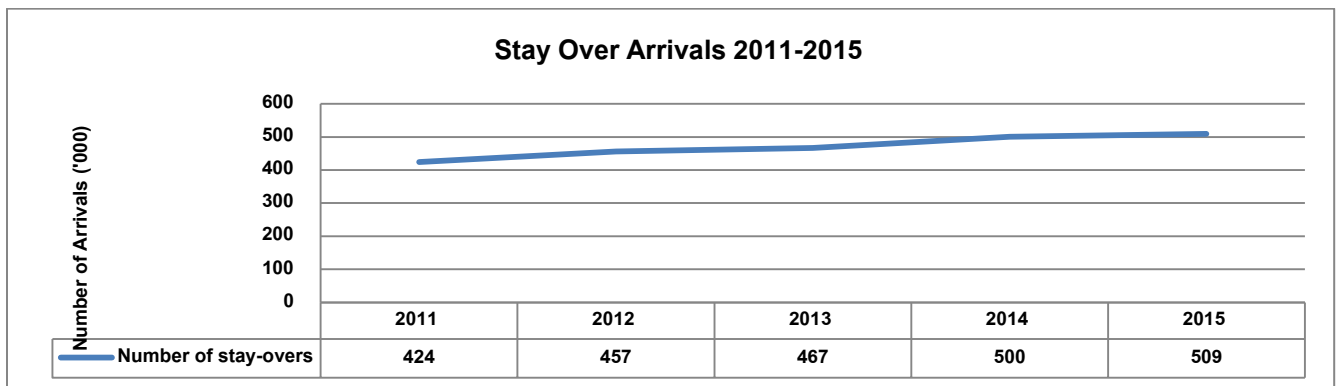
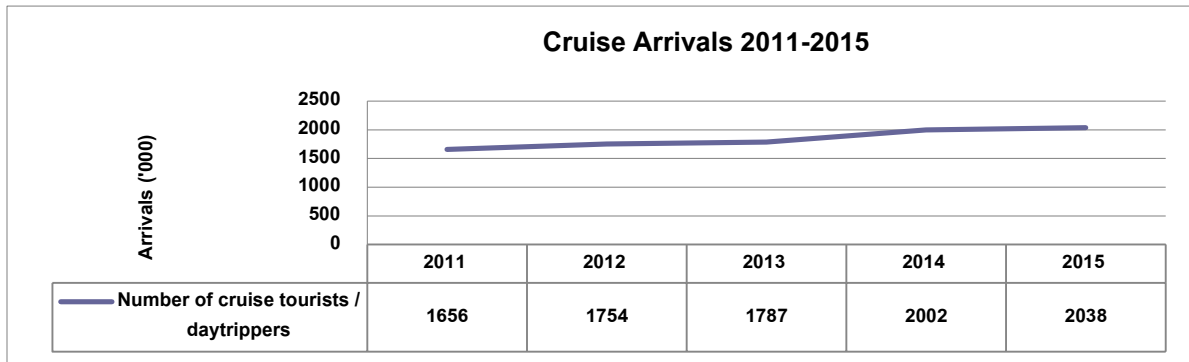
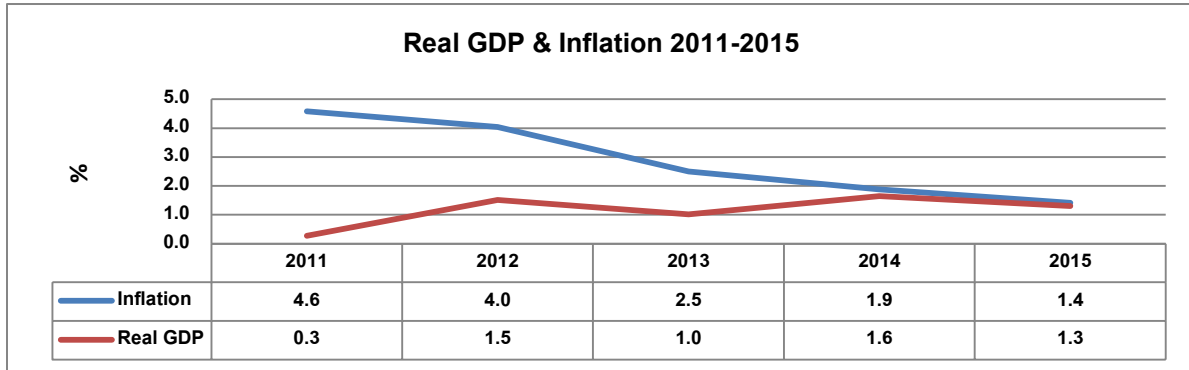
Analysis of the fiscal developments for 2014 indicates a decrease in both revenues and expenditures. However, a current account deficit of Naf 8 million was created. Considering the government intentions to be more vigilant in collecting taxes and ensuring compliance as mentioned in the 2015 Budget speech, revenues are expected to increase for 2015 by an approximate Naf 12 million, totaling approximately Naf 442.3 million. For the expenditures of government and considering the increase in cost by some ministries due to additional staffing and implementation of measures to ensure efficiency and quality services from the government sector, total expenditures for 2015 are projected to increase by an estimated Naf 11 million. This projected development is expected to create a slight deficit of Naf 6.9 million for 2015, with a projected expenditure of Naf 449.2 million.

Regarding inflation, analysis has indicated that when comparing average consumer prices over a twelve month period (Dec. 2013 to Dec. 2014), an increase of 1.9 percent was recorded compared to the same period one year earlier. Inflation has shown an overall decline in 2014 (1.9%) compared to the rate of inflation recorded in 2013 (2.5%). Looking forward to 2015, all indications are that this trend is expected to continue. EVT's preliminary projection for 2015 is a rate of 1.4 percent. This projection is supported by the decreasing prices in oil and oil products on the international market. Additionally, from a local perspective is the fact that the Euro currency is weakening against the U.S. dollar. If this trend is to continue into 2015, possible consequences on St. Maarten can be a reduction in aggregate demand from the French side consumers, which may force wholesalers and retailers on the Dutch side to lower prices so as to maintain market share.

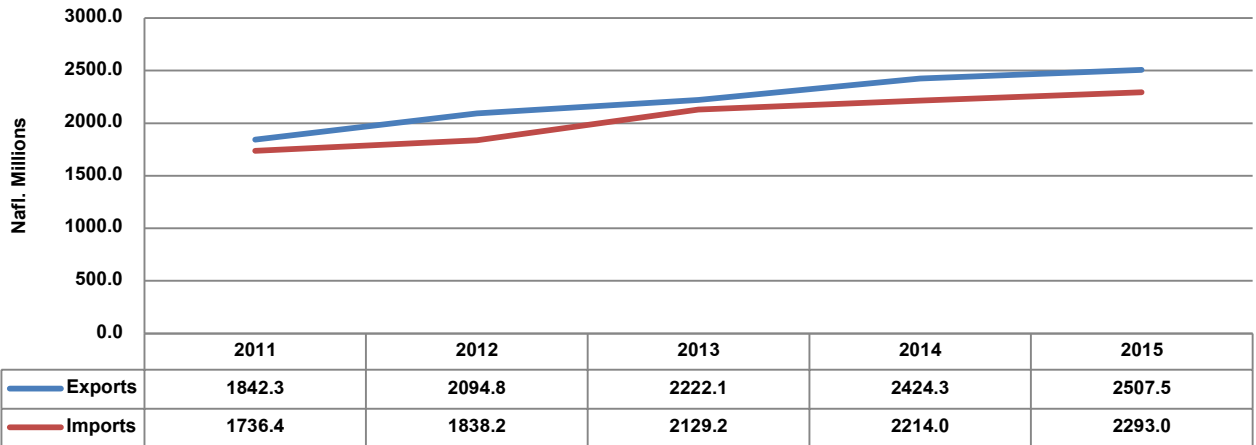
The Department of the Economy, Transport and Telecommunication will continue to monitor and analyze the developments locally, regionally and internationally as the year progresses. Hence, projections and best estimates will be provided to stakeholders, investors and other readers alike. If you have any suggestions and recommendations, the department can be contacted.



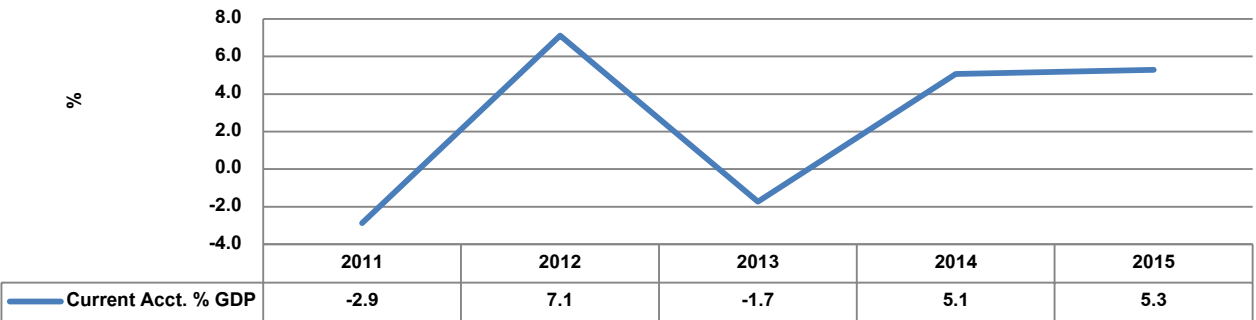
Appendix



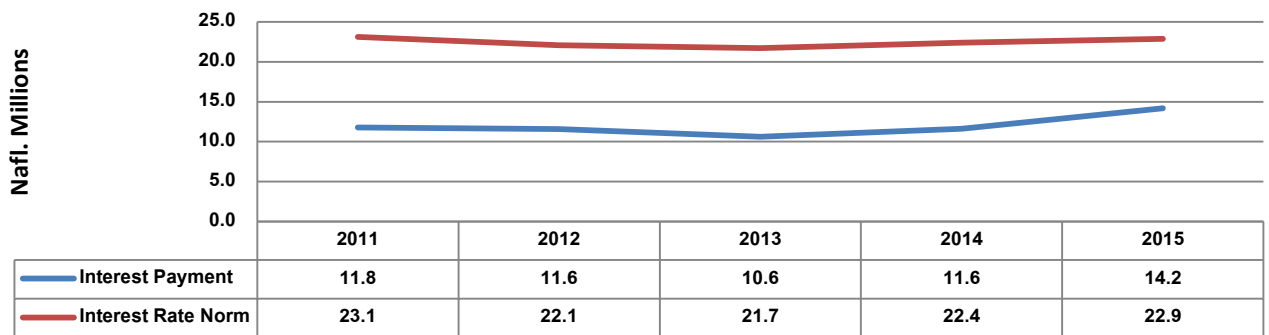
### Exports and Imports 2011-2015

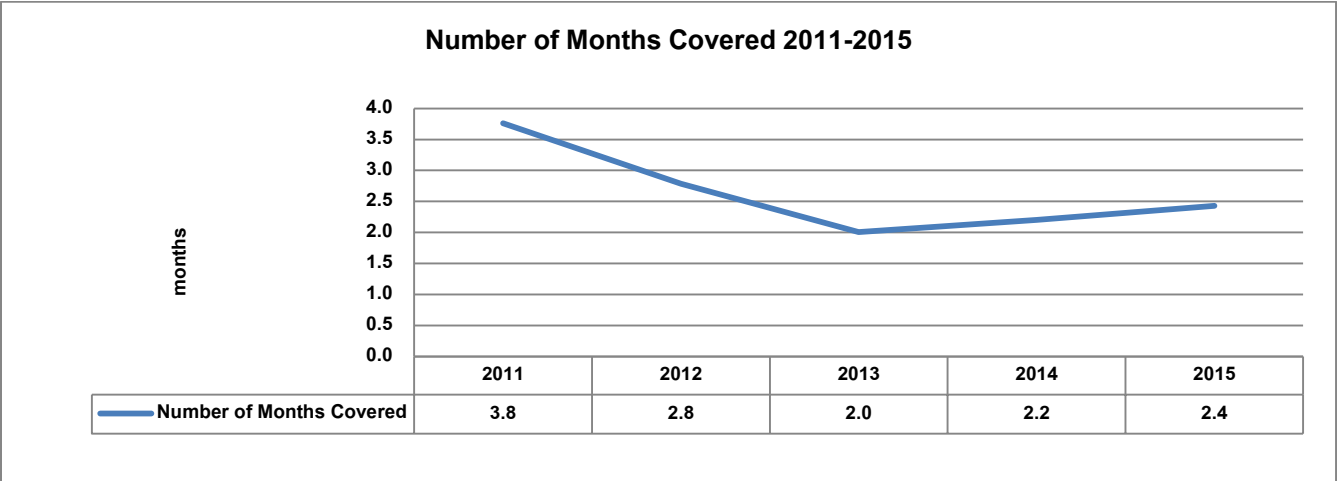
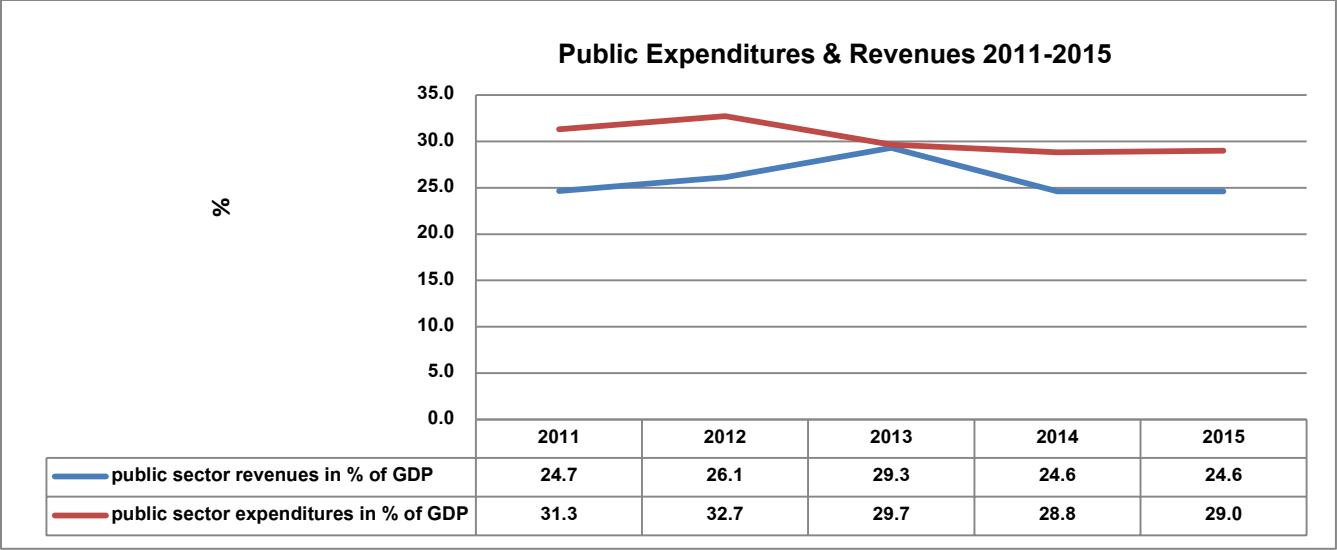


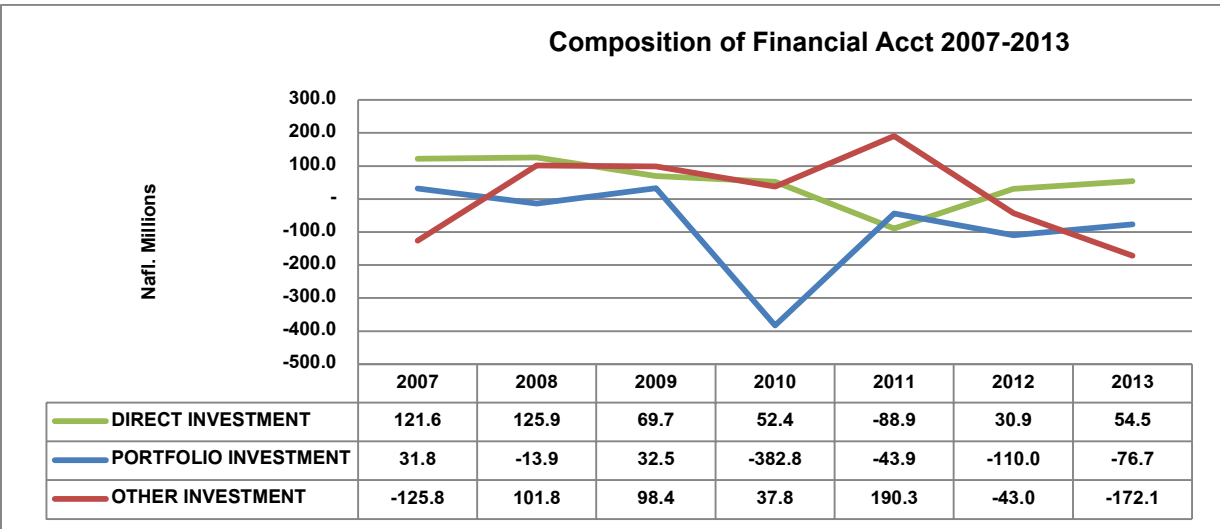
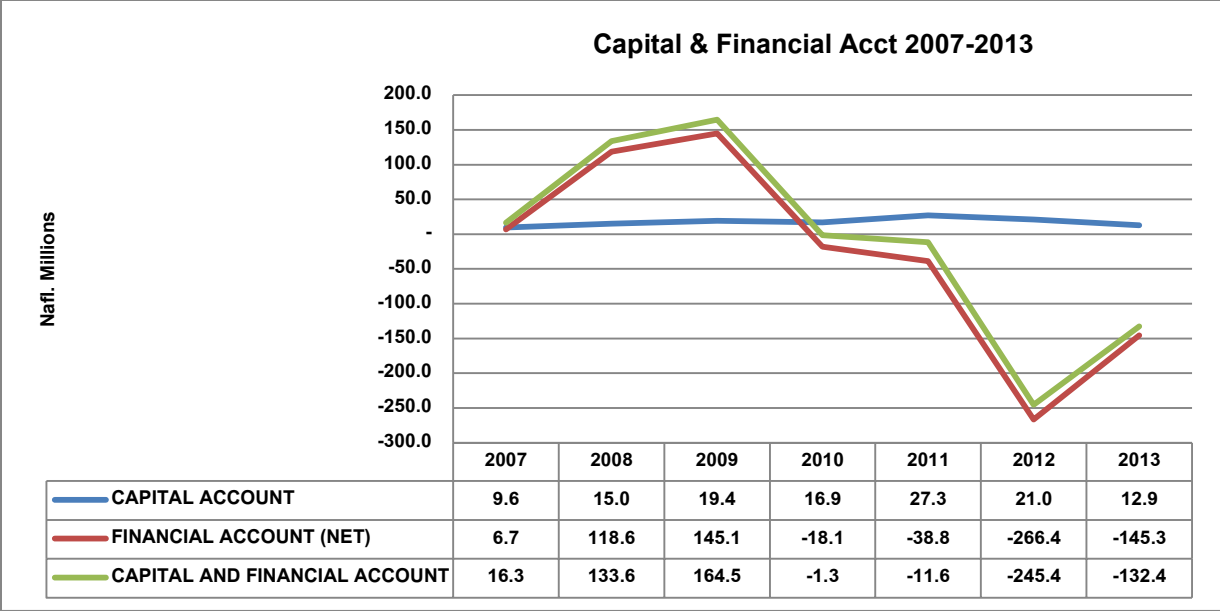
### Current Account as a % GDP 2011-2015



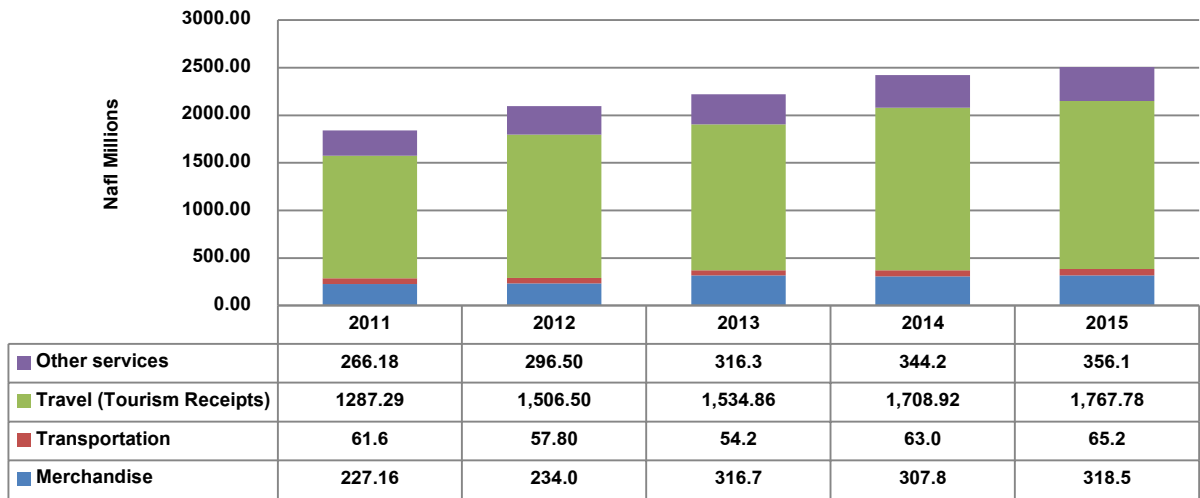
### Interest Rate Norm and Govt Interest Payments 2011-2015







**Composition of Exports of Goods & Services 2011-2015**



**Composition of Imports of Goods & Services 2011-2015**

