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Monetary Policy Report

June 2025

CENTRALE BANK

CURAÇAO & SINT MAARTEN

About the Monetary Policy Report

The Monetary Policy Committee (MPC) makes decisions on the monetary policy stance and the deployment of monetary policy instruments, which are subsequently ratified by the Board of Executive Directors of the CBCS. To that end, the committee discusses economic and monetary developments as well as the monetary policy stance, at least on a quarterly basis. The analysis in this document serves to support the committee in its discussions of the most recent developments and the appropriate monetary policy stance.

Note

On March 31, 2025, the Netherlands Antillean Guilder was replaced by the Caribbean Guilder as the official currency of the Monetary Union of Curaçao and Sint Maarten. The exchange rate between the two currencies is 1:1. For clarity in this report, including the text, tables, and graphs, all amounts have been converted to Caribbean Guilders.

Summary

Global GDP is projected to grow by 2.8% in 2025, reflecting resilience despite slowing momentum and slightly lower expectations compared to earlier forecasts. Growth prospects vary widely across countries, with the U.S. facing increased uncertainty and Europe still experiencing the effects of the energy shock from the war in Ukraine. Rising trade tensions, policy shifts, and demographic changes are adding to global uncertainty, weighing on sentiment and challenging future economic performance.

Growth in the monetary union is expected to continue in 2025, with real GDP growth reaching 3.1% in Curaçao and 2.4% in Sint Maarten. Compared to the March 2025 outlook, the growth estimates have been adjusted downward by 0.1 percentage point for Curaçao and 0.2 percentage points for Sint Maarten. These adjustments reflect a lower contribution of net foreign demand to real GDP, driven by a more subdued growth forecast for both countries' main trading partner, the United States. However, private demand in both countries will contribute positively to growth, as private consumption is expected to increase, supported by lower inflation. In Sint Maarten, despite the completion of airport reconstruction activities in 2024, private demand is expected to accelerate because of the start of other large investment projects and stronger private consumption. Meanwhile, net foreign demand will still make a positive contribution to growth in Sint Maarten, although exports have been revised downward and imports are expected to rise. In contrast, net foreign demand in Curaçao is expected to turn negative as the increase in imports outweighs the higher exports. In 2026, real GDP growth is expected to decelerate across the monetary union, reaching 2.4% in Curaçao and 2.2% in Sint Maarten.

The current account deficit of the balance of payments as a percentage of GDP is expected to narrow from 16.8% in 2024 to 15.0% in 2025. The current account deficit in 2025 has been adjusted upwards by 1.3 percentage points from March 2025 reflecting a higher projected deficit on the income and current transfer balances and a more modest increase in net exports. External financing into the monetary union as a share of GDP is projected to drop from 15.9% in 2024 to 14.7% of GDP in 2025, representing an upward revision of 1.6 percentage points from March, as the portfolio, the loans & credits, and the direct investment balances are now projected to deteriorate at a faster pace. As the projected external financing and capital transfers are expected to exceed the deficit on the current account of the balance of payments, gross official reserves are projected to increase by Cg 51.8 million in 2025.

In 2026, the current account deficit is projected to drop to 13.7% of GDP, due mainly to an increase in the net export of goods and services driven by higher exports, while imports are expected to remain practically unchanged. At 13.6% of GDP, the forecast of external financing into the monetary union reflects a stronger deterioration of the portfolio and direct investment balances. As the external financing and capital transfers from abroad are expected to exceed the current account deficit in 2026, gross official reserves will increase by Cg 94.4 million. The average import coverage is projected to increase to 4.7 months in 2025, and slightly moderate to 4.6 months in 2026.

Money supply is projected to expand in 2025, primarily driven by a rise in net foreign assets, partially offset by a decline in net domestic assets. The growth in net foreign assets will be largely attributed to an increase at the commercial banks, with a smaller contribution from the central bank, consistent with the projected growth in official reserves. Money supply will grow further in 2026, supported by an increase in net foreign assets, moderated by a decline in net domestic assets.

Following the U.S. Federal Reserve (Fed)'s decision on June 18, 2025, to maintain its policy rate unchanged, the Bank has decided to keep the pledging rate at 4.75%, which is 0.25 percentage points above the Fed funds rate. Similarly, the Bank has opted to leave the reserve requirement unchanged. In addition, the Bank will keep CDs attractive enough to stimulate the banks to hold more excess liquidity locally, while keeping the investment rule unchanged. Although domestic economic and monetary indicators remain solid and broadly in line with expectations, heightened uncertainty in global trade and financial markets, rising geopolitical tensions, and the Fed's continued pause in its policy rate cuts were key factors in the CBCS' decision.

International developments

Global GDP is expected to grow by 2.8% in 2025, reflecting resilience amid elevated global uncertainty. However, this represents a slowdown compared to previous years and is slightly below the projections presented in March 2025. The stable performance of the global economy is nuanced by significant disparities across countries, driven by differing shocks, structural characteristics, and policy actions. Growth in the United States (U.S.) is expected to slow significantly on account of heightened policy uncertainty, increased trade tensions and weakening demand momentum. Meanwhile, the scarring effects of the energy shock caused by the war in Ukraine remain evident in Europe, particularly in the manufacturing sector of some countries. This resilience is likely to be tested by shifting policy landscapes, most notably the U.S. announcement of tariffs on its trading partners, which has prompted retaliatory measures. These developments have dampened consumer, investor, and business sentiment globally. In addition, many countries face demographic headwinds as working-age populations decline, impacting labor supply and productivity. In some cases, immigration has partly offset these effects.

Growth in 2025 is projected to decelerate in both the United States and the Netherlands, the monetary union's main trading partners. After growing by 2.8% in 2024, real economic activity in the United States is projected to fall to 1.8% in 2025, a significant downward revision from the 2.7% growth predicted in March. Consumer spending declined at the beginning of 2025, further signaling a weakening cyclical position of the US economy. Growth is projected to ease further in 2026, reaching 1.7% amid moderate private consumption.

Meanwhile, growth in the Netherlands is expected to accelerate to 1.4% in 2025, up from 1.0% in 2024. However, this represents a downward revision of 0.6 percentage points from the March forecast, largely due to the negative spill-over effects of rising global trade protectionism, particularly, the imposition of U.S. tariffs, on investment and exports in the Netherlands. Private business investment is projected to fall, especially due to the significant increase in uncertainty. The negative effect on exports is expected to be relatively modest and is largely indirect, stemming from trade disruptions with other countries rather than direct exports to the U.S. Looking ahead, growth is projected to remain at 1.4% in 2026.

Economic outlook 2025 – 2026 for the monetary union

Curaçao – Real GDP is projected to grow by 3.1% in 2025, representing a downward revision of 0.1 percentage point from March 2025. This revision reflects primarily a negative contribution of net foreign demand to real GDP, which was previously expected to be positive. Meanwhile, the inflation forecast has been revised upward by 0.2 percentage points to 2.5%, reflecting slightly higher-than-expected imported inflation resulting from increased inflationary expectations in the United States. Growth in 2025 will be driven by domestic demand, with both private and public spending contributing positively, moderated by a slight decline in net foreign demand. Private consumption is expected to grow marginally, constrained by the still-elevated inflation, while the positive contribution of public demand to real GDP has been revised downward from March 2025, due to a weaker-than-anticipated increase in public investment. Unlike the March outlook, the net contribution of foreign demand to growth is now projected to turn negative, mainly driven by a downward revision in exports following the growth downgrade of Curaçao's main trading partners, while import growth remains practically unchanged from the earlier projection.

In 2026, real GDP growth in Curaçao is projected to ease to 2.4% in 2026, while inflation is expected to drop to 2.1%. The projected real GDP expansion in 2026 will be supported by both domestic and net foreign demand. However, private investment activity will moderate as major projects, particularly in the tourism and real estate sectors, reach completion. At the same time, private consumption is expected to rise, supported by easing inflationary pressures and continued improvements in the labor market. Meanwhile, public demand growth will remain subdued, driven by an increase in government consumption, while investment is expected to decline in 2026 compared to 2025. Lastly, net foreign demand is expected to contribute positively to growth, as the projected increase in exports will outweigh the gain in imports.

Sint Maarten – Real GDP is projected to grow by 2.4% in 2025, representing a downward revision of 0.2 percentage points from March 2025. This adjustment is in line with a more subdued growth forecast for Sint Maarten's main trading partner, the United States. Meanwhile, following a surge to 3.6% in 2024, inflation is projected to ease to 2.4% in 2025, marking an upward revision of 0.3 percentage points from March 2025, driven by higher expected inflation in the United States. Private demand growth will be the main contributor to Sint Maarten's real GDP expansion in 2025, with public demand and net foreign demand also contributing positively, though to a lesser extent. Despite the completion of airport reconstruction activities in 2024, private demand is expected to accelerate because of the start of other large investment projects and higher private consumption supported by lower inflation. Meanwhile, public demand growth is driven by higher investments in the construction of a new prison and a mental health institution while government consumption is expected to rise, driven mainly by an anticipated increase in spending on wages and salaries. The contribution of net foreign demand to real GDP growth will remain positive, albeit less compared to March 2025, as the gain in exports will exceed the higher import bill.

Real economic growth in Sint Maarten will moderate further to 2.2% in 2026 mainly due to a decline in public investments. Meanwhile, inflation is projected to ease to 2.2%, consistent with the projected development in US inflation. Private demand growth will accelerate slightly as inflation eases further and additional large investment projects are scheduled to take place. Lastly, the contribution of net foreign demand is projected to remain positive and largely unchanged from 2025, as the rise in exports will continue to outpace the increase in imports.

Balance of payments of the monetary union – The current account deficit of the balance of payments as a percentage of GDP is expected to narrow from 16.8% in 2024 to 15.0% in 2025. The current account deficit in 2025 has been adjusted upwards by 1.3 percentage points from the 13.7% projected in March 2025 reflecting a higher projected deficit on the income and current transfer balances and a more modest increase in net exports. The revision of both the income and current transfers balances reflects a carryover effect from higher-than-anticipated actual deficits in 2024. The increase in net exports of goods and services is primarily driven by higher exports reflecting higher foreign exchange earnings from tourism and transportation services, in line with the development in tourism, moderated, however, by an expected drop in receipts from bunkering activities as international oil prices are set to decline at a faster pace than initially expected. Meanwhile, the import bill is also expected to drop due to the anticipated impact of lower international oil prices on oil imports. In contrast, non-oil merchandise imports across the monetary union are projected to increase, driven by increased tourism spending and higher domestic demand as well as higher import costs due to the impact of U.S. tariffs. However, merchandise imports by the construction sector are expected to drop in 2025 compared to 2024, reflecting the completion of major construction projects in 2024, particularly the reconstruction of the airport in Sint Maarten.

External financing into the monetary union as a share of GDP is projected to drop from 15.9% in 2024 to 14.7% of GDP in 2025, representing an upward revision from the 13.1% published in March 2025, as the portfolio, the loans & credits, and the direct investment balances are now projected to deteriorate at a faster pace. The adjustment in the portfolio investment balance is based on the repatriation of funds abroad by institutional investors in the first quarter of 2025 to finance investment projects across the monetary union. As the projected external financing and capital transfers are expected to exceed the deficit on the current account of the balance of payments, gross official reserves are projected to increase by Cg 51.8 million in 2025.

The current account deficit of the balance of payments is projected to drop from 15.0% of GDP in 2025 to 13.7% of GDP in 2026, due mainly to an increase in the net export of goods and services driven by higher exports, while imports are expected to remain practically unchanged. Exports will grow, fueled primarily by higher foreign exchange revenues from tourism, while imports are expected to remain stable, as the drop in oil imports, due to a decline in international oil prices, is offset by higher merchandise imports on the back of continued growth in tourism spending and domestic demand. Meanwhile, external financing into the monetary union is projected to drop to 13.6% in 2026. As the external financing and capital transfers from abroad are expected to exceed the current account deficit in 2026, gross official reserves will increase by Cg 94.4 million.

Monetary indicators – The average import coverage will rise to 4.7 months in 2025, up from 4.4 months in 2024. The higher average import coverage is caused mainly by an increase in gross official reserves in 2025, combined with lower projected imports of goods and services for both 2025 and 2026. In 2026, the import coverage is projected to moderate slightly to 4.6 months, while still remaining well above the benchmark of three months.

In 2025, the money supply is projected to expand by 2.7%, primarily driven by a rise in net foreign assets, which is partly offset by a decline in net domestic assets. The growth in net foreign assets will be largely attributed to an increase at the commercial banks, with a smaller contribution from the central bank. Meanwhile, the decline in net domestic assets is due to lower net liabilities toward the government sector, moderated by an increase in credit extension to the private sector consistent with the projected growth in domestic demand.

The money supply is projected to increase further by 2.8% in 2026, driven by a gain in net foreign assets while net domestic assets are expected to decline. The projected gain in net foreign assets will be sustained by increases at both the central bank, consistent with the projected growth of gross official reserves, and at the commercial banks. Meanwhile, net domestic assets are expected to drop as a result of a decline in claims on the government, moderated by a projected increase in credit extension to the private sector, reflecting higher domestic demand.

Risks to the outlook – Risks to the outlook remain broadly similar to those identified in March 2025, although the likelihood of global risks materializing has increased due to recent developments, heightening the threat to the economic outlook.

The global risks include:

- The escalation of (retaliatory) trade measures and prolonged trade policy uncertainty driven by high U.S. tariffs and new port fees targeting Chinese-linked vessels – have intensified global trade tensions and disrupted supply chain stability. These developments pose significant risk to import-dependent economies like Curaçao and Sint Maarten, where inflation closely follows U.S. price trends. Rising import costs may strain the balance of payments and reduce consumer purchasing power. Heightened uncertainty could also weaken investor confidence and slow global growth. As a result, tourism demand may decline, further dampening economic performance across the monetary union, where tourism remains the key driver of growth.
- Slower-than-expected monetary policy easing by the Fed may trigger increased capital outflows and reduce foreign direct investment in Curaçao and Sint Maarten, impacting key sectors like tourism and real estate.
- Intensified geopolitical tensions in Eastern Europe and the Middle East could disrupt global supply chains and raise energy and other commodity prices. The disruptions may delay key investment projects across the monetary union, while a surge in oil prices would fuel inflation and put additional pressure on the balance of payments.
- Renewed or expanded U.S. sanctions on Venezuela could further hinder the country's economic growth, potentially triggering social unrest and another wave of migration. This may result in negative spillover effects, especially for Curaçao's economy.

The domestic risks include:

- Extreme weather events due to climate change can damage crucial infrastructure in Curaçao and Sint Maarten and, hence, affect the countries' potential GDP. The risk is, however, more prominent for Sint Maarten, due to its location in the hurricane belt.
- The refinancing of maturing government bonds in Curaçao and Sint Maarten poses a downside risk to the outlook as tighter financial conditions could raise borrowing costs, limit fiscal buffers, and strain public finances if favorable terms with the Dutch State are not secured. Delays or uncertainty could increase fiscal vulnerabilities and weaken investor confidence,

putting pressure on overall economic stability.
- **A favorable outcome from the Mutual Evaluation by the CFATF** will ensure that Curaçao and Sint Maarten are able to maintain smooth international business and financial transactions, minimizing potential disruptions.
- Increased concerns on **the medium-term financial sustainability of the health care and social insurance systems** on both Curaçao and Sint Maarten pose a significant downside risk to the outlook.

Developments in the international financial markets

Fluctuations in global financial market interest rates impact the pace and pattern of economic growth, including in small open economies like Curaçao and Sint Maarten. Supported by solid economic expansion and a stable, low unemployment rate in recent months, the Federal Reserve (Fed), has maintained the Fed funds rate in the United States unchanged at 4.33% so far in 2025.

The Secured Overnight Financing Rate (SOFR) increased slightly from 4.38% in January to 4.41% in April 2025. This increase was driven by the Fed's balance sheet reduction, which withdraws liquidity from the banking system and tightens financial conditions. The SOFR is, however, projected to decline to 3.33% by August 2025, reflecting anticipated rate cuts by the Fed in the second half of the year (see Table 1).

Table 1 Financial market indicators

	Jan-25	Feb-25	March-25	April-25	May-25	June-25	Jul-25	Aug-25
SOFR (%)	4.38	4.39	4.41	4.41	4.38	4.11	3.35	3.33
3-month T-bill yield (%)	4.34	4.33	4.34	4.32	4.31	4.24	4.07	3.33
Effective Fed fund rate (%)	4.33	4.33	4.33	4.33	4.33	4.23	4.06	3.33
10-year Treasury note (%)	4.63	4.45	4.28	4.28	4.42	4.52	4.12	3.91
2-year Treasury note (%)	4.27	4.21	3.97	3.78	3.65	3.61	3.49	3.07

Note: concerns monthly average.
Sources: Jan 2025 – April 2025 data: Economic Research Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org;
May 2025 - Aug 2025 projections: Financial Forecast Center, http://www.forecasts.org.

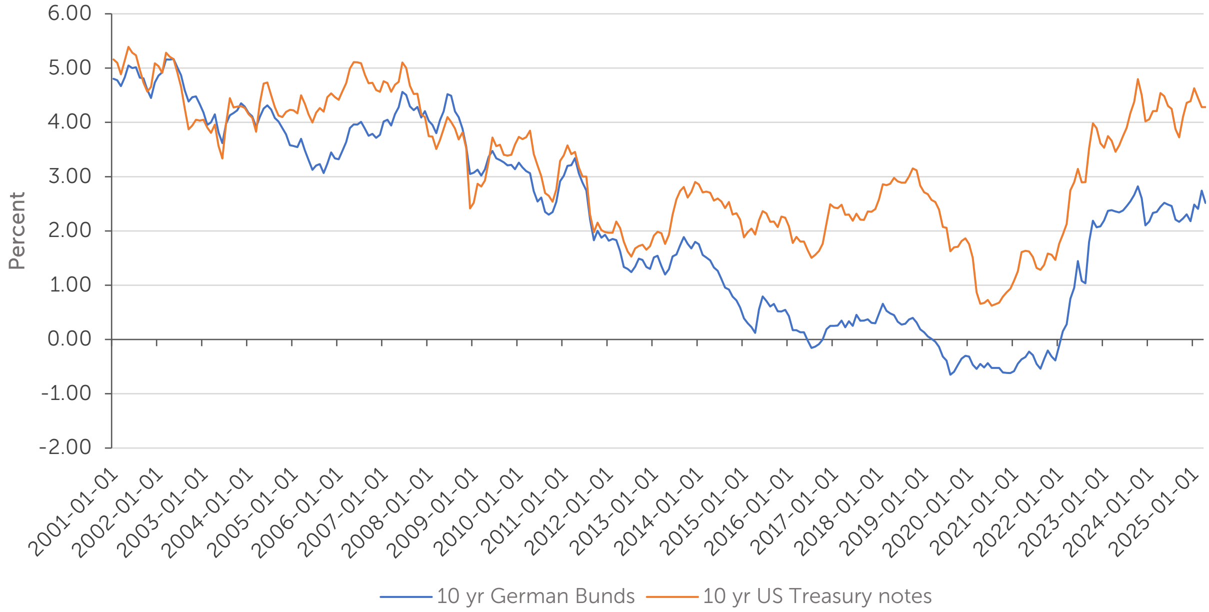
The yield on 10-year Treasury notes stood at 4.63% in January 2025, falling by 35 basis points to 4.28% in April 2025. This decline was driven by increasing concerns over a potential economic slowdown, fueled by tariff-related inflation risks. These uncertainties prompted investors to seek the safety of long-term U.S. government bonds, pushing prices up and yields down. Additional factors, such as doubts about the inflation outlook and the Fed's future policy direction, further increased demand for safe-haven assets. Looking ahead, projections indicate a 24 basis points increase to 4.52% by June. However, by August 2025, the yield is expected to decline by 61 basis points to 3.91%, reflecting continued uncertainty surrounding economic conditions.

The yield on 2-year Treasury notes, which is typically more responsive to short-term Fed policy changes, stood at 3.78% in April 2025, a decrease of 49 basis points from 4.27% in January 2025. This decline was driven by investor expectations of an economic slowdown, heightened market volatility following the announcement of new tariffs, and growing uncertainty surrounding future monetary policy decisions. The yield on 2-year notes is projected to decrease further, reaching 3.07% by August 2025, in anticipation of potential rate cuts by the Fed.

The spread between 2-year and 10-year Treasury notes stood at 36 basis points in January 2025 and widened to 50 basis points in April 2025. Over the forecast horizon, this spread is expected to increase further, reaching 84 basis points by August 2025. A normal (positively sloped) yield curve enables banks to borrow at lower short-term rates and lend at higher long-term rates, fostering healthy profitability and supporting sustainable growth within the financial sector.

Moreover, the spread between the 10-year US Treasury notes (4.28%) and the yield on the 10-year German government bond (known as the bund; 2.51%) stood at 1.77 percentage points at the end of April 2025, down from 2.14 percentage points at the end of January 2025 (see Graph 1). The narrowing spread reflects differing economic expectations and policy decisions. In the U.S., concerns about the impact of tariffs and a potential economic slowdown prompted investors to buy more Treasury notes, while in Germany the easing of strict fiscal borrowing rules is set to boost public spending, thereby increasing the supply of government bonds.

Graph 1 **US Treasury notes vs German Bunds**



The economic performance in the United States and the Euro area is set to diverge further. Economic growth in the U.S. is expected to decelerate significantly from 2.8% in 2024 to 1.8% in 2025. Meanwhile growth in the Euro Area is expected to remain practically unchanged at 0.8% in 2025, after expanding by 0.9% in 2024. However, the Germany economy continues to underperform, with economic growth expected to remain subdued in 2025, after contracting by 0.2% in 2024.[1] As a result, foreign investors continue to favor U.S. bonds over their German counterparts, given the relatively stronger economic fundamentals in the United States.

In 2025, the U.S. stock market has experienced volatility but has posted modestly positive performance up to May. After gains in January, markets declined throughout the first quarter amid recession fears and escalating trade tensions, particularly following the tariff shock in early April. However, investor sentiment improved in May, turning slightly positive. Meanwhile, the European stock markets have shown strong performance so far in 2025. The gains in the European stock markets are driven by improved investor sentiment, as investors are shifting capital from the U.S. to Europe. In addition, a more favorable outlook on European corporate health and expansionary policies have boosted investor confidence towards the European market.

Monetary developments

Taking both domestic and international developments into account, the Monetary Policy Committee (MPC) decided in March 2025 to pause monetary policy easing by keeping both the pledging rate and the reserve requirement percentage unchanged. This decision follows a previous 0.50 percentage point reduction in both instruments in November 2024, supported by the solid and stable foreign exchange position and adequate import coverage in the monetary union. The decision to keep the pledging rate unchanged was based on increased uncertainty in global trade and financial markets, and the decision by the Fed to maintain its policy rate thus far this year.

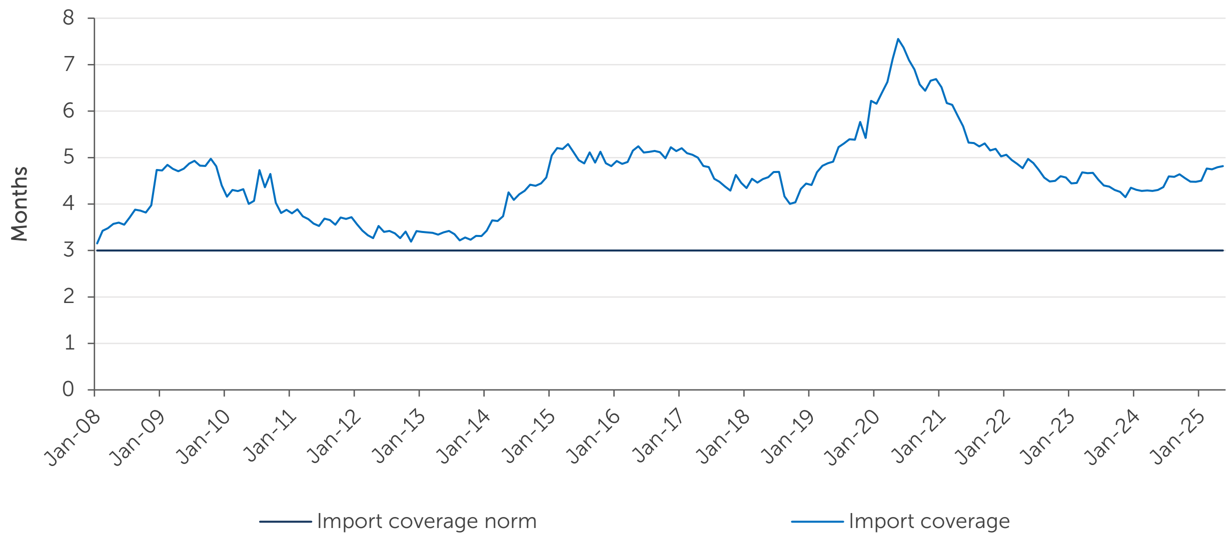
Still, the Bank continued to offer longer maturities (i.e., 12, 26, and 52 weeks) on the bi-weekly auctions of certificates of deposit (CDs) to encourage commercial banks to maintain liquidity domestically for a longer period, thereby contributing to the maintenance of a solid foreign exchange position. Below follows an analysis of the developments in the main monetary indicators.[2]

[1] IMF, World Economic Outlook, April 2025.
[2] Note that the cut-off date for the analysis was June 2, 2025.

Graph 2 Development in gross official reserves (excl. gold)

Following a growth of Cg 63.4 million in 2024, gross official reserves increased further by Cg 203.5 million through June 2, 2025. The growth in 2025 was attributable mainly to transfers from abroad by pension funds, the World Bank, and the Dutch Ministry of Finance. Additionally, transactions by the Central Bank of Aruba and the net sale of foreign exchange by the commercial banks to the Bank and an increase in dollar deposits of the commercial banks at the Bank contributed to the increase in reserves. However, the withdrawal of dollar deposits by the commercial banks in Bonaire, along with the transfers of funds abroad by other financial institutions, dampened the overall rise in reserves.

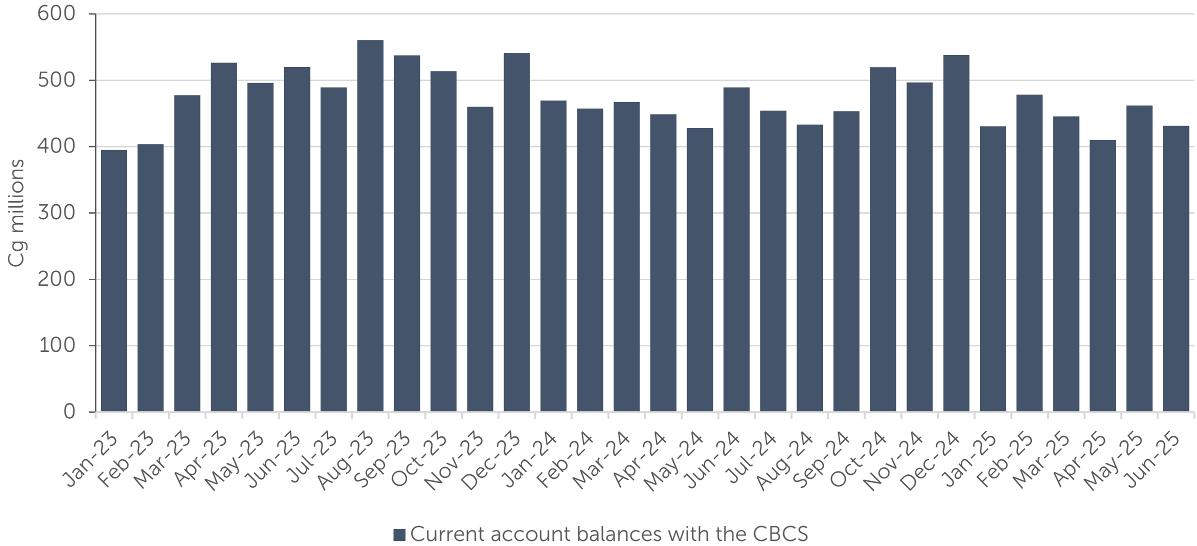
Graph 3 Development in the import coverage



According to the latest estimates, the import coverage rose from 4.4 months in December 2024 to 4.8 months in May 2024. The higher import coverage reflects the increase in gross official reserves and a decrease in the projected target import of goods and services. The latter is primarily due to a lower oil import bill stemming from a projected decline in international oil prices, moderated by an increase in non-oil merchandise imports due to, among other things, higher import costs, increased domestic demand and higher tourism spending across the monetary union. The average import coverage is expected to increase from 4.4 months in 2024 to 4.7 months in 2025, well above the norm of three months.[3]

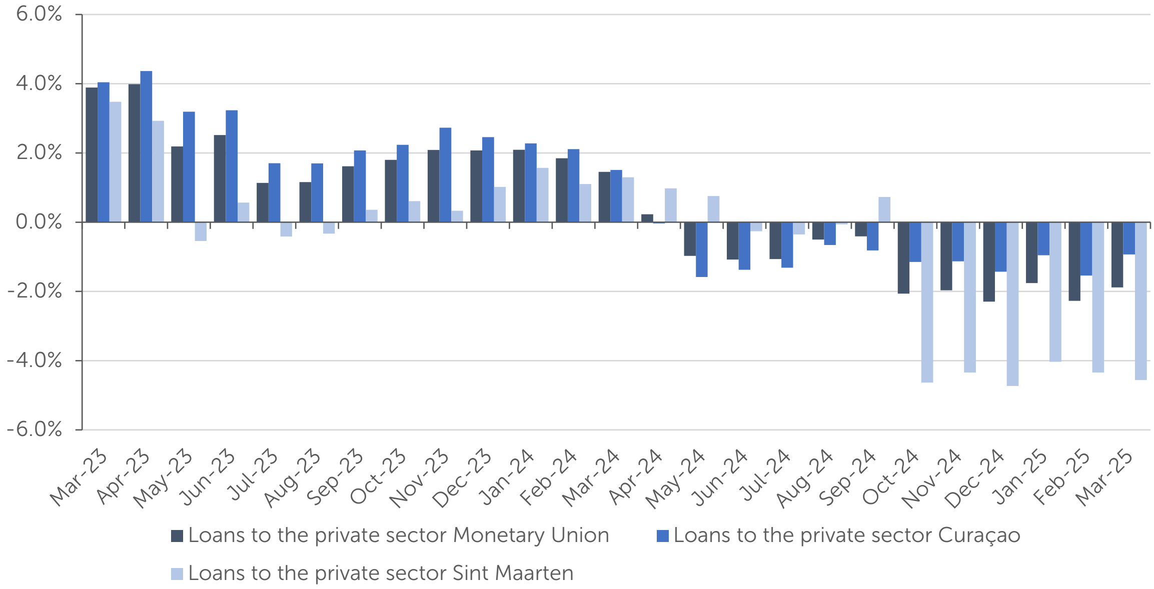
[3] The Bank calculates the import coverage as the ratio between the level of gross official reserves in a certain month and the projected average monthly imports for the ensuing 12-month period.

Graph 4 Liquidity of the commercial banks



Up to June 2, 2025, the liquidity of commercial banks decreased by Cg 106.6, or 19.8%, compared to the end of 2024. This decline was caused primarily by the increase in required reserves, and the net purchase of CDs. However, the decline in liquidity was mitigated by the net sale of foreign exchange by the commercial banks to the Bank, the increase in the commercial bank's dollar deposits at the Bank and the transfers of pension funds from their accounts at the Bank to their accounts with the commercial banks.

Graph 5 Credit extension to the private sector (year-on-year)



In Curaçao, credit extended to the private sector decreased by 0.1% in the first quarter of 2025, caused by a decrease in business loans (1.3%) and consumer loans (0.3%). The decrease was, however, moderated by an increase in mortgages (0.8%) and other loans (0.4%).

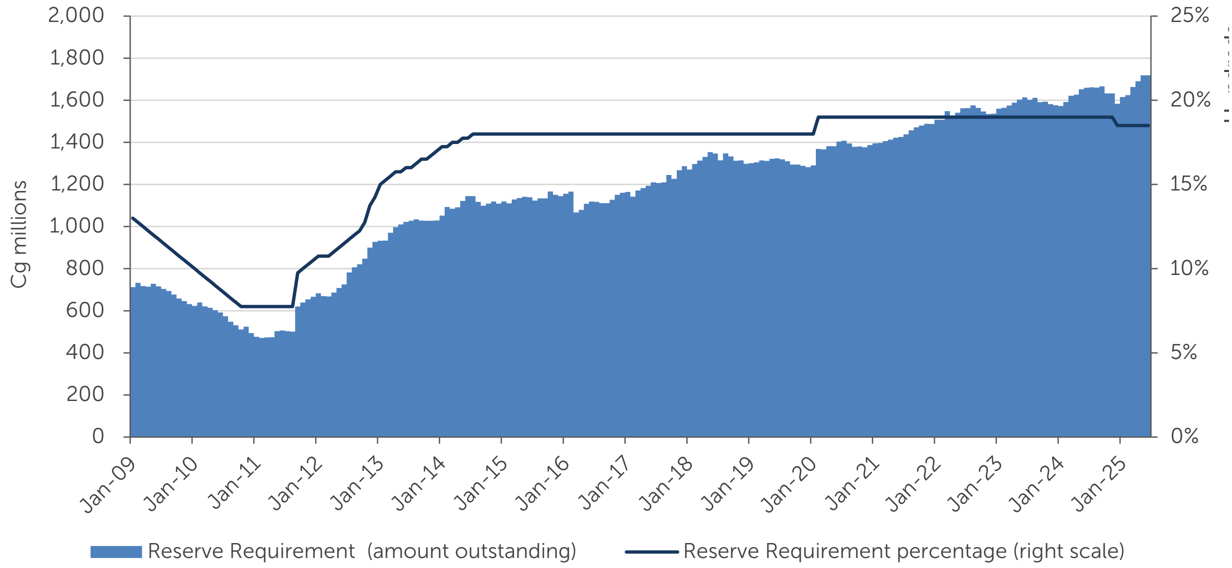
Meanwhile, private credit extension in Sint Maarten also declined by 0.1% in the first quarter of 2025, due to a decrease in business loans (6.0%) and consumer loans (3.9%), moderated by an increase in mortgages (2.4%) and other loans (48.3%).

Following a decrease of 2.3% in 2024, credit extended to the private sector in the monetary union declined by 1.9% on an annual basis in March 2025. The decrease in the first quarter of 2025 was attributable to both Curaçao and Sint Maarten.

Monetary policy stance

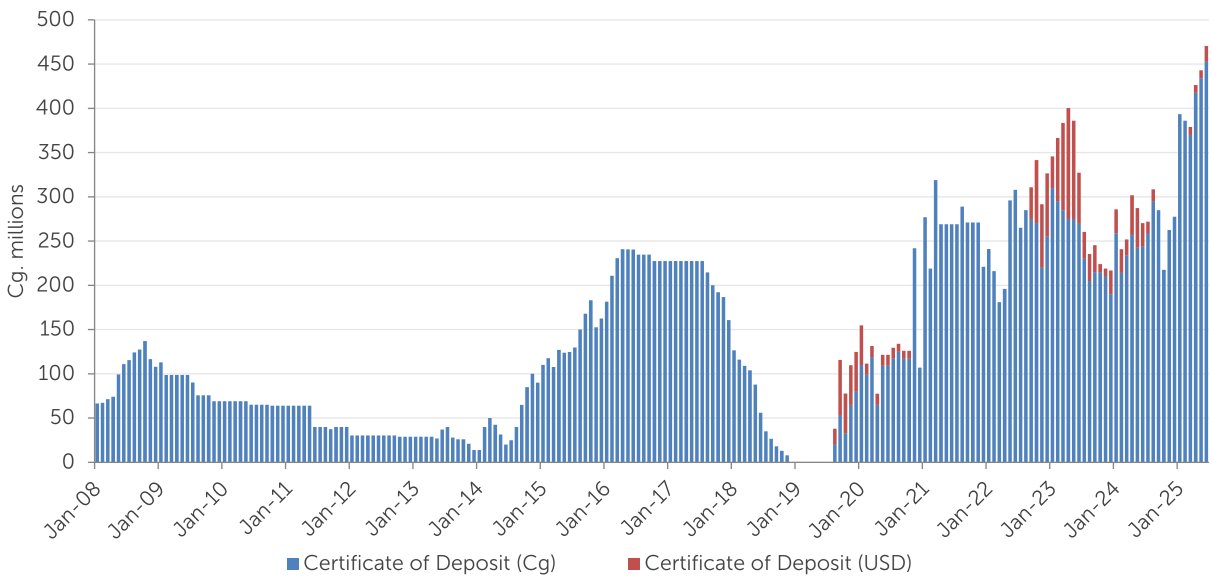
So far in 2025, the monetary policy stance has focused on increasing the outstanding balance of certificates of deposit, encouraging banks to retain more funds domestically rather than abroad. Meanwhile, following two rate cuts in 2024, the pledging rate has remained unchanged. The percentage of the reserve requirement has also been maintained at 18.50% of the adjusted domestic debt of the commercial banks, following a 0.50 percentage points decrease that took effect on December 16, 2024. Nevertheless, the outstanding amount of required reserves rose by Cg 135.2 million compared to the end of 2024. The increase was due to the higher base amount upon which it is calculated.

Graph 6 Reserve requirement



After increasing by Cg 60.7 million in 2024, the outstanding CDs increased by Cg 192.9 million up to June 2, 2025. The total outstanding CD's stood at Cg 470.4 million on June 2, 2025, consisting of Cg 442.5 million with two-week maturity, along with Cg 10.0 million and Cg 17.9 million in USD-denominated with a maturity of three months. [4]

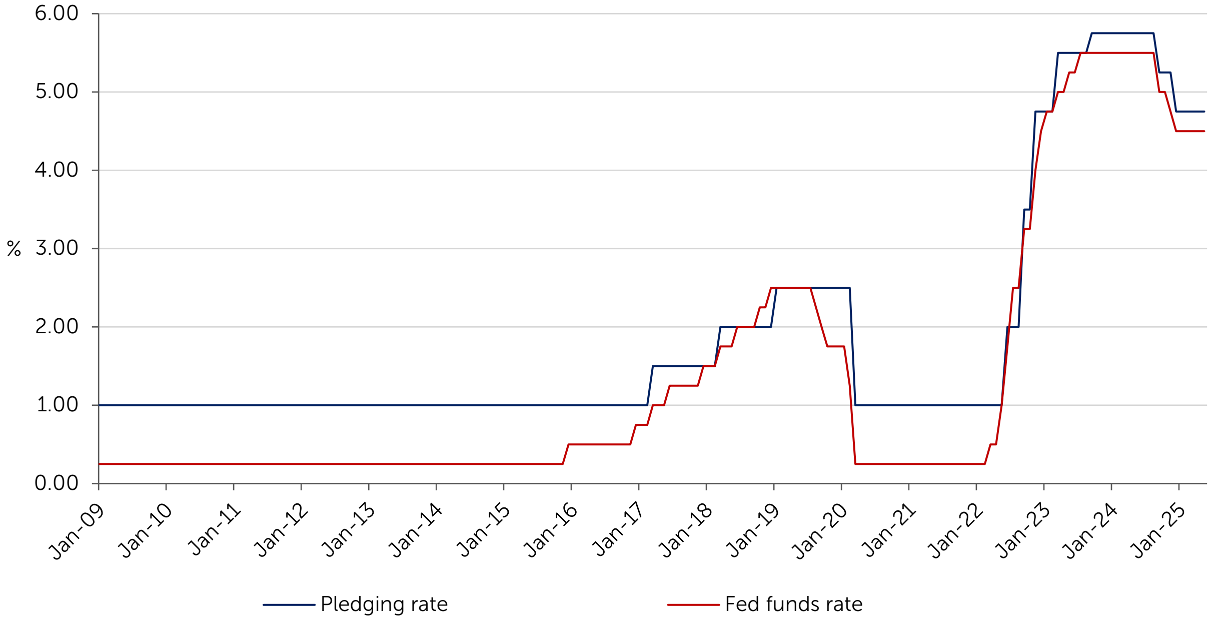
Graph 7 Certificates of Deposit



[4] Per the Condensed balance sheet of June 2nd, 2025.

Following three rate cuts totaling 100 basis points in 2024, the Fed decided to maintain its policy rate unchanged during the Federal Open Market Committee Meetings (FOMC) in March and May. The Fed's decision reflects a cautious response to the latest inflation data, which shows a movement toward the Fed's target of 2.0%, though inflation remains somewhat elevated. In addition, the unemployment rate has stabilized at low levels. In assessing future policy adjustments, the Fed will continue to monitor incoming data related to the economic outlook. For now, the expectations are that the FED will maintain interest rates at current levels until at least September if inflationary risks persist. In line with the Fed, the Bank also reduced its pledging rate twice by a total of 100 basis points in 2024, bringing it to 4.75%, and has kept the rate unchanged so far in 2025.

Graph 8 Development in the interest rate



Monetary policy proposal

After implementing three policy rate cuts in 2024, the Fed has maintained the target range of the Fed funds rate so far unchanged in 2025. Future policy adjustments will depend on incoming data related to inflation and employment, as well as broader financial and international developments. The Fed will also consider balanced risks affecting both sides of its dual mandate.

Currently, the Bank's pledging rate stands at 25 basis points above the Fed funds rate. In line with the Fed's recent decision to keep its policy rate unchanged, the Bank has decided to maintain the pledging rate at 4.75%.

Following a slight decrease in 2024, the liquidity of commercial banks declined by Cg 106 million up to June 2, 2025. This decline was caused primarily by the monetary policy stance, as the amount of outstanding CDs rose and the amount of required reserves increased. Although the reserve requirement percentage remained unchanged the increase in required reserves resulted from a higher base amount on which it is calculated.

Despite growing uncertainties in the global environment due to particularly heightened trade tensions, gross official reserves have continued to rise, and the import coverage remains well above the norm of three months. However, private credit extension has declined across the monetary union.

Although gross official reserves are projected to continue growing in 2025, albeit at a slower pace than in 2024, risks to the forecast are tilted to the downside. In particular, the global environment has deteriorated significantly in recent months. The global trade landscape remains volatile, marked by heightened trade tensions and persistent uncertainties surrounding policy directions, with frequent shifts between negotiation efforts and temporary suspension of measures. In addition, geopolitical tensions have further intensified, particularly in the Middle East, which could lead to a surge in crude oil prices and supply chain disruptions. Such developments may result in higher import prices for Curaçao and Sint Maarten. Given the two countries' high dependence on imports, rising prices could lead to increased foreign exchange purchases and net withdrawals of dollar balances, thereby putting pressure on gross official reserves. Against this background, **the reserve requirement will remain unchanged.**

Still, the Bank will **ensure that the CDs remain attractive enough to encourage the banks to hold more excess liquidity locally**.

Lastly, based on international and local developments, **the surcharge on the average 3-month US$ SOFR** [5] (the sum of which is the levy on the shortage of minimal investments with residents) **is maintained at 100 basis points** for the 40-60 investment rule for institutional investors **for the second quarter of 2025.**

[5] In February 2023, the Bank started using SOFR instead of Libor as the rate which establishes the path for interest rate developments in the international financial markets.

Table 2 Monetary stance

Indicator	(1) MPR Sep. 2024	(2) MPR Nov. 2024	(3) MPR Mar. 2025	(4) MPR June. 2025	Change (4)-(3)
Official reserves (Cg mln)	3,240.9	3,133.5	3,312.7	3,339.5	15.4
Import coverage (months)	4.6	4.5	4.7	4.8	-0.1
Bank liquidity (Cg mln)	458.7	568.4	471.0	431.3	-39.7
Reserve requirement (Cg mln)	1,660.4	1,633.1	1,624.7	1,718.6	55.2
CDs (Cg mln)	305.9	227.5	393.5	470.4	76.9
- 2 weeks Cg	277.5	277.5	393.5	442.5	49.0
- 3 months Cg	15.0	0.0	0.0	10.0	10.0
- 6 months Cg	0.0	0.0	0.0	0.0	0.0
- 3 months USD	13.4	0.0	0.0	10.0	10.0
- 6 months USD	0.0	0.0	0.0	0.0	0.0
Credit growth (annual %)	-1.1	-0.4	-1.8	-1.9	
- Mortgages	7.1	7.2	3.8	2.9	
- Consumer	-3.3	-0.8	1.6	-0.8	
- Business	-9.1	-9.2	-9.5	-9.4	

Date of the latest figures is June 2, 2025, except for credit growth (March 2025).

Table 3 Economic key figures Curaçao (in millions Cg)

	2022	2023	2024	2025*	2026*
Real economy					
Real growth (%)	6.9	4.2	5.0	3.1	2.4
Inflation (%)	7.4	3.5	2.6	2.5	2.1
Unemployment rate (%)	13.1	11.7	7.8	7.7	7.5
Monetary					
Private credit extension (annualized growth %)**	3.3	2.5	-1.4	-0.9	
Consumer loans	4.1	-3.6	0.1	0.9	
Mortgages	4.8	8.5	9.1	-0.2	
Business loans	1.5	-0.2	-11.1	6.0	
Other	1.9	-1.3	-34.2	-9.4	

** Projections of the CBCS.*
***2025 is annualized per March.*

Table 4 Economic key figures Sint Maarten (in millions Cg)

	2022	2023	2024	2025*	2026*
Real economy					
Real growth (%)	13.9	3.8	3.0	2.4	2.2
Inflation (%)	3.8	2.1	3.6	2.4	2.2
Unemployment rate (%)	10.4	9.1	7.9	8.0	7.9
Monetary					
Private credit extension (annualized growth “”)**	4.5	1.0	-4.7	-4.6	
Consumer loans	-3.8	-2.4	3.7	-2.8	
Mortgages	3.3	2.0	-5.6	-3.3	
Business loans	14.8	1.0	-8.8	-11.5	
Other	-18.6	-3.2	27.6	69.7	

** Projections of the CBCS.*
***2025 is annualized per March.*

Table 5 Economic key figures monetary union (in millions Cg)

	2022	2023	2024	2025*	2026*
Balance of payments					
Current account	-1,571.5	-1,468.8	-1,564.6	-1,473.8	-1,399.0
Capital account	138.0	191.3	76.0	79.3	98.0
External financing	974.6	1,259.6	1,479.7	1,446.2	1395.3
Direct investments	287.0	299.0	396.8	452.4	451.1
Loans and credits	805.9	852.1	564.4	626.8	636.6
Portfolio investments	-118.3	108.6	518.4	367.1	307.6
Change in reserves	-258.3	169.7	63.5	51.8	94.4
Statistical discrepancies	200.6	187.6	72.4	0.0	0.0
Import coverage (average, in months)	4.7	4.4	4.4	4.7	4.6
Monetary					
Private credit extension (annualized growth, %)**	3.6	2.1	-2.3	-1.9	
Money supply	9,234.1	13,202.2	11,746.4	15,797.9	14,149.7
Net domestic assets	2,686.6	7,302.9	6,409.1	11,066.3	9,994.1
Net foreign assets	6,547.5	5,899.3	5,337.3	4,731.6	4,155.6

** Projections of the CBCS.*
*** Annualized per March 2025.*

www.centralbank.cw

CBCS CURAÇAO
Simon Bolivar Plein 1, Willemstad, Curaçao
Phone: (599 9) 434 5500, Fax: (599 9) 461 5004

CBCS SINT MAARTEN
Walter Nisbeth Road 25, Pondfill, Philipsburg, Sint Maarten
Phone: (1721) 542 3520, Fax: (1721) 542 4307