

Economic implications of heightened U.S. – Venezuela tensions for the Monetary Union

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CENTRALE BANK
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1. Introduction

Since August 2025, tensions between the United States and Venezuela have risen sharply. These tensions build on longstanding political, economic, and humanitarian issues. The U.S. has consistently criticized the Venezuelan government under Nicolás Maduro for alleged authoritarianism, human rights violations, and undermining democratic institutions. In response, the U.S. has imposed a series of economic sanctions targeting Venezuela's oil industry, government officials, and financial institutions. Venezuela, in turn, has accused the U.S. of interfering in its internal affairs and attempting to destabilize its government. U.S. sanctions policy has fluctuated in recent years, including broad oil-sector sanctions in 2019, partial and temporary easing in October 2023, and renewed tightening in April 2024, all of which have added to economic uncertainty.

Tensions escalated further following increased U.S. military activity in the southern Caribbean. In mid-August 2025, the U.S. ordered naval deployments to the region, and on 18 August 2025, three Aegis guided-missile destroyers were directed to waters off the coast of Venezuela. By 25 August, additional vessels were deployed to the southern Caribbean as part of the same operation. The buildup expanded rapidly: by late August/early September 2025, a fleet comprising multiple warships, amphibious ships, and marines was operating in waters near Venezuela and neighboring areas. This deployment is part of an operation the U.S. describes as a counter-narcotics effort, targeting what it designates as narco-terrorist organizations. These developments have further constrained diplomatic engagement and ongoing debate over how best to address Venezuela's political crisis and humanitarian needs. The U.S. administration has not ruled out actions on mainland Venezuela and has also issued warnings regarding flights over Venezuelan airspace.

Given the geographic location of the two countries of the monetary union and, Curaçao's proximity to Venezuela in particular, concerns have increased about how further escalation could affect the economies of the two countries and the monetary union as a whole. These developments are particularly relevant because of the islands' geographic proximity to Venezuela, historical economic and migration linkages, and import dependence. Episodes of heightened regional tension have the potential to influence travel sentiment, investor perceptions, and external financing conditions, even in the absence of strong direct economic ties with Venezuela. It is therefore important to assess whether recent geopolitical developments could generate spillovers to the monetary union, either through direct economic channels or through broader confidence effects. Indeed, these tensions have been identified in recent economic outlooks by the Centrale Bank van Curaçao and Sint Maarten (CBCS) as potential downward risk to growth. Against this background, the Economic Analysis and Research Department has prepared initial scenario calculations of the potential effects of heightened conflict between the United States and Venezuela on the economies of the monetary union.

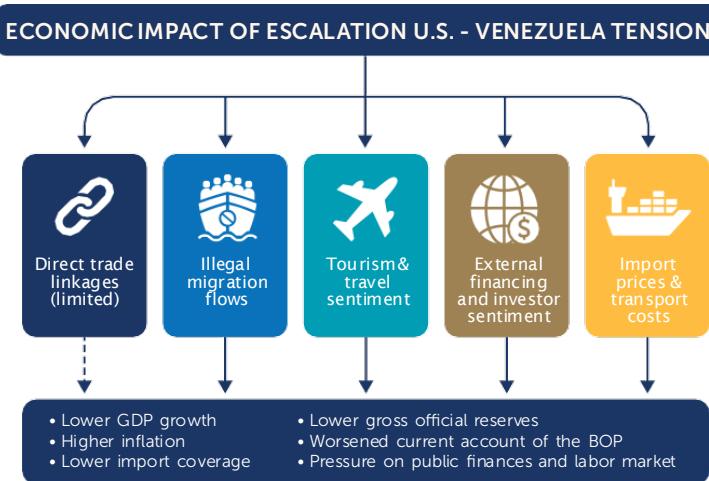
This note provides an initial high-level assessment of these potential effects. Quantifying the impact of geopolitical tensions and possible disruptions is inherently complex. There are numerous possible actions and shocks that are difficult to identify and measure at this stage including, but not limited to, cyberattacks, heightened tensions with other regional partners, negative travel advices and travel bans, and cruise-ship rerouting. As such, this note should be regarded as a first step in analyzing these risks.

This note is structured as follows. Section 2 describes the transmission channels through which increased tensions could affect the economies of the monetary union. Section 3 focuses on the direct trade links between the monetary union and Venezuela. Section 4 introduces two shock scenarios, including the underlying assumptions and the country-specific implications. Section 5 provides a graphical summary of the medium-term effects of these shocks. Section 6 concludes with key findings.

2. Transmission channels

As small, open economies that are highly dependent on imports, Curaçao and Sint Maarten are extremely vulnerable to external shocks. Given their geographical location, and in the case of Curaçao, its close proximity to Venezuela, increased tensions between the United States and Venezuela could affect the economies of the monetary union through several channels. This note considers five transmission channels through which heightened tensions could spill over into the economies, while recognizing that other, less quantifiable channels may also exist. Figure 1 illustrates these transmission channels.

Figure 1 Transmission channel of tensions between the U.S. and Venezuela on the economies of the monetary union



Direct trade

Military buildup in the Southern Caribbean, combined with tighter sanctions and increased geopolitical risk, could affect trade flows between the monetary union, particularly Curaçao, and Venezuela. On the export side, foreign exchange earnings from Venezuelan tourists and re-export by free-zone companies to Venezuela could decline. On the import side, merchandise imports from Venezuela could be disrupted. However, as discussed in section 3, the trade exposure of both countries to Venezuela is very limited. Consequently, the overall impact transmitted through this channel is expected to be marginal.

Illegal migration flows

A potential escalation of U.S. – Venezuela tensions could further deteriorate already difficult living conditions in Venezuela, and trigger increased outward migration. Given Curaçao's close geographic proximity to Venezuela, this could result in higher inflows of irregular migrants. In the short term, this would put additional pressure on public finances through higher spending on, among others, health-care services for undocumented migrants, education costs for their children, and expenditures related to border control, detention, and processing.

At the same time, increased inflows of irregular migrants could expand informal employment in sectors facing labor shortages, such as construction, hospitality, and domestic services. This may weigh on wages in certain segments and increase the risk of labor exploitation. Perceived insecurity and social tensions linked to these developments could also feed into higher crime perceptions, with potential adverse effects on tourism demand and investor sentiment.

Assessing the full impact and spillover effects of migration flows is, however, a more complex task. It would require a broader analysis of social indicators, such as poverty, inequality, access to public services, and social cohesion, which falls outside of the scope of this specific note.

Tourism and travel sentiment

Military buildup in the region and the recent warnings by the U.S. administration regarding flights over Venezuelan airspace may negatively affect perceptions of the Caribbean as a safe tourism destination. These concerns could be exacerbated by heightened media coverage or the issuance of more cautious travel advisories for the region.

As a result, stay-over and cruise tourism arrivals, particularly from risk-sensitive source markets, could be adversely affected. Lower visitor arrivals would weigh on real GDP growth and reduce foreign exchange inflows.

External financing and investor sentiment

Increased geopolitical risk in the region may raise risk premia for investing in the Caribbean, including Curaçao and Sint Maarten. Tighter or more costly access to external financing could dampen foreign direct investment flows into the monetary union and weaken growth prospects.

At the same time, the increased uncertainty may prompt investors to delay ongoing projects or postpone new investments. This would directly weigh on economic activity and indirectly reduce foreign exchange inflows associated with external financing.

Higher import prices and transport costs

Heightened tensions in Caribbean waters could disrupt shipping routes or lead to precautionary rerouting, as well as higher insurance premia for freight transported in the region. Increased transport and logistics costs would raise the cost of imported goods, exerting upward pressure on inflation in the monetary union.

While short-term geopolitical tensions between the United States and Venezuela can trigger temporary oil price spikes, recent increases in supply from other producers have made global oil markets more resilient from disruptions originating in Venezuela. Given Venezuela's currently limited share in global supply and the diversified sourcing patterns of Curaçao and Sint Maarten, oil price transmission to the monetary union is expected to remain moderate.

3. Direct trade links with Venezuela: limited exposure

When examining key metric indicators of total trade flows between the monetary union and Venezuela, it becomes clear that direct trade exposure is extremely limited. For Curaçao, total imports from Venezuela averaged only Cg 19.5 million over 2019–2024, compared to Cg 4.4 billion in total imports, representing a share of just 0.4% (see Table 1).

Table 1 Key indicators for Curaçao: average 2019–2024 (in Cg mln)

	(by/from) Venezuela	Curaçao	Share of Venezuela in Curaçao
Total imports	19.5	4,399.4	0.4%
Total exports	70.7	3,176.0	2.2%
Of which:			
Tourism exports	8.4	1,439.7	0.6%
Freezone (re)exports	36.5	182.9	19.9%
Total trade	90.2	7,575.4	1.2%
Financial account balance	19.2	-1,114.2	

Exports to Venezuela show a similarly limited exposure. Curaçao exported an average of Cg 70.7 million to Venezuela out of Cg 3.2 billion in total exports, implying that Venezuela accounted for only 2.2% of Curaçao's export market during this period. Curaçao's total bilateral trade with Venezuela averaged Cg 90.2 million, equivalent to 1.2% of Curaçao's total trade, reaffirming that the island's direct exposure is limited.

The closure of Curaçao's refinery at the end of 2019, combined with tightening sanctions and deteriorating bilateral commercial relations, contributed to a sharp drop in overall trade with Venezuela after 2019. In addition, Venezuela's closure of its maritime borders and airspace with Curaçao between 2019 and 2023 further reduced commercial flows. This structural break is clearly reflected in the data, with both imports and exports declining to historically low levels. Even for freezone re-exports, traditionally the main channel through which Venezuela-related trade is recorded, absolute values remain modest at Cg 36.5 million, despite representing 19.9% of free-zone turnover. Even after the re-opening of borders, trade has remained limited. Also, tourism exports to Venezuela by Curaçao accounts on average for 0.6% over the period 2019–2024.

At the aggregate monetary union level, total imports from Venezuela over the period 2019–2024 averaged only Cg 19.6 million, compared to Cg 6.6 billion in total imports, representing a share of 0.3% (see Table 2). Exports show a similar pattern with Cg 71.6 million directed to Venezuela out of Cg 5.3 billion in total exports. Venezuela accounts for just 1.4% of the union's export market.

Figures for Sint Maarten are not presented separately, as their magnitude is negligible and does not materially affect the overall conclusions. Overall, total bilateral trade reached only Cg 91.2 million, equal to 0.8% of the monetary union's total trade during 2019–2024.

Table 2 Key indicators for the monetary union: average 2019–2024 figures (in Cg mln)

	(by/from) Venezuela	Monetary union	Share Venezuela in Monetary union
Total imports	19.6	6,605.4	0.3%
Total exports	71.6	5,275.1	1.4%
Of which:			
Tourism exports	9.3	2,796.4	0.4%
Freezone (re)exports	36.5	182.9	19.9%
Total trade	91.2	11,880.5	0.8%
Financial account balance	19.2	-1,234.1	

Other indicators also point to very limited interaction. Venezuelan visitors account for only 0.4% of the monetary union's foreign exchange earnings, while financial account flows linked to Venezuela remain negligible compared to the union's overall external financing. For example, Venezuela's average share in foreign direct investment (FDI) over the period 2019–2024 is essentially zero, while the sum of combined shares of FDI inflows originating from the United States and the Netherlands into Curaçao and Sint Maarten amount to 72.3% and 65.6%, respectively.

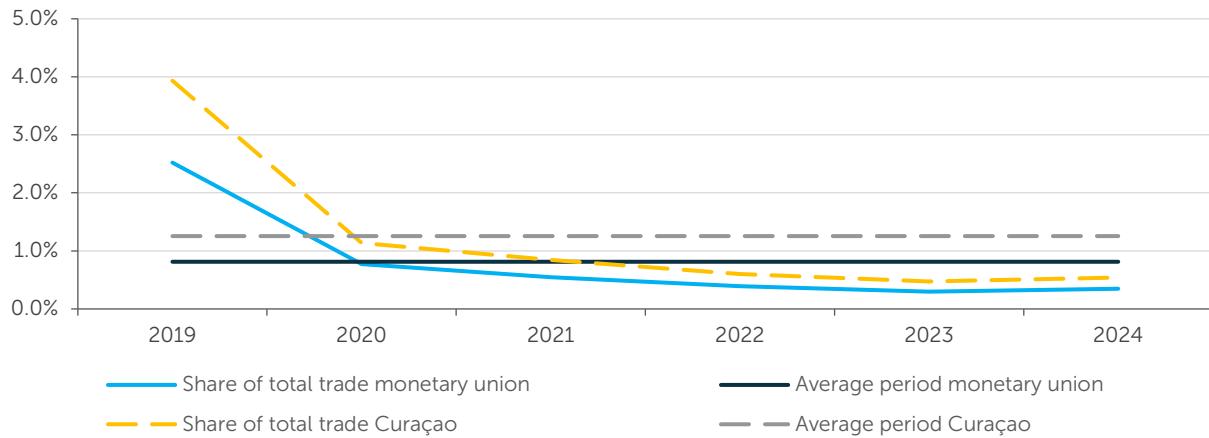
Moreover, Table 3 illustrates the development of the number of Venezuelan stay-over visitors to Curaçao and the monetary union over the period 2019–2024. For Curaçao, the share of Venezuelan visitors was 1.5% in 2019 and dropped until 2022, after which is picked up again and reached 2.1% in 2024. This trend is also visible in the monetary union's numbers, which started at 1.0% in 2019 but reached 1.3% in 2024. On average the share of Venezuelan stay-over tourists in Curaçao and the monetary union total stay-over visitors over the period 2019–2024 are 1.0% and 0.6%, respectively.

Table 3 The development of the number of stay-over visitors from Venezuela to Curaçao and the monetary union 2019–2024

	2019	2020	2021	2022	2023	2024
Curaçao	483,108	178,754	272,123	500,597	602,172	736,336
Of which:						
Venezuela	7,385	1,542	647	1,033	5,757	15,566
Share Venezuela	1.5%	0.9%	0.2%	0.2%	1.0%	2.1%
Monetary union	802,803	285,185	520,955	873,405	997,230	1,209,659
Of which:						
Venezuela	8,263	1,667	746	1,226	6,007	15,932
Share Venezuela	1.0%	0.6%	0.1%	0.1%	0.6%	1.3%

Graph 1 further corroborates this limited exposure. Curaçao's share of total trade with Venezuela fell sharply after 2019, from approximately 4.0% to about 1.0%, following the refinery closure, and has remained at this low level throughout 2020–2024. The monetary union shows a similar pattern, with Venezuela accounting for an average of only 0.8% of total trade. Both trend lines remain flat and low, indicating no recovery in commercial ties and confirming that Venezuela now plays only a marginal role in the monetary union's trade dynamics.

Graph 1 Venezuela's share in total trade with Curaçao and the monetary union



Taken together, these metrics underscore that, even in an environment of heightened geopolitical tension between the United States and Venezuela, the direct trade channel for the monetary union is small and unlikely to generate significant macroeconomic or monetary disruptions in the short to medium term.

4. SCENARIO ANALYSIS

To assess the potential impact of a further escalation of tensions between Venezuela and the United States on the economies of the monetary union, this note presents a shock scenario analysis. The scenarios evaluate potential macroeconomic spillovers to Curaçao and Sint Maarten arising from heightened geopolitical risk.

The shocks are modeled over the period 2026 – 2029 using the CBCS Macroeconomic Forecasting Tool (MFT) relative to the baseline forecast of the Economic Bulletin of December 2025. The shocks are assumed to materialize in December 2025, with their effects appearing from 2026 onward and gradually dissipating over the forecast horizon.

The scenarios reflect potential transmission through three main channels:

- tourism and travel sentiment
- external financing and investor sentiment
- higher import prices and transport costs

4.1 Scenario 1: Moderate geopolitical escalation

In the moderate scenario, geopolitical tensions between the U.S. and Venezuela increase but do not result in direct economic disruptions such as border closures, large-scale trade interruptions or an expansion of sanctions. Instead, the main transmission channel operates through regional confidence, particularly affecting travel from markets that are sensitive to perceived instability in South America and the Caribbean.

In this case, the key assumptions vis-à-vis the baseline are:

- A 3.0%¹ decline in tourism exports in 2026, reflecting temporary caution among travelers. This is consistent with empirical findings (Lee et al., 2020) that point to a negative, though generally moderate, impact of geopolitical risk on exports over the medium term of 0.011%².
- A 3.0% drop in foreign direct investment, portfolio investment, and loans & credit inflows in 2026. This reflects increased investor caution toward the region.

¹ Based on average balance of payments figures over the period 2019-2024, tourism exports account for 50.5% of total exports for the monetary union, suggesting overall exports should be adjusted in line with the same share as tourism.

² Source: Lee et al. (2020). 'Geopolitical risk and tourism: Evidence from dynamic heterogenous panel models.' International Journal of Tourism Research. 2020 Jul 7;23(1):26–38.

- A 0.3% increase in CPI for Curaçao in 2026, driven by regional supply-chain disruptions and higher transport and insurance costs. Due to Sint Maarten's geographic location, a 0.2% increase in CPI is assumed in 2026.

Rationale

This scenario reflects a moderate regional confidence shock. Venezuela's instability does not directly affect the monetary union through the trade channel, reflecting the very limited direct exposure described in section 3. However, sentiment in key tourism and investor markets weaken temporarily. Some travelers postpone or adjust their travel plans, and investors adopt a more cautious stance toward new projects and cross-border financing in the Caribbean. FDI and credit inflows continue, though at a slower pace, reflecting a temporary rise in perceived regional risk. The impact on prices is modest and short-lived, stemming primarily from higher transport and insurance costs rather than from a persistent change in fundamentals.

Results and implications scenario 1

Curaçao

Under the moderate scenario, the macroeconomic impact on Curaçao remains contained and temporary, with only modest deviations from the baseline. Real GDP growth slows marginally from 2.4% to 2.0% in 2026, a deviation of –0.4 percentage points, reflecting weaker private-sector activity and a slight reduction in exports (see Table 4). The deviation narrows steadily over the forecast horizon, and is close to zero by 2029, indicating a gradual return toward the baseline trajectory.

Domestic demand eases in 2026, with total domestic expenditure slowing from 2.3% to 1.8%, mainly due to softer private-sector activity. Private spending decelerates from 1.2% in the baseline to 0.8%, while public demand remains unchanged. Net foreign demand contributes marginally less to growth in 2027 due to weaker export performance, but the effect is small. Exports of goods and services grow by 0.1% in 2026 instead of 0.3% in the baseline, and slightly more in 2027, consistent with the assumed drop in tourism exports.

Inflation rises modestly in 2026, from 2.1% in the baseline to 2.3%, a 0.2 percentage point deviation, before normalizing in the following years. Labor market conditions weaken slightly: unemployment increases by 0.2 percentage points in 2026 and by 0.4–0.5 percentage points relative to the baseline over the medium term. Overall, Curaçao experiences a modest and temporary easing in economic activity, with the impact concentrated on private spending and exports.

Sint Maarten

For Sint Maarten, the moderate scenario generates similarly limited economic effects. Real GDP growth decreases from 2.4% in the baseline to 2.2% in 2026, a deviation of –0.2 percentage points, before converging back toward the baseline path by 2028 (see Table 5). Domestic expenditure slows modestly, with total domestic demand growth declining from 2.3% to 2.0% in 2026, driven largely by a small reduction in private consumption and investment.

External demand softens slightly as exports of goods and services fall from 0.4% to 0.2% in 2026, consistent with the assumed decline in tourism exports. Imports adjust downward in line with domestic demand, cushioning the impact on net foreign demand.

Inflation increases from 1.8% to 2.0% in 2026, a deviation of 0.2 percentage points, after which it returns to baseline levels. Unemployment remains broadly unchanged relative to the baseline, with only marginal differences over the forecast horizon.

Monetary union

At the monetary union level, the effects of the moderate scenario are also limited and temporary, and overall monetary conditions remain broadly stable. Credit growth is slightly weaker in 2026 than in the baseline (0.3 percentage points), while broad money growth slows modestly in 2027–2029 as external

inflows are somewhat lower (Table 6).

The external accounts show the most visible impact. The current account deficit widens from 10.3% of GDP in the baseline to 13.1% of GDP in 2026, driven primarily by weaker tourism exports. External financing into the monetary union as share of GDP is also lower than in the baseline. The most notable adjustment occurs in the change in international reserves, which falls by Cg 133.2 million in 2026, reducing import coverage from 4.9 to 4.5 months. Despite this decline, reserve levels remain well-above adequacy thresholds.

Taken together, the results for Curaçao, Sint Maarten and the monetary union indicate that a moderate geopolitical shock leads to small and temporary macroeconomic deviations, driven primarily by weaker tourism-related exports and a short-lived inflationary impulse. The shock generates some temporary pressure on the balance of payments, but its impact on monetary conditions is modest. The monetary union remains resilient with deviations from the baseline narrowing steadily over the forecast horizon.

Table 4 Economic implications of a moderate geopolitical shock in Curaçao^{a**b**}

	Baseline projection						Shock scenario					Deviation from baseline				
	2024	2025	2026	2027	2028	2029	2025	2026	2027	2028	2029	2025	2026	2027	2028	2029
Domestic expenditure, of which:	5.3	2.3	2.3	2.0	2.3	2.1	2.3	1.8	1.7	2.0	2.0	0.0	-0.5	-0.3	-0.2	-0.1
Private sector	4.1	2.3	1.2	1.6	2.3	2.1	2.3	0.8	1.3	2.0	1.9	0.0	-0.4	-0.3	-0.2	-0.1
Government sector	1.3	0.1	1.0	0.4	0.0	0.0	0.1	1.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net foreign demand	0.2	1.1	0.2	0.2	-0.2	-0.1	1.1	0.2	0.2	-0.1	-0.1	0.0	0.1	-0.1	0.1	0.1
Exports of goods and services	4.6	1.0	0.3	1.3	2.0	0.9	1.0	0.1	1.0	2.1	0.9	0.0	-0.2	-0.3	0.0	0.0
Imports of goods and services	4.4	-0.1	0.1	1.1	2.2	1.1	-0.1	-0.1	0.9	2.1	1.0	0.0	-0.2	-0.2	-0.1	0.0
Real GDP growth	5.5	3.5	2.4	2.2	2.1	2.0	3.5	2.0	1.8	2.0	1.9	0.0	-0.4	-0.4	-0.1	0.0
Inflation rate	2.6	2.4	2.1	2.0	2.1	2.0	2.4	2.3	2.1	2.0	2.0	0.0	0.2	-0.1	0.1	0.0
Unemployment rate	7.8	7.6	7.4	6.8	6.5	6.3	7.6	7.6	7.2	7.0	6.8	0.0	0.2	0.4	0.4	0.5

^aExpenditure categories data are weighted contributors to GDP growth.

^bReal percentage changes.

Table 5 Economic implications of a moderate geopolitical shock in Sint Maarten^{a**b**}

	Baseline projection						Shock scenario					Deviation from baseline				
	2024	2025	2026	2027	2028	2029	2025	2026	2027	2028	2029	2025	2026	2027	2028	2029
Domestic expenditure, of which:	3.6	2.9	2.3	1.8	1.5	1.5	2.9	2.0	1.9	1.5	1.5	0.0	-0.3	0.0	0.0	0.0
Private sector	0.8	1.0	1.4	1.7	1.5	1.7	1.0	1.2	1.7	1.5	1.7	0.0	-0.2	0.0	0.0	0.0
Government sector	2.8	1.9	0.9	0.1	0.0	-0.2	1.9	0.9	0.1	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Net foreign demand	-0.1	0.3	0.1	0.4	0.5	0.4	0.3	0.2	0.3	0.5	0.4	0.0	0.1	-0.1	0.0	0.0
Exports of goods and services	2.4	1.1	0.4	1.9	2.0	2.1	1.1	0.2	1.7	2.0	2.1	0.0	-0.2	-0.2	0.0	0.0
Imports of goods and services	2.6	0.9	0.3	1.5	1.5	1.7	0.9	0.0	1.4	1.5	1.7	0.0	-0.2	-0.1	0.0	0.0
Real GDP growth	3.5	3.1	2.4	2.2	2.0	1.9	3.1	2.2	2.2	2.0	1.9	0.0	-0.2	-0.1	0.0	0.0
Inflation rate	3.1	1.8	1.8	1.8	1.7	1.6	1.8	2.0	1.7	1.7	1.6	0.0	0.2	0.0	0.0	0.0
Unemployment rate	8.2	7.6	7.5	6.9	6.7	6.5	7.6	7.4	6.8	6.5	6.3	0.0	-0.1	-0.1	-0.1	-0.1

^aExpenditure categories data are weighted contributors to GDP growth.

^bReal percentage changes.

Table 6 Economic implications of a moderate geopolitical shock for the monetary union

	Baseline projection						Shock scenario					Deviation from baseline				
	2024	2025	2026	2027	2028	2029	2025	2026	2027	2028	2029	2025	2026	2027	2028	2029
Monetary																
Credit private sector (in %)	-2.3	4.2	3.8	3.6	3.6	3.4	4.2	4.1	3.7	3.6	3.4	0.0	-0.3	0.1	0.0	0.0
Broad money supply (in %)	3.4	2.5	2.2	1.4	1.1	2.8	2.5	2.4	1.0	1.5	2.3	0.0	0.2	-0.4	0.4	-0.5
Balance of payments																
Current account deficit % GDP	-16.4	-11.4	-10.3	-12.8	-12.2	-11.8	-11.4	-13.1	-12.8	-12.2	-11.7	0.0	-2.8	0.0	0.0	-0.1
External financing % GDP	15.9	12.9	11.5	12.3	11.0	10.6	12.9	11.2	12.1	10.8	10.4	0.0	-0.3	-0.2	-0.2	-0.2
Change in reserves (in Cg mln)	63.5	230.9	181.5	-52.8	-135.4	-140.1	230.9	-133.2	-70.7	-147.2	-148.4	0.0	-314.7	-17.9	-11.8	-8.3
Import coverage (average, in months)	4.5	4.8	4.9	4.6	4.3	4.0	4.8	4.5	4.2	3.8	3.5	0.0	-0.4	-0.4	-0.5	-0.5

4.2 Scenario 2: Severe escalation

The second scenario assumes a more pronounced escalation of tensions between the United States and Venezuela, including renewed sanctions, regional travel warnings, and investor pullback from Latin America and Caribbean markets. In this scenario, tensions intensify significantly and include military operations by United States on Venezuelan territory such as missile strikes and covert operations, leading to heightened regional uncertainty and stronger perception effects.

The following assumptions vis-à-vis the baseline are made:

- A 5.0%³ decline in tourism exports in 2026, reflecting increased worsened travel sentiment toward the Caribbean. This assumption is based on the findings of Lee et al. (2020), which find a negative impact of geopolitical risk on exports in the medium term of 0.011%⁴. In this case, the medium term comprises 2028 and 2029.
- A 5.0% drop in FDI, portfolio investment, and loans & credit inflows in 2026. This reflects a more pronounced deterioration in investor sentiment.
- A 0.5% increase in CPI in 2026 due to higher transportation expenses and insurance costs.

Rationale

A severe escalation heightens uncertainty across the southern Caribbean. While direct trade links with Venezuela are minimal, the tourism sector is highly sensitive to regional risk perceptions, and investment inflows depend on risk assessments by foreign investors. Short-lived imported inflation arises from higher logistical and shipping costs due to disruptions or rerouting in southern Caribbean waters.

Results and implications scenario 2

Curaçao

Under the severe scenario, the macroeconomic effects on Curaçao are more pronounced and last longer than in the moderate scenario. Deviations from the baseline projection persist throughout the medium term. Real GDP growth slows significantly from 2.4% in the baseline to 1.6% in 2026, reflecting a sharp decline in private demand, because of increased prices and weaker confidence, and lower exports associated with an effective real appreciation of the Caribbean guilder (see Table 7). The largest deterioration in key economic indicators occurs in 2026, after which the impact of the heightened geopolitical risk eases. By 2029, however, a negative deviation from the baseline remains, indicating a lower GDP trajectory than in the baseline scenario.

Compared with the baseline, domestic demand drops in 2026, driven by weaker private sector spending due to higher inflation and increased uncertainty. Private demand grows by only 0.4% under the shock scenario, compared to 1.2% in the baseline, while public demand deviates only marginally from the baseline path. Net foreign demand contributes more positively to growth in 2026 as the lower imports, driven by the drop in domestic and tourism demand, outpace the decline in exports. Exports of goods and services turn from a projected growth of 0.3% in the baseline to a 0.1% decline in 2026 under this shock scenario. In 2027, export growth is 0.6 percentage points lower compared to the baseline, reflecting the assumed 5.0% decline in tourism earnings in the baseline.

Inflation rises in 2026 from 2.1% in the baseline to 2.5% in this scenario, a 0.4 percentage points deviation, before returning to the baseline level the following year. As a result of the weaker private demand, inflation is expected to settle 0.1 percentage point below the baseline over the medium term. Unemployment follows a clearly deteriorating path, with a deviation of 0.4 percentage points from the baseline in 2026, widening to around 1.0 percentage point by 2029. Overall, the severe shock alters the trajectory of the economy of Curaçao, as GDP does not fully return to its pre-shock path over the medium term, and unemployment continues to trend upward over the forecast period. Meanwhile, inflation settles below the baseline from 2028 onward.

³ Based on average balance of payments figures over the period 2019-2024, tourism exports account for 50.5% of total exports for the monetary union, suggesting overall exports should be adjusted in line with the same share as tourism.

⁴ Source: Lee et al. (2020). 'Geopolitical risk and tourism: Evidence from dynamic heterogenous panel models'. International Journal of Tourism Research. 2020 Jul 7;23(1):26-38.

Sint Maarten

Under the severe scenario, the macroeconomic effect on Sint Maarten is more subdued than for Curaçao. Real GDP growth decreases from 2.4% in the baseline to 2.1% in 2026, a deviation of 0.3 percentage points, before converging back toward the baseline path by 2029 (see Table 8). Sint Maarten is expected to experience a negative shock of 0.4 percentage points in domestic demand in 2026, leading to a total domestic demand growth of 1.9% in 2026 compared to the 2.3% expected in the baseline scenario, driven mainly by lower private consumption and investment.

External demand improves marginally as the drop in imports marginally outweighs the lower exports in 2026. This pattern is consistent with weaker domestic demand fueled by higher inflation in 2026, and lower tourism demand. Net foreign demand is projected to converge back to baseline levels by 2029.

Inflation increases moderately in 2026, rising from 2.1% in the baseline to 2.3% under the shock scenario, a deviation of 0.2 percentage points, after which it returns to baseline levels by 2027. Labor market effects remain limited, as unemployment rises only modestly, by about 0.1 percentage point over 2027 - 2029.

Monetary union

Under the severe shock scenario, effects on the monetary union are felt throughout the entire forecast horizon, although the impact gradually declines. Credit growth rises in 2026 by 0.9 percentage points relative to the baseline scenario but falls below the baseline path over the remainder of the forecast horizon. Broad money supply increases modestly in 2026, but slows over the medium term, reaching 2.2% in 2029 compared to 2.8% in the baseline, as external inflows weaken (Table 9).

The balance of payments shows the most noticeable impact. The current account deficit worsens from 10.3% of GDP in the baseline to 14.0% of GDP in 2026 in the shock scenario, driven by weaker tourism exports and higher inflation in 2026. In line with deteriorating investor sentiment, external financing into the monetary union declines to 11.0%, which represents a 0.6 percentage points negative deviation from the baseline. Over the medium term, these deviations remain relatively small and stable. The most significant adjustment occurs in international reserves. The change in gross official reserves is Cg 433.8 million lower in 2026 than in the baseline, reducing import coverage from 4.9 to 4.3 months. This deviation of 0.6 months persists across the medium term, with import coverage projected to reach 3.3 months by 2029. Despite this noticeable decline, reserve levels remain above adequacy thresholds. Nonetheless, the downward trend warrants close monitoring, as timely policy action may be required to safeguard external stability should pressures intensify.

The results suggest that a severe geopolitical shock has a more significant and prolonged impact on the economy of Curaçao, due to its geographic proximity to Venezuela. For Curaçao, the effects of the severe shock extends through 2029, while the impact is more subdued and short-lived for Sint Maarten. Overall, the monetary union remains broadly resilient over the medium term in this scenario, with persistent but manageable pressure on the balance of payments and the foreign exchange reserves, and only limited effects on monetary conditions.

Table 7 Economic implications of a severe geopolitical shock in Curaçao^{ab}

	Baseline projection						Shock scenario					Deviation from baseline				
	2024	2025	2026	2027	2028	2029	2025	2026	2027	2028	2029	2025	2026	2027	2028	2029
Domestic expenditure, of which:	5.3	2.3	2.3	2.0	2.3	2.1	2.3	1.3	1.4	1.8	1.8	0.0	-0.9	-0.5	-0.5	-0.3
Private sector	4.1	2.3	1.2	1.6	2.3	2.1	2.3	0.4	1.1	1.8	1.7	0.0	-0.9	-0.5	-0.5	-0.3
Government sector	1.3	0.1	1.0	0.4	0.0	0.0	0.1	1.0	0.4	0.0	0.1	0.0	-0.1	0.0	0.0	0.0
Net foreign demand	0.2	1.1	0.2	0.2	-0.2	-0.1	1.1	0.3	0.1	0.0	0.0	0.0	0.1	-0.2	0.1	0.1
Exports of goods and services	4.6	1.0	0.3	1.3	2.0	0.9	1.0	-0.1	0.7	1.9	0.9	0.0	-0.4	-0.6	-0.1	-0.1
Imports of goods and services	4.4	-0.1	0.1	1.1	2.2	1.1	-0.1	-0.4	0.7	2.0	0.9	0.0	-0.5	-0.4	-0.2	-0.2
Real GDP growth	5.5	3.5	2.4	2.2	2.1	2.0	3.5	1.6	1.5	1.7	1.8	0.0	-0.8	-0.7	-0.4	-0.2
Inflation rate	2.6	2.4	2.1	2.0	2.1	2.0	2.4	2.5	2.1	2.0	1.9	0.0	0.5	0.0	-0.1	-0.1
Unemployment rate	7.8	7.6	7.4	6.8	6.5	6.3	7.6	7.6	7.2	7.0	6.8	0.0	0.4	0.7	0.9	1.0

^aExpenditure categories data are weighted contributors to GDP growth.

^bReal percentage changes.

Table 8 Economic implications of a severe geopolitical shock in Sint Maarten^{ab}

	Baseline projection						Shock scenario					Deviation from baseline				
	2024	2025	2026	2027	2028	2029	2025	2026	2027	2028	2029	2025	2026	2027	2028	2029
Domestic expenditure, of which:	3.6	2.9	2.3	1.8	1.5	1.5	2.9	1.9	1.6	1.4	1.4	0.0	-0.4	-0.2	-0.1	-0.1
Private sector	0.8	1.0	1.4	1.7	1.5	1.7	1.0	1.0	1.5	1.4	1.6	0.0	-0.4	-0.2	-0.1	-0.1
Government sector	2.8	1.9	0.9	0.1	0.0	-0.2	1.9	0.9	0.1	0.0	-0.2	0.0	-0.1	0.0	0.0	0.0
Net foreign demand	-0.1	0.3	0.1	0.4	0.5	0.4	0.3	0.2	0.4	0.6	0.4	0.0	0.1	0.1	0.1	0.0
Exports of goods and services	2.4	1.1	0.4	1.9	2.0	2.1	1.1	0.1	1.7	2.0	2.1	0.0	-0.2	-0.2	0.0	0.0
Imports of goods and services	2.6	0.9	0.3	1.5	1.5	1.7	0.9	-0.1	1.3	1.4	1.7	0.0	-0.4	-0.2	-0.1	0.0
Real GDP growth	3.5	3.1	2.4	2.2	2.0	1.9	3.1	2.1	2.0	2.0	1.9	0.0	-0.3	-0.2	-0.1	0.0
Inflation rate	3.1	1.8	2.1	1.8	1.7	1.6	1.8	2.3	1.8	1.7	1.6	0.0	0.2	0.0	0.0	0.0
Unemployment rate	8.2	7.6	7.5	6.9	6.7	6.5	7.6	7.5	7.0	6.8	6.6	0.0	0.0	0.1	0.1	0.1

^aExpenditure categories data are weighted contributors to GDP growth.

^bReal percentage changes.

Table 9 Economic implications of a severe geopolitical shock for the monetary union

	Baseline projection						Shock scenario					Deviation from baseline				
	2024	2025	2026	2027	2028	2029	2025	2026	2027	2028	2029	2025	2026	2027	2028	2029
Monetary																
Credit private sector (in %)	-2.3	4.2	3.8	3.6	3.6	3.4	4.2	4.7	3.7	3.5	3.2	0.0	0.9	0.0	-0.1	-0.2
Broad money supply (in %)	3.4	2.5	2.2	1.4	1.1	2.8	2.5	2.5	0.8	1.5	2.2	0.0	0.3	-0.6	0.4	-0.6
Balance of payments																
Current account deficit % GDP	-16.4	-11.4	-10.3	-12.8	-12.2	-11.8	-11.4	-14.0	-12.8	-12.2	-11.8	0.0	-3.7	0.0	0.0	0.0
External financing % GDP	15.9	12.9	11.5	12.3	11.0	10.6	12.9	11.0	12.0	10.7	10.3	0.0	-0.6	-0.3	-0.3	-0.3
Change in reserves (in Cg mln)	63.5	230.9	181.5	-52.8	-135.4	-140.1	230.9	-252.3	-88.8	-165.8	-166.8	0	-433.8	-36.1	-30.4	-26.6
Import coverage (average, in months)	4.5	4.8	4.9	4.6	4.3	4.0	4.8	4.3	4.0	3.6	3.3	0	-0.6	-0.6	-0.6	-0.6

4.3 Scenario 3: Additional net capital outflows

While Scenarios 1 and 2 focus on the real economy and baseline financial channels, a further source of vulnerability could arise if heightened geopolitical risk also triggered additional net capital outflows from the monetary union. Scenario 3 therefore extends the previous two scenarios by incorporating an explicit assumption on higher net capital outflows.

Specifically, the magnitude of the assumed capital outflows mirrors the reduction in capital inflows applied in Scenario 1 (moderate shock) and Scenario 2 (severe shock) as shown in Table 10.

Table 10 Assumed capital inflows in the monetary union 2026 (in Cg mln)

	FDI	Portfolio	Loans & Credits	Total
Baseline	321.4	533.3	357.5	
Moderate	311.7	517.3	346.8	
<i>Deviation from baseline</i>	9.6	16.0	10.7	36.4
Severe	305.3	506.6	339.6	
<i>Deviation from baseline</i>	16.1	26.7	17.9	60.6

The result of Scenario 3 are discussed only at the monetary union level, as the main impact is transmitted through the balance of payments.

Scenario 3a: Moderate geopolitical escalation with moderate capital outflows

In this case, the same assumptions as in scenario 1 are applied, with the following additional assumption for 2026:

- A Cg 36.4 million increase in currency deposits held abroad by residents of the monetary union, reflecting a further deterioration in investor confidence and some precautionary capital outflows.

Monetary union

At the monetary union level, the moderate scenario with additional capital outflows results in slightly more pronounced but still temporary external pressures compared with the baseline. Overall monetary conditions remain broadly stable, although balance of payments indicators reflect the combined effect of weaker tourism receipts, lower net financial inflows, and higher resident capital outflows.

Credit growth slows more noticeably in 2026, deviating by –0.5 percentage points from the baseline before returning close to trend from 2027 onward (see Table 11). Broad money growth also declines in 2026, reflecting the decline in net foreign assets (i.e., reserves), falling from 2.2% in the baseline to 2.3% under the shock scenario, after which it stabilizes.

The external accounts show the most notable impact of the combined tourism, lower external financing and capital outflow shocks. The current account deficit widens from 10.3% of GDP in the baseline to 13.1% of GDP in 2026, reflecting reduced foreign exchange earnings from tourism and a temporary decline in net external financing. Net external financing as a share of GDP also remains lower than in the baseline. The most notable adjustment occurs in the change in gross official reserves, which is Cg 351.1 million lower in 2026 than in the baseline, reducing import coverage from 4.9 to 4.5 months. Despite this decline, reserve levels remain well-above adequacy thresholds.

Taken together, the results show that the moderate geopolitical shock, when augmented by increased capital outflows, generates manageable and transitory pressures on the monetary union's external

accounts.

Table 11 Economic implications of a moderate geopolitical shock including net capital outflows for the monetary union

	Baseline projection						Shock scenario					Deviation from baseline				
	2024	2025	2026	2027	2028	2029	2025	2026	2027	2028	2029	2025	2026	2027	2028	2029
Monetary																
Credit private sector (in %)	-2.3	4.2	3.8	3.6	3.6	3.4	4.2	4.3	3.7	3.5	3.3	0.0	-0.5	0.1	-0.1	-0.1
Broad money supply (in %)	3.4	2.5	2.2	1.4	1.1	2.8	2.5	2.3	0.8	1.4	2.2	0.0	0.1	-0.6	0.3	-0.6
Balance of payments																
Current account deficit % GDP	-16.4	-11.4	-10.3	-12.8	-12.2	-11.8	-11.4	-13.1	-12.8	-12.2	-11.7	0.0	-2.8	0.0	0.0	-0.1
External financing % GDP	15.9	12.9	11.5	12.3	11.0	10.6	12.9	10.8	12.1	10.8	10.4	0.0	-0.7	-0.2	-0.2	-0.2
Change in reserves (in Cg mln)	63.5	230.9	181.5	-52.8	-135.4	-140.1	230.9	-169.6	-70.7	-147.2	-148.4	0.0	-351.1	-17.9	-11.8	-8.3
Import coverage (average, in months)	4.5	4.8	4.9	4.6	4.3	4.0	4.8	4.5	4.2	3.8	3.5	0.0	-0.4	-0.4	-0.5	-0.5

Scenario 3b: severe geopolitical escalation with strong capital outflows

In this case, the same assumptions as in scenario 2 are applied, with an additional assumption of a Cg 60.6 million increase in currency deposits held abroad by residents of the monetary union abroad in 2026. This reflects a more pronounced deterioration in investor sentiment and higher precautionary capital outflows.

Monetary union

At the monetary union level, the severe scenario with additional capital outflows generates more persistent external pressures, although the impact gradually declines over the forecast horizon. Broad money growth drops modestly in 2026 with this trend accelerating in 2027. By 2029, broad money growth reaches 2.1% in 2029 compared to 2.8% in the baseline, reflecting weaker external inflows and increased capital outflows (see Table 3).

The balance of payments shows the strongest impact. The current account deficit worsens from 10.3% of GDP in the baseline to 14.0% of GDP in 2026 in the shock scenario, driven by weaker tourism exports and higher inflation in 2026. In line with deteriorating domestic and international investor sentiment, net external financing into the monetary union declines to 10.4%, which represents a 1.1 percentage points negative deviation from the baseline. Over the medium term, these deviations remain broadly stable.

The most significant adjustment occurs in international reserves. The change in gross official reserves is Cg 494.4 million lower in 2026 than in the baseline, reducing the import coverage from 4.9 to 4.3 months. This deviation of 0.6 months persists across the medium term, with the import coverage projected to reach 3.2 months by 2029. Despite this noticeable decline, reserve levels remain above adequacy thresholds. Nonetheless, the downward trend warrants close monitoring, as timely policy action may be required to safeguard external stability should pressures intensify.

Overall, the monetary union remains broadly resilient over the medium term in this scenario, with persistent but manageable pressure on the balance of payments and the foreign exchange reserves, and only limited effects on monetary conditions.

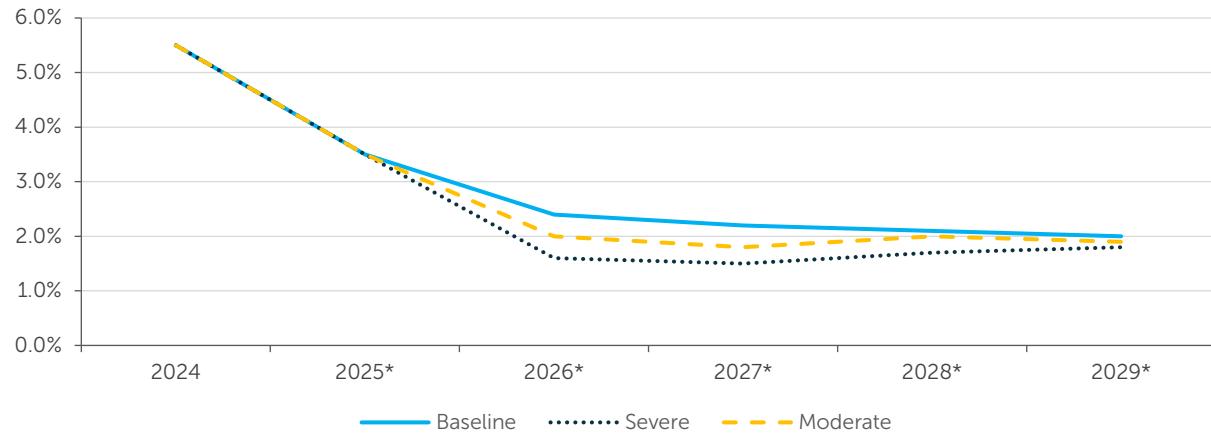
Table 12 Economic implications of a severe geopolitical shock including net capital outflows for the monetary union

	Baseline projection						Shock scenario					Deviation from baseline				
	2024	2025	2026	2027	2028	2029	2025	2026	2027	2028	2029	2025	2026	2027	2028	2029
Monetary																
Credit private sector (in %)	-2.3	4.2	3.8	3.6	3.6	3.4	4.2	4.7	3.7	3.5	3.2	0.0	0.9	0.1	-0.1	-0.2
Broad money supply (in %)	3.4	2.5	2.2	1.4	1.1	2.8	2.5	2.0	0.7	1.2	2.1	0.0	-0.2	-0.7	0.1	-0.7
Balance of payments																
Current account deficit % GDP	-16.4	-11.4	-10.3	-12.8	-12.2	-11.8	-11.4	-14.0	-12.8	-12.2	-11.8	0.0	-3.7	0.0	0.0	0.0
External financing % GDP	15.9	12.9	11.5	12.3	11.0	10.6	12.9	10.4	12.0	10.7	10.3	0.0	-1.1	-0.3	-0.3	-0.3
Change in reserves (in Cg mln)	63.5	230.9	181.5	-52.8	-135.4	-140.1	230.9	-312.9	-88.8	-165.8	-166.8	0	-494.4	-36.0	-30.4	-26.7
Import coverage (average, in months)	4.5	4.8	4.9	4.6	4.3	4.0	4.8	4.3	3.9	3.6	3.2	0	-0.6	-0.7	-0.7	-0.7

5. GRAPHICAL SUMMARY OF SCENARIOS

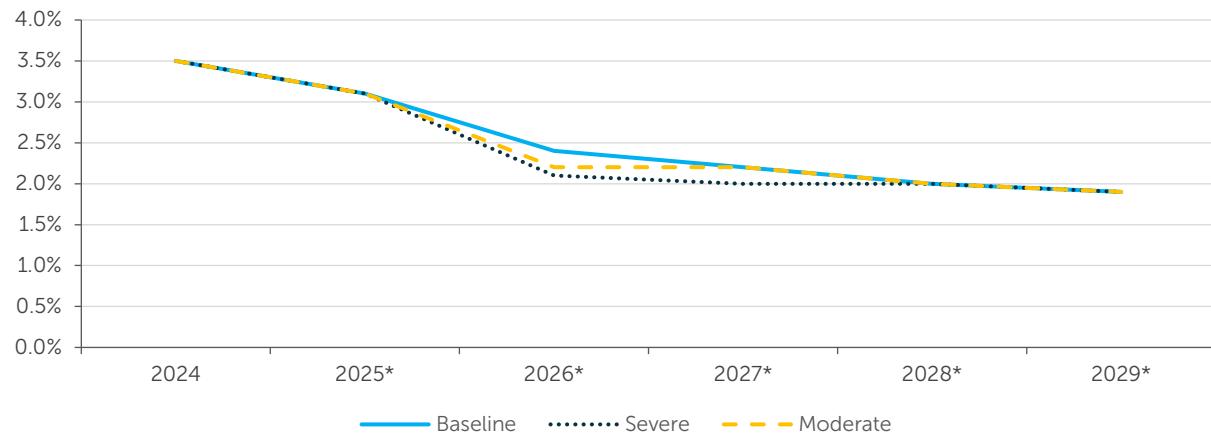
This section briefly summarizes, in graphical form, the estimated deviations from the baseline over the period 2026-2029 for Scenario 1 (moderate escalation) and Scenario 2 (severe escalation). Graph 2 shows the GDP growth trajectory for Curaçao by comparing the baseline with the moderate and severe shock scenarios for 2026 and beyond. The graph illustrates an immediate divergence in 2026, but a slow and steady partial convergence toward the baseline through 2029.

Graph 2 Real GDP growth of Curaçao: baseline vs. moderate and severe geopolitical shocks



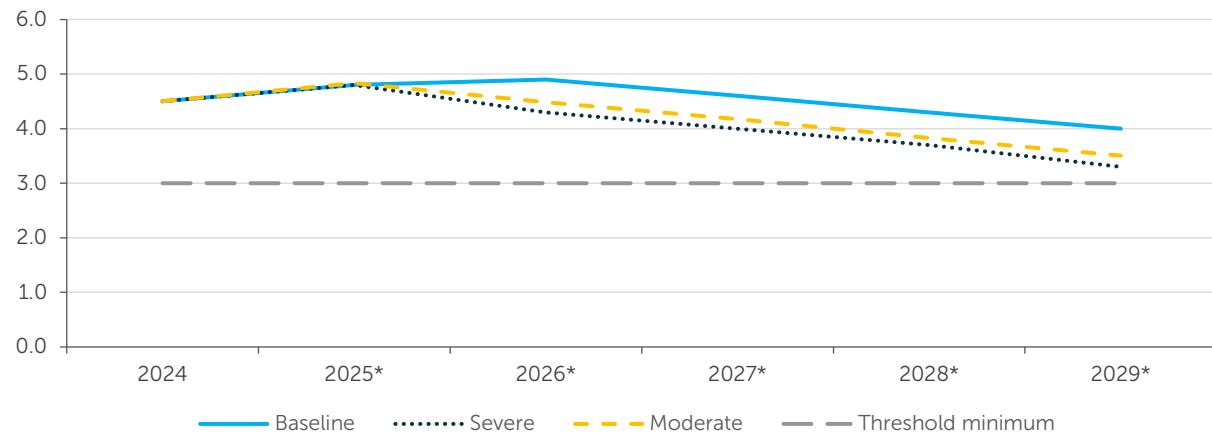
Graph 3 shows the corresponding impact for Sint Maarten. The graph indicates a less pronounced effect on Sint Maarten's economy and a relatively rapid convergence back to the baseline path, with differences largely fading by 2028.

Graph 3 Real GDP growth of Sint Maarten: baseline vs moderate and severe geopolitical shock



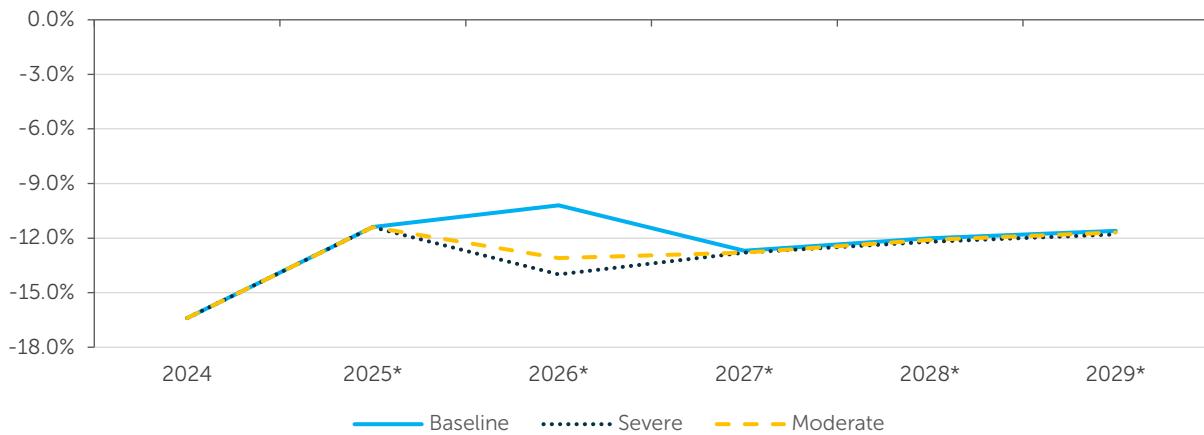
The economic implications of the two scenarios also affect the monetary union's import coverage. Graph 4 illustrates the development of the import coverage over the period 2026-2029 under the baseline, moderate and severe shock scenarios. Due to the drop in gross official reserves, driven primarily by lower foreign exchange earnings from tourism activities, the import coverage starts a downward trend in 2026. By 2029, the monetary union's import coverage remains above the 3-month benchmark but has fallen significantly relatively to the baseline, which projects coverage of 4.9 month in 2026 and 4.0 months in 2029.

Graph 4 Import coverage of the Monetary union: baseline vs. moderate and severe geopolitical shocks (average, in months)



Finally, graph 5 depicts the development in the current account balance of the monetary union as a percentage of GDP. The graph shows a significant divergence from the baseline in 2026 under both shocks, followed by a gradual convergence from 2027 onward.

Graph 5 Current account balance of the monetary union: baseline vs. moderate and severe geopolitical shocks (as percentage of GDP)



6. CONCLUSION

Overall, the assessment shows that the monetary union's direct exposure to Venezuela is very limited. Trade, tourism and financial flows between Curaçao and Sint Maarten and Venezuela represent only a marginal share of total economic activity. The post-2019 decline in bilateral trade, following the refinery closure and border closures, and Venezuela's continued economic contraction, has further reduced any meaningful direct transmission channels. As a result, heightened tensions between the United States and Venezuela are unlikely to generate significant macroeconomic disruptions through direct trade linkages.

Where vulnerabilities do arise, they stem primarily from indirect channels, such as regional sentiment effects on tourism, temporary shifts in investor confidence, and short-lived imported inflation. The scenario analysis confirms this. Under the moderate and severe geopolitical shocks (Scenarios 1 and 2), the impact on growth, inflation and unemployment remain small to moderate and largely temporary,

with Sint Maarten experiencing milder effects and Curaçao facing somewhat larger but still contained impacts due to its geographic proximity.

Scenario 3 extends this analysis by allowing for additional net capital outflows from the monetary union. Even when the moderate and severe geopolitical shocks are combined with temporary increases in residents' deposits abroad and lower FDI and other inflows, the resulting pressures on the external accounts and reserves remain manageable, and monetary conditions stay broadly stable. However, the scenarios also show that such combined real and financial shocks can accelerate the erosion of external buffers and keep the import coverage on a downward trajectory even if it remains above conventional adequacy thresholds over the forecast horizon.

Taken together, the findings suggest that, if tensions were to intensify, these could generate short-term volatility in tourism demand, investment flows, or external balances. Most macroeconomic effects are expected to decelerate or dissipate over the medium term. At the same time, the severe-shock and capital outflow scenarios point to areas of concern: despite remaining above adequacy thresholds, the projected pressures on foreign-exchange reserves signal that sustained or repeated shocks could weaken external buffers and heighten external vulnerability. This underscores the importance of continued vigilance and proactive policy coordination particularly in safeguarding reserve adequacy, monitoring capital flows and external financing conditions, and maintaining investor and market confidence, to preserve macroeconomic and financial stability over the longer term.



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