CENTRALE BANK VAN CURAÇAO EN SINT MAARTEN

QUARTERLY BULLETIN 2014-II

I: REPORT OF THE PRESIDENT

GENERAL OVERVIEW

Global economic growth was modest during the second quarter of 2014 supported mainly by a pickup of the activities in the United States and China. In the United States, the second quarter expansion was driven by a growth in private spending and net foreign demand. Meanwhile, the Chinese economy benefitted from accommodative monetary and fiscal policies. The developments in the monetary union were uneven during the second quarter of 2014, as the Curaçao economy contracted by 0.8% while the Sint Maarten economy registered an expansion of 1.4%.

Meanwhile, inflationary pressures eased in both countries due primarily to lower international fuel prices. In Curaçao, the inflation rate dropped from 2.1% in the second quarter of 2013 to 0.6% in the second quarter of 2014. The annualized inflation rate eased as well to 0.7% at the end of June 2014 compared to 1.0% at the end of March 2014. The quarterly inflation in Sint Maarten eased to 2.0% during the June quarter of 2014 in response to a slowdown in food price gains. Meanwhile, the annualized inflation rate dropped slightly from 2.5% at the end of March 2014 to 2.4% at the end of June.

The economic contraction in Curaçao was caused by a decline in domestic demand, reflecting a drop in both private and public spending. Private spending fell because of lower consumption and investment. Public demand contracted due primarily to a decline in public investment. In contrast, net foreign demand contributed positively to growth as imports dropped at a faster pace than exports in real terms.

A review by sector shows that the wholesale & retail trade, transport, storage, & communication, construction, and financial services sectors were primarily responsible for the contraction in the private sector. The decline in wholesale & retail trade activities was caused mainly by the decline in domestic spending. Also, in real terms, the performance of the free-zone companies continued to be poor. The transport, storage, & communication sector registered a decline as both airport and harbor activities fell. Airport-related activities fell because of a drop in passenger traffic related mainly to the demise of DAE in the third quarter of 2013. The disappointing performance of the harbor was the result of a decline in the number of ships piloted into the port, fewer container movements, and fewer oil storage activities.

The drop in real value added in the construction sector was ascribable to the decline in government investments during the second quarter of 2014. Also, the recent increase in the use of imported prefabricated components and steel products in numerous private sector projects explains part of the contraction in the construction sector, as these construction methods contribute less to output growth than do the more traditional

construction methods. The dismal performance of the financial services sector was the result of a decline in real value added in both domestic and international financial services. Activities also contracted in the utilities sector with a drop in the production of both water and electricity.

By contrast, activities in the manufacturing and restaurants & hotels sectors grew in the second quarter of 2014. Although at a slower pace compared to 2013, real output expanded in the manufacturing sector owing to a positive contribution by the Isla refinery. The refinery's contribution was the result of increased trading activities, mitigated by a decline in refining activities. Output growth in the manufacturing sector was offset partly by a decline in ship repair activities. Growth weakened as well in the restaurants & hotels sector, reflecting a slowdown in stay-over tourism, combined with a decline in cruise tourism. The development in stay-over tourism was characterized by a decline in the number of stay-over tourists attributable to all markets, except the European. However, because European tourists have a longer average length of stay, total visitor nights and the hotel occupancy rate increased during the second quarter of 2014, explaining also the rise in total stay-over spending, albeit at a slower pace than in the second quarter of 2013.

In Sint Maarten, the restaurants & hotels, transport, storage, & communication, and wholesale & retail trade sectors were the main contributors to economic growth in the second quarter of 2014. The robust expansion in the restaurants & hotels sector was ascribable to increases in both stay-over and cruise tourism. Stay-over tourism performed well, backed by more visitors from all major markets. Meanwhile, the increase in cruise tourism was the result of more cruise ships visiting the port of Philipsburg.

The growth in the transport, storage, & communication sector resulted from more activities in both air and sea transport. The airport performed well as reflected by a growth in passenger traffic and commercial landings. This positive development was in line with the buoyant growth in stay-over tourism and an increase in airlift to Sint Maarten. Activities in the harbor grew because of a rise in the number of ships, particularly cruise ships. Meanwhile, the rise in domestic demand and more tourism activities led to the growth in the wholesale & retail trade sector.

In contrast, real value added contracted in the construction, manufacturing, financial intermediation, and utilities sectors. The weak performance of the construction sector was the result of declines in both public and private investments. Real output dropped in the manufacturing sector due to a decline in repair activities on yachts that visited Sint Maarten. In the financial intermediation sector, real value added contracted as indicated by a decline, in real terms, in net interest income of the local banks. Activities in the utilities sector dropped because of a decline in the production of electricity, mitigated by a rise in water production.

During the second quarter of 2014, fiscal developments in Curaçao were characterized by a widening of the deficit compared to the second quarter of 2013 as expenditures increased while revenues dropped. The increase in government expenditures was due largely to increased spending on goods & services and transfers. Meanwhile, revenues dropped primarily as a result of lower income from profit tax, wage tax, sales tax, and import duties. The decline in sales tax revenues was in line with the economic contraction registered in the April–June period of 2014, while the drop in import duties coincides with

the decline in imports. The fiscal stance in Curaçao continued to be focused on attaining healthy and sustainable public finances. The measures taken to comply with the instruction by the Kingdom Council of Ministers were kept in place, including the vacancy stop. In addition, new measures were taken to increase government revenues (i.e, steep legal dues and fees on petitions by foreigners for admission to Curaçao), and the negotiations with the labor unions to reduce the costs of the government apparatus were ongoing.

In Sint Maarten, the government registered a budget deficit of NAf.14.9 million during the second quarter of 2014, down from the deficit of NAf.20.8 million recorded in the second quarter of 2013. The improved fiscal situation was the result of higher government revenues combined with a decline in government expenditures. Government revenues rose mainly as a result of higher earnings from excises on gasoline, wage tax, turnover tax, and car rental tax. The decline in government expenditures was attributable to a decline in outlays for goods & services, mitigated by higher transfers and subsidies, and wages & salaries.

Both Curaçao and Sint Maarten issued bonds in the second quarter of 2014. The Curaçao government borrowed to finance the construction of a new hospital, while the government of Sint Maarten raised funds to finish the new government building, among other things. Because of the standing subscription, the Dutch State Treasury Agency was allotted the full amount of the bonds issued. Consequently, the foreign debt component of both governments increased during the second quarter of 2014.

According to preliminary data and estimates of the Bank, the current account deficit on the balance of payments narrowed during the second quarter of 2014 compared to the second quarter of 2013 as a result of improvements in net foreign demand and in the income and current transfers balances. The rise in net foreign demand was ascribable to a drop in imports of goods and services, while exports declined slightly. Imports declined in both Curaçao and Sint Maarten. The decline in Curaçao can be ascribed mainly to fewer merchandise imports by the free-zone companies, while in Sint Maarten both oil and non-oil merchandise imports dropped. Exports declined slightly as lower earnings from bunkering activities and air transportation services provided to abroad were offset by an increase in foreign exchange revenues from tourism activities in both Curaçao and Sint Maarten and a rise in the refining revenues. The demise of the local carrier DAE in 2013 explains to a large extent the decline in receipts from air transportation services provided to abroad. The income balance improved during the March–June period of 2014 due to an increase in net investment income, mitigated by a decline in net labor income. Meanwhile, the gain on the current transfers balance was largely the result of a rise in current transfers received from abroad combined with a decline in current transfers paid to abroad. Gross official reserves increased strongly during the second quarter of 2014, the result primarily of the issuance of debt securities by the governments of Curaçao and Sint Maarten bought entirely by the Dutch State Treasury Agency.

The monetary aggregates expanded during the second quarter of 2014 because of an increase in net foreign assets mitigated by a decline in net domestic assets. An increase in government deposits from the proceeds of the debt securities issued by Curaçao and Sint Maarten was the main cause of the decline in net domestic assets. In contrast, net claims on the private sector increased although the loan component remained practically

unchanged during the June quarter of 2014. An analysis by country shows that private credit extension in Curaçao rose during the second quarter of 2014 reflected in all loan components. Meanwhile, Sint Maarten recorded a contraction in private credit extension due to a decline in business and consumer loans extended, mitigated by a rise in mortgages extended.

The monetary policy stance of the Bank continued to be directed at tightening the liquidity surplus in the money market during the second quarter of 2014. Hence, the percentage of the reserve requirement was increased by 50 basis points reaching 17.50% in June 2014. In addition, the Bank offered more Certificates of Deposit (CDs) but subscriptions fell short during the auctions, causing a decline in the outstanding amount of CDs. Also, the Bank continued with the credit measure to bring the growth in private credit extension more in line with economic growth.

Given the improved situation on the current account of the balance of payments, the increase in the official reserves, and the decline in credit extension in the monetary union, the Bank decided to keep the reserve requirement unchanged at 18.00% as of June 2014 and to revoke the credit measure as of September 2014. However, it should be emphasized that the recent improvement of the balance of payments was largely the result of incidental factors. One of those factors is the issuance of debt securities by the governments of Curaçao and Sint Maarten that were bought entirely by the Dutch State Treasury Agency. Once the loan proceeds are spent, foreign exchange will leak abroad again through imports. In other words, the improved situation on the balance of payments is not the result of structural policy measures and is, therefore, not sustainable. Although the sense of urgency might have faded somewhat, policy actions to strengthen our competitiveness and, hence, contribute to a sustainable improvement of the balance of payments must remain high on the policy agendas of the governments of Curacao and Sint Maarten.

E.D. Tromp

President

II: INTERNATIONAL ECONOMIC DEVELOPMENTS

THE UNITED STATES

Real output in the United States expanded by 2.6% in the second quarter of 2014, an acceleration compared to the 1.8% growth in the second quarter of 2013 (see Table 1). The accelerated output growth resulted from a faster increase in private demand combined with a growth in net foreign demand. In contrast, public demand contributed negatively to real output growth.

Table 1: Economic indicators of the United States

	2013-II	2014-II
Real GDP (% change)	1.8	2.6
Consumer prices (%)	1.4	2.0
Unemployment rate (%)	7.5	6.2

Sources: US Bureau of Economic Analysis and US Bureau of Labor Statistics.

The faster increase in U.S. private demand was mainly the result of a rise in private investments due to more nonresidential construction. In contrast, residential construction grew at a slower pace. Private consumption also increased, supported by more jobs and higher consumer confidence. The increase in private consumption was reflected primarily by more spending on durable goods, including automobiles, appliances, and home electronics. Unlike private consumption, public demand put a drag on growth because cuts in federal government spending outweighed higher spending by state and local governments. Net foreign demand contributed positively to economic growth because export growth surpassed the rise in imports.

An analysis by sector reveals that most sectors contributed positively to the U.S. economy in real terms, in particular, the manufacturing and construction sectors. At the same time, the unemployment rate declined to 6.2% because of jobs added across a range of sectors, led by the professional and business services, retail trade, restaurants, and health care sectors. Nevertheless, the long-term unemployment rate remained at an elevated level. In contrast, the number of workers employed part-time for economic reasons increased.

Consumer price inflation in the United States reached the long-term target of the Federal Reserve of 2.0% in the second quarter of 2014, driven particularly by higher gasoline prices. In spite of an unemployment rate below its threshold of 6.5% and an inflation rate at the target level of 2.0%, the Federal Reserve maintained the fed funds rate near zero.

THE NETHERLANDS

After a contraction of 1.4% in the second quarter of 2013, the Dutch economy expanded by 1.1% in the second quarter of 2014 (see Table 2). The economic expansion was the result of an increase in both domestic and net foreign demand.

Table 2: Economic indicators of the Netherlands

	2013-II	2014-II
Real GDP (% change)	-1.4	1.1
Consumer prices (%)	2.7	1.0
Unemployment rate* (%)	6.6	7.0

Sources: Central Bureau of Statistics.
**International definition.*

Domestic demand in the Netherlands performed well because of an increase in both private and public spending. The increase in private spending resulted from more consumption and investments. Dutch consumers spent more on durable goods, including electronics, clothing, domestic appliances and automobiles, and outdoor leisure. Nevertheless, the increase in consumer spending was partly offset by lower gas consumption because of the mild weather in the Netherlands. Meanwhile, businesses invested more in machines, computers, and construction activities, supported by higher investor confidence and capacity utilization. Public demand made a positive contribution to growth during the June quarter of 2014 as a result of an increase in public investments, while growth in public consumption remained muted. Net foreign demand also contributed positively to growth as exports rose at a faster pace than imports. Exports of basic metals, metal products, machines, and installations increased, mitigated by a decline in the export of natural gas and oil products. Meanwhile, imports of services, notably financial, computer & information, and transportation services rose, while the import of goods contracted.

From a sectoral perspective, activities expanded in the trade, transport, restaurants & hotels, real estate, and business services sectors, whereas activities decreased in the mining and energy sectors. However, the better economic conditions in the Netherlands were not reflected by an improvement in labor market conditions. The Dutch unemployment rate rose to 7.0%, particularly as a result of job losses in the health and welfare sectors. At the same time, consumer price inflation dropped to 1.0%, mainly because of a decline in prices of food and clothing, mitigated by higher fuel prices.

VENEZUELA

Following an expansion in the second quarter of 2013, the economy of Venezuela contracted by 4.0%[1] in the second quarter of 2014. This is the second quarter in a row that Venezuela's economy has performed poorly. The dismal economic performance was the result of a drop in domestic demand, mitigated by an increase in net foreign demand.

Table 3: Economic indicators of Venezuela

	2013-II	2014-II
Real GDP (% change)	2.6	-4.0
Consumer prices (%)	34.8	60.9
Unemployment rate (%)	7.5	7.0

Sources: Banco Central de Venezuela and Noticias de Venezuela.

Domestic demand in Venezuela contracted due to a decline in private demand, while public demand rose. Both private consumption and investment contributed to the decline in private demand. Private consumption dropped mainly as a result of higher inflationary pressures that had a negative impact on consumers' purchasing power. Gross fixed capital investments fell as a result of the weak business climate in Venezuela, lower investor confidence and capacity utilization, and shortages of foreign currency that limited the import of goods.[2] In contrast, public demand rose, albeit at a slower pace because government spending on social programs was limited by lower revenues from oil exports. Net foreign demand contributed positively to growth as the decline in imports outweighed the drop in exports. Exports dropped mainly because of a decline in oil exports, while imports shrank due to the foreign exchange restrictions.

An analysis by sector indicates that the contraction in Venezuela's real output was attributable to almost all sectors, particularly the manufacturing and construction sectors. Inflationary pressures soared to 60.9% in the second quarter of 2014, primarily because of domestic shortages of goods, expansionary monetary policy, and the gap between the official and black market exchange rates. Despite the negative economic performance of Venezuela, the unemployment rate dropped to 7.0%.

[1] Source: http://noticiasvenezuela.info/2014/08/economia-venezolana-en-picada-pib-cayo-40-segundo-trimestre-del-ano/
[2] Source: http://eltiempo.com.ve/venezuela/gremio/conindustria-reclama-liquidacion-de-hasta-9-millardos-al-gobierno/151817

III: GENERAL ECONOMIC DEVELOPMENTS

GENERAL ECONOMIC DEVELOPMENTS IN CURAÇAO

After contracting by 0.6% in the second quarter of 2013, Curaçao's real GDP dropped further by 0.8% in the second quarter of 2014. The poor economic performance resulted from a decline in domestic demand, albeit less pronounced than in 2013. In contrast, net foreign demand contributed positively to real output growth (see Table 4). Price pressures in Curaçao eased to 0.6%, mainly because of a decrease in the prices of fuel and electricity, mitigated by higher food prices.

On the expenditure side, the economic contraction in 2014's second quarter was driven by a decline in both private and public demand. The decline in private demand was led by decreases in both consumer spending and private investment. Consumer spending dropped as reflected by lower sales tax revenues and import duties. The drop in consumer spending was also consistent with less consumer credit extended by the domestic commercial banks.[3] Private investment fell mainly because of fewer construction activities in the second quarter of 2014. The fall in private investment was in line with fewer business loans extended by the domestic commercial banks.[4] Public demand shrank because of a decline in public investment, while the growth in public consumption remained flat.

In contrast, net foreign demand contributed positively to economic growth because in real terms, the drop in imports outweighed the decline in exports.. Despite an increase in re-exports by the free-zone companies, exports decreased because of a drop in bunkering activities and air transportation services provided to abroad. Meanwhile, the import bill shrank primarily as a result of lower merchandise imports by the free-zone companies.

[3] On an annual basis, consumer loans contracted by 0.8%.
[4] On an annual basis, business loans declined by 4.6%.

Table 4: GDP growth by expenditure in Curaçao* (real percentage changes)

	2013-II	2014-II
Domestic expenditure, of which:	-1.6	-0.8
Private sector	-1.6	-0.6
- Investment	-0.8	-0.2
- Consumption	-0.8	-0.4
Government sector	0.0	-0.2
- Investment	0.4	-0.2
- Consumption	-0.4	0.0
Changes in inventory	-0.1	-0.1
Foreign net expenditure	1.1	0.1
- Export of goods and services	0.2	-0.1
- Import of goods and services	-0.9	-0.2
GDP	-0.6	-0.8

Source: Estimates by the Centrale Bank van Curaçao en Sint Maarten.
**Expenditure categories data are weighted contributors to GDP growth.*

DOMESTIC PRODUCTION

On the production side, the contraction in private sector activities during the June quarter of 2014 was attributable primarily to the wholesale & retail trade, transport, storage & communication, and financial intermediation sectors (see Table 5).

Real value added in the wholesale & retail trade sector declined (-1.9%) mainly as a result of the drop in domestic demand. Despite an increase in re-exports, free-zone activities dropped in real terms in line with a decline in the number of free-zone visitors, particularly from Haiti, Jamaica, the Dominican Republic, and Trinidad. On the other hand, the number of free-zone visitors from Venezuela increased. The decline in the wholesale & retail trade sector was mitigated by an increase in tourism spending during the June quarter of 2014.

During the second quarter of 2014, the transport, storage, & communication sector suffered a setback (-1.1%) due to declines in both airport and harbor activities. Airport-related activities declined as a result of a drop in passenger traffic, in particular the number of commercial landings and transit passengers. This negative development was attributable to the demise of the domestic airline DAE in the third quarter of 2013. However, the decline in the number of transit passengers was less pronounced than in 2013. The contraction in harbor activities was the result of fewer oil storage activities, container movements, and ships piloted into the port of Curaçao. The decrease in ships coming into Curaçao was reflected mainly by a drop in the number of cruise ships. Oil storage activities more than halved during 2014's second quarter.

Table 5: GDP by sector (real percentage changes)

Sector	2013-II	2014-II
Agriculture, fishery, & mining	-2.0	-2.4
Manufacturing	2.4	2.1
Electricity, gas, & water	-0.7	-1.1
Construction	-1.8	-0.5
Wholesale & retail trade	-4.1	-1.9
Restaurants & hotels	2.5	0.5
Transport, storage, & communication	-0.8	-1.1
Financial intermediation	-0.9	-0.8
Real estate, renting, & business activity	-0.6	-0.9
Other community, social, & personal services	-1.3	-4.2
Private households	0.1	2.2
Total private sector	-0.7	-0.5
Public sector	0.3	0.0
Taxes minus subsidies	-0.2	-0.3
GDP	-0.6	-0.8

Source: Estimates by the Centrale Bank van Curaçao en Sint Maarten.

Output growth in the financial intermediation sector shrank (-0.8%) during the April-June period of 2014 as a result of lower value added in real terms in both domestic and international financial services. The net interest income of domestic commercial banks declined because the drop in interest income outweighed the lower interest expenses. Meanwhile, real value added of international financial services contracted as the increases in wages & salaries and other operational expenses were not sufficient to compensate for the inflation.

The contraction in the construction sector (-0.5%) was related to a decline in public investments during the second quarter of 2014. Also, the increased use of imported prefabricated components and steel products in numerous projects dampened growth in the construction sector as these construction methods contribute less to real output growth than traditional construction methods. Real output in the utilities sector exhibited a decline (-1.1%) in the second quarter of 2014 as the production of both water and electricity fell.

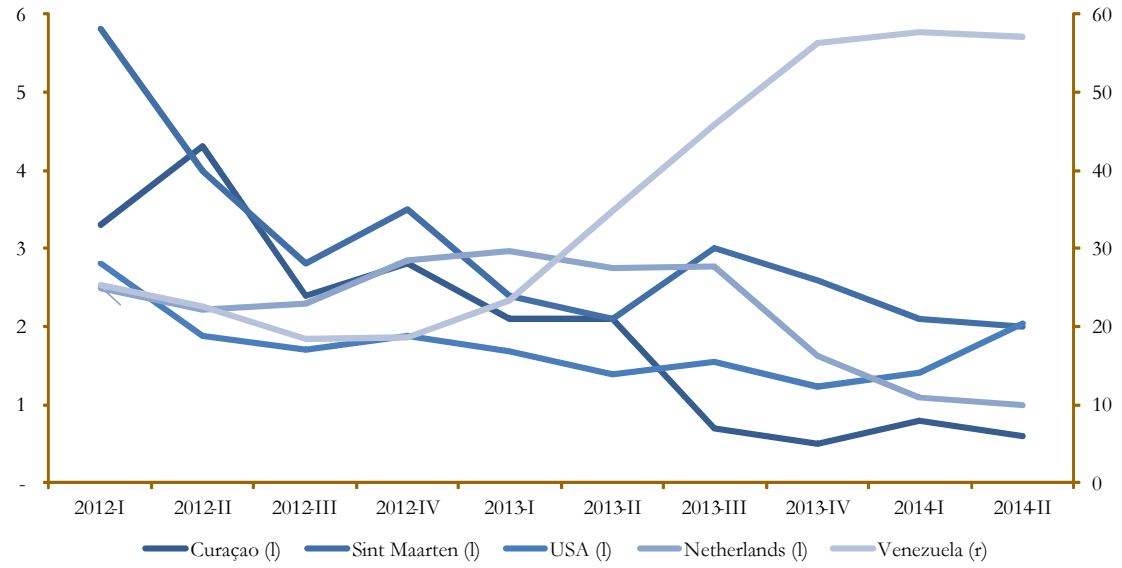
In contrast, the manufacturing and restaurants & hotels sectors contributed positively to real output growth, although less pronounced than in 2013. Activities in the manufacturing sector expanded at a slower pace (2.1%) because of fewer refining activities, mitigated by more trading activities by the refinery. Furthermore, the dismal performance of the ship repair industry dimmed the positive results of the refinery as reflected by a decline in the number of man-hours sold.

Real output growth in the restaurants & hotels sector decelerated (0.5%) during the second quarter of 2014 compared to the second quarter of 2013 because the contribution of stay-over tourism slowed down, while that of cruise tourism dropped. The number of cruise tourists dropped (-4.8%) in line with the decline in the number of cruise calls (-25.0%). Although the number of stay-over visitors declined, the contribution of stay-over tourism rose in line with the growth in the number of visitor nights. However, the contribution of stay-over tourism was less pronounced than in 2013. The number of stay-over visitors dropped by 1.9% in the second quarter of 2014, a turnaround compared to the 6.4% growth in the second quarter of 2013. The drop in stay-over tourism was the result of declines in all tourism markets, except the European market. The number of visitors from the European market segment picked up due mainly to more visitors from the Netherlands, Germany, and Belgium. The European market segment is increasingly benefitting from the regular flights by Air Berlin. In contrast, the Caribbean market registered a decline because of fewer visitors from all submarkets, except Barbados. The largest drops in the number of Caribbean visitors came from Aruba, the Dominican Republic, and Jamaica. In addition, the number of visitors from South America declined as a result of fewer visitors from Venezuela and Surinam, mitigated by more visitors from Brazil. The higher number of Brazilian visitors was mainly the result of more marketing activities, including the filming of the soap "Vitória" in Curaçao. The North American market also contracted, owing to fewer visitors from the United States because of reduced airlift. However, the contraction in the North American market segment was mitigated by more visitors from Canada. Meanwhile, the number of visitor nights (4.8%) and the hotel occupancy rate increased (65.5%) in 2014's second quarter, despite the drop in the number of stay-over visitors. The faster increase in the number of visitor nights resulted from the expansion in the number of European visitors who typically stay longer. Because the increased spending of European visitors surpassed the decline in the expenditures of visitors from the other main markets, total stay-over tourism spending increased, contributing positively to the growth in the restaurants & hotels sector (see Table 10 in the appendix for more details).

INFLATIONARY PRESSURES

Inflationary pressures in Curaçao decelerated significantly from 2.1% in the second quarter of 2013 to 0.6% in the second quarter of 2014. The lower inflationary pressures resulted mainly from a decrease in the prices of fuel and electricity, mitigated by higher food prices.

Graph 1: Developments in consumer prices[a] (percentage)



[a] *Annual percentage change.*

An analysis of the developments in the Consumer Price Inflation components indicates that during the June quarter of 2014, the average prices declined in the categories "Transport & communication" (1.6%), "Health" (1.0%), and "Housing" (0.3%). In the "Transport & communication" category, consumer prices dropped because of a decline in fuel prices, moderated by an increase in communication costs. The lower average prices in the "Housing" category were attributable to a decline in electricity prices, mitigated by a rise in water tariffs and higher dwelling costs. Meanwhile, prices increased in the category "Food" (2.0%) reflecting mainly an increase in the prices of potatoes, vegetables & fruit mitigated by a drop in the prices of grain products and outdoor consumption. In addition, inflationary pressures in the category "Housekeeping & furnishings" decelerated (0.5%) during 2014's second quarter. In contrast, prices accelerated in the categories "Beverages & tobacco" (20.3%) and "Clothing & footwear" (2.2%). Price pressures in the category "Beverages & tobacco" have shown an accelerated quarterly growth since the second quarter of 2013 as a result of the higher turnover tax rate of 9.0% on luxury and unhealthy goods and services, including alcoholic beverages and tobacco, effective May 1, 2013 (see Table 11A in the appendix).

GENERAL ECONOMIC DEVELOPMENTS IN SINT MAARTEN

Sint Maarten's economy expanded by 1.4% during the second quarter of 2014, an acceleration compared to the 0.6% growth recorded in the second quarter of 2013. Meanwhile, consumer price inflation eased slightly to 2.0% reflecting primarily lower fuel prices.

On the production side, real output growth in Sint Maarten came predominantly from the restaurants & hotels, transport, storage & communication, and wholesale & retail trade sectors (see Table 6). Real value added in the restaurants & hotels sector increased during the second quarter of 2014 compared to the second quarter of 2013 because both stay-over and cruise tourism expanded. The positive development in the number of cruise tourists was in line with more cruise calls during 2014's second quarter, attributable to, among other things, increased efforts to promote Sint Maarten as a cruise destination.

Table 6: GDP by sector in Sint Maarten (real percentage changes)

	2013-II	2014-II
Agriculture, fishery, & mining	0.0	0.0
Manufacturing	9.7	-1.0
Electricity, gas, & water	2.4	-0.3
Construction	3.5	-3.9
Wholesale & retail trade	0.3	6.7
Restaurants & hotels	0.0	5.9
Transport, storage, & communication	0.0	4.9
Financial intermediation	-1.3	-1.0
Real estate, renting, & business activity	-0.2	-2.1
Other community, social, & personal services	1.0	-1.6
Private households	-0.2	2.6
Total private sector	0.4	1.1
Public sector	0.5	-0.1
Taxes minus subsidies	-0.2	0.4
GDP	0.6	1.4

Source: Estimates by the Centrale Bank van Curaçao en Sint Maarten.
[a]Real percentage changes.

The number of stay-over visitors was up 11.9% in the April-June period of 2014 compared to the 0.1% growth in the second quarter of 2013. The faster growth in the number of stay-over visitors was supported by increases in all major markets for Sint Maarten, namely, North America, Western Europe, South America, and the Caribbean. The number of visitors from North America increased significantly compared to the second quarter of 2013, from 1.5% to 13.5%, respectively, with most of the growth coming from the United States. The growth in the number of visitors was attributable to increased airlift from both Canada and the United States, including new routes from the United States to Sint

Maarten, as well as an improving U.S. economy. The improvement in the European market segment was ascribable particularly to more visitors from the Netherlands, Italy, and France reflecting among other things, the improved economic situation in the European Union. (See Table 10 in the appendix).

From the South American market, only Venezuela showed a marked decline in the number of visitors to Sint Maarten due to that country's ongoing economic and political turmoil. The Caribbean market segment registered an increase, in particular Trinidad & Tobago, despite the sharp decline in the number of arrivals from the Dominican Republic. Meanwhile, the hotel occupancy rate in 2014's second quarter declined compared to the second quarter of 2013, down from 63.2% to 58.7%, despite the increase in the number of visitors. Some stay-over visitors use smaller hotels or private villas that are not members of the Sint Maarten Hospitality and Trade Association[5] or transit to the neighboring islands of Anguilla and St. Barths, resulting in lower official occupancy rates.

During the second quarter of 2014, real output in the transport, storage, & communication sector grew by 4.9% compared to the second quarter of 2013 because of an increase in both airport and harbor activities. Air transportation and airport-related activities rose as a result of more passenger traffic and commercial landings. The positive performance of the airport was consistent with the increased number of stay-over visitors and the increased airlift to Sint Maarten. Harbor activities also grew as a result of more ships, notably cruise ships, piloted into the port of Sint Maarten. In contrast, the number of freighters declined, though overall tonnage was higher, in line with increased turnover in the wholesale & retail trade and restaurants & hotel sectors.

Activities in the wholesale & retail trade sector grew at a much faster pace during the second quarter of 2014 (6.7%) than in the second quarter of 2013 (0.3%) due to increases in both tourist and domestic spending. The increase in tourist spending is attributable mainly to the higher number of visitors compared to the second quarter of 2013.

Real value added in the financial intermediation sector contracted in the second quarter of 2014, reflecting a decline in real terms in the net interest income of the commercial banks. The manufacturing sector also contracted by 1.0%, mainly as a result of a decline in mega yacht visits in the second quarter of 2014, which led to a decrease in repair activities.

Real value added in the utilities sector declined slightly during the June quarter of 2014 compared to the same period in 2013, also because of fewer mega yachts in port, which draw power from shore. The increasing use of solar panels for electricity production by hotels and household also contributed to lower consumption from the grid. The decline in electricity production was mitigated, however, by increased water production because a new water plant near the A C Wathey Cruise & Cargo Facility became operational.

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[5] Only hotels affiliated with the Sint Maarten Hospitality and Trade Association are included in the hotel occupancy rate data.

The construction sector continued to contract during 2014's second quarter due to fewer private and public investments. The decline in public investments, particularly investments in Sint Maarten's infrastructure, resulted from a delay in the allocation of government funds to finance these projects. Meanwhile, the development in private investments was in line with a decline in the number of building permits issued and fewer business loans extended by the domestic commercial banks.

INFLATIONARY PRESSURES

Price pressures in Sint Maarten eased slightly from 2.1% in the second quarter of 2013 to 2.0% in the second quarter of 2014, mainly because of a slowdown in food price gains.

An analysis of the developments in the Consumer Price Inflation components reveals that price pressures decelerated in the categories "Food" (5.9%), "Housekeeping & furnishings" (1.3%), and "Clothing and footwear" (0.4%). The development in the category "Food" (5.9%) was ascribable to lower price gains in the subcategories of grain products, meat & fish, potatoes, and vegetables & fruit. Meanwhile, inflationary pressures in the category "Housekeeping & furnishings" decelerated from the third quarter of 2013 onwards, primarily as a result of a slower growth in other household expenses combined with a drop in the prices of household appliances and domestic services. In contrast, inflationary pressures accelerated in the category "Housing" (2.0%) as a result of a rise in the prices of electricity and maintenance of dwellings. Following a decline in the second quarter of 2013, prices in the "Health" category rose considerably (6.3%) in the second quarter of 2014. The increase in "Health" prices resulted from, among other things, an increase in the social insurance premiums of employees from 2.1% to 4.2% effective January 1, 2014 (see Table 11B in the appendix for further details).

DEVELOPMENTS IN PUBLIC FINANCES

PUBLIC FINANCES CURAÇAO

In 2014's second quarter, the public sector of Curaçao maintained its focus on attaining healthy and sustainable public finances. Although the instruction by the Kingdom Council of Ministers[6] of July 2012 was finally repealed on March 7, 2014, the Curaçao government decided to uphold the vacancy stop and the tightening measures that had been introduced up to that point. What's more, the existing measures package was broadened in April 2014, when the government introduced steep legal dues and fees on petitions by foreigners for admission to Curaçao.[7] The public sector's negotiations with the labor unions to push

[6] On July 13, 2012, the Kingdom Council of Ministers instructed the Curaçao government to take immediate action to balance the current account of its 2012 budget and multiannual projections.
[7] Petitions for admission of foreigners to Curaçao, pursuant to the National Ordinance Admission and Expulsion (LTU).

through cuts in the benefits of civil servants and trim down personnel costs also continued in the second quarter of 2014. However, no consensus was reached yet. Against this background, government consumption grew only marginally compared to the April-June period of 2013. In turn, public investment declined, owing to a slowdown in the implementation of road reconstruction activities and other projects. Consequently, the government's overall contribution to real GDP in the second quarter of 2014 ended up being negative.

Overall, Curaçao's public finances deteriorated in the June quarter of 2014 compared to 2013's June quarter, as the budget deficit rose by NAf.29.7 million, reaching NAf.54.4 million. This worsening was attributable to a 5.0% decline in revenues, on the one hand, and to a 2.7% rise in expenditures, on the other. Government revenues fell mainly due to lower income from profit tax, wage tax, and sales tax. The lower sales tax proceeds were in line with the economic contraction registered during 2014's second quarter. Moreover, the downturn in goods and services purchased from abroad led to a fall in import duties collected. The rise in government expenditures during the April-June period of 2014 resulted largely from higher disbursements on goods & services and transfers. However, the growth in goods & services was owed mainly to a more even spread of these outlays in the government's financial accounts over the 12 months of 2014 than was the case in 2013. Although wages & salaries disbursements showed a decline in the second quarter of 2014, this drop was not sufficient to offset the mentioned upturn in expenditures (see Tables 12A and 12B in the appendix for an overview).

On June 2, 2014, the Curaçao government issued NAf.247.0 million in bonds to finance the construction of a new public hospital. The proceeds of this loan resulted for the most part in a replenishing of the central bank accounts of the government. However, the ensuing decline in monetary financing was mitigated by the government's withdrawals from its commercial bank accounts, to cover the budget deficit and other liabilities (see Table 7).

Table 7: Financing of the budget balance of Curaçao (in millions NAf.)

	2013-II	2014-II
Monetary financing	53.0	-148.5
Central bank	10.0	-239.2
Commercial banks	43.0	90.7
Nonmonetary financing	-28.3	202.9
Government securities with the public	0.0	247.0
Other	-28.3	-44.1
Budget balance	-24.7	-54.4

Public sector debt

Over the course of 2014's June quarter, Curaçao's public debt reached NAf.2.2 billion (38.1% of GDP), an increase of NAf.183.3 million since the end of March 2014. This upturn can be ascribed largely to the NAf.247.0 million in government bonds emitted in

the beginning of June 2014. Since the Dutch State Treasury Agency (DSTA)[8] was allotted 100% of the new loan, the foreign component of Curaçao's public debt grew by about the same amount. By contrast, the domestic public debt component registered a NAf.63.7 million decline in the second quarter of 2014 as the government reduced its outstanding arrears with the social security bank, SVB, the public pension fund, APC, and other creditors.

PUBLIC FINANCES OF SINT MAARTEN

During the second quarter of 2014, the Sint Maarten government maintained its focus on evolving into a full-fledged public administration. However, the marginal growth in tax revenues in the last few years, combined with the budget deficits incurred in 2010-2013 that still have to be compensated for, and the rapidly rising arrears with the government pension fund and the social & health insurances administration continue to form substantial hurdles to the government's ambitions. On the brighter side, since the 2014 government budget was approved early in 2014, Sint Maarten has been able to borrow to finance projects and to recoup the money invested in projects during the 2011-2012 period. On June 2, 2014, the government of Sint Maarten issued NAf.143.0 million in bonds, the proceeds of which will be used, among other things, to finish the until-now vacant and unfurnished new government building.

Overall, the finances of the Sint Maarten government improved somewhat in the April-June months of 2014 as the government deficit narrowed to NAf.14.9 million compared to NAf.20.8 million in 2013's April-June period. Revenues grew by 4.1%, largely as a result of higher income from the excise on gasoline, and the wage tax and car rental tax. Turnover tax revenues increased slightly, in line with the economic expansion registered in the second quarter of 2014. Meanwhile, the government's expenditures dropped by 1.4% relative to the June quarter of 2013, due to a sharp fall in outlays on goods & services, mainly the result of temporary underspending. By the end of the year, overall spending on goods & services is expected to match the budgeted amount. The fall in expenditures was mitigated by higher transfers & subsidies and disbursements on wages & salaries during the second quarter of 2014 (see Tables 12C and 12D in the appendix for an overview).

On June 2, 2014, the Sint Maarten government emitted a NAf.143.0 million bond loan to finance several projects. The proceeds of the new loan resulted mainly in a decline in monetary financing, as the government increased its deposits with the banking sector. In the meantime, the growth in nonmonetary financing was moderated by the reduction of outstanding liabilities with other creditors (see Table 8).

[8] The Dutch State Treasury Agency (DSTA) has a standing subscription on all loans issued by Curaçao and Sint Maarten. All tenders are based on the current yield of public loans with similar terms issued in the Netherlands.

Table 8: Financing of the budget balance of Sint Maarten (in millions NAf.)

	2013-II	2014-II
Monetary financing	20.2	-98.4
Central bank	0.0	-76.8
Commercial banks	20.2	-21.6
Nonmonetary financing	0.6	113.3
Government securities with the public	0.0	143.0
Other	0.6	-29.7
Budget balance	-20.8	-14.9

Public sector debt

During the June quarter of 2014, Sint Maarten's public debt rose by NAf.269.9 million, reaching NAf.722.6 million (39.0% of GDP). This rise was due mostly to the NAf.143.0 million in bonds emitted by the Sint Maarten government in June 2014. Because the Dutch State Treasury Agency (DSTA)[9] was the sole purchaser of the new government bonds, Sint Maarten's foreign debt share rose by the same amount as the loan. Meanwhile, the buildup of additional arrears with the social security bank, SZV, and the public pension fund, APS, caused the domestic share of Sint Maarten's public debt to grow by NAf.126.9 million during the second quarter of 2014.

[9] The Dutch State Treasury Agency (DSTA) has a standing subscription on all loans issued by Curaçao and Sint Maarten. All tenders are based on the current yield of public loans with similar terms issued in the Netherlands.

Box:

The exposure of Curaçao's economy to shocks from Venezuela

After conducting the Article IV Consultations in Curaçao and Sint Maarten, the International Monetary Fund (IMF) published its preliminary conclusions on May 20, 2014. According to the IMF, *"the volatile situation in Venezuela, already hurting Curaçao's tourism and transportation sectors, could deteriorate further and complicate negotiations to upgrade the refinery in time for the expiry of the current lease to PDVSA in 2019."* Curaçao is a small and open economy and, therefore, vulnerable to shocks from abroad. Traditionally, Venezuela has been one of Curaçao's main trading partners, particularly for the tourism, transportation, free-zone, and refinery sectors. This textbox describes the dependence and, hence, exposure of these sectors to shocks from Venezuela.

Tourism is the main contributor to the foreign exchange income of Curaçao (24.4%). The main tourism markets of Curaçao are the Netherlands (32.9%), Venezuela (18.9%), and the United States (15.0%). [1] Venezuela has been experiencing a substantial gap between its official and black market exchange rates for some years as a result of currency restrictions. Consequently, Venezuelans travel abroad mostly to obtain U.S. dollars that are exchanged for bolívars in their home country. It is expected, therefore, that this type of stay-over visitors (the so-called *dollar visitors*) spends less than regular visitors.[2] Venezuelan visitors generated an estimated foreign exchange income of NAf.188.0 million (18.0% of total foreign exchange income from stay-over tourism) in 2013 compared to NAf.152.7 million (15.7% of total foreign exchange income from stay-over tourism) in 2012 (see Figure 1).[3] This increase resulted from a smaller growth in the number of visitors from Venezuela in 2013 (11.0%) than in 2012 (35.0%). The measures implemented by the Venezuelan government apparently affected the pace of growth in the number of visitors in 2013 and the decline in the first and second quarters of 2014 (21.0% and 2.3%, respectively).

The Isla refinery is a key pillar of the economy of Curaçao in terms of value added, employment, and foreign exchange income. The refinery is one of the main contributors to Curaçao's foreign exchange income (15.4%). Because of the lease agreement with Petróleos de Venezuela S.A. (PDVSA), activities at the refinery are highly dependent on the oil supply from Venezuela. Thus, a decline or disruption in this supply will result in less foreign exchange income from the refinery. Apart from these direct economic effects, fewer activities at the refinery also will reduce activities at the harbor as fewer oil tankers from Venezuela will call at the ports of Curaçao.

The transportation sector also is an essential contributor to the foreign exchange income of Curaçao (10.5%).[4] However, the latest developments in this sector, including the bankruptcy of the local airline DAE and problems of the local airline Insel Air to obtain its ticket revenues from Venezuela, have shown the high level of risk that the Venezuelan market represents for Curaçao.

The free zone also plays an important role in generating foreign exchange income for Curaçao (10.8%). Venezuela constitutes the largest free-zone market of Curaçao, representing more than half of the re-exports of the domestic free-zone companies. The devaluation of the bolívar in early 2013 and the currency restrictions in Venezuela resulted in a substantial decline in foreign exchange income from re-exports to Venezuela from NAf.514.9 million (65.1% of total foreign exchange revenues from re-export activities) in 2012 to NAf.229.5 million (49.9% of total foreign exchange revenues from re-export activities) in 2013 (see Figure 2). If the uncertain situation in Venezuela continues, it will likely cause a further drop in foreign exchange income from re-exports. Poor results in the free zone will be accompanied by fewer visitors from Venezuela.

The economy of Curaçao clearly is dependent on the Venezuelan market, particularly for the tourism, transportation, free-zone, and refinery sectors. Shocks from Venezuela will not only negatively affect the foreign exchange income of these sectors and, hence, worsen the current account of the balance of payments, but they will also reduce activities in tourism-related sectors,[5] and by extension, reduce employment and GDP growth. Therefore, to reduce its exposure to the Venezuelan market, Curaçao should diversify into other markets.

Figure 1: Development in stay-over tourism

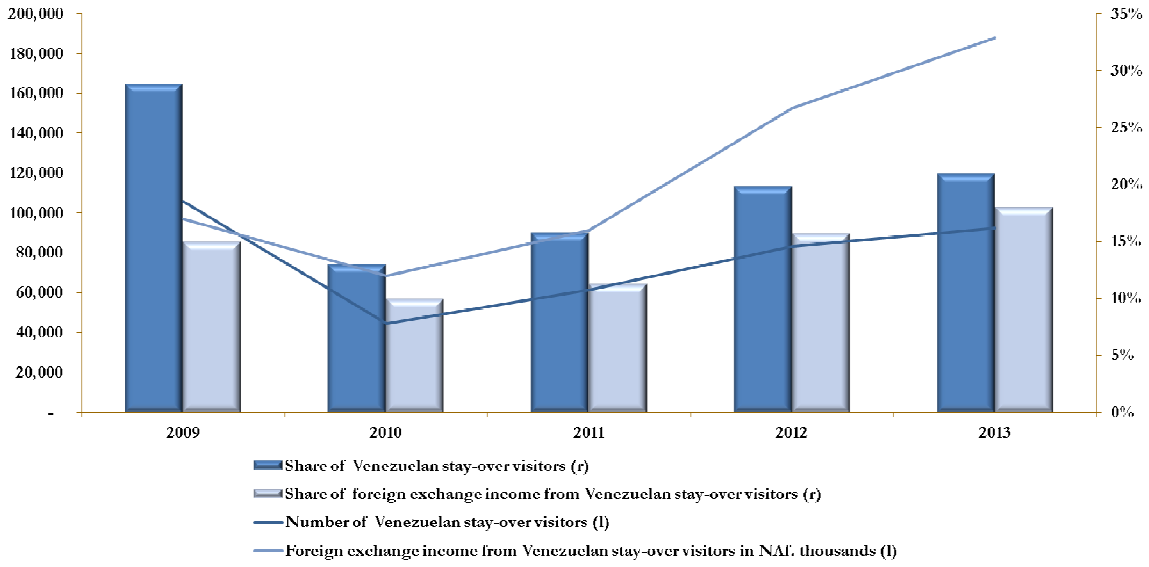
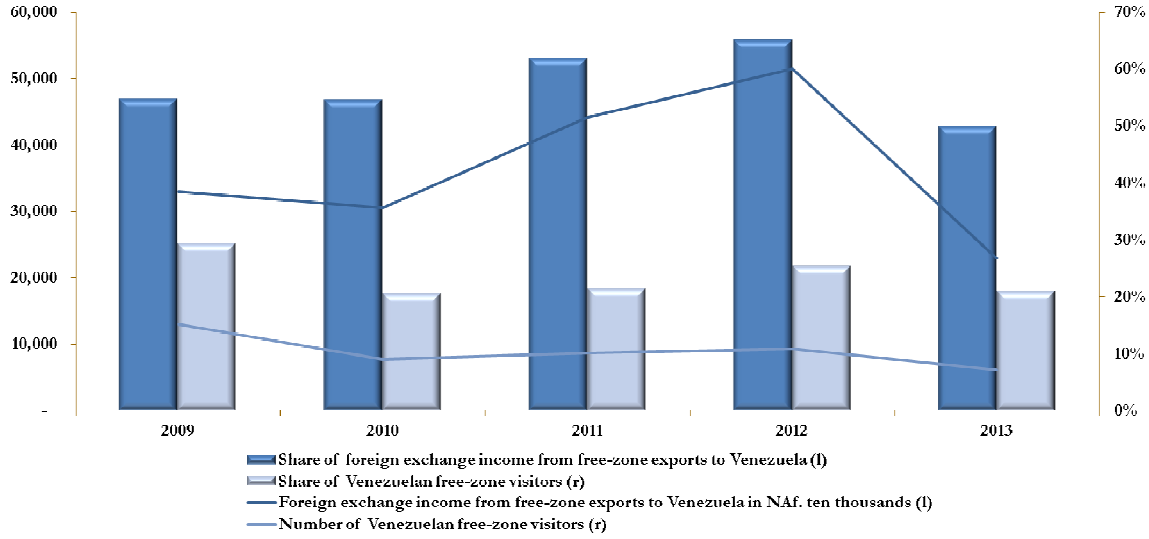


Figure 2: Development in the free-zone



[1] The percentages indicate the average shares for the period 2011-2013.
[2] More in-depth research is needed regarding the spending pattern of Venezuelan *dollar visitors*.
[3] The foreign exchange income is calculated by multiplying the number of stay-over visitors, average visitor expenditures, and number of visitor nights in a particular period. However, foreign exchange income in 2013 was calculated with the average visitor expenditures in 2012.
[4] The Venezuelan market generated an estimated foreign exchange income of NAf. 226.6 million (50.7% of total foreign exchange income from airport activities) in 2013, an increase compared to the NAf. 114.0 million (33.5% of total foreign exchange income from airport activities) in 2012.
[5] Tourism-related sectors consist of, among others, the restaurants & hotels and wholesale & retail trade sectors.

DEVELOPMENTS IN THE BALANCE OF PAYMENTS OF THE MONETARY UNION

Based on the Bank's preliminary data and estimates,[10] the current account deficit of the balance of payments of the monetary union narrowed by NAf.172.4 during the second quarter of 2014 compared to the second quarter of 2013. This improvement was caused largely by an increase in net exports of goods and services; imports dropped while exports remained fairly stable.

Meanwhile, gross official reserves increased by NAf.217.3 million, attributable particularly to a strong inflow of funds related to the issuance of bonds by the Curaçao and Sint Maarten governments in June 2014. As agreed upon in the debt relief program, the Dutch State Treasury Agency (DSTA) is legally obliged to bid on debt securities issued by the two countries for the full requested amount at interest rates prevailing in the Dutch capital market[11] (see Table 9).

Table 9: Balance of payments summary (in millions NAf.)

	2012-II	2013-II	2014-II
Current account	-372.3	-311.0	-138.6*
Change in gross reserves of the central bank**	-38.1	-14.0	-217.3
Foreign exchange	-59.8	72.2	-272.1
-held at foreign central banks	-212.5	159.8	-153.2
-held at foreign commercial banks	152.7	-87.6	-118.9
Other claims	21.7	-86.2	54.8

** Estimate of CBCS.*
*** A minus sign implies an increase.*

Developments in the net exports of goods and services in Curaçao

Net exports of goods and services in Curaçao are estimated to have increased during the second quarter of 2014 compared to 2013's second quarter because the decline in imports exceeded the drop in exports. Imports declined mainly because of fewer merchandise imports by the free-zone companies.

At the same time, the contraction in exports was ascribable mainly to lower foreign exchange revenues from bunkering activities and air transportation services provided to abroad. The decline in air transportation services was caused primarily by the demise of

[10] When all data on the balance of payments are available, a full analysis of the current capital,and financial account will be made available as an appendix to this Quarterly Bulletin on the website of the CBCS.
[11]The standing subscription.

the local carrier DAE during the third quarter of 2013. However, an increase in the re-exports by the free-zone companies, more foreign exchange revenues from tourism, and a rise in the refining fee mitigated the drop in exports. Following a drop in the second quarter of 2013, re-exports by the free-zone companies rose mainly because of more demand from Venezuela and Panama. As free-zone imports dropped, the free-zone companies likely reduced their inventories to meet foreign demand. The increase in foreign exchange earnings from tourism was supported mainly by more receipts from stay-over visitors. Despite a decline in the total number of stay-over arrivals, foreign exchange earnings rose primarily as a result of the increase in the European market segment. On average, European visitors stay longer than visitors from the other main markets. Hence, the increase in foreign exchange revenues from the European market segment exceeded the decreased revenues in the other main market segments.

Developments in the net exports of goods and services in Sint Maarten

In Sint Maarten, net exports of goods and services are estimated to have increased because of a decline in imports combined with a rise in exports. The decline in imports was the result of a drop in both oil and non-oil merchandise imports. The export growth stemmed primarily from a growth in foreign exchange revenues from the tourism sector. Following a decline in the second quarter of 2013, foreign exchange receipts from the tourism sector picked up during the second quarter of 2014 because of more revenues from both stay-over and cruise tourism.

Developments in the income balance and current transfers balance

Both the income and current transfers balances improved during the second quarter of 2014 compared to the second quarter of 2013. The deficit on the income balance narrowed slightly (NAf.1.3 million) because of an increase in net investment income, mitigated by a decline in net labor income received from abroad. Net investment income increased as a result of, among other things, a rise in dividend payments received on direct investments abroad and lower interest payments on foreign portfolio investments in the monetary union. Meanwhile, the improvement in the current transfers balance (NAf.55.9 million) was the result of an increase in current transfers received from abroad combined with a decline in current transfers paid to abroad.

MONETARY DEVELOPMENTS

MONETARY POLICY

During the second quarter of 2014, the Bank continued to direct its core instruments of monetary policy--the reserve requirement and the auctioning of Certificates of Deposit[12] (CDs)--to withdraw liquidity from the banking system. The percentage of the reserve

[12] These are negotiable securities issued by the Bank.

requirement, which is fixed for a period of four weeks, was increased by 50 basis points to reach 18.00% at the end of the second quarter of 2014. The Bank also offered more CDs during the bi-weekly auctions. However, despite making these securities more attractive to the banks by offering higher interest rates, subscriptions fell short. As a consequence, the amount of outstanding CDs dropped to NAf.20.0 million at the end of the June quarter.

Furthermore, the credit measure--introduced in March 2012 to control the growth of domestic credit extension--remained in effect during the June quarter of 2014. For the March to August 2014 period, private credit extension was allowed to grow by 4% compared to the outstanding amount at the end of August 2012. However, the lower credit demand and the banks' more cautious credit policies contributed to a contraction in domestic credit extension during the second quarter of 2014.

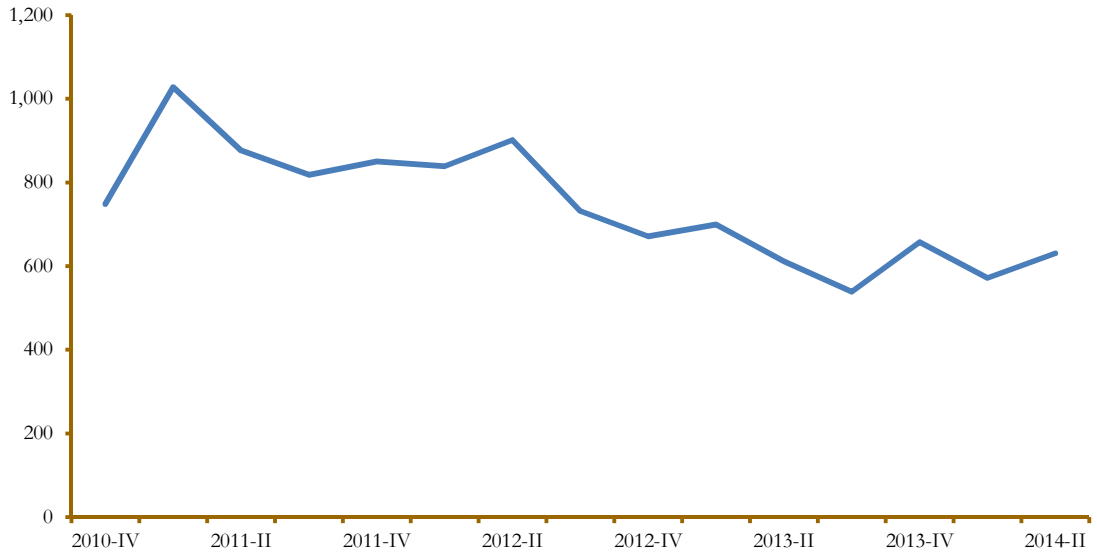
The Bank's official interest rate, the pledging rate, was left unchanged at 1.00% throughout the second quarter of 2014.

MONETARY BASE

The monetary base13 (M0) increased by NAf.59.1 million (10.3%) in the second quarter of 2014, reversing the previous quarter's drop of NAf.85.7 million (13.0%). Both monetary base components rose: commercial bank deposits with the Bank increased by NAf.39.5 million, and currency in circulation increased by NAf.19.5 million. On an annual basis, M0 rose by 3.1% in 2014's June quarter as opposed to an 18.3% drop in 2014's March quarter (see Table 13 in the appendix). As depicted in Graph 2, M0 has shown a downward trend since the second quarter of 2012 as a result of the tightening of the Bank's monetary policy.

[13] The monetary base includes currency in circulation and the current account balances of the commercial banks with the Bank.

Graph 2: Development in the monetary base (in millions of NAf.)



The expansion in the monetary base in 2014's June quarter was caused by a growth of 8.3% in the Bank's assets mitigated by an 8.0% expansion in the Bank's remaining liabilities. The increase in assets was driven by an increase in the Bank's foreign assets and the provision of short-term liquidity to the commercial banks. Meanwhile, the expansion in the remaining liabilities of the Bank was largely the result of an increase in government deposits from the proceeds of the debt securities issued by Curaçao and Sint Maarten in June 2014. However, a reduction in the Bank's foreign liabilities related to the purchase of these debt securities by the Dutch State Treasury Agency (DSTA) mitigated the growth in the Bank's remaining liabilities.

MONETARY AGGREGATES

Broad money (M2) increased by NAf.75.8 million (1.0%) during the second quarter of 2014, the result of a growth in the net foreign assets of the banking system (9.4%), which was partly offset by a drop (7.4%) in net domestic assets. As a consequence, annual M2 growth was more pronounced in June 2014 (3.3%) than in March 2014 (1.7%).

The growth in the money supply during the second quarter of 2014 was driven by the narrow money component (M1), which rose by NAf.103.0 million (2.9%). The rise in M1 was due to an increase in demand deposits by NAf.98.7 million (3.1%), led primarily by an increase in foreign currency deposits. In addition, currency in circulation increased by NAf.4.3 million (1.3%.). By contrast, the near money component shrank by NAf.27.2 million (0.7%) because of a decline in time deposits. As a result, the annual growth rate of M1 surged from 4.8% in March to 9.2% in June. The development in M1 can be explained by the inflow of funds related to the issuance of government securities and a lack of attractively yielding alternative assets in which to invest (see Table 14 in the appendix).

FACTORS AFFECTING THE MONEY SUPPLY

Money holdings of the private sector expanded by NAf.75.8 million to reach NAf.7,702.4 million at the end of the second quarter of 2014. An increase in the net foreign assets of the banking system by NAf.357.5 million contributed entirely to the monetary growth in the second quarter of 2014. The monetary expansion was mitigated by a drop in net domestic assets of NAf.281.7 million caused by declines in net claims on the government (NAf.246.0 million) and memorandum balance sheet items (NAf.80.4 million). The contractionary impact of the public sector stemmed from increased deposits of both the government of Curaçao and the government of Sint Maarten with the Bank related to the proceeds of the bonds issued in June 2014. On the other hand, net claims on the private sector increased by NAf.44.7 million (see Table 15 in the appendix for more details).

The loan component of net credit extended to the private sector remained practically unchanged in 2014's second quarter compared to 2014's first quarter. Declines in consumer loans (0.5%) and business loans (0.2%) were offset by an increase in mortgages (0.5%). In Curaçao, total loans extended increased as business loans, mortgages, and consumer loans all rose by 0.3%. In Sint Maarten, the amount of private sector loans outstanding contracted by 0.7% in the second quarter of 2014. This contraction was driven by declines in business loans (2.1%) and consumer loans (2.6%). Mortgages, on the other hand, increased by 1.2%. On an annual basis, total loans contracted by 1.3% because fewer loans were extended in both Curaçao (0.9%) and Sint Maarten (2.3%). The development in private credit extension is attributable not only to the credit measure but also to lower credit demand and the banks' tighter standards for loan approval.

DEVELOPMENTS IN DOMESTIC INTEREST RATES

Normally, when setting the rate offered on CDs during the bi-weekly auctions, the Bank takes into account developments in the international financial markets. The benchmark one-month US dollar libor rate[14] remained unchanged during the second quarter of 2014. However, to make the CDs more attractive, the Bank started to offer higher rates at the auctions in May 2014. Consequently the maximum rate offered on a 1-month CD increased from 0.06% during the first quarter of 2014 to 0.12% during the second quarter of 2014.

During 2014's June quarter, commercial banks' deposit rates increased while lending rates dropped. The weighted average interest rate offered on a 12-month time deposit increased from 1.5% in March 2014 to 1.7% in June, about the same rate that prevailed in 2013. The average interest rate on passbook savings remained stable at 1.2%. Meanwhile, with respect to commercial bank lending rates, the weighted average rate for mortgages and time loans edged down from 6.8% and 8.0% at the end of March 2014 to 6.5% and 7.5%, respectively, at the end of June.

[14] The London interbank offered rate, the main gauge of interbank lending.

Changes in the yields on government paper are virtually determined by the developments in the Dutch capital market due to the standing subscription by the Dutch State Treasury Agency (DSTA).[15] The average effective yield on 5-year government bonds dropped by 29 basis points reaching 0.5% at the end of 2014's June quarter. Moreover, the yield on 12-month treasury bills dropped from 0.13% at the end of the first quarter of 2014 to 0.08% at the end of 2014's second quarter (see Table 16 in the appendix for a detailed overview).

[15] As part of the debt relief program, the Dutch government agreed to subscribe on all new loans issued by the governments of Curaçao and Sint Maarten at rates prevailing in the Dutch capital market during the period that financial supervision by the Kingdom is in effect.

IV: FINANCIAL STABILITY

DEVELOPMENTS IN THE COMMERCIAL BANKING SECTOR[16]

BALANCE SHEET AND INCOME STATEMENT

The total assets of the commercial banks increased by 4.0% at the end of the second quarter of 2014 compared to the second quarter of 2013, reaching NAf.16.3 billion. Expansion of the aggregate balance sheet of the commercial banks resulted primarily from expansions in currency and deposits (18.6%) and loans (0.4%). Non-interest-bearing cash (55.9%) was the main contributor to the currency and deposits expansion. An increase in loans to households (1.9%) was offset in part by the contraction in loans to nonfinancial corporations (-1.3%). However, these expansions were mitigated by contractions in investments (-0.8%) and other assets (-44.0%). The drop in debt securities (-9.7%) caused the contraction in investments, mitigated by an expansion in shares and other equity (27.4%) (see Table 17 in the appendix for more details).

The total debt of the commercial banks rose by 5.2% from the second quarter of 2013 to the second quarter of 2014, with increases in currency and deposits (6.6%) and total borrowings (12.7%) exceeding a decline in other liabilities (-24.4%). The increase in currency and deposits can be attributed to an increase in both demand (19.6%) and savings deposits (0.2%), while time deposits contracted (-10.3%). Among other things, the commercial banks' efforts to preserve their net interest margin resulted in a decline in the share of interest-bearing deposits to total deposits. Last, capital and reserves declined by 5.6%, with expansions in minority interest (17.6%) and general provisions (1.2%) partly offsetting the decline in the capital base (-7.1%).

The commercial banks reported a total gross income (i.e., net interest income plus non-interest income) of NAf.471.4 million in the second quarter of 2014, a decrease of 6.1% compared to the second quarter of 2013. Decreases in both interest income (-4.1%) and non-interest income (-10.9%) contributed to the decline in gross income. Furthermore, net income before extraordinary items and taxes decreased by 28.6% because of increases in both non-interest expenses (3.5%) and provisions (13.1%). The rise in non-interest expenses can be explained by increases in other operating expenses (18.4%) and salaries & other employee expenses (1.1%), while occupancy expenses decreased (-10.8%). Last, extraordinary items increased from NAf.2.2 million at the end of the second quarter of

[16] Pursuant to *Article 28 of the National Ordinance on the Supervision of Banking and Credit Institutions (PB 1994, no. 4)*, the CBCS executed, under the authority granted to it, as of December 2013, an emergency measure with regard to an institution. As a result, the sector data should be interpreted with some reservation.

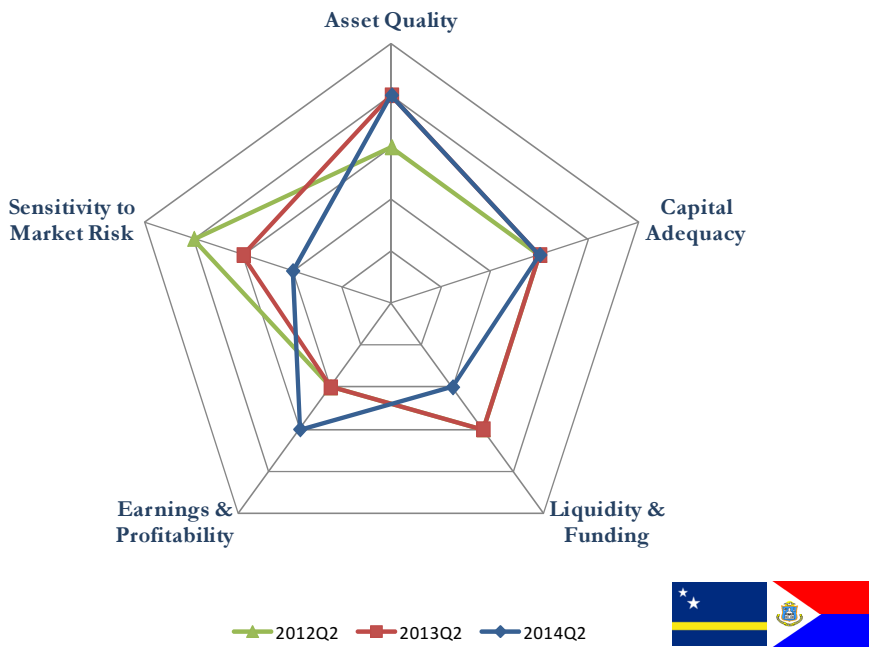
2013 to NAf.43.4 million at the end of the second quarter of 2014, while dividends payable decreased by 44.2%. As a result, retained earnings totaled NAf.108.1 million in the second quarter of 2014, a 19.3% increase compared to the second quarter of 2013 (see Table 18 in the appendix for more details).

FINANCIAL SOUNDNESS INDICATORS

Financial soundness indicators (FSIs) are used by the Bank to support macroprudential analysis, which assesses the strengths and vulnerabilities of the banking sector. This monitoring task is part of the Bank's continuing efforts to proactively undertake preemptive measures to structurally enhance the resilience of the financial system and its institutions against shocks and thus promote growth and macroeconomic stability. Ensuring financial stability and calling upon a macroprudential strategy involves integration with traditional microprudential supervision of institutions and monetary policy.

An overview of financial stability in the commercial banking sector is represented in a cobweb, a snapshot of the components analyzed in the next section (see Graph 3). The risk in earnings & profitability increased in the second quarter of 2014 compared to the previous years, while liquidity & funding and sensitivity to market risk decreased. Capital adequacy and asset quality remained stable.

Graph 3: Financial stability Cobweb of commercial banking sector



This overview is complemented by the aggregated balance sheet, income statement, and financial soundness indicators[17] (see Tables 17, 18 and 19 in the appendix). As can be seen from Table 19 in the appendix, half of the indicators outperformed the four-year average.

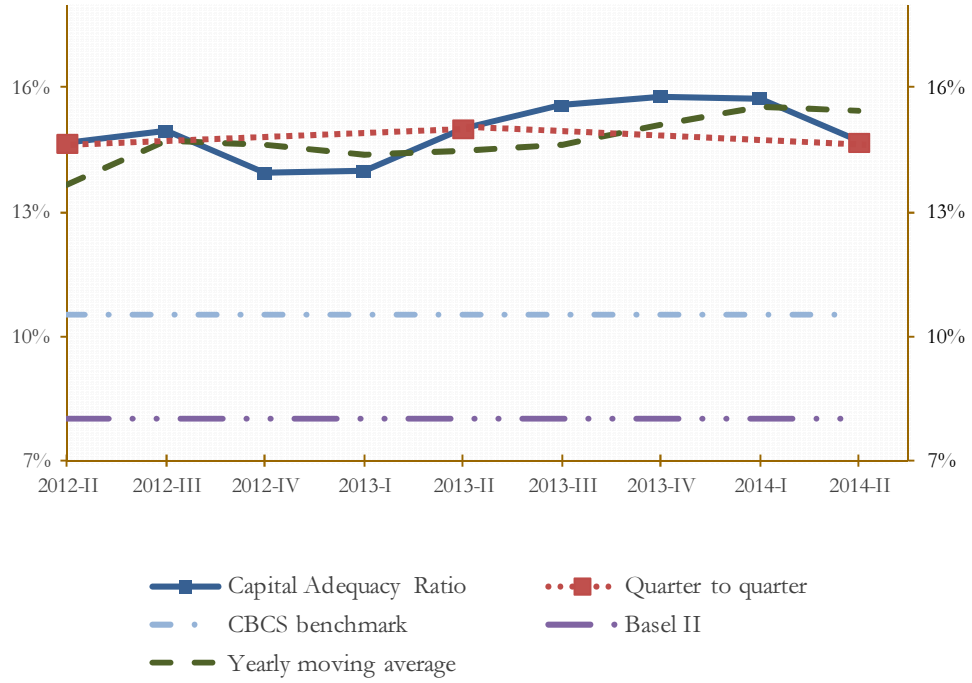
Capital adequacy

Capital adequacy and availability ultimately determines the robustness of financial institutions to withstand shocks to their balance sheets. Capital provides not only a cushion for losses, but also a buffer for deposit insurance, while controlling excessive risk-taking by banks. The capital adequacy ratio (i.e., tier-1 and tier-2 capital to risk-weighted assets) reached 14.7% at the end of the second quarter of 2014, a decrease of 30 basis points compared to the second quarter of 2013. The capital adequacy ratio outperformed the four-year average, indicating an upward trend in the capital stock of the commercial banks. The capital adequacy ratio is well above the benchmark of 8% under the Basel II agreements and the Bank's benchmark of 10.5% (see Graph 4). However, this development should be acknowledged with some reservation, as the NPL[18] (net of provisions) to capital ratio remained above the 4-year average of 44%. This level reflects a significant exposure of the banks' capital to credit risk and underscores the importance of banks increasing their capacity to withstand losses from nonperforming loans. The Bank monitors this development closely since it indicates vulnerabilities in the capital adequacy arising from credit risk. Therefore, the risk in capital adequacy remained stable in the second quarter of 2014 compared to the previous years.

[17] All indicators for the commercial banks are compiled on a consolidated basis and in accordance with the IMF guidelines and principles. They include both the core and the encouraged set of indicators defined by the IMF.

[18] Nonperforming loans

Graph 4: Trend analysis of the capital adequacy ratio



Asset quality

The banks' exposure to credit risk is also reflected in the NPL to total gross loans ratio. This ratio decreased slightly from 12.0% at the end of the second quarter of 2013 to 11.6% at the end of the second quarter of 2014, indicating a deterioration of the asset quality in the loan portfolio of the commercial banks. In addition, the provisions to the NPL ratio of the banks remained about the same, indicating a reserved attitude by the banks with respect to precautionary measures to cover their credit risk. The share of foreign currency loans in gross loans decreased slightly by 60 basis points to 45% at the end of the second quarter of 2014. However, the ratio of foreign currency-denominated liabilities to total liabilities increased by 3.9 percentage points to 58% at the end of the second quarter of 2014, underscoring the banks' reliance on foreign currency. Last, the large exposures of loans, leases, and advances to capital ratio increased from 273% at the end of the second quarter of 2013 to 335% at the end of the second quarter of 2014. The Bank monitors this ratio closely since it indicates increasing vulnerabilities arising from concentration risk. In conclusion, the risk in asset quality remained stable in the second quarter of 2014 compared to 2013, but increased compared to 2012.

Earnings & profitability

The efficiency of the banking sector in using its assets deteriorated slightly, with the return on assets ratio reaching 1.4% at the end of the second quarter of 2014, 40 basis points lower than in the second quarter of 2013. The return on equity ratio followed a similar trend, decreasing by 1.1 percentage points to 14.8% at the end of the second quarter of

2014. The spread between lending and deposit rates declined slightly by 10 basis points to 6.3% at the end of the second quarter of 2014. This development can be explained by a continued downward trend in the lending rate outweighing the slight increase in the funding rate. Both the spread and asset quality will put pressure on the banks' earnings capacity in the future. With respect to efficiency, the ratio of personnel expenses to noninterest expenses decreased by 1.3 percentage points to 55% at the end of the second quarter in 2014, below the four-year average. However, the banks were not able to maintain their efficiency in the use of their resources with regard to operational expenses as the share of noninterest expenses in gross income increased by 6.3 percentage points to 70% at the end of the second quarter of 2014. This decrease in the banks' efficiency will put pressure on their profitability. Last, the share of net interest earnings (i.e., interest earned less interest expenses) in gross income increased by 2.0 percentage points to 66% at the end of the second quarter of 2014, equal to the four-year average. This development indicates that the banks' diversification of income has weakened, making it harder to withstand shocks. In conclusion, the risk in earnings & profitability increased in the second quarter of 2014 compared to the previous years.

Liquidity & funding

The ample liquidity of the banking sector continued to show an upward trend, strengthening the sector's ability to withstand shocks to its balance sheets. The liquid assets to total assets ratio increased from 28% at the end of the second quarter of 2013 to 32% at the end of the second quarter of 2014, outperforming the four-year average. This increase reflects the banks' ability to meet expected and unexpected demands for cash. Also the liquid assets to short-term liabilities ratio increased by 4.5 percentage points to reach 41% at the end of the second quarter of 2014, indicating a decrease in the mismatch of the short-term assets and liabilities of the banks. This development captures the banks' efforts to increase the extent to which they can meet short-term withdrawals of funds without facing liquidity problems. Last, the total deposits to total loans ratio also increased by 7.5 percentage points to 150% at the end of the second quarter of 2014, indicating a higher degree of stable funding (i.e., customer deposits) to illiquid assets (i.e., loans). The value of this indicator, which is well above the four-year average, combined with an upward trend points to stable depositor and investor confidence in the long-term viability of the banking sector and diminishing potential liquidity stress. Therefore, the risk in liquidity & funding decreased in the second quarter of 2014 compared to the previous years.

Sensitivity to market risk

The decrease in the weighted average lending rate combined with an increase in the weighted average funding rate resulted in a slight decline in the net interest margin of 10 basis points. The mismatch between foreign currency asset and liability positions at the commercial banks continued to improve, with the net open position in foreign exchange to capital ratio decreasing from 98% at the end of the second quarter of 2012 to 71% in 2013 to 54% at the end of the second quarter of 2014. This development indicates an improvement in the banks' sensitivity to market risk, lowering their exposure to exchange

rate risk. Furthermore, the total foreign exposure relative to the banks' capital position (i.e., the net foreign assets to total capital ratio) remained relatively stable at 83% at the end of the second quarter of 2014. However, compared to the 99% ratio in the second quarter of 2012, the banks have significantly reduced the pressure on their ability to withstand shocks from foreign markets. Therefore, the sensitivity to market risk continued to decrease in 2014 as in previous years.

APPENDIX

Table 10: Stay-over tourism development by island[ab]

	Curaçao				Sint Maarten			
	2013-II		2014-II		2013-II		2014-II	
North America, of which:	3.6	(0.6)	-16.4	(-2.4)	1.5	(1.0)	13.5	(9.0)
-U.S.A.	1.5	(0.2)	-20.2	(-2.6)	0.2	(0.1)	13.8	(8.1)
Europe, of which:	-0.6	(-0.2)	4.9	(2.0)	-1.4	(-0.3)	9.3	(1.7)
-The Netherlands	-2.1	(-0.6)	1.3	(0.4)	2.2	(0.1)	10.7	(0.4)
South & Central America, of which:	11.0	(3.2)	-3.2	(-0.9)	-0.1	(0.0)	10.0	(0.3)
-Venezuela	5.4	(1.0)	-2.6	(-0.5)	-12.6	(-0.1)	-21.4	(-0.1)
-Colombia	18.3	(0.5)	6.9	(0.2)	--	--	--	--
-Surinam	38.2	(1.2)	-15.2	(-0.4)	--	--	--	--
Caribbean, of which:	2.6	(0.3)	-17.7	(-1.5)	4.5	(0.2)	9.6	(0.5)
-Dominican Republic	58.3	(0.8)	-42.2	(-0.4)	40.5	(0.4)	-8.3	(-0.1)
Total	6.4	--	-1.9	--	0.1	--	11.9	--

Source: Curacao Tourist Board (CTB) and St. Maarten Tourist Bureau
[a]*Percentage change.*
[b]*The weighted growth rates are depicted between brackets.*

Table 11A: Development in the consumer price index of Curaçao[a]

	2013-II	2013-III	2013-IV	2014-I	2014-II
Food	3.4	0.6	-1.4	-0.8	2.0
Beverages & tobacco	3.0	8.2	14.7	17.9	20.3
Clothing & footwear	1.6	1.8	-0.4	1.3	2.2
Housing	3.5	0.8	1.7	2.3	-0.3
Housekeeping & furnishings	2.7	2.3	2.1	1.2	0.5
Health	-1.1	-2.5	-1.8	-1.3	-1.0
Transport & communication	-0.3	-1.0	-1.1	-1.1	-1.6
Recreation & education	0.6	0.6	0.6	0.4	1.2
Other	1.7	1.6	0.9	0.8	1.0
General inflation rate	**2.1**	**0.7**	**0.5**	**0.8**	**0.6**

Source: Central Bureau of Statistics of Curaçao
[a]Annual quarterly percentage change

Table 11B: Development in the consumer price index of Sint Maarten[a]

	2013-II	2013-III	2013-IV	2014-I	2014-II
Food	6.1	6.5	6.4	6.3	5.9
Beverages & tobacco	3.1	2.0	3.2	3.3	3.2
Clothing & footwear	0.8	0.2	0.0	0.5	0.4
Housing	0.0	1.6	1.5	2.2	2.0
Housekeeping & furnishings	14.7	13.5	13.2	3.7	1.3
Health	-0.8	0.5	1.6	3.9	6.3
Transport & communication	0.3	1.3	-0.3	-0.8	0.3
Recreation & education	1.6	1.4	1.0	0.5	-0.3
Other	2.7	4.0	3.5	1.9	1.1
General inflation rate	**2.1**	**3.0**	**2.6**	**2.1**	**2.0**

Source: Department of Statistics of Sint Maarten
[a]Annual quarterly percentage change

Table 12A: Budgetary overview of Curaçao (in millions NAf.)

	2012-II	2013-II	2014-II
Revenues	373.0	376.9	358.2
Tax revenues, of which:	340.0	346.6	322.9
Taxes on income and profits	165.8	169.9	153.0
Taxes on property	8.4	7.3	8.9
Taxes on goods and services	122.6	127.9	120.5
Taxes on international trade and transactions	42.0	40.2	38.8
Nontax and other revenues	33.0	30.3	35.3
Expenditures, of which:	480.9	401.6	412.6
Wages and salaries	233.7	198.0	192.0
Goods and services	46.3	30.2	43.2
Transfers and subsidies	160.4	136.8	138.5
Interest payments	29.4	24.8	25.0
Other expenditures	11.2	11.8	13.9
Budget balance	**-107.9**	**-24.7**	**-54.4**

Table 12B: Overview of selected tax revenues of Curaçao (in millions NAf.)

	2012-II	2013-II	2014-II
Taxes on income and profits, of which:	165.8	169.9	153.0
Profit tax	38.3	47.3	38.1
Wage tax	120.1	121.2	113.4
Taxes on property, of which:	8.4	7.3	8.9
Land tax	4.3	4.6	3.4
Property transfer tax	3.7	2.5	5.2
Taxes on goods and services, of which:	122.6	127.9	120.5
Sales tax	93.3	99.5	91.4
Excises, of which:	22.0	18.4	19.8
Excise on gasoline	13.2	11.1	11.1
Motor vehicle tax	3.7	3.8	4.2
Taxes on international trade and transactions, of which:	42.0	40.2	38.8
Import duties	41.7	40.0	38.6

Table 12C: Budgetary overview of Sint Maarten (in millions NAf.)

	2012-II	2013-II	2014-II
Revenues	100.2	101.0	105.2
Tax revenues, of which:	83.3	78.2	84.5
Taxes on income and profits	34.4	34.4	36.9
Taxes on property	3.2	–	–
Taxes on goods and services	45.6	–	–
Nontax and other revenues	17.0	22.8	20.7
Expenditures	120.5	121.8	120.0
Wages and salaries	47.6	55.6	57.6
Goods and services	33.0	33.0	23.3
Transfers and subsidies	29.2	29.0	34.5
Interest payments	4.3	2.7	2.7
Other expenditures	9.1	1.5	1.9
Budget balance	**-20.2**	**-20.8**	**-14.9**

– = not available
Sources: Sint Maarten Ministry of Finance.
Sint Maarten Report Progress, second quarter of 2014.

Table 12D: Overview of selected tax revenues of Sint Maarten (in millions NAf.)

	2012-II	2013-II	2014-II
Taxes on income and profits, of which:	34.4	34.4	36.9
Profit tax	2.9	4.3	4.1
Wage tax	32.9	30.1	32.4
Taxes on property, of which:	3.2	–	–
Land tax	0.7	–	–
Property transfer tax	2.5	1.6	2.0
Taxes on goods and services, of which:	45.6	–	–
Turnover tax	34.7	36.9	37.0
Vehicle tax	0.4	1.0	0.5
Excise on gasoline	4.3	1.1	4.3

Table 13: The monetary base and its sources (in millions NAf.)

			Change	
	2014-I	2014-II	Amount	Percentage
Banknotes issued	394.6	414.1	19.5	5.0%
Banks' demand deposits (current account)	176.9	216.5	39.5	22.3%
Monetary base (M0)	571.5	630.6	59.1	10.3%
Central bank assets	3,797.1	4,113.5	316.4	8.3%
Foreign assets (including gold)	3,221.7	3,456.5	234.8	7.3%
Claims on deposit money banks	1.4	111.0	109.6	--
Claims on the government	0.4	0.5	0.1	15.7%
Claims on government agencies and institutions	455.5	431.9	-23.6	-5.2%
Fixed and other assets	118.2	113.7	-4.5	-3.8%
less:				
Central bank remaining liabilities	3,225.6	3,482.9	257.3	8.0%
Private sector deposits	1,326.5	1,357.9	31.4	2.4%
Government deposits	188.8	503.7	314.9	166.8%
Foreign liabilities	594.3	492.0	-102.2	-17.2%
Other liabilities	220.7	218.6	-2.1	-0.9%
Capital and reserves	895.4	910.8	15.3	1.7%

Table 14: Monetary aggregates (quarterly changes, in millions NAf.)

	2013-IV		2014-I		2014-II	
	Amount	%	Amount	%	Amount	%
Money supply (M2)	157.2	2.1%	139.8	1.9%	75.8	1.0%
Money (M1)	228.0	7.1%	77.9	2.3%	103.0	2.9%
Coins & notes with the public	21.6	6.8%	-12.7	-3.7%	4.3	1.3%
Total demand deposits, of which:	206.3	7.1%	90.6	2.9%	98.7	3.1%
- Netherlands Antillean guilders	169.6	7.9%	27.4	1.2%	30.7	1.3%
- Foreign currency	36.7	4.9%	63.2	8.1%	68.1	8.0%
Near money	-70.8	-1.7%	61.8	1.5%	-27.2	-0.7%
Time deposits	-69.7	-3.2%	21.7	1.0%	-37.9	-1.8%
Savings	-1.1	-0.1%	40.2	2.1%	10.7	0.5%

Table 15: Monetary survey (in millions NAf.)

	2013-II	2013-III	2013-IV	2014-I	2014-II
Money supply (M2)	7,454.5	7,329.6	7,486.8	7,626.6	7,702.4
Money (M1)	3,324.7	3,222.8	3,450.8	3,528.7	3,631.7
Coins & notes with the public	322.8	319.0	340.6	327.9	332.2
Total demand deposits, of which:	3,002.0	2,903.8	3,110.1	3,200.8	3,299.5
- Netherlands Antillean guilders	2,226.0	2,156.0	2,325.6	2,353.0	2,383.7
- Foreign currency	776.0	747.8	784.5	847.7	915.8
Near money	4,129.7	4,106.8	4,036.1	4,097.9	4,070.7
Time deposits	2,155.7	2,162.4	2,092.7	2,114.3	2,076.5
Savings	1,974.0	1,944.5	1,943.4	1,983.6	1,994.3
Factors affecting the money supply	7,454.5	7,329.6	7,486.8	7,626.6	7,702.4
Net domestic assets	3,890.1	3,634.5	3,921.1	3,805.4	3,523.8
Government sector	-439.9	-551.4	-349.5	-384.5	-630.5
- Former central government	-79.3	-80.4	-80.5	-80.1	-79.1
- Curacao	-241.5	-360.0	-192.7	-261.8	-410.3
- Sint Maarten	-119.1	-111.1	-76.2	-42.6	-141.0
Private sector	6,422.9	6,340.8	6,307.4	6,213.7	6,258.4
Memorandum items	-2,093.0	-2,154.9	-2,036.8	-2,023.8	-2,104.2
Net foreign assets	3,564.4	3,695.2	3,565.7	3,821.1	4,178.6
Central bank	2,399.6	2,584.2	2,608.9	2,713.9	3,026.6
Commercial banks	1,164.8	1,110.9	956.8	1,107.3	1,152.0
Government loans by commercial banks	0.2	0.1	0.1	0.1	0.1
Government of Curaçao	0.1	0.0	0.0	0.0	0.0
Government of Sint Maarten	0.1	0.1	0.1	0.1	0.1
Private sector loans Curaçao	4,194.9	4,192.3	4,145.0	4,144.1	4,156.7
- Mortgages	1,812.3	1,826.1	1,855.6	1,843.8	1,849.2
- Consumer loans	900.2	905.0	890.6	891.0	893.4
- Business loans	1,482.5	1,461.1	1,398.8	1,409.3	1,414.1
Private sector loans Sint Maarten	1,443.2	1,445.5	1,443.9	1,420.6	1,410.6
- Mortgages	635.7	635.7	640.0	649.0	656.8
- Consumer loans	335.4	339.9	328.7	322.4	314.1
- Business loans	472.2	469.9	475.2	449.1	439.7

Table 16: Developments in domestic interest rates (in %)

	2013-II	2013-III	2013-IV	2014-I	2014-II
Central bank					
- Pledging rate	1.0	1.0	1.0	1.0	1.0
- Maximum CD rate (1 month)	0.10	0.10	0.12	0.06	0.12
Commercial bank borrowing rates					
- Passbook savings	1.2	1.2	1.2	1.2	1.2
- Time deposits (12 months)	1.6	1.7	1.7	1.5	1.7
Commercial bank lending rates					
- Mortgages	6.6	6.6	6.9	6.8	6.5
- Time loans	7.7	7.7	8.1	8.0	7.5
Government securities					
- Government bonds (5-year effective yield)	1.1	1.1	1.2	0.8	0.5
- Treasury bills (12 months)	0.14	0.09	0.16	0.13	0.08

Table 17: Aggregate balance sheet for domestic commercial banks (in millions NAf.)

		2013-II	2013-III	2013-IV	2014-I	2014-II
	Assets					
I	***Nonfinancial assets***	**403.1**	**428.1**	**426.9**	**444.6**	**417.0**
II	***Financial assets* (III through VII)**	**15,239.5**	**14,822.1**	**15,107.3**	**15,423.9**	**15,847.5**
III	**Currency and deposits**	**4,349.5**	**4,133.2**	**4,577.6**	**4,856.8**	**5,158.4**
	(i) Non-interest-bearing cash	1,477.6	1,494.1	2,166.7	2,065.8	2,303.0
	(ii) Interest-bearing cash	2,872.0	2,639.0	2,460.9	2,791.0	2,855.4
IV	**Loans**	**8,856.1**	**8,867.1**	**8,857.7**	**8,831.0**	**8,888.3**
	(i) Interbank loans	0.8	0.9	0.3	0.0	0.0
	(ii) Central Bank	-	-	-	-	-
	(iii) General government	0.2	0.1	0.1	0.1	0.1
	(iv) Agencies and institutions	53.2	52.4	55.8	52.2	62.1
	(v) Other financial corporations	23.8	13.9	13.4	15.3	15.9
	(vi) Nonfinancial corporations	4,923.9	4,911.8	4,857.2	4,833.8	4,861.0
	(vii) Households	3,664.9	3,704.6	3,729.5	3,720.3	3,732.8
	(viii) Other	189.4	183.4	201.4	209.3	216.4
V	**Investments**	**1,406.2**	**1,352.0**	**1,245.0**	**1,347.3**	**1,394.9**
	(i) Debt securities	1,068.3	974.6	894.3	962.7	964.5
	(ii) Shares and other equity	337.9	377.3	350.7	384.6	430.3
VI	**Investments in unconsolidated subsidiaries and affiliates**	**113.5**	**59.2**	**84.8**	**85.3**	**117.9**
VII	**Other assets**	**514.2**	**410.7**	**342.2**	**303.6**	**288.0**
VIII	**Total assets (= I + II)**	**15,642.6**	**15,250.2**	**15,534.2**	**15,868.6**	**16,264.5**
	Liabilities					
IX	**Currency and deposits**	**13,145.2**	**12,808.3**	**13,087.0**	**13,577.0**	**14,006.9**
	(i) Total demand deposits	6,244.9	6,165.8	6,575.8	7,000.5	7,466.8
	(ii) Total savings deposits	3,317.7	3,226.1	3,227.2	3,300.2	3,325.1
	(iii) Total time deposits	3,582.5	3,416.4	3,284.0	3,276.3	3,215.1
X	**Total borrowings**	**75.4**	**58.0**	**143.4**	**204.3**	**85.0**
XI	**Other liabilities**	**605.8**	**596.9**	**500.2**	**393.5**	**458.3**
XII	***Total debt* (=IX + X + XI)**	**13,826.4**	**13,463.2**	**13,730.6**	**14,174.7**	**14,550.1**
XIII	**Capital and reserves**	**1,816.2**	**1,787.0**	**1,803.6**	**1,693.9**	**1,714.3**
	(i) Capital	1,518.8	1,496.2	1,455.6	1,381.2	1,411.5
	(ii) Minority interest	10.9	11.6	11.3	13.1	12.8
	(iii) Subordinated debentures	-	-	-	-	-
	(iv) General provisions	286.5	279.2	336.7	299.5	290.0
XIV	**Total liabilities and capital (= XII + XIII)**	**15,642.6**	**15,250.2**	**15,534.2**	**15,868.6**	**16,264.5**

1) *All data for the commercial banks are compiled on a consolidated basis and in accordance with the IMF Accounting Framework and Sectoral Financial Statements.*

Table 18: Aggregate income statement for domestic commercial banks (in millions NAf.)

		2013-II	2013-III	2013-IV	2014-I	2014-II
I	Interest income	384.3	573.3	710.0	188.2	368.7
II	Interest expense	63.3	96.3	114.4	30.1	58.5
III	***Net interest income*** **(=I minus II)**	**321.0**	**477.0**	**595.5**	**158.1**	**310.2**
IV	Noninterest income	181.0	280.0	338.0	84.5	161.2
V	***Gross income*** **(= III + IV)**	**502.0**	**757.0**	**933.5**	**242.7**	**471.4**
VI	Noninterest expenses	319.2	489.4	619.9	165.3	330.5
	(i) Salaries & other employee expenses	179.7	271.4	352.1	90.1	181.7
	(ii) Occupancy expenses	55.8	74.5	91.6	25.5	49.8
	(iii) Other operating expenses	83.7	143.5	176.1	49.7	99.1
VII	Provisions	24.8	77.7	140.6	16.0	28.1
VIII	***Net income (before extraordinary items and taxes)*** **(=V minus (VI+ VII))**	**157.9**	**190.0**	**173.1**	**61.4**	**112.8**
IX	Extraordinary items	2.2	2.5	-0.7	21.2	43.4
X	Income tax	25.7	36.3	35.6	11.4	23.6
XI	***Net income after tax*** **(= VIII minus (IX + X))**	**134.4**	**156.1**	**136.8**	**71.2**	**132.6**
XII	Dividends payable	43.9	82.4	105.8	6.1	24.5
XIII	***Retained earnings*** **(= XI minus XII)**	**90.6**	**73.8**	**31.0**	**65.1**	**108.1**

2) *All data for the commercial banks are compiled on a consolidated basis and in accordance with the IMF Accounting Framework and Sectoral Financial Statements.*

Table 19: Financial soundness indicators (in%; end of period)

	2013-II	2013-III	2013-IV	2014-I	2014-II	4-Yr Avg.
Capital adequacy						
Capital adequacy ratio	15.0%	15.6%	15.8%	15.7%	14.7%	14.5%
Core capital adequacy ratio	13.6%	13.0%	13.0%	12.5%	12.6%	12.9%
Capital to assets	10.7%	11.2%	11.0%	10.3%	9.5%	10.3%
NPL net of provisions to capital	48%	46%	45%	51%	45%	44%
Asset quality						
NPL to total gross loans	12.0%	12.0%	11.9%	12.9%	11.6%	11.0%
Provisions to NPL	28%	29%	32%	31%	29%	30%
Foreign currency denominated loans to total loans	46%	46%	46%	47%	45%	46%
Foreign currency denominated liabilities to total liabilities	54%	54%	55%	57%	58%	54%
Large exposures to capital	273%	266%	296%	288%	335%	289%
Earnings & profitability						
Return on assets	1.7%	1.5%	1.8%	1.7%	1.4%	1.6%
Return on equity	15.9%	13.3%	16.5%	16.4%	14.8%	15.6%
Interest margin to gross income	64%	63%	64%	65%	66%	66%
Noninterest expenses* to gross income	64%	65%	66%	68%	70%	66%
Personnel expenses to non-interest expenses*	56%	55%	57%	54%	55%	57%
Spread between lending and deposit rates	6.4%	6.3%	6.7%	6.7%	6.3%	6.6%
Liquidity & funding						
Liquid assets to total assets	28%	27%	30%	32%	32%	28%
Liquid assets to short-term liabilities	37%	36%	39%	40%	41%	36%
Total deposits to total loans	143%	138%	141%	147%	150%	144%
Sensitivity to market risk4.5%						
Net interest margin	4.6%	4.5%	4.5%	4.5%	4.5%	4.5%
Net open position in foreign exchange to capital	71%	70%	60%	59%	54%	82%
Net Foreign Assets to total capital	82%	80%	73%	88%	83%	90%

** Noninterest expenses = operational expenses*

Performed better than the 4-year average

Performed worse than the 4-year average