



# CENTRALE BANK VAN CURAÇAO EN SINT MAARTEN

QUARTERLY BULLETIN 2014-III



# I: REPORT OF THE PRESIDENT



## GENERAL OVERVIEW

During the third quarter of 2014, the economy of Curaçao grew by a marginal 0.1%, a turnaround compared to the 1.0% contraction recorded in the third quarter of 2013. Inflationary pressures picked up, driven primarily by higher food, fuel, and electricity prices. As a consequence, inflation in Curaçao rose to 2.7% in the September quarter of 2014, up from 0.7% a year earlier. In addition, the annualized inflation rate climbed to 1.2% at the end of September 2014 compared to 0.6% at the end of June 2014.

Meanwhile, the Sint Maarten economy expanded by 1.2% during the third quarter of 2014, up from 0.7% in the third quarter of 2013. The quarterly inflation rate in Sint Maarten eased to 1.9% in response to lower fuel prices and a moderation in food price gains. The annualized inflation rate also dropped from 2.4% at the end of June 2014 to 2.2% at the end of September.

The modest economic growth in Curaçao was driven entirely by domestic demand reflecting mainly increased public spending. Both government investment and consumption rose during the third quarter of 2014. The increase in government investment was due mainly to the construction of a new hospital in Curaçao. Private spending declined because of a drop in private consumption, but private investment rose. In contrast to domestic demand, net foreign demand dampened economic growth as the increase in imports surpassed the rise in exports.

An analysis by sector reveals that private sector growth in Curaçao was supported primarily by the restaurants & hotels, wholesale & retail trade, construction, and transport, storage, & communication sectors. The expansion in the restaurants & hotels sector was attributable mainly to an increase in the number of stay-over visitors, in particular from the European and South American markets. In addition, the number of cruise tourists rose, albeit at a slower pace than in 2013. The wholesale & retail trade sector performed well due mainly to more activities in Curaçao's free zone, although the decline in private consumption had a mitigating impact. The increase in real value added in the construction sector stemmed from increases in both private and public investment. Meanwhile, growth in the transport, storage, & communication sector was driven by more activities in the harbor as reflected by a rise in container movements and an increase in the number of ships piloted into the port. In contrast, airport-related activities dropped due to a decline in passenger traffic, in particular domestic departures and transit passengers, and fewer commercial landings.

Output contracted in the financial intermediation, manufacturing, and utilities sectors. Output dropped in the financial intermediation sector as both the domestic banking sector and international financial services companies posted negative results. The contraction in

the manufacturing sector was the result of a decline in both ship repair and refining activities. A drop in electricity production caused the decline in the utilities sector.

Sint Maarten's 2014 third-quarter growth was driven by the restaurants & hotels, transport, storage, & communication, and wholesale & retail trade sectors. Activities increased in the restaurants & hotels sector reflecting gains in both stay-over and cruise tourism. Stay-over tourism recorded growth across all markets and benefitted particularly from more airlift to the United States and the improving US and European economies. The positive performance of cruise tourism was in line with the rise in cruise calls. Growth in the transport, storage, & communication sector was the result of increases in airport-related activities and harbor activities. Airport-related activities rose in line with the growth in stay-over tourism. Meanwhile, the harbor performed well reflecting an increase in the number of ships piloted into the port, particularly cruise ships and freighters. Output growth in the wholesale & retail trade sector was supported by increased tourism spending, mitigated by a decline in domestic spending.

However, a contraction in the manufacturing, utilities, and construction sectors dampened Sint Maarten's real GDP growth during the third quarter of 2014. The contraction in the manufacturing sector was largely the result of a decline in ship repair activities as fewer yachts visited Sint Maarten. Meanwhile, the poor performance of the utilities sector was ascribable to a decline in electricity production reflecting mainly the increasing use of alternative energy sources, including solar panels, and more energy-efficient lighting. Real value added in the construction sector dropped as a result of a decline in both private and public investments.

During the third quarter of 2014, the government of Curaçao registered a budget surplus of NAf.1.3 million, down from the NAf.12.6 million surplus recorded in the third quarter of 2013. The lower surplus was largely the result of an increase in expenditures. Government expenditures increased as a result of more spending on goods & services, transfers, and interest. Lower income from gasoline excises and nontax revenues caused the overall decline in government revenues. The decline in nontax revenues was due largely to fewer dividend payments received from government-owned companies. The decline in government revenues was moderated by an increase in proceeds from income and profit tax.

The fiscal stance in Curaçao continued its focus on attaining healthy and sustainable public finances. Therefore, to reduce the costs of personnel, the government intensified its negotiations with the labor unions that included the incorporation of the civil servants in the general health insurance scheme and reform of the civil servants pension scheme. By the end of 2014, an agreement was reached concerning the inclusion of the civil servants in the general health insurance scheme, but the negotiations regarding the pension reform were still ongoing.

In Sint Maarten, the efforts of the government continued to focus mainly on evolving into a full-fledged government administration. Nevertheless, the government's weak liquidity position and the outstanding arrears towards the social security bank, SZV, and the government pension fund, APS, still need to be addressed. During the third quarter of 2014, the government deficit remained practically unchanged at NAf.20.4 million compared to the third quarter of 2013 as the decline in government expenditures was

counterbalanced by a drop in government revenues. Government expenditures declined largely due to cutbacks in the government's contribution to social insurances and lower spending on goods and services. As of 2014, the Sint Maarten government no longer covers the social premiums for family members of civil servants. The decline in government revenues was the result of fewer dividends and concessions & fees collected, mitigated by a slight rise in tax revenues. In particular, income tax and room tax rose during the third quarter of 2014.

According to preliminary figures and estimates of the Bank, the current account deficit on the balance of payments narrowed during the third quarter of 2014 compared to the third quarter of 2013. Net exports rose because the export growth outweighed the rise in imports. Exports grew largely because of increased foreign exchange earnings from tourism, both in Curaçao and Sint Maarten. In addition, re-exports by the free-zone companies in Curaçao went up. The rise in imports can be ascribed entirely to Curaçao. In particular, more merchandise imports by the free- zone companies and the wholesale & retail trade sector contributed to the import growth. The free- zone companies imported more merchandise to meet foreign demand. Meanwhile, imports by the wholesale & retail trade sector rose to replenish inventories following the expansion and reconstruction of some large stores on the island. In contrast, Sint Maarten registered a decline in both oil and non-oil merchandise imports. Gross official reserves increased during the third quarter of 2014 as external financing to the private sector and net capital transfers exceeded the current account deficit.

The money supply expanded slightly during the September quarter of 2014 due to an increase in net domestic assets mitigated by a drop in net foreign assets. The rise in net domestic assets was the result of a decline in government deposits resulting from the partial spending of the proceeds of the bonds issued by the governments of Curaçao and Sint Maarten in June 2014. Furthermore, miscellaneous balance sheet items rose during the third quarter of 2014. However, the increase in net domestic assets was mitigated by a decline in net credit extension to the private sector, the result of a drop in loans extended in both Curaçao and Sint Maarten.

During the third quarter of 2014, the Bank continued its monetary policy aimed at tightening the surplus on the money market by auctioning more Certificates of Deposit (CDs). To increase their attractiveness, the CDs were offered at higher interest rates. Consequently, the amount of outstanding CDs rose. However, the percentage of the reserve requirement was left unchanged at 18.00%.

The credit measure introduced in March 2012 was revoked on September 1, 2014, after an evaluation concluded it had produced the intended results. Private credit growth declined and even turned negative as of December 2013. The deficit on the current account of the balance of payments declined in both 2012 and 2013. Moreover, the declining trend in reserves reversed in November 2013.

During 2014, the governments of both Curaçao and Sint Maarten issued bonds to finance public sector investments. In the case of Curaçao, the investments include the construction of a new hospital and the improvement of the island's road infrastructure. Meanwhile, in Sint Maarten, the bonds were issued to finance the finalization of the new

government administration building, among other things. In 2014 as well as 2015, real GDP growth will benefit from the higher public investments. However, public investment programs may only help boost a lingering economy temporarily.

To achieve sustained growth in the long run, government policies should focus on facilitating private sector investments. In this context, efforts should be made to create a business climate that is attractive for private investment. During the past two years, our primary focus was on attaining sound public finances while little progress has been made in stimulating private sector growth. Now is the time for both governments to persuasively address the weaknesses in their business climate that impede a strong recovery of private sector investments. Only through this approach will we be able to capitalize on the projected global economic recovery, particularly in our main trading partners.

E.D. Tromp  
President



## II: INTERNATIONAL ECONOMIC DEVELOPMENTS

### THE UNITED STATES

*During the third quarter of 2014, the U.S. economy grew by 2.4% in real terms, a slight acceleration compared to the 2.3% growth in the third quarter of 2013 (see Table 1). Both domestic and net foreign demand contributed positively to real output growth.*

**Table 1: Economic indicators of the United States**

	2013-III	2014-III
Real GDP (% change)	2.3	2.4
Consumer prices (%)	1.6	1.8
Unemployment rate (%)	7.2	6.1

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

The growth in domestic demand in the United States was driven by both the private and public sectors. The rise in private demand resulted from increases in both consumer spending and investments. Consumers spent more on durable goods during the third quarter of 2014, supported by higher consumer confidence and better labor market conditions. The expansion in private investments resulted from a faster growth in nonresidential construction mitigated by a decline in residential construction compared to 2013. Public demand increased as a result of higher spending by state and local governments, while federal government spending declined. At the same time, the contribution of net foreign demand to real output growth was positive because export growth outweighed the increase in imports.

From a sectoral perspective, the growth in private sector activities was driven mainly by the manufacturing, construction, and retail trade sectors. The U.S. unemployment rate declined to 6.1%, attributable mainly to job gains in the professional & business services, retail trade, and health care sectors. In addition, the number of long-term unemployed and the number of workers employed part-time for economic reasons dropped.

Inflationary pressures increased to 1.8% during the third quarter of 2014, due to higher food prices mitigated by lower energy prices. Because both the inflation rate and the unemployment rate in the United States remained below the Fed's target levels of 2.0% and 6.5% respectively, the fed funds rate was maintained near zero.



## THE NETHERLANDS

*After contracting by 0.6% in the third quarter of 2013, the Dutch economy expanded by 1.0% in the third quarter of 2014 (see Table 2). This positive economic performance was attributable to an increase in domestic demand, mitigated by a decline in net foreign demand.*

**Table 2: Economic indicators of the Netherlands**

	2013-III	2014-III
Real GDP (% change)	-0.6	1.0
Consumer prices (%)	2.8	0.9
Unemployment rate* (%)	6.8	6.4

*Sources: Central Bureau of Statistics.*

*\*International definition.*

Domestic demand contributed positively to real output growth in the Netherlands, resulting from an increase in both private and public spending. The increase in private spending was ascribable to more consumption and investments. Private consumption rose because of more spending on nondurable goods, particularly food, beverages, and tobacco, as well as durable goods, particularly electrical appliances and home furnishings. The increased spending on home furnishings was in line with the recovery of the Dutch housing market. In addition, Dutch households spent more on services, including rent, outdoor leisure, telephone, and insurance. Private investments grew, supported by more spending on machines, computers, software, and research & development. The growth in private investments was consistent with the increased capacity utilization and investor confidence. Private investment growth was mitigated, however, by lower spending on housing, company buildings, infrastructure, and vehicles. Meanwhile, public sector activities increased as both government consumption and investments grew. In contrast, net foreign demand contributed negatively to output growth because, in real terms, the increase in imports outweighed export growth.

An analysis by sector reveals that the expansion in private sector activities was led particularly by more activities in the trade, transport, restaurants & hotels, and business services sectors, mitigated by fewer activities in the mining sector.

The recovery of the Dutch economy was accompanied by a drop in the unemployment rate to 6.4%, attributable mainly to more jobs created in the business services and trade sectors. On the other hand, employment dropped in the health care and construction sectors. Meanwhile, inflationary pressures declined considerably to 0.9%, due primarily to a decline in telephone and internet costs, mitigated by higher housing costs.

## VENEZUELA

*Following the 1.1% growth in the third quarter of 2013, the real output of Venezuela shrank by 2.3% in the third quarter of 2014 (see Table 3). Venezuela has slid into an economic recession as the economy registered negative growth for the third consecutive quarter. The economic contraction was the result of a decline in domestic demand, mitigated by a rise in net foreign demand.*

**Table 3: Economic indicators of Venezuela**

	2013-III	2014-III
Real GDP (% change)	1.1	-2.3
Consumer prices (%)	45.8	63.2
Unemployment rate (%)	7.8	6.9

*Sources: Banco Central de Venezuela*

The dismal economic performance of Venezuela was the result of a drop in domestic demand as private demand declined, while public demand increased at a slower pace. Private demand declined because of decreases in both consumption and investments. The decrease in private consumption was mainly the result of higher inflationary pressures, eroding consumers' purchasing power. Gross fixed capital investments decreased due to lower investor confidence as a result of the unstable economic and political situation in Venezuela. Meanwhile, growth in public demand decelerated because of lower revenues from oil exports as international oil prices dropped.

In contrast, net foreign demand contributed positively to real output growth because the drop in imports offset the lower exports. Imports dropped because of the foreign currency restrictions in Venezuela, while exports contracted due to less oil sold as well as lower international oil prices.

An analysis by sector indicates that the poor economic performance of Venezuela was ascribable to the manufacturing, construction, trade & repair services, transport & storage, and mining sectors. The negative growth was accompanied by an increase in the inflation rate to 63.2% in the September quarter of 2014. The higher inflationary pressures were mainly the result of the ongoing domestic shortages of goods and the widening gap between the official and black market exchange rates. As in the previous quarters of 2014, the unemployment rate dropped to 6.9% despite the negative growth in Venezuela.





## III: GENERAL ECONOMIC DEVELOPMENTS

### GENERAL ECONOMIC DEVELOPMENTS IN CURAÇAO

Following a contraction of 1.0% in the third quarter of 2013, the Curaçao economy grew by 0.1% in the third quarter of 2014. The third-quarter growth was attributable to an increase in domestic demand, mitigated by a decline in net foreign demand (see Table 4). Meanwhile, Curaçao recorded a significantly higher inflation rate of 2.7%, led mainly by increases in the prices of food, fuel, and electricity.

An analysis of GDP by expenditure reveals that the public sector was the main driver of growth in 2014's third quarter. Public demand rose due to increases in both consumption and investment. The considerable increase in public investment resulted particularly from construction activities for the new hospital. Meanwhile, the slight increase in public consumption was driven by higher outlays on goods and services. In contrast, private demand shrank because of less consumption, reflected by lower sales tax revenues and less consumer credit extended by the domestic commercial banks. At the same time, private investment grew as a result of the construction and expansion of commercial properties and the upgrading of the Curaçao International Airport.

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

	2013-III	2014-III
Domestic expenditure, of which:	-0.9	1.6
Private sector	-1.1	-1.8
- Investment	0.1	0.2
- Consumption	-1.2	-2.0
Government sector	0.3	3.4
- Investment	0.2	3.2
- Consumption	0.1	0.2
Changes in inventory	-0.5	0.0
Foreign net expenditure	0.4	-1.5
- Export of goods and services	-0.2	0.7
- Import of goods and services	-0.6	2.2
GDP	-1.0	0.1

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

\*Expenditure categories data are weighted contributors to GDP growth.

Net foreign demand contributed negatively to output growth because, in real terms, imports rose at a faster pace than exports. The rise in imports was driven by more merchandise imports by the free-zone companies to meet foreign demand. In addition, businesses in the wholesale & retail trade sector imported more merchandise to replenish their inventories. Exports rose due to an increase in re-exports by the free-zone companies and more foreign exchange revenues from tourism.

## DOMESTIC PRODUCTION

An analysis by sector shows that the growth in private sector activities during the September quarter of 2014 was driven by the restaurants & hotels, wholesale & retail trade, construction, and transport, storage, & communication sectors (see Table 5).

The faster output growth in the restaurants & hotels sector (5.8%) during the third quarter of 2014 was the result of an accelerated growth in the number of stay-over visitors. Meanwhile, the growth in the number of cruise tourists decelerated in line with the development in the number of cruise calls. The number of stay-over visitors was up by 5.8% in the third quarter of 2014 compared to the 0.4% growth in the third quarter of 2013. Among other things, the Curaçao North Sea Jazz Festival in August 2014 had a positive impact on the number of stay-over visitors. The growth in stay-over visitors was attributable to increases in the European and South American markets, mitigated by decreases in the North American and Caribbean markets. The European market grew mainly because of more visitors from the Netherlands and Germany due to increased airlift from Amsterdam. The number of South American visitors increased as a result of more visitors from Venezuela and Colombia. The latter benefitted largely from additional flight connections between Curaçao and Colombia. Due to Venezuela's unstable economic and political situation, its citizens increasingly book short weekend getaways to nearby destinations, including Curaçao, instead of longer trips farther away. In contrast, despite additional flights available from Surinam Airways, the number of visitors from Surinam declined. Meanwhile, the North American market contracted, owing to fewer visitors from the United States and Canada. In addition, the Caribbean market dropped as a result of fewer visitors from all submarkets, except Barbados. The hotel occupancy rate in Curaçao rose from 65.0% in the third quarter of 2013 to 68.0% in the third quarter of 2014, in line with the growth in the number of stay-over visitors. (See Table 10 in the appendix for more details on stayover tourism development.)

After contracting in the third quarter of 2013 (-5.0%), activities in the wholesale & retail trade sector expanded in the third quarter of 2014 (2.2%) due to an increase in free-zone activities. Despite an increase in free-zone activities, the number of free-zone visitors dropped, except from Venezuela (50.1%) and Guyana (9.2%). The expansion in the wholesale & retail trade sector was mitigated by a decrease in consumer spending.

**Table 5: GDP by sector (real percentage changes)**

Sector	2013-III	2014-III
Agriculture, fishery, & mining	-0.2	-4.0
Manufacturing	1.7	-0.3
Electricity, gas, & water	0.0	-0.6
Construction	0.9	1.2
Wholesale & retail trade	-5.0	2.2
Restaurants & hotels	0.2	5.8
Transport, storage, & communication	-4.8	0.7
Financial intermediation	0.6	-1.4
Real estate, renting, & business activity	-0.7	0.7
Other community, social, & personal services	-4.1	2.4
Private households	-2.6	0.0
Total private sector	-1.1	0.4
Public sector	1.0	-0.3
Taxes minus subsidies	0.2	-3.4
<b>GDP</b>	<b>-1.0</b>	<b>0.1</b>

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

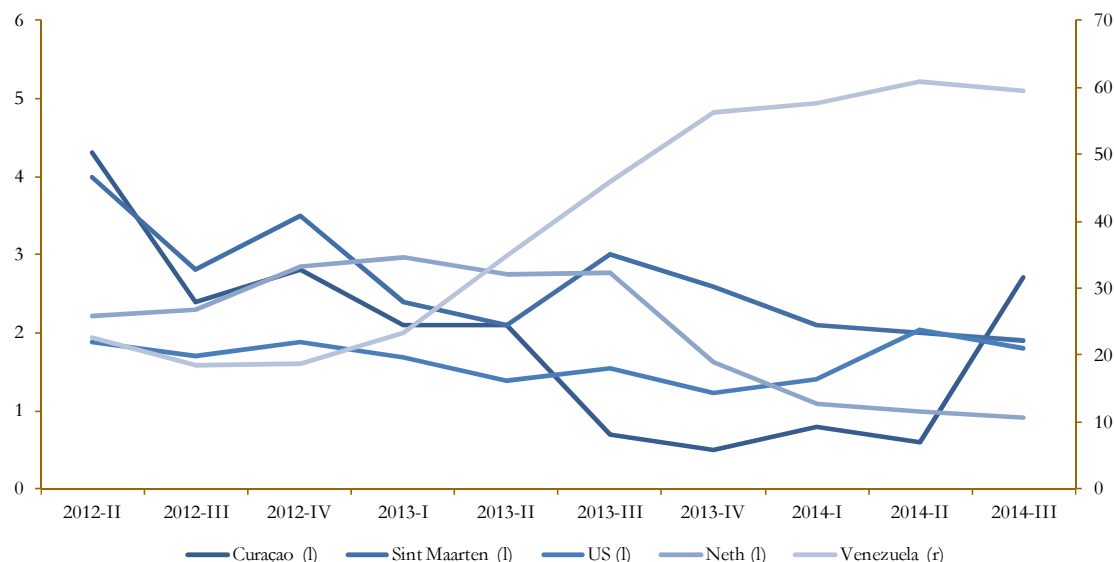
Real output in the construction sector expanded at a faster pace (1.2%) due to the increases in both private and public investments. Activities in the transport, storage, and communication sector grew by 0.7% in the third quarter of 2014, a turnaround compared to the 4.8% drop in the third quarter of 2013. This favorable development resulted from an increase in harbor activities, mitigated by a decrease in airport activities. The harbor performed well due to more container movements and ships piloted into the port of Curaçao. In contrast, airport-related activities dropped because of a decline in passenger traffic, particularly the number of domestic departures and transit passengers, and fewer commercial landings.

In contrast, the financial intermediation, utilities, and manufacturing sectors contributed negatively to economic growth. Following the 0.6% growth in the third quarter of 2013, real value added in the financial intermediation sector contracted by 1.4% in the third quarter of 2014 because of decreases in both domestic and international financial services. Domestic financial services recorded a lower value added because the decline in interest income outweighed the drop in interest expenses. Meanwhile, the decline in international financial services was reflected by lower wages & salaries. Real value added in the manufacturing sector also dropped (-0.3%) because of fewer ship repair and oil refining activities. The ship repair industry performed poorly as reflected by a drop in the number of man-hours sold, which was consistent with fewer ships repaired. The contraction in the utilities sector (-0.6%) was the result of a drop in electricity production.

## INFLATIONARY PRESSURES

Consumer price inflation in Curaçao rose considerably from 0.7% in the third quarter of 2013 to 2.7% in the third quarter of 2014, stemming mostly from increases in the prices of food, fuel, and electricity (see Graph 1).

**Graph 1: Developments in consumer prices<sup>a</sup> (percentage)**



<sup>a</sup> Annual quarterly percentage change.

An analysis of the developments in the Consumer Price Inflation components reveals that the average prices in Curaçao increased in all categories during the third quarter of 2014. The highest price increases were registered in the categories “Food” (5.2%), “Housing” (2.2%), “Clothing & footwear” (5.2%), and “Beverages & tobacco” (17.0%). The higher average prices in the “Food” category were attributable to an increase in the prices of potatoes, vegetables & fruit, and dairy products, mitigated by a drop in the price of grain products. The increase in the prices of vegetables & fruit were perhaps related to Venezuela’s temporary export ban, which created shortages of these items in Curaçao. In the “Housing” category, consumer prices increased as a result of an increase in electricity prices and, to a lesser extent, higher water tariffs. After declining in the third quarter of 2013, average prices rose in the categories “Transport & communication” (0.9%) and “Health” (1.2%) during the third quarter of 2014. The price gain in the “Transport & communication” category resulted particularly from an increase in domestic fuel prices. (See Table 11A in the appendix for further details on developments in the Consumer Price Index.)

## GENERAL ECONOMIC DEVELOPMENTS IN SINT MAARTEN

Sint Maarten’s economy expanded by 1.2% during the third quarter of 2014, an acceleration compared to the 0.7% growth recorded in the third quarter of 2013.

Meanwhile, consumer price inflation eased to 1.9%, reflecting primarily lower crude oil prices and lower food price gains compared to the third quarter of 2013.

On the production side, real output growth in Sint Maarten came predominantly from the restaurants & hotels, wholesale & retail trade, and transport, storage, & communication sectors (see Table 6). Growth in the restaurants & hotels sector accelerated to 6.2% in the third quarter of 2014 compared to 2013's third quarter (1.5%) because of the expansion in stay-over and cruise tourism. The increase in the number of cruise tourists was in line with more cruise calls, which were up 37.9% compared to the third quarter of 2013. The higher number of cruise calls was 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-III	2014-III
Agriculture, fishery, & mining	0.0	0.0
Manufacturing	5.0	-6.9
Electricity, gas, & water	5.6	-2.6
Construction	2.9	-1.3
Wholesale & retail trade	0.6	3.6
Restaurants & hotels	1.5	6.2
Transport, storage, & communication	-0.1	3.7
Financial intermediation	-1.1	0.0
Real estate, renting, & business activity	0.5	1.6
Other community, social, & personal services	3.1	2.7
Private households	3.7	4.7
Total private sector	0.8	1.7
Public sector	0.0	-0.2
Taxes minus subsidies	-0.1	-0.3
<b>GDP</b>	<b>0.7</b>	<b>1.2</b>

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

*<sup>a</sup>Real percentage changes.*

The number of stay-over visitors was up 5.2% in the July-September period of 2014 compared to the 0.9% growth in the third 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 continued to grow robustly (6.0%) in the third quarter of 2014 as it did in the third quarter of 2013 (5.7%), with most of the growth coming from the United States. The growth in the number of visitors from North America was attributable to increased airlift, 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 Italy and France reflecting, among other things, the improved economic situation in the European Union.

The South American market expanded slightly (0.9%) compared to the third quarter of 2013, driven mainly by more visitors from Argentina and Brazil. However, this growth was mitigated by contractions in other segments of the South American market, including Venezuela, which continued to show a marked decline in the number of visitors to Sint Maarten due to its ongoing economic deterioration. The Caribbean market segment registered an increase of 11.6% compared to the third quarter of 2013 despite the sharp decline in the number of arrivals from the Dominican Republic. This growth was driven mainly by visitors from Trinidad & Tobago. (See Table 10 in the appendix for more details on tourism development.)

Activities in the wholesale & retail trade sector grew at a much faster pace during the third quarter of 2014 (3.6%) than in the third quarter of 2013 (0.6%) due to an increase in tourist spending attributable mainly to the higher number of visitors to Sint Maarten. By contrast, domestic spending continued to decline, albeit at a slower pace.

During the third quarter of 2014, real output in the transport, storage, & communication sector grew by 3.7%, a turnaround compared to the contraction of 0.1% recorded in the third quarter of 2013. Although the number of commercial landings declined, air transportation and airport-related activities rose as a result of an increase in passenger traffic compared to the third quarter in 2013. The positive performance of the airport was consistent with the increased number of stay-over visitors to Sint Maarten. Harbor activities also grew as a result of more ships, notably cruise ships, piloted into the port of Sint Maarten. The number of freighters and tonnage also increased, in line with the growth in the wholesale & retail trade and restaurants & hotel sectors.

The financial intermediation sector recorded zero-growth in the third quarter of 2014 as net interest income of the commercial banks remained flat in real terms. The manufacturing sector contracted mainly as a result of fewer yachts in port, which led to a decrease in repair activities.

Real value added in the utilities sector also declined during the September quarter of 2014 compared to the September quarter of 2013. The increasing use of solar panels for electricity production and, among other things, the use of energy efficient lighting by hotels and households contributed to lower consumption from the grid. The decline in electricity production was mitigated, however, by increased water production because a new plant near the A C Wathey Cruise & Cargo Facility became operational.

The construction sector continued to contract during 2014's third 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 from 3.0% in the third quarter of 2013 to 1.9% in the third quarter of 2014, mainly because of reduced transportation costs and a slowdown in food price gains.*

An analysis of the development in the Consumer Price Index components reveals that price pressures dropped significantly in the category “Transport & communication” (-1.2%), due to reduced fuel prices. Price gains in the category “Food” (6.1%) decelerated, because of slower price gains in the subcategories grain products, meat & fish, and potatoes, vegetables & fruit. A significant deceleration in price gains also occurred in the category “Housekeeping & furnishings” (1.9%). In contrast, inflationary pressures accelerated in the categories “Beverages & tobacco” (2.9%) and “Housing” (2.5%). The price increase in the “Housing” category was primarily the result of a rise in electricity prices and higher housing costs. Prices in the “Health” category (4.4%) rose considerably in the third quarter of 2014, the result of, among other things, an increase in the health insurance premiums of employees from 2.1% to 4.2% effective January 1, 2014. (See Table 11B in the appendix for further details on developments in the Consumer Price Index.)

## DEVELOPMENTS IN PUBLIC FINANCES

### PUBLIC FINANCES CURAÇAO

During the third quarter of 2014, Curaçao’s government continued to work towards structurally balancing the current account of its budget. In an attempt to bring down personnel costs, which accounted for about 12.5% of GDP in 2013, the government intensified the ongoing negotiations with the labor unions. One of the principal topics of negotiation was the addition of all civil servants to the general health insurance scheme, BVZ, which was introduced back in February 2013. Government workers were excluded then to speed up the introduction of the scheme, but the intention was for them to join the scheme as well. Eventually it was decided that all civil servants will become part of the general health insurance scheme during 2015. Another policy revision that is being negotiated is a reform of the civil servants pension scheme, which would result in, among other things, an increase in the retirement age of civil servants from 60 to 65 and the elimination of early retirement. By the end of September 2014, no consensus had yet been reached on the pension reform.

The third quarter of 2014 was characterized by a narrowing of the government’s operational surplus to NAf.1.3 million, from NAf.12.6 million in 2013’s third quarter. This narrowing was the result of a 2.8% growth in spending and a 0.4% drop in revenues. The increase in expenditures was attributable mostly to higher outlays on goods & services, resulting from a more even quarterly spread of these outlays in the government’s financial accounts in 2014 than was the case in 2013. Meanwhile, spending on transfers and interest increased, the latter as a result of payments due on the government bonds issued in September 2013.

Over the course of 2014’s third quarter, income from gasoline excises and nontax revenues fell, resulting in an overall decline in revenues. The drop in excises on gasoline



was related to less revenue collected compared to the third quarter of 2013, when the government received several back payments from 2012. Nontax revenues declined mostly as a result of fewer dividend payments received from government-owned companies, relative to 2013's third quarter. Higher proceeds from income and profit tax mitigated the decline in government revenues. (See Tables 12A and 12B in the appendix for an overview of the budgetary developments in Curaçao.)

Monetary financing was positive in the July-September period of 2014, owing primarily to the government of Curaçao's withdrawal of funds reserved at the central bank for the construction of the new public hospital. However, the upturn in monetary financing was mitigated by the increase in the government's deposits with the commercial banks (see Table 7).

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

	2013-III	2014-III
Monetary financing	-118.5	124.8
Central bank	-157.5	164.3
Commercial banks	39.0	-39.5
Nonmonetary financing	105.9	-126.1
Government securities with the public	62.6	0.0
Other	43.3	-126.1
Budget balance	12.6	1.3

### *Public sector debt*

During the September quarter of 2014, Curaçao's public debt remained fairly stable as the domestic public debt share fell by NAf.5.1 million and the foreign debt share remained unchanged. The fall in domestic debt resulted from a reduction in the government's outstanding liabilities with the public pension fund, APC (NAf.14.7 million), and the social security bank, SVB (NAf.5.4 million). However, this debt reduction was largely offset by the incurring of obligations with various other creditors (NAf.15.1 million). Hence, the public debt to GDP ratio estimated for Curaçao at the end of September 2014 was 37.9%.

## **PUBLIC FINANCES OF SINT MAARTEN**

Throughout the July-September months of 2014, evolving into a full-fledged public administration remained the focal point of Sint Maarten's government. The NAf.143.0 million obtained through the June 2014 bond issue allowed the government to increase its spending on investments, e.g., the government administration building, as well as recover the cash used to make investments in 2011 and 2012. Nevertheless, the government's liquidity position still deteriorated by the end of the third quarter of 2014, as it canceled a large part of its arrears with the social security bank, SZV.

At the end of the July-September period of 2014, the current account of Sint Maarten's government budget showed a NAf.20.4 million deficit. Relative to 2013's third quarter, government expenditures and revenues both declined, by NAf.37.2 million and NAf.36.2

million, respectively. The fall in expenditures was due primarily to lower transfers because the government ceased to pay the social security premiums for family members of public servants as of 2014. Payments towards goods & services also dropped, partly as a result of underspending by the government.

On the revenues side, the sharp downturn recorded in the third quarter of 2014 was mainly the result of fewer dividends and concessions & fees collected relative to 2013's third quarter. Meanwhile, tax revenues grew slightly, due mainly to higher proceeds from income tax and room tax, mitigated by lower revenues from gasoline excises and turnover tax. The decreased revenue from the turnover tax was the result of late payments to the government. (See Tables 12C and 12D in the appendix for an overview of Sint Maarten's budget and selected tax revenues.)

The Sint Maarten government financed its 2014 third-quarter budget deficit almost entirely monetarily by drawing down its deposits with the banking sector (see Table 8).

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

	2013-III	2014-III
Monetary financing	8.1	19.8
Central bank	-2.2	2.4
Commercial banks	10.3	17.4
Nonmonetary financing	13.3	0.6
Government securities with the public	0.0	0.0
Other	13.3	0.6
Budget balance	-21.4	-20.4

### *Public sector debt*

Over the course of the September quarter of 2014, Sint Maarten's public debt dropped from NAf.772.6 million (39.0% of GDP) to NAf.662.9 million (35.4% of GDP). This improvement can be attributed entirely to the drop in the domestic debt component after the government canceled a large part of its outstanding arrears with the social security bank, SZV. The foreign share of the public debt remained the same as at the end of June 2014 (NAf.470.9 million).

## DEVELOPMENTS IN THE BALANCE OF PAYMENTS OF THE MONETARY UNION

Based on the Bank's preliminary figures and estimates,<sup>1</sup> the current account deficit on the balance of payments of the monetary union was NAf.10.7 million less during the third quarter of 2014 than in the third quarter of 2013. The lower deficit was caused primarily by an increase of the surplus on the services balance combined with a narrowing of the deficit on the trade balance. Meanwhile, the gross official reserves of the monetary union expanded by NAf.89.4 million. Hence, external financing and capital transfers exceeded the deficit on the current account (see Table 9).

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

	2012-III	2013-III	2014-III
Current account	-477.8	-398.3	-387.6*
Change in gross reserves of the central bank**	128.8	46.7	-89.4
Foreign exchange	119.2	55.9	-90.2
-held at foreign central banks	375.0	45.5	68.0
-held at foreign commercial banks	-255.8	10.5	-158.3
Other claims	9.6	-9.2	0.8

\* 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 dropped during the third quarter of 2014 compared to the third quarter of 2013 as the increase in imports exceeded the rise in exports. The higher imports were largely the result of more merchandise imports by the free-zone companies to meet foreign demand. In addition, merchandise imports by the wholesale & retail trade sector picked up to replenish inventories following the expansion and reconstruction of some large stores on the island.

The export growth stemmed primarily from a rise in foreign exchange earnings from the tourism sector. In particular, earnings from stay-over tourism increased, reflecting the higher number of visitors recorded during the September quarter of 2014 compared to a year earlier. Foreign exchange receipts from cruise tourism rose as well, albeit at a slower pace than in the third quarter of 2013. Furthermore, an increase in the re-exports by the free-zone companies, in particular to Venezuela, contributed to the export growth.

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<sup>1</sup> When all data of 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.

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

In Sint Maarten, net foreign demand is estimated to have increased because of a rise in exports combined with a decline in imports. A drop in both oil and non-oil merchandise imports led to the decline in imports. The rise in exports was related mostly to the growth in foreign exchange revenues from the tourism sector. The significant increase in the number of cruise tourists during the third quarter of 2014 resulted in a surge in foreign exchange earnings from cruise tourism. Meanwhile, foreign exchange revenues from stay-over tourism rose, following a contraction in 2013's third quarter.

### *Developments in the income balance and current transfers balance*

The income balance worsened by NAf.16.3 million during the third quarter of 2014 compared to the third quarter of 2013, due mainly to an increase in dividend and interest paid on foreign investments in Curaçao and Sint Maarten. By contrast, the current transfers balance improved by NAf.4.2 million in this period because the decline in current transfers paid to abroad outpaced the drop in current transfers received from abroad.

## **MONETARY DEVELOPMENTS**

### **MONETARY POLICY**

During the third quarter of 2014, the Bank continued its monetary policy aimed at tightening the surplus in the money market by auctioning more Certificates of Deposit<sup>2</sup> (CDs) at higher interest rates to increase their attractiveness. As a consequence, the amount of the outstanding CDs increased in 2014 from NAf.20.0 million at the end of the second quarter to NAf.65.0 million at the end of the third quarter. By contrast, the percentage of the reserve requirement remained unchanged at 18.00%. Nevertheless, the amount of required reserves fell due to a decline in the base<sup>3</sup> upon which it is calculated.

The credit measure --introduced in March 2012 to control the growth of domestic credit extension-- was still in effect during the first two months of the third quarter of 2014. During this 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 third quarter of 2014.

An evaluation of the credit measure in August 2014 concluded that it has produced the intended results. The credit measure was effective in moderating credit growth and contributed to a lower deficit on the current account of the balance of payments in 2012

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<sup>2</sup> These are negotiable securities issued by the Bank.

<sup>3</sup> The base is equal to the commercial banks' domestic liabilities less their long-term deposits.

and 2013. Furthermore, the declining trend in the international reserves was reversed in November 2013. Based on these monetary developments, the Bank revoked the credit measure as of September 1, 2014.

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

## MONETARY BASE

In the third quarter of 2014, the monetary base (M0) expanded by NAf.88.9 million (14.1%) as a notable increase in commercial bank deposits with the Bank (NAf.100.6 million) more than offset a drop of NAf.11.7 million in currency in circulation. (See Table 13 in the appendix for a more detailed look at the monetary base.) The monetary base is the component of the money supply under the most complete control of the Bank and, therefore, an important link between the Bank's policy actions and their ultimate impact on the economy. The sources of the monetary base comprise the Bank's assets and remaining liabilities. *Ceteris paribus*, an increase in the Bank's assets raises the monetary base, whereas an increase in the Bank's remaining liabilities lowers it.

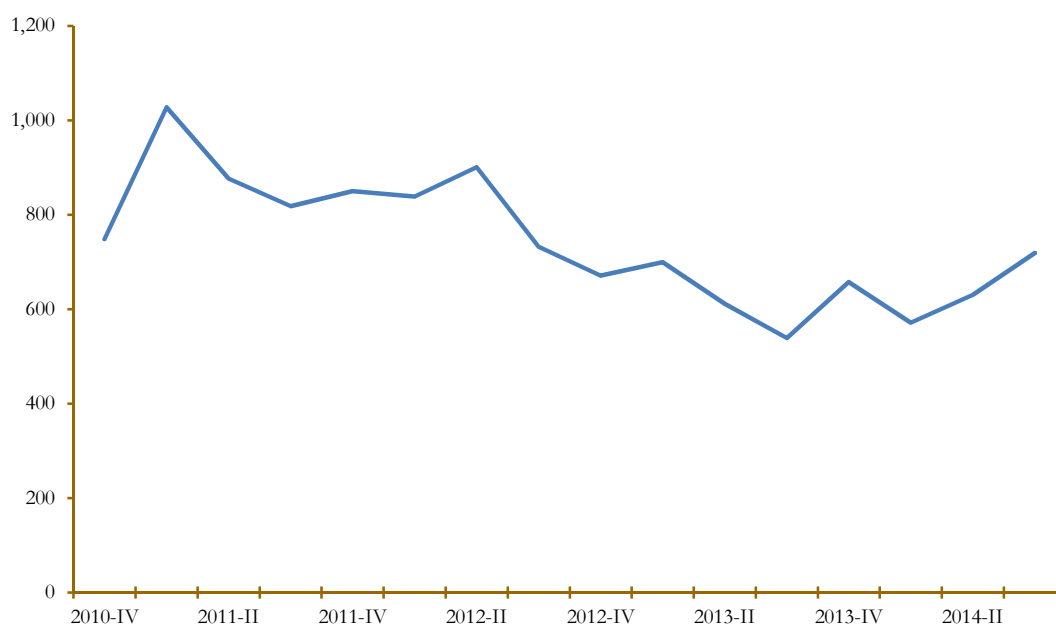
During 2014's third quarter, the increase in M0 can be explained mainly by a decline in government deposits and an increase in foreign assets. The decline in government deposits was related to the transfer of funds to USONA<sup>4</sup> in connection with the construction of a new hospital in Curaçao. The increase in foreign assets resulted from the Bank's purchase of foreign exchange from the commercial banks. The growth in M0 was mitigated by higher private sector deposits at the Bank and declines in claims on deposit money banks and government agencies and institutions. The increase in private sector deposits was related to the transfers to USONA. Claims on deposit money banks declined because short-term credit taken up by the commercial banks was paid back.

Compared to the third quarter of 2013, M0 rose by 33.5% in the September quarter of 2014, up from a 3.1% annual growth in 2014's June quarter. The increases in the second and third quarters reversed the downward trend in M0 noticed since the second quarter of 2012 caused by the tightening of the Bank's monetary policy (see Graph 2).

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<sup>4</sup> USONA, the foundation that approves and funds development projects in Curaçao and Sint Maarten, was commissioned by the Curaçao government as the executing authority for the new hospital.

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



## MONETARY AGGREGATES

Broad money (M2) increased by 0.7% during the third quarter of 2014, the result of a growth in net domestic assets of the banking system (3.7%) and offset in part by a drop in net foreign assets (-1.8%). The annual M2 growth accelerated to 5.8% in September 2014 compared to 3.3% in June 2014.

The growth in the money supply during the third quarter of 2014 was driven by the near money component, which rose by NAf.74.7 million (1.8%) due almost entirely to the increase in time deposits. By contrast, the narrow money component (M1) shrank by NAf.19.8 million (-0.5%), the result of declines in both currency in circulation (NAf.12.6 million) and demand deposits (NAf.7.2 million). The drop in demand deposits was caused by a decline in foreign currency deposits that outweighed an increase in deposits in Netherlands Antillean guilders. Nevertheless, the annual growth rate of M1 surged from 9.2% in June to 12.1% in September 2014 because of the expansion in demand deposits. The development in M1 can be explained by the inflow of funds from interest and principal payments on government debt taken over by the Netherlands under the debt relief program and a lack of attractively yielding alternative assets for investment. (See Table 14 in the appendix for an overview of the monetary aggregates.)

## FACTORS AFFECTING THE MONEY SUPPLY

Money holdings of the private sector expanded by NAf.54.9 million (0.7%) to reach NAf.7,757.3 million at the end of the third quarter of 2014. An expansion in net domestic assets by NAf.129.7 million (3.7%) contributed entirely to the monetary growth in 2014's third quarter, caused by increases in net claims on the government (NAf.149.6 million) and memorandum balance sheet items (NAf.106.8 million). The expansionary impact of the

public sector stemmed from the partial spending of the proceeds of the bonds issued by the governments of Curaçao and Sint Maarten in June 2014. On the other hand, net claims on the non-bank private sector dropped by NAf.126.7 million (-2.0%). The monetary expansion was mitigated by a drop in the net foreign assets of the banking system by NAf.74.8 million (-1.8%) caused entirely by a decline in commercial banks' foreign assets. (See Table 15 in the appendix for more details on the monetary survey.)

The loan component of net credit extended to the private sector dropped by 1.4% in 2014's third quarter compared to 2014's second quarter. This drop was caused by declines in consumer loans (-1.7%) and business loans (-3.7%) that outweighed an increase in mortgages (0.5%). In Curaçao, total loans extended dropped by 1.7% as declines in business loans (-4.9%) and consumer loans (-1.5%) exceeded an increase in mortgages (0.7%). In Sint Maarten, the amount of private sector loans outstanding contracted by 0.3% in the third quarter of 2014. This contraction was driven by a drop in consumer loans (-2.2%). In contrast, mortgages and business loans both increased by 0.2%. On an annual basis, total loans contracted by 2.6% because of declines in both Curaçao (-2.5%) and Sint Maarten (-2.7%). 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<sup>5</sup> during the bi-weekly auctions, the Bank takes into account developments in the international financial markets. The benchmark one-month US dollar libor rate<sup>6</sup> remained unchanged during the third quarter of 2014. However, to make the CDs more attractive, the Bank began offering higher rates at the auctions as of May 2014. Consequently, the maximum rate offered on a 1-month CD increased from 0.12% at the end of the June quarter of 2014 to 0.20% at the end of the September quarter.

The commercial banks adjusted their deposit and lending rates only slightly during the third quarter of 2014. The weighted average interest rate offered on a 12-month time deposit increased from 1.7% in June to 2.0% in September 2014, while the average interest rates on passbook savings remained unchanged at 1.2%. Meanwhile, with respect to commercial bank lending rates, the weighted average rate for mortgages and time loans edged up slightly from 6.5% and 7.5% at the end of June 2014 to 6.6% and 7.6%, respectively, at the end of September 2014.

Changes in the yields on government paper are actually determined by the developments in the Dutch capital market due to the standing subscription by the Dutch State Treasury

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<sup>5</sup> Certificates of deposit.

<sup>6</sup> The London interbank offered rate, the main gauge of interbank lending.



Agency (DSTA).<sup>7</sup> The average effective yield on 5-year government bonds dropped by 25 basis points reaching 0.3% at the end of the third quarter of 2014. Moreover, the yield on 12-month treasury bills dropped from 0.08% at the end of the second quarter of 2014 to 0.04% at the end of the third quarter. (See Table 16 in the appendix for a detailed overview of domestic interest rates.)

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<sup>7</sup> 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<sup>8</sup>

#### BALANCE SHEET AND INCOME STATEMENT

The total assets of the commercial banks had increased by 7.3% at the end of the third quarter of 2014 compared to the third quarter of 2013, reaching NAf.16.4 billion. The expansion of the aggregate balance sheet of the commercial banks resulted primarily from expansions in currency and deposits (31.6%) and investments in unconsolidated subsidiaries and affiliates (40.5%). Non-interest-bearing cash (78.5%) was the main contributor to the currency and deposits expansion. However, these expansions were mitigated by contractions in loans (-0.1%), investments (-5.2%), and other assets (-27.5%). The drop in loans to nonfinancial corporations (-1.5%) caused the contraction in the issuance of loans, mitigated primarily by an expansion in loans to households (0.9%). In addition, the fall in both debt securities (-2.6%) and shares and other equity (-11.9%) caused the contraction in investments. (See Table 17 in the appendix for a more detailed look at the commercial banks' aggregate balance sheet.)

The total debt of the commercial banks rose by 8.8% from the third quarter of 2013 to the third quarter of 2014, with the increase in currency and deposits (10.1%) exceeding a decline in total borrowings (-25.2%) and other liabilities (-15.8%). The increase in currency and deposits can be attributed to an increase in both demand (23.4%) and savings deposits (22.5%), while time deposits contracted (-25.6%). 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 4.0%, with expansions in minority interest (17.3%) and general provisions (9.0%) partly offsetting the decline in the capital base (-6.6%).

The commercial banks reported a total gross income (i.e., net interest income plus noninterest income) of NAf.720.8 million in the third quarter of 2014, a decrease of 4.8% compared to the third quarter of 2013. Decreases in both interest income (-2.9%) and noninterest income (-9.9%) contributed to the decline in gross income. Furthermore, the noninterest expenses increased by 2.3%, while the provisions declined by 51.8%. As a result, the net income before extraordinary items and taxes decreased by 3.8%. The rise in non-interest expenses can be explained by increases in other operating expenses (3.7%) and salaries & other employee expenses (3.2%), while occupancy expenses decreased (-3.7%). In addition, extraordinary items increased from NAf.2.5 million at the end of the

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<sup>8</sup> 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.

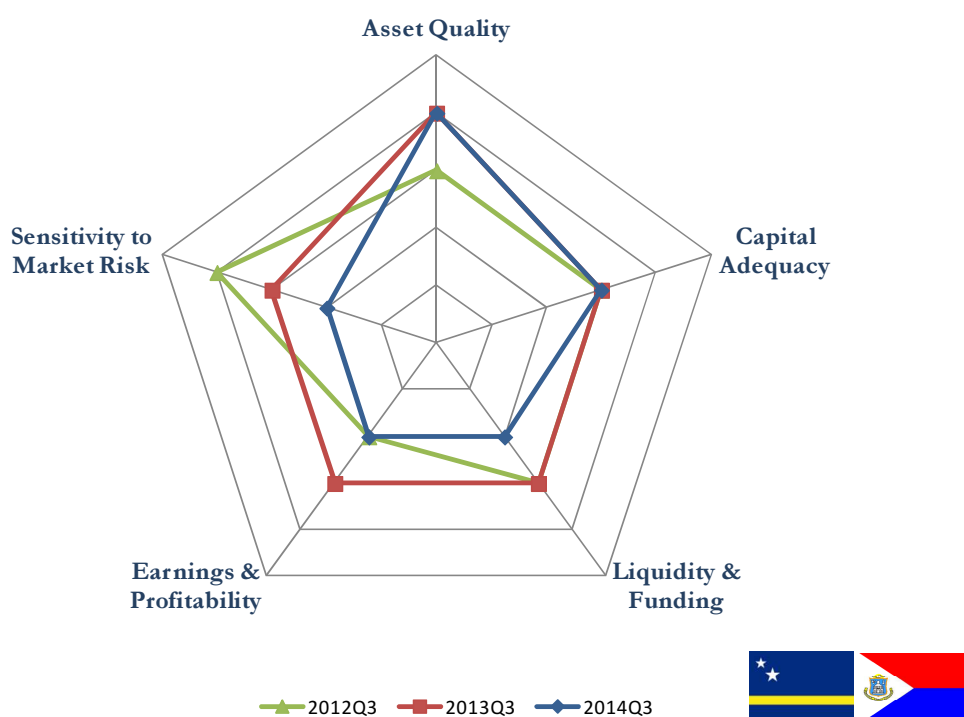
third quarter of 2013 to NAf.8.9 million at the end of the third quarter of 2014, resulting in an increase of 2.2% in the net income after tax. Last, the dividends payable decreased by 48.0%. As a result, retained earnings totaled NAf.116.7 million in the third quarter of 2014, a 58.2% increase compared to the third quarter of 2013. (See Table 18 in the appendix for a detailed breakdown of the commercial banks' aggregate income statement.)

## 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 pre-emptive 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 capital adequacy and asset quality remained stable in the third quarter of 2014 compared to the previous year, while liquidity & funding, earnings & profitability, and sensitivity to market risk decreased.

**Graph 3: Financial stability Cobweb of commercial banking sector**



Note: Movements away from the centre of the diagram represent an increase in financial stability risks. Movements towards the centre of the diagram represent a reduction in financial stability risks.

This overview is complemented by the aggregate balance sheet, aggregate income statement, and financial soundness indicators.<sup>9</sup> (Tables 17-19 in the appendix provide details.) As can be seen from Table 19, more than half of the indicators outperformed the four-year average.

### *Capital adequacy*

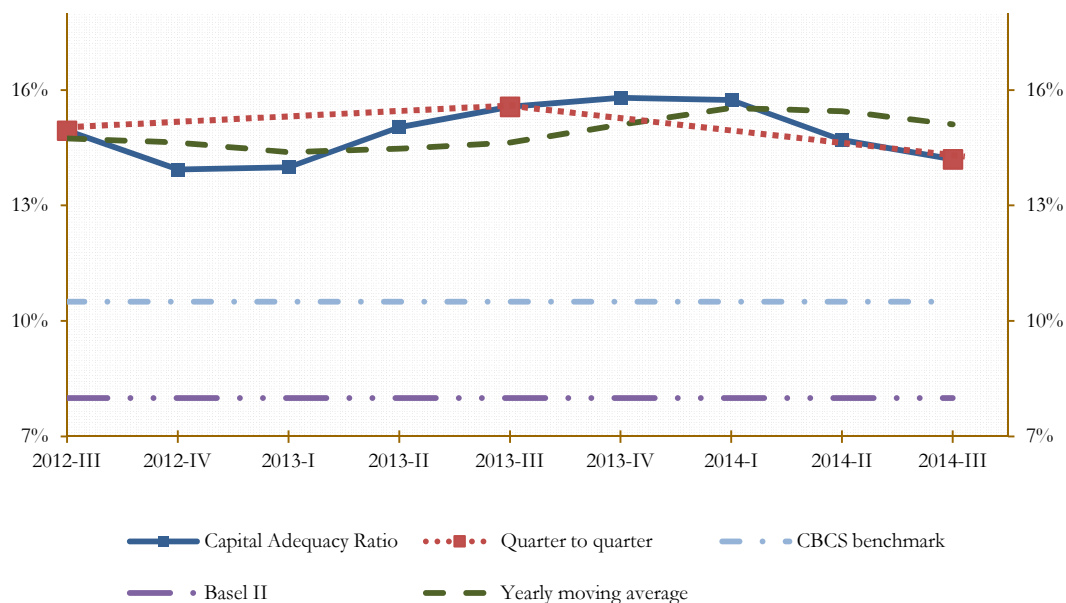
Capital adequacy and availability ultimately determines the robustness of financial institutions to withstand shocks to their balance sheets. Capital provides not only a cushion for losses, but also a buffer for deposit insurance, while controlling excessive risk-taking by banks. The capital adequacy ratio (i.e., tier-1 and tier-2 capital to risk-weighted assets) reached 14.2% at the end of the third quarter of 2014, a decrease of 1.4 percentage points compared to the third quarter of 2013. The capital adequacy ratio slightly underperformed the four-year average, indicating a downward trend in the capital stock of the commercial banks. However, the core capital ratio (i.e., tier-1 capital to risk-weighted assets) of the banks increased and outperformed the 4-year average. Furthermore, the capital adequacy ratio is still well above the benchmark of 8% under the Basel II agreements and the Bank's benchmark of 10.5% (see Graph 4). The financial leverage ratio (i.e., tier-1 and tier-2 capital to total assets) declined by 2.4 percentage points, reaching 8.8% at the end of the third quarter of 2014. Last, the NPL<sup>10</sup> (net of provisions) to capital ratio increased from 46% at the end of the third quarter of 2013 to 49% at the end of the third quarter of 2014, above the 4-year average of 43%. 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. In conclusion, the risk in capital adequacy remained stable in the third quarter of 2014 compared to the previous years.

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<sup>9</sup> 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.

<sup>10</sup> 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 third quarter of 2013 to 11.5% at the end of the third quarter of 2014, indicating an improvement of the asset quality in the loan portfolio of the commercial banks. In addition, the provisions to NPL ratio of the banks increased with 5.1 percentage points, reaching 34% at the end of the third quarter of 2014, outperforming the four-year average. This development indicates that the banks are starting to abandon their reserved attitude towards precautionary measures to cover their credit risk, increasing their ability to withstand possible macroeconomic shocks. The share of foreign currency loans in gross loans remained stable at 45% at the end of the third quarter of 2014. Furthermore, the ratio of foreign currency-denominated liabilities to total liabilities increased by 3.6 percentage points to 57% at the end of the third quarter of 2014, underscoring the banks' reliance on foreign currency. Last, the large exposures of loans, leases, and advances to capital ratio increased from 266% at the end of the third quarter of 2013 to 354% at the end of the third quarter of 2014. The Bank monitors this ratio closely since it indicates increasing vulnerabilities arising from concentration risk. However, this development should be acknowledged with some reservation because part of the increase was caused by the decline in capital adequacy. In conclusion, the risk in asset quality remained rather stable in the third quarter of 2014 compared to 2013, but increased compared to 2012.

### *Earnings & profitability*

The efficiency of the banking sector in using its assets improved slightly, with the return on assets ratio reaching 1.7% at the end of the third quarter of 2014, 20 basis points higher

than in the third quarter of 2013. The deposit takers' efficiency in using their capital (i.e., return on equity ratio) followed a similar trend, increasing significantly by 5.6 percentage points to 18.9% at the end of the third quarter of 2014. The spread between lending and deposit rates increased slightly by 10 basis points to 6.4% at the end of the third quarter of 2014. This development can be explained by a continued downward trend in the funding rate. With respect to efficiency, the ratio of personnel expenses to noninterest expenses increased by 50 basis points to 56% at the end of the third quarter in 2014, almost equal to the four-year average. Furthermore, 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 4.8 percentage points to 69% at the end of the third 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 1.8 percentage points to 65% at the end of the third quarter of 2014, just below the four-year average. The value of this ratio indicates that the banks diversified their income, making it easier to withstand shocks. In conclusion, the risk in earnings & profitability decreased in the third quarter of 2014 compared to 2013 and equaled the level of 2012.

### *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 27% at the end of the third quarter of 2013 to 34% at the end of the third 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 8.5 percentage points to reach 44% at the end of the third 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 increased by 13.6 percentage points to 152% at the end of the third quarter of 2014, indicating a higher degree of stable funding (i.e., customer deposits) to illiquid assets (i.e., loans). The upward trend in this indicator, which is well above the four-year average, 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 third quarter of 2014 compared to the previous years.

### *Sensitivity to market risk*

The net interest margin (i.e., the difference between the gross earning assets yield and the break even yield) remained stable in the third quarter of 2014, at a level of 4.9%, compared to previous years. However, this development should be acknowledged with some reservation as the current funding rate is reaching its bottom – induced by a shift from time and savings deposits towards demand deposits, and will cease once the excess liquidity is driven back. A turnaround in the decline of the funding rate will signify increased pressure on the net interest margin in the coming years. The mismatch between

foreign currency asset and liability positions at the commercial banks improved, with the net open position in foreign exchange to capital ratio decreasing from 70% at the end of the third quarter of 2013 to 56% at the end of the third quarter of 2014, well below the four-year average. This development indicates an improvement in the banks' sensitivity to market risk, lowering their exposure to exchange rate risk. The total foreign exposure relative to the banks' capital position (i.e., the net foreign assets to total capital ratio) increased slightly by 4.2 percentage points to 84% at the end of the third quarter of 2014. The relatively stable value of this indicator suggests that the banks managed to contain the pressure on their ability to withstand shocks from foreign markets. Note that the increase was fully affected by the decline in capital adequacy, as net foreign assets decreased in the third quarter of 2014 compared to 2013. Therefore, the decreasing trend in sensitivity to market risk continued in 2014.



## APPENDIX

Table 10: Stay-over tourism development by island<sup>ab</sup>

	Curaçao				Sint Maarten			
	2013-III		2014-III		2013-III		2014-III	
North America, of which:	2.8	(0.4)	-18.7	(-2.2)	5.7	(3.1)	6.0	(3.3)
-U.S.A.	3.5	(0.5)	-19.1	(-2.2)	3.9	(1.9)	7.3	(3.6)
Europe, of which:	-0.4	(-0.1)	7.0	(2.8)	-4.4	(-1.1)	2.1	(0.5)
-The Netherlands	-5.3	(-1.6)	7.2	(2.2)	3.3	(0.1)	0.7	(0.0)
South & Central America, of which:	-3.5	(-1.1)	17.0	(6.0)	3.7	(0.1)	0.9	(0.0)
-Venezuela	-5.0	(-1.0)	25.5	(6.2)	-9.8	(-0.1)	-5.7	(0.0)
-Colombia	-9.4	(-0.2)	23.4	(0.6)	--	--	--	--
-Surinam	-0.7	(0.0)	-2.0	(-0.1)	--	--	--	--
Caribbean, of which:	-3.5	(-0.3)	-10.2	(-0.8)	4.6	(0.3)	11.6	(0.9)
-Dominican Republic	6.6	(0.1)	-5.1	(0.0)	0.5	(0.0)	-3.7	(0.0)
<b>Total</b>	<b>0.4</b>	<b>--</b>	<b>5.8</b>	<b>--</b>	<b>0.9</b>	<b>--</b>	<b>5.2</b>	<b>--</b>

Source: Curacao Tourist Board (CTB) and St. Maarten Tourist Bureau

<sup>a</sup>Percentage change.

<sup>b</sup>The weighted growth rates are depicted between brackets.

**Table 11A: Development in the consumer price index of Curaçao<sup>a</sup>**

	2013-III	2013-IV	2014-I	2014-II	2014-III
Food	0.6	-1.4	-0.8	2.0	5.2
Beverages & tobacco	8.2	14.7	17.9	20.3	17.0
Clothing & footwear	1.8	-0.4	1.3	2.2	5.2
Housing	0.8	1.7	2.3	-0.3	2.2
Housekeeping & furnishings	2.3	2.1	1.2	0.5	1.4
Health	-2.5	-1.8	-1.3	-1.0	1.2
Transport & communication	-1.0	-1.1	-1.1	-1.6	0.9
Recreation & education	0.6	0.6	0.4	1.2	2.0
Other	1.6	0.9	0.8	1.0	2.2
<b>General inflation rate</b>	<b>0.7</b>	<b>0.5</b>	<b>0.8</b>	<b>0.6</b>	<b>2.7</b>

*Source: Central Bureau of Statistics of Curaçao*

<sup>a</sup> Annual quarterly percentage change

**Table 11B: Development in the consumer price index of Sint Maarten<sup>a</sup>**

	2013-III	2013-IV	2014-I	2014-II	2014-III
Food	6.5	6.4	6.3	5.9	6.1
Beverages & tobacco	2.0	3.2	3.3	3.2	2.9
Clothing & footwear	0.2	0.0	0.5	0.4	0.4
Housing	1.6	1.5	2.2	2.0	2.5
Housekeeping & furnishings	13.5	13.2	3.7	1.3	1.9
Health	0.5	1.6	3.9	6.3	4.4
Transport & communication	1.3	-0.3	-0.8	0.3	-1.2
Recreation & education	1.4	1.0	0.5	-0.3	-0.3
Other	4.0	3.5	1.9	1.1	0.7
<b>General inflation rate</b>	<b>3.0</b>	<b>2.6</b>	<b>2.1</b>	<b>2.0</b>	<b>1.9</b>

*Source: Department of Statistics of Sint Maarten*

<sup>a</sup> Annual quarterly percentage change

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

	2012-III	2013-III	2014-III
Revenues	375.5	366.9	365.4
Tax revenues, of which:	321.9	323.0	333.6
Taxes on income and profits	147.2	129.3	156.1
Taxes on property	10.6	13.2	8.0
Taxes on goods and services	123.0	142.4	128.6
Taxes on international trade and transactions	39.2	36.8	38.7
Nontax and other revenues	53.6	43.9	31.8
Expenditures, of which:	355.8	354.3	364.1
Wages and salaries	164.2	172.4	166.7
Goods and services	33.8	33.5	46.5
Transfers and subsidies	146.0	134.7	137.8
Interest payments	0.7	0.0	1.1
Other expenditures	11.1	13.7	12.0
<b>Budget balance</b>	<b>19.8</b>	<b>12.6</b>	<b>1.3</b>

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

	2012-III	2013-III	2014-III
Taxes on income and profits, of which:	147.2	129.3	156.1
Profit tax	21.8	19.4	22.1
Wage tax	126.0	105.6	128.2
Taxes on property, of which:	10.6	13.2	8.0
Land tax	6.5	8.4	4.0
Property transfer tax	4.0	4.3	3.5
Taxes on goods and services, of which:	123.0	142.4	128.6
Sales tax	93.3	99.9	98.1
Excises, of which:	21.1	29.8	19.8
Excise on gasoline	11.9	21.9	11.0
Motor vehicle tax	5.3	5.9	5.5
Taxes on international trade and transactions, of which:	39.2	36.8	38.7
Import duties	38.8	36.8	38.5

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

	2012-III	2013-III	2014-III
Revenues	94.5	123.2	87.0
Tax revenues, of which:	76.2	72.1	73.6
Taxes on income and profits	31.0	32.1	36.4
Taxes on property	4.4	–	–
Taxes on goods and services	40.8	–	–
Nontax and other revenues	18.4	51.1	13.4
Expenditures	104.9	144.6	107.4
Wages and salaries	46.2	48.4	45.3
Goods and services	24.7	36.7	25.3
Transfers and subsidies	26.8	54.4	30.0
Interest payments	0.0	2.7	3.1
Other expenditures	7.1	2.4	3.8
<b>Budget balance</b>	<b>-10.4</b>	<b>-21.4</b>	<b>-20.4</b>

– = not available

Source: Sint Maarten Ministry of Finance,

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

	2012-III	2013-III	2014-III
Taxes on income and profits, of which:	31.0	32.1	36.4
Profit tax	-1.5	2.4	1.7
Wage tax	33.1	34.2	34.5
Taxes on property, of which:	4.4	–	–
Land tax	0.8	–	–
Property transfer tax	3.6	1.7	2.3
Taxes on goods and services, of which:	40.8	–	–
Turnover tax	28.8	31.2	29.7
Vehicle tax	0.2	0.2	0.2
Excise on gasoline	2.6	4.0	2.2

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

	2014-II	2014-III	Change	
			Amount	Percentage
Banknotes issued	414.1	402.4	-11.7	-2.8%
Banks' demand deposits (current account)	216.5	317.1	100.6	46.5%
<b>Monetary base (M0)</b>	630.6	719.5	88.9	14.1%
<b>Central bank assets</b>	4,113.4	4,003.6	-109.8	-2.7%
Foreign assets (including gold)	3,456.5	3,471.9	15.4	0.4%
Claims on deposit money banks	111.0	0.0	-111.0	-100.0%
Claims on the government	0.5	0.6	0.1	12.6%
Claims on government agencies and institutions	431.9	420.3	-11.6	-2.7%
Fixed and other assets	113.7	111.0	-2.7	-2.4%
less:				
<b>Central bank remaining liabilities</b>	3,482.9	3,284.2	-198.7	-5.7%
Private sector deposits	1,357.9	1,415.4	57.6	4.2%
Government deposits	503.7	331.9	-171.7	-34.1%
Foreign liabilities	492.0	478.6	-13.4	-2.7%
Other liabilities	218.6	221.9	3.3	1.5%
Capital and reserves	910.8	836.3	-74.4	-8.2%

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

	2014-I		2014-II		2014-III	
	Amount	%	Amount	%	Amount	%
<b>Money supply (M2)</b>	139.8	1.9%	75.8	1.0%	54.9	0.7%
<b>Money (M1)</b>	77.9	2.3%	103.0	2.9%	-19.8	-0.5%
Coins & notes with the public	-12.7	-3.7%	4.3	1.3%	-12.6	-3.8%
Total demand deposits, of which:	90.6	2.9%	98.7	3.1%	-7.2	-0.2%
- Netherlands Antillean guilders	27.4	1.2%	30.7	1.3%	51.2	2.1%
- Foreign currency	63.2	8.1%	68.1	8.0%	-58.4	-6.4%
<b>Near money</b>	61.8	1.5%	-27.2	-0.7%	74.7	1.8%
Time deposits	21.7	1.0%	-37.9	-1.8%	73.5	3.5%
Savings	40.2	2.1%	10.7	0.5%	1.2	0.1%

Table 15: Monetary survey (in millions NAf.)

	2013-III	2013-IV	2014-I	2014-II	2014-III
<b>Money supply (M2)</b>	7,329.6	7,486.8	7,626.6	7,702.4	7,757.3
<b>Money (M1)</b>	3,222.8	3,450.8	3,528.7	3,631.7	3,611.8
Coins & notes with the public	319.0	340.6	327.9	332.2	319.6
Total demand deposits, of which:	2,903.8	3,110.1	3,200.8	3,299.5	3,292.3
- Netherlands Antillean guilders	2,156.0	2,325.6	2,353.0	2,383.7	2,434.8
- Foreign currency	747.8	784.5	847.7	915.8	857.4
<b>Near money</b>	4,106.8	4,036.1	4,097.9	4,070.7	4,145.4
Time deposits	2,162.4	2,092.7	2,114.3	2,076.5	2,150.0
Savings	1,944.5	1,943.4	1,983.6	1,994.3	1,995.5
<b>Factors affecting the money supply</b>	7,329.6	7,486.8	7,626.6	7,702.4	7,757.3
<b>Net domestic assets</b>	3,634.5	3,921.1	3,805.4	3,523.8	3,653.4
<b>Government sector</b>	-551.4	-349.5	-384.5	-630.5	-480.8
- Former central government	-80.4	-80.5	-80.1	-79.1	-74.1
- Curacao	-360.0	-192.7	-261.8	-410.3	-285.5
- Sint Maarten	-111.1	-76.2	-42.6	-141.0	-121.2
<b>Private sector</b>	6,340.8	6,307.4	6,213.7	6,258.4	6,131.7
<b>Memorandum items</b>	-2,154.9	-2,036.8	-2,023.8	-2,104.2	-1,997.4
<b>Net foreign assets</b>	3,695.2	3,565.7	3,821.1	4,178.6	4,103.9
Central bank	2,584.2	2,608.9	2,588.6	2,901.3	2,917.2
Commercial banks	1,110.9	956.8	1,107.3	1,152.0	1,061.3
<b>Government loans by commercial banks</b>	0.1	0.1	0.1	0.1	0.0
Government of Curaçao	0.0	0.0	0.0	0.0	0.0
Government of Sint Maarten	0.1	0.1	0.1	0.1	0.1
<b>Private sector loans Curaçao</b>	4,192.3	4,145.0	4,144.1	4,156.7	4,086.1
- Mortgages	1,826.1	1,855.6	1,843.8	1,849.2	1,861.3
- Consumer loans	905.0	890.6	891.0	893.4	880.0
- Business loans	1,461.1	1,398.8	1,409.3	1,414.1	1,344.7
<b>Private sector loans Sint Maarten</b>	1,445.5	1,443.9	1,420.6	1,410.6	1,405.9
- Mortgages	635.7	640.0	649.0	656.8	658.2
- Consumer loans	339.9	328.7	322.4	314.1	307.3
- Business loans	469.9	475.2	449.1	439.7	440.4

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

	2013-III	2013-IV	2014-I	2014-II	2014-III
<b>Central bank</b>					
- Pledging rate	1.0	1.0	1.0	1.0	1.0
- Maximum CD rate (1 month)	0.10	0.12	0.06	0.12	0.20
<b>Commercial bank borrowing rates</b>					
- Passbook savings	1.2	1.2	1.2	1.2	1.2
- Time deposits (12 months)	1.7	1.7	1.5	1.7	2.0
<b>Commercial bank lending rates</b>					
- Mortgages	6.6	6.9	6.8	6.5	6.6
- Time loans	7.7	8.1	8.0	7.5	7.6
<b>Government securities</b>					
- Government bonds (5-year effective yield)	1.1	1.2	0.8	0.5	0.3
- Treasury bills (12 months)	0.09	0.16	0.13	0.08	0.04



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

	2013-III	2013-IV	2014-I	2014-II	2014-III
<b>Assets</b>					
I <i>Nonfinancial assets</i>	428.1	426.9	444.6	417.0	400.4
II <i>Financial assets (III through VII)</i>	14,822.1	15,107.3	15,423.9	15,847.5	15,964.1
III <b>Currency and deposits</b>	4,133.2	4,577.6	4,856.8	5,158.4	5,440.3
(i) Non-interest-bearing cash	1,494.1	2,116.7	2,065.8	2,303.0	2,666.9
(ii) Interest-bearing cash	2,639.0	2,460.9	2,791.0	2,855.4	2,773.5
IV <b>Loans</b>	8,867.1	8,857.7	8,831.0	8,888.3	8,861.0
(i) Interbank loans	0.9	0.3	0.0	0.0	0.0
(ii) Central Bank	-	-	-	-	-
(iii) General government	0.1	0.1	0.1	0.1	0.1
(iv) Agencies and institutions	52.4	55.8	52.2	62.1	67.0
(v) Other financial corporations	13.9	13.4	15.3	15.9	15.3
(vi) Nonfinancial corporations	4,911.8	4,857.2	4,833.8	4,861.0	4,838.0
(vii) Households	3,704.6	3,729.5	3,720.3	3,732.8	3,739.5
(viii) Other	183.4	201.4	209.3	216.4	201.2
V <b>Investments</b>	1,352.0	1,245.0	1,347.3	1,394.9	1,281.9
(i) Debt securities	974.6	894.3	962.7	964.5	949.5
(ii) Shares and other equity	377.3	350.7	384.6	430.3	332.4
VI <b>Investments in unconsolidated subsidiaries and affiliates</b>	59.2	84.8	85.3	117.9	83.2
VII <b>Other assets</b>	410.7	342.2	303.6	288.0	297.6
VIII <b>Total assets (= I + II)</b>	15,250.2	15,534.2	15,868.6	16,264.5	16,364.5
<b>Liabilities</b>					
IX <b>Currency and deposits</b>	12,808.3	13,087.0	13,577.0	14,006.9	14,102.6
(i) Total demand deposits	6,165.8	6,575.8	7,000.5	7,466.8	7,608.7
(ii) Total savings deposits	3,226.1	3,227.2	3,300.2	3,325.1	3,950.8
(iii) Total time deposits	3,416.4	3,284.0	3,276.3	3,215.1	2,543.1
X <b>Total borrowings</b>	58.0	143.4	204.3	85.0	43.4
XI <b>Other liabilities</b>	596.9	500.2	393.5	458.3	502.5
XII <b>Total debt (=IX + X + XI)</b>	13,463.2	13,730.6	14,174.7	14,550.1	14,648.5
XIII <b>Capital and reserves</b>	1,787.0	1,803.6	1,693.9	1,714.3	1,716.0
(i) Capital	1,496.2	1,455.6	1,381.2	1,411.5	1,398.0
(ii) Minority interest	11.6	11.3	13.1	12.8	13.6
(iii) Subordinated debentures	-	-	-	-	-
(iv) General provisions	279.2	336.7	299.5	290.0	304.3
XIV <b>Total liabilities and capital (= XII + XIII)</b>	15,250.2	15,534.2	15,868.6	16,264.5	16,364.5

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-III	2013-IV	2014-I	2014-II	2014-III
I Interest income	573.3	710.0	188.2	368.7	556.8
II Interest expense	96.3	114.4	30.1	58.5	88.2
III <i>Net interest income</i> (=I minus II)	<b>477.0</b>	<b>595.5</b>	<b>158.1</b>	<b>310.2</b>	<b>468.6</b>
IV Noninterest income	280.0	338.0	84.5	161.2	252.2
V <i>Gross income</i> (= III + IV)	<b>757.0</b>	<b>933.5</b>	<b>242.7</b>	<b>471.4</b>	<b>720.8</b>
VI Noninterest expenses	489.4	619.9	165.3	330.5	500.6
(i) Salaries & other employee expenses	271.4	352.1	90.1	181.7	280.0
(ii) Occupancy expenses	74.5	91.6	25.5	49.8	71.7
(iii) Other operating expenses	143.5	176.1	49.7	99.1	148.9
VII Provisions	77.7	140.6	16.0	28.1	37.5
VIII <i>Net income (before extraordinary items and taxes)</i> (=V minus (VI+ VII ))	<b>190.0</b>	<b>173.1</b>	<b>61.4</b>	<b>112.8</b>	<b>182.8</b>
IX Extraordinary items	2.5	-0.7	21.2	43.4	8.9
X Income tax	36.3	35.6	11.4	23.6	32.2
XI <i>Net income after tax</i> (= VIII minus (IX + X))	<b>156.1</b>	<b>136.8</b>	<b>71.2</b>	<b>132.6</b>	<b>159.6</b>
XII Dividends payable	82.4	105.8	6.1	24.5	42.8
XIII <i>Retained earnings</i> (= XI minus XII)	<b>73.8</b>	<b>31.0</b>	<b>65.1</b>	<b>108.1</b>	<b>116.7</b>

*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-III	2013-IV	2014-I	2014-II	2014-III	4-Yr Avg.
<b>Capital adequacy</b>						
Capital adequacy ratio	15.6%	15.8%	15.7%	14.7%	14.2%	14.5%
Core capital adequacy ratio	13.0%	13.0%	12.5%	12.6%	13.6%	12.9%
Capital to assets	11.2%	11.0%	10.3%	9.5%	8.8%	10.1%
NPL net of provisions to capital	46%	45%	51%	45%	49%	43%
<b>Asset quality</b>						
NPL to total gross loans	12.0%	11.9%	12.9%	11.4%	11.5%	10.6%
Provisions to NPL	29%	32%	31%	35%	34%	31%
Foreign currency denominated loans to total loans	46%	46%	47%	45%	45%	46%
Foreign currency denominated liabilities to total liabilities	54%	55%	57%	58%	57%	54%
Large exposures to capital	266%	296%	288%	335%	354%	291%
<b>Earnings &amp; profitability</b>						
Return on assets	1.5%	1.8%	1.7%	1.5%	1.7%	1.6%
Return on equity	13.3%	16.5%	16.5%	15.4%	18.9%	15.9%
Interest margin to gross income	63%	64%	65%	66%	65%	66%
Noninterest expenses* to gross income	65%	66%	68%	70%	69%	66%
Personnel expenses to non-interest expenses*	55%	57%	54%	55%	56%	57%
Spread between lending and deposit rates	6.3%	6.7%	6.7%	6.3%	6.4%	6.7%
<b>Liquidity &amp; funding</b>						
Liquid assets to total assets	27%	30%	32%	32%	34%	28%
Liquid assets to short-term liabilities	36%	39%	40%	41%	44%	36%
Total deposits to total loans	138%	141%	147%	150%	152%	145%
<b>Sensitivity to market risk4.5%</b>						
Net interest margin	4.9%	4.9%	4.9%	4.9%	4.9%	4.8%
Net open position in foreign exchange to capital	70%	60%	59%	54%	56%	85%
Net Foreign Assets to total capital	80%	73%	88%	83%	84%	93%

\* Noninterest expenses = operational expenses

Performed better than the 4-year average

Performed worse than the 4-year average