



## QUARTERLY BULLETIN 2012-II

Centrale Bank van Curaçao en Sint Maarten

## REPORT OF THE PRESIDENT

The global economic recovery remained subdued during the second quarter of 2012, reflecting primarily fiscal consolidation in the advanced economies. Also, the financial markets continued to perform weakly. Meanwhile, activities slowed down in the emerging economies, notably China, Brazil, and India, due to, among other things, the weaker external environment, domestic capacity constraints, and fiscal tightening by the governments.

In Curaçao, real GDP contracted by an estimated 0.2% during the second quarter of 2012, a turnaround compared to the expansion of 0.9% registered in the second quarter of 2011. The economic contraction during 2012's second quarter was accompanied by accelerated inflationary pressures reflecting mainly domestic factors, particularly higher domestic prices of gasoline and electricity, and the increased turnover tax rate as of January 2012. Consequently, inflation in Curaçao soared to 4.3% in the June quarter of 2012, up from 1.4% a year earlier. Furthermore, the annualized inflation rate climbed to 3.3%.

In Sint Maarten, private sector data indicate improved economic performance in the second quarter of 2012. The inflation rate dropped to 4.0% during the April–June period of 2012, a deceleration compared to the 4.7% inflation rate registered in the June quarter of 2011. The slowdown in consumer price inflation was largely the result of lower international fuel prices. In addition, the annualized inflation rate dropped to 5.2% at the end of June 2012 compared to 5.4% at the end of March 2012.

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 due to a decline in real consumption ascribable to the increased inflationary pressures that eroded consumers' purchasing power. Meanwhile, public demand contracted because of lower government consumption and investment. In contrast, net foreign demand increased because the growth in exports of goods and services surpassed the rise in imports.

An analysis by sector shows that real GDP in Curaçao contracted because of a decline in public sector activities. In contrast, private sector activities expanded modestly by 0.3%. The latter expansion was driven primarily by the manufacturing, restaurants & hotels, and transport, storage, & communication sectors. The increase in real value added in the manufacturing sector was due mainly to maintenance work on the cat cracker at the Isla refinery. Also, ship repair activities increased during the second quarter of 2012.

The restaurants & hotels sector expanded as well, albeit at a slower pace than in the second quarter of 2011. Both stay-over and cruise tourism contributed to the expansion. Stay-over tourism grew due to more visitors from South America and Europe. The increase from Europe was largely the result of more German visitors, offsetting a decline in the number of tourists from the Netherlands. In contrast, the number of stay-over visitors from North America and the Caribbean shrank.

The transportation, storage, & communication sector also contributed positively to private sector growth in the second quarter of 2012, but its role was less pronounced than a year earlier. The growth was attributable largely to more air transportation and airport-related activities, due to the rise in the number of stay-over arrivals. Activities in the harbor grew also because of more cargo movements and oil storage activities. The rise in the oil storage activities was the result of the upgrading and expansion of the tank facilities in the port of Bullenbaai. Real output rose as well

in the electricity, gas, and water sector, due largely to increases in water and electricity production and investments in the water plants.

Private sector growth was mitigated, however, by a decline in the construction sector as no major investment projects were implemented during the June quarter of 2012. Real value added in the financial services sector shrank as well because of a contraction in the international financial services as indicated by declines in wages and salaries and other operational expenses. In contrast, domestic financial services increased because of an increase in income earned, combined with a drop in expenses.

Output contracted also in the wholesale and retail trade sector due mainly to a decline in domestic spending. More activities in the free zone and the increase in stay-over tourism mitigated the contraction in the wholesale and retail trade sector. In the free zone, activities increased despite a decline in the number of visitors. In the real estate, renting, & business services sector, activities dropped as well, reflecting primarily fewer purchases of real estate and a slowdown of investments by nonresidents during the April–June period of 2012 compared to the second quarter of 2011.

The improved economic performance in Sint Maarten was driven mainly by an expansion in the restaurants & hotels sector, reflecting increased stay-over and cruise tourism. During the second quarter of 2012, stay-over tourism expanded owing to more visitors from North America, Europe, and South America. Moreover, activities expanded in the transport, storage, & communication sector backed by more ships piloted into the port and increased airport-related activities. The domestic financial services also contributed positively to the growth in Sint Maarten as net income of the domestic commercial banks increased. Meanwhile, the construction sector showed some signs of recovery as the value of mortgages extended increased during the second quarter of 2012 compared to the second quarter of 2011.

The deficit of the government of Curaçao widened to NAf.112.2 million in the second quarter of 2012 as the increase in expenditures exceeded the rise in revenues. The increase in expenditures occurred in wages and salaries, related to the payment of pension premiums. In addition, government transfers increased, to the road fund among other things. The rise in revenues was due to more earnings from sales and profit taxes and increased nontax revenues.

An analysis of the available government data of Sint Maarten indicates that the balance of the government worsened from a small surplus of NAf.2.2 million in the second quarter of 2011 to a small deficit of NAf.3.0 million in the second quarter of 2012. This turnaround was caused by increased government expenditures, mitigated by a rise in government revenues. A growth in nontax and other revenues and more tax income collected on goods and services and excises on gasoline led to the rise in government revenues. Regretfully, no breakdown was available of the government expenditures.

The deficit on the current account of the balance of payments declined in the second quarter of 2012 compared to the 2011's second quarter, due mainly to an increase in net exports of goods and services. The latter increase was the result of increased exports mitigated by more imports. The rise in imports was largely the result of more merchandise imports by the free-zone companies. Also, investments in the refinery and water plant facilities in Curaçao contributed to the rise in merchandise imports. Export growth was primarily the result of more foreign exchange earnings from the tourism industry in both Curaçao and Sint Maarten. In addition, the refining fee increased to finance, among other things, maintenance work on the cat cracker at the Isla refinery. Also, re-exports by the free-zone companies in Curaçao increased. The current

transfers balance improved as well during the second quarter of 2012 because of more current transfers received from abroad mitigated by a rise in current transfers paid to abroad. In contrast, the income balance worsened as a result of less interest income earned on foreign assets by resident companies, combined with increased dividend payments to abroad.

The current account deficit was financed largely by private net capital inflows, as reflected by a worsening of the portfolio investment and direct investment balances. The portfolio investment balance deteriorated largely as a result of matured foreign debt securities held by local institutional investors that were not reinvested abroad. The latter included debt securities that were issued in the past by the Netherlands Antillean entities and taken over by the Dutch government as part of the debt relief program. In addition, net direct investments into the monetary union increased, albeit at a slower pace than in the second quarter of 2011, reflecting increased liabilities of domestic companies towards their foreign affiliates and the purchase of real estate in Curacao and Sint Maarten by nonresidents. Meanwhile, the loans and credits balance improved, reflecting, among other things, increased foreign deposits by local companies. In contrast, the net trade credit balance worsened because net trade credits received increased while net trade credits extended dropped. Because total foreign financing exceeded the current account deficit, gross official reserves increased during the second quarter of 2012.

The money supply expanded in the second quarter of 2012 because of increases in both net foreign assets and net domestic assets. The increase in net foreign assets resulted from a rise in net foreign holdings of the commercial banks. In contrast, net foreign assets of the central bank dropped. Meanwhile, net domestic assets grew mainly because of a rise in net credit extended to the government, resulting from a drawdown of deposits. Moreover, net credit extended to the private sector posted a small growth. Private loans extended in Curaçao increased because the rise in mortgages outweighed the drop in consumer loans and business loans. In Sint Maarten, private credit extension declined due to a drop in consumer loans and business loans mitigated by an increase in mortgages.

During the second quarter of 2012, the Bank increased the percentage of the reserve requirement, its main monetary policy instrument, each month by 0.25 percentage points to reach 11.50% at the end of June 2012. Although the temporary credit freeze affects private credit extension and, hence, domestic expenditures and imports, this measure does not influence the excess liquidity in the money market. Therefore, the Bank continues to gradually increase the reserve requirement to curb the excess liquidity. The other monetary policy instrument, the auctioning of Certificates of Deposit (CDs), was not actively deployed. During the biweekly auctions, the Bank aimed only at the refinancing of maturing CDs. Therefore, the amount of outstanding CDs remained unchanged.

During the past couple of months, it has become abundantly clear that the state of Curaçao's public finances is worrisome. Without proper and urgent measures, the Curaçao government will face major liquidity problems during the first months of 2013. As a result of the fiscal situation and the uncertainties surrounding it, Standard and Poor's has revised the outlook for the Curaçao economy from stable to negative. The credit rating institution has indicated that if the fiscal situation does not improve, the rating of Curaçao is likely to be downgraded. Needless to say, such a downgrade will have a negative impact on investor confidence and, hence, the prospects for economic recovery.

In addressing the disequilibria in the public finances, the following policies should be placed at the forefront of the national agendas. First, the pension system should be reformed to adequately reflect the ageing of the population. Raising the retirement age is consistent with the progress we

have made in the general health care and the medical field as we live longer and are able to work longer, contributing to the recovery of the financial soundness of the old age pension fund (AOV). However, some differentiation should be considered to account for medical indications. Second, the rapidly rising health care costs must be brought under control, among other things, through eliminating waste and inefficiencies, and putting more emphasis on prevention. Third, the transformation of the two layers of government into an efficient and effective government apparatus --the overriding rationale for the constitutional restructuring-- should be finalized soon. Finally, corporate governance should be restored with the public enterprises to minimize the financial risks for the government budget. The fiscal reforms should be accompanied by a strategy to increase the growth prospects of the economy. This should be attained, on the one hand, by a change in the composition of the population whereby younger, highly skilled and educated professionals will be encouraged to immigrate to our shores. These professionals will contribute to a necessary expansion and rejuvenation of the population and, hence, create economies of scale and a broader base to support the social security and health care systems. On the other hand, more (foreign) investments should be attracted by addressing the current weaknesses of our investment climate, contributing to more economic activities.

E.D. Tromp  
President

## INTERNATIONAL ECONOMIC DEVELOPMENTS

The US economy expanded by 2.1% in the second quarter of 2012, compared with 1.9% in the second quarter of 2011 (see Table 1). Growth was driven primarily by private demand, supported by private investment, consumption, and inventory changes. Business expenditures rose as businesses replenished their inventories and purchased more equipment and software. Meanwhile, residential investment increased, as low interest rates and stable house prices improved the housing market. Private consumption rose moderately since consumer confidence was affected by weak job creation and the high unemployment rate of 8.2%. During the second quarter of 2012, both the rate of long-duration unemployment and the share of workers employed part-time for economic reasons remained elevated. Public demand contributed negatively to growth, as government spending contracted during the second quarter. The federal government reduced defense spending while state and local governments cut their expenditures amid tight budget situations. Net foreign demand dropped because a rise in exports of goods and services was offset by increased imports. US inflation rose to 2.9% in the June quarter of 2012, due largely to increased non-oil commodity prices including food and medical costs. In contrast, lower gasoline prices dampened the inflationary pressures. Despite the higher inflation, the US Federal Reserve maintained the Fed funds rate near zero to support a stronger economic recovery.

**Table 1 Selected indicators of various countries**

	United States		Netherlands		Venezuela	
	2011-II	2012-II	2011-II	2012-II	2011-II	2012-II
Real GDP (% change)	1.9	2.1	1.4	-0.4	2.6	5.4
Consumer prices (%)	2.0	2.9	1.8	2.5	26.8	25.2
Unemployment rate (%)	9.1	8.2	4.1*	5.1*	8.6	7.4

Sources: US Bureau of Economic Analysis, US Bureau of Labor Statistics, Central Bureau of Statistics Netherlands, Banco Central de Venezuela, and Instituto Nacional de Estadística Venezuela.

\* International definition

Real GDP of the Netherlands contracted by 0.4% during the April-June period of 2012, as opposed to a 1.4% expansion in the second quarter of 2011. A decline in private spending was the main contributor to the economic contraction. Private consumption dropped further because consumers spent less on durable items including clothes, cars, and furniture. Meanwhile, gross fixed investments shrank, reflecting mainly lower construction activities. Also, investments in machinery and installations declined during the second quarter. The economic contraction was mitigated by increased government spending and more exports. The rise in government spending was largely the result of the sustained increase in health care costs. Export growth was mainly due to increased re-exports. Moreover, exports of natural gas and oil derivatives increased. On the production side, less activity in the construction sector was the main reason for the economic contraction. As a result of the economic downturn, the situation in the labor market worsened. Consequently, the unemployment rate increased from 4.1% in the second quarter of 2011 to 5.1% in the second quarter of 2012. The inflation rate in the Netherlands accelerated to 2.5% due to higher food prices and the increased excise on tobacco.

In Venezuela, real GDP rose by 5.4% in the April-June quarter of 2012, an acceleration compared to the expansion of 2.6% registered in the second quarter of 2011. The economic expansion was driven entirely by increased domestic demand as net foreign demand contracted. Both public spending and private spending contributed to the increase in domestic demand. The higher public spending was mainly the result of increased government expenditures on infrastructure and development programs as part of the Venezuelan presidential re-election

campaign. Meanwhile, private spending rose, due mainly to strong investments in the housing sector and an increase in private consumption reflecting a rise in the minimum wage. Net foreign demand contracted as exports dropped while imports increased. Venezuelan exports shrank largely because of lower oil exports resulting from a decline in international oil prices. The increase in imports can be ascribed to the rise in domestic spending. Inflation eased to 25.2% during the second quarter of 2012 as the Venezuelan government tightened price controls on 19 consumer products. However, these efforts to contain inflation might have only short-term results as increased public spending could result in increased inflationary pressures. The situation in the labor market improved as a result of the economic growth. Hence, the unemployment rate in Venezuela dropped to 7.4% in June 2012.

## **GENERAL ECONOMIC DEVELOPMENTS IN CURAÇAO**

During the second quarter of 2012, real gross domestic product (GDP) contracted slightly by 0.2% in Curaçao, following a growth of 0.9% in the second quarter of 2011 (see Table 2). The economic contraction was accompanied by a higher inflation of 4.3%, reflecting adjustments in domestic prices of gasoline and electricity during the April-June period of 2012. Also, the increase in the turnover tax rate from 5% to 6% in January 2012 contributed to the rise in consumer prices.

An analysis of the expenditure side reveals that the economic contraction was caused by a decline in domestic demand. The increased inflation eroded consumers' purchasing power. Consequently, real private consumption dropped. Meanwhile, real private investment growth remained muted as increased investments in the manufacturing and utility sectors were offset by a decline in investments in the construction sector. Public demand shrank in real terms because of declines in both public consumption and investment.

Similar to the second quarter of 2011, net foreign demand contributed positively to GDP as the expansion in export demand outpaced the rise in imports of goods and services. However, the gain in exports and imports in the second quarter of 2012 was less pronounced than in 2011. Exports rose mainly as a result of increased re-exports by the free-zone companies and higher foreign exchange revenues from the refinery, tourism, and transportation services. The import growth resulted from more merchandise imports by the free-zone companies, but this growth was mitigated by the decline in domestic demand and lower average international oil prices.

**Table 2 GDP growth by expenditure <sup>\*)</sup> (real percentage changes)**

	2011-II	2012-II
Domestic expenditure, of which:	-0.6	-1.5
Private sector	0.8	-0.7
- Investment	-0.2	0.0
- Consumption	1.0	-0.7
Government sector	-1.5	-0.7
- Investment	-0.1	-0.2
- Consumption	-1.4	-0.6
Changes in inventory	0.2	0.1
Foreign net expenditure, of which:	1.3	1.2
Export of goods and services	8.7	3.3
Import of goods and services	7.4	2.1
GDP	0.9	-0.2
Net primary income	1.1	-1.5
Gross national income	2.0	-1.6
Net current transfers from abroad	-3.3	1.2
Gross national disposable income	-1.4	-0.4

CBCS estimates

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

### Domestic production

From a sectoral perspective, the decline in real economic activity was driven by a contraction in the public sector, offsetting the subdued increase in private sector activities. The manufacturing, restaurants & hotels, and transport, storage & communication sectors were the main drivers of private sector activity. In contrast, real output declined, particularly in the construction, wholesale & retail trade, and financial intermediation sectors (see Table 3).

Real value added in the manufacturing sector increased as a result of a growth in activities at the “Isla” refinery related to maintenance work on the cat cracker plant. In addition, increased activities in the ship repair industry were reflected by a rise in the number of man-hours sold.

Activities in the restaurants & hotels sector grew, although less pronounced than in 2011. The number of stay-over tourists expanded by 6.5% in the second quarter of 2012 compared to an increase of 21.6% in the second quarter of 2011. (See Table 7 in the appendix.) The South American and European markets were the main drivers of the expansion in stay-over visitors. Growth in the South American market segment stemmed primarily from an increase in the number of visitors from Venezuela (37.9%). The latter increase was the result of major marketing efforts directed at the higher income groups, which started in 2010. European tourist arrivals expanded largely due to a rise in the number of German visitors. This rise was primarily the result of weekly nonstop flights from Düsseldorf by Air Berlin as of November 2011, combined with promotional activities in Germany. In contrast, the number of Dutch tourists, one of the most important tourism markets of Curaçao, contracted by 2.3% during the second quarter of 2012. This contraction may be related to the economic recession in the Netherlands. Stay-over visitors from the United States, the second most important tourism market, contracted as well (1.3%) due to, among other things, the temporary discontinuation of the biweekly flights from Newark, New

Jersey. Stay-over tourism from the Caribbean also shrank, reflecting fewer tourists from most islands, including Jamaica, Haiti, Trinidad & Tobago, and the Dominican Republic. The increase in stay-over tourist arrivals was combined with more time spent on the island. Consequently, the number of visitor nights grew by 12.9%, a lower rate than in the second quarter of 2011. In contrast, the hotel occupancy rate dropped slightly as an increased number of visitors preferred staying at alternative locations, including apartments. Cruise tourism performed well during the April-June quarter of 2012 with the number of cruise tourists increasing by 22.6%.

**Table 3 GDP by sector (real percentage changes)**

Sector	2011-II	2012-II
Agriculture, fishery, & mining	-4.1	-6.3
Manufacturing	5.7	3.5
Electricity, gas, & water	0.7	1.8
Construction	-2.7	-1.3
Wholesale & retail trade	3.8	-0.8
Restaurants & hotels	7.3	3.9
Transport, storage, & communication	4.3	3.1
Financial intermediation	1.2	-0.3
Real estate, renting, & business activity	-1.7	-0.8
Other community, social, & personal services	1.4	0.4
Private households	-3.8	-2.1
Total private sector	1.1	0.3
Public sector	-0.3	-0.3
Taxes minus subsidies	0.0	-0.1
GDP	0.9	-0.2

CBCS estimates

The growth in real value added in the transport, storage, & communication sector decelerated in the second quarter of 2012 compared to the second quarter of 2011. The air transportation industry performed well as the number of passengers transported by the domestic airlines increased. Despite a slight decline in the number of commercial landings, airport-related activities increased as a result of the rise in total passenger traffic attributable to the growth in the tourism sector. Harbor activities slowed because of fewer ships piloted into the port, particularly cruise ships and freighters. By contrast, container movements increased reflected by an increase in transshipment. Oil storage activities increased significantly as a result of the upgrading and expansion of the oil storage facilities at the port of Bullenbaai.

The utilities sector also posted an expansion, backed by more electricity and water production. Moreover, more investment spending occurred in the water plant of Curaçao.

In contrast, the construction sector contracted as new major investment projects were limited during the April-June period of 2012. The decline in construction activities was reflected by the decline in the import of construction merchandise.

After a growth in the second quarter of 2011, the financial services sector shrank in the second quarter of 2012 because of a drop in value added in international financial services. The latter

drop stemmed primarily from declines in wages & salaries. In contrast, net income of the domestic commercial banks increased because of an increase in income earned combined with a reduction in expenses.

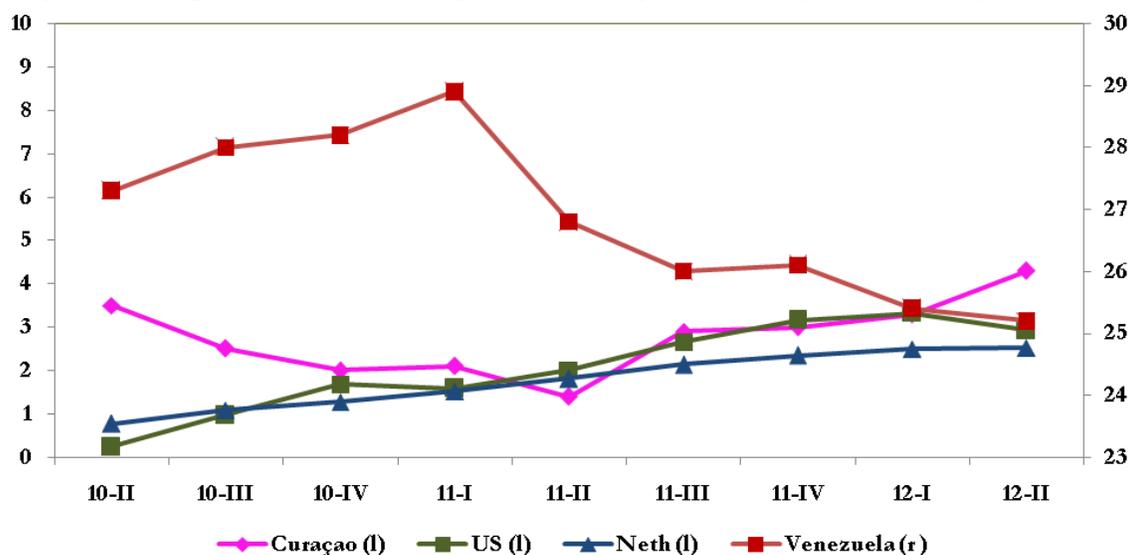
The erosion of consumers' purchasing power was felt in the wholesale & retail trade sector. Real value added in this sector dropped by 0.8% during the second quarter of 2012, despite the revival of the free zone and more stay-over tourist arrivals. In contrast to the positive free-zone performance, the number of free-zone visits was down by 11.4%, led mostly by a drop in the Caribbean market.

Real value added also contracted in the real estate, renting, & business services sector as fewer activities were recorded in the second quarter of 2012. In particular, fewer purchases of properties and investments by nonresidents contributed to the contraction.

### Inflation

An analysis of price developments on an annual quarterly basis reveals that the rate of inflation of Curaçao accelerated from 1.4% in the second quarter of 2011 to 4.3% in the second quarter of 2012 (see Graph 1). This acceleration can be explained largely by internal factors. In January 2012, the rate of the turnover tax (OB) was increased from 5% to 6%. In addition, domestic prices of gasoline and electricity were adjusted upwards during the second quarter of 2012. Since 2011, the government of Curaçao has been adjusting domestic energy prices on a monthly basis in line with international price developments, but with a lag of 2 months. Hence, despite the average decline in international fuel prices during the second quarter of 2012, domestic energy prices increased in Curaçao during the April-June period of 2012.

**Graph 1 Developments in consumer prices of Curaçao (annual quarterly change)**



All CPI components recorded an increase, but the most significant price gains were in the categories Transport & communication (7.5%) and Housing (2.7%), which were related to the upward adjustment of domestic fuel and electricity prices during the second quarter of 2012. The latter category makes up the highest share in the consumer basket. (See Table 8a in the appendix for a detailed overview.)

## **GENERAL ECONOMIC DEVELOPMENTS IN SINT MAARTEN**

Due to a lack of data, in particular national accounts and quarterly government data for the period 2009-2012, it was not possible to make a real GDP growth estimate for Sint Maarten for the second quarter of 2012. Nevertheless, based on the available data, this section contains an analysis of the main developments in the major sectors of the Sint Maarten economy for the second quarter of 2012.

The restaurants & hotels sector performed well during the second quarter of 2012 supported by a 12.5% increase in stay-over arrivals. Cruise tourism expanded as well, reflected by an 8.5% increase in the number of cruise tourists. The positive development in stay-over tourism was attributable mainly to an increase in the number of visitors from North America (18.0%), accounted for by both the United States and Canada. In addition, the number of tourists from Europe (5.1%) and South America (3.1%) contributed to the gain. In contrast, stay-over arrivals from the Caribbean contracted by 8.9%. In line with the increase in stay-over arrivals, the hotel occupancy rate increased by 30.4 percentage points reaching 54.0%. (See Table 7 in the appendix for a detailed breakdown.)

The developments in the transport, storage, & communication sector also were positive. Activities in the harbor of Sint Maarten increased because more ships were piloted into the port, in particular cruise ships and tankers. However, container movements dropped slightly (1.5%). Meanwhile, airport-related activities increased as total passenger traffic in Sint Maarten rose in line with the growth in stay-over tourism.

The growth in mortgages extended (2.6%) could point to some improvement in the construction sector of Sint Maarten. However, import of construction material contracted during the second quarter of 2012.

Meanwhile, activities in the domestic financial services sector of Sint Maarten increased slightly during the April-June period of 2012. This increase was due mainly to higher income earned by the domestic commercial banks in Sint Maarten, mitigated by increased interest expenses.

### **Inflation**

The annual quarterly inflation in Sint Maarten dropped from 4.7% in the second quarter of 2011 to 4.0% in the second quarter of 2012. Consumer prices rose at a slower pace due mainly to lower international crude oil prices.

An analysis by CPI components shows that the lower second-quarter inflation was attributable to a deceleration in the categories “Housing” and “Transport & communication”. Prices in the category “Housing” decelerated because of a decline in electricity prices. Meanwhile, prices in the category “Transport & communication” increased at a slower pace because of a deceleration in the domestic fuel prices combined with a decline in the average price of “communication”. However, sharp increases in the categories “Food”, “Beverages & tobacco”, “Clothing & footwear”, and “Housekeeping & furnishings” added to the inflationary pressures.

## DEVELOPMENTS IN PUBLIC FINANCE

### Public finances of Curaçao

During the second quarter of 2012, the transformation of Curaçao's former two-tier government structure into one autonomously functioning administrative system continued its course. However, the dissemination of reliable and consistent government statistics remained a concern, as in the last several quarters.<sup>1</sup>

The operational figures released by Curaçao's government reveal that the June quarter of 2012 ended with a budget deficit of NAf.112.2 million. Total expenditures grew by 7.4% compared to the second quarter of 2011, triggered for the most part by more government transfers and a higher wage bill. The surge in transfers was mostly the result of grants to other public institutions including the road fund. Meanwhile, the rise in outlays on wages & salaries was ascribable to increased pension premium payments to the public pension fund, APNA. By contrast, the number of civil servants declined slightly in the second quarter of 2012, compared to the second quarter of 2011.

On the revenues side, an overall growth of 3.5% was registered in 2012's second quarter, supported by increases in both tax and nontax revenues. The rise in tax revenues was led by an upturn in sales tax income, resulting largely from the higher applicable sales tax rate.<sup>2</sup> Proceeds from profit taxes also showed an increase relative to the second quarter of 2011, although mitigated by a drop in revenues from import duties, property taxes, and gasoline excises. The drop in property taxes was in line with the slowdown in activities in the real estate sector during the June quarter of 2012. Meanwhile, the 25% cut in the excise levied on each liter of gasoline<sup>3</sup> was primarily responsible for the decline in gasoline excises collected in the second quarter of 2012, since more gasoline was sold in the second quarter of 2012 than in 2011's second quarter. (See Tables 9A and 9B in the appendix for an overview.)

**Table 4A Financing of the budget balance of Curaçao (in millions NAf.)**

	2011-II	2012-II
Monetary financing	91.2	103.2
Central bank	35.0	148.3
Commercial banks	56.2	-45.1
Nonmonetary financing	-26.3	9.0
Government securities with the public	0.0	0.0
Other	-26.3	9.0
Cash balance	-64.9	-112.2

During the second quarter of 2012, Curaçao's government financed its operational deficit by drawing down its deposits with the central bank. A part of these funds was deposited with the commercial banking sector, moderating the rise in monetary financing (see Table 4A).

### Public sector debt of Curaçao

The total outstanding public debt of Curaçao at the end of the second quarter of 2012 could not be established due to lack of data. The government of Curaçao has not issued any securities since

<sup>1</sup> Both this analysis and the estimate of the public sector's contribution to the economy of Curaçao in the April-June period of 2012 are based on partial and preliminary government data.

<sup>2</sup> As of January 1, 2012, the applicable sales tax rate was increased from 5% to 6%.

<sup>3</sup> On July 5, 2011, the applicable excise on gasoline of NAf.0.6300 per liter was reduced to NAf.0.4725 per liter.

it issued the currently outstanding government bonds of NAf.1.667 billion in October 2010. However, because no information is available regarding the outstanding arrears of the government of Curacao, the country's public debt-to-GDP ratio cannot be calculated.

### **Public finances of Sint Maarten**

Developments in Sint Maarten's public finances during the second quarter of 2012 reflect the government's focus on meeting its objectives autonomously, while staying within the financial limits stipulated by its budget. Although the 2012 budget was not signed into law until April 10, 2012, this signing occurred almost three months earlier than in 2011, indicating a slight improvement in Sint Maarten's budgeting process. In the areas of government statistics collection and publication, however, improvement is still needed. For many years, the lack of public sector data, in particular government expenditures, has rendered it impossible to measure Sint Maarten's economic development or the contribution of the public sector to the economy. This analysis is therefore limited by the extent of the available information about Sint Maarten's public finances in the second quarter of 2012.

In the April-June period of 2012, the public administration of Sint Maarten ran a moderate deficit of NAf.3.0 million. Total expenditures increased by NAf.11.7 million in this period compared to the second quarter of 2011, outweighing the NAf.6.5 million growth in total revenues. This revenue growth was owed largely to increases in nontax revenues and income from taxes on goods and services. The upturn in the latter category was led by a rise in turnover tax proceeds, mitigated by a drop in taxes on property. Income from excises on gasoline also grew in the second quarter of 2012 compared to the second quarter of 2011. (See Tables 9C and 9D in the appendix for an overview.)

**Table 4B Financing of the cash balance of Sint Maarten (in millions NAf.)**

	2011-II	2012-II
Monetary financing	-51.5	20.9
Central bank	0.0	0.0
Commercial banks	-51.5	20.9
Nonmonetary financing	49.3	-17.9
Government securities with the public	0.0	0.0
Other	49.3	-17.9
Cash balance	2.2	-3.0

Over the course of 2012's second quarter, the government of Sint Maarten drew down its deposits with the commercial banking sector to reduce its obligations with the nonmonetary sector and finance its operational deficit (see Table 4B).

### **Public sector debt of Sint Maarten**

Sint Maarten's total public debt-to-GDP ratio as of the end of June 2012 could not be established due to insufficient data. The available data indicate that by the end of the second quarter of 2012, the government of Sint Maarten had NAf.328.1 million in outstanding bonds. No information has been made available regarding the outstanding arrears of Sint Maarten's government.

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

During the second quarter of 2012, the deficit on the current account of the balance of payments of the monetary union narrowed by NAf.94.9 million compared to the second quarter of 2011. The lower deficit was caused largely by a significant improvement of the services balance, offset partly by a deterioration in the trade and income balances. Since the current account deficit dropped, the combined capital and financial account worsened at a slower pace than in the second quarter of 2011 (see Table 5).

**Table 5 Balance of payments summary (in millions NAf.)**

	2010-II	2011-II	2012-II
Current account	-414.3	-467.3	-372.4
Capital transfers	4.1	24.6	11.9
External financing of the government	3.5	0.0	29.3
External financing of the private sector	268.0	340.5	359.0
- Direct investment	49.5	64.4	24.2
- Loans and credits	331.1	285.8	-89.7
- Portfolio investments	-112.6	-9.7	424.5
Change in gross reserves of the central bank <sup>*)</sup>	128.0	93.1	-38.1
Statistical discrepancies	28.5	9.2	10.3

<sup>\*)</sup> A minus sign implies an increase.

### Current account

Net exports of goods and services in the monetary union increased by NAf.102.1 million during the second quarter of 2012 compared to the second quarter of 2011, as a result of an increase in exports (NAf.204.5 million) mitigated by a growth in imports (NAf.102.4 million). Below is an analysis of the development in net exports of goods and services in Curaçao and Sint Maarten.<sup>4</sup>

#### *Developments in the net exports of goods and services in Curaçao*

In Curaçao, net exports of goods and services increased during the second quarter of 2012 compared to the second quarter of 2011, as the increase in exports (NAf.142.2 million) exceeded the growth in imports (NAf.99.9 million). The growth in exports was related to, among other things, a sharp increase in the refining fee (NAf.84.1 million). The increased fee was related to the maintenance work at the cat cracker of the Isla refinery that took place during the second quarter of 2012. Exports expanded further due to a significant increase in re-exports by the free-zone companies (NAf.31.9 million). In addition, foreign exchange revenues from the tourism industry rose (NAf.27.7 million), although at a slower pace than in 2011. Both foreign exchange earnings from cruise tourism and stayover tourism rose during the April-June period of 2012 by 25.5% and 14.2%, respectively. The increased tourism revenues were accompanied by a growth in foreign exchange receipts from the transportation sector (NAf.16.3 million). In comparison to the second quarter of 2011, international oil prices declined in the second quarter of 2012, causing a drop in foreign exchange revenues from bunkering activities. Moreover, the volume of bunker sales also contracted as fewer cruise ships visited the port of Curaçao.

<sup>4</sup> The current account of the monetary union is not equal to the sum of the current accounts of Curaçao and Sint Maarten, due to the transactions between the two countries.

The increase in the imports of goods and services in Curaçao was largely the result of more merchandise imports by the free-zone companies. In addition, the investments in the refinery and the utility sector during the second quarter of 2012 contributed to the increased merchandise imports. In contrast, merchandise imports by the wholesale and retail trade sector dropped, reflecting the decline in domestic spending.

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

In Sint Maarten, net foreign demand surged by NAf.59.5 million during the second quarter of 2012 compared to 2011's second quarter, as the rise in exports (NAf.67.1 million) offset the increase in imports (NAf.7.6 million). The growth in exports was related mostly to increased foreign exchange revenues from the tourism sector. These revenues grew by NAf.54.6 million, largely as a result of an increase in revenues from stay-over tourism (NAf.41.3 million). In addition, revenues from cruise tourism increased by NAf.13.3 million. Imports of goods and services remained fairly stable, reflecting a slight increase in the imports of services compensated by a decline in goods imported.

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

The income balance of the monetary union deteriorated by NAf.16.4 million, due mainly to less interest income earned on foreign assets by resident companies. In addition, dividend payments to foreign investors increased. In contrast, the current transfers balance improved by NAf.9.1 million, reflecting an increase in current transfers received offset partly by a rise in current transfers paid to abroad. Overall, the deficit on the current account declined by NAf.94.9 million to reach NAf.372.4 million in the second quarter of 2012. (For a detailed overview, see Table 10 in the appendix.)

### **Financing of the current account balance**

In line with the deficit on the current account, the net foreign wealth of the private sector dropped by NAf.359.0 million in the second quarter of 2012. This change in the external financing of the private sector was due mainly to a deterioration of the portfolio investment and direct investment balances. In contrast, the loans and credits balance improved.

Net direct investments into the currency union expanded by NAf.24.2 million in 2012's second quarter, a deceleration compared to the increase by NAf.64.4 million that was registered in the second quarter of 2011. The expansion during the June quarter of 2012 was due mainly to increased claims of foreign direct investors on their subsidiaries in Curaçao and Sint Maarten, combined with the purchase of real estate by nonresidents in both countries.

The portfolio investment balance deteriorated by NAf.424.5 million, largely as a result of funds received from matured foreign debt securities held by institutional investors that were not reinvested abroad. The bulk of these matured debt securities was issued in the past by the entities of the former Netherlands Antilles and taken over, as part of the debt relief program, by the Dutch government in October 2010.

The loans and credits balance improved by NAf.89.7 million, reflecting mainly a significant surge in currency deposited by local companies into their foreign bank accounts. In contrast, the net trade credit balance worsened because of an increase in trade credits received on imports combined with the net repayment of trade credits extended on exports.

Meanwhile, capital transfers declined by NAf.12.7 million in the second quarter of 2012 compared to the second quarter of 2011 because of less development aid from the Netherlands. Because the inflow from capital transfers and external financing exceeded the current account deficit, reserves grew by NAf.38.1 million in the second quarter of 2012. (See Table 11 in the appendix for a detailed overview.)

## **MONETARY DEVELOPMENTS**

### **Monetary policy**

One of the main objectives of the Central Bank of Curaçao and Sint Maarten Bank is to promote the stability of the value of the common currency, i.e., the Netherlands Antillean guilder (NAf.). The Bank's monetary policy instruments are geared towards influencing the liquidity in the domestic money market. Domestic credit expansion, domestic spending, imports, and the use of foreign exchange reserves must be controlled to meet the official reserves objective, which is equal to three months of projected merchandise imports.

The Bank tightened its monetary policy stance further during the second quarter of 2012. To complement the temporary freeze on private credit extension that was introduced in February 2012, the Bank's monetary policy was directed toward tightening the surplus on the domestic money market. To this end, the Bank absorbed commercial banks' liquidity by raising the percentage of the reserve requirement, the main instrument of monetary policy, and through the outright sale of government securities. The percentage of the reserve requirement was raised by 0.75 percentage point to reach 11.50% at the end of June 2012.

The reserve requirement was increased to curb the excess liquidity in the money market and, hence, bring the pace of credit extension to the private sector more in line with nominal economic growth. Together with the temporary credit freeze, this increase in the reserve requirement is expected to mitigate the deterioration of the current account of the balance of payments and, consequently, reverse the declining trend in the foreign exchange reserves. The other instrument of monetary policy, the auctioning of Certificates of Deposit (CDs), was deployed in a neutral way as the Bank aimed only at the refinancing of maturing CDs.

The Bank's official interest rate, the pledging rate, was left unchanged at 1.00% throughout the June quarter of 2012.

### **Monetary base**

The monetary base, M0, which consists of currency in circulation and the commercial banks' current account deposits with the Bank, expanded by NAf.62.5 million (7.5%) during the second quarter of 2012. This expansion was caused mainly by an increase in the commercial banks' current account balances with the Bank (NAf.55.8 million). Table 12 in the appendix shows the movements in the Bank's assets and remaining liabilities, which can be used to explain the change in the monetary base. All else being equal, an increase in the Bank's assets leads to an expansion in M0, whereas an increase in the Bank's remaining liabilities causes the monetary base to contract. During the second quarter of 2012, government deposits with the Bank and capital and reserves contracted, which boosted the monetary base. In contrast, declines in the Bank's foreign assets and its claims on government agencies and institutions exerted a contractionary impact on the monetary base. As the drop in the Bank's remaining liabilities outweighed the decline in assets, the monetary base expanded, indicating increased liquidity in the banking system.

## **Monetary aggregates**

The pace of monetary growth quickened during the second quarter of 2012. The growth in broad money (M2) accelerated to 4.9% during the second quarter of 2012, after gaining 1.4% in the preceding quarter. The growth in M2 in 2012's second quarter was driven by both the narrow money component (M1), which expanded by 7.0%, and the near money component (3.2%). The increase in M1 stemmed mostly from a 7.4% increase in deposits withdrawable on demand, driven to a large extent by increases in deposits in Netherlands Antillean guilders (11.1%). The other component of M1, coins and notes with the public, increased by 3.0% during the second quarter of 2012. Ultimately, these increases caused the annual growth rate of M1 to increase to 7.3% in June 2012, up from 2.1% in March 2012. The increase in the near money component in the second quarter of 2012 was caused by increases in both time deposits (5.1%) and savings deposits (1.0%). (See Table 13 in the appendix for more details.)

## **Factors affecting the money supply**

Money holdings of the private sector expanded by NAf.360.7 million to NAf.7,770.0 million at the end of the second quarter of 2012. Both net domestic assets and net foreign assets of the banking system increased.

The NAf.204.8 million (6.3%) expansion in net domestic credit during the second quarter of 2012 was due mainly to increases in the net claims on the government and the private sector. The increase in net credit extended to the government (NAf.132.2 million) resulted from a drawdown of government deposits. Both the governments of Curaçao and Sint Maarten accounted for the expansionary impact of the government sector. (See Table 14 in the appendix for more details.)

Net credit to the private sector expanded by NAf.35.6 million (0.6%) in the second quarter of 2012. Also the loan component increased by 0.6%, attributable entirely to mortgages, which increased by 2.5%. In contrast, consumer loans and business loans declined by 0.9% and 0.7%, respectively. In Curacao, total loans to the private sector expanded by 1.1%, due entirely to mortgages (2.5%). Outstanding business loans and consumer loans remained about the same. In contrast, in Sint Maarten, total loans declined by 0.6%, the result of declines in consumer loans (3.1%) and business loans (2.6%), outweighing a surge in mortgages (2.6%).

As a result, the annual growth rate of private sector credit extended in the monetary union slowed from 5.0% in March to 2.5% in June 2012. The annual growth in June was due entirely to the 5.2% growth in Curaçao because Sint Maarten registered a decline of 4.0%. The decline in the annual growth rate can be attributed in part to the introduction of a credit freeze effective during the period March-August 2012.

Net foreign assets expanded by NAf.155.8 million (3.8%) in the June quarter of 2012 to NAf.4,307.9 million, a deceleration compared to the increase of NAf.226.6 million registered in the second quarter of 2011. The gain in net foreign assets in 2012's second quarter was attributable to an increase of NAf.214.6 million (17.3%) in the net foreign holdings of the commercial banks. The central bank's net foreign position dropped by NAf.58.8 million (2.0%).

## **Developments in domestic interest rates**

When setting the rate offered on CDs during the bi-weekly auctions, the Bank takes into account developments in the international financial markets, which affect interest rates in the domestic

money market. The benchmark one-month US dollar libor rate<sup>5</sup> during the June quarter of 2012 remained at almost the same level as in the previous quarter. This development also was reflected in the 1-month CD rate, which dropped from 0.12% at the end of the first quarter of 2012 to 0.11% at the end of the second quarter of 2012. The highest rate offered during the second quarter was 0.13% on April 2, 2012.

The developments in the commercial bank rates point to a continuation of the declining trend during the second quarter of 2012. In lending rates, the average mortgage rate decreased to 7.0% while the rate of time loans averaged 8.0%. Meanwhile, with respect to the borrowing rates, the average rate offered on a 12-month time deposit declined to 1.7% in the second quarter of 2012. In contrast, the average interest rate on passbook savings increased by 0.1 percentage point.

Yields on government paper remained about the same. The average effective yield on 5-year government bonds dropped by 0.1% percentage point to 1.3% in the second quarter of 2012, compared to the first quarter. Finally, the yield on 12-month treasury bills remained unchanged at 0.2%. (See Table 15 in the appendix for a detailed overview.)

## **DEVELOPMENTS IN THE COMMERCIAL BANKING SECTOR**

During the second quarter of 2012, the aggregate balance sheet of the commercial banks expanded at a moderate pace while profitability was maintained compared to the second quarter of 2011. Meanwhile, the commercial banks' capital structure and liquidity levels remained healthy. However, the uncertain economic outlook caused a deterioration in the asset quality.

At the end of June 2012, the commercial banks held NAF.15,223.2 million in total assets, up 2.6% from the previous quarter and 2.7% above the end of June 2011. Nearly half of the expansion in the balance sheet was due to a growth in investments (12.8%). Loans, interest-bearing and non-interest-bearing cash, and other assets also contributed to the expansion of the commercial banks' aggregate balance sheet in the second quarter of 2012. However, a 17.8% contraction in investments in unconsolidated subsidiaries and affiliates mitigated the growth in assets.

Total liabilities of the domestic commercial banking sector increased by 2.8% in the June 2012 quarter. Increases in total deposits (2.6%) and other liabilities (9.5%) contributed primarily to this expansion. The increase in deposits resulted mostly from more demand deposits. The declining trend in the share of interest-bearing deposits (time and savings deposits) to total deposits continued during the second quarter of 2012 as the commercial banks tried to preserve their interest margin. The share of interest-bearing deposits in total deposits declined from 53.4% in the first quarter of 2012 to 52.5% in the second quarter. Moreover, the domestic commercial banks' capitalization increased slightly by 0.8% in the June quarter of 2012 compared to the March quarter of 2012. (See Table 16 in the appendix for more details.)

The growth in total operational income in the domestic banking sector decelerated to 4.8% in the second quarter of 2012, down from 10.1% in the second quarter of 2011. This deceleration was the result of smaller growth rates in both net interest income (1.7%) and other income (12.0%) compared to the second quarter of 2011, when growth rates of 5.7% and 23.6%, respectively, were registered. Interest income actually dropped (1.3%) in the second quarter of 2012 compared to the second quarter of 2011, but a stronger decline in interest expenses (13.2%) caused net interest income to grow.

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<sup>5</sup> The London interbank offered rate, the main gauge of interbank lending.

During the second quarter of 2012, total operational expenses grew by 9.7%, about the same as the 10.1% growth rate in the second quarter of 2011. The growth in 2012's second-quarter expenses was most pronounced in the net additions to general provisions. The abovementioned developments resulted in a 10.6% decline in net operating income in the second quarter of 2012. Nevertheless, net income after taxes remained about the same, due mainly to higher net extraordinary income. (See Table 17 in the appendix for more details.)

### **Financial soundness indicators**

The key financial soundness indicators (FSI) for the commercial banking system suggest that the commercial banks remained adequately capitalized and recorded stable earnings in the second quarter of 2012. These indicators are aggregates of microprudential indicators and used to monitor the health and soundness of the financial sector statistically. This microprudential approach, which is based on microeconomic variables and takes only the exposure of individual banking institutions into account, is complemented by a more comprehensive analysis that considers macroeconomic factors through stress tests. These stress tests together with the FSI constitute a macroprudential approach aimed at better assessing the vulnerability of the banking system to shocks and the extent of systemic risk.

The robustness of financial institutions to shocks to their balance sheets is determined by their capital adequacy. Capital provides a buffer that allows for the orderly disposal of assets and shields debt holders from losses. Moreover, capital requirements act as a disincentive to excessive risk-taking by banks. The commercial banks' total capital-to-total-assets ratio reached 11.2% at the end of the June quarter of 2012, about the same as at the end of the previous two quarters. This value indicates that the capital stock of the domestic commercial banks remained relatively strong. In addition, the core (Tier 1) capital adequacy ratio remained stable at 9.5%, consistently above the internationally acknowledged regulatory requirement of 4.0% under the Basel I and Basel II agreements.

The quality of the commercial banks' assets portfolio deteriorated during the June quarter of 2012 as the amount of outstanding nonperforming loans surged (6.4%). Combined with a sluggish growth in total loans (1.4%), the ratio of nonperforming loans-to-total loans reached 7.1%, up from 6.7% in the first quarter of 2012. Related to the growth in nonperforming loans, provisioning increased but at a slower pace, explaining the decline to 44.7% in the ratio of provisions for loan losses-to-nonperforming loans, down from 46.3% at the end of March 2012.

The decline in interest income (1.3%) did not affect the profitability of the domestic banking sector in the second quarter of 2012 as this decline was offset by a drop in interest expenses (6.0%), ultimately causing a slight improvement in the net interest margin to 4.5% in the June quarter of 2012 compared to the second quarter of 2011. The gross earning assets yield dropped to 5.5% as both interest income and average earning assets dropped. The return-on-assets ratio increased from 1.5% in 2011's second quarter to 1.9% in 2012's second quarter, as the higher net income before dividends and taxes outweighed the growth in average outstanding assets.

**Table 6 Financial stability indicators (in %, end of period)**

	2011-II	2011-III	2011-IV	2012-I	2012-II
<b>Capital adequacy</b>					
Total capital/ total assets	10.6	10.8	11.3	11.4	11.2
Tier 1 capital / total assets	8.9	8.9	9.4	9.5	9.5
<b>Asset quality</b>					
Nonperforming loans/ total loans	7.5	7.4	6.8	6.7	7.1
Provisions for loan losses/ non-performing loans	39.7	41.4	45.9	46.3	44.7
<b>Earnings</b>					
Gross earning assets yield	5.6	5.5	5.6	5.6	5.5
Net interest margin	4.4	4.4	4.5	4.5	4.5
Return on assets	1.5	1.3	1.9	1.9	1.9
<b>Liquidity</b>					
Total loans/ total deposits	65.5	67.6	68.7	67.4	66.5

Finally, the ratio of total loans-to-total deposits, which measures the liquidity in the domestic banking sector, dropped from 67.4% in the March quarter of 2012 to 66.5% in the June quarter. The downturn in this ratio reveals an increase in liquidity during 2012's second quarter, as total deposits increased more than the outstanding amount of bank loans.

### **Textbox: Change in the recording of the foreign exchange reserves**

The Central Bank of Curaçao and Sint Maarten uses the IMF definitions to compile the balance of payments of the monetary union. These definitions are described in the Balance of Payments Manual 6 (BPM6) of the IMF. However, countries are allowed to deviate from the IMF definitions if certain specific national characteristics require a different approach. These deviations are made in close consultation with the IMF.

As a result of a recent consultation with the IMF, the Bank has changed the recording of its foreign exchange reserves according to the IMF definition. The adjustments and the consequences for the presentation of the change in foreign exchange reserves in the balance of payments are illustrated in the table below.

#### *Presentation of change in foreign exchange reserves*

	2012 second quarter	
	Previous method	New method
Other investments: assets,	127.4	-68.6
of which:	-6.6	-202.6
- currency deposits		
Other investments: liabilities,	45.8	8.2
of which:	-	-37.6
- currency deposits		
Reserve assets*	-271.7	-38.1
Foreign exchange (currency and deposits)	-271.7	-59.8
- with central banks	-14.2	-212.5
- with deposit money banks	-257.5	152.7
Other claims (securities)	-	21.7

\*- Sign means an increase in reserves

As the table illustrates, the increase in reserves in the second quarter of 2012 is smaller using the new method (NAf.38.1 million) than using the old method (NAf.271.7 million). This decrease occurs because under the new method, the net external assets of the commercial banks are no longer included in the reserves. According to the IMF, if the commercial banks are allowed to use their external assets without asking the Bank's permission, these assets are not considered reserves but should be recorded as other investments.

Furthermore, in the previous method, foreign exchange was recorded as a net result of external assets and liabilities. According to the IMF, foreign exchange should be presented on a gross basis and include only the foreign exchange assets of the central bank. Liabilities should be recorded as currency deposit liabilities.

These adjustments also explain the introduction of the sub-item "Currency deposits" as part of the item "Other investments" as liabilities and the item "Other claims" as part of the reserve assets. In addition to the smaller increase in reserve assets, the new method results in an improvement in the other investments balance, in contrast to a deterioration according to the previous method.

## APPENDIX

**Table 7 Developments in stay-over tourism (% change) <sup>6</sup>**

	Curaçao				St. Maarten			
	2011-II		2012-II		2011-II		2012-II	
North America, of which:	31.9	(6.4)	-2.6	(-0.5)	-12.3	(-7.6)	18.0	(11.7)
-U.S.A.	32.9	(6.1)	-1.6	(-0.3)	-13.4	(-7.4)	15.9	(9.1)
Europe, of which:	4.0	(1.7)	3.6	(1.5)	-5.8	(-1.2)	5.4	(1.1)
-The Netherlands	1.1	(0.4)	-2.3	(-0.8)	-13.4	(-0.5)	-0.7	(0.3)
South & Central America, of which:	54.6	(11.7)	27.1	(6.9)	33.7	(1.3)	3.1	(0.1)
-Venezuela	60.4	(9.5)	37.9	(7.7)	27.0	(0.2)	10.8	(0.1)
-Colombia	54.2	(1.3)	2.3	(0.1)	--	--	--	--
Caribbean, of which:	21.7	(2.6)	-8.4	(-0.9)	1.0	(0.1)	-8.9	(-0.5)
-Dominican Republic	39.0	(0.4)	-5.0	(0.0)	2.0	(0.0)	0.3	(0.0)
Total	21.6	--	6.5	--	-9.0	--	12.5	--

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

<sup>6</sup> Weighted growth rates between brackets

**Table 8a Curaçao consumer prices (annual quarterly percentage change)**

	2011-I	2011-II	2011-III	2011-IV	2012-I	2012-II
Food	6.5	7.3	8.4	8.5	8.2	6.8
Beverages & tobacco	1.5	1.8	3.1	3.6	5.8	6.0
Clothing & footwear	0.1	1.1	0.5	0.6	1.6	1.1
Housing	1.6	-0.1	0.8	0.7	0.6	2.7
Housekeeping & furnishings	1.6	1.4	1.1	1.5	2.0	2.7
Health	1.1	1.2	1.1	0.3	0.6	0.6
Transport & communication	1.4	0.3	4.5	4.4	5.3	7.5
Recreation & education	-0.3	-0.5	0.1	0.5	1.3	1.7
Other	1.1	1.0	1.5	1.7	2.0	2.2
General inflation rate	2.1	1.4	2.9	3.0	3.3	4.3

Source: Central Bureau of Statistics of Curaçao

**Table 8b St. Maarten consumer prices (annual quarterly percentage change)**

	2011-I	2011-II	2011-III	2011-IV	2012-I	2012-II
Food	3.6	6.3	10.4	15.9	15.5	13.2
Beverages & tobacco	5.8	7.5	11.1	14.4	11.1	10.0
Clothing & footwear	-0.5	-0.4	2.2	4.5	6.8	8.2
Housing	2.9	6.1	5.7	3.6	4.7	1.4
Housekeeping & furnishings	0.7	2.1	5.1	6.7	7.4	7.2
Health	0.3	0.9	2.1	2.8	2.7	2.4
Transport & communication	3.6	5.3	5.6	4.4	2.3	1.3
Recreation & education	-0.1	1.0	2.0	2.5	4.9	4.3
Other	1.9	3.5	3.4	3.6	3.8	2.9
General inflation rate	2.5	4.7	5.6	5.5	5.8	4.0

Source: Department of Statistics, St. Maarten

**Table 9A Budgetary overview of Curaçao (in millions NAf.)**

	2011-II	2012-II
Revenues	362.1	374.7
Tax revenues, of which:	333.6	341.5
Taxes on income and profits	160.5	165.8
Taxes on goods and services	113.4	124.1
Taxes on property	11.4	8.4
Taxes on international trade and transactions	46.7	42.0
Nontax and other revenues	28.5	33.2
Expenditures	427.0	486.9
Wages and salaries	221.0	237.3
Goods and services	82.8	84.4
Transfers and subsidies	98.4	124.6
Interest payments	24.7	29.4
Budget balance	-64.9	-112.2

**Table 9B Overview of selected tax revenues for Curaçao (in millions NAf.)**

	2010-II	2011-II	2012-II
Taxes on income and profits, of which:	167.1	160.5	165.8
Profit tax	37.8	35.9	38.3
Wage tax	122.8	121.8	120.1
Taxes on property, of which:	10.9	11.4	8.4
Land tax	4.1	5.3	4.3
Property transfer tax	5.0	5.4	3.7
Taxes on goods and services, of which:	---	113.4	124.1
Sales tax	78.0	77.1	93.3
Excises, of which:	27.4	26.8	22.0
Excise on gasoline	18.2	17.8	13.2
Motor vehicle tax	3.8	4.2	3.7
Taxes on international trade and transactions, of which:	---	46.7	42.0
Import duties	41.2	46.5	41.7

--- Value is unknown as Curaçao's share in certain central government tax revenues is not known.

**Table 9C Budgetary overview of Sint Maarten (in millions NAf.)**

	2011-II	2012-II
Revenues	101.4	107.8
Tax revenues, of which:	83.8	83.3
Taxes on income and profits	35.1	34.4
Taxes on property	5.9	3.2
Taxes on goods and services	42.8	45.6
Social contributions	4.7	5.0
Nontax and other revenues	12.9	19.6
Expenditures	99.2	110.8
Budget balance	2.2	-3.0

**Table 9D Overview of selected tax revenues for Sint Maarten (in millions NAf.)**

	2010-II	2011-II	2012-II
Taxes on income and profits, of which:	38.7	35.1	34.4
Profit tax	8.7	4.2	2.9
Wage tax	29.5	31.8	32.9
Taxes on property, of which:	5.2	5.9	3.2
Land tax	0.7	1.8	0.7
Property transfer tax	4.5	4.1	2.5
Taxes on goods and services, of which:	---	42.8	45.6
Turnover tax	21.4	31.9	34.7
Vehicle tax	0.9	1.0	0.4
Excise on gasoline	3.5	2.1	4.3

--- Value is unknown as Sint Maarten's share in certain central government tax revenues is not known.

**Table 10 Detailed overview of balance of payments (in millions NAf.)**

	2010-II	2011-II	2012-II
Trade balance	-845.6	-838.2	-855.7
-Exports	314.2	417.4	429.1
-Imports	1,159.8	1,255.6	1,284.9
Services balance	450.1	435.6	555.2
Receipts, of which:	832.0	886.4	1,079.2
-Travel	464.1	472.0	554.3
-Transportation	75.6	87.8	102.7
-Other services, of which:	292.3	326.6	422.2
-Int. fin & bus. services sector	71.4	47.2	47.7
Expenses, of which:	381.9	450.8	523.9
-Travel	128.0	143.6	161.0
-Transportation	76.0	77.4	95.7
-Other services, of which:	177.9	229.8	267.2
-Int. fin & bus. services sector	23.4	28.7	21.3
Income balance <sup>1)</sup>	-43.6	-18.5	-34.8
Current transfers balance <sup>2)</sup>	24.8	-46.2	-37.1
<b>Current account balance</b>	<b>-414.3</b>	<b>-467.3</b>	<b>-372.4</b>
<b>Capital &amp; financial account balance</b>	<b>385.8</b>	<b>458.1</b>	<b>362.1</b>
Capital account balance	4.1 <sup>3)</sup>	24.6 <sup>3)</sup>	11.9 <sup>3)</sup>
Financial account balance	381.7	433.5	350.2
<b>Net errors &amp; omissions</b>	<b>28.5</b>	<b>9.2</b>	<b>10.3</b>

1) Labor and investment income.

2) Public and private transfers.

**Table 11 Breakdown of net changes in the financial account<sup>1)</sup> (in millions NAf.)**

	2010-II	2011-II	2012-II
Direct investment	49.5	64.4	24.2
- Abroad <sup>2)</sup>	-1.1	18.5	-3.7
- In Curaçao and Sint Maarten <sup>3)</sup>	50.6	45.9	27.9
Portfolio investment <sup>2)</sup>	-130.4	-9.7	424.5
Other investment, of which:	213.2	193.1	-142.2
- Assets <sup>2)</sup>	250.1	332.1	-117.4
- Liabilities <sup>3)</sup>	-36.9	-139.0	-24.8
Net lending/borrowing, of which:	121.4	92.6	81.8
- Assets <sup>2)</sup>	20.6	60.0	48.8
- Liabilities <sup>3)</sup>	100.8	32.6	33.0
Reserves <sup>4)</sup>	128.0	93.1	-38.1
Total assets <sup>2)</sup>	267.2	494.0	314.1
Total liabilities <sup>3)</sup>	114.5	-60.5	36.1
Balance	381.7	350.2	-83.3

1) Transaction basis

2) A minus sign means an increase in assets.

3) A minus sign means a decrease in liabilities.

4) A minus sign means an increase in reserves.

**Table 12 The monetary base and its sources (in millions NAf.)**

	2012-I	2012-II	Change	
			Amount	percentage
Banknotes issued	370.8	377.6	6.7	1.8%
Banks' demand deposits (current account)	467.7	523.5	55.8	11.9%
<b>Monetary base (M0)</b>	838.5	901.1	62.5	7.5%
<b>Central Bank assets</b>				
Foreign assets (including gold)	3,335.3	3,325.1	-10.2	-0.3%
Claims on deposit money banks	0.5	-	-0.5	-100.0%
Claims on the government	0.2	0.2	0.1	43.9%
Claims on government agencies and institutions	562.3	525.6	-36.8	-6.5%
Fixed and other assets	99.6	99.9	0.3	0.3%
less:				
<b>Central Bank remaining liabilities</b>				
Private sector deposits	927.4	992.8	65.4	7.1%
Government deposits	355.9	199.6	-156.4	-43.9%
Foreign liabilities	638.9	662.7	23.8	3.7%
Other liabilities	92.6	93.2	0.6	0.7%
Capital and reserves	1,144.4	1,101.3	-43.1	-3.8%

**Table 13 Monetary aggregates (changes in previous quarter, in millions NAf.)**

	2011-IV		2012-I		2012-II	
	Amount	%	Amount	%	Amount	%
<b>Money supply (M2)</b>	70.4	1.0%	101.2	1.4%	360.7	4.9%
<b>Money (M1)</b>	19.8	0.6%	145.1	4.6%	229.4	7.0%
Coins & notes with the public	10.1	3.5%	-5.8	-1.9%	8.8	3.0%
Total demand deposits, of which:	9.7	0.3%	150.9	5.3%	220.5	7.4%
- Netherlands Antillean guilders	-49.8	-2.2%	59.8	2.7%	247.9	11.1%
- Foreign currency	59.5	9.7%	91.1	13.5%	-27.3	-3.6%
<b>Near money</b>	50.6	1.2%	-44.0	-1.1%	131.3	3.2%
Time deposits	87.3	4.0%	-67.3	-3.0%	111.2	5.1%
Savings	-36.6	-1.9%	23.3	1.2%	20.1	1.0%

**Table 14 Monetary survey (in millions NAf.)**

	2011-II	2011-III	2011-IV	2012-I	2012-II
<b>Money supply (M2)</b>	7,287.3	7,237.7	7,308.1	7,409.3	7,770.0
<b>Money (M1)</b>	3,283.6	3,129.0	3,148.8	3,293.9	3,523.3
Coins & notes with the public	294.7	291.2	301.3	295.6	304.4
Total demand deposits, of which:	2,988.9	2,837.8	2,847.5	2,998.4	3,218.9
- Netherlands Antillean guilders	2,357.4	2,224.5	2,174.7	2,234.5	2,482.3
- Foreign currency	631.5	613.3	672.8	763.9	736.6
<b>Near money</b>	4,003.7	4,108.7	4,159.3	4,115.3	4,246.7
Time deposits	2,057.4	2,179.1	2,266.4	2,199.0	2,310.3
Savings	1,946.3	1,929.6	1,893.0	1,916.3	1,936.4
<b>Factors affecting the money supply</b>	7,287.3	7,237.7	7,308.1	7,409.3	7,770.0
<b>Net domestic assets</b>	2,752.8	2,751.8	3,230.6	3,257.3	3,462.1
<b>Government sector</b>	-797.5	-732.2	-621.6	-657.0	-524.8
- Former central government	-109.7	-117.5	-106.4	-106.2	-98.0
- Curacao	-462.6	-406.3	-333.6	-369.1	-265.9
- Sint Maarten	-225.2	-208.4	-181.6	-181.8	-160.9
<b>Private sector</b>	5,855.2	5,861.3	6,158.8	6,279.5	6,315.1
<b>Memorandum items</b>	-2,304.9	-2,377.3	-2,306.6	-2,365.2	-2,328.1
<b>Net foreign assets</b>	4,534.5	4,485.9	4,077.6	4,152.0	4,307.9
Central bank	2,854.9	2,966.4	2,886.4	2,909.4	2,850.6
Commercial banks	1,679.6	1,519.5	1,191.2	1,242.6	1,457.2
<b>Government loans by commercial banks</b>	0.1	0.1	0.1	0.1	0.1
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 Curacao</b>	3,749.6	3,759.0	3,839.3	3,901.7	3,944.7
- Mortgages	1,522.3	1,533.9	1,628.2	1,690.4	1,732.7
- Consumer loans	960.9	963.6	954.9	921.9	922.2
- Business loans	1,266.4	1,261.5	1,256.3	1,289.4	1,289.9
<b>Private sector loans Sint Maarten</b>	1,554.7	1,553.3	1,544.0	1,501.3	1,493.1
- Mortgages	636.3	647.2	648.2	630.1	646.5
- Consumer loans	379.8	382.1	379.4	382.4	370.4
- Business loans	538.6	524.0	516.4	488.8	476.1

**Table 15 Developments in domestic interest rates (in %)**

	2011-II	2011-III	2011-IV	2012-I	2012-II
<b>Central Bank</b>					
- Pledging rate	1.0	1.0	1.0	1.0	1.0
- Maximum CD rate (1-month)	0.12	0.09	0.17	0.12	0.11
<b>Commercial bank borrowing rates</b>					
- Passbook savings	1.1	1.1	1.1	1.1	1.2
- Time deposits (12-month)	1.8	2.0	2.1	1.8	1.7
<b>Commercial bank lending rates</b>					
- Mortgages	7.1	7.3	7.3	7.1	7.0
- Time loans	8.5	8.4	8.3	8.1	8.0
<b>Government securities</b>					
- Government bonds (5-year effective yield)	2.6	1.6	1.4	1.4	1.3
- Treasury bills (12-month)	1.5	0.5	0.2	0.2	0.2

**Table 16 Aggregate balance sheet of domestic commercial banks (in millions NAf.)**

	2011-II	2011-III	2011-IV	2012-I	2012-II
<b>Assets</b>					
Non-interest-bearing cash	1,359.4	1,315.9	1,506.3	1,544.3	1,585.0
Interest-bearing cash	3,047.6	2,883.0	2,426.9	2,651.8	2,703.3
Investments	1,459.1	1,345.5	1,540.1	1,478.1	1,666.8
Loans	8,265.7	8,347.5	8,451.4	8,412.4	8,503.4
Investments in unconsolidated subsidiaries and affiliates	41.6	53.4	69.7	80.9	66.5
Fixed assets	338.7	345.4	355.5	360.6	362.9
Other assets	310.7	313.0	307.8	309.6	335.2
<b>Total assets</b>	<b>14,822.8</b>	<b>14,603.7</b>	<b>14,657.8</b>	<b>14,837.6</b>	<b>15,223.2</b>
<b>Liabilities</b>					
Demand deposits	5,846.1	5,637.4	5,673.1	5,877.8	6,144.7
Savings deposits	4,109.5	4,078.3	4,016.1	4,034.2	4,057.2
Time deposits	2,781.9	2,745.2	2,724.1	2,694.1	2,729.4
<b>Total deposits</b>	<b>12,737.5</b>	<b>12,460.9</b>	<b>12,413.3</b>	<b>12,606.1</b>	<b>12,931.4</b>
Borrowings	43.0	28.4	31.1	28.0	28.3
Other liabilities	442.4	513.7	531.6	484.6	530.9
<b>Total liabilities</b>	<b>13,222.9</b>	<b>13,003.0</b>	<b>12,976.1</b>	<b>13,118.7</b>	<b>13,490.6</b>
Minority interest	10.1	10.8	10.2	10.0	10.8
Subordinated debentures	0.0	0.0	0.0	0.0	0.0
General provisions	257.5	274.4	282.1	288.7	299.8
Capital & reserves	1,332.3	1,315.5	1,389.3	1,420.2	1,422.1
<b>Total capital</b>	<b>1,599.9</b>	<b>1,600.7</b>	<b>1,681.7</b>	<b>1,718.9</b>	<b>1,732.6</b>
<b>Total liabilities and capital</b>	<b>14,822.8</b>	<b>14,603.7</b>	<b>14,657.8</b>	<b>14,837.6</b>	<b>15,223.2</b>

**Table 17 Aggregate income statement of domestic commercial banks  
(quarterly changes, in millions NAf.)**

	2011-II	2011-III	2011-IV	2012-I	2012-II
Interest income	188.6	188.2	141.6	195.6	186.2
Interest expenses	37.5	37.2	25.3	35.6	32.6
<b>Net interest income</b>	<b>151.1</b>	<b>150.9</b>	<b>116.3</b>	<b>160.0</b>	<b>153.7</b>
Other income	66.5	79.8	71.2	78.3	74.5
<b>Total operational income</b>	<b>217.6</b>	<b>230.7</b>	<b>187.5</b>	<b>238.3</b>	<b>228.2</b>
Salaries & other employee expenses	85.4	84.1	80.6	89.1	86.5
Occupancy expenses	25.5	26.0	22.0	26.8	26.1
Other operating expenses	37.0	41.6	20.6	39.6	39.1
Net addition to general provisions	17.7	17.9	-0.7	9.1	29.9
<b>Total operational expenses</b>	<b>165.5</b>	<b>169.6</b>	<b>122.5</b>	<b>164.5</b>	<b>181.6</b>
Net operating income	52.1	61.1	65.0	73.8	46.6
Net extraordinary items	1.8	-21.5	57.7	0.0	6.3
Applicable profit taxes	9.2	12.7	7.9	14.1	8.3
<b>Net income after taxes</b>	<b>44.7</b>	<b>27.0</b>	<b>114.8</b>	<b>59.7</b>	<b>44.6</b>