

# QUARTERLY BULLETIN

2015 - I

CENTRALE BANK VAN CURAÇAO EN  
SINT MAARTEN





# Centrale Bank van Curaçao en Sint Maarten

## QUARTERLY BULLETIN 2015-I

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# I REPORT OF THE PRESIDENT

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Dr. E. D. Tromp, President

The global economy continued to grow during the first quarter of 2015, although the pace of growth was uneven across regions. In the advanced economies, growth reflected primarily an accelerated expansion in the United States and the United Kingdom, while the pace of expansion moderated in the euro area and Japan. In the emerging markets, real output growth weakened driven by a slowdown in China, Brazil, and Russia. Global inflationary pressures eased primarily because of lower international fuel prices.

Developments diverged also in the monetary union of Curaçao and Sint Maarten during the first quarter of 2015. In Curaçao, real GDP contracted by 0.2%, while Sint Maarten recorded an expansion of 1.6%. Both countries benefitted from the lower international fuel prices, resulting in lower inflationary pressures. In Curaçao, the inflation rate dropped from 0.8% in the first quarter of 2014 to 0.1% in the first quarter of 2015. Meanwhile in Sint Maarten, the quarterly inflation eased to 1.2%, down from 2.1% a year earlier.

The economic contraction in Curaçao stemmed from a decline in private demand. Both private consumption and investment dropped during the March quarter of 2015. By contrast, public spending and net foreign demand contributed positively to GDP. The increase in public spending was driven by a rise in public in-

vestment due largely to the construction of a new hospital in Curaçao. Meanwhile, net foreign demand increased as export growth surpassed the rise in imports.

Sectoral data reveal that the financial intermediation, construction, and transport, storage, & communication sectors were primarily responsible for the contraction in the private sector of Curaçao. The decline in financial intermediation reflected lower real value added by both domestic and international financial services. The poor performance of the construction sector was the result of the decline in private investments, mitigated by an increase in government investments, sustained mainly by the construction of the new hospital. The transport, storage, & communication sector posted a decline because harbor activities fell. Fewer container movements, a drop in oil storage activities, and fewer ships piloted into the harbor explain the decline in harbor activities. By contrast, airport-related activities were up because of increases in total passenger traffic and commercial landings. Meanwhile, real value added continued to contract in the utilities sector as reflected by declines in both water and electricity production.

By contrast, activities in the restaurants & hotels, manufacturing, and wholesale & retail trade sectors grew in the January-March period of 2015. Following a decline in the first quarter of 2014, real value added in the restaurants & hotels sectors rose in the first quarter of 2015, driven by a robust growth in stay-over tourism. However, the number of cruise tourists dropped despite an increase in the number of cruise calls. The positive development in stay-over tourism was driven by more visitors from South America, North America,

and Europe. Growth in all these market segments was supported by increased airlift, emphasizing the importance of more airlift for the further development of stay-over tourism.

Although expanding at a slower pace than in 2014, real output expansion in the manufacturing sector stemmed from a positive contribution of the Isla refinery. The refinery's contribution was primarily the result of increased refining activities. However, output growth in the manufacturing sector was offset partly by a drop in ship repair activities. The expansion in the wholesale & retail trade sector was attributable to the increase in tourism spending, mitigated by the contraction in private demand and fewer activities in the free zone. Activities in the free zone of Curaçao continued to be affected by the unstable situation and currency restrictions in Venezuela.

According to the Bank's estimates<sup>1</sup>, real GDP growth in Sint Maarten was driven by increases in both domestic and net foreign demand. The increase in domestic demand was led primarily by private spending as both private investments and consumption rose. Furthermore, public spending increased on the back of higher investments, notably in public infrastructure and the remodeling of public schools. In contrast, public consumption dropped, due mainly to lower outlays on goods & services. Net foreign demand contributed

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<sup>1</sup> *Sint Maarten's first-quarter real GDP growth figure needs to be interpreted with caution. Because the needed data were not available, the Bank used the IMF's real GDP estimates for the main tourism markets of Sint Maarten as a proxy for tourism growth in the first quarter of 2015.*

positively to Sint Maarten's real GDP expansion as export growth was accompanied by a lower import bill.

An analysis by sector shows that the restaurants & hotels and wholesale & retail sectors were the main contributors to Sint Maarten's real GDP growth during the January-March period of 2015. Growth in the restaurants & hotels sector was ascribable to increases in both stay-over and cruise tourism. The positive performance of cruise tourism was in line with the rise in cruise calls. Stay-over tourism continued to increase as the result of more visitors from North America, Europe, and the Caribbean. However, a decline in the South American market segment dampened growth in stay-over tourism. Real value added growth in the wholesale & retail trade sector was supported by the increase in domestic demand as well as more tourism spending. Following a contraction in the first quarter of 2014, the construction sector posted positive results due to increased private and public investments. Output also expanded in the transport, storage, & communication sector, albeit the pace of expansion was less pronounced than in 2014. Airport-related activities rose in line with the growth in stay-over tourism. However, air transportation activities dropped as Winair discontinued some flights in the second quarter of 2014. Activities in the harbor of Philipsburg increased as reflected by a higher number of ships piloted into the port and more container movements. The utilities sector also contributed positively to real GDP growth as both water and electricity production were up.

Sint Maarten's first quarter growth was inhibited, however, by the financial interme-

diation and manufacturing sectors. Real value added dropped in the financial intermediation sector as reflected by a decline in the net interest income of the domestic commercial banks. The contraction in the manufacturing sector was ascribable to a drop in yacht repair activities as fewer yachts, notably mega yachts, visited Sint Maarten.

During the first quarter of 2015, the government of Curaçao recorded a budget surplus of NAf.132.9 million, up from the NAf.95.9 million surplus registered in the first quarter of 2014. The higher surplus was the result of an increase in government revenues, mitigated by higher expenditures. More nontax revenues owing to a windfall in earnings related to the tax arrangement of the Kingdom (BRK) was the main cause of the overall increase in government revenues. In addition, tax revenues increased slightly because of higher proceeds from profit tax, import duties, property taxes, and sales tax mitigated by a drop in the wage tax and excises. Meanwhile, government expenditures rose as a result of increased social security-related transfers, notably the general health insurance scheme, higher interest payments, and increased disbursements on goods and services.

Despite the improved fiscal situation, the government of Curaçao still needs to take the necessary measures to safeguard sound public finances in the medium and long term. The implementation of measures to cut personnel costs and to reduce the deficits of the social funds, in particular the old age pension fund (AOV), has been delayed, thereby increasing the risk of higher expenditures than anticipated in the budget. At the same time, the gov-

ernment needs to control the rapidly increasing debt to GDP ratio. During the first quarter of 2015, the public debt climbed to 42.8% of GDP, above the 40% the IMF considers sound for a small open economy. This increase was due to the issuance of bonds to finance the construction of the new hospital.

In the case of Sint Maarten, the government is facing several challenges, including balancing the budget and financial management. In addition, arrears towards APS, the government pension fund, and SZV, the social insurances institution, need to be settled. Although Sint Maarten's population is relatively young and, hence, the pressures caused by ageing are less severe, these arrears call for reform of the pension and social security systems to achieve sound public finances in the future.

During the first quarter of 2015, Sint Maarten's fiscal situation improved as the current budget surplus rose by NAf.6.8 million to NAf.38.2 million. The improved situation was sustained by increased revenues, moderated slightly by a rise in expenditures. The increase in government revenues was the result of a rise in tax revenues, particularly the property transfer tax, turnover tax, and motor vehicle tax. Furthermore, nontax revenues were up because of higher dividends received from government-owned entities and increased revenues from license and permit fees. The slight rise in expenditures was attributable to higher spending on wages & salaries and subsidies, mitigated by lower outlays on goods and services.

According to preliminary data and estimates of the Bank, the current account deficit of the balance of payments nar-

rowed during the first quarter of 2015 compared to the first quarter of 2014. This outcome was the result of an increase in net exports of goods and services as exports rose while imports dropped. The rise in exports was driven largely by increased tourism activities, both in Curaçao and Sint Maarten. Moreover, foreign exchange earnings from bunkering activities grew because of higher sales. Export growth was mitigated by lower re-exports by the free-zone companies in Curaçao that continued to be affected by the unstable situation and currency restrictions in Venezuela. Meanwhile, imports contracted mainly because of the significant drop in international oil prices. Furthermore, merchandise imports in Sint Maarten declined as merchants used part of their inventories to meet increased domestic and tourism spending. In addition, the free-zone companies in Curaçao imported less merchandise. By contrast, imports of construction material and services in Curaçao were up largely as a result of the ongoing construction of the new hospital. Gross official reserves rose significantly during the first quarter of 2015 due mainly to the issuance of debt securities by the Curaçao government that were allotted 100% to the Dutch State Treasury Agency (DSTA) and the transfer of dividend tax by the Dutch authorities related to the BRK.

The money supply continued to expand in the first quarter of 2015 stemming from an increase in net foreign assets mitigated by a decline in net domestic assets. Net foreign assets grew mainly as a result of capital inflows related to the issuance of bonds by the government of Curaçao in January 2015. On the same footing, the decline in net domestic assets was primarily the result of an increase in the deposits of

the government of Curaçao with the banking system stemming from the proceeds of the bond issue. By contrast, lending to the private sector increased, although the loan component remained practically unchanged. In Curaçao, total loans extended remained stable, whereas in Sint Maarten, total loans extended recorded a slight contraction.

During the January-March period of 2015, 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 tightening of monetary policy during the past few years was helpful in reducing credit growth, improving the deficit on the current account of the balance of payments, and strengthening reserves. Under these monetary circumstances, the Bank's monetary policy will be sufficiently accommodative to facilitate a recovery of private credit extension once investments, considered the main driver of sustainable economic growth, pick up. However, private investments will only pick up if investor confidence is restored. The governments of Curaçao and Sint Maarten play an important role in building that confidence through addressing the well-known weaknesses of our business climate and demonstrating consistency and transparency in their macroeconomic policies. At the same time, the financial sector, in particular institutional investors, should assume a more proactive role in financing viable local investment opportunities that could

put our economies on a higher sustainable growth path.

E.D. Tromp

President

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## II INTERNATIONAL ECONOMIC DEVELOPMENTS

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### THE UNITED STATES

*During the first quarter of 2015, the U.S. economy grew by 2.9% in real terms, an acceleration compared to the 1.7% growth in the first quarter of 2014 (see Table 1). The rise in real output was due solely to domestic demand, as imports grew at a faster pace than exports.*

2015 compared to the first quarter of 2014. However, the contribution of net foreign demand to real output growth was negative because import growth outweighed the increase in exports.

From a sectoral perspective, the growth in private sector activities was driven mainly

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

	2014-I	2015-I
Real GDP (% change)	1.7	2.9
Consumer prices (%)	1.4	-0.1
Unemployment rate (%)	6.7	5.6

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

The growth in domestic demand was driven by both the private and public sectors. The rise in private demand resulted from increases in consumer spending and investments. Consumers in the United States spent more on durable goods during the first quarter of 2015, supported by higher consumer confidence and better labor market conditions. Private investments grew as well, resulting from a faster growth in both residential and nonresidential construction compared to 2014. Public demand noted a positive turnaround due to higher spending by federal, state, and local governments in the first quarter of

by the manufacturing, construction, and retail trade sectors. The U.S. unemployment rate declined to 5.6%, attributable mainly to job gains in the professional and 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.

The United States experienced a deflation of 0.1% in the first quarter of 2015, a turnaround from the gain of 1.4% in consumer prices during the first quarter of 2014, due primarily to a significant drop in average international crude oil prices. Since the in-

flation rate remained below the target level of 2.0%, the Federal Reserve maintained the fed funds rate near zero.

## THE NETHERLANDS

*After real GDP recorded zero growth in the first quarter of 2014, the Dutch economy expanded by 2.5% in the first quarter of 2015 (see Table 2). Economic growth in the Netherlands was attributable to both increased domestic demand and a surge in net foreign demand.*

with increased capacity utilization, which reached its highest level since the 2008 crisis, and higher investor confidence. At the same time, public spending increased slightly as both government consumption and investments grew.

Net foreign demand also contributed positively to output growth in real terms, as exports grew at a faster pace than imports, with substantially higher exports of oil products, natural gas, and machinery & equipment in the first quarter of 2015

**Table 2 Economic indicators of the Netherlands**

	2014-I	2015-I
Real GDP (% change)	0.0	2.5
Consumer prices (%)	1.1	0.2
Unemployment rate* (%)	8.1	7.5

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

Domestic demand grew in the Netherlands during the first quarter of 2015 compared to the first quarter of 2014, due mainly to increased private consumption and investment. Private consumption rose because of more spending on nondurable goods, including food, beverages, and tobacco, as well as durable goods, such as electrical appliances and home furnishings. The growth in private consumption was in line with the increase in employment, the recovery of the Dutch housing market, higher disposable income, and the improvement in consumer confidence. Private investment grew as businesses invested more in machinery and installations, telecommunication, and software. The growth in private investments was consistent

compared to the first quarter of 2014.

A sectoral analysis reveals that private sector activities saw accelerated growth in the mining, construction, communication, and business service sectors in particular. This growth was mitigated, however, by a contraction in the financial intermediation and agriculture sectors.

The unemployment rate fell in the first quarter of 2015 to 7.5% compared to 8.1% in the first quarter of 2014 because of the improved Dutch economy, with more people, particularly young people, finding employment. Meanwhile, inflationary pressures eased to 0.2% in line with lower international crude oil prices and lower housing costs.

## VENEZUELA

The Central Bank of Venezuela has not published data on the economic performance of Venezuela for the first quarter of 2015. According to estimates of the International Monetary Fund, the economy of Venezuela contracted by 4.0% during 2015's first quarter, while some regional analysts indicated a larger contraction of 6.1%, a deterioration compared to the first quarter of 2014 (see Table 3). The economic contraction resulted from a decline in domestic demand, mitigated by a rise in net foreign demand.

In contrast, net foreign demand contributed positively to real output because the drop in imports offset the lower exports. Imports dropped as a result of the foreign currency restrictions in Venezuela, while exports contracted because of fewer oil barrels sold as well as significantly 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 infla-

**Table 3 Economic indicators of Venezuela**

	2014-I	2015-I
Real GDP (% change)	-4.8	-6.1 to -4.0
Consumer prices (%)	57.7	108.0
Unemployment rate (%)	8.0	12.8

Sources: International Monetary Fund; Reuters.

Venezuela's economic situation is grim. Domestic demand dropped significantly 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, which eroded consumers' purchasing power. Gross fixed capital investments decreased for a number of reasons, among them, lower investor confidence, shortages of foreign currency, and the deteriorating business climate in Venezuela. Meanwhile, growth in public demand decelerated because of lower revenues from oil exports.

tion rate soared to 108.0% in the first quarter of 2015.<sup>2</sup> The higher inflationary pressures were mainly the result of pervasive administrative controls, ongoing domestic shortages of goods, and the widening gap between the official and black market exchange rates. As a result of the recession in Venezuela, the unemployment rate is estimated to have risen to 12.8% in the first quarter of 2015.<sup>3</sup>

<sup>2</sup> Source: <http://www.reuters.com/article/2015/07/08/venezuela-inflation-idUSL1N0ZO1NF20150708>

<sup>3</sup> Source: <https://www.imf.org/external/pubs/ft/weo/2015/01/pdf/c2.pdf>

### III GENERAL ECONOMIC DEVELOPMENTS

#### GENERAL ECONOMIC DEVELOPMENTS IN CURAÇAO

After declining by 0.7% in the first quarter of 2014, Curaçao's real GDP contracted at a slower pace of 0.2% during the first quarter of 2015. The private sector was the sole cause of the negative growth in 2015's first quarter as both the public and external sectors had a

positive impact on GDP (see Table 4). The inflation rate in Curaçao dropped to 0.1%, led by a significant decline in the prices of electricity and fuel, mitigated by an increase in food prices.

An analysis of the expenditure side of GDP shows that the negative growth recorded in 2015's first quarter resulted from a decline in private sector activities. Consumer

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

	2014-I	2015-I
<b>Domestic expenditure, of which:</b>	<b>-0.6</b>	<b>-0.5</b>
Private sector	-0.4	-0.5
Investment	-0.1	-0.3
Consumption	-0.3	-0.2
Government sector	-0.2	0.1
Investment	-0.1	0.1
Consumption	-0.2	0.0
Changes in inventory	-0.3	0.0
<b>Foreign net expenditure, of which:</b>	<b>0.2</b>	<b>0.3</b>
Export of goods and services	-0.3	2.7
Import of goods and services	-0.5	2.4
<b>GDP by expenditure</b>	<b>-0.7</b>	<b>-0.2</b>

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

spending decreased as reflected by less consumer credit extended by the domestic commercial banks. Private investment spending also contracted, the result of a lack of large investment projects and consistent with less business credit extended by the domestic commercial banks. However, public sector activities grew slightly, supported by a growth in public investments, particularly the construction of the new hospital.

The contribution of net foreign demand to GDP was positive during the March quarter of 2015 because the rise in exports more than offset imports growth. The rise in exports was ascribable to more bunkering and tourism-related activities, while the import growth stemmed mainly from increased imports of construction material and services for the construction of the new hospital.

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

	2014-I	2015-I
Agriculture, fishery, & mining	-4.1	-6.1
Manufacturing	4.1	0.1
Electricity, gas, & water	-1.2	-1.2
Construction	-5.0	-1.2
Wholesale & retail trade	-2.1	0.3
Restaurants & hotels	-0.5	4.8
Transport, storage, & communication	-1.4	-0.8
Financial intermediation	0.3	-0.9
Real estate, renting, & business activity	0.5	1.0
Other community, social, & personal services	-0.2	-0.6
Private households	-0.6	0.2
<b>Total private sector</b>	<b>-0.4</b>	<b>0.0</b>
<b>Public sector</b>	<b>-0.2</b>	<b>-0.3</b>
<b>Taxes minus subsidies</b>	<b>-0.1</b>	<b>0.1</b>
<b>GDP</b>	<b>-0.7</b>	<b>-0.2</b>

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

## DOMESTIC PRODUCTION

An analysis of the production side of GDP reveals that the economic contraction recorded in the January-March period of 2015 was caused primarily by the financial intermediation, construction, and transport, storage, & communication sectors (see Table 5).

Contrary to the 0.3% growth registered in the first quarter of 2014, real value added in the financial intermediation sector declined by 0.9% in the first quarter of 2015 because of declines in both domestic and international financial services. Real value added in the domestic financial services sector dropped as a result of decreases in net interest income and other fees & income earned by the domestic commercial banks. The international financial services sector also performed poorly as reflected by lower wages & salaries and other operational expenses.

The construction sector contributed negatively to GDP growth (-1.2%) because the government's investment in the construction of the new hospital was not sufficient to offset the decline in private investments. Real output in the transport, storage, & communication sector dropped by 0.8% because harbor activities contracted. The negative development in harbor activities resulted from a decline in container movements, oil storage activities, and the number of ships piloted into the port of Curaçao. In contrast, airport-related activities expanded due to increases in total passenger traffic and the number of commercial landings, notably from Europe, North America and Colombia. Despite a decline in the number of transit passengers, passenger traffic increased because of the growth in stayover tourism. The lower number of

transit passengers was ascribable to the unstable situation in Venezuela. Similar to 2014's first quarter, activities in the utilities sector contracted due to decreases in both water and electricity production.

In contrast, the restaurants & hotels, manufacturing, and wholesale & retail trade sectors contributed positively to GDP. During 2015's first quarter, real output growth in the manufacturing sector (0.1%) was less pronounced than in the first quarter of 2014 because ship repair activities declined, while oil refining activities increased. The poor performance of the ship repair industry was reflected by a decline in the number of man-hours sold (45.6%), which was in line with fewer ships repaired (15.4%).

Following a contraction in the March quarter of 2014 (-2.1%), real value added in the wholesale & retail trade sector grew by 0.3% in the first quarter of 2015. This growth was caused by an increase in tourism spending, mitigated by a decline in the activities in the free-zone and a drop in domestic demand. The contraction in free-zone activities was among other things, the result of the prevailing political situation in Venezuela.

Real value added in the restaurants & hotels sector expanded by 4.8% during the January-March period of 2015, a turnaround compared to the 0.5% drop in the same period of 2014, attributable to a strong growth in the number of stay-over visitors. Meanwhile, despite an increase in the number of cruise calls (1.8%), the number of cruise tourists dropped (9.6%). Thanks to the robust growth in the South American (39.5%) and North American markets (19.5%), the number of stay-over visitors posted double-digit growth of 12.1%

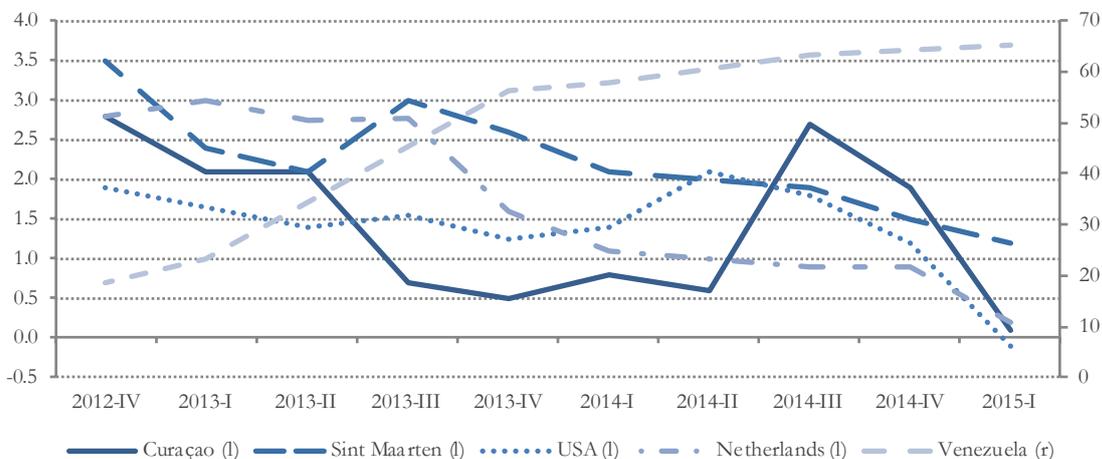
in the first quarter of 2015. Growth in the South American market was supported by more visitors from Venezuela, Colombia, and Brazil. The higher number of Colombian visitors was the result of increased flights by Insel Air to Colombia, particularly Baranquilla. The North American market expanded because of an increase in the number of visitors from the United States and Canada, the result of additional flights by JetBlue and Air Canada. The growth in the European market was primarily the result of more flights by KLM and Arkefly. In addition, Arkefly used a bigger aircraft in 2015 than in 2014, which resulted in additional capacity. In contrast, the Caribbean market dropped mainly as a result of fewer visitors from Aruba and the Dominican Republic. The increase in the hotel occupancy rate from 74.6% in the first quarter of 2014 to 78.7% in the first quarter of 2015 was consistent with the strong growth in the number of stay-over visitors. (See Table 11 in Appendix I for more details on stay-over tourism development.)

## INFLATIONARY PRESSURES

*Consumer price inflation in Curaçao eased to 0.1% in the first quarter of 2015, down from 0.8% in the first quarter of 2014. The lower inflationary pressures were attributable largely to a significant drop in the prices of electricity and fuel, mitigated by an increase in food prices (see Graph 1).*

An analysis of the developments in the Consumer Price Inflation components shows that during the January-March period of 2015, deflation was recorded in the categories "Housing" (-5.3%) and "Transport & communication" (-1.6%). In the "Housing" category, consumer prices fell primarily because of a decline in electricity and water prices, on the back of the decline in international oil prices during the first months of 2015. The decline in average prices in the "Transport & communication" category was triggered mainly by a decrease in fuel prices. After registering deflation in the first quarter of 2014, average prices increased in the categories "Food" (6.4%) and "Health" (3.0%) in 2015's first quarter. The sharp price increase in

**Graph 1 Developments in consumer prices (annual percentage change)**



the “Food” category was led by price hikes in all subcategories, especially meat & fish, outdoor consumption, dairy products, and potatoes, vegetables, & fruit. Consumer prices in the categories “Clothing & footwear” (4.1%) and “Housekeeping & furnishings” (1.7%) rose at a faster pace during the March quarter of 2015 than in the same quarter of 2014. Following the strong annual quarter-to-quarter price acceleration registered since the second quarter of 2013, average prices in the category “Beverages & tobacco” (7.8%) seem to be leveling off since the third quarter of 2014. (See Table 12A in Appendix I for more details.)

## GENERAL ECONOMIC DEVELOPMENTS IN SINT MAARTEN

*In 2015's first quarter, economic growth in Sint Maarten decelerated somewhat, reflected by a rise in real GDP of 1.6% (see Table 6). Both domestic demand and net foreign demand contributed to Sint Maarten's economic expansion. Inflationary pressures eased in the March quarter of 2015 as the inflation rate dropped to 1.2%, stemming mostly from lower international oil prices.*

Private demand as well as public demand recorded a growth during the January-March period of 2015. The expansion in

**Table 6 Sint Maarten - GDP by expenditure<sup>ab</sup>**

	2014-I	2015-I
<b>Domestic expenditures, of which:</b>	<b>1.8</b>	<b>1.3</b>
Private sector	1.0	0.9
Investment	-0.2	0.4
Consumption	1.2	0.5
Government sector	0.8	0.5
Investment	-0.4	1.0
Consumption	1.2	-0.6
Changes in inventory	0.3	-0.3
<b>Foreign net expenditures, of which:</b>	<b>-0.3</b>	<b>0.6</b>
Export of goods and services	-0.2	0.4
Import of goods and services	0.1	-0.2
<b>GDP by expenditures</b>	<b>1.8</b>	<b>1.6</b>

*Source: Estimates by the Central Bank of Curaçao and Sint Maarten.  
<sup>a</sup>Expenditure categories data are weighted contributors to GDP growth.  
<sup>b</sup>Real percentage changes.*

private demand was supported by increases in private consumption and investment. Private consumption rose, albeit at a slower pace than in the first quarter of 2014 as households benefitted from lower gasoline and electricity prices. Meanwhile, private investment increased, led by, among other things, renovation and expansion projects at the Princess Juliana International Airport. Capital spending on public infrastructure, including the con-

struction of paved roads and the remodeling of public schools, was the main driver of the increase in public investments. In contrast, public consumption dropped as a result of a decline in outlays on goods & services. Net foreign demand supported GDP growth as exports rose while imports dropped. The gain in exports was attributable primarily to more activities in the tourism sector, Sint Maarten's main economic pillar. The import bill shrank mainly as a

**Table 7 Sint Maarten - GDP by sector<sup>a</sup>**

	2014-I	2015-I
Agriculture, fishery, & mining	0.0	0.0
Manufacturing	6.0	-0.4
Electricity, gas, & water	0.3	0.3
Construction	-0.5	1.0
Wholesale & retail trade	1.1	1.6
Restaurants & hotels	5.5	4.6
Transport, storage, & communication	3.0	0.9
Financial intermediation	0.5	-1.4
Real estate, renting, & business activities	0.6	0.9
Other community, social, & personal services	-0.1	0.7
Private households	2.1	2.7
<b>Total private sector</b>	<b>1.2</b>	<b>0.9</b>
<b>Public sector</b>	<b>0.7</b>	<b>0.3</b>
<b>Taxes minus subsidies</b>	<b>-0.1</b>	<b>0.4</b>
<b>GDP by sector</b>	<b>1.8</b>	<b>1.6</b>

Source: Estimates by the Central Bank of Curaçao and Sint Maarten.  
<sup>a</sup>Real percentage changes.

result of lower international fuel prices.

## DOMESTIC PRODUCTION

Economic growth in Sint Maarten during the first quarter of 2015 was sustained by positive developments in the private and public sectors. The rise in outlays on wages & salaries and the increase in taxes on good and services, in particular turnover tax and motor vehicle tax proceeds, contributed to the increase in the public sector. At the sectoral level, the restaurants & hotels and wholesale & retail trade sectors continued to be the main drivers of economic growth in the first quarter (see Table 7). However, the sectoral data need to be interpreted with caution. Due to the absence of data regarding stay-over arrivals in Sint Maarten during the first quarter of 2015, the Bank used IMF<sup>4</sup> real GDP estimates for the main tourism markets of Sint Maarten to calculate a proxy for the tourism sector.

The wholesale & retail trade sector registered a further increase in value added (1.6%) during the March quarter of 2015. This increase was supported by more activities in the tourism sector and the rise in domestic demand. According to estimates by the Bank, output growth in the restaurants & hotels sector decelerated during the January-March period of 2015 (4.6%), resulting from a slowdown in both stay-over tourism and cruise tourism. The growth in the number of cruise tourists was in line with more cruise calls. Stay-over tourism expanded on the back of more visitors from North America, Europe, and the Caribbean. The North American mar-

ket, which is Sint Maarten's main tourism market, is estimated to have increased at a slower pace compared to the first quarter of 2014. By contrast, similar to the first quarter of 2014, the number of visitors from South America contracted, dampening the growth in stay-over tourism.

Following a contraction in the March quarter of 2014, activities increased in the construction sector (1.0%) during the March quarter of 2015 due to more private and public investments. The development in the construction sector was consistent with the higher number of building permits issued, both residential and commercial, and the increase in imports of construction material, notably cement and gravel.

Activities in the transport, storage, & communication sector also expanded (0.9%), albeit the pace of expansion was less pronounced than in the first quarter of 2014. Activities in the harbor rose, reflected by the higher number of ships piloted into the port, particularly tankers and cruise ships. In addition, container movements increased. Airport-related activities rose in line with the estimated increase in stay-over tourism. However, air transportation activities dropped as the domestic airline Winair discontinued flights to Curaçao and the Dominican Republic in May 2014. Meanwhile, real value added in the utilities sector continued to grow (0.3%) due to an increase in both electricity and water production.

In contrast, activities in the financial intermediation sector (-1.4%) put a drag on Sint Maarten's real GDP growth in the March quarter of 2015, as the interest income of the domestic commercial banks dropped at a faster pace than interest expenses. Last, the manufacturing sector

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<sup>4</sup> 2015's first quarter real GDP estimates from the *International Financial Statistics of the IMF* and, if not available, 2015's annual real GDP projection from the *World Economic Outlook Database of the IMF*.

also contributed negatively to real economic growth (-0.4%) because of a decline in yacht repair activities, the result of fewer yachts, in particular mega yachts, visiting Sint Maarten.

## INFLATIONARY PRESSURES

*Price developments on an annual quarterly basis indicate that Sint Maarten's inflation rate was 1.2% in the first quarter of 2015, down from 2.1% in the first quarter of 2014. The price developments during the March quarter of 2015 were influenced mainly by the strong decline in international oil prices.*

An analysis of the development in the CPI components reveals that prices dropped in the categories "Housing" (-0.7%) and "Transport & communication" (-0.5%). The decline in the category "Housing" was attributable primarily to lower electricity prices. Meanwhile, the drop in the category "Transport & communication" was due mainly to the reduction in domestic gasoline prices. Inflationary pressures eased in the categories "Beverages & tobacco" (0.1%) and "Housekeeping & furnishings" (2.3%). By contrast, prices accelerated in the categories "Food" (7.2%), "Clothing & footwear" (1.6%), and "Health" (5.0%). The acceleration in the category "Food" was related primarily to higher price gains in the subcategories fish & meat, and potatoes, vegetables, & fruits. (See Table 12B in Appendix I.)

## PUBLIC FINANCES

### PUBLIC FINANCES OF CURAÇAO

*During the first quarter of 2015, the fiscal situation of Curaçao improved as reflected by an increase in the current budget surplus compared to the first quarter of 2014. Nevertheless, actions are still needed to attain sustainable public finances. Therefore, the government continued negotiations with the labor unions to cut personnel costs and to introduce measures to reduce the deficits of the social funds, in particular the AOV fund.<sup>5</sup> However, the implementation of these measures has been delayed, increasing the risk of higher-than-anticipated expenditures in the budget. In addition, the rapidly increasing ratio of Curaçao's debt to GDP is another threat to fiscal sustainability that needs to be controlled.*

Compared to 2014's first quarter, the current budget surplus of the Curaçao government rose by NAf.37.0 million to reach NAf.132.9 million in the first quarter of 2015. The improved fiscal situation was driven by an increase in government revenues (NAf.82.0 million), mitigated by higher expenditures (NAf.45.0 million). The increase in government revenues stemmed primarily from nontax revenues, due to a windfall in the receipts related to the tax arrangement of the Kingdom (BRK).<sup>6</sup> Meanwhile, tax revenues grew by a mere NAf.2.5 million (0.6%) as increases in revenues from profit tax, import duties, property taxes, and sales tax were mitigated mainly by declines in wage tax and excises, notably excises on gasoline. The rise in expenditures was caused primarily

<sup>5</sup> The State old age pension fund.

<sup>6</sup> As part of the BRK tax arrangement, all withholding tax collected on dividends paid by Dutch companies to their parent companies in Curaçao is transferred to the government of Curaçao.

**Table 8 Financing of the budget balance of Curaçao (in millions NAf.)**

	2014-I	2015-I
<b>Monetary financing</b>	<b>-69.1</b>	<b>-310.4</b>
Central bank	-11.9	-277.4
Commercial banks	-57.2	-33.0
<b>Nonmonetary financing</b>	<b>-26.8</b>	<b>177.5</b>
Government securities with nonbanks	0.0	245.5
Other	-26.8	-68.0
<b>Cash balance</b>	<b>95.9</b>	<b>132.9</b>

by increased contributions to social security, particularly to the general health insurance scheme, and a rise in interest expenditures. Last, increased outlays on goods & services also contributed to the overall increase in government expenditures. (See Tables 13A and 13B in Appendix I for an overview of Curaçao's public finances.)

In January 2015, the government of Curaçao issued NAf.245.5 million in bonds to complete the financing of the construction of the new hospital. The proceeds of this loan together with the current budget surplus caused a substantial increase in the government's accounts with the banking sector, resulting in a monetary contraction. Furthermore, outstanding liabilities with other sectors were reduced (see Table 8).

### **Public sector debt**

Over the course of 2015's March quarter, Curaçao's public debt reached NAf.2.4 billion (42.8% of GDP), an increase of NAf.249.2 million compared to December 2015. This increase was mainly the result of the NAf.245.5 million in government

bonds issued in January 2015. Since the Dutch State Treasury Agency (DSTA)<sup>7</sup> was allotted 100% of these bonds, Curaçao's external debt grew by the same amount.

### **PUBLIC FINANCES OF SINT MAARTEN**

*Balancing the budget and financial management are key challenges faced by the government of Sint Maarten. Although a draft budget was adopted by parliament in January 2015, the budget was approved only provisionally by the budget supervisory board, CFT, in March 2015. Also, the government still has to settle payment arrears with the government pension fund, APS, and the health and social insurance fund, SZV. The substantial arrears towards these entities call for reform of the pension and health care systems to make them financially sound in the future. Furthermore, the government still needs to compensate the current budget deficits incurred in previous years.*

<sup>7</sup> The Dutch State Treasury Agency (DSTA) has a standing subscription on all loans issued by Curaçao and Sint Maarten. All tenders are based on the current yield of public loans with similar terms issued in the Netherlands.

During the first quarter of 2015, the budget surplus of the government of Sint Maarten widened by NAf.6.8 million compared to the first quarter of 2014, reaching NAf.38.2 million. This improvement was ascribable to higher revenues mitigated by a slight increase in expenditures. The rise in government revenues was driven by increases in both tax revenues and nontax revenues. Tax proceeds increased by NAf.4.4 million due mainly to higher profit tax receipts, reflecting efforts to collect past due taxes and control tax compliance more effectively. Furthermore, earnings from the property transfer tax, turnover tax, and motor vehicle tax rose compared to a year earlier. The increase in property transfer tax revenues was attributable mainly to the sale of a hotel at the end of 2014, the tax of which was paid in the first quarter of 2015. Nontax revenues grew on the back of higher dividend payments received from government-owned entities and increased earnings from license and permit fees. The increased fee income can be ascribed to improvements in the business licensing process and the introduction of residence permit charges in the second

quarter of 2014. Meanwhile, the growth in government expenditures stemmed primarily from higher outlays on wages & salaries, due to the cost related to retaining pay of former members of parliament, and an increase in subsidies. However, a decline in the disbursements on goods & services mitigated the increase in government expenditures. (See Tables 13C and 13D in Appendix I for an overview of Sint Maarten's public finances.)

During the March quarter of 2015, Sint Maarten's budget surplus contributed to an increase in its commercial bank balances, notably time deposits, resulting in a monetary contraction. However, the government's deposits at the central bank dropped to finance capital investments. Furthermore, nonmonetary financing dropped as the government paid part of its obligations towards creditors, notably SZV (see Table 9).

### Public sector debt

Over the course of the March quarter of 2015, Sint Maarten's public debt grew by NAf.0.8 million to NAf.698.5 million due

**Table 9 Financing of the budget balance of Sint Maarten (in millions NAf.)**

	2014-I	2015-I
<b>Monetary financing</b>	33.5	-30.1
Central bank	0.0	7.3
Commercial banks	33.5	-37.4
<b>Nonmonetary financing</b>	-64.9	-8.1
Government securities with nonbanks	0.0	0.0
Other	-64.9	-8.1
<b>Cash balance</b>	31.4	38.2

to an increase in Sint Maarten's domestic debt component. The foreign debt component remained the same as at the end of December 2014 (NAf.501.3 million). Nevertheless, Sint Maarten's debt to GDP ratio dropped from 37.0% at the end of December 2014 to 36.8% at the end of March 2015 as GDP growth exceeded the rise in the public debt.

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

Based on the Bank's preliminary data and estimates,<sup>8</sup> the current account deficit of the balance of payments of the monetary union declined by NAf.45.8 during the first quarter of 2015 compared to the first quarter of 2014.

The smaller deficit was accounted for by an increase in net exports of goods and services, as exports rose while imports dropped. By contrast, both the income and current transfers balances worsened.

Concomitantly, gross official reserves surged by NAf.290.9 million, ascribable largely to the inflow of funds related to the issuance of bonds by the government of Curaçao in January 2015, 100% of which were allotted to the Dutch State Treasury Agency (DSTA).<sup>9</sup> The transfer of dividend tax by the Dutch authorities, related to the tax arrangement for the Kingdom of the Netherlands (BRK), also contributed to the increase in gross official reserves (see Table 10).

**Table 10 Balance of payments summary (in millions NAf.)**

	2013-I	2014-I	2015-I
Current account	-231.0	-154.6	-108.8*
Change in gross reserves of the central bank**	56.5	-141.4	-290.9
Foreign exchange	140.1	-172.3	-10.3
held at foreign central banks	146.3	-12.0	-2.7
held at foreign commercial banks	-6.2	-160.3	-7.7
Other claims	-83.6	30.9	-280.6

\* Estimate of CBCS.

\*\* A minus sign implies an increase.

<sup>8</sup> A full analysis of the current, capital, and financial accounts will be made available as an appendix to this Quarterly Bulletin on the website of the CBCS.

<sup>9</sup> According to the debt relief agreement, the DSTA is legally obliged to bid on debt securities issues by Curaçao and Sint Maarten for the full requested amount at interest rates prevailing in the Dutch capital market.

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

Net exports of goods and services in Curaçao are estimated to have expanded during the March quarter of 2015 compared to 2014's March quarter as the rise in exports surpassed the increase in imports. Export growth was driven by more foreign exchange revenues from tourism and air transportation, reflecting the strong growth in stay-over tourism. Furthermore, foreign exchange receipts from bunkering increased due to higher sales. However, lower re-exports by the free-zone companies mitigated the export growth. As was the case during the previous quarters, the unstable situation and currency restrictions in Venezuela hampered activities in the free zone.

The ongoing construction of the new hospital in Curaçao was the main cause of the rise in imports during the first quarter of 2015, as more construction material and construction services were imported. However, lower international oil prices caused a substantial decline in oil imports and dampened the increase in imports. Moreover, as the re-export activities by the free zone dropped, free-zone companies imported less merchandise.

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

Similar to Curaçao, net exports of goods and services are estimated to have increased in Sint Maarten in 2015's first quarter compared to the first quarter of 2014. However, in the case of Sint Maarten, this development can be explained by lower imports combined with an increase in exports. Sint Maarten's import bill benefited from the lower international oil prices. Fur-

thermore, merchandise imports dropped despite an increase in domestic demand and tourism spending. Hence, suppliers used their inventories to meet increased demand during the first quarter of 2015. The export growth was supported mainly by a rise in foreign exchange revenues from the tourism sector, sustained by increases in both stay-over and cruise tourism.

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

Both the income and current transfers balances are estimated to have worsened during the first quarter of 2015 compared to the first quarter of 2014. The deficit on the income balance widened (NAf.18.4 million) because of a decline in net investment income from abroad. Meanwhile, the worsening of the current transfers balance (NAf.6.7 million) was the result of a decline in current transfers received from abroad mitigated by a decline in current transfers paid to abroad.

## APPENDIX I

Table 11 Stay-over tourism development by island<sup>abc</sup>

	Curaçao				Sint Maarten			
	2014-I		2015-I		2014-I		2015-I	
North America, of which:	-6.2	(-1.2)	19.5	(3.9)	9.1	(6.2)	2.8	(1.9)
U.S.A.	-15.9	(-2.1)	17.2	(2.3)	6.2	(3.3)	2.9	(1.6)
Europe, of which:	5.8	(2.7)	1.7	(0.7)	0.5	(0.1)	1.1	(0.2)
The Netherlands	7.2	(2.5)	0.8	(0.2)	16.4	(0.5)	2.2	(0.1)
South & Central America, of which:	-18.2	(-4.2)	39.5	(11.3)	-13.5	(-0.4)	-1.9	(0.0)
Venezuela	-20.9	(-3.1)	47.9	(9.5)	-48.5	(-0.2)	-7.0	(0.0)
Colombia	-11.8	(-0.2)	38.4	(0.9)	--	--	--	--
Surinam	-34.3	(-0.6)	15.0	(0.3)	--	--	--	--
Caribbean, of which:	-12.1	(-0.8)	-10.2	(-0.6)	-3.6	(-0.1)	2.7	(0.1)
Dominican Republic	-23.9	(-0.2)	-17.4	(-0.1)	-10.4	(-0.1)	5.1	(0.0)
<b>Total</b>	<b>-4.1</b>	<b>--</b>	<b>12.1</b>	<b>--</b>	<b>5.5</b>	<b>--</b>	<b>2.3</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.

<sup>c</sup> 2015 figures for Sint Maarten are estimates of the CBCS as no data was made available by the authorities. The estimates are based on quarterly and annual real GDP growth projections by the IMF.

**Table 12A Development in the consumer price index of Curaçao<sup>a</sup>**

	2014-I	2014-II	2014-III	2014-IV	2015-I
Food	-0.8	2.0	5.2	7.2	6.4
Beverages & tobacco	17.9	20.3	17.0	12.0	7.8
Clothing & footwear	1.3	2.2	5.2	5.0	4.1
Housing	2.3	-0.3	2.2	-1.9	-5.3
Housekeeping & furnishings	1.2	0.5	1.4	1.7	1.7
Health	-1.3	-1.0	1.2	3.3	3.0
Transport & communication	-1.1	-1.6	0.9	0.6	-1.6
Recreation & education	0.4	1.2	2.0	2.8	2.7
Other	0.8	1.0	2.2	3.4	2.9
<b>General inflation rate</b>	<b>0.8</b>	<b>0.6</b>	<b>2.7</b>	<b>1.9</b>	<b>0.1</b>

Source: Central Bureau of Statistics of Curaçao.  
<sup>a</sup> Annual quarterly percentage change.

**Table 12B Development in the consumer price index of Sint Maarten<sup>a</sup>**

	2014-I	2014-II	2014-III	2014-IV	2015-I
Food	6.3	5.9	6.1	7.0	7.2
Beverages & tobacco	3.3	3.2	2.9	0.9	0.1
Clothing & footwear	0.5	0.4	0.4	1.9	1.6
Housing	2.2	2.0	2.5	1.0	-0.7
Housekeeping & furnishings	3.7	1.3	1.9	1.3	2.3
Health	3.9	6.3	4.4	5.2	5.0
Transport & communication	-0.8	0.3	-1.2	-2.2	-0.5
Recreation & education	0.5	-0.3	-0.3	0.1	0.1
Other	1.9	1.1	0.7	1.5	1.9
<b>General inflation rate</b>	<b>2.1</b>	<b>2.0</b>	<b>1.9</b>	<b>1.5</b>	<b>1.2</b>

Source: Department of Statistics of Sint Maarten.  
<sup>a</sup> Annual quarterly percentage change.

**Table 13A Budgetary overview of Curaçao (in millions NAf.)**

	2013-I	2014-I	2015-I
<b>Revenues</b>	439.0	433.0	515.0
Tax revenues, of which:	421.0	406.7	409.2
Taxes on income and profits	215.2	205.0	206.0
Taxes on property	9.8	9.1	11.6
Taxes on goods and services	154.2	155.7	152.5
Taxes on international trade and transactions	40.1	35.3	37.2
Nontax and other revenues	18.0	26.3	105.8
<b>Expenditures</b>	314.5	337.1	382.1
Wages and salaries	163.1	172.2	169.6
Goods and services	18.0	19.9	22.5
Transfers and subsidies	122.1	134.2	169.5
Interest payments	0.2	0.4	9.1
<b>Budget balance</b>	124.5	95.9	132.9

**Table 13B Overview of selected tax revenues of Curaçao (in millions NAf.)**

	2013-I	2014-I	2015-I
<b>Taxes on income and profits, of which:</b>	<b>215.2</b>	<b>205.0</b>	<b>206.0</b>
Profit tax	78.1	73.4	76.2
Wage tax	135.7	132.2	128.9
<b>Taxes on property, of which:</b>	<b>9.8</b>	<b>9.1</b>	<b>11.6</b>
Land tax/OZB <sup>1</sup>	5.5	5.0	6.4
Property transfer tax	3.7	3.7	4.8
<b>Taxes on goods and services, of which:</b>	<b>154.2</b>	<b>155.7</b>	<b>152.5</b>
Sales tax	97.9	98.4	100.0
Excises, of which:	27.5	24.3	21.7
Excise on gasoline	15.4	15.5	12.1
Motor vehicle tax	25.9	25.5	24.7
<b>Taxes on international trade and transactions, of which:</b>	<b>40.1</b>	<b>35.3</b>	<b>37.2</b>
Import duties	40.0	35.2	37.2

<sup>1</sup> OZB (Onroerende Zaakbelasting) is a real estate tax that replaced the land tax as of January 1, 2014.

**Table 13C Budgetary overview of Sint Maarten (in millions NAf.)**

	2013-I	2014-I	2015-I
<b>Revenues</b>	<b>122.6</b>	<b>130.8</b>	<b>138.2</b>
Tax revenues	106.2	113.1	117.5
Concessions and fees	11.1	12.0	11.0
Licenses	1.7	1.9	3.3
Other revenues	3.6	3.8	6.4
<b>Expenditures</b>	<b>97.3</b>	<b>99.5</b>	<b>100.0</b>
Wages and salaries	41.7	45.5	48.5
Goods and services	18.7	20.3	18.0
Subsidies	21.5	21.5	22.5
Social security	9.4	5.6	5.0
Interest payments	2.7	2.8	3.2
Other expenditures	3.2	3.7	2.9
<b>Budget balance</b>	<b>25.3</b>	<b>31.4</b>	<b>38.2</b>

Table 13D Overview of selected tax revenues of Sint Maarten (in millions NAf.)

	2013-I	2014-I	2015-I
<b>Taxes on income and profits, of which:</b>	<b>49.1</b>	<b>54.2</b>	<b>55.5</b>
Profit tax	14.2	18.0	20.3
Wage tax	34.9	36.3	35.6
<b>Taxes on property, of which:</b>	<b>5.0</b>	<b>2.8</b>	<b>4.2</b>
Land tax	1.6	1.2	1.3
Property transfer tax	3.4	1.5	2.9
<b>Taxes on goods and services, of which:</b>	<b>53.6</b>	<b>53.8</b>	<b>56.2</b>
Turnover tax	41.9	42.3	43.1
Vehicle tax	5.8	8.1	8.5
Excise on gasoline	1.3	2.1	2.0

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## IV MONETARY DEVELOPMENTS

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### MONETARY POLICY

During the first quarter of 2015, the Bank continued to direct its monetary policy at reducing the surplus liquidity in the banking system. To that aim, more Certificates of Deposit<sup>10</sup> (CDs) were offered during the bi-weekly auctions at higher interest rates resulting in an increase in the amount of outstanding CDs from NAf.90.1 million at the end of December 2014 to NAf.107.8 million at the end of March 2015. The percentage of the reserve requirement, which is fixed for a period of four weeks, remained at 18.00% during the first quarter of 2015. Due to an increase in the adjusted domestic debt of the commercial banks, i.e., the base on which the reserve requirement is calculated, the outstanding amount increased by NAf.19.6 million (1.8%) during the first quarter of 2015.

The Bank's official interest rate, the pledging rate, was left unchanged at 1.00% throughout the March quarter of 2015.

### MONETARY BASE

The monetary base, M0, is a measure of the Bank's monetary liabilities and consists of currency in circulation and the commercial banks' current account balances with the Bank. Growth in the monetary base entails

an injection of liquidity into the economy that may stimulate credit expansion that could ultimately result in pressures on the external reserves.

Following an increase of NAf.104.7 million (14.6%) during the fourth quarter of 2014, M0 continued to expand by NAf.51.0 million (6.2%) during the first quarter of 2015. The commercial bank deposits with the Bank accounted entirely for the increase in M0, adding NAf.66.6 million, mitigated by a drop in currency in circulation (NAf.15.6 million). (See Table 14 in Appendix II for more details on the monetary base.) Hence, during the March quarter of 2015, the Bank's monetary operations only partly neutralized the increase in liquidity in the banking system. Meanwhile, the annual growth rate of M0 more than doubled to 53.1% in March 2015 from a 25.4% expansion in December 2014. The increase in M0 during the last four quarters reversed a downward trend since the second quarter of 2012, which was the result of the tightening of the Bank's monetary policy (see Graph 2).

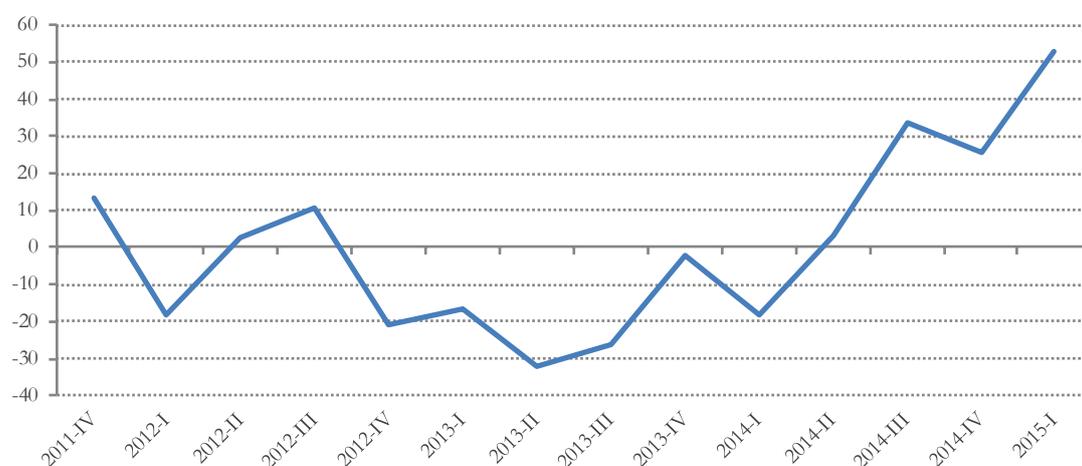
Changes in the monetary base can be explained in terms of movements in the Bank's assets and remaining liabilities. Ceteris paribus, an increase in the Bank's assets raises the monetary base, while an increase in the Bank's remaining liabilities causes it to contract.

As Table 14 in Appendix II indicates, the ex-

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<sup>10</sup> These are negotiable securities issued by the Bank.

**Graph 2 Development in the monetary base (annual percentage change)**



pansion in M0 in the first quarter of 2015 stemmed from an increase in the Bank's assets, mitigated by a rise in its remaining liabilities. The increase in the Bank's assets reflected almost entirely an increase in the Bank's foreign assets. The remaining liabilities expanded mainly because of the increase in government deposits. The increases in both foreign assets and government deposits stemmed from the proceeds of debt securities issued by Curaçao and bought by the Dutch government in January 2015 and the receipt of withholding tax grants from the Netherlands towards Curaçao related to the BRK<sup>11</sup> tax arrangement.

## MONETARY AGGREGATES

After increasing by NAf.28.6 million (0.4%) during 2014's fourth quarter, broad money (M2) expanded at a faster pace during the first quarter of 2015, adding NAf.127.3 million (1.6%) to reach NAf.7,913.2 million. However, the annual growth rate of broad

money decelerated slightly from 4.0% in December 2014 to 3.8% in March 2015.

The growth in the money supply during the first quarter of 2015 was driven by increases in both the narrow money component (M1) (NAf.83.4 million or 2.3%) and the near money component (NAf.43.9 million or 1.1%). The increase in M1 was the result of an increase in residents' demand deposits (NAf.95.8 million) mitigated by a drop in currency in circulation (NAf.12.3 million). The drop in currency in circulation reflects a decline in the public's demand for cash in the first month of the year following the December holidays. The increase in near money was due primarily to an increase in savings deposits. The annual growth rate of M1 in the March 2015 quarter remained the same as in the December 2014 quarter (5.6%). The development in M1 can be explained by a lack of attractively yielding alternative assets to invest in. (See Table 15 in Appendix II.)

<sup>11</sup> Tax arrangement of the Kingdom.

## FACTORS AFFECTING THE MONEY SUPPLY

Monetary expansion during the first quarter of 2015 was driven by an increase in net foreign assets of the banking system (NAf.351.4 million), caused mainly by a capital inflow related to a bond issue by the government of Curaçao, the full amount of which was allotted to the Dutch State Treasury Agency. In contrast, net domestic assets contracted because of a decline in the net claims on the government (NAf.332.1 million), dampening monetary growth. The decline in net claims on the government stemmed from increased deposits at the banking system by the governments of Curaçao (NAf.310.4 million) and Sint Maarten (NAf.30.1 million). The surge in Curaçao's government deposits can be explained by the deposit of the proceeds from the bond issue on behalf of the construction of a new hospital and a transfer of dividend tax collected by the Netherlands related to the tax arrangement for the Kingdom of the Netherlands (BRK).

Lending to the private sector rose by NAf.51.9 million during the March quarter of 2015, owing to increases in receivables and investments. Memorandum items, which consist of the net non-monetary liabilities of the banking system, increased also (NAf.56.1 million).

The loan component of net credit extension to the private sector remained about the same in 2015's first quarter compared to 2014's final quarter. This outcome resulted from declines in consumer loans (-1.5%) and mortgages (-0.7%) counterbalanced by an increase in business loans (1.9%). In Curaçao, total loans extended remained practically unchanged. Declines in mortgages (-1.1%) and consumer loans

(-1.2%) were offset by an increase in business loans (2.6%). In Sint Maarten, the amount of private sector loans outstanding contracted by 0.2% in the first quarter of 2015. Consumer loans (-2.1%) and business loans (-0.1%) declined, while mortgages increased (0.6%). On an annual basis, total loans contracted by 2.0% because fewer loans were extended in both Curaçao (-2.6%) and Sint Maarten (-0.1%). The development in private credit extension is attributable to lower credit demand and the banks' tighter standards for loan approval. (See Table 16 in Appendix II for more details)

## DEVELOPMENTS IN DOMESTIC INTEREST RATES

When setting the rates offered on CDs during the bi-weekly auctions, the Bank takes into account the developments in the international financial markets. The benchmark one-month US dollar *libor* rate<sup>12</sup> increased by 2 basis points during the first quarter, from 0.16% at the end of December 2014 to 0.18% at the end of March 2015. However, to make the CDs more attractive, the Bank has offered a premium on the benchmark rates since May 2014. Consequently, the maximum rate offered on a 1-month CD increased from 0.20% at the end of December 2014 to 0.25% at the end of March 2015.

The commercial banks adjusted their deposit and lending rates only slightly during the first quarter of 2015. The weighted average interest rate offered on 12-month time deposits increased from 1.8% at the

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<sup>12</sup> The London interbank offered rate, the main gauge of interbank lending.

end of December 2014 to 1.9% in March 2015. The average interest rates on pass-book savings remained stable at 1.2%. Meanwhile, with respect to commercial bank lending rates, the weighted average rate of mortgages and time loans declined from 6.7% and 6.8%, respectively, at the end of December 2014 to 6.6% and 6.5%, respectively, at the end of March 2015.

Changes in the yields on government paper are determined by the developments in the Dutch capital market due to the standing subscription by the Dutch State Treasury Agency (DSTA).<sup>13</sup> The average effective yield on 5-year government bonds dropped by 17 basis points reaching -0.04% at the end of the first quarter of 2015. Moreover, the yield on 12-month treasury bills dropped from 0.02% at the end of the fourth quarter of 2014 to -0.19% at the end of 2015's first quarter. (A detailed overview is provided in Table 17 in Appendix II.)

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<sup>13</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.

## APPENDIX II

Table 14 The monetary base and its sources (in millions NAF.)

	2014-IV	2015-I	Change	
			Amount	Percentage
Currency in circulation	435.8	420.2	-15.6	-3.6
Banks' demand deposits (current account)	388.5	455.1	66.6	17.1
<b>Monetary base (M0)</b>	<b>824.2</b>	<b>875.2</b>	<b>51.0</b>	<b>6.2</b>
<b>Central bank assets</b>				
Foreign assets (including gold)	3,470.8	3,752.7	281.9	8.1
Claims on deposit money banks	87.6	67.1	-20.5	-23.4
Claims on the government	0.6	1.6	1.0	156.3
Claims on government agencies and institutions	420.0	417.7	-2.3	-0.5
Fixed and other assets	127.9	125.6	-2.2	-1.7
less:				
<b>Central bank remaining liabilities</b>				
Private sector deposits, of which:	1,463.2	1,491.0	27.8	1.9
Time deposits commercial banks	1,199.5	1,236.7	37.3	3.1
Government deposits	298.4	561.4	263.0	88.1
Foreign liabilities	472.8	397.6	-75.3	-15.9
Other liabilities	223.6	219.6	-4.0	-1.8
Capital and reserves	824.7	819.9	-4.8	-0.6

Table 15 Monetary aggregates (quarterly changes, in millions NAf.)

	2014-III		2014-IV		2015-I	
	Amount	%	Amount	%	Amount	%
Money supply (M2)	54.9	0.7	28.6	0.4	127.3	1.6
Money (M1)	-19.8	-0.5	32.6	0.9	83.4	2.3
Coins & notes with the public	-12.6	-3.8	31.7	9.9	-12.3	-3.5
Total demand deposits, of which:	-7.2	-0.2	0.9	0.0	95.8	2.9
Netherlands Antillean guilders	51.2	2.1	-26.7	-1.1	62.8	2.6
Foreign currency	-58.4	-6.4	27.6	3.2	33	3.7
Near money	74.7	1.8	-4	-0.1	43.9	1.1
Time deposits	73.5	3.5	-10.3	-0.5	8.8	0.4
Savings	1.2	0.1	6.3	0.3	35.1	1.8

Table 16 Monetary survey (in millions NAf.)

	2014-I	2014-II	2014-III	2014-IV	2015-I
<b>Money supply (M2)</b>	7,626.6	7,702.4	7,757.3	7,785.9	7,913.2
<b>Money (M1)</b>	3,528.7	3,631.7	3,611.8	3,644.4	3,727.9
Coins & notes with the public	327.9	332.2	319.6	351.3	338.9
Total demand deposits, of which:	3,200.8	3,299.5	3,292.3	3,293.2	3,388.9
Netherlands Antillean guilders	2,353.0	2,383.7	2,434.8	2,408.1	2,470.9
Foreign currency	847.7	915.8	857.4	885.1	918.1
<b>Near money</b>	4,097.9	4,070.7	4,145.4	4,141.5	4,185.4
Time deposits	2,114.3	2,076.5	2,150.0	2,139.7	2,148.5
Savings	1,983.6	1,994.3	1,995.5	2,001.8	2,036.9
<b>Factors affecting the money supply</b>	7,626.6	7,702.4	7,757.3	7,785.9	7,913.2
<b>Net domestic assets</b>	3,805.4	3,523.8	3,653.4	3,744.2	3,520.1
Government sector	-384.5	-630.5	-480.8	-428.8	-761.0
Former central government	-80.1	-79.1	-74.1	-77.4	-69.0
Curacao	-261.8	-410.3	-285.5	-253.6	-564.0
Sint Maarten	-42.6	-141.0	-121.2	-97.9	-127.9
Private sector	6,213.7	6,258.4	6,131.7	6,148.3	6,200.2
Memorandum items	-2,023.8	-2,104.2	-1,997.4	-1,975.2	-1,919.1
<b>Net foreign assets</b>	3,821.1	4,178.6	4,103.9	4,041.6	4,393.1
Central bank	2,588.6	2,901.3	2,917.2	2,921.1	3,278.1
Commercial banks	1,107.3	1,152.0	1,061.3	995.3	989.7

Table 16 Monetary survey (in millions NAf.) continued...

	2014-I	2014-II	2014-III	2014-IV	2015-I
<b>Government loans by commercial banks</b>	0.1	0.1	0.1	0.0	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	0.0	0.0
<b>Private sector loans Curaçao</b>	4,144.1	4,156.6	4,086.1	4,034.9	4,035.4
Mortgages	1,843.8	1,849.2	1,861.3	1,870.5	1,849.1
Consumer loans	891.0	893.4	880.0	881.4	870.4
Business loans	1,409.3	1,414.1	1,344.7	1,283.0	1,315.8
<b>Private sector loans Sint Maarten</b>	1,420.6	1,410.6	1,405.9	1,422.7	1,419.7
Mortgages	649.0	656.8	658.2	662.5	666.5
Consumer loans	322.4	314.1	307.3	302.9	296.5
Business loans	449.1	439.7	440.4	457.3	456.7

Table 17 Developments in domestic interest rates (in percentage)

	2014-I	2014-II	2014-III	2014-IV	2015-I
<b>Central bank</b>					
Pledging rate	1.0	1.0	1.0	1.0	1.0
Maximum CD rate (1 month)	0.06	0.12	0.20	0.20	0.25
<b>Commercial bank borrowing rates</b>					
Passbook savings	1.2	1.2	1.2	1.2	1.2
Time deposits (12-month)	1.5	1.7	2.0	1.8	1.9
<b>Commercial bank lending rates</b>					
Mortgages	6.8	6.5	6.6	6.7	6.6
Time loans	8.0	7.5	7.6	6.8	6.5
<b>Government securities</b>					
Government bonds (5-year effective yield)	0.82	0.53	0.28	0.13	-0.04
Treasury bills (12-month)	0.13	0.08	0.04	0.02	-0.19

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## V COMMERCIAL BANKING SECTOR DEVELOPMENTS\*

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### BALANCE SHEET AND INCOME STATEMENT

The total assets of the commercial banks decreased by 3.2% in the first quarter of 2015 compared to the first quarter of 2014, reaching NAF.15.4 billion. The contraction of the aggregate balance sheet of the commercial banks resulted primarily from decreases in currency and deposits (-6.9%) and loans (-2.2%). Non-interest-bearing cash (-13.6%) was the main contributor to the drop in currency and deposits. A decrease in loans to nonfinancial corporations (-5.2%) was the primary cause of the decline in loans, offset in part by the expansion in other loans (32.1%) in particular. The contractions in currency and deposits and loans were mitigated primarily by an expansion in investments in unconsolidated subsidiaries and affiliates (113.3%). (See Table 18 in the Appendix III for more details.)

The total debt of the commercial banks declined by 1.9% from the first quarter of 2014 to the first quarter of 2015, with decreases in currency and deposits (-2.9%) and total borrowings (-46.8%) exceeding an increase in other liabilities (56.1%). The

decrease in currency and deposits can be attributed to a decrease in both demand (-7.8%) and time deposits (-16.7%), while savings deposits expanded (21.3%). As a result, the share of interest-bearing deposits to total deposits increased, putting pressure on the commercial banks' efforts to preserve their net interest margin. Last, capital and reserves declined by 14.4%, with an expansion in general provisions (2.7%) that partly offset the decline in the capital base (-18.2%).

The commercial banks reported a total gross income (i.e., net interest income plus non-interest income) of NAF.236.8 million in the first quarter of 2015, a decrease of 2.4% compared to the first quarter of 2014. A drop in interest income (-4.2%) was the main contributor to the decline in gross income. However, net income before extraordinary items and taxes increased by 7.0% because of decreases in both non-interest expenses (-1.7%) and provisions (-45.1%). The decline in non-interest expenses can be explained primarily by a decrease in salaries & other employee expenses (-4.7%). Last, extraordinary items decreased from NAF.21.2 million in the first quarter of 2014 to NAF.-9.1 million in the first quarter of 2015, while dividends payable remained stable. As a result, retained earnings totaled NAF.37.8

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\* 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, an emergency measure with regard to an institution as of December 2013. As a result, the sector data should be interpreted with some reservation.

million in the first quarter of 2015, a 41.9% decrease compared to the first quarter of 2014. (More details are provided in Table 19 in Appendix III.)

## FINANCIAL SOUNDNESS INDICATORS

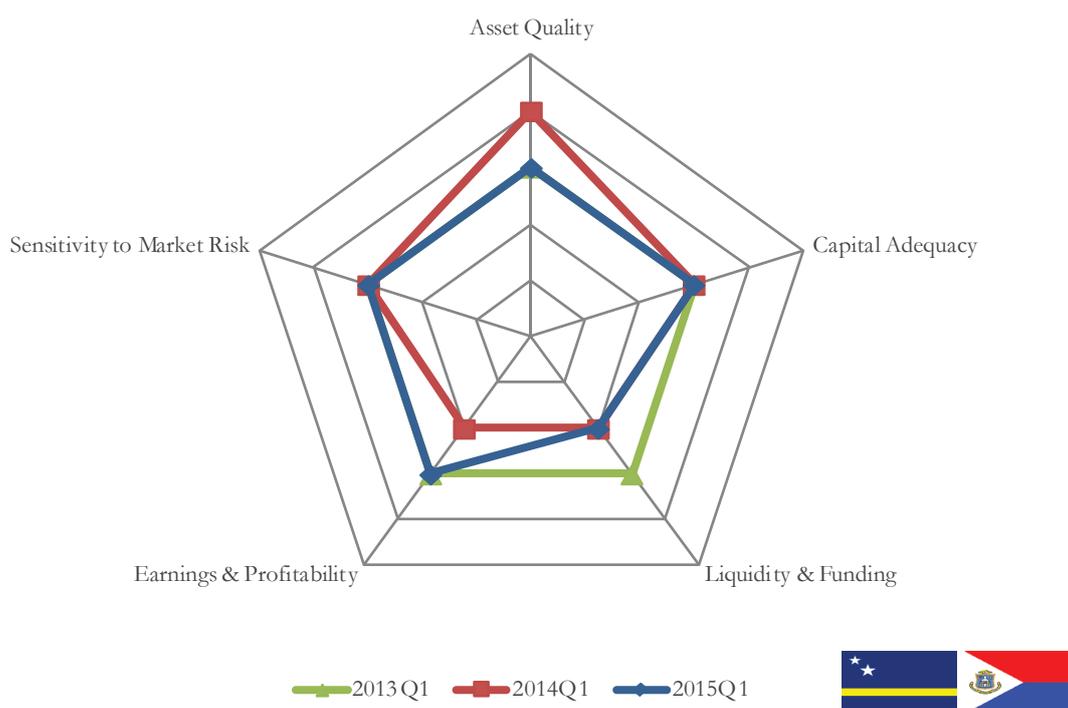
The Bank uses financial soundness indicators (FSIs) to support macroprudential analysis, which assesses the strengths and vulnerabilities of the banking sector. This monitoring task is part of the Bank’s continuing efforts to proactively undertake preemptive measures to structurally enhance the resilience of the financial system and its institutions against shocks, thus promoting 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). Movements away from the centre of the diagram represent an increase in financial stability risks, while movements towards the centre of the diagram represent a reduction in risks. The cobweb is calibrated using international benchmarking, supervisory standards, and trend analysis. The risk in asset quality decreased in the first quarter of 2015 compared to 2014’s first quarter, while capital adequacy, liquidity & funding, and sensitivity to market risk remained stable. Meanwhile, earnings & profitability risk increased.

This overview is complemented by the aggregated balance sheet, income state-

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



ment, and financial soundness indicators<sup>14</sup> (see Tables 18 – 20 in Appendix III.) As can be seen from Table 20, more than half of the financial soundness indicators outperformed the four-year average.

## CAPITAL ADEQUACY

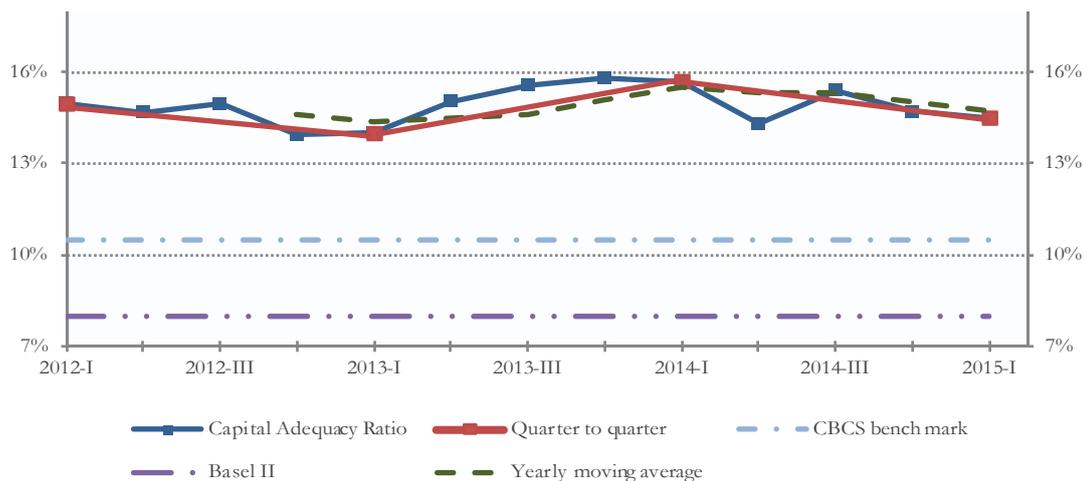
Capital adequacy and availability ultimately determines the robustness of financial institutions to withstand shocks to their balance sheets. Capital provides not only a cushion for losses, but also a buffer for deposit insurance, while controlling excessive risk-taking by banks. The capital adequacy ratio (i.e., tier-1 and tier-2 capital to risk-weighted assets) reached 14.5% in the first quarter of 2015, a decrease of 1.2 percentage points compared to the first quarter of 2014. The capital adequacy ratio remained close to the four-year average, indicating a rather stable trend in the capital stock of the commercial banks. Furthermore, the

capital adequacy ratio is well above the benchmark of 8% under the Basel II agreement and the Bank's benchmark of 10.5% (see Graph 4). Moreover, the NPL<sup>15</sup> (net of provisions) to capital ratio continued its declining trend and remained below the 4-year average of 44%. This development reflects an improvement in the exposure of the banks' capital to credit risk and underscores the importance of banks increasing their capacity to withstand losses from nonperforming loans. Overall, the risk in capital adequacy remained stable in the first quarter of 2015 compared to the previous years.

## ASSET QUALITY

The banks' exposure to credit risk is also reflected in the NPL to total gross loans ratio. This ratio decreased from 12.9% at the end of the first quarter of 2014 to 10.6% at the end of the first quarter of 2015, indicat-

Graph 4 Trend analysis of the capital adequacy ratio



<sup>14</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>15</sup> Nonperforming loans.

ing a significant improvement of the asset quality in the loan portfolio of the commercial banks. The banks have continued this declining trend in the last four quarters. In addition, the provisions to NPL ratio of the banks increased by 9.4 percentage points, reaching 40% at the end of the first quarter of 2015, clearly outperforming the four-year quarterly average. This development indicates that the banks are adopting measures to cover their credit risk, increasing their ability to withstand possible macroeconomic shocks. Both the share of foreign currency loans in gross loans as the foreign currency-denominated liabilities to total liabilities remained rather stable in the first quarter of 2015 compared to 2014's first quarter, maintaining the banks' reliance on foreign currency. Last, the large exposures of loans, leases, and advances to capital ratio decreased from 288% at the end of the first quarter of 2014 to 274% at the end of the first quarter of 2015. The Bank monitors this ratio closely since it indicates vulnerabilities arising from concentration risk. In conclusion, the risk in asset quality decreased in the first quarter of 2015 compared to 2014, reaching the level of 2013.

## EARNINGS & PROFITABILITY

The efficiency of the banking sector in using its assets deteriorated, with the return on assets ratio reaching 1.3% in the first quarter of 2015, 40 basis points lower than in the first quarter of 2014. The return on equity ratio followed a similar development, decreasing by 1.9 percentage points to 14.6% at the end of the first quarter of 2015. The spread between lending and deposit rates declined by 50 basis points to 6.2% at the end of the first quarter of 2015.

This development can be explained by the continued downward trend in the lending rate outweighing the slight increase in the funding rate, putting pressure on the banks' earnings capacity in the future. With respect to efficiency, the ratio of personnel expenses to noninterest expenses decreased by 1 percentage point to 53% at the end of the first quarter in 2015, below the four-year average. Furthermore, the banks were 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 remained stable at 68% at the end of the first quarter of 2015. This preservation of the banks' efficiency will help them reverse their declining profitability. Last, the share of net interest earnings (i.e., interest earned less interest expenses) in gross income decreased by 2 percentage points to 63% at the end of the first quarter of 2015, below the four-year average. This development indicates that the banks' diversification of income has strengthened, making it easier to withstand shocks. In conclusion, the risk in earnings & profitability increased in the first quarter of 2015 compared to 2014, reaching the level of 2013.

## LIQUIDITY & FUNDING

The ample liquidity of the banking sector showed a slight decrease in the the first quarter of 2015, but the sector maintained its ability to withstand shocks to its balance sheets. The liquid assets to total assets ratio decreased slightly from 32% at the end of the first quarter of 2014 to 30% at the end of the first quarter of 2015, outperforming the four-year average. This level reflects the banks' ability to meet expected and unexpected demands for cash. Also

the liquid assets to short-term liabilities ratio decreased slightly by 1 percentage point to 39% at the end of the first quarter of 2015, indicating an increase in the mismatch of the banks' short-term assets and liabilities. Last, the total deposits to total loans ratio also decreased, by 5 percentage points to 142% at the end of the first quarter of 2015. This decline is no cause for concern because levels above 100% indicate a high degree of stable funding (i.e., customer deposits) to illiquid assets (i.e., loans). In addition, the value of this indicator, which is almost equal to the four-year average, combined with the long-term trend points to stable depositor and investor confidence in the long-term viability of the banking sector. Overall, the risk in liquidity & funding remained stable in the first quarter of 2015 compared to 2014, but improved compared to 2013.

of 2015 compared to 2014's first quarter, below the four-year average. Hence, the banks have managed to preserve their ability to withstand shocks from foreign markets. Overall, the sensitivity to market risk remained stable in the first quarter of 2015 compared to previous years.

## SENSITIVITY TO MARKET RISK

The decrease in the weighted average lending rate combined with an increase in the weighted average funding rate resulted in a slight decline in the net interest margin of 20 basis points. The mismatch between foreign currency asset and liability positions at the commercial banks continued to improve, with the net open position in foreign exchange to capital ratio decreasing from 71% in the first quarter of 2013 to 59% in the first quarter of 2014 and to 54% in 2015's first quarter. This development indicates an improvement in the banks' sensitivity to market risk through a lower exposure to exchange rate risk. Furthermore, the total foreign exposure relative to the banks' capital position (i.e., the net foreign assets to total capital ratio) remained stable at 88% at the end of the first quarter

## APPENDIX III

Table 18 Aggregate balance sheet of the commercial banks (in millions NAf.)

		2014-I	2014-II	2014-III	2014-IV	2015-I
	<b>Assets</b>					
I	Nonfinancial assets	444.6	417.0	400.4	395.7	390.1
II	Financial assets (III through VII)	15,423.9	15,847.5	15,964.1	14,919.5	14,968.4
III	Currency and deposits	4,856.8	5,158.4	5,440.3	4,262.9	4,523.5
	(i) Non-interest-bearing cash	2,065.8	2,303.0	2,666.9	1,645.3	1,785.4
	(ii) Interest-bearing cash	2,791.0	2,855.4	2,773.5	2,617.6	2,738.0
IV	Loans	8,831.0	8,888.3	8,861.0	8,901.0	8,638.3
	(i) Interbank loans	0.0	0.0	0.0	0.0	1.4
	(ii) Central bank	-	-	-	-	-
	(iii) General government	0.1	0.1	0.1	0.0	0.0
	(iv) Agencies and institutions	52.2	62.1	67.0	85.2	82.0
	(v) Other financial corporations	15.3	15.9	15.3	15.5	15.3
	(vi) Nonfinancial corporations	4,833.8	4,861.0	4,838.0	4,783.5	4,581.3
	(vii) Households	3,720.3	3,732.8	3,739.5	3,736.6	3,681.6
	(viii) Other	209.3	216.4	201.2	280.2	276.6
V	Investments	1,347.3	1,394.9	1,281.9	1,315.2	1,310.7
	(i) Debt securities	962.7	964.5	949.5	959.4	948.7
	(ii) Shares and other equity	384.6	430.3	332.4	355.8	362.1
VI	Investments in unconsolidated subsidiaries and affiliates	85.3	117.9	83.2	149.5	181.8
VII	Other assets	303.6	288.0	297.6	291.0	314.1
VIII	<b>Total assets (= I + II)</b>	<b>15,868.6</b>	<b>16,264.5</b>	<b>16,364.5</b>	<b>15,315.2</b>	<b>15,358.6</b>

**Table 18 Aggregate balance sheet of the commercial banks (in millions NAf.)**  
continued...

	2014-I	2014-II	2014-III	2014-IV	2015-I	
	<b>Liabilities</b>					
IX	Currency and deposits	13,577.0	14,006.9	14,102.6	13,040.9	13,186.1
	(i) Demand deposits	7,000.5	7,466.8	7,608.7	6,374.3	6,455.9
	(ii) Savings deposits	3,300.2	3,325.1	3,950.8	3,966.4	4,002.6
	(iii) Time deposits	3,276.3	3,215.1	2,543.1	2,700.1	2,727.6
X	Total borrowings	204.3	85.0	43.4	56.4	108.6
XI	Other liabilities	393.5	458.3	502.5	553.0	614.0
XII	Total debt (=IX + X + XI)	14,174.7	14,550.1	14,648.5	13,650.3	13,908.8
XIII	Capital and reserves	1,693.9	1,714.3	1,716.0	1,664.9	1,449.7
	(i) Capital	1,381.2	1,411.5	1,398.0	1,347.4	1,129.8
	(ii) Minority interest	13.1	12.8	13.6	11.4	12.4
	(iii) Subordinated debentures	-	-	-	-	-
	(iv) General provisions	299.5	290.0	304.3	306.1	307.5
XIV	<b>Total liabilities and capital (= XII + XIII)</b>	<b>15,868.6</b>	<b>16,264.5</b>	<b>16,364.5</b>	<b>15,315.2</b>	<b>15,358.6</b>

**Table 19 Aggregate income statement of the commercial banks**  
(cumulative quarterly amounts; in millions NAF.)

		2014-I	2014-II	2014-III	2014-IV	2015-I
I	Interest income	188.2	368.7	556.8	677.2	180.2
II	Interest expense	30.1	58.5	88.2	109.4	31.8
III	Net interest income (=I minus II)	158.1	310.2	468.6	567.8	148.5
IV	Noninterest income	84.5	161.2	252.2	325.3	88.3
V	Gross income (= III + IV)	242.7	471.4	720.8	893.1	236.8
VI	Noninterest expenses	165.3	330.5	500.6	621.0	162.4
	(i) Salaries & other employee expenses	90.1	181.7	280.0	360.9	85.8
	(ii) Occupancy expenses	25.5	49.8	71.7	90.9	24.9
	(iii) Other operating expenses	49.7	99.1	148.9	169.2	51.7
VII	Provisions	16.0	28.1	37.5	61.8	8.8
VIII	Net income (before extraordinary items and taxes) (=V minus (VI+ VII))	61.4	112.8	182.8	210.3	65.7
IX	Extraordinary items	21.2	43.4	8.9	15.7	-9.1
X	Income tax	11.4	23.6	32.2	33.4	12.6
XI	Net income after tax (= VIII minus (IX + X))	71.2	132.6	159.6	192.6	43.9
XII	Dividends payable	6.1	24.5	42.8	67.3	6.1
XIII	Retained earnings (= XI minus XII)	65.1	108.1	116.7	125.3	37.8

Table 20 Financial soundness indicators (in %; end of period)

	2014-I	2014-II	2014-III	2014-IV	2015-I	4-Yr Avg.*
<b>Capital adequacy</b>						
Capital adequacy ratio	15.7%	14.3%	15.4%	14.7%	14.5%	14.6%
Core capital adequacy ratio	12.5%	12.6%	13.6%	12.3%	12.8%	12.9%
Capital to assets	10.3%	9.2%	9.6%	9.3%	9.4%	10.1%
NPL net of provisions to capital	51%	46%	45%	41%	40%	44%
<b>Asset quality</b>						
NPL to total gross loans	12.9%	11.4%	11.5%	11.0%	10.6%	10.9%
Provisions to NPL	31%	35%	34%	39%	40%	31%
Foreign currency-denominated loans to total loans	47%	45%	45%	46%	45%	46%
Foreign currency-denominated liabilities to total liabilities	57%	58%	57%	54%	54%	54%
Large exposures to capital	288%	344%	326%	259%	274%	287%
<b>Earnings &amp; profitability</b>						
Return on assets	1.7%	1.5%	1.7%	1.3%	1.3%	1.6%
Return on equity	16.5%	15.8%	17.4%	13.7%	14.6%	15.5%
Interest margin to gross income	65%	66%	65%	64%	63%	66%
Noninterest expenses** to gross income	68%	70%	69%	70%	68%	66%
Personnel expenses to noninterest expenses**	54%	55%	56%	58%	53%	56%
Spread between lending and deposit rates	6.7%	6.3%	6.4%	6.0%	6.2%	6.6%

Table 20 Financial soundness indicators (in %; end of period) continued...

	2014-I	2014-II	2014-III	2014-IV	2015-I	4-Yr Avg.*
<b>Liquidity &amp; funding</b>						
Liquid assets to total assets	32%	32%	34%	27%	30%	28%
Liquid assets to short-term liabilities	40%	41%	44%	39%	39%	37%
Total deposits to total loans	147%	150%	152%	140%	142%	144%
<b>Sensitivity to market risk</b>						
Net interest margin	4.9%	4.9%	4.8%	4.7%	4.7%	4.8%
Net open position in foreign exchange to capital	59%	55%	51%	52%	54%	78%
Net foreign assets to total capital	88%	85%	78%	77%	88%	90%

\* 4-year quarterly average

\*\* Noninterest expenses = operational expenses

Performed better than the 4-year quarterly average

Performed worse than the 4-year quarterly average

