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CENTRALE BANK VAN CURAÇAO EN
SINT MAARTEN



Centrale Bank van Curaçao en Sint Maarten

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I REPORT OF THE PRESIDENT



Dr. E. D. Tromp, President

During the second quarter of 2015, the global economy expanded at a more moderate pace than in the second quarter of 2014, led by a slowdown in both the advanced and emerging economies. Global inflation eased further, sustained by a fall in oil prices reflecting primarily an oversupply in the oil markets. Meanwhile, international financial markets experienced increased volatility, triggered by uncertainties regarding the timing and magnitude of US interest rate normalization and the outcome of the negotiations for a third Greek bailout.

Amid these international developments, the economy of Curaçao expanded by 0.4%, while Sint Maarten recorded a real GDP contraction of 0.6% in the second quarter of 2015 compared to 2014's second quarter. Driven primarily by the development in international oil prices, the annual quarterly inflation in Curaçao turned around from 0.6% in the second quarter of 2014 to -0.6% in the second quarter of 2015. The fall in international oil prices also affected consumer prices in Sint Maarten, where inflationary pressures eased to 0.2%, down from the 2.0% recorded in the second quarter of 2014.

The economic growth in Curaçao during the second quarter of 2015 was supported by an increase in domestic demand, as both private and public spending rose. However, a decline in net foreign demand

dampened real GDP growth because exports dropped at a faster pace than imports. The increase in private spending stemmed only from higher consumption, as investment dropped. Meanwhile, the rise in public demand was driven by an increase in government investment in, among other things, the construction of the new hospital. This rise was mitigated, however, by a decline in public consumption.

An analysis by sector reveals that 2015's second quarter expansion stemmed primarily from growth in the manufacturing, wholesale & retail trade, restaurants & hotels, and transport, storage, & communication sectors. Real output went up in the manufacturing sector as reflected by increased refining and ship repair activities. Following a contraction in the second quarter of 2014, real value added in the wholesale & retail trade sector rose, attributable to the growth in domestic demand and higher tourism spending. However, a decline in activities in the free zone dampened growth in the wholesale & retail trade sector.

The restaurants & hotels sector continued to perform well as a result of growth in stay-over tourism. By contrast, the number of cruise tourists dropped, despite an increase in the number of cruise calls. Stay-over tourism grew thanks to a rise in the number of visitors from North America, Europe, and the Caribbean, mitigated by a decline in the South American market. The latter decline can be explained largely by a significant drop in the number of Venezuelan tourists. The favorable developments in the transport, storage, & communication sector were the result of increased airport-related and harbor activ-

ities. Airport-related activities expanded in line with the growth in the number of stay-over visitors and were reflected by more commercial landings and a growth in total passenger traffic. Meanwhile, the harbor in Curaçao handled more ships and freight and recorded more oil storage activities.

Contrary to the mentioned sectors, real value added in the financial intermediation, construction, and utilities sectors dropped. The decline in the financial intermediation sector was attributable mainly to the poor performance of the domestic banking sector, reflected by a drop in net interest income and other fees & income. The international financial services companies also posted negative results as indicated by the declines in wages & salaries and operational expenses. Meanwhile, the contraction in the construction sector was caused by a decline in private sector investments only, as government investments increased.

Contrary to the expansion in the second quarter of 2014, Sint Maarten recorded a real GDP contraction in the second quarter of 2015 because of a decline in domestic demand, mitigated by an increase in net foreign demand. Private demand dropped as a result of declines in both private consumption and investment.

Similar to the previous quarter, Sint Maarten's second-quarter real GDP growth estimate must be interpreted with caution because data on stay-over arrivals were not available. Therefore, the Bank used passenger arrival data as a proxy for tourism growth in the second quarter of 2015. According to the Bank's estimates, the economic contraction in Sint Maarten was attributable entirely to lower domestic demand. Private demand dropped as

both consumer spending and investment fell. Meanwhile, public demand put a drag on economic growth because of a decline in public consumption and investment. The decline in public consumption was related to lower outlays on wages & salaries. The economic contraction was dampened by an increase in net foreign demand because imports dropped at a faster pace than exports.

Sectoral data indicate that output contracted in most sectors of the Sint Maarten economy, with the exception of the utilities and financial intermediation sectors. The contraction in output was most pronounced in the restaurants & hotels sector due mainly to a decline in stay-over tourism. According to the available data, the number of visitors fell in all main markets, including the United States, which is traditionally the main source of Sint Maarten's tourists. The development in stay-over tourism is consistent with the lower proceeds from car rental and timeshare tax collected during the second quarter of 2015 compared to the second quarter of 2014. Cruise tourism also declined because of a drop in the number of cruise tourists in line with the lower number of cruise ships that visited the port of Philipsburg. Activities in the wholesale & retail trade sector shrank, reflecting a downturn in the tourism sector combined with the decline in domestic spending.

The poor performance in the transport, storage, & communication sector was the result of a decline in airport-related activities, in line with the estimated drop in stay-over tourism. Furthermore, air transportation services went down because Winair discontinued some flights in May 2014. Sint Maarten's harbor also recorded

negative results as the number of ships handled dropped, partly offset by an increase in cargo movements. Real output in the construction sector shrank because of declines in both private and public investments. Meanwhile, the contraction in the manufacturing sector was attributable to a decline in the number of yacht repair activities, the result of fewer yachts, notably mega yachts, visiting Sint Maarten.

By contrast, the financial intermediation sector grew as a result of an increase in other fees & income of the domestic commercial banks. Moreover, real output expanded in the utilities sector driven by higher electricity and water production.

On the fiscal front, the deficit on the current budget of the government of Curaçao widened in the second quarter of 2015 compared to the second quarter of 2014. This widening was led primarily by an increase in expenditures caused solely by increased social security transfers, in particular, the government contributions to the general health insurance scheme. By contrast, the outlays on wages & salaries and goods & services dropped. Meanwhile, government revenues dropped slightly due to a decline in nontax revenues, moderated by a marginal increase in tax proceeds. The lower nontax revenues were attributable to lower earnings from the sale of goods & services by the government. Tax proceeds increased slightly due to higher revenues from property taxes, sales tax, and import duties, mitigated by a drop in profit tax and excises on tobacco.

In Sint Maarten, the government recorded a slightly lower budget deficit in the second quarter of 2015 compared to the second quarter of 2014 due to a drop in government expenditures mitigated by a slight

decline in revenues. Total expenditures went down as a result of lower outlays on wages & salaries and social security. The fall in expenditures was mitigated, however, by higher disbursements on goods & services and subsidies. On the revenue side, the decline in earnings was due mainly to a drop in tax proceeds, particularly excises on gasoline, car rental tax, and time share tax. Business license and work permit fees dropped also compared to a year earlier. The fall in government revenues was moderated by higher dividend payments received from government-owned entities and increased earnings from concessions and fees.

According to preliminary data and estimates of the Bank, the current account deficit on the balance of payments widened during the second quarter of 2015 compared to 2014's second quarter. This widening reflected a decline in net exports of goods and services and a worsening of the income and current transfers balances. Net exports deteriorated because exports contracted at a faster pace than imports. The contraction in exports was attributable primarily to lower re-exports by the free-zone companies in Curaçao. In addition, foreign exchange revenues from bunkering activities decreased because of the sharp decline in international oil prices. An increase in foreign exchange earnings from tourism, supported by the growth in tourism registered in Curacao, mitigated the decline in exports. Meanwhile, the main cause of the decline in the import bill was the lower international oil prices. Also, as a result of the decline in re-exports, merchandise imports by the free-zone companies decreased. The worsening of the income balance stemmed from an increase in interest payments on investments from

abroad, while the deterioration of the current transfers balance was due to a drop in current transfers from abroad. Gross official reserves shrank during the June quarter of 2015 as external financing and net capital transfers were not sufficient to cover the current account deficit.

The money supply rose in the second quarter of 2015 due to a growth in net domestic assets, moderated by a drop in net foreign assets. The growth in net domestic assets resulted from the net withdrawal of deposits from the banking system by the governments of both Curaçao and Sint Maarten. Furthermore, miscellaneous balance sheet items rose because of the release of a deposit provided as a security with the court in connection with a claim between two parties in an international dispute. The increase in net domestic assets was mitigated, however, by a decline in net credit extension to the private sector. The decline in private credit reflected a drop in loans in Sint Maarten, mitigated by a slight increase in loans in Curaçao.

The Bank continued its efforts to mop up part of the excess liquidity in the banking system by offering more certificates of deposit (CDs) at higher interest rates. As a result, the amount of outstanding CDs increased. Meanwhile, the reserve requirement percentage was left unchanged at 18.00%. The last adjustment of the reserve requirement percentage occurred in June 2014.

For both Curaçao and Sint Maarten, strengthening economic growth while maintaining sound public finances is a major policy challenge. The government of Curaçao has embarked on a path of reducing the costs of the government apparatus and the social insurances, while stimulat-

ing growth through increasing public investments. The investments in, among other things, the construction of the public hospital and the improvement of the road infrastructure seem to have contributed to an increase in economic activities. However, in the longer run, higher public investment alone will not result in a higher sustainable growth path. To achieve that aim, the government needs to improve Curacao's business climate to attract more private investments, local as well as foreign. Meanwhile, further delays in the implementation of the intended measures to reduce public expenditures should be minimized to prevent a deterioration of the public finances in the near future.

In the case of Sint Maarten, the country is going through a new political crisis. This crisis is creating uncertainties that hamper economic growth because major deficiencies are not being addressed adequately. First, Sint Maarten does not yet have a comprehensive strategy to foster further growth of the tourism sector, the main pillar of Sint Maarten's economy. Second, tourism data from the beginning of 2015 are still not available, making it almost impossible to assess the state of Sint Maarten's economy. Meanwhile, the government continues to face the challenge of presenting a balanced budget that complies with the Kingdom Law on Financial Supervision. Hence, the country is in urgent need of political stability so it can create a climate in which the macroeconomic environment can be strengthened to attain a higher sustainable growth path.

E.D. Tromp

President

II INTERNATIONAL ECONOMIC DEVELOPMENTS

THE UNITED STATES

The American economy grew by 2.7% in real terms during the second quarter of 2015, a slight acceleration in the year-on-year growth compared to the 2.6% growth in the second quarter of 2014 (see Table 1). The increase in real output in the United States was due solely to domestic demand, as imports grew at a faster pace than exports.

Public demand showed a positive turnaround because of higher spending by federal, state, and local governments in the second quarter of 2015 compared to the second quarter of 2014. By contrast, the contribution of net foreign demand to real output growth was negative because the rise in imports outpaced the increase in exports.

Table 1 Economic indicators of the United States

	2014-II	2015-II
Real GDP (% change)	2.6	2.7
Consumer prices (%)	2.0	0.0
Unemployment rate (%)	6.2	5.4

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

The growth in domestic demand was driven by both the private and the public sectors. The rise in private demand resulted primarily from an increase in consumer spending. Consumers in the United States spent more on nondurable goods and services during the second quarter of 2015, supported by higher consumer confidence, better labor market conditions, and cheaper gasoline. Private investments also grew in the second quarter of 2015, albeit at a slower pace than in the second quarter of 2014, largely due to residential invest-

From a sectoral perspective, the growth in private sector activities was driven mainly by the manufacturing, construction, and retail trade sectors. The U.S. unemployment rate declined to 5.4% during the second quarter of 2015, down from 6.2% in the second quarter of 2014, attributable mainly to job gains in the professional and business services, retail trade, health care, and manufacturing sectors. In addition, the number of long-term unemployed and the number of workers employed part-time for economic reasons dropped.

Average consumer prices in the United States remained stable (0.0%) during the June quarter of 2015 compared to the 2.0% increase in 2014's second quarter, due primarily to the effects of a significant drop in average international crude oil prices and a stronger dollar. While the inflation rate did not match the Federal Reserve's target level of 2.0%, the unemployment rate remained below the Fed's target of 6.5%. Therefore, the Fed maintained the fed funds rate near zero.

THE NETHERLANDS

The Dutch economy expanded by 1.6% in the second quarter of 2015, a slight acceleration compared to the 1.2% real GDP growth recorded in the second quarter of 2014 (see Table 2). Real output growth in the Netherlands was attributable primarily to increased private demand mitigated by a contraction in public spending and higher imports.

Real GDP expanded in the Netherlands during the second quarter of 2015 compared to the second quarter of 2014 due to increased private consumption and investment. Private consumption rose because of more spending on nondurable goods, such as food and beverages, as well as durable goods, such as electrical appli-

ances and home furnishings. Dutch consumers also spent more on services such as restaurants and insurance premiums. The growth in private consumption was in line with the increase in employment, the continued recovery of the Dutch housing market, and the improvement in consumer confidence, the highest in 8 years. Private investment grew as businesses invested more in machinery and installations, telecommunication, and software. The growth in private investments was consistent with increased capacity utilization, which reached its highest level since the 2008 global financial crisis, and higher investor confidence. By contrast, public spending showed a negative turnaround in the second quarter of 2015 compared to the second quarter of 2014 as both government consumption and investments dropped.

Net foreign demand dampened output growth in real terms, as imports grew at a faster pace than exports, with substantially higher imports of natural gas in the second quarter of 2015 than in the second quarter of 2014.

A sectoral analysis reveals that private sector activities reflected accelerated growth in the construction, communication, and business services sectors in particular.

Table 2 Economic indicators of the Netherlands

	2014-II	2015-II
Real GDP (% change)	1.2	1.6
Consumer prices (%)	1.0	0.9
Unemployment rate* (%)	7.6	6.9

Sources: Central Bureau of Statistics.
*International definition.

This growth was mitigated, however, by a marked contraction in the agriculture and mining sectors.

The unemployment rate fell in the second quarter of 2015 to 6.9% compared to 7.6% in the second quarter of 2014 because of the improved economic conditions in the Netherlands with more people finding employment. Meanwhile, inflationary pressures eased slightly to 0.9% in line with the effects of lower international crude oil prices. The deceleration in inflation was mitigated by higher food prices in the sub-category fruits, vegetables, and potatoes as well as higher housing costs.

VENEZUELA

The Central Bank of Venezuela has not published data on the year-on-year economic performance of Venezuela since the third quarter of 2014. According to estimates of the International Monetary Fund, the economy of Venezuela is expected to contract by 4.0% in 2015, while Business Monitor International projects a contraction of 5.6%, continuing the recession there (see Table 3). The economic contraction is

due to declining domestic demand offset only partially by a rise in net foreign demand.

Venezuela's economic situation remains grim. According to the projections of the IMF and Business Monitor International, domestic demand will drop significantly in 2015 as private demand will decline and public demand will increase at a slower pace. Private demand is expected to decline because of decreases in both consumption and investment. The decrease in private consumption is mainly the result of the high inflation, among the world's highest, which has substantially eroded consumers' purchasing power. Gross fixed capital investments decreased for a number of reasons, including low investor confidence, shortages of foreign currency, and the deteriorating business climate in the country. Meanwhile, public demand is expected to contract in real terms largely because of lower revenues from oil exports.¹

In contrast, net foreign demand is expected to contribute positively to real output despite historically low oil prices because the significant drop in imports offsets lower oil exports. Imports are expected to drop as a result of the foreign currency re-

Table 3 Economic indicators of Venezuela

	2014	2015
Real GDP (% change)	-4.0	-5.6 to -4.0
Consumer prices (%)	60.9	78.3 to 118.0
Unemployment rate (%)	7.0	12.8

Sources: International Monetary Fund; Reuters.

¹ Source: Venezuela Country Risk Report Q3 2015 (2015, September). Business Monitor International, 16 – 18. www.bmiresearch.com

strictions in Venezuela, while exports will contract because of fewer oil barrels sold as well as significantly lower international oil prices.

An analysis by sector indicates that the forecasted poor economic performance of Venezuela will be ascribable to the manufacturing, construction, trade & repair services, transport & storage, and mining sectors. The inflation rate for 2015 is estimated at between 78.3% and 118.0%.² The higher inflationary pressures are 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 2015.³

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

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

III GENERAL ECONOMIC DEVELOPMENTS

GENERAL ECONOMIC DEVELOPMENTS IN CURAÇAO

Following a contraction of 1.3% in the second quarter of 2014, Curaçao's economy grew by 0.4% in the second quarter of 2015. Both the private and government sectors made a positive contribution to GDP growth (see Table 4). Meanwhile, consumer price inflation in Curaçao turned negative, to -0.6%, stemming

mainly from a substantial drop in the prices of electricity and fuel, as well as a decline in water tariffs.

An analysis of GDP by expenditure reveals that the economic expansion registered in the June quarter of 2015 was attributable to increases in both private and public demand. The growth in private consumption was supported by the gain in purchasing

Table 4 GDP by expenditure of Curaçao* (real percentage changes)

	2014-II	2015-II
Domestic expenditure, of which:	-1.3	0.4
Private sector	-1.0	0.3
Investment	-0.5	-0.1
Consumption	-0.5	0.4
Government sector	-0.3	0.1
Investment	-0.3	0.5
Consumption	0.0	-0.4
Changes in inventory	-0.1	0.2
Foreign net expenditure, of which:	-0.2	-0.2
Export of goods and services	0.1	-0.8
Import of goods and services	-0.1	-0.6
GDP	-1.3	0.4

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

power as a result of the price deflation and was in line with increases in both sales tax and import duties collected by the government. The increase in private consumption also was reflected by an expansion in wholesale & retail trade sector activities. By contrast, private investment dropped, consistent with less business credit extended by the domestic commercial banks. Public demand expanded because the growth in investments, particularly the construction of the new hospital and the renovation of government buildings, offset the decline in consumption. The decrease in government consumption resulted from a decline in outlays on wages & salaries during 2015's second quarter.

Net foreign demand's contribution to GDP was negative because exports declined at a faster pace than imports. The contraction in exports was due mainly to lower re-exports by the free-zone companies, while the drop in imports was attributable primarily to the sharp decline in international oil prices and lower merchandise imports by the free-zone companies.

DOMESTIC PRODUCTION

An analysis of the contribution to GDP by sector indicates that the GDP growth recorded in the April-June period of 2015 was ascribable primarily to the manufacturing, wholesale & retail trade, transport, storage, & communication, and the restaurant & hotels sectors (see Table 5).

Real output growth in the manufacturing sector accelerated during the June quarter of 2015 (4.0%) because of increases in both oil refining and ship repair activities. The positive result of the ship repair industry

was reflected by growth in the number of man hours sold (10.2%), an increase consistent with more ships repaired (37.9%).

After contracting in the second quarter of 2014, activities in the wholesale & retail trade and transport, storage, & communication sectors grew in the second quarter of 2015. Real value added in the wholesale & retail trade sector rose (1.0%) because of an increase in domestic and tourism spending. Meanwhile, the free zone performed poorly, in line with a drop in the number of visitors, notably from Venezuela. Real value added in the transport, storage, & communication sector expanded (1.0%) because of more activities at the airport and the harbor. Airport-related activities increased as a result of the growth in total passenger traffic, especially transit passengers, and the number of commercial landings. The positive development in airport-related activities was consistent with the growth in stay-over tourism. In addition, harbor activities rose as a result of more cargo movements, oil storage activities, and ships piloted into the port of Curaçao, particularly freighters and tankers.

Real value added in the restaurants & hotels sector increased at a faster pace in 2015's second quarter (0.8%) compared to 2014's second quarter (0.5%). The number of stay-over visitors was up by 0.8% in the June quarter of 2015, driven by expansions in the North American, European, and Caribbean markets. The North American market expanded because of an increase in the number of visitors from the United States and Canada. The additional flights by JetBlue out of New York supported the growth in the number of U.S. visitors. Growth in the European market

was caused mainly by more visitors from the Netherlands. Furthermore, the growth in the Caribbean market was primarily the result of more visitors from Trinidad & Tobago (60.4%). Despite additional flights by InselAir and Avior, the South American market contracted, primarily because of a significant drop in the number of Venezuelan visitors (-23.3%). Contrary to the growth in stay-over tourism, the hotel occupancy rate fell slightly from 65.8% in the second quarter of 2014 to 65.6% in the second quarter of 2015. Meanwhile, de-

spite an increase in the number of cruise calls (17.9%), the number of cruise tourists dropped (-3.1%). (See Table 11 in Appendix I for more details on stay-over tourism development.)

In contrast to the above, activities in the financial intermediation, construction, and utilities sectors declined in the June quarter of 2015, similar to 2014's second quarter. Real output in the financial intermediation sector contracted by 0.4% during 2015's second quarter because ac-

Table 5 GDP by sector of Curaçao (real percentage changes)

	2014-II	2015-II
Agriculture, fishery, & mining	-2.4	-2.6
Manufacturing	0.6	4.0
Electricity, gas, & water	-1.1	-1.2
Construction	-0.5	-0.2
Wholesale & retail trade	-2.5	1.0
Restaurants & hotels	0.5	0.8
Transport, storage, & communication	-1.1	1.0
Financial intermediation	-0.8	-0.4
Real estate, renting, & business activity	-0.9	-0.7
Other community, social, & personal services	-6.1	0.7
Private households	-0.5	0.5
Total private sector	-0.9	0.3
Public sector	-0.1	-0.4
Taxes minus subsidies	-0.3	0.5
GDP	-1.3	0.4

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

tivities in the domestic and international financial services industries shrank. The negative development in domestic financial services was the result of declines in both net interest income and other fees & income earned by the domestic commercial banks. The international financial services industry also posted negative results, reflecting a drop in wages & salaries and other operational expenses. In addition, the utilities sector contracted (-1.2%) due to a decrease in electricity and water production. The construction sector also had a negative impact on GDP growth (-0.2%) because the decline in private investments exceeded the growth in government investments stemming from the construction of the new hospital. (See Table 11 in Appendix I for more details on stay-over tourism development.)

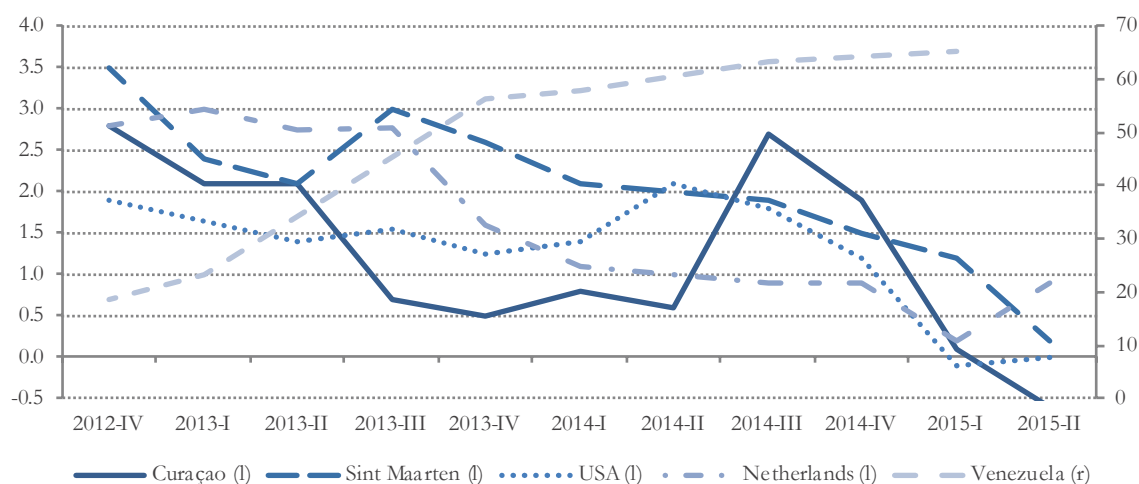
INFLATIONARY PRESSURES

During the second quarter of 2015, Curaçao's inflation rate turned negative, falling to -0.6%, down from 0.6% in the second quarter of 2014. Price developments during the April-June

period of 2015 were heavily influenced by the strong decline in international oil prices. Hence, the deflation stemmed primarily from a large decline in the prices of electricity and fuel, as well as a decrease in water tariffs (see Graph 1).

An analysis of developments in the Consumer Price Inflation (CPI) components for Curaçao reveals that the largest contributions to the deflation during the June quarter of 2015 came from the categories "Transport & communication" (-4.1%), "Housing" (-3.5%), and "Clothing & footwear" (-0.9%). Compared to 2014's second quarter, average prices in the "Transport & communication" category contracted at a faster pace in 2015's second quarter, driven mainly by a sharp drop in fuel prices. In addition, consumer prices in the "Housing" category plummeted because of a substantial drop in electricity prices and, to a lesser extent, a decline in water tariffs. Contrary to the second quarter of 2014, prices in the "Health" category rose in the second quarter of 2015 (3.0%) as a result of higher import prices for medicines, vitamin supplements, and other medical products. Meanwhile, the price gain in the

Graph 1 Developments in consumer prices (annual percentage change)



“Beverages & tobacco” category (3.8%) decelerated, while prices increased at a faster pace in the categories “Food” (4.3%) and “Housekeeping & furnishings” (1.7%). The price acceleration in the “Food” category was triggered primarily by price increases in meat & fish, grain products, and outdoor consumption. (See Table 12A in Appendix I for more details.)

GENERAL ECONOMIC DEVELOPMENTS IN SINT MAARTEN

Contrary to the 1.4% growth registered in the second quarter of 2014, Sint Maarten's real

output contracted by 0.6% in the second quarter of 2015 (see Table 6). The GDP contraction resulted solely from a decline in domestic demand as net foreign demand rose. The inflation rate in Sint Maarten eased to 0.2%, attributable mainly to the steep decline in international oil prices.

All components of aggregate domestic demand contributed negatively to Sint Maarten's GDP during the April-June period of 2015. Consumer spending dropped, in line with less consumer credit extended by the domestic commercial banks and a contraction in activities in the wholesale & retail trade sector. The fall in private investment spending was consistent with

Table 6 GDP by expenditure of Sint Maarten* (real percentage changes)

	2014-II	2015-II
Domestic expenditures, of which:	0.4	-0.7
Private sector	1.5	-0.4
Investment	-0.3	-0.2
Consumption	1.8	-0.2
Government sector	-1.1	-0.4
Investment	0.5	-0.3
Consumption	-1.6	-0.1
Changes in inventory	-0.1	-0.1
Foreign net expenditures, of which:	1.1	0.2
Export of goods and services	0.7	-3.0
Import of goods and services	-0.4	-3.2
GDP	1.4	-0.6

Source: Estimates by the Central Bank of Curaçao and Sint Maarten.
*Expenditure categories data are weighted contributors to GDP growth.

less business credit extended by the domestic commercial banks and fewer activities in the construction sector. Public demand dropped because of declines in both investment and consumption. The lower public consumption was caused by the drop in outlays on wages & salaries during 2015's second quarter. However, net foreign demand contributed positively to real GDP because imports dropped at a faster pace than exports. The lower imports were due mainly to the decline in international oil prices. Meanwhile, exports were down largely as a result of a drop in the foreign exchange revenues from tourism activities.

DOMESTIC PRODUCTION

Sint Maarten's economic contraction during the June quarter of 2015 was the result of negative developments in both the private and public sectors.

At the sectoral level, most economic sectors recorded a negative growth, with the exception of the utilities and financial intermediation sectors (see Table 7). However, the sectoral data must be interpreted with caution. Due to the absence of data on stay-over arrivals by tourism market during the second quarter of 2015, the Bank used estimates based on a proxy for the tourism sector.⁴

After registering an expansion in 2014's second quarter, the wholesale and retail trade, restaurants & hotels, and transport, storage, & communication sectors recorded a decline in real value added in 2015's second quarter. Real value added

in the wholesale & retail trade sector contracted (-1.9%) because of fewer activities in the tourism sector and the decline in domestic demand. According to estimates by the Bank, real output in the restaurants & hotels sector fell during the April-June period of 2015 (-3.0%), attributable to a drop in both stay-over and cruise tourism. The drop in the number of cruise tourists was consistent with a decline in the number of cruise calls. In addition, stay-over tourism decreased on the back of fewer visitors from the United States--Sint Maarten's main tourism market--as well as fewer visitors from Europe, Latin America, and the Caribbean.

The decline in activities in the transport, storage, & communication sector (-0.7%) was driven by a contraction in activities at the airport and the harbor. Airport-related activities dropped in line with the estimated decline in stay-over tourism. Also, air transportation activities contracted as the domestic airline Winair discontinued flights to Curaçao and the Dominican Republic in May 2014. The decline in harbor activities was reflected by fewer ships piloted into the port of Sint Maarten, notably freighters and cruise ships. On the other hand, container movements increased.

Similar to the second quarter of 2014, activities in the construction sector fell during the second quarter of 2015 (-2.1%) because of declines in both private and public investments. The negative development in the manufacturing sector (-0.4%) was caused by a decline in yacht repair activities, the result of fewer yachts, especially mega yachts, visiting Sint Maarten.

In contrast, the financial intermediation and utilities sectors contributed positively to Sint Maarten's GDP in 2015's second

⁴ Estimate is based on passenger arrivals by region.

quarter. Real output growth in the financial intermediation sector (1.5%) was reflected by an increase in other fees and income earned by the domestic commercial banks. Furthermore, activities in the utilities sector rose (3.2%) as a result of increases in both electricity and water production.

INFLATIONARY PRESSURES

Annual price developments on a quarterly basis indicate that Sint Maarten's inflation rate eased to 0.2% in the second quarter of 2015, down from 2.0% in the second quarter of 2014. The decline in inflationary pressures was influenced mainly by the steep decline in international oil prices.

An analysis of developments in the CPI components for Sint Maarten shows defla-

Table 7 GDP by sector of Sint Maarten (real percentage changes)

	2014-II	2015-II
Agriculture, fishery, & mining	0.0	0.0
Manufacturing	-1.0	-0.4
Electricity, gas, & water	-0.3	3.2
Construction	-3.9	-2.1
Wholesale & retail trade	6.7	-1.9
Restaurants & hotels	5.9	-3.0
Transport, storage, & communication	4.9	-0.7
Financial intermediation	-1.0	1.5
Real estate, renting, & business activities	-2.1	-0.3
Other community, social, & personal services	-1.6	-0.2
Private households	2.6	0.3
Total private sector	1.1	-0.5
Public sector	-0.1	-0.3
Taxes minus subsidies	0.4	0.2
GDP	1.4	-0.6

Source: Estimates by the Central Bank of Curaçao and Sint Maarten.

tion in the categories “Transport & communication” (-3.7%), due mainly to the reduction in domestic gasoline prices, “Beverages & tobacco” (-0.4%), “Housing” (-1.9%), and Recreation & education (-0.2%). The decrease in prices in the “Housing” category was attributable primarily to lower electricity prices. Meanwhile, inflationary pressures eased in the category “Health” (3.2%). By contrast, prices accelerated in the categories “Food” (7.7%), “Clothing & footwear” (1.0%), and “Housekeeping & furnishings” (3.4%). The acceleration in the category “Food” was related primarily to higher price gains in the subcategories fish & meat, potatoes, vegetables & fruits, and dairy products. (See Table 12B in Appendix I.)

PUBLIC FINANCES

PUBLIC FINANCES OF CURAÇAO

During the June quarter of 2015, the government sector contributed positively to economic growth in Curaçao as the growth in investment outpaced the decline in consumption. The upturn in public investment was triggered by, among other things, the construction of the new hospital and the renovation of government buildings. The fall in public consumption was caused by a decline in both outlays on goods & services and wages & salaries.

A breakdown of Curaçao’s government operations during the second quarter of 2015 reveals a current budget deficit of NAf.86.4 million, a worsening compared to the NAf.60.1 million recorded in 2014’s second quarter. The widening of the budget deficit was primarily the result of a growth in expenditures (NAf.25.7 million). The growth in government expenditures was attribut-

able to increased social security transfers, notably the government contributions to the general health insurance scheme. By contrast, a decline in the outlays on wages & salaries combined with lower spending on goods & services mitigated the overall increase in government expenditures. Government revenues dropped slightly (NAf.0.6 million) as a result of lower non-tax revenues, which were partly offset by an increase in tax proceeds. Nontax revenues dropped because of a decline in the earnings from the sale of goods & services by the government. Meanwhile, tax proceeds were driven up by increases in property taxes, sales tax, and import duties. However, a decline in proceeds from profit tax and excises, notably excises on tobacco products, dampened the rise in tax revenues. (See Tables 13A and 13B in Appendix I for an overview of Curaçao’s public finances.)

During the second quarter of 2015, the government of Curaçao covered its budget deficit by drawing down its deposits with both the central bank and the commercial banks; the result was an increase in monetary financing. In addition, the government incurred arrears with its creditors, particularly the social security bank, SVB, and the public pension fund, APC (see Table 8).

Public sector debt

The total outstanding public debt of Curaçao dropped by NAf.7.1 million during the second quarter of 2015. This decrease was due primarily to a decline of NAf.6.3 million in the foreign debt component as the government of Curaçao made payments towards the Dutch government, including the contribution to the Dutch Caribbean Coast Guard. Meanwhile, the domestic debt component remained fairly stable be-

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

	2014-II	2015-II
Monetary financing	-148.5	68.3
Central bank	-239.2	45.1
Commercial banks	90.7	23.2
Nonmonetary financing	208.6	18.1
Government securities with nonbanks	247.0	0.0
Other	-38.4	18.1
Cash balance	-60.1	-86.4

cause a reduction in the government's outstanding liabilities with several creditors was largely offset by higher obligations towards the SVB and the APC. Consequently, the public debt to GDP ratio estimated for Curaçao at the end of June 2015 was 42.5%. (See Table 13C in Appendix I for an overview.)

PUBLIC FINANCES OF SINT MAARTEN

In Sint Maarten, the government's contribution to GDP during the April-June period of 2015 was negative as both public investment and consumption dropped. Government consumption dropped because of lower wages & salaries, mitigated by a rise in the outlays on goods & services. The lower public wage bill was largely the result of government measures to reduce the costs associated with overtime and allowances. Meanwhile, government investment shrank in the second quarter of 2015 in the wake of the purchase of the new administration building in the second quarter of 2014.

The deficit on the current budget balance improved slightly by NAf.2.6 million to

NAf.12.5 million in the second quarter of 2015 compared to the second quarter of 2014. This improvement was due to a decline in government expenditures (NAf.3.4 million), as revenues dropped marginally (NAf.0.7 million). Government expenditures shrank because of a decline in outlays on wages & salaries and social security, mitigated by increased disbursements on goods & services and subsidies. The lower revenues were caused primarily by a drop in tax proceeds, particularly excises on gasoline, car rental tax, and time share tax. The decline in excises can be ascribed to delays in tax collection. Meanwhile, car rental and time share tax revenues fell in line with the downturn in the tourism sector. By contrast, more profit and wage taxes were collected during the period under review. The increase in profit tax revenues reflected mainly government measures to improve tax compliance, including more effective tax controls. A drop in business license and work permit fees also contributed to the overall decline in government revenues. The decline was mitigated, however, by higher dividend payments received from government-owned entities

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

	2014-II	2015-II
Monetary financing	-98.4	38.5
Central bank	-76.8	15.2
Commercial banks	-21.6	23.3
Nonmonetary financing	113.5	-26.0
Government securities with nonbanks	143.0	0.0
Other	-29.5	-26.0
Cash balance	-15.1	-12.5

and increased earnings from concessions and fees. (See Tables 13D and 13E in Appendix I for an overview of Sint Maarten's public finances.)

Monetary financing was positive during the June quarter of 2015 as the government of Sint Maarten drew down its deposits at the central bank and the commercial banks to settle its obligations towards some creditors and to cover the budget deficit (see Table 9).

Public sector debt

During the second quarter of 2015, Sint Maarten's public debt remained fairly stable as the domestic component rose by NAf.2.0 million while the foreign component remained stable. The significant liabilities towards the health and social insurances fund, SZV, and the government pension fund, APS, remained unchanged. Consequently, Sint Maarten's public debt was NAf.700.5 million (36.6% of GDP) at the end of the June quarter of 2015. (See Table 13F in Appendix I for an overview.)

DEVELOPMENTS IN THE BALANCE OF PAYMENTS OF THE MONETARY UNION

Based on the Bank's preliminary data and estimates,⁵ the deficit on the current account of the balance of payments widened by NAf.92.9 million during the second quarter of 2015 compared to the second quarter of 2014. A decline in net exports of goods and services and a worsening of the income and current transfers balances led to the larger current account deficit. Net exports dropped because the decline in exports exceeded the lower imports.

Meanwhile, the gross official reserves of the monetary union dropped by NAf.178.1 million. Hence, external financing and capital transfers were not sufficient to cover the deficit on the current account (see Table 10).

⁵ When all data on the balance of payments are available, 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.

Developments in the net exports of goods and services in Curaçao

Net exports of goods and services in Curaçao are estimated to have contracted because of a decline in exports, mitigated by lower imports. Exports dropped during the June quarter of 2015 compared to 2014's June quarter due largely to lower re-exports by the free-zone companies. Similar to the previous quarters, the sector was affected significantly by the unstable situation and currency restrictions in Venezuela. Moreover, despite higher volumes sold, foreign exchange revenues from bunkering activities declined as a result of lower international oil prices. The decline in exports was mitigated, however, by increased foreign exchange revenues from tourism activities.

The lower import bill was caused primarily by the sharp decline in international oil prices recorded during the second quarter of 2015. Furthermore, as a result of the

decline in re-export activities in the free zone, merchandise imports by the free-zone companies dropped. By contrast, imports by the wholesale & retail trade sector were up, driven by the growth in private consumption and the increased tourism spending. Also, imports of construction services rose attributable mainly to the construction of the new hospital in Curaçao.

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

In Sint Maarten, net exports of goods and services is estimated to have increased in the second quarter of 2015 compared to the second quarter of 2014 because the drop in imports offset the decline in exports. Exports shrank primarily as a result of a decline in tourism activities, accounted for by both stay-over and cruise tourism. Lower oil imports, attributable to the sharp decline in international oil prices, was the main reason for the over-

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

	2013-II	2014-II	2015-II
Current account	-310.3	-36.3	-129.2*
Change in gross reserves of the central bank**	-14.0	-217.3	178.1
Foreign exchange	72.2	-272.1	124.2
held at foreign central banks	159.8	-153.2	183.0
held at foreign commercial banks	-87.6	-118.9	-58.8
Other claims	-86.2	54.8	53.9

* Estimate of CBCS.

** A minus sign implies an increase.

all contraction in imports. Furthermore, merchandise imports by the wholesale & retail trade sector dropped because of the lower tourism spending and the decline in domestic demand.

Developments in the income balance and the current transfers balance

Both the income and current transfers balances are estimated to have worsened during the second quarter of 2015 compared to the second quarter of 2014. The deficit on the income balance widened by NAf.3.3 million mainly as a result of higher interest payments on investments from abroad. Meanwhile, the current transfers balance worsened by NAf.10.5 million as the decline in current transfers received from abroad offset the drop in current transfers paid to abroad.

APPENDIX I

Table 11 Stay-over tourism development by island^{abc}

	Curaçao				Sint Maarten			
	2014-II		2015-II		2014-II		2015-II	
North America, of which:	-16.1	(-2.4)	28.0	(5.4)	13.5	(9.0)	-0.1	(0.0)
U.S.A.	-20.2	(-2.6)	19.8	(3.1)	13.8	(8.1)	-4.3	(-2.6)
Europe, of which:	5.0	(2.1)	5.1	(2.2)	9.3	(1.7)	-7.4	(-1.4)
The Netherlands	1.4	(0.4)	7.1	(2.4)	-	-	-	-
South & Central America, of which:	-3.0	(-0.9)	-13.9	(-3.5)	10.0	(0.3)	-5.9	(-0.2)
Venezuela	-2.5	(-0.5)	-23.3	(-3.4)	-	-	-	-
Colombia	7.3	(0.2)	2.6	(0.1)	-	-	-	-
Surinam	-14.9	(-0.4)	3.5	(0.1)	-	-	-	-
Caribbean, of which:	-18.1	(-1.5)	4.7	(0.4)	9.6	(0.5)	-5.9	(-0.3)
Dominican Republic	-42.0	(-0.4)	-19.6	(-0.1)	-	-	-	-
Total	-1.9	-	0.8	-	11.9	-	-6.0	-

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

^a Percentage change.

^b The weighted growth rates are depicted between brackets.

^c 2015 figures for Sint Maarten are estimates of the CBCS as no data was made available by the authorities. The estimates are based on passenger arrival data by region.

Table 12A Development in the consumer price index of Curaçao^a

	2014-II	2014-III	2014-IV	2015-I	2015-II
Food	2.0	5.2	7.2	6.4	4.3
Beverages & tobacco	20.3	17.0	12.0	7.8	3.8
Clothing & footwear	2.2	5.2	5.0	4.1	-0.9
Housing	-0.3	2.2	-1.9	-5.3	-3.5
Housekeeping & furnishings	0.5	1.4	1.7	1.7	1.7
Health	-1.0	1.2	3.3	3.0	3.0
Transport & communication	-1.6	0.9	0.6	-1.6	-4.1
Recreation & education	1.2	2.0	2.8	2.7	1.8
Other	1.0	2.2	3.4	2.9	2.5
General inflation rate	0.6	2.7	1.9	0.1	-0.6

Source: Central Bureau of Statistics of Curaçao.
^a Annual quarterly percentage change.

Table 12B Development in the consumer price index of Sint Maarten^a

	2014-II	2014-III	2014-IV	2015-I	2015-II
Food	5.9	6.1	7.0	7.2	7.7
Beverages & tobacco	3.2	2.9	0.9	0.1	-0.4
Clothing & footwear	0.4	0.4	1.9	1.6	1.0
Housing	2.0	2.5	1.0	-0.7	-1.9
Housekeeping & furnishings	1.3	1.9	1.3	2.3	3.4
Health	6.3	4.4	5.2	5.0	3.2
Transport & communication	0.3	-1.2	-2.2	-0.5	-3.7
Recreation & education	-0.3	-0.3	0.1	0.1	-0.2
Other	1.1	0.7	1.5	1.9	1.5
General inflation rate	2.0	1.9	1.5	1.2	0.2

Source: Department of Statistics of Sint Maarten.
^a Annual quarterly percentage change.

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

	2013-II	2014-II	2015-II
Revenues	368.6	358.2	357.6
Tax revenues, of which:	343.3	322.9	328.1
Taxes on income and profits	169.9	153.0	144.4
Taxes on property	7.3	8.9	16.6
Taxes on goods and services	124.6	120.5	123.8
Taxes on international trade and transactions	40.2	38.8	41.4
Nontax and other revenues	25.3	35.3	29.5
Expenditures	431.4	418.3	444.0
Wages and salaries	208.3	192.0	186.4
Goods and services	30.8	43.2	37.3
Transfers and subsidies	156.6	144.2	183.3
Interest payments	24.8	25.0	23.1
Other expenditures	11.0	13.9	13.9
Budget balance	-62.8	-60.1	-86.4

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

	2013-II	2014-II	2015-II
Taxes on income and profits, of which:	169.9	153.0	144.4
Profit tax	47.2	38.1	32.9
Wage tax	121.1	113.4	114.9
Taxes on property, of which:	7.3	8.9	16.6
Land tax/OZB ¹	4.6	3.4	12.0
Property transfer tax	2.5	5.2	4.4
Taxes on goods and services, of which:	124.6	120.5	123.8
Sales tax	99.5	91.4	93.7
Excises, of which:	18.3	19.8	18.9
Excise on gasoline	11.1	11.1	11.8
Motor vehicle tax	3.9	4.2	5.1
Taxes on international trade and transactions, of which:	40.2	38.8	41.4
Import duties	40.1	38.6	41.2

¹ OZB (Onroerende Zaakbelasting) is a real estate tax that replaced the land tax as of January 1, 2014 and was implemented in May 2014.

Table 13C Total outstanding public debt¹ of Curaçao (in millions NAf.)

	2014-II	2014-III	2014-IV	2015-I	2015-II
Domestic debt	196.0	190.9	217.3	215.8	215.0
of which:					
Long-term securities	18.4	18.4	18.4	18.4	18.4
Short-term securities	-	-	-	-	-
APC	48.2	33.5	50.8	39.8	55.4
SVB	38.5	33.1	33.1	35.8	59.5
Foreign debt	1,958.6	1,958.6	1,959.6	2,210.4	2,204.1
Total debt	2,154.6	2,149.5	2,177.0	2,426.2	2,419.1
(% of GDP)	38.2	38.0	38.5	42.8	42.5

¹ Debt figures do not comprise the entire collective sector.

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

	2013-II	2014-II	2015-II
Revenues	101.0	104.9	104.2
Tax revenues	78.2	84.5	83.0
Concessions and fees	14.6	9.3	9.8
Licenses	3.9	5.8	5.0
Other revenues	4.3	5.5	6.4
Expenditures	121.8	120.0	116.7
Wages and salaries	55.6	57.6	50.3
Goods and services	33.0	23.3	27.0
Subsidies	20.4	24.8	28.1
Social security	8.6	9.7	5.9
Interest payments	2.7	2.7	3.1
Other expenditures	1.5	1.9	2.2
Budget balance	-20.8	-15.1	-12.5

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

	2013-II	2014-II	2015-II
Taxes on income and profits, of which:	34.4	36.9	36.4
Profit tax	4.3	4.1	4.7
Wage tax	34.0	32.4	33.0
Taxes on property, of which:	3.0	3.4	3.5
Land tax	1.4	1.4	1.6
Property transfer tax	1.6	2.0	1.9
Taxes on goods and services, of which:	47.6	52.3	51.6
Turnover tax	36.9	37.0	36.9
Vehicle tax	1.0	0.5	0.4
Excise on gasoline	1.1	4.3	3.3

Table 13F Total outstanding public debt of Sint Maarten (in millions NAf.)

	2014-II	2014-III	2014-IV	2015-I	2015-II
Domestic debt	251.6	191.8	196.5	197.3	199.2
of which:					
Long-term securities	0.1	0.1	0.1	0.1	0.1
Short-term securities	-	-	-	-	-
APS	68.4	69.9	69.9	51.6	51.6
SZV	126.0	60.5	87.0	105.5	105.5
Foreign debt	470.9	470.9	501.3	501.3	501.3
Total debt	722.6	662.7	697.8	698.5	700.5
(% of GDP)	38.9	35.4	37.0	36.7	36.6

IV MONETARY DEVELOPMENTS

MONETARY POLICY

During the second quarter of 2015, the Bank continued to direct its monetary policy at reducing surplus liquidity in the banking system. The reserve requirement instrument was used passively as its percentage, which is fixed for a period of four weeks, remained at 18.00% during the second quarter of 2015. However, due to an increase in the adjusted domestic debt of the commercial banks,⁶ i.e., the base on which the reserve requirement is calculated, the outstanding amount increased by NAf.10.8 million (1.0%). On the other hand, more certificates of deposit⁷ (CDs) were offered during the bi-weekly auctions at higher interest rates, resulting in an increase in the amount of outstanding CDs from NAf. 107.8 million at the end of March 2014 to NAf.124.8 million at the end of June 2015.

The Bank's official interest rate, the pledging rate, was left unchanged at 1.00% throughout the June 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 result ultimately in pressures on the external reserves.

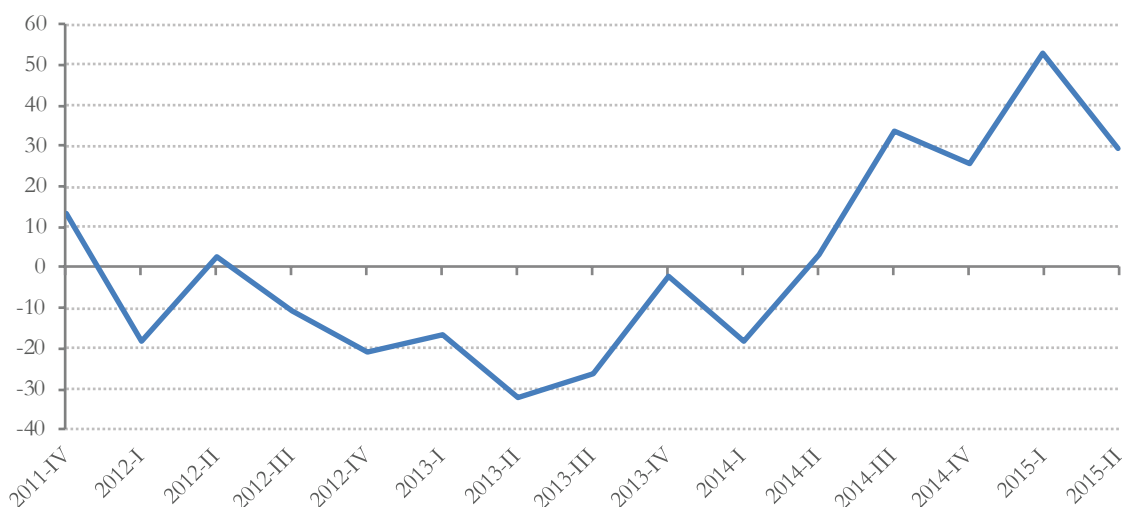
The monetary base (M0) contracted by NAf.61.4 million (-7.0%) in the second quarter of 2015, following four consecutive quarterly increases (see Graph 2 and Table 14 in Appendix II). The fall in M0 originated from a drop in the current account deposits of the commercial banks with the Bank, following a growth that began in June 2014. Currency in circulation increased by NAf.9.1 million, compensating in part for the seasonal drop in the first quarter of 2015. However, the share of currency in circulation in the monetary base dropped from 65.7% in the June quarter of 2014 to 52.8% in the June quarter of 2015. The annual growth rate of M0 slowed substantially, dropping from 53.1% in March to 29.1% in June 2015.

Changes in the monetary base can be explained in terms of movements in the Bank's assets and remaining liabilities. An increase in the Bank's assets contributes to growth of M0 while a rise in its remaining liabilities has the opposite effect. The contraction in M0 in the second quarter of 2015 stemmed from a reduction in the Bank's assets mitigated by a drop in its remaining liabilities. The contraction in the

⁶ The base amount is equal to the commercial banks' domestic liabilities -/- long-term deposits.

⁷ These are negotiable securities issued by the Bank.

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



Bank's assets reflected almost entirely a drop in the Bank's foreign assets. The remaining liabilities fell mainly because of declines in private and government deposits and in other liabilities. The declines in foreign assets and other liabilities were related to a court settlement of a claim between two international parties.⁸ The decline in government deposits stemmed from the payment of interest to the Dutch State. Because this payment involved the use of foreign exchange, it also affected foreign assets.

MONETARY AGGREGATES

After increasing by NAf.127.3 million (1.6%) during 2015's March quarter, broad money (M2) expanded at a slower pace during

the June quarter of 2015, adding NAf.27.1 million (0.3%) to reach NAf.7,940.3 million. However, the annual growth rate of broad money decelerated slightly from 3.8% in March 2015 to 3.1% in June 2015.

The growth in the money supply during the second quarter of 2015 was driven by an increase in the near money component (NAf.80.5 million or 1.9%), reflecting primarily a rise in time deposits. In contrast, the narrow money component (M1) dropped by NAf.53.4 million (-1.4%). The drop in M1 was the result of a decline in residents' demand deposits (NAf.59.9 million) mitigated by an increase in currency in circulation (NAf.6.6 million). (See Table 15 in Appendix II.) The annual growth rate of M1 in the June 2015 quarter dropped to 1.2%, down from 5.6% in March 2015.

⁸ The two parties are PDV Marina S.A. and CH Offshore Ltd. In October 2013, CH Offshore commenced legal proceedings against PDV Marina and Astilleros De Venezuela C.A. (Astivenca) for a claim related to the charter of two vessels. CH Offshore had arrested vessels in the port of Curaçao belonging to PDV Marina as security for its claim. After PDV Marina had made a payment of USD 70 million to the court in Curaçao as security for the claim, PDV Marina's vessels were released. After conclusion of the legal proceedings, these funds were released in June 2015.

FACTORS AFFECTING THE MONEY SUPPLY

The monetary growth during the second quarter of 2015 was driven by an increase in net domestic assets (NAf.191.4 million),

mitigated by a drop in net foreign assets (NAf.164.3 million). The increase in net domestic assets was caused by a drawdown of deposits from the banking system by the government of Curaçao (NAf.68.4 million) and the government of Sint Maarten (NAf.38.5 million) during the second quarter of 2015. Furthermore, an increase in memorandum balance sheet items caused by, among other things, the release of a deposit provided as a security with the court in connection with a claim between two parties in an international dispute (NAf.107.4 million) also contributed to the increase in net domestic assets.

Lending to the private sector dropped by NAf.39.5 million during the June quarter of 2015 owing to declines in loans and investments. The decline in the loan component (NAf.14.8 million or 0.3%) in 2015's second quarter compared to 2015's first quarter resulted from a 1.7% drop in business loans, mitigated by a 0.4% increase in both consumer loans and mortgages. In Curaçao, total loans extended increased by 0.4% during the second quarter of 2015. This marginal expansion resulted from increases in mortgages (1.1%) and consumer loans (0.6%), mitigated by a drop in business loans (0.8%). In Sint Maarten, the amount of private sector loans outstanding contracted by 2.1% in the second quarter of 2015, caused by declines in all loan categories: consumer loans (-0.1%), business loans (-4.3%), and mortgages (-1.5%). Compared with June 2014, total loans during the second quarter of 2015 contracted by 2.3% because fewer loans were extended in both Curaçao (-2.6%) and Sint Maarten (-1.4%). The development in private credit extension is attributable to lower credit demand and the commercial 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 developments in the international financial markets. The benchmark one-month US dollar libor rate⁹ increased by 1 basis point during the second quarter of 2015, from 0.18% at the end of March to 0.19% at the end of June. However, to make the CDs more attractive, the Bank began offering a premium on the benchmark rates in May 2014. Consequently, the maximum rate offered on a 1-month CD increased from 0.25% at the end of March 2015 to 0.29% at the end of June 2015.

The commercial banks adjusted their deposit and lending rates upwards during the June quarter of 2015. The weighted average interest rate offered on 12-month time deposits increased from 1.9% in March 2015 to 2.1% at the end of June 2015. The average interest rates on passbook savings remained stable at 1.2% during the second quarter. Meanwhile, with respect to commercial bank lending rates, the weighted average rate of mortgages and time loans increased from 6.6% and 6.5%, respectively, at the end of March 2015 to 6.7% and 7.2%, respectively, at the end of June 2015.

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

⁹ The London interbank offered rate, the main gauge of interbank lending.

sury Agency (DSTA).¹⁰ The average effective yield on 5-year government bonds increased by 14 basis points, reaching 0.10% at the end of the second quarter of 2015. Moreover, the yield on 12-month treasury bills dropped from -0.19% at the end of 2015's first quarter to -0.22% at the end of the second quarter of 2015. (A detailed overview is provided in Table 17 in Appendix II.)

¹⁰ 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.)

	2015-I	2015-II	Change	
			Amount	Percentage
Currency in circulation	420.2	429.3	9.1	2.2
Banks' demand deposits (current account)	455.1	384.5	-70.6	-15.5
Monetary base (M0)	875.2	813.8	-61.4	7.0
Central bank assets				
Foreign assets (including gold)	3,752.7	3,455.1	-297.6	-7.9
Claims on deposit money banks	67.1	94.9	27.8	41.5
Claims on the government	1.6	0.2	-1.4	-89.7
Claims on government agencies and institutions	417.7	414.7	-3.0	-0.7
Fixed and other assets	125.6	124.2	-1.4	-1.1
less:				
Central bank remaining liabilities				
Private sector deposits, of which:	1,491.0	1,435.7	55.3	-3.7
Time deposits commercial banks	1,236.7	1,264.5	27.8	2.2
Government deposits	561.4	500.2	-61.1	-10.9
Foreign liabilities	397.6	428.5	31.0	7.8
Other liabilities	219.6	103.6	-116.1	-52.8
Capital and reserves	819.9	807.2	-12.7	-1.5

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

	2014-IV		2015-I		2015-II	
	Amount	%	Amount	%	Amount	%
Money supply (M2)	28.6	0.4	127.3	1.6	27.1	0.3
Money (M1)	32.6	0.9	83.4	2.3	-53.4	-1.4
Coins & notes with the public	31.7	9.9	-12.3	-3.5	6.6	1.9
Total demand deposits, of which:	0.9	0.0	95.8	2.9	-59.9	-1.8
Netherlands Antillean guilders	-26.7	-1.1	62.8	2.6	-55.6	-2.3
Foreign currency	27.6	3.2	33.0	3.7	-4.3	-0.5
Near money	-4.0	-0.1	43.9	1.1	80.5	1.9
Time deposits	-10.3	-0.5	8.8	0.4	73.2	3.4
Savings	6.3	0.3	35.1	1.8	7.3	0.4

Table 16 Monetary survey (in millions NAf.)

	2014-II	2014-III	2014-IV	2015-I	2015-II
Money supply (M2)	7,702.4	7,757.3	7,785.9	7,913.2	7,940.3
Money (M1)	3,631.7	3,611.8	3,644.4	3,727.9	3,674.5
Coins & notes with the public	332.2	319.6	351.3	338.9	345.5
Total demand deposits, of which:	3,299.5	3,292.3	3,293.2	3,388.9	3,329.0
Netherlands Antillean guilders	2,383.7	2,434.8	2,408.1	2,470.9	2,415.3
Foreign currency	915.8	857.4	885.1	918.1	913.7
Near money	4,070.7	4,145.4	4,141.5	4,185.4	4,265.8
Time deposits	2,076.5	2,150.0	2,139.7	2,148.5	2,221.6
Savings	1,994.3	1,995.5	2,001.8	2,036.9	2,044.2
Factors affecting the money supply	7,702.4	7,757.3	7,785.9	7,913.2	7,940.3
Net domestic assets	3,523.8	3,653.4	3,744.2	3,520.1	3,711.5
Government sector	-630.5	-480.8	-428.8	-761.0	-658.2
Former central government	-79.1	-74.1	-77.4	-69.0	-73.1
Curacao	-410.3	-285.5	-253.6	-564.0	-495.6
Sint Maarten	-141.0	-121.2	-97.9	-127.9	-89.4
Private sector	6,258.4	6,131.7	6,148.3	6,200.2	6,160.6
Memorandum items	-2,104.2	-1,997.4	-1,975.2	-1,919.1	-1,790.9
Net foreign assets	4,178.6	4,103.9	4,041.6	4,393.1	4,228.8
Central bank	2,901.3	2,917.2	2,921.1	3,278.1	3,056.7
Commercial banks	1,152.0	1,061.3	995.3	989.7	1,154.2

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

	2014-II	2014-III	2014-IV	2015-I	2015-II
Government loans by commercial banks	0.1	0.1	0.0	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	0.0	0.0	0.0
Private sector loans Curaçao	4,156.6	4,086.1	4,034.9	4,035.4	4,050.1
Mortgages	1,849.2	1,861.3	1,870.5	1,849.1	1,869.0
Consumer loans	893.4	880.0	881.4	870.4	875.8
Business loans	1,414.1	1,344.7	1,283.0	1,315.8	1,305.3
Private sector loans Sint Maarten	1,410.6	1,405.9	1,422.7	1,419.7	1,390.2
Mortgages	656.8	658.2	662.5	666.5	656.8
Consumer loans	314.1	307.3	302.9	296.5	296.1
Business loans	439.7	440.4	457.3	456.7	437.3

Table 17 Developments in domestic interest rates (in percentage)

	2014-II	2014-III	2014-IV	2015-I	2015-II
Central bank					
Pledging rate	1.0	1.0	1.0	1.0	1.0
Maximum CD rate (1 month)	0.12	0.20	0.20	0.25	0.29
Commercial bank borrowing rates					
Passbook savings	1.2	1.2	1.2	1.2	1.2
Time deposits (12-month)	1.7	2.0	1.8	1.9	2.1
Commercial bank lending rates					
Mortgages	6.5	6.6	6.7	6.6	6.7
Time loans	7.5	7.6	6.8	6.5	7.2
Government securities					
Government bonds (5-year effective yield)	0.53	0.28	0.13	-0.04	0.10
Treasury bills (12-month)	0.08	0.04	0.02	-0.19	-0.22

V COMMERCIAL BANKING SECTOR DEVELOPMENTS*

BALANCE SHEET AND INCOME STATEMENT

The total assets of the commercial banks decreased by 3.1% at the end of the second quarter of 2015 compared to the second quarter of 2014, reaching NAf.15.8 billion. The contraction of the aggregate balance sheet of the commercial banks resulted primarily from a decrease in currency and deposits (-10.0%), of which noninterest-bearing cash (-23.0%) was the main contributor. A decrease in loans to nonfinancial corporations (-1.5%) was the primary cause of the decline in loans (-0.3%), offset in part by the expansion in other loans (29.9%) in particular. The decline in investments (-3.1%) was caused primarily by a drop in debt securities (-4.0%). The contraction in the mentioned balance sheet items was mitigated primarily by an expansion in other assets (35.2%). (See Table 18 in Appendix III for more details.)

The total debt of the commercial banks declined by 3.2% from the second quarter of 2014 to the second quarter of 2015, with a decrease in currency and deposits (-4.6%) exceeding increases in total borrowings (37.5%) and other liabilities (33.0%). The

decrease in currency and deposits can be attributed to a decrease in both demand (-11.7%) and time deposits (-15.5%), while savings deposits expanded (21.8%). 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 2.4% with the capital base (-3.0%) the main contributor to this drop.

The commercial banks reported a total gross income (i.e., net interest income plus noninterest income) of NAf.459.8 million in the second quarter of 2015, a decrease of 2.5% compared to the second quarter of 2014. A drop in interest income (-3.3%) was the main contributor to the decline in gross income. However, net income before extraordinary items and taxes increased by 1.6% because of decreases in both noninterest expenses (-3.1%) and provisions (-10.8%). The decline in noninterest expenses can be explained primarily by a decrease in salaries & other employee expenses (-5.4%). Last, extraordinary items decreased from NAf.43.4 million in the second quarter of 2014 to NAf.-11.3 million in the second quarter of 2015, while dividends payable remained stable. As a result, retained earnings totaled NAf.53.7 million in the second quarter of 2015, a 50.3% decrease compared to the second quarter of 2014. (More details are provided in Table 19 in Appendix III.)

** 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.*

FINANCIAL SOUNDNESS INDICATORS

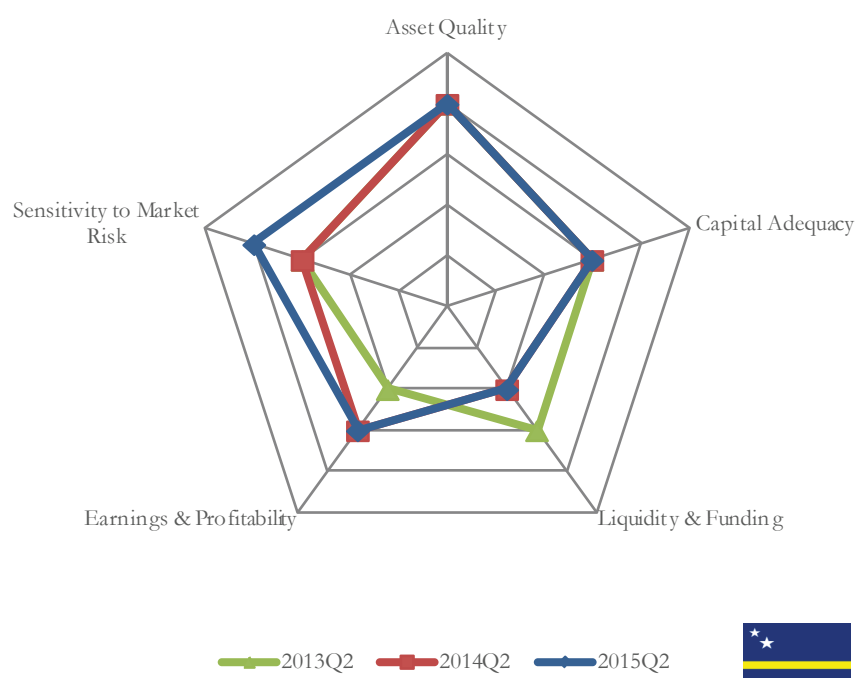
The Bank uses financial soundness indicators (FSIs) to support macroprudential analysis, which assesses the strengths and vulnerabilities of the banking sector. This monitoring task is part of the Bank's continuing efforts to proactively undertake preemptive measures to structurally enhance the resilience 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 sensitivity to market risk increased in the second quarter of 2015 compared to 2014's second quarter, while capital adequacy, asset quality, earnings & profitability, and liquidity & funding remained stable.

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

Graph 3 Financial stability cobweb of commercial banking sector



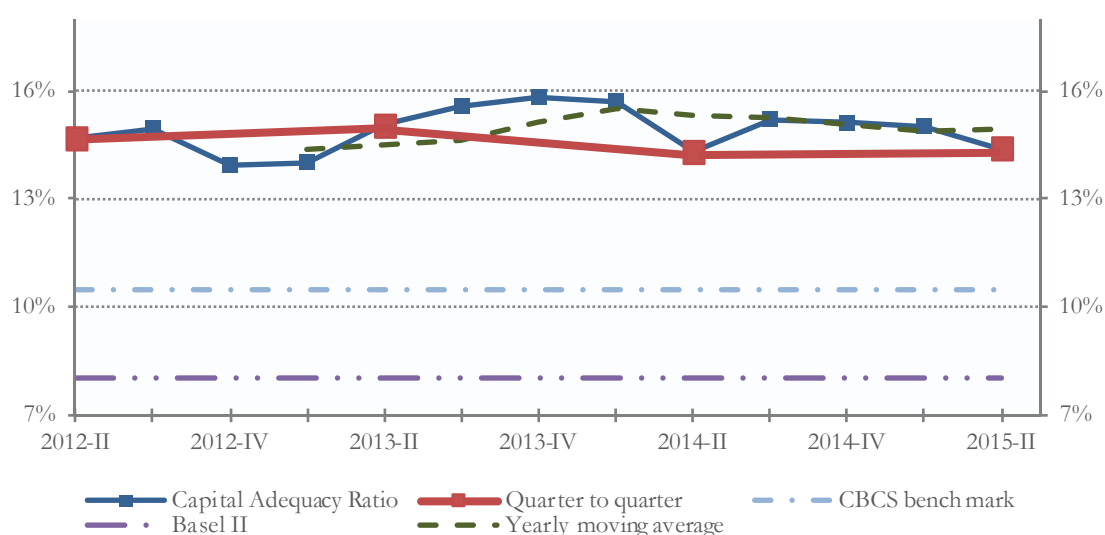
ment, and financial soundness indicators¹¹ (see Tables 18 - 20 in Appendix III.) As can be seen from Table 20, more than half of the indicators underperformed the four-year average.

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 14.4% at the end of the second quarter of 2015, an increase of 10 basis points compared to the second quarter of 2014. The capital adequacy ratio remained close to the four-

year average, indicating a 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). However, this development should be acknowledged with some reservation, as the NPL¹² (net of provisions) to capital ratio remained above the 4-year average of 44%. This level reflects a significant exposure of the banks' capital to credit risk and underscores the importance of banks increasing their capacity to withstand losses from nonperforming loans. The Bank monitors this development closely since it indicates vulnerabilities in the capital adequacy arising from credit risk. Overall, the risk in capital adequacy remained stable in the second quarter of 2015 compared to the previous years.

Graph 4 Trend analysis of the capital adequacy ratio



¹¹ 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.

¹² Nonperforming loans

ASSET QUALITY

The banks' exposure to credit risk is, among other things, reflected in the NPL to total gross loans ratio. This ratio increased from 11.4% at the end of the second quarter of 2014 to 12.1% at the end of the second quarter of 2015, indicating a deterioration of the asset quality in the loan portfolio of the commercial banks and a discontinuation of the declining trend of the last four quarters. However, the provisions to NPL ratio of the banks increased by 3.3 percentage points, reaching 38% at the end of the second 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. The share of foreign currency loans in gross loans remained stable at 45% at the end of the second quarter of 2015. However, the ratio of foreign currency-denominated liabilities to total liabilities decreased by 3.6 percentage points to 54% at the end of the second quarter of 2015, underscoring an improvement in the banks' exposure to foreign currency. Last, the large exposures of loans, leases, and advances to capital ratio decreased from 344% at the end of the second quarter of 2014 to 281% at the end of the second quarter of 2015. This decline is a positive development as a high ratio indicates vulnerabilities arising from concentration risk. In conclusion, the risk in asset quality remained stable in the second quarter of 2015 compared to the previous years.

EARNINGS & PROFITABILITY

The efficiency of the banking sector in using its assets deteriorated slightly during the quarter under review, with the return on assets ratio reaching 1.3% at the end of the second quarter of 2015, 20 basis points lower than in the second quarter of 2014. The return on equity ratio followed a similar trend, decreasing by 1.9 percentage points to 13.9% at the end of the second quarter of 2015. The spread between lending and deposit rates declined slightly by 10 basis points to 6.2% at the end of the second quarter of 2015. This development can be explained by a continued downward trend in the lending rate outweighing the slight increase in the funding rate. Both the spread and asset quality will put pressure on the banks' earnings capacity in the future. With respect to efficiency, the ratio of personnel expenses to noninterest expenses decreased by 1.3 percentage points to 54% at the end of the second 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 70% at the end of the second quarter of 2015. The 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 2.1 percentage points to 64% at the end of the second 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 remained stable in the second quarter of 2015 compared to 2014, but increased compared to 2013.

LIQUIDITY & FUNDING

The ample liquidity of the banking sector showed a slight decrease in the second 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 second quarter of 2014 to 31% at the end of the second 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 80 basis points to 40% at the end of the second 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 7.1 percentage points to 143% at the end of the second 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, and its long-term trend point 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 second quarter of 2015 compared to 2014, but improved compared to 2013.

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 30 basis points. The mismatch between foreign currency asset and liability positions at the commercial banks deteriorated, with the net open position in foreign exchange to capital ratio increasing from 55% at the end of the second quarter in 2014 to 61% at the end of the second quarter of 2015. This development indicates an increase in the banks' sensitivity to market risk, augmenting their exposure to exchange rate risk. Furthermore, the total foreign exposure relative to the banks' capital position (i.e., the net foreign assets to total capital ratio) increased by 13.8 percentage points, putting pressure on the banks' ability to withstand shocks from foreign markets environment. Therefore, the sensitivity to market risk increased in 2015 compared to the previous years.

APPENDIX III

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

		2014-II	2014-III	2014-IV	2015-I	2015-II
	Assets					
I	Nonfinancial assets	417.0	400.4	395.7	390.1	382.8
II	Financial assets (III through VII)	15,847.5	15,964.1	14,919.5	15,189.9	15,378.3
III	Currency and deposits	5,158.4	5,440.3	4,262.9	4,523.5	4,640.1
	(i) Non-interest-bearing cash	2,303.0	2,666.9	1,645.3	1,785.4	1,774.2
	(ii) Interest-bearing cash	2,855.4	2,773.5	2,617.6	2,738.0	2,865.9
IV	Loans	8,888.3	8,861.0	8,901.0	8,859.8	8,859.5
	(i) Interbank loans	0.0	0.0	0.0	1.4	0.8
	(ii) Central bank	-	-	-	-	-
	(iii) General government	0.1	0.1	0.0	0.0	0.0
	(iv) Agencies and institutions	62.1	67.0	85.2	82.0	76.1
	(v) Other financial corporations	15.9	15.3	15.5	15.3	15.3
	(vi) Nonfinancial corporations	4,861.0	4,838.0	4,783.5	4,802.8	4,788.1
	(vii) Households	3,732.8	3,739.5	3,736.6	3,681.6	3,698.1
	(viii) Other	216.4	201.2	280.2	276.6	281.1
V	Investments	1,394.9	1,281.9	1,315.2	1,310.7	1,351.5
	(i) Debt securities	964.5	949.5	959.4	948.7	926.3
	(ii) Shares and other equity	430.3	332.4	355.8	362.1	425.2
VI	Investments in unconsolidated subsidiaries and affiliates	117.9	83.2	149.5	181.8	137.9
VII	Other assets	288.0	297.6	291.0	314.1	389.4
VIII	Total assets (= I + II)	16,264.5	16,364.5	15,315.2	15,580.1	15,761.2

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

		2014-II	2014-III	2014-IV	2015-I	2015-II
	Liabilities					
IX	Currency and deposits	14,006.9	14,102.6	13,040.9	13,186.1	13,360.9
	(i) Demand deposits	7,466.8	7,608.7	6,374.3	6,455.9	6,595.6
	(ii) Savings deposits	3,325.1	3,950.8	3,966.4	4,002.6	4,048.6
	(iii) Time deposits	3,215.1	2,543.1	2,700.1	2,727.6	2,716.7
X	Total borrowings	85.0	43.4	56.4	108.6	116.9
XI	Other liabilities	458.3	502.5	553.0	614.0	609.6
XII	Total debt (=IX + X + XI)	14,550.1	14,648.5	13,650.3	13,908.8	14,087.3
XIII	Capital and reserves	1,714.3	1,716.0	1,664.9	1,671.2	1,673.8
	(i) Capital	1,411.5	1,398.0	1,347.4	1,351.3	1,369.5
	(ii) Minority interest	12.8	13.6	11.4	12.4	12.1
	(iii) Subordinated debentures	-	-	-	-	-
	(iv) General provisions	290.0	304.3	306.1	307.5	292.2
XIV	Total liabilities and capital (= XII + XIII)	16,264.5	16,364.5	15,315.2	15,580.1	15,761.2

Table19 Aggregate income statement of the commercial banks
(cumulative quarterly amounts; in millions Naf.)

		2014-II	2014-III	2014-IV	2015-I	2015-II
I	Interest income	368.7	556.8	677.2	180.2	356.4
II	Interest expense	58.5	88.2	109.4	31.8	63.3
III	Net interest income (=I minus II)	310.2	468.6	567.8	148.5	293.1
IV	Noninterest income	161.2	252.2	325.3	88.3	166.7
V	Gross income (= III + IV)	471.4	720.8	893.1	236.8	459.8
VI	Noninterest expenses	330.5	500.6	621.0	162.4	320.2
	(i) Salaries & other employee expenses	181.7	280.0	360.9	85.8	171.9
	(ii) Occupancy expenses	49.8	71.7	90.9	24.9	484.4
	(iii) Other operating expenses	99.1	148.9	169.2	51.7	99.9
VII	Provisions	28.1	37.5	61.8	8.8	25.0
VIII	Net income (before extraordinary items and taxes) (=V minus (VI+ VII))	112.8	182.8	210.3	65.7	114.5
IX	Extraordinary items	43.4	8.9	15.7	-9.1	-11.3
X	Income tax	23.6	32.2	33.4	12.6	25.1
XI	Net income after tax (= VIII minus (IX + X))	132.6	159.6	192.6	43.9	78.1
XII	Dividends payable	24.5	42.8	67.3	6.1	24.5
XIII	Retained earnings (= XI minus XII)	108.1	116.7	125.3	37.8	53.7

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

	2014-II	2014-III	2014-IV	2015-I	2015-II	4-Yr Avg.*
Capital adequacy						
Capital adequacy ratio	14.3%	15.2%	15.1%	15.0%	14.4%	14.6%
Core capital adequacy ratio	12.6%	13.5%	12.8%	13.2%	13.0%	13.0%
Capital to assets	9.2%	9.5%	9.6%	9.7%	9.7%	10.1%
NPL net of provisions to capital	46%	45%	40%	39%	46%	44%
Asset quality						
NPL to total gross loans	11.4%	11.5%	11.0%	10.6%	12.1%	11.0%
Provisions to NPL	35%	34%	39%	40%	38%	32%
Foreign currency-denominated loans to total loans	45%	45%	46%	45%	45%	46%
Foreign currency-denominated liabilities to total liabilities	58%	57%	54%	54%	54%	54%
Large exposures to capital	344%	329%	251%	265%	281%	286%
Earnings & profitability						
Return on assets	1.5%	1.7%	1.3%	1.3%	1.3%	1.6%
Return on equity	15.8%	17.5%	13.3%	14.1%	13.9%	15.5%
Interest margin to gross income	66%	65%	64%	63%	64%	66%
Noninterest expenses** to gross income	70%	69%	70%	68%	70%	67%
Personnel expenses to noninterest expenses**	55%	56%	58%	53%	54%	56%
Spread between lending and deposit rates	6.3%	6.4%	6.0%	6.2%	6.2%	6.5%

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

	2014-II	2014-III	2014-IV	2015-I	2015-II	4-Yr Avg.*
Liquidity & funding						
Liquid assets to total assets	32%	34%	27%	30%	31%	28%
Liquid assets to short-term liabilities	41%	44%	39%	39%	40%	37%
Total deposits to total loans	150%	152%	140%	142%	143%	144%
Sensitivity to market risk						
Net interest margin	4.9%	4.8%	4.7%	4.7%	4.6%	4.8%
Net open position in foreign exchange to capital	55%	52%	51%	52%	61%	75%
Net foreign assets to total capital	85%	78%	74%	85%	99%	89%

* 4-year quarterly average

** Noninterest expenses = operational expenses

Performed better than the 4-year quarterly average

Performed worse than the 4-year quarterly average

