

# QUARTERLY BULLETIN

2016 - I

CENTRALE BANK VAN CURAÇAO EN  
SINT MAARTEN





# Centrale Bank van Curaçao en Sint Maarten

## QUARTERLY BULLETIN 2016-I

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# I REPORT OF THE PRESIDENT

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The global economy showed some signs of stabilization during the first quarter of 2016. Growth moderated in several advanced economies, including the United States and the Netherlands, while it remained weak in the emerging and developing economies. Meanwhile, inflationary pressures remained low due primarily to declining international oil prices amid concerns about the global economy and excess supply.

Against this background, the developments in the monetary union were uneven during the first quarter of 2016, as Curaçao recorded a real GDP contraction of 0.2% while the economy of Sint Maarten expanded in real terms by 0.4%. Meanwhile, the decline in international oil prices dampened inflationary pressures in both countries. During the January–March period of 2016, Curaçao registered zero inflation, whereas in Sint Maarten inflation turned negative resulting in an average drop in consumer prices by 0.9%.

The economic contraction in Curaçao was caused by a decline in net foreign demand, mitigated by an increase in domestic demand. Net foreign demand dropped as the decline in exports surpassed the lower imports. Meanwhile, the increase in domestic demand was the result of a growth in private spending supported by a rise in both consumption and investment. By contrast, public demand was down due to a decline

in government consumption resulting from lower disbursements on goods & services and wages & salaries. Public investment rose, however, reflecting mainly the ongoing construction of the hospital and renovation of the road infrastructure of Curaçao.

An analysis by sector reveals that the manufacturing, restaurants & hotels, and financial intermediation sectors were primarily accountable for the contraction in private sector activities during the first quarter of 2016. In the manufacturing sector, output contracted as a result of lower refining and trading activities by the Isla refinery. Meanwhile, the disappointing performance of the restaurants & hotels sector reflected a decline in the number of visitor nights, despite an overall increase in the number of stay-over tourists. In addition, the number of cruise visitors dropped, in line with the decline in the number of cruise calls. The contraction in the financial intermediation sector was the result of a decline in real value added in both the domestic and international financial services industries.

Activities contracted in the wholesale & retail trade sector as well, the result of fewer activities at the free zone and lower tourism spending, mitigated by an increase in consumer spending. Furthermore, the transport, storage, & communication sector posted negative results due to a sharp decline in passenger transportation ser-

vices provided by the domestic airlines to abroad. By contrast, airport-related activities rose, as reflected by an increase in total passenger traffic and in the number of commercial landings. The harbor also recorded positive growth figures supported by more cargo movements and oil storage activities but dampened by a decline in the number of ships piloted into the port.

Activities in the utilities and construction sectors developed positively. Following a contraction in the first quarter of 2015, real value added in the utilities sector expanded in the first quarter of 2016 because the production of both water and electricity rose. Meanwhile, the growth in the construction sector was driven by the rise in private and public investments.

In Sint Maarten, real GDP growth slowed down in the first quarter of 2016 compared to the first quarter of 2015 as a result of a decline in domestic demand that mitigated the rise in net foreign demand. The increase in net foreign demand was attributable to a decline in imports combined with higher exports. The negative contribution of domestic demand to real GDP growth was caused by declines in both private and public demand. The decline in private demand reflected a drop in consumption, mitigated by a growth in investments. Meanwhile, public demand shrank due to lower investments by the government, moderated by an increase in public consumption.

The restaurants & hotels, manufacturing, construction, and real estate, renting, & business services sectors were the main drivers of 2016's first quarter expansion in Sint Maarten. Growth in the restaurants & hotels sector was sustained by more stay-over visitors, mitigated by a decline in the

number of cruise tourists. The buoyant performance of stay-over tourism also contributed to an increase of the activities in the real estate, renting, & business services sector. Following a contraction in the first quarter of 2015, real value added in the manufacturing sector expanded in the first quarter of 2016 because of an increase in yacht repairs reflecting a better than average yachting season. Meanwhile, growth in the construction sector was attributable to more private investment activities, as public investment dropped.

Growth was less pronounced in the transport, storage, & communication sector compared to 2015, reflecting an increase in airport-related activities mitigated by a decline in harbor activities. Airport-related activities rose in line with the growth in the number of stay-over visitors, while the decline in harbor activities was attributable primarily to a sharp drop in the number of cruise ships that visited Sint Maarten during the first quarter of 2016. In the utilities sector also, output grew at a slower pace due to weakened electricity and water demand.

By contrast, the wholesale & retail trade and financial intermediation sectors put a drag on Sint Maarten's first quarter growth. Activities contracted in the wholesale & retail trade sector as the increase in stay-over tourist spending did not compensate for the decline in domestic spending. Meanwhile, the negative outcome in the financial intermediation sector reflected a decline in net interest income of the domestic commercial banks in Sint Maarten

On the fiscal front, the government of Curaçao recorded a budget surplus of NAf.85.1 million in the first quarter of 2016, down from the NAf.132.9 million



surplus registered in the first quarter of 2015. The lower surplus was the result of a decline in government revenues in the first quarter of 2016 mitigated by a drop in government expenditures. The windfall in earnings related to the tax arrangement of the Kingdom (BRK) in 2015 did not occur again in 2016's first quarter, resulting in lower nontax revenues for the quarter. Moreover, tax revenues dropped because of lower proceeds from taxes on income and profit, mitigated by an increase in sales tax earnings. Meanwhile, government expenditures dropped as a result of a decline in interest payments, less transfers & subsidies, and fewer disbursements on wages & salaries.

In Sint Maarten, the budget surplus of the government dropped by NAf.13.1 million to reach NAf.25.1 million in the first quarter of 2016 compared to the first quarter of 2015, owing to lower revenues combined with higher expenditures. The increase in government expenditures was driven by more spending on goods & services and other expenditures. Fewer tax proceeds, in particular from the turnover tax and profit tax, combined with a drop in revenues from business licenses, work permits, and construction permits led to the overall decline in government revenues.

According to preliminary data and estimates of the Bank, the surplus on the current account of the balance of payments dropped slightly during the first quarter of 2016 compared to the first quarter of 2015. Meanwhile, gross official reserves rose, albeit at a slower pace than a year earlier.

The lower current account surplus was caused by a decline in the net export of goods and services combined with a wors-

ening of the income and current transfers balances. The decline in the net export of goods and services was ascribable to a drop in exports, mitigated by lower imports. Imports shrank mainly because of a decline in merchandise imports by the wholesale & retail trade sector in Sint Maarten combined with lower oil imports in Curaçao. Meanwhile, the disappointing export performance was reflected by lower revenues from bunkering activities and air transportation services provided to abroad. Furthermore, the refining fee earned by the Isla refinery dropped due to less refining and trading activities. The contraction in exports was moderated by an increase in foreign exchange earnings from tourism activities owing entirely to the rise in stay-over tourism in Sint Maarten during the first quarter of 2016. By contrast, earnings from stay-over tourism in Curaçao dropped mainly as a result of a sharp decline in the number of visitors from Venezuela who tend to spend more on average than the visitors from other markets. Furthermore, cruise tourism earnings shrank in both Curaçao and Sint Maarten. The income balance deteriorated during the January–March period of 2016 as a result of a decline in interest income earned on portfolio investments, moderated by a rise in labor income received from abroad and less interest paid to foreign investors. Meanwhile, the deficit on the current transfers balance widened due to an increase in current transfers paid to abroad.

The monetary aggregates expanded during the first quarter of 2016 sustained by an increase in net foreign assets while net domestic assets declined. Net foreign assets increased largely because of inflows related to principal and interest payments

by the Dutch State Treasury Agency on debt securities taken over under the debt relief program and the higher value of the Bank's gold stock. Meanwhile, the decline in net domestic assets was ascribable to an increase of capital and reserves of the Bank as a result of the higher value of the Bank's gold stock and an increase in the deposits of the government of Curaçao at the Bank.

Meanwhile, the loan component of net credit extension to the private sector remained practically unchanged. An analysis by country shows that private credit extension in Curaçao rose during the first quarter of 2016 due to an increase in mortgages extended, mitigated by a decline in business and consumer loans. By contrast, Sint Maarten recorded a contraction in private credit extension as the increase in mortgages extended was not sufficient to compensate for the declines in business and consumer loans.

The monetary policy stance of the Bank continued to be directed at tightening of the liquidity surplus in the money market during the first quarter of 2016. Hence, the Bank offered more Certificates of Deposit (CDs) during the bi-weekly auctions, resulting in an increase in the amount of outstanding CDs. Meanwhile, the reserve requirement was kept unchanged at 18.00%. However, due to a policy change effective March 1, 2016, whereby commercial banks under the emergency measure are exonerated from the reserve requirement, the required reserves dropped during the first quarter of 2016.

For some years now, economic growth in Curaçao and Sint Maarten has been marginal and well below that of other countries in the Caribbean region. To a large

extent, our poor economic performance can be ascribed to domestic imbalances and rigidities, which also increase the impact of external shocks on the economies of Curaçao and Sint Maarten.

As small and open economies, Curaçao and Sint Maarten are very susceptible to external shocks. The slow pace of economic recovery in Europe, particularly the Netherlands, combined with the economic headwinds in Venezuela have affected our export performance and, hence, dampened economic growth. As indicated by the IMF in its latest Article IV consultation of Curaçao and Sint Maarten, both countries need to implement structural measures to improve the business climate and attract more foreign investments to achieve a higher pace of growth. In addition, to reduce our external vulnerabilities, these measures should be complemented by policies directed at a diversification of our economies and the development of new export markets.

J.M. Hasselmeyer

President a.i.



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## II INTERNATIONAL ECONOMIC DEVELOPMENTS

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### THE UNITED STATES

*Following an expansion of 2.9% in the first quarter of 2015, the U.S. economy grew in real terms by 2.0% during the first quarter of 2016 (see Table 1). The real GDP expansion during 2016's first quarter was attributable to an increase in domestic demand, while net foreign demand remained unchanged.*

of residential buildings. In addition, public demand went up because of higher current expenditures by the state, local, and federal governments. Contrary to domestic demand, net foreign demand did not contribute to real output growth because the increase in exports was offset by the rise in imports.

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

	2015-I	2016-I
Real GDP (% change)	2.9	2.0
Consumer prices (%)	-0.1	1.1
Unemployment rate (%)	5.6	4.9

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

Both the private and public sectors contributed to the increase in domestic demand in the first quarter of 2016. Private demand went up because of increases in consumer spending and investments, with the former accounting for more than two-thirds of U.S. economic activity. The rise in consumptive expenditures during the first quarter of 2016 reflected more spending on goods, particularly durable goods, and services such as transportation and recreation, supported by higher personal disposable income. Private investments increased mainly as a result of fixed investments, particularly the construction

From a sectoral perspective, the growth in private sector activities stemmed primarily from increased activities in the professional & business services, retail trade, and real estate, rental, & leasing sectors. The U.S. inflation rate increased to 1.1% during the first quarter of 2016, a turnaround compared to the deflation of 0.1% in 2015's first quarter. The increased inflation was attributable mainly to gains in the prices of food and services mitigated by a drop in energy prices. The drop in energy prices was due largely to the lower international oil prices.

Furthermore, the U.S. labor market improved in the first quarter of 2016, reflected by a decline in the unemployment rate from 5.6% in the first quarter of 2015 to 4.9% in the first quarter of 2016. This improvement was ascribable mainly to job gains in the wholesale & retail trade and construction sectors. Furthermore, the Federal Reserve maintained its accommodative monetary policy stance leaving the fed funds rate unchanged between 0.25% and 0.50%.

## THE NETHERLANDS

*The Dutch economy grew by 1.5% during the first quarter of 2016, a slowdown compared to the 2.6% real GDP growth recorded in the first quarter of 2015 (see Table 2). The economic growth during the first quarter of 2016 was the result of an increase in domestic demand mitigated by a decline in net foreign demand as imports grew at a faster pace than exports.*

Real GDP expanded in the first quarter of 2016 on the back of stronger domestic demand. Private investment was the main driver of the increase in domestic demand because Dutch businesses spent significantly more on transport equipment, including trucks and trailers. Furthermore, companies spent more on computers and software while investments in residential

property rose. The growth in private investment was in line with the increase in business confidence that reached the highest level in four and a half years. Private consumption also rose during the first quarter of 2016 as consumers spent more in hotels and restaurants, on recreational and cultural activities, electric appliances, food products, and home furnishings. Furthermore, public demand increased slightly, driven primarily by public consumption.

Net foreign demand contributed negatively to real output growth as the increase in imports outpaced the rise in exports. The higher import bill was caused primarily by more imports of electrical machinery and oil derivatives. Meanwhile, exports of transport vehicles rose, mitigated by a decline in the export of natural gas, machinery, and equipment.

A sectoral analysis reveals that real GDP growth during 2016's first quarter was supported mainly by higher real value added created in the construction, manufacturing, and business service sectors, moderated by a contraction in the mining sector due to reduced extraction of natural gas.

Furthermore, inflationary pressures remained unchanged at 0.7% in the first quarter of 2016 compared to the first quarter of 2015. The unemployment rate fell to 6.8% in the March quarter of 2016

**Table 2 Economic indicators of the Netherlands**

	2015-I	2016-I
Real GDP (% change)	2.6	1.5
Consumer prices (%)	0.7	0.7
Unemployment rate* (%)	7.5	6.8

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

compared to 7.5% in the same quarter of 2015. The lower unemployment rate was the result of the improved economic conditions in the Netherlands.

## VENEZUELA

*Venezuela's economy has been characterized by instability since the beginning of 2014 and is facing its deepest recession since 2002. Real GDP is expected to contract between 6.5% and 8.0% in 2016, according to the forecasts of the International Monetary Fund (IMF) and Business Monitor International (BMI) (see Table 3). The economic deterioration can be attributed to lower domestic demand mitigated by a slight rise in net foreign demand.*

Venezuela's oil-dependent economy is in a severe crisis, caused mainly by economic negligence and the sharp decline in international oil prices. According to projections of the IMF and BMI, real output will contract further in 2016 due mainly to a decline in domestic demand. The fall in domestic demand is attributable to a decline in private spending combined with reduced public spending. Private spending is expected to drop because of fewer investments due to, among other things, the worsening business environment and the increasing scarcity of hard currency. Private consumption

will also drop as a result of the declining purchasing power caused by the higher inflationary pressures. Meanwhile, public demand will contract in real terms largely because of lower government revenues from oil exports constraining government spending. Because of Venezuela's high dependency on oil exports, the continued decline in oil prices will lower exports in 2016. Venezuela's imports are expected to contract at a faster pace than exports, mitigating the contraction in real output.

Furthermore, political uncertainties combined with the continued drop in international oil prices, the declining confidence in the bolívar, and the ongoing domestic shortages of goods have led to inflation projections between 236.3% and 481.5% in 2016, the highest in the world. As a result of the recession in Venezuela, the unemployment rate is estimated to rise to 17.4%, more than twice the estimate for 2015.<sup>1</sup>

<sup>1</sup> International Monetary Fund, *World Economic Outlook: Too Slow for Too Long*, Washington D.C., April 2016.

**Table 3 Economic indicators of Venezuela**

	2015	2016
Real GDP (% change)	-5.7 to -7.5	-6.5 to -8.0
Consumer prices (%)	121.7	236.3 to 481.5
Unemployment rate (%)	7.4	17.4

Sources: Banco Central de Venezuela, Centro de Estudios Latinoamericanos and El Nacional.

#### Box:

##### The economic impact of Brexit

On June 23, 2016, the United Kingdom (UK) held a referendum on whether the country should leave the European Union (EU), a decision known as “Brexit,” or remain a member of the EU. Those in favor of Brexit advocated that the EU has changed drastically over the last decades with respect to the scope and range of its bureaucracy, resulting in diminished British influence and power. Meanwhile, voters against Brexit reasoned that remaining in the EU would let the UK have real impact and security in the world, and that leaving would be costly for the UK economy. The poll outcome was approximately 52% in favor of Brexit, meaning that the UK will enter a long trajectory to materialize an official exit that will have global consequences in the years to come. According to several analyses, leaving the world’s most powerful trading bloc will have significant negative implications for the UK economy and negative economic spillovers to other EU member countries and the global economy, which in turn will affect growth in the Caribbean region, including Curaçao and Sint Maarten.

According to studies on the repercussions of Brexit, leaving the EU will have various effects on the UK economy. These anticipated effects range from a small positive impact--based on a rapid expansion of trade from new trade agreements and a boost in productivity from reduced EU regulations--to net negative effects because of tighter financial conditions, higher trading barriers, reduced business and consumer confidence, and labor mobility restrictions.<sup>1</sup> The expected impact of Brexit on the EU and the global economy depends mainly on the post-Brexit trading agreements with the EU, and the time it

takes to finalize these agreements. A long negotiating time will cause high uncertainties, especially for the trade and financial markets, which are the main risk factors that could hinder EU and global economic growth.

According to the April 2016 estimates of the International Monetary Fund (IMF), the UK economy was expected to expand by 1.9% and 2.2% in 2016 and 2017, respectively, while the world economy would grow by 3.2% and 3.5%, respectively. The economy in the Eurozone was estimated to grow in 2016 and 2017 by 1.5% and 1.6%, respectively. However, due to Brexit, the IMF has revised its economic forecasts downward by several percentage points. Output now is expected to expand by 1.7% and 1.3% in the UK in 2016 and 2017, respectively. In addition, global output is expected to grow between 2.9% and 3.1% in 2016 and between 2.8% and 3.4% in 2017 (which the IMF considers a global recession). Meanwhile, economic growth in the Eurozone has been marked up 0.1% in 2016 and marked down 0.2% in 2017. The IMF indicates that it is unlikely that any EU country will gain from Brexit and it predicts that the countries that could be affected most negatively are the Netherlands, Ireland, and Belgium because of their trade, investment, and financial linkages with the UK.<sup>2</sup>

For the English-speaking Caribbean region that has strong economic and trade linkages with the UK, Brexit poses a significant negative risk to growth in the tourism and trade sectors, and thereby economic expansion, particularly because many of these countries are already struggling with anemic growth. The impact on

<sup>1</sup> IMF Country Report 16/169, *United Kingdom, Selected Issues*, June 2016.

<sup>2</sup> Global Counsel 2015. *Brexit: the impact on the UK and the EU*.

### Box continued...

trade will depend on the type of agreement the UK will negotiate with the EU. If the current trade agreement between the UK and the EU is altered, the member countries of CARIFORUM<sup>3</sup> will no longer have structured trade relations with the UK through the Economic Partnership Agreement (EPA), and this situation will negatively affect trade in the region.<sup>4</sup> Furthermore, the pound Sterling depreciated vis-à-vis the US dollar a day following the Brexit decision. Given that the UK is an important market for Caribbean tourism,<sup>5</sup> the lower purchasing power of the UK visitors will negatively impact tourism in the region.

Similar to the English-speaking Caribbean, Brexit's impact on the economies of Curaçao and Sint Maarten is expected to be reflected in the trade and tourism sectors. However, Brexit is expected to have a limited direct impact on our economies because of our limited exposure to the UK economy. The share of total trade with the UK is 2.3% for Curaçao and 0.7% for Sint Maarten (see Figure 1).

However, depending on the degree of Brexit's impact on Europe, in particular on the Netherlands and France, and on the United States, the economies of Curaçao and Sint Maarten can be significantly affected indirectly. In terms of trade, the Netherlands is a major trading partner of Curaçao and, to a lesser extent, Sint Maarten, while the United States is Sint

Maarten's most important trading partner. In terms of tourism, the Netherlands and France comprise one of the most important markets of Curaçao and Sint Maarten, respectively. In addition, the United States is an important tourism market of Curaçao and the most important tourism market of Sint Maarten. Hence, slower or negative growth in the Netherlands, France, and the United States will have its repercussions for the pace of expansion in Curaçao and Sint Maarten.

However, the analysis of the impact on the UK, other EU, and Caribbean economies, including Curaçao and Sint Maarten, as well as the global economy needs to be interpreted with caution since Brexit has not yet materialized.

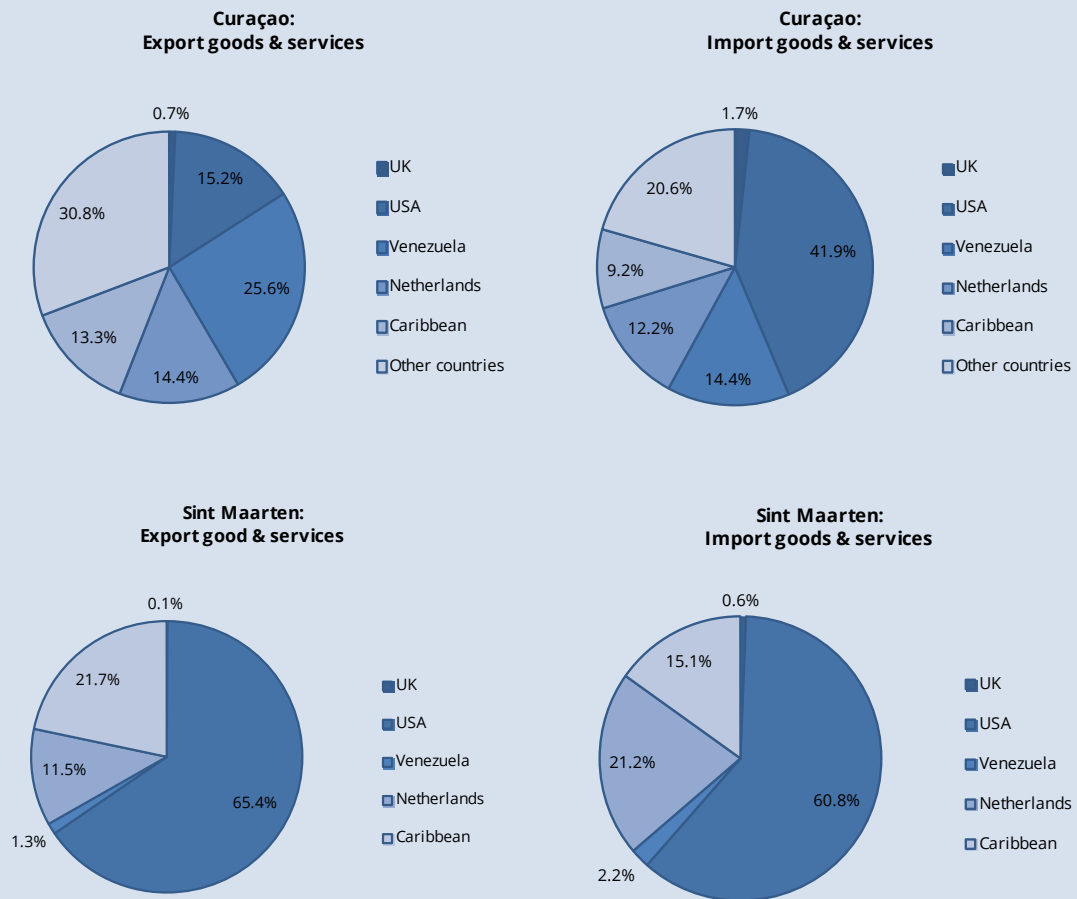
<sup>3</sup> CARICOM members are Antigua & Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname, and Trinidad & Tobago.

<sup>4</sup> The Economic Partnership Agreement between the EU and CARIFORUM, i.e., CARICOM and the Dominican Republic, is more than a trade agreement, and includes nontariff measures, customs and trade facilitation, innovation programs, and intellectual property rights.

<sup>5</sup> According to the Caribbean Tourism Organization (CTO), the number of UK visitors rose by 10.4%, or 1.1 million visitors in 2015.

Box continued...

Figure 1 Export and import of goods and services of Curaçao and Sint Maarten by market



Source: Centrale Bank van Curaçao en Sint Maarten  
Data is an average over the period 2013-2015.



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## III GENERAL ECONOMIC DEVELOPMENTS

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### GENERAL ECONOMIC DEVELOPMENTS IN CURAÇAO

*Following the 0.1% drop in the first quarter of 2015, Curaçao's real GDP contracted by 0.2% in the first quarter of 2016. The economic contraction in 2016's first quarter was ascribable to a decline in both public and net foreign spending, mitigated by an increase in private spending (see Table 4). Meanwhile, Curaçao*

*registered zero inflation because the drop in international oil prices was offset by a rise in domestic food prices.*

An analysis of the expenditure side of GDP suggests that the negative growth recorded in 2016's first quarter was caused by a decline in public and net foreign spending. Public spending declined because the fall in government consumption more than

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

	2015-I	2016-I
<b>Domestic expenditure, of which:</b>	<b>-0.7</b>	<b>0.1</b>
Private sector	-0.7	0.7
Investment	-0.5	0.4
Consumption	-0.2	0.3
Government sector	0.1	-0.6
Investment	0.1	0.4
Consumption	0.0	-1.0
Changes in inventory	-0.1	0.0
<b>Foreign net expenditure, of which:</b>	<b>0.6</b>	<b>-0.3</b>
Export of goods and services	-0.5	-1.1
Import of goods and services	-1.1	-0.8
<b>GDP</b>	<b>-0.1</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.*

offset the increase in investments. The fall in public consumption resulted from fewer outlays on goods and services and less spending on wages and salaries. Public investments increased as a result of, among other things, the construction activities at the new hospital and the upgrading of Curaçao's road infrastructure. The contribution of net foreign demand to GDP was negative because exports dropped at a faster pace than imports. Exports dropped primarily because of fewer refining and trading activities by the Isla refinery, fewer air transportation services provided to abroad, and less foreign exchange earnings from bunkering and tourism activities. At the same time, the import bill contracted because of lower international oil prices and a decrease in merchandise imports by the free-zone companies.

In contrast, private spending grew because of more consumption and investments. The growth in private consumption was reflected by an increase in sales tax revenues collected by the government and more merchandise imports by the wholesale & retail trade sector, excluding the free-zone companies. Private investment spending also rose because of the execution of various investment projects, including the upgrading of Curaçao's airport and some housing projects.

## DOMESTIC PRODUCTION

An analysis of the production side of GDP reveals that the economic contraction recorded in the three months ending March 2016 can be attributed particularly to the manufacturing, restaurants & hotels, and financial intermediation sectors (see Table 5).

Compared to the first quarter of 2015, activities in the manufacturing sector continued to drop in the first quarter of 2016 (-2.3%), reflecting mainly a decline in refining and trading activities by the Isla refinery.

Real output growth in the restaurants & hotels sector turned negative during 2016's first quarter (-2.3%) compared to 2015's first quarter because of a decline in the number of visitor nights (-6.8%). In contrast, the number of stay-over visitors was up (4.5%), driven by increases in the North American, European, and Caribbean markets. The North American market rose as a result of an increase in the number of visitors from Canada and the United States. The European market expanded as well, driven primarily by more visitors from the Netherlands, Germany, and Belgium. Furthermore, the Caribbean market grew as a result of more visitors from Aruba, the Dominican Republic, and Trinidad & Tobago. Similar to the previous three quarters, the South American market declined in the first quarter of 2016, due to a considerable drop in the number of Venezuelan and Brazilian visitors. The marked decline in the number of Venezuelan visitors explains the drop in stay-over nights registered during the first quarter of 2016. Despite the increase in the number of stay-over visitors, the hotel occupancy rate fell marginally from 77.0% in the first quarter of 2015 to 76.4% in the first quarter of 2016 because more visitors stayed in bungalows and nonregistered accommodations. Meanwhile, the number of cruise tourists dropped (-0.5%), in line with the decline in the number of cruise calls (-6.8%). (See Table 11 in Appendix I for more details on stay-over tourism development.)

The contribution of the financial intermediation sector to GDP was negative (-0.5%) during the first quarter of 2016 because of a decline in the domestic and international financial services industries. The decline in the domestic financial services industry was caused by decreases in both net interest income and other fees & income earned by the domestic commercial banks. Meanwhile, the contraction in the international financial services industry can be ascribed to a drop in wages & salaries and other operational expenses.

In the quarter ending March 2016, real value added in the wholesale & retail trade sector shrank (-0.3%) as a result of fewer activities at the free zone and less tourism spending, mitigated by an increase in consumer spending. The poor performance of the free zone was accompanied by fewer visitors, mostly from Venezuela and Trinidad.

Activities in the transport, storage, & communication sector also dropped in 2016's first quarter (-0.3%) due solely to a decline

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

	2015-I	2016-I
Agriculture, fishery, & mining	-6.1	3.1
Manufacturing	-1.2	-2.3
Electricity, gas, & water	-1.2	2.4
Construction	-1.2	3.1
Wholesale & retail trade	0.3	-0.3
Restaurants & hotels	4.8	-2.3
Transport, storage, & communication	-0.8	-0.3
Financial intermediation	-0.9	-0.5
Real estate, renting, & business activity	1.0	0.3
Other community, social, & personal services	5.0	0.5
Private households	0.2	0.0
<b>Total private sector</b>	<b>0.0</b>	<b>-0.1</b>
<b>Public sector</b>	<b>-0.3</b>	<b>-0.6</b>
<b>Taxes minus subsidies</b>	<b>0.2</b>	<b>0.5</b>
<b>GDP</b>	<b>-0.1</b>	<b>-0.2</b>

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

in air transportation services. The decline in air transportation services was reflected by a drop in passenger transportation services provided by the domestic airlines to abroad during the first quarter of 2016 compared to the first quarter of 2015. The negative development in air transportation services was dampened by a growth in airport-related activities, stemming from an increase in total passenger traffic and the number of commercial landings. Harbor activities increased because of more cargo movements and oil storage activities, mitigated by a drop in the number of ships piloted into the port of Curaçao.

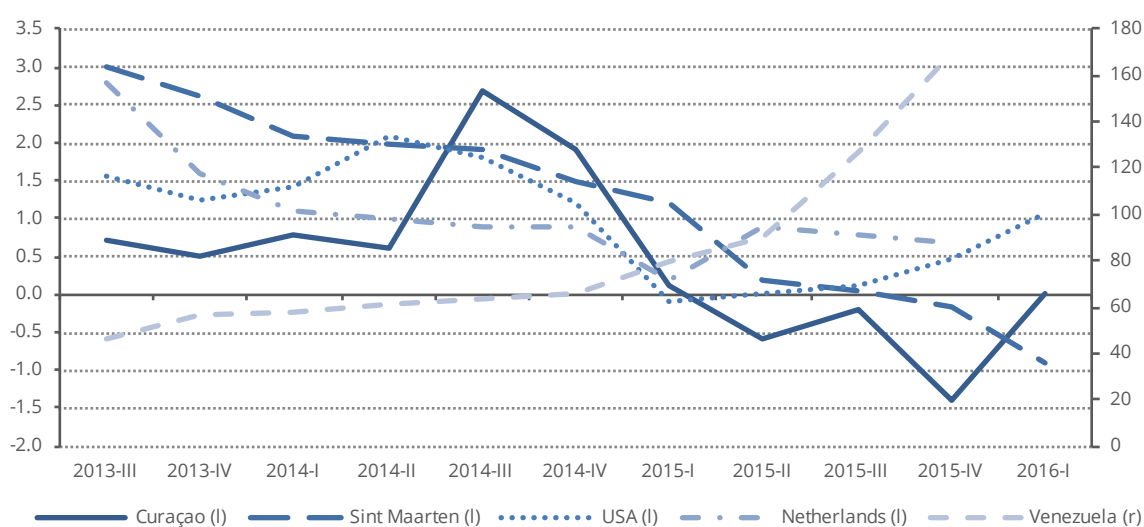
Contrary to the negative developments just discussed, the construction and utilities sectors contributed positively to GDP growth during the March quarter of 2016. The construction sector performed well (3.1%) because of increases in private and public investments. Output growth in the utilities sector (2.4%) was led by an increase in both electricity and water production.

## INFLATIONARY PRESSURES

*Curaçao registered zero inflation in the first quarter of 2016, down from an inflation rate of 0.1% in the first quarter of 2015. During the January-March period of 2016, Curaçao's price development was largely the result of the continued decline in international oil prices, mitigated by an increase in domestic food prices (see Graph 1).*

An analysis of the developments in the Consumer Price Inflation (CPI) components in Curaçao indicates that during the first quarter of 2016, average prices contracted in the categories "Transport & communication" (-2.5%), "Clothing & footwear" (-2.5%), "Housekeeping & furnishings" (-1.0%), and "Health" (-0.6%). Prices in the "Transport & communication" category continued to decline, stemming mainly from a drop in fuel prices. In contrast, consumer prices were up in the categories "Food" (2.2%), "Beverages & tobacco" (1.8%), and "Housing" (0.2%). In the "Food" category, inflationary pressures eased in 2016's first quarter compared to the first quarter of 2015 be-

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



cause the price increases in grain products, potatoes, vegetables, & fruit, and outdoor consumption were mitigated by the price declines in meat & fish and dairy products. After contracting in four consecutive quarters, average prices in the “Housing” category rose marginally because the decline in electricity prices was more than offset by the price gains in all other subcategories. (See Table 12A in Appendix I for more details.)

## GENERAL ECONOMIC DEVELOPMENTS IN SINT MAARTEN

*Real GDP growth in Sint Maarten decelerated in the first quarter of 2016 to 0.4%, a slowdown from the 1.6% growth recorded in the first quarter of 2015 (see Table 6). Net foreign demand was the sole contributor to Sint Maarten's modest economic expansion, as domestic demand contracted. Meanwhile, Sint Maarten recorded negative inflation in the March quarter of 2016 (-0.9%), primarily the result of the steep decline in international oil prices.*

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

	2015-I	2016-I
<b>Domestic expenditures, of which:</b>	<b>1.3</b>	<b>-1.2</b>
Private sector	0.8	-1.0
Investment	0.3	0.4
Consumption	0.5	-1.4
Government sector	0.5	-0.2
Investment	1.0	-0.7
Consumption	-0.6	0.5
Changes in inventory	-0.3	-0.2
<b>Foreign net expenditures, of which:</b>	<b>0.6</b>	<b>1.8</b>
Export of goods and services	-0.1	0.5
Import of goods and services	-0.7	-1.3
<b>GDP</b>	<b>1.6</b>	<b>0.4</b>

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

Both the private and public sectors contributed negatively to real GDP during the January–March period of 2016. Although private investments rose at a faster pace in the first quarter of 2016 than in the first quarter of 2015, mainly because of large construction projects in the Maho and Cupecoy areas, it was not enough to offset the contraction in private consumption. Public consumption increased as a result of a rise in outlays on goods & services, mitigated by a decrease in wages & salaries. However, public investments contracted. By contrast, net foreign demand was the main driver of GDP growth as exports rose while imports dropped. The gain in exports was attributable primarily to more activities in the tourism sector, notably stay-over tourism. The import bill shrank mainly as a result of lower international fuel prices.

## DOMESTIC PRODUCTION

At the sectoral level, Sint Maarten's economic growth during the first quarter of 2016 came solely from private sector activities, despite a significant contraction in cruise tourism. By contrast, the public sector put a drag on GDP growth as reflected by lower taxes on goods and services, in particular, the turnover tax, and a decline in wages & salaries.

The restaurants & hotels, construction, manufacturing, and real estate, renting, & business activities sectors were the main drivers of economic growth in the first quarter of 2016 (see Table 7).

Growth in the restaurants & hotels sector accelerated (5.8%) during the March quarter of 2016 due to more activities in the tourism sector, due in particular to an acceleration in stay-over tourism arrivals (11.7%). Stay-over tourism expand-

ed mainly because of more visitors from North America (10.6%) and Europe (23.8%). The North American market, which is Sint Maarten's main tourism market, experienced a positive turnaround in the first quarter of 2016 compared to the first quarter of 2015, while the European market grew at an accelerated pace. However, in contrast to the first quarter of 2015, the number of visitors from South America (-23.5%) and the Caribbean (-31.8%) contracted sharply in the first quarter of 2016, dampening the growth in stay-over tourism (see also Table 11 in Appendix I). Cruise tourism, by contrast, experienced a sharp, negative turnaround (-15.2%) during the March quarter of 2016 compared to the March quarter of 2015, because of, among other things, increased regional competition, such as the opening of a new cruise port in Tortola.

In the first quarter of 2016, growth in the real estate, renting, & business activities sector was more pronounced than in the first quarter of 2015 as the sector benefited from the increase in stay-over tourism.

Activities in the construction sector (1.3%) grew at a slightly faster pace in the first quarter of 2016, compared to the first quarter of 2015, due to more private investments such as, a residential project in the Maho area and the current renovation of the Centrale Bank van Curaçao en Sint Maarten building in Philipsburg. The development in the construction sector was consistent with the increase in imports of construction material, notably cement and gravel.

The manufacturing sector also contributed positively to real economic growth (3.0%) because of an increase in yacht repair activities as a result of a better than average



yachting season during the first quarter of 2016 compared to the first quarter of 2015.

Activities in the transport, storage, & communication sector (0.6%) expanded at a slower pace during the first quarter of 2016 than in the first quarter of 2015. The 2016 first quarter growth was due mainly to increased airport-related activities, mitigated by a decline in harbor activities. Airport-related and air transportation activities

rose in line with the increase in stay-over tourism. Despite a positive turnaround in the number of freighters and increased overall tonnage of tankers, harbor-related activities contracted, in line with the sharp decline in the number of cruise ships piloted into the harbor during the first quarter of 2016. In addition, container movements increased, albeit at a slower pace than during the first quarter of 2015.

Meanwhile, real value added in the utilities

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

	2015-I	2016-I
Agriculture, fishery, & mining	0.0	0.0
Manufacturing	-0.4	3.0
Electricity, gas, & water	0.3	0.1
Construction	1.0	1.3
Wholesale & retail trade	1.6	-0.8
Restaurants & hotels	4.6	5.8
Transport, storage, & communication	0.8	0.6
Financial intermediation	-1.4	-1.2
Real estate, renting, & business activities	0.9	1.5
Other community, social, & personal services	0.7	1.4
Private households	2.7	1.9
<b>Total private sector</b>	<b>0.9</b>	<b>0.8</b>
<b>Public sector</b>	<b>0.3</b>	<b>-0.1</b>
<b>Taxes minus subsidies</b>	<b>0.4</b>	<b>-0.3</b>
<b>GDP</b>	<b>1.6</b>	<b>0.4</b>

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

sector registered marginal growth (0.1%), in line with weakened electricity and water demand because of, among other things, notably fewer cruise vessels drawing less power and water.

Real value added in the wholesale & retail trade sector contracted (-0.8%) during the first quarter of 2016 compared to the first quarter of 2015 due to a decline in domestic spending and slower growth in tourism spending due to fewer cruise arrivals.

Finally, activities in the financial intermediation sector (-1.2%) also put a drag on Sint Maarten's real GDP growth in the March quarter of 2016 as interest income of the domestic commercial banks dropped at a faster pace than interest expenses.

## INFLATIONARY PRESSURES

*Price developments on an annual quarterly basis indicate that after an inflation rate of 1.2% in the first quarter of 2015, Sint Maarten recorded negative inflation of -0.9% in the first quarter of 2016. The deflationary pressures were influenced mainly by the steep decline in international oil prices.*

An analysis of development in the CPI components shows deflation in the categories "Transport & communication" (-5.0%), due mainly to the reduction in domestic gasoline prices, "Beverages & tobacco" (-0.3%), "Clothing & footwear" (-4.4%), "Housing" (-2.1%), and Recreation & education (-1.5%). The decrease in prices in the "Housing" category was attributable primarily to lower electricity prices. Meanwhile, inflationary pressures eased in the categories "Health" (0.9%), "Food" (6.3%), and "Housekeeping & furnishings" (1.8%). The deceleration in the category "Food" was related primarily to lower prices in the subcategories dairy

products and edible fats. (See Table 12B in Appendix I for more detail.)

## PUBLIC FINANCES

### PUBLIC FINANCES OF CURAÇAO

The government of Curaçao continued to reduce its overhead costs during the first quarter of 2016 through measures such as wage restraints to cut personnel costs. Nevertheless, the fiscal situation of Curaçao deteriorated in the first quarter of 2016 compared to the first quarter of 2015, as reflected by a decline in the current budget surplus. Furthermore, the debt-to-GDP ratio continued to increase, posing challenges to the country's long-term fiscal sustainability.

The government of Curaçao recorded a budget surplus of NAf.85.1 million in the March quarter of 2016, NAf.47.8 million lower than the surplus recorded in the March quarter of 2015. The fiscal deterioration was caused by a NAf.92.0 million drop in government revenues moderated by a NAf.44.2 million decline in government expenditures. The drop in revenues was attributable to both the nontax and tax revenues. Nontax revenues declined by NAf.73.1 million primarily because the windfall in dividend tax transfers by the Dutch tax authorities related to the BRK tax arrangement<sup>2</sup> in the first quarter of 2015 was not repeated in the first quarter of 2016. The drop in tax revenues of NAf.18.9 million was primarily the result of fewer proceeds from taxes on income and prof-

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<sup>2</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.)**

	2015-I	2016-I
<b>Monetary financing</b>	<b>-310.4</b>	<b>-41.6</b>
Central bank	-277.4	4.5
Commercial banks	-33.0	-46.1
<b>Nonmonetary financing</b>	<b>177.5</b>	<b>-43.5</b>
Government securities with nonbanks	245.5	-8.2
Other	-68.0	-35.3
<b>Cash balance</b>	<b>132.9</b>	<b>85.1</b>

its, particularly the wage tax. By contrast, sales tax revenues rose, in line with the increase in consumer spending. Meanwhile, government expenditures decreased due to fewer interest payments (NAf.10.9 million), less transfers & subsidies (NAf.26.8 million), and lower outlays on wages & salaries (NAf.4.5 million). Outlays on wages & salaries dropped mainly as a result of the measures implemented by the government in 2015, which included reducing the number of civil servants through early re-tirement and the costs related to overtime and bonuses. (See Tables 13A and 13B in Appendix I for a detailed overview.)

The government used part of its budget surplus in the first quarter of 2016 to lower its outstanding liabilities with nonbanks and other sectors. The remainder of the surplus led primarily to an increase in commercial bank deposits resulting in a monetary contraction of NAf.41.6 million (see Table 8).

### Public sector debt

The total outstanding debt of the Curaçao government increased to NAf.2.508 billion in the March quarter of 2016, NAf.12.8 million more than in the December 2015 quarter (see Table 13C in Appendix I). Curaçao's public debt rose primarily because of a rise in the domestic debt component (NAf.10.7 million), as the government increased its outstanding liabilities towards the social security bank, SVB, and the public pension fund, APC. However, the rise in liabilities towards these institutions was mitigated by a decline in other nonmonetary liabilities. Consequently, the debt-to-GDP ratio rose to 44.5%, well above the 40% benchmark that the IMF considers sound for a small open economy.

## PUBLIC FINANCES OF SINT MAARTEN

After some delays, the 2016 budget of the government of Sint Maarten was approved by Parliament in March 2016 and by the Board of Financial Supervision (CFT) in April 2016. As a consequence, the government remained cautious with respect to its disbursements on goods & services during the first quarter of 2016, which were kept below the budgeted amount. Since the country has complied with three of the four conditions set in the instruction it received from the Kingdom Council of Ministers in 2015, it once again has access to the capital market to finance its investments. However, the country still needs to take several corrective measures, that include reforming its pension and social insurance systems and improving its financial management.

Against this background, Sint Maarten's budget surplus dropped from NAf.38.2 million in the first quarter of 2015 to NAf.25.1 million in the first quarter of 2016. The lower surplus was attributable to a decline in government revenues (NAf.9.1 million)

combined with an increase in government expenditures (NAf.4.0). Revenues dropped mainly as a result of fewer tax earnings, particularly from the turnover tax (NAf.3.9 million) and the profit tax (NAf.4.3 million). The development in turnover tax proceeds is in line with the decline in domestic spending recorded during the first quarter of 2016. In addition, revenues from licenses and permit fees dropped (NAf.0.6 million), reflecting less earnings from business licenses, work permits, and construction licenses. Expenditures, on the other hand, increased because of more outlays on goods & services (NAf.1.9 million) and on other expenditures (NAf.2.2 million). (See Tables 13D and 13E in Appendix I for a detailed overview.)

In the March quarter of 2016, Sint Maarten's government used its budget surplus combined with its deposits at the central bank and the commercial banks to pay outstanding arrears towards its creditors. The drawdown of deposits caused a monetary expansion of NAf.10.6 million (see Table 9).

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

	2015-I	2016-I
<b>Monetary financing</b>	<b>-30.1</b>	<b>10.6</b>
Central bank	7.3	1.1
Commercial banks	-37.4	9.5
<b>Nonmonetary financing</b>	<b>-8.1</b>	<b>-35.7</b>
Government securities with nonbanks	0.0	0.0
Other	-8.1	-35.7
<b>Cash balance</b>	<b>38.2</b>	<b>25.1</b>

## Public sector debt

The total outstanding debt of the government of Sint Maarten shrank by NAf.0.8 million to NAf.692.1 million in the first quarter of 2016 due to a decline in the domestic debt component. The foreign debt component remained unchanged at NAf.501.3 million since the first quarter of 2015. Consequently, Sint Maarten recorded a lower debt-to-GDP ratio of 36.1% in the first quarter of 2016 compared to the 36.3% recorded in the fourth quarter of 2015. (See Table 13F in Appendix I for more details).

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

*Based on preliminary data and estimates of the Bank,<sup>3</sup> the current account of the balance of payments recorded a surplus of NAf.22.9 million during the first quarter of 2016, about the same as the surplus of NAf.23.4 million recorded in the first quarter of 2015. The development on the current account reflected a worsening of the services, income, and current transfers balances. In contrast, the trade balance improved as merchandise imports dropped at a faster pace than exports. Meanwhile, the gross official reserves of the monetary union rose by NAf.88.5 million (see Table 10).*

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

	2014-I	2015-I	2016-I
Current account	-157.4	23.4	22.9*
Change in gross reserves of the central bank**	-141.1	-290.9	-88.5
Foreign exchange	-172.3	-10.3	-179.3
held at foreign central banks	-12.0	-2.7	-105.5
held at foreign commercial banks	-160.3	-7.7	-73.8
Other claims	30.9	-280.6	90.8

\* Estimate of CBCS.

\*\* A minus sign implies an increase.

<sup>3</sup> 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**

In Curaçao, the net export of goods and services is estimated to have contracted during the first quarter of 2016 because the decline in exports surpassed the lower imports. The fall in imports stemmed primarily from a decline in oil imports, led by the lower international oil prices.

The disappointing export performance was the result of, among other things, lower foreign exchange earnings from bunkering activities reflecting reduced international fuel prices. In addition, the refining fee earned by the Isla refinery dropped because of a decline in refining and trading activities. Lower foreign exchange receipts from air transportation services and tourism activities also contributed to the export contraction. Foreign exchange earnings from tourism activities shrank on the back of lower receipts from both stay-over and cruise tourism. The development in stay-over tourism can be explained by a shift from Venezuelan tourists towards more visitors from other markets, particularly Europe. Venezuelan tourists tend to spend more on average than the other markets. Meanwhile, the decline in foreign exchange revenues from cruise tourism reflected a decline in the number of cruise visitors during the first quarter of 2016 compared to the first quarter of 2015.

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

Net foreign demand in Sint Maarten is estimated to have increased during the first quarter of 2016 driven by a decline in imports combined with higher exports. The export expansion reflected largely more foreign exchange earnings from stay-over

tourism, in line with the higher number of stay-over visitors recorded during the first quarter of 2016 compared to the first quarter of 2015. However, a decline in foreign exchange receipts from cruise tourism, ascribable to a marked drop in the number of cruise tourists, dampened export growth.

Imports shrank over the course of 2016's first quarter due mainly to fewer imports by the wholesale & retail trade sector. The decline in imports by the wholesale & retail sector was in line with the decline in consumer spending. By contrast, despite a decline in international oil prices, oil imports rose, reflecting higher volumes of fuel purchased from abroad.

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

During the first quarter of 2016, the income balance is estimated to have worsened by NAf.2.1 million due mainly to lower interest income received on portfolio investments, mitigated by a rise in labor income earned from abroad and a decline in interest paid to foreign investors. Meanwhile, the deficit on the current transfers balance widened by NAf.9.4 million due primarily to an increase in current transfers paid to abroad.



## APPENDIX I

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

	Curaçao				Sint Maarten			
	2015-I		2016-I		2015-I		2016-I	
North America, of which:	19.5	(3.9)	9.0	(1.9)	-6.8	(-4.4)	10.6	(6.8)
U.S.A.	17.2	(2.3)	4.9	(0.7)	-3.0	(-1.6)	-	-
Europe, of which:	1.7	(0.7)	11.3	(5.1)	4.1	(0.9)	23.8	(5.9)
The Netherlands	0.8	(0.2)	7.1	(2.3)	3.3	(0.1)	-	-
South & Central America, of which:	39.5	(11.3)	-9.7	(-2.4)	16.5	(0.5)	-23.5	(-0.5)
Venezuela	47.9	(9.5)	-13.3	(-2.2)	58.0	(0.3)	-	-
Colombia	38.4	(0.9)	22.0	(0.6)	-	-	-	-
Surinam	15.0	(0.3)	6.6	(0.1)	-	-	-	-
Caribbean, of which:	-10.2	(-0.6)	12.5	(0.7)	-1.4	(-0.1)	-31.8	(-0.8)
Dominican Republic	-17.4	(-0.1)	37.3	(0.3)	-2.1	(0.0)	-	-
Total	12.1	-	4.5	-	-3.1	-	11.7	-

Sources: 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 hotel occupancy rates.

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

	2015-I	2015-II	2015-III	2015-IV	2016-I
Food	6.4	4.3	3.1	2.2	2.2
Beverages & tobacco	7.8	3.8	2.6	1.4	1.8
Clothing & footwear	4.1	-0.9	-3.8	-2.7	-2.5
Housing	-5.3	-3.5	-2.1	-2.5	0.2
Housekeeping & furnishings	1.7	1.7	1.2	0.6	-1.0
Health	3.0	3.0	0.6	-0.6	-0.6
Transport & communication	-1.6	-4.1	-1.3	-5.0	-2.5
Recreation & education	2.7	1.8	0.7	0.4	1.0
Other	2.9	2.5	1.3	0.4	1.2
<b>General inflation rate</b>	<b>0.1</b>	<b>-0.6</b>	<b>-0.2</b>	<b>-1.4</b>	<b>0.0</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>**

	2015-I	2015-II	2015-III	2015-IV	2016-I
Food	7.2	7.7	7.0	6.1	6.3
Beverages & tobacco	0.1	-0.4	-0.4	-0.3	-0.3
Clothing & footwear	1.6	1.0	0.0	-2.4	-4.4
Housing	-0.7	-1.9	-2.3	-1.8	-2.1
Housekeeping & furnishings	2.3	3.4	3.3	3.2	1.8
Health	5.0	3.2	4.4	3.0	0.9
Transport & communication	-0.5	-3.7	-2.4	-2.6	-5.0
Recreation & education	0.1	-0.2	-1.5	-1.5	-1.5
Other	1.9	1.5	0.0	0.4	0.3
<b>General inflation rate</b>	<b>1.2</b>	<b>0.2</b>	<b>0.0</b>	<b>-0.2</b>	<b>-0.9</b>

Source: Department of Statistics of Sint Maarten.

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

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

	2014-I	2015-I	2016-I
<b>Revenues</b>	<b>433.0</b>	<b>515.0</b>	<b>423.0</b>
Tax revenues, of which:	406.7	409.2	390.3
Taxes on income and profits	205.0	206.0	182.1
Taxes on property	9.1	11.6	12.1
Taxes on goods and services	155.7	152.5	157.4
Taxes on international trade and transactions	35.3	37.2	37.5
Nontax and other revenues	26.3	105.8	32.7
<b>Expenditures</b>	<b>337.1</b>	<b>382.1</b>	<b>337.9</b>
Wages and salaries	172.2	169.6	165.1
Goods and services	19.9	22.5	19.7
Transfers and subsidies	134.2	169.5	142.7
Interest payments	0.4	9.1	-1.8
Other expenditures	10.4	11.4	12.2
<b>Budget balance</b>	<b>95.9</b>	<b>132.9</b>	<b>85.1</b>

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

	2014-I	2015-I	2016-I
<b>Taxes on income and profits, of which:</b>	<b>205.0</b>	<b>206.0</b>	<b>182.1</b>
Profit tax	73.4	76.2	67.9
Wage tax	132.2	128.9	115.6
<b>Taxes on property, of which:</b>	<b>9.1</b>	<b>11.6</b>	<b>12.1</b>
Land tax/OZB <sup>1</sup>	5.0	6.4	6.7
Property transfer tax	3.7	4.8	3.7
<b>Taxes on goods and services, of which:</b>	<b>155.7</b>	<b>152.5</b>	<b>157.4</b>
Sales tax	98.4	100.0	108.0
Excises, of which:	24.3	21.7	20.9
Excise on gasoline	15.5	12.1	12.5
Motor vehicle tax	25.5	24.7	25.4
<b>Taxes on international trade and transactions, of which:</b>	<b>35.3</b>	<b>37.2</b>	<b>37.5</b>
Import duties	35.2	37.2	37.4

<sup>1</sup> 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 debt<sup>1</sup> of Curaçao (in millions NAf.)

	2015-I	2015-II	2015-III	2015-IV	2016-I
Domestic debt	215.8	215.1	188.3	253.2	263.9
of which:					
Long-term securities	18.4	18.4	18.4	18.4	18.4
Short-term securities	-.-	-.-	-.-	-.-	-.-
APC	39.8	55.4	49.0	70.5	98.1
SVB	35.8	59.9	36.2	42.3	53.3
Foreign debt	2,210.4	2,204.3	2,204.1	2,242.3	2,244.4
Total debt	2,426.2	2,419.4	2,392.4	2,495.5	2,508.3
(% of GDP)	42.8%	42.5%	41.9%	44.3%	44.5%

<sup>1</sup> Debt figures do not comprise the entire collective sector.



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

	2014-I	2015-I	2016-I
<b>Revenues</b>	<b>130.3</b>	<b>138.2</b>	<b>129.1</b>
Tax revenues	113.1	117.5	110.0
Concessions and fees	11.4	11.0	10.9
Licenses	1.9	3.3	2.7
Other revenues	3.8	6.4	5.5
<b>Expenditures</b>	<b>99.5</b>	<b>100.0</b>	<b>104.0</b>
Wages and salaries	46.5	48.5	48.1
Goods and services	20.3	18.0	19.9
Subsidies	21.5	22.5	22.3
Social security	4.6	5.0	5.4
Interest payments	2.8	3.2	3.2
Other expenditures	3.7	2.9	5.1
<b>Budget balance</b>	<b>30.8</b>	<b>38.2</b>	<b>25.1</b>

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

	2014-I	2015-I	2016-I
<b>Taxes on income and profits, of which:</b>	<b>54.2</b>	<b>55.7</b>	<b>52.7</b>
Profit tax	18.0	20.3	16.0
Wage tax	36.2	35.6	36.7
<b>Taxes on property, of which:</b>	<b>2.8</b>	<b>4.2</b>	<b>3.3</b>
Land tax	1.2	1.3	1.7
Property transfer tax	1.5	2.9	1.6
<b>Taxes on goods and services, of which:</b>	<b>53.7</b>	<b>56.2</b>	<b>51.8</b>
Turnover tax	42.3	43.1	39.2
Vehicle tax	8.1	8.5	8.7
Excise on gasoline	2.1	2.0	2.4

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

	2015-I	2015-II	2015-III	2015-IV	2016-I
Domestic debt	197.4	199.4	174.3	191.6	190.8
of which:					
Long-term securities	0.1	0.1	0.1	0.1	0.0
Short-term securities	--	--	--	--	--
APS	51.6	51.6	51.7	83.6	83.6
SZV	105.5	105.5	73.7	75.8	75.8
Foreign debt	501.3	501.3	501.3	501.3	501.3
Total debt	698.7	700.6	675.5	692.9	692.1
(% of GDP)	36.8%	36.8%	35.4%	36.3%	36.1%

## IV MONETARY DEVELOPMENTS

### MONETARY POLICY

During the first quarter of 2016, the Bank continued to direct its monetary policy at reducing the surplus in the money market through the auctioning of more Certificates of Deposit<sup>4</sup> (CDs). As a consequence, the amount of outstanding CDs increased from NAf.162.6 million at the end of December 2015 to NAf.230.7 million at the end of March 2016. By contrast, the percentage of the reserve requirement remained unchanged at 18.00% during 2016's first quarter. However, due to a policy change effective March 1, 2016, where-

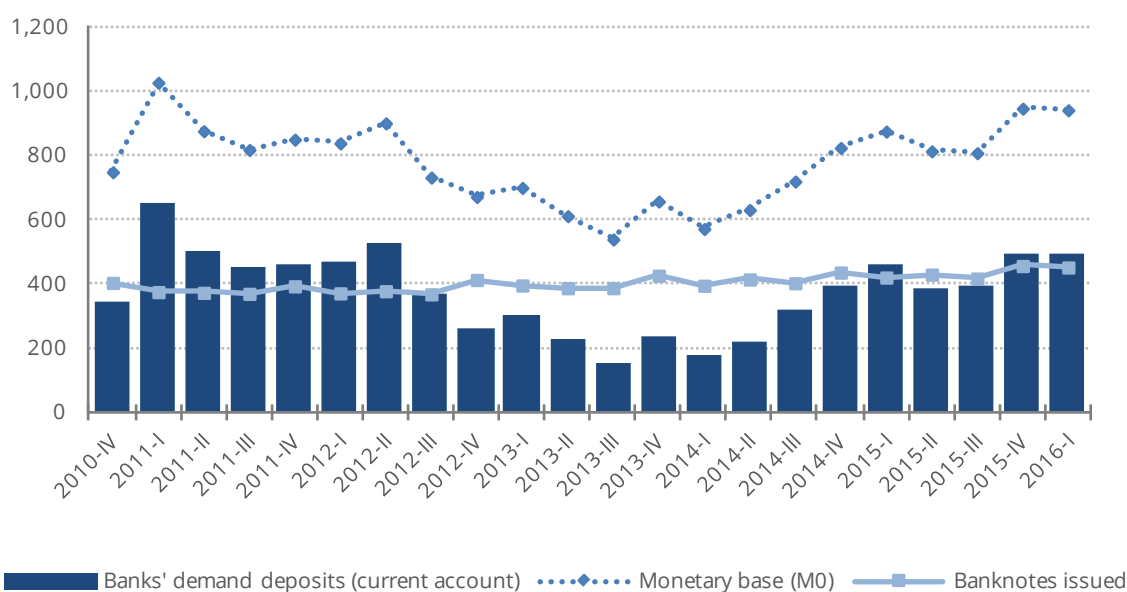
by commercial banks under the emergency rule are exonerated from the reserve requirement, the required reserves fell by NAf.77.8 million (-6.8%) during the first quarter of 2016.

The Bank's official interest rate, the pledging rate, was left unchanged at 1.00% throughout 2016's first quarter.

### 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 bal-

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



<sup>4</sup> These are negotiable securities issued by the Bank.

ances with the Bank. The monetary base contracted by NAf.5.0 million (0.5%) during the first quarter of 2016, largely because of a decline in currency in circulation (NAf.4.5 million). On an annual basis, the rate of growth of M0 slowed substantially from 14.9% in December 2015 to 7.6% in March 2016. See Graph 2 for development in the monetary base.

Changes in the monetary base can be explained in terms of movements in the Bank's assets and remaining liabilities. Table 14 in Appendix II displays the counterparts to the monetary base, with an increase in the Bank's assets contributing to growth in M0 and a rise in its remaining liabilities having the opposite effect. The drop in M0 in the first quarter of 2016 was caused by an increase in the Bank's remaining liabilities, driven primarily by increases in capital and reserves and in foreign liabilities. An increase in the Bank's assets moderated the drop in M0. This in-

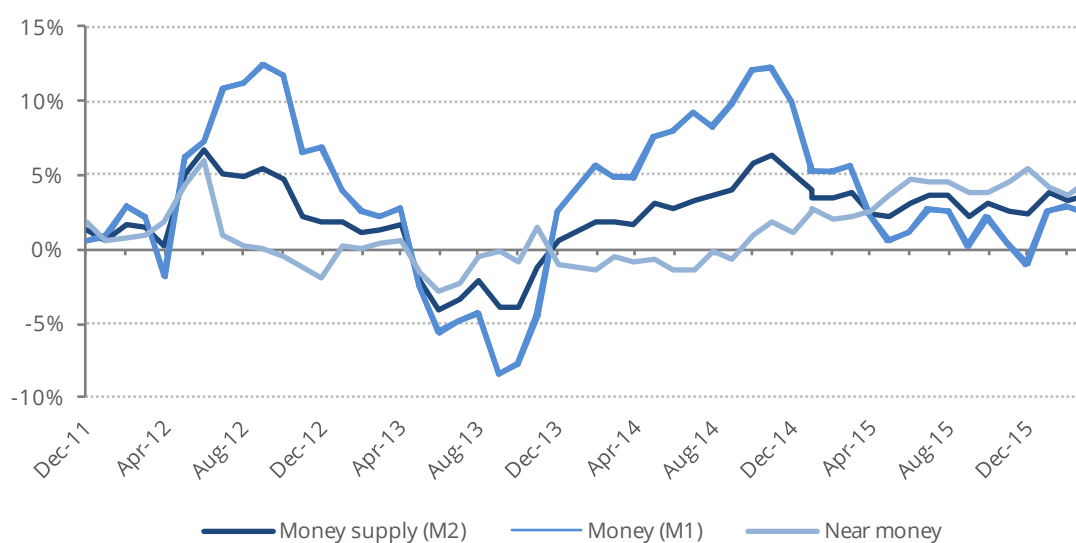
crease was the result of a rise in foreign assets that outweighed declines in the claims on deposit money banks and on government agencies and institutions. Part of the increase in foreign assets was attributable to the higher value of the Bank's gold stock, reflected also in the increase in capital and reserves.

## MONETARY AGGREGATES

After having gained 0.6% in 2015's fourth quarter, monetary growth accelerated in the first quarter of 2016 with broad money (M2) expanding by 2.8% (NAf.222.7 million) to reach NAf.8,195.8 million. The annual growth rate of M2 edged upward to 3.6% in March 2016 from 2.4% in December 2015 (see Graph 3).

The expansion in the money supply during the March quarter of 2016 was driven mainly by an increase of NAf.210.2 million (5.8%) in the narrow money component (M1). The increase in M1 was the result

**Graph 3 Development in the monetary aggregates (annual percentage change)**



of a growth in residents' demand deposits (NAf.216.8 million) mitigated by a drop in currency in circulation (NAf.6.7 million). The near money component rose by NAf.12.6 million (0.3%) due entirely to an increase in savings deposits. M1 grew by 2.4% on an annual basis in 2016's March quarter, a turnaround compared to the 1.0% decline registered in the fourth quarter of 2015. (See Table 15 in Appendix II for more detail.)

## FACTORS AFFECTING THE MONEY SUPPLY

Monetary expansion during the first quarter of 2016 was the result of an increase in the net foreign assets of the banking system dampened by a contraction in net domestic assets. Net foreign assets increased by NAf.367.5 million (8.8%) due to, among other things, the inflows related to principal and interest payments by the Dutch State Treasury Agency (DSTA) on debt securities taken over under the debt relief program and the higher value of the Bank's gold stock. (See Table 16 in Appendix II for more detail.)

The contraction in net domestic assets (NAf.144.8 million) was caused primarily by a drop in memorandum balance sheet items (NAf.151.0 million). This drop reflected mainly an increase in the capital and reserves of the Bank, driven by the higher value of the Bank's gold stock. Furthermore, an increase in deposits of the government of Curaçao with the banking system (NAf.41.6 million) contributed to the decrease in net domestic assets. By contrast, lending to the private sector increased by NAf.37.2 million owing mostly to an increase in investments (NAf.28.0 million).

The loan component of net credit extension to the private sector remained almost flat (0.1%) in the first quarter of 2016, the result of an increase in mortgages (1.1%) mitigated by declines in consumer loans (0.6%) and business loans (1.0%). In Curaçao, total loans expanded by 0.2%. This marginal expansion was the result of an increase in outstanding mortgages (0.8%) moderated by declines in business loans (0.3%) and consumer loans (0.4%). In Sint Maarten, by contrast, the amount of private sector loans outstanding dropped by 0.3% due to declines in business loans (2.9%) and consumer loans (1.4%). Outstanding mortgages, on the other hand, increased by 2.0%. Compared with March 2015, total loans contracted by 0.4% on an annual basis, the result of a drop in Curaçao (-1.2%) and an expansion in Sint Maarten (1.6%). In Curaçao, the development in loans to the private sector reflects perhaps a combination of stricter credit allocation policies by the commercial banks and a weak demand for loans.

## DEVELOPMENTS IN DOMESTIC INTEREST RATES

When setting the rates offered on CDs during the bi-weekly auctions, the Bank takes developments in the international financial markets into account. To make the CDs more attractive, the Bank has been offering a premium on the benchmark one-month US dollar *libor* rate<sup>5</sup> since May 2014. As a consequence of an increase in the benchmark rate by 8 basis points during the first quarter of 2016, the maximum rate offered on a 1-month CD increased from 0.38% at the end of December 2015 to 0.48% at the end of March 2016.

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

The commercial banks adjusted both their deposit and lending rates during the first quarter of 2016. In borrowing rates, the weighted average interest rate on 12-month time deposits rose from 2.3% in December 2015 to 2.5% at the end of March 2016. However, the average interest rate on passbook savings remained stable at 1.2%. In contrast, the weighted average lending rates dropped. While the weighted average rate of mortgages dropped from 6.4% at the end of December 2015 to 6.3% at the end of March 2016, the average rate on time loans dropped considerably more by 40 basis points to 6.5%.

Due to the standing subscription by the Dutch State Treasury Agency (DSTA),<sup>6</sup> by which is subscribed at rates prevailing in the Netherlands, changes in the yields on government paper are determined by the developments in the Dutch capital market. The average effective yield on 5-year government bonds dropped from 0.03% at the end of December 2015 to -0.27% at the end of the March 2016 quarter. Moreover, the indicative yield on 12-month treasury bills dropped from -0.40% at the end of December 2015 to -0.46% at the end of the first quarter of 2016. Basically, holders have to pay for the privilege of owning these practically riskless bonds. (See Table 17 in Appendix II for a detailed overview.)

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<sup>6</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.)

	2015-IV	2016-I	Change	
			Amount	Percentage
Currency in circulation	456.1	451.5	-4.5	-1.0
Banks' demand deposits (current account)	490.7	490.2	-0.5	-0.1
<b>Monetary base (M0)</b>	<b>946.8</b>	<b>941.8</b>	<b>-5.0</b>	<b>-0.5</b>
<b>Central bank assets</b>				
Foreign assets (including gold)	3,270.3	3,490.4	220.0	6.7
Claims on deposit money banks	154.0	97.8	-56.2	-36.5
Claims on the government	0.0	0.0	0.0	10.3
Claims on government agencies and institutions	408.7	386.1	-22.6	-5.5
Fixed and other assets	137.0	130.4	-6.6	-4.8
less:				
<b>Central bank remaining liabilities</b>				
Private sector deposits, of which:	1,357.0	1,361.2	4.3	0.3
Time deposits commercial banks	1,307.7	1,298.0	-9.7	-0.7
Government deposits	470.1	464.5	-5.6	-1.2
Foreign liabilities	380.5	393.5	13.1	3.4
Other liabilities	58.7	54.0	-4.7	-8.0
Capital and reserves	807.2	766.7	-40.5	-5.0



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

	2015-III		2015-IV		2016-I	
	Amount	%	Amount	%	Amount	%
Money supply (M2)	-16.7	-0.2%	49.5	0.6%	222.7	2.8%
Money (M1)	-54.6	-1.5%	-11.0	-0.3%	210.2	5.8%
Coins & notes with the public	-9.0	-2.6%	31.0	9.2%	-6.7	-1.8%
Total demand deposits, of which:	-45.6	-1.4%	-42.0	-1.3%	216.8	6.7%
Netherlands Antillean guilders	-9.9	-0.4%	-68.5	-2.8%	88.1	3.8%
Foreign currency	-35.7	-3.9%	26.6	3.0%	128.7	14.2%
Near money	37.9	0.9%	60.5	1.4%	12.6	0.3%
Time deposits	53.1	2.4%	-6.3	-0.3%	-25.7	-1.1%
Savings	-15.2	-0.7%	66.8	3.3%	38.3	1.8%

Table 16 Monetary survey (in millions NAf.)

	2015-I	2015-II	2015-III	2015-IV	2016-I
Money supply (M2)	7,913.2	7,940.3	7,923.6	7,973.1	8,195.8
Money (M1)	3,727.9	3,674.5	3,619.9	3,608.9	3,819.1
Coins & notes with the public	338.9	345.5	336.5	367.5	360.8
Total demand deposits, of which:	3,388.9	3,329.0	3,283.4	3,241.4	3,458.3
Netherlands Antillean guilders	2,470.9	2,415.3	2,405.4	2,336.9	2,425.0
Foreign currency	918.1	913.7	878.0	904.6	1,033.3
Near money	4,185.4	4,265.8	4,303.7	4,364.2	4,376.8
Time deposits	2,148.5	2,221.6	2,274.8	2,268.4	2,242.7
Savings	2,036.9	2,044.2	2,029.0	2,095.8	2,134.0
Factors affecting the money supply					
Net domestic assets	3,520.1	3,711.5	3,738.9	3,787.1	3,642.3
Government sector	-761.0	-658.2	-620.9	-589.7	-620.7
Former central government	-69.0	-73.1	-73.3	-73.3	-73.3
Curaçao	-564.0	-495.6	-473.3	-460.5	-502.1
Sint Maarten	-127.9	-89.4	-74.3	-56.0	-45.3
Private sector	6,200.2	6,160.6	6,098.9	6,145.6	6,182.8
Memorandum items	-1,919.1	-1,790.9	-1,739.1	-1,768.8	-1,919.8
Net foreign assets	4,393.1	4,228.8	4,184.7	4,186.0	4,553.5
Central bank	3,278.1	3,056.7	3,032.4	2,937.0	3,123.9
Commercial banks	989.7	1,154.2	1,152.3	1,249.0	1,429.6

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

	2015-I	2015-II	2015-III	2015-IV	2016-I
<b>Government loans by commercial banks</b>	0.0	0.0	0.2	0.4	0.8
Government of Curaçao	0.0	0.0	0.2	0.4	0.8
Government of Sint Maarten	0.0	0.0	0.0	0.0	0.0
<b>Private sector loans Curaçao</b>	4,035.4	4,050.1	4,015.9	3,980.8	3,988.8
Mortgages	1,849.1	1,869.0	1,849.4	1,825.6	1,840.0
Consumer loans	870.4	875.8	888.0	855.0	852.0
Business loans	1,315.8	1,305.3	1,278.5	1,300.2	1,296.8
<b>Private sector loans Sint Maarten</b>	1,419.7	1,390.2	1,409.3	1,447.1	1,442.3
Mortgages	666.5	656.8	651.5	662.2	675.8
Consumer loans	296.5	296.1	296.0	299.2	295.0
Business loans	456.7	437.3	461.9	485.7	471.5

Table 17 Developments in domestic interest rates (in percentage)

	2015-I	2015-II	2015-III	2015-IV	2016-I
<b>Central bank</b>					
Pledging rate	1.0	1.0	1.0	1.0	1.0
Maximum CD rate (1 month)	0.25	0.29	0.33	0.38	0.48
<b>Commercial bank borrowing rates</b>					
Passbook savings	1.2	1.2	1.3	1.2	1.2
Time deposits (12-month)	1.9	2.1	2.2	2.3	2.5
<b>Commercial bank lending rates</b>					
Mortgages	6.6	6.7	6.7	6.4	6.3
Time loans	6.5	7.2	7.3	6.9	6.5
<b>Government securities</b>					
Government bonds (5-year effective yield)	-0.04	0.10	0.09	0.03	-0.27
Treasury bills (12-month)	-0.19	-0.22	-0.24	-0.40	-0.54

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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 increased by 3.9% at the end of the first quarter of 2016 compared to the first quarter of 2015, reaching NAf.16.2 billion. The expansion of the aggregate balance sheet of the commercial banks resulted primarily from an increase in currency and deposits (14.0%), with both noninterest-bearing cash (15.4%) and interest-bearing cash (13.1%) contributing to the expansion. An increase in loans to households (1.7%) was the primary cause of the expansion in loans (0.3%), offset in part by the contraction in loans to agencies and institutions (-29.2%) and other loans (-6.2%). The expansions in investments in unconsolidated subsidiaries and affiliates (18.8%) and other assets (24.4%) also contributed to the increase in total assets. By contrast, investments declined (-11.3%) mainly as a result of a drop in shares and other equity (-34.9%). (See Table 18 in Appendix III for more details.)

The total debt of the commercial banks increased by 3.8% from the first quarter of 2015 to the first quarter of 2016, with increases in currency and deposits (3.4%)

and other liabilities (15.2%) exceeding the decrease in total borrowings (-18.4%). The increase in currency and deposits can be attributed to increases in both demand (6.9%) and savings deposits (2.6%), while time deposits contracted (-3.5%). As a result, the share of interest-bearing deposits to total deposits decreased, relieving pressure on the commercial banks' efforts to preserve their net interest margin. Capital and reserves increased by 5.4% with the capital base (7.5%) the sole contributor to this rise.

The commercial banks reported a total gross income (i.e., net interest income plus noninterest income) of NAf.226.8 million in the first quarter of 2016, a decrease of 4.2% compared to the first quarter of 2015. A drop in noninterest income (-6.7%) and an increase in interest expenses (9.5%) were the main contributors to the decline in gross income. As a result, net income before extraordinary items and taxes decreased by 16.0% because the increase in noninterest expenses was offset by the decrease in provisions. The slight increase in noninterest expenses can be explained primarily by an increase in salaries & other employee expenses (4.6%). And extraordinary items increased from NAf.-9.1 million in the first quarter of 2015 to NAf.1.0 million in the first quarter of 2016, while income tax payable dropped (-24.6%). As a result, retained earnings totaled NAf.40.5 million in the first quarter of 2016, a 7.2%

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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.

increase compared to the first quarter of 2015. (More details are provided in Table 19 in Appendix III.)

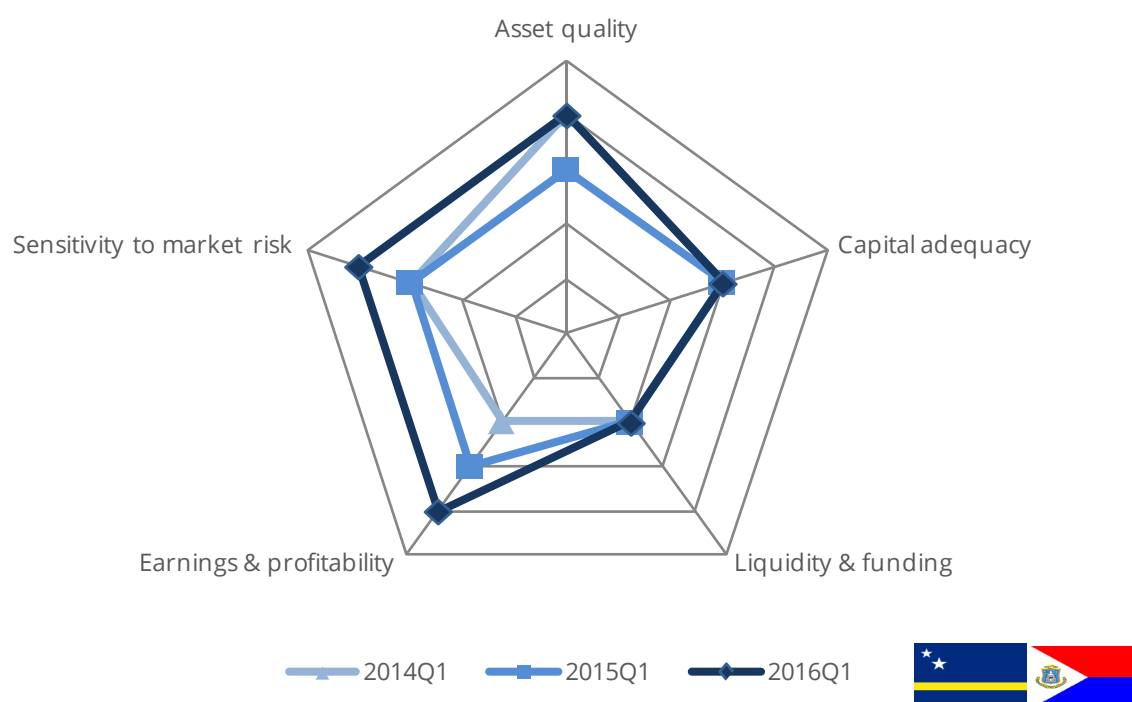
## FINANCIAL SOUNDNESS INDICATORS

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 4). 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 risks in asset quality, earnings & profitability, and sensitivity to market risk increased in the first quarter of 2016 compared to

Graph 4 Financial stability cobweb of commercial banking sector



2015's first quarter, while capital adequacy and liquidity & funding remained stable.

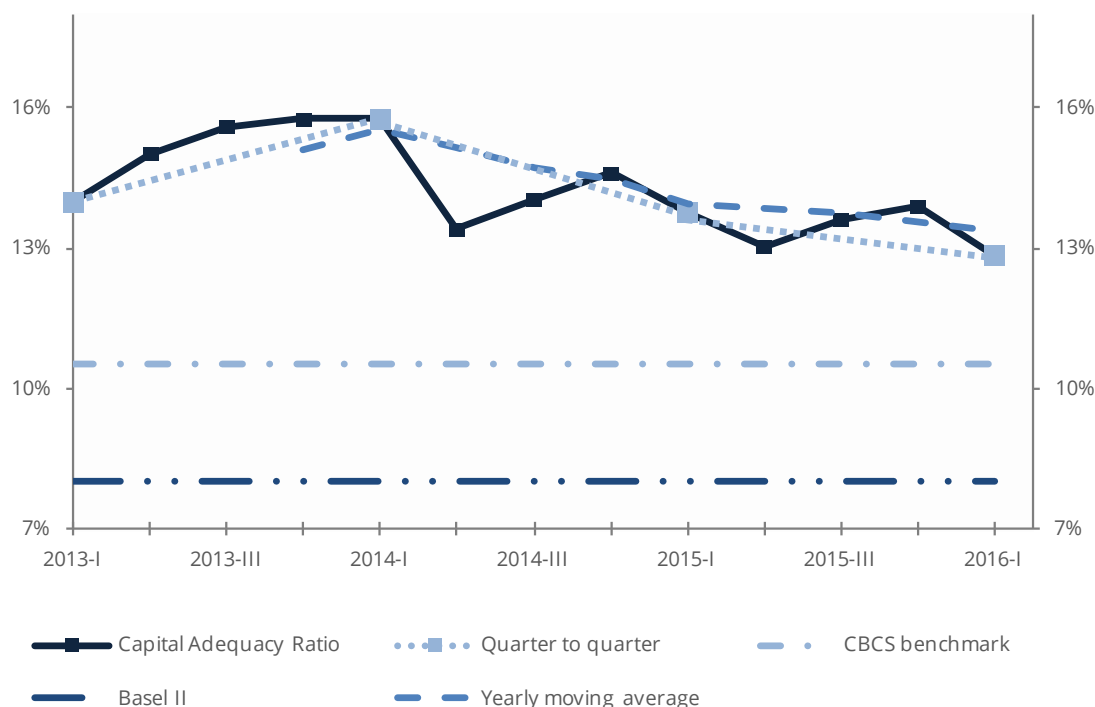
This overview is complemented by the aggregated balance sheet, income statement, and financial soundness indicators (see Tables 18 – 20 in Appendix III). As can be seen from Table 20, more than half of the indicators underperformed the four-year average.

## 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 ade-

quacy ratio (i.e., tier-1 and tier-2 capital to risk-weighted assets) reached 12.9% at the end of the first quarter of 2016, a decrease of 90 basis points compared to the first quarter of 2015. The capital adequacy ratio remained below the four-year average, indicating a downward trend in the capital stock of the commercial banks. However, the core capital adequacy ratio, focusing only on tier-1 capital, outperformed the four-year average. 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 5). This development should be acknowledged with some reservation, however, as the NPL<sup>7</sup> (net of provisions) to capital ratio remained above the four-year average of 45%. This level reflects a

Graph 5 Trend analysis of the capital adequacy ratio



<sup>7</sup> Nonperforming loans.

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 first quarter of 2016 compared to the previous years.

### 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 10.6% at the end of the first quarter of 2015 to 11.4% at the end of the first quarter of 2016, indicating a deterioration of the asset quality in the loan portfolio of the commercial banks. The provisions to NPL ratio of the banks decreased by 3.4 percentage points, reaching 37% at the end of the first quarter of 2016, still outperforming the four-year quarterly average. The share of foreign currency loans in gross loans and foreign currency-denominated liabilities in total liabilities remained stable at the end of the first quarter of 2016, underscoring the banks' ability to maintain their foreign currency exposure. Last, the large exposures of loans, leases, and advances to capital ratio increased from 289% at the end of the first quarter of 2015 to 308% at the end of the first quarter of 2016. This increase is a negative development as a high ratio indicates vulnerabilities arising from concentration risk. In conclusion, the risk in asset quality increased in the first quarter of 2016 compared to the previous years.

### EARNINGS & PROFITABILITY

The efficiency of the banking sector in using its assets deteriorated, with the return on assets ratio reaching 0.9% at the end of the first quarter of 2016, 40 basis points lower than in the first quarter of 2015. The return on equity ratio followed a similar trend, decreasing by 4.4 percentage points to 10.5% at the end of the first quarter of 2016. The spread between lending and deposit rates declined slightly by 30 basis points to 5.9% at the end of the first quarter of 2016. This development can be explained by a continued downward trend in the lending rate while the funding rate remained stable. 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 increased by 1.0 percentage points to 54% at the end of the first quarter in 2016, but remained below the four-year average. Furthermore, the banks were not able to maintain their efficiency in the use of their resources with regard to operational expenses as the share of noninterest expenses in gross income increased by 4.9 percentage points to 73% at the end of the first quarter of 2016. This deterioration in the banks' efficiency will put extra pressure on their profitability. Last, the share of net interest earnings (i.e., interest earned less interest expenses) in gross income increased slightly by 70 basis points to 64% at the end of the first quarter of 2016, just below the four-year average. This development indicates that the banks maintained their diversification of income, making it easier to withstand shocks. In conclusion, the risk in earnings & profitability increased in the first quarter of 2016 compared to 2015.



## LIQUIDITY & FUNDING

The ample liquidity of the banking sector showed an increase in the first quarter of 2016, reflecting the sector's ability to withstand shocks to its balance sheets. The liquid assets to total assets ratio increased from 30% at the end of the first quarter of 2015 to 32% at the end of the first quarter of 2016, 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 increased by 2.7 percentage points to 42% at the end of the first quarter of 2016, indicating a decrease in the mismatch of the banks' short-term assets and liabilities. Last, the total deposits to total loans ratio also increased, by 4.1 percentage points to 146% at the end of the first quarter of 2016. This level is far above the 100% indicating 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 above 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 first quarter of 2016 compared to 2015.

## SENSITIVITY TO MARKET RISK

The decrease in the weighted average lending rate combined with a stable 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 deteriorated, with the net open position in foreign exchange to capital ratio increasing from 57% at the end of the first quarter in 2015 to 77% at the end of the first quarter of 2016. 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 38.4 percentage points, putting pressure on the banks' ability to withstand shocks from the foreign markets environment. Therefore, the sensitivity to market risk increased in 2016 compared to the previous years.

## APPENDIX III

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

		2015-I	2015-II	2015-III	2015-IV	2016-I
	<b>Assets</b>					
I	Nonfinancial assets	390.1	382.8	381.7	384.4	386.1
II	Financial assets (III through VII)	15,189.9	15,378.3	15,066.2	15,289.4	15,809.3
III	Currency and deposits	4,523.5	4,640.1	4,605.7	4,700.2	5,157.1
	(i) Non-interest-bearing cash	1,785.4	1,774.2	1,644.4	1,772.6	2,060.6
	(ii) Interest-bearing cash	2,738.0	2,865.9	2,961.2	2,927.6	3,096.5
IV	Loans	8,859.8	8,859.5	8,844.6	8,885.2	8,882.8
	(i) Interbank loans	1.4	0.8	0.1	0.0	0.0
	(ii) Central bank	-	-	-	-	-
	(iii) General government	0.0	0.0	0.2	11.6	11.9
	(iv) Agencies and institutions	82.0	76.1	76.5	64.6	58.0
	(v) Other financial corporations	15.3	15.3	14.9	14.4	14.2
	(vi) Nonfinancial corporations	4,802.8	4,788.1	4,736.1	4,791.9	4,793.3
	(vii) Households	3,681.6	3,698.1	3,730.0	3,741.1	3,745.8
	(viii) Other	276.6	281.1	286.8	261.6	259.5
V	Investments	1,310.7	1,351.5	1,158.2	1,208.1	1,162.8
	(i) Debt securities	948.7	926.3	874.5	920.8	927.2
	(ii) Shares and other equity	362.1	425.2	283.7	287.3	235.7
VI	Investments in unconsolidated subsidiaries and affiliates	181.8	137.9	100.2	147.4	216.0
VII	Other assets	314.1	389.4	357.6	348.6	390.7
VIII	<b>Total assets (= I + II)</b>	<b>15,580.1</b>	<b>15,761.2</b>	<b>15,447.9</b>	<b>15,673.9</b>	<b>16,195.5</b>

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

		2015-I	2015-II	2015-III	2015-IV	2016-I
	<b>Liabilities</b>					
IX	Currency and deposits	13,186.1	13,360.9	13,079.8	13,227.1	13,638.5
	(i) Demand deposits	6,455.9	6,595.6	6,391.3	6,443.3	6,901.4
	(ii) Savings deposits	4,002.6	4,048.6	4,003.0	4,110.6	4,106.1
	(iii) Time deposits	2,727.6	2,716.7	2,685.5	2,673.3	2,631.0
X	Total borrowings	108.6	116.9	91.4	76.7	88.6
XI	Other liabilities	614.0	609.6	599.8	646.5	707.6
XII	Total debt (= IX + X + XI)	13,908.8	14,087.3	13,771.0	13,950.2	14,434.7
XIII	Capital and reserves	1,671.2	1,673.8	1,676.9	1,723.6	1,760.8
	(i) Capital	1,351.3	1,369.5	1,371.5	1,417.4	1,452.6
	(ii) Minority interest	12.4	12.1	12.9	11.5	12.1
	(iii) Subordinated debentures	-	-	-	-	-
	(iv) General provisions	307.5	292.2	292.5	294.7	296.1
XIV	<b>Total liabilities and capital (= XII + XIII)</b>	<b>15,580.1</b>	<b>15,761.2</b>	<b>15,447.9</b>	<b>15,673.9</b>	<b>16,195.5</b>

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

		2015-I	2015-II	2015-III	2015-IV	2016-I
I	Interest income	180.2	356.4	526.8	645.8	179.1
II	Interest expense	31.8	63.3	95.6	119.1	34.8
III	<b>Net interest income (= I minus II)</b>	<b>148.5</b>	<b>293.1</b>	<b>431.3</b>	<b>526.8</b>	<b>144.4</b>
IV	Noninterest income	88.3	166.7	239.4	293.4	82.4
V	<b>Gross income (= III + IV)</b>	<b>236.8</b>	<b>459.8</b>	<b>670.6</b>	<b>820.2</b>	<b>226.8</b>
VI	Noninterest expenses	162.4	320.2	474.4	621.9	165.7
	(i) Salaries & other employee expenses	85.8	171.9	257.2	351.3	89.7
	(ii) Occupancy expenses	24.9	48.4	67.5	85.2	23.4
	(iii) Other operating expenses	51.7	99.9	149.8	185.4	52.6
VII	Provisions	8.8	25.0	34.9	39.1	5.9
VIII	<b>Net income (before extraordinary items and taxes) (= V minus (VI+ VII))</b>	<b>65.7</b>	<b>114.5</b>	<b>161.3</b>	<b>159.1</b>	<b>55.1</b>
IX	Extraordinary items	-9.1	-11.3	-25.5	54.4	1.0
X	Income tax	12.6	25.1	34.8	30.6	9.5
XI	<b>Net income after tax (= VIII minus (IX + X))</b>	<b>43.9</b>	<b>78.1</b>	<b>101.0</b>	<b>182.9</b>	<b>46.6</b>
XII	Dividends payable	6.1	24.5	42.8	67.3	6.1
XIII	<b>Retained earnings (= XI minus XII)</b>	<b>37.8</b>	<b>53.7</b>	<b>58.1</b>	<b>115.6</b>	<b>40.5</b>

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

	2015-I	2015-II	2015-III	2015-IV	2016-I	4-Yr Avg.*
<b>Capital adequacy</b>						
Capital adequacy ratio	13.8%	13.0%	13.5%	13.9%	12.9%	14.3%
Core capital adequacy ratio	13.2%	13.0%	13.1%	13.6%	13.7%	13.1%
Capital to assets	8.9%	8.8%	8.9%	9.2%	8.3%	9.8%
NPL net of provisions to capital	42%	51%	45%	46%	50%	45%
<b>Asset quality</b>						
NPL to total gross loans	10.6%	12.1%	10.9%	11.3%	11.4%	11.2%
Provisions to NPL	40%	38%	38%	38%	37%	34%
Foreign currency-denominated loans to total loans	45%	45%	45%	45%	45%	46%
Foreign currency-denominated liabilities to total liabilities	54%	54%	53%	53%	53%	54%
Large exposures to capital	289%	311%	297%	275%	308%	290%
<b>Earnings &amp; profitability</b>						
Return on assets	1.3%	1.3%	1.2%	1.0%	0.9%	1.5%
Return on equity	14.9%	14.7%	13.2%	11.2%	10.5%	14.7%
Interest margin to gross income	63%	64%	65%	66%	64%	65%
Noninterest expenses** to gross income	68%	70%	71%	76%	73%	68%
Personnel expenses to noninterest expenses**	53%	54%	54%	56%	54%	56%
Spread between lending and deposit rates	6.2%	6.2%	6.2%	5.7%	5.9%	6.4%

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

	2015-I	2015-II	2015-III	2015-IV	2016-I	4-Yr Avg.*
<b>Liquidity &amp; funding</b>						
Liquid assets to total assets	30%	31%	31%	31%	32%	29%
Liquid assets to short-term liabilities	39%	40%	42%	41%	42%	39%
Total deposits to total loans	142%	143%	140%	141%	146%	143%
<b>Sensitivity to market risk</b>						
Net interest margin	4.7%	4.6%	4.5%	4.5%	4.5%	4.8%
Net open position in foreign exchange to capital	57%	67%	64%	70%	77%	68%
Net foreign assets to total capital	93%	109%	104%	109%	131%	92%

\* 4-year quarterly average

\*\* Noninterest expenses = operational expenses

Performed better than the 4-year quarterly average

Performed worse than the 4-year quarterly average

