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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

Global growth remained subdued during the second quarter of 2016 as the pace of expansion slowed down in the advanced economies. By contrast, growth picked up in the emerging markets and developing economies. In the Monetary Union, however, real output contracted in Curaçao and Sint Maarten.

In Curaçao, real GDP dropped by 0.2% in the second quarter of 2016, following an expansion of 0.4% in 2015's second quarter. Meanwhile, in Sint Maarten, GDP dropped in real terms by 0.3%, less pronounced than the 0.7% real GDP contraction registered a year earlier. Inflation was negative in the Monetary Union as average consumer prices dropped by 0.2% in both Curaçao and Sint Maarten.

The economic contraction in Curaçao was the result of a decline in net foreign demand combined with a drop in private demand. Net foreign demand declined because exports dropped at a faster pace than imports. The negative contribution of private demand stemmed from a decline in private consumption, mitigated by a rise in investments. By contrast, public demand rose as a result of an increase in government investments, albeit less pronounced than in the second quarter of 2015. Furthermore, government consumption rose slightly because of an increase in the outlays on wages & salaries and more disbursements on goods & services.

Sectoral data reveal that real value added contracted in the restaurants & hotels, manufacturing, and transport, storage, & communication sectors. However, the contraction was most pronounced in the restaurants & hotels sector due to a decline in both stay-over and cruise tourism. The number of stay-over visitors fell in all main markets. The negative outcome in cruise tourism was in line with a decline in the number of cruise calls during the second quarter of 2016 compared to the second quarter of 2015.

Output in the manufacturing sector shrank during the April-June period of 2016, reflecting a decline in refining and trading activities by the Isla refinery combined with less ship repair activities. The transport, storage, & communication sector posted negative results because of, among other things, a drop in air transportation services. Furthermore, airport-related activities decreased in line with a decline in total passenger traffic and the number of commercial landings. The harbor also performed poorly, reflecting a decline in cargo movements, oil storage activities, and the number of ships piloted into the port of Willemstad. Moreover, activities in the wholesale & retail trade sector shrank in the second quarter of 2016, reflecting a decline in consumer spending combined with a downturn in the tourism and free-zone sectors.

In contrast, the construction sector performed well, supported by more public and private investments. Real value added in the financial services sector grew also as a result of an increase in domestic financial services partly offset by a decline in international financial services. The latter decline was reflected by a drop in wages & salaries and other operational expenses. The increase in domestic financial services reflected more fees & income earned by the domestic commercial banks moderated by a drop in net interest income. Moreover, the utilities sector posted a growth as a result of more electricity and water production.

The fall in real GDP in Sint Maarten in the second quarter of 2016 was driven by domestic demand. The decline in domestic demand was the result of a drop in public spending mitigated by higher private spending. Public spending shrank as both government consumption and investment dropped. The higher private spending was sustained by increased private investments in a number of things including a large housing project in Maho. By contrast, private consumption was down in line with a decline in consumer credit extended. The contribution of net foreign demand to GDP growth was positive in the second quarter of 2016 as the decline in imports outpaced the lower exports.

The poor economic performance in Sint Maarten was largely the result of a contraction in the restaurants & hotels and wholesale & retail trade sectors. Real value added contracted in the restaurants & hotels sector due to a decline in stay-over and cruise tourism. The disappointing performance of stay-over tourism was the result of a decline in the number of visitors

from North America, particularly the United States, South America, and the Caribbean, mitigated by more European tourists. Meanwhile, the number of cruise tourists dropped significantly in line with the lower number of cruise calls. The negative outcome in Sint Maarten's cruise tourism can be ascribed to, among other things, increased competition from the region. Activities shrank in the wholesale & retail trade sector due to the decline in domestic spending combined with lower tourist expenditures.

Real output contracted also in the transport, storage & communication sector. Air transportation and airport-related activities dropped in line with the decline in the number of stay-over tourists. The harbor also posted negative results due to a drop in the number of ships handled. By contrast, container movements rose.

Sint Maarten's economic contraction during the second quarter of 2016 was dampened by increases in the construction, manufacturing, and utilities sector. Growth in the construction sector was supported by more private investments. Following a decline in the second quarter of 2015, real output rose in the manufacturing sector in the second quarter of 2016 sustained by more yacht repair activities. Meanwhile, the positive outcome in the utilities sector was related to increases in both electricity and water production. The financial sector's contribution to real GDP remained muted as the increase in interest income of the commercial banks was offset by a rise in interest expenses.

During the second quarter of 2016, the government of Curaçao recorded a deficit of NAf.71.2 million on its current budget, down from the NAf.86.4 million deficit in-

curring in the second quarter of 2015. The lower deficit was the result of an increase in revenues, mitigated by a rise in expenditures. However, the developments on both the revenue and expenditure side of the government's budget was to a large extent attributable to the implementation of Article 4, section 1 of the Budget Act that states that all expenses and income of the social security bank, SVB, should be included in the government's budget as of January 2016. The inclusion of the SVB resulted in considerably higher nontax revenues and transfers and subsidies. More tax revenues, specifically from taxes on income & profits and goods & services, also contributed to the increase in government revenues. Meanwhile, a rise in the outlays on wages & salaries added to the growth in government expenditures.

Following a deficit of NAf.12.5 million in the second quarter of 2015, the government of Sint Maarten recorded a surplus of NAf.0.7 million on its current budget in the second quarter of 2016. This positive turnaround was the result of an increase in government revenues combined with lower expenditures. Government expenditures declined mainly because of lower disbursements on goods & services and subsidies. Meanwhile, the increase in government revenues was the result of a rise in tax revenues, particularly profit and property tax. Fewer dividend and business license fees collected combined with a drop in work permits issued dampened the increase in government revenues.

According to preliminary data and estimates of the Bank, the deficit on the current account of the balance of payments widened during the second quarter of 2016, compared to the second quarter of

2015 as a result of a worsening of the income balance, moderated by increases in the net export of goods and services and net current transfers received from abroad. Meanwhile, following a decline in the second quarter of 2015, gross official reserves expanded by NAf.116.3 million during the second quarter of 2016 driven by, among other things, the issuance of debt securities by the government of Curaçao bought entirely by the Dutch State Treasury Agency.

The income balance worsened as the increase in interest income earned on portfolio investments abroad surpassed the rise in interest income paid to foreign investors. The net export of goods and services went up because the decline in imports exceeded the drop in exports. The lower import bill was largely the result of lower oil imports in Curaçao related to the decline in international oil prices. Furthermore, non-oil merchandise imports contracted as both Curaçao and Sint Maarten recorded a decline in domestic consumption and tourist spending. Meanwhile, the dismal export performance was attributable to, among other things, a decline in foreign exchange receipts from bunkering activities combined with a drop in the refining fee earned by the Isla refinery in Curaçao. Furthermore, foreign exchange revenues from tourism activities dropped, reflecting a decline in the number of stay-over and cruise tourists in both Curaçao and Sint Maarten. In addition, lower foreign exchange earnings from air transportation services contributed to the decline in exports in the second quarter of 2016. Meanwhile, net current transfers from abroad rose because of an increase in current transfers received from abroad, moderated by more transfers paid to abroad.

The money supply contracted marginally in the second quarter of 2016 because of a decline in net foreign assets. The decline in net foreign assets was the result of a drop in the net foreign holdings of the commercial banks, mitigated by an improvement in the central bank's net foreign position. By contrast, net domestic assets rose reflecting a growth in net credit extension to the private sector, and lower liabilities towards the government sector, moderated by a decline in miscellaneous balance sheet items. The decline in miscellaneous balance sheet items reflected primarily an increase in the capital and reserves of the Bank, led by the higher value of the Bank's gold stock. Net credit extension to the private sector grew during the second quarter of 2016 driven by a rise in loans extended in both Curaçao and Sint Maarten. All loan components in Curaçao registered an increase, while in Sint Maarten the growth in private credit extension was ascribable to a rise in mortgages and business loans, mitigated by a decline in consumer loans. The lower liabilities towards the government sector were the result of the draw-down of deposits by the governments of both Curaçao and Sint Maarten.

During most of the second quarter of 2016, the Bank's monetary policy was neutral. Hence, the reserve requirement percentage was kept unchanged at 18.00%. Nevertheless, the amount of outstanding required reserves rose because of an increase in the base amount upon which they are calculated. Meanwhile, as of April 25, 2016, the Bank aimed only at the refining of maturing certificates of deposit (CDs). Consequently, the amount of outstanding CDs rose only slightly during 2016's second quarter.

The performance of the tourism sector

was disappointing in both Sint Maarten and Curaçao during the second quarter of 2016. While the Zika virus had a dampening effect on the Caribbean region, increased competition also had its effect on the performance of this sector. The concerns regarding the Zika virus are temporary. However, the negative effects of increased regional competition on Sint Maarten's tourism performance underscores the need to develop and implement a strategy supported by both the public and private sectors to strengthen and further improve the country's tourism product. The establishment of a Tourism Authority is a step in the right direction, but this entity should become operational as soon as possible.

Meanwhile, in Curaçao, the negative outcome in the tourism sector can be ascribed largely to the sharp decline in the Venezuelan market, reflecting economic and political headwinds in this country. Consequently, efforts are being made to attract more visitors particularly from North America and Europe to offset the drop in the number of Venezuelan tourists. However, besides marketing efforts, Curaçao needs to implement structural reforms to increase its competitiveness vis-à-vis the region as a tourist destination and an attractive location for tourism-related investments. These measures include, among other things, reducing administrative barriers in the government apparatus and the high costs of doing business.

The recently held parliamentary elections provide us again with a unique opportunity to put economic growth at the forefront of the national agenda. The lackluster performance of the economy, both in Curaçao and Sint Maarten, serves to remind us of the much needed structural reforms. These reforms should lay the groundwork

for a higher sustainable economic growth path for both Curaçao and Sint Maarten. It is only through this higher growth path that we will be able to create the necessary budgetary room to pursue policies to address the social challenges facing the two nations.

J.M. Hasselmeyer

President a.i.

II INTERNATIONAL ECONOMIC DEVELOPMENTS

THE UNITED STATES

Real output growth in the United States decelerated to 1.2% in the second quarter of 2016 compared to the 3.0% growth recorded in the second quarter of 2015 (see Table 1). The 2016 second quarter growth was attributable to increases in private consumption and public demand, dampened by a contraction in net foreign demand and in private investment.

investment, such as equipment and structures, mitigated by more residential investment. The drop in business spending indicates that businesses may be hesitant to invest amid weak global markets and the uncertain global and domestic political outlook. Furthermore, net foreign demand contracted because of a decline in exports combined with an increase in imports.

Table 1 Economic indicators of the United States

	2015-II	2016-II
Real GDP (% change)	3.0	1.2
Consumer prices (%)	0.0	1.1
Unemployment rate (%)	5.4	4.9

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

Public demand increased because of higher consumptive expenditures and gross investments by the state, local, and federal governments. Meanwhile, the rise in household consumption--the largest driver of growth in the U.S. economy--reflected more spending on goods, particularly durable goods such as recreational goods & vehicles and household equipment, and services, such as health care and recreational services. By contrast, private investment decreased as a result of less business spending on nonresidential fixed

The U.S. inflation rate increased to 1.1% in the second quarter of 2016 compared to no increase in the second quarter of 2015. Furthermore, the U.S. unemployment rate declined from 5.4% in the April-June period of 2015 to 4.9% in the same period of 2016, reflecting sustained strength in the U.S. labor market. This improvement was ascribable mainly to job gains in the construction, wholesale & retail trade, and professional & business services sectors. Meanwhile, the Federal Reserve maintained its accommodative monetary

policy stance leaving the fed funds rate unchanged between 0.25% and 0.50% to support a return of the inflation rate to the Fed's 2.0% target and a further improvement in labor market conditions.

THE NETHERLANDS

The Dutch economy recorded an accelerated growth of 2.3% in the second quarter of 2016, compared to the 1.9% real GDP growth registered in the second quarter of 2015 (see Table 2). The economic growth during 2016's second quarter was attributable to an increase in domestic demand as net foreign demand declined.

The increase in domestic demand was driven mainly by more private investment as Dutch companies spent significantly more on transport equipment, such as aircraft and trucks, and on residential property. The growth in private investment in the second quarter of 2016 was in line with the increase in business confidence that reached its highest level in five years. Additionally, private consumption rose, reflecting primarily more outlays on services such as hotels and restaurants and to a lesser extent more spending on goods such as clothing and electrical appliances. Adding to the growth in real GDP was the

rise in public demand in the April–June period of 2016 compared to the same period of 2015, driven primarily by more public investment.

In contrast to domestic demand, net foreign demand contributed negatively to real economic growth, as the increase in exports was exceeded by higher imports. Exports rose as Dutch companies exported higher volumes of transport equipment, food, beverages, and tobacco.

An analysis by sector reveals that the construction, business services, and manufacturing sectors were the main contributors to the real GDP growth during 2016's second quarter. Output in the business services sector increased mainly in the temporary employment agencies subsector, while the increased production of transport equipment caused the growth in the manufacturing sector. On the other hand, the contraction in mining led by less natural gas extraction and the decline in output in the financial sector mitigated the growth in real GDP.

Furthermore, the Netherlands recorded zero inflation in the second quarter of 2016 compared to the 0.9% inflation rate registered in the second quarter of 2015. The unemployment rate fell to 6.2% in the June quarter of 2016 compared to 6.9% in

Table 2 Economic indicators of the Netherlands

	2015-II	2016-II
Real GDP (% change)	1.9	2.3
Consumer prices (%)	0.9	0.0
Unemployment rate* (%)	6.9	6.2

Source: Central Bureau of Statistics.
*International definition.

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

VENEZUELA

Venezuela's current economic recession has proven the deepest in decades. Real GDP is expected to contract further in 2016 between -6.2% and -8.0%, according to the forecasts of the International Monetary Fund (IMF) and Business Monitor International (BMI). The expected contraction is attributable to lower domestic demand moderated by higher net foreign demand.

Venezuela's economic recession that started in 2014 has become more severe throughout 2016 given the continued fall in oil prices, further restraints on private investments, and the rapid decline in real wages. The IMF and BMI forecast real output contraction caused by lower domestic demand mitigated by higher net foreign demand. Domestic demand will contract on the back of lower private and public demand. Private spending will drop because of lower consumer spending caused by

the rapid erosion of consumers' purchasing power combined with lower private investment, mainly as a result of the deterioration of investor sentiment due to the worsened business environment. Additionally, public spending is expected to decline mainly because of lower government revenues from oil exports resulting in constraints on government spending.¹ Because of Venezuela's high dependency on oil exports, the continued decline in oil prices will lower exports in 2016. However, Venezuela's imports are expected to contract at a faster pace than exports, resulting in a positive contribution of net foreign demand to real output.

Furthermore, political uncertainties combined with the continued drop in international oil prices, the ongoing domestic shortages of goods, and the rapid expansion of the domestic money supply have led to inflation rate projections between 252.9% and 481.5% in 2016, the world's highest inflation rate. As a result of the recession in Venezuela, the unemployment rate is estimated to rise to 17.4% in 2016, more than twice the unemployment rate estimate for 2015.² (See Table 3).

Table 3 Economic indicators of Venezuela

	2015	2016
Real GDP (% change)	-5.7 to -7.5	-6.2 to -8.0
Consumer prices (%)	116.2 to 121.7	252.9 to 481.5
Unemployment rate (%)	7.4	17.4

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

¹ Venezuela Country Risk Report Q2 2016, Business Monitor International.

² International Monetary Fund, World Economic Outlook: Too Slow for Too Long, Washington D.C., April 2016.

III GENERAL ECONOMIC DEVELOPMENTS

GENERAL ECONOMIC DEVELOPMENTS IN CURAÇAO

After growing by 0.4% in the second quarter of 2015, Curaçao's economy contracted by 0.2% in the second quarter of 2016. Both the private and external sectors contributed to the GDP contraction (see Table 4). Meanwhile, Curaçao recorded a negative inflation rate of -0.2% especially because the drop in international oil

prices more than offset the rise in domestic food prices.

An analysis of the expenditure side of GDP reveals that the economic contraction registered in the three months ending June 2016 stemmed from a decline in private and net foreign demand. Private demand fell because the decrease in consumption exceeded the increase in investment. The

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

	2015-II	2016-II
Domestic expenditure, of which:	0.4	0.0
Private sector	0.3	-0.3
Investment	-0.1	0.1
Consumption	0.4	-0.4
Government sector	0.1	0.3
Investment	0.5	0.2
Consumption	-0.4	0.1
Changes in inventory	0.2	0.0
Foreign net expenditure, of which:	-0.2	-0.2
Export of goods and services	-0.8	-1.7
Import of goods and services	-0.6	-1.5
GDP	0.4	-0.2

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

decrease in private consumption was in line with less consumer credit extended by the domestic commercial banks. On the other hand, private investment increased as a result of the implementation of a number of investment projects, including the upgrading of Curaçao's airport, the dismantling of the Aqualectra plant at Mundo Nobo, and some housing projects. Net foreign demand contributed negatively to GDP growth because exports shrank at a faster pace than imports.

In contrast, public demand rose because of an increase in both government investment and consumption. The increase in public investment was driven by, among other things, the construction activities at the new hospital, the upgrading of Curaçao's road infrastructure, and other infrastructure works. Meanwhile, the growth in public consumption resulted from a rise in spending on wages and salaries and more outlays on goods and services.

DOMESTIC PRODUCTION

An analysis of the production side of GDP shows that the negative GDP growth recorded in 2016's second quarter resulted mainly from the restaurants & hotels, manufacturing, and transport, storage, & communication sectors (see Table 5). Following an expansion in the second quarter of 2015, the contribution of these sectors turned negative during the second quarter of 2016.

Real value added in the restaurants & hotels sector declined in the June quarter of 2016 (-5.0%) because of a drop in the number of stay-over visitors (-3.3%) and the number of visitor nights (-7.6%). All tourism markets recorded a contraction in the number of stay-over visitors. The North

American market experienced the largest contraction, attributable to a decline in the number of visitors from both Canada and the United States. In addition, the Caribbean market dropped largely as a result of fewer visitors from Aruba and Trinidad & Tobago. The South American market declined as well, mainly from a drop in the number of Surinamese and Venezuelan visitors. The European market also contracted primarily because of fewer visitors from Belgium, mitigated by an increase in the number of Dutch tourists. Similar to the development in stay-over tourism, the hotel occupancy rate fell from 66.7% in 2015's second quarter to 58.7% in 2016's second quarter. Furthermore, the number of cruise tourists shrank (-5.4%), consistent with the drop in the number of cruise calls (-15.9%). (See Table 11 in Appendix I for more details on stay-over tourism development.)

Contrary to the second quarter of 2015, real output in the manufacturing sector dropped in the second quarter of 2016 (-3.0%) because of a decline in refining and trading activities by the Isla refinery and a fall in ship repair activities. The poor performance of the ship repair industry was reflected by a decline in the number of man hours sold (-26.4%), consistent with fewer ships repaired (-42.4%).

The transport, storage, & communication sector also contributed negatively to GDP in the quarter ending June 2016 (-1.6%) because both the airport and the harbor performed poorly. The decline in air transportation services was reflected by a decrease in passenger transportation services provided by the domestic airlines to abroad during the April-June period of 2016. In addition, airport-related activities contract-

ed because both total passenger traffic and the number of commercial landings dropped. Harbor activities also decreased as a result of fewer cargo movements, oil storage activities, and ships piloted into the port of Curaçao.

Furthermore, real value added in the wholesale & retail trade sector dwindled in 2016's second quarter (-0.8%) due to less consumer and tourism spending as well as fewer activities in the free zone. The reduction in activities in the free-zone was ac-

companied by fewer international visitors, notably from Trinidad, Haiti, and Jamaica.

In contrast to the above, the construction, financial intermediation, and utilities sectors experienced a positive turnaround in the three months ending June 2016. Real output in the construction sector expanded by 3.1% because of more private and public investments.

Output growth in the financial intermediation sector (0.5%) was the result of an

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

	2015-II	2016-II
Agriculture, fishery, & mining	-2.6	3.1
Manufacturing	4.0	-3.0
Electricity, gas, & water	-1.2	1.0
Construction	-0.2	3.1
Wholesale & retail trade	1.0	-0.8
Restaurants & hotels	0.8	-5.0
Transport, storage, & communication	1.0	-1.6
Financial intermediation	-0.4	0.5
Real estate, renting, & business activity	-0.6	-0.4
Other community, social, & personal services	0.7	0.7
Private households	0.5	0.2
Total private sector	0.3	-0.3
Public sector	-0.4	0.0
Taxes minus subsidies	0.5	0.1
GDP	0.4	-0.2

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

increase in the domestic financial services industry, supported by a rise in other fees & income earned by the domestic commercial banks mitigated by a decline in net interest income. However, the international financial services industry contracted because of a drop in wages & salaries and other operational expenses. Meanwhile, increases in both electricity and water production contributed to the expansion in the utilities sector (1.0%).

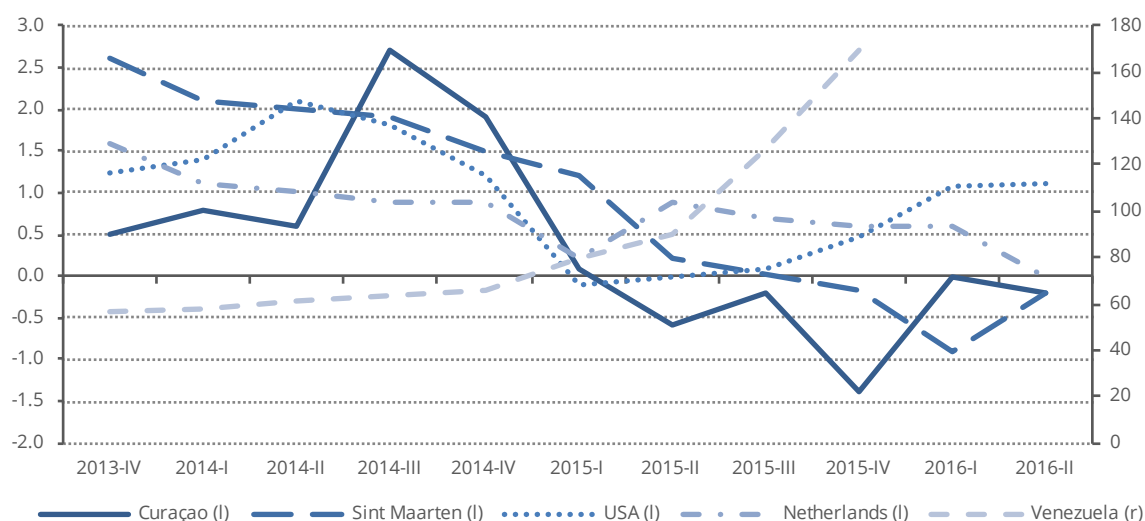
INFLATIONARY PRESSURES

During the second quarter of 2016, consumer price inflation in Curaçao was negative at -0.2%, compared to the deflation of 0.6% recorded in the second quarter of 2015. Similar to 2016's first quarter, Curaçao's inflation development stemmed mainly from the continued drop in international oil prices, mitigated by a rise in domestic food prices (see Graph 1).

An analysis of the developments in the Consumer Price Inflation (CPI) components in Curaçao reveals that in the three months ending June 2016, average prices

dropped in the categories "Housekeeping & furnishings" (-2.2%), "Transport & communication" (-2.0%), and "Housing" (-0.4%). In the "Housekeeping & furnishings" category, prices dropped particularly because of a double-digit decline in the prices of furniture and bedding. The price decline in the "Transport & communication" category was attributable mostly to a steep drop in fuel prices. In addition, average prices in the "Housing" category contracted because of a sharp decline in electricity prices and, to a smaller extent, a decrease in water tariffs. On the other hand, prices rose in the categories "Beverages & tobacco" (2.5%), "Food" (1.3%), "Clothing & footwear" (1.1%), and "Recreation & education" (0.3%). Compared to the second quarter of 2015, consumer prices in the "Food" category decelerated mainly because the price gains in potatoes, vegetables & fruit, and outdoor consumption were dampened by price declines in meat & fish and dairy products. (See Table 12A in Appendix I for more details.)

Graph 1 Developments in consumer prices (annual percentage change)



GENERAL ECONOMIC DEVELOPMENTS IN SINT MAARTEN

Sint Maarten's real output contracted by 0.3% in the second quarter of 2016, a slight deceleration compared to the 0.7% contraction recorded during the second quarter of 2015 (see Table 6). The contraction in real output resulted solely from a decline in domestic demand as net foreign demand rose. Meanwhile, inflationary pressures in Sint Maarten turned negative (-0.2%), the consequence of historically low international oil prices.

Despite growth in private investment, aggregate domestic demand contributed negatively to Sint Maarten's GDP during the second quarter of 2016. The growth in private investment spending was consistent with more business credit extended by domestic commercial banks and higher activities in the construction sector, such as, among other things, a large housing project in Maho. By contrast, consumer spending dropped, in line with less consumer credit extended by the domestic commercial banks. Public demand dropped because of declines in both in-

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

	2015-II	2016-II
Domestic expenditures, of which:	-0.5	-0.5
Private sector	-0.3	1.1
Investment	-0.2	2.5
Consumption	-0.1	-1.4
Government sector	-0.2	-1.6
Investment	-0.2	-0.6
Consumption	0.0	-1.0
Changes in inventory	0.1	0.1
Foreign net expenditures, of which:	-0.3	0.1
Export of goods and services	-2.0	-0.5
Import of goods and services	-1.7	-0.6
GDP	-0.7	-0.3

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

vestment and consumption. The lower public consumption was caused by the drop in outlays on wages & salaries during 2016's second quarter. However, net foreign demand contributed positively to real GDP because imports dropped at a faster pace than exports. The lower imports reflected the decline in domestic consumption and tourism spending during the second quarter of 2016. Meanwhile, exports contracted largely as a result of a drop in foreign exchange revenues from tourism activities.

DOMESTIC PRODUCTION

Sint Maarten's economic contraction during the June quarter of 2016 was the result of negative developments in both the private and public sectors.

An analysis at the sectoral level reveals that the wholesale & retail trade, restaurants & hotels, transport, storage, & communication, and real estate, renting, & business activities sectors contributed negatively to Sint Maarten's GDP, due largely to weak performance in the tourism sector, in particular cruise tourism (see Table 7). However, the contraction in those sectors was mitigated by positive performances in the construction, manufacturing, and utilities sectors.

Activities in the wholesale & retail trade sector contracted (-1.5%) during the second quarter of 2016 compared to the second quarter of 2015, albeit at a slower pace, because of fewer activities in the tourism sector and the decline in domestic demand. Real output in the restaurants & hotels sector fell during the April-June period of 2016 (-2.4%), attributable mainly to a sharp drop in cruise tourism. The marked drop in the number of cruise tourists (-21.1%) was

consistent with a decline in the number of cruise calls (-21.5%), due to, among other things, Sint Maarten losing cruise lines to regional competition such as Tortola. In addition, in part due to concerns over the presence of the Zika virus, stay-over tourism contracted slightly (-0.9%) on the back of fewer visitors from the United States--Sint Maarten's main tourism market--and from Latin America and the Caribbean. The contraction in stay-over tourism was mitigated by an increase in the number of visitors from Europe. (See Table 11 in Appendix I for more detail.)

The decline in activities in the transport, storage, & communication sector (-0.4%) was driven by a contraction in activities at both the airport and the harbor. Airport-related activities and air transportation activities of the domestic carrier Winair dropped in line with the decline in stay-over tourism. The decline in harbor activities was reflected by a lower number of ships piloted into the port of Sint Maarten, notably tankers and cruise ships. On the other hand, container movements increased, in line with an increase in freighters.

Real value added in the construction sector turned around positively during the second quarter of 2016 (1.1%), solely because of an increase in private investments, such as a large scale development project in the Maho area and the ongoing renovation of the Centrale Bank van Curaçao en Sint Maarten building in Philipsburg, among other things. The positive development in the manufacturing sector (4.0%) was attributable to increased yacht repair activities, the result of more yachts, especially mega yachts, visiting Sint Maarten during the second quarter of 2016 compared to the second quarter of 2015. Furthermore,

activities in the utilities sector rose (1.4%) in the June quarter of 2016, albeit at a slower pace than in the second quarter of 2015, as a result of increases in both electricity and water production, due to, among other things, more yachts in port drawing shore power and water.

Growth in the financial intermediation sector, however, remained muted (0.0%) in 2016's second quarter compared to the second quarter of 2015 as the rise in in-

terest income was offset by an increase in interest expenses of the domestic commercial banks.

INFLATIONARY PRESSURES

After an inflation rate of 0.2% in the second quarter of 2015, price developments on an annual quarterly basis show that Sint Maarten recorded negative inflation (-0.2%) in the second quarter of 2016. The deflationary pressures were influenced mainly by the steep decline in international oil prices.

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

	2015-II	2016-II
Agriculture, fishery, & mining	0.0	0.0
Manufacturing	-0.4	4.0
Electricity, gas, & water	3.2	1.4
Construction	-2.1	1.1
Wholesale & retail trade	-1.9	-1.5
Restaurants & hotels	-3.0	-2.4
Transport, storage, & communication	-0.7	-0.4
Financial intermediation	1.5	0.0
Real estate, renting, & business activities	-0.3	-0.1
Other community, social, & personal services	-4.2	-0.3
Private households	0.3	1.2
Total private sector	-0.7	-0.2
Public sector	-0.2	0.2
Taxes minus subsidies	0.2	-0.3
GDP	-0.7	-0.3

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

An analysis of the development in the CPI components reveals deflation in the categories “Transport & communication” (-1.2%), due mainly to the reduction in domestic gasoline prices, “Clothing & footwear” (-3.5%), “Housing” (-1.3%), “Recreation & education” (-1.2%), and “Housekeeping & furnishings” (-0.2%). The decrease in prices in the “Housing” category was influenced primarily by lower electricity prices. Meanwhile, inflationary pressures increased in the category “Beverages & tobacco” (0.7%). Inflationary pressures eased in the category “Food” (4.0%) primarily because of lower prices in the sub-categories dairy products and edible fats. (See Table 12B in Appendix I for more details.)

PUBLIC FINANCES

PUBLIC FINANCES OF CURAÇAO

During the second quarter of 2016, the independent board of financial supervision, CFT, continued to monitor several areas that can pose a risk to the public finances of Curaçao. These potential areas of concern include the sustainability of the social funds, the financial developments regarding the construction of the new hospital (HNO), and the finances of the public enterprises. Nevertheless, the government’s approach and commitments towards these areas is paying off, as reflected by an improvement in the fiscal position during the April – June period of 2016 compared to the same period of 2015.

The improved fiscal position of the government of Curaçao was reflected by a lower deficit in its current budget of NAf.71.2 million in the second quarter of 2016 com-

pared to the NAf.86.4 million deficit registered in the second quarter of 2015. This improvement was caused by an increase of NAf.214.9 million in government revenues moderated by a rise of NAf.199.7 million in expenditures. The rise in revenues stemmed primarily from an increase in nontax revenues and to a lesser extent from more tax earnings. Nontax revenues went up by NAf.188.0 million on the back of more social security income in the second quarter of 2016 compared to the second quarter of 2015. This increase reflected mainly the implementation of the amendment of Article 4, section 1 of the Budget Act³ that states that all expenses and income related to the social security bank, SVB, should be included in the government’s budget as of January 2016. Furthermore, tax revenues increased by NAf.26.9 million due mainly to more proceeds from taxes on income & profits and goods & services. Government spending rose because of more transfers and subsidies (NAf.173.7 million), particularly social security transfers, and more disbursements on wages & salaries (NAf.10.7 million). The increase in the social security transfers reflects mainly the implementation of the amendment of the Budget Act. Note that if the expenditures and income of the SVB are excluded, the government of Curaçao would have recorded a lower budget deficit of NAf.36.2 million in the second quarter of 2016, which indicates that SVB’s expenses exceeded its revenues during the second quarter of 2016. (See Tables 13A and 13B in Appendix I for a detailed overview.)

The government of Curaçao covered part of its budget deficit during the June quarter of 2016 by drawing down its deposits

³ Landsverordening comptabiliteit 2010.

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

	2015-II	2016-II
Monetary financing	68.3	14.0
Central bank	45.1	-16.9
Commercial banks	23.2	30.9
Nonmonetary financing	18.1	57.2
Government securities with nonbanks	0.0	59.0
Other	18.1	-1.8
Cash balance	-86.4	-71.2

at the commercial banks (NAf.30.9 million), causing a monetary expansionary impact. However, the increase in government deposits at the central bank mitigated this expansion. Furthermore, on June 6, 2016, the government issued NAf.59.0 million in bonds to finance several investment projects, including the renovation of school buildings and the automation of tax assessment and collection (see Table 8).

Public sector debt

During the April – June period of 2016, the total outstanding debt of the government of Curaçao reached NAf.2.605 billion, an increase of NAf.96.6 million compared to the end of March 2016. The rise in Curaçao's public debt stemmed from increases in the foreign and domestic debt components. The foreign debt component rose mainly because of the issuance of the NAf.59.0 million bond in June, while the domestic debt component increased as a result of more outstanding arrears towards the public pension fund, APC, and the social security bank, SVB. Consequently, the debt-to-GDP ratio rose to 46.1% at the end

of the second quarter of 2016, well above the 40% benchmark that the IMF considers sound for a small and open economy such as Curaçao. (See Table 13C in Appendix I for more details.)

PUBLIC FINANCES OF SINT MAARTEN

The government of Sint Maarten recorded a surplus of NAf.0.7 million on its current budget during the second quarter of 2016, a positive turnaround compared to the NAf.12.5 million deficit registered in the second quarter of 2015. This improvement stemmed from an increase in government revenues of NAf.4.5 million combined with a decrease of NAf.8.7 million in government expenditures. Nevertheless, the government still needs to implement measures to increase its revenues in a more sustainable manner, including strengthening the tax department. Furthermore, measures to comply with the September 2015 instruction of the Kingdom Council of Ministers still need to be implemented, including reform of the pension and social security systems.

The rise in revenues in 2016's second quarter was caused by an increase of NAf.9.0 million in tax proceeds, particularly profit and property transfer tax, mitigated by a decline in the nontax revenues. Nontax revenues dropped because of, among other things, a decline in the number of work permits issued, less business license fees collected, and less dividend received in the second quarter of 2016 compared to the second quarter of 2015. Meanwhile, expenditures went down mainly as a result of less disbursements on goods & services (NAf.10.3 million) and subsidies (NAf.1.6 million). (See Tables 13D and 13E in Appendix I for a detailed overview.)

During the second quarter of 2016, the government of Sint Maarten used its current budget surplus together with withdrawals from its deposits at the central bank and the commercial banks to lower its liabilities towards other sectors. Consequently, the withdrawals from the banking system led to a monetary expansionary

impact during the April – June period of 2016 (see Table 9).

Public sector debt

The total outstanding debt of the government of Sint Maarten remained unchanged at NAf.692.2 million at the end of the June quarter of 2016 compared to the end of March 2016. However, because Sint Maarten's GDP increased, the debt-to-GDP ratio decreased slightly from 36.1% at the end of the first quarter of 2016 to 35.9% at the end of the second quarter (See Table 13F in Appendix I for more details).

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

	2015-II	2016-II
Monetary financing	38.5	6.8
Central bank	15.2	6.6
Commercial banks	23.3	0.2
Nonmonetary financing	-26.0	-7.4
Government securities with nonbanks	0.0	0.0
Other	-26.0	-7.4
Cash balance	-12.5	0.7

DEVELOPMENTS IN THE BALANCE OF PAYMENTS OF THE MONETARY UNION

Based on preliminary data and estimates of the Bank,⁴ the deficit on the current account of the monetary union widened by NAf.11.0 million during the second quarter of 2016 compared to the second quarter of 2015. The higher current account deficit was the result of a worsening of the income balance, mitigated by an increase in the net export of goods and services combined with a rise in net current transfers received from abroad. Meanwhile, the gross official reserves of the monetary union expanded by NAf.116.3 as the external financing was more than sufficient to cover the current account deficit (see Table 10). The increase in external financing reflected, among other things, the inflow of funds related to the issuance of bonds by the government of Curaçao in June

2016, which were allotted entirely to the Dutch State Treasury Agency (DSTA).⁵

Developments in the net exports of goods and services in Curaçao

In Curaçao, the net export of goods and services is estimated to have dropped, ascribable to a decline in exports mitigated by lower imports. The import bill shrank mainly as a result of lower oil and non-oil merchandise imports. Oil imports dropped further during the April-June period of 2016 because of the decline in international oil prices. Meanwhile, the drop in merchandise imports is in line with the decline in consumer spending and the drop in tourism expenditures recorded during the second quarter of 2016 compared to the second quarter of 2015.

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

	2014-II	2015-II	2016-II
Current account	-93.5	-316.6	-327.6*
Change in gross reserves of the central bank**	-217.3	178.1	-116.3
Foreign exchange	-272.1	201.4	-25.5
held at foreign central banks	-153.2	183.0	58.6
held at foreign commercial banks	-118.9	18.4	-84.1
Other claims	54.8	-23.3	-90.8

* Estimate of CBCS.

** A minus sign implies an increase.

⁴ 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.

⁵ According to the debt relief agreement, the DSTA is legally obligated to bid on debt securities issues by Curaçao and Sint Maarten for the full requested amount at interest rates prevailing in the Dutch capital market.

According to the Bank's estimates, exports were down reflecting, among other things, lower foreign exchange earnings from bunkering activities due to the decline in international oil prices. Moreover, the refining fee earned by the Isla refinery dropped in line with the decline in refining activities registered during the June quarter of 2016. Foreign exchange revenues from tourism activities also contracted as the number of both stay-over and cruise visitors dropped. In addition, the transportation sector, particularly the air transportation sector, generated lower foreign exchange earnings.

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

The net export of goods and services in Sint Maarten is estimated to have increased as the decline in imports surpassed the export contraction. Exports contracted on the back of lower foreign exchange earnings from tourism activities, reflecting the disappointing performance of both stay-over and cruise tourism during the second quarter of 2016. Meanwhile, imports dropped mainly because of lower merchandise imports by the wholesale & retail trade sector, reflecting lower domestic consumption and the decline in tourism spending.

Developments in the income balance and the current transfers balance

The income balance is estimated to have worsened by NAf.40.3 million during the second quarter of 2016 compared to the second quarter of 2015 as interest income earned on foreign portfolio investments rose, moderated by an increase in interest income paid to foreign investors in the monetary union. Meanwhile, net current transfers into the monetary union were up by NAf.16.9 million because of an increase in current transfers received from abroad, mitigated by more transfers paid to abroad.

APPENDIX I

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

	Curaçao				Sint Maarten			
	2015-II		2016-II		2015-II		2016-II	
North America, of which:	28.0	(5.4)	-11.7	(-2.0)	-0.5	(-0.3)	1.1	(0.7)
U.S.A.	19.8	(3.1)	-10.1	(-1.5)	-	-	-	-
Europe, of which:	5.1	(2.2)	-0.6	(-0.3)	7.9	(1.6)	22.3	(5.4)
The Netherlands	7.1	(2.4)	1.9	(0.7)	-	-	-	-
South & Central America, of which:	-13.9	(-3.5)	-4.3	(-1.1)	0.5	(0.0)	-19.1	(-0.5)
Venezuela	-23.3	(-3.4)	-3.0	(-0.4)	-	-	-	-
Colombia	2.6	(0.1)	12.0	(0.4)	-	-	-	-
Surinam	3.5	(0.1)	-32.2	(-0.7)	-	-	-	-
Caribbean, of which:	4.7	(0.4)	-6.5	(-0.5)	8.6	(0.5)	-32.1	(-1.2)
Dominican Republic	-19.6	(-0.1)	47.7	(0.5)	-	-	-	-
Total	-0.7	-	-3.3	-	2.6	-	-0.9	-

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

^a Percentage change.

^b The weighted growth rates are depicted between brackets.

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

	2015-II	2015-III	2015-IV	2016-I	2016-II
Food	4.3	3.1	2.2	2.2	1.3
Beverages & tobacco	3.8	2.6	1.4	1.8	2.5
Clothing & footwear	-0.9	-3.8	-2.7	-2.5	1.1
Housing	-3.5	-2.1	-2.5	0.2	-0.4
Housekeeping & furnishings	1.7	1.2	0.6	-1.0	-2.2
Health	3.0	0.6	-0.6	-0.6	0.0
Transport & communication	-4.1	-1.3	-5.0	-2.5	-2.0
Recreation & education	1.8	0.7	0.4	1.0	0.3
Other	2.5	1.3	0.4	1.2	1.1
General inflation rate	-0.6	-0.2	-1.4	0.0	-0.2

Source: Central Bureau of Statistics of Curaçao.

^a Annual quarterly percentage change.

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

	2015-II	2015-III	2015-IV	2016-I	2016-II
Food	7.7	7.0	6.1	6.3	4.0
Beverages & tobacco	-0.4	-0.4	-0.3	-0.3	0.7
Clothing & footwear	1.0	0.0	-2.4	-4.4	-3.5
Housing	-1.9	-2.3	-1.8	-2.1	-1.3
Housekeeping & furnishings	3.4	3.3	3.2	1.8	-0.2
Health	3.2	4.4	3.0	0.9	1.4
Transport & communication	-3.7	-2.4	-2.6	-5.0	-1.2
Recreation & education	-0.2	-1.5	-1.5	-1.5	-1.2
Other	1.5	0.0	0.4	0.3	0.9
General inflation rate	0.2	0.0	-0.2	-0.9	-0.2

Source: Department of Statistics of Sint Maarten.

^a Annual quarterly percentage change.

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

	2014-II	2015-II	2016-II
Revenues	358.2	357.6	572.5
Tax revenues, of which:	322.9	328.1	355.0
Taxes on income and profits	153.0	144.4	161.5
Taxes on property	8.9	16.6	17.0
Taxes on goods and services	120.5	123.8	131.8
Taxes on international trade and transactions	38.8	41.4	42.4
Nontax and other revenues	35.3	29.5	217.5
Expenditures	418.3	444.0	643.7
Wages and salaries	192.0	186.4	197.1
Goods and services	43.2	37.3	40.0
Transfers and subsidies	144.2	183.3	357.0
Interest payments	25.0	23.1	29.0
Other expenditures	13.9	13.9	20.6
Budget balance	-60.1	-86.4	-71.2

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

	2014-II	2015-II	2016-II
Taxes on income and profits, of which:	153.0	144.4	161.5
Profit tax	38.1	32.9	49.2
Wage tax	113.4	114.9	113.0
Taxes on property, of which:	8.9	16.6	17.0
Land tax/OZB ¹	3.4	12.0	11.5
Property transfer tax	5.2	4.4	4.2
Taxes on goods and services, of which:	120.5	123.8	131.8
Sales tax	91.4	93.7	98.3
Excises, of which:	19.8	18.9	21.7
Excise on gasoline	11.1	11.8	12.7
Motor vehicle tax	4.2	5.1	4.8
Taxes on international trade and transactions, of which:	38.8	41.4	42.4
Import duties	38.6	41.2	42.4

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.)

	2015-II	2015-III	2015-IV	2016-I	2016-II
Domestic debt	215.1	188.3	253.2	263.9	295.3
of which:					
Long-term securities	18.4	18.4	18.4	18.4	18.4
Short-term securities	-.-	-.-	-.-	-.-	-.-
APC	55.4	49.0	70.5	98.1	142.1
SVB	59.9	36.2	42.3	53.3	77.8
Foreign debt	2,204.3	2,204.1	2,242.3	2,244.4	2,309.6
Total debt	2,419.4	2,392.4	2,495.5	2,508.3	2,604.9
(% of GDP)	42.5%	41.9%	44.3%	44.5%	46.1%

¹ Debt figures do not comprise the entire collective sector.

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

	2014-II	2015-II	2016-II
Revenues	104.6	104.2	108.7
Tax revenues	84.5	83.0	92.0
Concessions and fees	9.8	9.8	9.7
Licenses	5.8	5.0	3.5
Other revenues	4.5	6.4	3.4
Expenditures	120.0	116.7	108.0
Wages and salaries	56.6	50.3	52.2
Goods and services	23.3	27.0	16.7
Subsidies	24.8	28.1	26.5
Social security	10.7	5.9	5.4
Interest payments	2.7	3.1	3.2
Other expenditures	1.9	2.2	4.0
Budget balance	-15.5	-12.5	0.7

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

	2014-II	2015-II	2016-II
Taxes on income and profits, of which:	36.9	36.4	45.8
Profit tax	4.1	4.7	10.2
Wage tax	32.4	33.0	34.7
Taxes on property, of which:	3.4	3.5	5.1
Land tax	1.4	1.6	1.4
Property transfer tax	2.0	1.9	3.7
Taxes on goods and services, of which:	52.5	51.6	50.0
Turnover tax	37.0	36.9	34.2
Vehicle tax	0.5	0.4	0.6
Excise on gasoline	4.3	3.3	3.5

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

	2015-II	2015-III	2015-IV	2016-I	2016-II
Domestic debt	199.2	174.2	191.5	191.0	191.0
of which:					
Long-term securities	0.1	0.1	0.1	0.1	0.1
Short-term securities	-.-	-.-	-.-	-.-	-.-
APS	51.6	51.7	83.6	83.6	83.6
SZV	105.5	73.7	75.8	75.8	75.8
Foreign debt	501.3	501.3	501.3	501.3	501.3
Total debt	700.5	675.4	692.7	692.2	692.2
(% of GDP)	36.8%	35.4%	36.3%	36.1%	35.9%

IV MONETARY DEVELOPMENTS

MONETARY POLICY

The Bank's monetary policy is directed at reducing the surplus in the money market. For this purpose, the Bank uses two instruments: the auctioning of certificates of deposit⁶ (CDs) and the reserve requirement. As of April 25, 2016, the Bank aimed only at the refinancing of maturing CDs during the bi-weekly auctions instead of offering a higher amount pending an evaluation of the effectiveness of the current monetary policy. As a consequence, the amount of outstanding CDs rose only from NAf.230.7 million at the end of March 2016 to NAf.240.4 million at the end of June 2016. Meanwhile, the percentage of the reserve requirement remained unchanged at 18.00% during 2016's second quarter. However, due to an increase in the adjusted domestic debt of the commercial banks, i.e., the base on which the reserve requirement is calculated, the outstanding amount increased by NAf.39.8 million (3.7%) to NAf.1,119.1 million at the end of 2016's June quarter.

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

MONETARY BASE

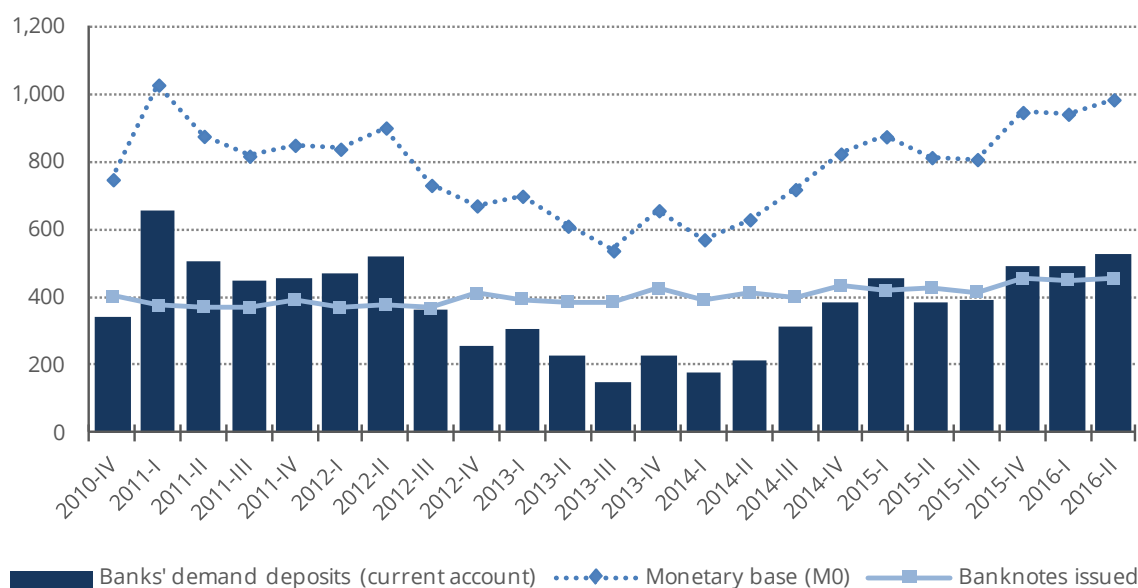
The monetary base, M0, consists of currency in circulation and the commercial

banks' current account balances with the Bank. The monetary base expanded by NAf.42.5 million (4.5%) during the second quarter of 2016 due to increases in the current account balances of the commercial banks (NAf.38.0 million) and in currency in circulation (NAf.4.5 million). The annual growth rate of M0 rose from 7.6% in March to 20.9% in June 2016. See Graph 2 for the 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 2016 second-quarter increase in M0 was driven by an increase in the Bank's assets, mitigated by a rise in the remaining liabilities. The growth in assets was supported mainly by an increase in the Bank's foreign assets, resulting from the higher value of the Bank's gold stock and more foreign reserves. Furthermore, short-term liquidity provided to the commercial banks also contributed to the growth in assets. Meanwhile, the rise in the remaining liabilities was attributable to all its components, particularly capital and reserves, private sector deposits, and foreign liabilities. The increase in capital and reserves was related to the higher value of the Bank's gold stock.

⁶ These are negotiable securities issued by the Bank.

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

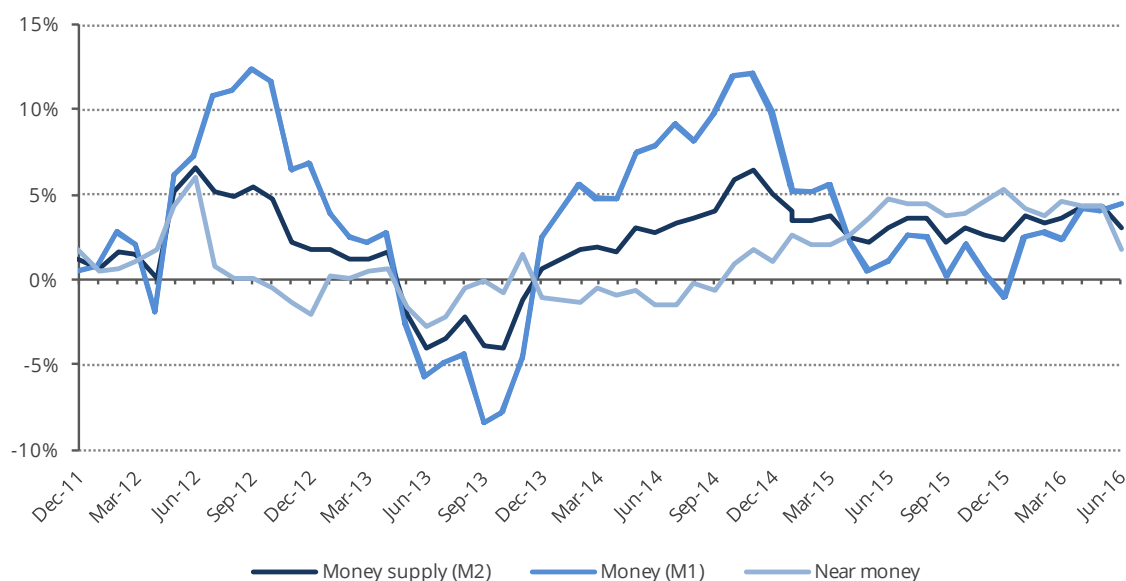


MONETARY AGGREGATES

Broad money (M2) declined by NAf.13.4 million (0.2%) to NAf.8,182.4 million during the second quarter of 2016. The annual growth rate of M2 slowed from 3.6% in March 2016 to 3.0% in June 2016 (See Graph 3).

The contraction in the money supply during the June quarter of 2016 was driven by a NAf.34.8 million (0.8%) drop in the near money component, entirely the result of a decline in time deposits by NAf.44.5 million (2.0%). Savings deposits, on the other hand, increased by NAf.9.7 million (0.5%).

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



By contrast, the narrow money component (M1) rose by NAf.21.4 million (0.6%), the result of a NAf.15.2 million (0.4%) increase in demand deposits and a NAf.6.2 million (1.7%) increase in currency in circulation. The increase in demand deposits was supported by the growth in guilder deposits (NAf.89.2 million or 3.7%) moderated by a decline in foreign currency deposits (-NAf.74.0 million or -7.2%). (See Table 15 in the Appendix for an overview). M1 grew by 4.5% on an annual basis in 2016's June quarter, an acceleration compared to the 2.4% growth registered in the March quarter of 2016 (See Table 15 in Appendix II for more details.)

FACTORS AFFECTING THE MONEY SUPPLY

The drop in broad money during the second quarter of 2016 was due to a contraction in the net foreign assets of the banking system mitigated by a growth in net domestic assets. Net foreign assets declined by NAf.106.3 million (2.3%), the result of a NAf.247.1 million (17.3%) decline in the net foreign assets of the commercial banks and an increase of NAf.140.9 million (4.5%) in net foreign assets of the Bank. Net domestic assets grew by NAf.92.9 million (2.6%), reflecting an increase in credit to the private sector and a lower net liability towards the government sector, mitigated by a decline in miscellaneous balance sheet items.

The loan component of net credit extension to the private sector increased by 2.1% in 2016's second quarter after being almost flat (0.1%) in the first quarter of 2016. The second-quarter expansion resulted from increases in mortgages (1.5%), consumer loans (1.6%), and business loans (3.1%). In Curaçao, total loans expanded by 2.1%,

the result of increases in business loans (3.8%), consumer loans (2.6%), and mortgages (0.8%). In Sint Maarten, private sector loans outstanding increased by 1.9% due to increases in mortgages (3.6%) and business loans (1.2%). Consumer loans, on the other hand, dropped (1.2%). On an annual basis, total loans expanded by 1.9%, the result of expansions in both Curaçao (0.6%) and Sint Maarten (5.7%).

The lower net liabilities towards the governments was the result of a drawdown of deposits by the government of Curaçao (NAf.13.9 million) and the government of Sint Maarten (NAf.6.7 million). Meanwhile, the drop in memorandum balance sheet items reflected mainly an increase in the capital and reserves of the Bank driven by the higher value of the Bank's gold stock. (See Table 16 in Appendix II for more details.)

DEVELOPMENTS IN DOMESTIC INTEREST RATES

The Bank absorbs excess liquidity from the rest of the banking system through, among other things, the auctioning of certificates of deposit (CDs). When setting the rates offered on CDs during the bi-weekly auctions, the Bank takes into account developments in the international financial markets. During the second quarter of 2016, the lower premium on the benchmark one-month US dollar libor rate⁷ offered by the Bank contributed to a lower interest on CDs. The benchmark rate increased only marginally during the second quarter of 2016, but as a consequence of a 12-basis points lower premium, the maximum rate offered on a 1-month CD declined from 0.48% at the

⁷ The London interbank offered rate, the main gauge of interbank lending.

end of March 2016 to 0.37% at the end of June 2016.

No major changes occurred in commercial banks' deposit and lending rates during the second quarter of 2016. In borrowing rates, the weighted average interest rate on both 12-month time deposits and passbook savings remained stable at 2.5% and 1.2%, respectively. In lending rates, the weighted average rate of mortgages remained unchanged at 6.3%, while the average rate on time loans dropped from 6.5% at the end of March 2016 to 6.3% at the end of June 2016.

Due to the standing subscription by the Dutch State Treasury Agency (DSTA),⁸ which subscribes at rates prevailing in the Netherlands, changes in the yields on government paper are determined by developments in the Dutch capital market. The average effective yield on 5-year government bonds dropped further, from -0.27% at the end of 2016's first quarter to -0.46% at the end of the second quarter of 2016. Moreover, the indicative yield on 12-month treasury bills also dropped from -0.46% at the end of March 2016 to -0.59% at the end of the second 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.)

⁸ 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.

Box: The market for bank reserves

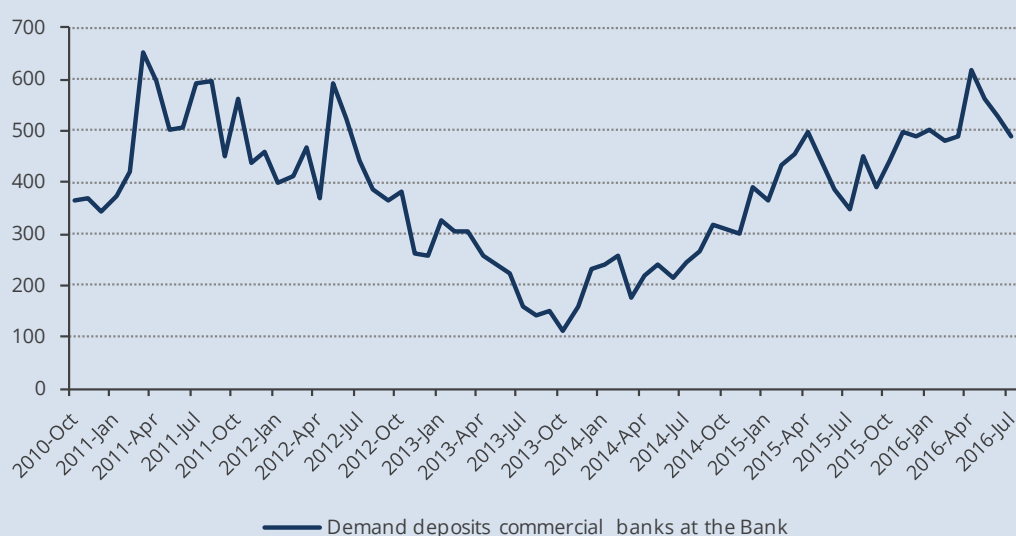
The current monetary policy instruments in effect at the Bank are aimed mainly at influencing the commercial banks' available liquidity, which is reflected by the level of their current account balances at the Bank. The commercial banks hold these non-interest-bearing deposits to settle payments between each other and other accountholders through the books of the Bank and for precautionary reasons. These funds are also called reserve balances. Factors that affect the size of the reserve balances are, among other things, the transfer of funds between the accounts of the governments of Curaçao and Sint Maarten at the Bank and their accounts at the commercial banks, changes in the public's demand for currency, and foreign exchange transactions of the commercial banks with the Bank. Furthermore, the implementation of the monetary policy tools, i.e., the reserve requirement and the auctioning of certificates of deposit affects the size of the reserve balances.

The development in the current account bal-

ances can be seen in Figure 1. The money market, specifically the interbank market where commercial bank deposits at the Bank are used to settle financial transactions, can play a key role in monetary policy because its size influences the available liquidity of the commercial banks. Currently, the commercial banks have two types of deposits at the Bank, namely, current account balances and time deposits consisting of the reserve requirement and certificates of deposit (CDs). Because the reserve requirement is a blocked account and the CDs are investments of the commercial banks that mature in the future, only the commercial banks' current account balances at the Bank can be used for settlement purposes.

Whenever financial transactions take place between commercial banks, these interbank payments result in reserve balances moving from one commercial bank to another. Hence, in the case of interbank transactions, the total reserve balance does not change.

Figure 1 Current account balances commercial banks at the Bank



Box continued...

Can interbank lending be used as a monetary policy tool?

Three elements are key in monetary policy implementation by central banks: the selection of a policy signal, the choice of an operational target, and the use of various instruments to achieve the operational target. In the interbank market, typically a short-term interest rate could be targeted. However, this is possible only if the commercial banks trade with each other in the interbank market, i.e., lend to and borrow from each other. Through this mechanism, a price, i.e., interest rate, for these reserves could be established. The Bank could then target a short-term interest rate as a pol-

icy tool. In such a situation, it is the terms at which these bank reserves are made available that can influence other interest rates in the financial market. However, the current prevalence of excess liquidity in the money market hampers a move toward an interest rate as an operational monetary policy target such as the Fed funds rate in the United States.

APPENDIX II

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

	2016-I	2016-II	Change	
			Amount	Percentage
Currency in circulation	451.5	456.1	4.5	1.0
Banks' demand deposits (current account)	490.2	528.2	38.0	7.7
Monetary base (M0)	941.8	984.3	42.5	4.5
Central bank assets				
Foreign assets (including gold)	3,490.4	3,669.6	179.3	5.1
Claims on deposit money banks	97.8	152.6	54.8	56.1
Claims on the government	0.0	0.0	0.0	4.7
Claims on government agencies and institutions	386.1	372.4	-13.7	-3.5
Fixed and other assets	130.4	131.7	1.3	1.0
less:				
Central bank remaining liabilities				
Private sector deposits, of which:	1,361.2	1,437.6	76.3	5.6
Time deposits commercial banks	1,298.0	1,359.5	61.5	4.7
Government deposits	464.5	474.9	10.4	2.2
Foreign liabilities	393.5	420.8	27.3	6.9
Other liabilities	54.0	54.5	0.4	0.8
Capital and reserves	889.5	954.3	64.8	7.3

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

	2015-IV		2016-I		2016-II	
	Amount	%	Amount	%	Amount	%
Money supply (M2)	49.5	0.6%	222.7	2.8%	-13.4	-0.2%
Money (M1)	-11.0	-0.3%	210.2	5.8%	21.4	0.6%
Coins & notes with the public	31.0	9.2%	-6.7	-1.8%	6.2	1.7%
Total demand deposits, of which:	-42.0	-1.3%	216.8	6.7%	15.2	0.4%
Netherlands Antillean guilders	-68.5	-2.8%	88.1	3.8%	89.2	3.7%
Foreign currency	26.6	3.0%	128.7	14.2%	-74.0	-7.2%
Near money	60.5	1.4%	12.6	0.3%	-34.8	-0.8%
Time deposits	-6.3	-0.3%	-25.7	-1.1%	-44.5	-2.0%
Savings	66.8	3.3%	38.3	1.8%	9.7	0.5%

Table 16 Monetary survey (in millions NAf.)

	2015-II	2015-III	2015-IV	2016-I	2016-II
Money supply (M2)	7,940.3	7,923.6	7,973.1	8,195.8	8,182.4
Money (M1)	3,674.5	3,619.9	3,608.9	3,819.1	3,840.5
Coins & notes with the public	345.5	336.5	367.5	360.8	367.0
Total demand deposits, of which:	3,329.0	3,283.4	3,241.4	3,458.3	3,473.5
Netherlands Antillean guilders	2,415.3	2,405.4	2,336.9	2,425.0	2,514.2
Foreign currency	913.7	878.0	904.6	1,033.3	959.3
Near money	4,265.8	4,303.7	4,364.2	4,376.8	4,342.0
Time deposits	2,221.6	2,274.8	2,268.4	2,242.7	2,198.2
Savings	2,044.2	2,029.0	2,095.8	2,134.0	2,143.7
Factors affecting the money supply					
Net domestic assets	3,711.5	3,738.9	3,787.1	3,642.3	3,735.2
Government sector	-658.2	-620.9	-589.7	-620.7	-600.1
Former central government	-73.1	-73.3	-73.3	-73.3	-73.3
Curaçao	-495.6	-473.3	-460.5	-502.1	-488.2
Sint Maarten	-89.4	-74.3	-56.0	-45.3	-38.6
Private sector	6,160.6	6,098.9	6,145.6	6,182.8	6,313.9
Memorandum items	-1,790.9	-1,739.1	-1,768.8	-1,919.8	-1,978.6
Net foreign assets	4,228.8	4,184.7	4,186.0	4,553.5	4,447.3
Central bank	3,056.7	3,032.4	2,937.0	3,123.9	3,264.8
Commercial banks	1,154.2	1,152.3	1,249.0	1,429.6	1,182.5

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

	2015-II	2015-III	2015-IV	2016-I	2016-II
Government loans by commercial banks	0.0	0.2	0.4	0.8	0.2
Government of Curaçao	0.0	0.2	0.4	0.8	0.2
Government of Sint Maarten	0.0	0.0	0.0	0.0	0.0
Private sector loans Curaçao	4,050.1	4,015.9	3,980.8	3,988.8	4,073.5
Mortgages	1,869.0	1,849.4	1,825.6	1,840.0	1,853.9
Consumer loans	875.8	888.0	855.0	852.0	873.7
Business loans	1,305.3	1,278.5	1,300.2	1,296.8	1,345.9
Private sector loans Sint Maarten	1,390.2	1,409.3	1,447.1	1,442.3	1,469.1
Mortgages	656.8	651.5	662.2	675.8	700.4
Consumer loans	296.1	296.0	299.2	295.0	291.6
Business loans	437.3	461.9	485.7	471.5	477.1

Table 17 Developments in domestic interest rates (in percentage)

	2015-II	2015-III	2015-IV	2016-I	2016-II
Central bank					
Pledging rate	1.0	1.0	1.0	1.0	1.0
Maximum CD rate (1 month)	0.29	0.33	0.38	0.48	0.37
Commercial bank borrowing rates					
Passbook savings	1.2	1.3	1.2	1.2	1.2
Time deposits (12-month)	2.1	2.2	2.3	2.5	2.5
Commercial bank lending rates					
Mortgages	6.7	6.7	6.4	6.3	6.3
Time loans	7.2	7.3	6.9	6.5	6.3
Government securities					
Government bonds (5-year effective yield)	0.10	0.09	0.03	-0.27	-0.46
Treasury bills (12-month)	-0.22	-0.24	-0.40	-0.46	-0.59

V COMMERCIAL BANKING SECTOR DEVELOPMENTS*

BALANCE SHEET AND INCOME STATEMENT

The total assets of the commercial banks increased by 2.2% at the end of the second quarter of 2016 compared to the second quarter of 2015, reaching NAf.16.1 billion. The expansion of the aggregate balance sheet of the commercial banks resulted primarily from an increase in currency and deposits (5.3%), with interest-bearing cash (8.7%) the main contributor to the expansion, because noninterest-bearing cash (-0.1%) contracted. Increases in loans to both households (1.9%) and nonfinancial corporations (0.9%) caused most of the expansion in loans (1.2%), offset in part by the contraction in loans to agencies and institutions (-17.0%) and other financial corporations (-33.2%). The expansions in investments in unconsolidated subsidiaries and affiliates (13.7%) and other assets (27.8%) also contributed to the increase in total assets. By contrast, investments declined (-10.3%) as a result of a drop in shares and other equity (-23.8%) and debt securities (-4.1%). (See Table 18 in Appendix III for more details.)

The total debt of the commercial banks increased by 1.7% from the second quarter of 2015 to the second quarter of 2016, with increases in currency and deposits (1.2%) and other liabilities (20.9%) exceeding the decrease in total borrowings (-48.0%). The increase in currency and deposits can be attributed to increases in both demand (1.9%) and savings deposits (1.5%), while time deposits contracted (-0.9%). 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 6.6% with the capital base (7.8%) the main contributor to this rise.

The commercial banks reported a total gross income (i.e., net interest income plus noninterest income) of NAf.451.1 million in the second quarter of 2016, a decrease of 1.9% compared to the second quarter of 2015. A drop in interest income (-3.0%) and an increase in interest expenses (6.2%) were the main contributors to the decline in gross income. However, net income before extraordinary items and taxes increased by 0.9% because of decreases in both noninterest expenses (-0.8%) and provisions (-28.5%). The decline in noninterest expenses can be explained by decreases in both occupancy expenses (-5.8%) and other operating expenses (-5.7%). Last, extraordinary items increased from NAf.-11.3 million in the second quarter of 2015

* 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.

to NAf.0.7 million in the second quarter of 2016, income tax payable declined, and dividends payable remained stable. As a result, retained earnings totaled NAf.71.1 million in the second quarter of 2016, a 32.5% increase compared to the second quarter of 2015. (More details are provided in Table 19 in Appendix III.)

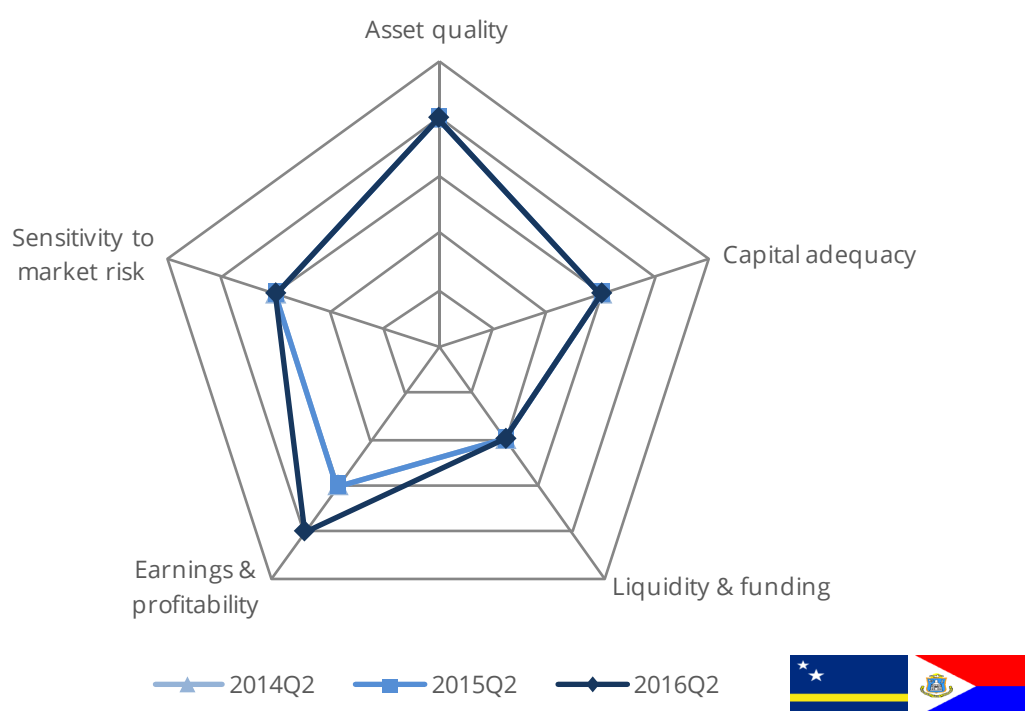
FINANCIAL SOUNDNESS INDICATORS

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

Graph 4 Financial stability cobweb of commercial banking sector



analysis. The risk in earnings & profitability increased in the second quarter of 2016 compared to 2015's second quarter, while the capital adequacy, asset quality, liquidity & funding, and sensitivity to market risk remained stable.

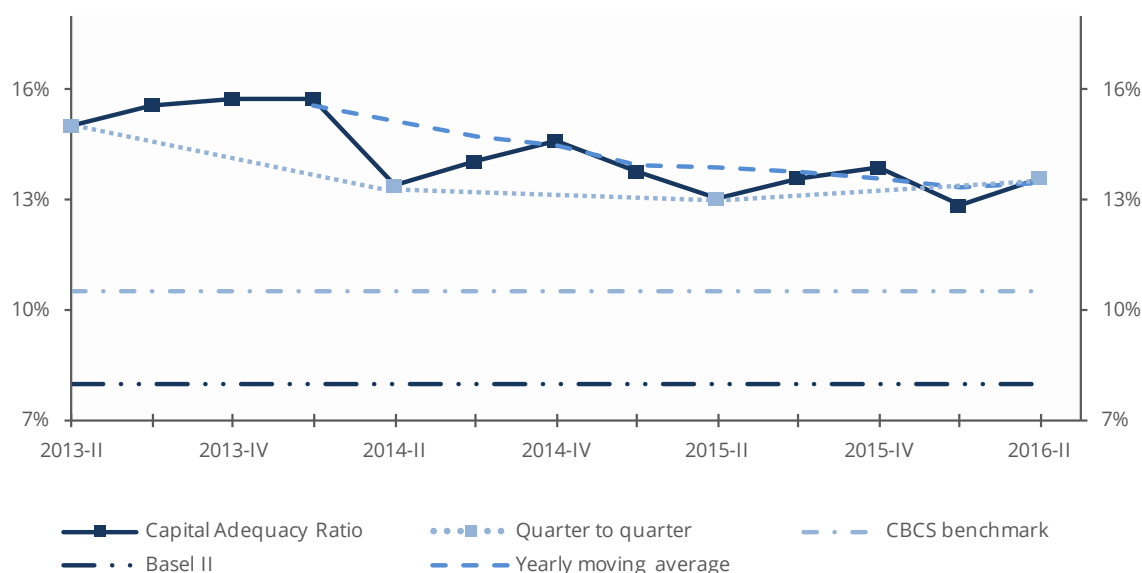
This overview is complemented by the aggregate balance sheet, aggregate income statement, and financial soundness indicators.⁹ (Tables 18-20 in Appendix III provide details.) As can be seen from Table 20, more than half of the indicators outperformed the four-year average.

CAPITAL ADEQUACY

Capital adequacy and availability ultimately determines the robustness of financial institutions to withstand shocks to their balance sheets. Capital provides not only a cushion for losses, but also a buffer for

deposit insurance, while controlling excessive risk-taking by banks. The capital adequacy ratio (i.e., tier-1 and tier-2 capital to risk-weighted assets) reached 13.6% at the end of the second quarter of 2016, an increase of 60 basis points compared to the second quarter of 2015. The capital adequacy ratio slightly underperformed the four-year average, indicating a downward trend in the capital stock of the commercial banks. However, the capital adequacy ratio is still well above the benchmark of 8% under the Basel II agreements and the Bank's benchmark of 10.5% (see Graph 5). The financial leverage ratio (i.e., tier-1 and tier-2 capital to total assets) increased by 30 basis points, reaching 9.1% at the end of the second quarter of 2016. This development should be acknowledged with some reservation, however, as the NPL¹⁰ (net of provisions) to capital ratio remained above

Graph 5 Trend analysis of the capital adequacy ratio



⁹ 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.

¹⁰ Nonperforming loans.

the four-year average of 46%. 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 2016 compared to the previous years.

ASSET QUALITY

The banks' exposure to credit risk is also reflected in the NPL to total gross loans ratio. This ratio decreased from 12.1% at the end of the second quarter of 2015 to 11.9% at the end of the second quarter of 2016, indicating a slight improvement of the asset quality in the loan portfolio of the commercial banks. However, the provisions to NPL ratio of the banks decreased by 5.0 percentage points, reaching 33% at the end of the second quarter of 2016, slightly underperforming the four-year average. This development indicates that the banks are returning to their reserved attitude towards precautionary measures to cover their credit risk, decreasing 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 2016. Furthermore, the ratio of foreign currency-denominated liabilities to total liabilities decreased by 2.4 percentage points to 52% at the end of the second quarter of 2016. However, a level above 50% still underscores the banks' high reliance on foreign currency. Last, the large exposures of loans, leases, and advances to capital ratio improved from 311% at the

end of the second quarter of 2015 to 274% at the end of the second quarter of 2016. The Bank still monitors this ratio closely since it also indicates vulnerabilities arising from concentration risk. In conclusion, the risk in asset quality remained stable in the second 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 1.0% at the end of the second quarter of 2016, 30 basis points lower than in the second quarter of 2015. The deposit takers' efficiency in using their capital (i.e., return on equity ratio) followed a similar trend, decreasing significantly by 3.5 percentage points to 11.2% at the end of the second quarter of 2016. The spread between lending and deposit rates decreased by 60 basis points to 5.6% at the end of the second quarter of 2016. The lower spread can be explained by a continued downward trend in the lending rate while the funding rate remained stable. The development in 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 2.3 percentage points to 56% at the end of the second quarter of 2016, equal to the four-year average. Furthermore, the banks were able to maintain their efficiency 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 2016. Last, the share of net interest earnings (i.e., interest earned less interest expenses) in gross income decreased by 1.4 percentage points to 63% at the end of the

second quarter of 2016, slightly below the four-year average. The change in this ratio indicates that the banks improved their diversification among sources of income, making it easier to withstand shocks. In conclusion, the risk in earnings & profitability increased in the second quarter of 2016 compared to 2015.

LIQUIDITY & FUNDING

The ample liquidity of the banking sector remained about the same in the second quarter of 2016 compared to 2015's second quarter, maintaining its ability to withstand shocks to its balance sheets. The liquid assets to total assets ratio decreased from 31% at the end of the second quarter of 2015 to 30% at the end of the second quarter of 2016, equal to the four-year average. This ratio reflects the banks' ability to meet expected and unexpected demands for cash. The liquid assets to short-term liabilities ratio remained unchanged at 40% at the end of the second quarter of 2016. Last, the total deposits to total loans ratio increased by 1.1 percentage points to 144% at the end of the second quarter of 2016. 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 was equal to its 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 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 from 2015's second quarter to 2016's second quarter. The mismatch between foreign currency asset and liability positions at the commercial banks improved, with the net open position in foreign exchange to capital ratio decreasing from 67% at the end of the second quarter in 2015 to 65% at the end of the second quarter of 2016. This improvement indicates a slight decrease in the banks' sensitivity to market risk, lowering 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) decreased slightly by 3.1 percentage points, relieving pressure on the banks' ability to withstand shocks from the foreign markets environment. Overall, the sensitivity to market risk remained stable in 2016 compared to the previous years.

APPENDIX III

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

		2015-II	2015-III	2015-IV	2016-I	2016-II
	Assets					
I	Nonfinancial assets	382.8	381.7	384.4	386.1	385.4
II	Financial assets (III through VII)	15,378.3	15,066.2	15,289.4	15,809.3	15,721.2
III	Currency and deposits	4,640.1	4,605.7	4,700.2	5,157.1	4,887.2
	(i) Non-interest-bearing cash	1,774.2	1,644.4	1,772.6	2,060.6	1,772.1
	(ii) Interest-bearing cash	2,865.9	2,961.2	2,927.6	3,096.5	3,115.1
IV	Loans	8,859.5	8,844.6	8,885.2	8,882.8	8,967.1
	(i) Interbank loans	0.8	0.1	0.0	0.0	0.0
	(ii) Central bank	-	-	-	-	-
	(iii) General government	0.0	0.2	11.6	11.9	11.4
	(iv) Agencies and institutions	76.1	76.5	64.6	58.0	63.2
	(v) Other financial corporations	15.3	14.9	14.4	14.2	10.2
	(vi) Nonfinancial corporations	4,788.1	4,736.1	4,791.9	4,793.3	4,829.3
	(vii) Households	3,698.1	3,730.0	3,741.1	3,745.8	3,767.5
	(viii) Other	281.1	286.8	261.6	259.5	285.3
V	Investments	1,351.5	1,158.2	1,208.1	1,162.8	1,212.5
	(i) Debt securities	926.3	874.5	920.8	927.2	888.6
	(ii) Shares and other equity	425.2	283.7	287.3	235.7	323.9
VI	Investments in unconsolidated subsidiaries and affiliates	137.9	100.2	147.4	216.0	156.8
VII	Other assets	389.4	357.6	348.6	390.7	497.7
VIII	Total assets (= I + II)	15,761.2	15,447.9	15,673.9	16,195.5	16,106.6

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

		2015-II	2015-III	2015-IV	2016-I	2016-II
	Liabilities					
IX	Currency and deposits	13,360.9	13,079.8	13,227.1	13,638.5	13,524.9
	(i) Demand deposits	6,595.6	6,391.3	6,443.3	6,901.4	6,722.7
	(ii) Savings deposits	4,048.6	4,003.0	4,110.6	4,106.1	4,109.8
	(iii) Time deposits	2,716.7	2,685.5	2,673.3	2,631.0	2,692.5
X	Total borrowings	116.9	91.4	76.7	88.6	60.7
XI	Other liabilities	609.6	599.8	646.5	707.6	737.0
XII	Total debt (= IX + X + XI)	14,087.3	13,771.0	13,950.2	14,434.7	14,322.7
XIII	Capital and reserves	1,673.8	1,676.9	1,723.6	1,760.8	1,784.0
	(i) Capital	1,369.5	1,371.5	1,417.4	1,452.6	1,476.3
	(ii) Minority interest	12.1	12.9	11.5	12.1	11.8
	(iii) Subordinated debentures	-	-	-	-	-
	(iv) General provisions	292.2	292.5	294.7	296.1	295.9
XIV	Total liabilities and capital (= XII + XIII)	15,761.2	15,447.9	15,673.9	16,195.5	16,106.6

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

		2015-II	2015-III	2015-IV	2016-I	2016-II
I	Interest income	356.4	526.8	645.8	179.1	345.6
II	Interest expense	63.3	95.6	119.1	34.8	67.3
III	Net interest income (= I minus II)	293.1	431.3	526.8	144.4	278.4
IV	Noninterest income	166.7	239.4	293.4	82.4	172.8
V	Gross income (= III + IV)	459.8	670.6	820.2	226.8	451.1
VI	Noninterest expenses	320.2	474.4	621.9	165.7	317.7
	(i) Salaries & other employee expenses	171.9	257.2	351.3	89.7	177.8
	(ii) Occupancy expenses	48.4	67.5	85.2	23.4	45.6
	(iii) Other operating expenses	99.9	149.8	185.4	52.6	94.2
VII	Provisions	25.0	34.9	39.1	5.9	17.9
VIII	Net income (before extraordinary items and taxes) (= V minus (VI+ VII))	114.5	161.3	159.1	55.1	115.5
IX	Extraordinary items	-11.3	-25.5	54.4	1.0	0.7
X	Income tax	25.1	34.8	30.6	9.5	20.6
XI	Net income after tax (= VIII minus (IX + X))	78.1	101.0	182.9	46.6	95.6
XII	Dividends payable	24.5	42.8	67.3	6.1	24.5
XIII	Retained earnings (= XI minus XII)	53.7	58.1	115.6	40.5	71.1

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

	2015-II	2015-III	2015-IV	2016-I	2016-II	4-Yr Avg.*
Capital adequacy						
Capital adequacy ratio	13.0%	13.5%	13.9%	12.9%	13.6%	14.2%
Core capital adequacy ratio	13.0%	13.1%	13.6%	13.7%	13.1%	13.1%
Capital to assets	8.8%	8.9%	9.2%	8.3%	9.1%	9.7%
NPL net of provisions to capital	51%	45%	46%	50%	52%	46%
Asset quality						
NPL to total gross loans	12.1%	10.9%	11.3%	11.4%	11.9%	11.3%
Provisions to NPL	38%	38%	38%	37%	33%	34%
Foreign currency-denominated loans to total loans	45%	45%	45%	45%	45%	46%
Foreign currency-denominated liabilities to total liabilities	54%	53%	53%	53%	52%	54%
Large exposures to capital	311%	297%	275%	308%	274%	290%
Earnings & profitability						
Return on assets	1.3%	1.2%	1.0%	0.9%	1.0%	1.4%
Return on equity	14.7%	13.2%	11.2%	10.5%	11.2%	14.4%
Interest margin to gross income	64%	65%	66%	64%	63%	65%
Noninterest expenses** to gross income	70%	71%	76%	73%	70%	68%
Personnel expenses to noninterest expenses**	54%	54%	56%	54%	56%	56%
Spread between lending and deposit rates	6.2%	6.2%	5.7%	5.9%	5.6%	6.3%

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

	2015-II	2015-III	2015-IV	2016-I	2016-II	4-Yr Avg.*
Liquidity & funding						
Liquid assets to total assets	31%	31%	31%	32%	30%	30%
Liquid assets to short-term liabilities	40%	42%	41%	42%	40%	39%
Total deposits to total loans	143%	140%	141%	146%	144%	143%
Sensitivity to market risk						
Net interest margin	4.6%	4.5%	4.5%	4.5%	4.4%	4.7%
Net open position in foreign exchange to capital	67%	64%	70%	77%	65%	67%
Net foreign assets to total capital	109%	104%	109%	131%	106%	93%

* 4-year quarterly average

** Noninterest expenses = operational expenses

Performed better than the 4-year quarterly average

Performed worse than the 4-year quarterly average

