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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

During the second quarter of 2017, world economic growth accelerated because the advanced, emerging, and developing economies expanded at a faster pace than in the second quarter of 2016. In the advanced economies, growth was supported mainly by increased domestic demand and net foreign demand. Meanwhile, the improved performance of the emerging and developing economies was driven primarily by a rise in net foreign demand.

In contrast, the economy of Curaçao continued to contract during the second quarter of 2017 as real GDP dropped by 1.0% compared to 2016's second quarter. Driven primarily by the international oil prices, the annual quarterly inflation in Curaçao turned around from -0.2% in the second quarter of 2016 to 1.8% in the second quarter of 2017.

The economic contraction in Curaçao was caused by a decline in net foreign demand moderated by an increase in domestic demand. Net foreign demand shrank as a result of an increase in the import of goods & services combined with lower exports. The increase in domestic demand stemmed only from higher public demand, as private demand dropped. The rise in public demand was the result of increased government investment and consumption. Meanwhile, the decline in private demand was attributable to a drop in private consumption reflecting lower purchasing

power, mitigated by an increase in private investment.

Sectoral data indicate that real output contracted in the transport, storage, & communication, manufacturing, wholesale & retail trade, and financial intermediation sectors of Curaçao during the second quarter of 2017. The contraction in the transport, storage, & communication sector was the result of both airport-related and harbor activities. Airport-related activities dropped, owing to the discontinuation of most flights by the domestic carrier, InselAir, since the third quarter of 2016 because of the financial headwinds the company has been facing. This decline was reflected by a drop in total passenger traffic and the number of commercial landings. Curaçao's harbor also recorded negative results, as the number of ships handled dropped, mitigated by an increase in oil storage activities and cargo movements. Real output shrank in the manufacturing sector ascribable to lower oil refining activities by the Isla Refinery. In the wholesale & retail trade sector, real value added went down due to a decline in domestic demand, tourism spending, and re-exports by the free-zone companies. The disappointing performance of the financial intermediation sector was caused by a decline in real value added of domestic financial services as both net interest income and other fees & income shrank.

However, growth in the restaurants & hotels, utilities, and construction sectors dampened Curaçao's real GDP contraction during the second quarter of 2017. The increase in the restaurants & hotels sector reflected an increase in the number of visitor nights, despite a drop in the number of stay-over visitors. Also, the number of cruise tourists increased. The expansion in the utilities sector stemmed from increased production of water and electricity, while the growth in the construction sector was supported by ongoing private and public investments, including the construction of a second megapier and a new hospital.

On the fiscal front, the deficit on the current budget of the government of Curaçao widened in the second quarter of 2017 compared to the second quarter of 2016. This widening was primarily the result of a decline in government revenues caused solely by lower tax proceeds, notably earnings from profit, wage, land, and property tax. By contrast, nontax revenues rose mainly as a result of more social security premiums collected. Meanwhile, government expenditures dropped slightly because of lower outlays on transfers & subsidies combined with fewer disbursements on wages & salaries. The drop in government expenditures was mitigated, however, by an increase in spending on goods & services.

Due to problems in its IT infrastructure, the government of Sint Maarten was not able to provide quarterly public sector data for the first and second quarters of 2017. Instead, the government provided data for the first half year of 2017. Consequently, and for consistency purposes, the Bank analyzed the general economic and public sector developments for Sint Maarten on a half-year basis.

According to the Bank's estimates, Sint Maarten recorded a real GDP expansion of 0.3% during the first half of 2017, a slight acceleration compared to the growth of 0.1% recorded during the first half of 2016. However, Sint Maarten's real GDP growth during the first half of 2017 should be interpreted with caution because data on stay-over arrivals were not available. Therefore, the Bank used the real GDP projections of the main tourism markets of Sint Maarten as a proxy for stay-over tourism growth. Meanwhile, following a deflation in the first half of 2016, inflationary pressures in Sint Maarten rose to 2.0% during the January-June period of 2017 led primarily by higher electricity prices and an increase in health care premiums.

Sint Maarten's economic expansion during the first half of 2017 was led by an increase in both net foreign and domestic demand. Net foreign demand rose as a result of an increase in the export of goods & services combined with lower imports. Meanwhile, the increase in domestic demand was attributable to public spending only because private spending dropped. Public spending went up as a result of an increase in government consumption, particularly higher disbursements on wages & salaries. Meanwhile, public investment remained unchanged. The decline in private spending was caused by lower consumption, moderated by an increase in investments. Among other things, the increase in private investments reflected the construction of real estate in the Maho area and the renovation of the cargo facilities at the Princess Juliana International Airport.

A review by sector shows that Sint Maarten's economic expansion during

the first half of 2017 was driven by increased activities in the manufacturing, construction, restaurants & hotels, transport, storage, & communication, and real estate, renting, & business activities sectors. In the manufacturing sector, real output growth was sustained by more repair activities on yachts that visited Sint Maarten. The gain in the construction sector was the result of the increase in private investments, particularly in the real estate and transportation sectors.

The upbeat performance of the restaurants & hotels sector reflected an estimated increase in the number of stay-over visitors combined with a rise in the number of cruise tourists. The rise in the number of cruise tourists was consistent with an increase in the number of cruise ships that visited Sint Maarten during the first half of 2017. The growth in the transport, storage, & communication sector was attributable to increased activities at both the airport and the harbor. Airport-related activities rose in line with the estimated increase in stay-over tourism. Also, air transportation services provided by the domestic carrier, Winair, went up. Meanwhile at the harbor, the number of ships, particularly cruise ships and tankers, that were piloted into the port grew, and container movements increased.

By contrast, the wholesale & retail trade, utilities, and financial intermediation sectors put a drag on Sint Maarten's real GDP growth during the first half of 2017. The contraction in the wholesale & retail trade sector was caused by the decline in private consumption, moderated by an increase in tourism spending. Real output dropped in the utilities sector on the back of lower electricity production, offset in part by an increase in water production.

The negative outcome in the financial intermediation sector was the result of a decline in net interest income of the commercial banks in Sint Maarten.

The public finances of Sint Maarten improved during the first half of 2017 compared to the first half of 2016, reflected by an increase in the surplus on the government's current budget. The higher surplus was the result of increased government revenues as both nontax and tax revenues went up. The surge in nontax revenues was caused by funds received from the final settlement of the division of the assets and liabilities of the former Netherlands Antilles and the dissolution of the Economic Development Foundation. In addition, the government received more income from dividend. Tax revenues increased on the back of more proceeds from taxes on income & profit, good & services, and property. Meanwhile, government expenditures remained practically unchanged because the increase in spending on social security and goods & services was offset by a drop in other expenditures.

According to preliminary data and the Bank's estimates, the monetary union recorded a higher deficit on the current account of its balance of payments during the second quarter of 2017 compared to 2016's second quarter. The higher deficit was the result of a decline in the net export of good and services and a worsening of the income and current transfers balances. Net exports dropped as a result of a decline in exports combined with higher imports. The contraction in exports was ascribable to, among other things, a decline in earnings from refining activities in Curaçao. Furthermore, foreign exchange earnings from tourism activities

dropped as Curaçao recorded a decline in revenues while Sint Maarten registered a slight increase. The decline in Curaçao was caused by a shift from South American to European tourists who stay longer but spend less. In addition, foreign exchange receipts shrank from air transportation services provided to abroad and from re-exports by the free-zone companies. By contrast, foreign exchange earnings from bunkering activities rose, dampening the contraction in exports. Meanwhile, the growth in imports was largely the result of a higher import bill because of the increase in international oil prices. By contrast, non-oil merchandise imports dropped in both Curaçao and Sint Maarten consistent with lower consumer spending. The worsening of the income balance stemmed from an increase in interest payments on investments from abroad, moderated by an increase in interest income earned on foreign investments. In addition, net current transfers dropped mainly as a result of a decline in current transfers received from abroad. Gross official reserves contracted slightly during the second quarter of 2017 as the external financing was not sufficient to cover the current account deficit.

The money supply grew in the second quarter of 2017 due to an increase in both net domestic assets and net foreign assets. The increase in net domestic assets resulted primarily from the net withdrawal of deposits from the banking system by the government of Curaçao. This withdrawal reflected, among other things, payments to USONA for the construction of the new hospital and debt service payments. In addition, because of the final settlement of the division of the assets and liabilities of the former Netherlands Antilles, the

deposits of the former central government at the Bank dropped, while the deposits of the government of Sint Maarten rose. A decline in claims on the private sector caused by a drop in amounts receivable mitigated the increase in net domestic assets. Meanwhile, credit extension to the private sector remained flat during the second quarter of 2017. An analysis by country reveals that Curaçao recorded a drop in loans while Sint Maarten registered an increase.

The Bank continued to deploy its monetary policy instruments in a neutral manner during the second quarter of 2017. Consequently, the amount of outstanding certificates of deposit (CDs) remained unchanged, and the reserve requirement percentage was maintained at 18.00%. Nevertheless, the amount of required reserves rose due to an increase in the base upon which the reserves are calculated.

Although global growth is projected to pick up, the prospects for the monetary union are gloomy. Sint Maarten's economy was severely affected by Hurricane Irma and is expected to contract in the second half of 2017 and in 2018. For a fast and smooth recovery, the speed and quality of the reconstruction is crucial. The reconstruction activities should be driven by a concerted effort of the public and private sectors with financial and technical support from the Kingdom. In this context, political stability must be restored to create a macroeconomic environment conducive to private sector investments and growth.

Meanwhile in Curaçao, the economy is expected to record an economic contraction in 2017 caused primarily by declines in export and private consumption.

The disappointing export performance is related largely to the economic crisis in Venezuela, one of Curaçao's main trading partners. The drop in private consumption is the result of a decline in purchasing power and a worsening labor market. At the same time, the government does not have the budgetary room to conduct expansionary fiscal policy. For 2018, some improvement is projected driven mainly by higher private investments in the tourism sector, among other things. However, downside risks to this projection include the spillovers of the ongoing crisis in Venezuela, uncertainties regarding the future of the refinery, and weaknesses in the investment climate, such as lengthy administrative procedures. Under these circumstances, it is important that the government puts the implementation of structural reforms high on its policy agenda to improve our competitiveness, thereby stimulating private investment, economic growth, and the creation of jobs. Also, clarity with respect to the future of the refinery is crucial to remove uncertainties that currently might hamper private sector investments. Although fiscal adjustments are necessary in light of the rising deficit on the current budget, the measures envisaged should have a minimal impact on our growth prospects.

Only through decisive, timely, and consistent actions will the economies of Curaçao and Sint Maarten be able to benefit from the expected expansion of the global economy through a sustainable higher pace of growth.

L.A. Matroos - Lasten

President a.i.

II INTERNATIONAL ECONOMIC DEVELOPMENTS

THE UNITED STATES

Real economic growth in the United States accelerated to 2.2% in the second quarter of 2017 compared to 1.2% growth in the second quarter of 2016 (see Table 1). The increase in real GDP growth was due mainly to an expansion in private demand mitigated by a slight contraction in net foreign demand.

The increase in domestic demand was driven by a rise in private demand, while public demand remained flat in the second quarter of 2017. The increase in private demand was due mainly to more spending on goods, especially durable goods such as motor vehicles & parts, furnishings & household equipment, and recreational goods & vehicles. Spending on services such as recreation, transportation, health care, and finance & insurance also contributed to the increase in private consumption. Private investments increased largely as a result of fixed investments, particularly the construction

of nonresidential buildings, structures, and intellectual property products. In contrast, public demand remained flat because the increase in federal spending was offset by a decrease in local and state spending. The contribution of net foreign demand to real GDP growth was negative because the increase in imports surpassed the rise in exports.

The U.S. labor market experienced a decline in the unemployment rate to 4.4% in the second quarter of 2017 compared to 2016's second quarter. This improvement was caused mostly by job gains in the professional & business services, education & health, leisure & hospitality, construction, and financial services sectors. Moreover, the number of long-term unemployed and the number of workers employed part-time for economic reasons dropped. The U.S. inflation rate rose to 1.9% in the second quarter of 2017, up from 1.0% in the second quarter of 2016. The higher inflation was primarily a result of higher energy, fuel oil, and natural

Table 1 Economic indicators of the United States

	2016-II	2017-II
Real GDP (% change)	1.2	2.2
Consumer prices (%)	1.0	1.9
Unemployment rate (%)	4.9	4.4

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

gas prices mitigated by a slight decline in telecommunication costs and the prices of used cars & trucks.

The Federal Reserve increased the target range for the federal funds rate to 1.00% - 1.25% in June 2017 because of continued strengthening of the labor market and a moderate increase in economic activities. The monetary policy stance remained accommodative to support further strengthening of the labor market and continued progress towards the 2% inflation rate target over the medium term.

THE NETHERLANDS

During the second quarter of 2017, the Dutch economy recorded a real GDP growth of 3.3%, an acceleration compared to the 2.3% growth registered in the second quarter of 2016 (see Table 2). This acceleration reflects a very strong second quarter of 2017, as it was the first time since the beginning of the international financial crisis in 2007 that an expansion of more than 3% was recorded. Both domestic and net foreign demand contributed to the improved economic performance in the second quarter of 2017.

Domestic demand increased in the second quarter of 2017 mainly because of more

spending by the private sector on fixed assets, reflecting the rise in consumer and investor confidence. The growth in private investment was due to more spending on houses, costs related to the transfer of land, computers, and telecommunication equipment. Furthermore, private consumption increased because consumers spent more primarily on clothing & textiles, electrical equipment, and catering services. However, public demand shrank as a result of a significant decline in government investment moderated by a slight increase in consumption.

Net foreign demand also contributed positively to real output growth because the export of goods and services grew at a faster pace than imports. Dutch companies exported more wood & paper products, chemical & pharmaceutical products, and machines & electrical equipment in the second quarter of 2017 than in the second quarter of 2016.

An analysis by sector shows that the main contributors to economic growth in the second quarter of 2017 were the construction, trade, transportation & hospitality, and rental & business services sectors. Only the mining industry recorded a significant decline in the second quarter of 2017. The mining sector is experiencing

Table 2 Economic indicators of the Netherlands

	2016-II	2017-II
Real GDP (% change)	2.3	3.3
Consumer prices (%)	0.0	1.2
Unemployment rate* (%)	6.2	5.0

Source: Central Bureau of Statistics.
*International definition.

a continuous contraction after research in 2014 showed that the risk of earthquakes caused by gas production was greater than previously thought, consequently reducing the natural gas extraction.

Following the zero inflation (0.0%) in the second quarter of 2016, the second quarter of 2017 registered an inflation rate of 1.2%. The higher inflationary pressures were attributable mainly to an increase in the prices of food & beverages, housing, water & energy, transport, and restaurants & hotels moderated by a decline in communication costs. In conjunction with the improved economic situation, the Netherlands recorded a decrease in the unemployment rate to 5.0% in the second quarter of 2017 compared to 6.2% in the second quarter of 2016.

VENEZUELA

Since 2014, Venezuela has been experiencing the worst economic crisis in its history. According to estimates of the International Monetary Fund (IMF) and Business Monitor International (BMI), real GDP growth is expected to contract between 3.8% and 7.4% in 2017 (see Table 3). The economic contraction can

be attributed to declines in consumption, investment, and exports.

Venezuela's economy will remain in a deep crisis in 2017 due mainly to weak oil exports, hyperinflation, and the poor business environment. The extreme uncertainty about the future and strict government control will keep private investment restrained. Private consumption also will be hampered by the rapid loss of purchasing power related to the hyperinflation. Furthermore, public demand is expected to contract despite the political pressure to maintain spending and rely on borrowing to fund expenditures. The government's revenues from the oil sector, i.e., Venezuela's main economic sector, have halved since 2014 because of the decline in international oil prices, resulting in lower public investments. Venezuela's net exports will continue to decline because the oil sector will see weak exports amid continued production declines, whereas imports are expected to contract because of government restrictions and lack of currency.

The loss of confidence in the currency, the monetization of large fiscal deficits, and the scarcity of goods are projected to cause excessive inflationary pressures,

Table 3 Economic indicators of Venezuela

	2016	2017
Real GDP (% change)	-18.0 to -18.6	-3.8 to -7.4
Consumer prices (%)	254.9 to 440.3	720.5 to 2383.3
Unemployment rate (%)	21.2	25.3

Sources: International Monetary Fund; Business Monitor International; Economic Commission for Latin America and the Caribbean and International Labor Organization

with the inflation rate ranging between 720.5% and 2,383.3% in 2017. As a result of the ongoing economic crisis in Venezuela, the unemployment rate is expected to increase further from 21.2% in 2016 to 25.3% in 2017.

The country's economic environment also is anticipated to deteriorate further due to the political issues, low oil prices, hyperinflation, and a poor business environment. The BMI long-term economic risk index score for Venezuela is the lowest in the region as the economy is expected to remain in a deep recession. The BMI Economic Risk Index scores countries on a 0-100 scale, evaluating short-term and long-term political stability, short-term economic outlook, long-term economic potential and operational barriers to doing business, with a lower score representing a higher economic risk.

III GENERAL ECONOMIC DEVELOPMENTS

GENERAL ECONOMIC DEVELOPMENTS IN CURAÇAO

Real GDP in Curacao declined further by 1.0% in the second quarter of 2017, following a contraction of 0.8% in the second quarter of 2016. The economic contraction during 2017's second quarter resulted from a decrease in private demand and net foreign demand (see

Table 4). Meanwhile, the inflation rate rose to 1.8% especially because of higher fuel and electricity prices.

An analysis of GDP by expenditure shows that the economy contracted in the second quarter of 2017 as a result of a decline in private and net foreign demand. Private demand fell because the decrease in consumption surpassed the increase in

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

	2016-II	2017-II
Domestic expenditure, of which:	-0.1	0.1
Private sector	-0.3	-0.3
Investment	0.1	0.3
Consumption	-0.4	-0.6
Government sector	0.3	0.4
Investment	0.2	0.1
Consumption	0.1	0.3
Changes in inventory	0.0	-0.1
Foreign net expenditure, of which:	-0.8	-1.0
Export of goods and services	-2.1	-0.3
Import of goods and services	-1.4	0.7
GDP	-0.8	-1.0

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

investment. Private consumption dropped as a result of, among other things, a decline in disposable income because of the higher inflationary pressures. In contrast, private investment increased reflecting, among other things, the construction of the second megapier, the ongoing expansion and remodeling of the airport, and hotel projects. Meanwhile, an increase in imports combined with lower exports resulted in a negative contribution of net foreign demand to real GDP growth.

By contrast, public demand expanded due to an increase in both government investment and consumption. The increase in public investment was driven by, among other things, the construction of a new hospital. Similarly, public consumption recorded an increase as a result of a rise in spending on goods & services mitigated by a slight decrease in the disbursements on wages & salaries.

DOMESTIC PRODUCTION

An analysis of the production side of GDP shows that the transport, storage, & communication, manufacturing, wholesale & retail trade, and financial intermediation sectors were the main contributors to the real GDP contraction in the second quarter of 2017 (see Table 5).

Real value added shrank in the transport, storage, & communication sector (-4.1%) as a result of a drop in airport-related and harbor activities. The decline in airport-related activities reflected a drop in both total passenger traffic and commercial landings, attributable to the cancellation of several flights by the domestic carrier InselAir since the third quarter of 2016 due to financial headwinds. Meanwhile, the contraction in harbor activities resulted

from a decline in the number of ships piloted into the port of Curaçao, particularly freighters and tankers. An increase in cargo movements and oil storage activities moderated the contraction in harbor activities.

Similar to a drop in the second quarter of 2016, real output in the manufacturing sector declined in the second quarter of 2017 (-4.1%) because of a decrease in oil refining activities. Furthermore, real value added in the wholesale & retail trade sector dwindled in the second quarter of 2017 (-2.3%) due to less domestic and tourism spending. Moreover, re-exports by the free-zone industry dropped. The higher inflation affected domestic spending while the drop in tourism spending was due mainly to the sharp decline in the number of Venezuelan visitors who generally spend more compared to tourists from other markets.

The financial intermediation sector recorded a decline in real terms in the second quarter of 2017 (-1.1%) mainly as a result of lower value added in domestic financial services. Real value added of domestic financial services declined because the increase in net interest income and other fees & income earned by the commercial banks was not enough to compensate for the higher inflation.

In contrast, the restaurants & hotels sector recorded an increase (3.5%) in the second quarter of 2017, following a drop in the second quarter of 2016. The growth in 2017 reflects an increase in the number of visitor nights (5.1%), although the number of stay-over visitors dropped (-5.9%). The decline in stay-over tourism was caused mainly by fewer visitors from the Caribbean and South American markets.

The Caribbean market contracted primarily because of fewer visitors from Aruba, Trinidad & Tobago, Haiti, and Jamaica. The contraction of the South American market was due to fewer visitors from Brazil, Venezuela, and Surinam. The drop in the number of visitors from the Caribbean and South American markets was compensated partly by the increase of the European and North American markets. The number of European visitors grew primarily because of more visitors from

the Netherlands, Belgium, Germany, and Switzerland. The increase in the number of European tourists largely explains the rise in the number of visitor nights as European tourists tend to stay longer compared to tourists from other markets. The North American market, i.e., Canada and the United States, recorded the largest growth in number of visitors. Similar to the growth in visitor nights, the hotel occupancy rate rose (5.1%) in the second quarter of 2017, compared to a drop (-12.0%) in the second

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

	2016-II	2017-II
Agriculture, fishery, & mining	1.3	-1.8
Manufacturing	-7.0	-4.1
Electricity, gas, & water	1.0	0.8
Construction	1.3	3.5
Wholesale & retail trade	-0.7	-2.3
Restaurants & hotels	-7.0	3.5
Transport, storage, & communication	-1.4	-4.1
Financial intermediation	0.5	-1.1
Real estate, renting, & business activity	-1.7	0.7
Other community, social, & personal services	0.7	3.2
Private households	0.2	1.2
Total private sector	-1.0	-0.5
Public sector	0.0	-0.4
Taxes minus subsidies	0.2	-0.1
GDP	-0.8	-1.0

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

quarter of 2016. In addition, the number of cruise tourists increased (37.2%), consistent with the rise in the number of cruise calls (27.0%). (See Table 11 in Appendix I for more details on stay-over tourism development.)

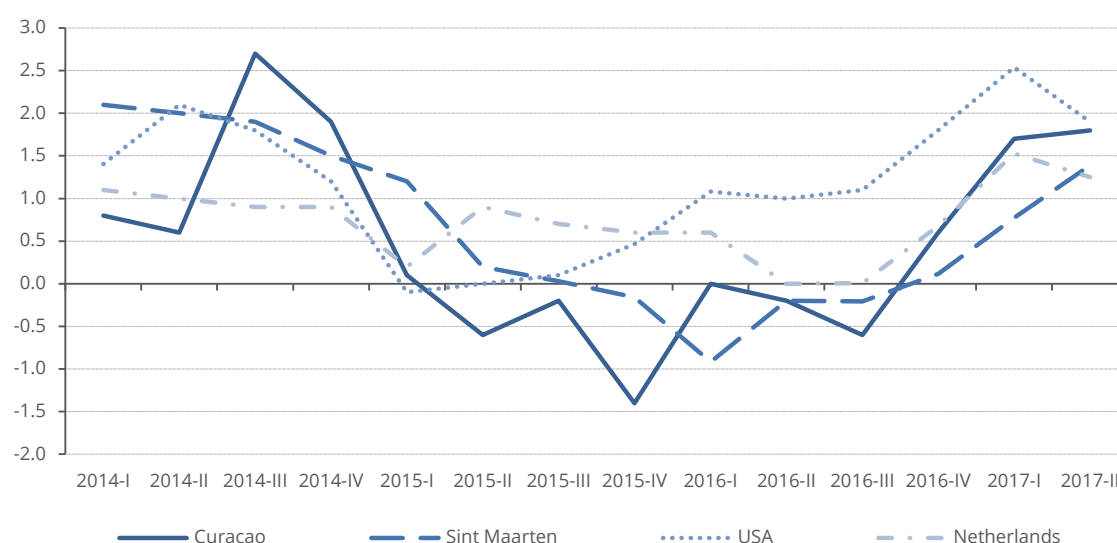
Furthermore, activities in the utilities and construction sectors increased in the second quarter of 2017. Output rose in the utilities sector (0.8%) because of more production of both water and electricity. The construction sector expanded (3.5%) mainly because of the ongoing construction of the second megapier and the new hospital.

INFLATIONARY PRESSURES

An analysis of price developments on an annual quarterly basis reveals that the inflation rate in Curaçao increased from -0.2% in the second quarter of 2016 to 1.8% in the second quarter of 2017 (see Graph 1). The rise in the average price level was driven largely by increases in the prices of electricity and fuel.

An analysis of the developments in the Consumer Price Inflation (CPI) components in Curaçao indicates that during the second quarter of 2017, average prices rose in all categories except for the category "Clothing & footwear" (-1.3%). The categories "Housing", "Transport & communication", "Food", "Housekeeping & furnishings", and "Beverages & tobacco" registered the largest contributions to the inflation in the June quarter of 2017. After declining in the second quarter of 2016, prices rose in the category "Housekeeping & furnishings" (3.6%) due to price gains in upholstery & furnishing fabrics and higher housekeeping costs. The price increase in the category "Transport & communication" (2.4%) was caused largely by higher fuel prices. Furthermore, the price gain in the category "Housing" (2.2%) can be attributed mainly to higher electricity prices and rents moderated by a decline in water tariffs. In addition, prices increased in the category "Food" (1.4%) due mainly to an increase in the prices of potatoes, and vegetables & fruit mitigated by a drop in the prices of 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

Because Sint Maarten's 2017 public finances data were released for only the first six months of the year by the government instead of on a quarterly basis, the Bank analyzed the general economic and public sector developments in Sint Maarten on a half-year basis for consistency purposes.

During the first half of 2017, Sint Maarten's real GDP expanded by 0.3%, a slight acceleration compared to the 0.1% growth seen during the first half of 2016 (see Table

6). The mild growth in real output resulted from both higher domestic demand and net foreign demand. Meanwhile, inflationary pressures in Sint Maarten turned from negative (-0.6%) in the first half of 2016 to positive (2.0%) in the first half of 2017, largely influenced by the rise in electricity prices and health care premiums.

An analysis by expenditure shows that both domestic demand and net foreign demand added positively to Sint Maarten's GDP growth during the first half of 2017. Public demand increased because of an upturn in public consumption, while public investments remained muted. The higher public consumption was caused by larger

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

	2016 I-II	2017 I-II
Domestic expenditure, of which:	0.4	0.1
Private sector	0.8	-0.2
Investment	0.9	0.8
Consumption	-0.1	-1.0
Government sector	-0.4	0.3
Investment	-0.2	0.0
Consumption	-0.2	0.3
Changes in inventory	0.0	-0.1
Foreign net expenditure, of which:	-0.3	0.3
Export of goods and services	-0.2	0.2
Import of goods and services	0.1	-0.1
GDP	0.1	0.3

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

outlays on wages & salaries. However, private demand contracted because the growth in private investments was not large enough to offset the contraction in private consumption, which was in line with less consumer credit extended by the domestic commercial banks. Growth in private investments was consistent with more activities in the construction sector, such as new condominiums in Maho and the renovation of the airport's cargo facilities. Net foreign demand also contributed positively to real GDP because imports dropped while exports increased. Exports rose primarily as a result of an increase in foreign exchange revenues from tourism activities. Meanwhile, the lower imports reflected the decline in private consumption during the first half of 2017.

DOMESTIC PRODUCTION

Sint Maarten's real GDP growth during the first half of 2017 stemmed from positive developments in both the private and public sectors. The positive contribution of the public sector was the result of an increase in disbursements on wages & salaries.

A sectoral analysis of the private sector reveals that the manufacturing, construction, restaurants & hotels, transport, storage & communication, and real estate, renting & business activities sectors were the drivers of Sint Maarten's real GDP growth during the first half of 2017, due largely to better performance in the tourism sector, notably cruise tourism (see Table 7). However, this growth was dampened by contractions in the wholesale & retail trade, financial intermediation, and utilities sectors. Nevertheless, these results should be interpreted with caution.

Because of the absence of data on stay-over arrivals by tourism market during the first half of 2017, the Bank estimated stay-over arrivals based on a proxy for the tourism sector.¹

Activities in the manufacturing sector grew (2.0%) during the first half of 2017, albeit at a slower pace than during the first half of 2016 because of increased yacht repair activities reflecting a higher number of yachts visiting Sint Maarten, in particular, the Simpson Bay Lagoon. Real value added in the restaurants & hotels sector rose (2.9%) during the first half of 2017, attributable mainly to a positive turnaround in cruise tourism and growth in stay-over arrivals. The number of cruise tourists visiting Sint Maarten rebounded during the first half of 2017, accompanied by a small increase in the number of cruise calls. The positive turnaround in cruise tourism was attributable, in part, to lower concerns over the presence of the Zika virus.

Growth in the transport, storage, & communication sector (1.4%) was fueled by increased activities at both the airport and the harbor. Airport-related activities and air transportation activities of the domestic carrier Winair grew, although at a slower pace than during the first six months of 2016, in line with the estimated increase in stay-over tourism. The growth in harbor activities was reflected by a higher number of ships piloted into the port of Sint Maarten, particularly tankers and cruise ships. Meanwhile, slightly fewer

¹ For stay-over tourism, arrival data only up until 2016 were available. Consequently, the Bank calculated the growth of the first six months of stay-over tourism in Sint Maarten in 2017 based on the GDP growth projections per country and region according to the IMF World Economic Outlook of October 2017.

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

	2016 I-II	2017 I-II
Agriculture, fishery, & mining	0.0	0.0
Manufacturing	2.7	2.0
Electricity, gas, & water	0.7	-0.5
Construction	1.3	1.7
Wholesale & retail trade	-0.6	-0.7
Restaurants & hotels	0.1	2.9
Transport, storage, & communication	-0.5	1.4
Financial intermediation	-0.4	-2.0
Real estate, renting, & business activity	0.9	0.4
Other community, social, & personal services	0.6	-1.0
Private households	0.6	-1.0
Total private sector	0.2	0.2
Public sector	0.1	0.1
Taxes minus subsidies	-0.2	0.0
GDP	0.1	0.3

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

freighters arrived in the port during the first half of 2017 compared to the first half of 2016, albeit with more container movements.

Additionally, real output in the construction sector accelerated during the first half of 2017 (1.7%), largely because of more private investments, including, among other things, the construction of condominiums in the Maho area and the

renovation of the cargo facilities at the Princess Juliana International Airport.

By contrast, real value added in the wholesale & retail trade sector contracted (-0.7%) because the increase in tourism spending was not enough to offset the contraction in private consumption.

Furthermore, activities in the utilities sector contracted (-0.5%) in the first half of 2017, a negative turnaround compared to the first

half of 2016, because the slight increase in water production was insufficient to offset the contraction in electricity production.

Finally, the financial intermediation sector contracted (-2.0%) in the first six months of 2017 compared to the first half of 2016 because interest income of the domestic commercial banks dropped at a faster pace than interest expenses.

INFLATIONARY PRESSURES

After a negative inflation rate of -0.6% in the first half of 2016, price developments on an annual 6-month basis show that Sint Maarten recorded an inflation rate of 2.0% in the first half of 2017. The price development during the January-June period of 2017 resulted mainly from the rise in electricity prices and the increase in health care premiums compared to the previous year.

An analysis of the development in the CPI components in Sint Maarten indicates that during the first half of 2017, average prices rose particularly in the categories "Housing", "Food", "Health", and "Beverages & tobacco". The price gain in the category "Food" (4.0%) was less pronounced than in the first half of 2016 because prices increased at a slower pace in the subcategory "Potatoes, vegetables, & fruit" and dropped in the subcategory "Dairy products". The increase in average prices in the category "Housing" (3.5%) was influenced primarily by higher electricity prices. The price rise in the category "Health" in the first half of 2017 (3.0%) resulted mainly from a doubling of the social insurance premium for employees from 2.1% to 4.2% effective January 1, 2017. The increase in the average consumer prices was dampened by declines in the

categories "Housekeeping & furnishings" (-1.6%) and "Transport & communication" (-0.8%). The price decrease in the category "Housekeeping & furnishings" was caused mostly by a drop in the average prices in the subcategory "Household appliances and tools". Furthermore, the price decline in the category "Transport & communication" was mainly the result of a drop in the prices in the subcategory "Transport vehicles in ownership". (See Table 12B in Appendix I for more details.)

PUBLIC FINANCES

PUBLIC FINANCES OF CURAÇAO

The fiscal position of the government of Curaçao deteriorated during the second quarter of 2017 compared to the second quarter of 2016. The government will have to take measures to achieve a balanced budget by the end of 2017. These measures should be aimed not only at improving tax compliance but also at confining the continuous increase in expenditures.

The public finances worsened by NAf.11.4 million during the second quarter of 2017 compared to the second quarter of 2016, resulting in a deficit of NAf.82.6 million on the current budget. This deterioration was caused by a decrease of NAf.12.9 million in government revenues due to a decline of NAf.28.6 million in tax revenues, mitigated by a NAf.15.7 million increase in nontax and other revenues. Tax proceeds dropped in all main tax categories reflecting primarily the decline in economic activities during the second quarter of 2017. In particular, proceeds from profit, wage, land, and property taxes recorded significant declines. Meanwhile, nontax and other

revenues went up due mainly to more social security income (NAf.15.2 million). Government expenditures dropped slightly by NAf.1.5 million caused largely by lower disbursements on transfers and subsidies (NAf.15.9 million), especially transfers by the social security bank (SVB), and fewer outlays on wages & salaries (NAf.7.5 million), mitigated by an increase of NAf.10.8 million in spending on goods and services. (See Tables 13A and 13B in Appendix I for a detailed overview.)

During the second quarter of 2017, the government of Curaçao withdrew a total of NAf.74.9 million from its deposits at the central bank and the commercial banks to cover part of its budget deficit. These withdrawals resulted in an increase in monetary financing (see Table 8).

Public sector debt of Curaçao

The total outstanding public debt of Curaçao went up by NAf.97.1 million during the second quarter of 2017,

reaching NAf.2.676 billion. The public debt rose solely because of an increase of NAf.101.2 million in the domestic debt component, resulting from an increase in the liabilities towards the social security bank, SVB, and the public pension fund, APC. The settlement of the final part of the division of the assets and liabilities of the former Netherlands Antilles during the second quarter of 2017 resulted in an increase in the debt of the government of Curaçao towards the SVB and the APC. Also, the arrears towards these two entities rose during the second quarter of 2017. Meanwhile, the foreign debt component shrank by NAf.4.1 million as a result of reduced arrears towards the Dutch government related to the coast guard and the common court of justice. Consequently, the debt-to-GDP ratio went up from 46.3% in March 2017 to 48.0% in June 2017, well above the 40% benchmark that the IMF considers sound for a small open economy. (See Table 13C in Appendix I for a detailed overview.)

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

	2016-II	2017-II
Monetary financing	14.0	74.9
Central bank	-16.9	63.3
Commercial banks	30.9	11.6
Nonmonetary financing	57.2	7.7
Government securities with nonbanks	59.0	0.0
Other	-1.8	7.7
Cash balance	-71.2	-82.6

PUBLIC FINANCES OF SINT MAARTEN

According to the Board of Financial Supervision, CFT, the public finances of Sint Maarten were heading in the right direction during the first six months of 2017. In line with what was initially budgeted for 2017, the government of Sint Maarten realized a surplus on its current budget during the first half of 2017. As stated in the instruction the government of Sint Maarten received from the Kingdom Council of Ministers in September 2015, part of this surplus will be used to compensate for the deficits incurred in the years 2010-2015. However, the much-needed reforms of the pension and health care schemes still have not been passed into law. Furthermore, the government of Sint Maarten has not yet received some incidental revenues, including payments by the utilities company, GEBE, to settle its outstanding arrears.

The government of Sint Maarten recorded a surplus of NAf.65.0 million on its current budget during the first half of 2017, an increase of NAf.39.2 million compared to the first half of 2016. This improvement was caused primarily by an increase in government revenues, since expenditures remained practically unchanged. Revenues went up by NAf.41.2 million during the first two quarters of 2017 compared to the first two quarters of 2016, while expenditures rose by NAf.2.0 million. The increase in revenues was the result of a rise in nontax revenues of NAf.27.6 million combined with an increase of NAf.10.4 million in tax revenues. Nontax revenues increased primarily as a result of funds received from the settlement of the final part of the division of the assets and liabilities of the former Netherlands Antilles and the

dissolution of the Economic Development Foundation (SEO). Furthermore, the government received a dividend from the public utility company, GEBE. Meanwhile, tax revenues went up because of increased proceeds from taxes on income & profit, goods & services, and property. Higher revenues from the turnover tax were the main contributor to the increase in taxes on goods & services, reflecting more efforts to increase compliance. The increase in property taxes was attributable to higher property transfer tax receipts. Expenditures remained practically unchanged because the higher spending on goods & services and social security was offset by a drop in other expenditures. (See Tables 13D and 13E in Appendix I for a detailed overview.)

During the first half of 2017, the government used its current budget surplus to supplement its current account balances at the central bank and the commercial banks contributing to a monetary contraction of NAf.89.2 million during the first six months of 2017. Furthermore, the government increased its liabilities towards other sectors with NAf.24.2 million (see Table 9).

Public sector debt of Sint Maarten

Sint Maarten's total outstanding public debt dropped by NAf.63.7 million to NAf.589.1 million at the end of June 2017 compared to the end of December 2016. The lower debt was due entirely to a decline in the domestic debt component as the foreign debt component remained unchanged. The domestic component declined as a result of the settlement of part of the government's arrears towards the public

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

	2016 I-II	2017 I-II
Monetary financing	17.4	-89.2
Central bank	7.7	-58.1
Commercial banks	9.7	-31.1
Nonmonetary financing	-43.1	24.2
Government securities with nonbanks	0.0	0.0
Other	-43.1	24.2
Cash balance	25.8	65.0

pension fund, APS.² Consequently, Sint Maarten's debt-to-GDP ratio decreased from 34.2% at the end of 2016 to 31.7% at the end of June 2017. (See Table 13F in Appendix I for a detailed overview.)

DEVELOPMENTS IN THE BALANCE OF PAYMENTS OF THE MONETARY UNION

Based on preliminary data and the Bank's estimates, the deficit on the current account of the balance of payments of the monetary union widened by NAf.30.9 million to NAf.321.9 million in the second quarter of 2017 compared to the second quarter of 2016. The higher current account deficit can be attributed to a contraction in the net export of goods and services and a worsening of both the income and current transfers balances. Meanwhile, the gross

official reserves of the monetary union shrank by NAf.5.4 million as the external financing was not sufficient to cover the current account deficit (see Table 10).

Developments in the net export of goods and services in Curaçao

In Curaçao, the net export of goods and services is estimated to have contracted because imports increased while exports dropped. The import bill rose in particular because of more oil imports in line with the double-digit increase in international oil prices during the April-June period of 2017. However, non-oil merchandise imports declined consistent with lower private consumption in the second quarter of 2017 compared to the second quarter of 2016.

The estimated drop in exports resulted mainly from a lower refining fee earned by the Isla refinery due to fewer refining activities registered during 2017's second quarter. The decline in foreign exchange earnings from tourism activities was caused by a shift from South American

² In the second quarter of 2017, the settlement of the division of the assets and liabilities of the former Netherlands Antilles was finalized. The government of Sint Maarten used part of the amount received to pay off outstanding arrears towards the APS.

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

	2015-II	2016-II	2017-II
Current account	-303.5	-291.0	-321.9*
Change in gross reserves of the central bank**	178.1	-116.3	5.4
Foreign exchange	201.4	-25.5	-10.0
held at foreign central banks	183.0	58.6	-141.2
held at foreign commercial banks	18.4	-84.1	131.2
Other claims	-23.3	-90.8	15.4

* Estimate of CBCS.

** A minus sign implies an increase.

to European visitors who stay longer but spend less. Also contributing to the drop in exports was the decline in re-exports by the free-zone companies. Foreign exchange income from the transportation sector, especially air transportation, dropped related to the cancellation of flights by the domestic airline, InselAir, caused by the company's financial problems. In contrast, foreign exchange earnings from bunkering activities rose in line with the higher international oil prices.

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

In Sint Maarten, the net export of goods and services is estimated to have risen as exports increased while imports dropped. Exports increased mostly because of higher foreign exchange revenues from tourism activities, reflecting the positive performance of both stay-over and cruise tourism during the June quarter of 2017. The drop in imports was caused by lower oil imports and a decline in merchandise

imports by the wholesale & retail trade sector consistent with the lower private consumption.

Developments in the income balance and the current transfers balance

Compared to the second quarter of 2016, the income balance deteriorated by an estimated NAf.17.3 million in the second quarter of 2017 because the increase in interest income paid to foreign investors exceeded the rise in interest income earned on foreign investments. Furthermore, the current transfers balance is estimated to have worsened by NAf.16.7 million because current transfers received from abroad contracted while current transfers paid to abroad increased slightly.

APPENDIX I

Table 11 Stay-over tourism development in Curaçao^{ab}

	Curaçao			
	2016-II		2017-II	
North America, of which:	-11.7	(-2.1)	7.3	(1.5)
U.S.A.	-10.1	(-1.5)	6.6	(1.1)
Europe, of which:	-0.2	(-0.1)	6.0	(3.2)
The Netherlands	1.9	(0.7)	2.7	(1.1)
South & Central America, of which:	-0.2	(0.0)	-29.5	(-4.9)
Venezuela	-3.0	(-0.5)	-50.6	(-4.1)
Colombia	12.0	(0.4)	41.3	(2.1)
Surinam	-32.2	(-0.7)	-15.8	(-0.3)
Caribbean, of which:	-6.4	(-0.6)	-21.6	(-1.6)
Dominican Republic	47.7	(0.5)	6.9	(0.1)
Total	-2.2	-	-5.9	-
Stay-over visitor nights	-7.6	-	5.1	-

Source: Curaçao Tourist Board (CTB).

^a Percentage change.

^b The weighted growth rates are depicted between brackets.

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

	2016-II	2016-III	2016-IV	2017-I	2017-II
Food	1.3	1.1	1.6	1.4	1.4
Beverages & tobacco	2.5	2.6	2.8	2.8	2.5
Clothing & footwear	1.1	1.6	0.2	0.9	-1.3
Housing	-0.4	-1.2	0.1	1.9	2.2
Housekeeping & furnishings	-2.2	-1.3	-0.8	2.5	3.6
Health	0.0	0.7	1.0	1.0	0.7
Transport & communication	-2.0	-3.2	0.2	2.1	2.4
Recreation & education	0.3	1.0	1.1	0.4	1.2
Other	1.1	1.3	1.3	1.2	1.1
General inflation rate	-1.4	0.0	-0.2	-0.6	1.8

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 Jan - Jun	2016 Jan - Jun	2017 Jan -Jun
Food	7.4	5.1	4.0
Beverages & tobacco	-0.1	0.2	3.2
Clothing & footwear	1.3	-3.9	0.7
Housing	-1.3	-1.7	3.5
Housekeeping & furnishings	2.9	0.8	-1.6
Health	4.1	1.1	3.0
Transport & communication	-2.1	-3.2	-0.8
Recreation & education	0.0	-1.3	0.3
Other	1.7	0.6	0.9
General inflation rate	0.7	-0.6	2.0

Source: Department of Statistics of Sint Maarten.

^a Half year percentage change

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

	2015-II	2016-II	2017-II
Revenues	357.6	572.5	559.6
Tax revenues, of which:	328.1	355.0	326.4
Taxes on income and profits	144.4	161.5	142.0
Taxes on property	16.6	17.0	13.0
Taxes on goods and services	123.8	131.8	128.4
Taxes on international trade and transactions	41.4	42.4	40.0
Nontax and other revenues	29.5	217.5	233.2
Expenditures	444.0	643.7	642.2
Wages and salaries	186.4	197.1	189.6
Goods and services	37.3	40.0	50.8
Transfers and subsidies	183.3	357.0	341.1
Interest payments	23.1	29.0	27.8
Other expenditures	13.9	20.6	32.9
Budget balance	-86.4	-71.2	-82.6

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

	2015-II	2016-II	2017-II
Taxes on income and profits, of which:	144.4	161.5	142.0
Profit tax	32.9	49.2	33.7
Wage tax	114.9	113.0	105.9
Taxes on property, of which:	16.6	17.0	13.0
Land tax/OZB ¹	12.0	11.5	5.5
Property transfer tax	4.4	4.2	0.2
Taxes on goods and services, of which:	123.8	131.8	128.4
Sales tax	93.7	98.3	97.7
Excises, of which:	18.9	21.7	21.0
Excise on gasoline	11.8	12.7	12.2
Motor vehicle tax	5.1	4.8	5.6
Taxes on international trade and transactions, of which:	41.4	42.4	40.0
Import duties	41.2	42.4	40.0

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

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

	2016-II	2016-III	2016-IV	2017-I	2017-II
Domestic debt	295.3	272.7	257.1	288.5	389.7
of which:					
Long-term securities	18.4	18.4	18.4	18.4	18.4
Short-term securities	0.0	0.0	0.0	0.0	0.0
APC	142.1	141.6	96.7	126.8	148.0
SVB	77.8	47.8	32.5	35.4	158.1
Foreign debt	2,301.5	2,291.7	2,288.3	2,290.4	2,286.3
Total debt	2,596.7	2,564.4	2,545.3	2,578.9	2,676.0
(% of GDP)	46.5%	45.9%	45.6%	46.3%	48.0%

¹ Debt figures do not comprise the entire collective sector.

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

	2015 I-II	2016 I-II	2017 I-II
Revenues	241.6	237.8	279.0
Tax revenues	200.5	202.0	212.4
Concessions and fees	20.8	20.6	23.4
Licenses	7.4	6.2	6.7
Other revenues	12.8	8.9	36.5
Expenditures	216.7	212.0	214.0
Wages and salaries	98.8	100.3	100.3
Goods and services	44.9	36.6	41.2
Subsidies	50.6	48.8	47.8
Social security	10.9	10.8	11.1
Interest payments	6.3	6.4	6.3
Other expenditures	5.1	9.0	7.3
Budget balance	24.9	25.8	65.0

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

	2015 I-II	2016 I-II	2017 I-II
Taxes on income and profits, of which:	92.1	98.5	104.5
Profit tax	25.0	26.3	29.3
Wage tax	68.6	71.4	74.5
Taxes on property, of which:	7.7	8.4	9.3
Land tax	2.9	3.1	2.1
Property transfer tax	4.8	5.3	7.2
Taxes on goods and services, of which:	107.8	101.8	105.3
Turnover tax	80.0	73.4	76.6
Vehicle tax	8.9	9.3	9.8
Excise on gasoline	5.4	5.8	4.4

Table 13F Total outstanding public debt¹ of Sint Maarten (in millions NAf.)

	2016-II	2016-III	2016-IV	2017-I	2017-II
Domestic debt,	191.0	191.0	151.5	n.a.	87.9
of which:					
Long-term securities	0.1	0.1	0.1	n.a.	0.1
Short-term securities	0.0	0.0	0.0	n.a.	0.0
APS	83.6	83.6	83.6	n.a.	20.0
SZV	75.8	75.8	50.8	n.a.	50.8
Foreign debt	501.3	501.3	501.3	n.a.	501.3
Total debt	692.2	692.2	652.8	n.a.	589.1
(% of GDP)	36.3%	36.3%	34.2%	n.a.	31.7%

¹ Debt figures do not comprise the entire collective sector.

IV MONETARY DEVELOPMENTS

MONETARY POLICY

During the second quarter of 2017, the Bank continued to deploy its monetary policy instruments, i.e., the auctioning of certificates of deposit (CDs) and the reserve requirement, in a neutral way. At the bi-weekly auctions, the Bank aimed only at the refinancing of maturing CDs. Consequently, the amount of outstanding CDs remained unchanged at Naf.227.4 million during the second quarter of 2017. Meanwhile, the percentage of the reserve requirement also remained unchanged at 18.00%. 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

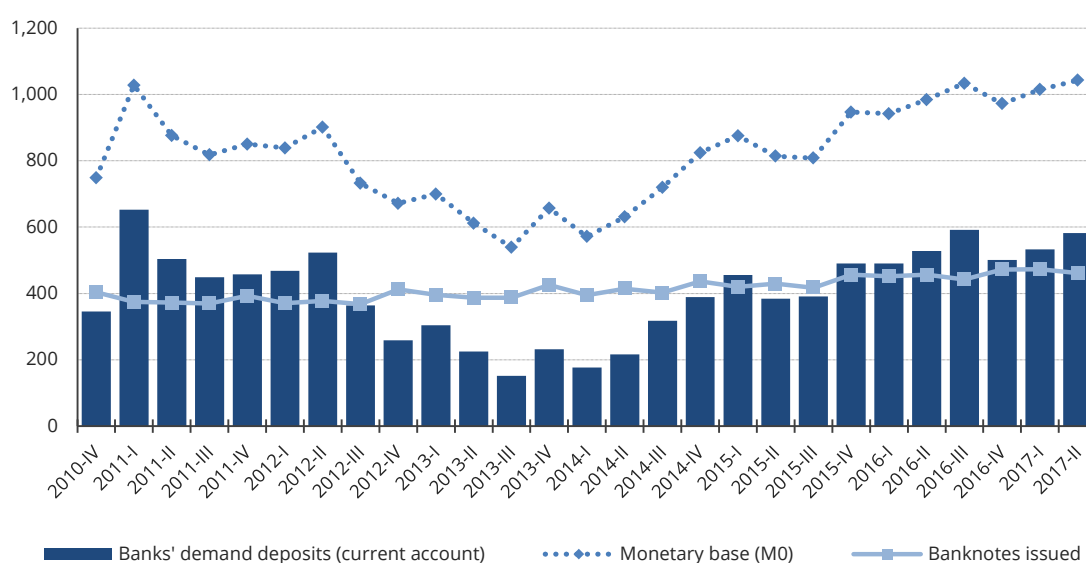
amount increased by Naf.38.6 million (3.3%) to Naf.1,209.9 million at the end of the second quarter of 2017.

The Bank's official interest rate, the pledging rate, remained unchanged at 1.50% during the second quarter of 2017. Although the Federal Reserve increased the federal funds rate on June 4, 2017, by 25 basis points to 1.00-1.25%, the Bank did not deem it necessary to adjust the pledging rate due to the low risk of interest rate arbitrage between the pledging rate and the CD rates.

MONETARY BASE

The monetary base, M0, is a measure of the Bank's monetary liabilities and consists of

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



currency in circulation and the commercial banks' current account balances with the Bank. After having expanded by 3.4% in the first quarter, the monetary base expanded further by 3.7% during the second quarter of 2017. However, the annual rate of growth of M0 dropped from 6.7% in March 2017 to 5.9% in June 2017. The expansion in the monetary base was due to an increase of NAf.49.1 million in the commercial banks' current account balances with the Bank. This increase was due to funds received from the Dutch State Treasury Agency (DSTA) related to principal and interest payments on debt securities taken over by the Dutch State under the debt relief program and held in the portfolios of the commercial banks. In contrast, the other component of M0, i.e., currency in circulation, dropped by NAf.11.7 million during the second quarter of 2017. 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. (See Table 14 in Appendix II for more details, which displays the counterparts to the monetary base.) *Ceteris paribus*, an increase in the Bank's assets raises the monetary base, whereas an increase in the Bank's remaining liabilities lowers it. The expansion of M0 during the second quarter of 2017 was the result of an increase in the Bank's assets combined with a drop in the remaining liabilities. The growth in assets stemmed largely from an increase in the claims on the commercial banks as the Bank provided more short-term liquidity.

Meanwhile, the drop in the remaining liabilities was the result of a decline in government deposits mitigated by an

increase in private sector deposits at the Bank. Government deposits declined largely as a result of payments made by the government of Curaçao towards USONA³ regarding the construction of the new hospital in Curaçao. Meanwhile, private sector deposits rose mainly as a result of an increase in time deposits held by the commercial banks due to an increase in required reserves.

MONETARY AGGREGATES⁴

During the June quarter of 2017, broad money (M2) grew by a modest NAf.28.8 million (0.3%) to NAf.8,290.7 million. The growth in M2 was attributable to an increase in the narrow money component M1 (NAf.41.9 million or 1.1%), moderated by a decline in the near money component (NAf.13.1 million or 0.3%). M1 rose because the demand deposits and currency in circulation expanded by NAf.30.8 million (or 0.9%) and NAf.11.0 million (3.0%), respectively. The increase in demand deposits was driven by a rise in Netherlands Antillean guilder deposits (1.8%), with deposits belonging to businesses contributing more than deposits belonging to households. In contrast, foreign currency deposits dropped (-1.0%) as deposits belonging to both households and businesses contracted.

Meanwhile, the drop in the near money component was caused by a decline in time deposits (NAf.55.8 million or -2.4%)

³ USONA is the foundation in charge of the construction of the new hospital in Curaçao.

⁴ As of July 2016, a new reporting system was introduced for the commercial banks. As a consequence, several definitions have been updated according to the latest guidelines of the BIS, IMF, and IFRS. Therefore, the monetary data from July 2016 are not comparable with the data up to June 2016.

mitigated by an increase in savings deposits (NAf.42.8 million or 2.0%). The decline in time deposits was induced by a contraction in the holdings of businesses (including institutional investors), the biggest holder of this asset. (See Table 15 in Appendix II for more details.)

FACTORS AFFECTING THE MONEY SUPPLY

The expansion in broad money in the second quarter of 2017 was caused largely by the growth in net domestic assets (NAf.25.3 million or 0.6%) complemented by a slight increase in net foreign assets (NAf.3.4 million or 0.1%). The increase in net foreign assets was attributable to a NAf.8.8 million (0.8%) expansion at the commercial banks moderated by a NAf.5.4 million (-0.2%) decline at the Bank. Meanwhile, the growth in net domestic assets was the result of an increase in net claims on the government mitigated mainly by a drop in claims on the private sector.

Following a decline in the first quarter of 2017, net claims on the government expanded by NAf.57.6 million (8.3%) in the second quarter of 2017 due mainly to a drop in government deposits at the Bank. This drop was largely the result of payments made by the government of Curaçao to USONA regarding the construction of the new hospital. Also, the government paid interest on debt securities. Furthermore, the final part of the division of the assets and liabilities of the former Netherlands Antilles was settled during the second quarter of 2017. This settlement resulted in a drop in the deposits of the former central government at the Bank counterbalanced by an increase in the deposits of the government of Sint Maarten. Claims on

the private sector dropped by NAf.31.1 million during the second quarter of 2017 as amounts receivable shrank by NAf.33.3 million. The loan component remained rather flat, increasing by a mere NAf.2.0 million.

Following an increase of 0.3% in the first quarter of 2017, the loan component of net credit extension to the private sector remained flat (0.0%) in the second quarter of 2017. This development was the result of increases in mortgages (0.3%) and business loans (0.3%) moderated by a decline in the "other loan" category (-8.7%). Meanwhile, consumer loans remained flat. In Curaçao, total loans contracted by 0.2%, the result of increases in outstanding mortgages (0.2%) and consumer loans (0.1%), while outstanding business loans and the "other loan" category contracted by 0.2% and 0.9%, respectively. In Sint Maarten, by contrast, the amount of private sector loans outstanding increased by 0.7% as business loans and mortgages increased, both by 0.3%. The growth in consumer loans, on the other hand, remained flat (0.0%), while the "other loan" component dropped (-0.9%). (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 the developments in the international financial markets. On June 4, 2017, the Fed increased the federal funds rate from 0.75% - 1.00% to 1.00% - 1.25%. This increase led to an increase in

the benchmark one-month US dollar libor⁵ rate by 24 basis points at the end of June 2017 compared to the end of March 2017. However, the increase in the benchmark rate did not contribute to higher interest rates on CDs during the second quarter. The maximum rate offered on a 1-month CD at the end of the June 2017 quarter (0.50%) remained almost unchanged from the end of the March 2017 quarter (0.54%) because the Bank reduced the maximum interest rates offered at the auctions.

Due to the standing subscription by the Dutch State Treasury Agency (DSTA),⁶ which subscribes 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 increased from -0.27% in the first quarter of 2017 to -0.13% in the second quarter. Furthermore, the indicative yield on 12-month treasury bills increased from -0.70% at the end of March 2017 to -0.62% at the end of June. The high demand for safe and liquid assets relative to their supply due to the large-scale asset-buying programs by central banks contributed to these negative nominal interest rates. Basically, holders have to pay for the privilege of owning these practically riskless securities. (See Table 17 in Appendix II for more details.)

⁵ The London interbank offered rate, the main gauge of interbank lending.

⁶ 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.)

	2017-I	2017-II	Change	
			Amount	Percentage
Currency in circulation	472.6	460.9	-11.7	-2.5
Banks' demand deposits (current account)	532.6	581.7	49.1	9.2
Monetary base (M0)	1,005.2	1,042.5	37.4	3.7
Central bank assets				
Foreign assets (including gold)	3,548.9	3,541.5	-7.4	-0.2
Claims on deposit money banks	91.1	124.6	33.5	36.8
Claims on the government	0.0	0.0	0.0	0.0
Claims on government agencies and institutions	359.1	356.8	-2.3	-0.6
Fixed and other assets	133.7	137.8	4.0	3.0
less:				
Central bank remaining liabilities				
Private sector deposits, of which:	1,466.2	1,522.6	56.4	3.8
Time deposits commercial banks	1,398.7	1,437.3	38.6	2.8
Government deposits	282.5	220.0	-62.4	-22.1
Foreign liabilities	457.6	455.6	-2.0	-0.4
Other liabilities	60.7	58.7	-2.1	-3.4
Capital and reserves	860.6	861.2	0.6	0.1

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

	2016-IV		2017-I		2017-II	
	Amount	%	Amount	%	Amount	%
Money supply (M2)	111.9	1.4	131.8	1.6	28.8	0.3
Money (M1)	-5.4	-0.1	123.4	3.4	41.9	1.1
Coins & notes with the public	16.5	4.6	-3.7	-1.0	11.0	3.0
Total demand deposits, of which:	-21.9	-0.7	127.1	3.9	30.8	0.9
Netherlands Antillean guilders	-51.4	-2.2	20.2	0.9	41.6	1.8
Foreign currency	29.5	3.1	106.9	11.0	-10.8	-1.0
Near money	117.3	2.7	8.4	0.2	-13.1	-0.3
Time deposits	83.9	3.8	-17.5	-0.8	-55.8	-2.4
Savings	33.4	1.6	25.9	1.2	42.8	2.0

Table 16 Monetary survey (in millions NAf.)

	2016-III	2016-IV	2017-I	2017-II
Money supply (M2)	8,018.2	8,130.1	8,261.9	8,290.7
6Money (M1)	3,678.7	3,673.3	3,796.7	3,838.6
Coins & notes with the public	357.3	373.9	370.2	381.2
Total demand deposits, of which:	3,321.4	3,299.5	3,426.6	3,457.4
Netherlands Antillean guilders	2,378.6	2,327.2	2,347.4	2,389.0
Foreign currency	942.8	972.3	1,079.2	1,068.4
Near money	4,339.4	4,456.8	4,465.2	4,452.1
Time deposits	2,218.8	2,302.7	2,285.1	2,229.3
Savings	2,120.7	2,154.1	2,180.0	2,222.8
Factors affecting the money supply				
Net domestic assets	3,890.4	4,156.1	4,041.6	4,066.9
Government sector	-765.9	-670.3	-690.8	-633.2
Former central government	-74.2	-74.3	-74.4	-11.4
Curaçao	-574.0	-463.8	-475.2	-400.4
Sint Maarten	-117.7	-132.2	-141.2	-221.4
Private sector	6,661.8	6,627.9	6,681.8	6,650.7
Memorandum items	-2,005.5	-1,801.5	-1,949.5	-1,950.6
Net foreign assets	4,127.8	3,973.9	4,220.3	4,223.8
Central bank	3,155.3	3,034.9	3,102.1	3,096.8
Commercial banks	972.5	939.0	1,118.2	1,127.0

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

	2016-III	2016-IV	2017-I	2017-II
Government loans by commercial banks	9.2	8.5	11.1	13.1
Government of Curaçao	1.7	0.1	0.6	1.6
Government of Sint Maarten	7.5	8.4	10.5	11.5

Private sector loans Curaçao	4,561.1	4,508.6	4,538.5	4,529.3
Mortgages	1,888.5	1,878.3	1,859.2	1,863.5
Consumer loans	855.4	861.6	875.1	876.2
Business loans	1,713.0	1,647.8	1,685.5	1,681.7
Other	104.1	120.9	118.8	107.9

Private sector loans Sint Maarten	1,505.2	1,527.5	1,514.9	1,526.1
Mortgages	887.6	899.8	895.6	898.3
Consumer loans	220.2	223.7	225.6	224.7
Business loans	387.4	395.9	385.8	395.5
Other	10.1	8.1	7.8	7.7

Table 17 Developments in domestic interest rates (in percentage)

	2016-II	2016-III	2016-IV	2017-I	2017-II
Central bank					
Pledging rate	1.0	1.0	1.0	1.5	1.5
Maximum CD rate (1 month)	0.37	0.42	0.50	0.54	0.50
Government securities					
Government bonds (5-year effective yield)	-0.46	-0.54	-0.32	-0.27	-0.13
Treasury bills (12-month)	-0.59	-0.66	-0.71	-0.70	-0.62

