

*Message of the Central Bank of Curaçao and Sint Maarten:*

## **Stimulate the financial services sector in order to mitigate the increasing deficit on the current account of the balance of payments**

**PHILIPSBURG/WILLEMSTAD**– The international financial services industry is an important sector that can help mitigate the increasing deficit on the current account of the balance of payments in a structural way. Through joint efforts, this sector can, particularly in Curaçao, regain its position as an international financial center. The latter is stated by dr. Emsley Tromp, President of the Central Bank of Curaçao and Sint Maarten (CBCS), in the annual report 2011 of the Bank.

For the first time in eleven years, the balance of payments of the monetary union recorded a deficit as reflected by a decline in net foreign assets. Net foreign assets dropped as the current account deficit was not fully covered by external financing and capital transfers. The average import coverage decreased from 4.0 months of merchandise imports in 2010 to 3.7 months in 2011. Nevertheless, the import coverage remained well above the Bank's target of three months.

The main reason for the widening of the deficit on the current account of the balance of payments was the decline in net current transfers received from abroad, reflecting the conclusion of the debt relief program in 2010. In contrast, exports grew related to, among other things, the increase in the refining fee in Curaçao after a prolonged shutdown of the Isla refinery during most of 2010. Also, foreign exchange revenues from bunkering activities, the re-exports by the free-zone companies, and ship repair activities contributed to the export growth. Moreover, foreign exchange revenues from the tourism sector rose in both Curaçao and Sint Maarten. However, the gain in exports was mitigated by a decline in foreign exchange receipts from the international financial services sector. Meanwhile, imports of goods and services rose, due to among other things, higher average international oil prices and more merchandise imports by the free-zone companies and the wholesale and retail trade sectors.

Motivated by the increasing deficit on the current account of the balance of payments and private sector credit growth exceeding GDP growth, the Bank tightened its monetary policy during 2011. As a consequence, the Bank raised the reserve requirement to reach 10.50% at the end of 2011. In addition to increasing the reserve requirement percentage, a temporary credit freeze was introduced in February 2012 to curb private sector credit extension, and hence, import growth to limit a further widening of the current account deficit. However, these monetary policy measures will alleviate the situation in the short run only.

For a lasting improvement of the current account, Curacao and Sint Maarten, being small open economies, will have to increase their exports to mitigate the import growth. One of the important sectors that need our attention in this context, is the international financial services industry, which has always been an important pillar of the Curaçao economy in terms of employment and foreign exchange revenues. Therefore, according to the Central Bank of Curaçao and Sint Maarten, we need to join efforts in order to revitalize the industry. Despite many efforts, particularly by the sector itself, the industry has not regained its position as an international financial center. Therefore, the representative organization of the sector, the government, and the central bank should combine their forces to create the necessary conditions under which the sector can flourish again.

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