



Press release 2014-014

**The situation on the balance of payments demands more policy actions
from both Curaçao and Sint Maarten.**

Willemstad / Philipsburg – According to dr. Emsley Tromp, president of the *Centrale Bank van Curaçao en Sint Maarten*, the balance of payments of the monetary union remains worrisome, although there were some improvements in 2013. The deficit on the current account narrowed slightly in 2013 but, similar to the previous year, external financing and capital transfers from abroad were not sufficient to cover this deficit. Consequently, the gross reserves of the central bank declined for the second consecutive year. Since monetary policy alone is not sufficient to alleviate the situation on the balance of payments, actions by both the governments of Curaçao and Sint Maarten remain necessary.

The deficit on the current account of the balance of payments narrowed in 2013 compared to 2012, due to an increase in net exports of goods and services. The increase in net exports of goods and services was due to a decline in imports, mitigated by a drop in exports. The decline in imports can be ascribed entirely to developments in Curaçao. In particular, lower merchandise imports by the free-zone companies, the decline in domestic spending, and lower oil imports led to the overall decline in imports. By contrast, imports rose in Sint Maarten driven by increased domestic demand, tourism spending, and bunkering activities. Exports contracted due mainly to the decline in re-exports by the free-zone companies and less bunkering activities in Curaçao. The export contraction was mitigated by more foreign exchange revenues from tourism activities in both Curaçao and Sint Maarten, more earnings from transportation services provided to abroad, and increased receipts from refining and trading activities by the Isla refinery. Due to insufficient foreign financing to cover the current account deficit, the gross reserves of the central bank dropped by NAf.47.9 million in 2013.

In light of the high deficit on the current account of the balance of payments and the declining trend in reserves, the Bank continued tightening its monetary policy stance throughout 2013. Hence, the percentage of the reserve requirement was increased gradually from 14.25% at the end of 2012 to 17.00% at the end of 2013. Furthermore, the Bank offered more Certificates of Deposit (CDs) against various maturities to make these securities more attractive to the banks. Moreover, the Bank extended the credit measure introduced in 2012 to contain credit growth twice during 2013. By the end of 2013, a maximum of 3% credit growth was allowed compared to August 2012. The credit measure partly explains the contraction in private credit extension, particularly in Curaçao. In Sint Maarten, private credit extension has been declining since 2011.

The monetary policy measures taken by the Bank have contributed to an improvement of the balance of payments situation as reflected by a decline in the deficit on the current account and -

since the last months of 2013 - a turnaround in the declining trend in the gross reserves of the Bank. Nevertheless, the balance of payments situation remains worrisome as the current account deficit as a percentage of GDP is still unsustainably high. As indicated on various occasions, a continuing tight monetary policy stance will stifle economic growth in the medium term. Therefore, it is imperative that the governments of Curaçao and Sint Maarten develop policy measures directed at attracting foreign investors and expanding the export base to address the external imbalances in a sustainable way. Only an export-oriented approach will lay a solid macroeconomic foundation for our countries to prosper.

CENTRALE BANK VAN CURACAO EN SINT MAARTEN

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