



Persbericht 2013-003

According to dr. Emsley Tromp:

The situation on the balance of payments demands prompt actions by the governments of both Curacao 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 an area of concern. The deficit on the current account of the balance of payments is high according to international standards. Meanwhile, external financing and capital transfers from abroad have not been sufficient to cover the deficit. Consequently, we have been noticing a declining trend in our international reserves and import coverage. Since monetary policy alone cannot solve the situation on the balance of payments, prompt actions by both the governments of Curacao and Sint Maarten are required.

In 2012, the balance of payments of the monetary union recorded a deficit as the current account deficit was not fully covered by external financing and net capital transfers. The balance of payments deficit was reflected by a decline in the gross reserves of the central bank by NAf.277.4 million. As a result, the average import coverage declined from 3.7 months in 2011 to 3.2 months in 2012.

Due to the high deficit on the current account of the balance of payments, the relatively rapid expansion in credit compared to GDP growth, and the declining trend in reserves, the Bank continued tightening its monetary policy throughout 2012. The percentage of the reserve requirement was increased gradually from 10.50% at the end of 2011 to 14.25% at the end of 2012. However, given the magnitude of the excess liquidity, increasing the reserve requirement percentage alone was not effective in containing credit growth. Therefore, the Bank introduced a temporary credit freeze for the period March – August 2012. As private credit growth decelerated towards June and the decline in international reserves slowed, the Bank eased the credit measure by allowing a maximum credit growth of 1% when it was prolonged for the period September 2012 – February 2013. In addition to the commercial banks, the Postspaarbank and the Centrale Hypotheekbank were also included in the second term of the credit measure.

Given the situation on the balance of payments, the Bank has continued its tight monetary policy stance in 2013. The reserve requirement percentage has been raised further to 16.00% as of June 17, 2013. In addition to increasing the reserve requirement, the Bank prolonged the credit measure for a third term until the end of August 2013. However, monetary policy tightening is only a short-term remedy for a structural problem.

To prevent that monetary policy will ultimately stifle economic recovery, the governments of Curaçao and Sint Maarten should take the lead with economic policy measures that will boost the economies in the short run and achieve a sustainable higher growth level in the future. These measures include improving the competitiveness of Curaçao and Sint Maarten to reach a stronger export growth. Also, actions should be taken to improve the investment climate to promote foreign direct investment into the two countries. A consistent implementation of such a growth strategy will contribute to the much-needed stable macroeconomic environment in which our young countries can prosper.

CENTRALE BANK VAN CURACAO EN SINT MAARTEN
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