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Financial sector stable in monetary union says central bank president

WILLEMSTAD/PHILIPSBURG – “The risk of our domestic banking, insurance, and pension sectors has remained stable in recent years,” Dr. Emsley Tromp, the president of the Centrale Bank van Curaçao en Sint Maarten, said in the Bank’s 2014 annual report. “Although the global financial stability risk has increased, the exposure to the stability of the monetary union is still considered limited due to the conservative nature of our financial sector. The external vulnerabilities, stemming from external shocks in our main trading partners, are reflected in the macroeconomic environment and indicate an increase in risk,” he added.

He warned, however, that economic output within the union was performing below its potential and needs the attention of the governments of both Curaçao and Sint Maarten. “The macroeconomic environment is assessed by, among other things, analyzing the long-term trend of the economy including only structural policy changes,” he explained. “The output gap of the monetary union, defined as the difference between actual and potential GDP as a percentage of potential GDP, was once more negative in 2014 (-1.92%). The increasing recessionary gap shows that the economy is falling behind its potential growth and emphasizes the importance of comprehensive policy efforts by the government.”

The central bank president pointed out that in the area of financial stability the Bank implements a macroprudential strategy which integrates the traditional microprudential supervision of institutions and monetary policy with the objective of influencing the financial system and its stability as a whole through regulation and supervision. “The Bank’s Early Warning Monitoring System analyzes the potential sources of systemic risk, which shows that in the monetary union of Curaçao and Sint Maarten, the macroeconomic environment poses the biggest risk to financial stability, followed by the sovereign soundness of the countries of Curaçao and Sint Maarten,” he said.

“In line with the overall economic contraction the monetary union recorded in 2014, net profit of the local commercial banking sector dropped. Nevertheless, the Financial Soundness Indicators show that the commercial banking sector is still sound,” Tromp assured. “The capital adequacy ratio is well above the 8% Basel benchmark. In addition, the risk in capital adequacy, asset quality, liquidity & funding, and sensitivity to market risk remained stable in 2014 compared to 2013, while the earnings and profitability risk increased. The stability and soundness of the domestic banking sector are good signs for the maintenance of financial

stability, as the sector remains the biggest contributor to the financial development of Curaçao and Sint Maarten, with a share of approximately 57% of the total financial system assets.”

Data for the insurance and pension sectors are presented with a lag of one year. Over the course of 2013, both the local life and nonlife insurance sectors recorded a decline in profitability, Tromp said. “In the local nonlife insurance subsector, risks in earnings & profitability and in asset quality increased while sensitivity to market risk declined. The risks in liquidity and capacity remained stable. The local life insurance subsector recorded an increase in the risk in capacity and earnings & profitability, while the risks concerning asset quality, sensitivity to market risk, and stability remained stable.

“Meanwhile, in 2013, the coverage ratio in the pension sector remained stable at 107% compared to 2012, above the required 100%. The sector’s risk to earnings & profitability increased while its risk to equity decreased. The other risk indicators remained stable,” Dr. Tromp concluded.

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CENTRALE BANK VAN CURACAO EN SINT MAARTEN