



## **QUARTERLY BULLETIN 2011-1**

**Centrale Bank van Curaçao en Sint Maarten**

## REPORT OF THE PRESIDENT

During the first quarter of 2011, the world economic recovery gathered speed, led primarily by a strong expansion in the emerging market economies. In contrast, most of the advanced economies experienced rather slow recovery. Amidst these international developments, the Curaçao economy posted zero growth in the first quarter of 2011. The flat economic growth was accompanied by a deceleration of the annualized inflation rate to 2.5% at the end of March 2011, largely the result of the weakening of the utility and gasoline price increases in 2010.

Due to a lack of data, it was not possible to estimate real GDP growth for Sint Maarten for the first quarter of 2011. However, indicators of private sector activity in Sint Maarten pointed to a generally weak economic performance in the period. The annualized inflation rate decelerated to 2.5% in the first quarter of 2011, down from the 3.2% registered in the first quarter of 2010.

In Curaçao, domestic demand contributed negatively to growth, driven entirely by a contraction in public spending. The contraction in public spending was attributable to a decline in government consumption of goods and services during the March quarter of 2011. Private spending, in contrast, expanded due mainly to increased private consumption, but at a slower growth rate than in the first quarter of 2010. Private investment rose slightly, a turnaround compared to the contraction registered in 2010's first quarter. The decline in domestic demand was offset by growth in net foreign demand and the replenishing of inventories, in particular by the free-zone companies. The growth in net foreign demand was the result of increased exports of goods and services that exceeded the rise in imports.

An analysis by sector for Curaçao reveals that the manufacturing, restaurants & hotels, and wholesale & retail trade sectors performed particularly well during the first quarter of 2011. Output expanded in the manufacturing sector as a result of an increase in real value added by the Isla refinery. After a prolonged shutdown of the refinery that began in March 2010, the refinery was operational again in the first quarter of 2011. The growth in the manufacturing sector was mitigated, however, by a drop in ship repair activities.

The restaurants and hotels sector registered a marked growth during the first quarter of 2011 as a result of increased stay-over visitor numbers, particularly from Venezuela, the United States, and Europe. In addition, cruise tourism expanded. The expansion of the wholesale and retail trade sector also was largely the result of the growth in stay-over and cruise tourism.

The transport, storage, and communication sector registered positive results because more passengers were transported by the domestic airlines and airport-related activities increased. The latter increase can be ascribed to more stay-over visitors. Meanwhile, the harbor showed some mixed results. On the one hand, the number of ships piloted into the ports grew but, on the other hand, the number of cargo movements dropped. Activities in the construction sector shrank during the January – March period of 2011 reflecting fewer construction projects than in the first quarter of 2010. Furthermore, real value added in the financial services sector contracted, due to declines in both the domestic and international operating financial services companies.

Meanwhile in Sint Maarten, stay-over tourism contributed negatively to the restaurants and hotels sector. During the first quarter of 2011, the number of stay-over tourists contracted due mainly to a drop in the number of visitors from North America and the Caribbean, mitigated by increased arrivals from Europe and South America. In contrast, cruise tourism grew because of more cruise calls.

The transport, storage, and communication sector also showed mixed results. The harbor of Sint Maarten performed well due to more container movements and ships piloted into the ports. However, airport-related activities dropped primarily because of less passenger traffic. Both the construction and financial services sectors in Sint Maarten contracted during the first quarter of 2011. Construction activities dropped reflecting lower business loans and mortgages extended. The contraction in the financial services industry was attributable to a decline in net income of the domestic commercial banks in Sint Maarten.

The governments of both Curaçao and Sint Maarten registered a cash surplus during the first quarter of 2011. In the case of Curaçao, the cash surplus amounted to NAf.124.1 million. Excises on gasoline, sales tax, and import duties rose compared to the first quarter of 2010. The rise in these tax categories was mitigated, however, by a decline in, among other things, revenues from the profit tax. Meanwhile, transfer payments and outlays on wages and salaries were the main contributors to government expenditures.

The government of Sint Maarten registered a cash surplus of NAf.15.0 million. An analysis of government revenues revealed that the wage, turnover, and profit taxes were the main contributors to revenues during the first quarter of 2011. In particular, proceeds from the turnover tax rose as a result of the increase in the turnover tax rate in February 2011. In contrast, government revenues generated from taxes on wages and profits declined slightly compared to the first quarter of 2010.

According to the Bank's estimates, at the end of the first quarter of 2011, the public sector debt of Curacao amounted to 35% of GDP, and the outstanding debt of the government of Sint Maarten was 25% of GDP<sup>1</sup>.

During the first quarter of 2011, the current account deficit of the monetary union widened considerably, largely as a result of a decline in net current transfers received from abroad. The latter decline was the result of the culmination of the debt relief program in 2010. Consequently, in the first quarter of 2011, no debt relief funds were transferred by the Dutch government. In contrast, net exports of goods and services increased as the rise in exports offset the growth in imports. The latter outcome was related mainly to increased oil imports reflecting higher international average prices and more merchandise imports by the free-zone companies in Curaçao to replenish their inventories. In Sint Maarten, increased marketing efforts abroad by the retail sector and the government's rental of office space from nonresidents contributed to the rise in the import bill. The rise in exports was related to, among other things, the growth in the refining fee reflecting the increased operations of the refinery after the prolonged shut-down of the plant during most of 2010. Also, increased foreign exchange earnings from the tourism industry and from bunkering activities contributed to the growth in exports. The current account deficit was financed primarily by increased external financing to the private sector. The latter increase resulted from the withdrawal of funds from foreign bank accounts to finance imports, the repatriation of funds by domestic financial institutions, and increased net trade credits received on imports. In addition, net direct investments received from abroad rose, reflecting mainly increased liabilities of domestic companies with their foreign affiliates. Also, institutional investors did not reinvest some matured foreign debt securities. Due to the strong capital inflows, net foreign assets rose by

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<sup>1</sup> 2011 first quarter GDP of Sint Maarten estimated by taking 25% of the projected nominal GDP growth for 2011.

NAf.133.9 million during the first quarter of 2011, a deceleration compared to the growth of NAf.281.9 million registered during the first quarter of 2010.

The money supply grew in the first quarter of 2011 due to the increase in net foreign assets resulting from the surplus on the balance of payments. However, the growth of the money supply was moderate compared to the first quarter of 2009 because of a drop in net domestic assets. This drop was caused mainly by a decline in net credit extended to the governments. In contrast, net credit extension to the private sector rose, due entirely to an increase in private sector loans extended in Curacao where all loan components registered an increase. In Sint Maarten, to the contrary, private credit extension declined in all loan components.

During the first quarter of 2011, the Bank did not actively deploy its monetary policy instruments to influence the domestic money market. The percentage of the reserve requirement, the main instrument, remained unchanged at 7.75%. During the biweekly auctions of certificates of deposit (CDs), the Bank aimed only at the refinancing of maturing CDs. The Bank's official lending rate remained at 1.00%.

Nevertheless, the developments on the current account of the balance of payments remained worrisome. Since 2009, the Bank has pointed out on several occasions the imminent risks associated with a large current account deficit. This concern is particularly relevant in the case of small and open economies like Curacao and Sint Maarten that are vulnerable to economic shocks.

The debt relief program, which started in 2009, in fact masked the situation on the current account as this program resulted in increased net current transfers from the Netherlands. Now that the debt relief has been concluded, the vulnerabilities of our current account have become more apparent. The deficit on the current account is still widening. Meanwhile, the economic growth of both Curacao and Sint Maarten has stagnated while credit growth is exceeding economic growth, albeit at a slower pace. Together these developments put additional pressure on our balance of payments. Consequently, our foreign exchange revenues have been declining gradually since February 2011.

Given these circumstances, the Bank decided to increase the reserve requirement percentage by two percentage points from 7.75% to 9.75% as of September 16, 2011. By increasing this percentage, the Bank absorbs excess liquidity in the domestic money market. As a consequence, credit growth is mitigated which confines a further deterioration of the current account and foreign reserves. On October 16, 2011, the reserve requirement percentage was increased further by 0.25 percentage points to reach 10.00%.

However, as indicated by the IMF during its last Article IV consultation visit to Curacao and Sint Maarten, in addition to monetary tightening by the Central Bank, tighter fiscal policy also is necessary to reduce the current account deficit to sustainable levels. In addition, we need to improve the competitiveness of both Curacao and Sint Maarten. Therefore, both governments need to take structural measures to increase wage and price flexibility and improve the investment climate. In other words, the governments of Curacao and Sint Maarten also have an important responsibility in maintaining the current peg to the US dollar, which is fundamental to our economic stability and growth prospects.

E.D. Tromp  
President

## INTERNATIONAL ECONOMIC DEVELOPMENTS

The global economy started off well in 2011. The recovery has been gaining strength, driven mainly by the emerging market economies. In contrast, the pace of economic activities in the advanced economies has been modest, with employment lagging. The 2011 first-quarter economic growth of 2.2% in the United States resulted largely from gains in nonresidential fixed investment and consumer spending on durable goods. In contrast, the decline in government spending contributed negatively to real GDP growth. In line with the rise in private demand, imports of goods & services grew faster than exports, which worsened the current account deficit by 2.4% to US\$494 billion. Nonetheless, the labor market is recovering slowly; the unemployment rate dropped from 9.7% in March 2010 to 8.8% in March 2011. The stronger-than-expected global demand for commodities and the political unrest in North Africa and the Middle East elevated food and oil prices. Consequently, inflationary pressures drove U.S. consumer prices up to 1.6% during the months January-March 2011. Despite the higher inflation, the U.S. Federal Reserve maintained the Fed funds rate at a record-low rate 0%-0.25% to promote both economic and employment growth.

**Table 1 Selected indicators of various countries**

	United States		Netherlands		Venezuela	
	2010-I	2011-I	2010-I	2011-I	2010-I	2011-I
Real GDP (% change)	2.2	2.2	0.5	2.8	-4.8	4.8
Consumer prices (%)	0.2	1.6	0.9	1.5	26.1	28.9
Unemployment rate (%)	9.7	8.8	4.5*	4.2*	8.7	8.4

Sources: US Bureau of Economic Analysis, US Bureau of Labor Statistics, Central Bureau of Statistics Netherlands, Banco Central de Venezuela, and Instituto Nacional de Estadística Venezuela.

\* International definition

The economic growth of the Netherlands was encouraging in the first three months of 2011: real GDP was up by 2.8%, stemming primarily from increases in gross fixed capital investments and export demand. Exports of goods & services expanded, but at a moderate pace, the result of a slowdown in re-exports. Higher investments were seen in both residential and nonresidential building projects and infrastructure projects. Moreover, nonresidential structures companies invested more in machinery, computer equipment, and automobiles. The higher fixed investments translated into a significant increase in activities in the construction sector. Also, the manufacturing and wholesale & retail trade sectors gained from a rise in export and investment activities. The Dutch jobless rate dropped to 4.2% in March 2011, where most of the employment was created in the health care and businesses services sectors. In the first quarter of 2011, consumers had to pay more for insurance premiums and airline tickets, resulting in a higher inflation of 1.5%. However, this rate is still one of the lowest in the EU.

Following a contraction, the Venezuelan economy recovered perceptibly by 4.8% in the January through March period of 2011. This increase was fueled by higher oil prices, raising the country's revenues, which have been used to finance social programs, widespread nationalizations, and imports. Oil exports account for about 95% of the country's export of goods and over 50% of fiscal revenues. Oil revenues were up, despite the decrease of 0.5% in real value added in the oil sector because of the continuing lack of investments. By contrast, virtually all industries in the non-oil sector reported expansion. Expansionary monetary and fiscal policies were attributable to the higher private and public consumption, which pushed up

inflationary pressures. Despite increases in Venezuela's minimum wage, the purchasing power has dropped quickly in the last several years because of the soaring inflation. The reasons for the further rise in Venezuela's first-quarter inflation of 28.9% in 2011 were (1) the subsidized exchange rate of 2.6 bolivars against the U.S. dollar on food and medicine was eliminated on January 1<sup>st</sup>, 2011; and (2) the price caps on some food products were raised by as much as 48% to align costs with the rising international prices. The elevated global oil prices kept the current account with a robust surplus of US\$8.2 billion in the March quarter of 2011. The economic rebound was accompanied by a lower jobless rate of 8.4% in March of 2011.

## **GENERAL ECONOMIC DEVELOPMENTS IN CURAÇAO**

In spite of the global economic upturn, the economy of Curaçao stagnated in the first quarter of 2011. This stagnation was due to a contraction in domestic demand offset by the positive impulses from net foreign demand. A decline in public spending contributed to the fall in domestic demand. The flat economic growth was accompanied by a lower inflation of 2.1% throughout the months January-March 2011. Consumer price inflation eased largely because of the waning of the 2010 utility and gasoline price gains.

On the expenditure side, the factor pushing towards economic contraction was domestic demand, triggered by a drop in government spending, which was led by a significant reduction in goods & services expenses. Conversely, private demand reported growth, supported mainly by higher consumer spending, but slightly weaker than in 2010's first quarter. This development was consistent with the sluggish private sector activity and the slower growth in personal credit extended by the commercial banks. Although construction investment shrank, investment in machinery and equipment picked up somewhat. With higher merchandise imports, but moderate re-export activities, the free-zone enterprises were replenishing their inventories.

Contrasting with the decline in 2010's first-quarter, net foreign trade rebounded as export demand expanded at a faster pace than imports of goods & services in real terms. Exports of goods & services were bolstered primarily by more activities in the tourism sector and the oil refinery. The increase in merchandise imports was owed largely to the perceptible gain in demand by the free zone and higher world oil prices. World oil prices on average were up by about 30%<sup>2</sup> in the first quarter of 2011, although rising at a more moderate rate than in the first quarter of 2010.

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<sup>2</sup> International Financial Statistics (IFS), IMF.

**Table 2 GDP growth by expenditure \*) (real percentage changes)**

	2010-I	2011-I
Domestic expenditure, of which:	1.9	-1.9
Private sector	1.0	1.2
- Investment	-0.3	0.1
- Consumption	1.3	1.1
Government sector	0.9	-3.1
- Investment	0.1	0.0
- Consumption	0.8	-3.1
Changes in inventory	0.0	1.2
Foreign net expenditure, of which:	-1.6	0.8
Export of goods and services	-11.5	7.1
Import of goods and services	-9.9	6.4
GDP	0.3	0.0
Net primary income	1.9	0.7
Gross national income	2.2	0.7
Net current transfers from abroad	2.8	-5.0
Gross national disposable income	5.0	-4.2

CBCS estimates

\*) Expenditure categories data are weighted contributors to GDP growth.

### **Domestic production**

In a sectoral review, the reduced economic momentum in the quarter ending March 2011 was caused by a retrenchment in the public sector, counteracting the subdued private sector increase. The upbeat performance in the manufacturing, wholesale & retail trade, and restaurants & hotels sectors was offset in part by fewer activities in the construction and the financial services sectors (see Table 3).

More activities were reported in the oil refinery, contributing to the increase in the manufacturing output during the months January-March 2011. The positive results of the oil refinery should be seen primarily in the context of the marginal production during March – December 2010. The low production levels were related to the prolonged shutdown of the plant, caused by power and air compressor problems. In line with the higher activity level, operational costs rose, driven largely by higher fuel expenses. By contrast, Curaçao's ship repair industry reported a downturn, reflected by a drop in the number of man-hours sold (4.2%), somewhat dampening manufacturing output.

In the first three months of 2011, the free zone and the tourism sector had a positive impact on the wholesale & retail trade sector, with a real growth of 3.4% in value added. In contrast to the free-zone performance, the number of free-zone visits was down by 4.7%, led mostly by a drop in the Caribbean market resulting from the discontinued Air Jamaica flights.

**Table 3 GDP by sector (real percentage changes)**

Sector	2010-I	2011-I
Agriculture, fishery, & mining	2.8	-5.4
Manufacturing	0.4	3.9
Electricity, gas, & water	7.0	-1.2
Construction	1.1	-5.4
Wholesale & retail trade	-5.5	3.4
Restaurants & hotels	-3.9	7.4
Transport, storage, & communication	-1.3	2.5
Financial intermediation	2.5	-2.8
Real estate, renting, & business activity	-0.4	-1.0
Other community, social, & personal services	2.8	0.7
Private households	0.4	-0.3
Total private sector	0.1	0.1
Public sector	3.2	0.3
Taxes minus subsidies	-2.1	-1.4
GDP	0.3	0.0

CBCS estimates

As opposed to the contraction in 2010's first quarter, tourism activities posted buoyant results, leading to a gain of 7.4% in real value added in the hotels & restaurants sector in the first quarter of 2011. Through the months of January-March 2011, the number of stay-over tourists in Curaçao rose by 11.4%, an improvement from the 9.8% drop in the first quarter of 2010. This favorable performance was supported mostly by more visitors from the United States and Venezuela. As of December 2010, the start of two weekly Continental flights was largely accountable for the growth in the arrival numbers from the United States. Following a marked decrease in the first quarter of 2010, the number of Venezuelan tourists was up by 17.5% in the first quarter of 2011, owing to the increased marketing efforts targeting the higher-income groups. Furthermore, the European market expanded, reinforcing the rise in the stay-over sector. The hotel occupancy rate improved by 7.2 percentage points to 81.1% during 2011's first quarter, corresponding with the positive stay-over developments. Besides the encouraging growth in stay-over tourism, the number of cruise travelers grew perceptibly by 16.5%, compared to the fall of 19.2% in the March quarter of 2010. See Table 7 in the appendix for more details.

Development in the transport, storage, and communication sector also was favorable in the first quarter of 2011, with increases in the air transportation and airport-related activities. Output in air transportation grew as more passengers were transported by the domestic airlines. The positive performance in airport-related activities matched the growth in Curaçao's stay-over tourism. Harbor activities were mixed because more ships were being piloted into the harbor, but cargo movements declined.

After a growth in the period ending March 2010, the financial services sector shrank in the first quarter of 2011 because of a decrease in value added in both the domestic and international financial services. Net income of the domestic commercial banks fell because earned income shrank, outweighing the reduction in expenses. The disappointing result in the international

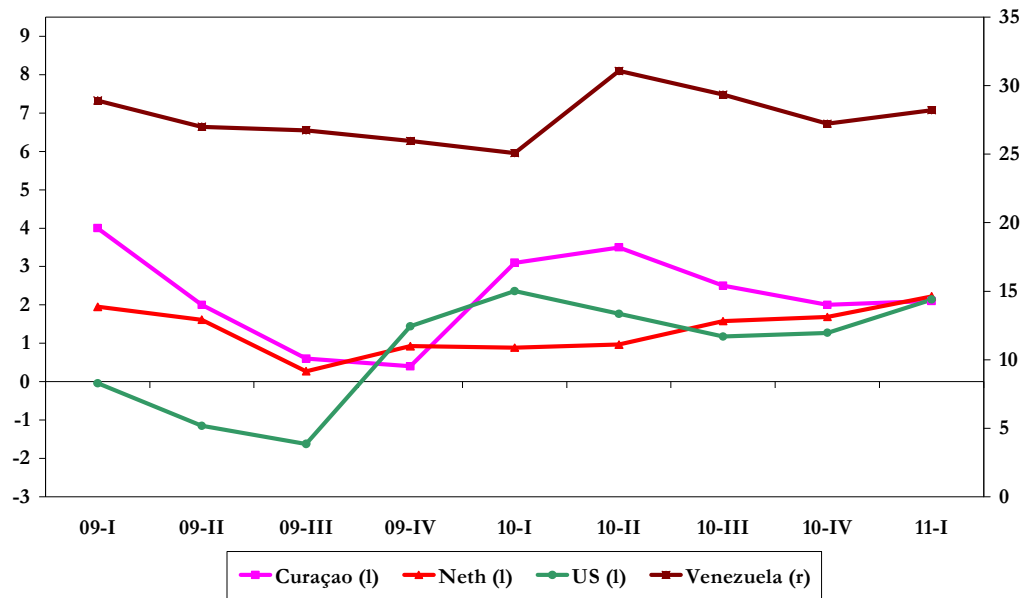


financial services sector stemmed from declines in wages & salaries and other operational expenses.

## Inflation

An analysis of price developments on a quarterly basis reveals that Curaçao’s rate of inflation decelerated from 3.1% in the first quarter of 2010 to 2.1% in the first quarter of 2011. Graph 1 shows that Curaçao’s inflation rate was relatively consistent with the inflation rate of its main trading partners, the United States and the Netherlands. Almost all CPI components reported a deceleration. As the 2010 utility and gasoline price increases continued to abate, the rates of inflation in “Housing” and “Transport & Communication” fell. In addition, the price drop in the component recreation caused a deflation in “Recreation & Education” (0.3%). By contrast, the rapid increase in food prices mitigated somewhat the declining price pressures. Compared to the first three months of 2010, fresh produce and meat product prices soared by 16.3% and 10.2%, respectively, in the first quarter of 2011. See Table 8A in the appendix for more details.

**Graph 1 Developments in consumer prices of Curaçao (annual quarterly change)**



## GENERAL ECONOMIC DEVELOPMENTS IN SINT MAARTEN

Due to a lack of data, in particular national account data and quarterly government statistics for the period 2009 – 2011, it was not possible to make a real GDP growth estimate for Sint Maarten for the first quarter of 2011. Nevertheless, based on the limited data available, an analysis of the main developments in the major sectors of the Sint Maarten economy for the first quarter of 2011 is presented in this section.

During the first quarter of 2011, the number of stay-over arrivals in Sint Maarten declined by 2.9% compared to the first quarter of 2010, contributing negatively to the restaurants and hotels sector. This poor performance was driven by a drop in the number of travelers from the North American (-7.0%) and Caribbean markets (-1.0%), mitigated by gains in the number of visitors from Europe (1.2%) and South & Central America (36.3%). In line with the poor stay-over tourism performance, the hotel occupancy rate contracted by 6.7 percentage points to

reach 63.2%. In contrast, cruise tourism grew at a rapid pace of 21.5%, following a 5.1% decline in the first quarter of 2010. The gain in cruise tourism was due mainly to an increase in the number of cruise calls. See Table 7 in the appendix for more details.

The transport, storage, and communication sector showed some mixed results in the quarter ending March 2011. The harbor in Sint Maarten performed well as a result of more ships piloted into the port and increased container movements. The increase in container movements was related largely to increased transshipment activities to the neighboring islands. In contrast, airport-related activities contracted as total passenger traffic in Sint Maarten declined. The decline in passenger traffic went hand-in-hand with the drop in stay-over arrivals. However, increased air transportation because of more passengers transported by the domestic airline in Sint Maarten somewhat mitigated the decline in airport-related activities.

Similar to the first quarter of 2010, output in the construction sector fell in the first quarter of 2011 as indicated by the decline in business loans and mortgages extended. Meanwhile, activities in the domestic financial services sector in St. Maarten contracted slightly during the January – March period of 2011 as a result of the decline in net income of the domestic commercial banks. The latter decline was due mainly to increased operating expenses by the domestic commercial banks in Sint Maarten, mitigated by higher income earned.

## **Inflation**

Inflationary pressures in Sint Maarten declined considerably during the first quarter of 2011. The quarterly inflation receded from 5.6% in the first quarter of 2010 to 2.5% in the first quarter of 2011. An analysis by CPI components reveals that almost all categories decelerated. The rate of inflation fell particularly in the categories “Clothing and footwear” and “Recreation & education”. In contrast, the easing of inflation was mitigated by upward pressures on the prices of “Beverage and tobacco” and “Transport & communication”. See Table 8B in the appendix for more details.

## **DEVELOPMENTS IN PUBLIC FINANCE**

### **Public finances Curaçao**

On October 10, 2010, Curaçao obtained the status of autonomous country within the Kingdom of the Netherlands, following the completion of the dismantling of the Netherlands Antillean federation. In the build-up to this date, the focus of Curaçao’s public sector had been on merging the two-tier government system that had prevailed on the island since 1954. Unfortunately, this reorganization of the government apparatus led to substantial delays in the financial and administrative reporting processes. Hence, the estimation of the government sector’s contribution to 2011’s first quarter GDP growth also was delayed. An additional complication in this process was that any comparison of 2011 public finance data had to be made against the year, when Curaçao did not exist as a country. Nevertheless, based on estimates of Curaçao’s average share in the operations and resources of the former central government over the last several years, it was possible to approximate the public sector’s contribution to real GDP in the first quarter of 2011.

Overall, the government sector contributed negatively to economic growth in the first quarter of 2011 as both public consumption and investment registered a drop compared to 2010’s first quarter. The downturn in consumption was triggered by a steep plunge in outlays on goods & services, caused by the underutilization of the funds budgeted for this expenditure category.

The fall in public investment during the opening quarter of 2011 was for the most part attributable to a decline in budgeted investments, which outweighed the moderate growth in spending on development projects, among them the Social Economic Initiative (SEI) projects. The SEI projects formed an important part of the constitutional reorganization process as their main aim was to restructure and strengthen Curaçao's economy before the island assumed its new constitutional status. However, due to delays in the approval and initiation of many projects, their implementation is still ongoing.

A breakdown of Curaçao's operations during the first quarter of 2011 shows a cash surplus of NAf.124.1 million as total revenues (NAf.461.1 million) outweighed total expenditures (NAf.337.0 million). Tax proceeds were the largest contributor to total revenues, led by income & profits taxes, although this category showed a decline compared to the opening quarter of 2010. Further analysis reveals that excises on gasoline, sales tax, and import duties all increased compared to the first quarter of 2010. However, the rise in these categories was outweighed by the downturn in proceeds from particularly the profit tax. On the expenditure side, a rise in Curaçao's transfers was evident, brought about by the takeover of certain tasks of the former central government. In contrast, total outlays on goods & services remained remarkably low as a result of rather subdued spending during the first quarter of 2011. See Tables 9A and 9B in the appendix for an overview.

**Table 4A Financing of the cash balance of Curaçao (in millions NAf.)**

	2010-I	2011-I
Monetary financing	-53.9	-206.3
Central bank	-9.9	-6.3
Commercial banks	-44.0	-200.0
Nonmonetary financing	-65.5	82.1
Government securities with the public	-31.8	0.0
Other	-33.7	82.1
Cash balance	119.4	124.1

The government of Curaçao used its 2011 first-quarter surplus to replenish its accounts with both the commercial banks and the central bank, which resulted in a decline in monetary financing. By contrast, Curaçao's nonmonetary financing rose as a consequence of the accumulation of arrears with other creditors, among which, the public pension fund, APNA (see Table 4A).

### **Public finances Sint Maarten**

Sint Maarten acquired the status of autonomous country within the Kingdom of the Netherlands on October 10, 2010, following the completion of the dismantling of the Netherlands Antillean federation. In the build-up to this date, Sint Maarten's focus was on establishing the necessary public institutions to function autonomously. The country was required to take over many tasks that had previously been the responsibility of the central government of the Netherlands Antilles. One particular challenge for Sint Maarten was the drafting of a balanced budget for 2011, along with its multi-annual projections. Before Sint Maarten's government budgets can become law, they have to be approved by the independent supervisory board, the College Financieel Toezicht<sup>3</sup> (CFT). After rejecting Sint Maarten's 2011 draft budget twice, the CFT at last approved it in April 2011.

<sup>3</sup> The CFT was established to temporarily assess the public finances of the five islands of the former Netherlands Antilles and provide counsel when necessary.

During the first quarter of 2011, Sint Maarten generated NAf.109.0 million in revenues and spent NAf.94.0 million. Consequently, the country registered a surplus on a cash basis of NAf.15.0 million. The tax categories that generated the most income during 2011's first quarter included wage, turnover, and profit taxes. Still, the proceeds from wage and profit taxes showed a moderate decline compared to a year earlier. However, total revenues from the turnover tax increased by 9.3% in 2011's first quarter, largely as a result of the increase in the turnover tax rate from 3% to 5% on February 11, 2011. See Tables 9C and 9D in the appendix for an overview.

**Table 4B Financing of the cash balance of Sint Maarten (in millions NAf.)**

	<b>2011-I</b>
Monetary financing	71.7
Central bank	0.0
Commercial banks	71.7
Nonmonetary financing	-86.7
Government securities with the public	0.0
Other	-86.7
Cash balance	15.0

Over the course of the first quarter of 2011, the government of Sint Maarten drew down its deposits with the commercial banks, reflected by the rise in monetary financing. At the same time, Sint Maarten's government decreased its outstanding obligations with other creditors, partly by using its NAf.15.0 million cash surplus (see Table 4B).

#### **Public sector debt Curaçao**

Since Curaçao obtained its status of autonomous country, public debt data have been hard to come by. This difficulty has been due largely to the ongoing merger of the two former government layers, which has led to delays in many financial reporting processes. As a result, Curaçao's outstanding public debt at the end December 2010 and March 2011 remains unknown. Nonetheless, based on the available data, which include the NAf.1,667.4 million in government bonds issued by Curaçao on October 15, 2010,<sup>4</sup> a debt-to-GDP estimate of 35% was made for the end of 2011's first quarter, unchanged from the end of 2010 (see Graph 2).

#### **Public sector debt Sint Maarten**

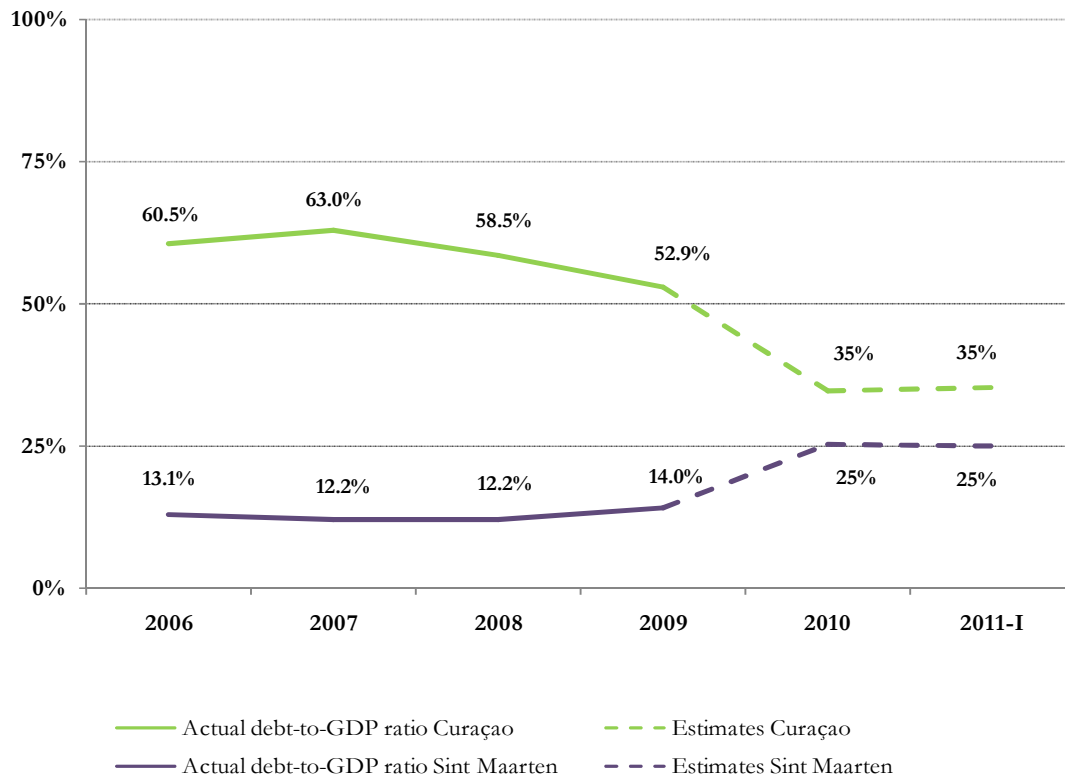
Sint Maarten's outstanding public debt at the end of December 2010 and March 2011 also remains unknown. However, based on the available data, which include the NAf.302.1 million in government bonds issued by Sint Maarten on October 21, 2010<sup>5</sup>, it was possible to make a debt-to-GDP estimate of 25% for both period ends<sup>6</sup> (see Graph 2).

<sup>4</sup> The takeover of all Netherlands Antillean securities by the Netherlands on October 10, 2010, caused the actual amount of debt relief provided to Curaçao to exceed the agreed-upon amount by NAf.1,684.2 million. On October 15, 2010, Curaçao issued new government bonds to settle its resulting liability to the Netherlands.

<sup>5</sup> The takeover of all Netherlands Antillean securities by the Netherlands on October 10, 2010, caused the actual amount of debt relief provided to Sint Maarten to exceed the agreed-upon amount by NAf.294.9 million. On October 21, 2010, Sint Maarten issued new government bonds to settle its resulting liability to the Netherlands.

<sup>6</sup> 2011 first quarter GDP of Sint Maarten estimated by taking 25% of the projected nominal GDP growth for 2011.

**Graph 2 Development of total public debt-to-GDP ratio for Curaçao and Sint Maarten**



## DEVELOPMENTS IN THE BALANCE OF PAYMENTS OF THE MONETARY UNION

During the first quarter of 2011, the current account deficit of the balance of payments of the monetary union widened to NAf.252.3 million from NAf.34.4 million in the first quarter of 2010. This surge was caused by a significant deterioration in the current transfers balance, offset only partly by an improvement in the income balance and an increase in net exports of

**Table 5 Balance of payments summary (in millions NAf.)**

	2009-I	2010-I	2011-I
Current account	-66.4	-34.4	-252.3
Capital transfers	61.8	88.9	64.0
External financing of the government	3.1	3.6	-
External financing of the private sector	109.9	180.5	272.0
- Direct investment	-4.7	13.0	34.3
- Loans and credits	116.0	169.8	197.1
- Portfolio investments	-1.4	-2.3	40.6
Change in net foreign assets of the banking system*)	-134.0	-281.9	-133.9
- with central bank	-77.3	-7.5	-2.0
- with commercial banks	-56.7	-274.3	-131.9
Statistical discrepancies	25.6	42.7	50.2

\*) a minus sign implies an increase

goods and services. In line with the current account, the combined capital and financial account worsened (see Table 5).

### **Current account**

Net exports of goods and services in the monetary union increased by NAf.25.4 million during the first quarter of 2011 compared to the first quarter of 2010 as a result of an increase in exports (NAf.115.2 million), partly offset by a growth in imports (NAf.89.8 million). Below is an analysis of the development in net exports of goods and services in Curaçao and Sint Maarten.<sup>7</sup>

#### ***Developments in the net exports of goods and services in Curaçao***

In Curaçao, net exports of goods and services increased by NAf.22.0 million during the first quarter of 2011 compared to the first quarter of 2010. The increase was the result of an increase in exports (NAf.139.1 million) that was mitigated by a growth in imports (NAf.117.1 million). The increase in exports was related to, among other things, a strong improvement in the collected refining fee (NAf.39.1 million) as the refinery became operational again after been shut down during most of 2010. In addition, foreign exchange revenues from ship repair activities and bunkering exports rose. The increase was related to higher international oil prices. Foreign exchange receipts from the transportation sector expanded significantly, which can be ascribed to increased activities by the domestic airlines. The increased transportation revenues were accompanied by a rise in foreign exchange revenues of 19.4% and 17.1% from cruise and stay-over tourism, respectively. However, export growth was mitigated by a decline in foreign exchange earnings from international financial services due mainly to fewer banking services provided to abroad in the first quarter of 2011 compared to the first quarter of 2010.

Import of goods and services rose largely as a result of the growth in imported oil products caused by higher average fuel prices. Furthermore, merchandise imports by the free-zone companies increased during the first quarter of 2011 compared to the first quarter of 2010. The growth in free-zone imports was aimed largely at the replenishment of inventories as re-exports by the free-zone companies remained fairly stable during the period under review.

#### ***Developments in the net exports of goods and services in Sint Maarten***

In Sint Maarten, net foreign demand surged by NAf.57.9 million during the first quarter of 2011 compared to 2010's first quarter, as the increase in imports (NAf.20.3 million) was largely outweighed by a rise in exports (NAf.78.2 million). The increase in exports was related mostly to increased foreign exchange revenues from the tourism sector. The latter grew by NAf.39.3 million as a result of an increase of NAf.38.1 million in revenues from cruise tourism. Meanwhile, revenues from stay-over tourism increased slightly by NAf.1.2 million in the first quarter of 2011, compared to the first quarter of 2010. In addition, increased passenger handling services provided to foreign airlines at the Princess Juliana International Airport and to cruise lines at the Sint Maarten harbor resulted in extra foreign exchange earnings.

Import of goods and services rose, reflecting mainly increased marketing efforts by the retail sector abroad. In addition, as the government of Sint Maarten obtained more responsibilities after the dissolution of the Netherlands Antilles, it rented more office space in Sint Maarten, some of which is owned by nonresidents. Meanwhile, general merchandise imports remained

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<sup>7</sup> The current account of the monetary union is not equal to the sum of the current accounts of Curaçao and Sint Maarten due to the transactions between the two countries.

fairly stable as increased oil imports related to higher international prices were offset in part by a decline in merchandise imports. This decline was related to, among other things, a decline in domestic spending as reflected by lower consumer credit and business loans extended.

### ***Developments in the income balance and current transfers balance***

The income balance of the monetary union improved by NAf.4.3 million, due mainly to higher net interest income received on portfolio investments. In contrast, net current transfers received from abroad declined by NAf.51.4 million as the debt relief program that was part of the process of dismantling of the Netherlands Antilles ended in 2010. Consequently, no transfers of debt relief funds to Curaçao and Sint Maarten occurred in the first quarter of 2011. Overall, the deficit on the current account rose by NAf.217.9 million to reach NAf.252.3 million in the March quarter of 2011. For a detailed overview, see Table 10 in the appendix.

### **Financing of the current account balance**

In line with the increased current account deficit, the net foreign wealth of the private sector dropped by NAf.272.0 million in the first quarter of 2011. This change in the external financing of the private sector was due mainly to a deterioration of the loans and credits balance.

The loans and credits balance worsened by NAf.197.1 million due to, among other things, the withdrawal of funds abroad by domestic companies to finance part of their imports. In addition, financial corporations in the monetary union repatriated foreign assets to fund their local activities. The net trade credit balance also worsened (NAf.31.0 million) because of an increase in net repayments on trade credits extended on exports. Furthermore, trade credits received on imports rose during the first quarter of 2011.

Net direct investments into the monetary union expanded by NAf.34.3 million due mainly to increased claims of foreign direct investors with their subsidiaries in Curaçao and Sint Maarten combined with the purchase of real estate by nonresidents in Curaçao and Sint Maarten.

The portfolio investment balance deteriorated by NAf.40.6 million largely as a result of funds received from matured foreign debt securities held by institutional investors that were not reinvested abroad. The worsening of the portfolio investment balance was offset in part by an increase in investments in foreign equity securities abroad.

Meanwhile, capital transfers declined by NAf.24.9 million because of fewer development aid funds from the Netherlands. The strong capital inflow during the March quarter of 2011 led to a growth of net foreign assets (i.e., reserves) by NAf.133.9 million. This growth resulted from an increase of NAf.131.9 million in net foreign assets held by the commercial banks and an increase of NAf.2.0 million in net foreign assets held by the central bank. See Table 11 in the appendix for a detailed overview.

## **MONETARY DEVELOPMENTS**

### **Monetary policy**

One of the main objectives of the Bank is to promote the stability of the value of the common currency, i.e., the Netherlands Antillean guilder (NAf), of the monetary union between the

countries of Curaçao and Sint Maarten. Therefore, the Bank's monetary policy is directed at maintaining the peg of the NAf to the US dollar. The intermediate goal is to meet the official reserves target, which is equal to three months of projected merchandise imports. The Bank's monetary policy instruments are geared towards influencing the liquidity in the domestic money market and, hence, domestic credit expansion, domestic spending, imports, and the use of foreign exchange reserves.

During the March quarter of 2011, the Bank did not actively deploy its monetary policy instruments to influence the domestic money market. Hence, the percentage of the reserve requirement, the main instrument, remained unchanged at 7.75%. The other monetary policy tool, the auctioning of CDs, was deployed in a neutral manner--the Bank offered no extra CDs at the biweekly auctions.

The Bank's official interest rate, the pledging rate, remained unchanged at 1.00%.

### **Monetary base**

The monetary base, M0, is a measure of the Bank's monetary liabilities and consists of currency in circulation and the commercial banks' current account balances with the Bank. During the March quarter of 2011, M0 expanded by NAf.278.9 million (37.3%) compared to the previous quarter. See Table 12 in the appendix for more details. The growth in the monetary base was caused entirely by an increase in the commercial banks' current account balances with the Bank. In contrast, currency in circulation declined by NAf.28.6 million. This decline occurred mainly because the US dollar became legal tender on the BES islands<sup>8</sup> as of January 1, 2011. Consequently, the Netherlands Antillean guilders (NAf.) were taken out of circulation on these islands. The decline in currency in circulation is also related to seasonal effects; the demand for currency normally falls in the first few months of the year following the December holidays.

The growth in M0 stemmed mainly from a contraction in the Bank's remaining liabilities, which reflected primarily a decline in outstanding private sector deposits. The sizeable decline in the Bank's private sector deposits was due to transactions by the public pension fund, APNA, related mostly to an advance made on the division of assets and liabilities to the public pension fund of Sint Maarten. A drop in foreign liabilities also contributed to the growth in M0.

### **Factors affecting the money supply**

Broad money (M2) grew by 1.1% during the March quarter of 2011. The monetary expansion in the monetary union was driven by a growth of 3.1% in net foreign assets. At the same time, a contraction in net domestic assets dampened the monetary expansion.

Narrow money (M1) expanded by 3.0% due mainly to a rise in deposits withdrawable on demand. These deposits rose by 4.5% primarily because of an increase in foreign currency-denominated deposits (12.7%). In contrast, the remaining component of M1, currency holdings, dropped by nearly 10% because of the currency taken out of circulation on the BES islands when the US dollar was introduced. The near money component declined slightly (0.3%) due to a decline in time deposits (2.4%), which were offset largely by an increase in savings (2.2%).

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<sup>8</sup> Bonaire, Sint Eustatius, and Saba



The contraction in net domestic assets was due mainly to the government sector. Deposits of the government of Curacao increased related to the cash surplus in the first quarter of 2011. The government of Sint Maarten exerted an expansionary impact through a net withdrawal of deposits. Credit to the private sector grew by 1.7% attributable entirely to developments in Curacao: private sector loans grew by 2.3%, largely the result of a 4.5% growth in business loans, and mortgages and consumer loans were up by 1.3% and 0.8%, respectively. On the other hand, Sint Maarten contributed negatively to the growth of loans in the monetary union, reflected by a 2.4% decline in loans extended. All loan components declined: consumer loans by 4.3%, mortgages by 2.2%, and business loans by 1.1%. See Table 13 in the appendix for more details.

### **Developments in domestic interest rates**

When setting the rate offered on CDs during the bi-weekly auctions, the Bank takes into account the developments in international interest rates through the US dollar libor rates.<sup>9</sup> During the March quarter of 2011, the benchmark one-month libor rate was on average 0.6% lower than in the previous quarter. In line with this development, the Bank's 1-month CD rate dropped from 0.17% at the end of fourth quarter of 2010 to 0.15% at the end of the first quarter of 2011.

A mixed development was noticed in commercial banks' interest rates during the first quarter of 2011. The average rate on time loans dropped from 8.9% in the last quarter of 2010 to 8.6% in the first quarter of 2011. In contrast, the average mortgage rate increased from 6.6% to 7.1%. Meanwhile, the average rate offered on a 12-month time deposit increased from 1.6% to 1.7%, while the average interest rate on passbook savings remained unchanged at 1.1%.

The market for government securities showed no activity during the first quarter of 2011; however, the average effective yield on 5-year government bonds increased from 2.4% at the end of December 2010 to 2.9% at the end of March 2011. The yield on 1-month treasury bills remained unchanged at 1.0%. See Table 14 in the appendix for a detailed overview.

## **DEVELOPMENTS IN THE COMMERCIAL BANKING SECTOR**

In the first quarter of 2011, the balance sheet of the commercial banks in the monetary union expanded at an increased pace, with the year-on-year growth rate accelerating to 3.0% from 1.8% in the previous quarter. Total assets increased by NAf.369.5 million (2.5%) during 2011's first quarter due to increases in interest-bearing and non-interest-bearing cash, loans, and fixed assets. The expansion in total assets was partly offset by declines in investments and other assets.

Meanwhile, the expansion in total liabilities was caused entirely by increases in deposits. The increase in deposits was the result of more demand and savings deposits. In contrast, time deposits dropped during the first quarter of 2011. The share of total capital in total assets dropped from 10.8% in the fourth quarter of 2010 to 10.4% at the end of the March 2011 quarter. This drop was the result of an increase in total assets and a drop in total capital. See Table 15 in the appendix for more details.

During the first three months of 2011, the banks recorded lower profits than in the first quarter of 2010, reflecting mainly lower income from extraordinary items. In contrast, net

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<sup>9</sup> The London interbank offered rate, the main gauge of interbank lending.

operational income of the domestic banking sector increased by 4.3%. This increase was the result of a growth in total operating income (NAf.16.4 million) that outweighed a rise in total operating expenses (NAf.13.6 million). The growth in total operating income resulted from increases in both net interest income and other income. The increase in net interest income occurred because the commercial banks managed to increase interest income by 0.6% and reduce interest expenses by 16.9%. The increase in operating expenses was attributable to all components. See Table 16 in the appendix for more details.

### **Financial soundness indicators**

The Bank analyzes the general performance of the banking sector through financial soundness indicators (FSI). FSI are aggregates of microprudential indicators used to assess the soundness of individual banks. This microprudential approach is limited, however, because the microeconomic variables used take into account only the exposure of individual banking institutions. For a more comprehensive analysis, macroeconomic factors also are considered by carrying out stress tests. These stress tests together with the FSI constitute a macroprudential approach aimed at better assessing the vulnerability of the banking system to shocks and the extent of systemic risk.

The ratio of total capital-to-total assets dropped from 11.2% at the end of the fourth quarter of 2010 to 10.7% at the end of the first quarter of 2011. This drop reflects an increase in total assets (2.6%), while qualifying Tier 1 capital dropped (1.9%). However, this ratio is well above the internationally acknowledged benchmark of 4.0%, indicating that the capital stock of the domestic banks is relatively strong.

The quality of the commercial banks' assets portfolio deteriorated during the first quarter of 2011 compared to the last quarter of 2010. This deterioration was reflected by a drop in the ratio of provisions for loan losses-to-nonperforming loans, led by a substantial increase in nonperforming loans (23.6%), indicating elevated credit risk, combined with a drop in provisions (4.7%) due to loan write-offs. In addition, the ratio of nonperforming loans-to-total loans rose to 7.2% at the end of the first quarter of 2011 (see Table 6).

The lower profitability of the commercial banks also was reflected by the development in the earnings indicators. The gross earnings-assets yield declined to 5.6% in the first quarter of 2011, down from 6.0% in the first quarter of 2010. This deterioration resulted from a decline in interest income and an increase in average outstanding earning assets. The return on assets ratio declined also, from 1.9% in 2010's first quarter to 1.6% in 2011's first quarter due to lower net income before dividend and taxes and higher average outstanding assets. Only the net interest margin improved slightly from 4.3% to 4.4%.

Finally, the ratio of total loans-to-total deposits, which provides an indication of the development of liquidity in the domestic banking sector, dropped during the first quarter of 2011 as the increase in the deposit base outpaced the rise in loans extended. The downturn in this ratio reveals an increase in liquidity.

**Table 6 Financial stability indicators (in %, end of period)**

	2010-I	2010-II	2010-III	2010-IV	2011-I
<b>Capital adequacy</b>					
Total capital/ total assets	10.7	10.7	10.7	11.2	10.7
<b>Asset quality</b>					
Non-performing loans/ total loans	5.2	5.8	5.8	5.9	7.2
Provisions for loan losses/ non-performing loans	56.9	49.9	50.0	53.4	41.2
<b>Earnings</b>					
Gross earnings-assets yield	6.0	5.8	5.7	5.6	5.6
Net interest margin	4.3	4.3	4.3	4.3	4.4
Return-on-assets	1.9	1.9	2.0	1.8	1.6
<b>Liquidity</b>					
Total loans/ total deposits	61.5	63.3	64.3	65.3	64.3

## APPENDIX

**Table 7 Developments in stay-over tourism (% change)**

	Curaçao				St. Maarten			
	2010-I		2011-I		2010-I		2011-I	
North America, of which:	26.6	(2.0)	25.1	(2.3)	6.2	(2.5)	-7.0	(-2.6)
-U.S.A.	33.0	(1.9)	29.2	(2.1)	6.4	(2.2)	-7.8	(-2.4)
Europe, of which:	15.0	(2.9)	2.6	(0.5)	9.1	(1.3)	1.2	(0.2)
-The Netherlands	15.1	(2.4)	2.0	(0.3)	1.0	(0.0)	17.4	(0.4)
South & Central America, of which:	-54.4	(-3.9)	12.8	(1.0)	51.1	(0.9)	36.3	(0.9)
-Venezuela	-69.9	(-2.9)	17.5	(0.8)	60.8	(0.2)	-25.4	(-0.1)
-Colombia	16.4	(0.1)	7.0	(0.0)	--	--	--	--
Caribbean, of which:	18.8	(0.7)	-1.1	(0.0)	-2.5	(-0.1)	-1.0	(0.0)
-Dominican Republic	28.2	(0.1)	26.3	(0.1)	9.3	(0.0)	3.6	(0.0)
Total	-9.8	(-3.7)	11.4	(4.7)	7.0	(4.3)	-2.9	(-1.7)

Source: Curacao Tourist Board (CTB) and St. Maarten Tourist Bureau

**Table 8A Curaçao consumer prices (annual quarterly percentage change)**

	2009-IV	2010-I	2010-II	2010-III	2010-IV	2011-I
Food	3.3	2.7	3.5	5.4	6.9	6.5
Beverages & tobacco	4.0	4.0	3.5	3.6	3.0	1.5
Clothing & footwear	2.3	-0.2	-1.5	-1.3	-1.6	0.1
Housing	-0.7	4.2	6.1	4.3	1.5	1.6
Housekeeping & furnishings	1.9	1.4	0.6	0.8	0.8	1.6
Health	2.1	2.7	2.5	1.9	1.6	1.1
Transport & communication	-2.8	4.0	3.8	0.8	1.5	1.4
Recreation & education	1.0	0.5	0.3	-0.4	-0.7	-0.3
Other	3.5	3.2	2.5	1.9	1.2	1.1
General inflation rate	0.4	3.1	3.5	2.5	2.0	2.1

Source: Central Bureau of Statistics of Curaçao

**Table 8B Sint Maarten consumer prices (annual quarterly percentage change)**

	2009-IV	2010-I	2010-II	2010-III	2010-IV	2011-I
Food	5.2	4.1	3.7	2.4	2.0	3.6
Beverages & tobacco	3.2	1.8	2.2	2.1	2.4	5.8
Clothing & footwear	1.2	0.6	0.4	0.6	0.1	-0.5
Housing	5.0	10.7	6.7	3.9	2.4	2.9
Housekeeping & furnishings	3.6	2.1	0.8	0.8	0.6	0.7
Health	1.7	1.3	1.1	0.4	0.1	0.3
Transport & communication	1.4	2.5	1.9	0.4	0.3	3.6
Recreation & education	0.6	1.2	0.6	0.8	0.7	-0.1
Other	3.5	2.7	1.9	1.9	1.0	1.9
General inflation rate	3.5	5.6	3.7	2.2	1.4	2.5

Source: Department of Statistics, St. Maarten

**Table 9A Budgetary overview of Curaçao (in millions NAf.)**

	<b>2011-I</b>
Revenues	461.1
Tax revenues, of which:	425.0
Taxes on income and profits	228.7
Taxes on property	8.8
Taxes on goods and services	145.0
Taxes on international trade and transactions	41.1
Nontax and other revenues	11.0
Grants	25.1
Expenditures	337.0
Current expenditures, of which:	333.7
Wages and salaries	140.9
Goods and services	30.4
Subsidies	16.0
Transfers	146.2
Interest payments	0.0
Capital expenditures	3.3
Budget balance	124.1

**Table 9B Overview of selected tax revenues for Curaçao (in millions NAf.)**

	<b>2009-I</b>	<b>2010-I</b>	<b>2011-I</b>
Taxes on income and profits, of which:	222.5	252.3	228.7
Profit tax	90.6	115.1	90.3
Wage tax	131.6	138.8	138.3
Taxes on property, of which:	15.5	10.9	8.8
Land tax	9.1	5.5	4.4
Property transfer tax	6.1	4.9	4.0
Taxes on goods and services, of which:	---	---	145.0
Sales tax	76.9	77.2	81.8
Excises, of which:	26.8	28.2	32.3
Excise on gasoline	18.2	17.9	25.3
Motor vehicle tax	15.7	26.3	26.4
Taxes on international trade and transactions, of which:	42.5	---	41.1
Import duties	42.5	39.5	40.9

--- Value is unknown as Curaçao's share in certain central government tax revenues is not known.

**Table 9C Budgetary overview of Sint Maarten (in millions NAf.)**

	<b>2011-I</b>
Revenues	109.0
Tax revenues, of which:	91.4
Taxes on income and profits	45.7
Taxes on property	4.1
Taxes on goods and services	41.7
Nontax and other revenues	17.5
Grants	0.0
Expenditures	94.0
Budget balance	15.0

**Table 9D Overview of selected tax revenues for Sint Maarten (in millions NAf.)**

	2009-I	2010-I	2011-I
Taxes on income and profits, of which:	52.2	50.5	45.7
Profit tax	19.8	18.5	16.1
Wage tax	32.4	32.4	31.2
Taxes on property, of which:	---	---	4.1
Land tax	0.5	0.6	0.0
Property transfer tax	1.6	2.9	4.1
Taxes on goods and services, of which:	---	---	41.7
Turnover tax	24.5	23.8	25.5
Vehicle tax	4.0	6.9	7.3
Excise on gasoline	3.0	2.4	3.0

--- Value is unknown as Sint Maarten's share in certain central government tax revenues is not known.

**Table 10 Detailed overview of balance of payments (in millions NAf.)**

	2009-I	2010-I	2011-I
Trade balance	-756.7	-828.6	-844.8
-Exports	375.9	375.5	414.4
-Imports	1,132.7	1,204.2	1,259.2
Services balance	618.9	598.2	639.6
Receipts, of which:	1,012.7	1,001.4	1,077.7
-Travel	616.9	604.2	634.4
-Transportation	78.9	91.1	77.3
-Other services, of which:	316.9	306.1	366.0
-Int. fin & bus. services sector	86.1	65.3	52.0
Expenses, of which:	393.8	403.3	438.1
-Travel	117.3	132.7	143.4
-Transportation	61.6	69.2	74.0
-Other services, of which:	214.9	201.4	220.7
-Int. fin & bus. services sector	35.7	35.3	31.7
Income balance <sup>1)</sup>	-41.9	-9.1	4.3
Current transfers balance <sup>2)</sup>	113.4	205.1	-51.4
<b>Current account balance</b>	<b>-66.4</b>	<b>-34.4</b>	<b>-252.3</b>
<b>Capital &amp; financial account balance</b>	<b>40.8</b>	<b>-8.3</b>	<b>202.1</b>
Capital account balance <sup>3)</sup>	61.8	89.5	64.0
Financial account balance	-21.0	-97.8	138.1
<b>Net errors &amp; omissions</b>	<b>25.6</b>	<b>42.7</b>	<b>50.2</b>

1) Labor and investment income.

2) Public and private transfers.

3) Difference with the item Capital transfers in Table 5 is due to the acquisition of nonproduced nonfinancial assets of NAf.0.6 million.



**Table 11 Breakdown of net changes in the financial account <sup>1)</sup> (in millions NAf.)**

	2009-I	2010-I	2011-I
Direct investment	-4.7	13.0	34.3
- Abroad <sup>2)</sup>	-37.7	-23.9	-4.6
- In the monetary union <sup>3)</sup>	33.0	36.9	38.9
Portfolio investment <sup>3)</sup>	-1.4	-2.3	40.6
Other investment, of which:	168.2	153.1	91.8
- Assets <sup>3)</sup>	166.0	162.0	103.2
- Liabilities <sup>3)</sup>	2.2	-8.9	-11.4
Net lending/borrowing, of which:	-49.1	20.3	150.3
- Assets <sup>2)</sup>	42.5	-2.1	70.7
- Liabilities <sup>3)</sup>	-91.6	22.4	34.6
Reserves <sup>4)</sup>	-134.0	-281.9	-133.9
Total assets <sup>2)</sup>	35.4	-148.2	76.0
Total liabilities <sup>3)</sup>	-56.4	50.3	62.1
Balance	-21.0	-97.8	138.1

1) Transaction basis

2) A minus sign means an increase in assets.

3) A minus sign means a decrease in liabilities.

4) A minus sign means an increase in reserves.

**Table 12 The monetary base and its sources (in millions NAf.)**

	2010-IV	2011-I	Change	
			Amount	Percentage
Currency in circulation	403.4	374.8	-28.6	-7.1%
Banks' demand deposits (current account)	345.2	652.8	307.6	89.1%
<b>Monetary base (M0)</b>	748.6	1,027.6	278.9	37.3%
<b>Central bank assets</b>				
Foreign assets (including gold )	3,318.0	3,303.7	-14.4	-0.4%
Claims on deposit money banks	0.6	36.1	35.5	-
Claims on the government	0.1	0.1	0.0	-31.8%
Claims on government agencies and institutions	525.6	516.0	-9.6	-1.8%
Fixed and other assets	105.3	101.5	-3.8	-3.6%
less:				
<b>Central bank remaining liabilities</b>				
Private sector deposits	1,013.4	746.6	-266.8	-26.3%
Government deposits	383.9	391.5	7.6	2.0%
Foreign liabilities	666.9	625.3	-41.6	-6.2%
Other liabilities	110.1	116.2	6.1	5.5%
Capital and reserves	1,026.7	1,050.2	23.5	2.3%

**Table 13 Monetary survey (in millions NAf.)**

	<b>2010-IV</b>	<b>2011-I</b>
<b>Money supply (M2)</b>	7,216.5	7,298.9
<b>Money (M1)</b>	3,131.2	3,225.6
Coins & notes with the public	320.6	289.0
Total demand deposits, of which :	2,810.6	2,936.6
- Netherlands Antillean guilders	2,218.6	2,269.7
- Foreign currency	592.0	666.9
<b>Near money</b>	4,085.3	4,073.3
Time deposits	2,186.6	2,133.4
Savings	1,898.7	1,939.9
<b>Factors affecting the money supply</b>	7,216.5	7,298.9
<b>Net domestic assets</b>	2,696.0	2,639.5
<b>Government sector</b>	-705.2	-841.1
- Former central government	-112.2	-113.6
- Government of Curacao	-347.6	-553.8
- Government of Sint Maarten	-245.4	-173.7
<b>Private sector</b>	5,546.5	5,642.8
<b>Memorandum items</b>	-2,145.4	-2,162.1
<b>Net foreign assets</b>	4,520.5	4,659.3
Central bank	2,906.4	2,923.5
Commercial banks	1,614.1	1,735.8
<b>Government loans by commercial banks</b>	0.2	0.2
Government of Curaçao	0.1	0.1
Government of Sint Maarten	0.1	0.1
<b>Private sector loans Curacao</b>	3,524.0	3,603.6
- Mortgages	1,394.1	1,412.6
- Consumer loans	943.9	951.3
- Business loans	1,186.0	1,239.7
<b>Private sector loans Sint Maarten</b>	1,581.8	1,544.3
- Mortgages	661.7	647.3
- Consumer loans	391.5	374.5
- Business loans	528.6	522.6

**Table 14 Developments in domestic interest rates (in %)**

	2010-I	2010-II	2010-III	2010-IV	2011-I
<b>Central bank</b>					
- Pledging rate	1.0	1.0	1.0	1.0	1.0
- Maximum CD rate (1 month)	0.13	0.22	0.20	0.17	0.15
<b>Commercial banks borrowing rates</b>					
- Passbook savings	1.8	1.5	1.2	1.1	1.1
- Time deposits (12-month)	2.0	1.9	1.6	1.6	1.7
<b>Commercial banks lending rates</b>					
- Mortgages	7.2	7.1	6.7	6.6	7.1
- Time loans	9.5	9.4	9.3	8.9	8.6
<b>Government securities</b>					
- Government bonds (5-year effective yield)	3.3	3.3	3.3	2.4	2.9
- Treasury bills (1 month)	0.6	0.6	0.6	1.0	1.0

**Table 15 Aggregate balance sheet of domestic commercial banks (in millions NAf.)**

	2010-I	2010-II	2010-III	2010-IV	2011-I
<b>Assets</b>					
Non-interest-bearing cash	1,404.5	1,285.0	1,420.0	1,441.7	1,593.9
Interest-bearing cash	3,621.8	3,402.1	3,325.7	2,884.8	3,048.2
Investments	1,220.9	1,218.7	1,156.2	1,461.9	1,444.4
Loans	7,683.0	7,810.5	8,074.5	8,106.2	8,232.1
Investments in unconsolidated subsidiaries and affiliates	97.1	106.8	111.7	123.6	44.2
Fixed assets	298.3	302.2	314.1	333.8	388.9
Other assets	251.6	265.5	284.0	295.5	265.4
<b>Total assets</b>	<b>14,577.2</b>	<b>14,391.0</b>	<b>14,686.2</b>	<b>14,647.6</b>	<b>15,017.1</b>
<b>Liabilities</b>					
Demand deposits	5,590.6	5,564.4	5,507.1	5,215.6	5,742.3
Savings deposits	4,148.6	4,090.0	4,040.8	4,211.8	4,233.7
Time deposits	2,897.7	2,823.0	3,126.6	3,105.8	2,998.7
<b>Total deposits</b>	<b>12,636.9</b>	<b>12,477.5</b>	<b>12,674.5</b>	<b>12,533.2</b>	<b>12,974.7</b>
Borrowings	43.2	36.2	68.8	99.5	74.5
Other liabilities	392.5	392.4	430.1	427.6	410.7
<b>Total liabilities</b>	<b>13,072.6</b>	<b>12,906.0</b>	<b>13,173.4</b>	<b>13,060.3</b>	<b>13,460.0</b>
Minority interest	9.0	9.2	9.6	9.3	10.3
Subordinated debentures	0.0	0.0	0.0	0.0	0.0
General provisions	235.6	234.6	241.4	266.4	255.8
Capital & reserves	1,260.1	1,241.2	1,261.8	1,311.5	1,291.1
<b>Total capital</b>	<b>1,504.6</b>	<b>1,485.0</b>	<b>1,512.8</b>	<b>1,587.2</b>	<b>1,557.1</b>
<b>Total liabilities and capital</b>	<b>14,577.2</b>	<b>14,391.0</b>	<b>14,686.2</b>	<b>14,647.6</b>	<b>15,017.1</b>

**Table 16 Aggregate income statement of domestic commercial banks  
(cumulative quarterly figures, in millions NAf.)**

	2010-I	2010-II	2010-III	2010-IV	2011-I
Interest income	192.7	379.3	570.9	713.9	193.8
Interest expenses	48.3	92.0	132.7	164.0	40.2
<b>Net interest income</b>	144.3	287.3	438.2	549.9	153.7
Other income	73.2	127.9	207.4	274.2	80.3
<b>Total operational income</b>	217.5	415.3	645.5	824.2	233.9
Salaries & other employee expenses	81.0	161.0	239.8	308.6	85.8
Occupancy expenses	24.1	48.5	73.1	95.1	26.5
Other operating expenses	34.4	67.5	103.0	132.2	39.6
Net addition to general provisions	13.6	22.8	32.7	69.6	14.9
<b>Total operational expenses</b>	153.1	299.8	448.6	605.6	166.7
Net operating income	64.4	115.5	196.9	218.6	67.2
Net extraordinary items	27.7	42.1	20.4	36.0	4.3
Applicable profit taxes	15.4	27.0	43.7	42.4	13.3
<b>Net income after taxes</b>	76.7	130.6	173.6	212.2	58.2