QUARTERLY BULLETIN 2011-2

Centrale Bank van Curacao en Sint Maarten

REPORT OF THE PRESIDENT

During the second quarter of 2011, growth in most industrial economies was challenged by the increased volatility in the financial markets. The volatility was related to, among other things, the European sovereign debt crisis. Growth also was dampened by the effects of the March disaster in Japan. Consequently, in most industrial economies, economic growth slowed down. In contrast, the emerging market economies again recorded robust growth numbers.

Against these international developments, the Curaçao economy expanded by 0.9% in the second quarter of 2011 compared to a 0.5% contraction in the second quarter of 2010. Real economic growth was accompanied by a quarterly inflation rate of 1.4%, a deceleration compared to the 3.5% inflation rate recorded in the June quarter of 2010. The lower inflation rate was caused mainly by a reduction in domestic electricity prices. The annualized inflation rate decelerated as well to 2.0% at the end of June 2011 compared to 2.5% at the end of March 2011.

Real GDP growth could not be estimated for Sint Maarten in the second quarter of 2011 because of a lack of data. However, private sector data indicate poor economic performance. The quarterly inflation rate accelerated from 3.7% in the June quarter of 2010 to 4.7% in the June quarter of 2011. The higher inflationary pressures were largely the result of increased international oil and food prices. The annualized inflation rate was 2.7% at the end of June 2011, an acceleration compared to the 2.5% registered at the end of March 2011.

The economic expansion in Curaçao was fueled mainly by net foreign demand as the growth in exports of goods and services exceeded the rise in imports. Domestic demand increased slightly, driven only by the private sector. The growth in private sector spending was attributable to increased private consumption moderated by a drop in private investments. Meanwhile, government spending contracted because of a decline in government consumption.

An analysis by sector shows that 2011's second quarter economic growth was accounted for by the manufacturing, restaurants & hotels, wholesale & retail trade, and transport, storage & communication sectors. The growth in manufacturing was related to increased activities at the refinery after a prolonged shut-down in 2010. In contrast, ship repair activities contracted during the second quarter of 2011. A significant growth in stay-over tourism contributed to the expansion in the restaurants & hotels and wholesale & retail trade sectors. In particular, the number of stay-over visitors from North and South America rose as a result of increased airlift and marketing efforts. Also, the number of European tourists grew, albeit at a slower pace than in the second quarter of 2010. By contrast, the number of cruise tourists dropped. Activities in the wholesale & retail trade sector also were backed by more free-zone activities and higher private spending.

Activities in the transport, storage & communication sector increased due to a growth in the air transportation sector, related to increased passenger traffic. Meanwhile, the harbor posted some mixed results. The number of ships piloted into the port increased while cargo movements and oil storage activities dropped. Value added in the financial services sector also rose as both the domestic banking sector and the international financial services companies posted positive results. In contrast, activities in the construction sector contracted due mainly to fewer non-residential investment activities.

In Sint Maarten, activities in the restaurants & hotels sector declined because of a decrease in stay-over tourism. The latter drop was related to a decline in time-share capacity and airlift during the second quarter of 2011. Consequently, the number of stay-over visitors from North

America and Europe decreased, moderated partly by more visitors from South & Central America and the Caribbean. In contrast, cruise tourism expanded, but the pace of expansion was less pronounced than in the June quarter of 2010.

The transport, storage and communication sector in Sint Maarten showed some mixed results. On the one hand, the number of ships piloted into the port rose while, on the other hand, airport-related activities dropped. The utility sector also posted some mixed results as the production of electricity declined, while that of water rose. The performance of both the construction and the financial services sectors was poor during the second quarter of 2011. Activities in the construction sector dropped in line with the decline in mortgages extended in Sint Maarten. Meanwhile, the poor results of the financial services sector were related to a decline in net income of the domestic commercial banks.

The government of Curaçao registered a cash deficit of NAf.65.1 million in the second quarter of 2011. The main contributors to government revenues were the wage tax, the sales tax, and import duties. Compared to 2010, however, both wage and sales tax revenues dropped slightly. Meanwhile, import duties collected rose in line with the growth in merchandise imports in Curaçao. Total expenditures included a first-time interest payment on the semi-annual bonds issued by the government of Curaçao in October 2010 related to the debt relief.

The government of Sint Maarten also recorded a cash deficit during the second quarter of 2011 (NAf.5.3 million). Total expenditures amounted to NAf.99.2 million, including -- similar to Curaçao -- a first-time interest payment on the semi-annual bonds issued in October 2010. Total government revenues reached NAf.93.9 million. Turnover tax proceeds rose compared to the second quarter of 2010 due to the increase in the turnover tax rate in February 2011. Also, taxes on wages and vehicles increased during the second quarter of 2011. In contrast, revenues from the profit tax and excises on gasoline dropped.

The balance of payments deteriorated in the second quarter of 2011 because the current account deficit was not fully covered by external financing and capital transfers. Consequently, our foreign exchange reserves dropped. The deficit on the current account widened during the June quarter of 2011 compared to the June quarter of 2010, due primarily to a decline in net current transfers received from abroad. The latter decline can be ascribed to the conclusion of the debt relief program in 2010. Hence, no debt relief funds were transferred from the Netherlands to either Curaçao or Sint Maarten during the second quarter of 2011. Net exports of goods and services also contracted as the growth in exports was outweighed by a rise in imports. The export growth was the result of, among other things, increased revenues from refining activities in Curaçao after a prolonged shutdown of the refinery during most of 2010. Also, increased foreign exchange revenues from bunkering, transportation activities, and free-zone exports contributed to the surge in exports. Meanwhile, foreign exchange earnings from tourism activities in Curaçao expanded while those earnings remained about the same in Sint Maarten. The import bill of the monetary union expanded mainly because of higher average oil prices on the international markets. Moreover, the free-zone companies imported more merchandise. The worsening of the current account was mitigated by increased net income received from abroad. The latter increase was largely the result of lower dividend and interest payments to abroad related to investments in Curaçao and Sint Maarten.

The current account deficit was financed primarily by external financing of the private sector reflecting a worsening of the loans and credits and direct investment balances. Net loans and credits extended to Curaçao and Sint Maarten rose during the second quarter of 2011, albeit at a slower pace than in the second quarter of 2010. The rise in 2011's second quarter was due to domestic companies' withdrawals from their foreign bank accounts, the repatriation of foreign assets by financial corporations, and a rise in net trade credits received from abroad.

The money supply contracted in the second quarter of 2011, mainly because of a decline in net foreign assets resulting from the deficit on the balance of payments. Net domestic assets expanded, attributable to the growth in net credit extended to the private sector. The latter growth was the result of a growth in private sector loans on both Curaçao and Sint Maarten. In addition, the contractionary impact of the government decreased, due mainly to the withdrawal of deposits with the banking system by the government of Curaçao.

During the June quarter of 2011, the Bank did not actively deploy its monetary policy instruments to influence the domestic money market. Consequently, the percentage of the reserve requirement remained unchanged at 7.75%. Furthermore, maturing certificates of deposit issued by the Bank were refinanced only at the biweekly auctions. The Bank's official lending rate was left unchanged at 1.00%.

The new countries of Curaçao and Sint Maarten face various challenges. Besides dealing with the newly obtained tasks and responsibilities, they have to make some crucial decisions including the future of the social security system. Similar to most countries around the world, the populations of Curaçao and Sint Maarten are aging, generating considerable fiscal spending pressures. Therefore, both countries need to take both short-term and medium-term measures to guarantee the financial soundness and accountability of their social security systems. The Social Security Bank of Curaçao indicated in its latest multi-annual budget that if no structural measures are taken in the short term, the old-age fund (AOV) of Curaçao will be depleted by 2013, assuming an average GDP growth rate of 2% a year and an aging rate of 4% a year.

Over the years, several reports have been presented on the reform of the social security and health care systems in our countries. The recommendations in these reports included increasing the statutory retirement age and reforming the health care system by introducing a general insurance scheme and improving the efficiency in the provision of health care services. If the governments of Sint Maarten and Curaçao do not step up the implementation of these measures, the increasing social security and health care costs will result in rising public spending, worsening the public sector's financial position. Bound by the statutory budget rules, painful compensating measures will be necessary, eroding confidence and the prospects for economic revival.

Therefore, both governments must take decisive actions in the short term to ensure a stable macroeconomic environment conducive to higher sustainable growth and, hence, a lasting improvement in the welfare of the current and future generations.

E.D. Tromp
President

INTERNATIONAL ECONOMIC DEVELOPMENTS

In the June quarter of 2011, the U.S. economy was characterized by a slower growth of 1.6%, reflected by a downturn in government spending and private inventory investment. The cuts in expenses on defense, payrolls, and construction led to a drop in federal and state & local government consumption and investment. The drawdown in private inventories was caused partly by the disruptions in Japanese production. Private investments expanded, albeit at a much weaker pace than in 2010's second quarter. Business spending on nonresidential structures was up, but dampened by the decline in outlays on equipment and software. Consumer demand grew at a modest pace, caused by the inflationary price climate resulting from high oil prices. In addition, the lack of jobs continued to discourage shoppers. However, the improvement in net foreign demand added to real GDP growth, as exports expanded at a faster rate than imports. Unemployment fell, but remained high at 9.2% in June 2011, as companies did not hire more staff despite recording healthier profit margins. The highest rate of unemployment was among lower-skilled workers, with less than a high school diploma. The higher second-quarter inflation rate of 3.4% was fueled by rising gas and food prices. These price rises stemmed from the political unrest in the oil-producing countries of the Middle East and North Africa and supply disruptions from the earthquake in Japan in March 2011. Faced with a continuous weak economy, the Federal Reserve kept the Fed funds rate at a record low near zero, where it has been since December 2008.

Table 1 Selected indicators of various countries

	United States		Netherlands		Venezuela	
	2010-II	2011-II	2010-II	2011-II	2010-II	2011-II
Real GDP (% change)	3.3	1.6	2.1	1.6	-1.7	2.5
Consumer prices (%)	1.8	3.4	1.0	2.2	31.1	23.0
Unemployment rate (%)	9.5	9.2	4.5*	4.1*	8.4	8.6

Sources: US Bureau of Economic Analysis, US Bureau of Labor Statistics, Central Bureau of Statistics Netherlands, Banco Central de Venezuela, and Instituto Nacional de Estadistica Venezuela.
* International definition

Real GDP in the Netherlands rose by 1.6% in the second quarter of 2011, a deceleration compared to the 2.1% in the second quarter of 2010. This moderation was due primarily to a decline in household spending. Consumption of food, beverages, and tobacco fell, while consumption of durable goods expanded. Meanwhile, the contraction in household spending was outbalanced by the upturn in fixed capital investment spending and net foreign demand. More residential and nonresidential investment activities and the purchase of transport equipment & machines led to the increase in fixed capital investment spending. Export activity momentum waned, but the growth in import demand was considerably less, resulting in a trade surplus. The weaker economic development was most evident in the manufacturing, wholesale & retail trade, and financial services sectors. Contrasting with the June quarter of 2010, the construction sector improved perceptibly, coinciding with the growth in fixed capital investment spending. Despite a slowing pace of economic growth, unemployment fell to 4.1%, where job gains affected the trade, transport, hotels & restaurants, care, and business services sectors. Costlier energy, food, and airline tickets raised second-quarter inflation to 2.2% in 2011. The gap between the inflation rates of the Netherlands and the Euro-zone narrowed. In the first half of 2011, the Netherlands' government deficit remained at 5.0% of GDP, whereas the public debt-to-GDP ratio rose to 63.8%, exceeding the EU ceiling of 60%.

Over the course of the April-June period of 2011, economic activity in Venezuela expanded by 2.5%, contrasting with the decline of 1.7% in the second quarter of 2010. The expansion was due to an increase in both the public (3.7%) and private sector (1.9%). This encouraging result continued to be sustained by rising world oil prices, which led to high oil export revenues. The high oil revenues made it possible for the government to maintain its expansive macroeconomic policy. The expansionary fiscal policy eased the inflationary pressures in the medium-term, as government imports relieved the shortage of food products. Nevertheless, the series of restrictive government policies has eroded the productive capacity of the private sector. The domestic supply constraints have kept the economy dependent on pricy imports. Despite the higher price caps on regulated food products and the doubling of the metro fares, the Venezuelan inflation rate decelerated to 23.0%. Following the 40 percent currency devaluation in January 2011, the price caps on regulated products were raised to prevent scarcity. During the months April-June 2011, the current account surplus expanded considerably to $8.3 billion, led mainly by higher oil exports, which account for 95% of merchandise exports. In spite of an economic gain, the Venezuelan jobless rate rose to 8.6% in June 2011.

GENERAL ECONOMIC DEVELOPMENTS IN CURAÇAO

Over the course of the second quarter of 2011, the economy in Curaçao posted a growth of 0.9%, as opposed to a contraction of 0.5% in the second quarter of 2010. This favorable result was due to the resurgence in export activity, which resulted in a rise in net foreign demand. Meanwhile, domestic demand was subdued due to a rise in private spending, moderated by a decline in public spending. Second-quarter real GDP growth was accompanied by a lower inflation of 1.4%, led mainly by a cut in electricity prices in April 2011.

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

	2010-II	2011-II
Domestic expenditure, of which:	0.9	0.2
Private sector	-0.9	1.0
- Investment	-1.3	-0.1
- Consumption	0.4	1.1
Government sector	1.8	-0.8
- Investment	0.1	0.1
- Consumption	1.7	-0.9
Changes in inventory	1.0	-0.9
Foreign net expenditure, of which:	-2.4	1.6
Export of goods and services	-0.6	6.9
Import of goods and services	1.8	5.3
GDP	-0.5	0.9
Net primary income	-0.4	1.1
Gross national income	-0.9	2.0
Net current transfers from abroad	-3.6	-2.6
Gross national disposable income	-4.5	-0.6

CBCS estimates

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

Among the expenditure components, the factor responsible for the economic growth was foreign trade. Domestic demand stagnated as government spending fell, due to a sharp decline in goods & services expenses. A strong growth in exports in real terms was the major driving force behind the positive contribution from net exports, while the import gain remained robust. Foreign demand received considerable expansionary stimuli from more activities in the oil refinery, stay-over tourism, the free zone, and oil bunkering. The stronger export activity contributed partly to the rise in imports. The gain in imports of merchandise was attributable mostly to the growth in free-zone demand and higher world oil prices. World market prices for oil soared on average by about 41%[1] in the quarter ending June 2011. The subdued growth in domestic demand was caused by a rise in private spending, which was offset in part by a contracting public demand. Despite a decrease in private investment activities, private demand expanded, reflected by favorable private sector developments and a faster pace of growth in consumer loans.

Domestic production

In the months April-June 2011, the stronger economic activity was backed by favorable developments in the private sector. At the sectoral level, manufacturing, wholesale & retail trade, restaurants & hotels, and transport, storage & communication were the main drivers of this growth (see Table 3). The buoyancy in the manufacturing sector was due to the revival of the oil refinery, which must be seen against the backdrop of a prolonged shutdown of the plant beginning March 2010. The upbeat growth performance of the refinery was in line with the increase in operational expenses. However, the contraction in the ship repair industry dimmed the positive results of the refinery.

Table 3 GDP by sector (real percentage changes)

Sector	2010-II	2011-II
Agriculture, fishery & mining	-1.7	-4.1
Manufacturing	-11.3	5.9
Electricity, gas & water	2.2	0.7
Construction	-2.9	-3.8
Wholesale & retail trade	-1.8	3.8
Restaurants & hotels	-4.1	8.7
Transport, storage & communication	-2.0	4.3
Financial intermediation	3.4	1.2
Real estate, renting & business activity	0.1	-1.8
Other community, social & personal services	1.2	-4.5
Private households	-0.4	-4.2
Total private sector	-0.7	0.8
Public sector	3.8	-0.4
Taxes minus subsidies	-2.3	1.0
GDP	-0.5	0.9

CBCS estimate

The encouraging results across stay-over tourism, the free zone, and private spending triggered the growth in the wholesale & retail trade and hotels & restaurants sectors. In line with more

[1] International Financial Statistics (IFS), IMF.

free-zone activities, free-zone visits rose by 17.0%, due largely to the Haitian and Jamaican markets.

In the course of 2011's second quarter, tourist activities in Curaçao posted a mixed picture. After a drop of 11.8% in the second quarter of 2010, stay-over tourism soared by 20.6% in the second quarter of 2011, stemming mainly from the North American and South American markets. The perceptible increase in U.S. arrivals (31.1%) was the result of more airlift and improved marketing. Promotions through various media and marketing targeting of the higher-income groups accounted for the sizeable gain in the number of Venezuelan visitors (59.5%). The South American market also was positively impacted by the increase in Colombian tourists, following the tourism exhibition in Bogota in February 2011. The European market grew, albeit at a more moderate pace than the preceding year. The hotel occupancy rate went up slightly by 0.7 percentage points to 68.5% in the quarter ending June 2011. Meanwhile, the number of visitor nights rose by 12.8%, corresponding with the buoyant stay-over results. By contrast, the number of cruise travelers shrank markedly by 19.8%, compared to the increase of 11.3% in the second quarter of 2010. See Table 7 in the appendix for more details.

As opposed to 2010, the transport, storage, and communication sector performed well in the three months ending June 2011. This good performance was driven by a growth in the air transportation sector, as total passenger traffic improved. The increase in passenger traffic was caused by an increase in stay-over tourism. The harbor results were mixed; cargo movements and oil storage activities fell, but more ships were piloted into the harbor. With more oil shipments to the Asian countries, the need for storage services shrank considerably. Conversely, the increase in the number of ships was due mainly to more tanker vessels, stemming from the revival of the oil refinery and the upgrading of the storage facilities.

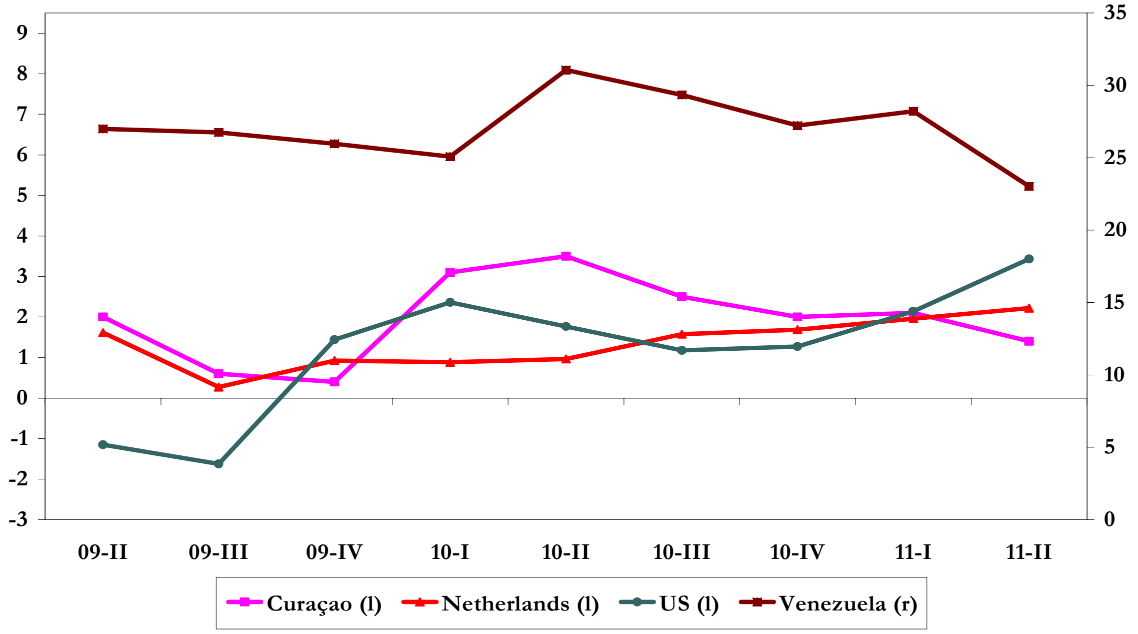
Another driving force in private sector growth was the progress in the financial services sector, which showed increased added value in both domestic and international financial services. Net income of the domestic commercial banks was up because the gain in income earned outperformed the higher expenses. Increases in wages & salaries and other operational expenses were the reasons for the positive performance in the international financial services sector.

In contrast with the other sectors, the construction and real estate, renting & business services sectors suffered a setback. With fewer nonresidential investment activities, the construction output exhibited a further decline in the second quarter of 2011.

Inflation

The price side was marked by a decline in utility prices and a rise in food prices. The quarterly inflation of Curaçao receded from 3.5% in the second quarter of 2010 to 1.4% in the second quarter of 2011. Consumer prices on a quarterly basis showed that the inflation rates of two of our main trading partners, i.e., the United States and the Netherlands, were rising over the last several quarters, whereas that of Curaçao was easing (see Graph 1). The lower second-quarter inflation was led largely by price deflation in "housing" (0.1%) and "recreation & education" (0.5%). The price decline in the housing category was attributable to the energy component, led by a cut of 6.8% in the price of electricity. In addition, "transport & communication" recorded a price deceleration, as the 2010 gasoline price gain continued to subside. However, the significant gain in food prices (7.3%) partly counterbalanced the deflationary pressures. The sharp rising prices in the international food markets caused the costs of meat products and fresh produce to soar by 11% and 17%, respectively. See Table 8A in the appendix for a detailed overview.

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



Source: Central Bureau of Statistics, US Bureau of Labor Statistics, Central Bureau of Statistics Netherlands, and Banco Central de Venezuela.

Box I

Price developments for gasoline on Curaçao[2]

In 2009, the oil market was adversely affected by the world financial crisis. Crude oil prices dropped to $40 per barrel in February 2009 from a high of over $140 per barrel[3] in July 2008. Over the entire year of 2010, crude oil prices varied between $74 and $89 per barrel, largely due to expectations of global economic recovery and stronger than expected gains in the demand for oil. In the first half of 2011, crude oil prices rose further, reaching a peak of $110 per barrel in April 2011. This price increase was fueled mainly by the political unrest in the oil- producing countries of the Middle East and North Africa.

Curaçao is a small and non-oil-producing economy and has no control whatsoever over the world price of crude oil or its derivatives. Depending on the world economic conditions, oil prices can be highly volatile and uncertain. In the case of a full and automatic pass-through, domestic oil prices on Curaçao also would be highly volatile and uncertain. Hence, the government of Curaçao regulates the prices of domestic oil products, such as gasoline, gasoil, kerosene, and cooking gas, with the aim of smoothing domestic price fluctuations. In January 1990, the government introduced the correction factor mechanism, an instrument for a complete pass-through: changes in world oil prices were passed on to the consumer with a lag of one quarter. This method was not used correctly; the government did not always adjust domestic gasoline prices in accordance with world market conditions. As a result, consumers were faced with nontransparent price setting.

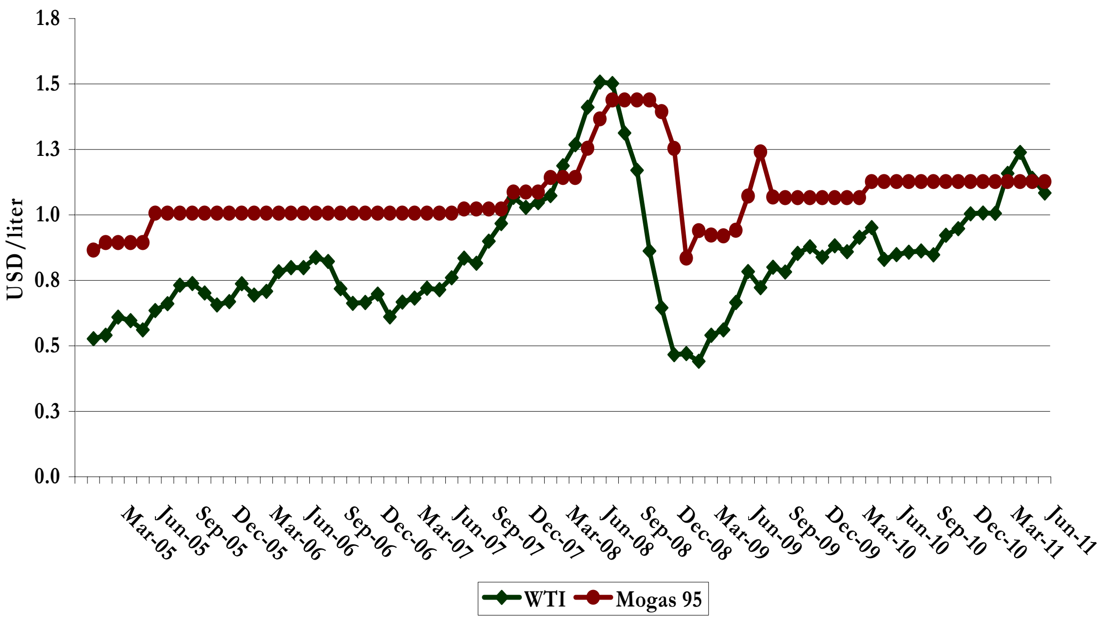
The correction factor mechanism was abandoned in mid-2005 when an energy fund was introduced. The introduction of this energy fund resulted in no price changes in the period mid-2005 to 2006. The government of Curaçao created the energy fund to mitigate the detrimental impact of high oil prices on the economy. This method of energy price subsidization was gradually phased out. In July 2007, the government proposed that gasoline prices be adjusted on a monthly basis. In this way, changes in world oil prices are passed on to consumers with a lag of 1 month. However, during the period September 2009 - March 2010, gasoline prices remained unchanged at NAf.1.91 per liter. In April 2010, gasoline prices were raised to NAf. 2.02 per liter. Meanwhile, world crude oil prices fluctuated monthly throughout 2010 and 2011. Again, the government policy on gasoline prices has not been followed. As a result, the world crude oil price changes were not reflected in the domestic gasoline prices (see Graph 2). Similar to the period of the correction factor mechanism, consumers again were faced with a nontransparent price setting. [4]

[2] The analysis is for the period January 2005-June 2011.

[3] West Texas Intermediate (WTI) crude oil prices.

[4] This analysis is for the period January 2005 – June 2011. As of July 2011, the government began adjusting domestic prices of oil derivatives on a monthly basis, in accordance with international oil price developments.

Graph 2 Monthly price developments for Mogas 95 and WTI crude oil



Sources: Curoil N.V. and International Financial Statistics, IMF

GENERAL ECONOMIC DEVELOPMENTS IN SINT MAARTEN

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

The hotels & restaurants sector registered negative results due to a contraction in Sint Maarten's stay-over tourism of 9.0% in the second quarter of 2011, following a decline by 0.9% in the second quarter of 2010. An analysis by tourism market reveals that decreases in the North American (12.3%) and European (5.8%) markets led to the contraction in the tourism industry, outperforming gains in the South & Central American (33.7%) and Caribbean (1.0%) markets. The significant decline in stay-over tourism was related to, among other things, the closure of the Pelican Resort Club, which represented 20% of the time-share capacity on the island. Also, a decline in airlift capacity contributed to the drop in stay-over arrivals in Sint Maarten. Consequently, the hotel occupancy rate shrank further to 30.3% during this period. Meanwhile, the cruise sector grew at a slower pace of 1.2%, compared to the marked growth of 28.2% in the second quarter of 2010. See Table 7 in the appendix for more details.

In the June quarter of 2011, the results of the utility sector were mixed; the production and consumption of electricity fell, while that of water expanded. The developments in the transport, storage & communication sector also were mixed. The harbor sector registered an increase in the number of ships piloted. However, no data on container movements were available for the second quarter of 2011. In the air transportation sector, the number of passengers transported by domestic airlines expanded, but airport-related activities dropped. The latter decrease stemmed from a contraction in total passenger traffic in Sint Maarten. This negative performance coincided with the decline in stay-over tourism. Also, as of April 2011, American Eagle discontinued all direct flight connections between San Juan and Philipsburg, resulting in a drop in airlift.

No major investment projects were reported by the private sector in the second quarter of 2011. Consequently, construction spending declined further as reflected by a drop in imported construction materials. The decline in mortgages extended matched the developments in the construction sector. Meanwhile, the performance of the financial services sector was poor as net income of the domestic commercial banks fell, owing to increased operating expenses.

Inflation

As a result of the increased prices of crude oil and food on the international market, consumer prices in Sint Maarten rose. The quarterly inflation rate rose from 3.7% in the second quarter of 2010 to 4.7% in the second quarter of 2011. Almost all CPI components registered a price increase, but the main price rises occurred in the categories "food" (6.3%), "housing" (6.1%), "beverages & tobacco" (7.5%), and "transport & communication" (5.3%). By contrast, "clothing & footwear" recorded a price deflation of 0.4%. See Table 8B in the appendix for a detailed overview.

DEVELOPMENTS IN PUBLIC FINANCE

Public finances in Curaçao

Curaçao acquired the status of autonomous country within the Kingdom of the Netherlands on October 10, 2010. In the period leading up to this date, the focus of Curaçao's public sector was on merging the two-tier government system that had prevailed on the island since 1954. However, the government apparatus reorganization led to substantial delays in the financial and administrative reporting processes. For this reason, the estimation of the government sector's contribution to GDP growth in the first two quarters of 2011 also was delayed. An additional challenge was that all comparisons of 2011 data had to be made against data from 2010, when Curaçao did not yet 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 preceding several years, it has been possible to approximate the public sector's contribution to Curacao's 2011's real GDP on a quarterly basis.

During 2011's second quarter, Curaçao's public sector consumption decreased compared to the second quarter of 2010. The rise in government investment during the April-June period of 2011 was insufficient to outweigh the downturn in consumptive outlays. The fall in these outlays was attributable to the underutilization of the funds budgeted for spending on goods & services. The rise in government investment was owed largely to payouts on development projects, among them the Social Economic Initiative (SEI) projects. The SEI projects formed an important part of the constitutional reorganization process as they were directed at restructuring and strengthening Curaçao's economy before the island became an autonomous country. However, because of delays in the preparation, approval, and start of many projects, several SEI project are still in the implementation phase.

Curaçao's budgetary overview for the second quarter of 2011 shows that the government ran a NAf.65.4 million deficit on a cash basis, as total expenditures (NAf.431.4 million) exceeded total revenues (NAf.366.1 million).[5] Unfortunately, no detailed breakdown of Curaçao's total expenditures was available. Noteworthy also was that on April 15, 2011, Curaçao was required to pay interest (NAf.24.7 million) for the first time on the country's semi-annual bonds issued in October 2010.[6] An analysis of the tax revenues collected by Curaçao during the months April-June 2011 reveals that, among other things, import duties and property taxes increased compared to a year earlier, while revenues from profit, wage, and sales taxes showed a moderate decline. The rise in import duties was in line with the growth in imports during the second 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-II	2011-II
Monetary financing	-45.8	93.5
Central bank	-100.9	35.0
Commercial banks	55.1	58.5
Nonmonetary financing	24.3	-28.2
Government securities with the public	-6.2	0.0
Other	30.5	-28.2
Cash balance	21.5	-65.4

The cash deficit of Curaçao in the June quarter of 2011 was financed monetarily, as the government drew down its current accounts with both the commercial banks and the central bank. A portion of the withdrawn funds also was used to settle other liabilities of the government, reflected by the fall in nonmonetary financing (see Table 4A).

Public finances in Sint Maarten

On October 10, 2010, Sint Maarten became an autonomous country within the Kingdom of the Netherlands. In the period leading up to this date, Sint Maarten's focus was on setting up the necessary public institutions to allow it to function autonomously. The country was required to take over several 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 need to be approved by the independent supervisory board, the College Financieel Toezicht[7] (CFT). After rejecting Sint Maarten's 2011 draft budget twice, the CFT finally approved it in April 2011. On July 7, 2011, the budget was signed into law at last.

The government of Sint Maarten registered a cash deficit of NAf.5.3 million over the course of the April-June period of 2011, as total expenditures (NAf.99.2 million) surpassed total revenues (NAf.93.9 million).[8] Sint Maarten's total expenditures in the second quarter of 2011 included a first-time interest payment of NAf.4.1 million, which was due on April 21, 2011, on the semi-annual government bonds issued in October 2010.[9] A comparison between Sint

[5] The numbers shown are preliminary.

[6] On October 15, 2010, Curaçao's government issued NAf.1,667.4 million in bonds to conclude the debt relief program. 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, resulting in a claim of the Netherlands on Curaçao.

[7] The CFT was established to temporarily assess and monitor the public finances of the five islands of the former Netherlands Antilles and provide counsel when necessary.

[8] The numbers shown are preliminary.

[9] On October 21, 2010, Sint Maarten's government issued NAf.302.1 million in bonds to conclude the debt relief program. The takeover of all Netherlands Antillean securities by the Netherlands on October 10, 2010, caused the

Maarten's tax revenues in the second quarter of 2010 and the second quarter of 2011 reveals a surge in turnover tax revenues. This rise was largely due to the increase in the turnover tax rate from 3% to 5% on February 11, 2011. Revenues from wage and vehicle taxes also grew in the second quarter of 2011, albeit they were counterbalanced by a decline in the proceeds from the profit tax and the excise on gasoline. See Tables 9C and 9D in the appendix for an overview.

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

	2011-II
Monetary financing	-51.3
Central bank	0.0
Commercial banks	-51.3
Nonmonetary financing	56.6
Government securities with the public	0.0
Other	56.6
Cash balance	-5.3

Sint Maarten's government financed its 2011 second-quarter cash deficit entirely through nonmonetary financing. Moreover, a large part of the nonmonetary financing obtained was used to replenish the government's commercial bank accounts, resulting in an overall decline in the level of monetary financing (see Table 4B),

Public sector debt of Curaçao and Sint Maarten

Due to the lack of data, neither Curaçao's nor Sint Maarten's public debt outstanding at the end of June 2011 could be determined. The scarcity of data can be attributed largely to the reorganization of the government apparatus that has been taking place in both countries and that has resulted in substantial delays in the financial reporting processes. The data currently available include the NAf.1,667.4 million in Curaçao's outstanding government bonds and the NAf.302.1 million in outstanding bonds of Sint Maarten. However, this information is not sufficient to estimate a debt-to-GDP ratio at the end of June 2011 for either country.

DEVELOPMENTS IN THE BALANCE OF PAYMENTS OF THE MONETARY UNION

During the second quarter of 2011, the current account deficit of the balance of payments of the monetary union widened to NAf.467.6 million from NAf.414.3 million in the second quarter of 2010. This surge was caused mainly by a significant deterioration of the current transfers balance combined with a slight decline in net exports of goods and services. In line with the current account, the combined capital and financial account worsened (see Table 5)

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

actual amount of debt relief provided to Sint Maarten to exceed the agreed-upon amount, resulting in a claim of the Netherlands on Sint Maarten.

	2009-II	2010-II	2011-II
Current account	-43.8	-414.3	-467.6
Capital transfers	5.1	4.1	24.6
External financing of the government	3.6	3.5	-14.3
External financing of the private sector	275.3	268.0	229.3
- Direct investment	99.0	49.5	38.2
- Loans and credits	138.6	331.1	182.8
- Portfolio investments	37.7	-112.6	9.7
Change in net foreign assets of the banking system*)	-186.5	128.0	174.3
- with central bank	-58.4	57.5	118.5
- with commercial banks	-128.1	70.5	55.8
Statistical discrepancies	35.3	28.5	44.1

*) a minus sign implies an increase

Current account

Net exports of goods and services in the monetary union declined by NAf.7.4 million during the second quarter of 2011 compared to the second quarter of 2010. This decline resulted from an increase in imports (NAf.162.0 million), partly offset by a growth in exports (NAf.154.6 million). Below is an analysis of the development in net exports of goods and services in Curaçao and Sint Maarten.[10]

Developments in the net exports of goods and services in Curaçao

In Curaçao, net exports of goods and services increased by NAf.29.5 million during the second quarter of 2011 compared to the second quarter of 2010. This increase was the result of a rise in exports (NAf.207.0 million) that was mitigated by a growth in imports (NAf.177.5 million). The rise in exports was related to, among other things, a strong improvement in the refining fee (NAf.42.1 million) as the refinery became operational again after having been out of operation during most of 2010. In addition, foreign exchange revenues from bunkering exports rose by NAf.62.6 million, reflecting higher international oil prices. Meanwhile, earnings from ship repair activities grew by NAf.18.3 million. Increased re-exports by the free-zone companies also contributed to the surge in exports. Foreign exchange receipts from the transportation sector expanded significantly, which can be ascribed to increased activities of the domestic airlines. The increased transportation revenues were accompanied by a sharp rise in foreign exchange revenues of NAf.48.9 million (36.8%) from stay-over tourism, offsetting the decline by NAf.1.7 million (-17.9%) in foreign exchange revenues from cruise tourism. 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.

Imports of goods and services rose largely as a result of the growth in imported oil products caused by higher average fuel prices on the international markets. Furthermore, merchandise imports by the free-zone companies increased during the second quarter of 2011 compared to the second quarter of 2010. However, the growth in free-zone re-exports exceeded the growth in imports, reflecting declining inventories during the period under review.

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

[10] 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.

In Sint Maarten, net foreign demand contracted by NAf.8.3 million during the second quarter of 2011 compared to the second quarter of 2010, as the increase in exports of goods and services (NAf.27.1 million) was outweighed by a rise in imports (NAf.35.4 million). The growth in imports was related mostly to general merchandise imports, which grew by NAf.23.6 million. In addition, imported oil products rose, reflecting higher international oil prices.

Meanwhile, the services balance improved due to, among other things, increased passenger handling services provided to foreign airlines at the airport and to cruise lines at the Sint Maarten harbor.

Developments in the income balance and current transfers balance

The income balance of the monetary union improved by NAf.25.2 million in the second quarter of 2011 compared to the second quarter of 2010, due mainly to a decline in dividend and interest paid on investments in Curaçao and Sint Maarten. In contrast to the income balance, net current transfers received from abroad declined by NAf.71.0 million as no transfers of debt relief funds were made to Curaçao and Sint Maarten in the second quarter of 2011. Overall, the deficit on the current account of the monetary union rose by NAf.53.3 million to reach NAf.467.6 million in the June 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.229.3 million in the second 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. Also, net direct investments and net portfolio investments declined during the period under review.

The loans and credits balance worsened by NAf.182.8 million, largely because of the withdrawal of funds abroad by domestic companies to finance a portion of their imports. In addition, some financial corporations in the monetary union repatriated foreign assets to fund their local activities. The net trade credit balance also worsened (NAf.130.4 million) because of an increase in net trade credits on imports. Furthermore, the repayment of trade credits extended exceeded new trade credits on exports during the second quarter of 2011. The worsening of the loans and credits balance was mitigated by the repayment of loans extended to companies in Curaçao and Sint Maarten, particularly in the utility, transportation, and tourism sectors.

Net direct investments into the monetary union expanded by NAf.38.2 million due mainly to increased claims of foreign direct investors on 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 remained fairly stable, showing a deterioration of just NAf.9.7 million, largely as a result of funds received from matured foreign debt securities held by institutional investors, which were not reinvested abroad. The worsening of the portfolio investment balance was offset in large part by an increase in investments in foreign equity securities.

Meanwhile, capital transfers increased by NAf.20.5 million because of more development aid funds received from the Netherlands in comparison to the second quarter of 2010. However, the total capital inflow during the June quarter of 2011 was not sufficient to cover the increased current account deficit, leading to a NAf.174.3 million decline of net foreign assets (i.e., reserves). This decline was reflected by a drop of NAf.55.8 million in net foreign assets held by the commercial banks and a drop of NAf.118.5 million in net foreign assets held by the central bank. See Table 11 in the appendix for a detailed overview.

MONETARY DEVELOPMENTS

Monetary policy

The Central Bank of Curaçao and Sint Maarten is responsible for the monetary policy within the monetary union of Curaçao and Sint Maarten. 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.). Therefore, the Bank's monetary policy is directed at maintaining the peg of the NAf. to the US dollar. The intermediate target is to meet the official reserves objective, 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 second 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. M0 contracted by NAf.151.2 (14.7%) million during the second quarter of 2011 after an expansion by NAf.278.9 million (37.3%) during the March quarter of 2011. See Table 12 in the appendix for more details. The reduction in the monetary base during the second quarter was caused mainly by a drop in the commercials banks' current account balances with the Bank (NAf.148.9 million).

The decline in M0 stemmed from an expansion in the Bank's remaining liabilities complemented by a drop in the Bank's assets. The increased liabilities were related to, among other things, a rise in private sector deposits reflecting a partial absorption of liquidity from the commercial banks. In addition, foreign liabilities and capital and reserves rose during the second quarter of 2011. A decline in foreign assets and claims on deposit money banks also contributed to the drop in M0 during the June quarter of 2011. However, a drop in government deposits restrained the decline in the monetary base.

Factors affecting the money supply

During the second quarter of 2011, the money supply (M2) contracted by NAf.11.6 million (0.2%) as a result of a contraction in net foreign assets of the banking system combined with a decline in memorandum balance sheet items. The monetary contraction in the monetary union was driven by a drop of 1.7% in the near money component offsetting an increase of 1.8% in the money component.

The money component (M1) grew at a slower pace during the second quarter of 2011, compared to the growth of 3.0% registered in the first quarter. Second-quarter growth was mainly the result of an increase of NAf.87.7 million (2.0%) in domestic currency deposits. In contrast, foreign currency-denominated deposits fell by NAf.35.4 million (5.3%). The near money component of the money supply dropped because of a decline in time deposits (3.6%).

Domestic credit expanded by NAf.162.6 million (6.2%), due mainly to an increase of NAf.212.4 million (3.8%) in net claims on the private sector. In addition, net claims on the general government added NAf.43.6 million (5.2%) to net domestic assets, due mainly to the net withdrawal of deposits with the banking system by the government of Curacao (NAf.91.3 million). The government of Sint Maarten, on the other hand, increased its deposits during the second quarter of 2011.

The loans component of private sector credit grew by 3.0%, attributable to increases in both Curaçao and Sint Maarten. Private sector loans grew by 4.1% in Curaçao, largely the result of a 7.8% growth in mortgages. Business loans and consumer loans also contributed to more loans extended as they grew by 2.2% and 1.0%, respectively. Contrary to the first quarter when credit extension to the private sector contracted in Sint Maarten, outstanding loans increased by 0.7% during the second quarter of 2011. The latter was the result of increases in both business loans and consumer loans by 3.1% and 1.4%, respectively. Meanwhile, mortgages declined by 1.7%. See Table 13 in the appendix for more details.

Developments in domestic interest rates

The Bank takes into account the developments in international interest rates through the US dollar libor rates[11] when setting the rate offered on CDs during the bi-weekly auctions. The benchmark one-month libor rate was on average 6 basis points lower during the second quarter of 2011. In line with this development, the Bank's 1-month CD rate dropped from 0.15% at the end of the first quarter to 0.12% at the end of the second quarter of 2011.

During the second quarter of 2011, the average rate on time loans reached 8.5%, its eighth consecutive quarterly downward adjustment. In contrast, the average mortgage rate remained unchanged at 7.1%. Meanwhile, the average rate offered on a 12-month time deposit increased from 1.7% to 1.8%, while the average interest rate on passbook savings remained stable at 1.1%. In the capital market, the average effective yield on 5-year government bonds dropped from 2.9% at the end of March 2011 to 2.6% at the end of June 2011. The yield on 1-month treasury bills remained unchanged at 1.0%. See Table 14 in the appendix for a detailed overview.

Box II

[11] The London interbank offered rate, the main gauge of interbank lending.

Reserve requirement: some insights into the use of this policy tool

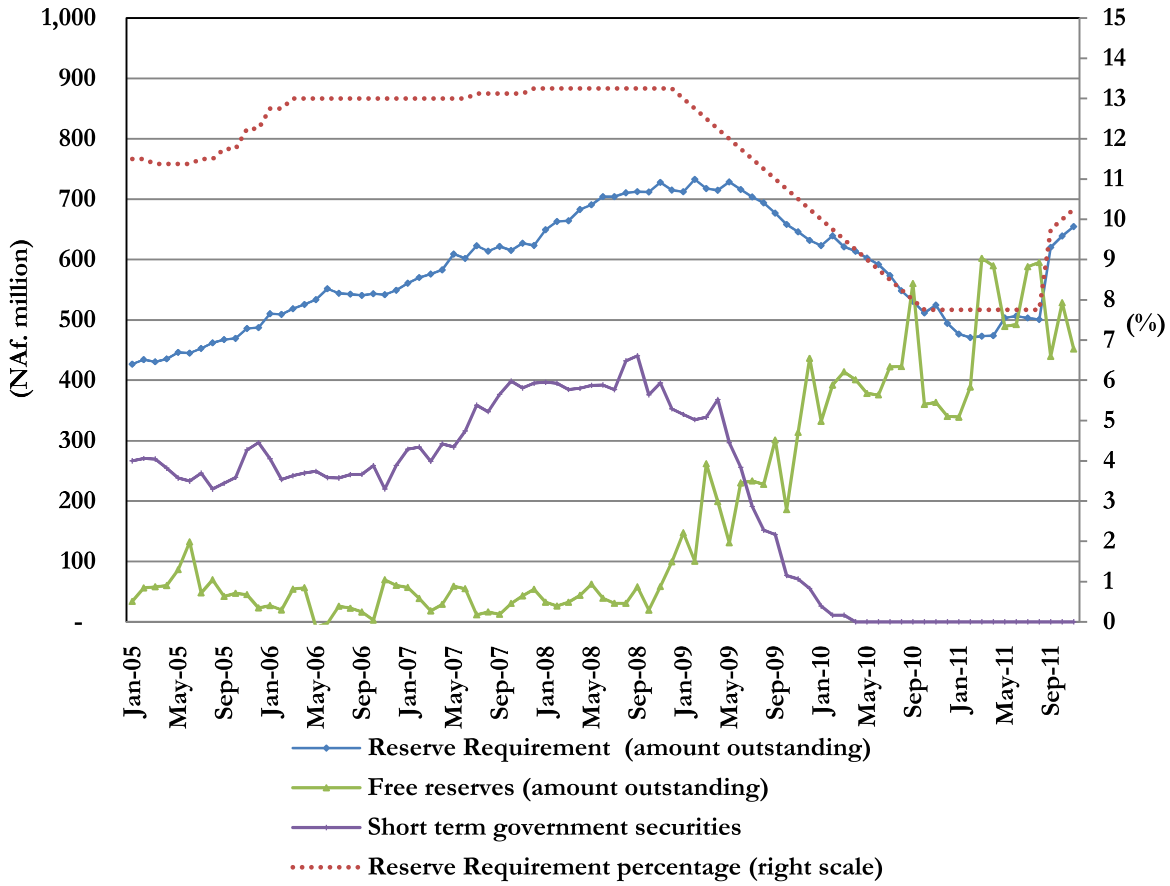
The reserve requirement is currently the main instrument of monetary policy of the Centrale Bank van Curaçao en Sint Maarten (the Bank). The reserve requirement was introduced on September 1, 1993. The Bank, through the reserve requirement, can mop up excess reserves[12] to mitigate their use by the commercial banks for, among other things, credit extension. Other liquidity-absorbing measures that the Bank can take are open market operations with government securities or central bank paper and the concentration of government deposits at the Bank. However, since April 2010, there are no longer any outstanding treasury bills (see graph 3). The governments of Curaçao and Sint Maarten have yet to issue short term paper. Moreover, since March 2011, the government of Curaçao has concentrated its cash management at a commercial bank for a period of 3 years. So, for liquidity management purposes, the reserve requirement and the auctioning of certificates of deposit (CDs) are currently the two main tools used by the Bank.

The current system of reserve requirement is a liability-based system whereby the commercial banks are required to hold a certain amount of reserves on a blocked account at the central bank against specified (deposit) liabilities. The reserve requirement is thus calculated as a fraction of the commercial bank's liabilities. The base of the reserve requirement has been adjusted several times over the years. The percentage can be adjusted monthly depending on the prevailing liquidity situation in the market. Since the reserve requirement is non-interest-bearing, it can be considered an implicit "tax" on the banks since, these funds could otherwise be lent out or invested. Hence, this "tax" prevents the commercial banks from earning interest income and could affect their profitability. The Bank has to take this into account when setting the rate of the reserve requirement. The highest percentage of the reserve requirement imposed on the commercial banks was 13.25% on November 16, 2007. At the end of June 2011, the reserve requirement percentage was 7.75%.

Developments in the percentage and the outstanding amount of the reserve requirement and the excess reserves of the commercial banks is shown in graph 3.

12 Excess reserves are reserves in excess of the required reserves.

Graph 3 Development in the reserve requirement, free reserves, and government securities



DEVELOPMENTS IN THE COMMERCIAL BANKING SECTOR

The commercial banking sector came under increasing pressure during the second quarter of 2011. Profitability was dampened by the effects of the uncertain economic outlook on asset quality, with nonperforming loans increasing and bank balance sheets contracting. The decline in bank assets (1.3%) was caused by a drop in the outstanding amount of non-interest-bearing cash and in fixed assets that outpaced increases in loans, investments, and other assets. However, the year-on-year growth rate in total assets remained unchanged at 3.0%.

Meanwhile, total liabilities contracted as a result of declines in deposits and borrowings. The drop in deposits was the result of fewer time and savings deposits not offset by a rise in demand deposits during the second quarter of 2011. Borrowing declined by 42.3% during the second quarter while total capital increased by 3.2%. It is noteworthy that the annual growth rate of capital and reserves rose to 7.3% in the second quarter, up from 2.5% in the first quarter of 2011. This development was due to the strengthening of the capital base of the commercial banks. See Table 15 in the appendix for more details.

During the June quarter of 2011, the banks recorded lower profits than in the second quarter of 2010, reflecting mainly lower income from extraordinary items. In contrast, net operational income of the domestic banking sector increased by 2.0%. This increase was the result of a growth in total operating income (NAf.19.9 million) outweighing the rise in total operating expenses (NAf.18.9 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 1.1% and reduce interest expenses by 14.2%. The increase in operating expenses was attributable to all components, the highest of which was the net addition to general provisions. When compared to the second quarter of 2010, NAf.8.5 million more was charged against the profit and loss account. 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, statistical measures for monitoring the health and soundness of the financial sector. 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.

At the end of the second quarter of 2011, the capital-assets ratio increased to 11.0% from 10.7% at the end of the first quarter of 2011. This ratio is well above the internationally acknowledged benchmark of 4.0%, indicating that the capital stock of the domestic banks remained relatively strong. The increase in the capital-assets ratio reflected an increase in qualifying Tier 1 capital (0.7%) and a drop in total assets (1.7%).

The quality of the commercial banks' assets portfolio deteriorated further during the second quarter of 2011. This deterioration was reflected by a drop in the ratio of provisions for loan losses-to-nonperforming loans, the result of an increase in nonperforming loans (4.3%) and a marginal increase in provisions (0.5%). Additionally, the ratio of nonperforming loans-to-total loans rose to 7.5% at the end of the second quarter of 2011, resulting from an increase in nonperforming loans and a slight drop in loans extended (see Table 6).

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

	2010-II	2010-III	2010-IV	2011-I	2011-II
Capital adequacy					
Total capital/ total assets	10.7	10.7	11.2	10.7	11.0
Asset quality					
Nonperforming loans/ total loans	5.8	5.8	5.9	7.2	7.5
Provisions for loan losses/ non-performing loans	49.9	50.0	53.4	41.2	39.7
Earnings					
Gross earnings-assets yield	5.8	5.7	5.6	5.6	5.6
Net interest margin	4.3	4.3	4.3	4.4	4.4
Return-on-assets	1.9	2.0	1.8	1.6	1.5
Liquidity					
Total loans/ total deposits	63.3	64.3	65.3	64.3	65.5

The developments in the earnings indicators during the second quarter also reflect lower profitability of the commercial banks. The gross earnings-assets yield declined to 5.6% in the second quarter of 2011, down from 5.8% in the second quarter of 2010. Average outstanding earning assets increased by 3.8% while interest income dropped (0.4%). The return-on-assets ratio declined also, from 1.9% in 2010's second quarter to 1.5% in 2011's second quarter, due to lower net income before dividend and taxes and higher average outstanding assets. The net interest margin, on the other hand, improved slightly from 4.3% to 4.4% as the commercial banks managed to reduce interest expenses.

Finally, the ratio of total loans-to-total deposits, which provides an indication of the development of liquidity in the domestic banking sector, increased during the second quarter of 2011 as total deposits declined more than loans extended. The upturn in this ratio reveals a drop in liquidity during the second quarter.

APPENDIX

Table 7 Developments in stay-over tourism per island (% change)[13]

	Curaçao				Sint Maarten			
	2010-II		2011-II		2010-II		2011-II	
North America, of which:	45.9	(3.4)	30.3	(2.8)	-3.0	(-1.1)	-12.3	(-3.9)
-U.S.A.	48.8	(3.3)	31.1	(2.7)	-4.4	(-1.5)	-13.4	(-3.8)
Europe, of which:	6.5	(1.3)	2.9	(0.6)	1.7	(0.2)	-5.8	(-0.6)
-The Netherlands	9.0	(1.6)	0.2	(0.0)	19.0	(0.4)	-13.4	(-0.3)
South & Central America, of which:	-51.9	(-4.3)	43.8	(5.1)	-5.8	(-0.1)	33.7	(0.6)
-Venezuela	-65.7	(-3.1)	59.5	(4.3)	-38.5	(-0.1)	27.0	(0.1)
-Brazil	139.3	(1.2)	13.2	(0.1)	59.0	(0.3)	44.8	(0.3)
-Colombia	-13.9	(-0.1)	51.5	(0.6)	---	---	---	---
Caribbean, of which:	0.2	(0.0)	21.2	(1.2)	4.4	(0.1)	1.0	(0.0)
-Dominican Republic	26.9	(0.1)	39.0	(0.2)	20.4	(0.1)	2.0	(0.0)
Total	-11.8	(-4.9)	20.6	(10.0)	-0.9	(-0.5)	-9.0	(-4.6)

Source: Curaçao Tourist Board and Sint Maarten Tourist Bureau

13 Weighted growth rates between brackets.

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

	2010-I	2010-II	2010-III	2010-IV	2011-I	2011-II
Food	2.7	3.5	5.4	6.9	6.5	7.3
Beverages & tobacco	4.0	3.5	3.6	3.0	1.5	1.8
Clothing & footwear	-0.2	-1.5	-1.3	-1.6	0.1	1.1
Housing	4.2	6.1	4.3	1.5	1.6	-0.1
Housekeeping & furnishings	1.4	0.6	0.8	0.8	1.6	1.4
Health	2.7	2.5	1.9	1.6	1.1	1.2
Transport & communication	4.0	3.8	0.8	1.5	1.4	0.3
Recreation & education	0.5	0.3	-0.4	-0.7	-0.3	-0.5
Other	3.2	2.5	1.9	1.2	1.1	1.0
General inflation rate	3.1	3.5	2.5	2.0	2.1	1.4

Source: Central Bureau of Statistics, Curaçao

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

	2010-I	2010-II	2010-III	2010-IV	2011-I	2011-II
Food	4.1	3.7	2.4	2.0	3.6	6.3
Beverages & tobacco	1.8	2.2	2.1	2.4	5.8	7.5
Clothing & footwear	0.6	0.4	0.6	0.1	-0.5	-0.4
Housing	10.7	6.7	3.9	2.4	2.9	6.1
Housekeeping & furnishings	2.1	0.8	0.8	0.6	0.7	2.1
Health	1.3	1.1	0.4	0.1	0.3	0.9
Transport & communication	2.5	1.9	0.4	0.3	3.6	5.3
Recreation & education	1.2	0.6	0.8	0.7	-0.1	1.0
Other	2.7	1.9	1.9	1.0	1.9	3.5
General inflation rate	5.6	3.7	2.2	1.4	2.5	4.7

Source: Department of Statistics, Sint Maarten

Table 9A Budgetary overview of Curaçao (on a cash basis; in millions NAf.)

	2011-II*
Revenues	366.1
Tax revenues, of which:	336.3
Taxes on income and profits	160.5
Taxes on property	11.4
Taxes on goods and services	115.7
Taxes on international trade and transactions	47.1
Nontax and other revenues	23.0
Grants	6.7
Expenditures	431.4
Budget balance	-65.4

* The numbers shown are preliminary.

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

	2009-II	2010-II	2011-II*
Taxes on income and profits, of which:	157.9	167.1	160.5
Profit tax	41.1	37.8	35.9
Wage tax	116.2	122.8	121.8
Taxes on property, of which:	11.2	10.9	11.4
Land tax	6.1	4.1	5.3
Property transfer tax	4.8	5.0	5.4
Taxes on goods and services, of which:	---	---	115.7
Sales tax	70.1	78.0	77.1
Excises, of which:	28.8	27.4	26.8
Excise on gasoline	17.6	18.2	17.8
Motor vehicle tax	13.9	3.8	4.2
Taxes on international trade and transactions, of which:	---	---	47.1
Import duties	41.5	41.2	47.1

* The numbers shown are preliminary.

--- 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.)

	2011-II*
Revenues	93.9
Tax revenues, of which:	77.5
Taxes on income and profits	35.1
Taxes on property	4.1
Taxes on goods and services	38.3
Nontax and other revenues	16.3
Grants	0.0
Expenditures	99.2
Budget balance	-5.3

* The numbers shown are preliminary.

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

	2009-II	2010-II	2011-II*
Taxes on income and profits, of which:	37.3	38.7	35.1
Profit tax	6.9	8.7	4.2
Wage tax	29.4	29.5	31.8
Taxes on property, of which:	4.8	5.2	-
Land tax	0.6	0.7	-
Property transfer tax	4.2	4.5	4.1
Taxes on goods and services, of which:	---	---	38.3
Turnover tax	20.8	21.4	31.9
Vehicle tax	3.7	0.9	1.0
Excise on gasoline	3.4	3.5	2.1

* The numbers shown are preliminary.
- No data available.
--- Value is unknown as Sint Maarten's share in certain central government tax revenues is not known.

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

	2009-II	2010-II	2011-II
Trade balance	-731.6	-845.6	-838.3
-Exports	344.7	314.2	417.4
-Imports	1,076.3	1,159.8	1,255.6
Services balance	470.0	450.1	435.3
Receipts, of which:	853.3	832.0	883.4
-Travel	417.7	464.1	472.0
-Transportation	68.0	75.6	86.5
-Other services, of which:	367.6	292.3	324.9
-Int. fin & bus. services sector	85.1	71.4	47.2
Expenses, of which:	383.4	381.9	448.1
-Travel	118.7	128.0	143.6
-Transportation	72.0	76.0	77.5
-Other services, of which:	192.7	177.9	227.0
-Int. fin & bus. services sector	30.2	23.4	28.7
Income balance[1)]	-28.8	-43.6	-18.4
Current transfers balance[2)]	246.7	24.8	-46.2
Current account balance	**-43.8**	**-414.3**	**-467.6**
Capital & financial account balance	**8.4**	**385.8**	**423.5**
Capital account balance[3)]	5.1	4.1	24.6
Financial account balance	3.3	381.7	398.9
Net errors & omissions	**35.3**	**28.5**	**44.1**

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 [1] (in millions NAf.)

	2009-II	2010-II	2011-II
Direct investment	99.0	49.5	38.2
- Abroad [2]	28.3	-1.1	-7.6
- In the monetary union [3]	70.7	50.6	45.8
Portfolio investment [2]	-51.3	-130.4	-9.7
Other investment, of which:	110.5	213.2	113.0
- Assets [2]	111.1	250.1	134.1
- Liabilities [3]	-0.6	-36.9	-21.1
Net lending/borrowing, of which:	31.6	121.4	83.0
- Assets [2]	-0.6	20.6	48.2
- Liabilities [3]	32.2	100.8	34.8
Reserves [4]	-186.5	128.0	174.3
Total assets [2]	-99.0	267.2	339.3
Total liabilities [3]	102.3	114.5	59.5
Balance	3.3	381.7	398.8

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.)

			Change	
	2011-I	2011-II	Amount	Percentage
Currency in circulation	374.8	372.5	-2.3	-0.6%
Banks' demand deposits (current account)	652.8	503.9	-148.9	-22.8%
Monetary base (M0)	1,027.6	876.4	-151.2	-14.7%
Central bank assets				
Foreign assets (including gold)	3,303.7	3,260.7	-43.0	-1.3%
Claims on deposit money banks	36.1	9.9	-26.2	-72.6%
Claims on the government	0.1	0.1	0.0	33.3%
Claims on government agencies and institutions	516.0	516.4	0.4	0.1%
Fixed and other assets	101.5	101.3	-0.2	-0.2%
less:				
Central bank remaining liabilities				
Private sector deposits	746.6	794.8	48.2	6.5%
Government deposits	391.5	352.6	-38.9	-9.9%
Foreign liabilities	625.3	650.8	25.5	4.1%
Other liabilities	116.2	115.6	-0.6	-0.5%
Capital and reserves	1,050.2	1,098.2	48.0	4.6%

Table 13 Monetary survey (in millions NAf.)

	2011-I	2011-II
Money supply (M2)	7,298.9	7,287.3
	7,298.9	7,287.3
Money (M1)	3,225.6	3,283.6
Coins & notes with the public	289.0	294.7
Total demand deposits, of which :	2,936.6	2,988.9
- Netherlands Antillean guilders	2,269.7	2,357.4
- Foreign currency	666.9	631.5
Near money	4,073.3	4,003.7
Time deposits	2,133.4	2,057.4
Savings	1,939.9	1,946.3
Factors affecting the money supply	7,298.9	7,287.3
Net domestic assets	2,639.5	2,802.1
Government sector	-841.1	-797.5
- Former central government	-113.6	-109.7
- Government of Curacao	-553.8	-462.5
- Government of Sint Maarten	-173.7	-225.3
Private sector	5,642.8	5,855.2
Memorandum items	-2,162.1	-2,255.6
Net foreign assets	4,659.3	4,485.2
Central bank	2,923.5	2,854.9
Commercial banks	1,735.8	1,630.3
Government loans by commercial banks	0.0	0.0
Government of Curaçao	0.2	0.1
Government of Sint Maarten	0.1	0.1
Private sector loans Curacao	3,603.6	3,749.6
- Mortgages	1,412.6	1,522.3
- Consumer loans	951.3	960.9
- Business loans	1,239.7	1,266.4
Private sector loans Sint Maarten	1,544.3	1,554.7
- Mortgages	647.3	636.3
- Consumer loans	374.5	379.8
- Business loans	522.6	538.6

Table 14 Developments in domestic interest rates (in %)

	2010-II	2010-III	2010-IV	2011-I	2011-II
Central bank					
- Pledging rate	1.0	1.0	1.0	1.0	1.0
- Maximum CD rate (1 month)	0.22	0.20	0.15	0.15	0.12
Commercial bank borrowing rates					
- Passbook savings	1.5	1.2	1.1	1.1	1.1
- Time deposit (12 months)	1.9	1.6	1.6	1.7	1.8
Commercial bank lending rates					
- Mortgages	7.1	6.7	6.6	7.1	7.1
- Time loans	9.4	9.3	8.9	8.6	8.5
Government securities					
- Government bonds (5-year effective yield)	3.3	3.3	2.4	2.9	2.6
- Treasury bills (1 month)	0.6	0.6	1.0	1.0	1.0

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

	2010-II	2010-III	2010-IV	2011-I	2011-II
Assets					
Non-interest-bearing cash	1,285.0	1,420.0	1,441.7	1,593.9	1,359.4
Interest-bearing cash	3,402.1	3,325.7	2,884.8	3,048.2	3,047.6
Investments	1,218.7	1,156.2	1,461.9	1,444.4	1,459.1
Loans	7,810.5	8,074.5	8,106.2	8,232.1	8,265.7
Investments in unconsolidated subsidiaries and affiliates	106.8	111.7	123.6	44.2	41.6
Fixed assets	302.2	314.1	333.8	388.9	338.7
Other assets	265.5	284.0	295.5	265.4	310.7
Total assets	14,391.0	14,686.2	14,647.6	15,017.1	14,822.8
Liabilities					
Demand deposits	5,564.4	5,507.1	5,215.6	5,742.3	5,846.1
Savings deposits	4,090.0	4,040.8	4,211.8	4,233.7	4,109.5
Time deposits	2,823.0	3,126.6	3,105.8	2,998.7	2,781.9
Total deposits	12,477.5	12,674.5	12,533.2	12,974.7	12,737.5
Borrowings	36.2	68.8	99.5	74.5	43.0
Other liabilities	392.4	430.1	427.6	410.7	442.4
Total liabilities	12,906.0	13,173.4	13,060.3	13,460.0	13,222.9
Minority interest	9.2	9.6	9.3	10.3	10.1
Subordinated debentures	0.0	0.0	0.0	0.0	0.0
General provisions	234.6	241.4	266.4	255.8	257.5
Capital & reserves	1,241.2	1,261.8	1,311.5	1,291.1	1,332.3
Total capital	1,485.0	1,512.8	1,587.2	1,557.1	1,599.9
Total liabilities and capital	14,391.0	14,686.2	14,647.6	15,017.1	14,822.8

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

	2010-II	2010-III	2010-IV	2011-I	2011-II
Interest income	379.3	570.9	713.9	193.8	382.4
Interest expenses	92.0	132.7	164.0	40.2	77.7
Net interest income	287.3	438.2	549.9	153.7	304.8
Other income	127.9	207.4	274.2	80.3	146.8
Total operational income	415.3	645.5	824.2	233.9	451.6
Salaries & other employee expenses	161.0	239.8	308.6	85.8	171.1
Occupancy expenses	48.5	73.1	95.1	26.5	52.0
Other operating expenses	67.5	103.0	132.2	39.6	76.6
Net addition to general provisions	22.8	32.7	69.6	14.9	32.6
Total operational expenses	299.8	448.6	605.6	166.7	332.3
Net operating income	115.5	196.9	218.6	67.2	119.3
Net extraordinary items	42.1	20.4	36.0	4.3	6.1
Applicable profit taxes	27.0	43.7	42.4	13.3	22.5
Net income after taxes	130.6	173.6	212.2	58.2	102.9