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Centrale Bank van Curacao en Sint Maarten

REPORT OF THE PRESIDENT

During the September quarter of 2011, the economy of Curaçao grew by an estimated 0.3% as measured by the real Gross Domestic Product, a turnaround from the contraction of 0.5% registered in the September quarter of 2010. Third-quarter growth in Curaçao was accompanied by accelerated inflationary pressures reflecting mainly increased international oil and food prices. Consequently, inflation in Curaçao climbed to 2.9% in the September quarter of 2011, up from 2.5% a year earlier. In addition, the annualized inflation rate rose to 2.1%.

Real GDP growth in Sint Maarten could not be estimated for the third quarter of 2011 because of a lack of data, particularly national accounts data and quarterly government statistics. However, private sector data indicated weak economic performance. Sint Maarten's quarterly inflation rate peaked at 5.6% during the September quarter of 2011, an acceleration compared to the 2.2% inflation rate registered in the September quarter of 2010. The higher inflationary pressures were the result of rising international oil and food prices and the increased turnover tax rate in Sint Maarten. The annualized inflation rate accelerated to 3.6% at the end of September 2011 compared to 2.7% at the end of June 2011.

The modest economic growth in Curaçao stemmed primarily from an expansion in net foreign demand. During the third quarter of 2011, net foreign demand expanded as the growth in exports of goods and services surpassed the rise in imports. In contrast, domestic demand shrank because of a drop in public spending. However, the increase in private spending mitigated the contraction in domestic demand. The drop in public spending can be ascribed to a decline in public consumption reflecting lower outlays on goods and services. Meanwhile, private spending rose because of a growth in private investments, but private consumption dropped during the third quarter of 2011.

An analysis by sector reveals that private sector growth in Curaçao was driven mainly by the manufacturing, restaurants & hotels, wholesale & retail trade, and transport, storage & communication sectors. Output in the manufacturing sector rose, as the refinery resumed its operations after being shut down during most of 2010. Also, activities in the ship repair industry expanded during the third quarter of 2011. Meanwhile, real value added in the restaurants and hotels sector grew because of an increase in the number of stay-over visitors, in particular from the North and South American markets. In contrast, the number of cruise tourists shrank, despite a growth in the number of cruise calls. Activities in the wholesale and retail trade sector expanded, albeit at a slower pace than in the third quarter of 2010. The expansion was due to an increase in the number of stay-over visitors and more activities in Curaçao's free zone, although the decline in domestic spending had a mitigating impact. The transportation, storage & communication sector performed well because of increased air transportation and passenger traffic, the latter due to the growth in the number of stay-over arrivals. In contrast, the harbor posted some mixed results as the number of ships piloted into the port rose, while total cargo movements dropped. Also, oil transshipment and storage activities declined during the third quarter of 2011.

The financial services sector also contributed positively to growth because of the increase in domestic financial services. International financial services, in contrast, registered negative results as indicated by declines in wages and salaries and other operational expenses. Meanwhile, the construction sector contracted during the July – September period of 2011 reflecting, among other things, fewer new major investment projects.

The poor economic performance in Sint Maarten can be ascribed largely to a decline in the restaurants & hotels sector. During the third quarter of 2011, stay-over tourism was negatively affected by a drop in time-share capacity and airlift. Consequently, Sint Maarten experienced a decline in the number of stay-over visitors from all markets. Furthermore, the number of cruise tourists shrank. The performance of both the construction and financial services sectors also was poor during the September quarter of 2011. Activities in Sint Maarten's construction sector contracted in line with the drop in mortgages. Output in the financial services sector declined, owing to a decline in net income of the domestic commercial banks.

Both the Curaçao and Sint Maarten governments experienced substantial delays in the financial reporting processes. Consequently, data on the development in the public finances were very limited. Nevertheless, the Bank made some estimates for the public finances of Curaçao. According to these estimates, the government of Curaçao recorded a cash deficit of NAf.25.4 million during the third quarter of 2011. Details were available only for government revenues. Compared to the September quarter of 2010, tax revenues in Curaçao rose mainly because of increased excises, wage and sales taxes.

In the case of Sint Maarten, the Bank could not make an estimate for the budget balance since no data on government expenditures were available. An analysis of the revenue side reveals that the proceeds from wage and turnover taxes contributed the most to tax revenues collected. Revenues from both tax categories rose in the third quarter of 2011 compared to the third quarter of 2010. The rise in turnover tax proceeds was attributable mainly to the increase in the turnover tax rate from 3% to 5% in February 2011.

The situation on the balance of payments of the monetary union remained worrisome during the third quarter of 2011 as the current account deficit widened, reaching NAf.490.2 million. The increased deficit was attributable largely to a decline in net current transfers received from abroad as no debt relief funds were transferred to Curaçao and Sint Maarten during the July – September period of 2011. In contrast, net exports of goods and services rose as the growth in exports exceeded the growth in imports. The latter was caused mainly by higher international oil prices. Export growth was the result of, among other things, increased revenues from refining activities in Curaçao as the Isla refinery became operational again in 2011. Higher revenues from bunkering, ship repair, and transportation activities also contributed to the export growth. Moreover, re-exports by the free zone companies in Curaçao expanded during the third quarter of 2011 compared to the third quarter of 2010. Also, the foreign exchange receipts from the tourism industry rose as a result of increased stay-over and cruise tourist numbers in Curaçao. Sint Maarten registered a downturn in both market segments.

The current account deficit was financed primarily by the withdrawal of funds from foreign bank accounts and the repatriation of funds abroad by domestic financial institutions. Moreover, net portfolio investments abroad dropped, largely because institutional investors did not reinvest the funds received from matured foreign debt securities. Net direct investments into the monetary union also rose as local companies increased their liabilities with their direct investors and non-residents purchased real estate in Curaçao and Sint Maarten. Since the inflow of capital was not sufficient to cover the current account deficit, our international reserves dropped during the third quarter of 2011.

The money supply continued to decline in the third quarter of 2011, and the decline was more pronounced than in the previous quarter. The contraction in the third quarter was accounted for primarily by the drop in net foreign assets resulting from the deficit on the balance of payments. Net domestic assets remained practically unchanged as the increases in net claims on the private

sector and the general government were counterbalanced by a decline in miscellaneous balance sheet items. The expansionary impact of the government resulted mainly from a drawdown of deposits. The further growth in loans extended, particularly in Curaçao, contributed to the private sector's expansionary impact.

In July and August 2011, the Bank did not actively deploy its monetary policy instruments to influence the domestic money market. However, given the increasing deficit on the current account of the balance of payments and private sector credit growth exceeding GDP growth, the Bank increased the reserve requirement percentage from 7.75% to 9.75% in September 2011. During the biweekly auctions of certificates of deposit (CDs), the Bank continued to focus on refinancing the maturing CDs. The Bank's official lending rate, i.e., the pledging rate, remained unchanged at 1.00%.

Despite the tightening of the Bank's monetary policy by increasing the reserve requirement percentage in September 2011, credit extension to the private sector continued to grow unabated. Consequently, according to preliminary data, the deficit on the current account of the balance of payments widened further. As the capital inflow was insufficient to cover the deficit on the current account, our net foreign assets declined in 2011, the first time following ten consecutive years in which our foreign exchange reserves increased.

The current ineffectiveness of the reserve requirement in containing private sector credit growth is related to the high excess liquidity in the banking system. Mopping up this excess liquidity would require an increase of the reserve requirement percentage to unprecedented levels. Such an increase is considered undesirable given its impact on the commercial banks' income-generating capacity. Therefore, the Bank requested the commercial banks to observe a freeze on private credit extension for a period of six months in February 2012.

As mentioned on several occasions, the situation on the current account of the balance of payments cannot be resolved with monetary policy measures alone. Our import coverage is still adequate, but our net foreign assets are declining at a rapid pace. A continuation of this development, combined with increased imports because of higher prices of oil and food on the international markets, will soon lead to an import coverage below the three months of merchandise norm. Therefore, the governments of Curaçao and Sint Maarten should use fiscal and structural measures to improve the situation on the current account. The focus should be on improving our investment climate and export performance, complemented by exploring possibilities to reduce expenditures. Through a joint effort to reduce import growth and promote export growth, we shall be able to turn around the deterioration of the current account and maintain the stability of our currency.

E.D. Tromp
President

INTERNATIONAL ECONOMIC DEVELOPMENTS

For the third consecutive quarter in 2011, the US economy slowed as it continued to struggle with high unemployment and an anemic housing market. Real GDP growth decelerated to 1.5% in the September quarter of 2011 from 3.5% in the third quarter of 2010. The main reason for the weaker economic growth was the negative contribution from public spending and inventories. In addition, gross private investment recorded a much smaller growth, compared to the marked increase in the third quarter of 2010. Fiscal policy has been contractionary for the past several quarters, as state and local government spending shrank. Compared to 2010's third quarter, inventories were down as businesses did not replenish their inventories. However, increases in consumer spending and net exports dampened these adverse developments. The rise in private consumption was due largely to more durable goods purchases. Some of the recent strength in consumer spending came from households reducing their savings, which may not be sustainable. Moreover, net exports expanded, as the growth in exports outpaced the gain in import demand, reducing the US current account deficit by 9.4% to \$442.2 billion in the third quarter of 2011. The gradual economic recovery did not make up a lot of the ground that was lost in the labor market, as the unemployment rate remained elevated at 9.1% in September 2011. Job gains were concentrated in the professional and business services, healthcare, and the construction sectors, while job losses continued in the public sector. Increases in energy and food prices were mainly accountable for the higher consumer price inflation of 2.7% during the months July-September 2011. Given the sluggish growth and high jobless rate, the Fed has maintained the overnight interest rate at ultra-low levels since December 2008.

Table 1 Selected indicators of various countries

	United States		Netherlands		Venezuela	
	2010-III	2011-III	2010-III	2011-III	2010-III	2011-III
Real GDP (% change)	3.5	1.5	1.8	1.1	-0.2	4.2
Consumer prices (%)	1.7	2.7	1.1	2.1	28.0	26.0
Unemployment rate (%)	9.6	9.1	4.4*	4.5*	8.4	8.3

Source: 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

Similar to the U.S. economy, the Dutch economy slowed to 1.1% in the third quarter of 2011, the result of a decline in consumer spending and moderate growth in exports. Households spent less on automobiles, clothing, and outdoor consumption. Exports of goods & services recorded a modest increase, as trade with both the EU and non-EU countries decelerated. In contrast to 2010's third quarter, both private and public investment spending expanded, owing to more residential and nonresidential investment activities. With the exception of the construction sector, all sectors experienced a growth deceleration or a cutback in their production. In contrast, the construction sector rebounded, coinciding with the higher investment spending. Meanwhile, the financial and business services sectors contracted. The economic slowdown was accompanied by a higher jobless rate (4.5%) and higher inflation (2.1%). The rise in energy and petrol prices played a key role in the higher inflation during the September quarter of 2011.

Following a slight contraction in 2010's third quarter, the economy of Venezuela recovered with an increase of 4.2%, sustained by a growth in both the public and private sector. The fiscal profligacy was supported by higher oil export revenues and cash from government and state oil company US dollar bond issues. The government relied on issuing debt to finance its overvalued exchange rate. In a bid for re-election, the government has been raising spending on social programs and housing. However, currency controls, import restrictions, and ongoing state

appropriations created an uncertain business environment for private investments. This environment has worsened the supply bottlenecks and lowered competition among retailers and manufacturers, causing a greater dependence on pricier imports. Beside supply shortages, 2010's devaluation of the Bolivar elevated the inflation to 26.0%, the highest in Latin America. To ease inflation, the government rolled back some policies, adjusting food price caps on basic foods to avoid shortages. The rising oil prices were primarily responsible for the sizeable increase in Venezuela's current account surplus (\$7.5 billion) in the July-September period of 2011. The economic rebound has not translated into more employment, however, as the jobless rate remained steady at 8.3% in September 2011.

GENERAL ECONOMIC DEVELOPMENTS IN CURAÇAO

In the third quarter of 2011, the economy of Curaçao encountered a tepid growth of 0.3%, following a decline of 0.5% in the third quarter of 2010. This weak economic growth was sustained by a robust export of goods & services growth, mitigated by a contraction in public demand. As Curaçao is highly susceptible to imported inflationary pressures, the 2.9% inflation was driven largely by rising international oil and food prices in the September quarter of 2011.

The quarterly indicators showed that the economy grew because of a sharp growth in external demand caused by the revival of the oil refinery and more activities in the free zone, bunkering, and stay-over tourism. Although real merchandise imports saw no gain, the rise in imports of goods & services was attributable largely to higher oil prices. World market prices for oil were ascending in 2011, soaring by about 37%¹ in the quarter ending September. Nevertheless, the rise in net export demand was moderated somewhat by a contraction in domestic demand, led by the decline in public spending (see Table 2). Similar to 2010, public investment showed no growth, and public consumption shrank. The cutback in goods & services outweighed the rise in wages & salaries expenses, causing a drop in public consumption. After the contraction in 2010's third quarter, private demand was up, the result of more investment spending, which may be related to, among other things, spending on equipment & software. However, private consumption dropped, likely reflecting the downturn in both merchandise imports and consumer loan extension.

¹ International Financial Statistics (IFS), IMF.

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

	2010-III	2011-III
Domestic expenditure, of which:	1.1	-0.3
Private sector	-0.1	0.2
- Investment	-0.8	0.6
- Consumption	0.7	-0.4
Government sector	1.3	-0.5
- Investment	0.0	0.0
- Consumption	1.2	-0.5
Changes in inventory	1.0	-1.0
Foreign net expenditure, of which:	-2.6	1.6
Export of goods and services	-1.7	6.9
Import of goods and services	0.9	5.3
GDP by expenditure	-0.5	0.3
Net primary income	-0.4	1.2
Gross national income	-0.9	1.5
Net current transfers from abroad	-3.7	-2.6
Gross national disposable income	-4.6	-1.0

CBCS estimates

*) Expenditure categories data are weighted contributors to GDP growth

Domestic production

From a sectoral perspective, the upturn in the private sector was driven by increased output mainly in manufacturing, wholesale & retail trade, and transport, storage & communication (see Table 3). Conversely, the contraction in the public sector eased the increase in private sector activity. Throughout the months July-September 2011, manufacturing output showed a perceptible increase, backed by more activities in both the oil refinery and ship repair. The refinery resumed its normal operations in 2011 following a prolonged shutdown in 2010. The robust growth in the refinery matched the gain in the refinery's operational expenses, i.e., payroll, contract payments, and own fuel use. Also, the rise in the number of man-hours sold positively impacted the ship repair industry.

Tourism is an important industry for the economy of Curaçao. Tourism arrivals were mixed in the period July-September 2011. In contrast to 2010's third quarter, stay-over tourism arrivals expanded by 15.4%, driven largely by the North and South American markets. The growth in the North American market was due to more airlift and aggressive promotions in the United States. As of December 2010, Continental Airlines launched a twice weekly non-stop service from Newark to Curaçao. The growth in the South American market was led by the Venezuelan market, due to more marketing to groups with high spending power. Also, this rise should be seen in the context of a sizeable decrease in the number of Venezuelan travelers in 2010. During the third quarter of 2011, the U.S. and the Venezuelan markets contributed, respectively, 4.6% and 7.2% to the growth of total stay-over tourism. The hotel occupancy rate was up by 3.8 percentage points to 75%, consistent with the favorable stay-over tourism results. Higher stay-over tourist arrivals were accompanied by more time spent on the island. The number of visitor nights expanded by 5.8%, although at a slower rate than in the third quarter of 2010. The positive effects from buoyant stay-over tourism activity fed through into other sectors of the economy, particularly the wholesale & retail trade (2.0%) and hotels & restaurants (6.4%) sectors.

Despite a growth in the number of cruise calls, the number of cruise tourists shrank further by 6.0% in the September quarter of 2011. See Table 7 in the appendix for more details.

Table 3 GDP by sector (real percentage changes)

Sector	2010-III	2011-III
Agriculture, fishery, & mining	-9.3	-3.4
Manufacturing	-7.6	5.1
Electricity, gas, & water	-3.4	3.8
Construction	-6.3	-9.1
Wholesale & retail trade	5.3	2.0
Restaurants & hotels	-0.8	6.4
Transport, storage, & communication	-2.2	3.7
Financial intermediation	-2.0	0.5
Real estate, renting, & business activities	0.5	0.4
Other community, social & personal services	-0.2	-4.4
Private households	1.3	-0.6
Total private sector	-0.9	0.7
Public sector	0.6	0.5
Taxes minus subsidies	-0.3	-0.9
GDP	-0.5	0.3

CBCS estimates

In the third quarter of 2011, the wholesale & retail trade sector improved, albeit less than in 2010's third quarter. This growth came from an increase in both the free zone and stay-over tourism, moderated by a contraction in domestic spending. The free-zone businesses may have reduced their inventories, as their re-exports exceeded merchandise imports. Coinciding with the upturn in free-zone activities was an increase of 10.1% in free-zone visits, led mostly by the Haitian, Jamaican, and Venezuelan markets.

Encouraging developments mainly in air transportation and passenger traffic led to the growth in the transport, storage, & communication sector in the September quarter of 2011. This outturn was in line with the favorable performance in stay-over tourism. Harbor activities experienced mixed results because more ships were being piloted into the harbor, but total cargo movements shrank. As more oil was being supplied directly through the pipelines from the refinery to the tankers, the need for oil storing fell, leading to the further decline in storage activities. Contrasting with the fall in 2010's third quarter, oil transshipment activities expanded in the third quarter of 2011.

The expansion in the financial services sector was the result of an increase in value added in domestic financial services. Net income of the domestic commercial banks was up because income earned exceeded the rise in expenses. However, the growth in earnings must be seen against the background of higher fees and commission charges. Meanwhile, decreases in wages & salaries and other operational expenses led to the disappointing performance in the international financial services sector.

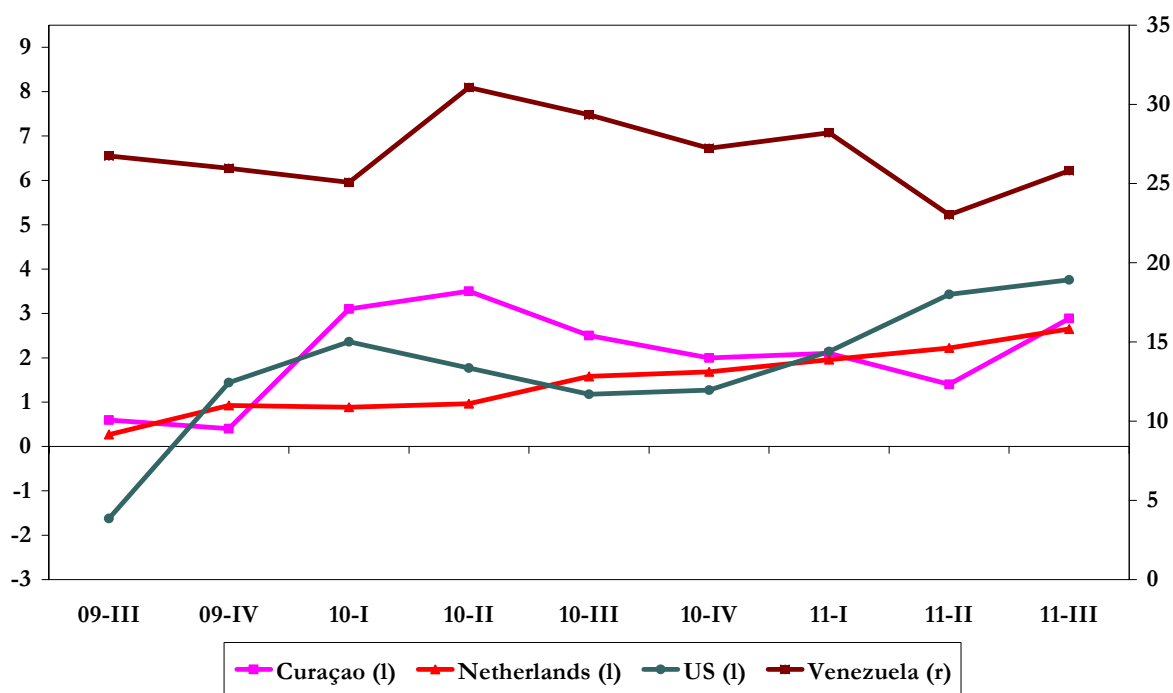
Growing concerns about the economy are clearly reflected in a further deterioration in the construction sector. Fewer new investment projects led to a contraction, partly offsetting the expansion in other industries. The decline in construction activities was attested to by a fall in the import of construction goods.

Inflation

Consumer price inflation in Curaçao continued its upward development. Given that a large part of the inflationary pressures are imported, the rise in inflation reflected the rising global prices of oil and food. Compared to the months July-September 2010, world oil prices rose sharply in the third quarter of 2011. The government of Curaçao regulates the prices of domestic oil products, such as petrol, gas oil, kerosene, and cooking gas, with the purpose of easing domestic price movements. As of July 2011, the government started modifying the domestic prices of oil products on a monthly basis, in line with the global oil price developments with a lag of 1 month. An analysis of price developments on a quarterly basis indicates that the rate of inflation accelerated from 2.5% in the third quarter of 2010 to 2.9% in the quarter ending September 2011 (see Graph 1). The CPI components mainly responsible for the increase in price pressures were Food (8.4%) and Transport & Communication (4.5%). Further increases in food prices were due to the marked surge in the cost of fresh produce, meat, and cereal products. Apart from this, price gains in petrol, diesel, automobiles, and bus fares caused the rise in the transport component. The higher costs in these categories were tempered by a price deceleration in Housing. The lower price index for housing was carried over from the second quarter of 2011, when the price of electricity was reduced by about 7.0% in April. See Table 8A in the appendix for a detailed overview.

Graph 1

Developments in consumer prices (annual quarter-to-quarter percentage change)



General economic developments in Sint Maarten

Due to a lack of data, in particular national accounts 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 third quarter of 2011. Using the available indicators, an analysis of the main developments in the major sectors of the Sint Maarten economy for the third quarter of 2011 is presented in this section.

In the third quarter of 2011, the hotels & restaurants sector was adversely affected by a further decline in stay-over tourist arrivals (7.4%), the third consecutive quarterly decline. All tourist markets experienced a downturn, but the decline in Sint Maarten's main market, the United States, accounted for most of the negative performance. The U.S. market represents about 75% of the timeshare visitors and 50% of the total stay-over tourist arrivals in Sint Maarten. The stay-over tourism industry was still suffering from the closure of the Pelican Resort Club in the first half of 2011. Moreover, a decline in airlift capacity led to the drop in stay-over arrivals. As of April 2011, American Eagle discontinued all direct flight connections between Puerto Rico and Sint Maarten. Consequently, the hotel occupancy rate shrank further by 12 percentage points to 31.5% during the September quarter of 2011. Following a buoyant performance in 2010's third quarter, the number of cruise passenger arrivals was down by 16.2% in the third quarter of 2011. See Table 7 in the appendix for more details.

In the September quarter of 2011, the results of the utility sector were mixed, as the production of water expanded while electricity fell. The developments in the transport, storage & communication sector were also mixed. The increase in harbor activities was backed by more vessels, especially freighters, being piloted into the harbor. By contrast, container movements shrank in the third quarter of 2011. In the air transportation sector, both the number of passengers transported by domestic airlines and the airport-related activities dropped. The fall in total passenger traffic at the airport was in line with the decline in stay-over tourism.

With the further decline in mortgages extended, investment activity continued its downturn. Also, nonresidential building permits exhibited a sharp drop. The decline in the number of building permits requested suggests less construction investment spending in the near term. The performance of the financial services sector was glum, as net income of the domestic commercial banks fell, caused by a decline in income earned and a rise in operating expenses.

Inflation

Inflationary pressures rose sharply in Sint Maarten, driven by both external and internal factors. Rising world oil and food prices and an increase in the turnover tax were mainly responsible for the elevated third-quarter inflation in 2011. On February 11, 2011, the turnover tax (TOT) was raised from 3.0% to 5.0%, causing prices of most items to rise. The quarterly inflation rate rose from 2.2% during the months July-September of 2010 to 5.6% in the third quarter of 2011. All CPI components recorded an increase, but the significant price gains were in the categories "food" (10.4%) and "beverages & tobacco" (11.1%). Higher energy and petrol prices led to increases in the categories "housing" (5.7%) and "transport & communication" (5.6%). See Table 8B in the appendix for a detailed overview.

DEVELOPMENTS IN PUBLIC FINANCE

Public finances -- Curaçao

As was the case in the first two quarters of 2011, the estimation of the government sector's contribution to GDP growth was delayed in the third quarter of 2011. The main reason for the delay was that the reorganization of the government apparatus after October 10, 2010, resulted in substantial delays in the financial and administrative reporting processes. The lack of timely fiscal data and relevant information of the budget execution led to the use of some rough indicators to measure the government sector's contribution to GDP growth.

Another challenge in analyzing public sector developments in Curaçao was that the 2011 data are not comparable to those of 2010, since Curaçao did not exist as a country until October 10, 2010. Therefore, the public sector's contribution to 2011's real GDP on a quarterly basis was calculated by estimating Curaçao's average share in the operations and resources of the former central government over the last few years.

Government consumption expanded during the third quarter of 2011, albeit at a slower pace than in the third quarter of 2010. The expansion was the result of an increase in expenditures on wages and salaries, mitigated by a decline in outlays on goods and services. The latter decline can be ascribed to the underutilization of the funds budgeted for spending on goods and services caused by, among other things, delays in the formalization of rent and lease agreements for some government departments. Meanwhile, government investment rose, largely as a result of growth in spending on development projects, among them the Social Economic Initiative (SEI) projects. The SEI projects were an important part of the constitutional reorganization process as they were directed at facilitating the transition to the country status for Curaçao and restructuring and strengthening its economy. However, several SEI projects are still in their implementation phase as a result of delays in the preparation, approval, and takeoff. Despite the growth in both public consumption and investment, the government sector contributed negatively in real terms to the economic growth during the September quarter of 2011.

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

	2010-III	2011-III
Monetary financing	53.6	56.9
Central bank	76.9	-5.9
Commercial banks	-23.3	62.8
Nonmonetary financing	-222.0	-31.5
Government securities with the public	-38.4	0.0
Other	-183.6	-31.5
Cash balance	168.3	-25.4

Based on preliminary figures, the Bank estimates that Curaçao registered a cash deficit of NAf.25.4 million during the September quarter of 2011, as total expenditures (NAf.399.7 million) exceeded total revenues (NAf.374.3 million). Unfortunately, no detailed breakdown of Curaçao's expenditures was available. On the revenues side, tax proceeds rose during the period July-September 2011 compared to a year earlier, reflecting increases in revenues from excises, profit, wage and sales

taxes.² Import duties remained practically unchanged, in line with the developments in merchandise imports during the third quarter of 2011. See Tables 9A and 9B in the appendix for an overview.

During the third quarter of 2011, the government of Curaçao financed its cash deficit by withdrawing funds from its accounts with the commercial banks. A fraction of these funds also was used to settle other liabilities of the government, reflected by the drop in nonmonetary financing (See Table 4A).

Public finances -- Sint Maarten

On October 10, 2010, Sint Maarten also 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 previously had been the responsibility of the central government of the Netherlands Antilles.

Similar to Curaçao, Sint Maarten also experienced substantial delays in the financial and administrative reporting processes. Only revenue data were available for the third quarter. Hence, neither the government expenditures nor the budget balance could be analyzed for the July – September period of 2011.

During the third quarter of 2011, the government of Sint Maarten generated NAf.103.9 million in revenues, NAf.74.2 million of which was tax revenues. The tax categories that generated the most income during the July – September period of 2011 were the wage and turnover taxes. Compared to the third quarter of 2010, turnover tax receipts rose because of the increase in the turnover tax rate from 3% to 5% in February 2011. Proceeds from the wage tax also increased compared to 2010. Meanwhile, the revenues from other categories, including excises on gasoline, profit, property, and vehicle taxes, decreased.

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

	2011-III
Monetary financing	16.3
Central bank	0.0
Commercial banks	16.3
Nonmonetary financing	n.a.
Government securities with the public	n.a.
Other	n.a.
Cash balance	n.a.

The government of Sint Maarten withdrew funds from its current account at the commercial banks during the third quarter of 2011. However, no data were available on the government's nonmonetary financing or its cash balance (See Table 4B).

² CBCS estimates.

Public sector debt of Curaçao and Sint Maarten

Due to data unavailability, public debt outstanding at the end of September 2011 for Curacao and Sint Maarten could not be established. The scarcity of data is largely attributable to the government apparatus reorganization that has been taking place in both countries, which has resulted in substantial delays in the financial reporting processes. The only data available were the outstanding amounts of government bonds of Curaçao and Sint Maarten -- NAf.1,667.4 million and NAf.302.1 million, respectively. However, this information is not sufficient to determine the debt-to-GDP ratio at the end of September 2011 for either country.

DEVELOPMENTS IN THE BALANCE OF PAYMENTS OF THE MONETARY UNION

During the third quarter of 2011, the current account deficit of the balance of payments of the monetary union widened to NAf.490.2 million from NAf.463.1 million in the third quarter of 2010. This surge was caused mainly by a significant deterioration in the current transfers balance. 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.)

	2009-III	2010-III	2011-III
Current account	-350.4	-463.1	-490.2
Capital transfers	19.1	8.1	1.4
External financing of the government	3.1	3.0	14.3
External financing of the private sector	327.6	681.6	346.9
- Direct investment	44.9	153.3	44.9
- Loans and credits	258.4	716.2	198.1
- Portfolio investments	24.3	-187.9	103.9
Change in net foreign assets of the banking system ^{*)}	-32.8	-276.5	103.2
- with central bank	-9.8	-447.1	-47.5
- with commercial banks	-23.0	170.6	150.7
Statistical discrepancies	33.4	47.3	24.3

*) A minus sign implies an increase.

Current account

Net exports of goods and services in the monetary union increased by NAf.117.3 million during the third quarter of 2011 over the third quarter of 2010 as a result of a growth in exports (NAf.208.3 million) only partly offset by a growth in imports (NAf.91.0) million. The next paragraphs provide an analysis of the developments in net exports of goods and services in Curaçao and Sint Maarten.³

³ 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.

Developments in the net exports of goods and services in Curaçao

In Curaçao, net exports of goods and services increased by NAf.145.0 million during the third quarter of 2011 compared to the third quarter of 2010. This increase was the result of a rise in exports (NAf.298.2 million) mitigated by a growth in imports (NAf.153.2 million). The rise in exports was related to, among other things, a strong improvement in refining fees received (NAf.81.0 million) as the refinery became operational again after having been out of operation during most of 2010. Also, re-exports by the free-zone companies contributed to the surge in exports (NAf.66.4 million). In addition, foreign exchange revenues from bunkering exports rose by NAf.42.4 million, reflecting higher international oil prices, while the earnings from ship repair activities grew by NAf.43.1 million. Moreover, foreign exchange receipts from the transportation sector expanded significantly, ascribable largely to increased activities by the domestic airlines. The increased transportation revenues were accompanied by a sharp rise of NAf.28.8 million (17.1%) in foreign exchange revenues from stay-over 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 in the third quarter of 2011 than in the third 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 on the international markets. Meanwhile, non-oil merchandise imports remained fairly stable, reflecting lower domestic spending. In addition, free-zone imports remained practically unchanged. As a result, the growth in free-zone re-exports exceeded the growth in imports, reflecting declining inventories in the third quarter of 2011.

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

In Sint Maarten, net foreign demand expanded by NAf.11.4 million during the third quarter of 2011 compared to the third quarter of 2010. The increase in exports of goods and services (NAf.2.0 million) was accompanied by a decline in imports (NAf.9.4 million). The decline was related mostly to a drop in imported oil products (NAf.7.7 million), despite higher international oil prices. In addition, general merchandise imports decreased by NAf.5.6 million during the third quarter of 2011.

Meanwhile, the service balance deteriorated, mostly due to diminished revenues from the tourism sector, partly offset by more other services, especially construction services, provided to abroad

Developments in the income balance and the current transfers balance

The income balance of the monetary union deteriorated by NAf.12.5 million in the third quarter of 2011 compared to the third quarter of 2010, due mainly to an increase in dividend and interest paid on investments in Curaçao en Sint Maarten. Similar to the income balance, net current transfers received from abroad declined by NAf.131.9 million as no transfers of debt relief funds were made to Curaçao and Sint Maarten in the third quarter of 2011. Overall, the deficit on the current account of the monetary union rose by NAf.27.1 million to reach NAf.490.2 million in the September 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.346.9 million in the third 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, both the portfolio investment and the direct investment balances worsened.

The loans and credits balance worsened by NAf.198.1 million primarily because of the withdrawal of funds abroad by domestic companies to finance part 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, however, improved (NAf.37.4 million) because of an increase in trade credits extended on exports, mitigated by a growth in new trade credits received on imports.

Net direct investments into the monetary union expanded by NAf.45.0 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 deteriorated significantly, showing a decline of NAf.103.9 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 mitigated by an increase in investments in foreign equity securities abroad. Meanwhile, capital transfers increased a mere NAf.1.4 million because no development aid funds were received from the Netherlands in the third quarter of 2011 unlike the third quarter of 2010.

Since the capital inflow during the September quarter of 2011 was not sufficient to cover the higher current account deficit, net foreign assets (i.e., reserves) declined by NAf.103.2 million. This decline resulted from a drop of NAf.150.7 million in net foreign assets held by the commercial banks, offset partly by a rise of NAf.47.5 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 conduct of monetary policy in the monetary union between the countries 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 will continue to pursue a monetary policy aimed at maintaining the exchange rate peg of the NAf. to the US dollar. As an intermediate target, the Bank strives for a level of official reserves 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 extension, domestic spending, imports, and the use of foreign exchange reserves.

Due to the increasing deficit on the current account of the balance of payments, the relatively rapid expansion in credit extension compared to GDP growth, and the declining trend in reserves, the Bank raised the percentage of the reserve requirement, the main instrument, from 7.75% to 9.75%

on September 16, 2011. The Bank's other monetary policy tool, the auctioning of CDs, was deployed in a neutral manner in the third quarter of 2011--the Bank aimed only at the refinancing of maturing CDs at the biweekly auctions. The Bank's official interest rate, the pledging rate, was left unchanged at 1.00%.

Monetary base

The monetary base⁴ (M0) contracted for the second consecutive quarter, declining by NAf.58.2 million (6.7%) during the third quarter of 2011. This contraction reflected primarily a drop in the commercial banks' current account balances with the Bank (NAf.55.3 million). On an annual basis, the reduction in the monetary base amounted to 11.7%.

During the third quarter of 2011, the decline in M0 stemmed mainly from an expansion in the Bank's remaining liabilities, due to a sizeable increase in outstanding time deposits of the commercial banks at the Bank. This jump in time deposits was caused by an increase of 2 percentage points in the reserve requirement in September 2011 due to the monetary tightening. This contractionary effect was not offset by declines in private sector deposits and foreign liabilities. At the same time, however, an increase in foreign assets due to the revaluation of gold led to a corresponding increase in capital and reserves, and thus had no significant impact on M0. A decline in claims on government agencies and institutions also had a negative impact on the growth of M0 during the third quarter. See Table 12 in the appendix for more details.

Factors affecting the money supply

Broad money contracted by NAf.49.6 million (0.7%) in the third quarter of 2011 after slowing down in the previous quarter. A drop in net foreign assets contributed to the monetary contraction because no growth was registered in net domestic assets.

M1 dropped by 4.7%, caused primarily by a 5.1% decline in demand deposits. The drop in demand deposits resulted from both Netherlands Antillean guilders (NAf.132.9 million) and foreign currency-denominated deposits (NAf.18.2 million). Furthermore, the other component of M1, i.e., currency holdings, dropped by 1.2%. Near money, on the other hand, increased by 2.6% during the third quarter of 2011, due to an increase of 5.9% in time deposits because savings dropped (0.9%).

The monetary contraction was caused by a drop in net foreign assets, accounted for entirely by the commercial banks. Net domestic assets, on the other hand, remained almost unchanged as increases in net claims on the private sector (0.1%) and the general government (8.2%) were offset by a decline in miscellaneous balance sheet items (3.1%) during the third quarter of 2011. The expansionary impact of the public sector (NAf.65.3 million) stemmed from a net withdrawal of deposits with the banking system by both the governments of Curacao and Sint Maarten by NAf.56.3 million and NAf.16.8 million, respectively.

Private sector credit rose only marginally during the third quarter of 2011, down from a 3.8% expansion during the second quarter of 2011. In Curacao, private loans expanded by 0.1%. Mortgages, the largest component of private sector loans, rose by 0.8%, while a 0.3% growth was

⁴ The monetary base 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.

noticed in consumer loans. Business loans, on the other hand, dropped by 0.4%. The annual growth in private loans accelerated to 6.4% at the end of September 2011, largely the result of expansions in mortgages (10.9%) and business loans (6.1%).

Sint Maarten's private sector loans dropped by 0.1%, the result of a 2.7% decline in business loans. By contrast, mortgages and consumer loans expanded by 1.7% and 0.6%, respectively. When compared to the third quarter of 2010, the downturn in credit extension was more pronounced. Private credit growth dropped by 3.8%, the result of downturns in consumer loans and mortgages by 7.3% and 6.7%, respectively. Business loans, on the other hand, increased by 3.0%. See Table 13 in the appendix for more details.

Developments in domestic interest rates

When the Bank sets the rate offered on CDs during the bi-weekly auctions, it takes into account developments in international interest rates through the US dollar libor rates.⁵ The lower benchmark one-month libor rate in the third quarter of 2011 resulted in a drop in the Bank's 1-month CD rate from 0.12% at the end of the second quarter of 2011 to 0.09% at the end of the third quarter.

Some commercial bank rates increased in the third quarter of 2011. The average mortgage rate increased to 7.3%, up from 7.1% in the second quarter of 2011. However, the average rate on time loans remained unchanged at 8.4%.

Meanwhile, the average rate offered on a 12-month time deposit increased from 1.8% to 2.1%, while the average interest rate on passbook savings remained stable at 1.1% throughout the three months to end-September. In the capital market, the average effective yield on 5-year government bonds dropped from 2.6% at the end of June 2011 to 1.5% at the end of September 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

The commercial banking sector continued under pressure during the third quarter of 2011. The uncertain economic outlook had a dampening effect on profitability while the asset quality deteriorated. The banking system contained the downward pressure on its net interest income by reducing interest expenses. In addition, the banks diversified their sources of income to non-interest income-generating activities. Furthermore, the deterioration in the quality of bank assets resulted in an increase in the level of nonperforming loans and a subsequent upward adjustment in loan-loss provisions.

The commercial banks' aggregate balance sheet contracted for the second consecutive quarter. The decline in banks' assets (1.5%) in the third quarter of 2011 was caused by declines in interest and non-interest-bearing cash, and investments. The growth in loans, fixed and other assets and investments in unconsolidated subsidiaries and affiliates could not compensate for these downturns. As a consequence, the year-on-year growth of total assets dropped (0.6%) at the end of the third quarter of 2011.

⁵ The London interbank offered rate, the main gauge of interbank lending.

Meanwhile, total liabilities declined as all liability categories except other liabilities contracted when compared to the third quarter of 2010. Total deposits declined by 2.2%, accounted for by all deposit categories with demand deposits dropping the most (NAf.208.7 million). Total capital remained almost unchanged as a drop in capital and reserves was offset by increases in provisioning. See Table 15 in the appendix for more details.

In the September quarter of 2011, the banks recorded lower profits than in the third quarter of 2010, reflecting a downturn in income received from net extraordinary items and a drop in net operating income (8.4%)⁶. The drop in the latter was the result of a growth in total operating expenses (NAf.53.3 million) outperforming the rise in total operating income (NAf.36.8 million). The increase in operating expenses was attributable to all components, the highest being the net addition to general provisions for the loan losses. When compared to the September quarter of 2010, NAf.17.8 million more was charged against the profit and loss account for these provisions. The growth in total operating income resulted from increases in both net interest income and other income. The increases in net interest income resulted from a 13.4% reduction in interest expenses while the rise in other income came from more income received from fees and commissions. See Table 16 in the appendix for more details.

Financial soundness indicators

To support macroprudential analysis and assess the general performance of the financial sector, the Bank uses 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.

The robustness of financial institutions to shocks to their balance sheet is determined by their capital adequacy. At the end of the third quarter of 2011, the capital-assets ratio increased to 10.8% from 10.6% at the end of the second quarter of 2011, well above the internationally acknowledged benchmark of 4.0%. This outcome is an indication that the capital stock of the domestic commercial banks remained relatively strong.

In addition to the amount of capital, asset quality also is monitored. A slight improvement was registered in the quality of the commercial banks' assets portfolio during the September quarter of 2011. The outstanding amount of nonperforming loans remained unchanged at the end of the third quarter of 2011 compared to the second quarter. An increase in provisions (4.4%) caused an increase in the ratio of provisions for loan losses-to-nonperforming loans. Similarly, an increase in loans extended (1.1%) caused a drop in the ratio of nonperforming loans-to-total loans to 7.4% at the end of the third quarter of 2011 (see Table 6).

⁶ The data analyzed are cumulative for QI – QIII.

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

	2010-III	2010-IV	2011-I	2011-II	2011-III
Capital adequacy					
Total capital/ total assets	10.3	10.8	10.3	10.6	10.8
Asset quality					
Non-performing loans/ total loans	5.8	5.9	7.2	7.5	7.4
Provisions for loan losses/ non-performing loans	50.0	53.4	41.2	39.7	41.4
Earnings					
Gross earnings-assets yield	5.7	5.6	5.6	5.6	5.5
Net interest margin	4.3	4.3	4.4	4.4	4.4
Return-on-assets	1.9	1.7	1.6	1.5	1.8
Liquidity					
Total loans/ total deposits	64.3	65.3	64.3	65.5	67.6

The lower profitability of the commercial banks also was reflected in most of the earnings indicators during the September quarter. The gross earnings-assets yield declined to 5.5% in the third quarter of 2011, down from 5.7% in the third quarter of 2010 because average outstanding earning assets increased (1.7%) while interest income dropped (0.4%). The return-on-assets ratio declined also, from 1.9% in 2010's third quarter to 1.8% in 2011's third quarter. This decline was 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 in the liquidity of the domestic banking sector, increased during the third quarter of 2011 as total deposits declined and loans extended increased. The upturn in this ratio reveals a drop in liquidity.

APPENDIX

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

	Curaçao				St. Maarten			
	2010-III		2011-III		2010-III		2011-III	
North America, of which:	41.2	(3.0)	27.5	(2.5)	-7.3	(-2.0)	-9.1	(-2.2)
-U.S.A.	41.7	(2.8)	29.6	(2.5)	-6.7	(-1.7)	-9.1	(-2.0)
Europe, of which:	9.6	(2.1)	6.0	(1.4)	-0.9	(-0.1)	-0.1	(0.0)
-The Netherlands	9.6	(1.8)	4.2	(0.8)	8.2	(0.2)	-6.5	(-0.1)
South & Central America, of which:	-31.8	(-3.6)	31.0	(4.5)	22.4	(0.4)	-3.6	(-0.1)
-Venezuela	-51.2	(-3.1)	45.4	(3.9)	-18.5	(-0.1)	-6.6	(0.0)
-Colombia	2.4	(0.0)	30.9	(0.3)	---	---	---	---
Caribbean, of which:	17.5	(1.1)	1.8	(0.1)	-12.5	(-0.4)	-4.1	(-0.1)
-Dominican Republic	-5.5	(0.0)	75.8	(0.5)	-23.7	(-0.1)	14.7	(0.1)
Total	-0.8	(-0.4)	15.4	(8.3)	-3.6	(-1.8)	-7.4	(-3.4)

Sources: Curaçao Tourist Board and Sint Maarten Tourist Bureau

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

	2010-II	2010-III	2010-IV	2011-I	2011-II	2011-III
Food	3.5	5.4	6.9	6.5	7.3	8.4
Beverages & tobacco	3.5	3.6	3.0	1.5	1.8	3.1
Clothing & footwear	-1.5	-1.3	-1.6	0.1	1.1	0.5
Housing	6.1	4.3	1.5	1.6	-0.1	0.8
Housekeeping & furnishings	0.6	0.8	0.8	1.6	1.4	1.1
Health	2.5	1.9	1.6	1.1	1.2	1.1
Transport & communication	3.8	0.8	1.5	1.4	0.3	4.5
Recreation & education	0.3	-0.4	-0.7	-0.3	-0.5	0.1
Other	2.5	1.9	1.2	1.1	1.0	1.5
General inflation rate	3.5	2.5	2.0	2.1	1.4	2.9

Source: Central Bureau of Statistics, Curaçao

⁷ Weighted growth rates between brackets.

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

	2010-II	2010-III	2010-IV	2011-I	2011-II	2011-III
Food	3.7	2.4	2.0	3.6	6.3	10.4
Beverages & tobacco	2.2	2.1	2.4	5.8	7.5	11.1
Clothing & footwear	0.4	0.6	0.1	-0.5	-0.4	2.2
Housing	6.7	3.9	2.4	2.9	6.1	5.7
Housekeeping & furnishings	0.8	0.8	0.6	0.7	2.1	5.1
Health	1.1	0.4	0.1	0.3	0.9	2.1
Transport & communication	1.9	0.4	0.3	3.6	5.3	5.6
Recreation & education	0.6	0.8	0.7	-0.1	1.0	2.0
Other	1.9	1.9	1.0	1.9	3.5	3.4
General inflation rate	3.7	2.2	1.4	2.5	4.7	5.6

Source: Department of Statistics, Sint Maarten

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

	2011-III*
Revenues	374.3
Tax revenues, of which:	338.7
Taxes on income and profits	166.7
Taxes on property	-
Taxes on goods and services	-
Taxes on international trade and transactions	-
Nontax and other revenues	35.6
Grants	-
Expenditures	399.7
Budget balance	-25.4

* The numbers shown are CBCS estimates.

- No data available.

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

	2009-III	2010-III	2011-III*
Taxes on income and profits, of which:	169.1	159.1	166.7
Profit tax	46.5	38.0	41.0
Wage tax	120.8	123.0	125.7
Taxes on property, of which:	15.7	16.5	-
Land tax	8.9	11.0	10.0
Property transfer tax	6.3	5.2	-
Taxes on goods and services, of which:	---	---	-
Sales tax	75.3	71.3	77.1
Excises, of which:	27.4	21.9	23.6
Excise on gasoline	17.6	11.6	-
Motor vehicle tax	6.7	5.4	-
Taxes on international trade and transactions, of which:	---	---	---
Import duties	40.9	43.0	47.1

* The numbers shown are CBCS estimates.

- No data available.

--- 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-III*
Revenues	103.9
Tax revenues, of which:	74.2
Taxes on income and profits	35.4
Taxes on property	2.9
Taxes on goods and services	35.9
Nontax and other revenues	29.8
Grants	0.0
 Expenditures	 -
 Budget balance	 -

* The numbers shown are preliminary.

- No data available.

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

	2009-III	2010-III	2011-III*
Taxes on income and profits, of which:	34.8	38.7	35.4
Profit tax	5.6	8.7	2.2
Wage tax	28.3	29.5	33.5
Taxes on property, of which:	7.4	5.2	2.9
Land tax	0.9	0.7	0.9
Property transfer tax	6.5	4.5	2.0
Taxes on goods and services, of which:	---	---	35.9
Turnover tax	18.5	21.4	26.7
Motor vehicle tax	0.2	0.9	0.2
Excise on gasoline	2.2	3.5	2.2

* 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 balance of payments (in millions NAf.)

	2009-III	2010-III	2011-III
Trade balance	-811.2	-894.8	-769.8
-Exports	350.4	353.3	514.3
-Imports	1,161.6	1,248.1	1,284.1
Services balance	371.5	364.6	356.9
Receipts, of which:	814.1	782.0	829.3
-Travel	397.5	455.3	423.9
-Transportation	74.2	83.1	76.8
-Other services, of which:	342.4	243.6	328.6
-Int. fin & bus. services sector	61.4	58.1	43.1
Expenses, of which:	442.6	417.4	472.4
-Travel	151.8	136.9	168.5
-Transportation	74.3	83.9	77.0
-Other services, of which:	216.5	196.6	226.9
-Int. fin & bus. services sector	31.4	29.9	21.7
Income balance ¹⁾	-44.1	-17.3	-29.8
Current transfers balance ²⁾	133.5	84.4	-47.5
Current account balance	-350.4	-463.1	-490.2
Capital & financial account balance	317.0	415.8	465.9
Capital account balance ³⁾	19.1	8.1	1.4
Financial account balance	297.9	407.7	464.5
Net errors & omissions	33.4	47.3	24.3

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-III	2010-III	2011-III
Direct investment	44.8	153.3	45.0
- Abroad ²⁾	-2.4	-5.8	-0.5
- In the monetary union ³⁾	47.2	159.1	45.5
Portfolio investment ²⁾	24.3	-188.4	103.9
Other investment, of which:	174.2	586.7	220.5
- Assets ²⁾	155.0	525.7	206.6
- Liabilities ³⁾	19.2	61.0	13.9
Net lending/borrowing, of which:	87.4	132.6	-8.1
- Assets ²⁾	-6.4	3.5	-51.8
- Liabilities ³⁾	93.8	129.1	43.7
Reserves ⁴⁾	-32.8	-276.5	103.2
Total assets ²⁾	137.7	58.5	361.4
Total liabilities ³⁾	160.2	349.2	103.1
Balance	297.9	407.7	464.5

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.)

	2011-II	2011-III	Change	
			Amount	Percentage
Currency in circulation	372.5	369.4	-3.1	-0.8%
Banks' demand deposits (current account)	503.9	448.6	-55.3	-11.0%
Monetary base (M0)	876.4	817.9	-58.5	-6.7%
Central bank assets				
Foreign assets (including gold)	3,260.7	3,378.2	117.5	3.6%
Claims on deposit money banks	9.9	8.8	-1.1	-11.3%
Claims on the government	0.1	0.1	0.0	9.0%
Claims on government agencies and institutions	516.4	494.8	-21.6	-4.2%
Fixed and other assets	101.3	99.7	-1.6	-1.6%
less:				
Central bank remaining liabilities				
Private sector deposits	248.5	215.3	-33.2	-13.4%
Banks' time deposits	546.3	660.3	114.0	20.9%
Government deposits	352.6	349.5	-3.1	-0.9%
Foreign liabilities	650.8	634.6	-16.2	-2.5%
Other liabilities	115.6	110.9	-4.7	-4.0%
Capital and reserves	1,098.2	1,192.9	94.7	8.6%

Table 13 Monetary survey (in millions NAf.)

	2011-II	2011-III
Money supply (M2)	7,287.3	7,237.7
Money (M1)	3,283.6	3,129.0
Coins & notes with the public	294.7	291.2
Total demand deposits, of which :	2,988.9	2,837.8
- Netherlands Antillean guilders	2,357.4	2,224.5
- Foreign currency	631.5	613.3
Near money	4,003.7	4,108.7
Time deposits	2,057.4	2,179.1
Savings	1,946.3	1,929.6
Factors affecting the money supply	7,287.3	7,237.7
Net domestic assets	2,752.8	2,751.8
Government sector	-797.5	-732.2
- Former central government	-109.7	-117.5
- Curacao	-462.6	-406.3
- Sint Maarten	-225.2	-208.4
Private sector	5,855.2	5,861.3
Memorandum items	-2,304.9	-2,377.3
Net foreign assets	4,534.5	4,485.9
Central bank	2,854.9	2,966.4
Commercial banks	1,679.6	1,519.5
Government loans by commercial banks	0.1	0.1
Government of Curaçao	0.0	0.0
Government of Sint Maarten	0.1	0.1
Private sector loans Curacao	3,749.6	3,759.0
- Mortgages	1,522.3	1,533.9
- Consumer loans	960.9	963.6
- Business loans	1,266.4	1,261.5
Private sector loans Sint Maarten	1,554.7	1,553.3
- Mortgages	636.3	647.2
- Consumer loans	379.8	382.1
- Business loans	538.6	524.0

Table 14 Developments in domestic interest rates (in %)

	2010-III	2010-IV	2011-I	2011-II	2011-III
Central bank					
- Pledging rate	1.0	1.0	1.0	1.0	1.0
- Maximum CD rate (1 month)	0.20	0.15	0.15	0.12	0.09
Commercial banks borrowing rates					
- Passbook savings	1.2	1.1	1.1	1.1	1.1
- Time deposit (12 months)	1.6	1.6	1.7	1.8	2.1
Commercial banks lending rates					
- Mortgages	6.7	6.6	7.1	7.1	7.3
- Time loans	9.3	8.9	8.6	8.4	8.4
Government securities					
- Government bonds (5-year effective yield)	3.3	2.4	2.9	2.6	1.5
- Treasury bills (1 month)	0.6	1.0	1.0	1.0	1.0

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

	2010-III	2010-IV	2011-I	2011-II	2011-III
Assets					
Non-interest-bearing cash	1,420.0	1,441.7	1,593.9	1,359.4	1,315.9
Interest-bearing cash	3,325.7	2,884.8	3,048.2	3,047.6	2,883.0
Investments	1,156.2	1,461.9	1,444.4	1,459.1	1,345.5
Loans	8,074.5	8,106.2	8,232.1	8,265.7	8,347.5
Investments in unconsolidated subsidiaries and affiliates	111.7	123.6	44.2	41.6	53.4
Fixed assets	314.1	333.8	388.9	338.7	345.4
Other assets	284.0	295.5	265.4	310.7	313.0
Total assets	14,686.2	14,647.6	15,017.1	14,822.8	14,603.7
Liabilities					
Demand deposits	5,507.1	5,215.6	5,742.3	5,846.1	5,637.4
Savings deposits	4,040.8	4,211.8	4,233.7	4,109.5	4,078.3
Time deposits	3,126.6	3,105.8	2,998.7	2,781.9	2,745.2
Total deposits	12,674.5	12,533.2	12,974.7	12,737.5	12,460.9
Borrowings	68.8	99.5	74.5	43.0	28.4
Other liabilities	430.1	427.6	410.7	442.4	513.7
Total liabilities	13,173.4	13,060.3	13,460.0	13,222.9	13,003.0
Minority interest	9.6	9.3	10.3	10.1	10.8
Subordinated debentures	0.0	0.0	0.0	0.0	0.0
General provisions	241.4	266.4	255.8	257.5	274.4
Capital & reserves	1,261.8	1,311.5	1,291.1	1,332.3	1,315.5
Total capital	1,512.8	1,587.2	1,557.1	1,599.9	1,600.7
Total liabilities and capital	14,686.2	14,647.6	15,017.1	14,822.8	14,603.7

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

	2010-III	2010-IV	2011-I	2011-II	2011-III
Interest income	570.9	713.9	193.8	382.4	570.6
Interest expenses	132.7	164.0	40.2	77.7	114.9
Net interest income	438.2	549.9	153.7	304.8	455.7
Other income	207.4	274.2	80.3	146.8	226.6
Total operational income	645.5	824.2	233.9	451.6	682.3
Salaries & other employee expenses	239.8	308.6	85.8	171.1	255.2
Occupancy expenses	73.1	95.1	26.5	52.0	77.9
Other operating expenses	103.0	132.2	39.6	76.6	118.2
Net addition to general provisions	32.7	69.6	14.9	32.6	50.5
Total operational expenses	448.6	605.6	166.7	332.3	501.8
Net operating income	196.9	218.6	67.2	119.3	180.4
Net extraordinary items	20.4	36.0	4.3	6.1	-15.4
Applicable profit taxes	43.7	42.4	13.3	22.5	35.2
Net income after taxes	173.6	212.2	58.2	102.9	129.8