



QUARTERLY BULLETIN 2012-1

Centrale Bank van Curacao en Sint Maarten

REPORT OF THE PRESIDENT

During the first quarter of 2012, economic developments in the advanced economies were mixed. Compared to the first quarter of 2011, output expanded at a faster pace in the United States, while the Euro area posted zero growth. Meanwhile, economic activities in the major emerging economies slowed down. Amid these developments, real GDP in Curaçao contracted by 0.9% in the first quarter of 2012, compared to a decline of 0.4% in the first quarter of 2011. The economic contraction was accompanied by a quarterly inflation rate of 3.3%, an acceleration compared to the 2.1% inflation rate recorded in the March quarter of 2011. Furthermore, the annualized inflation rate climbed to 2.6%. The higher inflation rate was caused mainly by the higher oil prices and the increase of the turnover tax rate from 5% to 6% in January 2012.

In Sint Maarten, indicators of private sector activity indicate improved economic performance for the first quarter of 2012, backed primarily by increased activities in the tourism and transportation sectors. Sint Maarten's quarterly inflation rate peaked at 5.8% during the March quarter of 2012, compared to 2.5% in the March quarter of 2011. Moreover, the annualized inflation rate accelerated to 5.4%. The increased inflationary pressures were the result of rising international oil prices and the higher turnover tax rate in Sint Maarten.

The economic contraction in Curaçao during the March quarter of 2012 was attributable to lower domestic demand. In contrast, net foreign demand expanded, albeit at a slower pace than in the first quarter of 2011. Domestic demand dropped because of a decline in public expenditures. The latter decrease was the result of a decline in public investment, mitigated by a growth in public consumption. Meanwhile, private demand remained stable as the rise in private investment was offset by lower consumer spending.

Sectoral data reveal that the decline in real GDP in Curaçao was due to a contraction in the public sector. Meanwhile, economic activities in the private sector remained flat as real value added in the financial services sector dropped, while the other sectors registered growth. Activities in the financial services sector shrank because of declines in both the domestic banking sector and the international financial services industry.

In contrast, the transport, storage & communication sector performed well, owing to, among other things, increased air transportation and airport-related activities. Air transportation activities rose as the domestic airlines transported more passengers. Meanwhile, airport-related activities expanded reflecting increased stay-over arrivals. The harbor in Curacao also recorded positive results because of a growth in the number of ships piloted into the port, more cargo movements, and increased oil storage activities. Moreover, investment spending in the telecommunication sector increased during the first quarter of 2012.

Activities increased in the hotels & restaurants sector reflecting gains in both stay-over and cruise tourism. Stay-over tourism recorded growth in all markets, but in particular in the European and South American market segments. The latter growth was the result of increased airlift from Europe and more marketing efforts in South America. Meanwhile, the utility sector registered positive results because of increased investment activities. In addition, real value added in the construction sector increased, reflecting increased mortgages extended.

Output growth in the wholesale and retail trade sector slowed down during the first quarter of 2012 because of weaker consumer spending. However, this slowdown was mitigated by increased tourism activities and more re-export by the free-zone companies in Curaçao. In the manufacturing sector, output growth also decelerated because activities in the refinery rose at a

slower pace than in the first quarter of 2011. Moreover ship repair activities dropped, as indicated by the number of man-hours sold.

In Sint Maarten, the hotels and restaurants sector performed well during the first quarter of 2012 driven mainly by a growth in stay-over arrivals. In particular, the number of stay-over tourists from the United States increased as the time-share capacity was back to normal after the reopening of the Simpson Bay Resort. Cruise tourism recorded growth as well.

Meanwhile, the utility sector posted some mixed results as electricity and water production rose, and electricity consumption dropped. The transport, storage and communication sector also showed mixed results. On the one hand, airport-related activities rose in line with the growth in stay-over tourism. Also, the harbor performed well reflecting increases in the number of ships piloted into the port and container movements. However, air transportation activities contracted because of a drop in the number of passengers transported by the domestic airlines. Activities in the construction sector rose, reflecting slight increases in the number of mortgages extended and the number of residential permits requested.

Similar to the previous quarters, the need for the provision of complete, accurate and timely statistics for the public finances remains an issue for both Curaçao and Sint Maarten. According to the available data, the government of Curaçao recorded a budget surplus of NAf.33.0 million on an accrual basis during the first quarter of 2012. Government revenues rose compared to the March quarter of 2011, reflecting an increase in most tax categories. However, revenues from tax on goods and services dropped due to a 25% cut in the excise levied on gasoline. Moreover, only a small fraction of these excises was transferred to the government by the public enterprise that collects them. Total expenditures also rose, due mainly to increased subsidies and transfers reflecting higher health care-related outlays and more transfers to private households.

An analysis of the available government data of Sint Maarten reveals a budget surplus of NAf.32.6 million in the first quarter of 2012. The growth in government revenues was due mainly to higher proceeds from the turnover tax because of the increase of the tax rate from 3% to 5% in February 2011. Government expenditures also grew but at a slower pace than revenues. Unfortunately, a breakdown of expenditures was not yet available.

The balance of payments recorded a surplus in the first quarter of 2012, albeit smaller than in the first quarter of 2011, resulting in an increase in our international reserves. The current account deficit declined as a result of an increase in net exports of goods and services combined with an improvement in the current transfers balance. The latter improvement was the result of a decline in current transfers paid to abroad. Net exports of goods and services increased as the rise in exports exceeded the increase in imports. Exports rose because of increased re-exports by the free-zone companies in Curaçao, more tourism activities in both Curaçao and Sint Maarten, and more foreign exchange earnings from transportation activities. Also, payments received for refining operations in Curaçao expanded. Meanwhile, merchandise imports increased because of, among other things, investments in the utility sector. Higher international oil prices also fueled the import bill.

As a result of the current account deficit, net foreign wealth of the private sector dropped during the first quarter of 2012. The change in external financing resulted from, among other things, a growth in net direct investments received from abroad, which reflected mainly increased liabilities of domestic companies with their foreign affiliates. Also, net trade credits received on imports rose. Furthermore, institutional investors did not reinvest all of the matured foreign debt securities, while foreign investors invested more in local equity.

The money supply grew in the first quarter of 2012, driven by increases in both net foreign assets and net domestic assets. Net foreign assets expanded as a result of the surplus on the balance of payments. Meanwhile, the growth in net domestic assets stemmed from increased net credit extended to the private sector reflecting more mortgages and business loans extended in Curaçao and more consumer loans extended in Sint Maarten. In contrast, net credit extended to the governments dropped.

The monetary policy stance of the Bank during the first quarter of 2012 was aimed at tightening the surplus in the money market. Consequently, the percentage of the reserve requirement was raised by 0.25 percentage point in January reaching 10.75%. However, given the amount of excess liquidity in the money market, raising the reserve requirement percentage alone was not effective in containing credit growth. Therefore, given the situation on the current account of the balance of payments and the fact that the growth in private credit extension was exceeding economic growth, the Bank introduced a temporary freeze on private credit extension in February 2012. The other monetary policy instrument of the Bank, the auctioning of Certificates of Deposit (CDs), was not actively deployed. During the biweekly auctions of CDs, the Bank aimed only at the refinancing of maturing CDs. Moreover, the Bank's official lending rate remained at 1.00%.

The credit freeze is a measure that can alleviate the situation on the balance of payments only in the short term. Therefore, government measures, in particular structural reforms, are necessary to improve the balance of payments in a sustainable way. On several occasions, the Bank has indicated that in this context, the governments should strengthen the current economic pillars and promote new foreign exchange-generating activities. Also, our investment climate must be improved to attract more foreign direct investments into our economy.

The improvement of our balance of payments should be prominent on the governments' policy agendas. Without the appropriate measures, the balance of payments will be subject to considerable pressures by 2019 stemming from three developments. First, the Dutch government is currently repaying maturing debt securities taken over from the former entities of the Netherlands Antilles as part of the debt relief program, resulting in an inflow of foreign exchange. However, by 2019, all debt securities of the former Netherlands Antilles will have matured, while the bonds that Curaçao and Sint Maarten issued in October 2010 to conclude the debt relief, and that were bought mostly by the Dutch State, will start maturing. This turnaround will result in a considerable outflow of foreign exchange, thereby reducing our foreign exchange position.

Without the proper measures, a second important development in 2019 will negatively impact the current account of our balance of payments. That development is the expiration of the lease agreement between PDVSA and the Refineria di Korsou. The refinery operations in Curaçao are an important contributor to our monetary union's foreign reserves. Without viable alternatives, an eventual closing will also bring its pressure to bear on the balance of payments.

And third, the grandfather clause that currently is applicable for the international financial services sector will expire in 2019, putting an end to the low tax advantages offered to foreign clients. Therefore, new strategies must be developed to maintain and expand this important foreign exchange-generating sector.

Most of these decisions concern the country of Curaçao. Sint Maarten, on the other hand, should focus its economic strategy on diversifying the economy. Currently, the country depends almost

solely on the tourism industry. Economic developments in past years clearly indicate how vulnerable this sector is to international developments affecting economic performance. If we want to maintain our exchange rate peg and at the same time stimulate sustainable economic growth, crucial decisions must be taken soon to underpin both countries' decisiveness to address these primary challenges effectively for a better future for us all.

To bring the economy on a higher sustainable growth path, fiscal consolidation and structural measures are indispensable. In addition, the social security and health care system needs to be overhauled to enable those Funds to meet their long term commitments to their participants. However, current political developments in Curaçao has brought the functioning of the government virtually to a halt and cast a dark cloud on the investment climate. The uncertainty created by these developments will make investors reticent, hampering economic recovery. It is therefore of utmost importance that a lasting solution be reached soon to create the necessary environment conducive to growth.

E.D. Tromp
President

INTERNATIONAL ECONOMIC DEVELOPMENTS

In the first three months of 2012, the U.S. economy grew by 2.4%, once again backed primarily by increases in consumer spending and nonresidential fixed investment. Consumer spending benefited from easier access to credit and an improvement in the labor market, as the jobless rate declined to 8.2% in March 2012. Much of the hiring occurred in the private sector, while government jobs remained a drag. Consumers spent more on durable goods, like automobiles, following a restriction in supply after last year's earthquake and tsunami in Japan. Business spending also rose, as companies continued investing in equipment and software. By contrast, the cutback in both federal and state government outlays moderated the increase in private spending. The trade deficit narrowed slightly by 0.3% to US\$416 billion, as the growth of exports outpaced the import of goods & services. Higher petrol prices were largely responsible for the 3.3% inflation rate in the March quarter of 2012. Despite the higher inflation, the Federal Reserve kept the Fed funds rate at the same historical low levels of December 2008, to spur the weak recovery.

Table 1 Selected indicators of various countries

| | United States | | Netherlands | | Venezuela | |
|-----------------------|---------------|--------|-------------|--------|-----------|--------|
| | 2011-I | 2012-I | 2011-I | 2012-I | 2011-I | 2012-I |
| Real GDP (% change) | 1.8 | 2.4 | 2.7 | -1.1 | 4.8 | 5.6 |
| Consumer prices (%) | 1.6 | 3.3 | 1.9 | 2.5 | 28.2 | 25.3 |
| Unemployment rate (%) | 8.9 | 8.2 | 4.2* | 5.0* | 8.6 | 7.9 |

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

* International definition

Following growth in the first quarter of 2011, the Netherlands posted an economic contraction of 1.1% in the period January through March 2012. This contraction stemmed from a decrease in domestic demand because of lower private and public spending. Private consumption shrank further as consumers spent less on automobiles and home furnishings. The decline in the number of government workers and teachers led to a drop in public spending. Fewer gross fixed investments translated into less construction investment activity. The weak nature of domestic demand was reflected in the poor development in the labor market, with higher unemployment (5.0%). Nevertheless, the gloomy first-quarter GDP results in the Netherlands were mitigated by increasing export activities, related mostly to re-exports. On the production side, fewer activities in the construction, manufacturing, and business services sectors were the main reason for the decline in overall economic output. In the March quarter of 2012, consumers had to pay more for health insurance premiums, utilities, and petrol, resulting in a higher inflation of 2.5%, above the EU average.

The Venezuelan economy accelerated to 5.6% in the January-March quarter of 2012, the highest since 2008's second quarter. The first-quarter GDP gain was backed by the non-oil sector, mainly in construction, trade, and financial services. To boost the president's campaign for re-election in October 2012, the socialist government spent heavily on infrastructure and welfare programs, which were financed mostly by oil revenues. Hence, the construction boom was due partly to the massive state housing projects, related to the president's re-election strategy. This strategy also included raising imports to allow the government to stock subsidized state-run food markets with cheap goods to ease the inflation increase. Moreover, the initial price freeze of 19 key goods in December 2011 took effect in the first three months of 2012, leading to a lower inflation of 25.3%. To avoid any political unrest triggered by adjustments prior to October's election, the government is trying to keep a strong exchange rate simultaneously with an expansionary fiscal policy. However, the weaker oil exports and rising imports are putting a strain on the local

currency, which is pegged at 4.3 bolivars against the US\$ for priority imports and 5.3 bolivars in a central bank-administered currency market. With import demand growing at a much faster pace than exports, the current account surplus narrowed by 7.0% to US\$7.1 billion in 2012's first quarter. The economic growth translated into more employment, as the jobless rate dropped to 7.9% in March of 2012.

GENERAL ECONOMIC DEVELOPMENTS IN CURAÇAO

Since late 2010, the government of Curaçao has had ongoing difficulties providing complete, consistent, and reliable data. These difficulties have hindered the estimation of the public sector's contribution to Curaçao's economy. Throughout the months January-March 2012, the economy of Curaçao is estimated to have shrunk further by 0.9%, after a drop of 0.4%¹ in the first quarter of 2011. This overall gloomy performance was caused by a decline in domestic demand, which outbalanced the slower pace of growth in net foreign demand. Indicators in the private sector showed that economic activities were flat, while the available government sector data negatively influenced the GDP results. Along with the economic contraction was a higher inflation of 3.3%, led by rising oil prices and an increase in the turnover tax rate from 5% to 6% on January 1, 2012.

In the March quarter of 2012, private demand once again was unable to counterweigh the decline in public demand, resulting in a contraction in domestic demand. The flat private demand was the result of lower consumer spending offsetting the gain in investment activities. The slump in private consumption was reflected in the decline in consumer loans and fewer activities in the retail trade sector. Meanwhile, private investments grew marginally, supported by a growth in business loans.

In comparison to the first quarter of 2011, foreign trade no longer had a notable effect on GDP. Exports expanded, due to more activities in tourism, the oil refinery, and the free zone during the first three months of 2012, but at a slower pace because of weaker growth in the oil refinery. In 2011's first quarter, oil refining activities soared when the refinery became operational again, following an extended shutdown since March 2010. Beside a weaker export activity, imports of goods & services rose further, exerting a drag on net export growth. The expansion in imports was linked mainly to investments in the utility and communication sectors along with the rising oil prices. Nevertheless, the drop in private consumption as well as free-zone imports lessened the gain in merchandise imports. World oil prices rose on average by about 13%² in the three months to March 2012, a considerable moderation compared to the first quarter of 2011.

¹ First-quarter GDP figures for 2011 have been revised to -0.4%, down from a previously estimated zero growth. These GDP estimates are based on more recent data. The downward revision at the sectoral level was in the public sector, outbalancing the upward revisions in the manufacturing, construction, wholesale & retail trade, and the financial services sectors.

² International Financial Statistics (IFS), IMF.

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

| | 2011-I | 2012-I |
|------------------------------------|--------|--------|
| Domestic expenditure, of which: | -2.0 | -0.2 |
| Private sector | 0.9 | 0.0 |
| - Investment | 0.1 | 0.2 |
| - Consumption | 0.8 | -0.2 |
| Government sector | -2.9 | -0.2 |
| - Investment | 0.0 | -0.3 |
| - Consumption | -2.9 | 0.1 |
| Changes in inventory | 0.8 | -0.8 |
| Foreign net expenditure, of which: | 0.8 | 0.1 |
| Export of goods and services | 2.2 | 2.0 |
| Import of goods and services | 1.4 | 1.9 |
| | | |
| GDP | -0.4 | -0.9 |
| Net primary income | -0.4 | 1.1 |
| Gross national income | -0.8 | 0.2 |
| Net current transfers from abroad | -4.9 | -3.3 |
| Gross national disposable income | -5.7 | -3.1 |

CBCS estimates

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

Domestic production

In the first three months of 2012, the negative economic outturn was due to a contraction in the public sector, while private sector development was flat. Economic activities in the private sector were negatively impacted by the decline in the financial services sector, offsetting the increase in the other sectors. The financial services sector suffered another setback, with a decrease of 4.7% in value added, as both domestic financial services and the international segment experienced downturns (see Table 3). With lower income earned and higher expenses, the domestic commercial banks saw their net income drop. The negative outcome in the international financial services sector was the result of decreases in wages & salaries and other operational expenses.

In contrast with the financial services sector, the transport, storage & communication and restaurants & hotels sectors dampened the drop in overall output. Transport, storage & communication received a boost from increases in air transportation, airport-related activities, harbor activities, storage, and communication. More airlift and larger aircrafts led to a considerable increase in the number of passengers transported by domestic airlines, raising the output in air transportation. In addition, airport-related activities were up, corresponding with the growth in stay-over tourism. Harbor activities expanded as more ships were piloted and more cargo was handled, the latter stemming mainly from more transshipment activities. The rise in transshipment was related to problems in the main harbor of Venezuela, creating the rerouting of cargo ships to Curacao. The significant gain in oil storage activities was related to the upgrading and expansion of the oil storage facilities at the port of Bullenbaai. Another factor boosting transport, storage, & communication was the higher investment spending by the communication sector.

Table 3 GDP by sector (real percentage changes)

| Sector | 2011-I | 2012-I |
|--|--------|--------|
| Agriculture, fishery, & mining | -5.4 | 5.7 |
| Manufacturing | 7.8 | 0.9 |
| Electricity, gas, & water | -1.2 | 2.2 |
| Construction | -2.7 | 1.4 |
| Wholesale & retail trade | 3.7 | 0.8 |
| Restaurants & hotels | 5.3 | 4.6 |
| Transport, storage, & communication | 2.5 | 5.5 |
| Financial intermediation | -2.5 | -4.7 |
| Real estate, renting, & business activity | -2.5 | -0.2 |
| Other community, social, & personal services | 1.4 | 2.8 |
| Private households | 1.1 | 0.6 |
| Total private sector | 0.5 | 0.2 |
| Public sector | -0.2 | -0.2 |
| Taxes minus subsidies | -0.7 | -0.9 |
| GDP | -0.4 | -0.9 |

CBCS estimates

Activity indicators suggest a growth in the hotels & restaurants sector, reflected by more tourist arrivals in the three months to March 2012 compared to the first quarter of 2011. Tourist activities in Curaçao registered an encouraging picture. The number of stay-over tourists expanded by 11.4%, reflected by a rise in arrivals from all markets. Gains from the European and the South American tourist markets were the mainstay of the robust growth in stay-over tourism. Tourist arrivals from South America soared, driven largely by the vast increase in the number of Venezuelan visitors (41.3%), mainly credited to major marketing efforts begun in 2010. The rise in the number of European travelers was related partly to the weekly flights from Düsseldorf, Germany, by Air Berlin that began in November 2011. After growing rapidly in the first quarter of 2011, the North American market reported a slower pace of growth in 2012's first quarter, owing to a slight contraction in the number of U.S. travelers. As of January 1, 2012, Continental Airlines temporarily ceased its bi-weekly flights from Newark, New Jersey. Meanwhile, Air Canada launched a weekly flight from Toronto in December 2011, resulting in more Canadian arrivals, outweighing the decline in the U.S. market. Higher stay-over tourist arrivals were combined with more time spent on the island. The number of visitor nights grew by 12.1%, albeit at a weaker rate than in the first quarter of 2011. Alongside the propitious stay-over tourism results, the number of cruise passenger arrivals continued to rise by 16.2% in the quarter ending March 2012. See Table 7 in the appendix for more details.

Also, the expansion in the utility sector impacted positively the private sector's performance, owing to a rise in investment activities related to the construction of the windmill park at Playa Kanoa. In contrast to the decline observed in the first quarter of 2011, construction output went up by 1.4% backed by a growth in mortgages extended.

In the three months to March 2012, the manufacturing sector grew at a sluggish pace of 0.9%. This weak growth reflected the normal activity level following the extended shutdown in 2010. The refinery's operational expenses, i.e., contract payments and own fuel use were up, but at a

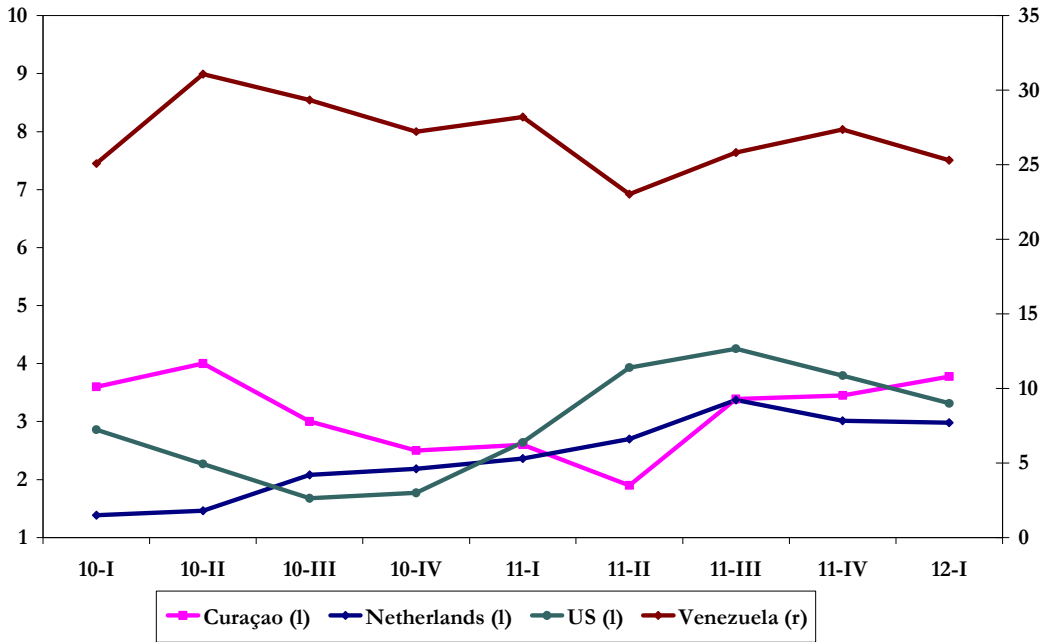
slower pace than in 2011. Meanwhile, the marked drop in the number of man-hours sold suggests fewer activities in the ship repair sector, contributing negatively to manufacturing activities.

Real value added in the wholesale & retail trade sector eased to 0.8% in the first quarter of 2012. This weakening was caused by a slowdown in private spending, resulting largely from weaker consumer spending, despite more tourism activities. With a muted gain in merchandise imports, but a sharp increase in re-export activities, the free-zone enterprises may have depleted their inventories. The positive performance in the free zone was accompanied by a 2.8% increase in the number of free-zone visits, owing mostly to the South & Central American market.

Inflation

An analysis of price developments on a quarterly basis indicates that Curaçao’s inflation rate was 3.3% in the first quarter of 2012, up from 2.1% in the first quarter of 2011. The upward price trend was determined by both external and internal factors, the main factors being higher oil prices and the increase in the turnover tax rate from 5% to 6% on January 1, 2012. Since the third quarter of 2011, Curaçao’s inflation rate has not been moving in line with the inflation rate of its main trading partners (see Graph 1). One reason may be the adjustment of oil product prices in the third quarter of 2011 after being unchanged for more than a year. As of July 2011, the government started adjusting domestic prices of oil products on a monthly basis in accordance with global oil price developments with a time lag of 2 months.

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



Almost all CPI components were up, while “beverages & tobacco” and “transport & communication” experienced the fastest price gains of 5.8% and 5.3%, respectively. Beverage prices were the key factor for the price rise in the category “beverages & tobacco.” Transportation became more expensive because of higher petrol and diesel prices. In addition, the price surge in the food groups “meat & fish products” (9.0%) and “fresh produce” (6.9%) pushed up food prices. See Table 8a in the appendix for a detailed overview.

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 – 2012, it is not possible to estimate the real GDP growth rate for Sint Maarten for the first quarter of 2012. Using the available indicators, analysis of the main developments in the major sectors of the Sint Maarten economy for the March quarter of 2012 is presented in this section.

In contrast with 2011's first quarter, the hotels & restaurants sector was positively impacted by a growth in stay-over tourist arrivals (10.2%) in Sint Maarten in the first quarter of 2012. With the exception of the South American market, all tourist markets recorded an upturn, but the rise in Sint Maarten's main market, i.e., the United States, was primarily responsible for the encouraging outturn. The U.S. market accounts for approximately 75% of the timeshare visitors and 50% of the total stay-over tourist arrivals. The stay-over tourism industry suffered a setback from the closure of the Pelican Resort Club in the first half of 2011. By the March quarter of 2012, however, the level of activity of its successor, the Simpson Bay Resort, had more or less returned to normal. In line with the buoyant stay-over tourism developments, the hotel occupancy rate expanded by 14.5 percentage points to 77.7%. After a robust outcome in the first quarter of 2011, the number of cruise tourists rose further by 11.3% in the first quarter of 2012. See Table 8b in the appendix for more details.

During 2012's first quarter, the results of the utility sector were mixed--the production of water and electricity were up, while electricity consumption dropped. In addition, the transport, storage & communication sector showed a mixed picture. In the air transportation industry, the number of passengers transported by domestic airlines fell, but the drop was mitigated by increased airport-related activities. Total passenger traffic at the airport grew, corresponding with the revival in stay-over tourism. The harbor also saw an upturn, as more vessels were piloted, led by a growth in cruise ship numbers. As opposed to the March quarter of 2011, container movements rose in 2012's first quarter.

The slight increase in mortgages extended may have given some impetus to construction sector investments in the three months ending March 2012. Also, the number of requests for residential building permits rose, indicating more construction investment spending in the near term. The performance of the financial services sector was relatively subdued, contrasting with the contraction during the first three months of 2011.

Inflation

Throughout the months January-March 2012, the price climate in Sint Maarten worsened considerably, as food and energy prices increased sharply. First-quarter inflation of 5.8% was fueled by rising world oil prices and the higher turnover tax rate. On February 11, 2011, the turnover tax rate was raised from 3.0% to 5.0%. Almost all CPI components posted an increase, but the most significant price gains occurred in the categories "food" (15.5%), "beverages & tobacco" (11.1%), "clothing & footwear" (6.8%), and "housekeeping & furnishings" (7.4%). Also, higher electricity and cooking gas prices were accountable for the rise in "housing" (4.7%), which represents about 40% of the goods basket. See Table 8B in the appendix for a detailed overview.

DEVELOPMENTS IN PUBLIC FINANCE

Public finances of Curaçao

Public sector developments in 2012's first quarter must be seen in the light of the ongoing transformation of the old two-layer government system into an administrative structure befitting Curaçao's autonomous-country status. Similar to 2011, the dissemination of government statistics was an issue during the first few months of 2012. Consequently, this analysis is based on incomplete and preliminary government figures of 2011's and 2012's first quarter.³

According to the available data, the government of Curaçao ran a NAf.33.0 million surplus on an accrual basis in the March quarter of 2012. A more detailed analysis of the finances of Curaçao's government shows that total revenues rose slightly compared to the first quarter of 2011. This rise can be ascribed to an increase in tax revenues, led by a growth in revenues from profit tax and sales tax. As of January 1, 2012, the applicable sales tax rate was increased from 5% to 6%, resulting in a rise in this tax category. However, the increase in tax revenues was mitigated by a sharp decline in taxes on goods and services. The decline in the latter category was due first to a 25% cut in the excise levied on each liter of gasoline, which was implemented by the government in July 2011.⁴ Second, only a small fraction of the total gasoline excise proceeds in 2012's first quarter was actually transferred to the government by the public enterprise that collects these excises. The total quantity of gasoline sold in the first quarter of 2012 remained stable compared to 2011's first quarter. On the expenditure side, the available data reveal that current expenditures in almost all categories increased during 2012's first quarter. The current expenditure categories that increased the most were subsidies and transfers as a result of higher health care-related outlays and higher transfers to private households. Capital expenditures, in turn, showed a downturn compared to 2011's opening quarter. See Tables 9A and 9B in the appendix for an overview.

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

| | 2011-I | 2012-I |
|---------------------------------------|--------|--------|
| Monetary financing | -209.0 | -35.6 |
| Central bank | -6.2 | -25.1 |
| Commercial banks | -202.7 | -10.5 |
| Nonmonetary financing | 84.8 | 2.6 |
| Government securities with the public | 0.0 | 0.0 |
| Other | 84.8 | 2.6 |
| Cash balance | 124.1 | 33.0 |

The government of Curaçao used its surplus in the first quarter of 2012 to replenish its accounts with the banking sector, causing an overall drop in its monetary financing. By contrast, Curaçao's nonmonetary financing increased slightly due to more liabilities incurred with other creditors (see Table 4A).

³ All 2011 data are subject to revision, as the draft annual account 2011 contains data not included in the previously published quarterly financial management reports of the government. Since the revised 2011 data are not yet available on a quarterly basis, these data could not be used in this analysis.

⁴ On July 5, 2011, the applicable excise on gasoline of NAf.0.6300 per liter was reduced to NAf.0.4725 per liter.

Public sector debt of Curaçao

Due to a lack of data about Curaçao's public debt, the country's public debt-to-GDP ratio at the end of the March quarter of 2012 could not be determined.

Public finances of Sint Maarten

Since Sint Maarten obtained its autonomous country status, the government's main objective has been to set up the public institutional infrastructure required to function effectively on its own. So far, getting the annual government budget signed into law before the end of the preceding year has proven a recurring stumbling block for Sint Maarten. Similar to the two previous years, the 2012 government budget was not signed into law until a few months into the year. The dissemination of government statistics also remained an issue during the opening months of 2012, making it all but impossible to quantify the developments in Sint Maarten's economy. As a result, this analysis is based only on the data that could be obtained for the January-March period of 2012.

The government of Sint Maarten registered a surplus of NAf.32.6 million in the first quarter of 2012 (see Tables 9C and 9D in the appendix for an overview). A comparison with the revenues generated in 2011's first quarter reveals fairly stable levels in all tax categories except the turnover tax, which showed a significant upturn. Turnover tax revenues increased because the tax rate was increased from 3% to 5% on February 11, 2011. However, the higher rate was not applicable in the entire first quarter of 2011, as opposed to 2012's first quarter. No data on Sint Maarten's expenditures have been released for the opening quarter of 2012 and, therefore, this quarter could not be analyzed.

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

| | 2011-I | 2012-I |
|---------------------------------------|--------|--------|
| Monetary financing | -4.4 | -0.2 |
| Central bank | 0.0 | 0.0 |
| Commercial banks | -4.4 | -0.2 |
| Nonmonetary financing | -13.6 | -32.4 |
| Government securities with the public | 0.0 | 0.0 |
| Other | -13.6 | -32.4 |
| Cash balance | 18.0 | 32.6 |

During the March quarter of 2012, the surplus of Sint Maarten's public sector was used mainly to reduce its liabilities with the nonmonetary sector. The government of Sint Maarten also reduced its monetary financing during this period by replenishing its commercial bank accounts (see Table 4B).

Public sector debt of Sint Maarten

Sint Maarten's outstanding public debt at the end of March 2012 could not be established due to lack of data.

DEVELOPMENTS IN THE BALANCE OF PAYMENTS OF THE MONETARY UNION

In the first quarter of 2012, the current account of the balance of payments of the monetary union recorded a deficit of NAf.198.9 million, compared with a deficit of NAf.272.2 million in the first quarter of 2011. The decline was caused largely by a significant improvement of the services balance, offset partly by a deterioration in the net exports of goods. Since the current account deficit dropped, the combined capital and financial account worsened less than in the first quarter of 2011 (see Table 5).

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

| | 2010-I | 2011-I | 2012-I |
|---|--------|--------|--------|
| Current account | -34.4 | -272.2 | -198.9 |
| Capital transfers | 88.9 | 34.0 | 28.2 |
| External financing of the government | 0.5 | 0.0 | -2.7 |
| External financing of the private sector | 183.5 | 319.4 | 139.2 |
| - Direct investment | 12.9 | 34.3 | 85.4 |
| - Loans and credits | 172.9 | 244.6 | -96.2 |
| - Portfolio investments | -2.3 | 40.6 | 149.9 |
| Change in net foreign assets of the banking system *) | -281.9 | -133.9 | -19.6 |
| - with central bank | -7.5 | -2.1 | 42.8 |
| - with commercial banks | -274.4 | -131.8 | -62.4 |
| Statistical discrepancies | 42.7 | 52.6 | 53.7 |

*) a minus sign implies an increase

Current account

Net exports of goods and services in the monetary union increased by NAf.78.9 million during the first quarter of 2012 compared to the first quarter of 2011 as a result of an increase in exports (NAf.225.8 million) mitigated by a growth in imports (NAf.146.9 million). An analysis of the development in net exports of goods and services in Curaçao and Sint Maarten follows.⁵

Developments in the net exports of goods and services in Curaçao

In Curaçao, net exports of goods and services remained fairly stable during the first quarter of 2012 compared to the first quarter of 2011 as the increase in imports (NAf.134.3 million) was slightly outweighed by the growth in exports (NAf.138.7 million). The growth in exports was related to, among other things, a sharp increase in the re-exports by the free-zone companies (NAf.45.8 million). In addition, foreign exchange revenues from tourism rose significantly (NAf.52.1 million), the result of an increase in both stay-over and cruise tourism by 25.3% and 20.9% respectively. The higher tourism revenues were accompanied by a growth in foreign exchange receipts from the transportation sector. Exports expanded further due to an increase in the refining fee in the first quarter of 2012 compared to the first quarter of 2011.

Imports of goods and services rose largely as a result of a growth in merchandise imports caused by, among other things, the construction of a new windmill park. Furthermore, oil imports increased due to higher international oil prices during the first quarter of 2012 compared to the

⁵ The current account of the monetary union is not equal to the sum of the current accounts of Curaçao and Sint Maarten because of the transactions between the two countries.

first quarter of 2011. Free-zone imports remained fairly stable. Hence, inventories held by the free-zone companies dropped as re-exports by these companies increased strongly.

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

In Sint Maarten, net foreign demand surged by NAf.88.6 million during the first quarter of 2012 compared to 2011's first quarter, as the increase in imports (NAf.10.5 million) was largely outweighed by the rise in exports (NAf.99.1 million), which was related mostly to increased foreign exchange revenues from the tourism sector. These revenues increased by NAf.93.8 million as a result of increased revenues from stay-over tourism (NAf.60.5 million) and cruise tourism (NAf.33.3 million). The import of goods and services rose slightly, reflecting mainly an increase in oil imports related to higher international prices.

Developments in the income balance and current transfers balance

The income balance of the monetary union deteriorated by NAf.29.6 million during the first quarter of 2012 due largely to a decline in dividends received. In contrast, the current transfers balance improved by NAf.24.2 million, reflecting mainly a decline in current transfers paid to abroad. Overall, the deficit on the current account declined by NAf.73.3 million reaching NAf.198.9 million in the first quarter of 2011. For a detailed overview, see Table 10 in the appendix.

Financing of the current account balance

In line with the deficit on the current account, the net foreign wealth of the private sector dropped by NAf.139.2 million in the first quarter of 2012. This change in the external financing of the private sector was due mainly to a deterioration of the portfolio investment balance. In contrast, the loans and credits balance improved.

Net direct investments into the currency union expanded by NAf.85.4 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 in both countries by nonresidents.

The portfolio investment balance deteriorated by NAf.149.9 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 reinforced by an expansion in investments in local equity by foreign investors.

The loans and credits balance improved by NAf.96.2 million, reflecting mainly the issue of debt securities for new investments in the harbor of Sint Maarten and the refinancing of a foreign loan. The refinancing was aimed at the construction of a new cruise terminal in Sint Maarten. In contrast, the net trade credit balance worsened because of an increase in trade credits received on imports combined with the net repayment of trade credits extended on exports.

Meanwhile, capital transfers declined by NAf.5.8 million in the first quarter of 2012 compared to the first quarter of 2011 because of less development aid funds received from the Netherlands. As a result of the moderate net inflow of capital from capital transfers and external financing, net foreign assets (i.e., reserves) grew slightly by NAf.19.6 million. This growth resulted from an increase of NAf.62.4 million in net foreign assets held by the commercial banks mitigated by a decline of NAf.42.8 million in net foreign assets held by the central bank. See Table 11 in the appendix for a detailed overview.

MONETARY DEVELOPMENTS

Monetary policy

During the March quarter of 2012, the Bank's monetary policy was directed toward tightening the surplus on the domestic money market. The Bank tried to achieve this goal by influencing commercial banks' liquidity, and hence, growth in credit extension. Therefore, the percentage of the reserve requirement, the main instrument of monetary policy, was raised further in January 2012, by 0.25 percentage point to 10.75%. Because increases of the reserve requirement percentage since September 2011 did not constrain credit growth effectively, the Bank tightened its monetary policy further by introducing a temporary freeze on private credit extension for a period of six months beginning February 2012.⁶

Through this monetary tightening, the Bank aimed to speed up bringing credit extension more in line with nominal economic growth. This objective was an attempt to control the rising deficit on the current account of the balance of payments and, consequently, reverse the declining trend in the foreign exchange reserves. The other instrument of monetary policy, the auctioning of Certificates of Deposit (CDs), was deployed in a neutral way as the Bank aimed only at the refinancing of maturing CDs.

The Bank's official interest rate, the pledging rate, was left unchanged at 1.00% throughout the first quarter of 2012.

Monetary base

The monetary base (M0) contracted by NAf.11.6 million (1.4%) during the March quarter of 2012 after having risen by NAf.32.2 million (3.6%) during the fourth quarter of 2011. The first-quarter decline in M0 stemmed from a contraction in the Bank's assets offset partly by a drop in the Bank's remaining liabilities. The source of the contraction in the monetary base was a sharp decline in currency in circulation (NAf.21.9 million). The drop in currency in circulation was partly seasonal, as the public's demand for cash normally drops in the first month of the year following the December holidays. The other component of the monetary base, commercial banks' current account balances with the central bank, rose by NAf.10.3 million. See Table 12 in the appendix for more details.

The major items that reduced liquidity of the banking system during 2012's first quarter were foreign assets, which dropped by NAf.158.4 million, and increased deposits of both the private sector and government. Together with an increase in capital and reserves, these items outweighed a NAf.181.9 million drop in foreign liabilities and a NAf.76.4 million expansion in the Bank's claims on government agencies and institutions. The increase in claims on government agencies and institutions resulted from the Bank's acquisition of bonds issued by the Sint Maarten harbor company during the first quarter of 2012. The drop in foreign liabilities was related to transfers by the Dutch Ministry of the Interior and Kingdom Relations (BZK) and the Dutch Ministry of Finance from their accounts with the Bank towards foreign accounts.

Concomitant with these developments, the annual growth rate of M0 turned negative, declining from 13.6% in December 2011 to -18.4% in March 2012.

⁶ Credit commitments made before the credit freeze was announced and credit extensions for projects that contribute to strengthening the foreign exchange reserves are exempted.

Monetary aggregates

Broad money (M2) expanded by 1.4% during the first quarter of 2012, after having gained 1.0% in the fourth quarter of 2011. See Table 13 in the appendix. The growth in M2 was driven mainly by the narrow money component (M1), which expanded by 4.6% in 2012's first quarter. The increase in M1 stemmed from a 5.3% increase in deposits withdrawable on demand, driven by increases in both foreign currency balances (13.5%) and deposits in Netherlands Antillean guilders (2.7%). The other component of M1, coins and notes with the public, dropped by 1.9% during the first quarter of 2012. As a result, the annual growth rate of M1 increased from 0.6% in December 2011 to 2.1% in March 2012.

The near money component dropped by 1.1% in the March 2012 quarter, partly reversing the previous quarter's rise. The contraction in near money was caused by a 3.0% drop in time deposits, which outweighed the 1.2% increase in savings deposits.

Factors affecting the money supply

Money holdings of the private sector surged by NAf.101.2 million and reached NAf.7,409.3 million at the end of the first quarter of 2012. With regard to the counterparts of M2, both net domestic assets and net foreign assets of the banking system increased.

The increase in the money supply in the March quarter of 2012 (1.4%) resulted from increases of NAf.75.4 million (1.8%) in net foreign assets and NAf.26.7 million (0.8%) in net domestic assets. The central bank's and the commercial banks' net foreign positions grew by NAf.23.0 million and NAf.51.4 million, respectively, contributing to the growth in net foreign assets.

The expansion in net domestic credit during the first quarter of 2012 was due to higher claims on the private sector (NAf.120.7 million; 2.0%) mitigated by declines of NAf.35.4 million (5.7%) in net claims on the government and NAf.58.6 million (2.0%) in memorandum balance sheet items. The decline in net credit extended to the governments resulted from an increase in government deposits. The government of Curaçao accounted almost entirely for the contractionary impact of the government sector. See Table 14 in the appendix for more details.

The loan component of net credit extended to the private sector increased marginally by 0.4% in the first quarter of 2012, attributable to mortgages (1.9%) and business loans (0.3%); consumer loans declined by 2.2%. Curaçao showed a similar picture with increases in mortgages (3.8%) and business loans (2.6%), and a decline in consumer loans (3.5%). Total loans expanded by 1.6%. In contrast, total loans declined by 2.8% in Sint Maarten, caused by fewer mortgages (2.8%) and business loans (5.3%) outstanding, mitigated by a small increase in consumer loans (0.8%). On an annual basis, total loans expanded by 5.0%, due entirely to the 8.3% growth in Curaçao because Sint Maarten registered a decline of 2.8%.

Developments in domestic interest rates

When setting the rate offered on CDs during the bi-weekly auctions, the Bank takes into account developments in the international financial markets, which affect interest rates in the domestic money market. The drop in the benchmark one-month US dollar *libor* rate⁷ during the March quarter of 2012 also resulted in a drop in the 1-month CD rate from 0.17% at the end of

⁷ The London interbank offered rate, the main gauge of interbank lending.

December 2011 to 0.12% at the end of the first quarter of 2012. The highest rate offered during the first quarter was 0.20% on January 9, 2012.

Most of the commercial bank rates were adjusted downwards in the first quarter of 2012. Lending rates decreased 20 basis points on average. The average mortgage rate dropped from 7.3% in the fourth quarter of 2011 to 7.1% in the first quarter of 2012. Also, the rate on time loans averaged 8.1% in the March quarter of 2012, down from 8.3% in 2011's fourth quarter.

Meanwhile, with respect to the borrowing rates, the average rate offered on a 12-month time deposit declined from 2.1% in the fourth quarter of 2011 to 1.8% in the first quarter of 2012. However, the average interest rate on passbook savings remained stable at 1.1%. Yields on government paper remained unchanged during the March 2012 quarter as both the average effective yield on 5-year government bonds and the yield on 1-month treasury bills remained at 1.4% and 1.0%, respectively. See Table 15 in the appendix for a detailed overview.

DEVELOPMENTS IN THE COMMERCIAL BANKING SECTOR

The deterioration in the asset quality of the commercial banks due to the uncertain economic outlook seems to have peaked in the third quarter of 2011. The amount of nonperforming loans subsequently declined and loan-loss provisions did not increase. Because the quality of assets did not deteriorate, profitability of the domestic banking sector improved slightly in the first quarter of 2012. The banking system contained the downward pressure on net interest income by further reducing interest expenses. In addition, the banks diversified their sources of income to noninterest income-generating activities.

Following an increase in the fourth quarter of 2011, total assets of the domestic commercial banking sector increased by 1.2% during the March quarter of 2012. Expansions in both interest-bearing (9.3%) and non-interest-bearing cash (2.5%), and in investments in unconsolidated subsidiaries and affiliates contributed primarily to 2012's first quarter expansion of the commercial banks' aggregate balance sheet. These expansions were mitigated mainly by contractions in investments (4.0%) and loan balances (0.5%). See Table 16 in the appendix for more details.

An increase in total deposits (1.6%) that outweighed declines in borrowings (10.1%) and other liabilities resulted in an expansion of 1.1% in total liabilities of the domestic commercial banking sector in the March 2012 quarter. The increase in deposits resulted from more demand and savings deposits. The striving of the commercial banks to preserve their interest margin, among other things, resulted in a decline in the share of interest-bearing deposits (time and savings deposits) to total deposits from 54.3% in the fourth quarter of 2011 to 53.4% in the first quarter of 2012.

The domestic commercial banks' capitalization increased by 2.2% in the March quarter of 2012 compared to the December quarter of 2011. As a result, the share of total capital in total liabilities and capital increased slightly from 11.5% to 11.6%. See Table 16 in the appendix for more details.

In the first quarter of 2012, total operational income of the domestic banking sector increased by 1.9% compared to the first quarter of 2011. This improvement was due entirely to an increase in net interest income, the result of a drop of 11.4% in interest expenses and a 0.9% increase in interest income. In contrast, other income declined by 2.5% compared to the March quarter of

2011. On the expenses side, the decrease in net additions to general provisions outbalanced increases in salaries and occupancy expenses, causing total operational expenses to drop by 1.3%. The abovementioned developments resulted in an increase of 9.8% in net operating income. However, net income after taxes increased by only 2.6% because no net extraordinary items were registered during the March quarter of 2012 while profit tax paid increased marginally. See Table 17 in the appendix for more details.

Financial soundness indicators

Financial soundness indicators (FSIs) are used to support macroprudential analysis. The Bank uses these FSIs, which are aggregates of microprudential indicators, as statistical measures to monitor the health and soundness of the financial sector. Because the microeconomic variables take only the exposure of individual banking institutions into account, this microprudential approach is complemented by a more comprehensive analysis that considers macroeconomic factors through stress tests. These stress tests together with the FSIs 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 sheets is determined by their capital adequacy. Capital provides not only a cushion for losses, but also forms a buffer for deposit insurance, while controlling excessive risk taking by banks. The capital-to-assets ratio reached 11.4% at the end of the first quarter of 2012, about the same as at the end of the fourth quarter of 2011 (11.3%). The upward trend in this ratio is an indication that the capital stock of the domestic commercial banks remained relatively strong, well above the internationally acknowledged benchmark of 4.0% for Tier 1 capital under the Basel I and Basel II agreements.

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

| | 2011-I | 2011-II | 2011-III | 2011-IV | 2012-I |
|--|--------|---------|----------|---------|--------|
| Capital adequacy | | | | | |
| Total capital/ total assets | 10.3 | 10.6 | 10.8 | 11.3 | 11.4 |
| Asset quality | | | | | |
| Nonperforming loans/ total loans | 7.2 | 7.5 | 7.4 | 6.8 | 6.5 |
| Provisions for loan losses/ non-performing loans | 41.2 | 39.7 | 41.4 | 45.9 | 47.6 |
| Earnings | | | | | |
| Gross earning-assets yield | 5.6 | 5.6 | 5.5 | 5.6 | 5.6 |
| Net interest margin | 4.4 | 4.4 | 4.4 | 4.5 | 4.5 |
| Return on assets | 1.6 | 1.5 | 1.3 | 1.9 | 1.9 |
| Liquidity | | | | | |
| Total loans/ total deposits | 64.3 | 65.5 | 67.6 | 68.7 | 67.4 |

The quality of the commercial banks' assets portfolio improved during the March quarter of 2012 as the outstanding nonperforming loans dropped more (4.4%) than total loans (0.6%). The amount of nonperforming loans started to fall after peaking in the third quarter of 2011. This development caused the ratio of nonperforming loans-to-total loans to drop to 6.5% in the first quarter of 2012. Similarly, the decline in nonperforming loans contributed also to the increase in

the ratio of provisions for loan losses-to-nonperforming loans to 47.6%, up from 45.9% at the end of December 2011 (see Table 6).

Profitability of the domestic banking sector in the first quarter of 2012 was positively affected by the improvement in asset quality. The decline in interest expenses (13.0%) caused a slight improvement in the net interest margin in the March quarter of 2012 as the interest income generated by the commercial banks remained almost unchanged when compared to the first quarter of 2011. The gross earning-assets yield did not change as interest income and average earning assets remained at almost the same level. The return-on-assets ratio increased from 1.6% in 2011's first quarter to 1.9% in 2012's first quarter, due to higher net income before dividend and taxes and lower average outstanding assets.

Finally, the ratio of total loans-to-total deposits, which measures the liquidity in the domestic banking sector, dropped from 68.7% in the December quarter of 2011 to 67.4% in the March quarter of 2012. The downturn in this ratio reveals an increase in liquidity during 2012's first quarter, as total deposits increased while the outstanding amount of bank loans dropped.

Credit control

To realize the Bank's objectives of maintaining the external stability of the Netherlands Antillean guilder (NAf.) and promoting the efficient functioning of the financial system in the countries Curacao and Sint Maarten, the Bank has resorted to controlling credit extension. The rationale behind credit control is that in our environment of a fixed exchange rate, restricting domestic credit to the private sector affects private sector expenditures and, hence, imports. A credit measure is likely to moderate economic growth in the short run, but more balanced credit growth can mitigate an expanding deficit on the balance of payments and, thus, slow a declining trend in reserves.

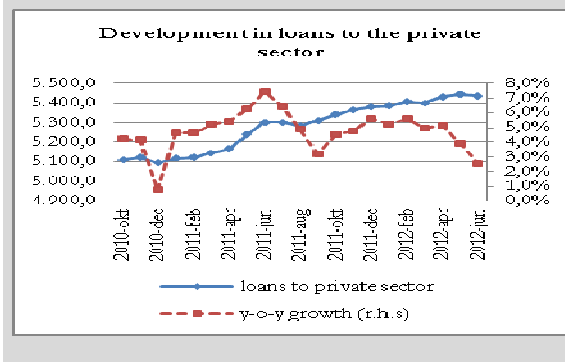
Credit control can be in the form of either qualitative controls or quantitative controls. In our current environment with a large liquidity surplus in the banking sector, changing the central bank's pledging rate will not be effective in expanding or contracting the outstanding amount of credit. Other quantitative methods that can be used are the reserve requirement, credit rationing, and open market operations.

One form of credit rationing, the Monetary Cash Reserve arrangement (MCR), was used in the past as an instrument of monetary policy. Through the MCR, the Bank can impose a ceiling on credit extension to the private sector, the government sector, or both. Credit extension in excess of the ceiling is subject to a penalty. This direct instrument of monetary policy was abandoned in favor of more indirect instruments, which leave more room for the proper functioning of the market mechanism, enhance the role of price signals, and less directly impact the commercial banks' balance sheets.

The reserve requirement is currently the main instrument of monetary policy. Increasing or decreasing the percentage of the reserve requirement influences the money supply. The money supply can also be increased or decreased through open market operations with the banks, such as the purchase or sale of government securities.

Qualitative instruments for the control of credit to the private sector take the form of moral suasion whereby the commercial banks are requested to moderate their lending behavior to correct an undesirable development in the monetary aggregates. As a last resort, direct action can be taken against a commercial bank that does not act in accordance with the policy of the central bank. However, the Bank must consult with the commercial banks to reach an agreement on the proposed measures.

In February 2012, the Bank introduced a temporary freeze on domestic private credit extension by the commercial banks to curtail private credit growth and, subsequently, tackle the high and rising current account deficit and the declining trend in foreign exchange reserves. Due to this direct measure of credit control, lending by the commercial banks was moderated rather quickly from a 5.4% annual growth rate in 2011 to 2.5% in June 2012.



APPENDIX

Table 7 Developments in stay-over tourism (% change) ⁸

| | Curaçao | | | | St. Maarten | | | |
|------------------------------------|---------|-------|--------|--------|-------------|--------|--------|--------|
| | 2011-I | | 2012-I | | 2011-I | | 2012-I | |
| North America, of which: | 26.4 | (2.4) | 1.7 | (0.1) | -7.0 | (-2.6) | 14.6 | (5.6) |
| -U.S.A. | 31.0 | (2.3) | -5.2 | (-0.3) | -7.8 | (-2.4) | 13.3 | (4.2) |
| Europe, of which: | 3.4 | (0.7) | 11.4 | (2.2) | 1.2 | (0.2) | 8.2 | (1.1) |
| -The Netherlands | 2.9 | (0.5) | 6.0 | (0.9) | 17.4 | (0.4) | -7.8 | (-0.2) |
| South & Central America, of which: | 13.2 | (1.0) | 32.7 | (3.1) | 36.3 | (0.9) | -21.1 | (-0.4) |
| -Venezuela | 17.9 | (0.8) | 41.3 | (2.5) | -25.4 | (-0.1) | 38.2 | (0.1) |
| -Colombia | 5.9 | (0.0) | 47.4 | (0.4) | -- | -- | -- | -- |
| Caribbean, of which: | -0.4 | (0.0) | 6.5 | (0.2) | -1.0 | (0.0) | 8.1 | (0.2) |
| -Dominican Republic | 26.3 | (0.1) | 12.1 | (0.0) | 3.6 | (0.0) | 20.7 | (0.1) |
| Total | 11.3 | (4.7) | 11.4 | (4.8) | -2.9 | (-1.7) | 10.2 | (6.0) |

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

⁸ Weighted growth rates between brackets

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

| | 2010-IV | 2011-I | 2011-II | 2011-III | 2011-IV | 2012-I |
|----------------------------|---------|--------|---------|----------|---------|--------|
| Food | 6.9 | 6.5 | 7.3 | 8.4 | 8.5 | 8.2 |
| Beverages & tobacco | 3.0 | 1.5 | 1.8 | 3.1 | 3.6 | 5.8 |
| Clothing & footwear | -1.6 | 0.1 | 1.1 | 0.5 | 0.6 | 1.6 |
| Housing | 1.5 | 1.6 | -0.1 | 0.8 | 0.7 | 0.6 |
| Housekeeping & furnishings | 0.8 | 1.6 | 1.4 | 1.1 | 1.5 | 2.0 |
| Health | 1.6 | 1.1 | 1.2 | 1.1 | 0.3 | 0.6 |
| Transport & communication | 1.5 | 1.4 | 0.3 | 4.5 | 4.4 | 5.3 |
| Recreation & education | -0.7 | -0.3 | -0.5 | 0.1 | 0.5 | 1.3 |
| Other | 1.2 | 1.1 | 1.0 | 1.5 | 1.7 | 2.0 |
| General inflation rate | 2.0 | 2.1 | 1.4 | 2.9 | 3.0 | 3.3 |

Source: Central Bureau of Statistics of Curaçao

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

| | 2010-IV | 2011-I | 2011-II | 2011-III | 2011-IV | 2012-I |
|----------------------------|---------|--------|---------|----------|---------|--------|
| Food | 2.0 | 3.6 | 6.3 | 10.4 | 15.9 | 15.5 |
| Beverages & tobacco | 2.4 | 5.8 | 7.5 | 11.1 | 14.4 | 11.1 |
| Clothing & footwear | 0.1 | -0.5 | -0.4 | 2.2 | 4.5 | 6.8 |
| Housing | 2.4 | 2.9 | 6.1 | 5.7 | 3.6 | 4.7 |
| Housekeeping & furnishings | 0.6 | 0.7 | 2.1 | 5.1 | 6.7 | 7.4 |
| Health | 0.1 | 0.3 | 0.9 | 2.1 | 2.8 | 2.7 |
| Transport & communication | 0.3 | 3.6 | 5.3 | 5.6 | 4.4 | 2.3 |
| Recreation & education | 0.7 | -0.1 | 1.0 | 2.0 | 2.5 | 4.9 |
| Other | 1.0 | 1.9 | 3.5 | 3.4 | 3.6 | 3.8 |
| General inflation rate | 1.4 | 2.5 | 4.7 | 5.6 | 5.5 | 5.8 |

Source: Department of Statistics, Sint Maarten

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

| | 2011-I | 2012-I |
|---|--------|--------|
| Revenues | 461.1 | 466.2 |
| Tax revenues, of which: | 425.0 | 429.8 |
| Taxes on income and profits | 228.7 | 243.9 |
| Taxes on property | 8.8 | 11.3 |
| Taxes on goods and services | 145.0 | 132.0 |
| Taxes on international trade and transactions | 41.1 | 40.6 |
| Nontax and other revenues | 36.1 | 36.4 |
| Expenditures | 337.0 | 433.3 |
| Current expenditures, of which: | 333.7 | 431.8 |
| Wages and salaries | 178.4 | 188.0 |
| Goods and services | 67.4 | 78.8 |
| Subsidies | 33.3 | 89.5 |
| Transfers | 54.4 | 75.4 |
| Interest payments | 0.0 | 0.1 |
| Capital expenditures | 3.3 | 1.4 |
| Budget balance | 124.1 | 33.0 |

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

| | 2010-I | 2011-I | 2012-I |
|--|--------|--------|--------|
| Taxes on income and profits, of which: | 252.3 | 228.7 | 243.9 |
| Profit tax | 115.1 | 90.3 | 104.6 |
| Wage tax | 138.8 | 138.3 | 136.4 |
| Taxes on property, of which: | 10.9 | 8.8 | 11.3 |
| Land tax | 5.5 | 4.4 | 5.4 |
| Property transfer tax | 4.9 | 4.0 | 5.6 |
| Taxes on goods and services, of which: | --- | 145.0 | 132.0 |
| Sales tax | 77.2 | 81.8 | 87.9 |
| Excises, of which: | 28.2 | 32.3 | 13.0 |
| Excise on gasoline | 17.9 | 25.3 | 4.2 |
| Motor vehicle tax | 26.3 | 26.4 | 24.7 |
| Taxes on international trade and transactions, of which: | --- | 41.1 | 40.6 |
| Import duties | 39.5 | 40.9 | 40.4 |

--- 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-I | 2012-I |
|-----------------------------|--------|--------|
| Revenues | 112.0 | 127.9 |
| Tax revenues, of which: | 91.5 | 109.3 |
| Taxes on income and profits | 45.7 | 47.3 |
| Taxes on property | 4.8 | 2.9 |
| Taxes on goods and services | 41.1 | 59.0 |
| Nontax and other revenues | 20.5 | 18.6 |
| Expenditures | 94.0 | 95.3 |
| Budget balance | 18.0 | 32.6 |

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

| | 2010-I | 2011-I | 2012-I |
|--|--------|--------|--------|
| Taxes on income and profits, of which: | 50.5 | 45.7 | 47.3 |
| Profit tax | 18.5 | 16.1 | 16.3 |
| Wage tax | 32.4 | 31.2 | 31.7 |
| Taxes on property, of which: | 3.5 | 4.8 | 2.9 |
| Land tax | 0.6 | 0.7 | 0.7 |
| Property transfer tax | 2.9 | 4.1 | 2.1 |
| Taxes on goods and services, of which: | --- | 41.1 | 59.0 |
| Turnover tax | 23.8 | 25.5 | 42.4 |
| Vehicle tax | 6.9 | 7.3 | 7.8 |
| Excise on gasoline | 2.4 | 3.0 | 1.6 |

--- 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.)

| | 2010-I | 2011-I | 2012-I |
|--|--------------------|--------------------|--------------------|
| Trade balance | -828.5 | -851.3 | -901.4 |
| -Exports | 375.8 | 414.3 | 474.5 |
| -Imports | 1,204.2 | 1,265.7 | 1,375.9 |
| Services balance | 598.1 | 631.4 | 760.2 |
| Receipts, of which: | 1,001.3 | 1,070.7 | 1,236.3 |
| -Travel | 604.2 | 634.4 | 780.3 |
| -Transportation | 91.1 | 79.3 | 90.9 |
| -Other services, of which: | 306.0 | 357.0 | 365.1 |
| -Int. fin & bus. services sector | 65.3 | 52.3 | 50.7 |
| Expenses, of which: | 403.3 | 439.3 | 476.0 |
| -Travel | 132.7 | 143.5 | 160.7 |
| -Transportation | 69.2 | 73.7 | 80.9 |
| -Other services, of which: | 201.4 | 222.1 | 234.4 |
| -Int. fin & bus. services sector | 35.3 | 31.7 | 24.0 |
| Income balance ¹⁾ | -9.1 | -10.1 | -39.7 |
| Current transfers balance ²⁾ | 205.1 | -42.2 | -18.0 |
| Current account balance | -34.4 | -272.2 | -198.9 |
| Capital & financial account balance | -8.4 | 219.6 | 145.2 |
| Capital account balance | 89.5 ³⁾ | 34.0 ³⁾ | 28.3 ³⁾ |
| Financial account balance | -97.9 | 185.6 | 116.9 |
| Net errors & omissions | 42.7 | 52.6 | 53.7 |

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 account¹⁾ (in millions NAf.)

| | 2010-I | 2011-I | 2012-I |
|---|--------|--------|--------|
| Direct investment | 12.9 | 34.3 | 85.4 |
| - Abroad ²⁾ | -23.9 | -4.6 | 33.5 |
| - In Curaçao and Sint Maarten ³⁾ | 36.8 | 38.9 | 51.9 |
| Portfolio investment ³⁾ | -2.3 | 40.6 | 149.9 |
| Other investment, of which: | 173.4 | 244.6 | -98.9 |
| - Assets ³⁾ | 159.9 | 210.1 | -53.9 |
| - Liabilities ³⁾ | 13.5 | 34.5 | -44.9 |
| Net lending/borrowing, of which: | 20.3 | 116.7 | -24.2 |
| - Assets ²⁾ | -2.0 | 70.8 | 32.1 |
| - Liabilities ³⁾ | 22.3 | 45.9 | -56.3 |
| Reserves ⁴⁾ | -281.9 | -133.9 | -19.6 |
| Total assets ²⁾ | -148.2 | 112.2 | 109.9 |
| Total liabilities ³⁾ | 50.3 | 73.4 | 7.0 |
| Balance | -97.8 | 185.6 | 116.9 |

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-IV | 2012-I | Change | |
|--|---------|---------|--------|------------|
| | | | Amount | Percentage |
| Banknotes issued | 392.8 | 370.8 | -21.9 | -5.6% |
| Banks' demand deposits (current account) | 457.3 | 467.7 | 10.3 | 2.3% |
| Monetary base (M0) | 850.1 | 838.5 | -11.6 | -1.4% |
| Central bank assets | | | | |
| Foreign assets (including gold) | 3,493.7 | 3,335.3 | -158.4 | -4.5% |
| Claims on deposit money banks | 3.0 | 0.5 | -2.5 | -83.5% |
| Claims on the government | 0.1 | 0.2 | 0.0 | 11.5% |
| Claims on government agencies and institutions | 485.9 | 562.3 | 76.4 | 15.7% |
| Fixed and other assets | 102.2 | 99.6 | -2.6 | -2.6% |
| less: | | | | |
| Central bank remaining liabilities | | | | |
| Private sector deposits | 907.7 | 927.4 | 19.7 | 2.2% |
| Government deposits | 333.2 | 355.9 | 22.7 | 6.8% |
| Foreign liabilities | 820.8 | 638.9 | -181.9 | -22.2% |
| Other liabilities | 95.1 | 92.6 | -2.5 | -2.6% |
| Capital and reserves | 1,078.1 | 1,144.4 | 66.3 | 6.1% |

Table 13 Monetary aggregates (changes in previous quarter, in millions NAf.)

| | 2011-III | | 2011-IV | | 2012-I | |
|----------------------------------|----------|------|---------|------|--------|------|
| | Amount | % | Amount | % | Amount | % |
| Money supply (M2) | -49.6 | -0.7 | 70.4 | 1.0 | 101.2 | 1.4 |
| Money (M1) | -154.6 | -4.7 | 19.8 | 0.6 | 145.1 | 4.6 |
| Coins & notes with the public | -3.5 | -1.2 | 10.1 | 3.5 | -5.8 | -1.9 |
| Total demand deposits, of which: | -151.1 | -5.1 | 9.7 | 0.3 | 150.9 | 5.3 |
| - Netherlands Antillean guilders | -132.9 | -5.6 | -49.8 | -2.2 | 59.8 | 2.7 |
| - Foreign currency | -18.2 | -2.9 | 59.5 | 9.7 | 91.1 | 13.5 |
| Near money | 105.0 | 2.6 | 50.6 | 1.2 | -44.0 | -1.1 |
| Time deposits | 121.7 | 5.9 | 87.3 | 4.0 | -67.3 | -3.0 |
| Savings | -16.7 | -0.9 | -36.6 | -1.9 | 23.3 | 1.2 |

Table 14 Monetary survey (in millions NAf.)

| | 2011-I | 2011-II | 2011-III | 2011-IV | 2012-I |
|---|----------|----------|----------|----------|----------|
| Money supply (M2) | 7,298.9 | 7,287.3 | 7,237.7 | 7,308.1 | 7,409.3 |
| Money (M1) | 3,225.6 | 3,283.6 | 3,129.0 | 3,148.8 | 3,293.9 |
| Coins & notes with the public | 289.0 | 294.7 | 291.2 | 301.3 | 295.6 |
| Total demand deposits, of which: | 2,829.2 | 2,988.9 | 2,837.8 | 2,847.5 | 2,998.4 |
| - Netherlands Antillean guilders | 2,193.5 | 2,357.4 | 2,224.5 | 2,174.7 | 2,234.5 |
| - Foreign currency | 635.7 | 631.5 | 613.3 | 672.8 | 763.9 |
| Near money | 4,131.3 | 4,003.7 | 4,108.7 | 4,159.3 | 4,115.3 |
| Time deposits | 2,191.4 | 2,057.4 | 2,179.1 | 2,266.4 | 2,199.0 |
| Savings | 1,939.9 | 1,946.3 | 1,929.6 | 1,893.0 | 1,916.3 |
| Factors affecting the money supply | 7,298.9 | 7,287.3 | 7,237.7 | 7,308.1 | 7,409.3 |
| Net domestic assets | 2,639.5 | 2,752.8 | 2,751.8 | 3,230.6 | 3,257.3 |
| Government sector | -841.1 | -797.5 | -732.2 | -621.6 | -657.0 |
| - Former central government | -113.6 | -109.7 | -117.5 | -106.4 | -106.2 |
| - Curacao | -553.8 | -462.6 | -406.3 | -333.6 | -369.1 |
| - Sint Maarten | -173.7 | -225.2 | -208.4 | -181.6 | -181.8 |
| Private sector | 5,642.8 | 5,855.2 | 5,861.3 | 6,158.8 | 6,279.5 |
| Memorandum items | -2,162.1 | -2,304.9 | -2,377.3 | -2,306.6 | -2,365.2 |
| Net foreign assets | 4,659.3 | 4,534.5 | 4,485.9 | 4,077.6 | 4,152.0 |
| Central bank | 2,923.5 | 2,854.9 | 2,966.4 | 2,886.4 | 2,909.4 |
| Commercial banks | 1,735.8 | 1,679.6 | 1,519.5 | 1,191.2 | 1,242.6 |
| Government loans by commercial banks | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Government of Curaçao | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Government of Sint Maarten | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Private sector loans Curacao | 3,603.6 | 3,749.6 | 3,759.0 | 3,839.3 | 3,901.7 |
| - Mortgages | 1,412.6 | 1,522.3 | 1,533.9 | 1,628.2 | 1,690.4 |
| - Consumer loans | 951.3 | 960.9 | 963.6 | 954.9 | 921.9 |
| - Business loans | 1,239.7 | 1,266.4 | 1,261.5 | 1,256.3 | 1,289.4 |
| Private sector loans Sint Maarten | 1,544.3 | 1,554.7 | 1,553.3 | 1,544.0 | 1,501.3 |
| - Mortgages | 647.3 | 636.3 | 647.2 | 648.2 | 630.1 |
| - Consumer loans | 374.5 | 379.8 | 382.1 | 379.4 | 382.4 |
| - Business loans | 522.6 | 538.6 | 524.0 | 516.4 | 488.8 |

Table 15 Developments in domestic interest rates (in %)

| | 2011-I | 2011-II | 2011-III | 2011-IV | 2012-I |
|---|--------|---------|----------|---------|--------|
| Central bank | | | | | |
| - Pledging rate | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| - Maximum CD rate (1 month) | 0.15 | 0.12 | 0.09 | 0.17 | 0.12 |
| Commercial bank borrowing rates | | | | | |
| - Passbook savings | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| - Time deposit (12 months) | 1.7 | 1.8 | 2.1 | 2.1 | 1.8 |
| Commercial bank lending rates | | | | | |
| - Mortgages | 7.1 | 7.1 | 7.3 | 7.3 | 7.1 |
| - Time loans | 8.6 | 8.4 | 8.4 | 8.3 | 8.1 |
| Government securities | | | | | |
| - Government bonds (5-year effective yield) | 2.9 | 2.6 | 1.5 | 1.4 | 1.4 |
| - Treasury bills (1 month) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |

Table 16 Aggregate balance sheet of domestic commercial banks (in millions NAf.)

| | 2011-I | 2011-II | 2011-III | 2011-IV | 2012-I |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Assets | | | | | |
| Non-interest-bearing cash | 1,593.9 | 1,359.4 | 1,315.9 | 1,506.3 | 1,544.3 |
| Interest-bearing cash | 3,048.2 | 3,047.6 | 2,883.0 | 2,426.9 | 2,651.8 |
| Investments | 1,444.4 | 1,459.1 | 1,345.5 | 1,540.1 | 1,478.1 |
| Loans | 8,232.1 | 8,265.7 | 8,347.5 | 8,451.4 | 8,412.4 |
| Investments in unconsolidated subsidiaries and affiliates | 44.2 | 41.6 | 53.4 | 69.7 | 80.9 |
| Fixed assets | 388.9 | 338.7 | 345.4 | 355.5 | 360.6 |
| Other assets | 265.4 | 310.7 | 313.0 | 307.8 | 309.6 |
| Total assets | 15,017.1 | 14,822.8 | 14,603.7 | 14,657.8 | 14,837.6 |
| Liabilities | | | | | |
| Demand deposits | 5,742.3 | 5,846.1 | 5,637.4 | 5,673.1 | 5,877.8 |
| Savings deposits | 4,233.7 | 4,109.5 | 4,078.3 | 4,016.1 | 4,034.2 |
| Time deposits | 2,998.7 | 2,781.9 | 2,745.2 | 2,724.1 | 2,694.1 |
| Total deposits | 12,974.7 | 12,737.5 | 12,460.9 | 12,413.3 | 12,606.1 |
| Borrowings | 74.5 | 43.0 | 28.4 | 31.1 | 28.0 |
| Other liabilities | 410.7 | 442.4 | 513.7 | 531.6 | 484.6 |
| Total liabilities | 13,460.0 | 13,222.9 | 13,003.0 | 12,976.1 | 13,118.7 |
| Minority interest | 10.3 | 10.1 | 10.8 | 10.2 | 10.0 |
| Subordinated debentures | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| General provisions | 255.8 | 257.5 | 274.4 | 282.1 | 288.7 |
| Capital & reserves | 1,291.1 | 1,332.3 | 1,315.5 | 1,389.3 | 1,420.2 |
| Total capital | 1,557.1 | 1,599.9 | 1,600.7 | 1,681.7 | 1,718.9 |
| Total liabilities and capital | 15,017.1 | 14,822.8 | 14,603.7 | 14,657.8 | 14,837.6 |

**Table 17 Aggregate income statement of domestic commercial banks
(cumulative quarterly figures, in millions NAf.)**

| | 2011-I | 2011-II | 2011-III | 2011-IV | 2012-I |
|------------------------------------|--------|---------|----------|---------|--------|
| Interest income | 193.8 | 382.4 | 570.6 | 712.2 | 195.6 |
| Interest expenses | 40.2 | 77.7 | 114.9 | 140.2 | 35.6 |
| Net interest income | 153.7 | 304.8 | 455.7 | 572.0 | 160.0 |
| Other income | 80.3 | 146.8 | 226.6 | 297.8 | 78.3 |
| Total operational income | 233.9 | 451.6 | 682.3 | 869.7 | 238.3 |
| Salaries & other employee expenses | 85.8 | 171.1 | 255.2 | 335.8 | 89.1 |
| Occupancy expenses | 26.5 | 52.0 | 77.9 | 99.9 | 26.8 |
| Other operating expenses | 39.6 | 76.6 | 118.2 | 138.8 | 39.6 |
| Net addition to general provisions | 14.9 | 32.6 | 50.5 | 49.8 | 9.1 |
| Total operational expenses | 166.7 | 332.3 | 501.8 | 624.3 | 164.5 |
| Net operating income | 67.2 | 119.3 | 180.4 | 245.4 | 73.8 |
| Net extraordinary items | 4.3 | 6.1 | -15.4 | 42.3 | 0.0 |
| Applicable profit taxes | 13.3 | 22.5 | 35.2 | 43.1 | 14.1 |
| Net income after taxes | 58.2 | 102.9 | 129.8 | 244.6 | 59.7 |