QUARTERLY BULLETIN 2013-1

Centrale Bank van Curacao en Sint Maarten

REPORT OF THE PRESIDENT

The global economy expanded at a tepid pace during the first quarter of 2013, driven by weakened economic growth in the advanced and emerging economies. In the monetary union of Curaçao and Sint Maarten, economic activity remained weak as reflected by a real GDP growth of 0.2% in Curaçao and 0.7% in Sint Maarten. Inflationary pressures eased in both countries. In Curaçao, the inflation rate dropped from 3.3% in the first quarter of 2012 to 2.1% in the first quarter of 2013 due largely to lower gasoline prices. Sint Maarten recorded an inflation rate of 2.4% in the March quarter of 2013, down from 5.8% a year earlier, stemming primarily from slower price gains in food and a decline in electricity prices.

The real GDP expansion in Curaçao was attributable to increased private demand. During the first quarter of 2013, private consumption picked up, reflecting an increase in consumer loans extended. In addition, private sector investment rose, driven mainly by nonresidential construction projects. In contrast, public demand put a drag on real GDP growth as both government consumption and investment contracted. Meanwhile, the contribution of net foreign demand to real GDP growth remained flat because a drop in the export of goods and services was offset by a decline in imports.

An analysis by sector reveals that the rise in real value added in the private sector during the first quarter of 2013 resulted mainly from increases in the restaurants & hotels, transport, storage & communication, and financial intermediation sectors.

Growth in the restaurants & hotels sector was supported by more stay-over and cruise tourists, but was less pronounced than in the first quarter of 2012. The increase in stay-over tourism was supported primarily by more visitors from South America and North America. By contrast, the number of European visitors dropped, due mainly to a decline in the number of Dutch visitors hit by the economic recession in the Netherlands.

Real value added continued to increase in the transport, storage & communication sector, albeit at a slower pace than in the first quarter of 2012. Air transportation and airport-related activities expanded, reflecting more passenger traffic, notably transit passengers from Venezuela, and more commercial landings. Meanwhile, in the harbor, container movements increased while the number of ships piloted into the port and oil storage activities decreased.

After a contraction in the first quarter of 2012, the financial services sector showed some signs of recovery in the first quarter of 2013 owing to slight increases in activities in both the domestic banking sector and the international financial services industry. The utility sector contributed positively to real economic growth as the production of both water and electricity rose. Meanwhile, real output growth in the manufacturing sector remained subdued because activities in the refinery rose at a slower pace than in the first quarter of 2012. Contrasting with a decline in 2012, ship repair activities picked up during the first quarter of 2013, as reflected by an increase in the number of man-hours sold.

The wholesale and retail trade sector registered zero growth during the January–March period of 2013 because a decline in re-exports by the free-zone companies was offset by increases in tourism and domestic spending. Meanwhile, the construction sector put a drag on economic growth as reflected by a decline in real value added. The negative outcome in the construction sector was due to, among other things, a decline in government spending on road infrastructure projects during the first quarter of 2013. Furthermore, several ongoing nonresidential construction projects are using prefabricated construction methods, which have a lower value added than traditional construction methods.

The real GDP expansion in Sint Maarten during the first quarter of 2013 stemmed primarily from increases in the restaurants & hotels, manufacturing, and construction sectors. Growth weakened in the restaurants & hotels sector compared to 2012's first quarter, reflecting a slowdown in stay-over tourism combined with a contraction in cruise tourism. The latter contraction was related to a decline in the number of cruise vessels that visited the port of Philipsburg. Meanwhile, activities picked up in the manufacturing sector due primarily to more yacht repair activities. The construction sector also performed well during the January–March period of 2013, largely as a result of investments in Sint Maarten's infrastructure, including the construction of the Simpson Bay Lagoon Causeway.

The wholesale & retail trade and utilities sectors also contributed positively to real GDP growth in Sint Maarten. Increases in the tourism sector and domestic spending were the main drivers of the expansion in the wholesale & retail trade sector. Meanwhile, growth in the utilities sector was supported by increased production of electricity, mitigated by a decline in water production. In addition, the consumption of both water and electricity rose.

However, economic growth was dampened by the financial services and transport, storage & communication sectors. The contraction in the financial services sector was the result of a decline in the net interest income of the commercial banks operating in Sint Maarten. Meanwhile, the disappointing results in the transport, storage & communication sector stemmed from a decline in harbor activities. During the first quarter of 2013, the number of ships that visited Sint Maarten declined. By contrast, airport-related activities increased, attributable to a growth in total passenger traffic and more commercial landings.

The developments in the public finances of Curaçao during the first quarter of 2013 were characterized by measures to comply with the instruction that Curaçao received in 2012 from the Kingdom Council of Ministers. These measures included the introduction of a general health insurance scheme and the increase of the retirement age from 60 to 65 years. These reforms were aimed at containing government spending on social contributions and health care.

The government of Curaçao registered a budget surplus of NAf.41.3 million during the first quarter of 2013, down from a surplus of NAf.123.4 million recorded in the first quarter of 2012. The lower surplus was the result of increased government expenditures combined with a decline in government revenues. Government expenditures rose, due mainly to more transfers and subsidies to households. Moreover, outlays on goods & services and wages & salaries increased. The decline in government revenues was the result of lower profit and income tax proceeds caused by the reduction of profit and income tax rates in 2012. The decline in government income was mitigated by, among other things, increased sales tax revenues related to the rise in domestic spending during the first quarter of 2013.

Unfortunately, data regarding the income and expenditures of the government of Sint Maarten during the January–March period of 2013 were not available. Consequently, the Bank could not conduct an analysis of the public sector developments in Sint Maarten. The provision of complete, accurate, and timely statistics of the public finances is crucial not only for macroeconomic analysis but also and more important, for the implementation and assessment of government policies. Therefore, the Bank wants to underscore the importance to make progress in this area.

As in the first quarter of 2012, the balance of payments of the monetary union again recorded a deficit during the first quarter of 2013 as reflected by a decline in our international reserves. However, the decline in 2013 was less pronounced than in 2012. The deficit on the current account increased due to a drop in net exports of goods and services and lower net current transfers received from abroad. Net exports shrank because the increase in imports of goods and services outweighed the rise in exports. The import growth was caused mainly by increased retail imports reflecting increased domestic demand and more tourism spending in both Curaçao and Sint Maarten. Moreover, the free-zone companies in Curaçao imported more merchandise to replenish their inventories. By contrast, oil imports dropped, reflecting lower international prices and lower demand, notably in Curaçao. The decreased demand was related mainly to lower fuel usage in the production of water and electricity in Curaçao because of a change in the production mix towards alternative energy sources, including wind and solar power. The gain in exports was driven mainly by more foreign exchange earnings from the tourism sector in both Curaçao and Sint Maarten. Moreover, foreign exchange receipts from transportation services and bunkering activities rose. By contrast, declines in the refining fee, re-exports by the free-zone companies, and ship repair activities in Curaçao mitigated the export growth during the first quarter of 2013. Net current transfers shrank, due mainly to an increase in current transfers paid to abroad. Meanwhile, the income balance improved because of more labor income received from abroad.

As a result of the current account deficit, net foreign wealth of the private sector dropped during the first quarter of 2013. The change in external financing resulted from a deterioration in the portfolio investment, loans and credits, and direct investment balances. The worsening of the portfolio investment balance was related mainly to the receipt of funds from institutional investor-held matured foreign debt securities that were not reinvested abroad. In the past, the bulk of these debt securities were issued by the entities of the former Netherlands Antilles and taken over by the Dutch State as part of the debt relief program. The loans and credits balance deteriorated mainly because of the net decline in domestic companies' foreign bank balances to finance part of their imports, the net repayment of trade credit extended to foreign customers, and more trade credit received on imports. Meanwhile, net direct investment into the monetary union rose largely due to an increase in the liabilities of domestic companies with their foreign affiliates and the purchase of real estate by nonresidents, both in Curaçao and Sint Maarten. Net capital transfers declined during the first quarter of 2013 due to the phasing out of development aid funds from the Netherlands.

The money supply rose in the first quarter of 2013, led by increases in both net domestic assets and net foreign assets. Net domestic assets expanded as a result of a growth in net credit extended to the private sector and miscellaneous balance sheet items. The growth in private sector credit was the result of a rise in loans extended in Curaçao mitigated by a decline in loans extended in Sint Maarten. Private credit extension in Curaçao increased as a result of more mortgages and business loans extended. By contrast, consumer loans extended dropped. Meanwhile, in Sint Maarten, private credit extension contracted because of fewer consumer loans and business loans extended, mitigated by a rise in mortgages. However, the increase in net domestic assets was mitigated by a decline in net claims on the government. Net foreign assets increased during the March quarter of 2013 because of a rise in the net foreign holdings of the commercial banks, mitigated by a worsening in the Bank's net foreign position.

The monetary policy stance of the Bank during the first quarter of 2013 was aimed at tightening the liquidity surplus in the money market. Hence, the percentage of the reserve requirement was raised by 1.25 percentage points during the first quarter of 2013 reaching 15.50% in March 2013. Also, the Bank prolonged the temporary credit measure in February 2013 for a period of 6 months allowing a maximum credit growth of 2% compared to the end of August 2012. Moreover, a penalty on access credit was introduced. The other monetary policy instrument, the auctioning of Certificates of Deposit (CDs), was not actively deployed. During the biweekly auctions of CDs, the Bank aimed only at refinancing maturing CDs. Furthermore, the Bank's official lending rate remained at 1.00%.

Over the past years, the competitiveness of both Curaçao and Sint Maarten vis-à-vis their main trading partners, as measured by the real effective exchange rate (REER), has deteriorated. The REER, which assesses a country's international price competitiveness, has been appreciating in Curaçao since 2009. Meanwhile, Sint Maarten has experienced an appreciation of the REER since 2008. The reduced competitiveness of both countries has contributed to the widening of the current account deficit. The situation on the current account of the balance of payments will be structurally improved if both countries are to increase their competitiveness vis-à-vis their main trading partners. Gains in competitiveness can be achieved through more wage and price flexibility, increased labor productivity, and an improvement of the overall investment climate. Therefore, the governments of both countries need to embark on a policy path to address these issues to strengthen our balance of payments in a sustainable way.

Since 2012, our official reserves have been showing a declining trend as the inflows from capital transfers and external financing have not been sufficient to cover the deficit on the current account of the balance of payments. One of the reasons behind this development is the phasing out of the development aid funds from the Netherlands as agreed upon in the debt relief program. However, net direct investments into the monetary union, which in the past contributed significantly to the financing of the current account deficit, also have been declining. The decline in net direct investments may be related partly to the economic situation in our main trading partners, notably the Netherlands. However, a decline in net direct investments also indicates a lack of confidence in our economy. The lack of political stability and policy transparency may have eroded investor confidence in our economy. Therefore, we need to create a more stable and competitive macro-economic environment to once again be able to attract foreign direct investments to improve our balance of payments and reverse the decline in reserves.

E.D. Tromp
President

INTERNATIONAL ECONOMIC DEVELOPMENTS

Real GDP expanded in the United States by 1.9% in the first quarter of 2013, a slowdown compared to the 3.3% growth recorded in the first quarter of 2012 (see Table 1). Private demand was the driver of the expansion during the January–March period of 2013. Despite the expiration of the payroll tax cut that was enacted in 2011, private consumption rose, supported mainly by higher equity and home prices and improved consumer sentiment. Private sector investment expanded as well, albeit at a slower pace than in the first quarter of 2012. By contrast, a fall in public demand dampened real economic growth. The decline in public spending was largely the result of reduced defense spending. Furthermore, the federal budget sequestration that went into effect on March 1st, 2013, resulted in automatic spending cuts in particular categories of federal outlays. The contribution of net foreign demand to real GDP growth remained muted in the first quarter of 2013 as export growth was counterbalanced by increased imports. However, export growth was, less pronounced than a year earlier because of weakened foreign demand. The import bill increased due solely to more non-oil imports, as oil imports declined. The decline in oil imports was ascribable mainly to a rise in US oil production, notably shale oil production. Consumer price inflation eased to 1.8%, primarily because of a considerable drop in energy prices. Moreover, the price gain of non-oil commodities (including food) and services was less pronounced than a year earlier. The unemployment rate dropped to 7.6%, due mostly to a decline in the labor participation rate. During the first quarter of 2013, the Federal Reserve continued its accommodative monetary policy because the unemployment rate was still above normal levels, and the inflation rate was below its longer-run objective. Consequently, the target FED funds rate was kept at 0%-0.25%. The Federal Reserve also continued with the program of large-scale asset purchases.

Table 1 Selected indicators of various countries

	United States		Netherlands		Venezuela	
	2012-I	2013-I	2012-I	2013-I	2012-I	2013-I
Real GDP (% change)	3.3	1.9	-1.1	-1.8	5.9	0.5
Consumer prices (%)	3.3	1.8	2.5	2.6	25.4	20.8
Unemployment rate (%)	8.2	7.6	5.0	6.4	7.9	7.7

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

During the March quarter of 2013, the economy of the Netherlands contracted by 1.8% because of a decline in domestic demand. Private consumption shrank as consumers spent less on durable goods, including cars, furniture, and clothes. Moreover, spending on food, tobacco, beverages, and services dropped. Meanwhile, private investment declined across all categories but was more pronounced in transportation equipment, construction of nonresidential buildings, civil engineering and other machinery, equipment, and computers. Similar to the previous three years, public demand contracted, reflecting austerity measures to reduce the budget deficit. Net foreign demand contributed positively to growth as the increase in exports offset the rise in imports. Export growth decelerated, however, in the first quarter of 2013 because the gain in Dutch re-exports was less pronounced than in the first quarter of 2012. Also, exports of manufactured goods shrank, reflecting a decline in foreign demand. Meanwhile, import growth eased due to the modest gain in re-exports combined with the decline in domestic spending. An analysis by sector shows that real value added dropped in most sectors of the economy. However, the decline was most pronounced in the construction sector. The unemployment rate in the Netherlands rose to 6.4% during the first quarter of 2013, as people lost their jobs because of the economic contraction. Inflation rose to 2.6%, well above the 2% target set by the European Central Bank. Tax hikes were the main cause of the increased inflationary pressures. In October 2012, the Dutch government increased the value added tax. Meanwhile, in January 2013, taxes on insurance, energy, and new cars were raised. Furthermore, excise duties on petrol and tobacco also were increased.

In Venezuela, real GDP growth decelerated sharply from 5.9% in the first quarter of 2012 to a mere 0.5% in the first quarter of 2013. The economic slowdown was ascribable to weakened domestic demand as private consumption, private investment, and government spending rose at a much slower pace than a year earlier. The growth in private consumption was in line with an increase in private credit extension as banks offered consumer loans at cheaper rates. However, shortages of basic goods, combined with a devaluation of the bolívar in February 2013, moderated the expansion in private consumption. Meanwhile, government spending weakened considerably, after a sharp increase on social programs preceding the presidential election in 2012. The contribution of net foreign demand to overall growth improved during the first quarter of 2013, due to a significant moderation in imports. This moderation was caused by the weakened bolívar that resulted from the devaluation and currency restrictions that limit companies from accessing foreign currency for imports. Meanwhile, total exports dropped as both nonoil and oil exports shrank in the first quarter of 2013 compared to the first quarter of 2012. An analysis by sector shows that the main drivers of the first quarter growth were the oil, financial services, and communication sectors. By contrast, activities in the mining, manufacturing, and construction sectors dropped. The considerable decline in the construction sector was related to, among other things, the slowdown in public spending on social programs aimed at building homes for low-income families. Despite the devaluation of the bolívar in February 2013, the quarterly inflation rate decelerated to 20.8% in the first quarter of 2013. The decline in the inflation rate was attributable to a slowdown in consumer price increases of mainly food and nonalcoholic beverages during January and February 2013. However, in March 2013, after the weakening of the bolívar, the inflationary pressures picked up. The unemployment rate was 7.7% in March 2013, a decline compared to the 7.9% that was recorded in March 2012, indicating a slight improvement in the labor market situation.

GENERAL ECONOMIC DEVELOPMENTS IN CURAÇAO

Following a contraction of 0.7% in the first quarter of 2012, real GDP in Curaçao expanded by a mere 0.2% in the first quarter of 2013. The economic expansion was underpinned by an increase in private demand. Price pressures in Curaçao eased as a lower inflation rate of 2.1% was recorded in the March quarter of 2013, primarily the result of a decline in gasoline prices (see Table 2).

On the expenditure side, economic growth was led by private demand, supported by increases in both private investment and consumer spending. By contrast, public demand dropped because of a decline in expenditures on goods and services. Private investment recorded a moderate growth driven by nonresidential construction projects in Curaçao. This development coincided with the increase in mortgages and business loans extended.

After contracting a year earlier, private consumer spending grew in the first quarter of 2013, reflected by an increase in consumer loans extended by the commercial banks.

The contribution of net exports to real GDP growth was flat during the first quarter of 2013 as the decline in exports of goods and services was counterbalanced by a drop in imports. Exports dropped mainly because of fewer re-exports by the free-zone companies and a decline in the refining fee. The import bill shrank as a result of lower oil imports reflecting both a decline in international oil prices and a drop in the demand for fuel. With higher merchandise imports, but moderate re-export activities, the free-zone enterprises were replenishing their inventories.

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

	2012-I	2013-I
Domestic expenditure, of which:	-0.1	0.1
Private sector	-0.1	0.4
- Investment	0.1	0.2
- Consumption	-0.2	0.2
Government sector	0.0	-0.3
- Investment	-0.3	0.1
- Consumption	0.3	-0.4
Changes in inventory	-0.6	0.2
Foreign net expenditure	0.1	0.0
- Export of goods and services	2.0	-0.6
- Import of goods and services	1.9	-0.6
GDP	-0.7	0.2
Net primary income	-2.5	0.4
Gross national income	-3.1	0.6
Net current transfers from abroad	-0.4	-2.9
Gross national disposable income	-3.5	-2.3

Source: Estimates by the Centrale Bank van Curaçao en Sint Maarten.
*) Expenditure categories data are weighted contributors to GDP growth.

Domestic production

From a sectoral perspective, the moderate real GDP growth was the result of slight increases in both the private and the public sectors. The growth in the public sector was due mainly to an increase in net taxation,[1] which stemmed mainly from a growth in tax revenues. Private sector activity rose at a much slower pace in the first quarter of 2013 compared to the first quarter of 2012. The key drivers of private sector growth were the restaurants & hotels, transport, storage & communication, and financial intermediation sectors (see Table 3).

Growth weakened in the first quarter of 2013 in the restaurants & hotels sector as both stay-over and cruise tourism increased at a slower pace than in 2012. Although the number of cruise calls remained practically unchanged during the first quarter of 2013,

[1] Taxes minus subsidies.

the number of cruise tourists was up by 8.0%, indicating that larger cruise vessels visited Curaçao. Stay-over tourism registered an overall increase of 6.8% driven primarily by more visitors from South America, notably Venezuela. The devaluation of the bolívar in February 2013 apparently did not immediately affect the Venezuelan market segment as the number of stay-over visitors from Venezuela rose by 33.4% in the quarter. Since the official exchange rate in Venezuela is considerably lower than the rate on the black market, where the bulk of exchange rate transactions take place, the effect of the weakening of the bolívar on the Curaçao tourism sector has not been significant as yet. Because of the difference between the official rate and the black market rate, it is lucrative for Venezuelans to travel abroad to obtain US dollars that they can exchange for bolívars back home. The North American market also grew, thanks to more visitors from the United States. By contrast, the European market segment contracted due mainly to a decline in the number of Dutch visitors, reflecting the recession in the Netherlands. The number of German tourists continued to grow due to increased marketing efforts in this country. Meanwhile, the number of visitors from the Caribbean remained fairly stable during the January-March period of 2013 compared to a year earlier. (See Table 8 in the appendix for more details.) The increase in stay-over tourist arrivals was combined with more time spent on the island. Hence, the number of visitor nights rose by 4.8%, a lower rate than in the first quarter of 2012. In contrast, the hotel occupancy rate dropped as an increased number of visitors preferred alternative accommodations, including apartments.

Table 3 GDP by sector in Curaçao (real percentage changes)

Sector	2012-I	2013-I
Agriculture, fishery & mining	5.6	-3.3
Manufacturing	2.9	0.1
Electricity, gas & water	2.2	3.0
Construction	1.4	-1.3
Wholesale & retail trade	0.8	0.0
Restaurants & hotels	4.6	2.7
Transport, storage & communication	5.5	1.7
Financial intermediation	-3.8	0.4
Real estate, renting & business activity	-0.2	-0.7
Other community, social & personal services	4.0	-1.4
Private households	2.1	0.6
Total private sector	0.6	0.2
Public sector	0.0	0.0
Taxes minus subsidies	-1.2	0.1
GDP	-0.7	0.2

Source: Estimates by the Centrale Bank van Curaçao en Sint Maarten.

Real value added rose in the transport, storage and communication sector, albeit at a more moderate pace than in the first quarter of 2012. Air transportation and airport-related activities expanded as a result of a growth in total passenger traffic. In particular, the number of transit passengers from Venezuela increased significantly during 2013's first quarter. Also, the number of commercial landings rose. The harbor posted mixed results. On the one hand, the number of ships piloted into the ports fell and oil storage activities contracted. On the other hand, container movements increased, reflected by a rise in transshipment.

Following a decline in the first quarter of 2012, activities in the financial intermediation sector grew at a moderate pace during the first quarter of 2013. Both domestic financial services and international financial services contributed to the gain in financial intermediation. Real value added in the international financial services industry rose as a result of higher wages & salaries and other operational expenses. Meanwhile, net income of the domestic banks grew because of an increase in interest income combined with a rise in other income.

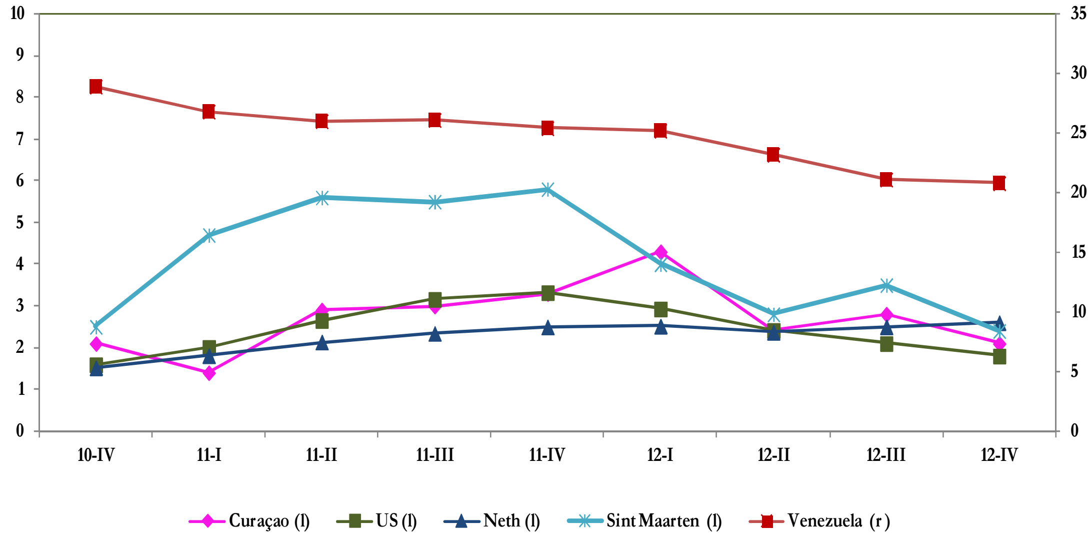
Output growth in the manufacturing sector weakened considerably to 0.1% as refining activities in Curaçao rose at a much slower pace in the first quarter of 2013 than in the first quarter of 2012. Meanwhile, the ship repair industry recorded a growth as reflected by a rise in the number of man-hours sold. Real output in the utilities sector grew as the production of both water and electricity increased.

Real value-added growth in the wholesale and retail trade sector remained flat during the March quarter of 2013 as the growth in stay-over tourism and domestic spending was offset by a contraction in the free-zone sector. This contraction was the result of a decline in re-exports by the free-zone companies. Despite an increase in nonresidential investments, real output contracted in the construction sector. The disappointing result in the construction industry was attributable to, among other things, the use of prefabricated components in several projects. Construction based on prefabricated components has a lower value added than traditional construction methods. In addition, a decline in public investments in road infrastructure contributed to the contraction in real output in the construction sector.

Inflation

The inflation rate in Curaçao decelerated from 3.3% in the first quarter of 2012 to 2.1% in the first quarter of 2013 (see Graph 1). The lower rate of inflation was attributable primarily to a decline in domestic gasoline prices.

Graph 1 Developments in consumer prices (annual quarterly percentage change)



An analysis of the development in the CPI components reveals that prices dropped in the categories “Transport & communication” (-0.9%) and “Health (-0.6%). The decline in “Transport & communication” was due to the reduction in domestic gasoline prices. Meanwhile, inflationary pressures eased in the categories “Food” (4.0%), “Beverages & tobacco” (2.1%), and “Recreation & education (0.5%). The deceleration in the category “Food” was primarily related to slower price gains in “grain products” and “fish and meat”. By contrast, prices accelerated in the categories “Housing” (3.9%) and “Housekeeping and furnishings” (2.5%). The increased inflationary pressures in the “Housing” category were related to upward adjustments in electricity prices mitigated by a reduction in water tariffs. (See Table 9A in the appendix.)

GENERAL ECONOMIC DEVELOPMENTS IN SINT MAARTEN

During the first quarter of 2013, economic activity in Sint Maarten expanded by 0.7%, a slowdown compared to the increase of 1.5% registered in the first quarter of 2012. Meanwhile, consumer price inflation fell to 2.4% reflecting slower price gains in food combined with a decline in electricity prices.

On the production side, real GDP growth was driven primarily by the restaurants & hotels, wholesale & retail trade, construction, and manufacturing sectors (see Table 4). However, real value-added growth in the restaurants & hotels sector was less pronounced than in 2012. The slower pace of growth was the result of a deceleration in stay-over tourism combined with a contraction in cruise tourism, the result of a decline in the number of cruise ships that visited Sint Maarten. The number of stay-over tourists was up by 2.3% in the March quarter of 2013 compared to an expansion of 9.4% in the March quarter of 2012. (See Table 8 in the appendix.) Growth was supported by increases in the South American, Caribbean, and North American markets, backed by more marketing efforts. Tourist arrivals from South America rose (8.9%), largely due to more visitors from Venezuela and Brazil. The improvement in the Caribbean market segment (11.8%) was attributable mainly to more visitors from Trinidad & Tobago, the Dominican Republic, and Sint Kitts & Nevis. Growth in the North American market (3.0%) was led primarily by more visitors from Canada. In addition, the number of tourists from the United States increased, albeit at a more moderate pace than in the first quarter of 2012. By contrast, the European market segment recorded a contraction (-2.0%) reflecting the economic recession in most European countries. As an increased number of visitors preferred staying at alternative accommodations, including apartments, the hotel occupancy rate dropped slightly.

Growth in the wholesale and retail trade sector was supported by increases in both tourism spending and domestic spending. After a contraction in the first quarter of 2012, activities in the construction sector picked up in the first quarter of 2013, due mainly to investments in Sint Maarten’s infrastructure, including the construction of the Simpson Bay Lagoon Causeway aimed at improving the accessibility to Simpson Bay, the airport, and Colebay. The utilities sector also contributed positively to real GDP growth led by an increase in the production of electricity, moderated by a decline in water production. In addition, the consumption of both water and electricity rose during the first quarter of 2013. Meanwhile, real output rose in the manufacturing sector owing to an increase in repair activities on yachts that visited Sint Maarten during the January–March period of 2013.

Table 4 GDP by sector in Sint Maarten (real percentage changes)

Sector	2012-I	2013-I
Agriculture, fishery & mining	0.0	0.0
Manufacturing	-3.8	4.7
Electricity, gas & water	0.7	0.3
Construction	-3.6	2.7
Wholesale & retail trade	0.7	0.7
Restaurants & hotels	5.6	1.8
Transport, storage & communication	1.1	-0.3
Financial intermediation	2.2	-2.6
Real estate, renting & business activity	0.5	0.2
Other community, social & personal services	0.2	3.8
Private households	1.7	2.0
Total private sector	0.7	0.5
Public sector	0.4	0.7
Taxes minus subsidies	0.3	-0.5
GDP	1.5	0.7

Source: Estimates by the Centrale Bank van Curaçao en Sint Maarten.

Both the financial services sector and the transport, storage & communication sector put a drag on real economic growth. Real value added in the financial services sector dropped as reflected by a decline in net interest income of the commercial banks, attributable to a drop in their interest income, mitigated by lower interest expenditures.

The contraction in the transport, storage & communication sector was ascribable to a decline in harbor activities reflected by a drop in the number of ships that visited the port, notably cruise ships and tankers. By contrast, airport-related activities increased due to more passenger traffic, albeit at a slower pace than in the first quarter of 2012. In addition, the number of commercial landings rose. The positive performance of the airport was in line with the development in the number of stay-over visitors.

Inflation

Inflationary pressures in Sint Maarten eased to 2.4% in the first quarter of 2013, down from 5.8% in the first quarter of 2012. The decline in inflation was due largely to a slowdown in food prices combined with a decline in electricity prices. Prices decelerated in the categories "Food" (6.0%), "Beverages & tobacco" (4.8%), and "Clothing & footwear" (2.6%). In addition, prices in the "Housing" category dropped (-0.1%) due to a decline in electricity prices. (See Table 9B in the appendix.)

DEVELOPMENTS IN PUBLIC FINANCE

Public finances Curaçao

Developments in Curaçao's public sector during the first quarter of 2013 were characterized by the implementation of several contractionary fiscal measures. These events must be viewed against the background of the instruction given by the Kingdom Council of Ministers to the Curaçao government in July 2012. Among other things, the instruction compelled the government of Curaçao to balance its 2012 budget and multiannual projections. However, the necessary tightening measures to comply with the instruction were repeatedly postponed by the government and eventually deferred to 2013. As a result, the Curaçao government still recorded a NAf.110.3 million deficit by the end of 2012. In February 2013, the government of Curaçao introduced a general health insurance scheme. This action was followed by an increase in the retirement age from 60 to 65 in March 2013. These measures were aimed at easing the growing pressure exerted on the government budget by rising health care and old-age-pension outlays. Still, additional measures would have to be taken in the following months of 2013 to settle the budgetary woes of the Curaçao government.

During the first three months of 2013, the government of Curaçao recorded a surplus of NAf.41.3 million, a deterioration compared to the NAf.123.4 million surplus registered a year earlier. This worsening was attributable to a growth in total expenditures (NAf.76.1 million), complemented by a fall in total revenues (NAf.6.0 million). The increase in government expenditures was primarily due to higher transfers and subsidies on behalf of households. Disbursements on goods & services and wages & salaries also rose in 2013's first quarter, albeit at a slower pace than in the first quarter of 2012. The decline in government income during the opening quarter of 2013 was triggered mainly by changes implemented in the government's taxation policy, aimed at gradually shifting the fiscal burden from direct to indirect taxation. On overall, total tax revenues dropped to 30.0% of GDP in 2013's first quarter compared to 31.4% a year earlier. Effective January 1, 2012, the applicable profit tax rate was reduced from 34.5% to 27.5%, while the income tax rates also were lowered slightly. Consequently, proceeds from profit tax in particular dropped sharply in the first quarter of 2013 compared to the first quarter of 2012. The resulting fall in government income was largely mitigated by an upturn in sales tax revenues, which mirrored the moderate economic growth estimated in the January-March period of 2013. Meanwhile, gasoline excises collected by the government remained subdued in the first three months of 2013, due to lower-than-average disbursements by the public enterprise that collects these excises. (See Tables 10A and 10B in the appendix for an overview.)

In the first quarter of 2013, the Curaçao government used its budget surplus and nonmonetary financing from other creditors to replenish its accounts with the commercial banks and the central bank, resulting in a drop in monetary financing (see Table 5).

Table 5 Financing of the budget balance of Curaçao (in millions NAf.)

	2012-I	2013-I
Monetary financing	-35.6	-113.9
Central bank	-25.1	-6.0
Commercial banks	-10.5	-107.9
Nonmonetary financing	-87.8	72.6
Government securities with the public	0.0	0.0
Other	-87.8	72.6
Cash balance	123.4	41.3

Public sector debt Curaçao

During the first quarter of 2013, the outstanding public debt of the Curaçao government rose by NAf.20.4 million to NAf.1.879 million, mainly as a result of additional liabilities incurred with the social security bank, SVB. Consequently, Curaçao's public debt-to-GDP ratio at the end of March 2013 was estimated at 33.3%.

Public finances Sint Maarten

Due to the lack of government data on the first quarter of 2013, no analysis of public finance developments in Sint Maarten was possible.

DEVELOPMENTS IN THE BALANCE OF PAYMENTS OF THE MONETARY UNION

During the first quarter of 2013, the deficit on the current account of the balance of payments of the monetary union widened by NAf.59.5 million compared to the first quarter of 2012. The higher deficit was caused largely by a deterioration of the trade and current transfers balances, offset partly by improvements in the services and income balances. Since the current account deficit increased, the combined capital and financial account worsened at a faster pace than in the first quarter of 2012 (see Table 6).

Table 6 Balance of payments summary (in millions NAf.)

	2011-I	2012-I	2013-I
Current account	-272.3	-202.4	-261.9
Capital transfers	34.0	28.3	16.3
External financing of the government	0.0	-2.7	0.2
External financing of the private sector	146.2	-64.0	149.9
- Direct investment	34.3	88.2	5.6
- Loans and credits	71.3	-296.0	71.7
- Portfolio investments	40.6	143.8	72.6
Change in gross reserves of the central bank*)	39.6	224.7	56.7
- Foreign exchange	21.6	188.7	140.3
- held at foreign central banks	188.8	163.5	146.3
- held at foreign commercial banks	-167.2	25.2	-6.0
- Other claims	18.0	36.0	-83.6
Statistical discrepancies	52.5	16.1	38.8

*) A minus sign implies an increase.

Current account

Net exports of goods and services in the monetary union dropped by NAf.11.7 million during the first quarter of 2013 compared to the first quarter of 2012, as an increase in exports (NAf.44.1 million) was outweighed by a growth in imports (NAf.55.8 million). Below follows an analysis of the development in net exports of goods and services in Curaçao and Sint Maarten.[2]

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 2013 compared to the first quarter of 2012, as a decline in exports (NAf.9.2 million) was counterbalanced by a drop in imports (NAf.9.7 million). The contraction in exports was mostly related to a sharp decline in re-exports by free-zone companies reflecting lower foreign demand. Furthermore, the refining fee dropped due to a decline in trading activities by the Isla refinery, mitigated by more refining activities. A decline in foreign exchange revenues from ship repair activities (NAf.8.5 million) also contributed to the drop in exports.

In contrast, foreign exchange revenues from the tourism industry rose (NAf.30.9 million), albeit at a slower pace than in the first quarter of 2012. Foreign exchange earnings from both cruise tourism (11.3%) and stay-over tourism (11.1%) increased during the January–March period of 2013. In addition, foreign exchange receipts from the transportation sector rose (NAf.31.3 million) as a result of more air transportation earnings, mitigated slightly by lower foreign exchange receipts from sea transportation activities. The rise in air transportation earnings was supported by more stay-over arrivals and a surge in the number of transit passengers at the airport. Despite a decline in international oil prices, foreign exchange earnings from bunkering activities increased, reflecting a rise in the volume sold.

The decline in the imports of goods and services was largely the result of less oil imports, due to declines in international oil prices and fuel usage in the utilities sector. The latter decline was a consequence of the increased use of alternative energy resources, i.e., wind and solar energy. In contrast, as re-exports dropped, merchandise imports by the free-zone companies in Curaçao rose largely to replenish their inventories. Moreover, merchandise imports by the retail trade sector increased, reflecting an improvement in domestic spending and the increase in tourism.

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

In Sint Maarten, net foreign demand declined by NAf.11.6 million during the first quarter of 2013 compared to 2012's first quarter, as the rise in exports (NAf.61.8 million) was outweighed by the increase in imports (NAf.73.4 million). The growth in export earnings was related mostly to a significant rise in bunkering activities (NAf.26.2 million), accompanied by increased foreign exchange revenues from the tourism sector. The latter rose by NAf.13.2 million as a result of an increase in revenues from stay-over tourism (NAf.23.9 million) offsetting the decline in revenues from cruise tourism (NAf.10.7 million). Imports of goods and services increased as a result of a rise in imports by the

[2] 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.

retail trade sector driven by increased domestic demand and more tourism spending. The increase in oil imports reflected mainly improved reporting of data by the oil importing companies.

Developments in the income balance and current transfers balance

The income balance of the monetary union improved by NAf.9.3 million due mainly to more labor income received from abroad (NAf.8.5 million) attributable mostly to Sint Maarten (NAf.6.4 million). On the other hand, net interest income from abroad remained practically unchanged. In contrast, the current transfers balance deteriorated sharply by NAf.57.1 million, reflecting mainly an increase in current transfers paid to abroad due to a growth in insurance premiums paid. In the first quarter of 2012, less insurance premiums than usual were paid, causing a significant increase in 2013. Moreover, the current transfers received from abroad dropped slightly, largely as a result of less offshore profit tax received by the government.

Overall, the deficit on the current account increased by NAf.59.5 million to reach NAf.261.9 million in the first quarter of 2013. (For a detailed overview, see Table 11 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.149.9 million in the first quarter of 2013. This change in the external financing of the private sector was due mainly to a deterioration of the portfolio investment and loans and credits balances.

The portfolio investment balance deteriorated by NAf.72.6 million as a result of funds received from matured foreign debt securities held by institutional investors who did not reinvest them abroad. This inflow was only slightly mitigated by the purchase of foreign securities by local investors. The bulk of the matured debt securities were issued in the past by the entities of the Netherlands Antilles and taken over as part of the debt relief program by the Dutch government in October 2010.

The loans and credits balance deteriorated by NAf.71.7 million as domestic companies withdrew funds from their foreign bank accounts to finance part of their imports. Also, the net trade credit balance worsened because of net repayments on trade credits extended, combined with an increase in trade credits received on imports.

Net direct investments into the monetary union expanded by NAf.5.6 million. The small expansion during the January–March period of 2013 was due mainly to increased claims by foreign direct investors on their subsidiaries in Curaçao and Sint Maarten, combined with the purchase of real estate in both countries by nonresidents.

Meanwhile, capital transfers received dropped to NAf.16.3 million in the first quarter of 2013, down from NAf.28.3 million in the first quarter of 2012 because development aid funds from the Netherlands are being phased out. As a result of the drying up of inflows from capital transfers and insufficient external financing of the private sector to cover the current account deficit, gross reserves declined by NAf.56.7 million. This decline was reflected by a drop of NAf.146.3 million in foreign exchange held at foreign central banks mitigated by both an increase of NAf.6.0 million in foreign exchange held at foreign deposits money banks and an increase in other claims of NAf.83.6 million. (See Table 12 in the appendix for a detailed overview.)

Box

Developments in the balance of payments; a result of deteriorating price competitiveness?

The Centrale Bank van Curaçao en Sint Maarten on several occasions in the past has called for action to address the growing current account deficit on the balance of payments. Despite improvements in net exports in 2012, the deficit on the current account was not fully covered by capital transfers and external financing. Consequently, the balance of payments of the monetary union recorded a deficit as reflected by a decline in the international reserves. Currently, the official reserves stand at three months' worth of imports of goods and services[3] but show a declining trend. To prevent a further deterioration of the reserves position, the current account deficit must be reduced.

Reducing the current account deficit requires focusing on the two main components of the current account, i.e., the trade and services balances. These balances can be improved by increasing exports and reducing imports. Competitiveness is a major factor in international trade and can have a significant impact on exports and imports. Exports can benefit from more competitive prices. In turn, lower price competitiveness can result in lower exports, because locally produced goods and services become more expensive vis-à-vis competitors. One way to measure our price competitiveness is by calculating our real effective exchange rate.

The Real Effective Exchange Rate (REER) is a measure for international price competitiveness and is defined as the nominal exchange rates adjusted for price differentials between a home country and its trading partners. Hence, the effects of changes in both the nominal exchange rate and inflation differentials between the home country and its trading partners are considered. The REER can be calculated for exports of goods, exports of goods and services, or total trade of goods and services. The IMF uses primarily a REER based on total trade of goods and services, excluding trade in oil.

Although the REER is a good indicator of international price competitiveness, it is not an indicator of an economy's overall competitiveness because it does not cover the other components that determine overall competitiveness, i.e., changes in macroeconomic policies, the regulatory and institutional environment, and labor productivity.

This box provides a calculation of the REER for Curaçao and for Sint Maarten for the period 2007–2012. The REER is calculated for the total trade of goods and services excluding oil. To calculate the REER, the main trading partners of Curaçao and Sint Maarten have been selected based on their average share in total trade.

Table 1 shows the main trading partners of Curaçao and Sint Maarten and their average share in total trade for the period 2007-2010. The 20 and 16 major trading partners of Curaçao and Sint Maarten, respectively, represented 92.6% of the trade flows in the

[3] The international benchmark used by the IMF.

2007-2010 time period, and it is assumed that the average shares of the countries remained stable in 2011 and 2012.

Table 1 Average share of main trading partners in total trade for Curaçao and Sint Maarten

Total trade Curaçao		Total trade Sint Maarten	
Country	Share	Country	Share
Aruba	0.0430	Anguilla	0.0172
Barbados	0.0064	Barbados	0.0066
Belgium	0.0088	Belgium	0.0115
Brazil	0.0103	Canada	0.0238
Canada	0.0070	Switzerland	0.0034
Switzerland	0.0084	Dominican Republic	0.0034
China	0.0400	Spain	0.0032
Colombia	0.0185	Finland	0.0058
Germany	0.0092	France	0.0480
Dominican Republic	0.0075	United Kingdom	0.0086
United Kingdom	0.0116	Italy	0.0048
Hong Kong	0.0248	St. Kitts and Nevis	0.0063
Jamaica	0.0089	Netherlands	0.0382
Japan	0.0136	Panama	0.0036
Korea, Dem. People's Rep.	0.0060	Trinidad and Tobago	0.0235
Netherlands	0.1850	United States	0.7178
Panama	0.0352		
Trinidad and Tobago	0.0127		
United States & Puerto Rico	0.3194		
Venezuela	0.1495		
Total	0.9259	Total	0.9257

Source: CBCS

Table 2 shows the development in the REER for Curaçao and Sint Maarten for the period 2007-2012. A decline in the REER represents a depreciation of the real effective exchange rate and, hence, an increase in price competitiveness.

Table 2 Real Effective Exchange Rate for Curaçao and Sint Maarten over the period 2007-2012

	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Curaçao	100	96.88	96.02	96.49	98.73	104.20
Sint Maarten	100	106.89	108.56	110.47	111.52	114.67

Source: CBCS

The data in Table 2 suggest that the REER depreciated for Curaçao during the time period 2007- 2009, indicating improved price competitiveness. However, as of 2010 the REER has appreciated, largely because, on average, inflation in Curaçao rose more strongly than in the main trading partners. The worsening of the international price competitiveness in 2010 and 2012 can be explained by the depreciation of the euro vis-à-vis the US dollar. However, in 2011, the US dollar became weaker vis-à-vis the euro. Therefore, the decline in Curaçao's competitiveness can be explained by relatively higher local price levels resulting from, among other things, the increase in the sales tax rate.

For Sint Maarten, the development in the REER is even more worrisome. Beginning in 2008, the REER has appreciated significantly every year. This trend implies that exports have become relatively more expensive and imports cheaper compared to Sint Maarten's 16 main trading partners. Sint Maarten's competitiveness has eroded as a result of relatively high levels of inflation related to, among other things, the increase in the sales tax rates and the pass-through of higher oil and food prices.

Based on the REER, it can be concluded that both Curaçao and Sint Maarten have lost competitiveness in recent years. In the longer term, this situation can have a negative impact on the current account of the balance of payments. Therefore, the governments must take measures to improve the international competitiveness of Curaçao and Sint Maarten.

MONETARY DEVELOPMENTS

Monetary policy

During the first quarter of 2013, monetary policy continued to be directed towards tightening the liquidity surplus on the domestic money market. The objective of this monetary tightening is to reduce the high deficit on the current account of the balance of payments and, consequently, reverse the declining trend in the foreign exchange reserves. The Bank tried to achieve this goal by raising the percentage of the reserve requirement, the main monetary instrument, and by measures to bring the growth in private credit extension more in line with nominal economic growth.

Since September 2011, the reserve requirement has been more intensively deployed as a monetary policy tool for tightening domestic money market conditions. The rate of the reserve requirement was raised by 1.25 percentage points during the first quarter of 2013 to 15.50% in March 2013. However, excess reserves remained high and didn't restrain the commercial banks' loan expansion. Therefore, the Bank complemented the reserve requirement tool with a credit measure[4] to contain the growth in private credit extension. In the first quarter of 2013, the credit measure was prolonged for the third time, allowing a maximum credit growth for the period March to August 2013 of 2% compared to the end of August 2012. Moreover, a penalty on excess credit was introduced. The other instrument of monetary policy, the auctioning of Certificates of Deposit (CDs), was deployed in a neutral way in the first quarter of 2013 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 2013.

Monetary base

In the first quarter of 2013, the monetary base (M0) expanded by NAf.28.3 million (4.2%) after a contraction by NAf.60.5 million (8.3%) during the fourth quarter of 2012. The expansion in the monetary base was caused by a noticeable increase in the

[4] In February 2012, a temporary freeze on private credit extension was introduced for a period of six months. In September 2012, the credit measure was continued for another six months, but this time a 1% growth in credit was allowed.

commercial banks' current account balances with the central bank (NAf.45.5 million). The other component of the monetary base, currency in circulation, dropped by NAf.17.2 million as the public demand for cash normally drops in the first month of the year following the December holidays.

A breakdown of the monetary base by its underlying components shows that the increase during the first quarter of 2013 was driven primarily by declines in private sector and government deposits, capital and reserves, and foreign liabilities. The drop in foreign liabilities was related to transfers to foreign accounts due to settlements for clients of an institution which is under an emergency measure of the Bank. Also, an increase in the claims on government agencies and institutions contributed to the rise in the monetary base, which was related to the Bank's acquisition of bonds issued by the Sint Maarten harbor company on the secondary market. (See Table 13 in the appendix for more details.)

Monetary aggregates

After a contraction in the two previous quarters, broad money (M2) expanded by 0.8% during the first quarter of 2013. Nevertheless, the annual growth rate of M2 fell from 1.8% in December 2012 to 1.3% at the end of 2013's first quarter, extending the downward trend that started in mid-2012. (See Table 14 in the appendix.)

The growth in M2 during the first quarter of 2013 was driven mainly by the near money component, which expanded by 1.5%. The expansion in near money was caused by increased time and savings deposits. The narrow money component (M1) increased by a mere 0.1%, because of a 0.5% growth in demand deposits. The other component of M1, coins and notes with the public, dropped by 3.8%. The annual growth rate of M1 decelerated from 6.9% in December 2012 to 2.2% in March 2013.

Factors affecting the money supply

The private sector's money holdings expanded by NAf.60.8 million (0.8%) reaching NAf.7,502.0 million at the end of the first quarter of 2013. Both net domestic assets and net foreign assets of the banking system increased.

Net domestic assets increased by NAf.46.8 million (1.3%) during the first quarter of 2013. The expansion in net domestic credit was due to higher claims on the private sector (NAf.87.1 million; 1.4%) and an increase in memorandum balance sheet items (NAf.50.8 million; 2.1%), mitigated by a decline in net claims on the government (NAf.91.1 million; 21.4%). The decline in net credit extended to the governments resulted from an increase in government deposits, notably deposits of the government of Curaçao related to its budget surplus.

The loan component of net credit extended to the private sector increased marginally by 0.6% in the first quarter of 2013, attributable to mortgages (1.2%) and business loans (1.2%); consumer loans declined by 1.5%. Broken down by country, Curaçao recorded an expansion in total loans of 1.2%, led by increases in mortgages (0.6%) and business loans (3.5%). By contrast, consumer loans declined (1.3%). In Sint Maarten, total loans declined by 1.1%, caused by fewer outstanding consumer loans (2.0%) and business loans (5.3%), mitigated by an increase in mortgages (2.8%). On an annual basis, total loans expanded by 5.0%, due entirely to the 8.1% growth in Curaçao because Sint Maarten registered a decline of 3.1%.

The increase of NAf.14.0 million (0.4%) in net foreign assets was reflected by a growth of NAf.108.0 million in the commercial banks' net foreign positions, which was partly offset by a drop of NAf.94.0 million in the net foreign assets of the central bank during 2013's first quarter. (See Table 15 in the appendix for more details.)

Developments in domestic interest rates

When setting the rate offered on CDs during the bi-weekly auctions, the Bank takes also 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 rate[5] during the March quarter of 2013 resulted in a drop in the 1-month CD rate from 0.12% at the end of December 2012 to 0.10% at the end of the first quarter of 2013. The highest rate offered during the first quarter was 0.12% on January 7, 2013.

The commercial bank rates remained fairly stable in the first quarter of 2013. The average mortgage rate remained unchanged at 6.7%. The rate on time loans averaged 7.7% in the March quarter of 2013, down from 7.9% in 2012's fourth quarter.

The borrowing rates remained unchanged. The average rate offered on a 12-month time deposit remained at 1.6% in the first quarter of 2013, while the average interest rate on passbook savings remained stable at 1.2%.

Changes in the yields on government paper are virtually determined by developments in the Dutch capital market due to the standing subscription by the Dutch Treasury Agency. The average effective yield on 5-year government bonds increased from 0.6% at the end of 2012's fourth quarter to 0.8% at the end of the first quarter of 2013. Finally, the yield on 12-month treasury bills remained unchanged at nearly zero (0.01%). (See Table 16 in the appendix for a detailed overview.)

DEVELOPMENTS IN THE COMMERCIAL BANKING SECTOR

Total assets of the domestic commercial banking sector increased by 1.4% during the March quarter of 2013, after having declined in the fourth quarter of 2012. Expansions in interest-bearing cash (6.3%), loans (0.5%), and investments (1.8%) contributed primarily to the expansion of the aggregate balance sheet of the commercial banks. These expansions were mitigated, however, by contractions in non-interest-bearing cash and in fixed and other assets. (See Table 17 in the appendix for more details.)

Total liabilities of the domestic commercial banking sector rose by 1.3% in the March 2013 quarter as increases in total deposits (1.6%) and borrowings (7.9%) exceeded a decline in other liabilities (-7.8%). The increase in deposits resulted from more demand and time deposits. Among other things, the commercial banks' efforts to preserve their interest margin resulted in a decline in the share of interest-bearing deposits (time and savings deposits) to total deposits from 52.1% in the fourth quarter of 2012 to 51.7% in the first quarter of 2013.

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

The domestic commercial banks' capitalization increased by 2.0% in 2013's first quarter compared to the December quarter of 2012. The share of total capital in total liabilities and capital of the commercial banking sector amounted to 11.6% at the end of March 2013, up slightly from 11.5% in the fourth quarter in 2012. (See Table 16 in the appendix for more details.)

The commercial banks reported a total operating income of NAf.246.7 million in the first quarter of 2013, a 3.5% increase compared to the first quarter of 2012. Increases in both net interest (1.4%) and other income (7.9%) contributed to the rise in total income. The increase in net interest income resulted from a drop in interest expenses (3.9%) that outweighed a decline in interest income (0.9%).

On the expenses side, all categories contributed to the increase in total operating expenses (2.2%). The developments in income and expenses resulted in a 6.5% increase in net operating income. Because of net extraordinary income and lower profit tax paid, net income after taxes rose by 23.1% in the first quarter of 2013. (See Table 18 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 banking 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. Together with the FSIs, these stress tests 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 11.6% at the end of the first quarter of 2013, about the same as at the end of the fourth quarter of 2012 (11.5%). The upward trend in this ratio is an indication that the capital stock of the domestic commercial banks remained relatively strong, well above the benchmark of 4.0% for Tier 1 capital under the Basel I and Basel II agreements (Table 7).

The quality of the commercial banks' assets portfolio improved during the first quarter of 2013 as the drop in outstanding nonperforming loans (8.0%) outweighed that in total loans (0.6%). Consequently, the ratio of nonperforming loans-to-total loans dropped from 8.1% in the fourth quarter of 2012 to 7.4% in the first quarter of 2013. Similarly, the decline in nonperforming loans also contributed to the increase in the ratio of provisions for loan losses-to-nonperforming loans to 42.2%, up from 38.9% at the end of December 2012, as less provisioning occurred in 2013's first quarter.

Profitability of the domestic banking sector in the first quarter of 2013 was positively affected by the improvement in asset quality. The decline in interest expenses (3.2%) combined with an almost unchanged level of interest income generated by the commercial banks caused a slight improvement in the net interest margin in the March quarter of 2013 compared to the first quarter of 2012. The gross earning-assets yield dropped from 5.6% in 2012's first quarter to 5.4% in the first quarter of 2013 due to an increase in average earning assets while interest income declined. The return-on-assets ratio decreased from 1.9% in 2012's first quarter to 1.8% in 2013's first quarter due to lower net income before dividend and taxes and higher average outstanding assets.

Table 7 Financial stability indicators (in %; end of period)

	2012-I	2012-II	2012-III	2012-IV	2013-I
Capital adequacy					
Total capital/ total assets	11.4	11.2	11.3	11.5	11.6
Asset quality					
Nonperforming loans/ total loans	6.7	7.1	7.5	8.1	7.4
Provisions for loan losses/ non-performing loans	46.3	44.7	42.9	38.9	42.2
Earnings					
Gross earning-assets yield	5.6	5.5	5.6	5.5	5.4
Net interest margin	4.5	4.5	4.6	4.6	4.6
Return on assets	1.9	1.9	2.1	1.7	1.8
Liquidity					
Total loans/ total deposits	67.4	66.5	68.0	68.7	68.0

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 2012 to 68.0% in the March quarter of 2013. The drop in this ratio reveals an increase in liquidity during 2013's first quarter as total deposits increased more than the outstanding amount of loans.

APPENDIX

Table 8 Developments in stay-over tourism (% change)[1)]

	Curaçao				Sint Maarten			
	2012-1		2013-I		2012-I		2013-I	
North America, of which:	1.7	(0.3)	2.1	(0.4)	13.7	(8.9)	3.0	(2.0)
-U.S.A.	-5.2	(-0.8)	4.9	(0.7)	12.2	(6.6)	1.0	(0.5)
Europe, of which:	11.4	(5.4)	-5.1	(-2.2)	7.6	(1.8)	-2.0	(-0.4)
-The Netherlands	6.0	(2.3)	-11.7	(-3.7)	-8.6	(-0.3)	-14.1	(-0.4)
South & Central America, of which:	32.7	(7.4)	27.6	(7.5)	-21.3	(-0.6)	8.9	(0.3)
-Venezuela	41.3	(6.0)	34.3	(6.2)	38.2	(0.2)	17.4	(0.1)
-Colombia	47.4	(1.0)	0.0	(0.0)	--	--	--	
Caribbean, of which:	6.5	(0.5)	0.0	(0.0)	7.0	(0.3)	11.8	(0.5)
-Dominican Republic	12.1	(0.1)	22.6	(0.2)	20.4	(0.1)	13.4	(0.1)
Total	11.4	--	6.8	--	7.0	--	2.3	--

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

1) Weighted growth rates between brackets.

Table 9A Curaçao consumer prices (annual quarterly percentage change)

	2012-I	2012-II	2012-III	2012-IV	2013-I
Food	8.2	6.8	5.1	4.4	4.0
Beverages & tobacco	5.8	6.0	4.4	3.5	2.1
Clothing & footwear	1.6	1.1	0.7	1.4	1.5
Housing	0.6	2.7	2.2	3.9	3.9
Housekeeping & furnishings	2.0	2.7	2.6	2.6	2.5
Health	0.6	0.6	1.4	0.3	-0.6
Transport & communication	5.3	7.5	1.4	1.7	-0.9
Recreation & education	1.3	1.7	1.4	1.1	0.5
Other	2.0	2.2	1.8	1.9	1.7
General inflation rate	3.3	4.3	2.4	2.8	2.1

Source: Central Bureau of Statistics of Curaçao

Table 9B Sint Maarten consumer prices (annual quarterly percentage change)

	2012-I	2012-II	2012-III	2012-IV	2013-I
Food	15.5	13.2	10.7	6.8	6.0
Beverages & tobacco	11.1	10.0	6.8	4.2	4.8
Clothing & footwear	6.8	8.2	6.0	4.0	2.6
Housing	4.7	1.4	0.4	3.1	-0.1
Housekeeping & furnishings	7.4	7.2	4.9	4.7	13.3
Health	2.7	2.4	0.8	-0.2	-0.4
Transport & communication	2.3	1.3	0.8	2.9	2.2
Recreation & education	4.9	4.3	3.5	3.0	1.3
Other	3.8	2.9	2.0	2.0	2.4
General inflation rate	5.8	4.0	2.8	3.5	2.4

Source: Department of Statistics, Sint Maarten

Table 10A Budgetary overview of Curaçao (in millions NAf.)

	2011-I	2012-I	2013-I
Revenues	442.8	454.3	448.3
Tax revenues, of which:	425.2	429.7	423.3
Taxes on income and profits	228.3	243.9	215.2
Taxes on property	9.0	11.3	9.8
Taxes on goods and services	145.2	131.9	156.5
Taxes on international trade and transactions	41.1	40.6	40.1
Nontax and other revenues	17.6	24.6	25.0
Expenditures, of which:	273.8	330.9	407.0
Wages and salaries	130.5	150.8	168.4
Goods and services	18.7	27.2	51.5
Transfers and subsidies	124.3	130.2	176.7
Interest payments	0.2	0.3	0.2
Budget balance	169.0	123.4	41.3

Table 10B Overview of selected tax revenues for Curaçao (in millions NAf.)

	2011-I	2012-I	2013-I
Taxes on income and profits, of which:	228.3	243.9	215.2
Profit tax	89.9	104.6	78.1
Wage tax	138.3	136.4	135.7
Taxes on property, of which:	9.0	11.3	9.8
Land tax	4.4	5.4	5.8
Property transfer tax	4.0	5.6	3.7
Taxes on goods and services, of which:	145.2	131.9	156.5
Sales tax	81.8	87.9	97.9
Excises, of which:	32.3	13.0	27.5
Excise on gasoline	25.3	4.2	15.4
Motor vehicle tax	26.4	24.6	25.9
Taxes on international trade and transactions, of which:	41.1	40.6	40.1
Import duties	40.9	40.4	40.0

Table 11 Detailed overview of the balance of payments (in millions NAf.)

	2011-I	2012-I	2013-I
Trade balance	-851.4	-901.5	-971.3
-Exports	414.3	474.5	447.3
-Imports	1,265.7	1,376.0	1,418.6
Services balance	631.4	756.1	814.2
Receipts, of which:	1,070.7	1,241.1	1,312.4
-Travel	634.4	780.3	825.7
-Transportation	79.3	90.9	120.7
-Other services, of which:	357.0	369.9	366.0
-Int. fin & bus. services sector	52.3	50.7	47.0
Expenses, of which:	439.3	485.0	498.2
-Travel	143.5	160.7	154.2
-Transportation	73.7	87.6	84.7
-Other services, of which:	222.1	236.7	259.3
-Int. fin & bus. services sector	31.7	24.0	27.1
Income balance[1)]	-10.1	-39.3	-30.0
Current transfers balance[2)]	-42.2	-17.7	-74.8
Current account balance	**-272.3**	**-202.4**	**-261.9**
Capital & financial account balance	**219.8**	**186.3**	**223.1**
Capital account balance	34.0	28.3	16.3
Financial account balance	185.8	158.0	206.8
Net errors & omissions	**52.5**	**16.1**	**38.8**

1) Labor and investment income.
2) Public and private transfers.

Table 12 Breakdown of net changes in the financial account[1] (in millions NAf.)

	2011-I	2012-I	2013-I
Direct investment	34.3	88.2	5.6
- Abroad [2]	-4.6	33.2	-3.9
- In Curaçao and Sint Maarten [3]	38.9	55.0	9.5
Portfolio investment [3]	40.6	143.8	72.6
Other investment, of which:	116.7	-20.8	75.3
- Assets [2]	70.8	32.7	41.5
- Liabilities [3]	45.9	-53.5	33.8
Net lending/borrowing, of which:	-45.4	-277.9	-3.4
- Assets [2]	94.7	27.8	31.5
- Liabilities [3]	-140.1	-305.7	-34.9
Reserves [4]	39.6	224.7	56.7
Total assets [2]	241.1	462.2	198.4
Total liabilities [3]	-55.3	-304.2	8.4
Balance	185.8	158.0	206.8

1) Transaction basis
2) A minus sign means an increase in assets.
3) A minus sign means a decrease in liabilities.
4) A minus sign means an increase in reserves.

Table 13 The monetary base and its sources (in millions NAf.)

			Change	
	2012-IV	2013-I	Amount	Percentage
Banknotes issued	412.6	395.4	-17.2	-4.2%
Banks' demand deposits (current account)	258.8	304.3	45.5	17.6%
Monetary base (M0)	671.4	699.7	28.3	4.2%
Central bank assets				
Foreign assets (including gold)	3,283.4	3,177.3	-106.1	-3.2%
Claims on deposit money banks	1.6	1.0	-0.7	-39.6%
Claims on the government	0.2	0.2	0.0	0.0%
Claims on government agencies and institutions	506.7	524.6	17.9	3.5%
Fixed and other assets	120.0	115.8	-4.1	-3.5%
less:				
Central bank remaining liabilities				
Private sector deposits	1,206.9	1,172.8	-34.1	-2.8%
Government deposits	163.9	138.0	-25.8	-15.8%
Foreign liabilities	605.8	593.5	-12.3	-2.0%
Other liabilities	94.0	95.9	1.9	2.0%
Capital and reserves	1,170.0	1,118.9	-51.1	-4.4%

Table 14 Monetary aggregates (quarterly changes, in millions NAf.)

	2012-III		2012-IV		2013-I	
	Amount	%	Amount	%	Amount	%
Money supply (M2)	-140.6	-1.8	-188.3	-2.5	60.8	0.8
Money (M1)	-4.8	-0.1	-153.2	-4.4	1.7	0.1
Coins & notes with the public	-12.0	-3.9	39.4	13.5	-12.6	-3.8
Total demand deposits, of which:	7.2	0.2	-192.6	-6.0	14.3	0.5
- Netherlands Antillean guilders	-14.2	-0.6	-175.8	-7.1	-71.4	-3.1
- Foreign currency	21.4	2.9	-16.8	-2.2	85.7	11.6
Near money	-135.7	-3.2	-35.0	-0.9	59.2	1.5
Time deposits	-138.4	-6.0	-22.4	-1.0	31.7	1.5
Savings	2.7	0.1	-12.7	-0.7	27.5	1.4

Table 15 Monetary survey (in millions NAf.)

	2012-I	2012-II	2012-III	2012-IV	2013-I
Money supply (M2)	7,409.3	7,770.0	7,629.4	7,441.2	7,502.0
Money (M1)	3,293.9	3,523.3	3,518.5	3,365.3	3,366.9
Coins & notes with the public	295.6	304.4	292.4	331.8	319.2
Total demand deposits, of which:	2,998.4	3,218.9	3,226.1	3,033.5	3,047.8
- Netherlands Antillean guilders	2,234.5	2,482.3	2,468.1	2,292.3	2,220.9
- Foreign currency	763.9	736.6	758.0	741.2	826.9
Near money	4,115.3	4,246.7	4,110.9	4,075.9	4,135.1
Time deposits	2,199.0	2,310.3	2,171.9	2,149.5	2,181.2
Savings	1,916.3	1,936.4	1,939.1	1,926.4	1,953.9
Factors affecting the money supply	7,409.3	7,770.0	7,629.4	7,441.2	7,502.0
Net domestic assets	3,256.7	3,462.1	3,456.9	3,541.3	3,588.1
Government sector	-657.0	-524.8	-535.1	-425.7	-516.8
- Former central government	-106.2	-98.0	-114.0	-113.1	-83.0
- Curacao	-369.1	-265.9	-271.8	-180.7	-294.5
- Sint Maarten	-181.8	-160.9	-149.2	-131.9	-139.3
Private sector	6,279.0	6,315.1	6,473.2	6,373.8	6,460.9
Memorandum items	-2,365.2	-2,328.1	-2,481.3	-2,406.8	-2,356.0
Net foreign assets	4,152.5	4,307.9	4,172.5	3,899.9	3,913.9
Central bank	2,909.4	2,850.6	2,900.5	2,845.3	2,751.3
Commercial banks	1,243.1	1,457.2	1,272.0	1,054.6	1,162.6
Government loans by commercial banks	0.1	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	0.1	0.1	0.1	0.1	0.1
Private sector loans Curacao	3,901.7	3,944.7	4,098.8	4,170.6	4,219.0
- Mortgages	1,690.4	1,732.7	1,753.0	1,782.4	1,793.2
- Consumer loans	921.9	922.2	948.4	945.3	932.6
- Business loans	1,289.4	1,289.9	1,397.4	1,442.9	1,493.1
Private sector loans Sint Maarten	1,501.3	1,493.1	1,498.5	1,471.9	1,455.2
- Mortgages	630.1	646.5	622.1	614.2	631.4
- Consumer loans	382.4	370.4	361.5	348.2	341.2
- Business loans	488.8	476.1	514.9	509.5	482.6

Table 16 Developments in domestic interest rates (in %)

	2012-I	2012-II	2012-III	2012-IV	2013-I
Central bank					
- Pledging rate	1.0	1.0	1.0	1.0	1.0
- Maximum CD rate (1 month)	0.12	0.11	0.11	0.12	0.10
Commercial bank borrowing rates					
- Passbook savings	1.1	1.2	1.2	1.2	1.2
- Time deposit (12 months)	1.7	1.6	1.7	1.6	1.6
Commercial bank lending rates					
- Mortgages	7.1	6.9	6.7	6.7	6.7
- Time loans	8.1	7.9	8.0	7.9	7.7
Government securities					
- Government bonds (5-year effective yield)	1.4	1.3	0.8	0.6	0.8
- Treasury bills (12 months)	0.18	0.15	0.03	0.01	0.01

Table 17 Aggregate balance sheet of domestic commercial banks (in millions NAf.)

	2012-I	2012-II	2012-III	2012-IV	2013-I
Assets					
Non-interest-bearing cash	1,544.3	1,585.0	1,544.4	1,447.4	1,417.4
Interest-bearing cash	2,651.8	2,703.3	2,795.7	2,697.3	2,868.4
Investments	1,478.1	1,666.8	1,547.4	1,434.3	1,459.7
Loans	8,412.4	8,503.4	8,670.6	8,784.8	8,832.3
Investments in unconsolidated subsidiaries and affiliates	80.9	66.5	97.9	94.7	107.2
Fixed assets	360.6	362.9	371.0	393.0	392.1
Other assets	309.6	335.2	373.2	385.9	372.8
Total assets	14,837.6	15,223.2	15,400.1	15,237.5	15,449.9
Liabilities					
Demand deposits	5,877.8	6,144.7	6,177.6	6,168.8	6,320.2
Savings deposits	4,034.2	4,057.2	4,020.3	4,117.3	4,082.9
Time deposits	2,694.1	2,729.4	2,636.2	2,598.1	2,684.9
Total deposits	12,606.1	12,931.4	12,834.2	12,884.2	13,087.9
Borrowings	28.0	28.3	210.4	20.0	35.7
Other liabilities	484.6	530.9	588.3	549.4	506.3
Total liabilities	13,118.7	13,490.6	13,633.0	13,453.6	13,629.9
Minority interest	10.0	10.8	11.5	10.2	11.2
Subordinated debentures	0.0	0.0	0.0	0.0	0.0
General provisions	288.7	299.8	316.7	297.8	300.8
Capital & reserves	1,420.2	1,422.1	1,439.0	1,475.9	1,508.0
Total capital	1,718.9	1,732.6	1,767.2	1,783.9	1,819.9
Total liabilities and capital	14,837.6	15,223.2	15,400.1	15,237.5	15,449.9

Table 18 Aggregate income statement of domestic commercial banks (in millions NAf.)

	2012-I	2012-II	2012-III	2012-IV	2013-I
Interest income	195.6	186.2	191.7	140.4	193.9
Interest expenses	35.6	32.6	32.0	21.1	31.7
Net interest income	160.0	153.7	159.7	119.3	162.3
Other income	78.3	74.5	70.0	79.5	84.4
Total operational income	238.3	228.2	229.7	198.8	246.7
Salaries & other employee expenses	89.1	86.5	86.4	81.7	90.4
Occupancy expenses	26.8	26.1	27.3	20.1	28.0
Other operating expenses	39.6	39.1	44.7	29.0	40.5
Net addition to general provisions	9.1	29.9	9.9	26.4	9.2
Total operational expenses	164.5	181.6	168.4	157.3	168.1
Net operating income	73.8	46.6	61.3	41.5	78.6
Net extraordinary items	0.0	6.3	8.1	29.6	6.3
Applicable profit taxes	14.1	8.3	11.2	7.1	11.4
Net income after taxes	59.7	44.6	58.3	64.0	73.5