



# SUPPLEMENT TO THE QUARTERLY BULLETIN 2014-II

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

During the second quarter of 2014, the deficit on the current account of the balance of payments of the monetary union narrowed significantly by NAf.268.3 million compared to the second quarter of 2013. The smaller deficit was caused largely by an increase in net exports of goods and services combined with an improvement in the income and current transfers balances. External financing worsened at a slower pace, reflecting the lower current account deficit. Meanwhile, capital transfers dropped as the development aid from the Netherlands is being phased out. As the capital inflow and external financing exceeded the current account deficit, the gross reserves of the central bank rose by NAf.217.3 million (see Table 1).

Table 1: Balance of payments summary (in millions NAf.)

	2012-II	2013-II	2014-II
Current account	-372.6	-311.1	-42.8
Capital transfers	11.9	9.1	6.2
External financing of the government	29.3	-6.5	-9.7
External financing of the private sector	330.4	305.1	217.1
- Direct investment	24.2	145.9	77.0
- Loans and credits	-118.2	242.1	-290.9
- Portfolio investments	424.4	-82.9	431.0
Change in gross reserves of the central bank *)	-38.1	-14.0	-217.3
- Foreign exchange	-59.8	72.2	-272.1
- held at foreign central banks	-212.5	159.8	-153.2
- held at foreign commercial banks	152.7	-87.6	-118.9
- Other claims	21.7	-86.2	54.8
Statistical discrepancies	39.0	17.3	46.4

\*) A minus sign implies an increase.

## CURRENT ACCOUNT

Net exports of goods and services in the monetary union rose by NAf.206.5 million during the second quarter of 2014 compared to the second quarter of 2013, as the increase in exports (NAf.121.7 million) was accompanied by a decline in imports (NAf.84.8 million).

Below follows an analysis of the development in net exports of goods and services in Curaçao and Sint Maarten.<sup>1</sup>

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

In Curaçao, net exports of goods and services improved by NAf.175.5 million during the second quarter of 2014 compared to the second quarter of 2013, as a rise in exports (NAf.113.1 million) was accompanied by a drop in imports (NAf.62.4 million). The growth in exports was related mostly to an increase in the refining fee reflecting mainly higher production at the Isla refinery in combination with more trading activities provided by the CRU<sup>2</sup> to PDVSA. In addition, re-exports by the free-zone companies rose, reflecting the use of inventories, because imports by these companies dropped. The rise in exports by the free-zone companies was a break in the trend of the past quarters, where re-exports dropped strongly. Also, foreign exchange revenues from the tourism industry increased, reflecting mainly a rise in earnings from stay-over tourism (NAf.12.6 million). Meanwhile, foreign exchange earnings from cruise tourism remained practically unchanged compared to the second quarter of 2013. In contrast, foreign exchange revenues from the transportation sector dropped (NAf.7.2 million), mainly as a result of the decline in air transportation. The drop in air transportation was caused primarily by fewer transit passengers, accompanied by a decline in passenger arrivals and departures, related mainly to the demise of the domestic airline DAE in 2013.

The decline in the import of goods and services was largely the result of less merchandise imports by free-zone companies, reflecting, amongst others, the use of inventories. Furthermore, oil imports dropped, due to a decline in the international oil price in combination with a relatively inelastic demand for oil products in the monetary union.

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

In Sint Maarten, net foreign demand grew by NAf.40.0 million during the second quarter of 2014 compared to 2013's second quarter, as the rise in exports (NAf.15.0 million) was accompanied by a decline in imports (NAf.25.0 million). The growth in export earnings was related mostly to the tourism sector (NAf.42.1 million). Foreign exchange revenues from both cruise tourism (NAf.25.8 million) and stay-over tourism (NAf.16.3 million) increased. Export growth was mitigated by a drop in foreign exchange revenues from bunkering activities, due mainly to lower international oil prices. On the other hand, the drop in imports was the result of fewer oil imports, reflecting the decline in international oil prices. Moreover, merchandise imports by the retail sector contracted.

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

The income balance of the monetary union improved by NAf.7.6 million during the second quarter of 2014 compared to the second quarter of 2013, due mainly to a decline in net interest income paid to foreign investors. While investment income received from

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<sup>1</sup> The current account of the monetary union is not equal to the sum of the current accounts of Curaçao and Sint Maarten due to the unregistered transactions between the two countries.

<sup>2</sup> The Curaçao Refinery Utilities, a subsidiary of Refineria di Korsou.

abroad increased as reflected by more dividends paid out, investment income paid to abroad declined. The latter was related to fewer interest paid on direct investments, made by foreign investors in previous years. Meanwhile, the current transfers balance improved by NAf.54.2 million, reflecting mainly a growth in current transfers received from abroad in combination with a drop in current transfers paid to abroad. The current transfers received rose largely as a result of more re-insurance premiums paid to domestic insurance companies.

Overall, the deficit on the current account declined by NAf.268.3 million to NAf.42.8 million in the second quarter of 2014, compared to 2013's second quarter. (For a detailed overview, see Table 2 in the appendix.)

### *Developments in the financial and capital account*

In line with the deficit on the current account, the net foreign wealth of the private sector dropped by NAf.217.1 million in the second quarter of 2014. This change in the external financing of the private sector was due mainly to a large deterioration of the portfolio investment balance. The direct investment balance worsened also but the loans and credits balance improved.

The portfolio investment balance worsened by NAf.431.0 million, caused largely by bond issues by the governments of Curaçao and Sint Maarten to finance the construction of a new hospital in Curaçao and several investment projects in Sint Maarten. Because of the standing subscription agreement, the bonds issued for these investments were purchased by the Dutch State.

Net direct investments into the monetary union expanded by NAf.77.0 million, due mainly to increased claims by foreign direct investors on their subsidiaries in Curaçao and Sint Maarten and the purchase of real estate by non-residents. In contrast, claims of local direct investors on their foreign subsidiaries increased.

The loans and credits balance improved by NAf.290.9 million as foreign companies transferred funds held on their local bank accounts to their foreign bank accounts. Also, the net trade credit balance improved because of an increase in repayments by local companies on trade credits extended by foreign companies. In contrast, local companies used their foreign bank accounts to finance part of their imports.

Meanwhile, capital transfers received dropped to NAf.6.2 million in the second quarter of 2014, down from NAf.9.1 million in the second quarter of 2013 because of the phasing out of development aid funds from the Netherlands as agreed upon under the debt relief program. As the inflows from capital transfers and external financing surpassed the current account deficit, gross reserves increased by NAf.217.3 million. (See Table 3 in the appendix for a detailed overview.)

**Table 2: Detailed overview of the balance of payments (in millions NAf.)**

	2012-II	2013-II	2014-II
Trade balance	-855.7	-849.1	-778.1
-Exports	429.2	405.1	415.8
-Imports	1,284.9	1,254.2	1,193.9
Services balance	555.1	639.0	774.5
Receipts, of which:	1,079.2	1,176.2	1,287.2
-Travel	554.3	542.6	597.6
-Transportation	102.7	133.2	123.7
-Other services, of which:	422.2	500.4	565.9
-Int. fin & bus. services sector	47.7	43.7	55.4
Expenses, of which:	524.1	537.2	512.7
-Travel	161.0	171.4	181.2
-Transportation	95.7	85.2	92.5
-Other services, of which:	267.4	280.6	239.0
-Int. fin & bus. services sector	21.3	33.1	25.6
Income balance <sup>1)</sup>	-34.9	-47.9	-40.3
Current transfers balance <sup>2)</sup>	-37.1	-53.1	1.1
<b>Current account balance</b>	<b>-372.6</b>	<b>-311.1</b>	<b>-42.8</b>
<b>Capital &amp; financial account balance</b>	<b>333.6</b>	<b>293.8</b>	<b>-3.6</b>
Capital account balance	11.9	9.1	6.2
Financial account balance	321.7	284.7	-9.8
<b>Net errors &amp; omissions</b>	<b>39.0</b>	<b>17.3</b>	<b>46.4</b>

1) Labor and investment income.

2) Public and private transfers.

**Table 3: Breakdown of net changes in the financial account<sup>1)</sup> (in millions NAf.)**

	2012-II	2013-II	2014-II
Direct investment	24.2	145.9	77.0
- Abroad <sup>2)</sup>	-3.7	50.4	-4.6
- In Curaçao and Sint Maarten <sup>3)</sup>	27.9	95.5	81.6
Portfolio investment <sup>2)</sup>	424.4	-82.9	431.0
Other investment, of which:	-170.7	230.6	-217.7
- Assets <sup>2)</sup>	-117.3	55.9	-394.0
- Liabilities <sup>3)</sup>	-53.4	174.7	176.3
Net lending/borrowing, of which:	81.8	5.0	-82.9
- Assets <sup>2)</sup>	48.8	-2.2	32.6
- Liabilities <sup>3)</sup>	33.0	7.2	-115.5
Reserves <sup>4)</sup>	-38.1	-14.0	-217.3
Total assets <sup>2)</sup>	314.1	7.2	-152.3
Total liabilities <sup>3)</sup>	7.5	277.4	142.4
<b>Balance</b>	<b>321.6</b>	<b>284.6</b>	<b>-9.9</b>

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.