



SUPPLEMENT TO THE QUARTERLY BULLETIN 2016-II

DEVELOPMENTS IN THE BALANCE OF PAYMENTS OF THE MONETARY UNION

During the second quarter of 2016, the current account of the balance of payments posted a deficit of NAf.336.8 million, an increase of NAf.20.1 million compared to the second quarter of 2015. The development on the current account was ascribable to a worsening of the services and income balances, mitigated by an improvement of the trade balance. Concurrently, external finance increased at a faster pace reflecting a deterioration of the loans & credits, portfolio and direct investment balances. As the external financing surpassed the current account deficit, the gross official reserves of the central bank rose by NAf.116.3 million (See Table 1).

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

	2014-II	2015-II	2016-II
Current account	-93.6	-316.7	-336.8
Capital transfers	6.2	-0.4	0.2
External financing of the government	-8.5	0.1	4.9
External financing of the private sector	305.4	87.2	437.5
- Direct investment	77.0	62.6	26.7
- Loans and credits	-187.0	-35.5	281.8
- Portfolio investments	415.5	60.1	129.0
Change in gross reserves of the central bank *)	-217.3	178.1	-116.3
- Foreign exchange	-272.1	201.4	-25.5
- held at foreign central banks	-153.2	183.0	58.6
- held at foreign commercial banks	-118.9	18.4	-84.1
- Other claims	54.8	-23.3	-90.8
Statistical discrepancies	7.8	51.8	10.5

*) A minus sign implies an increase.

CURRENT ACCOUNT

The net export of goods and services in the monetary union declined by NAf.10.6 million during the second quarter of 2016 compared to the second quarter of 2015 as the drop in exports (NAf.97.3 million) was more pronounced than the lower imports (NAf.86.7

million). Below follows an analysis of the developments in the net export of goods and services in Curaçao and Sint Maarten.¹

Developments in the net export of goods and services in Curaçao

In Curaçao, the net export of goods and services rose by NAf.18.8 million because the decline in imports (NAf.86.2 million) outweighed the contraction in exports (NAf.67.4 million). The lower import bill was caused by a drop in both oil and non-oil merchandise imports. The development in oil imports can be attributed to the fall in international fuel prices during the second quarter of 2016. Meanwhile, the drop in non-oil merchandise imports was mainly the result of lower merchandise imports by the free-zone companies, the wholesale & retail trade sector, and the utilities sector. The decline in the merchandise imports by the wholesale & retail trade sector is in line with the drop in consumer spending and fewer tourism expenditures recorded during the second quarter of 2016 compared to the second quarter of 2015.

The contraction in exports can be explained by, among other things, a decline in the foreign exchange earnings from the transportation sector, specifically air transportation services provided to foreign passengers. Furthermore, the refining fee earned by the Isla refinery dropped, in line with the decline in refining activities registered during the June quarter of 2016. Foreign exchange revenues from tourism activities also shrank as both the number of stay-over and cruise visitors dropped. In addition, foreign exchange receipts from the re-exports by free-zone companies and from ship repair activities contracted. By contrast, an increase in foreign exchange revenues from international financial services, notably banking and trust services, dampened the contraction in exports.

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

During the second quarter of 2016, Sint Maarten posted a decline in the net export of goods and services of NAf.29.0 million caused entirely by a drop in exports. Meanwhile, the import bill remained practically unchanged compared to a year earlier.

Exports declined mainly because of a drop in the foreign exchange revenues from cruise tourism as fewer cruise tourists visited Sint Maarten during the second quarter of 2016 compared to the second quarter of 2015. This development coincides with the drop in the number of cruise calls at the port of Phillipsburg. The foreign exchange earnings from stay-over tourism remained fairly stable as the increase in revenues from European visitors compensated the drop in earnings from all other main markets. Furthermore, foreign exchange receipts from business services provided to abroad, particularly harbor fees, shrank. The latter is in line with the decline in the number of ships, notably cruise ships and tankers, that visited the port of Phillipsburg.

On the import side, merchandise imports by the wholesale & retail trade sector dropped, reflecting fewer activities in the tourism sector and a decline in domestic demand. The

¹ 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.

drop in the wholesale & retail trade sector was offset by an increase in communication services imported from abroad combined with more oil imports.

Developments in the income balance and current transfers balance

The income balance worsened by NAf.9.5 million because of a decline in dividend and interest income received from abroad, mitigated by a drop in interest paid to foreign investors. Meanwhile, the current transfers balance remained practically unchanged with a deficit of NAf.19.0 million in the second quarter of 2016 compared to the second quarter of 2015. The development in the current transfers balance reflected an increase in current transfers received from abroad that was offset by higher current transfers paid to abroad.

Overall, the current account deficit of the balance of payments widened by NAf.20.1 million during the second quarter of 2016 compared to the second quarter of 2015, reaching NAf.336.8 million. (For a detailed overview, refer to 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.437.5 million in the second quarter of 2016. This change in the external financing of the private sector was due mainly to a deterioration of the loans & credits balance and, to a smaller extent, a worsening of the portfolio investment and direct investment balances.

The loans & credits balance deteriorated by NAf.281.8 million, led primarily by a decline in foreign deposits of residents of Curaçao and Sint Maarten. Furthermore, the net trade credits balance worsened as a result of the net repayment of trade credit extended to foreign customers combined with an increase in trade credit received on imports. The net repayment of loans provided by, among other things, financial institutions in the monetary union to abroad, contributed also to the worsening of the loans & credits balance. However, this worsening was dampened by a decline in nonresidents' deposits in the monetary union, combined with the net repayment of foreign loans by companies in Curaçao and Sint Maarten.

The portfolio investment balance worsened by NAf.129.0 million largely as a result of funds received from matured foreign debt securities held by institutional investors that did not reinvest them abroad. The bulk of these debt securities were issued in the past by the former entities of the Netherlands Antilles and taken over by the Dutch State under the debt relief program. Moreover, the government of Curaçao issued in June 2016 bonds to finance several investment projects that were all purchased by the Dutch State.

Net direct investments into the monetary union were up by NAf.26.7 million driven mainly by increased claims of foreign direct investors on their subsidiaries in the monetary union, mitigated by a rise in residents' direct investments abroad.

Since the external financing was more than sufficient to cover the current account deficit during the June quarter of 2016, gross official reserves rose by NAf.116.3 million. (Refer to Table 3 in the Appendix for a detailed overview.)

APPENDIX

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

	2014-II	2015-II	2016-II
Trade balance	-832.7	-804.4	-716.6
-Exports	401.5	258.6	247.7
-Imports	1,234.2	1,063.1	964.3
Services balance	778.4	520.8	422.4
Receipts, of which:	1,287.7	1,052.6	966.1
-Travel	598.0	563.7	519.4
-Transportation	123.8	102.4	76.2
-Other services, of which:	565.9	386.5	370.6
-Int. fin & bus. services sector	55.4	53.3	69.2
Expenses, of which:	509.3	531.8	543.8
-Travel	182.0	182.6	215.6
-Transportation	93.6	78.1	70.1
-Other services, of which:	233.7	271.1	258.2
-Int. fin & bus. services sector	24.5	32.9	37.1
Income balance ¹⁾	-40.3	-14.1	-23.6
Current transfers balance ²⁾	1.1	-19.1	-19.0
Current account balance	-93.6	-316.7	-336.8
Capital & financial account balance	85.8	265.0	326.3
Capital account balance	6.2	-0.4	0.2
Financial account balance	79.6	265.4	326.1
Net errors & omissions	7.8	51.8	10.5

1) Labor and investment income.

2) Public and private transfers.

Table 3 Breakdown of net changes in the financial account¹⁾ (in millions NAf.)

	2014-II	2015-II	2016-II
Direct investment	77.0	62.6	26.7
- Abroad ²⁾	-4.6	-15.6	-31.1
- In Curaçao and Sint Maarten ³⁾	81.6	78.2	57.7
Portfolio investment ²⁾	415.5	60.1	129.0
Other investment, of which:	-133.7	-140.4	289.8
- Assets ²⁾	-312.3	-174.1	437.4
- Liabilities ³⁾	178.5	33.7	-147.6
Net lending/borrowing, of which:	-61.8	105.0	-3.1
- Assets ²⁾	14.2	14.2	35.5
- Liabilities ³⁾	-76.0	90.7	-38.5
Reserves ⁴⁾	-217.3	178.1	-116.3
Total assets ²⁾	-104.6	62.7	454.5
Total liabilities ³⁾	184.1	202.6	-128.4
Balance	79.6	265.4	326.1

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.*