



# SUPPLEMENT TO THE QUARTERLY BULLETIN 2016-III

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

During the third quarter of 2016, the deficit on the current account of the balance of payments of the monetary union narrowed by NAf.27.7 million compared to the third quarter of 2015. The smaller deficit was the result of an increase in the net export of goods and services combined with an improvement of the income balance. External financing into the monetary union moderated, reflecting the lower current account deficit. As the external financing was, however, insufficient to cover the current account deficit, the gross official reserves of the central bank dropped by NAf.39.9 million (see Table 1).

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

	2014-III	2015-III	2016-III
Current account	-323.9	-366.6	-338.9
Capital transfers	4.8	-1.5	1.3
External financing of the government	-0.2	1.4	0.3
External financing of the private sector	371.0	326.4	301.1
- Direct investment	129.1	117.3	135.8
- Loans and credits	142.5	69.0	126.2
- Portfolio investment	99.4	140.2	39.1
Change in gross reserves of the central bank *)	-89.1	25.2	39.9
- Foreign exchange	-89.9	97.5	157.8
- held at foreign central banks	68.1	203.3	39.4
- held at foreign commercial banks	-157.9	-105.7	118.5
- Other claims	0.8	-72.3	-117.9
Statistical discrepancies	37.4	15.1	-3.7

\*) A minus sign implies an increase.

### CURRENT ACCOUNT

The net export of goods and services in the monetary union increased by NAf.18.4 million during the third quarter of 2016 compared to the third quarter of 2015 driven primarily by a drop in imports (NAf.14.3 million). In addition, exports rose slightly (NAf.4.1 million).

Below follows an analysis of the developments in the net export 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, the net export of goods and services grew by NAf.35.7 million as a result of an increase in exports (NAf.21.4 million) combined with lower imports (NAf.14.3 million). Exports were up, due mainly to a rise in the refining fee earned by the Isla refinery reflecting increased trading activities. However, a decline in the foreign exchange earnings from tourism activities dampened the export growth. The negative contribution from tourism activities was ascribable to both stay-over and cruise tourism. Foreign exchange receipts from stay-over tourism dropped primarily as a result of a decline in the number of tourists from Venezuela. Meanwhile, the drop in foreign exchange revenues from cruise tourism was in line with the lower number of cruise tourists registered during the third quarter of 2016 compared to the third quarter of 2015.

The contraction in imports stemmed from, among other things, lower merchandise imports by the free-zone companies. In addition, oil imports fell as a result of the lower international oil prices.

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

In Sint Maarten, net foreign demand dropped by NAf.26.2 million due mainly to lower exports (NAf.28.8 million). The contraction in exports was caused by, among other things, lower foreign exchange earnings from tourism activities. Both stay-over and cruise tourism recorded lower earnings in the third quarter of 2016 compared to the third quarter of 2015. The development in stay-over tourism was attributable mainly to the US market. Despite an increase in the number of US visitors, the foreign exchange revenues from this market dropped due to a decline in the average spending by visitor. Meanwhile, the decline in foreign exchange revenues from cruise tourism coincided with the drop in the number of cruise visitors.

Furthermore, foreign exchange receipts from business services provided to abroad, particularly real estate (brokerage) services, landing fees and financial services, dropped. A decline in foreign exchange revenues from communication services provided to abroad also contributed to the contraction in exports.

Import of goods and services dropped slightly (NAf.2.6 million) because the decline in merchandise imports was mitigated by an increase in services acquired from abroad, including financial and communication services. The decline in merchandise imports reflected the drop in tourism spending and domestic demand recorded during the third quarter of 2016 compared to the third quarter of 2015.

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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.

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

The income balance improved by NAf.15.5 million as a result of more interest income earned on foreign investments combined with an increase in labor income earned from abroad. By contrast, the current transfers balance recorded a deterioration of NAf.6.4 million caused mainly by a decline in current transfers received from abroad, notably profit tax received from offshore companies operating in Curaçao. Overall, the current account deficit dropped by NAf.27.7 million reaching NAf.338.9 million in the third quarter of 2016. (See Table 2 in the Appendix for a detailed overview).

### *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.301.1 million in the third quarter of 2016. This change in the external financing of the private sector was the result of a deterioration of the direct investment, loans & credits and portfolio investment balances.

Net direct investments into the monetary union expanded by NAf.135.8 million during the July – September period of 2016. This expansion was due to increased claims by foreign direct investors on their subsidiaries in the monetary union. These claims reflected, among other things, investments in the tourism and transportation sectors of Curaçao and Sint Maarten. In addition, nonresidents purchased real estate in both countries during the third quarter of 2016.

The loans & credits balance worsened by NAf.126.2 million due to, among other things, an increase in nonresidents' deposits in the monetary union. Also, the net trade credits balance deteriorated as a result of an increase in trade credits received on imports combined with repayments from abroad on trade credits extended in the past by local merchants. The worsening of the loans & credits balance was mitigated by the net repayment of loans extended from abroad to companies in Curaçao and Sint Maarten. Meanwhile, the portfolio investment balance deteriorated by NAf.39.1 million, largely as a result of a decline in holdings of foreign equity securities.

As the external financing was not sufficient to cover the current account deficit during the September quarter of 2016, gross official reserves dropped by NAf.39.9 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-III	2015-III	2016-III
Trade balance	-843.8	-776.1	-735.7
-Exports	359.3	230.1	228.7
-Imports	1,203.0	1,006.2	964.4
Services balance	625.0	489.4	467.4
Receipts, of which:	1,190.3	1,011.3	1,016.8
-Travel	573.0	552.6	520.0
-Transportation	132.5	64.5	64.3
-Other services, of which:	484.8	394.2	432.4
-Int. fin & bus. services sector	52.1	63.0	50.2
Expenses, of which:	565.3	521.8	549.4
-Travel	198.7	207.7	223.2
-Transportation	90.0	81.1	73.2
-Other services, of which:	276.6	233.1	253.1
-Int. fin & bus. services sector	34.1	25.2	33.5
Income balance <sup>1)</sup>	-37.5	-39.1	-23.6
Current transfers balance <sup>2)</sup>	-67.6	-40.7	-47.1
<b>Current account balance</b>	<b>-323.9</b>	<b>-366.6</b>	<b>-338.9</b>
<b>Capital &amp; financial account balance</b>	<b>286.5</b>	<b>351.5</b>	<b>342.6</b>
Capital account balance	4.8	-1.5	1.3
Financial account balance	281.7	353.0	341.3
<b>Net errors &amp; omissions</b>	<b>37.4</b>	<b>15.1</b>	<b>-3.7</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.)**

	2014-III	2015-III	2016-III
Direct investment	129.1	117.3	135.8
- Abroad <sup>2)</sup>	-18.5	-18.6	-12.8
- In Curaçao and Sint Maarten <sup>3)</sup>	147.6	135.9	148.6
Portfolio investment <sup>2)</sup>	99.4	140.2	39.1
Other investment, of which:	68.9	54.9	61.3
- Assets <sup>2)</sup>	-13.8	199.1	-4.1
- Liabilities <sup>3)</sup>	82.7	-144.2	65.5
Net lending/borrowing, of which:	73.4	15.5	65.2
- Assets <sup>2)</sup>	24.8	19.6	20.9
- Liabilities <sup>3)</sup>	48.6	-4.1	44.3
Reserves <sup>4)</sup>	-89.1	25.2	39.9
Total assets <sup>2)</sup>	2.8	365.4	82.9
Total liabilities <sup>3)</sup>	278.9	-12.4	258.4
<b>Balance</b>	<b>281.7</b>	<b>353.0</b>	<b>341.3</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.*