Press release 2019-010

Decline in Foreign Reserves

CBCS: Strengthen exports

WILLEMSTAD/PHILIPSBURG - The governments of Curaçao and Sint Maarten must take actions to strengthen their export sectors and attract foreign direct investments to improve the foreign exchange-generating capacity of their economies, the *Centrale Bank van Curaçao en Sint Maarten* (CBCS) stressed in its Quarterly Bulletin for the third quarter of 2018. The recently launched growth strategy of Curaçao and the various projects aimed at the recovery and increased resiliency of the economy of Sint Maarten are welcome steps in this direction, the CBCS stated. Since 2010, the gross official reserves of the CBCS and the monetary union's import coverage have been exceptionally high. Nonetheless, the relatively high import coverage did not reflect the economic reality of both countries, but rather the impact of the debt relief program, the CBCS explained.

As part of the dismantling of the Netherlands Antilles, the government of the Netherlands took over approximately 70% of the outstanding debt of the entities of the former Netherlands Antilles, the bulk of which was held in the portfolios of local private and institutional investors. Consequently, the Dutch state paid off both principal and interest according to the maturity schedule of the outstanding debt resulting in considerable inflows of foreign exchange on the portfolio investment balance of the balance of payments. Only part of the received interest and principal payments was reinvested abroad, however, because of very low international interest rates and the instability in the securities markets. These circumstances led to a strong increase in gross official reserves between 2010 and 2017 and an import coverage well above the norm of 3 months of goods and services imports.

However, the Dutch government paid off the final bond loan of the former Netherlands Antilles under the debt relief program in June 2018, which ended the associated inflow of foreign exchange. Meanwhile, since international interest rates are gradually increasing and the securities markets have improved, appetite has increased to invest more funds abroad to realize higher returns than can be realized domestically. This explains, to a great extent, the drop in gross official reserves in 2018. Because the import coverage is still well in excess of 3 months, concern is not warranted at this moment. Nevertheless, the CBCS closely monitors developments in the official reserves and will take timely measures if the decline appears structural, it stated in its Quarterly Bulletin.

For the complete text of the quarterly bulletin for the third quarter of 2018, please visit the CBCS website at www.centralbank.cw under the Publications & Research section.

Willemstad, February 15, 2019

CENTRALE BANK VAN CURACAO EN SINT MAARTEN