SUPPLEMENT TO THE QUARTERLY BULLETIN 2018-III

DEVELOPMENTS IN THE BALANCE OF PAYMENTS OF THE MONETARY UNION

The deficit on the current account of the balance of payments widened significantly from NAf.260.3 million in the third quarter of 2017 to NAf.500.2 million in the third quarter of 2018. The higher deficit was the result of a significant decline in the net export of goods and services and a worsening of the income balance, moderated by an improvement of the current transfers balance.

Meanwhile, gross official reserves of the central bank contracted considerably by NAf.455.5 million reflecting the financing of the current account deficit and net portfolio investments abroad (See Table 1).

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

	2016-III	2017-III	2018-III
Current account	-407.4	-260.3	-500.2
Capital transfers	1.3	0.3	28.5
External financing of the government	4.0	0.0	0.0
External financing of the private sector	365.1	127.6	-6.2
- Direct investment	136.5	330.8	93.4
- Loans and credits	190.2	-386.4	21.2
- Portfolio investment	38.5	183.3	-120.7
Change in gross reserves of the central bank *)	39.9	100.2	455.5
- Foreign exchange	157.8	70.8	415.7
- held at foreign central banks	39.4	198.2	29.1
- held at foreign commercial banks	118.5	-127.4	386.6
- Other claims	-117.9	29.4	39.8
Statistical discrepancies	-3.0	32.1	22.3

*) *A minus sign implies an increase.*

CURRENT ACCOUNT

The net export of goods and services in the monetary union dropped by NAf.324.1 million during the September quarter of 2018 compared to the September quarter of 2017 because of a marked increase in imports (NAf.430.3 million) mitigated by higher exports

(NAf.106.3 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, net exports of goods and services shrank by NAf.118.0 million as the increase in imports (NAf.248.3 million) surpassed the growth in exports (NAf.130.3 million). The higher import bill was caused by increased oil and non-oil merchandise imports. Oil imports rose consistent with the higher average international oil prices in the July-September period of 2018. Furthermore, oil products were purchased at higher costs from other suppliers besides the Isla refinery.[2] Meanwhile, the increase in non-oil merchandise imports was largely the result of more merchandise imports by the wholesale & retail trade and utilities sectors. The ongoing investments at, among other things, the airport, contributed to the rise in non-oil merchandise imports. In addition, residents' tourism expenditures abroad increased. However, a decline in the import of construction services, because the construction of the hospital is reaching its final stages, moderated the increase in the import bill.

The growth in exports stemmed from, among other things, increased foreign exchange earnings from bunkering activities reflecting the higher average international oil prices. In addition, revenues from legal, accounting and engineering services provided to abroad rose. The international financial services, ship repair and tourism sectors also contributed positively to the growth in exports. Foreign exchange earnings from the international financial services sector increased mainly as a result of more banking services provided to abroad, while the gain in receipts in the tourism sector was supported by both stay-over and cruise tourism. However, the growth in exports was moderated by a decline in the refining fee caused by a drop in the production activities of the Isla refinery. Also, the foreign exchange earnings from harbor services dropped as a result of a significant decline in the number of tankers that visited the port of Curaçao, consistent with the marked drop in refining activities.

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

In Sint Maarten, net exports dropped by NAf.203.8 million in the third quarter of 2018 compared to 2017's third quarter because of an increase in imports (NAf.181.5 million) combined with a decline in exports (NAf.22.3 million). The increase in imports reflected mainly the ongoing reconstruction activities following Hurricane Irma. Consequently, imports by the wholesale & retail trade and construction sectors went up. Also, the import of construction services rose due to, among other things, the first phase of the reconstruction of the terminal of the Princess Juliana International airport.

Exports shrank largely because of lower foreign exchange earnings from stay-over tourism attributable to the massive destruction Hurricane Irma caused to major hotels and 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.
[2] Because of fewer oil products produced by the Isla refinery, Curoil N.V. purchased more oil products from suppliers abroad.

airport of Sint Maarten. By contrast, more foreign exchange earnings from cruise tourism and merchandise exports by the retail trade sector moderated the decline in exports.

Developments in the income balance and current transfers balance

The income balance worsened by NAf.13.0 million during the third quarter of 2018 ascribable to less dividend received from foreign equity securities and a decline in interest earned on foreign debt securities. By contrast, the current transfers balance improved by NAf.117.3 million as a result of the inflow of funds related to the claims of local insurance companies to pay their clients in Sint Maarten whose properties were damaged by Hurricane Irma.

Overall, the current account balance worsened by NAf.239.9 million, reaching a deficit of NAf.500.2 million in the third quarter of 2018, compared to 2017's third quarter. (For a detailed overview, refer to Table 2 in the Appendix.)

Developments in the financial and capital account

Despite the current account deficit, net foreign wealth of the private sector rose by NAf.6.2 million in the third quarter of 2018 as a result of an improvement in the portfolio investment balance (NAf.120.7 million), mitigated by a worsening of the direct investment (NAf.93.4 million) and loans & credits (NAf.21.2 million) balances.

The improvement in the portfolio investment balance can be explained by the increased appetite of local institutional and other investors to invest funds abroad because of the gradually increasing international interest rates and improved securities markets.

Meanwhile, the direct investment balance deteriorated because of increased claims of foreign direct investors on their subsidiaries in the monetary union. However, the investments by local companies in the insurance and wholesale & retail trade sectors in their foreign subsidiaries in Aruba and Bonaire mitigated the deterioration of the direct investment balance.

The loans & credits balance worsened mainly because of an increase in trade credits received by local merchants to finance their imports. In addition, the balances on local companies' foreign bank accounts dropped. However, the decline in nonresidents' account balances in the monetary union moderated the worsening of the loans & credits balance.

Meanwhile, capital transfers into the monetary union rose by NAf.28.5 million due to the transfer of funds by the World Bank from the Sint Maarten Recovery, Reconstruction and Resilience Trust Fund towards the government of Sint Maarten to finance reconstruction projects.[3] As a result of the net portfolio investments abroad and the higher current account deficit, gross official reserves of the monetary union dropped by NAf.455.5

[3] The Sint Maarten Recovery, Reconstruction and Resilience Trust Fund supports recovery efforts, helps the government of Sint Maarten prepare projects with well-defined development objectives, and provides capacity support for effective, efficient and transparent project execution. The Dutch government has made €470 million (NAf.1.0 billion) available for the fund that is managed by the World Bank.

million during the third quarter of 2018. (Refer to Table 3 in the Appendix for a detailed overview.)

APPENDIX

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

	2016-III	2017-III	2018-III
Trade balance	-742.2	-641.1	-839.0
-Exports	228.8	247.8	350.5
-Imports	971.1	888.9	1,189.5
Services balance	406.0	331.1	205.0
Receipts, of which:	955.8	861.4	865.0
-Travel	519.8	459.2	416.4
-Transportation	64.5	49.1	35.0
-Other services, of which:	371.5	353.1	413.6
-Int. fin & bus. services sector	55.0	52.7	90.4
Expenses, of which:	549.7	530.3	660.0
-Travel	223.2	214.5	263.2
-Transportation	73.4	69.7	70.3
-Other services, of which:	253.2	246.1	326.6
-Int. fin & bus. services sector	35.9	35.3	37.2
Income balance[1)]	-24.2	14.8	1.8
Current transfers balance[2)]	-47.0	34.9	132.1
Current account balance	-407.4	-260.3	-500.2
Capital & financial account balance	410.4	228.1	477.8
Capital account balance	1.3	0.3	28.5
Financial account balance	409.1	227.8	449.3
Net errors & omissions	-3.0	32.1	22.3

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

Table 3 Breakdown of net changes in the financial account[1)] (in millions NAf.)

	2016-III	2017-III	2018-III
Direct investment	136.5	330.8	93.4
- Abroad [2)]	-12.2	263.9	-17.9
- In Curaçao and Sint Maarten [3)]	148.6	66.9	111.2
Portfolio investment [2)]	38.5	183.3	-120.7
Other investment, of which:	126.9	-402.3	-101.6
- Assets [2)]	-44.7	-243.0	30.0
- Liabilities [3)]	171.5	-159.3	-131.6
Net lending/borrowing, of which:	67.3	15.9	122.7
- Assets [2)]	20.6	-29.5	-7.1
- Liabilities [3)]	46.8	45.4	129.8
Reserves [4)]	39.9	100.2	455.5
Total assets [2)]	42.1	274.9	339.9
Total liabilities [3)]	366.9	-47.1	109.4
Balance	409.1	227.8	449.3

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.