

CONDENSED BALANCE SHEET





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INTRODUCTION

The primary tasks of the Centrale Bank van Curaçao en Sint Maarten (CBCS) are to foster the stability of the common currency of Curaçao and Sint Maarten, to provide a healthy financial system and to encourage a safe and efficient payment system. Furthermore, the CBCS issues banknotes and coins, and it acts as an advisor to the Countries, upon request as well as on its own initiative. It also manages the gold and foreign currency reserves.

Only commercial banks, semipublic institutions and government agencies hold accounts with the CBCS; therefore, the commercial banks act as an intermediary for the CBCS and the public (individuals and companies). The commercial banks take out banknotes from the CBCS to issue them to the public. Especially at the end of the month there is a great need for banknotes in order to make payments.

In accordance with the Bank Statute, the CBCS may act as the banker of the governments of Curaçao and Sint Maarten. Furthermore, the CBCS may grant advance payments to the governments of Curaçao and Sint Maarten in order for them to overcome temporary shortage of funds, against an interest that is equal to the lending rate. The governments of Curaçao and Sint Maarten hold several accounts with the CBCS.

The CBCS supervises the financial institutions in order to encourage a healthy financial system. Said supervision may



be divided into monetary and prudential supervision. The monetary supervision is focused on maintaining the value of a common currency. It is partially pursuant to that role that the CBCS manages the gold and foreign currency reserves. The prudential supervision aims to protect the interests of the depositors and other creditors of the financial institutions.

Most of the activities of the CBCS are reflected in the condensed balance sheet. The balance sheet offers an overview of the assets and claims, as well as of the capital and the debts of the CBCS at the end of the month.

According to the Bank Statute (Article 39), the CBCS is required to publish the condensed balance sheet once every month. However, what makes the condensed balance sheet interesting, is the fact that the primary entries make up the essence of our financial system. The following come to mind: the cash position of the commercial banks with the CBCS –which is considered to be the money market in the strict sense– and the factors that impact it, such as banknotes, the cash position of the government and our foreign currency reserves.

With this brochure, we aim to give you a better insight into the condensed balance sheet as it is published monthly in the newspaper and on the website of the Centrale Bank van Curaçao en Sint Maarten.



March 2018

(millions of Naf.)

Assets	Difference compared		Liabilities	Difference compared	
	31-Mar-18	28-Feb-18		31-Mar-18	28-Feb-18
Claims on nonresidents	3,641.5	-44.4	Liabilities to nonresidents	262.2	3.7
Gold	996.2	4.5	Deposits of nonresidents in foreign currency	262.2	3.7
Official reserves	2,645.3	-49.0			
Other	0.0	0.0			
Domestic assets	672.0	113.6	Domestic liabilities	3,115.2	59.6
			Currency in circulation	473.6	10.6
Claims on the government	0.0	0.0	Government deposits	232.4	43.7
Government paper in portfolio	0.0	0.0	Government of Curacao	132.5	-6.4
Government agencies and institutions	0.0	0.0	Government of Sint Maarten	97.7	50.1
Other	0.0	0.0	Former Central Government	1.8	0.0
			Government agencies and institutions	0.4	0.0
Claims on deposit money banks	193.7	125.2	Liabilities to deposit money banks	2,299.6	0.5
Current account balances	193.7	125.2	Current account balances	877.3	-8.4
			Certificates of Deposit	109.0	-7.0
			Required reserves	1,313.3	16.0
Claims on other sectors	478.3	-11.6	Liabilities to other sectors	109.6	4.8
Other assets	478.3	-11.6	Deposits of other residents	49.4	3.5
			Other liabilities	60.2	1.4
			Capital and reserves	936.0	5.8
Total assets	4,313.5	69.2	Total liabilities	4,313.5	69.2

THE CONDENSED BALANCE SHEET

As stated in the introduction, the balance sheet offers an overview of the assets and claims, as well as of the capital and the debts at the end of the month.

We shall now further explain the entries that make up the balance sheet. On the left side of the balance sheet, the assets and claims are listed, these are referred to as **assets**. The entries on the right side of the balance sheets are the capital and the debts. These are referred to as **liabilities**.

On the previous page you will find an example of what the condensed balance sheet of the CBCS looks like. The main categories of the assets and liabilities are reflected in this balance sheet. The amounts reflect the size of the corresponding entries on the balance sheet at a certain point in time. These amounts have not been checked by accountants but serve illustration purposes only. The main entries are described and explained below.

SHORT EXPLANATION OF THE ASSETS ENTRIES

On the assets side of the balance sheet, the entries are divided into two categories, which are **Claims on non-residents** and **Domestic assets**. The entries and sub-entries that make up these categories are described below.

First, the entries that make up the first category, **Claims on non-residents**, shall be explained. These are the entries Gold, Official reserves and Other.

Assets	Difference compared	
	31-Mar-18	28-Feb-18
Claims on nonresidents	3,641.5	-44.4
Gold	996.2	4.5
Official reserves	2,645.3	-49.0
Other	0.0	0.0
Domestic assets	672.0	113.6
Claims on the government	0.0	0.0
Government paper in portfolio	0.0	0.0
Government agencies and institutions	0.0	0.0
Other	0.0	0.0
Claims on deposit money banks	193.7	125.2
Current account balances	193.7	125.2
Claims on other sectors	478.3	-11.6
Other assets	478.3	-11.6
Total assets	4,313.5	69.2



Claims on non-residents

Gold

A gold reserve is mainly maintained as a precaution to be able to withstand a crisis (economic hardship) or an adversity (natural disaster). Internationally, a gold reserve is often considered a symbol of monetary and economic stability.

Curaçao and Sint Maarten's gold reserve came about after the Second World War, since during the war Shell and Lago had received payments in gold from the allied forces in exchange for oil shipments. This reserve consisted mainly of gold coins. The value of the gold reserve is determined in accordance with the international market value. Revaluation takes place monthly and the result thereof is withdrawn from or added to the entry Capital and reserves on the liabilities side of the balance sheet.

Official reserves

Official reserves are defined as claims of the CBCS on foreign countries. Among others, these claims consist of foreign currency, such as US dollars and euros. A country needs foreign currency reserves to be able to pay for its imports, and these can be earned by means of export. We gain our foreign currency reserves predominantly from service provision to foreign countries, such as tourism, international financial services, and the activities of the oil refinery. The foreign currency reserves of Curaçao and Sint Maarten consist



predominantly of dollars, since the greater part of foreign trade is paid in dollars. Therefore, as early as in 1946 it was decided to peg the Antillean guilder to the dollar, in order to minimize price fluctuations stemming from changes in the exchange rate. Since December 1971, the value of the Antillean guilder has been NAf 1.79 for one US dollar. In order to maintain said peg, the CBCS must ensure there is always sufficient foreign currency available. Internationally, the standard is that the foreign currency reserves must be sufficient to cover the import of goods and services for three months.

The CBCS authorizes the local commercial banks to act as foreign currency banks, for which the authorized commercial banks are required to pay a license fee to the CBCS. The license fee is charged monthly by the CBCS. The collected license fees do not form part of the earnings of the CBCS, but are fully remitted to the Countries based on the collected sums in each Country. The foreign currency banks carry out the payment transactions between the public and the foreign countries. As the CBCS is responsible for the monetary stability, the CBCS's policy is aimed at the highest degree of centralization of our foreign currency reserves.

Other

The sub-entry Other comprises claims of the CBCS on foreign countries that are not included in the official reserves. These include bonds in the CBCS's portfolio issued



by the Netherlands Antilles and the Island Territory of Curaçao. As of October 10, 2010, as a consequence of the debt restructuring, the Dutch State assumed all loans of the Netherlands Antilles and the Island Territory of Curaçao, which led to the CBCS having a claim on the Dutch State.

The second category of entries on the assets side of the balance sheet are the claims on residents, summarized under **Domestic assets**. This category consists of the following three entries: Claims on the government, Claims on deposit money banks and Claims on other sectors. These entries are subdivided into one or several sub-entries, which will be further explained below.

Claims on the government

The entry Claims on the government consists of three different sub-entries, which are Government paper in portfolio, Government agencies and institutions and Other.

Government paper in portfolio

The CBCS's investments in debt securities of the governments of Curaçao and Sint Maarten are reflected in this category. This portfolio is also held to enable an open market policy, which refers to the purchase or sales of debt securities by the CBCS from or to the commercial banks in order to influence their liquidity position.



Government agencies and institutions

This entry comprises the loans granted by the CBCS to government agencies and institutions. In the past, for example, the Road Funding Foundation [Stichting Wegenfonds Curaçao] had a loan with the CBCS, which by now has been redeemed.

Other

This entry comprises all other claims on the government that are not included in the aforementioned entries, including the advance payments the CBCS may grant to the governments of Curaçao and Sint Maarten in order for them to overcome temporary shortness of funds.

Claims on deposit money banks

This entry comprises current-account credits granted by the CBCS to the commercial banks.

Claims on other sector

The entry Claims on other sectors among others comprises the sub-entries Loans and bonds and Tangible fixed assets (buildings and inventory, among others). The sub-entry Loans and bonds comprises tradable bonds issued by private-law legal persons established in Curaçao and Sint Maarten that the CBCS holds in portfolio. This includes, among others, the debenture loans granted by Sint Maarten Harbour Finance



N.V. and Integrated Utility Holding N.V. The entry Claims on other sectors also comprises the license fees payable to the CBCS. Commercial banks in Curaçao and Sint Maarten are required to pay a license fee to the CBCS based on the value of credit transfers from residents to non-residents. Subsequently, the CBCS pays the license fees to the Country in which they were collected.

SHORT EXPLANATION OF THE LIABILITIES ENTRIES

On the liabilities side of the balance sheet, the balance sheet entries are divided into three categories, which are **Liabilities to non-residents**, **Domestic liabilities** and **Capital and reserves**. The entries and sub-entries that make up these categories shall be described below.

Liabilities	31-Mar-18	Difference compared 28-Feb-18
Liabilities to nonresidents	262.2	3.7
Deposits of nonresidents in foreign currency	262.2	3.7
Domestic liabilities	3,115.2	59.6
Currency in circulation	473.6	10.6
Government deposits	232.4	43.7
Government of Curacao	132.5	-6.4
Government of Sint Maarten	97.7	50.1
Former Central Government	1.8	0.0
Government agencies and institutions	0.4	0.0
Liabilities to deposit money banks	2,299.6	0.5
Current account balances	877.3	-8.4
Certificates of Deposit	109.0	-7.0
Required reserves	1,313.3	16.0
Liabilities to other sectors	109.6	4.8
Deposits of other residents	49.4	3.5
Other liabilities	60.2	1.4
Capital and reserves	936.0	5.8
Total liabilities	4,313.5	69.2



Liabilities to non-residents

The category **Liabilities to non-residents** consists of one entry, namely Deposits of non-residents in foreign currency.

Deposits of non-residents in foreign currency

This balance sheet entry consists of account holders that are not residents of Curaçao or Sint Maarten, yet do carry out transactions with or through Curaçao and Sint Maarten. Account holders are, among others, the Dutch Ministry of the Interior and Kingdom Relations, foreign central banks and foreign commercial banks.

The Dutch Ministry of the Interior and Kingdom Relations holds accounts with the CBCS for the payment of interest on and amortization of debt securities issued by the former entities of the Netherlands Antilles that the Dutch State assumed within the context of the debt restructuring. These accounts are also used when the Dutch State, by reason of the current subscription, buys bonds issued by the governments of Curaçao and Sint Maarten.

Domestic liabilities

The second category, **Domestic liabilities**, consists of the following four entries: Currency in circulation, Government deposits, Liabilities to deposit money banks and Liabilities to other sectors.



Currency in circulation

Only the CBCS may issue banknotes and coins in the countries Curaçao and Sint Maarten. It maintains the currency circulation and is, in that regard, also referred to as a circulation bank.

The commercial banks act as intermediaries for the issuance of banknotes to the public. At the end of the month, when the public tends to withdraw large amounts of banknotes – for the payment of salaries– the commercial banks withdraw banknotes charged against the balances they hold with the CBCS.

The entry Currency in circulation then increases, while the sub-entry Current account balances decreases. Over the course of the month, the public spends its money and the banknotes are collected by the companies, which in turn deposit the funds on their bank accounts. The banks then bring these banknotes to the CBCS, causing the sub-entry Current account balances to increase again.

Aside from this monthly pattern, an increase in banknotes and coins in circulation also occurs during holidays and when holiday allowances are paid.

Government deposits

The second entry, **Government deposits**, consists of the



sub-entries Government of Curaçao, Government of Sint Maarten, Former Central Government and Government agencies and institutions.

Government of Curaçao

The obligations the CBCS has to the government of Curaçao, in other words, the balances the government of Curaçao holds with the CBCS are justified under this sub-entry. However, at present, the cash management (principal banking) of the Government of Curaçao is concentrated with a commercial bank.

The entry Government of Curaçao among other includes the accounts Finance Directorate Curaçao, Hòspital Nobo Otrobanda, Tax Arrangement for the Kingdom (BRK, in Dutch abbreviation) and Tax Authorities. The account Finance Directorate Curaçao serves predominantly for the settlement of capital market transactions (deposits on issued loans, interest payments and amortization payments). The account Hòspital Nobo Otrobanda is used for transactions related to the construction of Curaçao's new hospital. The BRK account is an account on which dividend tax collected by the Dutch tax authorities within the context of the Tax Arrangement for the Kingdom (BRK, in Dutch abbreviation) is entered.

Government of Sint Maarten

This sub-entry consists of the account Finance Directorate



Sint Maarten. This account is used, among others, to settle capital market transactions (deposits on issued loans, interest payments and amortization payments). The government of Sint Maarten has also concentrated its cash management with a commercial bank.

Former Central Government

This entry consists of several accounts of the central government of the former Netherlands Antilles that have not yet been settled. These are among others the account Government special, used in its day by the central government to carry out payments to creditors.

Government agencies and institutions

This sub-entry consists of the account of the Social Security Bank [Sociale Verzekeringsbank] of Curaçao.

Liabilities to deposit money banks

The third entry, **Liabilities to deposit money banks**, consists of three sub-entries, which are Current account balances, Certificates of Deposit and Required reserves.

Current account balances

The current transactions of the commercial banks are settled through the sub-entry Current account balances. An example would be the banks purchasing or selling foreign currency from or to CBCS. If they do not have sufficient



foreign currency to sell to their clients, the banks buy it from the CBCS, and if they have too much foreign currency on hand, they sell it to the CBCS. On the condensed balance sheet, the entries Current account balances and Official reserves will increase in case of sales and decrease in case of purchase of foreign currency by the banks. Another example is the withdrawal or deposit of banknotes by the commercial banks with the CBCS. The banks withdraw banknotes and coins from the CBCS in order to meet the demand of the public, and deposit the banknotes and coins once they have too many on hand. In case of withdrawal of banknotes and coins, the sub-entry Current account balances will decrease and the entry Currency in circulation will increase. In case of deposit of banknotes and coins, the opposite will happen. The transactions between the banks and the government and semipublic institutions are also included in the sub-entry Current account balances. If one of the governments transfers money from its account with the CBCS to its account with a commercial bank, then the sub-entry Current account balances will increase and the entry Government of Curaçao or Government of Sint Maarten will decrease. If one of the governments carries out a transfer from its account with a commercial bank to its account with the CBCS, the sub-entry Current account balances decreases and the sub-entry Government of Curaçao or Government of Sint Maarten increases.

After all, transactions and settlements are also carried out



between banks. In contrast to the previous three types of transactions, these transactions do not cause changes to the sub-entry Current account balances.

The three aforementioned types of transactions cause an increase or decrease of the banks' balance with the CBCS –also called the money market surplus in the strict sense. This is the banks' balance with the CBCS reduced by the loans obtained with the CBCS.

The fourth type of transaction, settlements and transactions between the banks, does not influence the money market surplus in the strict sense. The example below clarifies this. If account holders of Bank A transfer 5 million NAF. through their bank to account holders of Bank B, and account holders of Bank B in turn transfer 2 million NAF. to account holders of Bank A, in the so-called clearing this is accounted for as follows: the balance of Bank A with the CBCS is decreased by the sum of the referred transactions ad 3 million NAF. and the balance of Bank B is increased with 3 million NAF. This does not affect the total balance of the banks – the money market surplus in the strict sense.

The sum of the banknotes and coins in circulation and the current account balances of the commercial banks with the CBCS are called the monetary base. Any change to the monetary base is an indication of the liquidity that –by means of the transactions through the CBCS– reaches the



economy or is extracted from the economy.

Certificates of Deposit

One of the monetary policy instruments of the CBCS is the auctioning of Certificates of Deposit (CDs). CDs are tradable debt securities of the CBCS that are issued in multiples of 100,000 NAf. By auctioning CDs, the CBCS skims off part of the surplus of freely available funds with the banks, thus limiting the possible use of these funds for lending. The auctions take place every two weeks. The CDs have durations of 1 month, 3 months, 6 months and 12 months. The interest rate remunerated on the CDs is pegged to the LIBID-rate. By subscribing to the CD auctions, the commercial banks may deposit their surplus liquidities in a profitable way.

Required reserves

As of January 1, 1999, the required reserve is the most important instrument of the monetary policy. The reserve requirement arrangement implies that the banks must retain a certain percentage of their domestic obligations on an escrow account with the CBCS. This percentage is fixed monthly by the CBCS based on economic and monetary indicators, including the import cover, the economic growth and the growth in domestic lending. The required reserve is an instrument of the monetary policy that is aimed at skimming off the surplus of freely available funds. These funds are available for the banks to be able to settle day-to-day transactions and as a precaution for unexpected liquidity



needs. If the freely available funds exceed the amount needed for the settlement of the day-to-day transactions and the precautionary measures, then that surplus is a potential source for lending. Skimming off the liquidities influences the banks' capacity to provide credit. The aforementioned makes it possible to control expenditures and eventually the foreign currency reserve, as expenditures result in imports. In the context of the monetary policy, the CBCS therefore aims to prevent a credit growth that is too strong.

Contrary to the CDs, no interest is remunerated on the required reserves. The required reserves and CDs combined constitute the amount that the CBCS skims off from the banks monthly within the money market.

Liabilities to other sectors

The fourth entry, **Liabilities to other sectors**, consists of two sub-entries, which are Deposits of other residents and Other liabilities.

Deposits of other residents

This sub-entry comprises the deposits of other residents that are not the government, such as the General Pension Fund of Curaçao [Algemeen Pensioenfonds Curaçao (APC)] and USONA. Among others, these institutions settle part of their transactions with foreign parties through their accounts with the CBCS. Regarding the account of USONA,



the transactions are mostly related to the settlement of payments for the construction of Curaçao's new hospital, as USONA is the organization that supervises the construction of the new hospital, by order of the government of Curaçao.

Other liabilities

The sub-entry Other liabilities comprises, including others, the account Funds in consignment. Among others, this account consists of funds of which the rightful owners are unknown and that have been deposited with the CBCS pending investigation. Furthermore, the payable collected license fee stemming from the final settlement of the license fees between the CBCS and the governments of Curaçao and Sint Maarten is included in the sub-entry Other liabilities.

Capital and reserves

Similar to other financial institutions, the CBCS holds capital and reserves that serve to compensate incidental losses. In accordance with Article 34 of the Bank Statute, the capital of the CBCS amounts to 30 million NAf. In addition, the CBCS holds a reserve fund of 30 million NAf. Said reserve fund is intended for coverage of possible losses to the capital of the CBCS. Furthermore, in accordance with Article 35 of the Bank Statute, the CBCS has the authority, after approval of the meeting of Entitled Asset holders and having heard the Supervisory Board, to create appropriated reserves or to have these changed.



The appropriated reserves are created in order to compensate revaluations that relate to changes in the market value and exchange rates of the foreign currency, divided into the gold reserves, foreign bank balances and foreign investments. Value increases are added to and value decreases are taken out of the appropriated reserves. If over the course of a certain year the balance of an appropriated reserve becomes negative, then this negative balance is debited to the profit.

The category Capital and reserves also comprises the entry Undistributed profits, which relates to the net results of the current financial year and the previous financial years which have not yet been distributed to the countries Curaçao and Sint Maarten.

CONCLUSION

As mentioned before, the condensed balance sheet reflects the essence of our financial system. Entries that have an important role in that regard are: the cash position of the banks, the banknotes and coins in circulation, the cash position of the government and the foreign currency reserves. You can closely track the development of these entries in the monthly publication of the condensed balance sheet. With this publication, the Centrale Bank van Curaçao en Sint Maarten aims to increase the wider understanding of the monetary developments and public finances.

