CENTRALE BANK VAN CURAÇAO EN SINT MAARTEN

QUARTERLY BULLETIN 2014-I

I: REPORT OF THE PRESIDENT

GENERAL OVERVIEW

Global economic developments during the first quarter of 2014 were characterized by a moderate recovery in most advanced economies and weaker growth in the emerging economies. Meanwhile, despite accommodative monetary policy actions by the major central banks, global inflationary pressures remained moderate backed by lower energy prices.

Turning to the developments in the monetary union, Curaçao recorded a real GDP contraction of 0.7% during the first quarter of 2014, while the Sint Maarten economy expanded by 1.7% in real terms. Inflationary pressures eased in both countries, due primarily to lower international fuel prices. In Curaçao, the inflation rate dropped from 2.1% in the first quarter of 2013 to 0.8% in the first quarter of 2014. Sint Maarten posted an inflation rate of 2.1%, down from 2.4% a year earlier.

The economic contraction in Curaçao was the result of a decline in private demand, as both private consumption and investment dropped. Public demand remained flat because an increase in government consumption was offset by a decline in government investment. In contrast, the contribution of net foreign demand to GDP growth was positive as a decline in imports outpaced a drop in exports.

Sectoral data reveal that output contracted in most industries of the economy. However, the contraction in output was most pronounced in the wholesale & retail trade sector due to fewer activities in the free-zone and tourism sectors and the decline in domestic spending. Meanwhile, the construction sector posted negative results as both private and public sector investments dropped.

Real value added contracted also in the transport, storage & communication sector as a result of, among other things, fewer airport-related and air transportation activities. The drop in airport-related activities was reflected by a decline in the number of commercial landings and total passenger traffic. The latter decline was in line with the development in stay-over tourism. Air transportation activities contracted primarily as a result of the demise of the domestic carrier DAE in the third quarter of 2013. The harbor of Curaçao also recorded negative results as container movements and oil storage activities shrank. By contrast, the number of ship calls increased slightly. Output dropped also in the utilities sector as reflected by declines in both electricity and water production. Activities in the restaurants & hotels sector contracted due to a decline in stay-over tourism. By contrast, cruise tourism continued to grow, albeit at a slower pace than in the first quarter of 2013. The decline in stay-over arrivals was caused by fewer visitors from South America, notably

Venezuela, North America, and the Caribbean. The European market segment increased, driven primarily by more visitors from the Netherlands.

By contrast, activities increased in the financial services sector as a result of a growth in domestic financial services mitigated by a decline in international financial services. The growth in domestic financial services was attributable to a rise in other fees and commissions of the domestic commercial banks while the decline in international financial services reflected lower wages & salaries and other operational expenses. Output rose also in the manufacturing sector because of increased refining and trading activities by the Isla refinery, mitigated by a decline in ship repair activities.

In Sint Maarten, real GDP expansion during the first quarter of 2014 stemmed primarily from a growth in the restaurants & hotels, the transport, storage & communication and the wholesale & retail trade sectors. The restaurants & hotels sector performed well as a result of an increase in both stay-over and cruise tourism. The increase in cruise tourism was in line with the rise in the number of cruise vessels that visited the port of Philipsburg. Meanwhile, stay-over tourism grew, thanks to an increase in the number of visitors from North America and Europe. The expansion in the North American market segment was supported by increased airlift with the United States. However, declines in the number of stay-over tourists from South America and the Caribbean dampened the overall growth in stay-over tourism.

Real value added in the transport, storage, & communication sector rose as a result of increased activities in both air and sea transport. The positive development in airport-related activities was reflected by an increase in the number of passengers handled and a rise in the number of commercial landings. Meanwhile, the harbor of Sint Maarten performed well because of an increase in the number of ships, in particular cruise ships, piloted into the port.

The wholesale & retail trade sector recorded growth due to the positive developments in the tourism industry and an increase in domestic spending. The financial services and manufacturing sectors also contributed to Sint Maarten's real GDP expansion in the first quarter of 2014. Real output increased in the financial services sector as indicated by a rise in net interest income of the domestic banks. In the manufacturing sector, real value added rose mainly because of an increase in repair activities on yachts that visited Sint Maarten. Growth in the utilities sector was flat as an increase in water production was offset by a decline in electricity production. Meanwhile, the construction sector contributed negatively to growth owing to a decline in both public and private investments.

The Curaçao government continued to make progress toward consolidating its public finances during the first quarter of 2014. Hence, the board of financial supervision "College Financial Toezicht (CFT)" informed the Kingdom Council of Ministers in March 2014 that Curaçao was complying with all the components of the instruction given to the government in July 2012. Removal of this instruction makes it possible for Curaçao to borrow to finance capital investments, including the construction of a new hospital.

The budget surplus of the Curaçao government dropped in the first quarter of 2014 compared to the first quarter of 2013 due to a decline in revenues combined with an increase in expenditures. The decline in revenues was the result of a drop in the proceeds from all tax categories. The decline was most pronounced in the income & profit tax category, reflecting mainly the economic contraction in Curaçao. Government expenditures increased mainly because of a rise in the outlays on wages & salaries.

Sint Maarten also made progress in the area of its public finances, particularly regarding the budgetary process. Although still delayed, the 2014 budget was approved by parliament in January 2014. This approval was an improvement compared to 2013 when the budget was not passed into law until September 2013. However, efforts should be made for a timely approval of the budget in the future.

The government of Sint Maarten recorded a higher budget surplus in the March quarter of 2014 compared to the March quarter of 2013. The improved budgetary situation was the result of higher revenues mitigated by a rise in expenditures. The increase in revenues was attributable to most tax categories, the result of efforts to collect past due taxes and control tax compliance more effectively. Government expenditures rose because of more spending on goods & services and wages & salaries. By contrast, transfers and subsidies dropped as a result of cutbacks in the government's contributions to social insurances.

In the external sector, the deficit on the current account of the balance of payments narrowed significantly in the first quarter of 2014 compared to the first quarter of 2013, reflected by an increase in net exports of goods and services. In addition, both the income and current transfers balances improved. The increase in net exports resulted from a decline in imports mitigated by a drop in exports. The decline in imports was caused mainly by a drop in merchandise imports, particularly by the free-zone companies in Curaçao. Exports contracted due to a decline in the re-exports by the free-zone companies reflecting lower foreign demand, notably from Venezuela. Activities in the free-zone were affected particularly by the currency restrictions in Venezuela, one of the sector's main markets. A decline in foreign exchange revenues from transportation activities and lower earnings from bunkering activities also contributed to the contraction in exports. By contrast, the refining fee increased, reflecting more trading and production activities at the Isla refinery in Curaçao.

Net foreign wealth of the private sector dropped in the January–March period of 2014, reflected by a worsening of the portfolio and direct investment balances. The portfolio investment balance worsened largely because of matured foreign debt securities held by institutional investors that were not reinvested abroad. The latter securities included debt securities that were issued in the past by the Netherlands Antillean entities and taken over by the Dutch government under the debt relief program. Meanwhile, net direct investments into the monetary union rose, reflecting increased liabilities of domestic companies towards their foreign direct investors and a rise in real estate purchases by nonresidents in Curaçao and Sint Maarten. By contrast, the loans and credits balance improved mostly because of a large increase in funds transferred to foreign bank accounts. The latter increase was caused primarily by matured debt securities that were not reinvested abroad but placed in current accounts at foreign banks. Capital transfers

continued to drop during the first quarter of 2014 due to the phasing out of development aid from the Netherlands. Because the financing from abroad exceeded the current account deficit, the balance of payments recorded a surplus in the first quarter of 2014 and, hence, gross international reserves of the central bank increased.

The money supply expanded in the first quarter of 2014 due to an increase in net foreign assets. In contrast, net domestic assets contracted because of a decline in net credit extension to the private sector. The latter decline was the result of a drop in the amount of loans extended in Sint Maarten. In Curaçao, on the other hand, total loans extended remained about the same. An increase in the deposits of the government of Curaçao also contributed to the contraction of net domestic assets during the first quarter of 2014.

The monetary policy stance of the Bank during the first quarter of 2014 continued to be tightening of the liquidity surplus in the money market. Hence, the percentage of the reserve requirement was raised by 50 basis points reaching 17.50% in March 2014. In addition, the Bank offered more Certificates of Deposit (CDs) against various maturities to make these securities more attractive to the banks. Since March 2012, the Bank has complemented its monetary policy tools with a temporary credit measure. In February 2014, this measure was extended for another 6 months, allowing a maximum credit growth of 4% compared to end of August 2012.

An evaluation of the credit measure in August 2014 concluded that it has produced the intended results. Private credit growth declined and turned negative as of December 2013. The deficit on the current account of the balance of payments declined in both 2012 and 2013. Moreover, the declining trend in reserves reversed in November 2013. Based on these developments, the Bank revoked the credit measure as of September 1, 2014.

The developments in the monetary union during the first quarter of 2014 underscore that fiscal consolidation is a necessary condition for a stable macroeconomic environment but will not lead to economic growth. The lackluster performance of the private sector, particularly in Curaçao, emphasizes the need for policy measures that address the weaknesses of our business climate. In the recent Article IV consultation report of the International Monetary Fund, several areas again are mentioned that must be addressed to create a climate conducive to growth. These areas include labor market rigidities and the high cost of doing business. The private sector also has a key responsibility in achieving a higher growth path. In particular, the financial sector, i.e., commercial banks and institutional investors, should become more proactive in providing the necessary funds for investments that will create more economic activity, but in a prudent manner. The recent lifting of the credit measure can facilitate this turnaround.

The developments in the real sector and on the balance of payments during the January–March period of 2014 also underscore the vulnerability of our islands, being small and open, to external shocks. These shocks include international price volatility, particularly of food and oil products, and developments in our main trading partners. For example, the current situation in Venezuela has significant implications for the real sector and the net exports of Curaçao. The islands' vulnerability to external shocks, particularly those related to our main trading partners, can be reduced by diversifying our trade towards new sectors

and markets. Creating a more friendly business climate, providing sufficient finance, and diversifying our economies are crucial elements of a reform agenda for higher sustainable growth and prosperity.

E.D. Tromp
President

II: INTERNATIONAL ECONOMIC DEVELOPMENTS

THE UNITED STATES

During the January-March period of 2014, the U.S. economy expanded by 1.9% in real terms, a slight acceleration compared to the growth of 1.7% in the first quarter of 2013 (see Table 1). The faster output growth was ascribable solely to an increase in domestic demand.

Table 1: Economic indicators of the United States

	2013-I	2014-I
Real GDP (% change)	1.7	1.9
Consumer prices (%)	1.7	1.4
Unemployment rate (%)	7.7	6.7

Sources: US Bureau of Economic Analysis and US Bureau of Labor Statistics.

Domestic demand contributed positively to the real GDP growth of the United States during the first quarter of 2014 because of an increase in private demand, mitigated by a decline in public demand. The increase in private demand was driven by an accelerated growth in both private consumption and investments. Private consumption benefitted from a higher disposable income, better labor market conditions, and improved consumer confidence. The increase in private consumption was reflected mainly by more spending on durable goods including automobiles and on services including utilities & health care services. Private investments rose mainly because of more nonresidential construction. Meanwhile, residential construction grew at a slower pace because of higher prices and mortgage rates. In contrast, public demand dampened growth in the first quarter of 2014. The dismal performance of the public sector was caused by cuts in federal government spending, offsetting higher spending by state and local governments. In addition, net foreign demand contributed negatively to economic growth because exports, notably the export of capital goods, grew at a slower pace than imports during 2014's first quarter.

From a sectoral perspective, the manufacturing and retail trade sectors contributed positively to the U.S. economy in real terms, whereas activities in the utilities, construction, wholesale trade, and financial services sectors contracted. The U.S. unemployment rate dropped to 6.7% during the first quarter of 2014, primarily because of jobs added in the professional & business services, health care, and construction sectors. Nevertheless, the number of long-term unemployed and the number of workers employed part-time for economic reasons did not register significant changes.

Inflationary pressures in the United States eased to 1.4% in the January-March period of 2014, remaining below the Fed's long-term inflation target of 2.0%. The easing resulted from lower energy prices offset in part by higher food prices. Based on an elevated unemployment rate and a relatively low inflation rate, the Federal Reserve maintained the federal funds rate near zero.

THE NETHERLANDS

The Dutch economy shrunk by 0.5% during the March quarter of 2014 compared to a decline of 1.8% in the first quarter of 2013 (see Table 2). The poor economic performance resulted from a negative contribution of net foreign demand, mitigated by a positive contribution of domestic demand.

Table 2: Economic indicators of the Netherlands

	2013-I	2014-I
Real GDP (% change)	-1.8	-0.5
Consumer prices (%)	3.0	1.1
Unemployment rate* (%)	6.5	7.5

Sources: Central Bureau of Statistics.
**International definition.*

Net foreign demand in the Netherlands dropped during the first quarter of 2014 compared to the first quarter of 2013 because import growth exceeded the rise in exports. Exports of chemical, electrical, and metal products increased, moderated by a decline in the export of natural gas. Meanwhile, imports of primarily metal products and vehicles rose. In contrast, domestic demand performed well because of an increase in both private and public spending. Private spending rose due to an increase in private investments, while private consumption declined. The decline in private consumption was attributable mainly to an exceptionally mild winter, which led to lower gas consumption during the first quarter of 2014. In addition, consumer spending on food, beverages, and tobacco dropped largely because the Easter weekend, which is characterized by high consumer spending, occurred in the second quarter of 2014 versus the first quarter of 2013. However, the decline in private consumption was mitigated by higher spending on outdoor leisure and durable goods including clothing and electronics. Meanwhile, businesses benefitted from the mild winter with more construction activities during 2014's first quarter. Also, private investments in machinery and computers increased because of higher investor confidence and capacity utilization. Nonetheless, private investments in company automobiles and commercial vehicles dropped compared to a year earlier due to higher tax on cars and motorcycles as of January 1st, 2014. Activities in the public sector contributed positively to real GDP growth of the Netherlands in the first quarter of 2014 as a result of a rise in both public consumption and investments.

An analysis by sector reveals that activities dropped in the financial sector, while the manufacturing, restaurants & hotels, and construction sectors contributed positively to real GDP growth. However, the labor market worsened. The Dutch unemployment rate increased to 7.5%, mainly as a result of job losses in the health and welfare sector, particularly child care and home care.

At the same time, consumer price inflation declined to 1.1% in the March quarter of 2014, down from 3.0% in the first quarter of 2013. The lower inflationary pressures in the Netherlands resulted from a decline in prices of food, clothing, and fuel.

VENEZUELA

According to estimates of the Centro de Estudios Latinoamericanos,[1] the economy of Venezuela contracted by 2.7% during 2014's first quarter. El Nacional[2] indicated a larger contraction of 4.5%. This development was a turnaround compared to the real GDP expansion of 0.8% recorded in the first quarter of 2013. The first quarter of 2014 was the first time that the real GDP growth of Venezuela registered a negative development since the contraction of 1.5% in 2010. The poor economic performance of Venezuela was attributable entirely to a decline in private demand, while public demand grew at a slower pace.

Table 3: Economic indicators of Venezuela

	2013-I	2014-I
Real GDP (% change)	0.8	-2.7 - -4.5
Consumer prices (%)	23.4	57.7
Unemployment rate (%)	8.2	8.0

Sources: Banco Central de Venezuela, Centro de Estudios Latinoamericanos and El Nacional

The decline in private demand was attributable to a drop in both private consumption and investments. Private consumption dropped particularly as a result of higher consumer price inflation that negatively affected consumers' purchasing power. Gross fixed capital investments contracted primarily because of the weak business climate in Venezuela and shortages of foreign currency that raised the cost of imported products. In addition, the unstable political environment, rising social unrest, and increased crime rate negatively affected investor confidence. In contrast, public demand rose during 2014's first quarter, albeit less pronounced than in the first quarter of 2013. Despite government efforts to continue spending on social programs, public spending was largely constrained by less revenue from oil exports. Net foreign demand mitigated the contraction in real output growth in Venezuela because the decline in exports was offset by a larger drop in imports. The decline in exports was driven by lower oil exports, while the drop in imports was mainly the result of foreign exchange restrictions.

An analysis by sector reveals that the decline in Venezuela's real output was caused predominantly by the manufacturing and construction sectors. Consumer price inflation in Venezuela soared to 57.7% in the first quarter of 2014, eight times higher than the average inflation rate in the Latin American region.[3] The hyperinflation resulted from domestic shortages of goods, an expansionary monetary policy, and a widening gap between the official and black market exchange rates. Despite the unstable economic environment in Venezuela, the unemployment rate dropped to 8.0% in 2014's first quarter.

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[1] Source: http://www.economylatinamerica.com/economic-report-for-venezuela.php.
[2] Source: http://www.el-nacional.com/economia/Afirman-economia-cayo-primer-trimestre_0_458354325.html.
[3] Source: see footnote 1.

III: GENERAL ECONOMIC DEVELOPMENTS

GENERAL ECONOMIC DEVELOPMENTS IN CURAÇAO

Following a contraction of 0.5% in the first quarter of 2013, real output in Curaçao dropped by 0.7% in the first quarter of 2014. The dismal economic performance resulted in particular from a decline in domestic demand despite lower inflationary pressures (see Table 4). Curaçao's consumer price inflation eased to 0.8% in the first quarter of 2014 because of a decline in food and fuel prices, mitigated by an increase in water tariffs.

An analysis of GDP by expenditure reveals that the poor economic performance was ascribable mainly to a decline in domestic demand. This decline was the result of a drop in private demand, which contracted because of a decline in both private consumption and investment. The fall in private consumption reflected, among other things, the continuing impact of 2013's fiscal reforms that lowered purchasing power as well as worsened labor market conditions. The negative development in private consumption also was in line with less consumer credit extended by the domestic commercial banks. Private investment shrank as reflected by fewer construction activities during the March quarter of 2014. The development in private investment was consistent with fewer business loans extended by the domestic commercial banks. Meanwhile, growth in public demand remained muted as the increase in government consumption was offset by a decline in government investment.

Net foreign demand made a positive contribution to the real GDP growth of Curaçao during the March quarter of 2014 because imports dropped at a faster pace than exports. The decline in exports was largely the result of fewer re-exports by the free-zone companies in Curaçao, particularly to Venezuela, and fewer bunkering activities. The decline in re-exports also induced a large part of the decline in imports because the free-zone companies imported less merchandise.

Table 4: GDP growth by expenditure in Curaçao* (real percentage changes)

	2013-I	2014-I
Domestic expenditure, of which:	-0.4	-0.6
Private sector	0.3	-0.6
- Consumption	0.3	-0.3
- Investment	0.0	-0.3
Government sector	-0.7	0.0
- Consumption	-0.6	0.1
- Investment	-0.1	-0.1
Changes in inventory	-0.2	-0.3
Foreign net expenditure	0.1	0.2
- Export of goods and services	-0.5	-0.3
- Import of goods and services	-0.5	-0.6
GDP	-0.5	-0.7

Source: Estimates by the Centrale Bank van Curaçao en Sint Maarten.
**Expenditure categories data are weighted contributors to GDP growth.*

DOMESTIC PRODUCTION

From a sectoral perspective, the contraction in private sector activities during the March quarter of 2014 resulted primarily from the construction and wholesale & retail trade sectors (see Table 5). The drop in construction activities was attributable to less private and public investments compared to the first quarter of 2013.

Activities in the wholesale & retail trade sector contracted as a result of fewer activities in the free-zone sector, lower tourism spending, and the decline in domestic demand. The drop in free-zone activities was accompanied by a decline in the number of visitors, particularly from Venezuela. The number of Venezuelan free-zone visitors halved during the March quarter of 2014 compared to the first quarter of 2013.

Real output in the transport, storage & communication sector shrank also in the first quarter of 2014 because of a decline in both airport and harbor activities. The decline in airport-related activities was the result of a drop in passenger traffic, notably the number of transit passengers and commercial landings in line with the development in stay-over tourism. The negative development in air transportation activities was mainly the result of the bankruptcy of the domestic airline DAE in August 2013. Meanwhile, the drop in harbor activities was driven by a decline in oil storage activities and container movements. In contrast, the number of ships piloted into the port of Curaçao increased slightly, supported by a rise in the number of tankers, while the number of cruise ships and freighters dropped. During 2014's first quarter, the utilities sector also contributed

negatively to real GDP growth in Curaçao because of a decline in both electricity and water production.

Real value added in the restaurants & hotels sector dropped in the first quarter of 2014 because of a decline in the number of stay-over visitors. Meanwhile, the growth in cruise tourism decelerated to 1.5% during the first quarter of 2014 compared to 8.0% in the first quarter of 2013. While the growth in the number of cruise tourists decelerated, the number of cruise calls dropped. The number of stay-over visitors was down by 4.8% in the January-March period of 2014 compared to an expansion of 7.8% in the first quarter of 2013. The disappointing performance of stay-over tourism resulted from decreases in the South American, North American, and Caribbean markets, moderated by an increase in the European market. The largest drop in the number of stay-over visitors was registered in the South American market as a result of fewer Venezuelan visitors. In contrast, the number of stay-over visitors from Brazil rose at a faster pace in the first quarter of 2014. The North American market also registered a decrease due to fewer visitors from the United States, mitigated by more visitors from Canada. The number of stay-over visitors from Canada rose because of more marketing activities and more airlift. In addition, the Caribbean market contracted because of fewer stay-over visitors from Aruba and the Dominican Republic. The improvement in the European market segment was driven mainly by more visitors from the Netherlands, moderated by fewer visitors from Germany. The number of visitor nights rose during the January-March period of 2014 despite a decline in the number of stay-over visitors. This positive development was the result of more visitors from the European market.[4] Nevertheless, the number of visitor nights rose at a slower pace compared to the first quarter of 2013. At the same time, the hotel occupancy rate in Curaçao declined to 72.9% in 2014's first quarter because an increasing number of visitors prefer to stay in alternative accommodations (see Table 10 in the appendix for more details).

In contrast, activities in the manufacturing sector expanded during the January-March period of 2014 as a result of more refining and trading activities by the refinery. However, growth in the manufacturing sector was mitigated by a drop in ship repair activities as reflected by a decline in the number of man-hours sold. The drop in the number of man-hours sold was in line with the decline in the number of ships repaired.

After a contraction in the first quarter of 2013, activities in the financial intermediation sector picked up in the first quarter of 2014 because of an increase in domestic financial services, mitigated by a decline in international financial services. The slight increase in domestic financial services was driven by a rise in other fees and commissions of the domestic commercial banks, moderated by a decline in net interest income. Meanwhile, the drop in international financial services resulted from lower wages & salaries as well as other operational expenses.

[4] Stay-over visitors from the European market typically spend more nights compared to other markets.

Table 5: GDP by sector (real percentage changes)

Sector	2013-I	2014-I
Agriculture, fishery, & mining	-3.6	-4.1
Manufacturing	-3.3	0.7
Electricity, gas, & water	0.3	-1.2
Construction	-4.3	-5.0
Wholesale & retail trade	0.3	-2.1
Restaurants & hotels	2.7	-0.5
Transport, storage, & communication	0.0	-1.4
Financial intermediation	-0.3	0.3
Real estate, renting, & business activity	-0.3	0.4
Other community, social, & personal services	-1.4	-0.3
Private households	0.6	-0.6
Total private sector	-0.5	-0.6
Public sector	-0.2	0.0
Taxes minus subsidies	0.2	-0.1
GDP	-0.5	-0.7

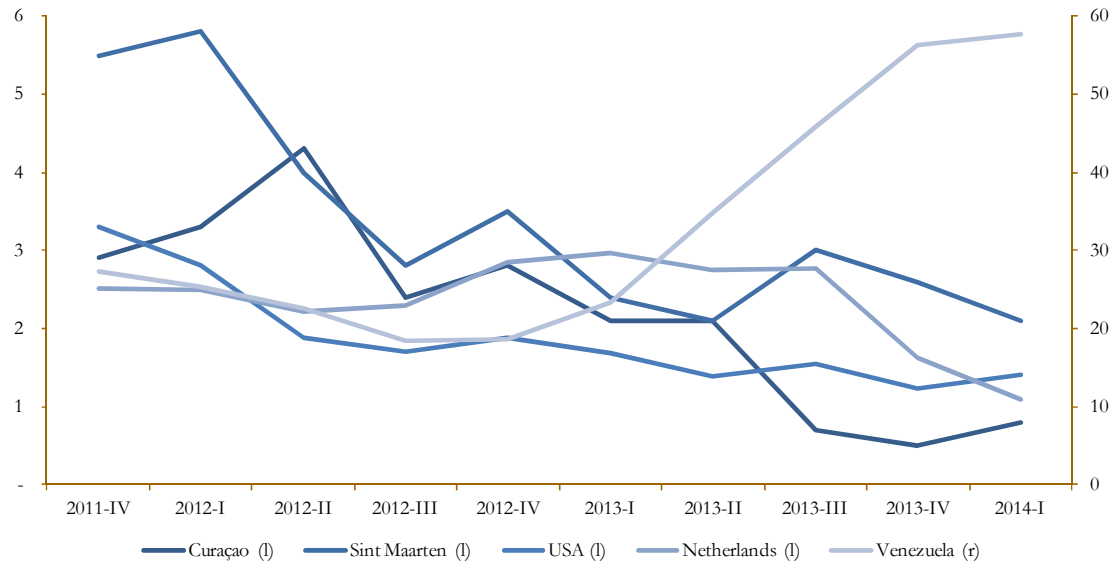
Source: Estimates by the Centrale Bank van Curaçao en Sint Maarten.

INFLATIONARY PRESSURES

During the January-March period of 2014, consumer price inflation in Curaçao eased to 0.8%, down from 2.1% in the first quarter of 2013. The decrease in the inflation rate of Curaçao is in line with that of two of its main trading partners, namely, the United States and the Netherlands (see Graph 1). The lower inflationary pressures resulted primarily from a decline in food and fuel prices, moderated by an increase in water tariffs.

An analysis of the development in the CPI components reveals that during 2014's first quarter, the average prices dropped in the categories "Health" (1.3%), "Transport & communication" (1.1%), and "Food" (0.8%). Consumer prices of "Food" declined primarily because of a reduction in the prices of grain products and outdoor consumption, mitigated by an increase in the prices of meat & fish and potatoes, vegetables & fruit. In the category "Transport & communication", consumer prices dropped as a result of a decrease in fuel prices, mitigated by a rise in communication costs. Meanwhile, the category "Housing" (2.3%) registered an increase during the first quarter of 2014, albeit less pronounced than in the first quarter of 2013. The price deceleration in the "Housing" category was the result of a slowdown in electricity price gains along with an increase in water tariffs.

Graph 1: Developments in consumer prices[a]



[a] *Annual percentage change.*

Furthermore, price gains in the categories "Clothing & footwear" (1.3%) and "Housekeeping & furnishings" (1.2%) decelerated. Finally, prices increased at a faster pace in the category "Beverages and tobacco" (17.9%) as a result of both beverages and tobacco becoming more expensive due to higher sales tax in the first quarter of 2014 (see Table 11A in the appendix).

GENERAL ECONOMIC DEVELOPMENTS IN SINT MAARTEN

Sint Maarten's economy expanded by 1.7% during the March quarter of 2014, an acceleration compared to the 0.7% growth in the first quarter of 2013. Meanwhile, consumer price inflation fell to 2.1% reflecting primarily lower fuel prices.

On the production side, real output growth in Sint Maarten was attributable predominantly to the restaurants & hotels, transport, storage & communication, and wholesale & retail trade sectors (see Table 6). Real value added in the restaurants & hotels sector rose at a faster pace during the first quarter of 2014 compared to the first quarter of 2013 because both stay-over and cruise tourism expanded. The positive development in the number of cruise tourists was in line with more cruise calls during 2014's first quarter, attributable to, among other things, increased efforts to promote Sint Maarten as a cruise destination. The number of stay-over visitors was up by 5.1% in the January-March period of 2014 compared to the 2.1% growth in the first quarter of 2013 (see Table 10 in the appendix). The faster growth in the number of stay-over visitors was supported by increases in the North American and European markets, mitigated by decreases in the South American and Caribbean markets. An accelerated growth was registered in the number of stay-over visitors from North America due to more visitors from Canada and the United States. The increase in the number of visitors from the United States was attributable to increased airlift, reflecting more flights by Delta Airlines and the launching of daily flights by

Seaborne Airlines. The improvement in the European market segment was ascribable particularly to more visitors from the Netherlands. In contrast, the number of stay-over visitors from the South American market dropped, primarily because of fewer visitors from Venezuela. The Caribbean market segment also registered a decline, mainly as a result of fewer visitors from Trinidad & Tobago. Meanwhile, the average length of stay declined in 2014's first quarter compared to the first quarter of 2013 (7.8%). The growth in the number of stay-over visitors was reflected by an increase in the time-share occupancy rate from 84.0% to 88.0%. In contrast, the hotel occupancy rate dropped from 81.2% to 77.9%.

During the first quarter of 2014, real output in the transport, storage & communication sector grew because of an increase in both airport and harbor activities. Air transportation and airport-related activities rose because of more passenger traffic and an increase in the number of commercial landings. The favorable performance of the airport was consistent with the development in the number of stay-over visitors and the increased airlift to Sint Maarten. Harbor activities also grew as a result of more ships, notably cruise ships piloted into the port of Sint Maarten. In contrast, the number of freighters declined.

Activities in the wholesale & retail trade sector increased at a faster pace during the first quarter of 2014 compared to the first quarter of 2013, attributable to increases in both tourism spending and domestic spending. However, the increase in domestic spending was less pronounced compared to the first quarter of 2013.

After a contraction in the January-March period of 2013, real value added in the financial intermediation sector picked up in the first quarter of 2014. The increase in activities in the financial intermediation sector was caused by an increase in net interest income of the domestic commercial banks, attributable to higher interest income along with lower interest expenditures. The manufacturing sector also contributed positively to real GDP growth, led by an increase in repair activities on yachts that visited Sint Maarten during the first quarter of 2014.

Real value added in the utilities sector remained muted during the March quarter of 2014 because water production increased while electricity production declined.

In contrast, the construction sector performed poorly during 2014's first quarter due to fewer private and public investments. The lack of public investments, particularly investments in Sint Maarten's infrastructure, resulted from a delay in the allocation of government funds to finance these projects. Meanwhile, the development in private investments was in line with a decline in the number of building permits issued and fewer business loans extended by the domestic commercial banks.

Table 6: GDP by sector in Sint Maarten (real percentage changes)

	2013-I	2014-I
Agriculture, fishery, & mining	0.0	0.0
Manufacturing	4.7	6.0
Electricity, gas, & water	0.3	0.3
Construction	2.7	-0.5
Wholesale & retail trade	0.7	1.1
Restaurants & hotels	1.8	4.4
Transport, storage, & communication	-0.3	3.0
Financial intermediation	-2.6	0.7
Real estate, renting, & business activity	0.2	0.6
Other community, social, & personal services	3.8	-0.1
Private households	2.0	0.3
Total private sector	0.5	1.1
Public sector	0.9	0.7
Taxes minus subsidies	-0.7	-0.1
GDP	0.7	1.7

Source: Estimates by the Centrale Bank van Curaçao en Sint Maarten.
[a]Real percentage changes.

INFLATIONARY PRESSURES

Inflationary pressures in Sint Maarten eased from 2.4% in the first quarter of 2013 to 2.1% in the first quarter of 2014, primarily because of lower fuel prices. The lower inflationary pressures in Sint Maarten were consistent with that in the United States during 2014's first quarter.

An analysis of the development in the CPI components shows that the lower inflationary pressures were largely attributable to the category "Transport & communication" (0.8%) as a result of a decline in fuel prices and, to a lesser extent, lower communication costs. Furthermore, prices increased at a slower pace in the categories "Housekeeping & furnishings" (3.7%) and "Clothing & footwear" (0.5%) during the January-March period of 2014. Meanwhile, consumer prices in the category "Housing" rose at a faster pace (2.2%) due to higher electricity prices and housing costs. Last, price gains in the category "Food" (6.3%) accelerated as a result of a price surge in the subcategories meat & fish, dairy products, and outdoor consumption (see Table 11B in the appendix for further details).

DEVELOPMENTS IN PUBLIC FINANCES

PUBLIC FINANCES CURAÇAO

During the first quarter of 2014, the Curaçao government continued to make progress toward consolidating its public finances. As a consequence, the financial supervision council "College Financieel Toezicht" (CFT) informed the Kingdom Council of Ministers in March 2014 that Curaçao was complying with all the components of the instruction given to the Curaçao government in July 2012. In April 2013, the CFT already had informed the Kingdom Council of Ministers that Curaçao was complying with 4 of the 6 instruction components: the hiring freeze and the compensation of deficits incurred in the years 2010–2012 still had to be met. As of March 2014, the CFT considered increased supervision of personnel costs no longer necessary as the Curaçao government remained within the budgeted amount and had several measures planned to contain personnel costs. Also, an agreement was reached regarding the size of the deficits recorded in the years 2010, 2011, and 2012, the total amount of which was processed in the budget amendment of 2013.

During the first three months of 2014, the government of Curaçao posted a budget surplus of NAf.95.9 million, smaller than the surplus of NAf.115.5 million recorded in the first quarter of 2013. The smaller surplus was the result of a decline in revenues (NAf.15.3 million) combined with an increase in expenditures (NAf.4.3 million). The drop in revenues was attributable to lower tax proceeds reflecting declines in all tax categories. In particular, taxes on income and profits dropped as a result of the economic contraction in the first quarter of 2014. Meanwhile, import duties fell in line with the estimated drop in imports of goods & services. Total expenditures grew largely because of more wages and salaries disbursements. The latter increase reflected mainly a different approach in the administration of teachers' wages in the government books. In 2013 and before, some components of teachers' wages were recorded in the month of December; starting from January 2014, these components are spread over a 12-month period (see Tables 12A and 12B in the appendix for an overview).

In the first quarter of 2014, the government of Curaçao used its budget surplus to replenish its accounts with the banking sector, resulting in an overall drop in monetary financing. Furthermore, nonmonetary financing dropped as the government started to build up a reserve to compensate for the deficits incurred during the period 2010-2012 (see Table 7).

Table 7: Financing of the budget balance of Curaçao (in millions NAf.)

	2013-I	2014-I
Monetary financing	-113.9	-69.4
Central bank	-6.0	-11.9
Commercial banks	-107.9	-57.2
Nonmonetary financing	-1.6	-26.8
Government securities with the public	0.0	0.0
Other	-1.6	-26.8
Cash balance	115.5	95.9

Public sector debt

During the first quarter of 2014, the outstanding public debt of the Curaçao government rose by NAf.56.8 million to NAf.1.995.2 million, mainly as a result of arrears incurred with the government pension fund, APC, the social security bank, SVB, and other creditors. As a consequence, Curaçao's public debt-to-GDP ratio was estimated at 35.3% at the end of March 2014.

PUBLIC FINANCES OF SINT MAARTEN

Budgeting and financial management are key aspects of a government's operations. However, since it became an autonomous country within the Dutch Kingdom, Sint Maarten's government has found execution of both tasks challenging. . Consequently, the budgetary process has been characterized by long delays, and financial management has been weak. During the first months of 2014, however, some improvements were achieved. The 2014 budget was approved by Parliament in January 2014, well ahead of the September signing of the 2013 budget. Still, the government has to take the necessary measures to compensate for the budget deficits incurred in 2010 – 2013 no later than 2015, and it has to address the arrears towards the government pension fund, APS, and the social & health insurances administration, SZV.

The data regarding the first quarter of 2014 indicate that the government of Sint Maarten recorded a budget surplus of NAf.33.1 million, an increase compared to the NAf.25.3 million surplus registered in the first quarter of 2013. The larger surplus was the result of a rise in revenues that exceeded the growth in expenditures. Government revenues rose by NAf.10.0 million, driven mainly by an increase in tax proceeds. Tax revenues increased across all categories, except taxes on property. Taxes on income and profits were up, due to increased efforts by the government to collect past due taxes. Meanwhile, taxes on goods and services rose largely as a result of more proceeds from the motor vehicle tax. Contrary to 2013, the government issued new license plates in the first quarter of 2014 to effectively control compliance with the motor vehicle tax, contributing to the rise in tax revenues. Government expenditures grew by NAf.2.2 million, owing largely to increased outlays on wages & salaries and goods and services, mitigated by a decline in transfers and subsidies. The increase in wages & salaries was largely the result of the indexation of civil servant salaries and the costs related to the retaining pay (*wachtgeld*) of former ministers. Transfers and subsidies dropped because of cutbacks in the government's contributions to

the social insurances. As of 2014, the health insurance of family members of civil servants is no longer covered by the government, but must be paid by the employee (see Tables 12C and 12D in the appendix for an overview).

In the March quarter of 2014, the government of Sint Maarten used its budget surplus and part of its commercial bank deposits to cancel obligations towards creditors (See Table 8).

Table 8: Financing of the budget balance of Sint Maarten (in millions NAf.)

	2013-I	2014-I
Monetary financing	-7.4	33.5
Central bank	0.0	0.0
Commercial banks	-7.4	33.5
Nonmonetary financing	-17.9	-66.6
Government securities with the public	0.0	0.0
Other	-17.9	-66.6
Cash balance	25.3	33.1

Public sector debt

Sint Maarten's outstanding public debt at the end of March 2014 could not be established due to missing data.

DEVELOPMENTS IN THE BALANCE OF PAYMENTS OF THE MONETARY UNION

During the first quarter of 2014, the deficit on the current account of the balance of payments of the monetary union narrowed by NAf.136.3 million compared to the first quarter of 2013. The smaller deficit was caused largely by improvements in the trade and services balances. Whereas external financing increased, capital transfers dropped as the development aid from the Netherlands is being phased out. Because the capital inflow and external financing exceeded the current account deficit, the gross reserves of the central bank increased by NAf.141.4 million (see Table 9).

Table 9: Balance of payments summary (in millions NAf.)

	2012-I	2013-I	2014-I
Current account	-202.4	-231.1	-94.8
Capital transfers	28.3	23.8	7.6
External financing of the government	-2.7	0.2	0.3
External financing of the private sector	-64	128.5	176.1
- Direct investment	88.2	-25.0	89.2
- Loans and credits	-296.0	94.3	-47.8
- Portfolio investments	143.8	59.2	134.7
Change in gross reserves of the central bank*)	224.7	56.5	-141.4
- Foreign exchange	188.7	140.1	-172.3
- held at foreign central banks	163.5	146.3	-12.0
- held at foreign commercial banks	25.2	-6.2	-160.3
- Other claims	36.0	-83.6	30.9
Statistical discrepancies	16.2	22.1	52.3

**) A minus sign implies an increase.*

CURRENT ACCOUNT

Net exports of goods and services in the monetary union improved by NAf.89.1 million during the first quarter of 2014 compared to the first quarter of 2013 because of a decline in imports (NAf.173.3 million) mitigated by a drop in exports (NAf.84.2 million). Below is an analysis of the developments in net exports of goods and services in Curaçao and Sint Maarten.[5]

Developments in the net exports of goods and services in Curaçao

In Curaçao, net exports of goods and services improved by NAf.128.3 million during the first quarter of 2014 compared to the first quarter of 2013 as a drop in imports (NAf.177.1 million) offset a decline in exports (NAf.48.8 million). The decline in imports of goods and services was related mostly to a sharp drop in merchandise imports by free-zone companies. This drop was largely the result of a decline in foreign demand, in particular from Venezuelan merchants. In addition, oil imports dropped as a result of a lower demand for bunkering in combination with a small decline in the price of oil.

[5] The current account of the monetary union is not equal to the sum of the current accounts of Curaçao and Sint Maarten because of the transactions between the two countries.

The decline in exports was largely the result of a significant drop in re-exports by the free-zone companies, reflecting the sharp fall in foreign demand from Venezuelan merchants in particular. Their demand dropped as a result of the currency restrictions imposed by the Venezuelan government. Furthermore, foreign exchange revenues from bunkering activities declined, reflecting lower volumes sold in combination with a small decrease in the price of oil.

In addition, foreign exchange receipts from the transportation sector dropped (NAf.13.2 million), due to fewer revenues from air transportation as a result of the bankruptcy of the local carrier DAE in August 2013. Furthermore, foreign exchange revenues from the tourism industry declined (NAf.11.4 million), as the drop in foreign exchange earnings from stay-over tourism (NAf.12.5 million) exceeded the rise in foreign exchange earnings from cruise tourism (NAf.1.1 million). The decline in stay-over tourism receipts were in line with the decline in the number of stay-over arrivals during the January–March period of 2014. In contrast, the refining fee rose significantly (NAf.61.1 million) during the quarter, reflecting mainly more revenues received from trading activities performed for the Isla refinery.

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

In Sint Maarten, net foreign demand declined by NAf.29.7 million during the first quarter of 2014 compared to 2013's first quarter as a result of lower exports (NAf.28.5 million). The decline in export earnings was related mostly to a drop in foreign exchange earnings from bunkering activities, reflecting a decline in volumes sold accompanied by a small decrease in the price of oil. In contrast, foreign exchange revenues from the tourism sector rose (NAf.14.0 million) as the result of more revenues from cruise tourism (NAf.22.2 million). Despite the increase in the number of stay-over visitors, foreign exchange revenues from stay-over tourism dropped (NAf.8.2 million) because of a decline in the number of visitor nights. Meanwhile, imports remained at about the same level in the first quarter of 2014 as in the first quarter of 2013.

Developments in the income balance and current transfers balance

The income balance of the monetary union improved by NAf.15.2 million during the first quarter of 2014 compared to the first quarter of 2013. This improvement was due mainly to an increase in net investment income as a result of, among other things, more dividend payments received from abroad. The current transfers balance improved by NAf.31.8 million, reflecting mainly a decline in family transfers to abroad accompanied by a rise in transfers received from abroad by the government. The latter rise was due in part to increased revenues from profit taxes paid by foreign companies.

Overall, the deficit on the current account declined by NAf.136.3 million to reach NAf.94.8 million in the first quarter of 2014 (see Table 13 in the appendix for a detailed review

DEVELOPMENTS IN THE CAPITAL AND FINANCIAL ACCOUNT

In line with the deficit on the current account, the net foreign wealth of the private sector dropped by NAf.176.1 million in the first quarter of 2014. This change in the external financing of the private sector was due to a deterioration of the portfolio investment and the direct investment balances.

The portfolio investment balance deteriorated by NAf.134.7 million largely as a result of funds received from matured debt securities of the former Netherlands Antillean entities, which were taken over by the Dutch government as part of the debt relief program. The institutional investors that held these securities in portfolio did not reinvest the received funds abroad.

Net direct investments into the monetary union expanded by NAf.89.2 million during the January–March period of 2014. This expansion was due mainly to increased claims by foreign direct investors on their subsidiaries in Curaçao and Sint Maarten, combined with the purchase of real estate in both countries by nonresidents.

The loans and credits balance improved by NAf.47.8 million, due primarily to a large increase in funds transferred to foreign bank accounts. The latter increase was caused mainly by matured debt securities that were not reinvested abroad but placed in current accounts at foreign banks instead. The improvement of the loans and credits balance was mitigated by transfers to local bank accounts by foreign companies. Meanwhile, the net trade credit balance remained about the same as the amount of trade credits extended almost equaled the amount of trade credits received.

In the first quarter of 2014, capital transfers received from abroad dropped to NAf.7.6 million, down from NAf.23.8 million in the first quarter of 2013 because of the phasing-out of development aid from the Netherlands. As the inflows from capital transfers and external financing were more than sufficient to cover the current account deficit, gross reserves of the central bank increased by NAf.141.4 million (see Table 14 in the appendix for a detailed overview).

MONETARY DEVELOPMENTS

MONETARY POLICY

The Bank's monetary policy is directed at maintaining the peg of the NAf. to the U.S. dollar. Through meeting an official reserves target of three months of projected imports of goods and services, the objective of the exchange rate peg is pursued. Therefore, the Bank's monetary policy instruments are geared towards influencing the liquidity in the domestic money market and, hence, domestic credit extension, domestic spending, imports, and the use of foreign exchange reserves. During the March quarter of 2014, the Bank continued to direct its core instruments of monetary policy--the reserve requirement and the auctioning of Certificates of Deposit (CDs)--at withdrawing liquidity from the banking system. The percentage of the reserve requirement, which is fixed for a period of

four weeks, was increased by 50 basis points to reach 17.50% at the end of the first quarter of 2014. During the first quarter of 2014, the Bank also offered more CDs against various maturities (i.e., 1, 3, 6, and 12 months) to make these securities more attractive at the auctions. As a consequence, there was NAf.36.0 million more in CDs outstanding in 2014's first quarter than at the end of December 2013.

Furthermore, the credit measure that was introduced in March 2012 to more directly control the level of domestic credit extension was extended for 6 months on March 1, 2014. During the September 2013 to February 2014 period, a maximum credit growth of 3.0% was allowed compared to end of August 2012. For the March to September 2014 period, private credit extension is allowed to grow by 4.0% compared to the outstanding amount at the end of August 2012. The credit measure contributed to a contraction in domestic credit extension during the first quarter of 2014.

The Bank's official interest rate, the pledging rate, was left unchanged at 1.00% throughout the March quarter of 2014.

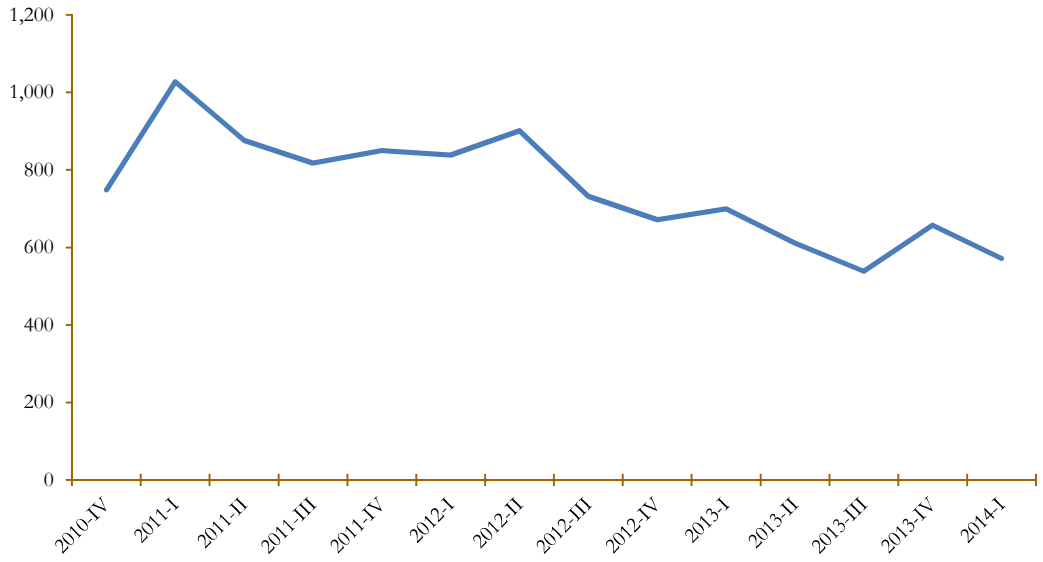
MONETARY BASE

The monetary base, M0, consists of currency in circulation and the commercial banks' current account balances with the Bank.

In the first quarter of 2014, M0 contracted by NAf.85.7 million (13.0%) after an expansion of NAf.118.4 million (22.0%) during the fourth quarter of 2012. Both monetary base components dropped during 2014's first quarter: the commercial banks' current account balances with the Bank dropped by NAf.54.3 million and the currency in circulation by NAf.31.4 million. On an annual basis, M0 contracted by 18.3% in 2014's March quarter. As depicted in Graph 2, it has shown a downward trend since the peak in the first quarter of 2011 (see Table 15 in the appendix for more details).

The contraction in the monetary base in 2014's March quarter was caused by a growth of 7.8% in the Bank's remaining liabilities mitigated by a 4.1% expansion in the Bank's assets. The remaining liabilities grew primarily because of a significant rise in the commercial banks' term deposit balances with the Bank. Furthermore, the capital and reserves of the Bank increased as a result of an increase in the average gold price. Also, the government deposits with the Bank and the foreign liabilities contributed to the growth in the remaining liabilities. The expansion in the Bank's assets was due entirely to an increase in the foreign assets, reflecting the mentioned increase in the average gold price and higher reserves.

Graph 2: Development in the monetary base (in millions of NAf.)



MONETARY AGGREGATES

After expanding by NAf. 157.2 million (2.1%) during the fourth quarter of 2013, broad money (M2) grew by NAf.139.8 million (1.9%) during the first quarter of 2014. The increase in M2 in 2014's first quarter was caused by a growth in the net foreign assets of the banking system mitigated by a drop in net domestic assets. The annual M2 growth was more pronounced in March 2014 (1.7%) than in December 2013 (0.6%).

The growth in M2 during the first quarter of 2014 was driven by both the narrow and near money components. Narrow money (M1) increased by 2.3%, due to an increase in demand deposits. In particular, deposits in foreign currency increased. The other component of M1, coins and notes with the public, dropped during the first quarter of 2014. Meanwhile, the expansion in the near money component was caused by higher time and savings deposits. As a result, the annual growth rate of M1 increased to 4.8% in March 2014, up from 2.5% in December 2013 (see Table 16 in the appendix).

FACTORS AFFECTING THE MONEY SUPPLY

Money holdings of the private sector expanded by NAf.139.8 million reaching NAf.7,626.6 million in the first quarter of 2014. The monetary expansion was caused by an increase of NAf.255.5 million (7.2%) in net foreign assets mitigated by a drop in net domestic assets of NAf.115.7 million (3.0%.) Declines in the net claims on the private sector (NAf.93.7 million) and on the government (NAf.35.0 million) contributed to the contraction in net domestic assets during 2014's first quarter. The contractionary impact of the public sector stemmed from increased deposits of the government of Curaçao (NAf.69.1 million) with the banking system.

The increase in net foreign assets was due to increases in the net foreign assets of the central bank (NAf.105.0 million) and the commercial banks (NAf.150.5 million) during 2014's first quarter (see Table 17 in the appendix for more details).

The loan component of net credit extended to the private sector declined marginally by 0.4% in the first quarter of 2014. This downturn was attributed to declines in all loan categories: consumer loans (0.5%), business loans (0.8%), and mortgages (0.1%). In Curaçao, total loans extended remained unchanged as an increase in business loans (0.8%) was offset by a decline in mortgages (0.6%). Meanwhile, outstanding consumer loans remained almost the same. In Sint Maarten, the amount of private sector loans outstanding contracted by 1.6% in the first quarter of 2014 driven by declines in business loans (5.5%) and consumer loans (1.9%). Mortgages, on the other hand, increased by 1.4%. On an annual basis, total loans contracted by 1.9% due to fewer loans extended in both Curaçao (1.8%) and Sint Maarten (2.4%). The development in private credit extension is attributable to lower credit demand, as can particularly be seen in the drop in business loans in both Curaçao and Sint Maarten and tighter standards for loan approval applied by the banks.

DEVELOPMENTS IN DOMESTIC INTEREST RATES

When setting the rate offered on CDs during the bi-weekly auctions, the Bank also takes into account the developments in the international financial markets, which affect interest rates in the domestic money market. The benchmark one-month US dollar libor rate[6] declined marginally during the first quarter of 2014 resulting in a drop in the 1-month CD rate from a maximum of 0.10% during the fourth quarter of 2013 to a maximum of 0.06% during the first quarter of 2014.

The commercial banks adjusted their deposit and lending rates only slightly during the first quarter of 2014. The weighted average interest rate offered on a 12-month time deposit dropped marginally from 1.7% at the end of December 2013 to 1.5% in March 2014, while the average interest rate on passbook savings remained stable at 1.2%. In line with the development in the borrowing rates, the weighted average lending rate for mortgages and time loans dropped marginally from 6.9% and 8.1%, respectively, at the end of December 2013 to 6.8% and 8.0% at the end of 2014's March quarter.

Changes in the yields on government paper are determined by the developments in the Dutch capital market due to the standing subscription by the Dutch State Treasury Agency (DSTA).[7] The average effective yield on 5-year government bonds dropped by 36 basis points reaching 0.8% at the end of 2014's March quarter. In addition, the yield on 12-

[6] The London interbank offered rate, the main gauge of interbank lending.

[7] As part of the debt relief program, the Dutch government agreed to subscribe on all new loans issued by the governments of Curaçao and Sint Maarten at rates prevailing in the Dutch capital market during the period that financial supervision by the Kingdom is in effect.

month treasury bills dropped only marginally from 0.16% at the end of the fourth quarter of 2013 to 0.13% at the end of the first quarter of 2014 (see Table 18 in the appendix for a detailed overview).

IV: FINANCIAL STABILITY

DEVELOPMENTS IN THE COMMERCIAL BANKING SECTOR[8]

BALANCE SHEET AND INCOME STATEMENT

The total assets of the commercial banks increased by 2.8% at the end of the first quarter of 2014 compared to the first quarter of 2013, reaching NAf. 15.9 billion. Expansions in currency and deposits (13.3%), particularly non-interest-bearing cash (45.7%), and nonfinancial assets (13.3%) contributed primarily to the expansion of the aggregate balance sheet of the commercial banks. However, these expansions were mitigated by contractions in investments (-7.7%), in particular, debt securities (-10.3%), as well as by investments in unconsolidated subsidiaries and affiliates (-20.5%), and other assets (-14.6%). In addition, the outstanding amount of loans remained about the same, with loans to nonfinancial corporations contracting by 80 basis points while individual loans increased by 1.1% (see Table 19 in the appendix for more details).

The total liabilities of the commercial banks rose by 4.0% from the first quarter of 2013 to the first quarter of 2014, with increases in currency and deposits (3.7%) and total borrowings (472%) exceeding a decline in other liabilities (-22.3%). The increase in currency and deposits can be attributed to an increase in both demand (10.8%) and savings deposits (1.7%), while time deposits contracted (-7.0%). Among other things, the commercial banks' efforts to preserve their net interest margin resulted in a decline in the share of interest-bearing deposits-to-total deposits. Last, capital and reserves declined by 6.0%, with expansions in minority interest (17.5%) and general provisions (5.6%) exceeding the decline in the capital base (-8.4%).

The commercial banks reported a total gross income (i.e., net interest income plus non-interest income) of NAf.242.7 million in the first quarter of 2014, a 1.4% increase compared to the first quarter of 2013. An increase in non-interest income (9.8%) and a decline in the interest expenses (-4.9%) contributed to the rise in gross income. However, net income before extraordinary items and taxes decreased by 13.8%, caused by an increase in both non-interest expenses (4.0%) and provisions (73.8%). The rise in non-interest expenses can be explained largely by an increase in other operating expenses (22.8%), while both salaries & other employee expenses (-0.4%) and occupancy expenses (-9.0%) decreased. The increase in provisioning occurred in response to the deterioration of the asset quality in the loan portfolio (i.e., acceleration of nonperforming loans) of the commercial banks. Last, extraordinary items increased by 55.1%, while dividends payable

[8] Pursuant to Article 28 of the *National Ordinance on the Supervision of Banking and Credit Institutions (PB 1994, no. 4)* as of December 2013, one institution is under the emergency measure. As a result, the sector data should be interpreted with caution.

decreased by 76.4%. As a result, retained earnings totaled NAf. 65.1 million in the first quarter of 2014, a 36.8% increase compared to the first quarter of 2013 (see Table 20 in the appendix for more details).

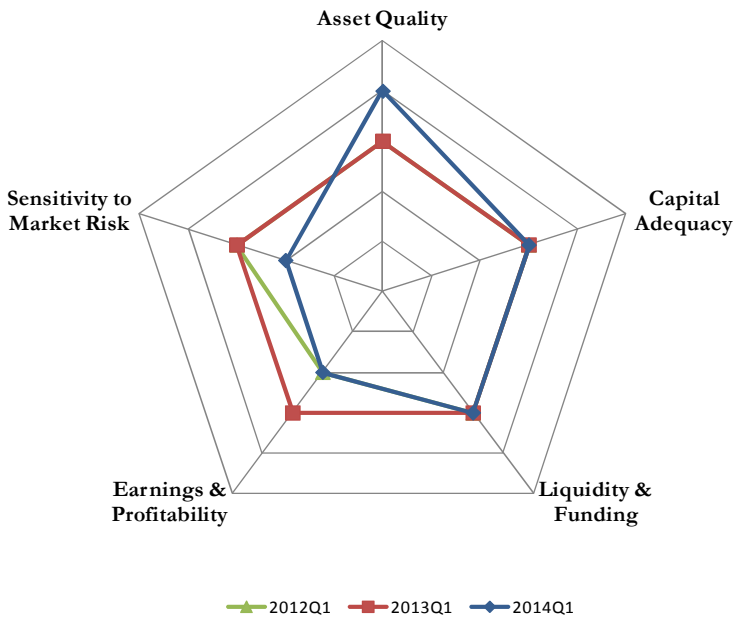
FINANCIAL SOUNDNESS INDICATORS

Financial soundness indicators (FSIs) are used by the Bank to support macroprudential analysis, which assesses the strengths and vulnerabilities of the banking sector. This monitoring task is part of the Bank's continuing efforts to proactively undertake preemptive measures to structurally enhance the resilience of the financial system and its institutions against shocks and, hence, promote growth and macroeconomic stability. Ensuring financial stability and calling upon a macroprudential strategy involves integration with traditional microprudential supervision of institutions and monetary policy.

All indicators for the commercial banks are compiled on a consolidated basis and in accordance with the IMF guidelines and principles, and they include both the core and encouraged set of indicators defined by the IMF (see Table 21 in the appendix for a complete overview of the indicators).

An overview of the financial stability is represented in a cobweb, a snapshot of the components analyzed in the next section (see Graph 3). The risk in asset quality increased in the first quarter of 2014 compared to the previous years, while earnings & profitability and sensitivity to market risk decreased. Capital adequacy and liquidity & funding remained stable.

Graph 3: Financial stability Cobweb commercial banking sector

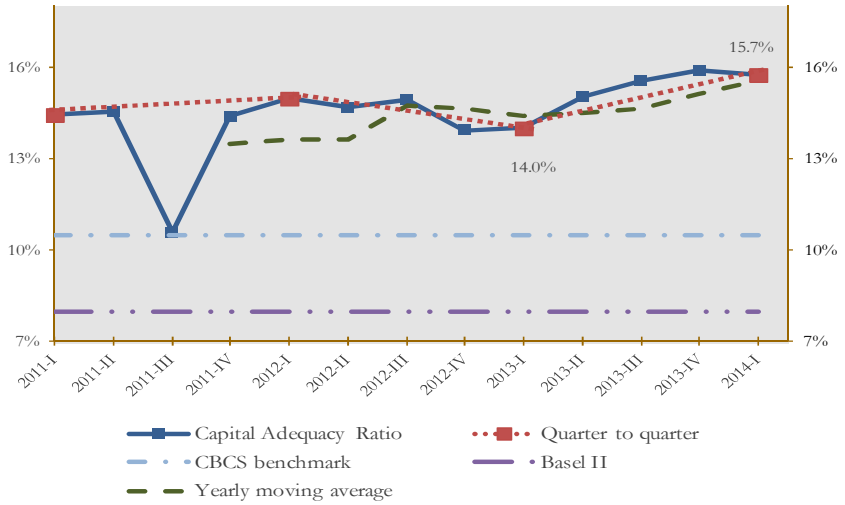


Note: Movements away from the centre of the diagram represent an increase in financial stability risks. Movements towards the centre of the diagram represent a reduction in financial stability risks.

Capital adequacy

Capital adequacy and availability ultimately determines the robustness of financial institutions to withstand shocks to their balance sheets. Capital provides not only a cushion for losses, but also a buffer for deposit insurance, while controlling excessive risk-taking by banks. The capital adequacy ratio (i.e., tier-1 and tier-2 capital to risk-weighted assets) reached 15.7% at the end of the first quarter of 2014, an increase of 170 basis points compared to the first quarter of 2013. The capital adequacy ratio outperformed the four-year average, indicating an upward trend in the capital stock of the commercial banks. The capital adequacy ratio is well above the benchmark of 8% under the Basel II agreements and the Bank's benchmark of 10.5% (see Graph 4). However, this development should be acknowledged with some reservation, as the NPL[9] (net of provisions) to capital ratio increased from 41% at the end of the first quarter of 2013 to 51% at the end of the first quarter of 2014. This growth reflects an increase in the banks' capital exposures to credit risk and underscores the capacity of banks to withstand losses from nonperforming loans.

Graph 4: Trend analysis of the capital adequacy ratio



Asset quality

The increase in the banks' exposure to credit risk also can be seen in the development of the NPL to total gross loans ratio, increasing from 10.4% at the end of the first quarter of 2013 to 12.9% at the end of the first quarter in 2014, with the rise in nonperforming loans outweighing the rise in total loans. This indicator shows a deterioration of the asset quality in the loan portfolio of the commercial banks. In addition, the provisions to NPL ratio of the banks remained about the same, with the rise in NPL equal to the rise in provisioning. This development indicates a reserved attitude on the part of the banks with respect to

[9] Nonperforming loans

precautionary measures to cover their credit risk. The share of foreign currency loans in gross loans rose slightly by 2 percentage points to 47% at the end of the first quarter of 2014. The foreign currency-denominated liabilities to total liabilities ratio also increased, augmenting the banks' reliance on foreign currency. Last, the large exposures of loans, leases, and advances to capital ratio increased slightly, from 278% at the end of the first quarter of 2013 to 288% at the end of the first quarter of 2014. This ratio indicates a growing concern about vulnerabilities arising from concentration risk and, therefore, is closely monitored by the Bank.

Earnings & profitability

The earnings and profitability of the banking sector has increased, with the return on assets ratio reaching 1.8% at the end of the first quarter of 2014, an increase of 30 basis points compared to the first quarter of 2013. The return on equity ratio follows a similar trend, increasing by 2.0 percentage points to 15.9% at the end of the first quarter of 2014. The increase in the banks' efficiency in using their assets improved, with the spread between lending and deposit rates increasing slightly, resulting in an increase in earnings. However, with the funding rate bottoming at 60 basis points and the lending rate following a downward trend, along with the asset quality, the earnings capacity of the banks may come under pressure in the future. With regards to efficiency, the banks also managed to reverse the increasing trend in personnel expenses to noninterest expenses. This ratio decreased by 3 percentage points to 54% at the end of the first quarter in 2014, below the four-year average. The increase in the efficiency of the banks will strengthen their profitability. Also, the share of net interest earnings (i.e., interest earned less interest expenses) in gross income has remained stable at around 65% and below the four-year average. This development indicates that the banks diversified their income, making it easier to withstand shocks. Last, the banks also succeeded in maintaining their efficiency in the use of their resources as the share of noninterest expenses (i.e., operational expenses) in gross income remained relatively stable.

Liquidity & funding

The ample liquidity of the banking sector continued to show an upward trend, strengthening the sector's ability to withstand shocks to its balance sheets. The liquid assets to total assets ratio increased from 27% at the end of the first quarter of 2013 to 32% at the end of the first quarter of 2014, outperforming the four-year average. This increase reflects the banks' ability to meet expected and unexpected demands for cash. Also the liquid assets to short-term liabilities ratio increased by 5 percentage points to reach 40% at the end of the first quarter of 2014, indicating a decrease in the liquidity mismatch of assets and liabilities of the banks. This development captures the banks' efforts to increase the extent to which they can meet short-term withdrawals of funds without facing liquidity problems. Last, the total deposits to total loans ratio also increased, indicating a higher degree of stable funding (i.e., customer deposits) to illiquid assets (i.e., loans). The value of this indicator, which reached 147% at the end of the first quarter in 2014, combined with a slightly upward trend points to stable depositor and investor confidence in the long-term viability of the banking sector and diminishing potential liquidity stress.

Sensitivity to market risk

The decrease in the weighted average lending rate was covered by a decrease in the weighted average funding rate, resulting in a stable net interest margin. However, the current funding rate is reaching its bottom – induced by a shift from time and savings deposits towards demand deposits, and is a function of the excess liquidity in the system. Looking ahead, this situation may bring pressure to bear on the net interest margin. The mismatch between foreign currency asset and liability positions at the commercial banks improved, with the net open position in foreign exchange to capital ratio decreasing from 71% at the end of the first quarter of 2013 to 59% at the end of the first quarter of 2014. However, the total foreign exposure relative to the banks' capital position (i.e., the net foreign assets to total capital ratio) increased slightly by 3 percentage points, putting pressure on the banks' ability to withstand shocks from foreign markets.

APPENDIX

Table 10: Stay-over tourism development by island[ab]

	Curaçao				Sint Maarten			
	2013-I		2014-I		2013-I		2014-I	
North America, of which:	2.7	(0.5)	-7.2	(-1.4)	3.2	(2.1)	8.5	(5.8)
-U.S.A.	5.4	(0.8)	-17.0	(-2.2)	1.2	(0.7)	5.5	(2.9)
Europe, of which:	-4.5	(-1.9)	4.6	(2.1)	-3.5	(-0.8)	0.5	(0.1)
-The Netherlands	-11.0	(-3.4)	6.0	(2.1)	-13.6	(-0.4)	16.4	(0.5)
South & Central America, of which:	28.8	(7.8)	-19.2	(-4.4)	10.1	(0.3)	-13.5	(-0.4)
-Venezuela	35.6	(6.5)	-21.8	(-3.3)	17.1	(0.1)	-48.5	(-0.2)
-Brazil	2.4	(0.1)	11.6	(0.3)	17.7	(0.2)	-0.7	(0.0)
-Other	35.2	(1.4)	-29.3	(-0.8)	-12.4	(-0.1)	-3.9	(0.0)
Caribbean, of which:	0.6	(0.0)	-13.2	(-0.9)	13.0	(0.6)	-3.6	(-0.1)
-Aruba	-2.7	(-0.1)	-10.5	(-0.4)				
-Dominican Republic	23.0	(0.2)	-24.2	(-0.2)	14.0	(0.1)	-10.4	(-0.1)
-Other	-13.6	(-0.1)	-42.1	(-0.1)	5.4	(0.1)	7.4	(0.2)
Total	**7.8**		**-4.8**		**2.1**		**5.1**	

Source: Curaçao Tourist Board and Sint Maarten Tourist Bureau.
[a]*Percentage change.*
[b]*The weighted growth rates are depicted between brackets*

Table 11A: Development in the consumer price index of Curaçao[a]

	2013-I	2013-II	2013-III	2013-IV	2014-I
Food	4.0	3.4	0.6	-1.4	-0.8
Beverages & tobacco	2.1	3.0	8.2	14.7	17.9
Clothing & footwear	1.5	1.6	1.8	-0.4	1.3
Housing	3.9	3.5	0.8	1.7	2.3
Housekeeping & furnishings	2.5	2.7	2.3	2.1	1.2
Health	-0.6	-1.1	-2.5	-1.8	-1.3
Transport & communication	-1.0	-0.3	-1.0	-1.1	-1.1
Recreation & education	0.5	0.6	0.6	0.6	0.4
Other	1.7	1.7	1.6	0.9	0.8
General inflation rate	**2.1**	**2.1**	**0.7**	**0.5**	**0.8**

Source: Central Bureau of Statistics of Curaçao
[a] Annual quarterly percentage change

Table 11B: Development in the consumer price index of Sint Maarten[a]

	2013-I	2013-II	2013-III	2013-IV	2014-I
Food	6.0	6.1	6.5	6.4	6.3
Beverages & tobacco	4.8	3.1	2.0	3.2	3.3
Clothing & footwear	2.6	0.8	0.2	0.0	0.5
Housing	0.0	0.0	1.6	1.5	2.2
Housekeeping & furnishings	13.3	14.7	13.5	13.2	3.7
Health	-0.4	-0.8	0.5	1.6	3.9
Transport & communication	2.2	0.3	1.3	-0.3	-0.8
Recreation & education	1.3	1.6	1.4	1.0	0.5
Other	2.4	2.7	4.0	3.5	1.9
General inflation rate	**2.4**	**2.1**	**3.0**	**2.6**	**2.1**

Source: Department of Statistics of Sint Maarten
[a] Annual quarterly percentage change

Table 12A: Budgetary overview of Curaçao (in millions NAf.)

	2012-I	2013-I	2014-I
Revenues	453.0	448.3	433.0
Tax revenues, of which:	427.0	423.3	406.7
Taxes on income and profits	243.9	215.2	205.0
Taxes on property	11.3	9.8	9.1
Taxes on goods and services	129.3	156.5	155.7
Taxes on international trade and transactions	42.6	41.8	36.9
Nontax and other revenues	26.0	25.0	26.3
Expenditures, of which:	302.3	332.8	337.1
Wages and salaries	136.9	168.0	172.2
Goods and services	23.4	18.0	19.9
Transfers and subsidies	130.8	136.4	134.2
Interest payments	0.1	0.2	0.4
Budget balance	**150.7**	**115.5**	**95.9**

Table 12B: Overview of selected tax revenues of Curaçao (in millions NAf.)

	2012-I	2013-I	2014-I
Taxes on income and profits, of which:	243.9	215.2	205.0
Profit tax	104.6	78.1	73.4
Wage tax	136.4	135.7	132.2
Taxes on property, of which:	11.3	9.8	9.1
Land tax	5.4	5.8	5.0
Property transfer tax	5.6	3.7	3.7
Taxes on goods and services, of which:	129.3	156.5	155.7
Sales tax	87.9	97.9	98.4
Excises, of which:	13.0	27.5	24.3
Excise on gasoline	4.2	15.4	15.5
Motor vehicle tax	24.6	25.9	25.5
Taxes on international trade and transactions, of which:	40.6	40.1	35.3
Import duties	40.4	40.0	35.2

Table 12C: Budgetary overview of Sint Maarten (in millions NAf.)

	2012-I	2013-I	2014-I
Revenues	122.6	122.6	132.6
Tax revenues, of which:	104.1	106.2	113.1
Taxes on income and profits	47.3	49.1	54.3
Taxes on property	2.9	4.6	2.5
Taxes on goods and services	58.3	52.5	56.3
Nontax and other revenues	16.3	16.4	19.5
Expenditures, of which:	106.9	97.3	99.5
Wages and salaries	41.2	41.7	45.5
Goods and services	28.1	18.7	20.3
Transfers and subsidies	33.6	31.0	27.1
Interest payments	0.0	2.7	2.8
Budget balance	**15.3**	**25.3**	**33.1**

Table 12D: Overview of selected tax revenues of Sint Maarten (in millions NAf.)

	2012-I	2013-I	2014-I
Taxes on income and profits, of which:	47.3	49.1	54.3
Profit tax	16.3	14.2	18.0
Wage tax	31.7	34.9	36.3
Taxes on property, of which:	2.9	4.6	2.5
Land tax	0.7	1.1	0.9
Property transfer tax	2.1	3.4	1.5
Taxes on goods and services, of which:	58.3	52.5	56.3
Turnover tax	42.4	41.9	42.3
Motor vehicle tax	1.3	5.8	8.1
Excise on gasoline	0.9	1.3	2.1

Table 13: Detailed overview of the balance of payments (in millions NAf.)

	2012-I	2013-I	2014-I
Trade balance	-901.5	-974.1	-922.5
-Exports	474.5	444.0	322.9
-Imports	1,376.0	1,418.1	1,245.4
Services balance	756.1	847.8	885.5
Receipts, of which:	1,241.1	1,346.3	1,383.3
-Travel	780.3	825.7	828.3
-Transportation	90.9	120.6	106.3
-Other services, of which:	369.9	400.0	448.7
-Int. fin & bus. services sector	50.7	46.9	63.1
Expenses, of which:	485.0	498.5	497.8
-Travel	160.7	154.2	155.1
-Transportation	87.6	84.8	81.0
-Other services, of which:	236.7	259.5	261.7
-Int. fin & bus. services sector	24.0	27.0	34.2
Income balance[1)]	-39.3	-30.2	-15.0
Current transfers balance[2)]	-17.7	-74.6	-42.8
Current account balance	-202.4	-231.1	-94.8
Capital & financial account balance	186.2	209.0	42.5
Capital account balance	28.3	23.8	7.6
Financial account balance	157.9	185.2	34.9
Net errors & omissions	16.2	22.1	52.3

[1)] *Labor and investment income*
[2)] *Public and private transfers*

Table 14: Breakdown of net changes in the financial account[1)] (in millions NAf.)

	2012-I	2013-I	2014-I
Direct investment	88.2	-25.0	89.2
- Abroad [2)]	33.2	-0.6	-17.6
- In Curaçao and Sint Maarten [3)]	55.0	-24.4	106.8
Portfolio investment [3)]	143.8	59.2	134.7
Other investment, of which:	-20.8	-3.6	-127.3
- Assets [2)]	32.7	30.7	-377.9
- Liabilities [3)]	-53.5	-34.3	250.6
Net lending/borrowing, of which:	-277.9	98.1	79.8
- Assets [2)]	27.8	45.6	33.5
- Liabilities [3)]	-305.7	52.5	46.3
Reserves [4)]	224.7	56.5	-141.4
Total assets [2)]	462.2	191.4	-368.7
Total liabilities [3)]	-304.2	-6.2	403.7
Balance	158.0	185.2	35.0

[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.*

Table 15: The monetary base and its sources (in millions NAf.)

			Change	
	2013-IV	**2014-I**	**Amount**	**Percentage**
Banknotes issued	426.0	394.6	-31.4	-7.4%
Banks' demand deposits (current account)	231.2	176.9	-54.3	-23.5%
Monetary base (M0)	657.2	571.5	-85.7	-13.0%
Central bank assets				
Foreign assets (including gold)	3,012.4	3,221.7	209.3	6.9%
Claims on deposit money banks	18.8	1.4	-17.4	-92.6%
Claims on the government	0.4	0.4	0.1	18.3%
Claims on government agencies and institutions	495.8	455.5	-40.4	-8.1%
Fixed and other assets	121.2	118.2	-3.0	-2.5%
less:				
Central bank remaining liabilities				
Private sector deposits	1,237.1	1,326.5	89.4	7.2%
Government deposits	176.9	188.8	11.9	6.7%
Foreign liabilities	531.5	594.3	62.7	11.8%
Other liabilities	219.4	220.7	1.3	0.6%
Capital and reserves	826.4	895.4	69.0	8.3%

Table 16: Monetary aggregates (quarterly changes, in millions NAf.)

	2013-III		**2013-IV**		**2014-I**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Money supply (M2)	-124.8	-1.7%	157.2	2.1%	139.8	1.9%
Money (M1)	-101.9	-3.1%	228.0	7.1%	77.9	2.3%
Coins & notes with the public	-3.8	-1.2%	21.6	6.8%	-12.7	-3.7%
Total demand deposits, of which:	-98.2	-3.3%	206.3	7.1%	90.6	2.9%
- Netherlands Antillean guilders	-69.9	-3.1%	169.6	7.9%	27.4	1.2%
- Foreign currency	-28.2	-3.6%	36.7	4.9%	63.2	8.1%
Near money	-22.9	-0.6%	-70.8	-1.7%	61.8	1.5%
Time deposits	6.7	0.3%	-69.7	-3.2%	21.7	1.0%
Savings	-29.5	-1.5%	-1.1	-0.1%	40.2	2.1%

Table 17: Monetary survey (in millions NAf.)

	2013-I	2013-II	2013-III	2013-IV	2014-I
Money supply (M2)	7,502.0	7,454.5	7,329.6	7,486.8	7,626.6
Money (M1)	3,366.9	3,324.7	3,222.8	3,450.8	3,528.7
Coins & notes with the public	319.2	322.8	319.0	340.6	327.9
Total demand deposits, of which:	3,047.8	3,002.0	2,903.8	3,110.1	3,200.8
- Netherlands Antillean guilders	2,220.9	2,226.0	2,156.0	2,325.6	2,353.0
- Foreign currency	826.9	776.0	747.8	784.5	847.7
Near money	4,135.1	4,129.7	4,106.8	4,036.1	4,097.9
Time deposits	2,181.2	2,155.7	2,162.4	2,092.7	2,114.3
Savings	1,953.9	1,974.0	1,944.5	1,943.4	1,983.6
Factors affecting the money supply	7,502.0	7,454.5	7,329.6	7,486.8	7,626.6
Net domestic assets	3,588.1	3,890.1	3,634.5	3,921.1	3,805.4
Government sector	-516.8	-439.9	-551.4	-349.5	-384.5
- Former central government	-83.0	-79.3	-80.4	-80.5	-80.1
- Curacao	-294.5	-241.5	-360.0	-192.7	-261.8
- Sint Maarten	-139.3	-119.1	-111.1	-76.2	-42.6
Private sector	6,460.9	6,422.9	6,340.8	6,307.4	6,213.7
Memorandum items	-2,356.0	-2,093.0	-2,154.9	-2,036.8	-2,023.8
Net foreign assets	3,913.9	3,564.4	3,695.2	3,565.7	3,821.1
Central bank	2,751.3	2,399.6	2,584.2	2,608.9	2,713.9
Commercial banks	1,162.6	1,164.8	1,110.9	956.8	1,107.3
Government loans by commercial banks	0.1	0.2	0.1	0.1	0.1
Government of Curaçao	0.0	0.1	0.0	0.0	0.0
Government of Sint Maarten	0.1	0.1	0.1	0.1	0.1
Private sector loans Curaçao	4,219.0	4,194.9	4,192.3	4,145.0	4,144.1
- Mortgages	1,793.2	1,812.3	1,826.1	1,855.6	1,843.8
- Consumer loans	932.6	900.2	905.0	890.6	891.0
- Business loans	1,493.1	1,482.5	1,461.1	1,398.8	1,409.3
Private sector loans Sint Maarten	1,455.2	1,443.2	1,445.5	1,443.9	1,420.6
- Mortgages	631.4	635.7	635.7	640.0	649.0
- Consumer loans	341.2	335.4	339.9	328.7	322.4
- Business loans	482.6	472.2	469.9	475.2	449.1

Table 18: Developments in domestic interest rates (in %)

	2013-I	2013-II	2013-III	2013-IV	2014-I
Central bank					
- Pledging rate	1.0	1.0	1.0	1.0	1.0
- Maximum CD rate (1 month)	0.12	0.10	0.10	0.12	0.06
Commercial bank borrowing rates					
- Passbook savings	1.2	1.2	1.2	1.2	1.2
- Time deposit (12 months)	1.6	1.6	1.7	1.7	1.5
Commercial bank lending rates					
- Mortgages	6.7	6.6	6.6	6.9	6.8
- Time loans	7.7	7.7	7.7	8.1	8.0
Government securities					
- Government bonds (5-year effective yield)	0.8	1.1	1.1	1.2	0.8
- Treasury bills (12 months)	0.01	0.14	0.09	0.16	0.13

Table 19: Aggregate balance sheet for domestic commercial banks (in millions NAf.)

		2013-I	2013-II	2013-III	2013-IV	2014-I
	Assets					
I	***Nonfinancial assets***	**392.1**	**403.1**	**428.1**	**426.9**	**444.6**
II	***Financial assets* (III through VII)**	**15,040.6**	**15,239.5**	**14,822.1**	**14,997.3**	**15,423.9**
III	**Currency and deposits**	**4,285.7**	**4,349.5**	**4,133.2**	**4,467.6**	**4,856.8**
	(i) Non-interest-bearing cash	1,417.4	1,477.6	1,494.1	2,006.7	2,065.8
	(ii) Interest-bearing cash	2,868.4	2,872.0	2,639.0	2,460.9	2,791.0
IV	**Loans**	**8,832.3**	**8,856.1**	**8,867.1**	**8,857.7**	**8,831.0**
	(i) Interbank loans	0.3	0.8	0.9	0.3	0.0
	(ii) Central Bank	-	-	-	-	-
	(iii) General government	0.1	0.2	0.1	0.1	0.1
	(iv) Agencies and institutions	53.2	53.2	52.4	55.8	52.2
	(v) Other financial corporations	24.1	23.8	13.9	13.4	15.3
	(vi) Nonfinancial corporations	4,870.8	4,923.9	4,911.8	4,857.2	4,833.8
	(vii) Households	3,681.2	3,664.9	3,704.6	3,729.5	3,720.3
	(viii) Other	202.7	189.4	183.4	201.4	209.3
V	**Investments**	**1,459.7**	**1,406.2**	**1,352.0**	**1,245.0**	**1,347.3**
	(i) Debt securities	1,073.4	1,068.3	974.6	894.3	962.7
	(ii) Shares and other equity	386.3	337.9	377.3	350.7	384.6
VI	**Investments in unconsolidated subsidiaries and affiliates**	**107.2**	**113.5**	**59.2**	**84.8**	**85.3**
VII	**Other assets**	**355.7**	**514.2**	**410.7**	**342.2**	**303.6**
VIII	**Total assets (= I + II)**	**15,432.7**	**15,642.6**	**15,250.2**	**15,424.2**	**15,868.6**
	Liabilities					
IX	**Currency and deposits**	**13,087.9**	**13,145.2**	**12,808.3**	**13,087.0**	**13,577.0**
	(i) Total demand deposits	6,320.2	6,244.9	6,165.8	6,575.8	7,000.5
	(ii) Total savings deposits	3,244.0	3,317.7	3,226.1	3,227.2	3,300.2
	(iii) Total time deposits	3,523.8	3,582.5	3,416.4	3,284.0	3,276.3
X	**Total borrowings**	**35.7**	**75.4**	**58.0**	**143.4**	**204.3**
XI	**Other liabilities**	**506.3**	**605.8**	**596.9**	**500.2**	**393.5**
XII	***Total debt* (=IX + X + XI)**	**13,629.9**	**13,826.4**	**13,463.2**	**13,730.6**	**14,174.7**
XIII	**Capital and reserves**	**1,802.8**	**1,816.2**	**1,787.0**	**1,693.6**	**1,693.9**
	(i) Capital	1,508.0	1,518.8	1,496.2	1,345.6	1,381.2
	(ii) Minority interest	11.2	10.9	11.6	11.3	13.1
	(iii) Subordinated debentures	-	-	-	-	-
	(iv) General provisions	283.6	286.5	279.2	336.7	299.5
XIV	**Total liabilities and capital (= XII + XIII)**	**15,432.7**	**15,642.6**	**15,250.2**	**15,424.2**	**15,868.6**

1) *All data for the commercial banks are compiled on a consolidated basis and in accordance with the IMF Accounting Framework and Sectoral Financial Statements.*

Table 20: Aggregate income statement for domestic commercial banks (in millions NAf.)

		2013-I	2013-II	2013-III	2013-IV	2014-I
I	Interest income	193.9	384.3	573.3	710.0	188.2
II	Interest expense	31.7	63.3	96.3	114.4	30.1
III	***Net interest income*** **(=I minus II)**	**162.3**	**321.0**	**477.0**	**595.5**	**158.1**
IV	Noninterest income	77.0	181.0	280.0	338.0	84.5
V	***Gross income*** **(= III + IV)**	**239.3**	**502.0**	**757.0**	**933.5**	**242.7**
VI	Noninterest expenses	158.9	319.2	489.4	619.9	165.3
	(i) Salaries & other employee expenses	90.4	179.7	271.4	352.1	90.1
	(ii) Occupancy expenses	28.0	55.8	74.5	91.6	25.5
	(iii) Other operating expenses	40.5	83.7	143.5	176.1	49.7
VII	Provisions	9.2	24.8	77.7	140.6	16.0
VIII	***Net income (before extraordinary items and taxes)*** **(=V minus (VI+ VII))**	**71.2**	**157.9**	**190.0**	**173.1**	**61.4**
IX	Extraordinary items	13.7	2.2	2.5	-0.7	21.2
X	Income tax	11.4	25.7	36.3	35.6	11.4
XI	***Net income after tax*** **(= VIII minus (IX + X))**	**73.5**	**134.4**	**156.1**	**136.8**	**71.2**
XII	Dividends payable	25.9	43.9	82.4	105.8	6.1
XIII	***Retained earnings*** **(= XI minus XII)**	**47.6**	**90.6**	**73.8**	**31.0**	**65.1**

2) *All data for the commercial banks are compiled on a consolidated basis and in accordance with the IMF Accounting Framework and Sectoral Financial Statements.*

Table 21: Financial soundness indicators (in%; end of period)

	2013-I	2013-II	2013-III	2013-IV	2014-I	4-Yr Avg.
Capital adequacy						
Capital adequacy ratio	14.0%	15.0%	15.6%	15.9%	15.7%	14.5%
Core capital adequacy ratio	13.0%	13.6%	13.0%	13.1%	12.5%	12.9%
Capital to assets	10.5%	10.7%	11.2%	10.8%	10.3%	10.3%
NPL net of provisions to capital	41%	48%	46%	48%	51%	44%
Asset quality						
NPL to total gross loans	10.4%	12.0%	12.0%	11.9%	12.9%	10.8%
Provisions to NPL	31%	28%	29%	32%	31%	30%
Foreign currency denominated loans to total loans	45%	46%	46%	46%	47%	47%
Foreign currency denominated liabilities to total liabilities	53%	54%	54%	55%	57%	54%
Large exposures to capital	278%	273%	266%	288%	288%	284%
Earnings & profitability						
Return on assets	1.5%	1.7%	1.5%	1.8%	1.8%	1.6%
Return on equity	13.9%	15.9%	13.3%	16.8%	15.9%	15.6%
Interest margin to gross income	68%	64%	63%	64%	65%	66%
Noninterest expenses* to gross income	66%	64%	65%	66%	68%	66%
Personnel expenses to non-interest expenses*	57%	56%	55%	57%	54%	57%
Spread between lending and deposit rates	6.5%	6.4%	6.3%	6.7%	6.7%	7%
Liquidity & funding						
Liquid assets to total assets	27%	28%	27%	30%	32%	27%
Liquid assets to short-term liabilities	35%	37%	36%	39%	40%	35%
Total deposits to total loans	142%	143%	138%	141%	147%	144%
Sensitivity to market risk						
Net interest margin	4.6%	4.6%	4.5%	4.5%	4.5%	4.5%
Net open position in foreign exchange to capital	71%	71%	70%	64%	59%	87%
Net Foreign Assets to total capital	85%	82%	80%	79%	88%	93%

** Noninterest expenses = operational expenses*

Performed better than the 4-year average

Performed worse than the 4-year average