

# Curaçao, External Transactions Developments in 2008

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## Introduction

*In this article a brief analytical description will be given of the external transactions developments of the Rest of the World (ROW) account for the island of Curaçao in the year 2008. The ROW account refers to a full range of transactions that take place between the total economy of a country and the rest of the world according to the definitions and concepts of the System of National Accounts<sup>3</sup> (SNA). All figures of the ROW account are from the National Accounts Netherlands Antilles 2002-2008 publication. The analysis of the ROW account figures are based on the year 2008 compared to the previous year unless stated differently in the text.*

*The ROW account has an accounting structure similar to that of an institutional unit, in which the relevant accounts capture both transactions taking place between the resident institutional sectors of the total economy and transactions with non-resident units that make up the rest of the world. The view point of the ROW account is established from the rest of the world. This means a "resource" for the rest of the world is a "use" for the nation and vice versa.*

*The ROW account consists of three accounts<sup>3</sup>, which are:*

- 1) The external account of goods and services. In the first account of the ROW the import and export of goods and services are recorded. This account shows the import of goods and services as resources and the export of goods and services as uses.*
- 2) The external account of primary incomes and current transfers. This account provides transactions on both resource and use sides of the following items: compensation of employees; property income; current taxes on income and wealth; and other current transfers.*
- 3) The external accumulation account (capital account). The third account within the ROW account is the accumulation account which shows flows out of the financial transactions.*

## Definitions

The main definitions used in the Rest of the World account are described according to the SNA, and are as follows:

### Resource

The SNA utilizes the term resource to indicate transactions which add to the amount of economic value of a unit or a sector, in this case the ROW.

### Use

The term use relates to transactions that reduce the amount of economic value of a unit or sector.

### Goods

Goods are physical objects for which a demand exists over which ownership rights can be established and whose ownership can be transferred from one institutional unit to another by engaging in transactions on markets.

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<sup>3</sup> System of National Accounts 1993 (SNA), Publication prepared under the auspices of the United Nations, International Monetary Fund, Commission of the European Communities, Organization for Economic Co-operation and Development, and World Bank, 1993

## **Services**

Services are heterogeneous outputs produced to order and typically consist of changes in the conditions of the consuming units realized by the activities of the producers at the demand of the consumers.

## **Compensation of employees**

This is defined as the total payment, in cash or in kind, payable by an enterprise to an employee in return for work done by the latter during the accounting period.

## **Primary income**

Primary incomes are incomes that accrue to institutional units as a consequence of their involvement in processes of production or ownership of assets that may be needed for the purposes of production. The primary income consists of the following: compensation of employees, property income, current taxes on income, and other current transfers.

## **Property income**

Property incomes can be defined as the income receivable by the owner of a financial asset or tangible non-produced asset in return for providing funds to or putting the tangible non-produced asset at the disposal of, another institutional unit. Property income can be classified in the System of National Accounts (SNA) as follows: Interest; Distributed income of corporations; and Reinvested earnings on direct foreign investment.

## **Interest**

Interest is the amount that the debtor becomes liable to pay to the creditor over a given period of time without reducing the amount of principal outstanding. Interest is a form of property income that is receivable by the owners of certain financial assets, such as: Deposits; Securities other than shares; Loans; and other accounts receivable.

## **Distributed income of corporations (Dividends)**

Dividends are distributed profits and the residual value of the assets of the corporation in the event of its liquidation which the shareholder is entitled to as a result of placing funds at the disposal of corporations.

## **Other current transfers**

These transfers refer to non-life insurance premiums and claims, the receipt of development aid for social projects, pensions, and students & family grants.

## **Transaction Developments in 2008**

### **Export of Goods and Services**

The total export of goods has increased from 998 million guilders in 2007 to 1695 million guilders in 2008. This increase is about 697 million guilders (70%) compared to 2007. The highest percentage increase in export of goods is noted in 2008 (Table 1).

The export of general merchandise from Curaçao has augmented with more than 229 million guilders in 2008. The increase of 43 percent in export of merchandise is due to the higher re-exports by free-zone companies in the year 2008.

The repairs on goods have decreased with about 2 million guilders compared to 2007, meaning less ship repair activities in the docking facilities. The decline in ship repair is about 2 percent in 2008. The bunkering service (goods procured in ports) has augmented with 457 million guilders in 2008. This increment is caused primarily by higher average oil prices on the international market and higher volume sold.

The decline in export of services is 24 million which leads to a total value of 1853 million guilders in 2008. The total export of services in Curaçao has decreased with 1 percent.

The received foreign payments for transportation services from abroad have increased to a value of roughly 119 million guilders in 2008. This augmentation is 23 percent compared to the previous year of 2007.

In 2008 the tourism sector performed well on the island. The received foreign exchange earnings from the tourism sector (Travel) augments with 91 million to a value of 677 million guilders, which is an increase of about 16 percent.

The earnings from the international financial services (offshore) have decreased from about 302 million in 2007 to a value of almost 252 million guilders in 2008. This is a drop of approximately 17 percent in earnings from the offshore. This sector has been in decline since the year 2002.

**Table 1. Goods and Services Account**

Use:	2002	2003	2004	2005	2006	2007	2008
P.61 Export of goods	750.1	648.5	742.4	887.3	1069.5	997.7	1694.5
General merchandise	566.6	451.3	524.5	606.6	693.8	530.9	759.9
Oil products	0.0	0.9	0.0	0.0	2.7	0.2	1.4
Goods for processing	28.1	22.5	18.3	18.7	16.8	14.3	25.8
Repairs on goods	67.2	63.0	86.8	78.0	98.5	113.0	110.9
Goods procured in ports	88.2	110.8	112.8	184	257.7	339.3	796.5
P.62 Export of services	1651.8	1641.9	1583.5	1610.0	1719.1	1877.5	1853.4
Transportation services	174.7	145.6	117.4	107.1	106.2	96	118.9
Travel	388.7	400.2	400.2	436.8	496.2	585.7	677
International Financial services	457.3	379.0	375.4	351.4	332.7	301.5	251.6
Other services	631.1	717.1	690.5	714.4	784.0	894.3	805.9
Resource:							
P.71 Import of goods	2006.1	1904.8	2083.4	2373.0	2719.3	3000.6	3866.8
General merchandise	1707.0	1629.4	1774.8	1963.0	2197.3	2306.9	2652.2
Oil products	243.2	227.3	267.9	391.4	511.7	677.3	1191.6
Goods for processing	40.1	33.3	29.2	17.0	6.7	22.1	15.0
Repairs on goods	2.5	0.3	0.8	0.0	1.9	0.2	0.8
Goods procured in ports	13.3	14.5	10.7	1.2	1.7	4.0	7.2
P. 72 Import of services	861.9	845.8	808.3	833.5	851.2	968.7	1059.6
Transportation services	108.5	65.2	86.3	95.5	85.4	115.5	162.4
Travel	238.5	313	348.9	293.9	341.3	365.9	364.2
International Financial services	116.6	132.1	115.0	104.6	122.1	113.3	101.4
Other services	398.3	335.5	258.1	339.5	302.4	374.0	431.6

All values in Mln. Ang.

Source: National Accounts Netherlands Antilles 2002-2008, CBS

## **Import of Goods and Services**

The total import of goods increases with 29 percent in 2008. As shown in table 1 the total imports are increasing every year in the last five years. In 2008 the augmentation of total import is 866 million guilders compared to 2007.

The import of general merchandise increases with 345 million guilders in 2008. This is an increase of 15 percent compared to the previous year. The increment in imports are due to the higher commodity prices (including food prices) on the international market, increased imports by the free-zone companies, higher investments, and positive developments in the tourism sector.

The oil import for local consumption has increased with about 514 million guilders (80%) in 2008. The oil imports rose substantially due to higher average oil prices on the international market. The payments for goods for processing have dropped from 22 million in 2007 to 15 million guilders in 2008. The goods procured in ports (bunker service) have shown a substantial increase of 3 million guilders. This is due to the higher bunker service fees.

The total import of services has augmented from almost 969 million in 2007 to nearly 1060 million guilders in 2008. This represents an increase of 9 percent. The total import has been increasing since 2005.

The foreign exchange outflow from Curaçao for payments of transportation services for either air or sea has decreased with 47 million to a value of 162 million guilders. The payments of local residents for travel related services (Tourism sector) have slightly decreased with about 1 percent in 2008. The international financial sector fluctuates a lot between 2002 and 2008. In 2008 the foreign exchange outflow for international financial services has been 101 million guilders, which is a decrease of almost 12 million guilders (11%) compared to the previous year. The compilation item of "other services" increases with 15 percent in 2008 (Table 1).

## **Primary incomes and current transfers**

Compensation of employees refers to the earnings of border, seasonal and other workers paid by an employer resident in one economy to employees resident in other economies, such as military personnel abroad, and embassy employees. The compensation of employee transfers to Curacao from abroad has increased with more than 8 million guilders in 2008 (Table 2). The transfer of labor income from Curaçao to abroad has augmented from 5 million to more than 8 million guilders in 2008. This represents an increase of more than 60 percent in wage transfers of local institutions to workers abroad.

The received amount from abroad for property income has decreased with roughly 64 million guilders in 2008, a drop of 25 percent compared to 2007.

In 2008 the interest paid by foreign companies is about 160 million guilders, which is a drop of about 23 percent. The interest income earning by local companies on their foreign deposits has diminished due to the international financial crisis in 2008. The received distributed income of corporations (dividend) from abroad has dropped with 35 percent in 2008.

**Table 2. ROW: Primary Incomes and Current Transfers Account**

Use:	2002	2003	2004	2005	2006	2007	2008
D.1 Compensation of employees	8.3	9.6	6.3	12.1	23.6	26.1	34.5
D.4 Property Income	151.5	149.5	150	170.5	209.4	255.9	192.0
D.41 Interest	116.5	112.4	122.5	138.9	177.4	206.3	159.7
D.42 Distributed income of corporations	35.0	37.1	27.5	31.6	32.0	49.6	32.3
D.43 Reinvested earnings on direct foreign investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
D. 52 Current taxes on income, wealth, etc	82.2	121.5	99.0	289.0	126.0	63.5	107.4
D. 7 Other current transfers	480.4	470.7	346.1	322.8	322.0	349.3	435.1
<b>Resource:</b>							
D.1 Compensation of employees	10.4	6.2	2.5	5.7	2.9	5.0	8.2
D.4 Property Income	93.8	109.6	117.2	107.2	146.8	191.5	217.7
D.41 Interest	40.7	49.3	58.6	57.3	78.4	100.2	98.7
D.42 Distributed income of corporations	49.1	56.1	53.3	46.2	61.0	81.3	107.5
D.43 Reinvested earnings on direct foreign investment	3.9	4.2	5.4	3.7	7.4	10.1	11.6
D.7 Other current transfers	317.6	336.8	303.8	344.3	328.9	370.8	476.0
All values in Mln. Ang.							
Source: National Accounts Netherlands Antilles 2002-2008, CBS							

The property income paid to abroad augments from 192 million to 218 million guilders in 2008. The interest paid to abroad has decreased with about 2 percent in 2008. This is a decline of 2 million guilders in interest payment to abroad. In that same year the transfer of dividend to abroad has augmented with more than 26 million guilders (Table 2).

The current taxes on income refer to profit taxes paid by offshore companies. The paid taxes from abroad have increased with nearly 44 million in 2008. The current taxes on income show an increase after a drop in 2007. Due to the tax arrangement within the Kingdom of the Netherlands (BRK) more tax transfers are done in 2008.

The other current transfers received from abroad have been 25 percent more in 2008. This is an increase of 86 million guilders in current transfers from abroad. The other current transfers to abroad have risen with about 105 million to a value of 476 million guilders (Table 2).

## Capital Account

The Investment grants received from abroad usually are development aid for investment projects from the Netherlands. In 2008 the received investment grants from abroad have increased with about 12 million guilders. This means an increase of about 6 percent in grants (Table 3).

**Table 3. ROW: Capital Account**

Use:	2002	2003	2004	2005	2006	2007	2008
D.92 Investment grants	52.1	54.3	137.2	165.6	174.4	210.7	222.8
D.99 Other capital transfers	2.9	1.8	1.5	0.9	4.1	8.2	1.2
<b>Resource:</b>							
D.99 Other capital transfers	0.4	3.6	0.0	0.0	0.1	2.5	8.0
All values in Mln. Ang.							
Source: National Accounts Netherlands Antilles 2002-2008, CBS							

Most of the other capital transfers are attributed to migrants' transfers to and from countries abroad. In 2008 the other capital transfers to abroad from Curaçao have decreased from 8 million to about 1 million guilders. The value of the other capital transfer has accumulated to 8 million guilders in 2008, an increase of about 6 million guilders. This means more capital transfers from abroad have occurred in 2008 compared to the previous years (Table 3).

## Summary

The export of goods has increased drastically with about 70 percent, due to the activities in the free-zone and bunker services. On the other hand the export of services has declined with about 1 percent in 2008.

The import of goods continues to increase in 2008. The rise in oil prices has influenced the increase of the imported merchandise. The import of services shows a 9 percent augmentation.

The property income from abroad has decreased with 25 percent. The international financial crisis is the cause of the drop of the figures in 2008. The transfer of property income to abroad has increased with 14 percent. The dividend payments to companies abroad have influenced the increase of the property income.

In 2008 more revenue is collected in taxes from abroad. This increase is about 70 percent.

To conclude, the high increase in commodity and food prices, the international financial crisis, and its spill-over effects on global real economy has affected the external transactions of Curacao in 2008.