ANNUAL REPORT 1999

Bank van de Nederlandse Antillen

1. REPORT OF THE PRESIDENT

1.1 General review

Economic developments in the Netherlands Antilles during 1999 took place against the background of an expanding world economy. Nonetheless, the Netherlands Antilles was not able to take advantage of the buoyancy of its main trading partners as its economy contracted further, reflected by a 2.9% decline in real GDP. The contraction was attributable to a decline in domestic demand and weak export performance. The decline in domestic demand was the result of a decline in consumption, investment, and government expenditures. Private consumption decreased due to, among other things, lower disposable income resulting from fiscal measures, high migration, and low consumer confidence. Government consumption declined in line with reduced available financing as investors' interest buying government securities continued on a declining path. Private investments remained weak as the investment climate was clouded by uncertainty related to forthcoming measures to address the financial-economic crisis, and government investments were depressed due to financing constraints. Despite the contraction in economic activities, the unemployment rate did not deteriorate further because of the marked migration, particularly to the Netherlands. The weak export performance and the net effect of increased migration resulted in a deterioration in our international reserves position in 1999, despite a substantial inflow of Dutch foreign exchange assistance.

The inflation rate remained subdued in 1999, attributable to both domestic and foreign factors. The main domestic factors were the abolishment of the 6% sales tax (ABB) on the Leeward Islands and the reduction of the turnover tax on the Windward Islands (BBO) from 3% to 2% as of January 1, 1999. However, the sales tax was gradually replaced by a 2% turnover tax (NAOB) on the Leeward Islands during March - May 1999, which was subsequently raised to 5% in October 1999. The main foreign factors that contributed to the decrease in inflation were the tame inflation rates of our main trading partners and the appreciation of the Netherlands Antillean guilder vis-à-vis non-dollar currencies. These developments mitigated the gradual impact on consumer prices of the sharp rise in world oil prices since the second quarter of 1999.

The performance of our main export industry, tourism, suffered from the impact of two hurricanes on the Windward Islands, Jose and Lenny, the latter of which caused considerable damage. As a result, St. Maarten, the largest of the Windward Islands, incurred a drop in both the numbers of stay-over and cruise tourists in 1999. However, foreign exchange income earned grew marginally owing to the good performance during the first three quarters of the year. Tourism activities in Curacao and Bonaire showed mixed developments. Curacao recorded a marginal decline in the number of stay-over visitors, but an increase in the number of visitor nights and the amount of foreign exchange generated. In contrast, the number of cruise visitors declined. In Bonaire, cruise tourism and foreign exchange income improved, but the number of stay-over visitors decreased marginally. Overall development in the tourist sector was similar to that of St. Maarten, since this island accounts for approximately 65% of total tourism activities in the Netherlands Antilles.

The prospects for the tourist sector in 2000 are surrounded with uncertainties. In St. Maarten, some major hotels will remain closed for most of the year to recover from the hurricane damage. As a result, fewer tourists can be accommodated, which will delay the sector's recovery. Furthermore, whether the tourism performance in Bonaire in 1999 will turn around in 2000, remains uncertain, given the decline in the number of visitors in the first quarter. In contrast, the recovery of the tourist sector in Curacao is expected to gain momentum in light of its success in attracting international hotel chains, the finalization of various new projects, and the opening of a golf course. In addition, cruise tourism is expanding, owing partly to the construction of a pier for mega cruise ships.

Our second largest source of foreign exchange income, the international financial and business services sector, recorded mixed developments in 1999. Profit tax transfers to the government increased, but the receipts to cover operational expenditures decreased slightly. However, this very small decrease may indicate that the steady decline in operational income during the last few years, related to the uncertainties surrounding the new tax regime for this sector, has come to an end. In December 1999, parliament approved the new fiscal regime (NFR) effectively eliminating the distinction between onshore and offshore activities. All activities will be subject to the same tax regime. With the introduction of the NFR together with the swift conclusion of the BRK (tax arrangement for the Kingdom of the Netherlands) negotiations with the Netherlands, the Netherlands Antilles enhances its competitive position and its reputation as a financial center. A necessary condition for the effective use of the possibilities created by the NFR, as mentioned, is the conclusion of a new tax arrangement for the Kingdom of the Netherlands (BRK). The BRK facilitates, among other things, the conclusion of tax treaties with other European countries and the United States. It is regrettable, however, that the Dutch government has linked the introduction of the new BRK to adoption of an IMF-supported structural adjustment program. Delay in the implementation of the NFR/BRK will only add to uncertainty and further dampen prospects of a turnaround in economic activities.

Total foreign exchange revenues generated in the transportation sector increased in 1999, owing primarily to the strong increase in bunker sales, which was related partly to the rise in international oil prices. In contrast, most of the other industries in the transportation sector recorded a decline in activities. The performance of the national carrier Air ALM deteriorated, as reflected by a decline in both the number of passengers and the amount of freight transported. The airline is in urgent need of a major restructuring, given its accumulating losses and high and rising debt. Thus, the Bank welcomes the recent evaluation of the company by the International Finance Corporation (IFC), the recommendations of which will be used to formulate a plan of action for privatization. To prepare Air ALM for privatization, painful measures are inevitable, but it is the only way to safeguard the company's long-term viability. Airport activities, measured in total passenger movements, declined also. The airport of Curacao incurred a marginal decline, due to a decrease in transit passengers. The airport of St. Maarten recorded a larger decline related to the impact of the hurricanes. In addition, the harbor industry recorded a deterioration in its performance. In the harbor of Curacao both the number of ships piloted and the amount of cargo handled declined. The harbor of Bonaire also recorded a decline in the number of ships piloted. Furthermore, activities in the ship repair sector deteriorated, as reflected by decreases in man-hours sold, number of ships repaired, and foreign exchange income earned.

The oil refinery incurred a decline in the number of barrels refined. This decline contributed to a decrease in operational costs, but the latter also was the result of further improvements in cost efficiency. In 1999, the power plant project according to the "build, own and operate" principle (BOO) continued to be plagued with setbacks. However, a major breakthrough recently was realized in the negotiations between the parties involved, which brings the start of this project in 2000 much closer. Beside the importance of the project for the long-term viability of the refinery, the large investments involved are a welcome impetus for the recovery of our economy.

Finally, free-zone activities deteriorated significantly in 1999, after five consecutive years of expansion. The largest setback occurred in re-exports. Other factors that played a role were increased competition from other free zones in the region and the economic downturn in some of the main export markets. Furthermore, the number of visits of shopping tourists dropped also.

In the external sector, the deficit on the current account of the balance of payments deteriorated considerably in 1999. Several factors contributed to this deterioration. First, the trade balance recorded a marked deterioration, due mainly to a sharp increase in oil imports related to the increase in oil prices on the world market. Second, our export sector performed weakly, due partly to the impact of the hurricanes on the tourist sector. Third, 1998 was characterized by relatively high dividend and interest receipts, which did not occur in 1999. Finally, the increased migration related to the protracted recession resulted in higher outflows in travel, transfers of bank balances, and pension transfers abroad. In contrast to the deterioration of the current account, the surplus on the capital account improved significantly. This improvement was attributable entirely to the official capital balance, as the private capital balance deteriorated. The deterioration of the private capital balance was due primarily to exceptional short-term inflows in 1998. The improvement of the official capital balance can be explained mainly by the receipt of foreign exchange assistance from the Dutch government. This assistance was provided to alleviate the liquidity constraints of the government without eroding our international reserves position. In addition, foreign finances were attracted for the partial payment of a guarantee provided to a foreign financial institution. Since the improvement of the capital account was not sufficient to offset the deterioration of the current account, our foreign exchange reserves declined. Apart from the transitory factors, the developments in the balance of payments underscore the necessity of strengthening our export sector by creating conditions for an improvement of our competitive position. In this regard, labor market flexibility should be increased further and other impediments in our economy, such as unnecessary government bureaucracy, should be eliminated.

In the field of public finances, the General Government recorded a decline in its deficit on a cash basis in 1999. This improvement can be attributed to the increasing liquidity constraints, which forced the authorities to reduce their expenditures significantly through further cuts and the deferment of payments. The latter resulted in an accumulation of arrears with public institutions, such as the civil servants pension fund, and private creditors. Both tax and nontax revenues declined, due largely to the economic recession. This situation was aggravated further because the sales tax on the Leeward Islands was abolished and with considerable delay replaced by a turnover tax, and the turnover tax on the Windward Islands was reduced. The government liquidity situation eroded further by a substantial decline in available domestic non-bank financing as investors became reluctant to buy government securities. To alleviate the erosion in revenues, the government increased the turnover tax on the Leeward Islands from 2% to 5% and broadened the tax base effective October 1, 1999. The Island Government of Curacao responded by reducing the government apparatus by 982 civil servants (approximately 25% of total employees) at the end of 1999.

These actions were taken to show the authorities' commitment to address the financial-economic crisis, which resulted in the extension of Dfl 130 million foreign exchange assistance in December 1999 by the Dutch government. This assistance facilitated the placement of government securities with the banking sector to bridge the liquidity shortage at the end of 1999 and the first months of 2000. Despite these bold steps, we continue to be plagued by non-financable deficits. The Bank, therefore, views with concern the increasing delays in the implementation of the other measures in the government program. Bold and swift actions are crucial to regain confidence and to conclude negotiations on an IMF-supported structural adjustment program, the implementation of which is essential for a sustainable economic recovery.

The monetary aggregates expanded significantly in 1999, due to the expansionary impact of the domestic sector. In contrast, net foreign assets declined resulting from the deficit on the balance of payments. The expansionary impact of the domestic sector was accounted for by the private sector, as the government sector recorded a contractionary impact. The private sector's expansionary impact was attributable primarily to the sharp growth in credit extension by the commercial banks. This growth indicates that the commercial banks' lending strategies became more aggressive after the abolishment of direct credit controls on January 1, 1999. The government sector's contractionary monetary impact was the result of the receipt of foreign exchange assistance from the Dutch government in December 1999, which was deposited in a special account at the Central Bank. Without this exceptional deposit, the government sector would have exerted an expansionary impact due to a significant withdrawal of deposits and the placement of mainly short-term debt securities with the banking sector resulting from the government's liquidity constraints. This deposit also had an impact on the balance of payments.

Since January 1, 1999, the reserve requirement has become the Bank's main instrument of monetary policy. This indirect instrument is aimed at reducing the over liquidity in the banking system and, hence, controls the potential for excessive credit extension. Given the sharp acceleration in the growth rate of credit extension to the private sector and, consequently, the decline in international reserves, the Bank increased the reserve requirement percentage from 8% to 8½ % in May 1999 and to 9% in November 1999. In addition, any increase in the reserve requirement above 8% may be held entirely in CDs. As a result, the costs for the commercial banks to meet the reserve requirement decreased.

The economic recession also had an adverse impact on commercial bank balances in the Netherlands Antilles. Profit margins in the private sector came under increased pressure and, subsequently, reduced loan-servicing capacities. Moreover, the tight liquidity position of the government resulted in payment arrears to its creditors, which had a negative impact on the liquidity position of the private sector. In addition, the damage caused by hurricane Lenny reduced the value of collateral on the Windward Islands. As a consequence, the share of nonperforming loans in the total loan portfolio increased. The Bank will monitor this development closely, and necessary measures will be forthcoming to ensure the continued stability of our banking sector.

A major event in the international financial scene was the birth of the Euro on January 1, 1999, which replaced the eleven currencies of the countries joining the European Monetary Union (EMU). After a strong start, the currency declined in value during most of 1999, as investors saw better growth prospects in the United States than in the EMU-countries. The currency ended the year with a 14% loss vis-à-vis the dollar and an even bigger loss compared to the yen.

Equity markets increased almost without exception in 1999, with the Asian markets performing the best. The performance of Asia was remarkable, given the deep recession there in 1998. Fixed income markets performed quite the opposite. US Treasuries recorded their worst performance in more than 20 years due to an increase in interest rates. In Europe, interest rates rose also, and spread between the different sovereign issuers in the EMU widened.

The turn of the millenium had a large impact on financial markets. Banks and brokers were not willing to make a market in the weeks surrounding the year-end resulting in a decline in liquidity. In the money markets, the decline in liquidity led to a peak in interest rates for maturities beyond the millennium turn. Another impact of the millennium turn was the increase in corporate issuance and an accompanying increase in swap-spreads, which attained levels experienced only during the Long-Term Credit Management crisis in the fall of 1998. The actual turn of the millenium was uneventful, as central banks around the world provided more than sufficient liquidity.

1.2 Policy considerations

The economic recession in the Netherlands Antilles persisted in 1999 amidst a worldwide recovery from the financial and economic crises in eastern Asia, Latin America, and Russia. These developments serve to illustrate that the financial-economic crisis in the Netherlands Antilles is due mainly to domestic factors.

Most of 1999 was characterized by uncertainty regarding further fiscal consolidation measures to address the financial-economic crisis. This uncertainty resulted in a further worsening of the government's liquidity position and, hence, deferment of expenditures and a rapid accumulation of arrears. Consequently, investor and consumer confidence eroded further, reflected by low investments, a decline in consumer spending, and increased migration. The crisis was aggravated further by the hurricane disaster, which affected all five islands of the Netherlands Antilles.

In March 1999, the government installed a National Plan Commission entrusted with the task of drafting a comprehensive structural adjustment program that can garner broad-based support. The Commission presented its plan in June 1999. Its recommendations were geared toward elimination of the budget deficits through a swift restructuring of the public finances, strengthening of the public administration, improvement of the investment climate, liberalization of the labor and product markets, and an accommodating social policy. A first step in the implementation of the plan was taken in September 1999 when parliament approved a significant reduction in exemptions from the turnover tax and an increase in the tariff from 2% to 5% on the Leeward Islands, effective October 1, 1999. However, the parties forming the government could not reach consensus on the measures aimed at a structural reduction of expenditures, which caused a break-up.

The new government installed in November 1999 embarked on an ambitious urgency program based on the recommendations of the National Plan Commission and the Inter-American Development Bank report. Several measures of the urgency program already have been implemented. The Island Government of Curacao laid off 982 civil servants. At the Central Government level, approximately 1,000 civil servants are being laid off. Other measures directed at a further reduction of the wage bill were the reduction of the vacation allowance by 50%, the freezing of periodic salary increments and indexation, and the reduction of the severance pay period from 4 to 2 years. In addition, the motor vehicle tax in Curaçao was raised by 10%, and government-owned companies have been instructed to reduce their costs by a minimum of 15%, which will result in higher dividend receipts.

Despite these measures, the general government deficit in 2000 is estimated at NAf 260 million. This estimate is due to, among other things, a marginal net saving from the lay-offs due to severance payments, shortfalls related to the tax alleviation package ("Alivio"), payments on guaranteed loans, and carry-over of expenditures from 1999 to 2000. Since a deficit of NAf 260 million cannot be financed, the government has formulated additional measures to reduce the deficit further. These measures include the lay-off of 1,200 instead of 1,000 civil servants in 2000, the abolishment of the vacation allowance, a reduction of the employer share in the pension premium, a cut in expenditures on goods and services, a further broadening of the base and strengthening of the collection of the turnover tax, and adjustment of the wage and income tax laws aimed at a reduction of exemptions and the introduction of a tax bracket system. This set of measures will be complemented by a reduction of the backlog in the assessment and collection of taxes with assistance of Dutch tax experts, and a rescheduling of outstanding arrears with the civil servants pension fund APNA.

However, the Bank has several concerns about the proposed additional measures and the implementation of the urgency plan in general. First, the lay-off of 1,200 employees at the Central Government level is likely to encounter delay. As a consequence, the estimated savings will not be realized and hence will impact the 2000 budget negatively. Second, the current actuarial surplus of the civil servants pension fund may justify a reduction of the employer's premium, but this windfall should not be used to postpone the needed restructuring of the pension scheme. The costs of the present scheme are unsustainable in the long run, particularly in light of the aging population. Therefore, the authorities should use the current favorable situation to move ahead with the needed reforms. Third, the process for the implementation of the additional measures goes very slowly. The current fiscal crisis, however, calls for an acceleration of this process to create a turnaround as soon as possible.

The Bank also is concerned about the slow progress made in the implementation of structural reforms, such as improvements in the flexibility of labor and product markets, and privatization. These reforms are necessary to provide resiliency to the private sector and improve prospects for an economic recovery. In this respect, the authorities should adopt a framework and timetable for privatization with a list of companies to be privatized.

Furthermore, the legislation for labor market reform and the phasing-out of the market protection regime should pass without further delay.

The fiscal and economic adjustment process will be accompanied by an appropriately tight monetary policy. Private sector credit extension exceeded significantly the growth rate of our economy, thereby eroding our international reserves position. This development prompted the Bank to increase the reserve requirement again in March 2000, from 9% to 10%. Further tightening will be forthcoming if private sector credit growth continues to exceed the growth in GDP. Net credit to the government still is subject to a ceiling to minimize monetary financing of the deficits.

The road to fiscal consolidation and structural reform of our economy is long and marred by difficulties. Bold steps have been taken to reduce the budget deficit in line with available financing, ensure medium-term fiscal sustainability, and promote economic recovery. The governments should continue in their resolve in the full and timely implementation of the proposed measures. Only decisive actions will underscore their commitment to fiscal consolidation and gradually restore confidence. Such commitment also will accelerate the conclusion of the negotiations with the IMF on a Fund-supported structural adjustment program. Once a Fund-supported program has been concluded, additional financial support from the Dutch government should be forthcoming. This support is crucial to facilitate the adjustment process, finance complementary social policies, and create a climate conducive to sustainable growth, employment, and an improvement in living standards.

E.D. Tromp
President

2. DEVELOPMENTS IN THE REAL SECTOR

2.1 General economic developments

The economy of the Netherlands Antilles shrank for the fourth consecutive year in 1999, as real GDP fell by 2.9%[1] on an annual basis. The poor 1999 performance reflected weak domestic demand, which led to a decline in economic activities. Also, the two hurricanes that hit the Windward Islands in the fourth quarter of 1999 had a negative impact on production capacity. High unemployment accompanied the gloomy economic outlook. The Antillean inflation rate eased to 0.8% in 1999, following the rise of 1.3% in consumer prices in 1998. The inflation rates in the Netherlands Antilles varied greatly -- Curaçao posted a low inflation, while Bonaire's and St. Maarten's were high. The elimination of the 6% sales tax (ABB) on the Leeward Islands and the reduction of the turnover tax in the Windward Islands in January 1999 were the main causes of the lower inflation.

2.1.1 National production and spending

Real gross domestic product weakened even more, declining by 2.9% in 1999, after a decrease of 0.8% in 1998. The leading factors for this contraction were a weak domestic demand and a fall in real export activities, including the tourist, trade, and transportation sectors. Total domestic demand shrank by 1.0% in real terms, largely the result of a major drop in public consumption (7.8%)[2] . Consumer confidence remained low, due to the high jobless rate and uncertainties about future employment, among other things. Private investment activities also were weak, discouraged primarily by the country's economic and political uncertainty. The burgeoning debt of the Netherlands Antilles remained a cause for concern and must be addressed as soon as possible through the implementation of a viable fiscal adjustment program.

2.1.2 Inflation

Consumer prices of the Netherlands Antilles abated from 1.3% in 1998 to 0.8% in 1999. On the one hand, downward effects on inflation included (1) removal of the 6% sales tax (ABB) on the Leeward Islands, and reduction of the turnover tax on the Windward Islands from 3% to 2% as of January 1, 1999; (2) moderate world oil prices in the first quarter of the year; and (3) the tame inflation rate of our main trading partners. On the other hand, upward effects on the inflation included (1) the gradual implementation of the 2% turnover tax (NAOB) on the Leeward Islands, which was eventually raised to 5% in October 1999; and (2) the sharp rise in world oil prices starting in the second quarter of the year. Consequently, inflation in the Netherlands Antilles remained mild because the decreasing pressures outweighed the increasing inflationary pressures.

A breakdown by island indicates that Curaçao had the lowest inflation rate, followed by St. Maarten and Bonaire. Curaçao's inflation rate dipped from 1.1% in 1998 to 0.4% in 1999 (table 2.1). The 1.0% drop in the category "housekeeping & furnishings" came from a price slide in household appliances and tools. Furthermore, cheaper utility and gasoline prices earlier in the year and reductions in phone rates were accountable for the decline in

[1] Estimate by the BNA
[2] Figures based on the definition in the National Accounts

the items "housing" (-0.2%) and "transport & communication" (-0.4%). Meanwhile, the surge of 2.0% in "food" was related to costlier fresh produce. Additionally, pricier tobacco and pharmaceutical costs caused an inflation of 1.4% in both "beverages & tobacco" and "health."

Table 2.1
Inflation rates for Curaçao, Bonaire, and St. Maarten 1998[1]) and 1999 (% changes)

	Curaçao		Bonaire		St. Maarten	
	1998	**1999**	**1998**	**1999**	**1998**	**1999**
Food	1.2	2.0	0.5	5.7	1.4	0.2
Beverages & tobacco	1.1	1.4	5.4	4.1	4.6	0.9
Clothing & footwear	0.0	0.8	0.0	1.3	0.5	0.4
Housing	0.9	-0.2	0.4	0.4	0.8	1.8
Housekeeping & furnishings	0.8	-1.0	0.8	2.2	0.8	0.5
Health	2.3	1.4	0.4	2.1	1.5	3.8
Transport & communication	1.9	-0.4	5.3	8.1	5.9	4.6
Recreation & education	0.8	0.9	2.2	2.0	1.0	0.4
Other	1.2	1.0	0.9	1.3	1.0	1.6
General inflation rate	1.1	0.4	1.7	3.4	2.1	2.0

1) 1998 figures have been revised

In Bonaire, the inflation rate gained by 1.7 percentage points to 3.4% in 1999. Higher petrol and fresh produce prices powered a jump of 8.1% and 5.7% in the categories "transport & communication" and "food", respectively. Also, a price increase in the tobacco component led to an inflation of 4.1% in "beverages & tobacco."

For the year 1999, St. Maarten's consumer prices drifted down slightly to 2.0% from 2.1% in 1998. The impact of higher telephone and hospital costs pushed up inflation in the items "transport & communication" and "health" by 4.6% and 3.8%, respectively. The price dip in meat and fish products led to the lowest price inflation of 0.2% in the sector "food."

2.1.3 Labor market

So far, the labor market in the Netherlands Antilles has not shown any improvement, as the unemployment rate continued high at 16.6%[3] in 1999. The fragile job market can be related to slow economic activities, which led to demand-deficient unemployment. Moreover, the labor market continued to be plagued by structural unemployment. As a result of the increasing supply of labor, largely among unskilled personnel, and fewer job opportunities, many people migrated in hopes of finding a better future in the Netherlands. In spite of the large migration, the number of unemployed remained high.

In 1999, the labor market continued to deteriorate, but at a slower rate than in 1998. The number of personnel laid off in Curaçao was down by 46.5% to 302 persons for the entire year 1999, in comparison to 564 persons in 1998. The dismissals were confined mostly to

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[3] Estimate by the BNA

the construction, hotel & restaurant, and social services sectors. Many people were dismissed in the hotel & restaurant sector after the closure of a time-share hotel.

Table 2.2
Laid-off personnel in Curaçao by sector

	1998	**1999**
Sectors:		
Industry	80	16
Construction	69	54
Trade, hotel & restaurant	167	156
Transportation & communication	90	8
Financial & business services	52	17
Social services	106	51
Total	564	302

Source: The Department of Labor and Social Affairs

2.2 Developments by sector

2.2.1 Mining

The salt industry in Bonaire offered mixed developments for the year 1999. Salt exports slipped by 1.5%, as opposed to an increase of 23.4% in 1998. In contrast, salt production experienced a marked improvement of 55.1% in 1999, after a fall of 37.5% in 1998.

2.2.2 Industry

In 1999, activities in the oil sector, the Isla refinery, were down, as oil refining shrank by 7.9%, relative to an increase of 2.4% in 1998. Total operational costs slipped by 2.5% in 1999, compared with a 13.1% decrease in 1998. The lower operational costs were connected to a decline in all types of expenses, except for the refinery's own use of fuel. Contrary to expectations, the Built Own and Operate (BOO) project did not take place in 1999 because financial negotiations had not been finalized.

In the ship repair sector, production activities, measured by man-hours sold, tumbled by 30.1% in 1999, following a dip of 2.5% in 1998. The unfavorable results were associated with the Asian and South American crises. Beside the poor developments in the amount of man-hours spent on ship repair, the number of ships repaired was down by 25.5% in 1999, contrasting with the advance of 18.9% in 1998. Foreign exchange receipts from ship repair fell by 16.9%.

2.2.3 Utilities

Utility production in the Netherlands Antilles posted a mixed picture in 1999, as water production fell and electricity production improved slightly. The performance of the utility sector in the Leeward Islands may be explained by the rainy weather during the final quarter of 1999.

In 1999, Antillean water production shrank by 1.9%, when measured against the 6.8% gain in 1998. A breakdown by island indicates that the decrease was due to production declines in both Curaçao (3.4%) and Bonaire (9.7%) in comparison to the increases of 8.3% and 1.2%, respectively, in 1998. Conversely, St. Maarten's water production expanded by 9.2%, up from 0.9% in 1998.

Electricity production in the Netherlands Antilles drifted up by 0.2% for the entire year of 1999, down from the 6.2% growth in 1998. This slight expansion was ascribable to a rise of 2.3% in the Windward Islands, which outweighed the drop in both Curaçao (0.3%) and Bonaire (0.8%).

2.2.4 Construction

The performance of the construction sector in the Leeward Islands was unfavorable for the whole year of 1999. The adverse economic situation and migration of a vast number of people principally were responsible for this bleak situation.

2.2.5 Trade

Re-export activities in the free-zone tumbled by 23.2% in 1999, measured against a swell of 12.5% in 1998. The number of free-zone visits worsened by 14.7%, in contrast to a growth of 27.6% in 1998. The numbers of free-zone visits were down in all the principal markets, except for Haiti (8.5%) and Guyana (3.0%).

2.2.6 Tourism

The tourist sector in the Netherlands Antilles weakened in 1999, as both stay-over and cruise tourism dwindled by 2.0% and 24.3%, respectively. In contrast to the weak performance in the tourist sector, total earnings from tourism improved by 1.6% for the year 1999. A breakdown by island shows that only Bonaire had a positive cruise arrival turnout. Stay-over tourism declined marginally in Curaçao and Bonaire. St. Maarten's tourism industry has been quite poor in 1999. The poor results in St. Maarten's tourist sector were caused mainly by the hurricanes Jose and Lenny, which swept through the island in the fourth quarter of 1999.

In St. Maarten, stay-over and cruise tourism shrank in 1999. Stay-over tourism edged down by 3.0%, as opposed to last year's growth of 4.4%. The North American and the Caribbean markets increased by 0.3% and 7.3%, respectively, due largely to gains in the number of stay-over visitors from Canada, the Dominican Republic, and other Caribbean islands. However, this improvement was outweighed by the contraction in the European (5.3%) and South American (31.0%) markets (table 2.3). The number of cruise passengers dropped significantly, from a slide of 0.5% in 1998 to a fall of 30.2% in 1999. The deterioration in cruise tourism was accompanied by a large setback of 33.2% in cruise calls.

Tourism activities in Curaçao offered a mixed picture in 1999. Stay-over tourism declined marginally by 0.2%, measured against a slide of 3.2% in 1998. The slightly lower stay-over arrivals in 1999 were the result of decreases in the North American and South American markets by 0.4% and 9.2%, respectively. The European market grew slightly, as the number of Dutch visitors surged by 2.5%. Furthermore, the Caribbean market improved, as its visiting numbers gained by 5.6%. In contrast with the decrease in stay-over tourism, the hotel occupancy rate increased from 60% in 1998 to 71% in 1999 and the number of visitor nights swelled by 7.2%. Cruise tourism, however, worsened, from a 7.6% growth in the number of passengers in 1998 to a decline of 4.5% in 1999.

Table 2.3
Growth in stay-over tourism by island (% change)

	Curaçao		**Bonaire**		**St. Maarten**	
	1998	**1999**	**1998**	**1999**	**1998**	**1999**
North America,	9.0	-0.4	-1.7	4.7	6.9	0.3
of which:						
-U.S.A.	8.5	-2.5	-1.6	4.8	6.6	-1.4
-Canada	18.1	33.5	-5.6	1.5	9.0	13.5
Europe,	-8.5	0.7	-2.2	-5.6	1.5	-5.3
of which:						
-The Netherlands	-7.8	2.5	-4.0	-2.5	3.8	-2.5
-France	-	-	-20.4	-20.2	-3.9	-7.1
-Germany	-17.7	-0.1	-11.6	-13.0	-	-
-Other Europe	-7.1	-14.0	18.8	-13.7	25.1	-0.5
South & Central America,	1.8	-9.2	10.4	-8.9	4.7	-31.0
of which:						
-Venezuela	16.5	-7.7	23.7	-1.5	4.9	-4.5
-Brazil	-32.8	-49.4	-16.8	-52.6	-31.9	-59.4
-Other S&C America	-19.1	5.0	-9.1	-8.5	15.4	-32.5
Caribbean,	-7.3	5.6	-15.2	5.0	6.1	7.3
of which:						
-Aruba	-12.4	21.4	-15.5	-0.1	-	-
-Santo Domingo	-7.9	1.3	-14.4	19.2	7.4	9.5
-Other Caribbean	-3.1	-3.4	-	-	5.9	6.9
Rest of World	-7.0	9.7	-18.3	40.4	-1.2	5.1
Total	-3.2	-0.2	-1.7	-0.4	4.4	-3.0

In 1999, Bonaire's stay-over tourism registered a marginal decline of 0.4%, while cruise tourism recorded an upsurge of 25.0%. The performance in stay-over tourism stemmed from decreases of 5.6% and 8.9% in the European and South American markets, respectively. In contrast, the North American and Caribbean markets revealed an expansion of 4.7% and 5.1%, respectively.

2.2.7 Transportation

The performance of the air transportation sector was gloomy in 1999, as both passenger and cargo transportation declined. The number of passengers transported by the national airline "Air ALM" was down by 6.5% in 1999, compared to a gain of 10.0% in 1998. Cargo shipments also slipped by 1.8%, following the decline of 7.7% in 1998. In 1999, an agreement of open skies signed between the Netherlands Antilles and the Netherlands will eventually lead to job losses in "Air ALM" if no actions are taken to improve its competitive position.

In 1999, activities at the airport of Curaçao, as measured by total passenger movements, slipped by 0.4%, after a growth of 4.7% in 1998. The sluggish performance can be ascribed to the decrease of 3.0% in transit passengers. Beside the slowdown in transit passenger traffic, commercial landings dropped from a growth of 5.8% in 1998 to a decrease of 2.3% in 1999.

St. Maarten's air transportation activities deteriorated in 1999, as the total number of passengers passing through the airport sagged by 6.4%, compared to the advance of 19.7% in 1998. The 1999 contraction was caused by a decrease in the flow of transit passengers (4.5%), passenger arrivals (9.0%), and departures (5.5%). Also, the number of commercial landings fell by 7.0% in 1999, when compared to the rise of 0.8% in 1998. The drop in commercial landings went hand-in-hand with the island's weak tourist sector, caused by the impact of the two hurricanes.

For the whole year of 1999, the Curaçao harbor industry, as measured by the number of ships piloted into the harbor, edged downward by 11.4%, contrasting with last year's rise of 11.0%. A decline in all types of vessels visiting the harbor, but mostly in freight (6.5%) and tanker (12.7%) ships caused this unsatisfactory development. The number of freight ships shrank as a result of a drop in total cargo movements. The decrease in both local and transshipment activities were accountable for the fall of 1.7% in the total cargo movements. Moreover, fewer activities in the oil refinery were the cause for fewer tanker vessels in the harbor. Next to the weak cargo and oil activities, bunker sales of fuel and water fell by 21.6% and 59.8%, respectively, in 1999.

The harbor sector in Bonaire also performed poorly in 1999, as the number of ships that entered the harbor plummeted by 22.3%, in comparison to a fall of 11.9% in 1998. The plunge was linked to fewer vessels in all categories, except for freighters.

3 PUBLIC SECTOR AND DEVELOPMENT AID

3.1 Cash overview and financing

3.1.1 Introduction

In 1999, the government embarked on a task to reform public finances and foster economic growth by implementing several reform measures. The sales tax (ABB) of 6% on Curaçao and Bonaire was abolished as of January 1, 1999, and replaced gradually with a turnover tax (NAOB) of 2% during the period March - May 1999. On the same date, the turnover tax rate on the Windward Islands (BBO) was reduced from 3% to 2% in line with the rate on the Leeward Islands. Based on the recommendations of the National Plan Committee, the turnover tax on Curaçao and Bonaire was raised to 5% as of October 1, 1999, and exemptions were reduced. Besides these revenue-enhancing measures, the post office was transformed into the government-owned company 'Post Nederlandse Antillen N.V.' as of July 1, 1999. Also, the Island Government of Curaçao reduced its personnel by 982 persons through a lay-off scheme.

Table 3.1
Overview of cash operations of the General Government 1997 - 1999 (in millions NAf.)

	1997	**1998**	**1999**
Revenues	1269.6	1266.9	1167.9
-Tax revenues	1119.5	1114.4	1036.3
-Nontax revenues	142.0	143.4	121.5
-Capital revenues	0.4	0.1	1.3
-Grants	7.7	9.0	8.8
Expenditures	1324.7	1351.7	1221.0
-Current	1269.3	1341.1	1182.1
-Capital	55.4	10.6	38.9
Balance	-55.1	-84.8	-53.1

The cash deficit of the General Government dropped by NAf.31.7 million in 1999, the result of a NAf.130.7 million drop in expenditures and a NAf.99.0 million drop in revenues. The drop in expenditures can be ascribed to the current expenditures, which were NAf.159.0 million lower than in 1998. This decline must be seen against the background of liquidity constraints, which led to the deferment of payments. Also, the refinancing of the zero-coupon bond owed to the civil servants pension fund (APNA) that matured in 1998 by an annuity loan at a lower rate led to lower expenditures. The lower revenues resulted mainly from NAf.78.1 million less taxes. This decline was mainly the result of less sales tax, profit tax, and excises, and can be attributed to the change in the tax regime and the weak economic conditions.

Despite the ceiling set for net lending to the government, the government financed its deficit monetarily, mainly through a draw down of deposits and to a lesser extent, through the issuance of securities to the banking sector.

The deficit as a percentage of GDP dropped from 2% to 1% in 1999. Revenues as a percentage of GDP dropped from 30% to 28%, while expenditures dropped from 32% to 29%. These developments reflect less involvement of the government in the economy. Also the role of the government to stimulate the economy through investments remained low at only 1% of GDP. The tax burden dropped from 23% to 22%, while the collective burden dropped from 29% to 28%, the result of the drop in taxes and premiums due to the weak economic conditions.

Table 3.2
Selected key variables of General Government 1997 - 1999 (cash basis, % of GDP)

	1997	**1998**	**1999**
Revenues	30%	30%	28%
-Tax revenues	27%	26%	25%
Expenditures	31%	32%	29%
-Wages and salaries	14%	15%	13%
-Interest payments	4%	4%	4%
-Investments	1%	1%	1%
Balance	-1%	-2%	-1%
Primary balance	2%	2%	2%
Tax burden[1)]	23%	23%	22%
Collective burden[2)]	29%	29%	28%

1) Excluding taxes from the international financial and business sector.
2) Tax burden plus burden social premiums (AOV/AWW/AVBZ) collected by SVB and BZV.

As can be seen from table 3.3, fewer funds were raised on the domestic capital market, a signal of decreased confidence in the government as investors are less willing to lend to the government. The Island Government of Curaçao, in particular, experienced a net redemption of loans during 1999, indicating that investors were not even willing to refinance maturing loans. Another indication of the reduced confidence in the government was the shift from long-term government paper to short-term government paper. Short-term treasury paper of the Island Government of Curaçao in portfolio increased by NAf.31.5 million, while outstanding bonds decreased by NAf.62.6 million.

Table 3.3
Government lending on the domestic capital market[1] (in millions NAf.)

	1996	1997	1998	1999
Gross lending	175.2	145.2	184.2	171.7
-Central Government	123.7	70.8	83.2	108.0
-Island Government of Curaçao	51.5	74.4	101.0	63.7
Net lending	80.3	42.2	44.5	21.3
-Central Government	50.8	33.6	29.9	52.4
-Island Government of Curaçao	29.5	8.6	14.6	-31.1

1) The Central Government figures exclude consolidated loans, and those of the Island Government exclude the APNA loans.

3.1.2 Central Government

The cash deficit of the Central Government decreased by NAf.22.1 million during 1999. This decrease resulted from a NAf.67.9 million drop in expenditures and NAf.45.8 million less in revenues.

The drop in expenditures can be ascribed to NAf.95.8 million less current expenditures. The lower current expenditures were caused mainly by a NAf.73.4 million drop in wages and salaries, and a NAf.36.8 million drop in transfers. The drop in wages and salaries can be attributed to the NAf. 91.3 million decrease in pension premiums, which occurred because the Central Government did not pay the premiums for 1999, even though the employer premium for 1999 was lowered from 17% to 12%. The drop in transfers can be ascribed mainly to the NAf.28.6 million drop in transfers to other levels of government. This drop is related to the debt-settlements in 1998 with the Island Government of Curaçao and the Island Government of St. Maarten. In contrast, interest payments increased by NAf.18.8 million in 1999. Both the domestic and foreign component of the interest payments increased by NAf.9.4 million. The increase in domestic interest payments is due to the increased domestic debt and higher interest rates, while the foreign component is related to a correction of the debt settlement with the Island Government of Curaçao in 1998.

Capital expenditures increased by NAf.27.9 million. This increase can be ascribed to the NAf.31.3 million increase in net lending, due to the redemption of a loan by the Island Government of St. Maarten in 1998. This loan was granted to formalize outstanding arrears with the civil servants pension fund (APNA) and the Social Security Bank (SVB).

The drop in revenues can be ascribed mainly to a NAf.39.4 million drop in tax revenues and a NAf.6.1 million drop in nontax revenues. The drop in tax revenues can be attributed primarily to the NAf.36.1 million drop in sales tax and NAf.11.9 million less excises. This development is the result of the weak economic conditions, the change in the tax regime, and the poor performance of the turnover tax [4]. Despite the weak economic conditions,

4 The sales tax (ABB) was abolished as of January 1, 1999, on Curaçao and Bonaire, and replaced gradually by the turnover tax (NAOB) during March - May 1999.

import duties increased by NAf.10.4 million, ascribable to the increase in merchandise imports (excluding the free-zone) on Curaçao and Bonaire (3.5%). The drop in nontax revenues can be explained by the decrease in fees, charges, and sales, due mainly to the restitution of AVBZ-premiums (NAf.5.0 million) by the bureau for the provision of medical care (BZV)[5] in 1998.

Table 3.4
Overview of cash operations of the Central Government 1997 - 1999 (in millions NAf.)

	1997	1998	1999
Revenues	542.5	555.7	509.9
-Tax revenues	441.3	458.8	419.4
Taxes on property	23.9	21.0	20.1
Taxes on goods and services	287.2	296.8	248.0
Excises	148.6	142.6	130.7
Sales tax	127.7	141.8	105.7
-Taxes on international trade and transactions	121.8	132.5	143.5
Import duties	118.4	131.7	142.1
Other taxes	8.4	8.5	7.8
-Nontax revenues, of which:	93.5	87.8	81.7
Entrepreneurial & property income	42.1	40.8	41.8
Fees, charges, and sales	38.3	43.5	38.9
-Capital revenues	0.0	0.1	0.0
-Grants	7.7	9.0	8.8
Expenditures	575.8	615.3	547.4
-Current	535.9	621.5	525.7
Wages and salaries	290.6	322.7	249.3
Goods and services	92.6	101.8	98.0
Interest payments	74.9	57.4	76.2
Subsidies to public companies	5.5	5.0	4.4
Transfers	72.3	134.6	97.8
-Capital, of which:	39.9	-6.2	21.7
Investments	34.7	22.4	21.7
Net lending	-4.2	-31.7	0.0
Balance	-33.3	-59.6	-37.5

The deficit was financed primarily nonmonetarily in 1999, mainly through the issuance of securities with the public. The part of the deficit that was financed monetarily can be explained mainly by securities placed with the Central Bank.

[5] Buro Ziektekostenvoorzieningen.

Table 3.5
Financing of the cash deficit of the Central Government (in millions NAf.)

	1997	1998	1999
Cash deficit	-33.3	-59.6	-37.5
Monetary financing	3.6	5.2	10.4
-Central Bank	6.0	1.1	11.2
-Coins & notes	0.9	3.8	2.1
-Commercial banks	-3.3	0.3	-2.9
Nonmonetary financing	29.7	54.4	27.1
-Government securities with the public	27.7	65.7	41.4
-Other	2.0	-11.3	-14.3

3.1.3 Island Government of Curaçao

The cash deficit of the Island Government of Curaçao dropped by NAf.9.6 million in 1999 compared to 1998, the result of a NAf.70.2 million drop in expenditures, and a NAf.60.6 million drop in revenues.

The drop in expenditures can be ascribed to a NAf.70.6 million drop in current expenditures. Wages and salaries dropped by NAf.11.7 million, goods and services by NAf.22.3 million, interest payments by NAf.33.9 million, and subsidies by NAf.12.6 million. These decreases were set off partly by an increase of NAf.9.9 million in transfers.

The drop in wages and salaries is the result mainly of a NAf.10.6 million drop in wages. This drop can be ascribed primarily to the drop in expenditures on medical care for civil servants. The domestic component of interest payments dropped by NAf.22.4 million, while the foreign component dropped by NAf.11.5 million. The drop in the domestic component is the result of, among other things, the refinancing of the zero-coupon bond that matured in 1998 by an annuity loan at a lower rate. The drop in the foreign component occurred because in 1998 interest payments of 1997 also were paid as part of the regular debt settlements with the Central Government. Expenditures on goods and services dropped due to liquidity constraints. The decrease in subsidies is mainly the result of the drop in subsidies to the public transportation company (ABC) and to the public security company (SKS). Transfers increased as a result of the increased transfers to other government levels (NAf.8.0 million) and households (NAf.3.8 million). The increase in transfers to other government levels is mainly the result of increased transfers to the 'Stichting Studiefinanciering' (SSC).

The drop in revenues is mainly the result of NAf.38.7 million lower tax revenues and NAf.19.5 million lower nontax revenues. The drop in tax revenues can be ascribed primarily to a NAf.29.4 million drop in profit tax related to the weak economic conditions. The lower nontax revenues are mainly the result of NAf.8.7 million lower entrepreneurial and property income resulting from less dividend income and NAf.8.0 million less in fees, charges, and sales.

Table 3.6
Overview of cash operations of the Island Government of Curaçao 1997 - 1999 (in millions NAf.)

	1997	1998	1999
Revenues	748.6	764.5	703.9
-Tax revenues	678.2	655.6	616.9
Taxes on income and profits	617.2	607.8	564.7
Profit tax	271.9	255.5	226.1
Wage tax	316.2	329.5	324.8
Income tax	29.1	22.9	13.8
Taxes on property	17.1	12.7	18.7
Taxes on goods and services	43.9	35.1	33.4
-Nontax revenues,	51.3	63.5	44.0
of which:			
Entrepreneurial & property income	18.3	29.7	21.0
Fees, charges, and sales	20.2	24.5	16.5
-Capital revenues	0.4	0.0	1.3
-Grants	18.7	45.4	41.8
Expenditures	770.4	789.7	719.5
-Current	754.9	772.9	702.3
Wages and salaries	307.4	303.4	291.7
Goods and services	208.3	207.1	184.8
Interest payments	73.2	107.8	73.9
Subsidies	83.9	72.8	60.2
Transfers	82.1	81.8	91.7
-Capital,	15.5	16.8	17.2
of which:			
Investments	14.0	15.8	17.0
Balance	-21.8	-25.2	-15.6

The deficit of the Island Government of Curaçao was financed monetarily in 1999. The monetary financing resulted mainly through a draw down on deposits at the Central Bank and the commercial banks.

Table 3.7
Financing of the cash deficit of the Island Government of Curaçao (in millions NAf.)

	1997	1998	1999
Cash deficit	-22.0	-25.2	-15.6
Monetary financing	-9.8	-25.6	43.4
Central Bank	-3.5	1.7	21.0
Commercial banks	-6.3	-27.3	22.4
Nonmonetary financing	31.8	50.8	-27.8
Government securities with the public	24.3	20.8	-31.3
Other	7.5	30.0	3.5

3.2 Public sector debt and guarantees

3.2.1 Introduction

The total consolidated public debt of the Netherlands Antilles increased by NAf.83.5 million in 1999, reaching 77% of GDP. The domestic public debt increased by NAf.171.1 million, while the foreign debt dropped by NAf.87.6 million. The total outstanding guarantees dropped by NAf.48.8 million, due to the redemption of the guaranteed loans and the appreciation of the Netherlands Antilles guilder against the European currencies and the Yen in which most of the loans are denominated. Total debt and guarantees as a percentage of GDP increased from 81% to 83% in 1999.

Table 3.8
Public sector debt and guarantees (in millions NAf; end of year)

	1997	**1998**	**1999**
Domestic debt[1)]	2,353.4	2,519.2	2,690.3
Foreign debt	575.7	614.9	527.3
Total debt	2,929.1	3,134.1	3,217.6
% of GDP	69%	74%	77%
Guarantees[2)]	302.6	291.2	242.4
Total debt and guarantees	3,231.7	3,425.3	3,460.0
% of GDP	77%	81%	83%

[1)] Consolidated.
[2)] 1999 is an estimate.

3.2.2 Public sector domestic debt

The domestic debt of the Netherlands Antilles continued to increase in 1999 (NAf.171.1 million). The increase in the debt of the Central Government (NAf.165.0 million) can be ascribed to increased government securities with the public (NAf.158.2 million) and with the Central Bank (NAf.30.0 million). Part of the increase in securities with the public is due to the conversion of part of the arrears of the island governments with the Social Security Bank (SVB), which amounted to NAf.116.8 million. This explains the drop in arrears of the island governments at the SVB. The domestic debt of the Central Government increased also due to the increase in arrears to the civil servants pension fund (APNA) by NAf.42.8 million and to other creditors by NAf.18.9 million.

The increase in the debt of the Island Government of Curaçao (NAf.22.9 million) can be explained by the increase in arrears at APNA by NAf.33.2 million, and to other creditors by NAf.39.6 million. By postponing payments to its creditors, the Island Government of

Curaçao was able to finance the net repayment of NAf.31.3 million in securities with the public.

Table 3.9
Composition of public sector domestic debt (in millions NAf; end of year)

	1997	1998	1999
Central Government	972.9	998.2	1,163.2
Central Bank	65.0	64.6	94.6
Commercial banks	88.9	89.7	70.6
Securities with the public	639.0	704.7	862.9
Social Security Bank (SVB)	74.9	72.7	6.9
Civil servants pension fund (APNA)	63.9	26.4	69.2
Other	41.2	40.1	59.0
Island Government of Curaçao	1,323.1	1,430.9	1,453.8
Central Bank	0.0	15.0	15.0
Commercial banks	142.8	121.5	126.9
Securities with the public	370.2	391.0	359.7
Social Security Bank (SVB)	24.8	43.0	17.0
Civil servants pension fund (APNA)	630.6	716.0	749.2
Other	154.7	146.4	186.0
Other Island Governments	83.1	98.7	75.9
Social Security Bank (SVB)	31.5	39.8	9.4
Civil servants pension fund (APNA)	51.6	58.9	66.5
Total consolidated debt	2,353.4	2,519.2	2,690.3

Note: negotiated loans with APNA and SVB are included in the item "securities with the public."

3.2.3 Public sector foreign debt

The drop in the foreign debt can be ascribed to the appreciation of the US dollar, to which the Netherlands Antilles guilder is pegged, against the Dutch guilder. Most of the foreign debt of the Netherlands Antilles is denominated in Dutch guilders. Although to a lesser extent, amortization payments also led to a reduction in the foreign debt.

3.3 Development aid

3.3.1 Introduction

For 1999, the funds made available for development assistance from the Netherlands for the Netherlands Antilles and Aruba amounted to Hfl.248.3 million, Hfl.10.1 million lower than the funds budgeted for 1998. The Netherlands wants to strengthen the relationship with the Netherlands Antilles and Aruba with the aim of having them become more self-supportive. Important conditions to attain this goal are sound public finances and a sound public administration. The development assistance aims to contribute to better social development, and to improving the government administration, the economic structure, the labor market, and the judicial system.

3.3.2 Spending of development funds

The expenditures on government projects during 1999 dropped by NAf.3.4 million compared to 1998. This drop was mainly the result of the drop in expenditures on 'health' by NAf.12.3 million, and on 'education' by NAf.8.6 million.

Expenditures on projects financed with funds from the European Community increased by NAf.1.1 million in 1999 compared to 1998. The National Indicative Program (NIP) for the eighth development fund was signed in 1999. This program focuses on social projects and on improvement of the infrastructure.

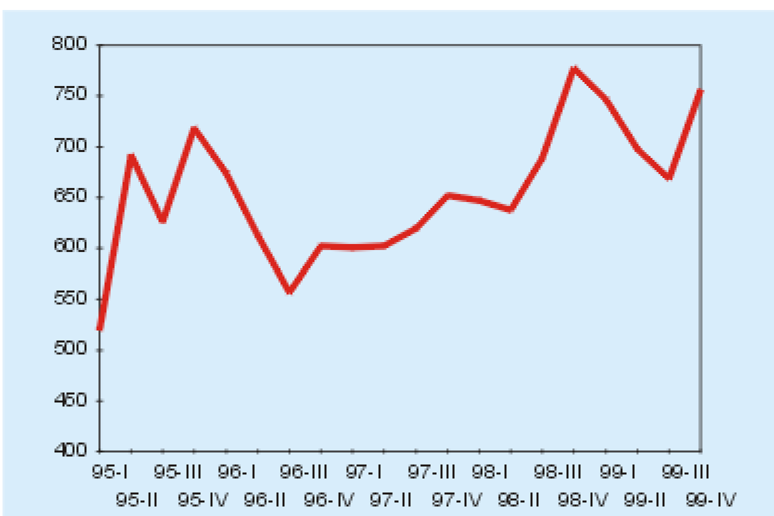
4 THE EXTERNAL SECTOR

4.1 Introduction

For the year 1999, economic activities in the Netherlands Antilles were projected to increase slightly. This increase would be related especially to the services sector due mainly to continued growth in the tourist sector and an increase in activities in the refining industry. In the end, a drop in international reserves of NAf.40.0 million was expected. As it turned out, the economy weakened further during 1999. This unexpected weakening can be attributed partly to hurricane Lenny, which disrupted the tourist season, and to the further postponement of the B.O.O. project at the refinery.

At the end of 1999, international reserves were boosted as the Dutch government provided foreign exchange assistance in the form of an advance of approximately NAf.110 million (HFl.130 million) on development projects. The foreign exchange assistance allowed the banking sector to buy more governments securities to relieve the governments' short-term liquidity problems without eroding the international reserves position. Nevertheless, the net international reserves declined by NAf.22.1 million to NAf.755.6 million at the end of 1999 compared to the end of 1998 (graph 4.1). This decline was due to a decrease of NAf.52.9 million in the international reserves held by the commercial banks, offset partly by an increase of NAf.30.8 million in the official reserves held by the Central Bank.

Graph 4.1
Development in the Net International Reserves including gold (in millions NAf.)



The decrease in international reserves was due entirely to the current account deficit of NAf.342.7 million. This deficit more than offset the surplus on the capital account balance of NAf.301.2 million. In 1999, official reserves (excluding gold) measured in months of merchandise imports improved by 0.2 to 2.4 months compared to 1998. Total reserves in months of merchandise imports decreased by 0.1 to 2.9 months (table 4.1).

Table 4.1
Balance-of-payments summary[1] (in millions NAf.)

	1998	1999	diff.
Current account	-145.5	-342.7	-197.2
Capital account	274.8	301.2	26.4
Statistical discrepancies	6.0	19.4	13.4
Balance of payments	135.3	-22.1	-157.4
Change in reserves[2]	-135.3	22.1	157.4
-with commercial banks	-78.6	52.9	131.5
-with Central Bank	-56.7	-30.8	25.9
Memorandum items			
Official reserves (excluding gold)			
-in millions NAf.	443.6	474.4	30.8
-in months of merchandise imports	2.2	2.4	0.2
Total reserves (excluding gold)			
-in millions NAf.	597.9	575.8	-22.1
-in months of merchandise imports	3.0	2.9	-0.1

1) Cash basis
2) Sign denotes an increase in reserves (excluding gold)

4.2 The current account

The current account of the balance of payments recorded a deficit of NAf.342.7 million in 1999 (table 4.2), a substantial deterioration of NAf.197.2 million compared to 1998. The increase in the deficit was due mainly to a worsening of the income balance by NAf.114.5 million. The trade balance and the services balance worsened also by, respectively, NAf.90.7 and NAf.16.6 million. In contrast, unrequited transfers improved in 1999 by NAf.24.6 million.

Table 4.2
A breakdown of the current account[1] (in millions NAf.)

	1998	1999	diff.
Trade balance	-1,814.6	-1,905.3	-90.7
-Exports	542.3	469.9	-72.4
-Imports	2,356.9	2,375.2	18.3
Services balance	1,721.5	1,704.9	-16.6
-Receipts, of which:	2,936.1	3,095.1	159.0
-Transportation	563.1	572.5	9.4
-Travel	1,341.6	1,363.2	21.6
-Int. fin. & bus. services sector	573.4	580.8	7.4
Taxes	114.7	124.0	9.3
Operational income	458.7	456.8	-1.9
-Expenditures, of which:	1,214.6	1,390.2	175.6
-Travel	588.7	685.2	96.5
-Int. fin. & bus. services sector	163.6	180.8	17.2
Income balance[2]	70.4	-44.1	-114.5
Unrequited transfers[3]	-122.8	-98.2	24.6
Current account balance	-145.5	-342.7	-197.2

1) Cash basis
2) Income: investment and labor income.
3) Unrequited transfers: private remittances (excl. labor income and life insurance).

4.2.1 The trade balance

In 1999, the deficit on the trade balance worsened by NAf.90.7 million compared to 1998. This worsening can be attributed mainly to an increase in payments made for the import of oil products, due to the continuous rises in international oil prices (table 4.3).

The trade balance of Curaçao recorded an increased deficit of NAf.38.8 million. This increase was due primarily to a worsening in the non-oil-products balance by NAf.21.8 million, due mainly to a deterioration in local merchandise exports (NAf.16.7 million). The free-zone sector recorded substantial decreases in both exports (NAf.84.1 million) and imports (NAf.83.5 million). The decline in free-zone activities can be related to a downturn in the economic situation in the region and increased competition from other free zones.

The deficit on the trade balance of Bonaire worsened by NAf.26.6 million, due almost entirely to the non-oil-products balance. This worsening was due primarily to an increase of NAf.25.4 million in the import of non-oil products.

The trade balance of the Windward Islands deteriorated by NAf.25.3 million in 1999 compared to 1998. This deterioration was the result of the worsening in the balance of oil products by NAf.42.3 million. This worsening was due primarily to the increase in international oil prices, which made the oil imports by Statia Terminals more expensive. In contrast, the balance of non-oil products improved by NAf.17.0 million, owing to an increase in exports (NAf.20.7 million).

Table 4.3
Merchandise balance by island (in millions NAf.)

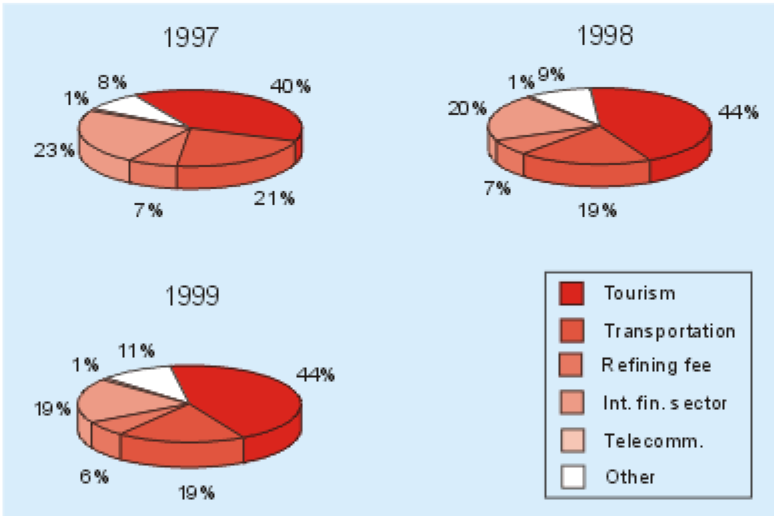
	Inflows			outflows		
	1998	**1999**	**diff.**	**1998**	**1999**	**diff.**
Curaçao						
Merchandise	487.9	386.9	-101.0	1720.9	1658.7	-62.2
-Non-oil products	487.4	386.6	-100.8	1564.2	1485.2	-79.0
Free-zone re-exports	361.8	277.7	-84.1	413.9	330.4	-83.5
Adj. non-oil prod.	125.6	108.9	-16.7	1150.3	1154.8	4.5
-Oil products	0.5	0.3	-0.2	156.7	173.7	17.0
Bonaire						
Merchandise	8.9	7.8	-1.1	26.9	52.4	25.5
-Non-oil products	8.9	7.8	-1.1	26.9	52.3	25.4
-Oil products	0.0	0.0	0.0	0.0	0.1	0.1
Windward Islands						
Merchandise	45.5	75.2	29.7	609.1	664.1	55.0
-Non-oil products	38.7	59.4	20.7	484.6	488.3	3.7
-Oil products	6.8	15.8	9.0	124.5	175.8	51.3
Netherlands Antilles						
Merchandise	542.3	469.9	-72.4	2356.9	2375.2	18.3
-Non-oil products	535.0	453.8	-81.2	2075.7	2025.6	-50.1
-Oil products	7.3	16.1	8.8	281.2	349.6	68.4

4.2.2 The services balance

The surplus on the services balance declined by NAf.16.6 million in 1999 compared to 1998. This decline is due to an increase of NAf.175.6 million in expenditures, offsetting the NAf.159.0 million increase in receipts.

As shown in graph 4.2, the composition of foreign exchange revenues from the services sector did not change much in 1999 compared to 1998. The tourism sector is still the largest foreign exchange generating sector, followed by the transportation sector and the international financial and business services sector.

Graph 4.2
Developments in the composition of revenues by the services sector (in million NAf.)



4.2.2.1 Tourism

The foreign exchange revenues generated in the tourism sector of the Netherlands Antilles increased by NAf.21.3 million (1.6%) in 1999 compared to 1998 (table 4.4).

The largest part of the improvement was recorded on the island of Curaçao, where revenues increased by NAf.10.9 million (2.3%). This improvement was the result of a 7.2% increase in the number of visitor nights.

Sint Maarten also recorded an increase in revenues (NAf.7.9 million), despite a substantial decrease in the fourth quarter of 1999 as a consequence of hurricane Lenny. The increase was attributable to the growth in revenues during the first three quarters by 5.4%. The number of stay-over and cruise tourists declined by 3.0% and 30.2%, respectively.

The foreign exchange revenues generated by the tourist sector in Bonaire increased by NAf.2.5 million. This increase was the result of a 25.0% increase in the number of cruise tourists as the number of stay-over tourists declined by 0.4%.

Table 4.4
Foreign exchange revenues from tourism per island[1] (in millions NAf.)

	1995	1996	1997	1998	1999
Bonaire	66.3	75.8	79.0	77.7	80.2
Curaçao	314.1	332.1	358.9	467.3	478.2
Windward Islands	624.2	576.1	746.0	796.6	804.5
Netherlands Antilles	1,004.6	984.0	1,183.9	1,341.6	1,362.9
Percentage growth	-12.1	-2.0	20.3	13.3	1.6

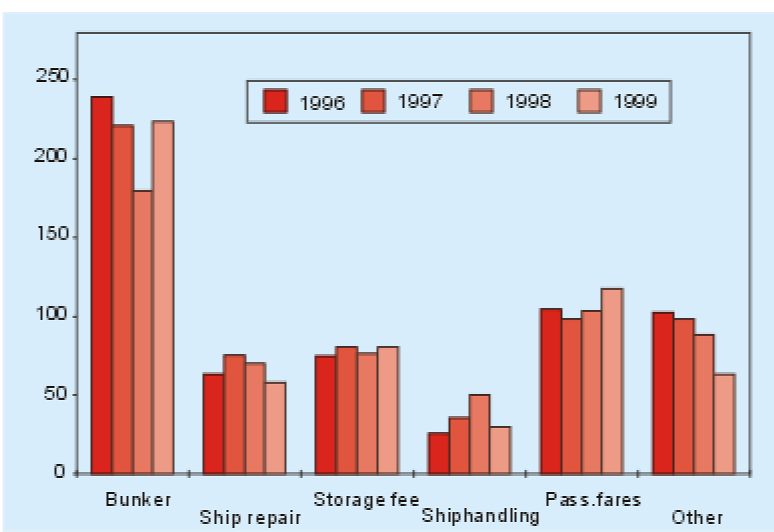
[1] Cash basis

Travel expenditures by Antillean residents increased by NAf.96.5 million in 1999 compared to 1998. This increase is due partly to the marked increase in the number of residents leaving the country, in light of the prolonged economic downturn, who bought foreign exchange. In addition, more accurate reporting since January 1999 contributed to the increase.

4.2.2.2 Transportation

Total foreign exchange revenues generated by the transportation sector increased by NAf.9.4 million in 1999 compared to 1998. This increase is attributable to increases in revenues from bunker sales (NAf.43.8 million) and passengers fares (NAf.14.5 million). The increase in bunker sales is related partly to the increase in oil prices on the international market. These increases in revenues offset the decreases in ship repair (NAf.11.8 million), oil storage (NAf.4.4 million), shiphandling (NAf.3.8 million), and other (NAf.28.9 million). The latter is a consequence of less cargo and transhipment activities.

Graph 4.3
Development in foreign exchange revenues generated in the transportation sector (in millions NAf.)

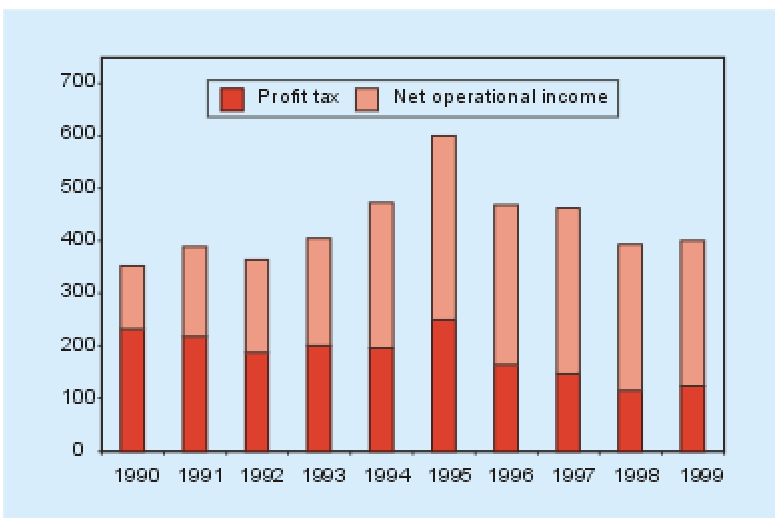


4.2.2.3 The international financial and business services sector

In 1999, the net amount of foreign exchange revenues generated by the international financial and business services sector decreased by NAf.9.8 million compared to 1998. This decrease was the result of a NAf.7.4 million increase in revenues, which was offset by an increase of NAf.17.2 million in expenditures. The increase in revenues was the result of a NAf.9.3 million increase in taxes and a NAf.1.9 million decrease in operational income (see graph 4.4).

After a period of uncertainty, which had a negative impact on activities in the sector, prospects for the new millenium look bright. In December 1999, Parliament amended the new fiscal regime (NFR) effective January 1, 2000. With the introduction of the NFR, the Netherlands Antilles is no longer a low tax jurisdiction. However, new products and a grandfather clause for existing companies guarantee that the Netherlands Antilles will continue as an attractive international financial center. An important condition for the effective use of the possibilities created by the NFR is that a new tax arrangement for the Kingdom of the Netherlands (BRK) will be concluded soon.

Graph 4.4
Development in foreign exchange earnings generated in the international financial and business services sector (in millions NAf.)



4.2.2.4 Telecommunication

The telecommunication sector experienced an increase of NAf.6.5 million in foreign exchange revenues in 1999 compared to 1998. In addition, expenditures on foreign telecommunication services decreased by NAf.10.1 million. As a result, the net surplus improved by NAf.16.6 million to NAf.17.1 million in 1999.

The coming years will bring major changes for the telecommunication sector in the Netherlands Antilles. The government decided to liberate the telecommunication market, which implies that the state monopoly will cease to exist. As a result, more competition, increase in efficiency, and lower prices are expected. All of these should have a positive effect on economic activities and employment.

4.2.3 The income balance

The largest impact on the deficit of the current account can be attributed to the income balance. This balance recorded a deficit of NAf.44.1 million in 1999, compared to a surplus of NAf.70.4 million in 1998. The deterioration is the result of a lower surplus on the investment income balance and a higher deficit on the labor income balance of, respectively, NAf.45.9 million and NAf.68.6 million (table 4.5).

The surplus on the investment income balance decreased primarily as a result of an increase of NAf.33.0 million in the deficit on the direct investment income balance. No exceptional profit remittances occurred during 1999, as was the case in 1998, attributable to a decline of NAf.27.4 million in direct investment income received. The deterioration of the other investment income balance, by NAf.12.9 million, was related partly to fewer interest receipts by institutional investors, due to fewer reinvestments abroad. Furthermore, interest received as well as interest paid were relatively high in 1998 compared to 1999 as a result of exceptional transactions by the insurance sector.

The increase in the deficit on the labor income balance can be explained for the most part by more accurate reporting by the banks on St. Maarten in 1999 as compared to 1998. On Sint Maarten, many Antillian residents work on the Dutch side of the island, while living on the French side. As a consequence, salaries collected by these workers are considered labor income paid to nonresidents for balance-of-payments purposes.

Table 4.5
Breakdown of the income account[1)] (in millions NAf.)

	1998	1999	Diff.
Investment income	134.4	88.5	-45.9
-Direct investment income	-5.2	-38.2	-33.0
Received	35.3	7.9	-27.4
Paid	40.5	46.1	5.6
-Other investment income	139.6	126.7	-12.9
Received	216.9	165.8	-51.1
Paid	77.3	39.1	-38.2
-Labor income	-64.0	-132.6	-68.6
Received	11.2	7.1	-4.1
Paid	75.2	139.7	64.5
Total income balance	70.4	-44.1	-114.5

1) Cash basis

4.2.4 Unrequited transfers

The deficit in unrequited transfers decreased by NAf.24.6 million in 1999 compared to 1998 (table 4.6). This decrease is due mainly to a decline in net family and student grants transferred abroad by NAf.46.0 million. On the other hand, net transfers to own accounts and net pensions paid abroad increased by NAf.23.1 and NAf.16.7 million, respectively. These increases can be related partly to increased migration in connection with the continuing economic recession in the Netherlands Antilles.

Table 4.6
Breakdown of unrequited transfers1) (in millions NAf.)

	Inflows			Outflows		
	1998	**1999**	**Diff.**	**1998**	**1999**	**Diff.**
Family & student grants	99.9	110.9	11.0	214.4	179.4	-35.0
Migrant transfers	3.6	3.4	-0.2	7.9	2.6	-5.3
To own account	71.2	75.9	4.7	47.9	75.7	27.8
Pensions	15.6	24.6	9.0	45.4	71.1	25.7
Other	14.3	25.0	10.7	11.8	9.2	-2.6
Total unreq. transfers	204.6	239.8	35.2	327.4	338.0	10.6

[1] Cash basis

4.3 The capital account

The capital account improved by NAf.26.4 million in 1999 compared to 1998. This improvement is the result of an improvement in the official capital balance by NAf.59.7 million, as the private capital balance worsened by NAf.33.3 million (table 4.7).

Official capital increased mainly through net loans and grants received, particularly by the Dutch government. This increase was attributable entirely to the foreign exchange assistance provided by the Dutch government in December 1999 (NAf.110 million). In addition, the increase in other government capital (NAf.16.8 million) was caused by the receipt of a foreign loan (NAf.26.9 million) to finance the partial payment of a guarantee provided to a foreign financial institution for a hotel project in Bonaire.

The worsening of the private capital balance is due mainly to a NAf.57.3 million drop in other private capital, offsetting the improvement in the net portfolio investment balance of NAf.18.0 million. The drop in other private capital was attributable to exceptional inflows in 1998 of a transitory nature. The improvement in the net portfolio balance was primarily related to fewer reinvestments by institutional investors in 1999, than in 1998.

Table 4.7
Major components of the capital account1) (Net flows in millions NAf.)

	1998	**1999**	**Diff.**
Private capital,	128.1	94.8	-33.3
of which:			
-direct investment (real estate)	15.1	13.3	-1.8
-portfolio investm.(securities)	-36.3	-18.3	18.0
-loans (net)	10.6	12.9	2.3
-commercial banks borrowings	-0.1	5.4	5.5
-other private capital	138.8	81.5	-57.3
Official capital,	146.7	206.4	59.7
of which:			
-loans & grants	139.1	182.0	42.9
-other government capital	7.6	24.4	16.8
Capital balance	274.8	301.2	26.4

[1] Cash basis

5 MONETARY DEVELOPMENTS

5.1 Introduction

Monetary developments in 1999 must be seen in light of our weak economy and the banking and private sectors' diminishing confidence in the government. This lack of confidence is reflected in the difficulties that the government is facing when refinancing maturing loans. In fact, commercial banks reduced the amount of government paper held in portfolio. Domestic credit extension to the private sector, however, rose significantly in 1999. As a result, net domestic assets showed a marked increase, which consequently led to a loss of foreign assets.

Since January 1, 1999, monetary policy has been using the reserve requirement, an indirect instrument, as its main policy tool. The reserve requirement is aimed at reducing the over liquidity in the banking system and by doing so, limiting the potential for excessive credit extension by commercial banks. The instrument requires that commercial banks place a deposit (reserve requirement) on a blocked account with the Bank. The size of the reserve requirement for a particular bank is determined as a percentage of its domestic debt. This percentage is evaluated monthly by the Bank based on developments in our official reserves and the current account balances of the commercial banks with the Bank. During 1999, the reserve requirement percentage was raised by 0.5 percentage point to 8.5% in May 1999 and by another 0.5 percentage point to 9% in November 1999. Notwithstanding these increases, growth in domestic credit extension to the private sector accelerated from 1.6% in 1998 to 10.0% in 1999. This development is a cause of great concern for the Bank. If this development in credit growth does not reverse, monetary policy will have to be tightened further.

5.2 Developments in the money supply and the money-creating process

5.2.1 Money supply

During 1999, the money supply increased by 7.1% (NAf. 191.1 million), compared to an increase of 3.7% (NAf. 96.6 million) in 1998. This acceleration in growth was primarily the result of an increase in the growth rate of the money component of the money supply.

As shown in table 5.1, the money component of the money supply recorded a 10.3% (NAf. 110.3 million) increase during 1999, compared to a 2.1% (NAf. 22.5 million) increase in 1998. This acceleration can be explained by the development in demand deposits denominated in guilders and foreign currencies. The acceleration was most remarkable in the foreign currency-denominated demand deposits, which expanded by 26.5% (NAf. 47.9 million) in 1999, compared to a 6.5% (NAf. 11.1 million) expansion in 1998. Demand deposits denominated in Antillean guilders increased by 8.3% (NAf. 58.3 million), up markedly from a 0.9% (NAf. 6.5 million) increase in 1998. The increase in demand deposits was concentrated in demand deposits of business enterprises, indicating that a large part of the credit extension has been used to increase their working capital.

Furthermore, coins and notes with the public expanded by 2.1% (NAf. 4.1 million) during 1999, compared to a 2.6% (NAf. 4.9 million) increase in 1998.

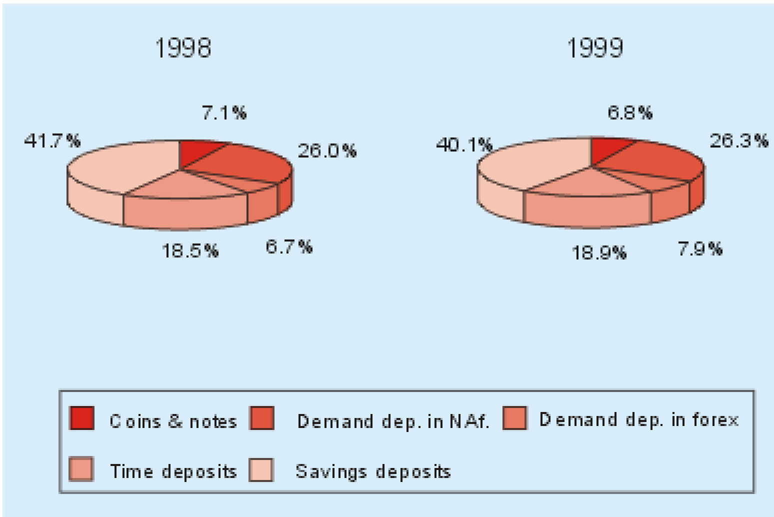
Table 5.1
Developments in the money supply and its components (in millions NAf. and percentage changes)

	1998		1999	
Coins & notes with the public	192.9	(2.6%)	197.0	(2.1%)
Total demand deposits in:	882.3	(2.0%)	988.5	(12.0%)
-Neth. Ant. Guilders	701.3	(0.9%)	759.6	(8.3%)
-Foreign currency	181.0	(6.5%)	228.9	(26.5%)
MONEY (M1)	1,075.2	(2.1%)	1,185.5	(10.3%)
Time deposits	498.9	(7.8%)	545.7	(9.4%)
Savings	1,124.5	(3.5%)	1,158.5	(3.0%)
NEAR MONEY	1,623.4	(4.8%)	1,704.2	(5.0%)
MONEY SUPPLY (M2)	2,698.6	(3.7%)	2,889.7	(7.1%)

The near-money component of the money supply grew by 5.0% (NAf. 80.8 million) in 1999, almost the same rate as 1998 when a 4.8% (NAf. 74.1 million) increase was recorded. The growth rate in time deposits accelerated from 7.8% (NAf. 35.9 million) to 9.4% (NAf. 46.8 million). This increase can be attributed entirely to the private sector, as the government and government-owned enterprises showed a combined decline of NAf. 7.5 million. Within the private sector, the increase was evenly distributed between institutional investors and business enterprises. Savings deposits, on the other hand, showed a deceleration in the growth rate by 0.5 percentage points to 3.0% (NAf. 34.0 million) in 1999.

Graph 5.1 reveals that the developments in the money supply led to an increase by 1.2 percentage points to 7.9% and by 0.4 percentage points to 18.9% in the shares of foreign exchange-denominated demand deposits and time deposits, respectively. These increases were at the expense of savings deposits, the share of which dropped by 1.6 percentage point. Furthermore, there was a change from cash to demand deposits denominated in Antillean guilders.

Graph 5.1
Developments in the composition of the money supply



5.2.2 Factors affecting the demand for liquid assets

During 1999, the total demand for liquid assets increased by 7.1% (NAf. 191.1 million), compared to an increase of 3.7% (NAf. 96.6 million) in 1998. This development was due entirely to the marked acceleration in the growth rate of net domestic assets. The 11.0% (NAf. 218.6 million) increase in net domestic assets during 1999 was the net result of an increase in credit extension to the private sector, on the one hand, and a decline in the demand for liquid assets by the government sector, on the other.

The impact of domestic factors on the total demand for liquid assets turned around from a 1.6% (NAf. 32.9 million) contraction in 1998 to a substantial expansion of 11.0% (NAf. 218.6 million) in 1999. This expansion was induced by the elimination of the direct control on domestic credit extension to the private sector as of January 1, 1999. The elimination allowed commercial banks to increase their lending to the private sector without incurring any penalties. As a result, domestic credit extension to the private sector showed a massive 10.0% (NAf. 229.5 million) increase during 1999, compared to a 1.6% (NAf. 36.8 million) increase in 1998.

In contrast, the demand for liquid assets by the government showed a marked decline in 1999 of 24.0% (NAf. 33.1 million), compared to a 17.0% (NAf. 28.2 million) contraction during 1998. The drop in 1999 was the result of a NAf. 80.0 million contraction in the demand for liquid assets by the Central Government and a partially offsetting increase of NAf. 46.9 million in demand for liquid assets by the island governments. The decrease in the demand for liquid assets of the Central Government occurred entirely in December 1999, when the Central Government received NAf. 106.0 million in foreign exchange assistance from the Dutch Government. This assistance led to a marked decrease of NAf. 79.0 million in the Central Government's net liabilities at the Central Bank. The amount of Central Government paper held in portfolio by commercial banks decreased by NAf. 19.1

million to NAf. 70.6 million at the end of 1999. The expansion in the demand for liquid assets by the island governments was mainly the result of a reduction in the demand deposit balances at both the Central Bank and commercial banks.

Table 5.2
Developments in the demand for liquid assets by sector (in millions NAf. and percentage changes)

	1998		1999	
General Government, of which:	137.8	(-17.0%)	104.7	(-24.0%)
-Central Government	73.4	(-8.4%)	-6.6	(-109.0%)
-Island governments	64.4	(-25.0%)	111.3	(72.8%)
Private sector	2,299.8	(1.6%)	2,529.3	(10.0%)
Miscellaneous	-453.1	(10.1%)	-430.9	(-4.9%)
Domestic sector	1,984.5	(-1.6%)	2,203.1	(11.0%)
Net foreign assets	714.1	(22.2%)	686.6	(-3.9%)
Total liquid assets	2,698.6	(3.7%)	2,889.7	(7.1%)

The growth in credit extension to the private sector accelerated from 1.6% (NAf. 36.8 million) in 1998 to 10.0% (NAf. 229.5 million) during 1999. The growth in 1999 can be explained largely by a NAf. 204.8 million increase in loans to the private sector. Amounts receivable and securities and participations increased by NAf. 21.5 million and NAf. 3.2 million, respectively. The increase in amounts receivable, which almost doubled compared to 1998, is an indication that commercial banks are extending credit to the private sector by allowing them to pay later for services rendered. The development in total domestic credit to the private sector indicates that the commercial banks changed to more aggressive lending strategies after the abolishment of the direct credit controls in January 1999. The growth in credit extension has been far too generous given the economic conditions the Netherlands Antilles are facing. The Bank's monetary policy will be tightened to bring credit growth back in line with economic developments.

5.3 Domestic credit extension by commercial banks

5.3.1 General developments

The growth in domestic lending by commercial banks to the private sector accelerated by 7.9 percentage points to 9.4% during 1999. The growth rate in loans to the private sector can be ascribed to substantial increases in all three loan categories. The acceleration was due particularly to mortgages, which turned around from a 3.8% (NAf. 35.5 million) contraction in 1998 to a 9.2% (NAf. 82.3 million) expansion in 1999. The growth rates of the other two categories, consumer and business loans, are heavily biased due to a reclassification of loans on the Windward Islands in the second quarter of 1999. As a result, the growth rate of business loans is overstated, and the growth rate for consumer loans is understated.

Table 5.3
Domestic loans and government paper at commercial banks (per end of period in millions NAf. and percentage changes)

	1998		1999	
Private sector loans, of which:	2,232.3	(1.5%)	2,441.1	(9.4%)
-Mortgages	890.3	(-3.8%)	972.6	(9.2%)
-Consumer loans	516.2	(8.0%)	557.4	(8.0%)
-Business loans	825.9	(3.9%)	911.1	(10.3%)
Government paper	211.2	(-8.8%)	197.5	(-6.5%)
Total	2,443.5	(0.5%)	2,638.6	(8.0%)

Government paper held in portfolio by the local commercial banks amounted to NAf. 197.5 million at the end of 1999, 6.5% (NAf. 13.7 million) lower than at the end of 1998. The reduction in exposure to the government is a reflection of the reluctance of commercial banks to refinance maturing government paper. This reluctance is based mainly on the government's indecisiveness with regard to the increasing financial problems.

5.3.2 Developments by island group

A breakdown of commercial banks' private sector lending by island group reveals that credit growth on both the Leeward and Windward Islands has been buoyant. Table 5.4 shows that private sector credit growth accelerated by 6.9 percentage points to 9.4% (NAf. 160.7 million) on the Leeward Islands in 1999. All three loan categories showed an increase in their respective growth rates, with the acceleration in the growth rate for mortgages the most pronounced. Mortgages contracted by 3.8% (NAf. 24.5 million) in 1998, but showed a 12.7% (NAf. 78.5 million) expansion in 1999. The growth rate in consumer loans accelerated also, but to a much lesser extent: 0.6 percentage point to 11.5% (NAf. 46.6 million) in 1999. The growth in business loans increased from 3.9% (NAf. 25.5 million) in 1998 to 5.2% (NAf. 35.6 million) in 1999. Although showing an acceleration compared to last year, the growth in business loans lagged behind the other two loan categories on the Leeward Islands. One explanation could be that commercial banks are demanding more collateral for loans, given the economic recession we are encountering. This also explains the turnaround in the growth rate for mortgages.

Table 5.4
Domestic loans at commercial banks on the Leeward Islands (per end of period in millions NAf. and percentage changes)

	1998		1999	
Private sector loans, of which:	1,711.9	(2.5%)	1,872.6	(9.4%)
-Mortgages	619.7	(-3.8%)	698.2	(12.7%)
-Consumer loans	406.1	(10.9%)	452.7	(11.5%)
-Business loans	686.1	(3.9%)	721.7	(5.2%)

On the Windward Islands, credit extension to the private sector expanded by 9.2% (NAf. 48.0 million) during 1999, a sharp acceleration compared to the 1.4% (NAf. 7.2 million) contraction in private sector credit in 1998. This acceleration can be ascribed to a turnaround in the growth rate for mortgages and a sharp acceleration in the growth rate for business loans. Growth in mortgages extended to the private sector on the Windward Islands turned around from a 3.9% (NAf. 11.0 million) contraction in 1998 to a 1.4% (NAf. 3.8 million) expansion in 1999. The growth rates for consumer loans and business loans are skewed due to a reclassification at a commercial bank in the second quarter of 1999. As a result, the growth rate for consumer loans is understated. Without the reclassification, consumer loans would have shown a growth rate of over 10% in 1999, a sharp contrast with the 1.7% (NAf. 1.9 million) contraction in 1998. On the other hand, business loans would have grown less than 35.5% (NAf. 49.6 million) if no reclassification had occurred. But even corrected for this reclassification, the growth rate for business loans would have been in excess of 20% in 1999.

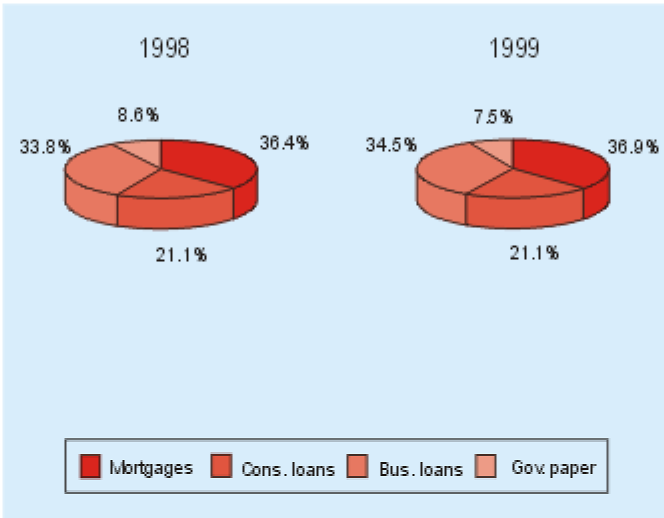
Table 5.5
Domestic loans at commercial banks on the Windward Islands (per end of period in millions NAf. and percentage changes)

	1998		1999	
Private sector loans, of which:	520.4	(-1.4%)	568.5	(9.2%)
-Mortgages	270.6	(-3.9%)	274.4	(1.4%)
-Consumer loans	110.1	(-1.7%)	104.7	(-4.9%)
-Business loans	139.7	(4.2%)	189.3	(35.5%)

5.3.3 Developments in the local lending portfolio of commercial banks

Graph 5.2 reveals increases in the shares of business loans and mortgages of 0.7 percentage points to 34.5% and of 0.5 percentage points to 36.9%, respectively, in the local lending portfolio. As the growth rate of the total portfolio was the same as the growth rate in consumer loans, the share of consumer loans remained the same at 21.1%. The increases in business loans and mortgages were at the expense of the share of government paper, which dropped by 1.1 percentage point to 7.5% in 1999.

Graph 5.2
Developments in the lending portfolio of commercial banks



6 DOMESTIC FINANCIAL MARKET DEVELOPMENTS

6.1 Introduction

In 1999, it became increasingly difficult for the General Government to finance its budget deficits and to refinance maturing loans. Despite an increase in its funding requirements, the General Government was not able to raise more than NAf. 21.3 million in new borrowings. In 1998, the General Government attracted almost twice this amount from the domestic money and capital markets. In addition to these new borrowings, total negotiable loans outstanding increased by approximately NAf. 117 million due to the conversion of arrears to the SVB into loans in 1999.

In the money market, the demand for certificates of deposit (CDs) issued by the Bank increased markedly, as the Bank's monetary policy allows commercial banks to comply partly with their reserve requirement by buying or holding CDs. Because they are negotiable among domestic commercial banks, CDs give the banks more flexibility in the management of their liquidity.

6.2 Financial instruments and the money market

In the Netherlands Antillean money market, the 3-month CD issued by the Bank is the only tradable nongovernment instrument available. However, no CDs were traded among commercial banks in 1999. Government securities in the money market are treasury bills with maturities of three, six, nine and twelve months. Until now, these treasury bills have been sold through private placements, but no restrictions exist on the tradability of these instruments. Furthermore, imbalances in the local money market continue to persist, reflected by commercial banks with large non-interest-bearing balances at the Bank, while others have to turn to the Bank to borrow liquidities. The Bank, therefore, continues to look for ways to further develop the local money market and to eliminate these imbalances.

The possibility for commercial banks to comply partly with their reserve requirement by buying or holding CDs on the first day of the reserve requirement period has increased the demand for this instrument. Furthermore, the Bank increased the portion of the reserve requirement for which CDs can be bought from 25% to 33%, since any increase in the reserve requirement above 8% may be held entirely in CDs [6] . Consequently, the average monthly amount of CDs more than tripled to NAf.56.8 million.

The average monthly balance of the non-interest-bearing reserve requirement increased by NAf. 50.3 million (58.3%) because in 1999 the reserve requirement percentage was higher than in 1998. The Bank's monetary policy to control the amount of demand deposits (free reserves) of commercial banks at the Bank resulted in a decline of NAf. 19.8 million (59.1%) in the monthly average balance of these deposits in 1999.

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[6] In March 2000, the Bank further increased the reserve requirement percentage from 9% to 10%. At the same time, the share of the reserve requirement that can be complied with by buying or holding CDs has increased to 40%.

Table 6.1
Average monthly balances of certificates of deposit, non-interest- bearing reserve requirement and demand deposits at the Central Bank (in millions NAf.)

	1997	1998	1999	% change 98-99
Certificates of deposit	5.9	16.5	56.8	+244.2%
Non-interest-bearing reserve requirement	50.2	92.2	142.5	+58.3%
Demand deposits	59.9	50.4	20.6	-59.1%
Total	116.0	159.1	219.9	38.2%

Interest rates offered on the CDs have continued to be linked to the Fed Fund targeted rate. The interest rate on the 3-month CDs remained at the targeted rate minus 137.5 basis points. As the Fed increased its target rate by 25 basis points three times in 1999, the interest rate offered on the CDs also increased by 75 basis points in total in 1999.

6.3 The market for government bonds

The unsuccessful refinancing of the 7.875% 4-year Curaçao bond, which matured on January 26, 1999, set the tone for the domestic money and capital market during 1999. The issue was refinanced for only 60%, leaving the Island Government of Curaçao with a financing gap of NAf. 17.5 million. Other maturing issues continued to show that investors were not willing to (re-)finance the government in the absence of a viable fiscal restructuring program.

Gross General Government bond issues totaled NAf.171.7 million during 1999, of which NAf.150.4 million was to refinance maturing issues. Consequently, net borrowing (excluding debt conversions) amounted to NAf.21.3 million, 48% less than in 1998. Net borrowing by the Central Government amounted to NAf.52.4 million, while the Island Government of Curaçao experienced a net redemption of NAf.31.1 million. The Central Government also had to cope with net redemption during the majority of 1999 as only two loans issued at the end of December 1999 resulted in net borrowing for the entire year. These loans were US$ 15 million of foreign borrowing to pay part of the guaranty granted to the Parker hotel project on Bonaire and the purchase of NAf.30.5 million Central Government treasury bills by the Central Bank. In addition to these new borrowings in 1999, the Central Government converted NAf. 117 million of arrears owed by the islands governments and itself to the Social Security Bank (S.V.B.) into a 10-year negotiable bond.

Table 6.2
Outstanding negotiable loans of the Central Government (in millions NAf.)

	1997	**1998**	**1999**	**Difference 98-99**
Total, of which:	763.1	829.5	998.7	169.2
Private placement	93.8	95.3	139.3	44.0
Public issues	401.0	447.8	453.6	5.8
Treasury bills	61.8	47.8	57.3	9.5
Debt conversions	206.5	238.6	348.5	109.9
Net borrowing[1)]	33.6	29.9	52.4	22.5

[1)] Excluding debt conversions

The liquidity shortage of the Island Government of Curaçao was severe in 1999, as it had to deal with negative net borrowings right from the start. This shortage resulted in an accumulation of arrears with APNA and other creditors as the funds raised on the official money and capital markets were insufficient. In addition, the Island Government of Curaçao exerted pressure on government-owned enterprises to finance part of its deficit through the purchase of debt securities. Table 6.3 shows that the Island Government of Curaçao was, in fact, only able to attract funds by issuing treasury bills. This development indicates reduced willingness of investors to buy securities with longer maturity dates, despite the higher interest earned on those longer dated loans.

Table 6.3
Outstanding negotiable loans of the Island Government of Curaçao (in millions of NAf.)

	1997	**1998**	**1999**	**Difference 98-99**
Total, of which:	926.7	964.5	942.9	-21.6
Private placement	188.3	180.5	141.2	-39.3
Public issues	219.1	243.6	231.2	-12.4
Treasury bills	22.1	25.6	57.1	31.5
Debt conversions	413.7	437.0	441.3	4.3
Net borrowing[1)]	8.6	14.6	-31.1	-45.7

[1)] Excluding debt conversions

The maturity schedule for the General Government shown in table 6.4 indicates that more than half of the total negotiable loans outstanding will mature after five years. This finding was the result of the policy to issue longer dated paper. The refinancing of the Curaçao zero-coupon bond held by APNA into a 6.5% 30-year annuity with monthly payments has significantly improved the maturity schedule of the Island Government of Curaçao. The government should continue to issue longer maturity bonds to avoid the pressure of refinancing maturing debt in the short term, despite the higher interest rates charged on such bonds.

Table 6.4
Maturity schedule of total negotiable government securities outstanding (in percentages of total)

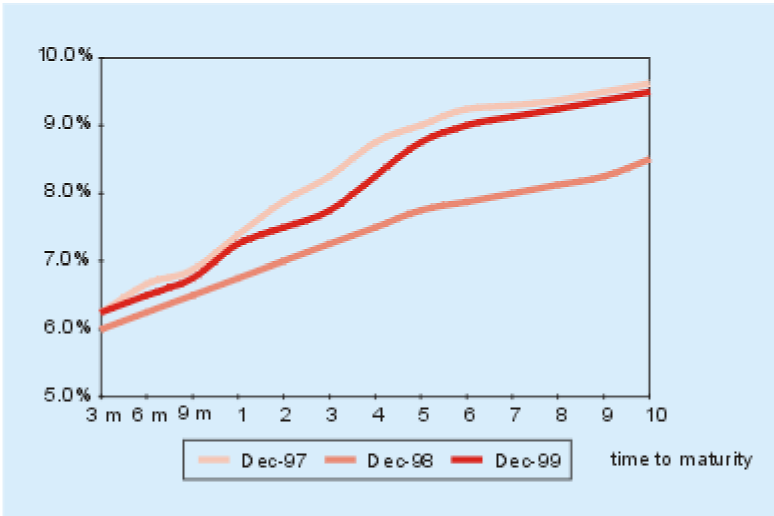
	0-2 yrs.	2-5 yrs.	Over 5 yrs.	Total
Central Government	25.0%	25.5%	49.5%	100.0%
Island Government of Curaçao	18.2%	28.2%	53.6%	100.0%
General Government	21.6%	26.7%	51.7%	100.0%

Domestic interest rates increased in 1999 by 25 basis points in the short end of the maturity spectrum and up to 113 basis points for longer dated government paper. This increase in interest rates was caused by both domestic and international factors. The increase in US interest rates put upward pressure on local interest rates. However, local rates did not follow US interest rates all the way up in 1999, as they did not decline as much in 1998 either. Domestic factors are more likely the main initiator of the increase in interest rates. Reduced confidence in the government and in the way the government is handling its financial problems has led to a premium on local interest rates.

US interest rates increased during 1999, as the Federal Reserve tightened monetary policy in the aftermath of the financial crisis in the fall of 1998. In other words, the Fed reversed the monetary easing they provided in late 1998. At the end of 1999, after three consecutive 25 basis point hikes, the Fed funds target rate was at the same level it was before the Russian crisis. However, yields on longer dated treasury bonds have risen by 180 basis points. This increase was caused by the continued buoyant growth of the US economy and the increased inflation due to the rise in oil prices. Both could force the Fed to tighten monetary policy further, leading to an increase in interest rates[7].

[7] In fact, the Fed raised rates two more times in the first quarter of 2000, indicating that they will slow down the economy and keep inflation under control.

Graph 6.1
Domestic government yield curve developments



As a result of the developments of the local and US yield curves, the spread between a 10-year domestic bond and a 10-year treasury bond declined by 80 basis points to 306 basis points at the end of 1999. To increase investors' appetite for domestic government bonds, higher interest rates alone will be insufficient. Irrespective of the spread, the government should focus on restoring investors' confidence by taking credible actions to restructure the government finances. Investors' confidence is of utmost importance in fulfilling the government's financing needs.

7 INTERNATIONAL AND REGIONAL DEVELOPMENTS

7.1 Introduction

World economic and financial conditions in 1999 appeared to have recovered noticeably from the 1998 global slowdown associated with the Asian, Russian, and Brazilian crises. Southeast Asian economies such as Japan, Korea, Thailand, and Malaysia are improving from the economic contraction in 1998 and are slowly regaining financial market confidence.

Economic growth in the United States played a vital role in abating global slowdown. Demand and business activities continued strong in 1999. Labor productivity improvements contributed significantly to this development. In spite of the tight labor market, this labor productivity growth prevented any significant rise in inflation. The strong labor market accompanied by heady stock prices accounted for consumers' optimism and the import flood, which widened the trade deficit. The Federal Reserve has hiked interest rates three times since June 1999 to moderate the economic growth before the economy overheats.

Japan finally is recovering from its worst recession, but the recovery process is slow. In the first half of 1999, real GDP in Japan grew, encouraged mainly by public investment. Japan's economy shrank in the second half of the year because government spending waned, and both consumer spending and capital investment were not strong enough to keep GDP expanding. Japan's high jobless rate hampered any improvement in consumption. In addition, Japan experienced price deflation as a result of sluggish consumer spending.

In 1999, the Dutch economy expanded again, spurred mainly by consumer spending. This buoyant performance was coupled with mild inflation and a low unemployment rate. Moreover, the Netherlands experienced a budget surplus for the first time in 25 years. However, the Euro-11 countries sharing Europe's single currency showed a budget deficit of 1.2% of GDP in 1999. Germany and France's budget deficits were 1.2% and 1.8% of GDP, respectively.

Brazil is recovering from the financial turmoil of January 1999. In 1999, GDP grew by 0.8%, owing to unexpected high growth in the fourth quarter. The industrial (2.6%) and services (1.3%) sectors gained, leading to the recovery in the fourth quarter. Latin America's largest economy improved as a result of a devalued currency, capital inflows, and falling interest rates. The weak currency gradually displaced imports in the local market and increased exports. Many domestic as well as foreign companies have taken advantage of the weak currency and have been investing to expand capacity, hire workers, and boost output.

Venezuela's economy weakened despite the rise in oil prices during 1999. The lack of producer confidence was responsible for the decrease in investments, contributing to economic contraction.

Economic development in the Caribbean region continued mixed. Islands such as Barbados, Trinidad & Tobago, the Dominican Republic, and Cuba registered growth rates of more than 3%. On the other hand, the hurricanes Lenny and Jose were partially responsible for the poor performance of some of the other Caribbean islands.

7.2 Economic performance in the United States

US economic growth has expanded for eight consecutive years. Real GDP soared by 4.5% in 1999, after 3.9% growth in 1998. The US growth continued to be generated by consumer demand, reflecting buoyant job-market conditions and increased stock market gains. For 1999, consumer spending posted an advance of 5.9%, following the 4.8% increase in 1998. However, some precautionary Y2K stockpiling and spending effects may have skewed growth during the last quarter.

The robust growth rate whittled down the jobless rate from 4.4% in 1998 to 4.1% (table 7.1). Employment grew in the construction, business services, and transportation sectors, but declined in the manufacturing sector.

Table 7.1
Selected key economic figures of the United States (% change)

	1997	**1998**	**1999[1)]**
GDP	3.9	3.9	4.5
Inflation rate (%)	1.7	1.6	2.7
Unemployment rate (%)	4.7	4.4	4.1
Labor productivity	2.0	2.8	3.0
Consumer spending	3.4	4.8	5.9
Interest rate (%)	5.5	4.75	5.5

Source: Bloomberg, Business Week, and World Economic Outlook, October 1999, IMF
[1)] Preliminary figures

Through much of the expansion and low unemployment, technological innovation and falling import prices restrained inflation from spiraling upwards. In the 12 months ending December 31, 1999, employment costs surged by 3.4%, similar to 1998. So far, the rising wages have been offset with productivity improvements. Furthermore, the global slowdown in the past several years strengthened the dollar, leading to a sharp deflation in import prices. Consumer inflation rose, however, by 2.7% in 1999, compared to 1.6% in 1998. The higher price inflation was elevated mainly by rising energy cost.

The robust US economy exacerbated the large current account deficit, as imports jumped by 12.0% to $1.3 trillion in 1999. Imports from all Pacific Rim countries, including Japan and China were up, accounting for one-third of the increase in total imported goods. Exports in 1999 rose by 2.6% to $958.5 billion. The rebound in foreign economies boosted US exports in 1999, but not enough to offset the large inflow of imports. As a result, the current account deficit widened to a record high at $ 338.9 billion, about 3.7% of GDP.

The Federal Reserve raised the federal funds rate three times from 4.75% to 5.5% between June and December 1999. The interest rate was hiked primarily to ease the economic growth and to prevent any excessive consumer price increases. The Federal Reserve's rate hikes basically placed the monetary policy back to its July 1998 level.

7.3 Economic performance in the Netherlands

The Dutch economy grew four years in a row by more than 3.0%. In 1999, real GDP expanded by 3.5%, similar to the 1998 growth rate. The expansion was stimulated by high consumption of households (3.8%), investments (5.8%), and exports (4.7%). The growth was accompanied by a mild inflation of 2.2%, a 0.2 percentage point rise from 1998, still above the EMU target of 2%.

The consumption increase was fueled by high consumer confidence. Low interest rates and a sound investment climate encouraged credit expansion, which resulted in a 9.6% growth of household debt, mainly through increases in mortgages. In 1999, Dutch consumers began using other nontraditional types of credit, such as credit cards, more frequently.

The export sector performed well, especially in the second half of 1999. Exports to countries in the European community rose by 4.0%. The same growth was reported in exports to the non-European community members; the Dutch trade with the East Asian countries improved by 13.0% in 1999. In addition, total imports grew by 5.3%, at a higher rate than exports. The main imported items were machinery products, chemical products, and metal products.

Table 7.2
Selected key economic figures of the Netherlands (% change)

	1997	**1998**	**1999**
Real GDP	3.6	3.7	3.5
Inflation rate (%)	2.2	2.0	2.2
Unemployment (%)	6.6	5.3	4.1
Exchange rate (Dfl/$)	1.95	1.98	2.08

Source: Bloomberg, Central Planning Office

In 1999, the Dutch government showed a budget surplus for the first time in 25 years. This surplus was the result of stronger-than-expected economic growth, which increased tax revenues. The surplus was 0.25% of GDP, equal to $ 930 million.

Labor market

In 1999, 196,000 jobs were created, leading to the lowest unemployment level since 1980. The unemployment rate was down to 4.1% in 1999, compared with 5.3% in 1998, reflecting the tight labor market in the Netherlands. Although the unemployment rate of the female population is still twice as large as the male's, the participation rate of women continues to increase. For 1999, 51% of the women were performing jobs of 12 hours or more per week. In 1989, the participation rate was 37%. In 1999, the participation rate of females was highest (75%) in the age group 25 to 29 years. These figures show that there are more working mothers, and more women are waiting longer to have children. Another result of the tight labor market has been the increasing participation of the elderly. In the age group 55 to 59 years, the participation rate increased from 38% in the early nineties to 47% in 1999.

7.4 Economic performance in Venezuela

The economy of Venezuela worsened in 1999, as real GDP shrank by 7.2%, after a small decline of 0.7% in 1998. In 1999, the oil industry, the most important export sector of Venezuela, registered a decline of 6.8%. In addition, imports fell by 13.0%, as the deep recession dampened consumer demand. Beside the sluggish oil industry, production in the non-oil sectors dropped by 6.9% during 1999. Low producer confidence resulted in low investments, which also contributed to the dip in GDP. Furthermore, the government reduced the fiscal deficit from 4.1% of GDP in 1998 to 3.1% in 1999. The unemployment rate continued to rise to 13.5%[8] in 1999, compared to 11.0%1 in 1998.

Table 7.3
Selected key economic figures of Venezuela (% change)

	1997	**1998**	**1999[1)]**
Real GDP	5.9	-0.7	-7.2
Inflation rate (%)	37.6	29.9	20.0
Unemployment (%)	10.6	11.0	13.5
Exchange rate (VEB/$)	504	565	649

Source: Banco Central de Venezuela and Latin America Monitor
[1)] Estimates

7.5 Economic performance in Japan

Japan's economy shrank by 0.3% for the entire year of 1999, in comparison to a contraction of 2.5% in 1998. Despite a series of economic stimulus measures in the first half of 1999, household demand and private investment remained muted. These stimulus measures, including government spending, low mortgage rates, and tax cuts did little to improve consumer confidence. Many companies have been trimming staff to cut costs; hence, household confidence is plagued by future job uncertainties. Japan's jobless rate averaged 4.7% in 1999, the highest level since World War II, as some of the country's biggest companies shed workers.

In the second half of 1999, the economy deteriorated, as state spending abated in combination with stagnant consumer spending. Consumer spending worsened in the fourth quarter, after a drop in winter bonuses. Capital spending grew, however, the first rise in three quarters, but was outweighed by the decrease in government and consumer expenditures.

[8] End of December.

Table 7.4
Selected key economic figures of Japan (% change)

	1997	1998	1999
GDP	1.6	-2.5	-0.3
Inflation rate (%)	1.8	0.6	-1.1
Unemployment rate (%)1)	3.5	4.4	4.7
Private demand1)	-2.0	-4.1	1.1
Household spending	-4.9	-0.6	-4.0
Public demand1)	-1.7	2.1	-2.7
Current account balance	56.3	12.6	-39.9

Source: Bloomberg
1) Fourth quarter figures

Demand for Japanese products has been rising, as Asia is recovering from the recession and the US is extending its record expansion. Japan's exports expanded by 2.9% in 1999, compared with a drop of 12.8% in 1998. Furthermore, Japan's imports swelled by 16.4% in 1999, as opposed to a 23.2% decline in 1998.

8 THE FINANCIAL SECTOR

8.1 Developments in the financial sector

During 1999 the Bank devoted its supervisory efforts towards monitoring the Y2K issues threatening the financial sector. The Bank's aim was to ensure that all supervised credit institutions were taking the necessary steps to achieve Y2K readiness. The Bank conducted extensive reviews at all supervised credit institutions of sizable operations. The Bank also issued two memoranda on the Y2K-readiness program of the financial sector: *The Testing Memorandum Y2K* and *Guidelines to Contingency Planning and Business Continuity*. Furthermore, the Bank issued a *Year 2000 Information Sharing and Roll-over Guide*. This guide is a summary of all the actions the Bank considered of major importance relative to the final Y2K preparations. The Bank also issued a booklet informing all interested parties of its activities concerning Y2K and the state of affairs of the financial sector in general *(Y2K Readiness of the Financial Sector in the Netherlands Antilles)*.

In March 1999, the National Ordinance on the Supervision of Securities Exchange became effective. Until then, only the International Financial Center and Exchange of Curaçao N.V. (IFCE) was licensed to operate a stock exchange in the Netherlands Antilles.

In addition to the ordinary desk supervision and the Y2K activities, the Bank conducted examinations at four credit unions and two international banks.

The number of banks operating in the domestic financial sector remained at 14 in 1999. Chase Manhattan Bank St. Maarten branch transferred its assets and liabilities to Antilles Banking Corporation (St. Maarten) N.V. and ceased to operate. In addition, the Bank licensed Servicio di Pago N.V., a subsidiary of the Giro Curaçao N.V.

Furthermore, the Bank re-licensed Banco Industrial de Venezuela Sucursal Curaçao as an international bank, while the following international banks were licensed:

Maduro & Curiel's Bank International N.V.;

Windward Islands International Bank N.V.;

ING Netherlands Antilles N.V.;

ABN-AMRO International N.V.

The Bank revoked the license of DNI Inter Asset Bank (NA) N.V. due to its voluntary liquidation.

As a result of the above (re)licensing, the number of banks operating in the international financial sector of the Netherlands Antilles increased from 39 in 1998 to 43 in 1999.

With respect to credit unions, the Bank revoked the license of one credit union formerly operating with a conditional license.

8.2 Domestic banking

8.2.1 General activities of commercial banks operating in the domestic banking sector

During 1999 total assets of the domestic banking sector grew further by NAf.368.0 million (8.1%) to NAf.4,927.5 million (table 8.1). This increase can be attributed mainly to the increase in lending activities, notably of current accounts overdrafts and demand loans and mortgages by NAf.118.5 million and NAf.120.9 million, respectively. Overdrafts were made mostly to local individuals. The increase in mortgages was due mainly to increases in mortgages to both local business enterprises and to individuals both resident and nonresident.

Furthermore, the increase in interest-bearing cash also contributed to the increase in total assets. Interest-bearing cash increased by NAf.93.5 million (13.3%) in 1999 caused mainly by the NAf.79.7 million increase in time deposits. This increase was accounted for largely by the increase in the amount of the reserve requirement held in certificates of deposit at the Bank and time deposits held at foreign unconsolidated subsidiaries and affiliates. The increase in the reserve requirement was due to the increases in the reserve requirement percentage from 8.0% to 8.5% in May 1999 and from 8.5% to 9.0% in November 1999, and to the increase in the domestic deposit base, which serves for the calculation of the required reserve amount.

The increased activities of the commercial banks were funded for 86.6% by the increase in deposits of NAf.318.9 million during 1999. Demand and time deposits increased by NAf.120.8 million and NAf.123.5 million, respectively, while savings deposits reflected an increase of NAf.74.6 million.

Table 8.1
Balance sheet of commercial banks operating in the domestic banking sector at year-end (in millions NAf.)

	1997		1998		1999	
	NAf.	**%**	**NAf.**	**%**	**NAf.**	**%**
ASSETS						
Non-int.-bearing cash	385.2	8.8	372.7	8.2	327.8	6.7
Interest-bearing cash	557.3	12.8	704.7	15.5	798.2	16.2
Investments	314.4	7.2	304.1	6.7	270.2	5.5
Loans	2,840.4	65.1	2,911.9	63.9	3,210.4	65.2
Investm. unconsol. subs.	13.4	0.3	12.4	0.3	24.5	0.5
Fixed assets	162.7	3.8	170.3	3.7	170.6	3.7
Other assets	88.5	2.0	83.3	1.8	125.8	2.6
Total assets	4,361.9	100.0	4,559.5	100.0	4,927.5	100.0
LIABILITIES						
Demand deposits	1,207.4	27.7	1,262.7	27.7	1,383.5	28.1
Savings deposits	1,615.7	37.0	1,675.5	36.7	1,750.1	35.5
Time deposits	824.7	18.9	856.1	18.8	979.6	19.9
Total deposits	3,647.8	83.6	3,794.3	83.2	4,113.2	83.5
Borrowings	150.1	3.4	169.8	3.7	185.6	3.8
Other liabilities	194.7	4.5	206.8	4.5	229.5	4.7
Total liabilities	3,992.6	91.5	4,170.9	91.5	4,528.3	91.9
Minority interest	5.3	0.1	5.2	0.1	5.3	0.1
Subordinated debent.	9.1	0.2	7.5	0.2	5.8	0.1
General provisions	113.2	2.6	96.1	2.1	112.5	2.3
Capital & reserves	241.7	5.6	279.7	6.1	275.5	5.6
Total capital	369.3	8.5	388.5	8.5	399.2	8.1
Total liabilities and capital	4,361.9	100.0	4,559.5	100.0	4,927.5	100.0

The increase in time deposits was fueled by the growth in time deposits held by nonresident business enterprises. On the other hand, demand deposits by resident business enterprises contributed to the growth in demand deposits.

8.2.1.1 Capital

Total capital increased slightly by 2.8% to NAf.399.2 million in 1999 compared to an 8.1% increase in total assets. Since capital increased at a slower rate than total assets, the capital-to-assets ratio decreased slightly from 8.5% in 1998 to 8.1% in 1999. The local banking sector's sound capitalization continued to be underscored by a solvency surplus.

8.2.1.2 Net income

Net income continued its increase in 1999 by 20.3% to NAf.54.9 million, compared to 1998. Both operating income and operating expenses decreased. However, operating expenses decreased at a faster rate.

8.2.1.3 Liquidity

The liquidity of the domestic banking sector reflected a drop in 1999 compared to 1998 (table 8.2). However, interest-bearing cash increased because of the increase of the reserve requirement percentage. Although the overall liquidity of the commercial banks declined slightly, it is still considered satisfactory.

Table 8.2
Liquidity ratio at year-end (in percentages)

	1997	1998	1999
Non-interest-bearing cash and short-term treasury paper to:			
-total deposits	13.9	12.8	10.1
-total liabilities	12.8	11.6	9.2
Non-interest & interest-bearing cash and short-term treasury paper to:			
-total deposits	29.8	31.3	29.6
-total liabilities	27.3	28.5	26.9
Total loans to total deposits	80.8	76.7	78.1

8.2.2 Domestic activities of commercial banks operating in the domestic banking sector

Total domestic assets of the domestic banking sector increased by NAf.233.8 million (7.7%) in 1999 compared to 1998 (table 8.3). A comparison of tables 8.1 and 8.3 reveals that the increase in the domestic business of the local banks can be attributed mainly to the increase in the total assets of this sector. Furthermore, the NAf.41.2 million increase in other assets also contributed significantly to the growth in total domestic assets. A further comparison of these tables reflects that the total domestic assets comprised 66.5% of the total assets of the sector. Furthermore, 76.1% of the total credit portfolio was extended to residents, while residents held 68.3% of total deposits.

Table 8.3
Domestic activities of commercial banks operating in the domestic banking sector at year-end (in millions NAf.)

	1997 NAf.	%	1998 NAf.	%	1999 NAf.	%
ASSETS						
Non-int.-bearing cash	193.1	6.4	111.2	3.7	90.1	2.8
Interest-bearing cash	144.3	4.8	240.5	7.9	252.1	7.7
Investments	260.9	8.7	238.4	7.8	221.1	6.7
Loans	2,199.8	73.0	2,233.6	73.4	2,445.9	74.7
Investm. unconsol. subs.	9.8	0.3	9.5	0.3	16.5	0.5
Fixed assets	140.9	4.7	147.2	4.8	147.3	4.5
Other assets	62.6	2.1	61.6	2.0	102.8	3.1
Total assets	3,011.4	100.0	3,042.0	100.0	3,275.8	100.0
LIABILITIES						
Demand deposits	935.9	33.9	956.5	33.9	1,043.5	35.0
Savings deposits	1,193.0	43.2	1,170.5	41.5	1,212.2	40.7
Time deposits	483.7	17.5	532.4	18.9	555.3	18.6
Total deposits	2,612.6	94.6	2,659.4	94.3	2,810.9	94.3
Borrowings	1.6	0.1	3.7	0.1	8.4	0.3
Other liabilities	146.3	5.3	155.8	5.5	162.2	5.4
Total liabilities	2,760.5	100.0	2,818.9	100.0	2,981.5	100.0

Table 8.4 indicates that lending to the government increased by NAf.1.7 million (425.0%) in 1999 as compared to 1998. Lending to the private sector grew by 9.4% in 1999. The domestic extension of mortgages of NAf.972.6 million represents approximately 78.2% of total mortgages extended by local banks.

Table 8.4
Domestic lending to the public and private sectors at year-end (in millions NAf.)

	1997	1998	1999
Government	1.3	0.4	2.1
Private sector:	2,198.5	2,233.2	2,443.8
-Consumer loans	483.1	524.3	570.1
-Business loans	789.7	818.6	901.1
-Mortgages	925.7	890.3	972.6
Total	2,199.8	2,233.6	2,445.9

Table 8.5 illustrates the distribution of the domestic deposit base between the public sector and the private sector. Funding of total assets through deposits by the private sector continued its decreasing trend from 56.2% in 1998 to 55.8% in 1999.

Table 8.5
Holders of deposits at year-end (in millions and %)

	1997		1998		1999	
	NAf.	**%**	**NAf.**	**%**	**NAf.**	**%**
Deposit holders:						
-Government	95.7	3.7	96.3	3.6	60.5	2.2
-Private sector	2,516.9	96.3	2,563.1	96.4	2,750.4	97.8
Total deposits	2,612.6	100.0	2,659.4	100.0	2,810.9	100.0

Table 8.6 illustrates a further growth in domestic deposits of the private sector in 1999. The continuous increase in deposits denominated in local currency may be attributed to weak domestic spending related to the economic recession.

Table 8.6
Change in domestic private sector deposits by currency (in millions NAf.)

	1997		1998		1999	
	NAf.	**%**	**NAf.**	**%**	**NAf.**	**%**
N.A. guilders	118.2	6.1	105.4	5.1	127.3	5.9
Foreign currencies	-30.8	-6.2	-59.2	-12.7	60.0	14.7
Total	87.4	3.6	46.2	1.8	187.3	7.3

8.2.3 Foreign activities of commercial banks operating in the domestic banking sector

Total foreign assets of commercial banks operating in the domestic banking sector increased by NAf.134.5 million (8.9%) in 1999 as compared to 1998. This increase was fueled by the growth in interest-bearing cash and loans by 17.7% and 12.7%, respectively. Similar to the domestic business, foreign business remained funded mainly by savings deposits.

Table 8.7
Foreign activities of commercial banks operating in the domestic banking sector at year-end (in millions NAf)

	1997		1998		1999	
	NAf.	**%**	**NAf.**	**%**	**NAf.**	**%**
ASSETS						
Non-int.-bearing cash	192.1	14.2	261.5	17.2	237.7	14.4
Interest-bearing cash	413.0	30.6	464.2	30.6	546.2	33.1
Investments	53.5	4.0	65.7	4.3	49.1	3.0
Loans	640.6	47.4	678.3	44.7	764.5	46.3
Investm. unconsol. subs.	3.6	0.3	2.8	0.2	8.1	0.5
Fixed assets	21.8	1.6	23.1	1.5	23.2	1.4
Other assets	25.9	1.9	21.7	1.4	23.0	1.4
Total assets	1,350.5	100.0	1,517.3	100.0	1,651.8	100.0
LIABILITIES						
Demand deposits	271.5	22.0	306.2	22.6	340.0	22.0
Savings deposits	422.7	34.3	505.1	37.4	537.9	34.8
Time deposits	341.0	27.7	323.7	23.9	424.3	27.4
Total deposits	1,035.2	84.0	1,334.9	83.9	1,302.2	84.2
Borrowings	148.5	12.1	166.0	12.3	177.3	11.5
Other liabilities	48.4	3.9	51.0	3.8	67.3	4.4
Total liabilities	1,232.1	100.0	1,351.9	100.0	1,546.8	100.0

8.3 Secondary financial institutions

In 1999, the number of secondary institutions operating in the Netherlands Antillean financial sector increased by one to 38. These institutions include credit unions, specialized credit institutions, savings banks, and thrift foundations. The individuals holding a dispensation to extend credit coupons ('bonnen') for short-term consumer credit to households numbered 13 by the end of 1999.

8.4 International banking

Total assets of the international banking sector in the Netherlands Antilles dropped by NAf.7.2 billion (10.9%) to NAf.58.3 billion in 1999 compared to 1998. Decreases in time loans placed and loans to unconsolidated affiliates by NAf.3.6 billion and NAf.5.1 billion, respectively, contributed to the decrease in total assets.

On the liabilities side, demand deposits and borrowings in particular decreased by NAf.2.5 billion (39.7%) and NAf.3.0 billion (8.6%), respectively.

Finally, total capital reflects a capitalization level well above the international capital-to-risk weighted assets ratio of 8%.

Table 8.8
Balance sheet of commercial banks operating in the international banking sector at year-end (in billions NAf)

	1997		1998		1999	
	NAf.	**%**	**NAf.**	**%**	**NAf.**	**%**
ASSETS						
Non-int.-bearing cash	1.1	2.0	2.2	3.4	1.7	2.9
Interest-bearing cash	10.5	18.6	9.7	14.8	12.0	20.6
Investments	5.9	10.5	4.7	7.2	4.0	6.9
Loans	35.8	63.5	37.6	57.4	29.0	49.7
Investm. unconsol. subs.	0.3	0.6	0.3	0.5	0.4	0.7
Fixed assets	0.1	0.1	0.1	0.1	0.1	0.2
Other assets	2.6	4.7	10.9	16.6	11.2	19.2
Total assets	56.3	100.0	65.5	100.0	58.3	100.0
LIABILITIES						
Demand deposits	3.1	5.6	6.3	9.6	3.8	6.5
Savings deposits	0.1	0.2	0.1	0.1	0.3	0.5
Time deposits	18.3	32.4	17.2	26.4	16.2	27.8
Total deposits	21.5	38.2	23.6	36.1	20.3	34.8
Borrowings	28.6	50.8	34.7	53.0	31.7	54.4
Other liabilities	2.5	4.5	2.1	3.2	1.2	2.1
Total liabilities	52.6	93.5	60.4	92.3	53.2	91.3
Minority interest	0.1	0.2	0.1	0.1	0.1	0.2
Subordinated debent.	0.1	0.1	0.1	0.1	0.0	0.0
General provisions	0.3	0.4	0.3	0.4	0.2	0.3
Capital & reserves	3.3	5.9	4.6	7.0	4.8	8.2
Total capital	3.7	6.5	5.1	7.7	5.1	8.8
Total liabilities and capital	56.3	100.0	65.5	100.0	58.3	100.0

9 INSTITUTIONAL INVESTORS

9.1 Introduction

The insurance business is changing, and the effects of these changes must be monitored continuously to assess their impact on the risk profile of the industry. Potential new risks are emerging for the insurance industry associated with the rapid pace of globalization, the aging population, the development of electronic commerce, and the convergence of financial activities. In the life insurance area, the distinction between certain life insurance products and forms of investment is diminishing. These changes will have consequences for the way in which the insurance and superannuation industry is regulated and supervised. Jurisdictions with weak regulatory frameworks are particularly vulnerable, especially when the pace of change is rapid. Legislative changes are on the way in the Netherlands Antilles, while at the same time, our monitoring systems are being revised. The expansion of pure financial examinations with operational and organizational aspects is evidence of these changes. They coincide with the underlying proactive approach of avoiding misfortunes rather than solving them.

The draft legislation regulating insurance brokers was finalized and forwarded to the government for parliamentary enactment. This legislation is expected to become operational soon. Bylaws are being drafted to conclude the legal structure. The law will offer protection to potential policyholders in the precontractual stage.

Work by the Inter-island Working Group for the introduction of the Motor Insurance Guarantee Fund is continuing, though at a slower pace. The Group is working on changes concerning the motor liability insurance legislation and the infrastructure needed to make the fund operational. A centralized registration system will be introduced to facilitate law enforcement. This data bank will provide information to insurance companies, government tax collectors, and automobile inspection centers. Its aim is to make it almost impossible for a vehicle to be driven if not insured.

At the request of the Government, the Pension Committee organized hearings to discuss its proposals with the social partners and the providers of pension services, and reported its findings. The final position of the Government based on the proposals and the results of the hearings is pending. The proposals aim to change the existing situation where two-thirds of the work force does not have a pension arrangement.

The demand for pension products is increasing in the Netherlands Antilles, though slowly. People are gradually becoming more aware of the necessity of an old age retirement benefit. In addition, the presence of more pension advisors in the Netherlands Antilles with a more aggressive marketing approach plays a key role in this development.

Pension funds are developing a more flexible approach towards the pension plans they administer and, as such, are competing with the life insurance companies, traditionally also active in this market.

The automated reporting system developed by the Bank is nearly finalized and will be introduced soon to the industry. Once concluded, a new data retention system to process the information provided by the new reporting system will be developed. This system will allow both the supervisor and the industry to dispose of important market information.

9.2 The institutional investors' sector

The number of institutional investors operating in the Netherlands Antilles was 73 during 1999; 3 fewer than in 1998. The number of life insurance companies decreased to 10, including two that are locally incorporated. As a result of a takeover, the portfolio of one life insurance company was transferred to another licensed life insurance company, and one company is being liquidated.

The number of non-life insurance companies remained stable at 16 in 1999. One non-life company transferred its portfolio to another non-life company, and one new non-life company was issued a license. Eleven of the non-life companies are incorporated locally.

Table 9.1
Insurance companies and pension funds under supervision

Category of institution	**1996**	**1997**	**1998**	**1999**
I. Life insurance comp.	12	12	12	10
a. branches	9	9	9	8
b. locally incorporated	3	3	3	2
II. Non-life insurance comp.	15	17	16	16
a. branches	7	8	7	6
b. locally incorporated	8	9	9	10
III. Pension funds	24	26	26	24
Total locally operating institutions	51	55	54	50
IV. Captive life insurance comp.	2	2	2	2
V. Captive non-life insurance comp.	15	15	15	16
VI. Professional reinsurance comp.	4	4	4	5
Total internat. operating institutions	21	21	21	23
Grand total	72	76	75	73

The number of insurance companies servicing the international markets was 23 by the end of 1999. Of these 23 companies, 2 are involved in the life insurance business, 16 in non-life insurance, and 5 in reinsurance. Most of the internationally operating insurance companies have European parents. More than 50 percent of the companies originate in the Netherlands.

The number of pension funds was 24 at the end of 1999, 4 of which are in the process of liquidation. Their pension obligations were in most cases transferred to an insurance company.

9.3 Overview of developments in the insurance industry

9.3.1 General

The insurance industry in the Netherlands Antilles remained profitable in 1998. The net result after corporate taxes increased when compared with the previous year. This increase occurred despite the financial-economic situation in the Netherlands Antilles. The premium volume, however, decreased slightly in 1998. One should bear in mind though that adverse economic developments are not felt immediately in the insurance industry.

Reinsurance traditionally has been a global business. It spreads risks and expands the capacity of primary insurers. Furthermore, it plays an important role in buffering national economies against the shock of economic losses resulting from catastrophic natural events. However, changes including mergers and acquisitions have occurred in this segment of the industry as well. While the resulting companies are financially stronger and appear well managed, their reduced number raises concerns that primary insurers might have less opportunity to diversify or spread their risks.

Some major natural disasters occurred in the world during 1999. Nearly at the end of the hurricane season, the Caribbean was confronted with hurricane "Lenny", which caused considerable damage. The Windward Islands (St. Maarten, Saba, and St. Eustatius) also were affected by this hurricane. As a result of the losses suffered and because hurricanes are occurring more frequently in recent years in the Caribbean, many major insurance companies in the Netherlands Antilles have decided to discontinue catastrophe coverage on these islands.

Those insurers that continued providing this coverage were more or less forced to increase their premiums. The government indicated that the problem of these islands has its attention and foreign experts have been asked for assistance in seeking a solution. The government and the companies in the sector should work together to develop a long-term compensation mechanism, e.g., the creation of a catastrophe fund.

The government intends to introduce a nationwide health care system (AZV). The introduction of a nationwide health care system could have serious consequences for companies underwriting this line of business, especially since this business is rather labor-intensive. The issue is whether the system will be centralized with only one executive body or whether market forces will continue to rule this industry.

Discussions in this area have not resulted so far in definite plans. Recent developments relative to the incorporation of the FZOG (Fonds Ziektekosten Overheidsgepensioneerden) and the AKM (Assosashon Kwido Mediko pa Penshonadonan di Shell) in either the "Bureau Ziektekosten Voorzieningen" (BZV) or the Social Insurance Bank (SVB) indicate the importance of this project.

Free-market competition is based on the possibility of making free choices. Justifiable choices can be made only if the customer has access to information with respect to services and their providers. With the introduction of the new filing system by the Bank, transparency will be increased to the benefit of the public.

The potential exists to further develop the Netherlands Antilles as a domicile for international insurance activities. Marketing the country for this purpose remains a weakness mainly because of the lack of insurance technical knowledge and a proper infrastructure. The efforts of the captive association aim to change this in the near future.

9.3.2 Life insurance industry

9.3.2.1 Balance sheet

According to table 9.2, total assets of the local life insurance industry increased by 8.1% in 1998, compared with the 6.9% growth in 1997. Of the total assets in 1998, 72% relate to investments and 16% to current assets.

Total liabilities increased mainly as a result of an increase of NAf.52.4 million (8.3%) in technical provisions.

The equity position of the local life insurance companies, consisting of capital, surplus, and subordinated instruments, increased by NAf.8.2 million (17.1%). This increase is the result of an increase of NAf.8.7 million in the surplus (30.5%). The equity position of the local life insurance companies represents more than twice the amount needed to meet the 4% solvency requirements.

Total assets of the international life insurance companies increased by NAf.6.6 million (17.5%), reaching NAf.44.3 million at the end of 1998. The equity position improved by NAf.1.2 million (4.2%), totaling NAf.29.5 million by the end of 1998, well above the legally required solvency margin.

Table 9.2
Consolidated balance sheet of life insurance companies (in millions NAf.)

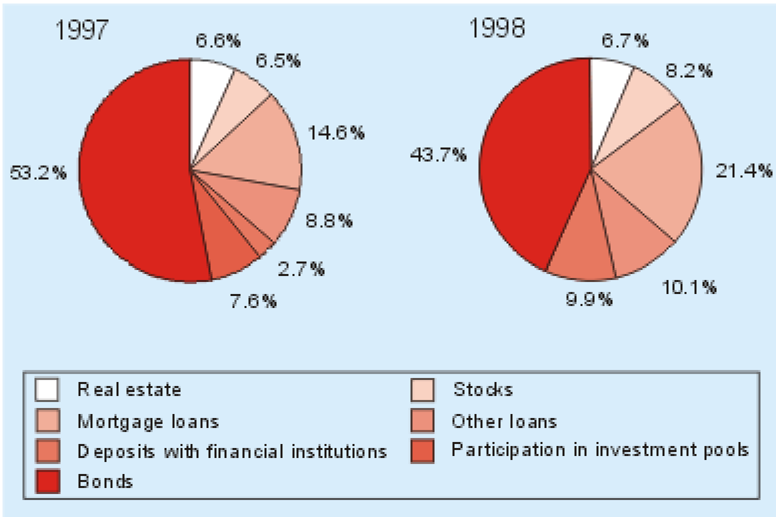
	1996		**1997**		**1998**	
	Local	**Int'l**	**Local**	**Int'l**	**Local**	**Int'l**
ASSETS						
Intangibles	-	-	-	-	-	-
Total investments	626.3	29.2	654.8	27.5	746.1	24.5
Current assets	133.6	7.7	162.1	10.2	155.6	19.8
Other assets	15.6	-	13.9	-	12.2	-
From separate accounts statement	122.5	-	129.4	-	123.9	-
Total admissible assets	898.0	36.9	960.2	37.7	1,037.8	44.3
LIABILITIES						
Capital	14.0	4.1	12.9	5.9	12.4	4.1
Surplus	34.3	22.7	28.5	22.4	37.2	25.4
Subord. instruments	6.2	-	6.6	-	6.6	-
Technical provisions	572.5	4.8	634.4	5.3	686.8	5.5
Other provisions and liabilities	17.4	1.2	11.5	1.3	11.0	-
Current liabilities	123.6	3.8	128.5	2.8	151.1	9.2
Contingent liabilities	7.5	0.3	8.3	-	8.8	0.1
From separate accounts statement	122.5	-	129.5	-	123.9	-
Total equity, provisions,and liabilities	898.0	36.9	960.2	37.7	1,037.8	44.3

9.3.2.2 Investments

Total investments of the local life insurance industry increased by NAf.91.3 million (13.9%) in 1998, due mainly to increases in stocks, mortgages, and other loans. Investment in bonds decreased by 6.2 % compared to 1997, whereas investments in stocks increased by 44.2 %. The growth of the mortgage portfolio amounted to 67.5%.

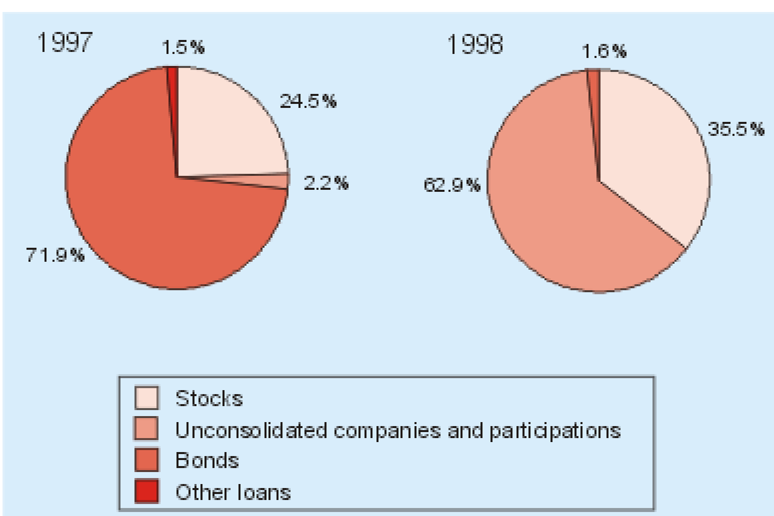
The composition of the consolidated investment portfolio of the local life insurance companies is shown in graph 9.1. This graph shows that, as a percentage of total investments, the shares of stocks, mortgages, and other loans increased by 9.8% in 1998, compared to 1997. These increases were primarily at the expense of the share of bonds, which declined by 9.5%.

Graph 9.1
Composition of the investment portfolio of local life insurance companies



The total investment portfolio of the international life insurance companies decreased by NAf.3.0 million in 1998 compared to 1997 due primarily to a decline in bonds. The liquidated investments contributed partly to an increase in the current assets of NAf.9.6 million (94.1%). In addition, the composition of the investment portfolio changed slightly in 1998, compared to 1997 (graph 9.2). This change was reflected by a slightly higher share of stocks primarily at the expense of the share of bonds.

Graph 9.2
Composition of the investment portfolio of international life insurance companies



9.3.2.3 Profit and loss statement

The operating results of the local life insurance industry are presented in table 9.3. The net result before corporate taxes increased by 24.5% in 1998, compared with the 13.3% growth in 1997. The net result after taxes increased by NAf.4.6 million in 1998 (306.7%).

A continued increase mainly in the investment income was responsible for the positive results. In 1998, investment income increased by NAf.3.8 million (7.2%). Premium income, on the other hand, decreased by NAf.5.8 million (4.9%). Of the total net earned premium, 60% was related to individual life and the remaining 40% to group business. Premium income for both individual and group life decreased during 1998.

Total operational expenditures decreased by NAf.3.6 million (2.3%), due mainly due to a decrease in changes in technical provisions.

The net operational result showed an improvement of NAf.2.7 million (27.3%), totaling NAf.12.6 million in 1998. This improvement was offset partially by the increase in the negative result from separate accounts.

Table 9.3
Consolidated profit and loss statement of life insurance companies (in millions NAf.)

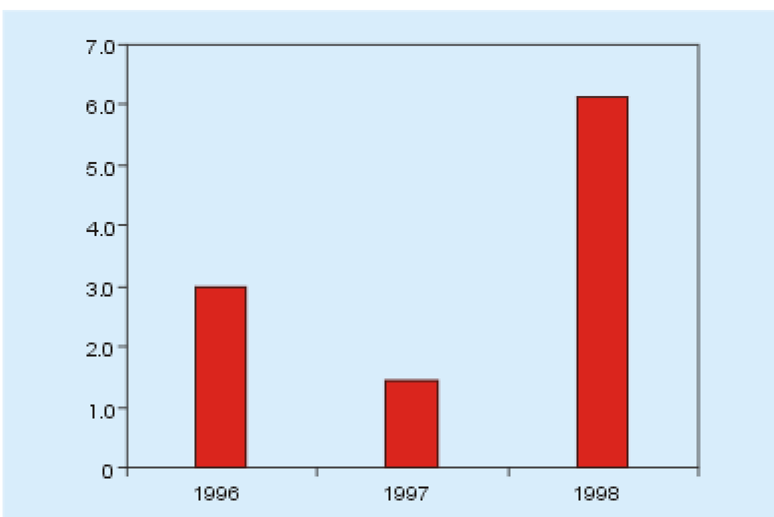
	1996		1997		1998	
	Local	**Int'l**	**Local**	**Int'l**	**Local**	**Int'l**
INCOME						
Total net earned premium	111.4	6.2	119.2	5.7	113.4	5.4
Net investm. income allocated to technical provisions	38.0	0.9	43.8	-	48.7	0.1
Net other operational income	0.2	-	0.9	-	0.9	-
Total operational income	149.6	7.1	163.9	5.7	163.0	5.5
Net benefits incurred	39.7	1.4	43.8	1.7	44.4	1.7
Change in net techn. prov.	60.6	-	65.2	-0.5	62.6	-
Policyholders' dividends	7.3	1.5	8.0	1.3	8.0	-0.8
Insurance expenses andnoncorporate taxes	16.7	-	16.6	0.3	17.1	0.9
Commission and other acquisition costs	14.9	-	15.0	-	15.5	-
Net other operational expend.	1.0	0.9	5.4	-	2.8	-
Total operational expend.	140.2	3.8	154.0	2.8	150.4	1.8
Net operational result	9.4	3.3	9.9	2.9	12.6	3.7
Net investm. income allocated to surplus	9.1	2.6	9.5	-0.5	8.4	2.5
Other income and expenses	-8.1	-1.2	-7.4	-	-6.0	1.7

Net result from separate accounts	-2.0	-	-2.5	-	-3.3	-
Extraordinary results	-0.1	-0.8	-0.1	-0.7	-	-6.6
Net result before corp. taxes	8.3	3.9	9.4	3.1	11.7	1.3
Corporate taxes incurred	5.3	-	7.9	-	5.6	-
Net result after corp. taxes	3.0	3.9	1.5	3.1	6.1	1.3

The net earned premium in the international life insurance industry decreased by NAf.0.3 million (5.3%) to NAf.5.4 million in 1998. Net benefits incurred remained the same as in 1997. Notwithstanding the decrease in premiums, the net operational result in 1998 amounted to NAf.3.7 million, an increase of NAf.0.8 million when compared to 1997. This increase is mainly the result of the decrease in the expense item "policyholders' dividends."

This positive net operational result was offset partially by an extraordinary loss of NAf.6.6 million in 1998 resulting in a net result after corporate taxes of NAf.1.3 million. The net result after taxes for the internationally operating life insurance companies declined for the fifth consecutive year in 1998.

Graph 9.3
Net results after corporate taxes of the local life insurance sector (in millions NAf.)



9.3.3 The non-life insurance industry

9.3.3.1 Balance sheet

The balance sheet total of the non-life insurance companies operating in the domestic market decreased by NAf.13.2 million (2.9%) to NAf.442.8 million at the end of 1998 compared to 1997. Current assets decreased by NAf.15.6 million (4.6%). Furthermore, total investments increased by NAf.2.3 million (1.9%). Due to the short-term nature of the non-life business in comparison with the life business, a smaller percentage of total assets is invested, namely, 27%. Consequently, a larger portion (72%) relates to current assets, compared to 16% in the life business.

On the liability side, the decrease in the balance sheet total was reflected mainly by a NAf.28.4 million (11.1%) decrease in current liabilities.

The equity position of the local non-life insurance industry increased by NAf.8.9 million (14.8%) totaling NAf.68.9 million by the end of 1998, well above the 15% margin required by law to cover the industry's solvency margin.

The balance sheet total of the non-life insurance companies operating in the international markets showed a significant increase of NAf.399.6 million (24.5%), totaling NAf.2.0 billion at the end of 1998. The increase in total assets can be attributed to the growth in investments and current assets.

On the liability side, the technical provisions increased by NAf.134.3 million (19.3%), while current liabilities increased by NAf.137.5 million (329.7%) in 1998 compared to 1997.

Table 9.4
Consolidated balance sheet of the non-life insurance industry (in millions NAf.)

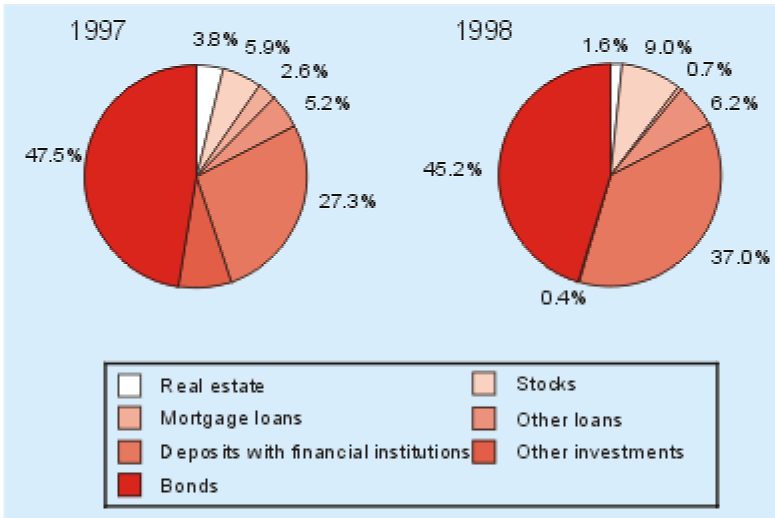
	1996		1997		1998	
	Local	Int'l	Local	Int'l	Local	Intl
ASSETS						
Intangibles	0.9	-	-	-	-	-
Total investments	82.2	1,110.9	115.8	1,526.3	118.1	1,831.8
Current assets	349.9	89.9	334.7	104.4	319.1	198.5
Other assets	6.2	0.1	5.5	0.1	5.6	0.1
Total admissible assets	439.2	1,200.9	456.0	1,630.8	442.8	2,030.4
LIABILITIES						
Capital	33.6	120.1	40.3	155.8	39.1	126.0
Surplus	16.8	504.2	9.9	738.6	20.0	896.2
Subordin. instruments	9.7	-	9.8	-	9.8	-
Technical provisions	129.8	552.1	137.3	694.6	141.6	828.9
Other prov. & liabilities	1.5	0.1	2.0	0.1	5.5	0.1
Current liabilities	247.8	24.4	255.0	41.7	226.6	179.2
Contingent liabilities	-	-	1.7	-	0.2	-
Total equity, provisions, and liabilities	439.2	1,200.9	456.0	1,630.8	442.8	2,030.4

The equity position was strengthened further by an increase of NAf.127.8 million (14.3%), reaching NAf.1.0 billion in 1998, entirely through an increase in the surplus. As a result, the consolidated solvency position of the internationally operating non-life insurance companies exceeded the legal requirements by a significant margin.

9.3.3.2 Investments

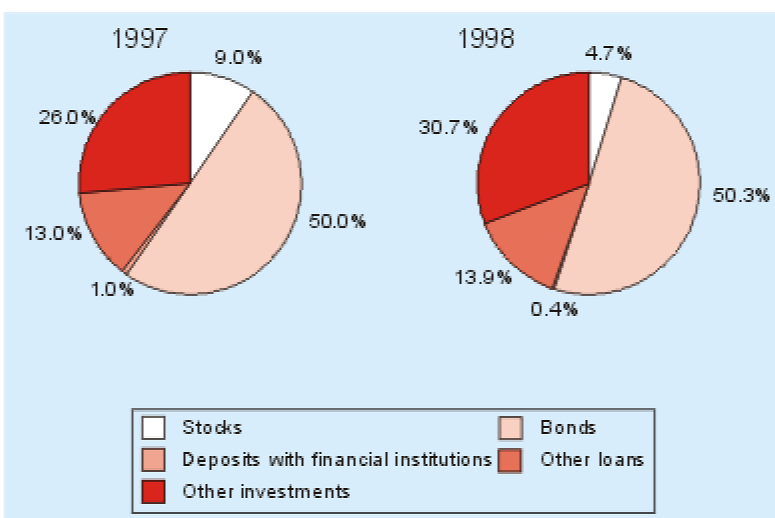
The composition of the investment portfolio of the local non-life insurance companies is presented in graph 9.4. This graph indicates that the share of deposits increased considerably from 27.0% in 1997 to 35.9% in 1998. This increase was largely at the expense of the shares of bonds, real estate, and other investments, which declined from 47.0% to 43.9%, from 3.8% to 1.5%, and from 7.6% to 0.4%, respectively.

Graph 9.4
Composition of the investment portfolio of the local non-life insurance companies



The composition of the investment portfolio of the international non-life insurance companies is illustrated in graph 9.5. This graph shows that the share of other investments increased from 26% in 1997 to 31% in 1998. This increase was largely at the expense of the share of stocks, which declined from 9% to 5%.

Graph 9.5
Composition of the investment portfolio of the international non-life insurance companies



9.3.3.3 Profit and loss statement

Net earned premiums of the local non-life insurance industry decreased by NAf.3.8 million (2.2%) in 1998 compared to 1997. On the other hand, net claims increased by NAf.4.4 million (4.5%), resulting in an underwriting loss of NAf.4.7 million. The net investment income and other positive results, which led to a positive net result after corporate taxes amounting to NAf.4.1 million, offset this loss. This net result is NAf.4.9 million (54.4%) less than 1997's net result.

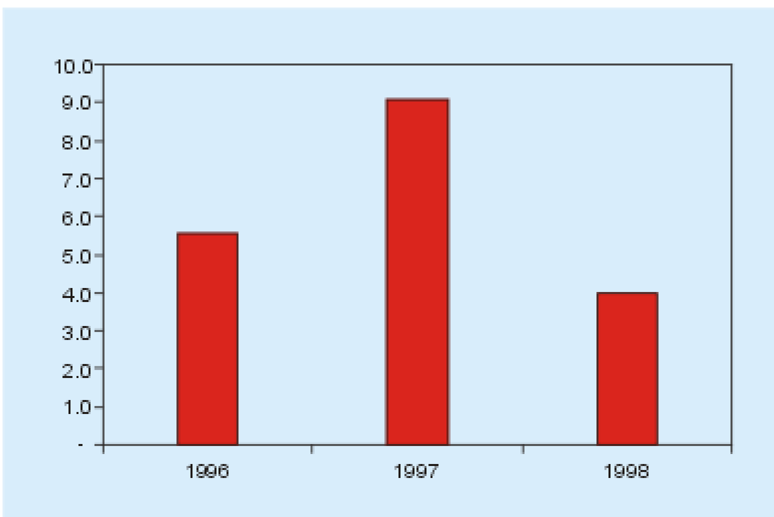
Table 9.5
Consolidated profit and loss statement of the non-life insurance industry (in millions NAf.)

	1996		1997		1998	
	Local	**Int'l**	**Local**	**Int'l**	**Local**	**Int'l**
INCOME						
Total net earned premium	159.6	207.7	172.7	272.6	168.9	276.1
Net underwriting income	0.1	0.7	-	1.6	-	51.2
Total operational income	159.7	208.4	172.7	274.2	168.9	327.3
EXPENSES						
Net claims incurred	88.3	120.0	97.3	170.6	101.7	175.0
Change in various provisions	1.0	-	0.5	0.4	-0.2	-0.3
Claim adjustment expenses	6.9	-	6.0	-	6.0	-
Net other underwr. expend.	36.0	10.7	41.0	13.6	42.0	18.7
Net other operational expend.	27.5	3.1	28.3	5.8	24.1	1.8
Total operational expend.	159.7	133.8	173.1	190.4	173.6	195.2
Underwriting results	0.0	74.6	-0.4	83.8	-4.7	132.1
Net investment income	7.5	74.9	8.0	85.0	8.5	147.6
Other results	1.5	-14.7	1.4	-35.5	0.4	-5.0
Extraordinary results	-0.1	-7.8	-0.1	-	-	-101.7
Net result before corp. taxes	8.9	127.0	8.9	133.3	4.2	173.0
Corporate taxes incurred	3.4	2.2	-0.1	1.9	0.1	5.0
Net result after corp. taxes	5.5	124.8	9.0	131.4	4.1	168.0

Total net earned premium of the internationally oriented non-life insurance companies increased slightly in 1998 by NAf.3.5 million (1.3%) compared to an increase of NAf.64.9 million (31.2%) in 1997. The net claims incurred show also a slight increase of NAf.4.4 million (2.6%) in 1998. The overall improvement in underwriting results amounted to NAf.48.3 million (57.6%). This improvement is due mainly to a substantial increase of NAf.49.6 million in net underwriting income in 1998 compared to NAf.0.9 million in 1997.

The net investment income increased by 73.6% (NAf.62.6 million) in 1998 compared to 1997. On the other hand, the industry reported an extraordinary expenditure of NAf.101.7 million in 1998. Notwithstanding this expenditure, net results before and after corporate taxes continued to improve by NAf.39.7 million (29.8%) and NAf.36.6 million (27.9%), respectively.

Graph 9.6
Net results after corporate taxes of the non-life insurance sector (in millions NAf.)



10 POLICY AND ACTIVITIES OF THE BANK

10.1 Training and seminars

The Bank's staff attended a variety of courses under the auspices of the Centre for Monetary Studies in Latin America (CEMLA) in 1999. Topics included, among others, money laundering, banking supervision, and macro-economic policy. Lecturers were from the CEMLA, IMF, and several Caribbean central banks.

During 1999, the Bank continued to offer courses on professional writing in the Dutch language for its middle and higher ranked staff. The purpose of these courses is to make the Bank's staff more familiar with modern Dutch grammar and spelling. The Bank completed this project with the introduction of a new house style for both internal and external communication as of January 1, 2000.

Furthermore, staff members attended various seminars and conferences in the region and in Europe to keep up to date with the latest developments in their respective fields. Issues covered, among others, were monetary policy, public finance, banking supervision, treasury, national accounts, and information technology.

Members of the Bank staff participated intensively in the Caribbean Action Task Force (CFATF) in 1999 on behalf of the Netherlands Antilles. The CFATF is a regional organization for the prevention and combating of money laundering. The Netherlands Antilles continue to play a major role as a member of the Steering Committee of this organization. In January 1999, the Financial Action Task Force (FATF) examined the Netherlands Antilles. The report was discussed and accepted in Tokyo, at the July plenary meeting of the FATF. According to the evaluation, considerable efforts have been made in recent years to prevent and combat money laundering. The legal and penal system is nearly in place, an operational structure to handle cases has been established, and preventive measures are in place in the banking sector. Attention should now be directed towards additional measures for non-bank financial institutions and non-financial institutions. The Netherlands Antilles will fine-tune its legal system and the operational structure to meet the omissions in the current legislation and to accommodate new developments.

The Bank supported 'The Financial Institute', an institution chaired by the financial-economic director of the Bank, geared towards educating employees in the local financial sector. In 1999, the Bank provided assistance on the organization of workshops.

10.2 Monetary policy

Effective January 1, 1999, a penalty on domestic credit extension by commercial banks over and above the maximum allowed no longer exists. Instead of this direct credit control, the reserve requirement contains domestic credit extension by limiting the amount of free reserves commercial banks maintain at the central bank.

The reserve requirement has become the Bank's main monetary policy instrument since the introduction of the new monetary policy in September 1998. The instrument is aimed at reducing the over-liquidity in the banking system by requiring commercial banks to deposit a fixed percentage of their domestic debt at the central bank. This percentage is determined monthly, based on developments in the free reserves of commercial banks and the official reserves. As a result of these developments, the percentage was increased from 8% to 8.5% in May 1999, and further to 9% in November 1999. Currently, one third of the total reserve requirement may be held in interest-bearing certificates of deposit issued by the Bank.

Another element of the Bank's monetary policy is that commercial banks are not allowed to have a net debt position with regard to nonresidents. In other words, they are required to have at least the same amount of foreign assets as foreign liabilities. If commercial banks do not comply with this regulation, a penalty equal to the amount of foreign indebtedness multiplied by the Bank's pledging rate (currently 7%) is imposed.

10.3 Construction of new building

In August 1999, the Bank signed a contract with Ballast Nedam Caribbean N.V. for the construction of a new office building in Scharloo. The new building will replace the seven buildings in which the Bank's staff currently is housed. Construction is expected to last approximately two years and constitutes an investment of NAf. 49.6 million.

11 FOREIGN EXCHANGE REGULATIONS AND LICENSE FEE

The foreign exchange regulations in the Netherlands Antilles are based on the National Ordinance Foreign Exchange System of 1981. According to that Ordinance, current transactions are in principle free, while capital transactions require a foreign exchange license.

Although capital transactions are bound to a license, over time several foreign exchange notifications have been issued that liberalized certain capital transactions. The Bank applies a liberal licensing system with respect to capital transactions: licenses are normally granted upon request.

The main purpose of the foreign exchange regulations as embodied in the Foreign Exchange Ordinance of 1981 are:

1. to promote the Netherlands Antilles as an internationally recognized financial center; for this reason, the Ordinance contains special provisions for companies engaged in international financial and business transactions;

2. to obtain the necessary information and data essential for compiling the balance of payments;

3. to support the monetary and economic policy efforts of the monetary authorities, whereby the maintenance and safeguarding of the monetary reserves, and thus exchange rate stability, are considered of primary importance; and

4. to prevent the use of Antillean Guilders as a means of payment in the international payment system.

The general foreign exchange policy is vested with the government of the Netherlands Antilles. The Bank is charged with executing the foreign exchange regulations and managing the available foreign exchange reserves for account and risk of the government. Therefore, the Bank is empowered to grant licenses and exemptions by virtue of the Foreign Exchange Ordinance of 1981.

Table 11.1 compares the total amounts invested by residents abroad during the financial years 1997, 1998, and 1999, based on foreign exchange licenses granted.

Table 11.1
Investments abroad by residents 1997 through 1999 (in millions NAf.)

	1997	1998	1999
January	-	-	-
February	17.9	-	2.0
March	-	0.5	-
April	2.0	-	1.9
May	1.8	-	0.9
June	-	0.7	-
July	0.4	-	3.4
August	0.1	1.4	0.3
September	0.9	1.3	0.1
October	0.6	-	0.5
November	1.3	-	1.0
December	0.3	0.5	0.5
Total	25.3	4.4	10.6

Note: In the figures, investments made by natural persons in amounts less than NAf.100,000 annually have not been included, because no license is required for these amounts. Some institutional investors are not included, because they have a general license to make investments abroad within certain limits.

Starting January 1, 1996, the foreign exchange banks have to pay a license fee to the Central Bank on international transactions. This license fee replaced the foreign exchange tax, in force until December 1995. The license fee is calculated on the basis of the payments made by residents to nonresidents, with the exception of those payments related to re-investment of funds abroad and the re-exports of the free-zone companies.

Table 11.2
License fees collected during 1997 through 1999 (in thousand NAf.)

	1997	1998	1999*
January	3,007.4	2,825.3	2,720.8
February	2,553.2	2,578.1	2,786.3
March	2,634.5	3,088.2	3,675.9
April	2,927.2	2,614.1	2,764.4
May	2,623.8	2,694.7	3,073.0
June	2,701.6	3,019.1	3,172.6
July	2,959.0	2,907.9	3,073.9
August	2,712.2	2,663.7	2,929.0
September	2,612.2	2,334.0	2,955.9
October	2,818.2	2,987.4	2,580.8
November	2,531.1	2,573.8	2,963.7
December	3,224.1	3,406.5	3,656.6
Total	33,304.5	33,692.8	36,352.9

* Preliminary

Table 11.2 gives an overview of the license fees collected monthly during 1997 through 1999.

From the total amount of license fees generated in the Netherlands Antilles in 1999, NAf.23,379.4 thousand was generated on the island of Curaçao, NAf.12,270.2 thousand on St. Maarten, and NAf.649.7 thousand on Bonaire. The remaining NAf.53.6 thousand of license fees was paid through the Central Bank.

12 FINANCIAL STATEMENTS FOR 1999

Table 12.1
Balance Sheet as of December 31, 1999

ASSETS	**1998**	**1999**
Gold	179,775,652	179,775,652
Receivables and securities in foreign currency	449,670,512	480,425,858
Advance account Central Government	29,183,250	29,203,216
Government bonds	50,175,000	80,213,708
Other long-term receivables	10,914,841	11,823,294
Fixed assets	21,266,943	29,261,376
Printing costs bank notes	1,490,175	1,053,914
Other current assets	14,936,312	17,083,252
TOTAL ASSETS	757,412,685	828,840,270
LIABILITIES	**1998**	**1999**
Bank notes in circulation	227,440,450	239,200,885
Residents' current accounts		
- in guilders	257,212,995	270,530,216
- in foreign currency	14,901,399	10,366,479
Residents' time deposits		
- in guilders	44,889,105	72,050,421
- in foreign currency	716,000	-
Nonresidents' current accounts		
- in guilders	2,496,532	854,263
Money in consignation	892,325	892,325
Other current liabilities	14,267,691	40,279,728
Undistributed earnings	12,240,466	12,310,231
Special reserves	122,355,722	122,355,722
Reserve fund	30,000,000	30,000,000
Capital	30,000,000	30,000,000
TOTAL LIABILITIES	757,412,685	828,840,270

The 1999 figures are preliminary and unaudited. The 1998 figures are derived from the audited 1998 financial statements.

Table 12.2
Profit and Loss Account 1999

	1998	1999
INCOME		
Interest income	26,745,637	28,981,918
Foreign exchange earnings	804,552	833,091
Miscellaneous earnings	2,169,344	2,597,612
Subtotal	29,719,533	32,412,621
License fee	33,900,584	36,171,625
TOTAL INCOME	63,620,117	68,584,246
EXPENSES		
Interest expenses	1,158,948	2,138,127
Depreciation of fixed assets	3,645,908	3,137,190
Depreciation of printing costs bank notes	545,919	436,261
General expenses	21,831,597	21,162,473
TOTAL EXPENSES	27,182,372	26,874,051
OPERATING PROFIT	36,437,745	41,710,195
Extraordinary income	2,533,331	-
Extraordinary expenses	500,000	-
NET INCOME	38,471,076	41,710,195
Distribution of net income		
Net income	38,471,076	41,710,195
Paid to the Central Government	32,084,000	41,640,430
Change in undistributed earnings	6,387,076	69,765

The 1999 figures are preliminary and unaudited. The 1998 figures are derived from the audited 1998 financial statements.

12.1 Notes to the balance sheet as of December 31, 1999

12.1.1 Gold

The gold bars are valued at the average of the lowest London market price in the three years preceding the date of valuation, less a margin of 30%. The gold is revalued every three years. Changes resulting from revaluations are debited or credited to the special reserves after approval from the Minister of Finance.

12.1.2 Receivables and securities in foreign currency

The receivables and securities represent balances in current accounts, time deposits, and investment portfolios, including accrued interest maintained in foreign currency with foreign financial institutions. Valuation in guilders is made at the official mid-rate prevailing at the balance date.

12.1.3 Advance account Central Government

In conformity with paragraph 1 of Article 15 of the National Ordinance constituting the Central Bank Charter (P.B. 1985, no. 183), this advance is at all times bound to a maximum of 10% of the revenues of the Central Government during the previous fiscal year. This advance account is not interest-bearing.

12.1.4 Government bonds

In 1989, an agreement was signed with the Minister of Finance whereby the old advance account of the Central Government of the Netherlands Antilles was converted into bonds. The bonds are valued at their purchase price or lower nominal value.

12.1.5 Other long-term receivables

These loans are valued at their nominal value, less a provision for possible losses.

12.1.6 Fixed assets

These assets are valued at cost after deduction of accumulated depreciation, computed on the basis of the expected useful life of the assets following the straight-line method.

In 1990, a piece of land was purchased for the construction of the new office building. This asset is valued at cost.

12.1.7 Printing costs of bank notes

This amount represents the printing costs of bank notes, after deducting accumulated depreciation, computed on the basis of expected useful life of the bank notes following the straight-line method.

12.1.8 Other current assets

This item includes, among other things, license fee receivables, accrued interest, prepaid expenses, coins and currency held as petty cash, and other short-term receivables. These assets are valued at their nominal value.

12.1.9 Bank notes in circulation

This balance represents the nominal value of the bank notes issued by the Bank that are in circulation at year end.

12.1.10 Residents' current accounts

These include the balances in current account of domestic banks, Central and Island Government Collectors, and other government institutions within the Netherlands Antilles. Most of the balances are denominated in guilders. Foreign currency balances are translated into guilders at the Bank's official mid-rates prevailing at year end.

12.1.11 Residents' time deposits

These include the balances in time deposits of domestic banks and government institutions. The balances are interest-bearing. Foreign currency balances are translated into guilders at the Bank's official mid-rates prevailing at year end.

12.1.12 Nonresidents' current accounts

This amount represents the balances in current account of foreign banks and/or foreign government institutions. Foreign currency balances are converted into guilders at the Bank's official mid-rates prevailing at year end.

12.1.13 Money in consignation

This amount represents the nominal value of the Bank's liability on account of money received in custody from third parties in conformity with the National Ordinance on Money held in Consignation (P.B. 1886, no. 22).

12.1.14 Other current liabilities

This balance includes accrued interest and accounts payable.

12.1.15 Undistributed earnings

Under this heading appears the accumulated earnings of the bank for the current and previous years, less the amounts paid to the country's treasury. After official approval of the figures for 1999 and an official decision concerning the distribution of the net income, this balance will be allocated accordingly.

12.1.16 Special reserves

This reserve was formed originally by a reserve created by revaluation of gold stock in the years 1971, 1973, 1994, and 1997. The profits made by the sale of numismatic coins during 1990 also were added to the balance of this account.

Article 5 of the National Ordinance constituting the Central Bank Charter (P.B. 1985, no. 183) stipulates that the Bank can form these reserves with the consent of the Minister of Finance.

12.1.17 Reserve fund

The National Ordinance constituting the Central Bank Charter (P.B. 1985, no. 183) introduced a Reserve Fund of NAf.30,000,000 (Article 4).

12.1.18 Capital

The enactment in 1986 of the National Ordinance constituting the Central Bank Charter (P.B. 1985, no. 183) also introduced a capital of NAf.30,000,000 (Article 3).

12.2 Notes to the profit and loss account 1999

12.2.1 Foreign exchange earnings

These earnings result from the margin between the buying and selling rates applied by the Bank when trading in foreign currencies and from the differences in exchange rates arising from conversions and translations.

12.2.2 License fee

As of January 1, 1996, the Bank charges the foreign exchange banks a monthly license fee, based on amendments to article 12 of the National Ordinance constituting the Central Bank Charter (P.B. 1985, no. 183). The National Ordinance Foreign Exchange Fee was revoked as of that same date. The license fee is calculated as a percentage of the gross outflow of money due to transfers from residents to nonresidents and foreign currency cash transactions, as stipulated by a National Decree holding general orders.

12.2.3 Extraordinary income

The completion of the Goldfund's stock distribution resulted in an additional profit of NAf.2,533,331 in 1998 following intermediate profits already recognized in earlier years.

12.2.4 Extraordinary expenses

In 1998, these expenses related to costs incurred for preparation and verification of information systems' readiness for the new millennium.