ANNUAL REPORT 2000

Bank van de Nederlandse Antillen

REPORT OF THE PRESIDENT

1.1 General review

The world economy remained buoyant in 2000. This was also reflected by the developments in our main trading partners, the USA and the Netherlands. Both countries recorded high GDP growth, lower unemployment rates, rising fiscal surpluses, and a declining domestic debt. However, inflation accelerated due to the increase in oil prices and increasing wage pressures. In addition, the Venezuelan economy recovered from last year's recession supported by the higher oil prices.

The favorable world economic development could not prevent a further contraction of economic activity in the Netherlands Antilles. Real GDP declined by 4.3%, attributable mainly to a decline in domestic demand, the result of declines in consumption, investment, and government expenditures. Private consumption decreased due to, among other things, lower real disposable income resulting from high inflation and continued high migration. Government consumption declined in line with the liquidity constraints, exacerbated as investors reduced their holdings of government securities. Private investments remained weak because the investment climate was clouded by uncertainty surrounding the implementation of much-needed measures to address the financial-economic crisis. Domestic government investments were depressed due to financing constraints. Although economic activities declined in 2000, the unemployment rate improved as the marked migration, particularly to the Netherlands, reduced the number of unemployed. The significant increase in foreign expenses for services and in foreign portfolio investments resulted in a deterioration of our international reserves position in 2000, despite the moderate improvement in our export performance and a substantial inflow of Dutch liquidity assistance.

The inflation rate accelerated to 5.0% in 2000, attributable to both domestic and foreign factors. The main foreign factors explaining the increase in the inflation rate were the sharp rise in the price of oil and increases in the inflation rates of our main trading partners, the United States and the Netherlands. Furthermore, the increase in the turnover tax on the Leeward Islands (NAOB) from 2% to 5% in October 1999, contributed to the rise in domestic prices in 2000. Other domestic factors contributing to the high inflation were the increase in the turnover tax on the Windward Islands (BBO) from 2% to 3% on May 1, 2000, and an increase in hospital fees.

The performance of our main export industry, tourism, showed mixed results. The number of stay-over visitors declined, but the number of cruise tourists improved significantly on all islands. Overall, these developments resulted in an increase in foreign exchange revenues from tourism. The increased revenue stemmed mainly from St. Maarten, the largest of the Windward Islands, which accounts for nearly two-thirds of total foreign exchange revenues from tourism in the Netherlands Antilles. St. Maarten recorded increases in foreign exchange revenues from both stay-over and cruise tourism in 2000, as it started to recover from the slump in tourism caused by hurricane Lenny in November 1999. Tourism activities in Curaçao and Bonaire also showed mixed developments. Curaçao recorded a decline in the number of stay-over visitors, but a slight increase in the number of visitor nights. In addition, the number of cruise visitors and total foreign exchange revenues from tourism increased considerably. In Bonaire, cruise tourism and foreign exchange income improved, but the number of stay-over visitors decreased substantially.

The prospects for the tourist sector in 2001 are promising. In St. Maarten, more hotel rooms are expected after restoration from the hurricane damage. As a result, more tourists can be accommodated, spurring growth in this sector. In addition, tourism performance in Bonaire is expected to improve due to increased airlift capacity offered by American Eagle as of June 2001. Furthermore, the recovery of the tourist sector in Curaçao is expected to include stay-over tourism: the island is expanding the number of hotel rooms, and airlift capacity from Europe is increased by Air ALM and Dutch charter airlines. Cruise tourism is expected to grow further, as more and larger ships make use of the mega-pier.

Our second largest source of foreign exchange income, the international financial and business services sector, recorded mixed developments in 2000. On the one hand, profit tax transfers to the government dropped; on the other hand, receipts to cover operational expenditures increased. In addition, residents spent less on services rendered by companies in the international financial and business services sector. As a result, net operational income showed a substantial increase. The continued decline in profit taxes transferred to the government was related to the uncertainties surrounding the new tax regime for the sector. Although parliament approved the new fiscal regime (NFR) in December 1999, which eliminated the distinction between onshore and offshore activities, an interim agreement on the closely connected BRK (tax arrangement for the Kingdom of the Netherlands) was reached only in December 2000. The Netherlands Antilles was also removed from the OECD list of jurisdictions with harmful tax practices after the Minister of Finance issued a commitment letter in December 2000. Through this letter the Netherlands Antilles committed itself to cooperate with the elimination of all practices that are deemed harmful by the OECD. As a result of these developments, the Netherlands Antilles can enhance its competitive position and its reputation as an international financial center. Among other things, the BRK facilitates the conclusion of tax treaties with other European countries and the United States. In addition, the Netherlands Antilles acquired the status of Qualified Intermediary (QI), indicating that our regulations comply with the requirements, including the "know your customer" principle, of the United States Tax Office. Both the BRK and the QI status are expected to provide a positive impetus for the sector and our economy as a whole.

Foreign exchange revenues generated in the transportation sector declined in 2000, due primarily to a drop in oil storage fees. Developments in the other branches of the transportation industry were moderately positive. The overall performance of the national carrier Air ALM was still depressed in 2000 but showed signs of improvement as the number of passengers transported increased. The airline is currently preparing for privatization. As part of this effort, Air ALM started regular transatlantic flights to Amsterdam in December 2000. The Bank welcomes these efforts, but stresses that privatization should remain the ultimate objective, as it is the only way to safeguard the company's long-term viability. Airport activities, measured in total passenger movements, improved in Curaçao, due entirely to an increase in the number of transit passengers. In addition, the harbor industry recorded an improvement in its performance. The amount of cargo, measured in metric tons, handled for transshipment and for local purposes increased in the harbor of Curaçao. The number of ships piloted declined marginally, but the average size of the ships increased. The harbor of Bonaire recorded an increase in the number of ships piloted; mainly cruise ships and tankers. Furthermore, activities in the ship repair sector improved, reflected by increases in the number of man-hours sold and ships repaired.

The oil refinery recorded an increase in the number of barrels refined in connection with the rise in the price of oil. The increased production and the contractual increase in lease payments contributed to an increase in operational costs, mitigated by further improvements in cost efficiency. Oil transshipment activities increased on all three islands providing these facilities: Curaçao, Bonaire, and St. Eustatius. In December 2000, the agreement on the power plant project according to the "build, own and operate" principle (BOO) was finally concluded. This USD 275 million project will take approximately 28 months to complete. In addition, the implementation of the Isla Refinery Upgrading Program (IRUP) continued in 2000. This program is aimed at increasing the efficiency of the refinery and reducing the emission of harmful gasses. PDVSA and Refineria di Korsou, the owner of the refinery, finance the IRUP. These large investments will secure the long-term viability of the refinery and provide a much-needed stimulus for the local economy.

Free-zone activities deteriorated further in 2000, with a drop in the number of visits of shopping tourists. The decline was related to increased competition from other free zones in the region and the depressed economic situation in some of the main export markets. The enactment of the Economic Zone legislation by parliament in early 2001 has broadened the possibilities for companies to establish themselves in the economic zones, enabling them to benefit from the special tax regime. In addition, the enactment of the E-commerce legislation ensured that the Netherlands Antilles have up-to-date legislation to promote this highly dynamic sector, which may lead to increased activities in the local economy.

As of January 1, 2000, the Bank started to collect additional data from new sources to compile the balance of payments on a transaction basis rather than a cash basis, in line with international practices. The deficit on the current account of the balance of payments improved considerably in 2000 compared to 1999. Several factors contributed to this improvement. First, the trade balance recorded a marked improvement, due mainly to a sharp increase in oil exports related to the increase in oil prices on the world market. Second, merchandise imports declined considerably, due mainly to the depressed domestic demand. Third, the year 2000 was characterized by relatively high current transfer inflows stemming from the liquidity support granted by the Dutch government in relation to the implementation of the IMF program and the final payment from Aruba in connection with the division of assets and liabilities. These improvements were mitigated by increased migration, which resulted in higher outflows for travel, transfers of bank balances, and pension transfers abroad. In contrast to the improvement in the current account, the surplus on the capital account declined significantly. This deterioration was attributable entirely to the official capital balance- the Dutch government provided an exceptional inflow in 1999 for the construction of a new prison in Curacao and hurricane relief. The investment balance recorded mixed developments. On the one hand, the Dutch government provided a concessionary loan to bridge the shortfall in domestic financing. On the other hand, domestic investors reduced their loans to the governments and used the redemption on maturing loans to finance their foreign portfolio investments. The result was a deterioration in the investment balance. As the surplus on the capital account and the investment balance were insufficient to finance the deficit on the current account, our foreign exchange reserves declined. The decline would have been much greater if the Netherlands Antilles would not have received the transitory financing from the Dutch government, emphasizing the need for structural changes in our economy to improve our competitive position. In this regard, the flexibilization of the labor market, the lifting of entry restrictions for Dutch nationals, and the phasing-out of protective import levies are all steps in the right direction. However, more vigorous actions are warranted in fields such as privatization, tax reform, health care reform, and the reduction of red tape.

In the field of public finances, the General Government recorded an increase in its cash deficit in 2000. This deterioration can be attributed to an increase in expenditures, which exceeded the increase in revenues. The increase in revenues was due mainly to the increase in turnover tax rates on both the Leeward Islands and the Windward Islands and higher grants related to the division of assets and liabilities with Aruba. In contrast, most other tax revenues declined, due to the economic recession. Current expenditures increased due to increases in goods and services expenses and transfers. The higher expenditures on goods and services were caused by the partial payment of creditors with Dutch liquidity assistance. Transfers increased because of the revenue-sharing arrangements with the island governments and severance payments to laid-off personnel. Although the lay-offs contributed to a decline in wages and salaries, total personnel costs increased slightly due to the government's improved compliance with pension contributions. Noteworthy in this respect is the IMF-delegation's evaluation of the civil servants pension fund APNA in February 2001. The delegation presented a report with recommendations on reforms to safeguard the long-term viability of the pension fund. Furthermore, capital expenditures increased also, as the government settled a portion of guaranteed loans.

Despite the increase in the deficit, it remained within the limit agreed-upon in the IMF-supported policy program of September 15, 2000. However, accumulating delays in the implementation of the policy measures caused the derailment of the program in December 2000. Resumption of the program is crucial for restoring confidence, receiving additional financial support from the Dutch government, and, hence, a lasting recovery of our economy. Therefore, all efforts must be directed at meeting the prior actions set by the IMF to get the program back on track.

Monetary aggregates expanded moderately in 2000, due entirely to the expansionary impact of the domestic sector. In contrast, net foreign assets declined, resulting from the deficit on the balance of payments and the revaluation of the gold reserves. The private sector and miscellaneous factors accounted for the expansionary impact of the domestic sector, as the government sector recorded a contractionary impact. The private sector's expansionary impact was attributable primarily to the continued growth in credit extended by commercial banks. However, the pace of growth decelerated in the second half of the year, as monetary tightening started to affect commercial banks' lending. Miscellaneous factors contributed also to domestic money creation, as the revaluation of the gold reserves affected capital and reserves of the Bank. The contraction in the government sector's demand for liquid assets resulted from the receipt of liquidity assistance from the Dutch government in September and December 2000, which was deposited in a special account at the Bank. Without the liquidity assistance, the government sector would have exerted an expansionary impact due to a significant withdrawal of deposits and the purchase of government securities by the Bank.

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 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 by 1 percentage point in March and August 2000, and 0.25 percentage point in November 2000 to reach 11.25% by the end of the year. These increases could be met by interest-bearing CDs, providing additional interest income for the commercial banks.

The Bank modified its monetary policy in 2000 to strengthen its effectiveness and to correct for some negative side effects. First, the Bank introduced a mark-up of 0.25% on the official lending rate, which stands currently at 7.0%, for excessive use of the borrowing facilities of the Bank in October 2000. Second, effective November 1, 2000, the limit on net credit to the government was replaced by a limit on gross credit equal to the amount outstanding on June 30, 2000. This change eliminates the risk that banks are charged a penalty if the government withdraws its deposits. Finally, long-term deposits were exempted from the reserve requirement effective November 16, 2000. This exemption will lower the cost of funding for commercial banks and stimulate competition among banks for these deposits, a change expected to promote savings and, hence, increase financing for investments.

The economic recession had an adverse impact on commercial bank balances in the Netherlands Antilles, as loan-servicing capacity of debtors declined. Moreover, the continued migration on the Leeward Islands and the damage caused by hurricane Lenny on the Windward Islands reduced the value of collateral. As a consequence, the share of non-performing loans in the total loan portfolio increased. The Bank monitors this development closely, and in specific cases has instructed commercial banks to increase their provisions for possible future losses. In addition, the Bank will start publishing prudential indicators of financial system soundness starting the first quarter of 2001.

Furthermore, the consolidation process in the Netherlands Antillean banking sector continued. Currently, RBTT Group is finalizing the purchase of ABN-AMRO's local operations, which will create the second-largest bank in the domestic Antillean banking market. The Bank welcomes this development, as more banks of comparable size will promote competition and, hence, reduce the costs of intermediation.

Supervision of institutional investors has been enhanced in various areas in 2000. The Bank continued with its efforts to upgrade its supervisory and monitoring system according to the core principles of the International Association of Insurance Supervisors, introduced the Annual Reports Automated Statements to the sector, and is expanding its supervisory regime with non-financial aspects such as market conduct. Furthermore, the Bank re-issued the Corporate Governance Guidance Notes for all institutions operating in the Netherlands Antilles, drafted legislation regulating insurance brokers, and is preparing guidelines for insurance supervision on the Internet.

The Netherlands Antilles continued with its efforts against money laundering activities. These efforts yielded favorable assessment by the Financial Action Task Force (FATF), which did not include the Netherlands Antilles on a black list of non-cooperative jurisdictions. In addition, the Bank concluded an assessment of its supervisory framework of the international financial sector with assistance of the IMF in March 2001. Based on the recommendations of the assessment, the Bank will enhance the supervision of this sector. Among other things, the Bank has drafted legislation to subject mutual funds to its supervision. All these efforts are aimed at strengthening the Netherlands Antilles as an internationally reputed financial center.

1.2 Policy considerations

The economic recession in the Netherlands Antilles continued in 2000 against the background of favorable developments in the world economy. However, world economic prospects look much less favorable for 2001, fuelled by the slowdown of the US economy. This development may hamper a quick recovery of our economy.

During 2000, the authorities made considerable progress in implementing a program of economic adjustment and structural reform to address the financial-economic crisis. In preparation for an IMF-supported structural adjustment program, the government took various actions, accelerated by the adoption of an enabling law ("machtigingswet"). This law gave the government temporary fast-track authority for decisions in the financial-economic area, subject to subsequent approval by parliament. Measures taken to contain personnel costs included a lay-off scheme for central government employees, the elimination of the vacation allowance, prolongation of the freeze of periodic salary increments and indexation, limits on net new hiring and overtime, and a reduction in pension premiums. Furthermore, the tax base of the turnover, wage, and income taxes has been broadened, and tax enforcement and collection has been strengthened by a special action with assistance of Dutch experts. In addition, expenditures on goods and services have been cut further, and subsidies are gradually reduced. Also, a start has been made with the regularization of arrears and outstanding claims among government institutions.

In the field of structural reform, measures have been adopted to improve labor market flexibility, such as the abolishment of the individual dismissal permit, the easier use of part-time and temporary labor, and more freedom in the organization of the workweek, reducing the need for overtime. Moreover, a start has been made to set up a privatization framework.

In this context, on September 15, 2000, the authorities agreed with the IMF on a short-term fiscal, monetary and structural policies program underpinning medium-term adjustment. The program's measures were directed at restoring budgetary discipline, bringing the budget's financing needs in line with available resources, settling the backlog in outstanding claims and arrears, promoting further labor market flexibility, liberalizing trade, and improving the business environment. The agreement was supported by substantial financial assistance from the Dutch government to alleviate the adjustment efforts.

The authorities started implementing the program vigorously. Among other things, various government departments were spun-off into autonomous institutions, a plan was finalized for a leaner central government apparatus based on core tasks together with a lay-off scheme for redundant civil servants, and tax collection was automated at the Island Government of Curacao. Nevertheless, investors remained skeptical about the authorities' perseverance in implementing the measures in a full and timely manner, resulting in a continuation of the net redemption of government securities. Based on the progress made, however, the IMF advised the Dutch government to provide additional liquidity support to compensate for the shortfall in financing.

Unfortunately, delays in the implementation of some of the policy measures began to accumulate, causing derailment of the program. A lack of consensus among the social partners was partly to blame. As a result, arrears started to accumulate again, the net redemption of government securities continued, and the projected 2001 budget deficit was likely to balloon from NAf 85 million to NAf

225 million. It should be noted, however, that part of the deterioration was caused by a sharp shortfall in revenues due to the ill-prepared decentralization of the tax apparatus and a weaker-than-expected economy.

In March 2001, the authorities started negotiations with the IMF to get the program back on track. A set of prior actions must be met to resume the program. The main action is a reduction of the budget deficit by NAf 75 million to NAf 150 million. One-third of the savings should be generated by health care reforms. The government has installed a commission with representatives of the public health care administrations, the private sector, and the Bank to draft a plan aimed at a structural reduction of health care costs. In addition, the commission made recommendations on short-term savings at the end of March 2001. The Bank is of the opinion that the measures presented will not result in budgetary savings of NAf 25 million. To compensate for this shortfall, the Bank has suggested an acceleration of a phased introduction of a general health care insurance (AZV), which could generate substantial savings on health care expenditures, paid directly from the budget. Furthermore, substantial economies of scale and, hence, costs reductions, can be realized by merging the public health care administrations of BZV and SVB.

Others measures contributing to the NAf 75 million reduction of the deficit are further cuts in operational expenditures, strengthening of nontax revenues, and a second action to improve tax enforcement and collection with Dutch technical assistance. Most of the other prior actions contain measures that have been delayed. These measures include the ratification of the adjustments to wage and income taxes, the adoption of legislation to strengthen budget discipline, streamline import procedures, and liberalize shop opening hours, and an interim agreement on the new Solidarity Fund that raises budgetary support for the smaller island governments.

The swift finalization of the prior actions is crucial to restarting the Fund-supported adjustment program. Once the program is back on track, substantial Dutch financial assistance will become available to bridge short-term liquidity shortfalls and to support the development of a long-term growth strategy with the assistance of the World Bank and the development of a plan to improve the investment climate with assistance from the Foreign Investment Advisory Services (FIAS). To prevent new delays in the implementation of the program measures, special attention should be given to better coordination between government entities and building social consensus. Only a broadly supported structural adjustment program will be able to halt the economic decline and restore the prospect of economic growth.

This three-tier adjustment approach of fiscal consolidation, structural reform, and long-term growth should be implemented simultaneously for the successful structural adjustment of our economy. However, to boost confidence, tangible results are needed. These results could be produced with the implementation of a few specific projects that support the long-term policy objectives, but have a high short-term impact. To promote effective and efficient implementation, such projects should be managed outside the government apparatus.

The structural adjustment efforts will be supported by an appropriately tight monetary policy. The reserve requirement will remain the Bank's main policy instrument. As a result of the continuing discrepancy between credit and GDP growth, the Bank increased the reserve requirement further from 11.25% to 11.5% on January 16, 2001. The mechanism of the reserve requirement was refined on February 16, 2001, with the exclusion of inter-bank deposits to eliminate double counting and to promote the development of the inter-bank market. On the other hand, to enhance the effectiveness of this instrument to control commercial banks' liquidity and, hence, credit extension, the Bank will increase the mark-up on the official lending rate for borrowing in excess of the amount on the blocked account of the reserve requirement. In addition, the Bank will maintain the limit on commercial bank lending to the government of the monetary cash reserve arrangement to minimize monetary financing of the budget deficits.

The year 2000 emphasized again that the road to fiscal consolidation and structural reform is long and strewn with difficulties. Finalization of the prior actions to get the program back on track should be on the top of the national agenda. Once the program is running again, the authorities should underpin their commitment to a full and timely implementation by adhering to the deadlines in the policy matrix agreed-upon with the IMF. This approach will release substantial external financial support and contribute to a gradual return of confidence. Thus, a firm foundation will be laid for the implementation of medium-term structural reforms with the involvement of the World Bank and FIAS. These reforms should include a major tax reform, privatization, public expenditure management, education, and policies to address the aging population. If we persevere on the path to structural adjustment, the year 2001 can mark a lasting turnaround to sustainable economic growth, job creation, and an improvement in living standards.

E.D. Tromp
President

DEVELOPMENTS IN THE REAL SECTOR

2.1 General economic developments

In the year 2000, the Antillean economy was characterized by relatively high inflation, large migration, low nominal growth, and public sector reform. Furthermore, activities in the international financial sector deteriorated due to uncertainties surrounding the amendments in the BRK. By the end of 2000, preliminary agreement has been reached with the Netherlands.

The Netherlands Antilles recorded its fourth consecutive year of contraction during 2000, as real GDP shrank by 4.3%.[1] Economic contraction was accompanied by a soaring inflation and a high jobless rate. Inflation in the Netherlands Antilles jumped to 5.0%,[2] following a low inflation of 0.8% in 1999. This high inflation was the result of rising world oil prices and the indirect tax surge in 1999. The unemployment rate declined to 12.9% in 2000, down from 14.9%[3] in 1999, due to the vast migration.

2.1.1 National production and spending

Real gross domestic product fell by 4.3% in 2000, compared to a 5.3% decline in 1999. Slower activities in the construction, trade, financial services, and stay-over tourism sectors accounted for the weak performance in 2000. Domestic demand in real terms dropped, owing to decreases in consumption and investment of 8.7% and 6.1%, respectively. Consumption declined, as a result of less disposable income, stemming from the high migration and rising inflation. Moreover, investment slowed, because of the poor investment climate. In 2000, net exports improved to -4.0% of GDP, after -8.0% in 1999, as a result of lower imports. The improvement in net exports, however, could not offset the decrease in domestic demand, which led to a fall in GDP.

2.1.2 Inflation

After recording a low inflation rate of 0.8% in 1999, inflation in the Netherlands Antilles soared to 5.0% in 2000. The major contributors to the higher inflation were: (1) the sharp rise in world oil prices, (2) increase in the turnover tax rate on the Leeward Islands (NAOB) and on the Windward Islands (BBO), and (3) higher inflation of our main trading partners, the USA and the Netherlands.

An analysis by islands shows that Curaçao posted the highest annual inflation rate, followed by Bonaire. The rate of inflation for Curaçao was 5.8% in 2000, compared to 0.4% a year earlier (table 2.1). Almost all categories registered a price increase; the item "beverages & tobacco" (10.2%) reported the highest price increase, led by a price hike in beverages. Fueled by higher utility costs, inflation in "housing" rose by 8.4%. Higher-priced gasoline and car parts influenced the increase in the "transport & communication" sector (7.8%). A price surge in wheat products and fresh produce led to a higher inflation in the "food" category (6.3%). Consumer prices also were driven up by climbing prices in personal care and other goods & services, causing a price rise in the item "other" (5.0%).

[1] Estimate by the BNA.
[2] Estimate by the BNA (excluding St. Maarten, as figures were unavailable).
[3] Estimate by the BNA.

Table 2.1
Inflation rates for Curaçao and Bonaire 1999 and 2000 (% changes)

	Bonaire		Curaçao	
	2000	**1999**	**2000**	**1999**
Food	6.3	5.7	4.0	2.0
Beverages & tobacco	10.2	4.1	5.5	1.4
Clothing & footwear	1.5	1.3	1.5	0.8
Housing	8.4	0.4	2.1	-0.2
Housekeeping & furnishings	0.7	2.2	2.9	-1.0
Health	3.8	2.1	0.9	1.4
Transport & communication	7.8	8.1	8.6	-0.4
Recreation & education	0.9	2.0	1.0	0.9
Other	5.0	1.3	2.9	1.0
General inflation rate	5.8	3.5	3.9	0.4

In 2000, Bonaire's inflation drifted up to 3.9% from 3.5% in 1999. Similar to Curaçao, price gains in the transport and beverages components contributed to an inflation of 8.6% and 5.5% in the categories "transport & communication" and "beverages & tobacco", respectively. Moreover, pricier wheat products accounted for the 4.0% inflation in the "food" item.

2.1.3 Labor market

The unemployment rate in the Netherlands Antilles declined from 14.9% in 1999 to 12.9% in 2000. An analysis by islands shows an improvement in the labor market in St. Maarten and a further deterioration in Curaçao and Bonaire. In both Curaçao and Bonaire, the unemployment rate declined, due to the vast migration. St. Maarten's unemployment rate fell due to more employment possibilities. The vast migration in the Netherlands Antilles (excluding St. Maarten) can be deduced from the drop in population from 200,220 in 1999 to 198,335[4] in 2000.

Table 2.2
Labor market

	Curaçao		St. Maarten		Bonaire	
	1998	**2000**	**1997**	**2000**	**1996**	**2000**
Employment	52,962	52,236	18,896	22,626	7,274	7,206
Unemployment	10,543	8,531	3,931	3,337	467	436
Labor force	63,505	60,767	22,827	25,963	7,741	7,642
Unempl. rate (%)	16.6	14.0	17.2	12.9	6.0	5.7
Population	146,838	138,263	36,230	42,728	13,952	13,508

Source: Central Bureau of Statistics

In Curaçao, the unemployment rate dropped from 16.6% in 1998 to 14.0% in 2000. The number of employed as well as the number of unemployed declined, due to the large migration, reducing the total labor force. However, the number of unemployed fell at a faster rate than the total labor force, leading to a lower jobless rate. Employment in the trade, tourism, air transportation, social services,

[4] Estimate by the BNA

and public sectors worsened in 2000. According to figures published by the Department of Labor & Social Affairs, the number of staff laid-off in the private sector abated by 22.2% to 235 persons, compared with 302 persons in 1999.

Table 2.3
Laid-off personnel in Curaçao's private sector

	1999	2000
Sectors:		
Industry	16	6
Construction	54	48
Trade, hotel & restaurant	156	68
Transportation & communication	8	35
Financial & business services	17	19
Social services	51	59
Total	302	235

Source: The Department of Labor and Social Affairs

Jobs were created in the ship repair sector, but due to a lack of qualified personnel, most of the workers were hired from overseas.

In Bonaire, the labor market showed negligible changes between 1996 and 2000. The jobless rate slipped from 6.0% in 1996 to 5.7% in 2000. The changes in population and the labor force were negligible.

During the period 1997-2000, the net employment in St. Maarten increased by 3,730 persons. The unemployment rate dropped from 17.2% in 1997 to 12.9% in 2000. The population in the age group 35 and older increased because of immigration.

2.2 Developments by sector

2.2.1 Mining

Bonaire's salt industry posted mixed results in 2000. Salt exports rose by 4.9%, an improvement from the slide of 1.5% in 1999. In contrast, salt production plummeted by 27.8%, down from the marked increase of 55.1% in 1999.

2.2.2 Industry

Activities in the oil sector expanded in 2000: oil refining gained by 6.4%, after last year's fall of 7.6%. In line with the surge in oil refining, total operational costs rose by 14.4%, a result of increases in payroll, rent, and the refinery's own fuel consumption. Compared to previous years, the refinery's rent surged by 24.7% in 2000. According to the lease agreement between PDVSA and Refineria di Korsou, the rent will be raised during the period 2000-2004.

The ship repair industry in Curaçao improved as the number of man-hours sold grew by 4.9% in 2000, in contrast to a drop of 30.1% in 1999. Moreover, the number of ships repaired expanded by 17.4%, compared with the decline of 25.5% in 1999. Total earnings from ship repair increased by

13.4% in 2000. According to the Business Cycle Survey, other industries reported a drop in their business activities in 2000.

2.2.3 Utilities

During 2000, the utilities sector in the Netherlands Antilles expanded; water and electricity production surged by 0.4% and 0.8%, respectively. Compared with 1999, water and electricity output accelerated by 2.3 percentage points and 0.6 percentage points, respectively.

An analysis by islands reveals that the rise in water production came from St. Maarten (8.6%), down from the 9.2% growth in 1999. Meanwhile, both Curaçao and Bonaire recorded decreases of 1.2%, in comparison to their declines of, respectively, 3.4% and 9.7% in 1999.

Electricity production was up in 2000 by 0.5% and 3.7%, respectively, in Curaçao and the Windward Islands. In contrast, Bonaire posted a drop of 4.9% in 2000, following a fall of 0.8% in 1999.

2.2.4 Construction

In 2000, the construction sector in both Curaçao and St. Maarten[5] posted unfavorable results. The construction sector in Bonaire posted encouraging results, as the value of construction projects there swelled by 12.2% in 2000, compared to a drop of 15.2% in 1999.

2.2.5 Trade

In general, the performance of the free zone industry was moderate in 2000. The free zone activities linked to harbor activities experienced an expansion in its turnover. Despite the increase in the harbor related free zone activities, sugar and rice exports to the EU declined, due to the requirements imposed by the EU. The number of free zone visits dropped by 3.7%, after a drop of 14.7% in 1999. This decrease was reflected by a reduction in the number of visitors in all the main markets.

2.2.6 Tourism

The tourist sector in the Netherlands Antilles posted a mixed picture in the year 2000. Stay-over tourism fell (4.2%) for the second consecutive year. Cruise tourism, on the other hand, jumped by 43.5%, compared with a decline of 24.3% in 1999. During this period, the developments in the tourism industry in all three islands were mixed, reflected by a weak stay-over and an improved cruise arrival performance. Receipts from tourism expanded by 5.4% in 2000.

Tourism in St. Maarten, the island's leading economic activity, offered mixed results in 2000. The number of stay-over arrivals was down by 2.8%, after a decline of 3.0% in 1999 (table 2.4). The decrease in arrivals stemmed primarily from a lack of hotel room capacity, as the island is still recovering from the 1999 hurricane. The decline was reflected by drops of 5.3%, 3.2%, and 1.2% in arrivals from the North American, European, and South American markets, respectively. Only the Caribbean market recorded growth, as the number of travelers from other Caribbean islands surged

[5] Source for St. Maarten: Business Cycle Report.

by 10.1%. This growth can be related partly to high immigration. In contrast, the number of cruise visitors soared by 41.1% in 2000, up from the 30.2% fall in 1999.

Table 2.4
Developments in stay-over tourism per island (% change)

	Curaçao		Bonaire		St. Maarten	
	1999	**2000**	**1999**	**2000**	**1999**	**2000**
North America, of which:	-0.4	-2.7	4.7	-11.5	0.3	-5.3
-U.S.A.	-2.5	-2.8	4.8	-13.0	-1.4	-5.5
-Canada	33.5	-1.7	1.5	47.3	13.5	-4.1
Europe, of which:	0.7	-10.1	-5.6	-12.0	-5.3	-3.2
-The Netherlands	2.5	-10.5	-2.5	-12.6	-2.5	-23.6
-France	-	-	-20.2	-9.6	-7.1	4.2
-Germany	-0.1	-22.0	-13.0	-5.4	-	-
-Other Europe	-14.0	3.8	-13.7	-13.3	-0.5	-16.9
South & Central America, of which:	-9.2	10.3	-8.9	-31.9	-31.0	-1.2
-Venezuela	-7.7	14.5	-1.5	-30.8	-4.5	17.1
-Brazil	-49.4	-61.0	-52.6	-43.9	-59.4	-39.1
-Other S&C America	5.0	12.2	-8.5	-32.7	-32.5	-3.5
Caribbean, of which:	5.6	-13.6	5.1	-54.4	7.3	10.1
-Aruba	21.4	-20.1	-0.1	-56.9	-	-
-Santo Domingo	1.3	-9.3	19.2	2.0	9.5	-4.4
-Other Caribbean	-3.4	-10.0	77.3	-60.3	6.9	12.9
Rest of World	9.7	9.8	40.4	15.1	5.1	2.5
Total	-0.2	-3.5	-0.4	-16.6	-3.0	-2.8

Source: Islands' tourism offices.

For the year 2000, Curaçao's stay-over tourism weakened by 3.5%, measured against the 0.2% drop in 1999. Stay-over tourism dropped, because of a lack of seat capacity, the depreciation of the Euro against the US dollar, and concern about Y2K problems in the first quarter of 2000. Arrivals from the North American, European, and Caribbean markets dwindled by 2.7%, 10.1%, and 13.6%, respectively. A more detailed analysis by country of origin reveals that the fall in the number of stay-over guests came from the USA (2.8%), the Netherlands (10.5%), and Aruba (20.1%). In contrast, the South American market improved by 10.3%, owing to the Venezuelan visitors. In 2000, cruise passenger arrivals jumped by 40.2%, as opposed to the drop of 4.5% in 1999. This marked increase was attributable mainly to the year-round operation of the Carnival cruise line.

Stay-over tourism in Bonaire plummeted by 16.6% in 2000, following the decline of 0.4% in 1999. The number of cruise-ship visitors, however, rose three-fold. The surge in the number of cruise passengers may be related to an improvement in marketing efforts. The fewer stay-over arrivals in 2000 were reflected mostly by decreases of 13.0% and 12.6%, respectively, in the main markets, the USA, and the Netherlands. During this period, air arrivals experienced a setback, caused by: (1) a lack of airlift with the national airline "Air ALM", (2) the flight cancellation of "Air Aruba", and (3) the cancellation of direct KLM flights in the first half of 2000.

2.2.7 Transportation

The air transportation industry in Curaçao offered mixed developments in 2000. The number of passengers transported by the national airline "Air ALM"[6] improved by 3.2%, up from the 6.5% decline in 1999. This increase was due mainly to enhanced marketing activities in the Venezuelan market, contributing to a marked increase in the fourth-quarter passenger numbers. By contrast, cargo shipments tumbled by 14.4%, after a fall of 1.8% in 1999. The decline was due mainly to fewer cargo shipments from Haiti, Jamaica, and the Dominican Republic, which may be related to the decrease in free zone visits.

In 2000, Curaçao airport activities, as measured by total passenger traffic, edged upward by 1.5%, as opposed to a drop of 0.5% in 1999. The gain in 2000 stemmed from a surge in the flow of transit passengers (17.7%). The number of passenger arrivals and departures, however, sagged by 5.1% and 4.9%, respectively. Besides the rise in transit passenger traffic, the number of commercial landings also rose by 0.4%, contrasting with last year's decrease of 2.4%.

Oil transshipment in the Netherlands Antilles swelled by 19.7% in 2000, compared to a decline of 14.4% in 1999. This increase can be accounted for by gains in both Bonaire and Statia. In Curaçao, activities in oil storage and transshipment deteriorated by 33.9% and 4.2%, respectively, in 2000. In Bonaire, however, oil storage and transshipment soared by 30.3% and 31.7%, respectively. Statia's oil sector showed mixed developments in the year 2000. Oil storage slipped by 0.6%, while oil transshipment rose by 27.3%.

In 2000, developments in Curaçao's harbor industry were mixed. The number of ships piloted into the harbor slipped by 0.2%, following a drop of 11.4% in 1999. This decrease was due to fewer freight vessels (5.5%) entering the harbor. In spite of fewer freight ships piloted into the harbor, total cargo movements in Curaçao expanded by 3.1% in 2000. This expansion was reflected by an increase in both transshipment (14.0%) and local activities (2.2%).

In Curaçao, bunker sales of fuel advanced by 5.9% in 2000, compared to the decline of 21.6% in 1999. Higher oil prices may be partly responsible for the gain in fuel sales. Water sales, on the other hand, slipped by 0.2% in 2000, when measured against a fall of 11.4% in 1999.

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[6] Excluding the Trans-Atlantic flights by ALM Aviation N.V.

Harbor results in Bonaire were favorable, as the total number of ships piloted into the harbor gained by 7.7% in 2000, contrasting with last year's decrease of 22.3%. A surge mainly in tanker (18.1%) and cruise (66.7%) vessels led to the increase in 2000.

PUBLIC SECTOR

3.1 Cash overview and financing

3.1.1 Introduction

In the year 2000, the Government embarked on an adjustment program based partly on the recommendations of the "National Plan" commission, and aimed at achieving a viable budget and restoring fiscal discipline. Among other things, the turnover tax rate on the Windward Islands was raised by 1 percentage point to 3% as of May 1, 2000, while the tax administration began to clear a significant backlog in tax collection. Besides these revenue-enhancing measures, efforts were directed at containing wages and salaries and outlays for goods and services. An ambitious schedule for execution was put in place. A privatization program was also included in the schedule. A start has been made with the regularization of the outstanding claims within the public sector and between the public sector and the private sector. The arrears of the Island Government of Curaçao with respect to private suppliers have been reduced by NAf.20 million.

Despite these steps to tackle fiscal imbalances, liquidity constraints made it necessary to seek financial support from the Netherlands. Against the background of the request for financial support, a Memorandum of Economic Policies[7] was agreed upon with the International Monetary Fund (IMF). This memorandum comprised a comprehensive medium-term economic adjustment and reform program geared towards establishing a basis for economic recovery, achieving sustainable growth, and creating jobs. The developments in the public finances during the year 2000 must be seen against the background of, among other things, the agreement with the IMF.

The cash deficit of the General Government increased by NAf.38.3 million to NAf.91.4 million in 2000, the result of an increase of NAf.130.7 million in expenditures and a partially offsetting increase of NAf.92.4 million in revenues. The increase in expenditures can be ascribed to both current and capital expenditures. Current expenditures increased by NAf.103.8 million in 2000, mostly related to increases in transfers (NAf.64.9 million) and outlays for goods and services (NAf.26.1 million).

Table 3.1
Overview of cash operations of the General Government 1998 - 2000 (in millions NAf.)

	1998	1999	2000
Total revenue	1,266.9	1,167.9	1,260.3
Tax revenues	1,114.4	1,036.3	1,094.4
Nontax revenues	143.4	121.6	117.7
Capital revenues	0.1	1.3	1.4
Grants	9.0	8.8	46.9

[7] Netherlands Antilles, Memorandum of Economic policies, September 15, 2000

Total expenditures	1,351.7	1,221.0	1,351.8
Current expenditures	1,341.1	1,182.1	1,285.9
Capital expenditures	10.6	38.9	65.8
Balance	-84.8	-53.1	-91.4

The increase of NAf.92.4 million in revenues is attributed to a sharp increase of NAf.126.1 million in turnover tax[8] proceeds, resulting mainly from increases of NAf.129.9 million in the NAOB and NAf.6.4 million in the BBO. This increase in the turnover tax was mitigated by the decline of NAf.53.3 million in taxes on income and profits in 2000. Grants, on the other hand, increased by NAf.38.1 million, due mostly to the NAf.31.9 million received from Aruba in connection with the settlement of assets and liabilities with the Netherlands Antilles.

The deficit of the General Government was financed nonmonetarily in 2000. Due to shortfalls in domestic financing, the government of the Netherlands contributed substantially (NAf.84.1 million) to the liquidity requirement of the General Government.

The deficit as a percentage of GDP increased from 1% to 2% in 2000. This development resulted from a widening of the deficit by 72.1% and a marginal growth in nominal GDP of 0.7%. Both revenues and expenditures increased as a percentage of GDP from 27% to 29% and from 28% to 31%, respectively. The increase in revenues is, to a large extent, the result of the adjustments in the rates of the turnover tax and more aggressive collection of taxes. The tax burden increased from 21% to 23% and the collective burden from 27% to 29% of GDP. The ratio of government investments to GDP remained constant at 1% of GDP.

Table 3.2
Selected key variables of the General Government 1998 - 2000 (cash basis, % of GDP)

	1998	**1999**	**2000**
Revenues	28%	27%	29%
Tax revenues	24%	24%	25%
Expenditures	29%	28%	31%
Wages and salaries	14%	12%	12%
Interest payments	4%	3%	4%
Investments	1%	1%	1%
Balance	-2%	-1%	-2%

[8] The tax base of the "Nederlands Antilliaanse Omzetbelasting" (NAOB) applicable in Curaçao and Bonaire was broadened in October 1999 while the tax rate was raised to 5%. The rate of the turnover tax in the Windward Islands (BBO) was raised from 2% to 3% on May 1, 2000.

Primary balance	2%	2%	2%
Tax burden [1]	22%	21%	23%
Collective burden [2]	28%	27%	29%

[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.

The government raised fewer funds on the domestic capital market in 2000, a clear signal of decreased confidence in the government as investors are less willing to lend to the government. As can be seen from table 3.3, the decline in gross lending of the General Government during 2000, is entirely due to the net redemption of loans of the Central Government.

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

	1997	1998	1999	2000
Gross lending	145.3	184.2	171.7	142.2
Central Government	70.8	83.2	108.0	68.2
Island Gov't of Curaçao	74.4	101.0	63.7	74.0
Net lending	42.2	44.4	21.3	-20.9
Central Government	33.6	29.8	52.4	-34.2
Island Gov't of Curaçao	8.6	14.6	-31.1	13.3

[1] Long-term bonds. 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 increased by NAf.33.7 million (89.9%) to NAf.71.2 million during 2000. This deterioration resulted from an increase of NAf.182.1 million in expenditures that outweighed the increase of NAf.148.4 million in revenues.

The surge in expenditures can be ascribed to NAf.148.5 million more in current expenditures and an increase of NAf.33.6 million in capital expenditures. The increase in current expenditures was caused mainly by a NAf.143.7 million increase in transfers and a NAf.6.4 million increase in subsidies. Outlays for wages and salaries, and goods and services remained almost unchanged. The development in wages and salaries can be broken down into a drop of NAf.27.7 million in wages, a NAf.27.3 million increase in pension premiums, while the social security contributions remained almost unchanged. The drop in wages and salaries is the consequence of the lay-off of personnel and the abolishment of the vacation allowance. The increase in pension contributions occurred because in 1999 the Central Government did not meet all its pension obligations compared to 2000.

The increase in transfers can be ascribed mainly to the NAf.125.4 million increase in transfers to other levels of government, as a consequence of revenue-sharing arrangements. In addition, the increase of NAf.17.2 million in transfers to households was related to severance payments. Domestic interest payments increased by NAf.11.8 million (16.4%), reflecting the increased domestic debt and higher interest rates. Total interest payments increased only marginally by NAf.1.0 million (1.1%) in 2000, because a correction was made on the foreign component as a consequence of the debt settlement with the Island Government of Curaçao.

Capital expenditures increased by NAf.33.6 million. This increase can be ascribed to the NAf.35.5 million increase in capital transfers, a NAf.3.5 million increase in net lending, and a drop of NAf.5.4 million in investments. The increase in capital transfers can be attributed mainly to the partial settlement of a guarantee extended to a hotel project on Bonaire.

The increase in revenues can be ascribed to a NAf.99.6 million increase in tax revenues, a NAf.10.6 million increase in nontax revenues, and a NAf.38.1 million increase in grants. The increase in tax revenues can be attributed primarily to the NAf.126.1 million surge in turnover tax revenues. This increase was mitigated, however, by decreases of NAf.3.1 million in taxes on property, NAf.15.6 million in excises, and NAf.15.4 million in taxes on international trade and transactions. These declines were the result of the weak economic conditions.

The increase in nontax revenues can be explained mainly by a NAf.13.8 million increase in entrepreneurial and property income. The latter is attributed to a NAf.5.6 million increase in the transfers from the central bank and NAf.8.4 million interest received from the island governments on formalized debt with the SVB and APNA. Revenues from fees, charges, and sales declined by NAf.4.2 million.

Table 3.4
Overview of cash operations of the Central Government 1998 - 2000 (in millions NAf.)

	1998	**1999**	**2000**
Total revenue	555.7	509.9	658.3
-Tax revenue	458.8	419.4	519.0
Taxes on property	21.0	20.1	17.0
Taxes on goods and services, of which:	296.8	248.0	363.5
Excises	142.6	130.7	115.1
Sales and turnover tax	141.8	105.7	231.8
Taxes on international trade and transactions, of which:	132.5	143.5	128.1
Import duties	131.7	142.1	126.5
Other taxes	8.5	7.8	10.4
-Nontax revenue, of which:	87.8	81.7	92.3
Entrepreneurial and property income	40.8	41.8	55.6
Fees, charges, and sales	43.5	38.9	34.7
-Grants	9.0	8.8	46.9
Expenditures	615.3	547.4	729.5
-Current	621.5	525.7	674.2
Wages and salaries	322.7	249.3	248.6

Goods and services	101.8	98.0	96.1
Interest payments	57.4	76.2	77.2
Subsidies	5.0	4.4	10.8
Transfers	134.6	97.8	241.5
-Capital expenditure	-6.2	21.7	55.3
Investment	22.4	21.7	16.3
Capital transfers	3.1	0.0	35.5
Net lending	-31.7	0.0	3.5
Balance	-59.6	-37.5	-71.2

Finally, grants from abroad increased by NAf.38.1 million, due mostly to the NAf.31.9 million received from Aruba in connection with the settlement of assets and liabilities with the Netherlands Antilles.

The Central Government's cash deficit in 2000 was financed mainly nonmonetarily (see table 3.5). The nonmonetary financing resulted largely from an increase in arrears and liquidity support received from the government of the Netherlands. Government securities with the public declined, as not all maturing loans were refinanced.

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

	1998	1999	2000
Cash deficit	-59.6	-37.5	-71.2
Monetary financing	5.2	10.4	6.8
Central Bank	1.1	11.2	6.7
Coins & notes	3.8	2.1	1.2
Commercial banks	0.3	-2.9	-1.1
Nonmonetary financing	54.4	27.1	64.4
Gov't securities with the public	65.7	41.4	-13.9
Other	-11.3	-14.3	78.3

3.1.3 Island Government of Curaçao

The cash deficit of the Island Government of Curaçao increased by NAf.4.6 million to NAf.20.2 million in 2000 compared to 1999. This increase was the result of a NAf.58.1 million increase in expenditures and a largely offsetting increase of NAf.53.5 million in revenues.

The increase in expenditures can be ascribed to a NAf.70.6 million increase in current expenditures. Nearly all categories of current expenditures recorded an increase in 2000, compared to 1999. Transfers registered the largest increase (NAf.34.7 million), caused mainly by an increase of NAf.30.4 million (82.1%) in transfers to households due to severance payments. Outlays for goods and services increased by NAf.24.5 million in 2000, primarily because of a reduction in outstanding arrears with private creditors. Interest payments increased by NAf.8.6 million due mainly to increased domestic interest payments. Finally, wages and salaries increased by NAf.6.1 million, the result of increased pension fund contributions of NAf.39.9 million and a drop in wages by NAf.33.8 million (12.7%), due to the layoff of personnel. These increases were offset partly by a drop of NAf.9.1 million in subsidies.

Capital expenditures dropped by NAf.6.7 million, attributable largely to lower investments (NAf.6.5 million).

The increase in revenues is entirely the result of an increase in grants of NAf.113.6 million in 2000, as tax and nontax revenues dropped by NAf.41.5 million and NAf.18.6 million, respectively. The increase in grants is related to the increase in the turnover tax revenues of the Central Government, which are shared with the island governments.

Table 3.6
Overview of cash operations of the Island Government of Curaçao 1998 - 2000 (in millions NAf.)

	1998	**1999**	**2000**
Revenues	764.5	703.9	757.4
-Tax revenue	655.7	616.9	575.4
Taxes on income and profits	607.9	564.7	511.4
Profit tax	255.5	226.1	165.4
Wage tax	329.5	324.8	335.2
Income tax	22.9	13.8	10.8
Taxes on property	12.7	18.7	28.5
Land tax	6.6	13.8	21.1
Occupancy tax	6.1	5.0	7.4
Taxes on goods and services	35.1	33.4	35.5
-Nontax revenue, of which:	63.4	44.0	25.4
Entrepreneurial and property income	29.7	21.0	2.7
Fees, charges, and sales	24.5	16.5	13.7
-Capital revenue	0.0	1.3	1.3
-Grants	45.4	41.8	155.4
Expenditure	789.7	719.5	777.6
-Current	772.9	702.3	767.1
Wages and salaries	303.4	291.7	297.8
Goods and services	207.1	184.8	209.2
Interest payments	107.8	73.9	82.5
Subsidies	72.8	60.2	51.1
Transfers	81.8	91.7	126.4
-Capital, of which:	16.8	17.2	10.5
Investment	15.8	17.0	10.5
Balance	-25.2	-15.6	-20.2

The drop in tax revenues of the Island government of Curaçao can be ascribed primarily to a NAf.53.3 million (26.8%) drop in the profit tax, reflecting weak economic conditions. This development was mitigated partly by increases of NAf.10.3 million in the wage tax, NAf.9.8 million in taxes on property, and NAf.2.0 million in taxes on goods and services. The increase in the wage tax can be explained mainly by a special effort to improve compliance. The increase in taxes on property is attributed to a reduction of the backlog in assessment and collection. In the category of taxes on goods and services, motor vehicle taxes increased by NAf.6.3 million because of an increase in tariffs, while income from licenses and hotel room taxes dropped by NAf.4.2 million and NAf.0.1 million, respectively.

The lower nontax revenues are mainly the result of NAf.18.3 million lower entrepreneurial and property income due to less dividend income and NAf.2.8 million less in fees, charges, and sales.

The Island Government of Curaçao financed its cash deficit both monetarily and nonmonetarily in 2000 (see table 3.7). Monetary financing consisted largely of an increase in outstanding government securities with the Central Bank. In contrast, outstanding government securities with the commercial banks and the public dropped in 2000.

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

	1998	1999	2000
Cash deficit	-25.2	-15.6	-20.2
Monetary financing	-25.6	43.4	14.1
Central Bank	1.7	21.0	55.9
Commercial banks	-27.3	22.4	-41.8
Nonmonetary financing	50.8	-27.8	6.1
Gov't securities with the public	20.8	-31.3	-11.1
Other	30.0	3.5	17.2

3.2 Public sector debt and guarantees

3.2.1 Introduction

The total consolidated public debt of the Netherlands Antilles dropped by NAf.62.0 million (1.9%) in 2000 compared to 1999, reaching NAf.3.236 billion or 73.4% of GDP. The domestic public debt increased marginally by NAf.6.1 million (0.2%), while the foreign debt dropped by NAf.68.1 million (10.8%)

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

	1998	1999	2000
Domestic debt [1)]	2,516.2	2,670.3	2,676.4
Foreign debt	625.5	627.9	559.8

Total debt	3,141.7	3,298.2	3,236.2
% of GDP	68.5%	75.3%	73.4%

[1)] Consolidated.

3.2.2 Public sector domestic debt

The domestic debt of the Netherlands Antilles increased marginally in 2000 (NAf.6.1 million). The Island Government of Curaçao and the other island governments contributed to this increase, while the domestic debt of the Central Government dropped. Part of the decrease in the debt of the Central Government (NAf.21.0 million) can be ascribed to a drop in outstanding government securities with the Central Bank (NAf.23.7 million) and with the public (NAf.13.9 million). In addition, the Central Government managed to reduce its debt to the island governments and other creditors by NAf.5.6 million and NAf.16.5 million, respectively. These decreases were mitigated by increases in securities held by commercial banks (NAf.3.4 million), and in arrears to the civil servant pension fund (APNA) and the Social Security Bank (SVB) of NAf.18.5 million and NAf.17.0 million, respectively.

The increase in the debt of the Island Government of Curaçao (NAf.11.1 million) can be explained mainly by the increase of NAf.55.8 million in outstanding government securities with the Central Bank and in arrears at the SVB of NAf.17.1 million. Arrears at the APNA and with other creditors dropped by NAf.13.1 million and NAf.18.5 million, respectively, in 2000. Furthermore, securities held by commercial banks dropped by NAf.25.8 million in 2000.

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

	1998	1999	2000
CENTRAL GOVERNMENT	995.5	1,153.8	1,132.8
Central Bank	64.6	94.6	70.7
Commercial banks	89.7	70.6	74.0
Government securities with the public	704.7	862.9	849.0
Social Security Bank (SVB), arrears	72.7	8.1	25.1
Civil servants pension fund (APNA), arrears	6.6	53.5	72.0
Other	57.2	64.1	42.0
Island Gov't of Curaçao	1,430.6	1,447.9	1,459.0
Central Bank	15.0	15.0	70.8
Commercial banks	121.5	126.9	101.1
Government securities with public	391.0	359.7	348.6
Social Security Bank (SVB), arrears	43.0	17.0	34.1
Civil servants pension fund			

(APNA), arrears	716.0	749.7	736.6
Arrears to other creditors	144.1	179.6	161.1
Central government	0.0	0.0	6.7
Other Island Gov'ts of which:	98.0	76.0	93.9
Social Security Bank (SVB), arrears	29.7	11.9	18.9
Civil servants pension fund			
(APNA), arrears	68.3	64.1	74.2
Total consolidated domestic debt	2,516.2	2,670.3	2,676.4

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

Finally, the arrears of the other island governments at the APNA and the SVB increased by NAf.10.1 million and NAf.7.0 million, respectively. The total debt of those islands territories amounted to NAf.93.9 million in 2000, of which NAf.60.8 million (65%) can be ascribed to the Island Government of Bonaire. For the three smaller islands, i.e., Bonaire, Saba and St. Eustatius, which receive transfers from the so-called Solidarity Fund, solutions are currently being sought by a joint committee of the Netherlands and the Netherlands Antilles for, among other things, their indebtedness and the insufficient availability of funds.

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, of approximately 7.4% against the Dutch guilder. Most of the foreign debt of the Netherlands Antilles is denominated in Dutch guilders. In addition, the Central Government paid part of a guarantee granted to a foreign financial institution.

THE EXTERNAL SECTOR

4.1 General overview

Projected developments for the external sector in 2000 were mixed. On the one hand, an improvement in the current account was expected due to positive developments in our main services sectors. These developments would offset the deterioration in our trade balance due to higher imports, which in turn would be related to higher payments for oil imports and a rise in non-oil-related imports due to an increase in economic activity and continued growth of the tourist sector. On the other hand, a drop of NAf.80 million in our reserves assets was expected, due to a deterioration in the capital and financial account.

The economy deteriorated further, showing a contraction in real GDP of 4.3%[1], as domestic demand fell. In contrast, the sluggish domestic demand had a positive impact on the external balance. A lasting improvement of our external reserves, however, should be achieved through growth in our export sectors. The current account improved in 2000 compared to 1999. Our main foreign exchange generating sectors -- the tourist sector and the international financial and business services sector -- performed well in 2000. However, the main factors that contributed to the improvement of the current account were the decline of the trade deficit and a transitory high surplus on the transfer balance. The capital account recorded a lower surplus in 2000 than in 1999, while the financial account deteriorated due to an increase in our foreign liabilities. Overall, our reserve assets declined by NAf.85.6 million in 2000, resulting in a net international reserves position of NAf.636.4 million, including gold (graph 4.1)

[1] Estimate by the BNA

Graph 4.1 Development in international reserves (in millions NAf.)

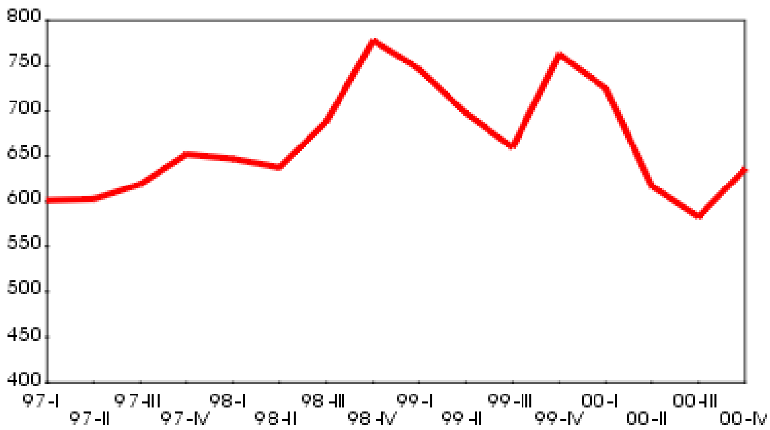

Table 4.1
Balance of payments summary[1]) (in millions NAf.)

	1999	2000	diff.
Current account	-392.2	-259.1	133.1
Capital account	194.0	53.4	-140.6
Financial account, of which:	171.8	189.1	17.3
-Change in reserves[2])	14.8	85.6	70.8
Statistical discrepancies	26.4	16.7	-9.7
Memorandum item			
Change in reserves[2]	14.8	85.6	70.8
-with commercial banks	45.6	77.9	32.3
-with central bank	-30.8	7.7	38.5

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

4.2 The current account

The deficit on the current account of the balance of payments improved by NAf.133.1 million to NAf.259.1 million in 2000. As illustrated in table 4.2, the improvement of the current account was the result of:

- a rise in exports, related almost entirely to the rise in bunker revenues due to higher oil prices;
- a drop in imports, mainly as a result of the sluggish economic activities, offsetting the higher payments for oil imports as a result of the increased oil prices;
- a significant improvement in the transfer balance.

These developments compensated in part for the NAf.187.5 million increase in expenses for services, due mainly to the increase in tourist expenses by residents abroad, construction and engineering expenses related to the construction of a new prison and the IRUP project.

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

	1999	**2000**	**diff.**
Trade balance	1,957.6	1,850.7	106.9
-Exports	1,193.2	1,249.3	56.1
-Imports	3,150.8	3,100.0	-50.8
Services balance	1,505.3	1,483.0	-22.3
-Receipts, of which:	2,724.5	2,889.7	165.2
-Transportation	303.0	290.9	-12.1
-Travel	1,298.9	1,368.8	69.9

-Other services, of which:	1,122.6	1,230.0	107.4
-Int. fin. & bus. services sector	456.8	485.2	28.4
-Expenditures, of which:	1,219.2	1,406.7	187.5
-Transportation	114.9	130.2	15.3
-Travel	556.4	606.0	49.6
-Other services, of which:	547.9	670.5	122.6
-Int. fin. & bus. services sector	180.8	162.8	-18.0
Income balance[2)]	43.5	47.6	4.1
Current transfers[3)], of which:	16.6	61.0	44.4
-Profit taxes	124.0	80.6	-43.4
Current account balance	-392.2	-259.1	133.1

1) Transaction basis
2) Labor and investment income
3) Public and private transfers

4.2.1 The trade balance

The trade balance improved by NAf.106.9 million in 2000, compared to 1999. This improvement was attributable to a combination of higher exports and lower imports. Merchandise exports increased by NAf.56.1 million, related to the NAf.123.6 million increase in receipts due to bunker activities, as illustrated in table 4.3.

The NAf.50.8 million drop in imports contributed to a further improvement of the trade deficit. This drop can be attributed entirely to the NAf.305.8 million drop in non-oil-related imports during 2000. This drop can be related to the decline in economic activities and sluggish domestic demand: imports declined in all the main sectors of the economy. On the other hand, payments for oil imports increased by NAf.252.2 million due to the higher oil prices.

A breakdown by island reveals that both the merchandise balance on Curaçao and Bonaire improved, mainly as a result of lower imports. In contrast, the deficit on the merchandise balance on the Windward Islands increased in 2000, particularly as a result of higher oil imports, offsetting the increase in receipts from bunker activities.

Table 4.3
A breakdown of the merchandise balance[1)] (in millions NAf.)

	1999		2000		Diff.	
	Export	**Import**	**Export**	**Import**	**Export**	**Import**
Bonaire	11.7	79.3	18.2	63.3	6.6	-15.9
-General merchandise	10.5	76.9	17.4	57.3	6.9	-19.6
-Oil products	-	0.6	-	0.5	-	-0.1
-Goods for processing	1.2	1.7	0.2	5.5	-1.0	3.8
-Repair on goods	-	-	-	-	-	-
-Goods procured imports (bunker)	-	-	0.7	-	0.7	-

Curaçao	924.6	2,351.3	872.4	2,213.3	-52.2	-138.0
-General merchandise	751.0	2,145.8	646.3	1,882.8	-104.6	-263.0
-Oil products	-	141.9	-	267.8	-	125.9
-Goods for processing	15.5	36.6	5.5	35.9	-10.0	-0.7
-Repair on goods	76.0	15.3	86.2	12.5	10.2	-2.9
-Goods procured imports (bunker)	82.2	11.8	134.4	14.4	52.2	2.6
Windward Islands	256.9	720.3	358.6	823.4	101.7	103.2
-General merchandise	60.9	544.5	79.7	521.2	18.7	-23.3
-Oil products	29.3	175.8	41.5	302.2	12.2	126.4
-Goods for processing	-	-	-	-	-	-
-Repair on goods	-	-	-	-	-	-
-Goods procured imports (bunker)	166.7	-	237.5	-	70.8	-
Netherlands Antilles	1,193.2	3,150.8	1,249.3	3,100.0	56.1	-50.8
-General merchandise	822.4	2,767.2	743.4	2,461.3	-79.0	-305.8
-Oil products	29.3	318.3	41.5	570.5	12.2	252.2
-Goods for processing	16.6	38.3	5.6	41.4	-11.0	3.1
-Repair on goods	76.0	15.3	86.2	12.5	10.2	-2.9
-Goods procured imports (bunker)	248.9	11.8	372.5	14.4	123.6	2.6

1) Transaction basis

4.2.2 The services balance

The surplus on the services balance dropped by NAf.22.3 million in 2000 compared to 1999, due to an increase in foreign exchange expenses. However, the performance of our main foreign exchange-generating sectors improved in 2000. Net earnings from the international financial and business services sector increased by NAf.46.4 million in 2000, while net foreign exchange earnings from the tourist sector increased by NAf.20.3 million compared to 1999. In contrast to this development, net foreign exchange earnings from the transportation sector dropped by NAf.27.4 million in 2000.

4.2.2.1 Tourism

The tourist sector performed well in 2000, as measured by the amount of foreign exchange revenues generated. As can be seen in table 4.4, total foreign exchange receipts from the tourist sector increased by 5.4 %, particularly on the Windward Islands. However, this development should be viewed with caution, because our tourism industry is not as buoyant as these figures might indicate. Stay-over tourism is considered to have a greater economic impact than cruise tourism. In 2000, stay-over tourism declined by 4.2%, measured by the number of visitors, particularly on the Leeward Islands (6.6%). As illustrated in table 4.4, foreign exchange earnings generated by stay-over tourism on the Leeward Islands declined by NAf.13.5 million.

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

	1999	2000	Diff.	%
Bonaire	112.3	100.0	-12.3	-11.0
-Stay-over	108.0	93.8	-14.2	-13.1
-Cruise	4.3	6.1	1.8	42.9
Curaçao	394.1	405.5	11.3	2.9
-Stay-over	362.9	361.7	-1.3	-0.4
-Cruise	31.2	43.8	12.6	40.4
Windward Islands	792.5	863.4	70.9	9.0
-Stay-over	657.1	675.2	18.1	2.8
-Cruise	135.3	188.2	52.9	39.1
Netherlands Antilles	1,298.9	1,368.8	69.9	5.4
-Stay-over	1,128.1	1,130.7	2.6	0.2
-Cruise	170.8	238.1	67.3	39.4

1) Transaction basis

The tourist sector on the Windward Islands performed well in 2000. Foreign exchange receipts from the tourism sector increased by 9.0 %, reflecting particularly the 41.1% increase in the number of cruise visitors. The number of stay-over visitors dropped by 2.8%, primarily due to a lack of hotel room capacity as a result of hurricane Lenny in 1999.

The tourist sector on the Leeward Islands showed mixed developments in 2000. Foreign exchange earnings generated by cruise tourism increased on Curaçao and Bonaire reflecting the marked increase in the number of cruise visitors. In contrast, foreign exchange receipts generated by stay-over tourism decreased on both islands, concomitant with the drop in the number of stay-over visitors, due among other things, to a lack of airlift.

Despite the depressed economy, expenditures by residents abroad increased considerably by NAf.49.6 million (9%) in 2000 compared to 1999. The explanation can be the considerable number of families migrating to the Netherlands.

4.2.2.2 Other services

Other services consist primarily of the international financial and business services sector, refining, construction, and telecommunication services. Net earnings from these services declined by approximately NAf.45 million in 2000 compared to 1999, as a result of increased expenses particularly due to developments in the refining and construction sectors. The engineering expenses with regard to the refinery's IRUP project increased in 2000 as compared to 1999. The expenses in the construction sector increased considerably by NAf.48.7 million, mainly as a result of ongoing projects, such as the new prison.

4.2.3 The current transfer balance

The current transfer balance recorded a surplus of NAf.61.0 million in 2000, an increase of NAf.44.4 million compared to 1999. This improvement can be ascribed particularly to the NAf.40 million in grants received from the Netherlands and the final settlement payment from Aruba of NAf.36.7 million regarding the distribution of assets and liabilities. Both receipts partly compensated for the NAf.43.4 million drop in profit taxes by the international financial and business services sector and the increase in private transfers abroad as a result of the continuing migration to the Netherlands.

4.3 The capital and financial account

The surplus on the capital account of the balance of payments dropped by NAf.140.6 million to NAf.53.4 million in 2000, compared to 1999. The financial account deteriorated due to an increase in our foreign liabilities, while our reserves assets declined by NAf.70.8 million.

4.3.1 The capital account

The lower surplus on the capital account of the balance of payments was accounted for mainly by the exceptional financing of approximately NAf.105 million received in 1999. This financing was earmarked for, among others, the construction of a new prison and recovery of the damage by hurricane Lenny.

4.3.2 The financial account

The financial account shows how an economy's balance of payments transactions are financed. If an economy's savings exceed its investments, the surplus reflects a net financial outflow and thus an increase in financial investment abroad. However, if an economy's savings are less than its investments, you should see a net financial inflow and thus an increase in financial liabilities.

In 2000, the financial account reflected the state of the economy: sluggish economic activities, a considerably decline in our reserves assets despite a financial injection by the Netherlands, and a marked increase in our foreign liabilities of NAf.74.2 million. The increase in our foreign liabilities was due mainly to an increase in foreign borrowing, among others, the NAf.112 million loan provided by the Dutch Government as part of the financial assistance package for the Netherlands Antilles. In addition, as table 4.5 reveals, portfolio investment abroad increased, particularly by the institutional investors. Institutional investors are reducing their exposure to the government, using part of the redemption on government loans to invest abroad.

Table 4.5
Breakdown of the financial account[1] (net flows, in millions NAf.)

	1999	2000	Diff.
Direct investment	-100.0	-108.9	-8.9
-Abroad	2.1	4.1	2.0
-In the Netherlands Antilles	-102.1	-113.0	-10.9
Portfolio investment	3.8	-67.6	-71.4
Other investment	253.2	280.0	26.8
-Assets	105.4	58.1	-47.4
-Liabilities	147.8	222.0	74.2
Reserve assets	14.8	85.6	70.8
Financial account	171.8	189.1	17.3

[1] Transaction basis

MONETARY DEVELOPMENTS

5.1 Introduction

Monetary developments in 2000 must be seen in light of our weak economy and diminishing confidence in the government by the banking and the private sector. This lack of confidence is reflected by the government's difficulty in refinancing maturing loans. In fact, commercial banks reduced the amount of government paper held in portfolio. Domestic credit extension to the private sector, however, continued to rise in 2000. As a result, net domestic assets showed a marked increase, which led to a loss of foreign assets.

Since January 1, 1999, monetary policy is being conducted using the reserve requirement, an indirect instrument, as its main policy tool. The reserve requirement is aimed at reducing the liquidity in the banking system and, hence, limiting the potential for excessive credit extension by commercial banks. The instrument requires commercial banks to 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, the current account balances of the commercial banks with the Bank, and developments in domestic credit extension to the private sector. A significant portion of the reserve requirement is interest-bearing, as the commercial banks can comply partly with the reserve requirement by buying or holding Certificates of Deposit (CDs) issued by the Bank.

5.1.1 Monetary policy changes in 2000

Due to the persistent decline in official reserves and the continued growth in domestic credit to the private sector, the reserve requirement percentage was raised by one percentage point to 10% in March 2000, again by one percentage point in August 2000 to 11%, and by 25 basis points to 11.25% in November 2000.[9]

In September 2000, the authorities reached an agreement with the IMF concerning a set of measures aimed at addressing the structural imbalances in our economy. Based on this agreement and in an effort to strengthen the effectiveness of monetary policy, the Bank modified its policy in the last three months of 2000. First, the Bank limited the total amount of advances to a commercial bank to the amount on its blocked account of the reserve requirement as of October 1, 2000. Any additional borrowing will be subject to a mark-up of 0.25% on the official lending rate, which stands currently at 7.0%. Second, effective November 1, 2000, the limit on net credit to the government was replaced by a limit on gross credit equal to the amount outstanding on June 30, 2000. This change eliminates the risk that banks are charged a penalty if the government withdraws its deposits. Finally, long-term deposits are exempted from the reserve requirement, effective November 16, 2000. This exemption will lower the cost of funding for commercial banks and

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[9] Due to the continued growth in domestic credit extension to the private sector, the Bank further increased the reserve requirement percentage to 11.5% in January 2001.

stimulate competition among banks for these deposits, a change designed to promote savings and, hence, increase financing for investments.

As a result of the increases in the reserve requirement, growth in domestic credit extension to the private sector decelerated from 10.3% in 1999 to 5.6% in 2000. Although the deceleration was substantial, domestic credit extension still outpaced the nominal growth rate of our economy.

5.2 Developments in the money supply and the money creating process

5.2.1 Money supply

The money supply increased by 2.2% (NAf.63.7 million) in 2000, compared to an increase of 7.1% (NAf.192.7 million) in 1999. This deceleration in money growth was primarily the result of a turnaround 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 2.7% (NAf.31.6 million) decline during 2000, compared to a 10.4% (NAf.111.9 million) increase in 1999. This deceleration resulted from declines in the growth rates of all three items of the money component of the money supply. The deceleration was most remarkable in foreign currency denominated demand deposits, which turned around from a 26.5% (NAf.47.9 million) expansion in 1999 to a 12.5% (NAf.28.6 million) contraction in 2000. Demand deposits denominated in Antillean guilders increased by a mere 0.7% (NAf.5.1 million), down sharply from the 8.5% (NAf.59.9 million) increase in 1999. Furthermore, coins and notes with the public declined by 4.1% (NAf.8.1 million) during 2000, compared to a 2.1% (NAf.4.1 million) increase in 1999. This decline might indicate increased use of non-cash means of payments like debit cards, credit cards, and personal checks.

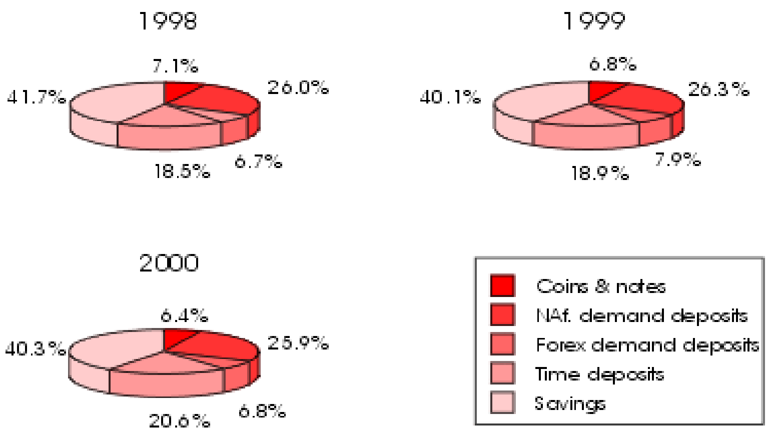
Table 5.1
Developments in the money supply and its components (in millions NAf. and percentage changes)

	1999		**2000**	
Coins & notes with the public	197.0	(2.1%)	188.9	(-4.1%)
Total demand deposits,				
of which:	990.1	(12.2%)	966.6	(-2.4%)
-Neth. Ant. guilders	761.2	(8.5%)	766.3	(0.7%)
-Foreign currency	228.9	(26.5%)	200.3	(-12.5%)
Money (M1)	1,187.1	(10.4%)	1,155.5	(-2.7%)
Time deposits	545.7	(9.4%)	607.3	(11.3%)
Savings	1,158.5	(3.0%)	1,192.2	(2.9%)
Near money	1,704.2	(5.0%)	1,799.5	(5.6%)
Money supply (M2)	2,891.3	(7.1%)	2,955.0	(2.2%)

The near-money component of the money supply grew by 5.6% (NAf.95.3 million) in 2000, slightly above the growth rate in 1999, when a 5.0% (NAf.80.8 million) increase was recorded. The growth rate in time deposits accelerated from 9.4% (NAf.46.8 million) in 1999 to 11.3% (NAf.61.6 million) in 2000. This increase can be attributed primarily to institutional investors, who reduced their investments in government paper and increased their investments in time deposits with local banks. Savings deposits showed a marginal deceleration in the growth rate by 0.1 percentage point to 2.9% (NAf.33.7 million) in 2000.

Graph 5.1 reveals that the developments in the money supply led to an increase of 1.7 percentage points to 20.6% in the shares of time deposits and an increase of 0.2 percentage point to 40.3% in the share of savings. These increases were at the expense of all three items of the money component of the money supply. As a result, the share of money in the total money supply decreased by 1.9 percentage point to 39.1% in 2000. This decline can be attributed to a shift from non-interest-bearing assets to interest-bearing time deposits and savings.

Graph 5.1 Developments in the composition of the money supply



5.2.2 Factors affecting the demand for liquid assets

During 2000, the total demand for liquid assets increased by 2.2% (NAf.63.7 million), compared to an increase of 7.1% (NAf.192.7 million) in 1999. This development was due to both a marked acceleration in the decline in net foreign assets and a deceleration in the growth in net domestic assets. The 17.0% (NAf.118.3 million) decline in net foreign assets resulted from the continued increase in credit extension to the private sector and the monetary overhang from 1999. In addition, the revaluation of the gold reserves[10] explained NAf.40.9 million of the decline in net foreign assets. The 8.3% (NAf.182.0 million) increase in net domestic assets during 2000 was the net result of an increase in credit extension to the private sector and miscellaneous factors, 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 declined from a 10.7% (NAf.212.9 million) expansion in 1999 to an 8.3% (NAf.182.0 million) increase in 2000. About one-

[10] The gold reserves are revalued every three years at 70% of the average of the minimum gold price of the three previous years.

fifth of the total increase can be attributed to the revaluation of the gold reserves. But even adjusted for this revaluation, domestic assets creation outpaced the nominal growth rate of our economy considerably.

The demand for liquid assets by the private sector increased by 5.6% (NAf.141.2 million) in 2000, compared to 10.3% (NAf.236.4 million) in 1999. The growth in 2000 can be explained entirely by a NAf.161.3 million increase in loans to the private sector. In contrast, amounts receivable and securities and participations declined by NAf.9.7 million and NAf.10.4 million, respectively. Although the developments in 2000 imply a significant reduction in the growth in domestic credit extension to the private sector, the growth rate is not in line with the 0.7% nominal growth of our economy.

Miscellaneous factors, which comprise the net balance of the nonfinancial assets (e.g., buildings and inventory) and liabilities (e.g., capital and reserves) of the banking sector, had a significant impact on domestic money creation in 2000 of NAf.57.1 million (12.9%). This expansionary impact stemmed mainly from the revaluation of the gold reserves with NAf.40.9 million, which reduced the Bank's capital. In addition, the construction of the Bank's new office contributed to the increase in miscellaneous factors, as the value of the nonfinancial assets increased.

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

	1999		2000	
General Government, of which:	104.7	(-24.0%)	88.4	(-15.6%)
-Central Government	-6.6	(-109.0%)	-36.4	(-451.5%)
-Island Governments	111.3	(72.8%)	124.8	(12.1%)
Private sector	2,536.2	(10.3%)	2,677.4	(5.6%)
Miscellaneous	-443.5	(-2.1%)	-386.4	(-12.9%)
Net domestic assets	2,197.4	(10.7%)	2,979.4	(8.3%)
Net foreign assets	693.9	(-2.8%)	575.6	(-17.0%)
Total liquid assets	2,891.3	(7.1%)	2,955.0	(2.2%)

In contrast to the other two components of net domestic assets, the demand for liquid assets by the government showed a marked decline of 15.6% (NAf.16.3 million) in 2000, compared to a 24.0% (NAf.33.1 million) contraction during 1999. The drop in 2000 was the result of a NAf. 29.8 million decrease in the demand for liquid assets by the Central Government and a partially offsetting increase of NAf.13.5 million in demand for liquid assets by the Island Governments.

The decrease in the Central Government's demand for liquid assets was related primarily to an increase in deposits resulting from the receipt of liquidity assistance from the Dutch Government in September and December 2000 in the amounts of of NAf.72.9 million and NAf.80.0 million, respectively. In addition, the finalization of the settlement of the division of assets and liabilities with Aruba resulted in a transfer of NAf.36.7 million from Aruba to the Central Government in December 2000.[11] Furthermore, the amount of Central Government paper held by the banking sector decreased by NAf.20.3 million to NAf.115.5 million at the end of 2000, adding to the mentioned decline in the demand for liquid assets. The expansion in the demand for liquid assets by the Island Governments was the result mainly of an increase of NAf.55.8 million in the amount of Island Government of Curaçao's paper in the Bank's portfolio.

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 decelerated by 3.2 percentage points to 6.6% during 2000. Nevertheless, the growth rates for all three loan categories remained substantial. The deceleration was most noticeable in mortgages, which grew by 5.7% (NAf.55.0 million) in 2000, compared to 9.3% (NAf.81.9 million) in 1999. The growth rates of consumer and business loans decelerated by 1.2 and 4.0 percentage points, respectively. Business loans increased by 5.9% (NAf.53.8 million) in 2000, while consumer loans continued to outpace the other two credit categories, increasing by 9.2% (NAf.52.4 million). Overall growth in private sector loans is still above the level justified by economic developments in the Netherlands Antilles.

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

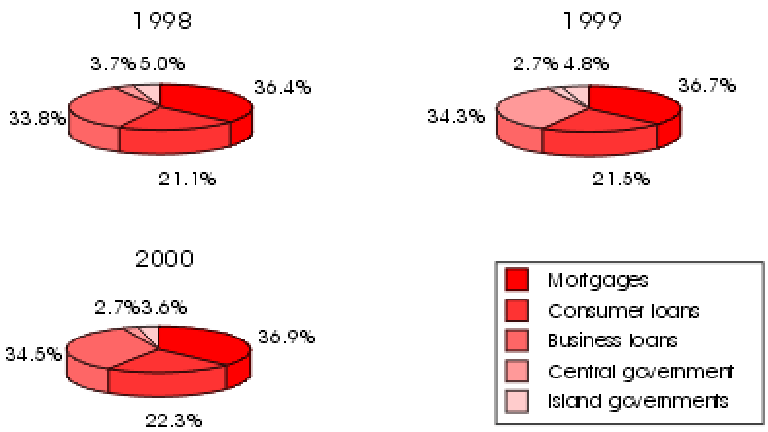
	1999		2000	
Private sector loans,	2,450.7	(9.8%)	2,612.0	(6.6%)
of which:				
-Mortgages	972.8	(9.3%)	1,027.9	(5.7%)
-Consumer loans	570.0	(10.4%)	622.4	(9.2%)
-Business loans	907.9	(9.9%)	961.7	(5.9%)
Government paper,	197.5	(-6.5%)	175.1	(-11.3%)
of which:				
-Central Government	70.6	(-21.3%)	74.0	(4.8%)
-Island Government of Curaçao	126.9	(4.4%)	101.1	(-20.3%)
Total	2,648.2	(8.4%)	2,787.1	(5.2%)

Government paper held in portfolio by the local commercial banks amounted to NAf.175.1 million at the end of 2000. This is an 11.3% (NAf.22.4 million) decline compared to the end of 1999. 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 delays in the implementation of the measures agreed upon with the IMF in September 2000. In addition, the monetary tightening reduced the liquidity position of commercial banks and induced them to reduce their holdings of government paper. As can be seen in table 5.3, the reduction in exposure to the

[11] In January 2001, a final remaining transfer of NAf. 0.2 million was made by Aruba.

government can be attributed entirely to the decline in exposure to the Island Government of Curaçao; Central Government paper held by commercial banks increased slightly. This development contrasts with 1999, when exposure to the Island Government of Curaçao increased and exposure to the Central Government declined substantially. These changes in exposure are related mainly to the timing of the loans falling due and the market sentiment towards the government at the time of refinancing. Overall, the share of credit to the government in the total domestic loan portfolio of the commercial banks has been declining since the first quarter of 1997.

Graph 5.2 Developments in the domestic lending portfolio of commercial banks



Graph 5.2 reveals that all three categories of loans to the private sector showed an increase in their share in the total domestic loan portfolio. As the growth rate in consumer loans was clearly above the overall growth rate, the share of consumer loans increased by 0.8 percentage point to 22.3%. Furthermore, the shares of business loans and mortgages increased by 0.2 percentage point to 34.5% and 36.9%, respectively. The increases in the shares of private-sector loan categories were at the expense of the share of Island Government of Curaçao paper, which dropped by 1.2 percentage point to 3.6%; the share of Central Government paper remained unchanged at 2.7%.

5.3.2 Developments by island group

A breakdown of commercial banks' private-sector lending by island group reveals that credit developments diverged between the Leeward and Windward Islands in 2000. Whereas credit growth decelerated markedly on the Leeward Islands, credit growth accelerated on the Windward Islands. Table 5.4 shows that private-sector credit growth decelerated by 6.3 percentage points to 3.6% (NAf.68.7 million) on the Leeward Islands in 2000. All three loan categories showed a decline in growth rates, but the deceleration was most pronounced for consumer loans.

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

	1999		2000	
Private sector loans, of which:	1,882.2	(9.9%)	1,950.8	(3.6%)
-Mortgages	698.4	(12.7%)	742.6	(6.3%)
-Consumer loans	465.3	(14.7%)	490.6	(5.4%)
-Business loans	718.5	(4.7%)	717.7	(-0.1%)

Consumer loans increased by 5.4% (NAf.25.3 million) in 2000, compared to a 14.6% (NAf.59.2 million) expansion in 1999. The growth rate in mortgages decelerated to a lesser extent by 6.4 percentage points to 6.3% (NAf.44.2 million) in 2000. The growth in business loans reversed from a 4.7% (NAf.32.4 million) expansion in 1999 to a 0.1% (NAf.0.8 million) contraction in 2000. The growth in business loans lagged behind the other two loan categories on the Leeward Islands. This lag occurred because commercial banks are demanding more collateral for loans, given the economic recession, which also explains the relatively large increase in mortgages. Although the growth rate for consumer loans dropped markedly, the 5.4% increase in 2000 is not consistent with the fast migration from the Leeward Islands mainly to Holland.

On the Windward Islands, private-sector credit growth accelerated by 7.1 percentage points to 16.3% (NAf.92.6 million) during 2000. This acceleration can be ascribed to a turnaround in the growth rate of consumer loans and an acceleration in the growth rate of mortgages. Growth in business loans on the Windward Islands declined, but increased in guilder terms from a 35.5% (NAf.49.6 million) expansion in 1999 to a 28.9% (NAf.54.7 million) expansion in 2000. This marked increase in business loans, together with the much slower development in mortgages, indicates that entrepreneurs in the Windward Islands can borrow money without real estate collateral requirements. The latter situation is in contrast with the Leeward Islands and may be because banks on the Windward Islands are more flexible in extending loans. Most business loans were extended to companies to finance investments, such as the restoration and improvement of the physical infrastructure in the harbor, airport, and some hotels, that had been postponed due to the hurricanes in the last few years. In addition, the airline and the telecommunication company had extensive replacement investments. The large difference with the growth rate on the Leeward Islands is related to the disparity in economic development between the two island groups. Whereas the Leeward Islands continue to experience a contraction in economic activity, the economy on the Windward Islands is estimated to have grown in 2000. With the economy growing, banks also were less reluctant to extend consumer credit.

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

	1999		2000	
Private sector loans, of which:	568.5	(9.2%)	661.1	(16.3%)
-Mortgages	274.4	(1.4%)	285.3	(4.0%)
-Consumer loans	104.7	(-4.9%)	131.8	(25.9%)
-Business loans	189.3	(35.5%)	244.0	(28.9%)

5.4 Developments in domestic interest rates

Table 5.6 shows the introduction of a lending rate equal to the pledging rate plus a mark-up. This mark-up was introduced on October 1, 2000, and is charged to commercial banks that borrow more than the balance on their blocked account with the Bank. The objective of the mark-up is to increase the effectiveness of the reserve requirement in limiting the amount of liquidity available to extend credit.

Table 5.6
Developments in domestic interest rates

	1999	2000
Central bank		
-Pledging rate	7.0%	7.0%
-Marginal lending rate	-	7.25%
Commercial banks' borrowing rates		
-Passbook savings	3.6%	3.8%
-12 month time deposit	4.9%	4.8%
Commercial banks' lending rates		
-Mortgages	10.7%	10.6%
-Current account overdraft	10.7%	9.6%
Government bonds 5 yr, effective yield	8.75%	9.0%

The development in commercial bank interest rates indicates that competition in the banking sector is increasing. The interest offered on passbook savings has increased, whereas the interest charged by commercial banks has dropped. This decline in the interest margin forced the commercial banks to increase their efficiency and has led to a further consolidation process in the local banking sector, which started in 1999 when direct credit controls were lifted. In the beginning of 1999, 14 banks were active on the local market. At the end of 2000, this number had dropped to 11, and discussions were under way that may further reduce the number of banks.

The domestic government bond yields increased in 2000 and is explained primarily by domestic factors. Confidence in the government declined as a result of the large budget deficits and the delay in the implementation of the measures agreed upon with the IMF in September 2000, and, consequently, the release of the final installments of the liquidity assistance from the Dutch government. As a result, the risk premium on local interest rates increased.

DOMESTIC FINANCIAL MARKET DEVELOPMENTS

6.1 Introduction

In 2000, the General Government had increasing difficulty financing their budget deficits and refinancing maturing loans. Despite an increase in their funding requirements, the General Government was not able to raise new funds, but was instead confronted with a net redemption of NAf.20.9 million. In contrast, the General Government borrowed a net amount of NAf.21.3 million from the domestic money and capital market 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 CDs are negotiable among domestic commercial banks, they give the banks more flexibility in managing their liquidity. The increased demand for CDs resulted from the increase in the reserve requirement percentage from 9% to 11.25% in 2000.

6.2 Financial instruments and the money market

In the Netherlands Antillean money market, the three-month CD issued by the Bank is the only tradable nongovernment instrument available. In 2000, some CDs were traded among commercial banks, but market participants tend to prefer higher-yielding overnight uncollateralized interbank loans over the sale and repurchase of CDs. Although interbank borrowing and lending activity increased in 2000, imbalances in the local money market persisted. This imbalance resulted because some commercial banks held large non-interest-bearing balances with the Bank, while others had to borrow from the Bank to comply with the reserve requirement.

Government securities in the money market are treasury bills with varying maturities up to one year. Until now, these treasury bills were sold through private placements, without any restrictions on their tradability. In practice, little secondary market activity is registered for these securities.

The possibility for commercial banks partly to comply with their reserve requirement by buying or holding CDs on the first day of the reserve requirement period increased the demand for this instrument. Furthermore, the Bank increased the proportion of the reserve requirement for which CDs can be bought from 33% to 47%, since any increase in the reserve requirement above 8% may be held entirely in CDs.[12] Consequently, the average monthly amount of CDs outstanding almost doubled to NAf.103.2 million in 2000.

The average monthly balance of the non-interest-bearing reserve requirement increased by NAf.1.9 million (1.3%) in 2000 because, on average, the domestic debt of the banking sector increased in 2000. The Bank's monetary policy of controlling the amount of demand deposits (free reserves) of commercial banks at the Bank has resulted in a decline of NAf.72.6 million (352.4%) in the monthly average balance of these deposits. As can be seen in table 6.1, the banking sector borrowed on average NAf.52 million from the Bank to comply with the reserve requirement in 2000.

[12] In January 2001, the Bank further increased the reserve requirement percentage by 0.25% to 11.5%. At the same time, the share of the reserve requirement that can be met by buying or holding CDs was increased to 48%.

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.)

	1998	**1999**	**2000**	**% change 99-00**
Certificates of deposit	16.5	56.8	103.2	99.3%
Non-interest-bearing reserve requirement	92.2	142.5	145.4	1.3%
Demand deposits	50.4	20.6	-52.0	-352.4
Total	159.1	219.9	196.6	-10.6%

Interest rates offered on the CDs continued to be linked to the United States federal funds targeted rate. The interest rate on the three-month CDs remained at the targeted rate minus 137.5 basis points. As the Fed increased its target rate by 100 basis points in 2000, the interest rate offered on the CDs also increased by 100 basis points to 5.125% in 2000.[13]

6.3 The market for government bonds

In the year 2000, the government had difficulty meeting its financing requirement. Local investors scaled back their holdings of government paper, due to a lack of confidence in government policies. Throughout the year, investors were not willing to (re-)finance the government in the absence of a viable fiscal restructuring program. The refinancing of the Central Government's public bond maturing in April 2000 was a clear example. The Central Government needed NAf.42 million to redeem the maturing bond, while only NAf.14.5 million had been subscribed initially. Even after the agreement with the IMF in September 2000, investors did not step in to purchase government paper because they were skeptical about the successful implementation of the IMF program. The General Government managed to record net borrowings of NAf.14.1 million in the last four months of the year, due only to the purchase of government paper by the Bank as part of the financing agreed-upon with the IMF.

Gross General Government debt issuance totaled NAf.581.9 million during 2000, all of which was used to refinance maturing loans.[14] In fact, total maturities outweighed total issuance, resulting in a net redemption of NAf.20.9 million. Net borrowing by the General Government has been on a declining trend since 1995, but became negative for the first time in 2000, as can be seen in graph 6.1. Net borrowing by the Island Government of Curaçao amounted to NAf.13.3 million, while the Central Government experienced a net redemption of NAf.34.2 million. Both the Central

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[13] As the Fed cut the targeted federal funds rate by a total of 200 basis points in the first four months of 2001, the interest offered on CDs dropped accordingly

[14] This amount is relatively high, because most maturing treasury bills were refinanced on a short-term (often monthly) basis during 2000.

Government and the Island Government of Curaçao had to cope with a net redemption from the outset of the year 2000, if government paper purchases by the Bank are excluded.

Graph 6.1 Annual net borrowings (in millions NAf.)

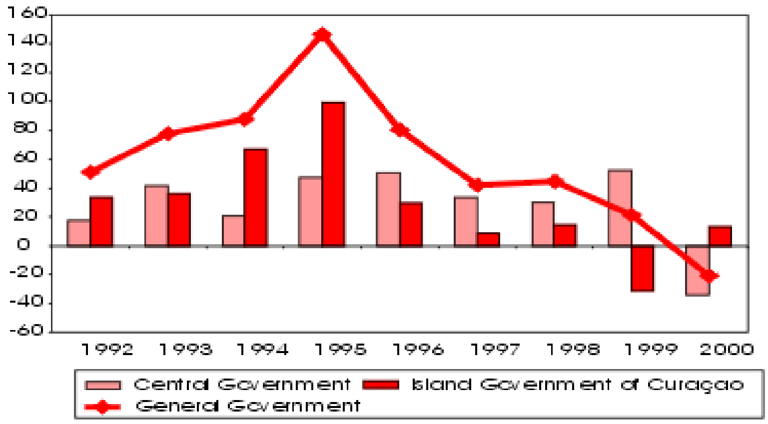


Table 6.2 shows that the net redemption on Central Government debt was concentrated in treasury bills and public bond issues. The reduction in bonds outstanding, however, was more than offset by an increase in private placements, i.e., loans tailored to the requests of the investor. This increase is an indication of the increased scepticism of the investors. The net redemption led to severe liquidity problems, mitigated only by the liquidity assistance from the Dutch government. This assistance resulted from the agreement with the IMF in September 2000 and is paid in line with the progress made in implementing the policy measures.

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

	1998	**1999**	**2000**	**Difference 99-00**
Total, of which:	829.5	998.7	964.5	-3.5%
Private placement	95.3	139.3	174.5	20.2%
Public issues	447.8	453.6	432.0	-5.0%
Treasury bills	47.8	57.3	16.6	-246.0%
Debt conversions	238.6	348.5	341.3	-2.1%
Net borrowing [1)]	29.9	52.4	-34.2	-165.3%

[1)] Excluding debt conversions

Although the Island Government of Curaçao registered net borrowings of NAf.13.3 million in 2000, its liquidity position remained very tight, indicating that the financing requirement exceeded the net borrowed amount. Table 6.3 reveals that net borrowing in 2000 can be attributed entirely to an increase in public issues outstanding, of which the Bank purchased a significant amount. The funds raised were used largely to reduce arrears to the civil servants pension fund and local suppliers of goods and services.

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

	1998	1999	2000	Difference 99-00
Total, of which:	964.5	942.9	956.3	1.4%
Private placement	180.5	141.2	132.8	-6.3%
Public issues	243.6	231.2	264.2	12.5%
Treasury bills	25.6	57.1	57.1	0.0%
Debt conversions	77.8	72.1	66.4	-8.6%
Zero-coupon/ 6.5%-annuity	437.0	441.3	435.8	-1.3%
Net borrowing [1)]	14.6	-31.1	13.3	-143.1%

1) Excluding debt conversions

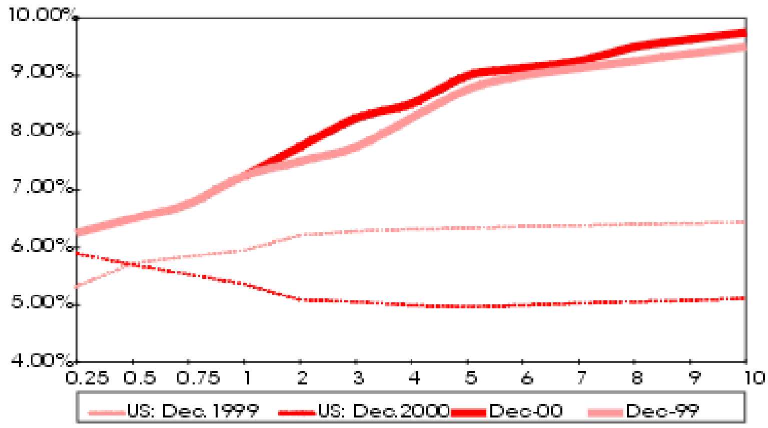
The maturity schedule of the General Government shown in table 6.4 indicates that almost one-quarter of the total negotiable loans outstanding will mature within two years. The lack of confidence in the government has reduced its ability to issue bonds with longer maturities. In addition, existing loans rolled down the yield curve as they got closer to maturity, thereby shortening the average maturity of the outstanding debt. The government should continue trying to issue longer maturity bonds to avoid the pressure of refinancing maturing debt in the short-term. This approach will only be viable if the government underpins its commitment with a timely and full implementation of the measures agreed-upon in the IMF program.

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

	0-2 years	2-5 years	Over 5 years	Total
Central Government	27.6%	27.6%	44.8%	100.0%
Island Government of Curaçao	18.7%	31.4%	49.9%	100.0%
General Government	23.2%	29.5%	47.3%	100.0%

Domestic interest rates remained at a high level in 2000. Across the yield curve, government bonds with an intermediate to long maturity (over 3 years) showed increases in yield up to 50 basis points. This increase in interest rates was caused primarily by domestic factors. Lack of confidence as a result of the way the government is handling its financial problems resulted in a premium on local interest rates.

Graph 6.2 Domestic and US government yield curve developments



Interest on US Treasuries with a maturity shorter than one year increased during 2000, as the Federal Reserve tightened monetary policy in an effort to stem domestic demand, which outpaced domestic production. However, yields on longer-term treasury bonds declined by 111 and 133 basis points for 2-year and 10-year treasury bonds, respectively. The decline in long-term bonds set the stage at the beginning of the year 2000, when the Treasury department announced a buy-back program for bonds with longer maturities. The decline in two-year interest rates started only in the fourth quarter of 2000, when expectations of future Fed rate cuts took hold in the market.

As a result of the developments in the local and US yield curves, the spread between a 10-year domestic bond and a 10-year treasury bond increased by 158 basis points to 464 basis points at the end of 2000. To increase investors' appetite for domestic government bonds, higher interest rates alone will not be sufficient. 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 meeting the financing needs of the government. In this respect, the timely and complete implementation of the measures agreed-upon with the IMF is indispensable to meeting local financing needs.

INTERNATIONAL AND REGIONAL DEVELOPMENTS

7.1 Introduction

The global economy continued to grow, as the US economy remained buoyant in 2000, spurred by personal consumption and fixed investment. The economy slowed, however, in the second half of 2000, owing to tighter lending conditions, rising energy prices, and a drop in the stock market. Consumer prices accelerated, driven by higher energy costs. Consequently, the purchasing power of consumers and businesses declined, discouraging growth in the manufacturing sector. The unemployment rate remained stable despite the economic slowdown. For the year 2000, employment costs increased, but productivity gains kept unit labor costs in check. The higher energy costs also pushed up the import bill, worsening the current account balance deficit.

The Dutch economy continued to prosper in 2000, powered largely by a favorable export sector. The thriving economy was accompanied by higher inflation and a lower jobless rate. Alongside the positive developments, the budget surplus continued to improve, lowering the public debt in the year 2000.

In 2000, some Latin American economies strengthened, as both Brazil and Venezuela posted quickening growth. Brazil, Latin America's biggest economy, is leading the economic recovery in South America. Real GDP there grew by 4.2% in 2000, its largest increase since 1995. Industrial output boosted Brazil's economic expansion, lowering the jobless rate and encouraging consumer spending. Consumer prices for the year 2000 rose by 6.0%, after the government raised fuel prices for the third time during the year. Venezuela's economy expanded, stemming from gains in both the oil and non-oil sectors. Combined with the economic growth was a lower inflation rate, and the increase in oil revenues encouraged more public spending.

Japan's economy grew in 2000, led by capital spending, as businesses continued to invest their profits in new factories and equipment to meet foreign demand and to improve their efficiency. Uncertainty about job security and poor income conditions continued to hamper consumer spending. The unemployment rate swelled, as companies continued to reduce their staff to boost profits. In spite of the higher energy prices, inflation decelerated, because consumers remained cautious about spending. Despite a bloated import bill, the current account surplus widened.

In November 2000, the OECD published a draft framework for a "Memorandum of understanding on eliminating harmful tax practices." The publication mentioned progress between the developed countries and the 35 offshore jurisdictions, 16 of which are in the Caribbean. In June 2000, the OECD earmarked the 35 offshore jurisdictions of acting as tax havens. These countries have to comply with the following: (1) by the end of 2001, produce a detailed timetable for dismantling their most harmful tax practices; (2) by the end of 2003, fully cooperate with the OECD countries' tax authorities in investigating tax evasion; (3) by the end of 2005, provide 'effective exchange of information' on tax matters. Some Caribbean countries on the OECD "blacklist" have been taking steps to modify their legislation on the offshore financial sector. The Netherlands Antilles was dropped from the OECD "blacklist" in December 2000, after making commitments to eliminate harmful tax practices.

7.2 Economic performance in the United States

Real GDP in the United States grew by 5.0% in 2000, compared with 4.2% in 1999. The 2000 growth was attributable to increases in personal consumption (5.3%) and nonresidential fixed investment (12.6%). After a 10-year expansion, the US economy started to cool down in the second half of 2000. The Federal Reserve's rate hikes of 2000, the drop in stock prices, and the rise in energy prices drained consumer and business purchasing power, ending the booming demand. Rising prices, mostly for home-heating fuels, constrained consumers' ability to spend on other goods and services. The deceleration in consumer and business demand led to a contraction in the manufacturing sector. Spending on durable goods, such as cars, home appliances, and other big-ticket items dropped. By the middle of 2000, sales slowed sharply, and by year-end, inventory buildups were far ahead of demand.

Despite the layoffs in the manufacturing sector, the jobless rate remained stable at 4.0%, compared to 4.2% in 1999. Outside of manufacturing, companies were still hiring at a steady pace; thus, the laid-off workers still had employment opportunities. Total hours worked in the private-service sector accelerated in the fourth quarter of 2000.

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

	1998	1999	2000
Real GDP	4.4	4.2	5.0
Inflation rate (%)	1.6	2.7	3.4
Unemployment rate (%)	4.5	4.2	4.0
Labor productivity	2.8	3.0	4.3
Employment cost	3.5	3.2	4.3
Unit labor costs1)	2.5	1.8	0.7
Exports	-1.3	3.4	12.1
Imports	4.8	12.7	18.1
Current account balance (billion $)	-54.3	-82.9	-108.9

Source: Bloomberg.
1) Measure of wages and other expenses tied to productivity.

During 2000, employment cost grew by 4.3%, pushed up by worker shortages in the first half of 2000, higher costs for health care coverage, and other benefits. Simultaneously, productivity surged by 4.3%, driven by the increased use of computers and other high-tech equipment. Improved productivity kept a lid on unit labor costs (0.7%) and maintained high business profits.

In 2000, the consumer price index rose 3.4%, up from the 2.7% increase in 1999. The gain in consumer prices was attributable largely to higher energy costs.

The US current account deficit worsened, as imports expanded by 18.1%, pushed up by higher oil prices that rose as much as 46 percent from the start of 2000. Exports advanced by 12.1%, but not enough to offset the higher imports.

7.3 Economic performance in The Netherlands

The Netherlands, the Euro region's fifth-largest economy expanded by 3.9% in 2000. The economy performed well and recorded for the fifth year in a row a growth of more than 3.0%. High performance in the export sector (9.1%) fueled the expansion, caused mainly by increasing re-exports. A plunging Euro contributed to the declining price of export goods priced in dollars, which stimulated foreign demand. The growth rate in the fourth quarter was above average, as higher consumer spending on cars spurred economic growth. The higher car sales were the result of the anticipation of the forthcoming increase in the value-added tax in 2001 (from 17.5% to 19.0%). In general, consumption grew by 3.7%, a deceleration compared with recent years. In line with consumption, investments decelerated to 4.3% in 2000, compared to 6.5% in 1999. An analysis by sector shows a substantial increase in commercial services (5.0%) with companies in the telecommunication and the financial sectors showing the highest growth rates.

Consumer prices in the Netherlands gained by 2.6% in 2000, up from the 2.2% in 1999. The higher inflation was the result of rising energy prices, contributing to the increase in electricity and gas prices by more than 10.0%. Moreover, the higher energy tax and excise tax on motor fuel raised consumer prices, but the elimination of the media contribution had a deflationary effect on prices. According to the Euro-zone standard, the Netherlands had one of the highest inflation rates. The harmonized index of consumer prices in the Netherlands, published for the purpose of comparison between the countries in the EU-15, was 2.9% [15] in 2000. The EU-15 harmonized prices rose by 2.3% in 2000, above the European Central Bank's ceiling of 2.0 %. The mounting prices were due mainly to high oil costs in 2000.

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

	1998	1999	2000
Real GDP	3.7	3.5	3.9
Inflation rate (%)	2.0	2.2	2.6
Unemployment rate (%) [1)]	5.3	4.1	3.7
Fiscal balance (% of GDP)	-0.7	1.0	2.0
Exchange rate (NFL/$, averages)	1.98	2.07	2.39

Source: Bloomberg, Eurostat statistics, and DNB.
1) The unemployed labor force consists of people actively looking for work for 12 hours or more and who can be employed immediately.

The Dutch labor market improved further, as the labor force increased by 155,000 persons and the unemployment rate declined to 3.7%. The participation of females in the labor force rose, a result

[15] Source: Eurostat statistics.

of more females between the ages 25 and 29 entering the labor force. Another sign of a tight labor market was the increased participation of retired people in the labor force and the greater participation rate of people in the age group 55 to 59.

In 2000, the EU-15 experienced a budget surplus, contributing to a decline in the debt-to-GDP ratio. The government budgets improved from a deficit of 0.6% of GDP to a surplus of 1.2% of GDP. The reduction in the deficit was mainly the result of UMTS[2] licenses sales. The government debt declined from 68.0% of GDP in 1999 to 64.2% of GDP in 2000. Developments in the Netherlands coincided with developments in the EU-15. In 2000, the budget surplus in the Netherlands strengthened to 2.0% of GDP from 1.0% of GDP in 1999. Concurrently, the government debt dropped from 63.2% of GDP in 1999 to 56.3% in 2000.

[2] UMTS stands for Universal Mobile Telecommunications System. UMTS will enable tomorrow's wireless information society, creating the future market for high-quality wireless multimedia communications.

7.4 Economic performance in Venezuela

The economy of Venezuela improved, as real GDP grew by 3.2% in 2000 after a substantial decline in economic activities of 6.1% in 1999. The growth was the result of increased activities in both the oil and the non-oil sectors by 3.4% and 2.7%, respectively. The economic expansion was accompanied by the lowest inflation (13.4%) in 14 years.

The increase in oil revenues spurred government spending; public investment and consumption grew by 2.2% and 5.6%, respectively. The government invested in schools, roads, hospitals, and housing. Exports and private consumption rose by 5.8% and 4.6%, respectively. Private consumption surged, owing to lower interest rates. Enhanced exports were related mainly to oil exports (63.5%) and increased foreign investment (13.5%). The high oil revenues contributed to a large current account surplus (11.5% of GDP) in 2000. The fiscal deficit was 1.8% of GDP in 2000, down from 2.6% of GDP in 1999.

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

	1998	**1999**	**2000**
Real GDP	0.2	-6.1	3.2
Inflation rate (%)	33.5	20.0	13.4
Unemployment rate (%)	11.0	13.5	12.1
Exchange rate (VEB/$, end of period)	565	649	700

Source: Banco Central de Venezuela and Bloomberg.

Under OPEC's latest oil price stabilization plan, Venezuela had to reduce its quota. However, the reduced output ceiling did not have a significant impact on PDVSA's investment plan. To meet the latest output revision, investment still needed to be increased.

7.5 Economic performance in Japan

Japan's real gross domestic product drifted up by 1.7% in 2000, higher than the 0.8% growth in 1999. Japanese business investment (8.9%) was one of the main drivers of the economic growth, as companies expanded and upgraded production lines to meet burgeoning foreign demand and boost efficiency. Capital spending increased each quarter in 2000 and the fourth-quarter gain was the largest since the first quarter of 1997.

Consumer spending remained the missing ingredient for a lasting economic recovery. Household spending remained dim at -0.9% in 2000, compared to a decline of 2.2% in 1999. Consumers refrained from spending, a result of the record high jobless rate (4.8%) and low wages. Insufficient jobs were created to absorb the workers, who had lost their jobs, as companies trimmed their hiring in an effort to cut costs and increase profits. Deflation has taken hold in Japan, as businesses were forced to drop their prices to attract thrifty consumers. In spite of the rising oil prices, Japan's consumer prices eased by 0.6% in 2000, following a deflation of 0.5% in 1999.

Imports soared by 18.0%, in contrast to a drop of 1.4% in 1999. This marked increase in imports was related to higher oil and fuel prices. Furthermore, exports rose by 9.0% in 2000, following 1999's 4.0% decline. Despite the import growth, the current account surplus expanded by 7.4% to 1,188.1 billion yen in 2000.

In August 2000, the Bank of Japan increased its overnight call rate from zero to 0.25%, raising the debt burden on the biggest spenders.

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

	1998	1999	2000
Real GDP	-1.0	0.8	1.7
Inflation rate (%)	0.7	-0.5	-0.6
Unemployment rate (%)	4.2	4.8	4.8
Household spending	-2.2	-2.2	-0.9
Public demand	0.3	4.5	0.7
Exports	-1.4	-4.0	9.0
Imports	-11.8	-1.4	18.0
Current account balance (billion yen)	1,557.1	1,106.4	1,188.1

Source: Bloomberg.

THE FINANCIAL SECTOR

8.1 Developments in the financial sector

The number of commercial banks operating in the domestic banking sector in 2000 remained at 14. MeesPierson (Nederlandse Antillen) N.V. changed its name to Fortis Bank (Nederlandse Antillen) N.V., and Giro Curaçao N.V. became Girobank N.V.

During 2000, the number of banks operating in the international banking sector of the Netherlands Antilles increased from 44 to 45. This increase was the result of the licensing of LAAD Americas N.V. and Orco Bank International N.V. to operate as international banks; the Bank revoked the license of Banco Provincial International due to its voluntary liquidation.

Furthermore, the following institutions changed their names:

De Nationale Investeringsbank (NA) N.V. to NIB Capital Bank (NA) N.V.;

Generale Bank (Curaçao) N.V. to Fortis Holding (Curaçao) N.V.;

MeesPierson (Curaçao) N.V. to Fortis Bank (Curaçao) N.V.;

Banco Aliado International N.V. to Nation Bank Curaçao N.V.

The Bank conducted examinations at four local banks, three credit unions, and one specialized credit institution in the year 2000.

8.2 Domestic banking

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

During the year 2000, the total assets of the domestic banking sector grew further by NAf.369.5 million (7.5%) to NAf.5,297.0 million as of December 31, 2000 (table 8.1). This increase is attributed mainly to the increases in the sector's lending activities by NAf.239.0 million (7.4%) and in interest-bearing cash by NAf.155.7 million (19.5%).

The increase in the sector's lending activities comprised primarily an increase in time loans by NAf.148.5 million and in mortgages by NAf.87.5 million, extended to both resident and nonresident business enterprises and individuals.

The increase in interest-bearing cash was due mainly to the NAf.124.5 million increase in time deposits. This increase largely comprised the increase in the amount of the reserve requirement held in certificates of deposit at the Bank and time deposits held at foreign banks. The increase in the reserve requirement was due to both the increase in the reserve requirement percentage and the increase in domestic deposits on which the calculation of the required reserve amount is based.

The increased activities of the commercial banks were funded primarily (78.5%) by the NAf.290.2

million increase in deposits. This increase was mainly the result of increases of NAf.128.5 million in time deposits and NAf.123.5 million in savings deposits held by individuals, banks, and business enterprises. Borrowings (NAf.64.7 million) was the second-largest group of funding.

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

	1998		1999		2000	
	NAf.	**%**	**NAf.**	**%**	**NAf.**	**%**
ASSETS						
Non-int.-bearing cash	372.7	8.2	327.8	6.7	314.4	5.9
Interest-bearing cash	704.7	15.5	798.2	16.2	953.9	18.0
Investments	304.1	6.7	270.2	5.5	264.1	5.0
Loans	2,911.9	63.9	3,210.4	65.2	3,449.4	65.1
Inv. unconsol. subs.	12.4	0.3	24.5	0.5	30.9	0.6
Fixed assets	170.3	3.7	170.6	3.7	164.2	3.1
Other assets	83.3	1.8	125.8	2.6	120.1	2.3
Total assets	4,559.5	100.0	4,927.5	100.0	5,297.0	100.0
LIABILITIES						
Demand deposits	1,262.7	27.7	1,383.5	28.1	1,421.7	26.8
Savings deposits	1,675.5	36.7	1,750.1	35.5	1,873.6	35.4
Time deposits	856.1	18.8	979.6	19.9	1,108.1	20.9
Total deposits	3,794.3	83.2	4,113.2	83.5	4,403.4	83.1
Borrowings	169.8	3.7	185.6	3.8	250.3	4.7
Other liabilities	206.8	4.5	229.5	4.7	228.4	4.3
Total liabilities	4,170.9	91.5	4,528.3	91.9	4,882.1	92.1
Minority interest	5.2	0.1	5.3	0.1	5.6	0.1
Subordinated debent.	7.5	0.2	5.8	0.1	5.1	0.1
General provisions	96.1	2.1	112.5	2.3	119.4	2.3
Capital & reserves	279.7	6.1	275.5	5.6	284.8	5.4
Total capital	388.5	8.5	399.2	8.1	414.9	7.9
Total liabilities and capital	4,559.5	100.0	4,927.5	100.0	5,297.0	100.0

8.2.1.1 Capital

Total capital increased slightly by 3.9% to NAf.414.9 million in 2000 compared to an increase of 2.8% in 1999. Because of the slower increase in capital compared to the increase in total assets, the capital-to-assets ratio decreased from 8.1% in 1999 to 7.8% in 2000. However, the sector's capitalization remained sound since the capital ratio considered on a capital-to-risk weighted assets base still exceeds 8%.

8.2.1.2 Net income

Table 8.2 shows that net operating income in the year 2000 was NAf.18.3 million (26.6%) higher than in 1999. Net income after taxes was NAf.17.2 million (33.6%) higher. The improved profitability was due primarily to the increase in net interest income by NAf.18.4 million, which is derived from the NAf.395.0 million increase in interest-earning assets. The latter comprised primarily interest-bearing cash and loans. In the year 2000, interest income accounted for 77.9% of total income, compared to 76.2% in 1999.

In addition, operational expenses in 2000 decreased slightly by NAf.2.1 million compared to 1999.

TABLE 8.2
Income statement of commercial banks operating in the domestic banking sector as of (in millions NAf.)

	1998	1999	2000
Interest income	398.8	413.3	447.8
Interest expenses	(133.1)	(143.0)	(159.1)
Net interest income	265.7	270.3	288.7
Other income	114.6	128.9	126.7
Total operational income	380.3	399.2	415.4
Salaries & other employee expenses	(170.9)	(168.3)	(170.1)
Occupancy expenses	(47.1)	(47.0)	(53.7)
Other operating expenses	(61.7)	(57.1)	(73.7)
Net addition to general provisions	(30.7)	(58.1)	(30.9)
Total operational expenses	(310.4)	(330.5)	(328.4)
Net operating income	69.9	68.7	87.0
Net extraordinary items	0.2	4.9	1.5
Applicable profit taxes	(23.1)	(22.4)	(20.1)
Net income after taxes	47.0	51.2	68.4

8.2.1.3 Liquidity

As reflected in table 8.3, the liquidity ratio relative to non-interest-bearing cash and short-term treasury paper continued to reflect a declining trend during 2000, as a result of a decrease in demand balances due from banks and short-term island government treasury paper. However, the development of the liquidity indicators related to non-interest-bearing cash, interest-bearing cash, and short-term treasury paper of the domestic banking sector reflects an improvement in 2000 as compared to 1999. This improvement is due mainly to the large increase in interest-bearing cash items, which classify as liquid assets. These items include the reserve requirement held in certificates of deposit at the Bank and short-term time deposits held at other banks.

Table 8.3
Liquidity ratio at year-end (in percentages)

	1998	1999	2000
Non-interest-bearing cash and short-term treasury paper to:			
-total deposits	12.8	10.1	9.0
-total liabilities	11.6	9.2	8.1
Non-interest & interest-bearing cash and short-term treasury paper to:			
-total deposits	31.3	29.6	30.7
-total liabilities	28.5	26.9	27.7
Total loans to total deposits	76.7	78.1	78.3

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.176.0 million (5.4%) in 2000 compared to 1999 (see table 8.4). This increase is attributed primarily to mortgages extended to business enterprises and individuals. Moreover, the NAf.68.0 million increase in interest-bearing cash also contributed to the growth in the total domestic assets.

A comparison of tables 8.1 and 8.4 reveals that the increase in total domestic assets accounts for 47.6% of the increase in total assets of the domestic banking sector. Subsequently, the share of total domestic assets in total assets of the banking sector decreased in the year 2000 to 65.2% from 66.5% in 1999. Furthermore, total domestic loans account for 75.8% of the sector's total credit portfolio, while residents held 66.3% of the sector's total deposits.

TABLE 8.4
Domestic activities of commercial banks operating in the domestic banking sector at year-end (in millions NAf.)

	1998		1999		2000	
	NAf.	%	NAf.	%	NAf.	%
ASSETS						
Non-int.-bearing cash	111.2	3.7	90.1	2.8	79.3	2.3
Interest-bearing cash	240.5	7.9	252.1	7.7	320.1	9.3
Investments	238.4	7.8	221.1	6.7	198.5	5.8
Loans	2,233.6	73.4	2,445.9	74.7	2,615.8	75.8
Inv. unconsol. subs.	9.5	0.3	16.5	0.5	6.3	0.2
Fixed assets	147.2	4.8	147.3	4.5	141.7	4.1
Other assets	61.6	2.0	102.8	3.1	90.1	2.5

Total assets	3,042.0	100.0	3,275.8	100.0	3,451.8	100.0
LIABILITIES						
Demand deposits	956.5	33.9	1,043.5	35.0	1,048.6	33.9
Savings deposits	1,170.5	41.5	1,212.2	40.7	1,270.6	41.0
Time deposits	532.4	18.9	555.3	18.6	601.8	19.4
Total deposits	2,659.4	94.3	2,810.9	94.3	2,921.0	94.3
Borrowings	3.7	0.1	8.4	0.3	8.1	0.3
Other liabilities	155.8	5.5	162.2	5.4	166.2	5.4
Total liabilities	2,818.9	100.0	2,981.5	100.0	3,095.3	100.0

Table 8.5 reflects that lending to the government (excluding government securities) decreased by NAf.1.9 million (90.5%) in 2000 as compared to 1999. Lending to the private sector grew by NAf.171.8 million, an increase of 7.0%. Total domestic mortgages comprise approximately 77.2% of total mortgages extended by the local banks.

Table 8.5
Domestic lending to the public and private sector at year-end (in millions NAf.)

	1998	**1999**	**2000**
Government	0.4	2.1	0.2
Private sector:	2,233.2	2,443.8	2,615.6
-Consumer loans	524.3	570.1	626.0
-Business loans	818.6	901.1	961.7
-Mortgages	890.3	972.6	1,027.9
Total	2,233.6	2,445.9	2,615.8

Table 8.6 reflects the distribution of the domestic deposit base between the public sector and the private sector. Private sector funding continued to increase in 2000. However, as a percentage of total assets of the banking sector, private sector funding decreased from 55.8% in 1999 to 53.6% in 2000.

Table 8.6
Holders of deposits at year-end (in millions NAf. and %)

	1998		**1999**		**2000**	
	NAf.	**%**	**NAf.**	**%**	**NAf.**	**%**
Deposit holders:						
Government	96.3	3.6	60.5	2.2	81.8	2.8
Private sector	2,563.1	96.4	2,750.4	97.8	2,839.2	97.2
Total deposits	2,659.4	100.0	2,810.9	100.0	2,921.0	100.0

Table 8.7 reflects an overall growth of 3.2% in domestic deposits of the private sector in 2000, due

to the increase in deposits denominated in Netherlands Antillean guilders. Unlike 1999, the increase in domestic private sector deposits in local currency reflected a deceleration, while foreign currency deposits declined. The continued economic recession in the Netherlands Antilles contributed to this development.

TABLE 8.7
Change in domestic private sector deposits by currency (in millions NAf.)

	1998		1999		2000	
	NAf.	%	NAf.	%	NAf.	%
N.A. guilders	105.4	5.1	127.3	5.9	92.8	4.1
Foreign currencies	(59.2)	(12.7)	60.0	14.7	(3.9)	(0.8)
Total	46.2	1.8	187.3	7.3	88.9	3.2

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

Total foreign assets of the commercial banks operating in the domestic banking sector increased by NAf.193.4 million (11.7%) in 2000 as compared to 1999. The increase was due mainly to the growth in interest-bearing cash and loans by NAf.87.6 million and NAf.69.1 million, respectively. The growth in foreign assets was funded mainly by an increase in total deposits (NAf.180.2 million).

Table 8.8
Foreign activities of commercial banks operating in the domestic banking sector at year-end (in millions NAf.)

	1998		1999		2000	
	NAf.	**%**	**NAf.**	**%**	**NAf.**	**%**
ASSETS						
Non-int.-bearing cash	261.5	17.2	237.7	14.4	235.1	12.7
Interest-bearing cash	464.2	30.6	546.2	33.1	633.8	34.3
Investments	65.7	4.3	49.1	3.0	65.6	3.6
Loans	678.3	44.7	764.5	46.3	833.6	45.2
Investm. unconsol. subs.	2.8	0.2	8.1	0.5	24.6	1.3
Fixed assets	23.1	1.5	23.2	1.4	22.5	1.2
Other assets	21.7	1.4	23.0	1.4	30.0	1.7
Total assets	1,517.3	100.0	1,651.8	100.0	1,845.2	100.0
LIABILITIES						
Demand deposits	306.2	22.6	340.0	22.0	373.1	20.9
Savings deposits	505.1	37.4	537.9	34.8	603.0	33.7
Time deposits	323.7	23.9	424.3	27.4	506.3	28.3
Total deposits	1,334.9	83.9	1,302.2	84.2	1,482.4	82.9
Borrowings	166.0	12.3	177.3	11.5	242.2	13.6
Other liabilities	51.0	3.8	67.3	4.4	62.2	3.5
Total liabilities	1,351.9	100.0	1,546.8	100.0	1,786.8	100.0

8.3 Secondary financial institutions

In the year 2000, the number of licensed secondary financial institutions operating in the Netherlands Antillean financial sector remained at 38. These institutions include credit unions, specialized credit institutions, savings banks, and thrift foundations, which provide savings opportunities to their participants and grant them credit. In addition, at the end of 2000, another 7 thrift foundations, which provide only savings opportunities to their participants operated with a dispensation, while 13 individuals held a dispensation to extend credits coupons ('bonnen') for short-term consumer credit to households.

8.4 International banking

Total assets of the international banking sector in the Netherlands Antilles increased by NAf.3.6 billion (6.2%) to NAf.61.9 billion in 2000 compared to 1999. The increase in total assets is due mainly to an increase in loans (NAf.4.8 billion).

On the liabilities side, an increase in borrowings by NAf.3.3 billion (10.4%) provided the required funding for the increase in assets.

In 2000, capital increased further owing to increased reserves and provisioning. Therefore, the capitalization level remained well above the international capital-to-risk weighted assets ratio of 8%.

Table 8.9
Balance sheet of commercial banks operating in the international banking sector at year-end (in billions NAf.)

	1998		1999		2000	
	NAf.	**%**	**NAf.**	**%**	**NAf.**	**%**
ASSETS						
Non-int.-bearing cash	2.2	3.4	1.7	2.9	1.8	2.9
Interest-bearing cash	9.7	14.8	12.0	20.6	9.6	15.5
Investments	4.7	7.2	4.0	6.9	4.3	6.9
Loans	37.6	57.4	29.0	49.7	33.8	54.5
Inv. unconsol. subs.	0.3	0.5	0.4	0.7	0.2	0.3
Fixed assets	0.1	0.1	0.1	0.2	0.1	0.1
Other assets	10.9	16.6	11.2	19.2	12.1	19.8
Total assets	65.5	100.0	58.3	100.0	61.9	100.0
LIABILITIES						
Demand deposits	6.3	9.6	3.8	6.5	4.8	7.7
Savings deposits	0.1	0.1	0.3	0.5	0.2	0.3
Time deposits	17.2	26.4	16.2	27.8	15.2	24.5
Total deposits	23.6	36.1	20.3	34.8	20.2	32.5
Borrowings	34.7	53.0	31.7	54.4	35.0	56.5
Other liabilities	2.1	3.2	1.2	2.1	1.0	1.7
Total liabilities	60.4	92.3	53.2	91.3	56.2	90.7

Minority interest	0.1	0.1	0.1	0.2	0.1	0.2
Subordinated debent.	0.1	0.1	0.0	0.0	0.0	0.0
General provisions	0.3	0.4	0.2	0.3	0.3	0.5
Capital & reserves	4.6	7.0	4.8	8.2	5.3	8.6
Total capital	5.1	7.7	5.1	8.8	5.7	9.3
Total liabilities and capital	65.5	100.0	58.3	100.0	61.9	100.0

INSTITUTIONAL INVESTORS

9.1 Introduction

The International Association of Insurance Supervisors (IAIS) in Basle, the members of which are insurance supervisors from around the world, resolves to ensure improved supervision of the insurance industry. Recognizing the need to protect policyholders and financial sector stability, the IAIS developed Insurance Core Principles and an Insurance Core Principles Methodology to provide the international financial community with benchmarks by which to assess the effectiveness of insurance supervisory regimes. The Bank, as a member of the IAIS, in compliance with these principles is upgrading and revising its supervisory and monitoring system accordingly.

A variety of 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. As a result, supervisors presently are more concerned with assessing the degree of risk in an institution's business operations and how to reduce these risks. The issue of Corporate Governance in this respect is very important to the supervisor.

Internal policies and procedures are needed to ensure that an institution is operating in line with its responsibilities to the public, its own employees, its shareholders, and other stakeholders. Supervisors are realizing that they cannot prevent all problems. The institutions' directors and senior management are responsible to their policyholders and other creditors of the institution. They should know what is occurring in their institutions, and they are making the business decisions. Therefore, it is imperative that the board of directors of the institutions follow sound business and financial practices. The Bank has issued the Corporate Governance Guidance Notes, which must be followed by all institutions incorporated in the Netherlands Antilles. These guidelines are currently being upgraded.

In September 1999, the Bank introduced Guidelines for the Detection and Deterrence of Money Laundering for Life Insurance Companies. These guidelines must be followed by all life insurance companies to combat money laundering within their institutions. Compliance with these guidelines is verified by the Bank through periodic visitations.

The draft legislation regulating insurance brokers was finalized and forwarded to the government for parliamentary enactment. This legislation will offer protection to existing as well as potential policyholders in the precontractual stage. Comments by the Social Economic Council (SER) must still be incorporated in this legislation. In addition, to conclude the legal structure, some by-laws still must be drafted.

One key element in every supervisory system is the availability of financial data of the institutions, which provide a clear picture of the policy carried out and the overall financial position. The Annual Reports Automated Statements (ARAS) developed by the Bank was presented to the insurance sector in late 2000. Based on comments received from the sector, some improvements are being made to this system. The ARAS system will be used for the year 2000 reporting to the Bank. Once concluded, a new data retention system to process the information provided by the new reporting system will be developed. This system will provide important market information to both the supervisor and the industry.

The latest development in the area of insurance -- buying insurance on the internet -- brings modern financial products closer to consumers. This development makes the task of the supervisor more difficult. In this respect and to comply with international standards, the Bank is in the process of introducing guidelines for insurance supervision on the internet.

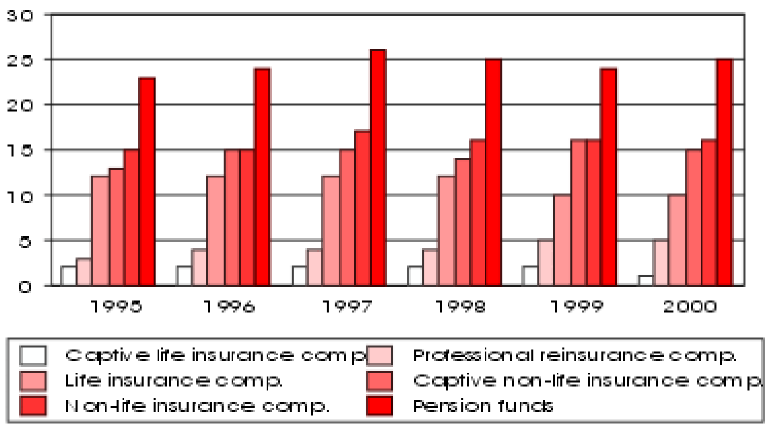
9.2 The institutional investors' sector

The number of institutional investors operating in the Netherlands Antilles was 72 during 2000, one less than in 1999. The number of life insurance companies was 10, two of which are locally incorporated. The number of non-life insurance companies remained stable at 16 in 2000. Ten of the non-life companies are locally incorporated.

The number of insurance companies servicing the international markets amounted to 21 by the end of 2000, a decrease of two compared with 1999. Of these companies, one is involved in the life insurance business, 15 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 25 at the end of 2000, 5 of them in the process of liquidation. In most cases, the pension obligations were transferred to an insurance company.

Graph 9.1 Composition of the institutional investors' sector (number of companies)



9.3 Overview of developments in the insurance industry

9.3.1 General

We are facing a new area in the insurance industry characterized by new technological developments and new financial products within an economy facing financial difficulties.

The life insurance industry in the Netherlands Antilles remained profitable in 1999. When compared with 1998, an increase in the net result after corporate taxes is noted. The premium volume increased annually over the past three years indicating an increase in the demand for life insurance products. The consolidated result of the non-life sector, on the other hand, was not that favorable. This sector experienced a loss in 1999, after a continuous decrease in net results over the past three years. Also the gross premium volume in this sector has been decreasing during the past three years. These results may be attributed to adverse economic developments now being felt in the non-life insurance industry.

Recent developments in the non-life insurance sector relate particularly to third-party motor liability insurance coverage. Insurance companies argue that the current premium structure is not in line with market realities. According to the insurance companies providing this type of coverage, changes in driving habits and frequent cases of insurance frauds, among other things, have led to substantial losses in this branch of the insurance business. As a result, most companies have strengthened their underwriting and acquisition guidelines and procedures. Others have introduced acceptance criteria, some of which were considered unfair to their clients.

These developments placed much pressure on the Government to introduce an acceptance obligation and to make the Motor Insurance Guarantee Fund operational. The objective of this fund is to indemnify losses under legally defined circumstances in the event of a motor accident.

The committee working on the introduction of the Motor Insurance Guarantee Fund recently was reactivated. The committee will work on changes concerning the motor liability insurance legislation and the infrastructure needed to make the fund operational. A centralized registration system must be introduced to facilitate law enforcement. The aim of this registration system is to make it almost impossible for an uninsured vehicle to participate in traffic. Legislation in this area is being drafted. The Committee also will deliberate on the possible introduction of an acceptance obligation relative to third-party motor liability insurance.

As the supervisory authority, the Bank must ensure a solvent insurance industry in the interest of the policyholders. Toward this end, supervision by the Bank during recent years has concentrated mainly on the financial aspects of an institution. Developments, both locally and internationally, are forcing supervisors towards a supervisory regime that concentrates also on the nonfinancial aspects of an institution; for example, their dealings with policyholders and claimants, so-called market conduct. The four key market conduct areas the Bank will initially concentrate on are sales and advertising, underwriting, rating, and claims. Examination procedures for this purpose already are being drafted and should be finalized by June 2001.

Legislative changes are forthcoming in the Netherlands Antilles. A committee was installed within the Bank to review and revise the National Ordinance for the Supervision of Company Pension Funds. This Ordinance will be adjusted to cope with recent developments in the pension industry.

Reinsurance traditionally has been a global business. It spreads risks and expands the capacity of primary insurers. Furthermore, reinsurance plays an important role in buffering national economies against the shock of economic losses resulting from catastrophic natural events. However, changes in the form of 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.

Although some major natural disasters occurred in the world during 2000, the Netherlands Antilles as part of the Caribbean, were spared. Nevertheless, the government is considering the development of a long-term compensation mechanism through the creation of a catastrophe fund for the Netherlands Antilles, with the possibility for expansion throughout the entire Caribbean. Experts from abroad were contacted to assist in setting up this fund, which is now in its preliminary stages.

The government intends to introduce a nationwide health care system (AZV). The introduction of such a 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. The possibility of introducing a health care system for only the island of Curacao, the so-called 'Curacaose basisverzekering', and thereafter expanding to the other territories also was discussed.

Discussions in this area have not yet resulted in definite plans. Recent developments concerning the incorporation of the FZOG (Fonds Ziektekosten Overheidsgepensioneerden) and the AKM (Assosashon Kwido Mediko pa Penshonadonan di Shell) in either the Bureau Ziektekosten Voorziening (BZV) or the Social Insurance Bank (SVB) indicate the importance of this issue. These developments may be considered precursors of either an insular or a nationwide health care system. Furthermore, one of the IMF's recommendations was that both the BZV and the SVB be subject to supervision by the Bank. The legislative basis needed for this supervision currently is being drafted.

9.3.2 Life insurance industry

9.3.2.1 Balance sheet

Table 9.1 shows that total assets of the local life insurance industry increased by 11.6% in 1999, compared with a 8.1% growth in 1998. Of the total assets in 1999, 68.9% relate to investments and 18.5% to current assets.

Table 9.1
Consolidated balance sheet of life insurance companies (in millions NAf.)

	1997		**1998**		**1999**	
	Local	**Int'l**	**Local**	**Int'l**	**Local**	**Int'l**
ASSETS						
Intangibles	-	-	-	-	-	-
Total investments	654.8	27.5	746.1	24.5	798.4	31.7
Current assets	162.1	10.2	155.6	19.8	214.2	6.4
Other assets	13.9	-	12.2	-	14.7	-
From separate accounts statement	129.4	-	123.9	-	130.7	-
Total admissible assets	960.2	37.7	1,037.8	44.3	1,158.0	38.1

LIABILITIES						
Capital	12.9	5.9	12.4	4.1	12.6	7.1
Surplus	28.5	22.4	37.2	25.4	85.0	20.8
Subord. instruments	6.6	-	6.6	-	-	-
Technical provisions	634.4	5.3	686.8	5.5	737.9	6.6
Other provisions and liabilities	11.5	1.3	11.0	-	17.0	1.0
Current liabilities	128.5	2.8	151.1	9.2	165.0	2.6
Contingent liabilities	8.3	-	8.8	0.1	9.8	-
From separate accounts statement	129.5	-	123.9	-	130.7	-
Total equity, provisions, and liabilities	960.2	37.7	1,037.8	44.3	1,158.0	38.1

Total liabilities increased mainly as a result of an increase of NAf.51.1 million (7.4%) in technical provisions.

The equity position of the local life insurance companies, consisting of capital, surplus, and subordinated instruments, almost doubled in 1999, an increase of NAf.41.4 million (73.7%). This increase is the result of an increase of NAf.47.8 million in the consolidated surplus (128.5%). The equity position of the local life insurance companies represents more than three times the amount needed to meet the 4% solvency requirement.

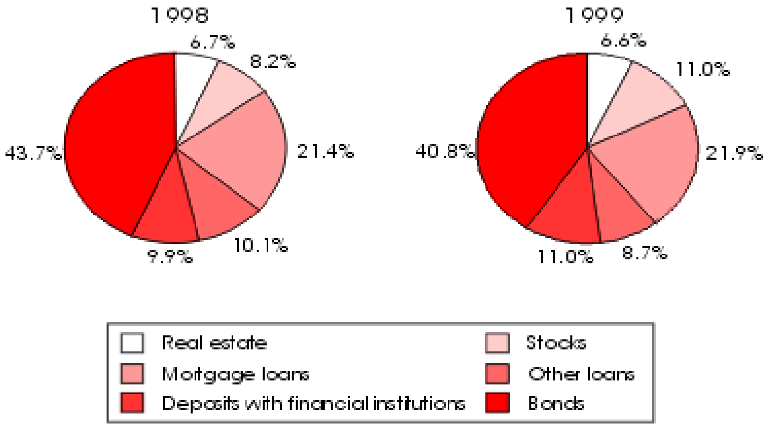
Total assets of the international life insurance companies decreased by NAf.6.2 million (14.0%), reaching NAf.38.1 million at the end of 1999. The equity position decreased by NAf.1.6 million (5.4%), totaling NAf.27.9 million by the end of 1999, still well above the legally required solvency margin.

9.3.2.2 Investments

Total investments of the local life insurance industry increased by NAf.52.3 million (7.0%), due mainly to increases in stocks, mortgages, and deposits with financial institutions. Investments in bonds remained fairly stable with only a slight decrease from NAf. 326.4 million in 1998 to NAf. 326.1 million in 1999. Investments in stocks increased by 42.7%. The mortgage portfolio grew by 9.3%.

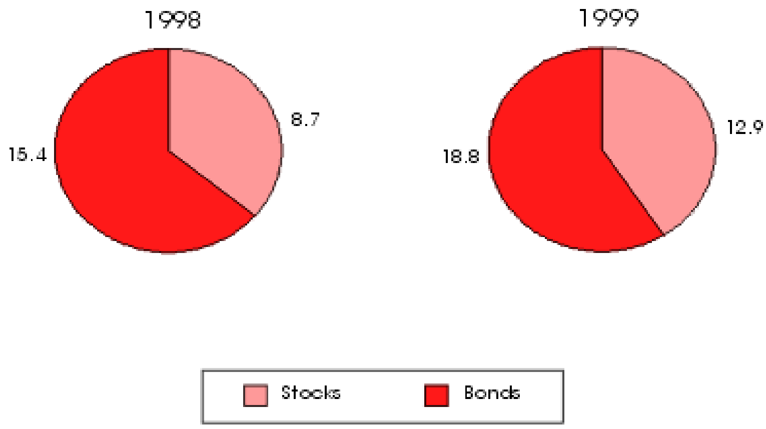
The composition of the consolidated investment portfolio of the local life insurance companies is presented in graph 9.2. This graph indicates that, as a percentage of total investments, the shares of stocks, mortgages, and deposits in financial institutions increased by 4.4% in 1999. These increases were partially at the expense of the share of bonds and other loans, which declined by 4.3% compared with 1998.

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



The total investment portfolio of the international life insurance companies increased by NAf.7.2 million in 1999 compared to 1998 due primarily to an increase in bonds and stocks. In addition, it can be deduced from graph 9.3 that the percentage growth in stocks (48.3%) was higher than the percentage growth of bonds (22.1%). Companies apparently are investing more of their funds in equity instruments.

Graph 9.3 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 9.2. The net results before corporate taxes increased by only 6.0% in 1999, compared with the 24.5% growth in 1998, while the net results after taxes increased by NAf.3.8 million (62.3%) in 1999.

A continued increase mainly in investment income produced the positive results. In 1999, investment income increased by NAf.2.7 million (4.7%); premium income increased by NAf.10.0 million (8.8%). Of the total premium income, 65% was related to individual life and the remaining 35% to group business. Premium income for individual life increased during 1999, whereas group premium income decreased slightly.

Total operational expenditures increased by NAf. 12.5 million (8.3%), due mainly to an increase in insurance expenses and noncorporate taxes incurred.

The consolidated net operational results reflect a decrease of NAf.1.3 million (10.3%), for a total of NAf.11.3 million in 1999. This decrease was offset partially by the positive increase in the results from separate accounts.

The financial year 1999 closed with a positive consolidated net result after corporate taxes of NAf. 9.9 million, an increase of 62.3% when compared with 1998.

Table 9.2
Consolidated profit and loss statement of life insurance companies (in millions NAf.)

	1997		1998		1999	
	Local	**Int'l**	**Local**	**Int'l**	**Local**	**Int'l**
INCOME						
Total net premium income	119.2	5.7	113.4	5.4	123.4	5.6
Net investm. income allocated to technical provisions	43.8	-	48.7	0.1	50.5	-
Net other operational income	0.9	-	0.9	-	0.3	-
Total operational income	163.9	5.7	163.0	5.5	174.2	5.6
EXPENSES						
Net benefits incurred	43.8	1.7	44.4	1.7	48.7	3.9
Change in net techn. prov.	65.2	-0.5	62.6	-	63.9	-
Policyholders' dividends	8.0	1.3	8.0	-0.8	9.5	0.6
Insurance expenses and noncorporate taxes	16.6	0.3	17.1	0.9	28.6	0.9
Commission and other acquisition costs	15.0	-	15.5	-	10.9	-
Net other operational expend.	5.4	-	2.8	-	1.3	-
Total operational expend.	154.0	2.8	150.4	1.8	162.9	5.4
Net operational result	9.9	2.9	12.6	3.7	11.3	0.2
Net investm. income allocated to surplus	9.5	-0.5	8.4	2.5	9.3	1.4
Other income and expenses	-7.4	-	-6.0	1.7	-10.3	1.7
Net result from separate accounts	-2.5	-	-3.3	-	2.1	-
Extraordinary results	-0.1	0.7	-	-6.6	-	-1.2

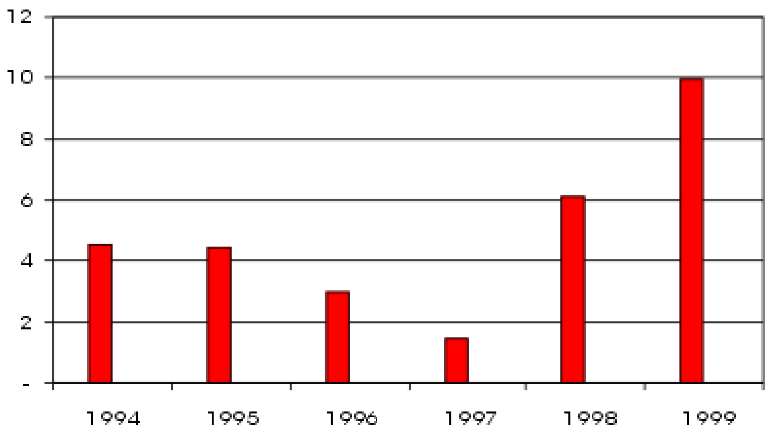
Net result before corp. taxes	9.4	3.1	11.7	1.3	12.4	2.1
Corporate taxes incurred	7.9	-	5.6	-	2.5	-
Net result after corp. taxes	1.5	3.1	6.1	1.3	9.9	2.1

The net premium income in the international life insurance industry increased by NAf.0.2 million (3.7%) to NAf.5.6 million in 1999. Net benefits incurred more than doubled in 1999; an increase of NAf. 2.2 million was noted (129.4%). As a result, the net operational results in 1999 amounted to only NAf.0.2 million, a decrease of NAf. 3.5 million when compared to 1998.

As a result of positive investment returns, the life insurance industry servicing the international market recorded an after corporate taxes net result of NAf. 2.1 million at year end 1999, an increase of NAf. 0.8 million when compared with 1998.

The net result after taxes for the internationally operating life insurance companies increased in 1999 after having declined for five consecutive years.

Graph 9.4 Net results after corporate taxes of the local life insurance sector (in millions NAf.)



9.3.3 Non-life insurance industry

9.3.3.1 Balance sheet

The combined balance sheet total of the non-life insurance companies operating in the domestic market decreased from 1998 by almost one-third, NAf.145.6 million (32.9%), to NAf.297.2 million at the end of 1999. Current assets decreased by NAf.159.4 million (50.0%), while total investments increased by NAf.13.9 million (11.8%). 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, 44.4%. Consequently, a larger portion -- 53.7% -- relates to current assets, compared to 18.5% in the life business.

On the liability side, the decrease in the balance sheet total was reflected mainly by a NAf.150.7 million (66.5%) decrease in current liabilities.

The equity position of the local non-life insurance industry increased by NAf.6.0 million (8.7%) totaling NAf.74.9 million by the end of 1999, an amount 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 reflected an increase of NAf.136.0 million (6.7%), totaling NAf.2.17 billion at the end of 1999. The increase in total assets is reflected in a growth in most investment items.

On the liability side, the technical provisions increased by NAf.95.4 million (11.5%), while current liabilities decreased by NAf.75.6 million (42.2%) in 1999 compared to 1998.

Table 9.3
Consolidated balance sheet of the non-life insurance industry (in millions NAf.)

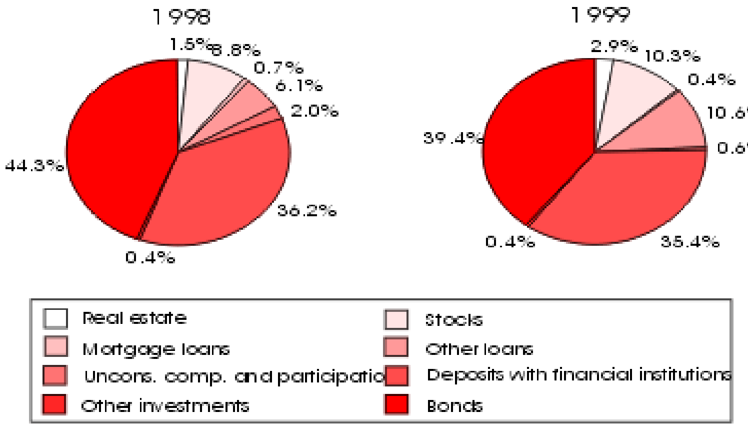
	1997		1998		1999	
	Local	**Int'l**	**Local**	**Int'l**	**Local**	**Int'l**
ASSETS						
Intangibles	-	-	-	-	-	-
Total investments	115.8	1,526.3	118.1	1,831.8	132.0	2,001.5
Current assets	334.7	104.4	319.1	198.5	159.7	164.7
Other assets	5.5	0.1	5.6	0.1	5.5	0.2
Total admissible assets	456.0	1,630.8	442.8	2,030.4	297.2	2,166.4
LIABILITIES						
Capital	40.3	155.8	39.1	126.0	41.3	121.6
Surplus	9.9	738.6	20.0	896.2	31.3	1,016.9
Subordin. instruments	9.8	-	9.8	-	2.3	-
Technical provisions	137.3	694.6	141.6	828.9	144.6	924.3
Other prov. & liabilities	2.0	0.1	5.5	0.1	1.8	-
Current liabilities	255.0	41.7	226.6	179.2	75.9	103.6
Contingent liabilities	1.7	-	0.2	-	-	-
Total equity, provisions, and liabilities	456.0	1,630.8	442.8	2,030.4	297.2	2,166.4

The equity position was further strengthened by an increase of NAf.116.3 million (11.4%), reaching NAf.1.14 billion in 1999, 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

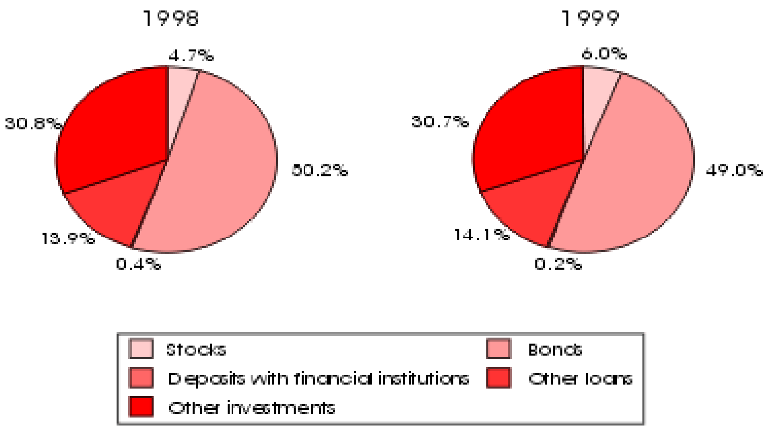
The composition of the investment portfolio of the local non-life insurance companies is presented in graph 9.5. This graph indicates that the share of other loans and deposits in financial institutions vis-à-vis the total investments increased from 42% in 1998 to 46% in 1999. This increase was largely at the expense of the share of bonds, which declined from 44.3% to 39.4%.

Graph 9.5 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 9.6 This graph indicates that the share of other investments remained the same in 1999 as in 1998, namely, 31%. The share of stocks increased by 1.3%, while the share of bonds decreased by 1.2%.

Graph 9.6 Composition of the investment portfolio of the international non-life insurance companies



9.3.3.3 Profit and loss statement

The net earned premium of the local non-life insurance industry increased slightly by NAf.0.9 million (0.5%) in 1999 compared to 1998, whereas the net claims incurred during 1999 decreased by

NAf.4.2 million (4.1%). Due to an increase in the net other operational expenditures, the industry wound up with an underwriting loss of NAf.2.8 million. This loss was offset by the net investment income, leading to a positive net result before corporate taxes of NAf.4.7 million. As a result of corporate taxes incurred, the industry lost NAf.2.6 million. In 1998, the positive result after corporate taxes was NAf.3.6 million.

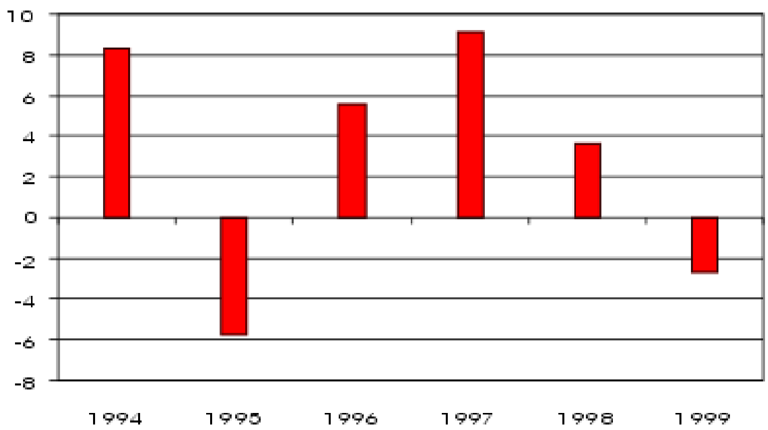
Table 9.4
Consolidated profit and loss statement of the non-life insurance industry (in millions NAf.)

	1997		1998		1999	
	Local	**Int'l**	**Local**	**Int'l**	**Local**	**Int'l**
INCOME						
Total net earned premium	172.7	272.6	170.2	276.1	171.1	372.8
Net underwriting income	-	1.6	-	51.2	0.1	2.5
Total operational income	172.7	274.2	170.2	327.3	171.2	375.3
EXPENSES						
Net claims incurred	97.3	170.6	103.5	175.0	99.3	250.4
Change in various provisions	0.5	0.4	-0.2	-0.3	2.0	-0.3
Claim adjustment expenses	6.0	-	6.0	-	3.9	-
Net other underwr. expend.	41.0	13.6	42.1	18.7	41.9	23.0
Net other operational expend.	28.3	5.8	24.1	1.8	26.9	1.6
Total operational expend.	173.1	190.4	175.5	195.2	174.0	274.7
Underwriting results	-0.4	83.8	-5.3	132.1	-2.8	100.6
Net investment income	8.0	85.0	8.5	147.6	9.4	124.0
Other results	1.4	-35.5	0.4	-5.0	-2.0	3.5
Extraordinary results	-0.1	-	-	-101.7	0.1	-7.7
Net result before corp. taxes	8.9	133.3	3.6	173.0	4.7	220.4
Corporate taxes incurred	-0.1	1.9	-	5.0	7.3	2.3
Net result after corp. taxes	9.0	131.4	3.6	168.0	-2.6	218.1

The total net earned premium of the internationally operating non-life insurance companies increased in 1999 by NAf.96.7 million (35.02%) compared to an increase of only NAf.3.5 million (1.3%) in 1998. The net claims incurred reflect a large increase of NAf.75.4 million (43.1%) in 1999. Although still positive, the underwriting result decreased by 23.8% to NAf. 100.6 million when compared with 1998.

In the investment area, the industry experienced a 16% decline from NAf.147.6 million in 1998 to NAf.124.0 million in 1999. Notwithstanding these adverse experiences, this sector recorded a net result after corporate taxes of NAf.218.1 million in 1999, an increase of 29.8% over 1998.

Graph 9.7 Net results after corporate taxes of the non-life insurance sector (in millions NAf.)



POLICIES AND ACTIVITIES OF THE BANK

10.1 Training and seminars

The Bank's staff attended a variety of courses under the auspices of the Center for Monetary Studies in Latin America (CEMLA) in 2000. Topics included, among others, money laundering, banking supervision, monetary and financial statistics, and macro-economic policy. Lecturers were from the CEMLA, IMF, and several Caribbean central banks.

Furthermore, staff members attended various seminars and conferences in the region, the USA, and Europe to keep up to date with the latest developments in their fields. Issues covered, among others, were: monetary policy, public finance, supervision of banks, insurance companies and pension funds, treasury activities, national accounts, and information technology. The Bank hosted a seminar on the supervision of insurance companies, with lecturers from the Dutch insurance supervisor "Verzekeringskamer".

During 2000, the Bank continued to support "The Financial Institute", an institution geared towards educating employees in the local financial sector. The Bank helped organize workshops and examinations.

10.2 International financial sector developments

In 2000, international pressure to comply with generally agreed standards has increased substantially. International bodies like the Financial Stability Forum (FSF), the Financial Action Task Force, and the OECD started publishing classification lists. These lists, referred to as 'black lists' by the media, are created to inform the public and to put pressure on local authorities to adapt to international standards for regulation, legislation and banking supervision practices.

The FSF has divided offshore financial centers into three categories, according to their supervision, legal infrastructure, willingness to share information with other supervisors, and cooperativeness. The FSF has placed 26 jurisdictions in category three, indicating that supervision, legal standards and international cooperation were insufficient, and that these jurisdictions constitute a threat to international financial stability. The Netherlands Antilles were placed in this category, but the Bank has requested an evaluation by the IMF based on the facts that the Netherlands Antilles has for some time adequate legislation for supervision of financial institutions, allowing the supervisory staff to execute their supervisory duty competently. The Bank has been investing a lot of time, effort, and capital enhancing its supervision standards to comply with international standards, including the 25 core principles on effective banking supervision.

Furthermore, the Bank is a member of various international supervisory bodies, such as the Association of Supervisors of Banks of the Americas (ASBA), the Offshore Group of Banking Supervisors, and the Offshore Group of Insurance Supervisors. In addition, the Bank has concluded Memoranda of Understanding (MOU) with the Netherlands, Venezuela, and Aruba, ensuring the exchange of information and cooperation between the supervisory bodies.

In addition to the reclassification request, the Bank has invited the IMF to assist in an assessment of the supervisory and legal infrastructure in the Netherlands Antilles. The IMF conducted a fact-finding mission in November 2000. A follow-up visit took place in March 2001.

The Financial Action Task Force (FATF) has created a list of noncooperative jurisdictions in the international war against money laundering. The FATF considers that these countries do not have an adequate anti-money-laundering framework in place. The Netherlands Antilles framework is considered adequate by the FATF.

Furthermore, the OECD has constructed a list of jurisdictions with potentially harmful tax practices. The Netherlands Antilles appeared on this list published in June 2000. As a result of an official commitment letter of the Minister of Finance to cooperate with the OECD, the Netherlands Antilles were taken off the list, which will be finalized in June 2001.

Besides these multilateral initiatives, the United States of America has changed its withholding tax regulations. Under the new rules, 30% of all US source income will be withheld from transfers to beneficiaries outside the US, unless the recipient country (and the institutions located in this country) have the status of Qualified Intermediary (QI). This status can be obtained by entering into an agreement with the IRS. The agreement includes the 'know your customer principle,' certain reporting issues, and the need for an independent verification of the rules. Staff members of the Bank were involved in acquiring the QI status for the Netherlands Antilles, which was granted by the IRS in December 2000. This status has an important signaling effect to the international organizations mentioned earlier.

10.3 Monetary policy

At the start of 1999, the Central Bank abandoned the policy of direct credit control. Instead of this direct credit control, the reserve requirement became the main monetary policy instrument. This 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, the official reserves, and domestic credit extension. As a result of the developments in these three areas, the percentage was increased from 9% to 10% in March 2000, to 11% in August 2000, and further to 11.25% in November 2000.[16] In addition to the reserve requirement, the Central Bank has several other instruments in the conduct of monetary policy. The monetary cash reserve arrangement limits commercial bank lending to the government. Furthermore, commercial banks are not allowed to have a negative net foreign position to prevent them from accumulating foreign debt. In addition, the Bank can use two money market instruments, CDs and Repos, to support the other instruments.

In light of the structural adjustment program and to strengthen the effectiveness of monetary policy, the Bank modified its policy in 2000. First, the Bank limited the total amount of advances to a

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[16] In January 2001, the Bank further increased the reserve requirement percentage to 11.5%. At the same time, the share of the reserve requirement that can be complied with by buying or holding CDs was increased to 48%.

commercial bank to the amount on its blocked account of the reserve requirement as of October 1, 2000. Any additional borrowing will be subject to a mark-up of 0.25% on the official lending rate, which stands currently at 7.0%. Second, effective November 1, 2000, the limit on net credit to the government was replaced by a limit on gross credit equal to the amount outstanding on June 30, 2000. This change eliminates the risk that banks are charged a penalty if the government withdraws its deposits. Finally, long-term deposits are exempted from the reserve requirement, effective November 16, 2000. This exemption will lower the cost of funding for commercial banks and stimulate competition among banks for these deposits, a change expected to promote savings and, hence, increase financing for investments.

10.4 Construction of a 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. The construction is progressing according to schedule and is expected to be finalized in the fall of 2001. An additional half year will be required before all personnel and activities of the Bank are transferred to the new location.

The construction of the new building constitutes an investment of NAf. 49.6 million and will last a little over two years. The investment created approximately 200 jobs directly related to the construction. In addition, the investment has had a positive impact in other areas like suppliers of building materials. Furthermore, the location of the new Bank in the old area of Scharloo will help improve the image of the neighborhood and will contribute to the economic development of the surrounding area.

FOREIGN EXCHANGE REGULATIONS AND LICENSE FEE

The foreign exchange regulations in the Netherlands Antilles are based on the National Ordinance Foreign Exchange Transactions 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.

Effective July 1, 2000, the Bank revised some of the directives of the Foreign Exchange Ordinance. Capital transactions were liberalized further by allowing resident natural persons to transfer a maximum of NAf.50,000 per quarter and NAf.200,000 per year to their foreign bank accounts without a special license. These limits amounted to NAf.10,000 and NAf.40,000 before the revision. Another major revision was effectuated in the general administrative instructions for balance of payments reporting by the commercial banks. This revision was related to the introduction of a new balance of payments reporting structure to comply with international standards, and the further automation of the compilation process. In addition, to improve the timely reporting by the commercial banks, a penalty on late reporting of NAf.1,000 per day has been introduced.

Table 11.1
Overview foreign exchange licenses issued (in millions NAf.)

	1999		2000	
Description	Number	Amount	Number	Amount
Establishm. comp. by non-resident	68	13.3	68	4.0
Establishm. int. fin. & bus. comp.	99	-	74	-
Transfer to own account abroad	75	11.8	35	3.9
Life insurance abroad	-	-	2	-
Purchase of real estate abroad	11	1.4	4	0.6
Portfolio investment abroad	22	13.6	13	8.7
Borrowing abroad	109	187.6	138	90.9
BOO-project	-	-	2	496.4
Lending abroad	1	0.4	6	1.8
Request for foreign bank account	7	-	5	-
Request for local non-resident account	10	-	11	-
Request for intercomp. account abroad	2	-	-	-
Granting guarantee abroad	1	-	2	-
Exemption int. fin. & bus. comp.	1,645	-	1,437	-
Other	-	-	2	-
Total	2,050	228.1	1,799	606.3

In 2000, the number of foreign exchange licenses issued by the Bank decreased by 251 (12%) to 1,799, compared to 1999 (see table 11.1). This decrease can be attributed primarily by the decline in activities in the international financial and business services sector, which was reflected by fewer foreign exchange exemptions (208) and establishments (25) of companies in this sector. In contrast, the total capital flow related with the licenses granted increased by NAf.378.2 million (166%) to NAf.606.3 million. This increase is explained by the licenses granted for the foreign financing of the BOO-project (NAf.496.4 million) at the refinery in Curacao. Without this factor, the value of licenses granted decreased by NAf.118.2 million (52%) to NAf.109.9 million, due mainly to the NAf.96.7 million (52%) smaller value of licenses for borrowing abroad. The high value of licenses granted for foreign borrowing in 1999 was primarily accounted for by the harbor project and investments by the utility company GEBE in St. Maarten, and the air traffic control project in Curacao.

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 1998 through 2000 (in thousand NAf.)

	1998	1999	2000*
January	2,825.3	2,724.3	3,096.2
February	2,578.1	2,788.9	3,170.8
March	3,088.2	3,679.1	3,255.3
April	2,614.1	2,767.8	2,827.0
May	2,694.7	3,076.0	3,560.4
June	3,019.1	3,173.8	3,168.6
July	2,907.9	3,075.4	2,969.2
August	2,663.7	2,931.5	2,933.1
September	2,334.0	2,962.2	3,018.0
October	2,987.4	2,607.5	2,866.5
November	2,573.8	2,983.4	2,986.9
December	3,406.5	3,708.8	2,989.3
Total	33,692.8	36,478.7	36,841.3

* Preliminary

Table 11.2 gives an overview of the license fees collected monthly during 1998 through 2000.

From the total amount of license fees generated in the Netherlands Antilles in 2000, NAf.23,005.2 thousand (62%) was generated on the island of Curaçao, NAf.12,888.6 thousand (35%) on St. Maarten, and NAf.701.2 thousand (2%) on Bonaire. The remaining NAf.246.3 thousand (1%) of license fees was paid through the Central Bank.

FINANCIAL STATEMENT FOR 2000

Table12.1
Balance Sheet as of December 31, 2000

ASSETS	**1999**	**2000**
Gold	179,775,652	138,858,059
Receivables and securities in foreign currency	480,028,556	475,771,517
Advance account Central Government	29,203,216	29,203,216
Government bonds	80,213,708	112,362,331
Other long-term receivables	11,823,294	12,491,660
Fixed assets	29,255,367	58,517,914
Other current assets	18,597,454	22.230.154
TOTAL ASSETS	828,897,247	849,434,851
LIABILITIES	**1999**	**2000**
Bank notes in circulation	239,281,835	229,389,279
Residents' current accounts		
- in guilders	269,853,502	297,780,207
- in foreign currency	35,043,522	13,673,555
Residents' time deposits		
- in guilders	72,050,421	123,350,421
Nonresidents' current accounts		
- in guilders	1,450,026	301,564
- in foreign currency	2,172,957	2,172,957
Money in consignation	892,325	859,623
Other current liabilities	15,204,836	17,518,949
Undistributed earnings	11,909,055	24,214,768
Special reserves	122,355,722	81,438,129
Reserve fund	30,000,000	30,000,000
Reserve for hedged positions	-1,316,954	-1,264,601
Capital	30,000,000	30,000,000
TOTAL LIABILITIES	828,897,247	849,434,851

The 2000 figures are preliminary and unaudited. The 1999 figures are derived from the audited 1999 financial statements.

Table 12.2
Profit and Loss Account 2000

	1999	**2000**
INCOME		
Interest income	29,893,232	40,566,290
Foreign exchange earnings	692,678	1,218,324
Miscellaneous earnings	2,513,145	8,448,574
Subtotal	33,099,055	50,233,188
License fee	36,476,343	37,049,383
TOTAL INCOME	69,575,398	87,282,571
EXPENSES		
Interest expenses	2,138,127	4,976,295
Depreciation of fixed assets	3,137,189	2,705,294
Depreciation of printing costs bank notes	436,261	436,608
General expenses	22,554,802	19,727,362
TOTAL EXPENSES	28,266,379	27,845,559
OPERATING PROFIT	41,309,019	59,437,012
NET INCOME	41,309,019	59,437,012
Distribution of net income		
Net income	41,309,019	59,437,012
Paid to the Central Government	41,640,430	47,131,299
Change in undistributed earnings	-331,411	12,305,713

The 2000 figures are preliminary and unaudited. The 1999 figures are derived from the audited 1999 financial statements.

12.1 Notes to the balance sheet as of December 31, 2000

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 2000 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 due to revaluation of gold stock in the years 1971 and 1973. Also the profits made by the sale of numismatic coins during 1990 also were added to the balance of this account. As of 1994 the Bank revalues its gold every 3 years. Due to the 2000 revaluation the reserve has decreased with NAf.40,917,593.

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 2000

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.