ANNUAL REPORT 2001

Bank van de Nederlandse Antillen

REPORT OF THE PRESIDENT

1.1 General review

In 2001, the global economy experienced a downturn, exacerbated by the September 11 terrorist attacks in the United States. As a result, our main trading partners, the United States and the Netherlands, registered a deceleration in economic growth. For the Caribbean region, 2001 was a difficult year. The main economic pillar, tourism, was affected significantly by the impact of the terrorist attacks. Furthermore, Caribbean states with international financial business were affected by the OECD's efforts to eliminate harmful tax practices, forcing them to reform their financial industries. Moreover, hurricane Michelle caused damage in several Caribbean countries.

The unfavorable international developments and the domestic efforts to restructure the economy resulted in the prolongation of the economic recession in the Netherlands Antilles. Measured in real Gross Domestic Product, our economy contracted by 0.6% in 2001, the fifth consecutive year with a decline. However, compared to the 6.0% contraction in 2000, the development in 2001 indicates that the recession is bottoming out. Domestic factors dominated the downturn in 2001. Domestic demand declined due to the weak development in private spending and the decline in government spending. The government's persistent liquidity problems, aggravated by the partial roll-over of maturing loans, forced a reduction in government expenditures and contributed to increased arrears. The development in private spending can be ascribed to the low confidence of consumers and investors because no agreement had been reached with the IMF on a program to address the financial-economic crisis. Nevertheless, private investment improved slightly, owing to the implementation of various large investment projects in the tourist sector and at the refinery. Despite the September 11 attacks, our export sector grew modestly. Most of the export industries contributed to this growth, except tourism. The growth in exports compensated partly for the decline in domestic spending, mitigating the contraction in real GDP.

As a result of the recession, unemployment and migration remained high. The unemployment rate in 2001 was 14%. However, net migration decreased compared to 2000. The inflation rate dropped substantially from 5.0% in 2000 to 1.7% in 2001. This deceleration was caused by the abated impact of the increase in the turnover tax rates, lower oil prices, and the declining inflation rate of our main trading partner, the United States.

Our main export industry, tourism, performed weakly in 2001, mainly a result of the impact of the terrorist attacks on international travel. St. Maarten, our most important foreign-exchange generator from tourism, was hit the hardest. Bonaire also posted a deterioration. The number of stay-over visitors and cruise visitors declined on both islands. In addition, foreign exchange income from tourism decreased in St. Maarten, but improved slightly in Bonaire because of an increase in length of stay. Curacao was the only island that recorded an increase in tourism activities. This improvement was concentrated in stay-over tourism as cruise tourism declined.

The performance of the international financial and business services sector, our second economic pillar, improved in 2001. Both the operational receipts and profit tax transfers to the government increased. This development occurred even though the uncertainties surrounding the new tax arrangement for the Kingdom of the Netherlands (BRK) continued for most of the year, and the number of companies operating in the sector declined. However, in June, the Netherlands Antilles reached an agreement with the Dutch government on the new BRK. By the end of the year, the agreement had been approved by the Dutch parliament and senate and became effective on January 1, 2002. At the same time, the new fiscal regime (NFR), which parliament approved in December 1999, had been adjusted to be in line with the new BRK. The NFR eliminated, among other things, the distinction between onshore and offshore activities (i.e., ring fencing) in the Netherlands Antilles to end the association by the OECD and the European Union with harmful tax practices. The Netherlands Antilles also committed itself to cooperate in the exchange of information with other jurisdictions. With the effectuation of the BRK and the NFR, the Netherlands Antilles' competitive position and its reputation as an international financial center will be enhanced. In addition, the BRK and NFR provide a positive impetus for the sector by facilitating the conclusion of tax treaties and the development of new financial products. Moreover, the new BRK will increase tax revenues by approximately NAf 30 million annually because the 8.3% withholding tax collected by the Dutch tax office on dividends from the Netherlands to the Netherlands Antilles will be transferred entirely to the Antillean government.

Overall, activities in the transportation sector generated more foreign exchange revenues in 2001, but developments in the various branches of this industry were mixed. The national carrier "Air ALM" incurred a drop in both the number of passengers transported and the amount of cargo handled in its regional operations. However, its transatlantic flights to Amsterdam were successful, and the number of weekly flights was expanded. The weak performance of Air ALM was related mainly to its bad financial situation, which resulted, among other things, in the grounding of part of its fleet. This development was aggravated by the September 11 attacks. Moreover, the company's operating costs are high due to overstaffing and an obsolete fleet. It is evident that a major overhaul of the carrier is inevitable to secure its long-term viability. Toward this end, a new company, Dutch Caribbean Airline (DCA), has been established, which will gradually take over Air ALM's activities. During 2001, Air ALM reduced its staff by approximately 430 persons; the remaining 400 will be employed by DCA. The transition to DCA will be finalized when the financial wind-up of Air ALM has been addressed adequately and DCA has acquired all international landing rights. After that, DCA, which is fully owned by the Island Government of Curacao, will be privatized. Although progress has been slow, the Bank welcomes these steps that are important for guaranteeing inter-island connectivity and sufficient airlift for our tourism sector.

Airport activities also registered a deterioration in 2001, attributable to declines in total passenger traffic on all islands. In Curacao, the drop in the number of transit passengers accounted for the setback. However, passenger arrivals increased in line with the growth in stay-over tourism. In Bonaire, all passenger categories recorded a decrease due to the decline in tourism. Harbor activities showed mixed developments. The harbor of Curacao recorded an increase in the number of ships piloted, but the amount of cargo handled contracted slightly. The latter can be related to weak domestic demand. Moreover, bunker sales of fuel tapered, while bunker sales of water increased. In addition, the harbor of Bonaire also noted a rise in the number ships piloted. Activities in the ship-repair sector increased in 2001, as measured by the number of man-hours sold. Moreover, both oil transshipment and oil storage activities in the Netherlands Antilles expanded.

The oil refinery continued to perform well in 2001, reflected by an expansion in the number of barrels refined. In addition, the refinery's operational costs declined. The long-term viability of the refinery is secured by the execution of two major investment projects, the Isla Refinery Upgrading Program (IRUP) and a new utility plant according to the build-own-operate concept. The 7-year IRUP project will be completed in 2002 and required a total investment of US$ 350 million. The construction of the new utility plant started last year and is expected to be finalized in 2003, requiring an investment of US$ 213 million. These projects will strengthen the refinery's competitiveness, improve its reliability, enhance its safety, and reduce its environmental impact. In addition, they have contributed considerably to Curacao's economy.

Finally, free-zone activities in Curacao expanded in 2001, reflected by a significant growth in re-exports and an increase in the number of visits. This development can be related to the new Economic Zone legislation enacted by parliament in early 2001 and the expansion of the E-zone at the airport. Companies established in the E-zone enjoy special tax and labor facilities because their activities are focused on export. E-zone activities have been enhanced further by the enactment of E-commerce legislation.

In the external sector, the balance of payments recorded an unprecedented surplus causing a boost in our international reserves. Both the current account and the capital and financial account contributed to the improvement. The improvement of the current account was attributable mainly to lower imports resulting from the continued recession. In addition, exports grew further despite the impact of the terrorist attacks in the United States. In particular, the international financial and business services sector and the transportation sector accounted for the higher exports. The capital and financial account also recorded a considerable improvement. The factors that contributed to this improvement included the acquisition of the local ABN AMRO operations by the Trinidad- based RBTT Bank, exceptional foreign borrowing by the domestic banking sector, increased foreign borrowing by the private sector, and substantial foreign direct investment in, among other things, hotels, the utility sector, and an university.

Although the Bank welcomes the strengthening of our international reserves, the favorable balance-of-payments outcome should be viewed with caution. Most of the factors that caused the improvement in the capital and financial account are of a transitory nature. For a lasting improvement of our international reserves, the authorities should continue with the implementation of measures aimed at strengthening our investment climate following the recommendations of the Foreign Investment Advisory Service (FIAS), thus creating a business environment conducive to a sustainable export growth.

On the fiscal front, the General Government (i.e. the Central Government and the Island Government of Curaçao) recorded a slight surplus on its cash balance in 2001, compared to a substantial deficit in 2000. This result was attributable primarily to severe liquidity difficulties that forced the government to reduce cash expenditures considerably. Most of the year, the government had to cope with only partial refinancing of maturing debt due to the continuing lack of confidence of investors. The resulting net redemption was financed by the cash surplus and increasing arrears with creditors.

Expenditures declined significantly, mainly as a result of the declines in personnel costs and outlays for goods and services. The decline in personnel costs was caused by the reduction of the government apparatus and the withholding of the retained employees' contributions to the government pension fund, APNA. Payments on guarantees granted decreased also. In contrast, transfers and interest expenses increased. The higher transfers were related to severance payments to laid-off civil servants and the redistribution of turnover tax revenues and budget support to the smaller islands. Interest expenses rose because investors were willing to buy government securities only at very short maturities and higher interest rates. Government revenues increased only marginally as lower nontax revenues largely offset higher tax revenues. The increase in tax revenues was attributable primarily to more wage and profit tax collected due to a special action by the tax accounting office, BAB, on tax compliance. Almost all other tax categories incurred a decline in revenues because of the continuing recession. The decline in nontax revenues resulted mainly from the transfer from Aruba in 2000 related to the final settlement of assets and liabilities with the Netherlands Antilles, which did not occur in 2001.

Since the authorities did not reach an agreement with the IMF on a financial-economic program, substantial financial support from the Dutch government was withheld. However, the impact of the terrorist attacks in the United States on our economy and the progress made in meeting the conditions necessary to agree on a program led the IMF to advise the Dutch government to release part of the available liquidity support in December. To expedite the availability of the funds, the Bank provided financing through the purchase of securities from the Central Government and the Island Government of Curacao, the proceeds of which were used mainly to reduce arrears with creditors. Part of the securities will be redeemed upon receipt of the Dutch support. Although this support was a welcome relief, the Bank wants to emphasize that a lasting fiscal consolidation can be attained only with the full and timely implementation of a structural adjustment program.

The money supply expanded significantly in 2001 due to the expansionary impact of the external sector related to the substantial balance of payments surplus. Domestic money creation contracted slightly as a result of miscellaneous factors, among them the acquisition of the local ABN AMRO activities by RBTT Bank. Both the government and the private sector exerted an expansionary impact. The monetary expansion by the government was caused by a decline in deposits due mainly to liquidity difficulties and payments for the construction of a new prison in Curaçao, and by the financing provided by the Bank in December. Private-sector credit extension grew only marginally in line with the weak development of the economy. In addition, foreign borrowing by the private sector increased because of the lower interest rates abroad. Part of these foreign loans was used to redeem local loans with higher interest rates.

During 2001, the Bank tightened its monetary policy and refined the mechanism of its main instrument, the reserve requirement. In light of the persistent increase in credit extension during the final months of 2000, the Bank increased the reserve requirement percentage by 25 basis points to 11.5% on January 16, 2001. This tightening was followed by a refinement of the reserve requirement mechanism on February 16, 2001. The refinement entailed the exclusion of interbank deposits to eliminate double counting and to promote the development of the interbank market. In addition, to enhance the effectiveness of the reserve requirement in controlling commercial banks' liquidity and, hence, credit extension, the Bank increased the mark-up on the official lending rate for excessive borrowing by commercial banks by 50 basis points to 0.75 percentage point effective September 1, 2001. This increase implied that for amounts exceeding NAf 20 million, a 7.75% interest rate will be charged. These policy adjustments were aimed at bringing credit growth in line with the growth of our economy.

The continuing recession had an adverse impact on our commercial banking sector as debtors experienced increasing difficulties servicing their loans. Higher loan provisions and extraordinary losses contributed to a decline in net income. Nevertheless, the financial health of the domestic banking sector remained satisfactory as its solvency and liquidity remained above the internationally applied minimum requirements. To promote public disclosure of information on our financial system's soundness, the Bank started the publication of prudential indicators as of the second quarter of 2001.

In addition, a further step was taken in the consolidation process in the Antillean banking sector in 2001. RBTT Group, based in Trinidad, purchased the local operations of ABN AMRO, which created the second-largest bank in our domestic banking sector. The Bank welcomes this development as more banks of comparable size will promote competition and, hence, reduce the costs of intermediation, contributing ultimately to a better functioning of the market.

The Bank continued its efforts toward enhancing supervision of the institutional investors operating in the Netherlands Antilles. The Bank made further progress in upgrading and revising its supervisory and monitoring systems to comply with the Insurance Core Principles of the International Association of Insurance Supervisors (IAIS). Furthermore, the Bank revised its Corporate Governance Guidance Notes in October 2001 to ensure that the institutions follow sound business and financial practices in the interest of all their stakeholders. An important aspect of this revision is the expansion of supervision to nonfinancial issues, so-called market conduct. Also, the draft legislation regulating insurance agents and brokers was finalized and forwarded to the government for parliamentary enactment. Moreover, considerable progress has been made in enhancing comprehensive and timely reporting: the Annual Reports Automated Statements was introduced formally to the insurance sector in April 2002, work has started on the automation of the comprehensive filings for the domestic life and nonlife insurance industry, and new reporting statements for the pension industry are nearly completed.

1.2 Policy considerations

The recession in the Netherlands Antilles continued in 2001 against the background of declining growth rates in the world economy, aggravated by the September 11 terrorist attacks in the United States. However, the world economic outlook for 2002 is gradually improving. The recovery of our economy can benefit from this improvement with the full and timely implementation of a credible financial-economic program.

The year 2001 can be characterized by efforts to put back on track the program agreed-upon with the IMF on September 15, 2000. At the end of 2000, delays in the implementation of some of the policy measures began to accumulate, causing derailment of the program. This derailment, aggravated by a considerable shortfall in revenues due to the ill-prepared decentralization of the tax apparatus and a weaker-than-expected economy, was likely to balloon the projected 2001 budget deficit from NAf 85 million to NAf 225 million.

In March 2001, the authorities started negotiations with the IMF to get the program back on track. A set of actions was formulated that would be necessary before resuming the program. The main action was a reduction of the budget deficit by NAf 75 million to NAf 150 million, one-third of the savings generated by health care reforms. The government 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. Other measures contributing to the NAf 75 million reduction of the deficit were 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 were measures that had 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, liberalize shop-opening hours, and an interim agreement on the new Solidarity Fund that raises budgetary support for the smaller island governments.

Since the implementation of the prior actions had progressed slowly, the IMF added additional conditions to be met before negotiations on a financial-economic program could be started. These conditions included a credible solution for the transition of Air ALM into a new viable airline, a 2002 budget with a maximum deficit for the General Government of NAf 75 million, and revision of the protocol between the government and the local manufacturers association, ASINA.

In November 2001, the authorities informed the IMF on the progress made in meeting all program conditions, including a deficit of NAf 70 million on the approved combined 2002 budgets of the General Government. Although progress had been made, the IMF contended that the sum of the measures taken still fell short of what was needed to steer the economy onto a sustainable path. They indicated that the chosen resolution of Air ALM is surrounded with many legal and financial risks likely to increase the burden on the budget. This concern, together with uncertainties surrounding net savings from the independization of government departments and a reduction in transfers to the smaller islands, the need for regularization of past arrears, and the call-up of loan guarantees, is estimated to inflate the budget deficit in 2002 to some NAf 140 million. As a result, the Netherlands Antilles did not receive the envisioned budgetary support from the Dutch government in 2001, and, consequently, was forced to run a considerably tighter budget than would be called for under an IMF-supported program.

The delay in the budgetary support, despite the deterioration in the fiscal outlook, was not called for and resulted unnecessarily in accumulating arrears and prolongation of the confidence crisis. This continued confidence crisis and worsening fiscal outlook are evidenced by a projected 2002 deficit of approximately NAf 150 million. Structural reforms in particular have incurred delays.

An area that should be mentioned in this respect is health care. A lack of political coordination in the implementation of the agreed-upon reform measures and increasing controversies between the various parties involved in the health care sector contributed to substantial delays. Consequently, the actual savings are much lower than projected, aggravating the financial difficulties of the government. All efforts must be directed at speeding up the reform process. This requires a transparent and effective implementation structure. Moreover, measures that did not make the present package should be reconsidered to make up part of the lag in savings.

A second reform area lagging behind schedule is privatization. The apparent lack of cooperation by the companies to be privatized, uncertainties with the employees, and ambiguous political support can be identified as the main reasons for delay. It is important that these obstacles are tackled adequately to reap the well-known benefits of privatization: more efficient production resulting in more competitive prices and improved product quality; faster absorption of innovations; alleviation of the government budget; and windfalls from privatization proceeds, which have been earmarked mainly for debt reduction, to mention just a few. A well-developed regulatory framework to prevent abuse of market dominance, particularly in the utility sector, should accompany the privatization efforts.

A third area that needs more attention is pension reform. Although the government pension scheme has been partly reformed, more needs to be done. The government can no longer afford the current expensive system, which resulted in huge arrears at the pension fund, APNA. Another challenge for the current scheme is the rapidly aging population. The much-debated inclusion of the AOV franchise in the maximum benefit for all participants is an important reform that should not be diluted. Of course, special provisions should be included for government employees close to retirement, and the adjustment must be legally sound. Additional reforms should include a further increase in the retirement age and higher employee premiums. The Bank considers these reforms inevitable if we want to guarantee a pension scheme that is affordable and able to provide adequate benefits to retired government employees in the future.

A last reform area that should be mentioned is tax reform. Our current tax system is very complex, while an apparatus to administer it is very expensive. Therefore, collection costs and evasion are high. The Bank supports proposals for a major simplification of our tax structure. This simplification should include the abolishment of taxes that contribute only marginally to revenues, fewer dispersion of rates, lower rates combined with limited exemptions and deductions, and strengthening of the tax administration. Unfortunately, not much progress has been made in this important reform area.

The current projection for the 2002 deficit does not show an improvement compared to the 2001 target. To emphasize their commitment to continue the fiscal consolidation process, the authorities should address the delays in structural reforms swiftly. Since this action will not yet result in major savings in 2002, additional measures are inevitable to realize a significant reduction in the deficit. The Bank wants to mention two measures that could contribute to this aim: (1) implementation of the recommendations directed at a major improvement in efficiency in the government apparatus and, hence, cost savings, and (2) a reduction in the interest burden. The mounting government debt and, consequently, high interest rates have increased interest expenses from 9% of total government expenditures in 1996 to 16% in 2001, crowding out expenditures in areas such as education, neighborhood improvement, crime prevention, and infrastructure improvement. Using the available development aid funds to defray the interest outlays should reduce the interest burden substantially and at the same time create the necessary room in the budget to foster economic growth, improve our infrastructure, and alleviate poverty. The resulting benefit of this policy, i.e., budget surpluses, should be used to gradually reduce our outstanding domestic debt and, hence, our interest burden. To prevent a future recurrence of the high debt ratio, a legal growth limit should be placed on government expenditures.

The fiscal consolidation and reform measures must be complemented by a structural improvement in our investment climate. The Foreign Investment Advisory Service (FIAS) made valuable recommendations in this respect. In some areas, tangible progress has been made, such as tourism, e-commerce, financial services, and labor market liberalization. However, other areas like tax reform and privatization suffer from a lack of progress, while the reduction of "red tape" and effective investment promotion so far have been neglected. These issues should be addressed swiftly to compete effectively for direct foreign investment vis-à-vis other countries in the region.

The fiscal and economic adjustment efforts will be supported by an accommodating monetary policy. Against the background of, among other things, the significant increase in our international reserves and the continuing decline in interest rates in the United States, the Bank introduced a further flexibilization of its monetary policy effective January 1, 2002. Commercial banks no longer are compelled to buy Certificates of Deposit (CDs) to comply with the reserve requirement. As of January 1, 2002, the banks can determine freely how much in CDs they want to buy. The interest rate on CDs no longer will be set by the Bank, but will be determined by the market participants in bi-weekly tenders. Furthermore, the reserve requirement percentage has been reduced by 2.5 percentage points to 9%. In addition, the Bank will initiate open-market operations through buying or selling government securities whenever monetary developments warrant. Finally, the Bank has reduced its pledging rate by 0.25 percentage point to 6.75%. These adjustments are aimed to stimulate market forces further in the implementation of the Bank's monetary policy. Monetary policy has been eased more as of March 1, 2002, with the lifting of the ceiling on commercial banks' credit extension to the government. The Bank took this measure in light of our continued strong international reserves position and the financing difficulties of the government.

Further fiscal consolidation and the acceleration of the structural reforms will lay a solid foundation for the implementation of a long-term growth strategy for the Antillean economy, developed in cooperation with the World Bank. Toward this end, the necessary funds to finance this strategy have to be made available commensurate with our fiscal consolidation efforts. The resumption of economic growth will ease the adjustment burden and, hence, consolidate the public support needed. However, resumption of economic growth should not be used to abandon the necessary adjustment to maintain an investment climate conducive to sustainable growth. In light of the balance-of-payments performance, our policy efforts should be directed at realizing this objective.

We have come a long way in the structural adjustment of our economy. However, several issues remain in the areas of fiscal consolidation and structural reform that must be resolved before a lasting economic recovery can begin. Therefore, these issues should be put high on the agenda of the new government. Once a credible financial-economic program is in place and the necessary financing is secured, only a strong commitment with its full and timely implementation will create the desired climate conducive to sustainable growth, the generation of jobs, and a broad-based improvement in living standards.

E.D. Tromp
President

REAL SECTOR AND INTERNATIONAL DEVELOPMENTS

2.1 General economic developments

The slowing global economy, which began in early 2000, continued through 2001. The economic slump was exacerbated by the aftermath of the September 11 attacks on the United States. In addition, the collapse of Argentina's economy late last year raised the vulnerability of the markets of the region. While affected by the September 11 event, the Antillean economy was not directly affected by the Argentinean financial crisis.

In line with the declining world economy, the Antillean economy shrank in 2001, following consecutive drops in activities for the last five years. Real GDP contracted slightly by 0.6%[1] through 2001, indicating that the recession is bottoming out, the result of an enhanced external sector, despite the September 11 terrorist attacks. Increases in the free zone, ship repair, and financial sectors contributed to the surge in exports. The sectors most affected by the September 11 event were tourism and air transportation.

In the air transportation sector, "Air ALM" started its restructuring process by laying off about 300 employees. In the telecommunication sector, the privatization process of United Telecom Services (UTS) advanced, while that of the World Trade Center was completed. The privatization process forms part of the program negotiated with the IMF.

2.1.1 National production and spending

Real gross domestic product in the Netherlands Antilles drifted down by 0.6% in 2001, following a tumble of 5.9% in 2000. Despite the 2001 acceleration, production remained below the GDP level of 1998. The poor performance came from depressed domestic demand, led largely by a reduction in public consumption (14.7%) in real terms. This reduction was the result of the IMF-supported policy measures, which led the government to continue tightening its spending. In addition, the government reduced its spending due to liquidity constraints. In contrast, exports grew by 3.2% in real terms, but imports fell by 2.6%, improving net exports. This enhanced external position helped counterbalance the weak domestic demand, leading to a deceleration in the economic slump. Activities in the oil, construction, free zone, ship repair, and financial sectors recorded a growth, while declines occurred in the agricultural, industrial, trade, tourism, and air transportation sectors.

Coupled with the slight economic downturn were a waning inflation and a frail labor market. The labor market mismatch remained a major concern on the islands. Migration continued into 2001, although at a slower pace. The jobless rate is estimated at 14.0% in 2001, compared to 12.9% in 2000. Production capacity was underutilized, due to a lack of demand and a shortage of skilled labor.

2.1.2 Inflation

Following the high inflation of 5.0% in 2000, the annual inflation in the Netherlands Antilles decelerated to 1.7% in 2001. The lower 2001 inflation can be explained by the following: (1) the tapering off of the effects of the turnover tax on the Leeward Islands (NAOB) and on the Windward Islands (BBO); (2) a reduction in the world oil prices; and (3) a lower inflation of one of our main trading partners, the United States.

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[1] Estimate by the BNA

An analysis by islands indicates that Curaçao had the highest inflation, followed by Bonaire and St. Maarten. In 2001, Curaçao's inflation decelerated to 1.8% from 5.8% in 2000 (table 1). The main factor behind the 1.8% inflation in 2001 was from the "health" sector (6.9%), fueled by higher prices in medical, orthopedic articles, and dental costs. Fresh produce and meat product costs also were higher, driving up the price in the item "food" (3.4%). This increase was followed by "housing" (2.9%), a consequence of pricier propane gas and utility costs. On average, the prices of propane gas and electricity, and water rose by 3.1% and 12.2%, respectively, in 2001. Fluctuations in gasoline prices and the surge in air ticket fares raised the price in the category "transport & communication" (1.1%). The price gain in the transport component outbalanced the price drop in communication, stemming from a reduction in inter-island and international telephone tariffs. Declining prices in the components clothing and recreation contributed to deflation in the categories "clothing & footwear" (1.2%) and "recreation & education" (0.5%).

Table 2.1
Inflation rates for Curaçao, Bonaire, and St. Maarten in 2000 and 2001 (% changes)

	Curaçao		Bonaire		St. Maarten	
	2000	2001	2000	2001	2000	2001
Food	6.3	3.4	4.0	1.4	-0.6	2.2
Beverages & tobacco	10.2	2.3	5.5	-1.8	0.7	-0.4
Clothing & footwear	1.5	-1.2	1.5	0.0	0.0	0.1
Housing	8.4	2.9	2.1	1.6	4.3	1.0
Housekeeping & furnishings	0.7	0.8	2.9	-1.2	0.7	1.4
Health	3.8	6.9	0.9	0.5	0.7	0.1
Transport & communication	7.8	1.1	8.6	3.2	-4.0	0.7
Recreation & education	0.9	-0.5	1.0	-0.1	0.0	1.3
Other	5.0	1.2	2.9	0.9	1.2	0.7
General inflation rate	5.8	1.8	3.9	1.2	0.5	1.0

Through the year 2001, Bonaire recorded an inflation of 1.2%, compared to 3.9% in 2000. The largest price increase was in the category "transport & communication" (3.2%), aided by a price hike in air tickets and automobile costs. This price surge outweighed the reduction in gasoline prices, and inter-island and international telephone tariffs. Higher-priced propane gas led to a price gain in "housing" (1.6%). Meanwhile, a price drop in the component beverages was responsible for the deflation in the item "beverages & tobacco" (1.8%). Furthermore, deflation in the category "housekeeping & furnishings" (1.2%) was related to cheaper household articles and other household expenses.

St. Maarten's consumer prices gained by 1.0% in 2001, up from 0.5% in 2000. The 2001 inflation was due mostly to the price hike in the item "food" (2.2%). All food products posted a price increase, except for dairy products. The price surge of 1.4% in "housekeeping & furnishings" was the result of an increase in household personnel wages and costlier household expenses. "Housing" showed an inflation of 1.0%, owing to higher electricity and propane gas prices. In contrast, a drop in the component beverages caused a deflation of 0.4% in "beverages and tobacco".

2.1.3 Labor market[2]

The labor market in the Netherlands Antilles showed no signs of improvement. The migration continued into 2001, but at a slower rate. In spite of the decelerating trend of migration, the labor force shrank. The decline in the number of employed outbalanced the surge in the unemployed, resulting in a reduced labor force, but a higher jobless rate. In 2001, the unemployment rate rose to a high of 14.0%, up from 12.9% in 2000.

Despite the significantly higher activities in the construction sector, compared to earlier years, net employment declined. On the one hand, (1) the terrorist attacks on the US affected the tourism sector and the tourism-related construction activities; and (2) the reorganization of "Air ALM" and the telecommunication sector reduced employment considerably. On the other hand, several jobs were created in the construction sector, such as the BOO/IRUP[3] projects at the refinery, and the construction of new hotels and the new Central Bank building. Clearly, the labor market continues to suffer from structural problems, as foreign staff must be hired for certain jobs, due to a lack of qualified local staff.

Table 2.2
Labor market in the Netherlands Antilles (number of persons)

	1999	2000	2001
Population	199,638	198,336	192,072
Labor force	94,561	96,012	94,805
Total unemployed	13,372	12,377	13,313
Unemployment rate	14.1%	12.9%	14.0%
Total employed	81,190	83,635	81,492

In Bonaire, the number of laid-off personnel jumped to 60 persons in 2001 from 17 persons in 2000. The employees laid off were concentrated in the tourism industry.

2.2 Developments by sector

2.2.1 Mining

In 2001, the salt industry in Bonaire showed mixed results. Salt exports tumbled by 35.8%, a marked decline from the surge of 4.9% in 2000. This gloomy performance was due to an increase of competition in the region. Conversely, salt production soared by 34.9%, an improvement from a 27.8% fall in 2000.

2.2.2 Industry

During 2001, developments in the oil refinery "Isla" were favorable - oil refining strengthened by 5.4%, in comparison to an increase of 6.4% in 2000. In contrast, total operational costs tapered

[2] The estimates are from the Bank van de Nederlandse Antillen and are consistent with the AKO annual surveys conducted by the Central Bureau of Statistics.
[3] BOO (Build, Own and Operate); IRUP (Isla Refinery Upgrading Program)

by 8.5%, following last year's advance of 14.4%. Decreases in payroll (5.7%), other expenses (2.4%), and the refinery's own use of fuel (15.3%) accounted for the lower total operational costs.

The ship-repair sector in Curaçao registered a growth during 2001. The number of man-hours sold mounted by 32.6%, in comparison to an advance of 4.9% in 2000. The upbeat 2001 outcome was largely the result of competition in the international ship repair business. Furthermore, the number of ships repaired expanded by 3.4%, following a rise of 17.4% in 2000. In contrast, receipts from ship repair declined slightly by 2.2% in 2001.

2.2.3 Utilities

In the Netherlands Antilles, activities in the utilities sector shrank in 2001, reflected by a drop in both water and electricity output. Water production fell by 1.7%, measured against an advance of 0.4% in 2000. An analysis by islands shows that declines in Curaçao (2.1%) and St. Maarten (0.6%) accounted for the lower water production in 2001. Meanwhile, Bonaire registered a growth of 1.3%, up from the fall of 1.2% in 2000.

Electricity output in the Netherlands Antilles contracted in three subsequent quarters of 2001, leading to a decline of 2.8%, compared to a gain of 0.8% in 2000. Curaçao and Bonaire limited production by 5.3% and 2.7%, respectively. In contrast, the Windward Islands revealed a growth of 4.9%, higher than the 3.7% surge in 2000.

2.2.4 Trade

Curaçao's free-zone sector performed well through the year 2001. The free-zone re-exports expanded, as foreign exchange proceeds rose by 13.9% in 2001. Moreover, the number of free-zone visits expanded by 4.4%, an improvement from the 3.7% drop in 2000. The increase was linked to a growth in the number of visitors in almost all the principal markets.

2.2.5 Tourism

Tourism figures for 2001 showed that both stay-over and cruise arrivals in the Netherlands Antilles dwindled. Stay-over tourism weakened by 2.5%, after a decline of 4.2% in 2000. In line with the declining stay-over guests, cruise tourism drifted down by 1.0%, as opposed to a jump of 43.4% in 2000. Curaçao was the only island that recorded a positive result in the stay-over tourism industry. In spite of a decline in the tourism sector, total earnings from tourism remained about the same.

St. Maarten's stay-over arrivals as well as cruise visitors posted a negative growth in 2001. Stay-over tourism was down by 6.9%, following a slide of 2.8% in 2000. This glum development was the result of a fall in one of St. Maarten's main markets: France (22.3%). Moreover, the South American market showed a discouraging decrease of 17.6%. In the second half of 2001, the September 11 attacks on the US deterred US visitors. However, this decline was outbalanced by the growth in the first half of 2001, resulting in a gain of 2.7% in US passenger arrivals in 2001. The September 11 event, meanwhile, caused the number of cruise passengers to slip by 0.1%, in contrast with last year's jump of 41.1%. In spite of a 3.0% rise in cruise calls, the number of cruise visitors shrank.

During 2001, Curaçao's tourism reported an increase of 7.0% in stay-over arrivals, in contrast to the 3.5% decline in 2000. Visitors from the US and the Netherlands, Curaçao's main markets, increased by 7.1% and 8.9%, respectively. The surge in the number of Dutch visitors may be the result of more airlifts, led by "Air ALM." In addition, stay-over passengers from the South American market rose by 2.5%. In line with the enhanced stay-over tourism, the hotel occupancy rate went up to 64.0% from 2000's 62.0%. Similar to St. Maarten, cruise tourism in Curaçao experienced a setback, a result of the aftermath of September 11. Cruise tourism fell by 2.6% in 2001, down from the jump of 39.7% in 2000.

Similar to St. Maarten, results in Bonaire's tourism were gloomy for the year 2001. Stay-over tourism sagged by 1.7%, compared to a plunge of 16.6% in 2000. This poor performance may be related to a lack of airlift that hampered the air arrivals in the last three-quarters of 2001. The North American and South American markets were up by 3.7% and 0.9%, respectively. However, these increases were outweighed by declines in stay-over visitors of 9.0% and 15.5% from the European and the Caribbean markets, respectively. Cruise ship arrivals saw a fall of 6.8% in 2001, compared to a marked increase in 2000.

Table 2.3
Developments in stay-over tourism per island (% change)

	Curaçao		Bonaire		St. Maarten	
	2000	2001	2000	2001	2000	2001
North America, of which:	-2.7	6.0	-11.5	3.7	-5.3	0.8
-U.S.A.	-2.8	7.1	-13.0	3.9	-5.5	2.7
-Canada	-1.7	-6.7	47.3	-0.1	-4.1	-11.9
Europe, of which:	-10.1	8.1	-12.0	-9.0	-3.2	-20.0
-The Netherlands	-10.5	8.9	-12.6	-11.0	-23.6	-2.2
-France	-	-	-9.6	-21.3	4.2	-22.3
-Germany	-22.0	-6.1	-5.4	-17.9	-	-
-Other Europe	3.8	10.3	-13.3	8.4	-16.9	-19.2
South & Central America, of which:	10.3	2.5	-31.9	0.9	-1.2	-17.6
-Venezuela	14.5	-6.3	-30.8	-1.2	17.1	-25.3
-Brazil	-61.0	121.8	-43.9	3.4	-39.1	-3.1
-Other S&C America	12.2	24.9	-32.7	9.8	-3.5	-15.3
Caribbean, of which:	-13.6	-1.3	-54.4	-15.5	10.1	1.3
-Aruba	-20.1	-11.2	-56.9	-21.4	-	-
-Santo Domingo	-9.3	7.2	2.0	-7.4	-4.4	8.4
-Other Caribbean	-10.0	2.3	-60.3	31.0	12.9	0.1
Rest of the World	9.8	30.2	15.1	0.4	2.5	-8.1
Total	-3.5	7.0	-16.6	-1.7	-2.8	-6.9

2.2.6 Transportation

Activities in Curaçao's airport deteriorated in 2001. The lower total passenger traffic (2.9%) in 2001 reflected falls in the flow of transit passenger (10.0%) and passenger departures (0.8%). The number of passenger arrivals, however, swelled by 2.2%, contrasting with the decrease of 5.1% in 2000. Beside the unfavorable total passenger traffic results, the number of commercial landings plummeted by 28.0% in 2001, following a drop of 14.3% in 2000.

Developments in Bonaire's airport suffered another setback for the year 2001, as total passenger traffic worsened by 12.1%, down from the decrease of 8.5% in 2000. The 2001 decline was led by a decline in the flow of all categories of passengers: transit passengers (15.0%), passenger arrivals (12.1%), and departures (11.0%). This poor showing may be related to the lack of airlift that also curbed Bonaire's stay-over tourism industry. Moreover, commercial landings shrank by 11.5%, compared to a tumble of 21.0% in 2000.

Through 2001, Curaçao's air transportation sector offered a gloomy picture. The number of passengers transported by the national airline "Air ALM" fell by 15.7%, after a rise of 3.2% in 2000. In addition, cargo shipments abated by 13.9%, in comparison to a fall of 14.4% in 2000. The poor results were mainly due to: (1) the cutback in the number of flights as a result of the September 11 attacks; and (2) since December, "Air ALM" lost interline connections with other airlines, owing to the restructuring of the company. In addition, "Air ALM," in cooperation with the carrier "City Bird," which was subsequently substituted by "Sobelair" in March 2001, transported 69,012 passengers on transatlantic flights in 2001.

In 2001, oil transshipment in the Netherlands Antilles improved by 15.5%, lifted mainly by an increase of activities in Statia (21.5%). Moreover, oil storage rose in all three islands: Curaçao (13.8%), Bonaire (10.1%), and Statia (6.7%).

Curaçao's harbor sector performed well in 2001, as the number of ships piloted into the harbor was up by 8.2%, opposed to a decrease of 0.2% in 2000. During this period, vessels in all categories except cruise ships registered a growth. Clearly, the cruise business shrank in 2001. The gain in tanker ships was associated with the upsurge in oil transshipment. In spite of more cargo ships (3.7%), total cargo activities contracted by 1.4% in 2001, in contrast with last year's 3.1% growth. The drop in cargo movements was due mostly to a decline in local demand (3.4%). In 2001, Curaçao's bunker sales of fuel tapered by 15.4%, while bunker sales of water swelled by 8.2%.

Similar to Curaçao, developments in Bonaire's harbor industry were favorable through 2001. The number of vessels that entered the harbor rose by 6.9%, after an advance of 7.7% in 2000. An increase largely in the number of tanker (5.6%) and other vessels (77.8%) accounted for this positive result.

2.3 International economic developments

2.3.1 The United States

US economic activity was weak in 2001, and the September 11 terrorist attacks exacerbated the situation. Real GDP drifted up by 1.2%, down from 4.2% in 2000. The sluggish economic growth was led by declines in business investment (3.0%) and inventories (1.0%). With the slowing economy, many companies reduced their orders, causing manufacturers to draw down their inventories. However, gains in government spending, consumer spending, and a decrease in imports made the slowdown less severe. Government spending swelled by 3.6%, stemming largely from national defense in the last two quarters of 2001. In an attempt to bolster the economy, the Federal Reserve slashed the federal funds rate eleven times in 2001, from 6.5% to 1.75% in December.

Inflation stayed in check at 2.6%, reflecting cheaper energy and clothing costs. In 2001, energy prices dropped, a result of the slowing world economy and the decline in travel subsequent to the September attacks, which reduced demand. Moreover, some retailers had to lower their prices to attract shoppers.

To trim costs, businesses cut jobs and reduced work hours when production slowed. The jobless rate rose by 0.9 percentage point to 4.9% in 2001. In spite of fewer working hours, 2001's labor productivity tapered to 2.0% from 3.4% in 2000. Consequently, unit labor costs increased by 4.0%, compared to the advance of 2.9% in 2000.

In 2001, US imports and exports shrank by 10.1% and 7.7%, respectively. However, the downturn in imports outweighed the decline in exports, which narrowed the current account deficit by 6.1% to $104.4 billion.

Table 2.4
Economic indicators of selected countries (% change)

	Unites States		Netherlands		Venezuela		Japan	
	2000	2001	2000	2001	2000	2001	2000	2001
Real GDP	4.2	1.2	3.5	1.1	3.2	2.7	1.7	-0.5
Cons. prices (%)	3.6	2.6	2.6	4.5	15.8	12.4	-0.6	-0.9
Unempl. rate (%)	4.0	4.9	2.6	1.9	12.1	13.7*	4.8	5.1
Curr. acc. balance	-111	-104	3,266	15,019	3,096**	808**	1,187	1,157

(bln $/mln Euro/mln $/bln Yen)
Source: Bloomberg
*June 2001
**Third quarter

2.3.2 European Union

Greece became the twelfth member of the European Economic and Monetary union on January 1, 2001. Euro-zone's real GDP advanced by 1.8% in 2001, compared to 3.5% in 2000. Spain and France contributed largely to the growth, whereas the growth in the Netherlands (1.1%) depressed the overall growth in 2001. However, the Dutch labor market performed favorably. The unemployment rate in the Netherlands (1.9%) was considerably lower than the average of the Euro-zone countries (8.4%).[4] Inflation in the Euro-zone reached 2.6%, with the Netherlands taking the lead (5.1%).[5]

The ECB followed the Federal Reserve's monetary policy and lowered its interest rate four times in 2001 by a total of 1.5 percentage points. The Federal Reserve, meanwhile, slashed its interest rate eleven times for a total of 4.75 percentage points in 2001.

[4] End of the year
[5] Harmonized consumer price index

Economic growth in the Netherlands decelerated to 1.1% in 2001, compared to 3.5% in 2000. Export growth dropped substantially, while consumption slowed and investment fell. Compared to 2000, almost all branches of the industry slowed in 2001. The government was the only sector that registered a growth (3.1%) in 2001. Production in agriculture and manufacturing & energy declined by 2.2% and 0.2%, respectively. The outbreak and aftermath of the foot-and-mouth disease affected the agricultural sector. The lack of foreign and domestic demand in investment goods hampered expansion in the manufacturing sector.

Household consumption decelerated from 3.2% in 2000 to 1.9% in 2001, caused by the slower economy combined with high inflation. In 2001, fewer mortgages were renegotiated, and developments in the stock market were negative. Capital investments shrank, stemming from fewer major projects.

The slower Dutch economy was accompanied by a surge of 2.1% in employment, which reduced productivity by 1.0%. Apparently, companies were reluctant to lay off their personnel, due to the tight labor market conditions. The number of employed with a job of more than 12 hours a week reached 7.1 million in 2001, an increase of 147,000 people. The participation rate of women increased further to over 53.0%. The gain in employment lowered the unemployment rate to 1.9% in 2001.

Inflation in the Netherlands reached 4.5% in 2001, almost 2 percentage points higher than in 2000. The steep price increase was due mainly to a rise in the value-added tax rate and the introduction of the ecotax on January 1, 2001. The foot-and-mouth disease contributed to a 10.0% rise in meat prices, while fresh vegetables and fruit became almost 10.0% more expensive, a result of poor harvests in Southern Europe.

2.3.3 The Caribbean region

The Caribbean region was confronted with major difficulties in the year 2001. The deceleration in the US economy clearly affected the tourism and tourism-related activities. The September 11 terrorism attacks and hurricane Michelle exacerbated the economic slowdown in this region.

In the first half of 2001, the Caribbean countries were confronted with a new European Union's initiative for the developing countries that will have a serious impact on the Cotonou agreement, signed in May 2000. In the Contonou agreement, the 71-nations of Africa, the Caribbean, and the Pacific (ACP; the successor of the Lomé Convention) renegotiated the preferential access to the European Union markets. Especially the Caricom[6] countries feared increased competition in the sugar, rice, and banana exports.

Moreover, the Caribbean countries focused on following the recommendations for reforming the offshore financial centers. Fifteen of the 35 listed countries and territories regarded by the OECD as providing harmful tax competition were in the Caribbean. A working group was installed to find mutually acceptable ways of improving flows of information, bringing transparency to the offshore financial centers, and ending discriminatory practices. An agreement with the OECD has been reached to conclude a tax cooperation program by the end of 2005 on the above-mentioned principles.

[6] The Caribbean Community

With the merger of Barclays Bank and Canadian Imperial Bank of Commerce (CIBC) the First Caribbean International Bank was created to be based in Barbados. This new bank is the largest financial institution in the region, with combined assets of $9.9 billion, covering over 15 jurisdictions across the Caribbean.

In July, the Caricom made some advances towards its stated goals. A new deadline to the long-delayed Caribbean single market and economy was set for the end of 2001. The Caricom also signed an umbrella trade and economic cooperation agreement with Cuba.

The Caribbean countries pleaded for financial assistance for their battered economies due to the September 11 attacks and hurricane damage in Belize, the Bahamas, and Jamaica. The mission was led by a delegation of high commissioners to the Foreign and Commonwealth Office to gain UK support for a plea for extra help from the World Bank and the International Monetary Fund.

The damaging impact of hurricane Michelle on Cuba on November 4, 2001, gave an unexpected twist to the US embargo on Cuba. The Cuban authorities have agreed to buy food and medicines directly from US suppliers, taking advantage of the limited lifting of the embargo by the US Congress. This was the first trade deal between the two countries since President Kennedy introduced the blockade in 1962.

2.3.4 Latin America

Political and economic tensions continued to rise in the Andean region. Brazil's GDP performance decelerated to 1.5% in 2001 from 2000's growth of 4.4%. The economy was negatively affected by high interest rates, power rationing, Argentina's debt default, and the 16% drop in the real currency. Brazil's interest rates were raised five times to 19% in an attempt to contain inflation, while damping economic growth in the process. In spite of the economic slowdown, the unemployment rate dropped by 0.6 percentage point to 6.2%. This drop may be the result of an increase of temporary workers over the Christmas period. Consumer prices swelled by 7.1%, stemming from government-set and authorized tariffs for such items as fuel, electricity, and telecommunication. Brazil's current account deficit shrank by 17.8% to $1,848.0 million, aided by a trade surplus. The depreciating currency boosted exports and made imports pricier.

The year 2001 was a tumultuous period for Argentina, as it defaulted on its US$141 billion debt in December. After a three-year recession, the Argentine government was faced with a financial crisis. The government was unable to trim the budget deficit, in spite of cuts in state wages and pensions, and higher taxes. Furthermore, the international lenders cut off their credit, and the IMF withheld a $1.24 billion loan payment that Argentina had counted on to meet its December debt payments.

The concern of currency devaluation caused many Argentines to withdraw funds and buy dollars. To stave off a banking collapse, the government imposed rigid banking restrictions that limited the withdrawals. This policy resulted in large street protests and bloody food riots, which ultimately forced President Fernando de la Rúa to step down on December 20, 2001. Meanwhile, the interim President Adolfo Rodriguez Saà resigned on his 8th day in office, after protestors stormed the Congress building and set it on fire. The decade-old 'convertibility' regime, whereby the peso is pegged one-to-one to the US dollar made Argentina's exports less competitive, compared to other Latin American nations.

The Venezuelan economy progressed in 2001; growth was estimated at 2.7%. Compared to 2000, growth decelerated by 0.5 percentage point, which raised the unemployment rate to 13.7% at the end of June 2001. Inflation decelerated to 12.4% in 2001 from 15.8% in 2000. In the first three-quarters of 2001, the government invested in infrastructure projects. The oil price slipped in 2001, putting a hold on the expansionary fiscal policy plans. Furthermore, Venezuela had to cut its oil production by 116,000 barrels per day, a result of the OPEC oil stabilization plan.

The increased capital outflow continued to put pressure on the bolivar. In August, the Central Bank was forced to sell dollars to protect the currency. President Chàvez of Venezuela announced that several measures must be taken in the short run. The state deposits had to be withdrawn from the commercial banks and transferred to the Central Bank. The President had also hinted that commercial banks could be bound by law to reserve a fraction of their loans for small businesses and micro lending.

The new decrees that were implemented gave the state greater control over the oil industry and opened the possibility that privately owned land might be confiscated. However, the decrees lowered producers' sentiment and discouraged investments.

2.3.5 Japan

In 2001, the world's second-largest economy deteriorated. The lack of structural reforms, such as eliminating the bad loans of banks and opening the economy to competition, continued to hinder the economy from recovering. Japan's real GDP fell by 0.5%, reflected by declines in consumer spending (0.8%), business investment (5.3%), and exports (7.6%). Consumers were reluctant to spend, in spite of lower interest rates and lower retail prices. As a result, Japan posted its largest drop in consumer prices in 30 years, decreasing by 0.9%. Declining incomes, a record-high unemployment rate, and future corporate restructuring continued to hamper private consumption. The year-long manufacturing slump reduced jobs, those still employed earned less in overtime hours, and incomes and bonuses fell. In 2001, many companies laid off personnel as their profits contracted, pushing up Japan's jobless rate to 5.1%.

The global slump in the information technology (IT) sector caused the fall in Japan's industrial production. Foreign demand for electronics sagged, resulting in a 7.6% decline in exports. Despite September's 15% depreciation in the yen, demand for Japanese-made products remained limited. Imports abated by 2.0%, but not enough to outweigh the drop in exports. Hence, Japan's current account surplus contracted by 2.5% to 1,157.3 billion yen.

PUBLIC SECTOR

3.1 Cash overview and financing

3.1.1 Introduction

Fiscal policy in 2001 must be seen against the background of the continued efforts to restructure the government sector. The government has embarked on budgetary and structural reform measures. The aim of these measures was, among other things, to correct the imbalances the Netherlands Antilles has been facing, as reflected by large fiscal deficits. During 2001, restructuring encountered delays in several policy areas, such as privatization and health care reform.

The general government recorded a cash surplus of NAf.2.9 million in 2001, compared to a deficit of NAf.101.1 million in 2000. A drop of NAf.99.2 million in expenditures supported by an increase of NAf.4.8 million in revenues contributed to this development. Both current and capital expenditures accounted for the drop in expenditures. The decreases in wages and salaries (NAf.143.4 million) and in outlays for goods and services (NAf.39.2 million) were most pronounced. This development is mainly a reflection of the severe liquidity constraints of the government, forcing it to adjust the level of expenditures to revenues collected. The decrease in cash expenditures was accompanied by increasing arrears to, among others, the civil servants pension fund APNA and private creditors.

Table 3.1
Overview of cash operations of the General Government 1999 - 2001
(in millions NAf.)

	1999	2000	2001
Total revenue	1,167.9	1,261.3	1,266.1
Tax revenues	1,036.3	1,095.4	1,144.6
Nontax revenues	121.6	117.6	109.4
Capital revenues	1.3	1.4	0.6
Grants	8.8	46.9	11.5
Total expenditures	1,221.0	1,362.4	1,263.2
Current expenditures	1,182.1	1,296.6	1,213.6
Capital expenditures	38.9	65.8	49.7
Balance	-53.1	-101.1	2.9

The increase of NAf.4.8 million in revenues in 2001 was the result of an increase of NAf.49.2 million in tax revenues, mitigated by lower nontax revenues (NAf.8.2 million), capital revenues (NAf.0.8 million), and grants received (NAf.35.4 million).

A sharp increase of NAf.66.8 million in proceeds from taxes on income and profits, resulting from tax audits by the Tax Office on the completeness and correctness of tax reporting, contributed to the overall increase in tax revenues in 2001. Most other tax categories showed a decline in revenues due to the economic recession. The drop in grants can be explained by the final settlement of assets and liabilities between Aruba and the Netherlands Antilles in 2000 when a net amount of NAf.31.9 million was received from Aruba.

The cash balance as a percentage of GDP improved from a deficit of 2% in 2000 to a positive cash balance of 0.1%. Revenues as a percentage of GDP remained unchanged at 29%, but it was the drop in expenditures from 31% of GDP in 2000 to 29% of GDP in 2001 that contributed to the improvement in the cash balance. Tax revenues as a percentage of GDP continued to increase as a result of the special actions by the Tax Office. Nevertheless, both the tax burden and the collective burden remained unchanged at 24% of GDP and 29% of GDP, respectively. The ratio of government investments to GDP remained constant at 1% of GDP.

Table 3.2
Selected budgetary key figures of the General Government 1999 - 2001 (cash basis, % of GDP)

	1999	2000	2001
Revenues	27	29	29
Tax revenues	24	25	26
Expenditures	28	31	29
Wages and salaries	12	13	9
Interest payments	3	4	4
Investments	1	1	1
Balance	-1	-2	0
Primary balance[1)]	2	1	4
Tax burden[2)]	21	24	24
Collective burden[3)]	26	29	29

[1)] Balance excluding interest payments
[2)] Excluding taxes from the international financial and business services sector.
[3)] Tax burden plus social premiums (AOV/AWW/AVBZ) collected by SVB and BZV.

The net borrowing by the government on the domestic capital market showed a mixed development in 2001. Investors were not willing to refinance all maturing securities. A liquidity injection of NAf.75.0 million by the Central Bank in December resulted in a positive net borrowing of the General Government in 2001. This injection was made mainly to advance NAf.40 million in liquidity support promised by the Dutch government. NAf.46 million was purchased from the Central Government and NAf.29 million from the Island Government of Curaçao.

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

	1998	1999	2000	2001
Gross borrowing	184.2	171.7	142.2	217.8
Central Government	83.2	108.0	68.2	130.8
Island Government of Curaçao	101.0	63.7	74.0	87.0
Net borrowing	44.4	21.3	-20.9	21.7

Central Government	29.8	52.4	-34.2	18.1
Island Government of Curaçao	14.6	-31.1	13.3	3.6

[1)] T-bills and 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 narrowed by NAf.32.6 million (45.8%) to NAf.38.6 million during 2001. This development was the result of a drop of NAf.82.1 million in expenditures that outweighed the drop of NAf.49.5 million in revenues.

The drop in expenditures can be ascribed to NAf.57.6 million lower current expenditures and a drop of NAf.24.5 million in capital expenditures. Fewer outlays for wages and salaries (NAf.48.7 million), goods and services (NAf.13.5 million), subsidies (NAf.6.5 million), and transfers (NAf.6.5 million) contributed to the drop in current expenditures. In contrast, interest payments increased by NAf.17.6 million (22.8%).

The development in wages and salaries can be broken down into a drop of NAf.37.8 million in wages, a drop of NAf.9.8 million in pension premiums, while the social security contributions dropped by NAf.1.1 million. The drop in wages and salaries and social security contributions is the consequence of fewer personnel. The drop in pension contributions occurred because the Central Government paid only part of its pension obligations due to liquidity constraints. These constraints also contributed to the decline in outlays on goods and services.

The drop in transfers is the result of lower transfers to other levels of government related to revenue-sharing arrangements (NAf.18.2 million), mitigated by increases in transfers to households (NAf.11.4 million) and nonprofit institutions (NAf.0.3 million). The increase in transfers to households was related to severance payments due to laid-off civil servants. The drop in subsidies can be explained by less financial support provided to Air ALM in 2001(NAf.6.9 million). Domestic interest payments increased by NAf.4.8 million (5.7%), reflecting the increased domestic debt, shorter maturities, and higher interest rates. Total interest payments increased by NAf.17.6 million (22.8%) in 2001, because in 2000 a correction was made on the foreign component as a consequence of the debt settlement with the Island Government of Curaçao.

Capital expenditures dropped by NAf.24.5 million, reflecting NAf.27.4 million less capital transfers, an increase of NAf.4.7 million in investments, and a drop of NAf.1.8 million in net lending. The drop in capital transfers can be attributed mainly to the partial settlement of a guarantee extended to a hotel project on Bonaire in 2000. In 2001, a smaller installment was paid.

The drop in revenues in 2001 was accounted for by all revenue categories. Grants declined by NAf.35.4 million, non-tax revenues by NAf.7.3 million, and tax revenues by NAf.6.7 million.

The drop in tax revenues can be attributed primarily to fewer taxes collected on international trade and transactions (NAf.5.4 million), a drop of NAf.5.2 million in stamp taxes, and a drop of NAf.2.5 million in taxes on property. The drop in taxes on international trade and transactions was almost entirely the result of fewer import duties collected (NAf.4.8 million), related to the downturn in economic activities.

An increase of NAf.6.4 million in taxes on goods and services compensated partially for these downturns in revenues. This increase can be explained by an increase of NAf.10.5 million in sales &

turnover tax revenues, an increase of NAf.1.3 million in excises, and a drop of NAf.5.4 million in gambling licenses. The increase in sales & turnover tax revenues was caused almost entirely by the NAf.9.2 million increase in revenues on the Windward Islands.

Table 3.4
Overview of cash operations of the Central Government 1999 - 2001 (in millions NAf.)

	1999	**2000**	**2001**
Total revenue	509.9	658.3	608.8
-Tax revenues	419.4	519.0	512.3
Taxes on property	20.1	17.0	14.5
Taxes on goods and services, of which:	248.0	363.5	369.9
Excises	130.7	115.1	116.4
Sales and turnover tax	105.7	231.8	242.3
Taxes on international trade and transactions, of which:	143.5	128.1	122.7
Import duties	142.1	126.5	121.7
Other taxes	7.8	10.4	5.2
-Nontax revenue, of which:	81.7	92.3	85.0
Entrepreneurial & property income	41.8	55.6	63.8
Fees, charges, and sales	38.9	34.7	20.1
-Grants	8.8	46.9	11.5
Expenditures	547.4	729.5	647.4
-Current	525.7	674.2	616.6
Wages and salaries	249.3	248.6	199.9
Goods and services	98.0	96.1	82.6
Interest payments	76.2	77.2	94.8
Subsidies	4.4	10.8	4.3
Transfers	97.8	241.5	235.0
-Capital expenditure	21.7	55.3	30.8
Investment	21.7	16.3	21.0
Capital transfers	0.0	35.5	8.1
Net lending	0.0	3.5	1.7
Balance	-37.5	-71.2	-38.6

The drop in nontax revenues can be explained mainly by the NAf.14.6 million decrease in fees, charges, and sales. In contrast, entrepreneurial and property income increased by NAf.8.2 million. This increase can be attributed to a NAf.10.6 million (25.5%) increase in the transfers from the central bank and NAf.8.4 million in interest received from the island governments on formalized debts with the Social Security Bank (SVB) and the civil servants pension fund (APNA).[7] Due to the

[7] The accumulated arrears of the smaller island governments to APNA and SVB were converted into interest bearing bonds issued by the Central Government. The island governments in turn have to pay the related interest and redemption to the Central Government. This is settled annually.

independization of the mental hospital Dr. David Ricardo Capriles Kliniek, the government laboratory "Landslaboratorium," and the land registry office "Kadaster", the operations of these institutions are no longer included in the government budget.

Finally, grants from abroad dropped by NAf.35.4 million, due mostly to the NAf.31.9 million received from Aruba in 2000 in connection with the final settlement of assets and liabilities with the Netherlands Antilles.

The Central Government's cash deficit in 2001 was financed mainly monetarily (see table 3.5). The monetary financing resulted largely through the Central Bank (NAf.49.6 million) with the purchase of government securities. In contrast, government securities with the public declined by NAf.30.2 million, as not all maturing loans were refinanced.

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

	1999	2000	2001
Cash balance	-37.5	-71.2	-38.6
Monetary financing	10.4	6.8	36.8
Central Bank	11.2	6.7	49.6
Coins & notes	2.1	1.2	0.9
Commercial banks	-2.9	-1.1	-13.8
Nonmonetary financing	27.1	64.4	1.8
Government securities with the public	41.4	-13.9	-30.2
Other	-14.3	78.3	32.0

3.1.3 Island Government of Curaçao

The operations of the Island Government of Curaçao in 2001 resulted in a positive cash balance of NAf.41.5 million, an improvement by NAf.71.4 million compared to 2000. A drop of NAf.53.9 million in expenditures that was supported by an increase in revenues of NAf.17.5 million contributed to this development. The drop in expenditures was attributable entirely to NAf.62.2 million lower current expenditures as capital expenditures increased by NAf.8.4 million. In current expenditures, wages and salaries and outlays for goods and services dropped by NAf.94.7 million (31.8%) and NAf.25.7 million (11.7%), respectively. This drop was mitigated partly by increases in subsidies, transfers, and interest payments of NAf.2.1 million, NAf.45.0 million, and NAf.11.1 million, respectively.

The drop in wages and salaries is to a large extent explained by non-payment of the pension contributions to the civil servants pension fund (NAf.51.1 million). Wages dropped by NAf.43.6 million (18.7%) reflecting fewer personnel. The drop in outlays for goods and services can be ascribed to a more restrictive expenditure policy and to increased payment arrears to private creditors because of liquidity constraints.

Transfer payments increased by NAf.45.0 million (35.4%), caused entirely by increased payments to nonprofit institutions (NAf.49.6 million). The administrative settlement of a claim of the Island

Receiver on Dutch Caribbean Airways (NAf.23.7 million), and transfers to, among others, the road fund[8] (NAf.17.1 million) contributed to this development.

Interest payments increased by NAf.11.2 million, due mainly to higher domestic interest payments related to higher interest rates and shorter maturities. Subsidies increased by NAf.2.1 million in 2001.

Finally, capital expenditures increased by NAf.8.4 million, attributable largely to a capital transfer of NAf.8.0 million due to the settlement of a claim in connection with a hotel project.

The increase in revenues in 2001 was entirely the result of an increase in tax revenues of NAf.55.9 million, as nontax revenues, capital revenues, and grants dropped by NAf.0.9 million, NAf.0.7 million, and NAf.36.8 million, respectively. In tax revenues, taxes on income and profits increased by NAf.66.8 million while taxes on goods and services and taxes on property dropped by NAf.7.7 million and NAf.3.2 million, respectively. The NAf.36.8 million (23.7%) drop in grants was caused by less income from the Central Government related to revenue-sharing.

The increase in taxes on income and profits can be ascribed primarily to a NAf.30.9 million (18.7%) increase in the profit tax and an increase of NAf.54.2 million (16.1%) in the wage tax. This development was mitigated partly by a drop of NAf.18.3 million in income tax due to the high value of returns. The increase from the profit tax and wage tax can be explained mainly by a special effort by the Tax Office to improve compliance. Furthermore, the settlement with the Island Receiver of a claim on Air ALM also contributed to the increase in wage taxes collected.

Table 3.6
Overview of cash operations of the Island Government of Curaçao 1999 - 2001 (in millions NAf.)

	1999	2000	2001
Revenues	703.9	758.4	775.9
-Tax revenue	616.9	576.4	632.3
Taxes on income and profits	564.7	512.0	578.8
Profit tax	226.1	165.4	196.3
Wage tax	324.8	335.6	389.8
Income tax	13.8	11.0	-7.3
Taxes on property	18.7	28.6	25.4
Land tax	13.8	21.2	17.8
Occupancy tax	5.0	7.4	7.6
Taxes on goods and ..services	33.4	35.8	28.1
-Nontax revenue, of which:	44.0	25.3	24.4
Entrepreneurial and property income	21.0	2.8	7.8
..Fees, charges, and sales	16.5	13.7	11.4
..Other nontax revenues	6.5	8.9	5.2
-Capital revenue	1.3	1.3	0.6
-Grants	41.8	155.4	118.6

[8] A separate fund has been set up for the construction and maintenance of roads. Beginning in 2001, the proceeds from the motor vehicle tax are transferred to this fund.

Expenditure	719.5	788.3	734.4
-Current	702.3	777.8	715.5
Wages and salaries	291.7	297.8	203.1
Goods and services	184.8	219.3	193.6
Interest payments	73.9	82.5	93.7
Subsidies	60.2	51.1	53.2
Transfers	91.7	127.0	172.0
-Capital, of which:	17.2	10.5	18.9
Investment	17.0	10.5	10.9
Balance	-15.6	-29.9	41.5

Taxes on goods and services dropped by NAf.7.7 million in 2001. In this category of taxes, motor vehicle taxes, income from licenses, and hotel room taxes dropped by NAf.4.8 million, NAf.1.7 million, and NAf.1.2 million, respectively. The decline in motor vehicle taxes can be explained by the late start of the collection of the 2002 tax.[9] Furthermore, a drop of NAf.3.2 million was registered in taxes on property, the result of a drop of NAf.3.4 million in the land tax and an increase of NAf.0.2 million in the occupancy tax collected.

The NAf.0.9 million lower nontax revenues were the result of decreases of NAf.2.3 million and NAf.3.7 million, respectively, in fees, charges, and sales and in other nontax revenues, mitigated partly by an increase of NAf.5.0 million in entrepreneurial and property income. The latter increase resulted from the receipt of more dividends from public enterprises.

The Island Government of Curaçao used part of the cash balance to redeem maturing securities that were not refinanced. Monetary financing consisted of an increase in outstanding loans with the commercial banks and an increase in government securities. In contrast, outstanding government securities with the public dropped in 2001.

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

	1999	2000	2001
Cash balance	-15.6	-29.9	41.5
Monetary financing	43.4	14.1	18.5
Central Bank	21.0	55.9	-3.9
Commercial banks	22.4	-41.8	22.4
Nonmonetary financing	-27.8	15.8	-60.0
Government securities with the public	-31.3	-11.1	-12.0
Other	3.5	26.9	-48.0

[9] Normally, the motor vehicle tax due for a certain year can be paid from December of the previous year. However, the 2002 tax could only be paid from March 2002.

3.2 Public sector debt and guarantees

3.2.1 Introduction

The total consolidated public debt of the Netherlands Antilles increased by NAf.139.6 million (4.3%) in 2001 to NAf.3.374 billion or 76.8% of GDP. An increase of NAf.171.2 million in the domestic component (6.4%) and a drop of NAf.31.6 million (5.6%) in the foreign component contributed to this development.

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

	1999	2000	2001
Domestic debt[1)]	2,670.3	2,672.1	2,843.3
Foreign debt	627.7	562.8	531.2
Total debt	3,297.9	3,234.9	3,374.5
% of GDP	75.1%	74.5%	76.8%

1) Consolidated.

3.2.2 Public sector domestic debt

The increase in the domestic debt of the Netherlands Antilles in 2001 was attributable to all governments. The NAf.71.8 million increase in the debt of the Central Government can be ascribed to increases in outstanding government securities with the Central Bank of NAf.54.8 million[10] and the debt to the civil servants pension fund (APNA) of NAf.35.9 million. In addition, the debt to other government levels and other debt items increased (NAf.9.3 million). These increases were mitigated partly by a drop of NAf.30.2 million in securities with the public, a drop of NAf.6.5 million in securities in the commercial banks' portfolios, as well as a reduction in arrears to the Social Security Bank (SVB) of NAf.9.6 million.

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

	1999	2000	2001
Central Government, of which:	1,153.8	1,114.7	1,186.5
Central Bank	94.6	70.7	125.5
Commercial banks	70.6	74.0	67.5
Government securities with the public	862.9	849.0	818.8
Social Security Bank (SVB), arrears	8.1	7.0	15.5
Civil servants pension fund (APNA), arrears	53.5	72.0	107.9

10 Due mainly to the Central Government share of NAf.46 million in the purchase of NAf.75 million in government securities in December 2001.

Other	64.1	42.0	51.3
Island Government of Curaçao,			
of which:	1,447.9	1,471.4	1,549.9
Central Bank	15.0	70.8	66.9
Commercial banks	126.9	101.1	122.7
Government securities with public	359.7	348.6	358.7
Social Security Bank (SVB), arrears	17.0	36.5	45.6
Civil servants pension fund			
(APNA), arrears	749.7	746.5	793.3
Arrears to other creditors	179.6	161.2	162.7
Central government	0.0	6.7	0.0
Other Island Governments, of which:	76.0	95.3	114.2
Social Security Bank (SVB), arrears	11.9	20.3	30.6
Civil servants pension fund (APNA), arrears	64.1	74.2	83.6
Total consolidated domestic debt	**2,670.3**	**2,672.1**	**2,843.3**

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

The total domestic debt of the island government of Curaçao increased by NAf.78.5 million in 2001, caused mainly by increases in arrears with the civil servants pension fund (APNA) and the Social Security Bank (SVB) of NAf.46.8 million and NAf.9.1 million, respectively. Furthermore, commercial bank credit increased by NAf.18.3 million, while government securities with the public and in the commercial banks' portfolios increased by NAf.10.1 million and NAf.3.3 million, respectively. These increases were mitigated partly by a drop in government securities with the Central Bank and in the debt to the Central Government of NAf.3.9 million and NAf.6.7 million, respectively.

Finally, the arrears of the other island governments at the APNA and the SVB increased by NAf.9.4 million and NAf.10.3 million, respectively. The total identified debt of these islands territories amounted to NAf.114.2 million in 2001, of which NAf.66.6 million (58.3%) can be ascribed to the Island Government of Bonaire and NAf.41.4 million (36.3%) to the Island Government of Sint Maarten. The debt of the two smaller islands, Saba and Sint Eustatius, amounted to NAf.3.9 million (3.4%) and NAf.2.3 million (2.0%), respectively, at the end of 2001.

3.2.3 Public sector foreign debt

The drop in the foreign debt can be ascribed mainly to the appreciation of the US dollar, to which the Netherlands Antilles guilder is pegged, of 7.4% against the Dutch guilder. Up to the end of 2001, most of the foreign debt of the Netherlands Antilles was denominated in Dutch guilders.[11] In addition, the Central Government paid an installment of a guarantee granted to a foreign financial institution.

[11] As of January 1, 2002, the Dutch guilder denominated loans were converted in Euros.

THE EXTERNAL SECTOR

4.1 General overview

For 2001, a gradual return of confidence in the government was expected, which would lead to increased investment and economic activities. The latter would have had a positive influence on the external reserve position. Specifically, the developments in our services sector were expected to improve, due primarily to the continued growth in the tourism sector and an increase in activities related to the refinery investment program. These developments would have offset the deterioration in our trade balance resulting from higher imports, related to the rise in economic activity.

As it turned out, the year 2001 recorded an extraordinary rise in our external reserves. The positive development in our external position compensated for the sluggish domestic demand, thus resulting in a smaller economic contraction than in 2000. However, a lasting improvement in our reserves position can be achieved only through economic growth. The current account improved in 2001 compared to 2000, primarily as a result of the decline in the trade deficit. The main foreign exchange-generating sectors, however, did not perform as expected in 2001, mainly because of the impact on the tourist sector of the terrorist attacks on the United States on September 11.

The capital and financial account improved primarily as a result of the increase in our reserves assets. Overall, the balance of payments recorded a surplus of NAf.433.0 million in 2001, which resulted in an international reserves position of NAf.1,069.4 million, including gold (graph 4.1).

Graph 4.1
Developments in the net international reserves (in millions NAf.)

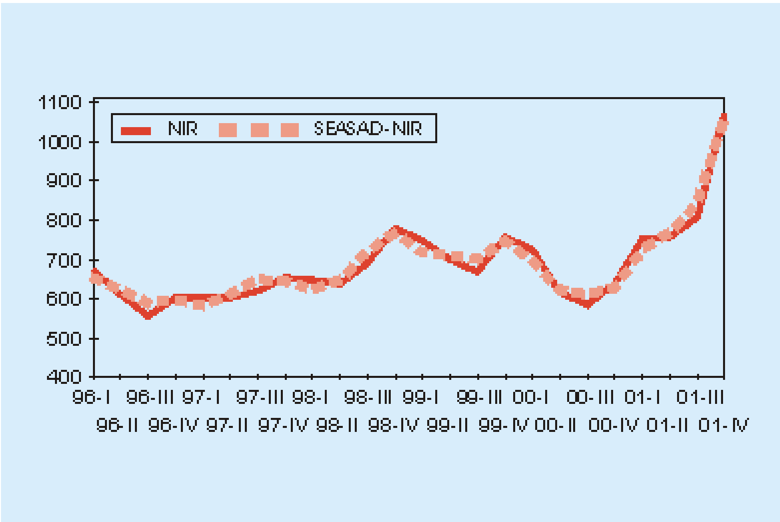


Table 4.1 ***Balance of payments summary[1] (in millions NAf.)***			
	2000	2001	diff.
Current account	-288.8	-249.4	39.4
Capital account	53.3	66.4	13.1
Financial account, of which:	184.3	97.9	-86.4
-Change in reserves[2]	85.6	-433.0	-518.6
Statistical discrepancies	51.2	85.1	33.9
Memorandum item			
Change in reserves[2]	85.6	-433.0	-518.6
-with commercial banks	77.9	-360.7	-438.6
-with central bank	7.7	-72.3	-80.0

[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.39.4 million to NAf.249.4 million in 2001. As illustrated in table 4.2, the improvement of the current account was the result of the improved trade balance, due to a drop in imports. The lower deficit on the trade balance more than compensated for the fact that, unlike 2000, no exceptional current transfers from abroad were received in 2001.

Table 4.2 ***A breakdown of the current account [1] (in millions NAf.)***			
	2000	2001	Diff.
Trade balance	-1,947.7	-1,865.7	82.0
-Exports	1,026.7	984.2	-42.5
-Imports	2,974.4	2,849.9	-124.5
Services balance	1,553.1	1,551.7	-1.4
Receipts, of which:	2,904.2	2,984.5	80.3
-Travel	1,368.1	1,367.6	-0.5
-Transportation	291.0	316.1	25.1
-Other services, of which:	1,245.1	1,300.8	55.7
Int. fin. & bus. services sector	498.8	549.2	50.4
Expenses, of which;	1,351.1	1,432.8	81.7
-Travel	545.6	549.3	3.7
-Transportation	140.7	160.3	19.6
-Other services, of which:	664.8	723.2	58.4
Int. fin. & bus. services sector	156.6	194.9	38.3
Income balance[2])	38.0	29.5	-8.5
Current transfers balance[3]	67.8	35.1	-32.7

Profit taxes	81.4	87.3	5.9
Balance	-288.8	-249.4	39.4

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

The recorded balance-of-payments surplus is unprecedented for the Netherlands Antilles and must be viewed with caution. Weak domestic demand and various transitory factors contributed significantly to this result.

4.2.1 The trade balance

The trade balance improved by NAf.82.0 million in 2001, compared to 2000. This improvement was related to a NAf.124.5 million drop in imports, attributable to the sluggish economic activities. All categories of the trade balance contributed to the drop in imports, which was offset partly by the decline in merchandise exports of NAf.42.5 million. About half of the drop in exports was due to a decline in general merchandise, while the remainder was caused mainly by a decline in the export of oil products.

A breakdown by island reveals that a decrease in general merchandise imports on the Windward Islands and a decrease in oil imports on both the Windward Islands and Curaçao contributed the most to the improvement of the trade balance. The factors that contributed to the improvement on the Windward Islands (NAf.85.9 million) were mitigated partly by the decreased export of oil products and goods procured in port. Imports as well as exports of oil products were influenced by the lower oil prices during the final months of 2001.

The trade balance of Bonaire also improved in 2001, by NAf.9.3 million, compared to 2000. This improvement was caused by a decrease in imports of general merchandise. Another factor that contributed to the improvement of the trade balance was the decline in imports of goods for processing.

Curaçao was the only island of the Netherlands Antilles where the trade balance deteriorated. The NAf.13.2 million deterioration was caused mainly by a decrease in exports and an increase in imports of general merchandise. The increase in imports was almost entirely generated by imports related to the construction activities of the upgrading project of the oil refinery in Curaçao (IRUP). In addition, the value of the export of goods procured in ports and goods for processing increased, while all other categories of merchandise imports declined.

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

	2000		2001		Diff.	
	Export	Import	Export	Import	Export	Import
Bonaire	16.9	79.0	15.0	67.8	-1.9	-11.2
-General merchandise	15.7	72.0	14.0	65.5	-1.7	-6.5
-Oil products	-	0.8	-	0.9	-	0.1
-Goods for processing	0.5	6.2	1.0	1.4	0.5	-4.8
-Repair on goods	-	-	-	-	-	-
-Goods procured in ports (bunker)	0.7	-	-	-	-0.7	-
Curaçao	660.2	2,027.2	641.4	2,021.6	-18.8	-5.6
-General merchandise,	43.1	1,678.5	413.1	1,708.7	-30.0	30.2
of which: freezone	267.0	494.7	304.1	414.9	37.1	-79.8
-Oil products	-	272.9	-	248.7	-	-24.2
-Goods for processing	11.4	59.4	15.4	51.6	4.0	-7.8
-Repair on goods	71.3	2.0	69.7	-	-1.6	-2.0
-Goods procured in ports (bunker)	134.4	14.4	143.2	12.6	8.8	-1.8
Windward Islands	349.6	868.2	327.8	760.5	-21.8	-107.7
-General merchandise	70.7	566.4	78.3	506.9	7.6	-59.5
-Oil products	41.5	301.8	21.3	252.9	-20.2	-48.9
-Goods for processing	-	-	0.1	0.6	0.1	0.6
-Repair on goods	-	-	-	-	-	-
-Goods procured in ports (bunker)	237.4	-	228.1	0.1	-9.3	0.1
Netherlands Antilles	1,026.7	2,974.4	984.2	2,849.9	-42.5	-124.5
-General merchandise	529.5	2,316.9	505.4	2,281.1	-24.1	-35.8
-Oil products	41.5	575.5	21.3	502.5	-20.2	-73.0
-Goods for processing	11.9	65.6	16.5	53.6	4.6	-12.0
-Repair on goods	71.3	2.0	69.7	-	-1.6	-2.0
-Goods procured in ports (bunker)	372.5	14.4	371.3	12.7	-1.2	-1.7

1) Transaction basis.

4.2.2 The services balance

The surplus on the services balance dropped slightly by NAf.1.4 million in 2001 compared to 2000, due to a small reduction in the surpluses of the travel and other services sectors.

4.2.2.1 Tourism

The foreign-exchange receipts from the tourism sector were expected to increase significantly as a result of a growth in both stay-over tourism and cruise tourism. Unfortunately, the terrorist attacks on the United States on September 11, 2001, changed this initial outlook. As can be seen in table

4.4, total foreign-exchange receipts from the tourist sector barely changed in 2001 compared to 2000. An analysis by island reveals that the increases in foreign-exchange earnings from stay-over tourism on Curaçao and Bonaire compensated for the decline in these earnings on the Windward Islands.

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

	2000	2001	Diff	%
Bonaire	110.9	114.1	3.2	2.9
-Stay-over	104.8	108.6	3.8	3.6
-Cruise	6.1	5.5	-0.6	-9.8
Curaçao	393.4	429.0	35.6	9.1
-Stay-over	349.8	388.8	39.0	11.2
-Cruise	43.6	40.2	-3.4	-7.8
Windward Islands	863.8	824.5	-39.3	-4.6
-Stay-over	675.6	635.5	-40.1	-5.9
-Cruise	188.2	189.0	0.8	0.4
Netherlands Antilles	1,368.1	1,367.6	-0.5	0.0
-Stay-over	1,130.2	1,132.9	-2.7	-0.2
-Cruise	237.9	234.7	-3.2	-1.3

[1] Transaction basis.

The tourism sector on the Windward Islands depends heavily on the US market. Consequently, it did not thrive in the second half of 2001 as a result of the slowdown in the US economy and the September 11 attacks. Total foreign-exchange receipts declined by 4.6%, reflecting the drop in the number of stay-over visitors mitigated slightly by a marginal increase in cruise tourism.

The tourist sector in Curaçao did perform well in 2001, despite a slight drawback due to the September 11 attacks. The foreign-exchange receipts increased by 9.1%, reflecting the positive development in the number of stay-over visitors, particularly from the European markets. In contrast, revenues from cruise tourism declined.

The pattern of Bonaire's tourism earnings were similar to those of Curaçao. Total foreign-exchange earnings increased by 2.9%, due entirely to stay-over tourism. In contrast, spending by cruise tourists declined.

4.2.2.2 Transportation

Net earnings from the transportation sector increased by NAf.5.5 million in 2001 compared to 2000. This increase was a result of an increase in exports of NAf.25.1 million, which was partly offset by an increase in imports of NAf.19.6 million. Exports increased mainly because of the expanded activities of the national carrier air ALM on the transatlantic route.

4.2.2.3 Other services

Net earnings from other services declined by NAf.2.7 million in 2001 compared to 2000. This decline could be attributed to an increase in expenses of NAf.58.4 million, which was offset partly by an increase in earnings of NAf.55.7 million. Expenses increased due to more expenses on construction services and international financial and business services, mitigated partly by the decrease in expenses for computer and information services and other services. Earnings increased due to a rise in earnings from international financial and business services, government services, and construction services, but were offset partly by a decrease in the refining fee and earnings for other services.

The operational earnings of the international financial and business services sector increased by NAf.50.4 million. As operational expenses increased by NAf.38.3 million, net operational income of this sector increased by NAf.12.1 million in 2001 compared to 2000. In addition, profit taxes paid by the sector to the government increased by NAf.5.9 million.

Income from government services increased considerably by NAf.44.5 million. This increase could be related to, among other things, transfers from the government of the Netherlands related to development aid and the Royal Dutch Navy base on Curaçao, and from the United States government to their Air Force base in Curaçao.

In 2001, a shift occurred in fees paid for the upgrading project of the oil refinery in Curaçao (IRUP) from expenses primarily made on engineering fees to expenses on construction services. On the one hand, expenses on other remaining services, which include engineering fees, decreased by NAf.9.1 million. On the other hand, expenses on construction increased by NAf.42.0 million.

4.2.3 The income balance

The surplus on the income balance decreased by NAf.8.5 million in 2001 compared to 2000. The main cause of this decline was the drop in interest income on investments, due to the sharp decrease in interest rates in the United States. This drop was mitigated partly by an increase in labor income and direct investment income from abroad.

4.2.4 The current transfer balance

The current transfer balance recorded a surplus of NAf.35.1 million in 2001, a decrease of NAf.32.7 million compared to 2000. This development can be ascribed particularly to the absence of exceptional government transfers from abroad in 2001 as compared to 2000. In 2000, the Netherlands Antilles received NAf.40.0 million in grants from the Netherlands and NAf.36.7 million from Aruba for the final settlement payment of the distribution of assets and liabilities. This decline was to a large degree offset because of a considerable increase in transfers from abroad to Antillean residents in the form of workers' remittances as well as other types of personal transfers.

4.3 The capital and financial account

The combined balance of the capital and financial accounts improved in 2001 by NAf.73.2 million, due primarily to developments in the financial account. The improvement in the financial account was the result of an increase in our foreign assets.

4.3.1 The capital account

The surplus on the capital account of the balance of payments increased by NAf.13.1 million in 2001 compared to the year 2000. This increase was due primarily to an increased value of household and personal effects, and financial assets transferred by migrants from abroad to the Netherlands Antilles compared to 2000. The value of household and personal effects actually transferred to another country is recorded as goods in the balance of payments, while financial assets and liabilities, such as bank deposits and loans, are recorded in the financial account. The offsetting entry of these transactions is recorded in the capital account under migrants' transfers. The increase in the surplus in the capital accounts was due also to more development aid funds received in 2001.

4.3.2 The financial account

As can be seen in table 4.5, the improvement of the financial account can be attributed to the increase in foreign assets by NAf.266.0 million, due entirely to the development in reserve assets. The recorded increase in reserve assets is unprecedented for the Netherlands Antilles. Exports of goods and services increased, but the continued weak domestic demand contributed to a drop in the import of goods and services by approximately NAf.40 million. In addition, considerable capital investments were recorded in the utilities sector, while funds also were transferred for the acquisition of the local ABN AMRO operations by the RBTT Bank and ongoing projects, such as the Caribbean University.

On the other hand, foreign liabilities increased by NAf.179.6 million. Reserve assets generally are used to absorb a significant part of a country's short-term imbalances. The mentioned increase in foreign liabilities was due mainly to developments in the direct investment category. The considerable capital investments were in the form of a loan or owing to capital participation in Antillean enterprises by foreign companies, which caused an increase in foreign liabilities. Moreover, Antillean enterprises made fewer payments to their parent companies to settle their outstanding debt as compared to 2000, which may also be related to the sluggish domestic economic activities.

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

	2000	2001	Diff.
Direct investment	-108.9	-2.4	106.5
-Abroad[2]	4.1	-0.8	-4.9
-In the Netherlands Antilles[3]	-113.0	-1.6	111.4
Portfolio investment[2]	-67.7	-47.5	20.2
Other investment	275.3	580.8	305.5
-Assets[2]	55.2	292.5	237.3
-Liabilities[3]	220.1	288.3	68.2
Reserves[4]	85.6	-433.0	-518.6
Balance	184.3	97.9	-86.4

Memorandum item			
Financial account broken down in			
-Assets[2)]	77.2	-188.8	-266.0
-Liabilities[3)]	107.1	286.7	179.6

[1)] Transaction basis.
[2)] A -sign means an increase in assets.
[3)] A -sign means a decrease in liabilities.
[4)] A -sign means an increase in reserve assets.

Net portfolio investment abroad decreased by NAf.20.2 million in 2001, as a result of fewer re-investments made by individuals and institutional investors, particularly in the fourth quarter. US interest rates declined sharply during 2001, especially after the September 11 attacks. However, institutional investors remained hesitant to increase their exposure to the government, a clear indication of their lack of confidence in the government's decisiveness to cope with its financial situation.

MONETARY DEVELOPMENTS

5.1 Introduction

Monetary developments in 2001 must be related mostly to sluggish economic activity, reflected by marginal growth in net domestic credit to the private sector. In addition, private credit extension was influenced negatively by continuous decreases in the interest rate in the United States[12] and the relative low interest rates in the Netherlands, stimulating foreign borrowing.

Another development worth mentioning is the substantial increase in international reserves. This increase was due to a combination of factors: increased revenues from services and free-zone exports in combination with decreased expenses on imports due to sluggish economic activity increased foreign borrowing by local enterprises, and several large investment projects funded from abroad.

Since January 1, 1999, monetary policy has been effectuated using the reserve requirement, an indirect instrument, as its main policy tool. The reserve requirement, a deposit by the commercial banks on a blocked account at the Bank, is determined as a percentage of the commercial banks' domestic debt. This percentage is evaluated monthly by the Bank based on developments in, among other things, net domestic credit extension to the private sector, the Banks' official reserves, and the current account balances of the commercial banks at the Bank.

During 2001, private-sector credit extension was sluggish, while international reserves increased substantially. The decrease in net domestic credit extension in combination with increased foreign borrowing led to an increase in liquid assets at the banking sector. This development was reflected by a substantial increase in the current account balances of the commercial banks at the Bank. As a consequence, the Bank decided to ease its monetary policy as per January 1, 2002.

5.1.1 Monetary policy changes in 2001

Monetary policy has been adapted several times during 2001. First, the reserve requirement percentage was raised by 25 basis points to 11.5% in January. This measure was taken in light of the persistent increase in private credit extension during the final months of 2000. Second, as of February 16, interbank deposits have been excluded from the definition of domestic debt, the basis on which the reserve requirement is calculated. This removed obstacles to participate in the interbank market, and, hence, stimulates interbank lending.

Finally, effective September 1, the amount a commercial bank can borrow from the Bank against the pledging rate (7.00%) was limited to NAf. 20 million. Any borrowing above this amount is charged with a markup. This markup has been increased by 50 basis points to 0.75%, raising the marginal lending rate to 7.75%. This decision was taken to increase the effectiveness of the Bank's monetary policy and to comply with a measure in the policy matrix agreed upon with the International Monetary Fund.

[12] Since January 2001, the Federal funds rate decreased by 4.75 percentage points to 1.75 percent as of December 2001.

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

5.2.1 Money supply

During 2001, the money supply increased substantially by 14.4% (NAf.425.9 million), compared to an increase of 2.2% (NAf.63.7 million) in 2000. This increase in the money growth was the result of increases in both the money component and the near-money component of the money supply.

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

	2000		2001	
Coins & notes with the public	188.9	(-4.1%)	218.2	(15.5%)
Total demand deposits,				
of which :	966.6	(-2.4%)	1,091.5	(12.9%)
-Neth. Ant. guilders	766.3	(0.7%)	866.1	(13.0%)
-Foreign currency	200.3	(-12.5%)	225.4	(12.5%)
Money (M1)	1,155.5	(-2.7%)	1,309.7	(13.3%)
Time deposits	607.3	(11.3%)	804.3	(32.4%)
Savings	1,192.2	(2.9%)	1,266.9	(6.3%)
Near money	1,799.5	(5.6%)	2,071.2	(15.1%)
Money supply (M2)	2,955.0	(2.2%)	3,380.9	(14.4%)

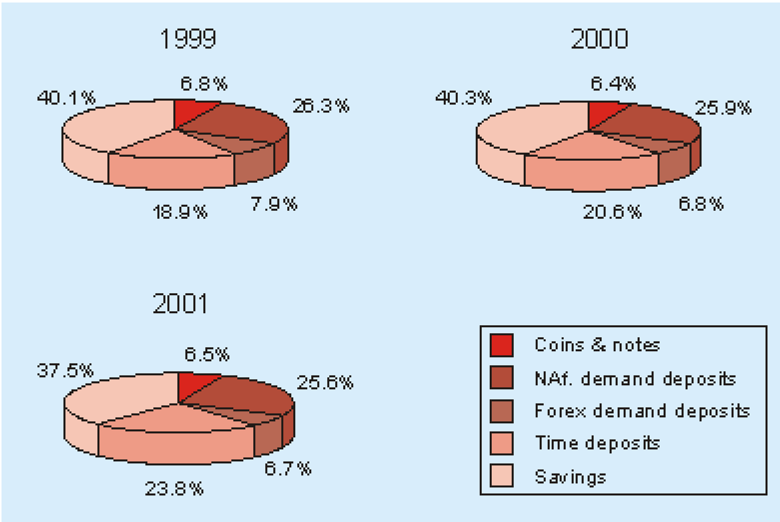
As shown in table 5.1, the money component of the money supply recorded a 13.3% (NAf.154.2 million) increase during 2001, a turnaround compared to the 2.7% (NAf.31.6 million) decrease in 2000. This increase in 2001 was the result of increases in all three components of the money supply. Coins and notes with the public increased by 15.5% (NAf.29.3 million), compared to a decrease of 4.1% (NAf.8.1 million) during 2000. Demand deposits denominated in Antillean guilders increased by 13.0% (NAf.99.8 million), compared to an increase of 0.7% (NAf.5.1 million) during 2000. Finally, demand deposits denominated in foreign currency turned around from a decline of 12.5% (NAf.28.6 million) in the year 2000 to an increase of 12.5% (NAf.25.1 million) in 2001. The increase in demand deposits, both in Antillean guilders and in foreign currency, is due mainly to business enterprises. This increase could be related to, among others things, the increased inflow of capital due to investment projects.

The near-money component of the money supply grew by 15.1% (NAf.271.7 million) in 2001, surpassing the growth rate of 5.6% (NAf.95.3 million) in 2000. This increase was due to increases in both time deposits and savings, by 32.4% (NAf.197.0 million) and 6.3% (NAf.74.7 million), respectively. The growth rate in time deposits is related mainly to increased private-sector time deposits denominated in Antillean guilders, which resulted from foreign borrowing by local enterprises.

Graph 5.1 reveals that the share of near money in the money supply increased at the expense of the money component in 2001. The increase in the share of the near-money component of 0.4 percentage point to 61.3% was the result of an increase of 3.2 percentage points in the share of time deposits to 23.8%, which offset the decrease of 2.8 percentage points to 37.5% in the share of savings. The share of the money component decreased by 0.3 percentage point to 38.8%, due to decreases in the shares of demand deposits denominated in Antillean guilders and foreign currency by 0.3 percentage point to 25.6% and by 0.1 percentage point to 6.7%, respectively. These decreases offset the increase in the share of coins and notes of 0.1 percentage point to 6.5%.

Graph 5.1

Developments in the composition of the money supply



5.2.2 Factors affecting the demand for liquid assets

During 2001, the total demand for liquid assets increased substantially by 14.4% (NAf.425.9 million), compared to an increase of 2.2% (NAf.63.7 million) in 2000. This development was due to an increase in net foreign assets of 78.8% (NAf.453.4 million), which offset the decrease in net domestic assets of 1.2% (NAf.27.5 million). The increase in net foreign assets was due to a combination of factors: increased revenues from services and free-zone exports in combination with decreased expenses on imports due to sluggish economic activity, increased foreign borrowing by local enterprises, and several large investment projects funded from abroad.[13]

The decrease in net domestic assets in 2001 was due to a decrease in miscellaneous factors. Latter decrease was largely compensated by the increases in both net domestic credit extension to the governments and to the private sector.

Miscellaneous factors comprise the net balance of the nonfinancial assets and liabilities of the banking sector. During 2001, this balance decreased by 28.3% (NAf.109.2 million), while during 2000 an increase of 12.9% (NAf.57.1 million) was registered. The development in the net balance in 2001 was due mainly to increases in capital and reserves (due primarily to a capital injection in a local bank from the head office abroad) and in miscellaneous liabilities at commercial banks (due

[13] Worth mentioning are investments related to the Isla refinery (BOO/IRUP), the Forward Operating Location (FOL) at the airport of Curaçao, the establishment of the Caribbean International University by Venezuelan investors, and the strategic alliance between Mirant (international energy company) and the Curacao utility company Aqualectra N.V.

primarily to accrued but unpaid expenses, dividends, and interest).

In 2001, net credit extension to the governments increased substantially by 76.5% (NAf.67.6 million), compared to a decrease of 15.6% (NAf.16.4 million) in 2000. Net credit extension increased for both governments: the Central Government by 123.4% (NAf.44.9 million) and the Island Governments by 18.2% (NAf.22.7 million). These increases can be explained primarily by a development that took place in December 2001. The Central Bank lent NAf.46.0 million and NAf.29.0 million to the Central Government and the Island Government of Curaçao, respectively.[14] Another factor that contributed to the increase in net domestic credit to the Central Government was the decrease in deposits at the Central Bank due to the progress made in the construction of the new prison on Curaçao.

The increase in net domestic credit to the private sector during 2001 amounted to only 0.5% (NAf.14.1 million), a deceleration compared to the increase of 5.6% (NAf.141.2 million) during 2000. Net private credit extension in the Netherlands Antilles was influenced negatively by the contraction in economic activity, continuous decreases in the United States' interest rates, and the relative low interest rates in the Netherlands, which stimulated foreign borrowing.

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

	2000		2001	
General Government, of which:	88.4	(-15.6%)	156.0	(76.5%)
-Central Government	-36.4	(-451.5%)	8.5	(123.4%)
-Island Governments	124.8	(12.1%)	147.5	(18.2%)
Private sector	2,677.4	(5.6%)	2,691.5	(0.5%)
Miscellaneous	-386.4	(-12.9%)	-495.6	(28.3%)
Net domestic assets	2,379.4	(8.3%)	2,351.9	(-1.2%)
Net foreign assets	575.6	(-17.0%)	1,029.0	(78.8%)
Total liquid assets	2,955.0	(2.2%)	3,380.9	(14.4%)

5.3 Domestic credit extension by commercial banks

5.3.1 General developments

During 2001, total domestic loans at commercial banks decreased by 0.6% (NAf.16.4 million) to NAf.2.770.7 million. Domestic lending by commercial banks to the private sector decreased by 1.2% (NAf.31.5 million) during 2001, reaching NAf.2.580.5 million. This decrease was a turnaround compared to an increase of 7.0% (NAf.147.8 million) during the year 2000. The decline in 2001 was the result of a decrease in business loans, which offset the increases in mortgages and consumer loans. Business loans decreased by 5.8% (NAf.55.8 million), while mortgages and consumer loans

[14] This operation was aimed at providing a temporary liquidity injection to the governments, partly as an advance for liquidity assistance to be received from the Netherlands in early 2002.

increased by 2.3% (NAf.24.1 million) and NAf.0.2 million (0.0%), respectively. In 2000, business loans, mortgages and consumer loans increased by 6.8% (NAf.53.9 million), 5.7% (NAf.55.1 million), and 9.6% (NAf.51.5 million), respectively.

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

	2000		2001	
Private sector loans,	2,612.0	(7.0%)	2,580.5	(-1.2%)
of which:				
-Mortgages	1,027.9	(5.7%)	1,052.0	(2.3%)
-Consumer loans	622.4	(9.6%)	622.6	(0.0%)
-Business loans	961.7	(6.5%)	905.9	(-5.8%)
Government loans,	175.1	(-11.3%)	190.2	(8.6%)
of which:				
-Central Government	74.0	(4.8%)	67.5	(-8.7%)
-Island Government of Curaçao	101.1	(-20.3%)	122.7	(21.3%)
Total	2,787.1	(5.6%)	2,770.7	(-0.6%)

Government loans extended by the local commercial banks amounted to NAf.190.2 million at the end of 2001, a 8.6% (NAf.15.1 million) increase compared to the end of 2000. This increase in exposure was due entirely to the Island Government of Curacao. First, a commercial bank extended a negotiated loan in January 2001, the balance of which amounted to NAf.18.3 million at the end of December 2001. Second, the banks increased their portfolio of paper issued by the Island Government of Curaçao by 3.3% (NAf.3.3 million). In contrast, Central Government paper held by commercial banks decreased by 8.7% (NAf.6.5 million) in 2001. This development is the opposite of 2000, when the exposure to the Central Government increased by 4.8% (NAf.3.4 million) and to the Island Government of Curaçao decreased by 20.3% (NAf.25.8 million).

Graph 5.2 reveals that business loans recorded a decrease in its share in the total domestic loan portfolio of 1.8 percentage points to 32.7% in 2001. In contrast, the shares of mortgages and consumer loans increased by 1.1 percentage point to 38.0% and 0.2 percentage point to 22.5%, respectively. The share of Central Government loans decreased slightly by 0.3 percentage point to 2.4%, while the share of Island Government of Curaçao loans increased by 0.8 percentage point to 4.4%.

Graph 5.2
Developments in the domestic lending portfolio of commercial banks

5.3.2 Developments by island group

A breakdown of commercial banks' private-sector lending by island group reveals opposite developments in the Leeward and Windward Islands in 2001. While the outstanding amount of credit decreased on the Leeward Islands, it continued to grow on the Windward Islands, but at a slower pace. The decline on the Leeward Islands amounted to 2.3% (NAf.44.9 million), compared to an increase of 3.6% (NAf.67.8 million) during the year 2000. The growth on the Windward Islands reached 2.0% (NAf.13.5 million) in 2001, while a substantial growth of 16.3% (NAf.92.7 million) was recorded during the year 2000.

All three components of domestic loans to the private sector decreased on the Leeward Islands in 2001. Business loans decreased by 4.4% (NAf.31.5 million), a further contraction compared to the 0.1% (NAf.0.7 million) decrease during the year 2000. Consumer loans and mortgages also decreased -- by 2.3% (NAf.11.2 million) and 0.3% (NAf.2.3 million), respectively. Both loan components recorded a turnaround in 2001, compared to the year 2000, when consumer loans increased by 5.4% (NAf.25.1 million) and mortgages by 6.3% (NAf.44.0 million).

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

	2000		2001	
Private sector loans,	1,950.8	(3.6%)	1,905.9	(-2.3%)
of which:				
-Mortgages	742.6	(6.3%)	740.3	(-0.3%)
-Consumer loans	490.6	(5.4%)	479.4	(-2.3%)
-Business loans	717.7	(-0.1%)	686.2	(-4.4%)

On the Windward Islands, private-sector credit growth decelerated by 14.3 percentage points to 2.0% (NAf.13.5 million) in 2001. This deceleration was the result of a decrease in the growth rate of consumer loans and a decline in business loans, offset partly by the increase in the growth rate of mortgages. Consumer loans registered a deceleration in the growth rate of 17.2 percentage points to 8.7% (NAf.11.4 million), while business loans declined by 10.0% (NAf.24.3 million). The growth rate in mortgages accelerated by 5.2 percentage points to 9.2% (NAf.26.4 million).

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

	2000		2001	
Private sector loans,	661.1	(16.3%)	674.6	(2.0%)
of which:				
-Mortgages	285.3	(4.0%)	311.7	(9.2%)
-Consumer loans	131.8	(25.9%)	143.2	(8.7%)
-Business loans	244.0	(28.9%)	219.7	(-10.0%)

5.4 Developments in domestic interest rates

Table 5.6 shows the development in domestic interest rates per end of period. During 2001, the Bank increased the markup on the pledging rate for excessive use of its credit facilities by commercial banks. Effective September 1, 2001, the amount a commercial bank can borrow from the Bank against the pledging rate (7.00%) was limited to NAf.20 million. Any borrowing above this amount is charged with a markup. This markup was increased by 50 basis points to 0.75%, raising the marginal lending rate to 7.75%. This decision was taken to increase the effectiveness of the Bank's monetary policy and to comply with a measure in the policy matrix agreed upon with the

International Monetary Fund.

Commercial banks' interest rates indicate divergent paths in 2001, compared to 2000. While average interest rates offered on passbook savings decreased by 0.1%, those offered on 12-month time deposits increased by 0.3%. The latter development can be related to an adaptation of monetary policy introduced by the Bank as of September 16, 2000. According to this policy, long-term deposits are not included in the calculation of the reserve requirement anymore, thus lowering the cost of funding for those deposits. In 2000, the rate dropped by 0.1% compared to 1999.

Table 5.6
Developments in domestic interest rates (end of period)

	2000	2001	Change (perc. points)
Central bank			
-Pledging rate	7.00%	7.00%	(-)
-Marginal lending rate	7.25%	7.75%	(0.50)
Commercial banks' borrowing rates			
-Passbook savings	3.8%	3.7%	(-0.1)
-12-month time deposit (NAf. 10,000)	4.8%	5.1%	(0.3)
Commercial banks' lending rates			
-Mortgages	10.6%	10.0%	(-0.6)
-Current account overdrafts	9.6%	10.5%	(0.9)
Government bonds			
5 yr, effective yield	9.00%	9.00%	(-)

Commercial bank's lending rates also showed divergent developments during 2001, compared to 2000. While the interest rate for mortgages dropped by 0.6 percentage point to 10.0%, current account overdrafts were charged an interest rate of 10.5%, an increase of 0.9%. The decrease in the interest rates for mortgages could be an indication of increased competition in the banking sector. Worth mentioning in this respect is the further consolidation process in the banking sector with the merging of the banking activities of Antilles Banking Corporation and the onshore banking activities of ABN Amro Bank by the RBTT Group. As a result, the number of commercial banks operating in the Netherlands Antilles dropped from 11 to 10. The increase in the interest rates charged on current account overdraft facilities can be related to commercial banks' policy to discourage the use of these facilities. Due to increased liquidity constraints related to the contraction in economic activity, the use of these facilities increased.

During 2001, credit extension to the governments increased. This increase was due mainly to external factors, i.e., the continuous decline in the US interest rates and the relative low interest rates in the Netherlands. In addition, the Bank lent NAf.75 million to the governments in December 2001 to bridge severe liquidity constraints. The 5-year effective yield on government bonds remained at 9.00%.

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.[15] 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.

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[15] 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.)

				% change
	1998	1999	2000	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.[16]

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.[17] 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 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.

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[16] 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.

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

Graph 6.1 Annual net borrowings (in millions NAf.)

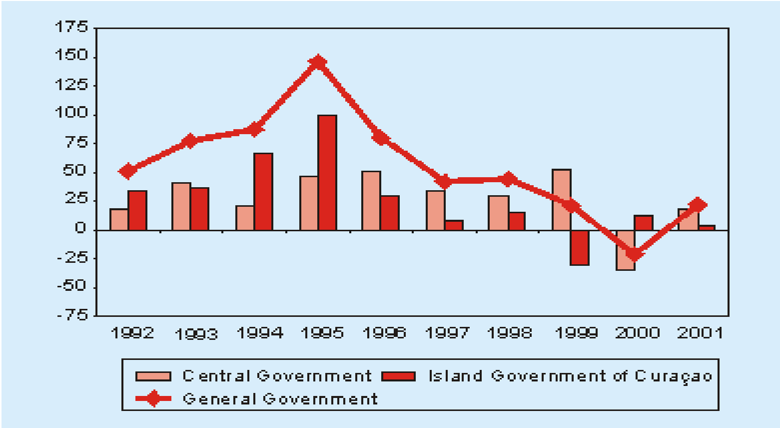


Table 6.2 shows that the net redemption on Central Government debt was concentrated in treasury bills and public bond issues. The reduction in bonds outstanding, however, was more than offset by an increase in private placements, i.e., loans tailored to the requests of the investor. This increase is 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 borrowing1)	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

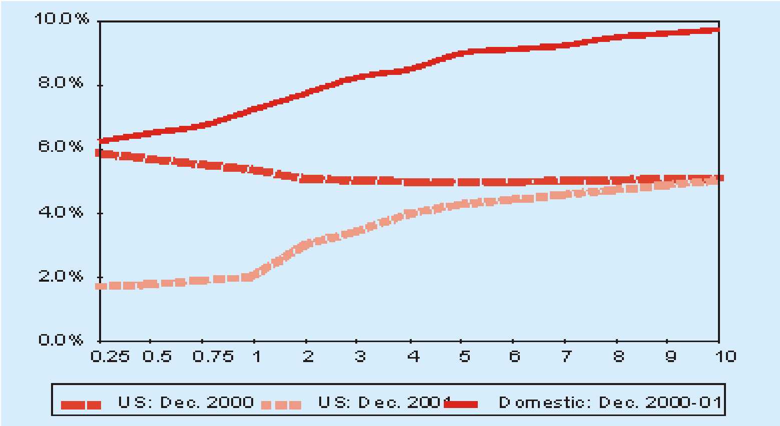
The maturity schedule of the General Government shown in table 6.4 indicates that almost one-quarter of the total negotiable loans outstanding will mature within two years. The lack of confidence in the government has reduced its ability to issue bonds with longer maturities. In addition, existing loans 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.

THE FINANCIAL SECTOR

7.1 General developments in the financial sector

In 2001, the Bank conducted on-site examinations at two credit unions, four domestic banks, and two international banks. Furthermore, the Bank issued a license to Compagnie Bancaire Genève (CBG) to conduct business in the form of a branch office in the international banking sector of the Netherlands Antilles. Moreover, the Bank revoked the licenses of Fortis Holding (Curaçao) N.V., formerly Generale Bank Curaçao N.V., and Kooperativa di Kredito I Spar Un Yuda Otro C.F.W. In addition, Nation Bank Curaçao N.V. continued its operations under the new statutory name: Totalbank Curaçao N.V. On July 16, 2001, the Court of First Instance placed SFT Bank N.V. under emergency measures.

The take-over of the activities of ABN AMRO Bank N.V. by the Royal Bank of Trinidad & Tobago resulted in a merger of Antilles Banking Corporation with all activities of ABN AMRO Bank in the Netherlands Antilles, except the international activities of ABN AMRO Curaçao N.V. Consequently, the bank will operate under the name RBTT Bank Antilles N.V. in Curaçao and Bonaire, and RBTT Bank (St. Maarten) N.V. in St. Maarten. Furthermore, the Bank issued a license to RBTT Antilles N.V. and RBTT St. Maarten N.V. to operate as international banks in the Netherlands Antilles.

As a result of the licensing, revocation of license and merger of activities, the number of banks operating in the international financial sector of the Netherlands Antilles was 47, and the number of commercial banks operating in the domestic banking sector was 13 at the end of 2001.

7.2 Domestic banking

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

During 2001, the total assets of the domestic banking sector grew further by NAf.676.5 million (12.8%) to NAf.5,973.5 million. This increase can be attributed mainly to the NAf.515.8 million increase in interest-bearing cash held at foreign banks and the increase of NAf.135.5 million in non-interest-bearing cash in current accounts held at the Bank van de Nederlandse Antillen. On the other hand, lending activities in 2001 decreased slightly by NAf.31.6 million (0.9%) compared to 2000.

The increased activities of the commercial banks were funded by a net increase in deposits of NAf.656.7 million (14.9%) in 2001. Demand deposits increased by NAf.185.2 million (13.0%). More specifically, demand deposits placed by resident business enterprises, foreign individuals, and local financial institutions increased by NAf.66.5 million, NAf.26.5 million, and NAf.15.3 million, respectively. Furthermore, demand deposits placed by residents under the classification "other" increased by NAf.32.3 million.

Table 7
Balance sheet of commercial banks operating in the domestic banking sector at year-end (in millions NAf.)

	1999		2000		2001	
	NAf.	%	NAf.	%	NAf.	%
ASSETS						
Non-int.-bearing cash	327.8	6.6	314.4	5.9	457.4	7.7
Interest-bearing cash	798.2	16.2	953.9	18.0	1,494.9	25.0
Investments	270.2	5.5	264.1	5.0	261.9	4.4
Loans	3,210.4	65.1	3,449.4	65.1	3,417.8	57.2
Inv. unconsol. subs.	24.5	0.5	30.9	0.6	19.5	0.3
Fixed assets	170.6	3.5	164.2	3.1	162.7	2.7
Other assets	125.8	2.6	120.1	2.3	159.4	2.7
Total assets	4,927.5	100.0	5,297.0	100.0	5,973.5	100.0
LIABILITIES						
Demand deposits	1,383.5	28.1	1,421.7	26.8	1,606.9	26.9
Savings deposits	1,750.1	35.5	1,873.6	35.4	2,176.7	36.4
Time deposits	979.6	19.9	1,108.1	20.9	1,276.5	21.4
Total deposits	4,113.2	83.5	4,403.4	83.1	5,060.1	84.7
Borrowings	185.6	3.8	250.3	4.7	158.8	2.7
Other liabilities	229.5	4.7	228.4	4.3	266.3	4.5
Total liabilities	4,528.3	91.9	4,882.1	92.1	5,485.1	91.9
Minority interest	5.3	0.1	5.6	0.1	5.3	0.1
Subordinated debent.	5.8	0.1	5.1	0.1	6.2	0.1
General provisions	112.5	2.3	119.4	2.3	134.3	2.2
Capital & reserves	275.5	5.6	284.8	5.4	342.6	5.7
Total capital	399.2	8.1	414.9	7.9	488.4	8.1
Total liabilities and capital	4,927.5	100.0	5,297.0	100.0	5,973.5	100.0

Second, savings deposits increased by NAf.303.1 million (16.2%). Savings deposits held by both residents and foreign individuals increased by NAf.34.6 million and NAf.58.8 million, respectively. In addition, time deposits in the form of a savings certificate held by both resident and nonresident individuals increased by NAf.35.5 million and NAf.155.9 million, respectively. Third, time deposits held by resident business enterprises and both resident and foreign other financial institutions also contributed to the overall increase in deposits by NAf.152.9 million, NAf.39.1 million, and NAf.14.2 million, respectively. On the other hand, time deposits held by banks recorded a decrease of NAf.40.0 million. This decrease occurred mainly in time deposits held at foreign banks that are not affiliates or subsidiaries.

7.2.1.1 Capital

Total capital increased by 17.7% to NAf.488.4 million in 2001, while total assets reported an increase of 12.8%. Since capital increased at a faster rate than total assets, the capital-to-assets ratio increased to 8.2%, which complies with the internationally applied minimum requirement of 8%.

7.2.1.2 Net income

The net operating income of the domestic banking sector decreased by 19.8% to NAf.69.7 million in 2001. Net income after taxes amounted to NAf.26.6 million, a 61.1% decrease compared to 2000. The latter decrease is due primarily to the decrease in interest income by 7.3% and a considerable increase of NAf.27.1 million in extraordinary losses. In 2001, interest income accounted for 77.7% of the total income, compared to 77.9% in 2000.

TABLE 7.2
Income statement of commercial banks operating in the domestic banking sector (in millions NAf.)

	1999	2000	2001
Interest income	413.3	447.8	415.2
Interest expenses	(143.0)	(159.1)	(156.4)
Net interest income	270.3	288.7	258.8
Other income	128.9	126.7	118.9
Total operational income	399.2	415.4	377.7
Salaries & other employee expenses	(168.3)	(170.1)	161.0
Occupancy expenses	(47.0)	(53.7)	48.2
Other operating expenses	(57.1)	(73.7)	59.7
Net addition to general provisions	(58.1)	(30.9)	39.1
Total operational expenses	(330.5)	(328.4)	(308.0)
Net operating income	68.7	87.0	69.7
Net extraordinary items	4.9	1.5	(25.6)
Applicable profit taxes	(22.4)	(20.1)	(17.5)
Net income after taxes	51.2	68.4	26.6

7.2.1.3.Liquidity

The liquidity of the domestic banking sector increased in 2001 as compared to 2000 (see table 7.3). The liquidity ratios of non-interest-bearing cash and short-term treasury paper reflected a slight increase during 2001. However, the liquidity indicators comprising non-interest-bearing and interest-bearing cash and short-term treasury paper improved considerably, because of the strong increase in interest-bearing cash. The overall liquidity of the commercial banks remained satisfactory.

TABLE 7.3

Liquidity ratio at year-end (in percentages)	1999	2000	2001
Non-interest-bearing cash and short-term treasury paper to:			
-total deposits	10.1	9.0	9.6
-total liabilities	9.2	8.1	8.9
Non-interest & interest-bearing cash and short-term treasury paper to:			
-total deposits	29.6	30.7	36.0
-total liabilities	26.9	27.7	33.5
Total loans to total deposits	78.1	78.3	60.4

7.2.1.4 Macro prudential indicators

The aggregate macro prudential indicators in table 8.4 indicate the performance of the commercial banks.

The indicators of capital adequacy of the domestic banking sector reflect a total capital-to-total assets ratio and a tier 1-capital-to-total assets ratio of, respectively, 8.2% and 5.8% in 2001, a decrease of 0.7 and 2.5 percentage points compared to 2000. However, these ratios are clearly above international capital standards. According to international standards, a total capital-to-risk-weighted assets ratio of at least 8% and a minimum tier 1-capital-to-total assets ratio of 4% is required.

The further increase in 2001 in the nonperforming loans ratios by 1.4 percentage points of total loans and 19.4 percentage points of total capital compared to 2000 indicates a deteriorating trend in asset quality, a reflection of the slowdown in the economy. Furthermore, the loan loss provision as a percentage of the nonperforming loans continued its decreasing trend, indicating that the provisioning for loans in 2001 was still not at an adequate level.

The earnings indicators reflect that in line with the slowdown in the economy, the profitability of the domestic banking sector declined. Nevertheless, profitability was still at an acceptable level. The return-on-assets ratio amounted to 0.7% in 2001, a decrease compared to the 1.6% for the year 2000, but above the benchmark of 0.5%. In addition, the gross-earning assets yield decreased from 9.4% in 2000 to 8.5% in 2001. This decrease indicates that the banks generated less income over 2001. The break-even yield of 3.0% is low, allowing the domestic banking institutions to realize an acceptable net income.

The loans-to-deposits ratio suggests that the banks used only 68.7% of their deposit base to fund their credit extension activities and maintained the remainder of their deposit base as liquid assets. This development is in line with the decline in credit extension in 2001. Consequently, the liquidity surplus increased from NAf.25.7 million to NAf.85.5 million in 2001.

TABLE 7.4 ***Macro prudential indicators of commercial banks operating in the domestic banking sector of the Netherlands Antilles at year-end (in percentages)***			
	1999	2000	2001
CAPITAL ADEQUACY			
Total capital/total assets	9.2	8.9	8.2
Tier 1 capital/total assets	6.3	8.3	5.8
Tier 2 capital/total assets	2.7	2.5	2.3
Tier 3 capital/total assets	0.1	0.1	0.1
ASSET QUALITY			
Nonperforming loans/total loans	3.7	4.6	6.0
Nonperforming loans/total capital	17.4	24.0	43.4
Provisions loan losses/ nonperforming loans	94.2	70.4	60.8
EARNINGS[1)]			
Gross earning assets yield	9.3	9.4	8.5
Break-even yield	3.2	3.3	3.0
Net interest margin	6.1	6.1	5.1
Return on assets	1.4	1.6	0.7
LIQUIDITY			
Total loans/total deposits	78.9	79.1	68.7
Liquidity surplus (in million NAf.)	17.1	25.7	85.5

[1)]These earnings are annualized.

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

Total domestic assets of the domestic banking sector increased by NAf.162.9 million (4.7%) in 2001 compared to 2000 (table 8.5). A comparison of tables 7.1 and 7.5 reveals that the increase in the domestic business of the local banks comprised 24.1% of the increase in total assets. Furthermore, the increase in non-interest-bearing cash by NAf.119.3 million contributed significantly to the growth in total domestic assets. This increase was accounted for primarily by the increase in the current account balances held at the Bank van de Nederlandse Antillen and demand deposit balances with other banks.

A further comparison of the mentioned tables reflects that total domestic assets comprised 60.5% of the total assets of the domestic banking sector in 2001, compared to 65.2% in 2000. Furthermore, 76.3% of the total credit portfolio was extended to residents, while residents held 66.0% of total deposits.

TABLE 7.5

Domestic activities of commercial banks operating in the domestic banking sector at year-end (in millions NAf.)						
		1999		2000		2001
	NAf.	%	NAf.	%	NAf.	%
ASSETS						
Non-int.-bearing cash	90.1	2.8	79.3	2.3	198.6	5.5
Interest-bearing cash	252.1	7.7	320.1	9.3	327.7	9.1
Investments	221.1	6.7	198.5	5.8	195.5	5.4
Loans	2,445.9	74.7	2,615.8	75.8	2,607.0	72.1
Investm. unconsol. subs.	16.5	0.5	6.3	0.2	13.2	0.4
Fixed assets	147.3	4.5	141.7	4.1	140.9	3.9
Other assets	102.8	3.1	90.1	2.5	131.8	3.6
Total assets	3,275.8	100.0	3,451.8	100.0	3,614.7	100.0
LIABILITIES						
Demand deposits	1,043.5	35.0	1,048.6	33.9	1,179.6	33.2
Savings deposits	1,212.2	40.7	1,270.6	41.0	1,356.5	38.1
Time deposits	555.3	8.6	601.8	19.4	801.9	22.6
Total deposits	2,810.9	94.3	2,921.0	94.3	3,338.0	93.9
Borrowings	8.4	0.3	8.1	0.3	8.4	0.2
Other liabilities	162.2	5.4	166.2	5.4	209.8	5.9
Total liabilities	2,981.5	100.0	3,095.3	100.0	3,556.2	100.0

Table 7.6 indicates that lending to the government increased considerably by NAf.26.1 million in 2001 as compared to 2000, due entirely to a loan to the Island Government of Curaçao. In contrast, lending to the private sector decreased by 1.3% in 2001, resulting mainly from a decline in business loans of NAf.55.8 million (5.8%).

TABLE 7.6
Domestic lending to the government and the private sector at year-end (in millions NAf.)

	1999	2000	2001
Government[1)]	2.1	0.2	26.3
Private sector:	2,443.8	2,615.6	2,580.7
-Consumer loans	570.1	626.0	622.8
-Business loans	901.1	961.7	905.9
-Mortgages	972.6	1,027.9	1,052.1
Total	2,445.9	2,615.8	2,607.0

[1)] Excluding government securities

Table 7.7 illustrates the distribution of the domestic deposit base between the public sector and the private sector. The private sector continued to maintain the largest share in 2001 (97.3%), about the same as in 2000 (97.2%).

TABLE 7.7

Holders of deposits at year-end (in millions NAf. and %)						
	1999		2000		2001	
	NAf.	%	NAf.	%	NAf.	%
Deposit holders:						
- Government	60.5	2.2	81.8	2.8	91.3	2.7
-Private sector	2,750.4	97.8	2,839.2	97.2	3,246.7	97.3
Total deposits	2,810.9	100.0	2,921.0	100.0	3,338.0	100.0

Table 7.8 illustrates a further growth of 14.4% in the domestic deposits of the private sector in 2001. The increase in 2001 can be attributed, among other things, to increased capital inflows related to investments projects and foreign borrowing by local enterprises.

TABLE 7.8 Change in domestic private sector deposits by currency (in millions NAf.)						
	1999		2000		2001	
	NAf.	%	NAf.	%	NAf.	%
N.A. guilders	127.3	5.9	92.8	4.1	299.3	12.6
Foreign currencies	60.0	14.7	(3.9)	(0.8)	108.2	23.3
Total	187.3	7.3	88.9	3.2	407.5	14.4

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

Total foreign assets of commercial banks operating in the domestic banking sector increased by NAf.513.8 million (27.8%) in 2001 as compared to 2000. This increase was fueled mainly by the 91.0% (NAf.533.5 million) growth in interest-bearing cash. The increase in foreign assets was funded partly by the increase of NAf.249.7 million in foreign deposits.

TABLE 7.9 Foreign activities of commercial banks operating in the domestic banking sector at year-end (in millions NAf.)						
	1999		2000		2001	
	NAf.	%	NAf.	%	NAf.	%
ASSETS						
Non-int.-bearing cash	237.7	14.4	235.1	12.7	258.8	11.1
Interest-bearing cash	546.2	33.1	633.8	34.3	1,167.3	50.6
Investments	49.1	3.0	65.6	3.6	66.4	2.8
Loans	764.5	46.3	833.6	45.2	810.8	33.1
Investm. unconsol. sub.	8.1	0.5	24.6	1.3	6.3	0.3
Fixed assets	23.2	1.4	22.5	1.2	21.8	0.9
Other assets	23.0	1.4	30.0	1.7	27.5	1.2
Total assets	1,651.8	100.0	1,845.2	100.0	2,358.9	100.0

LIABILITIES						
Demand deposits	340.0	22.0	373.1	20.9	437.3	18.1
Savings deposits	537.9	34.8	603.0	33.7	820.3	32.7
Time deposits	424.3	27.4	506.3	28.3	474.6	19.9
Total deposits	1,302.2	84.2	1,482.4	82.9	1,732.1	70.7
Borrowings	177.3	11.5	242.2	13.6	7.8	26.6
Other liabilities	67.3	4.4	62.2	3.5	56.5	2.7
Total liabilities	1,546.8	100.0	1,786.8	100.0	1,796.5	100.0

7.3 Secondary financial institutions

In 2001, the number of secondary institutions operating in the Netherlands Antillean financial sector decreased by 2 to 36. These institutions include credit unions, specialized credit institutions, savings banks, and thrift foundations. The individuals holding a dispensation to extend credit coupons ('bonnen') for short-term consumer credit to households numbered 13 by the end of 2001.

7.4 International banking

Total assets of the international banking sector in the Netherlands Antilles increased by NAf.6.2 billion (10.0%) to NAf.68.1 billion in 2001 compared to 2000. The increase in loans to unconsolidated affiliates and in time loans of NAf.6.1 billion and NAf.2.3 billion, respectively, contributed to the increase in total assets.

On the liability side, demand deposits and borrowings in particular increased by NAf.1.6 billion (33.3%) and NAf.5.7 billion (16.3%), respectively. On the other hand, time deposits decreased by NAf.2.2 billion (14.5%), which led to a net increase of NAf.5.2 billion (9.3%) in the total liabilities.

Finally, total capital reflected a capitalization level of 8.7%, well above the international capital-to-risk weighted assets ratio of 8%.

TABLE 7.10
Balance sheet of commercial banks operating in the international banking sector at year-end (in billions NAf.)

	1999		2000		2001	
	NAf.	%	NAf.	%	NAf.	%
Non-int.-bearing cash	1.7	2.9	1.8	2.9	2.0	2.9
Interest-bearing cash	12.0	20.6	9.6	15.5	13.1	19.2
Investments	4.0	6.9	4.3	6.9	4.5	6.6
Loans	29.0	49.7	33.8	54.5	38.1	56.0
Inv. unconsol. subs.	0.4	0.7	0.2	0.3	2.1	3.1
Fixed assets	0.1	0.2	0.1	0.1	0.1	0.1
Other assets	11.2	19.2	12.1	19.8	8.2	12.0
Total assets	58.3	100.0	61.9	100.0	68.1	100.0
LIABILITIES						
Demand deposits	3.8	6.5	4.8	7.7	6.4	9.4
Savings deposits	0.3	0.5	0.2	0.3	0.2	0.3
Time deposits	16.2	27.8	15.2	24.5	13.0	19.1
Total deposits	20.3	34.8	20.2	32.5	19.6	28.8
Borrowings	31.7	54.4	35.0	56.5	40.7	59.8
Other liabilities	1.2	2.1	1.0	1.7	1.1	1.6
Total liabilities	53.2	91.3	56.2	90.7	61.4	90.2
Minority interest	0.1	0.2	0.1	0.2	0.9	1.3
Subordinated debentures	0.0	0.0	0.0	0.0	0.0	0.0
General provisions	0.2	0.3	0.3	0.5	0.2	0.3
Capital & reserves	4.8	8.2	5.3	8.6	5.6	8.2
Total capital	5.1	8.8	5.7	9.3	6.7	9.8
Total liabilities and capital	58.3	100.0	61.9	100.0	68.1	100.0

INSTITUTIONAL INVESTORS

8.1 Introduction

Globalization and associated trends are irreversibly transforming the international insurance market. Consolidation will continue to characterize most insurance market places, but regional differences in the pace and rationale for consolidation will become more pronounced. By the same token, insurers will intensify their quest for cost-efficient distribution channels; exploration of internet distribution will continue, but the focus is expected to be on enhancing rather than on disintermediating traditional agency channels. The trend towards conglomeration and the consolidation of the industry that has taken place in the last ten years is facing major challenges in the aftermath of the September 11, 2001, events in the United States. The distribution of the losses, which according to preliminary estimates surpass US$ 70 billion, is impacting capacity, and some carriers will be facing individual claims of a magnitude difficult to imagine for an individual corporation.

Repercussions of the tragic events of September 11 will reverberate through the insurance and reinsurance industry for years to come. Losses of this magnitude will not be settled quickly nor will the questions and contract interpretations likely be resolved expeditiously. Before September 11, reinsurance had begun firming following years of intense price competition.

Supervisory authorities worldwide assessed the impact of these events in their jurisdiction. In the Netherlands Antilles, a survey conducted among the insurance companies concluded that most companies did not expect direct consequences for their local operations. Indirectly though, companies expected a drastic increase in reinsurance costs together with a reduced capacity in the market. In addition, certain risks are expected to become uninsurable. Finally, the companies indicated that these events would lead to lower investment returns.

The results of our survey were shared with the International Association of Insurance Supervisors, the IAIS. The Bank is a member of the Basle-based IAIS. The members of IAIS are insurance supervisors from around the world and are committed to improving supervision of the insurance industry. Recognizing the need to ensure the protection of policyholders and financial sector stability, the IAIS developed Insurance Core Principles and Insurance Core Principles Methodology to provide the international financial community with benchmarks for assessing the effectiveness of insurance supervisory regimes. Through its various committees, the IAIS regularly issues guidance and papers for its members. The Bank is upholding these principles and upgrading and revising its supervisory and monitoring systems accordingly.

Reinsurance costs have increased in recent years due to the solidifying of the reinsurance market. Following the events on September 11, the situation has worsened. The reinsurance market currently is facing a significant increase in costs. Property insurers and reinsurers face the biggest claims arising from the events of September 11. The impact was felt in other classes of insurance as well. Although many factors contributed to the solidifying of the insurance market, one main factor is the imposition of significantly higher premium rates and restricted terms and conditions by the treaty reinsurers.

The following changes are expected in the reinsurance market:

a. restricted coverage;
b. reduced capacity;
c. increased prices;
d. increased retention; and

e. more risk control and investments in risk management.

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 is, in this respect, very important to the supervisor.

One key element in every supervisory system is the availability of financial data of the institutions that 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 introduced informally to the insurance sector in late 2000. Based on comments from the sector, some improvements were made to this system. The ARAS version 2.7 incorporates these changes and was introduced formally to the sector in April 2002. Furthermore, work has started on the automation of the comprehensive filings, which will be applicable to the life and nonlife insurance companies servicing the domestic market. The Bank also has developed new reporting statements for the pension industry. It intends to start the automation of the pension statements in the second half of 2002. Once concluded, a new data retention system to process the information provided by the new reporting systems will be developed. This system will allow both the supervisor and the industry to dispose of important market information.

8.2 The institutional investors' sector

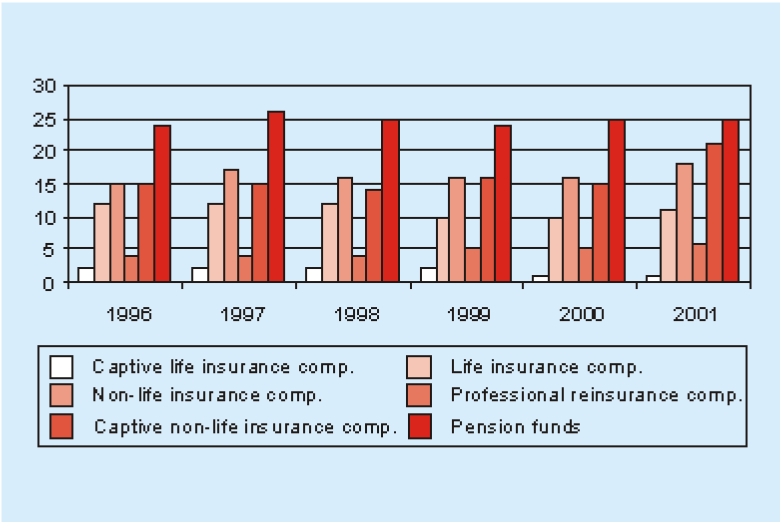
The number of institutional investors operating in the Netherlands Antilles was 82 during 2001, 10 more than in 2000. This increase is due partly to the formation of three new companies in the Antillean market: one life insurance company, a nonlife insurance company, and a captive insurer. In addition, during 2001, the Bank required that all funeral service insurers meeting certain criteria be registered with the Bank. The latter policy resulted in an additional increase in the number of supervised institutions.

The 82 institutions include 11 life insurance companies, 3 of which are locally incorporated. The number of nonlife insurance companies increased to 18, 12 of which are locally incorporated.

The number of insurance companies servicing the international markets was 28 by the end of 2001, an increase of 7 compared with the year 2000. One of these companies is involved in the life insurance business, 21 in nonlife insurance, and 6 in reinsurance. Most of the internationally operating insurance companies have European parents, and more than 50 percent of the companies originate in the Netherlands.

Of the 25 pension funds at the end of 2001, 5 are in the process of liquidation. In most cases, the risks associated with the pension obligations of the liquidated pension funds were transferred to an insurance company.

GRAPH 8.1
Composition of the institutional investors' sector (number of companies)



8.3 Overview of developments in the insurance industry

8.3.1 General

With the exception of 1998 (-6.7%), the nonlife insurance industry showed a positive trend in the net premiums written during the past 3 years up until 2000. Net premiums written increased by 2.5% in 1999 and by 9.8% in 2000. However, because of the downturn in economic activities, the Bank expects that 2001 will show a decrease in the net premiums written.

The consolidated net result after taxes of the nonlife sector was not favorable, as per year-end 2000 showed a reported loss of NAf.1.2 million. Also, a loss of NAf.1.7 million was reported for 1999. A downward trend in the net results has been noted in this sector for the past three years. The premium income increased in 2000, contrary to 1999, but the claims incurred decreased. Despite this favorable development, the industry was not able to report a positive underwriting result since the other underwriting expenditures increased by more than NAf.9 million, leading to an underwriting loss in 2000. These results may be attributed to the adverse economic developments now being felt in the non-life insurance industry.

The premium income in the life insurance industry decreased in 1998 (-4.1%), and increased in 1999 (9.6%) and 2000 (20.4%), indicating more demand for life insurance products. The life insurance industry in the Netherlands Antilles remained profitable in 2000, with an increase of NAf.3.8 million in the net result after corporate taxes compared with 1999.

The Netherlands Antilles, as part of the Caribbean, again were spared major catastrophes during 2001, enabling insurance and reinsurance companies to provide coverage in this section of the world, to recover part of the losses suffered from previous catastrophes like hurricanes Luis and Marilyn.

8.3.2 Life insurance industry

8.3.2.1 Balance sheet

According to table 8.1, total assets of the local life insurance industry increased by 9.1% in 2000, compared with an 11.4% growth in 1999. Of the total assets in 2000, 67.5% relate to investments and 20.2% to current assets.

Total liabilities increased mainly as a result of an increase of NAf.75.9 million (10.1%) in technical provisions.

TABLE 8.1
Consolidated balance sheet of life insurance companies (in millions NAf.)

	1998		1999		2000	
	Local	Int'l	Local	Int'l	Local	Int'l
ASSETS						
Intangibles	-	-	-	-	-	-
Total investments	746.1	24.5	798.4	31.7	851.2	30.3
Current assets	155.6	19.8	211.9	6.4	254.8	18.9
Other assets	12.2	-	14.7	-	10.9	-
From separate accounts statement	123.9	-	130.7	-	143.5	-
Total admissible assets	1,037.8	44.3	1,155.7	38.1	1,260.4	49.2
LIABILITIES						
Capital	12.4	4.1	12.6	7.1	12.9	6.6
Surplus	37.2	25.4	85.0	20.8	91.2	21.3
Subord. instruments	6.6	-	-	-		-
Technical provisions	686.8	5.5	751.2	6.6	827.1	14.9
Other provisions and liabilities	11.0	-	9.2	1.0	8.0	-
Current liabilities	151.1	9.2	157.2	2.6	168.9	6.4
Contingent liabilities	8.8	0.1	9.8	-	8.8	-
From separate accounts statement	123.9	-	130.7	-	143.5	-
Total equity, provisions, and liabilities	1,037.8	44.3	1,155.7	38.1	1,260.4	49.2

The equity position of the local life insurance companies, consisting of capital, surplus, and subordinated instruments, increased by NAf.6.5 million (6.7%). This increase can be attributed mainly to an increase of NAf.6.2 million in the consolidated surplus account (7.3%). The equity position of the local life insurance companies represents more than three times the amount needed to meet the 4% solvency requirement, which should amount to at least NAf.30.2 million as per year end 2000.

Total assets of the international life insurance companies increased by NAf.11.1 million (29.1%), reaching NAf.49.2 million at the end of 2000. The equity position remained the same at NAf.27.9

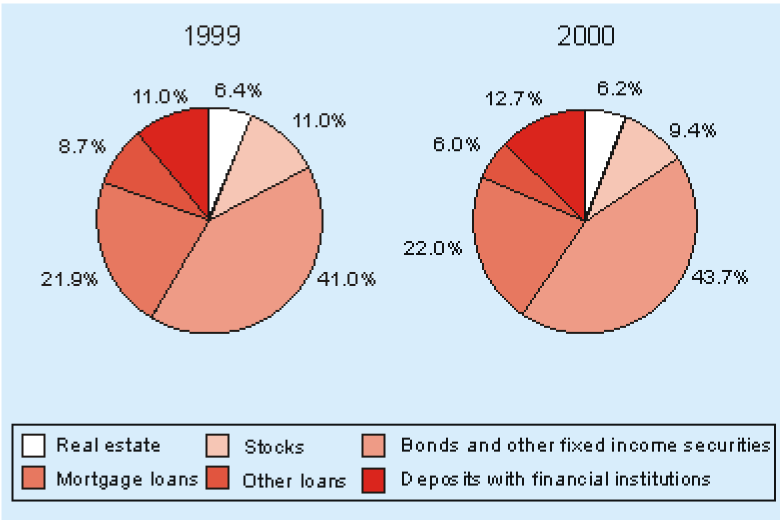
million at the end of 2000, still well above the legally required solvency margin of NAf. 0.4 million.

8.3.2.2 Investments

Total investments of the local life insurance industry increased by NAf.52.8 million (6.6%), due mainly to increases in bonds, mortgage loans, and deposits with financial institutions. Investment in real estate remained approximately the same when compared with the previous year-end. Both the share of investment in stocks and other loans decreased as per year-end 2000 by 8.2% and 26.9%, respectively.

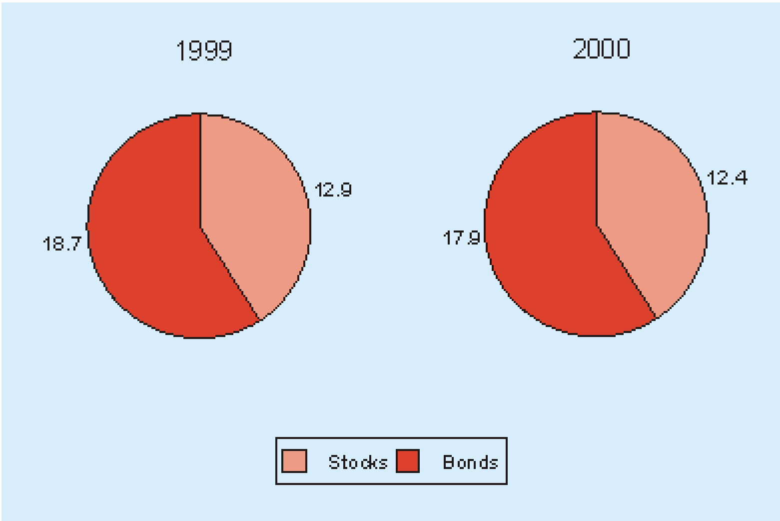
The composition of the consolidated investment portfolio of the local life insurance companies is presented in graph 8.2. As a percentage of total investments, the shares of bonds, mortgage loans, and deposits with financial institutions increased by 4.5 percentage points to 78.4% in 2000, at the expense of the shares of real estate, stocks and other loans, which declined to 21.6% compared with 1999.

GRAPH 8.2
Composition of the investment portfolio of local life insurance companies



The total investment portfolio of the international life insurance companies decreased by NAf.1.4 million in 2000 compared to 1999 primarily due to a decrease in bonds and shares of stock. In addition, graph 8.3 suggests that the percentage decrease in bonds (4.3%) was higher than the percentage decrease of the stocks (3.9%).

GRAPH 8.3
Composition of the investment portfolio of international life insurance companies



8.3.2.3 Profit and loss statement

The operating results of the local life insurance industry are presented in table 8.2. The net result before corporate taxes increased by NAf.4.2 million (33.1%) in 2000, compared with the NAf.1.0 million (8.6%) increase in 1999. The net result after taxes increased by NAf.3.5 million in 2000 (46.7%).

Premium income increased by NAf.25.2 million (20.4%). However, this growth in premium income was mitigated largely by the increase in operational expenditures. Of the total premium income, 63.7% was related to individual life and 36.3% to group business. Premium income for both individual life and group life increased during 2000. A continued increase mainly in the investment income was responsible for the positive results. In 2000, total investment income increased by NAf.10.1 million (16.8%).

Total operational expenditures increased by NAf.31.8 million (18.4%), due mainly to an increase in the change in technical provisions of NAf.21.2 million (28.9%).

The consolidated net operational result reflected an increase of NAf.3.4 million (147.8%) to NAf.5.7 million in 2000.

The financial year 2000 closed with a positive consolidated net result after corporate taxes of NAf.11.0 million, an increase of 50.7% compared with 1999.

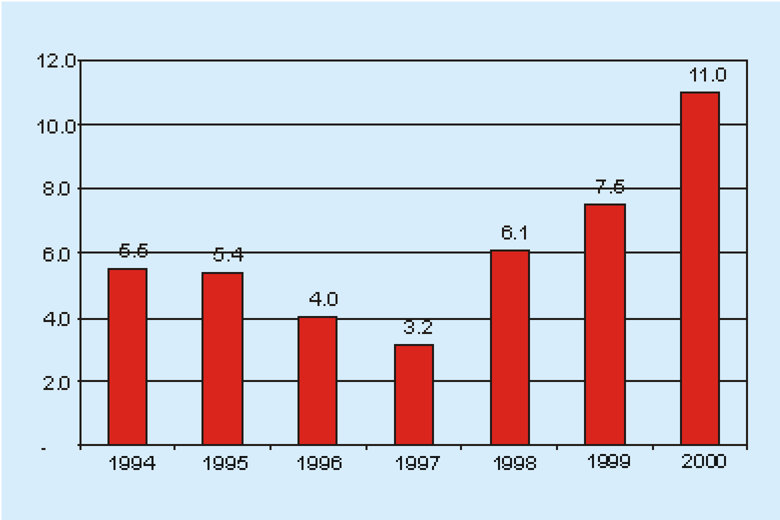
TABLE 8.2
Consolidated profit and loss statement of life insurance companies (in millions NAf.)

	1998		1999		2000	
	Local	Int'l	Local	Int'l	Local	Int'l
INCOME						
Total net premium income	113.4	5.4	123.7	5.6	148.9	9.0
Net investm. income allocated to technical provisions	48.7	0.1	50.7	-	60.6	-
Net other operational income	0.9	-	0.3	-	0.4	1.1
Total operational income	163.0	5.5	174.7	5.6	209.9	10.1
EXPENSES						
Net benefits incurred	44.4	1.7	49.4	3.9	54.1	7.6
Change in net techn. prov.	62.6	-	73.4	-	94.6	-
Policyholders' dividends	8.0	-0.8	9.3	0.6	10.2	0.5
Insurance expenses and noncorporate taxes	17.1	0.9	28.4	0.9	30.7	1.1
Commission and other acquisition costs	15.5	-	11.0	-	12.0	-
Net other operational expend.	2.8	-	0.9	-	2.6	-
Total operational expend.	150.4	1.8	172.4	5.4	204.2	9.2
Net operational result	12.6	3.7	2.3	0.2	5.7	0.9
Net investm. income allocated to surplus	8.4	2.5	9.2	1.4	9.4	2.4
Other income and expenses	-6.0	1.7	-0.9	1.7	-0.3	-0.1
Net result from separate accounts	-3.3	-	2.1	-	2.1	-
Extraordinary results	-	-6.6	-	-1.2	-	-1.1
Net result before corp. taxes	11.7	1.3	12.7	2.1	16.9	2.1
Corporate taxes incurred	5.6	-	5.2	-	5.9	-
Net result after corp. taxes	6.1	1.3	7.5	2.1	11.0	2.1

Net premium income in the international life insurance industry increased by NAf.3.4 million (60.7%) to NAf.9.0 million in 2000. Net benefits incurred nearly doubled in 2000 with an increase of NAf.3.7 million (94.9%). The net operational result in 2000 amounted to NAf.0.9 million, an increase of NAf.0.7 million compared to 1999.

As a result of positive investment returns, the life insurance industry servicing the international market ended up with a net result after corporate taxes of NAf.2.1 million in 2000, which equals the result reported for 1999.

GRAPH 8.4
Net results after corporate taxes of the local life insurance sector (in millions NAf.)



8.3.3 Nonlife insurance industry

8.3.3.1 Balance sheet

The combined balance sheet total of the nonlife insurance companies operating in the domestic market increased by NAf.52.9 million (17.4%), to NAf.356.8 million at the end of 2000 compared to 1999. In 1999, however, a decrease of 31.4% in total assets of the nonlife industry was noted. Current assets increased by NAf.42.9 million (25.4%) in 2000 while total investments increased by NAf.10.6 million (8.2%). Due to the short-term nature of the nonlife business in comparison with the life business, a smaller percentage of total assets is invested, namely, 39.3%. Consequently, a larger portion (59.3%) relates to current assets, compared to 20.2% in the life business.

On the liability side, the increase in the balance-sheet total was reflected mainly by a NAf.43.7 million (54.1%) increase in current liabilities.

The equity position of the local nonlife insurance industry increased by NAf.3.8 million (5.1%) totaling NAf.77.7 million at the end of 2000. However, the increase in 1999 compared to 1998 was 7.3%. Despite the smaller increase for the year 2000, the available equity amount is well above the 15% margin required by law to cover the industry's solvency margin; the minimum required solvency is NAf.31.3 million.

The balance-sheet total of the nonlife insurance companies servicing the international markets reflects a decrease of NAf.372.7 million (17.4%), totaling NAf.1.77 billion at the end of 2000. This decrease in total assets was caused mainly by a decrease in the asset account 'bonds and other fixed income securities,' whereas on the liability side, a large decrease is noted in the surplus account. The reason for this decrease is the result of dividend payments made by some captives to their parent companies. Despite this substantial decrease in equity, the international industry still met the minimum solvency margin required by the Bank. The minimum requirement amounts to NAf.56.2

million while the industry disposed of NAf.649.7 million in equity. As a result, the consolidated solvency position of the internationally operating nonlife insurance companies exceeded the legal requirements by a significant margin.

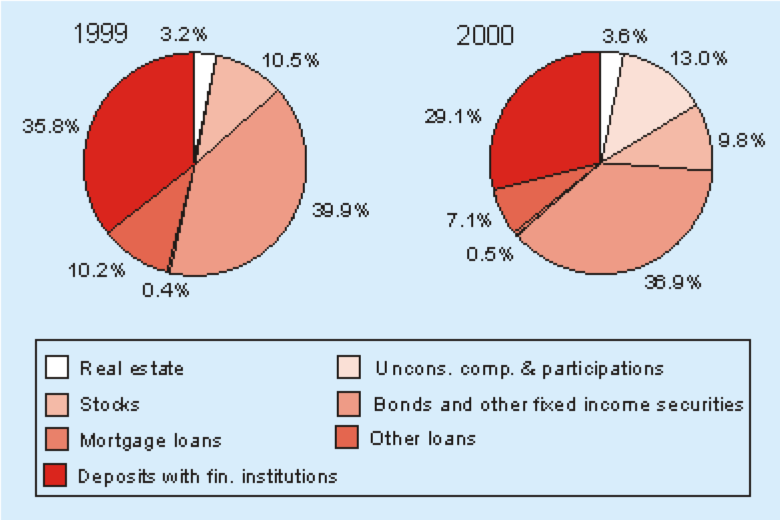
TABLE 8.3
Consolidated balance sheet of the nonlife insurance industry (in millions NAf.)

	1998		1999		2000	
	Local	Int'l	Local	Int'l	Local	Int'l
ASSETS						
Intangibles	-	-	0.2	-	0.2	-
Total investments	118.1	1,831.8	129.7	2,030.1	140.3	1,638.6
Current assets	319.1	198.5	168.5	113.3	211.4	132.2
Other assets	5.6	0.1	5.5	0.2	4.9	0.1
Total admissible assets	442.8	2,030.4	303.9	2,143.6	356.8	1,770.9
LIABILITIES						
Capital	39.1	126.0	41.1	113.3	45.2	112.3
Surplus	20.0	896.2	30.6	1,011.6	32.3	537.4
Subordin. instruments	9.8	-	2.2	-	0.2	-
Technical provisions	141.6	828.9	146.4	920.2	150.2	1,013.5
Other prov. & liabilities	5.5	0.1	2.9	7.2	4.5	6.7
Current liabilities	226.6	179.2	80.7	91.3	124.4	101.0
Contingent liabilities	0.2	-	-	-	-	-
Total equity, provisions, and liabilities	442.8	2,030.4	303.9	2,143.6	356.8	1,770.9

8.3.3.2 Investments

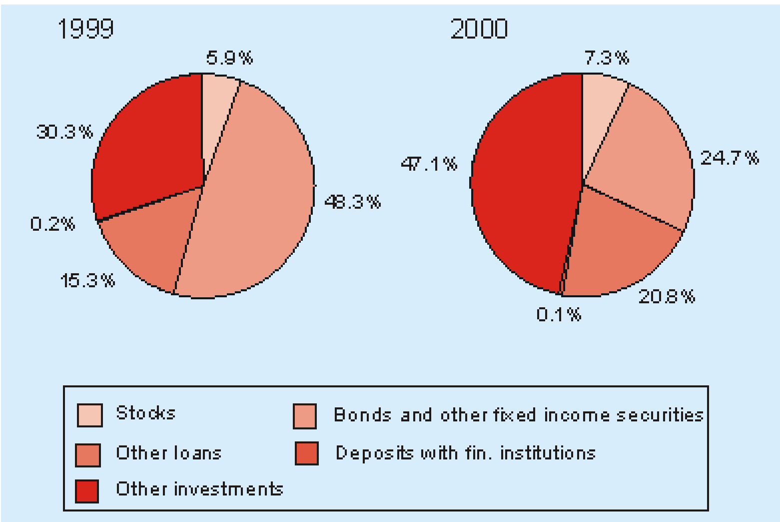
The composition of the investment portfolio of the local nonlife insurance companies is presented in graph 8.5. This graph indicates that the share of unconsolidated companies and participations in the total investments increased from 0.1% in 1999 to 13.0% in 2000. This increase was largely at the expense of the shares of deposits with financial institutions, other loans, and bonds, which declined from 35.8% to 29.1%, 10.2% to 7.1%, and 39.9% to 36.9%, respectively.

GRAPH 8.5
Composition of the investment portfolio of the local nonlife insurance companies



The composition of the investment portfolio of the international nonlife insurance companies is illustrated in graph 8.6 This graph indicates that the share of other investments increased in 2000 by 16.8 percentage points to 47.1%, compared to 1999. The share of bonds decreased by 23.6 percentage points to 24.7% as a result of dividend distributions made by some captives.

GRAPH 8.6
Composition of the investment portfolio of the international nonlife insurance companies



8.3.3.3 Profit and loss statement

Net earned premium of the local nonlife insurance industry increased by NAf.5.9 million (3.5%) in 2000 compared to a decrease of NAf. 0.7 million (0.4%) in 1999. The net claims incurred during 2000 decreased by NAf.3.9 million (4.1%). Also in 1999, a decrease of NAf.6.0 million (5.9%) was noted in the claims incurred. Like 1999, the year 2000 also ended with an underwriting loss. However, the NAf.0.4 million loss reported in 2000 is less than the loss of NAf.2.0 million reported in 1999. This loss was offset by the net investment income, resulting in a positive net result before corporate taxes of NAf.6.4 million in 2000. As a result of corporate taxes incurred, the industry ended with a loss of NAf.1.2 million for 2000. Both 1999 and 2000 can be considered bad years for the industry since both years were closed with losses of more than NAf. 1 million.

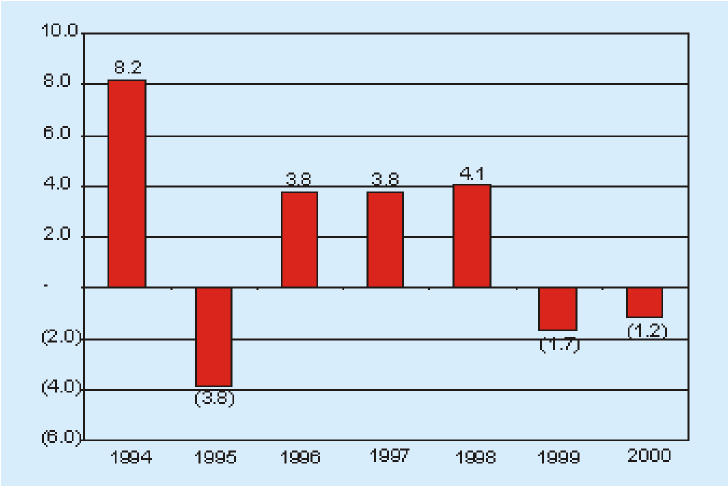
TABLE 8.4
Consolidated profit and loss statement of the nonlife insurance industry (in millions NAf.)

	1998		1999		2000	
	Local	Int'l	Local	Int'l	Local	Int'l
INCOME						
Total net earned premium	168.9	276.1	168.2	361.4	174.1	379.8
Net underwriting income	-	51.2	0.2	2.5	0.2	0.2
Total operational income	168.9	327.3	168.4	363.9	174.3	380.0
EXPENSES						
Net claims incurred	101.7	175.0	95.7	240.4	91.8	199.5
Change in various provisions	-0.2	-0.3	1.3	-	1.4	-26.9
Claim adjustment expenses	6.0	-	4.7	0.6	3.5	0.4
Net other underwr. expend.	42.0	18.7	58.6	23.2	67.7	30.4
Net other operational expend.	24.1	1.8	10.1	0.7	10.3	2.7
Total operational expend.	173.6	195.2	170.4	264.9	174.7	206.1
Underwriting results	-4.7	132.1	-2.0	99.0	-0.4	173.9
Net investment income	8.5	147.6	9.1	123.4	7.3	106.2
Other results	0.4	-5.0	-1.6	3.4	-0.5	-33.2
Extraordinary results	-	-101.7	0.2	-0.5	-	-21.4
Net result before corp. taxes	4.2	173.0	5.7	225.3	6.4	225.5
Corporate taxes incurred	0.1	5.0	7.4	2.2	7.6	3.7
Net result after corp. taxes	4.1	168.0	-1.7	223.1	-1.2	221.8

Total net earned premium of the internationally operating nonlife insurance companies increased in 2000 by NAf.18.4 million (5.1%) compared to an increase of NAf.85.3 million (30.9%) in 1999. The net claims incurred decreased by NAf.40.9 million (17.0%) in 2000. The underwriting result increased to NAf.173.9 million, 75.7% more than in 1999.

The industry experienced a 13.9% decline in investment income: from NAf.123.4 million in 1999 to NAf.106.2 million in 2000. This lower investment income can be attributed to the decrease in invested assets. Notwithstanding this lower investment income, this sector ended up with a net result after corporate taxes of NAf.221.8 million in 2000, a 0.6% decline compared with 1999.

GRAPH 8.7
Net results after corporate taxes of the local nonlife insurance sector (in millions NAf.)



8.4 Investment Institutions

To promote the soundness and stability of the financial sector in the Netherlands Antilles and to continue to pursue high standards and integrity, the Bank recently drafted a national ordinance on the supervision of investment institutions. The objectives of the draft ordinance are: (1) to ensure that the interests of the investors are protected adequately; (2) to promote the fairness, efficiency, and transparency of the investment institutions; and (3) to reduce systemic risk in the financial sector. The proposed ordinance is intended to promote the confidence of investors in the soundness of the investment institutions offering their services in or from the Netherlands Antilles and in the expertise and integrity of the individuals involved in the management, supervision, and operation of the institutions.

The draft ordinance presents extended provisions in six main areas: (1) the elaborate definition of the parties involved in the operation of investment institutions; (2) the licensing (or dispensation) phase of the Bank's prudential supervision; (3) the operational phase of the prudential supervision exercised by the Bank, which includes reporting requirements and disclosure issues; (4) the liquidation phase of the Bank's prudential supervision; (5) the legal basis to exercise prudential supervision; and (6) the adherence to other particular provisions.

Furthermore, in the interest of a sound investment institutions sector and the protection of the investors in the market, the Bank will issue general guidelines and stipulations. One of the most important tools in this context is the guideline with respect to the reporting by investment institutions. This guideline will contain the reporting forms that the institutions need to submit periodically to the Bank. These reports are designed to provide the Bank with sufficient information to monitor the monetary developments and assess the soundness of the institutions. Finally, the Bank also will issue several policy memoranda containing directives for specific matters regarding the organization and operation of the investment institutions.

POLICIES AND ACTIVITIES OF THE BANK

9.1 Training and seminars

The Bank's staff attended a variety of courses, seminars, and conferences in 2001 as part of the Bank's continuing education policy and to enable its personnel to keep abreast of the latest developments in their fields of expertise.

Staff in the department of Supervision on Institutional Investors attended, among other events, the annual meeting of the International Association of Insurance Supervisors (IAIS), the annual meeting of the Caribbean Actuaries Association, and training seminars of the Society of Financial Examiners (SOFE) and the Insurance Regulatory Examiners Society (IRES). Staff in the Statistical Information and Reporting department participated in seminars organized by the IMF to prepare the 2001 Coordinated Portfolio Investment Survey. The Netherlands Antilles also participates in the survey, which is conducted for companies operating in the domestic and international financial sector. Staff in the Banking Supervision department attended various seminars on topics such as bank and credit analysis, organized by the Fed and the Bank of Jamaica; securities market development, organized by the Securities & Exchange Commission; and supervision of credit unions. Moreover, Research Department staff participated in seminars on monetary policy implementation and macro prudential indicators, organized by the Fed and the IMF, respectively. Macro prudential indicators provide an indication of the stability of the financial sector and were published in the Bank's Quarterly Bulletin since the second quarter of 2001.

During 2001, 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, participated also by the Bank's staff. The topics of the workshops included credit analysis, financial markets, and corporate governance and compliance. The Bank hosted also the Regional Workshop of the Financial Stability Institute for the Caribbean Group of Banking Supervisors entitled: "Corporate Governance, E-banking, and Supervisory Structure."

9.2 Developments in supervision of institutional investors

In October of 2001, the Bank revised its Corporate Governance Guidance Notes issued in 1996. These must be followed by all institutions incorporated in the Netherlands Antilles and subject to supervision by the Bank.

The draft legislation regulating insurance agents and brokers was finalized and forwarded to the government for parliamentary enactment. This legislation will protect existing as well as potential policyholders in the precontractual stage.

In the interest of potential policyholders, in December of 2001, the Bank issued an instruction requiring all insurance companies operating in the Netherlands Antilles to publish periodically the names of their intermediaries. Companies also are required to inform the public whenever they enter into or terminate a relationship with an intermediary.

The committee on the introduction of the Motor Insurance Guarantee Fund was reactivated to change the motor liability insurance legislation and the infrastructure needed to make the fund operational. A centralized registration system will be introduced to prevent uninsured vehicles from participating in traffic. Legislation has been drafted and currently is being discussed by the committee members.

Supervision is designed to ensure a solvent insurance and pension industry in the interest of the policyholders and other beneficiaries. The Bank's supervision concentrates mainly on the financial aspects of an institution. However, developments, both local and international, are forcing supervisors towards a supervisory regime that concentrates also on nonfinancial aspects, for example, an institution's dealings with policyholders and claimants, the so-called market conduct. The four key market conduct areas that the Bank will concentrate on initially are: sales and advertising, underwriting, rating, and claims. Examination procedures for this purpose are being drafted.

Within the Bank, work is proceeding on the revision of the National Ordinance for the Supervision of Company Pension Funds to adjust this Ordinance to recent developments in both the local and international pension industries. By Ministerial Decree of February 2002, a new fiscal policy for pension schemes (N.G. 2002, no. 35) was introduced. The implications of this new policy for the Bank's supervision of pension funds currently are being explored. The possibility that the existing pension legislation must be amended to incorporate certain requirements as stipulated in this new fiscal policy is being examined.

9.3 International financial sector developments

After the tragic events of September 11, 2001, the international community developed several initiatives to detect and prevent the misuse of international financial systems for the financing of terrorism.

The FATF held a special meeting in October 2001 in Washington, D.C., where it was decided to expand the mandate of the organization beyond money laundering. The mandate of the FATF now also entails combating the financing of terrorism. At this meeting, the FATF accepted eight special recommendations on the financing of terrorism to complement the 40 recommendations of 1996. The FATF members had to finalize a self-assessment questionnaire on these new recommendations by January 4, 2002. The Netherlands Antilles endorsed these eight special recommendations and submitted its self-assessment questionnaire in a timely way to the FATF.

Furthermore, the Kingdom of the Netherlands developed an action plan to combat terrorism. Within this action plan, technical assistance will be given to the Netherlands Antilles, among other things, for drafting additional legislation to comply with these new commitments.

In October, the Central Bank issued a letter to the financial institutions under its supervision to scrutinize all accounts for a possible relationship with terrorists or terrorist organizations. Any funds suspected of being related to terrorism had to be frozen immediately, according to the Ministerial Decree 2001/114 on the freezing of assets. To the present, no such funds have been detected in the Netherlands Antilles.

At the Bank's request, the IMF visited the Netherlands Antilles in March 2002 to assess our supervisory and legal infrastructure in the framework of the Offshore Financial Center Program (OFCP) of the IMF. The work done in 2001 comprised module I of the OFCP. The second part of this assessment, module II, was performed in January and April of 2002. This assessment will be finalized later in 2002.

In August 2001, Parliament approved legislation for the licensing and supervision of fiduciary service providers (trust sector). With this legislation, the Netherlands Antilles complies with the recommendations of the FATF and the Financial Stability Forum (FSF).

Finally, the anti-money laundering framework of the Netherlands Antilles was enhanced and expanded in 2001 with Parliament's approval of two pieces of legislation. First, the MOT legislation was amended to make it possible for the Antillean Financial Investigation Unit (FIU) to exchange information with other FIUs on the basis of a Memorandum of Understanding (MOU) instead of a treaty. Second, the 1993 legislation on the Penalization of Money Laundering was adapted to clarify that all goods (not just money) can be laundered. Moreover, other sectors also were brought under the anti-money laundering legislation, including money transfer services (2000), the gambling industry (2001), and fiduciary services (trust sector; 2002).

9.4 Monetary policy

The reserve requirement is the main monetary policy instrument of the Central Bank. This instrument is aimed at controlling the liquidity in the banking system and, hence, the potential for credit extension. Under the reserve requirement, commercial banks are required to deposit a fixed percentage of their domestic debt at the Central Bank. Until January 1, 2002, this percentage was determined monthly on the basis of developments in the free reserves of commercial banks, the official reserves, and domestic credit extension. Part of the reserve requirement could be held in Certificates of Deposit (CDs), while the remainder was non-interest-bearing. In addition to the reserve requirement, the Central Bank has several other instruments for conducting monetary policy. The monetary cash reserve arrangement, effective until March 1, 2002, limited commercial bank lending to the government. Furthermore, commercial banks are not allowed to have a negative net foreign assets position to prevent them from accumulating foreign debt. The Bank uses CDs and Repos to support the other instruments.

During 2001, the Bank tightened its monetary policy and refined the mechanism of its main instrument, the reserve requirement. In light of the persistent increase in credit extension during the final months of 2000, the Bank increased the reserve requirement percentage by 25 basis points to 11.5% on January 16, 2001. This tightening was followed by a refinement of the reserve requirement mechanism on February 16, 2001. The refinement entailed the exclusion of interbank deposits to eliminate double counting and to promote the development of the interbank market. In addition, to enhance the effectiveness of the reserve requirement in controlling commercial banks' liquidity and, hence, credit extension, the Bank increased the mark-up on the official lending rate for excessive borrowing by commercial banks by 50 basis points to 0.75 percentage point effective September 1, 2001. This implied that for amounts exceeding NAf 20 million, a 7.75% interest rate would be charged. These policy adjustments were aimed at bringing credit growth in line with the growth of our economy.

As of January 1, 2002, the Bank introduced a further flexibilization of its monetary policy. This decision was taken in light of the significant increase in international reserves in the Netherlands Antilles and the continuing decline in interest rates in the United States.

One of the most important changes in the Bank's monetary policy was that commercial banks are no longer compelled to buy Certificates of Deposit (CDs) to comply with the reserve requirement. As of January 1, 2002, the banks can determine freely how much CDs they want to buy. The interest rate on CDs no longer will be set by the Bank, but will be determined by the market participants in biweekly tenders. Furthermore, the reserve requirement percentage has been reduced by 2.5 percentage points to 9% and will be set for three months. However, the reserve requirement will be entirely non-interest- bearing. In addition, the Bank will initiate open-market operations through buying or selling government securities whenever monetary developments warrant such an action. Finally, the Bank has reduced its pledging rate by 0.25 percentage point to 6.75%. The interest rate on commercial banks' borrowing exceeding NAf.20 million remained 7.75%, implying a mark-up on the official lending rate of 100 basis points. These adjustments were aimed at stimulating market forces in the implementation of the Bank's monetary policy.

9.5 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 construction was completed in the fall of 2001. In April 2002, after approximately six months of testing, furnishing, and finishing off, the Bank's staff moved from the seven buildings in which it was housed into the new building.

The construction of the new building constituted an investment of approximately NAf.55 million and created about 200 jobs directly related to the construction. In addition, the investment had a positive impact in other areas, such as suppliers of building materials. Furthermore, the location of the new office in the old area of Scharloo will help to revitalize 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 on Foreign Exchange System of 1981. According to that Ordinance, current transactions are in principle free, while capital transactions require a license.

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

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

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

2. to gather 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.

In 2001, the number of foreign exchange licenses issued by the Bank increased by 51 (3%) to 1,776, compared to 2000. This increase can be attributed primarily to the rise in the number of foreign exchange exemptions granted to international financial and business companies (84). In contrast, the total capital flow related to the licenses granted decreased by NAf.344.0 million (57%) to NAf.262.3 million. This decrease is explained by the licenses granted for the foreign financing of the BOO project[18] (NAf.496.4 million) at the refinery in Curacao in 2000. Excluding this project, the value of licenses granted increased by NAf.139.7 million (127%) to NAf.249.6 million, due mainly to the NAf.138.0 million (152%) increase in licenses granted for borrowing abroad. The increase in the amount of foreign borrowing in 2001 was primarily accounted for by a loan taken by a local construction company from its foreign parent for a project to improve Curacao's road infrastructure,[19] investments in the utility company IUH in Curacao, investments in the harbor of St. Maarten, and more residential mortgages taken with foreign banks.

[18] New energy plant according to the "Build, Own and Operate"-principle.
[19] The construction company pre-financed the project for the Island Government of Curaçao

Table 10.1 ***Overview foreign exchange licenses issued (in millions NAf.)***				
Description	2000		2001	
	Number	Amount	Number	Amount
Establishm. comp. by nonresident	68	4.0	55	0.9
Transfer to own account abroad	35	3.9	15	13.7
Life insurance abroad	2	-	-	-
Purchase of real estate abroad	4	0.6	-	-
Portfolio investment abroad	13	8.7	8	5.5
Borrowing abroad	138	90.9	149	228.9
BOO project	2	496.4	1	12.7
Lending abroad	6	1.8	8	0.6
Request for foreign bank account	5	-	3	-
Request for local nonresident account	11	-	12	-
Request for intercomp. account abroad	-	-	-	-
Granting guarantee abroad	2	-	4	-
Exemption int. fin. & bus. comp.	1,437	-	1,521	-
Other	2	-	-	-
Total	1,725	606.3	1,776	262.3

Starting January 1, 1996, a license fee was introduced whereby foreign exchange banks have to pay a fee to the Central Bank on their 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 10.2 provides an overview of the license fees collected monthly during 1999 through 2001. From the total amount of license fees generated in the Netherlands Antilles in 2001, NAf.23,449,100 (64%) was generated on Curacao, NAf.12,600,000 (34%) on St. Maarten, and NAf.605,300 (2%) on Bonaire. The remaining NAf.98,100 of license fees was paid through the Central Bank.

Table 10.2 ***License fees collected during 1999 through 2001 (in thousands NAf.)***			
	1999	2000	2001*
January	2,724.3	3,096.2	3,369.2
February	2,788.9	3,170.8	2,924.4
March	3,679.1	3,255.3	3,439.1
April	2,767.8	2,827.0	2,777.4
May	3,076.0	3,560.4	3,074.9
June	3,173.8	3,168.6	3,183.9
July	3,075.4	2,990.6	2,993.6
August	2,931.5	2,955.1	3,261.8
September	2,962.2	3,038.8	2,561.5
October	2,607.5	2,918.7	3,038.6
November	2,983.4	3,075.7	2,955.6
December	3,708.8	3,305.0	3,172.5
Total	36,478.7	37,362.2	36,752.5

*Preliminary

FINANCIAL STATEMENTS FOR 2001

Table11.1
Balance Sheet as of December 31, 2001

ASSETS	**2000**	**2001**
Gold	138,858,059	138,858,059
Receivables and securities in foreign currency	476,520,578	543,003,859
Advance account Central Government	29,203,216	29,203,216
Government bonds	112,362,331	185,257,338
Other long-term receivables	12,754,160	13,586,737
Fixed assets	57,397,613	92,219,444
Other current assets	21,567,086	20,179,775
TOTAL ASSETS	848,663,043	1,022,308,428

LIABILITIES	**2000**	**2001**
Bank notes in circulation	229,546,116	256,654,780
Residents' current accounts		
- in guilders	297,027,607	468,033,261
- in foreign currency	13,673,555	7,469,113
Residents' time deposits		
- in guilders	123,350,421	114,399,360
Nonresidents' current accounts		
- in guilders	897,327	789,927
- in foreign currency	2,172,957	-
Money in consignation	859,624	892,826
Other current liabilities	21,261,307	19,722,762
Undistributed earnings	19,700,601	12,978,316
Special reserves	81,438,129	81,438,129
Reserve fund	30,000,000	30,000,000
Reserve for hedged positions	-1,264,601	-70,046
Capital	30,000,000	30,000,000
TOTAL LIABILITIES	848,663,043	1,022,308,428

The 2001 figures are preliminary and unaudited. The 2000 figures are derived from the audited 2000 financial statements.

Table 11.2 *Profit and Loss Account 2001*		
	2000	**2001**
INCOME		
Interest income	39,947,924	35,079,508
Foreign exchange earnings	1,220,004	1,015,041
Miscellaneous earnings	8,526,410	4,306,346
Subtotal	49,694,338	40,400,895
License fee	37,572,854	36,387,015
TOTAL INCOME	87,267,192	76,787,910
EXPENSES		
Interest expenses	4,976,295	3,852,125
Depreciation of fixed assets	2,705,294	2,187,460
Depreciation of printing costs bank notes	436,608	435,866
General expenses	21,813,892	24,935,744
TOTAL EXPENSES	29,932,089	31,411,195
OPERATING PROFIT	57,335,103	45,376,715
Extraordinary loss	2,412,258	-
NET INCOME	54,922,845	45,376,715
Distribution of net income		
Net income	54,922,845	45,376,715
Paid to the Central Government	47,131,299	52,099,000
Change in undistributed earnings	7,791,546	-6,722,285

The 2001 figures are preliminary and unaudited. The 2000 figures are derived from the audited 2000 financial statements.

11.1 Notes to the balance sheet as of December 31, 2001

11.1.1 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. The last revaluation was ultimo 2000.

11.1.2 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.

11.1.3 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.

11.1.4 Government bonds

Government bonds reflect the Bank's portfolio of bonds issued by the Central Government and the Island Government of Curaçao. The Bank holds this portfolio mainly for monetary purposes. The bonds are valued at their purchase price or lower nominal value.

11.1.5 Other long-term receivables

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

11.1.6 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.

The increase in fixed assets reflects, among other things, the progress made in the construction of the Bank's new premises in Scharloo.

11.1.7 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.

11.1.8 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.

11.1.9 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.

11.1.10 Residents' time deposits

These include the balances in time deposits of domestic banks and government institutions. The balances are interest-bearing.

11.1.11 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.

11.1.12 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).

11.1.13 Other current liabilities

This balance includes accrued interest and accounts payable.

11.1.14 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 2001 and an official decision concerning the distribution of the net income, this balance will be allocated accordingly.

11.1.15 Special reserves

This reserve was formed originally due to the revaluation of the gold stock in the years 1971 and 1973. 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.

11.1.16 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).

11.1.17 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).

11.2 Notes to the profit and loss account 2001

11.2.1 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.

11.2.2 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 on Foreign Exchange Tax 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.