ANNUAL REPORT 2008

Bank van de Nederlandse Antillen

1. REPORT OF THE PRESIDENT

1.1 General review

The strong increase in commodity and food prices, the international financial crisis, and its spill-over effects on the global real economy turned around the accelerating growth trend in the Netherlands Antilles in 2008. Real Gross Domestic Product grew by 2.0%, compared to 3.8% in 2007. Private demand slowed, which was particularly noticeable in consumption as the rapidly increasing inflation eroded consumers' purchasing power, and personal credit extension declined. Private investments weakened only slightly, supported by the ongoing tourism-related projects. Public demand decreased, reflected in both consumption and investment. Net foreign demand still noted a decline but less pronounced than in 2007 because of a significant gain in exports of goods and services.

Despite the slowdown in economic growth, the labor market continued to improve, reflected by a drop in the unemployment rate from 11.5% in 2007 to 9.7% in 2008. All islands contributed to the improved employment situation, marred only by a slight deterioration in youth unemployment in Curacao. The inflation rate soared to 6.3%, up from 2.8% in 2007. External factors were mainly responsible for this acceleration, including the sharp increases in commodity (including oil) and food prices. A 15% increase in the minimum wage to compensate the lower incomes for the loss of purchasing power was the main internal contributor to the higher inflation.

An analysis by sector shows a slowdown in activities in all sectors, except the hotels & restaurants, and real estate, renting & business services sectors. Buoyant stay-over tourism and significant real estate purchases, particularly by nonresidents, contributed to this positive exception. Curacao was the main contributor to the expansion in the number of stay-over visitors, which benefited especially from the dollar tourism phenomenon from Venezuela. St. Maarten and Bonaire recorded only a marginal growth in stay-over tourism. Cruise tourism recorded only a moderate increase, led by rapid growth in Bonaire. Curacao also contributed positively, but St. Maarten registered a decline.

The construction sector continued to post the highest growth rate, resulting from ongoing tourism-related and real estate projects. The transport, storage & communication sector also continued to perform well. The growth in stay-over tourism contributed to more passengers handled at the airports. In addition, oil storage and transshipment activities increased. Harbor activities were mixed with a further growth in the amount of cargo handled but a slight decline in the number of ship calls, due entirely to a drop in St. Maarten.

The financial sector almost maintained its growth rate, owing to the good performance of the domestic banking sector. A strong increase in income from fees and commissions, an improved interest margin, and extraordinary income boosted profitability. The growth in credit extension remained strong while nonperforming loans were kept under control. However, the expansion in the domestic banking sector was mitigated by the further decline in activities in the international financial services sector. This decline was related mainly to the impact of the international financial crisis. More fundamentally, the demand for international financial and business services started to decline after the more favorable tax treatment of offshore companies vis-à-vis domestic companies was eliminated in 2002. It was anticipated that this elimination of "harmful tax practices" would open the door to negotiating tax treaties and, hence, develop new business, but progress has been slow. The Bank, therefore, welcomes the recent successes in concluding tax information exchange agreements with several countries, creating prospects for the negotiation of tax treaties and, ultimately, the recovery of this important sector of our economy.

The only sector that recorded a decline in activities in 2008 was "manufacturing," due entirely to the poor performance of the Isla refinery in Curacao. Frequent plant shutdowns resulted in a decline in production and value added. These shutdowns were due partly to the obsolete state of the refinery. Together with the increasing pressure on the refinery's operator, the Venezuelan oil company, PDVSA, to obey environmental standards, the urgency of investments in modernization of the plants is underscored. With oil structurally getting scarcer and the resulting upward pressure on its price, the long-term viability of the refinery can be secured with a comprehensive well-balanced investment plan. Given the size of the investments, a substantial part should be financed by the refinery's operator. The investments and their financing are crucial elements in the negotiations on the extension of the lease or a possible privatization of the refinery.

The decline in refining activities was mitigated by a gain in activities in the ship repair industry. However, the Curaçao Drydock Company's future also depends on a major upgrade of its facilities. The Bank welcomes the recent establishment of a turnaround manager to make the company attractive for a strong strategic partner and future privatization.

The deterioration of the deficit on the current account of the balance of payments continued in 2008, although at a slower pace than in previous years. The higher deficit in 2008 was due to the deterioration of the trade, services, and income balances; the current transfers balance improved slightly. The increase in the trade deficit can be explained by the strong growth in imports, related to the sharp increases in commodity (including oil) and food prices, continued strong investment growth, the favorable development in tourism, and higher free-zone imports. Exports also noted a significant expansion, partly offsetting the growth in imports. The increase in exports was attributable mainly to bunker sales, partly as a result of the higher oil price, and free-zone re-exports. The smaller surplus on the services account resulted from higher imports and fewer exports. Imports grew primarily as a result of construction services for the harbor expansion in St. Maarten and ongoing tourism projects. Exports declined mainly because of a drop in the refining fee paid by PDVSA, related to the lower production of the refinery, and the weak performance of the international financial services sector. The deterioration of the income balance stemmed from less interest income on investments abroad associated with the global financial turmoil.

The higher current account deficit was financed primarily by net borrowing from abroad, related to, among other things, the net decline in domestic companies' foreign bank balances, the repatriation of funds abroad by local financial institutions, and the net repayment of trade credit extended to foreign customers. Net foreign borrowing was complemented by more development aid from the Dutch government and more foreign direct investment. Because total foreign financing exceeded the current account deficit, net international reserves of the Netherlands Antilles increased again in 2008, reflecting the eighth balance of payments surplus in a row. The average import coverage improved to 3.0 months of merchandise imports, equal to the Bank's target.

The cash balance of the general government[1] deteriorated slightly in 2008 compared to 2007, reaching a deficit equivalent to 2.4% of GDP. Initially, a small surplus was projected based on the interest savings related to the anticipated debt relief by the Dutch government. Because the entities had not yet complied with the conditions for the debt relief, this relief was postponed, resulting in the continuation of high deficits. The deterioration of the cash deficit was attributable to a slightly higher increase in expenditures than in revenues. All expenditure categories but interest payments contributed to the increase in expenditures. The largest increases occurred in wages & salaries, goods & services, and capital transfers. Improved payment discipline of pension premiums and the reduction of premium arrears by the island government of Curacao accounted mainly for the increase in wages & salaries. The higher outlays on goods & services were related largely to technical assistance to support the process of constitutional changes. Capital transfers expanded because of a reduction of arrears in the central government's contributions to the economic development fund and a capital injection into the postal savings bank. The increase in revenues was attributable mainly to tax revenues, triggered by the economic expansion and the surge in inflation. Taxes on income & profits, sales tax, and import duties posted the largest increases. Nontax revenues grew also, due primarily to the rise in transfers of license fees and profit from the central bank. Despite an increase in total government debt, the debt ratio dropped from 85% to 82% of GDP in 2008 because the increase in nominal GDP exceeded debt accumulation.

The money supply grew at a slightly faster pace in 2008 than in 2007 because of an accelerated accumulation of net foreign assets. Net foreign assets expanded because of the balance of payments surplus and revaluation of the gold stock. Net domestic assets expanded also, accounted for by both the private and government sectors. Credit extension to the private sector continued to grow robustly, driven by the strong growth in mortgages. By contrast, consumer loans declined slightly, perhaps related to the increase in nonperformance and the weakening economic climate. The central government as well as the island governments contributed to the increase in net government credit, the result of an increase in government securities with the banking system.

During 2008, the Bank was successful in controlling private credit growth and, hence, preserving its reserves target by the auctioning of certificates of deposits among the banks to mop up excess liquidity in the domestic money market. Therefore, the reserve requirement was not actively deployed, leaving the percentage unchanged at 13.25%. The Bank's official lending rate was reduced in seven steps by 400 basis points to 1.00% as of December 29, 2008, in line with the Fed-induced rapid decline in US interest rates and its impact on the domestic money and capital market.

1.2 Policy considerations

The international financial crisis and its spillover into the real economy pushed many countries into recession and shook the world economic order. Unprecedented monetary and fiscal stimuli seem to have prevented a meltdown of the global financial system and a worldwide depression, but the full economic impact on the world economy and on individual countries is still uncertain. The current consensus is for a recovery in 2010, but

[1] The central government and the island government of Curacao combined.

projections are revised frequently. Amidst this dire world economic climate, the economy of the Netherlands Antilles has been affected only moderately so far. We have weathered this storm largely because of the structural measures taken during the adjustment period and because of the debt relief program, which has had a significant positive effect on our investment climate. The impact has been felt most in the international financial services sector since its activities depend heavily on the international financial and business climate. Several companies had to lay off staff because of the drop in the demand for their services. Institutional investors also were afflicted as their foreign investment portfolios lost a substantial part of their value, thereby eroding, among other things, the coverage of future pension obligations. In the tourism sector, visitor numbers started to decline, although at a slower rate than in other countries in the region. Gradually, other sectors in our economy also became affected, resulting in slower growth and a reversal of the declining trend in unemployment.

However, some developments can be identified that may mitigate the evident decline in economic growth. On the international level, indications are that the trough of the recession is behind us. Commodity prices are starting to strengthen again, several rescued financial institutions have begun to report profits, and sentiment in securities markets is getting more optimistic. On the domestic level, inflation is declining, improving consumers' purchasing power. Furthermore, the level of investments is likely to be maintained, owing to various ongoing hotel and residential projects and an increasing number of projects scheduled under the Social Economic Initiative. Moreover, the prospect of a balanced government budget as a result of the debt relief will facilitate the implementation of policies directed at mitigating the impact of the weakening economy. Therefore, we still project a growth in real GDP of approximately 1% in 2009.

In addition to dealing with the challenges of the international financial and economic crisis, our policy agenda for 2009 will be dominated by the constitutional changes. In a referendum in May 2009, a majority of Curacao's population approved the agreement with the Dutch government to work towards country-status for the island within the Kingdom, thereby securing the prospects for sound public finances through debt relief and substantial support for improving social-economic conditions. However, all parties concerned must put more effort into reaching a broader consensus with respect to working out the details of the new constitutional status to make it a lasting success.

The preparations for the new constitutional status of the islands are progressing at different speeds. The BES islands (Bonaire, St. Eustatius, and Saba), which opted for integration with the Netherlands, have made the most progress. In various areas, action plans have been developed to improve services and facilities, such as health care, education, and the tax system. With the positive referendum result, Curacao can accelerate preparations for its new constitutional future. St. Maarten must put much more effort into building the institutions to function as a country to remove the increasing skepticism of the Dutch parliament about the island's readiness to assume country status. Therefore, uncertainty exists concerning when the new constitutional structure will go into effect.

Irrespective of the date the constitutional changes become a reality, the current international crisis underscores our vulnerability to external shocks. The disintegration of the Netherlands Antilles will only increase this vulnerability unless we choose to work together closely. The demise of Icesave has underscored that when small countries are confronted with financial crises, a successful response is greatly dependent on external assistance. Therefore, through close cooperation, we can minimize diseconomies of scale and share the costs of capacity building. This cooperation should not be limited to the entities of the present Netherlands Antilles but should include all partners in the Kingdom.

In the area of the public finances, the debt relief started when the entities complied with all conditions: in January 2009 for the central government and in April 2009 for the island government of Curacao. The Dutch government will pay all maturing principal and 70% of interest costs until approximately 70% of the outstanding debt at the end of 2005 is redeemed. In addition, NAf.500 million in arrears will be settled. In 2009, approximately NAf.700 million in debt securities will mature. If, in addition, it is assumed that all arrears will be settled, then the debt ratio could decline from 82% to 63% during 2009. Furthermore, the governments will save NAf.226 million in interest payments, resulting in a nearly balanced budget in 2009. Owing to the debt relief and the introduction of a set of budgetary rules and supervision, lasting sound public finances finally has become a reality. This positive result could have been attained by ourselves only with huge social and economic costs.

The debt relief also will pose challenges for the Bank's monetary policy. The payment by the Netherlands of principal, interest, and arrears will increase liquidity substantially in the domestic economy. This increase in liquidity comes on top of the current high liquidity in the banking system, partly because domestic investors keep more funds locally related to the low returns and turbulent securities markets abroad. The abundance of liquidity has further decreased domestic interest rates. On the one hand, low interest rates are favorable for mitigating the weakening of the economy and a quick recovery once the world economy improves. On the other hand, the local financial institutions have to deal with lower interest income, which can be compensated by reducing deposit rates, tapping other sources of income, and improving cost efficiency. To facilitate these changes and in light of the increasing globalization, the Bank advocates a further consolidation of the financial sector. Specifically for institutional investors, the Bank has eased the investment rule as of January 1, 2009, allowing them more flexibility to invest the funds received from the debt relief abroad.

Given the debt relief program coupled with the enhanced monitoring system through the budget supervisor, CFT, in the context of the constitutional changes, it appears that we have finally set a solid foundation for sustainable sound public finances. However, against the background of the twin crises - the financial crisis and the commodity crises that beset the world economy - our vulnerabilities have increased in other areas. Both our balance of payments and the financial sector have become susceptible to external shocks with far-reaching implications for the real economy. The rapidly expanding current account deficit financed by capital inflows from abroad exposes an increasing vulnerability of our balance of payments. This vulnerability has been further masked by the recent inflows of funds in the context of the debt relief program. A sudden reversal of capital flows could deplete our foreign exchange reserves quickly, undermining confidence in our currency.

In the area of financial sector supervision, the international financial crisis also has demonstrated quite clearly with the case of Icesave that small countries are severely limited in pursuing autonomous rescue operations when the size of the financial institutions are big compared to their GDP. Furthermore, determining one's own supervisory policies has proven illusory. International coordination and cooperation have become the rule, led by international institutions such as the BIS and the IMF. These institutions set the standards for their members. However, if other sovereign countries do not follow these rules, they run the risk of being blacklisted, thereby undermining confidence in their financial sector and investment climate.

As we are preparing to close the last chapter of the Netherlands Antilles, it is imperative that we address these vulnerabilities to promote the welfare of the new countries' citizens.

With regard to the monetary system in the new constitutional structure, it has been agreed that the countries of Curacao and St. Maarten will form a monetary union with one central bank and a common currency. However, the balance of payments vulnerability compels us to consider alternatives, one of which is dollarization. Three of the five islands comprising the Netherlands Antilles, i.e., the BES islands, have chosen to introduce the US dollar as the legal tender once their new status takes effect, while St. Maarten is already de facto dollarized. Moreover, the US dollar is widely accepted in Curacao. Therefore, it would not be such a big step to formally dollarize St. Maarten and Curacao. Having the dollar as legal tender removes the possibility of a balance of payments crisis with the risk of devaluation. An economic downturn or reversal of capital flows would not turn into a currency crisis. However, economic adjustments will be necessary to improve the investment climate and hence regain the trust of foreign investors. In addition, the elimination of devaluation risk will promote trade and foreign investments, make foreign borrowing cheaper, and reduce international transaction costs.

Dollarization, however, has some drawbacks. First, the authorities lose monetary policy as an instrument to steer the economy, limiting the available policy mix to correcting macroeconomic disequilibria. Second, the "lender of last resort" function of the central bank disappears. Finally, under dollarization, the central bank would lose its main sources of income, i.e., investment of the foreign exchange reserves and seigniorage from issuing banknotes.

With respect to the first argument against dollarization, the loss of a policy instrument, the following counter argument can be made. Given the limited scope to pursue independent monetary policy under the current exchange rate regime, this loss would not be substantial. The recent adjustment periods have indicated that small open economies like ours are limited to fiscal policies and structural measures to remain competitive and hence improve their investment climates. With regard to the issue of profitability and the function of the central bank as lender of last resort, it is important to put the current reality into perspective. The lion share of the central bank's profit consists of license fees, which will continue to exist under the regime of dollarization. In addition, since the balance of payments constraint is no longer binding, the need to hold foreign exchange reserves to maintain the peg no longer applies. Therefore, the Bank's capital and reserves (including gold) will all become investable funds, thereby preserving the profitability of the Bank. To address the issue of lender of last resort, we need to accelerate the deposit insurance scheme. Aside from providing depositors with added security, the funds of such a scheme, some of which can come from the current reserve requirements, will meet the function of lender of last resort. Moreover, the government would have to assume this function even under the current exchange rate regime. This became abundantly clear during the recent financial crisis.

Thus, dollarization would result in no perceptible changes in the profit of the central bank and hence no impact on the government budget. Rather, it might lead to an increase in the Bank's profit since the balance of payments constraint always has confined the Bank to pursue a policy of profit maximization. The Bank also has non-interest sources of income in terms of the fees it charges the financial institutions to cover the costs of financial sector supervision.

A careful assessment towards a more realistic balance between the advantages and disadvantages of dollarization for Curacao in particular should be part of the public debate in choosing the most suitable monetary system for the future countries in the Kingdom. The balance seems to point in the direction of dollarization, given our vulnerabilities in the present world economic order.

Finally, to address the financial sector vulnerability in the new constitutional structure of the Kingdom, the Bank envisions a financial supervision structure in which every country will have its own supervisory institution, complemented by a standard-setting body on the Kingdom level - *College van Koninkrijkstoezichthouders* - set up along the lines of the Committee of European Banking Supervisors. This body will consist of the presidents of the respective central banks and be charged with the preparation of legislation in line with international best practices, the timely implementation of rules and regulations, and monitoring compliance. Such a structure not only will guarantee compliance with international supervisory standards and create a level playing field with uniform rules within the Kingdom, but will also promote transparency and credibility. For setting up this structure, the current cooperative arrangements between the central banks of the Netherlands, Aruba, and the Netherlands Antilles can serve as a basis. This approach will ensure a solid supervisory architecture, sound financial institutions, and financial stability in the new countries of the Kingdom, thereby removing a major potentially destabilizing force on our financial sector.

E.D. Tromp
President

2 INTERNATIONAL ECONOMIC DEVELOPMENTS

The financial crisis, which started in the United States in August 2007, appeared relatively contained in the first half of 2008. That the U.S. economy would be able to avoid the fall into recession appeared quite likely. Hence, the corresponding adverse influence on global economic growth was expected to be subdued. However, following the second quarter of 2008, the crisis in the financial sector escalated and spread rapidly around the world. In the fourth quarter, the financial crisis underwent a tumultuous new phase, and the emerging market economies and developing countries were drawn into the crisis. The weak financial markets were hit by the collapse of a major US investment bank, and more sectors rapidly became affected. The result was a cascading series of bankruptcies and forced mergers. To stem economic fallout, the U.S. government had to intervene by approving a $700 billion bailout package in October. Banks have received billions in capital injections in return for government ownership stakes. In addition, to prevent the financial crisis from driving the U.S. economy into a long and painful recession, the Federal Reserve slashed the Fed funds rate to an all-time low of 0%-0.25% and implemented the Troubled Asset Relief Program (TARP) introduced by Congress.

Real GDP of the United States decelerated from 2.0% in 2007 to 1.1% in 2008, the lowest growth rate since the last recession in 2001. This slower economic growth was the result of weaker consumer spending and a contraction in private investment, solely in residential fixed investments. Consumers were battered by job losses, tight credit, evaporating wealth from falling home values, and declining stock values. These setbacks forced consumers to cut back on spending, driving companies to lay off more workers. Job losses were widespread, hitting the manufacturing, construction, retail trade, hotels & restaurants, and financial services sectors. The country was faced with a sharp rise in unemployment, as the jobless rate rose from 5.0% in 2007 to 7.2% in 2008, the highest level in 16 years. The contraction in private demand, however, was mitigated somewhat by an improvement in the trade deficit. Export demand expanded while demand for imports shrank, the result of the decline in private demand.

US consumer prices rose further by 3.8% primarily because oil prices soared to a high of $133[2] per barrel in July 2008. Nevertheless, due to the world economic downturn, oil prices started to decelerate, reaching a low of $42 per barrel in December 2008. Overall, oil prices rose by 36.4% from 2007 to 2008. After rising substantially up to mid-2008, global energy and commodity prices declined sharply.

Table 1 Selected economic indicators of main trading partners (% change)

	United States		Netherlands		Venezuela	
	2007	2008	2007	2008	2007	2008
Real GDP (% change)	2.0	1.1	3.5	2.0	8.4	4.8
Consumer prices (%)	2.9	3.8	1.6	2.5	18.7	31.4
Unemployment rate (%)	4.9	7.2	4.5	3.9	6.2	6.1

Sources: US Bureau of Economic Analysis, US Bureau of Labor Statistics, Central Bureau of Statistics Netherlands, Banco Central de Venezuela, and Instituto Nacional de Estadistica Venezuela.

[2] International Financial Statistics (IFS), IMF

Similar to the United States, the Euro area saw its growth taper to 0.9% in 2008, down from 2.6% in 2007. In contrast to 2007's performance, the Netherlands showed a weaker economic growth of 2.0% in 2008, the result of slower consumer spending and export demand. However, the downward drag on real GDP growth was somewhat mitigated by an increase in private investment. Exports slowed at a faster pace, counteracting the downswing in import demand, which narrowed the trade surplus by 4.7% to €35.7 billion. A sectoral analysis shows that the manufacturing sector suffered a contraction because of lower export demand. Also, the trade, hotels & restaurants, transport, and financial services sectors posted lower production. Despite fewer economic activities, the labor market situation improved, resulting in a lower unemployment rate of 3.9% in 2008, down from 4.5% in 2007. In the first half of 2008, the Netherlands experienced a tight labor market, as the number of job vacancies rose to record highs. However, labor vacancy numbers shrank considerably in the last quarter of 2008. Declining output accompanied by still falling unemployment shows that employment has a lagged effect to developments in production. The inflation rate in the Netherlands rose by 2.5%, driven by surging fuel and food prices through much of the year.

Venezuela's economic growth dropped to 4.8% in 2008, the slowest pace in five years. The economic slowdown was related mainly to weaker growth in the non-oil sector (5.1%), offsetting the expansion in the oil sector. The government's socialist drive discouraged private investments in the non-oil sector, reducing production capacity. Most sectors saw slowing activities, whereas the manufacturing and financial services sectors showed a decrease. The historic oil price gain allowed the government to recycle petrodollars into the domestic economy, which came to an end in the second half of 2008. Venezuelan oil prices have dropped 70% since reaching a record of about $140 barrel in July 2008. The combination of excessive domestic consumption and the lack of private investment in the non-oil sector fueled inflationary pressures. Despite the government's efforts to reduce the excess liquidity, inflation reached 31.4%, the highest annual inflation rate in Latin America. The current account surplus expanded significantly to $39.2 billion as exports soared, whereas imports continued to decline. In Venezuela, oil exports account for 93% of total exports and finance 50% of the government's spending. Although the economy grew at a slower pace, the jobless rate remained relatively unchanged at 6.1% in 2008.

3 GENERAL ECONOMIC DEVELOPMENTS IN THE NETHERLANDS ANTILLES

3.1 Introduction

To date, the Caribbean countries have not felt the full impact of the downturn in the global economy. The growth of the Netherlands Antillean economy decelerated to 2.0% in 2008, down from 3.8% in 2007. This less favorable performance can be attributed to slowing domestic activities in both the private and public sectors (see Table 2). Nevertheless, net exports were less of a drag on GDP growth because exports of goods & services posted a significant gain, mitigating somewhat the increase in import demand. Annual inflation soared to 6.3% in 2008, the highest since 2000. Despite a slowdown in economic growth, the employment situation continued to improve, resulting in a lower jobless rate of 9.7% in 2008, down from 11.5% in 2007.

Table 2 GDP growth by expenditures[a] (real percentage changes)

	2006	2007	2008
Domestic expenditures, of which:	4.1	10.7	6.4
Private sector	3.7	10.3	6.8
- Investment	2.5	5.3	4.8
- Consumption	1.2	5.0	2.0
Government	0.4	0.4	-0.4
- Investment	0.7	0.1	-0.3
- Consumption	-0.4	0.3	-0.1
Changes in inventory	0.0	1.0	-0.6
Foreign net expenditures, of which:	-1.7	-7.9	-3.8
Export of goods and services	4.4	0.6	5.7
Import of goods and services	6.1	8.4	9.5
GDP by expenditures	2.4	3.8	2.0
Net primary income	0.5	0.2	-0.9
Gross national income	2.9	3.9	1.1
Net current transfers from abroad	-1.5	-1.2	-0.2
Gross national disposable income	1.4	2.7	0.9

Source: BNA estimates.

[a] Expenditure categories data are weighted contributors to GDP growth.

On the expenditure side, the contribution of domestic demand dampened real GDP in 2008. Private demand slowed, as both consumer spending and private investments expanded at a reduced pace. The soaring consumer price inflation put perceptible strains on consumer spending and investments. The rise in food and energy prices tightened companies' profits and consumers' purchasing power. In addition, the lower private consumption growth was reflected by a decline in personal credit. Public demand posted a decline, generated by a drop in public consumption as well as public investment in real terms. As opposed to 2007, the external component had a less negative influence on real GDP growth because exports grew at a faster pace, the result of gains in bunker sales, free-zone, and tourism activities. Exports have a relatively high import content; hence, the considerable import growth was backed by positive developments in construction, the free-zone, and tourism along with the soaring food and oil prices. Consumer price inflation rose considerably in 2008 as the inflation rate jumped to 6.3%, fueled by rising world oil and food prices.

In contrast to 2007, net primary income from abroad fell, lowering the growth of gross national income in the Netherlands Antilles during 2008. The escalating crisis in the global financial sector triggered the decline in primary income received. The drop was strengthened by gains in consumption and investment, reducing national savings. Private savings were down as private demand rose in nominal terms. In addition, net public savings deteriorated slightly as the gain in public consumption offset the fall in public investment in nominal terms. Hence, the higher levels of private consumption and investment were funded through a drawdown in savings, increased credit extension, development aid, and external financing. Meanwhile, public consumption was financed partly through the net issue of government securities to the commercial banks and the public.

3.2 Domestic production

In terms of production, slowing activities in the private sector dampened the overall economic growth in the Netherlands Antilles. The weaker value added growth in 2008 was shared by almost all economic sectors, with the exception of hotels & restaurants and real estate, renting & business services (see Table 3). Throughout 2008, fiscal policy also was tightened, leading to a contraction in outlays on wages & salaries in real terms.

Construction investment activities in 2008 increased at a similar pace as 2007, reflecting to some extent the rise in mortgages. Growth in the construction sector was led mainly by the ongoing hotel, real estate, and other tourism-related projects.

Real value added in the wholesale & retail trade sector eased to 1.3% in 2008. Despite a rebound in the free zone, the wholesale & retail trade sector was affected by a slowdown in domestic spending that resulted from the high inflation. The number of free-zone visits increased by 8.9%, backed only by the Venezuelan market. This increase coincided with the sizeable increase in the number of Venezuelan visitors to Curaçao throughout 2008.

Overall, the growth in the number of tourist arrivals to the Netherlands Antilles slowed from 5.2% to 4.6% in 2008. An analysis of tourism data indicates that while the number of cruise ship visitors decelerated (0.9%), the number of stay-over passenger arrivals accelerated to 12.8%. The overall slower growth in cruise tourism was caused by the lower number of cruise ship visitors to St. Maarten; both Curacao and Bonaire registered increased numbers. The strong growth in air arrivals was mitigated somewhat by the weaker growth in cruise ship arrivals, given that most visitors to the Netherlands Antilles arrive by cruise ship.[3] Nonetheless, stay-over tourism generates most of the tourism revenues. The positive development in stay-over tourism in the Netherlands Antilles was led by the European, North American, and South American markets. The rise in the number of European visitors can be explained in part by the continuous appreciation of the euro against the Netherlands Antillean guilder. Moreover, the considerable increase in the number of Venezuelan travelers contributed to the buoyant performance of the South American market. The growth in stay-over tourist arrivals in the Netherlands Antilles led to a growth in real value added of 7.1% in the hotels & restaurants sector.

An analysis by island indicates that the gain in stay-over tourism in 2008 was supported mainly by Curaçao, which recorded a massive increase in the number of stay-over tourists (34.1%), backed by both the European and South American markets. The Dutch traveler numbers were up by 11.3%, somewhat lower than the growth of 17.8% in 2007. The South American tourist arrivals doubled, mainly the result of the vast increase in the number of Venezuelan visitors. The combination of exchange controls and the great divergence of the black market exchange rate from the official peg in Venezuela were the main drivers for the large number of Venezuelan visitors to the island. This development started in the first quarter of 2007 and continued throughout 2008.

St. Maarten's stay-over tourism rose by 1.3%. Increases from both the North American and European markets offset the declines in the South American and Caribbean markets. In contrast to the buoyant growth in 2007, stay-over arrivals in Bonaire showed no

[3] Cruise tourism accounted for about 67% of the number of visitors in the Netherlands Antillean tourism industry in 2008.

growth in 2008, stemming from a slower growth in all markets and a drop in the number of European and South American visitors. (See Table 9 in the appendix for more details.)

Table 3 GDP by sector (real percentage changes)

Sector	2006	2007	2008
Agriculture, fishery, & mining	4.0	7.6	4.9
Manufacturing	3.3	2.4	-5.6
Electricity, gas, & water	0.3	3.0	0.5
Construction	6.4	9.8	9.6
Wholesale & retail trade	2.4	1.9	1.3
Restaurants & hotels	1.8	6.8	7.1
Transport, storage, & communication	0.6	5.3	4.0
Financial intermediation	2.8	1.8	1.6
Real estate, renting, & business activities	4.1	3.7	8.0
Other community, social, & personal services	0.7	2.2	1.9
Private households	0.8	1.1	0.6
Total private sector	2.2	3.0	2.3
Public sector	2.9	3.7	-1.7
GDP	2.4	3.8	2.0

Source: BNA estimates

The transport, storage, & communication sector grew at a more moderate pace in 2008, the result of weaker growth in the air transport and harbor sectors. Despite more airport-related activities, activities in the air transport sector moderated. Gains in total passenger traffic and the number of commercial landings in the Netherlands Antilles were accountable for the positive performance of the airports. The rise in total passenger traffic in the Netherlands Antilles was in line with the growth in the tourism sector. Activities in the harbor sector were mixed with more cargo movements partly offset by fewer ships piloted into the harbors. Finally, oil storage & transshipment activities grew in the Netherlands Antilles in 2008.

Compared to 2007, production growth in the financial services sector remained relatively unchanged in 2008. This development was backed by a perceptible gain in domestic financial services in terms of value added, outweighing reduced activities in the international financial services sector. This reduction was related mainly to the impact of the international financial crisis.

In contrast to the other sectors, the real estate, renting, & business services sector provided a positive stimulus over the course of 2008. The main reason behind this development was the purchase of properties and investments by nonresidents and the ongoing tourism projects. Amidst the international financial crisis, this sector has remained resilient in the Netherlands Antilles.

Meanwhile, the gloomy performance in the manufacturing sector had a dampening impact on GDP in 2008. This situation can be explained by the negative developments in the oil sector, which outweighed the gain in activities in Curaçao's ship repair. In terms of value added, the "Isla" refinery performed poorly; refining output declined primarily because of frequent plant shut downs. Despite a lower activity level, operational costs were up due to the rising fuel costs for the refinery's own fuel use. In contrast, activities in Curaçao's ship repair industry increased with a rise in the number of man-hours sold (12.2%).

3.3 Labor market

In spite of the overall slowdown in economic growth, the employment situation improved perceptibly in the Netherlands Antilles because developments in production have a lagged effect on the labor market. The number of unemployed declined further, while the number of employed recorded a gain. As a result, the jobless rate declined to 9.7%[4] in 2008 (see Table 4), the first time ever by a single-digit figure. Job gains occurred solely in the private sector, i.e., more employment was created in the transportation, construction, business services, and manufacturing sectors.

As opposed to 2007, labor productivity in Curaçao[5] declined by 3.8% in 2008 compared to a growth of 2.7% in 2007 because of less output per hour.

Table 4 Labor market developments in the Netherlands Antilles (number of persons)

	2004	2005	2006	2007	2008
Employed	74,777	76,213	78,373	82,722	87,069
Unemployed	13,286	14,752	11,904	10,707	9,347
Labor force	88,063	90,965	90,277	93,429	96,416
Total population	179,942	185,817	180,088	192,529	195,654
Participation rate	48.9%	49.0%	48.0%	48.5%	49.3%
Unemployment rate	15.1%	16.2%	13.2%	11.5%	9.7%

Source: Central Bureau of Statistics and BNA estimate

In 2008, the lower jobless rate in the Netherlands Antilles was caused mostly by a fall in Curaçao's unemployment rate to 10.3%[6] compared to 12.4% in 2007. This decline reflects a decrease in the number of unemployed males and females in Curaçao. As a result, the unemployment rate of both males and females dropped to, respectively, 8.0% and 12.4%. Nevertheless, unemployed males represented 38.3% of the total unemployed population; unemployed females represented 61.7%. Besides the drop in the number of unemployed males, the number of employed males grew at a faster pace than the number of employed females. In contrast to Curaçao's overall lower jobless rate, the youth unemployment rate rose from 24.8% in 2007 to 26.3% in 2008.

Bonaire's unemployment rate shrank from 7.8% in 2006 to 6.3% in 2008 due to a drop in the number of unemployed. The main factor behind this drop was the decline in the number of unemployed females. The female unemployment rate dropped to 6.5%, whereas the rate for males remained relatively unchanged at 6.2%. At the same time, the rise in the number of employed outperformed the decline in the number of unemployed, reflecting a growth of the labor force. During the period 2006-2008, more males got employment (19.7%) in Bonaire compared to their female counterparts (7.1%). In

[4] BNA estimate.
[5] BNA estimate; AKO ("Labor Force Survey") 2008, Central Bureau of Statistics. Curaçao makes up about 65% of total employment in the Netherlands Antilles.
[6] AKO ("Labor Force Survey") 2008, Central Bureau of Statistics.

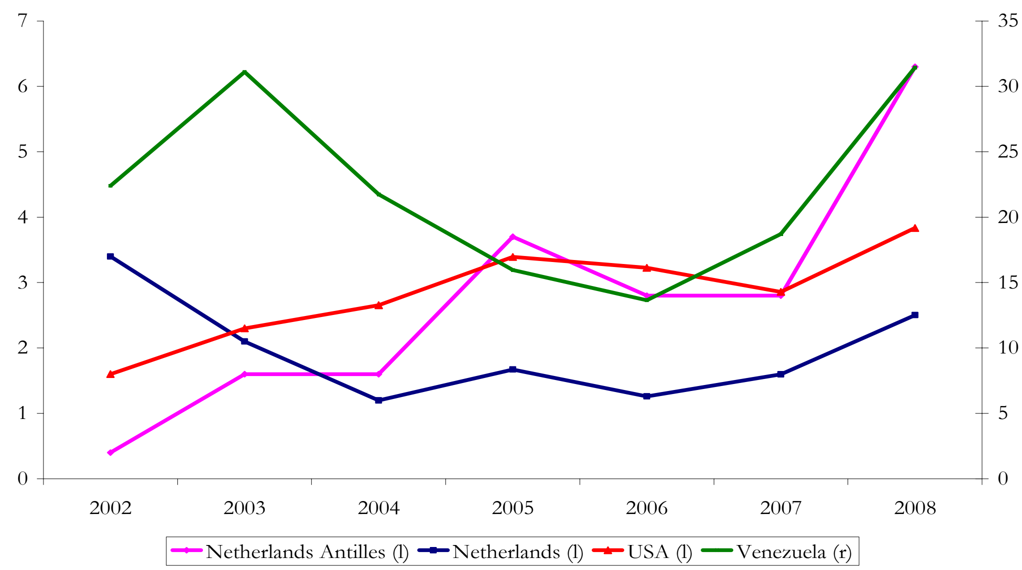
addition, the lower unemployment rate in Bonaire also was reflected by a significant fall in the youth unemployment rate from 20.5% in 2006 to 11.5% in 2008.

3.4 Inflation

The annual inflation rate in the Netherlands Antilles soared to 6.3% in 2008, the highest since 2000. Overall consumer price inflation continued to be affected primarily by external factors such as the sharp increases in oil and other commodity prices. The rising Antillean inflation coincided with the inflation of our main trading partners (see Graph 1).

In 2008, all CPI components showed an acceleration, whereas the key drivers to this sharp surge in price were Food (17.3%), Housing (5.4%), Housekeeping & Furnishings (5.4%), and Transport & Communication (6.4%). Food prices rose at a much faster pace, causing consumers to pay more for all food items. Furthermore, the rise in the housing and transport components were led by increasing utility and fuel prices. The soaring world oil prices were being passed on gradually to consumers throughout 2008. Furthermore, the upward adjustment of the minimum wage in Curaçao was the contributory factor for the price rise in Housing & Furnishings. With high food and energy prices pushing up inflation and squeezing real incomes, the Curaçao government came under pressure to raise the minimum wage. As of September 1, 2008, the minimum wage was increased by 15%. An analysis by island shows that Curaçao posted the highest annual inflation (6.9%), followed by Bonaire (6.2%) and St. Maarten (4.6%). (See Table 10 in the appendix for a detailed overview.)

Graph 1 Developments in consumer prices (annual percentage change)



3.5 Public finances

3.5.1 Cash overview and financing

In 2008, the public sector contributed negatively to the growth of real GDP. Public consumption grew in nominal terms, outweighing the decline in public investments. However, the higher inflation prevented a real gain in government spending. The general government[7] registered a budget deficit of NAf.172.1 million on a cash basis, a deterioration of NAf.1.7 million compared to 2007. This deterioration occurred despite the record level of revenues resulting from the economic expansion and the elevated inflation during 2008. The debt relief program agreed upon with the Netherlands, which was projected to begin in late 2008, was postponed to early 2009 due to delays in preceding processes. Consequently, the public debt-to-GDP ratio of the Netherlands Antilles remained high by international standards, registering 82.1% of GDP in 2008. (See Table 11 and Table 12 in the appendix for a detailed overview.)

The primary balance, defined as the fiscal balance exclusive of interest costs, deteriorated to 1.9% of GDP in 2008, down from 2.3% of GDP in 2007 (see Table 5). That the general government continues to register a budget deficit each year despite the positive primary balance illustrates the heavy strain put on the public purse by interest costs.

Table 5 Selected key variables of the general government (in millions NAf.)

	2005	2006	2007	2008
Revenues	1,616.2	1,485.6	1,547.3	1,740.7
% of GDP	27.7%	24.2%	23.7%	24.6%
Tax revenues	1,251.8	1,284.1	1,392.4	1,538.7
Nontax revenues and grants	364.3	200.5	153.1	194.5
Expenditures	1,770.7	1,675.2	1,717.7	1,912.8
% of GDP	30.3%	27.3%	26.3%	27.1%
Current expenditures	1,749.6	1,635.6	1,695.7	1,815.9
Capital expenditures	21.1	39.6	22.0	96.9
Budget balance	-154.5	-189.6	-170.4	-172.1
% of GDP	-2.6%	-3.1%	-2.6%	-2.4%
Primary balance	130.0	93.8	152.8	131.2
% of GDP	2.2%	1.5%	2.3%	1.9%

General government revenues increased by NAf.193.4 million (12.5%) compared to 2007, mainly the result of a NAf.146.3 million (10.5%) rise in tax revenues. The economic expansion and the higher inflation in 2008 triggered a surge in tax revenues, mostly from taxes on income & profits, sales tax, and import duties. Nontax revenues also increased significantly due primarily to a rise in transfers from the central bank. In contrast, grants from abroad decreased as no dividend tax transfers related to the tax arrangement for the Kingdom of the Netherlands (BRK)[8] were received during 2008.

A breakdown of total revenues by level of government reveals that in 2008 the tax revenues generated by the central government increased by NAf.73.4 million (10.3%) compared to 2007. This rise occurred mostly in sales tax revenues, import duties, and property tax. The central government's nontax revenues increased as a result of the mentioned central bank transfers as well as the receipt from a settlement related to the postal services. The revenues generated by the island government of Curaçao increased by NAf.102.5 million (11.8%) in 2008. This upturn took place in all categories except taxes on property. The latter category declined compared to 2007 when the backlog in

[7] The general government consists of the central government and the island government of Curaçao.

[8] As part of the BRK, all withholding tax collected on dividends paid by Dutch companies to their parent companies in the Netherlands Antilles is transferred to the government of the Netherlands Antilles.

land tax collection was eliminated. The noted increase in profit and income tax revenues generated by the island government of Curaçao during 2008 was related to the increased economic activity and higher employment.

An analysis of general government expenditures indicates that the NAf.120.2 million (7.1%) increase in current expenditures occurred mainly because of higher outlays on wages & salaries as well as goods & services. The increase in the latter category was related largely to technical assistance contracting at the central government level to support the process of constitutional changes. Interest payments declined at both levels of government in 2008 compared to 2007, mitigating the rise in current expenditures. Capital expenditures rose by NAf.74.9 million during 2008, primarily as a result of the reduction of part of the central government's arrears with the fund for economic development and the savings bank of the postal services, Postspaarbank.

A review of total expenditures in 2008 by level of government shows that the central government's current expenditures rose by NAf.22.1 million (2.4%), owing largely to higher outlays on good & services. Wages & salaries increased only slightly as a result of the yearly increments in the wages of civil servants and teachers. The current expenditures of the island government of Curaçao increased by NAf.110.1 million (11.7%). Outlays on wages & salaries increased significantly, mainly as a result of the island government's improved discipline in the payment of pension premiums to the public pension fund, APNA. The island government also reduced part of its arrears with the fund over the course of 2008. In addition, transfers to nonprofit institutions rose as a result of payments made to reduce the arrears with the road fund. Outlays for goods & services and subsidies increased only moderately at the island government level, compared to 2007.

Table 6 Financing of the cash balances (in millions NAf.)

	Central government		Curaçao government	
	2007	**2008**	**2007**	**2008**
Monetary financing	27.5	39.9	50.1	49.6
Central bank	-46.0	7.6	-23.7	7.7
Commercial banks	71.0	30.5	73.8	41.9
Coins and notes	2.5	1.8	-.-	-.-
Nonmonetary financing	67.2	48.9	25.5	33.6
Government securities with the public	52.0	-1.6	42.5	27.1
Other	15.2	50.5	-17.0	6.6
Cash balance	-94.7	-88.8	-75.7	-83.3

Financing of the 2008 fiscal deficit was obtained through both the public and the banking sector. The central government financed a large part of its deficit through the net purchase of its securities by the commercial banks. The island government of Curaçao obtained the extra cash needed for its operations primarily through the net issue of debt securities with the banking sector and the public (see Table 6).

3.5.2 Public sector debt

In 2008, the total consolidated public debt of the Netherlands Antilles rose by NAf.283.2 million (5.1%) to NAf.5.8 billion (82.1% of GDP). The rise in the outstanding debt resulted entirely from an increase in the domestic debt component, as the foreign debt component declined during 2008. (See Table 12 in the appendix for a detailed overview.)

The domestic debt component increased by NAf.300.8 million (6.4%), due mainly to the gain in the central government's domestic debt (NAf.207.3 million). This additional debt was incurred primarily through the net issue of long-term securities, offsetting the net redemption of short-term securities. The conversion of arrears with the savings bank of the postal services, Postspaarbank, and the build up of arrears with the social security bank, SVB, also contributed to the rise in the central government's outstanding debt.

The rise in the domestic debt of the island government of Curaçao (NAf.54.1 million) was related largely to the net issue of both short-term and long-term securities. In contrast, the island government's debt to the public pension fund, APNA, fell by NAf.22.2 million as a result of the government's improved payment discipline and the reduction of part of its arrears with the fund. The domestic debt of the other islands grew by NAf.34.1 million in 2008 as a consequence of the accumulation of debt with the central government and the APNA.

The foreign debt component declined by NAf.17.7 million (2.2%) on a net basis at the end of 2008 compared to the end of 2007 as a result of the appreciation of the US dollar against the euro. Since the Netherlands Antilles guilder is pegged to the US dollar, the appreciation of the latter caused a NAf.40.4 million drop in the guilder-equivalent of the euro-denominated debt. However, this drop was offset in part by the growth in the outstanding debt with the Netherlands of both the island government of Curaçao and the central government.

3.6 Developments in the balance of payments

3.6.1 Introduction

In 2008, net foreign demand, i.e., net exports of goods and services, contributed negatively to the economic growth as the rise in imports of goods and services outpaced the increase in exports. However, compared to 2007, net exports of goods and services contributed less negatively to GDP growth as exports rose significantly in 2008. The decline in net foreign demand combined with a worsening of the income balance

Table 7 Balance of payments summary (in millions NAf.)

	2005	2006	2007	2008
Current account	-189.4	-465.2	-1,063.0	-1,560.9
Capital transfers	171.1	179.6	218.8	244.8
Acquisition of nonprod. nonfin. assets	0.0	0.0	0.2	0.0
External financing of the government	-16.2	-8.5	5.8	5.4
External financing of the private sector	110.1	315.0	976.3	1,579.8
- Direct investment *)	-42.1	-140.5	425.1	449.0
- Loans and credits *)	194.8	353.9	700.5	1,257.4
- Portfolio investments *)	-42.7	101.6	-149.3	-126.6
Change in net foreign assets of the banking system *)	-132.7	-84.3	-277.5	-371.6
- with central bank	-68.8	-73.8	-297.0	-282.7
- with commercial banks	-63.9	-10.5	19.5	-88.9
Statistical discrepancies	57.2	63.5	139.4	102.4

*) a minus sign implies an increase

resulted in a current account deficit of NAf.1,560.9 million, NAf.497.9 million more than in 2007 (see Table 7). Similar to the developments on the current account, the combined capital and financial account worsened. However, due to strong net capital inflows, foreign exchange reserves increased.

3.6.2 Current account

Net foreign demand dropped by NAf.422.5 million in 2008 due to a worsening of both the trade balance (NAf.211.6) and the services balance (NAf.210.9). The deficit on the trade balance widened as the growth in merchandise imports offset the rise in exports. Oil imports rose substantially due to higher average oil prices on the international market and increased bunker fuel volumes sold. Higher commodity prices (including food prices) on the international market, increased imports by the free-zone companies, higher investments, and favorable developments in the tourism industry also contributed to the merchandise import growth. An analysis by island reveals that imports by the wholesale and retail sectors on the Leeward Islands rose at a slower pace in 2008 than in 2007 due mainly to a decline of purchasing power on the islands, reflecting soaring inflation. As opposed to 2007, free-zone imports increased in 2008 as a result of increased activities in this sector. Higher imports on the Leeward Islands also were related to favorable developments in the tourism industry and investments in, among other things, the real estate, refining, utilities, and telecommunication industries. On the Windward Islands, merchandise imports increased at a more moderate pace in 2008 owing to a slowdown in private consumption and construction activities in the tourism and transportation sectors.

Merchandise exports rose in 2008 mainly as a result of increased earnings from bunkering activities. This increase was attributed to higher average fuel prices on the international market and higher volumes sold. In addition, re-exports increased from the free-zone companies in Curaçao, reflecting increased demand from, among others, Venezuela and the Caribbean.

The worsening of the services balance was related to a decline in the refining fee paid by the Venezuelan oil company, PDVSA, for its operations in Curaçao. This decline can be attributed to lower refining activities. Furthermore, foreign exchange receipts from international financial services dropped, reflecting the effect of the international financial crisis on this sector. Import of services increased mainly as a result of construction activities in the harbor of St. Maarten and ongoing investments in the tourism industry. The deterioration of the services balance was offset partly by the increase in foreign exchange revenues from the tourism industry.

The tourism sector performed particularly well on the island of Curaçao where foreign exchange receipts from stay-over tourism increased by NAf.83.5 million (13.6%) in 2008 compared to 2007. Meanwhile, foreign exchange revenues from cruise tourism in Curaçao were up by NAf.7.9 million (13%). In Bonaire, foreign exchange revenues from cruise tourism and stayover tourism increased by NAf.13.2 million (47%) and NAf.7.5 million (4.0%), respectively. On the Windward Islands, tourism revenues remained relatively similar to 2007; receipts from cruise tourism dropped by NAf.4.2 million (1%) while revenues from stay-over tourism increased by NAf.7.4 million (1%).

The shift into a deficit on the income balance also contributed to the deterioration of the current account balance. The income balance worsened by NAf.79.2 million as the global financial turmoil diminished interest income on portfolio and other investments abroad. In contrast, the current transfers balance improved slightly by NAf.3.6 million due to an increase in transfers received from abroad, mitigated by higher transfers paid to abroad. Overall, the current account recorded a deficit of NAf.1,560.9 million in 2008, representing a deterioration of NAf497.9 million compared to 2007. (See Table 13 in the appendix for an overview.)

3.6.3 Financing of the current account balance

Due to the larger current account deficit, net foreign indebtedness of the private sector grew considerably by NAf.1,579.8 in 2008. The change in financing of the private sector was related to a deterioration of the loans and credit balance (NAf.1,257.4 million) and the direct investment balance (NAf.449.0 million), offset partly by an improvement of the portfolio investment balance (NAf.126.6 million). The latter improved because the purchase of foreign bonds and notes by institutional investors exceeded the maturing securities.

The loans and credit balance worsened as some domestic companies withdrew funds from their foreign accounts to finance a portion of their imports. Foreign assets also were repatriated by financial corporations operating in the Netherlands Antilles to fund their local activities. Moreover, outstanding claims for construction services previously provided abroad by domestic companies were paid.

In addition, net trade credit extended abroad declined by NAf.260.5 million because the increase in repayments exceeded the rise in net trade credit extended on exports. The worsening of the loans and credit balance was mitigated by the repayment of loans abroad by private companies.

The direct investment balance deteriorated in 2008, driven by an increase in claims of foreign direct investors in the Netherlands Antilles. This increase was related to, among other things, the purchase of real estate by nonresidents and ongoing investments in the tourism and real estate industries in St. Maarten and Curaçao.

Meanwhile, capital transfers increased by NAf.25.9 million related to the inflow of development aid funds. Due to the large capital inflows, net foreign assets (i.e., reserves) increased by NAf.371.6 million in 2008, reflecting a surplus on the balance of payments. (See Table 14 in the appendix for a detailed overview.)

3.7 Monetary developments

3.7.1 Monetary policy

The two monetary policy instruments of the Bank, the reserve requirement[9] and the auctioning of Certificates of Deposit (CDs), are used to influence the amount of base money. During 2008, the Bank's monetary policy was directed mainly towards controlling the growth of private credit extension to preserve the official reserves target, i.e., a level of official reserves (excluding gold) that covers at least three months of forecasted merchandise imports. This target was met successfully during 2008.

[9] Through the reserve requirement policy, the commercial banks are obliged to maintain a certain percentage of their domestic deposits on a blocked account at the Bank. The percentage is evaluated on a monthly basis.

Private credit growth was controlled effectively by the auctioning of CDs to mop up excess liquidity in the domestic money market. In contrast to the reserve requirement, the auctioning of CDs is more market driven since participation in the bi-weekly auctions is voluntary. The amount of outstanding CDs more than doubled in 2008, and by year-end they amounted to NAf.108.0 million. The monthly amount of outstanding CDs averaged just over NAf.100 million during 2008. Because of the successful CD auctions, the reserve requirement was not actively deployed by the Bank in 2008, leaving the percentage of this instrument unchanged at 13.25%.

Adjustments in the Bank's interest rates, i.e., the pledging rate and the maximum 1-month CD rate, are related to the Bank's monetary policy. First, for successful CD auctions, the interest rate offered must be competitive compared with alternatives abroad. Second, changes in the CD rate are followed by adjustments of the pledging rate to bring it in line with prevailing market rates and to avoid interest arbitrage.

The Bank's monetary policy is directed at preserving the fixed exchange rate of the Antillean guilder with the US dollar. Consequently, changes in US interest rates affect the rates on the local money and capital market and the rates of the Bank. As a result of the financial market turmoil and the global economic downturn, the Federal Reserve lowered its main policy rate during 2008 by almost 425 basis points to a level that ranged between 0.00 and 0.25 percent. The related decline in US market interest rates prompted the Bank to reduce its pledging rate in seven steps by 400 basis points to 1.00% at the end of 2008.

3.7.2 Net accumulation of wealth and the money supply

Money holdings of the private sector grew by NAf.774.4 million (12.7%) during 2008, an acceleration compared to the rise of NAf.658.3 million (12.1%) in 2007. The 2008 increase in domestic liquidity was attributable to increases in domestic bank credit, external financing, and capital transfers from abroad. These sources of financing were mitigated by the financing needed to cover the net current international transactions and the financing provided by the private sector to the government. (See Table 15A and Table 15B in the appendix for more details.)

3.7.3 Factors affecting the money supply

Due to a sizeable expansion in the banking system's net foreign assets, the money supply increased at a slightly higher rate in 2008 (12.7%) than in 2007 (12.1%). Net foreign assets expanded by 22.6% compared to an increase of 19.7% in 2007. The 2008 expansion resulted from an increase in both the Bank's official reserves (24.1%) and the foreign assets of the commercial banks (17.7%).

The growth in net domestic assets decelerated slightly in 2008 to 7.5% compared to 8.5% in 2007, related to the item "miscellaneous." Net credit extended to both the private sector and the government sector accelerated to 12.3% (2007: 11.7%) and 11.7% (2007: 10.3%), respectively.

The private sector's net credit expansion was driven mostly by a strong growth in mortgages (28.8%), in line with the continued expansion in construction activities. Business loans grew also (7.8%), but consumer loans declined slightly (-0.9%). With nonperforming consumer loans increasing and the weakening economic climate, perhaps the commercial banks became more cautious in extending personal loans. A similar development was noticeable by island group.

The increase in net credit to the government in 2008 was attributable to both the central government (8.5%) and the island governments (17.3%). The expansion at both government levels can be explained by the increase in government securities in the portfolios of the commercial banks as well as the central bank. (See Table 16 in the appendix for a detailed overview.)

3.7.4 Developments in domestic interest rates

In line with the reduction in the Bank's official lending rate, the maximum CD rate, and the international interest rates, the interest rates of domestic commercial banks and government securities also dropped during 2008. Due to increased competition between the domestic commercial banks and the lower rates abroad, lending rates continued to decline with the average rate on time loans dropping by 1.3 percentage points to 8.2%. An exception was the average mortgage rate, which increased by 0.3 percentage point to 8.3%. To preserve their interest rate margin, commercial banks also reduced their borrowing rates. The average interest rate on passbook savings dropped by 0.3 percentage point to 2.2% at the end of 2008. In addition, the average rate on a 12-month time deposit was lowered by 0.6 percentage point to 3.8%.

The lower yields on government securities were reflected in both long-term and short-term debt paper. The average effective yield of 5-year government bonds fell by 1.3 percentage points to 5.9% at the end of 2008, while the interest rate on one–month treasury bills declined by 0.7 percentage point to 4.4%. (See Table 17 in the appendix for a detailed overview.)

3.8 Developments in the commercial banking sector

3.8.1 Balance sheet and income statement

Total assets of the domestic commercial banks expanded by 10.6% during 2008 compared to 16.4% in 2007. The slower growth in assets was due to a 1.0% decrease in investments in 2008 as opposed to an increase of 23.4% in 2007. The decrease in investments was attributable to a decline in nonresident investments related to the international financial crisis. Loans increased by 11.6%, while non-interest-bearing cash grew by 15.2% in 2008. The growth in the latter was due mostly to the increase in the current account balances at the Bank. Interest-bearing cash increased also (13.6%), a result mainly of an expansion in certificates of deposit issued by the central bank. (See Table 18 in the appendix for more details.)

On the liabilities side, total deposits increased by 8.8% with demand deposits contributing 51.6% to this growth, while savings deposits and time deposits contributed 36.7% and 11.7%, respectively. Capitalization of the domestic banks strengthened significantly by 27.8%.

In 2008, total operational income of the domestic commercial banking sector grew by 11.6%, outweighing the 7.0% gain in 2007. This acceleration was attributable to a 19.1% growth in "other income" resulting from an increase in fees and commissions. The domestic commercial banks managed to contain their interest expenses in 2008, contributing mainly to the further growth in net interest income (7.7%). The decrease in interest expenses was due to a drop in the deposit rates in line with developments in international interest rates. Operational expenses rose by 5.9% in 2008, a deceleration compared to 2007 (13.2%). All categories but the net addition to general provisions increased at a slower pace in 2008 than in 2007. By contrast, the latter noted a decline. The substantial growth in extraordinary income coupled with the increase in net operating income caused net income after taxes to grow by 48.2% to NAf.239.5 million in 2008. (See Table 19 in the appendix for more details.)

3.8.2 Macroprudential indicators

The general performance of the domestic commercial banking sector is analyzed by means of the macroprudential indicators (see Table 8). The capital adequacy, as measured by the ratio of total capital to total assets, improved to 10.3% in 2008 compared to 8.8% in 2007. The increase in capital was due mostly to more retained earnings.

Table 8 Macroprudential indicators (in %, end of period)

	2005	2006	2007	2008
Capital adequacy				
Total capital/total assets	7.9	8.7	8.8	10.3
Asset quality				
Non-performing loans/total loans	2.6	3.6	4.6	4.1
Provisions for loan losses/non-performing loans	106.0	87.3	66.8	66.7
Earnings				
Gross earning-assets yield	7.5	7.1	6.9	6.3
Net interest margin	5.1	4.5	4.4	4.1
Return-on-assets	2.3	2.2	1.8	2.2
Liquidity				
Total loans/total deposits	61.9	64.2	61.4	62.9
Liquidity surplus/deficit (millions NAf.)	1,182.3	1,339.5	1,440.4	1,562.9

The ratio of non-performing loans-to-total loans decreased during 2008, a turnaround compared to the increasing trend in previous years. The improvement was due to an increase in the loans component. Both the banking sector's nonperforming loans and general provisions remained at about the same level as in 2007.

Compared to 2007, both the gross earning-assets yield and the net interest margin ratios declined in 2008 as a consequence of an increase in loans as well as a decrease in interest rates. However, the banking sector's return-on-assets improved,due to the increases in net operating income and extraordinary income.

Although the ratio of total loans to total deposits rose during 2008, the banking sector's liquidity position increased. The increase in liquid assets, specifically the reserve requirement, certificates of deposit, and the current account balances at the Bank, contributed to the higher liquidity.

APPENDIX

Table 9 Developments in stay-over tourism per island (% change) [a]

	St. Maarten				Bonaire				Curaçao			
	2007		2008		2007		2008		2007		2008	
North America, of which:	3.4	(1.2)	2.0	(0.6)	19.4	(0.8)	1.4	(0.1)	-3.7	(-0.2)	-3.9	(-0.2)
-U.S.A.	3.2	(0.9)	1.6	(0.4)	19.8	(0.8)	0.6	(0.0)	-3.2	(-0.2)	-4.9	(-0.2)
Europe, of which:	-0.7	(-0.1)	6.6	(0.7)	11.4	(0.4)	-2.1	(-0.1)	16.5	(2.4)	10.5	(1.5)
-The Netherlands	6.6	(0.1)	8.2	(0.2)	23.1	(0.6)	0.2	(0.0)	17.8	(2.1)	11.3	(1.3)
South & Central America, of which:	10.3	(0.2)	-8.0	(-0.1)	25.6	(0.1)	-4.1	(0.0)	113.2	(10.9)	106.6	(18.8)
-Venezuela	79.5	(0.3)	-8.3	(0.0)	54.6	(0.2)	-13.9	(0.0)	184.3	(13.3)	137.2	(20.8)
-Other	-3.8	(0.0)	-21.6	(-0.1)	3.5	(0.0)	4.4	(0.0)	15.8	(0.3)	13.3	(0.3)
Caribbean, of which:	-9.8	(-0.4)	-11.5	(-0.4)	21.2	(0.1)	16.2	(0.1)	20.8	(1.0)	3.4	(0.1)
-Aruba	---	---	---	---	21.9	(0.1)	24.3	(0.1)	13.8	(0.2)	19.5	(0.4)
-Dominican Republic	-8.9	(0.0)	-9.1	(0.0)	---	---	---	---	-4.0	(0.0)	-19.5	(-0.1)
-Other	-9.9	(-0.4)	-11.8	(-0.4)	---	---	---	---	31.5	(0.8)	-4.0	(-0.1)
Total	0.3	(0.2)	1.3	(0.7)	16.9	(1.5)	0.0	(0.0)	27.9	(9.9)	34.1	(14.4)

Source: Curaçao Tourist Board, St. Maarten Tourist Bureau, and Tourism Corporation Bonaire.
[a] Weighted growth rates between brackets.

Table 10 Netherlands Antilles consumer prices (annual percentage change)

	2005	2006	2007	2008
Food	7.2	7.2	7.5	17.3
Beverages & tobacco	2.6	3.7	2.6	6.6
Clothing & footwear	-0.6	0.1	0.8	1.9
Housing	5.2	2.6	2.8	5.4
Housekeeping & furnishings	5.3	2.4	2.3	5.4
Health	1.3	0.7	0.6	2.0
Transport & communication	2.7	2.3	1.8	6.4
Recreation & education	0.3	0.4	0.8	1.8
Other	1.4	2.0	1.5	2.5
General inflation rate	3.7	2.8	2.8	6.3

Source: Central Bureau of Statistics

Table 11 Budgetary overview (in millions NAf.)

	2005	2006	2007	2008
General government				
Revenues	1616.2	1485.6	1547.3	1740.7
Tax revenues, of which:	1251.8	1284.1	1392.4	1538.7
Taxes on income and profits	598.2	582.4	606.5	675.3
Taxes on goods and services	479.1	502.0	532.4	591.7
Taxes on international trade and transactions	130.7	143.9	166.1	182.8
Nontax and other revenues	364.4	201.5	154.9	202.0
Expenditures	1770.7	1675.2	1717.7	1912.8
Current expenditures, of which:	1749.6	1635.6	1695.7	1815.9
Wages and salaries	678.9	561.0	586.2	673.3
Goods and services	433.2	416.3	424.4	456.7
Subsidies	42.2	44.4	44.0	46.9
Transfers	310.9	330.4	317.9	335.7
Interest payments	284.5	283.4	323.2	303.3
Capital expenditures	21.1	39.6	22.0	96.9
Budget balance	-154.5	-189.6	-170.4	-172.1
Central government				
Revenues	912.6	822.6	837.2	938.2
Tax revenues, of which:	607.4	649.3	710.7	784.1
Taxes on goods and services	440.6	461.4	492.3	542.1
Taxes on international trade and transactions	130.7	143.9	166.1	182.8
Nontax and other revenues	305.2	173.3	126.5	154.1
Expenditures	991.7	910.6	931.9	1027.0
Current expenditures, of which:	979.7	908.4	917.5	939.6
Wages and salaries	282.7	295.5	312.2	320.9
Goods and services	123.5	117.7	105.7	135.0
Transfers	427.9	348.2	324.3	325.3
Interest payments	145.6	147.0	175.3	158.4
Capital expenditures	12.0	2.2	14.4	87.4
Budget balance	-79.1	-88.0	-94.7	-88.8
Island government of Curaçao				
Revenues	982.3	842.5	866.3	968.8
Tax revenues, of which:	644.4	634.8	681.7	754.6
Taxes on income and profits	598.2	582.4	606.5	675.3
Taxes on goods and services	38.5	40.6	40.1	49.6
Nontax and other revenues	337.9	207.7	184.6	214.2
Expenditures	1057.6	944.1	941.9	1052.0
Current expenditures, of which:	1048.5	906.6	934.3	1042.5
Wages and salaries	396.2	265.5	274.0	352.4
Goods and services	309.7	298.6	318.7	321.7
Transfers	161.6	161.7	149.8	176.7
Interest payments	138.9	136.4	147.9	144.9
Capital expenditures	9.1	37.4	7.6	9.5
Budget balance	-75.4	-101.6	-75.7	-83.3

Table 12 Total outstanding consolidated public debt (in millions NAf.)

	2005	2006	2007	2008
Domestic consolidated debt, of which:	4,145.0	4,369.9	4,698.6	4,999.4
Central government, of which:	2,233.5	2,323.7	2,460.9	2,668.2
Long-term securities	1,771.6	1,897.0	1,872.9	2,059.1
Short-term securities	94.4	57.3	231.5	167.7
APNA	209.0	224.8	228.3	225.3
SVB	13.9	8.4	6.4	12.1
Curaçao, of which:	2,123.1	2,243.8	2,452.6	2,506.6
Long-term securities	737.4	802.1	923.2	980.5
Short-term securities	202.6	201.9	163.8	185.1
APNA	758.4	797.0	860.8	838.6
SVB	0.0	0.0	0.0	0.0
Central government	300.5	305.9	312.2	301.2
Other islands	312.6	334.8	343.4	377.5
Foreign debt	655.5	742.3	820.8	803.1
Total debt (consolidated)	4,800.5	5,112.2	5,519.4	5,802.5
(% of GDP)	82.2%	83.3%	84.5%	82.1%

1) Due to consolidation of the debts between the central government and the island governments, numbers may not add up.

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

	2005	2006	2007	2008
Trade balance	-2,402.6	-2,711.2	-3,351.6	-3,563.2
-Exports	1,088.3	1,243.5	1,210.8	1,948.3
-Imports	3,490.9	-3,954.7	-4,562.4	-5,511.5
Services balance	2,042.7	2,206.8	2,329.0	2,118.3
Receipts, of which:	3,356.5	3,564.2	3,756.3	3,678.1
-Travel	1,771.2	1,824.6	1,966.0	2,081.2
-Transportation	226.9	236.3	258.4	254.0
-Other services, of which:	1,358.4	1,503.4	1,532.0	1,342.9
- Int. fin. & bus. services sector	397.0	402.5	353.6	302.9
Expenses, of which:	1,313.8	1,357.6	1,427.4	1,559.8
-Travel	471.4	504.0	528.8	535.2
-Transportation	153.3	148.4	164.6	211.9
-Other services, of which:	689.1	705.0	733.9	812.8
- Int. fin. & bus. services sector	136.3	148.4	135.3	116.3
Income balance [a]	-27.0	-1.8	5.1	-74.1
Current transfers balance [b]	197.4	41.0	-45.6	-42.0
Current account balance	**-189.4**	**-465.2**	**-1,063.0**	**-1,560.9**
Capital & financial account balance [c]	**132.2**	**401.9**	**923.7**	**1,458.5**
Net errors & omissions	**57.2**	**63.5**	**139.4**	**102.4**

Due to rounding, figures may not add up.
[a] Labor and investment income.
[b] Public and private transfers.
[c] A minus sign implies on improvement in the foreign financial position.

Table 14 Breakdown of net changes in the financial account (in millions NAf.)

	2005	2006	2007	2008
Direct investment	-42.1	-140.5	425.1	449.0
- Abroad [a]	-117.0	-101.3	5.8	-27.0
- In the Netherlands Antilles [b]	74.9	-39.2	419.3	476.0
Portfolio investment [a]	-42.7	101.6	-149.3	-126.6
Other investment, of which:	243.6	547.1	418.3	1,079.1
- Assets [a]	173.0	417.4	378.5	995.2
- Liabilities [b]	70.6	129.7	39.8	83.9
Net lending/borrowing, of which:	-64.9	-231.5	287.9	183.8
- Assets [a]	-100.6	-71.6	351.5	270.3
- Liabilities [b]	35.7	-159.9	-63.6	-86.5
Reserves [c]	-132.7	-84.1	-277.5	-371.6
Total assets [a]	-220.0	262.0	309.0	740.3
Total liabilities [b]	181.2	-69.4	395.5	473.4
Balance	-38.8	192.6	704.5	1,213.7

Due to rounding, figures may not add up.
[a] A minus sign implies an increase in assets.
[b] A minus sign means a decrease in liabilities.
[c] A minus sign means an increase in reserves.

Table 15A Net accumulation of wealth (in millions NAf.)

2008	Domestic sectors			External sector
	Private	Government	Banking	
Nonfinancial transactions	-1,388.8	-172.1		1,560.9
Government net lending	0.0	0.0		
Government domestic non-bank financing	-92.9	92.9		
External financing of the government		5.4		-5.4
External financing of the private sector	1,579.8			-1,579.8
-Direct investment (equity)	449.0			-449.0
-Loans and credits	1,257.4			-1,257.4
-Portfolio, incl. debt	-126.6			126.6
Capital transfers & acquisition	244.8			-244.8
Change in net foreign assets of the central bank			-282.8	282.7
Change in net foreign assets of commercial banks			-88.9	88.9
Change in domestic bank credit	558.5	73.8	-632.3	
Change in broad money	-774.4		774.4	
Other items, net/errors & omissions	-127.2		229.6	-102.4

Table 15B Net accumulation of wealth (in millions NAf.)

2007	Domestic sectors			External sector
	Private	Government	Banking	
Nonfinancial transactions	-892.6	-170.4		1,063.0
Government net lending	0.0	0.0		
Government domestic non-bank financing	-106.0	106.0		
External financing of the government		5.8		-5.8
External financing of the private sector	976.3			-976.3
-Direct investment (equity)	425.1			-425.1
-Loans and credits	700.5			-700.5
-Portfolio, incl. debt	-149.3			149.3
Capital transfers & acquisition	219.0			-219.0
Change in net foreign assets of the central bank			-296.9	297.0
Change in net foreign assets of commercial banks			19.5	-19.5
Change in domestic bank credit	474.6	58.6	-533.2	
Change in broad money	-658.3		658.3	
Other items, net/errors & omissions	-12.9		152.3	-139.4

Table 16 Monetary survey (in millions NAf.)

	2004	2005	2006	2007	2008
Money supply (M2)	4,509.9	4,933.4	5,425.1	6,083.4	6,857.8
Money (M1)	1,790.5	1,947.3	2,152.2	2,254.3	2,896.4
Coins & notes with the public	231.3	239.9	263.7	304.4	315.1
Total demand deposits, of which :	1,365.3	1,544.1	1,712.4	1,994.2	2,581.3
- Netherlands Antillean guilders	1,050.7	1,188.0	1,246.7	1,441.5	1,923.3
- Foreign currency	314.6	356.1	465.7	552.7	658.0
Near money	2,913.3	3,149.4	3,449.0	3,784.8	3,961.4
Time deposits	1,790.5	1,947.3	2,152.2	2,254.3	2,241.4
Savings	1,122.8	1,202.1	1,296.8	1,530.5	1,720.0
Factors affecting the money supply					
Net domestic assets	3,048.3	3,305.5	3,652.7	3,961.8	4,257.2
General government	621.3	621.9	569.7	628.3	702.1
- Central government	363.9	397.9	358.5	394.9	428.4
- Island governments	257.4	224.0	211.2	233.4	273.7
Private sector	3,059.7	3,450.3	4,058.3	4,532.9	5,091.4
Net foreign assets	1,461.6	1,627.9	1,772.4	2,121.6	2,600.6
Central bank	1,015.3	1,117.9	1,251.9	1,620.6	2,010.7
Commercial banks	446.3	510.0	520.5	501.0	589.9
Memorandum items					
Government loans by commercial banks	620.1	603.4	456.5	641.2	722.2
- Central government	331.4	306.2	245.4	368.3	402.8
- Island governments	288.7	297.2	211.1	272.9	319.4
Private sector loans Leeward Islands	2,129.8	2,368.4	2,635.8	2,977.8	3,388.4
- Mortgages	778.5	813.4	818.4	966.4	1,269.2
- Consumer loans	626.6	713.6	808.9	902.3	899.7
- Business loans	724.7	841.4	1,008.5	1,109.2	1,219.6
Private sector loans Windward Islands	838.7	1,002.0	1,201.4	1,307.3	1,410.2
- Mortgages	306.0	362.1	426.1	419.3	515.6
- Consumer loans	205.8	249.8	310.0	386.5	377.4
- Business loans	326.9	390.2	465.3	501.6	517.2

Table 17 Developments in domestic interest rates (in %)

	2005	2006	2007	2008
Central bank				
- Pledging rate	4.5	5.5	5.0	1.0
- Maximum CD rate (1 month)	4.4	5.3	4.9	0.6
Commercial bank borrowing rates				
- Passbook savings	2.8	2.8	2.5	2.2
- Time deposit (12 months)	4.1	4.2	4.4	3.8
Commercial bank lending rates				
- Mortgages	8.6	8.5	8.0	8.3
- Time loans	10.8	10.6	9.5	8.2
Government securities				
- 5- year government bonds (effective yield)	6.3	7.5	7.2	5.9
- Treasury bills (1 month)	4.5	4.9	5.1	3.4

Table 18 Aggregate balance sheet for domestic commercial banks (in millions NAf.)

	2005	2006	2007	2008
Assets				
Non-interest-bearing cash	475.7	548.6	948.0	1,092.2
Interest-bearing cash	1,836.7	2,278.5	2,585.8	2,938.6
Investments	1,675.8	1,225.1	1,524.0	1,508.8
Loans	5,151.5	5,736.6	6,386.5	7,125.4
Investments in unconsolidated subsidiaries and affiliates	11.2	182.2	150.3	175.9
Fixed assets	218.3	234.2	260.7	277.7
Other assets	188.4	205.2	257.7	279.7
Total assets	9,557.7	10,410.5	12,113.0	13,398.5
Liabilities				
Demand deposits	2,799.1	3,181.8	4,093.2	4,571.2
Savings deposits	3,094.3	3,294.1	3,557.1	3,896.3
Time deposits	2,555.7	2,620.0	2,895.3	3,003.2
Total deposits	8,449.0	9,095.9	10,545.6	11,470.7
Borrowings	25.2	31.5	71.1	130.4
Other liabilities	316.3	360.2	451.8	462.7
Total liabilities	8,790.6	9,487.7	11,068.4	12,063.8
Minority interest	7.0	7.9	8.4	8.5
Subordinated debentures	5.5	3.6	1.7	0.0
General provisions	159.2	187.5	203.3	201.8
Capital & reserves	595.3	723.8	831.2	1,124.4
Total capital	767.1	922.8	1,044.6	1,334.7
Total liabilities and capital	9,557.7	10,410.5	12,113.0	13,398.5

Table 19 Aggregate income statement for domestic commercial banks (in millions NAf.)

	2005	2006	2007	2008
Interest income	608.1	674.4	753.7	766.6
Interest expenses	200.9	248.4	276.4	252.7
Net interest income	407.2	426.0	477.3	513.9
Other income	215.5	257.9	254.8	303.4
Total operational income	622.8	683.9	732.1	817.3
Salaries & other employee expenses	238.8	252.4	275.6	296.1
Occupancy expenses	68.1	71.4	84.0	95.4
Other operating expenses	106.6	95.8	116.0	126.2
Net addition to general provisions	39.8	41.1	45.7	34.5
Total operational expenses	453.3	460.7	521.3	552.2
Net operating income	169.5	223.2	210.8	265.1
Net extraordinary items	25.9	9.7	0.5	33.2
Applicable profit taxes	36.6	55.5	49.7	58.8
Net income after taxes	158.7	177.4	161.6	239.5

4 DOMESTIC FINANCIAL MARKET DEVELOPMENTS

4.1 Introduction

Towards the end of 2008, the liquidity in the local money market increased. Part of the increase was due to the global financial and economic crisis. Local investors were closing their positions and repatriated some funds. They perceived local banks less risky, when the amounts invested abroad exceeded the FDIC guarantees in the United States and the DNB guarantees in the Netherlands.

Additionally, amounts subscribed into local government paper almost always exceeded the offered or the maturing amounts. As a result, the amounts allotted were less than the amounts subscribed, maintaining the high liquidity in the market. The high interest in investing in local government securities stemmed from the declining international securities markets and the upcoming debt relief by the Dutch government.

US interest rates started to decline during 2008. When the economic indicators were warning of a downward risk to growth, the Fed funds rate was first reduced from 4.25% to 3.50% on January 22nd in an intermediate meeting. More reductions followed, resulting in a rate between 0 – 0.25% as of December 16. A similar development occurred in the official rates as well as the market rates on the local money and capital market. The Bank's official lending rate was reduced from 5.00% at the beginning of the year to 1.00% as of December 29, 2008.

4.2 Financial instruments and the money market

Certificates of deposit (CDs) issued by the Bank are among the few tradable nongovernmental instruments available in the local money market. CDs are a monetary tool used by the Bank to control the liquidity in the local money market through bi-monthly auctions held according to a set schedule. Commercial banks did not trade in CDs in the secondary market but preferred to use uncollateralized interbank instruments.

As indicated in Table 20, the average monthly balance of outstanding CDs increased throughout 2008 by NAf.64.5 million to NAf.101.6 million compared to 2007. In 2008, the CD rates offered by the Bank were reduced from 4.30% in January to 0.57% at the end of the year.

The average monthly balance of the non-interest-bearing reserve requirement increased by NAf.92.6 million (15.4%) to NAf.694.7 million in 2008 compared to 2007 due to the growth of the base amount. The base amount on which the reserve requirement is calculated equals the commercial banks' domestic debt excluding interbank and long-term deposits. The reserve requirement percentage remained unchanged at 13.250% during 2008. Compared to 2007, the average outstanding demand deposits of commercial banks increased by NAf.9.1 million (25.8%) to NAf.44.4 million in 2008.

Government issues of securities in the money market consisted of treasury bills with maturities of 1, 3, 6, and 12 months. During 2008, treasury bills continued to be auctioned twice a month. Financial market information is provided to market participants on a monthly basis to enhance market transparency. The financial market information provides data, including the indicative prices of securities, the local yield curve, the net debt position of the governments, and the maturity schedule. Market transparency is intended to promote activity in the secondary market.

Table 20 Average monthly balances of certificates of deposit, non-interest-bearing reserve requirement, and demand deposits of commercial banks with the central bank (in millions NAf.)

	2006	2007	2008	Change 2007-2008
Certificate of deposits	40.3	37.1	101.6	173.9%
Non-interest-bearing reserve requirement	534.2	602.1	694.7	15.4%
Demand deposits	28.6	35.3	44.4	25.8%
Total	603.1	674.5	840.7	24.6%

Activities in the secondary market continued at a slow pace during 2008 because market participants perceived the possibility of an interest rate decline based on indications that the Netherlands would start taking over interest and principal payments on the outstanding government loans. In addition, due to this prospect, the governments in general accepted financing only for servicing maturing loans. It is notable that in each quarter during 2008, total subscriptions exceeded the amount needed by the central and island government.

During 2008, the yield on a 1-month treasury bill declined to 3.45% compared to 5.10% at the end of 2007. The yield on a 3-month bill declined from 6.61% to 4.00%, while the 1-year treasury bill yielded 4.28% compared to 7.24% a year earlier.

Both the central as well as the island government attempted to refinance their maturing loans with short-term treasuries during 2008. However, in anticipation of the imminent debt relief, investors were not interested in short-term paper. To raise the necessary finance, the government sought to reopen longer-dated maturities (see Table 21).

Table 21 Treasury bill issuance, outstanding balances, and average maturity as of December 31 (in millions NAf.)

	2006	2007	2008	Change 2007-2008
Issuance	**367.5**	**709.0**	**671.8**	**-5.3%**
Central government	74.2	447.6	414.2	-7.5%
Island government of Curaçao	293.3	261.4	257.6	-1.4%
Outstanding amount	**259.2**	**395.0**	**352.8**	**-10.7%**
Central government	57.3	231.1	167.7	-27.5%
Island government of Curaçao	201.9	163.8	185.1	13.0%
Average maturity (months)	**5.6**	**5.0**	**4.0**	**-19.7%**
Central government	5.3	3.8	4.2	-11.9%
Island government of Curaçao	5.7	6.6	2.9	-56.7%

4.3 The market for government securities

The negative outlook for the financial markets in the United States resulted in a decrease in US interest rates during 2008. As a consequence, local investors turned to the local market for better investment opportunities

During 2008, the demand for funds by both levels of government increased as fiscal deficits remained high. The high deficits were mainly the result of the delay in the implementation of the debt relief program financed by the Netherlands.

Gross general government debt issuance increased to NAf.1,145.8 million in 2008, compared to NAf.1,112.6 million in 2007. Treasury bills accounted for NAf.671.8 million in 2008, of which NAf.414.2 million was issued by the central government and NAf.257.6 million by the island government of Curaçao. The breakdown of the remaining NAf.473.9 million in bonds issued was NAf.343.4 million by the central government and NAf.130.5 million by the island government. However, the NAf.953.5 million in gross general government redemptions in 2008 also was higher than in 2007 (NAf.888.2 million).

On a net basis, the central government issued NAf.122.8 million in debt securities and the island government of Curaçao NAf.69.4 million in 2008. These figures compare to NAf.149.8 million and NAf.74.6, respectively, in 2007. As a result, net borrowings (excluding debt conversion) were NAf.32.0 million lower in 2008 than in 2007 (see Graph 2).

Graph 2 General government annual net borrowing excluding debt conversion (in millions NAf.)

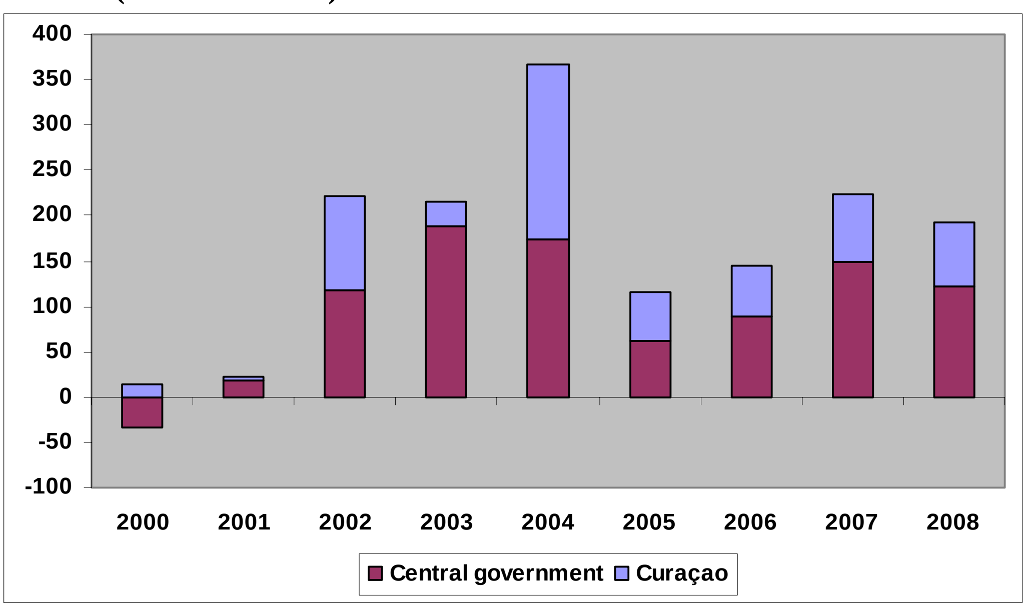


Table 22 indicates that in 2008, net borrowing by the central government decreased by 18.0% compared to 2007. Net borrowing in 2008 was concentrated in bonds issues, which increased 18.0%. By contrast, outstanding private placements, treasury bills, and debt conversions decreased compared to 2007.

Table 22 Outstanding negotiable loans of the central government (in millions NAf.)

	2006	2007	2008	Change 2007-2008
Total, of which:	1,954.2	2,104.0	2,226.9	5.8%
Private placement	67.7	67.7	46.4	-31.5%
Public issues	1,182.9	1,182.7	1,395.3	18.0%
Treasury bills	57.3	231.2	167.7	-27.4%
Debt conversions	646.4	622.5	617.5	-0.8%
Net borrowing	88.3	149.8	122.8	-18.0%

The island government of Curaçao noted a decrease of 7.0% in its net borrowing in 2008 compared to 2007 (see Table 23). The net borrowing in 2008 was attributable to public issues and treasury bills, which increased by 8.5% and 13.0%, respectively. On the other hand, the outstanding private placements and annuity loan decreased.

Table 23 Outstanding negotiable loans of the island government of Curaçao (in millions NAf.)

	2006	2007	2008	Change 2007-2008
Total, of which:	1,398.3	1,472.9	1,542.3	4.7%
Private placement	64.7	40.0	22.1	-44.6%
Public issues	737.4	883.3	958.3	8.5%
Treasury bills	201.9	163.8	185.1	13.0%
6.5% annuity	394.4	385.8	376.7	-2.4%
Net borrowing	55.9	74.6	69.4	-7.0%

The maturity schedule in Table 24 indicates that 16% of the outstanding loans will mature within 1 year. The peak in maturities of central government loans lies in the 1-5 and 5-10 year brackets. The maturities of the island government of Curaçao are concentrated in the brackets exceeding 5 years.

Table 24 Maturity schedule of negotiable government securities excluding treasury bills as per December 31, 2008 (% share)

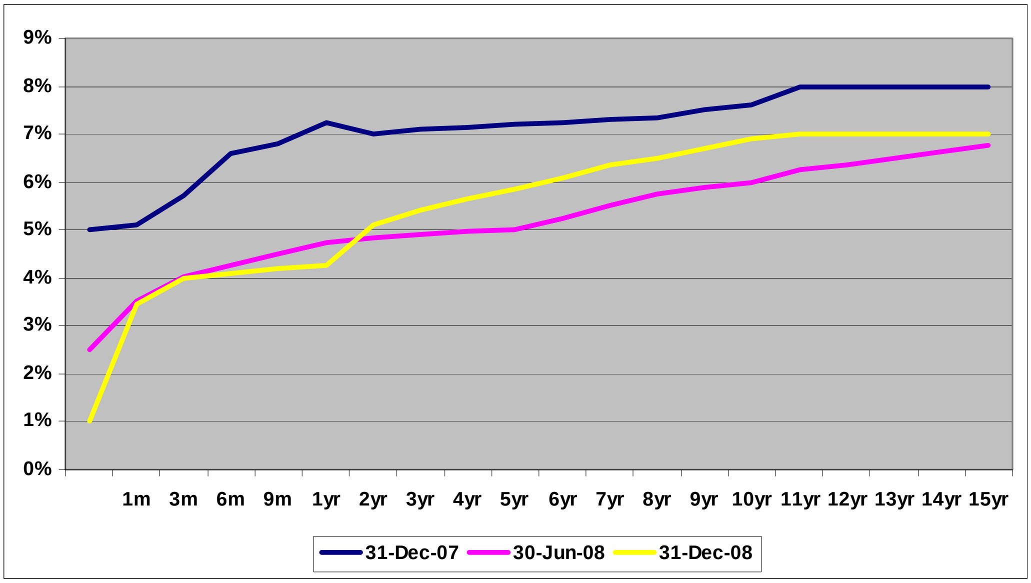
	0-1 year	1-5 years	5-10 years	Over 10 years
Central government	15%	43%	42%	0%
Island government of Curaçao	19%	21%	36%	36%
Total	16%	34%	39%	10%

4.4 Domestic yield curve developments

The local yield curve shifted downwards substantially during 2008, particularly in the shorter term maturity spectrum (see Graph 3). Factors contributing to this shift included the decline of interest rates in the United States and the accumulation of liquidity in the local market. In addition, the anticipated debt relief by the Dutch government made local government paper less risky, pushing yields down further.

The second half of the year saw a slight upward push in the longer end of the curve as a result of inflation perception in the capital market.

Graph 3 Local yield curve changes during 2008



5 INSTITUTIONAL INVESTORS

5.1 Introduction

The credit crunch that began with the sub-prime mortgage crisis in mid-2007 precipitated a world wide economic crisis that has challenged every industry in unforeseen ways. As a result of the credit crisis, the world has recognized that financial markets are operating on a global scale. Regulators around the world are coordinating efforts to extend their supervisory responsibilities to areas previously unregulated or underregulated. The insurance industry's financial performance has been bruised by the credit crisis, but remained the most resilient of the financial services segments.

While the turmoil in the financial markets affects individual insurers differently, the insurance industry as a whole remains fundamentally strong. Moreover, the basic function of insurance – the orderly transfer of risk from client to insurer – continues without interruption. Insurers today continue to sell and renew policies, pay claims, and develop new products to protect people's property, business, and retirements. The bottom line is that unlike banking, insurance markets are functioning normally.

It is important to recognize that the insurance industry is not suffering from a credit or liquidity crisis. Unlike many of the banks and other financial companies that have struggled, insurance companies, in general, do not borrow to make investments or to pay claims. So, even when some investments perform poorly, the effect is not as magnified as highly leveraged investments.

One of the most dramatic moments in the financial crisis in 2008, and certainly the event with the greatest impact on the insurance industry on a global scale, was the near bankruptcy of one of the largest insurers in the United States, AIG. This company suffered a severe liquidity crisis at the holding level (not its insurance subsidiaries) and was able to avoid bankruptcy only when the Federal Reserve agreed to lend the company several billions of US dollars, allowing it time to conduct an orderly sale of assets. The company's problems arose primarily at a non-insurance financial products subsidiary based in the United Kingdom and were in large part driven by losses on a type of financial instrument called a credit default swap. A credit default swap provides protection against a default on assets tied to corporate debt and mortgage securities. According to statements made by the company itself and state regulators in the United States, the 71 US-domiciled insurance subsidiaries were at all times solvent and held capital that met or exceeded requirements in every jurisdiction in which they operated.

The U.S. government's bailout of this large insurer has raised the question of whether insurers too constitute systemic risk. Essential differences exist between the business models of insurance companies and banks. These differences should be considered by regulatory and supervisory authorities. Insurers hardly constitute systemic risk. While banks are always exposed to the risk that customer withdrawals can exceed available liquidity, the risk of a liquidity shortfall is minimal for insurance companies because of the difference in financing. Insurance companies are essentially financed by premiums paid in advance, and payments are subject to the occurrence of insured events. Such payments are generally unaffected by other insured events. As long as the insurance company has built up reserves and investments are matched to the statistically anticipated claims payments, no liquidity risk exists. Furthermore, insurance companies do not use leverage to enhance expected investment returns, making them less vulnerable when financial markets collapse.

In other parts of the world, governments also have tried to contain the consequences of the financial crisis by injecting liquidity. In an unprecedented move in September 2008, the governments of Belgium, the Netherlands, and Luxembourg nationalized the bank and insurance conglomerate, Fortis, which is one of Europe's largest financial institutions, with an injection of several billion Euros. This conglomerate suffered from its exposure to certain structured credit assets and a loss of confidence among investors.

In the regulatory area, Europe's regulators want to bring the Solvency II framework into effect at the end of 2012, although some officials in the European Union believe that implementation is more likely in 2013 in view of some delays incurred. The Solvency II framework is seen as a means to improve the safety and soundness of the European Union's 5,000 insurers and reinsurers and to make the insurance industry more competitive. The regime is modeled on the three pillar structure consisting of capital requirements (pillar I), supervisory review (pillar 2), and market discipline (pillar 3). This structure also is found in the international Basel II bank capital adequacy rules, but adjusted for the more complex world of insurance. In terms of the minimum capital an insurer would need to absorb losses, the aim is to get insurance companies to align their capital more accurately and, therefore, more efficiently to the risks they face, thereby reflecting the diversification of risks around the group and its activities. Many regulators, both inside and outside the European Union, see Solvency II as a potential template for a global framework of rules for insurer safety.

Similar to the insurance industry, the financial crisis also affected the pension industry. Not so long ago, the emphasis within the pension industry was on what to do with the surplus and how defined benefit arrangements could be made even more attractive. Now, the emphasis within many pension funds is on how to restore the coverage ratio to the level acceptable to the supervisory authority and whether defined benefit arrangements are financially still maintainable. Some measures considered by the pension funds to restore the coverage ratio are the reduction of pension rights, the introduction of conditional indexation, and an increase in the pension age.

As of December 31, 2008, the institutional investors under the supervision of the Bank had suffered NAf. 1 billion in unrealized losses. The major losses were reported by the pension funds and captives/reinsurers. Total investments amounted to NAf. 10 billion, NAf. 6.5 billion of which was invested outside the Netherlands Antilles. During 2008, the Bank stepped up its monitoring of the developments at the institutional investors and decided to put several institutions under closer supervision.

The financial crisis has sparked the discussion as to whether insurers and pension funds should start to apply Enterprise Risk Management (ERM). ERM is the methods and processes used by organizations to manage risks and seize opportunities related to the achievement of their objectives. ERM provides a framework for risk management, which typically involves identifying particular events or circumstances relevant to the organization's objectives (risk and opportunities), assessing them in terms of likelihood and magnitude of impact, determining a response strategy, and monitoring progress. By identifying and proactively addressing risks and opportunities, insurance companies and pension funds protect and create value for their stakeholders, including owners, employees, customers, regulators, and society as a whole.

So far, the Bank has taken the approach of recommending that insurance companies and pension funds under its supervision consider ERM. However, given the experiences with the financial crisis, the Bank is considering making the introduction of an ERM program mandatory for all institutions.

5.2 The institutional investors' sector

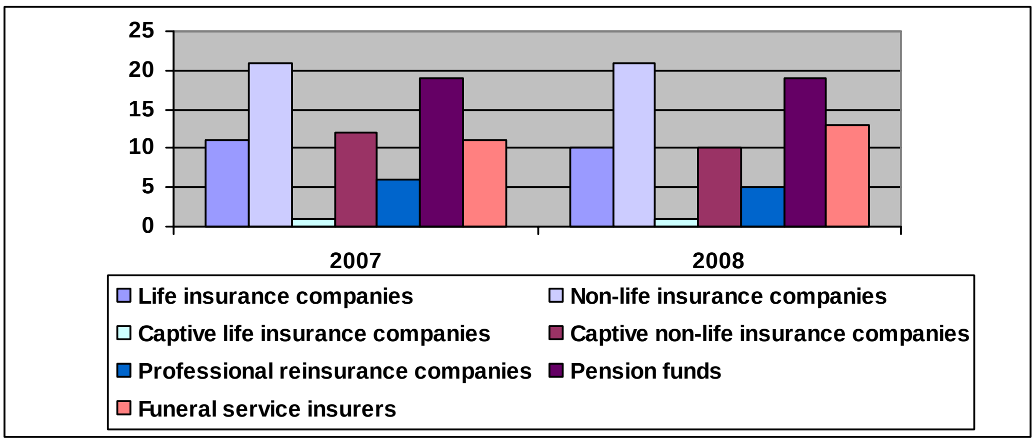
The number of institutional investors operating in the Netherlands Antilles in 2008 was 66 (2007: 67): 10 life insurance companies (2007: 11), 21 non-life insurance companies (2007: 21), 13 funeral service insurers (2007: 13), and 22 pension funds (2007: 22).

The number of insurance companies servicing the international market was 16 at the end of 2008 (2007 19): one was involved in the life insurance business, 10 in the non-life business, and 5 were professional reinsurers.

Of the 104 insurance intermediaries that applied for registration with the Bank, 72 have been registered. Of the remaining 32, 13 are still being processed, and 19 applications were rejected.

Graph 4 does not include the number of insurance companies and pension funds in the process of liquidation. However, these institutions remain subject to supervision by the Bank.

Graph 4 Composition of the institutional investors' sector (number of companies)



5.3 Life insurance industry

5.3.1 Balance sheet

According to Table 25, total assets of the local life insurance sector increased by NAf.216.8 million (11.0%) in 2007, reaching NAf.2.2 billion. Of the total assets in 2007, 80.9% was related to investments and 8.6% to current assets. The increase in total liabilities in 2007 was mainly the result of an increase of NAf.168.3 million (10.9%) in technical provisions.

Table 25 Consolidated balance sheet of the life insurance sector (in millions NAf.)

	2005		2006		2007	
	Local	**Int'l**	**Local**	**Int'l**	**Local**	**Int'l**
ASSETS						
Intangibles	-	-	-	-	-	-
Total investments	1,462.3	121.3	1,587.5	148.1	1,770.8	184.4
Current assets	186.9	49.4	189.3	64.1	187.8	59.5
Other assets	26.9	-	36.5	-	43.1	-
From separate accounts statement	113.6	-	157.7	-	186.1	-
Total admissible assets	1,789.7	170.7	1,971.0	212.2	2,187.8	243.9
EQUITY, PROVISIONS, AND LIABILITIES						
Capital	62.8	8.1	77.9	8.1	78.9	8.1
Surplus	105.5	54.0	117.1	78.6	132.9	97.6
Subordinated instruments	0.5	-	0.6	-	0.3	-
Technical provisions	1,425.8	90.9	1,550.4	104.3	1,718.7	111.9
Current liabilities	57.1	16.1	46.9	21.5	52.0	23.2
Other liabilities	5.4	1.6	6.1	-0.3	5.7	3.1
Contingent liabilities	19.0	-	14.4	-	13.2	-
From separate accounts statement	113.6	-	157.6	-	186.1	-
Total equity, provisions, and liabilities	1,789.7	170.7	1,971.0	212.2	2,187.8	243.9

The equity position of the local life insurance companies, consisting of capital, surplus, and subordinated instruments, increased by NAf.16.5 million (8.4%) in 2007. This increase was due to the retained profit of NAf.20.0 million in 2007 (see Table 26).

In 2007, the solvency requirement of the local life insurance sector on a consolidated basis was NAf.60.8 million, while the equity available to cover the solvency requirement amounted to NAf.212.1 million. Based on these figures, the sector had a solvency surplus of NAf.151.3 million, an improvement over 2006 when the sector reported a solvency surplus of NAf.138.5 million.

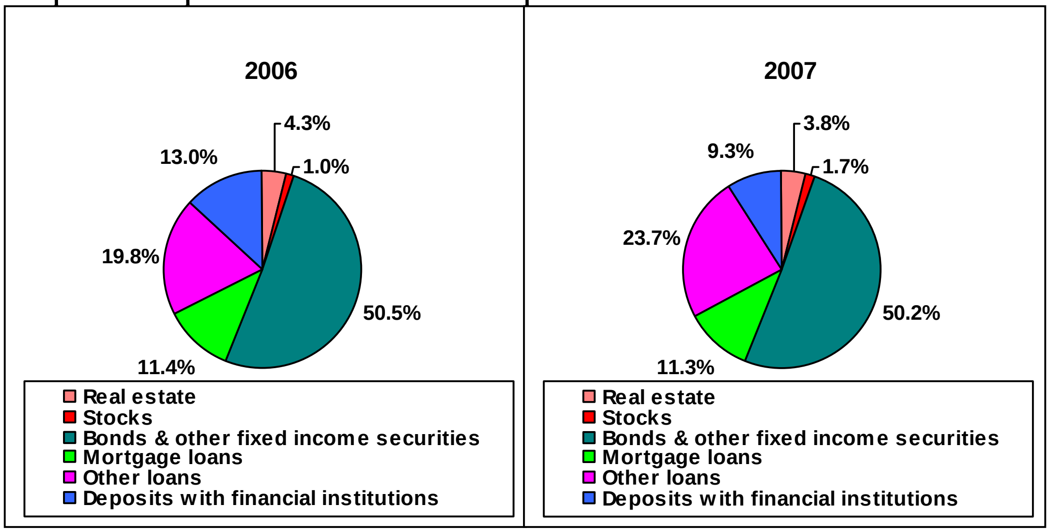
The total assets of the international life insurance companies (captive insurance companies and professional reinsurers) increased by NAf.31.7 million (14.9%) in 2007 compared to 2006. The equity position increased by NAf.19.0 million (21.9%) to NAf.105.7 million, due mainly to the retained profit of NAf.16.8 million in 2007 (see Table 26).

The solvency requirement of the international life insurance sector on a consolidated basis amounted to NAf.6.9 million in 2007. The equity available to cover the solvency requirement was NAf.105.7 million, resulting in a solvency surplus of NAf.98.8 million.

5.3.2 Investments

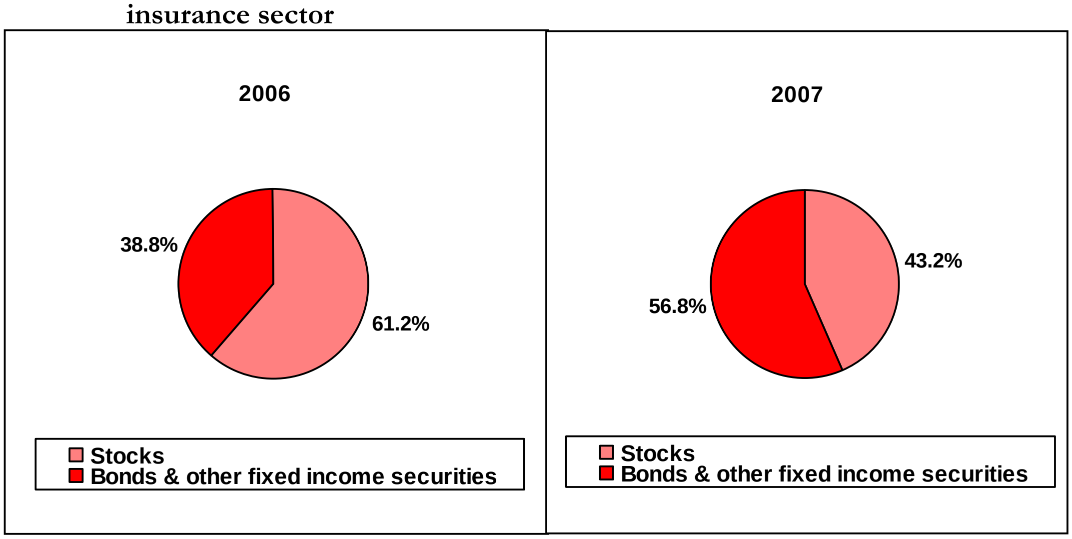
Total investments of the local life insurance sector increased by NAf.183.3 million (11.5%) in 2007, due mainly to an increase of investments in bonds & other fixed income securities and other loans. The composition of the consolidated 2006 and 2007 investment portfolios of the local life insurance companies is presented in graph 5. As this graph indicates, no major changes took place in the composition of the investment portfolio between 2006 and 2007. Although the 2008 financial figures of this industry are not yet available, a slight change is expected in the composition of the investment portfolio of this industry as a consequence of the financial crisis.

Graph 5 Composition of the investment portfolio of the local life insurance sector



The composition of the consolidated 2006 and 2007 investment portfolios of the international life insurance companies are presented in graph 6. This investment portfolio is not as diversified as that of the local life insurance companies, as it consists only of stocks and bonds. The total investment portfolio increased from 2006 to 2007 by NAf.36.3 million (24.5%). As this graph indicates, a major change took place in the composition of the investment portfolio. The share of investments in stocks decreased by 18.0 percentage points to the benefit of investments in bonds & other fixed income securities, the share of which increased by the same percentage points.

Graph 6 Composition of the investment portfolio of the international life insurance sector



5.3.3 Profit and loss statement

The operating results of the life insurance industry are presented in Table 26. The net premium income of the local life insurance sector increased in 2007 by NAf.72.7 million (37.0%) indicating an increased public awareness of the need for life insurance and retirement benefits. The net operational result before corporate taxes and before net results from separate accounts increased by NAf.25.4 million (325.6%) in 2007 compared to 2006. The sector recorded a record net profit of NAf.20.0 million in 2007, an increase of NAf.10.2 million (104.1%) over 2006.

Table 26 Consolidated profit and loss statement of the life insurance sector (in millions NAf.)

	2005		2006		2007	
	Local	**Int'l**	**Local**	**Int'l**	**Local**	**Int'l**
INCOME						
Total net premium income	194.2	42.0	196.7	52.2	269.4	57.2
Net investment income and realized capital gains and losses	95.5	5.3	108.0	8.9	117.1	11.0
Net other operational income	2.1	2.1	2.3	2.2	6.3	2.7
Total operational income	291.8	49.4	307.0	63.3	392.8	70.9
EXPENSES						
Net benefits incurred	97.9	21.8	105.0	26.4	117.8	35.0
Changes in net technical provisions	109.3	6.8	112.7	7.9	156.7	8.3
Net operational expenditures	59.7	3.5	63.5	5.2	58.3	6.3
Net other operational expenditures	2.5	0.7	0.9	1.4	0.5	1.5
Other changes affecting net results	-	-	1.0	-	0.1	-
Profit sharing to policyholders	13.3	4.6	14.5	9.9	25.9	7.7
Total operational expenditures	282.7	37.4	297.6	50.8	359.3	58.8
Extraordinary results	-1.6	0.6	-1.6	-0.3	-0.3	-1.0
Net operational result before corporate taxes and before net results from separate accounts	7.5	12.6	7.8	12.2	33.2	11.1
Corporate taxes	-5.4	0.2	-0.9	-	12.0	0.4
Net operational result after corporate taxes and before net results from separate accounts	12.9	12.4	8.7	12.2	21.2	10.7
Net result from separate accounts	1.6	-	2.7	-	-4.4	-
Net operational result	14.5	12.4	11.4	12.2	16.8	10.7
Net unrealized gains or losses	-6.1	3.5	-1.6	13.2	3.2	6.1
Net profit or loss	8.4	15.9	9.8	25.4	20.0	16.8

The premium income of the international life insurance industry increased by NAf.5.0 million over 2006 to NAf.57.2 million in 2007. The increase in the operational expenditures was not offset by the increase in the premium income and the reported decrease of the net unrealized gains or losses. As a result, this sector ended up with a lower net profit of NAf.16.8 million in 2007 compared to the net profit of NAf.25.4 million in 2006.

Graph 7 presents an overview of the consolidated net profit and loss of the local life insurance companies during the period 1998 – 2007 and confirms that 2007 was a record setting year for the sector.

Graph 7 Net results after corporate taxes of the local life insurance sector (in millions NAf.)

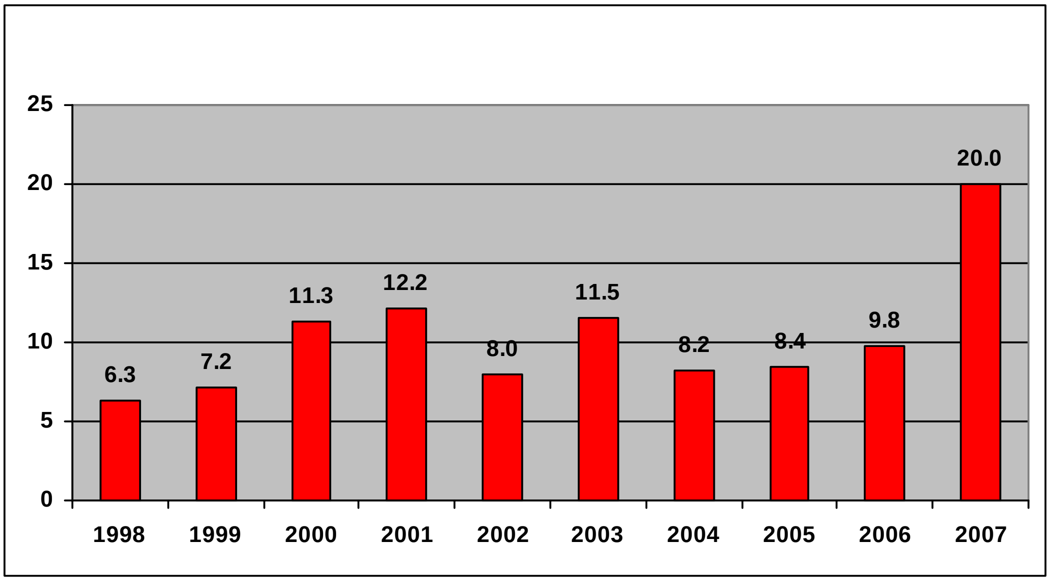


Table 27 shows the distribution of the net operational result by line of business of the local life insurance companies in 2007. This table indicates that both the individual life insurance business and the group life insurance business contributed almost equally to the net operational result of NAf.16.8 million.

Table 27 Consolidated operational result by line of business of the local life insurance companies in 2007 (in millions NAf.)

	Life insurance		Accident	
	Individual	Group	& sickness	Total
INCOME				
Total net premium income	132.8	131.4	5.2	269.4
Net investment income and realized capital gains or losses	49.1	67.8	0.2	117.1
Net other operational income	2.8	3.5	-	6.3
Total operational income	184.7	202.7	5.4	392.8
EXPENSES				
Net benefits incurred	65.3	49.4	3.1	117.8
Changes in technical provisions	49.3	107.2	0.2	156.7
Net operational expenditures	42.7	14.0	1.6	58.3
Net other operational expenditures	0.2	0.3	-	0.5
Other changes affecting net results	0.1	-	-	0.1
Profit sharing to policyholders	7.6	18.3	-	25.9
Total operational expenditures	165.2	189.2	4.9	359.3
Extraordinary results	-0.3	-	-	-0.3
Net operational results before corporate taxes and net results from separate accounts	19.2	13.5	0.5	33.2
Corporate taxes incurred	8.5	3.4	0.1	12.0
Net operational results after corporate taxes and before net results from separate accounts	10.7	10.1	0.4	21.2
Net result from separate accounts	-2.2	-2.2	-	-4.4
Net operational results	8.5	7.9	0.4	16.8

5.4 The non-life insurance industry

5.4.1 Balance sheet

Table 28 reveals that the 2007 aggregated balance sheet total of the non-life insurance companies operating in the domestic market decreased by NAf.10.1 million (2.0%). The decrease of NAf.15.3 million (4.5%) in investments accounted for this outcome.

Due to the short-term nature of the risks insured by the non-life insurance business compared to the life insurance business, a smaller percentage of total assets was invested, 66.8% in 2007 compared to 80.9% in the life insurance business. On the other hand, current assets comprised 31.4% of total assets in 2007 compared to only 2.0% in the life insurance business.

Current liabilities decreased by NAf.28.5 million, reaching NAf.94.9 million in 2007. The equity position increased by NAf.16.0 million (9.5%), due mainly to the sector's reported retained profit in 2007.

The solvency requirement of the local non-life insurance sector on a consolidated basis in 2007 was NAf.51.5 million, while the equity available to cover the solvency requirement was NAf.181.8 million. Based on these figures, the sector had a solvency surplus of NAf.130.3 million in 2007, an improvement compared to 2006 when the sector reported a solvency surplus of NAf.119.6 million

The non-life insurance companies servicing the international market (captive insurance companies and professional reinsurers) reported total assets of NAf.3.7 billion in 2007, an increase of NAf.111.6 million (3.1%) compared to 2006. Equity increased by NAf.559.3 million, due mainly to the retained profit of NAf.340.1 million in 2007 (see Table 29).

The solvency requirement of the international non-life insurance sector on a consolidated basis was NAf.88.6 million, while the equity available to cover the solvency requirement was NAf.2.2 billion in 2007. These figures reveal that the sector had a solvency surplus of NAf.2.1 billion in 2007, an improvement over 2006 when the sector reported a solvency surplus of NAf.1.5 billion.

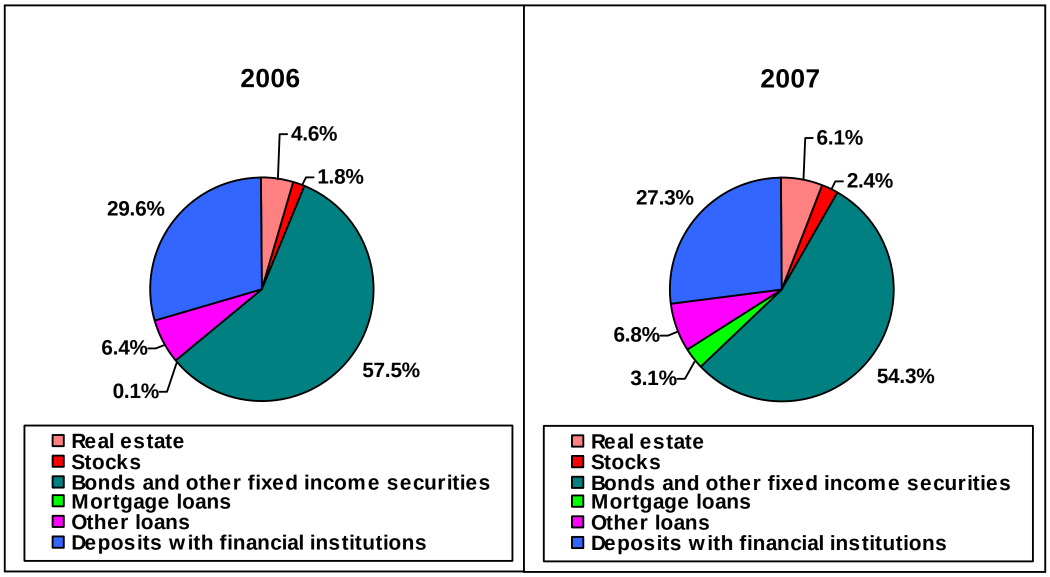
Table 28 Consolidated balance sheet of the non-life insurance industry (in millions NAf.)

	2005		2006		2007	
	Local	Int'l	Local	Int'l	Local	Int'l
ASSETS						
Intangibles	3.5	-	2.8	-	1.7	-
Total investments	282.9	3,056.6	340.6	3,349.1	325.3	3,471.3
Current assets	150.1	148.0	147.0	277.6	152.9	267.0
Other assets	11.1	0.1	6.6	0.1	7.0	0.1
Total admissible assets	447.6	3,204.7	497.0	3,626.8	486.9	3,738.4
EQUITY, PROVISIONS, AND LIABILITIES						
Capital	75.1	313.2	92.5	416.9	87.5	394.0
Surplus	50.9	975.4	73.3	1,205.2	94.7	1,787.4
Subordinated instruments	17.7	-	1.7	-	1.3	-
Technical provisions	176.2	1,825.7	202.1	1,915.0	204.7	1,484.7
Other provisions & liabilities	12.4	40.8	4.2	36.6	3.7	1.3
Current liabilities	115.1	49.6	123.1	53.1	94.9	71.0
Contingent liabilities	0.2	-	0.1	-	0.1	-
Total equity, provisions, and liabilities	447.6	3,204.7	497.0	3,626.8	486.9	3,738.4

5.4.2 Investments

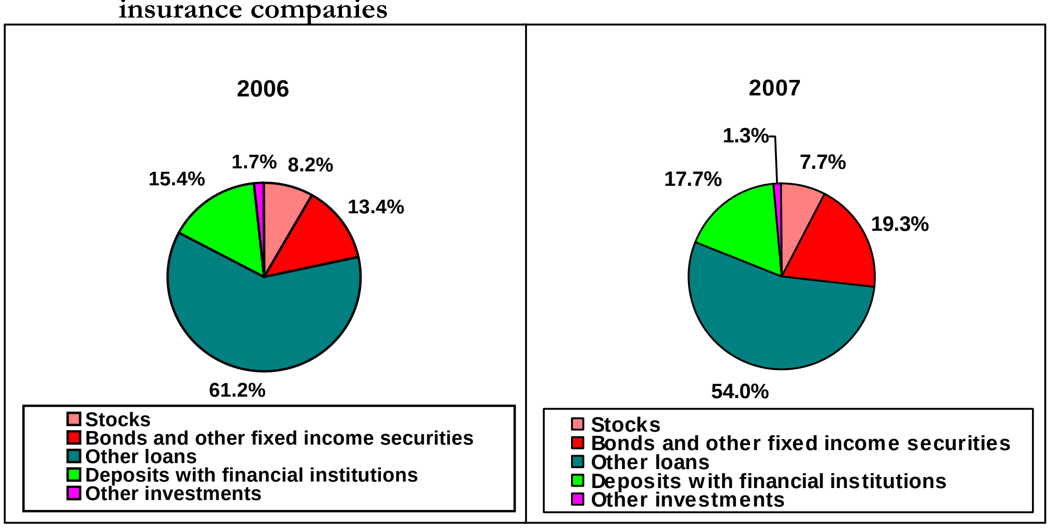
The composition of the investment portfolio of the local non-life insurance companies is presented in graph 8. As in previous years, only some minor changes in the composition of the investment portfolio took place in 2007. The expectation for 2008 is an increase in deposits held with financial institutions as a result of the financial crisis.

Graph 8 Composition of the investment portfolio of the local non-life insurance companies



The composition of the investment portfolio of the international non-life insurance companies is illustrated in graph 9. The graph indicates that the other loans decreased by 7.2 percentage points to the benefit of the investments in bonds, which increased by 5.9 percentage points. Similar to previous years, the other loans category represents the largest share of total investments. Most of these other loans were loans and other interest-bearing receivables due from affiliates.

Graph 9 Composition of the investment portfolio of the international non-life insurance companies



5.4.3 Profit and loss statement

Table 29 shows that net earned premium of the local non-life insurance industry increased by NAf.19.0 million (7.9%) in 2007. The net claims incurred during 2007 increased by NAf.4.7 million (4.0%), compared to an increase of NAf.7.7 million (7.0%) in 2006. The local non-life insurance sector experienced an underwriting result of NAf.12.4 million in 2007, an increase of NAf.4.5 million (57.0%) over 2006. Net investment income increased by NAf.4.2 million to NAf.23.6 million in 2007. The industry realized a net profit of NAf.25.7 million in 2007.

The international non-life insurance companies reported net earned premium income of NAf.626.2 million in 2007, a decrease of NAf.14.9 million compared to 2006. Net other underwriting income also decreased by NAf.22.0 million. On the other hand, total operational expenditures decreased by NAf.26.2 million in 2007. The sector's underwriting result decreased by NAf.10.8 million in 2007. Due to the increases in net investment income by NAf.22.1 million and in other results by NAf.19.4 million, the industry ended up with a net profit of NAf.340.1 million in 2007, an increase of NAf.25.4 million compared to 2006.

Table 29 Consolidated profit and loss statement of the non-life insurance industry (in millions NAf.)

	2005		2006		2007	
	Local	**Int'l**	**Local**	**Int'l**	**Local**	**Int'l**
INCOME						
Total net earned premium	219.3	699.1	239.3	641.1	258.3	626.2
Net other underwriting income	0.7	0.6	1.3	27.0	1.3	5.0
Total operational income	220.0	699.7	240.6	668.1	259.6	631.2
EXPENSES						
Net claims incurred	109.6	358.1	117.3	417.4	122.0	381.3
Claim adjustment expenses	4.7	1.2	5.8	0.4	6.7	1.2
Changes in various provisions	-6.9	105.4	1.4	73.7	1.2	-215.5
Underwriting expenses incurred	91.8	61.9	107.7	27.5	112.6	27.0
Net other operational expend.	2.0	3.4	0.5	54.4	4.7	353.1
Total operational expenditures	201.2	530.0	232.7	573.4	247.2	547.2
Underwriting result	18.8	169.7	7.9	94.7	12.4	83.9
Net investment income	15.8	137.3	19.4	178.5	23.6	200.6
Other results	-1.9	-11.7	-1.8	8.1	-2.6	27.5
Extraordinary results	-	5.4	3.1	2.6	0.1	64.0
Net result before corporate taxes	32.7	300.7	28.6	283.9	33.5	376.0
Corporate taxes incurred	8.5	20.5	11.7	8.4	9.1	16.5
Net unrealized gains or losses	-	17.4	-0.3	39.2	1.3	-19.4
Net profit or loss	24.2	297.6	16.6	314.7	25.7	340.1

Graph 10 presents an overview of the consolidated net results after taxes of the local non-life insurance companies from 1998 to 2007. As can be seen, the sector reported high net results in the last three years but did not surpass the record set in 2001.

Graph 10 Net results after corporate taxes of the local non-life insurance sector (in millions NAf.)

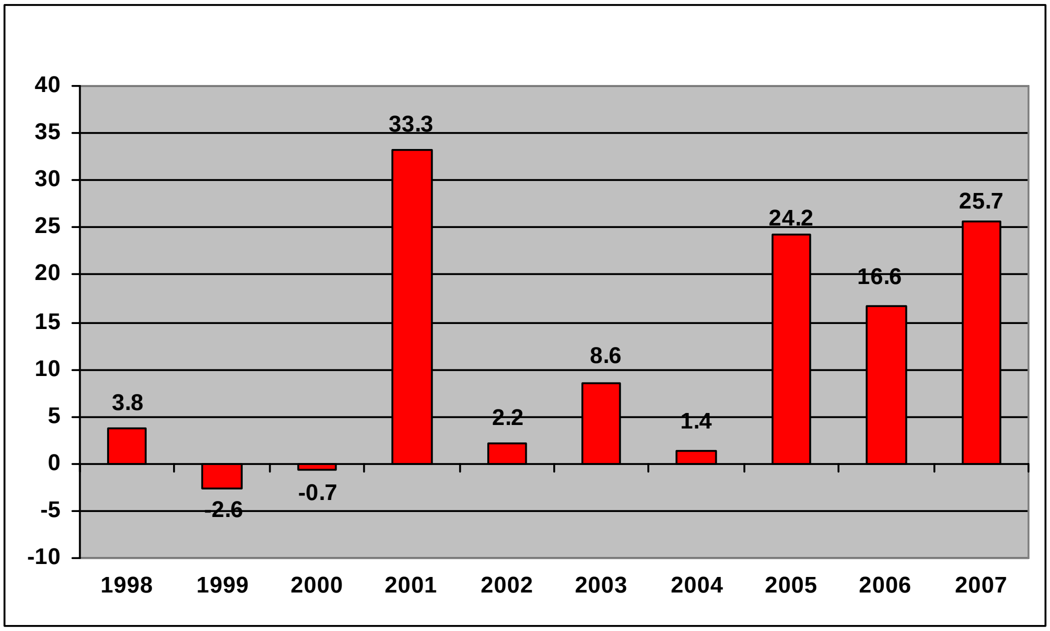


Table 30 shows the distribution of the net operational results after corporate taxes of the locally operating non-life insurance companies by the five indemnity groups for the year 2007. As can be noted, the property insurance business contributed the most to the net operational result of the industry (NAf.16.0 million).

Table 30 Consolidated distribution of net operational results after taxes of the non-life insurance industry by indemnity groups in 2007 (in millions NAf.)

	INDEMNITY GROUPS					
	Accident & sickness	Motor vehicle	Marine, transit & aviation	Property	Others	Total
INCOME						
Net earned premiums	71.3	113.3	4.8	61.5	7.4	258.3
Net other underwriting income	-	-	-	-	1.3	1.3
Total operational Income	71.3	113.3	4.8	61.5	8.7	259.6
EXPENSES						
Net claims incurred	48.8	58.9	1.7	11.2	1.4	122.0
Claim adjustment expenses	1.2	2.4	0.1	2.8	0.2	6.7
Changes in various provisions	1.5	-0.2	-	-0.1	-	1.2
Policyholders' dividends & other similar expense incurred	-	-	-	-	-	-
Underwriting expenses incurred	21.6	51.2	2.4	33.4	4.0	112.6
Net other expenses incurred	1.5	1.7	0.1	1.2	0.2	4.7
Total operational expenditures	74.6	114.0	4.3	48.5	5.8	247.2
Underwriting result	-3.3	-0.7	0.5	13.0	2.9	12.4
Net investment income	5.4	8.7	0.4	6.7	2.4	23.6
Other results	1.1	-1.3	-	-1.6	-0.8	-2.6
Extraordinary results		0.1				0.1
Net results before corporate taxes	3.2	6.8	0.9	18.1	4.5	33.5
Corporate taxes incurred	2.2	3.7	0.3	2.1	0.8	9.1
Net operational results after taxes	1.0	3.1	0.6	16.0	3.7	24.4

5.5 Overview of developments in the pension industry

5.5.1 Balance sheet

The 2007 consolidated financial figures of the pension industry in the Netherlands Antilles show a coverage ratio of 102% (investments-to-provisions for pension obligations), which is above the required minimum of 100%. This ratio may differ from fund to fund and depends also on the specific circumstances of each fund, including the average age of the participants in the fund and the financial strength of the sponsor. The recent financial crisis affected the value of the investment portfolio of various pension funds, which led to a deterioration of the coverage ratio of some funds by the end of 2008. The funds for which the ratio has decreased to a percentage below the 100% threshold are being monitored more closely by the Bank.

The total assets of the pension funds increased by 2.4% in 2007 compared to 2006. The current assets and current liabilities represented 8.8% and 1.9%, respectively, of total assets (see Table 31).

Table 31 Consolidated balance sheet of the pension industry (in millions NAf.)

	2005	2006*	2007
ASSETS			
Total investments	5,139.5	5,384.2	5,523.8
Current assets	499.1	522.9	535.2
Other assets	12.4	30.1	22.7
Total	5,651.0	5,937.2	6,081.7
EQUITY, PROVISIONS, AND LIABILITIES			
Equity	486.8	575.9	573.5
Provisions for pension obligations	5,032.3	5,261.2	5,391.2
Current liabilities	131.9	100.1	117.0
Total	5,651.0	5,937.2	6,081.7

*) Some 2006 figures have been regrouped for comparison purposes.

5.5.2 Profit and loss statement

The pension industry reported a net investment income and capital gains & losses of NAf. 475.2 million in 2007, which is equal to 8.8% of the provisions for pension obligations. The objective of most pension funds is to obtain an investment return of at least 4% of the provisions for pension obligations to be able to meet their future financial obligations. Given this result, the pension funds maintained an adequate net investment performance in 2007. However, even though the 2008 figures are not yet available, it can be stated that the financial crisis affected the investment results of the pension industry in 2008.

The 2007 operational result represented 3.2% of the provision for pension obligations and 2.8% of total assets, which is under the rate of 4% generally used by most local pension funds to discount their (future) obligations. The operational expenses incurred by the sector represented 0.4% of the provisions for pension obligations and 12.7% of the pension contributions, respectively (see Table 32).

Table 32 Consolidated profit and loss statement of the pension industry (in millions NAf.)

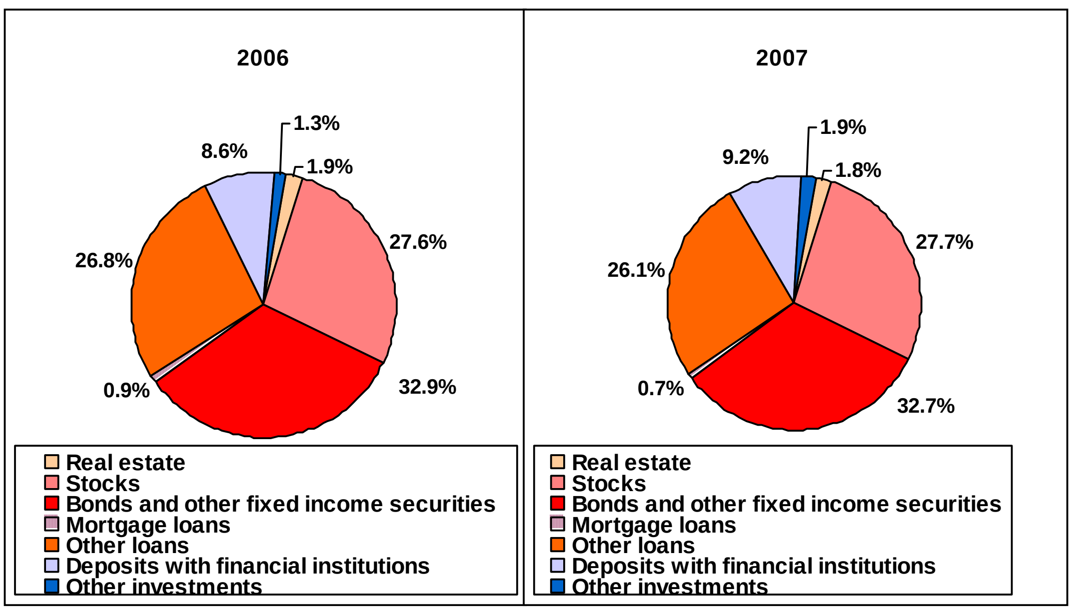
	2005	2006*	2007
INCOME			
Contributions	163.6	182.7	190.4
Net investment income and capital gains and losses	323.5	424.3	475.2
Other income	153.6	44.1	31.9
Total income	640.7	651.1	697.5
EXPENSES			
Pension benefits incurred	188.4	193.9	194.9
Change in net technical provisions	168.9	294.1	294.9
Operational expenses incurred	25.3	22.3	24.2
Other expenses incurred	7.0	13.1	11.8
Total expenses	389.6	517.4	525.8
Extraordinary results	-8.8	-	-
Net profit or loss	242.3	127.7	171.7

*) Some 2006 figures have been regrouped for comparison purposes.

5.5.3 Investments

The composition of the investment portfolio of the pension funds is presented in graph 11. The composition in 2007 deviated only marginally from 2006. Bonds and other fixed income securities, stocks, and other loans comprised the largest shares.

Graph 11 Composition of the investment portfolio of the pension industry



6 POLICIES AND ACTIVITIES OF THE BANK

6.1 Supervision of investment institutions and administrators

Investment institutions and administrators have been subject to the Bank's supervision since the beginning of 2003. The number of supervised investment institutions and administrators increased slightly from 25 entities in 2007 to 27 in 2008. In October 2008, separate on-site and off-site departments for the supervision of investment institutions and administrators and trust service providers were created to even better perform the supervisory tasks. With respect to risk-based supervision, the Bank conducted on-site examinations at 4 investment institutions and administrators during 2008. All were full-scope examinations, which include the institutions' compliance with the anti-money laundering and combating of terrorist financing guidelines.

The Bank continued to play an active role in regional developments regarding the regulation of investment institutions and administrators with the re-election of one of its staff members to chair the Offshore Group of Collective Investment Scheme Supervisors (an organization of regulators of various regional offshore jurisdictions).

6.2 Supervision of trust service providers

The Bank has been entrusted with the supervision of the trust sector since the beginning of 2004. In 2008, the number of licensed trust service providers remained unchanged at 86, while the number of trust service providers with dispensation increased by 2 to 53, resulting in a total of 139 approved trust service providers at the end of 2008 (2007: 137). The Bank conducted 12 on-site risk-based examinations at trust service providers during 2008. Again, specific attention was given to the institutions' compliance with the anti-money laundering and combating of terrorist financing guidelines.

6.3 Supervision of banks and credit institutions

In 2008, the Bank conducted on-site examinations at 11 supervised credit institutions and 1 money remitter: 10 full-scope on-site examination and 2 special assignments.

In February 2008, the Bank circulated a general questionnaire among the banks to assess the degree to which they were affected by the financial crisis. In the second half of 2008, the Bank circulated a second questionnaire with specific questions as the crisis intensified.

The Central Bank of Aruba joined the Chart of Accounts revision project, recognizing the advantages of a uniform reporting system for the Netherlands Antilles and Aruba as most of the banks operating in the Netherlands Antilles also have operations in Aruba. Two working sessions were held between the Bank and the CBA in 2008. Furthermore, as part of the preparations for the implementation of the new reporting system, two staff members of the Dutch Central Bank provided a seminar on the international financial reporting standards (IFRS). The seminar was attended by the supervisory staff of both the Central Bank of the Netherlands Antilles and the Central Bank of Aruba.

The first draft of the revised Chart of Accounts has been submitted to the internal review group of the Dutch Central Bank for comments on especially the Basel-II and international financial reporting standards.

Against the background of the liquidity that will become available once the sovereign debt relief by the Dutch government is implemented, the Bank instituted a stress testing working group to assess the effects on the local financial institutions of reinvesting the available funds at a lower return.

A draft national ordinance on the supervision of money remitters prepared in conformity with the draft national ordinance on the harmonization of the supervisory laws was presented to the Minister of Finance in March 2008.

In October 2008, the working group involved with the implementation of a deposit insurance system for the Netherlands Antilles, which was re-activated in 2007, presented its draft report to the management of the Bank.

In 2008, the Bank revoked the license of the international bank Netherlands Caribbean Bank NV and issued a license to Banque de l'Economie du Commercie et de la Monétique to operate a bank in the form of a branch of a general foreign bank in the Netherlands Antilles out of Dutch St. Maarten. At the request of the First Caribbean International Bank (Curaçao) N.V., its on-shore status granted in 2007 was changed to an international bank status in 2008.

Furthermore, the Bank received 4 license applications in 2008: one to conduct international banking activities, two to conduct the business of a money exchange company, and one to conduct the business of a money remitter.

The Bank granted the company Bignet N.V. a dispensation pursuant to article 45 of the National Ordinance on the Supervision of Banking and Credit Institutions 1994 (NG 1994, no. 4) to extend consumer credit to the public. Moreover, two requests for a dispensation for the undertaking of consumer credit extension activities to the public were received in 2008.

6.4 Supervision of institutional investors and insurance intermediaries

Work on the revision of the National Ordinance on Company Pension Funds continued during 2008. Once finalized, this legislation will provide the Bank with more tools for better supervision of the pension industry.

The National Ordinance on Insurance Brokerage Business requires that insurance brokers registered with the Bank submit information on a periodic basis. The Bank finalized the reporting forms for insurance brokers in 2008. Currently, the brokers are required to submit to the Bank quarterly reports on the premiums outstanding with insurance companies. In addition to these quarterly reports, financial statements must be submitted on an annual basis.

6.5 Integrity aspects of financial sector supervision

The Integrity Financial Sector Register now contains more than 2,500 subjects. During 2008, 486 integrity tests were conducted with a positive result: 131 for the banking and credit institutions sector, 269 for the trust and investment sector, and 86 for the institutional investors sector. From the 486 integrity tests, 390 persons were registered and tested for the first time: 131 for the banking and credit institutions sector, 191 for the trust and investment sector, and 68 for the institutional investors sector. The remaining 96 were periodic tests conducted during 2008 (these fall within the regular integrity testing cycle every 3 years).

Fifteen cases of doubt regarding integrity were officially disclosed and dealt with by the Integrity Commission of the Bank. Of these 15 cases, 3 were reported internally and resulted in a negative test result or serious doubts. In accordance with the Policy Rule on Integrity Testing and in the opinion of the Bank, these persons formed an impediment to discharging the position of (co)policymaker, holding a qualifying interest, or obtaining a dispensation in pursuance of the Supervision Act. One case was settled after consultation with the Bank, and another case was settled with a written reprimand by the Bank for withholding antecedent information. The Bank further could not honor the request of 2 persons for holding (co)policy positions because they involved conflicting interests. In 3 other similar cases, the persons involved were requested to choose an acceptable combination of (co-)policy positions without conflicting interests. The remaining 5 cases were considered not relevant with regard to the persons' integrity.

As part of the integrity testing, the Bank systematically screens on antecedents through information requests, both on a national and international level, including to other regulatory authorities. The Bank received 29 such information requests in 2008. At the same time, the Bank receives information requests as part of the integrity testing by its colleague supervisory authorities worldwide. In 2008, the Bank responded to 11 such information requests.

During 2008, the Bank registered 63 reported incidents eroding integrity: 37 were reported internally, and 26 externally. The latter were mainly pursuant to the Policy Rule for Sound Business Operations in the Event of Incidents and Integrity-sensitive Positions.

The Bank also regularly issues warning notices on its website, containing the names of entities operating in or from the Netherlands Antilles that are suspected of violating provisions of the Supervision Acts or other financial regulations, thereby affecting the integrity of the financial sector. During 2008, the Bank issued 2 warning notices for insurance brokerages.

6.6 IT aspects of financial sector supervision

In the first quarter of 2008, the Bank concluded a quick scan at 6 commercial banks/branches and 2 insurance companies in St. Maarten. The scan was focused mainly in the areas of IT Governance and Operations. In the second quarter, a second visit to the banks in St. Maarten was scheduled. The objective of this visit was to determine the readiness of these banks for the implementation of the Netherlands Antilles Clearing System (NACS) on the island of St. Maarten. The conclusion of this examination was that the banks could easily implement the Real Time Gross Settlement (RTGS) part of the system but that the Automatic Clearing House (ACH) part would require more time for implementation.

In 2008, regular IT-examinations were conducted at 1 commercial bank, 3 credit unions, and 2 other financial institutions.

With regard to the Provisions and Guidelines for Safe and Sound Electronic Banking, issued in December 2007, most of the banks in Curaçao managed to adapt their Internet banking systems to comply at least partially with the guideline in 2008. However, by the end of 2008, 2 banks in Curaçao and almost all the banks in St. Maarten were still not compliant.

6.7 International financial sector policy developments

The Netherlands Antilles, as a member of the Financial Action Task Force (FATF), continued its efforts in implementing the 40 revised anti money laundering recommendations of 2003 and the 9 recommendations on terrorism financing. During 2008, both the National Committee on Money Laundering and Terrorist Financing (CIWG) and the Bank worked continuously to implement the new requirements, including the Interpretative Notes and Best Practice Guidance to the Recommendations. The Bank carries the presidency and the secretariat of the CIWG.

In 2008, the Parliament of the Netherlands Antilles approved legislation on terrorism, terrorism financing, and money laundering. This legislation will make the Netherlands Antilles more compliant with the obligations derived from the FATF recommendations.

Furthermore, the Bank updated the Provisions and Guidelines on the Detection and Deterrence of Money Laundering and Terrorist Financing for all financial service providers in the Netherlands Antilles. The updates were published on the Bank's website.

The Bank also placed FATF warnings on its website identifying countries that are not compliant with the international standards.

The Netherlands Antilles was chosen vice-chair of the Caribbean FATF in November 2008, implying that in November 2009, it will be handed the chair.

Finally, staff members of the Bank were actively involved in FATF and CFATF activities in 2008.

6.8 Miscellaneous

During August 27-30, 2008, the Bank hosted the XI Conference of Human Resource Managers of Central Banks in the Caribbean Region. Twenty-one participants from 12 countries participated in the conference, covering the themes "Measuring the effectiveness of human resource management", Health management", and "Corporate ethics". The workshop on human resource management was also open for local human resource managers, 65 of whom attended.

Furthermore, the Bank introduced a new periodical, "Florin," two issues of which were published in 2008. Florin is a compilation of working papers and articles produced by Bank staff and is, therefore, a useful and easily accessible source of information for the public.

7 FOREIGN EXCHANGE REGULATIONS AND THE LICENSE FEE

7.1 Introduction

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

Although capital transactions are bound by a license, several foreign exchange notifications have been issued by the Bank that have liberalized most capital transactions. The Bank applies a liberal licensing system with respect to capital transactions: licenses normally are 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.

7.2 Foreign exchange licenses

The number of foreign exchange licenses issued by the Bank decreased in 2008 by 151 (10%) to 1,413 (see Table 33). This decrease can be attributed primarily to the fewer foreign exchange exemptions granted to international financial and business companies (191), perhaps a result of the impact of the international financial crisis on this sector. In addition, the total capital related to the granted licenses decreased by NAf.248.8 million (47%) to NAf.276.6 million. This decrease can be explained primarily by fewer licenses granted for borrowing abroad for investment projects in 2008 compared to 2007, when the financing was concluded for large projects in St. Maarten (expansion of the harbor and yachting facilities, and capacity expansion of the utility company, GEBE). All other categories of licenses noted increased capital amounts. Notable is the more than doubling of the number and value of licenses for portfolio investments abroad, which occurred despite the internationally declining securities markets. A portion of these investments was made in regional securities, which were less affected by the international financial turbulence.

Table 33 Overview of foreign exchange licenses issued (in millions NAf.)

	2007		2008	
Description	**Number**	**Amount**	**Number**	**Amount**
Establishment company by nonresident	199	2.7	137	2.9
Transfer to own account abroad	15	5.6	33	11.1
Portfolio investment abroad	20	39.2	42	92.9
Participation abroad	4	2.2	2	12.1
Borrowing abroad	47	464.0	56	129.1
Lending abroad	25	6.7	37	14.8
Request for foreign bank account	13	-	36	-
Request for local nonresident account	16	-	20	-
Granting guarantee abroad	5	-	4	-
Exemption int. fin. & bus. serv. companies	1,218	-	1,027	-
Other	2	5.0	19	13.7
Total	1,564	525.4	1,413	276.6

7.3 License fee

Starting January 1, 1996, a fee was introduced for the license to operate as a foreign exchange bank. This license fee is assessed on the international transactions of foreign exchange banks and replaced the foreign exchange tax in force through December 1995. The license fee is calculated on the basis of the payments made by residents to nonresidents, with the exception of the re-investment of funds abroad, the re-exports of the free-zone companies, payments in Aruban florins, and payments by the central government.

Table 34 provides an overview of the license fees collected monthly from 2006 through 2008. The rising trend in the amount collected is attributable to the growth in international transactions related to the economic expansion. From the total license fees collected in the Netherlands Antilles in 2008, NAf.50,273.7 thousand (64%) was generated on Curaçao, NAf.26,258.7 thousand (34%) on St. Maarten, and NAf.1,815.8 thousand (2%) on Bonaire. The remaining NAf.373.2 thousand (0%) of license fees was paid through the Bank.

Table 34 License fees collected from 2006 through 2008 (in thousands NAf.)

	2006	2007	2008*
January	4,460.6	5,860.9	6,573.3
February	4,251.9	4,903.5	5,895.3
March	5,149.0	5,779.6	6,838.3
April	4,218.1	5,367.4	6,607.7
May	4,793.9	6,118.5	6,506.9
June	5,073.1	5,798.6	6,246.5
July	4,597.1	5,752.0	6,658.3
August	4,736.4	5,963.0	5,537.6
September	5,296.1	5,379.9	5,964.6
October	4,929.2	6,353.9	7,008.9
November	4,985.6	5,935.9	6,277.9
December	6,389.8	6,707.9	8,606.1
Total	58,880.8	69,921.1	78,721.4

*Preliminary

Table 35 Balance sheet as of December 31, 2008 (before profit distribution)

	2008	2007
ASSETS		
Gold	544,865,085	437,627,742
Receivables and securities in foreign currency	2,506,825,087	1,860,108,543
Government bonds	265,441,625	170,491,708
Other long-term receivables	40,383,280	40,754,277
Fixed assets	85,793,846	87,144,726
Other current assets	25,810,144	22,405,010
Total Assets	3,469,119,067	2,618,532,006
LIABILITIES & EQUITY		
LIABILITIES		
Bank notes in circulation	383,604,508	366,532,033
Residents' current accounts		
- in guilders	1,209,043,288	758,096,432
- in foreign currency	63,353,792	13,731,672
Residents' time deposits		
- in guilders	143,800,000	295,000,000
Nonresidents' current accounts		
- in guilders	662,432,738	198,808,271
- in foreign currency	368,804,931	465,683,662
Money in custody	866,189	856,734
Other liabilities	36,580,292	30,391,884
Total Liabilities	2,868,485,738	2,129,100,688
EQUITY		
Undistributed earnings	50,775,700	46,641,966
Specific reserves	489,857,629	382,789,352
Reserve fund	30,000,000	30,000,000
Capital	30,000,000	30,000,000
Total Equity	600,633,329	489,431,318
Total Liabilities & Equity	3,469,119,067	2,618,532,006

The 2008 and 2007 figures are extracted from the audited financial statements.

Table 36 Profit and loss account 2008

	2008	2007
INCOME		
Interest income	73,319,093	90,653,667
Interest expenses	-19,524,131	-34,639,310
Net interest income	53,794,962	56,014,357
Foreign exchange earnings	8,952,891	2,130,480
Miscellaneous income	6,254,883	7,202,069
Subtotal	69,002,736	65,346,906
License fee	79,359,346	69,478,053
Total income	148,362,082	134,824,959
EXPENSES		
Depreciation of fixed assets	5,293,703	5,298,175
Depreciation of printing costs of bank notes	744,932	1,334,499
Withdrawn bank notes	19,815	43,700
General operating expenses	45,296,261	39,553,003
Total expenses	51,354,711	46,229,377
Net income	97,007,371	88,595,582
Distribution of net income:		
Net income	97,007,371	88,595,582
Paid to the central government	-92,873,637	-85,515,041
Change in undistributed earnings	4,133,734	3,080,541

The 2008 and 2007 figures are extracted from the audited financial statements.

8.1 Notes to the balance sheet as of December 31, 2008

General

The accounting principles are derived from the framework with regard to the annual accounts of the European Central Bank dated November 10, 2006, and as amended on December 17, 2007, and December 11, 2008, whereby certain rules of this framework have been amended to comply with the local practice of the Bank.

The 2007 comparative figures have been restated with respect to the general operating expenses. Consequently, the equity and the net income for fiscal year 2007 have decreased by approximately NAf.3.4 million.

The following is a summary of the significant accounting principles applied.
Assets and liabilities are valued at nominal value unless otherwise stated.

Income is recognized on an accrual basis. Expenses are incurred in the period to which they relate.

8.1.1 Gold

Gold is valued every year using an average market price, based on the year-average market price of the current year and the previous two years. Unrealized gains from revaluations are added to the specific reserves after approval by the Minister of Finance. Unrealized losses are deducted from the specific reserves. If these losses are greater than the reserves, the difference is deducted from the result.

8.1.2 Receivables and securities in foreign currency

The receivables and securities in foreign currency represent balances in the current account, time deposits with foreign financial institutions, and securities in foreign currency. The increase in 2008 is due partly to funds received from the Dutch Ministry of the Interior and Kingdom Relations related to the debt relief.

The securities represent investment portfolios. These securities are valued at market price for securities available for sale and at their amortized cost for securities held to maturity. Unrealized gains from investment portfolios are added to the specific reserves. Unrealized losses are deducted from the specific reserves formed in previous years. If these unrealized losses are greater than the specific reserves, the difference is deducted from the result. Realized gains and losses are immediately accounted for in the profit and loss account.

8.1.3 Advances to the central government

In conformity with paragraph 1 of Article 15 of the National Ordinance constituting the Central Bank Statute (P.B. 1985, no. 183), these advances are at all times bound to a maximum of 10% of the budgeted revenues of the central government during the previous fiscal year. The advance account is non-interest-bearing.

8.1.4 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 amortized cost.

8.1.5 Other long-term receivables

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

8.1.6 Fixed assets

These assets, which also include the printing cost of bank notes, 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.

8.1.7 Other current assets

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

8.1.8 Bank notes in circulation

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

8.1.9 Residents' current accounts

These accounts include the non-interest-bearing balances in the current accounts of domestic banks, central and island government tax collectors, and other government institutions within the Netherlands Antilles. Most of the balances are denominated in guilders. Foreign currency balances are converted into guilders at the Bank's official mid-rates prevailing at year end.

8.1.10 Residents' time deposits

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

8.1.11 Nonresidents' current accounts

This amount represents the balances in current accounts 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. The balances are mostly interest-bearing.

8.1.12 Money in custody

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

8.1.13 Other liabilities

This item includes, among other things, an early-retirement provision, accrued interest, and accounts payable.

8.1.14 Undistributed earnings

This item discloses the accumulated earnings of the Bank for the current and previous years less the dividends paid to the central government.

8.1.15 Specific reserves

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

Unrealized gains from revaluation of gold, foreign exchange, and investments are added to the specific reserves after approval by the Minister of Finance. Unrealized losses are deducted from the specific reserves. If these losses are greater than the reserves, the difference is deducted from the result.

The 2008 revaluation resulted in a net increase in reserves of NAf.107.1 million. These unrealized gains on gold, foreign exchange, and investments were approximately NAf.107.2 million, NAf.0.4 million (negative), and NAf.0.3 million, respectively.

8.1.16 Reserve fund

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

8.1.17 Capital

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

8.2 Notes to the profit and loss account 2008

8.2.1 Interest income

Interest income is generated mainly from current accounts, time deposits, domestic government bonds, gold investments, and securities in foreign currency.

8.2.2 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.

8.2.3 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 Statute (P.B. 1985, no. 183). The National Ordinance on Foreign Exchange Tax was revoked as of that date. The license fee is calculated as 1% 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.