ANNUAL REPORT 2010

Centrale Bank van Curaçao en Sint Maarten

1 REPORT OF THE PRESIDENT

1.1 General review

The world economy continued to recover in 2010 from the severe recession caused by the international financial crisis, but the pace of recovery was uneven. While the emerging and developing economies registered robust growth, the pace of expansion in the advanced economies was fairly modest as a result of private balance sheet adjustments and weak labor market developments. The economic recovery in the Netherlands Antilles also was subdued. After a contraction of 0.5% in 2009, the economy of the Netherlands Antilles expanded by a mere 0.1% in 2010. The economic expansion in 2010 was attributable mainly to increased government spending. Government consumption rose, owing mostly to increased outlays on goods & services related to the dismantling of the Netherlands Antilles. Meanwhile, government investments increased, reflecting the implementation of the Social Economic Initiative (SEI) program. In contrast, private demand shrank as a result of lower investments in 2010 than in 2009. This contraction in private demand was mitigated by increased consumer spending. The economic expansion was dampened by a decline in net foreign demand, as imports of goods and services rose while exports dropped. Over the course of 2010, higher international oil and food prices led to increasing inflationary pressures. As a consequence, inflation in the Netherlands Antilles rose from 1.6% in 2009 to 2.8% in 2010.

A review by sector reveals that output dropped in most industries, but the contraction was most pronounced in the manufacturing sector. The contraction in the manufacturing sector was due mainly to a decline in value added by the Isla refinery as a result of the prolonged shutdown of the refinery between March and December 2010. The construction sector also registered negative results. After the completion of several major projects in 2009, including the expansion of the harbor in Sint Maarten, no major investment projects were reported on the islands in 2010.

Output in the wholesale and retail sector dropped, although at a slower pace than in 2009. An analysis by island reveals that Sint Maarten in particular registered a decline in wholesale and retail activities. In addition, activities in the free zone in Curaçao contracted, reflecting a decline in the number of free-zone visits.

Economic growth also was dampened by the transport, storage, and communication sector, owing to, among other things, poor results in the harbors. In 2010, the number of ships and cargo handled in the harbors declined. In addition, both oil transshipment and oil storage activities contracted. Meanwhile, air transportation activities dropped because domestic airlines transported fewer passengers. The contraction in the transport, storage, and communication sector was mitigated by increased airport-related activities, attributable to a growth in total passenger traffic in Sint Maarten and Bonaire. Moreover, output rose in the telecommunication sector.

Activities in the restaurants and hotels sector contracted also. However, the contraction in 2010 was less pronounced than in 2009. The poor results in the restaurants and hotels sector were ascribable to a decline in stay-over tourism in Curaçao. The decline was caused by a drop in the number of stay-over tourists from South America, in particular Venezuela, but the decline was mitigated in part by a growth in the North American and European markets. In Sint Maarten, stay-over tourism expanded, owing to increased visitor numbers from Europe and South America. In contrast, the number of visitors from North America and the Caribbean decreased. Meanwhile, stay-over tourism in Bonaire performed well as a result of more visitors from

Europe and the Caribbean. Cruise tourism in general expanded in 2010 compared to 2009 driven primarily by an impressive growth in Sint Maarten.

In contrast to most of the other sectors, real value added in the financial services sector rose, as a result of an increase in both domestic and international financial services. Growth in the domestic financial services sector was the result of increased net income of the domestic commercial banks. Meanwhile, the expansion in the international financial services industry reflected higher wages & salaries and other operational expenses.

The constitutional reforms within the Dutch Kingdom dominated the public sector developments throughout 2010. As of October 10, 2010, the Netherlands Antilles ceased to exist, and Curaçao and Sint Maarten became autonomous countries within the Dutch Kingdom. Meanwhile, Bonaire, Saba, and Sint Eustatius became special municipalities of the Netherlands. As part of the process of dismantling the Netherlands Antilles, the Dutch government financed development projects on the islands under the Social Economic Initiative (SEI) and provided debt relief to the governments of the Netherlands Antilles. The debt relief program was started in 2009 with the governments of the Netherlands Antilles receiving grants from the Netherlands for debt servicing and the payment of arrears. Meanwhile, on October 10, 2010, the Dutch state assumed the legal ownership of all outstanding securities of the Netherlands Antilles. Consequently, the debt-to-GDP ratio of the Netherlands Antilles dropped significantly from 74.0% at the end of 2009 to an estimated 32.3% in October 2010.

The general government recorded a cash surplus of NAf.772.7 million in 2010, a slight improvement compared to 2009. This improvement was the result of increased revenues, mitigated by higher expenditures. Government revenues rose, associated mainly with the transfer of withholding tax grants by the Netherlands related to the BRK agreement combined with the debt relief grants received in 2010. In contrast, tax revenues dropped because of a decline in tax receipts from goods and services, partly offset by increased revenues from taxes on income and profits. Moreover, nontax revenues contracted owing largely to fewer dividend payouts received by the government of Curacao from public enterprises. The growth in expenditures was driven by increased spending on wages & salaries and goods & services, partially moderated by lower transfers and interest payments. Transfers dropped because of fewer disbursements to the island governments and other government institutions since the dismantling of the central government. Meanwhile, interest payments shrank as a result of the debt takeover by the Netherlands in October 2010.

Similar to 2009, the balance of payments recorded a surplus in 2010, reflected by a further increase in net international reserves. However, the net international reserves grew at a slower pace than in the previous year. The surplus on the balance of payments was related to strong capital inflows, offsetting the current account deficit. The average import coverage rose to 4.3 months because the growth in official reserves outpaced the increase in merchandise imports.

The deficit on the current account widened significantly in 2010 compared to 2009, due mainly to a decrease in net current transfers received from abroad combined with a decline in net foreign demand. Net current transfers decreased considerably as the Dutch government transferred fewer funds for the repayment of matured securities that were issued by the governments of Curaçao and the Netherlands Antilles in 2010 compared to 2009. These transfers were part of the implementation of the debt relief program. Meanwhile, net foreign demand contracted as imports of goods and services rose and exports fell. The increase in imports can be ascribed largely to a surge in international fuel prices. Furthermore, increased domestic consumption contributed to higher merchandise imports by the free-zone companies.

Exports dropped, led by a decline in the fee received for refining operations in Curaçao because of the prolonged shutdown of the refinery in 2010. In addition, re-exports by the free-zone companies declined, particularly to Venezuela. The export contraction was mitigated by increased foreign exchange earnings from bunkering activities reflecting higher international oil prices. In addition, foreign exchange receipts from the tourism sector rose. Net income received from abroad increased as interest and dividend payments to abroad shrank, while income earned on foreign investments rose.

The higher current account deficit was financed mainly by direct investments and loans and credits from abroad. Net direct investments expanded primarily because of an increase in the liabilities of domestic companies with their foreign affiliates and more real estate purchased by nonresidents. The loans and credits balance worsened due mainly to a transfer from the Netherlands of taxes on dividends paid by Dutch companies to their parent companies in the Netherlands Antilles, related to transactions in previous years. Also, the repatriation of foreign assets by financial corporations, the withdrawal of funds abroad by domestic companies, and increased net trade credits received on imports contributed to the growth in loans and credits from abroad. Meanwhile, capital transfers received from abroad increased significantly as the Dutch government assumed the legal ownership of all outstanding securities of the former Netherlands Antilles on October 10, 2010. This change in ownership also explains the considerable expansion in net portfolio investments abroad, as the creditors of the former Netherlands Antilles now have a claim on the Dutch government.

The monetary aggregates contracted in 2010 due to a decline in net domestic assets. The latter decline can be ascribed largely to a drop in net credit extended to both the central government and the island governments, reflecting the implementation of the debt relief program. Net credit to the private sector also shrank, driven by the redistribution of assets and liabilities of the banks following the constitutional changes. In contrast, net foreign assets increased as a result of the balance of payments surplus, the take-over by the Dutch government of the remaining outstanding debt securities of the Netherlands Antilles on October 10, 2010, and the revaluation of the gold stock.

Similar to 2009, the Bank relaxed its monetary policy further in 2010 motivated by the solid import coverage and the moderate growth in credit extension to the private sector. As a consequence, the reserve requirement percentage was reduced each month by 25 basis points to reach 7.75% as of October 2010. Moreover, during the biweekly auctions of certificates of deposit (CDs), the Bank focused solely on the refinancing of maturing CDs. Meanwhile, the pledging rate, which is the Bank's official lending rate, was kept unchanged at 1.00%.

1.2 Policy considerations

Curaçao and Sint Maarten have been facing several challenges as autonomous countries in the Dutch Kingdom. Among other things, the governments of both countries have had to deal with new tasks and responsibilities, and create a new administrative apparatus while complying with the budget and interest burden rules agreed upon under the debt relief program. At the same time, both countries have had to face a turbulent international environment, stemming from, among other things, sharp movements in oil and food prices. These events served once more to drive home the fact that as small and open economies, we remain susceptible to changes in the world economy. An important lesson that can be drawn is that the new constitutional status alone is not a solution for all our institutional and economic challenges.

An important benefit of the process of constitutional changes, and in particular, the debt relief program, has been a fresh start with sound public finances. For many years, our fiscal deficits and high public debt burden constrained our economic growth. Today, as most countries, including the Caribbean countries, struggle with high public debt levels that hamper economic growth, our debt-to-GDP ratio is sound according to international standards. This is a great advantage compared to our Caribbean neighbors.

Nevertheless, our growth prospects for 2011 are poor. According to the Bank's latest projection, the Curaçao economy will most likely contract by 0.7% in 2011. In a more optimistic scenario, the economy will expand slightly by 0.1%. However, in a pessimistic scenario, the economy will contract by 1.5%. Meanwhile, Sint Maarten will show no growth this year and might contract by 0.5% in a more pessimistic scenario.

On the other hand, the IMF projects that the Caribbean region will expand by 2.0% in 2011 following a 0.2% contraction in 2010. Apparently, despite having higher public debt levels than ours, most countries in the Caribbean are recovering at a faster pace than we are. In other words, Curaçao and Sint Maarten are lagging behind in the region.

To catch up with the region, we need to conduct policies that foster rapid and sustainable growth. Evidence suggests that well-targeted private investment is crucial for sustained growth. For example, to reach a 2% GDP growth in 2011, similar to the Caribbean average, private investments in Curacao would need to rise by 17%, all other things being equal. In the case of Sint Maarten, an expansion in private investments by 34% would be needed to achieve a real GDP growth of 2%. It does not appear that we will reach these levels of private investment growth in 2011 or beyond.

For private investments to grow at a faster pace, we must improve our investment climate. The Bank has emphasized on many occasions that macroeconomic stability, efficiently functioning markets, and low administrative barriers are fundamental elements for an investment climate that fosters private investments and, hence, economic growth. By addressing these areas, Curaçao and Sint Maarten will become more competitive vis-à-vis the region. Unfortunately, in several of these areas we are moving in the opposite direction.

Policy inconsistencies and uncertainties weaken investors' confidence. The government of Curaçao and the government of Sint Maarten should provide more clarity and decisiveness about their policy agendas. For example, more clarity must be provided concerning the future tax system. Undoubtedly, both countries have to reform their system of taxation to ensure sound public finances. A central objective of the tax reform in both countries is to create an adequate revenue base to finance government spending. At the same time, the reform of the tax system should promote economic growth. Consequently, the tax rates, in particular the rates of direct taxes, must be lowered to reduce economic distortions created by the tax system. Lower rates also would improve our competitiveness vis-à-vis other countries, in particular those in the Caribbean region. Moreover, the tax system should be simple, more transparent, and more customer friendly, making it easier to administer and improving tax compliance.

In the case of Sint Maarten, reform of the tax system and improvement of tax collection are imperative to increase the government's revenue base. Such a higher revenue base is necessary to adequately fund the new responsibilities and tasks that came with the country status. In Curaçao, the tax system needs to be reformed to make it more conducive to economic growth. Although reform of the tax system was announced by both countries, its implementation has encountered delays. Moreover, the composition of the final tax package in the reform is still unclear.

Market confidence and, hence, private sector investment also are encouraged when the government applies the rules of good public and corporate governance. Recent experiences in Curaçao underscore the importance of adherence to these principles by the government, in particular when it concerns the state-owned enterprises. In Curaçao, state-owned enterprises are prevalent in several key sectors. Sound governance of these companies is critical to ensure their positive contribution to Curaçao's overall economic performance and competitiveness. As a consequence, the government should act as an informed and active owner and establish a clear and consistent ownership policy ensuring that the governance of the state-owned enterprises is carried out in a transparent and accountable way, with the necessary degree of professionalism and effectiveness. At the same time, however, the government should not be involved in the day-to-day management of these enterprises and should allow their executive and supervisory boards to execute their responsibilities independently and without interference. The supervisory boards of these enterprises should have the necessary authority, competencies, and objectivity to carry out their function of strategic guidance and monitoring of the management. At the same time, the state-owned enterprises should recognize the rights of all shareholders, treat them equitably, and provide equal access to corporate information. And, state-owned enterprises should be transparent towards the shareholders and the public in general.

Over the medium term, oil and food prices are expected to remain high and volatile on the international markets. Since Curaçao and Sint Maarten are very import dependent, higher prices on the international markets will worsen our net exports. Therefore, it is very important that both countries improve their export performance to mitigate, albeit only in part, a further worsening of net exports, which dampens economic growth. Although tourism has a high import content, it is still a very important pillar for both economies in terms of exports. Both countries need to further develop and diversify the tourism industry by tapping new markets such as the emerging economies in South America, along with the traditional US and European markets. In addition, we need to further develop and diversify our tourism product towards niche markets such as cultural, conference, and medical tourism. Furthermore, skill deficiencies in the tourism industry need to be addressed to employ local workers whenever possible. We also need to strengthen the international financial services industry, which traditionally has been an important pillar of the Curaçao economy and is a potential pillar of the Sint Maarten economy in terms of exports and high-skilled job creation. In light of the upcoming Caribbean Financial Action Task Force (CFATF) evaluation, it is important for us to be in compliance with the internationally accepted best practices.

The unstable international climate also poses challenges for the monetary union between Curaçao and Sint Maarten. Although the authorities of both countries have announced their intentions to create their own central bank, we still have to deal with the current reality of the union and, hence, the efforts necessary to defend the stability of the common currency. Policy coordination remains a necessary condition to achieve the objectives of the monetary union. Prominent among them is the stability of the guilder. Given the uncertain global macro-economic environment, the authorities have to remain vigilant to pursue their domestic policies without jeopardizing currency stability. Given the anemic performance of the economies of Curaçao and Sint Maarten, changes in the economies of our main trading partners may have a disproportionate impact on our own economies. The fact that the fiscal situation is in order is not a reflection of the policies pursued but rather the result of the debt relief program. The authorities should therefore use this unique opportunity to further strengthen the resiliency of the economy to future crises.

The consistent and timely implementation of the necessary policy measures will result in higher and sustainable economic growth. At the same time, we need to focus on reaching consensus through reconciliation of different views and opinions. After all, policy initiatives will always be more successful when they are broadly accepted in our society. Now that unemployment, particularly among the youth, is a major issue and concern is growing about the recent increase in crime and violence, we need to take the right actions in a timely and consistent way to reach sustainable economic growth levels that can lead to prosperity and well-being of all citizens of the new countries Curaçao and Sint Maarten.

E.D. Tromp
President

2 INTERNATIONAL ECONOMIC DEVELOPMENTS

The US economy recovered from its worst recession in the 21st century, backed by a vast and sustained macroeconomic policy (see Table 1). The 2.9% growth in 2010 was sustained by the revival in consumer spending and business investment, i.e., equipment & software. Also, businesses replenished their stockpiles, leading to an increase in inventories. Despite a recovery, consumer spending remained relatively low because of weak consumer confidence, owing to the declining housing market and the persistent high unemployment. Moreover, households were deleveraging their credit exposure. Not only did the federal stimulus phase out, but the expenditures of state and local governments also shrank. In line with the rebound in private spending, import demand rose at a faster pace than exports of goods & services, worsening the current account deficit by 27% to $481 billion.

The unemployment rate decreased to 9.4%, remaining high as firms limited the hiring of new workers by raising the hours for their existing employees. Moreover, the unemployment rate would have been much higher if it were not for the discouraged workers who stopped looking for jobs. Amid high unemployment and sluggish demand, producers were unable to pass on the higher input costs to their customers. Contrary to a price deflation in 2009, the rate of consumer price inflation remained in check at 1.6% in 2010. This moderate inflation was the result of the rebound of commodity prices. To provide liquidity support to the economy, the Federal Reserve has been maintaining its fed funds rate near zero since late 2008. Faced with low inflation and stubbornly high unemployment, further support to the economy was warranted. Hence, the Fed decided for a second round of quantitative easing (QE2) by pumping $600 billion into the US banking system as of November 2010.

Table 1 Key indicators of selected countries

	United States		Netherlands		Venezuela	
	2009	**2010**	**2009**	**2010**	**2009**	**2010**
Real GDP (% change)	-2.6	2.9	-3.9	1.8	-3.3	-1.4
Consumer prices (%)	-0.4	1.6	1.2	1.3	27.1	29.2
Unemployment rate (%)	9.9	9.4	4.4*	4.3*	6.6	6.5

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.
*International definition

In 2010, the Euro area was plagued by fears of a sovereign debt crisis. The Euro crisis developed in several European countries, including European Union members Portugal, Ireland, Italy, Greece, Spain, (PIIGS), and Belgium. After engulfing Greece, financial woes unfolded in Ireland. Greece and Ireland both needed emergency bailouts, causing fears that debt problems would spread and destabilize global markets. Investors were concerned that debt troubles would reach Spain, Portugal, and other countries, weakening the European Union and jeopardizing the future of the euro as its common currency. European governments and the International Monetary Fund (IMF) agreed to a $145 billion rescue of Greece in May 2010 and a $90 billion bailout of Ireland in November 2010. The bailouts forced both Greece and Ireland to cut their public spending. Additionally, both the Portuguese and Spanish governments initiated austerity programs, reducing spending on numerous government programs.

In contrast to 2009, the output in the Netherlands in 2010 improved by 1.8%, due mainly to higher export demand. Re-exports were largely accountable for the robust gain in exports of goods and services. This growth coincided with the significant increase in the demand for imports. However, 2010's economic growth was offset in part by a contraction in investments. A sectoral analysis shows that all sectors except the construction sector improved, which matched the decline in investment activities. Despite the economic revival, unemployment remained relatively unchanged at 4.3% in 2010. The number of unemployed aged 15-25 fell, while the number over age 45 grew. Higher petrol prices and phone rates led to a slight increase in consumer price inflation of 1.3%. The budget deficit of the Netherlands reached 5.4% of GDP, exceeding the EU limit of 3.0%. Higher healthcare and social security expenses led government spending to outweigh the growth in government revenues. The public debt-to-GDP ratio rose further to 62.7% in 2010, which was above the EU ceiling of 60%. The higher government debt can be explained by (1) the take-over of the outstanding securities of the former Netherlands Antilles; (2) the granting of a new bail-out to ABN Amro Bank; and (3) the financial assistance provided to other European countries.

While many Latin American countries recovered, Venezuela experienced a second year of stagflation, as real GDP declined by 1.4% in 2010. This contraction was due to a decrease in the non-oil sector, as almost all its industries suffered a production decline. The drop in industrial output and the decline in private investments were caused by several years of distorting economic policies and a number of nationalizations. In January 2010, the government devalued the bolivar and established two exchange rates: 2.6 bolivars per US$ for essentials (including food and medicine) and 4.3 bolivars per US$ for most imports. Since the devaluation, the rising inflation that worsened the black market parallel rate has become a major concern for the government. Spiraling prices led the government to establish a new currency market in June 2010 to replace the parallel market for US dollar sales. The Transaction System for Foreign Currency Denominated Securities (SITME) sells dollars to certain operations that do not qualify for the two mentioned exchange rates. SITME's exchange rate is held at about 5.3 bolivars per US$. Inflation remained endemic in Venezuela, rising to 29.2% in 2010, the highest in Latin America. On the back of rising oil prices combined with a reduction in imports, the current account surplus soared by 68% to US$14.4 billion. In spite of a declining GDP, the jobless rate remained almost unchanged at 6.5%.

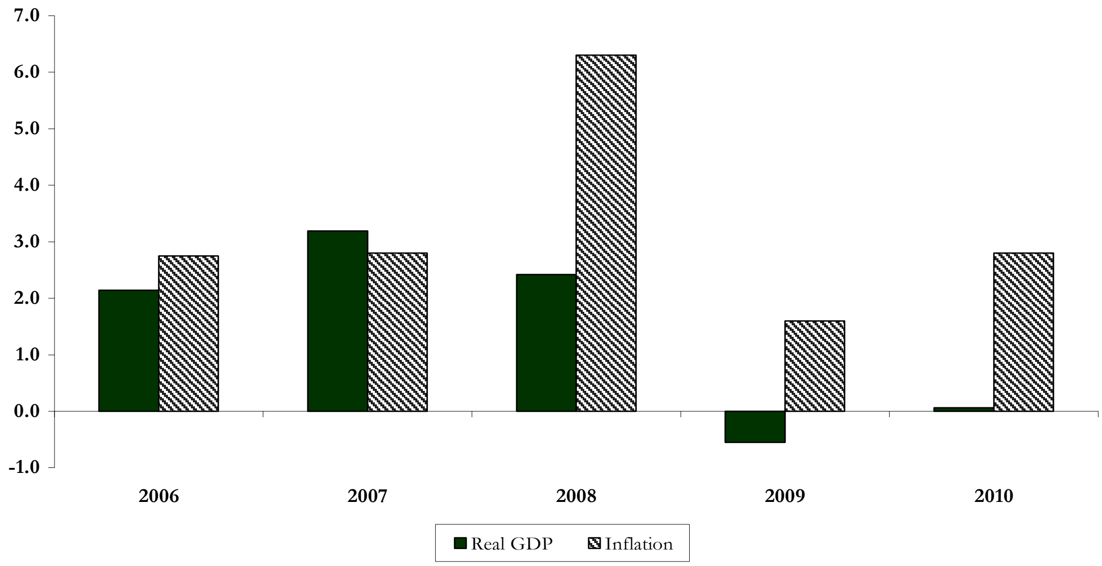
3 GENERAL ECONOMIC DEVELOPMENTS IN THE NETHERLANDS ANTILLES

3.1 Introduction

As the Netherlands Antilles recovered slowly from 2009's economic decline, real GDP was muted at 0.1%[1] in 2010. This growth was supported solely by public demand for the second year in succession. The public sector was able to fully maintain its high level of consumption and investment activities. The private sector again declined, though not by as much as in 2009. Because exports of goods and services declined at a faster pace than imports in real terms, the resulting decline in net exports depressed GDP growth. The accelerated gain in prices came from the rising world oil and food prices, causing a higher inflation rate of 2.8% in 2010 (see Graph 1). Given the relatively weak state of the economy, the unemployment rate in the Netherlands Antilles reached 10.4%[2] in 2010, compared to 10.0% in 2009.

[1] As of October 10, 2010, data of the BES islands (i.e., Bonaire, Sint Eustatius, and Saba) are excluded.
[2] Estimates by the Central Bank of Curaçao and Sint Maarten.

Graph 1 Economic developments (annual percentage change)



The government's contribution to the aggregate domestic demand emerged as the main driver of the real GDP increase in 2010. The increase in the outlays on wages & salaries and goods & services and the implementation of Social Economic Initiative (SEI) projects accounted for the growth in both public consumption and investment (see Table 2). Higher expenses for wages & salaries and goods & services were related to (1) payrolls; (2) salary adjustments; (3) technical assistance; and (4) accelerated payment of pending bills in the build-up to the dismantling of the Netherlands Antilles. In spite of a revival in private consumption, private demand contracted, led by the drop in investment activities, primarily in the tourism, construction, and transportation industries. Consumer spending in 2010 showed an improvement, coinciding with the growth in consumer loans. Unlike 2009, exports fell more strongly than imports in real terms, causing net foreign demand to decline. The reduction in export of goods & services stemmed mainly from a decrease in the receipts of the refinery, the free zone, and the international financial services sector.

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

	2008	2009	2010
Domestic expenditures, of which:	6.5	-0.9	0.9
Private sector	6.9	-1.2	-0.1
- Investment	4.9	-0.9	-0.6
- Consumption	2.0	-0.3	0.5
Government	-0.4	0.3	1.0
- Investment	-0.3	0.1	0.1
- Consumption	-0.1	0.2	0.9
Changes in inventory	-0.6	0.0	0.8
Foreign net expenditures, of which:	-3.8	0.4	-1.6
Export of goods and services	5.7	-8.7	-5.2
Import of goods and services	9.4	-9.1	-3.6
GDP by expenditures	2.1	-0.5	0.1
Net primary income	-0.9	-1.3	1.1
Gross national income	1.2	-1.9	1.2
Net current transfers from abroad	-0.2	9.7	-3.3
Gross national disposable income	1.0	7.9	-2.1

Source: Estimates by the Central Bank of Curaçao and Sint Maarten.
[a] Expenditure categories data are weighted contributors to GDP growth.

As opposed to 2009, gross national income of the Netherlands Antilles was up in 2010, stemming from the gain in net primary income from abroad. This positive performance was related primarily to lower interest payments abroad. Nevertheless, gross national disposable income registered a reduction because of a drop in net current transfers. This drop was related to fewer transfers from the Dutch government for the repayment of matured securities issued by the government of the Netherlands Antilles and the island territories (as part of the debt relief program). National savings shrank, as the decrease in private savings outperformed the increase in public savings. The public finances improved despite a growth in public spending, supported by the capital inflow of debt relief grants. With these debt relief funds, the government required less financing. Meanwhile, the rise in private consumption was accompanied by a slowdown in the decline in private investment. Hence, the higher private consumption level was financed through credit extension, a drawdown on savings, and external financing.

3.2 Domestic production

Over the course of 2010, the public sector contributed to the turnaround in the Netherlands Antillean economy that stemmed from more spending on wages & salaries. However, this recovery was moderated by a drop in the private sector, as the majority of economic sectors registered a contraction (see Table 3). In spite of more activities in Curaçao's ship-repair industry, the total value added in the manufacturing sector was down by 5.6% in 2010 because of a decrease in the production of the "Isla" refinery. The marked decrease in production was related to the prolonged shutdown of the plant since March 2010, caused by power supply and air compressor problems. Corresponding to the ongoing difficult situation, total operational expenses of the refinery also saw a perceptible decline.

The negative trend in the construction sector continued into 2010. The further decline in activities matched with fewer mortgages extended and less construction imports. Since the expansion of Sint Maarten's harbor was completed in 2009, only minor investment projects have occurred on the islands.

The wholesale & retail trade sector suffered another setback in 2010, caused by declines in private consumption in Sint Maarten and re-exports by free-zone companies in Curaçao. In addition, the number of free-zone visits fell by 15.1%, stemming mostly from a decrease in the Venezuelan market. This development corresponded with the significant drop in the number of Venezuelan visitors to Curaçao during 2010.

Table 3 GDP by sector (real percentage changes)

Sector	2008	2009[3]	2010
Agriculture, fishery, & mining	4.9	-3.4	-2.3
Manufacturing	-7.5	0.8	-5.6
Electricity, gas, & water	0.5	4.0	0.4
Construction	9.7	-2.4	-3.3
Wholesale & retail trade	1.3	-5.1	-1.1
Restaurants & hotels	8.6	-5.9	-0.4
Transport, storage, & communication	7.7	3.0	-1.0
Financial intermediation	0.9	-0.4	1.2
Real estate, renting, & business activities	5.6	-2.0	1.3
Other community, social, & personal services	1.7	0.3	0.6
Private households	0.6	-0.5	0.3
Total private sector	2.5	-1.0	-0.5
Public sector	-1.7	1.6	7.5
GDP	2.1	-0.5	0.1

Source: Estimates by the Central Bank of Curaçao and Sint Maarten.

In 2010, the picture was mixed for the tourism sector in the Netherlands Antilles, with stay-over tourism shrinking (2.0%) for the second year in a row. This decrease in arrivals stemmed from the South American market, whose decrease outpaced the gains in the North American and European markets. Compared to 2009, the more moderate pace of decline in the restaurants & hotels sector (0.4%) was due to the increase in passenger arrivals from the North American and European markets. These tourists spend more time on the islands and, hence, spend more on food and accommodations. Meanwhile, cruise tourism soared by 15.8%, sustained by an impressive growth in Sint Maarten's tourism stemming from a different marketing approach by the Port of Sint Maarten. During the last three quarters of 2010, more cruise calls as well as larger cruise ships led to this upbeat picture. Nonetheless, cruise tourism generates fewer revenues than stay-over visitors.

An analysis by island indicates that the contraction in stay-over tourism in 2010 was led only by Curaçao, which recorded a decrease in the number of tourists (6.6%), marking a massive fall in

[3] GDP for 2009 has been revised to -0.5%, down from a previously estimated 0.2% decline. This GDP estimate is based on more recent sources of data. The downward revisions at the sectoral level were in the manufacturing and transport, storage & communication sectors. Moreover, the downward revision in expenditures resulted from private demand.

the South American market. Since the tightening of exchange controls, the declining number of Venezuelan travelers was the key factor for the contraction in this market. As of January 2010, the Venezuelan government tightened exchange controls further, making it more difficult for travelers to access U.S. dollars. Furthermore, in June, the government introduced a new currency market, replacing the parallel market for U.S. dollar purchases. The reduction in the South American market was offset in part by the growth in both the North American and the European markets. Tourist arrivals from Curaçao's main source countries, the United States and the Netherlands, appeared to be holding up well, growing by 34.7% and 10.4%, respectively. The perceptible gain in the number of U.S. visitors in 2010 should be seen primarily in the context of a cutback in the number of weekly flights by American Airlines in early 2009. These regular weekly flights were reinstated after November 2009. The overall weak stay-over tourism outcome was consistent with the further drop in the hotel occupancy rate (71.7%) in 2010 (See Table 7 in the appendix for more details.)

In 2010, Sint Maarten's stay-over tourism rose by only 0.7%, due to the growth in the European and South American markets. More Dutch and French tourists were the impetus for the positive developments in the European market. The significant gain in the South American market was backed by more Brazilian visitors, the result of the launching of the Gol charter in June 2010. By contrast, the underperformance of the North American and Caribbean markets was a drag on the growth of stay-over tourism. The sluggish recovery of the U.S. job market may be the cause for the setback in the North American market. The stay-over performance was reflected by an increase in the hotel occupancy rate (61.9%). In contrast to the glum performance in 2009, stay-over visitor numbers in Bonaire expanded by 5.3% in 2010, stemming from more European and Caribbean visitors, while one of the island's main tourist markets, i.e., the United States, showed no growth throughout 2010. (See Table 8 in the appendix for more details.)

Following growth in 2009, the transportation, storage, & communication sector recorded a downturn in 2010. Cargo movements across ports saw a further decline due to both transshipment and local activities. Moreover, the gloomy results of the ports were exacerbated by fewer ships being piloted into the harbor. The air transportation industry performed poorly as well, with fewer passengers transported by the domestic airlines. Meanwhile, airport-related activities improved because of a growth in total passenger traffic in both Sint Maarten and Bonaire. In addition, both oil transshipment and storage activities in Curaçao declined. By contrast, the telecommunication sector improved in 2010, moderating the setback in the ports and air transportation.

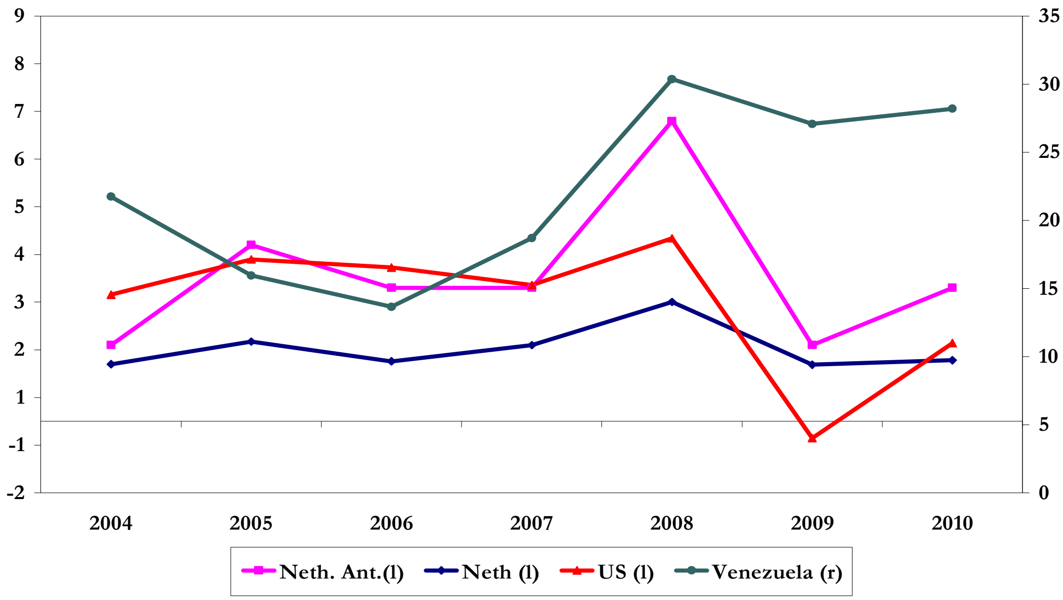
The real value added in the financial services sector improved in 2010. This growth was seen in both the domestic and international financial services sectors. Net income of the domestic commercial banks expanded, as the reduction in expenses outweighed the decline in income earned. Meanwhile, higher wages & salaries and other operational expenses resulted in a positive contribution by the international financial services sector in terms of value added.

3.3 Inflation

Overall consumer prices in the Netherlands Antilles trended upwards from 1.6% in 2009 to 2.8% in 2010, attributable to the global oil and food prices. The world economic rebound caused oil and food prices to rise, quickening the inflationary pressures. In the course of 2010, crude oil prices soared by 27.9%[4] in the world market. The higher Antillean inflation was in line with the trend of inflation of our main trading partners (see Graph 2).

[4] International Financial Statistics, IMF.

Graph 2 Developments in consumer prices (annual percentage change)



The key drivers behind the acceleration in 2010's CPI were "Housing" (4.4%) and "Transport & Communication" (2.3%). These components[5] recorded a price gain because of higher electricity and fuel costs. Electricity prices were not adjusted in 2010, but the higher price index was carried over from the third quarter of 2009, when electricity prices increased. Besides the higher fuel prices, the maintenance of automobiles became more expensive, which led to the price rise in "Transport." Also, food prices rose, but at a slower pace than in 2009, after reaching a peak in 2008. However, price deflation in the category clothing & footwear (1.0%) dampened the inflationary pressures. An analysis by island shows that Sint Maarten recorded the highest annual inflation (3.2%), followed by Curaçao (2.8%), and then Bonaire (2.4%). (See Table 9 in the appendix for a detailed overview.)

3.4 Public finances

3.4.1 Cash overview and financing

Public sector developments in 2010 must be seen against the backdrop of the constitutional reorganization of the Netherlands Antilles, which was concluded on October 10, 2010. On that day, Curaçao and Sint Maarten became autonomous countries within the Dutch Kingdom, while the BES islands[6] became special municipalities of the Netherlands. In the period leading up to October 10, 2010, the general government[7] increased both its consumptive and investment outlays in support of the ongoing reform and the setup of various institutions needed by the future public entities. A substantial part of the increase in government consumption was related to technical assistance costs incurred and the accelerated payment of pending bills of the central government in view of the approaching dissolution of this entity. These disbursements were complemented by increased spending on wages & salaries, owing to the filling of vacant

[5] Housing and Transport have relatively high weights in the consumer price index (CPI) of 32.2% and 17.3%, respectively.

[6] Bonaire, St. Eustatius, and Saba.

[7] Through October 9, 2010, the general government consisted of the central government and the island government of Curaçao. Beginning October 10, 2010, central government data continued to be reported, excluding transactions related to Sint Maarten and the BES islands.

positions and the adjustment of civil servant salaries on all five islands. The upturn in public investment was ascribable mainly to augmented spending on development projects, among which the Social Economic Initiative (SEI) projects. The SEI projects formed an integral part of the constitutional reorganization, as they focused on restructuring and strengthening the Netherlands Antillean economy in anticipation of the enactment of the new constitutional statuses. The debt relief program played an equally important part in the constitutional reform, as it enabled the Netherlands Antilles to finally break out of its vicious debt accumulation cycle and reach healthy and manageable public finances (see Text box for more details on the debt relief program). Mainly as a result of the debt relief grants received from the Netherlands, the general government ran a cash surplus of NAf.772.7 million by the end of 2010, a slight improvement weighed against 2009's NAf.761.8 million surplus. Moreover, the Netherlands Antillean debt-to-GDP ratio dropped from 74.0% at the end of 2009, to an estimated 32.3% in October 2010 (see Tables 10 and 11 in the appendix for a detailed overview).

The general government's primary balance, which is equal to the fiscal balance excluding interest costs, registered at 11.4% of GDP in 2010, down from 12.2% of GDP in 2009. This small drop resulted from the increase in current expenditures excluding interest costs, which outweighed the rise in total revenues. By contrast, total interest payments decreased drastically during 2010, reflecting the turnaround brought about by the debt relief. Prior to the initiation of the debt relief program early in 2009, interest expenditures weighed down the finances of the public sector significantly, reflected by the combination of high budget deficits and positive primary balances (see Table 4).

Table 4 Selected key variables of the general government (in millions NAf.)

	2007	**2008**	**2009**	**2010**
Revenues	1,547.3	1,740.7	2,767.3	2,799.0
% of GDP	23.8%	24.6%	38.7%	38.1%
Tax revenues	1,392.4	1,538.7	1,587.5	1,567.8
Nontax revenues	122.3	176.8	199.2	156.3
Grants	30.8	17.7	978.1	1,059.7
Expenditures	1,717.7	1,912.8	2,005.5	2,026.3
% of GDP	26.4%	27.1%	28.1%	27.6%
Current expenditures	1,695.7	1,815.9	1,951.8	1,989.8
Capital expenditures	22.0	96.9	53.8	36.5
Budget balance	-170.4	-172.1	761.8	772.7
% of GDP	-2.6%	-2.4%	10.7%	10.5%
Primary balance	152.8	131.2	869.8	836.4
% of GDP	2.3%	1.9%	12.2%	11.4%

During the twelve months ending December 2010, the revenues of the general government[8] increased by 1.1% compared to 2009. This rise was primarily the result of the withholding tax grants received from the Netherlands related to the tax arrangement for the Kingdom of the Netherlands (BRK).[9] In contrast, the debt relief grants received by the Netherlands Antilles to make debt service payments declined compared to 2009 as these cash transfers were terminated

8 Through October 9, 2010, the general government consisted of the central government and the island government of Curaçao. Beginning October 10, 2010, central government data continued to be reported, excluding transactions related to Sint Maarten and the BES islands.

9 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.

after the securities takeover by the Netherlands in October 2010.[10] Nonetheless, when including the monetary value of this debt assumption, the total debt relief received by the Netherlands Antilles in 2010 exceeded that of 2009. Other contributors to the rise in government revenues in 2010 included revenues from taxes on income & profit, and capital revenues, mitigated by a drop in, among other things, taxes on goods & services, and nontax revenues. The increase in general government expenditure throughout 2010 (1.0%) was for the most part owed to augmented outlays on wages & salaries as well as goods & services. However, the rise in these categories was counterbalanced largely by declines in transfers to other levels of government and interest payments. The fall in these transfers can be explained mostly by fewer disbursements to the island governments and other government institutions since the dismantling of the central government. The drop in interest payments was related mainly to the debt takeover by the Netherlands in October 2010, which caused total interest payments by the general government to drop to almost zero during the rest of the year (see Table 10 in the appendix for a detailed overview).

A breakdown of the general government's revenues generated during 2010 shows a growth at both government levels, spurred mainly by gains in grants. At the central government level, the gain in grants was complemented by moderate rises in nontax and capital revenues. Revenues from taxes on goods & services, on the other hand, dropped compared to 2009 due to a decline in sales taxes and excises on gasoline. The drop in sales tax revenues occurred mainly because central government data reported after October 10, 2010, excludes transactions related to Sint Maarten and the BES islands. Meanwhile, the fall in gasoline excises was brought about by lower disbursements of these revenues to the central government by Curaçao during 2010. The overall increase in the revenues recorded by the government of Curaçao in 2010 compared to 2009 was mainly attributable to the receipt of its share in the withholding tax grants obtained from the Netherlands and higher revenues from profit and wage taxes. However, these increases were mitigated by fewer dividend payouts by public enterprises.

In the period ending October 10, 2010, the central government's expenditures rose compared to the first three quarters of 2009, reflecting the focus that was placed on settling as many pending invoices as possible before the constitutional change. Outlays on wages & salaries showed a sharp jump, due mainly to the accelerated settlement of liabilities with the public pension fund, APNA, and the adjustment of the salaries of civil servants. Meanwhile, payments towards goods & services increased as a result of technical assistance costs incurred and the settlement of many pending invoices and arrears. Curaçao also saw an upturn in its expenditures in the twelve months ending December 2010, largely as a result of a hike in payments on wages & salaries, triggered by the adjustment of civil servant salaries and the filling of vacant positions. In addition, the Curaçao government increased its pension premiums payments to the APNA. The noted rise in Curaçao's goods & services outlays can be attributed mostly to technical assistance costs incurred in the process of establishing the necessary public institutions needed once the island obtained its status as an autonomous country. Also noteworthy is the rise in Curaçao's transfers to nonprofit institutions compared to 2009, primarily the result of the disbursements made to the local hospital (SEHOS) during 2010.

[10] The Dutch State assumed the legal ownership of all outstanding securities of the Netherlands Antilles on October 10, 2010.

Table 5 Financing of the cash balances (in millions NAf.)

	Central government		Curaçao government		
	2009	**Oct 10, 2010**	**2009**	**Oct 10, 2010**	**2010**
Monetary financing	-185.4	-573.8	-275.4	-172.4	-398.1
Central bank	-56.6	-393.7	-122.0	12.5	-187.8
Commercial banks	-131.5	-181.1	-153.4	-184.9	-210.3
Coins and notes	2.7	0.9	-.-	-.-	-.-
Nonmonetary financing	-179.1	110.8	-121.9	-126.6	-106.7
Government securities with the public	-120.4	-1,027.3	-117.7	-684.9	982.5
Other	-58.7	1,138.1	-4.2	558.3	-1,089.2
Cash balance	364.5	463.0	397.3	299.0	504.8

The net borrowing of the general government in 2010 was negative for the second successive year. This development was primarily a consequence of the implementation of the debt relief program, which reached its peak on October 10, 2010, when the Netherlands took over all outstanding Netherlands Antillean securities. This takeover is reflected largely by the sharp declines in the amounts of outstanding securities held by the public and the banking sector on that date. In addition, the withholding tax grants received by the central government resulted in an overall rise in the entity's deposits with the central bank. The noted rise in Curaçao's outstanding securities with the public by the end of 2010 was the result of the new bonds issued by the country on October 15, 2010. The further drop in Curaçao's liabilities to the monetary sector by the end of the year was the result of, on the one hand, the deposit with the central bank of Curaçao's share in the withholding tax grants received in 2010, and on the other hand, an increase in deposits with the commercial banks (see Table 5).

3.4.2 Public sector debt

October 10, 2010, marked the completion of the disbanding of the Netherlands Antillean federation, as well as the peak of the debt relief program. In the few weeks preceding this date, the debt relief program picked up more speed as the Netherlands opted to settle all outstanding loans with an early repayment clause (callable). This move was made in anticipation of the agreed-upon takeover by the Dutch State of all outstanding Netherlands Antillean securities on October 10, 2010, after which Curaçao and Sint Maarten issued new debt securities to settle the claims the Netherlands had obtained on them.[11] Curaçao issued NAf.1,667.4 million worth of new bonds on October 15, 2010, to pay the Netherlands, while Sint Maarten fulfilled its obligation with the Netherlands by issuing NAf.302.1 million in bonds on October 21, 2010. Overall, the Netherlands Antilles received NAf.3.43 billion from the Netherlands in the form of debt relief on outstanding securities by October 10, 2010, in addition to NAf.305.8 million to settle outstanding arrears, resulting in a final debt-to-GDP ratio of approximately 32.3% (see Graph 3).

[11] The takeover by the Netherlands on October 10, 2010, caused the actual amount of debt relief provided to exceed the agreed-upon amount, resulting in a claim by the Netherlands on all five islands. Since the BES islands became special municipalities of the Netherlands, they were not required to settle with the Netherlands.

Text box: The debt relief program implemented for the Netherlands Antilles

On October 10, 2010, the dissolution of the federation of the Netherlands Antilles reached its conclusion. The central government of the Netherlands Antilles ceased to exist on that day, while the five islands obtained their new constitutional status in the Kingdom of the Netherlands. Curaçao and Sint Maarten became autonomous countries within the Kingdom at the same time that Bonaire, St. Eustatius, and Saba (BES islands) adopted the status of special municipalities of the Netherlands.

To help the islands start off strongly in their new constitutional status, the Dutch government financed a large number of development projects on the islands under the Social Economic Initiative (SEI), and provided debt relief to the Netherlands Antillean governments. The debt relief program consisted of two different parts: 1) debt relief for outstanding securities, and 2) debt relief for outstanding arrears of the Netherlands Antilles. The latter relief consisted simply of a maximum amount available to each entity (NAf.0.62 billion in total for the central government and the five islands). The debt relief for outstanding securities was more complicated as it entailed that the Netherlands would reduce the consolidated outstanding securities balance of the Netherlands Antilles to the level corresponding with a 5% interest burden rule as of December 31, 2005. This rule stipulates a yearly interest ceiling of 5% of each government entity's revenues, thus preventing the uncontrolled buildup of debt in the future. The implication of this approach was that the NAf.4.19 billion in outstanding securities of the Netherlands Antilles on December 31, 2005, would be brought down to NAf.1.39 billion, a reduction of NAf.2.82 billion. The Dutch government also agreed to grant the Netherlands Antillean government entities an additional NAf.0.61 billion to make interest payments on these securities. Hence, the maximum debt relief available to the Netherlands Antilles summed to NAf.4.05 billion.

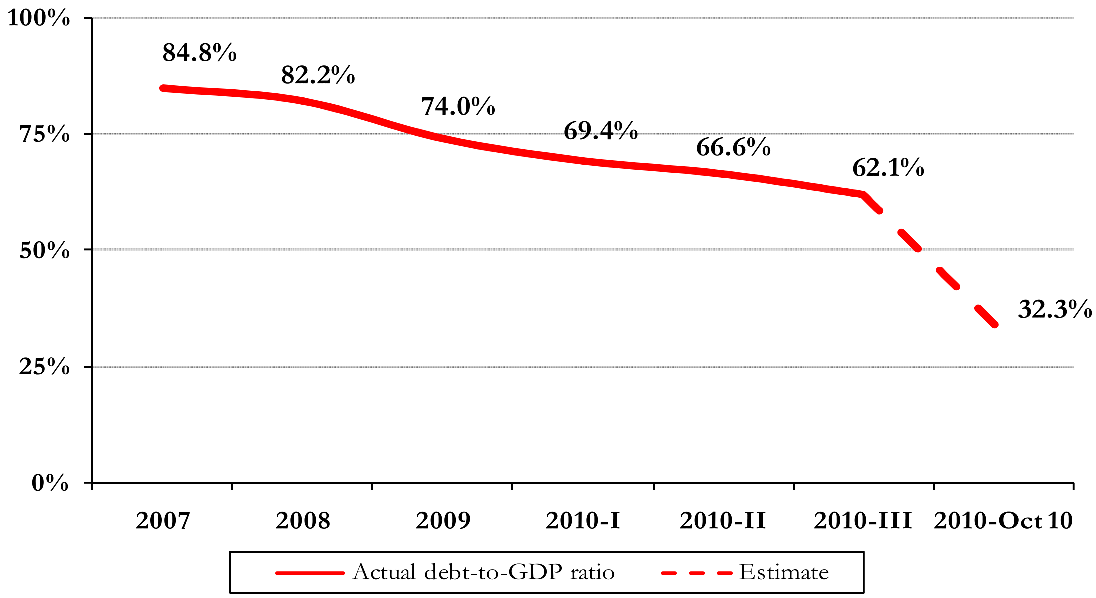
The government entities of the Netherlands Antilles were required to meet several conditions to qualify for debt relief. The main condition was supervision by an independent board, the College Financieel Toezicht (CFT), which was established to monitor the finances of the government entities and provide guidance whenever needed. Other requirements included bringing all financial accounts up to date, strengthening financial management, and adherence to the balanced budget rule and the interest burden rule. Moreover, all securities and arrears to be taken over by the Dutch government were to be thoroughly checked and certified by independent auditors in order to be included in the debt relief.

The debt relief program was initiated early in 2009 in the form of payments assistance to the central government and the island government of Curaçao, since these were the only two entities that had issued their own securities. However, over the years, the central government had also issued securities on behalf of Sint Maarten and the BES islands. So all debt relief grants related to these loans were transferred to the central government on the islands' behalf. The debt relief grants that were meant for the settlement of arrears, however, were transferred directly to the intended recipient entities by the Netherlands.

The first part of the debt relief program was concluded on October 10, 2010, with the Netherlands assuming the legal ownership of all outstanding securities of the Netherlands Antilles. Although this approach caused the total amount of debt relief provided under the first part to exceed the originally agreed-upon amount, the approach was chosen to guarantee the equal treatment of all securities holders. However, the excess amount taken over by the Netherlands resulted in a claim on all five islands. The claim on the BES islands subsequently was forfeited since those islands became integrated within the Netherlands. However, the new countries of Curaçao and Sint Maarten were required to issue new securities to settle the claim the Netherlands had obtained on them. During the third week of October 2010, both Curaçao and Sint Maarten issued new securities and settled their debt with the Netherlands, bringing the first part of the debt relief program to a successful completion.

Overall, by October 10, 2010, the Netherlands Antilles had received NAf.3.74 billion under the debt relief program: NAf.3.43 billion in the form of debt relief for outstanding securities and NAf.0.31 billion to settle arrears. The outstanding balance of the second part of the debt relief program will be disbursed after the remaining outstanding arrears receive the required auditor certifications.
Undoubtedly, the debt relief program has led to a complete turnaround in the public finances of the Netherlands Antilles, resulting in a final debt-to-GDP ratio of approximately 32.3%.

Graph 3 Development in total public debt-to-GDP ratio of the Netherlands Antilles



The total consolidated public debt of the Netherlands Antilles dropped from NAf.4,434.9 million at the end of 2009 to about NAf.407.7 million by the end of October 2010. The sharp drop in this debt was attributable to declines in the domestic and the foreign debt components. Besides the securities takeover and early repayments executed by the Netherlands, the domestic debt component showed a drop as a result of the accelerated payment of pending bills by the central government. By the end of October 2010, the domestic liabilities of the central government that remained pending summed to about NAf.202.0 million, of which about NAf.149.5 million was due to various creditors and NAf.42.6 million to the social security bank, SVB. Curaçao's domestic debt registered at about NAf.336.2 million by the end of October, the bulk of which was owed to the central government. The NAf.18.4 million in Curaçao's outstanding long-term securities was the domestically purchased share in the country's NAf.1,667.4 million in bonds issued on October 15, 2010. In the case of Sint Maarten, the share of bonds that was purchased locally totaled only NAf.0.1 million, representing a very small part of the country's NAf.41.1 million total domestic debt. Since the Netherlands settled all the BES islands' debts, their domestic debt showed a zero balance by October 2010 (see Table 11 in the appendix for a detailed overview).

The debt takeover by the Netherlands on October 10, 2010, also included the entire foreign debt of the Netherlands Antilles. However, since almost all of the new bonds issued by Curaçao and Sint Maarten were purchased by the Dutch State Treasury Agency (DSTA), the two countries incurred new foreign debt at that same moment. Due to a lack of interest by local investors in the emissions held by Curaçao and Sint Maarten and because the Netherlands has a standing subscription on all loans issued by the two new countries, nearly all the bonds issued by Curaçao and Sint Maarten were purchased by the Netherlands.[12] Consequently, by the end of October 2010, Curaçao's total foreign debt totaled NAf.1,649.0 million, and Sint Maarten's totaled NAf.301.9 million.

By the end of December 2010, the total public debt of Curaçao and Sint Maarten together was estimated to have dropped to NAf.2,172.9 million. This estimate is based on the assumption that

[12] All tenders of the Dutch State are based on the current yield of public loans with similar terms issued in the Netherlands.

all pending obligations between the central government and the two new counties were settled by the end of the year. The year-end debt can be allocated among the two countries as follows: Curaçao's total debt was NAf.1,829.8 million, NAf.180.8 million of which was domestic and NAf.1,649.0 million foreign, while Sint Maarten's total debt was NAf.343.1 million, NAf.41.2 million of which was domestic and NAf.301.9 million foreign.

3.5 Developments in the balance of payments

3.5.1 Introduction

In 2010, the current account of the balance of payments recorded a significantly higher deficit (NAf.1,429.7 million) than in 2009 (NAf.608.6 million). This deterioration in the deficit stemmed largely from decreased net current transfers received from abroad, combined with declines in both the trade balance and the services balance. The widened current account deficit, together with an increase in capital transfers and in external financing of the private sector resulted in a surplus of NAf.162.4 million in the balance of payments in 2010 (see Table 6).

Table 6 Balance of payments summary (in millions NAf.)

	2007	2008	2009	2010
Current account	1,007.8	-1,513.9	-608.6	-1,429.7
Capital transfers	218.8	244.8	200.6	1,392.8
Acquisition of nonproduced nonfinancial assets	-.-	-.-	-.-	0.6
External financing of the government	6.7	5.7	18.8	11.1
External financing of the private sector	920.3	1,532.6	794.4	81.8
- Direct investment *)	425.1	449.0	196.4	228.7
- Loans and credits *)	644.5	1,210.2	786.7	1,600.7
- Portfolio investments *)	-149.3	-126.6	-188.7	-1,747.6
Change in net foreign assets of banking system *)	-277.3	-371.6	-538.9	-162.4
- with central bank	-296.8	-282.8	-85.5	-42.1
- with commercial banks	19.5	-88.8	-453.4	-120.3
Statistical discrepancies	139.2	102.2	133.9	105.7

*) a minus sign implies an increase

3.5.2 Current account

In 2010, the trade gap increased by NAf.142.5 million compared to 2009 as imports increased significantly (NAf.143.8 million) while exports edged up slightly. Merchandise imports grew at a fast pace due mainly to an expansion in imported oil products, reflecting higher international oil prices. Additionally, an increase in free-zone imports reflected a growth in local consumption and more stock building in 2010 in comparison to 2009. In contrast, a decline in general merchandise imports was reported in 2010 because several major projects were completed in 2009, including the expansion of the harbor in Sint Maarten. Moreover, no significant investments were made in utilities in 2010, unlike 2009.

Merchandise exports remained fairly stable as a sharp decline in re-exports by the free zone was offset by an increase in exports from bunkering activities, caused by the higher international oil prices. The decline in re-exports by the free-zone companies was attributable particularly to Venezuela and was caused by the economic contraction and the currency restrictions imposed by the Venezuelan government.

The services balance worsened by NAf.213.5 million in 2010 compared to 2009, due mainly to a decline in the fee received for refining operations in Curacao. The lower fee was explained largely by the shutdown of the Isla refinery because of delivery interruptions of power and steam by the BOO plant for most of the year. In addition, foreign exchange revenues from international financial services showed a decline of NAf.56.7 million.

The declines in refining and international financial services were mitigated by an increase in the foreign exchange earnings from the tourism industry. In particular, receipts from stay-over tourism rose significantly. In Curacao, stay-over tourism revenues rose by 9.1%, while Sint Maarten registered a growth of 1.9%. The number of visitors from the United States and the Netherlands increased. However, this increase was offset partly by the decline in the number of Venezuelan tourists visiting the Netherlands Antilles; American and Dutch visitors stay longer than Venezuelan visitors. Additionally, the American visitor has a higher average spending than the Venezuelan. Likewise, overall revenues in cruise tourism increased as well, by 4.4%. Cruise tourism revenues in Sint Maarten expanded significantly by 27.5% in 2010 compared to 2009. In contrast, revenues from cruise tourism in Curacao declined by 15.1%. The developments on the trade and services balances resulted in a decline in net exports of goods and services by NAf.356.2 million.

The income balance improved by NAf.77.6 million in 2010, caused mainly by a drop in interest paid on foreign debt securities combined with an increase in interest received on foreign debt securities. Furthermore, the amount of dividend received on foreign equity securities rose.

Finally, the current transfers balance declined by NAf.542.6 million due mostly to less transfers from the Dutch government for the repayment of matured securities issued by the government of the Netherlands Antilles and the island territories (as part of the debt relief program). Overall, the current account deficit worsened by NAf.821.2 million to reach NAf.1,429.7 million in 2010. (For a detailed overview, see Table 12 in the appendix).

3.5.3 Financing of the current account balance

Due to the deficit recorded on the current account of the balance of payments, external financing to the private sector accumulated, further increasing the net debt position. In addition, substantial capital inflows were registered, reflecting the culmination of the debt relief program on the 10th of October 2010. As noted, on that date, the Dutch government took over all remaining outstanding debt of the former Netherlands Antilles. Together with increased development aid received from the Netherlands, the result was a capital inflow of NAf.1,393.4 million in 2010.

External financing to the private sector rose by NAf.81.8 million, reflecting mainly the worsening of the direct investment and loans and credits balances offset largely by the significant improvement in the portfolio investments balance. The portfolio investments balance expanded by NAf.1,747.6 million because the Dutch government became the debtor of the debt titles issued by the former Netherlands Antilles. In addition, an expansion was registered in the amount of investments in foreign bonds and notes by institutional investors.

On the other hand, net direct investments deteriorated by NAf.228.7 million because of an increase in liabilities of resident direct investment companies with their foreign affiliates. The increase in purchases of real estate in the Netherlands Antilles by nonresidents also contributed to the worsening of the direct investment balance.

Additionally, the loans and credits balance deteriorated significantly in 2010--by NAf.1,600.7 million, due largely to the transfer by the Netherlands of dividend tax paid by Dutch companies to their parent companies in the Netherlands Antilles, related to transactions in previous years (BRK arrangement). Furthermore, the net currency deposits abroad of local companies decreased due to a withdrawal of funds. The net trade credit balance showed a deterioration as well, reflecting mainly trade credits received that exceeded repayments. On the other hand, the repayment of loans received from abroad in the utilities, telecommunication, and transportation sectors mitigated the worsening of the loans and credits balance slightly.

Finally, as a result of the significant capital inflow in 2010 compensating the increased current account deficit, net foreign assets (i.e., international reserves) increased by NAf.162.4 million, compared to 2009. The central bank contributed NAf.42.1 million and the commercial banks NAf.120.3 million to the increase in net foreign assets. (See Table 13 in the appendix for more details.)

3.6 Monetary developments

3.6.1 Monetary policy

The Bank's monetary policy is directed at preserving the peg of the Netherlands Antillean guilder with the US dollar. To that end, the intermediate objective is 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. The Bank's monetary policy actions include, among other things, adjusting the key interest rate (the pledging rate) and influencing the availability of free reserves with the banks via the reserve requirement and the auctioning of certificates of deposit (CDs). These actions are directed at influencing the liquidity of the banking system to control the growth of private credit extension.

The ample import coverage and the moderate growth in private credit extension during 2010 facilitated a further relaxation of the Bank's monetary policy. The reserve requirement percentage was reduced from 10.25% at the end of December 2009 to 7.75% at the end of 2010. During the biweekly auctions, the Bank aimed only at refinancing maturing CDs. However, the outstanding amount of CDs dropped due to a shortfall in subscriptions of NAf.5.1 million to reach NAf.64.0 million at the end of 2010.

To successfully auction CDs, the interest rate offered must be competitive compared with alternatives abroad. Consequently, changes in US interest rates affect the Bank's CD and pledging rates to bring them into line with prevailing market rates and to avoid interest arbitrage.

Economic conditions in the United States, including low rates of capacity utilization, high unemployment, and muted inflationary expectations warranted that the Federal Reserve maintained its main policy rate at 0 to 1/4 percent throughout 2010. Consequently, the Bank's pledging rate in 2010 was kept at 1.00%, while the interest rate offered on one-month CDs remained almost unchanged compared to 2009.

3.6.2 Net accumulation of wealth and the money supply

Money holdings of the private sector shrank by NAf.241.7 million (3.2%) in 2010. (See Table 14A and Table 14B in the appendix for more details.) The drop in domestic liquidity was related to the constitutional changes that occurred in 2010.[13] Up to the third quarter of 2010, the money holdings of the private sector increased by NAf.357.1 million compared to the end of December 2009. However, the constitutional changes caused a drop in money holdings of almost NAf.600 million in the last three months of 2010 as a consequence of the redistribution of the assets and liabilities of the commercial banks operating in the Netherlands Antilles between the monetary union of Curaçao and Sint Maarten and the BES islands.

3.6.3 Factors affecting the money supply

Broad money (M2) expanded by 4.8% during the first three quarters of 2010. The annual growth of the money supply at the end of the third quarter accelerated from 5.8% in 2009 to 10.8% in 2010. However, M2 declined by 7.7% during the last three months of 2010, due mostly to the redistribution of assets and liabilities of the banks as a consequence of the constitutional changes. The decline in the money supply in the fourth quarter of 2010 contributed to the decline of 3.2% in the year-on-year growth at the end of 2010. The money and near-money components of the money supply registered a year-on-year decline of 4.2% and 2.5%, respectively.

Net domestic assets dropped substantially in 2010 (36.2%), reflected by all of its components. The contraction in net credit to the government resulted from the takeover of government debt securities because of the debt relief granted by the Netherlands. The decline in net credit extension to the private sector was related mostly to the redistribution of assets and liabilities of the banks following the constitutional changes. Moreover, the increase in “miscellaneous items” was due to additions to the capital and reserves of the monetary sector during 2010.

An analysis of the loans component of credit extended to the private sector reveals the following picture. On an Antillean basis, private sector loans grew by 7.0% from September 2009 to September 2010. A 7.8% growth was registered on the Leeward Islands and a 5.0% growth on the Windward Islands. All loan components contributed to the growth, consumer loans in particular (12.8%). Considering Curacao and Sint Maarten separately, private sector loans grew by 5.3% and 0.9%, respectively, in 2010 compared to 2009. In Curaçao, all loan components contributed to the growth: consumer loans grew by 10.9%, business loans by 6.2%, and mortgages by 1.9%. On Sint Maarten, consumer loans and business loans expanded by 2.6% and 2.0%, respectively, while mortgages declined by 0.8%.

Net foreign assets increased by 39.9% at the end of 2010 compared to the end of 2009. Both the central bank and the commercial banks contributed to the increase in net foreign assets. About half of the increase was due to the takeover of government debt securities by the Netherlands, resulting in a shift of the debt securities in portfolio from domestic to foreign assets. Furthermore, the revaluation of the gold stock at the central bank contributed to the increase in net foreign assets. As of October 10, 2010, the valuation is based on the market value of the gold at the balance sheet date, whereas in the past gold was valued only at year end.[14] Moreover, the surplus on the balance of payments caused net foreign assets to increase. (See Table 15 in the appendix for a detailed overview.)

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[13] As of October 10, 2010, a monetary union consisting of Curaçao and Sint Maarten was established. As a result, the assets and liabilities of the banks operating on Bonaire, Sint Eustatius, and Saba (i.e., the BES islands) are excluded from the banking statistics of the monetary union.

[14] The annual valuation was based on an average market price in the three years preceding the date of valuation.

3.6.4 Developments in domestic interest rates

For the third consecutive year, the official lending rate of the Bank remained unchanged at 1.00% in 2010. The CD rate offered at the auctions held in 2010 varied in line with the international interest rates. The maximum rate accepted at the end of 2010 was 0.17%. Excess liquidity in the domestic market coupled with the lower rates abroad caused a further decline in both commercial bank lending and borrowing rates in 2010. Average mortgage rates dropped by 0.7 percentage point to 6.7%, while the rate on more risky time loans was lowered by 0.8 percentage points to 8.8%. Attuning to the prevailing situation, the commercial banks tried to preserve their interest rate margin by reducing their borrowing rates. The average interest rate on passbook savings was lowered by 0.9 percentage point to 1.1% at the end of 2010. Furthermore, the average rate on 12-month time deposits was lowered by 0.1 percentage points to 1.7%.

Due to the participation of the Dutch State Treasury Agency (DSTA) in the local tender of government securities, local yields of long-term government securities declined further during 2010. As the offerings by the DSTA are based on the relatively lower effective yield of Dutch State loans with similar maturities, the average effective yield of 5-year government bonds fell by 1.9 percentage points to 2.4% at the end of 2010. The one–month treasury bills rate was indirectly affected by market activities during 2010 as there was no amount outstanding since the end of March 2010. The change in this rate at the end of 2010 was due to yield-curve smoothing. (See Table 16 in the appendix for a detailed overview.)

3.7 Developments in the commercial banking sector

3.7.1 Balance sheet and income statement

Total assets of the domestic commercial banks[15] expanded by 1.8% during 2010 compared to 7.4% in 2009. The deceleration in the growth rate was due to decreases in both non-interest-bearing (8.1%) and interest-bearing cash (11.4%). The latter was a turnaround compared to 2009 when the cash items registered an increase. Loans, on the other hand, increased by 6.4% in 2010, a deceleration compared to the 9.9% growth in 2009. (See Table 17 in the appendix for more details.)

On the liabilities side, total deposits increased by 0.4% in 2010, a deceleration compared to the growth of 8.8% realized in 2009. The gain in total deposits was due to increases in time (12.4%) and savings (1.9%) deposits, offsetting the drop in demand deposits (6.7%). As a result, the composition of total deposits changed as the shares of time and savings deposits increased by 2.6 and 0.5 percentage points to 24.8% and 33.6%, respectively. The share of outstanding demand deposits dropped by 3.2 percentage points to 41.6%. Capitalization of the domestic banks strengthened further in 2010 although at a slower pace than in 2009 as total capital increased by 8.7%.

A reduction of deposit rates by the domestic commercial banks in combination with a drop in outstanding interest-bearing deposits contributed to a decline of 23.8% in interest expenses in 2010. As interest expenses fell at a faster pace than interest income, net interest income rose by 5.0%. Together with a drop of 4.8% in other income, an overall increase of 1.5% in total operational income of the domestic commercial banking sector resulted in 2010.

[15] The 2010 data are not fully comparable to those of 2009 due to the exclusion of the banks that operate on the BES islands as of October 10, 2010. Their share in total assets of the commercial banks on an Antillean basis was only 5.4% at the end of September 2010.

Operational expenses rose by 5.1% in 2010, an acceleration compared to the 4.4% growth in 2009. The total expenses-to-total assets ratio increased from 4.0% in 2009 to 4.1% in 2010, implying a slight decrease in cost efficiency. All categories, with the exception of occupancy expenses accounted for the faster growth in 2010. The largest increase (32.3%) occurred in the net addition to general provisions. The growth in operating expenses outbalanced that of operating income, causing a decline in net operating income (7.2%). Nevertheless, net income after taxes increased by 0.6% to NAf.212.2 million in 2010 because of more extraordinary income and lower profit taxes. (See Table 18 in the appendix for more details.)

3.7.2 Financial soundness indicators

The general performance of the banking sector is analyzed on a regular basis by the Bank through the monitoring of financial soundness indicators (FSIs), i.e., aggregates of microprudential indicators used to assess the soundness of individual banks. Since these microeconomic indicators consider only the exposure of individual banking institutions, macroeconomic factors are not really taken into account. The Bank has started to consider these macroeconomic factors by developing stress tests. Stress testing helps to monitor and anticipate potential vulnerabilities in the financial system. These stress tests together with the FSIs enhance the macroprudential approach for a better assessment of the vulnerability of the banking system to shocks and the extent of systemic risk.

The ratio of total capital-to-total assets increased from 10.2% in 2009 to 11.2% in 2010. A growth of 4.8% was registered in qualifying Tier 1 capital while total assets dropped by 0.4%. The capital assets ratio exceeded the internationally acknowledged Basel benchmark of 8.0%, meaning that the adequacy of the capital stock of the domestic banks is relatively strong.

A higher increase in provisions than in nonperforming loans caused the ratio of provisions for loan losses-to-nonperforming loans to increase from 50.3% to 53.4% in 2010. However, the ratio of nonperforming loans-to-total loans reached 6.3% at the end 2010, up from 5.7% at the end of 2009, indicating a further deterioration in the quality of the credit portfolio. This deterioration resulted from an increase of 11.4% in nonperforming loans in 2010 (still a deceleration compared to the growth recorded in 2009), while total loans remained almost the same as in 2009.

The gross earning-assets yield points in the direction of a decline in the profitability of the domestic banking sector in 2010 compared to 2009. Both the average earning assets (1.2%) and the interest earned on these assets (3.1%) declined, resulting in a decline in the ratio. The return-on-assets ratio remained the same in 2010 compared to 2009 (1.8%), the result of an increase in net income (3.8%) and a decline in average total assets (1.6%). The net interest margin improved to 4.5% in 2010, up from 4.4% in 2009, as net interest income grew while the average earning assets dropped.

Finally, the ratio of total loans-to-total deposits declined in 2010, indicating a slight increase in liquidity of the domestic banking sector. The decline resulted from an increase in total deposits while the amount of loans extended remained almost unchanged.

Table 7 Macroprudential indicators (in %, end of period)

	2007	2008	2009	2010
Capital adequacy				
Total capital/total assets	8.8	10.0	10.2	11.2
Asset quality				
Nonperforming loans/total loans	4.6	4.1	5.7	6.3
Provisions for loan losses/nonperforming loans	66.8	66.7	50.3	53.4
Earnings				
Gross earning-assets yield	6.9	6.3	6.1	5.8
Net interest margin	4.4	4.1	4.4	4.5
Return-on-assets	1.8	2.2	1.8	1.8
Liquidity				
Total loans/total deposits	61.4	62.9	61.7	61.4

APPENDIX

Table 8 Developments in stay-over tourism per island (% change) [a]

	Sint Maarten				Bonaire				Curaçao			
	2009		2010		2009		2010		2009		2010	
North America, of which:	-6.6	(-2.1)	-1.0	(-0.3)	-21.2	(-0.7)	0.0	(0.0)	-16.6	(-0.8)	32.1	(2.1)
-U.S.A.	-6.8	(-1.9)	-1.7	(-0.5)	-21.8	(-0.6)	-1.3	(0.0)	-17.5	(-0.7)	34.7	(2.0)
Europe, of which:	-4.3	(-0.5)	2.8	(0.3)	-1.7	(-0.1)	7.2	(0.3)	9.2	(1.6)	9.8	(1.9)
-The Netherlands	-16.8	(-0.3)	8.4	(0.2)	-2.7	(-0.1)	11.7	(0.4)	11.7	(1.7)	10.4	(1.7)
South & Central America, of which:	-9.4	(-0.1)	21.6	(0.4)	14.5	(0.1)	-4.4	(0.0)	-24.1	(-3.6)	-42.6	(-3.7)
-Venezuela	-5.9	(0.0)	-10.7	(0.0)	20.9	(0.1)	-19.6	(0.0)	-29.1	(-3.5)	-58.0	(-3.0)
-Brazil	-15.8	(-0.1)	103.4	(0.7)	-19.2	(0.0)	31.3	(0.0)	5.3	(0.0)	82.3	(0.8)
-Other	-7.6	(0.0)	-3.7	(0.0)	32.9	(0.1)	2.2	(0.0)	7.1	(0.2)	8.0	(0.2)
Caribbean, of which:	-18.9	(-0.5)	-5.9	(-0.2)	-5.2	(0.0)	33.4	(0.2)	-11.2	(-0.5)	9.5	(0.4)
-Aruba	---	---	---	---	-6.1	(0.0)	38.7	(0.2)	-0.8	(0.0)	12.6	(0.3)
-Dominican Republic	1.8	(0.0)	-3.2	(0.0)	---	---	---	---	0.8	(0.0)	11.8	(0.0)
-Other	-21.0	(-0.5)	-6.2	(-0.2)	---	---	---	---	-21.2	(-0.4)	5.9	(0.1)
Total	-7.4	(-3.7)	0.7	(0.3)	-9.9	(-0.8)	5.3	(0.4)	-10.3	(-4.3)	-6.6	(-2.7)

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

Table 9 Netherlands Antilles consumer prices (annual percentage change)

	2007	2008	2009	2010
Food	7.3	17.7	9.5	4.2
Beverages & tobacco	2.4	6.5	6.1	3.2
Clothing & footwear	0.9	1.9	1.8	-1.0
Housing	2.7	5.4	-1.2	4.4
Housekeeping & furnishings	2.3	5.8	4.9	0.9
Health	0.6	2.2	1.9	1.8
Transport & communication	1.8	6.9	-2.3	2.3
Recreation & education	0.8	2.0	1.1	0.1
Other	1.5	2.5	3.5	2.2
General inflation rate	2.8	6.3	1.6	2.8

Source: Central Bureau of Statistics

Table 10 Budgetary overview (in millions NAf.)

	2007	2008	2009	Oct 10, 2010	2010[1]
General government					
Revenues	1,547.3	1,740.7	2,767.3	2,465.0	2,799.0
Tax revenues, of which:	1,392.4	1,538.7	1,587.5	1,253.0	1,567.8
Taxes on income and profits	606.5	675.3	712.9	588.9	739.3
Taxes on goods and services	532.4	591.7	613.7	463.8	570.2
Taxes on international trade and transactions	166.1	182.8	179.9	138.6	184.3
Nontax and other revenues	124.1	184.3	201.7	158.1	171.5
Grants	30.8	17.7	978.1	1,053.8	1,059.7
Expenditures	1,717.7	1,912.8	2,005.5	1,703.0	2,026.3
Current expenditures, of which:	1,695.7	1,815.9	1,951.8	1,676.8	1,989.8
Wages and salaries	586.2	673.3	709.6	661.7	824.7
Goods and services	424.4	456.7	465.4	442.9	542.4
Subsidies	44.0	46.9	50.0	42.2	51.1
Transfers	317.9	335.7	419.5	319.1	359.3
Interest payments	323.2	303.3	307.2	210.8	212.4
Capital expenditures	22.0	96.9	53.8	26.2	36.5
Budget balance	-170.4	-172.1	761.8	762.0	772.7
Central government					
Revenues	837.2	938.2	1,465.9	1,374.9	1,537.9
Tax revenues, of which:	710.7	784.1	788.8	595.5	750.1
Taxes on goods and services	492.3	542.1	559.2	417.2	519.9
Taxes on international trade and transactions	166.1	182.8	179.9	138.6	184.3
Nontax and other revenues	95.7	136.4	105.6	129.4	131.9
Grants	30.8	17.7	571.5	650.0	655.9
Expenditures	931.9	1,027.0	1,101.4	911.9	1,270.0
Current expenditures, of which:	917.5	939.6	1,064.2	901.9	1,256.2
Wages and salaries	312.2	320.9	342.4	345.5	415.2
Goods and services	105.7	135.0	123.5	139.4	158.6
Transfers	324.3	325.3	427.4	305.0	570.4
Interest payments	175.3	158.4	170.9	112.1	112.1
Capital expenditures	14.4	87.4	37.2	10.0	13.8
Budget balance	-94.7	-88.8	364.5	463.0	267.9
Curaçao government					
Revenues	866.3	968.8	1,493.4	1,235.7	1,669.2
Tax revenues, of which:	681.7	754.6	798.7	657.5	817.7
Taxes on income and profits	606.5	675.3	712.9	588.9	739.3
Taxes on goods and services	40.1	49.6	54.5	46.7	50.3
Nontax and other revenues	28.4	47.9	96.1	28.7	39.5
Grants	156.1	166.3	598.6	549.5	812.0
Expenditures	941.9	1,052.0	1,096.1	936.7	1,164.4
Current expenditures, of which:	934.3	1,042.5	1,079.6	920.5	1,141.7
Wages and salaries	274.0	352.4	367.2	316.2	409.4
Goods and services	318.7	321.7	341.9	303.5	383.8
Transfers	149.8	176.7	184.1	159.8	197.0
Interest payments	147.9	144.9	136.3	98.8	100.3
Capital expenditures	7.6	9.5	16.6	16.2	22.7
Budget balance	-75.7	-83.3	397.3	299.0	504.8

1) Central government data reported after October 10, 2010, excludes Sint Maarten and the BES islands.

Table 11 Total outstanding consolidated public debt[1] (in millions NAf.)

	2007	2008	2009	Oct 2010*	2010**
Domestic consolidated debt, of which:	4,698.6	4,998.1	4,434.9	407.7	222.0
Central government, of which:	2,460.9	2,668.2	2,404.7	202.0	
Long-term securities	1,872.9	2,059.1	1,898.2	0.0	
Short-term securities	231.5	167.7	5.8	0.0	
APNA	228.3	225.3	232.1	0.0	
SVB	6.4	12.1	19.0	42.6	
Curaçao, of which:	2,452.6	2,506.6	2,235.3	336.2	180.8
Long-term securities	923.2	980.5	875.3	18.4	18.4
Short-term securities	163.8	185.1	49.4	0.0	0.0
APNA	860.8	838.6	812.3	52.3	58.6
SVB	0.0	0.0	0.0	0.0	0.0
Central government	312.2	301.2	286.4	161.7	0.0
Sint Maarten, of which:	163.1	173.6	198.9	41.1	41.2
Long-term securities				0.1	0.1
BES islands[2]	180.3	202.6	192.2	0.0	
Foreign debt, of which:	820.8	805.2	849.8	1,951.0	1,951.0
Curaçao				1,649.0	1,649.0
Sint Maarten				301.9	301.9
Total debt (consolidated)	5,519.4	5,803.3	5,284.7	2,358.6	2,172.9
(% of GDP)	84.8%	82.2%	74.0%	32.3%	

1) Due to consolidation of the debts between the central government and the island governments, numbers may not add up.
2) Bonaire, St. Eustatius, and Saba.
* Estimates Netherlands Antilles.
** Estimates Curaçao and Sint Maarten.

Table 12 Detailed overview balance of payments (in millions NAf.)

	2007	2008	2009	2010
Trade balance	-3,351.6	-3,563.2	-3,216.4	-3,359.0
-Exports	1,210.8	1,948.3	1,450.0	1,451.3
-Imports	-4,562.4	5,511.5	4,666.5	4,810.2
Services balance	2,329.0	2,118.2	1,979.2	1,765.7
Receipts, of which:	3,756.3	3,678.1	3,643.3	3,451.7
-Travel	1,966.0	2,081.2	1,939.5	2,024.7
-Transportation	258.4	290.5	311.3	324.2
-Other services, of which:	1,532.0	1,306.4	1,392.5	1,102.7
- Int. fin. & bus. services sector	353.6	302.0	313.0	256.3
Expenses, of which:	1,427.4	1,559.8	1,664.1	1,685.9
-Travel	528.8	535.2	530.8	558.6
-Transportation	164.6	211.9	282.9	304.0
-Other services, of which:	733.9	812.8	850.5	823.4
- Int. fin. & bus. services sector	135.3	116.2	131.4	126.1
Income balance [a]	5.2	-74.0	-172.8	-95.3
Current transfers balance [b]	-9.5	5.1	801.5	258.9
- Profit taxes	121.2	156.8	153.9	79.5
Current account balance	**-1,007.8**	**-1,513.9**	**-608.6**	**-1,429.7**
Capital & financial account balance [c]	**868.6**	**1,411.9**	**474.5**	**1,324.0**
Net errors & omissions	**139.2**	**102.0**	**134.0**	**105.6**

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

	2007	2008	2009	2010
Direct investment	425.2	449.1	196.3	228.7
- Abroad [a]	5.9	-27.0	-13.1	-32.8
- In the Netherlands Antilles [b]	419.4	476.1	209.4	261.5
Portfolio investment [a]	-149.2	-126.6	-188.7	-1,747.6
Other investment, of which:	363.2	1,032.0	816.0	1,312.3
- Assets [a]	323.4	948.1	729.5	1,279.3
- Liabilities [b]	39.8	83.9	86.5	33.0
Net lending/borrowing, of which:	287.9	183.9	-10.6	299.5
- Assets [a]	351.5	270.3	113.2	34.6
- Liabilities [b]	-63.6	-86.4	-123.8	264.9
Reserves [c]	-277.3	-371.6	-539.1	-162.4
Total assets [a]	254.1	693.3	101.8	-628.9
Total liabilities [b]	395.5	473.6	172.1	559.4
Balance	649.9	1,167.0	273.8	-69.3

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 14A Net accumulation of wealth (in millions NAf.)

2010	Domestic sectors			External sector
	Private	Government	Banking	
Nonfinancial transactions	-2,207.0	777.3		1,429.7
Government net lending	5.1	-5.1		
Government domestic nonbank financing	-144.0	144.0		
External financing of the government		11.1		-11.1
External financing of the private sector	81.8			-81.8
-Direct investment (equity)	228.7			-228.7
-Loans and credits	1,600.7			-1,600.7
-Portfolio, incl. debt	-1,747.6			1,747.6
Capital transfers & acquisition	1,393.4			-1,393.4
Change in net foreign assets of the central bank			-42.2	42.1
Valuation adjustment	255.3		-255.3	
Change in net foreign assets of commercial banks			-120.3	120.3
Valuation adjustment	450.4		-450.4	
Change in domestic bank credit	-87.5	-927.3	1,014.7	
Change in broad money	241.7		-241.7	
Other items, net/errors & omissions	10.6		95.1	-105.7

Table 14B Net accumulation of wealth (in millions NAf.)

2009	Domestic sectors			External sector
	Private	Government	Banking	
Nonfinancial transactions	-1,369.4	760.9		608.5
Government net lending	-0.9	0.9		
Government domestic nonbank financing	300.6	-300.6		
External financing of the government		18.8		-18.8
External financing of the private sector	794.4			-794.4
-Direct investment (equity)	196.4			-196.4
-Loans and credits	786.7			-786.7
-Portfolio, incl. debt	-188.7			188.7
Capital transfers & acquisition	200.6			-200.6
Change in net foreign assets of the central bank			-85.6	85.5
Change in net foreign assets of commercial banks			-453.5	453.4
Change in domestic bank credit	542.6	-480.0	-62.6	
Change in broad money	-600.4		600.4	
Other items, net/errors & omissions	132.6		1.3	-133.9

Table 15 Monetary survey (in millions NAf.)

	2007	2008	2009	2010 1)
Money supply (M2)	6,083.4	6,857.8	7,458.2	7,216.5
Money (M1)	2,298.6	2,896.4	3,266.9	3,131.2
Coins & notes with the public	304.4	315.1	334.1	320.6
Total demand deposits, of which :	1,994.2	2,581.3	2,932.8	2,810.6
- Netherlands Antillean guilders	1,441.5	1,923.3	2,265.0	2,218.6
- Foreign currency	552.7	658.0	667.8	592.0
Near money	3,784.8	3,961.4	4,191.3	4,085.3
Time deposits	2,254.3	2,241.4	2,175.3	2,186.6
Savings	1,530.5	1,720.0	2,016.0	1,898.7
Factors affecting the money supply	6,083.4	6,857.8	7,458.2	7,216.5
Net domestic assets	3,961.8	4,257.2	4,225.9	2,696.0
General government	628.3	702.1	222.1	-705.2
- Central government	394.9	428.4	238.2	-112.2
- Island governments	233.4	273.7	-16.1	-593.0
Private sector	4,532.9	5,091.4	5,634.0	5,546.5
Memorandum items	-1,199.4	-1,536.3	-1,630.2	-2,145.4
Net foreign assets	2,121.6	2,600.6	3,232.3	4,520.5
Central bank	1,620.6	2,010.7	2,188.9	2,906.4
Commercial banks	501.0	589.9	1,043.4	1,614.1
Government loans by commercial banks	641.2	722.2	523.9	0.2
- Central government	368.3	402.8	322.5	0.0
- Island governments	272.9	319.4	201.4	0.2
Private sector loans Leeward Islands	2,977.8	3,388.4	3,649.4	3,524.0
- Mortgages	966.4	1,269.2	1,477.9	1,394.1
- Consumer loans	902.3	899.7	935.4	943.9
- Business loans	1,109.2	1,219.6	1,236.0	1,186.0
Private sector loans Windward Islands	1,307.3	1,410.2	1,567.1	1,581.8
- Mortgages	419.3	515.6	667.1	661.7
- Consumer loans	386.5	377.4	381.7	391.5
- Business loans	501.6	517.2	518.4	528.6

1) Excluding the BES islands (i.e., Bonaire, Sint Eustatius, and Saba)

Table 16 Developments in domestic interest rates (in %)

	2007	2008	2009	2010
Central bank				
- Pledging rate	5.0	1.0	1.0	1.0
- Maximum CD rate (1 month)	4.75	0.57	0.16	0.17
Commercial bank borrowing rates				
- Passbook savings	2.5	2.2	2.0	1.1
- Time deposit (12 months)	4.4	3.8	1.8	1.7
Commercial bank lending rates				
- Mortgages	8.0	8.3	7.4	6.7
- Time loans	9.5	8.2	9.6	8.8
Government securities				
- 5-year government bonds (effective yield)	7.2	5.9	4.3	2.4
- Treasury bills (1 month)	5.1	4.4	0.6	1.0

Table 17 Aggregate balance sheet for domestic commercial banks (in millions NAf.)

	2007	2008	2009	2010[1]
Assets				
Non-interest-bearing cash	948.0	1,092.2	1,568.1	1,441.7
Interest-bearing cash	2,585.8	2,938.6	3,257.5	2,884.8
Investments	1,524.0	1,508.8	1,357.4	1,461.9
Loans	6,386.5	7,125.5	7,617.7	8,106.2
Investments in unconsolidated subsidiaries and affiliates	150.3	175.9	58.5	123.6
Fixed assets	260.8	277.7	296.5	333.8
Other assets	257.7	279.8	235.1	295.5
Total assets	12,113.0	13,398.5	14,390.8	14,647.6
Liabilities				
Demand deposits	4,093.2	4,571.2	5,590.6	5,215.6
Savings deposits	3,557.1	3,896.3	4,131.5	4,211.8
Time deposits	2,895.3	3,003.1	2,763.0	3,105.8
Total deposits	10,545.6	11,470.7	12,485.1	12,533.2
Borrowings	71.1	130.4	49.4	99.5
Other liabilities	451.8	462.7	396.0	427.6
Total liabilities	11,068.4	12,063.8	12,930.4	13,060.3
Minority interest	8.4	8.5	8.6	9.3
Subordinated debentures	1.7	0.0	0.0	0.0
General provisions	203.3	201.8	223.5	266.4
Capital & reserves	831.2	1,124.5	1,228.3	1,311.5
Total capital	1,044.6	1,334.7	1,460.4	1,587.2
Total liabilities and capital	12,113.0	13,398.5	14,390.8	14,647.6

1) Excluding the BES islands (i.e., Bonaire, Sint Eustatius, and Saba)

Table 18 Aggregate income statement for domestic commercial banks (in millions NAf.)

	2007	2008	2009	2010
Interest income	753.7	766.7	738.9	713.9
Interest expenses	276.4	252.7	215.1	164.0
Net interest income	477.3	513.9	523.8	549.9
Other income	254.8	303.4	288.2	274.2
Total operational income	732.1	817.3	811.9	824.2
Salaries & other employee expenses	275.6	296.1	297.3	308.6
Occupancy expenses	84.0	95.4	100.1	95.1
Other operating expenses	115.9	126.2	126.4	132.2
Net addition to general provisions	45.7	34.6	52.6	69.6
Total operational expenses	521.3	552.2	576.4	605.6
Net operating income	210.8	265.1	235.5	218.6
Net extraordinary items	0.5	33.2	25.5	36.0
Applicable profit taxes	49.7	58.8	50.1	42.4
Net income after taxes	161.6	239.5	211.0	212.2

4 DOMESTIC FINANCIAL MARKET DEVELOPMENTS

4.1 Introduction

Towards the end of 2008, the Fed funds rate declined from 1% to a range of 0% - 0.25% and remained within that range during 2009 and 2010. Given the close ties between the United States and domestic financial markets, due to the peg of the Netherlands Antillean guilder to the dollar, the Bank's official lending rate was reduced from 1.75% to 1.00% at the end of 2008 and remained at this historically low level during 2009 and 2010.

In addition to the international developments, local financial market developments were dominated by the debt relief offered by the Dutch government as part of the constitutional changes. The subscription possibility of the Dutch State Treasury Agency in local government securities put rates under pressure. The Agency subscribes at rates prevailing in the Netherlands, which are considerably lower than those common in the Netherlands Antilles. Local investors usually use the US Treasury or US agency rates as references for AAA investments. The subscription possibility of the State of the Netherlands through the Dutch State Treasury Agency will be in effect for 5 years after October 10, 2010, the date of the constitutional changes.

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 the Bank uses 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 in 2010, preferring to use uncollateralized interbank instruments.

As indicated in Table 19, the average balance of outstanding CDs decreased throughout 2010 to NAf.64.0 million, NAf.5.1 million (7.4%) lower than in 2009. During most of 2010, the auctions were oversubscribed because the money market remained very liquid.

The average outstanding balance of the non-interest-bearing reserve requirement decreased by NAf.137.5 million (21.8%) to NAf.494.3 million in 2010. 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 was lowered during 2010 from 10.25% to 7.75% at the end of the year as a result of monetary easing.

Bank liquidity remained high in 2010, reflected by the average outstanding balance of demand deposits with the central bank of NAf 345.2 million. Compared to 2009, however, the average balance in 2010 was 23.5% lower.

Table 19 Average outstanding balances of certificates of deposit, non-interest-bearing reserve requirement, and demand deposits of commercial banks with the central bank (in millions NAf.)

	2008	2009	2010	% change 2009-2010
Certificates of deposit	108.0	69.1	64.0	-7.4
Non-interest-bearing reserve requirement	715.0	631.8	494.3	-21.8
Demand deposits	99.7	451.4	345.2	-23.5
Total	922.7	1,152.3	903.5	-21.6

During 2010, neither the Central government nor the Island government of Curacao issued any treasury bills as a result of the debt relief program. Both governments' maturing treasury bills were paid directly by the Dutch government (see Table 20).

Financial market information is continually 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.

Nevertheless, activities in the secondary market continued at a very slow pace during 2010 because the Netherlands started to service the outstanding government loans. Investors were holding on to their local government securities because after the constitutional restructuring, the AAA-rated Dutch government would become the debtor of these relatively high-yielding securities.

Table 20 Treasury bill issuance, outstanding balances, and average maturity as of December 31 (in millions NAf.)

	2008	2009	2010
Issuance	**671.8**	**289.6**	**0.0**
Central government	414.2	26.9	0.0
Island government of Curaçao	257.6	262.7	0.0
Outstanding amount	**352.8**	**55.2**	**0.0**
Central government	167.7	5.8	0.0
Island government of Curaçao	185.1	49.4	0.0
Average maturity (months)	**3.4**	**2.1**	**0.0**
Central government	3.6	2.9	0.0
Island government of Curaçao	3.3	1.4	0.0

4.3 The market for government securities

The debt relief program was concluded in October 2010, right after the constitutional changes took effect, with auctions of bonds issued by the government of Curacao and the government of Sint Maarten on October 15 and 21, respectively (see Table 21). These bonds were issued to refinance and settle the claim of the Netherlands resulting from the excess amount of debt that was taken over by the Netherlands under the debt relief.

Because the Netherlands subscribed to the bonds at the prevailing yields in the Dutch capital market, the coupons offered were lowered correspondingly, resulting in a significant decline in the local yields. At the end of 2010, the yield on a 1-year bond had declined to 1.5% compared to 1.76% at the end of 2009. The yield from 2009 to 2010 on a 5-year bond declined from 4.30% to 2.35%, on a 10-year bond from 4.85% to 2.86%, and on a 15-year bond from 5.50% to 2.86%.

Table 21 Overview bonds issued for settlement debt relief (in NAf.)

Years to maturity	Coupon	Description of S/A bonds	Nominal amount accepted
10	2.500%	Curaçao Oct 15 2010 - 2020	100,000,000
15	2.750%	Curaçao Oct 15 2010 - 2025	140,000,000
20	2.875%	Curaçao Oct 15 2010 - 2030	370,000,000
25	3.000%	Curaçao Oct 15 2010 - 2035	475,000,000
30	3.125%	Curaçao Oct 15 2010 - 2040	582,391,000
			1,667,391,000
10	2.500%	Sint Maarten Oct 21 2010 - 2020	50,000,000
15	2.625%	Sint Maarten Oct 21 2010 - 2025	73,500,000
20	2.750%	Sint Maarten Oct 21 2010 - 2030	78,571,000
25	2.875%	Sint Maarten Oct 21 2010 - 2035	50,000,000
30	3.000%	Sint Maarten Oct 21 2010 - 2040	50,000,000
			302,071,000

The debt relief program can be summarized as follows. From the start of debt relief in 2009 until October 2010, the debt of the island government of Curacao declined to NAf.1,112,187,257 and that of the central government to NAf.1,649,788,552. On October 10, 2010, the government of the Netherlands took over the entire remaining debt of NAf.2,761,975,809. On October 15 and 21, 2010, the new countries of Curacao and Sint Maarten issued a series of bonds to pay off the claim of the Netherlands resulting from the excess debt assumed. Ultimately, Curacao and Sint Maarten remained with a debt outstanding of NAf.1,667,391,000 and NAf.302,071,000, respectively (see Table 22).

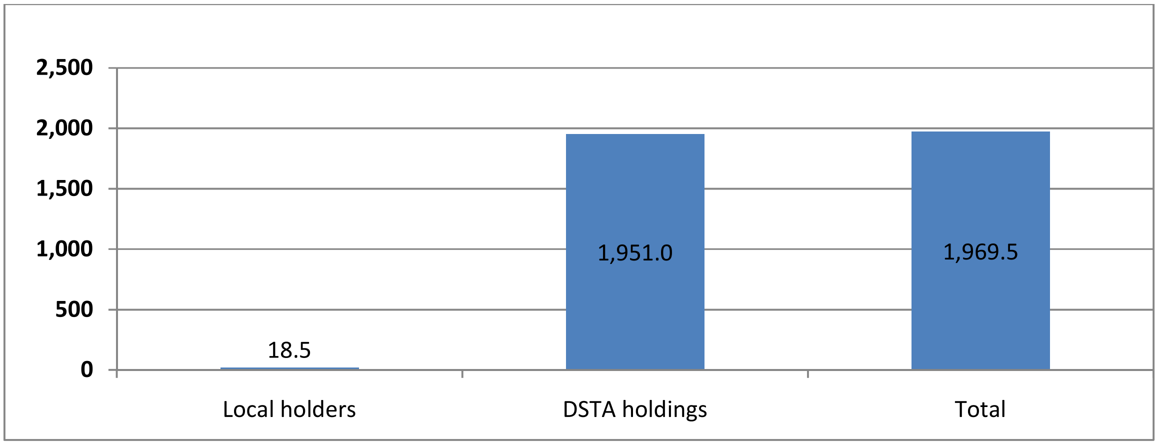
Table 22 Time line debt relief 2010 (in NAf.)

	31-Dec-09	9-Oct-10	10-Oct-10	15-Oct-10	21-Oct-10	31-Dec-10
Island government of Curaçao	1,291,790,275	1,112,187,257	0	0	0	0
Central government	1,903,954,552	1,649,788,552	0	0	0	0
Total	3,195,744,827	2,761,975,809				
Taken over by The Netherlands			2,761,975,809	2,761,975,809	2,761,975,809	2,761,975,809
Country of Curaçao	0	0	0	1,667,391,000	1,667,391,000	1,667,391,000
Country of Sint Maarten	0	0	0	0	302,071,000	302,071,000

4.4 Composition of issued debt securities

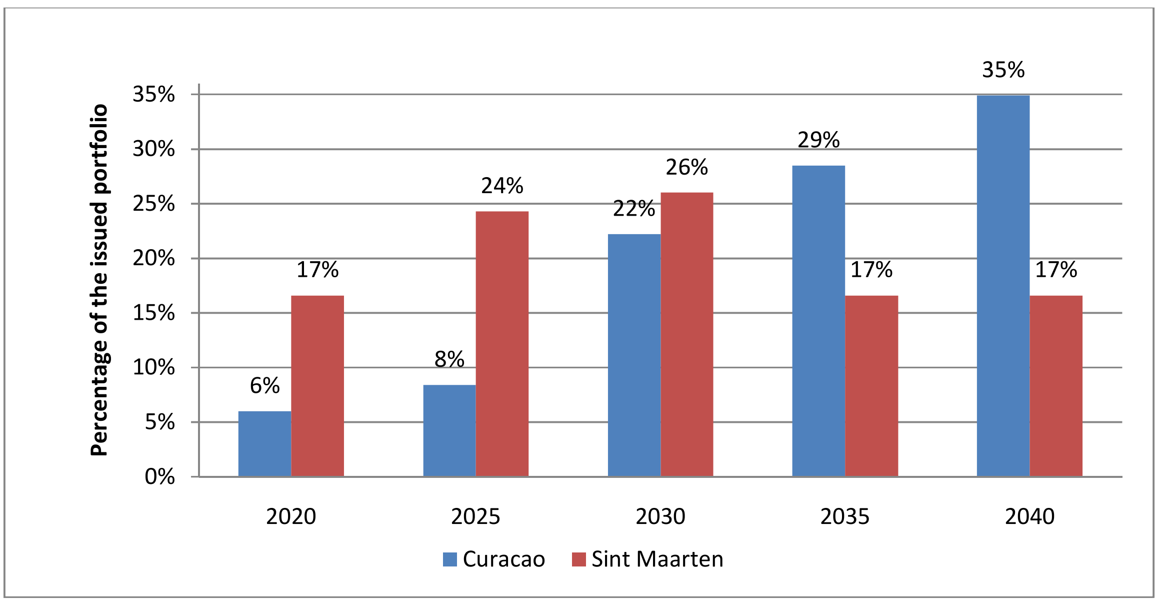
As indicated in graph 4, the outstanding securities issued by Curacao and Sint Maarten were almost entirely in the portfolio of the Dutch State Treasury Agency (99%). Local investors considered the coupons and yields too low for their investment appetite. Most institutional investors demand a return of at least 4% on their investments. However, because of the subscription of the Dutch State Treasury Agency, the bonds carry a yield prevailing in the Dutch capital market.

Graph 4 Distribution bonds issue settlement debt relief (in millions NAf.)



Of the outstanding securities of Curacao at the end of 2010, about 63% will mature after 2035 and a mere 6% in 2020. For Sint Maarten, about half the securities will mature between 2025 and 2035, while about 16.6% will mature in 2020 (see Graph 5).

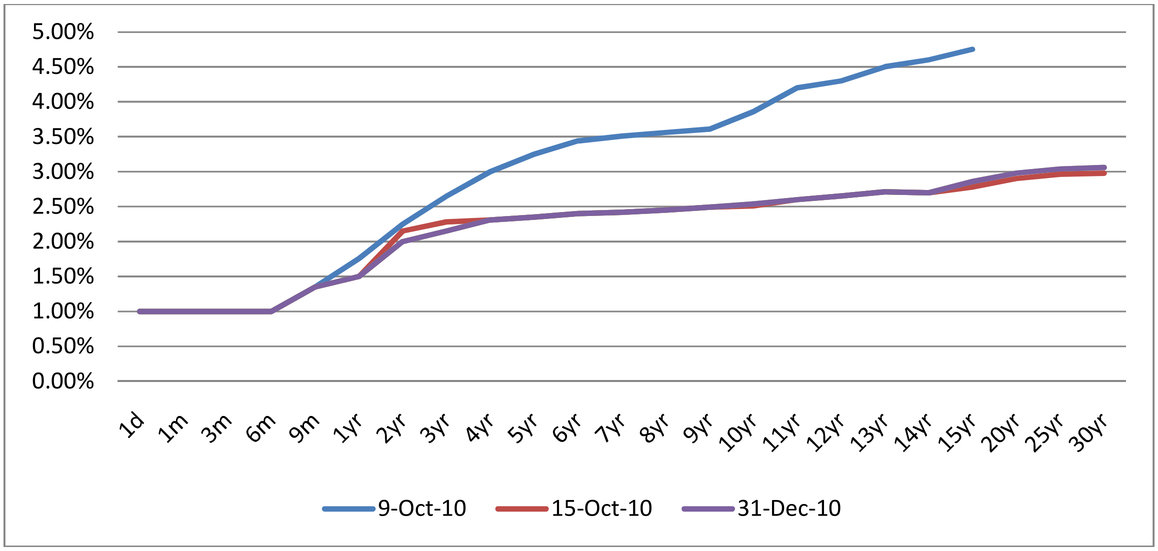
Graph 5 Maturity schedule bonds issue settlement debt relief



4.5 Domestic yield curve developments

The local yield curve shifted downward during 2010. The decline in interest rates in the United States, the accumulation of liquidity in the local market due to the debt relief by the Dutch government, and the subscription by the Dutch State Treasury Agency on local government paper issues contributed to the lower yields.

Graph 6 Development of yield curve for local government securities



5 INSTITUTIONAL INVESTORS

5.1 Introduction

The constitutional changes that became effective on October 10, 2010, implied that as of that date, the various supervision ordinances and decrees applicable to the insurance sector and pension sector became applicable only to entities operating in Curacao and Sint Maarten. For the BES islands, i.e., Bonaire, Sint Eustatius and Saba, separate insurance legislation has been drafted.

Agreements have been made between the supervisory authorities within the Kingdom of the Netherlands, i.e., De Nederlandsche Bank (DNB), the Autoriteit Financiële Markten (AFM), the Centrale Bank van Aruba (CBA), and the Centrale Bank van Curacao en Sint Maarten (CBCS), regarding the supervision of the insurance and pension industry within the new structure of the Kingdom of the Netherlands. These parties will continue to meet on a regular basis to further enhance their supervision.

In 2010, the global insurance industry suffered approximately US$ 38 billion in losses from 314 catastrophes, nearly doubling the 2009 losses of US$ 22 billion. Total economic losses from catastrophes in 2010 reached US$ 252 billion, more than four times the US$ 58 billion from the previous year. The largest insured loss, around US$ 8.5 billion, was the earthquake in Chile on February 27, 2010. This earthquake was the second largest in the country's history. This event was followed by the losses from European windstorm Xynthia of US$ 3.65 billion and from the earthquake in Christchurch, New Zealand, on February 22, 2010, of US$ 3.05 billion, the largest insurance loss ever in New Zealand. In the Caribbean region, the island of Haiti was struck by a massive earthquake on January 12, 2010, causing severe damage to the infrastructure and claiming the lives of tens of thousands of people.

The 2010 Atlantic hurricane season was one of the busiest on record. In contrast, the eastern North Pacific season had the fewest storms on record since the satellite era began. In the Atlantic Basin, 19 named storms formed, which tied 2010 with the years 1887 and 1995 for the third highest on record. Of those 19 storms, 12 became hurricanes, which tied 2010 with the year 1969 for the second highest on record. Five of those hurricanes reached Category 3 status or higher.

On November 1, 2010, extreme rainfall brought by hurricane Tomàs caused major flooding damages on the island of Curacao. Total claims occurring from this event are estimated at approximately US$ 39 million. Unfortunately, in the aftermath of hurricane Tomàs, it became clear that a large number of properties that suffered damage were uninsured or not adequately insured. The events of hurricane Tomàs again emphasized the importance of timely insuring of property and regular assessment of the adequacy of the insurance coverage.

The January 2010 reinsurance renewal season was characterized by softening market conditions for many lines of business. The global reinsurance market has demonstrated robustness and resilience despite the challenges from the sustained catastrophic losses in 2010 and the historically low investment environment that manifested in 2008. Reinsurers play an important role in the functioning of efficient insurance markets through their shock-absorbing capacity, including coverage against major reinsured natural catastrophes. In spite of the challenging investment environment in 2008, reinsurers returned an overall positive result, underscoring industry strength and contributing to the stability of the global insurance markets as well as ultimately the security of individual insurance customers. Reinsurers worldwide continued to focus on diversified risk taking, drawing on the fundamentals of the reinsurance business.

Solvency II is the new European Directive that provides a modern, risk-based framework for the supervision of insurance companies, aimed at reflecting their complex operations and variety of services offered. The major proposed change for the Directive is that supervision becomes risk-based. Solvency II consists of three pillars: Pillar I handles issues of risk modeling; Pillar II handles issues of risk management; and Pillar III handles issues of disclosure. The Solvency II framework is scheduled to come into effect for the 5,000 insurers and reinsurers in the European Economic Area (EEA)16 in January 2013.

According to the Directive, every insurance company must implement a governance system based on the nature, scope, and complexity of the company and its business. Solvency II demands more than merely meeting the mathematical requirements of Pillar I. The regulations set in Pillar II concern the assessment of the insurance companies' financial situation for the entire planning horizon, including consideration of the business strategy, whereas Pillar I provisions concern only a one-year time horizon evaluation of the current portfolio. As noted, risk management is the underlying theme in the Directive. Risk management is a continuous process that must be part of the strategy of insurance companies and should allow an appropriate understanding of the nature and significance of the risks to which the company is exposed.

The European Commission, which is the European Union's (EU) executive arm based in Brussels, will decide in 2011 which non-EU countries will be included in the so-called first wave of jurisdictions to be recognized as having systems of insurance regulation and supervision equivalent to the Solvency II regime. The European Commission will have to determine whether a third country supervisory system provides a level of policyholder protection similar to Solvency II. Equivalence enables EU regulators to make the Solvency II group solvency calculation for an EU-based insurance group with operations in non-EU countries. When a cross-border group is non-EU-based but has operations in the EU, EU regulators can rely on group supervision performed in a third country. But if the EU doesn't recognize a country's insurance regulation and supervision as equivalent to Solvency II, then an EU firm operating in that country must maintain more buffer capital as required by either EU rules or local rules, whichever is higher.

The state-based system of insurance regulation in the United States implies that EU officials have to check the equivalency of more than 50 US jurisdictions, which is considered a major obstacle to early recognition of US regulation. The US insurance market represents approximately 40% of the world's insurance market. The potential absence of the United States in the first wave of Solvency II jurisdictions is a matter of major concern to insurers on both sides of the Atlantic.

It is expected that the introduction and possible future amendments of the Solvency II framework also will have consequences for the Financieel Toetsingskader (FTK), which was introduced on January 1, 2007, in the Netherlands. In the FTK, risk management will probably receive more attention, which may benefit the pension product. Furthermore, some valuation guidelines may be adapted due to increased understandings from Solvency II.

In 2010, increasing the minimum age in the Old Age Pension Act was high on the political agenda in the Netherlands. In 2009, an amendment to the Old Age Pension Act was sent to the Lower House (Tweede Kamer). It has been decided that the Old Age Pension age will be increased to 66 years in 2020. In 2015, a final decision will be taken as to whether the Old Age Pension age will be increased to 67 in 2025.

[16] The 27 nations of the EU bloc plus Norway, Iceland, and Liechtenstein.

As a consequence of the new constitutional structure of the Kingdom of the Netherlands, the largest pension fund of the former Netherlands Antilles was split up as of October 10, 2010. Curacao, Sint Maarten and the BES islands each have their own general pension fund now. The process of separating the assets and liabilities (boedelscheiding) between Curacao, Sint Maarten, and the BES islands is expected to be finalized by the end of 2011.

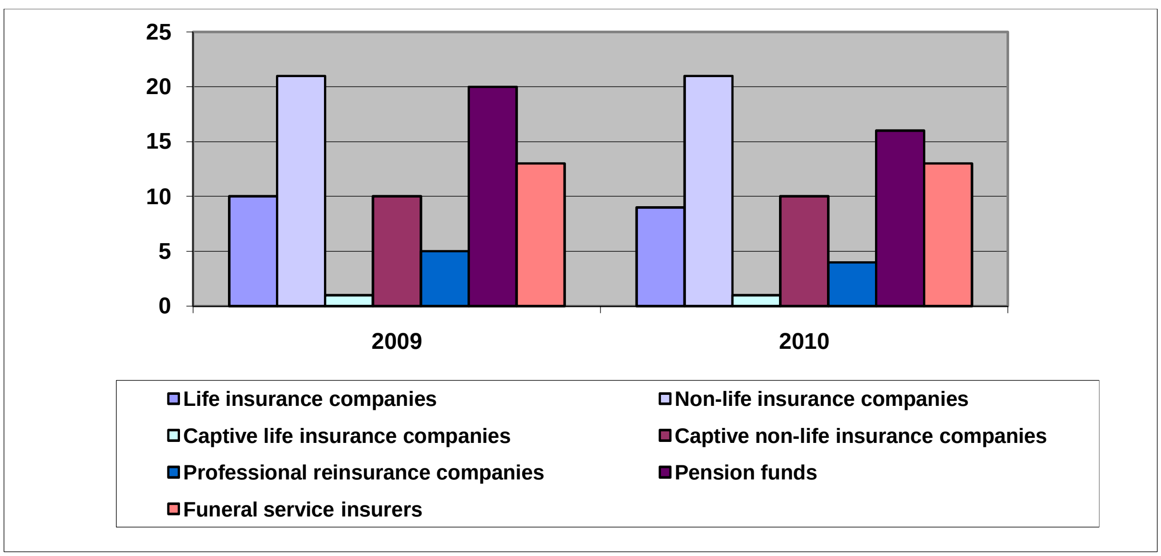
Finally, based on the provisions of the National Ordinance Insurance Brokerage Business, every insurance broker responsible for the collection of premiums and listed in the Bank's register of insurance brokers is required to submit a quarterly report to the Bank reflecting the age of the premiums due to insurer(s) with whom business is done. However, in 2010, the Bank decided to waive this reporting requirement for cash brokers, so long as they submit proof of not being responsible for the collection of premiums. The requirement to submit the annual financial statements[17] remains mandatory for all insurance brokers listed in the register.

5.2 The institutional investors' sector

The number of institutional investors operating in Curaçao and Sint Maarten in 2010 was 59 (2009: 64): 9 life insurance companies (2009: 10), 21 non-life insurance companies (2009: 21), 13 funeral service insurers (2009: 13), and 16 pension funds (2009: 20).

The number of insurance companies servicing the international market was 15 at the end of 2010 (2009: 16): one was involved in the life insurance business, 10 in the non-life business, and 4 were professional reinsurers (see Graph 7).

Graph 7 Composition of the institutional investors' sector (number of companies)



Graph 7 does not include insurance companies and pension funds in the process of liquidation. However, these institutions remain subject to the Bank's supervision until they are completely liquidated.

At the end of 2010, the number of insurance intermediaries registered with the Bank was 60, and 10 applications were in process. This number does not include the insurance intermediaries

[17] Comprising the balance sheet, the profit and loss statement, and explanatory notes.

established on the BES islands, which are supervised by the Dutch Autoriteit Financiële Markten (AFM) as of October 10, 2010.

5.3 Life insurance industry

5.3.1 Balance sheet

According to Table 23, the total assets of the local life insurance sector decreased by NAf.291.7 million (12.3%) in 2009, reaching NAf.2.1 billion. This decrease was due to the incorporation as separate legal entities of the branch offices of insurance companies based in Curaçao and Sint Maarten operating in Aruba. According to Aruban regulations, the following requirements must be met to operate a branch office or an agency in Aruba:

- The branch or agency is part of an insurance group or financial conglomerate that is active in the major financial markets in the world and has a balance sheet total of at least US$ 10 billion and an "A" rating of Standard & Poors or a comparable rating agency.
- The parent company has adequate financial strength and a solid reputation.
- The supervision conducted by the supervisory authorities of the parent company (the home country supervisor) is adequate and comprehensive.
- The principles applicable to the supervision of international insurers and insurance groups and their cross-border operations issued by the International Association of Insurance Supervisors are endorsed by the home country supervisor.

Branches that did not comply with these requirements had to become separate legal entities in Aruba. The local insurance companies are required to report subsidiaries as an investment because the Bank does not permit line-by-line consolidation of fully or partially owned subsidiaries engaged in the insurance business.

The equity position of the local life insurance companies, consisting of capital, surplus, and subordinated instruments increased by NAf.36.2 million (18.0%) in 2009. This increase was driven mainly by the sector's overall profit of NAf.28.8 million in 2009 (see Table 24).

In 2009, the solvency requirement of the local life insurance sector on a consolidated basis was NAf.71.3 million, while the equity available to cover the solvency requirement amounted to NAf.235.1 million. Based on these figures, the sector had a solvency surplus of NAf.163.8 million in 2009, an improvement compared to the solvency surplus of NAf.132.9 million in 2008.

The total assets of the international life insurance companies (i.e., captive insurance companies and professional reinsurers) increased by NAf.13.9 million (17.8%) in 2009. The solvency requirement of the international life insurance sector on a consolidated basis amounted to NAf.2.4 million in 2009. The equity available to cover the solvency requirement was NAf.9.7 million, resulting in a solvency surplus of NAf.7.3 million.

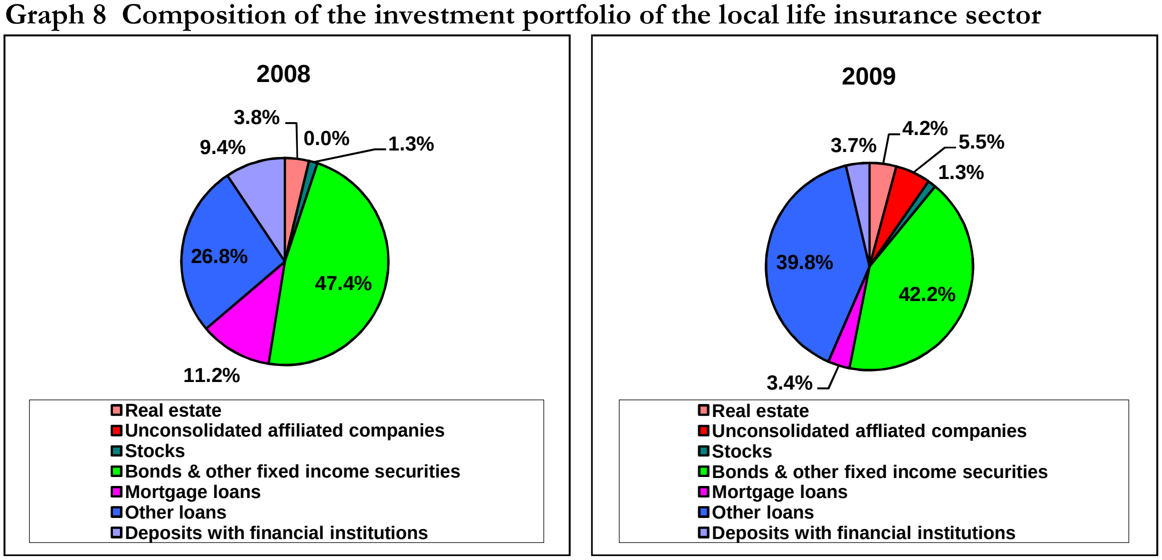
Table 23 Consolidated balance sheet of the life insurance sector (in millions NAf.)

	2007		2008		2009	
	Local	**Int'l**	**Local**	**Int'l**	**Local**	**Int'l**
ASSETS						
Intangibles	-	-	1.2	-	1.2	-
Total investments	1,770.8	184.4	1,882.9	72.1	1,653.1	82.4
Current assets	187.8	59.5	252.1	5.8	183.8	9.4
Other assets	43.1	-	48.9	-	44.2	-
From separate accounts statement	186.1	-	188.0	-	199.1	-
Total admissible assets	2,187.8	243.9	2,373.1	77.9	2,081.4	91.8
EQUITY, PROVISIONS, AND LIABILITIES						
Capital	78.9	8.1	78.9	1.0	80.9	1.0
Surplus	132.9	97.6	121.6	9.0	155.7	8.7
Subordinated instruments	0.3	-	0.3	-	0.4	-
Technical provisions	1,718.7	111.9	1,894.4	72.4	1,574.3	80.1
Current liabilities	52.0	23.2	73.0	3.8	55.0	3.6
Other liabilities	5.7	3.1	6.0	-8.3	6.1	-1.6
Contingent liabilities	13.2	-	10.9	-	9.9	-
From separate accounts statement	186.1	-	188.0	-	199.1	-
Total equity, provisions, and liabilities	2,187.8	243.9	2,373.1	77.9	2,081.4	91.8

5.3.2 Investments

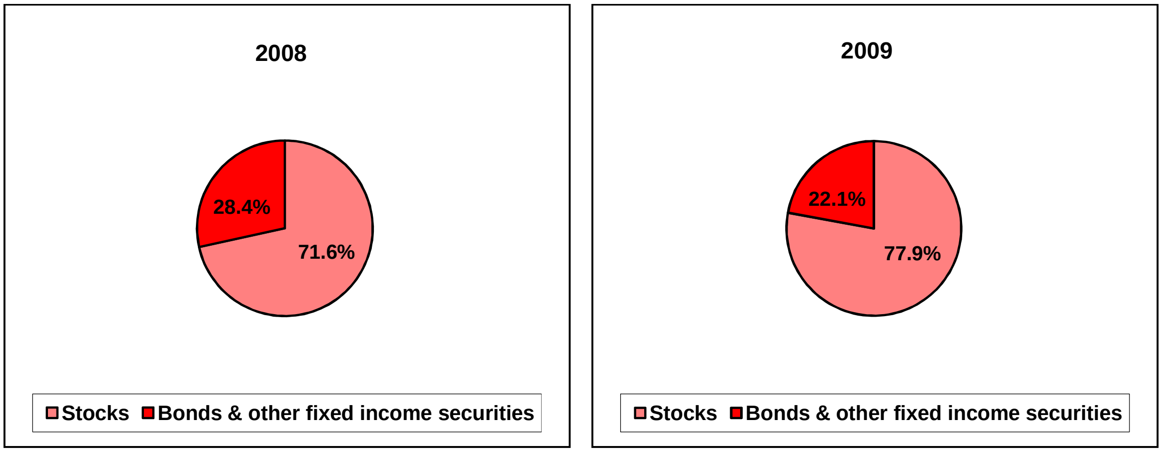
Total investments of the local life insurance sector decreased by NAf.229.8 million (12.2%) in 2009, due mainly to the incorporation of the branch offices in Aruba as separate legal entities. The composition of the consolidated 2008 and 2009 investment portfolios of the local life insurance companies is presented in Graph 8. This graph indicates that the proportion of bonds & other fixed income securities, mortgage loans, and deposits with financial institutions decreased by 5.2, 7.8, and 5.7 percentage points, respectively, from 2008 to 2009. These decreases were mainly at the benefit of the investments in unconsolidated affiliated companies and other loans, which increased by 5.5 and 13.0 percentage points, respectively. The investments in subsidiaries are reported under unconsolidated affiliated companies.

Graph 8 Composition of the investment portfolio of the local life insurance sector



The composition of the consolidated 2008 and 2009 investment portfolios of the international life insurance companies is presented in Graph 9. This investment portfolio is not as diversified as that of the local life insurance companies as it consists only of stocks and bonds. As Graph 8 indicates, the international life insurance companies have mainly investments in stocks, the share of which increased to 77.9% in 2009 at the expense of the share of bonds and other fixed income securities.

Graph 9 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 consequences of the domestication of the branch offices in Aruba were also visible in the operating results of the local life insurance sector. Total net premium income decreased by NAf.80.7 million (31.4%), and total operational expenditures decreased by NAf.111.9 million (29.7%) in 2009. The sector ended 2009 with a positive net profit of NAf.28.8 million, an increase of NAf.13.5 million (88.2%) compared to 2008.

The year 2009 also was a relatively good year for the international life insurance industry. It ended with a positive net result of NAf.9.1 million, compared to the negative net result of NAf.18.8 million in 2008. The positive result was due mainly to the net unrealized gains or losses reported in 2009. The net unrealized gains provide an indication that the investment portfolio of this industry is recovering from the consequences of the financial crisis.

Table 24 Consolidated profit and loss statement of the life insurance sector (in millions NAf.)

	2007		2008		2009	
	Local	**Int'l**	**Local**	**Int'l**	**Local**	**Int'l**
INCOME						
Total net premium income	269.4	57.2	256.9	9.8	176.2	8.2
Net investment income and realized capital gains and losses	117.1	11.0	124.0	1.5	118.5	1.6
Net other operational income	6.3	2.7	14.9	0.3	0.2	0.1
Total operational income	392.8	70.9	395.8	11.6	294.9	9.9
EXPENSES						
Net benefits incurred	117.8	35.0	103.1	3.8	99.9	4.9
Changes in net technical provisions	156.7	8.3	178.8	4.8	101.2	4.5
Net operational expenditures	58.3	6.3	66.7	0.7	53.3	0.8
Net other operational expenditures	0.5	1.5	1.6	0.2	0.9	0.1
Other changes affecting net results	0.1	-	-0.4	0.1	-	-0.1
Profit sharing to policyholders	25.9	7.7	26.6	2.8	9.2	0.8
Total operational expenditures	359.3	58.8	376.4	12.4	264.5	11.0
Extraordinary results	-0.3	-1.0	1.6	-	-0.8	-
Net operational result before corporate taxes and before net results from separate accounts	33.2	11.1	21.0	-0.8	29.6	-1.1
Corporate taxes	12.0	0.4	3.6	0.2	8.0	0.1
Net operational result after corporate taxes and before net results from separate accounts	21.2	10.7	17.4	-1.0	21.6	-1.2
Net result from separate accounts	-4.4	-	4.2	-	-2.1	-
Net operational result	16.8	10.7	21.6	-1.0	19.5	-1.2
Net unrealized gains or losses	3.2	6.1	-6.3	-17.8	9.4	10.3
Net profit or loss	20.0	16.8	15.3	-18.8	28.8	9.1

Graph 10 presents an overview of the consolidated net profit and loss of the local life insurance companies during the period 2000–2009 and confirms that 2009 was a record year for the sector concerning profitability.

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

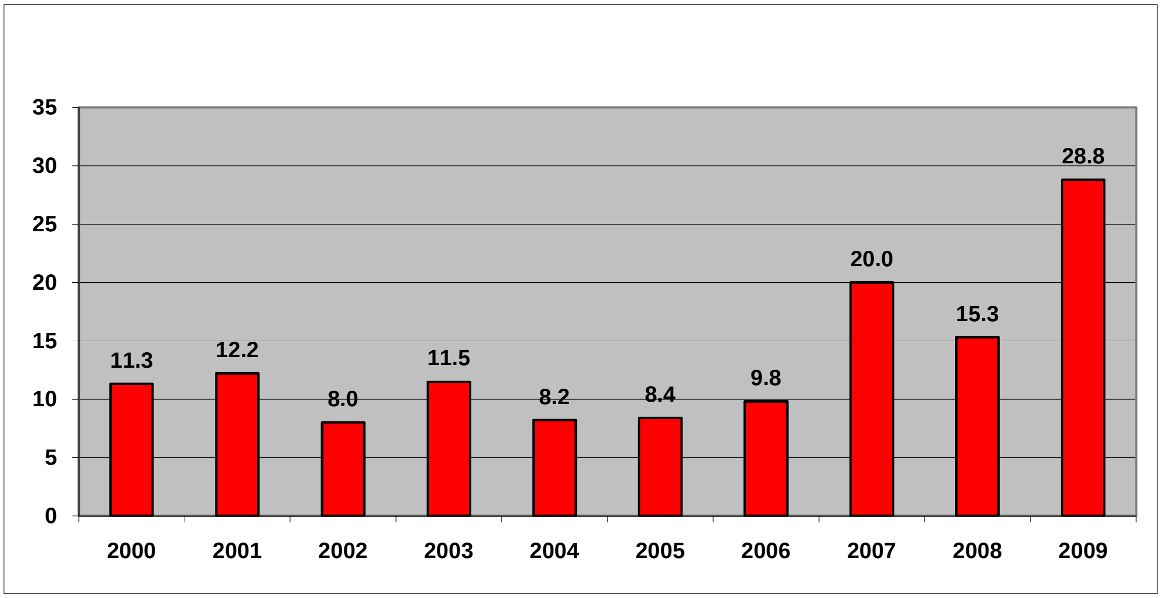


Table 25 shows the distribution of the operational result by line of business of the local life insurance companies in 2009. This table indicates that the group life insurance business was the biggest contributor to the consolidated net operational result of NAf.19.5 million.

Table 25 Consolidated operational result by line of business of the local life insurance companies in 2009 (in millions NAf.)

	Life insurance		**Accident & sickness**	**Total**
	Individual	**Group**		
INCOME				
Total net premium income	107.0	63.5	5.7	176.2
Net investment income and realized capital gains or losses	46.8	71.7	-	118.5
Net other operational income	-0.3	0.5	-	0.2
Total operational income	153.5	135.7	5.7	294.9
EXPENSES				
Net benefits incurred	62.1	34.3	3.5	99.9
Changes in technical provisions	40.5	60.7	-	101.2
Net operational expenditures	36.4	15.1	1.8	53.3
Net other operational expenditures	0.4	0.5	-	0.9
Other changes affecting net results	-	-	-	-
Profit sharing to policyholders	3.2	6.0	-	9.2
Total operational expenditures	142.6	116.6	5.3	264.5
Extraordinary results	-0.8	-	-	-0.8
Net operational results before corporate taxes and net results from separate accounts	10.1	19.1	0.4	29.6
Corporate taxes incurred	5.2	2.7	0.1	8.0
Net operational results after corporate taxes and before net results from separate accounts	4.9	16.4	0.3	21.6
Net result from separate accounts	-1.2	-0.9	-	-2.1
Net operational results	3.7	15.5	0.3	19.5

5.4 The non-life insurance industry

5.4.1 Balance sheet

Table 26 reveals that the 2009 aggregated balance sheet total of the non-life insurance companies operating in the domestic market decreased by NAf.81.0 million (15.8%) compared to 2008. This decrease was due in part to the incorporation of the branch offices of insurance companies of Curaçao and Sint Maarten in Aruba as separate legal entities. The sector did not report major changes in its equity position in 2009 due to the distribution of the earnings to the companies' shareholders.

The solvency requirement of the local non-life insurance sector on a consolidated basis in 2009 was NAf.55.8 million, while the equity available to cover the solvency requirement was NAf.167.6 million. Based on these figures, the sector had a solvency surplus of NAf.111.8 million.

The non-life insurance companies servicing the international market (captive insurance companies and professional reinsurers) reported total assets of NAf.3,993.6 million in 2009, an increase of NAf.263.7 million compared to 2008. Equity increased by NAf.278.7 million, due mainly to the reported net results of NAf.528.5 million (see Table 29).

The international non-life insurance sector had a solvency surplus of NAf.2.5 billion in 2009, a NAf.0.4 billion increase over the solvency surplus in 2008.

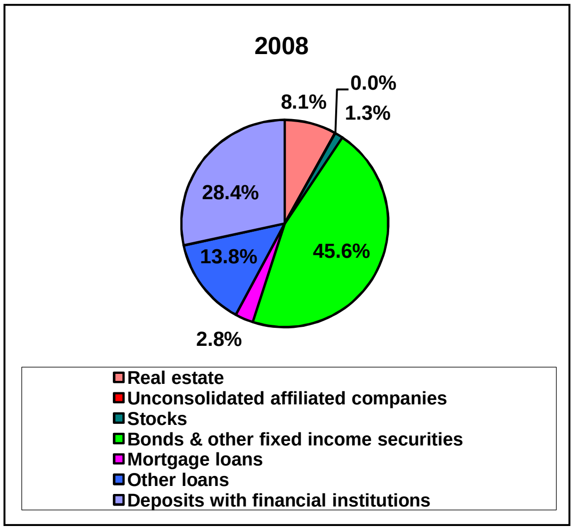
Table 26 Consolidated balance sheet of the non-life insurance industry (in millions NAf.)

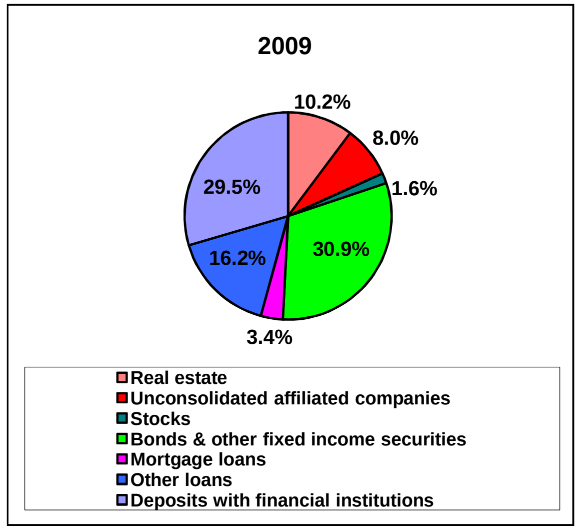
	2007		2008		2009	
	Local	**Int'l**	**Local**	**Int'l**	**Local**	**Int'l**
ASSETS						
Intangibles	1.7	-	0.9	-	0.9	-
Total investments	325.3	3,471.3	361.9	3,417.5	293.2	3,535.6
Current assets	152.9	267.0	143.8	305.2	130.0	458.0
Other assets	7.0	0.1	7.4	7.2	8.8	-
Total admissible assets	486.9	3,738.4	514.0	3,729.9	433.0	3,993.6
EQUITY, PROVISIONS, AND LIABILITIES						
Capital	87.5	394.0	104.0	392.7	98.3	392.8
Surplus	94.7	1,787.4	62.8	1,841.3	68.8	2,120.0
Subordinated instruments	1.3	-	1.5	-	1.4	-
Technical provisions	204.7	1,484.7	218.8	1,447.1	174.4	1,424.5
Other provisions & liabilities	3.7	1.3	3.7	1.8	19.3	8.4
Current liabilities	94.9	71.0	123.1	47.0	70.7	47.8
Contingent liabilities	0.1	-	0.1	-	0.1	-
Total equity, provisions, and liabilities	486.9	3,738.4	514.0	3,729.9	433.0	3,993.6

5.4.2 Investments

The composition of the investment portfolio of the local non-life insurance companies is presented in Graph 11. The investments in the subsidiaries in Aruba are reported under the unconsolidated affiliated companies account. This investment comprises 8.0% of the total investments of the local non-life insurance sector in 2009. Furthermore, this graph indicates that the proportion of bonds & other fixed income securities decreased by 14.7 percentage points in 2009 compared to 2008, mainly at the benefit of the investments in unconsolidated affiliated companies, other loans, and real estate.

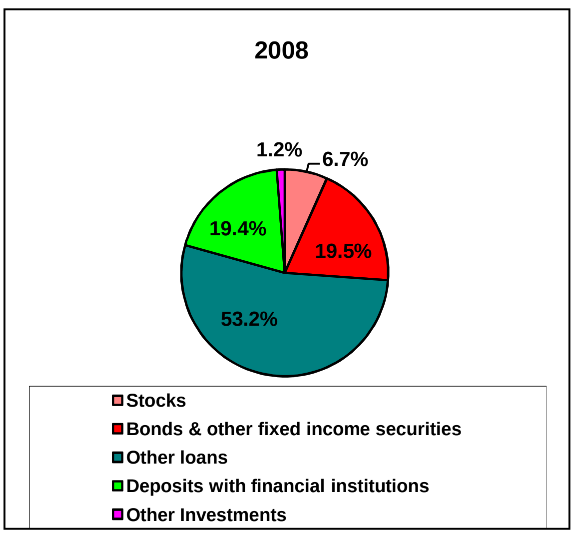
Graph 11 Composition of the investment portfolio of the local non-life insurance companies

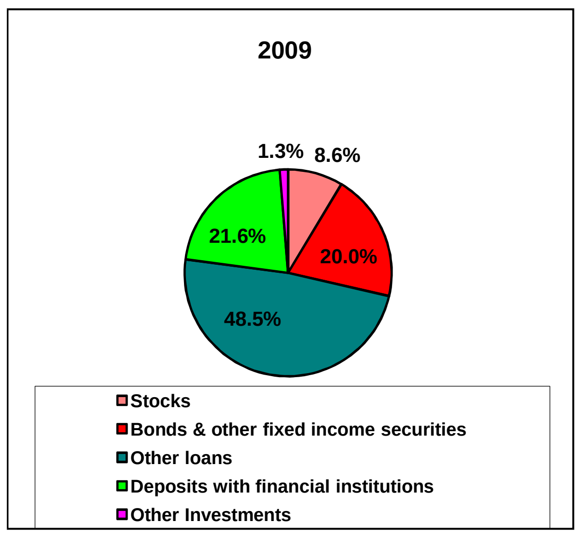




The composition of the investment portfolio of the international non-life insurance companies is illustrated in Graph 12. The graph indicates that the proportion of investments in stocks, bonds & other fixed income securities, deposits with financial institutions, and other investments increased at the expense of other loans, which decreased by 4.7 percentage points.

Graph 12 Composition of the investment portfolio of the international non-life insurance companies





5.4.3 Profit and loss statement

Table 27 presents the operational results of the local non-life insurance industry. This table indicates that the incorporation of the branch offices in Aruba as separate legal entities also had an effect on the operational result of this industry. The net earned premium and operational expenditures decreased by NAf.21.5 million (7.7%) and NAf.47.2 million (16.2%, respectively, in 2009. Because the operational expenditures decreased more than the net earned premium, the operational result of the industry was a net profit of NAf.22.0 million in 2009, a NAf.14.7 million improvement over 2008.

The international non-life insurance companies reported a net earned premium income of NAf.609.4 million in 2009, an increase of NAf.65.3 million compared to 2008. Total operational expenditures decreased by NAf.95.3 million in 2009 compared to 2008. Furthermore, other results and unrealized gains or losses increased by NAf.58.7 million and NAf.140.4 million, respectively, in 2009. Due to these improvements, the industry ended up with a net profit of NAf.528.5 million in 2009, a significant increase of NAf.355.6 million over 2008.

Table 27 Consolidated profit and loss statement of the non-life insurance industry (in millions NAf.)

	2007		2008		2009	
	Local	**Int'l**	**Local**	**Int'l**	**Local**	**Int'l**
INCOME						
Total net earned premium	258.3	626.2	279.6	544.1	258.1	609.4
Net other underwriting income	1.3	5.0	1.9	3.7	1.9	5.1
Total operational income	259.6	631.2	281.5	547.8	260.0	614.5
EXPENSES						
Net claims incurred	122.0	381.3	153.3	370.1	124.8	275.9
Claim adjustment expenses	6.7	1.2	7.6	0.8	5.6	2.5
Changes in various provisions	1.2	-215.5	1.8	1.8	1.7	-10.3
Underwriting expenses incurred	112.6	27.0	128.1	29.6	111.6	31.8
Net other operational expend.	4.7	353.1	1.2	-	1.1	7.1
Total operational expenditures	247.2	547.2	292.0	402.3	244.8	307.0
Underwriting result	12.4	83.9	-10.5	145.5	15.2	307.5
Net investment income	23.6	200.6	22.8	129.2	15.4	135.1
Other results	-2.6	27.5	-2.1	-54.2	-3.9	4.5
Extraordinary results	0.1	64.0	-	-	-	0.3
Net result before corporate taxes	33.5	376.0	10.2	220.5	26.7	447.4
Corporate taxes incurred	9.1	16.5	4.1	-1.4	4.4	10.6
Net unrealized gains or losses	1.3	-19.4	1.2	-49.0	-0.3	91.7
Net profit or loss	25.7	340.1	7.3	172.9	22.0	528.5

Graph 13 presents an overview of the consolidated net results after taxes of the local non-life insurance companies from 2000 to 2009. As can be seen, the sector's high net results from 2005 continued in 2009, after a weak 2008 due mainly to the active hurricane season.

Graph 13 Net results after corporate taxes of the local non-life insurance sector (in millions NAf.)

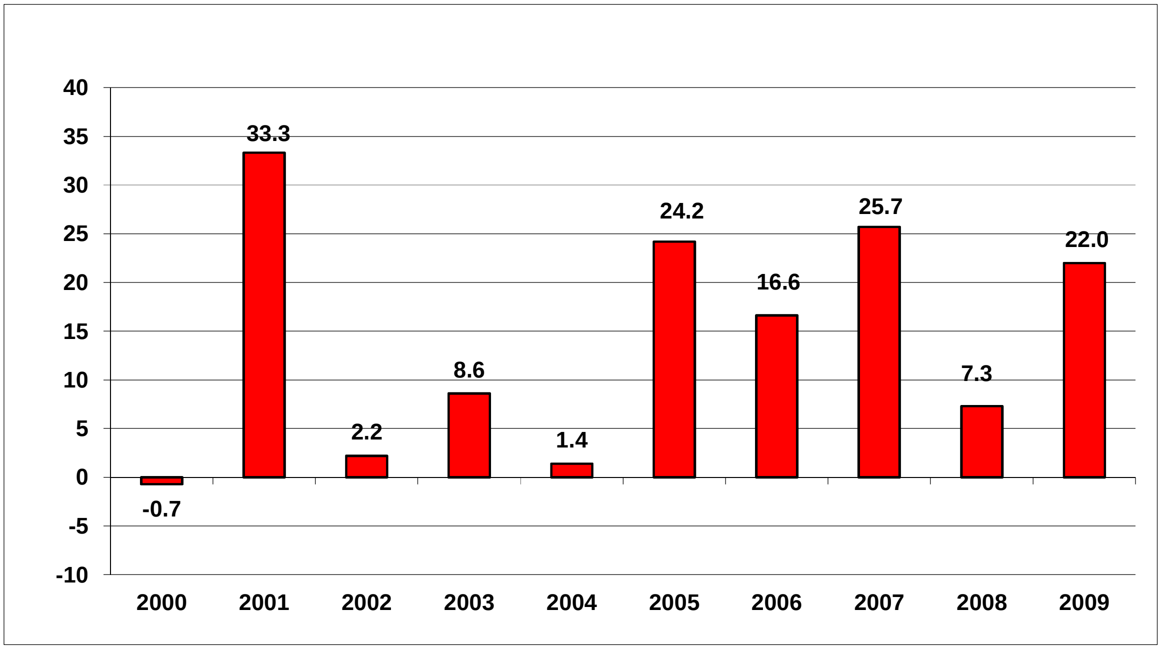


Table 28 shows the distribution of the operational results of the locally operating non-life insurance companies by indemnity group for the year 2009. As can be seen, the accident & sickness business reported a negative underwriting result of NAf.8.2 million, while the property business contributed the most to the net operational result of the industry.

Table 28 Consolidated operational result by indemnity groups of the local non-life insurance industry in 2009 (in millions NAf.)

	INDEMNITY GROUPS					
	Accident & sickness	Motor vehicle	Marine, transit & aviation	Property	Others	Total
INCOME						
Net earned premium	76.9	101.6	3.7	69.5	6.4	258.1
Net other underwriting income	-	-	-	0.7	1.2	1.9
Total operational income	76.9	101.6	3.7	70.2	7.6	260
EXPENSES						
Net claims incurred	58.0	53.3	0.9	13.4	-0.8	124.8
Claim adjustment expenses	1.4	2.0	0.1	1.9	0.2	5.6
Changes in various provisions	1.9	-0.2	-	-	-	1.7
Underwriting expenses incurred	24.5	43.8	2.0	38.3	3.0	111.6
Net other operational exp.	-0.7	1.2	-	0.4	0.2	1.1
Total operational expenditures	85.1	100.1	3.0	54.0	2.6	244.8
Underwriting result	-8.2	1.5	0.7	16.2	5.0	15.2
Net investment income	4.5	5.5	0.2	4.1	1.1	15.4
Other results	1.2	4.6	0.1	2.3	-12.1	-3.9
Extraordinary results	-	-	-	-	-	-
Net result before corporate taxes	-2.5	11.7	1.0	22.6	-6.1	26.7
Corporate taxes incurred	-0.1	1.6	0.3	2.1	0.5	4.4
Net operational results after taxes	-2.4	10.1	0.7	20.5	-6.6	22.3

5.5 Overview of developments in the pension industry

5.5.1 Balance sheet

The 2009 consolidated financial figures for the pension industry show a coverage ratio of 91% (investments-to-provisions for pensions obligations), which is below 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 coverage ratio remained unchanged when compared to 2008, despite an increase of 31% in the consolidated stocks portfolio. The total investments increased by 6%, but this increase was offset by a similar increase in the provisions for pension obligations. The Bank is closely monitoring the pension funds with a coverage ratio below the 100% threshold.

The total assets of the pension funds increased by 9.1% in 2009 compared to 2008. The current assets and current liabilities represented 14.4% and 2.7%, respectively, of the balance sheet total.

Table 29 Consolidated balance sheet of the pension industry (in millions NAf.)

	2007*	2008	2009
Assets			
Total investments	5,688.9	5,174.4	5,471.4
Current assets	559.6	661.3	920.7
Other assets	21.6	37.3	17.3
Total	**6,270.1**	**5,873.0**	**6,409.4**
Equity, provisions, and liabilities			
Equity	730.8	61.8	223.6
Provisions for pension obligations	5,414.3	5,694.5	6,010.7
Current liabilities	125.0	116.7	175.1
Total	**6,270.1**	**5,873.0**	**6,409.4**

*) Some 2007 figures have been adapted for comparison purposes.

5.5.2 Profit and loss statement

The pension industry reported a net investment income and capital gains & losses of NAf.523.3 million in 2009, which is equal to 8.7% 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.

Table 30 Consolidated profit and loss statement of the pension industry (in millions NAf.)

	2007*	2008	2009
Income			
Contributions	184.8	192.8	224.2
Net investment income and capital gains and losses	419.5	-256.3	523.3
Other income	27.6	22.7	30.5
Total income	**631.9**	**-40.8**	**778.0**
Expenses			
Pension benefits incurred	202.6	214.1	227.4
Change in net technical provisions	145.8	298.4	308.3
Operational expenses incurred	23.9	23.1	27.9
Other expenses incurred	12.7	84.3	9.5
Total expenses	**385.0**	**619.9**	**573.1**
Extraordinary results	-	-	-
Net profit or loss	**246.9**	**-660.7**	**204.9**

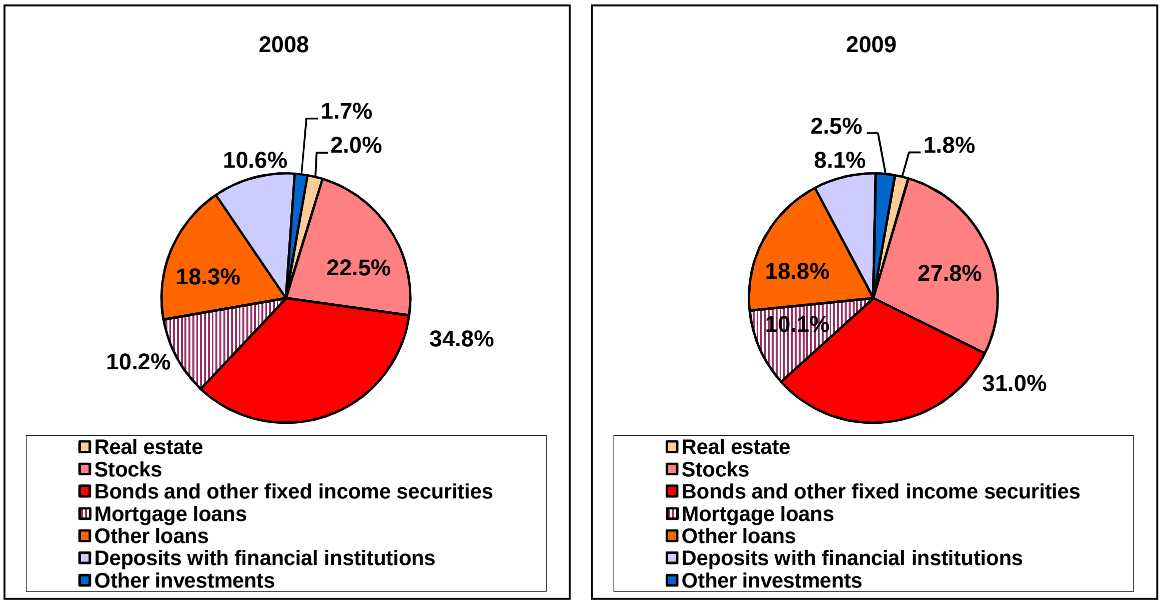
*) Some 2007 figures have been adapted for comparison purposes.

The 2009 net result represented 3.4% of the provision for pension obligations and 3.2% of total assets, which is under the rate of 4% generally used by most of the local pension funds to discount their (future) obligations. The operational expenses incurred by the sector represented 0.5% of the provisions for pension obligations and 12.4% of the pension contributions.

5.5.3 Investments

The composition of the investment portfolio of the pension funds is presented in Graph 14. The shares of most investment categories in 2009 deviated only marginally from 2008. Bonds and other fixed income securities, stocks, and other loans comprised the largest shares.

Graph 14 Composition of the investment portfolio of the pension industry



6 SUPERVISORY POLICIES AND ACTIVITIES OF THE BANK

6.1 Supervision of trust service providers

The Bank has been entrusted with the supervision of the trust sector since the beginning of 2004. In 2010, the number of trust service providers with a license increased slightly from 90 to 92 licensees. The number of trust service providers with a dispensation recorded a net increase of 9, reaching 65 dispensations. As a result, the Bank had a total of 157 approved trust service providers under its supervision at the end of 2010 (2009: 146).

The year 2010 has again shown qualitative and quantitative improvements within the supervision department. Based on improved risk-based selection criteria, the Bank visited a record of 34 entities within the sector: 19 onsite investigations and 15 management meetings. Of those 34 visits, 18 were at trust service providers. In addition, the department held over 65 meetings with entities at the Bank itself, more than 30 of them with trust service providers.

6.2 Supervision of investment institutions and administrators

Investment institutions and administrators have been subject to supervision by the Bank since the beginning of 2003. The number of supervised investment institutions and administrators increased from 32 entities in 2009 to 34 entities in 2010. The Bank conducted 15 visits at investment institutions or administrators during 2010.

6.3 Supervision of securities exchange

The supervision of the securities exchange started in March 2010 when the exchange received its license. During 2010, 4 formal meetings were held with the securities exchange.

6.4 Supervision of banks and credit institutions

In 2010, the banking supervision department continued to refine its risk-based supervision approach, which will allow the examiners to focus on the higher risk areas. Furthermore, the department continued to monitor closely the way the international banks coped with the financial crisis. The devaluation of the Bolivar in the beginning of 2010 had only a limited impact on the international financial sector in the Netherlands Antilles. In addition, the anti-money laundering and combating of terrorism financing (AML/CTF) theme got special attention in the supervisory program for 2010.

On the global level, the Basel committee began a number of initiatives to strengthen the Basel II framework as a response to address the lessons learned from the financial crisis. These initiatives resulted in the Basel III framework that will be implemented gradually beginning January 1, 2013, and should be full in force by January 1, 2019, at the latest.

In 2010, 49 on-site examinations were conducted at institutions operating with either a license or dispensation from the Bank. Three full-scope examinations were performed: two at local general banks and one at a specialized credit institution. One limited review was conducted at a specialized credit institution. Furthermore, three targeted examinations were conducted: one at a branch of a foreign bank, one at a consolidated international bank, and one at a money remitter. The banking supervision department also conducted 13 quick-scan examinations: 8 at coupon credit institutions, 4 at other institutions in the possession of a dispensation to extend credit, and 1 at a credit union. Twenty-eight special assignments (mostly related to the 2010 AML/CTF theme) were conducted:

19 at nonconsolidated international banks, 8 at consolidated international banks, and 1 at a local general bank. Finally, one follow-up review at a specialized credit institution was conducted.

On March 29 and 30, 2010, the Dutch Ministry of Finance in cooperation with the Bank organized a seminar on the future of the supervisory framework in the Caribbean part of the Dutch Kingdom following the disintegration of the Netherlands Antilles.

On May 28 and 29, 2010, the Bank hosted the 28th annual conference of the Caribbean Group of Banking Supervisors. Prior to the conference, a preparatory meeting was held on January 18, 2010. Furthermore, supervisory seminars were held on January 17, 2010, and May 26, 2010, in which several supervisory issues were discussed regarding supervised banking entities with operations in the jurisdiction of several member countries.

Reactions were solicited from the local bankers' associations to the draft document with respect to the implementation of a deposit insurance system for depositors of locally operating banking institutions and the proposal of the Netherlands to expand the system by including the BES-islands.[18] Following receipt of these reactions, the working group preparing the introduction of the insurance system was expanded with two representatives from the local bankers' associations on these islands and a representative from the Dutch Ministry of Finance. Discussions resulted in a memorandum of understanding that was signed in early 2011 by the Centrale Bank van Curaçao en Sint Maarten, as the legal successor of the Bank van de Nederlandse Antillen, the Dutch central bank, and the bankers' associations of the locally operating banks in Curaçao, Bonaire, and Sint Maarten.

A draft document with a proposal for a separate deposit insurance fund for depositors of credit unions and credit and savings funds was presented to the representative organization of credit unions.

Preparatory work with respect to the implementation of a new and uniform reporting system (the Chart of Accounts) to replace the reporting system of 1991 for locally operating credit institutions and the reporting system of 1996 for internationally operating credit institutions continued in 2010. The first draft of the new Chart of Accounts' manual was presented in November 2010 to the local and the international banking sector of Curacao and Sint Maarten.

Finally, no licenses for new credit institutions were issued in 2010. On October 28, 2010, the Bank revoked the license of the credit union Christian Kingdom Cooperative in Sint Maarten and requested the Court of First Instance in Sint Maarten to pronounce the bankruptcy of the institution. Moreover, the Bank received eight requests for a dispensation to provide consumer credit to the public. Only one of those requests was honored in 2010.

6.5 Supervision of institutional investors and insurance intermediaries

The Bank continued with its effort to develop a risk-based supervision approach. Toward this end, a staff team visited the Dutch central bank (DNB) in October 2010 to gain more insight into FIRM, DNB's risk-based supervision tool. Since the development of the Bank's own automated risk-based supervision tool was taking longer than expected, it was decided in November 2010 to acquire widely used commercial software to support the process. While this tool will provide the Bank with the partial means to carry out risk-based supervision and help its staff get acquainted with this process, efforts will continue to develop a tailor-made risk-based supervision tool.

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In 2010, the Bank continued with the project to develop valuation guidelines for its annual reporting scheme for insurance companies (ARAS). This project will be completed in 2011. Several training sessions have been held in which the schedules of the reporting scheme were explained to the departments' staff. The Bank intends to introduce the revised insurance reporting scheme to the industry together with the valuation guidelines. Additionally, it intends to implement the newly acquired risk-based supervision software in the supervision process, issue guidelines for stress testing by insurance companies, continue with the drafting of the new pension legislation, and develop a quarterly reporting scheme for insurance companies.

In 2010, the Bank conducted 14 on-site examinations at institutions under its supervision. Of these 14 examinations, 7 were conducted at life insurance companies, 6 at general insurance companies, and 1 at a funeral insurance company.

Curacao and Sint Maarten (previously parts of the Netherlands Antilles) are committed in the fight against money laundering and terrorist financing. In its continuous efforts to assess compliance by the insurance industry with the Anti Money Laundering regulations and guidelines (MOT) and the National ordinance identification when rendering financial services (LID), the Bank conducted anti-money laundering examinations at most of the life insurance companies under its supervision in 2010. The Bank will continue to conduct these types of examinations on an ongoing basis.

The Bank is a member of the Offshore Group of Insurance Supervisors (OGIS) and was in 2010 again elected as the Group's secretary. The objectives of OGIS are to:

- provide mechanisms and forums whereby insurance supervisors from jurisdictions concerned with offshore insurance business may discuss areas of mutual interest and concern and formulate appropriate policies;
- provide assistance and encouragement to appropriate nonmember jurisdictions to establish regimes for the supervision of offshore insurance business at least to standards equivalent to those of the Group;
- represent the interests of the Group at international forums; and
- promote the proper supervision of offshore insurance business.

6.6 Integrity aspects of financial sector supervision

The number of (co-)policymakers and holders of qualifying interests recorded in the Integrity Financial Sector Register increased further from 2,800 in 2009 to about 3,000 subjects in 2010. During 2010, 327 integrity tests were conducted with a positive result (463 in 2009): 125 for the banking and credit institutions sector, 102 for the trust and investment sector, and 100 for the institutional investors sector. Of the 327 integrity tests, 190 persons were registered and tested for the first time: 68 for the banking and credit institutions sector, 71 for the trust and investment sector, and 51 for the institutional investors sector. The remaining 137 were periodic tests conducted during 2010 (these fall within the regular integrity testing cycle of every 3 years).

In 2010, 10 cases with integrity doubts were officially disclosed and dealt with by the Integrity Commission of the Bank: 3 resulted in a negative test result or serious doubts, and 1 case remained pending for a negative result afterwards. 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. After close consideration, one case was settled with a positive test result, without the need for an integrity consultation with the respective person. The Bank could not honor the request of one person for holding an additional (co)policy position because conflicting interests were involved. In two similar cases, an exemption was provided by the Bank. Two cases of local "politically exposed persons" (PEPs) were dealt with. From the cases with negative integrity test results, two remained pending for an official Warning Notice on the Bank's website.

As part of the integrity testing, the Bank received 25 information requests in 2010 from its colleague supervisory authorities worldwide, compared to 14 in 2009.

The Bank further registered 67 reported incidents eroding integrity: 25 were reported internally and 42 externally. The latter external incidents were pursuant mainly to the Policy Rule for Sound Business Operations in the Event of Incidents and Integrity-sensitive Positions.

All IFS regulations have been amended to reflect the constitutional changes after October 10, 2010 (i.e., replacing references to the Bank van de Nederlandse Antillen by Centrale Bank van Curaçao en Sint Maarten). Also, a new cooperation agreement (protocol) has been signed by the supervisory authorities within the Kingdom, establishing a Board of Kingdom Supervisors, i.e., the Dutch central bank (DNB), the Centrale Bank van Curaçao en Sint Maarten, and the Centrale Bank van Aruba (CBA). Following this agreement, a symposium was organized in Aruba on November 15 and 16, 2010, to further enhance the integrity of the financial sectors within the Kingdom of the Netherlands. In addition, all relevant information on integrity testing has been prepared and passed on to DNB for effective implementation of its new supervisory role on the BES islands. In this respect, cooperation will be expanded further covering different supervisory areas.

6.7 IT aspects of financial sector supervision

During 2010, the Bank performed IT quick scans at 8 trust companies. The scan was focused mainly in the areas of IT governance and operations. Regular IT examinations also were conducted at one commercial bank, two insurance companies, one pension fund, and one international financial institution. Moreover, support was given to the Dutch central bank, DNB, with regard to the supervision of the IT aspects of the implementation of the US$ at the commercial banks with branches on the BES islands.

In the third quarter of 2010, the Bank also started an IT examination at the institutions that offer electronic payment services to retail and corporate customers. The examination was aimed at identifying and measuring controls that mitigate information technology risks affecting the integrity of these payment services. The examination will be finalized in 2011.

Furthermore, the Bank continued to monitor the commercial banks on their compliance with the "Provisions and Guidelines for Safe and Sound Electronic Banking" issued in December 2007. By the end of 2010, a few commercial banks still were not compliant; the deadline for compliance is set for July 1st, 2011.

In its continuous effort to promote and ensure a safe and sound functioning of the financial system, the Bank organized a seminar in May 2010 on Business Continuity Management based on the "Provisions and Guidelines for Business Continuity Management" issued in 2009. The presenters discussed the different aspects of Business Continuity Management and the seminar concluded that the size of the company doesn't determine whether it needs a Business Continuity Plan. The size of the company determines only the size of the plan. All supervised institutions are required to implement the Provisions and Guidelines for Business Continuity Management by July 1st, 2011.

6.8 International financial sector policy developments

Curaçao, as a member of the Financial Action Task Force (FATF) and the Caribbean Financial Action Task Force continued its efforts to implement the 40 revised anti-money laundering recommendations of 2003 and the 9 recommendations on terrorism financing. During 2010, both the National Committee on Money Laundering and Terrorist Financing (CIWG) and the Bank worked continuously to implement the international standards set by the FATF. The Bank carries the presidency and the secretariat of the CIWG.

In 2010, various executive decrees of the amended MOT (reporting of unusual transactions) and LID (identification of clients before rendering services) legislation were implemented, i.e., the revised and new indicators decree and the administrative sanctions (fines and penalties) decree. Furthermore, the National Decree Custody Bearer Share Certificates was enacted to secure that bearer shares are kept in custody in order to secure beneficial owner information.

The Sanctions National Decree Al-Qaida c.s., the Taliban of Afghanistan c.s., Osama bin Laden c.s., and locally designated terrorists also was adopted, including an adaptation of the provisions of the former freezing decree. The aforementioned decrees make Curacao more compliant with the 49 FATF AML/CFT Recommendations.

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

Finally, staff members of the Bank were actively involved in FATF and CFATF activities in 2010. Preparations for the Mutual Evaluation of Curaçao continued in 2010 underscoring the Bank's commitment to keep up with the latest AML/CFT developments.

7 FOREIGN EXCHANGE REGULATIONS AND THE LICENSE FEE

7.1 Introduction

The foreign exchange regulations in the Netherlands Antilles were based on the National Ordinance on Foreign Exchange Transactions of 1981 up until October 10, 2010, the date the constitutional changes became effective. On that date, the national ordinance was replaced by the Foreign Exchange Regulation of Curaçao and Sint Maarten because these two now autonomous countries within the Kingdom of the Netherlands decided to form a monetary union with a common currency and central bank.[19] The two ordinances are largely similar. The main difference lies in the inclusion of administrative penalties for violation of the provisions in the Foreign Exchange Regulation of Curaçao and Sint Maarten.

According to the foreign exchange regulation, current transactions are free in principle, while capital transactions require a license. Although capital transactions are bound by a license, the Bank has issued several foreign exchange notifications 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 regulation are to:

1. promote international financial activities in Curaçao and Sint Maarten; for this reason, the ordinance contains special provisions for companies engaged in international financial and business transactions;

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

3. 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. 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 governments of Curaçao and Sint Maarten. The Bank is charged with executing the foreign exchange regulations and managing the available foreign exchange reserves for account and risk of both governments. Therefore, the Bank is empowered to grant licenses and exemptions by virtue of the Foreign Exchange Regulation of Curaçao and Sint Maarten.

Effective January 1, 2010, the Bank introduced a further liberalization of capital transactions. The following capital transactions no longer require a license when the amount is less than NAf.100,000:

- equity participations abroad;
- equity participations in the Netherlands Antilles c.q. Curaçao or Sint Maarten;
- capital transactions between a local company and its subsidiary abroad;
- capital transactions between a local company and its parent company abroad;

[19] Bonaire, Sint Eustatius, and Saba became special municipalities of the Netherlands, no longer have foreign regulations and introduced the US dollar as legal tender as of January 1, 2011.

- extension of a loan abroad;
- taking up of a loan from abroad; and
- distribution of profits and dividends abroad.

7.2 Foreign exchange licenses

The number of foreign exchange licenses issued by the Bank in 2010 increased by 137 (13%) to 1,177 (see Table 31). This increase can be attributed primarily to more foreign exchange exemptions granted to international financial and business companies (164). Moreover, the total capital related to the granted licenses increased by NAf.213.8 million (28%) to NAf.963.9 million. This increase can be explained primarily by more licenses granted for portfolio investments abroad by institutional investors as their appetite to invest abroad increased in line with the improving international securities markets and the further relaxation of the investment rule applied by the Bank in 2009. [20] In addition, the number and value of licenses for transactions related to intercompany financing increased significantly.

Table 31 Overview of foreign exchange licenses issued (in numbers and millions NAf.)

	2009		2010	
Description	**Number**	**Amount**	**Number**	**Amount**
Participation in local company by nonresident	115	96.6	19	20.7
Transfer to own account abroad	16	8.5	15	13.2
Portfolio investment abroad	24	129.5	49	314.2
Participation abroad	3	2.0	3	1.5
Borrowing abroad	99	431.3	63	420.0
Lending abroad	63	34.4	56	29.8
Intercompany financing	19	38.5	42	149.7
Request for foreign bank account	43	-	101	-
Request for local nonresident account	5	-	11	-
Granting guarantee abroad	6	-	5	-
Exemption int. fin. & bus. serv. companies	637	-	801	-
Other	10	9.3	12	14.8
Total	1,040	750.1	1,177	963.9

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 32 provides an overview of the license fees collected monthly from 2008 through 2010. The higher amount collected in 2010 is attributable to the increase in the value of international

[20] Effective January 1, 2009, the investment rule for insurance companies and pension funds was relaxed further as follows:

- the definition of qualifying local investments, allowing the investment of an equal amount abroad, was expanded with loans; and
- funds received from the redemption of debt of the central and island governments of the Netherlands Antilles by the Dutch government may be invested entirely abroad.

transactions related to the slight improvement of the economy. From the total license fees collected in 2010,[21] NAf.50,639.9 thousand (65%) was generated on Curaçao, NAf.23,145.1 thousand (30%) on St. Maarten, and NAf.1,309.2 thousand (2%) on Bonaire. The remaining NAf.2,495.8 thousand (3%) of license fees was paid through the Bank.

Table 32 License fees collected from 2008 through 2010 (in thousands NAf.)

	2008	2009	2010
January	6,597.4	6,838.5	5,781.8
February	5,916.8	5,775.4	5,796.6
March	6,869.0	6,798.6	6,731.2
April	6,648.4	6,183.6	5,886.4
May	6,535.7	5,590.1	7,157.1
June	6,280.4	6,226.4	6,801.6
July	6,695.8	6,012.8	6,432.9
August	5,566.7	5,208.6	7,395.1
September	5,997.5	6,109.5	6,507.5
October	7,058.1	5,902.5	5,955.1
November	6,318.7	6,385.2	5,695.1
December	8,657.6	8,512.5	7,445.8
Total	79,142.1	75,543.7	77,586.2

[21] Due to the constitutional changes, license fees are no longer collected on Bonaire, Sint Eustatius, and Saba beginning October 10, 2010.

8 FINANCIAL STATEMENTS FOR THE PERIOD OF JANUARY 1, 2010 THROUGH OCTOBER 9, 2010

Table 33 Balance sheet as of October 9, 2010 (before profit distribution and division of assets and liabilities; in NAf.)

	Oct. 9, 2010	Dec. 31, 2009*
ASSETS		
Gold	761,852,442	637,534,803
Foreign receivables and investments	2,388,371,817	2,346,799,234
Domestic receivables and investments	523,691,091	534,453,245
Fixed assets	78,601,684	81,074,684
Other current assets	31,167,025	31,731,536
Total Assets	3,783,684,059	3,631,593,502
LIABILITIES & EQUITY		
LIABILITIES		
Bank notes in circulation	356,305,260	381,021,463
Residents' current accounts		
- in guilders	1,384,946,042	1,516,777,776
- in foreign currency	348,354,160	57,188,943
Residents' time deposits		
- in guilders	158,440,000	150,950,000
Nonresidents' current accounts		
- in guilders	252,096,915	406,236,006
- in foreign currency	455,948,367	389,771,353
Provisions	75,788,541	70,912,681
Funds in consignment	9,434,990	9,965,659
Other liabilities	9,141,401	11,475,516
Total Liabilities	3,050,455,676	2,994,299,397
EQUITY		
Capital	30,000,000	30,000,000
Reserve fund	-2,539,856	26,699,038
Appropriated reserves	705,768,239	580,595,067
Retained earnings	-	-
Total Equity	733,228,383	637,294,105
Total Liabilities & Equity	3,783,684,059	3,631,593,502

The October 9, 2010, and December 31, 2009, figures are extracted from the audited financial statements.

* The December 31, 2009, figures have been restated (refer to note 8.1.3).

Table 34 Profit and loss account for the period of January 1, 2010 through October 9, 2010 (in NAf.)

	Jan. 1–Oct. 9, 2010	Jan. 1–Dec. 31, 2009*
INCOME		
Interest income	39,775,464	43,981,561
Interest expenses	-950,342	-1,532,491
Net interest income	38,825,122	42,449,070
Capital gain	1,138,621	2,208,306
Management and custody fee	-377,120	-432,364
Net investment result	39,586,623	44,225,012
License fee	58,780,434	75,972,487
Supervision income	4,850,963	5,599,214
Foreign exchange result	7,952,273	7,025,781
Miscellaneous income	995,274	1,170,413
Other income	72,578,944	89,767,895
Total income	112,165,567	133,992,907
EXPENSES		
Depreciation of fixed assets	4,314,194	5,956,727
Depreciation of printing costs of bank notes	737,340	1,038,304
Withdrawn bank notes	23,365	1,000
General operating expenses	43,569,481	48,907,560
Total expenses	48,644,380	55,903,591
Net income	63,521,187	78,089,316
Distribution of net income:		
Net income	63,521,187	78,089,316
Paid to the central government	-92,760,081	-85,196,378
Change in retained earnings (excluding adjustments and transfer to reserve fund)	-29,238,894	-7,107,062

The October 9, 2010, and December 31, 2009, figures are extracted from the audited financial statements.

* The December 31, 2009, figures have been restated (refer to note 8.1.3).

8.1 General

8.1.1 Introduction

The accounting principles applied in this report are derived from the framework used for the annual accounts of the European Central Bank dated November 10, 2006, and as amended on December 17, 2007, December 11, 2008, and December 14, 2009. Certain principles of this framework have been amended to comply with the local practices of the Bank.

8.1.2 Significant events in the book year, concerning and after the balance sheet date

The constitutional restructuring of the Netherlands Antilles was concluded on October 10, 2010, whereby Curaçao and Sint Maarten became autonomous countries within the Kingdom of the Netherlands, and Bonaire, Sint Eustatius, and Saba became special municipalities of the Netherlands. Due to the constitutional restructuring and the decision of the governments of Curaçao and Sint Maarten to form a monetary union, the Bank van de Nederlandse Antillen ceased to exist on October 10, 2010, and became the Centrale Bank van Curaçao en Sint Maarten. Because of this transition, Curaçao and Sint Maarten will bring their share in the capital of the Bank van de Nederlandse Antillen into the Centrale Bank van Curaçao en Sint Maarten, while Bonaire, Sint Eustatius, and Saba (BES islands) will receive their share in the capital of the Bank van de Nederlandse Antillen. This implies that a report for the division of assets and liabilities will be prepared as per October 9, 2010. Therefore, the financial statements have also been prepared as of October 9, 2010, based on the continuation of the activities and functions of the central bank. As a result, the applied accounting principles are consistent with those from previous years.

8.1.3 Adjustments of 2009 figures

For the book year ending October 9, 2010, the Bank analyzed its liabilities towards third parties and its personnel. With respect to the liabilities towards the personnel, actuarial calculations have been made by an external expert. Based on this analysis, the total amount of the adjustments on the 2009 result was NAf.3.6 million. The total effect of the adjustments on the equity as of December 31, 2009, was a reduction of NAf.50.6 million. Due to these adjustments, the balance sheet item Retained earnings has become negative. This deficit has been charged to the balance sheet item Reserve fund, consistent with Article 4 of the National Ordinance constituting the Central Bank Statute (P.B. 1985, no. 183).

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.

8.2 Notes to the balance sheet as of October 9, 2010

8.2.1 Gold

Gold is valued at the lower of the market price at balance sheet date and the 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 appropriated reserves. Unrealized losses are deducted from the appropriated reserves formed in previous years. If these losses are greater than the appropriated reserves, the difference is charged to the result.

8.2.2 Foreign receivables and investments

The foreign receivables and investments represent current account balances and time deposits with foreign financial institutions and securities in foreign currency.
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 appropriated reserves. Unrealized losses are deducted from the appropriated reserves formed in previous years. If these unrealized losses are greater than the appropriated reserves, the difference is charged to the result. Realized gains and losses are immediately accounted for in the profit and loss account.

The accrued interest with respect to the investments is accounted for under the balance sheet item 'Other current assets'.

8.2.3 Domestic receivables and investments

The domestic receivables and investments relate to investments in government bonds, bonds issued by semi-government institutions, and loans granted to those institutions.
The bonds are valued at their amortized cost and the loans at their nominal value less a provision for possible losses.
The accrued interest with respect to the bonds and loans is accounted for under the balance sheet item 'Other current assets'.

8.2.4 Fixed assets

These assets, which also include the printing cost of bank notes, are – with the exception of land and art - 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. Land and art are valued at cost.

8.2.5 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.

8.2.6 Bank notes in circulation

This item represents the nominal value of the bank notes issued by the Bank that are in circulation at the balance sheet date.

8.2.7 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 the balance sheet date.

8.2.8 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.

8.2.9 Nonresidents' current accounts

This item 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 the balance sheet date. The balances are mostly interest-bearing.

8.2.10 Funds in consignment

This item 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).

8.2.11 Provisions

The balance of the provisions refers to, among other things, provisions for early retirement (VUT), "duurtetoeslag", and medical expense premiums SZGBNA. These provisions are periodically calculated by an actuary.

8.2.12 Other liabilities

This item includes, among other things, accrued interest and accounts payable.

8.2.13 Capital

The enactment in 1986 of the National Ordinance constituting the Central Bank Statute (P.B. 1985, no. 183) introduced capital of NAf.30.0 million (Article 3).

8.2.14 Reserve fund

The National Ordinance constituting the Central Bank Statute (P.B. 1985, no. 183) introduced a reserve fund of NAf.30.0 million (Article 4). The negative balance of retained earnings has been charged to the reserve fund (see note 8.1.3).

8.2.15 Appropriated 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 appropriated reserves after approval by the Minister of Finance. Unrealized losses are deducted from the appropriated reserves. If these losses are greater than the appropriated reserves, the difference is charged to the result.

The revaluation as of October 9, 2010, resulted in a net increase in reserves of NAf.125.2 million, consisting of an unrealized gain on gold of NAf.124.7 million, an unrealized gain on foreign exchange of NAf.0.2 million, and an unrealized gain on investments of NAf.0.3 million.

8.2.16 Retained earnings

This item discloses the accumulated earnings of the Bank for the current and previous years less the dividends paid to the central government. The negative balance of this item has been charged to the reserve fund (see note 8.1.3).

8.3 Notes to the profit and loss account for the period of January 1, 2010 through October 9, 2010

8.3.1 Interest income

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

8.3.2 License fee

As of January 1, 1996, the Bank charges the foreign exchange banks a monthly license fee based on amendments to article 12 of the National Ordinance constituting the Central Bank 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.

8.3.3 Foreign exchange result

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.