

## QUARTERLY BULLETIN 2006-2

**Bank van de Nederlandse Antillen**

## REPORT OF THE PRESIDENT

The economy of the Netherlands Antilles grew by 1.0% in the second quarter of 2006 as measured by real Gross Domestic Product, an acceleration compared to the 0.7% growth in the first quarter. However, the growth rate moderated compared to the second quarter of 2005 (1.7%). The expansion in the second quarter of 2006 was fueled mainly by net foreign demand because the export of goods and services increased while imports declined. Domestic demand increased also, supported by both the private sector and the government sector. Private consumption and investment expanded, reflected by a further increase in credit extended in all loan categories. The increase in government spending was limited to consumptive expenditures. The annualized inflation rate seems to have reached its peak at 3.6% at the end of the second quarter of 2006, only 0.1 percentage point higher than at the end of the previous quarter. The impact of world oil prices still dominated price developments in the Netherlands Antilles.

A review by sector shows that 2006's second quarter economic growth was accounted for primarily by activities in the manufacturing, construction, wholesale & retail trade, and restaurants & hotels sectors. The growth in manufacturing was related to the strong performance of the ship repair industry and maintenance projects at the refinery. The maintenance projects were accompanied by plant shutdowns; thus the amount of oil refined declined. Construction activities continued to grow strongly as a result of the various ongoing investment projects. The expansion in stay-over tourism contributed to the growth in the restaurants & hotels and wholesale & retail trade sectors. The number of stay-over visitors grew on all islands, particularly on Curaçao. Cruise tourism declined because of the drop in St. Maarten. In contrast, Curaçao registered a significant increase in the number of cruise passengers. Activities in the wholesale & retail trade sector also were backed by increased activities in the free zone and higher domestic demand.

Activities in the transport, storage, & communication sector declined slightly as a result of mixed developments in its various industries. Harbor activities in Curaçao declined, reflected by fewer cargo handled --due entirely to a drop in transshipment-- and fewer ship calls. In contrast, the number of ship calls in the harbors of Bonaire and St. Maarten increased. Oil transshipment and oil storage activities expanded, although the performance varied strongly among the islands. Airport activities, measured by the number of passengers handled, were buoyant on all islands in line with the favorable development in stay-over tourism. Noteworthy is that the number of transit passengers registered the highest growth rates, confirming the hub function of our airports for the region.

The balance of payments deteriorated significantly in the second quarter of 2006 compared to the second quarter of 2005, due mainly to the turnaround in the current account balance from a small surplus to a large deficit. The turnaround in the current account balance was caused primarily by the windfall in dividend tax transfers by the Dutch tax authorities related to the tax arrangement for the Kingdom of the Netherlands (BRK) in the second quarter of 2005, which was not repeated in the second quarter of 2006. As a result, the current transfers balance deteriorated significantly. In addition, the income balance worsened, due largely to dividend payments by local companies to their foreign parent company. These deficit-worsening developments were mitigated by an improvement in the trade and services balances. The trade balance improved because exports grew faster than imports. The growth in exports was accounted for by increased earnings from bunkering related to the higher average oil prices, more exports by the free zone, and an increase

in ship repair orders. The growth in imports was the result of higher oil prices and higher demand driven by the growth in tourism and domestic spending. The services balance improved because of the good tourism performance and the decline in services imports. The latter decline was due mainly to fewer imports of construction services as some major projects were completed. The deterioration of the balance of payments was attributable further to the decline in development aid-related capital transfers from abroad and less external financing. The latter was due to the net repayment of loans from abroad, offset partly by the repatriation of portfolio investments abroad by local banks and an increase in direct investments in local companies by their foreign affiliates.

The cash balance of the general government, i.e., the central government and the island government of Curaçao combined, turned around from a surplus in the second quarter of 2005 to a deficit in the second quarter of 2006. Similar to the development in the balance of payments, this turnaround was attributable mainly to the windfall in the transfer of dividend tax by the Dutch tax authorities in the second quarter of 2005. In addition, the central bank did not transfer license fees, and no dividend remittances from public companies took place in the second quarter of 2006, compared to the same quarter of 2005. These developments resulted in a significant decline in nontax revenues, offset partly by an increase in tax revenues and a decline in current expenditures. More profit tax, sales tax, and import duties collected contributed mainly to the increase in tax revenues. Current expenditures declined primarily because the island government of Curaçao only partly met its obligations to the government pension fund, APNA, compared to a substantial reduction in arrears in the second quarter of 2005.

The development in the public finances shows that without substantial transitory windfalls, the governments are facing structural budget deficits. These deficits have resulted in a rising debt of such proportions that it has become unmanageable. The interest burden absorbs a growing share of the available funds leaving ever less money for the implementation of government policies aimed at improving education, infrastructure, safety, and the reduction of poverty. In other words, the high level of debt erodes the government's policy autonomy.

The money supply dropped in the second quarter of 2006 due to the decline in net foreign assets resulting from the deficit on the balance of payments. Net domestic assets expanded, attributable entirely to the growth in net credit extended to the private sector. The latter was accounted for mainly by the rise in loans extended, reflecting the further growth in economic activity. Net credit extended to the government sector declined, resulting primarily from a drop in government securities in the commercial banks' portfolio. The banks reduced their investments in government securities, among other things, to free funds for expanding their loans to the private sector.

In April and May 2006, the Bank directed its monetary policy at tightening the surplus in the domestic money market through auctioning larger amounts of Certificates of Deposit among the banks. This step was aimed at moderating the strong growth in private sector credit extension. In June, the monetary policy stance remained neutral. Furthermore, the Bank raised its official interest rate two times during the second quarter, reaching 5.5%, in reaction to the further increase in international interest rates and its impact on the domestic money and capital market.

Despite the agreement reached between the negotiation teams of Curaçao, St. Maarten, and the Netherlands on the public finances and the judicial system in the new constitutional structure, a majority of the Island Council of Curaçao did not ratify the concluding statement of the negotiations. The members that voted against it believed that it would not provide the desired

degree of autonomy for the future country of Curaçao. The rejection has increased uncertainty about the near-term financial-economic and social prospects of Curaçao. A solution for the debt problem, the start of the social-economic initiative, and the date of the new constitutional status all are in jeopardy as a result, while the island is in urgent need of sound public finances and a durable higher level of growth to reduce unemployment and poverty. One of the main objectives of the new constitutional arrangement is to be better equipped for promoting broad-based welfare in our society. Addressing our macro-economic imbalances is a critical factor in successfully achieving this objective.

E.D. Tromp  
President

## INTERNATIONAL ECONOMIC DEVELOPMENTS

Second-quarter real GDP in the United States remained strong at 3.5% in 2006 (see Table 1), with private demand and inventories as the mainstay of growth. Household consumption grew, but at a slower pace than a year earlier. Consumer demand was discouraged by higher borrowing and energy costs and slowing home-price gains. The rising interest rates slowed the housing market, leading to a reduction in home construction. Meanwhile, the increase in inventories was in part the result of slower sales. The second-quarter inflation rate, heavily influenced by rising energy prices, accelerated to 3.8%. This increase caused the Federal Reserve to raise its Fed funds rate by a quarter percentage point for two consecutive months reaching 5.25% in the June quarter of 2006. In line with the positive economic performance, the labor market improved, leading to a lower jobless rate of 4.6%. Also, labor productivity in the nonfarm business sector accelerated to 2.4% in the months of April-June 2006. Exports expanded, but were outpaced by imports, which worsened the current account deficit by 12.2% to US\$843 billion.

**Table 1 Selected indicators of various countries**

	<u>United States</u>		<u>Netherlands</u>		<u>Venezuela</u>	
	2005-II	2006-II	2005-II	2006-II	2005-II	2006-II
Real GDP (% change)	3.1	3.5	1.9	2.8	11.7	10.2
Consumer prices (%)	3.0	3.8	1.4	1.5	18.5	13.5
Unemployment rate (%)	5.0	4.6	6.6*	5.5*	11.8	9.7

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

\*Quarterly average

The Dutch economy grew by 0.9 percentage points to 2.8% in the second quarter of 2006. Positive private and foreign demand continued to sustain output growth. Household consumption of durable goods increased significantly. Moreover, residential as well as nonresidential investments were up, the latter in machinery and computer equipment. Strong export growth was related mostly to re-exports of manufactured goods. Activities rose in the employment agencies, retail, wholesale, and financial sectors. The retail and wholesale sectors gained from the increase in exports and retail sales. The second-quarter economic growth also coincided with a further improvement in the labor market situation, as the unemployment rate reached 5.5%. The extra jobs were filled mostly by temporary workers. Annual inflation in the Netherlands was contained at 1.5%. According to the European Harmonized Index (HICP), the Netherlands was among the countries with the lowest inflation in the Euro-zone area.

In Venezuela, economic growth remained robust at 10.2% in the June quarter of 2006, with the non-oil sector (10.9%) as a key driver. More activities in the construction, trade, and financial services sectors contributed to the expansion in the non-oil sector. In the past three years, the surge in oil income from the doubling in oil prices funded health, food, and education programs. Since 2004, Venezuela's inflation continued to drop, reaching 13.5% in the second quarter of 2006. This downward trend was due predominantly to the subsidies and currency and price controls enforced by the government. The jobless rate continued its declining path, decreasing to 9.7%. The current account surplus rose by 33.5% to \$8.2 billion, driven primarily by rising prices of oil exports, which make up about 90% of total exports.

## GENERAL ECONOMIC DEVELOPMENTS IN THE NETHERLANDS ANTILLES

The output growth of the Antillean economy moderated somewhat to 1.0% in the June quarter of 2006, reflected by a weaker private demand. By contrast, the strengthening in net foreign demand partly offset the slowdown in domestic demand. The second-quarter expansion was accompanied by a higher inflation rate of 3.2%. One of the main factors that heightened consumer price inflation was the higher world oil prices.

Economic activity in the Netherlands Antilles improved, albeit at a slower pace than a year earlier. Both private and public spending contributed to the positive overall result (see Table 2). Despite an expansion in consumer loans, consumer spending grew marginally, which may be due to a loss in purchasing power resulting from the higher consumer prices. Private investment rose modestly, reflected by a slower growth in mortgages and business loans. Also, public demand was up, backed by higher outlays on wages & salaries and goods & services. In contrast to 2005, the external component strengthened the real GDP growth in the second quarter of 2006. This result was due to a rise in exports while import demand declined in real terms, improving net exports.

**Table 2 GDP growth by expenditure <sup>\*)</sup> (real percentage changes)**

	2004-II	2005-II	2006-II
Domestic expenditure, of which:	1.5	9.3	0.7
Private sector	-0.5	10.0	0.3
- Investment	-0.3	5.4	0.1
- Consumption	-0.2	4.6	0.2
Government sector	2.0	-0.7	0.2
- Investment	-0.4	-0.2	0.0
- Consumption	2.4	-0.5	0.2
Changes in inventory	-0.5	0.2	-0.2
Foreign net expenditure, of which:	0.6	-7.8	0.6
Export of goods and services	7.3	3.6	0.1
Import of goods and services	6.8	11.4	-0.5
GDP	1.6	1.7	1.0
Net primary income	-1.7	1.2	-0.6
Gross national income	-0.1	2.9	0.3
Net current transfers from abroad	-2.0	9.6	-4.9
Gross national disposable income	-2.1	12.5	-4.6

BNA estimates

<sup>\*)</sup> Expenditure categories data are weighted contributors to GDP growth.

During the months of April-June 2006, gross national income growth of the Netherlands Antilles decelerated, owing to a drop in net primary income from abroad. In addition, total consumption expanded, resulting in a contraction in national savings. The decline in savings was reflected by a reduction in both private and public savings. Besides rising total consumption, private investment posted an increase. Hence, the higher levels of private consumption and investment were funded

through credit extension and foreign financing. The increase in public consumption was financed through government securities with the public.

### **Domestic production**

In the second quarter of 2006, the favorable economic development was supported by a growth in both the private and public sectors. The key drivers of the private sector expansion were the manufacturing, construction, and wholesale & retail sectors (see Table 3). In addition, the rise in outlays on wages & salaries led to an increase in the value added in the public sector.

Total value added in the manufacturing sector expanded in the months of April-June 2006 because of the rise in output in Curaçao's ship-repair industry and the "Isla" refinery. The number of man-hours sold in the ship-repair industry grew, owing to more activities in the shipyard. In addition, the labor expenses of the refinery were up, which may be related to increased maintenance of the plants. Construction investment continued its positive development, although it recorded a slowdown compared to 2005. This slowdown was attributable to the completion of some major projects in the transportation sector. Also, the rise in the value of completed projects coincided with the slower growth in the construction industry.

In the three months ending June 2006, the total value added in the wholesale & retail sector grew, backed by more activities in the free-zone and tourism sectors as well as a rise in domestic demand. In line with the growing free-zone activities, the number of free-zone visitors expanded, primarily from Brazil and Haiti.

The Netherlands Antilles recorded more tourism activities, reflected by an increase of 6.2% in stay-over visitor arrivals. This gain was led by more stay-over arrivals from all markets, but primarily from North America and Europe. An analysis by islands shows that stay-over tourism rose on all islands. In contrast to the poor results in the second quarter of 2005, St. Maarten's stay-over tourism grew by 4.2% in the same quarter of 2006, due mainly to more travelers from the USA. The increase in the number of visitors from North America and Europe was mainly responsible for the positive outcome in Curaçao's stay-over tourism (11.3%). As for Bonaire, stay-over tourism also did well (4.9%) stemming from an improvement in most markets (see Table 7 in the appendix for more details). Moreover, the number of cruise passengers was up slightly (0.9%)<sup>1</sup> in the months April-June 2006, sustained solely by Curaçao.

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<sup>1</sup> Excluding Bonaire for which no data were available.

**Table 3 GDP by sector (real percentage changes)**

Sector	2004-II	2005-II	2006-II
Agriculture, fishery, & mining	3.7	-5.1	-4.2
Manufacturing	0.4	-2.1	4.7
Electricity, gas, & water	1.1	1.8	-0.7
Construction	1.3	5.4	3.6
Wholesale & retail trade	2.2	4.3	3.4
Restaurants & hotels	4.9	-1.6	1.6
Transport, storage, & communication	-1.2	-0.8	-0.6
Financial intermediation	0.9	3.3	-0.2
Real estate, renting, & business activity	0.3	1.0	0.7
Private households	-1.4	-0.6	1.5
Total private sector	0.8	1.5	1.3
Public sector	6.0	5.8	1.8
Taxes minus subsidies	0.5	-1.9	-2.3
GDP	1.6	1.7	1.0

BNA estimate

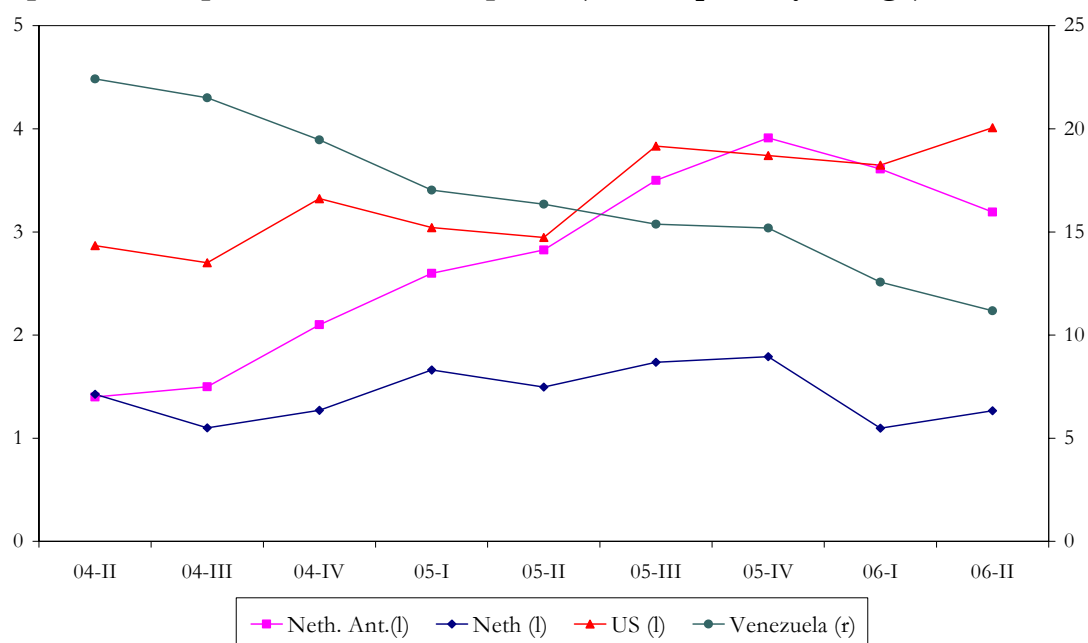
In the second quarter of 2006, the transportation, storage, & communication sector continued to mitigate GDP growth, as the air transportation and harbor sectors registered poor results. The total cargo movements in Curaçao and the number of ships piloted into the harbor contracted during this period. However, the increase in oil storage, oil transshipment, and airport-related activities mitigated the drop in harbor activities. The airport-related activities grew, as both total passenger traffic and the number of commercial landings were up in the Netherlands Antilles. The development was in line with the growth in stay-over tourism.

### **Inflation**

The Antillean inflation rate accelerated from 2.8% in the second quarter of 2005 to 3.2% in the second quarter of 2006 (see Graph 1). The main price rises occurred in the categories “food” (6.9%), “housing” (3.0%), and “transportation & communication” (3.2%). The higher inflation rate was driven primarily by the steady rise in oil prices in the world market. Increases in energy and automobile prices contributed to the higher housing and transportation outlays. An analysis by islands shows that in the June quarter of 2006, Curaçao’s annual quarterly inflation rate accelerated to 3.4%, whereas St. Maarten’s and Bonaire’s decelerated to 2.7% and 1.0%, respectively. See Table 8 in the appendix for a detailed overview.



**Graph 1 Developments in consumer prices (annual quarterly change)**



Source: Central Bureau of Statistics, US Bureau of Labor Statistics, Central Bureau of Statistics Netherlands, and Banco Central de Venezuela

## DEVELOPMENTS IN PUBLIC FINANCE

The government sector contributed partly to the estimated GDP growth in the second quarter of 2006. This growth was fueled by government consumption (4.1%) boosted by both wage increases and higher expenditures on goods and services. The overall financial operations of the public sector, computed on a cash basis, deteriorated significantly. Compared to the second quarter of 2005, a substantial decline of NAf.232.0 million in revenues, mitigated partly by a drop of NAf.58.3 million in expenditures, caused a deterioration of NAf.173.7 million in the balance of the general government to a deficit of NAf.106.5 million. See Table 9 in the appendix for more details.

The development in revenues was attributable entirely to a decline in nontax and other revenues. In the second quarter of 2005, revenues were up because of the transfer of dividend tax collected by the Dutch tax authorities related to the tax arrangement for the Kingdom of the Netherlands (BRK). No such windfall was obtained in the second quarter of 2006. Revenues from taxes, driven largely by sales tax revenues and taxes on income and profits, increased by 1.5% in the second quarter of 2006 owing primarily to enhanced tax compliance.

Government expenditures dropped by 11.7% in the second quarter of 2006 compared to the second quarter of 2005. This decline was accounted for entirely by current expenditures. In contrast to the second quarter of 2005, when the island government of Curaçao reduced its arrears at the government pension fund, APNA, arrears were built up again in the second quarter of 2006.

The financing of the government balance (deficit and net lending) was provided by the nonbank private sector, which absorbed most of the debt issues of the government. A substantial decline in

the holdings of government debt by commercial banks and the central bank reduced financing from monetary sources. The general public, on the other hand, increased their holdings of government securities by NAf.159.1 million in the second quarter of 2006. Table 4 presents an overview of the financing of the cash balances of the central government and the island government of Curaçao.

**Table 4 Financing of the cash balances (in millions NAf.)**

	<u>Central government</u>		<u>Curaçao government</u>	
	2005-II	2006-II	2005-II	2006-II
Monetary financing, of which:	-14.4	-57.9	-86.6	-18.7
Central bank	25.0	-17.6	-70.2	4.0
Commercial banks	-39.7	-40.6	-16.4	-22.7
Coins and notes	0.3	0.3	--	--
Nonmonetary financing, of which:	6.6	93.2	27.2	89.9
Government securities with the public	-3.8	79.5	1.1	79.6
Other	10.4	13.7	26.1	10.3
Cash balance	7.8	-35.3	59.4	-71.2

### **Public sector debt**

The total outstanding public debt increased by NAf.104.3 million, reaching NAf.5.05 billion (84.0% of GDP) in the second quarter of 2006. The increase in public debt was caused by both the domestic and foreign components. The increase in the domestic debt (NAf.70.0 million) resulted mainly from deficit financing through the net issue of securities. Noteworthy is that while the central government deliberately substituted short-term securities for long-term securities for liquidity reasons, this substitution could not be accomplished by the island government of Curaçao.

During the March-June period of 2006, the central government's domestic debt widened by NAf.11.7 million (0.5%), because of an increase in the net issue of securities offset partly by decreases in cash advances at the central bank and the debt at the social security bank (SVB). The widening in the debt of the island government of Curaçao by NAf.59.6 million (2.8%) was almost entirely the result of the net issuance of securities (NAf.52.8 million). The increase in the foreign debt (NAf.34.4 million) can be explained largely by the appreciation of the euro vis-à-vis the Netherlands Antillean guilder. For details on the development in the public sector debt, see Table 10 in the appendix.

### **DEVELOPMENTS IN THE BALANCE OF PAYMENTS**

The current account of the balance of payments posted a deficit of NAf.146.7 million in the second quarter of 2006, compared to a surplus of NAf.6.0 million in the same quarter of 2005 (see Table 5). The worsening of the current account balance was mainly the result of a decline in current government transfers. In contrast, the growth in exports of goods and services outweighed the rise in imports. Hence, net exports of goods and services increased. The current account deficit was financed largely by net foreign reserves that dropped by NAf.142.7 million.

**Table 5 Balance of payments summary (in millions NAf.)**

	2004-II	2005-II	2006-II
Current account	-60.9	6.0	-146.7
Capital transfers	38.2	11.3	4.7
External financing of the government	2.2	3.1	1.6
External financing of the private sector	8.5	36.9	27.4
- Direct investment *)	-21.4	3.2	21.0
- Loans and credits *)	-106.2	70.2	-82.1
- Portfolio investments *)	136.1	-36.5	88.5
Change in net foreign assets of banking system *)	-1.8	-117.4	142.7
- with commercial banks	-75.1	-19.7	127.9
- with central bank	73.3	-97.7	14.8
Statistical discrepancies	13.9	60.2	-29.7

\*) a minus sign implies an increase

### Current account

The increase in net export of goods and services (NAf.61.6 million) resulted from an improvement in both the trade balance (NAf.35.4 million) and the services balance (NAf.26.2 million). The trade balance improved because merchandise export growth outpaced the rise in imports. Higher exports were largely the result of increased earnings from bunkering activities due to higher average oil prices. In addition, re-exports by the free zone companies in Curaçao grew to meet increased demand from, among others, Venezuela and the Caribbean islands. Moreover, foreign exchange revenues from ship repair activities rose as the local ship repair company attracted some major projects in the second quarter of 2006.

Second-quarter import growth was due largely to higher average oil prices leading to higher amounts paid for oil products and non-oil products imported for the local market. In addition, general merchandise imports rose due to higher demand for goods driven by the growth in tourism and increased domestic spending.

The services balance improved as export of services increased while payments for services received from abroad declined. Export of services grew mainly due to a rise in foreign exchange receipts from tourism. The rise in tourism revenues reflected the growth in stay-over tourism on all islands of the Netherlands Antilles. The increase in the export of services was mitigated partially by, among others things, a decline in the refining fee paid by PDVSA for its operations in Curaçao. This decline was primarily the result of a decrease in refining due to maintenance shutdowns on the island's refinery in the June quarter of 2006.

Import of services dropped, due in part to a decline in payments for air passenger transportation services received from abroad. In addition, the import of construction services dropped in the June quarter of 2006 compared to the same period of 2005. In 2005, the import of construction services increased mainly due to the construction of a new airport terminal in St. Maarten. As the construction of the terminal entered its final stage in the second quarter of 2006, the import of construction services dropped.

Despite the increase in the net export of goods and services, the current account balance deteriorated by NAf.152.7 million to a deficit of NAf.146.7 million. This deterioration was related to a worsening of both the current transfers and the income balances. The current transfers balance deteriorated by NAf.203.9 million due to a decline in net current transfers received. This decline was due mainly to a large transfer of dividend tax by the Dutch tax service<sup>2</sup> in the second quarter of 2005, which did not occur in the second quarter of 2006. The income balance worsened by NAf.10.3 million, due largely to dividends paid by domestic companies to their parent companies abroad. See Table 11 in the appendix for more details.

### **Financing of the current account balance**

The worsening of the current account balance resulted in a net decrease in the banking system's wealth abroad. During the second quarter of 2006, net foreign reserves declined by NAf.142.7 million. This decline resulted from decreases in net foreign reserves held by the central bank (NAf.14.8 million) and the commercial banks (NAf.127.9 million). See Table 5 above.

Furthermore, the net foreign wealth of the private sector declined by NAf.27.4 million. The change in the financing of the private sector resulted from a deterioration of the direct investment and the portfolio investment balances, mitigated partially by an improvement of the loans and credit balance. The direct investment balance deteriorated by NAf.21.0 million primarily because of an increase in liabilities of resident companies with their foreign affiliates.

The portfolio investment balance worsened by NAf.88.5 million as net portfolio investments abroad declined. The repatriation of foreign bonds and notes by local banks accounted for the decline in net portfolio investments. These funds were used largely to pay off a local bank's liability related to the acquisition of foreign assets in the first quarter of 2006. This development also explains part of the improvement in the loans and credit balance by NAf.82.1 million.

The improvement in the loans and credit balance, which includes trade credit, foreign loans, and other investments, also was linked to the improvement in the net trade credit balance. In the second quarter of 2006, net trade credit extended on exports increased reflecting the growth in merchandise exports, whereas net trade credit received on imports declined. Moreover, the net loans and borrowing balance improved owing to the net repayment of loans received from abroad. See Table 12 in the appendix for more details.

Capital transfers dropped by NAf.6.6 million in the second quarter of 2006, due to receipt of less development aid compared to the second quarter of 2005. Noteworthy is that most of the annual development aid from the Netherlands was received in the first quarter of 2006 (NAf.114.7 million).

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<sup>2</sup> This transfer was related to the tax arrangement for the Kingdom of the Netherlands Antilles (BRK).

## **MONETARY DEVELOPMENTS**

### **Monetary policy**

During the first two months of the second quarter of 2006, the Bank's monetary policy was directed toward tightening the surplus in the domestic money market in light of the strong growth in private sector credit extension. This tightening was effectuated through auctioning a larger amount of Certificates of Deposits (CD's), negotiable securities issued by the Bank. A shortfall in subscriptions on the first auction was compensated on subsequent auctions, increasing the amount of outstanding CDs by NAf.10.0 million.<sup>3</sup> During the month of June, the Bank aimed only at refinancing maturing CDs. The Bank's other main monetary policy instrument, the reserve requirement, remained unchanged during the June quarter of 2006.

The pledging rate, the Bank's official interest rate, was raised on two occasions during the June quarter of 2006. On May 19 and on June 30 the pledging rate was raised by 25 basis points, reaching 5.50%. These increases were the result of increased interest rates in the international financial markets, which affected the domestic money market.<sup>4</sup> The higher international rates led also to increases in the Bank's CD rates to remain competitive with the return on similar investments.

### **Net accumulation of wealth and the money supply**

Money holdings of the private sector dropped by NAf.21.6 million during the June quarter of 2006. This drop was a turnaround compared to the increase of NAf.143.8 million recorded during the second quarter of 2005. The drop in domestic liquidity resulted from the substantial financing of the government by the private sector, offsetting the increases in bank financing and net external financing of the private sector (see Table 13A in the appendix for more details).

In the end, the money supply dropped by NAf.21.6 million in the second quarter of 2006, the result of a drop of NAf.143.0 million in assets denominated in foreign currency offsetting the increase of NAf.121.4 million in assets denominated in domestic currency.

### **Factors affecting the money supply**

The drop in net foreign assets was the result of decreases at both the commercial banks (18.4%) and the Bank (1.3%). By contrast, during the second quarter of 2005, increases of 3.9% and 8.5%, respectively, were registered. The drop in net foreign assets of the commercial banks was due mainly to the repatriation of foreign investments.

Net domestic assets rose by 3.7% during the second quarter of 2006, an acceleration compared to the increase of 0.9% recorded during the second quarter of 2005. The increase in the second quarter of 2006 resulted from a rise of 5.9% in net credit extended to the private sector, which exceeded the drop in net credit extended to the government sector (13.3%). The increase in private credit extension resulted mainly from a rise in loans extended, reflecting the further growth

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<sup>3</sup> The Bank auctions CDs on a bi-weekly basis with the commercial banks.

<sup>4</sup> To illustrate, the US Federal Reserve's Federal Funds Rate was raised twice during the quarter.

in economic activity. In addition, securities and participations of the domestic commercial banks increased, due mainly to the participation in a local insurance company.

All private loan components increased during the second quarter of 2006. The growth rate was the same as in the second quarter of 2005 (4.6%). Both island groups registered an increase in private loans extended: the Windward Islands by 6.7% (NAf.67.5 million) and the Leeward islands by 3.7% (NAf.87.9 million). The only loan component that decreased on an island level was mortgages, by 0.5% (NAf.3.8 million), on the Leeward Islands. However, total outstanding mortgages increased because of the growth on the Windward Islands.

Net domestic credit extension to the governments dropped by 13.3% during the second quarter of 2006, a development similar to the second quarter of 2005 when a drop of 10.7% was registered. Net credit extended to the central government and to the island government of Curaçao decreased by 15.0% and 9.5%, respectively. The drop in net credit extended to both government levels resulted mainly from a drop in government securities in the commercial banks' portfolio, because the appetite to invest in government securities has been decreasing. This decrease was related to rising returns on foreign investment alternatives as well as redirecting funds into the private sector. See Table 14 in the appendix for more details.

### **Developments in domestic interest rates**

The Bank raised its official rate, the pledging rate, on two occasions during the second quarter of 2006. As noted, both rises were the result of developments in the international financial markets affecting the domestic money market. These developments also explain the rise in the maximum CD rates the Bank offers, as these securities have to compete with investment alternatives abroad.

The average rate on passbook savings remained unchanged at 2.8% (for the seventh consecutive quarter). The average rate on time deposits increased slightly to 4.1% during the June quarter of 2006 compared to the previous quarter.

The average rate on mortgages remained unchanged at 8.3% in the second quarter of 2006 compared to the first quarter. On the other hand, the average time loan rate dropped slightly to 11.0%. Contrary to most other commercial banks' interest rates, the average time loan rate fluctuated from quarter to quarter, implying dynamism between demand and supply.

During the June quarter of 2006, the average rate on government bonds increased slightly by 0.1 percentage point to 6.5% compared to the first quarter of 2006, showing a slightly upward trend. The average (one month) treasury bill discount rate registered a drop of 100 basis points during the second quarter of 2006 compared to the previous quarter. However, this drop was the result of an auction with only one buyer. During the following months, the average one-month treasury bill discount rate continued the upward trend of the preceding two quarters, related to the decreasing interest by the domestic financial sector to invest in government securities. See Table 15 in the appendix for more details.

## **DEVELOPMENTS IN THE COMMERCIAL BANKING SECTOR**

Total assets of the domestic commercial banking sector expanded by 2.0% during the June quarter of 2006, a deceleration compared to the growth of 2.7% during the corresponding quarter of 2005. The growth in 2006 was largely the result of increases in both interest-bearing cash (21.2%) and loans (4.5%), offset partly by decreases in non-interest-bearing cash (20.2%) and investments (16.8%). See Table 16 in the appendix for more details.

The aggregate income statement of the domestic commercial banks reveals that profitability increased during the second quarter of 2006 compared to the second quarter of 2005. This improvement was due to the increases in net interest income and other income. As a result, the commercial banking sector contributed positively to the expansion in domestic production during the second quarter. See Table 17 in the appendix for more details.

### **Macroprudential indicators**

The macroprudential indicators provide an assessment of the general performance of the commercial banking sector. Despite an increase in profitability in the second quarter of 2006, the indicators reveal a slight worsening in the performance of the sector compared to the previous quarter (see Table 6).

Following three quarters of improvement, the adequacy of the capital reserves, as measured by the ratio of total capital against total assets, dropped by 0.4 percentage point in the June quarter of 2006.

The quality of the commercial banks' assets, as measured by the ratios of nonperforming loans-to-total loans and provisions for loan losses-to-nonperforming loans, worsened during the second quarter of 2006. The amount of nonperforming loans increased at a higher pace than the amount of total loans, explaining the worsening of the ratio, which started in the first quarter of 2006. Because the increase in nonperforming loans was not covered sufficiently by extra provisions for loan losses, the relevant ratio registered a deterioration.

All three earnings-related indicators revealed a worsening when comparing the June quarter to the March quarter of 2006. This result seems contradictory with the increase in profitability in the sector. These ratios measure income growth against the growth rates of average earning assets, interest expenses, and total assets. Therefore, it follows from the drop in these ratios that the denominator grew faster than the numerator, i.e., income.

The ratio of total loans to total deposits provides an indication of the liquidity of the domestic commercial banks. The growth rate of total deposits exceeded the growth rate of total loans, resulting in a slight increase in liquidity in the second quarter of 2006.

**Table 6 Macprudential indicators (in %, end of period)**

	2005-I	2005-II	2005-III	2005-IV	2006-I	2006-II
<b>Capital adequacy</b>						
Total capital/ total assets	7.9	7.9	8.1	8.2	8.9	8.5
<b>Asset quality</b>						
Nonperforming loans/ total loans	3.6	3.2	2.8	2.6	2.7	3.7
Provisions for loan losses/ non-performing loans	92.3	104.0	108.3	106.0	113.6	78.8
<b>Earnings</b>						
Gross earnings-assets yield	7.6	7.1	7.5	7.5	7.8	7.6
Net interest margin	5.0	4.6	5.1	5.1	5.1	4.9
Return-on-assets	2.0	2.0	2.0	2.4	2.3	2.0
<b>Liquidity</b>						
Total loans/ total deposits	63.2	64.5	67.8	61.9	61.9	61.7



## APPENDIX

**Table 7 Developments in stay-over tourism per island (% change)<sup>5</sup>**

	Curaçao				St. Maarten				Bonaire			
	2005-II		2006-II		2005-II		2006-II		2005-II		2006-II	
North America, of which:	1.0	(0.1)	11.8	(0.8)	-0.5	(-0.2)	2.7	(1.1)	-4.9	(-0.2)	4.7	(0.2)
-U.S.A.	-0.3	(0.0)	13.3	(0.8)	-2.1	(-0.7)	4.5	(1.6)	-5.4	(-0.2)	4.2	(0.1)
Europe, of which:	9.0	(1.1)	14.1	(1.9)	-5.7	(-0.7)	3.9	(0.4)	-0.6	(0.0)	-3.2	(-0.1)
-The Netherlands	12.9	(1.4)	11.4	(1.3)	-3.9	(-0.1)	-3.2	(-0.1)	-6.5	(-0.2)	-8.9	(-0.2)
South & Central America, of which:	-24.4	(-1.1)	6.4	(0.3)	-22.1	(-0.3)	33.3	(0.5)	-14.6	(-0.1)	45.8	(0.3)
-Venezuela	-29.1	(-0.9)	0.8	(0.0)	-38.3	(-0.1)	30.9	(0.1)	3.4	(0.0)	17.9	(0.0)
-Colombia	-1.1	(0.0)	10.6	(0.0)	---	---	---	---	39.0	(0.0)	19.3	(0.0)
Caribbean, of which:	-30.7	(-1.3)	9.2	(0.4)	-15.6	(-0.9)	2.3	(0.1)	-22.3	(-0.1)	44.7	(0.3)
-Dominican Republic	-31.8	(-0.2)	-32.5	(-0.1)	-53.7	(-0.3)	-11.4	(-0.1)	---	---	---	---
<b>Total</b>	<b>-7.4</b>	<b>(-2.1)</b>	<b>11.3</b>	<b>(3.3)</b>	<b>-3.3</b>	<b>(-2.1)</b>	<b>4.2</b>	<b>(2.6)</b>	<b>-5.4</b>	<b>(-0.5)</b>	<b>4.9</b>	<b>(0.4)</b>

Source: Curaçao Tourist Board, St. Maarten Tourist Bureau, and Tourism Corporation Bonaire

**Table 8 Netherlands Antilles consumer prices (annual quarterly percentage change)**

	2005-I	2005-II	2005-III	2005-IV	2006-I	2006-II
Food	6.9	6.8	7.4	7.6	6.9	6.9
Beverages & tobacco	0.2	3.0	3.5	3.7	4.3	3.0
Clothing & footwear	-0.5	-0.8	-0.5	-0.6	-0.1	0.3
Housing	2.0	2.8	3.9	3.8	3.7	3.0
Housekeeping & furnishings	5.3	5.1	5.5	5.2	2.7	2.5
Health	1.3	1.5	1.5	1.0	1.1	0.4
Transport & communication	1.9	1.9	2.8	4.4	4.1	3.2
Recreation & education	0.5	0.1	0.4	0.4	0.4	0.7
Other	0.9	1.1	1.5	2.2	2.4	2.3
<b>General inflation rate</b>	<b>2.6</b>	<b>2.8</b>	<b>3.5</b>	<b>3.9</b>	<b>3.6</b>	<b>3.2</b>

Source: Central Bureau of Statistics

<sup>5</sup> Weighted growth rates between brackets

**Table 9 Budgetary overview (in millions NAf.)**

	2003-II	2004-II	2005-II	2006-II
<b>General government</b>				
Revenues	300.9	308.1	566.5	334.5
Tax revenues, of which:	258.7	287.7	288.3	292.8
Taxes on income and profits	126.5	137.3	124.4	129.5
Taxes on goods and services	96.2	108.3	120.4	118.0
Taxes on international trade and transactions	26.9	31.3	31.7	33.6
Nontax and other revenues	42.2	20.4	278.2	41.7
Expenditures	423.7	446.6	499.3	441.0
Current, of which:	396.7	441.2	497.3	438.5
Wages and salaries	148.3	157.7	221.8	168.6
Goods and services	91.8	109.5	100.8	106.9
Subsidies	35.9	9.4	9.0	11.9
Transfers	73.4	94.5	93.6	81.6
Interest payments	76.3	70.0	72.1	69.5
Capital	27.0	5.4	2.0	2.4
Budget balance	-122.8	-138.5	67.2	-106.5
<b>Central government</b>				
Revenues	157.0	154.7	386.9	190.1
Tax revenues, of which:	125.4	144.2	151.6	155.5
Taxes on goods and services	92.6	104.2	110.3	112.4
Taxes on international trade and transactions	27.1	31.5	31.8	33.6
Nontax and other revenues	31.6	10.5	235.3	34.6
Expenditures	222.3	238.8	379.1	225.4
Current, of which:	199.4	237.1	378.4	225.9
Wages and salaries	70.7	80.7	81.9	84.3
Goods and services	25.3	30.7	26.6	28.8
Transfers	57.1	84.7	228.8	73.5
Interest payments	44.9	40.8	41.1	39.3
Capital	22.9	1.7	0.7	-0.5
Budget balance	-65.3	-84.1	7.8	-35.3
<b>Island government of Curaçao</b>				
Revenues	177.1	184.5	356.2	175.5
Tax revenues, of which:	133.3	143.5	136.7	137.3
Taxes on income and profits	126.5	137.3	124.4	129.5
Taxes on goods and services	3.6	4.1	10.1	5.6
Nontax and other revenues	43.8	40.9	219.5	38.2
Expenditures	234.6	238.8	296.8	246.7
Current, of which:	230.5	235.1	295.5	243.7
Wages and salaries	77.6	77.0	139.9	84.3
Goods and services	66.5	78.8	74.2	78.1
Transfers	41.3	40.9	41.4	39.2
Interest payments	31.4	29.2	31.0	30.2
Domestic	28.1	25.9	27.0	27.4
Abroad	3.3	3.3	3.9	2.8
Capital	4.1	3.7	1.3	2.9
Budget balance	-57.5	-54.4	59.4	-71.2

**Table 10 Total outstanding consolidated public debt<sup>1</sup> (in millions NAf.)**

	2005-II	2005-III	2005-IV	2006-I	2006-II
Domestic consolidated debt,	3,967.8	4,010.9	4,145.0	4,206.3	4,276.3
of which:					
-Central government,	2,108.7	2,131.2	2,233.5	2,282.4	2,294.1
of which:					
Long-term securities	1,729.4	1,777.8	1,771.6	1,800.1	1,855.7
Short-term securities	92.1	83.6	94.4	70.2	45.8
APNA	117.7	117.3	209.0	208.6	208.2
SVB	11.2	9.9	13.9	15.4	9.8
-Curaçao,	2,145.8	2,187.5	2,076.5	2,104.1	2,163.7
of which:					
Long-term securities	737.4	737.4	737.4	754.8	786.5
Short-term securities	141.2	145.9	202.6	171.8	192.9
APNA	762.2	774.7	758.4	765.2	768.5
Central government	367.5	388.8	253.9	267.4	268.0
Other islands	362.1	366.7	312.6	319.2	325.1
Foreign debt	717.7	714.6	725.8	742.3	776.7
<b>Total debt (consolidated)</b>	<b>4,685.6</b>	<b>4,725.6</b>	<b>4,870.8</b>	<b>4,948.6</b>	<b>5,052.9</b>
(% of GDP)	82.1%	81.8%	83.4%	83.5%	84.0%

<sup>(1)</sup> Adjusted for inter-government debt

**Table 11 Detailed overview balance of payments (in millions NAf.)**

	2004-II	2005-II	2006-II
Trade balance	-503.5	-615.8	-580.4
-Exports	300.8	427.9	506.7
-Imports	804.3	1043.6	1087.1
Services balance	430.6	426.0	452.2
Receipts, of which:	773.2	803.6	805.6
-Travel	385.1	384.1	423.6
-Transportation	65.8	60.8	52.8
-Other services, of which:	322.3	358.7	329.3
-Int. fin & bus. services sector	93.7	107.6	116.8
Expenses, of which:	342.7	377.6	353.4
-Travel	123.6	138.4	138.1
-Transportation	44.0	46.3	37.9
-Other services, of which:	175.1	192.9	177.5
-Int. fin & bus. services sector	39.8	31.9	31.4
Income balance <sup>1)</sup>	-13.5	-2.6	-12.9
Current transfers balance <sup>2)</sup>	25.5	198.3	-5.6
<b>Current account balance</b>	<b>-60.9</b>	<b>6.0</b>	<b>-146.7</b>
<b>Capital &amp; financial account balance</b>	<b>47.1</b>	<b>-66.1</b>	<b>176.4</b>
Capital account balance	38.2	11.3	4.7
Financial account balance	8.9	-77.5	171.8
<b>Net errors &amp; omissions</b>	<b>13.9</b>	<b>60.2</b>	<b>-29.7</b>

1) Labor and investment income.

2) Public and private transfers.

**Table 12 Breakdown of net changes in the financial account (in millions NAf.)**

	2004-II	2005-II	2006-II
Direct investment	-21.4	3.2	21.0
- Abroad <sup>1)</sup>	-0.8	7.1	5.1
- In the Netherlands Antilles <sup>2)</sup>	-20.6	-3.9	15.9
Portfolio investment <sup>1)</sup>	136.1	-36.5	88.5
Other investment, of which:	-90.3	51.7	-23.8
- Assets <sup>1)</sup>	-100.5	89.0	75.9
- Liabilities <sup>2)</sup>	10.2	-37.3	-99.7
Net lending/borrowing, of which:	-13.7	21.7	-56.6
- Assets <sup>1)</sup>	-4.6	-36.4	-37.9
- Liabilities <sup>2)</sup>	-9.1	58.1	-18.7
Reserves <sup>3)</sup>	-1.8	-117.4	142.7
Total assets <sup>1)</sup>	28.4	-94.2	274.3
Total liabilities <sup>2)</sup>	-19.5	16.9	-102.5
Balance	8.9	-77.3	171.8

1) A minus sign implies an increase in assets.

2) A minus sign means a decrease in liabilities.

3) A minus sign means an increase in reserves.

**Table 13A Net accumulation of wealth (in millions NAf.)**

2006-II	Domestic sectors			External sector
	Private	Government	Banking	
Nonfinancial transactions	-35.9	-110.8		146.7
Government net lending	-4.3	4.3		
Gov't dom. nonbank financing	-179.4	179.4		
External financing of government		1.6		-1.6
External financing of private sector	27.4			-27.4
-Direct investment (equity)	21.0			-21.0
-Loans and credits	-82.1			82.1
-Portfolio, incl. debt	88.5			-88.5
Capital transfers	4.7			-4.7
Change in net foreign assets of the central bank			15.0	-14.8
Change in net foreign assets of commercial banks			128.0	-127.9
Change in domestic bank credit	213.5	-74.5	-139.0	
Change in broad money	21.6		-21.6	
Other items, net/errors & omissions	-47.3		17.6	29.7

**Table 13B Net accumulation of wealth (in millions NAF.)**

2005-II	Domestic sectors			External Sector
	Private	Government	Banking	
Nonfinancial transactions	-60.0	66.0		-6.0
Government net lending	-1.2	1.2		
Gov't dom. nonbank financing	0.8	-0.8		
External financing of government		3.1		-3.1
External financing of private sector	36.9			-36.9
-Direct investment (equity)	3.2			-3.2
-Loans and credits	70.2			-70.2
-Portfolio, incl. debt	-36.5			36.5
Capital transfers	11.3			-11.3
Change in net foreign assets of the central bank			-97.7	97.7
Change in net foreign assets of commercial banks			-19.6	19.7
Change in domestic bank credit	131.3	-69.5	-61.8	
Change in broad money	-143.8		143.8	
Other items, net/errors & omissions	24.9		35.3	-60.2

**Table 14 Monetary survey (in millions NAf.)**

	2005-I	2005-II	2005-III	2005-IV	2006-I	2006-II
<b>Money supply (M2)</b>	4,747.1	4,890.9	4,831.1	4,933.4	5,217.3	5,195.7
<b>Money (M1)</b>	1,729.8	1,841.3	1,726.3	1,784.0	1,800.9	1,848.0
Coins & notes with the public	221.7	224.6	222.9	239.9	232.9	244.9
Total demand deposits, of which :	1,508.1	1,616.7	1,503.4	1,544.1	1,568.0	1,603.1
- Netherlands Antillean guilders	1,146.8	1,263.0	1,152.0	1,188.0	1,138.9	1,161.8
- Foreign currency	361.3	353.7	351.4	356.1	429.1	441.3
<b>Near money</b>	3,017.3	3,049.6	3,104.8	3,149.4	3,416.4	3,347.7
Time deposits	1,874.1	1,883.4	1,927.7	1,947.3	2,169.3	2,089.6
Savings	1,143.2	1,166.2	1,177.1	1,202.1	1,247.1	1,258.1
<b>Factors affecting the money supply</b>						
<b>Net domestic assets</b>	3,094.9	3,121.5	3,225.3	3,305.5	3,319.1	3,440.5
General government	648.9	579.4	594.3	621.9	560.2	485.7
- Central government	387.3	396.8	353.5	397.9	390.4	332.0
- Island governments	261.6	182.6	240.8	224.0	169.8	153.7
Private sector	3,098.9	3,230.2	3,361.9	3,450.3	3,599.9	3,813.4
<b>Net foreign assets</b>	1,652.2	1,769.4	1,605.8	1,627.9	1,898.2	1,755.2
Central bank	1,150.2	1,247.8	1,115.2	1,117.9	1,201.8	1,186.8
Commercial banks	502.0	521.6	490.6	510.0	680.6	551.2
<b>Memorandum items</b>						
<b>Government loans by commercial banks</b>	658.2	614.2	600.4	603.4	531.5	455.6
- Central government	357.3	328.1	308.9	306.2	288.7	239.6
- Island governments	300.9	286.1	291.5	297.2	242.8	216.0
<b>Private sector loans - Leeward Islands</b>	2,148.2	2,246.3	2,321.0	2,367.4	2,397.9	2,485.8
- Mortgages	782.7	786.1	803.7	812.4	807.5	803.7
- Consumer loans	623.8	655.6	681.7	713.6	728.4	752.7
- Business loans	741.7	804.6	835.6	841.4	862.0	929.4
<b>Private sector loans - Windward Islands</b>	845.0	885.4	958.3	995.4	1,004.4	1,071.9
- Mortgages	320.1	330.5	348.8	362.0	384.4	397.2
- Consumer loans	191.0	195.9	218.6	243.2	239.0	273.1
- Business loans	333.9	359.0	390.9	390.2	381.0	401.6



**Table 15 Developments in domestic interest rates (in %)**

	2005-I	2005-II	2005-III	2005-IV	2006-I	2006-II
<b>Central bank</b>						
- Pledging rate	3.00	3.25	3.75	4.50	5.00	5.50
- Maximum CD rate (1 month)	2.88	3.29	3.74	4.36	4.74	5.37
<b>Commercial bank borrowing rates</b>						
- Passbook savings	2.8	2.8	2.8	2.8	2.8	2.8
- Time deposit (12 months)	4.2	4.1	4.1	4.1	4.0	4.1
<b>Commercial bank lending rates</b>						
- Mortgages	8.7	8.6	8.7	8.6	8.3	8.3
- Time loans	11.5	11.2	10.3	10.8	11.2	11.0
<b>Government securities</b>						
- Government bonds (5-year effective yield)	6.8	6.3	6.3	6.3	6.4	6.5
- Treasury bills (1 month)	3.6	3.3	3.3	4.5	4.8	3.8

**Table 16 Aggregate balance sheet of domestic commercial banks (in millions NAf.)**

	2005-I	2005-II	2005-III	2005-IV	2006-I	2006-II
<b>Assets</b>						
Non-interest-bearing cash	453.9	506.9	379.6	475.7	647.6	516.8
Interest-bearing cash	1,744.3	1,718.8	1,667.4	1,836.7	1,930.9	2,339.7
Investments	789.7	780.2	781.9	1,675.8	1,548.8	1,288.6
Loans	4,091.9	4,278.1	4,426.0	5,151.5	5,182.4	5,417.9
Investments in unconsolidated subsidiaries and affiliates	13.4	9.9	11.0	11.2	232.4	186.3
Fixed assets	194.6	198.0	195.3	218.3	215.9	218.9
Other assets	148.4	142.9	126.8	188.4	220.3	205.5
<b>Total assets</b>	<b>7,436.2</b>	<b>7,634.7</b>	<b>7,588.0</b>	<b>9,557.6</b>	<b>9,978.3</b>	<b>10,173.7</b>
<b>Liabilities</b>						
Demand deposits	2,260.7	2,372.3	2,261.4	2,799.1	2,879.3	3,059.9
Savings deposits	2,491.9	2,510.0	2,545.5	3,094.3	3,159.4	3,191.3
Time deposits	1,840.5	1,865.9	1,867.3	2,555.7	2,746.8	2,680.5
Total deposits	6,593.0	6,748.2	6,674.2	8,449.0	8,785.5	8,931.6
Borrowings	18.5	37.2	33.0	25.2	26.0	37.4
Other liabilities	220.3	228.2	241.4	316.3	295.7	322.8
<b>Total liabilities</b>	<b>6,831.9</b>	<b>7,013.5</b>	<b>6,948.5</b>	<b>8,790.6</b>	<b>9,107.2</b>	<b>9,291.9</b>
Minority interest	6.8	7.4	6.5	7.0	7.4	7.9
Subordinated debentures	7.4	7.2	5.5	5.5	5.5	5.2
General provisions	143.9	144.7	145.4	159.2	166.2	169.6
Capital & reserves	446.2	461.8	482.1	595.3	692.1	699.1
<b>Total capital</b>	<b>604.4</b>	<b>621.1</b>	<b>639.4</b>	<b>767.1</b>	<b>871.1</b>	<b>881.8</b>
<b>Total liabilities and capital</b>	<b>7,436.2</b>	<b>7,634.7</b>	<b>7,588.0</b>	<b>9,557.7</b>	<b>9,978.3</b>	<b>10,173.7</b>

**Table 17 Aggregate income statement of domestic commercial banks\***  
(accumulated, in millions NAF.)

	2005-I	2005-II	2005-III	2005-IV	2006-I	2006-II
Interest income	124.6	239.3	392.9	608.1	175.4	350.3
Interest expenses	43.1	87.0	132.1	200.9	62.2	125.3
<b>Net interest income</b>	<b>81.5</b>	<b>152.3</b>	<b>260.9</b>	<b>407.2</b>	<b>113.1</b>	<b>225.0</b>
Other income	49.3	98.8	146.0	215.5	58.8	116.7
<b>Total operational income</b>	<b>130.9</b>	<b>251.1</b>	<b>406.8</b>	<b>622.8</b>	<b>171.9</b>	<b>341.8</b>
Salaries & other employee expenses	54.4	110.3	163.9	238.8	65.6	129.3
Occupancy expenses	15.8	32.0	48.7	68.1	18.5	37.4
Other operating expenses	18.5	35.8	54.7	106.6	24.5	53.5
Net addition to general provisions	4.9	13.4	24.7	39.8	10.7	19.1
<b>Total operational expenses</b>	<b>93.6</b>	<b>191.5</b>	<b>292.0</b>	<b>453.3</b>	<b>119.2</b>	<b>239.3</b>
Net operating income	37.3	59.6	114.8	169.5	52.7	102.5
Net extraordinary items	-0.1	1.8	5.8	25.9	3.5	1.1
Applicable profit taxes	8.0	19.3	28.9	36.6	12.9	24.2
<b>Net income after taxes</b>	<b>29.2</b>	<b>42.1</b>	<b>91.7</b>	<b>158.7</b>	<b>43.3</b>	<b>79.3</b>

\* Cumulative quarterly figures.