

QUARTERLY BULLETIN 2007-1

Bank van de Nederlandse Antillen

REPORT OF THE PRESIDENT

The economy of the Netherlands Antilles grew by an estimated 1.2% in the first quarter of 2007, an acceleration compared to the 0.7% growth in real Gross Domestic Product in the first quarter of 2006. The growth in 2007's first quarter stemmed almost entirely from the increase in private spending. Private investment in particular contributed to this increase, supported by the expansion in business loans and mortgages. In addition, consumer spending was up, underpinned by an increase in consumer loans. The government contributed only marginally to the economic expansion, fueled by an increase in consumption. The expansion in domestic expenditures was mitigated by a decline in net exports because the import of goods and services grew much more rapidly than exports. Lower international oil prices contributed mainly to the deceleration in the annualized inflation rate from 2.9% at the end of December 2006 to 2.5% at the end of the first quarter of 2007.

An analysis by sector reveals that all sectors except the financial sector contributed to the economic expansion in the first quarter of 2007. The wholesale & retail trade sector and the construction sector in particular showed a strong expansion. Higher domestic demand as well as more activities in tourism and the free zone accounted for the good performance in the wholesale & retail trade sector. All islands contributed to the growth in tourism activities, which occurred in both stay-over and cruise tourism. Construction activities benefited from the many tourism-related and real estate projects underway. The decline in value added by the financial sector was accounted for largely by lower profits reported by both the domestic and international operating financial services companies.

Noteworthy also are the developments in the transport, storage, & communication, and manufacturing sectors. Activities in the transport, storage, & communication sector continued to improve, reflected by more passengers handled in the airports, increases in the number of ship calls and the amount of freight handled in the harbors, and gains in oil storage and transshipment activities. The further increase in ship repair activities can be attributed mainly to the growth in manufacturing.

Despite a considerable deficit on the current account, the balance of payments registered a surplus in the first quarter of 2007, owing primarily to foreign direct investment. Compared to the first quarter of 2006, the current account deteriorated significantly because of strong import growth, lower dividend income received from abroad, and higher family transfers to abroad. Merchandise imports in particular grew strongly, related to increased investments in the tourism and transportation sectors and higher imports by free-zone companies. Furthermore, the import of construction services increased as a result of, among other things, several hotel projects and the expansion of the oil terminal in St. Eustatius. The export of goods and services increased, although at a slower pace than imports. The growth in ship repair activities, tourism, oil storage & refining, and free-zone exports were the main contributors to the higher exports. The current account deficit was financed through development aid-related capital transfers and increased foreign indebtedness of the private sector. The latter was caused primarily by an increase in liabilities of resident direct investment companies with their foreign affiliates.

The general government's cash deficit deteriorated slightly in the first quarter of 2007 compared to the first quarter of 2006 because expenditures rose faster than revenues. The increase in expenditures resulted mainly from higher capital outlays and interest expenses, the latter due

partly to a reduction in interest payment arrears to the Dutch government by the central government. The increase in revenues was accounted for by both tax and nontax revenues. Indirect taxes contributed to the higher tax revenues, related to the increase in domestic spending (i.e., sales tax and import duties) and more motor vehicle taxes collected. By contrast, the direct tax revenues declined. A transfer of license fees by the Bank contributed to the higher nontax revenues.

The government debt increased only marginally in line with the small cash deficit. However, a net redemption of government securities and a shift towards shorter maturities took place, resulting from eroding confidence with investors because of the Island Council of Curacao's refusal to ratify the agreement reached with the Dutch government in November 2006. The agreement was not ratified because the majority of the members believed it would not provide the desired degree of autonomy. This agreement included a major debt relief and support for social-economic development to provide a sound starting position for the island in the new constitutional arrangement.

The money supply grew strongly in the first quarter of 2007 at about the same pace as in the first quarter of 2006. In both quarters, the increase in net foreign assets was most pronounced, related to the large balance of payments surplus. Net domestic assets contributed also to the growth in 2007's first quarter, accounted for by both the government and the private sector. The government's expansionary impact resulted mainly from the increase in the government securities portfolios of the commercial banks. The further growth in the extension of private loans contributed to the expansion in net credit to the private sector.

The adequate level of official reserves, moderate private sector credit growth, and generally successful auctions of certificates of deposit did not warrant a change in the Bank's monetary policy during the first quarter of 2007. As a result, the reserve requirement percentage remained unchanged at 13.0%. In addition, the Bank's pledging rate remained at 5.5%, in line with the unchanged Fed funds rate.

Prospects for progress in the implementation of Curacao's constitutional reform agenda now look considerably brighter. The new government that took office after the April elections ratified the November 2006 agreement reached with the Dutch government. Details are being worked out for a transition agreement scheduled for signing by the end of August. The agreement will include the much-anticipated debt relief and support for improving the social-economic conditions on the island. Now that Curacao is getting back on track with the preparations for its new constitutional future, a gradual recovery of confidence with the financial institutions is expected, easing the financing constraints in the implementation of the government budget. Our policymakers can then devote all their efforts to the large number of issues that must be addressed for a well-prepared start of a new constitutional future targeted to become effective at the end of 2008.

The central issue is the elimination of the central government level. The Bank welcomes the recent discussions on the redundancy of civil servants accompanying the dismantlement of the central government. It is important to get a clear picture of the number of civil servants needed in the new countries' government apparatuses as soon as possible to adequately prepare staff that becomes eventually redundant for jobs outside the government.

E.D. Tromp
President

INTERNATIONAL ECONOMIC DEVELOPMENTS

Economic activities in the United States slowed to 1.9% in the first quarter of 2007, the weakest since the first quarter of 2002. The main factors behind the economic slowdown were decreases in inventories and private investment, the latter primarily in residential fixed investments. The slump in the housing market caused weaker overall economic growth. The housing market was partly influenced by tighter lending standards and the recent rise in mortgage rates. Meanwhile, rising consumer spending counterbalanced the decline, preventing the economy from halting altogether. Consumer demand was spurred by a healthy job market and wage growth. The unemployment rate fell to 4.4%, the lowest in nearly six years. In the first three months of 2007, inflationary pressures moderated somewhat, as the inflation rate eased to 2.9%, compared to 3.5% in the same period of 2006. This easing of inflation caused the Federal Reserve to leave the Fed funds rate unchanged at 5.25% for the 6th consecutive time since June 2006, giving borrowers a period of stability. Exports of goods and services expanded at a faster pace than imports, resulting in a contraction of the annualized current account deficit by 7.0% to US\$.759 billion, compared to the first quarter of 2006.

Table 1 Selected indicators of various countries

	<u>United States</u>		<u>Netherlands</u>		<u>Venezuela</u>	
	2006-I	2007-I	2006-I	2007-I	2006-I	2007-I
Real GDP (% change)	3.7	1.9	3.5	2.5	9.8	8.8
Consumer prices (%)	3.5	2.9	1.6	1.4	14.8	15.3
Unemployment rate (%)	4.7	4.4	5.8*	4.9*	10.1	9.5

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

*Quarterly average

In the Netherlands, real GDP expanded by 2.5% in the March quarter of 2007, a slower rate than in the same period of 2006. Domestic demand, such as household consumption and fixed investment, largely accounted for the first-quarter growth. Higher consumer spending helped fuel retail sales, leading to a growth in the retail & wholesale trade sector. Following a strong gain in 2006, the upward trend in fixed investment continued in the first quarter of 2007. Both residential and nonresidential fixed investments led to more activities in the construction industry. Gains in the financial & business services and hotels & restaurants sectors also accounted for the GDP growth. The labor market in the Netherlands continued to improve, lowering the jobless rate to 4.9% in the three months to March 2007. Most jobs were created in the nonfinancial business services sector, e.g., temporary employment agencies and computer service providers, particularly temporary jobs. In 2006, producers did not pass on price increases to consumers, despite price gains. As a result, the annual inflation rate in the Netherlands remained relatively stable at 1.4% during the months January-March 2007.

Despite a contraction in oil output, Venezuela's economy grew by 8.8% in the January-March period of 2007, the slowest pace in two years. The non-oil sector performed well (10.6%), mitigating the slowdown in the oil sector. The non-oil sector's expansion reflected mainly more activities in the construction, trade, and the financial services sectors. Construction showed a marked growth of 26.5%, boosted by more state projects, financed by oil revenues. The lower first-quarter jobless rate (9.5%) was caused mostly by more employment in the public sector, created by social programs. Venezuela's inflation rate rose by 15.3%, the highest in Latin

America, partly because consumer demand rose faster than domestic output. Also, the government-imposed currency controls continued to raise inflationary pressures. Venezuela's current account surplus narrowed by 47.7% to US\$3.7 billion, prompted by a decline in oil export revenues, due primarily to lower oil prices.

GENERAL ECONOMIC DEVELOPMENTS IN THE NETHERLANDS ANTILLES

During the first quarter of 2007, the Netherlands Antillean economy grew by 1.2%, an improvement from the corresponding period in 2006 (see Table 2). Real GDP expansion benefited from the expansion of domestic demand, owing for the most part to private spending. Conversely, the drop in net exports had a dampening effect on the first-quarter economic growth. The increase in economic activity was accompanied by a downturn in inflationary pressures. Consumer price inflation was contained at 2.1% in January-March 2007, supported by lower world oil prices.

Table 2 GDP growth by expenditure *) (real percentage changes)

	2005-I	2006-I	2007-I
Domestic expenditures, of which:	1.1	6.7	10.2
Private sector	0.6	7.1	10.0
- Investment	0.2	5.6	6.7
- Consumption	0.4	1.5	3.3
Government sector	0.5	-0.4	0.2
- Investment	-0.3	-0.1	0.0
- Consumption	0.8	-0.2	0.3
Changes in inventory	-1.9	0.2	0.2
Foreign net expenditures, of which:	1.3	-6.2	-9.1
Export of goods and services	3.8	-0.5	4.1
Import of goods and services	2.5	5.7	13.2
GDP	0.5	0.7	1.2
Net primary income	1.1	0.5	-0.5
Gross national income	1.6	1.2	0.7
Net current transfers from abroad	-1.8	-0.6	-1.2
Gross national disposable income	-0.2	0.7	-0.5

BNA estimates

*) Expenditure categories data are weighted contributors to GDP growth.

Amongst the domestic expenditures components, both private consumption and investments were the key driving forces behind the strong growth in domestic demand. Consumer spending was up, supported by increases in consumer loans and purchasing power. Purchasing power improved because of a slowdown in inflation. Developments in private investment were positive with a further rise in growth to 6.7%, supported by increases in mortgages and business loans. Strong private demand was in line with the further rapid growth in merchandise imports. Public demand showed a slight increase, fueled by stronger public consumption. Higher expenses on

wages & salaries and on goods & services led to the rise in public consumption. By contrast, net foreign demand deteriorated, in part due to the marked increase in imports, exerting a drag on GDP growth. The expansion in imports was related mainly to the wholesale & retail trade, tourism, and construction sectors.

During the months January-March 2007, gross national income of the Netherlands Antilles increased, albeit at a moderating pace. Gross national income rose because the growth in total output produced in the economy offset the decline in net primary income. Nonetheless, national savings shrank because of the increases in both consumption and investment activities. In contrast to 2006, private savings dropped, but this was eased in part by an improvement in the public dissavings. Total investment rose, because of the growth in private investment. Hence, the higher levels of consumption and investments were funded through increased borrowing and foreign financing.

Domestic production

Through the first three months of 2007, the sectoral breakdown of value-added growth showed that the economic expansion was backed by both the private and public sectors. The public sector expansion stemmed from higher outlays on wages & salaries. In the private sector, almost all sectors recorded a growth, particularly the construction and wholesale & retail trade sectors (see Table 3).

Table 3 GDP by sector (real percentage changes)

Sector	2005-I	2006-I	2007-I
Agriculture, fishery, & mining	-5.0	-3.2	5.5
Manufacturing	-3.5	0.6	1.9
Electricity, gas, & water	-0.2	-1.2	2.8
Construction	1.9	4.2	5.6
Wholesale & retail trade	1.8	2.3	4.9
Restaurants & hotels	1.9	-0.6	1.9
Transport, storage, & communication	-2.3	0.4	1.7
Financial intermediation	0.7	2.3	-2.3
Real estate, renting, & business activity	0.9	-1.3	2.1
Private households	0.7	-2.5	-1.7
Total private sector	0.2	0.3	0.9
Public sector	0.3	0.6	0.4
Taxes minus subsidies	-0.1	-0.2	-0.1
GDP	0.5	0.7	1.2

BNA estimates

Construction activities continued to expand, linked in part to tourism-related and real estate projects. Moreover, the value of completed residential construction projects expanded during

the first quarter of 2007. The expansion in the construction industry, which had been underway for several quarters, had a relatively strong impact on import activities.

In line with more activities in tourism, the wholesale & retail trade sector recorded a stronger growth in the March quarter of 2007. This increase was attributable to higher domestic demand as well as more activities in the free zone. The positive performance in the free zone was accompanied by more free zone visitors, largely from the Jamaican and Venezuelan markets. These results reveal that activities in the free zone were not affected significantly by the fire outbreaks in the fourth quarter of 2006 and the first quarter of 2007.

Following 2006's lackluster performance, activities in the hotels & restaurants sector increased in the first three months of 2007, supported by a 3.8% growth in the number of stay-over visitors. This gain was reflected by a rise in arrivals from all markets. The primary explanation for the marked increase in the number of European visitors was the depreciation of the US\$ against the euro. The increase in airlift may have led to more tourist arrivals from the South American and Caribbean markets. Cruise passenger arrivals were up by 9.1%, driven largely by Curacao and St. Maarten.

An analysis by island reveals an increase in total stay-over visitors on all islands throughout the months January-March 2007. The slight increase in St. Maarten's stay-over arrivals (0.6%) was due mainly to more visitors from the North American market, offsetting the fall in the number of travelers from the European market. After a weak performance in the first quarter of 2006, the number of stay-over visitors in Curacao improved by 8.3%, accounted for primarily by more visitors from the Netherlands, Venezuela, and the Caribbean.

Developments were more favorable in Curacao's ship repair industry, which mainly accounted for the increase in the value added in the manufacturing sector. The growth in the ship repair industry was reflected by a rise in the number of man-hours sold.

More activities in air transportation and the harbors provided the basis for the encouraging performance in the transport, storage, & communication sector. Amid favorable results in air transport and tourism, airport activities strengthened as total passenger traffic in the Netherlands Antilles increased. The harbor sector performed well in the first quarter of 2007 as cargo movements expanded and more ships were piloted into the harbors. Gains in oil storage and transshipment activities also contributed to the growth in the harbor sector.

One of the main economic sectors, the financial services sector, contributed negatively to the overall economic performance, due to a decrease in value added by domestic and international financial services. Contrary to 2006, both the domestic and the international financial services sector registered lower profits, accounting largely for the negative results in the January-March quarter of 2007. Besides higher wages and salaries, both sectors recorded a marked increase in profits in the first quarter of 2006.

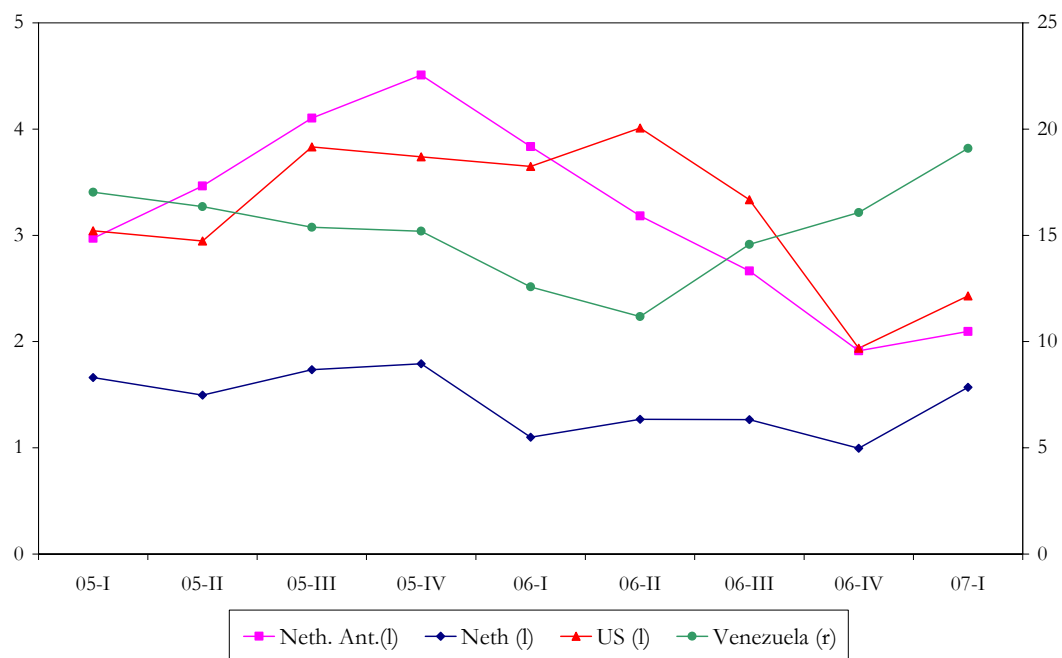
Inflation

The inflationary picture of the Netherlands Antilles remained benign in the first quarter of 2007, due mostly to lower international oil prices. Part of the deceleration was accounted for by the unwinding of the gasoline and utility price effects that raised the inflation rate in 2006. The price developments on a quarterly basis reveal that the Antillean inflation rate was in line with the U.S. and Dutch inflation rates since the third quarter of 2006 (see Graph 1).

First-quarter inflation eased to 2.1% in 2007 from 3.8% in the same quarter of 2006. Almost all categories recorded a price deceleration, except for the component “food” (7.6%), which showed a pattern of significant increases. However, higher food prices were offset by price slowdowns in the other categories. An analysis by island shows that during the first three months of 2007, Curacao registered the highest quarterly inflation rate of 2.4%, followed by Bonaire (1.7%), and St. Maarten (0.9%). See Table 8 in the appendix for a detailed overview.

Graph 1

Developments in consumer prices (annual quarter-to-quarter percentage change)



DEVELOPMENTS IN PUBLIC FINANCE

Fiscal policy was expansionary in the first quarter of 2007, reflected by a higher increase in expenditures (4.3%) than in revenues (3.9%). The general government, constituting the central government and the island government of Curaçao, registered a deficit on a cash basis of NAf.9.9 million, a slight deterioration compared to the NAf.8.0 million deficit in the first quarter of 2006 (see Table 9 in the appendix). The deficit of the central government improved by NAf.2.8 million to NAf.28.3 million, while the island government of Curaçao recorded a NAf.4.7 million smaller surplus (NAf.18.4 million).

Both tax and nontax revenues contributed to the increase in revenues (NAf.14.9 million). Indirect taxes at the central government level (i.e., sales tax, excises, and import duties) in particular contributed to the rise in tax income, related to the increase in domestic spending. In addition, the island government of Curaçao collected more motor vehicle and land taxes. By contrast, profit tax and wage tax revenues declined. The higher nontax revenues were attributable to a transfer of license fees by the central bank.

Fiscal expenditures increased by NAf.16.8 million, mainly as a result of higher capital outlays and interest payments by the central government. The latter was attributable partly to the reduction in interest payment arrears to the Dutch government. Government consumption remained contained in the first quarter of 2007, as both the wage component and expenditures on goods and services increased only moderately. Therefore, the government's contribution to GDP growth in the first quarter of 2007 was smaller than in the first quarter of 2006.

The general government's cash deficit was financed monetarily through the commercial banks in the first quarter of 2007, accounted for primarily by the net purchase of government securities. The central bank and the general public, on the other hand, decreased their holdings of government securities (see Table 4).

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

	Central government		Curaçao government	
	2006-I	2007-I	2006-I	2007-I
Monetary financing	-7.3	24.6	-47.9	26.8
Central bank	12.9	-28.5	13.0	2.0
Commercial banks	-20.2	52.7	-60.9	24.8
Coins and notes	0.0	0.4	0.0	0.0
Nonmonetary financing	38.4	3.7	24.8	-45.2
Government securities with the public	74.9	-22.2	31.0	-25.1
Other	-36.5	25.9	-6.2	-20.1
Cash balance	-31.1	-28.3	-23.1	18.4

Public sector debt

The total outstanding public debt increased marginally by NAf.7.6 million in the first quarter of 2007 reaching NAf.5.2 billion (84.2% of GDP). The increase in public debt was caused by the domestic components as the foreign components dropped. The increase in the domestic debt (NAf.10.5 million) was accounted for by the island government of Curacao (NAf.27.6 million)

and resulted mainly from the buildup of arrears, especially with the civil servants pension fund, APNA, and the road fund. The central government and all other island governments recorded a drop in their outstanding debt. Noteworthy is the net redemption of debt securities (NAf.8.3 million) and the substitution of long-term securities for short-term securities. This substitution was reflected by the increase in the government securities portfolios of the commercial banks, which have a stronger appetite for shorter maturities compared to other investors. A slight drop was registered in the foreign debt (NAf.2.9 million), due to repayments by the central government to the Dutch government (see Table 10 in the appendix).

DEVELOPMENTS IN THE BALANCE OF PAYMENTS

The current account balance of the Netherlands Antilles recorded a deficit of NAf.111.0 million in the first quarter of 2007, compared with a surplus of NAf.35.0 million a year earlier. This shift was due mainly to a decline in the net exports of goods and services because the import of goods and services exceeded the export. Furthermore, net current transfers and net income declined. In line with the developments on the current account, the combined capital and financial account deteriorated (see Table 5).

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

	2005-I	2006-I	2007-I
Current account	89.7	35.0	-111.0
Capital transfers	81.1	112.9	102.9
External financing of the government	3.0	3.4	3.0
External financing of the private sector	-11.9	81.7	168.5
- Direct investment *)	-10.6	-115.9	154.7
- Loans and credits *)	-12.9	86.8	2.7
- Portfolio investments *)	11.6	110.9	11.1
Change in net foreign assets of the banking system *)	-190.7	-270.3	-248.0
- with commercial banks	-55.8	-186.4	-169.8
- with central bank	-134.9	-83.9	-78.3
Statistical discrepancies	10.1	37.3	84.5

*) A minus sign implies an increase.

Current account

Export of goods and services rose by NAf.81.4 million in the first quarter of 2007, compared to the first quarter of 2006. This rise was related, among other things, to increased foreign exchange earnings from ship repair activities. In addition, the fee¹ received for refining

¹ Annual and quarterly data have been revised for the years 2000 to 2006. Generally, the revisions reflect more accurate balance of payments data of the oil terminal in St. Eustatius. Because the oil imports and exports and bunkering activities by the oil terminal are not part of domestic consumption and production, they are now excluded from the balance of payments statistics. The net foreign exchange receipts for oil transshipment and refining on St. Eustatius are now included in the refining fee of the services balance of the balance of payments. Hence, the refining fee reflects net foreign exchange revenues of the refinery in Curacao and the oil terminal in St.

operations in Curaçao and St. Eustatius grew by NAf.20.4 million. This growth was due mainly to increased refining activities in St. Eustatius. Furthermore, re-exports by the free-zone companies rose to meet increased foreign demand. The earnings from the tourism sector contributed also to the improved export of goods and services. In the March quarter of 2007, the earnings from this sector increased by NAf.15.0 million owing mainly to a growth in revenues from stay-over and cruise tourism in Curaçao. Moreover, foreign exchange receipts from oil storage activities grew by NAf.11.0 million.

Import of goods and services increased by NAf.202.1 million, due largely to the growth in merchandise imports. This growth reflects increased investments in, among other things, the tourism and transportation sectors. In addition, imports by the free-zone companies rose to meet domestic and foreign demand and to replenish their inventories. Furthermore, the import of construction services increased due to, among other things, the construction of new hotels in Curaçao and the expansion of the oil terminal in St. Eustatius. First-quarter import growth, however, was partly offset by lower oil imports due to a decline in oil prices on the international market. Because the growth in imports outweighed the export growth, the net export of goods and services deteriorated by NAf.120.7 million.

The income balance and the current transfers balance worsened by, respectively, NAf.9.9 million and NAf.15.4 million in the first quarter of 2007. The decline of the income balance was due mainly to a drop in dividend income received from abroad. Net current transfers declined due to, among other things, increased family transfers to abroad. Overall, the current account recorded a deficit of NAf.111.0 million in the January - March period of 2007. See Table 11 in the appendix for a detailed overview.

Financing of the current account balance

The current account deficit was covered largely by capital transfers and external financing extended to the private sector in the first quarter of 2007. Net capital transfers amounted to NAf.102.9 million and comprised mainly development aid funds received from the Netherlands. Compared to the first quarter of 2006, this aid dropped by NAf.8.0 million. The financing of the private sector was related mainly to a net inflow of direct investments (NAf.154.7 million).

The deterioration of the direct investment balance was due mainly to an increase in liabilities of resident direct investment companies with their foreign affiliates. At the same time, the portfolio investment balance worsened by NAf.11.1 million, due largely to the repatriation of matured foreign bonds and notes by institutional investors.

Furthermore, a relatively small net inflow of NAf.2.7 million was recorded on the loans and credit balance,² reflecting mainly a deterioration of the net trade credit balance. The latter was due largely to a decline in net trade credits extended abroad because the repayments on extended trade credit increased more than new trade credit extended to foreign customers. In addition, loans extended abroad dropped, reflecting largely the repayment of mortgages extended to

Eustatius. This fee is paid by the parent companies abroad and is used by the refinery and the oil terminal to cover their operational costs and investments in the Netherlands Antilles.

² The loans and credit balance includes trade credits, loans, and other investments.

nonresidents by local banks to finance real estate projects in St. Maarten. Moreover, foreign assets were repatriated by some international financial companies to cover their costs of operation in the Netherlands Antilles. The worsening of the loans and credits balance was mitigated partially by the repayment of loans abroad by domestic companies and an increase in their bank account balances abroad. The latter was related to direct investments from abroad in resident companies that were largely deposited on their foreign bank accounts. See Table 12 in the appendix for more details.

Net foreign assets (i.e., reserves) rose by NAf.248.0 million in the first quarter of 2007. This rise resulted from increases of NAf.169.8 million and NAf.78.3 million in net foreign assets held by the commercial banks and by the central bank, respectively.

MONETARY DEVELOPMENTS

Monetary policy

During the first quarter of 2007, monetary developments did not warrant actively influencing the liquidity in the domestic money market. As a result, the Bank's main monetary policy instrument, the reserve requirement,³ remained unchanged at 13.00%. In addition, the other monetary policy instrument deployed by the Bank, the bi-weekly auctions of certificates of deposit (CDs), was aimed only at rolling over the maturing amounts.

The Bank's official interest rate, the pledging rate, also remained unchanged during the first three month of 2007. Since the last increase to 5.50% on June 30, 2006, this rate has remained stable.

Net accumulation of wealth and the money supply

Money holdings of the private sector rose by NAf.287.1 million (5.3%) during the March quarter of 2007, about the same as the NAf.283.9 million (5.8%) increase registered during the first quarter of 2006. The increase in domestic liquidity during the first three months of 2007 resulted from both domestic and external financing channels. The largest contribution came from external financing of the private sector, related to direct investments, followed by capital transfers received from abroad (i.e., development aid). See Tables 13A and 13B in the appendix for details.

Factors affecting the money supply

The local banking system's domestic assets expanded by 1.1% during the first three months of 2007, compared to a 0.4% growth in the first quarter of 2006. The increase in 2007 was attributable to increases in net credit to both the government sector (4.8%) and the private sector (1.3%). The increase in net credit extended to the governments was a turnaround compared to the drop of 9.9% in the first quarter of 2006. Both government levels contributed

³ The reserve requirement stipulates that the commercial banks hold a blocked deposit at the Bank, affecting their possibilities to extend credit. The Bank's ultimate objective is a stable Netherlands Antilles guilder based upon a target level for the official reserves. Because credit extension leads to extra spending, the foreign reserves ultimately will be affected. This explains why the Bank closely monitors, among other things, domestic credit extension.

to the expansion in 2007: net credit extended to the central government and the island governments rose by 6.8% and 1.4%, respectively. Both increases were mainly the result of more government securities held by the commercial banks.

Net private credit extension continued to increase during the first quarter of 2007 (1.3%), although at a slower pace than during the first quarter of 2006 (4.3%). The slowdown can be explained partly by the strong increase in securities and participations in 2006⁴ (NAf.105 million), which did not occur in 2007. By contrast, private loans extended grew faster in 2007 (1.8%) than in 2006 (1.2%). During the first quarter of 2007, all loan components rose in the Netherlands Antilles with the exception of mortgages in the Windward Islands.

Net foreign assets of the local banking system expanded by 14.0% in the first three months of 2007, a deceleration compared to 2006 (16.6%). Net foreign assets at the commercial banks increased by 32.6%, 3.9 percentage points less than in 2006. The net official reserves at the central bank increased by 6.2%, compared to 7.5% in the first quarter of 2006. See Table 14 in the appendix for more details.

Developments in domestic interest rates

The Bank's pledging rate remained unchanged at 5.50% during the first quarter of 2007, in line with the stable interest rate policy of the Fed. On the other hand, the maximum rate the Bank offered on its issues of certificates of deposit dropped slightly to 5.25% compared to the end of December 2006, due to a smaller markup on international money market rates.

The average rate on passbook savings remained stable at 2.8%, which has been the case since the end of 2004. The average rate on time deposits increased further to 4.5% in the first quarter of 2007, after remaining stable at around 4.0% until the third quarter of 2006. Furthermore, the average mortgage rate remained fluctuating around 8.4%, while the average rate of time loans showed a slightly declining trend, reaching 10.1% in 2007's first quarter.

The interest rate on 5-year government bonds dropped slightly to 7.3% during the first quarter of 2007 compared to the last quarter of 2006, a turnaround from the rising trend since the end of 2005. On the other hand, the discount rate on 1-month treasury bills increased to 5.5%, continuing its volatile quarterly development related to the specific market circumstances at the time of the auctions.

DEVELOPMENTS IN THE COMMERCIAL BANKING SECTOR

Total assets of the domestic commercial banking sector grew by 4.2% during the March quarter of 2007, compared to 4.4% during the first quarter of 2006. Interest-bearing cash, of which mainly government securities, and loans, particularly contributed to the expansion in 2007's first quarter. See Table 16 in the appendix for more details.

⁴ Related mainly to the participation of a domestic commercial bank in, among other things, a local insurance company.

Despite the increases in net interest income and other income, the aggregate profitability of the domestic commercial banks declined in the first quarter of 2007 compared to the first quarter of 2006. A higher increase in operational expenses than in income explains the lower profit. All expense categories contributed to the increase. See Table 17 in the appendix for details.

Macroprudential indicators

The macroprudential indicators provide information on the general performance of the domestic banking sector (see Table 6). First, the adequacy of the capital stock is measured by the ratio of total capital against total assets. This ratio amounted to 9.1% at the end of the first quarter of 2007, well above the internationally acknowledged benchmark of 8.0%.

Second, the quality of the commercial banks' asset portfolio deteriorated during the first quarter of 2007 compared to the previous quarter. This deterioration in quality was reflected by an increase in the ratio of nonperforming loans-to-total loans and a drop in the ratio of provisions for loan losses-to-nonperforming loans. The first ratio increased because the nonperforming loans grew faster than total outstanding loans. The increase in nonperforming loans in combination with a slight drop in the provisions for loan losses explains the drop in the latter ratio.

Third, two of the three earnings-related indicators reveal a slight deterioration in profitability of the commercial banking sector during the first quarter of 2007 compared to the first quarter of 2006. The net interest margin declined slightly. However, the return-on-assets ratio declined more strongly, due to lower net income before dividend and taxes and a substantial increase in total assets. In contrast, the gross earning-assets yield improved because the growth in interest income surpassed the growth in average earning assets.

Liquidity in the domestic banking sector rose during the last two quarters, revealed by the drop in the ratio of total loans against total deposits. This development was due to the higher growth in deposits compared to the growth in loans extended.

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

	2005-IV	2006-I	2006-II	2006-III	2006-IV	2007-I
Capital adequacy						
Total capital/total assets	7.9	8.5	8.5	9.0	8.7	9.1
Asset quality						
Nonperforming loans/total loans	2.6	2.7	3.7	3.2	3.6	3.7
Provisions for loan losses/non-performing loans	106.0	113.6	67.5	95.8	87.3	83.8
Earnings						
Gross earning-assets yield	7.5	7.8	7.6	7.7	7.1	7.9
Net interest margin	5.1	5.1	4.9	4.9	4.5	5.0
Return-on-assets	2.3	2.2	2.0	2.1	2.2	1.8
Liquidity						
Total loans/ total deposits	61.9	61.9	61.7	66.2	64.2	58.3

APPENDIX

Table 7 Developments in stay-over tourism per island (% change)⁵

	<u>Curaçao</u>				<u>St. Maarten</u>				<u>Bonaire</u>			
	2006-I		2007-I		2006-I		2007-I		2006-I		2007-I*	
North America, of which:	6.5	(0.5)	-12.1	(-0.9)	-4.3	(-1.8)	2.4	(1.0)	-10.7	(-0.4)	14.3	(0.6)
-U.S.A.	-5.0	(-0.3)	-9.3	(-0.5)	-1.0	(-0.4)	0.5	(0.2)	-12.1	(-0.4)	14.3	(0.5)
Europe, of which:	5.8	(0.7)	18.8	(2.7)	3.6	(0.5)	-3.4	(-0.4)	-16.7	(-0.6)	14.1	(0.5)
-The Netherlands	5.3	(0.5)	22.6	(2.7)	17.7	(0.4)	10.5	(0.2)	-11.7	(-0.3)	14.1	(0.4)
South & Central America, of which:	-12.6	(-0.5)	11.2	(0.5)	34.4	(0.5)	-14.9	(-0.2)	-2.6	(0.0)	13.6	(0.1)
-Venezuela	-26.6	(-0.6)	13.5	(0.3)	-53.3	(-0.1)	57.3	(0.1)	-28.9	(0.0)	13.6	(0.0)
-Colombia	5.0	(0.0)	-7.6	(0.0)	---	---	---	---	3.6	(0.0)	14.0	(0.0)
Caribbean, of which:	-16.0	(-0.5)	14.4	(0.5)	-9.4	(-0.4)	3.8	(0.1)	-25.3	(-0.1)	14.8	(0.0)
-Dominican Republic	-24.2	(-0.1)	-14.7	(0.0)	-10.0	(0.0)	41.1	(0.2)	---	---	---	---
Total	-0.2	(-0.1)	8.3	(2.4)	-2.0	(-1.3)	0.6	(0.4)	-13.7	(-1.0)	14.2	(1.2)

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

* BNA estimates

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

	2005-IV	2006-I	2006-II	2006-III	2006-IV	2007-I
Food	7.6	6.9	6.9	7.8	7.1	7.6
Beverages & tobacco	3.7	4.3	3.0	3.6	3.9	3.1
Clothing & footwear	-0.6	-0.1	0.3	0.4	-0.1	-0.1
Housing	6.1	4.5	3.0	1.6	1.3	1.4
Housekeeping & furnishings	5.2	2.7	2.5	2.3	2.2	1.8
Health	1.0	1.1	0.4	0.6	0.5	0.2
Transport & communication	4.4	4.1	3.2	1.8	0.3	0.7
Recreation & education	0.4	0.4	0.7	0.3	0.4	0.3
Other	2.2	2.4	2.3	2.0	1.5	1.5
General inflation rate	4.5	3.8	3.2	2.7	1.9	2.1

Source: Central Bureau of Statistics

⁵ Weighted growth rates between brackets

Table 9 Budgetary overview (in millions NAf.)

	2004-I	2005-I	2006-I	2007-I
General government				
Revenues	345.3	367.1	380.8	395.7
Tax revenues, of which:	328.7	350.4	362.5	371.0
Taxes on income and profits	170.5	186.4	185.8	171.3
Taxes on goods and services	121.2	127.2	135.3	154.7
Taxes on international trade and transactions	27.2	27.6	30.0	36.3
Nontax and other revenues	16.6	16.7	18.3	24.7
Expenditures	417.4	396.3	388.8	405.6
Current, of which:	388.2	385.2	388.6	400.5
Wages and salaries	129.9	137.7	133.4	135.2
Goods and services	101.4	110.0	107.5	109.9
Subsidies	13.3	9.2	11.1	12.9
Transfers	87.8	62.5	73.1	73.1
Interest payments	55.8	65.8	63.5	69.4
Capital	29.2	11.1	0.3	5.2
Budget balance	-72.0	-29.2	-8.0	-9.9
Central government				
Revenues	147.0	155.8	166.4	186.3
Tax revenues, of which:	136.0	144.2	153.1	167.6
Taxes on goods and services	102.7	109.3	113.0	120.0
Taxes on international trade and transactions	27.2	27.6	30.0	36.3
Nontax and other revenues	11.0	11.6	13.3	18.7
Expenditures	204.6	191.6	197.5	214.6
Current, of which:	195.1	183.0	199.0	211.4
Wages and salaries	69.0	63.0	71.5	73.3
Goods and services	23.6	35.5	32.6	35.4
Subsidies	1.0	0.0	0.0	0.0
Transfers	78.3	61.2	66.1	66.1
Interest payments	23.2	23.3	28.8	36.6
Capital	9.5	8.6	-1.5	3.2
Budget balance	-57.6	-35.8	-31.1	-28.3
Island government of Curaçao				
Revenues	236.3	249.7	245.5	244.7
Tax revenues, of which:	192.7	206.2	209.4	203.4
Taxes on income and profits	170.5	186.4	185.8	171.3
Taxes on goods and services	18.5	17.9	22.3	25.7
Nontax and other revenues	43.6	43.5	36.1	41.3
Expenditures	250.7	243.0	222.4	226.3
Current, of which:	231.0	240.5	220.7	224.3
Wages and salaries	60.9	74.7	61.9	61.9
Goods and services	77.8	74.5	74.9	74.5
Transfers	47.5	39.7	38.1	42.2
Interest payments	32.6	42.5	34.7	32.8
Domestic	29.3	37.9	32.5	30.5
Abroad	3.3	4.6	2.2	2.3
Capital	19.7	2.5	1.8	2.0
Budget balance	-14.4	6.6	23.1	18.4

Table 10 Total outstanding consolidated public debt¹ (in millions NAf.)

	2006-I	2006-II	2006-III	2006-IV	2007-I
Domestic consolidated debt, of which:	4,225.6	4,293.6	4,321.7	4,369.0	4,379.5
-Central government, of which:	2,282.4	2,294.1	2,303.3	2,323.5	2,318.4
Long-term securities	1,800.1	1,855.7	1,879.7	1,897.0	1,864.7
Short-term securities	70.2	45.8	46.5	57.3	91.5
APNA	208.6	208.2	210.3	217.6	123.3
SVB	15.4	9.8	9.5	8.4	10.1
-Curacao, of which:	2,104.1	2,161.8	2,186.6	2,199.8	2,227.4
Long-term securities	754.8	786.5	775.2	802.1	819.2
Short-term securities	171.8	192.9	197.9	201.9	174.4
APNA	765.2	766.6	781.4	797.0	813.8
SVB	0.0	0.0	0.0	0.0	0.0
Central government	267.4	268.0	276.1	262.6	266.9
-Bonaire	135.1	137.3	138.7	138.0	135.9
-St. Maarten	173.2	176.5	179.8	165.2	160.3
-St. Eustatius	12.5	12.7	13.1	13.2	13.1
-Saba	17.6	17.9	18.1	18.4	18.0
Foreign debt	742.3	776.7	773.3	824.1	821.2
Total debt (consolidated) (% of GDP)	4,967.9 83.8%	5,070.3 84.6%	5,094.9 84.3%	5,193.1 84.8%	5,200.7 84.2%

⁽¹⁾ Adjusted for inter-government debt

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

	2005-I	2006-I	2007-I
Trade balance	-560.9	-624.8	-742.3
-Exports	231.0	294.4	323.8
-Imports	791.8	919.2	1,066.1
Services balance	638.8	654.1	650.9
Receipts, of which:	933.5	959.4	1,011.4
-Travel	549.2	553.8	568.8
-Transportation	50.0	57.5	67.8
-Other services, of which:	334.3	348.1	374.8
-Int. fin & bus. services sector	100.0	91.9	87.2
Expenses, of which:	294.7	305.2	360.5
-Travel	115.1	103.3	128.0
-Transportation	31.6	36.2	38.4
-Other services, of which:	148.0	165.8	194.1
-Int. fin & bus. services sector	29.2	34.1	39.5
Income balance ¹⁾	5.8	14.0	4.1
Current transfers balance ²⁾	6.0	-8.3	-23.7
Current account balance	89.7	35.0	-111.0
Capital & financial account balance	-99.8	-72.3	26.5
Capital account balance	99.8	112.9	102.9
Financial account balance	-199.6	-185.2	-76.4
Net errors & omissions	10.0	37.3	84.5

1) Labor and investment income.

2) Public and private transfers.

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

	2005-I	2006-I	2007-I
Direct investment	-10.6	-116.0	154.7
- Abroad ¹⁾	-3.8	-89.6	-2.4
- In the Netherlands Antilles ²⁾	-6.8	-26.4	157.1
Portfolio investment ¹⁾	11.6	110.9	11.1
Other investment, of which:	0.8	150.3	-18.7
- Assets ¹⁾	-11.2	147.4	-25.3
- Liabilities ²⁾	12.0	2.9	6.6
Net lending/borrowing, of which:	-10.7	139.7	24.3
- Assets ¹⁾	-3.6	-7.7	62.8
- Liabilities ²⁾	-7.1	147.4	-38.5
Reserves ³⁾	-190.7	-270.3	-248.0
Total assets ¹⁾	-197.7	-109.3	-201.8
Total liabilities ²⁾	-1.9	123.9	125.2
Balance	-199.6	14.6	-76.6

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.)

2007-I	Domestic sectors			External sector
	Private	Government	Banking	
Nonfinancial transactions	-101.1	-9.9		111.0
Government net lending	0.0	0.0		
Gov't dom. nonbank financing	20.2	-20.2		
External financing of the government		3.0		-3.0
External financing of the private sector	168.5			-168.5
-Direct investment (equity)	154.7			-154.7
-Loans and credits	2.7			-2.7
-Portfolio, incl. debt	11.1			-11.1
Capital transfers	102.9			-102.9
Change in net foreign assets of the central bank			-78.2	78.3
Change in net foreign assets of the commercial banks			-169.6	169.8
Change in domestic bank credit	53.3	27.1	-80.4	
Change in broad money	-287.1		287.1	
Other items, net/errors & omissions	43.4		41.1	-84.5

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

2006-I	Domestic sectors			External sector
	Private	Government	Banking	
Nonfinancial transactions	47.4	-12.4		-35.0
Government net lending	-4.4	4.4		
Gov't dom. nonbank financing	-66.3	66.3		
External financing of the government		3.4		-3.4
External financing of the private sector	81.7			-81.7
-Direct investment (equity)	-115.9			115.9
-Loans and credits	86.8			-86.8
-Portfolio, incl. debt	110.9			-110.9
Capital transfers	112.9			-112.9
Change in net foreign assets of the central bank			-83.9	83.9
Change in net foreign assets of the commercial banks			-186.4	186.4
Change in domestic bank credit	149.6	-61.7	-87.9	
Change in broad money	-283.9		283.9	
Other items, net/errors & omissions	-37.0		74.3	-37.3

Table 14 Monetary survey (in millions NAf.)

	2005-IV	2006-I	2006-II	2006-III	2006-IV	2007-I
Money supply (M2)	4,933.4	5,217.3	5,195.7	5,235.3	5,425.1	5,712.2
Money (M1)	1,784.0	1,800.9	1,848.0	1,876.0	1,976.1	2,100.6
Coins & notes with the public	239.9	232.9	244.9	243.9	263.7	256.5
Total demand deposits, of which :	1,544.1	1,568.0	1,603.1	1,632.1	1,712.4	1,844.1
- Netherlands Antillean guilders	1,188.0	1,138.9	1,161.8	1,155.1	1,246.7	1,321.7
- Foreign currency	356.1	429.1	441.3	477.0	465.7	522.4
Near money	3,149.4	3,416.4	3,347.7	3,359.3	3,449.0	3,611.6
Time deposits	1,947.3	2,169.3	2,089.6	2,097.7	2,152.2	2,243.2
Savings	1,202.1	1,247.1	1,258.1	1,261.6	1,296.8	1,368.4
Factors affecting the money supply						
Net domestic assets	3,305.5	3,319.1	3,440.5	3,570.3	3,652.7	3,692.0
General government	621.9	560.2	485.7	520.2	569.7	596.8
- Central government	397.9	390.4	332.0	289.2	358.5	382.7
- Island governments	224.0	169.8	153.7	231.0	211.2	214.1
Private sector	3,450.3	3,599.9	3,813.4	3,926.4	4,058.3	4,111.6
Net foreign assets	1,627.9	1,898.2	1,755.2	1,665.0	1,772.4	2,020.2
Central bank	1,117.9	1,201.8	1,186.8	1,163.7	1,251.9	1,330.1
Commercial banks	510.0	696.4	568.4	501.3	520.5	690.1
Memorandum items						
Government loans by commercial banks	603.4	531.5	455.6	456.5	456.5	515.8
- Central government	306.2	288.7	239.6	234.2	245.4	290.6
- Island governments	297.2	242.8	216.0	222.3	211.1	225.2
Private sector loans - Leeward Islands	2,367.4	2,397.9	2,485.8	2,516.7	2,610.4	2,667.0
- Mortgages	812.4	807.5	803.7	802.9	816.5	850.3
- Consumer loans	713.6	728.4	752.7	779.2	808.9	819.1
- Business loans	841.4	862.0	929.4	934.6	985.0	997.6
Private sector loans - Windward Islands	995.4	1,004.4	1,071.9	1,158.5	1,191.8	1,201.8
- Mortgages	362.0	384.4	397.2	417.6	426.1	415.3
- Consumer loans	243.2	239.0	273.1	291.3	300.4	309.0
- Business loans	390.2	381.0	401.6	449.6	465.3	477.5

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

	2005-IV	2006-I	2006-II	2006-III	2006-IV	2007-I
Central bank						
- Pledging rate	4.50	5.00	5.50	5.50	5.50	5.50
- Maximum CD rate (1 month)	4.36	4.74	5.37	5.31	5.33	5.25
Commercial bank borrowing rates						
- Passbook savings	2.8	2.8	2.8	2.8	2.8	2.8
- Time deposit (12 months)	4.1	4.0	4.1	4.0	4.2	4.5
Commercial bank lending rates						
- Mortgages	8.6	8.3	8.3	8.5	8.5	8.3
- Time loans	10.8	11.2	11.0	10.5	10.6	10.1
Government securities						
- Government bonds (5-year effective yield)	6.3	6.4	6.5	7.1	7.5	7.3
- Treasury bills (1 month)	4.5	4.8	3.8	5.6	4.9	5.5

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

	2005-IV	2006-I	2006-II	2006-III	2006-IV	2007-I
Assets						
Non-interest-bearing cash	475.7	647.6	516.8	431.6	548.6	589.2
Interest-bearing cash	1,836.7	1,930.9	2,339.7	2,040.3	2,278.5	2,562.0
Investments	1,675.8	1,548.8	1,288.6	1,204.2	1,225.1	1,247.5
Loans	5,151.5	5,182.4	5,417.9	5,611.6	5,736.6	5,827.5
Investments in unconsolidated subsidiaries and affiliates	11.2	232.4	186.3	181.2	182.1	173.7
Fixed assets	218.3	215.9	218.9	223.2	233.7	241.0
Other assets	188.4	220.3	205.5	218.9	195.1	194.4
Total assets	9,557.6	9,978.3	10,173.7	9,910.9	10,399.7	10,835.4
Liabilities						
Demand deposits	2,799.1	2,879.3	3,059.9	2,902.4	3,181.8	3,442.4
Savings deposits	3,094.3	3,159.4	3,191.3	3,217.5	3,294.1	3,367.9
Time deposits	2,555.7	2,746.8	2,680.5	2,488.2	2,620.0	2,634.9
Total deposits	8,449.0	8,785.5	8,931.6	8,608.0	9,095.9	9,445.2
Borrowings	25.2	26.0	37.4	31.9	31.5	32.4
Other liabilities	316.3	295.7	322.8	346.2	345.2	344.8
Total liabilities	8,790.6	9,107.2	9,291.9	8,986.2	9,472.7	9,822.4
Minority interest	7.0	7.4	7.9	8.7	7.9	8.7
Subordinated debentures	5.5	5.5	5.2	3.6	3.6	3.5
General provisions	159.2	166.2	169.6	179.2	187.5	187.3
Capital & reserves	595.3	692.1	699.1	730.8	728.0	813.5
Total capital	767.1	871.1	881.8	922.2	927.0	1,013.0
Total liabilities and capital	9,557.7	9,978.3	10,173.7	9,910.9	10,399.7	10,835.4

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

	2005-IV	2006-I	2006-II	2006-III	2006-IV	2007-I
Interest income	608.1	175.4	350.3	535.6	674.3	192.8
Interest expenses	200.9	62.2	125.3	195.7	248.4	72.1
Net interest income	407.2	113.1	225.0	339.9	425.9	120.6
Other income	215.5	58.8	116.7	535.6	258.8	63.2
Total operational income	622.8	171.9	341.8	875.6	684.7	183.8
Salaries & other employee expenses	238.8	65.6	129.3	192.4	252.1	71.0
Occupancy expenses	68.1	18.5	37.4	56.5	71.4	21.0
Other operating expenses	106.6	24.5	53.5	80.9	96.0	29.7
Net addition to general provisions	39.8	10.7	19.1	28.8	43.5	14.3
Total operational expenses	453.3	119.2	239.3	358.6	463.0	136.0
Net operating income	169.5	52.7	102.5	153.6	221.7	47.7
Net extraordinary items	25.9	3.5	1.1	7.4	9.7	1.5
Applicable profit taxes	36.6	12.9	24.2	36.7	37.2	11.4
Net income after taxes	158.7	43.3	79.3	124.2	194.2	37.9

* Cumulative quarterly figures.