



## QUARTERLY BULLETIN 2007-2

**Bank van de Nederlandse Antillen**

## REPORT OF THE PRESIDENT

The strengthening of the Netherlands Antillean economy continued in the second quarter of 2007. Measured by real Gross Domestic Product, the economy expanded by 2.2% compared to the same quarter of 2006, almost twice the growth rate of 1.2% in the first quarter of 2007. The private sector remained the driving force behind the economic expansion, showing strong growth in both investment and consumption. Private investment was fueled by construction projects in the retail, hotel, and real estate sectors, the purchase of new equipment, and replacement investments. The gain in consumer spending was attributable mainly to the creation of more jobs and easy access to consumer credit. The government sector did not contribute to the economic growth in real terms, as the slight growth in investment was offset by a decline in consumption. The strong growth in private spending resulted in high imports offsetting the growth in exports, which dampened the expansion in GDP. The annualized inflation rate continued to decline, reaching 2.3% at the end of June 2007, supported largely by lower world oil prices.

A review by sector shows that all sectors contributed to the economic expansion, but the increase in activities was most pronounced in the manufacturing, wholesale & retail, financial services, and real estate sectors. The growth in manufacturing stemmed entirely from higher output in the oil refinery in Curaçao because activities in the ship repair industry declined. The strong performance in the construction sector was backed by projects in the retail, hotel, and real estate sectors. The growth in the wholesale & retail sector was sustained by more tourism activities and higher domestic demand. Curaçao and Bonaire recorded a strong performance in both stay-over and cruise tourism, while St. Maarten noted a decline. As a result of these opposing developments, stay-over tourism expanded, but cruise tourism declined slightly. The increase in value added in the financial services sector was accounted for mainly by the good performance of the domestic banks, supported by buoyant credit extension.

Noteworthy also is the positive performance of the transport, storage, & communication sector, owing to gains in air transportation, airport-related activities, oil storage, and oil transshipment. The number of passengers handled at the airports of the various islands developed in line with the number of stay-over visitors, except on Bonaire. A sharp fall in the number of transit passengers, due to fewer stopovers by KLM on its flights to South America, caused the total number of passengers handled by Bonaire's airport to drop. Harbor activities were mixed, reflected by a drop in the number of ship calls in St. Maarten offsetting the growth in Curaçao and Bonaire.

The current account of the balance of payments deteriorated significantly in the second quarter of 2007 compared to 2006's second quarter, caused mainly by a higher trade deficit. Strong import growth in particular contributed to the deterioration of the trade deficit, driven by increased domestic demand, the growth in tourism, and higher average prices of oil derivatives. Moreover, merchandise exports declined due to a drop in re-exports by free zone companies. The services balance deteriorated also, because imports grew faster than exports. The growth in the import of services stemmed mainly from payments related to the refinery upgrading program and construction services in the tourism sector. Services exports expanded mostly as a result of higher fees received for oil refining in Curaçao and the growth in tourism. The deterioration of the trade and services balances was mitigated by

improvements in the income and current transfers balances. More interest income received on foreign investments and fewer dividends paid to foreign investors contributed to a turnaround in the income balance from a deficit to a surplus. The deficit in the current transfers balance declined due to higher private transfers from abroad. The current account deficit in the second quarter of 2007 was financed by capital transfers related to development aid funds, external financing of the private sector, and a drain of international reserves. The private sector's external financing was provided mainly by foreign direct investors and the repatriation of funds invested abroad by a financial institution.

The cash deficit of the general government improved in the second quarter of 2007 compared to 2006's second quarter, owing to an increase in revenues. Tax revenues in particular contributed to the gain in revenues, the largest increases of which occurred in sales tax, import duties, and property taxes. The growth in domestic demand explains the higher sales tax and import duties collected, while the make-up of arrears in the collection of land tax accounted for the increase in property taxes. In addition, more license fee transfers by the central bank contributed to an increase in nontax revenues. Expenditures increased also, but to a much lesser extent than revenues. The largest increases were noted in interest payments and transfers. Wages and salaries declined, mainly as a result of the build-up of arrears in pension contributions by the island government of Curaçao. The financing of the cash deficit in the second quarter of 2007 resulted in a further accumulation of debt, reaching 83% of GDP.

The money supply grew marginally in the second quarter of 2007, because the growth in net domestic assets was almost entirely offset by the decline in net foreign assets. The expansion in net private credit, due mainly to the increase in private loans extended, accounted for the growth in net domestic assets. All loan components expanded, consumer and business loans most notably. The government sector exerted a contractionary impact on net domestic assets, due to a decline in net credit extended to the island governments offsetting the increase at the central government. The deficit on the balance of payments resulted in the decline in net foreign assets.

Monetary policy remained relatively neutral during the second quarter of 2007. The reserve requirement percentage and the pledging rate were left unchanged. Only at the end of the quarter did the Bank auction more certificates of deposit to mop up excess liquidity in the domestic banking sector in light of the continuing strong growth in private credit extension.

The economy of the Netherlands Antilles is gaining strength. Together with the progress made in meeting the conditions for a substantial debt relief and support for the reduction of backlogs in social-economic development by the Dutch government, the medium-term prospects for the islands look bright. However, there is still an enormous amount of work to do to meet the target date of December 15, 2008, when the islands will assume their new constitutional status. The Bank welcomes the efforts made by the central government and the island governments of Curaçao and St. Maarten to present balanced draft budgets for 2008, but this outcome leans heavily on the assumption of a timely start of the debt relief while several of the included measures still have to be worked out. Therefore, the authorities must put all their efforts in meeting the conditions for a timely start of the debt relief and presenting detailed and realistic measures that underpin a balanced budget. This approach will contribute to keeping on track with the necessary preparations for a sound starting

position in the new constitutional arrangement with healthy public finances and a durable higher level of growth to reduce unemployment and eradicate poverty.

In the medium term, given the favorable macro-economic environment as a consequence of the debt relief, the authorities should redirect their efforts towards consolidating and enhancing the economic growth we have been experiencing. Towards this end it is necessary to continue to invest in our education, social care, and infrastructure. The current bureaucracy that stifles investment should also be overhauled. Moreover, steps should be taken to improve the functioning of our labor market. Minimizing the qualitative discrepancies between the demand and supply for labor is an important condition for sustainable economic growth.

While the constitutional changes provide opportunities for the new entities, it will also lead to increased competition among them. Competition is welcome and may enhance the quality of policymaking, but a word of caution is at the order. We should prevent that the new entities engage in cutthroat competition, which will have a destabilizing impact on the process of constitutional change. It is therefore important to strengthen cooperation between the entities and put in place a surveillance mechanism to achieve that. Destabilizing competition, which may produce short-term gains, will prove to be illusionary in the long term and hence detrimental to the welfare of the respective entities. It is important to address this issue adequately to allow the new entities to fully exploit their growth potential and enhance their citizens' welfare.

E.D. Tromp  
President

## INTERNATIONAL ECONOMIC DEVELOPMENTS

Economic growth in the United States showed some moderation, as real GDP slowed to 1.9% in the June quarter of 2007. This growth was supported by exports and consumer spending, the latter at a slower pace than the year before. The lower wealth effect, caused by a decline in home value, led to a deceleration in consumer spending growth. Strong global expansion and a weaker dollar spurred demand for exports. As a result, the current account deficit was reduced by 10.0% to US\$731 billion compared to the second quarter of 2006. Meanwhile, housing sales and residential construction contracted because of (1) higher mortgage rates; (2) stricter lending conditions; and (3) the rising number of subprime mortgage defaults and foreclosures. Fewer residential fixed investments accounted for the contraction in total fixed investments. The dampening effect from private investment was offset by private consumption and net exports. The second-quarter inflation rate eased to 2.6%, reflecting a weakening in fuel prices. As a result, the Federal Reserve kept the Fed funds rate unchanged at 5.25% for the eighth consecutive time since the June quarter of 2006. Employment conditions remained relatively supportive with a jobless rate of 4.5%. However, labor productivity in the nonfarm business sector decelerated to 2.1% in the second quarter of 2007.

**Table 1 Selected indicators of various countries**

	<u>United States</u>		<u>Netherlands</u>		<u>Venezuela</u>	
	2006-II	2007-II	2006-II	2007-II	2006-II	2007-II
Real GDP (% change)	3.5	1.9	3.1	2.6	9.4	8.9
Consumer prices (%)	3.8	2.6	1.6	1.4	13.5	17.4
Unemployment rate (%)	4.6	4.5	5.5*	4.6*	10.0	8.4

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

Economic activity in the Netherlands was encouraging, with real GDP expanding at 2.6% in the second quarter of 2007. Output was supported by both domestic and foreign demand, albeit at a slowing pace. Higher spending on durable goods spurred private consumption, while higher public consumption was due mainly to spending on health care. In addition, investments were up, largely in nonresidential investments, i.e., building, machinery, and computer equipment. Re-exports as well as exports of Dutch products expanded, but at a slower pace, the latter because of a drop in natural gas production. The construction, manufacturing, employment agencies, and business services sectors reported production gains. As a result, more jobs were created in the manufacturing and construction sectors. The Dutch jobless rate fell to 4.6%, the lowest in more than four years. Individuals in the age group 25-35 accounted for most of the lower jobless rate. The favorable economic performance was accompanied by a lower inflation rate of 1.4%.

In 2007's second quarter, Venezuela's economy expanded at the slowest pace in two years, attributable to a decline in the oil sector. The oil industry suffered a setback, as crude oil prices dropped and production was cut to meet OPEC's new quota. However, the contraction in the oil sector was outpaced by a gain in the non-oil sector (10.8%), leading to a real GDP growth of 8.9%. More activities in the non-oil sector occurred mainly in the construction, trade, and communication sectors. In the April-June period of 2007,

Venezuela's inflation rate was 17.4%, the highest in Latin America. The upward inflationary trend was driven mostly by growing consumer spending caused by government programs targeted at the poor, outstripping domestic production. Since the government has enforced currency trading restrictions, established price controls, and started nationalizing private companies, investments have slowed. Fewer private investments led to shortages of food products, medicines, and construction materials. Meanwhile, more hiring in the public sector lowered the jobless rate to 8.4% in the June quarter of 2007. In contrast to 2006, the current account surplus fell by 40.0% to \$5.1 billion, owing primarily to a decline in oil exports, which make up about 90% of the total exports.

## **GENERAL ECONOMIC DEVELOPMENTS IN THE NETHERLANDS ANTILLES**

In the second quarter of 2007, favorable domestic demand supported the output growth of 2.2% in the Netherlands Antilles. By contrast, the worsening in net foreign demand partly offset the vast increase in domestic demand. The second-quarter expansion was accompanied by a lower inflation rate of 2.6%. One of the main factors that limited the consumer price inflation was the lower world oil prices.

Economic activity in the Netherlands Antilles continued to gain strength, after a 2.0% increase in the second quarter of 2006. The acceleration in real GDP growth primarily reflected the marked increase in private spending (see Table 2). More economic activities may have led employers to create more jobs, keeping consumers spending and the Antillean economy expanding. In addition, private investments showed a sizeable upturn, occurring largely in nonresidential fixed investments, owing to new structures, equipment, and replacement investments. These new structures occurred in the retail, hotels, and real estate sectors. Meanwhile, public demand reported no change, because the slight growth in investment was offset by fewer outlays on wages & salaries and goods & services. In contrast to 2006, the external component dampened the real GDP growth in the second quarter of 2007. The sizeable gain in import demand contributed to the worsening in net exports, associated with the substantial increase in private demand.

The increase in gross national income of the Netherlands Antilles during the months April-June 2007 was due to the gain in GDP and to an increase in primary income from abroad. However, national savings shrank because of gains in both consumption and investment. The drop in private savings outstripped the improvement in public dissavings. In line with total consumption, total investment was up, driven mainly by more private investment. Hence, the higher levels of private consumption and investment were funded through a drawdown in savings, increased credit extension, and foreign financing. Meanwhile, public consumption was financed by government securities with the public.

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

	2005-II	2006-II	2007-II
Domestic expenditures, of which:	9.3	2.0	11.5
Private sector	10.0	1.1	11.4
- Investment	5.4	0.5	7.2
- Consumption	4.6	0.6	4.2
Government sector	-0.7	0.9	0.0
- Investment	-0.2	0.0	0.1
- Consumption	-0.5	0.8	-0.1
Changes in inventory	0.2	-0.1	2.5
Foreign net expenditures, of which:	-7.8	0.1	-11.8
Export of goods and services <sup>1</sup>	3.6	-2.6	1.2
Import of goods and services	11.4	-2.7	13.1
GDP	1.7	2.0	2.2
Net primary income	1.2	-0.3	2.1
Gross national income	2.9	1.8	4.3
Net current transfers from abroad	9.6	-5.0	0.4
Gross national disposable income	12.5	-3.2	4.7

BNA estimates

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

## Domestic production

In the three months ending June 2007, growth in economic activity was supported solely by the private sector. The increase in total output in the private sector was sustained by gains in the manufacturing, construction, wholesale & retail, financial services, and real estate, renting & business services sectors (see Table 3). By contrast, the slower growth in outlays on wages & salaries led to a decline in the value added in the public sector.

Value-added growth in the manufacturing sector stemmed entirely from higher output in the “Isla” refinery in Curaçao. Activities in the refinery grew, leading to a rise in labor expenses. Conversely, production in Curaçao’s ship-repair industry decreased, reflected by a drop in the number of man-hours sold. The positive performance in construction was backed by more activities in the retail, hotel, and real estate sectors, which coincided with the sizeable increase in import demand. In line with the growth in construction investment, the value of completed projects expanded.

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<sup>1</sup> Second-quarter GDP figures for 2006 have been revised to 2.0%, up from a previously estimated 1.0% gain. These GDP estimates are based on more recent data. The upward revisions at the sectoral level were in the following sectors: construction, transport, storage & communication, financial services, and real estate, renting & business services. Moreover, the revision among the expenditure components was in the net exports.

Despite fewer free-zone activities, the total value added in the wholesale & retail sector grew in 2007's second quarter. This growth was sustained by more activities in the tourism sector and a marked gain in domestic demand. Although free-zone activities shrank, the number of free-zone visitors was up, primarily from Venezuela and Jamaica. This result may be due to improved registration of visitors to the free-zone area.

Tourism activities in the Netherlands Antilles posted mixed results in the second quarter of 2007. Developments in stay-over tourism were encouraging, as the number of stay-over arrivals rose by 3.3%, led by most markets. The stronger euro against the US dollar might be the reason for more European tourists visiting the islands. As for the South American tourist market, the increase in airlift may account for the marked growth. Conversely, cruise arrival performance weakened marginally by 0.9% in the months April-June 2007, after a growth of 1.4% in the corresponding period of 2006.

An analysis by islands shows that stay-over tourism rose in Curaçao and Bonaire. Contrary to the positive performance in the second quarter of 2006, St. Maarten's stay-over tourism fell by 3.7% in the second quarter of 2007, caused mostly by fewer European and Caribbean tourists. The increase in the number of visitors from Europe and South America was the main contributor to the positive outcome in Curaçao's stay-over tourism (17.0%). As for Bonaire, the favorable outcome in stay-over tourism was the result of a marked improvement in the North American market. In line with the favorable development in stay-over tourism, the number of cruise travelers expanded in both Curaçao and Bonaire. In contrast, cruise tourism declined in St. Maarten. See Table 7 in the appendix for more details.

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

Sector	2005-II	2006-II	2007-II
Agriculture, fishery, & mining	-5.1	-4.8	6.0
Manufacturing	-2.1	6.2	4.1
Electricity, gas, & water	1.8	-0.8	2.9
Construction	5.4	7.4	9.6
Wholesale & retail trade	4.3	3.7	3.7
Restaurants & hotels	-1.6	3.8	2.7
Transport, storage, & communication	-0.8	1.8	2.2
Financial intermediation	3.3	0.7	2.7
Real estate, renting, & business activity	1.0	2.4	4.1
Private households	-0.6	0.5	1.5
Total private sector	1.5	2.1	3.1
Public sector	5.8	5.3	-1.8
Taxes minus subsidies	-1.9	-3.3	0.7
GDP	1.7	2.0	2.2

BNA estimate



The increased activities in the transport, storage & communication sector continued to contribute positively to the economy in the quarter ending June 2007. This increase was due to gains in air transportation, airport-related activities, oil storage, and oil transshipment. Total air passenger traffic in the Netherlands Antilles grew in line with the increase in stay-over tourism. Noteworthy is the decline in the number of passengers handled in Bonaire despite its buoyant tourism performance. This decline was caused by a strong fall in transit passengers, due to a reduction in the number of stopovers by KLM on its flights to South America. Activities in the harbor sector were mixed with a drop in the number of ship calls in St. Maarten offsetting the growth in Curaçao and Bonaire.

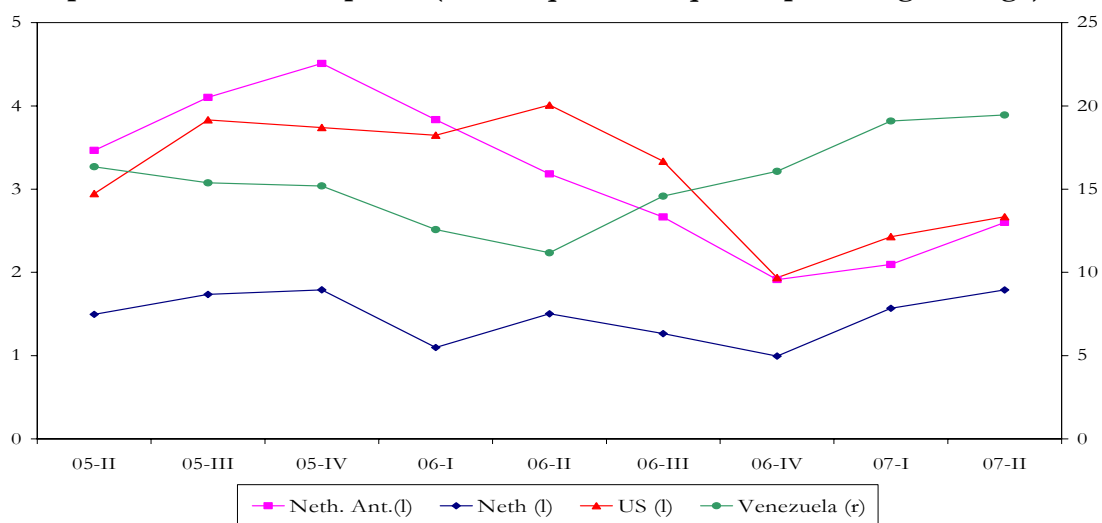
Moreover, the higher output in the financial services sector was the result of a rise in domestic and foreign financial services in terms of value added. Production in the domestic financial services sector was up, resulting from the growth in credit extension related to the rise in domestic demand.

### Inflation

Inflation remained subdued in the second quarter of 2007, largely because of weaker oil prices in the world market. However, prices of oil derivatives increased. Consumer prices on a quarterly basis showed that since the fourth quarter of 2006, the Antillean inflation rate coincided with our main trading partners (see Graph 1). The Antillean inflation rate decelerated from 3.2% in the second quarter of 2006 to 2.6% in the same quarter of 2007. Food prices, which account for about 12% of the total consumer price index, reported the highest price gain (7.7%), followed by “beverages & tobacco” (2.5%). Meanwhile, a price deceleration occurred in most of the other components, restraining the inflation rate (see Table 8 in the appendix for a detailed overview). An analysis by islands shows that in the June quarter of 2007, Curaçao’s and St. Maarten’s annual quarter-to-quarter inflation rate decelerated to, respectively, 2.8% and 1.8%, while Bonaire’s accelerated to 2.0%.

**Graph 1**

**Developments in consumer prices (annual quarter-to-quarter percentage 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 finances improved in the second quarter of 2007 compared to the second quarter of 2006 as the increase in general government expenditures (3.2%) was more than offset by the growth in revenues (12.8%). Nevertheless, a decrease in the wage component caused a drop in government consumption in real terms, mitigating real GDP growth in the second quarter of 2007. As a result of the developments in expenditures and revenues, the deficit on a cash basis declined by NAf.28.6 million to NAf.78.0 million (see Table 9 in the appendix).

At the central government level, an increase in revenues collected (15.1%) outpaced spending (9.8%), reducing the deficit by NAf.6.7 million to NAf.28.6 million. Indirect taxes (i.e., sales tax and import duties) in particular contributed to a rise in tax income, related to the increase in domestic spending. Higher interest and transfer payments were the main causes for the growth in expenditures.

The island government of Curaçao managed to contain its spending (0.4%) in the second quarter of 2007. However, this outcome resulted mainly from not paying its pension contributions, offsetting higher transfer and interest payments. The make-up of arrears in the collection of land taxes and more wage taxes accounted for a gain in tax revenues, contributing to an improvement in the island government's cash deficit by NAf.21.9 million to NAf.49.4 million.

Financing of the general government's cash deficit in the second quarter of 2007 came from nonmonetary sources, primarily an increase in holdings of government securities by the public. Part of this increase offset the reduction in government securities with the banking sector (see Table 4).

Developments differed by government entity. The central government financed about half of its deficit monetarily due to an increase in debt securities with the commercial banks. The island government of Curaçao financed its deficit entirely nonmonetarily, the funds of which were used also to redeem debt securities in the central bank's portfolio.

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

	<b>Central government</b>		<b>Curaçao government</b>	
	<b>2006-II</b>	<b>2007-II</b>	<b>2006-II</b>	<b>2007-II</b>
Monetary financing	-58.1	14.2	-12.8	-24.3
Central bank	-17.8	-14.9	4.1	-26.9
Commercial banks	-40.6	28.6	-16.9	2.6
Coins and notes	0.3	0.5	0.0	0.0
Nonmonetary financing	93.4	14.4	84.1	73.7
Government securities with the public	79.5	-14.1	50.2	53.0
Other	13.9	28.5	33.9	20.7
Cash balance	-35.3	-28.6	-71.3	-49.4

## Public sector debt

The total outstanding public debt rose by NAf.106.6 million, reaching NAf.5.2 billion (82.9% of GDP) in the second quarter of 2007. The increase in public debt was caused almost entirely by the domestic components. The increase in the domestic debt (NAf.97.1 million) resulted mainly from the net issue of securities and the buildup of arrears, partly with the government pension fund, APNA, by the island government of Curaçao.

Noteworthy is the substitution of long-term securities for short-term securities at the central government level. This change in debt policy occurred because the interest rate in the market for long-term paper was higher than the maximum rate approved in the budget.

A small increase was registered in the foreign debt (NAf.9.5 million). This increase can be explained by an appreciation of the euro, in which the debt is denominated, vis-à-vis the Netherlands Antillean guilder because no changes were registered in the outstanding foreign debt stock (see Table 10 in the appendix).

## DEVELOPMENTS IN THE BALANCE OF PAYMENTS

In the second quarter of 2007, net foreign demand, i.e., net exports of goods and services, dropped as the growth in the import of goods and services offset the rise in exports. The drop in net foreign demand resulted in a current account deficit of NAf.316.5 million, a widening of NAf.153.2 million compared to the second quarter of 2006. Similar to the developments on the current account, the combined capital and financial account worsened also (see Table 5).

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

	2005-II	2006-II	2007-II
Current account	32.1	-163.3	-316.5
Capital transfers	11.3	4.7	26.5
External financing of the government	3.1	1.6	3.5
External financing of the private sector	45.4	57.0	95.4
- Direct investment *)	-15.1	9.2	75.4
- Loans and credits *)	97.1	71.5	52.7
- Portfolio investments *)	-36.5	-23.8	-32.7
Change in net foreign assets of banking system *)	-117.4	142.9	86.8
- with commercial banks	-19.7	128.1	182.2
- with central bank	-97.7	14.8	-95.4
Statistical discrepancies	25.4	-42.9	104.3

\*) a minus sign implies an increase

## Current account

In the second quarter of 2007, both the trade balance and the services balance deteriorated compared to the second quarter of 2006. The trade balance worsened by NAf.173.8 million as merchandise imports rose while exports dropped. Merchandise imports grew by NAf.152.9 million, largely due to higher demand for goods driven by increased domestic demand and the growth in tourism. Newly established firms in the Netherlands Antilles, particularly from Europe, imported additional European merchandise in the second quarter of 2007 to build up their inventories. These increased imports not only affected the volume of merchandise imports but also their value, due to the strong euro. Higher imports were also related to the ongoing construction activities in the tourism industry. In addition, higher average prices of oil derivatives on the international market fueled the increase in the import bill.

Merchandise exports dropped by NAf.20.9 million in the second quarter of 2007 compared to the second quarter of 2006. This drop was largely the result of a decline in re-exports by free zone companies due to, among other things, currency trading restrictions in Venezuela. Furthermore, the fire outbreaks in the free zone in the fourth quarter of 2006 and the first quarter of 2007 may also have affected the re-exports. However, the drop in exports was offset partly by increased bunkering activities due to the higher average prices of oil derivatives.

In the second quarter of 2007, both the import and the export of services grew. However, services imports grew at a faster pace than exports leading to a worsening of the services balance by NAf.20.2 million. Export of services increased mainly due to the rise in the fee received for oil refining operations in Curaçao. In addition, foreign exchange revenues from tourism grew. The tourism sector performed particularly well on the island of Curaçao where revenues went up by 16.7%. In addition, earnings from construction services increased mainly as a result of a rise in construction activities performed by local contractors on properties in St. Maarten owned by nonresidents.

The import of services expanded largely as a result of contractual payments made by Refineria di Korsou to PDVSA related to the Refinery Upgrading Program (IRUP) of the refinery in Curaçao. In addition, the import of construction services increased by NAf.15.3 million, mainly due to construction activities in the tourism sector in Curaçao and St. Maarten.

These developments led to a decline in net exports of goods and services of NAf.194.0 million in the second quarter of 2007 compared to the second quarter of 2006. In contrast, the income balance improved by NAf.34.7 million. This improvement resulted from higher interest income received on bonds and other money market instruments, on the one hand, and fewer dividends paid to direct investors in the Netherlands Antilles, on the other hand. Moreover, the current transfers balance improved by NAf.5.9 million, largely due to higher private transfers from abroad. Overall, the current account balance recorded a deficit of NAf.316.5 million in the June quarter of 2007. See Table 11 in the appendix for more details.

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

The current account deficit resulted in a drop in the net foreign wealth of both the banking and the nonbanking sectors in the second quarter of 2007. The NAf.86.8 million decline in net foreign wealth of the banking sector was the result of a drop of NAf.182.2 million in the net foreign assets held by the commercial banks, partially offset by an increase of NAf.95.4 million in the net foreign assets held by the central bank.

The net foreign wealth of the nonbanking sector declined mainly due to an increase of NAf.95.4 million in external financing by the private sector. The increase in external financing was the result of a worsening of the direct investment balance (NAf.75.4 million) and the loans and credits balance (NAf.52.7 million), mitigated by an improvement in the portfolio investment balance (NAf.32.7 million).

The deterioration of the direct investment balance was largely the result of an increase in claims of foreign direct investors in the Netherlands Antilles. The growth in foreign direct investment can be attributed, among other things, to the purchase of real estate in Curaçao and St. Maarten by nonresidents and to investments in the hotel industry in St. Maarten.

The loans and credits balance, including trade credits, loans, and other investments, worsened mainly due to the repatriation of funds invested abroad by a financial institution. This worsening was partially mitigated by the net repayment of loans received from abroad and an improvement in the net trade credit balance. The latter improved largely due to a decline in net trade credits received from abroad, partly offset by a decline in net trade credits extended to foreign customers.

Capital transfers increased by NAf.21.7 million in the June quarter of 2007, due to an inflow of development aid funds.

## **MONETARY DEVELOPMENTS**

### **Monetary policy**

Developments in the domestic money market were relatively stable during the June quarter of 2007. As a result, the Bank deployed one of its monetary policy instruments only once: during the last auction of Certificates of Deposit<sup>2</sup> (CDs) of the quarter, the Bank auctioned an extra amount of NAf.10.0 million to mop up excess liquidity in the domestic banking sector. This action was taken mainly in light of the continuing strong growth in private credit extension. Although the Bank welcomes private credit growth, its pace should be in line with the increase in domestic added value in the medium term to prevent downward pressure on the international reserves. All other auctions were aimed at rolling over only the amount of maturing CDs.

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<sup>2</sup> Certificates of Deposit are tradable securities issued by the Bank. They are auctioned among commercial banks on a bi-weekly basis and are aimed at influencing the amount of liquidity in the domestic money market.

The Bank's most important monetary policy instrument, the reserve requirement<sup>3</sup>, remained unchanged at 13.00% during the second quarter of 2007. The Bank's official rate, the pledging rate, remained at 5.50%.

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

Money holdings of the private sector grew by NAf.21.1 million (0.4%) during the second quarter of 2007, a turnaround compared to the NAf.21.6 million (0.4%) decline in the second quarter of 2006. The largest contribution to the increase in 2007 came from private credit extension by the domestic commercial banks. See Tables 13A and 13B in the appendix for details.

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

The expansion of the money supply in the second quarter of 2007 was caused entirely by domestic factors, specifically net private credit (3.4%). The increase in net private credit was due mainly to an increase in private loans extended (3.9%). All loan components, mortgages, consumer loans, and business loans, increased on both island groups. This development is in line with the acceleration in the private component of domestic expenditures.

On the other hand, net credit extended to the government sector dropped by 1.1%. This drop occurred because of a decline in net credit extended to the island governments (10.6%), offsetting the increase of 4.3% in net credit extended to the central government. The decline at the island governments was the result of an increase in deposits of the island government of Curaçao at both the Bank and the commercial banks, as the amount of securities outstanding remained almost unchanged. Overall, net domestic assets increased by 2.9% in the June quarter of 2007.

Net foreign assets decreased by 4.3% during the June quarter of 2007, compared to a decrease of 7.5% in the second quarter of 2006. The decline in the second quarter of 2007 was due to a 26.4% worsening in the commercial banks' net foreign assets position. This decline outweighed the increase of 7.2% in the central bank's official reserves. The drop in net foreign assets can be attributed mainly to the strong expansion in imports related to increased domestic consumption and investment. See Table 14 in the appendix for a detailed overview.

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

Domestic interest rates remained fairly stable during the second quarter of 2007 (see Table 15 in the appendix). Both the Bank's pledging rate and the maximum 1-month CD rate remained unchanged, in line with the relatively stable developments in the international and domestic money markets.

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<sup>3</sup> The reserve requirement stipulates that commercial banks hold a deposit on a blocked account at the Bank, affecting the commercial banks' ability to extend credit. The Bank's ultimate objective is a stable Netherlands Antilles guilder through a target level for the official reserves. Credit extension leads to extra spending, which ultimately affects the foreign reserves. Thus, the Bank closely monitors, among other things, domestic credit extension.

The average rate on passbook savings offered by the commercial banks also remained unchanged, while the rate on 12-month time deposits dropped slightly by 0.1 percentage point.

The average rate on mortgages also dropped slightly by 0.1 percentage point, but the average rate on time loans recorded a more significant drop of 0.5 percentage point. This was the second consecutive quarter in which a drop of this size was recorded and was primarily the result of stronger competition between domestic commercial banks.

The market for government securities also did not experience any remarkable developments. While the 5-year effective yield on government bonds dropped slightly by 0.1 percentage point, the discount rate on 1-month treasury bills remained unchanged.

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

Total assets of the domestic commercial banking sector, on a consolidated basis, increased by 2.5% during the second quarter of 2007. This increase implied an acceleration compared to the 2.0% increase in the second quarter of 2006. The largest contribution to the growth of total assets during the June quarter of 2007 came from the expansion in loans extended and investments. See Table 16 in the appendix for more details.

The increase in private sector activity contributed positively to the domestic banking sector's operational income: both net interest income and other income increased during the June quarter of 2007, compared to the corresponding quarter of 2006. On the other hand, operational expenses also increased, due particularly to additions to general provisions. In the end, these developments resulted in a slight decrease in net income after taxes. See Table 17 in the appendix for more details.

### ***Macprudential indicators***

The general performance of the domestic banking sector is analyzed by means of some selected macroprudential indicators (see Table 6).

Capital adequacy, reflected by the total capital-to-total assets ratio, improved further to 9.3% at the end of June 2007, well above the internationally acknowledged benchmark of 8.0%.

Asset quality also improved during the second quarter of 2007 compared to the previous quarter. This improvement was reflected by the drop in the ratio of nonperforming loans-to-total loans, the result of both fewer nonperforming loans and an increase in total outstanding loans. In addition, the ratio of provisions for loan losses-to-nonperforming loans increased, indicating higher provisioning for loan losses in combination with a drop in nonperforming loans.

Two of the three earnings-related indicators, the net interest margin and the return-on-assets, revealed a decrease in profitability in the commercial banking sector during the

second quarter of 2007, compared to the second quarter of 2006. The gross earnings to assets yield remained unchanged.

The total loans-to-total deposits ratio rose during the June quarter of 2007 compared to the previous quarter. This ratio increased because total loans outstanding grew at a faster pace than total deposits, reflecting a decline in liquidity in the domestic banking sector.

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

	2006-I	2006-II	2006-III	2006-IV	2007-I	2007-II
<b>Capital adequacy</b>						
Total capital/ total assets	8.5%	8.5%	9.0%	8.7%	9.1%	9.3%
<b>Asset quality</b>						
Nonperforming loans/ total loans	2.7%	3.7%	3.2%	3.6%	3.7%	2.9%
Provisions for loan losses/ non-performing loans	113.6%	67.5%	95.8%	87.3%	83.8%	106.1%
<b>Earnings</b>						
Gross earnings-assets yield	7.8%	7.6%	7.7%	7.1%	7.9%	7.6%
Net interest margin	5.1%	4.9%	4.9%	4.5%	5.0%	4.8%
Return on assets	2.2%	2.0%	2.1%	2.2%	1.8%	1.8%
<b>Liquidity</b>						
Total loans/ total deposits	61.9%	61.7%	66.2%	64.2%	62.6%	71.1%



## APPENDIX

**Table 7 Developments in stay-over tourism per island (% change)<sup>4</sup>**

	Curaçao				St. Maarten				Bonaire			
	2006-II		2007-II		2006-II		2007-II		2006-II		2007-II	
North America, of which:	11.9	(0.8)	2.4	(0.2)	2.7	(1.0)	0.2	(0.1)	5.1	(0.2)	17.2	(0.7)
-U.S.A.	13.3	(0.8)	1.0	(0.1)	4.5	(1.6)	1.9	(0.6)	4.6	(0.2)	17.9	(0.7)
Europe, of which:	14.2	(1.9)	12.5	(1.8)	3.9	(0.4)	-5.3	(-0.6)	-3.2	(-0.1)	1.6	(0.1)
-The Netherlands	11.6	(1.3)	14.0	(1.7)	-3.2	(-0.1)	6.6	(0.1)	-8.9	(-0.2)	16.4	(0.4)
South & Central America, of which:	6.6	(0.3)	53.5	(3.7)	33.3	(0.5)	-4.5	(-0.1)	45.8	(0.3)	-4.7	(0.0)
-Venezuela	0.8	(0.0)	69.4	(3.2)	30.9	(0.1)	6.6	(0.0)	17.9	(0.0)	24.6	(0.1)
-Colombia	10.6	(0.0)	32.6	(0.2)	---	---	---	---	19.3	(0.0)	11.8	(0.0)
Caribbean, of which:	9.2	(0.4)	16.7	(0.8)	2.3	(0.1)	-16.1	(-0.7)	44.7	(0.3)	-11.8	(-0.1)
-Dominican Republic	-32.5	(-0.1)	-6.4	(0.0)	-11.4	(-0.1)	-13.7	(-0.1)	---	---	---	---
Total	11.3	(3.3)	17.0	(5.6)	4.2	(2.6)	-3.7	(-2.1)	5.1	(0.4)	7.6	(0.7)

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

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

	2006-I	2006-II	2006-III	2006-IV	2007-I	2007-II
Food	6.9	6.9	7.8	7.1	7.6	7.7
Beverages & tobacco	4.3	3.0	3.6	3.9	3.1	2.5
Clothing & footwear	-0.1	0.3	0.4	-0.1	-0.1	0.3
Housing	4.5	3.0	1.6	1.3	1.4	1.8
Housekeeping & furnishings	2.7	2.5	2.3	2.2	1.8	2.4
Health	1.1	0.4	0.6	0.5	0.2	0.8
Transport & communication	4.1	3.2	1.8	0.3	0.7	1.8
Recreation & education	0.4	0.7	0.3	0.4	0.3	0.6
Other	2.4	2.3	2.0	1.5	1.5	1.5
<b>General inflation rate</b>	3.9	3.2	2.7	1.9	2.1	2.6

Source: Central Bureau of Statistics

<sup>4</sup> Weighted growth rates between brackets

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

	2004-II	2005-II	2006-II	2007-II
<b>General government</b>				
Revenues	308.1	566.5	334.4	377.3
Tax revenues, of which:	287.7	288.3	292.8	326.7
Taxes on income and profits	137.3	124.4	129.5	136.3
Taxes on goods and services	108.3	120.4	118.0	129.3
Taxes on international trade and transactions	31.3	31.7	33.6	37.1
Nontax and other revenues	20.4	278.2	41.6	50.6
Expenditures	446.6	499.3	441.0	455.2
Current, of which:	441.2	497.3	438.5	499.0
Wages and salaries	157.7	221.8	168.6	153.6
Goods and services	109.5	100.8	106.9	111.4
Subsidies	9.4	9.0	11.9	9.6
Transfers	94.5	93.6	81.6	90.2
Interest payments	70.0	72.1	69.5	84.3
Capital	5.4	2.0	2.4	6.2
Budget balance	-138.5	67.2	-106.6	-78.0
<b>Central government</b>				
Revenues	154.7	386.9	190.1	218.8
Tax revenues, of which:	144.2	151.6	155.5	173.7
Taxes on goods and services	104.2	110.3	112.4	122.8
Taxes on international trade and transactions	31.5	31.8	33.6	37.1
Nontax and other revenues	10.5	235.3	34.6	45.1
Expenditures	238.8	379.1	225.4	247.4
Current, of which:	237.1	378.4	225.9	243.2
Wages and salaries	80.7	81.9	84.3	84.4
Goods and services	30.7	26.6	28.8	26.0
Subsidies	0.2	0.0	0.0	0.0
Transfers	84.7	228.8	73.5	83.4
Interest payments	40.8	41.1	39.3	49.4
Capital	1.7	0.7	-0.5	4.2
Budget balance	-84.1	7.8	-35.3	-28.6
<b>Island government of Curaçao</b>				
Revenues	184.5	356.2	175.4	198.2
Tax revenues, of which:	143.5	136.7	137.3	153.0
Taxes on income and profits	137.3	124.4	129.5	136.3
Taxes on goods and services	4.1	10.1	5.6	6.5
Nontax and other revenues	40.9	219.5	38.1	45.2
Expenditures	238.8	296.8	246.7	247.6
Current, of which:	235.1	295.5	243.7	245.5
Wages and salaries	77.0	139.9	84.3	69.2
Goods and services	78.8	74.2	78.1	85.4
Transfers	40.9	41.4	39.2	46.5
Interest payments	29.2	31.0	30.2	34.9
Domestic	25.9	27.0	27.4	32.7
Abroad	3.3	3.9	2.8	2.3
Capital	3.7	1.3	2.9	2.0
Budget balance	-54.4	59.4	-71.3	-49.4

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

	2006-II	2006-III	2006-IV	2007-I	2007-II
Domestic consolidated debt, of which:	4,293.6	4,321.7	4,369.0	4,388.8	4,485.9
-Central government, of which:	2,294.1	2,303.3	2,323.5	2,318.4	2,322.4
Long-term securities	1,855.7	1,879.7	1,897.0	1,864.7	1,798.8
Short-term securities	45.8	46.5	57.3	91.5	148.8
APNA	215.4	217.6	224.8	223.4	225.7
SVB	9.8	9.5	8.4	10.1	9.1
-Curaçao, of which:	2,212.0	2,236.6	2,238.6	2,275.8	2,384.0
Long-term securities	786.5	775.2	802.1	819.2	880.3
Short-term securities	192.9	197.9	201.9	174.4	167.3
APNA	766.6	781.4	797.0	823.0	841.8
SVB	0.0	0.0	0.0	0.0	0.0
Central government	318.2	326.1	301.4	306.1	320.4
-Bonaire	137.3	138.7	138.0	136.3	136.6
-St. Maarten	176.5	179.8	165.2	158.7	157.6
-St. Eustatius	12.7	13.1	13.2	13.2	13.3
-Saba	17.9	18.1	18.4	18.0	18.1
Foreign debt	698.7	695.7	742.3	738.1	747.6
Total debt (consolidated)	4,992.3	5,017.4	5,111.3	5,126.9	5,233.5
(% of GDP)	83.1%	82.5%	83.1%	82.2%	82.9%

<sup>(1)</sup> Adjusted for intergovernment debt

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

	2005-II	2006-II	2007-II
Trade balance	-631.9	-632.3	-806.1
-Exports	234.7	297.9	277.0
-Imports	866.6	930.2	1083.1
Services balance	480.4	495.0	474.8
Receipts, of which:	816.1	808.8	871.6
-Travel	401.9	434.4	461.7
-Transportation	61.0	55.3	65.8
-Other services, of which:	353.3	319.1	344.1
-Int. fin & bus. services sector	108.4	103.0	83.8
Expenses, of which:	335.8	313.9	396.8
-Travel	131.8	122.9	142.3
-Transportation	39.6	33.8	40.7
-Other services, of which:	164.3	157.2	213.8
-Int. fin & bus. services sector	32.9	30.7	32.4
Income balance <sup>1)</sup>	-7.8	-13.4	21.3
Current transfers balance <sup>2)</sup>	191.5	-12.5	-6.6
<b>Current account balance</b>	<b>32.1</b>	<b>-163.3</b>	<b>-316.5</b>
<b>Capital &amp; financial account balance</b>	<b>-57.5</b>	<b>206.2</b>	<b>212.2</b>
Capital account balance	11.3	4.7	26.5
Financial account balance	-68.8	201.5	185.8
<b>Net errors &amp; omissions</b>	<b>25.4</b>	<b>-42.9</b>	<b>104.3</b>

1) Labor and investment income.

2) Public and private transfers.

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

	<b>2005-II</b>	<b>2006-II</b>	<b>2007-II</b>
Direct investment	-15.1	9.2	75.4
- Abroad <sup>1)</sup>	7.2	5.2	2.2
- In the Netherlands Antilles <sup>2)</sup>	-22.3	4.0	73.2
Portfolio investment <sup>1)</sup>	-36.5	-23.8	-32.7
Other investment, of which:	84.0	133.7	79.5
- Assets <sup>1)</sup>	99.8	88.3	104.7
- Liabilities <sup>2)</sup>	-15.8	45.4	-25.2
Net lending/borrowing, of which:	16.3	-60.5	-23.3
- Assets <sup>1)</sup>	-33.9	-35.7	55.5
- Liabilities <sup>2)</sup>	50.2	-24.8	-78.8
Reserves <sup>3)</sup>	-117.4	142.9	86.8
Total assets <sup>1)</sup>	-80.8	176.9	216.5
Total liabilities <sup>2)</sup>	12.1	24.6	-30.8
Balance	-68.7	201.5	185.7

1) A minus sign means 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.)**

<b>2007-II</b>	<b>Domestic sectors</b>			<b>External sector</b>
	<b>Private</b>	<b>Government</b>	<b>Banking</b>	
Nonfinancial transactions	-238.5	-78.0		316.5
Government net lending	0.0	0.0		
Gov't dom. nonbank financing	-80.8	80.8		
External financing of government		3.5		-3.5
External financing of private sector	95.4			-95.4
-Direct investment (equity)	75.4			-75.4
-Loans and credits	52.7			-52.7
-Portfolio, incl. debt	-32.7			32.7
Capital transfers	26.5			-26.5
Change in net foreign assets of the central bank			-95.4	95.4
Change in net foreign assets of commercial banks			182.2	-182.2
Change in domestic bank credit	140.8	-6.3	-134.5	
Change in broad money	-21.1		21.1	
Other items, net/errors & omissions	77.7		26.6	-104.3

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

<b>2006-II</b>	<b>Domestic sectors</b>			<b>External</b>
	<b>Private</b>	<b>Government</b>	<b>Banking</b>	<b>Sector</b>
Nonfinancial transactions	-52.4	-110.9		163.3
Government net lending	-4.3	4.3		
Gov't dom. nonbank financing	-179.5	179.5		
External financing of government		1.6		-1.6
External financing of private sector	57.0			-57.0
-Direct investment (equity)	9.2			-9.2
-Loans and credits	71.5			-71.5
-Portfolio, incl. debt	-23.8			23.8
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	-128.1
Change in domestic bank credit	213.5	-74.5	-139.0	
Change in broad money	21.6		-21.6	
Other items, net/errors & omissions	-60.5		17.6	42.9

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

	2006-I	2006-II	2006-III	2006-IV	2007-I	2007-II
<b>Money supply (M2)</b>	5,217.3	5,195.7	5,235.3	5,425.1	5,712.2	5,733.3
<b>Money (M1)</b>	1,800.9	1,848.0	1,876.0	1,976.1	2,100.6	2,138.7
Coins & notes with the public	232.9	244.9	243.9	263.7	256.5	273.5
Total demand deposits, of which :	1,568.0	1,603.1	1,632.1	1,712.4	1,844.1	1,865.2
- Netherlands Antillean guilders	1,138.9	1,161.8	1,155.1	1,246.7	1,321.7	1,342.2
- Foreign currency	429.1	441.3	477.0	465.7	522.4	523.0
<b>Near money</b>	3,416.4	3,347.7	3,359.3	3,449.0	3,611.6	3,594.6
Time deposits	2,169.3	2,089.6	2,097.7	2,152.2	2,243.2	2,221.9
Savings	1,247.1	1,258.1	1,261.6	1,296.8	1,368.4	1,372.7
<b>Factors affecting the money supply</b>						
<b>Net domestic assets</b>	3,319.1	3,440.5	3,570.3	3,652.7	3,692.0	3,799.9
General government	560.2	485.7	520.2	569.7	596.8	590.5
- Central government	390.4	332.0	289.2	358.5	382.7	399.2
- Island governments	169.8	153.7	231.0	211.2	214.1	191.3
Private sector	3,599.9	3,813.4	3,926.4	4,058.3	4,111.6	4,252.4
<b>Net foreign assets</b>	1,898.2	1,755.2	1,665.0	1,772.4	2,020.2	1,933.4
Central bank	1,201.8	1,186.8	1,163.7	1,251.9	1,330.1	1,425.5
Commercial banks	696.4	568.4	501.3	520.5	690.1	507.9
<b>Memorandum items</b>						
<b>Government loans by commercial banks</b>	531.5	455.6	456.5	456.5	515.8	552.7
- Central government	288.7	239.6	234.2	245.4	290.6	314.6
- Island governments	242.8	216.0	222.3	211.1	225.2	238.1
<b>Private sector loans - Leeward Islands</b>	2,397.9	2,485.8	2,516.7	2,610.4	2,667.0	2,781.2
- Mortgages	807.5	803.7	802.9	816.5	850.3	851.2
- Consumer loans	728.4	752.7	779.2	808.9	819.1	867.1
- Business loans	862.0	929.4	934.6	985.0	997.6	1,062.9
<b>Private sector loans - Windward Islands</b>	1,004.4	1,071.9	1,158.5	1,191.8	1,201.8	1,240.2
- Mortgages	384.4	397.2	417.6	426.1	415.3	419.1
- Consumer loans	239.0	273.1	291.3	300.4	309.0	322.5
- Business loans	381.0	401.6	449.6	465.3	477.5	498.6



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

	2006-I	2006-II	2006-III	2006-IV	2007-I	2007-II
<b>Central bank</b>						
- Pledging rate	5.00	5.50	5.50	5.50	5.50	5.50
- Maximum CD rate (1 month)	4.74	5.37	5.31	5.33	5.25	5.25
<b>Commercial bank borrowing rates</b>						
- Passbook savings	2.8	2.8	2.8	2.8	2.8	2.8
- Time deposits (12 months)	4.0	4.1	4.0	4.2	4.5	4.4
<b>Commercial bank lending rates</b>						
- Mortgages	8.3	8.3	8.5	8.5	8.3	8.2
- Time loans	11.2	11.0	10.5	10.6	10.1	9.6
<b>Government securities</b>						
- Government bonds (5-year effective yield)	6.4	6.5	7.1	7.5	7.3	7.4
- Treasury bills (1 month)	4.8	3.8	5.6	4.9	5.5	5.5

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

	2006-I	2006-II	2006-III	2006-IV	2007-I	2007-II
<b>Assets</b>						
Non-interest-bearing cash	647.6	516.8	431.6	548.6	589.2	554.9
Interest bearing cash	1,930.9	2,339.7	2,040.3	2,278.5	2,562.0	2,422.7
Investments	1,548.8	1,288.6	1,204.2	1,225.1	1,247.5	1,422.0
Loans	5,182.4	5,417.9	5,611.6	5,736.6	5,827.5	6,063.0
Investments in unconsolidated subsidiaries and affiliates	232.4	186.3	181.2	182.2	173.7	156.8
Fixed assets	215.9	218.9	223.2	234.2	241.0	247.0
Other assets	220.3	205.5	218.9	205.2	194.4	236.0
Total assets	9,978.3	10,173.7	9,910.9	10,410.5	10,835.4	11,102.4
<b>Liabilities</b>						
Demand deposits	2,879.3	3,059.9	2,902.4	3,181.8	3,442.4	3,613.9
Savings deposits	3,159.4	3,191.3	3,217.5	3,294.1	3,367.9	3,408.9
Time deposits	2,746.8	2,680.5	2,488.2	2,620.0	2,634.9	2,603.2
Total deposits	8,785.5	8,931.6	8,608.0	9,095.9	9,445.2	9,626.1
Borrowings	26.0	37.4	31.9	31.5	32.4	59.7
Other liabilities	295.7	322.8	346.2	360.2	344.8	387.1
Total liabilities	9,107.2	9,291.9	8,986.2	9,487.7	9,822.4	10,072.8
Minority interest	7.4	7.9	8.7	7.9	8.7	8.4
Subordinated debentures	5.5	5.2	3.6	3.6	3.5	3.3
General provisions	166.2	169.6	179.2	187.5	187.3	194.2
Capital & reserves	692.1	699.1	730.8	723.8	813.5	823.6
Total capital	871.1	881.8	922.2	922.8	1,013.0	1,029.5
Total liabilities and capital	9,978.3	10,173.7	9,910.9	10,410.5	10,835.4	11,102.4

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

	2006-I	2006-II	2006-III	2006-IV	2007-I	2007-II
Interest income	175.4	350.3	535.6	674.4	192.8	390.5
Interest expenses	62.2	125.3	195.7	248.4	72.1	143.9
<b>Net interest income</b>	113.1	225.0	339.9	426.0	120.6	246.6
Other income	58.8	116.7	535.6	257.9	63.2	123.7
<b>Total operational income</b>	171.9	341.8	875.6	683.9	183.8	370.3
Salaries & other employee expenses	65.6	129.3	192.4	252.4	71.0	137.0
Occupancy expenses	18.5	37.4	56.5	71.4	21.0	41.4
Other operating expenses	24.5	53.5	80.9	95.8	29.7	60.6
Net addition to general provisions	10.7	19.1	28.8	41.1	14.3	30.7
<b>Total operational expenses</b>	119.2	239.3	358.6	460.7	136.0	269.8
Net operating income	52.7	102.5	153.6	223.2	47.7	100.5
Net extraordinary items	3.5	1.1	7.4	9.7	1.5	-0.8
Applicable profit taxes	12.9	24.2	36.7	55.5	11.4	26.2
<b>Net income after taxes</b>	43.3	79.3	124.2	177.4	37.9	73.5

\* Cumulative quarterly figures.