

QUARTERLY BULLETIN 1997-2

Bank van de Nederlandse Antillen

1. REPORT OF THE PRESIDENT

The recession in the Netherlands Antilles deepened during the second quarter of 1997, as reflected by a further decline in real Gross Domestic Product by 2% on an annual basis. This decline can be ascribed to the reduction in domestic spending related to the measures taken by the government in connection with the structural adjustment program and the sluggish development in exports. The decline in economic activities was accompanied by a moderation of the rate of inflation in the quarter under review, compared to the first quarter of 1997. However, the annualized inflation rate continued to increase, due primarily to the measures of the government to enhance its revenues.

The sluggish development in exports was attributable mainly to the developments in the refining and the transportation sector. Foreign exchange income generated by the refinery dropped sharply, due to less maintenance activities and improved efficiency. In contrast, the amount of oil refined continued to increase. The decline in activities in the transportation sector was dominated by the weak performance in the ship repair sector, harbor activities, bunker activities and the national carrier. The latter suffered from a major strike in April related to the stallment of the negotiations on a new collective labor agreement to be effective in the restructured company. These negative developments were mitigated by an increase in oil storage.

In contrast to the above, the tourist sector performed well, reflected by an increase in the number of stay-over and cruise tourists and foreign exchange income. However, the developments by island were mixed. The overall performance was almost entirely attributable to the development in St. Maarten, owing to the progress made in the recovery of this sector after the hurricane disaster in September 1995. Tourist activities in Curaçao remained sluggish and Bonaire recorded a decline in activities after five consecutive quarters of growth. The weak performance in Curaçao and Bonaire can be related, among others, to the appreciation of the Netherlands Antillean guilder, which is pegged to the US dollar, vis-à-vis the European currencies, because these islands rely more on European tourists. Also the free zone performed well, reflected by a substantial increase in re-exports. However, the number of visitors continued to drop.

Despite the sluggish development in exports, the deficit on the current account of the balance of payments showed a substantial improvement. This can be explained by the sharp drop in imports related to the decline in domestic spending due to the fiscal consolidation efforts of the government. Combined with a small improvement in the surplus on the capital account, our foreign exchange reserves increased slightly. However, this was not enough to meet the end June target of reserves accumulation set in the structural adjustment program.

In light of the above, the Bank wants to re-iterate that a lasting improvement of our balance of payments cannot be attained without the strengthening of our export sector. Therefore, the authorities should start as soon as possible with the implementation of the recommendations of the Interamerican Development Bank, which recently concluded their study "Policies and Strategies for Sustainable Growth in the Netherlands Antilles". These recommendations include modernization of the labor laws, tax reform, re-focusing public expenditure on core tasks and enhancing the overall business climate. The improvement of our investment climate will be facilitated further with the support offered by the Dutch

government during the economic summit in September 1997. This support includes broadening the scope of investment incentives for Dutch entrepreneurs to the Netherlands Antilles and a contribution to a fund which will finance projects in key sectors of the economy.

The decline in economic activities was accompanied by a deterioration of the budget deficit of the General Government. This deterioration was accounted for primarily by the Island Government of Curaçao, which incurred a sharp decline in nontax revenues. Part of this decline can be explained by the absence of dividend receipts from government enterprises, compared to the second quarter of 1996. As a result, the structural adjustment program's deficit target for the second quarter was not met. Together with the overshooting in the first quarter and given the financing constraints, the authorities should take urgent corrective actions. The 35% cut in the expenditures of line departments at the Central Government is an important step in that direction, but will have to be supplemented by additional cuts and the phasing of certain expenditure items. In addition, to reduce the risk of overshooting in the years ahead, the implementation of the structural budgetary measures should be stepped up, e.g., the core-task analysis and the privatization program.

Concomitant with the sluggish economic development, a contraction in the monetary aggregates was observed. This was due mainly to the contractionary impact of the government in the domestic sector. The private sector recorded a marked deceleration in its expansionary impact related to the sluggish demand for credit due to the economic recession. Overall, the monetary aggregates remained within the targets set in the structural adjustment program. Nevertheless, the persistent overliquidity in the banking system forms a potential source for uncontrolled credit growth. To reduce this risk, the Bank increased the reserve requirement from 2% to 3% in August 1997. Further adjustments will be considered if monetary developments warrant this.

The slippages in the implementation of the structural adjustment program that occurred during the first half of 1997 pose an enormous challenge for the authorities to take urgent corrective actions to keep the restructuring process in our economy going. Addressing these slippages together with efforts to improve our investment climate is, however, the only way to overcome our current economic problems and create a climate conducive to sustainable growth and employment.

E.D. Tromp
President

2. DEVELOPMENTS IN THE REAL SECTOR

General economic developments

Production activities in the Netherlands Antilles declined further in the second quarter of 1997, as real GDP contracted by approximately 2% compared with the second quarter of 1996. The weak economic activity can be ascribed largely to reduced domestic spending, resulting from the implementation of various policy measures. Noteworthy is that the weak performance in the external sector could not outbalance the reduced domestic demand. Moreover, and not surprisingly, the inflationary pressure continued in this quarter, due mainly to the effects of government measures taken since the third quarter of 1996 on the Leeward Islands and the beginning of 1997 on the Windward Islands. An accelerating rate of inflation and contraction in output characterized our performance in the last four quarters (table 1). The downward trend in production activities also adversely effected the labor market; the process of retiring personnel in the private sector continued in the second quarter of 1997.

Table 1
Inflation and real GDP

	Inflation(%)	Real GDP ¹⁾ (%)
96-I	2.8	-0.5
96-II	2.7	-0.5
96-III	3.0	-0.7
96-IV	3.4	-1.0
97-I	3.6	-1.3
97-II	4.0	-2.0

¹⁾ Estimate of the Bank van de Nederlandse Antillen

National production and spending

National production declined in the second quarter of 1997 by approximately 2% compared to a 0.5% negative growth rate in the corresponding quarter of 1996. This development is confirmed by the Bank's Business Cycle Survey. According to 60% of the respondents, the economy of the Netherlands Antilles deteriorated further during the second quarter compared to the first quarter of 1997. A breakdown by sector will show that productive activity in our main branches of industry was sluggish in the second quarter of 1997. Turnover in the trade sector, which relies heavily on domestic demand, declined sharply in this same quarter. In addition, with the exception of tourism, production for the external market recorded a downturn, as reflected by the decline in turnover in the transportation sector, refining, and financial services. Consequently, capacity utilization in our export-oriented industries has been very low. Despite the growth in the tourism-related sector, the capacity in this sector was not fully utilized because the hotel occupancy rate remained low.

National spending declined due to less demand in the domestic market combined with weak growth in foreign demand. The high inflation rate combined with unstable development in the labor market were the main factors contributing to less real disposable income, which resulted in a decline in private consumption. Private investment was still sluggish in the second quarter of 1997, as loans to the private sector declined in real terms. This decline can

be ascribed largely to the increased uncertainty surrounding the public finances and how this uncertainty will impact on economic perspectives. Another factor that hampered private investment was the increased pressure on corporate profits emanating from the introduction of the new taxation system, namely 'self-assessment.' Contrary to private investment, government investment increased by 31%, related mainly to the construction of the 'Capriles Clinic.'

Inflation

The annualized rate of inflation in the Netherlands Antilles, as measured by the consumer price index (CPI), accelerated from 2.7% in the second quarter of 1996 to 4.0% in the second quarter of 1997. The inflationary pressure in the economy can be explained largely by domestic factors, since imported inflation remained stable in the second quarter of 1997. The domestically induced inflationary pressure reflects the effects of the measures implemented by the government since the third quarter of 1996.

A breakdown of inflation by island reveals that the highest annualized inflation was on Curaçao, i.e., 4.1%, followed by 3.7% in St Maarten. Analysis¹⁾ of the price developments on a quarterly basis gives a different picture, namely, that the acceleration of 1.7% in St. Maarten from the first quarter to the second quarter of 1997, was substantially greater than on the other islands. In Curaçao and Bonaire, the rate of inflation decelerated further by 1.0% and 0.7%, respectively (table 2).

Further breakdown of the price indices by islands and by components shows that in St. Maarten, the higher inflation rate in the second quarter of 1997 compared with the first quarter was particularly noticeable in the "health" sector (13.8%) followed by "clothing & footwear" (3.3%). The increase of 2.6% in both "beverage and tobacco" and "housekeeping & furnishing" contributed significantly to this acceleration. In contrast, the inflation rate in the sector "transport & communication" declined slightly by 0.1%. In Curaçao, the highest price increases in the second quarter of 1997 compared with the first quarter were recorded on the items "transport & communication" (1.4%), "other"²⁾ (1.5%) and "beverage & tobacco" (1.3%). In Bonaire, the inflationary pressure was felt most strongly in the partial indices of "health" and "transport & communication", where both expanded by 1.2%.

¹⁾ *Analyses of the inflation rate is based on annualized data*

²⁾ *Insurance and other services*

Table 2
Inflation rates in Curaçao, Bonaire, and St. Maarten in the second quarter of 1997 (% changes)

	Curaçao	Bonaire	St. Maarten
Food	0.7%	0.6%	0.7%
Beverage & tobacco	1.3%	0.6%	2.6%
Clothing & footwear	0.2%	0.0%	3.3%
Housing	1.2%	0.6%	2.2%
Housekeeping & furnishing	0.6%	0.3%	2.6%
Health	0.5%	1.2%	13.8%

Transport & communication	1.4%	1.2%	-0.1%
Recreation & education	0.7%	0.5%	1.2%
Other	1.5%	1.1%	0.7%
General inflation rate	1.0%	0.7%	1.7%

Labor market

Developments in the Netherlands Antillean labor market must be seen in light of the sluggish economic performance. Labor demand in Curaçao dropped further in the first half of 1997, because of an increase in the number of employees being laid-off. This is illustrated by the increased number of employees filing for retirement at the Department of Labor and Social Affairs -- namely, 422 for the first half of 1997 compared with 393 in the first half of 1996. The number of actual retired personnel in the first half of 1997 increased by 273 indicating that of every three persons filing for retirement, two were actually retired. Unfavorable developments in demand led to less production; as a result, companies are laying off personnel particularly in the sectors of construction, trade, and business (table 3).

Table 3
Laid off personnel in Curaçao by sector

1st half of:	1996	1997
Sectors:		
Industry	45	17
Construction	161	157
Trade, hotel & restaurant	57	33
Transportation	7	7
Financial, business services	2	53
Other services	2	6
Total	274	273

In Bonaire the number of retired persons increased by 94 in the first half of 1997 compared to 18 in 1996. The main cause of the increased lay-offs was related to the reduction in personnel in the rice industry on the island. The development in this sector of the labor market in Bonaire is a direct consequence of the decision taken by the European Committee regarding reductions of imports from C.T.O¹⁾ into Europe.

¹⁾ *Countries and Territories Overseas*

Sectoral developments

Mining

Production in the salt industry expanded by 39% in the second quarter of 1997. Due to the industry's limited capacity, salt exports lagged behind, as the number of metric tons shipped abroad declined by 32%. This decline contrasts with the second quarter of 1996, when production declined by 33.7% and salt exports increased by 31.5%.

Industry

Industrial production in general was mixed. Industrial performance in the main sectors were diverse -- oil refining went up, ship repair activity remained subdued. Production in the oil refinery expanded by 27% in the second quarter of 1997, the same increase as in the second quarter of 1996. Contrary to production, operational costs declined by 21.1% primarily the result of fewer contract payments. The latter decrease can be explained by the smaller amount of maintenance activities in the refinery in the second quarter of 1997.

In contrast, performance in the other main branch of industry, i.e., ship repair, was weak, as the total number of man-hours sold dropped by 26.7%, and the foreign exchange earnings in this sector declined by 4.1%. This weak performance can be explained largely by the exceptional peak of orders in the second quarter of 1996.

Utilities

Electricity production in the Netherlands Antilles increased by 0.3% in the second quarter of 1997, compared with a contraction of 2.3% in the second quarter of 1996. A breakdown by island shows that electricity production in the Windward Islands increased by 14.9% compared with a drop of 18.5% in the same quarter of 1996. This swing in electricity production may be related to the turnaround in St. Maarten's tourism industry, following the hurricane damages of 1995. In Bonaire, electricity production decelerated; growth was 2.1% in the second quarter of 1997 compared to a 9.3% expansion in the second quarter of 1996. The decline in production may be related to less economic activity, mainly tourism-related activities, in Bonaire. Curaçao registered a negative growth of 3.6% in electricity production in the second quarter of 1997 compared to a growth of 1.9% in 1996. This negative growth must be seen in light of the overall economic weakness on the island, which led to less demand for energy.

Water production in the Netherlands Antilles increased by 2.2% in the second quarter of 1997 compared with a decline of 0.3% in the second quarter of 1996. A breakdown by island reveals that this development is based on more water consumption on all islands. Particularly in St. Maarten and Curaçao, water usage increased by 2.5% and 2.0%, respectively, in the second quarter of 1997 compared to declines of 2.3% and 0.6%, respectively, in the second quarter of 1996. In St. Maarten, this development reflects the gradual improvement of the island's economy in the post-hurricane period.

Construction

Overall development in the construction sector in the second quarter of 1997 in the Netherlands Antilles can be characterized by a decline in the value of construction permits, on the one hand, and an increase in the value of completed buildings, on the other. The mixed performance in this sector was accompanied by a drop in the demand for labor, as the

number of persons being laid off in this sector increased.

In Bonaire, the value of construction permits declined by 15%, whereas the number of permits issued increased by 12.5%. In Curaçao the value of completed buildings in the second quarter of 1997 increased, due to an increase mainly in the value of non dwellings. The value of construction permits dropped by 21% in the second quarter of 1997.

Trade

Developments in the trade sector must be seen in light of the general economic situation. According to the Bank's Business Cycle Survey, overall trade activities continued to slow down, as private consumption continued its downward trend affecting the turnover in the trade sector. The trade activities in the free zone, however, continued to flourish, as its re-exports increased by 45.9% in the second quarter of 1997 compared with the increase of 11.9% in the same quarter of 1996. Contrary to this development, the number of visits to the free zone declined, with the exception of Trinidad (24.2%) and Guyana (26.6%). In all other main markets, the number of visits dropped: Haiti (19.5%), Dominican Republic (18.9%), Venezuela (12.6%), and Jamaica (1.4%). Jamaica still had the largest market share of 25% in our free zone followed by Trinidad with 13.1%.

Tourism

Performance in the main branch of industry in the Netherlands Antilles, i.e., tourism, improved as the number of stay-over and cruise tourists increased by 6.4% and 24.9%, respectively. Compared with the second quarter of 1996, the number of stay-over tourists turned around from a drop of 25.8% to an increase of 6.4%. The same development also was noticeable in cruise tourism, which accelerated from a growth of 2.2% in the second quarter of 1996 to an increase of 24.9% in the second quarter of 1997. A breakdown by island shows that the increases in stay-over and cruise-tourists were particularly due to developments on the island of St. Maarten.

In St. Maarten, the tourism sector performed well. The number of stayover tourists turned around from a decline of 35.0% in the second quarter of 1996 to an expansion of 12.4% in the second quarter of 1997 (table 4). In particular, the growth in tourism originated from the USA (24.3%), the Netherlands (39.3%), and Canada (38.5%). The French market, St. Maarten's second largest tourism market, showed a negative growth of 3.6%. Cruise tourism outperformed the pre-hurricane level of the second quarter of 1995. Cruise tourism increased by 33.2% in the second quarter of 1997 compared with a zero growth in the same quarter of 1996.

After five consecutive quarters of growth, tourism in Bonaire declined in the second quarter of 1997 by 9.0%. The drastic decline, especially when compared with the second quarter of 1996, when a growth of 12.2% was recorded, can be attributed to reduced demand from the European market. The strong US dollar quotation in the international foreign currency market vis-à-vis the European currencies, combined with more competition from less expensive destinations like the Dominican Republic and Margarita in Venezuela resulted in a decline in the number of tourists especially from the Dutch market. The drop in the South American market was related to the discontinuation of the "Avensa" flights to Bonaire.

The performance in Curaçao's tourism industry in the second quarter of 1997 can be

characterized by a slight increase in stay-over tourism of 0.4%, and an 18.7% decline in cruise tourism. In addition, the number of visitors nights declined by 2.0% in the second quarter. The weak performance in Curaçao's tourism sector was related to the 3.9% decline in the largest market, Holland. This decline can be ascribed largely to the approximately 18% increase in the US dollar value vis-à-vis the Dutch guilder, since December 1995. Tourism from Aruba grew, as the sports activities in this quarter attracted many tourists from that island (7.8%). The US, the German, and other European markets increased by, respectively, 2.5%, 7.0%, and 26.9%. An extra promotional campaign in the US was successful in increasing the number of visitors from that country. Attractive offers by German tour-operators were the main reason for the increase in the number of German tourists. The Venezuelan market continued to decline (7.7%) as the economic situation in that country remained unstable. In the cruise tourism sector, the number of tourists and the number of calls dropped by 18.7% and 12.9%, respectively, in the second quarter of 1997.

Table 4
Developments in second quarter stay-over tourism (% growth rates)

	Bonaire		Curacao		St. Maarten	
	1996	1997	1996	1997	1996	1997
N. America, of which:	10.5%	-4.1%	-24.1%	2.3%	-45.0%	25.2%
-USA	8.7%	-1.9%	-21.0%	2.5%	-43.5%	24.3%
-Canada	70.5%	-48.1%	-59.1%	-2.6%	-60.4%	38.5%
Europe, of which:	16.3%	-0.6%	-8.7%	-0.9%	-20.3%	0.8%
-The Netherlands	37.1%	0.5%	-0.3%	-3.9%	-25.9%	39.3%
-France	-74.2%	-35.9%			-15.1%	-3.6%
-Germany	-13.1%	-1.5%	-37.4%	7.0%	n.a.	n.a.
-Other	21.6%	0.0%	-42.2%	26.9%	-39.1%	0.1%
South & Central America, of which:	17.3%	-37.7%	-14.4%	-3.1%	-48.7%	4.4%
-Venezuela	5.7%	-39.9%	-21.1%	-7.7%	-48.2%	17.9%
-Brazil	101.7%	-36.8%	5.2%	-4.8%	-92.2%	2.4%
Caribbean, of which:	0.0%	-22.6%	-8.2%	0.1%	-7.6%	-6.1%
-Aruba	-1.2%	-24.4%	-4.4%	7.8%		
-Santo Domingo	-23.7%	-29.3%	-15.5%	-19.0%	-20.0%	-11.2%
Rest of World	40.5%	-66.1%	-4.9%	12.7%	-6.3%	
Total	12.2%	-9.0%	-12.4%	0.4%	-35.0%	12.4%

Transportation

The performance of air transportation in Curaçao was mixed in the second quarter of 1997, as total traffic decreased by 1.7%, while commercial landings and transit passengers increased by 11% and 9.8%, respectively. The decline in the total traffic, as measured by passenger arrivals and departures, occurred because, despite the vacation period, fewer residents traveled abroad, as the number of visitors increased slightly. Passenger arrivals and departures declined by 4.5% and 6.0%, respectively, resulting in less activity in the air transportation sector. Noteworthy is that the national airline (ALM) transported fewer passengers (1.5%) and less freight (19.6%) during the second quarter of 1997.

Harbor activities in the Netherlands Antilles increased as the number of ships piloted into the harbor expanded in Bonaire and Curaçao by 20.3% and 6.9%, respectively. This situation is an improvement compared with the second quarter of 1996, when Bonaire recorded a negative growth of 4.0% and Curaçao registered an increase of 3.7% .

Telecommunication and Financial sector

According to the Bank's Business Cycle Survey, developments in the telecommunication industry in the second quarter of 1997 remained at the same level as the first quarter. Fierce competition of callback services slashed the business activities from the "Antelecom," our telecommunication company, substantially. Developments in the banking sector remained weak in the second quarter of 1997, while the insurance branch developed positively in the second quarter of 1997, compared with the first quarter.

3. PUBLIC FINANCE

General developments in the public sector

The deficit of the General Government (including foreign amortization), i.e., the Central Government and the Island Government of Curaçao combined, deteriorated by NAf.9.2 million to a deficit of NAf.46.9 million during the quarter under review, compared to the second quarter of 1996. This development resulted from a NAf.8.3 million increase in expenditures and NAf.0.9 million drop in revenues. As a percentage of GDP, the deficit deteriorated from 1.0% to 1.2% of GDP.

The commission 'Commissie Financieringsmodaliteiten', under presidency of Mr. Wawoe, in charge of evaluating the present financial relation between the Netherlands Antilles and the Netherlands presented its report in the quarter under review. One of their main advises was to shift away from the current project-financing modalities to a more program financing approach.

The General Government did not meet the target set for end June 1997 as agreed with the IMF. The cumulative cash deficit amounted to NAf.47.4 million, which is an overshooting of NAf.20.7 million. This was mainly caused by shortfalls in revenues. The fiscal situation of the government is even worse taken into consideration that several arrears were built-up (among others APNA), and several payments were postponed (among others ALM and the sinking fund). Since the outlook for the second half of the year is gloomy, the government announced several additional measures to contain expenditures and raise revenues. Central

Government, for example, has instructed the line departments to cut their expenditures on goods and services by 35%.

Operations of the Central Government

The deficit of the Central Government deteriorated by NAf.1.1 million to a deficit of NAf.5.4 million in the second quarter of 1997 compared to the second quarter of the previous year. This development resulted from a NAf.21.2 million increase in expenditures and a NAf.20.1 million increase in revenues.

The increase in expenditures can be ascribed to a NAf.17.3 million increase in current expenditures and a NAf.3.9 million increase in capital expenditures. The rise in current expenditures can be ascribed mainly to a NAf.14.7 million increase in personnel costs. This development is primarily related to the fact that during the second quarter of 1996 no pension premiums were paid. The capital expenditures increased due to a NAf.6.6 million increase in investments. This can among others be ascribed to the pre-financing for the KABNA for construction work being done at the psychiatric clinic 'Capriles Kliniek'. In contrast, capital transfers dropped by NAf.3.4 million. This can be ascribed to the absence of transfers to St. Maarten in connection with reconstruction activities due to the hurricane damages.

The increase in revenues can be ascribed mainly to a NAf.18.4 million increase in tax revenues. This can entirely be attributed to the introduction of the sales tax on the Leeward Islands as of July 1, 1996, and the turn-over tax on the Windward Islands as of January 1, 1997. During the second quarter of 1997 the sales tax yielded NAf.23.9 million, while the turn-over tax yielded NAf.9.4 million. In contrast, import duties dropped by NAf.12.9 million due to the fact that economic activities have slowed down during the quarter under review and the tariff on import duties was reduced by 1 percentage point as of January 1, 1997.

Table 5
Operations of the Central Government (in millions NAf.)

	1997-II	1996-II	NAf.	%
REVENUES	140.9	120.8	20.1	16.6%
Tax revenues	110.9	92.5	18.4	19.9%
of which:				
-excises	36.7	37.8	-1.1	-2.9%
-import duties	31.9	44.8	-12.9	-28.8%
-foreign exchange tax	0.0	3.7	-3.7	-100.0%
-property transfer tax	4.2	2.7	1.5	55.6%
-sales tax	33.3	0.0	33.3	
Nontax revenues	28.6	26.6	2.0	7.5%
-entrepreneurial and property income	11.3	13.4	-2.1	-15.7%
-fees, charges and sales	8.7	9.5	-0.8	-8.4%
-other nontax revenues	8.6	3.7	4.9	132.4%
Capital revenues	0.0	0.0	0.0	
Grants	1.4	1.7	-0.3	-17.6%

EXPENDITURES	146.3	125.1	21.2	16.9%
Current expenditures	130.2	112.9	17.3	15.3%
of which:				
-personnel costs	75.5	60.8	14.7	24.2%
-goods and services	27.7	26.8	0.9	3.4%
-interest payments	9.1	9.7	-0.6	-6.2%
-subsidies	5.2	0.0	5.2	
-transfers	12.7	15.6	-2.9	-18.6%
Capital expenditures	16.1	12.2	3.9	32.0%
of which:				
-investments	12.1	5.5	6.6	120.0%
-capital transfers	3.1	6.5	-3.4	-52.3%
BALANCE	-5.4	-4.3	-1.1	

The Central Government did not surpass the cash deficit of NAf.15.0 million for the second quarter of 1997 as agreed with the IMF. However, this was due to the fact that several payments were not made during the quarter under review, such as pension payments to the civil servants pension fund 'APNA', capital injection in the ALM for NAf.12.0 million, the transfer to the Island Government of Curaçao, and payments in the sinking fund for NAf.7.5 million.

The deficit was financed nonmonetarily, through the issuance of securities with the public and the build-up of arrears among others at the civil servants pension fund 'APNA'. This financing modality is against the agreement reached with the IMF. This agreement calls for no building up of arrears.

Table 6
Changes in outstanding balances of the Central Government (in millions NAf.)

	1997-II	1996-II
FISCAL BALANCE	-5.4	-4.3
MONETARY FINANCING	-10.6	0.7
of which: Central Bank	0.8	22.8
Commercial banks	-11.4	-22.1
NON-MONETARY FINANCING	16.0	3.6
of which:		
Government securities with the public	7.0	-9.1
Other	9.0	12.7

Operations of the Island Government of Curaçao

The deficit of the Island Government of Curaçao deteriorated from a deficit of NAf.33.4 million in the second quarter of 1996 to a deficit of NAf.41.5 million in the quarter under

review. This deterioration of NAf.8.1 million resulted from a NAf.23.3 million drop in revenues and a NAf.15.2 million drop in expenditures.

The drop in revenues can be ascribed mainly to a NAf.30.6 million drop in nontax revenues, a NAf.2.3 million drop in grants, and a slight drop of NAf.0.3 million in capital revenues. The sharp drop in nontax revenues was due to a NAf.13.9 million drop in entrepreneurial and property income, NAf.12.3 million drop in other nontax revenues, and a NAf.4.4 million drop in fees, charges and sales. The drop in entrepreneurial and property income was due to the fact that in contrast to the second quarter of 1996 no dividend payments were received from the government-owned oil distribution company 'Curoil N.V.'.

In contrast, tax revenues increased by NAf.9.9 million, mainly as a result of the NAf.14.1 million increase in profit taxes. This can be ascribed to increased collections due to the introduction of the 'self-assessment' as of January 1, 1997.

The drop in expenditures can be ascribed to a NAf.16.2 million drop in current expenditures and a NAf.1.4 million increase in capital expenditures. The drop in current expenditures can be attributed primarily to a NAf.25.9 million drop in personnel costs, as a result of the postponement of payments of pension premiums to the civil servants pension fund 'APNA'. In contrast, payments for the purchase of goods and services and interest payments increased by NAf.5.2 million and NAf.5.1 million, respectively. The latter can be attributed to the continued deficits.

Table 7
Operations of the Island Government of Curacao (in millions NAf.)

	1997-II	1996-II	NAf.	%
REVENUES	156.4	179.7	-23.3	-13.0%
Tax revenues	155.2	145.3	9.9	6.8%
of which: -profit tax	59.3	45.2	14.1	31.2%
-income tax	10.1	13.0	-2.9	-22.3%
-wage tax	74.1	77.0	-2.9	-3.8%
-land tax	2.8	6.3	-3.5	-55.6%
-motor vehicle tax	3.3	3.1	0.2	6.5%
Nontax revenues	0.8	31.4	-30.6	-97.5%
of which:				
-entrepreneurial and property income	1.5	15.4	-13.9	-90.3%
-fees, charges and sales	3.6	8.0	-4.4	-55.0%
Capital revenues	0.4	0.7	-0.3	-42.9%
Grants	0.0	2.3	-2.3	-100.0%
EXPENDITURES	197.9	213.1	-15.2	-7.1%
Current expenditures	193.3	209.5	-16.2	-7.7%
of which:				
-personnel costs	78.9	104.8	-25.9	-24.7%
-goods and services	52.2	47.0	5.2	11.1%
-interest payments	19.5	14.4	5.1	35.4%
-subsidies to public	22.3	20.7	1.6	7.7%

companies				
-transfers	20.4	22.6	-2.2	-9.7%
Capital expenditures	4.6	3.6	1.0	7.8%
of which:				
-investments	3.4	2.0	1.4	70.0%
-net lending	1.2	0.5	0.7	140.0%
BALANCE	-41.5	-33.4	-8.1	

The Island Government of Curaçao surpassed the target agreed with the IMF for the second quarter of 1997. The deficit amounted to NAf.41.5 million compared to the target of NAf.20.9 million. This can be ascribed to NAf.58.8 million lower revenues and NAf.38.2 million lower expenditures than expected under the SAP. In addition, the Island Government has suspended the payments to the civil servants pension fund 'APNA' and the contribution to the sinking fund.

The lower revenues can be attributed to a NAf.23.8 million lower tax revenues, NAf.23.5 million lower nontax revenues, NAf.11.2 million lower grants, and a NAf.0.3 lower grants. The lower expenditures can be ascribed to NAf.25.3 million lower current expenditures, NAf.0.4 million lower capital expenditures, and NAf.12.5 lower payments for the sinking fund.

The deficit of the Island Government of Curaçao was financed mainly nonmonetarily during the quarter under review. This was achieved through the issuance of securities with the public and the build-up of arrears, among others at the APNA. As mentioned earlier, the build-up of arrears is against the agreement reached with the IMF.

Table 8
Changes in outstanding balances of the Island Government of
Curaçao (in millions NAf.)

	1997-II	1996-II
FISCAL BALANCE	-41.5	-33
MONETARY FINANCING	11.7	-8.5
of which: Central Bank	-6.4	-19.4
Commercial banks	18.1	10.9
NON-MONETARY FINANCING	29.8	41.9
of which: Government securities with the public	17.7	28.1
Other	12.1	13.8

Total outstanding public debt and guarantees

The total outstanding public debt of the Netherlands Antilles increased by NAf.55.6 million (2.0%), due entirely to a NAf.79.2 million increase in domestic debt. The foreign debt decreased by NAf.23.6 million, which resulted primarily from the appreciation of the

Netherlands Antilles guilder¹⁾ against the Netherlands guilder. The increase in the consolidated domestic public debt²⁾ can be ascribed primarily to the increase by NAf.50.6 million in the domestic debt of the Island Government of Curaçao. This can be attributed mainly to a NAf.26.7 million increase in government securities with the public and a NAf.11.5 million increase in arrears at the APNA.

¹⁾ The Netherlands Antilles guilder is pegged to the US dollar at a rate of US\$1 = NAf.1.79.

²⁾ This is defined as the total outstanding government securities (Central Government and Island Government of Curaçao), the debt on the advance account at the Central Bank (Central Government), overdraft accounts at the commercial banks (Central Government and Island Government of Curaçao), and the arrears to APNA and SVB (Central Governments and islands governments). For the consolidation, a correction is made for the debt from the Central Government to the Island Government of Curaçao (debt settlement) and to the Island Government of St. Maarten (arrears wage tax).

The estimated total outstanding guarantees remained at the same level in the second quarter of 1997 compared to the first quarter. This can be ascribed to redemption on loans, on the one hand, and the appreciation of the Japanese yen, in which some loans and thus guarantees are denominated, against the Netherlands Antilles guilder, on the other.

The total outstanding public debt of the Netherlands Antilles amounted to 70.4% of GDP, while the total outstanding public debt and guarantees amounted to 79.1% of GDP.

Table 9
Total outstanding consolidated public debt and guarantees ¹⁾ (in millions NAf.)

	1997-II	1997-I	NAf.	Change %
Domestic consolidated debt	2190.4	2111.2	79.2	3.7%
of which:				
-Central Government	890.2	887.5	2.7	0.3%
-Curacao	1249.6	1199.0	50.6	4.2%
-Bonaire	62.0	52.5	9.5	18.1%
-St. Maarten	1.5	0.0	1.5	
-St. Eustatius	0.8	0.3	0.5	166.7%
-Saba	0.8	0.5	0.3	60.0%
Foreign debt	587.3	610.9	-23.6	-3.9%
Total debt	2777.1	2722.1	55.6	2.0%
(% of GDP)	71.3%	70.1%		
Guarantees	337.4	337.3	0.1	0.0%
Total debt and guarantees	3115.1	3059.4	55.7	1.8%
(% of GDP)	80.0%	78.7%		

¹⁾ estimate

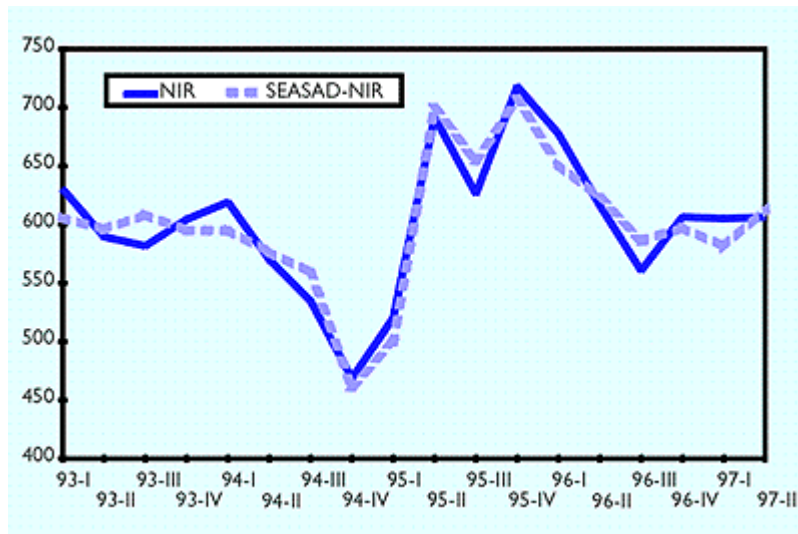
4. DEVELOPMENTS IN THE EXTERNAL SECTOR

Introduction

Net international reserves, contrary to their seasonal pattern, increased marginally by NAF.1.2 million in the second quarter of 1997, compared with a NAF.61.3 million decline in the same quarter of 1996. On a seasonally adjusted basis, the net international position recorded a sharp improvement (see graph 1).

Graph 1

Development in the Net International Reserves (in millions NAF.)



Underlying the small improvement in net international reserves was a surplus of NAF.66.3 million in the capital account and a current account deficit of NAF.65.2 million (see table 10).

Table 10

Balance of payments summary ^{)} (in millions NAF.)*

	1996-II	1997-II	Difference
Current account	-132.1	-65.2	66.9
Capital account	65.7	66.3	0.6
Statistical discrepancies	5.1	0.1	-5.0
Balance of Payments	-61.3	1.2	62.5
Change in reserves ^{**)}	61.3	-1.2	-62.5
- with commercial banks	55.1	-13.5	-68.6
- with Central bank	6.1	12.3	6.2

Memorandum Items

Official reserves (excluding

gold)			
- in millions NAF.	376.3	310.7	-65.6
- in months of merchandise imports	1.9	1.5	-0.4

* Cash basis

** Sign denotes an increase in reserves(excluding gold)Further analysis of the balance of payments reveals that the small overall surplus, when compared with the overall deficit in the second quarter of 1996, represents an improvement of NAF.62.5 million. This development must be seen in light of the development in the current account, whereby the deficit was cut by half in the second quarter of 1997.

The current account

The current account of the balance of payments, an indication of the relationship between national production and national spending, improved considerably. The deficit on the current account was reduced by half to a deficit of NAF.65.2 million in the second quarter of 1997 when compared with the corresponding period of 1996. This improvement can be ascribed to a large extent to the increased effort to expand export-generating capacity, on the one hand, and the implementation of policy measures to reduce domestic spending, on the other. Consequently, the improvement in the current account occurred mainly in the trade balance, the result of lower imports, and in the services balance, the result of increased net earnings from tourism.

Table 11
A breakdown of the current account ¹⁾ (in millions NAF.)

	1996-II	1997-II	Difference
Merchandise balance	-552.3	-495.1	57.2
Exports	96.1	109.2	13.1
Imports	648.4	604.3	-44.1
Services balance	405.1	430.0	24.9
Receipts, of which:	718.7	675.8	-42.9
Transportation	157.0	150.0	-7.0
Travel	244.4	262.9	18.5
Int. financial & business services sector	164.5	150.9	-13.6
- Taxes	22.5	29.6	7.1
- Operational income	142.0	121.3	-20.7
Expenditures, of which:	313.6	245.8	-67.8
Travel	117.9	103.0	-14.9
Int. financial & business services sector	82.4	46.9	-35.5
Income balance ²⁾	46.2	25.9	-20.3
Unrequited transfers ³⁾	-31.1	-26.0	5.1
Current account balance	-132.1	-65.2	66.9

¹⁾ Cash basis

²⁾ Income : investment and labor income.

³⁾ Unrequited transfers: private remittances (excl. labor income and life insurance).

The trade balance

The trade balance improved by NAf.57.2 million, compared to the same period in 1996 to a deficit of NAf.495.1 million in the second quarter of 1997. This decline was primarily the result of a NAf.44.1 million (6.8%) drop in imports. A breakdown of imports (table 11) reveals that the decrease occurred mainly in non-oil related imports (NAf.32.5 million), particularly on the Windward Islands. The latter can be ascribed largely to the concerted effort by the authorities to reduce domestic spending.

Table 12 reveals that the improvement in the merchandise balance was concentrated primarily in the Windward Islands. They recorded a NAf.33.1 million improvement in their trade balance, due mainly to lower imports of both oil imports and non-oil imports. The non-oil-related imports recorded a substantial drop of NAf.35.0 million in the second quarter of 1997 compared with the corresponding period a year earlier. The decline in non-oil imports was due probably to the slowdown in economic activity in general and to reduced domestic spending in particular, considering the lower imports by mainly the hotels and retail sector. The drop in oil imports was related to the decrease in re-exporting activities of the Statia oil terminal in the second quarter of 1997.

Table 12
Merchandise balance per island¹⁾ (in millions NAF.)

	Inflows		Outflows		Balance		Diff.
	1996-II	1997-II	1996-II	1997-II	1996-II	1997-II	
CURACAO							
Merchandise	71.7	96.8	416.0	418.2	-344.3	-321.4	22.9
- Non-oil products	71.7	96.8	360.9	365.2	-289.2	-268.4	20.8
Free zone re-exports	47.9	69.9	64.9	74.4	-17.0	4.5	12.5
Adj. Non-oil prod.	23.82	6.9	296.0	290.8	-272.2	-263.9	8.3
- Oil products	0.0	0.0	55.1	53.0	-55.1	-53.0	2.1
BONAIRE							
Merchandise	2.0	1.4	9.9	8.1	-7.9	-6.7	1.2
- Non-oil products	2.0	1.4	9.9	8.1	-7.9	-6.7	1.2
WINDWARD ISLANDS							
Merchandise	22.4	11.0	222.5	178.0	-200.1	-167.0	33.1
- Non-oil products	16.3	7.6	175.1	140.1	-158.8	-132.5	26.3
- Oil products	6.1	3.4	47.4	37.9	-41.3	-34.5	6.8
NETHERLANDS ANTILLES							
Merchandise	96.1	109.2	648.4	604.3	-552.3	-495.1	57.2
- Non-oil products	90.0	105.8	545.9	513.4	-455.9	-407.6	48.3
- Oil products	6.1	3.4	102.5	90.9	-96.4	-87.5	8.9

¹⁾ *Cash basis*

Curaçao's merchandise balance was enhanced by NAf.22.9 million as a result of a NAf.20.8 million improvement in the non-oil merchandise balance. The explanation for the latter improvement lies primarily in the buoyant performance in the free zone re-exporting activities, which increased by NAf.22.0 million (45.9%) in the second quarter of 1997. To accommodate the increased re-exporting activities, free zone imports increased by NAf.10.5 million, thus partly mitigating the improved revenues. Another factor explaining the improvement in the non-oil merchandise balance is the further decline in adjusted non-oil merchandise imports, mainly in the wholesale and retail sectors. This decline also can be ascribed to policy measures implemented to reduce spending.

The services balance

The surplus in the services balance increased by NAf.24.9 million in the second quarter of 1997. This improvement was largely the result of a growth in net foreign exchange earnings from tourism and the international financial sector of NAf.33.4 million and NAf.21.9 million, respectively. Adverse developments (in terms of the balance of payments) in some key sectors of the economy have partly mitigated this improvement, namely, the drop of NAf.26.2 million in foreign exchange receipts from the refinery.

Tourism

Net income from tourism increased sharply in the second quarter of 1997, by NAf.33.4 million, largely ascribable to a significant improvement in tourism earnings. Although this sector continued to perform below its pre-hurricane level, it recorded a substantial improvement the hurricane in 1995. As can be seen in table 13, foreign exchange receipts from the tourism sector in the Netherlands Antilles increased by NAf.18.5 million (7.0%) in the second quarter of 1997, mainly as a consequence of a NAf.20.4 million rise in tourist receipts on Curaçao.

Table 13
Second quarter foreign exchange revenues from tourism per island¹⁾
(in millions NAF.)

	1994-II	1995-II	1996-II	1997-II
Bonaire	13.0	16.1	19.2	19.2
Curaçao	75.4	69.5	74.2	94.6
Windward Islands	176.2	170.5	151.0	149.1
Netherlands Antilles	264.6	256.1	244.4	262.9
Percentage growth	2.6%	-3.2%	-4.7%	7.0%

¹⁾ *Cash basis*

Curaçao recorded a huge rise in foreign exchange earning following a disappointing first quarter performance, as foreign exchange revenues increased by NAf.20.4 million (21.6%) in the second quarter of 1997. In accordance with this development, the number of stay-over tourists increased by 0.4%; in contrast, cruise tourism declined by 18.0% as compared to the second quarter of 1996.

The good performance in tourism activities on the Leeward Islands was mitigated partly by developments on the Windward Islands. Foreign exchange generated by the tourism industry on the Windward Islands dropped slightly by 1.3% in the second quarter of 1997. In contrast, the number of stay-over visitors and cruise visitors to the islands increased sharply, by 12.4% and 33.2%, respectively.

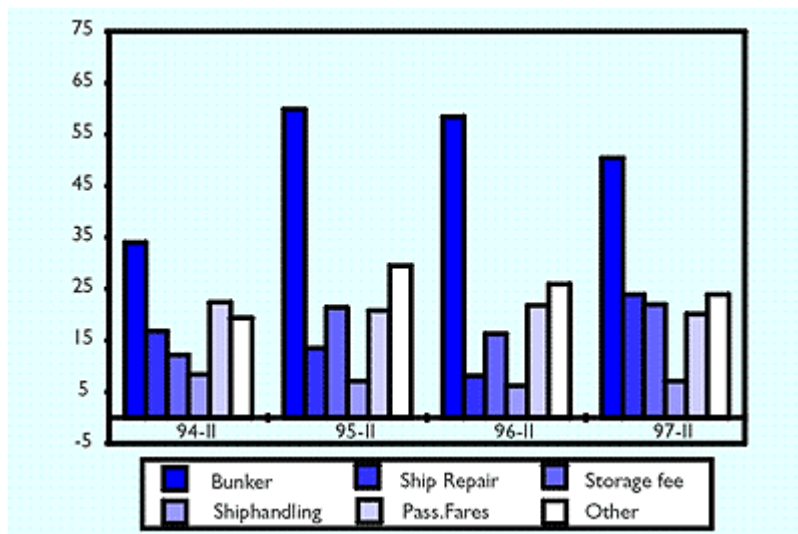
While tourism receipts increased in the second quarter of 1997, expenses by residents abroad continued to decline considerably by almost NAF.15 million (12.75%) compared to the same period in 1996. One explanation for this development may be the reduced spending capacity in the community.

Transportation

Activities in the international transportation sector were sluggish in the second quarter of 1997 (graph 2). Foreign exchange earnings generated in this sector decreased by NAF.7.0 million in the second quarter of 1997 compared to the same period in 1996. The decline was primarily the result of a drop in receipts from bunker activities and passenger fares of NAF.8.0 million (13.7%), and NAF.6.8 million (24.5%), respectively. Both reflect the weakening foreign demand for our export services in the second quarter of 1997. This weak performance was mitigated partly by increased payments for the storage facilities (NAF.5.2 million) and increased harbor activities (NAF.3.8 million). It should be noted that overall payments for transportation services received from abroad increased slightly by NAF.1.3 million in the second quarter of 1997.

Graph 2

Developments in foreign exchange generation in the transportation sector by branch of industry (in millions NAF.)



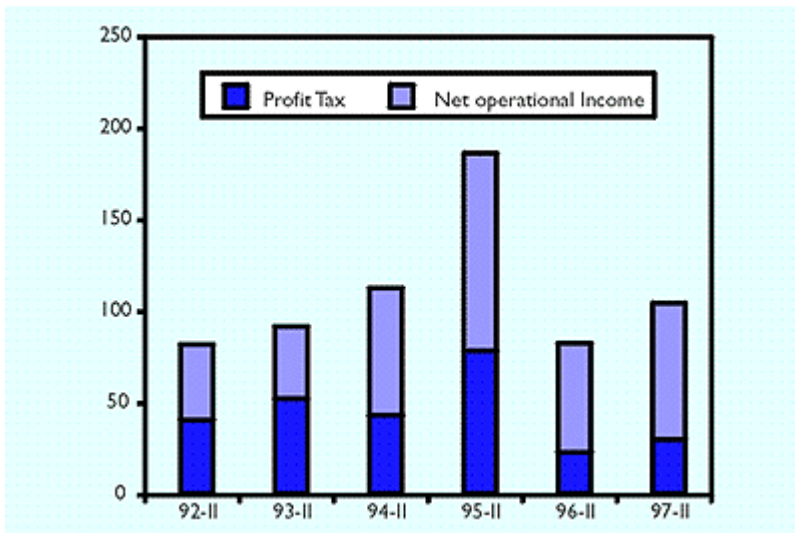
The international financial and business services sector

Net foreign exchange earnings from the international financial and business services sector recorded a rise of approximately NAF.22 million in the second quarter of 1997, compared to

the second quarter of 1996. This improvement in foreign exchange earnings occurred mainly due to a drop of NAf.35.5 million in payments for operational services received from nonresidents, offsetting the drop of NAf.20.7 million in operational income received from abroad. The receipts from profit taxes showed an increase of NAf.7.1 million, after several periods of decline.

Graph 3

Development in the international financial and business services sector (in millions NAF.)



The income balance

The surplus in the income account of the balance of payments recorded a sharp drop of NAf.20.3 million in the second quarter of 1997, compared to the same period in 1996. This decline can be ascribed primarily to the other investment income, which describes the developments in returns on portfolio investments. As table 14 reveals, the drop in the other investment account was primarily the result of lower receipts of NAf.21.8 million from portfolio investments abroad in the second quarter of 1997.

Table 14
Breakdown of the income account ¹⁾ (in millions NAF.)

	1996-II	1997-II	Difference
Investment income	45.9	25.8	-20.1
- Direct investment income	2.6	-5.8	-8.4
Received	13.4	0.0	-13.4
Paid	10.8	5.8	-5.0
- Other investment income	43.3	31.6	-11.7
Received	59.9	38.1	-21.8
Paid	16.6	6.5	-10.1
Labor income	0.3	0.1	-0.2
Received	3.3	2.6	-0.7

Paid	3.0	2.5	-0.5
Total income balance	46.2	25.9	-20.3

¹⁾ *Cash Basis* It should be noted that this drop was mitigated partly by a decline of NAF.10.1 million in interest payments transferred to nonresident. Another factor contributing to the decline in the income balance is the turnaround in net receipts from direct investment, which can be explained by a transitory inflow in the second quarter of 1996.

The capital account

The capital account of the balance of payments recorded a surplus of NAF.66.3 million in the second quarter of 1997, a slight improvement of NAF.0.6 million over to the second quarter of 1996. Both private capital movements and official capital transfers contributed equally to this surplus. Further analysis reveals that less net private capital was transferred to the Netherlands Antilles in this quarter than in the second quarter of 1996.

Table 15 reveals that the lower surplus in the private capital balance of NAF.9.9 million in the second quarter of 1997 was primarily the result of a drop of NAF.47.1 million in net foreign borrowing activities through commercial banks, compared to the same period in 1996. This decrease in net foreign borrowing activities was mitigated partly by the turnaround of approximately NAF.38.3 million in net investment abroad in the second quarter of 1997. The latter changed from a net portfolio investment abroad to a net repatriation of NAF.15.3 million in funds by residents. This substantial increase was due mainly to the increase in the repatriation of maturing investments, particularly by institutional investors.

Table 15
Major components of the capital account ¹⁾ (Net flows in millions NAF.)

	1996-II	1997-II	Difference
Private capital	42.6	32.7	-9.9
of which:- direct investment (Real estate)	5.9	8.8	2.9
- portfolio investment (Securities.)	-23.0	15.3	38.3
- loans (net)	-39.9	-1.6	38.3
comm. banks borrowings	47.4	0.3	-47.1
other private cap.	52.2	9.9	-42.3
Official capital	23.1	33.6	10.5
of which:			
- loans & grants	23.1	34.6	11.5
- other Government cap.	0.0	-1.0	-1.0
CAPITAL BALANCE	65.7	66.3	0.6

¹⁾ *Cash basis*

5. MONETARY DEVELOPMENTS

Introduction

Monetary developments during the second quarter of 1997 must be seen against the background of the structural adjustment program (SAP) currently in place. The objective of the structural adjustment program is to re-establish internal and external equilibrium in the immediate future.

The SAP stipulates binding performance criteria for, among other things, the conduct of monetary policy. These criteria, which relate to the maximum allowed growth in Net Domestic Assets as well as the minimum required growth in Net International Reserves, imply that a tight monetary policy should be followed. The Bank's current monetary policy is aimed primarily at containing the growth in Net Domestic Assets by putting a limit on its credit components using a Monetary Cash Reserve Arrangement (MCR). Limiting the availability of credit will reduce the ability to spend (i.e., income minus taxes plus net credit), leading to a decline in imports. This in turn will support the level of international reserves.

For the second quarter of 1997, the current MCR allows private sector credit to grow to 101.5% of the amount outstanding in October 1996. The MCR limits net credit to the government sector to the amount outstanding in October 1996, implying 0% growth.

Net domestic credit to the General Government declined significantly during the second quarter of 1997, the result of a drop in net credit to the Central Government, on the one hand, and a stabilization in net credit to the Island Governments, on the other. The demand for liquid assets by the private sector, measured as net credit to the private sector, showed a marginal increase in the second quarter of 1997. The residual 'miscellaneous' part of Net Domestic Assets recorded a decline in the second quarter of 1997. Overall, Net Domestic Assets diminished, meeting the SAP target on this point.

The foreign component of the total demand for liquid assets, Net Foreign Assets, showed a modest increase in the second quarter of 1997. This increase was the result of a drop in foreign liabilities of the banking system, which outweighed the decline in foreign assets.

Money supply

During the second quarter of 1997, the money supply (M2) contracted slightly by 0.7% (NAf.17.0 million), significantly less than the 2.7% (NAf.71.0 million) contraction in the second quarter of 1996. As shown in table 16, the contraction in the second quarter of 1997 can be attributed to a decrease in the money component (M1), as the near-money component expanded.

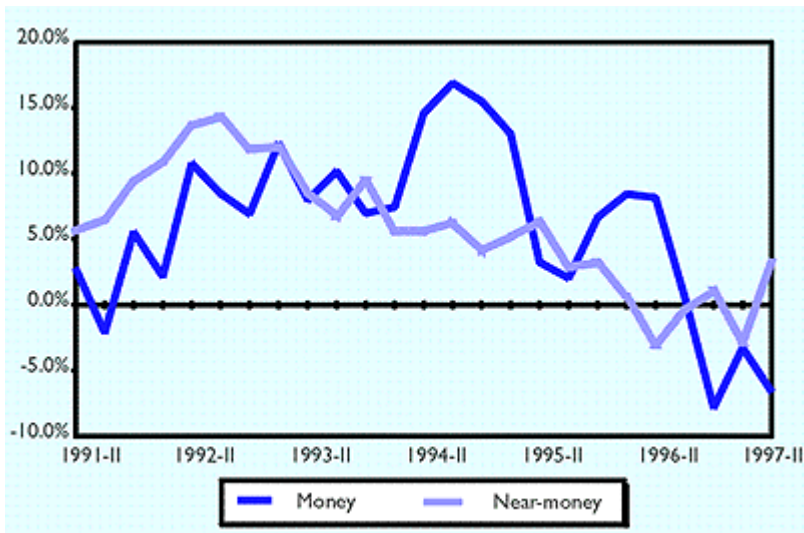
Table 16
Quarterly changes in the components of the money supply (in millions NAf. and in percentages)

	1997-II		1996-II		1995-II	
Coins and notes with the public	0.8	0.4%	-2.2	-1.1%	6.7	3.4%
Demand deposits held by the public, of which:						
-Neth.Ant.guilders	-67.0	-7.5%	-28.9	-3.2%	-33.0	-3.8%
-Foreign currency	-49.0	-6.9%	-11.8	-1.6%	-19.2	-2.8%
	-18.0	-10.0%	-17.1	-9.9%	-13.8	-8.2%
Money (M1)	-66.2	-6.2%	-31.1	-2.8%	-26.3	-2.5%
Time deposits	60.7	17.7%	-36.4	-10.3%	9.0	2.6%
Savings	-11.5	-1.0%	-3.5	-0.3%	6.1	0.5%
Near money	49.2	3.4%	-39.9	-2.7%	15.1	1.0%
Money supply (M2)	-17.0	-0.7%	-71.0	-2.7%	-11.2	-0.4%

The money component of the total money supply contracted by 6.2% (NAf.66.2 million) in the second quarter of 1997, compared to a 2.8% (NAf.31.1 million) contraction in the second quarter of 1996. As was the case in the period March - June 1996, the decrease in money during the second quarter of 1997 was attributable mainly to the demand deposits. The foreign currency and NAf.-denominated deposits decreased by 10.0% (NAf.18.0 million) and 6.9% (NAf.49.0 million), respectively. This large decrease in demand deposits can be explained mainly by the substitution of time-deposits for demand deposits, a substitution caused primarily by other financial institutions, like credit unions, pension funds, and insurance companies. As a result, the substitution of demand deposits for time-deposits in the first quarter of 1997 was reversed. Contrary to the development in demand deposits, coins and notes increased slightly by 0.4% (NAf.0.8 million).

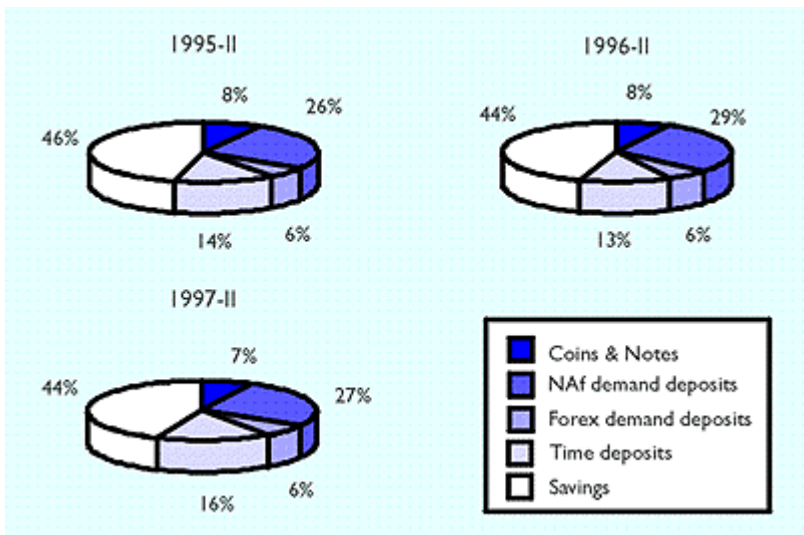
The near-money component of the money supply recorded a turnaround in its growth rate increasing by 3.4% (NAf.49.2 million) in the second quarter of 1997, compared to a 2.7% (NAf.39.9 million) contraction in the same period in 1996. This turnaround of 6.1 percentage points was mainly the result of a turnaround in the growth rate of time deposits from a 10.3% (NAf.36.4 million) contraction to a 17.7% (NAf.60.7 million) expansion. The expansion in the second quarter of 1997 is attributable to the increased time deposits of other financial institutions and business enterprises, which returned to the December 1996 level.

Graph 4
Year-on-Year changes in the money and near-money components of the total money supply



Analyzing of the monetary developments on an annual basis reveals that the money supply contracted by 1.0% (NAf.24.3 million), the result of a contraction in the money (M1) component. The contractionary impact of the latter was mitigated partly by an expansion in the near-money component, as can be seen in graph 4. Money (M1) declined by 6.6% (NAf.71.2 million), while near-money increased by 3.2% (NAf.46.9 million). The decline in money was concentrated in NAf.-denominated demand deposits (NAf.66.7 million) and coins and notes with the public (NAf.11.3 million). With respect to the near-money component, time deposits showed an increase of 26.9% (NAf.85.8 million) while, on the other hand, savings declined by 3.5% (NAf.39.9 million).

Graph 5
Developments in the composition of the money supply



With respect to the composition of the money supply, graph 5 reveals that at the end of the second quarter of 1997 the share of time deposits had increased by 3 percentage points to 16%. This increase was at the expense of the share of NAf.-denominated demand deposits and coins and notes, which dropped by 2 percentage points and 1 percentage point to 27% and 7%, respectively. As a result, the share of money in the money supply decreased by 3 percentage points to 40%.

Factors affecting the demand for liquid assets

Money demand, or the demand for liquid assets, contracted by 0.7% (NAf.17.0 million) in the second quarter of 1997. This decrease can be attributed entirely to the domestic sector, since the international component showed a slight increase (refer to table 17).

Table 17
Quarterly changes in the demand for liquid assets by sector (in millions NAf. and in percentages)

	1997-II		1996-II		1995-II	
Government sector,	-12.7	-8.9%	-20.4	-9.4%	5.0	2.1%
of which:						
-Central Government	-12.7	-19.3%	-1.8	-2.9%	-8.1	6.7%
-Island governments	-	0.0%	-18.6	-12.1%	13.1	11.0%
Private sector	4.9	0.2%	80.7	3.7%	17.0	0.8%
Miscellaneous	-10.1	2.6%	-22.7	5.4%	-226.3	86.5%
Net Domestic Assets	-17.9	-0.9%	37.6	1.9%	-204.2	10.2%
Net Foreign Assets,	0.9	0.2%	-108.6	-17.0%	193.0	38.7%
of which:						
-Gold	-	0.0%	-	0.0%	141.3	209.3%
-Official reserves	-12.2	-2.4%	-6.1	-1.1%	25.9	9.0%
-Net foreign assets	13.1	97.0%	-102.5	-150.3%	25.8	17.7%
commercial banks						
Total liquid assets	-17.0	-0.7%	-71.0	-2.7%	-11.2	-0.4%

The demand for liquid assets by the domestic sector contracted by 0.9% (NAf.17.9 million) in the second quarter of 1997, compared to a 1.9% (NAf.37.6 million) expansion in the same quarter of 1996. The contraction in the second quarter of 1997 can be ascribed to the government sector and miscellaneous factors. This contractionary impact was offset partly by an increase in the demand for liquid assets by the private sector.

The demand for liquid assets by the government sector, measured as net domestic credit to the government, declined by 8.9% (NAf.12.7 million) during the second quarter of 1997,

compared to a 9.4% (NAf.20.4 million) decrease in the corresponding period of 1996. The decline in the second quarter of 1997 resulted entirely from a decrease in the demand for liquid assets by the Central Government since the demand for liquid assets by the Island Governments remained unchanged. The 19.3% (NAf.12.7 million) reduction in the demand of the Central Government can be explained largely by a NAf.12.0 million increase in its deposits. Furthermore, claims on the Central Government held by domestic commercial banks declined by NAf.0.7 million.

The Island Governments' demand for liquid assets remained unchanged in the second quarter of 1997, in contrast to a 12.1% (NAf.18.6 million) decrease in the corresponding quarter of 1996. The stabilization in the second of 1997 was the result of offsetting developments in the demand for money by the Island Government of Curaçao and the demand for money by the other Island Governments. On the one hand, the liquid assets demanded by the Island Government of Curaçao increased by NAf. 10.6 million, mainly as a result of a drop in deposits. On the other hand, however, deposits of the other Island Governments increased by the same amount.

The growth in the demand for liquid assets by the private sector decelerated from a 3.7% (NAf.80.7 million) increase in the second quarter of 1996 to a 0.2% (NAf.4.9 million) increase in the second quarter of 1997. The marginal increase in the second quarter of 1997 was attributable primarily to a slight increase of 0.3% (NAf.5.8 million) in loans to the private sector. Next to the slight increase in loans to the private sector, commercial bank securities and participations increased by 10.2% (NAf. 3.6 million). These increases, however, were offset partly by a decrease of 13.5% (NAf.4.7 million) in amounts receivable.

The deceleration in the growth rate of the demand for liquid assets by the private sector of 3.5 percentage points was primarily the result of a sluggish demand for credit. The demand for credit was low because of a significant reduction in the demand for goods and services from the private sector, which in turn led to less investment opportunities.

The miscellaneous component of Net Domestic Assets dropped. This component consists of the real estate and inventory of the commercial banks and the Bank and various miscellaneous (non-credit) accounts at these institutions, on the one hand, and their capital and reserves, on the other. This decrease of 2.6% (NAf.10.1 million) in the second quarter of 1997 can be explained primarily by a decline in miscellaneous assets of the commercial banks.

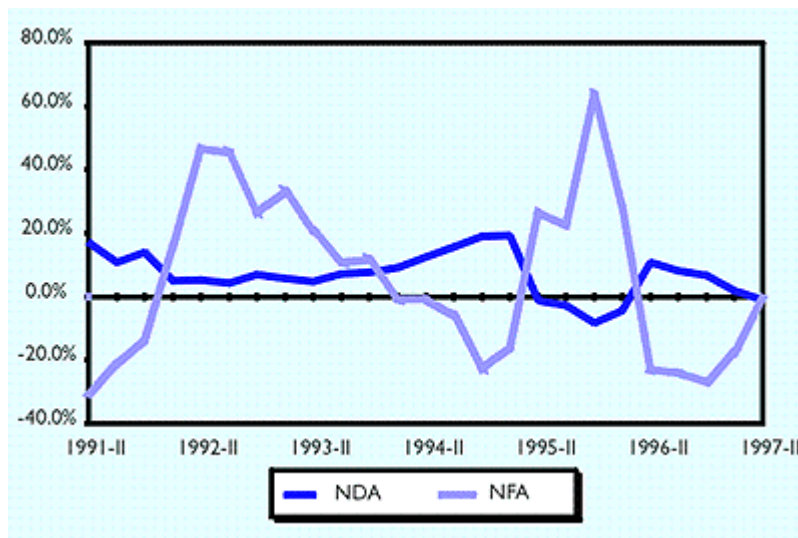
The Net Foreign Assets position of the banking system increased slightly by 0.2% (NAf.0.9 million) in the second quarter of 1997, compared to a 17.0% (NAf.108.6 million) decline in the corresponding period of 1996. This turnaround can be explained largely by the net foreign position of the commercial banks, which declined sharply in the second quarter of 1996 due to foreign borrowing, but improved in the second quarter of 1997. The improvement by 97.0% (NAf. 13.1 million) in the second quarter of 1997 was almost entirely at the expense of the official reserves, which declined by 2.4% (NAf.12.2 million).

On an annual basis, the demand for liquid assets contracted by 1.0% (NAf.24.3 million), the result of a decline in both the Net Domestic Assets and the Net Foreign Assets of 1.0% (NAf.19.6 million), and 0.9% (NAf.4.7 million), respectively (refer to graph 6). The decline

in Net Domestic Assets can be attributed primarily to the net credit to the General Government, which diminished by 33.6% (NAf.66.0 million). This development was mitigated by a slight increase in the demand for liquid assets by the private sector and by miscellaneous factors. Money demand by the private sector increased by only 0.2% (NAf.3.9 million) on an annual basis, reflecting the downturn in the real economy. The demand for liquid assets by miscellaneous factors increased by 9.6% (NAf.42.6 million) on an annual basis, largely in the first quarter of 1997.

The slight decline in net foreign assets during the twelve-month period ending June 1997 was the result of a sharp decline in official reserves concentrated in the third quarter of 1996, and an offsetting increase in the net foreign position of commercial banks.

Graph 6
Year-on-Year changes in the domestic and international demand for liquid assets



Domestic credit extension by commercial banks

During the second quarter of 1997, domestic credit extension by commercial banks increased by 0.06% (NAf.1.4 million), compared to a 4.0% (NAf.91.3 million) increase in the second quarter of 1996. Table 18 shows the outstanding amounts and the growth rates of the various components of the domestic loan portfolio of the commercial banks.

As noted, the total amount of outstanding domestic loans to the private sector at the commercial banks increased by 0.3% (NAf.5.8 million) during the second quarter of 1997. When compared to a 4.2% (NAf.87.1 million) expansion in the same quarter of 1996, it is clear that credit extension slowed down significantly. This slowdown resulted from a deceleration in the growth rate of mortgages and consumer loans of 8.9 and 2.9 percentage points, respectively. Nevertheless, all subcategories of credit, i.e. mortgages, consumer loans, and business loans, increased in the second quarter of 1997.

Table 18
Breakdown of domestic loan portfolio of commercial banks as per end of period (in millions NAf.), and percentage quarterly changes

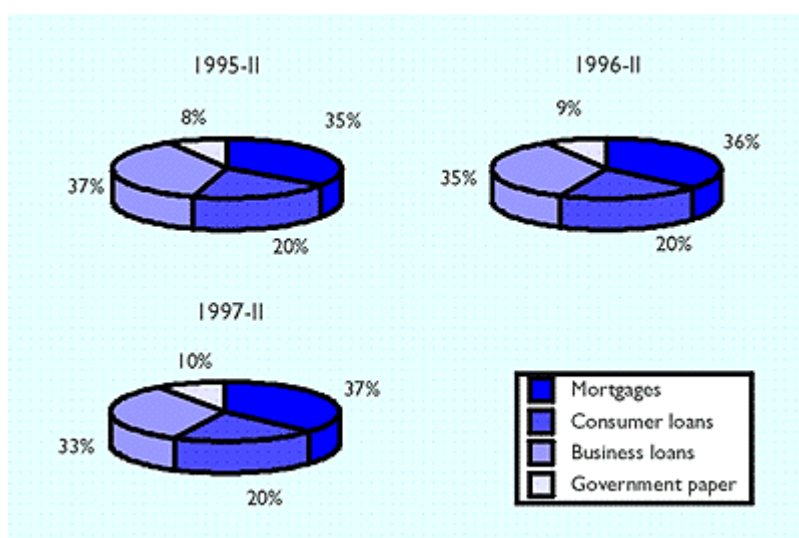
	1997-II		1996-II		1995-II	
Dom. private sector						
loans, of which:	2,181.7	0.3%	2,166.1	4.2%	1975.0	1.0%
-Mortgages	895.7	0.1%	864.9	9.0%	748.9	-1.5%
-Consumer loans	486.5	0.8%	480.8	3.7%	429.2	-0.5%
-Business loans	799.5	0.1%	820.4	-0.2%	796.9	4.4%
Government paper	237.8	-1.8%	203.7	2.1%	181.0	-13.0%
Total domestic loans	2,419.5	0.06%	2,369.8	4.0%	2156.0	-0.3%

The amount of government paper held by the commercial banks decreased by 1.8% (NAf.4.3 million) in the second quarter of 1997, compared to a 2.1% (NAf.4.2 million) increase during the second quarter of 1996. The contraction in the second quarter of 1997 may be the result of a diminishing willingness of the commercial banks to hold government paper, which, together with the improvement in the foreign position, might indicate more favorable investment opportunities abroad.

On an annual basis, total domestic credit extension increased by 2.1% (NAf.49.7 million), the result of an increase both in loans to the private sector and in the amount of government paper held by the commercial banks. The increase of 0.7% (NAf. 15.6 million) in total domestic loans extended to the private sector was concentrated in the subcategory mortgages, which increased by 3.6% (NAf.30.8 million) mainly in the third quarter of 1996. In addition, consumer loans increased by 1.2% (NAf.5.7 million), while business loans declined by 2.5% (NAf. 20.9 million), the result mainly of the transfer of loans by commercial banks to Aruban affiliates in the fourth quarter of 1996. The amount of government paper held by the commercial banks increased by 16.7% (NAf.34.1 million) on an annual basis, the result of the inclusion of Giro Curaçao N.V. (as a newly established commercial bank) into the survey, on the one hand, and the curtailing by commercial banks of their government bond holdings, on the other.

The composition of the domestic loan portfolio of the commercial banks in graph 7 shows that the shares of mortgages and government paper increased by 1 percentage point to 37% and 10%, respectively, from the second quarter of 1996 to the second quarter of 1997. These increases were at the expense of the share of business loans, which decreased from 35% to 33%.

Graph 7
Composition of the domestic loan portfolio of domestic banks



Leeward Islands

A breakdown of domestic private sector lending by commercial banks by island reveals that the growth in total loans on the Leeward Islands decelerated from 2.1% (NAf.33.2 million) in the second quarter of 1996 to 0.2% (NAf.2.6 million) in the second quarter of 1997. This deceleration manifested itself in all three subcategories. Most pronounced was the deceleration in the growth in consumer loans by 3.3 percentage points to 0.6% (NAf.2.3 million). Despite the declining growth rate, this category was primarily responsible for the increase in domestic loans to the private sector on the Leeward Islands. Of the other subcategories, mortgages increased by 0.1% (NAf. 0.5 million), while business loans dropped by NAf.0.2 million.

Table 19
Domestic private sector loans at commercial banks on the Leeward Islands as per end of period (in millions NAf.) and percentage quarterly changes

	1997-II		1996-II		1995-II	
Dom. private sector loans,	1,653.3	0.2%	1,643.9	2.1%	1489.6	0.4%
of which:						
-Mortgages	622.7	0.1%	593.0	3.1%	532.3	4.7%
-Consumer loans	368.4	0.6%	363.3	3.9%	309.2	-6.5%
-Business loans	662.2	0.0%	687.6	0.3%	648.1	0.5%

On an annual basis, domestic loans to the private sector on the Leeward Islands increased by 0.6% (NAf.9.4 million), in line with the development at the country level. The increase in total domestic private sector loans can be attributed to the increase of 5.0% (NAf.29.7 million) in mortgages, concentrated in the third quarter of 1996. In addition, consumer loans increased by 1.4% (NAf. 5.1 million), while business loans declined by 3.7% (NAf.25.4

million). The decline in business loans happened mainly in the fourth quarter of 1996 as a result of the transfer by domestic commercial banks of part of their loan portfolio to their Aruban affiliates.

Windward Islands

On the Windward Islands, credit extension to the private sector increased by 0.6% (NAf.3.1 million) in the second quarter of 1997, compared to a 12.9% (NAf.59.6 million) expansion in the second quarter of 1996, as can be seen in table 20. The decline in credit extension to the private sector was related to special reconstruction loans in the second quarter of 1996, but might also indicate the economic downturn in the Windward Islands.

The decline in the growth rate of private sector loans can be explained by a deceleration in the growth rates of both mortgages and consumer loans with 24.4 percentage points to zero growth, and with 7.1 percentage points to an increase of 1.5% (NAf.1.7 million), respectively. In contrast, the growth rate of business loans accelerated by 3.3 percentage points to an increase of 1.0% (NAf.1.3 million) in the second quarter of 1997. The latter increase might be related to the turnover tax, as many companies had to draw on their credit line to comply with the monthly payments.

Table 20
Private sector loans at commercial banks on the Windward Islands as per end of period (in millions NAf.) and percentage quarterly changes

	1997-II		1996-II		1995-II	
Dom. private sector loans,	528.3	0.6%	522.2	12.9%	85.4	3.1%
of which:						
-Mortgages	273.0	0.0%	271.9	24.4%	216.6	-13.9%
-Consumer loans	118.0	1.5%	117.5	8.6%	120.0	19.2%
-Business loans	137.3	1.0%	132.8	-2.3%	148.8	25.5%

On an annual basis, domestic private sector loans on the Windward Islands increased by 1.2% (NAf.6.1 million). This increase was primarily the result of a 3.4% (NAf.4.5 million) increase in business loans. In addition, both mortgages and consumer loans recorded an increase of 0.4%, leading to increases of NAf. 1.1 million and NAf.0.5 million, respectively. So while business loans dropped on the Leeward Islands, they increased on the Windward Islands. Furthermore, consumer loans were growing at a much slower pace on the Windward Islands.

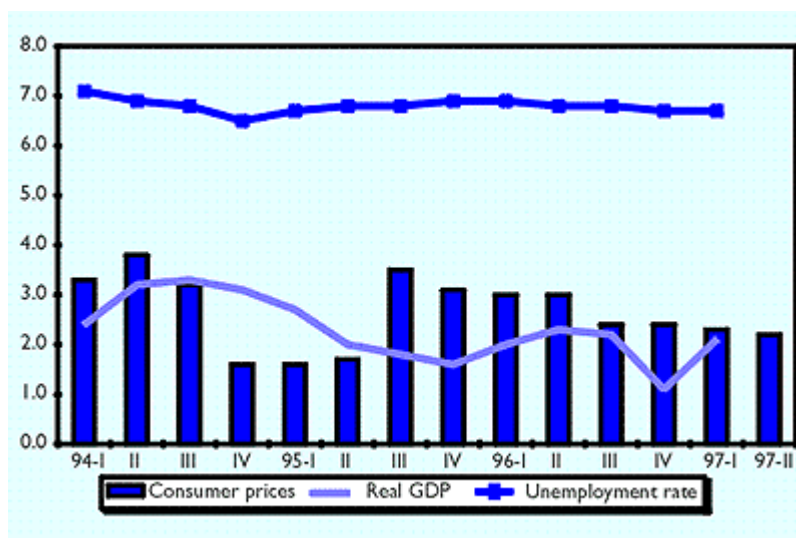
6. INTERNATIONAL AND REGIONAL DEVELOPMENTS

Introduction

The major economies of the world are still experiencing a steady growth, with the US economy showing the most rapid expansion. This growth is based largely on expanding trade and exports around the world. It is expected that the growth of the world economies will slow down, however, as the leading economic indicators showed a slowdown from 1.4 % in the first quarter of 1997 to 0.7% in the second quarter of 1997. Unemployment remained at an average 6.6% in the major economies of the world. The consumer price index accelerated from 0.5% in the first quarter of 1997 to 0.7% in the second quarter, and producer prices also increased by 0.2%, from 0.0% in the first quarter of 1997.

The US economy is showing the best prospect of the three major world economic powers, although the economic growth there was less than expected at 3.1% in the second quarter of 1997. Germany experienced an economic growth of 1% in the second quarter of this year, unlike Japan, which experienced a decline in economic activity.

Graph 8
Selected OECD Major Seven economic key figures (% changes)



The Japanese economy declined by 2.9% in the April-June months of 1997, the biggest contraction in almost a quarter of a century. This decline was due to weak consumer spending after the government raised the national sales tax in 1997. Weaker investment also contributed to the contraction of the Japanese economy.

The German economy expanded by 1.0% in the second quarter of 1997. This growth can be attributed to the weak Deutsche Mark, which fell 15% against the U.S dollar during 1997. This development is fueling international demand for German exports. The German economy, which has been expanding for a year now, grew by 2.0% in the second quarter of 1997 compared to the same period in 1996.

Economic performance in Venezuela

Overview

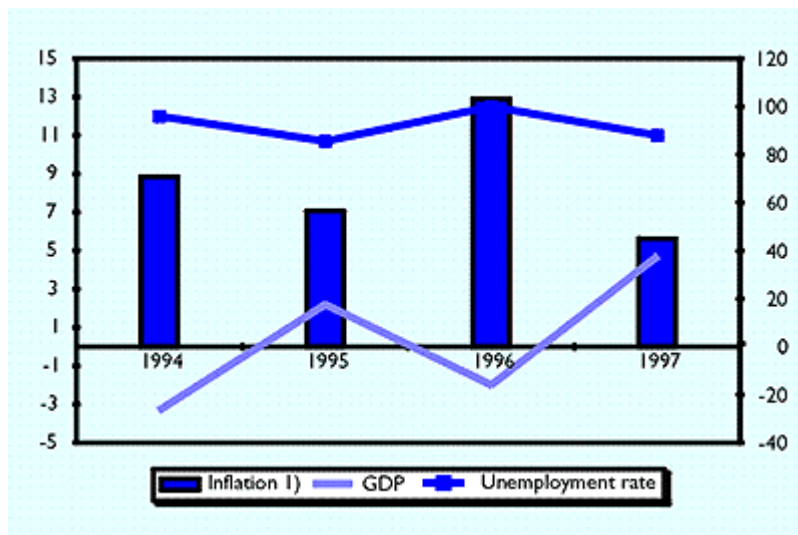
Data for the first half of 1997 indicate that the economy of Venezuela grew by 2.8% compared to the same period in 1996. A good performance by the non-oil sector suggests that the growth for 1997 will be around 4.7%. The growth trend is expected to slow down in 1999, before recovering again in 2000 for an estimated growth of 5.1% in that year.

Second quarter development

The domestic economy of Venezuela has emerged from recession and appears to be gathering momentum, led by recent strong performance in the car industry. Current trends could continue, reflecting recovery in both real wages and credit availability. Commercial bank lending for June was up 48.8%. The dominance in the oil sector persists, but opening of the market has supported construction and investment especially in the eastern part of Venezuela. These developments contributed to a strong first half of 1997 in which the Venezuelan economy grew at a rate of 2.8%, up from a 1% annual growth rate in the first quarter of 1997. It is envisioned that at year end, the Venezuelan economy would be growing at 4.7%.

Graph 9

Selected economic key figures of Venezuela (% changes)



In June of 1997 the monthly inflation rate recorded a surprisingly moderate rise of only 1.8%, down from 3.1% in May. The accumulated inflation at the end of June of 1997 was 14.6%. This improvement in inflation can be attributed to the combined effect of monetary restraint-- primarily the strength of the bolivar-- and a still relatively subdued domestic economy. These factors illustrate that the economy of Venezuela is on track to meeting its target of 30% annual inflation, although it is estimated that inflation will still accumulate to 45.0% by the end of 1997.

During the second quarter of 1997, the unemployment rate decreased slightly from 12.5% in the first quarter of 1997 to 11.6% at the end of April and increased again to 12.8% at the end

of May of 1997. The unemployment rate is expected to come down to an estimated 11% by the end of 1997.

Venezuela's International Reserves expanded from US 15.51 billion at the end of March 1997 to US16.24 in the last week of June 1997. International reserves continue to increase since the government lifted all restrictions on buying and selling dollars in April 1996, a move that resulted in stable exchange rates. Higher exports in the oil industry due to higher international prices also is contributing to the accumulation of international reserves.

Economic performance in the Netherlands

Overview

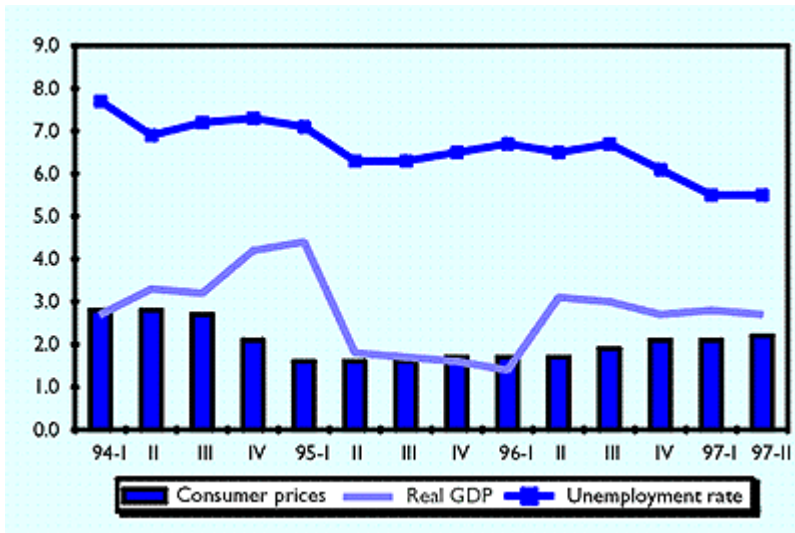
All developments indicate that the Netherlands will have no difficulty complying with the conditions set to determine the initial members of the Economic and Monetary Union (EMU), when stage III begins on January 1, 1999. It is expected that the Dutch GDP growth will accelerate further, driven by increased export competitiveness, rising consumption and investment spending from the 2.7% growth realized in 1996 to 3.0% in 1997, and 3.1% in 1998. Thereafter, experts foresee a gradual slowdown of the Dutch economy to 2.6% in 2000 and 2.4% in 2001. This slowdown is related to measures being undertaken by all major European economies as fiscal policies are tightened to meet convergence criteria for EMU.

Second quarter development

The economy of the Netherlands experienced less-than-expected growth of 2.8% in the second quarter of 1997 compared to this same quarter in 1996. The slowdown in economic expansion can be attributed mainly to the losses in the pork industry related to swine fever. The losses in the pork industry reduced gross domestic product by 0.6% in the second quarter of 1997. Although the economic growth was less than expected in the second quarter of 1997, the Dutch economy is still one of Europe's best-performing economies. This development called "the Dutch miracle" resulted in continued economic growth. On an annual basis, however, the Dutch GDP growth decelerated by 0.1 percentage points from 2.8% in the previous quarter to 2.7% in the second quarter of 1997.

The continued growth of the Dutch economy also resulted in a decline in the annual average unemployment rate from an average of 5.7% in the first quarter of 1997 to an average 5.4% in the second quarter of 1997. Labor policies, which include contained wage increases and a better distribution of the number of available jobs through shorter work weeks, contributed to the further improvement in the labor market. Furthermore, job training schemes and exports spurred optimism about the Dutch economic recovery process.

Graph 10
Selected economic key figures of the Netherlands (% changes)



Due to, among other things the deceleration of economic growth in the second quarter of 1997, inflation remained constant at 0.5%. Despite the constant inflation, a drop was recorded in the prices of some items including clothing, shoes, and flowers.

On an annual basis inflation accelerated slightly by 0.1 percentage point from 2.1% ending the first quarter of 1997 to 2.2% ending the second quarter of 1997. Producer prices, on the other hand, accelerated on a quarterly basis from 0.4% in the first quarter of 1997 to 1.0% in the second quarter. On an annual basis the increase in producer prices also accelerated by 0.4 percentage point, increasing from 2.1% at the end of the first quarter to 2.5% at the end of the second quarter of 1997.

Economic performance in the United States.

Overview

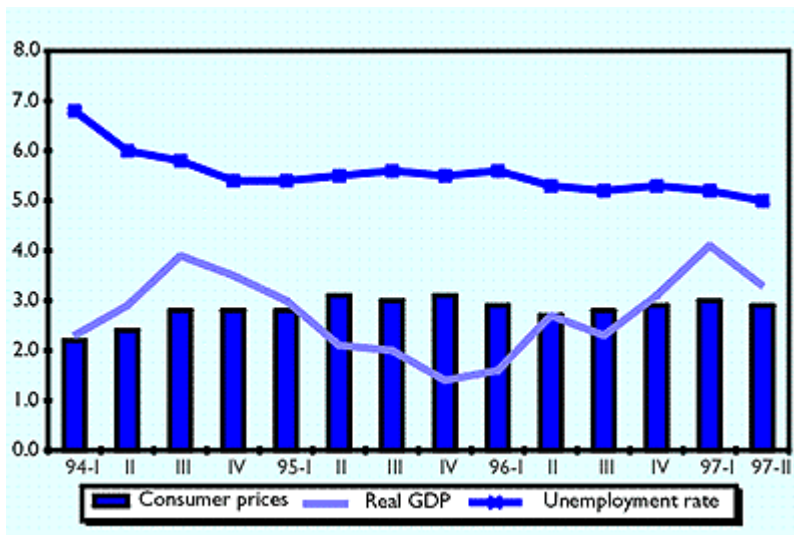
Growth is expected to be strong in the United States in 1997, driven mainly by private sector consumption. Contrary to this development actions taken to slow down the economy are expected to restrict growth in 1998. The outlook for the US GDP is that it will average 3.6% in 1997, and slow down to 2.1% in 1998, as tighter monetary policy takes effect while the strong dollar starts to feed into trade flows. Growth will average 2.3% per year over the medium term 1999-2001. Private consumption will remain buoyant for much of 1997, boosted by real wage growth, rapid increases in employment, and a strong pick-up in personal sector wealth, driven by the excellent stock market performance. Consumption growth is expected to slow down in the face of higher interest rates after early 1998.

Second quarter development

The US economy grew at a faster pace in the second quarter of 1997 than expected, though still less than the substantial growth of 4.7% in the first quarter. During the 12-month period ending in the second quarter of 1997, the US economy showed a 3.1 % growth when compared to the same quarter of 1996. This growth was fueled by extraordinary spending on big ticket goods like pickup trucks and cars, which remained strong since the beginning of 1997. A large build up on inventories and overall stronger exports also contributed to this growth.

Graph 11

Selected economic key figures of the United States (% changes)



Concomitant with the growth of the economy in the second quarter of 1997, productivity at work grew at a faster rate than expected. Reports show that workers are now producing more goods in fewer hours. Productivity, a measure of the time and effort needed to produce goods and services, rose at a 2.7% annual rate ending in the second quarter of 1997. This is the largest increase since a gain of 3.3% in the fourth quarter of 1993. Industrial production recorded a growth of 4.1% in the quarter ending June 1997. This growth can be attributed mainly to an increase in factory orders e.g., orders for civilian aircrafts from Boeing Co. in June 1997.

Unemployment decreased slightly from 5.2% in the first quarter of 1997 to 5.0% in the second quarter. This decrease was due to the steady growth of the US economy where in many industries job opportunities are plentiful, e.g., the automobile industry. Other industries that recorded gains in jobs were service production, retail, health care, engineering, and computers.

Despite the growth of the US economy, inflation remained at lower levels, which kept the Federal Reserve Bank from increasing the Fed Funds rate in their last meeting. On a quarterly basis, inflation decelerated from 0.7% in the first quarter of 1997 to 0.4% in the second quarter. On an annual basis, the inflation rate in the US decelerated from 3.0% to 2.9% in the second quarter of 1997. Producer prices showed a steady decrease in the period from

April to June 1997, a development that has been steady for the last sixth months. On a quarterly basis, producer prices decelerated by 0.3%, from -0.3% in the first quarter to -0.6% in the second quarter of 1997. On an annual basis, the deceleration was 0.6 percentage point, from 2.6% in the first quarter to 2.0% in the second quarter of 1997.

7. DEVELOPMENTS IN THE FINANCIAL SECTOR

During the second quarter of 1997 the Bank continued to monitor the developments in both the domestic and international financial sector of the Netherlands Antilles and conducted on-site examinations at three domestic banks, two specialized credit institutions and one credit union.

Developments in the domestic banking sector

During the second quarter of 1997, total assets of the commercial banks continued to decline and dropped slightly by 0.2% to NAf.4,169.0 million. This decline was mainly the net result of decreases in interbank funds sold to foreign banks and in time deposits placed with both domestic and foreign banks which exceeded the increase of demand deposits placed with correspondent banks.

Total deposits decreased by NAf.28.1 million due to withdrawals of demand deposits which exceeded the increases in savings and time deposits. With the exception of the demand deposits placed by the Central Government, demand deposits placed by almost all other entities and individuals decreased.

The increase in the loan portfolio was mainly due to the increase in demand, time and mortgage loans to business enterprises. Investments reflected a slight decrease of NAf.2.6 million (0.8%).

Furthermore, borrowings decreased with NAf.2.0 million(1.6%) and other liabilities increased with NAf.15.0 million (10.5%) respectively.

Total actual capital of the domestic banking sector increased by NAf.5 million and the capital-to-total-assets-ratio increased slightly from 9.0% to 9.1%. The capitalization of the sector continues to be adequate and meets the international standards.

Table 21
Aggregate balance sheet of commercial banks operating in the domestic banking sector of the Netherlands Antilles at quarter-end (in millions NAf.)

	1997-II		1997-I		1996-II	
	NAf.	%	NAf.	%	NAf.	%
ASSETS						
Non int. bearing cash	317.4	7.6	272.0	6.5	212.8	5.1
Interest bearing cash	517.3	12.4	588.2	14.1	710.5	17.4
Investments	320.3	7.7	322.9	7.7	262.4	6.3

Loans	2,764.9	66.3	2,746.9	65.7	2,679.7	64.9
Investm. unconsol. sub	19.6	0.5	20.8	0.5	20.1	0.5
Fixed Assets	152.9	3.7	149.9	3.6	137.7	3.3
Other Assets	76.6	1.8	78.2	1.9	102.7	2.5
Total assets	4,169.0	100.0	4,178.9	100.0	4,125.9	100.0
LIABILITIES						
Demand deposits	1,149.5	27.6	1,243.5	27.7	1,103.7	26.7
Savings deposits	1,635.4	39.2	1,605.7	38.3	1,630.3	39.5
Time deposits	722.4	17.3	686.1	17.9	707.8	17.2
Total deposits	3,507.3	84.1	3,535.3	83.9	3,441.8	83.4
Borrowings	122.8	3.0	124.8	3.1	138.5	3.4
Other liabilities	158.5	3.8	143.4	4.3	177.9	4.3
Total liabilities	3,788.6	90.9	3,803.5	91.3	3,758.2	91.1
Minority Interest	5.2	0.1	5.0	0.1	4.7	0.1
Subord. debentures	10.2	0.2	10.2	0.3	11.8	0.3
General provisions	95.0	2.3	94.2	2.1	105.7	2.5
Capital & reserves	270.0	6.5	266.0	6.2	245.5	6.0
Total capital	380.4	9.1	375.4	8.7	367.7	8.9
Total liabilities and capital	4,169.0	100.0	4,178.9	100.0	4,125.9	100.0

Developments in the international banking sector

During the second quarter of 1997 Banco Caracas N.V. and Banco Tequendama N.V. went into voluntary liquidation so that by the end of that quarter the number of international banks operating in the Netherlands Antilles became 40.