

## QUARTERLY BULLETIN 1997-3

**Bank van de Nederlandse Antillen**

## REPORT OF THE PRESIDENT

The recession in the Netherlands Antilles deepened during the third quarter of 1997, as reflected by a further decline in real Gross Domestic Product by 2.5% 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 weak development in exports. The rate of inflation remained moderate in the quarter under review, compared to the second quarter of 1997, owing largely to the low inflation rates in our main trading partners. The annualized inflation rate started to decrease again, due primarily to the fading effect on prices of the revenue enhancing measures of the government.

The weak development in exports was attributable mainly to the developments in the transportation sector, refining and the international financial and business services sector. The decline in activities in the transportation sector was dominated by the decrease in oil storage activities. The ship repair sector recorded a decline in foreign exchange income earned, despite an increase in the number of man-hours sold. The national carrier recorded a decline in the amount of freight handled and foreign exchange earned, while the number of passengers transported increased. These negative developments were mitigated by an increase in harbor activities. Foreign exchange income generated by the refinery dropped slightly, while the amount of oil refined continued to increase. The international financial and business services sector recorded a decline in income received from services rendered, which was compensated by an increase in profit tax transferred to the government.

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 Curacao remained sluggish and Bonaire recorded a decline in stay-over tourism for the second consecutive quarter. The weak performance in Curacao 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. In addition, the export performance of the local manufacturing industry improved.

Despite the overall weak development in exports, the deficit on the current account of the balance of payments showed a substantial improvement. This can be explained mainly by the sharp drop in imports related to the decline in domestic spending due to the fiscal consolidation efforts of the government. Combined with an improvement in the surplus on the capital account, owing to an increase in development aid received, our foreign exchange reserves increased in the third quarter of 1997. However, this was not enough to meet the end September 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 if the support offered by the Dutch government during the economic summit in September 1997 is materialized. This support, effective from January 1, 1998, 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.

Despite the decline in economic activities, the budget deficit of the General Government improved. This improvement was attributable entirely to a decline in expenditures due to deferred payments to the government pension fund APNA and unusual high capital expenditures in the third quarter of 1996 resulting from transitory factors. As a result, the deficit remained within the structural adjustment program's target for the third quarter. In addition, the cumulative target for the third quarter was almost met. Unfortunately, this was not a result of adherence to the program, but of deferring expenditures forced by financing constraints. This is illustrated by the estimated deficit for the entire year of NAf 166 million, nearly twice the program target. The budgetary outlook for 1998 is even more gloomy. The approved budgets of the Central Government and the Island Government of Curacao result in a combined deficit of NAf 220 million, while potential shortfalls in revenues could raise this amount to approximately NAf 285 million.

From the above, it will be clear that the authorities should take urgent corrective actions to reduce the deficit to a level that can be financed. Emphasis should be put on the expenditure side through additional cuts and stepping up the implementation of structural budgetary measures such as the core-task analysis and the privatization program. On the revenue side measures should focus primarily on strengthening of the tax administration and enforcement.

The monetary aggregates showed mixed developments. The money supply increased marginally owing to the increase in international reserves. However, the domestic sector recorded a contractionary impact due to miscellaneous factors and the sluggish demand for credit by the private sector as a result of 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. Furthermore, the Bank prolonged the monetary cash reserve arrangement to end March 1998. Credit to the private sector is allowed to grow by 2% over the outstanding amount of end September 1997, while the current ceiling on net domestic credit to the government remains unchanged. The targets for the remaining quarters of 1998 will be announced as soon as the negotiations with the IMF on the revision of the structural adjustment program have been finalized.

The slippages in the implementation of the structural adjustment program that occurred in 1997 and the outlook for 1998 pose an enormous challenge for the authorities to take urgent corrective actions to keep the restructuring process in our economy going. Once credible measures have been identified negotiations with the IMF on a revision of the program can be resumed. The full implementation of the program together with efforts to improve our

investment climate is important to overcome the current economic crisis and create a climate conducive to sustainable growth and employment.

E.D. Tromp  
President

## 2. DEVELOPMENTS IN THE REAL SECTOR

### General economic developments

Production contracted further in the third quarter of 1997, as the annualized real GDP declined by 2.5%. For seven consecutive quarters, the real GDP has been declining as a result of a reduction in purchasing power, a low level of investment, the lack of confidence, and the overall weak performance of the export services sector. The acceleration in the inflation rate in this period of recession slowed down; the inflation rate in the third quarter of 1997 was 3.7% compared to 3.9% in the second quarter of 1997. In line with the decline in production, the unemployment rate increased to 14.7% in 1997, and the number of jobs dropped by 500.

### *National production and spending*

National production in the Netherlands Antilles, as measured by real GDP, is estimated to have declined by 0.5% in the third quarter of 1997 compared to the third quarter of 1996. Private consumption declined in real terms as a result of diminishing purchasing power and the lack of consumer confidence given the uncertainty surrounding the public finances. Private investment declined in real terms due to the sluggish aggregate demand combined with a lack of producer confidence. Government consumption and investment dropped by 5.6% and 18%, respectively. Contrary to the decline in domestic aggregate demand, foreign demand increased moderately due to favorable developments in the financial and tourism sectors. However, this increase in foreign demand was not sufficient to counteract the drop in domestic demand, which resulted in a decline in production.

### *Inflation*

The annualized rate of inflation of the Netherlands Antilles, as measured by the consumer price index (CPI), decelerated from 3.9% in the second quarter of 1997 to 3.7% in the third quarter of 1997. This deceleration can be explained largely by the fading away of the effects of the 'sales tax' introduced on the Leeward Islands in the second quarter of 1996 combined with the prevailing low inflation rates in our major trading partners -- the U.S. and Holland. A further analysis of inflation on a quarterly basis in the Netherlands Antilles reveals that prices increased by 0.2% in the third quarter compared with the second quarter of 1997.

A breakdown of inflation by island reveals that Curaçao recorded the highest inflation rate in the third quarter of 1997 (table 1); prices were 0.3% higher in the third quarter than in the second quarter of 1997. The annualized inflation rate in Curaçao in the third quarter decelerated to 3.9% compared with 4.1% in the second quarter of 1997. An analysis by components shows a price hike of 3.3% in the health sector and a drop in prices of 0.3% in the transportation sector, due to lower car prices. Prices went up in the health sector due to higher dentists' fees and medicine prices.

**Table 1**  
***Inflation rates in Curaçao, Bonaire, and***  
***St. Maarten in the third quarter of 1997***  
***(% changes)***

Curaçao	Bonaire	St. Maarten
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Food	0.3%	0.2%	0.4%
Beverage & tobacco	0.1%	0.1%	-0.2%
Clothing & footwear	0.3%	0.0%	0.0%
Housing	0.4%	0.3%	-0.1%
Housekeeping & furnishing	0.5%	0.4%	0.1%
Health	3.3%	-0.1%	0.1%
Transportation & communication	-0.3%	-0.2%	-0.5%
Recreation & education	0.3%	0.0%	0.6%
Other	0.3%	0.0%	0.1%
General inflation rate	0.3%	0.1%	0.0%

In Bonaire, prices rose by 0.1% in the third quarter compared to the second quarter of 1997. The annualized inflation rate in the third quarter of 1997 in Bonaire is 2.9% compared to 3.0% in the second quarter of 1997. A further breakdown by components reveals a 0.4% increase in housekeeping and furnishing prices and a decline in prices in the health and transportation sectors by 0.1% and 0.2%, respectively.

In St. Maarten, prices in general remained at the same level in the third quarter of 1997 as in the second quarter of 1997. Contrary to the other islands, the annualized inflation rate in St. Maarten in the third quarter rose to 3% compared to 2.8% in the second quarter of 1997, as result of the effects of the turnover tax implemented in the beginning of 1997. A breakdown by components reveals that prices declined slightly in the beverage and tobacco, housing and transportation and communication sectors by, respectively, 0.2%, 0.1%, and 0.5%. Prices increased in the items food and recreation and education by 0.4% and 0.6%, respectively.

### ***Labor market***

Developments in the Netherlands Antillean labor market deteriorated further as the unemployment rate increased to 14.7% in 1997 compared to 13.7% in 1996.

This development is in line with the increasing requests for dismissals in the third quarter of 1997, particularly in Curaçao (138 employees) compared to the third quarter in 1996 (128 employees).

The Central Bureau of Statistics' (AKO) labor market survey indicates that for the island of Curaçao, unemployment rose by 1.3 percentage points in 1997 to 15.3%, the highest level of unemployment since 1990. In line with diminished production activities in 1997, employment in Curaçao declined by 700 persons.

Requests for dismissals in Bonaire were negligible, indicating a stabilization in the labor market situation in the third quarter of 1997 compared with the third quarter of 1996.

### **Sectoral analysis**

Overall sectoral performance remained weak as the average growth rates of the various sectors of the economy were moderate.

### ***Mining***

Performance in the mining industry improved because production and exports in the salt industry expanded in the third quarter of 1997 by, respectively, 5% and 15.3% compared with the third quarter of 1996, when production declined by 5.3%, and the export of salt increased by 11.9%.

### ***Industry***

Industrial performance improved in the third quarter of 1997, as production expanded in the two major industrial sectors: oil refining and ship repair.

In the oil-refining sector, production expanded by 4.6% in the third quarter of 1997 compared with a decline of 5.6% in the third quarter of 1996. The refinery was producing on average 215,000 barrels daily in the third quarter of 1997. Despite the positive developments in production, the value added in the oil refining sector, as measured by foreign exchange earnings, declined by 4% in the third quarter of 1997.

In the ship repair sector, developments were positive as the number of man-hours sold increased by 1.3%, and the number of ships repaired was 16.2% higher than in the third quarter of 1996. Despite the increase in production hours, the foreign exchange earnings during the third quarter of 1997 dropped by NAf. 1.3 million, in part because a substantial part of the work performed by the dry dock company was prefinanced.

### ***Utilities***

Production activities in the utility sector developed positively as electricity and water production grew in the third quarter of 1997. Electricity production in the Netherlands Antilles increased in the third quarter of 1997 by 2.6%, compared to 2.5% in the third quarter of 1996. A breakdown by island shows that the growth in electricity production is fueled mainly by the Windward Islands, where electricity production expanded by 13.8%. In Bonaire, electricity production grew slightly by 0.1% while in contrast, Curaçao's electricity production declined by 1%. Contrary to developments in the other islands, electricity production in Curaçao declined in the first three quarters of 1997 when compared with the first three quarters of 1996. This development may be related to the economic downturn on the island.

Water production in the Netherlands Antilles grew by 1.8% in the third quarter of 1997 compared with 1.5% in the third quarter of 1996. Water production in Bonaire and in Curaçao increased by 8.1% and 3.4%, respectively, whereas in St. Maarten water production declined by 7% in the third quarter of 1997. The decline in water production in St. Maarten was the result of heavy rainfall during the third quarter of 1997, thereby reducing the demand for water.

### ***Trade***

Developments in this sector remained weak in the third quarter of 1997 compared to the second quarter of 1997, according to the Bank's Business Cycle Survey. Reduced tourism

activities in the third quarter of 1997 in Curaçao, combined with diminishing purchasing power of households, contributed to fewer sales.

**Table 2**  
**Rates of free zone related economies**

Island	Real GDP (%)	Ann. infl. (%) <sup>1)</sup>	Exch. rate <sup>2)</sup> Sep 1996	Exch. rate <sup>2)</sup> Sep 1997
Jamaica	1	8.7	34.0J\$	34.4J\$
Haiti	n.a.	n.a.	n.a.	n.a.
Dominican Republic	6	6.2	14.0Ps	14.1Ps
Trinidad & Tobago	4	3.1	6.00TT\$	6.15TT\$
Venezuela	4.7(Jan-Jun)	39.4 (Aug)	472Bol	497 Bol

<sup>1)</sup> End period

<sup>2)</sup> End of period for 1 US \$

Source: Latin American Monitor Caribbean, Andean Group

Free zone activities were mixed. On the one hand, the free zone re-exports increased by 44%. On the other hand, visits to the free zone dropped in the third quarter of 1997, in part because of the weakening foreign exchange rates in most of the countries of origin of the free zone visitors (table 2).

### **Tourism**

Performance in the tourism sector of the Netherlands Antilles improved during the third quarter of 1997, as the number of stay-over tourism grew by 2.9% in the third quarter of 1997. This improvement was a turnaround, when compared with the third quarter of 1996, in which a decline of 11.4% was registered. In line with the increase in the number of stay-over visitors, foreign exchange earnings grew by 3.8% in the third quarter of 1997. Cruise tourism continued to flourish on all islands except Curaçao. The total number of cruise tourists grew in St. Maarten and Bonaire by, respectively, 44% and 100%. There were no cruise tourism in the third quarter of 1996 in Bonaire. In Curaçao, cruise tourism dropped by 44% in the third quarter of 1997.

A breakdown by island shows that stay-over tourism in St. Maarten grew by 11.4% in the third quarter of 1997 in all markets. Although still below the pre-hurricane level, stay-over tourism rebounded from a decline of 19.1% in the third quarter of 1996 to a growth of 11.4% in 1997. Noteworthy was the increases in tourism originating in the Netherlands (25.4%) and the USA (14.0%).

Contrary to developments in stay-over tourism in Bonaire, cruise tourism performed well, as seven ships entered the harbor of Bonaire in the third quarter of 1997 compared with zero



cruise calls in the third quarter of 1996. Stay-over tourism declined in the third quarter of 1997, compared to a 6.6% growth in the third quarter of 1996. This decline is noticeable in almost all markets with the exception of the German market, which expanded by 5.0%.

In Curaçao, stay-over tourist arrivals declined by 4.6% in the third quarter of 1997 compared with a decline of 3.2% in the third quarter of 1996. In particular, the decline in Curaçao's main market, namely, the Netherlands, by 7.7% explains this decline. The drop of 24.5% in the Brazilian market is due to the lack of air-lift. In other markets, such as Canada, Venezuela, Aruba, and the Dominican Republic, the number of stay-over tourists grew by 8.1%, 9.4%, 0.5% and 9.9%, respectively.

**Table 3**  
**Developments in stay-over tourists by island (% change)**

	Curaçao		Bonaire		St. Maarten	
	1996- III	1997- III	1996- III	1997- III	1996- III	1997- III
North America	4.0%	-1.2%	3.8%	-1.4%	-13.9%	25.9%
of which:						
-U.S.A.	4.0%	-1.6%	2.8%	-0.3%	-14.0%	24.0%
-Canada	4.2%	8.1%	66.3%	-	-13.1%	42.4%
Europe	-8.6%	-8.5%	1.9%	-6.4%	-	6.0%
of which:						
-The Netherlands	-3.3%	-7.7%	3.0%	-7.3%	-6.2%	25.4%
-France			16.8%	-8.3%	-9.9%	4.6%
-Germany			-6.2%	5.0%	n.a.	n.a.
-Other	11.8%	10.4%				
-Other			-2.4%	-6.4%	-	0.9%
	40.3%	15.2%			27.3%	
South & Central America, of which:	-7.2%	3.9%	8.4%	-	-21.0%	
			12.8%	25.2%		
-Venezuela		-9.4%	7.5%	-	-8.6%	79.4%
	14.2%		26.7%			
-Brazil	13.6%		-18.0%	-5.5%	-68.4%	
		24.5%		71.1%		
Caribbean	-0.3%	-3.6%	33.2%	-	7.3%	9.8%
of which:			20.2%			

-Aruba	18.3%	0.5%	41.4%	-	n.a.	n.a.
				23.2%		
-Santo Domingo	19.7%	-9.9%	61.1%	-16.3%	6.2%	12.5%
Rest of World	18.4%	-76.6%		-	-15.6%	
		15.7%		42.2%	22.9%	
Total	-3.2%	-4.6%	6.6%	-	-11.4%	
				12.7%	19.1%	

### ***Transportation***

Performance in air transportation in Curaçao improved during the third quarter of 1997, as total traffic increased by 4.3% compared to a decline of 2.2% in the third quarter of 1996. This increase was the result of a 13.7% expansion in the number of transit passengers. Furthermore, the national airline transported 4.3% more passengers than in the third quarter of 1996, on the one hand, and handled 28.7% less freight, on the other hand. The decreasing number of free zone visitors partially explains the drop in freight transported.

Harbor activities in the third quarter of 1997 increased, as the number of ships piloted into the harbor increased in Bonaire and Curaçao by 53% and 7%, respectively. In Bonaire, the number of ships piloted into the harbor increased as a result of more activities in the oil transshipment and cruise tourism sectors. This increase is a turnaround compared to the third quarter of 1996, in which a decline of 20.8% was recorded. In Curaçao, total harbor activities in the third quarter of 1997 increased by 7% compared to 0.7% in the third quarter of 1996, due mainly to increased activities at the oil refinery, where the number of tankers piloted into the harbor increased by 10.7%.

### ***Telecommunication and financial sector***

According to the Bank's Business Cycle survey, developments in the telecommunication and financial sector remained constant from the second quarter to the third quarter of 1997.

## **3. PUBLIC FINANCE**

### **General developments in the public sector**

The third quarter of 1997 showed a slight improvement in the deficit on a cash basis of the General Government when compared with the same quarter of 1996. Despite this development, the government had increasing difficulties in financing its deficits. And, if one considers the deficit on an accrual basis, then the government financial situation worsened because of the increased arrears to the pension fund (APNA) and others. At the Central Government level, it was decided to cut spending on goods and services by 35% and to postpone investment outlays and transfers to bring the deficit to more manageable proportions.

When comparing the figures from the third quarter of 1997 with those from the third quarter of 1996, one can see:

- A slight improvement of NAF.6.3 million in the budget deficit on a cash basis; but, on the other hand, the government incurred higher arrears to creditors;
- A shortfall, especially in the nontax revenues, of approximately 33.6% (NAf. 21.4 million); and
- A decrease in total expenditures by 8.2% (NAf.30.9 million), due mainly to a cutback in investments outlays because of financing constraints.

On the expenditure side, wage and salary overruns resulted from higher payments for overtime, medical expenses, promotions, and job re-grading. Due to these higher wage costs, the government had to postpone some of its payment obligations to the pension fund APNA.

### **Operations of the Central Government**

In the third quarter of 1997, the deficit of the Central Government improved by NAF.17.1 million when compared to the third quarter of 1996. Expenditure outlays were NAF.20.6 million lower, while total revenues fell slightly by NAF.3.5 million during the third quarter of 1997 as opposed to the same quarter of 1996. Except for the sales tax revenues, which increased by 83.3% in the third quarter of 1997, all other tax categories fell during this quarter. The sales tax comprises the general sales tax (ABB) for the Leeward Islands, Curaçao, and Bonaire, and a turnover tax (BBO) for the Windward Islands. When comparing developments in the total income from the sales tax, one must take into account that the turnover tax (BBO) went into effect January 1, 1997. Income from the sales tax generated on Curaçao and Bonaire increased by 36.2% (NAf.9.2 million) in the third quarter of 1997 when compared to the third quarter of 1996. Import duties were NAF.7.4 million lower in the third quarter of 1997 than in the corresponding quarter of 1996, attributable to, among others, the downturn in the economy.

**Table 4**  
***Breakdown of revenues from the sales tax in the Netherlands Antilles, third quarter of 1997, compared to the third quarter of 1996, (in millions NAf.)***

	Third quarter of 1997	Third quarter of 1996
Sales tax Curaçao and Bonaire (ABB)	23.7	17.4
Turnover tax St. Maarten, Saba, and St. Eustatius	8.2	0.0
Total sales tax revenues	31.9	17.4

Nontax revenues dropped by 32.3% (NAf.10.9 million) in the third quarter of 1997, due mainly to nonsettlement of an interim dividend by Antelecom N.V. Due to competition from call-back services and Antelecom's failure to adapt its business activities to these developments, the telecommunication company is losing potential revenues.

For fees, charges, and sales, the Central Government received NAf.1.6 million less in the third quarter of 1997 than in 1996, because the Central Laboratory (Landslaboratorium) generated less income than projected. The failure can be explained by payment arrears of the St. Elisabeth Hospital and the Social Security Bank (SVB) to the Landslaboratorium for services provided by the latter.

On the expenditures, side as can be appreciated from table 5, wage payments and outlays on goods and services increased by 11.6% (NAf.5.9 million) and 26.7% (NAf.5.0 million), respectively, in the third quarter of 1997 when compared to the same quarter in 1996. The increases in wages and salaries can be explained by higher-than-budgeted basic wages (NAf.2.6 million), overtime payments (NAf.5.2), other allowances (NAf.1.4 million), and medical expenses to the amount of NAf.4.2 million. These developments were offset partly by a substantial drop of 45.8% (NAf.11.0 million) in transfers mostly because of nonsettlements of ERNA transfers to the amount of NAf.13.0 million to the Island Government of Curaçao in the third quarter of 1997. These developments contributed to NAf.6.0 million lower current expenditures in the third quarter of 1997 than in the same quarter of 1996.

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

	1997-		1996-NAf. Change	
	III	III		%
REVENUES	128.5	132.0	-3.5	-2.7%
<b>Tax revenues</b>	104.1	96.0	8.1	8.4%
of which:				
-excises	38.7	34.2	4.5	13.2%
-import duties	26.1	33.5	-7.4	-22.1%
-sales tax	31.9	17.4	14.5	83.3%
<b>Nontax revenues</b>	22.8	33.7	-10.9	-32.3%
-entrepreneurial and property income	10.8	22.5	-11.7	-52.0%
-fees, charges and sales	8.9	10.5	-1.6	-15.2%
Capital revenues	0.0	0.1	-0.1	
Grants	1.6	2.2	-0.6	-27.3%
EXPENDITURES	127.3	147.9	-20.6	-13.9%
<b>Current expenditures</b>	121.0	127.0	-6.0	-4.7%
of which:				

-wages and salaries	70.0	69.8	0.2	0.3%
wages	56.9	51.0	5.9	11.6%
pension	10.9	16.7	-5.8	-34.7%
-goods and services	23.7	18.7	5.0	26.7%
-interest payments	14.3	13.6	0.7	5.1%
-transfers	13.0	24.0	-11.0	-45.8%
of which:				
-to other government levels	4.8	17.8	-13.0	-73.0%
<b>Capital expenditures</b>	6.3	20.9	-14.6	-69.9%
of which:				
-investments	6.3	8.4	-2.1	-25.0%
-net lending	0.0	12.0	-12.0	-100.0%
BALANCE	1.2	-15.9	17.1	

Capital outlays dropped by NAf.14.6 million (69.9%) in the third quarter of 1997. Although the Government announced its plans not to execute projects not yet started and to phaseout projects in the execution phase, the final decision was only taken in September 1997. This situation contributed to the slight drop of NAf.2.1 million in investments in the third quarter of 1997. Furthermore, net lending to the government dropped to zero in the third quarter of 1997 as compared to NAf.12.0 million in the third quarter of 1996 as a result of these developments.

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

	1997- III	1996- III
FISCAL BALANCE	1.2	-15.9
MONETARY FINANCING	13.7	10.5
of which:		
Central Bank	11.2	18.3
Commercial banks	2.5	-7.8
NONMONETARY FINANCING	-14.9	5.4
of which:		
Government securities with the public	3.5	4.3
Other	-18.4	1.1

The Central government ended with a positive cash fiscal balance during the third quarter of 1997. During this quarter, the government used this surplus balance, in addition to bank financing, mainly through a running down of their deposits at the Central Bank to the extent of NAf.13.7 million, to reduce nonmonetary financing by NAf.14.9 million by settlement of arrears with creditors. On the other hand, arrears to the pension fund accumulated further.

### Operations of the Island Government of Curaçao

In the third quarter of 1997, the deficit of the Island Government of Curaçao deteriorated by NAf.10.8 million when compared to the third quarter of 1996. Although expenditures dropped by NAf.24.1 million (9.8%), it was mainly the shortfall in revenues that contributed to the deterioration in the balance in the third quarter of 1997. Total revenues dropped significantly by NAf.34.9 million (15.3%) when compared to the third quarter of 1996. The deterioration in tax revenues was noticeable especially in the profit and income tax areas. Income tax dropped by 70.4% (NAf. 6.9 million), while profit tax paid was 8.6% (NAf. 6.9 million) lower, the result of less economic activity on the island.

Nontax revenues dropped by NAf.10.5 million (35.0%) in the third quarter of 1997 when compared to the same quarter in 1996. These developments were caused by a drop of NAf.4.8 million (42.1%) in the item "fees, charges, and sales" and a drop of NAf.6.0 million in other nontax revenues.

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

	1997- III	1996- III	NAf.	Change %
<b>REVENUES</b>	193.6	228.5	-34.9	-15.3%
<b>Tax revenues</b>	174.1	184.7	-10.6	-5.7%
of which:				
-profit tax	73.5	80.4	-6.9	-8.6%
-income tax	2.9	9.8	-6.9	-70.4%
-wage tax	85.1	83.1	2.0	2.4%
<b>Nontax revenues</b>	19.5	30.0	-10.5	-35.0%
of which:				
-fees,charges and sales	6.6	11.4	-4.8	-42.1%
-other nontax revenues	5.7	11.7	-6.0	-51.3%
Capital revenues	0.0	0.0	0.0	
Grants	0.0	13.8	-13.8	-100.0%
<b>EXPENDITURES</b>	220.6	244.7	-24.1	-9.8%
<b>Current expenditures</b>	218.1	228.7	-10.6	-4.6%
of which:				
-wages and salaries	71.4	91.3	-19.9	-21.8%
Wages	65.7	68.2	-2.5	3.7%
Pension premiums	5.7	23.1	-17.4	-75.3%
-goods and services	55.2	53.9	1.3	2.4%
-interest payments	44.7	37.3	7.4	19.8%
-subsidies to public companies	20.7	21.2	-0.5	-2.4%
-transfers	26.1	25.0	1.1	4.4%

<b>Capital expenditures</b>	2.5	16.0	-13.5	-84.4%
of which:				
-net lending	0.1	10.0	-9.9	-99.0%
<b>BALANCE</b>	-27.0	-16.2	-10.8	

On the expenditures side, current expenditures dropped by NAf.10.6 million, while capital expenditures dropped by NAf.13.5. Of the current expenditures, wages and salaries were NAf.19.9 million (21.8%) lower than projected. This reduction in the current expenditures was offset partly by higher expenditures of NAf.1.3 million (2.4%) on goods and services, higher interest payments of NAf.7.4 million (19.8%), and an increase of NAf.1.1 million (4.4%) in transfers in the third quarter of 1997 when compared to 1996.

Capital expenditures dropped by 84.4% (NAf.13.5 million) in the third quarter of 1997 mostly because of a reduction of NAf.9.9 million in net lending. Investments declined by NAf.1.3 million (35.1%) in the third quarter as compared to the third quarter in 1996. Furthermore, given that no payment for amortization of the foreign debt was made in the third quarter of 1997 compared to NAf.2.3 million in the third quarter of 1996, total capital expenditures declined.

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

	1997- III	1996- III
FISCAL BALANCE	-27.0	-16.2
MONETARY FINANCING	0.4	25
of which:		
Central Bank	7.6	50.8
Commercial banks	-7.2	-25.8
NONMONETARY FINANCING	26.6	-8.8
of which:		
Government securities with the public	3.8	-10.5
Other	22.8	1.7

The financing of the fiscal balance of the Island Government of Curaçao in the third quarter of 1997 was covered almost entirely nonmonetarily, by among other things, running arrears at the pension fund APNA. In addition, bills and notes, bonds, and negotiated loans maturing to the extent of NAf.43.4 million were not refinanced in the third quarter of 1997.

#### **Total outstanding public debt and guarantees**

The total outstanding debt of the Netherlands Antilles increased by NAf.50.1 million (1.8%) in the third quarter of 1997 compared with the second quarter in 1997. This accumulation in debt was the result of a drop of NAf.8.3 million (1.4%) in the foreign debt and an increase in

the domestic debt by NAf.58.4 million (2.6%). The total debt, as a percentage of GDP, increased from 71.8% in the second quarter to 73.3% in the third quarter of 1997.

The increase in the domestic debt of both the Central Government and the Island Government of Curaçao can to a large extent be explained by the arrears to other creditors in the amount of NAf.13.1 million, and NAf.17.7 million, respectively. Furthermore, the debt at the civil servant pension fund APNA increased by, respectively, NAf.5.8 million and NAf.24.4 million for the Central Government and the Island Government of Curaçao.

In the third quarter of 1997, debt incurred through securities to the public increased marginally by NAf.3.9 million for the Island Government of Curaçao, while for the Central Government, the outstanding amount of securities with the public dropped by NAf.3.4 million.

**Table 9**  
**Total outstanding consolidated public debt and guarantees <sup>1)</sup> (in millions NAf.)**

	1997-1997-II NAf.			Change
	III			%
Domestic consolidated debt	2248.8	2190.4	58.4	2.6%
of which:				
-Central Government	912.3	890.2	22.1	2.4%
-Curaçao	1287.5	1249.6	37.9	2.9%
-Bonaire	63.1	62.0	1.1	1.7%
-St. Maarten	2.0	1.5	0.5	25.0%
-St. Eustatius	0.9	0.8	0.1	11.1%
-Saba	1.0	0.8	0.2	20.0%
Foreign debt	579.0	587.3	-8.3	-1.4%
Total debt (% of GDP)	2827.8 73.3%	2777.7 71.8%	50.1	1.8%
Guarantees	333.7	337.4	-3.7	-1.1%
Total debt and guarantees (% of GDP)	3161.5 82.0%	3115.1 80.5%	46.4	1.5%

<sup>1)</sup> estimate

#### 4. DEVELOPMENTS IN THE EXTERNAL SECTOR

##### Introduction

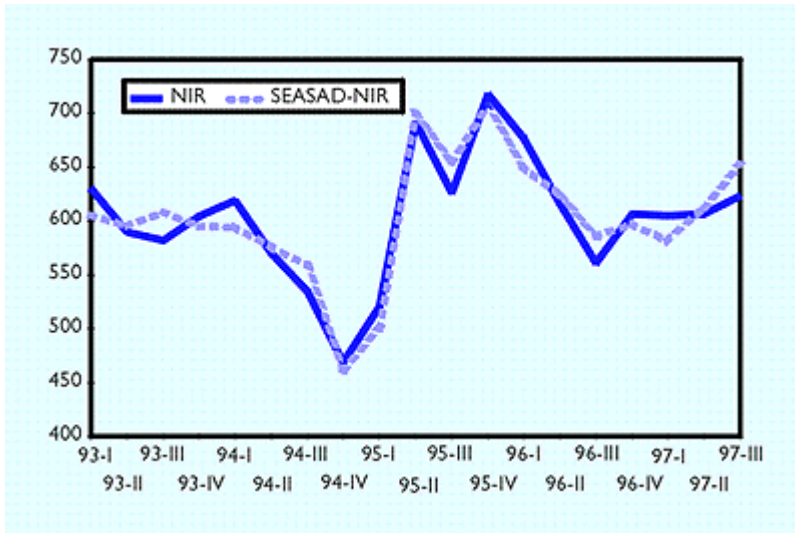
During the third quarter of 1997, net international reserves increased by NAf.17.0 million,



compared to the second quarter. 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.)**



The primary reason for the improvement in net international reserves, was the surplus of NAf.62.7 million in the capital account and a smaller current account deficit of NAf.51.4 million (see table 10).

**Table 10**

**Balance of payments summary<sup>1)</sup> (in millions NAf.)**

	1996- III	1997- III	Difference
Current account	-107.3	-51.4	55.9
Capital account	44.1	62.6	18.5
Statistical discrepancies	7.6	5.8	-1.8
<b>Balance of Payments</b>	<b>-55.6</b>	<b>17.0</b>	<b>72.6</b>
Change in reserves <sup>2)</sup>	-55.6	17.0	72.6
-with commercial banks	3.3	-22.2	-25.5
-with Central bank	52.3	5.2	-47.1
Memorandum Items			
Official reserves (excl. gold)			
-in millions NAf.	324.0	305.5	-18.5
-in months of merchandise imports	1.6	1.5	-0.1

1) *Cash basis*

2) *-Sign denotes an increase in reserves (excluding gold)*

The overall deficit in the third quarter of 1997 represents an improvement of NAf.72.6 million, compared with the third quarter of 1996. This development is mainly the result of the NAf.55.9 million improvement in the current account deficit.

### **The current account**

The current account of the balance of payments improved considerably. The deficit in the current account was reduced by half, to a deficit of NAf.51.4 million in the third quarter of 1997 compared with the corresponding quarter of 1996. Further analysis reveals that this improvement is related primarily to developments in our trade balance. Increased effort to expand the export-generating capacity in our trade sector, on the one hand, and the implementation of a policy mix to reduce domestic spending has resulted in an improved trade balance. Unfortunately, our foreign exchange-generating services did not perform as well as expected.

**Table 11**  
***A breakdown of the current account<sup>1)</sup> (in millions NAf.)***

	1996- III	1997- III	Difference
Merchandise balance	-543,4	-481,3	62,1
-Exports	88,0	113,0	25,0
-Imports	631,4	594,3	-37,1
Services balance	421,7	416,9	-4,8
Receipts, of which:	685,8	676,7	-9,1
-Transportation	160,7	155,1	-5,6
-Travel	215,6	224,2	8,6
-Int. financial & business sector	169,1	176,5	7,4
Taxes	35,7	48,5	12,8
Operational income	133,4	128,0	-5,4
Expenditures, of which:	264,1	259,8	-4,3
-Travel	111,7	109,9	-1,8
-Int. financial & business sector	53,3	55,6	2,3
Income balance <sup>2)</sup>	44,0	34,6	-9,4
Unrequited transfers <sup>3)</sup>	-29,6	-21,6	8,0
Current account balance	-107,3	-51,4	55,9

- 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.62.1 million to a deficit of NAf.481.3 million in the third quarter of 1997. This decline was due to a NAf.37.1 million drop in imports and a NAf.25.0 million rise in exports. A breakdown of imports reveals that the decrease occurred mainly in non-oil related imports, particularly on the Windward Islands. This decrease can be ascribed largely to a concerted effort by the authorities to reduce domestic spending. On the other hand, the rise in exports was the result of a NAf.23.8 million increase in free zone re-exports on Curaçao.

The Windward Islands recorded a NAf.30.7 million improvement in their trade balance, due mainly to lower non-oil imports. The decline in non-oil imports was due to the slowdown in economic activity in general and to reduced domestic spending in particular, with lower imports by mainly the hotel and retail sector.

Curaçao's merchandise balance was enhanced by NAf.29.4 million, the result of a drop in imports and a rise in exports. The substantial decline of approximately NAf.28 million in imports, excluding the free zone sector, was related mainly to reduced domestic spending. The rise in exports lies primarily in the buoyant performance in the free zone re-exporting activities, which increased by NAf.23.8 million (44.3%) in the third quarter of 1997. To accommodate the increased re-exporting activities, however, free zone imports increased by NAf.27.6 million, thus mitigating the improved revenues.

### **The services balance**

The surplus in the services balance decreased by NAf.4.8 million in the third quarter of 1997. The sluggish performances in all sectors, primarily the transportation sector, resulted in a drop of net foreign exchange earnings. In contrast, the tourism and the international financial sector performed relatively well, generating moderate increases in revenues of NAf.8.6 million and NAf.7.4, respectively, compared to the third quarter of 1996.

### **Tourism**

Net income from tourism increased in the third quarter of 1997 by NAf.10.4 million, largely because of improved tourism earnings. Although this sector continued to perform below its pre-hurricane level, it recorded a substantial improvement since the passage of the hurricane in 1995. As can be seen in table 12, foreign exchange receipts from the tourism sector in the Netherlands Antilles increased by NAf.8.6 million (8.6%) in the third quarter of 1997.

**Table 12**  
**Third quarter foreign exchange**  
**revenues from tourist per island<sup>D</sup> (in**  
**millions NAf.)**

	1994- III	1995- III	1996- III	1997- III
Bonaire	13.0	14.7	16.2	19.1
Curaçao	85.3	67.9	73.2	71.8
Windward Islands	156.4	127.6	126.2	133.3
Netherlands Antilles	255.7	210.2	215.6	224.2
Percentage growth	7.6%	-17.8%	2.6%	8.6%

### *1) Cash basis*

The Windward Islands recorded a small rise in foreign exchange earnings compared to the third quarter of 1996, as foreign exchange revenues increased by only NAf.7.1 million (5.6%). In line with this development, the number of stay-over tourists increased by 9.1%; in contrast, cruise tourism remained more or less at the same level as in the third quarter of 1996.

Tourism activities on the Leeward Islands were less pronounced. Foreign exchange generated by the tourism industry on the Leeward Islands increased slightly by 1.7% in the third quarter of 1997. The number of stay-over visitors and cruise visitors to the islands decreased sharply, by 5.1% and 43.8%, respectively.

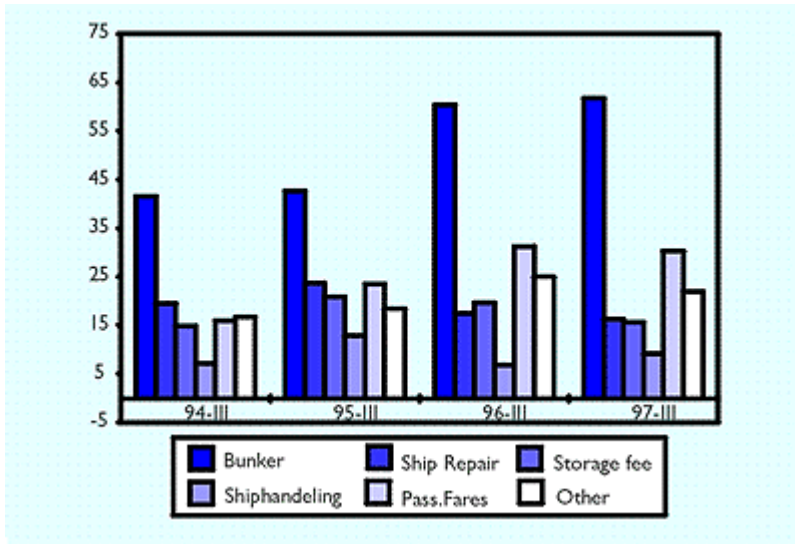
While tourism receipts increased, expenses by residents abroad continued to decline (NAf.1.8 million), although substantially less than in the previous quarters. One explanation may be that the third quarter is still considered the vacation period, despite the reduced spending capacity, in the community.

### **Transportation**

Activities in the international transportation sector were sluggish in the third quarter of 1997 (graph 2). Foreign exchange earnings generated in this sector decreased by NAf.5.6 million compared to the same period in 1996. The decline was primarily the result of a drop of NAf.4.0 million (20.4%) in receipts from storage activities. This weak performance was mitigated partly by the increased payments from harbor activities (NAf.2.3 million). On the other hand, overall payments for transportation services received from abroad decreased by NAf.7.2 million in the third quarter of 1997.

### ***Graph 2***

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

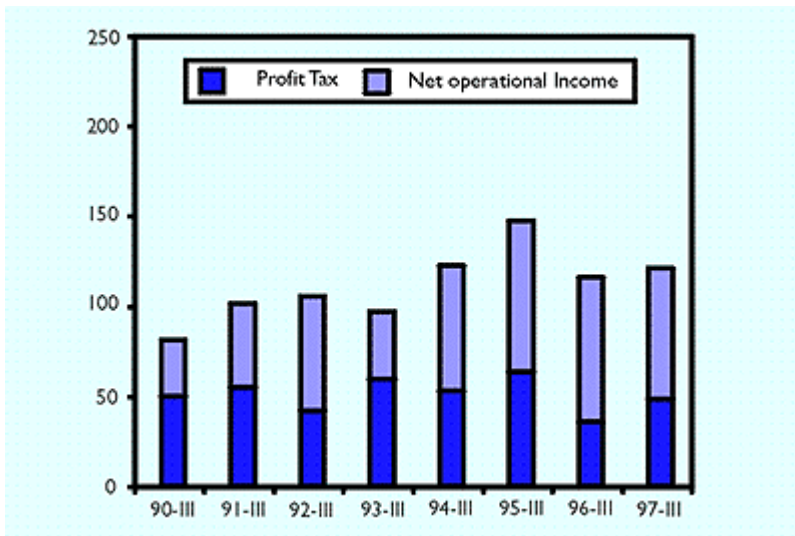


### The international financial and business services sector

Net foreign exchange earnings from the international financial and business services sector recorded an improvement of NAF.5.1 million in the third quarter of 1997. The receipts from profit taxes showed an increase of NAF.12.8 million. However, this improvement in foreign exchange earnings was offset partially by a drop of NAF.7.7 million in net operational income, the result of a drop in operational income from abroad.

### Graph 3

*Developments 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 drop of NAF.9.4

million in the third quarter of 1997, compared to the same period in 1996. This decline can be ascribed primarily to the other investment income, which accounts for the performance of portfolio investment of residents abroad. As table 13 reveals, the drop in the other investment account was primarily the result of lower receipts from portfolio investment abroad by NAf.7.6 million in the third quarter of 1997. Another factor contributing to the decline in the income balance is the turnaround in net receipts from direct investment. Transfers to nonresidents increased by NAf.3.6 million in the third quarter of 1997 as compared to the third quarter of 1996.

**Table 13**  
**Breakdown of the income account <sup>1)</sup> (in millions NAf.)**

	1996- III	1997- III	Difference
Investment income	43.6	32.4	-11.2
Direct investment income	3.3	0.1	-3.2
-Received	9.6	10.0	0.4
-Paid	6.3	9.9	3.6
Other investment income	40.3	32.3	-8.0
-Received	46.5	38.9	-7.6
-Paid	6.2	6.6	0.4
Labor income	0.4	2.2	1.8
-Received	2.9	3.6	0.7
-Paid	2.5	1.4	-1.1
Total income balance	44.0	34.6	-9.4

*1) Cash Basis*

### **The capital account**

The capital account of the balance of payments recorded a surplus of NAf.62.6 million in the third quarter of 1997, an improvement of NAf.18.5 million compared to the third quarter of 1996. Official capital transfers particularly contributed to this surplus.

Table 14 reveals that the surplus in the private capital balance declined marginally by NAf.1.8 million in the third quarter of 1997. Noteworthy is the approximately NAf.37.6 million change in the net portfolio investment of funds by residents. This substantial increase was due mainly to less re-investment of funds by institutional investors in particular.

**Table 14**  
**Major components of the capital account <sup>1)</sup> (Net flows in millions NAf.)**

1996- 1997- Difference

	III	III	
Private capital	28.5	26.7	-1.8
of which:			
-direct investment (Real estate)	3.2	6.4	3.2
-portfolio investment (Securities)	-37.6	0.0	37.6
-loans (net)	20.5	15.2	-5.3
comm. banks borrowings	0.0	0.0	0.0
other private capital	42.4	5.1	-37.3
Official capital	15.6	35.9	20.3
of which:			
-loans & grants	18.7	36.7	18.0
-other Government capital	-3.1	-0.8	-2.3
<b>CAPITAL BALANCE</b>	<b>44.1</b>	<b>62.6</b>	<b>18.5</b>
<i>1) Cash basis</i>			

## 5. MONETARY DEVELOPMENTS

### Introduction

Monetary developments during the third quarter of 1997 must be seen against the background of a continued contraction in economic activities. This development is reflected in a marginal growth in the total money stock (M2) and a marginal contraction in domestic credit to the private sector. Net domestic credit to the General Government increased, however, primarily because of an increased demand for liquid assets by the island governments.

For the first time since the first quarter of 1996, net foreign assets grew on an annual basis.

### Money supply

During the third quarter of 1997, the money supply (M2) expanded by 0.1% (NAf.2.7 million), compared to a 1.8% (NAf.46.6 million) contraction in the same period in 1996. This development can be attributed entirely to a turnaround in the money component of the money supply from a 5.8% (NAf.63.1 million) contraction to a 0.9% (NAf.8.6 million) expansion.

The marginal expansion of the money component of the money supply in the third quarter of 1997 is the net result of an increase of 2.6% (NAf.21.6 million) in demand deposits, on the one hand, and a 7.2% (NAf.13.0 million) contraction in coins and notes with the public, on the other.

A comparison on an annual basis reveals that the money component remained at practically the same level as at the end of the third quarter of 1996. This zero growth in the transaction

balances of the public reflects, among other things, the downturn in our economy.

The increase in demand deposits resulted from an increase of 1.8% (NAf.11.9 million) in deposits denominated in local currency and 6.0% (NAf.9.7 million) in deposits denominated in foreign currency.

The end-of-quarter amount of coins & notes with the public for the third quarter of 1997 was, as has been the case in every quarter since the first quarter of 1996, lower than that of the corresponding quarter the year before. This development is a reflection of the downturn in the business cycle, but also of innovations in the payments system, like the increasing use of debit cards at gas stations and supermarkets, for example.

The near money component of the money supply contracted by 0.4% (NAf.5.9 million) in the third quarter of 1997 compared to a 1.1% (NAf.16.5 million) expansion in the third quarter of 1996. This development can be attributed entirely to a turnaround in time deposits from a 9.3% (NAf.29.5 million) expansion to a 0.9% (NAf.3.6 million) contraction. A comparison of the level of both savings and time deposits at the end of the third quarter of 1996 with the corresponding levels at the end of the third quarter of 1997, reveals a decrease of NAf.28.2 million to NAf.1092.2 million in savings and an increase of NAf.52.7 million to NAf.400.6 million in time deposits.

The development in the saving deposits can be explained almost entirely by a NAf.22.2 million drop in the savings of individuals. This decrease is a reflection of the contraction of our economy, the continued efforts of the government to speed up the collection of tax arrears and social premiums, and the rise in the cost of living as a result of the introduction of a sales tax on July 1, 1996. The marked increase in time deposits (which are held by non-individuals) during the mentioned 12-month period is to a great extent the result of a NAf.24.7 million increase in the time deposits held by business enterprises (excluding financial institutions). This increase in time deposits may be a reflection of the reticent attitude of many entrepreneurs towards risky investments as a consequence of the uncertainties related to the public finances.

**Table 15**  
**Quarterly changes in the components of the money supply (in millions NAf. and in percentages)**

	1997-III		1996-III	
Coins and notes with the public	-13.0	-7.2%	-12.3	-6.4%
Demand deposits held by the public of which:	21.6	2.6%	-50.8	-5.7%
-Neth.Ant.guilders	11.9	1.8%	-61.9	-8.4%
-Foreign currency	9.7	6.0%	11.1	7.1%
Money	8.6	0.9%	-63.1	-5.8%
Time deposits	-3.6	-0.9%	29.5	9.3%
Savings	-2.3	-0.2%	-13.0	-1.1%

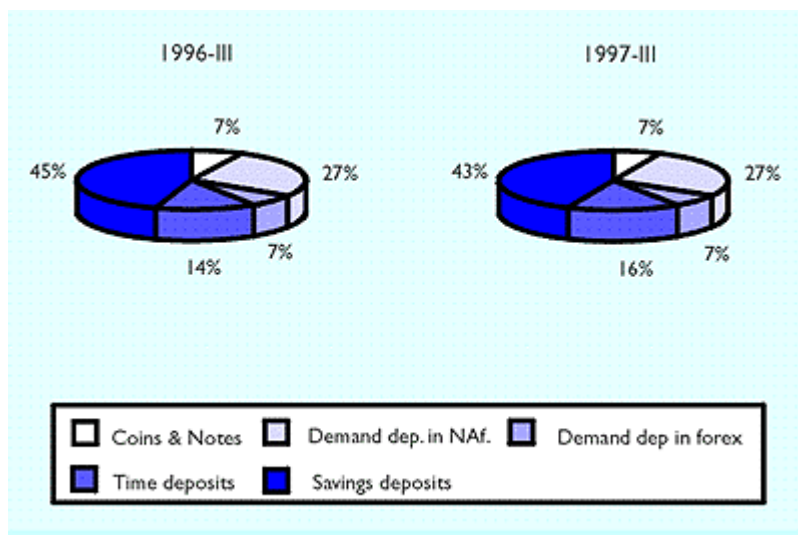


Near money -5.9 -0.4% 16.5 1.1%

Money supply 2.7 0.1% -46.6 -1.8%

Graph 4 reveals a 2 percentage points increase to 16% in the share of time deposits in the composition of the money supply at the end of the third quarter of 1997, compared to the same period in 1996. This increase was entirely at the expense of the share of savings, which dropped to 43%.

**Graph 4**  
**Third-quarter developments in the composition of the money supply**



**Factors affecting the demand for liquid assets**

The demand for liquid assets expanded by 0.1% (NAf.2.7 million) during the third quarter of 1997, compared to a 1.8% (NAf.46.6 million) contraction during the same period in 1996. This development can be explained entirely by the turnaround in net foreign assets from a 10.5% (NAf.55.6 million) contraction to a 3.7% (NAf.19.4 million) expansion.

The demand for liquid assets of the domestic sector contracted by 0.8% (NAf.16.7 million) compared to a 0.5% (NAf.9.0 million) expansion during the third quarter of 1996.

**Table 16**  
**Quarterly changes in the demand for liquid assets by sector (in millions NAf. and in percentages)**

	1997-III		1996-III	
Government sector,	26.3	20.2%	-22.3	-11.4%
of which:				
-Central Government	10.6	20.0%	12.9	21.3%
-Island governments	15.7	20.3%	-35.2	-25.9%

Private sector	-5.3	-0.2%	27.7	-1.3%
Miscellaneous	-37.7	9.4%	3.6	-0.8%
Domestic sector	-16.7	-0.8%	9.0	0.5%
Net foreign assets	19.4	3.7%	-55.6	-10.5%
of which:				
-Gold	0.0	0.0%	0.0	0.0%
-Official reserves	-5.2	-1.7%	-52.3	-13.9%
-Net foreign assets banks	24.6	23.1%	-3.3	-6.5%
Total liquid assets	2.7	0.1%	46.6	-1.8%

The slight contraction in the demand for liquid assets by the domestic sector in the third quarter of 1997 is primarily the result in a drop in the miscellaneous items, which was primarily the result of a rise in retained earnings and taxes payable by the commercial banks.

The demand for liquid assets by the private sector contracted by 0.2% (NAf.5.3 million) compared to a 1.3% (NAf.27.7 million) expansion in the third quarter of 1996. The marginal contraction in the third quarter of 1997 is the net result of decreases in loans to the private sector, special loans, and amounts receivables of NAf.0.3 million, NAf.2.4 million, and NAf.5.2 million, respectively on the one hand, and an increase in securities and participations by NAf.2.7 million, on the other. During the first three quarters of 1997 domestic credit to the private sector contracted by 0.2%, far below the permissible 3% growth rate set by the Bank for 1997. This reticent attitude of businesses and households towards borrowing must be seen against the background of a sagging economy.

The demand for liquid assets by the government sector expanded by 20.2% (NAf.26.3 million) in the third quarter of 1997 compared to an 11.4% (NAf.22.3 million) contraction in the third quarter of 1996. This development can be ascribed mainly to the turnaround from a 25.9% (NAf.35.2 million) contraction to a 20.3% (NAf.15.7 million) expansion in the demand for liquid assets by the island governments. The expansion in the demand for liquid is the net result of drops of NAf.8.3 million and NAf.15.2 million in the deposits of the Island Government of Curaçao and the deposits of the other islands, respectively, on the one hand, and a drop of NAf.7.8 million in the liabilities of the Island Government of Curaçao to the banking system, on the other. Furthermore, the demand for liquid assets by the Central Government increased by NAf.10.5 million during the third quarter of 1997, mainly as a result of the rise of its liabilities to the banking system by NAf.7.2 million.

### **Domestic credit extension by the commercial banks**

The total amount of outstanding domestic loans (i.e., domestic credit excluding special foreign borrowings, amount receivables, and securities and participations) at the commercial banks expanded by 0.7% during the third quarter of 1997 compared to a 3.3% expansion in the third quarter of 1996. This is the result of a turnaround from a 1.6% expansion to a 0.2% contraction in the growth rate of loans to the private sector, and of a turnaround from a 21.5% expansion to a 5.3% contraction in the growth rate of the amount of government paper held in portfolio by the commercial banks.

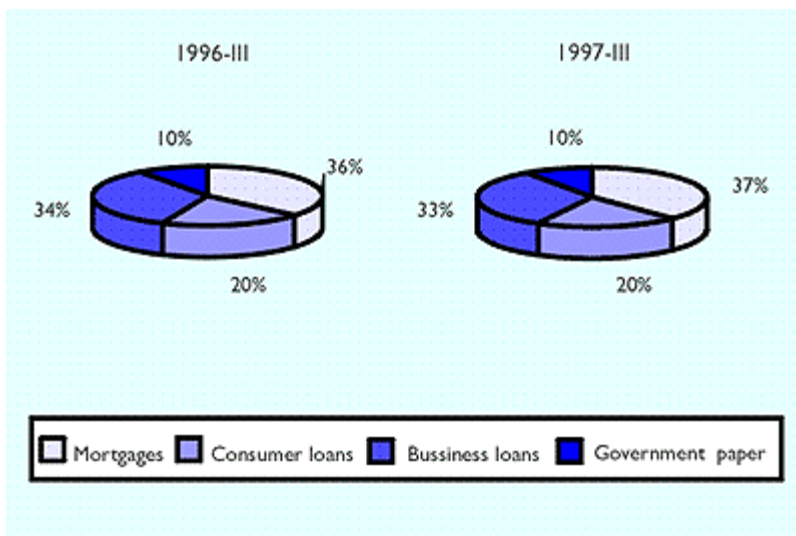
The marked turnaround in the growth rate of government paper in portfolio must be seen, however, against the background of the expansion that resulted after conversion into government paper of former claims of the Giro on the Island Government of Curaçao during the third quarter of 1996. For the 1997 monetary cash reserve arrangement, net domestic credit to the general government was not allowed to surpass its end-of-October 1996 value. The end-of-September 1997 amount of government paper in the commercial banks' portfolio was NAf.14.0 million below the end-of-October 1996 amount. This decrease is, among other things, a reflection of the reluctance of commercial banks to refinance government paper in light of the uncertainties regarding government finances.

**Table 17**  
**Private sector loans and government paper at commercial banks as per end of period (in millions NAf. and percentages)**

	1997- III	1996- III	1997- III	% change 1996-III
Private sector loans,	2,177.0	2,201.1	-0.2%	1.6%
of which:				
-Mortgages	910.6	890.3	1.7%	2.9%
-Consumer loans	479.3	487.7	-1.5%	1.4%
-Business loans	787.1	823.4	-1.6%	0.4%
Government paper	233.5	247.5	-5.3%	21.5%
Total domestic loans	2,410.5	2,448.6	-0.7%	3.3%

Table 17 reveals further that the growth in mortgages decelerated by 1.2 percentage points to 1.7% in the third quarter of 1997. Business loans contracted by 1.6%, a turnaround compared to the 0.4% expansion in the same quarter in 1996. Consumer loans contracted by 1.5% compared to a 1.4% expansion during the third quarter of 1996. The outstanding amount of loans to the private sector contracted by 1.1% (NAf.24.1 million) during the October 1, 1996 to September 30, 1997, period. This development, which can be ascribed to contractions in total outstanding loans on both the Windward and the Leeward Islands, is a reflection of the recession since mid-1996.

**Graph 5**  
**Developments in commercial banks' lending portfolio**



Graph 5 reveals no major shifts in the shares of the different components of the loan portfolio of the commercial banks.

A breakdown of commercial banks' private sector lending by island group reveals that on the Leeward Islands, the growth in total loans turned around from a 1.7% expansion in the third quarter of 1996 to a 0.1% contraction in the third quarter of 1997. This general turnaround is the result of a turnaround from a 1.2% expansion to a 2.0% contraction in consumer loans and a turnaround from a 0.4% expansion to a 1.3% contraction in business loans, compared to the third quarter of 1996. The growth in mortgages decelerated by 1.2 percentage points to 2.4%. Over the period from October 1996 to September 1997, the outstanding loans to the private sector contracted by 1.2% (NAf.19.9 million).

**Table 18**  
**Private sector loans at commercial banks on the Leeward Islands as per end of period (in millions NAf. and percentages)**

	1997-III	1996-III	% change	
			1997-III	1996-III
Private sector loans,	1,652.3	1,672.2	-0.1%	1.7%
of which:				
-Mortgages	637.7	614.3	2.4%	3.6%
-Consumers loans	361.0	367.8	-2.0%	1.2%
-Business loans	653.6	690.1	-1.3%	0.4%

On the Windward Islands, credit extension to the private sector contracted by 0.7% during the third quarter of 1997, a turnaround compared to the 1.3% expansion in the same quarter in 1996. This development can be ascribed primarily to the turnaround from a 0.4%

expansion to a 2.8% contraction in business loans. The growth rate of mortgages and consumer loans decelerated by 1.4 percentage point to 0.0% and by 1.7 percentage points to 0.3%, respectively.

**Table 19**  
**Private sector loans at commercial banks on the Windward Islands as per end of period (in millions NAf. and percentages)**

			% change	
	1997- III	1996- III	1997- III	1996- III
Private sector loans, of which:	524.7	528.9	-0.7%	1.3%
-Mortgages	272.9	275.7	0.0%	1.4%
-Consumers loans	118.3	119.9	0.3%	2.0%
-Business loans	133.5	133.3	-2.8%	0.4%

Total outstanding loans to the private sector on the Windward Islands contracted from the October 1, 1996, to September 30, 1997, by 0.8% (NAf.4.2 million).

## 6. INTERNATIONAL AND REGIONAL DEVELOPMENTS

### Introduction

The Organization for Economic Cooperation and Development (OECD) revised its June 1997 forecast for the world economy for 1997 and 1998 due to the unexpected tumbling of currencies and rising interest rates in Asia. These factors are expected to dampen the growth in the world's most industrialized countries both this year and next year, and to reduce inflation in 1998.

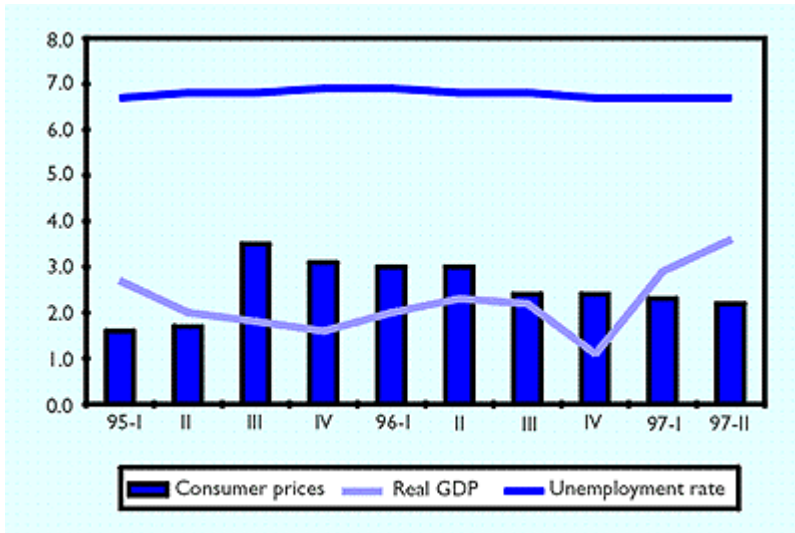
Taking into consideration the financial turmoil in Asia, GDP growth throughout the OECD members countries could be slowed by 0.3% percentage point in 1997 and 0.9% percentage point in 1998, bringing the OECD countries' growth to an estimated 2.7% in 1997 and 1.7% in 1998.

The effect of the Asian financial crises will be felt primarily in Japan and other Pacific Rim countries where it is expected that the Japanese economy will contract by 0.1% in 1997 instead of the 0.5% growth initially expected. In 1998 the Japanese economic growth is expected to increase only marginally by 0.3% in contrast to the previously expected 1.7% growth.

Economic growth in the United States will experience a slowdown because of the Asian financial crises, which are expected to slow economic growth in the US by 0.3 percentage point in 1997 and by 0.7 percentage point in 1998. After experiencing a growth of 3.8% in 1997, the fastest annual pace since 1988, the US is considered to have the best prospects of

any major industrial economy.

**Graph 6**  
**Selected OECD Major Seven economic key figures (% changes)**



The German economy is expected to expand by as much as 2.4% in 1997, and is likely to grow at an estimated 3% in 1998 and 1999 according to the OECD forecast. This acceleration in growth in the coming years is due to increased orders for intermediate goods, which have been expanding strongly. These factors show a clear indication that the recovery of the German economy is becoming more firm and that the business sector is building up its stock level.

According to the OECD forecast, the Dutch economy will experience a growth of 3.25% in 1997, rising to 3.5% in 1998 and to 3.75% in 1999. This increase in GDP growth is due to the increase in exports because the Dutch guilder remains weak vis-à-vis the US dollar and the British pound. Inflation will slow down from an expected 2.6% at the end of 1997 to 2.3% at the end of 1998 and then increase slightly to 2.4% in 1999.

## **Economic performance in Venezuela**

### **Overview**

Despite doubts about the macroeconomic stability in the medium term in Venezuela, the economy is expected to rebound from a recession in 1997 and sustain the recovery in 1998. Oil production has continued to expand in 1997, boosting exports in real terms. For the first time since 1991, the Venezuela non-oil economic sector is expected to grow more strongly than the oil sector. Nontraditional exports are recovering despite the strength of the bolivar, and this development will be a major contributing factor to the expansion in output in 1997 and 1998.

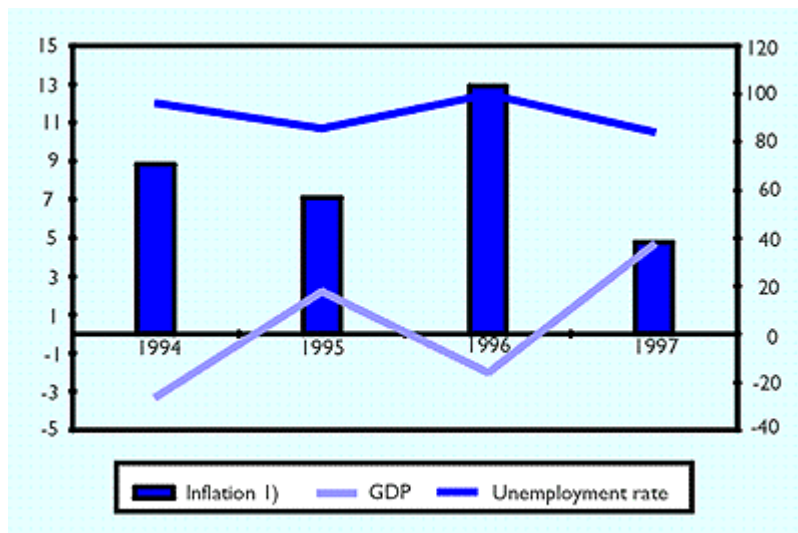
### **Third quarter development**

The Venezuelan economy is growing at a faster than expected rate in 1997, growing in real terms by 4.7%. This growth can be attributed to the rapidly expanding oil industry. The

country's oil industry grew by 7.5% in 1997, while the non-oil sector grew by 5.5%; however, by year end it is expected that the non-oil sector will outpace the growth in the oil sector. The economy was originally expected to expand by an estimated 3-4% in 1997. The non-oil sector, is also contributing to the Venezuelan economic growth, was expected to expand by 3.1%. However, the growth was stronger than expected due to an important recovery in the country's construction sector. The construction sector is expected to grow by 8% in 1997.

Price pressures generated by strengthening domestic demand will be absorbed partly by import growth and by utilization of idle domestic capacity. The real appreciation of the bolivar also will help bring down the inflation in 1997. Nevertheless, the inflation rate for 1997 is expected to be around 37-38%, well above the 25% projected by the government. In 1996 the inflation rate of Venezuela was 103%. For 1998 a year- end inflation rate target is projected at 20%.

**Graph 7**  
**Selected economic key figures of Venezuela (% changes)**



The prolonged contraction of the private sector will end in 1997 as investment in the oil sector among other things, stimulates construction activity. This development will create new jobs and keep unemployment in a downward trend. At year end 1997, the Venezuelan unemployment rate is expected to be 10.5%.

The Venezuelan Central Bank is preparing actions to reduce the monthly rate by which the central parity peg of exchange rate band mechanism depreciates, from 1.32% to 1.16%. However the 7.5% band on either side of the central parity will remain in place.

Expected better inflation data in November and December of 1997 will persuade the Central Bank to allow the bolivar to float downward again, and the exchange rate is expected to hit Bs 505 to the US dollar by year end 1997.

Venezuela's international reserves rose 91 % since April 1996, when the government lifted exchange and price restrictions. According to the Venezuelan Central Bank reports, the

reserves, which currently cover approximately two years of imports, increased during 1997 by more than US\$ 2 billion in proceeds from auction of operating contracts for 18 oil fields. Also higher international oil prices contributed to the increase in the foreign exchange reserves. During the month of September 1997, the international reserves stood at approximately US\$ 18 billion.

## Economic performance in the Netherlands

### Overview

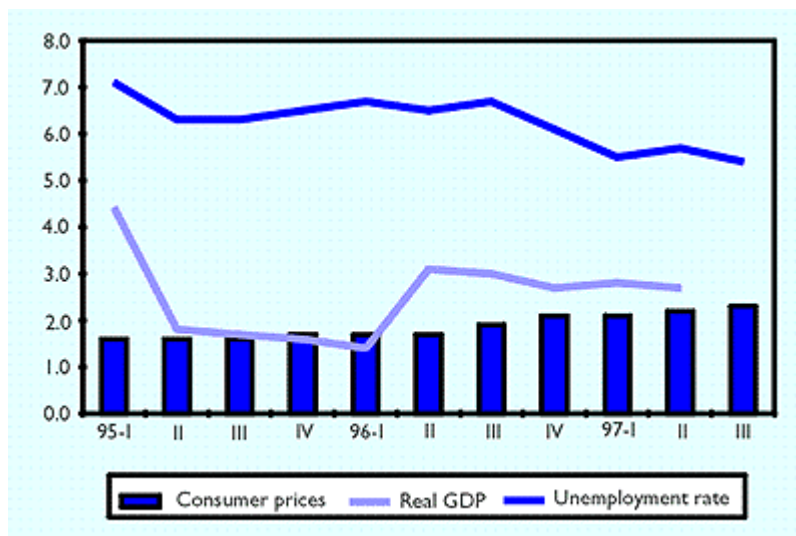
The Dutch economy is expected to grow at an average of 3.5% from 1996 up to 1998, well above the 2.2% of EU as a whole. The continued tight fiscal and monetary stance is currently preventing the economy from overheating. From 1999 to 2001, the GDP growth is expected to be more in line with the EU (2.2 to 2.3%) because of the expected decrease in domestic demand.

### Third quarter development

The Dutch economy experienced a growth of 2.9 % in the third quarter of 1997 compared to 2.8% growth in the second quarter of 1997. However, it is still expected that the Dutch economic growth will be 3.25% for the entire year because of higher investments during the first half of 1997, e.g., investments expanded by 10%. Increased investments are being recorded in residential areas, for business construction, and in the machinery sector in the Netherlands.

### Graph 8

#### Selected economic key figures of the Netherlands (% changes)



Concomitant with the economic growth during the third quarter and the expected growth for the remainder of 1997, the unemployment rate decreased from 5.7% in the second quarter to 5.4% in the third quarter of 1997. The labor market remains the engine behind economic growth, spurring consumer spending due to improved consumer confidence and higher disposable income growth.



Dutch industrial production recorded a strong growth and increased from 2.6% in the second quarter of 1997 to 3.6% in the third quarter due mainly to higher base metal and chemical industry output. Economists and the bond market are not worried, however, that the economy is overheating, since room still exists for increased capacity. On an annual basis, industrial production decreased by 0.2 percentage points from 2.4% in the second quarter to 2.2% in the third quarter of 1997.

Consumer prices accelerated marginally from 0.5% in the second quarter of 1997 to 0.7% in the third quarter. This acceleration in prices was due to higher prices of clothing, shoes, and vegetables. On an annual basis, the acceleration in inflation was only 0.1 percentage point as consumer prices rose from 2.2% to 2.3% in the third quarter of 1997. Dutch producer prices also increased during the third quarter of 1997, although marginally. Producer prices increased from 1.0% to 1.1%. On an annual basis, the producer price index rose by 0.5% point from 2.5% in the second quarter to 3.0% in the third quarter of 1997.

## **Economic performance in the United States**

### ***Overview***

Growth in the first three quarters of 1997 remained very strong, mostly due to buoyant growth in private consumption. As result of this GDP, growth for 1997 is estimated to be 3.8%. However, after an expected growth of 3.8% in 1997, the fastest annual pace since 1988 and the best performance of all major industrial economies, the growth of the US economy is expected to slip to 2.7% in 1998 and 1.9% in 1999 due to effects of the financial turmoil in Asia.

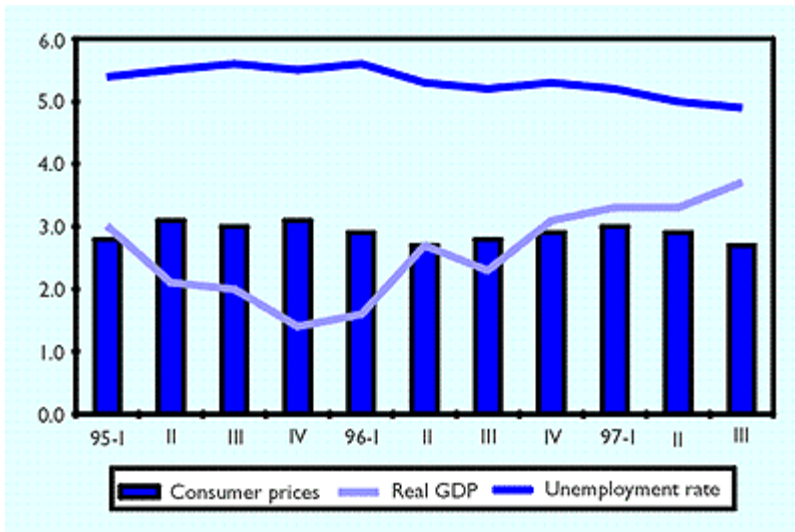
### ***Third quarter development***

The US economy grew at a 4.0% annual rate in the third quarter of 1997 compared to the same quarter in 1996. This is a slight increase when compared to a growth rate of 3.4% in the second quarter. This growth can be attributed to the strongest consumer spending in the last five years. A boost in business capital investment also contributed to this increase in the US GDP.

During the month of September 1997, the order for big ticket goods declined slightly thereby, slowing down industrial production. However, on a quarterly basis, the industrial production growth rate increased from 4.1% in the second quarter of 1997 to 4.8% in the third quarter. It is expected that the decline in the month of September will be short-lived because businesses continue to spend heavily on capital improvements ranging from computers to new plants. On an annual basis, industrial production also increased by 0.8 percentage points, from 3.2% to 4.0% in the third quarter of 1997.

### ***Graph 9***

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



The US unemployment rate remained constant at a 4.9% average in the third quarter of 1997 compared to the second quarter of 1997. This constancy is due to the growth of the economy, which resulted in ample job possibilities. Also US workers' productivity in the third quarter of 1997 posted its biggest gain in five years, and new unemployment benefit claims declined in the last week of September 1997.

Despite the growth of the US economy consumer prices remained constant. On a quarterly basis, inflation remained at 0.4% in the third quarter compared to the second quarter of 1997. On an annual basis, the inflation rate in the US decelerated from 2.9% to 2.7% in the third quarter of 1997. Producer prices, on the other hand, showed an increase in the period July to September 1997. On a quarterly basis, producer prices increased by 0.8% percentage point from -0.6% in the second quarter to 0.2% in the third quarter of 1997. On an annual basis, however, a deceleration in prices was recorded of 0.7 percentage point to 1.3% in the third quarter of 1997.

The composite leading indicator that projects economic performance in the short term, shows a continued growth of the US economy. This indicator increased from 0.9% in the second quarter to 1.9% in the third quarter of 1997. On an annual basis, the increase was of 0.2 percentage point to 5.4% in the third quarter of 1997.

## 7. DEVELOPMENTS IN THE FINANCIAL SECTOR

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

### Developments in the domestic banking sector

During the third quarter of 1997, total assets of the domestic banks continued to decline, dropping slightly by 0.4% to NAf.4,151.8 million. This decline was mainly the net result of the decrease in noninterest-bearing cash and investments, which exceeded the increase in

interbank funds sold to foreign banks and loans.

The decrease in investments included the decrease in long term-debts of the Central and Island Government by 15% and 6%, respectively. The increase in the loan portfolio was due mainly to the increase in time loans to business enterprises and individuals and mortgage loans to individuals.

Total deposits decreased by NAf.24.4 million during the third quarter of 1997 as a result of the decrease in savings and time deposits, which exceeded the increase in demand deposits. The main deposit items that contributed to this decline concern savings deposit withdrawals by individuals, time deposit withdrawals by the Island Government, banks, and other financial institutions. The increase in demand deposits during the third quarter of 1997 was fuelled mainly by the increase in deposits by business enterprises, the Central Government, and agencies and institutions of the government. Demand deposits placed by the latter almost quadrupled.

Furthermore, borrowing decreased by NAf.11.5 million (9.4%) to NAf.111.3, while other liabilities increased by NAf.9.5 million (6%) to NAf.168.0, respectively.

Total capital of the domestic banking sector increased by NAf.9.2 million to NAf.389.6 million, mainly because of the increases in general provisions and capital reserves of 5% and 2%, respectively. The capitalization of the domestic banking sector continues to be adequate and meets international standards.

**Table 20**  
**Aggregate balance sheet of commercial banks operating in the domestic banking sector of the Netherlands Antilles at quarter-end (in millions NAf.)**

	1997-III		1997-II		1996-III	
	NAf.	%	NAf.	%	NAf.	%
<b>ASSETS</b>						
Nonint.-bearing cash	270.6	6.5	317.4	7.6	310.2	7.4
Interest-bearing cash	559.5	13.5	517.3	12.4	596.3	14.3
Investments	299.2	7.2	320.3	7.7	307.5	7.4
Loans	2,772.4	66.82	2,764.9	66.32	2,730.4	65.3
Investm. unconsol. sub	24.7	0.6	19.6	0.5	22.3	0.5
Fixed assets	154.0	3.7	152.9	3.7	142.6	3.4
Other assets	71.4	1.7	76.6	1.8	69.2	1.7
Total assets	4,151.8	100.04	4,169.0	100.04	4,178.5	100.0
<b>LIABILITIES</b>						
Demand deposits	1,160.7	28.01	1,149.5	27.61	1,174.6	28.1

Savings deposits	1,615.7	38.91	635.4	39.21	614.6	38.6
Time deposits	706.5	17.0	722.4	17.3	717.9	17.2
Total deposits	3,482.9	83.93	507.3	84.13	507.1	83.9
Borrowings	111.3	2.7	122.8	3.0	128.6	3.1
Other liabilities	168.0	4.0	158.5	3.8	168.1	4.0
Total liabilities	3,762.2	90.63	788.6	90.93	803.8	91.0
Minority interest	4.8	0.1	5.2	0.1	4.1	0.1
Subord. debentures	9.90.2		10.2	0.2	11.8	0.3
General provisions	100.0	2.4	95.0	2.3	95.3	2.3
Capital & reserves	274.9	6.7	270.0	6.5	263.5	6.3
Total capital	389.6	9.4	380.4	9.1	374.7	9.0
Total liabilities and capital	4,151.8	100.04	169.01	100.04	178.51	100.0

### **Developments in the international banking sector**

During the third quarter of 1997, Compagnie Bancaire des Antilles N.V. was admitted to the international banking sector of the Netherlands Antilles, bringing the number of international banks to 41. The aggregate assets of the international banking sector increased slightly from NAf.62.7 billion to NAf.63 billion. The growth was mainly the result of a growth in lending activities, financed primarily by a growth in deposits. Total equity of the international banking sector amounted to approximately NAf.4 billion at the end of the third quarter of 1997.