



## QUARTERLY BULLETIN 1998-1

**Bank van de Nederlandse Antillen**

## REPORT OF THE PRESIDENT

The downturn in the Netherlands Antillean economy continued in the first quarter of 1998, reflected by a contraction in real GDP of 0.7% on an annual basis. This is the second consecutive quarter that the downturn has eased, however. The latter can be attributed to the improving performance of the export sector, and of tourism in particular, since domestic demand declined further. The decline in demand can be related to the contained spending behavior of the government due to financing constraints and the private sector's uncertainties in connection with the policy intentions of the new government. The annualized rate of inflation decreased further to 2.4%, in line with the rate of inflation of our main trading partners. The phasing-out of the effect on prices of the government's revenue-enhancing measures contributed to a steady decline in inflation since the third quarter of 1997.

The export sector recorded real growth for the second consecutive quarter. As in the previous quarter, tourism was the main engine of this growth. Foreign exchange income from tourism increased on all the islands, but on Curaçao and St. Maarten in particular. Measured in number of visitors, however, the developments by island were mixed. In St. Maarten, the growth in the number of stay-over and cruise passengers remained buoyant, indicating that the recovery from the hurricane disaster in September 1995 is progressing well. In Curaçao, cruise tourism grew significantly, but stay-over tourism continued to deteriorate. In Bonaire, both the number of cruise and stay-over visitors decreased. The relatively high prices compared to other destinations and insufficient air connections are considered the main factors for the decline in stay-over tourism on the Leeward Islands. In addition to the development in tourism, free zone activities continued to expand rapidly, as reflected by a marked increase in re-exports. However, the number of visitors declined further.

In contrast to the growth in tourism, the developments in our other main export industries remained weak. Activities in the international financial and business services sector continued to decline, due partly to the erosion of our competitive position vis-à-vis other jurisdictions as a result of the changes in the tax arrangements with the Netherlands. The transportation sector recorded a slight overall decline in activities. Both oil transshipment activities and foreign exchange earnings from oil storage decreased. The ship repair sector incurred a drop in foreign exchange income earned and man-hours sold. Furthermore, foreign exchange revenues from bunker sales deteriorated. The national carrier Air ALM recorded a decline in the number of passengers transported, but the amount of freight transported increased. The recovery of harbor activities in Curaçao continued, reflected by a marked increase in the amount of freight handled. Finally, the production of the oil refinery increased marginally due mainly to plant maintenance.

Despite the overall improvement in exports, the deficit on the current account of the balance of payments deteriorated slightly due to a more-than-offsetting increase in imports. About half of the increase in imports was accounted for by the free zone. Non-free zone-related merchandise imports continued to decline in line with the muted domestic spending. In contrast to the current account, the capital account recorded an improvement. This improvement was attributable entirely to the increase in official capital inflows, as the private

capital balance deteriorated slightly. These developments resulted in an overall balance of payments deficit and, hence, a decline in international reserves. In light of the small improvement in exports and the decline in reserves, the Bank wants to reiterate that a lasting improvement in our balance of payments cannot be attained without strengthening our export sector. This strengthening should be attained through the urgent implementation of the recommendations of the Inter-American Development Bank, which are aimed at enhancing the overall business climate and, hence, our international competitive position.

The General Government recorded a substantial surplus in its operations on a cash basis in the first quarter of 1998. This improvement was attributable entirely to a drop in expenditures related to a tight expenditure policy and the deferment of certain payments in light of the persistent financing constraints. Total revenues deteriorated slightly. This outcome is, however, not indicative for the annual projection of the cash deficit, which amounts to approximately NAF.300 million excluding repayments on Dutch development aid loans. The actual cash deficit will probably be lower due to financing constraints. Consequently, the deferment of payments will continue and arrears will increase further. To break this trend, a credible program aimed at a balanced budget in the near term is essential. This action could restore investors' confidence and raise the necessary financing to facilitate the restructuring of the public finances and the recovery of our economy.

Concomitant with the sluggish economic development, the growth in monetary aggregates remained contained. The domestic sector exerted a marginal expansionary impact due to an increase in credit to the private sector and miscellaneous factors. Credit to the private sector remained, however, within the limits of the monetary cash reserve arrangement. The government sector recorded a contractionary impact related to its cash surplus. The domestic expansion was mitigated by a slight decrease in net international reserves due to the balance of payments deficit.

Given our weak international reserves position and the uncertainties surrounding the authorities' intentions to address the current financial-economic crisis, the Bank's monetary policy remains appropriately tight. This position is reflected by the prolongation of the monetary cash reserve arrangement until the end of 1998. Credit to the private sector is allowed to grow by 0.25% over the limit at the end of June 1998, while the ceiling on net domestic credit to the government remains in place. In addition, the Bank took a further step towards a more market-oriented monetary policy. As of September 1998, the current limit on net foreign investments for commercial banks will be abolished. At the same time, the reserve requirement will be raised from 4% to 6% to strengthen the Bank's control over the liquidity of commercial banks. A maximum of 25% of the reserve requirement may be held in certificates of deposit, which compensates partly for interest income forgone. The current monetary cash reserve arrangement will be phased out gradually.

The outlook for the world economy is affected by the impact of the year old financial crisis in South East Asia. Rising uncertainties about the effects of the crisis on the Latin American economies led to a sharp decline in investor's confidence, resulting in declining stock markets and devaluations. These developments, together with the deepening crisis in Russia, affected also the US and European stock markets. As a result, growth prospects have been revised downward worldwide. The expected slowdown of the world economy will also affect

the recovery of the Netherlands Antillean economy. In the design of the macro-economic adjustment program it is therefore important to account for this development. If we are to achieve economic revival in the near term, it is important to implement the economic recovery plan without delay.

This revitalization should be realized through the implementation of a viable and comprehensive adjustment program, which addresses both the improvement in our investment climate and the crisis in our public finances. Only through this two-tier approach can we overcome the current economic crisis and create a climate conducive to economic recovery and employment growth.

*E.D. Tromp*  
*President*

## DEVELOPMENTS IN THE REAL SECTOR

### General economic developments

The Antillean economy deteriorated further in the first quarter of 1998 showing an annual contraction in real GDP of 0.7%. During this period, aggregate demand fell, the result of muted overall spending, which reflected a loss of confidence in the government's ability to resolve the country's suffering economy. The annual inflation rate slowed to 2.3% in the first quarter of 1998. Inflation continued downward, driven by the phasing out of the effects of the sales tax and the turnover tax.

### National production and spending

Gross domestic product, the broadest measure of national economic activity, shrank by 0.7% in real terms in the first quarter of 1998, lower than the 1.3% drop in the first quarter of 1997. The downturn in economic growth was matched by a corresponding decline in producer and consumer confidence, real private investment, and household spending. The stagnating economy was accompanied by less government consumption (-9.6%) and investment (-46.3%). The government's indecisiveness to tackle the growing deficit, among other economic problems, has become a major concern. Hence, resuscitating the depressed economy means overcoming many hurdles. Obviously, an increasing government debt has not been conducive to spending and investments. These factors compounded the already high unemployment rate of 14.9%.

### Inflation

For the Netherlands Antilles, the annual inflation eased to 2.3% in the first quarter of 1998 in comparison to 3.6% in the same period of 1997. The annual rate of inflation in Curaçao and Bonaire in the first quarter of this year was, respectively, 2.4% and 1.6%, down from, respectively, 3.8% and 2.9% in the first quarter of 1997. Similar to 1997, the inflation rate in St. Maarten, on an annual basis, remained at 2.5%. Clearly, the Windward Islands' inflation rate stayed unchanged, but the Leeward Islands' have decelerated relative to 1997. This deceleration was associated with, first, the phasing out of the effects of the sales tax; second, the fall in world oil prices, which reduced overall prices; and third, the negligible price increase of our main trading partner (USA). During the first quarter of 1998, the US consumer price inflation decelerated to 1.4%, down from 2.8% in the first quarter of 1997.

A quarterly analysis of inflation rates by island reveals that St. Maarten reported the highest inflation rate of 0.3% in the period January to March of 1998 (table 1). This rate was 0.3 percentage points lower than the previous quarter, because of the phasing out of the effects of the turnover tax.

**Table 1**  
***Inflation rates for Curaçao, Bonaire, and St. Maarten***  
***during the first quarter of 1998 (% changes)***

Curaçao Bonaire St.

	<b>Maarten</b>		
Food	0.2	0.0	0.5
Beverages & tobacco	0.2	0.6	0.0
Clothing & footwear	0.5	0.0	0.3
Housing	0.4	0.3	0.5
Housekeeping & furnishings	0.0	-0.2	0.0
Health	0.2	-0.1	0.5
Transport & communication	0.2	-0.1	0.1
Recreation & education	0.0	0.7	0.0
Other	0.3	0.3	0.2
General inflation rate	0.2	0.2	0.3

During the first quarter of 1998, the largest price hike in St. Maarten was in the categories "food" (0.5%), "housing" (0.5%), and "health" (0.5%). These increases were influenced by the price rise in fresh produce, lodging costs, and dental care.

Both Bonaire and Curaçao reported the lowest inflation (0.2%) in the Netherlands Antilles. Compared to the fourth quarter of 1997, this was a 0.1 percentage point increase for Bonaire, and no change for Curaçao. In Bonaire, the largest price rise occurred in the categories "beverages and tobacco" (0.6%), and "recreation and education" (0.7%). The price hike in "beverages and tobacco" can be ascribed to higher beverage prices, mainly for whiskey and rum. The rise in "recreation and education" stemmed from a price increase in educational activities.<sup>1</sup> In Curaçao, the highest rate of inflation came from the items "clothing and footwear" (0.5%) and "housing" (0.4%), a consequence of higher prices for clothing and higher rent for housing.

### **Labor market**

In addition to the government budget deficit, the growing unemployment has been an issue that requires attention. The Antillean unemployment remained high at approximately 15%, caused mainly by ongoing structural problems that have plagued the labor market for years.

Requests for dismissal in Curaçao grew by 41.0%, and were concentrated largely in the industrial sector. This growth contrasted with the 29.8% decrease in the first quarter of last year.<sup>2</sup>

In Bonaire, requests for dismissal were down by 73.3%, to 23 persons in the first quarter of 1998, compared to 86 persons in the same quarter of 1997. The marked decline in the

demand for labor in the first quarter of 1997 was due primarily to the closure of the rice industry.

## **Developments by sector**

### ***Mining***

In the first quarter of 1998, Bonaire's salt production expanded by 41.7%, after dwindling by 6.9% in the same quarter of 1997. Salt exports fell by 2.5%, an improvement over the 12.8% drop in the first quarter of 1997.

### ***Industry***

Oil production of the ISLA refinery in Curaçao, as measured by barrels of oil refined, rose by only 0.4% in the first quarter of 1998, down from the 13.6% rise recorded in January to March of 1997. Total operational costs dropped by 6.7%, owing to the plant's maintenance, which caused a reduction in refining and eventually, a decline in the refinery's own use of fuel. As part of its maintenance program, the ISLA refinery in Curaçao has to shut down some of its plants for repair; contract workers were hired to do the upkeep -- as the contract wage bill surged by 56.9% in the quarter under review.

During the first quarter of 1998, the performance of oil transshipment and oil storage in Bonaire and Statia was mixed. Oil transshipment in both Bonaire and Statia deteriorated by, respectively, 4.1% and 20.9% in this period, while the amount of oil stored rose by 9.0% and 7.1%, respectively. The decline in Bonaire's and Statia's oil transshipment activities contributed to a negative outcome in overall oil transshipment in the Netherlands Antilles.

Activities in the ship repair industry in Curaçao, measured by the number of man hours sold, declined by 3.4% in comparison to the first quarter of 1997. Contrary to the quantity of man hours sold, the number of ships repaired soared by 57.7% in the first quarter of 1998, after dropping by 3.9% in the same quarter of 1997. This development was a consequence of more regular maintenance work and fewer major ship repairs. A routine clean-up and painting requires less labor time than a large maintenance job. The majority of the increase in the number of ships repaired came from a large inflow of ships for a routine inspection. Generally, prior to summer, large quantities of ships get their annual review, special survey, and small repairs done before the high season for charter cruises. In addition, the license inspection for the renewal of a great number of vessels was done around the same time this year.

In addition to the routine maintenance, the influx of ships has been influenced by the introduction of a new safety regulation that requires all ships to meet the international safety management code to get a clean bill. In contrast to the favorable ship repair activities, the amount of foreign exchange obtained from this sector declined by 33.5% during the first quarter of 1998.

### ***Utilities***

Electricity production in the Netherlands Antilles rose by 9.6% in the first quarter of 1998, following a marginal increase of 0.5% in the same quarter of 1997. This rise was the result of an acceleration of 9.8, 11.7, and 4.6 percentage points for Curaçao, Bonaire and St. Maarten, respectively.

The Antillean water production was up by 14.8% in the first quarter of 1998, as opposed to a drop of 5.2% in the corresponding quarter of 1997. This expansion was caused by both Curaçao and Bonaire, which recorded a growth of 18.5% and 8.9%, respectively. The dry weather in the first 3 months of the year may explain the increase in the Leeward Islands' water consumption. Water production in the Windward Islands, on the other hand, experienced a marginal decline.

### ***Construction***

For the first quarter of 1998, activities increased in the construction sector in Curaçao, as measured by the number of buildings completed. This growth was caused mainly by the finalization of some nonresidential projects linked to the tourist and trade sectors. Conversely, the value of total licenses granted fell by 41.4% in the first quarter of this year, indicating a contraction in the construction sector in the forthcoming period. In Bonaire, the value of completed construction projects grew by 35.5% in the first quarter of 1998 in contrast to a decline of 35.4% in the same period of 1997.

### ***Trade***

Free zone re-exports showed a steady growth during the first quarter of 1998, as foreign exchange earnings strengthened by 46.2%. This development was related to a widening in buyers' orders directly from foreign locations, due to a new marketing strategy. This marketing plan includes salespersons going abroad, presenting all the available products, and taking orders on site. Fewer and fewer buyers have been visiting the free zone lately. Several factors probably account for the deterioration in the number of visitors to the free zone. These factors include the depressed economic position of the country where these visitors originate and other preferred shopping destinations like Miami and Panama.

### ***Tourism***

The tourism sector in the Netherlands Antilles showed an overall improvement in the first quarter of 1998. Stay-over and cruise tourism increased by 4.6% and 9.6%, respectively, after increases of 24.2% and 23.4%, respectively, in the corresponding period of 1997. This expansion was attributable mostly to the island of St. Maarten. Net foreign exchange proceeds were up by 26.3% in the first quarter of 1998 in comparison to a rise of 33.3% in the first quarter of 1997.

In St. Maarten, both cruise and stay-over visitors grew by 7.4% and 10.4%, respectively, in the first quarter of 1998, compared to 19.7% and 50.4% growth in the first quarter of 1997. The lower growth in 1998 stemmed from the gradual evening out of tourist arrivals since the recovery from the impact of the September 1995 hurricane. The increase in stay-over tourism was attributable primarily to the increase in passenger arrivals from the largest

markets, the USA (9.6%) and France (7.6%). The number of travelers from Canada contracted by 1.0% in the first quarter of 1998, in contrast to a rise of 154.7% in January to March 1997. The appreciation of the US dollar vis-à-vis the Canadian dollar might explain the downturn in the number of Canadians visiting St. Maarten.

Contrary to the developments in St. Maarten, Bonaire's cruise and stay-over tourism shrank by 47.1% and 0.5%, respectively, in the first quarter of 1998, down from, increases of 17.1% and 3.8% in the same quarter last year. Cheaper foreign destinations, inflated local hotel room prices, and limited flight connections to Bonaire were the explanations for the negative impact in the tourist industry. Stay-over tourism from the European market rose by 5.2% in the first quarter of 1998, following a 2.2% decline in the same quarter of 1997 (table 2). The Netherlands (5.2%), the largest European market was able to offset the decline in the number of German guests (-7.1%), among other European visitors. In contrast, the number of tourist arrivals from the Caribbean and South America dwindled by 37.1% and 10.0%, respectively. The North American market grew by a mere 1.4% and was outbalanced by the reduction in both the Caribbean and South American markets, causing an overall decline in stay-over tourism.

**Table 2**  
**Developments in stay-over tourism per island**  
**(% change)**

	Curaçao	St. Maarten	Bonaire			
	1997- I	1998- I	1997- I	1998- I	1997- I	1998- I
North America	-9.6%	7.6%	77.1%	7.9%	4.2%	1.4%
of which:						
-U.S.A.	-2.7%	8.3%	67.4%	9.6%	10.7%	1.2%
-Canada		-0.3%	154.7%	-1.0%	-	8.1%
	53.1%			58.8%		
Europe	-4.0%	-6.5%	21.7%	12.5%	-2.2%	5.2%
of which:						
-The Netherlands	-7.4%	-5.6%	42.4%	16.2%	-7.1%	5.2%
-France	-	-	20.9%	7.6%	63.6%	-3.2%
-Germany	-0.1%	-	--	--	9.7%	-7.1%
		16.6%				
-Other Europe	27.8%	-4.4%	15.6%	32.1%	8.7%	16.3%
South & Central America	-9.5%	-7.0%	68.3%	11.0%	21.2%	-
					10.0%	
of which:						
-Venezuela	-3.5%	19.6%	55.1%	9.5%	29.8%	-

						12.9%
-Brazil	-	-983.7%	-1.5%	29.8%	0.0%	
	33.5%	56.4%				
-Other S&C America						
Caribbean	-6.4%	-	8.1%	37.1%	7.7%	-
		13.3%				37.1%
of which:						
-Aruba	23.7%	-	--	--	10.9%	-
		29.4%				42.3%
-Santo Domingo	-9.7%	0.8%	-11.6%	4.5%	-	6.9%
					37.0%	
-Other Caribbean						
Rest of World	-	-	18.5%	-0.2%	-8.9%	-
	14.2%	29.1%				36.1%
Total	-7.6%	-7.2%	50.4%	10.4%	3.8%	-0.5%

The tourist sector in Curaçao reflected mixed developments in the quarter ending March 1998. The first quarter of 1998, the number of cruise passengers was up by 22.7%, lower than the 36.6% increase in the corresponding period of 1997. Stay-over tourism fell by 7.2%, marginally smaller than the drop of 7.6% in the first quarter of 1997. The shortage of competitively priced rooms and high quality hotels may account for the fall in Curaçao's stay-over tourism. The contraction occurred largely in the European market (-6.5%), as the number of Dutch and German travelers dropped by 5.6% and 16.6%, respectively. The number of German visitors tumbled as a consequence of the recent discontinuation of charter flights by the LTU. Stay-over tourist arrivals from the South American market decreased by 7.0%, while the number of visitors from Venezuela expanded by 19.6% from 1997 levels. The US market improved by 8.3% in the first quarter of 1998, compared to a slide of 2.7% in the same quarter of 1997. The improvement in the number of visitors from the USA may be related to the solar eclipse phenomenon in February 1998.

The decline in the number of stay-over travelers went hand in hand with the decline in the number of visitor nights, which dropped by 13.1% in the first quarter of 1998 relative to a 8.1% decline in the first quarter of 1997.

### ***Transport sector***

The national airline "Air ALM" experienced a decrease of 1.9% in the number of passengers transported in the first quarter of 1998. This decrease may be related in part to fewer tourists visiting the islands. On the other hand, cargo shipments improved by 6.2% in the first quarter of 1998, as opposed to a fall of 23.4% in the same period of 1997.

In Curaçao, airport activities, as measured by passenger movements, recorded a slight increase of 0.4% in the first quarter of 1998. This increase was attributable largely to an upturn of 10.9% in the number of transit passengers.

During the first quarter of 1998, harbor activities in Curaçao, measured by the number of ships piloted into the harbor, showed a drop of 0.1%, compared to a 0.5% decline in the first quarter of 1997. The amount of freight handled swelled by 12.8%, contrasting with the drop of 21.6% in the first quarter of 1997. This development was the result of an improvement in transshipment movements caused by an expansion of inter-island trade and increased shipments to Venezuela and Colombia. Alongside the rising number of cargo movements, bunker sales in Curaçao have gone up, as fuel and water sales improved by 33.2% and 14.0%, respectively, during the first quarter. The latter can be related to Bonaire's water shortage in the months of February and March, which led to an upturn in total water bunkering in Curaçao.

In Bonaire, the quantity of vessels that visited the harbor soared by 25.0% in the first quarter of 1998. This was significantly higher than the 11.5% increase in the same quarter of past year, owing mostly to a rise in the number of local ships.

## **PUBLIC FINANCE**

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

The operational balance of the General Government, i.e., the combined Central Government and the Island Government of Curaçao, improved from a deficit of NAf.1.8 million in the first quarter of 1997 to a surplus of NAf.24.0 million during the first quarter of 1998. This development was the result of a NAf.31.7 million drop in expenditures and a NAf.5.9 million drop in revenues. The drop in expenditures must be seen against the background of the deferment of payments and a tight expenditure policy, while the drop in revenues is related to the less favorable economic conditions.

During the first quarter of 1998, discussions were held between the governments and the IMF on the Structural Adjustment Program for 1998. No agreement was reached between the IMF and the governments, and therefore no program targets for 1998 have been set.

As of January 1, 1998, the Central Government and the Island Government of Curaçao took several measures to address the fiscal situation. To contain the wage bill, a new wage structure was introduced, the freeze on wages was prolonged until the end of 1998, the vacation-allowance was reduced by 50%, and a voluntary lay-off system was introduced. With respect to the pensions, the period to contribute towards one's pension was extended from 30 to 35 years, while the AOV1 was included as a franchise in the pension scheme. Furthermore, the Central Government introduced a new financial system for better monitoring of revenues and expenditures.

In the framework of the core-task analysis, several departments were transformed into independent organizations or foundations, or were closed. The Automation Department 'Dienst Informatie Verzorging (DIV)' of the Island Government of Curaçao became the 'Information Technology & Services N.V.', while the Public Library became a foundation. The Zoo and the Central Market became foundations with the aim to privatize them later on. The 'Bureau City Inspector' and the 'Foreign Investment Agency Curaçao' were closed. The Postal Service of the Central Government became 'Post Nederlandse Antillen N.V.' as of July 1, 1998.

## **Operations of the Central Government**

The operational balance of the Central Government (including foreign amortization) improved by NAf.13.3 million to a deficit of NAf.12.5 million during the first quarter of 1998. Lower expenditures (NAf.11.7 million) and higher revenues (NAf.1.6 million) explain the improvement in the cash balance.

The development in expenditures is mainly the result of lower outlays on transfers (NAf.12.1 million), investments (NAf.6.2 million), and net lending (NAf.5.5 million), on the one hand, and higher outlays on wages and salaries (NAf.9.8 million), on the other. No transfers were made to the Island Government of Curaçao, because the Central Government and the Island Government of Curaçao did not reach an agreement on the debt settlement for 1998. Investments in this quarter were lower because of the relatively large investments made in the psychiatric clinic 'Klinika Capriles' in the first quarter of 1997. The development in net lending resulted from a receipt in the amount of NAf.9.5 million, for the final settlement with 'Antelecom N.V.' in connection with the transformation into an independent organization of this former department for telecommunication. The impact on net lending was mitigated by a NAf.4.0 million capital injection in the national carrier 'Air ALM'. The increased payment on wages and salaries is mainly the result of NAf.7.0 million higher payments on pension premiums. During the first quarter of 1998 under review four monthly installments of pension premiums were made compared to three monthly installments in the same quarter of 1997.

The slightly higher revenues were primarily the result of a higher sales tax (NAf.8.3 million), mitigated mainly by a drop in the following categories: property transfer tax (NAf.3.8 million), entrepreneurial and property income (NAf.2.8 million) and fees, charges, and sales (NAf.2.2 million). The development in the sales tax resulted from NAf.5.4 million higher receipts from the turnover tax on the Windward Islands and NAf.2.9 million higher revenues from the sales tax on the Leeward Islands. This development may be related to the adjustments made to the laws on the sales tax and turnover tax as of January 1, 1998. The drop in entrepreneurial and property income is explained by the absence of a profit transfer from the Central Bank. However, a NAf.5.0 million dividend was received from Antelecom N.V. The lower 'fees, charges, and sales' were related to lower nursing fees for the psychiatric clinic. The 'Bureau Ziektekosten Voorziening (BZV)', in charge of the implementation of the insurance for chronically ill persons 'AVBZ', did not transfer any payment to the psychiatric clinic during the first quarter of 1998.

**Table 3**  
**Operations of the Central Government (in**  
**millions NAF.)**

	1998-1997-		changechange	
	I	I	NAf.	%
REVENUES	124.3	122.7	1.6	1.3%
	105.8	101.6	4.2	4.1%
<b>Tax revenues</b>				
of which:				
-excises	37.2	36.3	0.9	2.5%
-import duties	24.7	23.3	1.4	6.0%
-property transfer tax	3.3	7.1	-3.8	-53.5%
-sales tax	36.2	27.9	8.3	29.7%
	15.9	19.2	-3.3	-17.2%
<b>Nontax revenues</b>				
-entrepreneurial & property income	5.2	8.0	-2.8	-35.0%
-fees, charges, and sales	8.9	11.1	-2.2	-19.8%
-other nontax revenues	1.8	0.1	1.7	
Capital revenues	0.1	0.0	0.1	
Grants	2.5	1.9	0.6	31.6%
EXPENDITURES	136.8	148.5	-11.7	-7.9%
	135.6	136.5	-0.9	-0.7%
<b>Current expenditures</b>				
of which:				
-wages and salaries	82.0	72.2	9.8	13.6%
-goods and services	20.2	21.8	-1.6	-7.3%
-interest payments	17.4	16.9	0.5	3.0%
-subsidies	2.5	0.0	2.5	
-transfers	13.5	25.6	-12.1	-47.3%
	1.2	12.0	-10.8	-90.0%
<b>Capital expenditures</b>				
of which:				
-investments	5.6	11.8	-6.2	-52.5%
-net lending	-5.5	0.0	-5.5	
-foreign amortization	1.1	0.2	0.9	
BALANCE	-12.5	-25.8	13.3	

As shown in table 4, the Central Government financed its deficit non monetarily, mainly through the issuance of securities with the public. On March 26, 1998, a new 1998 - 2005 bond at 9.250% was issued. The large increase in deposits at the Central Bank, which

followed from the funds raised (NAf.32.1 million) through the issuance of this bond, explains the negative monetary financing. The success of the bond issue may be related to the fact that as of January 1, 1998, income received from interest on bonds is exempted from income and profit taxes.

**Table 4**  
**Changes in outstanding balances of the Central Government (in millions NAf.)**

	1998-I	1997-I
<b>Cash balance</b>	-12.5	-25.8
<b>Monetary financing</b>	-34.2	0.6
of which:		
Central Bank	-40.3	-3.1
Commercial banks	5.5	3.5
Coins & notes	0.6	0.2
<b>Nonmonetary financing</b>	46.7	25.2
of which:		
Government securities with the public	39.3	10.0
Other	7.4	15.2

### Operations of the Island Government of Curaçao

The operational balance of the Island Government of Curaçao (including foreign amortization) improved further by NAf.12.5 million to a surplus of NAf.36.5 million during the first quarter of 1998. This improvement resulted from NAf.30.3 million lower expenditures and NAf.17.8 million lower revenues.

The development in expenditures is mainly the result of NAf.21.0 million lower payments on wages and salaries and NAf.12.4 million lower expenditures on goods and services. In contrast, interest payments increased by NAf.7.8 million. The drop in wages and salaries is the result of NAf.15.9 lower payments of pension premiums to the civil servants pension fund 'APNA.' During the first quarter of 1998 no payment was made. The higher interest payments are explained by the advance payment of interest on domestic debt due in April and the increased accumulation of debt.

Revenues dropped mainly as a result of a drop in grants (NAf.10.3 million), land tax (NAf.3.3 million), and income tax (NAf.3.1 million). The lower grants can be attributed to the failure to reach an agreement on the debt settlement for 1998 between the Island Government of Curaçao and the Central Government. Therefore, the Island Government did not receive grants from the Central Government for tax revenue-sharing. The drop in

the land tax can be ascribed to a delay in tax assessments, while that in income tax is explained by higher restitutions to taxpayers.

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

	1998-1997-		change change	
	I	I	NAf.	%
<b>REVENUES</b>	203.9	221.7	-17.8	-8.0%
<b>Tax revenues</b>	198.4	206.6	-8.2	-4.0%
of which:				
-profit tax	87.3	87.1	0.2	0.2%
-income tax	6.1	9.2	-3.1	-33.7%
-wage tax	83.5	83.6	-0.1	-0.1%
-land tax	0.8	4.1	-3.3	-80.5%
-motor vehicle tax	15.0	15.9	-0.9	-5.7%
-licenses	3.4	4.7	-1.3	-27.7%
<b>Nontax revenues</b>	5.5	4.8	0.7	14.6%
-entrepreneurial & property income	0.6	0.8	-0.2	-25.0%
-fees, charges, and sales	4.7	4.0	0.7	17.5%
-other nontax revenues	0.2	0.0	0.2	
<b>Capital revenues</b>	0.0	0.0	0.0	
<b>Grants</b>	0.0	10.3	-10.3	
<b>EXPENDITURES</b>	167.4	197.7	-30.3	-15.3%
<b>Current expenditures</b>	163.8	191.9	-28.1	-14.6%
of which:				
-wages and salaries	64.2	85.2	-21.0	-24.6%
-goods and services	46.2	58.6	-12.4	-21.2%
-interest payments	14.2	6.4	7.8	
-subsidies to public companies	20.0	22.6	-2.6	-11.5%
-transfers	19.2	19.1	0.1	0.5%
<b>Capital expenditures</b>	3.6	5.8	-2.2	-37.9%
of which:				
-investments	3.9	5.9	-2.0	-33.9%
-net lending	-0.3	-0.1	-0.2	
<b>BALANCE</b>	36.5	24.0	12.5	

As shown in table 6, the surplus of the Island Government of Curaçao was reflected in a monetary contraction due to an increase of its deposits at the Central Bank and at the commercial banks. The nonmonetary contraction can be explained by the increase in the "cash in vault" of the Island Receiver in connection with the self-assessment for profit tax that has to be settled before the first of April.

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

	1998-I	1997-I
<b>Cash balance</b>	36.5	24.0
<b>Monetary financing</b>	-16.8	-4.2
of which:		
Central Bank	-7.7	2.8
Commercial banks	-9.1	-7.0
<b>Nonmonetary financing</b>	-19.7	-19.8
of which:		
Government securities with the public	1.3	8.4
Other	-21.0	-28.2

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

The total outstanding consolidated public debt of the Netherlands Antilles increased by NAf.26.7 million during the first quarter of 1998. This increase resulted from a NAf.44.4 million increase in the consolidated domestic debt and a NAf.17.7 million drop in the foreign debt. Total debt as a percentage of GDP increased from 67.3% at the end of 1997 to 68.0% at the end of March 1998.

The domestic debt of the Central Government and that of the Island Government of Curaçao increased by NAf.40.2 million and NAf.14.3 million, respectively, despite the improvement in their cash balance. As noted, the improved cash balance was in part the result of the deferment of payments and thus the build-up of arrears. The debt of the Central Government increased mainly due to an increase in government securities by NAf.33.6 million. The increased debt of the Island Government of Curaçao resulted mainly from the build-up of arrears at the civil servants pension fund 'APNA' by NAf.23.8 million. In contrast, the debt to the Curaçao Ports Authority N.V. dropped by NAf.13.0 million due to the debt equity swap of the government-owned towing company 'Kompania di Tou Korsou (KTK).'

The drop in the foreign debt resulted from a drop of NAf.17.0 million in the debt to the Netherlands and NAf.0.7 million to the European Community. The debt to the Netherlands denominated in Dutch guilders remained at the same level as at the end of 1997. The drop in the debt denominated in Netherlands Antilles guilders is, therefore, the result of the depreciation of the Dutch guilder against the US dollar to which the Netherlands Antilles guilder is pegged. The drop in the debt to the European Community is due to redemption on the debt and the depreciation of the European currencies, in which the debt is denominated, against the US dollar and thus the Netherlands Antilles guilder.

During the first quarter of 1998, the governments did not issue new guarantees. Despite this, the total outstanding guarantees dropped by NAf.5.2 million. This drop also can be ascribed to the depreciation of the European currencies, in which some of the guarantees are denominated, against the Netherlands Antilles guilder. Total outstanding debt and guarantees as a percentage of GDP increased to 76.0% at the end of March 1998.

**Table 7**  
**Total outstanding consolidated public debt**  
**and guarantees (in millions NAf.)**

	1998-I	1997- IV	change NAf.	change %
Domestic consolidated debt	2387.4	2343.0	44.4	1.9%
of which:				
-Central Government	1016.8	976.6	40.2	4.1%
-Curacao	1326.8	1312.5	14.3	1.1%
-Bonaire	68.8	67.2	1.6	2.4%
-St. Maarten	9.7	9.4	0.3	3.2%
-St. Eustatius	2.0	1.8	0.2	11.1%
-Saba	1.3	1.2	0.1	8.3%
Foreign debt	553.3	571.0	-17.7	-3.1%
Total debt	2940.7	2914.0	26.7	0.9%
(% of GDP)	68.0%	67.3%		
Guarantees	347.1	352.3	-5.2	-1.5%
Total debt and guarantees	3287.8	3266.3	21.5	0.7%
(% of GDP)	76.0%	75.5%		

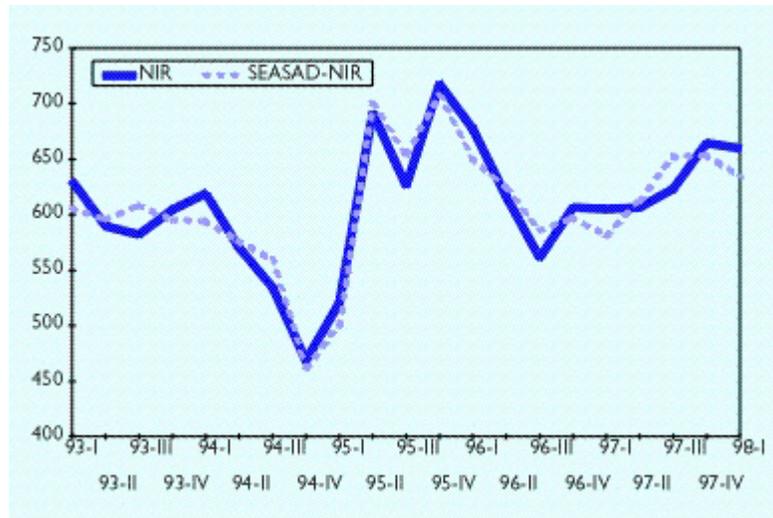
## DEVELOPMENTS IN THE EXTERNAL SECTOR

## Introduction

Net international reserves declined by NAf.4.6 million to NAf.659.8 million in the first quarter of 1998. The decline was the result of a drop of NAf.41.0 million in the official reserves and an increase of NAf.36.4 million in the foreign exchange reserves held at the commercial banks (see graph 1).

### Graph 1

*Development in the Net International Reserves (in millions NAf.)*



The deficit on the current account in the first quarter of 1998 explains the decline in the net international reserves, as can be seen in table 8.

**Table 8**  
*Balance of payments summary<sup>1)</sup> (in millions NAf.)*

	1997- 1998-Difference		
	I	I	
Current account	-1.2	-6.8	-5.6
Capital account	-2.9	4.4	7.3
Statistical discrepancies	2.8	-2.2	-5.0
Balance of Payments	-1.4	-4.6	-3.2
Change in reserves <sup>2)</sup>	1.4	4.6	3.2
-with commercial banks	-13.9	-36.4	-22.5
-with Central bank	15.3	41.0	25.7

Memorandum Items  
Official reserves (excl.  
gold)

-in millions NAf.	323.0	345.6	22.6
-in months of merchandise imports	1.6	1.7	-0.1

<sup>1)</sup> Cash basis

<sup>2)</sup> -Sign denotes an increase in reserves (excluding gold)

### The current account

The current account of the balance of payments recorded a deficit of NAf.6.8 million in the first quarter of 1998, a slight deterioration of NAf.5.6 million, compared to the same period in 1997. As illustrated in table 9, the development in the current account was primarily due to a considerable drop of NAf.16.3 million in net earnings from the services sector, mitigated by the NAf.9.9 million improvement in the trade balance.

**Table 9**  
**A breakdown of the current account <sup>1)</sup> (in millions NAf.)**

	1997- I	1998- I	Difference
Merchandise balance	-	-	9.9
Exports	526.4	516.5	36.2
Imports	100.0	136.2	26.3
Services balance	626.4	652.7	-16.3
Receipts, of which:	522.8	506.5	25.2
-	754.2	779.4	-1.9
Transportation	155.6	153.7	69.6
-Travel	316.6	386.2	-33.9
-Int. fin. & bus. services sector	167.9	134.0	-6.7
Taxes	28.6	21.9	-27.2
Operational income	139.3	112.1	41.5
Expenditures, of which:	231.4	272.9	12.4
-Travel	90.6	103.0	-6.3
-Int. fin. & bus. services sector	51.4	45.1	

Income balance <sup>2)</sup>	20.8	28.2	7.4
Unrequited transfers <sup>3)</sup>	-18.4	-25.0	-6.6
Current account balance	-1.2	-6.8	-5.6

<sup>1)</sup> Cash basis

<sup>2)</sup> Income: investment and labor income.

<sup>3)</sup> Unrequited transfers: private remittances (excl. labor income and life insurance).

### ***The trade balance***

The trade balance improved by NAf.9.9 million in the first quarter of 1998, compared to the same period in 1997. This improvement was the result of a NAf.36.2 million rise in exports and a NAf.26.3 million increase in imports. A breakdown of the merchandise balance by island reveals that both the exports and imports increased, particularly in Curaçao (see table 10).

Curaçao's merchandise balance improved by NAf.15.7 million as a result of higher exports. This growth was almost entirely related to the re-exporting activities of the free zone companies. Non-oil-related imports increased by NAf.26.7 million (7.5%) in the first quarter of 1998, compared to the first quarter of 1997. If adjusted for imports for free zone-related activities, however, non-oil-related imports actually declined by NAf.5.9 million. This decline was concentrated primarily in imports by the wholesale and retail sectors, excluding the free-zone companies, which declined by approximately NAf.8 million. This was in line with the continued depressed domestic demand in the first quarter of 1998.

**Table 10**  
**Merchandise balance per island <sup>1)</sup> (in millions NAf.)**

	Inflows		Outflows		Diff.	
	1997-I	1998-I	1997-I	1998-I	1997-I	1998-I
<b>Curaçao</b>						
Merchandise	85.7	121.8	36.14	111.44	31.8	20.4
-Non-oil products	85.7	121.8	36.13	135.70	38.7	26.7
Free-zone re-exports	64.1	93.7	29.6	73.41	10.0	32.6
Adj. Non-	21.6	28.1	6.52	83.62	7.7	-5.9

oil prod.							
-Oil products	0,0	0.0	0.0	54.4	48.1	-6.3	

**Bonaire**

Merchandise	3.3	2.9	-0.4	7.7	7.6	-0.1	
-Non-oil products	3.3	2.9	-0.4	7.7	7.6	-0.1	
-Oil products	0.0	0.0	0.0	0.0	0.0	0.0	

**Windward Islands**

Merchandise	11.0	11.5	0.5	207.3	213.3	5.9	
-Non-oil products	8.8	10.8	2.0	164.3	182.1	17.8	
-Oil products	2.2	0.7	-1.5	43.0	31.2	-	11.9

**Netherlands Antilles**

Merchandise	100.0	136.2	36.2	2626.4	652.7	26.3	
-Non-oil products	97.8	135.5	37.7	529.0	573.4	44.4	
-Oil products	2.2	0.7	-1.5	97.4	79.3	-	18.1

<sup>1)</sup> *Cash basis*

The merchandise balance on Bonaire remained almost the same in the first quarter of 1998 as in the first quarter of 1997, whereas the merchandise balance on the Windward Islands deteriorated by NAf.5.4 million, due mainly to higher non-oil-related imports. Non-oil-related imports increased by NAf.17.8 million in the first quarter of 1998, offsetting a drop of NAf.11.9 million in oil imports. The rise in non-oil imports was attributable mainly to higher imports by the retail sector in the first quarter of 1998, due to the buoyant tourism performance.

***The services balance***

The surplus on the services balance dropped by NAf.16.3 million in the first quarter of 1998. This deterioration was largely the result of a drop of NAf.33.9 million in foreign exchange receipts from the international financial and business services sector and an overall increase of NAf.41.5 million in foreign exchange expenses. These developments more than offset the considerable increase of NAf.69.6 million in foreign exchange receipts by the tourist sector.

*Tourism*

The tourism sector recorded a significant improvement in overall performance. As can be seen in table 11, foreign exchange receipts from the tourism sector in the Netherlands Antilles increased by NAf.69.6 million (22.0%) in the first quarter of 1998, mainly as a result of the rise in tourist receipts in Curaçao and on the Windward Islands.

**Table 11**  
**First quarter foreign exchange revenues from tourism per island <sup>1)</sup>**  
**(in millions NAf.)**

	1994- I	1995- I	1996-I	1997- I	1998-I
Bonaire	16.6	16.4	21.2	22.7	24.5
Curaçao	99.9	96.0	103.0	96.1	131.3
Windward Islands	227.7	243.0	166.8	197.8	230.4
Netherlands Antilles	344.2	355.4	291.0	316.6	386.2
Percentage growth	-6.8%	3.3%	-18.1%	8.8%	22.0%

<sup>1)</sup> Cash basis

Foreign exchange generated by the tourism industry on the Windward Islands jumped by 16.5% in the first quarter of 1998. The number of stay-over visitors increased considerably (10.4%), while cruise tourism also performed well, as reflected by a growth of 7.4%.

The strong development in tourism activities on the Netherland Antilles was also enhanced by the developments on the Leeward Islands. Foreign exchange earnings on Bonaire rose by NAf.1.8 million (8.0%). Curaçao recorded a considerable growth in foreign exchange earnings of NAf.35.2 million (36.6%) in the first quarter of 1998, following a strong end-of-year performance in 1997. This performance was reflected primarily in the 22.7% growth in cruise tourism as compared to the first quarter of 1997.

Traveling by residents continued to increase in the first quarter of 1998, compared to the same period in 1997. Despite the reduced spending capacity, residents again have begun to travel abroad.

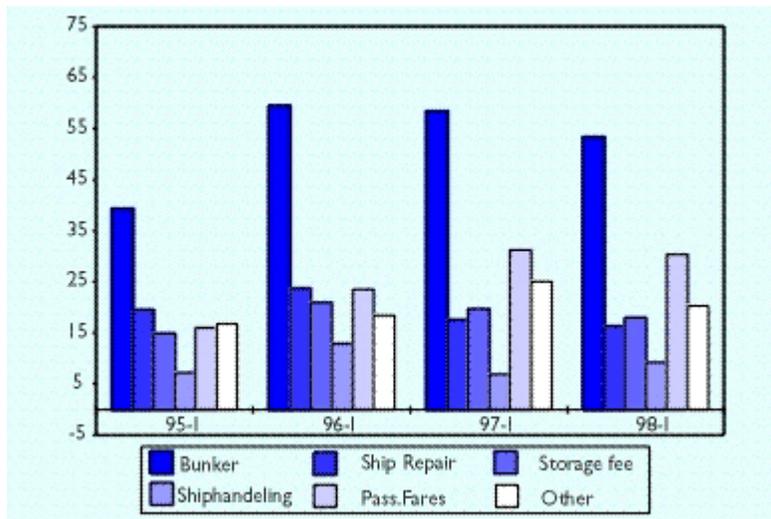
### *Transportation*

The transportation sector recorded a weak performance in the first quarter of 1998 as foreign exchange earnings from transportation activities decreased slightly by NAf.1.9 million, compared to the same period in 1997 (see graph 2). Mentioned drop in foreign exchange receipts was primarily the result of the less buoyant performance in the ship repair sector and oil storage activities.

Total payments for transportation services received from abroad increased by NAf.3.8 million in the first quarter of 1998.

**Graph 2**

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

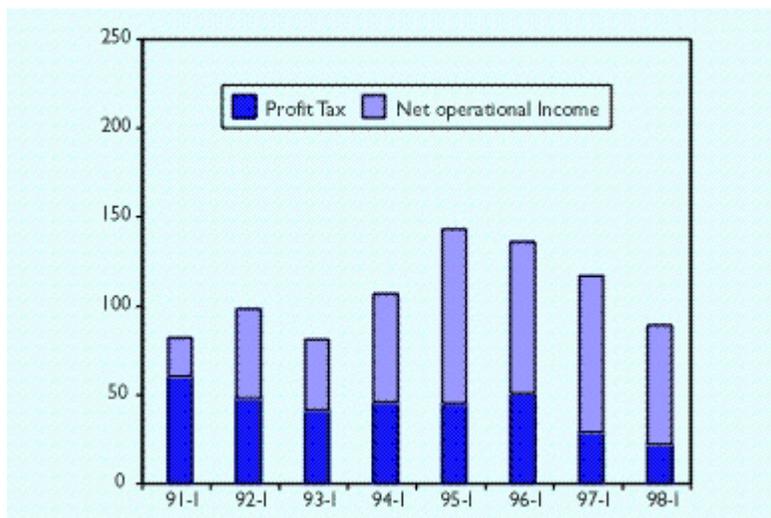


*The international financial and business services sector*

Foreign exchange earnings from the international financial and business services sector recorded a net drop of NAf.27.6 million in the first quarter of 1998, compared to the first quarter of 1997. The deterioration in foreign earnings was due mainly to a drop of NAf.27.2 million in operational income, whereas receipts from the profit tax declined by NAf.6.7 million.

**Graph 3**

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



### *The income balance*

The income account of the balance of payments recorded a surplus of NAF 28.2 million in the first quarter of 1998, an increase of NAF.7.4 million compared to the same period in 1997. This increase can be ascribed primarily to the investment income balance. As table 12 reveals, the NAF.6.0 million increase in the surplus on the investment income balance was the result of higher receipts and fewer funds transferred abroad.

**Table 12**  
**Breakdown of the income account <sup>1)</sup> (in millions NAF.)**

	<b>1997-I</b>	<b>1998-I</b>	<b>Difference</b>
Investment income	21.4	27.4	6.0
Direct investment income	-15.2	-11.1	4.1
-Received	0.2	1.4	1.2
-Paid	15.4	12.5	-2.9
Other investment income	36.6	38.4	1.8
-Received	43.6	46.7	3.1
-Paid	7.0	8.3	1.3
Labor income	-0,6	0.8	1.4
-Received	2.4	3.0	0.6
-Paid	3,0	2.2	-0.8
Total income balance	20.8	28.2	7.4

<sup>1)</sup> *Cash Basis*

The improvement in the investment income balance can be attributed mainly to the NAF.3.1 million increase in interest receipts by local investment companies from abroad, on the one hand, and the NAF.2.9 million decrease in profit transfers by resident companies abroad, on the other hand.

### *The capital account*

The capital account of the balance of payments recorded a surplus of NAF.4.4 million in the first quarter of 1998, an improvement of NAF.7.3 million compared to the first quarter of 1997. Thus improvement can be attributed fully to the official capital balance, as the private capital balance deteriorated slightly by NAF.1.1 million.

Table 13 reveals that the deterioration of the private capital balance was primarily the result of an increase of NAf.17.0 million in net investment abroad and a drop of NAf.12.3 million in net foreign borrowing activities, compared to the same period in 1997. These developments were mitigated mainly by the increase of NAf 25.6 million in the net inflow of other private capital. The increase in net investment abroad in the first quarter of 1998 was due mainly to the NAf.36.2 million increase in re-investments abroad, particularly by the institutional investors, despite the high interest rates offered on domestic government paper. The drop in net foreign borrowing was a combination of fewer funds borrowed and more repayments by resident companies.

**Table 13**  
**Major components of the capital account <sup>1)</sup>**  
**(Net flows in millions NAf.)**

	1997-I	1998-I	Difference
Private capital	-3.2	-4.3	-1.1
of which:			
-direct investm.(Real estate)	1.6	1.5	-0.1
-portfolio investm.(Sec.)	-26.1	-43.1	-17.0
-loans (net)	10.4	-1.9	-12.3
comm. banks borrowings	-2.7	0.0	2.7
other private cap.	13.6	39.2	25.6
Official capital	0.3	8.7	8.4
of which:			
-loans & grants	0.5	10.1	9.6
-other gov. cap.	-0.2	-1.4	-1.2
<b>CAPITAL BALANCE</b>	<b>-2.9</b>	<b>4.4</b>	<b>7.3</b>

<sup>1)</sup> *Cashbasis*

## MONETARY DEVELOPMENTS

### Introduction

Monetary developments during the first quarter of 1998 must be seen against the background of growing uncertainties in the Antillean economy. First were the long negotiations to form a new government in the Netherlands Antilles. Second, public announcements by political leaders created uncertainty regarding the government's willingness to continue with a structural adjustment program. Such a program is aimed at achieving internal and external equilibrium in the near future. Currently, the Netherlands Antillean economy is both internally and externally in disequilibrium. Real growth is expected to be negative for the fifth consecutive quarter, unemployment has been rising, and the budget is worsening. Against this background, the Bank has maintained a tight monetary policy to preserve the external value of the Netherlands Antillean guilder.

The Bank's current monetary policy is aimed primarily at containing the growth in Net Domestic Assets through the Monetary Cash Reserve Arrangement (MCR). Limiting the availability of credit will reduce the ability to spend, and hence import. For the first and second quarters of 1998, the current MCR allows private sector credit to grow by 2% over the amount outstanding in September 1997. In addition, net credit to the government sector is limited to the amount outstanding in October 1996, implying no growth.

Net domestic credit to the General Government declined significantly during the first quarter of 1998, the result of a drop in net credit to both the Central Government and the Island Governments. The demand for liquid assets by the private sector, as measured by the net credit to the private sector, showed a substantial increase in the first quarter of 1998. The residual 'miscellaneous' part of Net Domestic Assets also recorded an increase in the first quarter of 1998. Overall, Net Domestic Assets showed only a modest increase.

The foreign component of the total demand for liquid assets, Net Foreign Assets, showed a marginal decrease in the first quarter of 1998. This decrease was the result of a drop in foreign assets of the banking system, which outweighed the decline in foreign liabilities.

### Money supply

During the first quarter of 1998, the money supply (M2) expanded marginally by 0.3% (NAf.7.6 million), a slowdown compared to the 1.4% (NAf.36.5 million) expansion in the first quarter of 1997. As shown in table 14, the expansion in the first quarter of 1998 can be attributed primarily to an increase in the near-money component, because the money (M1) component remained at almost the same level.

**Table 14**  
**Quarterly changes in the components of the money supply (in millions NAf. and in percentages)**

	1998-I		1997-I		1996-I	
Coins and notes with the public	-13.9	-7.4%	-12.9	-6.6%	-13.5	-6.4%
Demand deposits held by the public, of which:	14.1	1.6%	97.6	11.7%	41.0	4.5%
-Neth. Ant. guilders	6.9	1.0%	73.0	10.8%	54.1	7.6%
-Foreign currency	7.2	4.2%	24.6	15.5%	-13.1	-6.9%
Money (M1)	0.2	0.0%	84.7	8.2%	27.5	2.5%
Time deposits	-11.8	-2.5%	-55.9	-13.6%	3.6	1.0%
Savings	19.2	1.8%	7.7	0.7%	4.2	0.4%

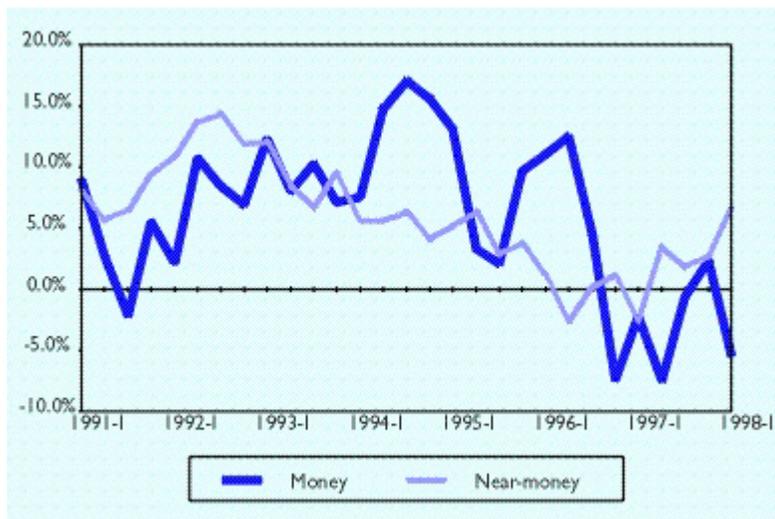
Near money      7.4 0.5%-48.2 -3.2% 7.8 0.5%

The money component of the total money supply expanded by N Af.0.2 million in the first quarter of 1998, compared to an 8.2% (N Af.84.7 million) expansion in the first quarter of 1997. The marginal increase in money during the first quarter of 1998 was the result of an increase in demand deposits, which outweighed the decline in coins and notes with the public. The foreign currency and N Af.-denominated deposits increased by 4.2% (N Af.7.2 million) and 1.0% (N Af.6.9 million), respectively. This increase in demand deposits is only a fraction of last year's expansion, when significant amounts of time deposits were transferred to current accounts. Contrary to the development in demand deposits, coins & notes decreased significantly by 7.4% (N Af.13.9 million). The development in this quarter implies that the declining trend, which started in the first quarter of 1996, continued for the ninth consecutive quarter. This trend may be an indication of increased efficiency in payments, with economic agents shifting from cash payments to banking transfers (like checks, standing orders, and speedy transfers) or electronic means of payments at the point of sale, like debit cards.

The near-money component of the money supply recorded a turnaround in its growth rate as it expanded by 0.5% (N Af.7.4 million) in the first quarter of 1998 after a 3.2% (N Af.48.2 million) contraction in the first quarter of 1997. This turnaround of 3.7 percentage points was mainly the result of a slowdown in the decline in time deposits from a 13.6% (N Af.55.9 million) contraction to a 2.5% (N Af.11.8 million) contraction. The slowdown in the first quarter of 1998 was attributable to fewer transfers from time deposits to demand deposits, which were very substantial in the first quarter of 1997. In addition, the increase in savings in the first quarter of 1998 was larger than in the first quarter of 1997.

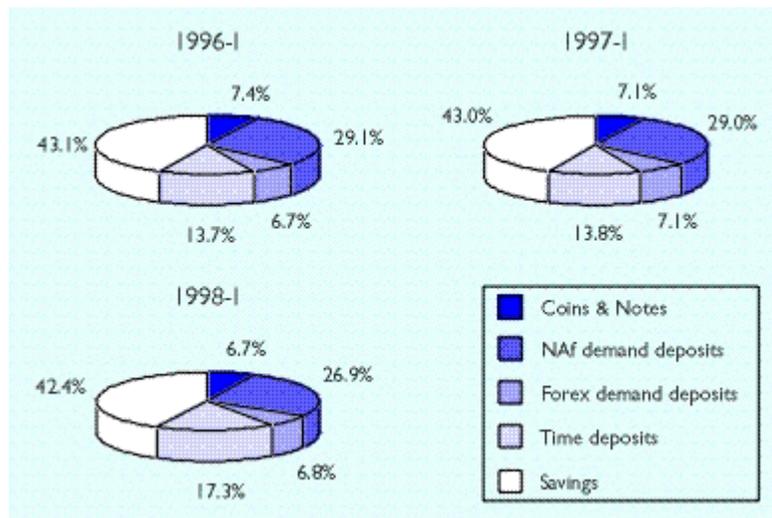
**Graph 4**

***Year-on-Year changes in the money and near-money components of the total money supply (in millions N Af.)***



An analysis of monetary aggregates on an annual basis reveals that the money supply expanded by 1.4% (NAf.35.1 million), the result mainly of an expansion in the near-money component, as can be seen in graph 4. Money (M1) decreased by 5.5% (NAf.61.5 million), while near-money increased by 6.6% (NAf.96.6 million). The development in money was the result of declines in all subcategories. Coins and notes with the public declined by 5.5% (NAf.9.9 million), NAf.-denominated demand deposits by 6.1% (NAf.45.5 million), and foreign exchange denominated demand deposits by 3.3% (NAf.6.1 million). With regard to the near-money component, time deposits showed an increase of 27.4% (NAf.97.1 million), while savings declined marginally by NAf.0.5 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 first quarter of 1998, the share of time deposits increased by 3.5 percentage points to 17.3%. This increase was at the expense of all other subcategories, of which the decline in NAf.-denominated demand deposits (2.1 percentage points) was most pronounced. As a result, the share of money in the money supply decreased by 2.8 percentage points to 40.4%.

### Factors affecting the demand for liquid assets

Money demand, or the demand for liquid assets, expanded by 0.3% (NAf.7.6 million) in the first quarter of 1998. This increase can be attributed mainly to the domestic sector, since the external component showed only a slight increase (see table 15).

**Table 15**  
*Quarterly changes in the demand for liquid assets by sector (in millions NAf. and in percentages)*

	1998-I	1997-I	1996-I
Government sector,	-29.5%	1.9	1.1%
	48.9		24.812.8%

of which:						
-Central Government	20.2	-25.2%	15.7	20.5%	-17.9	-
-Island governments	28.7	-33.4%	13.8	-15.1%	42.7	39.9%
Private sector	24.8	1.1%	-2.4	-0.1%	74.4	3.5%
Miscellaneous	34.7	-8.4%	35.6	-8.2%	13.9	-3.1%
Net domestic assets	10.7	0.5%	35.1	1.7%	113.1	6.0%
Net foreign assets,	-3.0	-0.5%	1.4	0.3%	-77.8	-
of which:						10.8%
-Gold	-0.5	-0.3%	-	0.0%	-19.3	-9.2%
-Official reserves	41.2	-10.6%	15.3	-4.5%	-34.1	-8.2%
-Net foreign assets of commercial banks	38.7	472.0%	16.7	-	-24.4	-
				521.9%		26.3%

The demand for liquid assets by the domestic sector expanded by 0.5% (NAf.10.7 million) in the first quarter of 1998, compared to a 1.7% (NAf. 35.1 million) expansion in the same quarter of 1997. The expansion in the first quarter of 1998 can be ascribed to increases in the demand for liquid assets by the private sector and to miscellaneous factors. These increases were offset largely by a decrease in the demand for liquid assets by the government sector.

The demand for liquid assets by the government sector, measured as net domestic credit to the government, declined by 29.5% (NAf.48.9 million) during the first quarter of 1998, compared to a 1.1% (NAf.1.9 million) increase in the corresponding period of 1997. Both the Central Government and the Island Governments contributed to the decline in the first quarter of 1998, implying compliance with the no-growth target established in the MCR. The 25.2% (NAf.20.2 million) reduction in the Central Government's demand for liquid assets can be explained largely by a NAf.13.3 million increase in its deposit. The reason for this increase is that the proceeds of a sale of Central Government bonds were deposited at the Bank. Furthermore, claims on the Central Government held by the domestic banking sector declined by NAf.7.5 million. This decline might indicate a diminishing willingness to hold government paper, due to uncertainties about surrounding the government's policy for addressing our financial and economic problems.

The Island Governments' demand for liquid assets also declined significantly by 33.4% (NAf.28.7 million) in the first quarter of 1998, compared to a 15.1% (NAf.13.8 million) decrease in the corresponding quarter of 1997. The decline in the first quarter of 1998 was

the result of both a decline of NAF.3.1 million in Island Government paper held by the commercial banks and an increase of NAF.25.6 million in deposits of the Island Governments. The increase in deposits was concentrated in time deposits, primarily of the Island Governments of the smaller islands. The increase in deposits might be related to the self-assessment system for profit taxes, under which companies are obliged to pay their profit taxes by the end of March.

The growth in the demand for liquid assets by the private sector turned around from a 0.1% (NAF.2.4 million) decrease in the first quarter of 1997 to a 1.1% (NAF.24.8 million) increase in the first quarter of 1998. This acceleration of 1.2 percentage points in the growth rate may be attributable to the contained demand for credit in the previous quarters, since the demand for liquid assets by the private sector is still at a lower level than in October 1996. The increase in the first quarter of 1998 was attributable primarily to a 0.8% (NAF.17.3 million) increase in loans to the private sector. In addition, commercial banks' amounts receivable increased by 23.4% (NAF. 6.6 million), while securities and participations increased by 2.5% (NAF.0.9 million). Overall, net credit to the private sector stayed within the limits of the monetary cash reserve arrangement.

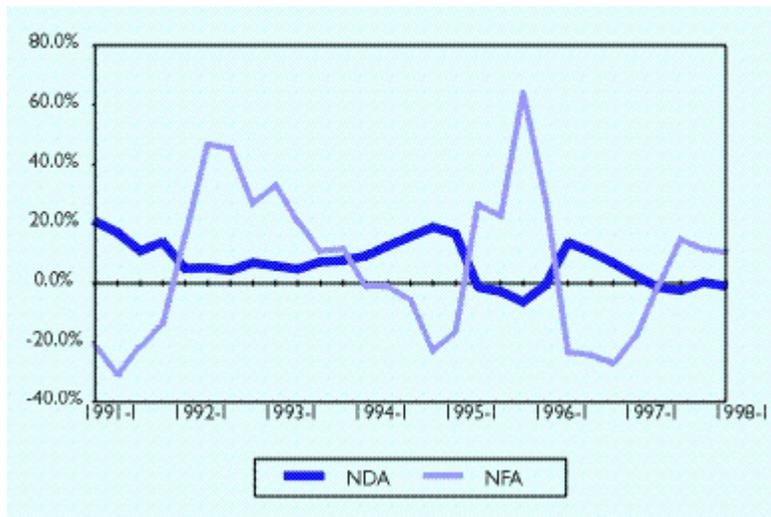
The miscellaneous component of Net Domestic Assets consists of miscellaneous assets, on the one hand, and miscellaneous liabilities, on the other. Miscellaneous assets, which comprise the real estate and inventory of the commercial banks and the Bank and various (non-credit) accounts at these institutions, increased slightly in the first quarter of 1998. Most of the increase in the miscellaneous component of NDA, however, can be explained by a decrease in miscellaneous liabilities. These liabilities, which consist of the commercial banks' and the Central Bank's capital and reserves and various (non-deposit) accounts, decreased significantly as a result of a decline in taxes to be paid. This decline is related to the self-assessment system currently in place for profit tax collection.

The Net Foreign Assets position of the banking system decreased slightly by 0.5% (NAF.3.0 million) in the first quarter of 1998, compared to a 0.3% (NAF.1.4 million) increase in the corresponding period of 1997. The decrease in the first quarter of 1998 can be explained mainly by a deterioration of the official reserves, which declined by 10.3% (NAF.41.2 million). This trend was partly compensated by an almost fivefold improvement in the net foreign position of the commercial banks to reach NAF.469 million. Furthermore, the Bank's gold holdings were revalued in February 1998, and, due to the decline in the gold price, these holdings had to be adjusted downward by NAF.0.5 million.

Graph 6 shows that on an annual basis, the demand for liquid assets expanded by 1.4% (NAF.36.4 million), the result of a significant increase in Net Foreign Assets by 10.6% (NAF.55.6 million) and a partly offsetting decline in Net Domestic Assets of 0.9% (NAF.19.2 million). The decline in Net Domestic Assets can be attributed entirely to net credit to the General Government, which diminished by 31.1% (NAF.52.8 million). Net credit to the General Government is showing a declining trend since the second quarter of 1995, when the Bank introduced specific limits for this credit category.

### **Graph 6**

#### **Year-on-Year percentage changes in the domestic and international demand for liquid assets**



The decline in Net Domestic Assets 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 0.6% (NAf.14.4 million) on an annual basis. Given the inflation rate of 2.3%, this implies a 1.7% reduction in real money demand, reflecting the downturn in the economy. The demand for liquid assets resulting from miscellaneous factors increased by 4.9% (NAf.19.2 million) on an annual basis. This increase was concentrated in the fourth quarter of 1997 and the first quarter of 1998.

The increase in Net Foreign Assets during the twelve-month period ending March 1998, was the result of increases in both the official reserves and the net foreign position of the commercial banks. As is clearly visible in graph 6, Net Foreign Assets tend to have a positive growth rate whenever the growth rate in Net Domestic Assets is either low or negative. Furthermore, Net Foreign Assets have a negative growth rate in cases where Net Domestic Assets have a high growth rate. This relationship lies behind the monetary policy of the Bank: by containing the growth in Net Domestic Assets, Net Foreign Assets are expected to increase, thus preserving the external value of the Netherlands Antillean Guilder.

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

Table 16 shows the outstanding amounts and the growth rates of the various components of the domestic loan portfolio of the commercial banks. As can be seen from this table, domestic credit extension by commercial banks increased by 0.4% (NAf.8.6 million) during the first quarter of 1998, compared to a 0.1% (NAf.3.1 million) decline in the first quarter of 1997.

**Table 16**  
**Breakdown of domestic loan portfolio of commercial banks as per end of period (in**

**millions NAf.), and percentage quarterly changes**

	1998-I	1997-I	1996-I
Domestic private sector loans,			
of which:	2,215.90.8%	2,197.40.1%	2,105.82.9%
-Mortgages	897.0 3.1%	- 895.00.6%	782.91.4%
-Consumer loans	506.45.9%	502.0 1.1%	- 490.20.9%
-Business loans	812.52.2%	800.40.3%	821.95.7%
Government paper	223.0 3.8%	- 237.1 1.8%	- 194.53.9%

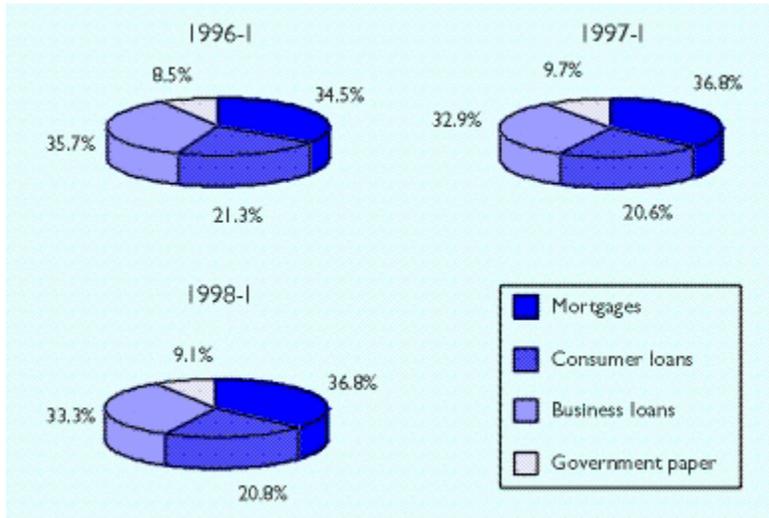
The total amount of outstanding domestic loans to the private sector at local commercial banks increased by 0.8% (NAf.17.3 million) during the first quarter of 1998. When compared to the 0.1% (NAf.1.3 million) expansion in the same quarter of 1997, it is clear that credit extension to the private sector has accelerated somewhat. This acceleration was primarily the result of a turnaround in the growth rate of consumer loans by 7.0 percentage points to 5.9% (NAf. 28.4 million). This increase in consumer loans may be related to the contained development in consumer credit in the previous quarters. In addition, business loans recorded an acceleration in their growth rate by 1.9 percentage point to 2.2% (NAf.17.7 million), while the growth rate in mortgages turned around from a 0.6% increase in the first quarter of 1997 to a 3.1% (NAf. 28.7 million) decrease in the first quarter of 1998.

The amount of government paper held by the commercial banks decreased by 3.8% (NAf.8.7 million) in the first quarter of 1998, compared to a 1.9% (NAf.4.4 million) decrease during the first quarter of 1997. The contraction in the first quarter of 1998 may be the result of a diminishing willingness of the commercial banks to hold government paper, which, together with the improvement in the net foreign position, might indicate more favorable investment opportunities abroad in terms of risk and returns.

On an annual basis, total domestic credit extension increased by 0.2% (NAf.4.4 million), the result of an increase in loans to the private sector and a counteracting decrease in the amount of government paper held by the commercial banks. The increase of 0.8% (NAf.18.5 million) in total domestic loans extended to the private sector was concentrated in the subcategory business loans, which increased by 1.5% (NAf.12.1 million), mainly in the first quarter of 1998. In addition, consumer loans and mortgages increased by 0.9% (NAf.4.4 million) and 0.2% (NAf.2.0 million), respectively. The amount of government paper held by the commercial banks decreased by 5.9% (NAf.14.1 million) on an annual basis. This declining trend in government paper held by commercial banks started in August 1994, with an incidental hike in July 1996 due to the inclusion of Giro Curaçao N.V. as a newly established commercial bank. Due to the uncertainties surrounding the government and the policies it intends to pursue, this declining trend is likely to continue for a while.

**Graph 7**

**Composition of the domestic lending portfolio of commercial banks**



The composition of the domestic loan portfolio of the commercial banks in graph 7 shows that the shares of consumer and business loans increased by 0.2 and 0.4 percentage point to 20.8% and 33.3%, respectively, from the first quarter of 1997 to the first quarter of 1998. These increases were at the expense of the share of government loans, which decreased from 9.7% to 9.1%. This effect can be defined as 'inverse crowding out,' since commercial banks are changing their credit portfolios away from government towards the private sector. This trend might be the result of diminishing confidence in the government, which in turn is fueled by the growing budget deficits.

**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 accelerated from 0.6% (NAf.10.1 million) in the first quarter of 1997 to 1.1% (NAf.19.2 million) in the first quarter of 1998. This acceleration manifested itself in consumer and business loans. Most pronounced was the acceleration in the growth in consumer loans by 8.3 percentage points to 8.1% (NAf.29.6 million). Business loans increased by 2.1% (NAf.13.6 million), but mortgages declined substantially by 3.7% (NAf.24.0 million).

**Table 17**  
**Domestic private sector loans at commercial banks on the Leeward Islands as per end of period (in millions NAf.) and percentage quarterly changes**

	1998-I	1997-I	1996-I
Domestic private sector loans,	1,690.0 1.1%	1,672.2 0.6%	1,643.1 3.7%

of which:

-Mortgages	620.1	-	622.2	0.0%	575.2	1.3%
			3.7%			
-Consumer loans	395.7	8.1%	385.7	-	382.0	0.5%
			0.2%			
-Business loans	674.2	2.1%	664.3	1.7%	685.9	7.7%

On an annual basis, domestic loans to the private sector on the Leeward Islands increased by 1.1% (NAf.17.8 million), slightly higher than the national growth rate of 0.8%. The increase in total domestic private sector loans can be attributed to the increases in consumer loans and business loans by 2.6% (NAf. 10.0 million) and by 1.5% (NAf.9.9 million), respectively. In contrast, mortgages declined by 0.3% (NAf.2.1 million). All these changes were concentrated in the first quarter of 1998, implying little or no change in the previous three quarters.

### ***Windward Islands***

As can be seen in table 18, credit extension to the private sector on the Windward Islands decreased by 0.3% (NAf.1.8 million) in the first quarter of 1998, compared to a 1.7% (NAf.8.8 million) contraction in the first quarter of 1997. This acceleration in the growth rate by 1.4 percentage points can be attributed entirely to the turnaround in the growth rate of business loans from a 6.2% (NAf.8.9 million) decline in the first quarter of 1997 to a 3.1% (NAf. 4.1 million) increase in the first quarter of 1998. This increase might be related to the turnover tax, as many companies had to draw on their credit line to comply with the monthly payments. In addition, the figures show that the decline in consumer loans diminished from 4.1% (NAf.4.9 million) in the first quarter of 1997 to 1.1% (NAf.1.2 million) in the first quarter of 1998.

***Table 18***  
***Private sector loans at commercial banks on the Windward Islands per end of period (in millions NAf.) and percentage quarterly changes***

	1998-I	1997-I	1996-I
Domestic private sector loans,	525.9-0.3%	525.3-1.7%	462.7 0.2%
of which:			
-Mortgages	276.9-1.7%	272.8 1.9%	218.5 1.5%
-Consumer loans	110.7	116.3-4.1%	108.2 2.2%
-Business loans	138.3 3.1%	136.2-6.2%	136.0-3.3%

On an annual basis, domestic private sector loans on the Windward Islands increased by 0.1% (NAf.0.6 million). This increase was primarily the result of increases in mortgages and

business loans by 1.5%, corresponding with NAf.4.1 million and NAf.2.1 million, respectively. In contrast, consumer loans recorded a decreased by 4.8% (NAf.5.6 million). This decrease contrasts sharply with the 2.6% expansion in consumer loans on the Leeward Islands. When comparing the relative importance of each category, the figures indicate an unusually large share of mortgages in the total private sector loan portfolio. This finding can be explained by a large mortgage loan, extended to a hotel project in St. Maarten to repair hurricane damage.

### Interest rates

During the first quarter of 1998, the interest rates in the Netherlands Antilles decreased in nominal terms, but due to a slowdown in the inflation rate, they increased in real terms. This high real interest rate is generally considered an impediment to economic growth. It is mainly the result of increasing demand for credit by the government sector.

**Table 19**  
***Developments in the official discount rate and the commercial banks' end-of-period average interest rates (in percentages)***

	1998-I	1997-IV	1997-I
Official discount rate	6.0	6.0	6.0
Borrowing rates			
-Passbook savings	3.7	3.5	3.7
-12 month time deposit	5.1	5.1	4.7
Lending rates			
-Mortgages	11.3	12.0	11.6
-Real mortgage rate <sup>1)</sup>	8.8	8.6	7.7

<sup>1)</sup> Mortgage rate corrected for inflation rate.

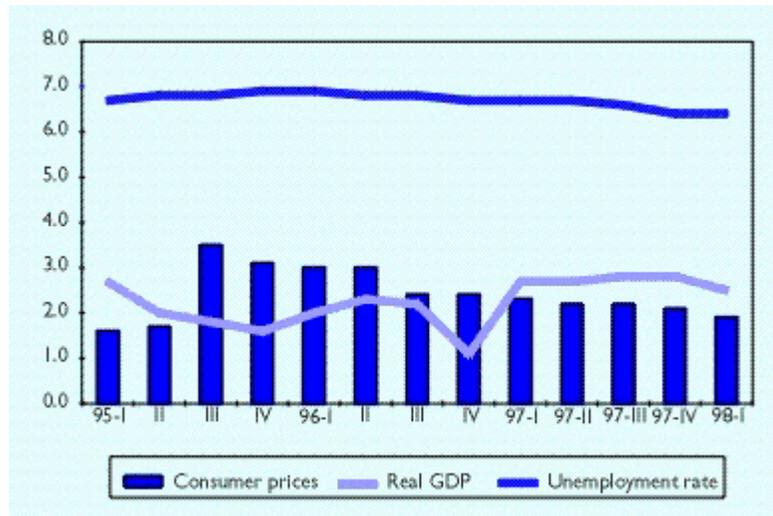
## INTERNATIONAL AND REGIONAL DEVELOPMENTS

### Introduction

The world economy is projected to perform slightly less well in 1998 than in 1997. The US economy is performing better than expected, recording stronger growth and lower inflation. The European economies are developing as expected with the Netherlands recording the fastest growth. In contrast, the Japanese economy remains troublesome, despite the recently introduced ambitious stimulation package. The Asian financial markets are still far from stable, and their economies are expected to recover only from next year. The GDP growth rate of the world economy is expected to decrease from 2.75% at the end of 1997 to 2.5% at the end of 1998.

In the first quarter of 1998, the US economy accelerated to a 4.8% growth rate on an annual basis, the result of buoyant domestic demand as private consumption accelerated and investment in equipment rebounded. The development in domestic demand more than offset the dampening effect of net trade, reflected by falling exports to Asia and soaring imports.

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



The Japanese economy went into a recession in 1997, due to fiscal tightening, weaker Asian demand, and the troubles in the financial sector. Consumer confidence eroded when it turned out that the problems of the banking sector and pension funds were bigger than expected. After disappointing bonus payments and record high unemployment figures, consumption and residential investments fell sharply. With very low profits and credit squeezed for smaller enterprises, productive investment turned down and stock prices became unacceptably high. Public investment could stabilize this year and increase next year. Fiscal stimulation introduced by the Japanese government will help consumption and private investment to pick up gradually next year. Exports to Asian countries might stop falling, and exports from Japan to other countries is expected to be stimulated by the falling yen. These developments may promote an increase in Japanese GDP by 1.5% in 1999, after stagnation in 1998.

Economic recovery in Europe continued unabatedly in the beginning of 1998, although the external environment became less favorable. A weaker contribution from net exports to countries outside the region (Asia in particular) was offset by a stronger expansion in domestic demand. These tendencies are expected to continue. On the one hand, export growth will moderate as the effects of improved competitiveness decrease and import demand from Asia and the United States weaken. On the other hand, domestic demand will strengthen further, especially in the Netherlands, which has the fastest growing economy in Europe. Employment in Europe is expected to increase further as a result of the buoyant economic growth contributing to a drop in the unemployment rate to 10% of the European labor force in 1999. Inflation in Europe also is expected to remain contained.

## **Economic performance in Venezuela**

### ***Overview***

Weak oil prices have forced the Venezuelan government to announce drastic budget cuts and revise its economic targets. Growth is expected to slow down in 1998. The effect of low crude oil prices will be exacerbated by output reductions, leading to a slowdown in investment growth as oil projects and privatization are delayed. Furthermore, higher interest rates, cuts in the budget, and rapid import growth, encouraged by the continued real appreciation of the bolivar, have forced a revision in the forecast of the Venezuelan GDP growth for 1998.

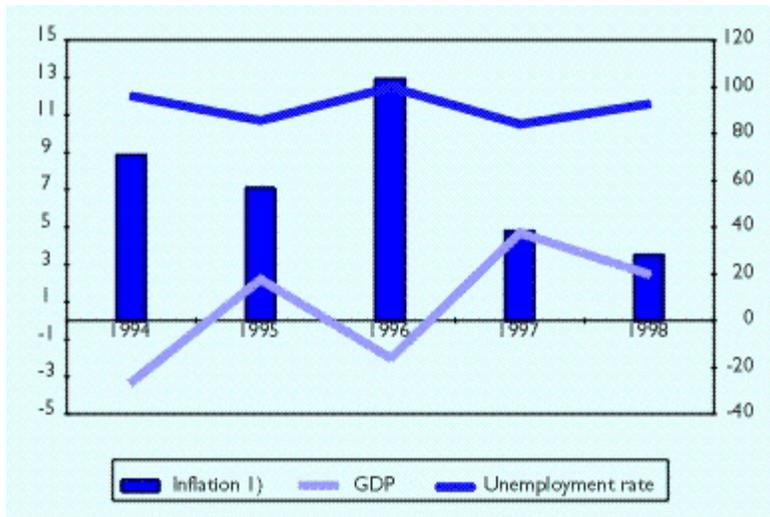
### ***First quarter development***

The Venezuelan economy is expected to grow by a forecasted 2.5% in 1998, far less than the initial forecast. The sharp decrease in oil prices forced the government to contemplate a third round of spending cuts. A 32% drop in oil prices in 1997 throttled the economy, which had been expected to grow by 6 % this year after growing by 5.1% in 1997. The current Venezuelan budget is based on a price of \$13 a barrel, but Venezuelan officials are expecting an average oil price of less than \$12 for the remainder of 1998. Taxes from the sale of oil and royalties make up half of the government's revenue.

Consumer prices jumped 2.7% in March, the highest increase since November 1997, pushing the inflation on an annual basis up to 38.3%. Venezuelan government officials attributed the continued acceleration in inflation to the effects of prolonged drought on agricultural supplies and the rising production costs of manufactured goods. The continued high inflation rate is threatening to strip workers of real wage gains, as a 33% minimum wage rise was granted this year. An erosion of the purchasing power is expected to influence consumer spending negatively and eventually lower the rate of inflation. Therefore, the year-end inflation is expected to be around 28% in 1998.

### ***Graph 9***

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



### 1) Right hand-scale

Due to the slowing down of the Venezuelan economy, the unemployment rate is expected to increase to 11.6% at the end of 1998, compared to 10.6% at the end of 1997. Venezuelan officials have proposed reducing the workweek to create more jobs to meet the growing unemployment problem.

The high inflation has put pressure on the bolivar, which has depreciated approximately 6.1% so far in 1998. Also the increasing trade deficit, due to the falling oil prices and booming imports, will put the bolivar under continued pressure in 1998. It is expected that the bolivar will depreciate by the end of 1998. However, since 1998 is an election year, the Venezuelan government is anxious to avoid devaluation during the rest of its term. This will be facilitated by the still strong reserves position, and the expected slowdown in domestic demand.

The Central Bank's reserves fell to \$14.8 billion at the end of March 1998, the lowest level in 17 months. The fall in reserves resulted from selling more hard currency to protect the sliding bolivar. Nevertheless, the reserves still cover about one year of the country's imports.

## Economic performance in the Netherlands

### Overview

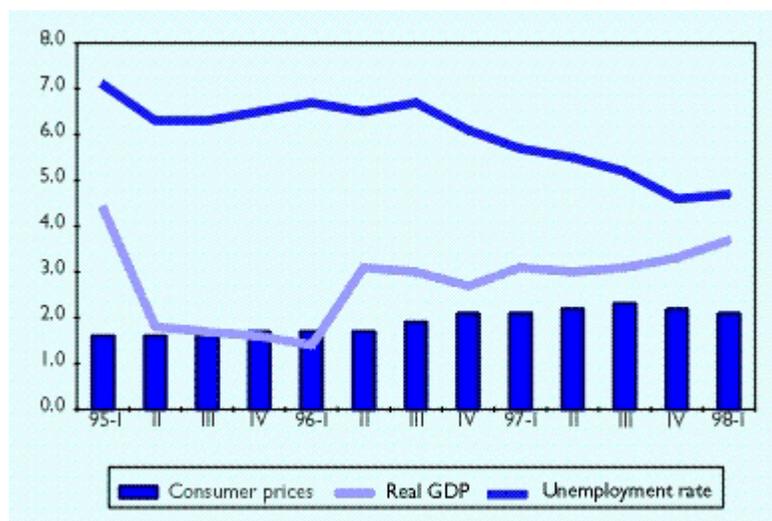
Official estimates show that GDP growth in the Netherlands reached 3.3% in 1997. GDP growth is expected to be slightly higher in 1998 before slowing down in the years up to 2001. GDP growth is expected to pick up again in 2002. Manufacturing production will continue to grow at around 4% in 1998, while industrial production will expand more strongly than in 1997, due to the better performance of the extraction industries. Corporate investments will be the fastest-rising component of domestic demand up to 1999, while private consumption will receive an impetus from cuts in the income tax from 2000 onwards.

### *First quarter development*

The Dutch economy accelerated more than expected in the first quarter of 1998, resulting in the largest year-on-year growth in gross domestic product since 1990. The Dutch economy expanded 1.4% in the first quarter of 1998 and grew 4.2% compared to the first quarter of 1997. This was the largest gain since the last quarter of 1990, making the Dutch economy one of the fastest-growing economies in Europe. The growth can be attributed to surging consumer spending, which expanded by 2.1% in the first quarter of 1998, and to an increase in exports to other European economies.

### *Graph 10*

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



Due to the strong economic growth, the unemployment rate in the Netherlands decreased to a 17-year low from an average 5.7% in the first quarter of 1997 to an average 4.7% in the first quarter of 1998. Job vacancies are at a record low with strong demand for workers especially at high-tech companies. High domestic spending related to, among other things, the high employment remained the engine behind economic growth, spurring consumer spending, the result of improved consumer confidence and higher disposable income growth due to stock market gains.

Despite the strong economic growth in the first quarter of 1998, industrial production growth declined markedly from 4.7% in the fourth quarter of 1997 to 2.2% in the first quarter of 1998. Despite this slowdown, experts expect a pickup in activity in the coming months. On an annual basis, industrial production growth continued to increase from 2.8% in December 1997 to 3.3% in March 1998.

Although the Dutch economy is growing at a faster-than-expected rate, consumer price inflation decelerated from 0.6% in the last quarter of 1997 to 0.1% in the first quarter of 1998.

The drop in inflation was due to the mild winter, although March witnessed a higher-than-expected rise in prices, as clothing, shoes, and food became more expensive. On an annual basis, the Dutch CPI decreased by 0.1 percentage point to 2.1% in the first quarter of 1998. Despite the decrease in the Dutch CPI, the inflation in the Netherlands is one of the highest among the European countries. Dutch officials state, however, that there is no danger the economy will overheat.

Dutch producer prices decreased further by 1.0% in the first quarter of 1998 compared to 0.1% in the last quarter of 1997. This decrease can be attributed to the drop in oil prices. On an annual basis, the recorded decrease amounted to 0.5 percentage points, from 2.9% in the last quarter of 1997 to 2.4% in the first quarter of 1998.

The short-term prospects for the Dutch economy are tempered slightly, as the leading economic indicator turned around from a 0.1% increase in the last quarter of 1997 to a 0.1% drop in the first quarter of 1998.

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

### ***Overview***

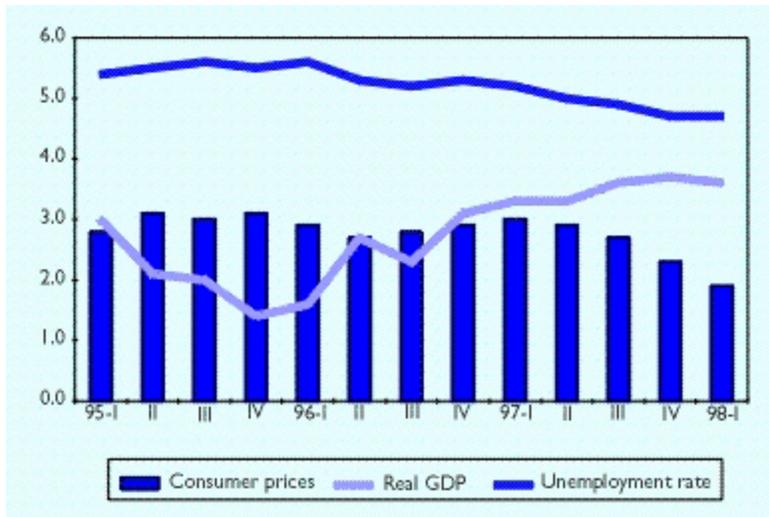
After a booming first quarter, the US economy is expected to slow in the remainder of 1998, as the negative impact of the Asian crisis on the growth of exports persists, and stock building is expected to decelerate. The effects of increased wealth on consumption will become smaller, and lower profits growth will depress investments. As a result, real GDP growth could decelerate from 3% in 1998 to 2.5% in 1999. Inflation is expected to remain low in 1998, supported by weak imports, but is likely to pick up somewhat in 1999.

### ***First quarter development***

The US economy grew at a faster-than-expected rate of 4.8% in the first quarter of 1998, compared to the same quarter in 1997. This faster-than-expected growth rate can be attributed to increasing consumer confidence and consumer spending related to strong job growth. Consumer spending rose at a 6.1% annual rate in the first quarter of 1998, the fastest growth rate since the first quarter of 1992. Consumer spending made up two-thirds of the nation's economic output.

### ***Graph 11***

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



Despite the faster-than-expected economic growth in the first quarter of 1998, the growth in industrial production decelerated from 5.7% in the fourth quarter of 1997 to 4.6% in the first quarter of 1998. This development was accounted for primarily by the declining output at factories, utilities, and mines in the first two months of 1998. However, in March 1998, industrial output increased slightly, due mainly to the impact of a late winter on the utility sector. On the other hand, manufacturing output fell as the production of cars and trucks, fabricated metals, lumber, and primary metals declined, offsetting the gain in the utilities sector. On an annual basis, the growth in industrial production decelerated by 0.8 percentage points from 7.2% in the fourth quarter of 1997 to 6.4% in the first quarter of 1998.

Although the US economy grew faster than expected, the unemployment rate remained quite stable, decreasing slightly from an average 4.7% in the last quarter of 1997 to an average 4.6% in the first quarter of 1998. However, a slowdown in job growth is expected later this year. From September 1997 to January 1998, manufacturing employment grew steadily. However, since February 1998, job growth has slowed in several industries, including fabricated metals, industrial machinery, and electronic components.

Consumer prices decelerated marginally from 0.4% in the last quarter of 1997 to 0.2% in the first quarter of 1998, due mainly to the fourth successive drop in oil prices. Also, a decrease was recorded on an annual basis as the consumer price index declined by 0.4 percentage point from 2.3% in the last quarter of 1997 to 1.9% in the first quarter of 1998.

Producer prices fell sharply by 1.3% during the first quarter of 1998, compared to a 0.1% increase in the last quarter of 1997. This decline was the largest in almost five years. The decrease in producer prices was attributable primarily to the decline in energy prices, owing to the drop in oil prices, and the prices of raw materials such as aluminum. Other categories, such as construction materials, food and tobacco, increased slightly or remained unchanged during the first quarter of 1998. Producer prices decreased also on an annual basis from a 0.3% increase in the last quarter of 1997 to a 0.6% decline in the first quarter of 1998.

The composite leading indicator that projects economic performance in the short term, revealed that the growth of the US economy will slow down. The growth of this indicator slowed from 1.0% in the last quarter of 1997 to 0.1% in the first quarter of 1998.

## DEVELOPMENTS IN THE FINANCIAL SECTOR

As part of the supervision of banking and credit institutions, the Bank conducted on-site examinations at two local commercial banks, one international bank, and one credit union during the first quarter of 1998. During those examinations, the Bank continued to pay special attention to the "Year 2000" problem to further assess the preparedness of the supervised credit institutions for the new millennium.

### Developments in the domestic banking sector

During the first quarter of 1998, total assets of the local commercial banks continued to decline. Total assets declined by NAf. 27.0 million (0.6%) to NAf. 4,334.9 million. This decline was accounted for mainly by the decrease in non-interest-bearing-cash, which exceeded the increase in the other asset items. Loans increased by NAf. 20.3 million. The increase in the loan portfolio was predominantly the net result of a NAf. 46.5 million increase in time loans and a NAf.24.6 million decrease in mortgages.

Total liabilities declined mainly as a result of a decline of NAf. 43.1 million in time deposits held by nonresident banks, other financial institutions, and business enterprises. Borrowings and other liabilities also contributed to the decline in total funding of the local commercial banks. On the other hand, demand and savings deposits increased by NAf. 35.2 million (2.9%) and NAf. 12.3 million (1.2%), respectively.

Capital increased by NAf 5.2 million to NAf. 374.5 million due mainly to increased retained earnings. This development resulted in a slight improvement in the capitalization of the local banking sector by 0.2 percentage points. The capitalization of the local banking sector continued to be in compliance with international capitalization 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.)**

	1998-I		1997-IV		1997-I	
	NAf.	%	NAf.	%	NAf.	%
ASSETS						
Non-int.-bearing cash	319.1	7.3	385.2	8.8	272.0	6.5
Interest-bearing cash	564.9	13.0	557.3	12.8	588.2	14.1
Investments	316.7	7.3	314.4	7.2	322.9	7.7
Loans	2,860.7	66.02	2,840.4	65.12	2,746.9	65.7
Investm.	15.5	0.4	13.4	0.3	20.8	0.5

unconsol. sub.						
Fixed assets	163.9	3.8	162.7	3.8	149.9	3.6
Other assets	94.1	2.2	88.5	2.0	78.2	1.9

Total assets 4,334.9100.04,361.9100.04,178.9100.0

#### LIABILITIES

Demand deposits	1,242.6	28.71	1,207.4	27.71	1,243.5	29.8
Savings deposits	1,628.0	37.61	1,615.7	37.01	1,605.7	38.4
Time deposits	781.6	18.0	824.7	18.9	686.1	16.4
Total deposits	3,652.2	84.33	3,647.8	83.63	3,535.3	84.6
Borrowings	137.5	3.2	150.1	3.4	124.8	3.0
Other liabilities	170.7	3.9	194.7	4.5	143.4	3.4

Total liabilities 3,960.4 91.43,992.6 91.53,803.5 91.0

Minority interest	5.5	0.1	5.3	0.1	5.0	0.1
Subord. debentures	8.5	0.2	9.1	0.2	10.2	0.2
General provisions	106.2	2.4	113.2	2.6	94.2	2.3
Capital & reserves	254.3	5.9	241.7	5.6	266.0	6.4

Total capital 374.5 8.6 369.3 8.5 375.4 9.0

Total liabilities and capital 4,334.9100.04,361.9100.04,178.9100.0

#### Developments in the international banking sector

The number of banks operating in the international banking sector of the Netherlands Antilles remained unchanged at 39. Total assets of the international banking sector declined from NAf 65.11 billion to NAf 63.6 billion. This decline was accounted for mainly by the decrease in interest-bearing-cash and loans, which decreased by NAf 1.0 billion and NAf 0.7 billion, respectively. The decline in liabilities was caused mainly by the decline in time deposits and borrowings. However, the capitalization of the international banking sector increased from NAf. 4.2 billion to NAf 5.0 billion and remained adequate at the end of the first quarter of 1998.

