



QUARTERLY BULLETIN 1999-1

Bank van de Nederlandse Antillen

REPORT OF THE PRESIDENT

The economy of the Netherlands Antilles showed a slight expansion in the first quarter of 1999, as reflected by an increase in real Gross Domestic Product of 0.2% on an annual basis. The slight growth was attributable primarily to an expansion in private consumption related to the elimination of the sales tax on the Leeward Islands and the reduction of the turnover tax on the Windward Islands. In addition, the export sector grew marginally. The average price level declined in the first quarter of 1999 as a result of the tax alleviation, lower local telephone rates, and a decline in petrol prices. This development in prices contributed to a further fall in the annualized inflation rate.

The export sector improved its performance marginally, because of an increase in foreign exchange income generated by the refinery. This increase resulted from a large maintenance project. As a consequence, oil production declined. Developments in the tourist sector were sluggish. Stay-over tourism and foreign exchange income earned barely increased, and cruise tourism declined. The decline in cruise tourism occurred on all the islands; the number of stay-over tourists grew in St. Maarten and Curaçao and decreased further in Bonaire. Only St. Maarten recorded an increase in foreign exchange income generated.

Activities in the international financial and business services sector continued to decline, but to a much smaller extent than in previous quarters. The decline was attributable to income received from services rendered, as profit tax transferred to the government increased slightly. Also the transportation sector recorded an overall decline in activities. However, the developments by branch of industry were mixed. The decline in activities was due primarily to bunker sales, oil transshipment, and the ship repair sector. The national carrier Air ALM transported more passengers, while freight shipments dropped. The number of ships piloted into the harbors of Bonaire and Curaçao fell. In contrast, the amount of freight handled in Curaçao increased, owing mainly to the expansion in transshipment activities. Furthermore, the airports in Bonaire, Curaçao, and St. Maarten registered a growth in total passenger movements. The performance of the free zone deteriorated, as measured in both the value of re-exports and the number of visits.

Concomitant with the sluggish development in our main export sectors and the worsening of the income and unrequited transfers balances, the deficit on the current account of the balance of payments deteriorated. This deterioration was aggravated by a worsening of the capital account, which was accounted for by both the private and the official capital accounts. As a result, our foreign exchange reserves declined. The weak development of the balance of payments underscores the need for a revitalization of our export sector. This revitalization could be attained, however, only through regaining investors' confidence with the full and timely implementation of the national recovery plan.

The cash balance of the General Government deteriorated significantly from a surplus to a deficit in the first quarter of 1999. This deterioration was dominated by a decline in revenues due to the elimination of the sales tax on the Leeward Islands and the reduction of the turnover tax on the Windward Islands as of January 1, 1999. In addition, expenditures increased, mainly as a result of more purchases of goods and services, more transfer payments, and higher capital expenditures. The government's liquidity position remained

tight, as investors were not willing to roll over all of the maturing debt in the absence of a viable restructuring plan for the public finances. As a result, the deficit was financed by drawing down bank deposits and building up arrears with, among other things, the civil servants pension fund APNA. The current state of the government finances requires swift and bold actions by the authorities to prevent their being unable to meet crucial obligations, such as principal, interest, and salary payments. These actions should focus on a substantial reduction of the government bureaucracy, the further reform of the civil servants pension system, and a strengthening of indirect taxes through a broad-based turnover tax, as recommended in the national recovery plan.

Despite the deficit on the balance of payments, the monetary aggregates showed a relatively large growth in the first quarter of 1999, compared to previous quarters. This growth was attributable entirely to the domestic sector. The government sector exerted an expansionary impact, which resulted mainly from a withdrawal of deposits at the banking system. However, a large part of these funds were withdrawn from an earmarked account at the Bank for payments to development projects. The private sector recorded an acceleration in its expansionary impact due to an increase in loans. The latter acceleration was partly the result of a growth in loans to small firms to bridge liquidity shortages related to the downturn in business resulting from the weak economy. The Bank views this development with concern and wants to emphasize the urgency of addressing the financial-economic crisis to create a climate conducive to economic growth. Furthermore, the Bank decided to tighten its monetary stance through an increase of the reserve requirement from 8% to 8 ½% as of May 1999. This step was taken in light of the increasing over liquidity in the banking system and, hence, the risk of excessive credit extension, which could further weaken our balance of payments.

The current macroeconomic panorama of the Netherlands Antilles is characterized by a protracted downturn of the economy, mounting government deficits and debt, low confidence of investors and consumers, and a weakening balance of payments. To address this financial-economic crisis, the government installed the National Plan Commission, which presented a comprehensive structural adjustment program in June 1999. The recommendations of the Commission are geared toward eliminating the budget deficits, improving the investment climate, and liberalizing the labor and product markets. The full and timely implementation of the complete package of proposed measures is expected to result in budget surpluses in 2000. These surpluses will be used to finance supporting policies aimed at, among other things, strengthening our physical infrastructure, improving our educational system, preparing laid-off government employees for new jobs, and compensating the socially weak groups in society for the consequences of the measures.

The restructuring of the government finances requires painful measures. However, this concern should not prevent our policymakers from making bold decisions to implement the national recovery plan fully and without delay. Implementing this plan is the only way to restore confidence and create a climate for a sustainable recovery of our economy.

E.D. Tromp
President

DEVELOPMENTS IN THE REAL SECTOR

General economic developments

Economic growth in the Netherlands Antilles showed a slight expansion as real GDP increased by 0.2% in the first quarter of 1999, following the 0.7% contraction in the first quarter of 1998. The small economic improvement was fueled mainly by a growth in consumption and increased activities in the transportation, tourism, and financial sectors, according to the business survey conducted by the Bank. This progress was accompanied by mild inflation. The annual inflation rate abated to 0.9% in the first quarter of 1999, compared to 2.3% in the corresponding quarter of 1998. The first quarter's inflation was pulled down by the removal of the sales tax on the Leeward Islands and the low inflation of our main trading partners. Apparently, the slight economic growth was accountable for the decline in the dismissal requests and layoffs.

National production and spending

The economy had contracted for several quarters in a row before experiencing a small growth in the first quarter of 1999. The expansion of the Antillean economy was induced by a rise in domestic spending coupled with a steady surge in foreign demand. The advance in domestic spending may have been caused by the elimination of the sales tax on the Leeward Islands and the reduction of the turnover tax rate on the Windward Islands as of January 1, 1999. This gain in purchasing power encouraged private consumption. Overall public sector spending, on the other hand, remained almost unchanged; government consumption shrank by 1.3%, and government investment rose by 27.4%. However, consumer and producer confidence remained low. The lack of cohesive fiscal planning and the rising debt burden were the primary factors responsible for the poor consumer sentiment and investment climate. To stimulate the economy, numerous policies are being proposed in a National Plan. This plan will focus on policy measures with emphasis on fiscal and social economic issues.

Inflation

Consumer prices in the Netherlands Antilles continued to decelerate in the January-March quarter of 1999. The estimated annual inflation rate dropped to 0.9%¹, compared to 2.3% in the first quarter of 1998. The mix of sales tax removal and tame inflation of our main trading partners (the US and the Netherlands) kept overall inflation down. For the first quarter of 1999, US and Dutch inflation were 1.5% and 2.0%, respectively. On an annual basis, Bonaire experienced the highest inflation in the Netherlands Antilles. Bonaire's annual inflation edged upward to 1.8% in the first quarter of 1999, compared to 1.6% in the corresponding period of 1998.

Curaçao's annual inflation for the period ending March 1999 was 0.7%, lower than the 2.4% in the first quarter of 1998.

¹⁾ *St. Maarten's first quarter inflation in 1999 is held equal to the fourth quarter of 1998 because figures were unavailable.*

Table 1
Inflation rates for Curaçao and Bonaire for the first quarter of 1999 (% changes)

	Curaçao	Bonaire
Food	0.2	0.5
Beverages & tobacco	-0.5	0.0
Clothing & footwear	-0.4	0.0
Housing	-0.2	0.2
Housekeeping & furnishings	-0.8	0.1
Health	0.2	0.3
Transport & communication	-4.8	-0.7
Recreation & education	-0.1	-0.2
Other	-1.7	-1.1
General inflation rate	-1.1	-0.1

A quarterly analysis by island showed that Curaçao's consumer prices deflated by -1.1%, compared with the last quarter's 0.5% decline. The greatest price drop was in the category "transport & communication" (-4.8%). The decline in the transport component can be explained by a reduction in petrol prices, while that in the communication component by lower local telephone rates. Moreover, the decrease in insurance premiums and the price of other goods & services contributed to the price slide in the "other" item (-1.7%). Fueled by pricier wheat products, fresh produce, and health care, inflation in the categories "food" and "health" both rose by 0.2%.

In 1999's first quarter, Bonaire's consumer prices decreased by -0.1%, as opposed to the 0.8% inflation in the preceding quarter. Similar to Curaçao, consumer prices were driven down by cheaper insurance premiums and other goods & services, causing the inflation rate in the category "other" to slip to -1.1%. The decline in "transport & communication" (-0.7%) was a consequence of a price drop in the transportation component, led by lower petrol prices. The highest rate of inflation, nevertheless, came from the item "food" (0.5%), a result of higher-priced wheat products and fresh produce.

Labor market

The jobless rate in the Netherlands Antilles remained high in the period January-March 1999. However, the number of requests for dismissal in Curaçao tumbled by 45.3%, following last year's 41.0% increase. Furthermore, the number of people laid-off dropped by 67.5%, a marked decline when measured against the first quarter of 1998. The personnel laid off were concentrated in the trade, hotel & restaurant, and social services sectors.

Developments by sector

Mining

In the quarter ending March 1999, the mining sector in Bonaire showed an increase in salt exports, which soared by 63.4%, up from the 2.5% drop in the first quarter of 1998.

Industry

In the first quarter of 1999, the performance of the oil sector was weak: oil refining dwindled by 11.1%, measured against a rise of 0.4% in 1998's first quarter. Additionally, total operational costs dipped by 8.4%, which may be ascribed to the plant's maintenance, causing a drop in production and a 33.5% decline in the refinery's own use of fuel.

For the first three months of 1999, the ship repair industry in Curaçao weakened, when the number of man-hours sold shrank by 9.4%, after a decline of 3.4% in the same quarter of 1998. In addition, the quantity of ships repaired tumbled by 29.9%, contrasting with the growth of 57.7% in 1998. Ship repair earnings tightened by 5.7% in the first quarter of 1999.

Utilities

In 1999's first quarter, utility production slowed, as the output of both water and electricity shrank in the Netherlands Antilles. Water production fell by 2.7% in the months of January-March 1999, as opposed to a swell of 14.8% in the corresponding quarter of 1998. An analysis by islands showed that the fall was the result of a deceleration of 14.2 and 3.0 percentage points for Curaçao and Bonaire, respectively. In contrast, water production in St. Maarten increased by 9.6% in the first quarter of 1999, compared to a 0.9% decline in the same quarter of 1998.

In addition to the decline in water production, electricity production was down by 3.8%, after an increase of 9.6% in the first quarter of 1998. A breakdown by islands indicated that electricity production contracted only in the Leeward Islands. Electricity production edged lower by, respectively, 5.3% and 3.7% in Curaçao and Bonaire. Meanwhile, St. Maarten recorded a surge of 1.0%, down from the 15.0% rise in the first quarter of 1998.

Construction

During the first quarter of 1999, the results of the construction sector in Curaçao proved unfavorable. Both the number of total projects completed and the value of construction permits tumbled by 46.2% and 32.9%, respectively. The decline in the value of construction permits was caused largely by the marked decrease in the number of licenses granted to residential projects. Also, the value of construction projects in Bonaire dropped by 22.3% in the first quarter of 1999. The fall in the value of construction permits in both Curaçao and Bonaire may reflect the lack of consumer confidence in the Antillean economy.

Trade

Free-zone results were gloomy during the January-March quarter of 1999, when re-exports shrank by 12.0%, down from a 46.2% rise in the same period of 1998. Besides the poor free-zone outcome, the number of free-zone visits was down by 5.6% in the first quarter of 1999. During this period, the free-zone visits in most of the main markets declined, except for Colombia (41.1%), Haiti (45.1%), and Trinidad (8.7%).

Tourism

In 1999's first quarter, the tourist sector in the Netherlands Antilles posted mixed results. Stay-over tourism drifted up by 0.8%, following a rise of 3.7% in the first quarter of 1998. However, cruise tourism dropped by 14.7%, as opposed to an increase of 8.5% during the corresponding quarter of 1998. An analysis by islands showed that stay-over tourism improved in both Curaçao and St. Maarten, but cruise tourism deteriorated in all three islands. Total earnings from tourism contracted by 1.0% in the first quarter of 1999.

St. Maarten's tourism recorded mixed developments in the first three months of 1999. Stay-over tourism grew by 1.7%, down from the 8.9% surge a year earlier (table 2). Cruise tourism, however, plunged by 17.8%, after the advance of 7.4% in the first quarter of 1998. The growth in stay-over tourism was reflected by a swell of, respectively, 8.6% and 18.9%, in the North American and Caribbean markets. The North American market performed well, owing to increases in both the US and Canadian arrivals by 5.5% and 26.8%, respectively. Contrary, the number of French guests edged lower by 10.3%, the main cause for the drop in the European market.

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

	Curaçao		St. Maarten		Bonaire	
	1998- I	1999-I	1998- I	1999- I	1998- I	1999- I
North America, of which:	7.6%	4.9%	7.9%	8.6%	1.4%	-7.2%
-U.S.A.	8.3%	-3.7%	9.6%	5.5%	1.2%	-7.2%
-Canada	0.3%	126.2%	-1.0%	26.8%	8.1%	-7.2%
Europe,	-6.6%	-6.1%	12.4%	-6.7%	5.2%	-
					15.6%	
of which:						
-The Netherlands	-5.7%	-2.5%	16.2%	5.8%	5.2%	-
					12.7%	

-France	-	-	7.6%	-	-3.2%	-
				10.3%		24.6%
-Germany	-	-12.5%	-	-	-7.1%	-
	16.6%					22.5%
-Other Europe	-4.4%	-29.2%	31.6%	0.6%	16.3%	-
						22.1%
South & Central America, of which:	-7.0%	13.9%	11.0%	-	-	4.1%
				27.2%	10.0%	
-Venezuela	19.6%	14.4%	9.5%	0.0%		-22.1%
					12.9%	
-Brazil	-	33.0%	-1.5%	-	0.0%	-
	56.4%				59.6%	41.4%
-Other S&C America	-	3.7%	15.0%	-	-	-2.1%
	30.5%				22.3%	10.8%
Caribbean, of which:	-	-3.5%	2.0%	18.9%		-25.9%
	13.3%				37.2%	
-Aruba	-	18.0%	-	-	-	-24.0%
	29.4%				42.3%	
-Santo Domingo	0.8%	-21.6%	4.5%	27.7%	6.9%	-
						12.9%
-Other Caribbean	-6.7%	-7.4%	1.5%	17.1%	3.6%	72.2%
Rest of the World	-	4.2%	1.9%	11.8%	-	-
	29.1%				25.0%	35.2%
Total	-7.2%	1.4%	8.9%	1.7%	-0.4%	-8.0%

In Bonaire, the tourism industry weakened in the quarter ending March 1999, reflecting falls of 8.0% and 51.9%, respectively, in stay-over and cruise tourism. The decline in stay-over arrivals was associated with the contraction in the main markets, including the US (7.2%) and the Dutch (12.7%). Conversely, the South American and the Caribbean markets improved, caused largely by a rise in visitors from Venezuela (22.1%) and Aruba (24.0%).

Similar to St. Maarten, tourist activities in Curaçao also offered a mixed picture in 1999's first quarter. Stay-over tourism improved by 1.4%, in contrast to a drop of 7.3% during the period January to March 1998. Cruise tourism, however, slipped by 4.7% in the first quarter of 1999, down from a 20.3% gain in 1998. The rise in stay-over visitors came from the North American (4.9%) and the South American (13.9%) markets. The number of Canadian passengers increased more than two-fold. This surge was linked to the Canada 3000 charter flights, which commenced in late 1998. Moreover, the increase in visitors from Venezuela (14.4%) expanded the South American market. By contrast, stay-over tourism from the

European market continued to contract (6.1%), caused mostly by the downturn in arrivals from the Netherlands. Alongside the enhanced stay-over tourism, the hotel occupancy rate increased by 8.1%, compared to a fall of 16.2% in 1998.

Transportation

The air transportation industry in Curaçao registered mixed results in the first quarter of 1999. The number of passengers transferred by the national airline "Air ALM" expanded by 2.1%, after a slide of 1.9% in the first quarter of 1998. Conversely, freight shipments weakened by 12.4%, following a 6.2% advance in the January-March quarter of 1998.

In Curaçao, airport activities, as measured by total passenger traffic, drifted up by 0.7% over the months January to March 1999, as total number of passenger arrivals and departures grew by 2.8% and 4.0%, respectively. Moreover, the number of commercial landings grew by 2.6% during the same period. The number of transit passengers, on the other hand, was down by 5.7% in the first quarter of 1999, in contrast to a growth of 10.9% in the corresponding quarter of 1998.

In Bonaire, airport activities indicated some expansion, as they increased by 0.2% in the first quarter of 1999, in comparison to the 5.1% fall in the first quarter of 1998. The declines in passenger arrivals (1.6%) and departures (3.2%) were offset by the marked improvement in commercial landings (10.4%) and transit passenger numbers (25.0%). These increases accounted for the minute growth in Bonaire's airport activities.

In the period January to March 1999, St. Maarten's airport activities increased by 5.7%. This improvement was linked to the upsurge in commercial landings, transit passengers, and passenger arrivals and departures.

For the first quarter of 1999, both oil storage and oil transshipment movements fell in Curaçao by 13.5%. The drop in oil refining might explain the reduction in both these activities. Similar to Curaçao, Bonaire's oil storage and oil transshipment activities tumbled by 42.6% and 35.7%, respectively. In contrast, these activities in Statia both grew by 11.0% in the quarter ending in March 1999. The growth in Statia was unable to offset the decreases in Curaçao and Bonaire, however, which resulted in a reduction of 13.8% in oil transshipments in the Netherlands Antilles.

In the first three months of 1999, harbor activities in Curaçao were mixed. The number of ships piloted into the harbor dipped by 6.8%, contrasting with the gain of 19.5% in the same quarter of 1998. This development stemmed mainly from the downturn in the number of oil tankers (10.0%) and cruise vessels (22.0%), which outbalanced the expansion in cargo ships (0.3%). In contrast, the amount of freight handled improved by 6.1%, a result of a jump of 92.5% in transshipment activities. Alongside the reduced number of vessels visiting the harbor, bunker sales in Curaçao fell, as fuel and water sales plunged by 31.0% and 56.9%, respectively, during the first quarter of 1999.

In Bonaire, the number of ships piloted into the harbor decreased by 34.8% in the quarter ending March 1999, a major drop from the 25.0% rise in the first quarter of 1998. This decline was reflected by the decrease in several categories of vessels, except crafts for salt and cargo movements.

PUBLIC FINANCE

General developments in the public sector

In the first quarter of 1999, the General Government ended up with a cash deficit of NAf.8.1 million. This deficit implied a substantial deterioration of NAf.33.2 million (132.3%) compared with the same quarter of 1998. The deterioration resulted from the 4.8% growth in expenditures (NAf.14.7 million) and the 5.6% drop in revenues (NAf.18.5 million).

The growth in expenditures was attributable to higher current and capital expenditures of NAf.6.4 million (4.8%) and NAf.8.3 million (224.3%), respectively. The growth in current expenditures was caused by higher purchases of goods and services, more transfers, and increased interest payments. Higher investments and net lending contributed to the increase in capital expenditures.

The drop in tax revenues was caused mainly by a drop in taxes on goods and services, particularly the sales tax. This decline was offset partly by the collection of more taxes on property and a substantial increase in taxes on international trade and transactions as a result of more import duties collected. The decline in non-tax revenues was due entirely to grants.

Table 3
Operations of the General Government (in millions NAf.)

	1999-I	1998-I	Change	
REVENUES	309.8	328.3	-18.5	-5.6%
Tax revenues	295.3	304.2	-8.9	-2.9%
Nontax revenues	14.2	21.4	-7.2	-33.6%
Capital revenues	0.0	0.1	-0.1	-100.0%
Grants	0.3	2.5	-2.2	-88.0%
EXPENDITURES	317.9	303.2	14.7	4.8%
Current expenditures	305.9	299.5	6.4	2.1%
Capital expenditures	12.0	3.7	8.3	224.3%
BALANCE	-8.1	25.1	-33.2	-132.3%
% of GDP	-0.2%	0.6%		

The General Government had trouble meeting its financing requirements during the first quarter of 1999. Investors in the domestic financial market still were reluctant to subscribe

completely to government bond issues in the absence of fiscal adjustment measures. The Central Government was able to raise NAf.26.5 million through the issue of debt instruments in the first quarter of 1999. On the other hand, investors were not willing to refinance all of the maturing securities of the Island Government of Curaçao, resulting in a net redemption of NAf.31.4 million during the first quarter of 1999.

Operations of the Central Government

The deficit of the Central Government deteriorated by NAf.31.2 million to NAf.42.6 million in the first quarter of 1999 compared to the first quarter of 1998. This deterioration was the result of NAf.11.2 million (8.3%) higher expenditures and NAf.20.0 million (16.1%) less revenues collected.

On the revenue side, import duties and property transfer tax were the only tax categories that recorded an increase during the first quarter of 1999 -- NAf.11.2 million (45.3%) and NAf.0.9 million (27.3%), respectively. All other tax categories recorded a drop. Sales tax revenues showed the largest decline -- NAf.19.1 million (52.8%). The decline in the sales tax was due primarily to the abolishment of the sales tax (ABB¹) in Curaçao and Bonaire as of January 1, 1999. The 2% turnover tax (NAO²) put in its place became partially³ effective as of March 8, 1999. This change contributed to a loss in revenues of NAf.16.6 million in the first quarter of 1999. In addition, income from the turnover tax in St. Maarten, Saba, and St. Eustatius dropped by 21.4% (NAf.2.5 million), because of a reduction in the tax rate from 3% to 2% as of January 1, 1999. The increase in import duties can be explained by the strong growth in transshipment of goods through Curaçao as a result of its preferential access to the European Community.

¹) *Algemene Bestedingsbelasting*

²) *Nederlands Antilliaanse Omzetbelasting*

³) *The NAO was introduced in three stages; the third stage became effective as of May 1999*

Table 4
Breakdown of the revenues from the sales and turnover taxes in the Netherlands Antilles (in millions NAf.)

	1999-	1998-	Change
	I	I	
Sales tax Curaçao and Bonaire (ABB)	7.9	24.5	--67.8%
Turnover tax St. Maarten, Saba and St. Eustatius (BBO)	9.2	11.7	-2.5-21.4%
Total revenues	17.1	36.2	--52.8%
		19.1	

Nontax revenues dropped by NAF.7.1 million (44.7%) in the first quarter of 1999, compared to the first quarter of 1998. This drop was the result of a drop of NAF.1.8 million (34.6%) in entrepreneurial and property income, NAF.3.7 million (41.6%) lower receipts from fees, charges, and sales, and a drop of NAF.1.6 million (88.9%) in other nontax revenues. Furthermore, capital revenues and grants declined by NAF.0.1 million and NAF.2.2 million, respectively.

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

	1999-	1998-	Change	
	I	I		
REVENUES	104.3	124.3	-	-16.1%
		20.0		
Tax revenues	95.2	105.8	-	-10.0%
		10.6		
of which:				
-excises	35.0	37.2	-2.2	-5.9%
-import duties	35.9	24.7	11.2	45.3%
-property transfer tax	4.2	3.3	0.9	-3.0%
-sales tax	17.1	36.2	-	-52.8%
		19.1		
Nontax revenues	8.8	15.9	-7.1	-44.7%
of which:				
-entrepreneurial & property income	3.4	5.2	-1.8	-34.6%
-fees, charges, and sales	5.2	8.9	-3.7	-41.6%
-other nontax revenues	0.2	1.8	-1.6	-88.9%
Capital revenues	0.0	0.1	-0.1	-
			100.0%	
Grants	0.3	2.5	-2.2	-88.0%
EXPENDITURES	146.9	135.7	11.2	8.3%
Current expenditures	142.0	135.6	6.4	4.7%
of which:				
-wages and salaries	67.9	82.0	-	-17.2%
		14.1		
wages	54.8	55.8	-1.0	-1.8%
social security	2.4	2.4	0.0	0.0%
pension	10.7	23.8	-	-55.0%
		13.1		
-goods and services	31.8	20.2	11.6	57.4%
-interest payments	21.1	17.4	3.7	21.3%
-subsidies	0.6	2.5	-1.9	-76.0%
-transfers	20.6	13.5	7.1	52.6%
other government levels	11.8	7.4	4.4	59.5%
households	2.0	1.8	0.2	11.1%

nonprofit institutions abroad	6.8	4.3	2.5	58.1%
Capital expenditures	4.9	0.1	4.8	-
of which:				
-investments	4.9	5.6	-0.7	-12.5%
-net lending	0.0	-5.5	5.5	-
 BALANCE	 -42.6	 -11.4	 31.2	 -273.7%

The growth in expenditures was caused by increases in both current expenditures and capital expenditures. The NAf.6.4 million increase in current expenditures was due primarily to increased purchases of goods and services (NAf.11.6 million), more transfers (NAf.7.1 million), and an increase in interest payments (NAf.3.7 million). These developments were mitigated by a drop in wages and salaries (NAf.14.1 million) and lower subsidies (NAf.1.9 million). The drop in wages and salaries resulted because the Central Government did not entirely meet its obligations to the civil servants pension fund. Capital expenditures increased by NAf.4.8 million. This increase occurred because there was no net lending in the first quarter of 1999, compared to the net receipts in the same quarter of 1998.

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

	1999-I	1998-I
FISCAL BALANCE	-42.6	-11.4
 MONETARY FINANCING	 5.3	 -34.2
of which:		
Central Bank	0.0	-40.3
Commercial banks	5.0	5.5
Coins & notes	0.3	0.6
 NON-MONETARY	 37.3	 45.6
FINANCING		
of which:		
Government securities with the public	29.0	39.3
Other	8.3	6.3

The Central Government's cash deficit in the first quarter of 1999 was financed both monetarily and nonmonetarily (see table 6). The monetary financing resulted mainly from a drawdown of deposits at the commercial banks, while the nonmonetary financing was attributable primarily to the purchase of government securities by the public.

Operations of the Island Government of Curaçao

The Island Government of Curaçao recorded a cash surplus of NAf.34.5 million in the first quarter of 1999, a slight deterioration of NAf.2.0 million compared to the first quarter of 1998. As total revenues increased slightly by 0.8% (NAf.1.6 million), the 2.1% (NAf.3.5 million) increase in total expenditures caused this deterioration.

The slight increase in total revenues resulted from the NAf.1.7 million improvement in tax revenues, as nontax revenues remained about the same. The improvement in tax revenues was attributable primarily to the increases in wage tax (NAf.9.4 million) and land tax (NAf.1.6 million). The increase in land tax collected can be explained partly by the effort of the Tax Office to reduce the backlog in the processing and collection of assessments. These increases were mitigated mainly by lower profit and income taxes of NAf.2.8 million and NAf.5.7 million, respectively. The drop in income tax collected was largely the result of restitutions.

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

	1999-	1998-	Change	
	I	I		
REVENUES	205.5	203.9	1.6	0.8%
Tax revenues	200.1	198.4	1.7	0.8%
of which:				
-profit tax	84.5	87.3	-	-3.2%
			2.8	
-income tax	0.4	6.1	-	-93.7%
			5.7	
-wage tax	92.9	83.5	9.4	11.2%
-land tax	2.4	0.8	1.6	181.1%
-motor vehicle taxes	14.3	15.0	-	-4.9%
			0.7	
Nontax revenues	5.4	5.5	-	-2.4%
			0.1	
of which:				
-entrepreneurial & property income	0.5	0.6	-	-26.0%
			0.1	
-fees, charges, and sales	4.6	4.7	-	-3.0%
			0.1	
-other nontax revenues	0.4	0.2	0.2	82.5%
Capital revenues	0.0	0.0	0.0	-
Grants	0.0	0.0	0.0	-
TOTAL	171.0	167.5	3.5	2.1%
EXPENDITURES				
Current expenditures	163.9	163.9	0.0	0.0%
of which:				

-wages and salaries	61.5	64.3	-	-4.4%
			2.8	
wages	64.2	66.8	-	-3.8%
			2.6	
pension premiums	-2.8	-2.5	-	11.4%
			0.3	
-goods and services	48.9	46.3	2.6	5.7%
-interest payments	14.9	14.2	0.7	4.5%
-subsidies to public companies	16.0	19.9	-	-19.7%
			3.9	
-transfers to other levels of govt. households	22.7	19.2	3.5	18.1%
	3.2	2.6	0.6	25.6%
nonprofit institutions	10.1	8.9	1.2	13.6%
nonprofit institutions	9.3	7.7	1.6	20.9%
Capital expenditures	7.1	3.6	3.5	97.0%
of which:				
-investments	7.2	3.9	3.3	84.5%
-net lending	-0.1	-0.3	0.2	-56.8%
BALANCE	34.5	36.5	-	-5.5%
			2.0	

On the expenditure side, current expenditures remained unchanged when comparing the first quarter of 1999 with the first quarter of 1998. As a result, the increase in total expenditures was due to the NAf.3.5 million (97.0%) increase in capital expenditures. The latter was attributable mainly to the NAf.3.3 million (84.5%) growth in investments .

Although total current expenditures remained unchanged, its various components revealed mixed developments. Goods and services and transfers registered the largest increases -- NAf.2.6 million (5.7%) and NAf.3.5 million (18.1%), respectively. These increases were mitigated mainly by the NAf.2.8 million (4.4%) decline in wages and salaries and the NAf.3.9 million (19.7%) decline in subsidies to public companies .

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

	1999-I	1998-I
FISCAL BALANCE	34.5	36.5
MONETARY FINANCING	11.1	-16.8
of which:		
Central Bank	20.7	-7.7
Commercial banks	-9.6	-9.1
NON-MONETARY	-45.6	-19.7

FINANCING

of which:

Government securities with the public	-30.7	1.3
Other	-14.9	-21.0

The cash surplus of the Island Government of Curaçao in the first quarter of 1999 was used primarily to redeem securities with the public (NAf.30.7 million), as investors were not willing to refinance all of the maturing securities of the Island Government of Curaçao. The monetary financing was entirely the result of a drawdown of NAf.20.7 million of its deposits at the Central Bank.

Total outstanding public debt and guarantees

The total outstanding debt of the Netherlands Antilles dropped by NAf.28.8 million (0.9%) during the first quarter of 1999. This drop resulted entirely from the NAf.48.8 million (8.0%) drop in the foreign debt, as the domestic debt increased by NAf.20.0 million (0.8%). The decline in foreign debt was attributable to the appreciation of the Netherlands Antillean guilder, which is pegged to the US-dollar, vis-à-vis the Dutch guilder, in which most of the debt is denominated. The total debt as a percentage of GDP reached 70.1% at the end of the first quarter of 1999.

The domestic debt of the Central Government increased by NAf.19.7 million (1.9%) during the first quarter of 1999. This increase was due mainly to the issue of government securities of NAf.29.0 million with the public. The increase in government securities with the public was mitigated primarily by a reduction of NAf.3.4 million (11.5%) in the debt on the advance account at the Central Bank and by a decline of NAf.6.8 million (7.6%) in government securities held by commercial banks.

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

	1999-I	1998-IV	Change	
Domestic consolidated debt, of which:	2550.4	2530.4	20.0	0.8%
-Central Government	1031.9	1012.2	19.7	1.9%
-Curaçao	1425.7	1427.4	-1.7	-0.1%
-Bonaire	76.1	75.2	0.9	1.2%
-St. Maarten	21.1	19.9	1.2	6.0%
-St. Eustatius	1.8	1.8	0.0	0.0%
-Saba	1.9	1.8	0.1	5.6%

Foreign debt	558.9	607.7	-48.8	-8.0%
Total consolidated debt	3109.3	3138.1	-28.8	-0.9%
(% of GDP)	70.1%	71.0%		
Guarantees	298.6	306.7	-8.1	-2.6%
Total debt and guarantees	3407.9	3444.8	-36.9	-1.1%
(% of GDP)	76.8%	78.0%		

¹⁾ Consolidated for the debt of the Central Government to the Island Governments of St. Maarten and Curaçao

The domestic debt of the Island Government of Curaçao declined only marginally by NAf.1.7 million (0.1%), despite recording a substantial operating surplus in the first quarter of 1999. This decline was primarily the result of a drop in securities with the public by NAf.30.7 million (7.9%). This drop was mitigated mainly by an increase in the debt with the civil servants pension fund (APNA) by NAf.27.1 million (3.8%).

Furthermore, the domestic debt of the other island governments (i.e., Bonaire, St. Maarten, St. Eustatius, and Saba) rose by NAf.2.2 million, due entirely to increasing arrears with the civil servants pension fund APNA.

Finally, outstanding guarantees declined by NAf.8.1 million (2.6%) in the first quarter of 1999. As a result, the total outstanding debt and guarantees decreased by NAf.36.9 million (1.1%) to NAf.3.4 billion (76.8% of GDP).

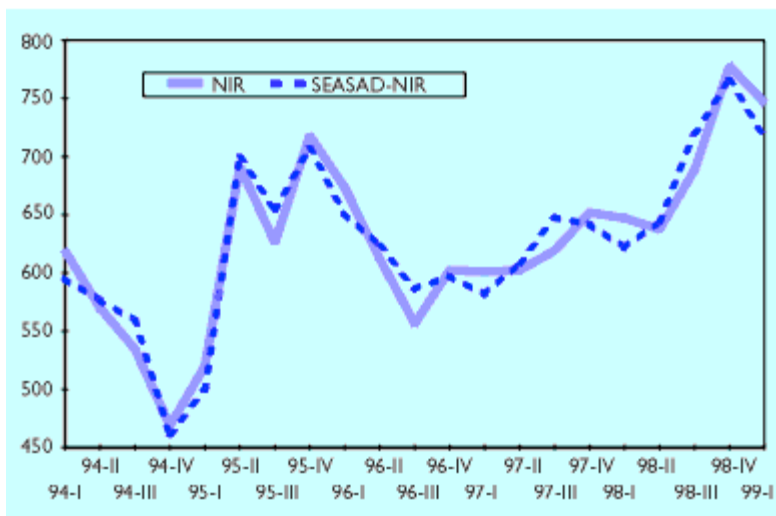
DEVELOPMENTS IN THE EXTERNAL SECTOR

Introduction

Net international reserves declined by NAf.31.4 million to NAf.746.3 million in the first quarter of 1999. The decline was due primarily to a marked drop of NAf.41.0 million in the official reserves, offsetting an increase of NAf.9.6 million in the foreign exchange reserves held at the commercial banks (graph 1).

Graph 1

Development in the net international reserves including gold (in millions NAf.)



The deterioration in the net international reserves can be explained primarily by the worsening of the capital account during the first quarter of 1999, as can be seen in table 10.

Table 10
Balance of payments summary ¹⁾ (in millions NAF.)

	1998- 1999- diff.		
	I	I	
Current account	-9.4	-14.5	-5.1
Capital account	9.4	-8.8	-18.2
Statistical discrepancies	-4.6	-8.1	-3.5
Balance of payments	-4.6	-31.4	-26.8
Change in reserves ²⁾	4.6	31.4	26.8
-with commercial banks	-36.6	-9.6	27.0
-with Central Bank	41.2	41.0	-0.2
Memorandum items			
Official reserves (excl. gold)			
-in millions NAF.	345.7	402.6	56.9
-in months of merchandise imports	1.7	1.9	0.2

¹⁾Cash basis

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

The current account

The current account of the balance of payments recorded a deficit of NAF.14.5 million in the first quarter of 1999, a deterioration of NAF.5.1 million when compared to the same period in 1998. As illustrated in table 11, the development in the current account was due primarily

to a marked increase in unrequited transfers abroad, a deterioration of the income balance, and a sluggish performance by the foreign exchange generating services sector, particularly the transportation sector and the international financial and business services sector. These developments mitigated the improvement in the trade balance.

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

	1998-I	1999-I	diff.
Merchandise balance	-474.5	-459.2	15.3
-Exports	132.2	130.4	-1.8
-Imports	606.7	589.6	-17.1
Services balance	461.8	461.9	0.1
Receipts, of which:	780.5	782.8	2.3
-Transportation	148.5	136.4	-12.1
-Travel	392.5	392.8	0.3
-Int. fin. & bus. services sector	133.8	127.5	-6.3
Taxes	21.6	22.4	0.8
Operational income	112.2	105.1	-7.1
Expenditures, of which:	318.7	320.9	2.2
-Travel	149.0	150.3	1.3
-Int. fin. & bus. services sector	45.0	44.2	-0.8
Income balance ²⁾	29.9	24.3	-5.6
Unrequited transfers ³⁾	-26.6	-41.5	-14.9
Current account balance	-9.4	-14.5	-5.1

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.15.3 million in the first quarter of 1999, compared to the same period in 1998. This improvement can be attributed entirely to the NAf.17.1 million drop in imports, particularly in Curaçao and the Windward Islands.

Table 12 reveals that Curaçao's merchandise balance improved by NAf.6.2 million primarily as a result of lower payments made for oil-imports than in the same period in 1998. Non-oil-related imports increased slightly in the first quarter of 1999. However, adjusted for imports for free zone-related activities, non-oil-related imports actually increased by NAf.16.8 million.

This growth was concentrated primarily in the imports by the wholesale and retail sector, excluding the free zone companies, whose imports rose by approximately NAf.11 million. The latter growth corresponds with the estimated growth in consumption in the first quarter of 1999. In addition, wholesale importers often pay for their imports pertaining to the year-end festivities in the beginning of the following year. The reduction in overall imports in Curaçao was offset partly by a drop in exports. This drop was related entirely to the re-exporting activities of the free zone companies.

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

	Inflows			Outflows		
	1998-1999-Diff.			1998-1999-diff.		
	I	I		I	I	
Curaçao						
Merchandise	117.8	109.3	-8.5	431.8	417.2	-
						14.7
-Non-oil products	117.8	109.3	-8.5	383.7	387.1	3.4
Free-zone re-exports	93.7	83.3	-10.4	106.0	92.6	-
Adj.non-oil prod.	24.1	26.0	1.9	277.7	294.5	16.8
-Oil products	0.0	0.0	0.0	48.2	30.1	-
						18.1
Bonaire						
Merchandise	2.9	2.9	0.0	7.6	12.3	4.7
-Non-oil products	2.9	2.9	0.0	7.6	12.3	4.7
-Oil products	0.0	0.0	0.0	0.0	0.0	0.0
Windward Islands						
Merchandise	11.5	18.2	6.7	167.2	160.1	-7.1
-Non-oil products	10.8	12.1	1.3	136.0	126.3	-9.7
-Oil products	0.7	6.1	5.4	31.2	33.8	2.6
Netherlands Antilles						
Merchandise	132.2	130.4	-1.8	606.7	589.6	-
						17.1
-Non-oil products	131.5	124.3	-7.2	527.3	525.7	-1.6
-Oil products	0.7	6.1	5.4	79.4	63.9	-
						15.5

¹⁾Cash basis

The trade balance of Bonaire deteriorated by NAf.4.7 million as a result of higher import payments made by the retail and the hotel sector. This development may be related to backlog payments made by these sectors.

The Windward Islands recorded a NAf.13.8 million improvement in their trade balance, as a result of a combination of higher oil re-exports and lower non-oil imports. Non oil-related imports decreased by NAf.9.7 million in the first quarter of 1999, offsetting an increase of NAf.2.6 million in oil imports. The drop in the non-oil imports was attributable mainly to lower imports by the retail sector related to, among other things, the decline in cruise tourism.

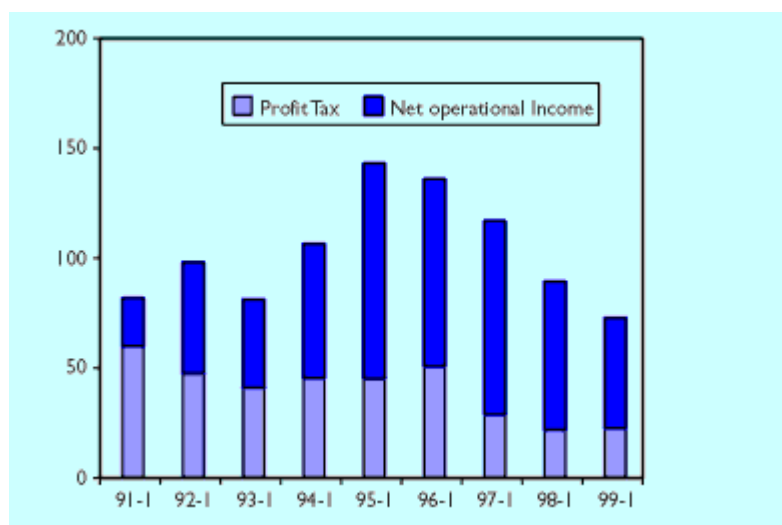
The services balance

The surplus in the services balance remained about the same in the first quarter of 1999 as in the corresponding quarter in 1998. This sluggish performance can be explained, on the one hand, by a combined drop of NAf.18.4 million in foreign exchange receipts from the transportation sector and the international financial and business services sector. On the other hand, these developments were offset by a rise in foreign exchange generated by our telecommunication and postal services and an increase in receipts by the refinery due to scheduled plant maintenance.

Graph 2 shows the development in the amount of foreign exchange generated by the services sectors.

Graph 2

Development in foreign exchange generated in the services sector by branch of industry (in millions NAf.)



Tourism

The tourism sector recorded only a marginal increase in foreign exchange earnings of NAf.0.3 million (0.1%) in the first quarter of 1999, compared to the same quarter of 1998. This development was a result mainly of a decline in tourism receipts in Curaçao, offset by the fair performance on the Windward Islands.

Table 13
First-quarter foreign exchange revenues from tourism per island¹⁾ (in millions NAf.)

	1995- I	1996-I	1997- I	1998-I	1999- I
Bonaire	16.4	21.2	22.7	24.5	23.6
Curaçao	96.0	103.0	96.1	135.4	131.9
Windward Islands	243.0	166.8	197.8	232.6	237.3
Netherlands Antilles	355.4	291.0	316.6	392.5	392.8
Percentage growth	3.3%	-18.1%	8.0%	24.0%	0.1%

¹⁾ Cash basis

Foreign exchange generated by the tourism industry on the Windward Islands increased by 2.0% in the first quarter of 1999, reflected primarily by the increase in the number of stay-over visitors. On the other hand, cruise tourism fell by approximately 18%. The developments in tourism activities on the Leeward Islands were modest. Foreign exchange earnings on Bonaire continued to decline, although to a lesser extent, by NAf.0.9 million (3.7%). This performance resulted from a decline in both the number of stay-over visitors and cruise passengers. Curaçao recorded a drop in foreign exchange earnings by NAf.3.5 million (2.6%) in the first quarter of 1999 following a strong end-of-year performance. This development was due primarily to the decline in the number of European stay-over visitors (6.1%) and cruise tourism (4.7%), as compared to the first quarter of 1998.

Transportation

The transportation sector did not perform well with respect to the amount of foreign exchange generated. Foreign exchange earnings from transportation activities decreased by NAf.12.1 million in the first quarter of 1999 compared to the same period in 1998. This drop in foreign exchange receipts was primarily the result of bunker activities due to lower bunker fuel prices. In addition, other transportation fees, such as tow and pilot services, declined noticeably reflecting the drop in harbor activities. These developments more than offset the increase in foreign exchange revenues of our national carrier, concomitant with the rise in the number of passengers transported.

Payments for transportation services from abroad increased slightly by NAf.2.8 million in the first quarter of 1999.

Table 14
Breakdown of the foreign exchange revenues
in the transportation sector (in millions
NAf.)¹⁾

	1998-I	1999-I	Diff.
Bunker	53.4	43.9	-9.5
Ship repair	15.9	15.0	-0.9
Storage fee	21.3	21.9	0.6
Shiphandling	7.2	9.6	2.4
Passengers fares	22.6	28.7	6.1
Other	28.1	17.3	-10.8
Total	148.5	136.4	-12.1

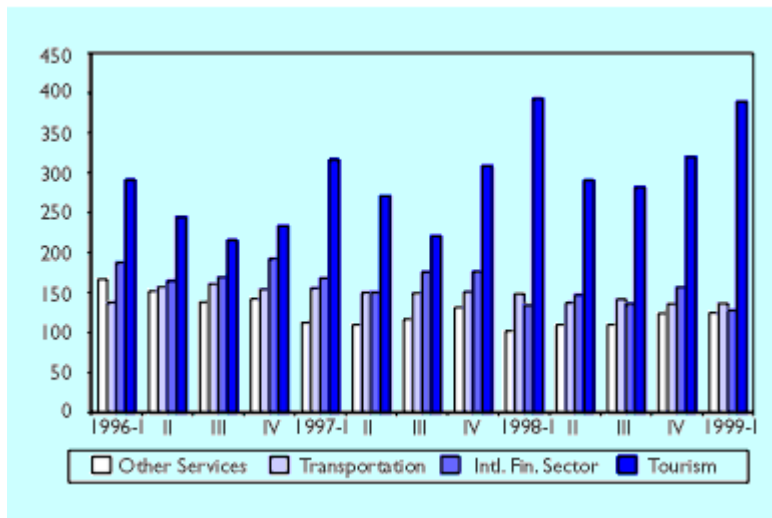
¹⁾ Cash basis

The international financial and business services sector

Foreign exchange earnings from the international financial and business services sector recorded a net drop of NAf.6.3 million in the first quarter of 1999, compared to the first quarter of 1998. The deterioration in foreign earnings was attributed entirely to the drop of NAf.7.1 million in operational income, offsetting the small increase in profit tax receipts.

Graph 3

Development in the international financial and business services sector (net flows, in millions NAf.)



The income balance

The income account of the balance of payments recorded a NAf.5.6 million lower surplus in the first quarter of 1999, than in the same period in 1998. This drop can be ascribed fully to

the deterioration of the labor income balance, offsetting the improvement in investment income.

Table 15
Breakdown of the income account ¹⁾ (in millions NAf.)

	1998-I	1999-I	Diff.
Investment income	27.4	38.1	10.7
-Direct investment income	-11.0	-11.8	-0.8
Received	1.5	0.4	-1.1
Paid	12.5	12.2	-0.3
-Other investment income	38.4	49.9	11.5
Received	46.7	55.3	8.6
Paid	8.3	5.4	-2.9
Labor income	2.5	-13.8	-16.3
Received	4.7	1.6	-3.1
Paid	2.2	15.4	13.2
Total income balance	29.9	24.3	-5.6

¹⁾ *Cash Basis*

The surplus on the investment income balance increased by NAf.10.7 million during the first quarter of 1999. On the one hand, interest receipts by local insurance companies and pension funds from abroad increased by almost NAf.8 million, while on the other hand, profit transfers abroad by resident companies decreased by NAf.2.9 million.

The labor income account recorded a marked shift from a NAf.2.5 million surplus in the first quarter of 1998 to a NAf.13.8 million deficit in the first quarter of 1999. This shift can be attributed mainly to the increase in income transferred abroad and categorized as payments made to foreign workers because an increasing number of Antillean residents work on Dutch St. Maarten, but live on the French side. Although they still have a Dutch passport, these individuals are technically considered nonresidents for the balance-of-payments cash statement. In addition, the size of the shift can be related to improved reporting by the banks on St. Maarten.

Unrequited transfers

The deficit on the unrequited transfers account of the balance of payments recorded a substantial increase of NAf.14.9 million in the first quarter of 1999, primarily as a result of a NAf.22.8 million increase in transfers abroad. Transfers by individuals to their foreign account and pension transfers increased sharply by NAf.8.2 million and NAf.9.2 million, respectively. This development coincides with the increasing number of residents leaving the country due to the financial-economic situation.

The capital account

The capital account of the balance of payments recorded a deficit of NAf.8.8 million in the first quarter of 1999, a worsening of NAf.18.2 million compared to the surplus in the first quarter of 1998. This deterioration can be attributed to both the private capital and the official capital balance.

Table 16 reveals that the deterioration in the private capital balance of NAf.9.3 million was primarily the result of drops of NAf.15.3 million and NAf.35.0 million, respectively, in net foreign borrowing activities and net other capital flows. The drop in net foreign borrowing was a combination of fewer funds borrowed and more repayments made by resident companies, resulting in net payments abroad. Both these developments more than offset the marked drop in net investments abroad as a result of a drop in net portfolio investments. This substantial decline was due mainly to a drop of approximately NAf.35 million in re-investments abroad by the institutional investors.

The official capital balance deteriorated by NAf.8.9 million, mainly as the result of lower Dutch aid receipts.

Table 16
Major components of the capital account ¹⁾
(Net flows in millions NAf.)

	1998-I	1999-I	diff.
Private capital,	0.7	-8.6	-9.3
of which:			
-direct investm.(real estate)	1.5	-0.3	-1.8
-portfolio investm.(sec.)	-43.0	-0.2	42.8
-loans (net)	2.9	-12.4	-15.3
-comm. banks borrowings	0.0	0.0	0.0
-other private cap.	39.3	4.3	-35.0
Official capital,	8.7	-0.2	-8.9
of which:			
-loans & grants	10.1	0.1	-10.0
-other gov. cap.	-1.4	-0.3	1.1
CAPITAL BALANCE	9.4	-8.8	-18.2

¹⁾ Cash basis

MONETARY DEVELOPMENTS

Introduction

Monetary developments during the first quarter of 1999 must be seen against the background of a continued lack of confidence in our still weak economy by economic agents, particularly entrepreneurs. This lack of confidence is, among other things, reflected by a marked increase in investments in time deposits by companies and non-bank financial

institutions at the expense of investments in productive assets. Further, both domestic credit to the private sector and net domestic credit to the general government increased. The latter occurred primarily as a result of an increase in the demand for liquid assets by the Central Government. Net foreign assets dropped markedly during the first quarter of 1999, due to a deficit on the balance of payments.

Since January 1, 1999, monetary policy has been geared towards more indirect instruments of monetary control. The main instrument in this new policy is the reserve requirement. This policy instrument is aimed at reducing over liquidity in the banking system and, hence, limiting the potential for excess credit extension by the commercial banks. The measure requires banks to place a deposit (reserve requirement) on a blocked account with the Bank. The size of the reserve requirement of a particular bank is determined as a percentage of its domestic debt. This reserve requirement percentage is determined by the Bank on a monthly basis, based on developments regarding our official foreign exchange reserves and the so-called free reserves¹ in the banking system. As of May 17, 1999, the Bank raised the reserve requirement from 8.0% to 8.5% to address excessive growth in the free reserves and, hence, the risk of excessive credit extension.

¹⁾ *Deposits of the commercial banks with the Central Bank*

Money supply

During the first quarter of 1999, the money supply (M2) increased by 3.1% (NAf.82.4 million) compared to a 0.3% (NAf.7.6 million) expansion during the first quarter of 1998. This development can be attributed to an acceleration in the growth of both the money component and the near-money component of the money supply by 4.0 percentage points to 4.0% (NAf.42.7 million) and by 1.9 percentage points to 2.4% (NAf.39.7 million), respectively.

The marked increase in the growth of the money component of the money supply during the first quarter of 1999 was the net result of a 6.0% (NAf.53.0 million) expansion in total demand deposits, on the one hand, and a 5.3% (NAf.10.3 million) contraction in the amount of coins and notes held by the public, on the other. The demand deposits denominated in local currency expanded by 5.5% (NAf.38.6 million) in the first quarter of 1999, compared to a 1.0% (NAf.6.9 million) expansion during the first quarter of 1998. The increase in the first quarter of 1999 reflects mainly the expansion in mortgages extended, particularly to smaller companies, to bridge liquidity problems. Demand deposits denominated in foreign currency increased by 8.0% (NAf.14.4 million) compared to a 4.2% (NAf.7.2 million) expansion during the first quarter of 1998.

The 2.4% (NAf.39.7 million) expansion of the near-money component of the money supply during the first quarter of 1999 can be attributed primarily to the 4.8% (NAf.23.7 million) expansion in time deposits, all of which are held by non-individuals. In particular, time deposits held by non-bank financial institutions increased (NAf.18.5 million). Saving deposits grew by 1.4% (NAf.16.0 million) during the first quarter of 1999.

A comparison of the level of both savings and time deposits at the end of the first quarter of 1999 with the corresponding levels at the end of the first quarter of 1998, reveals increases of Naf.35.0 million and Naf.71.4 million, respectively. The marked increase in time deposits (all held by non-individuals) is to a great extent the result of a Naf.16.5 million increase in the time deposits held by business enterprises and a Naf.48.4 million increase in time deposits held by non-bank financial institutions. This development reflects the still reticent attitude of many entrepreneurs towards risky investments, primarily as a consequence of uncertainties related to the public finances.

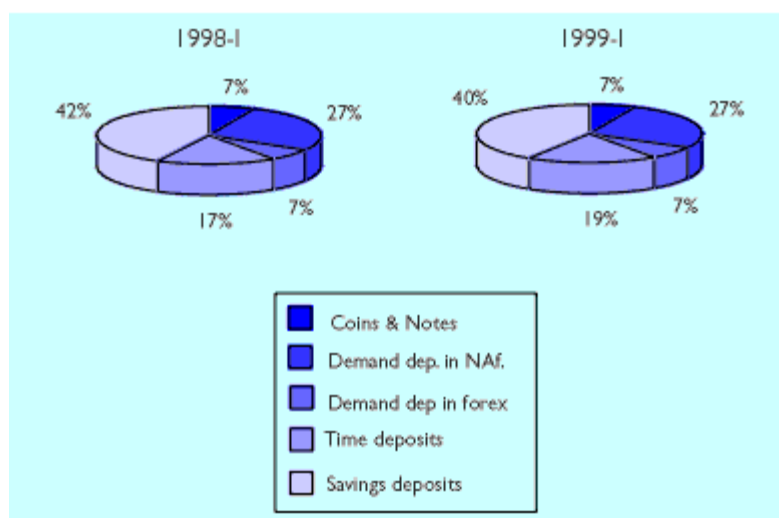
Table 17
Quarterly changes in the components of the money supply (in millions Naf. and percentages)

	1999-I		1998-I	
Coins & notes with the public	-10.3	(-5.3%)	-13.9	(-7.4%)
Total demand deposits,				
of which:	53.0	(6.0%)	14.1	(1.6%)
-Neth. Ant. guilders	38.6	(5.5%)	6.9	(1.0%)
-Foreign currency	14.4	(8.0%)	7.2	(4.2%)
Money (M1)	42.7	(4.0%)	0.2	(0.0%)
Time deposits	23.7	(4.8%)	-11.8	(-2.5%)
Savings	16.0	(1.4%)	19.2	(1.8%)
Near money	39.7	(2.4%)	7.4	(0.5%)
Money supply (M2)	82.4	(3.1%)	7.6	(0.3%)

Graph 4 reveals a 2 percentage points increase to 19% in the share of time deposits in the composition of the money supply at the end of the first quarter of 1999, compared to the end of the same quarter in 1998. This increase was entirely at the expense of the share of savings deposits, which dropped by 2 percentage points to 17%. This development confirms the precautionary attitude of entrepreneurs towards risky investments.

Graph 4

First-quarter developments in the composition of the money supply



Factors affecting the demand for liquid assets

The total demand for liquid assets increased by 3.1% (NAf.82.4 million) during the first quarter of 1999, compared to a 0.3% (NAf.7.6 million) expansion during the same period in 1998 (see table 18). The growth during the first quarter of 1999 was the net result a 5.7% (NAf.113.8 million) increase in the demand for liquid assets by the domestic sector, on the one hand, and a 4.4% (NAf.31.4 million) contraction in net foreign assets, on the other.

Table 18
Quarterly changes in the demand for liquid assets by sector (in millions NAf. and in percentages)

	1999-I		1998-I	
General	27.5	(20.0%)	-48.9	(-29.5%)
government, of which:				
-Central	29.4	(40.1%)	-20.2	(-25.2%)
Government				
-Island	-1.9	(-3.0%)	-28.7	(-33.4%)
Governments				
Private sector	50.5	(2.2%)	24.8	(1.1%)
Miscellaneous	35.8	(-8.0%)	34.7	(-8.4%)
Domestic sector	113.8	(5.7%)	10.6	(0.5%)
Net Foreign Assets	-31.4	(-4.4%)	-3.0	(-0.5%)
Total Liquid Assets	82.4	(3.1%)	7.6	(0.3%)

The marked decrease in our net foreign position during the first quarter of 1999 was mainly the result of the deficits on the current and capital account of the balance of payments of NAf.14.5 million and NAf.8.8 million, respectively.

The marked expansion in the demand for liquid assets by the domestic sector during the first quarter of 1999 was primarily the result of the expansionary impact by the private sector, which grew by 2.2% (NAf.50.5 million) compared to 1.1% (NAf.24.8 million) during the first quarter of 1998. The growth in domestic credit to the private sector during the first quarter of 1999 resulted from increases in loans to the private sector, in amounts receivables, and in securities and participations by NAf.41.0 million, NAf.2.3 million, and NAf.7.2 million, respectively.

The demand for liquid assets by the government sector expanded by 20.0% (NAf.27.5 million) during the first quarter of 1999 compared to a 29.5% (NAf.48.9 million) contraction in the first quarter of 1998. This development can be ascribed entirely to the turnaround from a 25.2% (NAf.20.2 million) contraction to a 40.1% (NAf.29.4 million) expansion in the demand for liquid assets by the Central Government. This expansion was the combined result of increases in the net liabilities of the Central Government at both the Central Bank and the commercial banks by NAf.24.1 million and NAf.5.0 million, respectively, due to the withdrawal of deposits.

The demand for liquid assets by the island governments contracted by 3.0% (NAf.1.9 million) during the first quarter of 1999, compared to a 33.4% (NAf.28.7 million) contraction during the first quarter of 1998. The contractionary impact by the island governments during the first quarter of 1999 was the result of a NAf.22.6 million drop in their net liability at the commercial banks, on the one hand, and a turnaround from a NAf.6.1 million net claim to a NAf.14.6 million net liability in their position at the Central Bank, on the other.

Domestic credit extension by the commercial banks

The total amount of outstanding domestic loans¹ at the commercial banks expanded by 1.6% (NAf.39.4 million) during the first quarter of 1999, compared to 0.4% (NAf.8.7 million) in the same quarter of 1998. This development is entirely the result of an acceleration in the growth of loans to the private sector from 0.8% (NAf.17.4 million) to 1.8% (NAf.41.1 million). The growth of loans to the private sector during the first quarter of 1999 can be attributed primarily to a 3.1% (NAf.27.5 million) expansion in mortgages, a turnaround compared to the 3.1% (NAf.28.7 million) contraction during the first quarter of 1998. In light of the decrease during 1998 and the beginning of 1999 of both the value of completed construction projects and construction licenses granted and the slowdown in the real estate business, it may be concluded that the increase in mortgages in the first quarter of 1999 reflects the increased use of real estate assets as collateral for new loans. These loans were extended particularly to small firms to bridge the downturn in business related to the weak economy. This development emphasizes the urgency of addressing the financial-economic crisis through the implementation of the national recovery plan. The growth in consumer and business loans decelerated by 5.2 percentage points to 0.7% and 1.0 percentage point to 1.2%, respectively, compared to the first quarter of 1998. On an annual basis, the total outstanding amount of loans to the private sector expanded by 2.6% (NAf.57.4 million).

¹⁾ Government paper and domestic credit to the private sector excluding special foreign borrowing, amount receivables, and securities and participations.

Table 19
Private sector loans and government paper at commercial banks as per end of period (in millions NAf. and percentages)

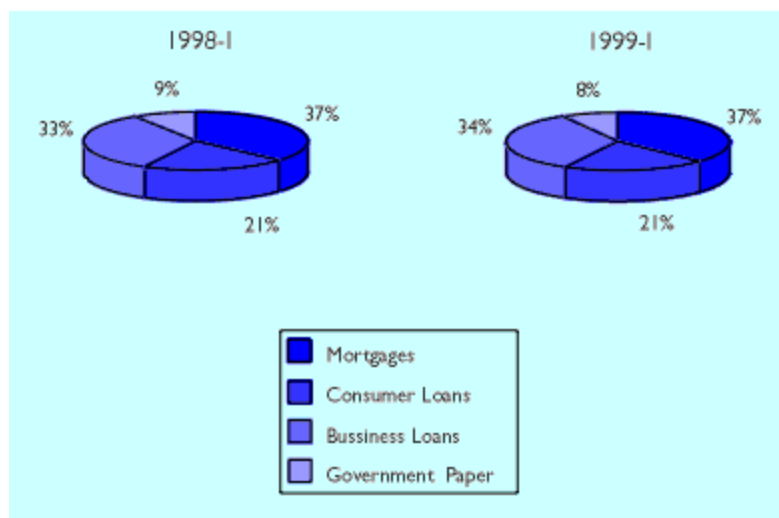
	1999-I	1998-I
Private sector loans,	2,273.4 (1.8%)	2,216.0 (0.8%)
of which:		
-Mortgages	917.8 (3.1%)	897.1 (-3.1%)
-Consumer loans	519.9 (0.7%)	506.4 (5.9%)
-Business loans	835.7 (1.2%)	812.5 (2.2%)
Government paper	209.5 (-0.8%)	223.0 (-3.8%)
Total	2,482.9 (1.6%)	2,439.0 (0.4%)

The amount of government paper held in portfolio by the commercial banks contracted by 0.8% (NAf.1.7 million) in the first quarter of 1999 compared to a 3.8% (NAf.8.7 million) contraction during the first quarter of 1998. For the 1999 monetary cash reserve arrangement, net domestic credit to the general government (i.e., the total amount of government paper in the commercial banks' portfolio netted by the total amount of government deposits at the commercial banks) is not allowed to surpass its end of October 1996 level. At the end of March 1999, the amount of government paper in the commercial banks' portfolio was NAf.38.0 million below this ceiling. This position reflects the continued reluctance of commercial banks even to refinance government paper given the uncertainties regarding the government finances.

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

Graph 5

Developments in commercial banks' lending portfolio



A breakdown of commercial banks' private sector lending by island group reveals that on the Leeward Islands, the growth in total loans accelerated from a 2.5% expansion in the first quarter of 1998 to a 2.9% expansion in the first quarter of 1999. This increase is primarily the result of the turnaround from a 3.7% contraction to a 5.3% expansion in mortgages. Business loans grew by 2.3% during the first quarter of 1999, a marginal acceleration compared to the growth in the first quarter of 1998. Consumer loans grew by 0.5%, 7.6 percentage points lower than during the first quarter of 1998.

Table 20
Private sector loans at commercial banks on the Leeward Islands as per end of period (in millions Naf. and percentages)

	1999-I	1998-I
Private sector loans,	1,762.2 (2.9%)	1,690.1 (2.5%)
of which:		
-Mortgages	652.4 (5.3%)	620.2 (-3.7%)
-Consumer loans	408.1 (0.5%)	395.7 (8.1%)
-Business loans	701.6 (2.3%)	674.2 (2.1%)

On the Windward Islands, credit extension to the private sector contracted by 1.8% during the first quarter of 1999, compared to a 0.3% contraction during the first quarter of 1998. The contraction during the first quarter of 1999 was the net result of contractions in mortgages and business loans by 1.9% and 4.0%, respectively, on the one hand, and an increase in consumer loans by 1.5%, on the other.

Table 21
Private sector loans at commercial banks on the Windward Islands as per end of period (in millions Naf. and percentages)

	1999-I	1998-I
--	--------	--------

of which:

-Mortgages	265.4	(-1.9%)	276.9	(-1.7%)
-Consumer loans	111.8	(1.5%)	110.7	(-1.1%)
-Business loans	134.1	(-4.0%)	138.3	(3.1%)

INTERNATIONAL AND REGIONAL DEVELOPMENTS

Introduction

Global economic and financial conditions changed little from 1998 through the first quarter of 1999. The US economy continues to grow in 1999, primarily because of consumer spending. In turn, consumer spending is fueled by a purchasing power surge, the result of mild inflation coupled with a strong job market. The combination of a strong dollar and weak economies outside the US continues to restrain overall inflation.

Some East Asian countries and Japan showed some economic improvement in the first three months of 1999. Japan spent large amounts of money on new public works to promote consumer demand and corporate investment. Regardless of the first quarter growth, however, Japan still faces an economy characterized by declining inflation, falling wages, rising unemployment, and a growing budget deficit.

The sharp economic contractions in Asia may be easing, but the growth prospects in Latin America are worsening. The financial turmoil has spread, dragging down Latin American countries such as Venezuela and Brazil that have been suffering from high budget deficits. Last year's collapse of the international oil prices caused a recession in both countries. Despite some improvement in oil prices in March 1999, the Venezuelan economy remained weak, due mainly to political uncertainty, low consumer demand, an overvalued currency, and a bloated public sector. In January 1999, Brazil's economy was faced with the steepest economic decline since the early 1980s. The Real has devalued about 35% since it was first floated on January 13, 1999. Since then, job losses, inflation, and interest rates have risen.

On January 1, 1999, the launching of the Euro, the single currency among 11 European Union members, created some financial fluctuations. The value of the Euro against the US dollar was lower than originally expected. This valuation was associated with a slowing domestic demand, slumping business confidence in Western Europe, and a relatively higher US growth, compared with Europe, among other things. The Dutch economy, on the other hand, continues buoyant with tame inflation, a robust labor market, and strong consumer spending.

Economic performance in the Netherlands

Real GDP in the Netherlands grew by 3.0% in the first quarter of 1999. Compared to international developments, the Dutch economy is performing above average. However, the economy is showing signs of deceleration, as the 1998 average growth rate was 3.8%. The first quarter's economic growth was the result of higher consumption. Private consumption increased by 4.0%, compared to the first quarter of 1998.

The sales of durable goods increased 10.5% in the first three months of 1999, compared to an 8.5% increase for all of 1998. The deceleration in production growth was noticeable in the manufacturing, agriculture, and utility sectors, which grew slightly by 0.4%. The service sector, which accounts for 70% of total production, achieved a significant growth of 4.2%.

Since the introduction of the Euro on January 1, 1999, the Dutch economy continued to grow, although at a slower pace. The Dutch economy progressed relatively well when measured against the growth in France (2.3%) and Germany (0.4%). However, the Netherlands, the fifth largest economy in Europe's 11-nation single currency area, had an inflation of 2.0%, above the average Euro-zone rate of 0.8%. Unemployment in the Dutch economy fell to 3.6% in March, compared to 9.6% for the entire 15-nation European Union. The Dutch unemployment rate, the second lowest of the Euro-11 area, has fallen steadily from 7.8% in March 1994, a result of labor market reforms and an accelerating economy. Labor market reforms increased flexibility, which tends to favor jobs in the service-oriented sectors.

Contrary to the high expectations surrounding the newly launched Euro currency, the value of the currency against the US dollar continued to decline. Four main reasons account for the decline of the Euro value. (1) The estimated growth for 1999 for the US economy (3.5%) was higher than the Euro zone's (2.0%). (2) The long-term US interest rates were 1.3 percentage point higher than in Europe. (3) The war in Kosovo increased uncertainty. (4) The Euro-zone countries, especially Germany, were unable to liberalize the labor market and boost economic growth.

Economic performance in Venezuela

With a weak economy and a fiscal deficit reaching 9.0% of GDP, fear of devaluation becomes pressing in Venezuela. The still-climbing unemployment rate reached 14.0% in February (table 22). The rising unemployment, high interest rates, and falling real wages contributed to a collapse in consumer sentiment. High domestic interest rates were the result of an increase in nonperforming assets. Problem loans jumped, representing 5.9% of the total loan portfolio. With the political transition, policy uncertainties combined with the Brazilian devaluation, made the much-needed external debt financing difficult. To finance its external debt, Venezuela needs to raise US \$5.0 billion in 1999. In the meantime, the government is planning domestic debt issues of US\$ 1.5 billion. Reserve levels, however, remained comfortable, and immediate pressures have been moderate.

The oil sector

The ratification of the "The Hague" deal between the major OPEC members to curb world oil supply represented a loss of 125,000 barrels per day for PDVSA. Although this is the smallest share amongst OPEC members, it proved difficult for the Venezuelan oil company.

Low oil prices and production cutbacks have hit PDVSA's profits, an outcome exacerbated by an overvalued Bolivar. Approximately 6,000 jobs were lost, and the reduced oil sector spending is threatening further reductions of 7,000 - 10,000 jobs.

Table 22
Key indicators of the Venezuelan economy; a comparison of the latest available figures

	Latest figure	Previous figure
Real GDP	-2.5 (forecast 1999)	-2.5 (forecast 1999)
Unemployment	14.0 (February, 1999)	11.0 (July-Sept.1998)
(%, end of period)		
Annual inflation	27.6 (March)	30.2 (Jan.1999)
(%, end of period)		
FX rate VEB/US\$	584 (March 26)	574 (Jan.29, 1999)
(end of period)		
Venezuela oil basket	11.95 (March 26)	8.42 (Feb. 26,1999)
(US\$/b period average)		

Source: Latin American Monitor

Economic performance in the United States

The US economy continued to grow at a fast pace, powered mainly by strong private consumption and investment. The US gross domestic product increased by 3.9% in the three months ending in March 1999, down from 4.2% in the first quarter of 1998 (table 23). Consumers are still buoyed by the stock market wealth, low inflation, low interest rates, strong job growth, and real wage increases. In addition, consumers drained their savings accounts to boost their spending. Consumer spending soared by 6.7% in the period January-March 1999. With growth tilted more toward consumers, America's economic expansion is becoming increasingly dependent on the stock market.

First-quarter inflation in the US was kept low at 1.7% by a combination of cheap imports and tame labor costs. Commodity prices, such as steel, energy, foodstuffs, and chemicals, were pulled down by poor global demand. As long as the world economy does not recover, the global forces will continue to keep inflation in check. Basically, as long as foreign economies do not pick up, the US will enjoy an optimistic inflation outlook.

For the 12 months ending March 1999, the US jobless rate declined to 4.2%, the lowest since 1970. Amid the growing economy and intense competition among businesses for workers, no serious wage increases have occurred. Wage growth actually has slowed because of falling commodity prices and small cost-of-living increases in labor contracts. The first quarter's 3.0% advance in employment costs was lower than the 3.3% growth of last year's first quarter. Even with smaller wage increases, workers are better off in real terms, owing to low inflation. Moreover, inflationary pressures in the labor market were offset by productivity gains from new technologies.

Table 23
Key indicators of the US economy (% change)

	1997-I	1998-I	1999-I
GDP	4.1	4.2	3.9
Consumer prices	2.8	1.4	1.7
Unemployment rate (%)	5.1	4.6	4.2
Personal income	4.6	6.1	5.8
Value of exports	10.7	1.6	-1.8
Value of imports	10.2	7.6	5.0

Source: Bloomberg

The widening trade deficit tempered the economy's growth rate. The US trade gap widened to \$305.6 billion in the first quarter of 1999, due to the decrease of 1.8% in the export value and the increase of 5.0% in the import value. As long as consumers' demand remains robust, the drag on the US economic growth will continue.

Economic performance in Asia

For now, the emerging Asian economies have stopped shrinking, but a robust recovery still seems distant. At present, currencies have stabilized, interest rates have fallen, and output and demand may have bottomed out. The major deterrent to East Asia's economies has been the downfall of demand within the region itself. The region's crisis crimped demand; therefore, the key to recovery for emerging Asian countries and Japan will require consumer participation. Growing unemployment and lack of private borrowing, however, will discourage any consumption increase. For domestic firms to survive, more costs must be cut, resulting in more layoffs. Apparently, the outlook for the Asian countries is still gloomy.

Japan's economy has stopped deteriorating, but a total recovery is still distant. The first quarter GDP expanded by 0.1 %, ending five consecutive quarterly contractions. This economic surge was fueled by an increase of 1.2% in government spending, which encouraged consumer demand. In the January-March period of 1999, consumer spending ticked up by 0.8%, the first rise in a year. This increase was outbalanced by the decline of 10.2% in capital investment, which deteriorated private demand by 2.5%. Also, the advance in consumer spending did not spur any inflation, as consumer prices declined by 0.4% in the first quarter of 1999. Imports and exports declined by, respectively, 5.0% and 3.7%, increasing net exports by 3.3%.

Corporate restructuring contributed to job reductions in most large industries. To remain competitive, more and more companies are streamlining their operations, causing the jobless rate to increase further.

Meanwhile, consumers are so uncertain about their jobs, incomes, and retirement that they are still cautious with their money. Japan's unemployment rate hit a record 4.8% in the January-March period of 1999, up from 3.5% in the first quarter of 1998. With wages and incomes falling and unemployment rising, the strength of consumer spending becomes questionable for the second quarter of 1999.

DEVELOPMENTS IN THE FINANCIAL SECTOR

Introduction

During the first quarter of 1999, the Bank's supervisory efforts were devoted mainly to the Y2K issue facing the financial sector. Special emphasis was put on monitoring the Y2K efforts of this sector to ensure that supervised credit institutions are taking the necessary steps to achieve a timely Y2K-readiness. To this end, beginning in March 1999, the Bank conducted extensive reviews at all supervised credit institutions of sizeable operations that are dependent on automated systems. Furthermore, the Bank requested relevant information on Y2K progress from foreign supervisory authorities and the head offices coordinating the Y2K-project of the subsidiaries and branches operating in the Netherlands Antilles. The Bank also issued two memoranda as part of its program to achieve a timely Y2K-readiness of the financial sector -- one on testing and one on business continuity.

In the area of legislation, the National Ordinance on the Supervision of Securities Exchanges became effective March 1999. The Minister of Finance assigned the Bank the responsibility to supervise the stock exchanges operating in the Netherlands Antilles. After consultation with the Bank, the Minister of Finance licensed the first securities exchange admitted to the Netherlands Antillean financial sector, i.e., the International Financial Center and Exchange of Curaçao N.V. (IFCE).

Developments in the domestic banking sector

The local banks further expanded their activities in the first quarter of 1999 (table 24). Total assets grew by NAf 173.1 million (3.8%) as compared to the fourth quarter of 1998. Interest-bearing cash and loans recorded the largest growth during this quarter. Compared to the first quarter of 1998, total assets grew by NAf 397.7 (9.2%) million.

The liquidity of the banking sector increased compared to the fourth quarter of 1998. Both interest-bearing and non-interest-bearing cash increased substantially -- by NAf 35.4 (9.5%) and 74.7 (10.6%) million, respectively. Furthermore, the loan portfolio of the local banks grew further by NAf 58.5 million (2.0%) to NAf 2,970.4 million. The growth in the loan portfolio was accounted for mainly by mortgages extended to individuals and current account overdrafts by business enterprises. On the other hand, we observed that except for the increase in long-term island government bonds, the local banks decreased their investment in government bonds. This development can be attributed to the uncertainties regarding the restructuring of the public finances.

The increase in assets was financed mainly by demand deposits and time deposits, which grew by NAf 77.9 million and NAf 88.2 million, respectively. The island governments and business enterprises accounted largely for the growth in demand deposits. The growth in time deposits during the first quarter of 1999 was accounted for mainly by nonresidents, other financial institutions, and business enterprises. These funds were held mainly as cash accounts at local banks, which accounted for the increased liquidity mentioned above.

Similar to the preceding quarter, the local banking sector continued to reflect adequate capitalization and liquidity at the end of the first quarter of 1999.

Table 24
Aggregate balance sheet of commercial banks
operating in the domestic banking sector of the
Netherlands Antilles at quarter-end (in millions
NAf.)

	1999-I		1998-IV		1998-I	
	NAf.	%	NAf.	%	NAf.	%
ASSETS						
Non-int.-bearing cash	408.1	8.6	372.7	8.2	319.1	7.3
Interest-bearing cash	779.4	16.5	704.7	15.5	564.9	13.0
Investments	280.0	5.9	304.1	6.7	316.7	7.3
Loans	2,970.4	62.82	2,911.9	63.92	2,860.7	66.0
Investm. unconsol. sub.	18.3	0.4	12.4	0.3	15.5	0.4
Fixed assets	172.6	3.6	170.3	3.7	163.9	3.8
Other assets	103.8	2.2	83.3	2.0	94.1	2.2
Total assets	4,732.6	100.04	4,559.5	100.04	4,334.9	100.0
LIABILITIES						
Demand deposits	1,340.6	28.31	1,262.7	27.71	1,242.6	28.7
Savings deposits	1,690.1	35.71	1,675.5	36.71	1,628.0	37.6
Time deposits	944.3	20.0	856.1	18.8	781.6	18.0
Total deposits	3,975.0	84.03	3,794.3	83.23	3,652.2	84.3
Borrowings	185.0	3.9	169.8	3.7	137.5	3.2
Other liabilities	195.9	4.1	206.8	4.5	170.7	3.9
Total liabilities	4,355.9	92.04	4,170.9	91.53	3,960.4	91.4
Minority interest	5.6	0.1	5.2	0.1	5.5	0.1
Subord. debentures	6.6	0.1	7.5	0.2	8.5	0.2
General provisions	96.9	2.0	96.1	2.1	106.2	2.4
Capital & reserves	267.6	5.7	279.7	6.1	254.3	5.9

Total capital 376.7 8.0 388.5 8.5 374.5 8.6

Total liabilities and capital 4,732.6100.04,559.5100.04,334.9100.0

Developments in the international banking sector

Total assets of the international banking sector decreased slightly from NAf. 65.2 billion to NAf. 63.6 billion during the first quarter of 1999. This decrease was caused mainly by the decline of non-interest-bearing cash and loans, which decreased by NAf. 1.0 billion and NAf. 2.9 billion, respectively. Total liabilities dropped by 2.7% primarily the result of demand deposits. Compared to the end of the first quarter of 1998, the capitalization of the international banking sector remained stable at NAf. 4.5 billion as per the end of the first quarter of 1999.