



QUARTERLY BULLETIN 2001-1

Bank van de Nederlandse Antillen

REPORT OF THE PRESIDENT

The recession in the Netherlands Antillean economy continued in the first quarter of 2001, reflected by a decline in real Gross Domestic Product of 2.5% on an annual basis. The decline in economic activity stemmed entirely from depressed domestic demand, as consumer and producer confidence remained low in light of the government's increasing financial difficulties. These financial difficulties resulted in a decline in government spending and accumulating arrears. In contrast, our export performance improved, led by the tourist and transportation sectors. Inflation was negligible in the first quarter of 2001. In addition, the inflation rate on an annual basis started to moderate due mainly to the abating effect of the increase in the turnover tax rate.

Our main foreign exchange-generating sector, tourism, performed well in the first quarter of 2001. This good performance was reflected in increases in the number of stay-over and cruise visitors, and the amount of foreign exchange income generated. The developments by island corresponded with the overall development except for cruise tourism, which declined in Curacao and Bonaire. Most branches of the transportation sector also recorded an increase in activities. In the ship-repair sector, both the number of man-hours sold and the amount of foreign exchange earnings increased. Our national carrier Air ALM recorded an expansion in the number of passengers and the amount of freight transported, while Curacao's airport handled more passengers. Furthermore, oil storage and transshipment expanded because of the developments in Bonaire and St. Eustatius. Harbor activities were mixed. Both the harbors of Curacao and Bonaire recorded an increase in the number of ships piloted, while the amount of cargo handled in Curacao declined.

Our second largest source of foreign exchange income, the international financial and business services sector, showed mixed developments in the first quarter of 2001. Revenues received from services rendered decreased slightly, while profit tax transfers to the government increased. The oil refinery recorded a slight expansion in production. However, the refinery's operational costs and, hence, foreign exchange income generated, declined. Finally, the free-zone performed well, as indicated by a substantial rise in the value of re-exports.

Our overall good export performance contributed to a surplus on the current account of the balance of payments, compared to a deficit in the first quarter of 2000. Other factors that contributed to the surplus were improvements in the trade and income balances. The improvement in the trade balance resulted from more exports and fewer imports. The increase in exports was attributable mainly to the free-zone and bunker activities, while the decline in imports can be related to the nagging recession. In addition to the current account, the capital and investment balance improved also. This improvement can be explained by relatively large foreign borrowing of a transitory nature by a non-bank financial institution on the Windward Islands, and an increase in liabilities of local companies to their foreign parents. The latter is related to the weak economic climate. The improvements in the current account and the capital and investment account resulted in a marked increase in our international reserves.

The cash balance of the General Government turned around from a deficit to a substantial surplus in the first quarter of 2001. This improvement is, however, a reflection of the continuing difficulties in refinancing maturing debt. During the first quarter of 2001, the government incurred a net redemption of debt paper, financed, among other things, by reducing cash outlays. The reduction in cash outlays resulted in a decline in cash expenditures and an increase in arrears. Other factors that contributed to the decline in expenditures were lower personnel costs because of laid-off civil servants, and a large capital transfer in the first quarter of 2000 related to the settlement of a guarantee. Part of the cash surplus is also explained by an increase in revenues.

This increase in revenues was attributable primarily to nontax revenues owing to higher profit transfers from the central bank, an increase in dividends received from public enterprises, and more fees collected. Tax revenues increased also, mainly because of more wage and profit taxes collected and higher revenues from the turnover tax and licenses. The latter increase was related to the increase in the turnover tax rate on the Windward Islands in May 2000 and the issuance of telecommunication licenses. The government's increasing liquidity shortage and the resulting build-up of arrears to private suppliers undermine our prospects for the much-needed economic recovery. It is, therefore, crucial that the authorities persevere with their efforts to reach an agreement with the IMF on a Fund-supported structural adjustment program.

The money supply grew considerably in the first quarter of 2001 because of the large surplus on the balance of payments. In contrast, the domestic sector exerted only a marginal impact due mainly to the decline in loans extended to the private sector. The decline in loans can be explained partly by the gradual tightening of monetary policy. The government also exerted a contractionary impact due entirely to the central government, because of a decline in the banking sector's portfolio of central government paper. The monetary contraction in the private and the government sector was offset by the expansionary impact of miscellaneous factors.

In light of the persistent increase in credit extension during the final months of 2000, the Bank increased the reserve requirement percentage further by 25 basis points to 11.5% on January 16, 2001. This tightening was accompanied by a refinement of the mechanism of the reserve requirement on February 16, 2001. The refinement entailed the exclusion of inter-bank deposits to eliminate double counting and to promote the development of the inter-bank market. In addition, to enhance the effectiveness of the reserve requirement in controlling commercial banks' liquidity and, hence, credit extension, the Bank increased the mark-up on the official lending rate for excessive borrowing by commercial banks by 50 basis points to 0.75 percentage point effective September 1, 2001. This implies that for amounts exceeding NAF 20 million, a 7.75% interest rate will be charged. These policy adjustments are to bring credit growth in line with the growth of our economy.

To realize a lasting solution to our financial-economic crisis, an agreement with the IMF on a Fund-supported economic and financial program is essential. In this respect, the Bank welcomes the recent progress made in meeting the conditions to start negotiations on the conclusion of such a program. Various legislation related to policy measures agreed-upon with the IMF has been adopted by parliament. In the area of structural reforms, the government decided to reduce the overlap between central and island government functions and departments, identified additional savings in health care, and will accelerate the privatization process. The government also decided to earmark the initial proceeds from privatization almost entirely for debt reduction. Moreover, further steps have been taken for the transition of the structural loss-making national carrier Air ALM into a new company Dutch Caribbean Express. These measures will help to reduce the remaining fiscal gaps identified for this year and 2002. Once an agreement has been reached with the IMF, the Dutch government will provide substantial financial support to smooth the adjustment effort and promote economic growth. This support will contribute to a gradual return of confidence and, hence, recovery of our economy.

E.D. Tromp
President

REAL SECTOR AND INTERNATIONAL DEVELOPMENTS

General economic developments

In the first three months of 2001, the global economy grew at a slower pace, reflecting largely the US economy. The slower US economy was coupled with a higher unemployment rate and a lower inflation rate. The EU and Latin America recorded economic growth, meanwhile Japan's growth decelerated. The Antillean economy worsened in the first quarter of 2001, with real GDP posting a negative growth of 2.5%.¹ The first-quarter negative result was brought about by a fall in purchasing power, a result of the rising inflation. In 2001's first quarter, the annual inflation in the Netherlands Antilles decelerated to 4.1%, down from 5.0% in the fourth quarter of 2000. A high jobless rate accompanied the declining economy.

National production and spending

Real gross domestic product shrank by 2.5% in the March quarter of 2001 from a 2.4% decrease in the same period in 2000. The economy remained weak; domestic demand was depressed because of the decline in purchasing power. Consumer and producer confidence remained low, as the mounting public debt problem remained unsettled. Public consumption and investment tumbled by NAf.40.8 mln and NAf.4.5 mln, respectively. In contrast, foreign demand improved, led by the oil, ship-repair, tourism, and air transportation sectors. The economic slowdown was attributable to a fall in trade, financial services, public transportation, and social services activities.

Inflation

Consumer prices in the Netherlands Antilles decelerated in the first three months of 2001. Annual inflation amounted to 4.1%, in comparison to 5.0% in the fourth quarter of last year, largely because of the abating effect of the higher turnover tax on the Leeward Islands and the Windward Islands.

On an annual basis, Curaçao had the highest inflation, followed by Bonaire and St. Maarten. From January to March of 2001, Curaçao's inflation reached 4.9%, up from 2.0% in the same period of 2000. Bonaire's and St. Maarten's inflation rates were, respectively, 2.9% and 0.2%, following increases of 4.1% and 1.7%, respectively, in the first quarter of 2000.

Price analysis on a quarterly basis shows that Curaçao's inflation slipped to 0.1% in the first quarter of 2001 from 1.0% in the fourth quarter of 2000 (table 1). First-quarter inflation was due mainly to the price hike in the "health" sector (2.2%), pushed up by a rise in medical and dental costs. The largest price drop (-1.3%) was in the "transport & communication" item due to a reduction in the prices of gasoline and car parts. Decreases in the components clothing and recreation caused a deflation of 0.1% and 0.2% in "clothing & footwear" and "recreation & education."

In Bonaire, the inflation rate was 0.0% in the first quarter of 2001, as opposed to the 0.1% inflation in the preceding quarter. The lowest inflation was in the category "beverages & tobacco" (-1.8%), owing to a price decrease in the component beverages. Moreover, deflation occurred in the sectors "transport & communication" (-0.2%), "housekeeping & furnishings" (-0.1%), and "other" (-0.1%). Lower gasoline prices, household expenses, and personal care costs

¹ Estimate by the BNA

accounted for these declines. Conversely, the highest inflation was in the "food" item (0.5%), driven up by costlier fresh produce.

Table 1
Inflation rates for Curaçao and Bonaire in the first quarter of 2001 (% changes)

	Curaçao	Bonaire	St. Maarten
Food	1.0	-0.5	0.4
Beverages & tobacco	0.7	-1.8	-0.7
Clothing & footwear	-0.1	0.0	0.1
Housing	0.3	0.3	-0.3
Housekeeping & furnishings	0.2	-0.1	-0.2
Health	2.2	0.0	0.1
Transport & communication	-1.3	-0.2	0.0
Recreation & education	-0.2	0.0	0.0
Other	0.4	-0.1	0.0
General inflation rate	0.1	0.0	-0.1

During the January-March period of 2001, St. Maarten's inflation slipped to -0.1%, after a gain of 0.6 % in the fourth quarter of 2000. "Beverages & tobacco" (-0.7%), "housing" (-0.3%), and "housekeeping & furnishings" (-0.2%) contributed to the decline in consumer prices. Similar to Bonaire, a price drop in the component beverages caused a deflation in "beverages & tobacco." Furthermore, the fall in "housing" and "housekeeping & furnishings" stemmed from cheaper electricity and household costs. Pricier fresh produce and wheat products led to the price hike in the "food" item (0.4%).

Labor market

Since August 2000, the labor law concerning dismissal permits has been waived in selected sectors. Few sectors are still required to request dismissal permits. Current figures cannot be compared to the previous years because (1) the sectors are now classified according to the third revision of the International Standard Industrial Classification (ISIC); and (2) few sectors are still required to petition for dismissal permits (see table 2).

Table 2
Sectors still required to petition for dismissal permits

ISIC Sectors

- 71 Rental of machinery and rental of personal & household goods
- 73 Research & development
- 74 Other business services
- 80 Education (only administrative personnel from national educational institutions)
- 85 Health & social work
- 90 Garbage collection & sewage
- 92 Recreation, cultural & sports activities
- 93 Other services
- 99 Extraterritorial organization and associations

Source: The Department of Labor and Social Affairs

In the first quarter of 2001, the number of personnel laid-off in Curaçao was up by 14 persons. The laid-off workers were concentrated in other community, social, and personal services sectors.

Developments by sector

Mining

Bonaire's salt sector was buoyant through the months January-March 2001. Salt exports expanded by 8.5%, in contrast to the 49.2% fall in the March quarter of 2000. Furthermore, salt production soared more than six-fold in the first quarter of 2001, compared with the same period of 2000, the result of increased demand by its largest importer, the United States.

Industry

Activities in the oil sector expanded during the first quarter of 2001 — oil refining rose by 1.2%, down from the increase of 13.1% in the corresponding quarter of 2000. Conversely, total operational costs abated by 6.2%, caused mainly by a reduction in the refinery's own use of fuel (12.6%).

First-quarter developments in Curaçao's ship-repair industry were satisfactory: the number of man-hours sold grew by 1.9%, in contrast with a decline of 17.0% in the same quarter of 2000. Furthermore, the number of ships repaired expanded by 1.9%, following an increase of 14.0% in 2000's first quarter. Ship repair earnings jumped by 82.6%² during this period.

Utilities

In the quarter ending March 2001, utility production in the Netherlands Antilles offered mixed results. Water production expanded by 1.3%, measured against a fall of 1.7% in the first quarter of 2000. A breakdown by islands reveals that water output rose in all three islands, Curaçao (0.4%), Bonaire (5.5%), and St. Maarten (3.8%).

In contrast, electricity production in the Netherlands Antilles edged lower by 0.7% in the period of January-March 2001, in comparison to the advance of 2.3% in the same quarter of 2000. An analysis by islands reveals that the drop came largely from a deceleration of 8.2 percentage points for Curaçao. This decrease may be linked to the utility company's current policy in collecting arrears. Meanwhile, Bonaire and the Windward Islands raised their production by, respectively, 1.5% and 10.9%, up from the falls of 1.8% and 1.3% in the first quarter of 2000. In St. Maarten, electricity consumption dropped during the restoration process immediately after the 1999 hurricane. The higher first-quarter's electricity production in 2001 indicated that production had resumed its normal level.

Construction

Construction results in Curaçao were encouraging for the January-March quarter of 2001. The number of projects completed jumped by 38.9%, an improvement from the 27.6% tumble in the first quarter of 2000. The completion of nonresidential projects was responsible for this growth. In addition, the number of licenses granted soared by 59.1%, indicating a possible expansion in the construction sector in the near future. In contrast, the total value of construction projects in

² Transaction basis

Bonaire plunged by 42.5% in 2001's first quarter, a marked decline from the surge of 44.8% in the corresponding quarter of 2000.

Trade

Through the months of January-March 2001, free zone re-exports in Curaçao improved, as foreign exchange receipts strengthened by 76.3%.³

Tourism

Developments in the tourism industry offered positive results in the first quarter of 2001. Stay-over and cruise tourism improved by, respectively, 7.9% and 10.0%, while foreign exchange proceeds expanded by 10.3%¹ during this period. In 2000's first quarter, stay-over tourism dwindled by 13.3%, while cruise arrivals soared by 30.4%.

For the first quarter of 2001, St. Maarten's tourism industry showed a growth of 6.9% in stay-over arrivals, against the 14.6% drop in the corresponding period of 2000 (table 3). The rise in the number of stay-over passengers may be linked to the island's recovery from Hurricane Lenny, which hit the island in 1999's fourth quarter. The stay-over tourism sector improved, but has not regained its pre-hurricane level; the arrivals in 2001's first quarter were 8.6% less than in the same quarter of 1999. The first-quarter growth in 2001 came from the main North American market, which showed an encouraging increase of 19.5%. The South American and the Caribbean markets also registered gains of 11.4% and 15.7%, respectively. Alongside the positive performance by stay-over tourist arrivals, cruise passenger business surged by 17.4% in the first quarter of 2001, compared with the rise of 19.8% in the first quarter of 2000.

The tourism sector in Curaçao posted a mixed picture for the quarter ending March 2001. Stay-over tourism improved by 10.8%, compared to a drop of 10.1% in the first quarter of 2000. The higher first-quarter passenger arrivals were from the largest markets, the USA (38.1%) and the Netherlands (2.3%). Furthermore, stay-over visitors from the South American market swelled by 17.4%, due largely to the surge in the number of Venezuelan travelers. In contrast, the number of stay-over arrivals from the Caribbean market dwindled by 3.8%. Cruise tourism, however, dipped by 1.9%, as opposed to the jump of 33.7% in the first quarter of 2000.

³ Transaction basis

Table 3
Developments in stay-over tourism per island (% change)

	Curaçao		Bonaire		St. Maarten	
	'00-I	'01-I	'00-I	'01-I	'00-I	'01-I
North America,	-16.8	29.3	-8.2	12.1	-22.4	19.5
of which:						
-U.S.A.	-20.2	38.1	-11.8	12.3	-20.4	19.8
-Canada	3.6	-11.3	79.7	10.0	-32.2	17.6
Europe,	-5.4	2.8	-1.6	-0.5	2.6	-15.3
of which:						
-The Netherlands	-4.4	2.3	-1.6	2.5	-21.4	4.1
-France	-	-	-16.3	11.7	10.7	-13.5
-Germany	-26.7	9.0	4.0	-21.0	-	-
-Other	3.9	3.7	-3.9	-1.1	-11.2	-31.2
South & Central America,	-20.1	17.4	-43.4	11.7	-26.1	11.4
of which:						
-Venezuela	-20.9	12.4	-39.6	7.0	14.0	-30.2
-Brazil	-83.4	253.8	-70.2	65.8	-66.2	25.8
-Other	18.4	12.6	-40.8	-12.6	-27.4	21.4
Caribbean,	-8.9	-3.8	-46.0	-21.8	-4.8	15.7
of which:						
-Aruba	-19.4	-18.8	-47.6	-35.0	-	-
-Santo Domingo	-6.6	14.7	-11.1	16.7	-18.0	46.7
-Other	-1.3	-1.9	-48.0	43.6	-1.9	10.0
Rest of World	18.0	9.8	80.0	33.3	-9.6	3.8
Total	-10.1	10.8	-11.5	7.1	-14.6	6.9

First-quarter results of stay-over tourism in Bonaire were encouraging in 2001; stay-over arrivals improved by 7.1%, following a drop of 11.5% in the same period of 2000. The growth was reflected by gains of, respectively, 12.1% and 11.7% in the North American and South American markets. The European and Caribbean markets, however, weakened by 0.5% and 21.8%, respectively. Meanwhile, the number of cruise passengers shrank by 6.6% in the first quarter of 2001, after rising approximately ten-fold in the first three months of 2000.

Transportation

Activities in the air transportation sector were buoyant in the first quarter of 2001. The number of passengers transported by the national carrier "Air ALM" expanded by 4.3%, after a drop of 3.4% in the period January to March 2000. This upsurge may be related to an increase in the number of tourists visiting the islands. Freight shipments also soared by 10.4% in the first quarter of 2001, contrasting with the fall of 14.9% in the corresponding quarter of 2000.

First-quarter airport developments in Curaçao advanced by 3.4% in 2001, up from the 1.5% surge in the same period in 2000. This improved performance was attributable to gains in transit passengers (5.4%), and passenger arrivals (3.6%) and departures (1.5%). The number of

commercial landings, on the other hand, slipped by 3.6% in the first quarter of 2001, in comparison to the rise of 3.4% in the January-March quarter of 2000.

In the first quarter of 2001, oil transshipment in the Netherlands Antilles soared by 52.9%, owing to gains in both Bonaire and Statia. Compared to the first three months of 2000, Curaçao's oil storage and transshipment movements continued to fall by, respectively, 55.1% and 7.6% in the March quarter of 2001. By contrast, these activities in Statia expanded by 22.6% and 92.1%, respectively. Furthermore, oil storage and oil transshipment in Bonaire soared by 61.1% and 60.3%, respectively. The surge in Bonaire's oil storage was reflected by the vast increase in the number of tankers.

For the quarter ending March 2001, Curaçao's harbor industry recorded positive developments, as the number of ships piloted into the harbor was up by 6.1%, contrasting with the decline of 5.5% in the first quarter of 2000. Vessels in all categories except cruise ships showed an increase. Clearly, cruise tourism and the number of cruise calls contracted during this quarter.

Total cargo movements in Curaçao abated by 11.7% during the January-March period of 2001, as opposed to a growth of 8.2% in the same quarter of 2000. This setback in cargo activities was associated with a drop in local activities (20.8%). In addition, bunker sales of fuel and water tumbled by, respectively, 8.2% and 20.1% in the January-March quarter of 2001. The decline in the bunker sales of water might be linked to fewer cruise vessels entering the harbor.

Similar to Curaçao, harbor results in Bonaire were favorable, as the number of ships that entered the harbor grew by 10.7% in the first three months of 2001, in comparison to the first quarter's drop of 5.8% in 2000. This growth was related mainly to a marked increase in the number of tanker ships (57.1%).

International economic developments

The United States

In the first three months of 2001, the global economy slowed, which was led mainly by the US economy. The slowdown in the US cut export demand from its trading partners. The US economy surged by 2.5% in the first quarter of 2001, down from the 5.3% growth in the same quarter of 2000. Weaker consumer and capital spending were the leading contributors to the lower first quarter growth. The Federal Reserve lowered its federal funds rate 3 times this year from 6.5% to 5% to ward off a recession.

Table 4
Selected indicators of various countries (% change)

	United States		Netherlands		Venezuela		Japan	
	'00-I	'01-I	'00-I	'01-I	'00-I	'01-I	'00-I	'01-I
Real GDP	5.3	2.5	4.6	2.2	1.1	3.5	2.6	0.0
Consumer prices (%)	3.8	2.9	1.9	4.6	17.5	12.5	-0.5	-0.4
Unemployment rate (%)	4.0	4.3	2.8	2.2	15.3	14.7	4.9	4.7
Current account balance (bln \$/mln Nfl/ bln \$/mln Yen)	-105	-110	10,402	N/A	3.6	2.61,3111,304		

Source: Bloomberg

The first-quarter unit labor costs soared by 3.5%, fueled by higher wages and benefits, such as health insurance. In order to cut costs in the face of slowing demand, companies laid-off workers.

The jobless rate rose to 4.3% in the first quarter of 2001, up from 4.0% in the first quarter of last year. First-quarter inflation, however, decelerated to 2.9% in 2001 from 3.8% in 2000's first quarter. Exports expanded, but were outbalanced by higher imports, widening the current account deficit to \$110 billion in 2001's first quarter.

European Union

On January 1, 2001, the Euro was introduced in Greece, as it became the twelfth member of the European Economic and Monetary Union. Gross domestic product in the EU-15 grew by 2.5% during the first quarter of 2001. The current account in the EU-15 recorded a deficit of 16.7 billion Euro in the first quarter of 2001, in comparison to a deficit of 17.7 billion Euro in the same quarter of 2000. The quarterly inflation in the Euro-zone was 2.6%, compared to 2.1% in the first quarter of 2000. The Netherlands was tied with Portugal for the highest inflation rate in the Euro-zone.

The growth of the Dutch economy decelerated to 2.2% in the first quarter of 2001 from 4.6% in the first quarter of 2000. The lower growth was the result of a deceleration in the output in commercial, financial, and business services. In spite of the output deceleration, the jobless rate declined further to 2.2%, down from 2.8% in the first quarter of 2000. Inflation in the Netherlands accelerated to 4.6%, mainly due to higher environmental and value-added taxes, and higher food prices. The higher meat prices were caused by the mad cow and foot-and-mouth disease.

Latin America

Real GDP growth in Brazil, Latin America's biggest economy, remained unchanged at 3.8% in the months January-March of 2001. Brazil's jobless rate fell to 6.5%, boosting consumer purchases on credit. Industrial production swelled, as rising consumer demand encouraged companies to increase output. This industrial output growth, however, was offset by declines in the services and agriculture sectors. Consumer prices eased to 6.2% in the January-March quarter of 2001, as education and transportation costs increased less rapidly. Brazil's current account deficit worsened to \$9,081 million, driven up by the demand for imports of heavy machinery, and chemical and pharmaceutical products.

Economic development in Venezuela improved, as real GDP grew by 3.5% in the first quarter of 2001, compared to 1.1% in the first quarter of 2000. Increased government spending, spurred by higher oil revenues, was the main cause of the acceleration in production. The boost in government spending reduced the first-quarter's jobless rate in 2001 to 14.7% down from 15.3% in the first quarter of 2000. The OPEC lowered Venezuela's oil production quota by 5.6% at the beginning of February. However, the increased public spending outweighed the decline in oil production, raising overall production. The reduced oil production affected exports, narrowing the current account surplus to \$2.6 billion, compared to a surplus of \$3.5 billion in the first quarter of 2000. The central bank has cut the discount rate to 32% from 38%, the effect of which is likely limited, as the discount window is not used extensively by the commercial banks. The inflation rate decelerated from 17.5% in the January-March quarter of 2000 to 12.5% in the same period of 2001.

Japan

The Japanese economy decelerated in the first quarter of 2001, with real GDP growth of 0.0%, compared with a surge of 2.6% in the same period of 2000. The poor performance in the first

quarter of 2001 stemmed from declines in business investment and exports. However, a temporary boost in consumer demand, owing to a new recycling law, prevented Japan from going into a recession. The new recycling law, which came into effect on April 1, 2001, charges consumers a fee for disposing of their old appliances. To avoid the cost, some consumers bought appliances before April. As a result, household spending was up by 1.5% in the first quarter of 2001, as opposed to the 4.3% decline in 2000's first quarter. In general, consumers remained reluctant to spend amid concerns about dwindling job security, frozen wages, and rising bankruptcies. To attract cost-conscious shoppers, retailers are cutting prices, contributing to a deflation of 0.4% in the first quarter of 2001. The Bank of Japan lowered interest rates close to zero in March 2001 hoping that core inflation rises above zero. Japan's unemployment rate dropped by 0.2 percentage point to 4.7% in the three months ending March 2001. In 2001's first quarter, imports grew (9.8%) much faster than exports (3.2%), causing Japan's current account surplus to shrink by 0.5% to 1,304 billion yen. Foreign demand contracted, as the economies of Japan's principal trading partners -- the US and the neighboring Asian countries -- eased.

PUBLIC FINANCE

General developments in the public sector

An upsurge of NAf.32.8 million (10.3%) in revenues in conjunction with a fall of NAf.27.9 million (8.2%) in expenditures explained the improvement of NAf.60.7 million in the General Government's deficit on a cash basis in the first quarter of 2001, compared to the first quarter of 2000. The resulting cash surplus of NAf.42.4 million was used, among other things, to finance the net redemption of government securities during the first quarter of 2001.

The increase in revenues can be attributed mainly to increases in both tax and nontax revenues. The NAf.13.9 million (4.6%) increase in tax revenues was the result of NAf.11.0 million (7.0%) more taxes on income and profits collected, and increases of NAf.2.0 million (29.9%) in taxes on property and NAf.3.5 million (3.2%) in taxes on goods and services. The latter increase resulted from NAf.4.1 million (7.0%) more sales tax revenues, due to the increase in the turn-over tax (BBO) rate in the Windward Islands in May 2000. These increases were offset, however, by a decline of NAf.1.7 million (5.4%) in excises. On the other hand, capital revenues dropped, because no capital income was generated in the first quarter of 2001. The increase in nontax revenues is attributed to an increase in entrepreneurial and property income.

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

	2000-I	2001-I	Change	
REVENUES	320.1	353.0	32.8	10.3%
Tax revenues	302.3	316.2	13.9	4.6%
Nontax revenues	16.4	36.5	20.1	122.3%
Capital revenues	1.2	0.0	-1.2	-
Grants	0.2	0.3	0.1	50.0%
EXPENDITURES	338.4	310.5	-27.9	-8.2%
Current expenditures	293.4	286.9	-6.5	-2.2%
Capital expenditures	45.0	23.6	-21.4	-47.5%
BALANCE	-18.3	42.4	60.7	331.7%
% of GDP	-1.7%	3.8%		

The drop in expenditures was attributable to declines in current expenditures of NAf.6.5 million (2.2%) and in capital expenditures of NAf.21.4 million (47.5%). The drop in current expenditures was caused by decreases of NAf.23.3 million (19.7%) in wages and salaries and NAf.17.5 million (20.8%) in goods and services. Outlays for wages and salaries dropped because of the lay-off of civil servants, while fewer goods and services were purchased due to the liquidity shortage. On the other hand, increases of NAf.3.0 million (25.5%), NAf.12.8 million (33.5%), and NAf.18.4 million (45.3%) were registered in subsidies, interest payments and transfers, respectively. The increase in transfers was the result of the sharing of sales tax revenues between the Central Government and the island governments and severance payments. The drop in capital expenditures resulted from less transfers and investments in the first quarter of 2001, compared to the first quarter of 2000.

Operations of the Central government

During the first quarter of 2001, the Central Government managed to balance its operations, registering a small surplus on a cash basis of NAf.0.1 million. This surplus corresponded with an improvement in the deficit of NAf.18.9 million, compared to the first quarter of 2000. The improvement resulted from an increase of NAf.19.8 million (14.8%) in revenues, mitigated slightly by a marginal increase of NAf.0.9 million (0.6%) in expenditures.

On the revenue side, tax revenues, nontax revenues, and grants increased by NAf.4.7 million (3.8%), NAf.15.0 million (170.5%), and NAf.0.1 million, respectively. No capital revenues were generated in the first quarter of 2001.

The increase in tax revenues can be ascribed mainly to a NAf.4.1 million (7.0%) increase in turnover tax revenues and an increase of NAf.4.4 million (129.4%) in gambling and other licenses. The NAf.4.1 million increase in turnover tax revenues in the Windward Islands can be ascribed to the rise in the tax rate from 2% to 3% on May 1, 2000. The increase in gambling and other licenses is attributed to the issuance of new telecommunication licenses.

Table 6
Breakdown of the turnover tax revenues in the Netherlands Antilles (in millions NAf.)

	2000-I	2001-I	Change
Turnover tax on Curaçao and Bonaire (NAOB)	51.0	51.0	0.0
Turnover tax on St. Maarten, Saba, and St. Eustatius (BBO)	7.3	11.4	4.15
Total revenues	58.3	62.4	4.1

These increases were mitigated by decreases in excises, import duties, and stamp taxes of NAf.1.7 million (5.4%), NAf.1.2 million (4.8%), and NAf.1.0 million (47.6%), respectively. In the first quarter of 2001, the main changes in excises were registered in gasoline, tobacco, and liquor. Excises on gasoline and tobacco dropped by NAf.2.3 million (10.0%) and by NAf.0.4 million (12.1%), respectively, compared to the first quarter of 2000. The drop in gasoline excises can be ascribed entirely to a reduction in the tariff on St. Maarten to remain competitive with the French side of the island where no excises are levied. On the other hand, an increase of NAf.1.1 million (57.9%) was registered in excise on liquor.

The increase in nontax revenues of NAf.15.0 million (170.5%) was due to more revenues from entrepreneurial and property income of NAf.9.5 million (146.2%) as a result of higher transfers from the Central Bank in the first quarter of 2001, compared to the first quarter of 2000. In addition, income from fees, charges, and sales increased by NAf.5.3 million (252.4%), mostly because of increased revenues from route facility charges and customs charges.

Total expenditures increased slightly by NAf.0.9 million (0.6%) in the first quarter of 2001, compared to the first quarter of 2000. This increase was the result of an increase of NAf.28.5 million (25.8%) in current expenditures and a drop of NAf.27.6 million (65.6%) in capital expenditures.

The increase in current expenditures was due mainly to transfers and interest payments. Transfers increased by NAf.19.7 million (191.3%), the result of (1) an increase in transfers to other levels of government of NAf.16.6 million, mainly related to turnover tax revenue-sharing agreements with the island governments, and (2) an increase in transfers to households by

NAf.3.0 million (50.8%) due to severance payments to laid-off civil servants.

Interest payments increased by NAf.11.9 million (51.5%) in the first quarter of 2001, compared to the first quarter of 2000. This was caused mainly by foreign interest payments due at the end of 2000, but effectuated on the first working day of 2001. Subsidies to public companies (i.e., Air ALM) increased by NAf.1.2 million.

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

	2000-I	2001-I	Change	
Total revenues	133.9	153.7	19.8	14.8%
Tax revenues,	124.9	129.6	4.7	3.8%
of which:				
-Taxes on property	3.7	4.2	0.5	13.5%
-Excises	31.6	29.9	-1.7	-5.4%
-Turnover tax	58.3	62.4	4.1	7.0%
-Gambling licenses and other	3.4	7.8	4.4	129.4%
-Import duties	25.2	24.0	-1.2	-4.8%
-Stamp taxes	2.1	1.1	-1.0	-47.6%
Nontax revenues,	8.8	23.8	15.0	170.5%
of which:				
-Entrepreneurial and property income	6.5	16.0	9.5	146.2%
-Fees, charges, and sales	2.1	7.4	5.3	252.4%
Capital revenues	0.0	0.0	0.0	-
Grants	0.2	0.3	0.1	50.0%
Total expenditures	152.7	153.6	0.9	0.6%
Current expenditures,	110.6	139.1	28.5	25.8%
of which:				
-Wages and salaries	51.8	48.9	-2.9	-5.6%
Wages	52.3	44.6	-7.7	-14.7%
Social security (SVB)	2.4	2.2	-0.2	-8.3%
Pension premiums	-2.9	2.1	5.0	-172.4%
-Goods and services	24.6	23.2	-1.4	-5.7%
-Interest payments	23.1	35.0	11.9	51.5%
-Subsidies to public comp.	0.8	2.0	1.2	150.0%
-Transfers,	10.3	30.0	19.7	191.3%
of which:				
...Other levels of govt.	0.3	16.9	16.6	5533.3%
..Households	5.9	8.9	3.0	50.8%
Capital expenditures,	42.1	14.5	-27.6	-65.6%
of which:				
-Investments	6.8	4.1	-2.7	-39.7%
-Capital transfers	35.3	8.1	-27.2	-77.1%
Balance	-18.8	0.1	18.9	-100.5%

In contrast, outlays for wages and salaries and for goods and services dropped by NAf.2.9 million (5.6%) and NAf.1.4 million (5.7%), respectively. Wages dropped by NAf.7.7 million

(14.7%) due to the lay-off of civil servants, but this effect was reduced by more pension contributions paid in the first quarter of 2001, as compared to the first quarter of 2000.

Capital expenditures dropped by NAf.27.6 million (65.6%), attributable to a drop of NAf.27.2 million (77.1%) in capital transfers and a drop of NAf.2.7 million (39.7%) in investments. The drop in capital transfers occurred because in the first quarter of 2001, the third installment (NAf.8.1 million) was paid for the settlement of the claim by foreign financial institutions in connection with the government guarantee granted to a hotel project on Bonaire. This figure compared to NAf.35.3 million in the first quarter of 2000.

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

	2000-I	2001-I
FISCAL BALANCE	-18.8	0.1
MONETARY FINANCING, of which:	3.3	-24.4
Central Bank	20.4	6.1
Commercial banks	-17.1	-30.5
Coins and notes	0.3	-0.4
NONMONETARY FINANCING, of which:	15.5	24.3
Government securities with the public	5.3	1.3
Other	10.2	23.0

Table 8 shows that the Central Government financed its monetary contraction almost entirely by funds raised nonmonetarily in the first quarter of 2001. Monetary financing was negative due to an increase in deposits, and a decline in central government securities held by the commercial banks. On the other hand, outstanding government securities in portfolio of the Central Bank increased. The nonmonetary financing resulted largely from an increase in arrears.

Operations of the Island Government of Curaçao

A drop of NAf.24.1 million (13.0%) in expenditures in conjunction with a surge of NAf.17.7 million (9.5%) in revenues contributed to a NAf.41.8 million improvement in the surplus on a cash basis of the Island Government of Curaçao to NAf.42.3 million in the first quarter of 2001 compared to the first quarter of 2000.

The increase in revenues was the result of increases in tax revenues, nontax revenues and grants. Contrary to the first quarter of 2000, no capital revenues were generated in the first quarter of 2001. The NAf.9.2 million (5.2%) improvement in tax revenues collected was caused mainly by increases of NAf.11.3 million (13.7%) in the wage tax and NAf.2.4 million (3.4%) in the profit tax. In contrast, income and motor vehicle tax revenues dropped by NAf.2.7 million (51.6%) and NAf.2.1 million (14.5%), respectively.

In the first quarter of 2001, NAf.4.7 million was received in grants from the Central Government related to the tax revenue-sharing agreement; no such transfers occurred in the first quarter of 2000.

Table 9
Operations of the Island Government of Curaçao (in millions NAf.)

	2000-I	2001-I	Change	
Total revenues	186.2	203.9	17.7	9.5%
Tax revenues,	177.4	186.6	9.2	5.2%
of which:				
-Profit tax	70.4	72.8	2.4	3.4%
-Income tax	5.2	2.5	-2.7	-51.6%
-Wage tax	82.1	93.3	11.3	13.7%
-Motor vehicle tax	14.6	12.5	-2.1	-14.5%
Nontax revenues,	7.6	12.7	5.1	66.7%
of which:				
-Entrepreneurial and property income	1.2	7.7	6.5	533.8%
-Fees, charges, and sales	3.5	2.9	-0.6	-18.0%
-Other nontax revenues	2.9	2.1	-0.8	-27.5%
Capital revenues	1.2	0.0	-1.2	-
Grants	0.0	4.7	4.7	-
Total expenditures	185.7	161.6	-24.1	-13.0%
Current expenditures,	182.8	152.5	-30.3	-16.6%
of which:				
-Wages and salaries	66.5	46.1	-20.4	-30.7%
...Wages	57.4	42.8	-14.5	-25.4%
...Pension premiums	9.1	3.3	-5.8	-64.1%
-Goods and services	59.7	43.6	-16.1	-27.0%
-Interest payments	15.2	16.2	0.9	6.2%
-Subsidies to public comp.	11.1	12.9	1.8	16.5%
-Transfers	30.3	33.7	3.4	11.2%
...To other levels of govt.	4.2	3.2	-1.0	-23.6%
...Households	15.8	15.1	-0.7	-4.6%
...Nonprofit institutions	10.3	15.4	5.1	49.6%
Capital expenditures,	2.9	9.1	6.2	213.2%
of which:				
-Investments	2.9	1.1	-1.8	-61.1%
-Capital transfers	0.0	8.0	8.0	-
Balance	0.5	42.3	41.8	-

The increase in nontax revenues of NAf.5.1 million (66.7%) was caused by an increase of NAf.6.5 million in entrepreneurial and property income, as a result of more dividends received from public enterprises, i.e., Curaçao Port Authorities (CPA) and United Telecommunication Services (UTS). This increase was mitigated by declines of NAf.0.6 million (18.0%) and NAf.0.8 million (27.5%) in fees, charges, and sales, and in other nontax revenues, respectively.

On the expenditure side, current expenditures dropped by NAf.30.3 million (13.0%), while an increase of NAf.6.2 million (213.2%) was registered in capital expenditures.

In the current expenditures category, wages and salaries, and outlays for goods and services dropped significantly by NAf.20.4 million (30.7%) and NAf.16.1 million (27.0%), respectively. The development in wages and salaries was caused mainly by the lay-off of civil servants. In addition, the noncompliance with current obligations like pension and social security contributions, reduced the cash payments of the island government. The decline in expenditures on goods and services can be attributed to the tight liquidity position of the Island Government of Curaçao.

In contrast, interest payments increased slightly by NAf.0.9 million (6.2%), while subsidies to public companies increased by NAf.1.8 million (16.5%) in the first quarter in 2001, compared to the first quarter in 2000. Furthermore, transfer payments increased by NAf.3.4 million (11.2%) because transfers to nonprofit institutions were higher by NAf.5.1 million (49.6%). The latter increase resulted from the transfer of motor vehicle tax collected to a special purpose fund for road maintenance.

Finally, the increase in capital expenditures of NAf.6.2 million (213.2%) in the first quarter of 2001 was caused by an increase of NAf.8.0 million in capital transfers due to the claims of financial institutions related to a government guarantee for a hotel project. This increase was mitigated by a NAf.1.8 million (61.1%) drop in investments.

Table 10
Changes in outstanding balances of the Island Government of Curaçao
(in millions NAf.)

	2000-I	2001-I
FISCAL BALANCE	0.5	42.3
MONETARY FINANCING,	22.5	9.0
of which:		
Central Bank	17.9	-16.5
Commercial banks	4.6	25.5
NONMONETARY FINANCING,	-23.0	-51.3
of which:		
Government securities with the public	-7.6	-10.1
Other	-15.4	-41.2

The cash surplus of the Island Government of Curaçao in the first quarter of 2001 was used, among others, to finance a reduction of NAf.26.5 million in outstanding government securities. Government securities with the Central Bank, the commercial banks and the public dropped by NAf.16.3 million, NAf.0.1 million and NAf.10.1 million, respectively. Monetary financing was positive because of net borrowing by the Island Government at the commercial banks. A time loan was granted by a commercial bank for the refinancing of a bond, intended to finance the restructuring of the Curaçao Drydock Company in 1993.

The total outstanding debt of the Netherlands Antilles

The total outstanding debt of the Netherlands Antilles dropped by NAf.32.0 million (1.0%) during the first quarter of 2001. This development was the result of a drop of NAf.30.8 million (5.5%) in foreign debt and a drop of NAf.1.2 million in domestic debt. Total debt as a percentage of GDP amounted to 72.2% at the end of the first quarter of 2001.

The domestic debt of the Central Government dropped by NAf.14.6 million (1.3%) during the first quarter of 2001. This reduction was attributable to a drop in outstanding securities with the commercial banks of NAf.30.1 million and a reduction in the debt to the Social Security Bank (SVB) of NAf.18.4 million. On the other hand, this development was mitigated by increases in securities held by the Central Bank and the public by NAf.9.9 million and NAf.8.8 million, respectively. In addition, the Central Government debt to the civil servants pension fund (APNA) increased by NAf.9.3 million. Debt related to revenue-sharing with the island governments increased by NAf.1.9 million, while other debt increased by NAf.3.9 million in the first quarter of 2001.

The domestic debt of the Island Government of Curaçao increased slightly by NAf.3.1 million (0.2%) in the first quarter of 2001. This increase was caused by an increase in arrears of the Island Government of Curaçao with the SVB (NAf.7.3 million) and APNA (NAf.7.1 million), while a time loan of NAf.22.2 million was granted by the commercial banks to refinance a bond in connection with the restructuring of the Curaçao Drydock Company. These declines were mitigated, however, by declines in the holdings of securities by the Central Bank, the public, and the commercial banks by NAf.16.3 million, NAf.10.1 million, and NAf.0.1 million, respectively. Furthermore, arrears to other creditors registered a slight drop of NAf.0.3 million, while a debt of NAf.6.7 million to the Central Government due to the periodic debt-comparison was settled in the first quarter of 2001.

The domestic debt of the other island governments (i.e., Bonaire, St. Maarten, St. Eustatius, and Saba) rose by NAf.6.8 million due to increased arrears with the civil servants pension fund and the Social Security Bank.

Table 11
Total outstanding consolidated public debt (in millions NAf.)

	2000-IV	2001-I	Change	
Domestic consolidated debt ¹⁾ , of which:	2,676.4	2,675.3	-1.2	-0.0%
-Central Government	1,132.8	1,118.2	-14.6	-1.3%
-Curaçao	1,459.0	1,462.2	3.1	0.2%
-Bonaire	60.8	62.8	2.0	3.3%
-St. Maarten	28.0	32.6	4.6	16.4%
-St. Eustatius	2.1	2.2	0.1	4.8%
-Saba	3.0	3.1	0.1	3.3%
Foreign debt	562.8	532.0	-30.8	-5.5%
Total debt (consolidated)	3,239.2	3,207.3	-32.0	-1.0%
(% of GDP)	73.4%	72.2%		

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

The outstanding foreign debt dropped by NAf.30.8 million (5.5%). Part of the decline was attributable to the installment payment to settle the claim by foreign financial institutions in connection with the government guarantee granted to a hotel on Bonaire (NAf.8.1 million). The remainder of the decline was due to the depreciation of the Euro vis-à-vis the US dollar, to which the Netherlands Antillean guilder is pegged.

DEVELOPMENTS IN THE EXTERNAL SECTOR

General Overview

At the end of the first quarter of 2001, net international reserves reached NAf.792.1 million, an increase of NAf.114.8 million compared to the first quarter 2000 (graph 1). The increase resulted from an increase of NAf.125.3 million in the international reserves held by the commercial banks, which was diminished only slightly by a NAf.10.5 million decrease in international reserves held by the Central Bank. The increase in reserves of commercial banks was caused primarily by the settlement of loans received from abroad by a commercial bank on the Windward Islands.

Graph 1

Developments in net international reserves including gold (in millions NAf.)

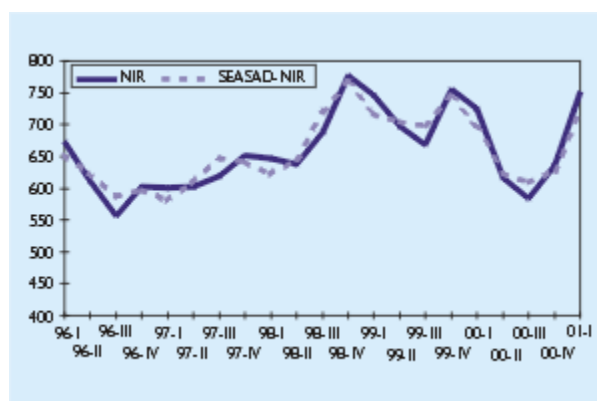


Table 12

Balance of payments summary (in millions NAf.)

	2000-I	2001-I	diff.
Current account	-39.4	51.2	90.6
Capital account	1.3	2.1	0.8
Financial account, of which:	39.3	-56.9	-96.2
-Investment balance	1.1	57.9	56.8
-Change in reserves*	38.2	-114.8	-153.0
with commercial banks	-0.2	-125.3	-125.1
with Central Bank	38.4	10.5	-27.9
Statistical discrepancies	-1.2	3.6	4.8
Memorandum items			
Official reserves (excluding gold)			
-in millions NAf.	436.0	456.2	20.2
-in months of merchandise imports	2.1	2.3	0.2

*) - sign denotes an increase

The current account of the balance of payments showed an improvement of NAf.90.6 million in the first quarter of 2001 compared to the same quarter in 2000, reaching a surplus of NAf.51.2 million (see table 12). The improvement was almost outweighed by the decrease of NAf.95.4 million in the surplus on the capital and financial accounts.

The Current Account

The considerable improvement in the current account was mainly the result of a decline of NAf.35.0 million in the deficit on the trade balance, and an increase of NAf.48.3 million in the surplus on the service balance (see table 13). The latter was caused primarily by the surge in foreign exchange revenues from the tourism sector. In addition, the surplus on the income balance improved, while the current transfers balance deteriorated slightly.

Table 13
A breakdown of the current account¹⁾ (in millions NAf.)

	2000-I	2001-I	Diff.
Trade balance	-461.8	-426.8	35.0
-Exports	305.1	325.9	20.8
-Imports	766.9	752.7	-14.2
Services balance	445.7	494.0	48.3
Receipts, of which:	780.6	856.5	75.9
-Travel	402.0	443.6	41.6
-Transportation	68.1	83.7	15.6
-Other services	316.7	329.2	12.6
Expenses, of which:	341.0	362.5	21.5
-Travel	153.6	124.7	-28.9
-Transportation	20.5	38.1	17.6
-Other services	166.9	199.7	32.8
Income balance 2)	2.6	10.6	8.0
Current transfers balance 3)	-25.9	-26.6	-0.7
Balance	-39.4	51.2	90.6

1)Transaction basis

2)Labor and investment income

3)Public and private transfers

Merchandise

The trade balance improved because of a NAf.20.8 million (6.8%) growth in exports and a NAf.14.2 million (1.9%) decline in imports. The decline in merchandise imports was the result of two opposite developments however. On the one hand, imports of general merchandise declined by NAf.32.5 million (see table 14). Although a drop in free- zone imports was responsible for the largest part of this decline, it was in line with the contracting economy and the ongoing migration of Antillean residents abroad. This conclusion is supported by the decline of imports only on Bonaire and Curaçao, where most of the migration occurred.

On the other hand, the value of oil imports increased by NAf.25.5 million, almost equally divided between Curaçao and the Windward Islands.

Table 14
Merchandise balance by island1) (in millions NAf.)

	'00-I	'01-I	Diff.	'00-I	'01-I	Diff.
	Export-debit			Import-credit		
Bonaire	3.6	4.2	0.6	22.0	16.7	-5.3
-General merchandise	2.9	3.7	0.8	17.2	16.1	-1.1
-Oil products	-	-	-	0.3	-	-0.3
-Goods for processing	0.1	0.5	0.4	4.5	0.6	-3.9
-Repair on goods	-	-	-	-	-	-
-Goods procured imports (bunker)	0.6	-	-0.6	-	-	-
Curaçao	225.9	234.0	8.1	541.3	520.4	-20.9
-General merchandise, of which: Freezone	173.4	157.5	-15.9	463.0	431.2	-31.8
-Oil products	40.5	71.4	30.9	129.3	102.7	-26.6
-Goods for processing	-	-	-	54.8	69.3	14.5
-Repair on goods	2.6	6.5	3.9	17.7	17.0	-0.7
-Goods procured imports (bunker)	9.2	16.8	7.6	3.5	-	-3.5
Windward Islands	40.7	53.2	12.5	2.4	2.9	0.5
-General merchandise	75.5	87.7	12.2	203.6	215.6	12.0
-Oil products	18.6	29.0	10.4	146.8	147.2	0.4
-Goods for processing	10.2	3.2	-7.0	56.8	68.1	11.3
-Repair on goods	-	-	-	-	0.3	0.3
-Goods procured imports (bunker)	-	-	-	-	-	-
Netherlands Antilles	46.7	55.5	8.8	-	-	-
-General merchandise, of which: Free zone	305.1	325.9	20.8	766.9	752.7	-14.2
-Oil products	195.0	190.2	-4.8	627.0	594.5	-32.5
-Goods for processing	40.5	71.4	30.9	129.3	102.7	-26.6
-Repair on goods	10.2	3.2	-7.0	111.9	137.4	25.5
-Goods procured imports (bunker)	2.7	7.0	4.3	22.2	17.9	-4.3
1) Transaction basis.	9.2	16.8	7.6	3.5	-	-3.5
	88.0	108.7	20.7	2.4	2.9	0.5

Total merchandise exports increased by NAf.20.8 million, due mainly to goods procured in ports and repairs on goods. The exports of repairs on goods grew with NAf.7.6 million, due entirely to the increase of shipping services provided to non-residents on Curaçao. The exports of goods

procured in ports (i.e., all goods, such as fuels, provisions, stores and supplies, that nonresident air and shipping companies procure in our country) expanded by NAf.20.7 million, 60 percent of this increase coming from Curaçao, the other 40 percent from the Windward Islands.

Exports of general merchandise declined by NAf.4.8 million. This decline was the result of a decrease of NAf.15.9 million in Curaçao and increases in the Windward Islands and Bonaire of NAf.10.4 million and NAf. 0.8 million, respectively.

Tourism

Foreign exchange revenues from the tourism sector increased by NAf. 41.6 million (10.3 %) to NAf. 443.6 million. Travel expenses, on the other hand, declined by NAf. 28.9 million (18.8%). Consequently, the net result was an improvement of NAf.70.5 million in the first quarter of 2001. Table 15 presents an overview of the foreign exchange revenues per island divided into cruise tourism and stay-over tourism.

Revenues for both cruise and stay-over tourism grew. The increase in revenues from stay-over tourism was accounted for by all islands; cruise tourism grew only because of an increase on St. Maarten.

Revenues on St. Maarten increased by NAf.25.5 million (9.8%), representing a growth in both stay-over and cruise tourism. Noteworthy is that foreign exchange revenues from cruise tourism on St. Maarten increased, while the two other islands experienced a decline.

Tourism on Bonaire also flourished, after a particularly bad year in 2000, with foreign exchange revenues increasing by NAf.5.1 million (14.5%). This increase reflects the growth in stay-over tourism initiated by more flights, while the first quarter of 2000 was characterized by strikes at the national carrier ALM and cancelled flights from other destinations.

Table 15
Foreign exchange earnings from tourism by island (in million NAf.)

	2000-I	2001-I	diff.	%
Bonaire				
-Total, of which:	34.7	39.8	5.1	14.5%
-Stay-over	31.0	36.6	5.6	17.9%
-Cruise	3.7	3.2	-0.5	-13.8%
Curacao				
-Total, of which:	108.0	119.0	11.0	10.2%
-Stay-over	88.3	99.8	11.5	13.1%
-Cruise	19.7	19.2	-0.5	-2.5%
St. Maarten				
-Total, of which:	259.3	284.8	25.5	9.8%
-Stay-over	195.0	209.7	14.7	7.5%
-Cruise	64.3	75.2	10.8	16.8%
Netherlands Antilles				
-Total, of which:	402.0	443.6	41.6	10.3%
-Stay-over	314.3	346.0	31.8	10.1%
-Cruise	87.8	97.6	9.8	11.2%

Finally, tourism earnings on Curaçao also augmented by NAf.11.0 million (10.2%). Like Bonaire, this increase was accounted for by the increase in stay-over tourism; cruise tourism declined slightly.

Tourism expenses declined, especially on St. Maarten. The developments in revenues and expenses resulted in a surplus on the travel balance for the first quarter of 2001 that was considerably better than in the first quarter of 2000.

Transportation

The decline of NAf.17.6 million in expenses from transportation was almost entirely matched by an increase in earnings of 15.6 million. The increased earnings stemmed from the expanded activities of the national carrier ALM and from an increase in storage fees.

Other services

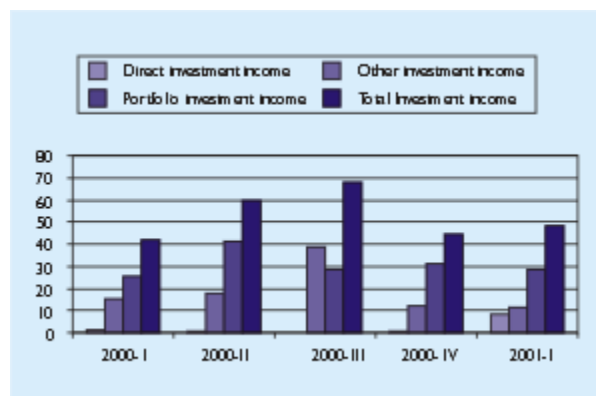
The development in the "other services" sector of the current account was influenced mainly by an increase in expenses from NAf.166.9 million in the first quarter of 2000 to NAf.199.7 million in the same quarter of 2001. The largest part of the growth in other services expenses can be explained by engineering fees paid for the upgrading project at the oil refinery in Curaçao (IRUP).

The expenses on construction services also increased, from NAf.8.5 million in the first quarter of 2000 to NAf.20.0 million in the same quarter of 2001. This increase was also accounted for by the IRUP project. Furthermore, some expenses were incurred in the construction of the new prison and the Central Bank building.

Income balance

The surplus on the income balance increased by NAf.8.0 million in the first quarter of 2001, compared to the same quarter in 2000. The balance improved as the drop in expenses (NAf.0.5 million) was accompanied by an increase in revenues (NAf.7.5 million). This increase in revenues stemmed from an increase of NAf.6.9 million in income from abroad, the result of the compensation of direct investment losses of companies on Curaçao by their parent companies abroad. In addition, a small part of the improvement of the income balance originated from interest on debt (portfolio investment income), which increased by NAf.3.3 million. Other investment income, on the other hand, declined by NAf.3.4 million. The developments in the investment income are illustrated in graph 2.

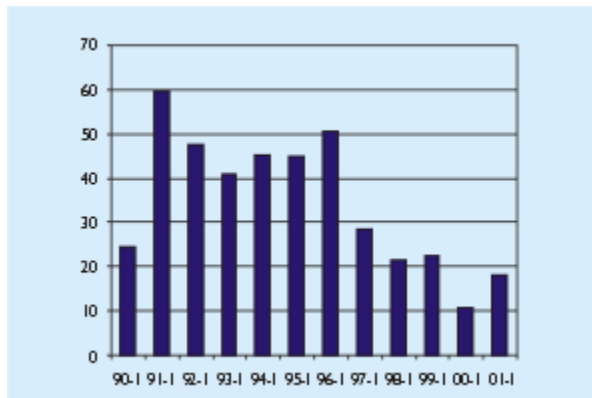
Graph 2 Revenues from investment income (in million NAf.)



Current transfers

The current transfers balance deteriorated slightly by NAf.0.7 million in the first quarter of 2001 to a deficit of NAf.26.6 million. This deterioration was due largely to an increase in private transfers abroad, which were not offset by a higher inflow of earnings. The bulk of these private transfers abroad occurred on the Windward Islands. In addition, the amount of taxes from the international financial and business services sector increased by NAf.7.3 million, as can be seen in graph 3.

Graph 3 Profit tax revenues from international financial and business services sector (millions NAf.)



The Capital and Financial Account

The combined capital and financial accounts deteriorated by NAf. 95.4 million to a deficit of NAf.54.8 million in the first quarter of 2001 compared to 2000's first quarter. This deterioration was attributable entirely to the financial account, which declined by NAf.96.2 million. The capital account improved marginally by NAf.0.8 million.

Financial account

The two major developments in the financial account can be attributed to the acquisition and subsequent settlement of a loan from abroad by a commercial bank on the Windward Islands. The acquisition of the loan is recorded under other investment liabilities, which increased by NAf.33.0 million to NAf.63.3 million. This increase was comprised of a higher amount of loans from abroad, offset partly by repayments on loans extended to the Netherlands Antilles. The settlement is recorded under the increase in reserve assets.

Furthermore, the portfolio investment balance declined by NAf.35.7 million in the first quarter of 2001 compared to the same period of 2000. This decline originated from the category money market instruments, of which more were purchased than sold. The result was a growth in net foreign portfolio assets held by local investors. This development may be a reflection of a lack of confidence in the government's determination to address the financial-economic crisis.

The above-mentioned developments were mitigated partly by an improvement in direct investments in the Netherlands Antilles. The improvement was reflected primarily by an increase in liabilities of Antillean companies to their foreign parent companies. This increase in liabilities implies that Antillean companies did not pay their parent companies for transactions during the first quarter of 2001. The latter can be explained by the irregular settlement of intercompany

accounts, on the one hand. On the other hand, local companies may have been unable to pay because of difficulties they experienced by the contracting economy. Table 16 presents an overview of the financial account.

Table 16
Breakdown of the net changes in the financial account¹⁾ (in millions NAf.)

	2000-I	2001-I	Diff.
Direct investment	-32.6	23.1	55.7
-Abroad ²⁾	4.2	0.0	-4.2
-In the Netherlands Antilles ³⁾	-36.8	23.1	59.9
Portfolio investment ²⁾	-1.9	-37.6	-35.7
Other investment, of which:	35.6	72.4	36.8
-Assets ²⁾	5.3	9.1	3.8
-Liabilities ³⁾	30.3	63.3	33.0
Reserves ⁴⁾	38.2	-114.8	-153.0
Balance	39.3	-56.9	-96.2

1) Transaction basis

2) A - sign means an increase in assets

3) A - sign means a decrease in liabilities

4) A - sign means an increase in reserves.

MONETARY DEVELOPMENTS

Introduction

Monetary developments in the Netherlands Antilles during the first quarter of 2001 must be seen in the context of a still weak economy. Nevertheless, the money supply increased by 4.4% (NAf.128.7 million) compared to 0.5% (NAf.13.9 million) in the first quarter of 2000. The increase in 2001 was due to a 6.3% (NAf.114.0 million) increase in the near-money component of the money supply. In addition, the money component of the money supply (M1) increased by 1.3% (NAf.14.7 million) in the first quarter of 2001, a turnaround compared to the 0.7% (NAf.8.9 million) decrease during the first quarter of 2000.

The increase in the demand for liquid assets during the first three months of 2001 was due mainly to a 20.5% (NAf.118.2 million) increase in net foreign assets. This increase is a turnaround compared to the 4.9% (NAf.33.7 million) decrease during the same quarter of 2000. In addition, net domestic assets increased by 0.4% (NAf.10.5 million) in the first quarter of 2001, a deceleration compared to the 2.2% (NAf.47.6 million) increase during the first quarter of 2000.

Different trends can be observed in domestic credit on the Windward Islands and the Leeward Islands. Private-sector loans increased on the Windward Islands, while the Leeward Islands recorded a decrease. On an annual basis, private-sector credit on the Windward Islands increased by 14.6% (NAf.82.6 million). Noteworthy is a substantial increase in business loans, due mainly to replacement investments.

Monetary policy was adapted further during the first quarter of 2001. On the one hand, the reserve requirement percentage was raised by 25 basis points to 11.5%¹ in January 2001. This measure was taken in light of the persistent increase in credit extension during the final months of 2000. On the other hand, interbank deposits have been excluded from the definition of domestic debt, the basis on which the reserve requirement is calculated. This exclusion will stimulate interbank lending.

¹ The reserve requirement is aimed primarily at affecting the credit extension capacity of commercial banks. Under the reserve requirement, commercial banks are obliged to place a deposit at the Bank. When credit extension needs to be tempered, the reserve requirement is increased.

Money supply

During the first quarter of 2001, the money supply (M2) increased substantially by 4.4% (NAf.128.7 million) compared to an increase of 0.5% (NAf.13.9 million) during the first quarter of 2000. The increase in the first quarter of 2001 is due mostly to an increase in the near-money component of the money supply of 6.3% (NAf.114.0 million). The money component (M1) of the money supply also increased in the first quarter, by 1.3% (NAf.14.7 million).

Table 17
Quarterly changes in the components of the money supply (in millions NAf. and percentage changes)

	2000-I		2001-I	
Coins & notes with the public	-13.8	(-7.0%)	-2.0	(-1.1%)
Total demand deposits, of which:	4.9	(0.5%)	16.7	(1.7%)
-Netherlands Antillean guilders	15.7	(2.1%)	-3.1	(-0.4%)
-Foreign currency	-10.8	(-4.7%)	19.8	(9.9%)
Money (M1)	-8.9	(-0.7%)	14.7	(1.3%)
Time deposits	1.7	(0.3%)	100.6	(16.6%)
Savings	21.1	(1.8%)	13.4	(1.1%)
Near money	22.8	(1.3%)	114.0	(6.3%)
Money supply (M2)	13.9	(0.5%)	128.7	(4.4%)

The marked increase in the near-money component of the money supply during the first quarter of 2001 can be explained primarily by an increase of 16.6% (NAf.100.6 million) in time deposits, contrasting sharply with the 0.3% (NAf.1.7 million) increase in the first three months of 2000. This increase was due largely to an increase in foreign exchange-denominated time deposits of business enterprises on the Windward Islands, which attracted funds from abroad. In addition, savings increased by 1.1% (NAf.13.4 million), a deceleration compared to the 1.8% (NAf.22.8 million) increase in the first quarter of 2000.

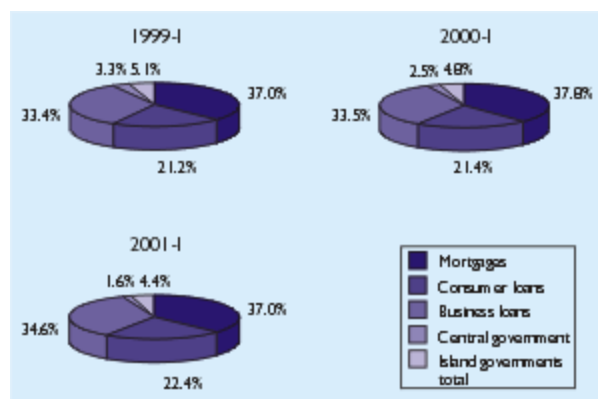
During the first three months of 2001, the money component of the money supply increased by 1.3% (NAf.14.7 million). This development is a turnaround compared to the decrease of 0.7% (NAf.8.9 million) during the same period of the previous year. The increase in the money component of the money supply was due to an increase in demand deposits of 1.7% (NAf.16.7 million), which offset the decrease of 1.1% (NAf.2.0 million) in coins and notes held by the public. The increase in demand deposits was due entirely to the 9.9% (NAf.19.8 million) increase in foreign exchange-denominated demand deposits, which mitigated the 0.4% (NAf.3.1 million) decrease in demand deposits denominated in Antillean guilders. The increase in foreign exchange-denominated demand deposits was due mainly to tourism receipts.

The decrease in coins and notes with the public was due partly to lower spending following the higher spending in the holiday month of December. The decline in coins and notes with the public during the first quarter of 2001 was much smaller than the decline in 2000. This smaller decline can be explained by the so-called Y2K effect, which led to high precautionary withdrawals by the public in December 1999.

On an annual basis, the substantial increase in the near-money component of the money supply and its effect on the total money supply is even more clearly visible. At the end of March 2001, the annual increase in the money supply amounted to 6.1% (NAf.178.5 million). This increase can be ascribed entirely to the 10.8% (NAf.186.5 million) increase in the near-money component. On the other hand, the money component decreased by 0.7% (NAf.8.0 million) during the same period.

Graph 4 reveals the increase in the share of time deposits, by 1.2 percentage points to 23.0%, in the composition of the money supply at the end of the first quarter of 2001, compared to the first quarter of 2000. This increase was at the expense of all other money supply components.

Graph 4 Composition of the money supply (%)



Factors affecting the demand for liquid assets

The total demand for liquid assets increased substantially by 4.4% (NAf.128.7 million) during the first quarter of 2001, compared to an increase of 0.5% (NAf.13.9 million) in the January-March period of 2000. As shown in table 18, this increase in 2001 was mainly the result of an increase of 20.5% (NAf.118.2 million) in net foreign assets. In addition, net domestic assets increased by 0.4% (NAf.10.5 million).

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

	2000-I		2001-I	
General government, of which:	35.0	(33.4%)	-1.9	(-1.9%)
-Central government	12.9	(-195.5%)	-5.7	(15.7%)
-Island governments	22.1	(19.9%)	3.8	(3.0%)
Private sector	-20.1	(-0.8%)	-11.1	(-0.4%)
Miscellaneous	32.7	(-7.4%)	23.5	(-6.1%)
Net domestic assets	47.6	(2.2%)	10.5	(0.4%)
Net foreign assets	-33.7	(-4.9%)	118.2	(20.5%)
Total liquid assets	13.9	(0.5%)	128.7	(4.4%)

The increase in net foreign assets during the first quarter of 2001 was due entirely to a marked increase in the net foreign position of commercial banks. This increase was attributable mainly to an increase in foreign deposits funded by an increase in foreign currency-denominated time deposits, combined with a decrease in liabilities to nonresident banks. The aforementioned developments were concentrated on the Windward Islands and more than offset the decrease in foreign assets held by the Bank. In addition, net foreign assets increased due to tourism receipts.

The increase in net domestic assets during January-March 2001 was due entirely to miscellaneous factors. These factors offset decreases in the demand for liquid assets by both the private sector and the general government. The balance of net domestic assets due to miscellaneous factors⁴ increased by 6.1% (NAf.23.5 million) in the first quarter of 2001, compared to a 7.4% (NAf.32.7 million) increase during the first quarter of 2000. This development was due primarily to a decrease in miscellaneous liabilities of commercial banks, among other things, due to the payment of taxes, accounts payable regarding goods and services, dividends, and accrued interest. In addition, miscellaneous assets increased due to the progress made in the construction of the Bank's new office.

Net domestic credit to the private sector decreased by 0.4% (NAf.11.1 million) during the first quarter of 2001, an acceleration of 0.4 percentage point compared to the first quarter of 2000. This development is an indication of the effectiveness of the tightening in monetary policy in the second half of 2000.

During the first quarter of 2001, net domestic credit to the general government decreased by 1.9% (NAf.1.9 million). This is a turnaround compared to the first quarter of 2000, when net domestic credit to the government increased by 33.4% (NAf.35.0 million). The decrease in the first quarter of 2001 can be attributed entirely to a decrease in net domestic credit to the central government, again a turnaround compared to the increase during the first quarter of 2000. This decrease by 15.7% (NAf.5.7 million) offset the increase of 3.0% (NAf.3.8 million) in net domestic credit to the island governments. The decrease in net credit to the central government was due mainly to a reduction in central government paper held by commercial banks. The decline was compensated partly by an increase in central government securities held by the Bank and a decrease in central government special deposits at the Bank. The decrease in these deposits was related mainly to the progress made in the construction of a new prison on Curaçao.

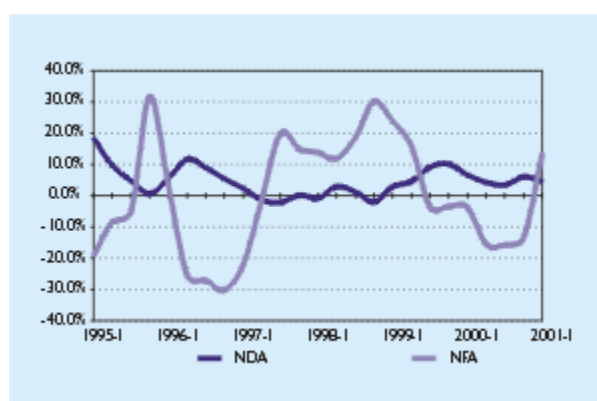
The increase in net domestic credit to the island governments in the first quarter of 2001 was mainly the result of a time loan extended by a commercial bank to the island government of Curaçao for the refinancing of a bond, originally earmarked to finance the restructuring of the Curaçao Drydock Company in 1993. This time loan offset the decline in island government paper held by the Bank.

On an annual basis, the demand for liquid assets increased by 6.1% (NAf.178.5 million) at the end of the first quarter of 2001. This increase was the result of developments in both net domestic assets and net foreign assets. Net domestic assets increased by 6.5% (NAf.144.9 million), while net foreign assets increased by 5.1% (NAf.33.6 million). The increase in net foreign assets is worth mentioning, given that the year-on-year result for March 2000 was a decline of 3.3% (NAf.22.4 million). On the other hand, the annual increase in net domestic assets decelerated by 0.5 percentage point. This deceleration was primarily the result of a substantial decrease in net credit to the island government of Curaçao.

Graph 5 illustrates that when the growth rate of net domestic assets decelerates, the growth in net foreign assets accelerates. This relation forms the basis of our monetary policy, which is aimed at controlling the growth of net domestic assets mainly through variations in the reserve requirement.

⁴ Miscellaneous factors show the balance between the non-financial assets and liabilities of the banking sector

Graph 5 Developments in net foreign assets and net domestic assets



Domestic credit extension by the commercial banks

Domestic credit extension by commercial banks decreased by 0.7% (NAf.20.5 million) during the first quarter of 2001, a deceleration of 0.5 percentage point compared to the 0.2% (NAf.4.6 million) decrease during the first quarter of 2000. This development was due to decreases in credit extension to the government and the private sector by 4.6% (NAf.8.0 million) and 0.5% (NAf.12.5 million), respectively. The continuous decrease in credit extension to the government indicates that commercial banks still are not convinced of the government's perseverance in implementing the adjustment program.

The decrease in domestic credit extension through private sector loans in the first quarter of 2001 was due entirely to consumer loans, which decreased by 3.9% (NAf.24.0 million) as a result of redemptions financed through foreign loans. This decrease offset increases in both mortgages and business loans of 0.6% (NAf.6.5 million) and 0.5% (NAf.5.0 million), respectively. Although mortgages and business loans recorded increases, the growth rate was lower than in the previous three quarters.

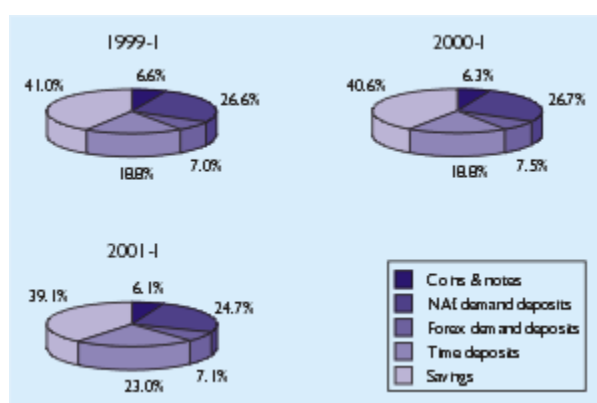
Table 19
Private-sector loans and government paper at commercial banks as per end of period (in millions NAf. and percentage changes)

	2000-I		2001-I	
Private sector loans,	2,442.1	(0.0%)	2,599.5	(-0.5%)
of which:				
-Mortgages	996.1	(2.4%)	1,034.4	(0.6%)
-Consumer loans	563.4	(-0.8%)	598.3	(-3.9%)
-Business loans	882.6	(-2.0%)	966.7	(0.5%)
Credit to the government,	192.0	(-2.8%)	167.1	(-4.6%)
of which:				
-Government paper,	192.0	(-2.8%)	144.9	(-17.2%)
of which:				
-Central government	65.1	(-21.1%)	43.9	(-32.6%)
-Island government of Curaçao	126.9	(0.2%)	101.0	(-20.4%)
-Time loan to island government of Curaçao	0.0	(0.0%)	22.2	-
Total	2,634.1	(-0.2%)	2,766.6	(-0.7%)

In contrast to the decline in the first quarter of 2001, credit extension by commercial banks on an annual basis increased by 5.0% (NAf.132.5 million). This increase was due entirely to a 6.4% (NAf.157.4 million) increase in credit to the private sector, which offset the 13.0% (NAf.24.9 million) decrease in credit to the government.

Graph 6 reveals the development in the shares of loans and government paper in the commercial banks' lending portfolios. The graph shows that the share of consumer loans and business loans increased by 1.0 and 1.1 percentage points, respectively. These increases were at the expense of mortgages and credit to the government. The share of mortgages decreased by 0.8 percentage point, while the shares of the central government and the island governments decreased by 1.7 and 0.7 percentage points, respectively. This has been a continuous trend since the first quarter of 1997.

Graph 6 Developments in commercial banks' lending portfolio



Developments by island group

When comparing private-sector lending on the Leeward Islands with that on the Windward Islands, corresponding developments are revealed for the first three months of 2001. Private-sector loans on the Windward Islands decreased by 1.7% (NAf.10.9 million), a deceleration of 1.5 percentage points compared with the 0.2% decrease (NAf.0.9 million) during the first quarter of 2000. The Leeward Islands also recorded a decrease in loans to the private sector of 0.1% (NAf.1.6 million), while the first quarter of 2000 recorded an increase of 0.1% (NAf.1.8 million).

During the first quarter of 2001, consumer loans on the Windward Islands decreased substantially by 14.3% (NAf.18.8 million), compared to a 5.7% (NAf.6.0 million) increase during the first quarter of 2000. As noted, this decrease was due entirely to redemptions of consumer loans financed through foreign loans. This decrease offset entirely the increases in mortgages and business loans by 2.5% (NAf.7.0 million) and 0.3% (NAf.0.8 million), respectively, as can be seen in table 20.

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

	2000-I		2001-I	
Private sector loans,	567.6	(-0.2%)	650.2	(-1.7%)
of which:				
-Mortgages	282.2	(2.8%)	292.3	(2.5%)
-Consumer loans	110.7	(5.7%)	113.0	(-14.3%)
-Business loans	174.7	(-7.7%)	244.9	(0.3%)

On an annual basis, private sector credit on the Windward Islands increased by 14.6% (NAf.82.6 million). Noteworthy is a substantial increase in business loans of 40.2% (NAf.70.2 million). This increase is due mainly to replacement investments by, among other things, the airport and seaport authorities, the airline Winair, the telecommunication company Telem, and the utility company Gebe.

The decrease in private sector loans on the Leeward Islands during the first quarter of 2001 was due to decreases in both consumer loans and mortgages. Consumer loans declined by 1.1% (NAf.5.2 million) and mortgages by 0.1% (NAf.0.5 million). These decreases offset the increase in business loans by 0.6% (NAf.4.2 million), which can be explained partly by the increased use of overdraft facilities by business enterprises due to liquidity constraints.

Table 21
Private-sector loans at commercial banks on the Leeward Islands as per end of period (in
millions NAf. and percentage changes)

	2000-I		2001-I	
Private sector loans,	1,874.5	(0.1%)	1,949.3	(-0.1%)
of which:				
-Mortgages	714.0	(2.3%)	742.0	(-0.1%)
-Consumer loans	452.7	(-2.2%)	485.4	(-1.1%)
-Business loans	707.8	(-0.5%)	721.9	(0.6%)

Like the Windward Islands, net credit extension increased on the Leeward Islands on an annual basis. However, the 4.0% (NAf.74.8 million) increase on the Leeward Islands was much smaller than the 14.6% increase on the Windward Islands. This difference indicates diverging economic developments between the two island groups.

Developments in domestic interest rates

As can be seen in table 22, the marginal lending rate in the first quarter of 2001 increased by 25 basis points compared to the first quarter of 2000. The marginal lending rate is equal to the pledging rate of 7.00% plus a mark-up. This mark-up was introduced on October 1, 2000, and is charged to commercial banks that borrow more than the balance on their blocked account with the Bank. The objective is to affect the price of liquidity available for the commercial banks and, as such, increase the effectiveness of the reserve requirement.

Developments in commercial banks' interest rates during the first three months of 2001 reflect an increase in the average rate on passbook savings by 0.16 percentage point, while the average rate on time deposits decreased by 0.15 percentage point. On the other hand, banks raised lending rates for mortgages and current account overdraft facilities by 0.36 and 0.37 percentage

point, respectively. The increase in interest rates on current account overdrafts may be related to the increased demand for funds due to liquidity shortages.

Domestic government bond yields rose primarily due to decreased confidence in the government, which led to a net redemption of government paper. As a consequence, the government was forced to increase the attractiveness of government paper by offering higher yields. Confidence in the government decreased primarily because the government did not comply fully with the measures agreed-upon with the IMF in September 2000. The liquidity need of the governments was increased further by the derailment of the program in December 2000, which blocked the release of additional liquidity support.

Table 22
Developments in domestic interest rates

	2000-I	2001-I
Central bank		
-Pledging rate	7.00%	7.00%
-Marginal lending rate	7.00%	7.25%
Commercial banks borrowing rates		
-Passbook savings	3.60%	3.76%
-12-month time deposit	4.99%	4.84%
Commercial banks lending rates		
-Mortgages	9.96%	10.32%
-Current account overdraft	9.19%	9.56%
Government bonds 5 yr., effective yield	8.75%	9.00%

DEVELOPMENTS IN THE FINANCIAL SECTOR

Introduction

During the first quarter of 2001, the Bank examined two credit unions and two domestic banks. The Bank issued a license to CBG Compagnie Bancaire Genève to conduct activities in the form of a branch-office in the international banking sector of the Netherlands Antilles. Furthermore, the Bank revoked the licenses of Fortis Holding (Curaçao) N.V., formerly Generale Bank Curaçao N.V., and Kooperativa di Krèdito Spar Un Yuda Otro C.F.W. Fortis Holding (Curaçao) N.V. ceased to operate as an international credit institution but continued its operations as a holding company, while Kooperativa Krèdito Spar Un Yuda Otro C.F.W., a credit union, went bankrupt.

Developments in the domestic banking sector

During the first quarter of 2001, total assets of the banking institutions operating in the domestic banking sector of the Netherlands Antilles increased by NAf.148.3 million to NAf.5,445.3 million, a 2.8% increase compared to the previous quarter.

The increase in total assets was accounted for mainly by increases in interest- and non-interest-bearing cash and other assets by NAf.87.3 million (9.2%), NAf.33.7 million (10.7%), and NAf.16.2 million (13.5%), respectively. These increases can be explained by the growth in time deposits held at other foreign banks and in cash and demand balances held in the current account at the Bank van de Nederlandse Antillen.

The increase in assets was funded mainly by the growth of NAf.117.6 million (2.2%) in liabilities. This growth was attributable to an increase of NAf.191.1 million (4.3%) in total deposits to NAf.4,594.5 million. More specifically, the increase in total deposits was the result of the growth in time deposits placed by residents and to a lesser extent by foreign business enterprises. However, time deposits placed by domestic and foreign banks decreased, which led to an overall increase of NAf.90.9 million (8.2%) in time deposits. Second, the increase in savings deposits by NAf.61.6 million (3.3%) from both local and foreign individuals also contributed to the increased banking activities. Finally, demand deposits also contributed to the increase in total deposits reflected by an increase of NAf.38.6 million (2.7%). Demand deposits held by local business enterprises, and by resident and nonresident individuals contributed to the increase.

In contrast, borrowings and other liabilities reflected decreases of NAf.54.7 million (21.9%) and NAf.18.7 million (8.2%), respectively. The decrease in borrowings consisted of a decrease in borrowings from foreign subsidiaries and affiliates, while the decrease in other liabilities consisted of a decline in bills, taxes, and dividends payable.

Total capitalization of the domestic banking sector strengthened slightly by NAf.30.6 million to NAf.445.5 million at the end of the first quarter of 2001. The increase in net income retained accounted for this capital strengthening. The resulting capital-to-assets-ratio amounted to 8.2%, in line with the international capital standards.

Table 23
Aggregate balance sheet of commercial banks operating in the domestic banking sector of the Netherlands Antilles at quarter-end (in millions NAf.)

	2000-III		2000-IV		2001-I	
	NAf.	%	NAf.	%	NAf.	%
ASSETS						
Non-int.-bearing cash	200.4	3.9	314.4	5.9	348.1	6.4
Interest-bearing cash	916.0	17.7	953.9	18.0	1,041.2	19.1
Investments	275.0	5.3	264.1	5.0	258.7	4.8
Loans	3,408.8	66.0	3,449.4	65.1	3,458.3	63.5
Investm. unconsol. sub.	32.1	0.6	30.9	0.6	36.9	0.7
Fixed assets	168.5	3.3	164.2	3.1	165.7	3.0
Other assets	165.8	3.2	120.1	2.3	136.3	2.5
Total assets	5,166.6	100.0	5,297.0	100.0	5,445.3	100.0
LIABILITIES						
Demand deposits	1,339.7	25.9	1,421.7	26.8	1,460.3	26.8
Savings deposits	1,842.1	35.7	1,873.6	35.4	1,935.2	35.5
Time deposits	1,080.8	20.9	1,108.1	20.9	1,199.0	22.0
Total deposits	4,262.6	82.5	4,403.4	83.1	4,594.5	84.4
Borrowings	199.7	3.9	250.3	4.7	195.6	3.6
Other liabilities	259.9	5.0	228.4	4.3	209.7	3.9
Total liabilities	4,722.2	91.4	4,882.1	92.1	4,999.7	91.8
Minority interest	5.3	0.1	5.6	0.1	6.1	0.1
Subordinated debentures	5.2	0.1	5.1	0.1	4.9	0.1
General provisions	126.7	2.5	119.4	2.3	120.8	2.2
Capital & reserves	307.2	5.9	284.8	5.4	313.8	5.8
Total capital	444.4	8.6	414.9	7.9	445.5	8.2
Total liabilities and capital	5,166.6	100.0	5,297.0	100.0	5,445.3	100.0

Net operating income of the banks operating in the domestic banking sector of the Netherlands Antilles amounted to NAf 32.4 million in the first quarter of 2001, a slight increase compared to the NAf.31.1 million in the first quarter of 2000. Interest income increased by NAf.8.3 million (7.0%). This increase was offset largely by the increases in interest expenses and net additions to general provisions of NAf.3.6 million and NAf.3.4 million, respectively.

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

	2000-I	2001-I
Interest income	117.9	126.2
Interest expenses	<u>(42.6)</u>	<u>(46.2)</u>
Net interest income	75.3	80.0
Other income	<u>33.1</u>	<u>34.9</u>
Total operational income	108.4	114.9
Salaries & other employee expenses	(44.0)	(45.4)
Occupancy expenses	(13.2)	(13.9)
Other operating expenses	(17.4)	(17.1)
Net addition to general provisions	<u>(2.7)</u>	<u>(6.1)</u>
Total operational expenses	(77.3)	(82.5)
Net operating income	31.1	32.4
Net extraordinary items	1.0	0.0
Applicable profit taxes	<u>(7.3)</u>	<u>(6.1)</u>
Net income after taxes	24.8	26.3

Developments in the international banking sector

Total assets of the international banking sector decreased from NAf.62.0 billion to NAf.57.4 billion during the first quarter of 2001. This decrease was reflected mainly by a NAf.1.1 billion (9.1%) decline in fixed and other assets to NAf.11.1 billion, and by a contraction of NAf.3.0 billion (8.9%) in the loan portfolio to NAf.30.8 billion.

On the liabilities side, time deposits and borrowed funds decreased by 8.5% and 8.7%, respectively.

Total capital of the international banking sector increased slightly by 0.3 percentage point, which kept the capital-to-total assets ratio at an adequate level of 10.1%.

Table 25
Aggregate balance sheet of commercial banks operating in the international banking sector of the Netherlands Antilles at quarter-end (in millions NAf.).

	2000-IV		2001-I	
	NAf.	%	NAf.	%
ASSETS				
Cash & banks	11,477.5	18.5	11,059.4	19.3
Investments	4,570.4	7.4	4,537.3	7.9
Loans	33,791.3	54.5	30,787.6	53.6
Fixed & other assets	12,167.1	19.6	11,058.5	19.3
Total assets	62,006.3	100.0	57,442.7	100.0
LIABILITIES				
Demand deposits	4,782.7	12.1	4,256.0	7.4
Time deposits	15,422.3	23.6	14,108.7	24.6
Borrowed funds	34,963.1	53.2	31,929.0	55.6
Other liabilities	1,075.0	2.1	1,368.3	2.4
Total liabilities	56,243.2	91.0	51,662.0	89.9
Capital	5,763.1	9.0	5,780.7	10.1
Total liabilities & capital	62,006.3	100.0	57,442.7	100.0

During the first quarter of 2001, net operating income and net income after taxes of the banks operating in the international banking sector of the Netherlands Antilles amounted to NAf.135.4 million and NAf.130.4 million, respectively. Total operating income increased by NAf.18.8 million (6.8%) compared to the first quarter of 2000. However, this increase was more than offset by the NAf.50.3 million (45.4%) increase in total operational expenses.

Table 26
Aggregate income statement of commercial banks operating in the international banking sector of the Netherlands Antilles at quarter-end (in millions NAf.)

	2000-I	2001-I
Interest income	799.3	776.3
Interest expenses	(808.7)	(768.0)
Net interest income	(9.4)	8.3
Other income	<u>287.2</u>	<u>288.3</u>
Total operational income	277.8	296.6
Salaries & other employee expenses	(21.2)	(24.1)
Occupancy expenses	(4.5)	(4.2)
Other operating expenses	(41.1)	(59.0)
Net addition to general provisions	<u>(44.1)</u>	<u>(73.9)</u>
Total operational expenses	(110.9)	(161.2)
Net operating income	166.9	135.4
Net extraordinary items	3.7	0.0
Applicable profit taxes	<u>(6.5)</u>	<u>(5.0)</u>
Net income after taxes	164.1	130.4