



QUARTERLY BULLETIN 2002-1

Bank van de Nederlandse Antillen

REPORT OF THE PRESIDENT

The Netherlands Antillean economy continued to show signs of recovery in the first quarter of 2002, against the background of a gradually improving global economy. This positive development was reflected by a marginal contraction in real Gross Domestic Product of 0.4% on an annual basis. Increased government spending related to back payments to private and public creditors contributed primarily to the smaller contraction. Consumer spending continued to be affected by the ongoing migration to the Netherlands, while producers were awaiting the formation of a new government to adjust their expectations on which investment decisions will be based. The inflation rate continued its decelerating trend, largely the result of lower gasoline prices, cheaper air fares, and lower inflation of our main trading partners.

The overall performance of our export sector was weak in the first quarter of 2002. The tourism sector continued to be affected in the aftermath of the September 11 terrorist attacks, reflected by a decline in the number of stay-over visitors and foreign exchange income earned. However, the developments differed by island. The overall decline was accounted for by the decline in Sint Maarten and Bonaire, both of which are highly dependent on North American visitors. In contrast, Curacao's tourism continued to grow, owing to the diversification of its tourist markets. Moreover, cruise tourism increased in Curacao but declined in Sint Maarten. The oil refinery in Curacao also recorded a decline in activities as both the number of barrels refined and operational costs fell.

Developments in the transportation sector were mixed. The ship repair industry registered an increase in activities as measured by the number of man-hours. The harbor of Curacao recorded more ships piloted, but cargo movements shrank. In addition, bunker sales of fuel and water declined. Oil storage and oil transshipment activities decreased due mainly to the development in Bonaire. Furthermore, the regional operations of the national airline Air ALM deteriorated significantly, which was offset partly by the good performance of the transatlantic flights. In line with the decline in tourism, the number of passengers handled by Bonaire's airport decreased significantly. Moreover, the free zone in Curacao registered a marked decrease in re-exports, while the number of visits increased substantially. Finally, the international financial and business services sector also registered mixed developments, reflected by an increase in operational income earned, mitigated by a decline in profit tax transferred to the government.

The balance of payments recorded a surplus in the first quarter of 2002, although considerably smaller than in the first quarter of 2001. Hence, our international reserves position improved. The current account deficit increased due to a deterioration in the trade, services, and income balances. Only the current transfers balance improved markedly, related particularly to personal transfers from Holland. The deterioration in the trade and services balances was attributable to the weak performance of our main export sectors, except the international financial and business services sector. The capital and financial account also deteriorated, because foreign assets declined more than foreign liabilities. Factors underlying this development included, among other things, a transitory transaction in the banking sector in the first quarter of 2001, fewer portfolio investments abroad related to the decline in US interest rates, and debt settlements between foreign parent companies and their local affiliates.

The cash balance of the General Government turned around from a surplus in the first quarter of 2001 to a deficit in the first quarter of 2002. This deterioration was primarily the result of a decline

in revenues and an increase in expenditures. The decline in revenues was most pronounced in nontax revenues, mainly because no dividends were remitted by public enterprises while the Central Bank advanced fewer profit and license fee. Tax revenues declined also, due primarily to taxes on income and profits, and on goods and services. Current expenditures accounted entirely for the increase in total expenditures. Wages and salaries, goods and services, and transfers recorded the highest increases, which were related mainly to the reduction in arrears to government institutions, private creditors, and the smaller island governments with a loan provided by the Central Bank in December 2001. Interest payments declined because, contrary to the first quarter of 2001, no interest was paid abroad. Finally, capital expenditures declined primarily because of fewer capital transfers.

The fiscal outlook for 2002 remains worrisome. Including shortfalls and risks, the deficit of the General Government is estimated at NAF 250 million. Although financing has been abundant because of the attractive return on government securities compared to foreign instruments, the governments have to persevere in their efforts to consolidate the fiscal deficits. Therefore, the authorities should step up their efforts to design and implement a credible program aimed at reaching a balanced budget in the next few years in order to create an environment conducive to sustainable growth.

The monetary aggregates grew moderately in the first quarter of 2002, the result of increases in both net domestic and net foreign assets. The domestic expansion was attributable to the government sector and miscellaneous factors. The expansionary impact of the government sector was due entirely to the central government, mainly through the withdrawal of deposits. In contrast, the private sector exerted a contractionary impact because of a decline in loans extended, in line with sluggish economic activities. Net foreign assets increased as a result of the balance-of-payments surplus.

Against the background of, among other things, the significant increase in our international reserves and the decline in international interest rates, the Bank decided to further adapt its monetary policy as of January 1, 2002. The major changes comprised the auction of Certificates of Deposit (CDs) through bi-weekly tenders, a reduction of the reserve requirement from 11.5% to 9%, and more active open-market operations. These measures were complemented by the lifting of the ceiling on domestic credit extension to the governments as of March 1, 2002, implying the inactivation of the Monetary Cash Reserves Arrangement. Finally, the Bank reduced its pledging rate in four steps from 7% on December 31, 2001, to 4% on August 20, 2002, to bring it more in line with the declining interest rates in our money and capital market.

Our economy is gradually crawling out of a five-year recession. To consolidate the recovery process, the authorities should continue with a three-tier policy approach of fiscal consolidation, a growth strategy, and structural reform. In this respect, it is important not to reverse reforms already in place, although some fine-tuning may be necessary.

Looking ahead, the adjustment efforts of the last three years seem to have laid a foundation for the re-establishment of economic growth. The structural changes that have been implemented together with the fiscal consolidation have to be continued in order to underpin the nascent economic growth. The Bank views with concern the recent discussion to roll back the important structural reforms that have been made in the labor field. For a small open economy as ours, it is important to

have well-functioning markets in order to adjust to an ever-changing global environment. More specifically, price and wage developments have to be such to maintain our competitive position. Where markets fail to yield a socially desirable outcome, corrective actions are called for. However, those actions may never be of such a nature that interferes in the well-functioning of the market.

Fiscal consolidation and economic growth must, therefore, continue to be on the forefront of our national political and economic agenda. Both have to be pursued vigorously and simultaneously since they are mutually reinforcing. The Netherlands Antillean economy continued to show signs of recovery in the first quarter of 2002, against the background of a gradually improving global economy. This positive development was reflected by a marginal contraction in real Gross Domestic Product of 0.4% on an annual basis. Increased government spending related to back payments to private and public creditors contributed primarily to the smaller contraction. Consumer spending continued to be affected by the ongoing migration to the Netherlands, while producers were awaiting the formation of a new government to adjust their expectations on which investment decisions will be based. The inflation rate continued its decelerating trend, largely the result of lower gasoline prices, cheaper air fares, and lower inflation of our main trading partners.

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The cash balance of the General Government turned around from a surplus in the first quarter of 2001 to a deficit in the first quarter of 2002. This deterioration was primarily the result of a decline in revenues and an increase in expenditures. The decline in revenues was most pronounced in nontax revenues, mainly because no dividends were remitted by public enterprises while the Central Bank advanced fewer profit and license fee. Tax revenues declined also, due primarily to taxes on income and profits, and on goods and services. Current expenditures accounted entirely for the increase in total expenditures. Wages and salaries, goods and services, and transfers recorded the highest increases, which were related mainly to the reduction in arrears to government institutions, private creditors, and the smaller island governments with a loan provided by the Central Bank in December 2001. Interest payments declined because, contrary to the first quarter of 2001, no interest was paid abroad. Finally, capital expenditures declined primarily because of fewer capital transfers.

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Looking ahead, the adjustment efforts of the last three years seem to have laid a foundation for the re-establishment of economic growth. The structural changes that have been implemented together with the fiscal consolidation have to be continued in order to underpin the nascent economic growth. The Bank views with concern the recent discussion to roll back the important structural reforms that have been made in the labor field. For a small open economy as ours, it is important to have well-functioning markets in order to adjust to an ever-changing global environment. More specifically, price and wage developments have to be such to maintain our competitive position. Where markets fail to yield a socially desirable outcome, corrective actions are called for. However, those actions may never be of such a nature that interferes in the well-functioning of the market.

Fiscal consolidation and economic growth must, therefore, continue to be on the forefront of our national political and economic agenda. Both have to be pursued vigorously and simultaneously since they are mutually reinforcing.

E.D. Tromp
President

REAL SECTOR AND INTERNATIONAL DEVELOPMENTS

General economic developments

The global economy is gradually improving after last year's slowdown. The downturn was relatively mild in most countries, due to various factors in the world economy: the flexibility of US consumer spending and the strength of some of the Latin American nations' export in combination with the limited spillover effects of the crisis in Argentina. Furthermore, the US growth contributed to reviving the economies in some European and Asian countries.

In line with the global economy, the economy in the Netherlands Antilles is showing signs of recovery. Following several consecutive quarterly contractions, the Antillean economy posted a slight improvement in the first three months of 2002, although real GDP still shrank by 0.4%¹ on an annual basis. The lengthy formation of the central government, following the January election, delayed the execution of measures needed to spur growth. Moreover, the aftermath of the September 11 attacks has affected growth in the tourism (especially the stay-over tourism) sector. Similar to the world economy, which experienced declining inflation rates, the first-quarter annual inflation rate in the Netherlands Antilles decelerated to 1.0% in 2002, largely due to lower gasoline prices.

National production and spending

In the first quarter of 2002, real gross domestic product of the Netherlands Antilles fell by 0.4%, an improvement from the 2.5% contraction in the corresponding period of 2001. The domestic demand continued to be adversely affected by the migration of Antilleans to the Netherlands. Meanwhile, consumer and producer confidence remained subdued, due to a lack of prospects for reaching an agreement with the Dutch government, affecting private investment. Government consumption increased as a result of back payments to the pension fund and private creditors. The government deficit and the labor market remained areas of concern. The weak labor market continued to have a mismatch between the supply of low-skilled labor and a demand for more educated personnel.

Inflation

Inflation in the Netherlands Antilles continued to follow a decelerating trend in 2002. Annual inflation decelerated to 1.0% in the quarter ending March 2002, down from 4.1% in the first quarter of 2001. The lower inflation was linked to lower gasoline prices, cheaper air fares, and lower inflation of our principal trading partner, the United States. In the months January-March 2002, Curaçao showed the lowest annual inflation of 1.0%, following a 4.9% in the same quarter of 2001. Meanwhile both Bonaire's and St. Maarten's inflation were 1.2%, compared to, respectively, 2.9% and 0.2% in the first quarter of 2001.

On a quarterly basis, Curacao posted a deflation of 1.6% in the first quarter of 2002, after 0.2% deflation in the fourth quarter of 2001. The downward pressure on inflation came mostly from the categories "transport & communication" (-5.1%), "housing" (-2.2%), and "housekeeping &

¹ Estimate by the BNA

furnishings" (-1.7%). A drop in gasoline prices and air fares pushed down the inflation in the sector "transport & communication." Moreover, decreases in "housing" and "housekeeping & furnishings" were led by cheaper utilities, household tools and appliances. Fueled by higher-priced fresh produce, inflation in "food" surged by 1.2%.

Table 1
Inflation rates in the first quarter of 2002 (% changes)

	Curaçao	Bonaire	St. Maarten
Food	1.2	0.1	0.3
Beverages & tobacco	-0.4	-1.7	1.3
Clothing & footwear	-0.6	0.0	-0.1
Housing	-2.2	0.2	-0.2
Housekeeping & furnishings	-1.7	0.2	0.0
Health	0.3	0.1	0.0
Transport & communication	-5.1	-3.8	-3.1
Recreation & education	0.0	0.0	0.0
Other	0.4	0.5	0.9
General inflation rate	-1.6	-0.8	-0.6

In Bonaire, consumer prices went down by 0.8% in the first quarter, compared to 0.2% inflation in the previous quarter. The largest price fall occurred in the item "transport & communication" (3.8%), owing to lower gasoline prices and air fares. In addition, a price drop in beverages led to a deflation of 1.7% in the category "beverages & tobacco." Meanwhile, a surge in fire and health insurance premiums caused a price gain of 0.5% in the item "other."

St. Maarten's first-quarter inflation drifted down to -0.6% from 0.4% inflation in the fourth quarter of 2001. The decrease in "transport & communication" (3.1%) was largely accountable for the deceleration in the overall consumer prices. Similar to Curaçao and Bonaire, cheaper gasoline prices and air fares contributed to the price dip in "transport & communication." By contrast, an increase in beverages led to an inflation of 1.3% in "beverages & tobacco." Also like Bonaire, a price spike in fire and health insurance premiums drove up the price in the category "other" (0.9%).

Labor market

The labor market in the Netherlands Antilles remained stable in the first quarter of 2002. The demand for labor declined in the sectors "utilities" and "construction."² The number of employed in the industrial, trade, and transportation sectors remained stable. The tourism sector showed an increase in employment, associated mainly with seasonal demand conditions.

In the first quarter of 2002, fewer people collected welfare payments in Curaçao. The decline was due to the following factors: (1) some welfare recipients found employment; (2) some became eligible for the old age pension; and (3) it has become more difficult to attain welfare, as each

² Business Cycle Report

application gets thoroughly scrutinized. This situation was reflected by the higher number of cancellations than requests for welfare payments.

Table 2
Developments in welfare payments in Curaçao

	2001-I	2002-I
Number of requests	177	30
Number of cancellations	296	281

Source: Dienst Werk en Inkomen

Developments by sector

Mining

Developments in Bonaire's salt industry were mixed in the first quarter of 2002. Salt exports expanded by 7.7%, in comparison to an 8.5% gain in the same quarter of 2001. However, salt production shrank by 42.7%, contrasting with the notable first-quarter's growth in 2001.

Industry

In 2002's first quarter, the "Isla" refinery in Curaçao offered a glum picture, as oil refining fell by 9.5%, down from an increase of 1.2% in the corresponding period of 2001. In line with the fall in oil refining, total operational costs dropped by 5.9%, measured against a decrease of 6.2% during the first quarter of 2001. A fall in the refinery's own use of fuel (21.1%) was linked to the decline in oil refining and was responsible for the lower operational costs.

Curacao's ship repair industry registered mixed results during the first quarter of 2002. Although the amount of orders dropped, as measured by the number of ships, the workload expanded, as measured by the number of man-hours. The number of man-hours sold jumped by 69.8%, a marked improvement compared to the 1.9% rise in the first quarter of 2001. In contrast, the number of ships repaired tumbled by 34.2%, down from the surge of 1.9% in the March period of 2001. Total earnings from ship repair strengthened by 8.5% during the first quarter of 2002.

Utilities

Through the months January-March 2002, production in the utilities sector in the Netherlands Antilles posted a mixed picture. Water production edged down by 0.4%, compared to the gain of 1.3% in the period ending March 2001. An analysis by islands reveals that water production was pushed down by St. Maarten (4.1%), after a 3.8% growth in the first quarter of 2001. Water production in Curaçao and Bonaire, on the other hand, expanded by, respectively, 0.2% and 3.9%, in comparison to advances of, respectively, 0.4% and 5.5%, in the March period of 2001.

Electricity production was up by 1.7%, as opposed to a contraction of 0.7% in 2001's first quarter. The increase was reflected by a surge in the Windward Islands (9.7%), while Curacao recorded no growth and Bonaire's production sagged by 8.6%.

Construction³

The construction sector reported a decline in turnover in the first quarter of 2002. The drop was accompanied by a reduction in the number of employed.

Trade

First-quarter activities in the free zone sector were gloomy in 2002, as re-exports shrank by 26.8%,⁴ compared to 73.9% growth in the same period in 2001. In contrast, the number of free zone visitors swelled by 38.8%, up from the 11.2% advance in the March quarter of 2001. The number of visitors from almost all the main markets recorded a jump, except for Guyana and Venezuela.

Tourism

The tourism industry in the Netherlands Antilles offered mixed results in the January-March quarter 2002.⁵ The number of stay-over tourists dropped by 9.3%, as opposed to a gain of 8.1% in the first quarter of 2001. Conversely, cruise tourism drifted up by 0.5%, compared to an increase of 10.0% in the first quarter of 2001. In line with the poor stay-over tourism, receipts from tourism weakened by 2.8% during this period.

The tourism sector in St. Maarten remained subdued in the first quarter of 2002. Stay-over tourism dropped by 16.8%, compared to a growth of 6.9% in the first three months of 2001. All markets showed a decline in stay-over guests. Tourists from the main markets, namely, North America and Europe, fell by 14.7% and 12.7%, respectively. The drop in the North American market may be the result of the aftermath of the September 11 attacks. In addition, the number of cruise visitors deteriorated by 2.0% in the first quarter of 2002, down from the 17.4% surge in the same quarter of 2001.

³ Business Cycle Report

⁴ Transaction basis

⁵ Excluding Bonaire

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

	Curaçao		St. Maarten	
	2001-I	2002-I	2001-I	2002-I
North America,	31.6	-1.9	19.5	-14.7
of which:				
-U.S.A.	40.6	7.1	19.8	-14.0
-Canada	-10.3	-67.5	17.6	-18.7
Europe,	3.8	16.1	-15.3	-12.7
of which:				
-The Netherlands	3.1	3.9	4.1	-20.1
-France	---	---	-13.5	-15.9
-Germany	8.8	-11.8	---	---
-Other Europe	7.0	142.2	-31.2	8.6
South & Central America,	18.2	33.0	11.4	-61.9
of which:				
-Venezuela	13.4	-0.1	-30.2	6.3
-Brazil	254.4	-43.0	25.8	-46.3
-Other S&C America	13.0	142.8	21.4	-73.3
Caribbean,	-2.4	20.5	16.0	-13.3
of which:				
-Aruba	-17.0	10.5	---	---
-Santo Domingo	15.2	23.5	46.7	-28.7
-Other Caribbean	-0.2	24.5	9.7	-9.0
Rest of World	3.9	-53.4	3.8	-14.9
Total	11.5	9.9	6.9	-16.8

In the first three months of 2002, Curacao's stay-over tourism enhanced by 9.9%, down from the 11.5% growth in the same quarter of 2001. The increase in stay-over arrivals was reflected by advances of 16.1%, 33.0%, and 20.5%, respectively, in the European, South American, and the Caribbean markets. The number of US travelers swelled, but was outweighed by fewer Canadian arrivals, causing a reduction in the North American market (1.9%). Despite the encouraging stay-over tourism, hotel occupancy deteriorated by 7 percentage points to 63.0%. Contrary to the other cruise destinations, the cruise tourism sector in Curacao improved, as the number of cruise passengers mounted by 6.5%, contrasting with the dip of 1.9% in 2001's first quarter.

Table 4
Developments in cruise tourism per island (% change)

	Curacao		St. Maarten	
	2001-I	2002-I	2001-I	2002-I
Cruise tourists	-1.9	6.5	17.4	-2.0
Cruise calls	-5.7	3.0	18.1	---

Transportation

Activities in Bonaire's airport were unfavorable during the months January-March 2002. Total passenger traffic deteriorated by 21.1%, reflecting declines in transit passengers (38.1%), and passenger arrivals (16.4%) and departures (18.1%). Furthermore, commercial landings dropped by 15.7%, after a slide of 14.9% in the period ending March 2001.

Results of Curacao's air transportation sector were glum in the first quarter of 2002. The number of passengers transported by the national airline "Air ALM" tumbled by 40.5%,⁶ a deterioration from the surge of 4.3% in the same period of 2001. In addition, cargo shipments sagged by 29.5%, compared to a 10.4% gain in the first quarter of 2001. In contrast, the number of passengers on the transatlantic flights by "Air ALM" doubled in the March quarter of 2002, in comparison to the corresponding period in 2001.

Oil transshipment in the Netherlands Antilles tightened by 25.6% in the first quarter of 2002, in contrast with the jump of 52.9% in the corresponding quarter of 2001. This bleak picture can be accounted for by the marked fall of 81.1% in Bonaire's oil transshipment. Activities in Curacao's and Bonaire's oil storage contracted by 10.0% and 89.0%, respectively, while Statia's swelled by 1.7%.

First-quarter developments in Curacao's harbor industry were mixed. The number of ships piloted into the harbor increased by 13.7% in 2002, compared to 6.1% in the March period of 2001. This expansion was led mostly by more than a two-fold gain in the number of other vessels, owing to more inter-island transfers between Bonaire and Curacao, led by the launching of the ferry "Chogogo" in the fourth quarter of 2001. In contrast, total cargo movements shrank by 9.4%, a result of a fall in both transshipment and local activities. The drop in cargo movements was reflected by fewer cargo ships entering the harbor. Alongside the decrease in total cargo activities, bunker sales of fuel and water posted reductions of 11.8% and 28.1%, respectively, during the March quarter of 2002.

Through the months January-March 2002, harbor developments in Bonaire improved, as the number of ships that entered the harbor soared by 40.6%, measured against a 10.7% growth in 2001's first quarter. Similar to Curacao, this favorable outcome was due mostly to more inter-island transfers between Bonaire and Curacao.

⁶ Excluding transatlantic flights

International economic developments

The United States

The US economy is recovering from last year's downturn, which started in March 2001. First-quarter real GDP decelerated to 1.7% in 2002 from 2.5% in the corresponding period of 2001. The growth was aided by gains in consumer spending (3.3%) and government spending (5.5%). Higher government spending was led mainly by a jump of 8.0% in expenditures on defense. The growth in spending lowered the inventory stockpiles, leading to production expansion.

The modest economic growth was not accompanied by a strong labor market. In spite of a pick up in the manufacturing and service sectors, the jobless rate jumped to 5.7% in the March quarter of 2002. The US factories emphasized longer hours instead of hiring new workers. Labor productivity gained by 4.2%, sustaining the economic expansion without raising production costs. Unit labor costs were whittled by 0.7%, contrasting with a first-quarter surge of 4.6% in 2001. The lack of pressure in the labor market and increases in productivity held labor costs in check. Despite higher energy costs, productivity growth was able to maintain inflation at 1.5% in the first quarter of 2002. The weak labor market coupled with strong productivity and tame inflation encouraged the Federal Reserve to maintain its overnight bank lending rate at 1.75%, a 40-year low. Imports declined (8.2%), but were outweighed by lower exports (10.6%), worsening the US current account deficit by 3.7% to \$112 billion.

Table 5
Selected indicators of various countries (% change)

	U.S.		Netherlands		Venezuela		Japan	
	01-	02-	01-	02-	01-	02-	01-	02-
Real GDP	2.1	1.7	1.1	0.0	3.1	-4.1	1.1	-1.1
Consumer prices (%)	2.1	1.1	5.0	4.1	12.1	17.1	-0.1	-1.1
Unemployment rate (%)	4.1	5.7	2.1	2.1	*14.1	*15.1	4.1	5.1
Current account balance (bln \$/bln ₪/bln ¥/bln ¥)	-10.1	-11.1	3.1	7.1	2.1	0.1	1,45.1	2,20.1

Source: Bloomberg

*Instituto Nacional de Estadística

European Union

Production in the Euro zone grew slightly by 0.1% in the first quarter of 2002, compared to 2.5% in the first quarter of 2001. The growth was fueled by higher exports, but the five consecutive quarter drop in investment hampered further growth. The first-quarter's harmonized inflation rate accelerated slightly to 2.6% in 2002, in comparison to 2.5% in the first quarter of 2001. The Euro-zone trade improved, as a consequence of a reduction in imports and a gain in exports. In the March quarter of 2002, the trade surplus was ₪16.2 billion, up from ₪1.9 billion in the same quarter of 2001.

The economy in the Netherlands stagnated, as no growth was recorded in the January-March period of 2002. Contrary to the Euro zone, exports in the Netherlands dropped by 7.1%, as demand of its largest trading partner, Germany, faltered, due to recession. Moreover, imports shrank by 10.9%, offsetting the decline in exports. Capital investments contracted, owing to a fall in corporate investment. Private and government consumption grew moderately by 1.3% and 2.1%, respectively. The low unemployment rate (2.2%) created pressure for higher wages, causing inflation to remain high at 4.3%.

Latin America

South America's largest economy fell into a recession for the first time since early 1999. Brazil's real GDP shrank by 0.7% in the January-March period of 2002, contrasting with a 4.3% surge in the first quarter of 2001. Power rationing, bad weather, and high interest rates were responsible for the gloomy economic performance. Power rationing ended on March 1; therefore, it did not have a positive impact on the first-quarter output. In addition, heavy rains affected farm output, and high interest rates choked off spending and investment. To boost the sagging real, the Central Bank raised the overnight interest rate to 19% in 2001. Since February, the Bank has cut the interest rate twice by 0.25 percentage point to 18.5%. So far, Brazil's Central Bank has refrained from a more aggressive cut, as the first-quarter inflation was up to 7.7%, pushed up largely by higher gasoline prices. The decline in the real and the slowing economy reduced the demand for imports. Even though the financial crisis in Argentina reduced Brazil's foreign demand, it was outweighed by a fall in imports. This narrowed Brazil's current account deficit by 61.6% to \$997 million. The depressed real income raised the number of persons looking for work, leading to a surge in the jobless rate (7.1%).

After four years of economic depression, Argentina defaulted on its \$141 billion public debt, after the International Monetary Fund (IMF) cut off loans, forcing the country to use its reserves to pay debts. As a result, the banks froze bank deposits and the peso devalued in January. The freeze created protests that brought down the government in December 2001. In a two-week period, Argentina went through four presidents before the Congress appointed Mr. Duhalde president on January 1, 2002. The currency has lost about 68 percent of its value against the US\$ since Mr. Duhalde ended a 10-year peg of the peso to the dollar. The plunge in the currency drove up consumer prices, owing to higher costs of food and imported goods. Since then, Argentina's jobless rate has climbed to 20%, worsening the poverty.

In the first three months of 2002, the economy of Venezuela shrank by 4.2%, ending two consecutive years of moderate growth. Social unrest, stemming from political instability distressed internal demand. The first-quarter dip was led by contractions in oil production (7.6%) and in the non-oil sector (2.6%). The reduction in oil production was the result of the international agreements reached with OPEC. After lengthy negotiations, both the OPEC members and non-OPEC oil-producing countries agreed to cut production by an additional 1.5 million barrels a day starting January 1, 2002. In compliance with the quota imposed by OPEC, oil production in Venezuela was reduced by 173,000 barrels (6.0%) to 2.5 millions barrels a day. Another setback was the accord with Cuba, allowing that country to buy oil at a preferential rate. Consequently, PDVSA has to reserve 106,000 barrels per day for Cuba. Cuba has been delaying payment, due to liquidity problems, which affected Venezuela's economy negatively. The drop in the non-oil sector was due mainly to a

slowdown in activities in the construction sector.

The dip in oil production affected fiscal policy, the balance of payments, and unemployment. The contraction in oil revenues pumped up the government deficit to \$7.0 billion. The first-quarter unemployment rate reached 15.3% in 2002. The current account balance deteriorated from \$2,416 million in the March quarter of 2001 to \$113 million in the same period of 2002. Inflation was up 17.6%, from 12.5% in the months January-March of 2001. The inflation can be explained partly by the devaluation of the Bolivar in February 2002. The central bank continued to support the Bolivar in January, but ultimately abandoned the crawling peg regime the following month.

Japan

Japan's real gross domestic product deteriorated by 1.6% in the January-March quarter of 2002, following a 1.2% growth in last year's first quarter. This decline was led mainly by lower consumer spending (1.0%) and capital spending (16.8%). In spite of an increase in the income of salaried workers' households (4.4%), consumer spending fell, as last year's spending was boosted by the enactment of the recycling law of major appliances. However, the shortage of jobs and the continuous corporate restructuring is not likely to encourage consumers to start spending again. Japan's high jobless rate (5.2%) was related largely to weak production, high corporate failures, and the transfer of production operations. Japanese companies cut spending on factories and equipment, as prices continued to fall, undermining company profits (-14.6%). Consumer prices continued a gradual declining trend, stemming from the lingering slump in consumer spending. Japan posted another deflation (1.2%) in the first quarter of 2002.

Overall exports showed a less drastic fall of 2.9%, reflecting the recovering overseas economies and the weaker yen. Meanwhile, the weak domestic economy caused imports to decrease by 12.3%, driven largely by a drop in crude oil and petroleum imports. As a result, the current account surplus widened by 51.8% to ¥2,203 billion in the first quarter of 2002.

PUBLIC FINANCE

General developments in the public sector

The General Government⁷ registered a cash deficit of NAf.16.6 million in the first quarter of 2002, a deterioration of NAf.63.6 million compared to the first quarter of 2001, when the General Government registered a surplus of NAf.47.0 million. The deterioration in the cash balance was caused by a surge of NAf.31.3 million (10.2%) in expenditures and a drop of NAf.32.3 million (9.1%) in revenues.

The increase in expenditures was caused entirely by an increase of NAf.41.7 million (14.7%) in current expenditures as capital expenditures dropped by NAf.10.4 million (43.9%). Wages and salaries increased by NAf.25.5 million (27.2%), transfers by NAf.12.4 million (21.9%), outlays for goods and services by NAf.8.6 million (12.9%), and subsidies by NAf.1.8 million, contributing to the increase in current expenditures. Interest payments, on the other hand, dropped by NAf.6.6 million (12.9%).

The drop in revenues was attributable to developments in both tax and nontax revenues. Tax revenues dropped by NAf. 14.8 million (4.7%), while nontax revenues dropped by NAf.19.1 million (51.8%). The drop in nontax revenues can be ascribed to less fees, charges, and sales received, while no dividend was remitted by government-owned companies. Taxes on property and taxes on goods and services fell by NAf.0.9 million (10.0%) and NAf.7.5 million (6.6%), respectively, while a drop of NAf.7.2 million (4.3%) was registered in taxes on income and profits. These declines were mitigated by NAf.0.6 million (2.5%) more in taxes on international trade and transactions and an increase in other taxes of NAf.0.2 million (18.2%). Furthermore, capital revenues and grants increased by NAf.0.1 million and NAf.1.5 million, respectively.

Table 6
Operations of the General Government (in millions NAf.)

	2001-I	2002-I	Change	
REVENUES	354.1	321.8	-32.3	-9.1%
Tax revenues	316.8	302.0	-14.8	-4.7%
Nontax revenues	36.9	17.8	-19.1	-51.8%
Capital revenues	0.1	0.2	0.1	140.0%
Grants	0.3	1.8	1.5	500.0%
EXPENDITURES	307.0	338.3	31.3	10.2%
Current expenditures	283.4	325.1	41.7	14.7%
Capital expenditures	23.6	13.3	-10.4	-43.9%
BALANCE	47.0	-16.6	-63.6	-135.2%
% of GDP	4.3%	-1.5%		

⁷ Defined as the Central Government and the Island Government of Curaçao.

Operations of the Central Government

The Central Government registered a cash deficit of NAF.11.3 million in the first quarter of 2002, a deterioration of NAF.11.4 million compared to the first quarter of 2001. The shortfall of NAF.14.5 million (9.4%) in revenues contributed to the deterioration because expenditures dropped by NAF.3.1 million (2.0%).

Both tax revenues and nontax revenues contributed to the drop in total revenues in the first quarter of 2002. Nontax revenues registered the largest drop, NAF.8.8 million (37.0%), compared to the first quarter of 2001. Tax revenues fell by NAF.7.2 million (5.6%). Grants, on the other hand, increased by NAF.1.5 million, while there were no capital revenues.

The drop in nontax revenues was mainly the result of decreases of NAF.4.7 million (29.4%) in entrepreneurial and property income and NAF.4.3 million (58.1%) in the proceeds from fees, charges, and sales. The drop in entrepreneurial and property income was caused by fewer transfers of license fees collected by the Bank. The drop in proceeds from fees, charges, and sales was attributable mainly to the independization of government agencies (NAF.1.7 million), and lower revenues from route facilities charges (NAF.1.6 million) and services provided by customs (NAF.0.8 million).

The drop in tax revenues can be ascribed largely to a drop of NAF.7.7 million in taxes on goods and services. This decrease was accounted for almost entirely by a drop of NAF.7.2 million (92.3%) in gambling and other licenses, mostly because no gambling fees were paid to the government. In addition, excises dropped by NAF.1.5 million (5.0%), while an increase of NAF.1.0 million (1.6%) in turnover tax receipts mitigated the overall drop in taxes on goods and services.

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

	2001-I	2002-I	Change	
REVENUES	153.7	139.2	-14.5	-9.4%
Tax revenues,	129.6	122.4	-7.2	-5.6%
of which:				
-Excises	29.9	28.4	-1.5	-5.0%
-Import duties	24.0	24.6	0.6	2.5%
-Inheritance and gift tax	0.0	0.8	0.8	-
-Property transfer tax	4.2	3.1	-1.1	-26.2%
-Turnover tax,	62.4	63.4	1.0	1.6%
of which:				
Curaçao and Bonaire	51.0	51.5	0.5	1.0%
Sint Maarten, Saba and Sint Eustatius	11.4	11.9	0.5	4.4%
-Gambling licenses and other	7.8	0.6	-7.2	-92.3%
Nontax revenues,	23.8	15.0	-8.8	-37.0%
of which:				
-Entrepreneurial and property income	16.0	11.3	-4.7	-29.4%
-Fees, charges, and sales	7.4	3.1	-4.3	-58.1%
-Other nontax revenues	0.4	0.6	0.2	50.0%
Capital revenues	0.0	0.0	0.0	-
Grants	0.3	1.8	1.5	500.0%
EXPENDITURES	153.6	150.5	-3.1	-2.0%
Current expenditures,	139.1	140.6	1.5	1.1%
of which:				
-Wages and salaries	48.9	45.5	-3.4	-7.0%
Wages	44.6	45.7	1.1	2.5%
Social security contr. (SVB)	2.2	2.2	0.0	0.0%
Pension premiums	2.1	-2.4	-4.5	-214.3%
-Goods and services	23.2	17.6	-5.6	-24.1%
-Interest payments	35.0	25.1	-9.9	-28.3%
-Subsidies to public companies	2.0	2.8	0.8	40.0%
-Transfers	30.0	49.6	19.6	65.3%
Other levels of government	16.9	37.7	20.8	123.1%
Households	8.9	7.3	-1.6	-18.0%
Nonprofit institutions and abroad	4.2	4.6	0.4	9.5%
Capital expenditures,	14.5	9.9	-4.6	-31.7%
of which:				
-Investments	4.1	2.2	-1.9	-46.3%
-Capital transfers	8.1	7.9	-0.2	-2.5%
-Net lending	2.3	-0.2	-2.5	-108.7%
BALANCE	0.1	-11.3	-11.4	-

Total expenditures dropped by NAf.3.1 million (2.0%) in the first quarter of 2002, compared to the first quarter of 2001. This decrease was the result of a drop of NAf.4.6 million (31.7%) in capital expenditures and an increase of NAf.1.5 million (1.1%) in current expenditures.

The increase in current expenditures was caused by increases of NAf.19.6 million (65.3%) in transfers and NAf.0.8 million (40.0%) in subsidies to public companies. These increases were mitigated by less interest payments of NAf.9.9 million (28.3%), less outlays for goods and services of NAf.5.6 million (24.1%), and a drop of NAf.3.4 million (7.0%) in wages and salaries.

The increase in total transfers was caused by NAf.20.8 million (123.1%) more in transfers paid to other levels of government due to revenue-sharing agreements with the Island Governments and NAf.0.4 million (9.5%) more transferred to nonprofit institutions and abroad. The drop of NAf.1.6 million (18.0%) in transfers to households mitigated these increases.

The drop in interest payments was the result of a drop of NAf.12.7 million in interest paid abroad and an increase of NAf.2.8 million in domestic interest expenses. Contrary to the first quarter of 2001, no interest payments abroad were effectuated in the first quarter of 2002. However, NAf.1.4 million was received from the Island Government of Curaçao to transfer abroad by the Central Government as part of the monthly debt settlement between the two governments.

Outlays for wages and salaries dropped by NAf.3.4 million (7.0%), due entirely to the decline of NAf.4.5 million in pension contributions to the civil servants pension fund APNA since no transfers were made during the first quarter of 2002. The decline in pension contributions was mitigated by a net increase of NAf.1.1 million (2.5%) in the wage component.

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

	2001-I	2002-I
FISCAL BALANCE	0.1	-11.3
MONETARY FINANCING,	-24.3	11.4
of which:		
Central Bank	8.7	-39.5
Commercial banks	-32.6	50.5
Coins and notes	-0.4	0.4
NONMONETARY FINANCING,	24.2	-0.1
of which:		
Government securities with the public	8.8	-3.3
Other	15.4	3.2

Capital expenditures dropped by NAf.4.6 million (31.7%). All components contributed to this drop: NAf.1.9 million (46.3%) in investments, NAf.0.2 million (2.5%) in capital transfers, and NAf.2.5 million net lending.

The Central Government financed its cash deficit in the first quarter of 2002 entirely monetarily. The monetary financing was attributable to an increase of NAf.50.5 million in net claims by the commercial banks, mainly as a result of the net purchase of government securities. In contrast, the monetary contraction through the Central Bank was mainly the result of a net redemption of government securities, caused by the partial redemption of a loan provided by the Central Bank with liquidity support from the Dutch government.

Operations of the Island Government of Curaçao

The Island Government of Curaçao registered a cash deficit of NAf.5.3 million in the first quarter of 2002, a deterioration of NAf.52.2 million compared to the first quarter of 2001. This development was the result of an increase of NAf.42.0 million (25.8%) in expenditures and a decline of NAf.10.2 million (4.9%) in revenues.

The surge in expenditures was caused entirely by an increase in current expenditures of NAf.47.7 million (31.1%), as capital expenditures dropped by NAf.5.8 million.

All current expenditures categories registered increases in the first quarter of 2002 compared to the first quarter of 2001. Wages and salaries increased by NAf.28.9 million (64.2%) of which the wages component showed the largest increase, namely, NAf.16.6 million (38.7%). The increase in the wages component was due to the reduction of arrears in wage-related expenses -- wage tax (NAf.3.2 million) and social premiums (NAf.5.5 million). In addition, NAf.12.3 million more was paid to the civil servants pension fund APNA as all monthly contributions were remitted. Furthermore, expenses on goods and services increased by NAf.14.2 million (32.5%) as a result of the reduction in arrears to other creditors, and subsidies to public companies increased by NAf.1.0 million (7.5%).

Interest payments and transfers registered increases of NAf.3.3 million (20.5%) and NAf.0.3 million (0.9%), respectively. The surge in interest payments was caused mainly by a shift to debt paper with shorter maturities. The marginal increase in transfers was attributable to more transfers to nonprofit institutions and other government levels by NAf.4.2 million and NAf.0.4 million, respectively. These increases were offset largely by a decline in transfers to households by NAf.4.3 million due to the decrease in severance pay to laid-off personnel.

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

	2001-I	2002-I	Change	
REVENUES	209.4	199.2	-10.2	-4.9%
Tax revenues, of which:	187.2	179.6	-7.6	-4.1%
-Taxes on income and profits, of which:	169.0	161.8	-7.2	-4.3%
Profit tax	72.8	57.6	-15.2	-20.9%
Income tax	2.5	-7.4	-9.9	-394.0%
Wage tax	93.7	111.6	17.9	19.2%
-Taxes on property, of which:	4.7	4.1	-0.6	-12.6%
Land tax	2.9	3.1	0.2	5.6%
-Taxes on goods and services, of which:				
Motor vehicle taxes	12.5	12.0	-0.4	-3.5%
Nontax revenues	13.1	2.8	-10.3	-78.8%
-Entrepreneurial and property income	7.7	0.0	-7.7	-99.7%
-Fees, charges, and sales	3.3	2.2	-1.1	-32.9%
-Other nontax revenues	2.1	0.6	-1.6	-73.4%
Capital revenues	0.1	0.2	0.1	100.0%
Grants	9.0	16.6	7.6	83.6%
EXPENDITURES	162.5	204.5	42.0	25.8%
Current expenditures, of which:	153.4	201.1	47.7	31.1%
-Wages and salaries	45.0	73.9	28.9	64.2%
Wages	42.8	59.4	16.6	38.7%
Pension premiums	2.2	14.5	12.3	569.8%
-Goods and services	43.6	57.8	14.2	32.5%
-Interest payments	16.2	19.5	3.3	20.5%
-Subsidies to public companies	12.9	13.9	1.0	7.5%
-Transfers	35.6	36.0	0.3	0.9%
To other levels of government	3.6	4.0	0.4	12.0%
Households	16.2	11.9	-4.3	-26.7%
Nonprofit institutions	15.8	20.1	4.2	26.6%
Capital expenditures, of which:	9.1	3.4	-5.8	-63.1%
-Investments	1.1	3.4	2.2	195.1%
-Capital transfers	8.0	0.0	-8.0	-100.0%
BALANCE	46.9	-5.3	-52.2	-111.2%

The decline in revenues was the result of declines in tax revenues and nontax revenues of NAf.7.6 million (4.1%) and NAf.10.3 million (78.8%), respectively. These declines were offset partly by a NAf.7.6 million (83.6%) increase in grants received from the Central Government related to revenue sharing. The deterioration in tax revenues was caused, among other things, by a drop of NAf.15.2 million (20.9%) in profit tax due to weak economic conditions in 2001. Furthermore, income tax dropped by NAf.9.9 million due to large refunds. These decreases were mitigated mainly by an

increase in the wage tax of NAf.17.9 million (19.2%), the result of efforts by the tax office to improve the registration of companies and, consequently, tax compliance.

The drop in nontax revenues was caused by a drop of NAf.7.7 million in entrepreneurial and property income as no dividends were received in the first quarter of 2002. Furthermore, fees, charges, and sales dropped by NAf.1.1 million (32.9%), while a drop of NAf.1.6 million (73.4%) occurred in other nontax revenues.

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

	2001-I	2002-I
FISCAL BALANCE	46.9	-5.3
MONETARY FINANCING,	9.0	3.2
of which:		
Central Bank	-16.5	-5.7
Commercial banks	25.5	8.9
NONMONETARY	-55.9	2.1
FINANCING,		
of which:		
Government securities with	-10.1	12.3
the public		
Other	-45.8	-10.2

The Island Government of Curaçao financed its cash deficit both monetarily and non-monetarily in the first quarter of 2002 (see table 10). The monetary financing was mainly the result of a drawdown of current account balances at both the Central Bank (NAf.13.1 million) and the commercial banks (NAf.10.5 million). Outstanding government securities with the Central Bank dropped by NAf.18.8 million, caused by the partial redemption of a loan provided by the Central Bank in December 2001 with the liquidity support from the Dutch government. The funds raised non-monetarily were attributable to the net purchase of government securities by the public (NAf.12.3 million).

The total outstanding debt of the Netherlands Antilles

The total outstanding debt of the Netherlands Antilles increased by NAf.12.7 million (0.4%) during the first quarter of 2002. This increase resulted from an increase of NAf.22.3 million (0.8%) in the domestic debt and a drop of NAf.10.7 million (2.0%) in the foreign debt. The total debt as a percentage of GDP amounted to 76.7% at the end of the first quarter of 2002.

The domestic debt of the Central Government increased by NAf.26.8 million (2.3%) during the first quarter of 2002. This increase was attributable to a substantial increase in securities in the commercial banks' portfolios (NAf.45.9 million), increased arrears at the civil servants pension fund APNA (NAf.16.0 million), and a rise in other debt (NAf.3.7 million). A drop in outstanding securities in the Central Bank's portfolio (NAf.28.8 million) and with the public (NAf.3.3 million), and a decline in the debt to the Social Security Bank SVB (NAf.6.4 million) mainly mitigated these increases.

The domestic debt of the Island Government of Curaçao dropped by NAf.11.7 million (0.8%) in the first quarter of 2002 due to a drop in arrears to other creditors (NAf.9.8 million) and a net redemption of securities with the Central Bank (NAf.5.7 million). Furthermore, commercial bank credit and outstanding securities with the public dropped by NAf.1.3 million and NAf.0.7 million, respectively. On the other hand, increases in arrears at the civil servants pension fund APNA and the Social Security Bank SVB by NAf.4.2 million and NAf.1.8 million, respectively mitigated the decreases in aforementioned debt items.

The domestic debt of the island governments of Bonaire, St. Eustatius, and Saba rose by NAf.2.1 million, due to increased arrears at the civil servants pension fund (APNA) and the Social Security Bank (SVB). The domestic debt of St. Maarten increased by NAf.6.2 million due to increased arrears at the civil servants pension fund (NAf.1.6 million), the Social Security Bank (NAf.3.2 million) and the Central Government (NAf.1.4 million).

Table 11
Total outstanding consolidated public debt ¹ (in millions NAf.)

	2001-VI	2002-I	Change	
Domestic consolidated debt,	2,843.3	2,865.5	22.3	0.8%
of which:				
-Central Government	1,186.4	1,213.2	26.8	2.3%
-Curaçao	1,549.8	1,538.1	-11.7	-0.8%
-Bonaire	66.6	68.1	1.5	2.3%
-St. Maarten	41.4	47.6	6.2	15.0%
-St. Eustatius	2.3	2.6	0.3	13.0%
-Saba	3.9	4.2	0.3	7.7%
Foreign debt	531.2	520.5	-10.7	-2.0%
Total debt (consolidated)	3,381.7	3,394.3	12.7	0.4%
(% of GDP)	76.8%	76.7%		

¹Consolidated for the debt of the Central Government to the Island Governments.

The foreign debt dropped by NAf.10.7 million (2.0%). This drop was attributable mainly to the payment of an installment (NAf 7.9 million) on a guaranteed loan. In addition, the Euro, the dominant currency of the official foreign debt, depreciated slightly vis-à-vis the Antillean guilder in the first quarter of 2002.

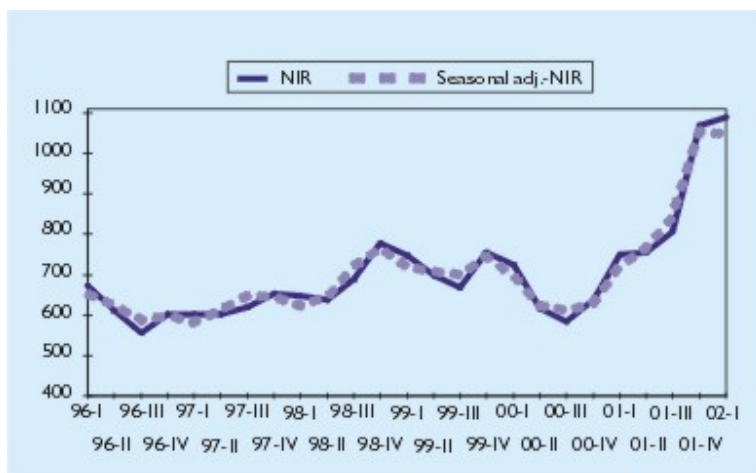
DEVELOPMENTS IN THE EXTERNAL SECTOR

General overview

For the first quarter of 2002 an increase in the current account deficit of NAf. 19.9 million was recorded. This means a net acquisition of resources from the rest of the world. The relationship between the current account and the joint capital and financial account is such that the higher deficit must be financed by either liquidating foreign assets or increasing foreign liabilities. In the first quarter of 2002, the current account deficit was financed by a net decrease in foreign assets.

Graph 1

Developments in the net international reserves (in millions NAf.)



Reserve assets increased by NAf. 37.0 million in the first quarter of 2002, NAf. 77.8 million less than the increase in the same quarter of 2001. This smaller increase resulted in an international reserves position of NAf.1,088.5 million, including gold at the end of March 2002 (graph 1).

Table 12
Balance of payments summary ¹ (in millions NAf.)

	2001-1	2002-1	Diff.
Current account	-30.9	-50.8	-19.9
Capital account	2.1	3.2	1.1
Financial account, of which:	-17.4	9.0	26.4
-Change in reserves ²	-114.8	-37.0	77.8
Statistical discrepancies	46.2	38.6	-7.6
Memorandum item			
Change in reserves ²	-114.8	-37.0	77.8
-with commercial banks	-125.3	53.2	178.5
-with central bank	10.5	-90.2	-100.7

¹Transaction basis

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

The current account

The deficit on the current account of the balance of payments increased by NAf. 19.9 million to NAf. 50.8 million in the first quarter of 2002 compared to the same quarter of 2001. As illustrated in table 13, the increase in the current account deficit was mainly the result of the deterioration of the services balance, specifically other services and travel. In addition, the income and trade balances deteriorated by NAf. 19.2 million and NAf. 4.7 million, respectively. The improvement of the current transfers balance compensated in large part for the deterioration of the other balances.

Table 13
A breakdown of the current account ¹ (in millions Naf.)

	2001-1	2002-1	Diff.
Trade balance	-498.0	-502.7	-4.7
- Exports	258.0	202.8	-55.2
- Imports	756.0	705.5	-50.5
Services balance	495.0	460.9	-34.1
Receipts, of which:	857.7	803.9	-53.8
- Travel	440.1	429.8	-10.3
- Transportation	83.8	78.0	-5.8
- Other services, of which:	333.8	296.1	-37.7
Int. fin. & bus. services sector	136.3	148.9	12.6
Expenses, of which:	362.7	343.0	-19.7
- Travel	124.6	127.5	2.9
- Transportation	38.2	30.9	-7.3
- Other services, of which:	199.9	184.6	-15.3
Int. fin. & bus. services sector	51.4	51.1	-0.3
Income balance ²	10.7	-8.5	-19.2
Current transfers balance ³	-38.6	-0.5	38.1
Profit taxes	18.3	8.1	-10.2
Balance	-30.9	-50.8	-19.9

¹ Transaction basis.

² Labor and investment income.

³ Public and private transfers

The trade balance

The trade balance deteriorated by Naf. 4.7 million in the first quarter of 2002, compared to the same quarter of 2001. This decline was related to a Naf. 55.2 million drop in exports, almost entirely balanced by an equally large drop in imports. General merchandise and goods procured in ports were the categories that contributed to the drop in exports, which was offset partly by the increase in earnings from goods for processing and repair on goods. Most of the drop in imports was due to a decline in oil prices, while the remainder was caused by a decline in the import of goods for processing.

A breakdown by island reveals that the trade balance of Curaçao deteriorated considerably by Naf. 45.7 million, while it improved on Bonaire and the Windward Islands by Naf. 13.4 million and Naf. 27.6 million, respectively. A closer look reveals that the decrease in general merchandise exports on Curaçao and the decrease in exported goods procured in ports on both the Windward Islands and

Curaçao contributed most to the decline in exports. Both the decrease in oil imports on all islands and the decrease in exports of goods procured in ports were caused by the lower average oil prices during the first quarter of 2002 compared to the same quarter of 2001. In addition, the exports of goods for processing declined primarily on Curaçao.

Curaçao was the only island of the Netherlands Antilles where the trade balance deteriorated. The NAf. 45.7 million deterioration was caused mainly by a NAf. 28.1 million decrease in exports of goods procured in ports and a NAf. 25.4 million decline in general merchandise exports, while imports of general merchandise increased by NAf. 15.3 million. Exports of goods procured in ports declined due to lower prices of bunker fuel. The decrease in exports of general merchandise was related almost entirely to a drop in free-zone exports. In contrast, the value of oil imports and the import of goods for processing declined by NAf. 12.2 million and NAf. 9.9 million, respectively.

The trade balance of Bonaire improved by NAf. 13.4 million, mostly because exports of goods for processing increased by NAf. 8.1 million and imports of general merchandise fell by NAf. 5.7 million. Goods for processing grew because of an incidental sale of oil waste products. General merchandise imports declined because of a decline in imports of rice and goods such as cars, computer-related items, and machinery.

The trade balance of the Windward Islands improved by NAf. 27.6 million. This was related mainly to a decrease in oil imports of NAf. 28.9 million, mitigated partly by a decline in exports of goods procured in ports of NAf. 15.6 million, both of which were related to lower oil prices. Furthermore, the trade balance was influenced positively by the increase in general merchandise exports of NAf. 5.1 million and the decrease of general merchandise imports of NAf. 8.8 million. The decline in imports was in line with the weak economic development on the Windward Islands.

Table 14
A breakdown of the trade balance ¹ (in millions NAf.)

	2001-1		2002-1		Diff.	
	Export	Import	Export	Import	Export	Import
Bonaire	4.2	16.9	11.8	11.1	7.6	-5.8
- General merchandise	3.7	16.1	3.2	10.4	-0.5	-5.7
- Oil products	-	0.2	-	0.2	-	0.0
- Goods for processing	0.5	0.6	8.6	0.5	8.1	-0.1
- Repair on goods	-	-	-	-	-	-
- Goods procured in ports (bunker)	-	-	-	-	-	-
Curaçao	175.2	523.4	122.8	516.7	-52.4	-6.7
- General merchandise, of which freezone	98.6	433.4	73.2	448.7	-25.4	15.3
- Oil products	-	69.4	-	57.2	-	-12.2
- Goods for processing	6.5	17.7	6.1	7.8	-0.4	-9.9
- Repair on goods	16.8	-	18.3	-	1.5	0.0
- Goods procured in ports (bunker)	53.3	2.9	25.2	3.0	-28.1	0.1
Windward Islands	78.6	215.7	68.2	177.7	-10.4	-38.0
- General merchandise	19.8	147.3	24.9	138.5	5.1	-8.8
- Oil products	3.3	68.1	3.4	39.2	0.1	-28.9
- Goods for processing	-	0.3	-	-	0.0	-0.3
- Repair on goods	-	-	-	-	-	-
- Goods procured in ports (bunker)	55.5	-	39.9	-	-15.6	0.0
Netherlands Antilles	258.0	756.0	202.8	705.5	-55.2	-50.5
- General merchandise, of which freezone	122.1	596.8	101.3	597.6	-20.8	0.8
- Oil products	71.3	102.7	52.2	105.5	-19.1	2.8
- Goods for processing	3.3	137.7	3.4	96.6	0.1	-41.1
- Repair on goods	7.0	18.6	14.7	8.3	7.7	-10.3
- Goods procured in ports (bunker)	16.8	-	18.3	-	1.5	0.0
	108.8	2.9	65.1	3.0	-43.7	0.1

¹ Transaction basis

The services balance

The surplus on the services balance dropped considerably by NAf. 34.1 million in the first quarter of 2002 compared to the same quarter of 2001. The deterioration in travel and other services balances contributed most to this poor performance. In contrast, the transportation balance improved slightly.

Tourism

Foreign exchange receipts from the tourism sector declined by NAf. 10.3 million or 2.3%, caused entirely by the poor performance of the tourism sector on the Windward Islands. As can be seen in table 15, the increases in foreign exchange earnings from stay-over and cruise tourism on Curaçao and Bonaire compensated partly for the decline on the Windward Islands. On top of the decrease in earnings from tourism, expenses on tourism increased by NAf. 2.9 million.

Table 15
Foreign exchange earnings from tourism per island¹ (in millions NAf.)

	2001-I	2002-II	Diff.	%
Bonaire ²	38.7	39.4	0.7	1.8
-Stay-over	35.5	36.1	0.6	1.8
-Cruise	3.2	3.3	0.1	1.8
Curaçao	116.5	140.1	23.6	20.3
-Stay-over	97.3	119.6	22.3	22.9
-Cruise	19.2	20.5	1.3	6.8
Windward Islands	284.9	250.3	-34.6	-12.1
-Stay-over	209.7	176.6	-33.1	-15.8
-Cruise	75.2	73.7	-1.5	-2.0
Netherlands Antilles	440.1	429.8	-10.3	-2.3
-Stay-over	342.5	332.3	10.2	-3.0
-Cruise	97.6	97.5	-0.1	-0.1

¹ Transaction basis

² Bonaire's tourism earnings were estimated by the Bank because the data on the number of tourists were not available due to the introduction of a new data-processing system.

The tourism sector on the Windward Islands depends heavily on the US market, which was affected by a slowdown of the economy and the September 11 attacks. Consequently, tourism earnings from this country declined. However, the decrease in foreign exchange receipts from tourism was not only caused by the American market, but also the South American market performed especially poorly, reflecting the economic problems of countries such as Brazil and Argentina. This poor performance resulted in a NAf. 34.6 million or 12.1 % decrease in tourism earnings. In addition, cruise tourism performed weakly.

In contrast, the tourism sector in Curaçao performed well in the first quarter of 2002, compared to the same quarter of 2001. The foreign exchange receipts increased by 20.3%, reflecting the positive development in the number of stay-over visitors, particularly from the South American market. The South American market developed favorably primarily due to increased tourism earnings from Colombia. In contrast, revenues from North America declined because of the decline in Canadian tourists. European tourism increased, although the Netherlands Antilles guilder appreciated against the Euro, making a stay in Curaçao more expensive. Revenues from cruise tourism also increased.

Transportation

Net earnings from the transportation sector increased by NAf. 1.5 million in the first quarter of 2002 compared to the same period of 2001. This increase was the result of a decrease in expenses of NAf. 7.3 million and a decrease in earnings of NAf. 5.8 million. Most categories of transportation services contributed to the decrease in earnings.

Other services

Net earnings from other services declined by NAf. 22.4 million in the first quarter of 2002 compared to the same quarter of 2001. This decline can be attributed to a decrease in the refining fee of the oil refinery, related to lower oil prices. The improved performance of the international financial and business services sector partly diminished the effect of the lower refining fee.

Net operational earnings of the international financial and business services sector increased by NAf. 12.9 million, attributable entirely to the NAf. 12.6 million improvement in operational income. In contrast, profit taxes paid by the sector to the government decreased by NAf. 10.2 million.

The income balance

The NAf. 10.7 million surplus on the income balance in the first quarter of 2001 turned around to a NAf. 8.5 million deficit in the first quarter of 2002. The main cause of this decline was the NAf. 7.9 million drop in net interest income on investments, due to the decrease in interest rates in the United States. This drop was magnified by the NAf. 5.4 million decrease in net labor income and by a NAf. 11.6 million payment of interest on development loans to the Dutch government by the Netherlands Antilles government.

The current transfer balance

The deficit on the current transfers balance improved by NAf. 38.1 million to NAf. 0.5 million deficit in the first quarter of 2002 compared to the same period of 2001. This development can be ascribed entirely to the marked improvement in transfers from abroad, especially a NAf. 29.1 million increase in current transfers by individuals to Antillean residents. Most of these personal transfers were transferred from the Netherlands. This development also was noticed in the fourth quarter of 2001. In contrast, taxes received by the government from the international financial and business services sector decreased by NAf. 10.2 million.

Table 16
Breakdown of current transfers (in millions NAf.)¹

	2001-I		2002-II		Diff.	
	Deb.	Cred.	Deb.	Cred.	Deb.	Cred.
General Government	21.7	5.6	14.1	6.0	-7.6	0.4
-Profit taxes	18.3	0.0	8.1	0.0	-10.2	0.0
-Other government transfers	3.4	5.6	6.0	6.0	2.6	0.4
Other sectors	56.7	111.4	96.3	104.9	39.6	-6.5
-Workers' remittances	4.8	6.0	7.9	8.1	3.1	2.1
-Other current transfers, of which:	51.9	105.4	88.4	96.8	36.5	-8.6
-Family transfers	37.8	45.6	66.9	37.4	29.1	-8.2
Balance	78.4	117.0	110.4	110.9	32.0	-6.1

¹⁾ Transaction basis

The capital and financial account

The combined capital and financial account deteriorated by NAf. 25.3 million in the first quarter of 2002, compared to the first quarter of 2001. This drop was due to the deterioration of the financial account, because the capital account improved slightly.

The capital account

The surplus on the capital account increased slightly by NAf. 1.1 million, primarily because of the increase in funds received for development aid.

The financial account

Compared to the first quarter of 2001, the financial account deteriorated by NAf. 26.4 million in the first quarter of 2002. Table 17 indicates that the deterioration can be attributed to a decrease in foreign assets of NAf. 99.2 million, balanced partly by the decrease in foreign liabilities of NAf. 72.8 million.

Extraordinary developments during the first quarter of 2001 contributed to this outcome, when a commercial bank on the Windward Islands acquired and subsequently settled loans from abroad. Therefore, other investment liabilities and reserve assets, under which the acquisition and settlement of the loans were recorded in 2001, registered substantial changes compared to the first quarter of 2002.

Table 17
Breakdown of the financial account¹ (net flows, in millions
NAf.)

	2001-1	2002-1	Diff.
Direct investment	23.2	-20.1	-43.3
- Abroad ²	0.0	-1.7	-1.7
- In the Netherlands Antilles ³	23.2	-18.4	-41.6
Portfolio investment ²	-37.5	-10.9	26.6
Other investment	111.7	77.0	-34.7
- Assets ²	55.3	53.7	-1.6
- Liabilities, of which: ³	56.4	23.3	-33.1
Trade credit	-14.7	-14.3	0.4
Loans	84.9	-27.1	-112.0
Other	-13.8	64.7	78.5
Reserves ⁴	-114.8	-37.0	77.8
Balance	-17.4	9.0	26.4
Memorandum items			
Financial account broken down			
in			
- Assets ²	-96.0	3.2	99.2
- Liabilities ³	78.6	5.8	-72.8

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 reserve assets

The decrease in the loans item in other investment liabilities was caused by the developments in 2001. This decrease was outweighed partly by an increase in other unclassified investment liabilities due to debt settlements of affiliated companies with their parent companies.

A further decrease in foreign liabilities was recorded under direct investment in the Netherlands Antilles. This decrease was due to a decline in the claims of foreign direct investors on affiliated enterprises in the Netherlands Antilles.

Foreign assets decreased primarily because of a smaller increase in reserve assets, which also was related to developments in the first quarter of 2001. In addition, the decrease was due to the decline in net portfolio investment abroad. This decrease was the result of the decline in US interest rates.

MONETARY DEVELOPMENTS

Introduction

During the first quarter of 2002, the money supply (M2) in the Netherlands Antilles increased by 3.0% (NAf.102.3 million), a deceleration compared to the 4.3% (NAf.128.5 million) increase during the first quarter of 2001. The increase in 2002 was due to increases in both components of the money supply: the money component (M1) and the near-money component, which increased by 4.6% (NAf.60.4 million) and 2.0% (NAf.41.9 million), respectively. In the first quarter of 2001, these components increased by 1.3% (NAf.14.5 million) and 6.3% (NAf. 14.0 million), respectively.

The increase in the demand for liquid assets during the first three months of 2002 also was due to increases in both components: net domestic assets increased by 3.5% (NAf.83.2 million) and net foreign assets by 1.9% (NAf.19.1 million). During the first quarter of 2001, these components increased by 0.4% (NAf.10.4 million) and 20.5% (NAf.118.1 million), respectively.

The increase in net domestic assets was caused by the expansionary impact of the government sector and miscellaneous factors, which grew by 46.3% (NAf.72.2 million) and 5.4% (NAf.26.8 million), respectively. In contrast, private sector net domestic credit declined by 0.6% (NAf.15.8 million), due to a 0.8% (NAf.21.9 million) decline in loans. The decline in total private sector loans was attributable entirely to the 2.0% (NAf.37.4 million) contraction on the Leeward Island, as the Windward Islands recorded a 2.3% (NAf.15.5 million) growth.

Monetary policy

Monetary developments in 2001 were characterized by sluggish economic activity, which led to a marginal growth in net domestic credit extension to the private sector. In addition, private credit extension was affected negatively by the continuous decreases in U.S. interest rates⁸ and the relative low interest rates in the Netherlands,⁹ which stimulated foreign borrowing. On the other hand, net international reserves increased substantially.¹⁰ The combination of these developments led to a substantial increase in the liquidity position of the commercial banks, reflected by increased current account balances. Against the background of these local and international developments, the Bank further adapted its monetary policy effective January 1, 2002. The adaptations focused on more flexibility and stimulation of the market forces in the local financial and interbank markets.

One of the most important changes in the Bank's monetary policy was that commercial banks no longer are compelled to buy Certificates of Deposit (CDs) to comply with the reserve requirement. The banks can determine freely how much CDs they want to buy. The interest rate on CDs no longer will be set by the Bank, but will be determined by the market participants in biweekly tenders. Furthermore, the reserve requirement percentage has been reduced by 2.5 percentage points to 9% and will be set for three months. However, the reserve requirement will be entirely non-interest-

⁸ During the January-December period of 2001 the Federal Funds Rate decreased from 6.5 percent to 1.75 percent

⁹ Lending facilities by Dutch financial institutions are offered through a local intermediary

¹⁰ The increase in net foreign assets was due to a combination of factors: increased revenues from services and free-zone exports in combination with decreased expenses on imports due to sluggish economic activity, increased foreign borrowing by local enterprises, and several large investment projects funded from abroad.

bearing. In addition, the Bank will initiate open-market operations through buying or selling government securities whenever monetary developments warrant such an action. Finally, the Bank reduced its pledging rate by 0.25 percentage point to 6.75%. The interest rate on commercial banks' borrowing exceeding NAf.20 million remained 7.75%, implying a mark-up on the official lending rate of 100 basis points.

Finally, as of March 1, 2002, the Bank decided to lift the limit on domestic credit extension to the governments in the Monetary Cash Reserve Arrangement. This measure was taken in light of the continued strong international reserves position and the financing difficulties of the government.

Money supply

During the first quarter of 2002, the money supply increased by 3.0% (NAf.102.3 million) compared to a 4.3% (NAf.128.5 million) increase during the first quarter of 2001. The increase in 2002 was due to increases in both the money component and the near-money component of 4.6% (NAf.60.4 million) and 2.0% (NAf.41.9 million), respectively. During the first quarter of 2001, both components also increased -- by 1.3% (NAf.14.5 million) and 6.3% (NAf.114.0 million), respectively.

Table 18
Quarterly changes in the components of the money supply (in millions NAf. and percentages)

	2001-I		2002-I	
Coins & notes with the public	-2.0	(-1.1%)	-0.8	(-0.4%)
Total demand deposits, of which :	16.5	(1.7%)	61.2	(5.6%)
-Netherlands Antillean guilders	-3.3	(-0.4%)	62.5	(7.2%)
-Foreign currency	19.8	(9.9%)	-1.3	(-0.6%)
Money (M1)	14.5	(1.3%)	60.4	(4.6%)
Time deposits	100.6	(16.6%)	-11.6	(-1.4%)
Savings	13.4	(1.1%)	53.5	(4.2%)
Near money	114.0	(6.3%)	41.9	(2.0%)
Money supply (M2)	128.5	(4.3%)	102.3	(3.0%)

The increase in the money component of the money supply during the first quarter of 2002 was due to an increase of 5.6% (NAf.61.2 million) in private sector demand deposits at commercial banks, which offset the slight decrease of 0.4% (NAf.0.8 million) in coins and notes with the public. During the first quarter of 2001, a corresponding development was recorded when demand deposits increased by 1.7% (NAf.16.5 million) and coins and notes with the public decreased by 1.1% (NAf.2.0 million). The increase in demand deposits during the first three months of 2002 was related entirely to an increase in demand deposits denominated in Netherlands Antillean guilders of

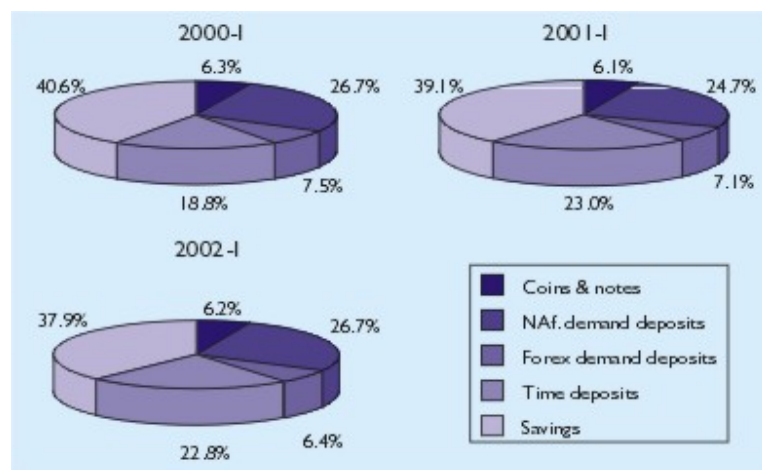
7.2% (NAf.62.5 million), which offset the decrease of 0.6% (NAf.1.3 million) in foreign exchange-denominated demand deposits. The increase in demand deposits denominated in Netherlands Antillean guilders was due mainly to transactions by pension funds and institutional investors, related to transfers from time deposits to demand deposits and to amounts received from maturing government securities.

The increase in the near-money component of the money supply during the first quarter of 2002 was due to an increase of 4.2% (NAf.53.5 million) in savings, which offset the decrease in time deposits of 1.4% (NAf.11.6 million). During the first three months of 2001, both time deposits and savings increased by 16.6% (NAf.100.6 million) and 1.1% (NAf.13.4 million), respectively. The substantial increase in time deposits was due mainly to an increase in foreign exchange-denominated time deposits of business enterprises on the Windward Islands.

On an annual basis, the increase in the money supply at the end of March 2002 amounted to 13.0% (NAf.399.7 million). This substantial increase can be explained by large increases in both the money component and the near-money component of 17.1% (NAf.200.1 million) and 10.4% (NAf.199.6 million), respectively.

Graph 2 reveals the shares of the different components in the composition of the money supply at the end of the first quarter of 2002, compared to the corresponding quarters of 2000 and 2001. Comparing 2002 with 2001, coins and notes with the public, and demand deposits denominated in Netherlands Antillean guilders increased at the expense of the other components.

Graph 2
Composition of the money supply (in %)



Factors affecting the demand for liquid assets

During the January-March period of 2002, total demand for liquid assets increased by 3.0% (NAf.102.3 million) compared to an increase of 4.3% (NAf.128.5 million) during the same period of

2001. Table 19 reveals that this increase was mainly the result of a 2.8% (NAf.65.3 million) increase in net domestic assets. In addition, net foreign assets increased by 3.7% (NAf.37.0 million).

Table 19
Quarterly changes in the demand for liquid assets by sector (in millions NAf. and percentage changes)

	2001-I		2002-I	
General government, of which:	-1.9	(-2.1%)	72.2	(46.3%)
-Central government	-5.7	(15.7%)	73.0	(858.8%)
-Island governments	3.8	(3.0%)	-0.8	(-0.5%)
Private sector	-8.0	(-0.3%)	-15.8	(-0.6%)
Miscellaneous	20.3	(-5.3%)	8.9	(-1.9%)
Net domestic assets	10.4	(0.4%)	65.3	(2.8%)
Net foreign assets	118.1	(20.5%)	37.0	(3.7%)
Total liquid assets	128.5	(4.3%)	102.3	(3.0%)

The increase in net domestic assets during January-March 2002 was mainly the result of an increase of 46.3% (NAf.72.2 million) in net domestic credit to the governments. In addition, net domestic assets increased as a result of the 1.9% (NAf.8.9 million) increase in miscellaneous factors.¹¹ These increases offset the decrease in net domestic credit extension to the private sector of 0.6% (NAf.15.8 million). During the first quarter of 2001, net domestic assets increased only as a result of an increase of 5.3% (NAf.20.3 million) in miscellaneous factors. Net domestic credit extension to the general government and to the private sector decreased by 2.1% (NAf.1.9 million) and 0.3% (NAf.8.0 million), respectively.

The increase in net domestic credit extension to the general government was due entirely to a substantial increase of 858.8% (NAf.73.0 million) in net credit extension to the central government in the first quarter of 2002. This increase can be explained largely by a decrease in deposits at the Central Bank by NAf.51.3 million due to the partial repayment by the central government of its share of an advance provided by the Bank during the month of December 2001.¹² Furthermore, the decrease in deposits was related to the financing of development projects. Finally, the increase in net credit extension to the central government was due to a net increase in government securities with the commercial banks (NAf.45.9 million), which offset the net reduction with the Central Bank

¹¹ Miscellaneous factors comprise the net balance of the non-financial assets (e.g., buildings and inventory) and liabilities (e.g., capital and reserves) of the banking sector.

¹² In December 2001, the Central Bank lent NAf.46.0 million and NAf.29.0 million to the central government and the island government of Curaçao, respectively, to provide a temporary liquidity injection to the governments as an advance for liquidity assistance to be received from the Netherlands

(NAf.28.8 million). These developments resulted in a turnaround compared to the January-March period of 2001, when net credit extension to the central government decreased by 5.7% (NAf.15.7 million).

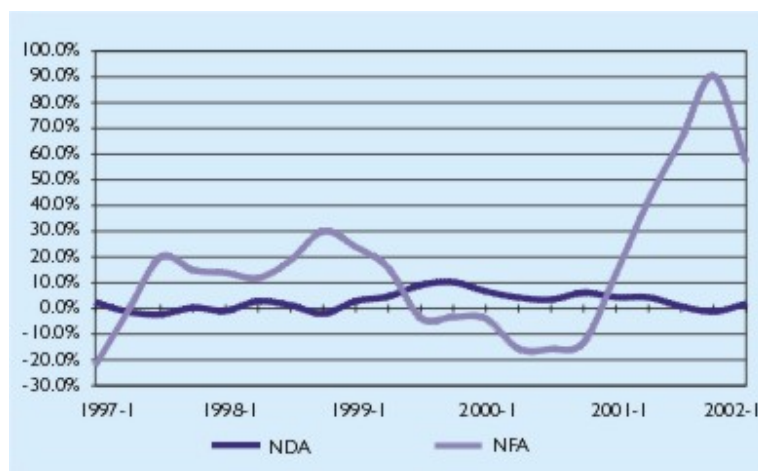
Net credit extension to the island governments declined marginally by 0.5% (NAf.0.8 million) during the first three months of 2002. This reflected also a turnaround in comparison with the first quarter of 2001, when an increase of 3.0% (NAf.3.8 million) was recorded.

Net domestic credit to the private sector decreased by 0.7% (NAf.18.9 million) during the first quarter of 2002, compared to a decrease of 0.3% (NAf.8.0 million) in the first quarter of 2001. As in 2001, the decrease in the first quarter of 2002 was due mainly to a decrease in private sector loans related to the sluggish economic activities and increased foreign borrowing.

Net foreign assets increased by 3.7% (NAf.37.0 million) during the first quarter of 2002, considerably less than the 20.5% (NAf.118.1 million) increase recorded during the January-March period of 2001. The increase during the first quarter of 2001 was the result of a marked increase in the net foreign position of the commercial banks. This increase was due mainly to an increase in foreign currency-denominated time deposits, combined with a decrease in liabilities to nonresident banks. These developments were concentrated on the Windward Islands.

On an annual basis, the demand for liquid assets increased by 13.0% (NAf.399.7 million) at the end of the first quarter of 2002. This increase was primarily the result of a substantial increase of 51.1% (NAf.354.4 million) in net foreign assets. The Central Bank and the commercial banks accounted for NAf.173.0 million (29.1%) and NAf.181.4 million (184.0%) of this increase, respectively. In contrast, net domestic assets increased by only 1.9% (NAf.45.3 million). In 2001, net foreign assets and net domestic assets increased by 5.1% (NAf.33.6 million) and 6.5% (NAf.144.9 million), respectively. The developments in net domestic assets and net foreign assets are illustrated in graph 3.

Graph 3
Developments in net foreign assets and net domestic assets



Domestic credit extension by commercial banks

Domestic credit extension by commercial banks increased marginally by 0.8% (NAf.22.5 million) during the first quarter of 2002, a turnaround compared to the similar contraction in the first quarter of 2001. This development was due to the 23.3% (NAf.44.4 million) expansion in credit extension to the government. The increase in credit extension to the Central Government by 68.0% (NAf.45.9 million) accounted entirely for the expansion. Credit extension to the Island Government of Curacao decreased by 1.2% (NAf.1.5 million). The marked expansion in credit extension to the government can be explained by the lifting of the ceiling on government loans in the Monetary Cash Reserve arrangement as of March 1, 2002.

Domestic credit extension to the private sector continued its declining trend in the first quarter of 2002, reflected by a drop of 0.8% (NAf.21.9 million) compared to a 0.5% (NAf.14.5 million) drop in the first quarter of 2001. As in the first quarter of 2001, the overall decline was due to consumer loans, which decreased by 5.6% (NAf.34.6 million) related to weak consumer demand. The decrease in consumer loans offset the increases in business loans and mortgages of 1.1% (NAf.9.8 million) and 0.3% (NAf.2.9 million), respectively.

Table 20
Private sector loans and government loans at commercial banks as per end of period (in millions NAf. and percentage changes)

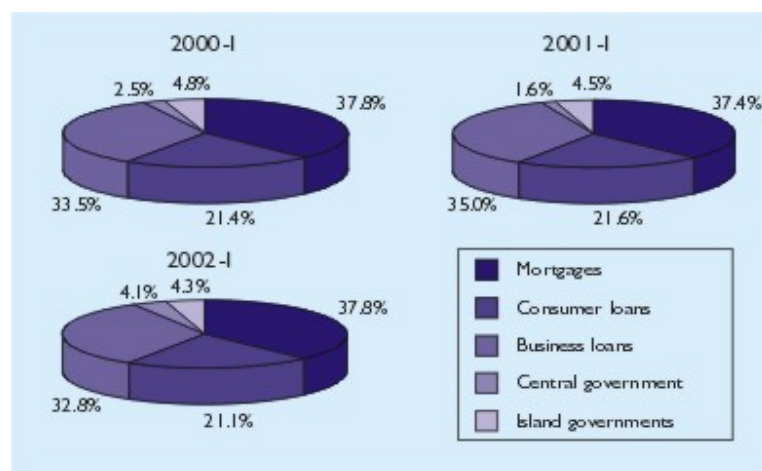
	2001-I		2002-I	
Private sector loans,	2,597.5	(-0.6%)	2,558.6	(-0.8%)
of which:				
-Mortgages	1,034.4	(0.6%)	1,054.9	(0.3%)
-Consumer loans	596.3	(-4.2%)	588.0	(-5.6%)
-Business loans	966.7	(0.5%)	915.7	(1.1%)
Government loans,	167.1	(-4.6%)	234.6	(23.3%)
of which:				
-Central Government	43.9	(-40.7%)	113.4	(68.0%)
-Island Government of Curaçao	123.2	(21.9%)	121.2	(-1.2%)
Total	2,764.6	(-0.8%)	2,793.2	(0.8%)

In contrast to the decline in the first quarter of 2002, credit extension by commercial banks on an annual basis increased by 1.0% (NAf.28.6 million). This increase was due entirely to the 40.4% (NAf.67.5 million) increase in credit to the government, which offset the 1.5% (NAf.38.9 million) decrease in credit to the private sector.

Graph 4 reveals the development in the shares of private and government loans in the commercial banks' lending portfolios. Comparing 2002 with 2001, the graph shows that the share of Central

Government loans and mortgages increased by 2.5 and 0.4 percentage points, respectively. These increases were at the expense of business loans, consumer loans, and credit to the Island Governments, which decreased by 2.2, 0.5, and 0.2 percentage points, respectively.

Graph 4
Developments in commercial banks' lending portfolio



Developments by island group

The developments in private sector lending by island group reveal that the overall decline was due to the developments on the Leeward Islands. Private sector loans on the Leeward Islands declined by 2.0% (NAf.37.4 million) during the first quarter of 2002, compared to a 0.2% (NAf.3.6 million) decline in the first quarter of 2001. The decline in the first quarter of 2002 was due to all loan categories. Consumer loans, business loans, and mortgages decreased by 2.9% (NAf.13.8 million), 2.9% (NAf.19.7 million), and 0.5% (NAf.3.8 million), respectively.

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

	2001-I		2002-I	
Private sector loans,	1,947.3	(-0.2%)	1,868.5	(-2.0%)
of which:				
-Mortgages	742.0	(-0.1%)	736.5	(-0.5%)
-Consumer loans	483.4	(-1.5%)	465.5	(-2.9%)
-Business loans	721.9	(0.6%)	666.5	(-2.9%)

On an annual basis, private sector credit extension decreased by 4.0% (NAf.78.8 million) on the Leeward Islands. Like the first quarter, all loan categories contributed to the decline. Business loans decreased by 7.7% (NAf.55.4 million), consumer loans by 3.7% (NAf.17.9 million), and mortgages by 0.7% (NAf.5.5 million).

Table 22
Private sector loans at commercial banks on the Windward Islands as per end of period (in millions NAf. and percentages changes)

	2001-I		2002-I	
Private sector loans,	650.2	(-1.7%)	690.1	(2.3%)
of which:				
-Mortgages	292.3	(2.5%)	318.4	(2.1%)
-Consumer loans	113.0	(-14.3%)	122.5	(-14.5%)
-Business loans	244.9	(0.3%)	249.2	(13.5%)

Contrary to the Leeward Islands, private sector credit extension on the Windward Islands grew by 2.3% (NAf.15.5 million) during the first quarter of 2002, compared to a 1.7% (NAf.10.9 million) contraction in the first quarter of 2001. The expansion in the first quarter of 2002 was attributable to growth in business loans and mortgages by 13.5% (NAf.29.6 million) and 2.1% (NAf.6.7 million), respectively. The 14.5% (NAf.20.7 million) decline in consumer loans partly offset the increase in business loans and mortgages. The changes in consumer and business loans were related mainly to a reclassification of a loan to the airport of St. Maarten.

On an annual basis, private sector credit on the Windward Islands increased by 6.1% (NAf.39.9 million). Mortgages recorded the largest increase of 8.9% (NAf.26.1 million). Furthermore, consumer loans and business loans increased by 8.4% (NAf.9.5 million) and 1.8% (NAf.4.3 million), respectively.

Developments in domestic interest rates

Table 23 illustrates that the Central Bank's pledging rate decreased by 25 basis points in the first quarter of 2002, compared to the first quarter of 2001. In contrast, the marginal lending rate increased by 50 basis points, because the markup on the pledging rate had been increased from 25 basis points at the end of the first quarter of 2001 to 100 basis points as per January 1, 2002. These changes were part of the adaptations introduced in the Bank's monetary policy as per January 1, 2002.

Table 23**Developments in domestic interest rates**

	2001-1	2002-1
Central Bank	7.00%	6.75%
-Pledging rate	7.25%	7.75%
Commercial banks' borrowing rates		
-Passbook savings	3.8%	3.7%
-12-month time deposit	4.8%	5.9%
Commercial banks' lending rates		
-Mortgages	10.3%	9.9%
-Current account overdraft	9.6%	10.2%
Government bonds 5 yr., effective yield	9.0%	8.9%

During the January-March period of 2002, commercial banks' borrowing rates showed diverging developments compared to the same period in 2001. The average rate on passbook savings decreased by only 0.1 percentage point to 3.7%, while the average rate on time deposits increased by 0.9 percentage point to 5.9%.

Commercial banks' lending rates also developed divergently. The average rate of mortgages decreased by 0.4 percentage point to 9.9%, while the average rate of current account overdrafts increased by 0.6 percentage point to 10.2%. The increased domestic and international competition in the banking sector put downward pressure on the average rate on mortgages. The increase in the interest rates charged on current account overdraft facilities can be related to the commercial banks' policy to discourage the use of these facilities. Due to liquidity constraints in the private sector, the urge to draw upon these facilities increased.

Finally, the average yield on domestic government bonds decreased by 0.1 percentage point during the first quarter of 2002, compared to the same quarter in 2001. This decrease is partly the result of the introduction of auctions of government treasury paper, which promoted the functioning of market forces. The introduction of these auctions forms part of the adapted monetary policy as per January 1, 2002. The excess liquidity in the banking sector and the lifting of the ceiling on credit extension to the government started a downward pressure on the interest rates on government securities.

DEVELOPMENTS IN THE FINANCIAL SECTOR

Introduction

During the first quarter of 2002, the Bank conducted two examinations at two commercial banks operating domestically: one full-scope examination and a follow-up examination. Furthermore, the Bank revoked the license of Integra Bank N.V., an institution formerly licensed to operate as an international credit institution in the Netherlands Antilles.

Developments in the domestic banking sector

During the first quarter of 2002, total assets of the banking institutions operating in the domestic banking sector of the Netherlands Antilles contracted by NAf. 206.0 million (3.4%) to NAf. 5,767.6 million. The contraction was mainly the result of the decreases in non-interest-bearing cash and loans of NAf. 128.6 million (28.1%) and NAf. 106.9 million (3.1%), respectively.

The decrease in non-interest-bearing cash manifested itself in the decline in the balances held by the commercial banks in current account at the Bank van de Nederlandse Antillen of NAf. 56.8 million, followed by a decrease in demand balances due from foreign banks of NAf. 41.2 million. To a lesser extent, the NAf. 17.7 million decrease in demand balances due from foreign unconsolidated subsidiaries and affiliates contributed also to the overall decline.

The contraction of the loan portfolio consisted of decreases in current account overdrafts and demand loans held by local other financial institutions of NAf. 11.1 million and by both foreign and local business enterprises of NAf. 16.1 million and NAf. 31.4 million, respectively. In addition, time loans to agencies and institutions of the government and mortgage loans to foreign business enterprises decreased by NAf. 24.1 million and NAf. 16.2 million, respectively.

On the liabilities side, total deposits decreased by NAf. 236.2 million (4.7%) to NAf. 4,823.9 million. This decrease was the result of a drop in savings deposits placed by foreign individuals and time deposits placed by both resident and foreign business enterprises of, respectively, NAf. 142.9 million (7.5%) and NAf. 83.0 million (6.0%).

Borrowings reflected an increase of NAf. 36.6 million (23.0%), due to a growth in borrowings from foreign subsidiaries and affiliates.

The capitalization of the domestic banking sector strengthened slightly by NAf. 1.2 million to NAf. 489.6 million in the first quarter of 2002. The capital-to-assets-ratio amounted to 8.5% at the end of the first quarter, above the international minimal capital standard of 8%.

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

	2001-III		2001- IV		2002-I	
	NAf.	%	NAf.	%	NAf.	%
ASSETS						
Non-int.-bearing cash	443.8	8.2	457.4	7.7	328.8	5.7
Interest-bearing cash	969.9	18.0	1,494.9	25.0	1,456.3	25.2
Investments	262.4	4.9	261.9	4.4	334.9	5.8
Loans	3,423.9	63.3	3,417.8	57.2	3,310.9	57.4
Investm. unconsol. sub.	23.0	0.4	19.5	0.3	12.9	0.3
Fixed assets	167.6	3.1	162.7	2.7	163.8	2.8
Other assets	111.1	2.1	159.4	2.7	160.0	2.8
Total assets	5,401.6	100.0	5,973.6	100.0	5,767.6	100.0
LIABILITIES						
Demand deposits	1,373.4	25.4	1,606.9	26.9	1,597.4	27.7
Savings deposits	1,994.4	36.9	2,176.7	36.4	2,045.1	35.5
Time deposits	1,183.2	21.9	1,276.5	21.4	1,181.4	20.5
Total deposits	4,551.0	84.2	5,060.1	84.7	4,823.9	83.7
Borrowings	159.4	3.0	158.8	2.7	195.4	3.4
Other liabilities	244.4	4.5	266.3	4.5	258.7	4.5
Total liabilities	4,954.8	91.7	5,485.2	91.9	5,278.0	91.6
Minority interest	5.0	0.1	5.3	0.1	5.5	0.1
Subordinated debentures	6.3	0.1	6.2	0.1	6.4	0.1
General provisions	130.0	2.4	134.3	2.2	140.2	2.3
Capital & reserves	305.5	5.7	342.6	5.7	337.5	5.9
Total capital	446.8	8.3	488.4	8.2	489.6	8.5
Total liabilities and capital	5,401.6	100.0	5,973.6	100.0	5,767.6	100.0

The net operating income of the banks operating in the domestic banking sector of the Netherlands Antilles over the first quarter of 2002 amounted to NAf. 18.5 million, a decrease of 42.9% compared to the net operating income of NAf 32.4 million in the first quarter of 2001. Net interest income decreased by NAf. 11.5 million to NAf. 68.5 million (14.4%) due entirely to the decline in interest income of NAf. 15.6 million (12.4%). Total operational expenses increased by NAf. 4.8 million (5.8%) to NAf. 87.3 million compared to the first quarter of 2001. Net additions to general provisions accounted for 50% of the increase in operational expenses.

Table 25
Aggregate income statement of commercial banks operating in the domestic banking sector of the Netherlands Antilles at quarter-end (in millions NAf.).

	2001-I	2002-I
Interest income	126.2	110.6
Interest expenses	<u>(46.2)</u>	<u>(42.1)</u>
Net Interest Income	80.0	68.5
Other income	<u>34.9</u>	<u>37.3</u>
Total operational income	114.9	105.8
Salaries & other employee expenses	(45.4)	(47.2)
Occupancy expenses	(13.9)	(13.3)
Other operating expenses	(17.1)	(18.3)
Net addition to general provisions	<u>(6.1)</u>	<u>(8.5)</u>
Total operational expenses	(82.5)	(87.3)
Net operating income	32.4	18.5
Net extraordinary items	(0.0)	0.7
Applicable profit taxes	<u>(6.1)</u>	<u>(4.9)</u>
Net income after taxes	26.3	14.3

The micro-prudential indicators in table 26 provide a further indication of the performance of the commercial banks operating in the domestic banking sector of the Netherlands Antilles.

The indicators on the adequacy of the capitalization of the domestic banking sector reflect a total capital-to-total assets ratio and tier 1 capital-to-total assets ratio of, respectively, 8.7% and 6.1% at the end of the first quarter of 2002, above international capital standards. Those standards require a total capital-to-risk-weighted assets ratio of at least 8% and a minimum tier 1 capital-to-risk-weighted assets ratio of 4%. The aforementioned ratios improved slightly compared to the end of the fourth quarter of 2001. However, these ratios deteriorated somewhat compared with the third quarter of 2001. Total capital is defined as the sum of equity capital, general provisions, and subordinated debentures qualifying as secondary capital.

The ratios reflecting the level of nonperformance of the loan portfolio of banks increased indicating that the overall quality of the loan portfolio of banks deteriorated. On the other hand, provisions for loan losses as percentage of nonperforming loans decreased, which may be an indication that banks should take additional provisions to adequately provide for the credit risks inherent in their portfolio.

The annualized earning ratios indicate that the domestic banking sector will realize an acceptable return on assets of 1.3% over the year 2002. However, this ratio may be inflated somewhat considering that banks may be required to take additional provisions.

The liquidity ratios indicate that at the end of the first quarter of 2002 the Netherlands Antilles banking sector was sufficiently liquid to meet its short-term obligations and/or to invest in earning assets.

Table 26
Micro-prudential indicators of commercial banks operating in the domestic banking sector of the Netherlands Antilles at quarter-end (in percentages)

	2001-III	2001-IV	2002-I
CAPITAL ADEQUACY			
Total capital/total assets	8.9	8.2	8.7
Tier 1 capital/total assets	6.0	5.8	6.1
Tier 2 capital/total assets	2.7	2.3	2.5
Tier 3 capital/total assets	0.1	0.1	0.1
ASSET QUALITY			
Nonperforming loans/total loans	6.8	6.0	7.1
Nonperforming loans/total capital	33.8	43.4	48.4
Provisions for loan losses/ nonperforming loans	52.9	60.8	56.6
EARNINGS¹			
Gross earning assets yield	9.8	8.5	8.5
Break-even yield	3.7	3.0	3.2
Net interest margin	6.2	5.1	5.3
Return on assets	1.5	0.7	1.3
LIQUIDITY			
Total loans/total deposits	76.2	68.7	69.5
Liquidity surplus (in millions NAf.)	41.2	85.5	69.3

¹ These ratios are annualized

Developments in the international banking sector

Total assets of the international banking sector increased by NAf. 60.1 million (0.1%) to NAf. 68.2 billion in the first quarter of 2002 compared to the fourth quarter of 2001. Investments and loans increased by NAf. 1.1 billion (16.2%) and NAf. 1.4 billion (3.8%), respectively, while cash & banks decreased by NAf. 3.0 billion (20.0%).

On the liabilities side, demand deposits and savings and time deposits decreased by 3.5% and 11.4%, respectively. On the other hand, borrowed funds increased by 2.9%. Total liabilities remained almost unchanged at NAf. 61.3 billion.

The total capital-to-total assets ratio of the international banking sector increased marginally by 0.1 percentage point to 10.1% at the end of the first quarter of 2002.

Table 27**Aggregate balance sheet of commercial banks operating in the international banking sector of the Netherlands Antilles at quarter-end (in millions NAf.).**

	2001-IV		2002-I	
	NAf.	%	NAf.	%
ASSETS				
Cash & banks	15,166.8	22.3	12,139.5	17.8
Investments	6,658.3	9.8	7,736.3	11.4
Loans	38,056.0	55.9	39,501.4	58.0
Fixed & other assets	8,252.0	12.0	8,816.01	2.8
Total assets	68,133.1	100.0	68,193.2	100.0
LIABILITIES				
Demand deposits	6,370.4	9.3	6,145.2	9.0
Savings & time deposits	13,211.0	19.4	11,699.4	17.2
Borrowed funds	40,692.0	59.7	41,856.9	61.3
Other liabilities	1,055.8	1.5	1,618.6	2.4
Total liabilities	61,329.2	90.0	61,320.1	89.9
Capital	6,803.9	10.0	6,873.1	10.1
Total liabilities & capital	68,133.1	100.0	68,193.2	100.0

Net operating income and the net income after taxes of the banks operating in the international banking sector of the Netherlands Antilles over the first quarter of 2002 amounted to NAf. 100.3 million and NAf. 90.5 million, respectively, compared to NAf. 135.4 million and NAf. 130.4 million over the first quarter of 2001. Net interest income increased by NAf. 20.9 million whereas other income decreased by NAf. 102.4 million, resulting in a decrease in total operational income of NAf. 81.5 million. The decrease in total operational income was offset partly by the decrease in total operational expenses of NAf. 46.4 million (28.8%).

Table 28
Aggregate income statement of commercial banks
operating in the international banking sector of the
Netherlands Antilles at quarter-end (in millions NAf.).

	2001-I	2002-I
Interest income	776.3	535.4
Interest expenses	<u>(768.0)</u>	<u>(506.2)</u>
Net interest income	8.3	29.2
Other income	<u>288.3</u>	<u>185.9</u>
Total operational income	296.6	215.1
Salaries & other employee expenses	(24.1)	(26.1)
Occupancy expenses	(4.2)	(4.8)
Other operating expenses	(59.0)	(42.9)
Net addition to general provisions	<u>(73.9)</u>	<u>(41.0)</u>
Total operational expenses	(161.2)	(114.8)
Net operating income	135.4	100.3
Net extraordinary items	0.0	(3.3)
Applicable profit taxes	<u>(5.0)</u>	<u>(6.5)</u>
Net income after taxes	130.4	90.5