



QUARTERLY BULLETIN 2002-3

Bank van de Nederlandse Antillen

REPORT OF THE PRESIDENT

The economy of the Netherlands Antilles continued to perform weakly in the third quarter of 2002, reflected by an estimated contraction of 0.3% in real Gross Domestic Product. This contraction was the result of muted domestic demand. Producer and consumer spending remained sluggish because of a lack of confidence related to the slow progress in the design of a program by the new government and because of uncertain job and income prospects. Weak private spending was mitigated by an expansion in government spending supported by the ample availability of domestic financing. In contrast, external demand grew, primarily as a result of the performance of the international financial and business services sector and the tourism sector. In addition, the inflation rate continued to decelerate, mainly because of declines in automobile prices and airfares, and lower inflation of our main trading partners.

Our export sector demonstrated a satisfactory performance in the third quarter of 2002, because of the growth in our main generators of foreign exchange -- tourism and international financial and business services. The tourism sector is gradually recovering from the aftermath of the terrorist attacks in the United States on September 11, 2001. All islands recorded a growth in both stay-over and cruise tourism. The international financial and business services sector continued to show a marked expansion in activities, reflected in both operational income earned and profit tax transferred to the government. The performance of this sector improved considerably after the implementation of the new fiscal framework (NFR) and the new tax arrangement for the Kingdom (BRK) on January 1, 2002. Furthermore, the free zone performed well after several quarters with mixed developments. Both re-exports and the number of visits expanded markedly.

Developments in the transportation sector were mixed. The harbor sector in Curacao recorded increases in the number of ships, cargo handled, and bunker sales of fuel. In contrast, bunker sales of water declined. The harbor of Bonaire also registered an increase in the number of ships. The increase in the number of ships in both harbors was attributable mainly to the ferry connection between both islands. The airport of Curacao recorded a decline in passengers handled, while Bonaire's airport registered a marked increase. This development was accounted for primarily by the rerouting of the stopover on KLM's Amsterdam-Quito flight from Curacao to Bonaire beginning June 2002. In addition, ship repair activities decreased, reflected by a decline in the number of man-hours sold. The oil refinery in Curacao recorded a decline in production but an increase in operational expenditures, the latter indicating a larger contribution to our economy. Moreover, oil storage and transshipment activities deteriorated. Finally, activities in Curacao's construction sector slowed significantly, as measured by both the value of finished projects and the value of licenses granted for new projects. In contrast, construction activities in Bonaire increased significantly.

Partly as a result of our improved export performance, the deficit on the current account of the balance of payments decreased. Other factors contributing to the lower deficit were an increase in transfers from abroad by individuals and lower merchandise imports, particularly by the free zone. In contrast, the income balance deteriorated, due mainly to a decline in portfolio investment income. The capital and financial accounts also improved. The improvement in the capital account was related to an increase in development aid received, while the improvement in the financial account resulted primarily from an increase in foreign assets. The increase in foreign assets was attributable mainly to more portfolio and other investments abroad. These developments resulted in an improvement in our balance payments and, hence, a further increase in international reserves.

The deficit of the General Government on a cash basis deteriorated considerably in the third quarter of 2002 compared to the same quarter of 2001. This deterioration was attributable to an increase in expenditures and a decline in revenues. Current expenditures accounted entirely for the increase in total expenditures, particularly wages and salaries, goods and services, and interest payments. The increase in wages and salaries was related to better compliance with payments to the civil servants pension fund, while the higher interest expenses were caused by an increase in treasury bills issued. In general, the higher cash expenditures were facilitated by the improved access of the government to domestic finance in 2002 compared to 2001, related to the attractive yield on local government paper vis-a-vis alternatives abroad. The decline in revenues occurred primarily in taxes on income and profits, attributable to the waning effect of the special actions of the tax authorities to improve compliance that started in the third quarter of 2001.

The rapid accumulation of debt that accompanies the sharp increase in net borrowing by the government is viewed with increasing concern by the Bank. It not only contributes to a level of debt unsustainable for a small open economy like ours, but also results in an increasing share of interest expenses in total expenditures. As a consequence, fewer funds can be allocated to important policy areas such as education, reducing crime, alleviating poverty, and improving infrastructure. In light of this increasing debt, new efforts at attaining balanced budgets and a credible debt relief strategy are urgently needed to achieve a lasting improvement of our public finances. The Bank welcomes the government's initiative to install a committee to come up with recommendations on how to curb the further increase in outstanding domestic debt and prepare proposals for debt relief.

The monetary aggregates expanded further in the third 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 the private sector. The expansionary impact of the government sector was due mainly to the central government, related to an increase in securities in commercial bank portfolios and a withdrawal of deposits at the Bank. The expansion in the private sector was accounted for primarily by the growth in loans extended by the commercial banks. Net foreign assets increased as a result of the balance-of-payments surplus.

In light of our continuing strong international reserves position, the excess liquidity in the banking sector, and the further decline in foreign interest rates, the Bank reduced its official lending rate (i.e., the pledging rate) further from 5.75% to 5.0% on July 4, 2002, and subsequently to 4.0% on August 20, 3.5% on November 4, and 3.0% on January 13, 2003. The lower official rate better reflects the demand and supply of funds in the domestic money market. In addition, the Bank introduced some refinements in its CD auctions to increase the attractiveness of CDs to the commercial banks, effective January 15, 2003. The refinements included more CD maturities and subscription at smaller interest multiples. Finally, the Bank increased the reserve requirement from 9.0% to 9.5% as of January 16, 2003, because the credit growth of commercial banks continues to deviate from the estimated growth rate of the economy. If left unchecked, this development ultimately will erode our foreign-exchange reserves position.

The recovery of our economy has yet to gain momentum. Although external factors, such as the aftermath of the September 11 events and the slowing world economy, are partly to blame, the main causes are internal. The long formation period of a new government and the lack of a government program prolonged a climate of uncertainty and lack of confidence. Therefore, the Bank welcomes the recent conclusion of the program, which supports the further restructuring of government

finances, structural reforms, a growth strategy, and a social program. Now, the authorities have to act swiftly to translate these policy intentions into concrete actions tied to quantitative and qualitative benchmarks to measure progress in their implementation. Thus, underpinning their commitment to the full and timely implementation of the program will gradually restore confidence. This is the best approach to promote a sustainable economic recovery, create much-needed jobs, and improve living conditions in our country.

E.D. Tromp
President

REAL SECTOR AND INTERNATIONAL DEVELOPMENTS

General economic developments

Through the September quarter of 2002, the global economy performed relatively well, as the major industrialized economies expanded. Amid the uncertainties of plunging stock markets and a possible war with Iraq, the economy in the United States showed growth in the third quarter. Moreover, the economies of Japan and some of the South American countries grew. Meanwhile, the Antillean economy withered by 0.3%¹ during this period, compared to a decline of 1.5% in the same quarter in 2001. The weak economy was accompanied by a low inflation of 0.3% and a frail job market.

¹Estimate by the BNA.

National production and spending

In the third quarter of 2002, real gross domestic product in the Netherlands Antilles declined by 0.3%, up from the fall of 1.5% in the corresponding period of 2001. The economy remained subdued in spite of a growth in the tourism, utilities, trade, and financial sectors. Although some signs of economic improvement were noted, domestic demand remained muted, because of the weak job market and lack of confidence. These factors have limited spending and investment. However, government consumption expanded by 19.7%, aided partly by back payments of civil servants pension premiums. Meanwhile, government investment shrank by 56.3% during this period. Annual inflation eased to 0.3% in the September quarter of 2002, due largely to falls in automobile prices and airfares.

Inflation

Consumer prices in the Netherlands Antilles continued to decelerate in the September period of 2002, despite a gain in world oil prices, spurred in part by growing anxiety over a possible US invasion of Iraq. Annual inflation dwindled to 0.3% from 2.2% in the third quarter of 2001 due to: (1) declines in automobile prices and airfares; and (2) lower inflation of our major trading partners, the United States and the Netherlands. In the months July-September 2002, Curacao had the lowest annual inflation of 0.2%, following a surge of 2.6% in the same quarter of 2001. Bonaire and St. Maarten recorded an annual inflation of 0.3% and 0.8%, respectively, compared to 1.4% and 0.5% in the third quarter of 2001.

Price analysis on a quarterly basis indicates that Curacao's inflation decelerated to 1.2% in the third quarter of 2002 from 1.5% in the second quarter. A price decline in some pharmaceutical products accounted for the deflation in the health sector (0.8%). Furthermore, decreases in the beverages and clothing components led to a deflation in the items "beverages & tobacco" (0.4%) and "clothing & footwear" (0.2%). Meanwhile, a price hike in utility prices led to an inflation of 3.6% in "housing."

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

	Curacao	Bonaire	St. Maarten
Food	0.5	-0.1	1.0
Beverages & tobacco	-0.4	0.1	-0.2
Clothing & footwear	-0.2	0.0	-0.2
Housing	3.6	0.7	0.1
Housekeeping & furnishings	0.4	-1.1	-0.9
Health	-0.8	0.0	0.1
Transport & communication	0.4	0.0	0.6
Recreation & education	0.1	0.0	-0.1
Other	0.4	-1.0	0.0
General inflation rate	1.2	0.0	0.2

Through the months July-September 2002, Bonaire had zero inflation, following a 0.1% deflation in the second quarter. Most categories showed no price changes, while deflation occurred in the sectors "housekeeping & furnishings" (1.1%), "other" (1.0%), and "food" (0.1%). Cheaper meat & seafood products and toiletries influenced the fall in the sectors "food" and "other." Similar to Curacao, the highest inflation occurred in "housing" (0.7%), related to a price surge in propane gas.

St. Maarten's third-quarter inflation accelerated to 0.2%, up from 0.1% in the second quarter. Price hikes of 1.0% and 0.6% in the categories "food" and "transport & communication" led to the third-quarter inflation. These increases were attributed to costlier fresh produce and car parts. In contrast, low-priced household articles limited price pressures in "housekeeping & furnishings" (-0.9%). Moreover, deflation of 0.2% in both "beverages & tobacco" and "clothing & footwear" was caused by a price slide in beverages and footwear. The next largest decline was in "recreation & education" (0.1%), a result of lower-priced recreational appliances.

Labor market

Through the months July-September 2002, the number of people collecting welfare payments as well as welfare cancellations in Curacao shrank. Fewer people collected welfare, which was due to the following reasons: (1) some of the 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 application gets thoroughly scrutinized. Compared to the third quarter of 2001, the number of cancellations registered a large decline in the same period of 2002, stemming from last year's crackdown on ineligible welfare collectors.

Table 2
Development in welfare payments in Curacao

	2001-III	2002-III
Number of requests	181	51
Number of cancellations	410	164

Source: Dienst Werk en Inkomen.

Developments by sector

Mining

In 2002's third quarter, the salt industry in Bonaire reported a glum picture. Both salt exports and production continued to dwindle by 3.0% and 6.7%, respectively, following decreases of 39.0% and 6.4% in the third quarter of 2001.

Industry

In the September quarter of 2002, developments in the oil refinery "Isla" were sluggish -- oil refining shrank by 10.9%, as opposed to the 9.8% growth in the third quarter of 2001. In contrast, total operational costs were up by 10.2%, after having declined by 6.8% in the months July-September 2001. The increase in operational costs was due largely to gains in the refinery's own use of fuel (12.1%) and other expenses (37.6%).

Curacao's ship repair sector showed unfavorable results in the three months ending September 2002 --- the number of man-hours sold tumbled by 39.7%, a deterioration from the jump of 87.1% in the third quarter of 2001. In addition, the number of ships repaired fell by 9.4%, compared to the drop of 0.7% in the third quarter of 2001. The receipts from ship repair declined by NAf. 4.9 million (30.2%) to NAf. 11.3 million in the third quarter of 2002, compared to the third quarter of 2001.

Construction

Third-quarter activities in Curacao's construction industry were in a slump, as the number of finished projects plummeted by 50.4 %, mostly the result of fewer residential developments. Furthermore, the value of construction permits plunged by 48.1%, due largely to fewer impending nonresidential developments.

In contrast to Curacao, the total value of construction projects in Bonaire soared more than two-fold in the September quarter of 2002, an improvement from the 66.9% drop in the same period of 2001.

Utilities

Production in the utilities sector expanded in the Netherlands Antilles, reflected by a surge in water and electricity output through the months July-September 2002. Water production rose by 4.5%, in contrast to a fall of 6.7% in the third quarter of 2001. Gains in water output were registered on all

three islands: Curacao (5.0%), Bonaire (5.7%), and St. Maarten (2.0%).

Electricity production in the Netherlands Antilles mounted by 5.0%, measured against a slide of 7.5% in the September period of 2001. A breakdown by islands shows that increases in Curacao (5.3%) and the Windward Islands (5.2%) were mainly responsible for the higher electricity production in the third quarter. Bonaire registered only a marginal rise of 0.7%.

Trade

Results in Curacao's free zone sector were positive in the third quarter of 2002, as re-exports expanded by NAf.23.4 million (34.7%) to NAf.90.8 million, compared to the same period of 2001. The number of free zone visitors soared by 70.5%, contrasting with the third-quarter decline of 17.5% in 2001. Growth accelerated mostly because of more visitors from the main markets, such as Jamaica, the Dominican Republic, Haiti, and Trinidad. The launching of the Air Jamaica flights in the fourth quarter of 2001 may be responsible for the jump in the number of Jamaican visitors to the free zone.

Tourism

Tourism in the Netherlands Antilles is rebounding, as both stay-over and cruise arrivals experienced a growth in the period July-September 2002. Stay-over arrivals were up 2.7%, compared with a drop of 7.3% in the same period in 2001. Cruise tourism also expanded as the number of visitors went up by 67.9%, an improvement from the 12.1% fall in the third quarter of 2001. This buoyant picture indicates that tourism is recovering from the September 11 terrorist attacks, which particularly affected St. Maarten. Total earnings from tourism advanced by NAf.20.9 million (7.6%) to NAf.295.4 million, compared to the third quarter of 2001.

In 2002's third quarter, stay-over tourism in St. Maarten grew by 1.3%, as opposed to a drop of 12.8% in the corresponding period of 2001. This growth was driven mostly by an increase in the number of visitors from the United States (15.2%) and the Caribbean (12.5%). Falls in the European (13.7%) and South American (29.3%) markets were offset by the increase in visitors from the North American and the Caribbean markets. Furthermore, cruise tourism soared by 74.5%, contrasting with the third-quarter slide of 14.2% in 2001.

In contrast to the other tourist destinations, Curacao's tourism industry has been expanding in all the quarters of 2002. Through the months July-September 2002, Curacao's tourism reported a surge of 3.6% in stay-over arrivals, following a rise of 2.0% in the same quarter of 2001. Gains of visitors from the North American (22.6%) and the Caribbean (38.5%) markets were largely responsible for the third-quarter growth. Meanwhile, the European and South American markets shrank, caused mainly by fewer Dutch (11.3%) and Venezuelan (6.1%) travelers. In spite of the favorable stay-over results, the hotel occupancy rate was down by 14 percentage points to 54%. The lower hotel occupancy rate was led by: (1) the surge in the number of hotel rooms; and (2) stay-over visitors moving from the larger hotels to other commercial accommodation providers. Cruise ship arrivals also soared by 38.2%, an improvement from the advance of 1.8% in the September period of 2001.

Table 3
Developments in stay-over tourism of Curacao, St. Maarten, and Bonaire (% change)

	Curacao		St. Maarten		Bonaire	
	2001-III	2002-III	2001-III	2002-III	2001-III	2002-III
North America, of which:	1.9	22.6	-6.2	11.4	3.8	-6.3
-U.S.A	2.5	23.5	-2.5	15.2	3.7	-6.8
-Canada	-12.4	-5.7	-30.1	-22.0	16.2	27.9
Europe, of which:	15.6	-13.6	-23.4	-13.7	-6.7	24.9
-Germany	-18.5	-0.3	-	-	6.9	14.3
-The Netherlands	11.0	-11.3	-2.0	-14.5	-14.6	24.2
-France	-	-	-28.8	-10.4	0.0	-42.9
South & Central America, of which:	-7.7	-3.2	-31.6	-29.3	-20.2	-12.2
-Argentina	10.8	-40.2	-48.9	-87.5	57.1	-63.6
-Brazil	82.6	-31.3	-6.7	-29.1	-32.4	2.1
-Colombia	24.6	22.4	-	-	-26.7	33.0
-Venezuela	-11.2	-6.1	-35.8	-32.6	-23.8	-35.4
Caribbean, of which:	-5.9	38.5	0.8	12.5	-26.0	134.0
-Dominican Rep.	3.1	29.5	1.3	-20.1	-47.5	178.1
-Haiti	-11.2	8.7	47.6	-35.3	-	-
-Jamaica	-4.3	153.9	-	-	81.8	40.0
-Trinidad & Tobago	20.9	27.0	-11.6	21.6	-68.8	300.0
-Aruba	-25.8	22.3	-	-	-29.9	139.4
Rest of the world	12.6	-21.6	-11.2	-2.6	56.4	206.6
Total	2.0	3.6	-12.8	1.3	-3.4	8.6

Developments in Bonaire's stay-over tourism were up by 8.6%, after the decline of 3.4% in the third quarter of 2001. This favorable performance was mainly the result of an advance in one of Bonaire's main markets: the Netherlands (24.2%). Similar to St. Maarten and Curacao, the Caribbean market also showed an encouraging growth, primarily because of more visitors from Aruba.

Transportation

Activities in Curacao's airport offered a mixed picture during the three months ending September 2002. Total passenger traffic sagged by 10.5%, owing to fewer transit passengers (43.2%). The decline in the flow of transit passengers was associated with the rerouting of the stopover on KLM's

Amsterdam-Quito flight from Curacao to Bonaire in June. However, the number of passenger arrivals and departures swelled by 3.1% and 6.1%, respectively. Beside the dismal passenger traffic performance, the number of commercial landings withered by 9.1%, in comparison to the 5.1% drop in the third quarter of 2001.

Unlike Curacao, Bonaire's airport activities were encouraging during the third quarter of 2002, as total passenger traffic jumped by 57.5%, contrasting with the 13.4% decrease in the corresponding period of 2001. This outcome was caused largely by the marked increase in the number of transit passengers, stemming from the mentioned rerouting of the stopover on the daily KLM flight between Amsterdam-Quito from Curacao to Bonaire. Furthermore, the flow of passenger arrivals and departures expanded by 6.0% and 6.1%, respectively.

During the September quarter of 2002, oil transshipment in the Netherlands Antilles fell by 20.4%, due largely to the decrease in Bonaire's transshipment activities (78.6%). Oil storage in the Netherlands Antilles plummeted by 44.1%, as opposed to a gain of 24.4% in the third quarter of 2001.

Developments in Curacao's harbor industry were buoyant through the months July-September 2002 --- the number of ships piloted into the harbor climbed by 17.4%, following a surge of 1.7% in the corresponding period of 2001. Similar to the previous quarters, this third-quarter growth was caused by more than a two-fold increase in the number of other vessels, owing to more inter-island ferry transfers between Bonaire and Curacao. The increase in local movements contributed to the slight rise in total cargo activities (0.2%) in Curacao's harbor. In the September period of 2002, bunker sales of fuel mounted by 15.3%, while bunker sales of water declined by 29.3%.

More activities also were reported at Bonaire's harbor in the third quarter of 2002. The number of ships that entered the harbor increased by 37.5%, compared to an advance of 3.5% in the September quarter of 2001. As in Curacao, this buoyant result came from more inter-island ferry transfers of "the Chogogo" between Bonaire and Curacao.

International economic developments

The United States

Amid a stagnating job market and stock market turbulence, the US economy expanded in the three months ending September 2002, as real GDP grew by 3.3%, up from the 0.4% decline in the same quarter of 2001. The third-quarter growth was driven by increases in consumer spending (4.2%) and government spending (5.0%), the latter mostly from national defense (10.1%). In spite of a rising jobless rate (5.6%), consumer spending rose, abetted by higher wages and salaries, and incentives offered by businesses. Companies were able to pay higher salaries, due to the increased labor productivity, which boosted their profits. US worker productivity gained by 5.8%, compared to 0.5% in the third quarter of 2001. In the wake of corporate scandals, the stock market slide, and the fears of war with Iraq, companies have become more conscious about cutting costs. Companies prefer to raise the number of hours worked instead of hiring more full-time workers. However, the unit labor costs fell by 2.2%, in contrast to the 1.5% surge in the July-September period of 2001.

In spite of surges in the cost of energy and medical care, inflation was kept in check at 1.5%, aided by higher productivity and competition from imported goods. This subdued inflation allowed the Federal Reserve to hold the overnight rate at a 41-year low of 1.75%. The US current account deficit worsened by 39.1% to \$127 billion as the growth of imports (6.7%) outweighed that of exports (2.8%). Retailers boosted their inventory purchases earlier this year in anticipation of the West Coast ports strikes.

Table 4
Selected indicators of various countries (% change)

	United States		Netherlands		Venezuela		Japan	
	01-III	02-III	01-III	02-III	01-III	02-III	01-III	02-III
Real GDP	-0.4	3.3	1.1	0.3	3.3	-5.5	-0.7	1.5
Consumer prices (%)	2.6	1.5	4.7	3.4	12.3	28.2	-0.8	-0.7
Unemployment rate (%)	5.0	5.6	2.0	2.4	13.5*	17.2*	5.3	5.4
Current account balance (bln \$/mln ¥/mln \$/bln I)	-95	-127	2,663	3,522	876	3,817	1,256	1,171

Source: Bloomberg/Central Bureau of Statistics

*September figures

European Union

The economy of the Netherlands grew marginally by 0.3% in the September period of 2002, down from 1.1% in the same quarter of 2001. The deceleration in growth was the result of declines in export of goods & services (2.5%) and business investment (4.8%). However, the lower exports and private investment were offset partially by increases in public consumption (2.4%), public investment (1.2%), and private consumption (1.4%). The first estimates released by Eurostat indicated that the Euro area's economy drifted up by 0.8% in the third quarter of 2002, compared to 1.3% in 2001. The lower third-quarter growth was led by falls in private consumption and gross fixed investment. Government consumption accelerated with 0.2 percentage point in the third quarter of 2002.

The external balance of the Netherlands improved as imports declined faster than exports. According to the World Economic Forum, the demand for exports dropped due to the deterioration in competitive position, a result of higher wages. Exports in the Euro area were up by 2.5%, in comparison to 1.4% in the third quarter of 2001. Imports surged by 1.5%, compared to a decrease of 0.3% in the third quarter of last year.

Concomitantly with the economic downturn in the Netherlands, the unemployment rate increased from 2.0% in the third quarter of 2001 to 2.4% in the same period of 2002. In general, the labor force registered a growth in the September quarter of 2002, stemming from a job increase in the

government health and care sector. However, a decrease in jobs was noticeable in the manufacturing, financial and business services, construction, transportation and communication sectors. An analysis by the number of hours worked showed that the number of full-time jobs remained unchanged.

Inflation in the Netherlands decelerated from 4.7% in the months July-September 2001 to 3.4% in the third quarter of 2002. In addition, inflation in the Euro area, as measured by the harmonized consumer price, was down slightly to 2.1% in the third quarter of 2002 from 2.2% in the corresponding period of 2001.

Latin America

Brazil, the largest South American economy, grew by 2.4% during the months July-September 2002, fueled by an improved export sector. The fear that a leftist candidate would win the presidential election in combination with the concern about a default on the \$300 billion debt has caused the currency to fluctuate widely since March 2002. By September, the "real" had plunged by more than 60 percent, containing the slide in exports, while curbing the demand for imports. Exports fell (9.0%), but were offset by a decline in imports (23.6%), improving Brazil's current account balance by 2.3% to \$1,221 million in the third quarter of 2002. However, the slump in the "real" drove up the costs of almost all products from cooking gas and food to appliances, causing inflation to surge to 7.9% in the July-September period of 2002. The uncertainties surrounding the election also raised the third-quarter jobless rate to 7.5% from 6.2% in the September quarter of 2001.

Real GDP of Venezuela continued to decline by 5.5% in the third quarter of 2002, a deterioration from the growth of 3.3% in the third quarter of 2001. Consumer and producer confidence remained low, as tensions rose between pro-president Chavez activists and his opponents. Since the devaluation of the Bolivar in February 2002, inflation (28.2%) and the demand for dollars continued to increase. To support the Bolivar and curb inflation, the central bank intervened by raising the discount rate.

The economic slowdown was accompanied by a rising unemployment rate. The jobless rate in Venezuela rose to 17.2% in September 2002, up from 16.2% in August. During the September quarter of 2002, the current account surplus widened to \$3.8 billion, an improvement from the \$0.9 billion in the third quarter of 2001.

Japan

In 2002's third quarter, the Japanese economy quickened by 1.5%, led by increases in overall household spending (5.4%) and export of goods (6.6%). In spite of a decline in household income of salaried workers (0.7%) and a stagnant labor market, consumers drew on their savings. Consumers spent more on transportation, telecommunications, clothing, and entertainment, encouraged perhaps by the signs of economic recovery and the warm weather.

In the midst of near-record unemployment (5.4%), companies kept their prices low to encourage wary shoppers to spend. The falling prices have been eroding corporate earnings and lowering home values, making it difficult for banks to write off the nonperforming loans. The government is pushing to clean up the bad debts, which will liquidate many unprofitable companies, stoking unemployment. Deflation continued to plague the economy, as third-quarter deflation remained steady at 0.7%, compared to -0.8% in the same period in 2001.

Japan's exports and imports expanded by 6.6% and 8.6%, respectively, in the September quarter of 2002. However, the current account surplus narrowed by 6.8% to ¥1,170.5 billion owing to a worsening services account. In an attempt to rescue the country's beleaguered financial system, the Bank of Japan announced a plan in September to buy some of the \$200 billion of shares held by the banks to reduce their losses. The financial crises deepened when a government auction failed to attract enough bidders for the 10-year bonds issue in the same month.

PUBLIC FINANCE

General developments in the public sector

During the third quarter of 2002, the General Government registered a deficit on a cash basis of NAF.58.2 million, compared to NAF.6.2 million in the third quarter of 2001. The increase in expenditures of NAF.32.2 million (10.5%) combined with a drop of NAF.19.9 million (6.6%) in revenues contributed to the widening of the deficit. The higher cash expenditures in the third quarter of 2002 were facilitated by the improved access of the government to domestic finance compared to the third quarter of 2001. This improved access was related to the attractive yield on local government securities compared to alternatives abroad.

The surge in expenditures was attributable to an increase of NAF.37.3 million (12.6%) in current expenditures as capital expenditures dropped by NAF.5.2 million (50.7%). The largest increases in current expenditures were registered in wages and salaries, goods and services, and interest payments of NAF.19.8 million, NAF.14.5 million, and NAF.11.9 million, respectively. In addition, an increase of NAF.4.4 million was registered in subsidies. Transfers, on the other hand, dropped by NAF.13.3 million (18.1%).

The drop in revenues was attributable to both tax and nontax revenues, while capital revenues and grants increased. Tax revenues dropped by NAF.20.1 million (7.1%) due to decreases of NAF.27.3 million (17.8%) in taxes on income and profits, NAF.1.6 million in taxes on international trade and transactions, and NAF.1.0 million (52.6%) in other taxes. These decreases were mitigated by increased revenues collected from taxes on goods and services and taxes on property of NAF.8.9 million (9.9%) and NAF.0.8 million (11.1%), respectively. Nontax revenues dropped by NAF.2.3 million (14.2%). Finally, capital revenues and grants increased by NAF.1.8 million and NAF.0.7 million (58.3%), respectively.

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

	2001-III	2002-III	Change	
REVENUES	301.0	281.1	-19.9	-6.6%
Tax revenues	283.4	263.3	-20.1	-7.1%
Nontax revenues	16.1	13.9	-2.3	-14.2%
Capital revenues	0.3	2.1	1.8	705.1%
Grants	1.2	1.9	0.7	58.3%
EXPENDITURES	307.1	339.3	32.2	10.5%
Current expenditures	297.0	334.3	37.3	12.6%
Capital expenditures	10.2	5.0	-5.2	-50.7%
BALANCE	-6.2	-58.2	-52.0	842.9%
% of GDP	-0.6%	-5.2%		

Operations of the Central Government

The Central Government registered a cash deficit of NAf.30.9 million in the third quarter of 2002, a deterioration of NAf.16.9 million compared to the third quarter of 2001. The deterioration of the cash balance was attributable to a NAf.21.6 million (14.6%) increase in expenditures, which was offset partly by a NAf.4.7 million (3.5%) increase in revenues.

The increase in total expenditures was the result of an increase of NAf.28.1 million (20.1%) in current expenditures and a drop of NAf.6.5 million (77.4%) in capital expenditures. All expenditures categories contributed to the increase in current expenditures. The largest increase, NAf.14.3 million (26.8%), occurred in transfers. This increase was due mainly to NAf.16.5 million (42.2%) more in transfers by the Central Government to the island governments related to revenue-sharing agreements. In contrast, transfers to households declined by NAf.4.5 million (46.4%) due to the phasing-out of severance payments to laid-off personnel.

Subsidies increased by NAf.2.2 million, which was related to payments for the layoff of personnel at Air ALM (NAf.2.0 million) and liquidity support for Winair, both government-owned airlines.

The NAf.4.6 million (29.5%) increase in interest payments can be explained by an increase of NAf.5.7 million in interest paid on government bonds. Interest paid on treasury bills and foreign interest payments dropped by NAf.0.5 million and NAf.0.7 million, respectively.

Total outlays for wages and salaries increased by NAf2.2 million (4.2%). The item wages rose by NAf.2.7 million (6.2%), caused by increases in wage-related allowances (NAf.1.0 million), medical expenses (NAf.1.0 million), and overtime payments (NAf.0.7 million). In contrast, social security contributions and pension contributions to the civil servants pension fund APNA dropped slightly by NAf.0.3 million and NAf.0.2 million, respectively. Finally, outlays for goods and services expanded by NAf.4.8 million (27.0%).

Table 6

Operations of the Central Government (in millions NAf.)

	2001-III	2002-III	Change	
REVENUES	134.1	138.8	4.7	3.5%
Tax revenues,	120.5	127.4	6.9	5.7%
of which:				
-Excises	27.2	27.4	0.2	0.7%
-Import duties	30.7	29.3	-1.4	-4.6%
-Property transfer tax	2.5	4.5	2.0	80.0%
-Turnover tax,	56.3	61.4	5.1	9.1%
of which:				
Curacao and Bonaire	46.5	51.6	5.1	11.0%
St. Maarten, Saba and				
St. Eustatius	9.8	9.8	-	-
-Gambling and other licenses	1.6	3.8	2.2	137.5%
-Stamp duties	1.9	0.9	-1.0	-52.6%

Nontax revenues,	12.4	9.5	-2.9	-23.4%
of which:				
-Entrepreneurial and property income	9.3	3.3	-6.0	-64.5%
-Fees, charges, and sales	2.9	6.1	3.2	110.3%
-Other nontax revenues	0.2	0.1	-0.1	-50.0%
Capital revenues	0.0	0.0	-	-
Grants	1.2	1.9	0.7	58.3%
EXPENDITURES	148.1	169.7	21.6	14.6%
Current expenditures,	139.7	167.8	28.1	20.1%
of which:				
-Wages and salaries	52.9	55.1	2.2	4.2%
Wages	43.6	46.3	2.7	6.2%
Social security contributions	2.1	1.9	-0.2	-9.5%
Pension premiums	7.2	6.9	-0.3	-4.2%
-Goods and services	17.8	22.6	4.8	27.0%
-Interest payments	15.6	20.2	4.6	29.5%
-Subsidies to public corp.	0.0	2.2	2.2	-
-Transfers	53.4	67.7	14.3	26.8%
Other levels of government	39.1	55.6	16.5	42.2%
Households	9.7	5.2	-4.5	-46.4%
Nonprofit institutions and abroad	4.6	6.9	2.3	50.0%
Capital expenditures,	8.4	1.9	-6.5	-77.4%
of which:				
-Investments	10.1	2.1	-8.0	-79.2%
-Net lending	-1.7	-0.2	1.5	-88.2%
BALANCE	-14.0	-30.9	-16.9	120.7%

Capital expenditures decreased by NAf.6.5 million (77.4%), attributable to a drop of NAf.8.0 million in investment outlays and an increase of NAf.1.5 million in net lending. The drop in investments can be explained by the acquisition of a new office building for the Department of Finance in the third quarter of 2001 (NAf.7.6 million).

Tax revenues increased by NAf.6.9 million (5.7%), mostly the result of an increase of NAf.5.1 million (9.1%) in turnover tax receipts. The increase in the turnover tax was accounted for entirely by Curacao and Bonaire as receipts collected in St. Maarten, Saba, and St. Eustatius remained unchanged. Furthermore, revenues from gambling and other licenses and the property transfer tax increased by NAf.2.2 million (137.5%) and NAf.2.0 million (80.0%), respectively. A transfer from the Bureau of Telecommunication and Post to the government, related to the partial settlement of license fees for the year 2001, contributed primarily to the increase in gambling and other licenses.

In contrast, import duties and stamp duties dropped by NAf.1.4 million (4.6%) and NAf.1.0 million (52.6%), respectively.

Nontax revenues dropped by NAf.2.9 million (23.4%) in the third quarter of 2002, due almost entirely to a drop of NAf.6.0 million (64.5%) in entrepreneurial and property income related to lower transfers to the government of the license fee collected by the Central Bank (NAf.7.4 million). Proceeds from fees, charges and sales, on the other hand, more than doubled. Finally, grants increased by NAf.0.7 million (58.3%), while no capital revenues were registered.

Table 7
Changes in the outstanding balances of the Central Government
(in millions NAf.)

	2001-III	2002-III
FISCAL BALANCE	-14.0	-30.9
MONETARY FINANCING,	-6.9	42.2
of which:		
Central Bank	-0.4	24.0
Commercial banks	-6.9	18.5
Coins and notes	0.4	-0.3
NONMONETARY FINANCING,	20.9	-11.3
of which:		
Government securities with the public	-5.1	-0.7
Other	26.0	-10.6

The Central Government financed its cash deficit in the third quarter of 2002 entirely monetarily. The monetary financing was the result of a draw down on deposits at the Central Bank (NAf.24.0 million) and an increase in net claims by the commercial banks (NAf.18.5 million). The latter was the result of a net purchase of government securities (NAf.26.2 million), mitigated by an increase in deposits (NAf.7.7 million).

Operations of the Island Government of Curacao

The Island Government of Curacao registered a cash deficit of NAf.27.3 million in the third quarter of 2002, a deterioration of NAf.35.2 million compared to the surplus in the third quarter of 2001. This development was the result of an increase of NAf.24.5 million (13.1%) in expenditures and a drop of NAf.10.6 million (5.5%) in revenues.

The surge in expenditures was caused by increases of NAf.23.2 million (12.5%) in current expenditures and NAf.1.3 million (75.2%) in capital expenditures. In current expenditures, wages and salaries increased by NAf.17.6 million (29.7%), caused mainly by more pension contributions to the civil servants pension fund APNA (NAf.15.3 million). Moreover, the wage component increased by NAf.2.3 million (4.3%).

Purchases of goods and services and interest payments increased by NAf.9.7 million (22.3%) and NAf.7.3 million (34.4%), respectively. The increase in interest payments was caused by an increase of NAf.3.0 million (14.2%) in the domestic component and of NAf.4.3 million in the foreign component. The latter is part of the regular debt settlement with the Central Government. In the third quarter of 2001, no such settlement took place. In addition, subsidies to public companies increased by NAf.2.2 million (16.8%).

Transfers, on the other hand, dropped by NAf.13.6 million (28.2%), almost entirely the result of a drop in transfers to nonprofit institutions and abroad by NAf.12.3 million (41.6%). Transfers to households fell by NAf.1.6 million (10.8%), reflecting the diminishing severance payments to laid-off personnel.

Table 8
Operations of the Island Government of Curacao (in millions NAf.)

	2001-III	2002-III	Change	
REVENUES	194.9	184.3	-10.6	-5.5%
Tax revenues,	162.9	135.9	-27.0	-16.6%
of which:				
-Taxes on income and profits,				
of which:	152.9	125.7	-27.3	-17.8%
Profit tax	47.2	37.1	-10.1	-21.5%
Income tax	1.8	-0.7	-2.6	-140.8%
Wage tax	103.9	89.4	-14.6	-14.0%
-Taxes on property, of which:	5.1	4.0	-1.1	-22.5%
Land tax	3.7	2.9	-0.9	-23.6%
Occupancy tax	1.4	1.1	-0.3	-19.6%
-Taxes on goods and services,				
of which:	4.8	6.2	1.4	29.2%
Motor vehicle tax	3.7	5.2	1.5	41.7%
Nontax revenues, of which:	3.7	4.4	0.6	17.0%
-Entrepreneurial and				
property income	0.0	0.0	-	-
-Fees, charges, and sales	3.3	3.6	0.4	11.0%
-Other nontax revenues	0.4	0.7	0.3	62.9%
Capital revenues	0.3	2.1	1.8	-
Grants	28.1	42.0	13.9	49.7%
EXPENDITURES	187.1	211.6	24.5	13.1%
Current expenditures,				
of which:	185.3	208.5	23.2	12.5%
-Wages and salaries	59.4	77.0	17.6	29.7%
Wages	53.7	56.0	2.3	4.3%
Pension premiums	5.7	21.0	15.3	268.8%
-Goods and services	43.6	53.3	9.7	22.3%
-Interest payments	21.1	28.3	7.3	34.4%

-Subsidies to public companies	13.1	15.3	2.2	16.8%
-Transfers	48.2	34.6	-13.6	-28.2%
To other levels of government	3.7	4.0	0.3	7.9%
Households	14.8	13.2	-1.6	-10.8%
Nonprofit institutions	29.6	17.3	-12.3	-41.6%
Capital expenditures, of which:	1.8	3.1	1.3	75.2%
-Investments	1.8	3.1	1.3	75.2%
 BALANCE	 7.8	 -27.3	 -35.2	 -

The drop in revenues was entirely the result of a drop in tax revenues of NAf.27.0 million (16.6%). The lower tax revenues, were mitigated by increases in grants, nontax revenues and capital revenues of NAf.13.9 million (49.7%), NAf.0.6 million (17.0%), and NAf.1.8 million, respectively.

The drop in tax revenues was caused mainly by a drop of NAf.27.3 million (17.8%) in taxes on income and profits, a result of fewer wage tax, profit tax, and income tax revenues collected in the amounts of NAf.14.6 million (14.0%), NAf.10.1 million (21.5%), and NAf.2.6 million (140.8%), respectively. The lower wage and profit tax revenues were due to the diminishing effects of the special actions of the tax authorities to improve compliance in previous quarters. In addition, less revenue was collected from the land tax and the occupancy tax by NAf.0.9 million (23.6%) and NAf.0.3 million (19.6%), respectively. Taxes on goods and services increased by NAf.1.4 million (29.2%), the result of NAf.1.5 million (41.7%) more collected for the motor vehicle tax.

Table 9
Changes in the outstanding balances of the Island Government of Curacao (in millions NAf.)

	2001-III	2002-III
FISCAL BALANCE	7.8	-27.3
MONETARY FINANCING,	-5.5	3.1
of which:		
Central Bank	2.5	-7.9
Commercial banks	-8.0	11.0
NONMONETARY FINANCING,	-2.3	24.2
of which:		
Government securities with the public	-6.5	32.7
Other	4.2	-8.5

The Island Government of Curacao financed its cash deficit mainly nonmonetarily in the third quarter of 2002 through the net purchase of government securities by the public (NAf.32.7 million). The monetary financing was attributable to an increase of NAf.11.0 million in net claims by the

commercial banks, mainly as a result of the net purchase of government securities (NAf.16.9 million) mitigated by an increase in the current account balance (NAf.4.5 million). In contrast, the monetary contraction at the Central Bank was mainly the result of an increase in the current account balance (NAf.7.5 million).

The total outstanding debt of the Netherlands Antilles

The total outstanding debt of the Netherlands Antilles increased by NAf.32.1 million (0.9%) during the third quarter of 2002, the result of an increase of NAf.37.8 million (1.3%) in the domestic debt and a drop of NAf.5.7 million (1.0%) in the foreign debt. The total debt as a percentage of GDP amounted to 79.9% at the end of the third quarter of 2002.

The domestic debt of the Central Government dropped by NAf.16.4 million (1.3%) during the third quarter of 2002. This drop was accounted for mainly by a reduction in outstanding arrears with the civil servants pension fund APNA (NAf.24.2 million) and the social security bank SVB (NAf.7.7 million). Furthermore, debt to other government levels, other debt, and securities with the public dropped by NAf.6.6 million, NAf.3.6 million, and NAf.0.7 million, respectively. These decreases were offset partially by increases in securities in the portfolios of the Central Bank (NAf.0.2 million) and the commercial banks (NAf.26.2 million).

The domestic debt of the Island Government of Curacao increased by NAf.41.7 million (2.7%) in the third quarter of 2002, due mainly to increases in securities with the public and the commercial banks by NAf.32.7 million and NAf.16.9 million, respectively. Furthermore, arrears accumulated with the SVB (NAf.2.9 million) and the Central Government (NAf.1.8 million). These increases in debt were mitigated mainly by a reduction in arrears with the APNA (NAf.8.6 million) and other creditors (NAf.2.2 million). Declines in commercial bank credit (NAf.1.4 million) and securities with the Central Bank (NAf.0.4 million) mitigated further the increased debt in the third quarter of 2002.

The domestic debt of the other island governments (i.e., Bonaire, St. Maarten, St. Eustatius, and Saba) rose by NAf.12.2 million, due to increased arrears with the civil servants pension fund (NAf.4.5 million), the social security bank (NAf.3.1 million), and the Central Government (NAf.4.6 million).

Table 10
Total outstanding consolidated public debt¹ (in millions NAf.)

	2002-II	2002-III	Change	
Domestic consolidated debt,	2,940.1	2,977.9	37.8	1.3%
of which:				
-Central Government	1,250.8	1,234.4	-16.4	-1.3%
-Curacao	1,569.1	1,610.9	41.7	2.7%
-Bonaire	69.6	72.6	3.0	4.3%
-St. Maarten	52.0	60.6	8.6	16.5%
-St. Eustatius	2.8	3.0	0.2	7.1%
-Saba	4.4	4.8	0.4	9.1%

Foreign debt	588.4	582.6	-5.7	-1.0%
Total debt (consolidated)	3,528.4	3,560.5	32.1	0.9%
(% of GDP)	79.6%	79.9%		

1) Consolidated for the debts between the Central Government and the island governments.

The foreign debt dropped by NAf.5.7million (1.0%) in the third quarter of 2002, a result of the appreciation of the Netherlands Antillean guilder vis-a-vis the Euro.

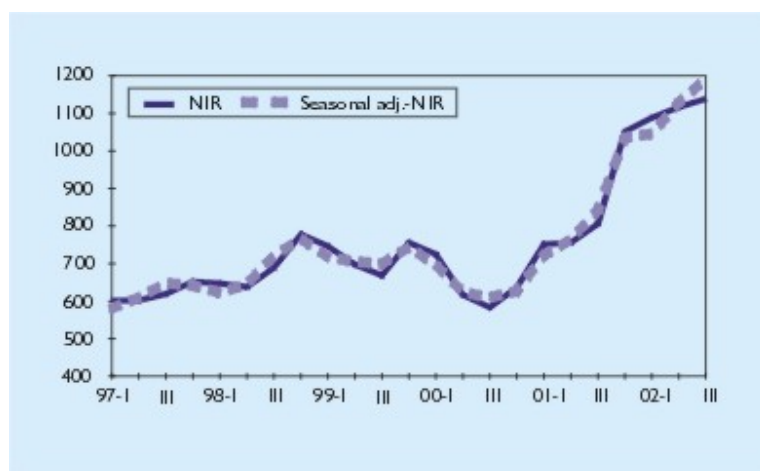
DEVELOPMENTS IN THE EXTERNAL SECTOR

General overview

At the end of the second quarter of 2002, net international reserves reached NAf. 1,116.9 million, an increase of NAf.28.4 million compared to the first quarter (graph 1). This increase resulted from a NAf. 41.6 million increase in international reserves at the Central Bank, which was partly mitigated by a NAf.13.2 decline in international reserves at the commercial banks.

Graph 1

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



In the second quarter of 2002, a decrease of NAf.153.6 million in the current account deficit to NAf.46.3 million was recorded. The improvement in the current account also was reflected in the financial account because the latter records how international transactions are financed. The financial account improved by NAf.143.7 million to NAf.3.8 million as a result of an increase in assets and a decrease in liabilities.

Table 13

Balance of payments summary¹⁾ (in millions NAf.)

	2001-II	2002-II	Diff.
Current account	-199.9	-46.3	153.6
Capital account	9.6	19.1	9.5
Financial account,	147.5	3.8	-143.7
of which:			
-Change in reserves ²⁾	-4.6	-28.4	-23.8
Statistical discrepancies	42.8	23.4	-19.4
Memorandum item			
Change in reserves ²⁾	-4.6	-28.4	-23.8
-with commercial banks	-23.3	13.2	36.5
-with Central Bank	18.7	-41.6	-60.3

1) Transaction basis

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

The current account

The deficit in the current account of the balance of payments decreased by NAf.153.6 million to NAf.46.3 million in the second quarter of 2002, compared to the same quarter of 2001. As illustrated in table 14, the improvement in the current account was the result of improved trade, current transfers, and services balances by NAf.63.4 million, NAf.57.2 million, and NAf.38.0 million, respectively. In contrast, the income balance deteriorated by NAf.5.0 million.

Table 14
A breakdown of the current account¹⁾ (in millions NAf.)

	2001-II	2002-II	Diff.
Trade balance	-575.8	-512.4	63.4
-Exports	277.0	247.5	-29.5
-Imports	852.8	759.9	-92.9
Services balance	362.7	400.7	38.0
Receipts, of which:	699.8	730.7	30.9
-Travel	324.6	312.8	-11.8
-Transportation	75.9	78.6	2.7
-Other services, of which:	299.3	339.3	40.0
Int. fin. & bus. services sector	131.8	174.2	42.4
Expenses, of which:	337.1	330.0	-7.1
-Travel	118.2	114.4	-3.8
-Transportation	36.1	39.0	2.9
-Other services, of which:	182.8	176.6	-6.2
Int. fin. & bus. services sector	45.2	57.5	12.3
Income balance ²⁾	7.5	2.5	-5.0
Current transfers balance, of which:	5.7	62.9	57.2
Profit taxes	11.0	21.9	10.9
Balance	-199.9	-46.3	153.6

¹⁾ Transaction basis

²⁾ Labor and investment income

The trade balance

The trade balance improved considerably by NAf.63.4 million in the second quarter of 2002, compared to the same quarter of 2001. This improvement was related to a NAf.92.9 million drop in imports, compensated partly by a NAf.29.5 million drop in exports (table 15). General merchandise and oil products were the categories that contributed to the drop in imports. Most of the drop in exports was due to a decline in goods procured in ports, mainly as a result of lower prices of bunker fuel.

A breakdown by island reveals that the trade balance of Curacao improved relatively more than that

of Bonaire and the Windward Islands. A closer look reveals that the NAF.55.8 million improvement was generated mostly by a marked decrease in general merchandise imports (NAf.59.5 million). This decrease was caused by fewer imports for construction projects in the second quarter of 2002, compared to the same quarter in 2001. In 2001, projects such as the upgrading project (IRUP) and the utility plant (BOO) at the oil refinery in Curacao, investments in the utility company Aqualectra, the US Air Force base, the new office building of the Central Bank, and the Kura Hulanda Hotel led to high imports. The decrease in imports was diminished partly by a decline in exports, caused mainly by fewer exports of goods procured in ports.

Table 15
A breakdown of the trade balance¹⁾ (in millions NAF.)

	2001-II		2002-II		Diff.	
	Export	Import	Export	Import	Export	Import
Bonaire	3.6	17.7	4.3	17.2	0.7	-0.5
-General merchandise	3.5	17.0	4.3	13.4	0.8	-3.6
-Oil products -	0.3	-	0.2	-	-	0.1
-Goods for processing	0.1	0.4	-	3.6	-0.1	3.2
-Repair on goods	-	-	-	-	-	-
-Goods procured in ports (bunker)	-	-	-	-	-	-
Curacao	180.6	620.9	169.5	554.0	-11.1	-66.9
-General merchandise,	131.7	528.9	129.7	469.4	-2.0	-59.5
of which: freezone	106.7	161.2	63.1	142.6	-43.6	-18.6
-Oil products	-	68.1	-	62.4	-	-5.7
-Goods for processing	2.9	21.2	2.5	16.6	-0.4	-4.6
-Repair on goods	15.6	-	14.8	2.5	-0.8	2.5
-Goods procured in ports (bunker)	30.4	2.7	22.5	3.1	-7.9	0.4
Windward Islands	92.8	214.2	73.7	188.7	-19.1	-25.5
-General merchandise	23.6	143.2	24.7	136.6	1.1	-6.6
-Oil products	3.4	70.9	4.1	52.1	0.7	-18.8
-Goods for processing	0.1	0.1	-	-	-0.1	-0.1
-Repair on goods	-	-	-	-	-	-
-Goods procured in ports (bunker)	65.7	-	44.9	-	-20.8	-
Netherlands Antilles	277.0	852.8	247.5	759.9	-29.5	-92.9
-General merchandise,	158.8	689.1	158.7	619.4	-0.1	-69.7
of which: freezone	106.7	161.2	63.1	142.6	-43.6	-18.6
-Oil products	3.4	139.3	4.1	114.7	0.7	-24.6
-Goods for processing	3.1	21.7	2.5	20.2	-0.6	-1.5
-Repair on goods	15.6	-	14.8	2.5	-0.8	2.5
-Goods procured in ports (bunker)	96.1	2.7	67.4	3.1	-28.7	0.4

¹⁾ Transaction basis

The trade balance of the Windward Islands improved by NAF. 6.4 million because of declines in oil imports (NAf.18.8 million) due to lower prices, and general merchandise imports (NAf.6.6 million). This development was outweighed partly by the NAF.20.8 million drop in exports of goods procured in ports, the result of lower oil prices and a decrease in oil transshipment activities.

The trade balance of Bonaire improved by NAf.1.2 million. The main developments contributing to this improvement were a NAf.3.6 million drop in general merchandise imports, mitigated by a NAf.3.2 million increase in imports of oil-related goods for processing. In addition, exports of general merchandise increased by NAf.0.8 million.

The services balance

The surplus on the services balance increased by NAf.38.0 million in the second quarter of 2002 compared to the same quarter of 2001. This increase was due entirely to the developments in other services. The item "other services" developed favorably because of increased earnings from the international financial and business services sector and decreased expenses on construction projects. Earnings from the refining fee declined. Furthermore, the travel balance deteriorated by NAf.8.0 million, while the surplus on the transportation balance decreased only slightly by NAf.0.2 million.

Tourism

Foreign exchange receipts from the tourism sector declined by NAf.11.8 million (3.6%) in the second quarter of 2002 compared to the same quarter of 2001. This decline was caused entirely by the poor performance of the tourism sector on the Windward Islands and Bonaire. As can be seen in table 16, the increases in foreign exchange earnings from stay-over and cruise tourism on Curacao compensated in part for the decline on the Windward Islands and Bonaire. Tourism expenses decreased by NAf.3.8 million.

Table 16
Foreign exchange earnings from tourism per island¹⁾ (in millions NAf.)

	2001-II	2002-II	Diff.	%
Bonaire ²⁾	26.3	25.4	-0.9	-3.4
-Stay-over	25.9	25.0	-0.9	-3.5
-Cruise	0.4	0.4	0.0	0.0
Curacao	78.9	86.4	7.5	9.5
-Stay-over	72.3	79.5	7.2	10.0
-Cruise	6.6	6.9	0.3	4.5
Windward Islands	219.4	201.0	-18.4	-8.4
-Stay-over	176.8	156.2	-20.6	-11.7
-Cruise	42.6	44.8	2.2	5.2
Netherlands Antilles	324.6	312.8	-11.8	-3.6
-Stay-over	275.0	260.7	-14.3	-5.2
-Cruise	49.6	52.1	2.5	5.0

¹⁾ Transaction basis

²⁾ Bonaire's tourism earnings were estimated by the Bank using immigration data 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 aftermath of the September 11 attacks. Consequently, tourism earnings from the United States declined. However, the decrease in foreign exchange

receipts from tourism was not only caused by the American market. The European market also generated less foreign exchange for the Windward Islands. The South American market performed especially poorly, reflecting the problems of countries such as Venezuela, Brazil, and Argentina. These developments resulted in a NAf.20.6 million (11.7 %) decrease in stay-over tourism earnings. In contrast, cruise tourism performed slightly better compared to the second quarter of 2001, reflected by a NAf.2.2 million (5.2%) increase in earnings.

Unlike the Windward Islands, the tourism sector in Curacao performed well in the first quarter of 2002, compared to the same quarter of 2001. The foreign exchange receipts from stay-over tourism increased by 10.0%, reflecting the positive development in all markets, particularly the South-American market. Revenues from cruise tourism increased by 4.5%.

Transportation

Net earnings from the transportation sector decreased by NAf.0.2 million in the second quarter of 2002 compared to the same period of 2001. This decrease was the result of a NAf.2.9 million increase in expenses, which outweighed the NAf.2.7 million increase in earnings. Earnings from passenger air transport increased but were outweighed by the decrease in earnings from the other categories of transportation services.

Other services

Net earnings from other services increased by NAf.46.2 million in the second quarter of 2002 compared to the same quarter of 2001. This increase can be attributed to the improved performance of the international financial and business services sector. Net operational earnings increased by NAf.30.1 million, attributable to a NAf.42.4 million improvement in operational income, which was partly diminished by a NAf.12.3 million increase in operational expenses. Profit taxes paid by the sector to the government¹ increased by NAf.10.9 million.

¹ Recorded in the current transfers account

Furthermore, the expenses on construction services decreased. This NAf.22.0 million decrease was related to several large construction projects in 2001, which were finished before the second quarter of 2002. A decrease in the refining fee of the oil refinery (NAf.11.8 million), related to lower oil prices, partly diminished the effects of developments in the construction and international financial and business services sectors.

The income balance

The surplus on the income balance decreased by NAf.5.0 million to NAf.2.5 million in the second quarter of 2002 compared to the second quarter of 2001. The main cause of this decline was the increase in interest payments on investments. This was enhanced by a NAf.1.4 million drop in net labor income.

The current transfers balance

The surplus on the current transfers balance improved by NAf.57.2 million to a NAf.62.9 million

surplus in the second quarter of 2002 compared to the same period of 2001. This improvement can be ascribed to the marked rise in transfers from abroad, particularly a NAF.67.5 million increase in current transfers by individuals to Antillean residents. This development also was recorded in the fourth quarter of 2001 and the first quarter of 2002. In addition, profit taxes paid by the international financial and business services sector to the government increased by NAF.10.9 million. On the other hand, transfers by individuals to nonresidents increased by NAF.21.4 million.

Table 17
Breakdown of the current transfers (in millions NAF.)¹⁾

	2001-I		2002-II		Diff.	
	Debit	Credit	Debit	Credit	Debit	Credit
General Government	16.3	3.0	28.4	2.0	12.1	-1.0
-Profit taxes	11,0	0.0	21.9	0.0	10.9	0.0
-Other gov't transfers	5.3	3.0	6.5	2.0	1.2	-1.0
Other sectors	62.7	70.3	128.2	91.7	65.5	21.4
-Workers' remittances	7.7	6.7	1.1	8.9	-6.6	2.2
-Other transfers,	55.0	63.6	127.1	82.8	72.1	19.2
of which:						
Family transfers	40.3	30.1	107.8	51.5	67.5	21.4
Balance	79.0	73.3	156.6	93.7	77.6	20.4

¹⁾ Transaction basis

The capital and financial account

The combined capital and financial account improved by NAF.134.2 million to NAF.22.9 million in the second quarter of 2002 compared to the second quarter of 2001. This result was due to the NAF.143.7 million improvement in the financial account.

The capital account

The surplus on the capital account increased by NAF.9.5 million to NAF.19.1 million in the second quarter of 2002, compared to the same quarter in 2001. This improvement was related to the increase in funds received for development aid.

The financial account

Compared to the second quarter of 2001, the financial account improved by NAF.143.7 million in the second quarter of 2002. Table 18 indicates that this improvement can be attributed to an increase of NAF.70.2 million in foreign assets, enhanced by a decrease of NAF.73.5 million in foreign liabilities.

The increase in assets was related primarily to more portfolio investments abroad and the rise in reserves assets. Portfolio investments increased due to the net increase in investment in bonds and debentures abroad by pension funds and investment companies. In addition, other investments abroad also increased.

Foreign liabilities decreased primarily as a result of the decline in trade credit liabilities. Less trade credit was received and more trade credit repaid by companies in the Netherlands Antilles. In addition, fewer loans were received during the second quarter of 2002 compared to the same quarter in 2001. The foreign loans received in the second quarter of 2001 were extended primarily to telecommunication companies.

Table 18
Breakdown of the financial account¹⁾ (net flows, in millions NAf.)

	2001-II	2002-II	Diff.
Direct investment	-22.2	-18.0	4.2
-Abroad ²⁾	0.0	-0.2	0.2
-In the Netherlands Antilles ³⁾	-22.2	-18.2	4.0
Portfolio investment ²⁾	-8.7	-33.9	-25.2
Other investment	183.0	84.1	-98.9
-Assets ²⁾	19.6	-3.5	-23.1
-Liabilities, of which: ³⁾	163.4	87.6	-75.8
Trade credit	92.1	36.6	-55.5
Loans	14.3	-7.1	-21.4
Other 57.0 58.1 1.1			
Reserves ⁴⁾	-4.6	-28.4	-23.8
Balance	-147.5	3.8	-143.7
Memorandum items Financial account broken down in:			
-Assets ²⁾	6.2	-64.0	-70.2
-Liabilities ³⁾	141.3	67.8	-73.5

¹⁾ Transaction basis

²⁾ A -sign means an increase in assets

³⁾ A -sign means an decrease in liabilities

⁴⁾ A -sign means an increase in reserve assets

MONETARY DEVELOPMENT

Introduction

During the third quarter of 2002, the money supply (M2) in the Netherlands Antilles increased by 2.6% (NAf.92.4 million), a turnaround compared to the 0.2% (NAf.6.2 million) decrease recorded during the third quarter of 2001. The increase recorded in 2002 was due to increases in both the money component (M1) and the near-money component of the money supply of 2.7% (NAf.37.4 million) and 2.6% (NAf.55.0 million), respectively. The decrease during the third quarter of 2001 was the result of a 3.0% (NAf.35.3 million) decrease in the money component, which offset the 1.5% (NAf.29.1 million) increase in the near-money component.

The increase in the demand for liquid assets during the third quarter of 2002 was due to increases in both net domestic assets and net foreign assets of 2.9% (NAf.70.6 million) and 2.0% (NAf.21.8 million), respectively. During the same quarter of 2001, the decrease recorded in the demand for liquid assets was the result of a decrease in net domestic assets of 2.3% (NAf.55.9 million), offsetting the increase in net foreign assets of 7.1% (NAf.49.7 million). The increase in net domestic assets in 2002 was the result of increases in both net domestic credit to the governments and to the private sector of 22.7% (NAf.49.3 million) and 1.9% (NAf.53.1 million), respectively, offsetting the 6.4% (NAf.31.8 million) decrease due to miscellaneous factors. Both net domestic credit to the central government and to the island governments increased -- by 54.7% (NAf.45.6 million) and 2.8% (NAf.3.7 million), respectively.

Monetary policy

During the third quarter of 2002, international reserves continued to increase. For the first time since 1988, the official reserves reached the goal of three months of goods imports. This development contributed to a further increase in the liquidity of the banking sector, exercising a downward pressure on domestic interest rates. In line with the decline in market rates, the Bank decreased its pledging rate ("beleningsrente") -the interest percentage against which commercial banks can borrow from the Bank under the condition of sufficient collateral- twice during the third quarter, reaching 4.00% as of August 20, 2002.¹

Money supply

During the July-September period of 2002, the money supply increased by 2.6% (NAf.92.4 million). Both the money component and the near-money component increased -- by 2.7% (NAf.37.4 million) and 2.6% (NAf.55.0 million), respectively. During the same period of 2001, the money supply decreased by 0.2% (NAf.6.2 million), the result of a 3.0% decrease (NAf.35.3 million) in the money component, which exceeded the increase of 1.5% (NAf.29.1 million) in the near-money component.

¹ The Bank further decreased the pledging rate to 3.50% on November 4, 2002.

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

	2001-III		2002-III	
Coins & notes with the public	-3.0	(-1.6%)	2.0	(0.9%)
Total demand deposits, of which:	-32.3	(-3.3%)	35.4	(3.0%)
-Netherlands Antillean guilders	-12.7	(-1.6%)	38.0	(4.0%)
-Foreign currency	-19.6	(-9.7%)	-2.6	(-1.2%)
Money (M1)	-35.3	(-3.0%)	37.4	(2.7%)
Time deposits	16.1	(2.2%)	37.2	(4.7%)
Savings	13.0	(1.1%)	17.8	(1.3%)
Near money	29.1	(1.5%)	55.0	(2.6%)
Money supply (M2)	-6.2	(-0.2%)	92.4	(2.6%)

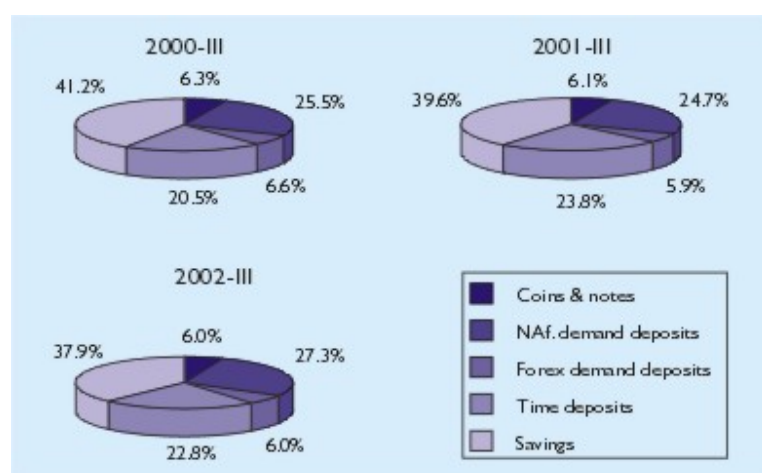
The increase in the money component during the third quarter of 2002 was due to increases in both coins and notes with the public and demand deposits of 0.9% (NAf.2.0 million) and 3.0% (NAf.35.4 million), respectively. Total demand deposits increased as a result of an increase of 4.0% (NAf.38.0 million) in demand deposits denominated in local currency, which offset the decrease of 1.2% (NAf.2.6 million) in demand deposits denominated in foreign currency. The growth in demand deposits denominated in local currency can be attributed to the increase in credit extension to the private sector by the commercial banks. During the third quarter of 2001, the money component of the money supply decreased by 3.0% (NAf.35.3 million) due to decreases in both coins and notes in circulation and demand deposits of 1.6% (NAf.3.0 million) and 3.3% (NAf.32.3 million), respectively. The decrease in total demand deposits was the result of decreases in both demand deposits denominated in local currency and in foreign currency of 1.6% (NAf.12.7 million) and 9.7% (NAf.19.6 million), respectively.

The increase in the near-money component of the money supply during the third quarter of 2002 was due to increases in both time deposits and savings of 4.7% (NAf.37.2 million) and 1.3% (NAf.17.8 million), respectively. During the same quarter of the previous year, a similar development was observed, as time deposits and savings increased by 2.2% (NAf.16.1 million) and 1.1% (NAf.13.0 million), respectively.

On an annual basis, the increase in the money supply at the end of September 2002 amounted to 15.7% (NAf.492.6 million). This increase was due to increases in both the money component and the near-money component of 24.4% (NAf.279.4 million) and 10.7% (NAf.213.2 million), respectively.

Graph 2 presents an overview of the shares of the different components of the money supply at the end of September of 2002, 2001, and 2000. Comparing 2002 with 2001 reveals that demand deposits denominated in both Netherlands Antillean guilders and in foreign exchange increased by 2.6 percentage points and 0.1 percentage point, respectively. These increases were at the expense of coins and notes in circulation, time deposits, and savings, which decreased by 0.1 percentage point, 1.0 percentage point, and 1.7 percentage points, respectively.

Graph 2
Composition of the money supply (in %)



Factors affecting the demand for liquid assets

During the third quarter of 2002, the demand for liquid assets increased by 2.6% (NAf.92.4 million), the result of increases in both net domestic assets and net foreign assets of 2.9% (NAf.70.6 million) and 2.0% (NAf.21.8 million), respectively. This increase was a turnaround compared to the 0.2% (NAf.6.2 million) decrease recorded during the third quarter of 2001, the result of a 2.3% (NAf.55.9 million) decrease in net domestic assets and a 7.1% (NAf.49.7 million) increase in net domestic assets.

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

	2001-III		2002-III	
General government, of which:	9.3	(6.3%)	49.3	(22.7%)
-Central government	5.2	(-26.3%)	45.6	(54.7%)
-Island governments	4.1	(2.5%)	3.7	(2.8%)
Private sector	-15.8	(-0.6%)	53.1	(1.9%)
Miscellaneous	-49.4	(12.7%)	-31.8	(6.4%)

Net domestic assets	-55.9	(-2.3%)	70.6	(2.9%)
Net foreign assets	49.7	(7.1%)	21.8	(2.0%)
Total liquid assets	-6.2	(-0.2%)	92.4	(2.6%)

The increase in net domestic assets in the third quarter of 2002 was the result of increases in both net domestic credit to the governments and to the private sector of 22.7% (NAf.49.3 million) and 1.9% (NAf.53.1 million), respectively, which exceeded the decrease of 6.4% (NAf.31.8 million) due to miscellaneous factors. During the same quarter of 2001, net domestic assets decreased by 2.3% (NAf.55.9 million). This decrease was the result of decreases in net domestic credit to the private sector and miscellaneous factors of 0.6% (NAf.15.8 million) and 12.7% (NAf.49.4 million), respectively, offsetting the increase of 6.3% (NAf.9.3 million) in net domestic credit to the governments.

The increase of 1.9% (NAf.53.1 million) in net domestic credit to the private sector was due mainly to an increase in private loans extension of NAf.40.6 million. In addition, securities and participations increased by NAf.12.3 million. During the third quarter of 2001, net domestic credit extension to the private sector decreased by 0.6% (NAf.15.8 million), mainly the result of decreases in private loans and amounts receivable of NAf.10.0 million and NAf.6.5 million, respectively.

The increase in net domestic credit to the general government during the third quarter of 2002 was the result of increases in net credit extension to both the central government and the island governments of 54.7% (NAf.45.6 million) and 2.8% (NAf.3.7 million), respectively. In the third quarter of 2001, the 6.3% (NAf.9.3 million) increase was due to increases of 26.3% (NAf.5.2 million) with the central government and 2.5% (NAf.4.1 million) with the island governments. The increase in net credit extension to the central government in 2002 was mainly the result of an increase in securities in the commercial banks' portfolio, in combination with a decrease in deposits at the central bank. The increase with the island governments during the same period was mainly the result of increased securities of the island government of Curacao in the commercial banks' portfolio, which offset the increases in deposits at both the commercial banks and the central bank.

The decrease in net domestic assets due to miscellaneous factors of 6.4% (NAf.31.8 million) during the third quarter of 2002 was mainly the result of an increase in miscellaneous liabilities of 4.3% (NAf.62.4 million), which offset the increase of 3.2% (NAf.30.6 million) in miscellaneous assets. During the third quarter of 2001, a similar development occurred as the 12.7% (NAf.49.4 million) decrease in miscellaneous net domestic assets resulted from an increase of 11.0% (NAf.109.7 million) in liabilities and an increase of 9.9% (NAf.60.3 million) in assets.

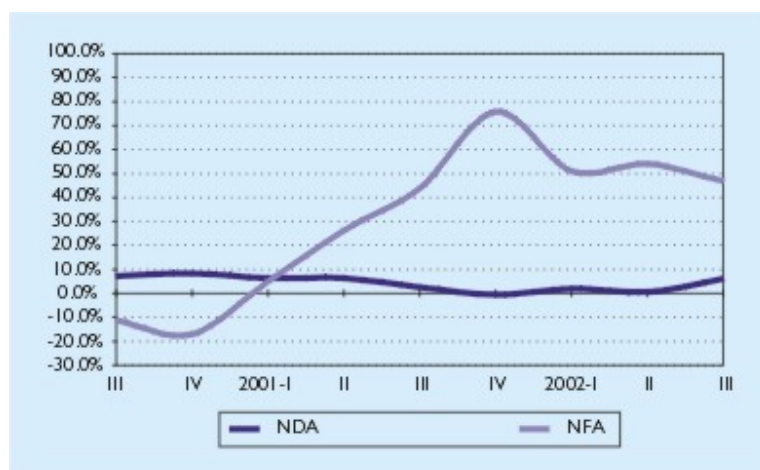
Net foreign assets increased by 2.0% (NAf.21.8 million) during the third quarter of 2002. This

increase was due to increases in foreign exchange at both the central bank and the commercial banks of 1.9% (NAf.15.7 million) and 2.3% (NAf.6.1 million), respectively. During the third quarter of 2001, net foreign assets increased by 7.1% (NAf.49.7 million), the result of an increase of 10.5% (NAf.60.7 million) in foreign exchange at the central bank, which offset the decrease of 9.0% (NAf.11.0 million) in foreign exchange at the commercial banks.

On an annual basis, the increase in the demand for liquid assets amounted to 15.7% (NAf.492.6 million) at the end of the third quarter of 2002, the result of increases in both net domestic assets and in net foreign assets of 6.0% (NAf.142.4 million) and 46.8% (NAf.350.2 million), respectively. The increase in net foreign assets was due to increases at both the central bank and the commercial banks of 29.6% (NAf.188.3 million) and 145.9% (NAf.161.9 million), respectively.

Graph 3 illustrates the developments in net domestic assets and net foreign assets from the third quarter of 2000 to the third quarter of 2002.

Graph 3
Developments in net foreign assets and net domestic assets



Domestic credit extension by commercial banks

During the July-September period of 2002, domestic credit extension by commercial banks increased by 2.9% (NAf.82.4 million), a turnaround compared to the 0.2% (NAf.6.2 million) decrease recorded during the same period of 2001. The increase in the third quarter of 2002 was due to increases in both private sector loans and government loans of 1.5% (NAf.40.7 million) and 16.3% (NAf.41.7 million), respectively. All three private loan components increased: mortgages increased by 1.2% (NAf. 12.5 million), consumer loans by 4.2% (NAf.24.8 million), and business loans by 0.4% (NAf.3.4 million).

Credit extension to the government increased by 16.3% (NAf.41.7 million) during the third quarter of 2002, an acceleration compared to the 2.0% (NAf.3.7 million) increase during the third quarter of 2001. Credit extension to both governments increased during 2002: by 20.0% (NAf.26.2 million) to the central government and by 12.5% (NAf.15.5 million) to the island government of Curacao. This increase has been a continuing trend since the first quarter of 2002 and can be related to the lifting of the limit on domestic credit to the governments in the Monetary Cash Reserve Arrangement as of March 1, 2002, the excess liquidity in the banking sector, and the low interest rates abroad.

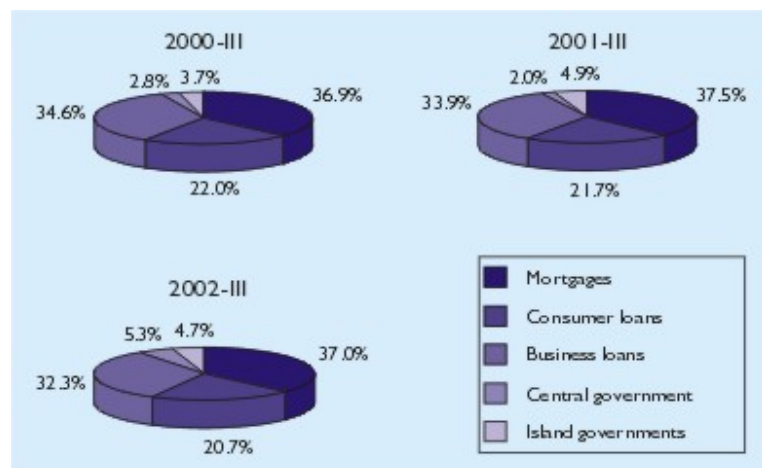
Table 19
Private-sector loans and government loans at commercial banks as per end of period (in millions NAf. and percentage changes)

	2001-III		2002-III	
Private-sector loans,	2,590.4	(-0.4%)	2,668.4	(1.5%)
of which:				
-Mortgages	1,044.3	(-1.0%)	1,096.3	(1.2%)
-Consumer loans	603.9	(1.5%)	613.7	(4.2%)
-Business loans	942.2	(-0.9%)	958.5	(0.4%)
Government loans,	191.9	(2.0%)	297.0	(16.3%)
of which:				
-Central Government	54.7	(0.0%)	157.2	(20.0%)
-Island Government of Curacao	137.2	(2.8%)	139.8	(12.5%)
Total	2,782.3	(-0.2%)	2,965.4	(2.9%)

On an annual basis, credit extension by commercial banks increased by 6.6% (NAf.183.1 million) at the end of September 2002. This increase was due to increases in both private-sector loans and government loans of 3.0% (NAf.78.0 million) and 54.8% (NAf.105.1 million), respectively. All loan categories contributed to the increase in private-sector loans: mortgages by 5.0% (NAf.52.0 million), consumer loans by 1.6% (NAf.9.8 million), and business loans by 1.7% (NAf.16.3 million). The increase in government loans was accounted for almost entirely by the 187.4% (NAf.102.5 million) increase in loans of the central government. Loans extended to the island government of Curacao rose only slightly by 1.9% (NAf.2.6 million).

The development in the shares of private and government loans in the commercial banks' lending portfolio as of the end of September of 2002, 2001, and 2000 are shown in graph 4. When comparing 2002 with 2001, it can be deduced that the share of central government loans increased by 3.3 percentage points at the expense of all other loan components. Mortgages declined by 0.5 percentage point, consumer loans by 1.0 percentage point, business loans by 1.6 percentage points, and loans to the island government of Curacao by 0.2 percentage point.

Graph 4
Developments in commercial banks' lending portfolio



Developments by island group

Private-sector loans extended by commercial banks by island group increased on both the Leeward Islands and the Windward Islands during the third quarter of 2002 -- by 1.8% (NAf.35.4 million) and 0.8% (NAf.5.2 million), respectively. During the third quarter of 2001, private lending decreased by 0.4% (NAf.10.0 million), the result of a decrease on the Leeward Islands of 0.8% (NAf.14.7 million), which offset the increase on the Windward Islands of 0.7% (NAf.4.7 million).

The increase on the Leeward Islands during the third quarter of 2002 was the result of increases in all loan categories: mortgages, consumer loans, and business loans increased by 1.7% (NAf.12.5 million), 3.5% (NAf.16.9 million), and 0.8% (NAf.6.0 million), respectively. During the same quarter of 2001, only consumer loans increased on the Leeward Islands, by 1.0% (NAf.4.6 million). This increase exceeded the decreases in mortgages and business loans of 1.2% (NAf.9.3 million) and 1.4% (NAf.10.0 million), respectively.

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

	2001-III		2002-III	
Private-sector loans,	1,939.4	(-0.8%)	1,979.7	(1.8%)
of which:				
-Mortgages	737.8	(-1.2%)	759.7	(1.7%)
-Consumer loans	489.3	(1.0%)	501.9	(3.5%)
-Business loans	712.3	(-1.4%)	718.0	(0.8%)

On an annual basis, private credit extension on the Leeward Islands increased by 2.1% (NAf.40.3 million). All three loan categories contributed to the increase: mortgages increased by 3.0% (NAf.21.9 million), consumer loans by 2.6% (NAf.12.6 million), and business loans by 0.8% (NAf.5.7 million).

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

	2001-III		2002-III	
Private-sector loans,	651.0	(0.7%)	688.6	(0.8%)
of which:				
-Mortgages	306.5	(-0.2%)	336.5	(0.0%)
-Consumer loans	114.6	(3.7%)	111.7	(7.6%)
-Business loans	229.9	(0.6%)	240.4	(-1.1%)

Private credit extension increased by 0.8% (NAf.5.2 million) on the Windward Islands during the third quarter of 2002. During the third quarter of 2001, an increase of 0.7% (NAf.4.7 million) was recorded. In contrast to the Leeward Islands, where all three loan components increased during 2002, only consumer loans increased on the Windward Islands, by 7.6% (NAf.7.9 million). Mortgages remained unchanged, while business loans decreased by 1.1% (NAf.2.7 million).

The development in private-sector loans indicates that the Windward Islands are going through a period of stagnating economic activity. This stagnation is due mainly to the aftermath of the September 11 attacks in the United States, which had a great impact on the islands because of their relatively large dependency on North American tourism.

On an annual basis, private-sector credit on the Windward Islands increased by 5.8% (NAf.37.6 million). This was the result of increases in mortgages and business loans of 9.8% (NAf.30.0 million) and 4.6% (NAf.10.5 million), respectively, which offset the decrease of 2.5% (NAf.2.9 million) in consumer loans.

Developments in domestic interest rates

Table 22 presents an overview of the various interest rates in the Netherlands Antilles at the end of the third quarter of 2001 and 2002, respectively.

The central bank's pledging rate decreased by 300 basis points, in line with the declining interest rates in the local money and capital market. The marginal lending rate, applicable on commercial bank borrowing exceeding NAf.20 million, decreased by 225 basis points. As of January 1, 2002, this rate is deduced by increasing the pledging rate with 100 basis points.

Table 22
Developments in domestic interest rates

	2001-III	2002-III
Central bank		
-Pledging rate	7.00%	4.00%
-Marginal lending rate	7.25%	5.00%
Commercial banks' borrowing rates		
-Passbook savings	3.7%	3.6%
-12-month time deposit	4.9%	5.8%
Commercial banks' lending rates		
-Mortgages	10.0%	9.5%
-Current account overdraft	10.5%	10.2%
Government bonds 5 yr., effective yield	9.0%	7.6%

The commercial banks' average interest rate on passbook savings decreased slightly by 0.1 percentage point to 3.6%. The average interest rate on time deposits increased by 0.9 percentage point to 5.8%, perhaps related to increased competition for these deposits in the banking sector.

The average interest rate on mortgages decreased by 0.5 percentage point to 10.0%, while the average rate on current account overdrafts decreased slightly by 0.3 percentage point to 10.2%. The decrease in lending rates can be related to increased foreign borrowing due to the decline in foreign interest rates and increased competition in a highly liquid domestic banking sector.

Finally, the average yield on domestic government bonds decreased substantially by 2.4 percentage points to 7.6%. This decrease was noticeable since the beginning of 2002 and can be explained by the decreasing international interest rates, the lifting of the ceiling on commercial banks' domestic credit extension to the government as of March 1, 2002, and the excess liquidity in the banking sector.

DEVELOPMENTS IN THE FINANCIAL SECTOR

Introduction

In the second quarter of 2002, the Bank examined three commercial banks operating domestically and two money remitters. Furthermore, the Bank licensed a credit union established in St. Maarten named Christian Kingdom Cooperative and revoked the licenses of Banque Artesia Curacao N.V. and Banco de Venezuela N.V. to operate as international credit institutions in the Netherlands Antilles.

Developments in the domestic banking sector

Following the NAf.206.0 million (3.5%) contraction in total assets of the domestic banking sector of the Netherlands Antilles during the first quarter of 2002, total assets increased by NAf.122.6 million (2.1%) to NAf.5,890.2 million during the second quarter of 2002.

Interest-bearing cash grew by NAf.20.0 million (1.4%) to NAf.1,476.3 million as a result of the increase of NAf.43.4 million in interbank funds held at foreign banks and an increase of NAf.45.3 million in time deposits held at the Bank van de Nederlandse Antillen. However, time deposits held at foreign banks decreased by NAf.105.0 million, reducing the overall increase in interest-bearing cash.

The increase of NAf.81.7 million (2.5%) in the loan portfolio of the banks operating domestically also contributed to the increase in total assets. This increase was manifested first in the growth in time loans granted to both resident (NAf.30.3 million) and nonresident business enterprises (NAf.18.5 million). Second, time loans granted to local individuals and mortgages granted to local business enterprises increased by NAf.17.7 million and NAf.21.3 million, respectively.

On the liabilities side, total deposits increased by NAf.70.9 million (1.5%) to NAf.4,894.8 million. This increase resulted from a growth in demand deposits placed by local individuals (NAf.23.8 million), local business enterprises (NAf.13.1 million), foreign unconsolidated subsidiaries and affiliates (NAf.5.5 million), and other local banks (NAf.9.1 million). Savings deposits also contributed to the increase, growing by NAf.32.1 million (1.6%). This growth was reflected in the increase in savings deposits and time deposits held by local individuals of NAf.18.1 million and NAf.14.0 million, respectively.

In addition, borrowings by foreign unconsolidated subsidiaries and affiliates increased by NAf.32.7 million, while borrowings by all other foreign banks decreased by NAf.22.0 million. Other liabilities also increased due mainly to increases in the accounts "items in suspense" by NAf.12.1 million, "tax payable" by NAf.8.7 million, and "all other liabilities" by NAf.6.6 million.

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

	2001-IV		2002- I		2002-II	
	NAf.	%	NAf.	%	NAf.	%
ASSETS						
Non-int.-bearing cash	457.4	7.7	328.8	5.7	329.7	5.6
Interest-bearing cash	1,494.9	25.0	1,456.3	25.2	1,476.3	25.1
Investments	261.9	4.4	334.9	5.8	344.1	5.8
Loans	3,417.8	57.2	3,310.9	57.4	3,392.6	57.6
Investm. unconsol. sub.	19.5	0.3	12.9	0.3	15.6	0.3
Fixed assets	162.7	2.7	163.8	2.8	171.4	2.9
Other assets	159.4	2.7	160.0	2.8	160.5	2.7
Total assets	5,973.6	100.0	5,767.6	100.0	5,890.2	100.0
LIABILITIES						
Demand deposits	1,606.9	26.9	1,597.4	27.7	1,646.2	27.9
Savings deposits	2,176.7	36.4	2,045.1	35.5	2,077.2	35.3
Time deposits	1,276.5	21.4	1,181.4	20.5	1,171.4	19.9
Total deposits	5,060.1	84.7	4,823.9	83.7	4,894.8	83.1
Borrowings	158.8	2.7	195.4	3.4	210.0	3.6
Other liabilities	266.3	4.5	258.7	4.5	288.7	4.9
Total liabilities	5,485.2	91.9	5,278.0	91.6	5,393.5	91.6
Minority interest	5.3	0.1	5.5	0.1	5.7	0.1
Subordinated debentures	6.2	0.1	6.4	0.1	7.7	0.1
General provisions	134.3	2.2	140.2	2.3	147.9	2.5
Capital & reserves	342.6	5.7	337.5	5.9	335.4	5.7
Total capital	488.4	8.1	489.6	8.4	496.7	8.4
Total liabilities and capital	5,973.6	100.0	5,767.6	100.0	5,890.2	100.0

Following the strengthening of the capitalization of the domestic banking sector by NAf.1.2 million in the first quarter of 2002, it improved further by NAf.7.0 million to NAf.496.7 million in the second quarter of 2002. However, compared to the end of the first quarter of 2002, the capital-to-assets ratio of the domestic banking sector of the Netherlands Antilles remained at 8.4%, above the international minimum capital standard of 8%.

The banks operating in the domestic banking sector of the Netherlands Antilles recorded a net operating income of NAf.34.4 million over the first half of 2002, a decrease of NAf.17.8 million (34.1%) compared to the net operating income of NAf.52.2 million recorded over the first half of 2001. Net interest income declined by NAf.7.8 million (5.5%) to NAf.134.9 million, while total operational expenses increased by NAf.16.5 million (10.7%). The latter was due primarily to increases in salaries and other employee expenses of NAf.8.3 million (9.6%) and other operating

expenses of NAf.5.4 million (16.9%).

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

	2001-II	2002-II
Interest income	233.3	221.6
Interest expenses	(90.7)	(86.8)
Net interest income	142.6	34.8
Other income	64.1	70.6
Total operational income	206.7	205.4
Salaries & other employee expenses	(86.2)	(94.5)
Occupancy expenses	(24.5)	(26.7)
Other operating expenses	(31.9)	(37.3)
Net addition to general provisions	(11.9)	(12.5)
Total operational expenses	(154.5)	(171.0)
Net operating income	52.2	34.4
Net extraordinary items	0.3	0.8
Applicable profit taxes	(12.3)	(11.5)
Net income after taxes	40.2	23.7

The micro prudential indicators in table 27 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 of 8.5% and tier-1 capital-to-total assets ratio of 5.8% at the end of the second 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 dropped slightly compared to the end of the first quarter of 2002, in line with the slight decrease in the capitalization of the domestic banking sector during the second quarter of 2002. Total capital is defined as the sum of equity capital, general provisions, and subordinated debentures qualifying as secondary capital.

The ratios reflecting the nonperformance of the loan portfolio of the domestic banks indicate that the overall quality of the loan portfolio at the end of the second quarter of 2002 changed little compared to the previous quarter. However, compared to the fourth quarter of 2001, especially the nonperforming loans-to-total capital ratio deteriorated as a consequence of an increase in nonperforming loans during the first two quarters of 2002. Compared to the fourth quarter of 2001,

provisions for loan losses as a percentage of nonperforming loans declined during the first two quarters of 2002, indicating that the build-up of necessary provisions lagged behind their nonperforming loans portfolio.

Table 27
Microprudential indicators of commercial banks operating in the domestic banking sector of the Netherlands Antilles at quarter-end

	2001-IV	2002-I	2002-II
	%	%	%
CAPITAL ADEQUACY			
Total capital/total assets	8.2	8.6	8.5
Tier 1 capital/total assets	5.8	6.0	5.8
Tier 2 capital/total assets	2.3	2.5	2.6
Tier 3 capital/total assets	0.1	0.1	0.1
ASSET QUALITY			
Nonperforming loans/total loans	6.0	7.1	7.1
Nonperforming loans/total capital	43.4	48.4	47.6
Provisions for loan losses/ nonperforming loans	60.8	56.6	57.7
EARNINGS¹⁾			
Gross earning assets yield	8.5	8.5	8.4
Break-even yield	3.0	3.2	3.3
Net interest margin	5.1	5.3	5.1
Return on assets	0.7	1.3	1.2
LIQUIDITY			
Total loans/total deposits	68.7	69.5	70.3
Liquidity surplus (in millions NAf.)	85.5	69.3	82.7

¹⁾These ratios are annualized.

The annualized earnings ratios indicate that the domestic banking sector will realize an acceptable return on assets of 1.2% during the year 2002.

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

Developments in the international banking sector

Total assets of the international banking sector increased by NAf.571.4 million (0.8%) to NAf.68.8 billion in the second quarter of 2002. Investments and loans increased by NAf.248.4 million (3.2%)

and NAf.877.5 million (2.2%), respectively, whereas cash & banks decreased by NAf.747.3 million (6.2%).

On the liabilities side, savings and time deposits increased by NAf.498.5 million (4.3%) and borrowed funds increased by NAf.1,709.3 (4.1%). In contrast, demand deposits decreased by NAf.1,086.0 (17.7%) and other liabilities by NAf.516.2 million (31.9%).

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

	2002-I		2002-II	
	NAf.	%	NAf.	%
ASSETS				
Cash & banks	12,139.5	17.8	11,392.2	16.6
Investments	7,736.3	11.4	7,984.7	11.6
Loans	39,501.4	58.0	40,378.9	58.7
Fixed & other assets	8,816.0	12.8	9,008.9	13.1
Total assets	68,193.2	100.0	68,764.6	100.0
LIABILITIES				
Demand deposits	6,145.2	9.0	5,059.2	7.4
Savings & time deposits	11,699.4	17.2	12,197.9	17.7
Borrowed funds	41,856.9	61.3	43,566.2	63.4
Other liabilities	1,618.6	2.4	1,102.4	1.6
Total liabilities	61,320.1	89.9	61,925.7	90.1
Capital	6,873.1	10.1	6,838.9	9.9
Total liabilities & capital	68,193.2	100.0	68,764.6	100.0

The total capital-to-total assets ratio of the international banking sector decreased marginally from 10.1% at the end of the first quarter of 2002 to 9.9% at the end of the second quarter.

The banks operating in the international banking sector of the Netherlands Antilles recorded a net operating income of NAf.18.8 million over the first half of 2002, considerably lower compared to the net operating income of NAf.276.2 million recorded over the first half of 2001. Net additions to general provisions doubled in the first half of 2002 compared to the first half of 2001. Furthermore, net extraordinary losses of NAf.42.6 million combined with the poor operational performance of NAf.18.8 million resulted in a net loss of NAf.32.4 million over the first half of 2002 compared to the net profit of NAf.272.3 million recorded over the first half of 2001.

Table 29
Aggregate income statement of commercial banks operating in the international banking sector of the Netherlands Antilles at quarter-end (in millions NAf.)

	2001-II	2002-II
	NAf.	NAf.
Interest income	1,465.3	1,059.9
Interest expenses	(1,459.9)	(1,028.4)
Net interest income	5.4	31.5
Other income	<u>541.3</u>	<u>403.3</u>
Total operational income	546.7	434.8
Salaries & other employee expenses	(46.6)	(49.5)
Occupancy expenses	(7.7)	(18.1)
Other operating expenses	(80.0)	(76.3)
Net addition to general provisions	<u>(136.2)</u>	<u>(272.1)</u>
Total operational expenses	(270.5)	(416.0)
Net operating income	276.2	18.8
Net extraordinary items	5.2	(42.6)
Applicable profit taxes	<u>(9.1)</u>	<u>(8.6)</u>
Net income after taxes	272.3	(32.4)