

## QUARTERLY BULLETIN 2003-2

**Bank van de Nederlandse Antillen**

## REPORT OF THE PRESIDENT

In contrast to the sluggish international environment, the economy of the Netherlands Antilles continued along the path of recovery in the second quarter of 2003, reflected by an expansion in real Gross Domestic Product of 2.9% on an annual basis. The economic expansion was supported almost entirely by the good performance of our export sector. Domestic spending grew only marginally, fuelled by private and government consumption. The growth in private consumption was related to higher disposable income in connection with a rise in net private transfers from abroad and the resumption of the payment of vacation allowance to civil servants. The payment of vacation allowance, together with more outlays for goods and services, contributed to the expansion in government consumption. The growth in consumptive expenditures was offset largely by the decline in private investment as a result of the uncertainty related to the sustainability of the recovery. The annual rate of inflation continued to accelerate, reaching 1.8% at the end of the second quarter of 2003. Increased inflation in our main trading partner, the United States, the appreciation of the euro vis-a-vis the Netherlands Antillean guilder, and higher utility prices related to increased world oil prices contributed to the acceleration.

The good performance of our export sector was accounted for primarily by the tourism and oil industries. Stay-over tourism expanded on all islands as the number of American visitors increased after the quick ending of the war in Iraq and more European visitors with the depreciation of the Netherlands Antillean guilder against the euro and increased airlift. The expansion in stay-over tourism was supported by an increase in cruise tourism in St. Maarten. In the oil industry, the oil refinery in Curacao has recovered from the impact of the general strike in Venezuela, reflected by increases in operational expenditures and the number of barrels refined. In addition, bunker sales of fuel, oil storage, and oil transshipment expanded significantly. Oil storage and transshipment activities benefited from the continued political and economic instability in Venezuela.

Developments in the transportation sector were mixed. The national carrier, Dutch Caribbean Airlines (DCA), recorded a substantial increase in the number of passengers transported on regional connections, primarily because of the expansion of its fleet. In addition, the number of passengers transported on its transatlantic flights increased. The good performance of DCA contributed also to the expansion in airport activities with increases in both the number of passengers handled and landings. In contrast, the harbor of Curacao saw a decline in the number of ships piloted and the amount of cargo handled. The free zone recorded mixed developments, reflected by an increase in re-exports and a decline in the number of visitors. Finally, activities decreased in the international financial and business services sector, as measured by operational income earned.

The balance of payments recorded a considerably higher surplus in the second quarter of 2003 compared to the corresponding quarter of 2002. Hence, our international reserves position improved further. The turnaround of the current account from a deficit to a surplus contributed primarily to the improvement. This turnaround was accounted for mainly by higher merchandise exports, the good performance of the tourism sector, and more current transfers from abroad by individuals. The higher merchandise exports were related primarily to an expansion in bunker sales. In line with the developments in the current account, the capital and financial account improved further. In addition to the increase in reserve assets,

this improvement was attributable mainly to more trade credit extended on exports by Antillean companies. These increases in assets were offset partly by the continued repatriation of funds invested abroad related to the low yields compared to domestic alternatives.

The cash deficit of the general government deteriorated in the second quarter of 2003 compared to the same period of 2002. This deterioration was the result of an expansionary fiscal policy fueled by the availability of financing because total revenues remained almost the same. The increase in expenditures was accounted for mainly by wages and salaries, goods and services, and interest payments. The increase in wages and salaries was related to the reinstatement of the vacation allowance and improved compliance in the contributions to the public sector pension fund. Moreover, the increase in interest payments was attributable to the retroactive formalization by the central government of arrears and fund deficits at the Social Security Bank, SVB. Although total revenues hardly changed, tax revenues declined, offsetting an increase in nontax revenues. The decline in tax revenues was due to fewer indirect taxes collected, related partly to weak imports and a reduction of some import levies. The increase in nontax revenues can be explained by higher advances of the license fee and profit by the central bank.

While the second quarter deficit could still be financed on the domestic capital market, the disappointing subscriptions on recent bond issues are cause for concern. This lack of interest in government bonds stemmed from the uncertainty related to the government's policy actions as to how to deal with the rising debt-to-GDP ratio. The initial conflicting signals sent by the government regarding the recommendations made by the debt commission ("Commissie Schuldenproblematiek") led the market to react with skepticism to recent government bond issues. The subsequent adoption of the recommendations by the government was not perceived by the market to be credible enough.

The adoption of those recommendations and the fact that the draft 2004 budgets of both the central government and the island government of Curacao are in line with the recommendations made by the debt commission, are important steps in addressing those concerns. To ensure the strict implementation and adherence to those policy intentions, it is necessary that appropriate mechanisms be put in place and performance targets and policy benchmarks be established. This will not only enhance the transparency of the process but it will also provide policymakers with timely information to take corrective actions if necessary and measure its progress.

The monetary aggregates recorded a moderate growth in the second quarter of 2003, the result of increases in both net domestic and net foreign assets. The domestic expansion continued to be concentrated in the government sector, while miscellaneous factors also contributed. The expansionary impact of the government sector resulted from a net increase in government securities at the banking sector in combination with the withdrawal of deposits. The private sector exerted a marginal contractionary impact due mainly to a decline in private credit extension. Net foreign assets increased as a result of the surplus in the balance of payments.

Monetary policy adjustments in the second quarter of 2003 were related to the monetary expansion by the government sector and interest rate developments. To contain the excessive growth in credit extension to the government by the commercial banks and, hence, its potential negative impact on our foreign exchange reserves, the Bank decided to increase the

reserve requirement percentage from 9.5% to 10.0% on April 16, 2003. Moreover, the Bank reduced its official lending rate (i.e., the pledging rate) by a quarter percentage point to 2.25% on June 30. This step was taken in light of the further decline in international interest rates and, hence, its impact on domestic money and capital market rates.

The economy of the Netherlands Antilles is showing a cautious recovery, but to gain momentum some important conditions must be met. First and foremost is the credibility of the financial policy in light of the unsustainable debt-to-GDP ratio. The recently adopted policy stance of the government to implement the policy measures of the debt commission and the fact that the draft 2004 budgets of both the central government and the island government of Curacao are in line with those recommendations, are important actions to underpin such a policy. Second, structural reforms should proceed to create and maintain an attractive investment climate. Third, a growth strategy must be developed to identify and implement projects that will boost economic activity and employment. Fourth, these policies should be supported by an appropriately designed social program to alleviate the needs of the poor. Since these policy areas are closely related, they should be addressed simultaneously in a comprehensive and well-balanced adjustment program with clear intermediate targets to measure its progress. The consistent, full and timely implementation of this adjustment program will reduce the reigning uncertainty in our society and gradually rebuild confidence, which are crucial factors in the promotion of durable growth and employment.

E.D. Tromp  
President

## INTERNATIONAL ECONOMIC DEVELOPMENTS

The U.S. economy expanded at an annual rate of 3.1% in the April-June quarter of 2003. The second-quarter growth was driven by gains in consumer spending, nonresidential fixed investment, and federal defense spending. The combination of lower interest rates, higher wages, and other incentives encouraged consumer spending in spite of the sluggish job market. The jobless rate reached a nine-year high at 6.4%; companies remained cautious about recalling laid-off workers despite signs of economic improvement. Productivity rose by 6.8%, as businesses cut back on jobs and raised efficiency of the remaining workers. Inflation rose by 0.4 percentage point to 2.2% in the second quarter of 2003. To encourage growth amid subdued inflationary expectations, the Federal Reserve lowered the Fed funds rate to a 45-year low of one percent in June.

**Table 1**  
**Selected indicators of various countries (% change)**

	United States		Netherlands		Venezuela	
	02-II	03-II	02-II	03-II	02-II	03-II
Real GDP	2.2	3.1	0.2	-0.9	-9.9	-9.4
Consumer prices (%)	1.8	2.2	3.9	2.8	14.7	31.5
Unemployment rate (%)	5.8	6.4	4.1	5.5	16.2	19.1

Source: Bloomberg, Latin America Monitor, and Banco Central de Venezuela

In the quarter ending June 2003, the Dutch economy shrank by 0.9%, the result of reductions in consumer spending, investments, and exports. A decline in disposable income accounted for the lower consumer spending. In addition to the appreciation of the euro, rising wage costs have made Dutch exports pricier, the latter causing many companies to move their production to countries with lower labor costs. Consequently, the jobless rate rose to 5.5%, up from 4.1% in the April-June quarter of 2002. As a result of the economic slump, consumer prices decelerated to 2.8% in the June quarter of 2003.

The Venezuelan economy contracted by 9.4% in the second quarter of 2003, mainly due to the currency crisis. Most affected by the currency restrictions was the non-oil sector, as businesses were hampered in their operations due to a lack of funds to pay for their imports. The volatile political situation continued to have a debilitating effect on investors' sentiment, while the central bank made an attempt to stimulate investment by lowering its discount rate by 1.5 percentage points to 30.5%. The unemployment rate rose to 19.1%, and annual inflation reached 31.5% during the second quarter of 2003.

## GENERAL ECONOMIC DEVELOPMENTS IN THE NETHERLANDS ANTILLES

In contrast to the relatively sluggish world economy, the Netherlands Antillean economy continued along a gradual path of recovery with a further improvement in real output, as real GDP rose by 2.9% in the June quarter of 2003. Although the economy has shown two consecutive quarters of growth, a careful analysis of the data suggests that the current upswing has not yet been firmly established. Despite the somewhat sluggish international environment, the overall stay-over arrivals to the islands expanded. However, the political and economic situation and foreign exchange restrictions in Venezuela, and the visa requirement for Colombians continued to exert a negative effect on the free zone and tourism sectors. Consumer prices accelerated in the second quarter of 2003, owing largely to higher utility costs.

Second-quarter economic growth in the Netherlands Antilles stemmed from a surge in foreign demand (table 2). The improved net foreign demand was related to a growth in exports (4.4%), as imports declined (0.5%). As imports fell, the increase in foreign demand was accommodated by a drawdown on inventories. However, because of lower private investment domestic spending lagged behind the strong net export growth. Private investment was weak, as businesses remained uncertain about the sustainability of the recovery. Private consumption expanded by 1.1%, stemming from higher disposable income. The latter was fueled by a rise in net private transfers from abroad and the payment of vacation allowance to public servants. In addition, government consumption posted a weighted increase of 1.1% in connection with the vacation allowance and increased outlays on goods and services.

**Table 2**  
**GDP growth by expenditure<sup>1)</sup>**

	2002-II	2003-II
Domestic expenditure, of which:	-2.1%	0.1%
Private sector	-2.6%	-0.9%
- Investment	-2.3%	-2.0%
- Consumption	-0.3%	1.1%
Government sector	0.5%	1.0%
- Investment	0.0%	-0.1%
- Consumption	0.5%	1.1%
Changes in inventory	-0.7%	-2.1%
Foreign net expenditure, of which:	3.5%	5.0%
Export of goods and services	-2.4%	4.4%
Import of goods and services	-5.9%	-0.5%
GDP by expenditure	0.7%	2.9%
Net primary income	-0.6%	-0.3%
Gross national income	0.1%	2.6%
Net current transfers from abroad	5.6%	1.7%
Gross national disposable income	5.8%	4.3%

BNA estimates

<sup>1)</sup> Domestic and foreign expenditure are contributors to growth.

## Domestic production

The second-quarter GDP growth was supported by increased private sector production activities (1.3%) and expansionary public sector policy (1.6%). Higher public spending was related to a surge in wages and salaries, owing to vacation compensation, which was not paid out last year. The major contributors to the private production growth came from the following sectors: manufacturing, trade, restaurants & hotels, transport, storage & communication, and financial services (including international financial services).

In the second quarter of 2003, the total value added in the manufacturing sector rose by an estimated 3.3% (table 3), aided by more activities in the oil and ship-repair sectors, and an increase in bunker sales of fuel. Total operational costs of the oil industry rose by 6.1%, caused by increases in the refinery's own use of fuel and other expenses. In addition, bunker sales of fuel and the number of man-hours sold in Curacao's ship repair industry expanded by 21.1% and 0.2%, respectively.

The continuing favorable developments in the tourism industry were reflected in total value added in the trade and restaurants & hotels sectors. During the months April-June 2003, stay-over tourism in the Netherlands Antilles was up by 9.5%, contrasting with a drop of 7.6% in the same period in 2002. This improvement was linked to a growth in the U.S. and the Dutch markets. The quick ending of the Iraq war may have eased the fear of traveling, resulting in more U.S. travelers. Furthermore, the appreciation of the euro against the US dollar and the increase in airlift from the Netherlands were accountable for more Dutch passenger arrivals. Similar to stay-over tourism, cruise tourist arrivals strengthened by 7.1%<sup>1</sup> in the second quarter of 2003, down from 9.4% in the same quarter of 2002.

An analysis by islands shows that stay-over tourism improved on all islands in the second quarter of 2003. In Curacao, declines in the South American and the Caribbean markets were offset by gains in the North American and European markets. The political situation and foreign exchange restrictions in Venezuela continued to deter visitor arrivals from this country. Moreover, the visa requirement for Colombia and stricter visa procedures for the Dominican Republic continued to exert an adverse impact on travelers from these countries. In addition, more cruise passengers visited St. Maarten, while the opposite occurred in Curacao.

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<sup>1</sup> Excluding Bonaire

**Table 3**  
**GDP by sector (real % growth)**

Sector	2002-II	2003-II
Agriculture, fishery & mining	1.5%	-3.8%
Manufacturing	-0.2%	3.3%
Electricity, gas & water	2.2%	-0.2%
Construction	0.7%	-4.3%
Wholesale & retail trade	-3.4%	4.4%
Restaurants & hotels	-5.4%	5.0%
Transport, storage & communication	-2.9%	2.7%
Financial intermediation	1.6%	1.7%
Real estate, renting & business act.	1.1%	0.4%
Private households	0.9%	5.3%
Total private sector	-0.6%	1.9%
Public sector	3.8%	8.9%
Taxes minus subsidies	3.4%	-5.0%
<b>GDP</b>	<b>0.7%</b>	<b>2.9%</b>

BNA estimate

Encouraging developments in the tourism sector accompanied by higher consumer spending contributed to the real growth of 4.4% and 5.0%, respectively, in added value of the trade and restaurants & hotels sectors. Also, in the trade sector, free-zone re-exports improved, while the number of free-zone visitors fell by 21.3% in the second quarter of 2003. Despite a fall in the visitor numbers, free-zone re-exports were up, as most of the merchandise is ordered from abroad. Fewer free-zone visitors were associated mainly with a decline in the number of visitors from Colombia, Haiti, Jamaica, and the Dominican Republic. As in the tourism industry, the stepped-up visa policy reduced the number of Colombian and Dominican shoppers to the free-zone.

The transport, storage, and communication sector's value-added rose by an estimated 2.7%, benefitting from favorable developments in air transportation and oil storage movements. The number of passengers transported on regional connections by the national airline, Dutch Caribbean Airlines (DCA), increased by 39.6% in the second quarter of 2003. Additionally, the number of passengers on the transatlantic flights was up by 13.2%. In line with the air transportation industry, airport activities expanded as total passenger traffic, as well as commercial landings went up by 15.9% and 16.6%, respectively. Oil storage in the Netherlands Antilles<sup>2</sup> grew by 47.2%, primarily in Bonaire, as a result of the political situation in Venezuela.

Contrary to the above-mentioned developments in the transportation sector, total cargo movements in Curacao's harbor shrank by 0.8% in the quarter ending June 2003. Besides fewer cargo activities, the number of ships piloted into the harbor contracted by 20.5%, as opposed to a rise of 19.4% in the second quarter of 2002.

<sup>2</sup> Excluding Curacao



Second-quarter GDP growth was dampened by reductions in the agriculture, fishing & mining, utilities, and construction sectors, as their added-value dropped by 3.8%, 0.2%, and 4.3%, respectively. Despite the economic pick-up, producers' willingness to make any major investment decisions remained subdued, as activity in the construction sector fell for the second consecutive quarter.

### Inflation

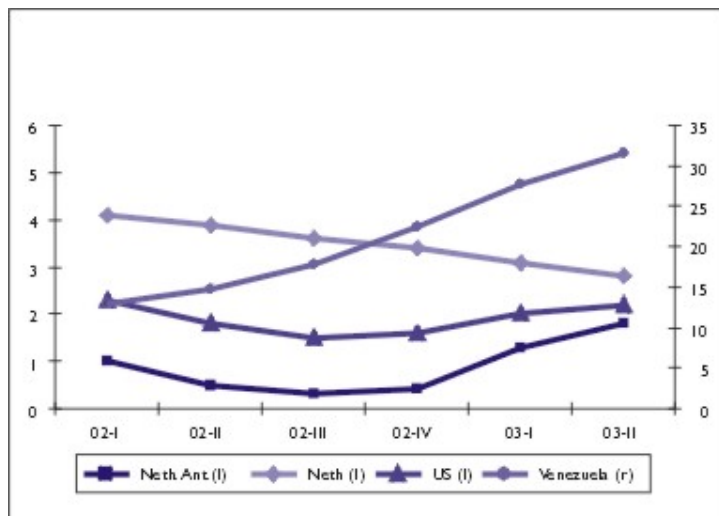
The annual rate of inflation in the Netherlands Antilles surged from 0.5% in the second quarter of 2002 to 2.1% in the second quarter of 2003. The factors behind the higher second-quarter inflation were (1) higher inflation in one of our main trading partners, the United States; (2) appreciation of the euro against the US dollar; and (3) higher utility costs.

A breakdown of the inflation rate by major subcategories reveals that the higher second-quarter inflation was caused by the categories "housing" (6.0%) and "food" (2.3%). Housing expenses were pushed up by higher utility costs. Additionally, food prices went up, as a result of the appreciation of the euro and high price inflation in Venezuela. Meanwhile, consumer price deflation occurred mainly in the item "transport & communication" (-1.3%), due to a price drop in automobiles, owing to the complete phasing-out of the economic levy.<sup>3</sup>

An analysis by islands shows that in the June quarter of 2003, Curacao had the highest annual inflation rate of 2.1%, followed by St. Maarten (0.8%), and Bonaire (-0.2%). See table 11 in the Appendix for a detailed overview.

### Graph 1

Developments in consumer prices (annual percentage change)



<sup>3</sup> The economic levy was lowered from 9% to 0% on January 1, 2003

## DEVELOPMENTS IN PUBLIC FINANCE

The public sector provided a substantial contribution to real GDP growth in the second quarter of 2003. Fueled by abundant availability of financing, fiscal policy was rather expansionary, as total expenditures increased by 12.5% compared with the same period in 2002. The overall fiscal deficit on a cash basis worsened by NAf.46.1 million to NAf.110.1 million in the second quarter of 2003, compared to the same quarter in 2002. A closer look at the developments underlying the fiscal outcome reveals that the government, among other things, purchased more goods and services and incurred more wages and salaries and interest expenses. However, total revenues remained almost the same. See table 12 in the Appendix for a detailed overview.

In current expenditures, wages and salaries increased by 22.8%, goods and services by 21.6%, and interest payments by 18.5%. This expansionary behavior was offset partially by reduced outlays on subsidies. Despite lower interest rates - particularly on short-term debt paper, domestic interest payments increased because of the regularization of arrears and fund deficits at the Social Security Bank, SVB, for which the central government is the guarantor.<sup>4</sup>

Rather mixed developments were registered in total revenues. In line with the economic performance in the Netherlands Antilles the proceeds from the sales tax increased by 4.0%. An increase also was registered in property tax, but all other tax categories decreased, which led to a drop in tax revenues of 7.4%. The major contributors to the drop in tax revenues were import duties and excises, in line with fewer imports and lower rates of some import duties.

A review by level of government reveals that both the central government and the island government of Curaçao contributed to the deterioration in the deficit on a cash basis in the second quarter of 2003. The cash balance of the island government of Curacao showed a deficit of NAf.57.4 million, while that of the central government worsened to a deficit of NAf.52.7 million.

The worsening in the cash balance of the island government of Curacao was due to the increase of NAf.16.1 million in total expenditures. The expansionary fiscal policy of the island government of Curacao was reflected by a 7.2% increase in current expenditures. The higher expenditures were related mainly to a surge in wages due to the payment of vacation allowance, which was temporarily frozen in previous years, and the purchase of more goods and services. These increases were mitigated partially by a decline in domestic interest payments, among other things, related to the lower short-term interest rates. In contrast, a marginal increase was registered in total revenues (0.3%).

The central government's fiscal deficit worsened by NAf.30.6 million, the result of a 16.4% increase in expenditure and a drop of 1.0% in revenues. The central government's expansionary expenditure policy contributed to increased domestic demand through higher wage and salary payments (23.2%). Within this category, pension premium payments accounted for

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<sup>4</sup> In June 2003, the formalization of the debt of the central government to the SVB - comprising arrears in the payment of health insurance premiums for family members of insured employees and fund deficits - into a bond was approved by parliament. However, the NAf.338 million bond became effective retroactively as of June 1, 2002.

65% of this growth and wages for 34%. The wage bill of the central government increased because the payment of vacation allowance was reinstated in the second quarter of 2003, while the compliance with pension contributions improved. In addition, higher interest payments in the amount of NAf.25.8 million contributed to the worsening of the central government's fiscal balance. The increase in interest payments was almost entirely domestic and was related to the formalization of debt with the SVB.

Except for taxes on property, all other tax categories of the central government dropped. Taxes on international trade and transactions dropped by 22.6% as import duties fell by 22.9% in line with less imports and lower rates on some goods categories.<sup>5</sup> Taxes on goods and services dropped by 6.7% due to less collected in excises and gambling and other licenses. In contrast, sales tax revenues (4.0%) benefited from the economic expansion in the second quarter, mainly due to higher domestic turnover. Nontax revenues increased by NAf.13.3 million because the central bank transferred more license fees and profit in the second quarter of 2003.

**Table 4**  
**Financing of the cash balances (in millions NAf.)**

	Central government		Curacao government	
	2002-II	2003-II	2002-II	2003-II
Monetary financing	3.5	8.8	-14.8	29.6
Central bank	-10.1	-27.0	-13.2	-19.5
Commercial banks	13.3	36.1	-1.6	49.1
Coins and notes	0.3	-0.3	-	-
Nonmonetary financing	18.6	43.9	56.7	27.8
Government securities with the public	19.5	49.3	42.3	6.4
Other	-0.9	-5.4	14.4	21.4
Cash balance	-22.1	-52.7	-41.9	-57.4

The overall fiscal deficit of the general government in the second quarter of 2003 was financed both monetarily and nonmonetarily (see table 4). The monetary financing resulted from a drawdown on current account balances and an increase in government securities at the commercial banks. In addition, the government's cash balances were financed through increased securities with the public (NAf.55.7 million).

Analysis by level of government shows that the central government's financing need was realized through both the public and the commercial banks, due mostly to the purchase of se-

<sup>5</sup> Among other things, the economic levy on cars was reduced from 9% to 0% on January 1, 2003.

curities. In contrast, a monetary contraction took place through the central bank because of an increase in deposits and a drop in loans extended.

The island government of Curacao financed its cash deficit both monetarily and nonmonetarily in the second quarter of 2003. The nonmonetary financing was realized through the net purchase of government securities by the public. The monetary financing was attributable to an increase in net claims by the commercial banks, mainly as a result of the net purchase of government securities and a drawdown on current account balances. In contrast, the monetary contraction at the central bank was the result of an increase in the current account balance and a net sale of government securities.

### **Total stock of public outstanding debt**

The total outstanding debt of the Netherlands Antilles increased by NAf.356.6 million (9.1%) during the second quarter of 2003, the result of increases of NAf.319.0 million (10.0%) in the domestic debt and NAf.37.6 million (5.1%) in the foreign debt. The substantial increase in the total consolidated domestic debt was attributable to the formalization of fund deficits of the Social Security Bank, SVB, through the conversion of a central government bond in June. The main explanation for the development in the foreign debt of the Netherlands Antilles is the depreciation of the Netherlands Antillean guilder vis-a-vis the Euro. Consequently, total debt as a percentage of GDP reached an estimated 86% at the end of the second quarter of 2003. See table 13 in the Appendix for a detailed overview.

The domestic debt of the central government rose by NAf.330.4 million during the second quarter of 2003, mainly as a result of the formalization of the debt with the SVB. Since part of this formalization included arrears, outstanding arrears with the SVB declined. A decline also was noticed in short-term securities (NAf.43.1 million).

Contrary to the development in the central government debt, a decrease occurred in the domestic debt of the island government of Curacao (NAf.26.3 million) in the second quarter of 2003. This decrease was due mainly to the categories "other debt" (NAf.29.6 million)<sup>6</sup> and "debt with the central government" (NAf.13.1 million). Total outstanding securities increased (NAf.19.5 million), due entirely to more long-term securities because short-term securities declined.

The domestic debt of the other island governments (i.e., Bonaire, St. Maarten, St. Eustatius, and Saba) increased by NAf.2.7 million, the result of increased arrears with the APNA and the central government.

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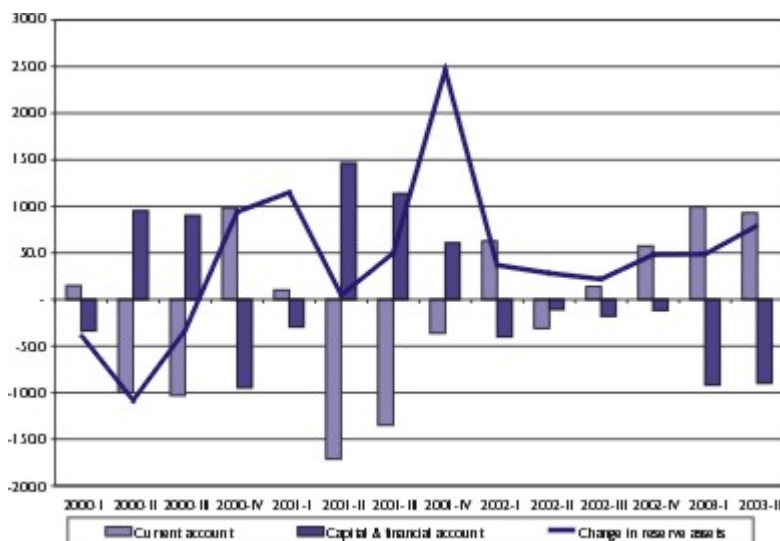
<sup>6</sup> The decrease in other debt included an administrative settlement of the debt with the government-owned airport company Curinta N.V. (NAf.12.6 million), the partial reduction of the liability with the Road Fund (NAf.8.4 million), and a decline in payment arrears (NAf.13.3 million).

## DEVELOPMENTS IN THE BALANCE OF PAYMENTS

In the second quarter of 2003, the balance of payments developments in the Netherlands Antilles were characterized by a substantial improvement in the current account balance as a result of buoyant merchandise exports and current private transfers. In line with the developments in the current account, the capital and financial account balance improved further. Net international reserves improved by NAf.79.2 million.

**Graph 2**

**Developments in the balance of payments (in millions NAf.)**



### The current account

The current account of the balance of payments recorded a surplus of NAf.92.7 million in the second quarter of 2003, following a deficit of NAf.30.8 million in the same period of 2002. A closer look at the current account balance shows that this turnaround was attributable mainly to improved export performance, as our imports remained subdued.

Earnings from merchandise exports increased by more than one-third, mainly as a result of increased earnings from bunkering activities. This increase can be related to higher average fuel prices and accounted for 70% of the total increase in merchandise exports. In addition, the foreign exchange earnings from the ship repair sector were higher than in the second quarter of 2002. The performance of the tourism industry also contributed to the improved current account balance, as earnings in this sector increased by NAf.34.3 million. In contrast, earnings in the transportation sector declined for the second consecutive quarter. Another mitigating factor was the decline in earnings from international financial services.

Noteworthy is that the import of goods and services remained subdued in the period under consideration. The 0.7% growth in goods and services imports was primarily the result of an increase in merchandise imports and a continued rise in travel expenses by residents. The increase in merchandise imports was the result of higher average oil prices.

Overall, the balance of goods and services improved by NAf.74.7 million and contributed significantly to the NAf. 123.5 million turnaround in the current account balance. The continued rise in transfers from abroad by individuals (NAf. 54.8 million) also played an important role in the improvement of the current account balance.

### **The capital and financial accounts**

The surplus on the current account was reflected in a marked increase in foreign assets. A look at the capital and financial accounts excluding reserve assets reveals an improvement of NAf.23 million, almost entirely attributable to the net lending/borrowing balance vis-a-vis the rest of the world. The net lending/borrowing balance, comprising direct lending of funds and trade credit, recorded an improvement of NAf.20 million in the second quarter of 2003 compared to the second quarter of 2002. This result was due entirely to developments in the trade credit balance.

In the second quarter of 2003, more trade credit on exports was extended, compared to the same period of 2002, a result of the substantial increase in exports. Overall, the trade credit balance indicates that Antillean enterprises had more trade credit outstanding on exports than they owed on imports.

Worth mentioning is that the developments in the foreign investment balance were influenced largely by developments in interest rates on the international financial markets. The portfolio investment balance showed a decline of NAf.40 million, indicating that Antillean residents continued to repatriate their funds invested abroad. This development implies that, for the second consecutive quarter, local investors were shifting their funds more towards domestic, higher-yielding investments.

## **MONETARY DEVELOPMENTS**

### **Monetary policy and money supply**

During the second quarter of 2003, net international reserves increased further, contributing to the excess liquidity in the domestic banking sector. The latter continued to exercise a downward pressure on domestic interest rates. In line with this development and the continuous decreases in international interest rates, the Bank reduced its official lending rate, the pledging rate, twice during the April-June period of 2003, reaching 2.25%. In contrast, the Bank raised the reserve requirement percentage by 0.5 percentage point to 10.0% on April 16, 2003. This increase was a reaction to the continuing excessive expansion in credit extension to the government sector.

The money supply (M2) in the Netherlands Antilles expanded by NAf. 144.6 million (3.7%) during the second quarter of 2003, compared to the same quarter of 2002. As a result of the estimated nominal growth of domestic production, the velocity of money decreased by 10.4% on an annual basis. The drop in the velocity of money is reflected by the continuing increase in demand deposits, time deposits, and savings by NAf. 73.6 million, NAf. 28.5 million, and NAf. 29.7 million, respectively. See table 15 in the Appendix for further details.

### **Factors affecting the money supply**

The money supply expanded in the second quarter of 2003 due to increases in both net domestic assets and net foreign assets of NAf. 65.4 million and NAf. 79.2 million, respectively. The increase in net foreign assets resulted mainly from the surplus in the current account of the balance of payments. Noteworthy is that the expansion in net foreign assets was concentrated entirely at the commercial banks (NAf. 81.8 million). In contrast, net foreign assets at the central bank dropped by NAf. 2.6 million, the result among other things, of the net purchase of foreign currency by the commercial banks.

The expansion in net domestic assets resulted largely from an increase of NAf. 45.2 million in net credit extended to the government sector. Both government levels contributed to this increase: the island government of Curacao with NAf. 34.2 million and the central government with NAf. 11.0 million. The need for liquidity by the government sector was due, among other things, to the reinstatement of the vacation allowance for civil servants. In addition, miscellaneous factors contributed for NAf. 23.6 million to the rise in net domestic assets.

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

Domestic credit extension by the commercial banks grew by 1.5% during the second quarter of 2003. Domestic credit to the governments expanded by 15.2%. In contrast, credit extended to the private sector declined by 0.1%. The demand for credit by the private sector dropped largely because of a decrease of NAf. 27.5 million in business loans. This decrease is in line with the decline in private investment, a result of the continuing uncertainty with respect to the sustainability of the economic recovery. Worth mentioning is that the drop in business loans was concentrated entirely on the Leeward Islands, where a decrease of NAf. 33.5 million was recorded. In contrast to business loans, consumer loans and mortgages rose by NAf. 18.2 million and NAf. 7.2 million, respectively. The increase in

consumer loans was in line with the expansion in consumer spending during the second quarter of 2003. The increase in mortgages does not coincide with the contraction in the construction sector. This could be explained partly by the time lag between the approval of the mortgage and the moment construction is started. In addition, the rise also may be related to increases in existing mortgages for purposes other than construction activity. The latter could have been promoted by the decreasing mortgage rates related to the excess liquidity in the banking sector.

### **Developments in domestic interest rates**

In line with both international and domestic developments, the Bank reduced its official lending rate, the pledging rate, twice during the second quarter of 2003: from 3.0% to 2.5% on May 19, and to 2.25% on June 30. Compared to the end of the second quarter of 2002, the pledging rate declined by 3.5 percentage points.

The average interest rate commercial banks offer on savings did not change during the April-June period of 2003, compared to the same period in 2002, remaining at 3.6%. In contrast, the average rate offered on time deposits dropped by 0.9 percentage point to 5.4%. This decline can be explained by the excess liquidity in the banking sector, which, among other things, reduces the need to compete for funds through higher interest rates.

Average lending rates showed a divergent development. While the average rate on mortgages continued its downward trend and dropped by 0.3 percentage point to 9.4%, the average rate on current account overdrafts rose by 1.7 percentage points to 11.8%. The drop in the average rate on mortgages is influenced by increased competition in the local market and decreasing rates on foreign mortgages.

The average yield on domestic government bonds continued to decrease, reaching 6.7% at the end of the second quarter of 2003. This decrease implies a drop of 2.0 percentage points compared to the second quarter of 2002. The excess liquidity in the banking sector and the low international interest rates, especially in the United States, continued as the main factors contributing to this development. See table 16 in the Appendix for further details.



## **DEVELOPMENTS IN THE FINANCIAL SECTOR**

### **Introduction**

During the second quarter of 2003, the Bank conducted full-scale examinations at two domestically operating commercial banks. Furthermore, the Bank revoked the license of the internationally operating commercial bank, Banco Continental Overseas N.V.

### **Developments in the domestic banking sector**

During the second quarter of 2003, total assets of the banking institutions operating in the domestic banking sector of the Netherlands Antilles increased to NAf.6,361.8 million, up slightly by NAf.29.5 million (0.5%) compared to the previous quarter.

This increase is mainly a result of the NAf.70.6 million growth in investments. The expansion in investments can be attributed, first, to the increase in long-term debentures of both foreign and local governments -- of NAf.18.9 million and NAf.46.7 million, respectively, and second, to increases in short-term debentures of local governments and foreign banks -- of NAf.7.6 million and NAf.4.1 million, respectively.

The loan portfolio of the domestic banks increased slightly by NAf.10.0 million (0.3%), due to the increases in various loan categories. Current account overdrafts of both local and foreign business enterprises increased by NAf.6.8 million and NAf.7.8 million, respectively. Also contributing to the increase were mortgage loans taken by local business enterprises and time loans taken by resident individuals, which grew by NAf.14.1 million and NAf.16.9 million, respectively. These increases were mitigated by a NAf.26.2 million decrease in time loans taken by local business enterprises.

On the other hand, the decline in interest-bearing cash was the result of a drop in interbank funds sold to other foreign banks (NAf.22.5 million). In addition, other assets also recorded a decrease (NAf.25.4 million).

The increase in total assets was funded by a net increase in total deposits of NAf.39.4 million (0.7%) to NAf.5,534.0 million. In contrast, other liabilities dropped by NAf.15.8 million (6.6%). Demand deposits placed by local business enterprises, other financial institutions, and resident individuals increased by NAf.54.5 million, NAf.26.2 million and NAf.18.8 million, respectively. However, demand deposits placed by the island governments and other local banks decreased by NAf.34.2 million and NAf.10.2 million. In addition, savings deposits placed by resident individuals increased by NAf.31.0 million. In contrast, time deposits recorded an overall decrease of NAf.64.1 million, a result of the drop in time deposits placed by foreign business enterprises (NAf.42.3 million), local affiliates and subsidiaries (NAf.10.0 million), and other banks (NAf.23.7 million). However, time deposits placed by other local financial institutions increased by NAf.26.6 million.

Total capitalization of the domestic banking sector increased slightly by NAf.6.0 million (1.2%) to NAf.487.7 million at the end of the second quarter of 2003. However, the capital-to-assets ratio remained almost unchanged at 7.7%, slightly below the minimum international capital standard of 8%.

**Table 5**  
**Aggregate balance sheet of commercial banks operating in the domestic banking sector of the Netherlands Antilles at quarter-end (in millions NAf.)**

	2002-IV		2003-I		2003-II	
	NAf.	%	NAf.	%	NAf.	%
<b>ASSETS</b>						
Non-int.-bearing cash	395.6	6.4	407.8	6.4	415.0	6.5
Interest-bearing cash	1,371.5	22.1	1,537.5	24.3	1,516.2	23.8
Investments	582.8	9.4	535.6	8.5	606.2	9.5
Loans	3,500.9	56.5	3,494.7	55.2	3,504.7	55.1
Investm. unconsol. sub.	12.2	0.2	13.4	0.2	12.3	0.2
Fixed assets	170.0	2.7	170.3	2.7	168.7	2.7
Other assets	166.6	2.7	173.0	2.7	138.7	2.2
<b>Total assets</b>	<b>6,199.6</b>	<b>100.0</b>	<b>6,332.3</b>	<b>100.0</b>	<b>6,361.8</b>	<b>100.0</b>
<b>LIABILITIES</b>						
Demand deposits	1,798.0	29.0	1,816.1	28.7	1,869.1	29.4
Savings deposits	2,148.7	34.7	2,217.4	35.0	2,267.9	35.5
Time deposits	1,302.0	21.0	1,461.1	23.1	1,397.0	22.0
<b>Total deposits</b>	<b>5,248.7</b>	<b>84.7</b>	<b>5,494.6</b>	<b>86.8</b>	<b>5,534.0</b>	<b>86.9</b>
Borrowings	183.1	2.9	118.2	1.9	118.0	1.9
Other liabilities	274.6	4.4	237.9	3.8	222.1	3.5
<b>Total liabilities</b>	<b>5,706.4</b>	<b>92.0</b>	<b>5,850.7</b>	<b>92.4</b>	<b>5,874.1</b>	<b>92.3</b>
Minority interest	6.6	0.1	6.8	0.1	6.9	0.1
Subordinated debentures	9.7	0.2	9.7	0.2	9.7	0.2
General provisions	161.7	2.6	135.0	2.1	140.6	2.2
Capital & reserves	315.2	5.1	330.2	5.2	330.5	5.2
<b>Total capital</b>	<b>493.2</b>	<b>8.0</b>	<b>481.7</b>	<b>7.6</b>	<b>487.7</b>	<b>7.7</b>
<b>Total liabilities and capital</b>	<b>6,199.6</b>	<b>100.0</b>	<b>6,332.3</b>	<b>100.0</b>	<b>6,361.8</b>	<b>100.0</b>

In the second quarter of 2003, the banks operating in the domestic banking sector of the Netherlands Antilles recorded an increase in their net result. Both net operating income and income after taxes increased, by NAf.11.7 million and NAf.11.0 million, respectively. Operational income increased by NAf.15.0 million, while operational expenses increased slightly by NAf.3.3 million. The latter increase is attributable to the increase in salaries & other employees expenses and the net addition to general provisions.

**Table 6****Aggregate income statement of commercial banks operating in the domestic banking sector of the Netherlands Antilles at quarter-end (in millions NAf.)**

	2002-II	2003-II
Interest income	221.6	227.2
Interest expenses	(86.8)	(86.7)
Net interest income	134.8	140.5
Other income	<u>70.6</u>	<u>79.9</u>
Total operational income	205.4	220.4
Salaries & other employees expenses	(94.5)	(100.4)
Occupancy expenses	(26.7)	(26.9)
Other operating expenses	(37.3)	(32.8)
Net addition to general provisions	<u>(12.5)</u>	<u>(14.2)</u>
Total operational expenses	(171.0)	(174.3)
Net operating income	34.4	46.1
Net extraordinary items	0.8	0.7
Applicable profit taxes	(11.5)	(12.1)
Net income after taxes	23.7	34.7

The aggregate macro-prudential indicators in table 7 provide a further indication of the performance of the commercial banks.

The total-capital-to-total assets ratio remained unchanged at 7.9% in the second quarter of 2003, slightly below the international minimum capital ratio of 8%. Total capital is defined as the sum of equity capital, general provisions, and subordinated debentures qualifying as secondary capital components. Moreover, the other capital ratios also remained the same.

The increase in the nonperforming loans ratios indicates a slight deterioration in asset quality of the domestic banking sector. Furthermore, the loan loss provision as a percentage of nonperforming loans continued its decreasing trend, indicating that the banks still have not reached an adequate level of provisions to absorb possible losses.

The profitability of the domestic banking sector reflected by the earnings ratios is at an acceptable level, but decreased slightly compared to the first quarter of 2003.

The liquidity of the domestic banking sector continued to increase as measured by the liquidity surplus. The loans-to-deposits ratio of 64.0% indicates that the domestic banking sector employed only 64.0% of its deposit base to fund its credit extension activities.

**Table 7****Macro-prudential indicators of commercial banks operating in the domestic banking sector of the Netherlands Antilles at quarter-end (%)**

	2002-IV	2003-I	2003-II
<b>CAPITAL ADEQUACY*</b>			
Total capital/total assets	8.2	7.9	7.9
Tier 1 capital/total assets	5.3	5.5	5.5
Tier 2 capital/total assets	2.7	2.3	2.3
Tier 3 capital/total assets	0.2	0.2	0.2
<b>ASSET QUALITY</b>			
Non-performing loans/total loans	5.9	6.2	6.9
Non-performing loans/total capital	39.9	42.7	47.3
Provisions for loan losses/ nonperforming loans	73.6	58.8	55.5
<b>EARNINGS<sup>1)</sup></b>			
Gross-earning-assets yield	7.6	8.3	8.0
Break-even yield	2.8	3.1	3.0
Net interest margin	4.8	5.2	5.0
Return-on-assets	1.1	1.7	1.4
<b>LIQUIDITY</b>			
Total loans/total deposits	67.6	64.3	64.0
Liquidity surplus (in millions NAf.)	85.1	91.1	111.7

\* The capital ratios are based on the figures excluding the branches in the Netherlands Antilles.

<sup>1)</sup> These ratios are annualized.

**Developments in the international banking sector**

In the second quarter of 2003, the total assets of the international banking sector increased by NAf.8.6 billion (12.4%) to NAf.78.0 billion. This expansion was due mainly to the increases in cash & banks and loans by NAf.3.8 billion (33.2%) and NAf.2.5 billion (6.2%), respectively. The increase in total assets was financed primarily by the growth in borrowings and demand deposits of NAf.4.4 billion (10.1%) and NAf.3.1 billion (59.9%), respectively. Total capital of the international banking sector decreased slightly by NAf.40.9 million to NAf.6,853 million, while the total capital-to-total assets ratio decreased by 1.1 percentage point to 8.8%. This ratio is still well above the international minimum capital standard of 8%.

**Table 8****Aggregate balance sheet of commercial banks operating in the international banking sector of the Netherlands Antilles at quarter-end (in millions NAf.).**

	2003-I		2003-II	
	NAf.	%	NAf.	%
<b>ASSETS</b>				
Cash & banks	11,567.9	16.7	15,407.6	19.8
Investments	8,008.2	11.5	9,450.0	12.1
Loans	40,798.5	58.8	43,311.0	55.5
Fixed & other assets	9,030.6	13.0	9,840.8	12.6
Total assets	69,405.2	100.0	78,009.4	100.0
<b>LIABILITIES</b>				
Demand deposits	5,206.2	7.5	8,324.6	10.7
Time deposits	12,586.0	18.1	13,454.0	17.2
Borrowed funds	43,588.9	62.8	47,977.4	61.5
Other liabilities	1,129.9	1.7	1,400.1	1.8
Total liabilities	62,511.0	90.1	71,156.1	91.2
Capital	6,894.2	9.9	6,853.3	8.8
Total liabilities & capital	69,405.2	100.0	78,009.4	100.0

Net operating income of the international banks improved significantly by NAf.275.4 million in the second quarter of 2003, compared to the second quarter of 2002. This improvement was attributable to the decrease in interest and operational expenses and the increase in other income. Total operational expenses decreased by NAf.205.1 million, mainly as a result of lower net additions to general provisions.

**Table 9****Aggregate income statement of commercial banks operating in the international banking sector of the Netherlands Antilles at quarter-end (in millions NAf.)**

	2002-II	2003-II
Interest income	1,059.9	1,058.9
Interest expenses	(1,028.4)	(994.8)
Net interest income	31.5	64.1
Other income	403.3	441.0
Total operational income	434.8	505.1
Salaries & other employees expenses	(49.5)	(56.5)
Occupancy expenses	(18.1)	(10.3)
Other operating expenses	(76.3)	(94.4)
Net addition to general provisions	(272.1)	(49.7)
Total operational expenses	(416.0)	(210.9)
Net operating income	18.8	294.2
Net extraordinary items	(42.6)	(27.1)
Applicable profit taxes	(8.6)	(7.0)
Net income after taxes	(32.4)	260.1

## APPENDIX

**Table 10**  
**Developments in stay-over tourism per island (% change)**

	Curazao		St. Maarten		Bonaire	
	2002-II	2003-II	2002-II	2003-II	2002-II	2003-II
North America, of which:	6.6	7.4	-6.5	12.6	-10.7	0.1
-U.S.A.	7.3	6.8	-6.7	13.2	---	---
Europe, of which:	-4.5	25.6	-16.8	1.0	-17.7	127.8
-The Netherlands	-4.3	32.6	-10.8	28.0	---	---
South & Central America, of which:	-1.5	-29.8	-49.7	-10.1	-43.7	10.3
-Venezuela	-9.4	-18.3	-50.3	-28.5	---	---
-Colombia	17.5	-71.0	---	---	---	---
-Other S&C America	4.4	-2.7	-19.0	-0.2	---	---
Caribbean, of which:	23.2	-5.4	-5.2	25.0	12.6	49.4
-Aruba	18.3	-6.9	---	---	---	---
-Dominican Republic	20.3	-24.7	-27.9	19.1	---	---
-Other Caribbean	0.4	16.5	2.9	19.5	---	---
Total	3.1	0.3	-11.7	10.9	-15.3	41.8

**Table 11**  
**Netherlands Antilles consumer prices**

	2002-II	2002-III	2002-IV	2003-I	2003-II
Food	4.1%	4.1%	3.6%	2.9%	2.3%
Beverages & tobacco	0.8%	0.5%	-0.1%	-0.4%	-0.7%
Clothing & footwear	-1.2%	-1.4%	-1.6%	-1.6%	-1.0%
Housing	0.6%	0.5%	1.9%	4.5%	6.0%
Housekeeping & furnishings	0.3%	-0.4%	-1.0%	-0.6%	0.2%
Health	4.4%	3.0%	1.5%	0.4%	0.2%
Transport & communication	-1.7%	-2.4%	-2.9%	-1.6%	-1.3%
Recreation & education	-0.7%	-0.7%	-0.4%	-0.1%	0.1%
Other	1.0%	1.1%	1.2%	1.2%	1.1%
<b>General inflation rate</b>	<b>0.5%</b>	<b>0.3%</b>	<b>0.4%</b>	<b>1.3%</b>	<b>1.8%</b>

**Table 12**  
**Budgetary overview (in millions NAf.)**

	2000-II	2001-II	2002-II	2003-II
<b>General government</b>				
Revenues	305.6	256.0	300.7	300.2
Tax revenues, of which:	279.8	239.9	281.7	260.9
Taxes on income and profits	126.7	97.3	129.6	128.7
Taxes on goods and services	101.9	97.4	107.1	96.2
Taxes on international trade and transactions	34.4	30.6	35.0	27.1
Nontax revenues	25.7	16.0	19.0	39.3
Expenditures	324.2	294.1	364.7	410.3
Current, of which:	316.2	288.5	349.3	399.1
Wages and salaries	139.6	99.1	123.7	152.0
Goods and services	69.6	66.7	75.5	91.8
Interest payments	37.3	46.3	64.4	76.3
Capital	8.0	5.6	15.4	11.3
Budget balance	-18.6	-38.2	-64.0	-110.1
<b>Central government</b>				
Revenues	156.0	140.0	155.6	154.1
Tax revenues, of which:	134.8	126.9	140.2	125.4
Taxes on goods and services	93.7	91.4	99.3	92.6
Taxes on international	34.4	30.6	35.0	27.1



trade and transactions				
Nontax revenues	21.2	13.1	15.4	28.7
Expenditures	150.1	142.7	177.7	206.8
Current, of which:	144.2	139.2	165.8	199.6
Wages and salaries	57.4	53.9	60.4	74.4
Goods and services	25.8	22.3	24.6	25.3
Interest payments	18.0	12.3	19.1	44.9
Domestic	16.8	13.3	19.8	46.1
Abroad	1.2	-1.0	-0.7	-1.2
Capital	5.9	3.5	11.9	7.2
Budget balance	5.9	-2.7	-22.1	-52.7
<b>Island government of Curaçao</b>				
Revenues	167.6	143.3	176.6	177.1
Tax revenues, of which:	145.0	113.0	141.5	135.5
Taxes on income and profits	126.7	97.3	129.6	128.7
Taxes on goods and services	8.2	6.0	7.8	3.6
Nontax revenues	22.5	30.3	35.1	41.6
Expenditures	192.1	178.7	218.5	234.6
Current, of which:	190.0	176.6	215.0	230.5
Wages and salaries	82.2	45.2	63.3	77.6
Goods and services	43.8	44.4	50.9	66.5
Interest payments	19.3	34.0	45.3	31.4
Domestic	19.3	34.0	44.2	28.1
Abroad	0.0	0.0	1.0	3.3
Capital	2.1	2.1	3.5	4.1
Budget balance	-24.5	-35.5	-41.9	-57.4

**Table 13**  
**Total outstanding consolidated public debt<sup>1</sup> (in millions NAf.)**

	2002-II	2002-III	2002-IV	2003-I	2003-II
Domestic consolidated debt	2,940.1	2,977.9	3,123.7	3,182.5	3,501.6
-Central government of which:	1,250.8	1,234.4	1,502.3	1,517.4	1,847.8
Long-term securities	921.2	934.6	963.4	1,042.3	1,503.5
Short-term securities	106.3	118.6	136.6	119.6	76.2
APNA	126.4	102.2	160.1	147.9	144.8
SVB	17.1	9.4	117.4	103.6	24.4
-Curacao	1,569.1	1,610.9	1,993.7	2,013.5	1,987.1

of which:					
Long-term securities	482.3	498.9	528.1	549.9	602.8
Short-term securities	67.6	100.3	111.7	116.4	83.0
APNA	798.1	789.5	814.5	806.9	805.2
Central government	330.1	334.3	398.6	392.0	378.9
-Other islands	128.8	141.0	274.6	287.7	290.4
Foreign debt	588.3	582.6	718.0	733.5	771.1
Total debt (consolidated)	3,528.4	3,560.5	3,841.7	3,916.0	4,272.7
(% of GDP)	62.1%	62.7%	80.6%	80.5%	85.9%

<sup>1</sup> Consolidated for debt between the central government and the island governments.

**Table 14**  
**Overview balance of payments (in millions NAf.)**

	2002-II	2003-II	Diff.
Trade balance	-489.7	-414.8	75.0
-Exports	255.1	341.2	86.1
-Imports	744.9	756.0	11.1
Services balance	384.0	383.7	-0.3
Receipts, of which:	711.2	707.5	-3.7
-Travel	311.5	345.8	34.3
-Transportation	78.7	57.2	-21.5
-Other services, of which:	321.0	304.5	-16.5
-Int.fin & bus.services sector	124.9	108.0	-16.9
Expenses	327.3	323.8	-3.5
Income balance <sup>1)</sup>	5.0	-1.0	-6.0
Current transfers balance <sup>2)</sup>	70.0	124.8	54.8
<b>Current account balance</b>	<b>-30.8</b>	<b>92.7</b>	<b>123.5</b>
<b>Capital &amp; financial account balance</b>	<b>-10.7</b>	<b>-89.9</b>	<b>-79.2</b>
Capital balance	19.1	16.2	-2.9
Financial balance	-29.8	-106.1	-76.3
-Direct investment balance <sup>3)</sup>	-17.7	-42.8	-25.1
-Portfolio investment balance <sup>4)</sup>	-33.8	5.9	39.7
-Other investment balance <sup>5)</sup>	60.8	40.5	-20.3

-Net lending/borrowing balance <sup>4)</sup>	-10.8	-30.5	-19.7
-Reserve assets <sup>4)</sup>	-28.4	-79.2	-50.8
<b>Net errors &amp; omission</b>	<b>41.5</b>	<b>-3.0</b>	<b>44.5</b>

1) Labor and investment income

2) Public and private transfers

3) A - sign means a decrease in liabilities

4) A - sign means an increase in assets

5) A + sign means a decrease in assets

**Table 15**  
**Monetary survey (in millions NAf.)**

	2002-II	2002-III	2002-IV	2003-I	2003-II
<b>Money supply (M2)</b>	3,529.6	3,622.0	3,776.8	3,919.5	4,064.1
<b>Money (M1)</b>	1,387.1	1,424.5	1,497.2	1,530.7	1,617.1
Coins & notes with the public	214.2	216.2	235.2	219.7	232.5
Total demand deposits, of which:	1,172.9	1,208.3	1,262.0	1,311.0	1,384.6
-Netherlands Antillean guilders	951.5	989.5	1,019.6	1,056.9	1,108.8
-Foreign currency	221.4	218.8	242.4	254.1	275.8
<b>Near money</b>	2,142.5	2,197.5	2,279.6	2,388.8	2,447.0
Time deposits	1,219.2	1,271.8	1,324.0	1,396.9	1,425.4
Savings	923.3	925.7	955.6	991.9	1,021.6
<b>Factors affecting the money supply:</b>					
<b>Net domestic assets</b>	2,453.1	2,523.7	2,630.5	2,724.3	2,789.7
General government	217.3	266.6	351.6	408.0	453.2
-Central government	83.4	129.0	189.5	270.6	281.6
-Island governments	133.9	137.6	162.1	137.4	171.6
Private sector	2,731.6	2,784.7	2,782.5	2,786.2	2,782.8
<b>Net foreign assets</b>	1,076.5	1,098.3	1,146.3	1,195.2	1,274.4
Central bank	809.7	825.4	866.2	852.7	850.1
Commercial banks	266.8	272.9	280.1	342.5	424.3
<b>Memorandum items</b>					
<b>Government loans</b>	256.5	298.9	410.2	427.5	475.4
-Central government	131.0	157.2	227.4	240.7	268.6

-Island governments	125.5	141.7	182.8	186.8	206.8
<b>Private sector loans</b>	1,944.2	1,979.6	1,988.4	1,989.7	1,978.4
<b>Leeward Islands</b>					
-Mortgages	747.2	759.7	790.7	793.3	797.1
-Consumer loans	485.0	501.9	505.8	495.4	513.8
-Business loans	712.0	718.0	691.9	701.0	667.5
<b>Private sector loans</b>	683.5	688.6	693.4	689.7	698.9
<b>Windward Islands</b>					
-Mortgages	336.6	336.5	343.6	346.6	349.9
-Consumer loans	103.8	111.7	108.9	107.5	107.3
-Business loans	243.1	240.4	240.9	235.6	241.7

**Table 16**  
**Developments in domestic interest rates**

	2002-II	2002-III	2002-IV	2003-I	2003-II
<b>Central bank</b>					
-Pledging rate	5.75%	4.00%	3.50%	3.00%	2.25%
-Marginal lending rate	6.75%	5.00%	4.50%	4.00%	3.25%
<b>Commercial banks borrowing rates</b>					
-Passbook savings	3.6%	3.6%	3.6%	3.6%	3.6%
-12 month time deposit	6.3%	5.8%	5.5%	5.5%	5.4%
<b>Commercial banks lending rates</b>					
-Mortgages	9.7%	9.5%	9.4%	9.5%	9.4%
-Current account overdraft	10.1%	10.2%	10.2%	11.1%	11.8%
<b>Government bonds</b>					
5 year (effective yield)	8.7%	7.6%	7.3%	6.9%	6.7%