

QUARTERLY BULLETIN 2003-3

Bank van de Nederlandse Antillen

REPORT OF THE PRESIDENT

The economy of the Netherlands Antilles recorded a moderate expansion of 1.1% in real Gross Domestic Product in the first three quarters of 2003. However, third quarter developments did not keep up with the global economic upturn, reflected by an estimated contraction of 0.9%. The contraction in economic activity was caused by a decline in net exports, a smaller contribution of the public sector, and muted private investment. Producer spending remained sluggish due to the large fiscal imbalances, which caused uncertainties with respect to long-term economic prospects. These contractionary impacts were mitigated by the continuing expansion in consumer spending, fueled by higher disposable income and private transfers from abroad. In addition, the inflation rate continued to accelerate, reaching 2.0% on an annual basis in September 2003. Higher inflation in two of our main trading partners, the United States and Venezuela, the appreciation of the euro against the Netherlands Antillean guilder, and higher utility prices contributed to this outcome.

The export sector demonstrated a weak performance in the third quarter of 2003, attributable mainly to the decline in activities in both the international financial and business services sector and oil refining. In contrast, our main generator of foreign exchange – tourism – further expanded, supported by the growth in stay-over tourism, especially from the North American and European markets. Increased marketing efforts, the recovery of the US economy, more and cheaper airlift from Europe, and the depreciation of the Netherlands Antillean guilder against the euro contributed to this development. However, cruise tourism declined. An analysis by island reveals that the overall developments in tourism were reflected also on each island.

Most of the industries in the transportation sector showed favorable results. The national carrier, DCA, transported more passengers on both its regional and transatlantic flights. Airport activities expanded also, reflected by an increase in the number of aircraft and passengers handled. Furthermore, oil storage and oil transshipment recorded growth, particularly in Bonaire. The latter can be related mainly to the instability in Venezuela. Moreover, bunker sales continued to expand. In contrast, the harbor sector incurred a decline in both the number of ships and the amount of cargo handled. The ship repair sector also recorded a decline in activities, as measured by the number of man-hours sold. Finally, the free zone noted a growth in re-exports, but the number of visitors continued to decline.

Despite the decline in net exports of goods and services, the current account of the balance of payments improved due to a further increase in the surplus on the current transfers balance. This higher surplus can be explained by a transfer of dividend tax by the Netherlands, in line with the new tax arrangement for the Kingdom of the Netherlands (BRK), and the inflow of transfers by individuals. Net exports of goods and services declined as a result of weak exports and an increase in imports, attributable entirely to a higher demand for foreign goods and services on the Windward Islands. In line with the developments on the current account, the capital and financial account recorded an improvement due to a decline in foreign liabilities. This decline was related to fewer direct investments in the Netherlands Antilles and the settlement of debt by Antillean companies with their foreign par-

ents. Foreign assets declined also but to a lesser extent, due mainly to a decrease in net international reserves.

The deficit of the general government on a cash basis improved significantly in the third quarter of 2003 compared to the same quarter of 2002. This improvement was attributable entirely to higher revenues. Tax revenues increased mainly because of the receipt of dividend tax from the Dutch government, stemming from the new tax arrangement for the Kingdom of the Netherlands (BRK). Nontax revenues contributed also to the increase in total revenues as a result of the remittance of dividends by government-owned companies and the settlement of claims and debts with the public housing foundation, FKP. The increase in revenues was mitigated by an increase in expenditures, due particularly to higher outlays on goods and services, subsidies, and investments. Except for goods and services, these higher outlays were related also to the settlement with FKP. Noteworthy is the decrease in cash outlays on personnel costs.

The general government's 2004 budget shows a deficit that remains below the maximum indicated in the report of the debt commission. However, the lack of progress in finalizing the government program, including a credible policy to address the high budget deficit and government debt, is worrisome. The resulting uncertainty with investors has already produced declined interest in subscriptions on government bond issues, thereby jeopardizing the realization of 2004's budgetary objectives. In addition, investments in the real economy have been put on hold, which could erode the fragile economic recovery. Also our debt position remains a cause for concern. Despite a decline in the third quarter government debt, its size equivalent to 85% of GDP is unsustainable for a small and open economy like ours. The decline in the debt was due to transitory factors such as the settlement of a debt to FKP and the Dutch government's forgiveness of the arrears in the Antillean contribution to the coast guard. The high interest burden resulting from the high level of debt is increasingly crowding-out budget funds to achieve lasting economic and social progress. Therefore, bold and convincing steps by the authorities are urgently needed to prevent a deepening of the financial-economic disequilibria in our economy and to embark on the path towards debt alleviation in line with the adopted recommendations of the debt commission. In this respect, it should be noted that the delay in the implementation of the commission's recommendations has rendered it necessary to recalculate the budgetary projections presented in the report.

The money supply recorded a slight decline in the third quarter of 2003. The decline in net foreign assets resulting from the deficit on the balance of payments exceeded the expansionary impact of the domestic sector. The domestic expansion was attributable primarily to the expansionary impact of the government sector due to the withdrawal of deposits to finance the cash deficit and the net redemption of debt with the banking sector. In addition, credit extension to the private sector increased marginally owing to a growth in loans extended by the commercial banks. Domestic as well as international developments did not warrant any adjustment of the Bank's monetary policy during the third quarter of 2003.

The slight third-quarter contraction in economic activity illustrates clearly the fragility of the current economic recovery. For the recovery to gain momentum, the authorities must significantly step up their efforts directed at fiscal consolidation, structural reform, growth

promotion, and alleviating poverty. Concerning the latter, the recent agreement with the Dutch government to request assistance from the World Bank and the United Nations Development Program to design and implement a poverty reduction program is a welcome step in the right direction. The Minister of Finance has also issued a policy note detailing the policies to be pursued to address our fiscal deficits. Implementation of these policy intentions remains critical to address the fiscal imbalances. However, the other policy areas deserve much more attention than they have received up to now. Therefore, the full and timely implementation of a comprehensive and well-balanced adjustment program is crucial to address the large disequilibria in our economy and, hence, gradually regain confidence and lay a foundation for sustainable economic recovery and employment growth.

E.D. Tromp

President

INTERNATIONAL ECONOMIC DEVELOPMENTS

The US economy grew at an annual rate of 3.5% in the three months of July to September 2003, driven by strong increases in consumer spending, business investment, and residential fixed investment. Consumer spending was fueled by tax cuts and low interest rates. Improved business confidence led to higher capital investments. Moreover, lower mortgage rates led to an increase in the demand for housing and, consequently, to more residential construction. Despite the economic growth, job creation was on hold, because firms have been able to raise output without employing new workers. Productivity was up by 5.0%, while the jobless rate rose to 6.1% in the September quarter of 2003. Third-quarter inflation accelerated from 1.5% in 2002 to 2.3% in 2003. The Federal Reserve continued to hold the Fed funds rate at a 45-year low of 1 percent in an attempt to boost economic activities sufficiently to encourage businesses to hire new personnel.

Table 1 Selected indicators of various countries (% change)

	United States		Netherlands		Venezuela	
	02-III	03-III	02-III	03-III	02-III	03-III
Real GDP	3.3	3.5	0.7	-1.1	-5.6	-7.1
Consumer prices (%)	1.5	2.3	3.6	2.4	17.8	32.4
Unemployment rate (%)	5.7	6.1	4.3	5.5	17.2*	17.8**

Source: US Bureau of Economic Analysis, US Bureau of Labor Statistics, Netherlands Central Bureau of Statistics, Latin America Monitor, and Banco Central de Venezuela

*September figures

**August figures

In the September quarter of 2003, the Dutch economy fell by 1.1%, compared to an increase of 0.7% in the same quarter of 2002. The third-quarter economic contraction was led by declines in consumer spending, business investment, and exports. The major reason for the drop in consumer spending was a fall in household real disposable income, stemming from higher pension contributions and health insurance premiums. Moreover, the rise in unit labor costs and the appreciation of the euro made Dutch exports less competitive. The economic slowdown was accompanied by a higher unemployment rate (5.5%) and lower inflation (2.4%).

Venezuela is still struggling to recover from the general strike of late 2002. The nation's economy shrank again in the third quarter of 2003, as real GDP deteriorated by 7.1%, reflected by fewer activities in both the oil and non-oil sectors. The continuing political instability caused weak output levels in the state-owned oil firm. The import of raw materials was constrained by the stringent foreign exchange controls, thereby reducing production in the other sectors of the economy. In spite of the foreign currency and price controls, inflation jumped to 32.4%. Due to the current economic environment, the unemployment rate worsened to 17.8% in August 2003.

GENERAL ECONOMIC DEVELOPMENTS IN THE NETHERLANDS ANTILLES

The economy of the Netherlands Antilles lagged behind the global economic upturn. Contrary to the economic growth in the first half of 2003, the Antillean economy was down by 0.9% in the July-September quarter of 2003. This contraction was largely the result of decreases in net foreign demand and public sector spending. In contrast, household spending continued the increasing trend observed in the last four quarters, although at a lower rate. These developments were accompanied by a continued acceleration of consumer prices, fueled mostly by higher utility costs.

Dwindling export activity (1.2%) combined with expanding import demand (0.8%) were the main contributing factors to the third-quarter contraction in the Netherlands Antilles (see table 2). The decline in exports was due mainly to less foreign demand for transportation services and international financial services. In contrast, domestic spending continued to expand as in previous quarters, partly mitigating the decline in export demand. Further analysis of domestic spending shows that household consumptive spending continued as the stronghold of economic activity, while fiscal spending had a contractionary impact in the third quarter of 2003. Household spending stemmed from higher income and net private transfers from abroad. In contrast, private investment remained subdued as a result of the fiscal imbalances, which caused uncertainties with respect to the long-term economic perspectives. Moreover, public sector expenditure fell by 1.0%, with a reduction in government consumption. A decrease in outlays on wages and salaries accounted for the fall in government consumption.

Table 2 GDP growth by expenditure¹⁾

	2002-III	2003-III
Domestic expenditure, of which:	-0.8%	0.1%
Private sector	-3.4%	1.2%
- Investment	-5.4%	-0.1%
- Consumption	2.0%	1.3%
Government sector	2.7%	-1.0%
- Investment	-0.1%	0.0%
- Consumption	2.8%	-1.0%
Changes in inventory	-4.0%	1.0%
Foreign net expenditure, of which:	6.7%	-2.0%
Export of goods and services	4.8%	-1.2%
Import of goods and services	-1.8%	0.8%
GDP by expenditure	1.9%	-0.9%
Net primary income	-0.5%	-0.1%
Gross national income	1.4%	-1.0%
Net current transfers from abroad	4.8%	2.0%
Gross national disposable income	6.2%	1.0%

BNA estimates

¹⁾ Domestic and foreign expenditure are contributors to growth.

Domestic production

The unfavorable economic development in the third quarter was caused largely by a contractionary fiscal outcome (2.0%)¹, owing to a decline in outlays on wages and salaries. The drop in the public sector's added value was mitigated partially by an improvement in private sector productive activity (1.2%).¹ Growth in the tourism, and transport, storage & communication sectors were the main contributors to the positive outcome in the private sector.

Table 3 GDP by sector (real % growth)

Sector	2002-III	2003-III
Agriculture, fishery & mining	-4.9%	6.7%
Manufacturing	-3.6%	-3.0%
Electricity, gas & water	4.6%	0.7%
Construction	-2.9%	0.6%
Wholesale & retail trade	1.5%	0.7%
Restaurants & hotels	1.7%	4.3%
Transport, storage & communication	-4.0%	3.2%
Financial intermediation	4.3%	1.9%
Real estate, renting & business activities	3.4%	2.4%
Private households	14.0%	-3.3%
Total private sector	1.3%	1.7%
Public sector	4.9%	-9.6%
Taxes minus subsidies	-1.7%	1.9%
GDP	1.9%	-0.9%

BNA estimate

Amidst overall declining economic activities, the favorable developments in the tourism sector helped boost a real growth of 4.3% in added value in the restaurants & hotels sector. In the third quarter of 2003, the number of stay-over visitors in the Netherlands Antilles rose by 10.9%, up from 2.9% in the same period of 2002. This rise was related to more visitor arrivals from the North American and European markets. The stronger focus on marketing and the recovery of the US economy may be responsible for more US travelers. The number of European visitors grew as a result of more airlift, lower fares, and the depreciation of the US dollar against the euro. KLM resumed its non-stop flights in December 2002, and Air Holland started flights in June 2003. Conversely, cruise passenger arrivals decreased by 10.0%,² against the growth of 73.5% in the quarter ending September 2002. This worsening was partly reflected in the weak developments in the wholesale and retail trade sector.

An analysis by islands reveals that stay-over tourism grew on all islands in the third quarter of 2003. In St. Maarten, all tourist markets posted a growth, except for the South American

¹ Contribution to real GDP growth

² Excluding Bonaire

market. In Curaçao, favorable developments in the North American and European markets offset the decline in the South American and the Caribbean markets. Similar to the first half of 2003, the more stringent visa procedures for Colombians and the continuing political instability in Venezuela combined with foreign exchange controls, continued to affect the number of visitors from these countries. Bonaire's stay-over tourism industry reported increased activities during the third quarter of 2003, encouraged mostly by a rise in its major markets, i.e., North America and Europe.

The transport, storage & communication sector's value added grew by an estimated 3.2%, largely due to improved performance in air transportation, oil storage and oil transshipment. The number of passengers transported on regional connections by the national airline rose by 38.9% in the September quarter of 2003. Moreover, the number of passengers on the transatlantic flights expanded by 2.9%. In line with the favorable developments in the air transportation sector, airport activities were up, as total passenger traffic and commercial landings increased by 15.8% and 33.0%, respectively. Oil transshipment and storage surged by 13.8% and 35.2%, respectively, mainly as a result of favorable developments in oil storage in Bonaire. The latter can be explained largely by the political situation in Venezuela.

In addition, increased added value of 1.9% and 2.4% in the financial services and business services sectors contributed to the private sector production growth in the third quarter of 2003. Activities in the financial services sector expanded, as the growth in domestic financial services added value outbalanced the drop in international financial services. The latter stemmed from weak foreign demand.

In contrast to these developments, poor performance was recorded in the manufacturing sector. This development can be explained largely by the decline in oil refining and ship repair activities. The refining fee of the oil industry as well as the number of man-hours sold in Curaçao's ship repair industry dropped by 0.9% and 37.4%, respectively.

Inflation

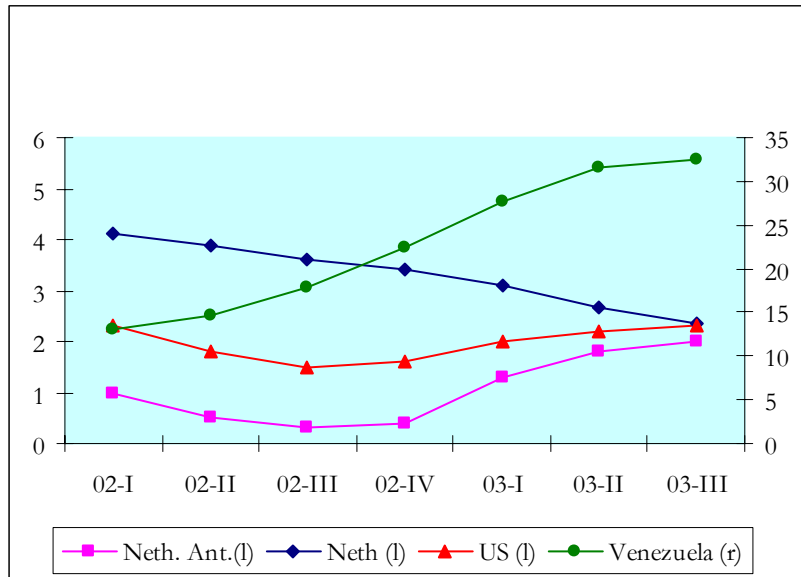
The annual inflation in the Netherlands Antilles rose from 0.3% in the third quarter of 2002 to 2.0% in the same quarter of 2003. The third-quarter inflation was more in line with the inflation of our main trading partners, the United States and the Netherlands. As in the first half of 2003, the accelerated inflation rate was fueled by (1) higher utility costs, owing to a rise in world oil prices; (2) higher inflation in two of our major trading partners, the United States and Venezuela; and (3) depreciation of the Netherlands Antillean guilder against the euro.

A breakdown of the inflation rate by main subcategories shows that for the last several quarters the price acceleration came from the items "housing" (6.3%) and "food" (2.0%). Higher utility costs were the source of the rise in housing expenses. In addition, the depreciation of the Netherlands Antillean guilder and high price inflation in Venezuela kept food prices high. Meanwhile, the category "transport & communication" noted a price deflation

of 1.1%, which was led by cheaper airfares and lower automobile prices. The latter stemmed from the complete phasing-out of the economic levy on cars.

An analysis by islands reveals that in the months July-September 2003, Curaçao experienced the highest annual inflation rate (2.3%), followed by St. Maarten (1.1%), and Bonaire (0.2%). See table 12 in the appendix for a detailed overview.

Graph 1 Developments in consumer prices (annualized percentage change)



DEVELOPMENTS IN PUBLIC FINANCE

Despite adverse conditions in the domestic government bond market, the fiscal deficit improved by NAf.49.0 million in the September quarter of 2003 compared to the same period in 2002. A closer look at the fiscal outcome shows that the fiscal balance improved as a result of increased earnings. The following developments contributed to the increased revenues of the general government in the third quarter of 2003. First, a large inflow of dividend tax from the Netherlands (NAf.37.8 million) was reported in this period. This increased tax income is related to the taxation of dividend transfers from the Netherlands to the Netherlands Antilles, the proceeds of which are transferred entirely by the Dutch tax office to the Netherlands Antilles. Second, nontax revenues rose because of the remittance of dividend by government-owned companies and the settlement of claims and debts with the public housing foundation FKP. In addition, taxes on goods and services increased by 2.7% as increased household spending led to higher proceeds from the sales tax and excises. Developments in these revenue categories were offset partly by decreases in taxes on property and in taxes on international trade and transactions.

Conversely, the general government reported higher current expenditures, which partly mitigated the increased cash revenues. Increased outlays for goods and services and subsidies were largely responsible for the higher current government spending. In contrast, the expenditure categories of personnel costs and interest payments dropped. The increase in subsidies is due to an administrative settlement with FKP. See table 13 in the appendix for a detailed overview.

A review by level of government provides the following picture. The fiscal deficit of both the central government and the island government of Curaçao improved. An increase of NAf.14.4 million in revenues and a drop of NAf.12.3 million in expenditures caused the improvement in the central government's fiscal deficit. A breakdown of revenues by categories shows that this increase was mainly a result of grants received (NAf.9.2 million), related to the new tax arrangement within the Kingdom of the Netherlands (BRK). In addition, the central government's tax revenues increased by 2.9% through increased sales tax income – mainly due to higher domestic turnover – and excises.

A contributing factor to the decreased central government deficit was the reported lower current expenditures, which resulted from fewer current transfers and wages and salaries payments. As can be observed from table 13 in the appendix, these decreases were mitigated by increases in the following categories: goods and services, interest payments, and subsidies to public companies.

The fiscal deficit of the island government of Curaçao improved as total revenue growth (NAf.69.2 million) outweighed total expenditure growth (NAf.46.9 million) in the third quarter of 2003 compared to the same quarter of 2002. A significant increase in profit tax income (NAf.34.0 million) and higher nontax revenues contributed to the higher earnings. This development was the result of the new tax arrangement within the Dutch Kingdom, the remittance of dividend, and the settlement of claims and debts mentioned earlier. An increase of NAf.7.3 million in wage taxes contributed further to the increase in tax revenues.

The increase in current expenditures was mainly the result of increases in the purchase of goods and services (NAf.13.0 million) and in subsidies (NAf.17.6 million). The increase in subsidies was due to an administrative settlement (NAf.19.1 million) with the public housing foundation, FKP. Without this settlement a drop of NAf.1.5 million would have been recorded in subsidies. In addition, the NAf.12.1 million increase in capital expenditures was also related to the settlement with FKP.

The cash deficit of the general government in the third quarter of 2003 was financed almost entirely monetarily. As can be seen in table 4, the general government's non-monetary financing was attributable to a net increase in its securities with the public.

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

	Central government		Curaçao government	
	2002-III	2003-III	2002-III	2003-III
Monetary financing	42.0	9.7	3.9	8.7
Central bank	23.9	12.8	-7.9	-1.8
Commercial banks	18.6	-3.8	11.8	10.5
Coins and notes	-0.5	0.7	-	-
Non-monetary financing	3.1	8.7	23.4	-3.6
Government securities with the public	-0.7	42.6	32.7	-14.8
Other	3.8	-33.9	-9.3	11.2
Cash balance	-45.1	-18.4	-27.3	-5.0

Analysis by level of government shows a contrasting financing picture. The central government's financing need was realized mainly through the purchase of securities by the public. In contrast, the financing of the island government of Curaçao's deficit occurred through the purchase of debt securities by the commercial banks.

Total stock of public outstanding debt

The total outstanding debt of the Netherlands Antilles government dropped by NAf.80.8 million in the third quarter of 2003, equivalent to an estimated 85.4% of GDP. A breakdown of the total outstanding debt shows that the overall drop was attributable to both the total consolidated domestic debt (NAf.40.5 million) and the outstanding foreign debt (NAf.40.3 million). The debt forgiveness of the Antillean share in the costs of the coast guard that was granted in the third quarter of 2003 is the main explanation for the drop in the foreign debt. This reduction was mitigated by the depreciation of the Netherlands Antillean guilder vis-à-vis the euro, which caused a rise in the debt to the Netherlands. See table 14 in the appendix for a detailed overview.

An analysis by level of government reveals that the drop in the outstanding domestic debt was attributable primarily to the island government of Curaçao (NAf.81.8 million). The most important contributing factors were a net redemption of debt securities, the settlement of the debt with the public housing foundation, FKP, and the reduction of arrears accumulated with the central government and the government pension fund, APNA. The reduction in the debt to APNA occurred through an earmarked dividend payment by the government-owned oil distribution company, Curoil.

The domestic debt of the central government expanded by NAf.10.1 million in the third quarter of 2003, mainly as a result of an advance by the central bank and an increase in outstanding debt securities. A reduction was noticed in outstanding arrears with the APNA and the SVB. The combined domestic debt of the other island governments (i.e., Bonaire, St. Maarten, St. Eustatius, and Saba) dropped by NAf. 2.3 million, as a result of less accumulated arrears with the central government.

DEVELOPMENTS IN THE BALANCE OF PAYMENTS

In the third quarter of 2003, the net export of goods and services dropped as compared to the same period in 2002. This drop contributed largely to the contraction of our economy in the third quarter. Despite the decline in the net exports of goods and services, the current account showed a surplus due to an improvement in the current transfers balance. The latter improvement contributed to the growth of our net national disposable income. In line with the developments on the current account, the capital and financial account balance improved, although net foreign assets declined.

Table 5 Balance of payments summary (in millions NAf.)

	2001-III	2002-III	2003-III
Current account	-147.0	-5.2	25.4
Capital account	9.5	10.6	11.5
Financial account, of which:	109.4	-1.3	-11.1
- Change in reserves ¹⁾	-50.1	-22.0	59.7
Statistical discrepancies	28.1	-4.1	-25.8
Memorandum items:			
Change in reserves ¹⁾	-50.1	-22.0	59.7
- with commercial banks	10.7	-6.2	-12.1
- with central bank	-60.8	-15.8	71.8

¹⁾ A minus sign implies an increase.

Current account

The export of goods and services increased by NAf 2.0 million in the third quarter of 2003, compared to the same period in 2002. The tourism sector performed well on all islands due to the positive developments in stay-over tourism. Foreign exchange earnings from bunker activities increased also, fueled by both higher oil prices and foreign sales. In contrast, the export of transportation services and international financial & business services dropped.

The import of goods and services increased by NAf 31.3 million, mainly as a result of higher demand for foreign services. The import of services increased by NAf 27.7 million as compared to the third quarter of 2002. This increase can be attributed to a rise in demand for “other” foreign services in almost all sectors, with the financial, transportation and utility companies showing the largest increases.

Overall, the import of goods increased by a mere NAf.3.6 million. However, the developments on the islands were quite diverse. Demand for foreign goods rose sharply on the Windward Islands because of the increased imports of non-oil (NAf 25.4 million) and oil products (NAf 26.1 million). The increase in non-oil products was, among other things, related to the retail sector, which can be explained by the surge in the number of stay-over tourists and increased domestic demand. The increase in the import of oil products was due

to both higher prices and more demand. On the Leeward Islands, import of non-oil products declined by NAf 39.0 million due to a drop in imports in the free-zone, utility, and construction sectors.

The worsening of the services balance outweighed the improvement in the trade balance. As a result, the net export earnings on goods and services declined by NAf 29.3 million. Nonetheless, our current account balance recorded a surplus of NAf 25.4 million in the third quarter of 2003. This result stemmed mainly from the surplus in the current transfers balance. The current transfer balance improved because of a NAf.37.8 million transfer of dividend tax by the Netherlands – related to the new tax arrangement for the Kingdom of the Netherlands (BRK) – and the net inflow of transfers by individuals.

Capital and financial account

In line with the developments in the current account, the financial and capital account balance improved. The financial account balance improved by NAf 9.8 million as compared to the third quarter of 2002. This improvement can be explained mainly by the developments in direct investments and other investments.

The direct investment balance showed an improvement of NAf 32.2 million, which can be explained as follows. First, a large direct investment that was recorded in the utility sector in the third quarter of 2002 did not occur in the third quarter of 2003. Second, various companies made larger payments to their parent companies to settle their outstanding debt. In addition, the other investment balance improved by NAf 92.2 million. The increased balances on resident companies' bank accounts abroad were mainly responsible for the improvement in the other investment balance. The higher foreign account balances were related to maturing foreign securities held by resident companies.

In contrast, the net lending and borrowing balance, which includes trade credit and foreign loans, deteriorated. This deterioration was caused mainly by an increase in loans from abroad extended to companies in the transportation and financial sectors. Furthermore, the increase in merchandise exports was accompanied by an increase in trade credit extended to nonresidents. This increase was offset partly by a rise in trade credit received on imports.

MONETARY DEVELOPMENTS

Monetary policy and money supply

During the third quarter of 2003, no particular adaptations in the Bank's monetary policy took place. Worth mentioning is that the Bank's official lending rate, the pledging rate, remained unchanged after six consecutive quarters in which it was reduced. International and domestic developments, i.e., international interest rates and excess liquidity in the domestic banking sector, did not provide a reason for any further change in the July-September period of 2003.

The money supply (M2) in the Netherlands Antilles dropped by 0.7% during the third quarter of 2003, a turnaround compared to the expansion of 2.6% recorded in the corresponding quarter of 2002. Taking the estimated drop of 0.9% in real domestic production into account, a drop of 10.9% results in the velocity of money on an annual basis. This development is illustrated by the increase in demand deposits, time deposits, and savings at the commercial banks. See table 17 in the appendix for further details.

Factors affecting the money supply

The decrease in the money supply during the third quarter of 2003 was the result of a NAf. 59.7 million decline in net foreign assets, surpassing the NAf. 31.6 million expansion in net domestic assets. The worsening of the official net foreign position, which offset the increase in net foreign assets at the commercial banks, was responsible for the decline in net foreign assets. The decrease in the Bank's position is partly the result of the net purchase of foreign currency by the commercial banks. This development is related to the recent trend of increased foreign investment by commercial banks. Funds have become available because commercial banks have become reluctant to invest in government securities. This reluctance is due to the uncertainties surrounding the government's policy to address the deficit and debt problem and improving investment opportunities abroad. In addition, the demand for private investment financing has been stagnant as domestic investment plans are postponed due to the existing uncertainties. Another factor explaining the increased demand for foreign assets is the net increase in imports of goods and services.

Net domestic assets expanded as a result of increases in all of its components. Net credit extended to the government sector and the private sector rose by NAf. 23.6 million and NAf. 5.0 million, respectively. Both government levels contributed to the expansion in the government sector. Net private credit extension remained stagnant compared to the NAf. 53.1 million expansion recorded in the third quarter of 2002.

Domestic credit extension by commercial banks

During the July-September period of 2003, domestic credit extended by the commercial banks rose by NAf. 12.5 million. This growth in bank lending can be ascribed largely to increased private sector loans (NAf. 10.2 million), resulting from increased consumer loans and mortgages. The expansion in consumer loans was in line with higher consumer spending. This higher consumer spending was fueled, among other things, by an increase in dis-

possible income due to increased private sector income and net transfers from abroad. On the other hand, the rise in mortgages did not coincide with the contracting activities recorded in the construction sector. This development could be explained partly by increases in existing mortgages for purposes other than construction due to declining mortgage rates.

In contrast to the increase in consumer loans and mortgages, loans extended to the business sector on both the Leeward Islands and the Windward Islands dropped by NAf. 19.3 million and NAf.2.1 million, respectively. This development was in line with the decline in private investment, a reflection of the continuing uncertainty regarding future economic prospects.

Domestic bank lending to the governments rose by only NAf. 2.3 million. This rise resulted from an increase in credit extended to the island government of Curaçao, offsetting the drop in credit extended to the central government.

Developments in domestic interest rates

Both the central bank's pledging rate and marginal lending rate remained unchanged at 2.25% and 3.25%, respectively, during the third quarter of 2003. Contrary to the preceding quarters, there were no monetary reasons for changing these rates. Compared to the third quarter of 2002, both these rates decreased by 1.75 percentage points.

The average interest rate offered by commercial banks on savings remained unchanged during the third quarter of 2003, compared to the corresponding quarter of 2002. In contrast, the average rate offered on time deposits decreased by 0.7 percentage point reaching 5.1%. This decrease can be explained partly by the reduced need for commercial banks to attract funding through high interest rates, as the banking sector continues to be highly liquid.

The average rate on mortgages continued its downward trend. A comparison between the third quarters of 2003 and 2002 revealed a drop of 0.1 percentage point. This trend resulted from both increased competition between the local commercial banks and lower rates on foreign mortgages. In contrast, the average rate on current account overdrafts increased by 0.7 percentage point reaching 10.9%.

The average yield on domestic government bonds continued its downward trend reaching 6.6% at the end of September 2003, a drop of 100 basis points compared to the same month of 2002. This development continues to be influenced by the low international interest rates, especially in the United States. As a result, domestic government securities formed an attractive investment alternative, the increased demand of which exerted a downward pressure on interest rates. See table 18 in the appendix for further details.

DEVELOPMENTS IN THE FINANCIAL SECTOR

Introduction

During the third quarter of 2003, the Bank conducted full-scope examinations at four internationally operating commercial banks. Following the withdrawal of the license of the internationally operating commercial bank, Integra Bank N.V., on February 21, 2002, the Court of First Instance of the Common Court of Justice of the Netherlands Antilles and Aruba pronounced the bankruptcy of the institution on September 26, 2003.

Developments in the domestic banking sector

During the third quarter of 2003, total assets of the banking institutions operating in the domestic banking sector of the Netherlands Antilles decreased slightly compared to the previous quarter -- by NAf.24.0 million (0.4%) to NAf.6,337.8 million. This decrease was mainly a result of the decline in non-interest-bearing cash, interest-bearing cash, and other assets by NAf.35.6 million, NAf.92.4 million, and NAf.10.9 million, respectively. The decrease in non-interest-bearing cash can be attributed to the drop of NAf.50.0 million in balances due from foreign unconsolidated subsidiaries and affiliates. This drop was offset partially by an increase of NAf.15.4 million in balances due from all other foreign banks. Interest-bearing cash declined because time deposits held at the Bank van de Nederlandse Antillen and other foreign and local banks decreased by NAf.52.9 million, NAf.35.0 million, and NAf.17.3 million, respectively. On the other hand, time deposits held at other financial institutions increased by NAf.27.4 million. Finally, the NAf.12.3 million decrease in interbank funds sold held at foreign subsidiaries and affiliates contributed to the decline in other assets.

In contrast, the loan portfolio of the domestic banks increased further by NAf.110.8 million (3.2%), due to increases in the various loan categories. Current account overdrafts of foreign business enterprises increased by NAf.17.4 million, while those of local business enterprises decreased by NAf.9.6 million. Time loans taken by foreign business enterprises, individuals, and other borrowers increased by NAf.32.4 million, NAf.10.4 million, and NAf.6.6 million, respectively. On the other hand, time loans taken by local business enterprises decreased by NAf.11.5 million, affecting the overall increase of the loan portfolio. Furthermore, mortgage loans extended to foreign business enterprises and to foreign and local individuals also contributed to the increase by NAf.30.4 million, NAf.18.9 million, and NAf.6.4 million, respectively.

On the liabilities side, total deposits decreased by NAf.21.0 million (0.4%) due entirely to demand deposits. Demand deposits placed by foreign subsidiaries and affiliates, other local financial institutions, and foreign business enterprises decreased by NAf.26.3 million, NAf.36.9 million, and NAf.32.4 million, respectively. In contrast, demand deposits placed by local business enterprises increased by NAf.45.4 million. In addition, savings deposits held by local and foreign individuals increased by NAf.13.1 and NAf.7.0 million, respectively, while savings deposits held by others decreased by NAf.12.6 million.

Total capitalization of the domestic banking sector increased slightly by NAf.7.7 million (1.6%) to NAf.495.4 million at the end of the third quarter of 2003. However, the capital-to-

total assets ratio remained almost unchanged at 7.8%, slightly below the minimum international capital standard of 8%.

Table 6 Aggregate balance sheet of commercial banks operating in the domestic banking sector of the Netherlands Antilles at quarter-end (in millions NAf)

	2003-I		2003-II		2003-III	
	NAf.	%	NAf.	%	NAf.	%
ASSETS						
Non-int.-bearing cash	407.8	6.4	415.0	6.5	379.4	6.0
Interest-bearing cash	1,537.5	24.3	1,516.2	23.8	1,423.8	22.5
Investments	535.6	8.5	606.2	9.5	612.4	9.7
Loans	3,494.7	55.2	3,504.7	55.1	3,615.5	57.0
Investm. unconsol. sub.	13.4	0.2	12.3	0.2	12.0	0.2
Fixed assets	170.3	2.7	168.7	2.7	166.9	2.6
Other assets	173.0	2.7	138.7	2.2	127.8	2.0
Total assets	6,332.3	100.0	6,361.8	100.0	6,337.8	100.0
LIABILITIES						
Demand deposits	1,816.1	28.7	1,869.1	29.4	1,823.6	28.8
Savings deposits	2,217.4	35.0	2,267.9	35.5	2,286.3	36.1
Time deposits	1,461.1	23.1	1,397.0	22.0	1,403.1	22.1
Total deposits	5,494.6	86.8	5,534.0	86.9	5,513.0	87.0
Borrowings	118.2	1.9	118.0	1.9	111.7	1.8
Other liabilities	237.9	3.8	222.1	3.5	217.7	3.4
Total liabilities	5,850.7	92.4	5,874.1	92.3	5,842.4	92.2
Minority interest	6.8	0.1	6.9	0.1	6.1	0.1
Subordinated debentures	9.7	0.2	9.7	0.2	9.4	0.1
General provisions	135.0	2.1	140.6	2.2	143.8	2.3
Capital & reserves	330.2	5.2	330.5	5.2	336.1	5.3
Total capital	481.7	7.6	487.7	7.7	495.4	7.8
Total liabilities and capital	6,332.3	100.0	6,361.8	100.0	6,337.8	100.0

Banks operating in the domestic banking sector of the Netherlands Antilles realized a better performance over the first three quarters of 2003 than the same period of 2002. Their net operating income and income after taxes until the end of September 2003 exceeded those of the same period of 2002 by NAF.19.6 million and NAF.18.9 million, respectively. Operational income increased by NAF.19.5 million, while operational expenses remained unchanged at approximately NAF.253 million.

Table 7 Aggregate income statement of commercial banks operating in the domestic banking sector of the Netherlands Antilles at quarter-end (in millions NAF.)

	2002-III	2003-III
Interest income	334.1	339.2
Interest expenses	(127.3)	(130.5)
Net interest income	206.8	208.7
Other income	<u>104.5</u>	<u>122.1</u>
Total operational income	311.3	330.8
Salaries & other employees' expenses	(140.2)	(147.8)
Occupancy expenses	(40.5)	(40.3)
Other operating expenses	(54.8)	(46.9)
Net addition to general provisions	<u>(17.9)</u>	<u>(18.3)</u>
Total operational expenses	(253.4)	(253.3)
Net operating income	57.9	77.5
Net extraordinary items	1.3	2.3
Applicable profit taxes	<u>(19.4)</u>	<u>(21.1)</u>
Net income after taxes	39.8	58.7

The aggregate macroprudential indicators in table 8 provide a further indication of the performance of the commercial banks.

The total capital-to-total assets ratio increased slightly to 8.1% in the third quarter of 2003, slightly above 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 remained about the same.

The decrease in the nonperforming loans ratios indicates a slight improvement in asset quality of the domestic banking sector. Furthermore, the loan loss provision as a percentage of nonperforming loans increased, indicating that the banks are still striving to reach 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 and showed a marginal improvement in the third quarter compared to the second quarter of 2003.

The liquidity surplus of the domestic banking sector decreased slightly in the third quarter of 2003 compared to the surplus of the previous quarter. The loans-to-deposits ratio indicates that the domestic banking sector employed only 61.7% of its deposit base to fund its credit extension activities.

Table 8 Macroprudential indicators of commercial banks operating in the domestic banking sector of the Netherlands Antilles at quarter-end (%)

	2003-I	2003-II	2003-III
CAPITAL ADEQUACY¹			
Total capital/total assets	7.9	7.9	8.1
Tier 1 capital/total assets	5.5	5.5	5.6
Tier 2 capital/total assets	2.3	2.3	2.3
Tier 3 capital/total assets	0.2	0.2	0.2
ASSET QUALITY			
Nonperforming loans/total loans	6.2	6.9	6.3
Nonperforming loans/total capital	42.7	47.3	40.2
Provisions for loan losses/non-performing loans	58.8	55.5	64.1
EARNINGS²			
Gross-earning-assets yield	8.3	8.0	8.3
Break-even yield	3.1	3.0	3.2
Net interest margin	5.2	5.0	5.2
Return-on-assets	1.7	1.4	1.7
LIQUIDITY			
Total loans/total deposits	64.3	64.0	61.7
Liquidity surplus (in millions NAf.)	91.1	111.7	96.3

¹ The capital ratios are based on the figures excluding the branches in the Netherlands Antilles.

² These ratios are annualized.

Developments in the international banking sector

In the third quarter of 2003, the total assets of the international banking sector contracted by NAf.4.5 billion (5.8%) to NAf.73.5 billion. This contraction manifested itself primarily in decreases in the loan portfolio and investments by NAf.6.8 billion (15.8%) and NAf.3.6 billion (37.9%), respectively. These decreases were offset partly by an increase in cash & banks of NAf.7.1 billion (45.9%).

In terms of funding, borrowing dropped by NAf.7.0 billion (14.6%), mitigated by a NAf.2.4 billion (29.1%) increase in demand deposits. Total capital of the international banking sector increased slightly by NAf.0.4 billion to NAf.7.2 billion, while the total capital-to-total assets ratio increased by 1.0 percentage point to 9.8%, well above the international minimum capital standard of 8%.

Table 9 Aggregate balance sheet of commercial banks operating in the international banking sector of the Netherlands Antilles at quarter-end (in millions NAf)

	2003-II		2003-II	
	NAf.	%	NAf.	%
ASSETS				
Cash & banks	15,407.6	19.8	22,483.3	30.6
Investments	9,450.0	12.1	5,866.4	8.0
Loans	43,311.0	55.5	36,460.0	49.7
Fixed and other assets	9,840.8	12.6	8,663.7	11.7
Total assets	78,009.4	100.0	73,473.4	100.0
LIABILITIES				
Demand deposits	8,324.6	10.7	10,745.0	14.6
Time deposits	13,454.0	17.2	13,483.7	18.4
Borrowed funds	47,977.4	61.5	41,002.6	55.8
Other liabilities	1,400.1	1.8	1,019.9	1.4
Total liabilities	71,156.1	91.2	66,251.2	90.2
Capital	6,853.3	8.8	7,222.2	9.8
Total liabilities & capital	78,009.4	100.0	73,473.4	100.0

Net operating income until the third quarter of 2003 was NAf 349.8 million higher than in the corresponding period of 2002. This substantial improvement can be attributed primarily to lower interest and operational expenses of NAf 174.7 million and NAf 286.0 million, respectively. The lower operational expenses resulted mainly from reduced additions to general provisions.

Table 10 Aggregate income statement of commercial banks operating in the international banking sector of the Netherlands Antilles at quarter-end (in millions NAf)

	2002-III	2003-III
Interest income	1,689.0	1,564.7
Interest expenses	<u>(1,624.2)</u>	<u>(1,449.5)</u>
Net interest income	64.8	115.2
Other income	<u>635.9</u>	<u>649.3</u>
Total operational income	700.7	764.5
Salaries & other employees' expenses	(89.9)	(87.3)
Occupancy expenses	(24.7)	(27.6)
Other operating expenses	(139.0)	(126.7)
Net addition to general provisions	<u>(357.1)</u>	<u>(83.1)</u>
Total operational expenses	(610.7)	(324.7)
Net operating income	90.0	439.8
Net extraordinary items	(66.1)	(26.0)
Applicable profit taxes	<u>(6.3)</u>	<u>(10.0)</u>
Net income after taxes	17.6	403.8

Appendix

Table 11 Developments in stay-over tourism per island (% change)

	Curaçao		St. Maarten		Bonaire	
	2002-III	2003-III	2002-III	2003-III	2002-III	2003-III
North America, of which:	22.6	13.7	11.4	14.3	-2.4	1.6
-U.S.A.	23.5	12.3	15.2	13.9	---	---
Europe, of which:	-13.6	48.6	-13.7	8.5	26.2	66.1
-The Netherlands	-11.3	55.5	-14.5	30.4	---	---
South & Central America, of which:	-3.2	-23.5	-29.3	-12.4	-11.4	13.2
-Venezuela	-6.1	-14.8	-32.6	-24.8	---	---
-Colombia	22.4	-72.8	---	---	---	---
-Other S&C America	-15.2	12.8	20.0	-14.2	---	---
Caribbean, of which:	38.5	-13.5	12.5	16.7	135.8	17.6
-Aruba	22.3	18.2	---	---	---	---
-Dominican Republic	29.5	-18.3	-20.1	40.0	---	---
-Other Caribbean	30.9	-16.0	34.6	10.2	---	---
Total	3.6	6.0	1.3	11.9	11.3	25.6

Table 12 Netherlands Antilles consumer prices (annualized percentage change)

	2002-II	2002-III	2002-IV	2003-I	2003-II	2003-III
Food	4.1	4.1	3.6	2.9	2.3	2.0
Beverages & tobacco	0.8	0.5	-0.1	-0.4	-0.7	-0.8
Clothing & footwear	-1.2	-1.4	-1.6	-1.6	-1.0	-0.4
Housing	0.6	0.5	1.9	4.5	6.0	6.3
Housekeeping & furnishings	0.3	-0.4	-1.0	-0.6	0.2	1.1
Health	4.4	3.0	1.5	0.4	0.2	0.4
Transport & communication	-1.7	-2.4	-2.9	-1.6	-1.3	-1.1
Recreation & education	-0.7	-0.7	-0.4	-0.1	0.1	0.2
Other	1.0	1.1	1.2	1.2	1.1	0.9
General inflation rate	0.5	0.3	0.4	1.3	1.8	2.0

Table 13 Budgetary overview (in millions NAf.)

	2000-III	2001-III	2002-III	2003-III
General government				
Revenues	284.0	301.0	281.1	375.7
Tax revenues, of which:	241.4	283.4	263.3	302.7
Taxes on income and profits	98.8	152.9	125.7	163.5
Taxes on goods and services	93.2	89.9	98.8	101.5
Taxes on international trade and transactions	32.0	31.0	29.4	28.6
Non-tax and other revenues	42.6	17.6	17.8	73.0
Expenditures	279.8	307.1	353.5	399.1
Current, of which:	275.5	297.0	348.5	382.0
Wages and salaries	95.0	112.3	146.3	137.2
Goods and services	64.8	61.4	75.9	96.7
Interest payments	33.9	36.7	48.5	46.6
Capital	4.3	10.2	5.0	17.0
Budget balance	4.2	-6.2	-72.4	-23.4
Central government				
Revenues	165.0	134.1	138.8	153.2
Tax revenues, of which:	128.6	120.5	127.4	131.1
Taxes on goods and services	88.1	85.1	92.6	96.7
Taxes on international trade and transactions	32.0	31.0	27.4	28.6
Non-tax and other revenues	36.4	13.6	11.4	22.1
Expenditures	166.2	148.1	183.9	171.6
Current, of which:	164.4	139.7	182.0	169.8
Wages and salaries	51.1	52.9	69.3	61.0
Goods and services	20.3	17.8	22.6	30.4
Interest payments	14.9	15.6	20.2	21.1
Domestic	15.1	17.8	23.1	23.3
Abroad	-0.2	-2.2	-2.9	-2.2
Capital	1.8	8.4	1.9	1.8
Budget balance	-1.2	-14.0	-45.1	-18.4
Island government of Curaçao				
Revenues	163.4	194.9	184.3	253.5
Tax revenues, of which:	112.8	162.9	135.9	171.6
Taxes on income and profits	98.8	152.9	125.7	163.5
Taxes on goods and services	5.1	4.8	6.2	4.8
Non-tax and other revenues	50.6	32.1	48.4	81.9
Expenditures	158.0	187.1	211.6	258.5
Current, of which:	155.5	185.3	208.5	243.2
Wages and salaries	43.9	59.4	77.0	76.2
Goods and services	44.5	43.6	53.3	66.3
Interest payments	19.0	21.1	28.3	25.5
Domestic	19.0	21.1	24.1	22.2
Abroad	0.0	0.0	4.3	3.3
Capital	2.5	1.8	3.1	15.2
Budget balance	5.4	7.8	-27.3	-5.0

Table 14 Total outstanding consolidated public debt¹ (in millions NAf.)

	2002-III	2002-IV	2003-I	2003-II	2003-III
Domestic consolidated debt	3,029.2	3,123.6	3,182.6	3,501.6	3,461.2
-Central government,	1,424.8	1,502.3	1,517.3	1,847.7	1,857.8
of which:					
Long-term securities	934.6	963.4	1042.3	1503.5	1521.7
Short-term securities	118.6	136.6	119.6	76.5	70.2
APNA	167.4	160.1	147.9	144.8	139.6
SVB	90.4	117.4	103.6	24.4	14.8
-Curaçao,	1,903.8	1,993.6	2,013.5	1,987.2	1,905.4
of which:					
Long-term securities	498.9	528.1	549.9	602.8	583.3
Short-term securities	100.3	111.7	116.4	83.0	88.4
APNA	804.3	814.5	806.9	805.2	788.6
Central government	334.3	398.6	392.0	378.9	348.1
-Other islands	239.3	274.6	287.7	286.3	284.0
Foreign debt	674.2	718.0	733.5	771.0	730.7
Total debt (consolidated)	3,703.2	3,841.6	3,916.1	4,272.6	4,191.9
(% of GDP)	77.8%	80.6%	81.5%	87.9%	85.4%

¹ Consolidated for debt between the central government and the island governments

Table 15 Detailed overview of balance of payments (in millions NAf.)

	2001-III	2002-III	2003-III
Trade balance	-474.2	-437.7	-411.4
-Exports	254.1	259.7	289.6
-Imports	728.3	697.4	701.0
Services balance	313.1	363.0	307.4
Receipts, of which:	657.5	715.9	688.0
-Travel	275.0	296.9	319.1
-Transportation	79.4	77.9	61.0
-Other services, of which:	303.1	341.1	307.9
-Int. fin. & bus. services sector	108.9	121.2	102.3
Expenses, of which:	344.4	352.9	380.6
-Travel	122.0	153.0	144.1
-Transportation	47.9	48.2	32.9
-Other services, of which:	174.5	151.7	203.6
-Int. fin & bus. services sector	38.4	30.3	39.9
Income balance ¹⁾	14.0	7.5	6.8
Current transfers balance ²⁾	0.1	62.0	122.6
Current account balance	-147.0	-5.2	25.4
Capital & financial account balance	118.9	9.3	0.4
Capital balance	9.5	10.6	11.5
Financial balance	109.4	-1.3	-11.1
Statistical discrepancies	28.1	-4.1	-25.8

1) Labor and investment income.

2) Public and private transfers.

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

	2001-III	2002-III	2003-III
Direct investment	4.0	6.9	-25.3
- Abroad ¹⁾	0.1	0.0	1.3
- In the Netherlands Antilles ²⁾	3.9	6.9	-26.6
Portfolio investment ¹⁾	-37.0	-45.0	-44.0
Other investment, of which:	105.5	62.7	-29.5
- Assets ¹⁾	48.1	22.2	-43.5
- Liabilities ²⁾	57.4	40.5	14.0
Net lending/borrowing, of which:	87.0	-3.9	28.0
- Assets ¹⁾	36.1	-23.0	-33.9
- Liabilities ²⁾	50.9	19.1	61.9
Reserves ³⁾	-50.1	-22.0	59.7
Total assets ¹⁾	-3.0	-69.3	-59.8
Total liabilities ²⁾	112.4	68.0	48.7
Balance	109.4	-1.3	-11.1

1) A minus sign implies an increase in assets.

2) A minus sign means a decrease in liabilities.

3) A minus sign means an increase in reserves.

Table 17 Monetary survey (in millions NAf.)

	2002-II	2002-III	2002-IV	2003-I	2003-II	2003-III
Money supply (M2)	3,529.6	3,622.0	3,776.8	3,920.6	4,064.1	4,036.0
Money (M1)	1,387.1	1,387.1	1,387.1	1,387.1	1,387.1	1,387.1
Coins & notes with the public	214.2	216.2	235.2	219.7	232.5	213.1
Total demand deposits, of which :	1,172.9	1,208.3	1,262.0	1,311.0	1,384.6	1,342.8
- Netherlands Antillean guilders	951.5	989.5	1,019.6	1,056.9	1,108.8	1,103.6
- Foreign currency	221.4	218.8	242.4	254.1	275.8	239.2
Near money	2,142.5	2,197.5	2,279.6	2,389.9	2,447.0	2,480.1
Time deposits	1,387.1	1,424.5	1,497.2	1,530.7	1,617.1	1,555.9
Savings	923.3	925.7	955.6	991.9	1,021.6	1,037.9
Factors affecting the money supply						
Net domestic assets	2,453.1	2,523.7	2,630.5	2,725.4	2,789.7	2,821.3
General government	217.3	266.6	351.7	409.1	453.2	476.8
- Central government	83.4	129.1	189.5	270.6	281.6	293.1
- Island governments	133.9	137.5	162.2	138.5	171.6	183.7
Private sector	2,731.6	2,784.7	2,782.5	2,786.2	2,782.8	2,787.8
Net foreign assets	1,076.5	1,098.3	1,146.3	1,195.2	1,274.4	1,214.7
Central bank	809.7	825.4	866.2	852.7	850.1	778.3
Commercial banks	266.8	272.9	280.1	342.5	424.3	436.4
Memorandum items						
Government loans by commercial banks	256.5	298.9	410.2	427.5	475.4	477.7
- Central government	131.0	157.2	227.4	240.7	268.6	260.3
- Island governments	125.5	141.7	182.8	186.8	206.8	217.4
Private sector loans - Leeward Islands	1,944.3	1,979.7	1,988.3	1,989.7	1,978.4	1,977.2
- Mortgages	747.2	759.7	790.7	793.3	797.1	802.1
- Consumer loans	485.0	501.9	505.8	495.4	513.8	526.9
- Business loans	712.0	718.0	691.9	701.0	667.5	648.2
Private sector loans - Windward Islands	683.5	688.6	693.5	689.7	698.9	710.3
- Mortgages	336.6	336.5	343.6	346.6	349.9	357.8
- Consumer loans	103.8	111.7	108.9	107.5	107.3	112.9
- Business loans	243.1	240.4	240.9	235.6	241.7	239.6

Table 18 Developments in domestic interest rates (%)

	2002-II	2002-III	2002-IV	2003-I	2003-II	2003-III
Central bank						
- Pledging rate	5.75	4.00	3.50	3.00	2.25	2.25
- Marginal lending rate	6.75	5.00	4.50	4.00	3.25	3.25
Commercial banks borrowing rates						
- Passbook savings	3.6	3.6	3.6	3.6	3.6	3.6
- 12 month time deposit	6.3	5.8	5.5	5.5	5.4	5.1
Commercial banks lending rates						
- Mortgages	9.7	9.5	9.4	9.5	9.6	9.4
- Current account overdraft	10.1	10.2	10.2	11.1	11.8	10.9
Government bonds						
5 year (effective yield)	8.7	7.6	7.3	6.9	6.7	6.6