

QUARTERLY BULLETIN 2004-1

Bank van de Nederlandse Antillen

REPORT OF THE PRESIDENT

The economy of the Netherlands Antilles continued to expand in the first quarter of 2004, supported by the further recovery of the world economic climate. Real Gross Domestic Product is estimated to have grown by 0.9%, a deceleration compared to the 1.4% growth in 2003. The first quarter expansion stemmed from higher domestic demand, driven by private sector spending. Consumer spending gained strength supported by an increase in consumptive borrowing. In addition, private investment rebounded, reflected by an increase in business loans extended. Nevertheless, uncertainties continued to prevail among entrepreneurs due to a lack of confidence in the sustainability of the recovery. Conversely, net foreign demand and public expenditures declined. The decline in net foreign demand was the result of rising imports, related to the growth in private sector spending, offsetting the expansion in exports. The decline in public expenditures was due entirely to government consumption, reflected by lower outlays on wages and salaries, and goods and services. The inflation rate moderated to 1.4% on an annual basis owing to the slowing inflation in our main trading partners, the United States and the Netherlands, and lower telephone rates.

An analysis of the economic growth by sector in the first quarter of 2004 reveals that the expansion was accounted for mainly by the rise in activities in the tourism-related, manufacturing, construction, and financial sectors. The tourism sector continued to perform strongly, reflected by an expansion in both the number of stay-over and cruise tourists. All islands contributed to the expansion, of which St. Maarten in particular. However, Curacao recorded a significant decline in the number of cruise tourists because fewer cruise lines included the island in their itineraries.

Furthermore, the manufacturing sector performed well. The oil refinery's production was back at normal levels compared to the first quarter of 2003, when the production suffered from the impact of a general strike in Venezuela. In addition, the ship repair industry recorded an increase in activities, as measured by the number of man-hours sold. Developments in the construction sector were favorable also, as a result of various projects in the utilities, transportation, and tourism sectors. Moreover, the financial services sector recorded a growth, attributable entirely to the improved performance of the domestic banking sector. In contrast, the activities in the international financial and business services sector continued to develop weakly.

The transportation sector revealed a mixed performance. Airport activities, as measured by the number of passengers handled, continued to grow in line with the expansion in tourism. However, the local carrier Dutch Caribbean Airlines (DCA) incurred a significant decline in the number of passengers transported on its regional connections as well as the transatlantic route. The transatlantic flights were disrupted because of the bankruptcy of partner Sobelair for which no structural substitution has been found yet. Moreover, the fleet is plagued increasingly with technical problems, which cannot be remedied swiftly due to a lack of cash. The current situation of the airline requires bold and swift steps by its owner, i.e., the Curacao government, to secure its survival. It should be clear now that the long-term viability of the company can be guaranteed only with the help of a strong partner, which brings in knowledge and new capital to turnaround the airline into a profitable enterprise. Various airlines have showed their interest. The government should, therefore, start negotiations as soon as possible to secure a Curacao-based airline given its importance for our economy.

Furthermore, oil storage and transshipment activities expanded significantly and more ships were piloted into the sea harbors. However, the amount of cargo handled in the harbor of Curacao decreased slightly.

The balance of payments recorded a surplus in the first quarter of 2004, although lower than in the first quarter of 2003, resulting in a further increase in our international reserves. The surplus on the current account declined because the growth in import of goods and services exceeded that of export. The growth in export was attributable primarily to tourism. The growth in tourism together with the higher domestic demand contributed mainly to the increase in import. Moreover, the surplus on the current transfers balance improved slightly. Contrary to the current account, the capital and financial account showed an improvement. This improvement was attributable mainly to the increase in portfolio investments abroad by institutional investors in light of the rising yields on the international securities markets. A decline in the balances on resident companies' bank accounts abroad and an increase in foreign borrowing to finance projects in the utility, transportation, and tourism sectors partly offset the growth in portfolio investments.

The cash deficit of the general government deteriorated in the first quarter of 2004 compared to the first quarter of 2003 because the drop in revenues outpaced the decline in expenditures. The drop in revenues can be explained primarily by less income from profit tax, the result of lower profits reported over 2003 compared to 2002, and higher rebates of income tax. The decline in expenditures was due to fewer contributions to the civil servants pension fund, APNA, and a drop in capital transfers related to the transitory settlement of guarantees in the first quarter of 2003. The decreases in these expenditure items were offset partly by a marked rise in transfer payments due to more transfers to other levels of government.

The fiscal outlook for 2004 and beyond is worrisome. Although the operational deficit of the general government has been projected at NAf 200 million, shortfalls, accumulated arrears, and the settlement of outstanding claims are estimated to result in a financing requirement of over NAf 500 million (10% of GDP). In addition, the policy program of the new government that took office in May indicates additional expenditures of at least NAf 225 million, part of which will be spent in 2004. Clearly, such amounts cannot be financed fully on the domestic capital market. Therefore, the design and implementation of a credible fiscal consolidation program and poverty alleviation are some of the main challenges the new cabinet has to address.

The growth in the monetary aggregates moderated in the first quarter of 2004 compared to the first quarter of 2003. The growth in net domestic assets slowed as a result of a smaller expansionary impact by the central government. In contrast, the private sector recorded a larger expansionary impact owing to an increase in credit extension. In addition, the growth in net foreign assets decelerated due to the smaller surplus on the balance of payments.

During the January-July period of 2004, the Bank adapted its monetary policy in various ways. First, as of January 16, 2004, the period during which the reserve requirement percentage is fixed was reduced from three months to two months. This change was made to increase the effectiveness of this main instrument of monetary policy, as corrective measures can be taken in a shorter time frame. Second, the reserve requirement percentage has been

increased in three steps from 10.0% to 10.625% to curb the decrease in official reserves that occurred in the first quarter, to absorb part of the excess liquidity in the banking system, and to temper the strong growth in commercial banks' credit extension to the government. If left unchecked, excess liquidity and bank financing of the government deficits eventually will erode our foreign exchange reserves. Finally, the Bank decided to increase its official lending rate (i.e., the pledging rate) from 2.25% to 2.50% on July 14, 2004, the first raise since March 1995. This step was taken in light of the rising international interest rates and their impact on the domestic money and capital market.

After a period of increasing uncertainties, expectations are high about the actions to be taken by the new government. The financial-economic and social problems facing the Netherlands Antilles are daunting and require bold leadership to be addressed in a timely and effective manner. The fundamentals of the adjustment effort are well known comprising fiscal consolidation, structural reform, a growth strategy, and poverty alleviation. The Bank welcomes the sense of urgency that the authorities demonstrate, reflected by the presentation of the government agreement in May and the government program in July. Also the establishment of a committee to monitor the progress in the program's implementation is welcomed. However, the objective to implement more than hundred actions within a period of eighteen months seems overly ambitious given the government's financial and staff limitations. It is, therefore, recommended to focus on the implementation of a set of actions that will generate quick and tangible results in the main areas of adjustment. These results are urgently needed to restore confidence with investors and to create the necessary financial room to address the social and economic objectives of the program. Only through such progress, the economic recovery can gain strength and contribute to the creation of durable jobs, poverty alleviation, and improvement of our welfare.

E.D. Tromp
President

INTERNATIONAL ECONOMIC DEVELOPMENTS

In the first three months of 2004, the US economy reported a significant rebound with a growth of 5.0%. This buoyant performance was backed by stronger consumer spending, nonresidential fixed investment, and the build-up of inventories. With the economy improving, businesses were more confident in raising their investment in equipment and software. However, job creation lagged behind economic growth; the unemployment rate remained almost unchanged at 5.7% in the first quarter of 2004. Still wary about the strength of the recovery, businesses continued to use temporary workers instead of hiring new workers. With unfavorable employment reports, the Federal Reserve left the Fed funds rate unchanged at 1 percent in March 2004, the lowest since 1958. Despite the remarkable economic growth, the annual inflation rate remained unchanged at 2.0% in the March quarter of 2004. This sustained tame inflation was attained largely by improved labor productivity (5.6%).

Table 1 Selected indicators of various countries

	United States		Netherlands		Venezuela	
	2003-I	2004-I	2003-I	2004-I	2003-I	2004-I
Real GDP (% change)	2.1	5.0	-0.2	0.8	-27.8	29.8
Consumer prices (%)	2.0	2.0	3.0	1.7	27.7	28.8
Unemployment rate (%)	5.8	5.7	5.0	6.6	19.8	15.6

Source: US Bureau of Economic Analysis, US Bureau of Labor Statistics, Central Bureau of Statistics Netherlands, Banco Central de Venezuela, and Reuters.

In the first quarter of 2004, the Dutch economy grew slightly by 0.8%, up from the decline of 0.2% in the same period in 2003. The main contributors to the GDP growth were exports and fixed capital formation. The slight economic recovery was not accompanied by a healthier labor market, as the jobless rate rose to 6.6%, its highest rate since 1996. Compared to other European countries, the Dutch unemployment rate is still low, as the Euro-zone's level was 8.8% during this period. The annual inflation rate slowed from 3.0% in the March quarter of 2003 to 1.7% in the corresponding quarter of 2004. Declines in prices of food, nonalcoholic beverages, and clothing & footwear contributed to the lower annual inflation.

Venezuela experienced an economic resurgence with a real GDP increase of 29.8% during the January-March period of 2004, the fastest pace since the recession that started in 2002. This record growth resulted mostly from the rebound of oil production from last year's two-month nationwide strike. Activities in the oil sector improved by 72.5%, compared with 18.9% in the non-oil sector. The first-quarter growth also was driven by higher oil prices, which boosted government spending. The government was able to finance projects with the increased revenues. The public sector expanded by 42.0%, while the private sector rose by 23.4%. With the economic rebound, the unemployment rate fell from 19.8% in the March quarter of 2003 to 15.6% in the same period of 2004. Venezuela's consumer prices were up by 28.8%, as the government devalued the Bolivar by about 17 percent in February 2004.

GENERAL ECONOMIC DEVELOPMENTS IN THE NETHERLANDS ANTILLES

In line with the rising world economic activities, the Antillean economy grew by an estimated 0.9% in the first quarter of 2004. The economy continued to grow, although at a lower rate than in 2003. The economic growth stemmed from expanding domestic demand, driven by private sector spending. Conversely, net foreign demand contracted, which partly mitigated the GDP growth. The slight first-quarter expansion was accompanied by a steady inflation rate of 1.4%. Higher utility prices as well as a stronger euro¹ contributed to this outcome.

The major supporting factor in the first-quarter growth in the Netherlands Antilles was the increase in domestic demand. Improvement in both private consumption and investment accounted for the upturn in domestic spending. Despite a deceleration in disposable income, consumer spending gained strength as a consequence of more consumer loans. The growth in private investment was reflected in more business loans. Furthermore, more activities occurred in the construction industry. Private investment rebounded, but a discernible degree of uncertainty prevailed among entrepreneurs due to a lack confidence in the sustainability of the recovery. By contrast, public expenditure fell by 0.1% due to a reduction in government consumption. A decline in outlays on wages & salaries and on goods & services led to the lower government consumption. In addition, net foreign demand dropped as rising import demand (6.9%) offset the expansion in exports (5.2%). The sizeable import of merchandise was caused by, among other things, the growth in private sector spending.

Table 2 GDP growth by expenditure ^{*)} (real percentage changes)

	2002-I	2003-I	2004-I
Domestic expenditure, of which:	-0.1	1.1	2.3
Private sector	-2.6	1.7	2.5
- Investment	-2.4	0.2	0.5
- Consumption	-0.2	1.5	1.9
Government sector	2.5	-0.6	-0.1
- Investment	0.3	-0.9	0.4
- Consumption	2.2	0.4	-0.5
Changes in inventory	0.0	0.3	0.2
Foreign net expenditure, of which:	1.4	0.0	-1.7
Export of goods and services	-7.6	5.8	5.2
Import of goods and services	-9.0	5.8	6.9
GDP by expenditure	-0.1	1.3	0.9
Net primary income	-0.4	-1.7	-0.3
Gross national income	-0.5	-0.4	0.5
Net current transfers from abroad	2.4	1.6	0.1
Gross national disposable income	1.9	1.2	0.7

BNA estimates

^{*)} Expenditure categories data are weighted contributors to GDP growth.

¹ Mid-rate euro value in the first quarter of 2004 compared to the same quarter in 2003.

Domestic production

In the March quarter of 2004, the Netherlands Antillean economy posted an increase of 0.9%, down from 1.3% in the same quarter of 2003. This result owed much to the positive performance of the private sector, where the manufacturing, construction, wholesale & retail, restaurants & hotels, and financial sectors reported an increase. Meanwhile, the public sector shrank (0.3%),² stemming from a decline in outlays on wages & salaries. However, this contractionary fiscal outcome was outpaced by the growth in the private sector.

Table 3 GDP by sector (real percentage changes)

Sector	2002-I	2003-I	2004-I
Agriculture, fishery, & mining	0.5	2.4	3.1
Manufacturing	-4.8	-4.8	3.9
Electricity, gas, & water	0.7	0.3	1.6
Construction	-1.4	-10.5	4.5
Wholesale & retail trade	0.2	3.0	5.0
Restaurants & hotels	-8.7	2.9	4.4
Transport, storage, & communication	-5.5	1.8	0.1
Financial intermediation	-2.0	1.9	1.3
Real estate, renting, & business activity	-4.0	1.7	-0.2
Private households	-10.1	2.0	-1.6
Total private sector	-3.0	1.0	1.8
Public sector	6.0	3.3	-2.3
Taxes minus subsidies	7.8	1.2	-2.0
GDP	-0.1	1.3	0.9

BNA estimate

During the first three months of 2004, the total value added in the manufacturing sector went up by an estimated 3.9%, fueled by more activities in the oil and ship-repair sectors. Total operational costs of the “Isla” refinery as well as the number of man-hours sold in Curaçao’s ship repair industry grew strongly. Developments in the construction industry were favorable as a result of several major on-going nonresidential projects, such as in the utilities, transportation, and hotels & restaurants sectors. Moreover, the value of completed projects increased noticeably during the first quarter.

In spite of negative results in the free-zone, the upturn in the tourism industry supported a real increase of, respectively, 5.0% and 4.4% in added value in the wholesale & retail and hotels & restaurant sectors. The number of stay-over tourists in the Netherlands Antilles was up by 14.8%, following an increase of 2.2% in the first quarter of 2003, reflected by more tourist arrivals from the North American and European markets. The sustained recovery in the US economy may account for more US arrivals. More European travelers visiting the islands may be linked to the continual strong euro.

² Weighted contribution to real GDP growth

Similar to stay-over tourism, cruise tourist arrivals rose by 5.5% in the first quarter of 2004, up from 2.7% in the same quarter of 2003.

An analysis by islands shows that stay-over tourism was buoyant on all islands in the months January-March 2004. St. Maarten's stay-over tourism industry recorded a noticeable growth (19.0%), based largely on increases in the North American and European markets. Activities improved also in Curaçao's tourism sector (8.1%) as a consequence of more visitors from mostly the United States and the Netherlands. As with St. Maarten, increases in the North American and European markets accounted mainly for a rise in Bonaire's stay-over arrivals (5.8%). In addition, more cruise passengers visited St. Maarten and Bonaire, while the opposite occurred in Curaçao.

Although more harbor and airport-related activities were registered, the transport, storage, and communication sectors showed virtually no growth in the March quarter of 2004. The main reason for this development was the weak performance in air transportation. The number of passengers transported on regional connections by the national airline, Dutch Caribbean Airlines (DCA), fell. This decrease was due partly to the cancellation of the Kingston route in January 2004. Moreover, the number of passengers transported on the transatlantic flights contracted noticeably owing to the disruption of flights caused mainly by the insolvency of its partner, Sobelair. Airport activities in the Netherlands Antilles grew, but less than last year, as total passenger traffic growth decelerated to 3.8% in the first quarter of 2004. Furthermore, both oil storage and transshipment activities posted positive results, while total cargo movements in Curaçao contracted by 2.7% in the quarter ending March 2004.

Furthermore, increased added value of 1.3% in the financial services sector contributed to the private sector production expansion in the first quarter of 2004. The financial services sector performed well as increased added value in domestic financial services outpaced the fall in international financial services.

Inflation

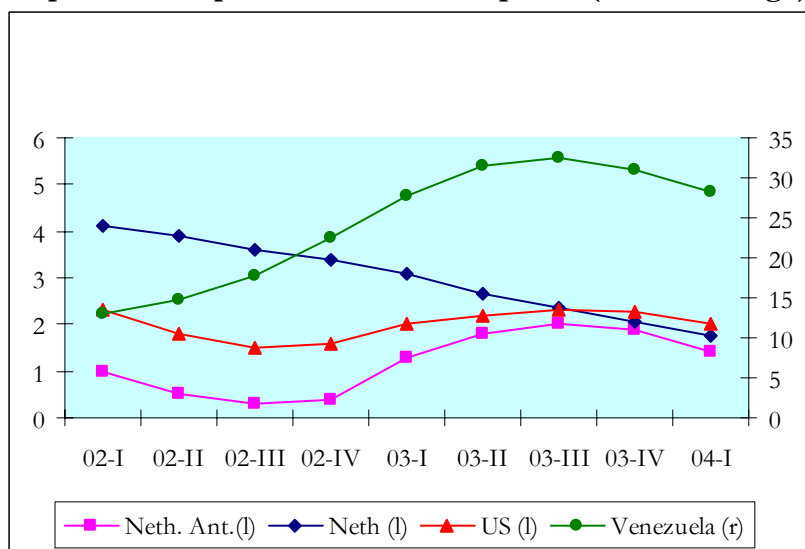
The annual rate of consumer price inflation in the Netherlands Antilles accelerated from 1.3% in the first quarter of 2003 to 1.4% in the corresponding period of 2004. Since the third quarter of 2003, however, the Antillean inflation has been more in line with the inflation of our major trading partners, the United States and the Netherlands. The tame first-quarter inflation was related to the slowing inflation in our main trading partners, the complete phasing-out of the economic levy on automobiles, and lower telephone rates. Nevertheless, the deflationary pressures were offset partly by higher utility prices, higher inflation in Venezuela, and the depreciation of the US dollar against the euro.³

A breakdown of the inflation rate by key subcategories shows that the price acceleration came from the items "housing" (3.6%), "food" (2.4%), and "housekeeping & furnishings" (2.4%). Higher utility costs accounted mostly for the rise in housing expenses. Moreover, the continual strong euro and high price inflation in Venezuela continued to drive up food prices. Meanwhile, a deflation of 1.5% took place in the category "transport & communication", caused by cheaper telephone tariffs and lower automobile prices. An analysis by islands reveals that in the months January-March 2004,

³ Mid-rate euro value in the first quarter of 2004 compared to the same quarter in 2003.

St. Maarten had the highest annual inflation rate of 1.7%, followed by Curaçao (1.4%), and Bonaire (1.1%). See table 8 in the appendix for a detailed overview.

Graph 1 Developments in consumer prices (annual change)



Source: Central Bureau of Statistics, US Bureau of Labor Statistics, Central Bureau of Statistics Netherlands, and Banco Central de Venezuela.

DEVELOPMENTS IN PUBLIC FINANCE

The public sector contributed negatively to the estimated growth in GDP in the first quarter of 2004. Despite the contractionary impact, the deficit of the general government worsened mainly because fewer revenues were received.

In the first quarter of 2004, the general government recorded a deficit of NAf.51.4 million in its cash operations. A drop in revenues that outpaced the drop in expenditures contributed to a deterioration of NAf.11.3 million in the cash balance. Total tax revenue dropped by 7.7%. Taxes on income and profits dropped by 13.5%, fueled mostly by less profit tax received, while income tax rebates were higher than income tax received. Furthermore, taxes on goods and services dropped by 2.9%, triggered by lower proceeds from excises on beer and a decrease in license fees received in the first quarter of 2004. On the other hand, in line with the increase in private spending, the proceeds from sales tax and taxes on international trade and transactions increased. See table 9 in the appendix for a detailed overview.

On the expenditure side, current outlays increased marginally by 1.5% as higher transfers and subsidies outweighed the reduction in expenditures on wages and salaries. In particular, transfers to other government levels increased (NAf.30.4 million) due partly to the sharing of revenues. The substantial drop that was registered in outlays for wages and salaries (NAf.27.0 million) contributed mainly to the contractionary impact on the GDP growth. The general government reported also a substan-

tial drop in capital expenditures, owing to capital transfers related to the transitory settlement of guarantees in the first quarter of 2003.⁴

A review by level of government provides the following picture. The deficit of the central government deteriorated as the increase of 11.1% in expenditures outpaced the increase of 2.8% in revenues. More transfers to other government levels due, among other things, to the sharing of revenues contributed mainly to the increase in current expenditures. The central government's tax revenues increased by 2.8% through increased sales tax income and import duties, due mainly to higher domestic turnover and higher import demand.

The surplus of the island government of Curaçao deteriorated as the reduction in total revenue (8.7%) outweighed the drop in total expenditures (6.1%) in the first quarter of 2004. The decline in revenues was caused by less income from profit tax, the result of lower profits reported over 2003 compared to 2002, and higher rebates in income tax.

The development in current expenditures was mainly the result of a drop in wages and salaries attributable to fewer pension premiums paid in the first quarter of 2004 compared to the corresponding period in 2003. Furthermore, a slight drop was registered in outlays for goods and services and interest payments. On the other hand, subsidies to public companies and transfers to nonprofit institutions increased by NAf.6.1 million and NAf.7.9 million, respectively. Finally, the NAf.1.2 million increase in capital expenditures was due to more investment outlays.

The cash deficit of the general government in the first quarter of 2004 was financed both monetarily and nonmonetarily. Worth mentioning is the turnaround from entirely monetary financing in the first quarter of 2003 to mainly nonmonetary financing in the first three months of 2004. The increase in the general government's nonmonetary financing was attributable to a net increase in debt securities with the public.

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

	Central government		Curaçao government	
	2003-I	2004-I	2003-I	2004-I
Monetary financing	69.8	13.9	-16.6	1.8
Central bank	52.2	67.0	-12.3	0.8
Commercial banks	17.5	-52.6	-4.3	1.0
Coins and notes	0.1	-0.5	-	-
Nonmonetary financing	-16.0	43.7	3.0	-8.0
Government securities with the public	6.0	39.5	26.2	9.5
Other	-22.1	4.2	-23.3	-17.4
Cash balance	-53.8	-57.6	13.6	6.2

As can be seen in table 4, the central government's financing needs were realized mainly through advances taken up at and government securities bought by the central bank. This monetary finan-

⁴ These capital transfers were related to guarantees extended to a hotel project in Bonaire and to the former government-owned airline, Air ALM.

cing was mitigated by a drop in government securities in portfolio at the commercial banks. The non-monetary financing occurred through an increase in government securities with the public.

With a surplus on its fiscal operations together with extra funds from net borrowing, the island government of Curaçao was a net depositor with the banking system in the first quarter of 2004. The current account balances of the island government of Curaçao at both the central bank and commercial banks increased as part of the funds obtained from the issuance of securities were used to replenish its balances at the banking institutions.

Public sector debt

The total outstanding debt of the general government increased by NAf.63.1 million to an estimated NAf.4.4 billion (90.2% of GDP) in the first quarter of 2004. The addition in debt was the result of an increase of NAf.108.9 million in the total consolidated domestic debt and a drop of NAf.45.8 million in the outstanding foreign debt. See table 10 in the appendix for a detailed overview.

The increase in the domestic debt can be ascribed mainly to increased borrowing on the capital market, attributable primarily to the island government of Curaçao. This entity issued, on a net basis, NAf.69.9 million of debt securities during the first three months of 2004. An increase in outstanding debt securities of the central government, by NAf.34.2 million, supplemented the borrowing on the capital market.

In addition, except for the central government, all island governments (i.e., Bonaire, Curaçao, St. Maarten, St. Eustatius, and Saba) incurred arrears with the government pension fund, APNA, which contributed further to the accumulation of debt.

The drop in the foreign debt is the consequence of the appreciation of the Netherlands Antillean guilder vis-à-vis the euro during the first quarter of 2004, which caused a drop in the debt to the Netherlands (NAf.21.1 million). In addition, the final settlement of the government guarantee granted to a hotel project in Bonaire in January 2004 caused a drop of NAf.23.3 million in the foreign debt.

DEVELOPMENTS IN THE BALANCE OF PAYMENTS

In the first quarter of 2004, the net export of goods and services dropped compared to the same period in 2003. The growth in imports outweighed the increase in exports. The decline in net foreign demand contributed largely to the deceleration in the economic growth in the first quarter. The decline in net exports accounted for a drop in the current account surplus. In line with the current account surplus, the foreign exchange reserves posted a growth, despite the improvement in the capital and financial account balance.

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

	2002-I	2003-I	2004-I
Current account	33.7	46.5	33.8
Capital account	3.3	7.1	9.6
Financial account, of which:	-50.9	-102.5	-108.3
- Change in reserves ¹⁾	-36.9	-62.1	-34.4
Statistical discrepancies	13.9	48.9	64.9
Memorandum items			
Change in reserves ¹⁾ :			
- with commercial banks	53.3	-62.4	-84.9
- with central bank	-90.2	0.3	50.5

1) A minus sign implies an increase.

Current account

The export of goods and services increased by NAf.95.1 million in the first quarter of 2004 compared to the same period in 2003. This increase was related mainly to the rise in foreign exchange revenues from tourism and tourist-related services. The tourism sector performed particularly well on the Windward Islands where revenues increased by 21%. The export of goods showed a slight increase of NAf.4.2 million despite a fall in free-zone exports. See table 11 in the appendix for a detailed overview.

The import of goods and services increased by NAf.110.1 million, mainly as a result of higher demand for goods. Due to the growth in tourism and higher domestic demand, the import of goods increased by NAf.80.1 million compared to the first quarter of 2003. Analysis by island shows that imports of the retail sector on the Windward Islands posted a remarkable increase, which may be related to more tourism activities.

The worsening of the trade balance outweighed the improvement of the services balance. As a result, the net export earnings on goods and services declined by NAf.15.0 million, completely accounted for the drop in the current account surplus by NAf.12.7 million in the first quarter of 2004, as the current transfers balance improved slightly.

Capital and financial account

In contrast to the developments on the current account, the financial account balance improved by NAf.5.8 million in the first quarter of 2004 compared to the first quarter of 2003. This improvement was due mainly to a remarkable improvement of the portfolio investment balance, which offset the worsening of the other investment and the net lending and borrowing balances. See table 12 in the appendix for a detailed overview.

Portfolio investments abroad showed a noticeable growth of NAf.138.4 million. This growth was related mainly to a shift by institutional investors from less risky investments like time deposits to investments in higher-yielding securities like bonds and equity, led by the favorable outlook in the international financial markets. On the one hand, this shift caused a decline in the balances on resi-

dent companies' bank accounts abroad, contributing largely to the worsening of the other investment balance. On the other hand, this shift caused an increase in the portfolio investments abroad, contributing to the improvement of the portfolio investment balance.

The net lending and borrowing balance, which includes trade credit and foreign loans, deteriorated by NAF.31.2 million compared to the first quarter of 2003. This deterioration was due mainly to the worsening of the net borrowing balance, the result of a large increase in foreign loans extended to companies in the utility, transportation, and tourism sectors. The net trade credit balance remained practically unchanged as the drop in net trade credit extended was almost offset by a decline in net trade credit received. However, worth mentioning is that the drop in net trade credit received was due mainly to an increase in repayments, as these outweighed new trade credit received.

The direct investment balance improved by NAF.12.6 million. This improvement was related to a decline in liabilities of resident direct investment companies with their foreign affiliates. In the previous quarters, the reduction in liabilities was due mainly to cash settlements. However, in the first quarter of 2004, a net increase in goods and services rendered to foreign affiliates was the source of the debt reduction.⁵ In combination with the aforementioned increase in repayments on received trade credit, this increase could be an indication of increased production by local businesses.

MONETARY DEVELOPMENTS

Monetary policy and money supply

During the first three months of 2004, the Bank adapted its main instrument of monetary policy, i.e., the reserve requirement.⁶ First, as of January 16, 2004, the period during which the reserve requirement percentage is fixed was reduced from three months to two months. This change was made to increase the effectiveness of the Bank's monetary policy, as corrective measures can be taken in a shorter time frame.

Second, as of March 16, 2004, the reserve requirement percentage was raised by 0.25 percentage point to 10.25%. This measure was a reaction to the continuous decrease in the official reserves. Worth mentioning, however, is that the drop in official reserves was more than compensated for by an increase in the commercial banks' net foreign assets, resulting in an overall increase in total international reserves in the first quarter of 2004.

Factors affecting the money supply

The expansion in the money supply during the first three months of 2004 was the result of an increase in both components of the money supply: net domestic assets and net foreign assets expanded by NAF.60.9 million and NAF.34.4 million, respectively. The increase in net domestic assets resulted mainly from an increase of NAF.40.1 million in net credit extended to the private sector.

⁵ When direct investment companies export more goods and services to their affiliates than they import from them, their outstanding debt (claim) with their affiliates will reduce (increase).

⁶ Under this instrument, commercial banks have to place a non-interest-bearing deposit, the reserve requirement, on a blocked account at the Bank. The size of the reserve requirement is calculated by multiplying the adjusted domestic debt of the commercial banks by the reserve requirement percentage.

After several quarters of stagnant development in private credit extension, this item has been experiencing an upturn starting in the final quarter of 2003. This trend continued in the first quarter of 2004. In the first quarter of 2003, net credit extended to the private sector increased by only NAF.3.7 million. See table 13 in the appendix for a detailed overview.

Loans extended by the commercial banks to the private sector increased by NAF.32.0 million in the January-March period of 2004. As noted, private sector credit recently has been experiencing an upturn. The increase in the first quarter of 2004 was related to business loans and consumer loans, which rose by NAF.28.2 million and NAF.20.8 million, respectively. These increases were in line with the increased private investment and consumption. Mortgages dropped by NAF.17.0 million, contrasting with the increased activity recorded in the construction sector. One explanation could be that construction activities were funded through foreign financing as a result of the relatively low interest rates on the international market.

Also worth mentioning are the contrasting developments by island group. The decrease in mortgages was recorded entirely on the Leeward Islands, offsetting the increase on the Windward Islands. On the other hand, the increase in business loans was accounted for entirely by the Leeward Islands, offsetting the decrease on the Windward Islands. The Windward Islands have experienced a decrease in business loans during three consecutive quarters, perhaps because of more foreign financing.

On the other hand, despite the NAF.12.5 million increase in net credit extended to the government sector, the trend of decreasing interest in government securities continued. This trend started during the second half of 2003. In the first three months of 2003, net credit extended to the governments amounted to NAF.57.5 million.

Commercial bank loans extended to the governments dropped by NAF.6.4 million during the first quarter of 2004. As noted, the interest in investing in local government securities has been decreasing since the second half of 2003.

The increase in net foreign assets resulted from an increase of NAF.84.9 million in the net foreign assets position of the commercial banks, which offset the decline of NAF.50.5 million in the Bank's official reserves. These developments are partly complementary, as the drop in reserves recorded at the Bank is partly the result of the net purchase of foreign exchange by the commercial banks. Commercial banks have been purchasing foreign exchange from the Bank to increase their foreign investment portfolio driven by the favorable outlook in the international financial markets. This development explains partly the noted decreased interest in government paper. In addition, the interest in government paper dropped as a result of the perceived lack of action by the government to put adequate policies in place to balance its finances and tackle the domestic government debt issue. Official reserves dropped also because the increase in the import of goods and services surpassed the increase in exports.

Developments in domestic interest rates

The central bank's pledging rate and marginal lending rate remained unchanged at 2.25% and 3.25%, respectively, during the first three months of 2004. At the end of the first quarter of 2003, these rates were 3.00% and 4.00%, respectively. The decrease on an annual basis was induced by the de-

creasing interest rates on the international financial markets. See table 14 in the appendix for a detailed overview.

Average commercial banks' borrowing rates continued to decline. The average rates during the January-March 2004 period for passbook savings and time deposits were 3.2% and 4.6%, respectively. During the January-March period of 2003, these percentages were 3.6% and 5.5%, respectively. The decrease in these rates can be explained by the continuing high liquidity surplus of the commercial banks.

The average rate on mortgages continued its downward trend, as the local mortgage providers had to keep up with the foreign competition offering attractive rates. The average rate on current account overdrafts increased in the first quarter of 2004 to 11.0%. However, on an annual basis, the average rate dropped by 0.1 percentage point.

After several quarters characterized by a declining trend, the average yield on domestic government bonds started to rise in the fourth quarter of 2003 reaching 7.3% in the first quarter of 2004. As mentioned earlier, domestic investors' interest in investing in government securities has been declining. As a consequence, the government has to offer higher rates to meet its financing requirement.

DEVELOPMENTS IN THE COMMERCIAL BANKING SECTOR

Total assets of the commercial banking sector expanded by 4.5% in the first quarter of 2004, an acceleration compared to the growth of 2.1% registered in the first quarter of 2003. The expansion in the first quarter of 2004 was due mainly to increases in loans extended (2.1%), non-interest-bearing cash (7.3%), and interest-bearing cash (3.9%). The increase in interest-bearing cash was attributable partly to more certificates of deposit (CDs) bought from the Bank on its bi-weekly auctions. The growth in assets was funded for 73% by an increase in deposits. See table 15 in the appendix for more details.

The banking sector recorded an increase in profitability during the first three months of 2004 compared to the corresponding months of 2003. As a result, this sector contributed positively to the increase in private sector value added. The increased profitability is revealed by the increase in both net operating income and net income after taxes of 29.0% and 36.3%, respectively. This result came primarily from the rise of 14.7% in other income. In addition, net interest income rose by 3.9%, while total operational expenses increased by a mere 1.6%. See table 16 in the appendix for more details.

Macroprudential indicators

The general performance of the domestic commercial banking sector is revealed by the developments of the respective macroprudential indicators. In comparison to the first quarter of 2003, most indicators show an improvement in the sector's soundness in the first quarter of 2004 (see table 6).

The capital-to-total assets ratio rose by 0.1 percentage point in the January-March period of 2004, up from 7.2% in the previous quarter. This development was a turnaround compared to the drop of 0.3 percentage point recorded in the first quarter of 2003. The improvement of this ratio in 2004 is due mainly to an expansion in the commercial banks' capitalization through an increase in provisions for

loan losses, up from the drop a year ago. This result reveals an improvement in solvency of the domestic commercial banking sector, but it is still below the international minimum ratio of 8.0%.

The non-performing loans ratio decreased by 1.1 percentage points to 5.0% in the first quarter of 2004, indicating an improvement in the commercial banks' asset quality. This decrease resulted from both a drop in non-performing loans and an increase in the loan portfolio. The decline in non-performing loans led to an improvement in the provisions for loan losses-to-non-performing loans ratio, indicating adequate provisioning for possible future losses. In contrast, during the first three months of 2003, the asset quality worsened as reflected by the increase of the non-performing loans ratio by 0.3 percentage point.

All earnings-related ratios reveal the improvement in the profitability of the sector during the January-March period of 2004, a development that occurred also in the first quarter of 2003. As mentioned earlier, the result of 2004 was due mainly to the increase in other income. Net interest income, the largest source of income for commercial banks, increased to a lesser extent because of the downward trend in international and domestic interest rates.

Table 6 Macropprudential indicators (in %, end of period)

	2002-IV	2003-I	2003-II	2003-III	2003-IV	2004-I
Capital adequacy						
Total capital/ total assets	7.7	7.4	7.5	7.6	7.2	7.3
Asset quality						
Non-performing loans/ total loans	5.9	6.2	6.8	6.1	6.1	5.0
Provisions for loan losses/ non-performing loans	73.6	58.8	55.5	64.1	61.1	72.0
Earnings						
Gross-earning-assets yield	7.6	8.2	8.0	7.9	7.4	7.9
Net interest margin	4.8	5.1	5.0	4.9	4.7	5.1
Return-on-assets	1.1	1.6	1.4	1.6	1.5	2.0
Liquidity						
Total loans/ total deposits	67.6	64.5	64.2	63.9	63.9	65.3

The excess liquidity in the domestic banking sector continued in the first quarter of 2004. However, the increase in the total loans-to-total deposits ratio against the drop during the first three months of 2003 implies that the trend of increasing excess liquidity has been reversed. This development is also revealed by the deceleration in the growth of savings and time deposits during this period.

APPENDIX

Table 7 Developments in stay-over tourism per island (% change)⁷

	Curaçao				St. Maarten				Bonaire			
	2003-I		2004-I		2003-I		2004-I		2003-I		2004-I	
North America, of which:	6.5	(0.4)	20.4	(1.5)	16.1	(6.7)	17.7	(7.5)	-14.2	(-0.5)	10.0	(0.4)
-U.S.A.	-7.1	(-0.4)	21.9	(1.3)	12.4	(4.3)	20.5	(7.4)	---	---	---	---
Europe, of which:	6.4	(0.7)	11.0	(1.2)	-14.3	(-1.4)	16.6	(2.3)	66.2	(2.5)	5.8	(0.2)
-The Netherlands	16.9	(1.6)	12.8	(1.2)	10.9	(0.2)	50.2	(1.1)	---	---	---	---
South & Central America, of which:	-38.0	(-1.9)	-6.5	(-0.3)	-28.8	(-0.3)	20.2	(0.2)	-0.1	(0.0)	-30.8	(-0.1)
-Venezuela	-36.1	(-1.0)	12.6	(0.2)	-46.8	(-0.1)	25.9	(0.1)	---	---	---	---
-Colombia	-51.7	(-0.6)	-63.1	(-0.3)	---	---	---	---	---	---	---	---
Caribbean, of which:	4.0	(0.2)	-3.0	(-0.1)	13.1	(0.5)	32.9	(1.5)	36.7	(0.1)	15.4	(0.0)
-Dominican Republic	-17.7	(-0.2)	9.8	(0.1)	-10.3	(0.0)	82.7	(0.6)	---	---	---	---
Total	-7.8	(-2.2)	8.1	(2.2)	6.1	(4.6)	19.0	(12.5)	12.5	(1.0)	5.8	(0.4)

Source: Curacao Tourist Board, St. Maarten Tourist Bureau, and Tourism Corporation Bonaire

Table 8 Netherlands Antilles consumer prices (annualized percentage change)

	2002-IV	2003-I	2003-II	2003-III	2003-IV	2004-I
Food		3.6	2.9	2.3	2.0	2.4
Beverages & tobacco		-0.1	-0.4	-0.7	-0.8	-0.4
Clothing & footwear		-1.6	-1.6	-1.0	-0.4	0.7
Housing		1.9	4.5	6.0	6.3	3.6
Housekeeping & furnishings		-1.0	-0.6	0.2	1.1	2.1
Health		1.5	0.4	0.2	0.4	1.0
Transport & communication		-2.9	-1.6	-1.3	-1.1	-1.5
Recreation & education		-0.4	-0.1	0.1	0.2	0.0
Other		1.2	1.2	1.1	0.9	0.6
General inflation rate		0.4	1.3	1.8	2.0	1.4

Source: Central Bureau of Statistics

⁷ Weighted growth rates between brackets.

Table 9 Budgetary overview (in millions NAf.)

	2001-I	2002-I	2003-I	2004-I
General government				
Revenues	354.1	321.8	370.3	344.9
Tax revenues, of which:	316.8	302.0	355.8	328.4
Taxes on income and profits	169.0	161.8	197.0	170.5
Taxes on goods and services	113.5	106.0	124.6	120.9
Taxes on international trade and transactions	24.2	24.8	24.7	27.2
Nontax revenues	37.3	19.8	14.5	16.5
Expenditures	307.0	374.1	410.4	396.3
Current, of which:	283.4	360.9	376.6	382.2
Wages and salaries	93.9	126.9	155.5	128.5
Goods and services	66.8	75.4	94.2	93.7
Subsidies and transfers	71.5	97.9	74.1	108.0
Interest payments	51.2	60.7	52.8	51.9
Capital	23.6	13.3	33.8	14.1
Budget balance	47.0	-52.4	-40.1	-51.4
Central government				
Revenues	153.7	139.2	143.0	147.0
Tax revenues, of which:	129.6	122.4	133.1	136.0
Taxes on goods and services	100.1	92.4	101.0	102.7
Taxes on international trade and transactions	24.2	28.4	24.7	27.2
Nontax revenues	24.1	16.8	9.9	11.0
Expenditures	153.6	186.3	196.8	204.6
Current, of which:	139.1	176.4	166.3	195.1
Wages and salaries	48.9	54.7	71.9	69.0
Goods and services	23.2	17.6	23.0	23.6
Subsidies and transfers	32.0	62.9	49.0	79.3
Interest payments	35.0	41.2	22.4	23.2
Domestic	23.7	30.9	23.0	25.8
Abroad	11.3	10.3	-0.6	-2.6
Capital	14.5	9.9	30.5	9.5
Budget balance	0.1	-47.1	-53.8	-57.6
Island government of Curaçao				
Revenues	209.4	199.2	258.3	235.8
Tax revenues, of which:	187.2	179.6	222.7	192.4
Taxes on income and profits	169.0	161.8	197.0	170.5
Taxes on goods and services	13.4	13.6	23.6	18.2
Nontax revenues	22.3	19.6	35.6	43.4
Expenditures	162.5	204.5	244.6	229.6
Current, of which:	153.4	201.1	241.3	225.0
Wages and salaries	45.0	72.2	83.6	59.5
Goods and services	43.6	57.8	71.2	70.1
Subsidies and transfers	48.5	51.6	56.1	66.6
Interest payments	16.2	19.5	30.4	28.7
Domestic	16.2	18.5	27.1	12.3
Abroad	0.0	1.0	3.3	16.4
Capital	9.1	3.4	3.3	4.6
Budget balance	46.9	-5.3	13.7	6.2

Source: Central government and island government of Curacao.

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

	2003-I	2003-II	2003-III	2003-IV	2004-I
Domestic consolidated debt	3,182.6	3,501.6	3,461.1	3,554.8	3,663.8
-Central Government, of which:	1,517.3	1,847.7	1,857.8	1,925.3	1,960.5
Long-term securities	1,042.3	1,503.5	1,521.7	1,586.1	1,631.4
Short-term securities	119.6	76.2	70.1	44.7	33.6
APNA	147.9	144.8	139.6	149.7	141.3
SVB	103.6	24.4	14.8	26.2	17.8
-Curaçao, of which:	2,013.5	1,940.7	1,858.9	1,951.0	2,030.0
Long-term securities	549.9	602.8	583.3	586.8	633.7
Short-term securities	116.3	82.9	88.4	86.2	109.1
APNA	806.9	805.2	788.6	807.8	814.7
Central Government	392.0	332.4	301.6	362.3	375.5
Foreign debt	733.5	771.0	730.7	806.7	760.9
Total debt (consolidated)	3,916.1	4,272.6	4,191.8	4,361.5	4,424.7
(% of GDP)	81.5%	87.9%	85.4%	89.6%	90.2%

¹) Consolidated for debt between the central government and the island governments.
Source: Central government and island government of Curaçao.

Table 11 Detailed overview balance of payments (in millions NAf.)

	2002-I	2003-I	2004-I
Trade balance	-413.6	-443.8	-519.7
-Exports	241.0	286.8	291.0
-Imports	654.6	730.6	810.7
Services balance	444.1	482.0	542.9
Receipts, of which:	758.9	806.6	897.5
-Travel	410.4	426.1	487.0
-Transportation	77.9	64.3	66.4
-Other services, of which:	270.6	316.2	344.1
-Int. fin & bus. services sector	110.5	106.3	105.4
Expenses, of which:	314.8	324.6	354.6
-Travel	87.5	144.5	119.8
-Transportation	39.4	32.7	38.7
-Other services, of which:	187.9	147.4	196.1
-Int. fin & bus. services sector	32.9	35.1	36.1
Income balance ¹⁾	5.7	-11.5	-11.8
Current transfers balance ²⁾	-2.5	19.8	22.4
Current account balance	33.7	46.5	33.8
Capital & financial account balance	-47.6	-95.4	-98.7
Capital balance	3.3	7.1	9.6
Financial balance	-50.9	-102.5	-108.3
Net errors & omissions	13.9	48.9	64.9

1) Labor and investment income.

2) Public and private transfers.

3) A minus sign means a decrease in liabilities.

4) A minus sign means an increase in assets.

5) A positive sign means a decrease in assets.

Table 12 Breakdown of net changes in the financial account (in millions NAf.)

	2002-I	2003-I	2004-I
Direct investment			
- Abroad ¹⁾	-1.7	-0.4	0.9
- In the Netherlands Antilles ²⁾	-18.5	-26.4	-40.3
Portfolio investment ¹⁾	-10.7	36.6	-101.8
Other investment, of which:	50.8	-17.8	68.5
- Assets ¹⁾	-2.8	-45.7	30.3
- Liabilities ²⁾	53.6	27.9	38.2
Net lending/borrowing, of which:	-33.9	-32.4	-1.2
- Assets ¹⁾	28.9	-32.7	-6.6
- Liabilities ²⁾	-62.8	0.3	5.4
Reserves ³⁾	-36.9	-62.1	-34.4
Total assets ¹⁾	-24.2	-104.0	-114.0
Total liabilities ²⁾	-26.7	1.5	5.7
Balance	-50.9	-102.5	-108.3

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 13 Monetary survey (in millions NAf.)

	2002-IV	2003-I	2003-II	2003-III	2003-IV	2004-I
Money supply (M2)	3,776.7	3,920.6	4,064.1	4,036.0	4,092.9	4,188.3
Money (M1)	1,497.2	1,530.7	1,617.1	1,555.9	1,525.3	1,559.8
Coins & notes with the public	235.2	219.7	232.5	213.1	232.9	211.9
Total demand deposits, of which :	1,262.0	1,311.0	1,384.6	1,342.8	1,292.4	1,347.9
- Netherlands Antillean guilders	1,056.9	1,056.9	1,108.8	1,103.6	989.3	1,037.7
- Foreign currency	242.4	254.1	275.8	239.2	303.1	310.2
Near money	2,279.5	2,389.9	2,447.0	2,480.1	2,567.6	2,628.4
Time deposits	1,324.0	1,398.0	1,425.4	1,442.2	1,501.4	1,552.2
Savings	955.5	991.9	1,021.6	1,037.9	1,066.2	1,076.2
Factors affecting the money supply						
Net domestic assets	2,634.6	2,725.4	2,789.7	2,821.3	2,772.5	2,833.4
General government	351.6	409.1	453.2	476.8	470.1	482.6
- Central government	189.4	270.6	281.6	293.1	272.4	292.5
- Island governments	162.2	138.5	171.6	183.7	197.7	190.1
Private sector	2,782.5	2,786.2	2,782.8	2,787.8	2,834.4	2,874.5
Net foreign assets	1,133.1	1,195.2	1,274.4	1,214.7	1,320.4	1,354.8
Central bank	853.0	852.7	850.1	778.3	904.5	854.0
Commercial banks	280.1	342.5	424.3	436.4	415.9	500.8
Memorandum items						
Government loans by commercial banks	410.2	427.5	475.4	477.7	489.5	483.1
- Central government	227.4	240.7	268.6	260.3	282.3	232.2
- Island governments	182.8	186.8	206.8	217.4	207.2	250.9
Private sector loans - Leeward Islands	1,988.3	1,989.7	1,978.4	1,977.2	1,981.4	1,996.9
- Mortgages	790.7	793.3	797.1	802.1	778.1	752.0
- Consumer loans	505.8	495.4	513.8	526.9	541.5	544.9
- Business loans	691.9	701.0	667.5	648.2	661.8	700.0
Private sector loans - Windward Islands	693.5	689.7	698.9	710.3	755.0	771.5
- Mortgages	343.6	346.6	349.9	357.8	373.1	382.2
- Consumer loans	108.9	107.5	107.3	112.9	145.4	162.8
- Business loans	240.9	235.6	241.7	239.6	236.5	226.5

Table 14 Developments in domestic interest rates (in %)

	2003-I	2003-II	2003-III	2003-IV	2004-I
Central bank					
- Pledging rate	3.00	2.25	2.25	2.25	2.25
- Marginal lending rate	4.00	3.25	3.25	3.25	3.25
Commercial banks borrowing rates					
- Passbook savings	3.6	3.6	3.6	3.4	3.2
- 12 month time deposit	5.5	5.4	5.1	4.9	4.6
Commercial banks lending rates					
- Mortgages	9.5	9.4	9.6	9.5	9.1
- Current account overdraft	11.1	11.8	10.9	10.7	11.0
Government bonds					
5 year (effective yield)	6.9	6.7	6.6	6.9	7.3

Table 15 Aggregate balance sheet domestic commercial banks (in millions NAf.)

	2002-IV	2003-I	2003-II	2003-III	2003-IV	2004-I
Assets						
Non-interest-bearing cash	395.6	407.8	415.0	379.4	431.5	462.8
Interest-bearing cash	1,371.5	1,537.5	1,516.1	1,423.8	1,431.1	1,486.6
Investments	582.8	535.6	606.3	612.4	611.3	602.9
Loans	3,500.8	3,494.7	3,504.7	3,615.5	3,697.5	3,774.7
Investments in unconsolidated subsidiaries and affiliates	12.2	13.4	12.3	12.0	13.5	18.6
Fixed assets	170.0	170.3	168.7	166.9	169.6	169.5
Other assets	166.9	173.0	138.7	127.8	147.2	278.1
Total assets	6,199.8	6,332.3	6,361.8	6,337.8	6,501.6	6,793.1
Liabilities						
Demand deposits	1,798.0	1,816.1	1,869.1	1,823.6	1,839.4	1,968.0
Savings deposits	2,148.8	2,217.4	2,267.9	2,286.3	2,334.8	2,367.7
Time deposits	1,302.1	1,460.9	1,397.0	1,403.1	1,473.7	1,524.3
Total deposits	5,248.9	5,494.4	5,534.0	5,513.0	5,647.9	5,859.9
Borrowings	183.1	118.2	118.0	111.7	125.4	102.1
Other liabilities	274.6	237.9	222.1	217.7	246.7	335.0
Total liabilities	5,706.6	5,850.5	5,874.1	5,842.4	6,020.0	6,297.0
Minority interest	6.6	6.8	6.9	6.1	6.4	6.7
Subordinated debentures	9.7	9.7	9.7	9.4	9.4	9.4
General provisions	161.7	135.0	140.6	143.8	140.3	143.8
Capital & reserves	315.2	330.2	330.5	336.1	325.5	336.2
Total capital	493.2	481.7	487.7	495.4	481.6	496.1
Total liabilities and capital	6,199.8	6,332.2	6,361.8	6,337.8	6,501.6	6,793.1

**Table 16 Aggregate income statement domestic commercial banks
(accumulated, in millions NAF.)**

	2002-IV	2003-I	2003-II	2003-III	2003-IV	2004-I
Interest income	418.6	116.5	227.2	339.1	427.2	116.8
Interest expenses	153.8	44.7	86.2	129.8	161.2	42.2
Net interest income	264.8	71.8	141.0	209.3	266.0	74.6
Other income	140.3	41.6	79.8	122.0	162.1	47.7
Total operational income	405.1	113.4	220.8	331.3	428.1	122.3
Salaries & other employees' expenses	186.4	50.6	100.4	147.8	194.4	53.0
Occupancy expenses	52.4	13.6	26.9	40.3	51.9	14.8
Other operating expenses	70.9	16.8	33.3	47.6	58.3	15.9
Net addition to general provisions	28.9	6.5	14.2	18.3	34.9	5.2
Total operational expenses	338.6	87.5	174.8	254.0	339.5	88.9
Net operating income	66.5	25.9	46.0	77.3	88.6	33.4
Net extraordinary items	3.2	0.2	0.7	2.2	0.5	1.7
Applicable profit taxes	23.0	6.0	12.1	21.1	22.6	7.7
Net income after taxes	46.7	20.1	34.6	58.4	66.5	27.4