



QUARTERLY BULLETIN 2006-3

Bank van de Nederlandse Antillen

REPORT OF THE PRESIDENT

The economy of the Netherlands Antilles grew by an estimated 0.9% in the third quarter of 2006, as measured by real Gross Domestic Product, an acceleration compared to the third quarter of 2005 (0.6%). The growth rate remained about the same compared to the second quarter of 2006 (1.0%). Both domestic and foreign demand contributed to the expansion in the third quarter of 2006. The growth in domestic demand was attributable entirely to private spending. In particular, private consumption grew, fueled by higher disposable income and the growth in consumer credit. In addition, both private and government investment increased. However, the decline in government consumption offset the increase in investment, resulting in a decline in government spending. Net foreign demand increased because exports grew faster than imports. Inflation started to moderate in the third quarter of 2006 due primarily to the easing of world oil prices. The annualized inflation rate reached 3.4%, compared to 3.6% in the second quarter of 2006.

An analysis by sector indicates that the wholesale & retail trade, restaurants & hotels, manufacturing, and financial sectors contributed particularly to the economic growth in the third quarter of 2006. The expansion in tourism activities contributed to the growth in the restaurants & hotels and wholesale & retail trade sectors. The growth in the wholesale & retail trade sector was attributable also to more free zone activities and the rise in domestic demand. The expansion in the manufacturing sector was accounted for by more activities at the Isla refinery, because activities declined in the ship repair industry. Furthermore, the good performance of the domestic financial services sector contributed to the expansion in the financial sector.

The tourism sector performed well, but the underlying developments were mixed. Stay-over tourism expanded on all the islands. However, cruise tourism recorded a marginal decline due to fewer passenger arrivals in St. Maarten. The growth in stay-over tourism contributed also to an increase in airport activities, reflected by a rise in total passenger traffic. Together with the good performance of the harbor sector and the expansion in oil storage and transshipment activities, the transport, storage, & communication sector recorded a moderate growth.

The balance of payments showed a deterioration in the third quarter of 2006, due to a large deficit on the current account. Nevertheless, the current account deficit was slightly lower compared to the third quarter of 2005, primarily because of the improvement in the services account. The latter improved largely as a result of more foreign exchange earnings from tourism, international financial services, and payments to cover the costs of the refinery. In addition, fewer payments were made abroad for air transportation and construction services, the latter related to the finalization of the new airport terminal in St. Maarten. The improvement in the services balance was complemented by slight improvements in the income and current transfers balances. These improvements were mitigated by a deterioration in the trade balance. The import of goods grew faster than exports, related to the build-up of inventories by free zone companies, the expansion in tourism, and higher domestic demand. The rise in the export of goods resulted mainly from more bunker sales due to higher average oil prices compared to the third quarter of 2005. Half of the current account deficit was financed with international reserves. The other half was financed primarily by external financing of the private sector and capital inflows related to development aid. The external financing of the private sector resulted mainly from foreign direct investments in the oil terminal of St. Eustatius and hotel construction in Curacao and St. Maarten, on the one hand, and the net repatriation of

portfolio investments abroad, on the other. The decline in reserves and the increase in external financing resulted in a decline in the net foreign wealth of both the banking and nonbanking sectors.

The cash deficit of the general government, i.e., the central government and the island government of Curacao combined, improved in the third quarter of 2006 compared to the third quarter of 2005, owing to higher revenues. Tax revenues in particular increased, driven largely by the sales tax and import duties in connection with the expansion in domestic spending. Nontax revenues increased as a result of higher transfers of licence fees by the central bank. Expenditures increased also but to a lesser extent than revenues, led largely by transfers and interest payments.

Uncertainties surrounding the commitment of the authorities to address the rising deficits on an annual basis and the solution of the debt problem with support from the Dutch government caused the financial institutions to be more cautious in financing the government in the third quarter of 2006. This cautiousness was reflected by a net redemption of debt securities by the island government of Curacao and a higher yield on bonds and treasury paper. Therefore, the authorities should take convincing actions to compensate budgetary shortfalls and, hence, stay within the approved budget to prevent a further tightening of financing conditions. These financing difficulties underscore the necessity for a set of legally anchored budgetary rules and norms to enhance fiscal discipline.

The money supply grew moderately in the third quarter of 2006 because the expansion in net domestic assets was largely offset by the decline in net foreign assets resulting from the deficit on the balance of payments. The expansion in net domestic assets was due mainly to the growth in loans extended to the private sector. Private loans grew on both island groups but in particular on the Windward Islands, and in all loan categories. Net credit to the government increased also, but to a less extent, due almost entirely to the withdrawal of deposits by the island government of Curacao to finance its cash deficit. In light of the continued strong growth in private sector credit, the Bank tightened its monetary policy stance slightly in September through auctioning a larger amount of Certificates of Deposit to mop up excess liquidity in the banking system. If left unchecked, unfettered credit growth may eventually erode our international reserves.

The entities that ratified the concluding statements of the negotiations with the Netherlands on the new constitutional structure, i.e., the central government, St. Maarten, Bonaire, St. Eustatius, and Saba, continue swiftly on the path towards their new destination. In February 2007, they reached an agreement with the Netherlands on the date the new constitutional status will become effective -- December 15, 2008, steps to be taken to fully prepare for the new status, and details regarding support for the social-economic initiatives and debt relief. The Dutch government will start with a phased debt takeover from the entities as soon as the supervision on the budgetary process is in place. In addition, extra support has been made available to address some urgent issues in the fields of poverty alleviation and health care. In the mean time, Curacao is falling further behind since it did not ratify the concluding statement. As a result, uncertainties are rising, leading to financing difficulties for the island government and an eventual erosion of investor confidence. To prevent a reversal of the economic recovery on the island, the authorities should address this issue as swiftly as possible. This step will create an opportunity to keep up with the process of preparing the island to become an autonomous country within the Kingdom with bright prospects for the future.

E.D. Tromp
President

INTERNATIONAL ECONOMIC DEVELOPMENTS

Real GDP in the United States expanded by 3.0% in the third quarter of 2006, a slightly slower pace than the year before (see Table 1). The continued buoyancy of economic activity was driven by increases in consumer spending, nonresidential fixed investments, and inventory build-up. In contrast, the contractions in residential fixed investment and net exports dampened somewhat the third-quarter growth. The slump in housing construction had adverse effects on housing prices. Despite the falling house values, consumers continued to spend, raising the demand for foreign-made goods. As a result, the current account deficit widened by 21.3% to \$867 billion because the growth of imports outweighed that of exports. The labor market benefited from the economic expansion as the unemployment rate improved to 4.6%, the lowest since 2001. U.S. consumer prices continued an upward trend, reaching 3.7% in the months of July-September 2006. This upward trend may be related to rising wage pressures because of labor shortages in some parts of the country. Moreover, U.S. labor costs were up as labor productivity slowed during the third quarter of 2006. To cover the higher costs from the lower efficiency, some companies resorted to raising their prices. Despite higher spending, the U.S. Federal Reserve left the Fed Funds Rate unchanged at 5.25% for the third consecutive time in 2006 because of slowing energy prices.

Table 1 Selected indicators of various countries

	<u>United States</u>		<u>Netherlands</u>		<u>Venezuela</u>	
	2005-III	2006-III	2005-III	2006-III	2005-III	2006-III
Real GDP (% change)	3.4	3.0	1.3	2.7	10.2	10.2
Consumer prices (%)	3.3	3.7	1.5	1.4	17.0	13.4
Unemployment rate (%)	5.1	4.6	6.5*	5.5*	11.5	9.5

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

*Quarterly average.

In 2006, the Dutch economy expanded for the third quarter in a row. During the months of July-September 2006, real GDP grew by 2.7%, stemming from gains in exports, household consumption, and fixed capital investments. Exports remained the main driver of the economic growth, largely due to re-exports of goods to the EU-member countries. Residential and nonresidential investments rose, the latter owing to more business investments in machinery and computers. Growth in consumer spending and fixed capital investments led to an expansion in the retail trade and construction sectors. Moreover, the expansion in the financial & business services sector was caused mostly by more activities in the employment agencies. Favorable developments in the economy contributed also to an improved labor market situation; the jobless rate fell to 5.5% in the third quarter of 2006. Most employment was created in the business services and care sectors. The jobs created in the business services sector were mainly filled by employment agency workers. For the last several years, the inflation rate in the Netherlands has remained relatively steady; the third-quarter inflation in 2006 stood at 1.4%. In Europe, Finland had the lowest inflation rate, followed by the Netherlands.

In the September quarter of 2006, the Venezuelan economy continued to grow at a steady rate of 10.2%, sustained largely by the windfall from high oil prices. The third-quarter growth was led by the non-oil sector (11.7%), stemming from construction, manufacturing, and trade. The record oil revenues made it possible for the government to continue spending on state payrolls, infrastructure, and poverty relief. These

government policies provided people with more disposable income, which stimulated consumer spending. The soaring demand resulted in a marked increase in imports, narrowing the current account surplus by 4.4% to \$7.7 billion. Inflation decelerated to 13.4%, mostly the result of the price controls implemented several years ago. However, inflation may pick up again, fueled by a growing domestic demand and the foreign exchange control. The latter has forced many importers to the costly parallel market for most of their purchases. The economic growth coincided with an improvement in the labor market, as more jobs were created in the public as well as in the private sector, lowering the jobless rate to 9.5%.

GENERAL ECONOMIC DEVELOPMENTS IN THE NETHERLANDS ANTILLES

In 2006's third quarter, the economic growth in the Netherlands Antilles accelerated somewhat, reflected by a rise in GDP of 0.9% (see Table 2). This acceleration was attributable to domestic as well as foreign demand. The positive results in the domestic activities were fueled largely by private demand. In addition, foreign trade contributed to the GDP growth, as exports of goods and services rose faster than imports. Inflationary pressures were down in the September quarter of 2006, as the inflation rate slowed to 2.6%, stemming mostly from lower international oil prices (see Table 8 in the appendix).

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

	2005-III	2006-III
Domestic expenditure, of which:	0.9	0.6
Private sector	2.2	0.9
- Investment	1.3	0.2
- Consumption	0.9	0.7
Government sector	-1.3	-0.2
- Investment	-0.3	0.1
- Consumption	-1.0	-0.4
Changes in inventory	0.2	0.1
Foreign net expenditure, of which:	-0.6	0.2
Export of goods and services	-0.9	4.1
Import of goods and services	-0.4	3.9
GDP by expenditure	0.6	0.9
Net primary income	1.1	0.1
Gross national income	1.6	1.1
Net current transfers from abroad	-2.9	0.5
Gross national disposable income	-1.3	1.6

BNA estimates

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

Private demand as well as public investment posted a growth throughout the months July-September of 2006. Both private consumption and investment rose, but at a slower rate compared to the third quarter of 2005, which was in line with the deceleration in consumer credit, mortgages, and business loans. In contrast, the government pursued a

contractionary policy: spending dropped due to fewer outlays on goods & services. Net foreign demand improved, as exports outperformed imports. Imports of goods & services expanded, led by merchandise imports. This increase was reflected in the wholesale & retail and restaurants & hotels sectors.

Despite increases in private consumption and total investment, national savings showed a slight gain. An improvement in public dissavings outstripped the decline in private savings. Hence, the higher levels of private consumption and investment were funded through foreign financing, credit extension, and a drawdown in savings.

Domestic production

The economy of the Netherlands Antilles accelerated slightly during the third quarter of 2006, backed by positive developments in the private and public sectors. At the sectoral level, wholesale & retail trade and financial intermediation continued as the main drivers of economic growth in the third quarter (see Table 3). Moreover, the rise in outlays on wages & salaries contributed to an increase in the public sector.

In the September quarter of 2006, the wholesale & retail trade industry recorded a further increase in production (6.0%). This increase stemmed from more activities in the free-zone, tourism, and the rise in domestic demand. In addition, the expanded output in the financial services sector was sustained solely by the domestic financial services in terms of value added. The domestic financial services sector experienced a slower growth in production, reflected by a deceleration in domestic demand and the related credit extension slowdown. The development in manufacturing was more favorable throughout the third quarter of 2006. In contrast to 2005, the “Isla” refinery impacted positively on production levels in the manufacturing sector in terms of value added. However, this encouraging picture was mitigated by fewer activities in the ship repair industry.

Table 3 GDP by sector (real percentage changes)

Sector	2005-III	2006-III
Agriculture, fishery, & mining	2.7	-1.5
Manufacturing	0.3	1.7
Electricity, gas, & water	1.0	-1.5
Construction	2.4	0.9
Wholesale & retail trade	4.9	6.0
Restaurants & hotels	-1.6	1.5
Transport, storage, & communication	-0.1	0.2
Financial intermediation	3.1	1.4
Real estate, renting, & business activities	0.0	1.0
Private households	-3.7	-3.2
Total private sector	1.1	1.2
Public sector	0.7	1.4
Taxes minus subsidies	-3.8	-1.6
GDP	0.6	0.9

BNA estimates

The results for the Antillean tourism sector were mixed in the third quarter of 2006. Stay-over tourism expanded by 3.0%, led by more arrivals from the North American and European markets. The arrival of new carriers contributed to an increase in airlift, resulting in more visitors from the South American and Caribbean markets. By contrast, cruise tourism shrank marginally, owing mainly to fewer cruise passenger arrivals in St. Maarten.

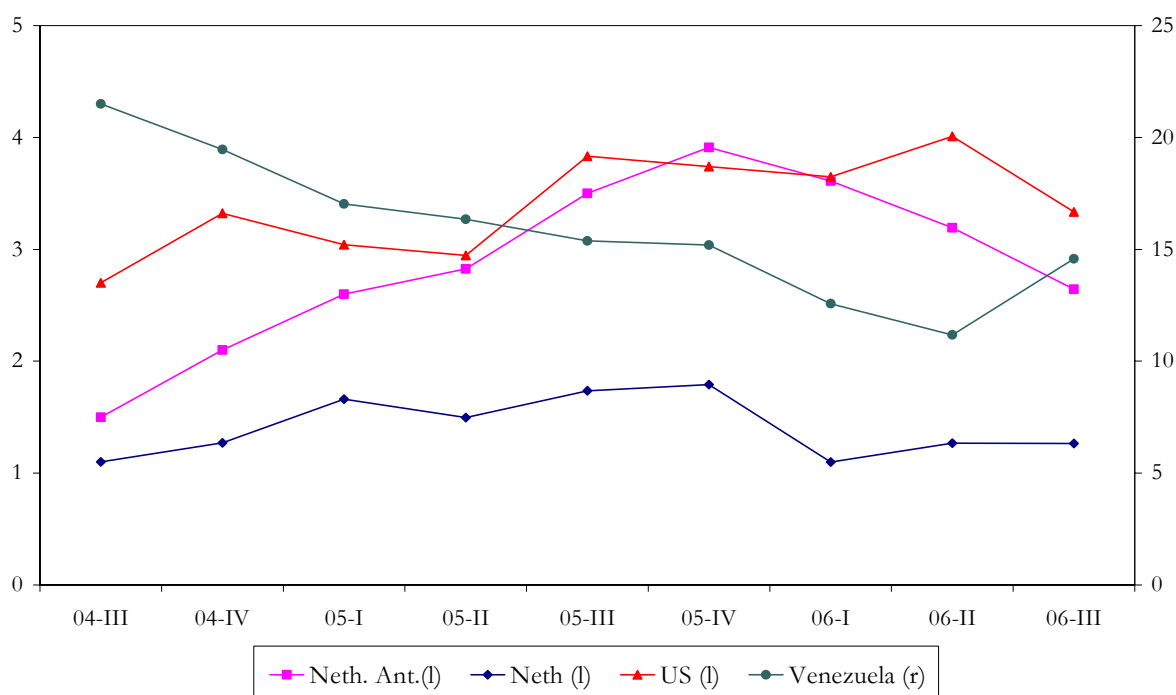
An analysis by island shows that the number of stay-over tourists rose on all islands during the September quarter of 2006. In contrast to 2005, St. Maarten's stay-over tourism improved, led by more travelers from the European and South American markets. Results of Curaçao's stay-over tourism were positive, as the number of U.S. and Dutch visitors expanded. Bonaire's stay-over tourism also recorded a rise, with more visitors from almost all markets (see Table 7 in the appendix for more details).

Contrary to the previous year, the transport, storage, and communication sector recorded a positive development during the months of July-September 2006. After several years of contraction, the air transportation sector showed some improvement as the slack related to the demise of the national carrier, DCA, was picked up by other airlines. In line with the favorable momentum in air transportation, airport-related activities performed well as reflected by a rise in total passenger traffic in the Netherlands Antilles, related to the growth in the tourism sector. Moreover, the harbor sector performed well and oil storage and transshipment activities expanded.

Inflation

An analysis of price developments on a quarterly basis shows that the Antillean inflation rate decelerated for the third quarter in succession. In the third quarter of 2006, the inflation rate moderated to 2.6% (see Graph 1). The upward pressures on prices eased somewhat in the third quarter, related mostly to the decline in world oil prices. During the same period of 2005, the impact of rising oil prices was significant, caused by the aftermath of the hurricanes in the U.S. Gulf region. Prices decelerated in the categories "housing" (1.6%), "housekeeping & furnishings" (2.3%), and "transport & communication" (1.8%). In contrast, the upward price thrust in food and beverages & tobacco mitigated somewhat the slowing inflationary pressures. Food products recorded further price rises, linked to higher-priced fresh produce. An analysis by island shows that in the September quarter of 2006, Curaçao recorded the highest quarterly inflation rate (2.8%), followed by St. Maarten (2.6%), and Bonaire (1.3%) (see Table 8 in the appendix for a detailed overview).

Graph 1
Developments in consumer prices (annual quarter-to-quarter percentage change)



DEVELOPMENTS IN PUBLIC FINANCE

The government sector's contribution to the estimated GDP growth in the third quarter of 2006 was marginal. Government consumption increased slightly, solely the result of an increase in wages. The fiscal deficit on a cash basis improved by NAf.16.0 million to NAf.41.8 million in the third quarter of 2006 compared to the third quarter of 2005. This improvement was due to a higher increase in revenues (9.6%) than in expenditures (4.0%) (see Table 9 in the appendix). Noteworthy is that the improvement of the deficit was accounted for by both the central government and the island government of Curaçao. Buoyant tax revenues were driven largely by the sales tax and import duties, reflecting the higher domestic spending during the third quarter of 2006. Nontax revenues increased as a result of higher transfers of license fees by the central bank. The increase in government expenditures was led largely by transfers and interest payments.

The general government cash deficit in the third quarter of 2006 was financed entirely monetarily. However, the financing needs of the central government and the island government of Curaçao differed, in line with their budgetary outcome (see Table 4). The central government recorded a monetary contraction owing to an increase in deposits because of the net issue of securities with the public. In contrast, the island government of Curaçao financed its cash deficit entirely monetarily through the withdrawal of deposits at both the central bank and the commercial banks. Part of these deposits was used for the net redemption of government securities to the public.

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

	<u>Central government</u>		<u>Curaçao government</u>	
	<u>2005-III</u>	<u>2006-III</u>	<u>2005-III</u>	<u>2006-III</u>
Monetary financing, of which:	-50.6	-42.6	38.3	70.4
Central bank	-35.9	-23.4	16.5	31.7
Commercial banks	-15.3	-19.6	21.8	38.6
Coins and notes	0.6	0.4	0.0	0.0
Nonmonetary financing, of which:	51.6	42.0	18.5	-28.0
Government securities with the public	59.3	30.2	-0.3	-12.5
Other	-7.7	11.8	18.8	-15.5
Cash balance	-1.0	0.6	-56.8	-42.4

Public sector debt

The total outstanding public debt increased by NAf.24.7 million reaching NAf.5.03 billion (83.5% of GDP) in the third quarter of 2006. The increase in public debt was solely a function of the domestic component. The accumulation of domestic debt (NAf.28.1 million) was due mainly to the increases in government securities and arrears with the civil servant's pension fund, APNA.

Further analysis by level of government reveals that the higher domestic debt of the central government was caused largely by borrowing on the local capital market. Outstanding debt securities of the central government increased by NAf.24.7 million in the July-September period of 2006. The increase in the debt of the island government of Curaçao, on the other hand, resulted mainly from the buildup of arrears, especially with the civil servant's pension fund (APNA). The island government experienced some difficulties with financing through the capital market, reflected by a net redemption of securities.

The drop in the foreign debt was the result of a slight appreciation of the Netherlands Antillean guilder vis-à-vis the euro during the third quarter of 2006 (see Table 10 in the appendix for further details).

DEVELOPMENTS IN THE BALANCE OF PAYMENTS

In the September quarter of 2006, both the export and the import of goods and services increased compared to the same period in 2005. As the growth in exports of goods and services outpaced the rise in imports, net foreign demand improved slightly. The increase in net foreign demand contributed primarily to the slight improvement in the current account deficit. The current account deficit was financed by, among other things, net foreign assets (i.e., reserves), which dropped by NAf.93.9 (see Table 5).

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

	2004-III	2005-III	2006-III
Current account	-142.1	-196.1	-186.4
Capital transfers	13.2	20.7	27.1
External financing of the government	3.6	3.0	3.4
External financing of the private sector	28.7	-14.2	59.6
- Direct investment *)	29.3	-5.6	37.5
- Loans and credits *)	20.6	-4.6	-6.1
- Portfolio investments *)	-21.2	-4.0	28.2
Change in net foreign assets of banking system *)	92.5	163.6	93.9
- with commercial banks	95.5	31.0	23.2
- with central bank	-3.0	132.6	70.8
Statistical discrepancies	4.0	23.4	2.5

*) a minus sign implies an increase

Current account

The export of goods and services increased by NAf.83.3 million in the third quarter of 2006 compared to the same period in 2005, largely due to a growth of NAf.66.7 million in the export of services. In addition, merchandise exports rose by NAf.16.6 million, mainly as the result of increased earnings from bunkering activities due to higher average oil prices. The growth in the export of services was related, among other things, to a rise in foreign exchange receipts from tourism and tourist-related services. The tourism sector performed particularly well on the island of Curacao where revenues increased by 14.4%. In addition, revenues from international financial services were up by NAf.18.1 million related to higher earnings by the largest companies in this sector. Furthermore, the refining fee paid by PDVSA for its operations in Curaçao increased by NAf.13.0 million during the third quarter of 2006. This increase was primarily the result of extra costs related to the start-up of the catcracker following the maintenance shutdowns at the refinery in the second quarter of 2006.

Imports of goods and services grew by NAf.77.0 million in the September quarter of 2006 compared to the same period of 2005, due to increased merchandise imports. This increase was related to a rise in imports of free zone companies to replenish their inventories, the growth in the tourism sector, and higher domestic spending. The latter grew, however, at a slower pace than in the third quarter of 2005. The increase in the import of goods and services was mitigated by a decline in payments for air passenger transportation services from abroad. Furthermore, imports of construction services dropped, primarily because the construction of the new airport terminal in St. Maarten reached its final stage. Because the growth in the export of goods and services outweighed the rise in imports, net export of goods and services increased by NAf.6.3 million.

In addition, the income balance and the current transfer balances improved by NAf.2.2 million and NAf.1.2 million, respectively. The aforementioned developments resulted in a slight improvement by NAf.9.7 million to NAf.186.4 million in the current account deficit in the third quarter of 2006 compared to the third quarter of 2005.

Financing of the current account balance

The current account deficit resulted in a decline in the net foreign wealth of both the banking and the nonbanking sectors. In the July-September period of 2006, the net foreign wealth of the banking sector dropped by NAf.93.9 million. This drop resulted from a decline of NAf.23.2 million in net foreign assets held by the central bank combined with a decrease of NAf.70.8 million in net foreign assets held by the commercial banks (see Table 5).

The net foreign wealth of the nonbanking sector¹ declined largely as the result of an increase of NAf.59.6 million in external financing of the private sector. This increase was related to a deterioration of the direct investment balance (NAf.37.5 million) and the portfolio investment balance (NAf.28.2 million), mitigated by an improvement in the loans and credits balance (NAf.6.1 million) (see Table 12 in the appendix for more details).

The deterioration of the direct investment balance can be attributed to an increase in claims of foreign direct investors in the Netherlands Antilles. The growth in foreign direct investments was related mainly to investments in the oil terminal on the island of St. Eustatius, and hotel construction in Curacao and St. Maarten.

The worsening of the portfolio investment balance was due to a decline in net portfolio investments abroad. This decline can be explained by more funds (i.e., equity securities and bonds) repatriated from abroad, on the one hand, and fewer funds (re)invested abroad by institutional investors, on the other hand.

The improvement in the loans and credit balance, which includes trade credits and foreign loans, was related mainly to an amelioration in the net trade credit balance. During the third quarter of 2006, net trade credit extended abroad declined by NAf.27.7 million as the increase in repayments offset the rise in credit extended to foreign customers. At the same time, net trade credit received from abroad dropped by NAf.37.2 million because the increase in repayments outpaced the increase in credit received. As the drop in net trade credit received from abroad outweighed the decline in net trade credit extended to abroad, the net trade credit balance improved.

Capital transfers increased by NAf.6.4 million in the third quarter of 2006 related to the inflow of development aid funds. Noteworthy is that the majority of the annual development aid from the Netherlands was received in the first quarter of 2006 (NAf.114.7 million).

MONETARY DEVELOPMENTS

Monetary policy

During the first two months of the third quarter of 2006, the Bank did not deem it necessary to actively influence the liquidity in the domestic money market. This situation changed in the month of September when the Bank sought to mop up excess liquidity

¹ The change in the net foreign assets of the nonbanking entities comprises the external financing of the government, the external financing of the private sector, and capital transfers.

through auctioning a larger amount of Certificates of Deposits² (CDs). This tightening was induced mainly by the continued strong growth in private credit extension, which eventually will affect the Bank's official reserves if left unchecked. The Bank's other main monetary policy instrument, the reserve requirement, remained unchanged for the second consecutive quarter.

The Bank's official interest rate, the pledging rate, remained unchanged during the September quarter of 2006, the first time since the second quarter of 2004.

Net accumulation of wealth and the money supply

During the September quarter of 2006, domestic sector money holdings rose by NAf.39.6 million, a turnaround compared to the drop of NAf.59.8 million registered in the corresponding quarter of 2005. The increase in the money supply in 2006 was due to an increase in net domestic assets of NAf.133.5 million, offset partially by a drop in net foreign assets of NAf.90.2 million (see Table 13A in the appendix for more details).

Factors affecting the money supply

The money supply registered a 0.8% growth in the third quarter of 2006, a turnaround compared to the 1.2% drop recorded in the third quarter of 2005. The growth in the demand for liquid assets in 2006 was due mainly to an increase in loans extended to the private sector (3.3%). All loan components increased: business loans by 4.0%, consumer loans by 4.4%, and mortgage loans by 1.6%. The increase in total loans extended was accounted for by both the Windward Islands (8.1%) and the Leeward Islands (1.2%). The only loan component that decreased on an island level was mortgages on the Leeward Islands (0.1%).

Net credit extended to the governments increased by 7.1% in the third quarter of 2006. This increase was due almost entirely to the withdrawal of deposits by the island government of Curaçao at both the central bank and the commercial banks. Securities issued by the island government in commercial bank portfolios increased only slightly. Net credit extension to the central government dropped as a result of an increase in deposits related to the proceeds of debt issues placed with the public.

Net foreign assets decreased by 5.1% during the September quarter of 2006, substantially less than the decrease of 9.2% during the same quarter of 2005. The 2006 decrease in net foreign assets resulted mainly from a drop in the commercial banks' net foreign assets position (11.8%). In addition, the central bank's official reserves dropped by 1.9% (see Table 14 in the appendix for more details).

Developments in domestic interest rates

The Bank's official interest rate, the pledging rate, remained unchanged during the third quarter of 2006, in line with the unchanged Fed funds rate (see Table 15 in the appendix). The last time this happened was during the second quarter of 2004. In contrast, the maximum CD rate (1 month) registered a small drop. The maximum CD rate is market-determined to keep these securities attractive vis-à-vis comparable

² Negotiable securities issued by the Bank

investment alternatives. The pledging rate is always equal to or higher than the maximum CD rate to prevent interest arbitrage.

The average rate on passbook savings remained unchanged at 2.8% for the eighth consecutive quarter. The average rate on time deposits registered a small drop of 0.1 percentage point.

Contrary to the rather constant average borrowing rates of commercial banks, the average lending rates have been fluctuating during recent quarters. This fluctuation reveals that lending rates experience more dynamism due to changing market developments.

Both the average rate on government bonds (5 years) and the average (1 month) discount rate on treasury bills increased during the September quarter of 2006 compared to the previous quarter. An upward trend can be noticed in these rates related to the decreasing interest of the domestic financial sector to investing in government securities. Consequently, the government has to offer higher rates to cover its financing needs.

DEVELOPMENTS IN THE COMMERCIAL BANKING SECTOR

During the third quarter of 2006, total assets of the domestic commercial banking sector dropped by 2.6%. During the corresponding quarter of 2005, total assets registered a drop of 0.6%. The decrease in 2006 was related largely to a decline of 12.8% in interest-bearing cash, mainly the result of a matured time deposit at a foreign financial institution (see Table 16 in the appendix for more details).

The aggregate income statement of the domestic commercial banks reveals an increase in profitability in the September quarter of 2006, but smaller than in the same quarter of 2005 (see Table 17 in the appendix for more details).

Macprudential indicators

The general performance of the commercial banking sector can be analyzed by looking at the development in the macroprudential indicators. The third quarter of 2006 indicates an improvement in the sector's performance compared to the previous quarter (see Table 6).

The adequacy of capital is measured by the ratio of total capital against total assets. This ratio improved by 0.8 percentage point during the September quarter of 2006, mainly the result of increased capitalization as total assets dropped.

The ratio of nonperforming loans -to- total loans improved during the September quarter of 2006. The improvement in this ratio, which gives an indication of the quality of the assets portfolio, resulted from both a decrease in nonperforming loans and an increase in total outstanding loans. The ratio of provisions for loan losses-to-nonperforming loans improved also, resulting from an increase in loan provisions and the abovementioned decrease in nonperforming loans.

Two of the three earnings-related indicators revealed an improvement in profitability in the commercial banking sector during the third quarter of 2006. The gross earnings-assets yield improved slightly by 0.1 percentage point, due to a stronger growth in interest income than in the average outstanding earning assets. The ratio revealing the return on assets also showed a slight improvement of 0.1 percentage point. This improvement resulted from an increase in net income before dividend and taxes, on the one hand, and a drop in the average outstanding total assets, on the other hand. The net interest margin remained unchanged.

The ratio of total loans to total deposits provides an indication of the amount of liquidity in the domestic banking sector. The increase in this ratio in the third quarter of 2006 reveals a decrease in liquidity, resulting from an increase in loans and a drop in deposits.

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

	2005-II	2005-III	2005-IV	2006-I	2006-II	2006-III
Capital adequacy						
Total capital/total assets	7.9	8.1	7.9	8.5	8.5	9.3
Asset quality						
Nonperforming loans/total loans	3.2	2.8	2.6	2.7	3.7	3.2
Provisions for loan losses/non-performing loans	104.0	108.3	106.0	113.6	67.5	88.6
Earnings						
Gross earnings-assets yield	7.1	7.5	7.5	7.8	7.6	7.7
Net interest margin	4.6	5.1	5.1	5.1	4.9	4.9
Return on assets	2.0	2.0	2.3	2.2	2.0	2.1
Liquidity						
Total loans/total deposits	64.5	67.8	61.9	61.9	61.7	66.2

APPENDIX

Table 7 Developments in stay-over tourism per island (% change)¹

	<u>Curaçao</u>				<u>St. Maarten</u>				<u>Bonaire</u>			
	2005-III		2006-III		2005-III		2006-III		2005-III		2006-III	
North America, of which:	-1.1	(-0.1)	12.8	(0.9)	-5.6	(-1.7)	-3.0	(-0.9)	0.4	(0.0)	25.7	(1.0)
-U.S.A.	-0.3	(0.0)	11.7	(0.8)	-3.9	(-1.1)	-4.1	(-1.1)	-0.2	(0.0)	25.8	(1.0)
Europe, of which:	-4.9	(-0.7)	7.5	(1.0)	-3.5	(-0.4)	5.6	(0.7)	5.9	(0.2)	-1.6	(-0.1)
-The Netherlands	-3.5	(-0.4)	6.8	(0.8)	2.1	(0.0)	-13.9	(-0.2)	12.8	(0.3)	-5.1	(-0.1)
South & Central America, of which:	-1.0	(-0.1)	-4.7	(-0.3)	-3.6	(-0.1)	38.4	(0.8)	1.8	(0.0)	4.5	(0.0)
-Venezuela	-10.7	(-0.5)	-16.5	(-0.6)	-20.3	(-0.1)	1.5	(0.0)	25.9	(0.1)	-15.9	(0.0)
-Colombia	11.0	(0.1)	-0.4	(0.0)	---	---	---	---	70.0	(0.0)	-9.8	(0.0)
Caribbean, of which:	-22.1	(-1.2)	2.3	(0.1)	-4.6	(-0.3)	-0.7	(0.0)	12.1	(0.1)	17.2	(0.1)
-Dominican Republic	-19.5	(-0.1)	-30.0	(-0.2)	-26.4	(-0.2)	0.6	(0.0)	---	---	---	---
Total	-7.5	(-2.4)	5.2	(1.7)	-3.7	(-2.2)	0.7	(0.4)	2.9	(0.2)	11.1	(1.0)

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

¹ Weighted growth rates between brackets

Table 8 Netherlands Antilles consumer prices (annual quarterly percentage change)

	2005-II	2005-III	2005-IV	2006-I	2006-II	2006-III
Food	6.8	7.4	7.6	6.9	6.9	7.8
Beverages & tobacco	3.0	3.5	3.7	4.3	3.0	3.6
Clothing & footwear	-0.8	-0.5	-0.6	-0.1	0.3	0.4
Housing	2.8	3.9	3.8	3.7	3.0	1.6
Housekeeping & furnishings	5.1	5.5	5.2	2.7	2.5	2.3
Health	1.5	1.5	1.0	1.1	0.4	0.6
Transport & communication	1.9	2.8	4.4	4.1	3.2	1.8
Recreation & education	0.1	0.4	0.4	0.4	0.7	0.3
Other	1.1	1.5	2.2	2.4	2.3	2.0
General inflation rate	2.8	3.5	3.9	3.6	3.2	2.6

Source: Central Bureau of Statistics

Table 9 Budgetary overview (in millions NAf.)

	2003-III	2004-III	2005-III	2006-III
General government				
Revenues	367.1	333.4	324.1	355.3
Tax revenues, of which:	264.9	298.3	285.9	312.3
Taxes on income and profits	125.7	138.4	128.6	130.5
Taxes on goods and services	101.5	117.5	117.9	127.8
Taxes on international trade and transactions	28.6	32.4	28.8	36.9
Nontax and other revenues	102.2	35.1	38.2	43.0
Expenditures	410.3	410.1	381.9	397.1
Current, of which:	392.1	385.3	378.7	394.4
Wages and salaries	139.5	136.9	131.3	130.7
Goods and services	96.7	114.3	107.0	104.4
Subsidies	35.9	12.6	14.4	10.8
Transfers	73.4	70.1	68.9	81.6
Interest payments	46.6	51.5	57.2	66.9
Capital	18.1	24.8	3.1	2.7
Budget balance	-43.2	-76.7	-57.8	-41.8
Central government				
Revenues	181.5	180.3	181.6	205.5
Tax revenues, of which:	131.1	149.1	149.0	167.5
Taxes on goods and services	96.7	109.4	112.2	118.4
Taxes on international trade and transactions	28.6	32.4	28.9	37.1
Nontax and other revenues	50.4	31.2	32.6	38.0
Expenditures	220.6	212.3	182.6	204.9
Current, of which:	217.7	195.8	181.1	204.2
Wages and salaries	63.3	72.1	68.6	71.5
Goods and services	30.4	25.8	28.6	31.8
Transfers	99.9	74.1	61.0	73.2
Interest payments	21.1	23.3	22.9	27.7
Capital	2.9	16.5	1.5	0.7
Budget balance	-39.1	-32.0	-1.0	0.6
Island government of Curaçao				
Revenues	244.9	189.0	174.4	180.9
Tax revenues, of which:	133.8	149.2	136.9	144.8
Taxes on income and profits	125.7	138.4	128.6	130.5
Taxes on goods and services	4.8	8.1	5.7	9.4
Nontax and other revenues	111.1	39.8	37.4	36.1
Expenditures	249.0	233.7	231.1	223.3
Current, of which:	233.7	225.4	229.5	221.3
Wages and salaries	76.2	64.8	62.7	59.2
Goods and services	66.3	88.5	78.4	72.6
Transfers	32.8	31.9	39.8	39.5
Interest payments	25.5	28.2	34.3	39.2
Domestic	22.2	24.0	31.5	37.0
Abroad	3.3	4.2	2.8	2.2
Capital	15.2	8.3	1.6	2.0
Budget balance	-4.1	-44.7	-56.8	-42.4

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

	2005-III	2005-IV	2006-I	2006-II	2006-III
Domestic consolidated debt,	4,010.9	4,145.0	4,158.0	4,228.0	4,256.0
of which:					
-Central government,	2,131.2	2,233.5	2,282.4	2,294.1	2,303.3
of which:					
Long-term securities	1,777.8	1,771.6	1,800.1	1,855.7	1,879.7
Short-term securities	83.6	94.4	70.2	45.8	46.5
APNA	117.3	209.0	208.6	208.2	210.3
SVB	9.9	13.9	15.4	9.8	9.5
-Curacao,	2,187.5	2,076.5	2,036.6	2,096.2	2,120.9
of which:					
Long-term securities	737.4	737.4	754.8	786.5	775.2
Short-term securities	145.9	202.6	171.8	192.9	197.9
APNA	774.7	758.4	697.6	701.0	715.8
Central government	388.8	253.9	267.4	268.0	276.1
-Other islands	366.7	312.6	338.5	344.4	349.7
Foreign debt	714.6	725.8	742.3	776.7	773.3
Total debt (consolidated)	4,725.6	4,870.8	4,900.4	5,004.7	5,029.3
(% of GDP)	81.8%	83.4%	83.0%	83.9%	83.5%

¹ Adjusted for intergovernment debt

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

	2004-III	2005-III	2006-III
Trade balance	-511.5	-556.4	-627.0
-Exports	387.4	460.8	477.4
-Imports	898.9	1,017.2	1,104.4
Services balance	337.4	347.4	424.3
Receipts, of which:	697.5	731.5	798.2
-Travel	331.3	332.9	352.4
-Transportation	64.3	54.6	58.0
-Other services, of which:	301.8	344.0	387.8
-Int. fin & bus. services sector	112.5	93.7	111.8
Expenses, of which:	360.1	384.0	373.9
-Travel	140.7	121.4	126.8
-Transportation	46.6	43.9	38.8
-Other services, of which:	172.9	218.8	208.3
-Int. fin & bus. services sector	31.8	40.0	35.2
Income balance ¹⁾	1.3	16.8	19.0
Current transfers balance ²⁾	30.7	-3.9	-2.7
Current account balance	-142.1	-196.1	-186.4
Capital & financial account balance	138.1	173.1	183.9
Capital account balance	13.2	20.7	27.1
Financial account balance	124.9	152.4	156.9
Net errors & omissions	4.0	23.4	2.5

1) Labor and investment income

2) Public and private transfers

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

	2004-III	2005-III	2006-III
Direct investment	29.3	-5.6	37.5
- Abroad ¹⁾	-3.9	0.5	2.2
- In the Netherlands Antilles ²⁾	33.2	-6.1	35.3
Portfolio investment ¹⁾	-21.2	-4.0	28.2
Other investment, of which:	7.5	27.6	1.9
- Assets ¹⁾	6.0	45.2	25.8
- Liabilities ²⁾	1.5	-17.6	-23.9
Net lending/borrowing, of which:	16.8	-29.1	-4.6
- Assets ¹⁾	-39.9	-59.3	31.3
- Liabilities ²⁾	56.7	30.2	-35.9
Reserves ³⁾	92.5	163.6	93.9
Total assets ¹⁾	33.5	146.0	181.5
Total liabilities ²⁾	91.4	6.5	-24.6
Balance	124.9	152.5	156.9

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 13A Net accumulation of wealth (in millions NAf.)

2006-III	Domestic sectors			External sector
	Private	Government	Banking	
Nonfinancial transactions	-147.7	-38.7		186.4
Government net lending	-4.5	4.5		
Gov't dom. nonbank financing	3.7	-3.7		
External financing of government		3.4		-3.4
External financing of private sector	59.6			-59.6
-Direct investment (equity)	37.5			-37.5
-Loans and credits	-6.1			6.1
-Portfolio, incl. debt	28.2			-28.2
Capital transfers	27.1			-27.1
Change in net foreign assets of the central bank			23.1	-23.2
Change in net foreign assets of commercial banks			67.1	-70.8
Change in domestic bank credit	113.0	34.5	-147.5	
Change in broad money	-39.6		39.6	
Other items, net/errors & omissions	-15.2		17.7	-2.5

Table 13B Net accumulation of wealth (in millions NAf.)

2005-III	Domestic sectors			External Sector
	Private	Government	Banking	
Nonfinancial transactions	-121.7	-59.0		180.7
Government net lending	-1.2	1.2		
Gov't dom. nonbank financing	-39.9	39.9		
External financing of government		3.0		-3.0
External financing of private sector	-54.0			54.0
-Direct investment (equity)	8.1			-8.1
-Loans and credits	-57.8			57.8
-Portfolio, incl. debt	-4.3			4.3
Capital transfers	20.3			-20.3
Change in net foreign assets of the central bank			132.6	-132.6
Change in net foreign assets of commercial banks			31.0	-31.0
Change in domestic bank credit	131.7	14.9	-146.6	
Change in broad money	59.8		-59.8	
Other items, net/errors & omissions	16.1		42.8	-58.9

Table 14 Monetary survey (in millions NAf.)

	2005-II	2005-III	2005-IV	2006-I	2006-II	2006-III
Money supply (M2)	4,890.9	4,831.1	4,933.4	5,217.3	5,195.7	5,235.3
Money (M1)	1,841.3	1,726.3	1,784.0	1,800.9	1,848.0	1,876.0
Coins & notes with the public	224.6	222.9	239.9	232.9	244.9	243.9
Total demand deposits, of which :	1,616.7	1,503.4	1,544.1	1,568.0	1,603.1	1,632.1
- Netherlands Antillean guilders	1,263.0	1,152.0	1,188.0	1,138.9	1,161.8	1,155.1
- Foreign currency	353.7	351.4	356.1	429.1	441.3	477.0
Near money	3,049.6	3,104.8	3,149.4	3,416.4	3,347.7	3,359.3
Time deposits	1,883.4	1,927.7	1,947.3	2,169.3	2,089.6	2,097.7
Savings	1,166.2	1,177.1	1,202.1	1,247.1	1,258.1	1,261.6
Factors affecting the money supply						
Net domestic assets	3,121.5	3,225.3	3,305.5	3,319.1	3,440.5	3,574.0
General government	579.4	594.3	621.9	560.2	485.7	520.2
- Central government	396.8	353.5	397.9	390.4	332.0	289.2
- Island governments	182.6	240.8	224.0	169.8	153.7	231.0
Private sector	3,230.2	3,361.9	3,450.3	3,599.9	3,813.4	3,926.4
Net foreign assets	1,769.4	1,605.8	1,627.9	1,898.2	1,755.2	1,665.0
Central bank	1,247.8	1,115.2	1,117.9	1,201.8	1,186.8	1,163.7
Commercial banks	521.6	490.6	510.0	696.4	568.4	501.3
Memorandum items						
Government loans by commercial banks	614.2	600.4	603.4	531.5	455.6	456.5
- Central government	328.1	308.9	306.2	288.7	239.6	234.2
- Island governments	286.1	291.5	297.2	242.8	216.0	222.3
Private sector loans - Leeward Islands	2,246.3	2,321.0	2,367.4	2,397.9	2,485.8	2,516.7
- Mortgages	786.1	803.7	812.4	807.5	803.7	802.9
- Consumer loans	655.6	681.7	713.6	728.4	752.7	779.2
- Business loans	804.6	835.6	841.4	862.0	929.4	934.6
Private sector loans - Windward Islands	885.4	958.3	995.4	1,004.4	1,071.9	1,158.5
- Mortgages	330.5	348.8	362.0	384.4	397.2	417.6
- Consumer loans	195.9	218.6	243.2	239.0	273.1	291.3
- Business loans	359.0	390.9	390.2	381.0	401.6	449.6

Table 15 Developments in domestic interest rates (in %)

	2005-II	2005-III	2005-IV	2006-I	2006-II	2006-III
Central bank						
- Pledging rate	3.25	3.75	4.50	5.00	5.50	5.50
- Maximum CD rate (1 month)	3.29	3.74	4.36	4.74	5.37	5.31
Commercial bank borrowing rates						
- Passbook savings	2.8	2.8	2.8	2.8	2.8	2.8
- Time deposit (12 months)	4.1	4.1	4.1	4.0	4.1	4.0
Commercial bank lending rates						
- Mortgages	8.6	8.7	8.6	8.3	8.3	8.5
- Time loans	11.2	10.3	10.8	11.2	11.0	10.5
Government securities						
- Government bonds (5-year effective yield)	6.3	6.3	6.3	6.4	6.5	7.1
- Treasury bills (1 month)	3.3	3.3	4.5	4.8	3.8	5.6

Table 16 Aggregate balance sheet of domestic commercial banks (in millions NAf.)

	2005-II	2005-III	2005-IV	2006-I	2006-II	2006-III
Assets						
Non-interest-bearing cash	506.9	379.6	475.7	647.6	516.8	431.6
Interest-bearing cash	1,718.8	1,667.4	1,836.7	1,930.9	2,339.7	2,040.3
Investments	780.2	781.9	1,675.8	1,548.8	1,288.6	1,204.2
Loans	4,278.1	4,426.0	5,151.5	5,182.4	5,417.9	5,611.6
Investments in unconsolidated subsidiaries and affiliates	9.9	11.0	11.2	232.4	186.3	181.2
Fixed assets	198.0	195.3	218.3	215.9	218.9	223.2
Other assets	142.9	126.8	188.4	220.3	205.5	218.9
Total assets	7,634.7	7,588.0	9,557.6	9,978.3	10,173.7	9,910.9
Liabilities						
Demand deposits	2,372.3	2,261.4	2,799.1	2,879.3	3,059.9	2,902.4
Savings deposits	2,510.0	2,545.5	3,094.3	3,159.4	3,191.3	3,217.5
Time deposits	1,865.9	1,867.3	2,555.7	2,746.8	2,680.5	2,488.2
Total deposits	6,748.2	6,674.2	8,449.0	8,785.5	8,931.6	8,608.0
Borrowings	37.2	33.0	25.2	26.0	37.4	31.9
Other liabilities	228.2	241.4	316.3	295.7	322.8	346.2
Total liabilities	7,013.5	6,948.5	8,790.6	9,107.2	9,291.9	8,986.2
Minority interest	7.4	6.5	7.0	7.4	7.9	8.7
Subordinated debentures	7.2	5.5	5.5	5.5	5.2	3.6
General provisions	144.7	145.4	159.2	166.2	169.6	179.2
Capital & reserves	461.8	482.1	595.3	692.1	699.1	730.8
Total capital	621.1	639.4	767.1	871.1	881.8	922.2
Total liabilities and capital	7,634.7	7,588.0	9,557.7	9,978.3	10,173.7	9,910.9

Table 17 Aggregate income statement of domestic commercial banks¹
(accumulated, in millions NAf.)

	2005-II	2005-III	2005-IV	2006-I	2006-II	2006-III
Interest income	239.3	392.9	608.1	175.4	350.3	535.6
Interest expenses	87.0	132.1	200.9	62.2	125.3	195.7
Net interest income	152.3	260.9	407.2	113.1	225.0	339.9
Other income	98.8	146.0	215.5	58.8	116.7	172.2
Total operational income	251.1	406.8	622.8	171.9	341.8	512.2
Salaries & other employee expenses	110.3	163.9	238.8	65.6	129.3	192.4
Occupancy expenses	32.0	48.7	68.1	18.5	37.4	56.5
Other operating expenses	35.8	54.7	106.6	24.5	53.5	80.9
Net addition to general provisions	13.4	24.7	39.8	10.7	19.1	28.8
Total operational expenses	191.5	292.0	453.3	119.2	239.3	358.6
Net operating income	59.6	114.8	169.5	52.7	102.5	153.6
Net extraordinary items	1.8	5.8	25.9	3.5	1.1	7.4
Applicable profit taxes	19.3	28.9	36.6	12.9	24.2	36.7
Net income after taxes	42.1	91.7	158.7	43.3	79.3	124.2

¹ Cumulative quarterly figures.