



## QUARTERLY BULLETIN 2008-1

**Bank van de Nederlandse Antillen**

## REPORT OF THE PRESIDENT

The economy of the Netherlands Antilles continued to grow but at a slower pace, due mainly to the rise in energy and food prices and the slowdown in private investment. Real Gross Domestic Product increased by 1.7% in the first quarter of 2008, compared to 2.6% in the first quarter of 2007. As in the previous quarters, the expansion in the first quarter of 2008 was led entirely by the private sector. The growth in investments was backed by capital inflows, mortgages, and business loans. Consumer spending also expanded further, fueled partly by more consumer loans. Private spending was mitigated by a decline in government spending and net exports. Both government consumption and investment declined slightly. Imports continued to grow faster than exports, resulting in a decline in net exports, but export growth is starting to pick up. The inflation rate is rising rapidly, reaching 3.4% on an annual basis at the end of the first quarter of 2008, compared to 2.7% at the end of the previous quarter. The acceleration of the inflation rate can be attributed to the impact of the rising world oil and food prices, the decision by the government of Curacao to increase domestic gasoline and utility prices, and the stronger euro.

An analysis by sector reveals that the construction, wholesale & retail trade, hotels & restaurants, real estate, renting & business services, and financial services sectors were the primary contributors to the economic growth in the first quarter of 2008. Construction activities continued to perform robustly as a result of the ongoing hotel and other investment projects. The rise in domestic demand and more tourism activities led to a further growth in the wholesale & retail trade sector, although the pace was dampened by fewer activities in the free zone. The hotels & restaurants sector registered the strongest expansion, owing to the significant increase in stay-over tourism. All islands contributed to the expansion, but Curacao's growth was most pronounced, backed by the Dutch and Venezuelan markets. The number of cruise visitors increased also, owing to the growth in Curaçao and Bonaire, whereas St. Maarten recorded a decline. Furthermore, output in the financial services sector increased, accounted for by both the domestic banks and the international operating financial services companies.

The transport, storage & communication sector also continued to grow. The buoyant tourism development was reflected by more passengers handled at the airports, except on Bonaire. A sharp fall in the number of transit passengers, due to fewer stopovers by KLM on its flights to South America as of the second quarter of 2007, caused total passenger traffic on Bonaire's airport to drop. Harbor activities increased, with the exception of St. Maarten. Moreover, oil storage and transshipment activities expanded in Curacao and Bonaire, but declined in St. Eustatius. Contrary to the other sectors, value added in the manufacturing sector declined, reflected by the drop in output in the refinery and the ship repair industry.

The deficit on the current account of the balance of payments nearly doubled in the first quarter of 2008, compared to the first quarter of 2007. This deterioration was attributable entirely to the higher trade deficit resulting from the strong increase in imports. The rise in imports was due mainly to higher oil and food prices, the growth in domestic demand, and the expansion of tourism. The services, income, and current transfers balances improved. The improvement of the services balance was most pronounced, supported mainly by the growth in foreign exchange income from tourism and international financial and business services. Development aid-related capital inflows and external financing of the private sector increased more than the current account deficit, resulting in a surplus on the balance of payments. The repatriation of funds by local financial institutions, the withdrawal of funds from foreign bank accounts by domestic companies, and an increase in liabilities of domestic companies with their foreign affiliates primarily explain the increase in external financing.

The cash balance of the general government<sup>1</sup> improved from a deficit in the first quarter of 2007 to a small surplus in the first quarter of 2008. This turnaround was accounted for entirely by the surge in tax revenues related to the economic expansion. Expenditures increased also, but to a lesser extent. Wages & salaries and capital transfers posted the largest increases. The higher wages & salaries were the result of the timely payment and reduction in arrears of premiums by the Curacao government to the government pension fund, APNA, compared to only a partial payment in the first quarter of 2007. The rise in capital transfers can be explained by the central government's contribution to the fund for economic development. Despite the cash surplus, the government debt increased, due mainly to the foreign component. The foreign debt, i.e., debt to the Netherlands, increased as a result of the build up of interest arrears and the appreciation of the euro.

The initial favorable budgetary outlook for 2008, projecting a NAf.15 million surplus for the general government as a result of interest savings related to the anticipated debt relief by the Dutch government, has deteriorated significantly. This deterioration occurred because the relief was postponed when the entities did not meet the conditions on time. As a result, the projected budget outcome has been revised to a deficit of NAf.183 million. Meanwhile, considerable progress has been made in meeting the conditions, with the approval of the draft Kingdom law on budgetary supervision by parliament and the island councils of Curaçao and St. Maarten marking an important step. Once the law comes into effect and balanced 2009 budgets are presented to and approved by the supervisory board, the debt relief is expected to start in 2009 creating firm prospects for lasting sound public finances. However, the three smaller islands, Bonaire, Saba, and St. Eustatius, which opted for closer integration with the Netherlands, have already complied with the conditions for debt relief. Therefore, the debt takeover for these islands is expected to start in the second half of 2008.

The money supply grew at a more moderate pace in the first quarter of 2008, compared to the first quarter of 2007, due to a drop in net domestic assets. This drop was caused by, among other things, the decline in net credit to the government related to the cash surplus. In contrast, credit extension to the private sector continued to grow robustly. Because of the drop in net domestic assets, 2008's first quarter growth of the money supply stemmed entirely from the growth in net foreign assets as a result of the surplus on the balance of payments.

During the first quarter of 2008, the Bank was successful in mopping up excess liquidity in the domestic money market through auctioning more certificates of deposit to keep private sector credit growth in check. Therefore, the reserve requirement percentage remained unchanged at 13.25%. In line with the rapid decline in US interest rates and its impact on the local money and capital market, the Bank reduced its pledging rate in four steps reaching 2.75% by the end of the quarter.

Furthermore, the upcoming debt relief will pose unprecedented challenges for our financial institutions to preserve profitability by improving operational efficiency and diversifying income sources. To facilitate these changes and in light of the increasing globalization, the Bank advocates a further consolidation of the financial sector.

Our policymakers are facing challenging times. In addition to addressing the many issues related to the constitutional change, they have to deal with the impact of the rapidly increasing fuel and food prices. Under increasing social pressure, parliament approved a 15% increase of the minimum wage to compensate workers for the erosion of their purchasing power.

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<sup>1</sup> The central government and the island government of Curacao combined.

Although socially fully justified, we must proceed with caution not to bring about a wage-price spiral that ultimately could undermine the current economic revival. Therefore, simultaneous with the increase in minimum wages, a package of supporting measures should become effective to enable the private sector to reduce costs and improve productivity. In addition, not only the minimum wage earners but all vulnerable groups are affected hard by the rising prices. To prevent an increase in poverty, targeted support for these groups is required. We have a common responsibility in preserving and strengthening social stability, which is fundamental to maintaining stable growth in the years ahead.

E.D.Tromp  
President

## INTERNATIONAL ECONOMIC DEVELOPMENTS

Despite the turmoil in the real estate market, the US economy grew by 2.5% in the first quarter of 2008, compared to a 1.5% increase in the same period of 2007. The main contributing factor to the first-quarter growth was the higher exports of goods & services, as imports dropped. US exports benefited from the solid advances in foreign economies and the weaker US dollar. As a result, the current account deficit contracted by 6.5% to US\$707 billion. Consumer spending continued to expand, albeit at a slower pace than the previous year. Consumers were less inclined to spend due to: (1) a reduction in purchasing power, caused by the rising energy and food prices; (2) the falling home prices, which made many homeowners less wealthy; (3) the credit crunch, making it more difficult to finance big purchases; and (4) the weakening of the labor market. Moreover, the sharp contraction in residential investment dampened the overall economic growth. The labor market situation deteriorated, leading to a higher unemployment rate of 5.1% in the January through March period of 2008. Most of the lay-offs occurred in the manufacturing, construction, and business services sectors. To mitigate the risks to economic activity, the Federal Reserve cut the Fed funds rate to 2.25% for the fifth consecutive time since September 2007. The soaring energy and food prices elevated the inflationary pressures, raising the first-quarter inflation to 3.3%. Lately, the Fed's concern about a recession has changed to worries about inflation.

**Table 1 Selected indicators of various countries**

	<u>United States</u>		<u>Netherlands</u>		<u>Venezuela</u>	
	2007-I	2008-I	2007-I	2008-I	2007-I	2008-I
Real GDP (% change)	1.5	2.5	2.5	3.3	8.8	4.8
Consumer prices (%)	2.9	3.3	1.4	1.7	15.3	20.6
Unemployment rate (%)	4.4	5.1	4.9*	4.4*	9.5	7.6

Sources: 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 the first three months of 2008, real GDP of the Netherlands rose by 3.3%, sustained by gains in household spending, fixed investment, and foreign demand. Households spent more on goods & services, reflected largely by consumption of natural gas. Contrary to 2007, households spent more on heating, as the weather was colder throughout the first quarter of 2008. Businesses invested more in structures and equipments, which led to an expansion in nonresidential fixed investments. Moreover, exports of goods & services showed a growth of 6.5%, as export demand for natural gas by the EU countries expanded. On the production side, mining, utilities, and the construction sectors benefited from more export and investment activities. Consumer prices in the March quarter of 2008 showed a rise of 1.7%, fueled by higher energy and food prices. In spite of the price acceleration, the Netherlands has had the lowest inflation rate in the euro-zone since November 2007. In light of the favorable economic trend, the labor market in the Netherlands continued to improve, lowering the jobless rate to 4.4% in the first quarter of 2008.

During the months January-March 2008, Venezuela's economy expanded by 4.8%, its slowest pace in more than four years. The slowdown was seen in all parts of the non-oil sector. Activities in the construction, trade, and transport, storage & communication sectors showed a marked deceleration in growth rates. As opposed to the growth of 28.8% in the first quarter of 2007, the financial services sector shrank by 6.4% in the same period of 2008. The slowdown in the non-oil sector was related to fewer activities in the private sector. Government price and

currency controls and numerous nationalizations have discouraged investment and limited the production of goods, fueling inflationary pressures. After the government loosened the price controls, Venezuela's inflation accelerated to its highest rate (20.6%) since 2003 and is the fastest growing inflation rate in Latin America. In spite of the economic slowdown, developments in the labor market continued to improve, as the jobless rate dropped to 7.6% in the March quarter of 2008. Venezuela's current account surplus expanded significantly by 207% to US\$10 billion, driven principally by a rise in oil export revenues, due to soaring oil prices.

## GENERAL ECONOMIC DEVELOPMENTS IN THE NETHERLANDS ANTILLES

The pace of growth of the Netherlands Antillean economy seemed to have slowed somewhat to 1.7% in the March quarter of 2008. Domestic demand expanded at a slower rate than the year before. One of the contributing factors to the loss of momentum in domestic demand was the erosion of consumers' purchasing power caused by the rise in energy and food prices. Another factor was the slowdown in private investments, which was one of the mainstays of growth in 2007. As opposed to the previous year, exports of goods & services showed a marked increase in the first quarter of 2008, but were still outbalanced by import growth. The continuing rise in the world oil and food prices raised the consumer price inflation to 4.2% in the first quarter of 2008.

**Table 2 GDP growth by expenditure <sup>\*)</sup> (real percentage changes)**

	2007-I	2008-I
Domestic expenditure, of which:	11.7	6.2
Private sector	11.4	6.5
- Investment	7.6	4.5
- Consumption	3.8	2.0
Government sector	0.3	-0.4
- Investment	0.0	-0.1
- Consumption	0.3	-0.2
Changes in inventory	0.2	-0.1
Foreign net expenditure, of which:	-9.3	-4.4
Export of goods and services	4.4	10.8
Import of goods and services	13.7	15.2
GDP	2.6	1.7
Net primary income	-0.7	0.1
Gross national income	1.9	1.8
Net current transfers from abroad	-0.6	0.2
Gross national disposable income	1.2	2.0

BNA estimates

\*) Expenditure categories data are weighted contributors to GDP growth.

On the expenditure side, growth continued to be sustained mainly by private investment and consumption. Despite persistent strains with regard to prices, private consumption expanded, which also enhanced imports. Consumer spending was partly financed by the expansion in

consumer loans. The growth in private investment activities reflected the gains in capital inflows, mortgages, and business loans. Public sector spending contracted in real terms, stemming from both lower consumption and investment.

Net foreign demand fell, as growing import demand (15.2%) offset the increase in exports (10.8%). The sizeable import of goods & services was linked primarily to the higher prices and volume of oil, which was largely re-exported through bunkering. The gain in merchandise imports matched with the expansion in the construction, wholesale & retail trade, and hotels & restaurants sectors.

Throughout the months January-March 2008, gross national income growth of the Netherlands Antilles remained steady, due to a slight rise in net primary income from abroad. Nonetheless, national savings contracted because of the increase in private demand. Private savings dropped, but this drop was mitigated by a slight improvement in public savings. A large part of the private savings shortfall was reflected by high imports, which were partly related to bunkering activities. Total investment rose because the growth in private investment offset the fall in public investment. Hence, the higher levels of private consumption and investment were financed through increased credit extension, foreign financing, and a drawdown in savings.

### **Domestic production**

In 2008's first quarter, the expansion in economic output was based solely on the private sector. The private sector benefited primarily from increased activities in the construction, wholesale & retail trade, hotels & restaurants, real estate, renting & business services, and the financial services sectors (see Table 3). Construction activities continued their positive

**Table 3 GDP by sector (real percentage changes)**

<b>Sector</b>	<b>2007-I</b>	<b>2008-I</b>
Agriculture, fishery, & mining	5.5	-0.3
Manufacturing	5.8	-4.4
Electricity, gas, & water	4.6	1.2
Construction	8.5	7.5
Wholesale & retail trade	6.4	3.1
Hotels & restaurants	5.1	14.9
Transport, storage, & communication	3.9	1.3
Financial intermediation	-1.4	2.5
Real estate, renting, & business activity	3.2	3.9
Other community, social & personal services	0.4	1.7
Private households	0.5	0.9
Total private sector	3.0	2.6
Public sector	2.7	-1.7
Taxes minus subsidies	-0.7	-0.9
GDP	2.6	1.7

BNA estimates

development, although at a slower pace than in the first quarter of 2007, as many of the hotel and other investment projects had been carried over from the year before.

In the three months ending March 2008, the total value added in the wholesale & retail trade sector grew, but at a slower rate than in the first quarter of 2007. The growth in this sector was dampened by fewer activities in the free zone, despite rising domestic demand and more activities in tourism.

The significant increase in the number of stay-over arrivals (19.9%) in the Netherlands Antilles contributed positively to the hotels & restaurants sector. This buoyant performance was led by more travelers from the North American, European, and South American markets. The appreciation of the euro against the US\$ and, hence, the Netherlands Antillean guilder, may be the reason for more European visitors. Moreover, the number of Venezuelan tourists grew about three-fold, leading to a significant increase in South American arrivals. Consequently, the share of South American travelers to total travelers rose from 2.9% to 11.4%. The exchange controls in Venezuela combined with the vast divergence of the black market exchange rate from the official rate of the Bolivar fuerte were accountable mainly for the large inflow of Venezuelan tourists to the islands. This development started in the first quarter of 2007 and continued in 2008. In the first quarter of 2008, cruise passenger arrivals grew by 6.3%, owing to both Curaçao and Bonaire, whereas St. Maarten posted a decline.

An analysis by islands shows that the positive results in stay-over tourism were backed primarily by Curaçao. The European and the South American markets primarily accounted for the 47.8% gain in the island's stay-over tourism. Activities in St. Maarten's stay-over tourism were also favorable (7.6%), led largely by more visitors from the United States. Furthermore, the increase in the number of stay-over visitors to Bonaire (15.0%) was backed by a growth in all markets. See Table 7 in the appendix for more details.

As opposed to 2007's first quarter, the output in the financial services sector grew in the first quarter of 2008, owing to both domestic and the international financial services in terms of value added. Besides higher wages & salaries, the domestic financial services sector reported a significant increase in its profits.

The transport, storage, & communication sector performed well in the first quarter of 2008. This positive outcome was sustained by the air transportation and harbor sectors. In line with the favorable development in tourism, air transport and airport-related activities increased, as total passenger traffic in the Netherlands Antilles grew. In the harbor sector, total cargo movements expanded in Curacao, and more ships were piloted into the harbors, with the exception of St. Maarten. Also, oil storage and transshipment activities increased in the Netherlands Antilles.

Contrary to the other sectors, the manufacturing sector mitigated the GDP growth, as output in the "Isla" refinery and Curaçao's ship repair industry declined. Activities in the refinery were down in terms of value added. The number of man-hours sold in the ship repair sector fell, due to fewer activities in the shipyard.

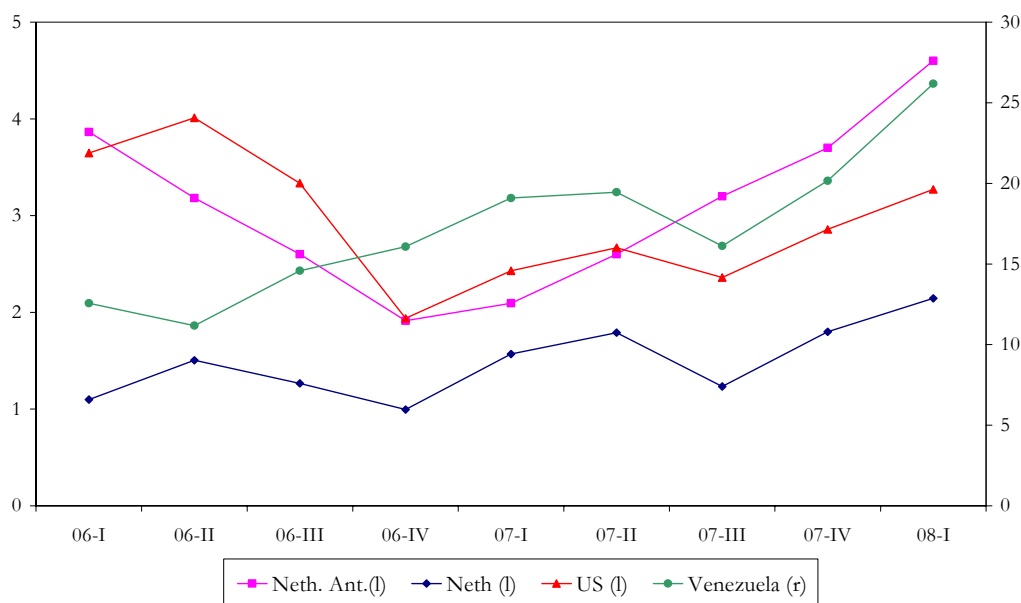
## **Inflation**

The inflationary picture of the Netherlands Antilles deteriorated in the first quarter of 2008. The impact of rising world oil and food prices on domestic prices was reinforced by a stronger euro. Moreover, the government of Curaçao approved an increase in domestic gasoline and



utility prices.<sup>2</sup> An analysis of price developments on a quarterly basis shows that the Antillean inflation rate was increasing steadily up to 4.5% in the first quarter of 2008 (see Graph 1). Major price gains were registered in the categories “food” (11.5%), “beverages & tobacco” (4.2%), “housing” (4.5%), and “transportation & communication” (4.0%). The prices of almost all food items have been showing an upward trend during the last few months. Higher housing expenses were fueled by increases in maintenance costs and utility prices. In addition, transportation costs were up, driven by higher gasoline prices. An analysis by island reveals that during the first three months of 2008, Curacao registered the highest quarterly inflation rate (4.8%), followed by St. Maarten (3.9%), and Bonaire (1.8%). See Table 8 in the appendix for a detailed overview.

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

In the first quarter of 2008, the finances of the public sector improved compared to the first quarter of 2007. The increase in the revenues of the general government<sup>3</sup> (17.2%) outweighed the increase in expenditures (14.3%). As a result, the general government registered a surplus on a cash basis of NAf.0.2 million, the first surplus since the second quarter of 2005, and an improvement compared to the NAf.9.9 million deficit registered during the first quarter of 2007. This improvement can be attributed entirely to the island government of Curaçao, which ran a cash surplus of NAf.34.0 million. In contrast, the central government deficit deteriorated by NAf.5.5 million, resulting in a deficit of NAf.33.8 million (see Table 9 in the appendix).

The increase in revenues was attributable mainly to a surge in tax revenues (19.6%), fueled by the economic expansion. At the central government level, tax revenues increased by NAf.27.3 million (16.3%), due mainly to rises in the revenues from taxes on property transfers, sales tax,

<sup>2</sup> Gasoline and utility prices in Curaçao are subject to price controls.

<sup>3</sup> The general government constitutes the central government and the island government of Curaçao.

and import duties. The tax revenues collected by the island government of Curaçao increased by NAf.45.3 million (22.2%), mostly from taxes on profits and wages.

A review of expenditures reveals that the increase in current expenditures (8.3%) was due largely to payments made by the island government of Curaçao to the government pension fund, APNA (NAf.24.2 million). In doing so, Curaçao made timely payments of premiums for the January through March period of 2008, and reduced its arrears with the APNA. Capital expenditures increased at the central government level because NAf.24.5 million was allocated to the fund for economic development. Outlays for investments, goods & services and the wage components other than pension premiums increased only moderately at both levels of government. Accompanied by the higher inflation, the result was a negative contribution of the public sector to the growth of real GDP in the first quarter of 2008.

The financing needs of the central government and the island government of Curaçao differed, as the former registered a cash deficit while the latter registered a cash surplus. The central government financed its 2008 first quarter deficit almost entirely monetarily, by withdrawing deposits from its bank accounts and using its overdraft facility at the central bank. A fraction of these funds was used to redeem government securities held by the central bank and the general public. The surplus of the island government of Curaçao resulted mainly from an increase in deposits at the central bank and the commercial banks (see Table 4).

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

	Central government		Curaçao government	
	2007-I	2008-I	2007-I	2008-I
Monetary financing	24.6	33.2	26.8	-36.0
Central bank	-28.5	4.2	2.0	-6.4
Commercial banks	52.7	28.7	24.8	-29.6
Coins and notes	0.4	0.3	--	--
Nonmonetary financing	3.7	0.6	-45.2	2.0
Government securities with the public	-22.2	-6.1	-25.1	11.0
Other	25.9	6.7	-20.0	-9.0
Cash balance	-28.3	-33.8	18.4	34.0

#### **Public sector debt**

The total outstanding consolidated public debt increased by NAf.86.3 million in the first quarter of 2008, reaching NAf.5.6 billion (84.0% of GDP). The increase in public debt was caused mainly by the foreign component. Total foreign debt increased by NAf.62.8 million, partly because of interest arrears incurred at the end of 2007. The rise in foreign debt can also be attributed to the depreciation of the Netherlands Antillean guilder against the euro, which caused a rise in the guilder-equivalent of the euro-denominated debt (see Table 10 in the appendix).

The increase in the domestic debt (NAf.23.5 million) can be attributed mainly to the central government (NAf.9.5 million), the island government of Bonaire (NAf.7.0 million), and the island government of St. Maarten (NAf.5.5 million). The debt of the central government increased due to arrears incurred with the Social Security Bank, SVB, the net issue of long-term securities, and the use of the credit facility at the central bank. The higher debt of Bonaire and St. Maarten resulted from the buildup of arrears with the APNA. Further analysis of the components of domestic debt reveals a net redemption of securities (NAf.5.6 million), due to

the decrease in short-term paper (NAf.19.3 million) at the central government level. Due mainly to the settlement of arrears by the island government of Curaçao with the APNA, its debt with the public pension fund fell by NAf.11.1 million in the first quarter of 2008.

## DEVELOPMENTS IN THE BALANCE OF PAYMENTS

Net exports of goods and services, i.e., net foreign demand, declined in the first quarter of 2008 compared to the first quarter of 2007 as the rise in imports outpaced the growth in exports. The decline in net foreign demand contributed primarily to the deterioration of the current account deficit to NAf.196.7 million and mitigated the first-quarter economic growth. The capital and financial balance worsened as well, due mainly to the inflow of development aid funds and an increase in external indebtedness of the private sector (see Table 5).

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

	2006-I	2007-I	2008-I
Current account	29.2	-109.9	-196.7
Capital transfers	112.9	102.9	147.1
External financing of the government	3.4	3.7	3.7
External financing of the private sector	83.6	228.3	329.8
- Direct investment	-126.1	138.5	135.4
- Loans and credits	98.8	62.7	246.9
- Portfolio investments	110.9	27.2	-52.5
Change in net foreign assets of the banking system *)	-270.3	-248.0	-294.6
- with commercial banks	-186.4	-169.8	-151.0
- with central bank	-83.9	-78.3	-143.6
Statistical discrepancies	41.2	30.3	10.6

\*) a minus sign implies an increase

### Current account

The export of goods and services rose by NAf.237.4 million in the first quarter of 2008 compared to the first quarter of 2007, due largely to higher earnings from bunkering activities. The latter was the result of both higher volumes sold and higher average international oil prices. Increased receipts from the tourism sector (NAf.84.4 million) also contributed to the improvement in exports, owing particularly to the growth in earnings from stay-over tourism in Curaçao. In addition, foreign exchange earnings from international financial services increased, due largely to a growth in trust services provided abroad. The export growth was partially offset by a drop in the refining fee, reflecting a decline in refining activities. Despite the recovery of the Venezuelan market, re-exports by the free-zone companies rose at a slower pace than in 2007.

The import of goods and services was up by NAf.334.4 million in the first quarter of 2008 compared to the same period of 2007. This growth was mainly related to higher oil imports, due to the rise in average fuel prices on the international market and increased bunker fuel volumes re-exported. In addition, the import of construction services grew due to, among other things, the expansion of the harbor of Sint Maarten. Furthermore, merchandise imports rose as a result of higher domestic spending and favorable developments in the tourism industry. However, merchandise import growth was mitigated by a drop in imports by the free-

zone companies. As the growth in imports offset the rise in exports, net exports of goods and services declined by NAf.97.0 million.

Both the income and the current transfers balances improved in the first quarter of 2008 compared to the first quarter of 2007. The income balance improved by NAf.3.0 million, mainly as a result of lower interest payments on direct and portfolio investments from abroad. Meanwhile, net current transfers improved by NAf.7.3 million as the increase in current transfers received from abroad offset the rise in current transfers paid abroad. The former was largely due to higher profit taxes received from international financial & business companies operating in the Netherlands Antilles. Overall, the current account deficit increased by NAf.86.8 million, reaching NAf.196.7 million in the first quarter of 2008. See Table 11 in the appendix for a detailed overview.

### **Financing of the current account balance**

The current account deficit in the first quarter of 2008 was largely covered by a net inflow of capital transfers (NAf.147.1 million) related to development aid funds received from the Netherlands. In addition, net foreign indebtedness of the private sector increased by NAf.329.8 million as a result of a worsening of the loans and credits balance and the direct investment balance by NAf.246.9 million and NAf.135.4 million, respectively.

The portfolio investment balance on the contrary, improved by NAf.52.5 million. This improvement was due mainly to a decline in local government securities held by foreign investors. Apparently, these securities were not rolled over when maturing.

The loans and credits balance deteriorated as a result of, among other things, the repatriation of funds abroad by local financial institutions. In addition, the balance of domestic companies' foreign bank accounts dropped, mainly due to the withdrawal of funds to finance part of their imports. The worsening of the loans and credits balance was partly offset by an increase in net trade credits. This increase was related to a drop in net trade credits received from abroad, mitigated by a decline in net trade credits extended to foreign customers. During the first quarter of 2008, net trade credits received from abroad dropped by NAf.82.6 million as the rise in repayments outweighed the increase in new credit received. Meanwhile, net trade credits extended abroad declined by NAf.13.1 million because the growth in repayments outpaced the increase in credit extended to foreign customers.

The worsening of the direct investment balance was primarily related to the increase in liabilities of domestic companies with their foreign affiliates. Furthermore, nonresidents purchased more real estate in the Netherlands Antilles.

As a result of the strong capital inflow during the March quarter of 2008, net foreign assets (i.e., international reserves) increased by NAf.294.6 million, reflecting a surplus in the balance of payments. This increase consisted of a rise by NAf.151.0 million in the net foreign assets held by the commercial banks and NAf.143.6 million in the net foreign assets held by the central bank. See Table 12 in the appendix for more details.

## **MONETARY DEVELOPMENTS**

### **Monetary policy**

The monetary policy instruments that the Bank has at its disposal are mainly directed at influencing the amount of domestic base money, specifically the commercial banks' available liquidity in their current account balances at the Bank. By influencing the liquidity in the domestic money market, the Bank tries to influence domestic credit extension and, hence, domestic spending and imports. In doing this, the Bank aims to meet the target set for the official reserves, which is equal to three months of merchandise imports.

During the first quarter of 2008, the Bank actively influenced the liquidity in the domestic money market through the auctioning of a larger amount of Certificates of Deposits<sup>4</sup> (CDs). As the Bank was successful in mopping up excess liquidity through the use of this instrument, there was no need to use the other main monetary policy instrument, i.e., the reserve requirement. Hence, the reserve requirement percentage remained unchanged at 13.250%.

The Bank's official interest rate, the pledging rate, was adjusted four times during the March quarter of 2008. Due to the peg to the US\$, the Bank's interest rate policy follows developments in the US money market. In line with the lowering of the US Federal Funds Rate by 225 basis points in the first quarter of 2008, the Bank's pledging rate was reduced by the same amount to 2.75% as of March 20, 2008.

### **Net accumulation of wealth and the money supply**

During the first quarter of 2008, money holdings of the private sector rose by Naf.225.8 million (3.7%), a deceleration compared to the increase of Naf.287.1 million (5.3%) in the first quarter of 2007. The increase in domestic liquidity in 2008's first quarter was attributable primarily to external financing and capital transfers from abroad, complemented by an increase in domestic bank credit. Part of the available liquidity was used to cover the current account deficit and the financing needs of the government. See Tables 13A and 13B in the appendix for more details.

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

The increase in the money supply in the first quarter of 2008 stemmed entirely from the growth in net foreign assets (13.9%) as a result of the surplus on the balance of payments. Contrary to the first quarter of 2007, net domestic assets dropped (1.7%), due to a drop in net credit to the government (8.1%) and the value of miscellaneous balance sheet items (11.9%). In contrast, credit extended to the private sector increased (2.7%).

The drop in net credit to the government was attributable mainly to an increase in deposits of the island governments. The increase in net private credit extension was due primarily to the expansion of the loan portfolio (2.1%). Both island groups registered an increase in loans extended: the Leeward Islands by 2.9% and the Windward Islands by 0.7%. All loan components increased, except business loans on the Windward Islands which declined by 2.9%.

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<sup>4</sup> These are negotiable securities issued by the Bank.

## **Developments in domestic interest rates**

The Bank's official interest rate, the pledging rate, was adjusted four times during the first quarter of 2008, in line with the lowering of the Fed funds rate. At the end of the first quarter, the pledging rate and the Fed funds rate stood at 2.75% and 2.25%, respectively. The maximum 1-month CD rate of the Bank was reduced also, by 247 basis points to 2.46%, following the decline in US money market rates.

The commercial banks' borrowing and lending rates remained unchanged or continued their declining trend in the first quarter of 2008. The average rate on passbook savings declined by 0.1 percentage point to 2.4%, while the average rate on time deposits remained the same at 4.4%. Furthermore, the average time loans rate dropped by 0.2 percentage point to 9.3%, but the average mortgage rate remained unchanged at 8.1%.

In line with the declining yield of US government securities and the increased interest in domestic government securities by local investors in view of the debt relief offered by the Dutch government, local government securities yields declined further in the first quarter of 2008. The average effective yield of 5-year bonds dropped by 0.2 percentage point to 7.0%, and the average 1-month treasury bill rate dropped by 1.6 percentage points to 3.5%

## **DEVELOPMENTS IN THE COMMERCIAL BANKING SECTOR**

During the March quarter of 2008, total assets of the domestic commercial banking sector grew by 2.6%, a deceleration compared with the first quarter of 2007 (4.1%). The increase in interest-bearing cash (14.3%) and the loan portfolio (1.9%) contributed primarily to 2008's first quarter growth, mitigated mainly by a decline in investments (9.7%). See Table 16 in the appendix for more details.

The net operating result of the domestic commercial banks improved by 5.0% in the first quarter of 2008 compared to the first quarter of 2007. This improvement resulted from a stronger increase in income (15.7%) than in expenses (5.0%). See Table 17 in the appendix for a detailed overview.

### **Macro-prudential indicators**

The macro-prudential indicators provide a measure of the soundness of the banking system (see Table 6). The adequacy of the capital stock is reviewed by means of the ratio of total capital to total assets. This ratio improved to 9.8% at the end of the first quarter of 2008, well above the internationally acknowledged benchmark of 8.0%.

The quality of the commercial banks' assets portfolio deteriorated slightly during the first quarter of 2008 compared to the previous quarter. This deterioration was reflected by the drop in the ratio of provisions for loan losses-to-nonperforming loans, as provisioning stayed behind the increase in nonperforming loans. The ratio of nonperforming loans-to-total loans remained unchanged.

Two of the three earnings-related indicators deteriorated during the first quarter of 2008, compared to the first quarter of 2007. The decline in the gross earning assets yield and the net interest margin was caused by (net) interest income growing at a slower pace than average earning assets. In contrast, the return-on-assets ratio improved because net income before dividend and taxes increased faster than total assets.

Liquidity in the domestic banking sector dropped in the first quarter of 2008, reflected by an increase in the ratio of total loans to total deposits. This development was due to the further growth rate in loans because deposits declined slightly.

**Table 6 Macprudential indicators (in %, end of period)**

	2006-IV	2007-I	2007-II	2007-III	2007-IV	2008-I
<b>Capital adequacy</b>						
Total capital/ total assets	8.7	9.1	9.3	9.3	8.8	9.8
<b>Asset quality</b>						
Nonperforming loans/ total loans	3.6	3.7	2.9	4.7	4.6	4.6
Provisions for loan losses/ nonperforming loans	87.3	83.8	106.1	64.8	66.8	66.1
<b>Earnings</b>						
Gross earning assets yield	7.1	7.9	7.6	7.5	6.9	7.4
Net interest margin	4.5	5.0	4.8	4.8	4.4	4.8
Return-on-assets	2.2	1.8	1.8	2.0	1.8	2.3
<b>Liquidity</b>						
Total loans/ total deposits	64.2	62.6	71.1	64.0	61.4	63.1

## APPENDIX

**Table 7 Developments in stay-over tourism per island (% change)<sup>5</sup>**

	Curaçao				St. Maarten				Bonaire			
	2007-I		2008-I		2007-I		2008-I		2007-I		2008-I <sup>6</sup>	
North America, of which:	-12.1	(-0.8)	4.5	(0.3)	4.6	(1.9)	7.2	(3.2)	18.6	(0.7)	14.9	(0.6)
-U.S.A.	-9.2	(-0.5)	4.4	(0.2)	2.9	(1.0)	8.5	(2.7)	17.8	(0.7)	14.9	(0.5)
Europe, of which:	18.8	(2.7)	9.9	(1.3)	-1.6	(-0.2)	6.0	(0.7)	19.4	(0.7)	15.1	(0.6)
-The Netherlands	22.6	(2.7)	7.2	(0.8)	11.1	(0.3)	2.6	(0.1)	21.7	(0.6)	15.1	(0.4)
South & Central America, of which:	11.3	(0.5)	265.5	(34.7)	-18.3	(-0.2)	48.9	(0.7)	15.3	(0.1)	14.4	(0.1)
-Venezuela	13.5	(0.3)	438.6	(47.6)	57.6	(0.1)	102.4	(0.4)	44.6	(0.1)	14.2	(0.0)
-Colombia	-7.6	(0.0)	88.9	(0.5)	---	---	---	---	-36.8	(0.0)	16.3	(0.0)
Caribbean, of which:	14.4	(0.5)	17.1	(0.5)	-1.8	(-0.1)	-0.8	(0.0)	45.4	(0.1)	15.8	(0.0)
-Dominican Republic	-14.7	(0.0)	-13.2	(0.0)	-8.0	(-0.2)	-1.8		---	---	---	---
Total	8.3	(2.4)	47.2	(17.1)	1.9	(1.2)	7.6	(4.2)	20.1	(1.7)	15.0	(1.2)

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

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

	2007-I	2007-II	2007-III	2007-IV	2008-I
Food	7.3	7.7	5.3	8.3	11.5
Beverages & tobacco	2.9	2.5	1.3	2.6	4.2
Clothing & footwear	0.1	0.3	1.3	1.7	1.8
Housing	1.1	1.8	2.7	4.3	4.5
Housekeeping & furnishings	2.0	2.4	3.1	2.8	3.6
Health	0.6	0.8	-0.8	0.8	1.6
Transport & communication	0.8	1.8	2.5	3.0	4.0
Recreation & education	0.3	0.6	1.3	1.2	1.6
Other	1.5	1.5	0.9	1.6	1.5
General inflation rate	2.0	2.6	3.2	3.7	4.5

Source: Central Bureau of Statistics

<sup>5</sup> Weighted growth rates between brackets

<sup>6</sup> BNA estimates



**Table 9 Budgetary overview (in millions NAf.)**

	2005-I	2006-I	2007-I	2008-I
<b>General government</b>				
Revenues	367.1	380.8	395.7	463.8
Tax revenues, of which:	350.4	362.5	371.0	443.6
Taxes on income and profits	186.4	185.8	171.3	209.9
Taxes on goods and services	127.2	135.3	145.7	165.3
Taxes on international trade and transactions	27.6	30.0	36.3	42.1
Nontax and other revenues	16.7	18.3	24.7	20.2
Expenditures	396.3	388.8	405.7	463.6
Current expenditures, of which:	385.2	388.6	400.5	433.9
Wages and salaries	137.7	133.4	135.2	164.1
Goods and services	110.0	107.5	109.9	114.1
Subsidies	9.2	11.1	12.9	13.1
Transfers	62.5	73.1	73.1	76.2
Interest payments	65.8	63.5	69.4	66.5
Capital expenditures	11.1	0.3	5.2	29.8
Budget balance	-29.2	-8.0	-9.9	0.2
<b>Central government</b>				
Revenues	155.8	166.4	186.3	204.2
Tax revenues, of which:	144.2	153.1	167.6	194.9
Taxes on goods and services	109.3	113.0	120.0	136.2
Taxes on international trade and transactions	27.6	30.0	36.3	42.1
Nontax and other revenues	11.6	13.3	18.7	9.3
Expenditures	191.6	197.5	214.6	238.0
Current expenditures, of which:	183.0	199.0	211.4	209.6
Wages and salaries	63.0	71.5	73.3	74.5
Goods and services	35.5	32.6	35.4	36.4
Subsidies	0.0	0.0	0.0	0.0
Transfers	61.2	66.1	66.1	69.8
Interest payments	23.3	28.8	36.6	28.9
Capital expenditures	8.6	-1.5	3.2	28.4
Budget balance	-35.8	-31.1	-28.3	-33.8
<b>Island government of Curaçao</b>				
Revenues	249.7	245.5	244.7	297.5
Tax revenues, of which:	206.2	209.4	203.4	248.7
Taxes on income and profits	186.4	185.8	171.3	209.9
Taxes on goods and services	17.9	22.3	25.7	29.1
Nontax and other revenues	43.5	36.1	41.3	48.8
Expenditures	243.0	222.4	226.3	263.5
Current expenditures, of which:	240.5	220.7	224.3	262.2
Wages and salaries	74.7	61.9	61.9	89.6
Goods and services	74.5	74.9	74.5	77.7
Transfers	39.7	38.1	42.2	44.3
Interest payments	42.5	34.7	32.8	37.6
Capital expenditures	2.5	1.8	2.0	1.4
Budget balance	6.6	23.1	18.4	34.0

**Table 10 Total outstanding consolidated public debt<sup>1</sup> (in millions NAf.)**

	2007-I	2007-II	2007-III	2007-IV	2008-I
Domestic consolidated debt, of which:	4,388.8	4,485.9	4,532.0	4,698.6	4,722.1
Central government, of which:	2,318.4	2,322.4	2,384.2	2,460.9	2,470.4
Long-term securities	1,864.7	1,798.8	1,798.8	1,872.9	1,877.9
Short-term securities	91.5	148.8	218.7	231.5	212.2
APNA	223.4	225.7	234.0	228.3	227.6
SVB	10.1	9.1	5.8	6.4	12.1
Curacao, of which:	2,275.8	2,384.0	2,368.3	2,452.2	2,452.5
Long-term securities	819.2	880.3	852.2	923.2	923.2
Short-term securities	174.4	167.3	158.0	163.8	172.5
APNA	823.0	841.8	855.0	860.8	849.7
SVB	0.0	0.0	0.0	0.0	0.0
Central government	306.1	320.4	320.1	311.8	311.2
Bonaire	136.3	136.6	140.4	147.8	154.8
St. Maarten	158.7	157.6	159.3	163.1	168.6
St. Eustatius	13.2	13.3	13.2	13.4	13.7
Saba	18.0	18.1	18.6	19.1	20.4
Foreign debt	738.1	747.6	779.6	820.8	883.6
Total debt (consolidated)	5,126.9	5,233.5	5,311.7	5,519.4	5,605.7
(% of GDP)	82.2%	82.5%	82.5%	84.4%	84.0%

1) Due to consolidation of the debts between the central government and the island governments, numbers may not add up.

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

	<b>2006-I</b>	<b>2007-I</b>	<b>2008-I</b>
Trade balance	-624.6	-741.1	-893.2
-Exports	294.4	325.0	481.5
-Imports	919.0	1066.1	1374.7
Services balance	652.2	652.1	707.3
Receipts, of which:	957.5	1019.2	1100.2
-Travel	551.9	571.6	656.0
-Transportation	57.5	67.8	61.7
-Other services, of which:	348.1	379.9	382.5
-Int. fin & bus. services sector	92.1	82.2	101.0
Expenses, of which:	305.2	367.1	392.9
-Travel	103.3	128.1	140.9
-Transportation	36.2	38.4	44.7
-Other services, of which:	165.8	200.6	207.3
-Int. fin & bus. services sector	34.1	41.1	27.2
Income balance <sup>1)</sup>	10.0	-5.3	-2.3
Current transfers balance <sup>2)</sup>	-8.3	-15.7	-8.4
<b>Current account balance</b>	<b>29.2</b>	<b>-109.9</b>	<b>-196.6</b>
<b>Capital &amp; financial account balance</b>	<b>-70.5</b>	<b>79.6</b>	<b>186.0</b>
Capital account balance	112.9	102.9	147.1
Financial account balance	-183.3	-23.3	38.9
<b>Net errors &amp; omissions</b>	<b>41.2</b>	<b>30.3</b>	<b>10.6</b>

1) Labor and investment income.

2) Public and private transfers.

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

	<b>2006-I</b>	<b>2007-I</b>	<b>2008-I</b>
Direct investment	-126.1	138.4	135.4
- Abroad <sup>1)</sup>	-89.9	-2.4	-11.1
- In the Netherlands Antilles <sup>2)</sup>	-36.2	140.8	146.5
Portfolio investment <sup>1)</sup>	110.9	27.2	-52.5
Other investment, of which:	162.4	59.0	308.1
- Assets <sup>1)</sup>	155.0	48.0	306.8
- Liabilities <sup>2)</sup>	7.4	11.0	1.3
Net lending/borrowing, of which:	-60.2	-0.1	-57.5
- Assets <sup>1)</sup>	-7.7	63.5	17.3
- Liabilities <sup>2)</sup>	-52.5	-63.6	-74.8
Reserves <sup>3)</sup>	-270.3	-248.0	-294.6
Total assets <sup>1)</sup>	-102.0	-111.7	-34.1
Total liabilities <sup>2)</sup>	-81.3	88.2	73.0
Balance	-183.3	-23.5	38.9

- 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.)**

<b>2008-I</b>	<b>Domestic sectors</b>			<b>External</b>
	<b>Private</b>	<b>Government</b>	<b>Banking</b>	<b>sector</b>
Nonfinancial transactions	-196.9	0.2		196.7
Government net lending	0.0	0.0		
Government domestic nonbank financing	-46.9	46.9		
External financing of government		3.7		-3.7
External financing of private sector	329.8			-329.8
-Direct investment (equity)	135.4			-135.4
-Loans and credits	246.9			-246.9
-Portfolio, incl. debt	-52.5			52.5
Capital transfers	147.1			-147.1
Change in net foreign assets of the central bank			-143.6	143.6
Change in net foreign assets of commercial banks			-151.0	151.0
Change in domestic bank credit	124.5	-50.8	-73.7	
Change in broad money	-225.8		225.8	
Other items, net/errors & omissions	-131.9		142.5	-10.6

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

<b>2007-I</b>	<b>Domestic sectors</b>			<b>External</b>
	<b>Private</b>	<b>Government</b>	<b>Banking</b>	<b>sector</b>
Nonfinancial transactions	-100.0	-9.9		109.9
Government net lending	0.0	0.0		
Government domestic nonbank financing	13.5	-13.5		
External financing of government		-3.7		3.7
External financing of private sector	228.3			-228.3
-Direct investment (equity)	138.5			-138.5
-Loans and credits	62.7			-62.7
-Portfolio, incl. debt	27.2			-27.2
Capital transfers	102.9			-102.9
Change in net foreign assets of the central bank			-78.2	78.3
Change in net foreign assets of commercial banks			-169.6	169.8
Change in domestic bank credit	53.3	27.1	-80.4	
Change in broad money	-287.1		287.1	
Other items, net/errors & omissions	-10.8		41.1	-30.3

**Table 14 Monetary survey (in millions NAf.)**

	2006-IV	2007-I	2007-II	2007-III	2007-IV	2008-I
<b>Money supply (M2)</b>	5,425.1	5,712.2	5,733.3	5,799.6	6,083.4	6,309.2
<b>Money (M1)</b>	1,976.1	2,100.6	2,138.7	2,078.3	2,298.6	2,378.7
Coins & notes with the public	263.7	256.5	273.5	259.8	304.4	287.2
Total demand deposits, of which :	1,712.4	1,844.1	1,865.2	1,818.5	1,994.2	2,091.5
- Netherlands Antillean guilders	1,246.7	1,321.7	1,342.2	1,339.7	1,441.5	1,492.1
- Foreign currency	465.7	522.4	523.0	478.8	552.7	599.4
<b>Near money</b>	3,449.0	3,611.6	3,594.6	3,721.3	3,784.8	3,930.5
Time deposits	2,152.2	2,243.2	2,221.9	2,242.1	2,254.3	2,386.6
Savings	1,296.8	1,368.4	1,372.7	1,479.2	1,530.5	1,543.9
<b>Factors affecting the money supply</b>						
<b>Net domestic assets</b>	3,652.7	3,692.0	3,799.9	3,902.7	3,961.8	3,893.0
General government	569.7	596.8	590.5	626.8	628.3	577.5
- Central government	358.5	382.7	399.2	390.5	394.9	408.3
- Island governments	211.2	214.1	191.3	236.3	233.4	169.2
Private sector	4,058.3	4,111.6	4,252.4	4,418.6	4,532.9	4,657.4
<b>Net foreign assets</b>	1,772.4	2,020.2	1,933.4	1,896.9	2,121.6	2,416.2
Central bank	1,251.9	1,330.1	1,425.5	1,392.7	1,620.6	1,764.2
Commercial banks	520.5	690.1	507.9	504.2	501.0	652.0
<b>Memorandum items</b>						
<b>Government loans by commercial banks</b>	456.5	515.8	552.7	568.8	641.2	649.5
- Central government	245.4	290.6	314.6	323.8	368.3	379.0
- Island governments	211.1	225.2	238.1	245.0	272.9	270.5
<b>Private sector loans Leeward Islands</b>	2,635.8	2,690.9	2,790.2	2,901.5	2,977.8	3,064.1
- Mortgages	818.4	854.8	853.6	887.4	966.4	970.6
- Consumer loans	808.9	820.3	867.1	898.6	902.3	936.4
- Business loans	1,008.5	1,015.9	1,069.5	1,115.5	1,109.2	1,157.1
<b>Private sector loans Windward Islands</b>	1,201.4	1,210.8	1,249.0	1,267.4	1,307.3	1,316.8
- Mortgages	426.1	415.3	419.1	436.0	419.3	432.7
- Consumer loans	310.0	318.0	331.3	338.9	386.5	396.8
- Business loans	465.3	477.5	498.6	492.4	501.6	487.2

**Table 15 Developments in domestic interest rates (in %)**

	2006-IV	2007-I	2007-II	2007-III	2007-IV	2008-I
<b>Central bank</b>						
- Pledging rate	5.50	5.50	5.50	5.25	5.00	2.75
- Maximum CD rate (1 month)	5.33	5.25	5.25	5.20	4.93	2.46
<b>Commercial bank borrowing rates</b>						
- Passbook savings	2.8	2.8	2.8	2.7	2.5	2.4
- Time deposit (12 months)	4.1	4.3	4.4	4.3	4.4	4.4
<b>Commercial bank lending rates</b>						
- Mortgages	8.5	8.3	8.2	8.2	8.1	8.1
- Time loans	10.5	10.3	9.7	9.6	9.5	9.3
<b>Government securities</b>						
- Government bonds (5 year effective yield)	7.5	7.3	7.4	7.4	7.2	7.0
- Treasury bills (1 month)	4.9	5.5	5.5	5.5	5.1	3.5



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

	2006-IV	2007-I	2007-II	2007-III	2007-IV	2008-I
<b>Assets</b>						
Non-interest-bearing cash	548.6	589.2	554.9	581.5	948.0	894.0
Interest-bearing cash	2,278.5	2,562.0	2,422.7	2,530.3	2,585.8	2,955.6
Investments	1,225.1	1,247.5	1,422.0	1,432.2	1,524.0	1,376.6
Loans	5,736.6	5,827.5	6,063.0	6,235.3	6,386.5	6,510.4
Investments in unconsolidated subsidiaries and affiliates	182.2	173.7	156.8	150.1	150.3	181.0
Fixed assets	234.2	241.0	247.0	250.9	260.8	267.6
Other assets	205.2	194.4	236.0	235.9	257.7	245.4
<b>Total assets</b>	<b>10,410.5</b>	<b>10,835.4</b>	<b>11,102.4</b>	<b>11,416.2</b>	<b>12,113.0</b>	<b>12,430.7</b>
<b>Liabilities</b>						
Demand deposits	3,181.8	3,442.4	3,613.9	3,691.2	4,093.2	4,062.3
Savings deposits	3,294.1	3,367.9	3,408.9	3,458.3	3,557.1	3,665.8
Time deposits	2,620.0	2,634.9	2,603.2	2,712.5	2,895.3	2,753.4
<b>Total deposits</b>	<b>9,095.9</b>	<b>9,445.2</b>	<b>9,626.1</b>	<b>9,862.0</b>	<b>10,545.6</b>	<b>10,481.5</b>
Borrowings	31.5	32.4	59.7	62.2	71.1	329.4
Other liabilities	360.2	344.8	387.1	433.0	451.8	403.7
<b>Total liabilities</b>	<b>9,487.7</b>	<b>9,822.4</b>	<b>10,072.8</b>	<b>10,357.2</b>	<b>11,068.4</b>	<b>11,214.6</b>
Minority interest	7.9	8.7	8.4	7.9	8.4	9.2
Subordinated debentures	3.6	3.5	3.3	1.7	1.7	1.7
General provisions	187.5	187.3	194.2	197.4	203.3	207.8
Capital & reserves	723.8	813.5	823.6	852.0	831.2	997.4
<b>Total capital</b>	<b>922.8</b>	<b>1,013.0</b>	<b>1,029.5</b>	<b>1,059.0</b>	<b>1,044.6</b>	<b>1,216.1</b>
<b>Total liabilities and capital</b>	<b>10,410.5</b>	<b>10,835.4</b>	<b>11,102.4</b>	<b>11,416.2</b>	<b>12,113.0</b>	<b>12,430.7</b>

**Table 17 Aggregate income statement of domestic commercial banks  
(cumulative quarterly figures, in millions Naf.)**

	2006-IV	2007-I	2007-II	2007-III	2007-IV	2008-I
Interest income	674.4	192.8	390.5	596.9	753.7	209.8
Interest expenses	248.4	72.1	143.9	217.4	276.4	73.5
<b>Net interest income</b>	426.0	120.6	246.6	379.5	477.3	136.3
Other income	257.9	63.2	123.7	193.1	254.8	76.3
<b>Total operational income</b>	683.9	183.8	370.3	572.6	732.1	212.6
Salaries & other employee expenses	252.4	71.0	137.0	205.8	275.6	75.3
Occupancy expenses	71.4	21.0	41.4	64.0	84.0	24.1
Other operating expenses	95.8	29.7	60.6	91.6	115.9	33.0
Net addition to general provisions	41.1	14.3	30.7	33.9	45.7	10.5
<b>Total operational expenses</b>	460.7	136.0	269.8	395.2	521.3	142.8
Net operating income	223.2	47.7	100.5	177.3	210.8	69.8
Net extraordinary items	9.7	1.5	-0.8	1.7	0.5	2.1
Applicable profit taxes	55.5	11.4	26.2	41.4	49.7	16.0
<b>Net income after taxes</b>	177.4	37.9	73.5	137.6	161.6	55.9