QUARTERLY BULLETIN 2010-2

Centrale Bank van Curacao en Sint Maarten

REPORT OF THE PRESIDENT

During the second quarter of 2010, economic activity in the Netherlands Antilles contracted with real Gross Domestic Product (GDP) falling by 0.3% compared to the second quarter of 2009. The weak economic performance stemmed from a decline in net foreign demand as imports rose while exports shrank. Meanwhile, domestic demand expanded because of increased government spending. The increase in government spending was supported by both higher public consumption and investment. In contrast, private spending dropped as a result of lower investments. Increased private consumption mitigated the decline in private spending. The economic contraction was accompanied by an acceleration of the annualized inflation rate to 2.2% at the end of June 2010, primarily the result of higher world oil prices.

An analysis by sector indicates that the economic contraction was attributable mainly to a decline in activities in the manufacturing and transport, storage & communication sectors. The decline in manufacturing stemmed from a drop in value added by the Isla refinery, reflecting the prolonged shutdown of the refinery as of March 2010. The decline in oil refining offset increased activities in the ship repair industry. The transport, storage & communication sector registered negative results because of fewer passengers transported by the domestic airlines and a poor performance of Curacao's airport. The airport's poor performance was related to a decline in the number of stay-over visitors. Harbor activities also were down, reflecting declines in the amount of freight handled, cargo movements, and transshipment activities. In addition, activities in the communication sector declined in the second quarter of 2010.

Output in the construction and in the restaurants and hotels sector shrank also, albeit at a slightly slower pace than in the second quarter of 2009. Activities in the construction sector fell as indicated by a decline in business loans and mortgages extended. Real value added in the restaurants and hotels sector contracted due to a decline in the number of stay-over visitors in the Netherlands Antilles. Stay-over tourism dropped particularly in Curaçao as a result of a significant decline in the Venezuelan market. Nevertheless, total tourism spending rose, because of more visitors from Europe and North America. In contrast, the wholesale and retail trade sector recorded a modest growth because of increased tourism and domestic spending. However, a decline in free-zone activities had a mitigating effect on the wholesale and retail trade growth. Furthermore, real value added in the financial services sector rose, accounted for by both the domestic banks and the internationally operating financial services companies.

The balance of payments deteriorated in the second quarter of 2010 as the large current account deficit was not fully covered by external financing and capital transfers. As a consequence, our international reserves declined. The current account deficit worsened considerably due to a decline in net current transfers received from abroad. The latter decline was the result of fewer debt relief grants transferred by the Dutch government in the second quarter of 2010 compared to the second quarter of 2009. In addition, net exports of goods and services declined, as imports rose while exports dropped. Import growth was attributable mainly to the expansion in domestic demand, increased tourism spending, and higher international oil prices. Furthermore, the free-zone companies imported more merchandise to replenish their inventories. The decline in exports was caused by, among other things, the drop in the refining fee as a result of the shutdown of the Isla refinery. A decline in the re-exports by the free-zone companies, lower bunker volumes sold to abroad, and a drop in the foreign exchange earnings from trust and international banking services provided to abroad also contributed to the decline in exports. The current account deficit was financed primarily by external financing of the private sector, reflecting increased direct investment and loans & credits from abroad. The latter increase resulted from, among other things, institutional investors' withdrawals from their foreign bank accounts to invest in foreign bond and notes, the repatriation of funds held abroad by financial corporations to finance their operations in the Netherlands Antilles, and increased trade credits received on imports. In contrast, net portfolio investments abroad increased as institutional investors purchased more foreign bonds and notes.

The general government registered a cash surplus in the second quarter of 2010. However, compared to the second quarter of 2009, the surplus dropped as revenues declined while expenditures rose. The decline in revenues was due mainly to a drop in debt relief grants from the Netherlands. As a result of the implementation of the debt relief program, since 2009, debt-service obligations have been gradually declining in size, resulting in lower debt relief grants in 2010. The increase in expenditures occurred mainly in goods & services and wages & salaries. The rise in goods & services expenses was related to higher spending on technical assistance in support of the process of constitutional reform. Moreover, the island government of Curacao made a substantial payment towards public health administrator BZV to cover outstanding invoices. Higher wages & salaries were the result of adjustments in civil servants' salaries and the hiring of extra personnel. The cash surplus contributed to a decline in outstanding government debt, reaching 66.2% of GDP at the end of the June quarter of 2010.

The money supply contracted in the second quarter of 2010 due to the decline in net foreign assets resulting from the deficit on the balance of payments. Net domestic assets expanded, attributable to the growth in net credit extended to the private sector. The latter increased, however, at a slower pace than in the second quarter of 2009. Net credit extended to the government declined, reflecting the further implementation of the debt relief program.

During the April – June period of 2010, the Bank continued its policy of monetary easing, motivated by the solid import coverage and the absence of excessive credit extension. Hence, the reserve requirement percentage was reduced every month by 25 basis points to reach 8.75% at the end the quarter. Furthermore, maturing certificates of deposit issued by the Bank were refinanced only at the biweekly auctions. The Bank's official lending rate was left unchanged at 1.00%.

After several years of preparations, Curacao and St. Maarten became autonomous countries within the Dutch Kingdom on October 10, 2010. Meanwhile, Bonaire, Saba, and St. Eustatius became special Dutch municipalities. With the dissolution of the Netherlands Antilles, the Bank van de Nederlandse Antillen, as the monetary authority of this country, also ceased to exist.

As agreed, Curaçao and St. Maarten became a monetary union with a common currency. The Central Bank of Curaçao and St. Maarten is now the authority in charge of the monetary and financial supervision in the union. Policy coordination is an important condition for a monetary union to succeed. In addition, both countries will have to harmonize legislation in the areas of monetary, financial sector, and financial integrity supervision.

The recent experience in the European Monetary Union has served to underscore the fact that sound public finances is an important, if not an indispensable condition for a successful monetary union. Without supporting measures of other member states, fiscal policy in some countries would have jeopardized the stability of the union and its currency.

Thanks to the debt relief program, Curacao and St. Maarten had a sound starting position for the monetary union. However, these two countries should adhere to the agreed budgetary rules to maintain sound public finances. For St. Maarten, the overriding concern remains to present a balanced budget, consistent with institution building and sustainable economic growth. The inherent opposing pressures that those objectives bring to bear on the budget are perhaps the main challenges that St. Maarten faces in the short and medium term. Fiscal consolidation is an important condition for stable economic development. However, the process of institution building requires the necessary investments in both human capital and physical infrastructure. Given the budgetary constraint, St. Maarten must look for ways to enhance and broaden its income base. A reform of the tax system and improvement of the tax collection system in St. Maarten should be a major element of a sound medium-term policy framework aimed at balancing fiscal and growth objectives.

For Curacao, given the favorable fiscal situation, the overriding objective remains to maintain this situation moving ahead. This requires a balanced fiscal budget and adherence to the rules of fiscal discipline and good corporate governance. Maintaining the sound starting position creates a solid foundation for developing a broad-based long term vision on the structure and sustainable growth of the economy. The formulation of new policy should be transparent and conducive to an environment that preserves fiscal discipline. That means that both the short term and medium term impact of policy initiatives and implementation of the budget should be consistent with mentioned objectives. Only by maintaining fiscal discipline can the stability of the monetary union and its currency be safeguarded. This stability is crucial for successfully building up our new countries, attaining a sustainable higher level of growth, and increasing the welfare of our citizens.

E.D. Tromp
President

INTERNATIONAL ECONOMIC DEVELOPMENTS

From April to June 2010, the U.S. economy showed a recovery, as real GDP expanded by 3.0%, following a setback of 4.1% in the same period of 2009. The recovery was due mainly to gains in private investment and inventories. Higher business spending on equipment and software contributed to the increase in private investment. Consumer spending rose moderately because consumers remained cautious about making big purchases. The high unemployment, sluggish income gains, and tight credit conditions continued as a drag on consumer spending. Moreover, consumers are deleveraging and rebuilding their savings. In spite of an economic expansion, many businesses were still reluctant to add to payrolls, causing the jobless rate to remain high at 9.5% in June 2010. The official unemployment rate would have been much higher if it were not for many people giving up the search for employment. Compared to June 2009, the number of discouraged workers[1] rose by 52% in June 2010. Similar to the rebound in private demand, import activity improved at a faster pace than exports, widening the current account deficit by 44% to $493 million. The lower second-quarter inflation of 1.0% stemmed mainly from the slack in the economy, making companies cautious about raising their prices. To continue fostering economic recovery, the Federal Reserve has left the Fed funds rate unchanged at between zero and 0.25% since December 2008.

Table 1 Selected indicators of various countries

	United States		Netherlands		Venezuela	
	2009-II	2010-II	2009-II	2010-II	2009-II	2010-II
Real GDP (% change)	-4.1	3.0	-5.3	2.2	-2.6	-1.9
Consumer prices (%)	1.4	1.0	2.3	0.8	31.2	29.1
Unemployment rate (%)	9.5	9.5	3.6	4.5	7.9	8.4

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

In the Netherlands, real GDP rose 2.2% during the months April-June 2010, compared with a decline of 5.3% in the second quarter of 2009. The Dutch economy received a considerable boost from exports of Dutch products as well as re-exports. This boost was partly the result of higher prices of petroleum derivatives, basic metals, and chemical products. However, the growth in foreign demand was mitigated by lower domestic demand, owing mostly to a decline in private investment. Given the rising unemployment rate, household spending was muted at 0.1%, as consumers spent less on home furnishings and home improvement items. Unlike the rebound in most sectors, the construction and the financial & other business services sectors posted a decline. The expansion in manufacturing was reflected by a gain in export demand, related mainly to machineries, basic metals, and chemical and petroleum products. The jobless rate rose to 4.5%, as job losses occurred across most sectors, with the exception of the health care, education, and public sectors. The Dutch inflation rate decelerated to 0.8%, creating a larger gap between the inflation rates in the Netherlands and the Euro zone. The widening of the gap was due mostly to the developments in petrol prices. In the Netherlands, gas and electricity prices do not react immediately to oil price fluctuations because price adjustments occur in January and July. In the first half of 2010, the public debt-to-GDP ratio in the Netherlands reached 63.3%, exceeding the EU ceiling of 60%. Public expenditure grew at a much faster pace than public revenue, leading to a deficit of 6.0% of GDP, which exceeded also the EU limit of 3.0%. The increase in public spending resulted mostly from more spending on social benefits and provisions. Public revenues grew at a slower rate because the gain in tax

[1] Discouraged workers are persons who gave up looking for work because they believed no jobs were available.

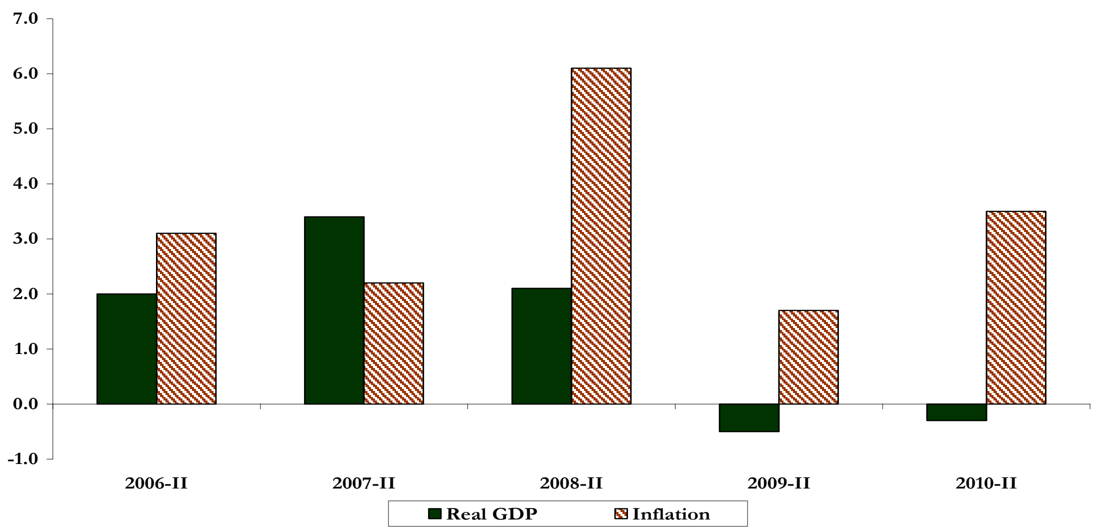
revenues was partly offset by lower yields from interest and dividends, and lower natural gas revenues.

Despite an increase in crude oil prices, Venezuela's economy continued to contract, by 1.9% over the course of the April-June period of 2010. Decreases in the oil and non-oil sectors were behind this dismal performance, as almost all industries in the non-oil sector suffered a production decline. The decline in industrial output and shortages in investments are caused by several years of distorting economic policies and a series of nationalizations. In June 2010, the government established a new currency market, replacing the parallel market for U.S. dollar purchases. The new currency market is now overseen by the central bank that sets the maximum rate and restricts the amount of U.S. dollars for sale. Venezuelans can buy U.S. dollar-denominated securities within a government-set exchange rate band and obtain U.S. dollars abroad by then selling these securities. The central bank's exchange rate is set at an average exchange rate of about 5.3 bolivars per dollar. Moreover, two official rates govern imports: 2.6 bolivars per dollar for essentials (i.e., food, medicine, etc.) and 4.3 bolivars per dollar for most other imports. Venezuela's jobless rate reached 8.4% in the April-June quarter of 2010. Although the inflation rate decelerated to 29.1% in the second quarter of 2010, it was still the highest in Latin America. In contrast to the second quarter of 2009, the current account surplus improved significantly to $2.6 billion, predominantly supported by higher oil export revenues.

GENERAL ECONOMIC DEVELOPMENTS IN THE NETHERLANDS ANTILLES

Following a recession in 2009, the world economy regained momentum in 2010. Nevertheless, the effects of the world economic recovery have not yet been seen in the Netherlands Antilles, as real GDP posted a slight decline of 0.3% in the second quarter of 2010. The external sector contributed to the adverse economic development, while domestic demand expanded. Despite a contraction in private spending, domestic demand improved because of the continuous increase in public spending. The gloomy second-quarter GDP results were accompanied by a higher inflation rate of 3.5%, fueled largely by higher world oil prices (see Graph 1).

Graph 1 Economic developments (annual quarterly change)



Source: BNA estimates

The economy remained unfavorable, but slightly above 2009's second quarter decline of 0.5%. Declining export activity combined with expanding import demand were the main contributing factors to the economic contraction (see Table 2). Lower foreign demand resulted in a decline in free-zone re-exports and fewer activities in bunkering, refining, and international financial services. Meanwhile imports grew, reflecting to a large extent the increase in oil prices and the revival in domestic demand. The improvement in domestic spending moderated to some extent the decrease in export demand. Among the domestic expenditure components, growth in both public consumption and investment were the main contributors to the upswing in domestic demand. Since the second quarter of 2009, the government has followed an expansionary budget policy. Public consumption was up, driven largely by higher outlays on wages & salaries and goods & services, related mainly to the addition to payrolls and technical assistance. Also, the gain in public investment was aided mostly by the projects related to the Social Economic Initiative (SEI). Conversely, private demand shrank because investment spending fell at a faster pace than the growth in consumer spending. Weak private investment was consistent with the development in business loans. Meanwhile, higher consumer spending coincided with the rise in consumer loans.

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

	2009-II[2]	**2010-II**
Domestic expenditure, of which:	-1.9	1.3
Private sector	-2.2	-0.3
- Investment	-1.6	-1.1
- Consumption	-0.6	0.8
Government sector	0.3	1.6
- Investment	0.1	0.1
- Consumption	0.2	1.5
Changes in inventory	0.0	1.0
Foreign net expenditure, of which:	1.4	-2.6
Export of goods and services	-5.7	-2.4
Import of goods and services	-7.1	0.2
GDP	-0.5	-0.3
Net primary income	0.1	-1.0
Gross national income	-0.4	-1.3
Net current transfers from abroad	12.6	-4.4
Gross national disposable income	12.2	-5.8

BNA estimates

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

[2] Second-quarter GDP figures for 2009 have been revised to -0.5%, down from a previously estimated 0.7% gain. These GDP estimates are based on more recent sources of data. The downward revisions at the sectoral level were in the following sectors: construction, wholesale & retail trade, transport, storage & communication, financial services, and real estate, renting & other business services. Moreover, the downward revision among the expenditure components was in private demand.

As opposed to 2009, gross national disposable income shrank in the second quarter of 2010, stemming from declines in net current transfers and net primary income from abroad. National savings contracted because the decline in private savings outpaced the improvement in public savings. The public finances improved despite a growth in public spending, supported by the capital inflow of debt relief funds, albeit less than in 2009. With these debt relief funds, the government needed less financing. Meanwhile, higher private consumption was accompanied by a slower decline in private investment. Hence, the higher private consumption level was funded through external financing and credit extension.

Domestic production

The decline in overall economic output over the course of the April-June period of 2010 was reflected primarily in the manufacturing and transport, storage & communication sectors (see Table 3). The drop in output was particularly pronounced in the manufacturing sector, caused mainly by the prolonged shutdown of the Isla refinery as of March 2010. The plant shutdown was the result of power supply and air compressor problems. In line with the poor performance, almost all operational expenses registered a downturn. This unfavorable picture of the refinery was mitigated by more activities in the ship repair industry.

Table 3 GDP by sector (real percentage changes)

Sector	2009-II	2010-II
Agriculture, fishery, & mining	9.7	8.5
Manufacturing	1.2	-11.3
Electricity, gas, & water	2.5	3.1
Construction	-4.4	-2.7
Wholesale & retail trade	-5.3	0.2
Restaurants & hotels	-3.5	-2.6
Transport, storage, & communication	0.6	-3.8
Financial intermediation	-5.5	3.5
Real estate, renting, & business activity	2.0	0.4
Other community, social & personal services	1.0	0.6
Private households	0.9	-0.1
Total private sector	-1.6	-0.5
Public sector	2.2	2.3
Taxes minus subsidies	5.6	-1.6
GDP	-0.5	-0.3

BNA estimate

In contrast to 2009's second quarter, the transport, storage, and communication sector suffered a setback in the second quarter of 2010. Activities in the air transportation sector were down, as the number of passengers transported by domestic airlines shrank, led entirely by Curaçao. Also, passenger traffic in Curaçao showed a perceptible decline, outbalancing the positive results in St. Maarten, which caused an overall activity decrease at the airports. This poor performance matched the drop in stay-over tourist arrivals in Curaçao. Moreover, harbor results were unfavorable, i.e., fewer ships were piloted into the harbors, and cargo movements and oil transshipment activities declined. Negative results in telecommunication exacerbated the contraction in transportation and storage. Another factor driving the decrease in the private sector was the contraction in construction spending, which was in line with fewer business loans and mortgages extended.

Total value added in the tourism sector shrank, reflected by a real decline of 2.6% in added value in the restaurants & hotels sector. Compared to 2009, the more moderate pace of decline in the restaurants & hotels sector was the result of more visitors from the North American and European markets. These tourists spend more time on the islands, and, hence, spend more on food and accommodations. The tourism industry in the Netherlands Antilles posted mixed results in the second quarter of 2010. The number of stay-over arrivals worsened by 5.8%,[3] down from -3.5% in the second quarter of 2009. The stay-over tourism decrease was caused largely by Curaçao, which saw a significant drop in the South American market. Meanwhile, the cruise sector continued to expand at a rapid pace of 25.0%,[4] aided mostly by St. Maarten. This significant gain was due to the increase in ship capacity to the Caribbean. See Table 7 in the appendix for more details.

In St. Maarten, stay-over tourism fell slightly by 0.9%, after a decline of 7.7% in the second quarter of 2009. US tourists make up a distinctive part (54%) of St. Maarten's stay-over tourism market. Decreases in the North American and South American markets contributed to the slight contraction in the tourism industry, outperforming the gains in the European and Caribbean markets.

Curaçao's stay-over tourism suffered a slump (11.8%) due to the marked decline in the South American market, affected by fewer Venezuelan travelers. As of January 2010, the Venezuelan government further restricted the access to U.S. dollars, thereby worsening the situation for travelers. However, the number of Brazilian visitors grew, but not sufficiently to compensate for the loss of the Venezuelan tourists. Brazilian passenger arrivals continued to grow due to the weekly flights from Sao Paolo. The main tourist markets, i.e., North America and Europe, improved, mitigating the fall of the South American and Caribbean markets. The buoyant results in the North American market must be seen against the backdrop of a cutback in the number of weekly flights by American Airlines in early 2009. In November 2009, the regular weekly flights were reinstated. Also, the European market benefited from the growth in the number of Dutch tourists. In line with the overall negative stay-over tourism performance, the hotel occupancy rate dropped further to 67.8% in the second quarter of 2010.

The wholesale & retail trade sector registered a muted growth during the June quarter of 2010. Contraction in the free zone failed to have an adverse impact on the wholesale & retail trade sector as a whole because of gains in domestic spending and total tourist spending. With the decreased growth in the free zone, the number of visits to the free zone fell further by 26.0%, caused mostly by the Venezuelan and Jamaican markets. Fewer Venezuelans visited the free zone because of the increased restriction on access to U.S. dollars. Meanwhile, the discontinuation of Air Jamaica flights in April 2010 explains the drop in the number of Jamaican visitors.

Following the slump in 2009's second quarter, the financial services sector's performance improved in terms of value added. This growth occurred in both the domestic and international

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[3] Excluding Bonaire, due to lack of data.
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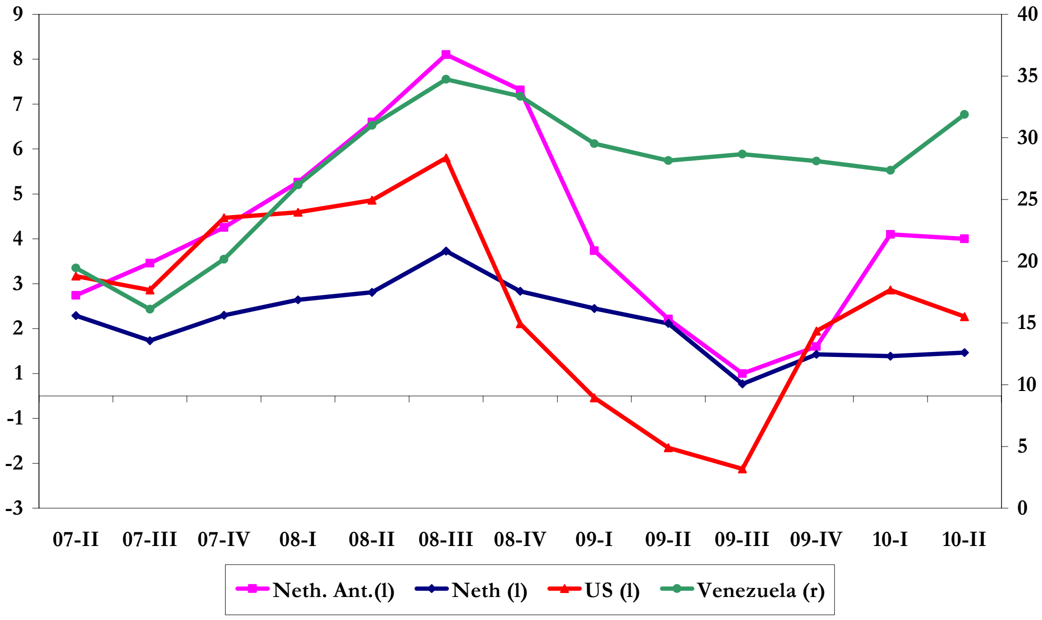
financial services industries. Net income of the domestic commercial banks expanded because of an increase in income earned and a cutback in expenses. Higher wages & salaries and other operational expenses are the reasons for the favorable results in the international financial services sector.

Inflation

With respect to price developments, the quarterly price inflation in the Netherlands Antilles accelerated to 3.5% in the quarter ending June 2010 compared to 2009's second quarter (see Graph 2). This upward development was reflected mainly by higher world oil prices, which rose by about 32%,[5] bolstered by the economic upturn that has gathered pace worldwide. Contrasting with 2009, "housing" (6.2%) and "transport & communication" (3.4%) were the main contributors to the higher second-quarter inflation. Prices in these two categories rose due to higher costs of utilities, gasoline, and automobile services. Meanwhile, price deflation in "clothing and footwear" tempered the inflationary pressures. An analysis by island indicates that in the second quarter of 2010, St. Maarten's quarterly inflation was the highest at 3.7%, followed by Curaçao (3.5%), and Bonaire (3.0%). See Table 8 in the appendix for a detailed overview.

Graph 2 Developments in consumer prices (annual quarterly 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

Fiscal policy was expansionary throughout the second quarter of 2010, reflected by higher consumption and investments at the general government level.[6] The increase in consumptive outlays was related to goods & services and wages & salaries. The gain in investments was in connection with development projects, in particular social economic initiative (SEI) projects.

[5] International Financial Statistics (IFS), IMF

[6] The general government consists of the central government and the island government of Curaçao.

The goal of the SEI projects is to attain a sustainable elevated level of social-economic development in the Netherlands Antilles, thereby creating a sound starting position for the islands in their new constitutional status in the Dutch Kingdom. The debt relief program also plays an important role in this process, as it comprises both debt-servicing grants and the implementation of norms aimed at maintaining a healthy and manageable level of public debt. During the course of the June quarter of 2010, the island government of Curaçao and the central government received NAf.102.3 million and NAf.28.8 million, respectively, to comply with their debt-service payments. The central government also was granted NAf.26.3 million towards the early repayment of an outstanding loan. Altogether these debt relief grants contributed to the general government surplus of NAf.47.6 million on a cash basis, registered in 2010's second quarter (see Table 9 in the appendix).

Total general government expenditures expanded by 8.1% in the second quarter of 2010, compared to the second quarter of 2009. Spending on goods & services rose mainly due to the augmented use of technical assistance in support of the constitutional reform in progress. In addition, the island government of Curaçao made a sizeable contribution to the public health administrator, BZV, to cover outstanding invoices. Total outlays on wages & salaries also increased compared to 2009's second quarter, due mostly to the adjustment of civil servant salaries and the hiring of additional personnel by the island government of Curaçao to fill vacant positions. The June quarter of 2010 also was characterized by declining domestic interest expenses at both the central government and the island government level, underscoring the turnaround brought about by the debt relief program. Noteworthy is further the gain in Curaçao's capital expenditures, ascribable to a loan issued to the local hospital (SEHOS).

General government income showed a 15.5% downturn in 2010's June quarter relative to one year earlier, due mainly to a decline in debt relief grants from the Netherlands. This decline occurred primarily because Curaçao did not receive any debt relief grants in 2009 until the second quarter. Moreover, as a result of the implementation of the debt relief program in early 2009, debt-service obligations have been gradually dropping in size, resulting in lower debt relief grants in 2010. In the April through June period of 2010, both tax and nontax revenues collected by the general government increased compared to the second quarter of 2009. The upturn in tax revenues occurred largely in the sales tax category at the central government level. In contrast, at the island government level, tax revenues dropped as the rise in wage & profit tax revenues was overshadowed by a fall in motor vehicle taxes. This decrease was a reflection of tax proceeds returning to a normal level after an elevation in 2009's second quarter due to delays in the issuing of new license plates. Nontax revenues rose mostly as a consequence of the central bank's disbursement of profit and license fees to the central government. In 2009's second quarter, no such payment took place.

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

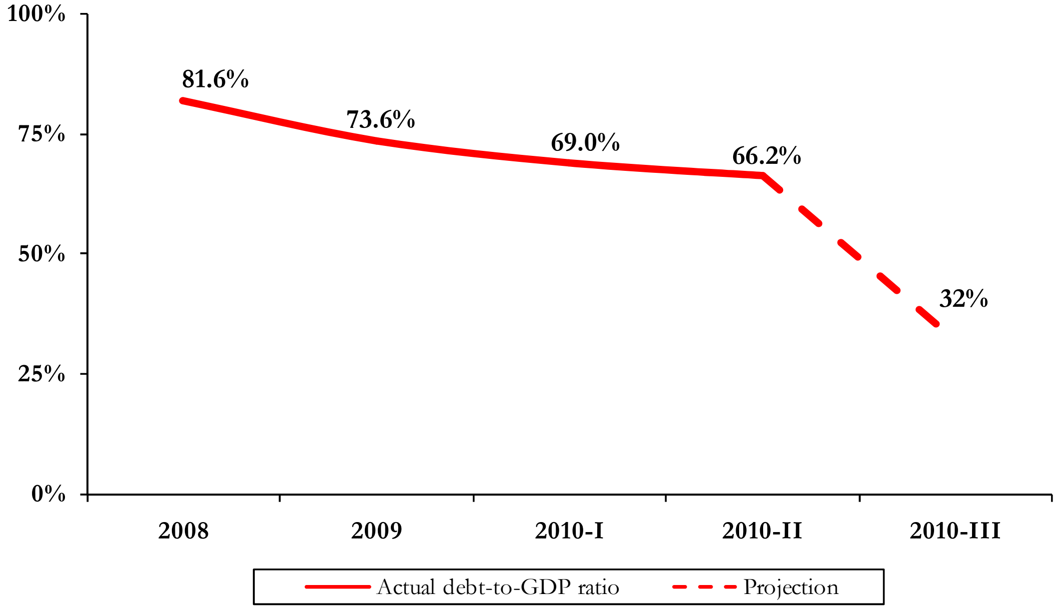
	Central government		**Curaçao government**	
	2009-II	**2010-II**	**2009-II**	**2010-II**
Monetary financing	97.2	-12.4	-221.7	-45.8
Central bank	104.9	-7.6	-128.6	-100.9
Commercial banks	-8.4	-5.3	-93.1	55.1
Coins and notes	0.7	0.5	-.-	-.-
Nonmonetary financing	-63.3	-13.7	-16.3	24.3
Government securities with the public	-65.4	4.4	-31.5	-6.2
Other	2.1	-18.1	15.2	30.5
Cash balance	-33.9	26.1	238.0	21.5

The public sector's net borrowing continued negative in the second quarter of 2010 as the debt relief program all but eliminated the general government's need for financing. Moreover, both the central government and the island government ended up with a surplus on a cash basis. The central government's cash surplus resulted in a fall in its liabilities with the banking sector and other creditors. The moderate rise in central government securities with the public was caused by the net sale of outstanding securities by the commercial banks. The debt relief grants received by the island government of Curaçao during the April-June period of 2010 culminated largely in an increase in deposits with the central bank, outweighing the decline in the island's commercial bank deposits. Consequently, Curaçao's monetary financing showed an overall drop (see Table 4).

Public sector debt

The total public debt of the Netherlands Antilles continued its declining trend during the second quarter of 2010, due mainly to the debt relief program. By the end of June 2010, the country's public debt reached NAf.4.8 billion, equaling 66.2% of its GDP. The central government will be completely disbanded by October 10, 2010. The debt relief program also will conclude at that time, with the Netherlands assuming the legal ownership of all outstanding government securities. Ultimately, the debt relief is projected to lead to a final Netherlands Antillean debt-to-GDP ratio of approximately 32% (see Graph 3).

Graph 3 Development of total public debt-to-GDP ratio



In the three months ending June 2010, the domestic and foreign components of the consolidated public debt of the Netherlands Antilles dropped by NAf.91.2 million and NAf.71.7 million, respectively. The fall in the domestic component occurred due to a reduction in the liabilities of the island government of Curaçao (NAf.58.1 million) and the BES islands[7] (NAf.29.9 million), which outweighed the growth in the liabilities of the central government (NAf.14.4 million) and Sint Maarten (NAf.3.0 million).

[7] Bonaire, St. Eustatius, and Saba.

The noted fall in the domestic debt of the island government of Curaçao was due primarily to the settlement of a large portion of outstanding obligations with the road fund and other creditors. Curaçao also redeemed its last remaining treasury bills at maturity during the second quarter of 2010, using a fraction of its debt relief grants obtained from the Netherlands in this period. The drop in the BES islands' debt was also made possible by the debt relief program: the island government of Bonaire used the NAf.30.9 million it obtained to settle the larger part of its arrears with the public pension fund, APNA. The central government, by contrast, registered a rise in its domestic debt despite the early repayment of a loan, towards which it had received NAf.26.3 million in debt relief funds. This rise occurred as the accrual of additional obligations with, among others, the social security bank, SVB, and the public pension fund, APNA, outbalanced the effect of the mentioned repayment. The small increase in Sint Maarten's domestic debt can be attributed to the buildup of arrears with the APNA during the second quarter of 2010.

The decline in the foreign debt component by the end of June 2010 compared to the end of March 2010 was attributable to two factors. First, the Euro depreciated versus the US dollar. Given that the Netherlands Antillean guilder is pegged to the US dollar, the guilder-equivalent of the euro-denominated foreign debt fell along with the Euro. Second, outstanding liabilities to the Netherlands dropped, the result of the central government paying off its share of the coast guard expenses incurred in 2009.

DEVELOPMENTS IN THE BALANCE OF PAYMENTS

The current account deficit of the balance of payments deteriorated significantly during the second quarter of 2010 compared to the second quarter of 2009, largely due to a decline in net current transfers received from abroad. In addition, net foreign demand dropped as imports of goods and services rose while exports dropped. The current account deficit was not fully covered by external financing and capital transfers. As a consequence, the international reserves declined (See Table 5).

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

	2008-II	2009-II	2010-II
Current account	-414.6	-43.7	-414.3
Capital transfers	14.8	5.1	4.2
External financing of the government	-4.3	3.6	3.5
External financing of the private sector	402.5	186.3	250.3
- Direct investment	112.6	99.0	49.6
- Loans and credits	348.7	138.6	331.1
- Portfolio investments	-58.8	-51.3	-130.4
Change in net foreign assets of the banking system *)	-23.3	-186.5	128.1
- with commercial banks	-27.7	-128.2	70.6
- with central bank	4.4	-58.3	57.5
Statistical discrepancies	24.9	35.3	28.3

*) a minus sign implies an increase

Current account

Imports of goods and services expanded by NAf.81.9 million as a result of higher merchandise imports. Increased international oil prices also fueled the import bill. The expansion in merchandise imports can be attributed further to more imports by the wholesale & retail sector to meet increased domestic demand and higher tourism spending. In addition, the free-zone companies in Curaçao imported more merchandise to replenish their inventories. Investments in the utility industry in Curaçao also contributed to the increase in merchandise imports. The import growth was mitigated by a decline in construction services from abroad, due primarily to less work on the expansion of the harbor of Sint Maarten in the second quarter of 2010 compared to the second quarter of 2009.

Exports of goods and services contracted by NAf.52.0 million owing to, among other things, a decline in the fee received for refining operations in Curaçao and St. Eustatius. This decline can be ascribed mainly to the shutdown of the Isla refinery in Curaçao in March 2010 because of power outages at the BOO plant. Moreover, merchandise exports by the free-zone companies, in particular to Venezuela, declined during 2010's second quarter. Foreign exchange revenues from bunkering activities dropped also, despite higher international oil prices. Hence, lower bunker volumes were sold in the second quarter of 2010 compared to the second quarter of 2009. Furthermore, foreign exchange revenues from international financial services declined, largely as a result of fewer trust and international banking services provided to abroad.

In contrast, foreign exchange revenues from the tourism industry increased on all islands during the June quarter of 2010. In Curaçao, foreign exchange revenues from stay-over tourism increased, while cruise tourism earnings remained practically unchanged. Although the number of stay-over visitors in Curaçao dropped, total foreign exchange earnings from stay-over tourism increased by NAf.6.6 million (5.2%). This gain occurred because the sharp decline in Venezuelan tourists was accompanied by more visitors from the United States and the Netherlands. Compared to the Venezuelan visitor, these visitors stay longer on the island. In addition, the US visitor spends more on average than the Venezuelan visitor. On the Windward Islands, revenues from stay-over tourism expanded by NAf.14.9 million (8.3%). This expansion was due mainly to a longer average stay and higher average spending by visitors from the United States, which is the main tourism market for the Windward Islands. Also, foreign exchange revenues from cruise tourism rose by NAf.20.2 million (8.3%), reflecting an increase in the number of cruise tourists. In Bonaire, foreign exchange receipts from stay-over tourism rose by NAf.5.4 million (16.8%), while earnings from cruise tourism contracted by NAf.0.5 million (9.0%).

Because the contraction in exports of goods and services was accompanied by a growth in imports, net foreign demand declined by NAf.133.9 million. In addition, both the income balance and the current transfers balance worsened during the June quarter of 2010. The income balance deteriorated by NAf.14.8 million, due mainly to increased interest payments on foreign investments in the Netherlands Antilles. Meanwhile, the current transfers balance worsened by NAf.221.9 million, as lower debt relief grants were transferred by the Dutch government in the second quarter of 2010, compared to the second quarter of 2009. Consequently, the current account deficit swelled to NAf.414.3 million in the June quarter of 2010, an increase of NAf.370.6 million. For a detailed overview see Table 11 in the appendix.

Financing of the current account balance

The current account deficit caused a decline in net foreign wealth of both the banking and the nonbanking sectors. In the March-June period of 2010, net foreign wealth of the banking sector decreased by NAf.128.1 million. This decrease resulted from a decline of NAf.57.5 million in net foreign assets held by the central bank combined with a drop of NAf.70.6 million in net foreign assets held by the commercial banks.

The net foreign wealth of the nonbanking sector[8] declined primarily due to an increase of NAf.250.3 million in external financing by the private sector. This increase was related to a worsening of the loans and credits (NAf.331.1 million) and direct investment (NAf.49.6 million) balances, partly offset by an improvement in the portfolio investment balance (NAf.130.4 million). The latter improvement was related to increased investments by institutional investors in foreign bonds and notes, mitigated by the net sale of foreign equity held by commercial banks. Institutional investors withdrew funds from their foreign bank accounts to finance the investments in foreign bonds and notes. The decline in the balance of the institutional investors' foreign bank accounts explains in part the deterioration of the loans and credits balance.

The worsening of the loans and credits balance was also related to the repatriation of funds held abroad by financial corporations to finance their operations in the Netherlands Antilles. Furthermore, the net trade credit balance worsened due to an increase in net trade credits received from abroad combined with a decline in net trade credits extended to abroad. During the second quarter of 2010, net trade credits received from abroad rose by NAf.101.5 million as new trade credits received on imports outweighed the increase in repayments of trade credit received. Meanwhile, net trade credits extended declined by NAf.21.0 million because the increase in repayments on extended trade credits exceeded the increase in new trade credits extended.

The deterioration of the net direct investment balance can be ascribed to an increase in the liabilities of resident direct investment companies with their foreign affiliates. The purchase of real estate in the Netherlands Antilles, in particular Bonaire, by nonresidents also contributed to the worsening of the direct investment balance. Meanwhile, capital transfers dropped by NAf.0.9 million in the second quarter of 2010 as fewer development aid funds were received compared to the second quarter of 2009. See Table 12 in the appendix for a detailed overview.

MONETARY DEVELOPMENTS

Monetary policy

The objective of monetary policy in the Netherlands Antilles is to guarantee the external stability of the Netherlands Antillean guilder (NAf.). The intermediate goal of the monetary policy is to meet the official reserves target, which is equal to three months of projected merchandise imports. To that end, the Bank tries to influence the surplus liquidity in the domestic money market by controlling domestic credit expansion and, hence, domestic spending and import demand. During the June quarter of 2010, the Bank continued its policy of monetary easing. The low level of international interest rates, a slowdown in economic growth, and an adequate level

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

of international reserves facilitated the easing. The main instruments that the Bank used were the reserve requirement and the auctioning of Certificates of Deposit[9] (CDs), both directed at influencing the amount of base money.

During the second quarter of 2010, the inflow of debt relief funds added more liquidity to the banking system. However, the extra liquidity did not result in excessive credit growth. Hence, the percentage of the reserve requirement, which remains fixed for one month, was cut by 75 basis points during 2010's second quarter, reaching 8.75%.

The Bank deployed its other monetary policy tool, the auctioning of CDs, in a neutral manner by offering only the amount of maturing CDs at the biweekly auctions. The Bank's official interest rate, the pledging rate, remained unchanged at 1.00% during the second quarter of 2010.

Monetary base

The monetary base, M0, which consists of currency in circulation and the commercial banks' current account balances at the Bank, declined by NAf.37.7 million during the second quarter of 2010. As Table 14 in the appendix shows, this decline was due mainly to a drop of NAf.27.2 million in the commercial banks' demand deposits with the Bank. Meanwhile, currency in circulation dropped by NAf.10.5 million.

The contraction in M0 reflected mainly a decline in the Bank's foreign assets coupled with a rise in government deposits. The contraction in foreign assets was due mostly to the net sale of foreign currency to the rest of the banking system. At the same time, however, a fall in private sector deposits with the Bank, in other liabilities, and in capital and reserves restrained the decline in the monetary base. Consequently, M0 dropped by 4.8% in the second quarter of 2010 in comparison with the previous quarter. In addition, the annual growth rate of M0 eased from 28.1% in March to 25.2% in June 2010.

Factors affecting the money supply

After gaining 2.6% in the first quarter of 2010, the money supply (M2) contracted by 1.0% (NAf.79.8 million) in the second quarter of 2010 (see Table 15 in the appendix). Underlying this development was mainly the decline in narrow money (M1), which dropped by NAf.79.1 million, driven almost entirely by a drop in demand deposits. The demand deposits declined by 2.4% from their end-March level, reflecting declines in the private sector balances in both local and foreign currency.

Money holdings of the private sector reached NAf.7,571.2 million at the end of the second quarter of 2010 reflecting a drop of NAf.79.8 million (1.0%) in the money supply. The decline in the money supply was attributable to a NAf.128.0 million drop in net foreign assets, mitigated by an increase in net domestic assets of NAf.48.2 million. The drop in net foreign assets was reflected by decreases in the net foreign positions of the commercial banks (NAf.70.6 million) and of the central bank (NAf.57.5 million).

The growth in net domestic assets was the result of an expansionary impact by the private sector (NAf.77.9 million) and miscellaneous balance sheet items (NAf.42.0 million), mitigated by a contraction of NAf.71.7 million in the government sector due to the debt relief.

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[9] These are negotiable securities issued by the Bank.

The growth rate of loans extended to the private sector decelerated to 1.3% in the June quarter of 2010 compared to 2.7% registered in the June quarter of 2009. The deceleration in private loans was attributable to developments on both the Leeward and the Windward Islands. On the Leeward Islands, private sector loans grew by 1.5% compared with 2.8% in the second quarter of 2009, the result of a deceleration in mortgages from 8.6% to 1.4%. On the other hand, consumer loans (2.6%) and business loans (0.7%) picked up. On the Windward Islands, the expansion in mortgages (4.1%) and consumer loans (0.4%) accounted for the 1.0% gain in loans extended, down from 2.5% in the second quarter of 2009. In contrast, business loans dropped by 2.4%.

In contrast, net credit extended to the governments dropped by 2.1% during the June quarter of 2010, reflecting the implementation of the debt relief program. As a result, the government securities portfolios of both the commercial banks and the central bank declined during the quarter. See Table 15 in the appendix for more details.

Developments in domestic interest rates

In setting the rate offered on CDs during the bi-weekly auctions, the Bank takes into account of developments in international interest rates through the US dollar libor rates.[10] During the June quarter of 2010, the benchmark libor rates increased compared to three months earlier. In line with this development, the Bank's 1-month CD rate increased from 0.13% in the first quarter of 2010 to 0.22% in the second quarter.

The interest rates of the domestic commercial banks continued to trend downward during the second quarter of 2010. With respect to the lending rates, the average rate of both time loans and mortgages dropped by 10 basis points to 9.4% and 7.1%, respectively. With respect to the borrowing rates, the average rate on a 12-month time deposit dropped to 1.9%, while the average interest rate on passbook savings declined to 1.5%.

As there were no activities on the market for government securities during the second quarter of 2010, both the average effective yield of 5-year government bonds and the yield on 1-month treasury bills remained unchanged at 3.3% and 0.6%, respectively. (See Table 16 in the appendix for a detailed overview.)

DEVELOPMENTS IN THE COMMERCIAL BANKING SECTOR

The balance sheet of the commercial banks shortened in the June quarter of 2010 after having expanded for two consecutive quarters. Declines in both interest-bearing and non-interest-bearing cash caused total assets to drop by NAf.186.2 million (1.3%). This contraction was offset in part by increases in loans and other assets.

Total liabilities contracted, mostly because of a drop in deposits. All deposit categories declined during the second quarter of 2010. The biggest declines occurred in time and savings deposits as maturing deposits were not reinvested locally due to the low yield. The share of interest-bearing deposits (time and savings deposits) declined from 58.9% in the second quarter of 2009 to 55.4% in the second quarter of 2010. The share of total capital in total liabilities and capital remained unchanged at 10.3% at the end of the June 2010 quarter. See Table 17 in the appendix for more details.

[10] The London interbank offer rate, the main gauge of interbank lending.

An increase in total operational expenses (2.4%) combined with a decline in total operational income (2.3%) caused net operating income of the domestic banking sector to drop by 13.8% in the second quarter of 2010 compared to the second quarter of 2009. Total operational income shrank due to a decline in other income, offsetting the increase in net interest income. Net interest income increased by 6.2% as the commercial banks managed to reduce interest expenses by 23.0% while interest income dropped by 2.4%. The increase in operational expenses was primarily due to more salaries and other employees' expenses. Despite the drop in net operating income, net income after taxes increased by 8.4%, reaching NAf.53.9 million, due primarily to an increase in net extraordinary items. See Table 18 in the appendix for more details.

Financial soundness indicators

The Bank analyzes the general performance of the banking sector through financial soundness indicators (FSI). FSI are aggregates of microprudential indicators used to assess the soundness of individual banks. Since these microeconomic indicators take into account only the exposure of individual banking institutions, macroeconomic factors are also being taken into account by carrying out stress tests. These stress tests together with the FSI constitute a macroprudential approach aimed at a better assessment of the vulnerability of the banking system to shocks and the extent of systemic risk.

The ratio of total capital to total assets remained unchanged at 10.7% at the end of the second quarter of 2010 compared to the first quarter, as qualifying Tier 1 capital and total assets both dropped by 1.3%. This ratio exceeded the internationally acknowledged benchmark of 4.0%, indicating that the adequacy of the capital stock of the domestic banks is relatively strong.

However, the quality of the commercial banks' assets portfolio deteriorated during the second quarter of 2010 compared to the first quarter. This deterioration was reflected by the drop in provisions for loans-to-nonperforming loans, led by an increase in nonperforming loans (13.1%) combined with a decline in provisions (0.3%). Furthermore, the deterioration in the quality of credit was reflected by an increase in the ratio of nonperforming loans-to-total loans, reaching 6.2% at the end of the second quarter of 2010.

The earnings indicators reflected no major change in the profitability of the domestic banking sector in the second quarter of 2010 compared to the second quarter of 2009. With the easing of the downward pressure on interest rates from the international financial crisis and the debt relief, interest income generated by the commercial banks underwent almost no change. Combined with a decline in interest expenses, net income improved. As a result, the net interest margin improved from 4.1% in the second quarter of 2009 to 4.4% in the second quarter of 2010. The marginal increase in interest income together with the rise in average earnings assets caused the gross earning-assets yield to drop to 5.9% at the end of the second quarter of 2010. The other ratio, the return-on-assets underwent no change.

Finally, the ratio of total loans-to-total deposits, which provides an indication of the development of liquidity in the domestic banking sector, increased from the March quarter to the June quarter of 2010. The upswing in this ratio reveals a drop in liquidity because deposits dropped while more loans were extended by the banks.

Table 6 Financial stability indicators (in %, end of period)

	2009-II	2009-III	2009-IV	2010-I	2010-II
Capital adequacy					
Total capital/total assets	10.2	10.5	10.2	10.7	10.7
Asset quality					
Nonperforming loans/total loans	4.7	5.8	5.7	5.5	6.2
Provisions for loan losses/ nonperforming loans	57.3	50.1	50.3	56.9	49.9
Earnings*					
Gross earnings-assets yield	6.1	6.0	6.1	6.0	5.9
Net interest margin	4.1	4.1	4.4	4.4	4.4
Return-on-assets	1.9	1.7	1.8	1.9	1.9
Liquidity					
Total loans/total deposits	64.1	64.7	61.7	57.9	59.6

* The earnings indicators are not fully comparable with previous publications due to a change in methodology.

APPENDIX

Table 7 Developments in stay-over tourism per island (% change)[11]

	Curaçao				St. Maarten			
	2009-II		**2010-II**		**2009-II**		**2010-II**	
North America, of which:	-31.4	(-1.4)	45.4	(3.1)	-7.1	(-2.4)	-3.0	(-1.0)
-U.S.A.	-30.2	(-1.2)	48.4	(3.1)	-7.0	(-2.2)	-4.4	(-1.4)
Europe, of which:	8.9	(1.5)	6.3	(1.2)	-4.5	(-0.5)	1.7	(0.2)
-The Netherlands	8.0	(1.1)	8.8	(1.5)	-28.5	(-0.5)	19.0	(0.4)
South & Central America, of which:	15.7	(2.4)	-52.1	(-4.1)	14.5	(0.2)	-5.8	(-0.1)
-Venezuela	11.8	(1.4)	-65.8	(-2.9)	40.7	(0.2)	-38.5	(-0.1)
-Brazil	-18.8	(-0.1)	137.4	(1.0)	23.2	(0.1)	59.0	(0.3)
-Colombia	46.2	(0.4)	-14.8	(-0.1)	---	---	---	---
Caribbean, of which:	-7.8	(-0.3)	-0.1	(0.0)	-24.1	(-0.7)	4.4	(0.1)
-Dominican Republic	-12.9	(0.0)	26.6	(0.1)	-14.0	(0.0)	20.4	(0.1)
Total	2.4	(1.0)	-11.8	(-4.6)	-7.7	(-4.0)	-0.9	(-0.5)

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

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

	2009-I	**2009-II**	**2009-III**	**2009-IV**	**2010-I**	**2010-II**
Food	17.8	12.9	7.8	3.9	3.0	3.6
Beverages & tobacco	8.2	7.3	5.3	4.0	3.6	3.2
Clothing & footwear	1.9	1.9	1.9	1.9	-0.3	-1.3
Housing	-0.6	-2.3	-3.3	0.4	5.6	6.2
Housekeeping & furnishings	6.9	6.9	4.9	2.3	1.5	0.6
Health	2.0	1.9	2.4	2.3	2.5	2.1
Transport & communication	-0.6	-2.3	-2.4	-1.9	3.6	3.4
Recreation & education	1.7	1.4	1.3	0.9	0.6	0.3
Other	3.8	3.7	3.4	3.6	3.1	2.4
General inflation rate	3.2	1.7	0.5	1.1	3.6	3.5

Source: Central Bureau of Statistics

[11] Weighted growth rates between brackets.

Table 9 Budgetary overview (in millions NAf.)

	2007-II	2008-II	2009-II	2010-II
General government				
Revenues	377.3	456.1	733.1	619.6
Tax revenues, of which:	326.7	350.3	371.8	379.9
Taxes on income and profits	136.3	152.7	157.9	167.1
Taxes on goods and services	129.3	130.3	152.0	149.1
Taxes on international trade and transactions	37.1	45.9	43.7	45.0
Nontax and other revenues	47.2	101.7	17.1	77.5
Grants	3.4	4.2	344.2	162.2
Expenditures	456.2	519.4	529.0	572.1
Current expenditures, of which:	450.0	499.9	519.9	559.3
Wages and salaries	153.6	181.6	196.2	217.1
Goods and services	112.4	133.7	120.8	146.5
Subsidies	9.6	13.3	11.0	12.4
Transfers	90.2	98.8	115.1	115.5
Interest payments	84.3	72.6	76.9	67.8
Capital expenditures	6.2	19.4	9.1	12.8
Budget balance	-78.9	-63.2	204.1	47.6
Central government				
Revenues	218.8	278.6	261.2	331.8
Tax revenues, of which:	173.7	186.2	190.3	201.5
Taxes on goods and services	122.8	126.6	134.6	141.9
Taxes on international trade and transactions	37.1	45.9	43.7	45.0
Nontax and other revenues	41.7	88.2	5.7	70.4
Grants	3.4	4.2	65.2	59.9
Expenditures	247.4	286.7	295.1	305.7
Current expenditures, of which:	243.2	269.7	289.7	301.4
Wages and salaries	84.4	88.2	94.6	105.3
Goods and services	26.0	48.9	35.3	43.6
Transfers	83.4	89.2	114.9	113.2
Interest payments	49.4	43.4	44.9	39.3
Capital expenditures	4.2	17.0	5.4	4.3
Budget balance	-28.6	-8.1	-33.9	26.1
Island government of Curaçao				
Revenues	198.2	215.4	518.2	334.1
Tax revenues, of which:	153.0	164.1	181.5	178.4
Taxes on income and profits	136.3	152.7	157.9	167.1
Taxes on goods and services	6.5	3.7	17.4	7.2
Nontax and other revenues	5.5	13.5	11.4	7.1
Grants	39.7	37.9	325.3	148.6
Expenditures	248.6	270.6	280.2	312.7
Current expenditures, of which:	246.5	268.1	276.5	304.2
Wages and salaries	69.2	93.4	101.6	111.8
Goods and services	86.4	84.8	85.5	102.9
Transfers	46.5	47.5	46.5	48.6
Interest payments	34.9	29.2	32.0	28.5
Capital expenditures	2.0	2.4	3.7	8.5
Budget balance	-50.3	-55.1	238.0	21.5

Table 10 Total outstanding consolidated public debt[1] (in millions NAf.)

	2009-II	2009-III	2009-IV	2010-I	2010-II
Domestic consolidated debt, of which:	4,788.4	4,665.4	4,434.9	4,196.5	4,105.3
Central government, of which:	2,553.1	2,546.2	2,404.7	2,209.1	2,223.5
Long-term securities	2,041.8	2,041.8	1,898.2	1,785.8	1,785.8
Short-term securities	58.8	22.2	5.8	0.0	0.0
APNA	231.5	236.1	232.1	148.7	150.3
SVB	27.1	27.1	19.0	21.3	45.3
Curaçao, of which:	2,434.3	2,369.9	2,235.3	2,197.5	2,139.5
Long-term securities	882.4	882.3	875.3	875.3	875.3
Short-term securities	197.1	122.3	49.4	11.1	0.0
APNA	826.2	823.5	812.3	805.6	800.3
SVB	0.0	0.0	0.0	0.0	0.0
Central government	329.4	332.7	286.4	301.2	310.5
St. Maarten	173.4	208.9	198.9	208.0	211.0
BES islands[2]	206.3	208.0	192.2	196.6	166.7
Foreign debt	801.1	826.3	849.8	792.5	720.8
Total debt (consolidated)	5,589.4	5,491.7	5,284.7	4,989.0	4,826.1
(% of GDP)	78.1%	76.4%	73.6%	69.0%	66.2%

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

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

	2008-II	2009-II	2010-II
Trade balance	-863.4	-731.6	-845.8
-Exports	486.4	344.7	314.1
-Imports	1,349.7	1,076.3	1,159.9
Services balance	472.3	470.1	450.1
Receipts, of which:	849.4	853.4	832.0
-Travel	468.0	417.7	464.1
-Transportation	68.0	68.0	75.5
-Other services, of which:	313.4	367.7	292.3
-Int. fin & bus. services sector	73.5	85.1	71.4
Expenses, of which:	377.1	383.4	381.7
-Travel	134.3	118.7	127.9
-Transportation	50.0	72.0	76.0
-Other services, of which:	192.8	192.7	177.7
-Int. fin & bus. services sector	31.1	30.2	23.4
Income balance[1)]	-25.0	-28.8	-43.6
Current transfers balance[2)]	1.6	246.7	24.8
Current account balance	**-414.6**	**-43.7**	**-414.3**
Capital & financial account balance	**389.7**	**8.4**	**385.8**
Capital account balance	14.8	5.1	4.2
Financial account balance	374.9	3.3	381.7
Net errors & omissions	**24.9**	**35.3**	**28.3**

1) Labor and investment income.
2) Public and private transfers.

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

	2008-II	2009-II	2010-II
Direct investment	112.6	99.0	49.6
- Abroad [1)]	-4.3	28.3	-1.0
- In the Netherlands Antilles [2)]	116.9	70.7	50.6
Portfolio investment [1)]	-58.8	-51.3	-130.4
Other investment, of which:	273.0	110.5	213.2
- Assets [1)]	291.0	111.1	250.1
- Liabilities [2)]	-18.0	-0.6	-36.9
Net lending/borrowing, of which:	104.1	31.6	121.5
- Assets [1)]	39.6	-0.6	20.6
- Liabilities [2)]	64.5	32.2	100.9
Reserves [3)]	-23.3	-186.5	128.1
Total assets [1)]	267.5	87.5	139.3
Total liabilities [2)]	163.4	102.3	101.0
Balance	134.6	-107.2	168.8

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.)

2010-II	Domestic sectors			External
	Private	**Government**	**Banking**	**sector**
Nonfinancial transactions	-466.9	52.6		414.3
Government net lending	5.1	-5.1		
Gov't domestic nonbank financing	-20.6	20.6		
External financing of government		3.5		-3.5
External financing of private sector	250.3			-250.3
-Direct investment (equity)	49.6			-49.6
-Loans and credits	331.1			-331.1
-Portfolio, incl. debt	-130.4			130.4
Capital transfers	4.2			-4.2
Change in net foreign assets of the central bank			57.5	-57.5
Change in net foreign assets of commercial banks			70.5	-70.6
Change in domestic bank credit	77.9	-71.7	-6.2	
Change in broad money	79.8		-79.8	
Other items, net/errors & omissions	70.3		-42.0	-28.3

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

2009-II	Domestic sectors Private	Government	Banking	External sector
Nonfinancial transactions	-247.8	204.1		43.7
Government net lending	0.0	0.0		
Gov't domestic nonbank financing	78.8	-78.8		
External financing of government		3.6		-3.6
External financing of private sector	186.3			-186.3
-Direct investment (equity)	99.0			-99.0
-Loans and credits	138.6			-138.6
-Portfolio, incl. debt	-51.3			51.3
Capital transfers	5.1			-5.1
Change in net foreign assets of the central bank			-58.4	58.3
Change in net foreign assets of commercial banks			-128.1	128.2
Change in domestic bank credit	2.2	-128.9	126.7	
Change in broad money	-56.8		56.8	
Other items, net/errors & omissions	32.3		3.0	-35.3

Table 14 The monetary base and its sources (in millions NAf.)

			Change	
	2010-I	**2010-II**	**Amount**	**Percentage**
Banknotes issued	378.0	367.5	-10.5	-2.8%
Banks' demand deposits (current account)	414.1	386.9	-27.2	-6.6%
Monetary base (M0)	792.1	754.4	-37.7	-4.8%
Central bank assets				
Foreign assets (including gold)	2973.4	2920.3	-53.1	-1.8%
Claims on the government	519.0	521.5	2.5	0.5%
Fixed and other assets	114.4	121.9	7.5	6.6%
less:				
Central bank remaining liabilities				
Private sector deposits	361.2	318.7	-42.5	-11.8%
Government deposits	201.8	313.8	112.0	55.5%
Foreign liabilities	777.0	781.4	4.4	0.6%
Other liabilities	765.4	731.7	-33.7	-4.4%
Capital and reserves	709.3	663.7	-45.6	-6.4%

Table 15 Monetary survey (in millions NAf.)

	2009-II	2009-III	2009-IV	2010-I	2010-II
Money supply (M2)	7,017.4	7,055.2	7,458.2	7,651.0	7,571.2
Money (M1)	2,965.3	2,916.7	3,266.9	3,386.8	3,307.7
Coins & notes with the public	305.8	297.4	334.1	319.7	313.8
Total demand deposits, of which :	2,659.5	2,619.3	2,932.8	3,067.1	2,993.9
- Netherlands Antillean guilders	2,058.3	1,993.3	2,265.0	2,380.2	2,345.2
- Foreign currency	601.2	626.0	667.8	686.9	648.7
Near money	4,052.1	4,138.5	4,191.3	4,264.2	4,263.5
Time deposits	2,181.6	2,212.6	2,175.3	2,200.1	2,187.0
Savings	1,870.5	1,925.9	2,016.0	2,064.1	2,076.5
Factors affecting the money supply					
Net domestic assets	4,096.3	4,101.3	4,225.9	4,136.8	4,185.0
General government	363.8	308.0	222.1	209.8	138.1
- Central government	379.8	359.4	238.2	303.9	287.9
- Island governments	-16.0	-51.4	-16.1	-94.1	-149.8
Private sector	5,237.4	5,305.2	5,634.0	5,638.1	5,716.0
Net foreign assets	2,921.1	2,953.9	3,232.3	3,514.2	3,386.2
Central bank	2,146.4	2,156.2	2,188.9	2,196.4	2,138.9
Commercial banks	774.7	797.7	1,043.4	1,317.8	1,247.3
Memorandum items	-1,504.9	-1,511.9	-1,630.2	-1,711.1	-1,669.1
Government loans by commercial banks	619.4	554.1	523.9	439.3	430.1
- Central government	369.1	345.8	322.5	244.5	240.2
- Island governments	250.3	208.3	201.4	194.8	189.9
Private sector loans Leeward Islands	3,600.5	3,606.2	3,649.4	3,647.3	3,701.2
- Mortgages	1,394.7	1,401.7	1,477.9	1,471.9	1,493.0
- Consumer loans	920.3	933.7	935.4	941.6	966.2
- Business loans	1,285.5	1,270.8	1,236.0	1,233.8	1,241.9
Private sector loans Windward Islands	1,482.8	1,538.0	1,567.1	1,576.5	1,592.9
- Mortgages	606.4	656.4	667.1	669.1	696.7
- Consumer loans	372.8	376.2	381.7	382.5	384.1
- Business loans	503.6	505.4	518.4	524.9	512.1

Table 16 Developments in domestic interest rates (in %)

	2009-II	2009-III	2009-IV	2010-I	2010-II
Central bank					
- Pledging rate	1.00	1.00	1.00	1.00	1.00
- Maximum CD rate (1 month)	0.47	0.20	0.16	0.13	0.22
Commercial banks borrowing rates					
- Passbook savings	2.3	2.2	2.0	1.8	1.5
- Time deposit (12 months)	3.5	2.9	2.3	2.0	1.9
Commercial banks lending rates					
- Mortgages	7.5	7.7	7.5	7.2	7.1
- Time loans	9.1	9.3	9.5	9.5	9.4
Government securities					
- Government bonds (5-year effective yield)	4.6	4.3	4.3	3.3	3.3
- Treasury bills (1 month)	0.6	0.6	0.6	0.6	0.6

Table 17 Aggregate balance sheet of domestic commercial banks (in millions NAf.)

	2009-II	2009-III	2009-IV	2010-I	2010-II
Assets					
Non-interest-bearing cash	1,414.7	1,320.2	1,568.1	1,404.5	1,285.0
Interest-bearing cash	2,878.9	2,991.4	3,257.5	3,621.8	3,402.1
Investments	1,249.1	1,210.9	1,357.4	1,220.9	1,218.7
Loans	7,405.5	7,444.0	7,617.7	7,683.0	7,810.5
Investments in unconsolidated subsidiaries and affiliates	42.7	43.5	58.5	97.1	106.8
Fixed assets	288.1	289.8	296.5	298.3	302.2
Other assets	247.1	212.7	235.1	251.6	265.5
Total assets	13,526.2	13,512.4	14,390.8	14,577.2	14,391.0
Liabilities					
Demand deposits	4,797.4	4,759.2	5,590.6	5,590.6	5,564.4
Savings deposits	4,132.9	4,089.4	4,131.5	4,148.6	4,090.0
Time deposits	2,752.8	2,804.1	2,763.0	2,897.7	2,823.0
Total deposits	11,683.0	11,652.7	12,485.1	12,636.9	12,477.5
Borrowings	65.8	38.9	49.4	43.2	36.2
Other liabilities	402.9	398.0	396.0	392.5	392.4
Total liabilities	12,151.7	12,089.6	12,930.4	13,072.6	12,906.0
Minority interest	8.7	9.1	8.6	9.0	9.2
Subordinated debentures	0.0	0.0	0.0	0.0	0.0
General provisions	207.0	224.1	223.5	235.6	234.6
Capital & reserves	1,158.8	1,189.6	1,228.3	1,260.1	1,241.2
Total capital	1,374.5	1,422.9	1,460.4	1,504.6	1,485.0
Total liabilities and capital	13,526.2	13,512.4	14,390.8	14,577.2	14,391.0

Table 18 Aggregate income statement of domestic commercial banks (cumulative quarterly figures, in millions NAf.)

	2009-II	2009-III	2009-IV	2010-I	2010-II
Interest income	395.6	592.7	738.9	192.7	379.3
Interest expenses	121.7	176.8	215.1	48.3	92.0
Net interest income	273.9	415.9	523.8	144.3	287.3
Other income	146.6	233.1	288.2	73.2	127.9
Total operational income	420.5	649.0	811.9	217.5	415.3
Salaries & other employee expenses	156.9	235.3	297.3	81.0	161.0
Occupancy expenses	50.3	75.7	100.1	24.1	48.5
Other operating expenses	67.4	101.4	126.4	34.4	67.5
Net addition to general provisions	15.4	43.5	52.6	13.6	22.8
Total operational expenses	290.0	455.9	576.4	153.1	299.8
Net operating income	130.5	193.1	235.5	64.4	115.5
Net extraordinary items	2.1	4.3	25.5	27.7	42.1
Applicable profit taxes	28.1	37.8	50.1	15.4	27.0
Net income after taxes	104.5	159.6	211.0	76.7	130.6