



## QUARTERLY BULLETIN 1999-3

**Bank van de Nederlandse Antillen**

## REPORT OF THE PRESIDENT

After the slight expansion in the first half of 1999, the Netherlands Antillean economy recorded a small contraction in the third quarter as reflected by a decline in real Gross Domestic Product of 0.2% on an annual basis. The contraction can be ascribed to sluggish domestic demand by investors and consumers. The ongoing lack of confidence is caused by the uncertainties surrounding the structural adjustment process and a decrease in government spending resulting from liquidity constraints. In addition, exports performed weakly. The annual inflation rate continued to decline due mainly to the replacement of the 6% sales tax by a 2% turnover tax on the Leeward Islands. In contrast, inflation in the third quarter accelerated slightly compared to the previous quarter.

The weak development in exports was attributable mainly to developments in the transportation sector, oil refining, and the free-zone. The decline in activities in the transportation sector was dominated by the decreases in oil storage and ship-repair activities. The national carrier Air ALM recorded a drop in the number of passengers transported and foreign exchange earned; however, the amount of freight handled increased. Developments in the harbor of Curacao also were mixed -- the number of ships piloted dropped, while the total amount of cargo handled increased. In contrast, bunker activities expanded. The oil refinery recorded a decline in production as well as foreign exchange revenues generated. The performance of the free zone continued to deteriorate, reflected by decreases in the value of re-exports and the number of visits.

The negative developments in some of our export industries were mitigated by the expansion in activities in the international financial and business services sector. The performance of this sector improved for the second consecutive quarter with increases in income received for services rendered and profit taxes transferred to the government. Our main source of foreign exchange revenues -- tourism -- showed a mixed performance. The number of stay-over visitors increased while the number of cruise visitors dropped significantly, resulting in a slight decrease in foreign exchange income earned. The same developments in stay-over and cruise tourism were also reflected on the island level. In contrast, foreign exchange income declined in Curacao and Bonaire, but increased in St. Maarten.

The weak export performance contributed partly to the deterioration in the deficit on the current account of the balance of payments in the third quarter of 1999. Other explanatory factors were the increase in oil imports related to the higher world oil prices and the deterioration in the income account. The deterioration in the income account was attributable mainly to relatively large interest and dividend receipts of a transitory nature in the third quarter of 1998. The increase in the current account deficit was offset partly by a small improvement in the surplus on the capital account, owing to both the private and official capital accounts. As a result, our foreign exchange reserves declined.

The General Government's cash deficit declined markedly in the third quarter of 1999. This decline was accounted for entirely by a substantial drop in expenditures due to the persistent liquidity constraints and a large decrease in interest expenses. The decrease in interest expenses was attributable to a transitory factor related to the interest accumulation of a zero-

coupon bond in September 1998. The liquidity constraints were caused partly by a decline in revenues. The main factors that contributed to this decline were the replacement of the 6% sales tax by a 2% turnover tax on the Leeward Islands, the reduction of the turnover tax rate from 3% to 2% on the Windward Islands, and a decrease in profit tax collected due to the sluggish economic development.

The increasing financing difficulties and the resulting accumulation of arrears with institutions like the civil servants pension fund as well as private creditors underscores the urgency of corrective measures. Knowing this, the new central and island governments that came into office presented an ambitious program based on the recommendations of the National Plan Committee and the Inter-American Development Bank. The policy package includes a significant reduction of the government bureaucracy, a tight wage policy, a further restructuring of the civil servants pension scheme, the transformation of government departments into autonomous bodies, privatization of public enterprises, and measures aimed at strengthening the market mechanism in labor and product markets. An important step in the implementation of the program was the lay-off of approximately 1,000 civil servants at the Island Government of Curacao, the freeze of indexation and periodic salary increases, and the reduction of the vacation allowance effective January 1, 2000. These measures underline the determination of the authorities to address the financial-economic crisis and should contribute to a gradual return of investors' confidence.

The money supply increased marginally in the third quarter of 1999. This increase resulted entirely from the expansion in domestic money creation, which was offset largely by the decline in international reserves. Both the private and government sectors contributed to the domestic expansion. The expansionary impact of the private sector was attributable primarily to the growth in credit extension. The governments' expansionary impact was a reflection of the liquidity constraints, which resulted in marked withdrawals of deposits and more issues of short-term treasury paper. Since the strong growth in credit extension was an important factor in the decline of our international reserves, the Bank tightened its monetary policy with an increase in the reserve requirement from 8-1/2% to 9% in November 1999. Further steps will depend on the progress made in the implementation of the government program and its impact on our foreign exchange reserves.

The Netherlands Antilles has reached a crucial turning point in the continuing financial-economic crisis. Forced by increasing difficulties to finance the government operations, an ambitious program has been designed and bold measures have already been taken aimed at a structural reduction of the budget deficits. However, since most of the measures do not result in immediate savings, the budgetary outlook for 2000 remains worrisome. This situation has been confirmed by the IMF's evaluation of the government program. Therefore, additional actions by the authorities are an important condition for further negotiations on a Fund-approved structural adjustment program. These actions should include an acceleration of the implementation of the measures in the government program, additional expenditure cuts and revenue-enhancing measures, such as the reduction of exemptions and strengthening of the collection of the turnover tax. An IMF-supported structural adjustment program is a pre-condition for additional financial support from the Dutch government. This support is crucial to facilitate the adjustment process, finance supportive social policies, and create a climate conducive to sustainable growth and employment.

*E.D. Tromp*  
*President*

## **DEVELOPMENTS IN THE REAL SECTOR**

### **General economic developments**

After a small growth for two consecutive quarters, the Antillean economy shrank in the third quarter of 1999. Real GDP dropped by 0.2%,<sup>1)</sup> following a decline of 0.7% in the third quarter of 1998. Low domestic demand and a decline in activities in the ship repair, harbor, tourism, and trade sectors were responsible for the economic deterioration. The third-quarter contraction was coupled with a mild inflation. Annual inflation eased to 0.3% in the third quarter of 1999, lower than the 1.3% figure in the third quarter of 1998. The replacement of the 6% sales tax by a 2% turnover tax was largely responsible for the decelerating trend in consumer prices. With the sluggish economy, the unemployment rate remained high at approximately 16.6%.<sup>1)</sup>

<sup>1)</sup> Estimate of the BNA

### **National production and spending**

The decline in real GDP of the Netherlands Antilles was attributable to decreases in domestic spending and a decline in exports of the services sector. Consumer expenditures and investment remained weak, due to the ongoing lack of confidence caused by the frail job market and continuing political uncertainty surrounding the structural economic adjustment. Furthermore, government consumption declined by 9.6% primarily because of the liquidity constraints in the public sector. Government investment surged by 8.3%.

### **Inflation**

Consumer prices in the Netherlands Antilles followed a downward trend in the last several quarters of 1999. The annual inflation of the Netherlands Antilles abated from 1.3% in the period July-September of 1998 to 0.3% in the third quarter of 1999. This decline was mostly the result of the replacement of the 6% sales tax (ABB) by a 2% turnover tax (NAOB) on the Leeward Islands and the reduction of the turnover tax from 3% to 2% on the Windward Islands.

On an annual basis, Curaçao posted the lowest inflation in the Netherlands Antilles. Curacao's consumer prices declined by 0.2% in the quarter ending September 1999, down from an increase of 1.3% in the third quarter of 1998. Bonaire's and St. Maarten's inflation rates in the third quarter of 1999 were 2.7% and 2.2%, respectively, in comparison to 1.0% and 1.9%, respectively, in the third quarter of last year.

Analysis on a quarterly basis showed that Curaçao's consumer prices rose by 0.3% in the third quarter of 1999, up from the second quarter's price increase of 0.2%. The price rise in the items "other" (1.0%) and "food" (0.5%) were mainly responsible for the 0.1 percentage point increase (table 1). The category "other" was led by a price surge in automobile insurance premiums. Furthermore, more expensive dairy products and outdoor dining led to the increase in "food." Meanwhile, deflation occurred in the items "recreation and

education" (-0.7%), "housekeeping & furnishings" (-0.4%), and "beverages & tobacco" (-0.1%).

**Table 1**  
***Inflation rates for Curaçao, Bonaire, and St. Maarten during the third quarter of 1999 (% change)***

	<b>Curaçao</b>	<b>Bonaire</b>	<b>St. Maarten</b>
Food	0.5	1.2	0.7
Beverages & tobacco	-0.1	1.0	0.0
Clothing & footwear	0.1	0.0	0.0
Housing	0.4	0.3	0.9
Housekeeping & furnishings	-0.4	0.6	0.0
Health	0.3	0.6	0.2
Transport & communication	0.2	1.5	0.3
Recreation & education	-0.7	0.1	0.0
Other	1.0	1.0	1.0
General inflation rate	0.3	0.8	0.5

In the third quarter of 1999, Bonaire's inflation rate increased by 0.8%, down from the 1.1% inflation in the second quarter. Consumer prices were pushed up by more expensive automobiles and car parts, causing the inflation rate in the sector "transport & communication" to swell by 1.5%. Fueled by a price rise in wheat products and outdoor dining, inflation in the item "food" jumped by 1.2%. Moreover, a price surge in the beverages component and automobile insurance premiums led to an inflation of 1.0% in both the categories "beverages & tobacco," and "other."

In St. Maarten, the inflation rate in the July-September period of 1999 edged up by 0.5%, when measured against the second quarter's 0.0% inflation. Similar to Curaçao and Bonaire, higher-priced automobile insurance premiums contributed to the price hike in the item "other" (1.0%). Additionally, the partial indices of "housing" and "food" increased by, respectively, 0.9% and 0.7%, a result of costlier utilities and fresh produce.

## **Developments by sector**

### ***Mining***

Bonaire's salt industry posted mixed results in the third quarter of 1999. During this period, salt exports dwindled by 40.0%, after a rise of 11.4% in the third quarter of 1998. In contrast, salt production increased by more than three-fold when compared to the marked decline of 74.6% in the third quarter of 1998.

### ***Industry***

Activities in the oil refinery "Isla" deteriorated, as oil refining shrank by 11.7% in the period July-September 1999, down from the gain of 22.5% in 1998's third quarter. Moreover, total operational costs fell by 8.6%, owing to decreases of 3.0%, 11.4%, and 45.8%, respectively, in payroll, contract payments, and other expenses.

In the three months ending September 1999, activities in Curaçao's ship repair industry also deteriorated. The number of man-hours sold tumbled by 45.5%, compared to a decline of 20.9% in the third quarter of 1998. Besides the fall in the number of man-hours, the number of ships repaired dropped by 9.9%, after a decrease of 13.9% in the third quarter of 1998. Ship repair returns dwindled by 23.2% in the third quarter of 1999.

### ***Utilities***

Third-quarter utility production expanded in 1999 as the output of both water and electricity rose in the Netherlands Antilles. Water production grew by 1.1%, in the months of July-September 1999, following a rise of 2.5% in the corresponding period of 1998. An analysis by islands indicated that the growth was attributable mainly to an acceleration of 6.7 percentage points for St. Maarten. Conversely, water production in Curaçao and Bonaire tightened by 0.6% and 5.5%, respectively, contrasting with the surge of 2.0% and 2.3%, respectively, in the third quarter of 1998.

Electricity production in the Netherlands Antilles went up by 2.6%, down from a growth of 5.2% in the third quarter of 1998. A breakdown by islands showed that the gain was related to production increases in all the islands. However, this increase was caused mainly by the 10.6% upturn in the Windward Islands' electricity production. Electricity production picked up by 0.5% in both Curaçao and Bonaire, after advances of 4.9% and 8.9%, respectively, in the three months ending September 1998.

### ***Construction***

Through the third quarter of 1999, Curaçao's construction industry reflected mixed results -- the number of total projects completed soared by 36.8%, while the value of construction permits plummeted by 29.3%. The drops in both residential and nonresidential projects were responsible for the slide in the value of construction permits. Hence, activities in the construction sector may decline in the forthcoming months.

### ***Trade***

In 1999's third quarter, activities in the free-zone were unfavorable. Re-exports tumbled by 22.6%, in comparison to the increase of 3.1% in the third quarter of 1998. Free-zone visits

declined by 15.5%, contrasting with the gain of 28.1% in the third quarter of 1998. This decline stemmed from a reduction in free-zone visits in the main markets, except for Haiti (17.4%) and Trinidad (10.3%).

### ***Tourism***

Tourism activities in the Netherlands Antilles (excluding Bonaire) reflected a mixed performance in the third quarter of 1999. Stay-over tourism improved by 8.3%, in contrast to a decline of 4.8% in the months July-September 1998. Cruise tourism, however, deteriorated by 55.7%, down from the 10.5% decrease in the third quarter of 1998. Foreign exchange earnings from tourism tightened by 1.7% during this period, in comparison to the upsurge of 27.7% in the third quarter of 1998.

The tourist sector in St. Maarten offered a mixed picture for the September quarter of 1999. The number of stay-over visitors expanded by 10.2%, in contrast to the drop of 2.8% in the third quarter of 1998. The higher stay-over tourism in St. Maarten was reflected mostly by increases of 14.5% and 12.6%, respectively, in the North American and European markets. By contrast, cruise tourism weakened by 53.3%, following a fall of 12.3% in the third quarter of 1998.

Curaçao's tourism industry also showed a mixed performance -- the number of stay-over tourists ticked up by 4.7%, while the number of cruise tourists plummeted by 85.9% in the July-September period of 1999, compared to the third quarter of 1998. The growth in stay-over tourism was caused by gains of 2.6% and 33.8%, respectively, in the number of travelers from the Netherlands and Aruba. The North American and South American markets, however, declined by 2.9% and 5.8%, respectively, but were outbalanced by the growth in the European and the Caribbean markets. Coupled with the stronger stay-over tourism were the surges in the number of visitor nights (21.5%) and the hotel occupancy rate (24.8%).

**Table 2**  
***Growth in stay-over tourism by island (% change)***

	Curaçao		St. Maarten	
	1998- III	1999- III	1998- III	1999-III
North America, of which:	3.9	-2.9	2.5	14.5
-U.S.A.	5.7	-3.7	1.2	9.5
-Canada	-32.7	25.5	21.9	76.7
Europe, of which:	-13.9	2.3	-8.8	12.6
-The Netherlands	-13.8	2.6	-0.4	10.6
-France	-	-	-16.0	6.4

-Germany	-26.6	28.2	-	-
-Other Europe	-4.9	-15.8	25.8	37.7
South & Central America of which:	-5.2	-5.8	-1.2	-23.0
-Venezuela	7.1	-5.0	-11.4	37.1
-Brazil	-31.8	-67.4	-60.2	-50.4
-Other S&C America	-28.2	19.6	24.6	-38.0
Caribbean, of which	-12.7	23.4	-0.6	16.5
-Aruba	-24.5	33.8	-	-
-Santo Domingo	-19.1	41.3	-6.6	17.3
-Other Caribbean	0.4	24.1	0.5	16.3
Rest of World	-1.0	13.6	-5.9	10.6
Total	-8.3	4.7	-2.8	10.2

### ***Transportation***

Curaçao's air transportation sector posted mixed developments in the third quarter of 1999. The number of passengers transported by the national airline "Air ALM" fell by 8.7%, contrasting with the growth of 11.0% in the third quarter of 1998. In contrast, cargo shipments soared by 10.4%, after a drop of 11.3% in the third quarter of 1998.

In Curaçao, airport activities were up by 0.7% in the months July-September of 1999, as the number of passenger arrivals and departures expanded by 1.3% and 3.5%, respectively. Meanwhile, the number of transit passengers and commercial landings dwindled by 3.1% and 6.1%, respectively.

In the third quarter of 1999, St. Maarten's airport activities rose by 9.7%, up from the 4.2% rise in the same quarter of 1998. The growth in airport movements was related to the advances in commercial landings (5.5%), transit passengers (2.5%), and passenger arrivals (10.6%) and departures (13.3%). This positive performance may be linked to the improved stay-over tourism in St. Maarten.

The third-quarter results for the harbor sector in Curaçao were poor, as the number of ships piloted into the harbor shrank by 19.0%, as opposed to the rise of 16.8% in the third quarter of 1998. This sluggish development was the result of a slide in all categories of ships, but mainly in cargo and tanker ships. In spite of the fall in the number of cargo vessels, total

cargo activities improved by 5.2% in the third quarter of 1999. This improvement was due to a growth in both local and transshipment movements. In addition to fewer ships visiting the harbor, bunker sales of fuel and water tumbled by 36.8% and 40.2%, respectively, during the period July to September 1999.

In the three months ending September 1999, Bonaire's harbor activities also deteriorated, as the number of vessels piloted into the harbor dipped by 15.4%, compared to a plunge of 28.8% in the same quarter of 1998. All categories of ships recorded a drop, except for local (4.2%) and others (15.0%).

In the third quarter of 1999, oil transshipment movements in the Netherlands Antilles slipped by 18.5%, down from the decrease of 7.8% in the third quarter of 1998. This contraction was related to falls of 14.1%, 32.7%, and 9.7%, respectively, in Curaçao's, Bonaire's, and Statia's oil transshipments. The decline in the number of oil tankers was in line with the decrease in Curaçao's oil refining and oil transshipment. Furthermore, Statia's bunker sales improved by 25.1% in the third quarter of 1999, measured against a downturn of 31.2% in the corresponding period of 1998.

## **PUBLIC FINANCE**

### **General developments in the public sector**

The General Government registered a deficit on a cash basis of NAf.3.7 million in the third quarter of 1999, a NAf.34.8 million improvement compared with the same quarter of 1998. The government received NAf.19.5 million (6.7%) less in revenues, but it was the NAf.54.2 million (16.5%) drop in expenditures that contributed to the improvement in the deficit.

The drop in expenditures was attributable entirely to lower current expenditures. The NAf.55.1 million (17.2%) drop in current expenditures was caused mainly by a substantial decline in payments for goods and services and lower interest expenses. The decline in payments for goods and services underscores the difficulties the government is facing in financing the deficit. Capital expenditures increased by NAf.0.8 million (9.3%), the result of more investment outlays.

The drop in revenues was the result of a drop of NAf.18.6 million (7.6%) in tax revenues collected and NAf.2.2 million (5.1%) in nontax revenues received. The drop in tax revenues was caused by the collection of fewer taxes on income and profits and fewer taxes on goods and services. In this last category, sales tax revenues dropped substantially. The declines were offset partly by the collection of more taxes on property and increased receipts from taxes on international trade and transactions. In addition, grants increased by NAf.1.3 million (92.9%).

**Table 3**  
**Operations of the General Government (in millions NAf.)**

1999- III	1998- III	Change
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REVENUES	270.3	289.8	-19.5	-6.7%
Tax revenues	227.4	246.0	-18.6	-7.6%
Nontax revenues	40.2	42.4	-2.2	-5.1%
Capital revenues	0.0	0.0	0.0	
Grants	2.7	1.4	1.3	92.9%
EXPENDITURES	274.0	328.2	-54.2	-16.5%
Current expenditures	264.8	319.9	-55.1	-17.2%
Capital expenditures	9.1	8.3	0.8	9.6%
BALANCE	-3.7	-38.5	34.8	-90.5%
% of GDP	-0.1%	-0.9%		

### Operations of the Central government

The cash balance of the Central Government improved from a Naf.2.0 million deficit in the third quarter of 1998 to a Naf.17.9 million surplus in the third quarter of 1999. This improvement was the result of Naf.23.7 million (18.1%) lower expenditures and Naf.3.8 million (2.9%) fewer revenues collected.

On the revenue side, both tax revenues and nontax revenues dropped by Naf.4.1 million (3.9%) and Naf.1.0 million (4.4%), respectively. Grants, on the other hand, recorded an increase of Naf.1.3 million (92.9%) during the third of 1999.

**Table 4**  
**Operations of the Central Government (in millions Naf.)**

	1999- III	1998- III	Change	
REVENUES	125.1	128.9	-3.8	-2.9%
	100.7	104.8	-4.1	-3.9%
<b>Tax revenues,</b>				
of which:				
Excises	31.3	34.7	-3.4	-9.8%
Import duties	31.5	28.9	2.6	9.0%
Property tax	6.4	3.7	2.7	73.0%
Sales tax	23.4	33.7	-10.3	-30.6%
Licenses	4.9	2.4	2.5	104.2%
	21.7	22.7	-1.0	-4.4%

**Nontax revenues,**  
of which:

Entrepreneurial and property inc.	10.7	20.0	-9.3	-46.5%
Fees, charges, and sales	10.8	2.5	8.33	32.0%
	0.0	0.0	0.0	
<b>Capital revenues</b>				
	2.7	1.4	1.3	92.9%
<b>Grants</b>				
EXPENDITURES	107.2	130.9	-23.7	-18.1%
	102.2	124.9	-22.7	-18.2%
<b>Current expenditures,</b>				
of which:				
Wages and salaries	58.6	65.8	-7.2	-10.9%
-Wages	59.3	46.4	12.9	27.8%
-Soc. security (SVB)	2.4	2.0	0.4	20.0%
-Pension premiums	-3.1	17.4	-20.5	-
			117.8%	
Goods and services	14.9	27.1	-12.2	-45.0%
Interest payments	15.7	15.3	0.4	2.6%
Subsidies to public comp.	0.2	0.0	0.2	
Transfers	12.8	16.7	-3.9	-23.4%
-Other levels of govt.	6.4	8.8	-2.4	-27.3%
-Households	3.4	2.4	1.0	41.7%
-Nonprofit institutions, abroad	3.0	5.5	-2.5	-45.5%
	5.0	6.0	-1.0	-16.7%
<b>Capital expenditures,</b>				
of which:				
Investments	5.0	5.8	-0.8	-13.8%
BALANCE	17.9	-2.0	19.9	-
			995.0%	

The drop in tax revenues was attributable primarily to the NAf.10.3 million (30.6%) drop in sales tax. This development was caused by the replacement of the 6% sales tax (ABB<sup>1)</sup>) by a 2% turnover tax (NAO<sup>2)</sup>) in Curaçao and Bonaire. Loopholes and collection problems resulted in NAf.7.6 million lower revenues. Furthermore, revenues from the turnover tax in

St. Maarten, St. Eustatius, and Saba dropped by NAf.2.7 million (30.3%), due to the reduction of the tax rate from 3% to 2% effective January 1, 1999. Excises was the other main category of tax revenues that recorded a decline (NAf.3.4 million). This decline was attributable to NAf.3.7 million (14.6%) fewer revenues from excises on gasoline, which occurred primarily on St. Maarten due to a shift in demand related to lower gasoline prices on the French side of the island. The declines in sales tax and excises were offset partly by increases in property tax, import duties, and licenses by NAf.2.7 million (73.0%), NAf.2.6 million (9.0%), and NAf.2.5 million (104.2%), respectively.

The drop in nontax revenues can be explained by the NAf.9.3 million decline in entrepreneurial and property income, on the one hand, and an increase of NAf.8.3 million in fees, charges, and sales, on the other. The decline in entrepreneurial and property income was due mainly to fewer transfers from the Central Bank, while the increase in fees, charges, and sales was attributable to receipts from BZV<sup>3)</sup> related to the treatment of patients in the Capriles Clinic.

<sup>1)</sup> The Algemene Bestedingsbelasting (ABB) was repealed on January 1, 1999.

<sup>2)</sup> The Nederlands Antilliaanse Omzetbelasting (NAO) was introduced in three stages during March - May, 1999.

<sup>3)</sup> Bureau Ziektekostenvoorzieningen, a government bureau which administers payments for medical costs of civil servants and people who enjoy free medical care from the government.

**Table 5**  
**Breakdown of the revenues from the sales tax**  
**in the Netherlands Antilles (in millions NAf.)**

	1999- III	1998- III	Change	
Sales tax Curaçao and Bonaire (ABB)	1.3	24.8	-23.5	- 94.8%
Sales tax Curaçao and Bonaire (OB)	15.9	0.0	15.9	-.-
Turnover tax St. Maarten, Saba, and St. Eustatius (BBO)	6.2	8.9	-2.7	- 30.3%
Total sales tax revenues	23.4	33.7	-10.3	- 30.6%

Total expenditures dropped by NAf.23.7 million (18.1%) in the third quarter of 1999 compared to the third quarter of 1998, mainly as a consequence of the development in current expenditures. Current expenditures dropped by NAf.22.7 million due primarily to the noncompliance of the Central Government with its contributions to the civil servants pension fund (NAf.20.5 million), less payments for goods and services (NAf.12.2 million) and fewer transfers (NAf.3.9 million). This drop in current expenditures is related to the persistent liquidity difficulties of the Central Government. The NAf.12.9 million (27.8%) increase in wages, which can be explained largely by a transitory correction<sup>4)</sup> in the third quarter of 1998, partly offset the decline in these expenditures categories. Capital

expenditures dropped by NAf.1.0 million, attributable primarily to a drop in investments of NAf.0.8 million.

<sup>4)</sup>The wage bill of the postal service for the period January-July 1998 was eliminated from total wages in July due to the transition of the postal service into a public enterprise Post NA N.V.. The amount of the wage bill was settled with the subsidy to Post NA N.V..

**Table 6**  
**Changes in outstanding balances of the**  
**Central Government (in millions NAf.)**

	1999-III	1998- III
FISCAL BALANCE	17.9	-2.0
MONETARY FINANCING, of which:	4.9	11.8
Central Bank	0.5	7.0
Commercial banks	4.1	3.8
Coins and notes	0.3	1.0
NON-MONETARY FINANCING, of which:	-22.8	-9.8
Government securities with the public	-13.2	4.1
Other	-9.6	-13.9

The Central Government's cash surplus and the funds raised monetarily were used to redeem securities with the public and debt to other creditors in the third quarter of 1999. The monetary financing resulted mainly from a drawdown of deposits at the commercial banks.

### **Operations of the Island Government of Curaçao**

The Island Government of Curaçao recorded a deficit of NAf.21.6 million in the third quarter of 1999, an improvement of NAf.14.9 million compared to the third quarter of 1998. This development was the result of NAf.34.3 million (16.9%) lower expenditures and NAf.19.4 million (11.6%) less revenues received.

The decline in expenditures was attributable entirely to the NAf.36.1 million (18.0%) decline in current expenditures. Capital expenditures, on the other hand, registered an increase of NAf.1.8 million due mainly to higher investments (NAf.1.5 million).

The decline in current expenditures was due almost entirely to the NAf.34.9 million (72.1%) drop in interest payments. This drop was related to the refinancing of the zero-coupon bond due to the civil servants pension fund, that matured in September 1998, by a 30-year annuity loan. The annual accumulated interest of the zero-coupon bond fell due in September 1998, causing substantially higher interest expenses in the third quarter of 1998, compared to the third quarter of 1999. Expenditures on goods and services declined also (NAf.7.3 million), due mainly to the liquidity constraints of the Island Government. The decreases in current expenditures were offset partially by higher transfers (NAf.3.3 million) and pension premiums paid (NAf.8.4 million). The Island Government resumed its payments as a result of actions taken by the civil servants pension fund APNA.

**Table 7**  
**Operations of the Island Government of**  
**Curaçao (in millions NAf.)**

	1999- 1998-		Change	
	III	III		
TOTAL REVENUES	147.0	166.4	-19.4	-11.6%
<b>Tax revenues,</b>	126.7	141.2	-14.5	-10.3%
of which:				
Profit tax	37.0	50.0	-13.0	-26.0
Income tax	5.7	5.5	0.2	3.2%
Wage tax	75.3	78.6	-3.3	-4.2%
Property taxes	3.1	1.8	1.3	72.2%
Taxes on goods and services	5.6	5.2	0.4	7.7%
<b>Nontax revenues,</b>	18.5	21.5	-3.0	-13.7%
of which:				
Entrepreneurial and property inc.	14.6	13.0	1.6	12.5%
Fees, charges, and sales	3.7	8.0	-4.3	-53.4%
Other nontax revenues	0.2	0.5	-0.3	-62.5%
<b>Capital revenues</b>	0.0	0.0	0.0	
<b>Grants</b>	1.8	3.7	-1.9	-51.4%
TOTAL EXPENDITURES	168.6	202.8	-34.3	-16.9%
<b>Current expenditures,</b>	164.4	200.5	-36.1	-18.0%
of which:				
Wages and salaries	69.6	64.0	5.5	8.6%
-Wages	63.8	66.7	-2.8	-4.3%
-Pension premiums	5.7	-2.6	8.4	-
				317.5%
Goods and services	40.5	47.9	-7.3	-15.3%
Interest payments	13.5	48.4	-34.9	-72.1%

Subsidies to public companies	14.9	17.6	-2.7	-15.1%
Transfers	26.0	22.6	3.3	14.8%
-To other levels of govt.	5.4	4.8	0.7	14.3%
-Households	9.3	9.5	-0.2	-1.7%
-Nonprofit institutions	11.2	8.4	2.8	33.8%
<b>Capital expenditures, of which:</b>	4.1	2.3	1.8	76.1%
Investments	4.1	2.6	1.5	58.4%
<b>BALANCE</b>	<b>-21.6</b>	<b>-36.5</b>	<b>14.9</b>	<b>-40.9%</b>

All revenue categories contributed to the decline in receipts. Tax revenues deteriorated by NAf.14.5 million (10.3%). This deterioration was accounted for by fewer profit and wage taxes collected in the amounts of NAf.13.0 million (26.0%) and NAf.3.3 million (4.2%), respectively, related to the weak economic development. Nontax revenues declined by NAf.3.0 million (13.7%), due to a drop of NAf.4.3 million (53.4%) in fees, charges, and sales receipts. Grants declined by NAf.1.9 million (51.4%).

The cash deficit of the Island Government of Curaçao was financed entirely monetarily in the third quarter of 1999. This monetary financing was mainly the result of a drawdown of deposits and an increase in government securities with the commercial banks. Government securities in the hands of the public increased also, while part of the debt with other creditors was redeemed.

**Table 8**  
***Changes in outstanding balances of the Island Government of Curaçao (in millions NAf.)***

	1999-III	1998-III
FISCAL BALANCE	-21.6	-36.5
MONETARY FINANCING, of which:	29.6	16.8
Central Bank	0.7	1.8
Commercial banks	28.9	15.0
NON-MONETARY FINANCING, of which:	-8.0	19.7

Government securities with the public	6.4	-5.9
Other	-14.4	25.6

### **Total outstanding public debt and guarantees**

The total outstanding debt of the Netherlands Antilles increased by NAf.92.4 million (3.0%) to NAf.3.2 billion in the third quarter of 1999, which corresponds with 70.3% of GDP. This increase resulted from increases in both the domestic debt and the foreign debt.

The domestic debt increased by NAf.74.8 million (2.9%). Because of liquidity constraints, the governments build up arrears to, among others, private creditors, the civil servants pension fund (APNA), and the Social Security Bank (SVB).

The domestic debt of the Central Government increased by NAf.14.9 million (1.4%). Arrears increased by NAf.32.8 million, of which NAf.14.9 million with APNA and NAf.2.3 million with SVB. The increase in arrears was offset partly by a NAf.14.7 million decline in outstanding government securities.

The domestic debt of the Island Government of Curaçao increased by NAf.54.3 million (3.8%). Total arrears increased by NAf.39.2 million, of which NAf.6.1 million with APNA and NAf.4.5 million with SVB. Outstanding securities increased by NAf.16.4 million, NAf.10.0 million of which was accounted for by securities held by the commercial banks.

The domestic debt of the other island governments (i.e., Bonaire, St. Maarten, St. Eustatius, and Saba) rose by NAf.3.3 million, due to increasing arrears with the civil servants pension fund and the Social Security Bank.

The foreign debt increased by NAf.17.6 million (3.2%) in the third quarter of 1999. This increase was attributable to the depreciation of the Netherlands Antillean guilder, which is pegged to the US-dollar, vis-à-vis the Dutch guilder in which most of the debt is denominated.

**Table 9**  
**Total outstanding consolidated public debt and guarantees<sup>1</sup> (in millions NAf.)**

	1999- III	1999-II	Change	
Domestic consolidated debt, of which:	2629.0	2554.2	74.8	2.9%
-Central Government	1051.6	1036.7	14.9	1.4%
-Curaçao	1476.3	1422.0	54.3	3.8%
-Bonaire	79.2	78.2	1.0	1.3%
-St. Maarten	26.6	24.0	2.6	10.8%
-St. Eustatius	1.8	2.1	-0.3	-14.3%

-Saba	2.4	2.4	0.0	0.0%
Foreign debt	560.2	542.6	17.6	3.2%
Total debt (consolidated) (% of GDP)	3189.2	3096.8	92.4	3.0%
	70.3%	68.5%		
Guarantees	299.8	294.7	5.1	1.7%
Total debt and guarantees (% of GDP)	3489.0	3391.5	97.5	2.9%
	76.9%	75.0%		

<sup>1)</sup> Consolidated for the debt of the Central Government to the Island Governments of St. Maarten and Curaçao.

Finally, outstanding guarantees increased by NAf.5.1 million (1.7%) in the third quarter of 1999. As a result, the total outstanding debt and guarantees increased by NAf.97.5 million (2.9%) to NAf.3.489 billion (76.9% of GDP).

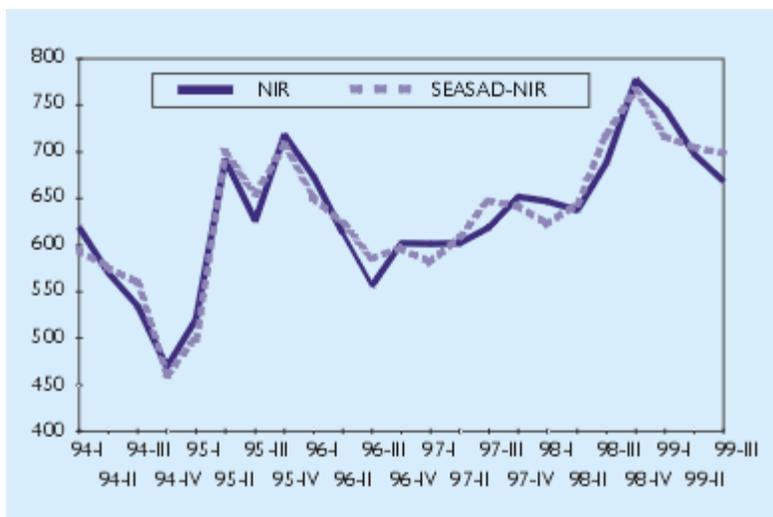
## **DEVELOPMENTS IN THE EXTERNAL SECTOR**

### **Introduction**

At the end of the third quarter of 1999, net international reserves amounted to NAf.668.8 million, a decline of NAf.28.8 million compared to the second quarter. In comparison with the third quarter of 1998, the decline amounted to NAf.19.9 million (graph 1).

### ***Graph 1***

***Development in the net international reserves including gold (in millions NAf.)***



The decline during the third quarter of 1999 was due mainly to the NAF.20.1 million decrease in international reserves held by the commercial banks. The decrease in international reserves held by the Central Bank amounted to NAF.8.7 million.

**Table 10**  
**Balance of payments summary<sup>1)</sup> (in millions NAF.)**

	1998-III	1999-III	Diff.
Current account	-28.5	-110.8	-82.3
Capital account	65.0	74.6	9.6
Statistical discrepancies	1.4	7.4	6.0
Balance of payments	37.9	-28.8	-66.7
Change in reserves <sup>2)</sup>	-37.9	28.8	66.7
-with commercial banks	-68.9	20.1	89.0
-with Central Bank	17.8	8.7	-9.1
Memorandum items			
Official reserves (excluding gold)			
-in millions NAF.	352.4	396.0	43.6
-in months of merchandise imports	1.9	2.1	0.2

1)Cash basis.

2)-Sign denotes an increase in reserves (excluding gold).

The deterioration in the net international reserves was due to a deficit of NAF.110.8 million in the current account of the balance of payments in the third quarter of 1999 (table 10). Compared to the third quarter of 1998, the current account worsened by NAF.82.3 million. The surplus on the capital account of NAF.74.6 million was not enough to offset the deficit on the current account.

## The current account

In the third quarter of 1999, the current account recorded a substantial deficit of NAF.110.8 million, a worsening by NAF.82.3 million compared to the third quarter of 1998 (table 11). This increase in the deficit on the current account was due mainly to the deterioration of the trade and income balances by NAF.46.1 million and NAF.57.8 million, respectively. This deterioration offset the improvement of the services balance and the unrequited transfers by, respectively, NAF.7.0 million and NAF.14.6 million.

**Table 11**  
**A breakdown of the current account<sup>1)</sup> (in millions NAF.)**

	1998-III	1999-III	Diff.
Trade balance	-415.0	-461.1	-46.1
-Exports	127.9	108.3	-19.6
-Imports	542.9	569.4	26.5
Services balance	380.4	387.4	7.0
Receipts, of which:	673.8	730.6	56.8
-Transportation	141.7	136.6	-5.1
-Travel	296.2	291.1	-5.1
-Int. fin. & bus.	136.1	161.4	25.3
services sector			
Taxes	23.7	37.0	13.3
Operational income	112.4	124.4	12.0
Expenditures, of which:	293.4	343.2	49.8
-Travel	143.4	174.0	30.6
-Int. fin. & bus.	36.4	44.2	7.8
services sector			
Income balance <sup>2)</sup>	48.5	-9.3	-57.8
Unrequited transfers <sup>3)</sup>	-42.4	-27.8	14.6
Current account balance	-28.5	-110.8	-82.3

<sup>1)</sup>Cash basis.

<sup>2)</sup>Income : investment and labor income.

<sup>3)</sup>Unrequited transfers: private remittances (excl. labor income and life insurance).

## The trade balance

In the third quarter of 1999, the trade balance worsened by NAf.46.1 million in comparison with the third quarter of 1998. This deterioration was due mainly to a NAf.23.7 million decrease in the export of non-oil products and a NAf.31.8 million increase in the import of oil products (table 12). The increase in oil imports can be attributed to the rise in international oil prices since the beginning of 1999.

The decrease in the export of non-oil products was due almost entirely to the free-zone re-exports of Curaçao, which declined by NAf.22.4 million. The decline in free-zone re-exports was accompanied by a corresponding decline in free-zone imports. Together with the decline in non-oil imports excluding the free-zone (NAf.7.5 million) and the increase in oil imports (NAf.8.8 million), the trade balance of Curaçao deteriorated slightly by NAf.2.7 million.

The trade balance of Bonaire recorded a worsening by NAf.9.5 million due mainly to a NAf.8.0 million increase in the import of non-oil products.

The Windward Islands were the largest contributors to the worsening of the trade balance (NAf.34.0 million) with an increase in non-oil and oil imports of NAf.16.6 million and NAf.23.0 million, respectively.

**Table 12**  
**Trade balance by island (in millions NAf.)**

	Inflows			Outflows		
	1998- III	1999- III	Diff. 1998- 1999- III	1998- III	1999- III	Diff. 1998- 1999- III
<b>Curaçao</b>						
Merchandise	115.3	91.5	-23.8	408.7	387.6	-21.1
-Non-oil products	115.3	91.2	-24.1	371.7	341.8	-29.9
Free-zone re-exports	80.7	58.3	-22.4	98.9	76.5	-22.4
Adj. non-oil products	34.6	32.9	-1.7	272.8	265.3	-7.5
-Oil products	0.0	0.3	0.3	37.0	45.8	8.8
<b>Bonaire</b>						
Merchandise	2.1	0.6	-1.5	4.4	12.4	8.0
-Non-oil products	2.1	0.6	-1.5	4.4	12.4	8.0
-Oil products	0.0	0.0	0.0	0.0	0.0	0.0
<b>Windward Islands</b>						
Merchandise	10.5	16.1	5.6	129.8	169.4	39.6
-Non-oil products	10.0	11.9	1.9	104.4	121.0	16.6
-Oil	0.5	4.2	3.7	25.4	48.4	23.0

products

**Netherlands Antilles**

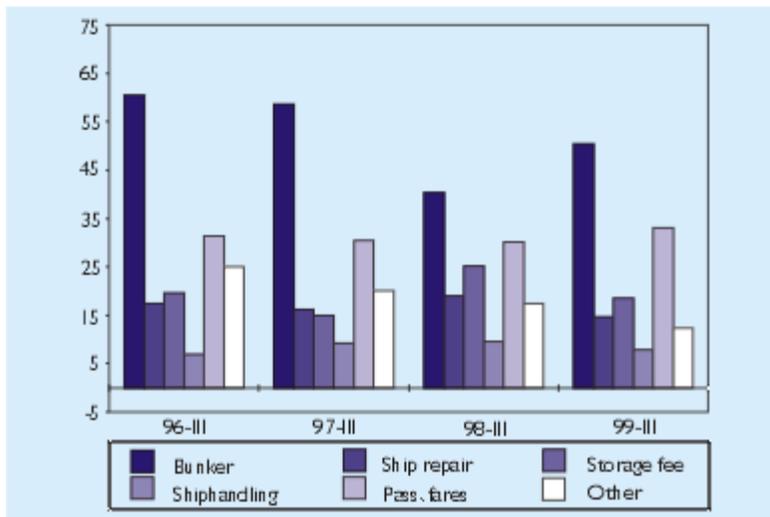
Merchandise	127.9	108.2	-19.7	542.9	569.4	26.5
-Non-oil products	127.4	103.7	-23.7	480.5	475.2	-5.3
-Oil products	0.5	4.5	4.0	62.4	94.2	31.8

***The services balance***

The services balance recorded an increase in its surplus of NAf.7.0 million in the third quarter of 1999 compared with that of 1998. Receipts increased by NAf.56.8 million, while expenditures increased by NAf.49.8 million (table 12).

***Graph 2***

***Developments in foreign exchange revenues generated in the services sector by branch of industry (in millions NAf.)***



***Tourism***

The tourism sector of the Netherlands Antilles recorded a slight decrease in foreign exchange revenues of NAf.5.1 million (1.7%) when comparing the third quarter of 1999 with that of 1998. This decrease was attributable to the decline on the Leeward Islands (i.e., Bonaire and Curaçao), the Windward Islands recorded an increase in foreign exchange revenues (table 13).

***Table 13***

***Third-quarter foreign exchange revenues from tourism per island<sup>1)</sup> (in millions NAf.)***

	1996- III	1997- III	1998- III	1999- III
Bonaire	16.2	19.0	16.3	15.7
Curaçao	73.2	71.3	114.3	96.2
Windward Islands	126.2	146.0	165.6	179.2
Netherlands Antilles	215.6	236.3	296.2	291.1
Percentage growth	2.5%	9.6%	25.3%	-1.7%

<sup>1)</sup> Cash basis

In Curaçao, foreign exchange revenues from tourism declined by 15.8% (NAf.18.1 million). Among other things, this decline was attributable to the 85.9% fall in the number of cruise tourists; the number of stay-over tourists increased by 4.8%.

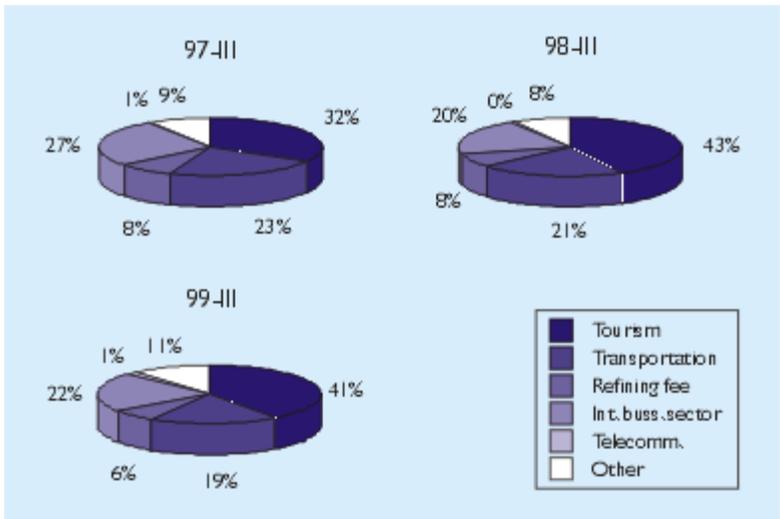
St. Maarten recorded an increase in revenues of 8.2% (NAf.13.6 million). This increase was mainly the result of an increase of 10.2% in the number of stay-over tourists; the number of cruise tourists decreased by 30.6%.

*Transportation*

The total revenues generated by the transportation sector decreased by NAf.5.0 million when comparing the third quarter of 1999 to the same quarter of 1998 (graph 3). This decrease was attributable to the decreases in revenues from ship repair (NAf.4.4 million), storage (NAf.6.6 million), shiphandling (NAf.1.8 million) and other services (NAf.5.1 million). The decreases in revenues from these activities were offset partly by increases in bunker sales and passengers fares by NAf.10.1 million and NAf.2.8 million, respectively. The increase in bunker sales was due partly to the increase in world oil prices.

***Graph 3***

***Developments in foreign exchange revenues generated in the transportation sector (in millions NAf.)***

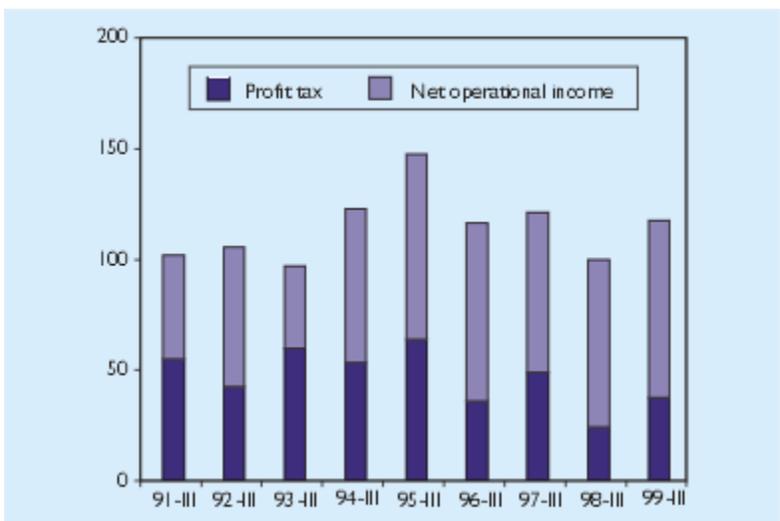


*The international financial and business services sector*

Net foreign exchange revenues generated by the international financial and business services sector increased by Naf.17.5 million in the third quarter of 1999 compared to the third quarter of 1998. This increase was the result of a Naf.25.3 million increase in receipts, which was offset partly by a Naf.7.8 million increase in expenditures. The revenues generated through taxes increased by Naf.13.3 million, while net operational income increased by Naf.12.0 million.

**Graph 4**

*Developments in foreign exchange earnings generated in the international financial and business services sector (in millions NAF.)*



### ***The income balance***

The income balance recorded a deficit of NAf.9.3 million in the third quarter of 1999, a worsening of NAf.57.8 million compared to the third quarter of 1998. This worsening was the result of a deterioration in both the investment income and labor income accounts by NAf.41.8 million and NAf.16.0 million, respectively (table 14).

The deterioration in the investment income balance was accounted for by the declines in direct investment income and other investment income receipts by NAf.25.7 million and NAf.25.2 million, respectively. This decline was due mainly to fewer investments abroad by local commercial banks and pension funds.

The deficit in the labor income account grew by NAf.16.0 million. This deterioration was the result of a NAf.17.0 million increase in labor income paid.

**Table 14**  
***Breakdown of the income account<sup>1)</sup> (in millions NAf.)***

	<b>1998- III</b>	<b>1999- III</b>	<b>Diff.</b>
Investment income	65.3	23.5	-41.8
-Direct investment income	24.4	-1.2	-25.6
Received	33.2	7.5	-25.7
Paid	8.8	8.7	-0.1
-Other investment income	40.9	24.7	-16.2
Received	61.0	35.8	-25.2
Paid	20.1	11.1	-9.0
Labor income	-16.8	-32.8	-16.0
Received	1.1	2.1	1.0
Paid	17.9	34.9	17.0
Total income balance	48.5	-9.3	-57.8

<sup>1)</sup> Cash basis

### ***Unrequited transfers***

The net outflow of unrequited transfers decreased by NAf.14.6 million in the third quarter of 1999, compared to the third quarter of 1998. This improvement resulted from a NAf.6.5 million increase in inflows and a NAf.8.1 million decrease in outflows (table 15).

The increase in inflows was due to the increase in transfers to own accounts by NAF.7.1 million. This increase more than offset the NAF.2.5 million decrease in family and student grants.

The decrease in outflows was due mainly to a NAF.12.6 million decrease in family and student grants transferred abroad. This decrease mitigated the NAF.7.6 million increase in transfers to own accounts.

**Table 15**  
**Breakdown of unrequited transfers (in millions NAF.)**

	Inflows		Outflows		Diff.	
	1998-1999- III	1999- III	1998-1999- III	1999- III		
Family & student grants	27.1	24.6	-2.5	59.7	47.1	-12.6
Migrant transfers	1.6	1.6	0.0	3.3	1.2	-2.1
To own account	14.9	22.0	7.1	12.3	19.9	7.6
Pensions	2.7	4.0	1.3	11.2	13.3	2.1
Other	2.6	3.2	0.6	4.8	1.7	-3.1
Total unrequited transfers	48.9	55.4	6.5	91.3	83.2	-8.1

### The capital account

The capital account recorded a surplus of NAF.74.6 million in the third quarter of 1999, an improvement of NAF.9.6 million compared to the same quarter of 1998. The private capital and official capital balances improved by NAF.5.9 million and NAF.3.7 million, respectively (table 16).

The improvement in the private capital balance was due primarily to an increase of NAF.17.7 million in net loans received from abroad. This increase more than offset the net decreases in direct investments (NAF.2.1 million), portfolio investments (NAF.6.0 million), and other private capital (NAF.4.7 million).

The improvement in the official capital balance was attributable entirely to the NAF.4.2 million increase in loans and grants received, which consists primarily of Dutch development aid.

**Table 16**  
**Major components of the capital account <sup>1)</sup>**

**(Net flows in millions NAf.)**

	1998- III	1999- III	Diff.
Private capital,	36.6	42.5	5.9
of which:			
-direct investment (real estate)	5.3	3.2	-2.1
-portfolio investment (securities)	4.1	-1.9	-6.0
-loans (net)	-9.1	8.6	17.7
-comm. banks borrowings	0.0	1.0	1.0
-other private capital	36.3	31.6	-4.7
Official capital,	28.4	32.1	3.7
of which:			
-loans & grants	28.4	32.6	4.2
-other government capital	0.0	-0.5	-0.5
CAPITAL BALANCE	65.0	74.6	9.6

<sup>1)</sup> Cash basis

## MONETARY DEVELOPMENTS

### Introduction

During the third quarter of 1999, credit extension to both the public and the private sector increased substantially, causing a further decline in our net foreign assets. The Bank is especially concerned about the acceleration in consumer credit to the private sector. On November 16, 1999, the Bank raised the reserve requirement percentage from 8.5% to 9% to curb the dwindling foreign exchange reserves.

### Money supply

During the third quarter of 1999, the money supply (M2) increased by 0.2% (NAf.5.2 million) compared to a marginal growth (NAf.0.5 million) during the third quarter of 1998. This slight acceleration can be ascribed to the 0.7 percentage point acceleration to 1.0% (NAf.17.4 million) in the growth rate of the near-money component of the money supply. The money component of the money supply contracted by 1.1% (NAf.12.2 million) in the third quarter of 1999 compared to a 0.4% (NAf.3.6 million) contraction during the third quarter of 1998.

The contraction of the money component of the money supply during the third quarter of 1999 was the result of a 5.7% (NAf.10.7 million) contraction in the amount of coins and notes held by the public and a 0.2% (NAf.1.5 million) contraction in total demand deposits. The contraction in total demand deposits was the net result of a 7.7% (NAf.16.2 million)

contraction in demand deposits denominated in foreign currency, on the one hand, and a 2.0% (NAf.14.7 million) increase in demand deposits denominated in local currency, on the other. The contraction in the money component of the money supply, i.e., the transaction balances of the economic agents, is a reflection of our sagging economy.

The expansion of the near-money component of the money supply during the third quarter of 1999 can be attributed almost entirely to the 3.4% (NAf.18.3 million) expansion in time deposits; savings deposits contracted by 0.1% (NAf.0.9 million).

A comparison of the levels of both savings and time deposits at the end of the third quarter of 1999 with those at the end of the third quarter of 1998 reveals increases of NAf.37.5 million and NAf.38.6 million, respectively.

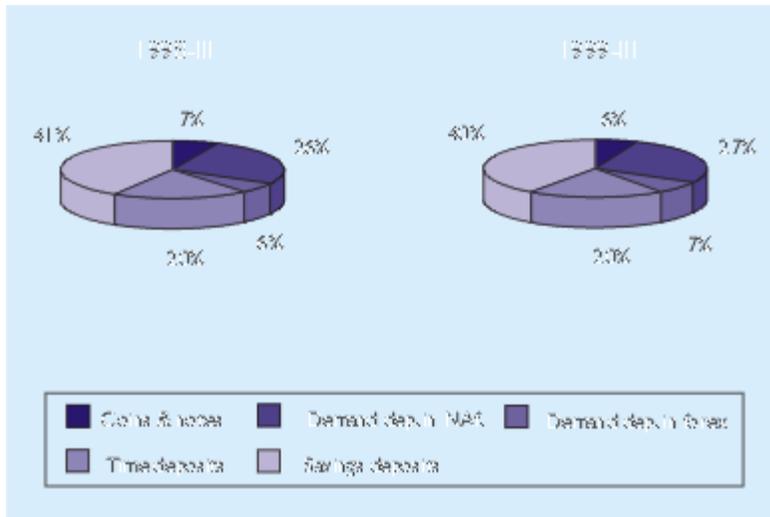
**Table 17**  
**Quarterly changes in the components of the money supply (in millions NAf. and in percentages)**

	1999-III	1998-III
Coins & notes with the public	-10.7(-5.7%)	0.2(0.1%)
Total demand deposits, of which:	-1.5(-0.2%)	-3.8 (-0.4%)
-Neth. Ant. guilders	14.7 (2.0%)	1.5(0.2%)
-Foreign currency	-16.2(-7.7%)	-5.3 (-3.3%)
MONEY (M1)	-12.2(-1.1%)	-3.6 (-0.4%)
Time deposits	18.3 (3.4%)	3.6(0.7%)
Savings	-0.9(-0.1%)	0.5(0.0%)
NEAR MONEY	17.4 (1.0%)	4.1(0.3%)
MONEY SUPPLY (M2)	5.2 (0.2%)	0.5(0.0%)

Graph 5 reveals no major shifts in the composition of the money supply at the end of the third quarter of 1999 compared to the end of the third quarter of 1998.

### **Graph 5**

#### **Second-quarter developments in the composition of the money supply**



### Factors affecting the demand for liquid assets

The total demand for liquid assets increased by 0.2% (NAf.5.2 million) during the third quarter of 1999, compared to a negligible growth (NAf.0.5 million) during the same period of 1998 (see table 18). The slight growth during the third quarter of 1999 was the net result of a 1.6% (NAf.35.0 million) increase in the demand for liquid assets by the domestic sector, on the one hand, and a 4.7% (NAf.29.8 million) contraction in net foreign assets, on the other.

**Table 18**  
**Quarterly changes in the demand for liquid assets by sector (in millions NAf. and in percentages)**

	1999-III	1998-III
General	34.1(17.9%)	26.0(16.0%)
Government, of which:		
-Central	1.3 (1.1%)	8.2 (9.4%)
Government		
-Island	32.8(43.0%)	17.8(23.7%)
Governments		
Private sector	64.3 (2.7%)	-19.5 (-0.8%)
Miscellaneous	-63.4(15.9%)	-57.1(14.8%)
Domestic sector	35.0 (1.6%)	-50.6 (-2.4%)
Net Foreign Assets	-29.8 (-4.7%)	51.1 (8.9%)
Total Liquid Assets	5.2 (0.2%)	0.5 (0.0%)

The expansion in the demand for liquid assets by the domestic sector during the third quarter of 1999 was primarily the result of the expansionary impact of the private sector, which grew by 2.7% (NAf.64.3 million) compared to a 0.8% (NAf.19.5 million) contraction during the third quarter of 1998. The growth in domestic credit to the private sector was the result of increases in loans to the private sector and in securities and participations by NAf.58.5 million and NAf.5.9 million, respectively.

The demand for liquid assets by the government sector expanded by 17.9% (NAf.34.1 million) during the third quarter of 1999 compared to a 16.0% (NAf.26.0 million) expansion in the third quarter of 1998. This acceleration was the result of a larger expansionary impact by the island governments.

The demand for liquid assets by the Central Government increased by 1.1% (NAf.1.3 million) during the third quarter of 1999, compared to a 9.4% (NAf.8.2 million) expansion during the third quarter of 1998. The expansion during the third quarter of 1999 can be explained by the increase in the net liability of the Central Government at the commercial banks by NAf.4.1 million resulting from the withdrawal of deposits. The increase in the net liability at the commercial banks was offset largely by the NAf.3.6 million increase in deposits on the account earmarked for development projects at the Central Bank.

The demand for liquid assets by the island governments expanded by 43.0% (NAf.32.8 million) in the third quarter of 1999 compared to a 23.7% (NAf.17.8 million) expansion during the third quarter of 1998. The expansionary impact during the third quarter of 1999 can be attributed almost entirely to the NAf.32.1 million rise in the net liabilities of the commercial banks. This rise was due to a marked withdrawal of deposits and an increase in government securities held in portfolio, reflecting the financial crisis the Island Government of Curaçao is facing.

### **Domestic credit extension by the commercial banks**

The total amount of outstanding domestic loans<sup>1)</sup> at the commercial banks expanded by 2.6% (NAf.66.9 million) during the third quarter of 1999, compared to a 0.9% (NAf.21.2 million) contraction during the third quarter of 1998. The growth in total domestic loans during the third quarter of 1999 can be ascribed to a 2.5% (NAf.58.4 million) expansion in loans to the private sector and a 4.3% (NAf.8.5 million) expansion in the amount of government paper in the commercial banks' portfolio.

The acceleration in loans to the private sector can be explained as follows. Consumer loans accelerated from a 1.0% (NAf.5.2 million) expansion in the third quarter of 1998 to a 4.9% (NAf.25.5 million) expansion in the third quarter of 1999. The latter growth rate reflects a marked acceleration in the extension of consumer loans during the third quarter compared to the 0.9% (NAf.4.8 million) expansion during the first half of 1999. Furthermore, the growth rate of mortgages turned around from a 1.6% (NAf.15.0 million) contraction during the third quarter of 1998 to a 1.8% (NAf.17.1 million) expansion during the third quarter of 1999. The growth rate of business loans turned around from a 1.0% (NAf.8.5 million) contraction during the third quarter of 1998 to a 1.8% (NAf.15.8 million) expansion during the third quarter of 1999.

<sup>1)</sup> Government paper and domestic credit to the private sector excluding special foreign borrowing, amounts receivable, and securities and participations.

**Table 19**  
**Private sector loans and government paper at commercial banks as per end of period (in millions NAf. and percentages)**

	1999-III	1998-III
Private sector loans, 2,394.9 (2.5%)	2,222.3(-0.8%)	
of which:		
-Mortgages	946.2 (1.8%)	900.0(-1.6%)
-Consumer loans	546.5 (4.9%)	512.4 (1.0%)
-Business loans	902.2 (1.8%)	809.9(-1.0%)
Government paper	206.4 (4.3%)	218.3(-1.4%)
Total	2,601.3 (2.6%)	2,440.6(-0.9%)

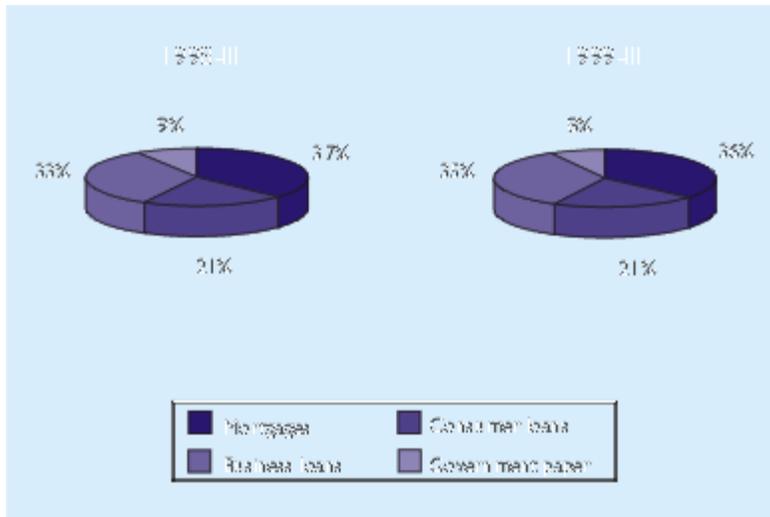
The cumulative growth in outstanding loans to the private sector during the first three quarters of 1999 amounted to 7.3%. In light of the weak development of the economy, this development, in particular the acceleration in consumer loans during the third quarter of 1999, triggered the Bank to tighten its monetary stance by raising the reserve requirement percentage from 8.5% to 9.0% on November 15, 1999.

The amount of government paper held in portfolio by the commercial banks expanded by 4.3% (NAf.8.5 million) during the third quarter of 1999, compared to a 1.4% (NAf.3.0 million) contraction during the third quarter of 1998. This expansion was due entirely to securities issued by the Island Government of Curaçao to partly bridge its liquidity shortage.

Graph 6 reveals no major shifts in the composition of the loan portfolio of the commercial banks.

### **Graph 6**

#### **Developments in commercial banks' lending portfolio**



A breakdown of commercial banks' private sector lending by island group reveals not much deviation between the growth rates on the Leeward and the Windward Islands during the third quarter of 1999. On the Leeward Islands, the growth in total loans accelerated from a 0.9% contraction during the third quarter of 1998 to a 2.6% expansion during the third quarter of 1999. Consumer loans grew by 5.2% during the third quarter of 1999 compared to a 2.2% expansion during the third quarter of 1998, while the growth rates of business loans and mortgages turned around from a 1.8% contraction to a 1.5% expansion and a 1.7% contraction to a 2.2% expansion, respectively.

**Table 20**  
*Private sector loans at commercial banks on the Leeward Islands as per end of period (in millions Naf. and percentages)*

	1999-III	1998-III
Private sector loans,	1,856.9 (2.6%)	1,699.2 (-0.9%)
of which:		
- Mortgages	675.8 (2.2%)	627.9 (-1.7%)
- Consumer loans	447.6 (5.2%)	406.4 (2.2%)
- Business loans	733.5 (1.5%)	664.9 (-1.8%)

On the Windward Islands, credit extension to the private sector expanded by 2.1% during the third quarter of 1999, compared to a 0.7% contraction during the third quarter of 1998. This turnaround from the third quarter of 1998 to the third quarter of 1999 can be attributed primarily to turnarounds in both mortgages and consumer loans from a 1.5% contraction to a 1.0% expansion and a 3.1% contraction to a 3.4% expansion, respectively.

**Table 21**  
*Private sector loans at commercial banks on the Windward Islands as per end of period (in millions Naf. and percentages)*

	1999-III	1998-III
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Private sector loans,	538.0	(2.1%)	523.0	(0.7%)
of which:				
-Mortgages	270.5	(1.0%)	272.1	(-1.5%)
-Consumer loans	98.9	(3.4%)	106.0	(-3.1%)
-Business loans	168.7	(3.0%)	145.0	(2.8%)

## INTERNATIONAL AND REGIONAL DEVELOPMENTS

### Introduction

After a 2-year recession caused by the Asian, Russian, and Brazilian crises, the global economy appears on the road to recovery. Asia is recovering, and the economic downturns in Russia and Brazil are slightly shallower now. Confidence in the financial markets has been returning in most of the emerging market economies affected by the crises.

Exports from Japanese factories in other Asian countries are picking up, due to strong demand from countries such as Thailand, South Korea, and Singapore. However, in spite of the upturn in manufacturing in other Asian nations, Japan's recovery is not sustainable because of the high jobless rate and weak consumer spending. In the meantime, the US economy continues to grow strongly, driven mainly by personal consumption spending, nonresidential fixed investment, and exports.

The Dutch economy also continues to grow, outpacing most of the rest of Europe. The economic expansion and the increasingly good outlook for European recovery has led to higher producer confidence, which stimulated employment and consumption. The Dutch unemployment rate was the lowest in the Euro-11 region. Meanwhile, the jobless rate in the 11-nation European Union remained unchanged at 10.0% in September 1999. The Netherlands and the Euro-11 recorded inflation rates of 2.0% and 1.2%, respectively, at the end of September 1999.

In contrast, some Latin American countries like Venezuela and Brazil are still in a recession. Venezuela is experiencing its worst recession, even though the price of oil has almost tripled since February 1999. Brazil is still suffering from its chaotic devaluation of the Real earlier this year, which deepened the country's recession. Since then, Brazil has been plagued by high interest and inflation rates. Also, its unemployment rate remained high, and its fiscal policy has been tied to the need to contain the country's huge public sector deficit.

### Economic performance in the United States

The US economy is still robust, as real GDP in the third quarter of 1999 rose at a 5.5%<sup>1)</sup> annual rate. For the third successive year, output growth in the third quarter was around 4.0% or higher. The contributors to the growth in the third quarter of 1999 were consumer spending, inventories restocking by businesses, and exports.

<sup>1)</sup>The GDP has been redefined. The government reclassified business and government spending on computer software as fixed investment that companies make to improve productivity and enhance business.

The tight job market, capital gains from the stock market, and home sales kept the domestic demand sturdy, as real consumer expenditures increased by 4.6% in the months from July through September of 1999. Besides consumer spending, the U.S. economy got a push from increased inventory building by businesses, which increased spending on new equipment. Spending on business equipment and software, and on nonresidential fixed investment rose by 18.2% and 13.3%, respectively.

The third quarter of 1999 reflected both stronger imports and exports. However, imports grew faster than exports. Imports and exports of goods and services expanded by 14.8% and 5.8%, respectively, worsening the current account deficit to \$ 89.9 billion (table 22).

**Table 22**  
***Selected key economic figures of the United States (% change)***

	1997- III	1998- III	1999- III
Real GDP	4.7	3.9	5.5
Inflation rate (%)	2.2	1.5	2.6
Unemployment rate (%)	4.7	4.5	4.2
Disposable income	5.9	6.0	7.2
Current account balance (in billion of \$)	-35.6	-63.5	-89.9

Source: Bloomberg

The unemployment rate was at a 29-year low of 4.2% in the third quarter of 1999. Even with the pool of available workers shrinking, inflation has shown no significant sustained increase, which was the result of productivity growth. Productivity grew at a larger-than-expected 4.2% annual rate, driven by technological developments. For the 12 months ending September 30, 1999, the employment cost index surged at a slower rate by 3.1%, compared to 3.7% in the same period of 1998. Thus, higher productivity and slower wage growth kept the third-quarter consumer price inflation restrained at 2.6%.

### **Economic performance in the Netherlands**

In the third quarter of 1999, the Dutch economy grew by 4.0%, compared to the corresponding quarter of 1998 (table 23). On the production side, the growth can be explained by seasonal factors, which raised production in the agricultural sector. On the demand side, rising external and domestic demand stimulated growth. This increase was caused mainly by a surge in export and investment. Consumer spending, although high, decelerated. Consumer spending in real terms swelled by 3.5%, as a result of higher consumer confidence, sparked by record-low unemployment. The Dutch jobless rate ended at 3.1% in the third quarter of 1999. In spite of the economic expansion, inflation remained

in check, rising by 2.2% in the third quarter of 1999, compared to 1.7% in third quarter of 1998.

**Table 23**  
**Selected key economic figures of the Netherlands**

	1998-III	1999-III
Real GDP (% change)	3.2	4.0
Inflation (end of period %)	1.7	2.2
Unemployment rate(%)	3.9	3.1

Source: Bloomberg

After years of experiencing a public sector deficit, the Netherlands has been able to attain a surplus of 0.25% of GDP for 1999. Strong economic growth, higher than expected tax revenue, and lower-than-forecasted unemployment claims contributed to a budgetary windfall of about \$936 million in 1999.

### **Economic performance in Venezuela**

In spite of rising oil prices, Venezuela's economy shrank by approximately 9.8% in the first half of 1999. The country's deep recession eroded consumer demand, as Venezuelan food consumption declined by 11.3% in the first nine months of 1999, compared to the same period in 1998. The lack of consumer demand prevented companies from raising prices. Consumer prices edged upward by 0.9% in September, down from the rise of 1.5% in August 1999. The recession also has worsened the labor market, as the unemployment rate jumped to 15.4% in the third quarter of 1999.

**Table 24**  
**Selected key economic figures of Venezuela**

	1999-I	1999-II	1999*
Real GDP (% change)	-9.8	-9.9	-7.2
Inflation (end-of-period %)	27.6	23.6	20.0
Foreign exchange rate VEB/\$ (end-of-period)	584	607	649

Source: Latin America Monitor, Bloomberg, and Central Bank of Venezuela.

\* Estimated annual figures

### **The oil sector**

Since February 1999, oil prices have almost tripled, but the country remained mired in its worst recession. The average price of Venezuelan crude oil and petroleum products rose 42.0% in the third quarter. To boost crude prices by more than 80.0%, major oil exporters restricted the production of oil. The Venezuelan oil company, PDVSA, is not planning to increase its current production of 2.72 million barrels per day, the limit set by the OPEC, unless there is a policy change after March 2000.

Total gas investment over the next 10 years could be at least \$8 billion as PDVSA is reducing its dependence on crude exports and expanding its gas operations. The government will seek tenders for the construction of two pipelines as the first step in developing the gas fields. The gas would be used to supply the power industry as well as the residential and commercial sectors.

## Economic performance in Asia

After two years in a recession, the Japanese economy is slowly improving. Japan's economy grew for the second consecutive quarter, as real GDP rose by 0.9% in the third quarter of 1999. However, the recovery of Japan's economy has been heavily dependent on government spending, to counteract weak private spending. Thus, the revival of the Japanese economy is still unsound. Third-quarter public spending soared by 6.2%, as opposed to a slide of 2.4% in the corresponding quarter in 1998. Also, private spending drifted up by 0.2%, after the tumble of 3.3% in the third quarter of 1998 (table 25).

**Table 25**  
*Selected key economic figures of Japan (% change)*

	1997- III	1998- III	1999- III
Real GDP	1.6	-3.3	0.9
Inflation rate (%)	2.4	-0.2	-0.2
Unemployment rate (%)	3.4	4.3	4.6
Private spending	0.4	-3.3	0.2
Public spending	-1.0	-2.4	6.2

Source: Bloomberg

In the July-September quarter of 1999, the jobless rate worsened to 4.6%. With much corporate restructuring going on, unemployment surged and will continue to rise, incomes will fall, and businesses will invest less. The job cuts by big employers and the overall lack of jobs is reducing spending. This weak consumer demand also is keeping a lid on consumer prices, which remained unchanged at -0.2% in the third quarter of 1999, in comparison to the corresponding quarter of 1998.

Japan's exports to Asia improved with the recovery of economies like Singapore, Hong Kong, and South Korea, as well as Southeast Asia in general. In spite of the higher exports, Japan's trade balance shrank by 8.8% in the September quarter of 1999, when measured against the gain of 32.2% in the third quarter of 1998.

## DEVELOPMENTS IN THE FINANCIAL SECTOR

### Introduction

In the third quarter of 1999, the Bank revoked the license of the St. Maarten branch of the Chase Manhattan Bank N.A. This institution transferred its assets and liabilities to Antilles Banking Corporation (St. Maarten) N.V. and ceased to operate as a domestic banking institution as of January 31, 1999.

Concerning the international banking sector, the Bank re-licensed Banco Industrial de Venezuela Sucursal Curaçao as an international credit institution. The institution operated formerly as a domestic banking institution and ceased to operate as such in 1995 after its domestic business has been acquired by Banco di Caribe N.V. Thereafter, it continued to operate as an international finance company until its re-licensing as an international credit institution as of July 19, 1999. The Bank also revoked the license of DNI Inter Asset Bank N.V. because of the voluntary liquidation of the institution.

Furthermore, the Bank closely monitored the Y2K efforts of the financial sector to accomplish a timely readiness.

Our examiners conducted on-site examinations at two credit unions and two international banks.

### **Developments in the domestic banking sector**

Total assets of the Netherlands Antillean domestic banking sector increased by NAf 119.5 million (2.5%) to NAf 4,843.8 million during the third quarter of 1999. With the exception of interest-bearing cash and fixed assets, all assets items contributed to this increase.

The combined credit portfolio of the commercial banks grew by NAf.98.9 million (3.2%) to NAf.3,148.8 million, accounting for 82.8% of the increase in total assets. Current account overdrafts, time loans, and mortgages increased by NAf.37.5 million, NAf.30.5 million, and NAf.30.3 million, respectively. Current account overdrafts by local business enterprises, time loans extended to foreign individuals, and mortgages extended to local business enterprises and to foreign individuals reflected noticeable increases.

The total deposit base of the domestic banking sector increased by NAf.24.0 million (0.6%) to NAf.4,027.5 million due mainly to an increase in savings deposits of foreign individuals and an increase in time deposits placed by both local and foreign non-banks financial institutions.

Furthermore, borrowings increased by NAf.58.1 million to NAf.200.8 million as a result of increased borrowings from both domestic and foreign unconsolidated subsidiaries and affiliates. Other liabilities increased by NAf.13.6 million to NAf.203.2 million. Especially, items in suspense<sup>1)</sup> accounted for the increase in other liabilities.

<sup>1)</sup> Credit items which are transitory in nature.

The capitalization of the banking sector grew by NAf.23.8 million, (6.1%), and stood at NAf.412.3 at the end of the third quarter of 1999. An increase in general provisions of the

commercial banks accounted for much of the mentioned capital strengthening. The capital-to-total assets ratio amounted to 8.5% at the end of the third quarter, which is in line with international capital standards.

**Table 26**  
**Aggregate balance sheet of commercial banks operating in the domestic banking sector of the Netherlands Antilles at quarter-end (in millions NAf.)**

	1999-III		1999-II		1998-III	
	NAf.	%	NAf.	%	NAf.	%
<b>ASSETS</b>						
Non-int.-bearing cash	311.2	6.4	287.0	6.1	306.0	6.9
Interest-bearing cash	758.9	15.7	809.7	17.1	685.8	15.5
Investments	305.7	6.3	283.5	6.0	300.9	6.8
Loans	3,148.8	65.0	3,049.9	64.6	2,873.3	65.0
Investm. unconsol. sub.	20.1	0.4	14.2	0.2	12.6	0.3
Fixed assets	170.9	3.6	173.6	3.7	168.6	3.8
Other assets	128.2	2.6	106.4	2.3	74.3	1.7
Total assets	4,843.8	100.0	4,724.3	100.0	4,421.6	100.0
<b>LIABILITIES</b>						
Demand deposits	1,341.8	27.7	1,341.6	28.4	1,190.0	26.9
Savings deposits	1,718.9	35.5	1,706.5	36.1	1,650.7	37.3
Time deposits	966.8	20.0	955.4	20.2	868.9	19.7
Total deposits	4,027.5	83.2	4,003.5	84.7	3,709.6	83.9
Borrowings	200.8	4.1	142.7	3.0	199.4	2.7
Other liabilities	203.2	4.2	189.6	4.0	180.5	4.1
Total liabilities	4,431.5	91.5	4,335.8	91.7	4,009.5	90.7
Minority interest	5.1	0.1	5.7	0.1	4.9	0.1
Subord. debentures	6.3	0.1	6.3	0.2	8.1	0.2
General	121.1	2.5	102.5	2.2	108.4	2.5

provisions						
Capital & reserves	279.8	5.8	274.0	5.8	290.7	6.6
Total capital	412.3	8.5	388.5	8.3	412.1	9.3
Total liabilities and capital	4,843.8	100.0	4,724.3	100.0	4,421.6	100.0

### Developments in the international banking sector

Total assets of the international banking sector decreased from NAf 63.6 billion to NAf 60.4 billion during the third quarter of 1999. This decrease was caused mainly by the decline in loans and other assets, which decreased by NAf.2.0 billion and NAf.1.7 billion, respectively. Total liabilities dropped by 5.9%, a drop accounted for primarily by time deposits. Compared to the end of the third quarter of 1998, the capitalization of the international banking sector increased slightly by 5.6% to NAf.4.7 billion.

**Table 27**  
**Aggregate balance sheet of commercial banks operating in the international banking sector of the Netherlands Antilles at quarter-end (in millions NAf.)**

	1999-III		1999-II	
	NAf.	%	NAf.	%
<b>ASSETS</b>				
Cash & banks	11,938,009	19.8	11,605,951	18.2
Investments	4,969,413	8.2	4,783,049	7.5
Loans	33,187,962	54.9	35,204,351	55.4
Fixed & other assets	10,323,298	17.1	12,006,323	18.9
Total assets	60,418,682	100.0	63,599,674	100.0
<b>LIABILITIES</b>				
Demand deposits	3,740,003	6.2	3,859,811	6.1
Time deposits	15,826,905	26.2	17,068,778	26.8
Borrowed funds	34,298,816	56.8	35,193,301	55.3
Subordinated deb.	34,225	0.1	35,928	0.1
Other liabilities	1,785,618	3.0	2,831,874	4.5
Total liabilities	55,685,567	92.2	58,989,692	92.8

Capital	4,733,115	7.8	4,609,982	7.2
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Total liabilities and capital	60,418,682	100.0	63,599,674	100.0
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