



## QUARTERLY BULLETIN 1999-2

**Bank van de Nederlandse Antillen**

## **REPORT OF THE PRESIDENT**

The marginal expansion of the Netherlands Antillean economy noticed in the first quarter of 1999 was maintained in the second quarter, as reflected by an increase in real Gross Domestic Product of 0.1% on an annual basis. The second-quarter growth resulted from an improvement in our exports and a slight increase in consumer spending related to the payment of vacation allowances. In contrast, government spending decreased considerably related to its tight liquidity position. The average price level declined further owing to the effect on product prices from the drop in oil prices in the first quarter, which more than offset the gradual introduction of the turnover tax in Curacao and Bonaire. As a result, the inflation rate on an annual basis moderated further.

The improvement in our export performance was attributable mainly to tourism. Foreign exchange income from tourism increased on all islands despite mixed developments in the number of visitors. The number of stay-over visitors grew marginally owing entirely to a turnaround in Bonaire, which experienced a marked growth after eight consecutive quarters of decline. Both Curacao and St. Maarten recorded a marginal decline in the number of stay-over visitors, while all islands incurred a drop in the number of cruise visitors. Foreign exchange income generated by the international financial and business services sector remained about the same because the decrease in income received from services rendered was offset by an increase in profit taxes transferred to the government. This development may indicate a turnaround compared to the steady decline in activities during the previous quarters. In addition, the oil refinery recorded an expansion in production. However, the refinery's operational costs and, hence, foreign exchange income generated, declined.

The transportation sector recorded overall a slight growth, but the developments by branch of industry were mixed. This growth was attributable mainly to the developments in bunker sales and revenues from oil storage. The national carrier Air ALM incurred a drop in the number of passengers transported, while the amount of freight handled increased. The ship repair sector weakened, as reflected by a drop in the number of man-hours sold. Also harbor activities deteriorated, as the number of ships piloted into the harbors of Curacao and Bonaire declined. Airport activities were mixed as total passenger movements declined in Curacao and increased in St. Maarten. Furthermore, the performance of the free zone deteriorated further, as both the value of re-exports and the number of visits decreased.

Despite the improvement in our export performance, the deficit on the current account of the balance of payments deteriorated substantially in the second quarter of 1999. This development can be explained by the deterioration of the income balance and the merchandise balance. The deterioration of the merchandise balance resulted from a sharp decline in free-zone re-exports and an increase in oil imports related to the rise in world oil prices. The deterioration of the current account was offset partly by an improvement in the capital account. This improvement was attributable entirely to private capital as the official capital balance deteriorated due to a decrease in development aid received. The developments in the current and capital account of the balance of payments resulted in a decrease in our foreign exchange reserves.

The cash deficit of the General Government improved considerably in the second quarter of 1999. This improvement was attributable entirely to a marked decline in expenditures due to deferred payments to the government pension fund APNA and fewer outlays for subsidies, transfer payments, and investments. The decline in expenditures was forced largely by the persistent liquidity shortage facing the government. This shortage was aggravated by a decline in revenues due to 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 decline in wage and income tax collected related to the sluggish economic development. As the government's liquidity position is deteriorating rapidly and, hence, even salaries are becoming increasingly difficult to pay, painful austerity measures can no longer be postponed.

A first step was taken in September 1999 when Parliament approved a significant reduction in exemptions from the turnover tax and a tariff raise on the Leeward Islands effective October 1, 1999. The higher tax burden will be compensated partly by the introduction of a direct tax reduction package effective January 1, 2000. However, the parties forming the present government could not reach consensus on the measures aimed at a structural reduction of government expenditures, which caused a break-up of the coalitions on the Central Government level and of the Island Government of Curacao. The new governments' major challenge is to implement a package of expenditure-reducing measures without further delay in line with the recommendations of the National Plan Committee. This package should include a substantial reduction of the government bureaucracy, a tight wage policy and the further restructuring of the civil servants pension scheme. Only such an approach will create a more sustainable fiscal situation in the next few years and gradually restore investors' confidence.

The money supply continued to grow in the second quarter of 1999, despite the balance-of-payments deficit. This growth was attributable entirely to the expansion in the domestic sector to which both the private sector and the government sector contributed. The expansionary impact of the private sector was due primarily to the growth in loans, particularly consumer loans. The growth in consumer loans can be related to the anticipated rise of the turnover tax on the Leeward Islands. The expansionary impact of the government sector was caused mainly by the withdrawal of deposits from the banking system to finance part of the cash deficit. Although partly transitory, the Bank views the strong growth in credit extension to the private sector with concern. In combination with the partial monetization of the government deficit, this development contributed to the decline in our foreign exchange reserves. Therefore, to safeguard the stability of the Netherlands Antillean guilder, a tightening of the monetary stance seems warranted.

The new government faces the difficult task of addressing the deepened financial-economic crisis in our country. The structural reduction of government expenditures in particular requires painful measures, which cannot be postponed any longer if we want to prevent a further worsening of the public finances. The restructuring of the public finances should be the core of a credible and comprehensive structural adjustment program as formulated by the National Plan Committee. In addition to elimination of the budget deficits, measures should be taken to improve our investment climate and to liberalize our labor and product markets. The Bank wants to emphasize that credible actions by our policymakers aimed at

the full and timely implementation of the national recovery plan is the only way to restore confidence and create a climate conducive to economic recovery. Such an approach also will facilitate efforts to attract domestic as well as external finance for a smoother adjustment process and supporting social policies.

*E.D. Tromp*  
*President*

## **DEVELOPMENTS IN THE REAL SECTOR**

### **General economic developments**

For the second quarter of 1999, real gross domestic product of the Netherlands Antilles rose by a mere 0.1%, a slight improvement over the contraction of 1.0% in the second quarter of 1998. An increase in consumer spending and external demand, including foreign exchange income from tourism and bunkering, were the source for this slight second-quarter growth. Annual inflation remained tame at 0.6% in the June quarter of 1999. The replacement of the sales tax of 6% (ABB) by a 2% turnover tax (NAO) mainly was responsible for the 1 percentage point decrease in the inflation rate. The number of people laid off shrank in the first half of 1999, compared to the first half of 1998. Unlike the cutback in the number of personnel laid off, the unemployment rate remained high at approximately 15.8%.

### **National production and spending**

The Antillean economy showed a minor expansion in the April-June quarter of 1999, the result of surges in domestic spending and in the export sector. Consumer spending edged up a bit, as the vacation compensation led to higher disposable income. Additionally, gains in bunkering and tourism sector contributed to this tiny economic growth. In contrast, government consumption and investment tumbled by 25.0% and 31.5%, respectively. Lower government consumption can be explained by the government's failure to make payments to the pension fund (APNA) for civil servants. Moreover, given the mounting government debt and the insecurity surrounding the forthcoming government policies, producer confidence has not shown any improvement.

### **Inflation**

Annual inflation in the Netherlands Antilles continued to be tame in the second quarter of 1999. In spite of a rebound in world oil prices and a rise in the US inflation rate, our inflation rate remained quiescent. Consumer prices slowed to 0.6% in the months of April-June 1999, following the 1.6% increase in the same quarter of 1998. The low second-quarter inflation was due largely to the substitution of the sales tax of 6% (ABB) by a 2% turnover tax (NAO) on the Leeward Islands.

An annual analysis of inflation rates by island showed that St. Maarten has the highest inflation in the Netherlands Antilles. In St. Maarten, the inflation rate was at 2.6%, up from 1.9% in the second quarter of 1998. Curaçao's and Bonaire's rates in the second quarter of 1999 were 0.1% and 2.2%, respectively, compared with 1.7% and 1.1%, respectively, in the corresponding quarter of 1998. The quarterly inflation in the three islands has accelerated, where both Curaçao's and Bonaire's quarterly inflation rate increases were caused by the introduction of the turnover tax.

The implementation of the turnover tax was spread over the months March to May, as it was first introduced in the services sector and subsequently in other sectors. In spite of a cut of one percentage point in the turnover tax as of January 1, 1999, St. Maarten's quarterly inflation rose.

On a quarterly basis, Curaçao's consumer prices fell by 0.5% (table 1), up from the previous quarter's decline of 1.1%. The largest price hike occurred in the categories "health" (0.2%) and "transport & communication" (0.1%). Higher-priced medication, automobiles, car parts & services, and airport parking fee influenced these increases. Almost all other categories registered a price decrease; the item "housekeeping & furnishings" (-1.8%) reported the largest price drop, led by cheaper household appliances and articles.

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

	<b>Curaçao</b>	<b>Bonaire</b>	<b>St. Maarten</b>
Food	-0.8	1.4	-0.6
Beverages & tobacco	-0.8	0.2	0.7
Clothing & footwear	-0.9	0.0	0.0
Housing	0.0	0.4	0.6
Housekeeping & furnishings	-1.8	-0.1	0.1
Health	0.2	0.3	0.2
Transport & communication	0.1	0.8	-0.3
Recreation & education	-0.1	-0.1	0.0
Other	-0.1	0.1	0.1
General inflation rate	-0.5	0.6	0.0

In Bonaire, consumer prices in the quarter ending June 1999 rose by 0.6%, in contrast to the decline of 0.1% in the previous quarter. Fueled by increases in the price of wheat products, fresh produce, and outdoor dining, inflation in the item "food" rose by 1.4% in the second quarter. Moreover, the surge of 0.8% in "transport & communication" also was spurred by more expensive automobiles, and car parts & services. Meanwhile, the lowest inflation rate of -0.1% came from the categories "housekeeping & furnishings," and "recreation & education." This rate was associated with cheaper household appliances and articles, and lower-priced educational goods and services.

During the second quarter of 1999, St. Maarten recorded an inflation rate of 0.0%, compared to -0.2% in the first quarter of 1999. The highest rate of inflation occurred in the items "beverages & tobacco" (0.7%) and "housing" (0.6%). A price hike in beverages and electricity led to higher inflation in these sectors. However, lower-priced meat & fish products and transportation expenses in the categories "food" (-0.6%) and "transport &

communication" (-0.3%) were responsible for maintaining the quarterly inflation stable at 0.0%.

## **Labor market**

Despite the small economic growth, the labor market in the Netherlands Antilles has not shown much of an improvement so far; the unemployment rate continued high at about 15.8%. However, in the first half of 1999, the requests for dismissal and the actual number of personnel dismissed in Curaçao tumbled by, respectively, 32.1% and 63.3%, when measured against the same period a year ago. The people laid off were confined to the construction, hotels & restaurants, and social services sectors. For the last several quarters, the laid-off workers were mostly from the hotels & restaurants and social services sectors. This trend coincided with the weak tourism industry in Curaçao, which registered a consistent drop during this period.

**Table 2**  
**Laid-off personnel in Curaçao by sector**

<b>1st half of:</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Industry	17	80	2
Construction	157	55	18
Trade, hotels & restaurants	33	63	57
Transportation & communication	7	82	4
Financial & business services	53	12	6
Social services	6	32	32
Total	273	324	119

## **Developments by sector**

### ***Mining***

In the three months ending June 1999, Bonaire's salt industry posted mixed results. Salt production jumped by 23.8%, higher than the 0.3% rise in the second quarter of 1998. By contrast, however, salt exports were down by 2.7%, after an 18.5% gain in the same quarter of 1998.

### ***Industry***

Oil production at the "Isla" refinery expanded by 6.9% in the April-June quarter of 1999, reflected by the increase of 13.3% in the refinery's own use of fuel. However, the rise in own use of fuel was offset by a reduction in payroll costs, contract payments, and other costs. As a result, operational costs fell by 7.5%, following a contraction of 10.3% in the corresponding period in 1998.

Curaçao's ship repair industry weakened in the second quarter of 1999, as the number of man-hours sold shrank by 28.5%, and the number of ships repaired declined by 18.1%. In line with the decline in activities, foreign exchange earnings dropped by 1.3% during this period.

### ***Utilities***

In 1999's second quarter, Antillean water production shrank by 4.9%, compared with the 11.3% increase in the second quarter of 1998. A breakdown by islands showed that the decline was due to production decreases in both Curaçao (7.1%) and Bonaire (15.5%). In contrast, St. Maarten's water production rose by 12.3%, up from the 6.3% drop in the second quarter of 1998.

Electricity production in the Netherlands Antilles increased by 1.6% in the months April-June of 1999, lower than the 11.0% surge in the second quarter of 1998. Analysis by islands indicated that the expansion was related to a rise of 0.9% and 5.5% in Curaçao and the Windward Islands, respectively. Bonaire, however, tightened its production by 2.9%, in comparison to a swell of 16.4% in the same period of 1998.

### ***Construction***

The construction sector in Curaçao experienced mixed results through the second quarter of 1999. The number of total projects completed picked up by 7.4%, an improvement after a 55.4% decline in the second quarter of 1998. Conversely, the value of construction permits tumbled by 69.8%, a marked reduction from the 97.5% jump in the second quarter of last year. This large drop was ascribable to a fall in the number of permits granted primarily to nonresidential projects. Hence, construction activities related to business projects are expected to slow down in the upcoming months. In Bonaire, the value of construction projects plunged by 21.8% over the three months ending in June 1999. Bonaire's weak construction sector worsened when compared to last year's second quarter's drop of 21.6%.

### ***Trade***

Activities in the free-zone continued to decline, as re-exports dropped by 37.7% in the second quarter of 1999. The number of free-zone visits dwindled by 17.1%, in contrast to a rise of 12.6% in the period April-June of 1998. The number of free-zone visits in all the main markets was down, except for Haiti, which showed an increase of 14.5% during this period. Moreover, Haiti has the largest market share growth of 38.1%, followed by Guyana (18.4%) and Trinidad (12.5%).

### ***Tourism***

In 1999's second quarter, the tourist activities in the Netherlands Antilles reported mixed developments. Stay-over tourism drifted up by a modest 0.5%, down from the 8.6% gain in the second quarter of 1998. Meanwhile, cruise tourism experienced a steep decline of 28.2%, compared to a drop of 3.1% in the same period in 1998. However, total earnings from tourism increased by 6.3% in the second quarter of 1999.

**Table 3**  
**Developments in stay-over tourism per island**  
**(% change)**

	Curaçao		St. Maarten		Bonaire	
	1998- II	1999- II	1998- II	1999- II	1998- II	1999- II
North America, of which:	11.7	-0.2	14.0	4.6	-2.0	7.8
U.S.A.	10.7	1.0	12.6	3.3	-1.0	7.8
Canada	35.3	-22.8	32.9	19.9	-38.4	7.3
Europe, of which:	-9.5	5.6	9.2	-4.2	-10.6	4.3
The Netherlands	-10.0	10.4	-8.4	7.1	-18.1	13.4
France	-	-	4.0	-6.3	3.0	-26.5
Germany	-11.5	-11.6	-	-	2.0	-15.7
Other Europe	-3.2	-21.8	55.2	-2.8	18.4	-12.1
South & Central America, of which:	20.9	-17.5	48.4	-35.1	49.1	7.9
Venezuela	44.7	-18.5	109.2	-45.2	66.6	22.2
Brazil	-55.4	-48.0	181.7	-67.5	-15.0	-56.2
Other S&C America	1.0	-5.9	-	-	-	-
Caribbean, of which:	2.6	4.8	7.4	14.4	-13.8	65.9
Aruba	-1.3	31.9	-	-	-15.7	60.4
Santo Domingo	-0.6	-1.5	9.1	28.2	46.3	-15.0
Other Caribbean	-	-	-	-	-	-
Rest of the World	-10.0	9.9	-0.8	5.7	75.0	62.9
Total	2.5	-1.0	12.8	-0.1	-1.3	10.5

St. Maarten's tourist sector weakened in the second quarter of 1999. Stay-over arrivals dipped by 0.1%, measured against a 12.8% advance in the corresponding quarter of 1998. St.

Maarten's stay-over tourism industry shrank, as a result of decreases in the European (4.2%) and South American (35.1%) markets. This decrease was caused mainly by a contraction in the number of stay-over visitors from France (6.3%) and Venezuela (45.2%). In contrast, the number of North American and Caribbean visitors expanded by 4.6% and 14.4%, respectively.

The deterioration in stay-over tourism was accompanied by a drastic setback of 34.6% in the number of cruise calls. The cruise tourism sector performance was poor, as the number of cruise tourists tumbled by 30.0%, down from a 6.2% slide in the second quarter of 1998.

In Curaçao, both the stay-over and cruise tourism industries slowed down in the quarter ending June 1999. Stay-over tourism slipped by 1.0%, as opposed to a gain of 2.5% in the corresponding quarter of 1998. The lower second quarter's stay-over arrivals were linked to drops of 0.2% and 17.5%, respectively, in the North American and South American markets. Conversely, Curaçao's largest stay-over tourist market, i.e., the Netherlands, reflected a growth of 10.4% in the number of visitors. Despite the decrease in the number of stay-over travelers, visitor nights rose by 1.6%. During this period, cruise tourism also declined by 17.5%, following a 20.8% rise in the second quarter of 1998. Fewer cruise ships entered the harbor, this explaining the setback in the cruise tourism industry.

In the months April to June 1999, Bonaire's tourism posted a mixed picture, as stay-over tourism grew by 10.5% and cruise tourism dropped by 24.0%. The positive performance in stay-over tourism was attributable mainly to a growth in Bonaire's largest tourist markets, including the US (7.8%) and the Netherlands (13.4%). In addition, the number of stay-over guests from South America and the Caribbean improved by 7.9% and 65.9%, respectively.

### ***Transportation***

The second-quarter results for the air transportation sector were mixed in 1999. The number of passengers transported by the airline "Air ALM" dropped by 13.3%, as opposed to a surge of 28.1% in the corresponding quarter of 1998. However, cargo shipments advanced by 4.0%, compared with the drop of 11.9% in the second quarter of 1998.

Curaçao's airport activities weakened by 2.4% in the quarter ending June 1999, after last year's second quarter rise of 12.3%. The slide in airport activities was caused by decreases of 0.7% and 7.9% in the flow of total passenger arrivals and transit passengers, respectively. These decreases were related to the dwindling tourist sector in Curaçao. Along with the slowdown in passenger traffic, commercial landings drifted down by 2.3%, in contrast to a gain of 9.5% in the second quarter of 1998.

In the months April to June 1999, airport activities in St. Maarten expanded by 19.6%, following a swell of 11.8% in the same quarter of 1998. The positive airport results can be explained by the increase in both the numbers of passengers and in commercial landings.

Curaçao's harbor activities deteriorated in the three months ending June 1999, as the number of ships piloted into the harbor dipped by 9.6%. The unsatisfactory performance was related to fewer vessels visiting the harbor, reflecting a decline in all categories of ships, but mainly

in cargo and tanker ships. The decrease in both local and transshipment activities can explain the drop of 10.7% in the total cargo movements. In spite of a slide in the number of oil tankers, Curaçao's oil transshipment grew by 18.7%, largely due to an expansion in the refinery's oil production. In addition to the weak cargo movements, bunker sales of fuel and water in Curaçao plummeted by 22.0% and 84.5%, respectively, in the second quarter of 1999.

For the second quarter of 1999, Bonaire's harbor activities also slowed, as the number of ships piloted into harbor shrank by 24.6%, after the 11.5% drop in the second quarter of 1998. Declines in the number of oil tankers (31.3%) and domestic vessels (27.4%) were the leading cause for the slump in the harbor industry. The drop in the number of oil tankers visiting the harbor went hand-in-hand with the fall in Bonaire's oil transshipment (30.8%).

In Statia, bunker sales showed an increase of 23.4% in the second quarter of 1999.

## **PUBLIC FINANCE**

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

In the second quarter of 1999, the General Government registered a deficit of NAf.32.0 million on a cash basis, a NAf.63.4 million improvement compared with the same quarter of 1998. The government received less revenues to the extent of NAf.12.9 million (4.2%), but it was mainly the drop of NAf.76.3 million (19.0%) in expenditures that contributed to this improvement. However, the drop in expenditures was largely due to arrears.

The drop in expenditures was attributable to lower current and capital expenditures of NAf.73.0 million (18.7%) and NAf.3.2 million (29.5%), respectively. The drop in current expenditures was caused by a sharp decline in contributions paid to the civil servants pension fund, fewer subsidies, and lower transfer payments. The decline in pension contributions underscores the liquidity shortage facing the government. The drop in capital expenditures was the result of lower investment outlays.

The drop in revenues was mainly the result of NAf.20.1 million (7.2%) fewer tax revenues collected, on the one hand, and an increase of NAf.6.8 million (25.6%) in nontax revenues, on the other. The drop in tax revenues was caused by a decline in taxes on income and profits and less taxes on goods and services collected. In this last category, the revenues from sales tax dropped substantially. These declines were offset partly by higher revenues from taxes on property and increased receipts from taxes on international trade and transactions. Finally, grants received increased by NAf.0.4 million (22.2%).

**Table 4**  
**Operations of the General Government (in millions NAf.)**

	1999- II	1998- II	Change
REVENUES	292.8	305.7	-12.9 -4.2%
Tax revenues	257.4	277.5	-20.1 -7.2%

Nontax revenues	33.2	26.4	6.8	25.6%
Capital revenues	0.0	0.0	0.0	
Grants	2.2	1.8	0.4	22.2%
<b>EXPENDITURES</b>	<b>324.8</b>	<b>401.1</b>	<b>-76.3</b>	<b>-19.0%</b>
Current expenditures	317.1	390.2	-73.0	-18.7%
Capital expenditures	7.7	10.9	-3.2	-29.5%
<b>BALANCE</b>	<b>-32.0</b>	<b>-95.4</b>	<b>63.4</b>	<b>-66.5%</b>
% of GDP	-0.7%	-2.2%		

### Operations of the Central government

The cash deficit of the Central Government improved considerably by NAf.64.3 million to NAf.1.6 million in the second quarter of 1999, compared to the second quarter of 1998. This improvement was the result of the NAf.69.9 million (36.5%) decline in expenditures and the NAf.5.6 million (4.5%) decline in revenues. The decline in expenditures was, however, mainly the result of arrears.

On the revenue side, tax revenues dropped by NAf.9.7 million (9.0%), while nontax revenues and grants recorded increases of NAf.3.7 million (22.3%) and NAf.0.4 million (22.2%), respectively.

**Table 5**  
**Operations of the Central Government (in millions NAf.)**

	1999-	1998-	Change	
	II	II		
REVENUES	120.1	125.7	-5.6	-4.5%
	97.6	107.3	-9.7	-9.0%
<b>Tax revenues,</b>				
of which:				
Excises	32.2	35.4	-3.2	-9.0%
Import duties	33.9	29.1	4.8	16.5%
Taxes on property	6.1	2.0	3.1	103.3%
Sales tax	18.5	34.9	-	-47.0%
		16.4		
	20.3	16.6	3.7	22.3%
<b>Nontax revenues,</b>				
of which:				
Entrepreneurial and property inc.	8.2	7.8	0.4	5.1%
Fees, charges, and sales	11.8	8.8	3.0	34.1%
	0.0	0.0	0.0	

**Capital revenues**

2.2 1.8 0.4 22.2%

**Grants**

EXPENDITURES	121.7	191.6	-	-36.5%
		69.9		
	117.6	186.0	-	-36.8%
		68.4		

**Current expenditures,**

of which:

Wages and salaries	64.9	113.6	-	-42.9%
		48.7		
-Wages	65.4	63.4	2.0	3.2%
-Soc. security (SVB)	2.8	2.5	0.3	12.0%
-Pension premiums <sup>1)</sup>	-3.3	47.7	--	-106.9%
		51.0		
Goods and services	26.1	23.2	2.9	12.5%
Interest payments	13.1	1.2	11.9	991.7%
Subsidies to public comp.	3.1	1.8	1.3	72.2%
Transfers	10.4	46.2	-	-77.5%
		35.8		
-Other levels of govt.	4.4	39.5	-	-88.9%
		35.1		
-Households	1.7	1.5	0.2	13.3%
-Non-profit institutions, abroad	4.3	5.2	-0.9	-17.3%
	4.1	5.6	-1.5	-26.8%

**Capital expenditures,**

of which:

Investments	4.1	5.6	-1.5	-26.8%
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BALANCE	-1.6	-65.9	64.3	-97.6%
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<sup>1)</sup>The negative amount in the second quarter of 1999 is the result of the inclusion of the employee premiums withheld by the Central Government.

The drop in tax revenues was attributable primarily to the sales tax, the receipts of which nearly halved by NAf.16.4 million (47.0%) in the second quarter of 1999 compared to the same quarter in 1998. This development was caused primarily by the repeal of the sales tax (ABB<sup>1)</sup> in Curaçao and Bonaire as of January 1, 1999, while the turnover tax (NAO<sup>2)</sup> which replaced it came partially into effect as of March 8, 1999. This change in the tax regime resulted in a loss of revenues of NAf.12.8 million. In addition, revenues from the turnover tax in St. Maarten, Saba, and St. Eustatius dropped by NAf.3.6 million (34.6%) due to the

reduction of the tax rate from 3% to 2% as of January 1, 1999. Furthermore, excise taxes fell by NAf.3.2 million (9.0%), to which all categories contributed.

The decreases in sales tax and excises were offset partly by increases in import duties and taxes on property by NAf.4.8 million (16.5%) and NAf.3.1 million (103.3%), respectively. The latter resulted from an increase in the inheritance and gift tax by NAf.2.1 million and an increase in the property transfer tax by NAf.1.0 million.

Nontax revenues rose by NAf.3.7 million (22.3%), primarily as a result of NAf.3.0 million (34.1%) more collected from fees, charges, and sales.

**Table 6**  
**Breakdown of the revenues from the sales tax**  
**c.q. turnover tax in the Netherlands Antilles**  
**(in millions NAf.)**

	1999- II	1998- II	Change
Sales tax Curaçao and Bonaire (ABB)	1.3	24.5	-23.2-94.7%
Turnover tax Curaçao and Bonaire (NAO)	10.4	0.0	10.4
Turnover tax St. Maarten, Saba and St. Eustatius (BBO)	6.8	10.4	-3.6-34.6%
Total revenues	18.5	34.9	-16.4-47.0%

The decline in expenditures was attributable almost entirely to the NAf.68.4 million (36.8%) drop in current expenditures. The drop of NAf.48.7 million (42.9%) in wages and salaries was most pronounced and related to the noncompliance of the Central Government with its contributions to the civil servants pension fund (NAf.51.0 million<sup>3</sup>). This noncompliance can be attributed partly to the Central Government's tight liquidity position. Furthermore, transfer payments declined by NAf.35.8 million (77.5%). This decline was primarily the result of the NAf.35.1 million (88.9%) decline in transfers to other government levels in connection with a transfer of NAf.31.1 million to the Island Government of Curaçao in the second quarter of 1998 related to the revenue-sharing agreement with this government.

<sup>1</sup>) Algemene Bestedingsbelasting

<sup>2</sup>) Nederlands Antilliaanse Omzetbelasting. The NAO was introduced in three stages; the third stage became effective as of May 1999.

<sup>3</sup>) This relatively large decrease can be explained partly by the settlement of short-term debt

to the civil servants pension fund in the second quarter of 1998 to the extent of NAf. 36.8 million

The decreases in wages and salaries and transfers were offset partly by an increase of NAf.11.9 million in interest payments. This increase was largely transitory related to the debt settlement between the Island Government of Curaçao and the Central Government in the second quarter of 1998. This settlement included the payment of NAf.10.6 million of interest expenses on development aid loans by the Island Government of Curaçao to the Central Government, which the latter had paid when they became due. The Central Government deducted this payment from its interest costs in the second quarter of 1998. Corrected for this amount, interest payments actually increased by NAf.1.3 million.

Finally, capital expenditures dropped by NAf.1.5 million, attributable entirely to a drop in investments.

**Table 7**  
**Changes in outstanding balances of the Central Government (in millions NAf.)**

	1999-II	1998-II
FISCAL BALANCE	-1.6	-65.9
MONETARY FINANCING,	4.7	23.3
of which:		
Central Bank	10.5	26.3
Commercial banks	-6.3	-3.8
Coins and notes	0.5	0.8
NON-MONETARY FINANCING,	-3.1	42.6
of which:		
Government securities with the public	-6.7	41.4
Other	3.6	1.2

The Central Government's cash deficit in the second quarter of 1999 was financed entirely monetarily (see table 7). The monetary financing resulted from a draw-down of deposits and an increase in the government's liability on the advance account at the Central Bank. Furthermore, outstanding government securities with the public showed a drop.

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

The Island Government of Curaçao recorded a cash deficit of NAf.30.4 million in the second quarter of 1999, a slight deterioration of NAf.0.9 million compared to the second quarter of 1998. This deterioration was the result of a NAf.43.9 million (20.3%) decline in revenues, largely offset by a NAf.43.0 million (17.5%) decline in expenditures. The decline in expenditures was, however, mainly due to arrears.

**Table 8**  
**Operations of the Island Government of**  
**Curaçao (in millions NAf.)**

	1999- II	1998- II	Change	
Total revenues	172.7	216.6	-	-20.3%
		43.9		
	159.8	170.2	-	-6.1%
		10.4		
<b>Tax revenues,</b>				
of which:				
Profit tax	63.2	59.5	3.7	6.2%
Income tax	2.6	10.3	-7.7	-74.9%
Wage tax	83.3	92.5	-9.2	-9.9%
Taxes on property	4.3	1.6	2.7	168.8%
Motor vehicle taxes	3.0	2.2	0.8	38.3%
	12.9	15.3	-2.4	-15.9%
<b>Nontax revenues,</b>				
of which:				
Entrepreneurial & property inc.	5.61	5.79	-	-3.2%
		0.19		
Fees, charges, and sales	6.0	6.9	-0.9	-13.1%
Other nontax revenues	1.3	2.6	-1.3	-51.0%
	0.0	0.0	0.0	-
<b>Capital revenues</b>				
	0.0	31.1	-	-
		31.1		
<b>Grants</b>				
Total expenditures	203.1	246.1	-	-17.5%
		43.0		
	199.5	240.8	-	-17.1%
		41.2		
<b>Current expenditures,</b>				
of which:				
Wages and salaries	80.2	110.5	-	-27.5%
		30.4		
-Wages	79.7	77.0	2.7	3.5%
-Pension premiums	0.5	33.5	-	-98.6%
		33.1		
Goods and services	55.8	60.9	-5.1	-8.4%
Interest payments	23.8	26.7	-2.9	-10.9%
Subsidies to public companies	16.2	20.8	-4.6	-22.0%
Transfers	23.6	21.9	1.7	7.8%

-To other levels of govt.	4.2	3.6	0.6	17.1%
-Households	8.9	11.3	-2.4	-21.3%
-Nonprofit institutions	10.4	6.9	3.5	50.3%
	3.6	5.3	-1.7	-32.4%

**Capital expenditures,**  
of which:

Investments	3.3	5.2	-2.0	-37.6%
Balance	-30.4	-29.5	-0.9	3.1%

The deterioration in total revenues was the result of NAf.10.4 million (6.1%) fewer tax revenues collected, a NAf.2.4 million (15.9%) decline in nontax revenues, and a NAf.31.1 million drop in grants received. The deterioration in tax revenues was caused primarily by a drop of NAf.7.7 million (74.9%) in income tax and a drop of NAf.9.2 million (9.9%) in wage tax. The drop in income tax can be explained by many refunds and the difficult economic situation. Part of the drop in the wage tax was related to the payment of the wage tax by the Central Government in the second quarter of 1998 in connection with the debt settlement with the Island Government. The decline in income and wage tax was mitigated by, among other things, more revenues collected from profit tax (NAf.3.7 million), taxes on property (NAf.2.7 million), and motor vehicle taxes (NAf.0.8 million). Furthermore, a drop of NAf.0.9 million (13.1%) in revenues from fees, charges, and sales, and a drop of NAf.1.3 million (51.0%) in other nontax revenues contributed mainly to the drop in nontax revenues. Finally, no grants were received in the second quarter of 1999 compared to NAf.31.1 million in the second quarter of 1998. The latter resulted from the revenue-sharing agreement with the Central Government.

Concomitant with the development on the Central Government level, the decline in expenditures of the Island Government of Curaçao was attributable almost entirely to the NAf.41.2 million (17.1%) decline in current expenditures. All current expenditures categories declined, except transfers. Wages and salaries recorded the largest drop of NAf.30.4 million (27.5%), entirely the result of the NAf.33.1 million (98.6%) drop in pension contributions to the civil servants pension fund in connection with the tight liquidity position of the Island Government.

In addition, purchases of goods and services and subsidies to public companies declined by NAf.5.1 million (8.4%) and NAf.4.6 million (22.0%), respectively. Interest payments declined also, by NAf.2.9 million (10.9%), the result of the refinancing of the zero-coupon loan by an annuity of a lower rate with the civil servants pension fund.

In contrast, transfer payments increased by NAf.1.7 million (7.8%), due to the increase in transfers to other government levels and nonprofit institutions by NAf.0.6 million (17.1%) and NAf.3.5 million (50.3%), respectively. These increases were mitigated partly by a decline in transfers to households by NAf.2.4 million (21.3%). Finally, capital expenditures dropped by NAf.1.7 million, due entirely to the drop of NAf.2.0 million (37.6%) in investments.

**Table 9**  
**Changes in outstanding balances of the island government of Curaçao (in millions NAf.)**

	1999-II	1998-II
FISCAL BALANCE	-30.4	-29.5
MONETARY FINANCING,	5.4	7.4
of which:		
Central Bank	-0.3	8.5
Commercial banks	5.7	-1.1
NON-MONETARY FINANCING,	25.0	22.1
of which:		
Government securities with the public	-5.3	-11.7
Other	30.3	33.8

The deficit of the Island Government of Curaçao was financed both monetarily and nonmonetarily in the second quarter of 1999 (see table 9). The monetary financing resulted entirely from a draw down on its current account deposits at the commercial banks. The non-monetary financing was attributable to an increase in arrears with creditors, among which the Social Security Bank (SVB).

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

The total outstanding debt of the Netherlands Antilles increased marginally by NAf.0.3 million during the second quarter of 1999. This resulted from an increase in the domestic debt by NAf.23.2 million (0.9%), on the one hand, and a drop in the foreign debt by NAf.22.9 million (4.0%), on the other. The decline in the foreign debt was attributable mainly to the appreciation 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. The total debt as a percentage of GDP amounted to 69.7% at the end of the second quarter of 1999.

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

	1999-II	1999-I	Change	
Domestic consolidated debt <sup>2)</sup>	2559.7	2536.5	23.2	0.9%
of which:				
-Central Government	1036.7	1021.5	15.2	1.5%
-Curaçao	1427.5	1421.2	6.3	0.4%
-Bonaire	78.2	76.5	1.7	2.2%
-St. Maarten	24.0	21.1	2.9	13.7%

-St. Eustatius	2.1	2.0	0.1	5.0%
-Saba	2.4	2.3	0.1	4.3%
Foreign debt	542.6	565.5	-22.9	-4.0%
Total debt (consolidated)	3102.3	3102.0	0.3	0.0%
(% of GDP)	69.7%	70.0%		
Guarantees	294.7	298.6	-3.9	-1.3%
Total debt and guarantees	3397.0	3400.6	-3.6	-0.1%
(% of GDP)	76.3%	76.7%		

<sup>1)</sup> Estimate.

<sup>2)</sup> Consolidated for the debt of the Central Government to the Island Governments of St. Maarten and Curaçao

The domestic debt of the Central Government increased by NAf.15.2 million (1.5%) during the second quarter of 1999. This was due mainly to an increase in arrears with the civil servants pension fund (NAf.15.0 million). Noteworthy is the decline in outstanding government securities by NAf.10.5 million, which illustrates the reluctance of investors to buy these securities as a result of the uncertainties surrounding the restructuring of the public finances.

The domestic debt of the Island Government of Curaçao increased by NAf.6.3 million (0.4%) during the second quarter of 1999. This increase was due primarily to increasing arrears with the civil servants pension fund and the Social Security Bank (SVB) of NAf.14.7 million and NAf.7.3 million, respectively. Outstanding securities of the Island Government of Curaçao also declined (NAf.13.1 million) due to a lack of interest by investors.

Furthermore, the domestic debt of the other island governments, i.e., Bonaire, St. Maarten, St. Eustatius, and Saba, rose by NAf.4.8 million due to increasing arrears with the civil servants pension fund and the Social Security Bank. This development is an indication of the weak liquidity positions of these islands.

Finally, outstanding guarantees declined by NAf.3.9 million (1.3%) in the second quarter of 1999. As a result, the total outstanding debt and guarantees decreased by NAf.3.6 million (0.1%) to NAf.3.397 billion (76.3% of GDP).

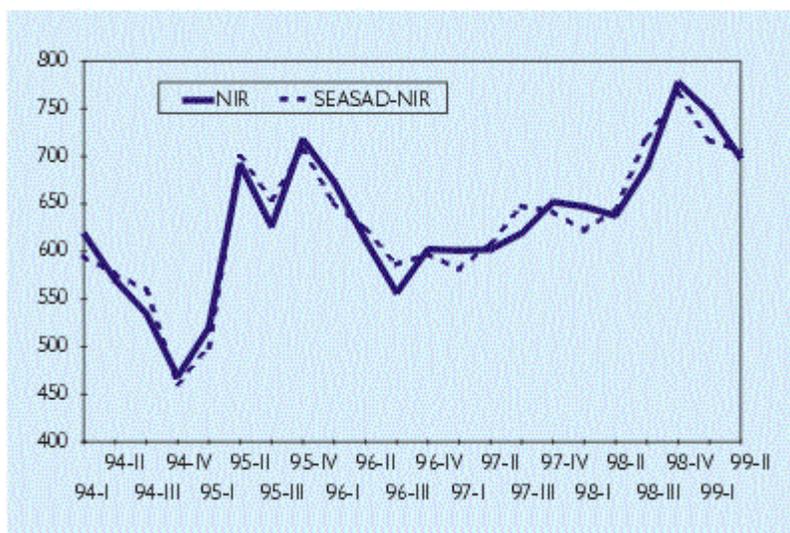
## **DEVELOPMENTS IN THE EXTERNAL SECTOR**

### **Introduction**

At the end of the second quarter of 1999, net international reserves amounted to Naf.697.6 million (graph 1), a decline of Naf.48.6 million compared to the first quarter. This decline was due to a decline of Naf.50.7 million in the foreign exchange reserves held by the commercial banks . This decline offset the increase in the official reserves held at the Central Bank of Naf.2.1 million.

**Graph 1**

**Development in the Net International Reserves including gold (in millions NAF.)**



The deterioration in the net international reserves can be explained mainly by the significant worsening of the current account during the second quarter of 1999. The current account deficit recorded an increase of Naf.63.0 million in comparison with the second quarter of 1998. This worsening offset the Naf.14.8 million improvement in the capital account.

**Table 11**  
**Balance of payments summary <sup>1)</sup> (in millions NA.)**

	1998-II	1999-II	Diff.
Current account	-47.2	-110.2	-63.0
Capital account	35.1	49.9	14.8
Statistical discrepancies	2.5	11.7	9.2
Balance of Payments	-9.4	-48.6	-39.2
Change in reserves <sup>2)</sup>	9.4	48.6	39.2
-with commercial banks	33.9	50.7	16.8
-with Central Bank	-24.5	-2.1	22.4

Memorandum items

Official reserves (excluding gold)				
-in millions NAf.	370.2	404.7	34.5	
-in months of merchandise imports	1.9	2.0	0.1	

<sup>1)</sup> Cash basis

<sup>2)</sup> -Sign denotes an increase in reserves (excluding gold)

### The current account

In the second quarter of 1999, the current account showed a deficit of NAf.110.2 million, a worsening of NAf.63.0 million in comparison with the same quarter of 1998. This increase in the deficit was due to a worsening in the merchandise and income balances, which offset the improvement in the services balance and unrequited transfers (table 12).

**Table 12**  
**A breakdown of the current account <sup>1)</sup> (in millions NAf.)**

	1998-II	1999-II	Diff.
Trade balance	-444.2	-485.8	-41.4
-Exports	122.1	90.7	-31.4
-Imports	566.5	576.5	10.0
Services balance	403.6	407.0	3.4
Receipts, of which:	701.1	758.7	57.6
-Transportation	137.0	141.2	4.2
-Travel	290.4	324.3	33.9
-Int. fin. & bus. services sector	147.1	147.5	0.4
-Taxes	26.8	37.2	10.4
-Operational income	120.3	110.3	-10.0
Expenditures, of which:	297.5	351.7	54.2
-Travel	138.1	182.2	44.1
- Int. fin. & bus. services sector	59.5	39.1	-20.4
Income balance <sup>2)</sup>	23.4	-15.6	-39.0
Unrequited transfers <sup>3)</sup>	-29.8	-15.8	14.0
Current account balance	-47.2	-110.2	-63.0

<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 second quarter of 1999, the trade balance worsened by NAf.41.4 million in comparison with the same period of 1998. This deterioration was due almost entirely to the NAf.32.3 million decline in the export of non-oil products, which was attributable mainly to the decline of NAf.28.1 million in the free-zone exports in Curaçao.

The decline in free-zone exports contributed largely to the NAf.35.9 million decline in merchandise exports in Curaçao. Together with the NAf.10.3 million increase in merchandise imports, Curaçao's trade balance deteriorated by NAf.46.2 million.

Bonaire's trade balance worsened by NAf.2.0 million, due to a NAf.2.1 million increase in non-oil imports. The Windward Islands' trade balance improved by NAf.6.8 million. This improvement was due mainly to a decrease in the import of non-oil products by NAf.9.7 million.

Overall, the Netherlands Antilles recorded an increase in the import of oil products due to the increase in oil prices in the international market.

**Table 13**  
**Trade balance by island <sup>9</sup> (in millions NAf.)**

	Inflows			Outflows		
	1998-1999-Diff.		1998-1999-Diff.	1998-1999-Diff.		1998-1999-Diff.
	II	II		II	II	
<b>Curaçao</b>						
Merchandise	108.5	72.6	-35.9	400.8	411.1	10.3
-Non-oil products	108.2	72.6	-35.6	366.3	374.1	7.8
Free-zone re-exports	74.8	46.7	-28.1	88.2	63.4	-24.8
Adj. Non-oil prod.	33.4	25.9	-7.5	278.1	310.7	32.6
-Oil products	0.3	0.0	-0.3	34.5	37.0	2.5
<b>Bonaire</b>						
Merchandise	1.1	1.2	0.1	8.3	10.4	2.1
-Non-oil products	1.1	1.2	0.1	8.3	10.4	2.1
-Oil products	0.0	0.0	0.0	0.0	0.0	0.0
<b>Windward Islands</b>						
Merchandise	12.5	16.9	4.4	157.4	155.0	-2.4

-Non-oil products	10.0	13.2	3.2	125.0	115.3	-9.7
-Oil products	2.5	3.7	1.2	32.4	39.7	7.3

**Netherlands**

**Antilles**

Merchandise	122.1	90.7	-	566.5	576.5	10.0
			31.4			
-Non-oil products	119.3	87.0	-	499.6	499.8	0.2
			32.3			
-Oil products	2.8	3.7	0.9	66.9	76.7	9.8

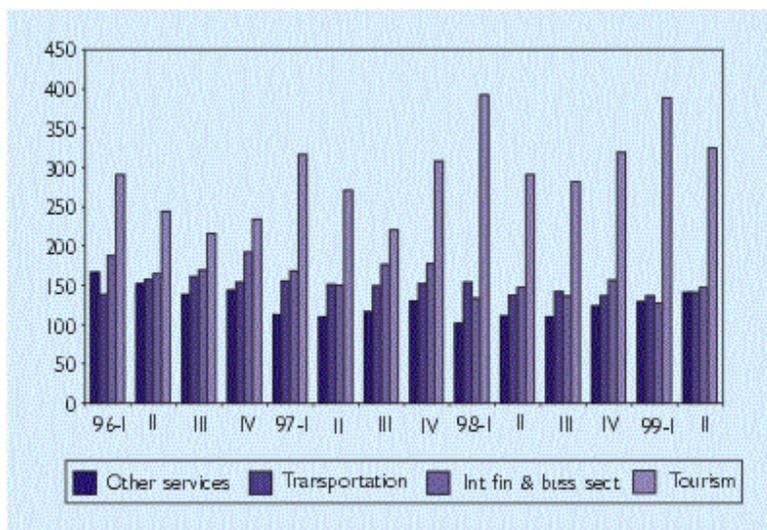
<sup>1)</sup> Cash basis

***The services balance***

The surplus on the services balance improved by NAf.3.4 million when comparing the second quarter of 1999 with the same quarter of 1998. This improvement was accounted for by an increase of NAf.57.6 million in receipts and an increase of NAf.54.2 million in expenditures (graph 2).

***Graph 2***

***Development in foreign exchange generated in the services sector by branch of industry (in NAf. million)***



***Tourism***

The tourism sector of the Netherlands Antilles recorded a 6.3% improvement in foreign exchange revenues generated when comparing the second quarter of 1999 with the same

quarter of 1998 (table 14). This improvement was attributable primarily to tourism on the Windward Islands.

**Table 14**  
**Second-quarter foreign exchange revenues**  
**from tourism per island <sup>1)</sup> (in millions NAf.)**

	1995- II	1996- II	1997- II	1998- II	1999- II
Bonaire	16.1	19.2	19.2	17.4	20.4
Curaçao	69.5	74.2	98.5	101.7	104.9
Windward Islands	170.5	151.0	152.7	186.0	199.0
Netherlands Antilles	256.1	244.4	270.4	305.1	324.3
Percentage growth	-3.2%	-4.6%	10.6%	12.8%	6.3%

<sup>1)</sup> Cash basis

Although the number of stay-over and cruise tourists visiting Curaçao during the second quarter of 1999 fell by 1.0% and 17.5%, respectively, compared to the same quarter of 1998, the amount of foreign exchange revenues increased by NAf.3.2 million (3.1%). Bonaire recorded an increase in foreign exchange revenues of NAf.3.0 million (14.7%). This increase was the result of a 10.5% increase in the number of stay-over tourists; the number of cruise tourists decreased by 24.0%.

The Windward Islands recorded a NAf.13.0 million (7.0%) increase in foreign exchange revenues generated in the tourist sector. This increase occurred despite falls in the number of stay-over and cruise tourists by 0.1% and 30.0%, respectively.

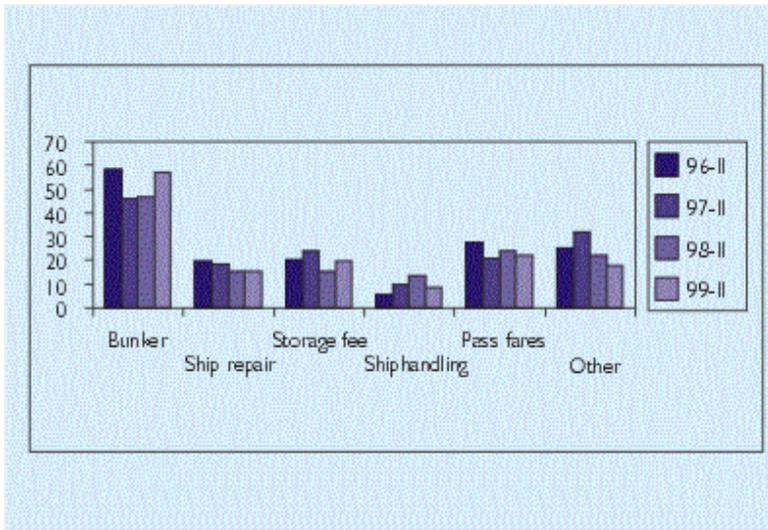
Noteworthy is the NAf.44.1 million increase in travel expenses in the second quarter of 1999, due to increases in travel expenses of residents from Curaçao and the Windward Islands.

### *Transportation*

The transportation sector recorded a slight improvement in foreign exchange earnings of NAf.4.2 million in the second quarter of 1999 compared to the same period in 1998. This improvement was primarily the net result of increases in bunker sales (NAf.10.9 million) and storage fees (NAf.4.6 million), on the one hand, and decreases in shiphandling (NAf.5.4 million) and other transportation services (NAf.4.4 million), on the other.

### **Graph 3**

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

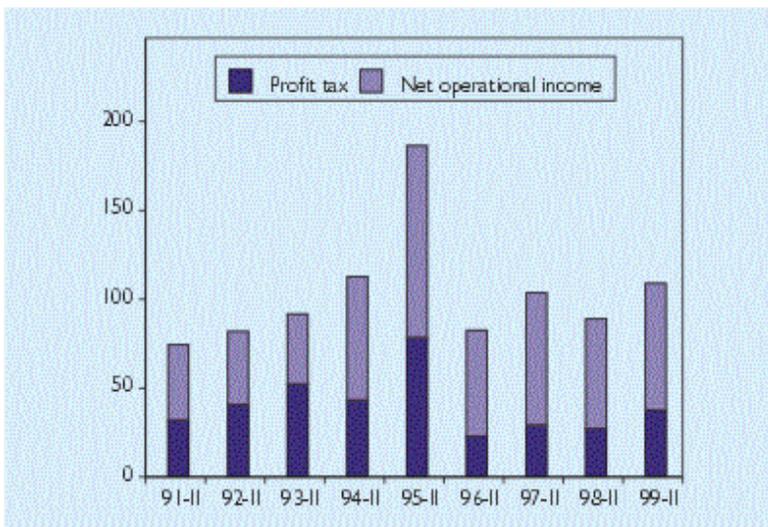


*The international financial and business services sector*

In the second quarter of 1999, the foreign exchange earnings in the international financial and business services sector remained stable. This stability was reflected by an increase in tax receipts of NAF.10.4 million and a decrease in operational income of NAF.10.0 million. In contrast, payments abroad declined by NAF.20.4 million.

**Graph 4**

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



***The income balance***

The income balance recorded a deficit of NAF.15.6 million in the second quarter of 1999, a worsening of NAF. 39.0 million compared to the same quarter of 1998 (table 15). This

worsening was due mainly to a decline in other investment income received from abroad and an increase in labor income paid.

Other investment income received declined by NAf.18.3 million, which was accounted for mainly by the local pension funds due to fewer investments abroad. Labor income paid increased by NAf. 15.8 million.

**Table 15**  
**Breakdown of the income account<sup>1)</sup> (in millions NAf.)**

	1998-II	1999-II	Diff.
Investment income	39.0	17.9	-21.1
-Direct investment income	-7.6	-11.6	-4.0
Received	0.5	0.0	-0.5
Paid	8.1	11.6	3.5
-Other investment income	46.6	29.5	-17.1
Received	52.5	34.2	-18.3
Paid	5.9	4.7	-1.2
Labor income	-15.6	-33.5	-17.9
Received	3.4	1.3	-2.1
Paid	19.0	34.8	15.8
Total income balance	23.4	-15.6	-39.0

<sup>1)</sup> Cash basis

### ***Unrequited transfers***

Net unrequited transfers declined by NAf.14.0 million in the second quarter of 1999 compared to the same quarter of 1998 (table 16). Total inflows increased by NAf.8.6 million, which can be explained primarily by pension receipts from abroad (NAf.8.5 million). Total outflows declined by NAf.5.4 million, which was attributable mainly to family and student grants (NAf.11.0 million). This development can be explained partly by the increased migration during the first half of 1999, which was reflected also by the increase in transfers to own account by NAf.5.3 million.

**Table 16**  
**Breakdown of unrequited transfers (in millions NAf.)**

	Inflows			Outflows		
	1998-II	1999-II	Diff.	1998-II	1999-II	Diff.
Family & student grants	22.0	20.1	-1.9	50.1	39.1	-11.0
Migrant transfers	0.6	0.6	0.0	1.8	0.2	-1.6

To own account	17.6	17.3	-0.3	14.0	19.3	5.3
Pensions	5.5	14.0	8.5	11.2	13.0	1.8
Other	3.2	5.5	2.3	1.6	1.2	-0.4
Total unreq. transfers	48.9	57.5	8.6	78.7	73.3	-5.4

### The capital account

The capital account improved by NAf.14.8 million when comparing the second quarter of 1999 to the second quarter of 1998. This improvement was attributable to the private capital balance, the surplus of which increased by NAf.22.0 million (table 17). The higher surplus can be explained entirely by the NAf.41.3 million increase in other private capital. This increase more than offset the deterioration in the other components of the private capital account, particularly in portfolio investments. The NAf.13.8 million decline in portfolio investment was attributable mainly to an increase in new investments by local pension funds.

The surplus on the official capital balance deteriorated by NAf.7.2 million. This deterioration was due primarily to a NAf.6.3 million decrease in loans and grants received. Most of these receipts are related to Dutch development aid.

**Table 17**  
**Major components of the capital account**  
**<sup>1)</sup> (net flows in millions NAf.)**

	1998-II	1999-II	Diff.
Private capital,	11.0	33.0	22.0
of which:			
-direct investment (real estate)	4.9	2.2	-2.7
-portfolio investment (securities)	1.2	-12.6	-13.8
-loans (net)	-4.7	-5.7	-1.0
-comm. banks borrowings	0.0	-1.8	-1.8
-other private cap.	9.6	50.9	41.3
Official capital,	24.1	16.9	-7.2
of which:			
-loans & grants	24.5	18.2	-6.3
-other government capital	-0.4	-1.3	-0.9
<b>CAPITAL BALANCE</b>	<b>35.1</b>	<b>49.9</b>	<b>14.8</b>

<sup>1)</sup> Cash basis

## MONETARY DEVELOPMENTS

## **Introduction**

During the second quarter of 1999, credit extension by commercial banks increased substantially. Given our still weak economy, this development may lead to a further dwindling of our foreign exchange reserves. Consumer loans on the Leeward Islands especially grew significantly. Despite indications that the latter growth was induced largely by the anticipated rise in the turnover tax, the Bank considers it a reason for concern and therefore will monitor it closely. The Bank will take corrective measures if deemed necessary. On May 17, 1999, the Bank raised the reserve requirement percentage from 8.0% to 8.5%. If credit extension continues to grow at a much faster pace than the economy, a further tightening of the reserve requirement is called for.

The demand for liquid assets by the government sector expanded during the second quarter of 1999. This expansion resulted primarily from the withdrawal of deposits as investors were reluctant to refinance government paper falling due. The lack of interest by investors can be explained by the uncertainties surrounding the restructuring of the public finances.

Further, investments in time deposits by commercial banks continued to increase at the expense of investments in productive assets, indicating entrepreneurs' lack of confidence in our economy.

## **Money supply**

During the second quarter of 1999, the money supply (M2) increased by 1.8% (NAf.50.8 million) compared to a 1.9% (NAf.49.1 million) expansion during the second quarter of 1998. This slight deceleration is the net result of a turnaround in the growth rate of the money component of the money supply from a 1.7% (NAf.17.4 million) contraction to a 2.5% (NAf.27.9 million) expansion, on the one hand, and a 2.9 percentage points deceleration to 1.4% (NAf.22.9 million) in the growth of the near-money component of the money supply, on the other.

The growth of the money component of the money supply during the second quarter of 1999 was the result of a 2.5% expansion in both total demand deposits (NAf.23.3 million) and the amount of coins and notes held by the public (NAf.4.6 million). The demand deposits denominated in local currency expanded by 1.1% (NAf.7.9 million), compared to a 0.2% (NAf.1.5 million) contraction during the second quarter of 1998. Demand deposits denominated in foreign currency increased by 7.9% (NAf.15.4 million) in the second quarter of 1999 compared to a 8.7% (NAf.15.4 million) contraction during the second quarter of 1998.

The 1.4% (NAf.22.9 million) expansion of the near-money component of the money supply during the second quarter of 1999 can be attributed primarily to the 4.0% (NAf.20.8 million) expansion in time deposits. In particular, time deposits held by business enterprises increased by NAf.18.6 million. This development reflects the still reticent attitude of many entrepreneurs towards risky investments primarily as a consequence of uncertainties related to the public finances and its impact on the economy.

A comparison of the levels of both savings and time deposits at the end of the second quarter of 1999 with those at the end of the second quarter of 1998, reveals increases of NAf.38.9 million and NAf.23.9 million, respectively.

**Table 18**  
**Quarterly changes in the components of the money supply (in millions NAf. and in percentages)**

	1999-II		1998-II	
Coins & notes with the public	4.6	(2.5%)	-0.5	(-0.3%)
Total demand deposits, of which:	23.3	(2.5%)	-16.9	(-1.9%)
-Neth. Ant. guilders	7.9	(1.1%)	-1.5	(-0.2%)
-Foreign currency	15.4	(7.9%)	-15.4	(-8.7%)
MONEY (M1)	27.9	(2.5%)	-17.4	(-1.7%)
Time deposits	20.8	(4.0%)	68.3	(15.1%)
Savings	2.1	(0.2%)	-1.8	(-0.2%)
NEAR MONEY	22.9	(1.4%)	66.5	(4.3%)
MONEY SUPPLY (M2)	50.8	(1.8%)	49.1	(1.9%)

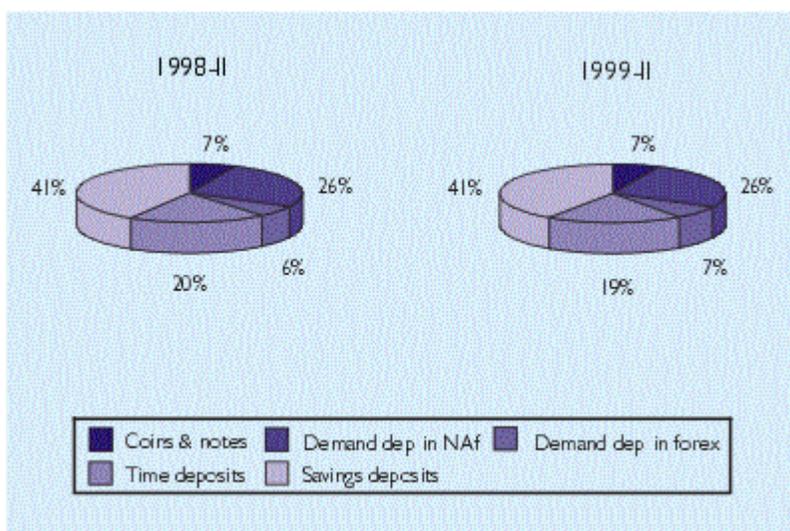
Graph 5 reveals no major shifts in the composition of the money supply at the end of the second quarter of 1999, compared to the end of the second quarter of 1998.

#### **Factors affecting the demand for liquid assets**

The total demand for liquid assets increased by 1.8% (NAf.50.8 million) during the second quarter of 1999, compared to a 1.9% (NAf.49.1 million) expansion during the same period in 1998 (see table 19). The growth during the second quarter of 1999 was the net result of a 4.7% (NAf.97.7 million) increase in the demand for liquid assets by the domestic sector, on the one hand, and a 6.9% (NAf.46.9 million) contraction in net foreign assets, on the other.

#### **Graph 5**

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



The expansion in the demand for liquid assets by the domestic sector during the second quarter of 1999 was primarily the result of the expansionary impact of the demand for liquid assets by the private sector, which grew by 2.5% (NAf.57.6 million) compared to a 0.9% (NAf.19.5 million) growth during the second quarter of 1998. The growth in domestic credit to the private sector was mainly the result of increases in loans to the private sector and amounts receivable by NAf.65.0 million and NAf.0.7 million, respectively, on the one hand, and a decrease in securities and participations by NAf.6.3 million, on the other.

**Table 19**  
**Quarterly changes in the demand for liquid assets by sector (in millions NAf. and percentages)**

	1999-II		1998-II	
General	25.2	(15.3%)	44.9	(38.4%)
Government, of which:				
-Central	11.5	(11.2%)	27.0	(45.1%)
Government				
-Island	13.7	(21.9%)	17.9	(31.3%)
governments				
Private sector	57.6	(2.5%)	19.5	(0.9%)
Miscellaneous	14.9	(-3.6%)	-7.7	(2.0%)
Domestic sector	97.7	(4.7%)	56.7	(2.8%)
Net Foreign Assets	-46.9	(-6.9%)	-7.6	(-1.3%)
Total Liquid Assets	50.8	(1.8%)	49.1	(1.9%)

The demand for liquid assets by the government sector expanded by 15.3% (NAf.25.2 million) during the second quarter of 1999 compared to a 38.4% (NAf.44.9 million)

expansion in the second quarter of 1998. This deceleration was the result of a smaller expansionary impact by both the Central Government and the island governments.

The demand for liquid assets by the Central Government increased by 11.2% (NAf.11.5 million) during the second quarter of 1999, compared to a 45.1% (NAf.27.0 million) expansion during the second quarter of 1998. The expansion during the second quarter of 1999 can be explained almost entirely by the NAf.17.2 million increase in the net liability of the Central Government at the Central Bank, on the one hand, and the NAf.6.2 million decrease in the net liability of the Central Government at the commercial banks, on the other.

The demand for liquid assets by the island governments expanded by 21.9% (NAf.13.7 million) during the second quarter of 1999 compared to a 31.3% (NAf.17.9 million) expansion during the second quarter of 1998. The expansionary impact by the island governments during the second quarter of 1999 corresponds mainly with the NAf.14.0 million rise in their net liabilities at the commercial banks.

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

The total amount of outstanding domestic loans (i.e., government paper and domestic credit to the private sector excluding special foreign borrowing, amounts receivable, and securities and participations) at the commercial banks expanded by 2.1% (NAf.51.4 million) during the second quarter of 1999, compared to a 0.9% (NAf.22.9 million) expansion in the same quarter of 1998. This development was the result of an acceleration in the growth of loans to the private sector from 1.1% (NAf.17.4 million) in the second quarter of 1998 to 2.8% (NAf.41.1 million) in the second quarter of 1999. The growth rate can be attributed primarily to the 6.1% (NAf.50.7 million) expansion in business loans, compared to a 0.7% (NAf.5.9 million) expansion during the second quarter of 1998. The marked increase in business loans during the second quarter of 1999 was mainly the result of a reclassification of loans on the Windward Islands. Mortgages grew by 1.2% (NAf.11.3 million), a deceleration compared to the 2.0% (NAf.24.6 million) expansion during the second quarter of 1998. Consumer loans grew marginally by 0.2% (NAf.1.1 million) during the second quarter of 1999, the same growth rate as in the second quarter of 1998.

On an annual basis, the total outstanding amount of loans to the private sector grew by 4.3%. This expansion can be attributed primarily to the 8.3% growth in business loans. Mortgages and consumer loans grew by 1.5% and 2.7%, respectively.

**Table 20**  
**Private sector loans and government paper at commercial banks as per end of period (in millions NAf. and percentages)**

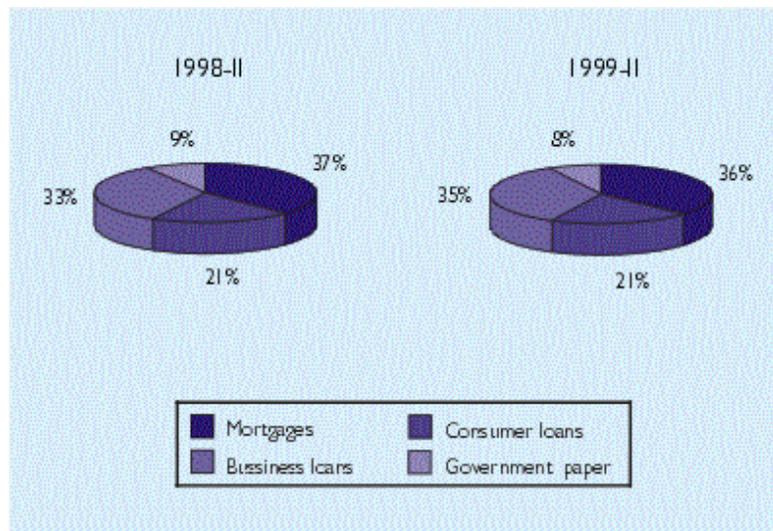
	1999-II	1998-II
Private sector loans,	2,336.5 (2.8%)	2,240.5 (1.1%)
of which:		

-Mortgages	929.1 (1.2%)	915.0 (2.0%)
-Consumer loans	521.0 (0.2%)	507.2 (0.2%)
-Business loans	886.4 (6.1%)	818.3 (0.7%)
Government Paper	197.9 (-5.5%)	221.3(-0.8%)
Total	2,534.4 (2.1%)	2,461.8 (0.9%)

The amount of government paper held in portfolio by the commercial banks contracted by 5.5% (NAf.11.6 million) during the second quarter of 1999, compared to a 0.8% (NAf.1.7 million) contraction during the second quarter of 1998. For the 1999 monetary cash reserve arrangement, net domestic credit to the general government ( i.e., the total amount of government paper in the commercial banks' portfolio netted by the total amount of government deposits at the commercial banks) is not allowed to surpass its end of October 1996 level. The amount of government paper in the commercial banks' portfolio at the end of June 1999 was NAf.49.6 million below this ceiling. This difference reflects the continued reluctance of commercial banks to even refinance government paper given the uncertainties surrounding the government finances.

**Graph 6**

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



Graph 6 reveals an increase by 2 percentage points to 35% in the share of business loans in the loan portfolio of the commercial banks. This increase was at the expense of the shares of mortgages and government paper, which each dropped by 1 percentage point to 36% and 8%, respectively.

A breakdown of commercial banks' private sector lending by island group reveals not much deviation between the growth rates of total loans on the Leeward and the Windward Islands

during the second quarter of 1999. On the Leeward Islands, the growth in total loans accelerated from 1.4% in the second quarter of 1998 to 2.7% in the second quarter of 1999. This acceleration was primarily the result of an acceleration in the growth of both consumer loans and business loans by 3.7 percentage points to 4.2% and 2.5 percentage points to 3.0%, respectively. The growth in mortgages decelerated by 1.6 percentage points to 1.4%. The increase in consumer loans was realized almost entirely during May and June and can be attributed to the public's anticipation of a forthcoming increase in the turnover tax. This expectation stimulated consumers to accelerate the purchase of commodities to avoid the extra costs of the tax. Despite the indication that this rise was temporary, the Bank considers it a reason for concern and will monitor the development in this loan category very closely.

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

	1999-II	1998-II
Private sector loans,	1,809.4 (2.7%)	1714.0 (1.4%)
of which:		
-Mortgages	661.3 (1.4%)	638.9 (3.0%)
-Consumer loans	425.4 (4.2%)	397.8 (0.5%)
-Business loans	722.7 (3.0%)	677.3 (0.5%)

On the Windward Islands, credit extension to the private sector expanded by 3.1% during the second quarter of 1999, compared to a 0.1% expansion during the second quarter of 1998. The expansion during the second quarter of 1999 was the net result of expansions in mortgages and business loans by 0.9% and 22.1%, respectively, on the one hand, and a contraction in consumer loans by 14.4%, on the other. However, the substantial changes in business loans and consumer loans are, to a great extent the result of a correction in the classification of loans between these two categories with some banks on the Windward Islands.

**Table 22**  
**Private sector loans at commercial banks on the Windward Islands as per end of period (in millions Naf. and percentages)**

	1999-II	1998-II
Private sector loans,	527.1 (3.1%)	526.6 (0.1%)
of which:		
-Mortgages	267.8 (0.9%)	276.1(-0.3%)
-Consumer loans	95.6 (-14.4%)	109.4(-1.2%)
-Business loans	163.7(22.1%)	141.1 (2.0%)

## INTERNATIONAL AND REGIONAL DEVELOPMENTS

### Introduction

The global economy is recovering gradually as Japan is slowly coming out of its longest-ever recession and several South East Asian countries are growing again. However, other economies, including Brazil and Venezuela, have continued to shrink. US growth is still moving ahead at a brisk rate, but slower than expected in the second quarter of 1999. This growth emanated from both strong domestic demand and improving exports. Consumer spending remained robust, driven primarily by steady job and wage growth and rising stock gains. Rising consumer demand pushed imports to a record high growth, offsetting the increase in exports, and ultimately worsening the trade deficit. Inflation remained quiescent in spite of a tight labor market.

The Dutch economy remained buoyant, powered mainly by consumer and government spending and growth in the export sector. Consumer prices in the Netherlands were rising much faster than in other Euro countries, while the jobless rate was the second lowest in the 11 Euro nations.

Japan's economy grew in the second quarter of 1999, fueled largely by consumer spending. So far, however, spending has not been able to create a sustainable economic growth without a rise in employment and wages. Growing unemployment and negligible wage increases contributed to lower Japanese consumer prices.

Brazil's economy experienced a downturn (-0.8%) in the second quarter of 1999. Six months after being forced to abandon its dollar-pegged exchange rate, Brazil's inflation remained relatively low. Inflation was kept in check due to tight monetary policy, low commodity prices, and weak global demand. Furthermore, unemployment showed some encouraging signs as it slowly diminished.

The economic recession in Venezuela deepened. The country's currency depreciated even further, raising prices and worsening Venezuela's trade competitiveness.

The Caribbean economies have been undergoing the effects of a series of global decisions that hampered their growth potential. A recent report accused 11 Caribbean countries (out of 20 countries worldwide) of having "harmful tax regimes," which could contribute to tax evasion. In response, Caricom formulated a joint document to counteract the threat to the region's tax havens. Protection for the region's traditional exports also was under increasing threat. The World Trade Organisation's (WTO) April ruling against the European Community came as a surprise to most of the banana-dependent economies. Moreover, sugar exports will be threatened with the loss of preferential market share as international trading relations are brought in line with WTO regulations. In June, the European Commission confirmed that it could not guarantee assistance to help exporters of rum and rice adjust to a free market when the fourth Lomé Convention expires in 2000.

To cope with the challenges of globalization, the Caribbean Development Bank and the Inter-American Development Bank have been planning to set up a joint task force to

support the reconstruction of the Caribbean economies over a span of five years. Meanwhile, tourism will benefit from the setting up of the Tradewinds Investment Holding Corporation, which has plans to invest \$30 million in hotels in the region.

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

Real GDP of the Netherlands grew by 3.2% in the second quarter of 1999, compared to 3.4% in the same quarter of 1998. Higher consumer and government spending and higher exports of, respectively, 3.7% and 3.5% fueled this increase. The surge in the export sector was half the growth of 7.3% in the second quarter of 1998. Sales on electronics and new cars went up in the second quarter of 1999. The rise in consumption was financed partially by an increase in loans (14.8% in April). Contrary to consumption, investment slowed to a growth of 1.2% in the April-June period of 1999.

Dutch consumer prices have been rising faster than in other Euro economies as the inflation rate rose to 2.3% in the second quarter of 1999. At this point, inflation has surpassed the level of price stability. The harmonized price index, used by the European Monetary Union to determine whether countries satisfy the inflation target stated in the Maastricht Treaty, was up by 2.1% in June, following an increase of 2.2% in June 1998.

The yield on the Dutch 10-year government bond declined by 3 basis points to 4.87 %, along with the regional benchmark, i.e., the German 10-year bond.

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

	1998-	1999-
	II	II
Real GDP (% growth)	3.4	3.2
Inflation (%)	2.3	2.3
Foreign exchange rate (Hf1 /\$, end period)	2.0212	2.0855
Unemployment rate (%)	4.3	3.4

Source: Bloomberg, DNB

The unemployment rate stayed at 3.4% in the three months ending June 1999, the second lowest (after Luxembourg) among the 11 nations that use the Euro. By contrast, the unemployment rate in Germany was 10.5% in June; in France, it was 11.4% in May. In June, the European unemployment rate remained unchanged, as signs of an economic recovery have yet to translate into more jobs. The unemployment rate in the Euro region is still twice the US unemployment rate.

### **Economic performance in Venezuela**

The Venezuelan economy continued to deteriorate, contracting by 9.9% in the second quarter of 1999, after the 9.8% drop in the first quarter of 1999. According to the company

"Datanalis," the growth rate in the first half of 1999 tumbled by 7.5%, compared with a fall of 5.0% in the first half of 1998. Some indicators confirmed a further decline in the economy. Car sales plunged by 53.3% up to May, while Venezuela's nontraditional exports fell by 23.7% up to June. The Bolivar devaluated by 7.5% in the first half of 1999, and prices increased by 11.9% in the same period. Competitiveness, therefore, has weakened further.

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

	1999-I	1999-II
Real GDP (% growth)	-9.8	-9.9
Inflation (end of period %)	27.6	23.6
Foreign exchange rate (VEB/\$, end period)	584.0	606.75

Source: Latin American Monitor and Bloomberg

Furthermore, proposals were made to increase social security contributions and to raise wages in the aluminum sector by 18.0%. In the oil sector, the unions were demanding a 110% increase in salaries. These developments and the depreciation of both the Colombian Peso and the Brazilian Real have increased concerns about Venezuela's trade competitiveness.

Higher oil prices contributed to higher government revenues, and with no change in policy, the fiscal deficit will be approximately 6.0% of GDP. Including debt amortization, the overall deficit was around 9.0% of GDP. To finance this deficit, Venezuela will need \$5 billion in 1999 and IMF backing to raise this amount of capital.

### **Monetary policy**

The Central Bank cut its discount rate to 38.0% from 54.0% and also doubled the interest rate on the reserve requirement to 4.0%. However, the direct impact is minimal because commercial banks make infrequent use of the discount window. The Central Bank also was considering measures to further narrow the spread between deposit and lending rates. Possible measures included the use of Central Bank bonds as collateral in the money market and an improved payment system, which would help cut transaction costs. However, the structure of the banking sector will make it difficult to get interest rates down. The 19 smallest of the 43 commercial banks account for only 2.8% of total assets. These banks have been suffering from nonperforming loans, which have risen by 6.0%. To survive, the small banks have been forced to maintain high lending rates.

### **The oil sector**

Oil prices remained firm at nearly \$14 per barrel for the oil basket and revenue windfall was substantial. Every rise in the oil price by US\$1 will increase revenues by \$700 million a year.

The minister of energy and mining announced that the oil company PDVSA's 10-year investment plan had been cut by 43%, or approximately \$13 billion. The output capacity is

now planned at 5.8 billion barrels per day in 2009, down from the previous target of 6.2 billion barrels a day in 2007. PDVSA should concentrate on value-added areas, such as refined products and petrochemicals. Venezuela is in a strong position to expand the petrochemical sector, primarily because of its comparative advantage. PDVSA can produce natural gas at a cost of \$0.52 per oil-equivalent barrel, compared with an average of \$0.95 in the United States. PDVSA also is examining closer cooperation with Brazil. With the persistent energy shortages in Brazil and surplus capacity in Venezuela, both parties will benefit from this closer cooperation.

### **Economic performance in the United States**

In the second quarter of 1999, the US economy posted a modest annual growth rate of 1.8%, much slower than previously expected. Consumer spending, private investment, and exports accounted for this moderate growth. Household buying power showed little sign of abating because personal income improved by 0.7%. Higher income stemmed from strong employment growth, healthy wages growth, and wealth gains from rising stock values and home prices. Personal consumption expenditures rose at a 4.6% annual rate, down from 6.1% in the second quarter of 1998 (table 25).

Durable goods spending edged up by 7.7%, but spending on services such as travel, other types of leisure, and education were the power behind personal spending. The US growth also was encouraged by gains in private investment (2.1%) and exports (4.3%). The contributions of domestic demand and exports, however, were offset partially by the effects of a major increase in imports and a decline in inventories. Consumer demand was so strong that it caused inventory growth to become unsustainably low. Besides a second quarter improvement in the export sector, imports rose by 14.4%, about three times as fast as exports. This development left a net trade deficit of \$337.4 billion.

Inflation continued to be restrained at 2.0% despite a tight labor market and a rise in labor costs. Wage costs surged by 1.2%, the largest jump since the second quarter of 1990. It has become increasingly evident that gains in productivity have been keeping inflation down. The annual productivity growth rate of 1.3% restrained inflationary pressures in the April-June quarter. Second quarter consumer prices were fueled by higher energy and clothing prices.

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

	<b>1998-II</b>	<b>1999-II</b>
GDP	1.8	1.8
Consumer spending	6.1	4.6
Consumer price	1.7	2.0
Unemployment rate (%)	4.5	4.3
Imports	9.3	14.4
Exports	-7.7	4.3

Source: Bloomberg

So far, labor markets have not shown any signs of loosening up, as the US jobless rate in the three months to June 1999 slipped to 4.3% from 4.5% in the second quarter of 1998. Job growth has been healthy in all sectors except for the manufacturing sector, which was affected by weak exports and import competition. However, manufacturing is slowly showing some signs of a turnaround after last year's poor performance.

On June 30th, the Federal Reserve raised the overnight bank-lending rate by a quarter point to 5.0%. This increase was more of an attempt to take back part of last fall's "emergency injection of liquidity" than to guard the economy against a possible overheating.

### **Economic performance in Japan**

Japan's economy rose by 0.8% in the quarter ending in June 1999, spurred by consumer spending and public capital investment. The news of a second straight quarter growth has fueled a rise in the yen and boosted the stock market. During this period, household spending surged by 1.8%, caused mostly by spending on housing (2.6%), a result of low mortgage rates. Government spending has been the tool of economic growth, especially in last quarter's growth. The government now will decide how much more to spend to meet its growth target and to create more jobs.

Regardless of an increase of 1.0% in workers' salaries (table 26), the growing unemployment had a negative influence on consumer spending, especially with more companies trimming their payrolls to advance their profits. Japan's unemployment rate jumped to a postwar high of 4.9% in June 1999. As long as people continue to lose their jobs, an uneven recovery will be created. Confidence among consumers and producers improved in the second quarter, but not fast enough to produce a sustainable recovery in private demand.

**Table 26**  
***Selected key economic figures of Japan (% change)***

	<b>1997-II</b>	<b>1998-II</b>	<b>1999-II</b>
GDP	1.4	-1.7	0.8
Consumer prices	2.2	0.1	-0.3
Consumer sentiment	-7.4	-9.8	9.7
Unemployment rate (%)	3.5	4.3	4.9
Average salary income	-0.4	-4.9	1.0

Source: Bloomberg

Japan experienced a deflation of 0.3% in the three months ending in June 1999, as associated with weak income growth and excess supply of goods. As long as wages do not show a greater improvement and companies proceed to produce more than consumers want to buy, downward pressures on prices will continue.

In the April-June quarter, Japan's exports fell by 0.5%, while imports gained by 2.6%. The threat of a rising yen against the dollar may weaken Japanese exports further.

## DEVELOPMENTS IN THE FINANCIAL SECTOR

### Introduction

During the second quarter of 1999, the Bank continued to devote its supervisory efforts toward the monitoring of the Y2K endeavors of the Netherlands Antillean financial sector to accomplish a timely Y2K-readiness. The Bank performed Y2K reviews at a selected number of financial institutions and regular on-site examinations at two credit unions.

### Developments in the domestic banking sector

Total assets of the Netherlands Antillean domestic banking sector increased slightly by NAf 63.2 million (1.3%) to NAf 4,795.8 million during the second quarter of 1999. This increase was mainly the net result of higher interest-bearing cash and loans and a decrease in non-interest-bearing cash.

Non-interest-bearing cash declined by NAf 49.6 million (12.2%) to NAf 358.5 million as a result of a decline in cash balances maintained at foreign commercial banks.

Interest-bearing cash increased by NAf 30.3 million (3.9%) to NAf 809.7 million because of increases in time deposits placed at the Central Bank and time deposits placed at foreign commercial banks. The increase of time deposits placed at the Central Bank is in line with the 50 basis points increase of the reserve requirement to 8.5% during the second quarter of 1999.

Furthermore, the combined credit portfolio of the domestic commercial banks grew further by NAf 79.5 million (2.7%) to NAf 3,049.9 million during the second quarter of 1999. The growth was accounted for largely by overdraft facilities extended to domestic business enterprises and time loans extended to domestic business enterprises and local individuals. The growth of the loan portfolio for the second consecutive quarter may be viewed as being in line with the inactivation of the monetary cash reserve arrangement for private sector credit as per the end of 1998.

The increase in total assets was financed mainly by an increase in the deposit base of local commercial banks by NAf 28.5 million (0.7%) to NAf 4,003.5 million. Furthermore, borrowings increased by NAf 29.2 million (15.8%) to NAf 214.2 million. Savings deposits of local individuals and time deposits of domestic and foreign business enterprises especially increased. Furthermore, borrowings from affiliated commercial banks accounted for the increase in borrowings.

Similar to the first quarter of 1999, the local banking sector continued to reflect adequate capitalization and liquidity at the end of the second quarter.

**Table 27**  
***Aggregate balance sheet of commercial banks***

*operating in the domestic banking sector of the  
Netherlands Antilles at quarter-end (in millions  
NAf.)*

	1999-II		1999-I		1998-II	
	NAf.	%	NAf.	%	NAf.	%
<b>ASSETS</b>						
Non-int.- bearing cash	358.5	7.5	408.1	8.6	332.3	7.5
Interest- bearing cash	809.7	16.9	779.4	16.5	633.3	14.3
Investments	283.5	5.9	280.0	5.9	310.3	7.0
Loans	3,049.9	63.62	2,970.4	62.82	2,891.3	65.0
Inv. unconsol. sub.	14.2	0.3	18.3	0.4	12.1	0.3
Fixed assets	173.6	3.6	172.6	3.6	171.8	3.9
Other assets	106.4	2.2	103.8	2.2	90.2	2.0
Total assets	4,795.8	100.04	4,732.6	100.04	4,441.3	100.0
<b>LIABILITIES</b>						
Demand deposits	1,341.6	28.01	1,340.6	28.31	1,236.1	27.8
Savings deposits	1,706.5	35.61	1,690.1	35.71	1,647.2	37.1
Time deposits	955.4	19.9	944.3	20.0	875.3	19.7
Total deposits	4,003.5	83.53	3,975.0	84.03	3,758.6	84.6
Borrowings	214.2	4.5	185.0	3.9	137.8	3.1
Other liabilities	189.6	4.0	195.9	4.1	174.8	3.9
Total liabilities	4,407.3	92.04	4,355.9	92.04	4,071.2	91.6
Minority interest	5.7	0.1	5.6	0.1	5.6	0.1
Subord. debentures	6.3	0.1	6.6	0.1	8.1	0.2
General provisions	102.5	2.1	96.9	2.0	97.1	2.2
Capital & reserves	274.0	5.7	267.6	5.7	259.3	5.9
Total capital	388.5	8.0	376.7	8.0	370.1	8.4
Total liabilities and capital	4,795.8	100.04	4,732.6	100.04	4,441.3	100.0

## **Developments in the international banking sector**

Total assets of the international banking sector decreased slightly by 0.4% from NAF 63.8 billion to NAF 63.6 billion during the second quarter of 1999. The marginal decrease was caused mainly by a decline in investments, which more than offset the increase in cash and demand balances, loans and leases, and other assets.

Total liabilities dropped by 0.3%. The drop was accounted for by demand deposits and other liabilities. The capitalization of the international banking sector increased by NAF 19 million and stood at NAF 4.6 billion at the end of the second quarter of 1999. The capital-to-total-assets ratio of the sector amounted to 7.79% at the end of the quarter.