QUARTERLY BULLETIN 2010-1

Bank van de Nederlandse Antillen

REPORT OF THE PRESIDENT

The global economy continued to expand, albeit moderately, during the first quarter of 2010. Most economies registered stronger growth, with the emerging and developing economies leading the global recovery. Against this background, the economy in the Netherlands Antilles grew slowly in the March quarter of 2010 measured by a 0.8% increase in real Gross Domestic Product. Real GDP growth was attributable entirely to the expansion in domestic expenditures as net foreign demand dropped. The decline in net foreign demand stemmed from a decline in the export of goods and services, offset in part by a decline in import demand in real terms. The rise in domestic expenditures was driven largely by higher government spending. Public consumption increased, supported by higher spending on wages & salaries and goods & services, while public investment rose reflecting the implementation of the Social Economic Initiative (SEI) projects. Meanwhile, private spending increased slightly, reflecting a modest recovery in private consumption and investments. Inflation in the Netherlands Antilles climbed to 3.6% in the first quarter of 2010, up from 3.2% in the first quarter of 2009. The accelerated inflationary pressures were due mainly to increased global oil prices. In contrast, the annualized inflation rate decelerated to 1.6% in the March quarter of 2010, down from 5.9% in 2009. This deceleration was caused by price deflation in the category "transport and communication" and lower inflation in all other categories.

A review by sectors shows that the utilities, construction, and financial sectors were primarily accountable for the expansion in the private sector. The growth in the utility sector was related to increased water and electricity production, particularly in Bonaire and the Windward Islands. Following a contraction in the first quarter of 2009, activities in the construction sector expanded as indicated by an increase in mortgages and a smaller decline in import demand. Furthermore, output in the financial services sector rose, accounted for by both the domestic banks and the internationally operating financial services companies.

The hotels and restaurants sector registered a modest growth as a result of an upturn in stay-over tourism. The latter was attributable to a growth in stay-over visitors in St. Maarten and Bonaire. In contrast, stay-over tourism in Curaçao shrank as a result of a significant decline in the Venezuelan market. Meanwhile, cruise tourism declined because of the drop in cruise passengers in Curaçao and Bonaire.

The wholesale and retail trade sector recorded a decline in activities, dominated by negative developments in the free zone in Curaçao. Similar to stay-over tourism in Curaçao, the free zone was affected by a decline in the number of Venezuelan visitors during the first quarter of 2010. Real value added in the transport, storage, & communication sector also shrank due to, among other things, a decline in the number of passengers transported by the domestic airlines. In addition, harbor activities dropped reflecting declines in the number of ships piloted into the ports, cargo movements, and oil transshipment. Finally, manufacturing activities registered no growth as the decline in value added generated by the ship repair industry offset the good performance of Curaçao's oil refinery. The latter was related to increased sales activities.

The deficit on the current account of the balance of payments declined further in the first quarter of 2010 compared to the first quarter of 2009 due to an improvement in the current transfers and income balances. The current transfers balance improved because of the substantial inflow of debt relief funds from the Dutch government. The improvement of the income balance was related to lower dividend and interest paid on foreign investments in the Netherlands Antilles. In contrast, both the trade and the services balances worsened. The deterioration of the trade balance was due mainly to increased oil imports reflecting higher average oil prices on the international markets, and a downturn in the free zone and ship repair industries. Meanwhile, the services balance worsened largely as a result of a decline in foreign exchange earnings from the tourism industry. The deficit on the current account was financed by, among other things, the repatriation of funds abroad by financial corporations to finance their operations in the Netherlands Antilles, the withdrawal of funds from foreign bank accounts, and increased net trade credits received on imports. Furthermore, net direct investments into the Netherlands Antilles rose owing to the purchase of real estate by nonresidents. Capital transfers also increased because of the transfer of development aid funds from the Netherlands. Owing to the strong capital inflows, the balance of payments recorded a surplus in the first quarter of 2010 as reflected by an increase in our international reserves.

The general government registered a cash surplus in the first quarter of 2010, which was slightly lower than in the first quarter of 2009. The cash surplus was the result of increased revenues mitigated by higher expenditures. The rise in revenues was related to, among other things, increased debt relief funds received by the island government of Curaçao from the Netherlands. The central government, in contrast, received less debt relief funds in the first quarter of 2010 than in the first quarter of 2009. A growth in profit tax and motor vehicle tax receipts of the island government of Curaçao also contributed to the rise in revenues. Moreover, the central government received more revenues from telecommunication licenses. The general government's expenditures expanded due to higher current expenditures, offset in part by lower capital expenditures. The expansion in current expenditures can be ascribed largely to transfers by the general government to other levels of government. Furthermore, increased outlays on wages & salaries and goods & services contributed to the growth in current expenditures. As a result of the implementation of the debt relief program, the total public debt-to-GDP ratio dropped to 69.0% at the end of the March quarter of 2010.

The money supply grew at a faster pace in the first quarter of 2010 compared to the first quarter of 2009. This acceleration was led by increased net foreign assets, reflecting the surplus on the balance of payments. In contrast, net domestic assets dropped, due to, among other things, the decline in net credit to the government related to the implementation of the debt relief program. Credit extension to the private sector grew only marginally compared to the March quarter of 2009. An analysis by island reveals that on the Leeward Islands, loans extended to the private sector dropped as a slight increase in consumer loans was offset by declines in mortgages and business loans. Meanwhile, on the Windward Islands, credit extension to the private sector grew, mostly because of an increase in business loans.

The developments in the monetary aggregates during the first quarter of 2010 prompted the Bank to further relax its monetary stance. The Bank reduced the reserve requirement percentage by 25 basis points monthly reaching 9.50% at the end of the March quarter of 2010. In addition, maturing certificates of deposits issued by the Bank were refinanced only at the biweekly auctions. The Bank's official lending rate i.e., the pledging rate, remained unchanged at 1.00%.

For the past couple of years, the dismantling of the Netherlands Antilles has dominated the policy agenda of the governments of the Netherlands Antilles and the island territories. With the signing of the Final Agreement during the Round Table Conference in The Hague in September 2010, this long process, which took five years, has come to an end. Finally, Curaçao and St. Maarten will become autonomous countries within the Dutch Kingdom, while Bonaire, Saba, and St. Eustatius will become integrated with the Netherlands.

Because of the debt relief program, supporting the constitutional changes, the new countries of Curaçao and St. Maarten will have a unique starting position with sound public finances. However, several challenges lie ahead for both countries, including the reform of the public pension, education and health care systems, to ensure an adequate quality level and long-term financial sustainability. These reforms imply making difficult choices and taking unpopular measures.

Moreover, to keep the public finances sound, both governments will have to reform their tax systems. In both countries, tax reform should be aimed at increasing the government's revenues and improving the island's competitiveness vis-à-vis other countries in the region. The Dutch government has already announced plans to reform the tax system of Bonaire, Saba, and St. Eustatius by reducing tariffs and making the system simpler. Curaçao and St. Maarten will have to take similar measures to maintain their competitiveness towards these new Dutch municipalities and increase their competitiveness vis-à-vis other countries in the region. Particularly for St. Maarten, reform of the tax system is unavoidable. Without reform, St. Maarten will not be able to maintain sound public finances and improve the level of public services.

In addition, both Curaçao and St. Maarten will have to improve their investment climate to achieve sustainable economic growth. Important areas that should be addressed include government bureaucracy, the flexibility of the labor market, and the mismatch between labor demand and supply. These efforts should be complemented by consistent compliance with the rules of good corporate governance in the public sector and state-owned enterprises. Through the implementation of such a broad-based multi-annual policy reform framework, the new countries of Curaçao and St. Maarten will be able to meet the high expectations of their citizens for a better future.

E.D. Tromp
President

INTERNATIONAL ECONOMIC DEVELOPMENTS

The global economy has shown a moderate and uneven recovery. This recovery has been supported largely by the developing and emerging economies, as the growth of many advanced economies has remained restrained. Contrary to 2009, the US economy grew by 2.4% in the first three months of 2010, stemming mainly from a rebound in private and foreign demand. Consumer spending was subdued, constrained by high unemployment, slow income growth, lower wealth, and tight credit. Gross private domestic demand rose by 10.5%, mostly the result of higher spending on software & equipment by businesses. The revival of the world economy led to an expansion in exports of goods & services, outpacing the gain in import demand. As a result, the US trade deficit improved by 13% to US$338 billion. In spite of the resumption of economic growth, many firms remained cautious in hiring new staff and chose to increase working hours instead. Hence, the unemployment rate held steady at 9.7% throughout the first quarter of 2010. In the wake of weak economic recovery, companies were restrained from charging more for goods and services, which kept inflation in check at 0.2%. Since December 2008, the Federal Reserve has kept the Fed funds rate at a record low of 0%-0.25% to ensure economic growth and to ease the high unemployment in the United States.

Table 1 Selected indicators of various countries

	United States		Netherlands		Venezuela	
	2009-I	2010-I	2009-I	2010-I	2009-I	2010-I
Real GDP (% change)	-3.8	2.4	-4.5	0.6	0.5	-5.2
Consumer prices (%)	2.8	0.2	2.5	0.9	31.7	25.3
Unemployment rate (%)	8.6	9.7	4.4*	6.1*	7.3	8.7

Sources: US Bureau of Economic Analysis, US Bureau of Labor Statistics, Central Bureau of Statistics Netherlands, Banco Central de Venezuela, and Instituto Nacional de Estadística Venezuela.
*Quarterly average

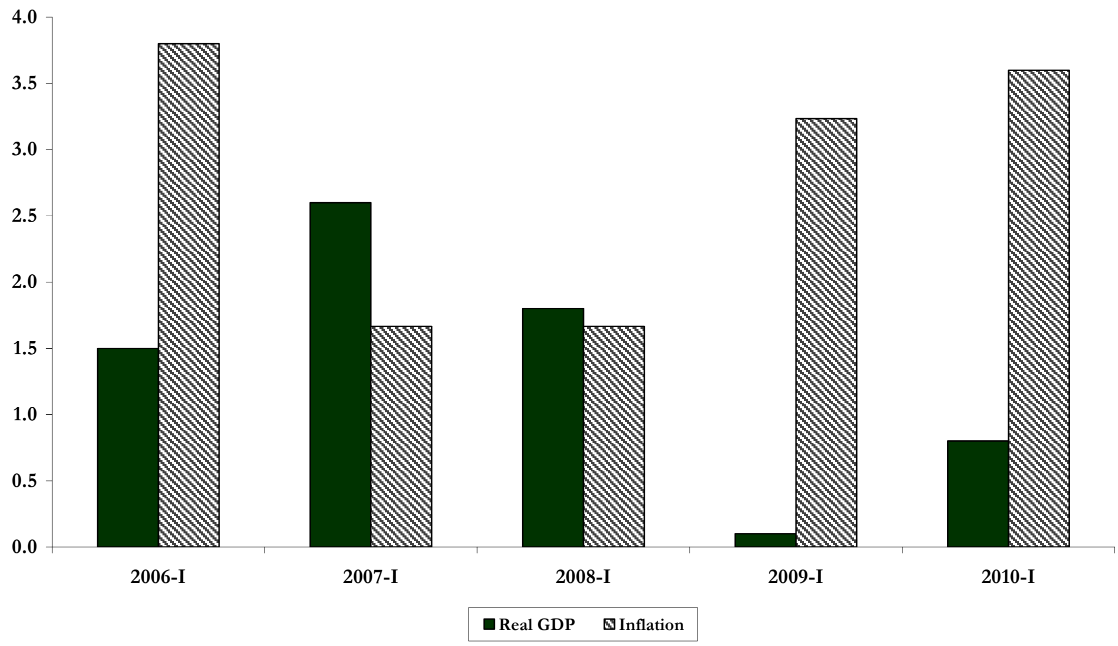
The economy of the Netherlands rebounded as real GDP rose slightly by 0.6% throughout the months January-March 2010. The recovery was caused largely by a gain in exports (9.0%), mitigated partly by higher import demand. Following a significant downturn in the first quarter of 2009, re-exports and Dutch manufactured exports expanded, led mostly by higher demand for chemical and metal products. Faced with a weak labor market, consumer spending fell, albeit at a slower pace than in 2009. Consumers spent less on home furnishings and electronics, which outweighed their higher purchases of gas and vehicles. Construction output showed a further decline, caused by a contraction in both residential and nonresidential fixed investment. The economic rebound was seen predominantly in mining & quarrying and manufacturing. During the March quarter of 2010, consumer prices were down by 0.9%, as energy prices are not immediately affected by the rise in world oil prices. Despite the resumption of economic growth, the first-quarter's unemployment rate in the Netherlands rose to 6.1% in 2010. The business services sector suffered the most job losses.

While the rest of Latin America is recovering from the global recession, Venezuela has fallen into stagflation. Despite an improvement in export revenues, Venezuela's economic recession deepened, as real GDP shrank by 5.2% in the first quarter of 2010. Almost all sectors suffered a downturn; the transport sector was the hardest hit with a decline of 14.3%, followed by trade (-11.9%), financial services (-9.7%), and manufacturing (-9.2%). Foreign and private domestic investments have shrunk over the last several years. The widespread nationalizations undermined investment, and price and currency controls squeezed the private sector's output. Also, the energy shortage forced the government to halt industrial production. In response to the economic decline and drop in oil revenues, which started in 2009's second quarter, the government created a dual exchange rate by devaluating the bolivar currency from 2.15 to 2.6 and 4.3 against the U.S. dollar on January 8, 2010. With the cheaper currency, Venezuelan products become more competitive, which is expected to raise the country's export revenues and reduce its fiscal deficit. The increase in oil export revenues improved Venezuela's current account surplus to US$6.5 billion, still below the 2008 level. The economic recession worsened the labor market situation, resulting in a higher jobless rate of 8.7% in the three months ending March 2010. Consumer price inflation remained high at 25.3% despite the slump in economic activity. Distortions caused by price and currency exchange controls and declining domestic industrial production contributed to the high inflation rate.

GENERAL ECONOMIC DEVELOPMENTS IN THE NETHERLANDS ANTILLES

In line with the events unfolding in the global economy, the Netherlands Antillean economy grew only slightly by 0.8% in the first quarter of 2010. The key driving factor behind the GDP growth was the revival in domestic demand, outbalancing the weaker impulses from net foreign demand. Growth in public spending was accountable mainly for the rebound in domestic demand. The slight economic progress was accompanied by a higher inflation rate of 3.6% in the March quarter of 2010 (see Graph 1). Consumer price inflation rose in the wake of a perceptible increase in world crude oil prices.

Graph 1 Economic developments (annual quarterly change)



Source: BNA estimates

All components of aggregate domestic demand contributed to the first quarter GDP growth, with higher public spending making the largest contribution to this rise. The implementation of Social Economic Initiative (SEI) projects and gains in outlays on wages & salaries and technical assistance has led to growth in both public consumption and investment. Compared to the first quarter of 2009, private demand showed a recovery. Following a contraction in the March quarter of 2009, consumer spending grew slowly. The weak propensity to purchase may be connected with, among other things, the higher consumer inflation, slower growth in consumer loans, and rather sluggish private sector activity. An expansion mostly in nonresidential structures and equipment & software sustained the rise in private investment activities.

By contrast, net foreign trade dampened GDP growth. Although exports of goods & services fell at a more moderate pace, net foreign demand deteriorated as the declining exports outpaced the decrease in import demand in real terms. Exports of goods & services decreased primarily because of decreases in free-zone exports and cruise tourist arrivals. Imports of merchandise shrank in real terms, but much less than in 2009, which was consistent with the recovering domestic activity. This development in merchandise imports was accounted for by the communication, real estate, and education sectors. Also, the slower decline in merchandise imports was due to higher world oil prices, which rose notably by about 70%[1] on average in the first quarter of 2010 compared to the first quarter of 2009. However, the marked drop in free-zone imports lessened the gain in merchandise imports.

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

	2009-I[2]	2010-I
Domestic expenditure, of which:	-0.8	1.5
Private sector	-0.8	0.4
- Investment	-0.5	0.3
- Consumption	-0.3	0.1
Government sector	0.0	1.1
- Investment	-0.1	0.1
- Consumption	0.1	1.0
Changes in inventory	0.0	0.0
Foreign net expenditure, of which:	0.9	-0.7
Export of goods and services	-7.6	-3.8
Import of goods and services	-8.5	-3.1
GDP	0.1	0.8
Net primary income	-1.6	1.5
Gross national income	-1.4	2.3
Net current transfers from abroad	5.9	2.6
Gross national disposable income	4.5	4.9

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

In contrast to 2009's first quarter, gross national income in the Netherlands Antilles expanded in the first quarter of 2010, aided mainly by a recovery in primary income from abroad. This recovery was sustained by declines in interest payments on portfolio investments and dividend payments on equity investments by the Netherlands Antilles. As a result, national savings were up, led by higher public savings, outperforming the downturn in private savings. Despite the increase in public demand, public savings improved, associated with the sizeable capital inflow of public debt relief funds, resulting mostly in less non-bank financing.

[1] International Financial Statistics (IFS), IMF.

[2] First-quarter GDP growth for 2009 has been revised to 0.1%, down from a previously estimated 0.8% gain. This GDP estimate is based on more recent (sources of) data. The downward revisions at the sector level were in the following sectors: manufacturing, construction, wholesale & retail trade, restaurants & hotels, and financial services. Moreover, the downward revision in expenditures was made in private demand.

Domestic production

The first-quarter outcome was attributable to a gain in both the private and public sectors in 2010. The growth in the private sector was caused largely by positive developments in the utility, construction, and financial services sectors (see Table 3). The increase in both water and electricity production contributed to the growth in the utility sector, led mainly by Bonaire and the Windward Islands. Construction investment rebounded from 2009's first quarter slump, reflected by the stronger growth in mortgages and the slower decline in import demand. Developments in the construction sector may have been supported by confidence in the global economic recovery.

The further growth of the financial services sector was attributable to increased value added in both domestic and international financial services. Net income of the domestic commercial banks was up because of a cutback in expenses, outbalancing the decline in income earned. In contrast to 2009, more activities were registered in the international financial services sector, backed by gains in wages & salaries and other operational expenses.

Table 3 GDP by sector (real percentage changes)

Sector	2009-I	2010-I
Agriculture, fishery, & mining	-5.8	10.4
Manufacturing	-8.2	0.0
Electricity, gas, & water	1.5	5.4
Construction	-4.0	1.9
Wholesale & retail trade	-2.4	-3.5
Restaurants & hotels	-3.5	0.7
Transport, storage, & communication	1.6	-1.0
Financial intermediation	1.9	2.9
Real estate, renting, & business activity	0.8	1.0
Other community, social, & personal services	0.7	0.9
Private households	1.5	0.3
Total private sector	-0.5	0.6
Public sector	6.0	4.7
Taxes minus subsidies	-2.9	-2.7
GDP	0.1	0.8

BNA estimates

Following the slump in 2009's first quarter, activities in the tourism industry remained relatively subdued, resulting in a real value added of 0.7% in the hotels & restaurants sector. In the first quarter of 2010, the number of stay-over tourists in the Netherlands Antilles was up by 0.7%, an improvement compared to the 11.6% decline in the same quarter of 2009. The North American and the European markets were the largest contributors to the rising visitor numbers. Meanwhile, this gain was tempered by a marked fall in the South American market. By contrast, the cruise sector saw a drop of 4.2%[3] against a gain of 13.6% in the

[3] Bonaire's March figures are estimates.

March quarter of 2009. This deterioration resulted from fewer cruise passenger arrivals in Curaçao and Bonaire.

An analysis by island reveals that 2010's first-quarter growth in stay-over tourism was led by St. Maarten (7.0%) and Bonaire (11.4%). The favorable performance in St. Maarten's tourism sector resulted predominantly from more visitors from the United States and France. In addition, the growth in the South American market was due mostly to an increase in the number of Brazilian tourists. This result was related to the marketing strategy to attract more South American visitors to the island. In line with favorable stay-over results, the hotel occupancy rate rose by 2.6 percentage points to 77.2% the first quarter of 2010. The upturn in Bonaire's stay-over tourism was sustained by the North American and European markets, which provided more U.S. and Dutch travelers.

Curaçao's stay-over tourism suffered a further setback (-9.9%), as the dismal performance of the South American market outpaced the increase in its primary markets of North America and Europe. The remarkable decrease in the number of Venezuelan visitors was due to tightened restrictions on the access to foreign currency. Also, on January 8, 2010, the government devaluated the currency, raising the costs of Venezuelan imports and foreign traveling. The share of Venezuelan visitors in total South American visitors fell from 32% in the first quarter of 2009 to 11% in the first quarter of 2010. Against the backdrop of discouraging stay-over results, the hotel occupancy rate dropped further by 7.7 percentage points to 73.9% in the March quarter of 2010. Nevertheless, the number of visitor nights increased (4.8%). (See Table 7 in the appendix for more details.)

The production of the manufacturing sector recorded no growth in the quarter ending March 2010 because increased output in the "Isla" refinery was offset by the notable contraction in the Curaçao's ship repair industry. In terms of value added, the "Isla" refinery's performance was caused by an increase in sales activities and re-exports. In line with the higher activity level, operational costs were up, stemming mostly from higher fuel costs. In Curaçao, activities in the ship repair industry shrank, reflected by a significant drop in the number of man-hours sold (12.1%).

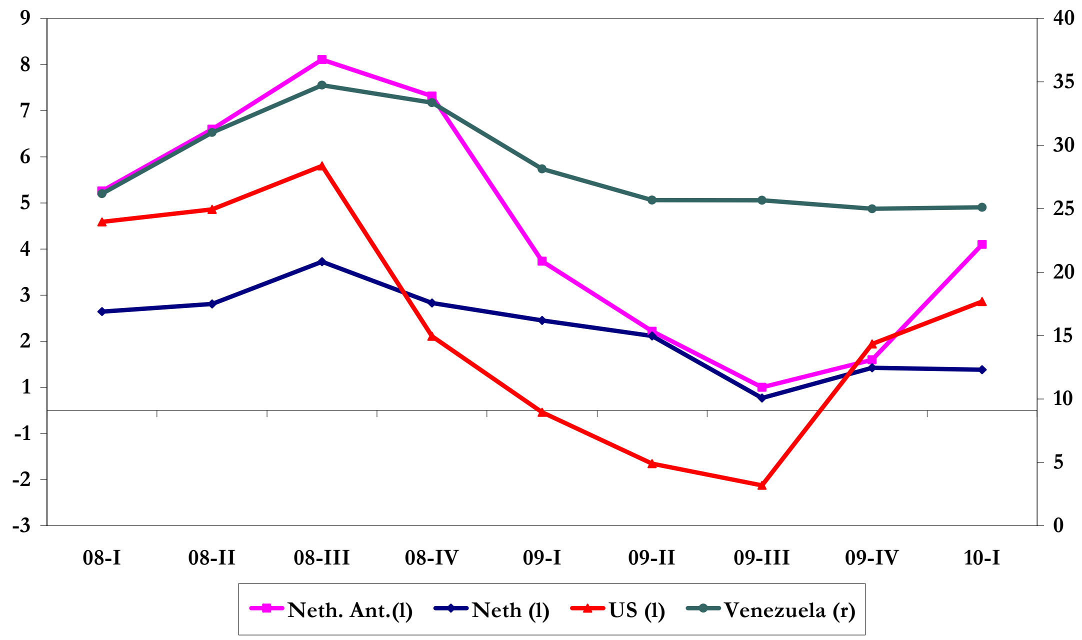
The free zone continued to impact negatively on production levels in the wholesale & retail trade sector (-3.5%) throughout the first three months of 2010 in terms of value added. The negative development in the free zone coincided with the drop in the number of free-zone visits, caused solely by the significant decline in the number of Venezuelan travelers to Curaçao.

Moreover, the transport, storage, and communication sector suffered a decline because of decreases in the air transportation and harbor sectors. Output in air transportation shrank as fewer passengers were transported by the domestic airlines. However, this unfavorable performance was mitigated somewhat by more airport-related activities, owing to an increase in total passenger traffic in both St. Maarten and Bonaire. This increase corresponds with the growth in stay-over tourism on both islands. The negative performance in air transportation was reinforced by decreased harbor activities, i.e., fewer ships piloted into the harbors and declines in cargo movements and oil transshipment.

Inflation

The improvement in the economic situation was reflected in the upward movement of oil prices, raising inflationary pressures in the Netherlands Antilles. Graph 2 shows that the Netherlands Antillean inflation rate coincided with the inflation rates of our main trading partners, the United States and the Netherlands. First-quarter inflation rose to 3.6% in 2010 from 3.2% in 2009. Main price gains came from the categories "Housing" (5.6%) and "Transport & Communication" (3.6%). The higher cost of electricity was the main driving force behind the higher housing inflation. The upturn in the category "Transport & Communication" was owed mainly to the increase in gasoline prices. Compared to the March quarter of 2009, petrol on the Leeward Islands became more expensive, rising by 18.7% in the first quarter of 2010. These higher inflationary pressures were mitigated by a price deflation in "Clothing & Footwear" (0.3%). Cheaper clothing and shoes stemmed from major price rebates on these items. Moreover, many categories including "Food," "Beverages & Tobacco," and "Housekeeping & Furnishings" recorded a price deceleration. An analysis by island shows that throughout the months January to March 2010, the highest quarterly inflation rate was recorded in St. Maarten (5.5%), followed by Curaçao (3.1%) and Bonaire (3.0%). (See Table 8 in the appendix for a detailed overview.)

Graph 2 Developments in consumer prices (annual quarterly change)



DEVELOPMENTS IN PUBLIC FINANCE

During the first quarter of 2010, both public consumption and investment increased compared to the first quarter of 2009. The rise in consumption resulted from higher spending on wages & salaries and goods & services. Total investments rose also, driven predominantly by a further acceleration in the implementation of development projects included in the Social Economic Initiative (SEI). The debt relief program, which began one year ago, continued steadily during the first three months of 2010. During this period, the central government and the island government of Curaçao obtained NAf.118.6 million and NAf.60.0 million, respectively, from the Netherlands to make debt-service payments. The Netherlands also transferred NAf.54.4 million to be used to pay off loans of other public institutions on Curaçao and settle outstanding arrears of the central government and the BES islands.[4] Mainly as a result of the debt relief grants received during the first quarter of 2010, the general

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

government[5] recorded a cash surplus of NAf.177.1 million, a small improvement compared to 2009's first-quarter surplus of NAf.161.7 million. Furthermore, the outstanding public debt of the Netherlands Antilles continued its declining trend, dipping below 70% of GDP for the first time since the second quarter of 2002. (See Table 9 and Table 10 in the appendix.)

General government revenues grew by 8.0% in the first quarter of 2010, measured against the first quarter of 2009. A breakdown by government level shows that this revenue growth was related only to the island government of Curaçao, as the central government recorded a drop in its total revenues. The decline in the central government's income during the first three months of 2010 can be explained largely by lower debt relief grants and fewer profit & license fee advances from the central bank compared with a year earlier. The drop in the mentioned revenue categories was barely offset by the small rise in tax revenues, led primarily by gains in revenues from telecommunications licenses. The growth in the revenues of the island government of Curaçao during 2010's first quarter was due mostly to a gain in debt relief grants, reflecting the fact that Curaçao did not start receiving any debt relief until April 2009. The tax revenues generated by the island government also increased compared to the year before, mostly in the profit tax and motor vehicle tax categories. The rise in the latter category mirrors a normal first-quarter collection level, whereas in the first quarter of 2009 motor vehicle tax collections were relatively low due to delays in the issuing of new license plates.

The rise in the general government's expenditures (7.4%) during the opening quarter of 2010 can be ascribed primarily to increased transfers to other levels of government. Spending on wages & salaries and on goods & services also was higher in the first quarter of 2010 compared to the first quarter of 2009. The upturn in outlays for wages & salaries was brought about mainly by retroactive salary adjustments. The rise in goods & services outlays was largely related to technical assistance costs incurred in connection with the constitutional changes. The growth in these current expenditure categories was mitigated by the noted decline in capital expenditures because no capital transfers were made during the first quarter of 2010 in contrast to the first quarter of 2009.

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

	Central government		Curaçao government	
	2009-I	2010-I	2009-I	2010-I
Monetary financing	-147.2	60.7	-45.1	-53.9
Central bank	-102.6	79.6	-1.0	-9.9
Commercial banks	-44.7	-18.9	-44.1	-44.0
Coins and notes	0.1	0.0	-.-	-.-
Nonmonetary financing	14.1	-118.3	16.5	-65.6
Government securities with the public	-27.0	-39.1	19.7	-31.8
Other	41.1	-79.2	-3.2	-33.8
Cash balance	133.1	57.6	28.6	119.5

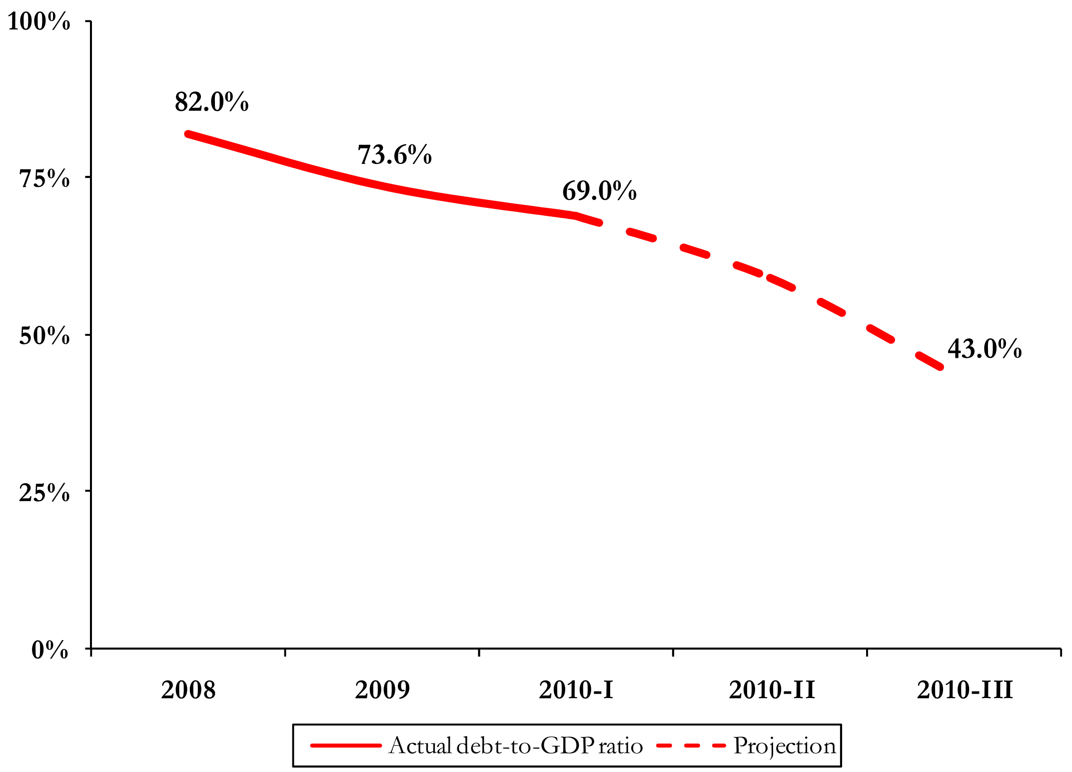
The cash surplus recorded by the general government was made possible largely by the debt relief grants received from the Netherlands in the opening quarter of 2010. During this period, the central government drew primarily upon its debt relief funds held at the central bank to settle maturing securities and other obligations. The island government of Curaçao also used a large part of its debt relief grants to redeem securities with the general public at maturity. Moreover, the cash surplus registered by the island government resulted in an overall increase in deposits with the banking sector (see Table 4).

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

Public sector debt

The continuation of the debt relief program during the first quarter of 2010 was mainly responsible for the total public debt-to-GDP ratio reaching 69.0%, down from 73.6% three months earlier (see Graph 3). This development was the result of a NAf.239.3 million decline in the domestic debt component, complemented by a NAf.57.3 million drop in the foreign debt component. (See Table 10 in the appendix.) According to the plans, the dismantling of the central government will be finalized by October 10, 2010. The debt relief program will also be concluded by this date, resulting in an ending Netherlands Antillean debt-to-GDP ratio of approximately 43%.

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



The decline in the domestic component of the public debt resulted mostly from redemption of the central government's maturing debt securities. Thanks to the debt relief program, the central government was able to redeem NAf.112.4 million in long-term securities and pay off its remaining outstanding Treasury bills at maturity. In addition, the debt relief made it possible for the central government to reduce its obligations with the public pension fund, APNA, by NAf.83.4 million on a net basis and pay off other debts. The decline in the island government of Curaçao's domestic debt (NAf.38.6 million) also was attributable mainly to debt relief grants received from the Netherlands. These grants allowed the island government of Curaçao to redeem its maturing securities and settle outstanding loans of other public institutions. For the latter purpose, the island government received NAf.43.3 million from the Netherlands. Moreover, the island government of Curaçao improved its payment discipline of pension premiums to the public pension fund, APNA, contributing to the overall decline in its domestic debt. However, this decline was mitigated somewhat by the accumulation of additional liabilities to the central government. The moderate increase in the domestic debt of the BES islands[6] over the course of the January-March period of 2010 was due mostly to a rise in Bonaire's liabilities to the APNA.

The fall in the foreign debt component in 2010's first quarter was primarily the result of the depreciation of the euro against the US dollar. Given the peg of the Netherlands Antillean guilder to the US dollar, the depreciation of the euro led to a NAf.48.7 million decline in the guilder-equivalent of the foreign debt. This decline was heightened further by the settlement of NAf.8.6 million in outstanding obligations with the Netherlands.

DEVELOPMENTS IN THE BALANCE OF PAYMENTS

The current account deficit on the balance of payments shrank from NAf.66.3 million in the first quarter of 2009 to NAf.34.6 million in the first quarter of 2010. This drop was caused by an improvement in the current transfers and income balances, offset partly by a decline in the net exports of goods and services. In line with the current account, the combined capital and financial account improved (see Table 5).

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

	2008-I	2009-I	2010-I
Current account	-192.2	-66.3	-34.6
Capital transfers	147.1	61.8	89.5
External financing of the government	3.7	3.1	3.6
External financing of the private sector	318.0	109.9	180.5
- Direct investment	145.4	-4.7	12.9
- Loans and credits	235.8	116.0	169.9
- Portfolio investments	-63.2	-1.4	-2.3
Change in net foreign assets of the banking system *)	-294.6	-133.6	-281.9
- with commercial banks	-143.6	-77.4	-7.6
- with central bank	-151.0	-56.2	-274.3
Statistical discrepancies	18.2	25.1	42.7

*) a minus sign implies an increase

Current account

Net exports of goods and services dropped by NAf.92.9 million during the first quarter of 2010 compared to 2009's first quarter, as a result of an increase in imports (NAf.81.0 million) and a decline in exports (NAf.11.9 million). The decline in exports was related to, among other things, a sharp decline in re-exports by the free-zone companies in Curaçao. In particular, free-zone re-exports to Venezuela dropped significantly, reflecting the economic contraction and the currency restrictions imposed in this country. Also, foreign exchange revenues from ship repair shrank because of fewer activities in this industry during the March quarter of 2010. Foreign exchange receipts from the tourism industry also fell, albeit at a slower pace than in the first quarter of 2009. This drop was attributable to declines in cruise tourism in Curaçao and Bonaire. In contrast, stay-over tourism receipts increased because of a rise in receipts in Curaçao and St. Maarten, partly offset by a decline in Bonaire. The latter decrease was related to a drop in the number of stay-over visitors in Bonaire. Earnings from stay-over tourism in St. Maarten rose, reflecting the growth in the number of visitors in most markets. Although the

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

total number of stay-over tourists in Curacao dropped, foreign exchange revenues from tourism grew as increased earnings from the North-American, Caribbean, and European markets outweighed the decline in the South American market. The decline in the South American market was due largely to a drop in revenues from the Venezuelan market. The decline in export revenues was mitigated by an increase in foreign exchange earnings from bunkering activities that reflected higher average fuel prices on the international markets.

Imports of goods and services rose largely as a result of increased oil imports related to higher average fuel prices. In contrast, non-oil merchandise imports dropped primarily because of lower imports by the free-zone companies, which reflected the decline in re-exports. The drop in non-oil merchandise imports was mitigated by increased imports by the real estate, education, and communication sectors, related to ongoing investments. Meanwhile, the completion of the expansion of the harbor in St. Maarten led to a decline in imports of construction services from abroad during the first quarter of 2010 compared to the first quarter of 2009.

Both the income and the current transfers balances improved during the first quarter of 2010. The income balance improved by NAf.32.8 million due mainly to lower interest income paid on portfolio investments in the Netherlands Antilles. In addition, dividend payments to abroad on equity investments in the Netherlands Antilles fell. Net current transfers rose by NAf.91.7 million as the Dutch government transferred funds for the implementation of the debt relief program in the Netherlands Antilles. Overall, the deficit on the current account shrank by NAf.31.7 million to reach NAf.34.6 million in the March quarter of 2010. (For a detailed overview, see Table 11 in the appendix.)

Financing of the current account balance

Despite the decline in the current account deficit, the net foreign wealth of the private sector dropped by NAf.180.5 million in the first quarter of 2010. This change in the external financing of the private sector was due mainly to a deterioration of the loans and credits balance.

The loans and credits balance worsened by NAf.169.9 million due to, among other things, the repatriation of funds from abroad by companies operating in the international financial services industry to finance their operations in the Netherlands Antilles. Furthermore, the net trade credit balance deteriorated mainly as a result of an increase in net trade credit received from abroad. Net trade credit received rose by NAf.37.2 million because the increase in new trade credit outweighed the growth in repayments of trade credit. Moreover, the balance of domestic companies' foreign bank accounts declined as a result of, among other things, the withdrawal of funds to finance part of their imports. The worsening of the loans and credits balance was mitigated by an improvement of the net borrowing balance, reflecting the net repayment of foreign loans.

Net direct investments into the Netherlands Antilles expanded by NAf.12.9 million, due mainly to the purchase of real estate by nonresidents in the Netherlands Antilles. This expansion was offset partly by an increase in direct investment abroad, reflecting the expansion of a local company's participation in a foreign affiliate.

The portfolio investment balance improved slightly by NAf.2.3 million as a result of the repayment of matured local debt securities held by foreign investors. These repayments were mitigated by the repatriation of foreign equity securities held by institutional investors.

Meanwhile, capital transfers rose by NAf.27.7 million because of increased development aid funds received from the Netherlands. The strong capital inflow during the March quarter of 2010 led to a growth of net foreign assets (i.e., reserves) by NAf.281.9 million. This growth resulted from an increase of NAf.7.6 million in net foreign assets held by the commercial banks and an increase of NAf.274.3 million in net foreign assets held by the central bank. (See Table 12 in the appendix for a detailed overview.)

MONETARY DEVELOPMENTS

Monetary policy

The perceived risks of international securities markets that induced investors to keep more funds domestically prevailed during the first quarter of 2010. In addition, a higher inflow of debt relief funds added to the excess liquidity in the banking system. Because the extra liquidity did not result in excessive credit expansion, the official reserves exceeded the target, and economic growth was weak, the Bank relaxed its monetary policy stance further during the first quarter of 2010.

The percentage of the reserve requirement, which is fixed for a period of four weeks, was cut monthly by 25 basis points. Consequently, at the end of the first quarter of 2010, the reserve requirement reached 9.50%, down from 10.25% at the end of the fourth quarter of 2009. The Bank's other monetary policy tool, the auctioning of certificates of deposit (CDs), was deployed neutrally as only the amount of maturing CDs was offered at the biweekly auctions. Furthermore, the Bank kept its official interest rate, the pledging rate, unchanged at 1.00%.

Monetary base

The monetary base (M0) [7] declined by NAf.40.3 million (4.8%) during the March quarter of 2010, after an expansion in the fourth quarter of 2009. A noticeable decline of NAf.37.3 million in the commercial banks' demand deposits with the Bank, complemented by a small drop in banknotes issued (NAf.3.0 million), contributed to the contraction in base money. (See Table 14 in the appendix.)

The contraction in M0 reflected mainly a decline in the Bank's assets. The Bank's remaining liabilities stayed about the same as lower government deposits, foreign and other liabilities were almost offset by a rise in private sector deposits and capital and reserves. On an annual basis, the growth in M0 amounted to 28.1%, a deceleration compared to the annual growth rate of 72.3% registered in the fourth quarter of 2009.

Money supply

The money supply (M2) expanded by NAf.192.8 million (2.6%) during the first quarter of 2010, an acceleration compared to the rise of NAf.102.8 million (1.5%) in the first quarter of 2009. The annual growth rate of M2 continued its upward trend evident in the previous two quarters, reaching 9.9% in March 2010.

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7 M0 is a measure of the Central Bank of the Netherlands Antilles' monetary liabilities and consists of currency in circulation and the commercial banks' current account balances at the Bank.

The increase in the money supply in 2010's first quarter was attributable to an increase of NAf.281.9 million (8.7%) in net foreign assets, mitigated by a decline of NAf.89.1 million (2.1%) in net domestic assets. The drop in the net domestic assets was caused by declines in miscellaneous balance sheet items (NAf.80.9 million) and in net government assets (NAf.12.3 million). The drop in net credit extended to the governments reflected the implementation of the debt relief program. The net redemption of domestic government debt resulted in a decline in the government securities portfolios of both the commercial banks and the central bank.

The private sector's net domestic assets increased by a mere 0.1% at the end of the March quarter of 2010, compared to 2.8% in the March quarter of 2009. This development was dominated by the growth rate of private loans, which decelerated to 0.1% from 3.1% in the March quarter of 2009. The deceleration in private loan growth was for the most part attributable to the Leeward Islands. Consumer loans increased slightly, but this increase was offset by the declines in mortgages and business loans, causing total private sector loans to drop by 0.1%. On the Windward Islands, the expansion in business loans (1.3%) was mostly accountable for the overall gain in loans extended (0.6%). (See Table 15 in the appendix for more details.)

Developments in domestic interest rates

The rate that the Bank offers on CDs during the bi-weekly auctions is coupled with the development in international interest rates through the US dollar libor rate.[8] During the March quarter of 2010, the benchmark libor rate dropped slightly compared to the fourth quarter of 2009. In line with this development, the Bank's 1-month CD rate was reduced from 0.16% to 0.13% during the first quarter of 2010.

The interest rates of the domestic commercial banks dropped further during the first quarter of 2010. In the lending rates, the average rate of time loans dropped by 10 basis points to 9.5%, and mortgage rates were adjusted downward by 30 basis points to reach 7.1% at the end of the March quarter of 2010. On the borrowing side, the average rate on a 12-month time deposit fell to 1.3% from 1.8% in the previous quarter. Meanwhile, the average interest rate on passbook savings went down from 2.0% to 1.7%.

Long-term yields on government securities dropped in the March quarter of 2010 while the yield on short-term government paper did not change. Hence, the average effective yield of 5-year government bonds fell by 1.0 percentage point to 3.3%, whereas the interest rate on one–month treasury bills remained unchanged at 0.6%. The drop in the government bonds yield was due to secondary market transactions and the subsequent smoothing of the yield curve. (See Table 16 in the appendix for a detailed overview.)

DEVELOPMENTS IN THE COMMERCIAL BANKING SECTOR

The balance sheet of the commercial banks expanded for the second consecutive quarter in the March quarter of 2010. Total assets increased by NAf.186.4 million (1.3%) due to increases in interest-bearing cash, loans, investments in unconsolidated subsidiaries and affiliates, and other assets. The gain in total assets was offset in part by a decline in non-interest-bearing cash and investments. The increase in interest-bearing cash reflects, among other things, the effects of fewer investments as a result of the debt relief program and the reduction of the reserve requirement by 0.75% during the first quarter of 2010.

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

Total liabilities increased as a result of a growth in total deposits offset in part by declines in borrowings and other liabilities. Total deposits rose due to increased savings and time deposits while demand deposits remained unchanged. The share of interest-bearing deposits (time and savings deposits) in total deposits declined from 59.5% in the first quarter of 2009 to 55.8% in the first quarter of 2010. The share of total capital in total liabilities and capital increased further to 10.3% at the end of the March 2010 quarter. (See Table 17 in the appendix for more details.)

Net operating income of the domestic banking sector declined by 9.6% in the first quarter of 2010 compared to the first quarter of 2009 because of an increase in total operational expenses (4.3%) combined with a slight decline in total operational income (0.2%). The increase in expenses was primarily due to the net addition to general provisions. Total operational income shrank due to a decline in other income offset in part by an increase in net interest income. The net interest income increased by 3.7% as the drop in interest expenses outweighed the decline in interest income. Nevertheless, net income after taxes improved by NAf.16.4 million (27.2%) to NAf.76.7 million in the March quarter of 2010 compared to the March quarter of 2009 due to an increase in extraordinary items. (See Table 18 in the appendix for more details.)

Financial soundness indicators

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

The ratio of total capital-to-total assets increased from 10.2% at the end of 2009 to 10.7% at the end of the first quarter of 2010, the result of a growth in qualifying Tier 1 capital (3.0%) and a drop in total assets (1.9%). The capital assets ratio exceeded the internationally acknowledged benchmark of 4.0%, indicating that the domestic banks are well capitalized. This conclusion was supported by an improvement in the quality of the commercial banks' assets portfolio during the first quarter of 2010 compared to the previous quarter. This upturn was noticed in both the ratio of provisions for loan losses-to-nonperforming loans and the ratio of nonperforming loans-to-total loans. A drop in nonperforming loans (7.1%) combined with an increase in provisions (5.0%) resulted in an increase in the ratio of provisions for loan losses-to-nonperforming loans from 50.3% to 56.9% during the March quarter of 2010. The ratio of nonperforming loans-to-total loans dropped from 5.7% to 5.5% during the first quarter of 2010, owing to the decline in nonperforming loans (see Table 6).

The earnings indicators reflected a decline in the profitability of the domestic banking sector in the first quarter of 2010 compared to the first quarter of 2009. The downward pressure on domestic interest rates from the international decline in interest rates and the debt relief led to a drop in interest income generated by the commercial banks. However, net income improved because interest expenses declined more strongly than interest income.

Finally, the ratio of total loans-to-total deposits, which provides an indication of the development of liquidity in the domestic banking sector, declined in the March quarter of 2010. The decline in this ratio reveals an increase in liquidity as the deposit base grew more strongly than the extension of loans.

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

	2009-I	2009-II	2009-III	2009-IV	2010-I
Capital adequacy					
Total capital/ total assets	9.9	10.2	10.5	10.2	10.7
Asset quality					
Nonperforming loans/ total loans	4.3	4.7	5.8	5.7	5.5
Provisions for loan losses/ nonperforming loans	64.3	57.3	50.1	50.3	56.9
Earnings					
Gross-earning-assets yield	6.2	6.1	6.0	6.1	6.0
Net interest margin	4.1	4.1	4.1	4.3	4.4
Return-on-assets	2.2	1.9	1.7	1.8	1.9
Liquidity					
Total loans/ total deposits	63.1	64.1	64.7	61.7	57.9

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

APPENDIX

Table 7 Developments in stay-over tourism per island (% change)[9]

	Curaçao				St. Maarten				Bonaire			
	2009-I		2010-I		2009-I		2010-I		2009-I		2010-I	
North America, of which:	-22.7	(-1.2)	26.0	(1.8)	-16.4	(-5.8)	6.2	(2.3)	-19.9	(-0.7)	14.8	(0.6)
-U.S.A.	-27.0	(-1.1)	32.7	(1.7)	-16.6	(-4.9)	6.4	(2.0)	-19.5	(-0.6)	13.7	(0.5)
Europe, of which:	5.5	(0.9)	15.0	(2.7)	-6.2	(-0.7)	9.1	(1.2)	-3.0	(-0.1)	8.3	(0.3)
-The Netherlands	10.8	(1.4)	14.7	(2.2)	-19.0	(-0.4)	1.0	(0.0)	0.8	(0.0)	9.1	(0.3)
South & Central America, of which:	-3.0	(-0.4)	-54.5	(-3.6)	-36.2	(-0.4)	51.1	(0.9)	-26.1	(-0.1)	45.4	(0.2)
-Venezuela	1.8	(0.2)	-69.9	(-2.6)	-47.9	(-0.1)	60.8	(0.2)	-43.9	(-0.1)	72.0	(0.2)
-Colombia	-23.9	(-0.1)	15.7	(0.1)	---	---	---	---	-7.7	(0.0)	5.0	(0.0)
Caribbean, of which:	-21.0	(-0.6)	17.6	(0.6)	-29.4	(-0.7)	-2.5	(-0.1)	-28.5	(-0.1)	-29.9	(0.0)
-Dominican Republic	-14.3	(0.0)	28.2	(0.1)	-13.1	(0.0)	9.3	(0.0)	---	---	---	---
Total	-4.3	(-1.7)	-9.9	(-3.4)	-16.1	(-8.6)	7.0	(4.0)	-13.0	(-1.0)	11.4	(0.9)

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

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

	2008-IV	2009-I	2009-II	2009-III	2009-IV	2010-I
Food	20.7	17.8	12.9	7.8	3.9	3.0
Beverages & tobacco	8.5	8.2	7.3	5.3	4.0	3.6
Clothing & footwear	1.7	1.9	1.9	1.9	1.9	-0.3
Housing	4.7	-0.6	-2.3	-3.3	0.4	5.6
Housekeeping & furnishings	7.8	6.9	6.9	4.9	2.3	1.5
Health	2.5	2.0	1.9	2.4	2.3	2.5
Transport & communication	6.6	-0.6	-2.3	-2.4	-1.9	3.6
Recreation & education	1.9	1.7	1.4	1.3	0.9	0.6
Other	3.3	3.8	3.7	3.4	3.6	3.1
General inflation rate	6.8	3.2	1.7	0.5	1.1	3.6

Source: Central Bureau of Statistics

[9] Weighted growth rates between brackets.

Table 9 Budgetary overview (in millions NAf.)

	2007-I	2008-I	2009-I	2010-I
General government				
Revenues	395.7	464.2	631.8	682.0
Tax revenues, of which:	371.0	443.6	451.2	490.6
Taxes on income and profits	171.3	210.1	222.5	252.3
Taxes on goods and services	145.7	165.2	164.2	180.3
Taxes on international trade and transactions	36.3	42.1	43.9	41.1
Nontax and other revenues	22.4	18.2	31.4	11.2
Grants	2.3	2.3	149.2	180.2
Expenditures	405.7	466.0	470.1	504.9
Current expenditures, of which:	400.5	436.3	443.3	498.6
Wages and salaries	135.2	164.1	164.0	189.3
Goods and services	109.9	114.1	111.4	122.1
Subsidies	12.9	13.1	15.9	15.6
Transfers	73.1	78.5	75.4	104.3
Interest payments	69.4	66.6	76.7	67.3
Capital expenditures	5.2	29.8	26.8	6.2
Budget balance	-9.9	-1.9	161.7	177.1
Central government				
Revenues	186.3	204.2	374.6	327.5
Tax revenues, of which:	167.6	194.9	199.9	201.8
Taxes on goods and services	120.0	136.2	144.7	149.4
Taxes on international trade and transactions	36.3	42.1	43.9	41.1
Nontax and other revenues	16.4	7.0	25.5	5.5
Grants	2.3	2.3	149.2	120.2
Expenditures	214.6	238.0	241.5	269.9
Current expenditures, of which:	211.4	209.6	217.1	266.0
Wages and salaries	73.3	74.5	79.4	98.3
Goods and services	35.4	36.4	29.7	35.6
Transfers	66.1	69.8	73.5	97.9
Interest payments	36.6	28.9	34.5	34.2
Capital expenditures	3.2	28.4	24.4	3.9
Budget balance	-28.3	-33.8	133.1	57.6
Island government of Curaçao				
Revenues	244.7	297.8	303.5	400.8
Tax revenues, of which:	203.4	248.7	251.3	288.8
Taxes on income and profits	171.3	210.1	222.5	252.3
Taxes on goods and services	25.7	29.0	19.5	30.9
Nontax and other revenues	6.0	11.2	5.9	5.7
Grants	35.2	37.9	46.3	106.3
Expenditures	226.3	265.9	274.9	281.3
Current expenditures, of which:	224.3	264.6	272.5	278.9
Wages and salaries	61.9	89.6	84.6	91.0
Goods and services	74.5	77.7	81.7	86.5
Transfers	42.2	46.6	48.2	52.7
Interest payments	32.8	37.7	42.2	33.1
Capital expenditures	2.0	1.4	2.4	2.3
Budget balance	18.4	31.9	28.6	119.5

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

	2009-I	2009-II	2009-III	2009-IV	2010-I
Domestic consolidated debt, of which:	4,896.8	4,788.4	4,665.4	4,434.9	4,195.6
Central government, of which:	2,583.1	2,553.1	2,546.2	2,404.7	2,209.1
Long-term securities	2,041.8	2,041.8	2,041.8	1,898.2	1,785.8
Short-term securities	111.6	58.8	22.2	5.8	0.0
APNA	232.4	231.5	236.1	232.1	148.7
SVB	10.1	27.1	27.1	19.0	21.3
Curaçao, of which:	2,494.3	2,434.3	2,369.9	2,235.3	2,196.7
Long-term securities	942.7	882.4	882.3	875.3	875.3
Short-term securities	227.3	197.1	122.3	49.4	11.1
APNA	832.5	826.2	823.5	812.3	804.7
SVB	0.0	0.0	0.0	0.0	0.0
Central government	304.7	329.4	332.7	286.4	301.2
St. Maarten	172.8	173.4	208.9	198.9	208.0
BES islands[2]	204.4	202.6	208.0	192.2	196.6
Foreign debt	769.9	801.1	826.3	849.8	792.5
Total debt (consolidated)	5,666.7	5,589.4	5,491.7	5,284.7	4,988.1
(% of GDP)	79.8%	78.4%	76.8%	73.6%	69.0%

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

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

	2008-I	2009-I	2010-I
Trade balance	-883.9	-756.7	-828.7
-Exports	479.7	375.9	375.5
-Imports	1,363.6	1,132.7	1,204.2
Services balance	702.0	618.9	598.0
Receipts, of which:	1,084.6	1,012.8	1,001.3
-Travel	656.0	616.9	604.2
-Transportation	68.8	79.0	91.1
-Other services, of which:	359.8	316.9	306.0
-Int. fin & bus. services sector	93.6	86.1	65.3
Expenses, of which:	382.6	393.8	403.3
-Travel	132.5	117.3	132.7
-Transportation	44.0	61.6	69.2
-Other services, of which:	206.1	214.9	201.4
-Int. fin & bus. services sector	26.8	35.7	35.3
Income balance[1)]	-8.4	-41.9	-9.1
Current transfers balance[2)]	-1.9	113.4	205.1
Current account balance	**-192.2**	**-66.3**	**-34.6**
Capital & financial account balance	**174.1**	**177.3**	**-8.5**
Capital account balance	147.1	61.8	88.9[3)]
Financial account balance	27.0	-20.6	-98.1
Net errors & omissions	**18.2**	**25.1**	**42.7**

1) Labor and investment income.
2) Public and private transfers.
3) Difference with the item Capital transfers in Table 5 is due to the acquisition of nonproduced nonfinancial assets of NAf.0.6 million.

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

	2008-I	2009-I	2010-I
Direct investment	145.4	-4.7	12.9
- Abroad 1)	-7.2	-37.7	-23.9
- In the Netherlands Antilles 2)	152.6	33.0	36.8
Portfolio investment 1)	-63.2	-1.4	-2.3
Other investment, of which:	310.1	168.2	153.1
- Assets 1)	308.8	166.0	162.0
- Liabilities 2)	1.3	2.2	-8.9
Net lending/borrowing, of which:	-70.5	-49.1	20.3
- Assets 1)	12.8	42.5	-2.0
- Liabilities 2)	-83.3	-91.6	22.3
Reserves 3)	-294.6	-133.5	-281.9
Total assets 1)	-43.4	35.9	-148.1
Total liabilities 2)	70.6	-56.4	50.2
Balance	27.2	-20.5	-97.9

1) A minus sign means an increase in assets.
2) A minus sign means a decrease in liabilities.
3) A minus sign means an increase in reserves.

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

2010-I	Domestic sectors Private	Government	Banking	External sector
Nonfinancial transactions	-211.7	177.1		34.6
Government net lending	0.0	0.0		
Gov't domestic nonbank financing	168.4	-168.4		
External financing of government		3.6		-3.6
External financing of private sector	180.5			-180.5
-Direct investment (equity)	12.9			-12.9
-Loans and credits	169.9			-169.9
-Portfolio, incl. debt	-2.3			2.3
Capital transfers	89.5			-89.5
Change in net foreign assets of the central bank			-7.5	7.6
Change in net foreign assets of commercial banks			-274.4	274.3
Change in domestic bank credit	4.1	-12.3	8.2	
Change in broad money	-192.8		192.8	
Other items, net/errors & omissions	-38.2		80.9	-42.7

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

2009-I	Domestic sectors			External
	Private	Government	Banking	sector
Nonfinancial transactions	-228.0	161.7		66.3
Government net lending	0.0	0.0		
Gov't domestic nonbank financing	-44.6	44.6		
External financing of government		3.1		-3.1
External financing of private sector	109.9			-109.9
-Direct investment (equity)	-4.7			4.7
-Loans and credits	116.0			-116.0
-Portfolio, incl. debt	-1.4			1.4
Capital transfers	61.8			-61.8
Change in net foreign assets of the central bank			-77.3	77.4
Change in net foreign assets of commercial banks			-56.7	56.2
Change in domestic bank credit	143.8	-209.4	65.6	
Change in broad money	-102.8		102.8	
Other items, net/errors & omissions	59.5		-34.4	-25.1

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

			Change	
	2009-IV	**2010-I**	**Amount**	**Percentage**
Banknotes issued	381.0	378.0	-3.0	-0.8%
Banks' demand deposits (current account)	451.4	414.1	-37.3	-8.3%
Monetary base (M0)	832.4	792.1	-40.3	-4.8%
Central bank assets				
Foreign assets (including gold)	2,984.9	2,973.4	-11.5	-0.4%
Claims on the government	518.8	519.0	0.2	0.0%
Fixed and other assets	143.8	114.4	-29.4	-20.4%
minus:				
Central bank remaining liabilities				
Private sector deposits	277.6	361.2	83.6	30.1%
Government deposits	277.6	201.8	-75.8	-27.3%
Foreign liabilities	796.0	777.0	-19.0	-2.4%
Other liabilities	776.0	765.4	-10.6	-1.4%
Capital and reserves	687.9	709.3	21.4	3.1%

Table 15 Monetary survey (in millions NAf.)

	2009-I	2009-II	2009-III	2009-IV	2010-I
Money supply (M2)	6,960.6	7,017.4	7,055.2	7,458.2	7,651.0
Money (M1)	2,809.6	2,965.3	2,916.7	3,266.9	3,386.8
Coins & notes with the public	297.6	305.8	297.4	334.1	319.7
Total demand deposits, of which :	2,512.0	2,659.5	2,619.3	2,932.8	3,067.1
- Netherlands Antillean guilders	1,880.2	2,058.3	1,993.3	2,265.0	2,380.2
- Foreign currency	631.8	601.2	626.0	667.8	686.9
Near money	4,151.0	4,052.1	4,138.5	4,191.3	4,264.2
Time deposits	2,329.2	2,181.6	2,212.6	2,175.3	2,200.1
Savings	1,821.8	1,870.5	1,925.9	2,016.0	2,064.1
Factors affecting the money supply					
Net domestic assets	4,226.0	4,096.3	4,101.3	4,225.9	4,136.8
General government	492.7	363.8	308.0	222.1	209.8
- Central government	281.7	379.8	359.4	238.2	303.9
- Island governments	211.0	-16.0	-51.4	-16.1	-94.1
Private sector	5,235.2	5,237.4	5,305.2	5,634.0	5,638.1
Net foreign assets	2,734.6	2,921.1	2,953.9	3,232.3	3,514.2
Central bank	2,088.0	2,146.4	2,156.2	2,188.9	2,196.4
Commercial banks	646.6	774.7	797.7	1,043.4	1,317.8
Memorandum items	-1,501.9	-1,504.9	-1,511.9	-1,630.2	-1,711.1
Government loans by commercial banks	665.7	619.4	554.1	523.9	439.3
- Central government	356.4	369.1	345.8	322.5	244.5
- Island governments	309.3	250.3	208.3	201.4	194.8
Private sector loans Leeward Islands	3,501.4	3,600.5	3,606.2	3,649.4	3,647.3
- Mortgages	1,283.9	1,394.7	1,401.7	1,477.9	1,471.9
- Consumer loans	911.5	920.3	933.7	935.4	941.6
- Business loans	1,306.0	1,285.5	1,270.8	1,236.0	1,233.8
Private sector loans Windward Islands	1,446.0	1,482.8	1,538.0	1,567.1	1,576.5
- Mortgages	560.8	606.4	656.4	667.1	669.1
- Consumer loans	391.5	372.8	376.2	381.7	382.5
- Business loans	493.7	503.6	505.4	518.4	524.9

Table 16 Developments in domestic interest rates (in %)

	2009-I	2009-II	2009-III	2009-IV	2010-I
Central bank					
- Pledging rate	1.00	1.00	1.00	1.00	1.00
- Maximum CD rate (1 month)	0.62	0.47	0.20	0.16	0.13
Commercial banks borrowing rates					
- Passbook savings	2.3	2.3	2.2	2.0	1.7
- Time deposit (12 months)	3.5	3.4	2.9	1.8	1.3
Commercial banks lending rates					
- Mortgages	7.6	7.6	7.7	7.4	7.1
- Time loans	8.7	9.2	9.2	9.6	9.5
Government securities					
- Government bonds (5-year effective yield)	5.7	4.6	4.3	4.3	3.3
- Treasury bills (1 month)	0.8	0.6	0.6	0.6	0.6

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

	2009-I	2009-II	2009-III	2009-IV	2010-I
Assets					
Non-interest-bearing cash	1,339.2	1,414.7	1,320.2	1,568.1	1,404.5
Interest-bearing cash	2,804.5	2,878.9	2,991.4	3,257.5	3,621.8
Investments	1,404.1	1,249.1	1,210.9	1,357.4	1,220.9
Loans	7,296.4	7,405.5	7,444.0	7,617.7	7,683.0
Investments in unconsolidated subsidiaries and affiliates	173.7	42.7	43.5	58.5	97.1
Fixed assets	286.2	288.1	289.8	296.5	298.3
Other assets	265.0	247.1	212.7	235.1	251.6
Total assets	13,569.0	13,526.2	13,512.4	14,390.8	14,577.2
Liabilities					
Demand deposits	4,736.8	4,797.4	4,759.2	5,590.6	5,590.6
Savings deposits	4,051.7	4,132.9	4,089.4	4,131.5	4,148.6
Time deposits	2,898.6	2,752.8	2,804.1	2,763.0	2,897.7
Total deposits	11,687.0	11,683.0	11,652.7	12,485.1	12,636.9
Borrowings	78.4	65.8	38.9	49.4	43.2
Other liabilities	467.1	402.9	398.0	396.0	392.5
Total liabilities	12,232.5	12,151.7	12,089.6	12,930.4	13,072.6
Minority interest	9.1	8.7	9.1	8.6	9.0
Subordinated debentures	0.0	0.0	0.0	0.0	0.0
General provisions	206.3	207.0	224.1	223.5	235.6
Capital & reserves	1,121.1	1,158.8	1,189.6	1,228.3	1,260.1
Total capital	1,336.6	1,374.5	1,422.9	1,460.4	1,504.6
Total liabilities and capital	13,569.0	13,526.2	13,512.4	14,390.8	14,577.2

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

	2009-I	2009-II	2009-III	2009-IV	2010-I
Interest income	204.3	395.6	592.7	738.9	192.7
Interest expenses	65.1	121.7	176.8	215.1	48.3
Net interest income	139.2	273.9	415.9	523.8	144.3
Other income	78.8	146.6	233.1	288.2	73.2
Total operational income	218.0	420.5	649.0	811.9	217.5
Salaries & other employee expenses	79.5	156.9	235.3	297.3	81.0
Occupancy expenses	25.4	50.3	75.7	100.1	24.1
Other operating expenses	35.8	67.4	101.4	126.4	34.4
Net addition to general provisions	6.1	15.4	43.5	52.6	13.6
Total operational expenses	146.8	290.0	455.9	576.4	153.1
Net operating income	71.2	130.5	193.1	235.5	64.4
Net extraordinary items	1.0	2.1	4.3	25.5	27.7
Applicable profit taxes	11.9	28.1	37.8	50.1	15.4
Net income after taxes	60.3	104.5	159.6	211.0	76.7