

Monetary Policy in the Netherlands Antilles

III Meeting of Central Bank
Monetary Policy Managers
Frankfurt, 1-2 March, 2007

Outline Presentation

1. General Information on the Netherlands Antilles.
2. Monetary Policy Framework.
3. Current Monetary Policy Practices.
4. Constraints to the Potential Growth Rate.

General Information on the Netherlands Antilles

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3

Location, Size & Constitutional Status



- 800 sq. km
- 186,000 inhabitants
- Autonomous territory Kingdom of the Netherlands
- Constitutional reform

Economic Key Figures (1)



- GDP US\$ 3.4 billion (2006)
- GDP per head US\$ 18,300 (2006)
- Unemployment 13.2% (2006)

Economic Key Figures (2)

GDP by sector (2004)

Financial intermediation	24%
Trade	21%
Transportation, storage & communication	11%
Business services	10%
Manufacturing	8%
Health & community services	8%
Construction	6%
Hotels & restaurants	6%
Utilities	5%
Agriculture, fishery & mining	1%

Monetary Policy Framework

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7

Main Objective, Currency & Peg

- Maintain external stability ANG.
- Fixed peg to US\$: $\$1 = \text{ANG}1.79$ since 1971.
- External cash flow 82% in US\$ and 75% with \$-countries.
- Operational goal: maintain sufficient level of foreign exchange reserves (3 months merchandise import).

Monetary Policy Instruments

- Monetary cash reserve arrangement (credit restriction).
- Reserve requirement.
- Money market instruments
 - CD auctions
 - Repo's
 - Purchase/sale government securities
- Control net foreign assets banks.

Evolution Monetary Policy

- Gradual shift from direct to indirect instruments:
 - Monetary cash reserve arrangement phased out during 1998-2002;
 - Reserve requirement and CD-auctions core of current monetary policy.
 - Limit on net foreign assets position banks inactivated in 1998;

Current Monetary Policy Practices

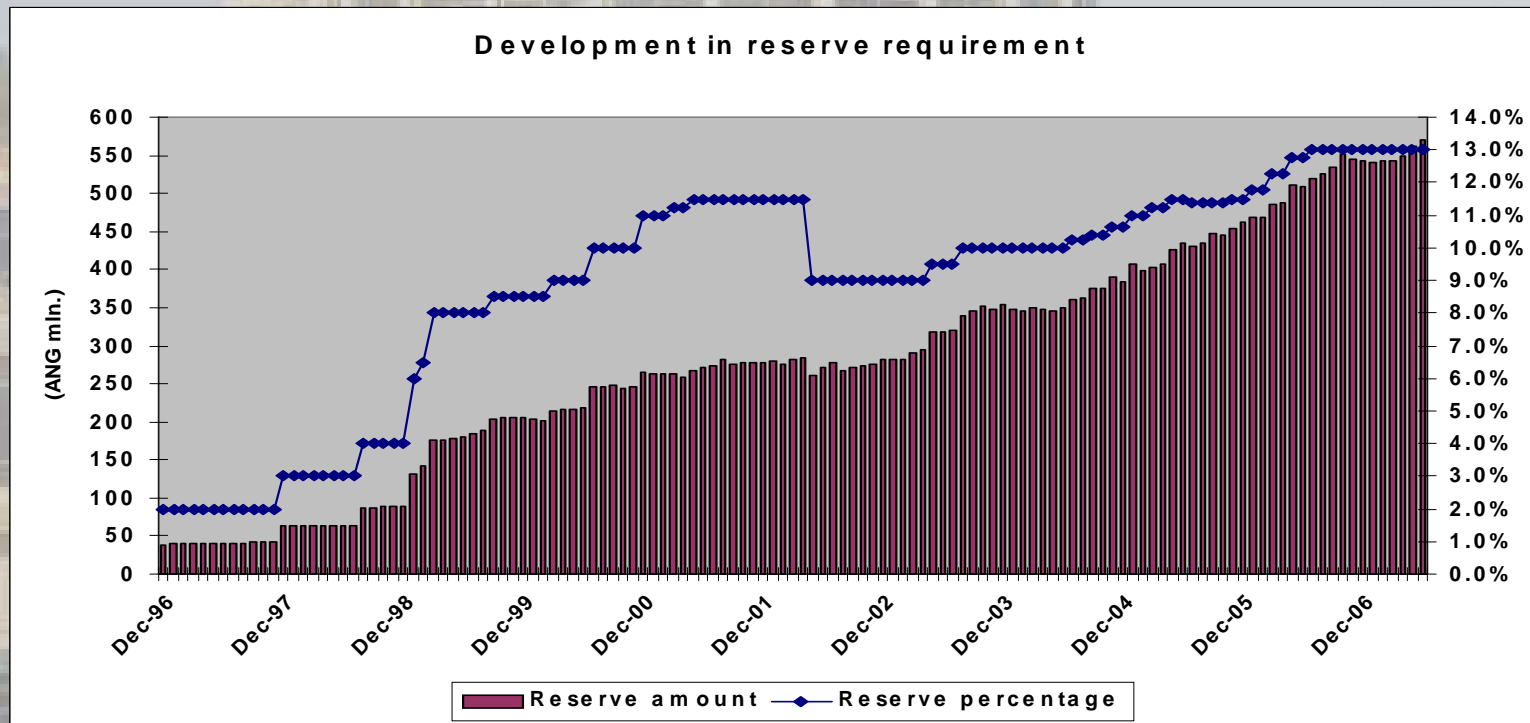
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11

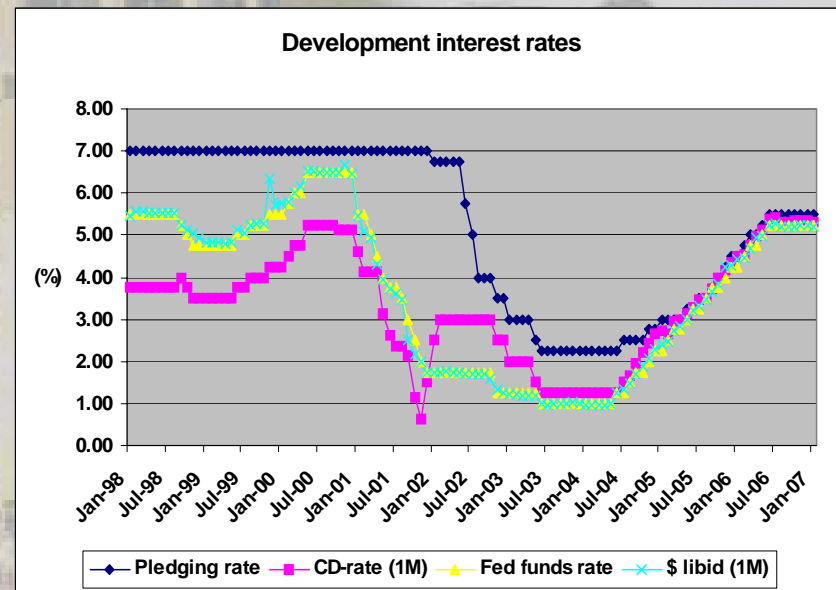
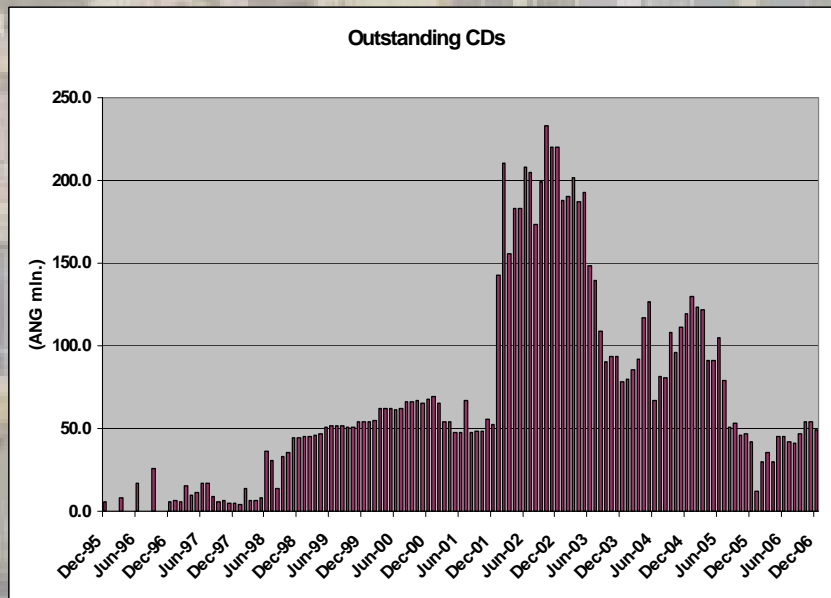
Reserve Requirement

- Noninterest-bearing blocked deposit.
- Percentage of domestic liabilities banks.
- Fixed % for 2 months; calculated monthly.



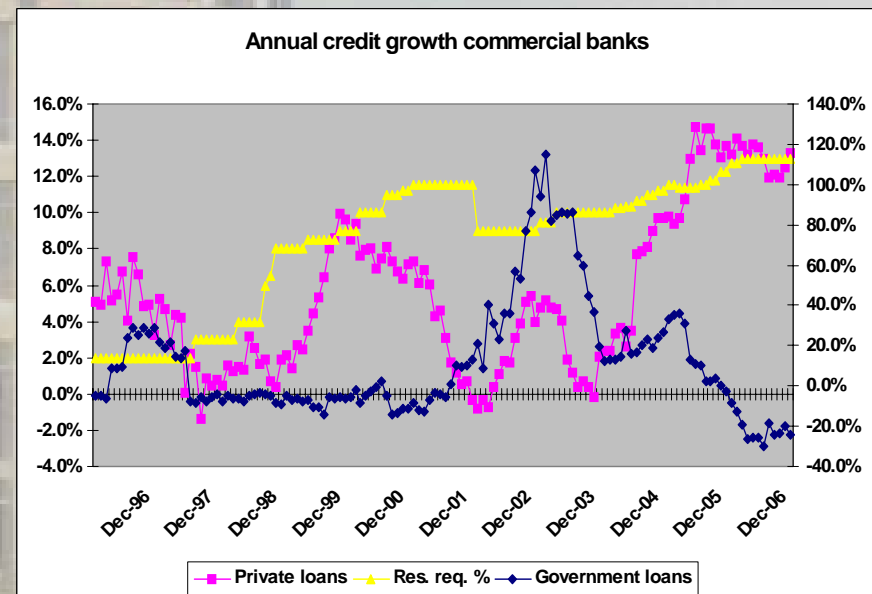
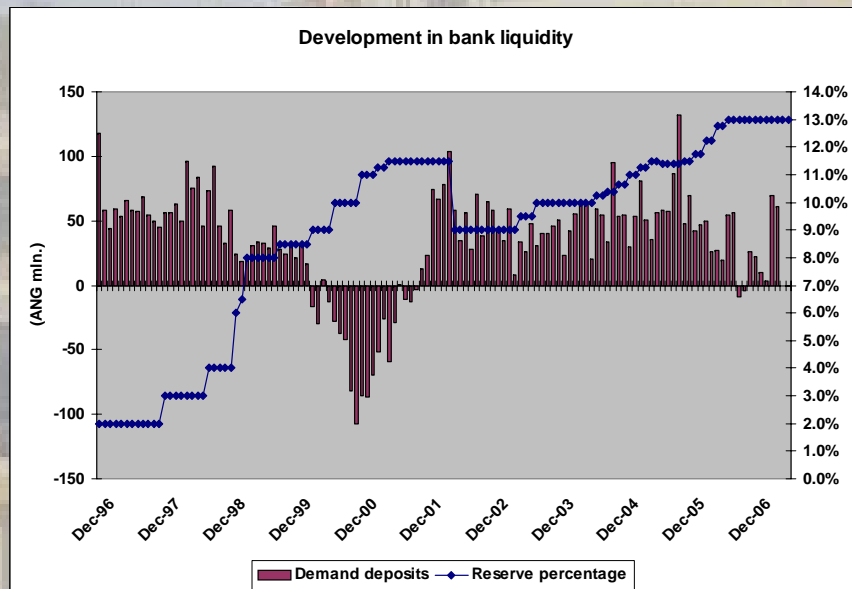
CD Auctions

- Every 2 weeks.
- Tender system.
- Interest rate market determined from 2004.

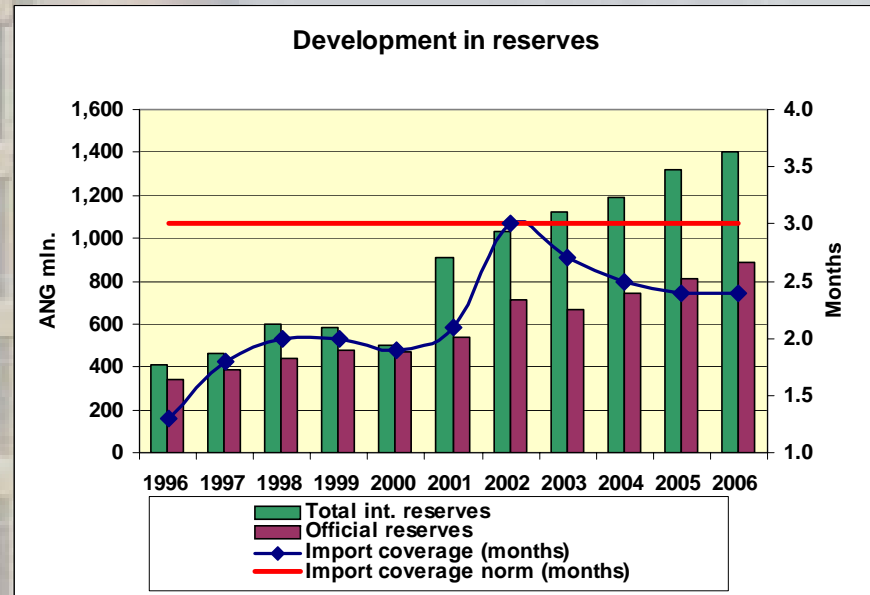
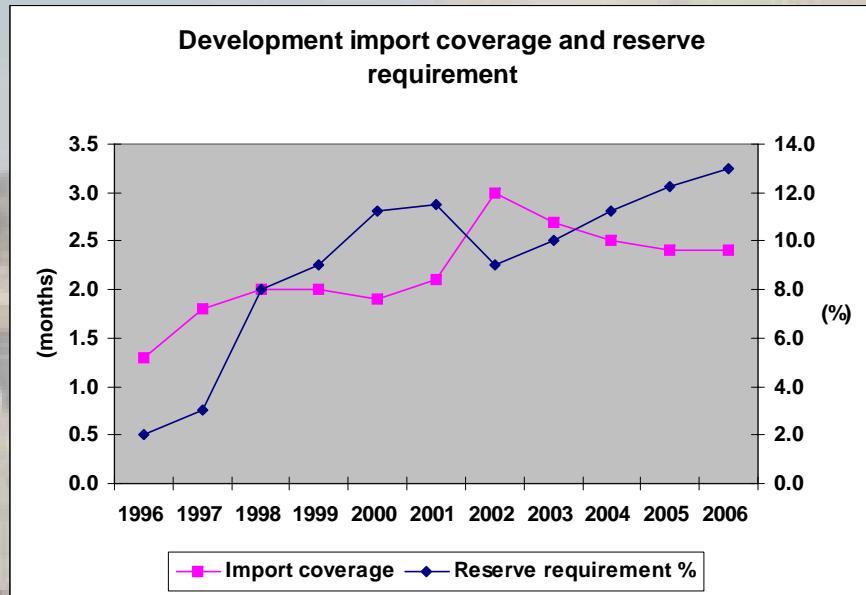


Monetary Policy Implementation (1)

- Monetary Committee.
- Developments in official reserves, bank liquidity, credit extension.



Monetary Policy Implementation (2)



Constraints to the Potential Growth Rate

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16

Main Constraints (1)

- Links between monetary policy instruments and economic growth ambiguous.
- Study on the monetary transmission process is currently being conducted.
- Indications are that in small open Caribbean economies the interest mechanism is weak due to:
 - Absence of well-functioning financial markets;
 - Limited local investment possibilities;
 - Fixed exchange rates with the US-dollar.
- Transmission of monetary policy actions more through influence on credit rationing (direct) or available funds (indirect).

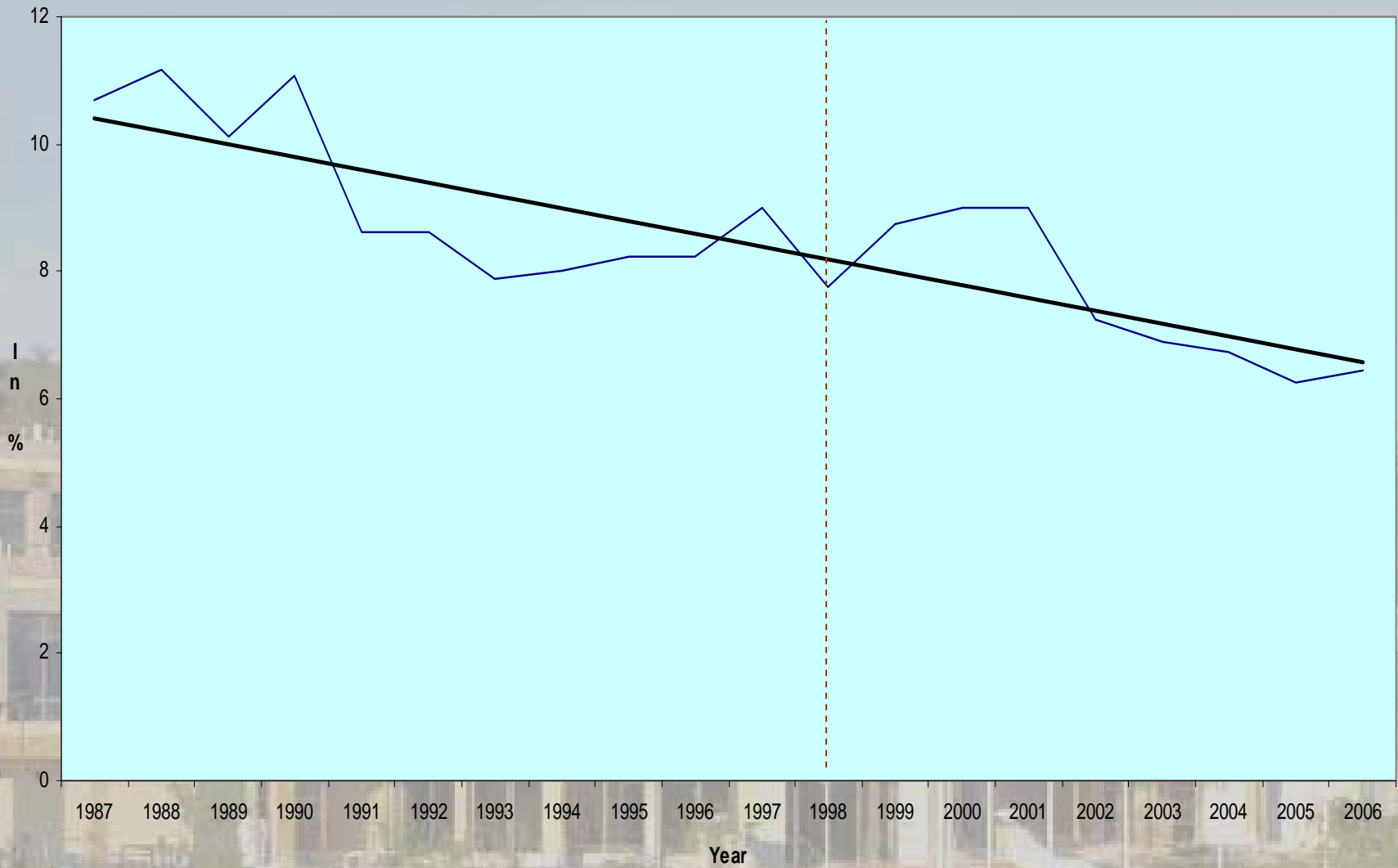
Main Constraints (2)

- Crowding-out of private investment due to high public sector deficits
 - Consensus on budgetary norms and deficits targets.
- Rigidity in wage settlements despite high unemployment.
- Relaxation of labor laws/regulations.
- $(U_t - U_{t-1}) = -0.33 (Y_t + Y_{t-1})/ 2 + 0.42$

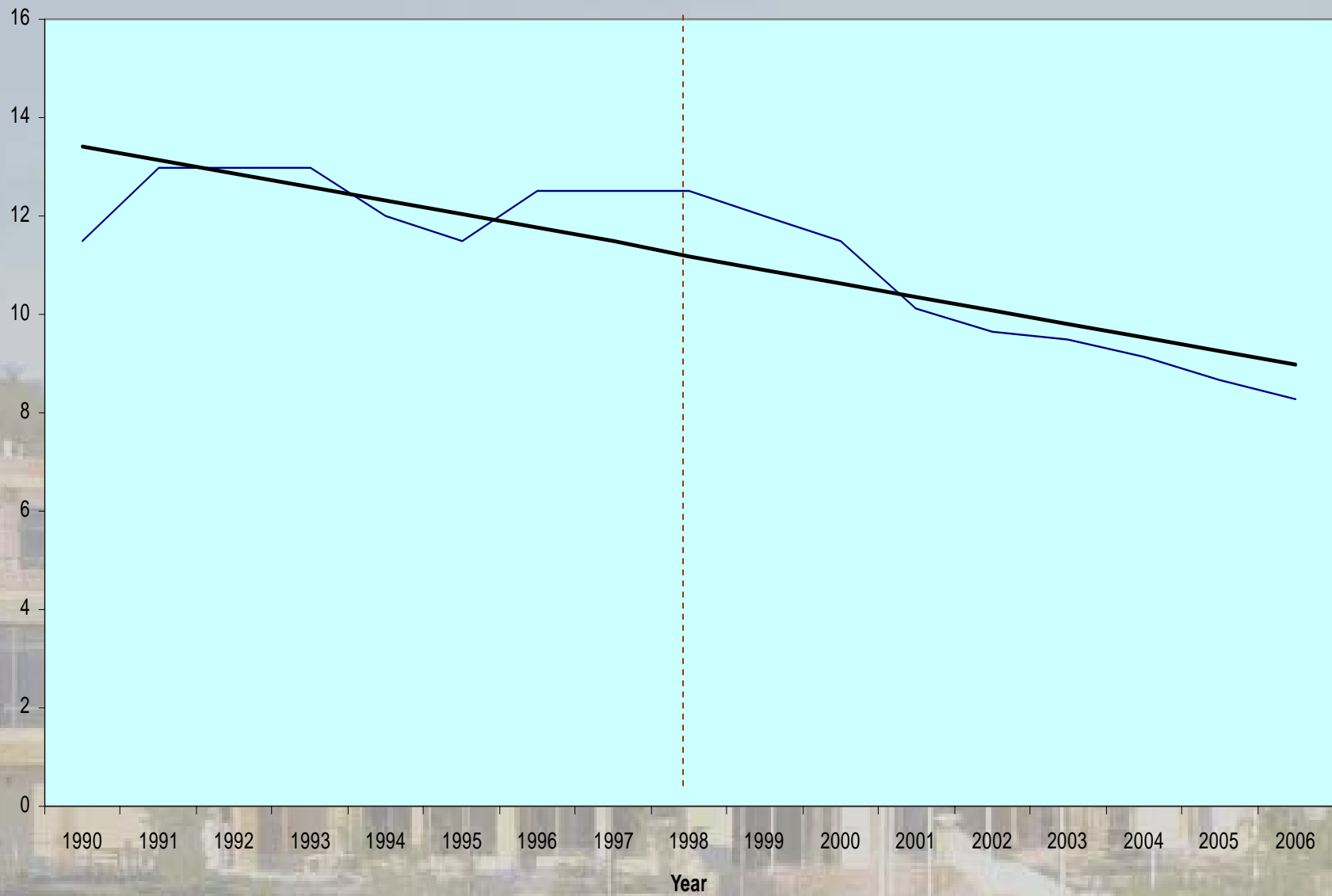
Challenges

- Social Economic Programs for 2007-2010
 - Focus on economic revival in the tourism industry and financial sector;
 - Study on poverty and income distribution by United Nations and CBS.
- Funded by the Dutch government for \$40 million (first part).

Interest on Government Loans (5 yrs)



Mortgage rates



End of Presentation