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October 31, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Netherlands Antilles - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with the Netherlands Antilles, which has been tentatively scheduled for discussion on Friday, November 18, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. de Schaetzen, ext. 75168.

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INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS - NETHERLANDS ANTILLES

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives for the 1983
Consultation with the Netherlands Antilles

Approved by L. A. Whittome and Subimal Mookerjee

October 31, 1983

Article IV consultation discussions were held in Willemstad and Oranjestad from August 23 to September 6, 1983. The staff team included Messrs. P. Dhonte, B. de Schaetzen, V. Marie (all EUR), Mr. C. Schiller (FAD), and Ms. K. Moran (EUR) as secretary. Meetings were held with the Prime Minister and members of the Central Government, the Commissioner for Finance of the island Council of Aruba, and officials of the Central Government, the island Governments, and the Bank of the Netherlands Antilles. The mission also met with representatives of the business and banking communities and the trade unions. Mr. T. de Vries, Alternate Executive Director, attended some of the meetings as an observer.

The Netherlands Antilles comprise six islands, which form part of the Kingdom of the Netherlands. Fiscal authority is mainly in the hands of a Central Government and of the Governments of the two largest islands, Aruba and Curaçao; these accounted respectively for 34 percent, 19 percent, and 42 percent of public expenditure in 1982. Protracted negotiations resulted in March 1983 into an agreement in principle which will give the island of Aruba, by 1986, a separate status within what will then become the Union of The Netherlands Antilles.

The currency of the Netherlands Antilles is the Netherlands Antillean guilder which since 1971 has been pegged to the U.S. dollar at a rate of NA f. 1.79 per U.S. dollar. The Kingdom of the Netherlands accepted the obligations of Article VIII as of February 15, 1961.

I. Background

1. The level of activity

The economy of the Netherlands Antilles is widely open: current foreign exchange receipts were equivalent to 78 percent of gross national income in 1979. In the absence of annual national accounts data, some indications on activity can be inferred from developments in current foreign exchange receipts (Table 1).

Table 1. Netherlands Antilles: Current Foreign Exchange Earnings

(In millions of NA guilders)

	1977	1978	1979	1980	1981	1982
Total 1/	1,360	1,551	1,805	2,096	2,375	2,455
Of which:						
Tourism	374	491	570	715	783	776
Oil sector	265	248	298	263	361	511
Offshore financial sector	69	103	115	199	264	349
Other 2/	652	709	822	919	967	819
Memorandum items: (percent change)						
Total earnings	(...)	(14.7)	(16.4)	(16.1)	(13.3)	(3.4)
CPI	(5.5)	(8.1)	(11.4)	(14.7)	(12.2)	(6.0)

Source: Data provided by the Netherlands Antilles authorities.

1/ Cash basis.
2/ Including investment income and private remittances, but excluding development aid received.

These indications suggest that, due to a diversified economic base, which includes notably oil refining, ship repair, tourism and offshore financial activities, the Antilles succeeded in overcoming the world recession longer than most countries in the region. They were able to maintain in 1980 and 1981 a high level of activity, which was reflected in a broadly based increase in foreign exchange earnings.

Even though nominal current account earnings still rose slightly in 1982, their increase was less than the rate of domestic inflation, and reflected large tax payments by the oil refining and offshore financial sectors, rather than a sustained level of activity. In fact, activity in several important sectors declined in 1982 and the situation appeared to deteriorate further in early 1983. Tourism was adversely affected by declines in foreign real incomes in 1982. In addition, economic difficulties in Venezuela caused after February 1983 an abrupt reduction in tourist trade with that country, which had previously accounted for an estimated 40 percent of the sector's total sales. The effect of the uncompetitiveness of the ship repair activities, which had been mitigated by a reputation for high-quality work and a good location, was accentuated by the sharp decline in regional shipping in the second half of 1982: activity during that year dropped by 17 percent. Although the oil refineries kept operating at relatively high levels of capacity, their operating costs appeared to be high by international standards, and plans for significant employment cuts were announced. Oil transshipment activities were severely affected by a change in the pattern of oil trade flows, and their earnings dropped by 45 percent. The national airline lost several important routes, and its earnings were further depressed by a decline in the number of tourists. Even the domestic expenditures of the offshore financial sector, which had more than doubled in 1979-81, leveled off as uncertainty on tax treaty arrangements and other factors curtailed the expansion of their activities.

2. The public finances

A major component (40 percent) of the increase in foreign exchange earnings in 1979-82 was a steep rise in tax payments by one of the oil refineries and by the offshore financial sector.

One consequence of these large payments was to sustain a high progression of public spending, 61 percent from 1979 to 1982, or 18 percent more than the increase in consumer prices. A large proportion of this increase went into wage payments, which in 1982 accounted for 44 percent of total government spending; subsidies to the public utilities and support for ailing enterprises also appear to have risen strongly.

Nevertheless, the sharp rise in the oil sector and offshore sector tax payments still allowed public sector revenues to outpace expenditure. The combined deficit of the three Governments, which had risen to NA f. 77 million or 11 percent of expenditures in 1979, was reduced to NA f. 16 million or 1 percent of expenditures in 1982. Owing to the placement of Treasury bills with the nonbank public and to exceptional foreign aid received in 1980 and 1981 to retire part of the public sector liabilities to the banking system, credit to the Government declined.

3. The external position

The combination of rising current account earnings and declines in credit to the Government resulted in marked strengthening of the balance of payments in 1981 and 1982. The current account, which had deteriorated sharply in 1980 on account of an exceptionally strong increase in imports, swung back to a large surplus both in 1981 and 1982; although this improvement was partly offset by opposite developments in private capital transactions, the net foreign assets rose to the equivalent of 2.7 months of imports of goods and services at the end of 1982. Reduced export earnings contributed however to a current account deficit of NA f. 71 million in the first half of 1983, compared with a surplus of NA f. 9 million in the same period of 1982. This deterioration was partly reflected in a sharper seasonal reduction of net foreign assets in the first half of 1983 (NA f. 69 million) than in the same period of 1982 (NA f. 36 million).

The Netherlands Antilles have no external commercial public debt, and their outstanding external public liabilities are the counterpart of the soft loan component of development aid received. Such liabilities were equivalent to NA f. 494 million (20 percent of current account receipts) as of end 1982, and are expected to rise by an average of NA f. 40 million a year over the next four years.

The NA guilder is pegged to the U.S. dollar at a rate of NA f. 1.79= US$1 since 1971, and movements in consumer price inflation in recent years have rather closely followed those in the United States. Inflation peaked at nearly 15 percent in 1980, and decelerated to 6 percent in 1982. Increases in the CPI were fully reflected in nominal wages due to the pervasiveness of indexation practices. The effective exchange rate of the NA guilder appreciated by about 10 percent between end 1980 and mid 1983, both in nominal terms and after correction for relative rates of inflation.

II. Report on the Discussions

In early 1983 it became apparent that changes in external conditions would entail a period of economic slack, and a marked easing of tax receipts, while the public sector would have to face increased expenses for employment support.

1. Labor and wage policies

Concern about the employment situation in the Netherlands Antilles and particularly on the island of Curaçao has been heightened by the publication of the 1981 census which showed that the rate of unemployment was about 10 percent in Aruba, Bonaire and the Windward Islands, and 20 percent on Curaçao, and was particularly high among the younger age groups. It received further focus as the difficulties experienced by major corporations presaged large reductions in employment in 1983 and 1984. Where the lack of employment opportunities has hitherto been mitigated by the operation of an informal labor market, a high level of public sector employment, and the implementation of public work schemes, it appears that none of these palliatives will measure up to the present needs.

In the circumstances, the authorities have taken a number of emergency measures. Financial support has been extended to a number of ailing enterprises; this support is provided on a temporary basis, pending the definition of suitable adjustment strategies. Similarly, provisions have been made, at least on the island of Aruba, for increased use of temporary work schemes.

It is, however, generally acknowledged that such measures can only be of stopgap nature. Conversations with business sector representatives, and detailed studies available for some economic sectors, suggest that in many cases enterprises have become uncompetitive, and that their continued viability requires a reduction in wage costs, implying a combination of employment cuts and/or reductions in real wages. The authorities take the view that such adjustments should, as far as possible, result from negotiated agreements between the social partners. They have accordingly promoted an extensive round of negotiations between representatives of business, labor and the Central Government to find approaches to the dual problem of employment and labor costs. The island Governments have been urged to join these negotiations. Among the measures investigated by this tripartite commission are a variety of work-sharing schemes, with corresponding cuts in earnings. Already in commerce and trade such solutions are being tested and in a number of cases wage indexation has been suspended. The authorities have also introduced a modification of the minimum wage system to make it more flexible.

2. Development policies

There is also widespread acknowledgment that labor cost reductions alone will not suffice, and that positive undertakings to expand new employment opportunities are required. The Antillean representatives indicated that such opportunities can notably be developed in the offshore financial sector and in the tourist industry. As examples, they cited the successful efforts of the tourist sectors in Aruba and St. Maarten to attract North American visitors. There appears, however, to be little preparedness to implement a coordinated plan for expansion of these sectors. This, together with the constraints on public finances, severely limits the scope for increased public development spending.

There is particular concern about the offshore financial sector. A significant part of the activities of this sector depends on a tax treaty with the United States, which, at the request of that country, is presently being renegotiated. While the outcome of the negotiations could not be anticipated, Antillean representatives expressed concern that abrogation of the treaty or substantial modifications could lead to a sharp decrease in offshore activities with strong adverse consequences for the economy of the islands.

Foreign aid of roughly NA f. 100 million a year from the Netherlands and the European Development Fund finances mostly public infrastructure and social housing.

3. Fiscal policies

The Antillean representatives recalled that, in view of incipient pressures on the balance of payments, strong efforts were made in 1979 to contain the growth of public spending. These included a hiring freeze, a partial disindexation of civil service wages, but also some delays in making payments. These efforts sharply reduced the deficit in 1980. In the following two years, however, a strong expansion of revenues allowed an easing of these policies and a settlement of late payments. Altogether public expenditure rose by 23 percent in 1981 and 21 percent in 1982 (Table 2).

Table 2. Netherlands Antilles: Public Finance 1/

(In millions of NA guilders)

	1977	1978	1979	1980	1981	1982
Total revenue	501	589	629	746	911	1,118
Of which:						
Offshore and oil taxes	102	137	122	161	273	401
(Percent of total revenue)	(20)	(23)	(19)	(22)	(30)	(36)
Total expenditure	551	651	706	758	936	1,134
Of which:						
Wages	219	254	299	355	408	493
(Percent of total expenditure)	(40)	(39)	(42)	(47)	(44)	(44)
Deficit	50	62	77	12	25	16
(As percent of expenditure)	(9)	(10)	(11)	(2)	(3)	(1)
Memorandum items:						
Growth rate of expenditure	(24.9)	(18.0)	(8.0)	(7.0)	(23.0)	(21.0)
CPI percent change	(5.5)	(8.1)	(11.4)	(14.7)	(12.2)	(6.0)

Sources: Data provided by the Netherlands Antillean authorities; and staff calculations.

1/ Central Government and island Governments of Aruba and Curaçao.

The Antillean representatives indicated however that the outlook for public sector revenues is not favorable and that strong expenditure restraint has accordingly become necessary. The recent strong increase in tax revenues, has been almost totally accounted for by three developments. Tax payments by the oil refining industry, which are subject to a statutory minimum of NA f. 60 million, has risen to NA f. 136 million in 1981, NA f. 181 million in 1982 and NA f. 156 million in 1983; this high level however is thought to reflect the particular circumstances of the industry in 1977-81 and future receipts are held likely to decline, perhaps back to the statutory minimum, by 1985. The rapid growth of the offshore financial sector has resulted in a sharp increase in tax payments, from NA f. 62 million in 1979 to NA f. 220 million in 1982. However, the scope for further rapid increases is held to be very limited, and there is considerable concern that changes in tax legislation in the United States might have a strong adverse impact on the activities of the sector. The yield of the withholding wage tax has been rising steadily since its introduction in 1976, but prospects for wage developments do not support expectations of continued increases. Meanwhile, the yield of other taxes (representing 32 percent of tax revenues in 1979) has been broadly stable in nominal terms, in reflection notably of ongoing difficulties in tax assessment.

Altogether, the medium-term trend in revenues appears to be flat or slowly rising. However, a reform of assessment procedures in the offshore sector holds the promise of a once-and-for-all collection of backlog taxes, of a large but imprecise magnitude in 1983 and 1984. While these receipts temporarily strengthen public finances, it is feared that they might conceal the underlying trend of revenues and delay the necessary adjustment of spending.

While the deceleration in the rate of inflation would ease the spontaneous growth of expenditure, it is feared that deficiencies in budget control may make a significant tightening difficult. Moreover, the downturn in activity entails a heavy cost to the public finances. NA f. 15 million have already been provided to shore up the drydock company, and NA f. 25 million to strengthen the capital structure of the national airline; in order to support activity, plans to spend an additional NA f. 25 million on the development of infrastructures have been announced.

The respective trends of revenue and expenditure do not affect all three Governments uniformly. The island Governments still dispose of sizable deposits with the banking system, while the Central Government is running against the statutory ceiling on its borrowing from the Central Bank. In response, the Central Government announced at the end of July, 1983, a series of expenditure reductions and revenue increases. A new hiring freeze was introduced, and the cost of living adjustment of civil service wages, which should have been effective on July 1, was not applied. Financial support to Bonaire and the Windward Islands is to be restrained, and capital spending other than for the special program of infrastructure development is to be slowed. Additional revenue is sought from an increase in the excise tax on gasoline, which became effective on July 1, and from an increase in the foreign exchange tax, effective September 6. Moreover, significant progress has already been achieved in strengthening the tax administration, and continued efforts will be made in that direction.

4. Monetary policy

A central objective of monetary policy is to maintain the stability of the exchange rate within a free trade and exchange system. For this purpose, the Central Bank does not set quantitative targets for monetary expansion, but monitors external developments and regulates money supply so as to preserve an adequate level of foreign exchange reserves. Over the years the instruments it has used to achieve this, have included voluntary ceilings on bank credit to the household sector, and the regulation of credit to the Governments.

Domestic credit expansion has been relatively subdued in recent years as a result of contrasting evolutions in credit to the private sector and in financing of the Government; this allowed for a strong build-up of net foreign assets.

The expansion of credit to the private sector eased markedly in 1982 and early 1983 in reflection of declining inflation and the downturn in activity, but the trends of credit to the public sector are viewed with concern by the monetary authorities. They observe that, while credit to the three Governments combined declined by NA f. 11 million in 1982, this was much less than in 1981 (NA f. 71 million), and less than the amount of tax revenues, notably from the oil sector, which can be considered in excess of underlying trends. They observe that, while in 1981 all levels of Government reduced their liabilities or increased their deposits with the banking system, in 1982 a further accumulation of deposits by the island Governments contrasted with a marked increase in monetary financing of the Central Government. Advances to the Central Government, in fact, exceeded their agreed limit in early 1983, and the financial situation of the Central Government is seen to require revisions of this limit. At the same time, the island Governments are in a position to draw down their deposits. As a basis for a better coordination between the Governments, the monetary authorities have therefore negotiated with the island Governments the transfer of their deposits from commercial banks to the Central Bank. Nevertheless, monetary financing of the public sector rose rapidly in the first half of 1983 and net foreign assets declined by NA f. 69 million. While this evolution is in part seasonal, it is indicative of the need to maintain a high level of reserves and of the strong relationship between reserves and credit to the public sector.

Interest rate policy in the Netherlands Antilles is aimed at developing domestic savings while not hampering investment and economic expansion. The Antillean representatives explained in this respect that the restrictions on the banks' net foreign assets position give the Central Bank better control over bank liquidity and insulate domestic interest rates from foreign developments. Over the period 1979-82 this permitted the authorities not to follow the upward movement in international rates, and contrary to normal historical patterns foreign rates rose well above domestic rates. In order to restore a more normal pattern the Bank therefore did not adjust domestic rates when foreign rates began declining in mid-1982. It was only after the devaluation of the Venezuelan bolivar in February 1983 that the Bank lowered its discount rate by 1 point to 8 percent as a signal to commercial banks to provide more support to the business sector.

5. External policies

The effective appreciation of the NA guilder since 1980 has been reflected in a relatively high level of labor costs. This represents an impediment for the development of new activities and a source of difficulties for several important sectors. The authorities point out, however, that this appreciation has also been the main factor in reducing the rate of inflation, thereby facilitating the moderation of wage settlements. They also point out that the difficulties experienced by several sectors of activity arise to a large extent from changes in external demand conditions, rather than from developments in labor cost competitiveness. While a decline in external demand will inevitably result in reductions in employment, the implementation of suitable commercial strategies can succeed in creating employment opportunities even in a high-cost environment. In this respect, the authorities consider that the stability of the exchange rate of the NA guilder vis-à-vis the U.S. dollar makes an important contribution to the good reputation of the Antilles, which is seen as an essential factor for the development of a number of activities, notably in the offshore financial sector.

Along with the stability of the exchange rate, the freedom of trade and capital transactions is also considered essential, in view of the openness of the economy. Capital transactions of nonbank residents are subject to general licenses which are liberally administered; the licensing system had been temporarily tightened in 1979-80 when the balance of payments came under pressure, but the system of general licenses was restored as the external situation improved. The overall net foreign position of authorized banks with relation to nonresidents is subject to limits set by the Central Bank, and must in any event be positive. There are only very few trade restrictions. However, under the threat of disruption to the small local manufacturing sector arising from sharp exchange rate movements abroad, import quotas have been imposed on August 13, 1983, on 15 locally manufactured products such as beer, soap, paint and mattresses. Special exemptions can be granted, and the authorities stressed that the restrictions are temporary in character and are only intended as a limited safeguard measure.

6. Outlook

Along with public expenditure policy, which by necessity must be strongly restrictive in the next two years, the short-term outlook in the Netherlands Antilles will be largely dependent on developments in three key sectors.

Tourism is expected to recover gradually, as some reflow of tourist trade from Venezuela may be expected, while the contribution of the North American market will benefit from the economic upturn in that country, and from stepped-up penetration efforts. In the longer run a sustained expansion of this activity, which is crucial for the promotion of employment, will require considerable domestic efforts to improve the quality and the capacity of existing facilities.

Activity in the oil sector is unlikely to expand; transshipment operations are adversely affected by changes in the pattern of oil flows, and the competitiveness of the oil refineries will require reductions in the labor force. The large tax payments of this sector in 1980-83 are expected to decline and may fall back to the minimum statutory levels by 1985.

The offshore financial sector, which has become an essential source of tax revenues, is confronted with uncertainties regarding the future of the tax treaty between the U.S. and the Netherlands Antilles. By themselves these uncertainties exert a dampening influence on this sector; an adverse outcome would severely compromise its activities. The promotion of nontreaty related financial services is pursued, but it will take time until they reach a high level. In the short run therefore, employment and tax payments by this sector can be expected to rise only slowly.

These prospects bode ill for employment especially as the survival of the drydock company and the national airline will also require significant employment reductions. More generally, activity, following a sharp decline in 1983, would only recover slightly in 1984. However, labor's willingness to accept reductions, in some cases significant, in real wage earnings will help mitigate the impact of the recession on employment. The current account deficit of the first half of 1983 partly reflects seasonal factors, and for the year as a whole the current account is expected to be in surplus. Prospects for 1984 largely depend on the stance of public expenditure policies.

III. Staff Appraisal

The Netherlands Antillean economy has succeeded in resisting for a relatively long time the effects of the world recession. At the same time, price inflation has subsided to low levels, and overall balance of payments surplus in both 1981 and 1982 has exceeded 3 percent of gross national income. While these achievements were due in part to particular circumstances, they also reflect the diversified nature of the economy and in particular its ability in recent years to develop a large offshore financial center.

The recession which finally developed at the turn of 1983 revealed the existence of deep weaknesses in the economy, notably the high level of domestic costs, and a lack of coordinated effort to develop sustainable employment opportunities. Most crucially, the recession revealed the incompatibility of underlying public expenditure and revenue trends. Large but nonrecurring tax payments by the oil sector, together with an exceptionally large increase in taxes paid by the offshore financial sector, have supported a strong increase in expenditure. Notwithstanding the prospect of further windfall tax revenues, however, the present trend of public revenues is flat. This is in sharp contrast with the momentum of expenditure, which has been strengthened by the recession particularly in the form of support to ailing activities.

It is important that a reduction in public spending be secured, along with improved revenue management, to avoid a major increase in the public sector deficit. Past experience has shown that excessive monetary financing of the public sector quickly translates into a drop in external reserves. Even though the present level of reserves is adequate, and there is no commercial external public debt, the room for maneuver is limited. Until the prospective public sector deficit is brought under control, there is a risk that an incipient decline in reserves could jeopardize confidence in the currency. Reducing public expenditure will be very difficult, all the more so as authority to spend is vested in several Governments. It will require close cooperation between the Central Government and the island Governments. It will also require a marked improvement in expenditure control. On the revenue side, in spite of significant recent progress, there remain important deficiencies in tax administration which must be remedied.

In the course of this adjustment, there are likely to be strong pressures for domestic credit expansion. The island Governments have large creditor balances with the banking system, which may be run down at the same time as the ceiling on central bank advances to the Government is raised. In that case, pressure on the external position could develop quickly. Close cooperation between the Governments is particularly necessary to avert this danger. The staff would urge the early conclusion of specific arrangements between the island Governments and the Central Government regarding the rate at which they will have recourse to monetary financing. These arrangements must take account of their aggregate implications for the official reserve position.

The authority of the Central Bank is essential to confidence in the currency. The staff therefore hopes that the new statutes of the Bank now under preparation will fully recognize this contribution. It welcomes the steps that have been taken to centralize at the Central Bank the monetary operations of the Governments, and the policy of returning to a positive yield differential in favor of domestic investments.

Since the wage bill accounts for close to half of public expenditure, the necessary fiscal adjustment will require restraint on wage outlays. In the private sector, the stiffening of international competition has revealed the high level of wage costs in many activities; wage restraint in this sector is also necessary to mitigate losses in employment, to allow firms to generate a higher level of resources for investment and to attract new foreign investment. The staff therefore welcomes the arrangements which have been reached in some cases to suspend wage indexation and the initiation of tripartite conversations between the Governments, business representatives and the unions to take stock of the required effort.

In addition to greater wage flexibility the provision of new employment opportunities will require the definition of a coordinated development strategy. The staff urges that efforts in this direction be stepped up. To the extent that such a strategy would require public financial support however, it can only be implemented if other public expenditure has been sufficiently restrained to make room for development financing. It is important in this respect that the support which is extended to ailing enterprises be temporary, and that these enterprises should return to economic viability.

With regard to exchange rate policy, the mission accepted the link with the U.S. dollar as given. Under present circumstances--particularly the seriousness of the outlook for public finance and the pervasiveness of indexation practices--there is no alternative to the present exchange rate policy. The authorities rightly emphasize that the stability of the exchange rate vis-à-vis the U.S. dollar has helped in establishing the good reputation of the country and more recently has been the basic factor in reducing inflation. However, the stability of the exchange rate vis-à-vis the U.S. dollar has entailed a real effective appreciation of the guilder, which makes restraint on labor costs indispensible if competitiveness is to be safeguarded.

The staff welcomes the authorities' reassertion of their commitment to a free trade and exchange system. The imposition of restrictive measures in the expectation of easing the balance of payments pressures would be particularly detrimental in a country where the existence of large sectors of activity depends on the freedom of trade and capital movements. In this connection, the staff notes the temporary character of the import quota restrictions which have been imposed on a limited range of products and urges the authorities to announce a timetable for their termination.

It is recommended that the next Article IV consultation with the Netherlands Antilles be held on an 18-month cycle.

Fund Relations with the Kingdom of the Netherlands - Netherlands Antilles

The Netherlands Antilles is part of the Kingdom of the Netherlands, which consists of the Netherlands Antilles and the Netherlands itself. The Kingdom of the Netherlands is an original member of the Fund. On February 15, 1961, the Kingdom formally accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund Agreement for all territories. The initial par value of the Netherlands Antillean guilder--NA f. 1.88585 = US$1--was established with the Fund on December 18, 1946. The authorities communicated to the Fund a rate of NA f. 1.79000 per US$1 to take effect as a central rate on December 23, 1971. Since then, the Netherlands Antillean guilder has been pegged to the U.S. dollar at this rate.

The Executive Board conducted the last Article VIII consultation on February 8, 1980 on the basis of staff reports SM/80/71 (3/26/80) and SM/80/68 (3/27/80).

Basic Data

Population (1981)	231,932
Of which:	
Curaçao	147,388
Aruba	60,312
Bonaire	8,753
Windward Islands	15,479
Population density	234 inhabitants per square kilometer
Average annual population increase (1972-81)	0.4 percent

	1977	1978	1979	1980	1981	1982
Consumer price index (Leeward Islands)						
Percent increase, December to December	6.3	9.7	12.2	16.0	8.6	4.7
Period average	5.5	8.1	11.4	14.7	12.2	6.0
	(Annual percentage change)					
Selected indices of economic activity						
Refining output	-8.7	4.2	-8.0	-1.1	-3.3	-13.6
Electricity production	0.9	7.4	4.3	1.7	0.8	-0.8
Shipping activity	8.7	-6.6	7.8	-10.7	6.6	-24.4
Stayover tourism (arrivals)	6.0	16.8	9.3	-0.4	6.2	8.3
Cruise tourism (arrivals)	11.7	-3.7	6.8	-9.0	-8.6	-12.1
	(In millions of NA guilders)					
Balance of payments						
Non-oil trade balance	-800	-963	-1,092	-1,364	-1,328	-1,451
Services	922	1,055	1,234	1,445	1,606	1,726
Private transfers and investment income	-147	-142	-145	-186	-181	-122
Current account	-25	-50	-3	-105	97	153
Official capital	42	61	73	151	111	62
Private capital	-23	-105	-78	-18	-132	-140
Errors and omissions	8	16	21	24	20	16
Change in net international reserves, increase (-)	2	78	-13	-52	-96	-91
Memorandum item:						
Net international reserves	259	181	194	246	342	433

	1977	1978	1979	1980	1981	1982
	(In millions of NA guilders)					
Public finance (Central Government and Island Governments of Aruba and Curaçao combined)						
Expenditure	551	651	706	758	936	1,134
Revenue	501	589	629	746	911	1,118
Financial balance	-50	-62	-77	-12	-25	-16
(as percent of expenditure)	(9)	(10)	(11)	(2)	(3)	(1)
	(Annual percentage change; end of period)					
Monetary data						
Money and quasi-money (M2)	17.6	14.2	9.3	10.0	12.9	13.7
Net foreign assets	-0.6	-30.2	6.9	26.9	39.2	26.5
Domestic credit	27.7	37.3	11.3	6.0	8.7	9.1
Claims on governments 1/	45.8	54.7	56.2	-28.1	-71.1	-11.1
Claims on Central Government 1/	(15.1)	(40.2)	(-18.2)	(-3.4)	(-5.0)	(50.8)
Claims on island governments 1/	(30.7)	(14.5)	(74.4)	(-24.7)	(-66.1)	(-61.9)
Claims on private sector	16.7	29.7	4.1	11.8	20.0	11.0
Exchange Rates						
Central rate: NA f. 1.79 = US$1						
NA guilder per SDR (period average; end of period)	2.090	2.241	2.313	2.330	2.111	1.976

1/ Changes in millions of NA guilders.