FOR AGENDA

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CONTAINS CONFIDENTIAL INFORMATION

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To: Members of the Executive Board

From: The Secretary

Subject: Netherlands Antilles - Recent Economic Developments

This paper provides background information to the staff report on the 1983 Article IV consultation discussions with the Netherlands Antilles, which was circulated as SM/83/222 on October 31, 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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CONTAINS CONFIDENTIAL INFORMATION

INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS - NETHERLANDS ANTILLES

Recent Economic Developments

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Approved by the European Department

November 1, 1983

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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.

I. Domestic Economic Developments

1. Production

a. Industrial activity

Manufacturing is dominated by the oil industry, but a ship repair industry and a light-manufacturing industry specialized in local consumer goods have also developed.

The oil industry comprises mainly two large refineries (one each in Curaçao and Aruba) which in the early seventies also expanded in oil transshipment business. These two companies were originally established to import and refine crude oil from Venezuela for export to North America and Western Europe. Refining activity peaked in the mid-fifties when they accounted for about 40 percent of GDP and provided one third of total employment, or nearly 20,000 jobs. Since then, the relative importance of the oil sector has declined steadily and it is now estimated to contribute only 15 percent of GDP, while employment has fallen to about 3,700 jobs. In recent years this decline accelerated; output fell from over 500 thousand barrels a day (bbl/d) in 1980 to 450 thousand bbl/d in 1983, while capacity shrank from one million barrels a day in the mid-1970s to about 782 thousand bbl/d currently. Although the second oil price shock brought a temporary improvement in the financial situation of refineries, underlying factors suggest that a long-term recovery is unlikely. Refineries lack both a significant natural market and an own supply of crude, and face the excess refining capacity on a worldwide basis. Both refineries plan continued rationalization investment programs, but they expect that the gradual reduction in employment will continue or even accelerate.

Another component of the oil sector is the transshipment and storage of crude oil from the Middle East and Africa to the U.S.. These operations started in the early 1970s and there are currently four terminals in the country. During the mid and late seventies the natural geographical advantages of the islands, especially their deep water harbor, the complementarity of these activities with the oil refining business and the trend toward increasingly larger oil tankers all contributed to a period of sustained growth. This period now appears to be over as the same factors that caused the downtrend in refining activities also adversely affect transshipment business.

Aside from the oil sector, the main industrial activity in the Netherlands Antilles consists of a ship repair and drydock firm. This firm has one of the largest drydock facilities in the world and employs about 1,200 full-time workers and about 400 part-time workers. Following a reorganization in 1977, the drydock's favorable geographic location, and a reputation for quality work, led to sustained growth in

turnover in spite of a generally depressed market. This situation changed in 1982 under the combined effect of declining regional shipping activities and eroding competitiveness. The number of manhours sold declined by 17 percent, resulting in a loss of NA f. 16.7 million and the firm had to be supported by a government subsidy of NA f. 15 million. The financial situation continued to deteriorate in 1983, with losses amounting to NA f. 24 million during the first eight months, requiring further public support and raising the prospect of large wage and employment cuts. Although the overall situation of the firm may improve with an upturn in regional shipping activities, a significant reduction in its labor force must still be expected and continued subsidies may be necessary for several years.

Domestically oriented manufacturing activities consist almost exclusively of the production of consumer goods and simple intermediate goods, in particular those favored by high freight costs, high import tariffs or import restrictions. In general, however, growth of manufacturing continues to be inhibited by high wage costs, the geographic fragmentation of the economy and the very small domestic market which limits the scope for import substitution.

Available indications suggest that the construction activity has slowed down considerably in 1982 (Table 2). The retrenchment of investment programs in all major sectors of the economy and the effects of high interest rates on housing demand have led to a noticeable slowdown and perhaps a decline of new completions. The decline in construction was a major cause for the rise in unemployment.

b. The tourism sector

The tourism sector which surpasses oil refineries as the main source of private employment and of gross foreign exchange earnings, has also shown signs of weakness lately. Stay-over tourism which, except for a brief stagnation in 1975 and 1980, had been consistently growing in the last decade (Table 3) appears to have abruptly declined in the early months of 1983; meanwhile, the downtrend in cruise tourism which had begun in 1980 accelerated (Table 4). As in previous years, however, there were marked differences between the islands.

Curaçao, where most of the tourism activity is generated by shopping trips from neighboring Latin American countries, was adversely affected in February 1983, when the Venezuelan authorities introduced a three-tier exchange system with a free market rate for tourism as part of an adjustment program aimed at restoring external equilibrium. This action led to the virtual disappearance of Venezuelan tourism in Curaçao, which in 1981 had accounted for 47 percent of the total number of visitors there. Tourism activity in Aruba was also affected by the devaluation of the bolivar, but the decline was less than in Curaçao and Venezuelan tourists account for a smaller share--about 30 percent

in 1981--of the total number of visitors. In addition, several initiatives were taken to expand tourism from the U.S., and the number of U.S. tourists rose by 9 percent in the first half of 1983 over the same period of 1982. St. Maarten, which mainly caters to U.S. tourism, appears to be enjoying a high level of activity.

2. Labor market

In recent years the labor market has been characterized by rapid growth in the labor force which, combined with a stagnation of employment, has led to a sharp increase in the unemployment rate, particularly among youth and women. Employment conditions differ substantially among the islands, with the highest rate of unemployment being recorded in Curaçao (Tables 5 and 6).

As a result of high birth rates in the 1950s and early 1960s and rising participation rates of women, the rate of growth of the labor force has exceeded the rate of growth of the population in recent years and it is estimated that approximately 2,500 new workers enter the labor market each year. New job creation has been insufficient to absorb these workers; in fact, partial data suggest that employment stabilized after 1980 and might decline significantly in 1983 as a result of weakening economic activity.

3. Consumer prices

There was a considerable decline in the rate of inflation in the last three years. As measured by the 12-month increase in the CPI, inflation peaked in December 1980 at 16.6 percent and has since steadily declined to 3.3 percent in May 1983 (Table 8). With the exception of services, very little consumer goods are produced domestically. Consumer prices, therefore, are determined mainly by external factors principally inflation abroad and currency movements. Price controls in the form of a maximum retail margin exist for a number of essential products, including medical supplies, food and beverages. In addition, rents for dwellings and commercial property are also controlled and the government subsidizes public utilities, the telephone company and the desalination plants.

4. Wages and labor earnings

Most private collective agreements provide for some form of automatic cost of living adjustment. The nature of this adjustment varies, but collective agreements generally run for two to three years and provide for partial cost of living adjustments (80 percent) every six months. Recently, however, greater awareness of the problems caused by high wages (Table 9) have led to a trend away from automatic indexation and in most of the collective agreements which have come for renewal cost of living adjustments have been dropped in return for a one time lump sum payment.

In the public sector, tapered indexation amounting to a maximum of 80 percent of cost of living increases was in effect from 1975 to 1980 for Central Government employees. A catch-up correction took place in 1981 and full compensation for inflation was granted on January 1, 1982 and 1983. However, in view of the mounting budget deficit it was decided in the spring of 1983 that future adjustments would be limited to that part of inflation in excess of 5 percent.

Minimum wage legislation, consisting of a fairly complex system of four minimum wage levels depending on sectoral categories each fully indexed (Table 10) was introduced in 1972. Dissatisfaction with this system, notably with the fact that inflation tended to increase sectoral wage differentials, has led the authorities to introduce on January 1, 1983 a new system to gradually merge the four wage levels. The lowest wage level will continue to be fully indexed, but adjustment in the highest level will only reflect 20 percent of inflation; in this way, it is estimated that, assuming an average annual inflation rate of 8 percent, it would take about 8 years to merge the minimum wage levels.

5. Development assistance and policies

The Netherlands Antilles received foreign development aid amounting to NA f. 103.6 million in 1982 and an estimated NA f. 110 million in 1983, equivalent to approximately 2 percent of estimated GDP. Virtually all of this was provided by the Netherlands and, to a lesser extent, by the European Development Fund (Table 11).

Tables 12 and 13 show the breakdown of development aid by sector. In recent years nearly half of all disbursements went to infrastructure and public utilities projects. Social housing also received a large share, equal to 27 percent of total aid. Approximately 14 percent of Dutch assistance was allocated through the Central Government and the remaining through the island Governments, approximately in proportion to their population with 22 percent for Aruba and 52 percent for Curaçao.

As regards development policies, the Central Government recently decided to establish a national development bank to provide medium- and long-term financing to small- and medium-sized enterprises. Authorized capital of this bank, which started operations on February 1, 1983 was initially set at NA f. 15 million, of which 60 percent is held by the central and island Governments (except Aruba which decided to establish its own bank) and the rest by the private sector. Additional resources were also provided by the European Investment Bank, and future funding is expected to come from several Dutch development banks and from the issue of long-term bonds with government guarantee.

Table 1. Netherlands Antilles: Selected Indicators of Economic Activity, 1978-82

(Annual percentage change)

	1978	1979	1980	1981	1982
Refining output volume 1/	4.2	-8.0	-1.1	-3.3	-13.6
Electricity production 2/	7.4	4.3	1.7	0.8	-0.8
Shipping activity 3/	-6.6	7.8	-10.7	6.6	-24.4
Construction 4/	45.9	-9.3	3.6	23.4	5.1
Stay-over tourism 5/	16.8	9.3	-0.4	6.2	8.3
Cruise tourism 5/	-3.7	6.8	-9.0	-8.6	-12.1
Offshore financial activities 6/	16.0	40.1	14.4	44.6	41.1

Sources: Bank of the Netherlands Antilles, Quarterly Bulletin; and staff calculations.

1/ Central Bank index: volume of refined products.
2/ Central Bank index: volume of electricity sold.
3/ Annual tonnage of shipping traffic in Antillean ports.
4/ Value of completed building deflated by the consumer price index.
5/ Number of arrivals.
6/ Outstanding assets deflated by the CPI.

Table 2. Netherlands Antilles: Construction Activity, 1/ 1971-82

(Annual percentage change)

	1971-77	1978	1979	1980	1981	1982
Number of building permits issued						
Curaçao	0.2	8.1	-10.5	33.5	-33.3	--
Aruba	-1.7	-4.7	14.2	-0.8	11.8	...
Total	-0.6	3.1	-1.7	19.2	-17.7	...
Number of completions						
Curaçao	-4.8	13.7	14.0	-13.7	42.2	-32.0
Of which: dwellings	-3.7	--	42.2	-13.8	38.2	-21.5
Aruba	-5.5	14.3	-7.8	5.4	-6.3	...
Of which: dwellings	-9.0	72.7	-3.9	-13.0	--	...
Total	-5.1	13.9	5.7	-7.4	27.8	...
Of which: dwellings	-5.4	19.6	24.3	-13.6	26.4	...
Value of completions (in millions of NA guilders)						
Curaçao	1.6	63.8	3.7	18.7	48.2	7.6
Aruba	2.5	63.4	9.1	24.1	-0.5	...
Total	1.8	63.7	5.2	20.2	34.0	...

Source: Bureau of Statistics, Statistische Mededelingen, July 1982.

1/ Excludes lower income housing projects.

Table 3. Netherlands Antilles : Basic Data on Stayover Tourism, 1977-82

	1977	1978	1979	1980	1981	1982
			(Number of visitors in thousands)			
Aruba	151.2	163.9	185.1	188.9	221.3	220.2
Bonaire	8.1	11.6	12.0	14.6	19.7	20.3
Curaçao	133.6	173.8	178.9	178.6	166.2	174.4
St. Maarten	142.0est	158.7est	179.2	170.7	179.8	204.8
Total	434.9	508.0	555.2	552.8	587.0	635.9
			Average stay (nights)			
Aruba	7.3	7.3	6.3	6.2	6.3	6.2
Bonaire	4.3	3.7	4.9	4.7	4.6	4.5
Curaçao	4.6	4.8	5.0	4.8	4.2	...
St. Maarten	...	...	...	...	...	...
			(In per cent of total)			
National origin of visitors						
Aruba						
USA & Canada	66.9	67.1	67.6	61.6	58.6	54.4
Venezuela	23.3	23.3	22.0	28.6	30.0	33.8
Other Latin America	6.8	6.8	7.0	6.1	7.6	8.0
Europe	2.2	2.3	3.1	3.3	3.7	3.6
Other	0.8	0.5	0.3	0.4	0.1	0.2
Bonaire						
USA & Canada	59.3	60.3	60.0	50.7	52.8	56.2
Venezuela	13.6	9.5	12.5	15.1	16.8	21.8
Netherlands	9.9	12.9	9.2	12.3	10.7	9.4
Other	17.2	17.3	18.3	21.9	19.7	12.6
Curaçao						
USA & Canada	24.7	19.5	15.2	14.6	18.2	12.6
Venezuela	43.8	46.0	46.1	52.1	47.0	54.1
Other Latin America	13.2	20.8	24.8	21.5	24.2	23.9
Europe	12.2	12.3	9.6	9.4	8.3	7.3
Other	6.1	1.4	4.3	2.4	2.3	2.1
St. Maarten						
USA & Canada	...	...	70.9	69.8	70.2	67.4
Continental France	...	...	10.7	14.2	13.3	12.4
Other Caribbean 1/	...	...	6.5	6.5	6.6	8.2
Other	...	...	11.9	9.5	9.9	12.0

Source: Bank of the Netherlands Antilles, Quarterly Bulletin.

1/ Including Guadeloupe and Martinique.

Table 4. Netherlands Antilles : Basic Data on Cruise Tourism, 1977-82

	1977	1978	1979	1980	1981	1982
	(In thousands of visitors)					
Aruba	88.7	98.0	95.6	73.4	54.7	51.1
Bonaire	1.1	2.6	5.0	2.9	12.8	6.8est
Curaçao	193.6	172.0	174.0	169.0	129.4	110.0
St. Maarten	97.5	94.2	117.0	105.5	106.0	98.3
Total	380.9	366.8	391.6	350.8	302.9	266.2

Source: Bank of the Netherlands Antilles, Quarterly Bulletin.

Table 5. Netherlands Antilles: Labor Market Indicators, 1981

(Number of persons)

	Netherlands Antilles	Aruba	Curaçao
Employed	80,731	23,572	47,290
Unemployed	15,462	2,454	12,006
Other non-working	135,736	34,286	88,092
Students 1/	21,547	5,601	14,513
Pensioners	10,745	2,792	6,607
Other	103,447	25,893	66,972
Of which:			
Voluntary inactive	(38,071)	(10,414)	(25,087)
Population below 14	(62,376)	(14,519)	(40,380)
	231,932	60,312	147,388
Memorandum items:			
Rate of unemployment 2/	16.1	9.4	20.2
Employment ratio 3/	34.8	39.1	32.1
Labor force participation 4/	52.6	56.4	48.5

Source: Data provided by the authorities.

1/ Fourteen years old and above.
2/ Number of unemployed as percent of total labor force.
3/ As percent of total population.
4/ As percent of total population age 14-64.

Table 6. Netherlands Antilles: Labor Force Composition and Geographic Distribution, 1981

(Number of persons)

	Employment	Unemployment	Total labor force	Unemployment rates 1/
Aruba	23,577	2,454	26,031	9.4
Bonaire	3,031	395	3,426	11.6
Curaçao	47,290	12,006	59,296	20.2
St. Maarten	5,998	499	6,497	7.7
Saba and St. Eustatius	835	108	943	11.5
Total	80,731	15,462	96,193	16.1

Source: 1981 Census.

1/ In percent of total labor force.

Table 7. Netherlands Antilles: Employment by Sector, Aruba and Curaçao, 1978-80

(Number of persons, end of period, unless otherwise indicated)

	1978	1979	1980	1980 (percent of total)
Agriculture, fishing	153	145	154	0.2
Mining, industry	10,954	11,137	11,073	15.9
Utilities	1,132	1,152	1,155	1.7
Construction	5,313	5,700	6,059	8.7
Trade, Hotel, etc.	18,310	18,638	19,413	28.0
Transport, communication	3,361	3,474	3,511	5.1
Finance, insurance	4,231	4,384	4,768	6.9
Other services	6,149	6,507	6,350	9.2
Governments	12,489	13,303	13,278	19.2
Education	3,478	3,457	3,523	5.1
Total	65,570	67,897	69,284	100.0

Source: Data provided by the authorities.

Table 8. Netherlands Antilles: Change in the Consumer Price Index for Aruba, Bonaire, and Curaçao, 1977-83

(In percent, end of period, unless indicated)

	1977	1978	1979	1980	1981	1982	1983 1/
Food	7.8	13.2	12.4	15.9	7.9	5.4	2.5
Clothing	7.5	6.3	7.1	11.7	10.9	7.2	7.3
Housing	11.2	10.2	11.3	25.9	6.6	3.0	2.0
Housekeeping and furnishing	10.1	8.2	16.2	15.2	11.2	7.8	5.1
Health	4.8	14.8	6.5	11.3	22.7	4.4	7.0
Transport and communication	8.8	5.8	20.2	13.2	9.7	5.0	2.5
Recreation	4.5	8.5	7.2	9.6	8.5	2.3	3.1
Education	4.7	5.8	4.0	2.8	3.6	3.6	0.4
Other	5.8	6.5	10.9	13.5	7.6	4.8	2.7
Overall index	13.3	9.7	12.2	16.0	8.6	4.7	3.3
(annual average change)	(5.5)	(8.1)	(11.4)	(14.7)	(12.2)	(6.0)	(4.5)

Source: Bank of the Netherlands Antilles, Quarterly Bulletin.

1/ Year ending May 1983.

Table 9. Netherlands Antilles: Selected Hourly Wage Indicators, 1982

	Minimum Wage		Average Wage		
	NA guilder	U.S. dollar	NA guilder	U.S. dollar	Comparative index 1/
Skilled industrial jobs	3.43	1.91	6.84	3.82	1.44
Transportation	3.43	1.91	7.81	4.36	1.61
Hotel and restaurants	3.43	1.91	4.26	2.38	1.53
Office clerks	3.43	1.91	5.41	3.00	1.50
Masons	4.09	2.29	7.08	3.95	1.77
Electricians	3.64	2.03	6.12	3.42	1.18

Sources: Netherlands Antilles authorities; and staff estimates.

1/ Ratio of Netherlands Antillean wages to corresponding wages in Barbados.

Table 10. Netherlands Antilles : Recent Evolution of Minimum Wages, 1977-83

(In annual percentage change)

	1977	1978	1979	1980	1981	1982	1983	1983 (In NA guilders per month)
Agriculture, commerce, and textile industry	4.1	6.0	9.7	12.5	14.7	11.4	1.2	921.70
Manufacturing and construction	4.1	6.0	9.7	12.6	14.7	11.4	3.7	678.75
Transportation, tourism and financial services	4.2	5.9	9.7	12.5	14.7	11.4	6.2	583.30
Household personnel	4.1	6.0	9.7	12.5	14.7	11.1	6.2	278.30
Memorandum Item: Consumer price index 2/	6.3	9.7	12.2	16.0	8.6	4.7	...	...

Source: Bank of the Netherlands Antilles, Annual Report 1979-80; and data provided by the Netherlands Antillean authorities.

1/ Minimum wages are adjusted on January 1 of each year.
2/ Through the year.

Table 11. Netherlands Antilles: Total Flow of Development Aid, 1977-82

(In millions of NA guilders)

	1977	1978	1979	1980	1981	1982
Multi-year plan	47.7	44.8	60.2	157.1	87.8	86.7
Social, educational, and cultural funds	14.2	13.9	12.1	13.2	11.2	12.0
European Communities	1.7	6.4	8.4	13.2	5.7	4.9
Total	63.6	65.1	80.7	183.5	104.7	103.6

Sources: Bank of the Netherlands Antilles, Quarterly Bulletin; and figures provided by the Netherlands Antillean authorities.

Table 12. Netherlands Antilles: Multi-Year Plan Interim Phase; Disbursements by Sectors and Authorities, 1977-82

(In percent of total)

	1977	1978	1979	1980	1981	1982	1977-82
Public utilities	29.1	37.6	49.7	34.4	7.5	20.4	29.9
Airports	5.0	2.0	3.0	8.2	13.7	0.7	5.4
Harbors	10.3	4.0	2.0	9.5	23.7	23.2	12.1
Roads and bridges	11.1	10.7	5.1	1.1	1.6	1.0	5.1
Education	6.9	3.1	1.5	0.6	1.9	2.3	2.7
Health	6.1	3.6	1.0	0.2	0.7	0.6	2.0
Housing	22.0	19.6	21.6	18.1	41.6	39.0	27.0
Tourism	2.6	6.0	2.5	0.6	0.1	0.7	2.1
Agriculture, animal husbandry, and fishing	0.6	2.7	1.5	0.2	0.3	--	0.9
Trade, industry, and other services	1.1	4.2	6.5	1.6	3.4	9.2	4.3
Other	5.2	6.5	5.6	25.5	5.5	2.9	8.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
(in millions of NA guilders)	47.7	44.8	60.8	157.4	87.1	86.7	484.5
Of which:							
Central Government	9.5	6.5	3.8	31.5	20.4	11.4	13.9
Aruba	9.1	34.6	20.8	19.7	22.5	22.4	21.6
Curaçao	69.4	40.1	54.1	41.2	47.1	60.8	52.0
Bonaire	9.5	12.3	7.5	3.5	5.1	2.9	6.8
Windward Islands	2.5	6.5	13.8	4.1	4.9	2.5	5.7

Source: Bank of the Netherlands Antilles, Quarterly Bulletin.

Table 13. Netherlands Antilles: Aid from the European Development Fund; Disbursements by Sectors and Authorities, 1977-82

(In percent of total)

	1977	1978	1979	1980	1981	1982
Airports	--	92.2	90.5	65.7	1.7	18.4
Harbors	--	--	--	3.8	--	--
Roads	--	--	--	--	--	--
Education	100.0	7.8	9.5	25.2	70.7	49.0
Other	--	--	--	5.3	27.6	32.6
Total	100.0	100.0	100.0	100.0	100.0	100.0
(In millions of NA guilders)	1.7	6.4	8.4	13.1	5.8	4.9
Of which:						
Central Government	--	--	1.2	6.1	37.9	36.7
Aruba	100.0	7.8	8.3	27.5	57.0	34.7
Curaçao	--	32.8	64.3	43.5	--	--
Bonaire	--	54.7	21.4	17.6	3.4	26.6
Windward Island	--	4.7	4.8	5.3	1.7	2.0

Sources: Bank of the Netherlands Antilles, Quarterly Bulletin; and figures provided by the Netherlands Antilles authorities.

II. Public Finance

1. Institutional framework

The division of responsibilities and the inter-governmental relations between the Central Government and the island Governments of Aruba, Bonaire, Curaçao, and the Windward Islands (St. Maarten, St. Eustatius, and Saba) are formalized in the Island Regulation of 1951. While all major taxes are levied by the Central Government--leaving the island authorities to set only some minor taxes and fees as well as surcharges on income and profit taxes--the responsibility for collecting taxes are divided between the Central Government and island Governments. The island Governments generally collect direct taxes, while the Central Government collects indirect taxes. According to the Island Regulation, 35 percent of the principal amount of income and profit taxes collected by the island Governments of Aruba and Curaçao had to be transferred to the Central Government in the second half of the year following the one in which they were collected, while 45 percent of import duties, gasoline duties, and excise taxes collected by the Central Government had to be transferred to the island Governments of Aruba and Curaçao. These percentages of revenue sharing were revised in 1981, although not through a change in the respective law, but based on agreements reached between the Central Government and the island Governments of Aruba and Curaçao (see below).

With regard to financing, the Island Regulation provides that the island Governments of Aruba and Curaçao are allowed to borrow in the domestic markets and from commercial banks as is the Central Government, but only the Central Government is allowed to borrow abroad or from the Central Bank. The provisions for revenue sharing and financing do not apply to Bonaire and the Windward Islands. The authorities of these islands are entitled to keep all direct and indirect taxes, and expenditures have to be covered by their current revenues and by annual transfers from the central government budget.

A social security scheme provides health, accident, old age, widows' and orphan benefits. Both employer and employees have to contribute to this scheme which is administered by the Social Insurance Bank (SUB).

The revenue-sharing arrangement, as provided for in the Island Regulation, resulted in substantial and increasing obligations for net transfers on the part of the Aruba and Curaçao Governments. Already in the early 1970s, when the island Government of Curaçao was confronted with strongly increasing expenditures, requests were made to change the arrangements in favor of the two island Governments. As no definitive adjustments were made, the island Government of Curaçao withheld all net payments due to the Central Government in the period 1973-75, and met only part of its obligations in this respect during the years 1976 to 1978. Aruba, on the other hand, stopped transferring tax revenues to the Central Government in 1975 and 1976, while in 1977 only part of the

amount was paid. Consequently, the cumulative arrears of Aruba and Curaçao to the Central Government at the end of 1978 under the revenue-sharing arrangement were NA f. 26.5 million and NA f. 94.2 million, respectively.

In September 1978 and in March 1979, the Central Government reached tentative agreements with the island Governments of Curaçao and Aruba, respectively, to revise the revenue-sharing formula in favor of the islands. The new formula reduced to 25 percent transfers of direct taxes to the Central Government, while the latter's transfer of the receipts of indirect taxes to the two island governments was increased to 50 percent. It was also agreed that the resulting net transfers from the two island Governments to the Central Government would be made in 12 equal monthly installments, instead of 6 as previously, and that the mode of settling arrears as of the end of 1978 would be decided at some point in the future.

The new revenue-sharing arrangement which was made retroactive as from the year 1978 initially did not work satisfactorily (Table 14). Despite the adjustment in their favor, the island Governments continued to transfer less than the net amounts due, thus depriving the Central Government of a major source of revenues and, while in 1979 and 1980 Aruba incurred only minor arrears, Curaçao met less than half of its obligations. In turn, the Central Government withheld the transfer of taxes on civil servants' wages to Curaçao. Renewed negotiations in 1981 and 1982, however, appear to have settled the issue and, in the wake of a buoyant revenue performance, the island Governments practically kept up with their current obligations to the Central Government in the last two years. The new agreement also provided that arrears, accumulated between 1973 and 1977, would be frozen for the time being, while arrears of Curaçao, related to the period 1978-80, would be consolidated into a 20-year annuity loan.

2. Consolidated government operations, 1978-82 1/

a. Introduction

Following a substantial deterioration during the 1978-79 period, the budgetary performance of the consolidated government improved strongly from 1980 to 1982. This development was brought about by a reduction in the growth of public spending in 1980 and by a strong progression of revenue in 1981 and 1982; consequently, the combined deficit which had risen to about 10 percent of total expenditure in 1978-79 fell to less than 3 percent of expenditure on average in 1980-82.

1/ The definition of the consolidated government here covers the budgets of the Central Government and the two island Governments of Aruba and Curaçao, but excludes the two island Governments of Bonaire and the Windward Islands.

b. Revenues

Revenues rose on average by 22 percent per year in 1981 and 1982 (Table 15). This steep increase reflected mainly large profit tax payments from the oil refineries and from the financial offshore sector, and, to a lesser extent, a buoyant withholding tax on wages and a steady growth in receipts from import duties. Other tax receipts however did practically not increase.

Tax revenues from the offshore financial center rose from NA f. 77 million in 1978 to NA f. 220 million in 1982 and despite this rapid increase a large backlog in the collection of these taxes of between NA f. 300 million and NA f. 500 million is thought to have developed. Profit tax payments from the two oil refineries, after remaining at the statutory minimum of NA f. 60 million from 1978 to 1980, briskly rose to NA f. 136 million in 1981 and to NA f. 181 million in 1982. Wage tax revenues increased by 32 percent to NA f. 263.2 million in 1982 reflecting the steady growth of labor income. Import duties rose by 42 percent in 1981-82 to NA f. 105.2 million, as a consequence of both sustained growth in merchandise imports and a 10 percent increase in import duties in 1981.

In contrast, the performance of other tax revenues was disappointing. Receipts from personal income tax, from profit taxes other than on the refineries and offshore sector, and from indirect taxes on goods and services, all stagnated or even declined despite inflation. There appears to have been various reasons for this, including the automatic adjustment of income tax rates to inflation, which was first used in 1978 and has been in force on a regular basis since 1981. Also, and perhaps more significantly, these tax revenues appear to have been adversely affected by recurrent difficulties with regard to tax assessing and collecting procedures.

c. Expenditures

After a marked slowdown to an annual growth rate of 7 percent on average in 1979-80, a strong growth in expenditure amounting to 20 percent on average was recorded in 1981-82. Wage outlays appear to have been one of the more buoyant components.

Table 20 shows the main trend in Central Government expenditures. The wage bill which accounts for approximately 55 percent of total expenditures rose on average by 20 percent in 1981-82. Wages in the public sector have been adjusted for inflation since 1978, but, in addition to inflation this rapid increase also reflected the upgrading of functions and the hiring of 300 new civil servants. As a result of the large borrowing requirement in the late 1970s, interest payments on the public debt rose fivefold in 1981-82, and presently account for about 6 percent of total expenditure. Finally, exceptional capital

transfers of NA f. 23 million to the national airline and to the Drydock Company explain the large increase registered in 1982 under the item other current expenditures (Table 20).

Less detailed information is available on expenditures of the two major island Governments, but both Governments also showed sustained increases in their wage bill (Tables 21 and 22). The increase for Curaçao--11 percent on average in 1981-82--appears to have been more moderate than for Aruba--nearly 20 percent on average. Part of this difference is accounted for by the fact that in recent years the Government of Curaçao has steadily reduced its personnel (by 850 persons since 1975). Another significant component of expenditures are income support payments provided by the island governments. Indications are that in the wake of increasing unemployment these payments have risen rapidly in recent years. In 1981, the latest year for which figures are available, the Government of Curaçao paid NA f. 21.5 million under this item and supported more than 7,000 persons. Finally, included under other current expenditures of the island's budget (Tables 21 and 22) are subsidies to public utilities. These subsidies have been especially large for the desalination plants, particularly in Curaçao where they rose from NA f. 21 million in 1979 to NA f. 40 million in 1982.

3. Financing of government deficits

Although some foreign financing was provided from changes in the balance of the clearing account in the Netherlands between the Central Government and the Dutch Government, the financing of the combined deficits of the Central Govenment and the island Governments of Curaçao and Aruba has been assured almost exclusively from domestic sources during the period under consideration (Table 17).

The pattern of overall domestic financing however changed dramatically in 1980. While previously two thirds of total financing came from monetary sources, since that year the government sector became a net supplier of funds to the banking system. The change in the domestic financing pattern observed over the period affected all three governments.

In 1979 a ceiling of NA f. 125 million--later lowered to NA f. 90 million--which was set on Central Bank advances to the Central Government, forced the Central Government to reduce its reliance on Central Bank financing and to borrow increasingly from nonbank sources notably by stepping up issues of Treasury paper in the nonbank public. From end-1978 to end-1982, the central government debt rose by NA f. 252 million of which NA f. 150 million is owed to the nonbank domestic sector.

In contrast to the Central Government which ran deficits over the entire period, the island Governments of Aruba and Curaçao registered from 1980 on rising surpluses (Tables 18 and 19). As a consequence,

these governments were able to increase dramatically their cash balances with the banking system while at the same time improving their net position with the nonbank public. Furthermore, their large surpluses also enabled them in the last three years to purchase NA f. 60 million of Treasury paper issued by the Central Government.

4. 1983 budgets

The 1983 central government budget which was presented to Parliament only in August 1983, targets a NA f. 60 million reduction in the net financing requirement to NA f. 10 million (Table 17). This reduction is to be achieved on the one hand by a 2 percent cut in overall expenditures and on the other hand by a projected 14 percent increase in revenue sharing receipts.

In support of these objectives the Government has announced a series of expenditure reducing and revenue raising measures. As regards expenditure cuts, a hiring freeze was imposed and the cost of living adjustment of civil service wages, which should have been effective on July 1 was suppressed. Also, transfers to Bonaire and the Windward Islands will be held back; the rate of growth of capital spending will be slowed and cuts will be implemented on purchases of goods and services. Additional tax revenues will come from an increase in the excise tax on gasoline, effective July 1, 1983 which is expected to yield NA f. 10 million in new revenues, and from an increase in the foreign exchange tax, effective September 6, 1983.

No information is available on the 1983 budget for Curaçao and there is only limited information on the budget for Aruba. The latter projects a NA f. 50 million decline in revenues and provides for a NA f. 10 million cut in expenditures, implying a NA f. 40 million reduction in the surplus to NA f. 16.1 million. Preliminary indications, however, suggest that these figures might be too pessimistic, as the July tax payment of the oil refinery exceeded budget projections by about NA f. 50 million.

Table 14. Netherlands Antilles: Tax Revenue Sharing Between the Central Government and the Island Governments of Aruba and Curaçao, 1978-82

(In millions of NA guilders)

	1978	1979	1980	1981	1982
Island Government of Aruba					
Obligations and claims					
Obligations	18.8	21.6	23.1	26.0	45.0
Claims	12.8	14.0	19.1	18.6	22.0
Payments 1/					
Payments due	10.4	6.8	5.8	5.7	15.2
Actual payments	--	7.2	4.7	2.8	13.7
Arrears					
Increase/decrease (-)	10.4	-0.4	1.1	2.9	1.5
Stock	26.5	26.1	17.2 2/	20.1	21.6
Island Government of Curaçao					
Obligations and claims					
Obligations	48.2	56.6	57.3	74.1	90.0
Claims	24.2	28.2	32.3	36.0	40.6
Payments					
Payments due	37.6	26.2	26.7	31.5	43.7
Actual payments	6.0	9.2	13.1	28.2	37.8
Arrears					
Increase	31.6	17.0	13.6	3.3	5.9
Stock	94.2	111.2	110.1 2/	113.4	85.6 3/

Source: Department of Finance, Central Government.

1/ The payments have to be made in 12 monthly installments starting in July of the following calendar year.

2/ In 1980 the Netherlands Antilles received an amount of NA f. 34.3 million special foreign exchange aid from the Netherlands, part of which was used to reduce the tax revenue sharing arrears of the island governments.

3/ In 1982, part of the tax revenue sharing arrears of the Island Government of Curaçao was consolidated into a 20-year annuity loan.

Table 15. Netherlands Antilles: Tax Receipts of the Central Government and the Island Governments of Aruba and Curaçao, 1978-82

(In millions of NA guilders)

	1978	1979	1980	1981	1982
Taxes on income and profits	359.7	376.7	464.5	638.2	758.2
Income tax	41.5	45.5	44.4	48.6	43.9
Wage tax	132.4	140.3	198.4	248.4	263.2
Profits tax	185.8	190.9	221.7	341.2	451.1
Of which:					
From offshore businesses	(77.0)	(62.4)	(100.5)	(137.0)	(220.4)
From oil refineries	(60.0)	(60.0)	(60.0)	(136.0)	(181.0)
Taxes on property	25.4	31.3	37.0	14.6	25.6
Land tax	3.1	4.9	6.0	7.6	4.1
Occupancy tax	0.8	1.0	0.8	1.2	1.2
Death and gift taxes	0.8	0.7	0.5	2.0	1.1
Property transfer tax	1.8	2.3	3.4	3.3	1.9
Tank tax	14.9	18.2	22.3	--	--
Bullenbaai tax	4.0	4.2	4.0	0.5	17.3
Taxes on goods and services	41.1	52.2	64.7	67.0	65.1
Excise on liquor	10.5	13.9	13.3	14.2	13.4
Excise on beer	7.6	10.3	11.5	13.0	12.5
Excise on tobacco	6.1	8.7	11.2	11.4	12.7
Excise on gasoline	4.6	4.7	5.1	5.3	4.4
Motor vehicle fee	6.3	6.7	11.8	12.6	13.0
Gambling licenses	4.3	5.3	7.7	5.8	4.8
Hotel room tax	1.7	2.6	4.1	4.7	4.3
Taxes on international transactions	68.2	79.8	85.7	101.6	121.0
Import duties	58.5	68.6	74.2	86.1	105.2
Foreign exchange commission	9.7	11.2	11.5	15.6	15.8
Other taxes	11.8	13.6	14.0	13.0	10.9
Stamp duties	11.7	9.2	7.9	7.8	8.1
Other	0.1	4.4	6.1	5.2	2.8
Total tax receipts	506.2	553.6	665.9	834.0	980.8

Sources: Data provided by the Netherlands Antillean authorities.

Table 16. Netherlands Antilles: Budgetary Operations of the Central Government and the Island Governments of Aruba and Curaçao Combined, 1978-82

(In millions of NA guilders)

	1978	1979	1980	1981	1982
Total revenue	589.2	628.5	746.1	911.7	1,118.2
Tax 1/	510.9	543.3	663.5	832.2	981.3
Nontax	78.3	85.2	82.6	79.5	136.9
Total expenditure	651.0	705.8	758.1	936.3	1,133.9
Current	585.6	688.8	786.0	878.7	1,094.6
Other (net)	65.4	17.0	+27.9	57.6	39.3
Overall deficit (-)	-61.8	-77.3	-12.0	-24.6	-15.7
Financing	61.8	77.3	12.0	24.6	15.7
Foreign	17.8	0.9	-14.2	14.1	-7.4
Domestic	44.0	76.4	26.2	10.5	23.1
Bank	(46.3)	(57.2)	(-27.6)	(-52.7)	(-6.6)
Nonbank	(-2.3)	(19.2)	(53.8)	(63.2)	(29.7)

Sources: Tables 17, 18, and 19.

1/ The difference between this time series and that of total tax revenue shown in Table 14 is due to statistical discrepancies.

Table 17. Netherlands Antilles: Budgetary Operations of the Central Government, 1978-83

(In millions of NA guilders)

	1978	1979	1980	1981	1982 1/	1983 2/
Total revenue	174.8	199.3	219.2	246.3	353.2	402.6
Tax	115.5	133.0	140.8	161.1	178.8	210.8
Revenue sharing (net)	6.0	16.4	17.8	31.0	51.5	79.4
Nontax	53.3	49.9	60.6	54.2	122.9	112.4
Total expenditure	222.0	208.2	268.4	323.3	422.8	412.7
Current	192.0	231.8	251.2	305.2	378.7	394.8
Other (net) 3/	30.0	+23.6	17.2	18.1	44.1	17.9
Overall deficit (-)	-47.2	-8.9	-49.2	-77.0	-69.6	-10.1
Financing-	47.2	8.9	49.2	77.0	69.6	10.1
Foreign	17.8	0.9	-14.2	14.1	-7.4	...
Domestic	29.4	8.0	63.4	62.9	77.0	...
Bank	(39.9)	(-18.0)	(5.9)	(25.5)	(37.8)	...
Nonbank	(-10.5)	(26.0)	(57.5)	(37.4)	(39.2)	...

Sources: Bank of the Netherlands Antilles, Quarterly Bulletin; and Department of Finance, Central Government.

1/ Preliminary.
2/ Budget.
3/ Including domestically financed development expenditure, capital transfers, net lending, adjustments from expenditure on a commitments basis to expenditure on a cash basis, along with statistical discrepancies.

Table 18. Netherlands Antilles: Budgetary Operations of the Island Government of Aruba, 1978-83

(In millions of NA guilders)

	1978	1979	1980	1981	1982 1/	1983 2/
Total revenue	118.3	126.6	149.0	241.1	283.5	232.7
Tax	107.8	108.8	136.6	234.1	276.5	...
Nontax	10.5	17.8	12.4	7.0	7.0	...
Total expenditure	119.1	149.5	142.3	199.7	232.6	...
Current	120.0	124.5	132.2	161.1	227.5	216.6
Revenue sharing (net)	--	7.2	4.7	2.8	13.7	...
Other (net) 3/	+0.9	17.8	5.4	35.8	+8.6	...
Overall surplus/deficit (-)	-0.8	-22.9	6.7	41.4	50.9	...
Financing	0.8	22.9	-6.7	-41.4	-50.9	...
Foreign	--	--	--	--	--	...
Domestic	0.8	22.9	-6.7	-41.4	-50.9	...
Bank	(2.0)	(26.9)	(4.4)	(-39.2)	(-49.1)	(...)
Nonbank	(-1.2)	(-4.0)	(-11.1)	(-2.2)	(-1.8)	(...)

Sources: Bank of the Netherlands Antilles, Quarterly Bulletin; and Department of Finance, Central Government.

1/ Preliminary.
2/ Budget.
3/ Including domestically financed development expenditure, capital transfers, net lending, adjustments from expenditure on a commitments basis to expenditure on a cash basis, along with statistical discrepancies.

Table 19. Netherlands Antilles: Budgetary Operations of the Island Government of Curaçao, 1978-82

(In millions of NA guilders)

	1978	1979	1980	1981	1982 1/
Total revenue	302.1	319.0	395.7	455.3	533.0
Tax	287.6	301.5	386.1	437.0	526.0
Nontax	14.5	17.5	9.6	18.3	7.0
Total expenditure	315.9	364.5	365.2	444.3	530.0
Current	273.6	332.5	402.6	412.4	488.4
Revenue sharing (net)	6.0	9.2	13.1	28.2	37.8
Other (net) 2/	36.3	22.8	+50.5	3.7	3.8
Overall surplus/deficit (-)	-13.8	-45.5	30.5	11.0	3.0
Financing	13.8	45.5	-30.5	-11.0	-3.0
Foreign	--	--	--	--	--
Domestic	13.8	45.5	-30.5	-11.0	-3.0
Bank	(4.4)	(48.3)	(-26.0)	(-11.1)	(-2.9)
Nonbank	(9.4)	(-2.8)	(-4.5)	(0.1)	(-0.1)

Sources: Bank of the Netherlands Antilles, Quarterly Bulletin, and Department of Finance, Central Government.

1/ Preliminary.
2/ Including domestically financed development expenditure, capital transfers, net lending, adjustments from expenditure on a commitments basis to expenditure on a cash basis, along with statistical discrepancies.

Table 20. Netherlands Antilles: Central Government Expenditure, 1978-83

(In millions of NA guilders)

	1978	1979	1980	1981	1982 1/	1983 2/
Total expenditure	222.0	208.2	268.4	323.3	422.8	412.7
Current expenditure	192.0	231.8	251.2	305.2	378.7	394.8
Wages and salaries	117.3	135.8	156.0	193.0	232.0	232.6
Goods and services	31.9	37.2	39.6	49.4	...	66.5
Interest payments	3.0	2.0	5.2	14.2	26.6	26.7
Subsidies	3.7	7.8	4.2	3.6	...	3.3
Transfers to households	4.7	6.9	10.0	10.6	...	10.1
Transfers to Bonaire and Windward Islands	9.0	12.1	20.7	16.9	25.8	22.4
Other	17.8	15.4	15.5	17.5	...	33.2
Other (net) 3/	30.0	23.6	17.2	18.1	44.1	17.9

Source: Department of Finance, Central Government.

1/ Preliminary.
2/ Budget.
3/ Including domestically financed development expenditure, capital transfers, net lending, adjustments from expenditure on a commitments basis to expenditure on a cash basis, along with statistical discrepancies.

Table 21. Netherlands Antilles: Island Government of Aruba, Expenditure, 1978-82

(In millions of NA guilders)

	1978	1979	1980	1981	1982
Total expenditure	119.1	149.5	142.3	199.7	232.6
Current expenditure	120.0	124.5	132.2	161.1	227.5
Wages and salaries	40.6	42.2	53.0	60.8	75.9
Goods and services	15.3	22.4	)		
Interest payments	5.6	6.2	)		
Subsidies	1.1	0.7	) 79.2	100.3	151.6
Other	53.4	48.2	)		
Of which: Transfers to parochial schools	(19.4)	(19.9)	(21.1)	(28.8)	(36.4)
Revenue sharing (net)	--	7.2	4.7	2.8	13.7
Other (net) 1/	-0.9	17.8	5.4	35.8	-8.6

Source: Staff calculations based upon data provided by the Netherlands Antillean authorities.

1/ Including domestically financed development expenditure, capital transfers, net lending, adjustments from expenditure on a commitments basis to expenditure on a cash basis, along with statistical discrepancies.

III. Money and Credit

1. The framework of monetary policy

In view of the openness of the economy and the need to quickly respond to external developments, monetary policy is the traditional instrument of demand management in the Netherlands Antilles. Its principal objective is to ensure a stable exchange rate within a free trading system. Responsibility for administering this policy is with the Bank of the Netherlands Antilles which has supervisory power over the country's bank and nonbank financial institutions as well as over the offshore financial institutions; much of this supervisory power, however, is exercised through mutual agreement with the commercial banks rather than through legal power.

To implement its policy the Central Bank does not set explicit quantitative targets for monetary expansion, but rather monitors external development and regulates domestic credit expansion so as to preserve an adequate level of foreign exchange reserves. The instruments it has used for this purpose have included, inter alia, voluntary ceilings on bank credit to the household sector, limitations on the net foreign asset position of commercial banks, regulation of central bank credit to the Government, and adjustments in the discount and pledging rates. Credit ceilings were lastly used from July 1979 to September 1981 and presently are not in force, but the Bank is prepared to reintroduce them if the need arises. The limitations on the net foreign asset position of banks are considered to have several advantages: they allow better control of liquidity in the banking system, they permit to a certain extent to isolate domestic interest rates from developments abroad, and they prevent sudden turnarounds in capital flows that might destabilize the currency. Central government borrowing from the Central Bank was limited in 1979 to NA f. 125 million, later reduced to NA f. 90 million to take into account special aid from the Netherlands, and at the time of the consultation, discussions were under way to raise it to NA f. 117 million. Finally, although the Bank in principle acts as a lender of last resort to the banking system, the discount facility has not been used by the commercial banks in recent years; accordingly, the discount rate does not enter directly as an element in the cost of bank credit, but rather has a signaling effect as to the intended course of monetary policy.

2. Monetary and credit developments

Monetary policy and consequently monetary and credit developments have in recent years been strongly influenced by external developments as the Central Bank initially sought to restrain domestic demand to correct a large external disequilibrium and then progressively relaxed its restrictive stance when a large balance of payments surplus appeared.

Large losses of reserves which threatened the exchange rate forced the Central Bank to sharply tighten its policy stance in early 1979; credit ceilings were negotiated with commercial banks, discount rates were raised, limits were set on central government borrowing from the Bank, and exchange controls were imposed. The subsequent turnaround in the balance of payments from a deficit of NA f. 18 million in 1978 to a surplus of NA f. 91 million in 1982 gave the Bank more leeway to provide support to the economy and it progressively relaxed its stance. Credit ceilings were removed in mid-1981, inducing a brisk acceleration of loans to the private sector, which rose by more than 20 percent in that year (Table 22).

The first sign that this rapid private credit expansion was coming to an end, appeared in mid-1982. As the international recession reached the islands, business began cutting back on stockbuilding and capital expenditure, while at the same time the declining inflation lessened the need for working balances. As a result and despite continued high bank liquidities, from mid-1982 on, the rate of growth of loans to business steadily slowed down, and by June 1983 outstanding bank loans to the business sector were only 3 percent higher than a year earlier. In contrast loans to households, comprising mortgages and consumer credit, continued to soar in 1982 (Table 24), rising by 19 percent in that year; mortgage demand however began to slacken in the last month of the year and then virtually ceased to grow in the first half of 1983, but consumer credit continued to expand by 12 percent at annual rates in the first half of 1983. All told over the 12 months ending in June 1983 the rate of growth of credit to the private sector sharply declined to 4.5 percent, compared with 18.4 percent in the previous 12 months.

A remarkable development over the period 1980-82 was the steep reduction in net credit outstanding to the public sector. During this period, and in marked contrast with the years 1977 to 1979 when new loans to the public sector accounted for nearly 40 percent of domestic credit expansion, large increases in deposits of island Governments despite continued monetary financing of the Central Government, led to a NA f. 110 million decline in monetary financing of the government sector. Altogether therefore, in the year to June 1983, domestic credit expansion sharply decelerated to a rate of growth of 5.1 percent.

In contrast to the pattern of credit aggregates, monetary aggregates continued to show sustained growth. M2 rose by 13.7 percent in 1982, considerably above the 4.0 percent rate of inflation in that period and about the same rate of growth as that experienced in 1981. The increase was particularly strong in the early months of 1982 and became more subdued thereafter, but in the first half of 1983, M2 nevertheless was still expanding at a rate of 8 percent per year, still well above the prevailing inflation rate. Steady progression of real wages and the related advances of disposable income and savings,

in turn linked to the large inflows through the balance of payments, appear to be the principal causes for this sustained demand for liquid assets. Also contributing, was the fact that, as a result of the decline in inflation with unchanged savings deposit rates, there was for the first time since 1977 a small positive real return on savings deposits. As evidence of this, savings deposits registered the strongest progression among the components of M2, rising by 17 percent or about 12 percent in real terms through 1982.

One consequence of the steady progression of bank deposits is that, combined with the deceleration in credit demand, it led to ample liquidities in the banking system. In mid-1982, the authorities became concerned that such large and growing liquidities would lead to an excessive decline in domestic interest rates and eventually to capital outflow and renewed pressure on the balance of payments. To counter this trend and absorb the excess liquidities, the Central Bank took two steps; first, it negotiated with the island Government of Aruba the transfers of its deposits from commercial banks to the Central Bank and second, it began remunerating commercial banks for their deposit at the Central Bank. Initially an interest rate of 6 percent was paid on the banks' average monthly balance in excess of the normal working balance. This remuneration was later reduced to 5 percent on the monthly minimum rather than the average excess balance. Despite these measures, at the time of the consultations, the authorities considered that bank liquidities were still excessive.

3. Interest rates

The aims of the Central Bank's interest rate policy are to insure an adequate remuneration of domestic savings while not hampering investment and real growth. Savings deposits which account for some 60 percent of the resources of commercial banks are the principal form of financial savings. The Central Bank has no legal power to set interest rates on these deposits, but since 1970 it has persuaded commercial banks to keep them at 5 percent. Time deposit rates however have shown some flexibility to market conditions.

As noted above discount rates have a signaling effect but do not directly influence the cost of credit. In 1979 the Central Bank raised its discount rate and pledging rate, in two steps, to respectively 9 percent and 10 percent but thereafter did not follow the continuous increase of U.S. and Eurodollar rates. As a result and contrary to normal historical patterns, interest rates abroad rose well above domestic rates. Therefore, when dollar interest rates began declining in the second half of 1982, and in order to restore a more normal pattern, the Bank did not lower its discount rates. Only in March 1983 after the devaluation of the bolivar and the resulting adverse impact on the Antillean economy, did the Bank decide to lower its rates by 1 percent to 8 percent and 9 percent, respectively, as a signal to

commercial banks to provide more support to businesses. The initial response of the banking sector, however, was disappointing; time deposit rates were adjusted downward but the prime lending rate practically did not decline and remained at about 11 percent.

4. Financial institutions

These institutions consist mainly of pension funds and life insurance companies. Their combined assets are estimated to have risen by 11 percent or about NA f. 100 million in 1982. Normally pension funds have 50 percent of their funds invested in foreign assets, and life insurance companies about 75 percent. This high proportion of foreign assets is explained by the absence of a domestic market for high quality long-term negotiable securities. Domestic investment includes mainly loans to the island Governments and mortage lending.

Table 22. Netherlands Antilles: Monetary Survey, 1977-83

(End of period; in millions of NA guilders, unless otherwise indicated)

	1977	1978	1979	1980	1981	1982	June 1983
M_2	688.7	786.5	859.4	945.3	1,067.6	1,214.1	1,265.8
(percent change)	(17.6)	(14.2)	(9.3)	(10.0)	(12.9)	(13.7)	(5.2) 1/
Counterparts to M_2							
Net foreign assets	259.3	181.2	193.8	246.0	342.3	433.1	363.9
Domestic credits	524.9	721.0	802.7	850.2	923.2	1,007.0	1,120.5
(percent change)	(27.7)	(37.3)	(11.3)	(6.0)	(8.7)	(9.2)	(0.7) 1/
Claims on government	49.7	104.4	160.6	132.5	61.4	50.3	123.5
Central government	71.6	111.8	93.6	90.2	85.2	136.0	142.4
Island government	-21.9	-7.4	67.0	42.3	-23.8	-85.7	-18.9
Claims on the private sector	475.2	616.6	642.1	717.7	861.8	956.7	997.0
(percent change)	(16.7)	(29.7)	(4.1)	(11.8)	(20.0)	(11.0)	(5.4) 1/
Miscellaneous other	-95.5	-115.7	-137.1	-150.9	-197.9	-226.0	-218.6

Sources: Bank of the Netherlands Antilles; and staff estimates.

1/ Twelve months ending in June.

Table 23. Netherland Antilles: Monetary Survey, 1978-83

(In millions of NA guilders, unless otherwise indicated)

	1978	1979	1980	1981	1982		1983	
					III	IV	I	II
Total liquid assets (M2) 1/	786.5	859.4	945.3	1,067.6	1,200.9	1,214.1	1,248.4	1,265.8
Of which:								
Notes and coins	125.8	137.7	139.1	160.9	157.2	167.1	174.6	172.2
Demand deposits	242.5	255.3	263.9	279.9	315.1	319.0	317.1	326.3
Time deposits	31.6	54.6	67.9	96.4	128.2	106.7	113.0	114.5
Savings deposits	386.6	411.8	474.4	530.3	600.3	621.2	643.7	652.9
Counterpart to M2								
Foreign assets, net	181.2	193.7	245.9	342.3	165.9	433.0	418.8	363.8
Domestic credit	721.0	802.7	850.2	923.2	957.0	1,007.1	1,040.3	1,120.5
Of which:								
Central Government	111.8	93.6	90.2	85.2	156.7	136.0	155.0	142.4
Island Government	-7.4	67.0	42.3	-23.8	-138.2	-85.7	-73.3	-18.9
Private sector	616.6	642.1	717.7	861.8	938.5	956.7	967.6	997.0
Other items, net	-115.7	-136.9	-150.8	-198.0	-222.1	-225.9	-219.7	-218.5

Sources: Bank of the Netherlands Antilles, Quarterly Bulletin, and data provided by the authorities.

1/ Exclude deposits of island Governments.

Table 24. Netherlands Antilles: Bank Credit, 1979-83

(In millions of NA guilders)

	1979	1980	1981	1982 III	1983 IV	1983 June
Loans to enterprises	464	499	585	610	620	621
Mortgages	70	104	129	148	150	153
Consumer loans	96	104	125	145	152	135
Total private sector	630	707	839	903	922	909
Loans to the public sector	13	9	12	16	15	10
Total loans	644	716	851	919	937	919

Source: Bank of the Netherlands Antilles.

IV. External Sector

1. Introduction

Three features characterize the balance of payments of the Netherlands Antilles; a high level of imports compared to the size of the economy, relatively low merchandise exports which cover only approximately 20 percent of imports and which consist mostly of re-exports through the free trading zone, and the dependency on a small number of service sectors for foreign exchange earnings. Foreign exchange earnings are nevertheless more diversified than other Caribbean countries, and, although special factors also contributed, this diversification recently has given them more resiliency to the international recession. In this respect a remarkable development was the strong improvement in the current account from a deficit of NA f. 105 million in 1980 to a surplus of NA f. 96.6 million in 1981 and NA f. 152.6 million in 1982, despite an unfavorable international environment.

The capital account typically records large and relatively stable inflows under development aid, but private capital flows are sensitive to interest rate differentials and lately have shown a great deal of volatility. Capital outflows in recent years, however, have been amply covered by the current account surplus and as a result international reserves have been steadily growing since 1979.

2. Current account

Table 25 presents the main trends in the current account for the period 1977-83 on a cash flow basis. It shows that the sharp improvement in the current account from 1981 on, occurred despite a slowdown in the rate of growth of service receipts and reflected mainly a sharp deceleration in the rate of growth of merchandise imports.

After rising by 25 percent in 1980, merchandise imports declined slightly in 1981 and then resumed growth at a rate of 9 percent in 1982, but preliminary data suggest that this growth rate eased back to 4 percent at annual rates in the first half of 1983. A number of factors may have contributed to this slowing import growth. First the absolute decline in 1981 was an adjustment to the exceptionally high growth in 1980, which itself seems to have been partly due to spurious factors, such as high development aid and settlement figures inflated by a change in the terms of payments. Second, although price indices are not available, the lower growth rate probably also reflects the slower rate of increase of import prices induced by declining inflation in the Netherlands Antilles' main trading partners. Finally, more recently, generally weaker domestic demand conditions, including the fall off in tourism expenditures and reduced stockbuilding, probably led to a stabilization, if not a decline, in import volumes.

Service receipts which have registered a gradual slowdown since their rate of growth peaked in 1979-80 are dominated by four sets of activities; oil refining, tourism, transportation and the offshore financial sector. Table 26 shows the contribution of each of these sectors. As can be seen, tourism is by far the largest contributor on a gross basis. As noted in the first chapter, the rapid rate of growth experienced in 1979-80 gradually abated in the last two years and preliminary indications are that receipts actually declined in the first half of 1983. The gross figure also largely overstates this sector's contribution to the country's foreign exchange earnings since tourism outlays are estimated to induce imports equal to nearly half the original inflow. Against this, receipts from oil refineries, which are determined mostly by the amount of profit tax paid by this sector have risen considerably in recent years--by approximately 40 percent on average in 1980-82 to NA f. 511.4 million. Receipts from the offshore financial center also rose strongly by 32 percent on average in the last two years. Among the factors that contributed were high international interest rates, increased borrowing by U.S. firms on Eurodollar markets due to more favorable terms there, and sustained growth of foreign investment in the United States. Earnings from transportation services include mostly receipts from the operations of the drydock, of the storage and transshipment operations of oil products, and revenue from harbor and port traffic. Growth in this area was sustained in 1980 and 1981 on account of increased activity at the drydock, but in 1982 reflecting the difficulties of this company and of the transshipment operations, inflows declined by 20 percent and this decline accelerated to an estimated 36 percent in the first half of 1983 compared with the corresponding period of 1982.

3. Capital account

From a surplus of NA f. 132.8 million in 1980, the capital account turned to a deficit of NA f. 20.8 million in 1981 and NA f. 78 million in 1982 (Table 25). This turnaround is explained by the combination of lower official captial inflows and a sharp acceleration of private capital outflows.

Official capital inflows consist mainly of development aid received from the Netherlands and the European Community (see Chapter I). Due to special assistance--consisting mostly in foreign exchange assistance and special aid for the purchase of aircraft--development aid in 1980 more than doubled to NA f. 151 million. A return to a more normal pattern led to a decline to NA f. 111 million in 1981 and NA f. 62 million in 1982; however, also contributing to this decline was the appreciation of the Netherlands Antillean guilder relative to the Netherlands guilder in which most of the development aid is denominated.

Private capital flows have traditionally been highly sensitive to interest rate differentials. Contrary to normal historical patterns a large differential in favor of foreign interest rates has developed in

recent years (see Chapter II); this together with the small size of domestic capital markets appears to have been the principal cause for the large outflows of NA f. 132 million in 1981 and NA f. 139.8 million in 1982.

4. Foreign reserves

The large current account surplus since 1980 has more than offset capital outflows; as a result, after reaching a low of less than one month of imports in mid-1979, reserves steadily increased to NA f. 433 million or about 2.6 months of imports of goods and services at the end of December 1982 (Table 29). Seasonal factors led to some decline in the first half of 1983, nevertheless total reserves amounted to NA f. 364 million or about 2.2 months of imports at the end of June 1983.

5. Exchange rate

The Netherlands Antillean guilder has been pegged to the U.S. dollar since December 1971 at the rate of NA f. 1.79 per US$1. The official selling rate is NA f. 1.81 per US$1, and the Bank of the Netherlands Antilles deals with commercial banks at NA f. 1.80 per US$1. There is an exchange tax of 1.3 percent on sales of foreign exchange.

6. Official foreign debt and debt servicing

The relatively small official foreign debt is owed for about 95 percent to the Netherlands and most of the rest to the European Community (Table 30). This debt which consists mostly of short-term loans for development projects has grown relatively moderately in recent years--by about 6.5 percent per year on average over the 1978-82 period, to NA f. 340 million at the end of 1982. The debt is denominated mostly in Netherlands guilders, and the appreciation of the dollar and consequently of the Netherlands Antillean guilder has tended to lessen the debt burden.

7. Exchange and trade arrangements

A description of the Netherlands Antillean exchange and trade arrangements up to the end of 1982 is contained in the Fund's 1982 Annual Report on Exchange Arrangements and Exchange Restrictions. The principal recent changes consisted in the introduction, on August 13, 1983 of import quotas on 15 locally manufactured products such as beer, soap, paint and matresses. Monthly imports of these products cannot exceed by more than 15 percent average monthly imports of these products in 1982. Furthermore, on September 6, 1983 the tax on sales of foreign exchange was raised from 0.8 percent to 1.3 percent.

Table 25. Netherlands Antilles: Balance of Payments, 1977-83

(Net cash flow basis, in millions of NA guilders)

	1977	1978	1979	1980	1981	1982	January-June 1982	January-June 1983
Merchandise	-799.5	-963.0	-1092.0	-1363.6	-1328.4	-1451.0	-755.7	-722.6
Services	922.2	1055.1	1233.9	1445.0	1605.7	1726.0	804.8	717.2
Investment income	-101.5	-94.4	-91.9	-97.1	-80.7	-5.9	91	-6.1
Private remittances	-45.8	-47.6	-52.8	-89.0	-100.0	-116.5	-49.4	-59.9
Current account balance	-24.6	-49.9	-2.7	-104.7	96.6	152.6	8.8	-71.4
Official capital	41.7	61.4	72.8	151.2	111.2	61.8	5.4	34.4
Private capital	-26.8	-105.8	-78.5	-18.4	-132.0	-139.8	-60.2	-35.6
Capital account balance	14.9	-44.4	-5.7	132.8	-20.8	-78.0	-54.8	-1.2
Errors and omissions	8.2	16.0	21.0	24.1	20.5	16.2	9.7	3.4
Overall balance	-1.5	-78.3	12.6	52.2	96.3	90.8	-36.3	-69.2
Net change international reserves, increase (-)	1.5	78.3	-12.6	-52.2	-96.3	-90.8	36.3	69.2
Of which: official reserves	(-10.1)	(55.6)	(-10.7)	(-38.5)	(-74.8)	(-89.7)	(50.2)	(52.3)

Sources: Central Bank, Quarterly Bulletin, and Netherlands Antillean authorities.

Table 26. Netherlands Antilles: Cash Flow Statement, Inflow, 1977-83

(In millions of NA guilders)

	1977	1978	1979	1980	1981	1982	January-June 1982	January-June 1983
Current account balance								
Merchandise	203.1	229.9	237.9	263.0	262.5	203.4	85.3	48.5
Services	1,094.0	1,244.9	1,475.2	1,724.1	1,960.3	2,093.3	977.8	897.0
Tourism	373.9	490.5	569.7	714.7	782.8	775.9	400.0	345.3
Refining	265.2	247.9	298.4	263.2	361.2	511.4	152.7	166.0
Offshore sector (net)	69.4	102.7	114.9	198.5	263.6	349.8	185.0	228.4
Drydock	43.9	62.1	69.5	103.6	113.1	108.4	71.8	56.2 est
Storage	136.5	152.2	191.0	174.8	188.4	104.3	51.3	20.0 est
Other transportation	174.8	149.8	178.8	214.8	192.9	179.6	86.8	56.6 est
Other services	14.2	20.4	26.9	25.5	35.5	31.2	14.5	11.9
Government services	16.1	19.3	26.0	29.0	22.8	32.7	15.7	12.6
Investment income	29.9	40.4	51.3	62.2	101.1	116.5	55.1	44.5
Private remittances	32.5	36.1	40.8	47.1	51.4	45.8	24.4	21.3
Total current inflows	1,359.5	1,551.3	1,805.2	2,096.4	2,375.3	2,459.0	1,142.6	1,011.3

Sources: Central Bank Quarterly Bulletin, Netherlands Antillean authorities; and staff estimates.

Table 27. Netherlands Antilles: Cash Flow Statement, Outflow, 1977-83

(In millions of NA guilders)

	1977	1978	1979	1980	1981	1982	January-June 1982	January-June 1983
Merchandise	1,002.6	1,192.9	1,329.9	1,626.6	1,590.9	1,654.4	841.0	771.1
Services	171.8	189.8	241.3	279.1	354.6	367.3	173.0	179.8
Travel	73.8	77.6	93.0	104.0	118.0	141.3	63.5	87.5
Transporation	61.8	74.4	98.7	113.3	165.6	153.9	70.4	58.4
Government n.i.e.	7.7	7.9	8.6	12.7	13.4	12.9	7.9	3.4
Other services	28.5	29.9	41.0	49.1	57.6	59.2	31.2	30.5
Investment income	131.4	134.8	143.1	159.3	181.8	122.4	46.0	50.6
Private remittances	78.3	83.7	93.6	136.1	151.4	162.3	73.8	81.2
Total current outflows	1,384.1	1,601.2	1,807.9	2,201.1	2,278.7	2,306.4	1,133.8	1,082.7

Sources: Central Bank Quarterly Bulletin; and Netherlands Antillean authorities.

Table 28. Netherlands Antilles: Balance of Payments on a Transactions Basis, 1977-80

(In millions of NA guilders)

	1977	1978	1979	1980
Non-oil exports	184.9	200.8	191.6	224.3
Non-oil imports	-1,025.6	-1,226.2	-1,329.5	-1,627.4
Non-oil balance	-840.7	-1,025.4	-1,137.9	-1,403.1
Oil exports	5,247.1	5,187.7	7,533.4	10,672.4
Oil imports	-5,211.8	-5,057.6	-7,063.1	10,559.6
Oil balance	35.3	130.1	470.3	112.8
Merchandise balance	-805.4	-895.3	-667.6	-1,290.3
Transportation	715.9	651.2	945.1	1,047.1
Travel	300.1	410.9	476.7	586.2
Investment income	-91.6	-257.6	-805.7	-470.8
Government, n.i.e.	50.6	88.4	179.8	116.8
Of which: Offshore tax receipts	42.2	77.0	62.4	100.5
Other services	-78.7	-57.7	-9.6	-71.4
Services balance	896.3	835.2	686.3	1,207.9
Private transfers	-27.5	-30.6	-39.8	-45.3
Government transfers	33.5	43.7	55.6	119.9
Current account	96.9	-47.0	34.5	-7.8
Private capital	-129.8	-49.4	-69.4	-8.7
Direct investment	21.8	-6.5	6.1	-99.9
Other long term	-29.1	-241.1	287.2	93.8
Short term	-122.5	198.2	-362.7	-2.6
Government capital	22.5	17.7	19.1	31.3
Monetary sector	27.2	12.9	4.2	-0.3
Capital account	-80.1	-18.8	-46.1	22.3
Errors and omissions	-6.7	10.1	22.3	23.9
Overall balance (change in reserves)	1.5	-78.3	12.6	52.2
Change in international reserves	1.5	78.3	-12.6	-52.2

Source: Bank of the Netherlands Antilles, Quarterly Bulletin.

Table 29. Netherlands Antilles : Net International Reserves, 1977-83

(In millions of NA guilders, end of period)

	1977	1978	1979	1980	1981	1982	1982		1983	
							I	II	I	II
Total Net International Reserves	259.3	181.2	193.8	246.0	342.3	433.1	341.3	306.0	418.8	363.9
Commercial banks										
Foreign assets (net)	42.2	19.5	21.3	35.1	56.6	57.7	80.2	70.6	45.4	40.7
Foreign Assets	1,052.0	1,596.5	2,752.6	4,741.4	5,499.3	6,014.2	6,904.0	6,035.3	5,890.0	4,597.7
Foreign liabilities 1/	1,009.8	1,577.0	2,731.3	4,706.3	5,442.7	5,956.5	6,823.8	5,964.7	5,844.6	4,557.0
Central bank	217.3	161.7	172.4	210.9	285.7	375.4	261.1	235.4	373.4	323.2
Short-term foreign assets (net)	175.9	120.3	130.0	169.5	244.2	334.0	219.7	194.0	332.0	281.8
Gold	41.4	41.4	41.4	41.4	41.4	41.4	41.4	41.4	41.4	41.4

Sources: Bank of the Netherlands Antilles, Quarterly Bulletin and Selected Monetary Figures, and data provided by the Netherlands Antillean authorities.

1/ Excluding special borrowings.

Table 30. Netherlands Antilles: Outstanding Funded Debt Toward the Netherlands and Debt Service Payments, 1978-82

(In millions of NA guilders)

	1978	1979	1980	1981	1982
Outstanding debt 1/	563.4	580.8	626.3	670.7	724.9
Service payments	40.0	41.5	40.3	40.5	44.8
Principal	17.8	17.4	16.1	15.6	19.1
Interest	22.2	24.1	24.2	24.9	25.7

Source: Bank of the Netherlands Antilles, Quarterly Bulletin.

1/ As at December 31.

The Offshore Sector in the Netherlands Antilles

The origin of offshore financial activities in the Netherlands Antilles which are almost entirely located on Curaçao, goes back to the late 1930s when in anticipation of war, financial assets were moved there. But significant expansion only began with the development of the Eurodollar market in the mid-1960s. Since then growth of offshore activities has paralleled the volume of Eurocurrency issues and more generally that of international capital flows.

The mainstay of offshore activities are low profit taxes for firms not involved in domestic trade and tax treaties with other countries. There are approximately 25,000 offshore firms of which some 60 percent are active. Most of these firms are managed by one of the five large offshore bank and trust companies and they comprise two main groups; those dealing with international trade, and who mainly take advantage of the low local profit tax rate; and those whose principal reason for existence is related to favorable provision in tax treaties.

No data are available to assess precisely the relative importance of each group but by far the largest consists of those firms set up to take advantage of tax treaties. Especially important in this regard is the tax treaty with the United States, the purpose of which is to avoid double taxation on interest and dividends. The original treaty was concluded in 1948 between the U.S. and the Netherlands and extended by protocol to the Netherlands Antilles in 1955. The protocol was somewhat modified in 1963 when some of the more favorable provisions were removed. Its main characteristic is that under certain circumstances it allows a reduced rate for the withholding tax to which non-U.S. residents who have an income in the U.S. are normally subject. One group of firms which has especially benefited from this provision are the so-called finance subsidiaries. By establishing finance subsidiaries in the Netherlands Antilles to borrow on Euromarkets, a U.S. corporation can avoid paying withholding tax on foreign interest payments and hereby lower its borrowing cost; recently, easier terms on Eurocurrency markets and the strength of the dollar have led to a strong increase in this type of offshore activity. Other treaty-related firms are investment firms set up to channel foreign investment into the U.S. (mainly real estate investment) who especially take advantage of provisions favoring reduced capital gain taxes in the U.S. Altogether, it is estimated that 7 percent of all foreign investment in the U.S. occurs through the Netherlands Antilles.

Offshore companies dealing with international trade include offshore trading companies, shipping companies and factoring companies. Among the factors that contributed to their expansion were the country's traditionally liberal trade policies, its geographic location, in particular proximity with Latin American countries, the country's status as an associate member of the EC and the complementarity of these activities with some of the other traditional activities on the islands such as oil refining and transshipment, ship repair and entrepot trade.

Benefits to the economy from the offshore sector derive mostly from the direct and secondary effect of the activities associated with the management of offshore activities, from tax payments and from foreign exchange receipts. Direct employment in the offshore sector has risen by about threefold since mid-1975 to approximately 1,300 persons including about 130 expatriates, but overall employment generated by this sector is estimated to be around 5,000 persons or 7 percent of total employment. Even more remarkable was the growth in foreign exchange and tax revenues generated by this sector. Foreign exchange revenues rose from NA f. 115 million in 1979 to NA f. 349 million in 1982 and in that year covered approximately 24 percent of the import bill. Similarly tax revenues rose from NA f. 62.4 million in 1979 to NA f. 220.4 million in 1982 and amounted to 22 percent of total tax receipts.

Future prospects for this sector are clouded by the uncertainty regarding the tax treaty with the United States. This treaty formally expired at the end of June 1980 and at the request of the United States is currently being renegotiated; meanwhile the existing treaty is automatically extended for one-year periods so long as a new agreement is not reached.

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