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The Chairman's Summing Up at the Conclusion of the
1986 Article IV Consultation with the
Kingdom of the Netherlands - Netherlands Antilles
Executive Board Meeting 86/78, May 9, 1986

Directors noted the abrupt changes to which the economy of the Netherlands Antilles had been exposed in recent years. They observed that the islands were faced with large imbalances, caused foremost by a sharp deterioration in the external environment, but also by high domestic costs and insufficient fiscal discipline. The medium-term outlook remained clouded by the drop in prospective earnings from the oil refinery and the offshore financial sectors, as well as by some loss of tourist revenue. Directors noted that the islands had benefited from the recent decline in oil prices, a low inflation rate, and the absence of any significant external debt, as well as from temporary favorable developments in 1985, including buoyant receipts from the offshore banking sector and severance payments from the oil company. They urged that these advantages be used to smooth, rather than delay, the adjustment process.

Directors agreed that fiscal policy had the primary responsibility of aligning domestic absorption to the reduced income-generating capacity of the islands. They stressed the need to reduce public spending drastically in the medium term and they identified the reduction in public sector labor costs and the strengthening of the financial position of public enterprises as the major tasks facing the authorities. In that connection, Directors pointed out that through leadership in wage restraint and determination in reducing public outlays, as well as through measures to raise additional tax revenue, the authorities could effectively improve external competitiveness and restore confidence in the economy and could thus lay the basis for attracting new activities, a development which so far had been hindered by the high level of wage costs.

Directors welcomed the fiscal adjustment measures that had recently been implemented or proposed, but emphasized that those measures represented only the very start of a comprehensive adjustment program and that they did not sufficiently address the problem of high labor costs. The authorities were commended for tightening the limits on central bank credit to the public sector in support of such adjustment. The maintenance of the fixed exchange rate with the U.S. dollar was seen by some as a strong and useful anchor, but other speakers noted that such a policy depended very much on the ability of the country to keep costs down, and they encouraged the authorities not to exclude consideration of greater exchange rate flexibility if that were needed.

It is expected that the next Article IV consultation with the Netherlands Antilles will be held within 18 months.