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The Chairman's Summing Up at the Conclusion of the 1984 Article IV Consultation with Kingdom of the Netherlands - Netherlands Antilles
Executive Board Meeting 85/24 - February 15, 1985

Directors noted the large, traumatic external shocks which have affected the entire economy of the Netherlands Antilles, sharply reducing foreign exchange resources and government revenues. Directors considered that the current and prospective decline in foreign exchange resources reflected a lasting change in the islands' economic base, and that a fundamental adjustment effort was therefore necessary to ensure a commensurate drop in domestic absorption. They expressed grave concern that, unless promptly addressed, these problems would lead to severe domestic and external imbalances.

Directors observed that in facing these difficulties the islands enjoyed a number of advantages, including a strong external asset position and a low rate of domestic inflation. They stressed that these advantages, which had been built up over previous years, needed to be used to develop new opportunities for employment and foreign exchange earnings and did not, in any case, justify an attempt to delay adjustment.

Directors warned that, in view of the recent loss of competitiveness, nominal wages had to be significantly reduced. The delay in adjusting wages in the island of Curaçao was considered worrisome. In addition, nonwage public expenditures needed to be sharply trimmed.

Directors welcomed the moves already made in these directions but emphasized that the adjustment so far fell short of what was required. If not controlled quickly, the emerging fiscal deficit could lead to dangerous foreign borrowing or domestic inflation. Strong and evenhanded financial actions should be implemented in a way that would preserve investment opportunities and concentrate cuts on current spending. To attract foreign capital and to promote investment and export opportunities, competitiveness must be increased.

Given the recent difficulties in reducing nominal wages, Directors felt that the time has come for the authorities to reassess the policy of maintaining a fixed rate for the U.S. dollar against the alternative of greater exchange rate flexibility. The latter policy would of course have to be backed by appropriate financial and wage restraint.

It was also pointed out that an improvement in the statistical base would assist in the analysis of the economy.

It is expected that the next Article IV consultation with the Netherlands Antilles will be held on the standard 12-month cycle.