

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR
AGENDA

MASTER FILES

BOOK ENDED

02

SM/85/24

CONTAINS CONFIDENTIAL
INFORMATION

January 25, 1985

To: Members of the Executive Board

From: The Secretary

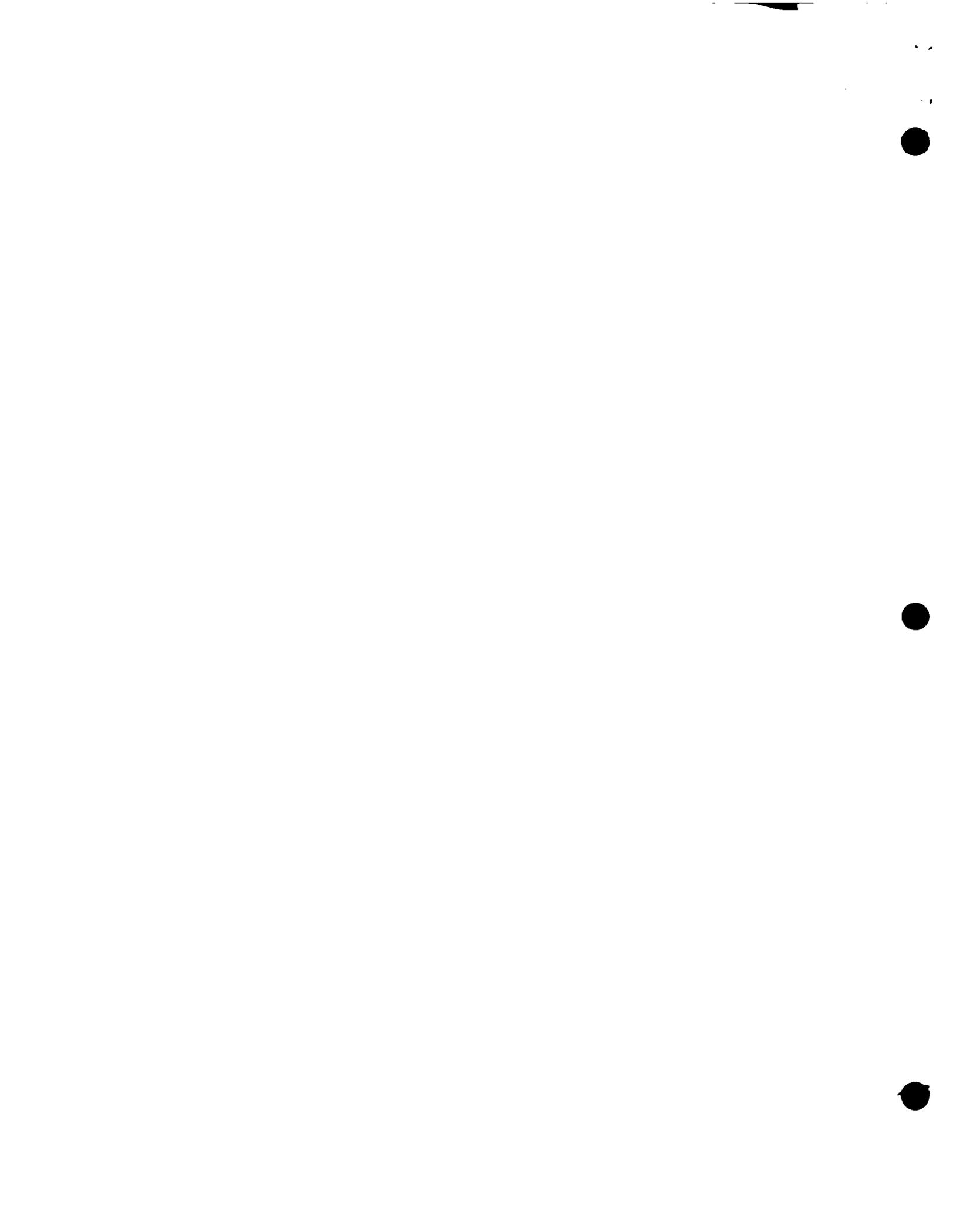
Subject: Kingdom of the Netherlands - Netherlands Antilles -
Recent Economic Developments

This paper provides background information to the staff report on the 1984 Article IV consultation discussions with the Netherlands Antilles, which was circulated as SM/85/21 on January 22, 1985.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Leipold (ext. 573743).

Att: (1)

Other Distribution:
Department Heads



INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS - NETHERLANDS ANTILLES

Recent Economic Developments

Prepared by P. Nyberg and A. Leipold (EUR), and V. Marie (BUR)

Approved by the European Department

January 22, 1985

	<u>Contents</u>	<u>Page</u>
Basic Data		iii
I.	Domestic Economic Developments	1
1.	Production	1
a.	Industrial and construction activity	1
b.	The tourism sector	2
2.	The labor market	3
3.	Consumer prices	3
4.	Wages	4
5.	Development assistance	4
II.	Public Finance	19
1.	Budgetary operations of consolidated government: 1980-83	19
a.	Revenue	19
b.	Expenditure	20
2.	Financial balances and financing of the Central Government and island Governments: 1980-83	21
3.	1984 budgetary developments	22
a.	Central Government	22
b.	Island Governments	23
III.	Money and Credit	31
1.	The framework of monetary policy	31
2.	Monetary policy issues and measures	31
3.	Recent monetary and credit developments	33
4.	Future monetary arrangements	34
IV.	The External Sector	40
1.	The current account	40
2.	The capital account	41
3.	Foreign exchange reserves	41

	<u>Page</u>
4. The exchange rate	41
5. Official foreign debt and debt servicing	42
6. Exchange and trade arrangements	42
Text Tables	
1. Selected Indicators of Economic Activity, 1978-84	6
2. Construction Activity, 1978-83	7
3. Basic Data on Stayover Tourism, 1978-83	8
4. Basic Data on Cruise Tourism, 1978-83	9
5. Tourism Receipts	10
6. Labor Force Composition and Geographic Distribution, 1981-83	11
7. Changes in the Consumer Price Index for Aruba, Bonaire and Curaçao, 1978-83	12
8. Average Annual Wages in 1983	13
9. Minimum Wages Compared to Neighboring Countries	14
10. Recent Evolution of Minimum Wages, 1978-84	15
11. Total Flow of Development Aid, 1978-83	16
12. Multi-Year Plan Interim Phase; Disbursements by Sectors and Authorities, 1962-83	17
13. Aid from the European Development Fund; Disbursements by Sectors and Authorities, 1978-83	18
14. Summary of Operations of Consolidated Government	24
15. Summary Operations of the Central Government and the Island Governments of Aruba and Curaçao	25
16. Central Government Revenue	26
17. Revenue of the Aruba Island Government	27
18. Revenue of the Curaçao Island Government	28
19. Expenditure of the Central Government	29
20. Expenditure of the Aruba Island Government	30
21. Expenditure of the Curaçao Island Government	30
22. Monetary Survey, 1977-84	35
23. Monetary Survey, 1977-84	36
24. Components of Money and Quasi-money, 1979-84	37
25. Commercial Bank Credit, 1980-84	38
26. Interest Rates	39
27. Balance of Payments, 1978-83	43
28. Cash Flow Statement, Inflow	44
29. Cash Flow Statement, Outflow, 1977-83	45
30. The Capital Balance	46
31. Net International Reserves, 1977-83	47
32. Outstanding Funded Debt Toward the Netherlands and Debt Service Payments, 1978-85	48

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

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u> ^{1/}
Consumer price index (Leeward Islands) Percent increase:						
December to December	12.2	16.0	8.6	4.7	2.2	2.0
Period average	11.4	14.6	12.2	6.1	2.8	2.0

(Annual percentage change)

Selected indices of economic activity						
Refining output	-8.0	-1.1	-3.3	-11.4	-2.6	-4.3
Electricity production	4.3	1.7	0.8	-0.8	3.3	-7.6
Shipping activity	7.8	-10.6	6.6	-24.1	-27.1	-35.9
Stayover tourism (arrivals)	9.3	0.1	2.2	3.6	-6.9	13.4
Cruise tourism (arrivals)	6.8	-10.4	-13.9	-11.9	-18.7	-7.5

(In millions of NA guilders)

Balance of payments (cash basis) ^{2/}						
Non-oil trade balance	-1,092	-1,364	-1,299	-1,450	-1,407	-1,207
Services	1,234	1,445	1,569	1,674	1,439	1,314
Private transfers and investment income	-147	-186	-176	-118	-119	-107
Current account	-5	-105	94	106	-86	--
Official capital	73	151	111	62	111)
Private capital	-79	-18	-130	-95	-123	) -2
Errors and omissions	24	24	20	18	50)
Change in net foreign assets, increase (-)	-13	-52	-96	-91	47	2
Memorandum item:						
Net foreign assets (in months of imports)	194 (1.8)	246 (1.8)	342 (2.6)	433 (3.1)	386 (3.1)	384 (3.2)

1979 1980 1981 1982 1983 1984 ^{1/}

(In millions of NA guilders)

Public finance (Central Government and Island Governments of Aruba and Curaçao combined)						
Expenditure	656	759	897	1,014	1,142	1,173
Revenue	612	722	907	1,055	1,126	1,100
Financial balance	-44	-37	10	41	-16	-73
(as percent of expenditure)	(-7)	(-5)	(1)	(4)	(-1)	(-6)

(Changes in millions of NA guilders)

Monetary data						
Money and quasi-money (M2)	72.9	87.3	120.9	146.5	61.4	51.0
(Percent growth)	(9.3)	(10.2)	(12.8)	(13.7)	(5.1)	(4.0)
Counterparts to M2						
Net foreign assets	12.5	52.2	96.4	90.7	-47.2	-2.0
Domestic credit	81.7	48.9	71.6	83.8	107.9	63.0
(Percent change)	(11.3)	(6.1)	(8.4)	(9.1)	(10.7)	(5.7)
Claims on government, net	56.2	-26.7	-72.5	-11.1	-26.7	52.0
Central government	-18.2	-3.4	-5.0	50.8	-11.5	12.0
Island governments	74.4	-23.3	-67.5	-61.9	-15.2	40.0
Claims on the private sector	25.5	75.6	144.1	94.9	134.7	11.0
(Percent change)	(4.1)	(11.8)	(20.0)	(11.0)	(14.1)	(1.0)
Miscellaneous other	-21.2	-13.9	-47.2	-27.9	0.6	-10.0
Exchange Rates						
Central rate: NA f. 1.79 = US\$1						
NA guilder per SDR (period average)	2.313	2.330	2.111	1.976	1.914	1.846
Real effective rate (annual percentage change; period average) ^{3/}	-1.3	1.3	11.1	5.2	3.2	4.2

^{1/} Staff estimates.

^{2/} Figures may not add up due to rounding.

^{3/} Corrected for changes in consumer prices.

I. Domestic Economic Developments

1. Production

Production of goods and services in the Netherlands Antilles is dominated by a few export sectors (oil refining, tourism and offshore financial services), by a relative lack of domestic production for the home market, and by a substantial government sector (see table below). On Aruba, oil refining and tourism-related activities (trade, hotels and restaurants) are relatively more important than on Curaçao, where the larger part of financial, transport and government services are provided. In 1983 and 1984, total production in the Netherlands Antilles declined as a result of external circumstances, declining competitiveness and a low rate of profits (Table 1).

Netherlands Antilles: Domestic Product by Sector in 1979

(In percent)

Industry	22.0
Construction	6.5
Trade	17.0
Hotels, restaurants	5.2
Transport	15.1
Financial services	11.9
Government	15.9
Other	6.4
Total	100.0

Source: Data provided by the authorities.

a. Industrial and construction activity

The industrial sector is based on the two large oil refineries (one each on Aruba and Curaçao), associated oil transshipment activities, and a drydock (ship repair) enterprise on Curaçao. In recent years, the international economic slowdown, together with structural changes in the oil market, have caused increasing problems for all these enterprises.

The oil refineries depend primarily on Venezuela for their deliveries of crude oil, and on markets in the United States and the Caribbean for the sale of final products; directly and indirectly they have been estimated to account for some one fifth of total employment in 1983. Ceilings on the production of crude oil set by OPEC for Venezuela have recently forced reductions in the activity of both refineries, while the global excess of refining capacity has reduced the refining margin substantially. The situation has reportedly been further aggravated by relatively high unit wage costs and old technology, especially in the refinery on Aruba.

Production in the refineries has altogether been declining since 1979. Production in 1982 was only three quarters of the previous peak level (in 1978) and fell further by 2 1/2 percent in 1983 and an estimated 4 1/2 percent in 1984. In 1985, production is likely to decline very substantially from the present level, because the refinery on Aruba will, according to present plans, be closed in March 1985.

The transshipment and storage of crude oil has declined owing to shifts in the world oil trade pattern. The foreign exchange inflow from storage fees and shiphandling declined by 60 percent between 1980 and 1983. The drydock firm, where the island Government of Curaçao has been a majority shareholder since September 1983, was affected by declining shipping between North and South America. In 1984, increased shipping and more competitive prices again supported activity at the company. Though the wage sum of the company was reduced by 23 percent below trend through a combination of employment cuts and reductions in compensation per capita in 1983 (the number of employees falling by 13 1/2 percent between the high in 1982 and year-end 1984), the company continues to make large losses, which are financed by the Curaçao Government.

Manufacturing production for the domestic market is limited to consumer goods and simple intermediate goods; some of these are protected by temporary import restrictions. Expansion of such manufacturing is at present limited, owing both to the small size of the domestic market, and to the high cost of labor which depresses competitiveness. In fact, a survey ^{1/} indicates that almost 20 percent of industrial enterprises made a loss, and that possibly one half of industrial enterprises produced at less than full capacity in 1983.

Construction activity declined in 1983 following two years of high growth (Table 1); the fall was apparently concentrated in Aruba (Table 2). Nevertheless, the number of building permits on Curaçao and Aruba increased in 1983, indicating that construction activity may have become somewhat livelier in 1984 in spite of the decline in economic activity depressing business construction plans. ^{2/}

b. The tourism sector

The tourism sector as a whole experienced a drastic reduction in stay-over arrivals and real revenues in 1983; in the first half of 1984, tourist arrivals increased again, partly as a result of the economic recovery in the United States. Nevertheless, real revenues continued to drop (Table 1). This was the result of increasing mid-market tourism

^{1/} The survey was conducted by the Interdepartmental Working Group on Social and Financial-Economic Questions (IDW).

^{2/} According to the IDW survey mentioned, 42 percent of surveyed enterprises expected to reduce their construction investment in 1984 compared to only 28 percent in 1983; the share of those planning an increase was 16 and 29 percent, respectively.

from North America gradually replacing the high-spending Venezuelan tourists, the number of which declined due to the devaluation of the bolivar in February 1983 and 1984. Cruise tourism arrivals declined markedly in 1983, reaching only 55 percent of their maximum level in 1979; judging from data for the first half of the year, the decline continued for the fifth year in a row in 1984. The Netherlands Antilles thus continues to feel the effects of the North American trend toward short cruises.

There were marked differences between developments on the various islands, however (Tables 3 and 4). In Aruba, the decline of Venezuelan tourists and cruise arrivals in 1983 was roughly compensated by an increase in tourists from North America in the first three quarters of 1984. In Curaçao, stay-over tourism has declined both in 1983 and the first half of 1984, the increase in tourists from North America being too small to compensate for the substantial fall in South American tourism, which has been the mainstay of the sector in that island; however, tourism has to some extent been supported by a modest rise in cruise tourism. Tourism to Bonaire appears to have risen in the first half of 1984 after falling in 1983, while tourism to St. Maarten has increased strongly both in 1983 and the first three quarters of 1984 due to a strong increase in arrivals from North America.

Total tourism receipts declined on all islands (except St. Maarten, where they almost stagnated) in 1983 and the first three quarters of 1984 (Table 5). At the same time, however, expenditures per tourist day are estimated to have fallen on all islands, indicating that the average tourist now arriving has less of an impact both on foreign exchange earnings and on domestic income than before.

2. The labor market

Employment has declined on all islands between 1981 and 1983, with the exception of Curaçao where employment only stagnated, though falling substantially from its peak value in 1982 (Table 6). During the same period, unemployment has increased markedly on the Leeward Islands, while falling elsewhere. For the Netherlands Antilles as a whole, employment was 5 1/2 percent lower in 1983 than in 1981, and the number of unemployed increased by more than a third, with the unemployment rate rising from 16 to 21 1/2 percent. The total labor force rose by less than 1 percent compared with an estimated increase in the population of age 15-64 years of more than 2 1/2 percent, indicating a falling participation rate caused by discouraged workers leaving the labor market. This development appears to have been pronounced on those islands where unemployment declined, indicating that the improved unemployment situation there represented primarily a shift between open and disguised unemployment.

3. Consumer prices

Because the Netherlands Antilles have a very modest production for the domestic market, prices are primarily determined by prices abroad, exchange rates and markups in the trade sector. However, maximum retail

margins are fixed by the authorities for a number of essential products, including medical supplies, food, beverages and gasoline. Furthermore, public utilities (electricity, telephone and, importantly, water rates) are subsidized by the Government and rent control is in effect. Therefore, price changes tend to follow those in important partner countries. In 1983, consumer prices rose by almost 3 percent on average and 2.2 percent through the year; the inflation rate in 1984 may have been even lower (Table 7).

4. Wages

Annual direct wage costs are quite high in the Netherlands Antilles relative to neighboring countries, being on average NA f. 25,300 in 1983 (Table 8). Wage costs are relatively high in most export-related activities (financial services, industry, transport) and in public utilities, while wages in construction, hotels and trade are lower than average, partly as a result of more widespread part-time work in these sectors. In 1983, the average nominal increase in wages and salaries in industry, construction, transport and storage was reported to be 10 percent in Aruba and Curaçao, implying a substantial rise in real wages as well. Though representing recent wage developments only partially, the development of minimum wages indicates that wages in the Netherlands Antilles are not only high relative to neighboring countries, but have retained their real value substantially better, also (Table 9).

Nevertheless, there have been recent signs of some moderation in wage demands, with unions accepting reductions in nominal wage costs in several sectors. Most dramatically, a reduction of the wage bill in the drydock company by 23 percent had been agreed upon in 1983; to be sure, this was not enough to eliminate the losses of the company, partly because prices charged had been reduced by one third since the beginning of 1983. Unions in the transportation, agricultural, mining and metal-working sectors have recently agreed to an increase in hours worked without demanding overtime compensation. Unions in the hotel sector have agreed not to demand compensation for increases in prices, a concession facilitated by the present low inflation rates. Finally, the national airline (ALM) has reduced nominal wages by 10 percent as have several construction companies for a limited time.

Minimum wages, existing since 1972, are now only partly indexed (with the exception of the lowest wage category). The rate of growth of minimum wages was 1-4 percent in 1984; nevertheless, most minimum wages are likely to at least have remained stable in real terms in 1984 (Table 10).

5. Development assistance

The Netherlands Antilles received foreign development aid amounting to NA f. 104 1/2 million in 1983 and may expect a similar amount in 1984. Most aid is provided by the Netherlands and a small part by the European

Development Fund (Table 11). Development aid is primarily disbursed for projects by the island Governments in shares roughly proportional to their populations; Dutch aid has been concentrated on public infrastructure and housing, while EC aid has been used primarily for transport infrastructure and for education (Tables 12 and 13).

Table 1. Netherlands Antilles: Selected Indicators of Economic Activity, 1978-84

(Annual percentage change)

	1978	1979	1980	1981	1982	1983	Est. 1984
Oil refining <u>1/</u>	4.2	-8.0	-1.1	-3.3	-11.4	-2.6	-4.3
Electricity production <u>2/</u>	7.4	4.3	1.7	0.8	-0.8	3.3	-7.6
Shipping activity <u>3/</u>	-6.6	7.8	-10.6	6.6	-24.1	-27.1	...
Construction <u>4/</u>	50.3	-5.6	4.9	19.4	14.1	-4.0	...
Stay-over tourism <u>5/</u>	17.9	9.3	0.1	2.2	3.6	-6.9	13.4
Cruise tourism <u>5/</u>	-3.7	6.8	-10.4	-13.9	-11.9	-18.7	-7.5
Real non-oil merchandise imports <u>6/</u>	10.6	-2.7	6.8	-3.8	-0.3	-14.1	-12.4
Real tourism revenues <u>7/</u>	21.4	4.3	9.5	-2.0	-8.9	-26.2	-6.0

Sources: Bank of the Netherlands Antilles, Quarterly Bulletin; Central Statistical Bureau, Statistische Mededelingen; data provided by the authorities; and staff calculations.

1/ Central Bank index: volume of refined products; estimate for 1984 based on January-September data.

2/ Central Bank index: volume of electricity sold; estimate for 1984 based on January-September data.

3/ Annual tonnage of shipping traffic in Antillean ports.

4/ Value of completed buildings in Aruba and Curaçao deflated by the annual average consumer price index.

5/ Number of arrivals; estimate for 1984 based on January-August data.

6/ Nominal figures deflated by annual average consumer prices; estimate for 1984 based on estimated data for merchandise imports.

7/ Tourism revenues, deflated by annual average consumer prices.

Table 2. Netherlands Antilles: Construction Activity, 1/ 1978-83

(Annual percentage change)

	1978	1979	1980	1981	1982	1983
Number of building permits issued						
Curaçao	8.1	-10.5	33.5	-33.3	-0.7	9.1
Aruba	-4.7	14.2	-0.8	11.8	-6.8	9.6
Total	3.1	-1.7	19.2	-17.7	-3.5	9.3
Number of completions						
Curaçao	13.7	14.0	-13.7	42.2	-32.0	35.7
Of which: dwellings	--	42.2	-13.8	38.2	-21.5	38.1
Aruba	14.3	-7.8	5.4	-6.3	-28.7	-16.6
Of which: dwellings	72.7	-3.9	-13.0	-0.8	-13.5	-22.9
Total	13.9	5.7	-7.4	23.8	-31.0	20.2
Of which: dwellings	19.6	24.3	-13.6	26.4	-19.6	22.5
Value of completions (in millions of NA guilders)						
Curaçao	63.8	3.7	18.7	48.2	7.6	18.2
Aruba	63.4	9.1	24.1	-0.5	69.8	-49.9
Total	63.7	5.2	20.2	34.0	21.1	-2.4

Source: Bureau of Statistics, Statistische Mededelingen, May 1984.

1/ Excludes lower income housing projects.

Table 3. Netherlands Antilles : Basic Data on Stayover Tourism, 1978-83 ^{1/}

	1978	1979	1980	1981	1982	1983	1984 ^{2/}
(Number of visitors in thousands)							
Aruba	163.9	185.1	188.9	221.3	220.2	195.2	213.7
Bonaire ^{3/}	19.8	19.7	22.8	26.0	28.0	20.2	27.4
Curaçao	173.7	180.6	184.7	176.3	174.4	111.0	102.9
St. Maarten ^{3/}	191.7	214.8	204.7	190.5 ^{4/}	213.4	263.3	324.9
Total	549.1	600.3	601.0	614.1	636.0	589.7	668.9
(Average stay (nights))							
Aruba	7.3	6.6	6.2	6.2	6.2	6.4	6.6
Bonaire	3.7	4.9	4.7	4.6	4.5	5.9 ^{5/}	...
Curaçao	4.8	5.0	4.8	4.2	4.5	...	4.4
St. Maarten	...	...	...	...	...	...	...
(In percent of total)							
National origin of visitors							
Aruba							
USA & Canada	67.1	67.6	61.6	58.6	54.4	69.2	72.3
Venezuela	23.3	22.0	28.6	30.0	33.8	14.6	10.6
Other America	6.8	7.0	6.1	7.6	8.0	11.7	12.7
Europe	2.3	3.1	3.3	3.7	3.6	4.2	4.2
Other	0.5	0.3	0.4	0.1	0.2	0.3	0.2
Bonaire							
USA & Canada	35.8	36.8	32.3	39.8	40.8	53.2	49.4
Venezuela	5.4	7.4	9.9	12.6	15.5	11.4	6.6
Netherlands	7.5	5.7	8.0	8.3	6.8	11.5	9.7
Other ^{2/}	51.3	50.1	49.8	39.3	36.9	23.9	34.3
Curaçao							
USA & Canada	19.5	14.0	14.9	17.2	12.6	21.3	32.3
Venezuela	46.0	45.6	50.4	46.9	54.1	23.2	22.4
Other America	20.8	24.4	24.1	25.9	23.9	42.2	32.7
Europe	12.3	9.5	9.1	7.9	7.3	9.8	9.6
Other	1.4	6.5	1.5	2.1	2.1	3.5	3.0
St. Maarten							
USA & Canada	...	59.1	58.9	66.3	64.7	71.8	72.7
Continental France	...	8.9	11.9	12.6	11.9	10.1	9.2
Other Caribbean ^{6/}	...	5.4	5.4	6.2	8.8	6.5	6.1
Other ^{2/}	...	26.6	23.8	14.9	14.6	11.6	12.0

Source: Bank of the Netherlands Antilles, Quarterly Bulletin; and the Economist Intelligence Unit: International Tourism Quarterly, 1984/3; data provided by the authorities; and staff estimates.

^{1/} Figures may not add up due to rounding.

^{2/} Estimates are based on figures for January-October in Aruba and St. Maarten, and for January-July in Bonaire and Curaçao.

^{3/} Including Antillean residents.

^{4/} Influenced by closure of the island's largest hotel in the third quarter of 1981.

^{5/} Average for January-August.

^{6/} Including Guadeloupe and Martinique.

Table 4. Netherlands Antilles : Basic Data on Cruise Tourism, 1978-83

	1978	1979	1980	1981	1982	1983	1984 <u>1/</u>
<u>(In thousands of visitors)</u>							
Aruba	98.0	95.6	73.4	54.7	51.1	39.1	22.5
Bonaire	2.6	5.0	2.9	12.0	6.8	0.3	0.6
Curaçao	172.0	174.0	169.0	129.4	110.0	104.1	109.7
St. Maarten	94.2	117.0	105.5	106.0	98.3	73.0	...
Total	366.8	391.6	350.8	302.1	266.2	216.5	...
<u>(Number of cruise calls)</u>							
Aruba	152	147	110	79	84	63	37
Bonaire	3	6	5	23	10	1	1
Curaçao	279	246	253	195	183	169	160
St. Maarten	128	194	213	148	153	181	112
Total	562	593	581	445	430	414	310

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

1/ Estimate based on January-August figures.

Table 5. Netherlands Antilles: Tourism Receipts

	1978	1979	1980	1981	1982	1983	1984 ^{1/}
(In millions of NA guilders)							
Aruba	168.2	194.6	246.2	279.9	265.4	205.2	202.0
Curaçao	196.6	213.0	266.9	283.4	278.2	138.9	120.0
Bonaire	4.6	6.0	6.8	9.1	11.9	9.8	6.5
Other	121.1	156.1	194.8	210.4	220.4	222.6	225.0
Total	490.5	569.7	714.7	782.8	775.9	576.5	553.5
Memorandum item:							
Total, change from previous year in percent	31.2	16.1	25.5	9.5	-0.9	-25.7	-4.0
(In NA guilders per tourist day) ^{2/}							
Aruba	129.9	147.7	197.8	193.2	187.4	159.3	141.0
Curaçao	195.5	197.7	252.9	325.9	310.9	225.6	213.0
Bonaire	60.8	59.1	61.9	69.2	89.6	81.8	50.0
Other	...	...	...	...	...	...	...
Total ^{3/}	155.5	165.7	215.7	233.6	227.3	174.9	155.0
Memorandum item:							
Total, change from previous year in percent	12.0	6.6	30.2	8.3	-2.7	-23.1	-11.5

Source: Netherlands Antilles Central Bank, Quarterly Bulletin; and staff calculations and estimates.

^{1/} Estimates, based on figures for January-September.

^{2/} Estimate of length of stay in 1983 is on the basis of data for January-September, and is for 1984 assumed equal to the average of 1979-83 for Bonaire; length of stay in 1983 is assumed unchanged from 1982 for Curaçao. Cruise arrivals are assumed to stay one day only.

^{3/} Average of Aruba, Bonaire and Curaçao only.

Table 6. Netherlands Antilles: Labor Force Composition and Geographic Distribution, 1981-83

(Number of persons)

	Employment		Unemployment		Total labor force		Unemployment rates 1/			
	1981	1982	1981	1982	1981	1982	1981	1982		
Aruba	23,577	...	2,454	...	26,031	...	24,599	9.4	...	17.4
Bonaire	3,031	...	395	...	3,426	...	3,075	11.6	...	13.3
Curaçao	47,290	50,790	12,006	10,940	59,296	61,730	63,044	20.2	17.7	24.9
St. Maarten	5,998	...	499	...	6,497	...	5,406	7.7	...	3.7
Saba and St. Eustatius	835	...	108	...	943	...	789	11.5	...	10.1
Total	80,731	...	15,462	...	96,193	...	96,913	16.1	...	21.3
Memorandum item: Population, 15-64 years old	...	...	...	...	158,811	...	163,108	...	...	...

Source: 1981 Census; and data provided by the authorities.

1/ In percent of total labor force.

Table 7. Netherlands Antilles: Changes in the Consumer Price Index
for Aruba, Bonaire and Curaçao, 1978-83

(In percent, end of period)

	1978	1979	1980	1981	1982 <u>1/</u>	1983 <u>1/</u>	1984 <u>2/</u>
Food	13.2	12.4	15.9	7.9	5.4	0.9	3.2
Clothing	6.3	7.1	11.7	10.9	7.2	2.5	-5.2
Housing	10.2	11.3	25.9	6.6	0.3	1.3	1.4
Housekeeping and furnishing	8.2	16.2	15.2	11.2	8.7	2.0	1.8
Health	14.8	6.5	11.3	22.7	4.4	6.2	3.0
Transport and communication	5.8	20.2	13.2	7.9	5.0	4.7	3.6
Recreation	8.5	7.2	9.6	5.8	3.2	...	...
Education	5.8	4.0	2.8	3.6	3.6	0.4	2.5
Other	6.5	10.9	13.5	7.6	4.8	2.3	1.7
Overall index (annual average change)	9.7 (8.1)	12.2 (11.4)	16.0 (14.6)	8.6 (12.2)	4.7 (6.1)	2.2 (2.8)	1.9 (2.0)

Source: Bank of the Netherlands Antilles, Quarterly Bulletin; and IMF, International Financial Statistics.

1/ Due to a change in the basis of the index (beginning October, 1982), the figures for 1982-83 are not fully comparable to the previous ones.

2/ August compared with a year before.

Table 8. Netherlands Antilles: Average Annual Wages in 1983

(In NA f. per employed, and percent)

Sector	Wage classes (in percent)							Average wage 1/ (in NA f.)
	<10	10<15	15<20	20<30	30<40	40<50	>50	
Industry	4.5	18.2	13.6	31.8	13.6	13.6	4.5	26,550
Utilities	--	--	--	--	50.0	50.0	--	40,000
Construction	10.0	--	30.0	35.0	20.0	5.0	--	24,050
Trade	17.1	17.1	20.0	31.4	14.3	--	--	19,860
HoReCa <u>2/</u>	17.4	30.4	30.0	17.4	4.3	--	--	16,300
Transport	14.3	--	--	28.6	21.4	28.6	7.1	32,910
Financial services	<u>13.3</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>40.0</u>	<u>33.3</u>	<u>13.3</u>	<u>38,030</u>
Total	12.6	12.6	17.0	24.4	18.5	11.9	3.0	25,290

Sources: Interdepartmental Working Group, Bedrijvenenquete-1984, p.15; and staff estimates.

1/ Estimated from the medium value of the wage classes.

2/ Hotels, restaurants and cafés.

Table 9. Netherlands Antilles: Minimum Wages Compared to Neighboring Countries

(In U.S. dollars per day, and percent)

	Nominal			Real ^{1/}		
	1980	1984 ^{2/}	Change in percent	1980	1984 ^{3/}	Change in percent
Netherlands Antilles: ^{4/}						
Category 1	15.25	19.93	30.7	15.25	15.93	4.5
Category 2	11.03	14.80	34.2	11.03	11.83	7.3
Category 3	9.26	12.82	38.4	9.26	10.25	10.7
Category 4	4.42	6.12	38.5	4.42	4.89	10.7
Barbados:						
Under 18 years	7.20	10.00	38.9	7.20	7.19	-0.1
Over 18 years	8.40	11.52	37.1	8.40	8.29	-1.3
Brazil	3.46	1.86	-46.2	3.46	2.02	-41.5
Dominican Republic	5.25	4.90	-6.7	5.25	...	...
El Salvador	4.40	5.20	18.2	4.40	3.22	-26.7
Haiti	2.20	3.00	36.4	2.20	2.14	-2.9
Honduras	2.85	3.30	15.8	2.85	2.37	-16.8
Jamaica	3.37	2.36	-30.0	3.37	2.99	-11.4
Mexico	5.95	3.19	-46.4	5.95	3.81	-36.0

Source: Data provided by national authorities; and staff estimates.

^{1/} Corrected for the change of consumer prices, at 1980 exchange rates.

^{2/} At mid-year exchange rates.

^{3/} At mid-year price levels.

^{4/} These categories refer to the sectoral specifications given in Table 10; figures assume a six day working week.



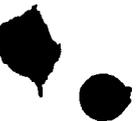


Table 10. Netherlands Antilles: Recent Evolution of Minimum Wages, 1978-84 1/

(Annual percentage change)

	1978	1979	1980	1981	1982	1983	1984	1984 (In NA guilders) per month)
Agriculture, commerce, and textile industry	6.0	9.7	12.5	14.7	11.4	6.2	2.0	594.95
Manufacturing and construction	6.0	9.7	12.6	14.7	11.4	1.2	4.0	925.40
Transportation, tourism and financial services	5.9	9.7	12.5	14.7	11.4	3.7	1.2	686.90
Household personnel	6.0	9.7	12.5	14.7	11.1	6.2	2.0	283.85
Memorandum item: Consumer price index <u>2/</u>	9.7	12.2	16.0	8.6	4.7	2.2	...	...

Sources: Bank of the Netherlands Antilles, Annual Report 1979-80; and data provided by the 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, 1978-83

(In millions of NA guilders)

	1978	1979	1980	1981	1982	1983
Multi-year plan	44.8	60.2	157.1	87.8	86.7	93.2
Social, educational, and cultural funds	13.9	12.1	13.2	11.2	12.0	7.4
European Communities	6.4	8.4	13.2	5.7	4.8	4.0
Total	65.1	80.7	183.5	104.7	103.6	104.6

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

Table 12. Netherlands Antilles: Multi-Year Plan Interim Phase;
Disbursements by Sectors and Authorities, 1962-83 ^{1/}

(In percent of total)

	1978	1979	1980	1981	1982	1983	1962-83
Public utilities	37.6	49.7	34.4	7.5	20.4	12.4	27.0
Airports	2.0	3.0	8.2	13.7	0.7	2.5	7.0
Harbors	4.0	2.0	9.5	23.7	23.2	30.7	11.7
Roads and bridges	10.7	5.1	1.1	1.6	1.0	7.0	7.0
Education	3.1	1.5	0.6	1.9	2.3	1.0	2.6
Health	3.6	1.0	0.2	0.7	0.6	1.8	3.1
Housing	19.6	21.6	18.1	41.6	39.0	37.0	21.0
Tourism	6.0	2.5	0.6	0.1	0.7	0.6	3.9
Agriculture, animal husbandry, and fishing	2.7	1.5	0.2	0.3	--	1.2	0.6
Trade, industry, and other services	4.2	6.5	1.6	3.4	9.2	2.8	8.1
Other	6.5	5.6	25.5	5.5	2.9	3.1	8.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
(in millions of NA guilders)	44.8	60.8	157.4	87.1	86.7	93.2	1,036.7
Of which:							
Central Government	6.5	3.8	31.5	20.4	11.4	3.3	14.8
Aruba	34.6	20.8	19.7	22.5	22.4	34.3	25.9
Curaçao	40.1	54.1	41.2	47.1	60.8	55.4	47.5
Bonaire	12.3	7.5	3.5	5.1	2.9	4.5	5.8
Windward Islands	6.5	13.8	4.1	4.9	2.5	2.5	5.9

Source: Bank of the Netherlands Antilles, Quarterly Bulletin.

^{1/} Figures may not add up due to rounding.

Table 13. Netherlands Antilles: Aid From the European Development Fund; Disbursements by Sectors and Authorities, 1978-83 ^{1/}

(In percent of total)

	1978	1979	1980	1981	1982	1983
Airports	92.2	90.5	65.7	1.7	18.4	40.0
Harbors	--	--	3.8	--	--	5.0
Roads	--	--	--	--	--	--
Education	7.8	9.5	25.2	70.7	49.0	20.0
Other	--	--	5.3	27.6	32.6	35.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
(In millions of NA guilders)	6.4	8.4	13.2	5.7	4.8	4.0
Of which:						
Central Government	--	1.2	6.1	37.9	36.7	30.0
Aruba	7.8	8.3	27.5	57.0	34.7	5.0
Curaçao	32.8	64.3	43.5	--	--	15.0
Bonaire	54.7	21.4	17.6	3.4	26.6	7.5
Windward Island	4.7	4.8	5.3	1.7	2.0	42.5

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

^{1/} Figures may not add up due to rounding.

II. Public Finance

The various government units in the Netherlands Antilles consist of the Central Government, and the island Governments of Aruba, Bonaire, Curaçao and the Windward Islands. ^{1/} Budgetary information is only available for the Central Government and the island Governments of Aruba and Curaçao.

From 1980 to 1984, the outcome of the budgetary operations of these governments has been heavily influenced by the growth of profit tax receipts from the oil refining and offshore financial sectors (Table 14). Since the island Governments collect direct taxes and, under the revenue sharing arrangements, must transfer 25 percent of the proceeds to the Central Government, these receipts have played an important role in determining the respective budgetary performances of the Central and island Governments and their patterns of financing.

1. Budgetary operations of consolidated government: 1980-83 ^{2/}

In 1981 and 1982, the rapid recovery of profits at the Lago refinery on Aruba, which followed the second oil shock, and the sustained development of offshore business activities on Curaçao led to a rapid growth of profit tax receipts from these sectors (Table 14). This increase, along with the more moderate growth of revenue from taxes on wages and on international transactions, led to a 46 percent increase in total consolidated revenue over the 1980-82 period. Expenditure rose more slowly, by 34 percent, and the consolidated financial balance of the three governments, which was in deficit in 1980, corresponding to about 2 percent of GNP, showed a surplus in 1981 and 1982.

Due to declining economic activity and lower oil sector profit tax receipts in 1983, the growth of total revenue slowed to 7 percent that year, even though receipts from the offshore sector rose strongly. ^{3/} Expenditure, however, continued to grow rapidly, by about 13 percent, leaving a consolidated deficit of about 1 percent of GNP for 1983.

a. Revenue

Fiscal revenues from the oil sector consist of profit taxes paid by the Shell and Lago refineries, which are both subject to a minimum statutory tax of NA f. 28 million and NA f. 35 million, respectively.

^{1/} For further details on institutional and revenue sharing arrangements between these governments see SM/83/226 (11/4/83), pp. 18-19.

^{2/} The definition of consolidated government used here includes the Central Government, the island Governments of Aruba and Curaçao, but excludes the island Governments of Bonaire and the Windward Islands. Development expenditures under the Multiannual Plan and under the Special Fund for Social, Educational and Cultural Projects, which are entirely financed by the Netherlands, are not discussed here.

^{3/} Because of this rise, the profit tax payments by the oil and offshore sectors together reached 41 percent of total revenue in 1983.

While the Shell refinery paid only the minimum over the entire period under consideration, profit tax receipts from the Lago refinery rose from the NA f. 35 million floor in 1980 to NA f. 156 million in 1982 and NA f. 129 million in 1983. The rapid increase in profit tax receipts from the offshore financial sector in the early 1980s can be attributed to the booming development of that sector; the growth of revenue was also sustained in 1983 by the partial elimination of a backlog in tax assessment.

Taxes on labor income are subject to partial withholding by employers, while the balance is assessed and collected during the subsequent year. Receipts from withholding rose only modestly in 1982 and 1983, reflecting the slowdown in economic activity as well as a lower rate of inflation, while receipts from the income tax declined, mostly because of delays in tax assessment and collection.

Taxes on foreign transactions consist of import duties and of a tax on foreign exchange transactions the rate of which was increased in September 1983. Their pattern of revenue tends to reflect the level of economic activity and foreign trade. Accordingly, related revenues increased in 1981 and 1982 by 19 percent annually and declined thereafter.

Other budgetary revenues consist of other profit taxes, taxes on goods and services, property taxes, and nontax revenue. Taxes on goods and services consist mostly of excises on alcohol, tobacco and gasoline, of gambling licences and motor vehicle fees. Throughout the 1980-83 period, receipts from these taxes have stagnated and represented NA f. 175 million in 1983. 1/ Nontax revenue, which consists mostly of Central Bank profits and of the net surpluses of departmental enterprises, have fluctuated in recent years. After increasing briskly in 1981 they fell to about NA f. 70 million in 1983.

b. Expenditure

The largest expenditure component consists of civil service compensation, which represents half of total expenditure and has grown at the same average annual rate as total outlay. The rapid growth of civil service compensation is mostly explained by a rapid increase in compensation per employee which rose by an estimated 12 percent in real terms from 1980 to 1983. 2/ The number of employees is also estimated to have increased during the period by about 9 percent. In order to slow down the increase in remuneration expenses the Central Government introduced a hiring freeze in the course of 1983 and a suspension of indexation and of vacation allowance payments.

1/ Following a court ruling in 1981 declaring the Bullenbai tax on transshipment activities illegal (resulting in a revenue loss of approximately NA f. 20 million a year), property tax receipts have represented only about 1 percent of total revenue.

2/ Civil service compensation is high in the Netherlands Antilles, corresponding to about US\$25,000 a year for central government employees.

Subsidies to public and departmental enterprises consist for the most part of payments to the desalination plants in Curaçao and Aruba, to the national airline (ALM), to the Curaçao Drydock Company and to various hotels. These subsidies have more than doubled between 1980 and 1983, reaching approximately NA f. 95 million in that year.

Other expenditure includes transfers to persons, purchases of goods and services and interest payments. Transfers to persons, including pensions, income support payments and public works schemes, appear to have increased significantly in 1980-83 as a result of higher unemployment. The major components of the purchase of goods and services by the Government consist of expenses on education and health services. Education expenses, which include wages of teachers, increased from NA f. 157 million in 1980 to NA f. 214 million in 1983, or by about 12 percent in real terms.

Total interest payments on the public debt increased from NA f. 29 million in 1980 to NA f. 47 million in 1983, mostly on account of the rapid increase in central government domestic financial liabilities over the period. Central government interest payments, which were NA f. 10 million in 1980, reached NA f. 28 million in 1983. The payments of interest of the Aruba and Curaçao Governments on their external debt owed to the Netherlands were respectively NA f. 7 million and NA f. 12 million a year on the average over the period.

2. Financial balances and financing of the Central Government and island Governments: 1980-83

The distribution of tax collection responsibilities among the Central and island Governments assigns the collection of direct taxes to the Central Government and of indirect taxes to the island Governments. Furthermore, under the revenue-sharing agreement, the Central Government must transfer 50 percent of its indirect tax receipts to the island Governments, which in turn must transfer 25 percent of their direct tax revenue to the Central Government. The budgetary performances of these governments have therefore differed, with the island Governments benefiting mostly from the rapid growth in oil and offshore taxes, while revenues accruing to the Central Government were rising more slowly (Table 15). As a result the central government deficit, recorded large deficits in 1982-83, in contrast with the large surpluses of the island Governments during that period.

From 1980 to 1983 the island Governments, and especially the island Government of Aruba, accumulated large cash balances with the banking system. At the same time the Central Government financed its financial shortfall mostly from nonmonetary sources, notably by selling treasury paper to the nonbank public, including about NA f. 60 million to the island Governments, and by borrowing from the Social Security Bank and pension funds, mainly by running arrears with these institutions. Altogether the consolidated government was a net supplier of funds to the banking system throughout the period.

Beside some foreign financing 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 consolidated government has been assured almost exclusively from domestic sources. At the end of 1983 the domestic debt of the Central Government was NA f. 350 million.

3. 1984 budgetary developments

The determining factor of the public finance outcome in 1984 was a sharp decline in the tax receipts from the Lago refinery, while at the same time the growth of offshore tax revenue was slowing down considerably. Most other categories of revenue either fell or stagnated, a manifestation of the weakening of the economy. Despite a slowdown of expenditure growth the consolidated deficit widened to NA f. 73 million. While the central government deficit was reduced by half, the Aruba Government experienced a large shortfall, of NA f. 73 million. The surplus of the Curaçao Government was unchanged.

For the first time since 1979 monetary financing of the governments contributed to the increase in net domestic credit. The largest recourse to monetary financing came from the running down of bank deposits by the island Governments.

a. Central Government

As a result of a deterioration in the budgetary situation of the Central Government which had become apparent in the course of 1983, the central authorities undertook a series of expenditure reducing and revenue raising measures which had a significant impact on the 1984 budgetary outcome. A hiring freeze was introduced in 1983 and the cost of living adjustment for civil service wages was suspended. Furthermore, financial transfers to Bonaire and the Windward Islands were restrained. Additional revenue were sought from an increase in the foreign exchange tax rate in September 1983, from 0.8 percent to 1.3 percent, and, toward year-end, from higher excise taxes on gasoline, alcohol and tobacco, and from increases in customs duties on selected imported consumer goods.

In 1984, tax receipts on goods and foreign exchange transactions increased and more than offset a decline in import duties which reflected a lower level of imports (Table 16). Because of a fall in nontax revenue, however, total revenue before revenue sharing dropped slightly. Nevertheless, because the Central Government's net receipts of revenue sharing transfers rose by NA f. 12 million, total net revenue in 1984 were about 3 percent above the 1983 level.

As a result of the personnel cost reduction introduced in the course of 1983 and complemented in 1984 by cuts in fringe benefits, central government operating expenses were stabilized in 1984 at the 1983 level (Table 19). Transfers to public enterprises which had been exceptionally high in 1983 returned to traditional levels. Finally, other categories of expenditure which include payments to Bonaire and the Windward Islands,

transfers to persons, and purchases of goods and services, showed a moderate decline. Consequently, total central government expenditure dropped by an estimated NA f. 25 million.

b. Island Governments

The financial position of the Aruba Government deteriorated sharply in 1984, while that of the Curaçao Government changed little.

On the revenue side, as no significant measures were introduced in the two islands in 1983 and 1984, the fiscal outcome was determined by economic factors, notably by the sharp decline in profit tax receipts from Lago in Aruba and by still buoyant receipts from the offshore sector in Curaçao.

On the expenditure side, little detailed information is available for the island Governments. Total island government expenditure in 1984 is estimated to have increased by about 7 percent, representing a slowdown over the trend of past years. There are indications that this increase was concentrated mostly in the area of transfers to persons and public enterprises, and expenditure on health care and education. Personnel expenses, on the other hand, increased rather moderately.

In Aruba, receipts from the Lago refinery declined by 60 percent to NA f. 48 million, by far canceling an increase in personal direct taxes which reflected higher activity in the tourism industry. Total expenditure of the Aruba Government is estimated to have increased by 11 percent in 1984. Most of this increase was due to higher transfers to persons and enterprises on account of a larger number of unemployed receiving income support payments and of subsidies to the desalination plant. Government operating expenses, on the other hand, were estimated to be roughly unchanged from the 1983 level, partly thanks to a freeze in the hiring of civil servants at the lower echelons and of suspension of the cost of living allowance.

In Curaçao, offshore tax revenue rose by NA f. 58 million to NA f. 350 million (Table 18). This increase more than offset a NA f. 11 million fall in direct personal taxes reflecting declining employment in the oil, trade and metal working sectors. Other categories of taxes were on the whole stagnant. The increase in net revenue after revenue sharing, NA f. 29 million, was sufficient to match increases in expenditure in the area of personnel costs, economic support, transfers to individuals, and greater expenditure for education and health (Table 21).

Table 14. Netherlands Antilles: Summary of Operations of Consolidated Government 1/

(In millions of NA guilders)

	1980	1981	1982	1983	1984 <u>2/</u>
Total revenue	<u>722</u>	<u>907</u>	<u>1,055</u>	<u>1,126</u>	<u>1,100</u>
Oil and offshore profit taxes	163	256	376	457	435
Of which:					
Shell	(28)	(28)	(28)	(28)	(28)
Lago	(35)	(109)	(156)	(129)	(48)
Taxes on personal income	243	292	306	309	307
Of which:					
Wage withholding tax	(198)	(246)	(262)	(268)	(269)
Income tax	(45)	(46)	(44)	(41)	(38)
Taxes on foreign transactions <u>3/</u>	86	102	121	113	110
Other tax revenue	169	174	179	175	184
Of which:					
Other profit tax	(59)	(82)	(75)	(78)	(76)
Taxes on goods and services <u>4/</u>	(63)	(67)	(67)	(73)	(83)
Other taxes <u>5/</u>	(47)	(25)	(37)	(24)	(25)
Nontax revenue <u>6/</u>	61	83	73	72	63
Total expenditure	<u>759</u>	<u>897</u>	<u>1,014</u>	<u>1,142</u>	<u>1,173</u>
Wages	386	453	526	573	583
Transfers to Bonaire and the Windward Islands	21	17	26	23	24
Subsidies to public enterprises <u>7/</u>	43	45	58	95	78
Other expenditure	309	382	404	451	488
Financial balance	<u>-37</u>	<u>10</u>	<u>41</u>	<u>-16</u>	<u>-73</u>

Sources: Tables 16 through 21.

1/ Includes the Central Government and the island Governments of Aruba and Curaçao only.

2/ Estimates.

3/ Import duties and foreign exchange tax.

4/ Central Government excise taxes and gambling licenses and island Government taxes.

5/ Includes other taxes levied by the Central Government and property taxes levied by the island Governments.

6/ Including Curaçao Government stamp duties.

7/ To main public enterprises only, including the National Airline (ALM), the Curaçao drydock company, the desalination plants, public transportation, and hotels.

Table 15. Netherlands Antilles: Summary Operations of the Central Government and the Island Governments of Aruba and Curaçao

(In millions of NA guilders)

	1980	1981	1982	1983	1984 <u>1/</u>
Central Government					
Revenue <u>2/</u>	198	237	275	323	332
Expenditure	244	314	346	387	363
Balance	-46	-77	-71	-64	-31
Aruba					
Revenue <u>2/</u>	140	243	273	244	180
Expenditure	138	153	182	227	253
Balance	2	90	91	17	-73
Curaçao					
Revenue <u>2/</u>	384	427	507	559	588
Expenditure	372	430	486	528	557
Balance	7	-3	21	31	31

Source: Tables 16 through 21.

1/ Estimates.

2/ After revenue sharing transfers.

Table 16. Netherlands Antilles: Central Government Revenue

(In millions of NA guilders)

	1980	1981	1982	1983	1984 ^{1/}
Tax revenue	<u>143.3</u>	<u>163.5</u>	<u>179.8</u>	<u>178.0</u>	<u>185.0</u>
Excise taxes	41.1	44.0	43.0	49.9	59.7
Of which:					
Beer, Liquor and tobacco	(...)	(38.6)	(38.6)	(40.5)	(...)
Gasoline	(...)	(5.3)	(4.4)	(9.4)	(...)
Gambling license	2.4	2.1	1.9	2.1	2.0
Import duties	74.2	86.1	105.2	96.0	90.0
Foreign exchange tax	11.5	15.6	15.8	16.7	20.3
Other taxes ^{2/}	14.1	15.7	13.9	13.3	13.0
Nontax revenue	<u>37.4</u>	<u>42.3</u>	<u>43.9</u>	<u>48.0</u>	<u>38.1</u>
Of which:					
Central bank profits	(6.0)	(8.0)	(6.5)	(15.0)	...
Post office surplus	(10.2)	(31.0)	(11.0)	(11.6)	(10.9)
Total revenue	<u>180.7</u>	<u>205.8</u>	<u>223.7</u>	<u>226.0</u>	<u>223.1</u>
Revenue sharing receipts, net	<u>17.8</u>	<u>31.0</u>	<u>51.5</u>	<u>96.9</u>	<u>109.0</u>
Total revenue including revenue sharing receipts	<u>198.5</u>	<u>236.8</u>	<u>275.2</u>	<u>322.9</u>	<u>332.1</u>

Sources: Bank of the Netherlands Antilles, Quarterly Bulletin; Netherlands Antillean authorities; and staff estimates.

^{1/} Estimates.

^{2/} Consist mostly of property and property transfer taxes and of death, customs service and Central Government stamp taxes.

Table 17. Netherlands Antilles: Revenue of the Aruba Island Government

(In millions of NA guilders)

	1980	1981	1982	1983	1984 ^{1/}
Taxes on income and profits	<u>124.4</u>	<u>213.7</u>	<u>266.2</u>	<u>255.6</u>	<u>184.4</u>
Income tax	11.5	12.6	9.6	7.1	7.9
Wage tax	53.5	70.2	73.3	88.0	94.4
Profit tax	59.4	130.9	183.3	160.5	82.1
Of which:					
Lago	(34.5)	(109.4)	(156.4)	(129.3)	(48.1)
Offshore	(1.5)	(0.4)	(2.1)	(7.3)	(9.0)
Taxes on property	<u>1.8</u>	<u>1.8</u>	<u>0.8</u>	<u>1.2</u>	<u>2.7</u>
Taxes on goods and services	<u>9.1</u>	<u>9.2</u>	<u>9.8</u>	<u>9.6</u>	<u>9.5</u>
Motor vehicle fees	1.3	3.3	3.5	3.7	3.8
Gambling license	4.4	2.9	2.9	2.8	2.6
Hotel room tax	3.4	3.0	3.4	3.1	3.1
Nontax revenue	<u>9.3</u>	<u>21.7</u>	<u>9.9</u>	<u>8.6</u>	<u>10.0</u>
Total revenue	<u>144.6</u>	<u>246.4</u>	<u>286.7</u>	<u>275.0</u>	<u>206.6</u>
Revenue-sharing transfers, net	<u>-4.7</u>	<u>-2.8</u>	<u>-13.7</u>	<u>-31.0</u>	<u>-27.0</u>
Total net revenue	<u>139.9</u>	<u>243.6</u>	<u>273.0</u>	<u>244.0</u>	<u>179.6</u>

Sources: Bank of the Netherlands Antilles, Quarterly Bulletin; Netherlands Antillean authorities; and staff estimates.

^{1/} Estimates.

Table 18. Netherlands Antilles: Revenue of the Curaçao
Island Government

(In millions of NA guilders)

	1980	1981	1982	1983	1984 ^{1/}
Taxes on incomes and profits	<u>340.3</u>	<u>417.0</u>	<u>490.4</u>	<u>588.9</u>	<u>634.0</u>
Income tax	33.3	33.0	34.3	34.2	30.0
Wage tax	144.7	176.3	188.4	180.4	175.0
Profit tax	162.3	207.7	267.7	374.3	429.0
Of which:					
Shell	(28.0)	(28.0)	(28.0)	(28.0)	(28.0)
Offshore sector	(99.0)	(118.9)	(189.8)	(292.2)	(350.0)
Taxes on property	<u>31.3</u>	<u>7.5</u>	<u>21.9</u>	<u>9.4</u>	<u>9.0</u>
Land tax	4.4	5.9	3.7	2.4	2.0
Occupancy tax	0.6	1.1	0.9	1.0	1.0
Bullenbai tax and tank tax	26.3	0.5	17.3	6.0	6.0
Taxes on goods and services	<u>10.7</u>	<u>11.6</u>	<u>12.3</u>	<u>11.7</u>	<u>12.0</u>
Motor vehicle fees	8.8	9.3	9.7	10.1	10.5
Gambling licenses	1.2	0.9	1.7	1.1	1.0
Hotel room tax	0.7	1.4	0.9	0.5	0.5
Stamp duties	<u>14.5</u>	<u>18.9</u>	<u>19.5</u>	<u>15.0</u>	<u>15.0</u>
Total revenue	<u>396.8</u>	<u>455.0</u>	<u>544.1</u>	<u>625.0</u>	<u>670.0</u>
Revenue-sharing transfers, net	<u>-13.1</u>	<u>-28.2</u>	<u>-37.8</u>	<u>-65.9</u>	<u>-82.0</u>
Total net revenue	<u>383.7</u>	<u>426.8</u>	<u>506.3</u>	<u>559.1</u>	<u>588.0</u>

Sources: Bank of the Netherlands Antilles, Quarterly Bulletin;
Netherlands Antillean authorities; and staff estimates.

^{1/} Estimates.

Table 19. Netherlands Antilles: Expenditure of the
Central Government

(In millions of NA guilders)

	1980	1981	1982	1983	1984 ^{1/}
Current expenditure	<u>231.6</u>	<u>308.7</u>	<u>341.2</u>	<u>382.1</u>	<u>357.0</u>
Wages	156.0	193.0	232.0	248.0	248.0
Transfers to Bonaire and the Windward Islands	20.7	17.4	25.0	22.7	24.0
Transfers to households	10.0	10.6	10.0	9.3	9.0
Economic support	2.1	5.6	5.4	27.9	5.5
Other	42.8	82.1	68.0	74.2	70.5
Of which:					
Interest payments	(10.3)	(15.5)	(18.8)	(27.7)	(23.5)
Capital expenditure ^{2/}	<u>12.2</u>	<u>5.1</u>	<u>5.1</u>	<u>5.4</u>	<u>5.5</u>
Total expenditure	<u>243.8</u>	<u>313.8</u>	<u>346.3</u>	<u>387.5</u>	<u>362.5</u>

Sources: Bank of the Netherlands Antilles, Quarterly Bulletin;
Netherlands Antillean authorities; and staff estimates.

^{1/} Estimates.

^{2/} Locally financed capital expenditure only.

Table 20. Netherlands Antilles: Expenditure of the Aruba Island Government

(In millions of NA guilders)

	1980	1981	1982	1983	1984 ^{1/}
Current expenditure	<u>131.2</u>	<u>144.1</u>	<u>173.5</u>	<u>214.0</u>	<u>240.0</u>
Of which:					
Wages	68.2	76.4	89.1	100.0	100.0
Interest payments	7.2	7.4	7.6	7.2	6.8
Capital expenditure ^{2/}	<u>6.9</u>	<u>9.5</u>	<u>7.9</u>	<u>13.0</u>	<u>13.0</u>
Total expenditure	<u>138.1</u>	<u>153.6</u>	<u>181.4</u>	<u>227.0</u>	<u>253.0</u>

Sources: Bank of the Netherlands Antilles, Quarterly Bulletin; Netherlands Antillean authorities; and staff estimates.

^{1/} Estimates

^{2/} Locally financed capital expenditure only.

Table 21. Netherlands Antilles: Expenditure of the Curaçao Island Government

(In millions of NA guilders)

	1980	1981	1982	1983	1984 ^{1/}
Current expenditure	<u>365.9</u>	<u>412.4</u>	<u>472.6</u>	<u>513.0</u>	<u>538.0</u>
Wages	161.4	183.7	204.6	225.0	235.0
Interest payments	14.9	11.8	14.2	13.0	12.0
Economic support	50.0	62.6	76.9	90.0	100.0
Other	139.0	154.3	176.9	185.0	191.0
Capital expenditure ^{2/}	<u>11.1</u>	<u>17.6</u>	<u>13.5</u>	<u>15.0</u>	<u>19.0</u>
Total expenditure	<u>377.0</u>	<u>430.0</u>	<u>486.1</u>	<u>528.0</u>	<u>557.0</u>

Sources: Bank of the Netherlands Antilles, Quarterly Bulletin; Netherlands Antillean authorities; and staff estimates.

^{1/} Estimates.

^{2/} Locally financed capital expenditure only.

III. Money and Credit

1. The framework of monetary policy

Monetary policy in the Netherlands Antilles has traditionally aimed at maintaining the stability of the exchange rate and an adequate level of foreign exchange reserves. No formal quantitative targets are set, but the Bank of the Netherlands Antilles (BNA) is guided in its action by the stated objective of keeping money supply growth broadly in line with that of nominal GNP. In practice, the implementation of such a policy has induced the BNA to closely monitor external developments and domestic credit expansion, tightening its policy at times of excessive domestic demand and mounting external disequilibria (such as in early 1979) and progressively relaxing its stance as the balance of payments moves back into surplus (e.g., from mid-1981). The main instrument employed to this end has been the imposition of ceilings on credit to the private sector, restricting most particularly consumption loans. Such restrictions were first applied in 1970, and have been used frequently since then. To limit monetary financing of the Central Government, a ceiling on the central bank's advances has also been in operation since 1979. Another important instrument, in place since the early 1970s with only minor modifications, has been the definition of limits on the banks' net foreign position. Such limits have been seen to permit a partial insulation of domestic interest rates from external development and to prevent destabilizing turnarounds in capital flows. Finally, outward flows of resident-owned capital are also subject to control, and a system of general licenses is in place. In contrast to the active use of the above instruments, interest rate management has, for its part, been remarkably passive: the official discount rate remained unchanged (at 9 percent) from mid-1979 to early 1983, when it was lowered to 8 percent. The rate acts merely as a signal of the thrust of the authorities' stance and does not directly influence the cost of credit with banks never having had recourse to the discounting facility. Other rates have been similarly very stable: the rate of passbook savings deposits (which account for some 60 percent of the banks' liabilities to the domestic private sector) was established at 5 percent in August 1970 and has remained close to that level ever since; only the rate on time deposits has shown somewhat greater flexibility. The intermediation margin is relatively wide, with a 6 percentage point spread between the rate on savings deposits and the prime lending rate.

2. Monetary policy issues and measures

Although the framework of monetary policy as described above has not substantially changed in recent years, there has been a growing recognition of the problems posed by the attempt to fully shield domestic interest rates from international developments and, most particularly, by the lack of sufficiently attractive domestic outlets in NA guilders. In the past, the existence of restrictions on the banks' net foreign

position had in effect largely insulated domestic interest rates. At times of excess liquidity, the absence of a foreign outlet for their surplus funds meant that commercial banks had no alternative but to place such funds with the Central Bank. Throughout the 1970s, the priority attached to the central bank's profit situation and its importance as a source of government revenue had induced the authorities to pay no or very low interest (rarely over 1.5 percent) on the commercial banks' deposits of excess funds with the Central Bank. Over time, however, the negative effects of such a policy gradually emerged: in the first place, it tended to discourage banks in their attempts to attract deposits, indeed at times inducing them to advise customers to seek a license to transfer funds abroad; secondly, it contributed to widening the spread between deposit and lending rates, since banks had to compensate for the low or nil remuneration of a large portion of their portfolio; thirdly, the maintenance of domestic interest rates considerably below international rates could not but encourage various forms of capital outflows. The authorities consequently decided, in July 1983, to raise the remuneration on commercial banks' adjusted balances with the Central Bank to 5 percent (special interest facility), with "adjusted balances" corresponding to balances in excess of normal working balances, calculated daily. This method was changed in early 1984, with the introduction of a new system, whereby banks could use their surplus funds to purchase one-month certificates of deposit of the Central Bank with a 5 percent yield, on the 1st and 15th of each month. This yield is still, however, relatively low, benefiting only banks whose average costs of funds is below 5 percent, a condition rarely met.

The need to offer residents comparatively attractive outlets in NA guilders also led the authorities to introduce a "special deposits scheme" under which banks were enabled to remunerate large deposits (in practice generally exceeding NA f. 200,000) at internationally-related rates by obtaining from the Central Bank a special increase in their foreign position limit, for the amount of the deposit involved. The interest earned abroad on this amount could thus be passed on in a higher deposit rate offered to the domestic customer. The need to offer sufficiently remunerative domestic financial instruments has been recently reinforced by concerns regarding possible outflows in connection with the considerable injection of liquidity due to occur in March 1985 from the Lago refinery's severance payments (some US\$35 million). The commercial banks would need to be encouraged to attract the funds involved, again raising the issue of offering them a sufficiently remunerative return on their excess reserves with the Central Bank.

Another concern for the conduct of monetary policy has been the existence of fairly large creditor balances of the island Governments with the commercial banks. The monetary authorities attempted in the course of 1983 to attract such deposits to the Central Bank, with the dual aim of achieving a better control over monetary financing of the government sector as a whole, while also siphoning away from the banks

resources of a highly liquid and potentially volatile nature. The transfer has however not occurred, and the authorities remain concerned that the prospectively rapid rundown in the islands governments' still large creditor balances with the commercial banks could put pressure on domestic credit expansion and strain bank liquidity.

3. Recent monetary and credit developments

Developments in the monetary and credit aggregates in 1983 and through the third quarter of 1984 were characterized by a fairly steep decline in monetary growth, while domestic credit expansion remained relatively sustained, with a consequent loss in net foreign assets of some NA f. 100 million between end-1982 and September 1984 (Tables 22 and 23). Money supply growth (M2) decelerated from a rate of 13-14 percent in 1981-82 to only 5.1 percent in 1983 and an annual rate of 4.5 percent in the first three quarters of 1984. The slowdown in the growth rate of the monetary aggregates had already begun in mid-1982, reflecting mainly the sharp fall in inflation, but became clearly sustained in the second and third quarters of 1983, as the tourism industry was severely hit by the Venezuelan bolivar crisis, while activity in key sectors (such as oil refining and transport) also declined. Within the components of M2 (Table 24), the long-term trend away from money to quasi-money gained further momentum, as the growth rate of narrow money contracted most sharply, from a positive rate of 9-10 percent in 1981-82 to a decline of 1.6 percent in the period from end-1982 to September 1984. The comparable rates for quasi-money were 15-16 percent in 1981-82, and a still sustained 15.4 percent in the period from end-1982 to September 1984. These respective growth rates reflected not only a general trend toward economizing on cash balances, ^{1/} but also the fact that, with the slowdown in inflation and unchanged deposit rates, a positive real return appeared on savings and time deposits in the course of 1982, for the first time since 1976. Such deposits consequently continued to grow quite vigorously, at least up to the first quarter of 1984; since then, however, the contraction in money demand has extended to all of its components, and between the second and third quarter of the year M2 actually fell by 1.5 percent.

In contrast, domestic credit continued to grow fairly briskly throughout the period considered, expanding by 10.7 percent in 1983 and by 10.5 percent in the first nine months of 1984. While in 1983 the expansion had been fueled exclusively by the growth of credit to the private sector, due to distress borrowing by the retail trade sector at the time of the Venezuelan bolivar crisis and to a number of large loans to public holding companies and utilities, domestic credit expansion in 1984 has been sustained solely by the growth in claims on government.

^{1/} It should be noted in this respect that, although savings deposits are classified as quasi-money, they may be withdrawn on demand and have a very high turnover. Although they do not offer checking facilities, most depositors use them as, and in lieu of, current accounts.

Monetary financing of the Central Government in the first three quarters of 1984 amounted to NA f. 38 million, with advances from the Central Bank reaching their statutory limit, and the island Governments drew down their deposits by NA f. 74 million over the same period. Such developments have, however, a strong seasonal component, and monetary financing for the year as a whole may be expected to be considerably lower. Credit to the private sector, for its part, rose by only 0.5 percent in the first three quarters of 1984. The limit on consumer credit, imposed in October 1983 in the face of the deteriorating balance of payments situation, was more than respected, with such loans falling by over 7 percent in the first nine months of 1984; business loans stagnated, and only mortgage loans rose marginally (Table 25). Interest rates remained broadly unchanged in the course of 1984 (Table 26).

4. Future monetary arrangements

According to the conclusions of a Round Table Conference (RTC), held in The Hague in March 1983 with the participation of the governments of the Netherlands, the Netherlands Antilles, and the local island Governments, Aruba is to begin to function as a separate country within the Kingdom of the Netherlands (status aparte) as from January 1, 1986. This separate status is envisaged as the first stage in a ten-year transitional period leading to full independence in 1996. In the monetary sphere, the RTC provided for the establishment of a common monetary authority, with the main task of safeguarding the unity of monetary policy and ensuring monetary cooperation between Aruba and the remaining Antilles of the Five. In this regard, the Government of the Netherlands Antilles requested the Fund for technical assistance on a number of issues related to the formation of a monetary union in the Antilles, in the presence of two central banks and two currencies. The Central Banking Department delivered a report on the subject to the authorities in April 1984, covering the implications of the RTC conclusions for monetary cooperation between Aruba and the Antilles of the Five; alternative approaches to the establishment of a common monetary authority, its relationship with the two central banks and its functions; the issues relating to the establishment of a new central bank in Aruba and the distribution of assets and liabilities; and the steps required for issuing an Aruban currency.

Subsequently, a declaration of the Government of the Netherlands Antilles established that all assets and liabilities of the Netherlands Antilles will be divided between Aruba and the Antilles of the Five in a 30:70 ratio, and that Aruba will establish a separate currency unit as from January 1, 1986. Failure to reach agreement on a number of other points of broader political cooperation provided for by the RTC conclusions has, however, since then put into question the creation of a common monetary authority and the very notion of monetary cooperation. The specific monetary arrangements which might govern status aparte are thus presently far from being settled.

Table 22. Netherlands Antilles: Monetary Survey, 1977-84

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

	1977	1978	1979	1980	1981	1982	1983	Sept. 1984
Money and quasi-money (M2) (percent change)	<u>688.7</u> (17.6)	<u>786.5</u> (14.2)	<u>859.4</u> (9.3)	<u>946.7</u> (10.2)	<u>1,067.6</u> (12.8)	<u>1,214.1</u> (13.7)	<u>1,275.5</u> (5.1)	<u>1,318.1</u> (4.0) <u>1/</u>
Counterparts to M2								
Net foreign assets	<u>259.5</u>	<u>181.2</u>	<u>193.7</u>	<u>245.9</u>	<u>342.3</u>	<u>433.0</u>	<u>385.8</u>	<u>330.3</u>
Domestic credit (percent change)	<u>524.9</u> (27.7)	<u>721.0</u> (37.3)	<u>802.7</u> (11.3)	<u>851.6</u> (6.1)	<u>923.2</u> (8.4)	<u>1,007.1</u> (9.1)	<u>1,115.0</u> (10.7)	<u>1,232.1</u> (9.4) <u>1/</u>
Claims on government, net	49.7	104.4	160.6	133.9	61.4	50.3	23.6	135.7
Central government <u>2/</u>	71.6	111.8	93.6	90.2	85.2	136.0	124.5	162.4
Island governments <u>3/</u>	-21.9	-7.4	67.0	43.7	-23.8	-85.7	-100.9	-26.7
Claims on the private sector (percent change)	<u>475.2</u> (16.7)	<u>616.6</u> (29.7)	<u>642.1</u> (4.1)	<u>717.7</u> (11.8)	<u>861.8</u> (20.0)	<u>956.7</u> (11.0)	<u>1,091.4</u> (14.1)	<u>1,096.4</u> (4.3) <u>1/</u>
Miscellaneous other, net	<u>-95.7</u>	<u>-115.7</u>	<u>-136.9</u>	<u>-150.8</u>	<u>-198.0</u>	<u>-225.9</u>	<u>-225.3</u>	<u>-244.3</u>

Sources: Bank of the Netherlands Antilles, Quarterly Bulletin; and data provided by the authorities.1/ Twelve months ending in September 1984.2/ Claims on the central government (net) include Central Bank and commercial bank advances, as well as coins issued by the central government, minus central government deposits (including the special deposits under the Multi-Annual Development Plan).3/ Claims on the island governments are net of their deposits with the Central Bank and commercial banks; consequently, also, M2 does not include the island governments' deposits.

Table 23. Netherlands Antilles: Monetary Survey, 1977-84

(Changes in millions of NA guilders; end of period)

	1977	1978	1979	1980	1981	1982	1983	Sept. 1/ 1984
Money and quasi-money (M2) (percent change)	103.0 (17.6)	97.8 (14.2)	72.9 (9.3)	87.3 (10.2)	120.9 (12.8)	146.5 (13.7)	61.4 (5.1)	51.1 (4.0)
Counterparts to M2								
Net foreign assets	-1.5	-78.3	12.5	52.2	96.4	90.7	-47.2	-51.6
Domestic credit (percent change)	113.9 (27.7)	196.1 (37.3)	81.7 (11.3)	48.9 (6.1)	71.6 (8.4)	83.8 (9.1)	107.9 (10.7)	106.2 (9.4)
Claims on government, net	45.8	54.7	56.2	-26.7	-72.5	-11.1	-26.7	60.6
Central government <u>2/</u>	15.1	40.2	-18.2	-3.4	-5.0	50.8	-11.5	-16.0
Island governments <u>3/</u>	30.7	14.5	74.4	-23.3	-67.5	-61.9	-15.2	76.6
Claims on the private sector (percent change)	68.1 (16.7)	141.4 (29.7)	25.5 (4.1)	75.6 (11.8)	144.1 (20.0)	94.9 (11.0)	134.7 (14.1)	45.6 (4.3)
Miscellaneous other	-9.4	-20.0	-21.2	-13.9	-47.2	-27.9	0.6	-3.5

Sources: Bank of the Netherlands Antilles, Quarterly Bulletin; and data provided by the authorities.1/ Twelve months ending in September 1984.2/ Claims on the central government (net) include Central Bank and commercial bank advances, as well as coins issued by the central government, minus central government deposits (including the special deposits under the Multi-Annual Development Plan).3/ Claims on the island governments are net of their deposits with the Central Bank and commercial banks; consequently, also, M2 does not include the island governments' deposits.

Table 24. Netherlands Antilles: Components of Money and Quasi-money, 1979-84

	1979	1980	1981	1982	1983	Sept. 1/ 1984
(In millions of NA guilders, end of period)						
Money (M1) <u>2/</u>	<u>393.0</u>	<u>403.0</u>	<u>440.8</u>	<u>486.2</u>	<u>483.1</u>	<u>478.3</u>
Notes and coins	137.7	139.1	160.9	167.1	162.6	160.9
Demand deposits	255.3	263.9	279.9	319.1	320.6	317.4
Quasi-money (M2-M1) <u>2/</u>	<u>466.4</u>	<u>543.7</u>	<u>626.7</u>	<u>727.9</u>	<u>792.4</u>	<u>839.8</u>
Time deposits	54.6	69.3	96.4	106.7	136.3	139.5
Savings deposits	411.8	474.4	530.3	621.2	656.1	700.4
Money and quasi-money (M2) <u>2/</u>	<u>859.4</u>	<u>946.7</u>	<u>1,067.6</u>	<u>1,214.1</u>	<u>1,275.5</u>	<u>1,318.1</u>
(Percentage changes)						
Money (M1) <u>2/</u>	6.7	2.5	9.4	10.3	-0.6	-1.5
Quasi-money (M2-M1) <u>2/</u>	11.5	16.6	15.3	16.1	8.9	7.5
Time deposits	(72.8)	(26.9)	(39.1)	(10.7)	(27.7)	(9.8)
Savings deposits	(6.5)	(15.2)	(11.8)	(17.1)	(5.6)	(7.0)
Money and quasi-money (M2) <u>2/</u>	9.3	10.2	12.8	13.7	5.1	4.0

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

1/ Percentage changes are calculated for the twelve months ending in September 1984.

2/ Excluding deposits of the island governments.

Table 25. Netherlands Antilles: Commercial Bank Credit, 1980-84

	1980	1981	1982	1983	1984		
					Q1	Q2	Q3
(In millions of NA guilders; amounts outstanding, end of period)							
Loans to the private sector	707	839	922	1,042	1,013	1,018	1,041
Business loans	499	585	620	746	721	728	749
Consumer loans	104	125	152	138	135	130	128
Mortgages	104	129	150	158	157	160	164
Loans to the public sector <u>1/</u>	9	12	15	13	14	21	20
Total	716	851	938	1,055	1,027	1,039	1,061
(Contributions to growth of total bank credit; in percentage points)							
Loans to the private sector	12.0	18.4	9.8	12.8	10.2	6.9	3.5
Business loans	5.4	12.0	4.1	13.4	11.3	8.8	5.9
Consumer loans	1.2	2.9	3.2	-1.5	-3.1	-3.1	-3.7
Mortgages	5.3	3.5	2.5	0.9	2.0	1.3	1.4
Loans to the public sector <u>1/</u>	-0.6	0.4	0.4	-0.2	-0.1	0.5	0.6
Total	11.3	18.9	10.2	12.5	10.1	7.4	4.1

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

1/ Narrowly defined, i.e., including only loans to central and island governments.

Table 26. Netherlands Antilles: Interest Rates

(In percent per annum; end of period)

	1982	1983	1984		
			March	June	August
Official discount rate	9.0	8.0	8.0	8.0	8.0
Deposit rates					
Passbook savings	5.1	5.1	5.2	5.2	5.2
Time deposits <u>1/</u>	7.1	6.3	6.5	6.5	6.4
Lending rates					
Prime rate	11.4	11.0	11.2	11.2	11.2
Mortgage rate	12.8	12.5	12.4	12.5	12.4
Treasury paper					
3-month paper	7.5	7.25	7.25	7.5	7.5
Effective government bond yield	11.0	10.5	10.7	12.0	11.2
Memorandum item:					
Interest rate differential with U.S. dollar <u>2/</u>	-2.9	-4.0	-4.6	-6.8	-6.1

Source: Bank of the Netherlands Antilles, Selected Monetary Figures (monthly); and IMF, International Financial Statistics.

1/ Deposits of NA f. 10,000, 12 month maturity.

2/ In percentage points; rate on NA guilder time deposits minus London interbank offer rate on 12-month U.S. dollar deposits.

IV. The External Sector

1. The current account

The current account flows (on a cash basis) of the Netherlands Antilles typically show large net imports of merchandise, financed by substantial net exports of services; investment income and private remittances have typically recorded net outflows (Table 27). After sizable current account surpluses in 1981-82, caused partly by rising tax revenues from the oil and offshore sectors, the current account showed a deficit of NA f. 86 million in 1983. This was due to the substantial fall in tourism revenues and merchandise exports ^{1/} caused by the Venezuelan devaluation; the fall in revenues from the refining sector and the rise in revenues from the offshore sector almost cancelled each other (Table 28). In the first three quarters of 1984, a sharp reduction in merchandise imports (Table 29), probably caused by declining economic activity and destocking in the retail sector, together with a stabilization of tourism revenues, has temporarily again strengthened the current account.

Developments in 1984 have seriously depressed the outlook for gross foreign exchange earnings, of which almost 40 percent recently have been accounted for by revenues from the refining and offshore sectors. Firstly, the repeal of the U.S. withholding tax on interest payments to nonresidents in July 1984, reduced the attractiveness of the Netherlands Antilles as a conduit for Eurodollar loans to the United States; this repeal was reinforced by two tax rulings by the U.S. Internal Revenue Service, eliminating the advantage of channeling internal company credits through the Netherlands Antilles. Though bonds already issued will not be affected, it is expected that few new issues will be made, causing tax revenues from the offshore finance companies to fall very substantially by the end of the decade. The decline in these revenues is expected to start during 1986, though a reduction in international interest rates (leading to a refinancing of the loans) could speed up the process. Secondly, the impending closure of the oil refinery in Aruba was announced in October, 1984. This refinery, which is technologically outdated, has already reduced its capacity to the lower level required by the restricted supply of crude oil from Venezuela and will close in March 1985. At the same time the refinery on Curaçao, referring to consistent losses and a low level of capacity utilization, has requested that the minimum tax on its operation (NA f. 28 million) be repealed. These developments make it likely that also the contribution of the refinery sector to future exchange earnings will be minor, having accounted for 17 1/2 percent of gross earnings in 1979-83.

^{1/} A large part of merchandise exports represents free zone sales to tourists and are normally offset on the import side of the balance of payments; the rapid decrease of tourism in 1983 may, however, have caused an involuntary, temporary buildup of inventories.

2. The capital account

The deficit on the capital account, which started in 1981, continued in 1983 and the first three quarters of 1984 (Table 30). The primary reason for the net capital exports is an increase in private capital outflows, which recently have shown a tendency to accelerate; the net outflow during the first three quarters of 1984 was equal to that for the whole of 1983. The increase in net private capital exports in 1983 reflects mainly increased acquisition of foreign securities, importantly by pension funds, possibly in response to the large interest differential in favor of foreign investment together with the stable U.S. dollar rate. ^{1/} The further increase during the first three quarters of 1984 additionally reflects a net decrease in foreign private borrowing abroad, possibly related to the falling economic activity in the Netherlands Antilles.

3. Foreign exchange reserves

After four years of increasing foreign exchange reserves, which at their peak in 1982 corresponded to three months of merchandise imports, total net reserves declined by NA f. 47 million during 1983 (Table 31). However, since imports also declined, reserves still corresponded to some three months of merchandise imports. The decline in reserves continued during the first three quarters of 1984 at virtually the same rate as the decline in imports; in September 1984 the relation between reserves and imports (at an annual rate) remained at almost the same level as by end-1983.

4. The 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 U.S. dollar. The official selling rate is NA f. 1.81 per U.S. dollar, and the Bank of the Netherlands Antilles deals with commercial banks at NA f. 1.80 per U.S. dollar. There is a tax of 1.3 percent on sales of foreign exchange.

This exchange rate arrangement has led to a substantial real appreciation of the NA guilder (see table below). Though data on wage costs are deficient, it appears clear that relative real wages have risen in the Netherlands Antilles in recent years (see Chapter I.4). While the real exchange rate, as measured by consumer prices, thus is estimated to have risen by 25 1/2 percent from 1980 to 1984, the real exchange rate based on wage costs may well have risen by at least 30 percent.

^{1/} To partly offset the effects of the interest rate differential, banks were authorized to offer "special deposits" with more remunerative rates for large deposits; see p. 32.

Change in the Real Exchange Rate 1/

(In percent per annum)

1980	1.3
1981	11.1
1982	5.2
1983	3.2
1984 <u>2/</u>	4.2

Source: Staff calculations.

1/ As measured by exchange rates, corrected for changes in consumer prices, of major trading partners.

2/ Estimate assuming that the real exchange rate for October remains unchanged during the rest of the year.

5. Official foreign debt and debt servicing

The Netherlands Antilles had a relatively small official foreign debt of f. 740.5 million (NA f. 432.5 million) by the end of 1983 (Table 32). In 1979-83, the average annual rate of growth of this debt was 5.6 percent in terms of Dutch guilders in which currency most of it is denominated; in terms of NA guilders the debt burden has therefore increased substantially less. By the end of 1983, service payments on the debt corresponded to 1.2 percent of current account receipts. Service payments are expected to remain almost unchanged in 1984 and to rise in 1985, remaining low relative to foreign exchange earnings, however.

6. Exchange and trade arrangements

A description of the exchange and trade arrangements in the Netherlands Antilles is contained in the Fund's latest Annual Report on Exchange Arrangements and Trade Restrictions. No significant changes in these arrangements had been made by the authorities since the last Article IV mission. 1/ Temporary import quotas, periodically reviewed, are still in force for some locally produced goods like certain beverages, paints, oils and detergents.

1/ See SM/83/226, 11/4/83.

Table 27. Netherlands Antilles: Balance of Payments, 1978-83

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

	1978	1979	1980	1981	1982	1983	Jan.-Sept.	
							1983	1984
Merchandise	-963.0	-1,092.0	-1,363.6	-1,298.7	-1,449.9	-1,406.6	-1,054.2	-877.6
Services	1,055.1	1,233.9	1,445.0	1,568.9	1,674.2	1,439.4	1,086.8	956.1
Investment income	-94.4	-91.8	-97.1	-80.7	-5.9	15.9	6.0	22.2
Private remittances	<u>-47.6</u>	<u>-55.5</u>	<u>-89.0</u>	<u>-94.9</u>	<u>-112.4</u>	<u>-134.5</u>	<u>-98.9</u>	<u>-98.9</u>
Current account balance	-49.9	-5.4	-104.7	94.6	106.0	-85.8	-60.3	1.8
Official capital	61.4	72.8	151.2	111.2	61.8	111.4	53.4	30.3
Private capital	<u>-105.8</u>	<u>-78.5</u>	<u>-18.4</u>	<u>-130.0</u>	<u>-95.0</u>	<u>-123.0</u>	<u>-80.4</u>	<u>-122.8</u>
Capital account balance	-44.4	-5.7	132.8	-18.8	-33.2	-11.6	-27.0	-92.5
Errors and omissions	16.0	23.7	24.1	20.3	18.0	50.2	36.3	35.2
Overall balance	-78.3	12.6	52.2	96.1	90.8	-47.2	51.0	-55.5
Net change international reserves, increase (-)	78.3	-12.6	-52.2	-96.1	-90.8	47.2	51.0	55.5
Of which:								
official reserves	(55.6)	(-10.7)	(-38.5)	(-74.8)	(-89.8)	(38.7)	(46.7)	(76.2)

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

Table 28. Netherlands Antilles: Cash Flow Statement, Inflow

(In millions of NA guilders)

	1978	1979	1980	1981	1982	1983	January-September	
							1983	1984
Merchandise	229.9	237.9	263.0	265.2	208.0	93.4	72.2	107.3
Services	1,244.9	1,475.2	1,724.1	1,923.5	2,042.4	1,833.9	1,385.7	1,210.9
Tourism	490.5	569.7	714.7	785.7	759.4	576.5	449.3	432.9
Refining <u>1/</u>	247.9	298.4	263.2	347.0	513.4	444.2	370.2	249.9
Offshore sector (net)	102.7	114.9	198.5	256.8	332.4	438.8	286.8	310.0
Drydock	62.1	69.5	103.6	97.2	86.3	43.2	39.2	25.0
Storage	152.2	191.0	174.8	183.9	108.2	88.2	67.9	46.9
Other trans- portation	149.8	178.8	214.8	193.1	182.8	180.5	135.8	105.6
Other services	20.4	26.9	25.5	37.0	31.2	37.0	17.3	19.7
Government services	19.3	26.0	29.0	22.8	28.7	25.5	19.2	20.9
Investment income	40.4	51.2	62.2	101.1	116.5	117.0	81.3	85.3
Private remittances	36.1	40.8	47.1	51.4	45.8	40.0	31.3	30.4
Total current inflows	1,551.3	1,805.1	2,096.4	2,341.2	2,412.7	2,084.3	1,570.5	1,433.9

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

1/ Net of oil deliveries for local use.

Table 29. Netherlands Antilles: Cash Flow Statement, Outflow, 1977-83

(In millions of NA guilders)

	1978	1979	1980	1981	1982	1983	<u>January-September</u>	
							1983	1984
Merchandise	1,192.9	1,329.9	1,626.6	1,563.9	1,657.9	1,500.0	1,126.4	984.9
Services	189.8	243.9	279.1	354.6	368.2	394.5	298.9	254.8
Travel	77.6	93.0	104.0	118.0	141.5	193.1	141.6	135.3
Transportation	74.4	98.7	113.3	165.6	153.9	132.3	104.7	76.5
Government n.i.e.	7.9	8.6	12.7	13.4	12.9	6.4	5.5	4.9
Other services	29.9	43.6	49.1	57.6	59.9	62.7	47.1	38.1
Investment income	134.8	143.1	159.3	181.8	122.4	101.1	75.3	63.1
Private remittances	83.7	93.6	136.1	146.3	158.2	174.5	130.2	129.3
Total current outflows	1,601.2	1,810.5	2,201.1	2,246.6	2,306.7	2,170.1	1,630.8	1,432.1

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

Table 30. Netherlands Antilles: The Capital Balance 1/

(Net, In millions of NA guilders)

	1978	1979	1980	1981	1982	1983	<u>January-September</u>	
							1983	1984
Private capital								
Securities <u>2/</u>	-32.0	-23.4	0.2	-57.6	-29.4	-59.1	-42.4	-52.5
Real estate	-3.8	-6.9	3.8	-0.3	-2.5	-9.0	-5.7	-3.8
Loans	10.1	6.8	10.4	2.2	25.4	57.1	39.2	-1.6
Repayments	-46.8	-37.7	-46.7	-28.8	-32.6	-55.9	-36.5	-15.7
Borrowings of								
commercial banks	-9.6	6.5	13.9	4.6	-10.9	-7.2	-16.5	-13.3
Other	<u>-23.7</u>	<u>-23.8</u>	<u>--</u>	<u>-50.1</u>	<u>-45.0</u>	<u>-48.9</u>	<u>-18.5</u>	<u>-35.9</u>
Total private capital	-105.8	-78.5	-18.4	-130.0	-95.0	-123.0	-80.4	-122.8
Government capital								
Foreign aid <u>4/</u>	66.0	87.9	179.1	108.1	82.0	114.0	61.2	47.0
Loan repayments	-15.1	-15.3	-13.8	-11.1	-13.2	-11.2	-6.6	-6.4
Other	<u>10.5</u>	<u>0.2</u>	<u>-14.1</u>	<u>14.2</u>	<u>-7.0</u>	<u>8.6</u>	<u>-1.2</u>	<u>-10.3</u>
Total government capital	61.4	72.8	151.2	111.2	61.8	111.4	53.4	30.3
Capital balance	-44.4	-5.7	132.8	-18.8	-33.2	-11.6	-27.0	-92.5

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

1/ Figures may not sum up due to rounding.

2/ The main part of the net acquisition of foreign securities represents operations of the pension funds in longer-term securities.

3/ Changes in net balances held abroad by residents; including transactions in securities with a maturity of less than one year by the pension funds.

4/ Including the Fund for Social, Educational and Cultural Projects.

Table 31. Netherlands Antilles: Net International Reserves, 1977-83

(In millions of NA guilders, end of period)

	1978	1979	1980	1981	1982	1983	1983		1984	
							II	III	II	III
Total Net										
International reserves	181.2	193.8	246.0	342.3	433.0	385.8	363.9	382.0	364.6	328.6
Commercial banks										
Foreign assets (net)	19.5	21.3	35.1	56.6	57.7	49.1	40.7	53.2	78.2	68.1
Foreign Assets	1,596.5	2,752.6	4,741.4	5,499.3	6,014.2	4,425.9	4,597.6	4,504.8	2,630.4	2,267.0
Foreign liabilities <u>1/</u>	1,577.0	2,731.3	4,706.3	5,442.7	5,956.5	4,376.7	4,572.2	4,467.4	2,557.3	2,196.8
Central bank										
Short-term foreign assets (net)	120.4	131.1	169.9	244.3	334.1	295.9	285.7	289.3	245.5	219.5
Gold										
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 data provided by the authorities.1/ Excluding special borrowings.

Table 32. Netherlands Antilles: Outstanding Funded Debt Toward
the Netherlands and Debt Service Payments, 1978-85 1/

(In millions of Dutch guilders)

	1978	1979	1980	1981	1982	1983	1984 <u>2/</u>	1985 <u>2/</u>
Outstanding debt <u>3/</u>	563.4	580.8	626.3	670.7	713.4	740.5	...	...
Service payments	40.0	41.5	40.3	40.5	44.8	44.3	43.3	55.0
Principal	17.8	17.4	16.1	15.6	19.1	19.6	19.7	31.6
Interest	22.2	24.1	24.2	24.9	25.7	24.7	23.6	23.4

Source: Bank of the Netherlands Antilles, Quarterly Bulletin.

1/ The figures represent the outstanding debt of the Netherlands Antilles as a result of Dutch non-ODA assistance in the form of loans within the scope of the multi-annual plan.

2/ Estimate.

3/ As of December 31.