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Kingdom of the Netherlands, Netherlands Antilles—Recent Economic Developments

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INTERNATIONAL MONETARY FUND
KINGDOM OF THE NETHERLANDS—NETHERLANDS ANTILLES

Recent Economic Developments

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Approved by the European I Department

February 14, 1997

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Netherlands Antilles: Summary Indicators

Social and demographic indicators

Population (end 1994)	202,244
Area (in sq. km.)	800
Population per sq. km	253
Per capita income (1993, in U.S. dollars)	10,850
Life expectancy at birth (years)	
- male	72
- female	78

1992	1993	1994	1995	1996 Est.
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(Percent change)

Selected indicators of economic activity

Nominal GDP 1/	4.3	6.3	4.3	2.7	3.0
Consumer price index (period average)	1.5	1.9	1.9	2.7	3.0
Stay-over tourism (visitors) 2/	3.1	-4.8	10.2	-13.5	-25.7
Cruise tourism (passengers) 2/	-3.1	30.3	3.8	-16.2	-0.4
Unemployment rate (period average, in percent)	13.9	13.6	12.8	13.1	13.7

(In percent of GDP)

Fiscal operations

Central government					
Revenue	10.4	11.9	11.8	11.5	11.8
Expenditure	11.9	12.1	12.2	13.7	13.7
Fiscal balance	-1.5	-0.2	-0.4	-2.1	-1.9
Island government of Curaçao					
Revenue	16.0	19.5	18.5	19.0	19.6
Expenditure	19.5	21.3	23.2	22.1	22.3
Fiscal balance	-3.5	-1.8	-4.7	-3.1	-2.7
General government 3/					
Revenue	26.5	30.8	29.7	30.0	30.8
Expenditure	31.4	32.8	34.8	35.3	35.4
Fiscal balance	-4.9	-2.0	-5.1	-5.3	-4.6

(Percent change)

Money and credit

Net domestic assets	6.9	7.5	19.0	-8.3	8.0
Credit to private sector	4.5	4.7	13.2	2.9	7.8
Net credit to government	47.5	-3.7	37.4	-33.2	-2.4
Broad money	11.1	8.5	8.5	4.6	-3.2

(In percent)

Interest rates

Prime lending rate	12.0	12.6	12.7	12.9	13.2
Deposit rate (passbook)	4.8	4.1	4.0	3.6	3.6
Government bond yield (5-year)	8.6	7.9	8.0	8.3	8.3

Netherlands Antilles: Summary Indicators (continued)

	1992	1993	1994	1995	1996 Est.
(In millions of NA guilders)					
Balance of payments (cash basis)					
Merchandise exports	428	414	429	377	382
Merchandise imports	2,208	2,187	2,369	2,545	2,591
Trade balance	-1,780	-1,773	-1,940	-2,168	-2,209
Current account	-40	-52	-129	-30	-375
(In percent of GDP)	-1.1	-1.4	-3.3	-0.7	-8.9
(Idem, excluding hurricane effect)	...	...	...	-3.8	-4.8
Net official reserves, excluding gold	394	420	321	417	338
(In months of merchandise imports)	2.1	2.3	1.6	2.0	1.6
(Percent change)					
Exchange rates					
Nominal effective exchange rate 4/	1.6	9.6	5.8	-1.4	6.2
Real effective exchange rate 5/	-3.7	2.9	-1.9	-4.4	0.6

Sources: Official publications; data provided by the authorities; and Fund staff estimates.

1/ After 1993, central bank estimates.

2/ For 1996, first three quarters over same period of previous year.

3/ Consolidated budgets of the Central Government and the Island Government of Curaçao.

4/ For 1996, first three quarters over corresponding period of 1995.

5/ For 1996, first quarter 1996 over first quarter 1995.

I. INTRODUCTION

1. The Netherlands Antilles are a federation of five Caribbean islands, that together form one of the three constituent parts of the Kingdom of the Netherlands.¹ Curaçao and Bonaire (the Leeward islands) are close to the Venezuelan coast, while St. Eustatius, Saba and the southern part of St. Maarten (the Windward islands) are located near Puerto Rico. With a population of about 200,000 and an estimated annual per capita income of about US\$11,000, the Netherlands Antilles are among the wealthier islands in the Caribbean. The island of Curaçao accounts for over three quarters of the population of the Netherlands Antilles, and has a considerable degree of fiscal autonomy. Before November 1993, a coalition of political parties sought to increase the autonomy of Curaçao, and obtain *status aparte* within the Kingdom of the Netherlands, similar to Aruba. However, a referendum held in November 1993 showed that a large majority of the population in Curaçao preferred to remain a part of the Netherlands Antilles. A new Central Government took office after the parliamentary elections in February 1994, and its primary goal was to strengthen the "Antillean Nation". In May 1995, the same coalition as that in the Central Government was elected to the Island Government of Curaçao.
2. An analysis of economic developments and policy decision-making are hampered by deficiencies in data on key macroeconomic variables. National accounts data are available only up to 1993, and an accurate estimation of real growth is difficult owing to the lack of price deflators. The recording and reporting of fiscal data are poor, although the problem is being addressed. Until 1995, expenditures were registered in the year they were appropriated rather than when they took place. Preliminary estimates of monetary and balance of payments statistics are published with a lag of 2-3 months, and are subject to substantial revisions.
3. The economic situation has deteriorated significantly since the early 1990s. Economic growth has slackened, mainly reflecting weak investment and a sharp drop in tourist arrivals in 1995-96 due to hurricane damage. The underlying external position has deteriorated progressively, and reserves have fallen to an uncomfortably low level. The major factors behind the deterioration have been occasional slippages in monetary policy and persistently large fiscal deficits that have their roots in a rapid growth of personnel costs. The Government has experienced increasing financing difficulties, and large budgetary arrears have emerged. There has been, consequently, a considerable loss of investor confidence in the Government and the room for non-monetary financing of the fiscal deficit has been virtually exhausted. Thus, with further intensification of fiscal pressures in 1996, adjustment had become unavoidable.
4. Against this background, the authorities formulated in May 1996, with assistance from the Fund staff and financial incentives provided by the Netherlands, an adjustment program

¹The other two parts are the Netherlands and Aruba.

that emphasized correction of the structural problems of the budget, wage restraint, and an appropriately tight credit policy. The implementation of the program had a shaky beginning, but the authorities now have renewed their adjustment efforts so as to return to compliance with the original policy framework for adjustment.

5. The public finances of the Netherlands Antilles have been under increasing strain since the mid-1980s. During 1986-91, the cause of the imbalance was external—a progressive decline in the offshore profits tax base that was not fully compensated by cuts in expenditure. From 1992 onwards, however, the triggering factor was internal. Personnel costs began to rise rapidly, owing to increases in wages, contractual obligations to the pension fund, and the number of civil servants. In addition, there was a court-mandated adjustment in the government wage structure, payments on which were to apply retroactively. Thus, the budget deficit doubled to nearly 5 percent of GDP in 1992, and remained above this level during 1994-95. The government experienced increasing difficulties in financing the deficits, and resorted to arrears, mainly to the pension fund.

6. A further deterioration of the fiscal situation loomed in 1996, but this was averted by corrective policy measures. The emphasis was on addressing the structural weaknesses of the budget and bringing down the deficit on a permanent basis. A major element of the fiscal strategy is the containment of government personnel costs by streamlining the government bureaucracy over a four-year period and introducing a new pay structure for civil servants from January 1998. In the interim, a wage freeze and a hiring freeze have been put into place. To bring about an early significant reduction of the deficit, the policy package also includes the introduction of a sales tax, a reform of the pension system, cuts in investment, efforts to improve cost recovery, and a strengthening of expenditure control procedures. Discretionary measures with an estimated yield of 6.7 percent of GDP were implemented in 1996. However, because of unanticipated shortfalls in revenues, the general government deficit declined to only 4.6 percent of GDP.

7. The aim of fiscal policy in 1997 is to bring down the deficit to 1 percent of GDP. The efforts of 1996 have been followed up with measures with an estimated yield of 2.7 percent of GDP. Major elements of the 1997 package are the introduction of a pay-as-you-file self-assessment scheme for profits tax, a turnover tax in the Windward islands, a new health insurance scheme to recover the costs of treating chronically ill patients, and further cuts on non-wage current expenditures and investment.

8. The stance of monetary policy was tight in the early 1990s, following the introduction of the monetary cash reserve arrangement (MCR), but there were marked lapses in 1994 and 1996.² The lapse in 1994 occurred when the MCR was temporarily replaced by reserve requirements as the main instrument of monetary control. The lapse in 1996 was due to

²MCR is a system under which banks pay a penalty if they exceed their specified credit limit.

several factors: weakness of the credit control mechanism when banks have excess liquidity, special exemptions granted by the central bank, and the possibility for banks to avoid penalties for excessive credit growth by subsequent sale of loan portfolios abroad. In order to increase the effectiveness of monetary policy, modifications to the penalty system and supplementary measures have been introduced with effect from January 1, 1997.

9. The underlying external situation has deteriorated progressively since 1994, though developments in 1995–96 were dominated by the transitional impact of the hurricane damage to St. Maarten. In 1995, the hurricane had a net positive impact on the balance of payments as indemnity insurance payments flowed in; in 1996 its net impact was negative as a result of lost tourism revenues and reconstruction imports. A major factor behind the progressive widening of the underlying current account deficit during 1994–96 was rapidly rising imports, stimulated by a loosening of monetary policy and the large increases in wages. Other important contributory factors were increasing travel abroad by residents, several large one-time increases in investment income outflows in 1995, and a sharp decline in offshore tax receipts in 1996. These negative factors were somewhat offset by a rapid growth in transportation inflows. Inflows of operational earnings of the offshore financial and business sector also surged in 1995 and were maintained at this level in 1996. The capital account has steadily improved, with the private capital balance recording rising surpluses since 1993. In particular, private capital inflows received a sharp boost in 1996 from the special foreign borrowing and sale of loan portfolios abroad by commercial banks. Nevertheless, on account of the extremely large current account deficit, official reserves at end-December 1996 are estimated to have declined to the equivalent of 1.6 months of imports, from 2 months in 1995 and 2.3 months in 1993.

II. REAL SECTOR DEVELOPMENTS

A. Introduction

10. The main sources of income in the Netherlands Antilles are tourism and the international financial and business (offshore) sector, followed by oil refining and transportation. The relative importance of the various sectors in value-added in 1993 is provided in Table 1, and the components of aggregate demand are shown in Table 24.³

11. In the absence of national accounts data for recent years, some indications on economic activity can be inferred from developments in tourism and from business surveys. Tourism declined in 1995, as a result of hurricane damage to St. Maarten, and remained depressed in

³In the Antillean national accounts, the activities of the oil refinery (leased to PDVSA, a Venezuelan company) are not included in GDP. Instead, wage payments to Antillean workers in the refinery are included as net factor income from abroad.

1996, as a few major hotels remained closed. In Curaçao, the number of retail closures increased sharply in 1996, and business surveys suggest that sales of small enterprises stagnated in nominal terms. According to the Chamber of Commerce and Industry, private investment has fallen since 1994, as investible resources of enterprises were lowered by the collection drive for back taxes, and because of uncertainties regarding government policies. On this basis, the authorities estimate that there was little or no growth in real economic activity in 1995 and 1996.

Table 1. Netherlands Antilles: Composition of GDP, 1993
(In percent of total)

Enterprises	82.3
Agriculture	0.9
Manufacturing	6.0
Utilities	3.6
Construction	6.6
Hotels and restaurants	5.0
Trade	20.2
Transport, storage, and communication	13.3
Financial and other commercial services	22.9
Public and personal services	9.7
Minus interest margin banks	6.0
Government	17.7

Source: CBS, *Nationale Rekeningen*.

B. Sectoral Developments

Tourism

12. Tourism is an important pillar of the Antillean economy, with a share in GDP of about 15 percent.⁴ St. Maarten is the most important tourist destination, hosting about 67 percent of all stay-over tourists, followed by Curaçao (25 percent), and Bonaire (7 percent). There is also considerable amount of cruise tourism, though revenues from it are much smaller than from stay-over tourism. While no detailed figures exist, some estimates put annual gross

⁴The share of tourism has been approximated by adding the share of hotels, restaurants, and half the share of trade.

revenues from cruise tourism at NA f. 50-100 million, compared with about NA f. 900 million from stay-over tourism.

13. **Stay-over tourism** grew rapidly in the late 1980s, but tapered off after 1992 (Table 25 and Charts 1 and 2). The overall trend is dominated by developments in St. Maarten. Bonaire, a popular diving spot in the Caribbean, and a promotor of eco-tourism, has seen its number of tourists more than double since 1986. The development of the tourism infrastructure in Curaçao led to a rapid increase in tourism arrivals in the late 1980s, but in recent years room capacity has been a major constraint to growth.

14. In September 1995, two successive hurricanes struck the Windward islands, destroying much of the tourist infrastructure in its wake. During the last four months of 1995, tourist arrivals in St. Maarten alone were down by nearly 75 percent compared with the same period in 1994.⁵ The authorities estimate that, overall, the cost of the hurricane in terms of lost earnings from tourism in 1995 was about NA f. 100 million. The recovery process during 1996 was hampered by the fact that several large hotels in St. Maarten remained closed. Thus, the number of tourists in St. Maarten in June 1996 was still 27 percent less than in June 1995.

15. The growth in visitors nights was somewhat faster than the growth in tourists. In 1995, the average number of nights spent by stay-over tourists was 7.8 in Curaçao, and 6.4 in Bonaire. No data on visitor nights exist for St. Maarten.

16. After posting double digit growth rates in the total number of **cruise passengers** in the second half of the 1980s (53 percent cumulative growth between 1986-1990), cruise tourism stabilized in the early 1990s (Chart 3). In 1993, there was another big jump, when the total number of passengers rose by 30 percent. The number of cruise tourists declined in 1995 as a consequence of the hurricanes, and remained depressed during 1996. The number of **cruise calls** has declined in recent years, and seasonality has become more pronounced, as competition from cruises to other parts of the world (Alaska in winter, the Mediterranean in summer) has become more intense. However, the effect of this has been mostly offset by an increase in the size of cruise ships.

17. The **geographical base** from which tourists have been drawn has widened substantially in recent years. In St. Maarten, the predominance of North American tourist has lessened considerably, and the importance of those from the Caribbean and Latin America has increased. In Curaçao, the relative importance of tourists from the Netherlands has increased at the expense of those from South America (Table 26 and Chart 4).

18. The financial position of the hotel sector in the Netherlands Antilles has been poor in recent years. A report on the performance of the accommodation sector in Curaçao published

⁵For the Netherlands Antilles as a whole, this translated to a decline of almost 50 percent.

- 11 -
CHART 1
NETHERLANDS ANTILLES
Real Sector Developments

Source: Bank van de Nederlandse Antillen, Quarterly Bulletin.

CHART 2
NETHERLANDS ANTILLES
Stay-Over Tourism
(Arrivals, in Thousands of Persons)

Source: Bank van de Nederlandse Antillen, Quarterly Bulletin.

- 13 -
 CHART 3
 NETHERLANDS ANTILLES
 Cruise Passengers
 (In Thousands of Persons)

Source: Bank van de Nederlandse Antillen, Quarterly Bulletin.

CHART 4
NETHERLANDS ANTILLES
Geographic Distribution of Tourist Arrivals
(In percent of total)

Source: Bank van de Nederlandse Antillen, Quarterly Bulletin.

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in January 1997 shows that during 1992–95, the hotel sector as a whole made losses each year. The average annual loss on a room basis is estimated at about US\$3,200.

Financial and offshore sector

19. The financial and other commercial services sector is the largest contributor to value added in the Netherlands Antilles, with an estimated share of about 23 percent in 1993. The offshore sector is an important segment, though no separate data are available on its impact on economic activity. However, it is possible to extract some information on trends in this sector from balance of payments estimates. There was an exceptionally strong growth in operational earnings of the offshore sector in 1995, because of changes in regulations in major industrial countries regarding local substance requirements for offshore registered firms. The higher level of inflows was maintained in 1996 (see Chapter V). It may be noted, however, that even though gross operational inflows are large, its net impact on the economy is lower to the extent that there are operational outflows.

20. The origins of the offshore sector date back to the Second World War, when Dutch companies migrated to the Netherlands Antilles which acted as a safe haven. The sector gained an important fillip from a bilateral tax agreement signed with the United States, which provided the incentive for American companies to float Eurobonds through the Netherlands Antilles. This activity subsequently became an important source of tax revenue. However, tax revenue from this sector has experienced a long-term structural decline as a result of the repeal of the United States withholding tax in 1984, and certain provisions of the tax treaty with the United States in 1988 which diminished the attractiveness of the jurisdiction for American firms. The sector has been relatively slow to diversify its geographical base, and primarily relies on Dutch companies and pensioners seeking tax shelter. A variety of different institutions now combine to make up the offshore sector, including banks (at the end of 1995, forty-one commercial banks were in operation),⁶ accounting and consulting firms, and legal and notary offices. Despite the sector's contribution to GDP, it has very few employees. Although no reliable figures exist, estimates put the number of employees in the offshore sector at between 2,000 and 3,000.

21. Two major pieces of legislation will significantly affect the operation of the offshore sector in the Netherlands Antilles. An amended tax treaty (BRK) with the Netherlands, currently awaiting parliamentary approval there, will reduce the incentives for Dutch corporations to move their legal domicile to the Netherlands Antilles. A new fiscal framework law, based on rules and laws of other accepted offshore sectors, is being developed, in order

⁶Sixteen of those institutions are consolidated banks that are subject to the consolidated supervision of the home country supervisor.

to change the negative image of the Netherlands Antilles.⁷ In any event, competition from other Caribbean jurisdictions has become increasingly fierce in recent years, adding to the uncertainty that pervades the sector.

Transport sector

22. The national airline (ALM) carried approximately 2 percent more passengers in 1994 and almost the same number in 1995, while cargo shipment declined for the sixth consecutive year (down 11 percent on 1994). Fewer tourists, especially to the free zone, may account for the lackluster performance. Indications are that both passengers and cargo transported by ALM have increased by over 10 percent in the first three quarters of 1996. The airline has accumulated substantial losses. The management was replaced in 1995 and a new business plan for 1995–98 is being implemented to put the airline on a more solid financial footing. Notable measures include a freeze of personnel at the end-1995 level, a reduction of maintenance and overhaul costs, a renegotiation of labor contracts, and a cancellation of pension premium payments for two years.⁸

23. In 1993, the Curaçao Drydock Company (CDM) experienced a severe financial crisis. Economic developments abroad and a loss of competitiveness led to a liquidity shortage and looming bankruptcy. The Island Government of Curaçao, which is the main shareholder, decided to restructure the company's operations, dismissed all employees, and instituted a new management team with the task to keep operations going with a largely reduced permanent workforce, supplemented by contract labor as needed. Following this restructuring, ship repair activities have increased significantly—the number of ships repaired increased by 7 percent in 1995—and profitability has been restored.

24. Within transportation are included transshipment and bunker/storage services for oil, water and cargo. Oil transshipment, much of which is concentrated in St. Eustatius, grew strongly in 1994–95, by 26.1 percent and 51.9 percent respectively. Indications for 1996 suggest that transshipment of non-oil products has fallen as a result of structural changes in the routing of shipping lanes; bunker services have performed quite strongly; and oil transshipment and storage have been broadly flat.

25. ISLA, the oil refinery in Curaçao, has gone through a period of upheaval during the 1990s. A new collective bargaining agreement, signed in October 1991, led to a sharp increase in labor costs in 1992. In order to maintain the economic viability of the refinery, management instituted a cost reduction program, including a reduction of the number of employees, more

⁷Details of money laundering legislation are presented in Chapter IV, below.

⁸A system of “hub and spoke” inter-connecting regional flights has been introduced, further enhancing efficiency.

productive work practices and a review of relations with outside contractors. After three consecutive years of declining production, output has been rising again from 1995, and operational effectiveness has improved.⁹ In the fall of 1994, a new 20-year lease was signed with PDVSA, the Venezuelan state oil company, for operating the refinery. This agreement includes an investment program totaling US\$320 million over seven years.

C. Price Developments

26. Inflation has been relatively low in the Netherlands Antilles, reflecting the openness of the economy and the fixed exchange rate with the US dollar. For all islands combined, consumer price inflation increased from 1.4 percent in 1992 to 2.7 percent in 1995, and 3 percent in the first three quarters of 1996. There has been some small variation in inflation among the different islands. During 1996, inflation edged up in Curaçao, but eased in St. Maarten. Calculations by the Central Bureau of Statistics indicate that the introduction of the sales tax in Curaçao in July raised prices by about 1 percentage point.

27. Price controls remain in effect for a variety of items, mostly on food and basic health care products and services; using the new weights that are based on a household budget survey conducted in 1994–95, these items account for around 9 percent of all goods in the consumer price index. Nonetheless, food prices have increased at a faster rate than the overall consumer price index (Table 27).

D. Labor Market Developments

28. It is difficult to analyze trends in employment and wages due to the absence of reliable data. The Central Bureau of Statistics conducts an annual survey of trends in the labor market. This survey is restricted to Curaçao and does not provide a breakdown of employment in the private and public sector. Since government employment is measured rather imprecisely and no breakdown is available for the different islands, only general labor market trends can be discerned.

29. The number of employed persons in Curaçao expanded quite strongly in the early 1990s, in line with a decline in the number of unemployed and a steady expansion of the population on the island. Unemployment, which had reached very high levels in the second half of the 1980s, declined steadily from the late 1980s through 1994, when it stood at

⁹The cost of refining per barrel has been brought down from US\$2.60 to US\$2.30 between 1995 and 1996. The estimated break-even point is below US\$2.00.

12.8 percent. Overall labor market participation also tended to rise, and reached 42.7 percent of the working-age population in 1994, with the participation rate for women rising faster than that for men.

30. Most labor market trends in Curaçao were reversed in 1995, with the overall unemployment rate rising to 13.1 percent and the overall participation rate declining to 41.6 percent. Whereas the population is estimated to have increased by close to 2 percent (about 3,000 persons), the labor force actually declined (by about 500 persons), suggesting a significant increase in the nonactive adult population. Perhaps, the most disconcerting aspect of recent developments is a sharp rise in the youth unemployment rate from about 28 percent in 1994 to nearly 31 percent in 1995.

31. Given the uncertainty surrounding government employment figures and the absence of a time series on employment at public enterprises, it is very difficult to assess employment trends in the private and public sectors separately. The available data indicate a strong rise in employment at the Central Government during 1993–95—the increase being around 8 percent to 12 percent. The current number of Central Government employees is estimated by different sources at between 4,600 and 4,900 in 1995. At the level of the Island Government of Curaçao, there has been a similar rising trend in employment: the total number of employees is estimated to have increased by 5 percent between 1993 and 1995 to about 5,650 persons. Employment in public sector enterprises stood at around 4,600 employees in 1995.

32. There are no reliable data on wage developments in the private sector. Some evidence can, however, be gauged from developments in minimum wages. As Table 28 indicates, minimum wages are differentiated across islands and sectors. Currently, the lowest minimum wage is applicable to household personnel in Bonaire (NA f. 444.40 per month); and the highest is for workers in categories 1, 2, and 3 in St. Maarten (NA f. 1,100 per month). There have been several increases in the minimum wage in all sectors and on all islands over the past four years. In January 1996, the government increased the minimum wage for workers in most categories in Curaçao and Bonaire. The Government intends to harmonize minimum wages across different categories over the medium term.

III. FISCAL POLICY

A. Introduction

33. For the purposes of coverage in the Article IV consultation, the general government is defined to comprise the Central Government and the Island Government of Curaçao. The island governments of Bonaire and the Windward islands are excluded because of their relatively small size and the absence of detailed and consistent information. Development aid from the Netherlands and the European Union, and the associated expenditures, are not a part of the budget (Box 1).

34. Within the General Government, the Island Government of Curaçao has a considerable degree of fiscal autonomy. It levies and collects some of its own taxes, and it is also allowed to borrow. Tax collection authority is divided between the Island Government and the Central Government: the Island Government collects all direct taxes, whereas most indirect taxes are collected by the Central Government (for a description of the tax structure see Appendix I). Notwithstanding this division, a portion of tax revenue is redistributed between the two levels of government. The so called ERNA¹⁰ arrangements provide that the Island Government must transfer 25 percent of direct tax receipts (income, wage, and profits taxes) to the Central Government, and the latter must transfer 50 percent of indirect tax receipts (excises and import duties) that are collected in Curaçao to the former.¹¹ The smaller islands do not take part in the ERNA arrangements. They do, however, receive contributions from the so-called "Solidarity Fund" which is jointly financed by the Central Government (55 percent), Aruba (25 percent)¹² and the Netherlands (20 percent).

35. Deficiencies in the fiscal data of the Netherlands Antilles make its analysis more difficult. Several problems exist. First, until 1995, expenditures were being registered in the year that they were appropriated rather than when they took place. As this practice was changed in 1996, figures for 1996 and 1997 are not directly comparable with those for earlier years. Second, as no importance was attached to monitoring actual fiscal developments, accounts were available only with considerable lags, and budgets were based on previous budgets, rather than on realizations. Third, fiscal accounts are likely to understate the deficit, as in recent years considerable, partly unregistered, arrears have built up. However, significant steps have been initiated by both levels of government during the last year to improve budgetary planning, cash management, and expenditure monitoring and reporting. The Island Government has automated its system of accounts to obtain fuller and more timely information on the expenditure commitments of various agencies. For the Central Government, a recent study has highlighted the need to strengthen the manpower and expertise of the Finance Department; assistance from the central bank and the Netherlands is being received on a temporary basis to alleviate the problem.

¹⁰Eilanden Regeling Nederlandse Antillen, or Islands Arrangements of the Netherlands Antilles.

¹¹In recent years, however, these arrangements have been replaced by ad hoc arrangements.

¹²Until 1986, Aruba was part of the Netherlands Antilles. One of the preconditions for obtaining status aparte was that Aruba would continue to participate in financing the Solidarity Fund.

Box 1. Development Aid

In recent years, the Netherlands Antilles has received some NA f. 100 million (2½ percent of GDP) per year in development aid (Table 29). The majority of this funding has come from the Netherlands, while a small amount has been provided by the European Union. Development aid from the Netherlands is provided through two funds: the multi-year-plan fund, which is mainly used to finance a variety of investments, and the fund for social, cultural, and educational projects. In recent years, large shares of funds from the multi-year-plan have been spent on education and housing (Table 30). Development aid from the Netherlands is currently fully in the form of grants; until 1992, part of development aid was in the form of concessionary loans. Development aid from the European Union is channeled through the European Development Fund, and is mainly used to finance investments in the tourism sector (Table 31).

B. Developments During 1986–95

36. The public finances of the Netherlands Antilles have been under increasing strain since the mid-1980s. Fiscal developments in this period can be divided in two distinct phases: 1986–91, and 1992–95. During the first phase, the main cause of the fiscal imbalances was external—a progressive decline in the offshore profits tax base that was not fully compensated for by cuts in expenditure. In the second phase, however, the triggering factor was internal. Expenditures, especially personnel costs, rose rapidly, while the revenue/GDP ratio remained roughly flat (Chart 5).¹³

37. Following the repeal in the United States in 1984 of the withholding tax on interest payments to non-residents, there was a large progressive decline in offshore tax receipts, from about 18 percent of GDP in 1986 to about 6 percent in 1991 (Table 2). At the same time, there was a deterioration in the levying and collection of profits and income taxes, and long delays became common. In response to the decline in revenues, expenditures were cut back in all categories. A major emphasis was placed on reining in personnel costs. The number of civil servants was reduced, and pay entitlements such as periodic wage increases, vacation allowances, and indexation of wages to inflation were suspended. Capital transfers to public enterprises were also reduced substantially. Nevertheless, the deficit increased from 0.2 percent of GDP in 1987, to 2.3 percent in 1991.¹⁴

¹³Until 1986, Aruba was part of the Netherlands Antilles. Thus, figures before 1986 are not directly comparable with later years.

¹⁴The budget balance for 1986 showed a surplus due to several one-time revenues, associated with the closure of the Shell refinery in that year.

Operations of the General Government (In Percent of GDP)

Source: Data provided by the authorities.

Table 2. Netherlands Antilles: General Government Revenue and Expenditure, 1986-97
(In percent of GDP)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996 Est	1997 Proj.
Total revenue	40.0	35.4	33.2	28.4	27.2	26.8	26.5	30.8	29.7	30.0	30.8	31.7
Tax revenue	36.5	32.1	29.7	25.9	23.5	22.8	22.3	24.9	24.7	24.9	26.1	27.2
Direct taxes	29.1	24.1	21.6	18.5	15.3	14.5	13.9	15.9	15.6	15.9	15.8	15.6
Profits tax	20.2	16.4	14.2	11.8	8.9	8.1	6.8	7.7	7.3	7.3	6.4	6.7
Offshore	18.2	14.2	12.7	9.9	7.2	6.3	5.2	5.3	4.7	4.0	3.2	2.7
Domestic	2.0	2.2	1.5	2.0	1.7	1.7	1.6	2.4	2.6	3.3	3.2	3.9
Income tax	1.3	1.3	1.2	1.3	0.5	0.9	1.1	1.4	1.2	1.0	1.2	1.3
Wage tax	7.6	6.4	6.2	5.4	5.9	5.5	6.0	6.8	7.2	7.6	8.2	7.6
Indirect taxes	7.4	8.0	8.1	7.4	8.2	8.2	8.3	9.0	9.1	9.1	10.3	11.6
Excises	3.4	3.5	3.2	3.0	3.0	3.1	3.2	3.0	2.9	2.8	3.3	3.6
Import duties	2.1	2.1	2.3	2.0	2.6	2.6	2.7	3.6	3.7	3.6	3.5	3.3
Sales tax	--	--	--	--	--	--	--	--	--	--	1.0	2.5
Other taxes	2.0	2.4	2.6	2.4	2.6	2.5	2.4	2.5	2.5	2.6	2.4	2.2
Nontax revenue 1/	3.5	3.3	3.6	2.5	3.6	4.0	4.2	5.9	5.0	5.0	4.8	4.5
Total expenditure	37.9	35.6	33.4	30.6	30.1	29.1	31.4	32.8	34.8	35.3	35.4	32.8
Current expenditure	33.1	32.6	31.7	28.9	27.9	27.7	30.3	31.3	33.6	33.9	34.1	30.9
Wages and salaries	16.5	15.8	15.8	13.5	13.2	13.3	15.0	16.5	16.5	17.0	17.9	15.1
Excluding pension premiums	13.5	12.7	12.0	10.0	10.0	10.1	11.6	12.2	12.0	12.8	13.8	11.1
Pension premiums	2.9	3.1	3.8	3.6	3.2	3.2	3.5	4.4	4.4	4.2	4.1	4.0
Interest payments	1.7	1.8	2.0	1.5	1.7	1.8	2.0	1.9	2.8	2.8	3.1	3.5
Other current expenditure 1/	14.9	15.0	13.9	13.9	13.0	12.7	13.2	12.8	14.3	14.2	13.1	12.3
Capital expenditure	4.8	2.9	1.8	1.7	2.2	1.3	1.1	1.5	1.3	1.3	1.4	1.3
Investment	1.3	1.0	1.2	1.2	1.3	1.2	0.8	1.4	1.1	1.5	1.1	0.7
Capital transfers and net lending	3.5	1.9	0.5	0.6	1.0	0.1	0.4	0.1	0.1	-0.2	0.2	0.6
Balance	2.1	-0.2	-0.2	-2.2	-3.0	-2.3	-4.9	-2.0	-5.1	-5.3	-4.6	-1.1
Sinking fund contributions	--	--	--	--	--	--	--	--	--	--	--	0.9
Balance including sinking fund contributions	2.1	-0.2	-0.2	-2.2	-3.0	-2.3	-4.9	-2.0	-5.1	-5.3	-4.6	-2.0

Sources: Data provided by the authorities; and Fund staff estimates.

1/ Net of ERNA transfers between different levels of government.

38. The adjustment during 1986–1991 was in large part reversed during 1992–95. Most current expenditure categories rose, with the strongest contribution coming from personnel costs. Wages rose sharply in 1992, when, after a series of strikes, the government conceded a 14 percent increase in the average compensation of civil servants, and reinstated the secondary pay benefits. In the same year, and following a judicial decision, the salary discrepancy between males and females as well as between married and single government employees was eliminated. A court decision in late 1994 ordered this pay equality adjustment retroactive to 1986, which the government began to settle in installments from 1995. The number of civil servants also rose rapidly, and by 1995 the reduction of the late 1980s had been almost fully undone. At the same time, pension premiums increased, due to a shift in the way civil servants' pensions were financed: there was a progressive shift from pay-as-you-go financing to capital funding during 1990–94, causing premiums to be brought forward in time.¹⁵ Expenditures on goods and services also increased, related to a surge in health care costs and poor expenditure control. Interest payments went up as a result of high deficits, and because of the regularization of outstanding arrears to the civil servants' pension fund, APNA.

39. In order to cope with the increase in expenditures, several revenue enhancing measures were taken in 1993. Import duties were increased by 6 percentage points, domestic profits tax rates were increased by 5 percentage points, and income and profits tax collection efforts were re-invigorated. As a result, tax revenue increased by 3.7 percentage points of GDP. Reflecting this effort, the general government deficit, which had more than doubled to nearly 5 percent of GDP in 1992, declined to 2 percent of GDP in 1993. However, as expenditure continued to grow strongly, the reduction in the deficit was only temporary. The deficit shot back up to about 5 percent of GDP in 1994, and edged up slightly in 1995 (Tables 32 and 33).

40. Deficits of the Central Government have been lower than those of Curaçao, though the trends for both have been similar (Tables 34 and 35). As a ratio to GDP, the Central Government's deficits during 1992–95 ranged between 1.5 percent and 2.1 percent; and those for the Island Government between 3.5 percent and 4.7 percent. The sizes of the deficits of both levels of government are influenced by the level of ERNA transfers. These transfers had stopped in 1989, but were resumed in 1993, when, following the increase in import duties, the Central Government started to make transfers to the Island Government. During 1993–95, the Central Government has made annual transfers of about NA f. 22 million.¹⁶ This amount was,

¹⁵For a more extensive discussion of the civil servants' pension system, see paragraphs 72–80.

¹⁶In the 1980s, the ERNA arrangements entailed a sizable (monthly) net payment from the Island Government of Curaçao to the Central Government. Faced with increasingly severe liquidity constraints, the Island Government stopped the monthly transfers to the Central Government from October 1989. Between 1989 and 1993, direct tax revenue as a percentage of GDP declined by about 2 percentage points, while indirect tax revenue increased by

(continued...)

however, not based on application of the ERNA-formula, but, rather an ad hoc arrangement between the Central Government and the Island Government.

41. Both levels of the government experienced increasing difficulties in financing the deficits, and resorted to arrears. Slightly over 40 percent of the cumulative deficit of the general government during 1992–95 was financed through arrears to the civil servants' pension fund (Table 36).¹⁷ One half of the arrears was subsequently converted into long-term loans and zero coupon bonds. Because APNA has reached its debt exposure limits to the government, negotiations are going on to settle the remainder through a land swap. An audit of the Island Government of Curaçao conducted in mid-1995 showed that considerable arrears to suppliers—especially government enterprises had also been incurred.¹⁸ Following the release of the audit reports, the willingness of banks and non-bank financial institutions to hold government securities decreased. This caused a marked decline in net bank credit to the government.

42. Consecutive years of large budget deficits led to a rapid increase in outstanding government debt (Table 3). At the end of 1995, general government debt amounted to about 58 percent of GDP, of which two thirds was domestic debt.¹⁹

¹⁶(...continued)

virtually the same amount. Thus, when ERNA transfers were resumed, they entailed a transfer from the Central Government to the Island Government, rather than the other way around.

¹⁷In 1993, almost NA f. 300 million of arrears of the Island Government was converted into a zero coupon bond; in 1995 the Central Government converted NA f. 86 million of arrears into a long-term loan.

¹⁸For instance, the Island Government had arrears of NA f. 50 million to Kodela, the water and electricity distribution company. The audit did not determine when these arrears were incurred.

¹⁹According to the report of the "Debt Commission Netherlands Antilles and Aruba"—which was chaired by former OECD secretary-general Emile van Lennep and published in January 1996—on June 30, 1995, the combined domestic debt of the Central Government and the Island Government of Curaçao amounted to NA f. 2,272 million (57.4 percent of GDP). The differences from the figures shown in Table 3 mainly reflect higher debt of Curaçao and can be explained as follows. First, the debt commission included in the debt to APNA the interest on the zero coupon that has not yet accrued. Second, for the debt to the monetary sector, gross debt rather than net debt was taken. Third, the debt estimate included all floating debt. Fourth, part of the arrears that existed at end-June were paid off in the second half of 1995.

Table 3. Netherlands Antilles: General Government Debt, 1990-96
(In percent of GDP)

	1990	1991	1992	1993	1994	1995	1996 Est.
Central Government							
Total debt	22.1	21.3	21.5	20.7	21.0	22.5	22.7
Domestic debt	13.3	12.1	13.5	14.0	14.5	16.0	16.4
Monetary sector 1/	2.1	1.9	3.3	2.6	3.0	2.5	1.6
Central bank	1.7	1.3	1.3	0.3	0.9	1.1	...
Commercial banks	1.0	1.3	1.7	2.1	1.9	1.1	...
Giro Curaçao	-1.0	-1.0	-0.1	-0.1	-0.1	--	...
Coins and notes	0.4	0.4	0.4	0.3	0.3	0.3	...
Non-monetary sector 2/	11.2	10.2	10.2	11.4	11.5	13.5	14.8
Arrears to APNA	1.3	0.2	0.3	0.8	1.4	0.1	--
Retroactive payments bonds	--	--	--	--	--	--	0.4
Other domestic debt	10.0	10.0	9.9	10.6	10.1	13.3	14.4
Foreign debt	8.8	9.2	8.0	6.8	6.5	6.5	6.3
The Netherlands	7.9	8.4	7.3	6.2	5.9	5.9	5.8
European Union	0.9	0.8	0.7	0.6	0.6	0.6	0.6
Island Government of Curaçao							
Total debt	21.9	23.4	25.1	24.7	29.4	35.4	36.7
Domestic debt	7.6	10.6	13.5	14.8	18.7	24.4	26.0
Monetary sector 1/	1.5	3.1	3.6	3.6	4.6	3.1	3.5
Central bank	-0.3	-0.5	-0.5	-0.4	-0.4	-0.4	...
Commercial banks	-0.5	1.2	2.4	2.3	2.6	1.7	...
Giro Curaçao	2.3	2.4	1.6	1.7	2.5	1.8	...
Non-monetary sector 2/	6.1	7.5	10.0	11.1	14.1	21.2	22.5
Arrears to APNA	4.2	5.6	7.5	0.7	1.7	3.6	3.7
Retroactive payments bonds	--	--	--	--	--	--	0.9
Other domestic debt	1.9	1.9	2.5	10.4	12.3	14.8	16.4
Arrears to public enterprises	...	...	...	...	...	2.0	0.8
Other arrears 3/	...	...	...	...	...	0.8	0.6
Foreign debt	14.3	12.8	11.6	9.9	10.7	11.0	10.7
The Netherlands	14.3	12.8	11.6	9.9	10.7	11.0	10.7
General Government							
Total debt	44.0	44.7	46.6	45.4	50.5	57.9	59.4
Domestic debt	20.9	22.7	27.1	28.7	33.2	40.4	42.4
Monetary sector 1/	3.6	5.0	6.8	6.2	7.6	5.6	5.1
Non-monetary sector 2/	17.3	17.7	20.2	22.5	25.6	34.7	37.3
Foreign debt	23.1	22.0	19.6	16.7	17.2	17.5	17.0

Source: Data provided by the authorities.

1/ Net debt.

2/ Gross debt.

3/ These debts were discovered during an audit in mid-1995. For previous years, no comparable figures exist.

43. Apart from a large debt, both the Central Government and the Island Government of Curaçao also have a considerable amount of outstanding guarantees (Table 4). A part of the guarantees of the Island Government is in turn guaranteed by the Central Government; excluding this double counting, total guarantees at end-1995 stood at nearly 10 percent of GDP. About three fourths of the guarantees are in foreign currency.

**Table 4. Netherlands Antilles: Guarantees Provided by the
Central Government and the Island Government of Curaçao
(In percent of GDP)**

	1994	1995
Central government	5.9	7.7
Domestic	0.9	0.8
Foreign 1/	5.0	6.9
Island government of Curaçao	4.1	5.5
Domestic	2.1	2.0
Foreign 1/	2.0	3.5
Guarantees of island government that are also guaranteed by the central government	1.9	3.3
General government	8.2	9.8
Domestic	3.0	2.8
Foreign 1/	5.2	7.0

Source: Data provided by the authorities.

1/ Denotes guarantees in foreign currency.

C. Developments in 1996

The 1996 budget

44. The 1996 budget was formulated against the background of a looming fiscal crisis. In the absence of measures, the general government deficit was projected to increase to around 10 percent of GDP. This reflected mainly higher pension premiums, to close the actuarial deficit that had emerged at the end of 1994, and retroactive wage payments to civil servants. The retroactive payments comprised two elements: full settlement of the outstanding court-mandated retroactive wage payments related to the elimination of salary discrepancies, and payment of cost-of-living increases which should have been effective from 1992 but had not

been made.²⁰ Together, these retroactive payments were estimated at NA f. 78 million (nearly 2 percent of GDP).

45. Against this background, the government adopted a fiscal strategy to address the structural weaknesses of the budget and to bring down the deficit on a permanent basis. The central element of this strategy was the containment of personnel costs through streamlining the government bureaucracy over a four-year period and introducing a new pay structure for civil servants from January 1998. In the interim, a hiring freeze was introduced,²¹ and legislation was put in place to introduce a wage freeze during 1996–97. Also, to bring about an early significant reduction of the deficit, a package of measures, covering both the revenue and the expenditure sides, with a total estimated yield of NA f. 266 million was identified (Table 5). With full implementation of the package, the general government deficit was anticipated to decline to NA f. 124 million (3.1 percent of GDP), compared with an estimated outturn of NA f. 215 million (5.3 percent of GDP) in 1995. This was consistent with deficit targets of NA f. 45 million and NA f. 79 million, respectively, for the Central Government and the Island Government.

46. Revenue measures were expected to yield the equivalent to 3.3 percent of GDP. A major initiative was the introduction of a sales tax from July 1 in the Leeward islands. The excise tax on gasoline was increased by NA f. 0.15 per liter in December 1995, on a temporary basis pending the introduction of the sales tax. Revenues from profits and income tax would be increased by elimination of the backlog in tax assessments, and through the introduction of a pay-as-you-file self-assessment system for profits tax. A garbage collection fee of NA f. 20 per month per household was introduced, thereby allowing a reduction in the subsidy to the garbage collection company, Selikor.²²

²⁰In 1992, an agreement was made with the unions that wages would be (partially) adjusted if in a given year inflation exceeded 2 percent. The exact arrangement was that if inflation in Curaçao (rather than in the Netherlands Antilles as a whole) remained below 2 percent, wages would not be adjusted; if inflation was between 2 percent and 4 percent, wages would rise by 60 percent of inflation; and if inflation was higher than 4 percent, wages would rise by 40 percent of inflation. This formula would suggest that indexation would be lower with 5 percent inflation ($5 \times 0.4 \% = 2 \%$) than with 4 percent ($4 \times 0.6 \% = 2.4 \%$); however, indexation would never be less than in the preceding bracket.

²¹The hiring freeze does not apply to certain key positions, such as tax officers, teachers, lawyers, and prison guards.

²²The garbage collection unit, Selikor, was transformed into a public corporation in early 1996.

Table 5. Netherlands Antilles: Impact of Fiscal Measures in 1996

	In millions of NA guilders						In percent of GDP					
	Proposed			Actual			Proposed 1/			Actual		
	General Govt.	Central Govt.	Curaçao Govt.	General Govt.	Central Govt.	Curaçao Govt.	General Govt.	Central Govt.	Curaçao Govt.	General Govt.	Central Govt.	Curaçao Govt.
Revenue measures	131.8	85.9	45.9	121.9	71.0	50.9	3.3	2.2	1.2	2.9	1.7	1.2
Tax revenue	120.0	80.0	40.0	101.0	71.0	30.0	3.0	2.0	1.0	2.4	1.7	0.7
Introduction of sales tax	65.0	65.0	--	41.0	41.0	--	1.6	1.6	--	1.0	1.0	--
Increases of excise tax on gasoline	15.0	15.0	--	26.0	26.0	--	0.4	0.4	--	0.6	0.6	--
Strengthening tax administration	40.0	--	40.0	30.0	--	30.0	1.0	--	1.0	0.7	--	0.7
Profits tax	40.0	--	40.0	20.0	--	20.0	1.0	--	1.0	0.5	--	0.5
Wage tax	--	--	--	10.0	--	10.0	--	--	--	0.2	--	0.2
Property transfer tax	--	--	--	4.0	4.0	--	--	--	--	0.1	0.1	--
Nontax revenue	11.8	5.9	5.9	20.9	--	20.9	0.3	0.1	0.1	0.5	--	0.5
Higher revenue transfers from Caprileskliniek	5.9	5.9	--	--	--	--	0.1	0.1	--	--	--	--
Garbage collection fees	5.9	--	5.9	5.9	--	5.9	0.1	--	0.1	0.1	--	0.1
Payback by schools of previous subsidies	--	--	--	15.0	--	15.0	--	--	--	0.4	--	0.4
Expenditure savings	134.6	36.4	98.2	149.6	66.5	83.1	3.4	0.9	2.5	3.6	1.6	2.0
Current expenditure	127.1	36.4	90.7	130.4	58.9	71.5	3.2	0.9	2.3	3.1	1.4	1.7
Changes to the pension system	82.9	36.4	46.5	82.9	36.4	46.5	2.1	0.9	1.2	2.0	0.9	1.1
Cuts in goods and services	27.0	--	27.0	30.3	22.5	7.8	0.7	--	0.7	0.7	0.5	0.2
Of which: health care costs	27.0	--	27.0	8.0	--	8.0	0.7	--	0.7	0.2	--	0.2
Cut in subsidies	17.2	--	17.2	17.2	--	17.2	0.4	--	0.4	0.4	--	0.4
Capital expenditure	7.5	--	7.5	19.2	7.6	11.6	0.2	--	0.2	0.5	0.2	0.3
Cuts in investment	--	--	--	11.7	7.6	4.1	--	--	--	0.3	0.2	0.1
Cuts in net lending	7.5	--	7.5	7.5	--	7.5	0.2	--	0.2	0.2	--	0.2
Total revenue measures and expenditure savings	266.4	122.3	144.1	271.5	137.5	134.0	6.7	3.1	3.6	6.5	3.3	3.2

Source: Data provided by the authorities.

1/ The GDP projected at the time of formulation of the policy package has been used.

47. Expenditure-saving measures were projected to yield 3.4 percent of GDP. One half of the saving would be generated by changing the civil servants' pension financing system from an almost fully capital-funded system to a partially capital-funded, and partially pay-as-you-go system. State-financed health care expenditure would be reduced through both shifting of costs to the private sector, and better expenditure control. Insurance schemes were designed to recover the costs of treating chronically ill patients (AVBZ, Algemene Verzekering Bijzondere Ziektekosten, or General Insurance Special Health Care Costs) and others who were previously covered under the government's social insurance scheme. The subsidy to the water and electricity distribution company, Kodela, would be cut, following increases in water and electricity prices in November 1995, as would the subsidy to development bank, Korpodeko.

48. During 1996, the Central Government expected to receive considerable one-time resources from the commercialization of the international telephone company, Landsradio. First, Landsradio would pay NA f. 34 million as a compensation for the outstanding balance of current debtors and creditors at the time of the commercialization. Second, Landsradio would issue NA f. 31 million in bonds, and transfer the revenues to the government.

The 1996 outturn

49. Policy slippages and unanticipated revenue shortfalls dominated the 1996 fiscal outturn (Table 6). Both revenue and expenditures were lower than originally envisaged, and the consolidated fiscal accounts are estimated to have been in a deficit of about 4.6 percent of GDP, 1.5 percentage points higher than the original target. The deficits of both the Central Government and the Island Government of Curaçao exceeded the targeted levels, by similar margins. The Central Government accounts recorded a deficit of NA f. 81 million (compared with a target of NA f. 52 million), while the Island Government showed a deficit of NA f. 114 million (compared with a target of NA f. 73 million).

50. Several structural policy slippages occurred, but offsetting measures were also taken. The sales tax went into effect with a lower maximum rate than had been originally envisaged (6 percent instead of 11 percent). The introduction of the self-assessment scheme for profits tax and the introduction of the AVBZ and some smaller health care measures were postponed. To partially compensate for the dilution of the sales tax, a decision was taken not to withdraw the temporary increase in excise tax on gasoline introduced in December 1995, and to increase the property transfer tax rate in the Leeward islands from 2.75 percent to 4 percent. Later on, when the impact of the policy slippages and the unanticipated revenue shortfalls began to be felt, the authorities initiated wide-ranging cuts in expenditures on goods and services and investment, and speeded up tax collections. Additional revenue was also obtained from a payment by schools of NA f. 15 million to Curaçao, which reflected a settlement for overpayments of subsidies in earlier years. Overall, the fiscal effort was similar in size to what had originally been envisaged.

Table 6. Netherlands Antilles: Unanticipated Deviations and the Fiscal Outturn in 1996

	In millions of NA guilders			In percent of GDP		
	General Govt.	Central Govt.	Curaçao Govt.	General Govt.	Central Govt.	Curaçao Govt.
Unanticipated changes in revenue	-68.0	-41.6	-26.4	-1.6	-1.0	-0.6
Tax revenue	-25.5	-2.1	-23.4	-0.6	-0.1	-0.6
Profit tax	-30.2	--	-30.2	-0.7	--	-0.7
Other	4.7	-2.1	6.8	0.1	-0.1	0.2
Nontax revenue	-42.5	-39.5	-3.0	-1.0	-0.9	-0.1
Landsradio related revenues	-28.0	-28.0	--	-0.7	-0.7	--
Receivables of Landsradio	-11.0	-11.0	--	-0.3	-0.3	--
Telecommunication license fee	-7.0	-7.0	--	-0.2	-0.2	--
1995 dividend of Landsradio	-10.0	-10.0	--	-0.2	-0.2	--
Other	-14.5	-11.5	-3.0	-0.3	-0.3	-0.1
Unanticipated changes in expenditure	7.6	2.9	4.7	0.2	0.1	0.1
Current expenditure	-1.7	-6.1	4.4	--	-0.1	0.1
Retroactive wage payments	13.8	3.0	10.8	0.3	0.1	0.3
Other	-15.5	-9.1	-6.4	-0.4	-0.2	-0.2
Capital expenditure	9.3	9.0	0.3	0.2	0.2	--
Landsradio bonds 1/	9.0	9.0	--	0.2	0.2	--
Other	0.3	--	0.3	--	--	--
Total unanticipated changes in revenue and expenditure	-75.6	-44.5	-31.1	-1.8	-1.1	-0.7
Total changes due to policy	5.1	15.2	-10.1	0.1	0.4	-0.2
Total changes	-70.5	-29.3	-41.2	-1.7	-0.7	-1.0
Original budget balance target	-124.1	-51.5	-72.6	-3.0	-1.2	-1.7
Current budget balance estimate	-194.6	-80.8	-113.8	-4.6	-1.9	-2.7

Source: Data provided by the authorities.

1/ Higher net lending as a result of lower revenues from issuing Landsradio bonds.

51. Unexpected shortfalls in revenues were due to both tax revenues and nontax revenues. A large part of the revenue shortfall was related to Landsradio: the government did not receive as much of the balance of debtors and creditors of Landsradio as it had hoped; the revenues from the bond issue of Landsradio were less than had been expected; Landsradio did not pay dividends for 1995; and the newly introduced license fee for telecommunications yielded less than had been expected. In addition, offshore profits taxes were lower, reflecting the further erosion in the offshore profits tax base. Owing to the unanticipated shortfalls in revenue, the deficit was higher than targeted.

52. The deficit was financed entirely by the non-monetary sector. The retroactive wage payments were settled through issuance of negotiable government bonds directly to civil servants. Foreign amortization payments to the Netherlands were temporarily rolled over, pending agreement on debt structuring in 1997. The Island Government reduced its arrears to Kodela by NA f. 51 million, through an elaborate transaction with the so called Energy fund, which was financed by a bank loan (NA f. 31 million) and a dividend from Curoil (NA f. 20 million).²³

D. The 1997 Budget

53. The government aims to continue its fiscal adjustment in 1997, and to correct for the structural policy slippages that took place in 1996. Thus, the 1997 budget aims to bring down the budget deficit to NA f. 47 million (1.1 percent of GDP), from an estimated outturn of NA f. 195 million (4.6 percent of GDP) in 1996. The Central Government deficit is projected to decline from NA f. 81 million in 1996 to NA f. 25 million in 1997, while Curaçao's deficit is targeted to decrease from NA f. 114 million to NA f. 21 million. The fiscal consolidation is to be achieved through measures covering both the revenue and expenditure sides, with a total estimated yield of about NA f. 118 million or 2.7 percent of GDP (Table 7).

²³The Island Government was in arrears to Kodela. As a result, Kodela could not pay its debt to KAE, which in turn could not pay its debt to Curoil. The Energy fund borrowed NA f. 31 million from commercial banks, and transferred this to the Island Government. The government used the money to pay off its debt to Kodela, which in turn paid off its debt to KAE; KAE then paid off its debt to Curoil. Curoil used the NA f. 31 million to pay an extra dividend of NA f. 20 million to the island government, and used the remainder to improve its cash position. The Island Government used the NA f. 20 million in dividends to further reduce its arrears to Kodela. Thus, at the end of the transactions, the Island Government had reduced its arrears to Kodela by NA f. 51 million, and Curoil had improved its cash position by NA f. 10 million. The extra dividend took place in late 1995; all other transactions were in early 1996. Interest and amortization of the Energy fund loan will be serviced through the payment of dividends from several government enterprises to the Energy fund.

Table 7. Netherlands Antilles: Fiscal Measures in 1997

	In millions of NA guilders			In percent of GDP		
	General Govt.	Central Govt.	Curaçao Govt.	General Govt.	Central Govt.	Curaçao Govt.
Revenue measures	66.5	29.6	36.9	1.5	0.7	0.8
Tax revenue	51.6	22.6	29.0	1.2	0.5	0.7
Introduction of turnover tax	13.4	13.4	--	0.3	0.3	--
Increases of excise tax on gasoline	14.3	14.3	--	0.3	0.3	--
Strengthening of tax administration	29.0	--	29.0	0.7	--	0.7
Profits tax	20.0	--	20.0	0.5	--	0.5
Wage tax	9.0	--	9.0	0.2	--	0.2
Property transfer tax	0.9	0.9	--	--	--	--
Phasing out of import duty surcharge	-6.0	-6.0	--	-0.1	-0.1	--
Nontax revenue	14.9	7.0	7.9	0.3	0.2	0.2
Higher revenue transfers from Caprileskliniek	7.0	7.0	--	0.2	0.2	--
Other	7.9	--	7.9	0.2	--	0.2
Expenditure savings	51.0	19.9	31.1	1.2	0.5	0.7
Current expenditure	37.3	15.0	22.3	0.9	0.3	0.5
Cuts in goods and services	37.3	15.0	22.3	0.9	0.3	0.5
Of which: health care costs	22.3	--	22.3	0.5	--	0.5
Capital expenditure	13.7	4.9	8.8	0.3	0.1	0.2
Cuts in investment	13.7	4.9	8.8	0.3	0.1	0.2
Total revenue measures and expenditure savings	117.5	49.5	68.0	2.7	1.1	1.6

Source: Data provided by the authorities.

54. On the revenue side, several measures have been implemented. First, from January 1, a new pay-as-you-file self-assessment system for profits tax has come into effect. Second, in the Windward islands, a turnover tax has been introduced.²⁴ Third, the gasoline excise tax in the Windward islands has been increased by NA f. 0.30 per liter. Fourth, various fees have been raised or introduced. The impact of these revenue measures will be slightly offset by a 1 percentage point decline in the import duty surcharge. This is part of the government's program to phase out the import surcharge over a three-year period.²⁵ The gains from the full-year effect of the sales tax will be offset by the loss of one-time nontax revenues in 1996 associated with the commercialization of Landsradio. Reflecting these, total revenue of the general government as a ratio to GDP is projected to increase by 1 percentage point to 31.7 percent.

55. On the expenditure side, the most important measure is the introduction of the AVBZ, which came into effect on January 1. As a result, several health care expenditures will no longer have to be paid by government. Expenditures on goods and services, and investment will be trimmed further as well. In addition, the budget will benefit from the fact that no further retroactive wage payments will have to be made. Thus, expenditure as a ratio to GDP is projected to fall to 32.8 percent of GDP from an estimated 35.4 percent of GDP in 1995.

56. The 1997 deficit is projected to be financed entirely from nonbank sources. In order to build up adequate reserves for the rapid future increase in pension premiums that is projected from the change in the pension financing system, from 1997 the government will begin to contribute NA f. 40 million annually to a sinking fund account in the central bank. Foreign amortization to the Netherlands will be rescheduled, upon compliance with the economic adjustment program.

E. Fiscal Reforms

Introduction

57. The authorities attach high priority to fiscal reforms, as they are well seized of the need for broad institutional changes if the fiscal improvement is to be permanent. Several structural weaknesses exist in the fiscal sector: the emphasis of the tax system is on direct taxes, with high marginal rates and numerous exemptions which have distorted incentives; the efficiency of tax assessment and collection is poor; the wage structure of civil servants is distorted, and

²⁴Originally, it was envisaged that the sales tax would be introduced in the Windward islands as well, from January 1997. After protests, the sales tax was replaced by a turnover tax.

²⁵The surcharge, which was introduced in 1993, will decrease (from 6 percent) to 5 percent in 1997, 3 percent in 1998, and 0 percent in 1999.

the civil service is over-staffed; major expenditure programs, such as health care, are open ended, and the size of the government enterprise sector is large, resulting in considerable interference of the government in the economy.

58. To remedy these weaknesses, the government is taking a series of measures. The government aims to improve the tax system by widening the tax base and increasing efficiency of assessment and collection; reduce the government personnel costs through the introduction of a new wage structure for civil servants and a change in the pension system; streamline the government bureaucracy and make its activities more efficient; reduce the burden that the health care sector places on the budget, while increasing its efficiency; and strengthen the financial performance of public enterprises and reduce the size of this sector.

Reforms of the tax system

59. A major problem of the tax system of the Netherlands Antilles is the narrow tax base. In the absence of a sales tax or VAT, a large part of tax revenues have been generated by direct taxes. The tax base has been eroded further by the granting of numerous exemptions and tax holidays.²⁶ As a result, direct tax rates are rather high—at least compared to other countries in the region (Table 37).²⁷ Moreover, as a large part of the excise taxes is specific, rather than ad valorem, the elasticity of the tax system is low. To widen the tax base, the government has introduced a sales tax in Curaçao and Bonaire from July 1, 1996, and a turnover tax in the Windward islands from January 1, 1997.

Sales tax

60. The sales tax in Curaçao and Bonaire applies to all non-primary goods and a specified list of services, and has a multiple rate structure. For goods, there are three different rates: primary goods are exempted, tourist articles are taxed at a reduced rate of 4 percent, and non-primary goods at 6 percent.²⁸ A tax rate of 6 percent applies to a specific list of services

²⁶For a description of the tax system, and the various tax holidays, see Appendix I.

²⁷This reflected mainly the absence of a sales tax, as well as several other features of direct taxes in the Netherlands Antilles, such as the rate structure, exemptions, and collection and assessment inefficiencies. More specifically, the marginal wage, income, and profit tax rates, appear to be relatively high. Another special factor is the presence of offshore tax receipts, which have declined substantially over the past decade, but still amounted to about 4 percent of GDP in 1995.

²⁸Primary goods and tourist articles are defined as those goods that appear on specified lists. Primary goods include bread, rice, grain products, meat, fish, milk and milk products,
(continued...)

(Table 8). Sales tax on imported goods is collected by Customs; sales tax on domestically produced goods is collected from the manufacturer; and sales tax on services is collected from the deliverer of the services. The collection efficiency of sales tax on goods has so far been in accordance with expectation, while for services the efficiency is being strengthened.

Table 8. Netherlands Antilles: List of Services that are Subject to Sales Tax

1.	Indemnity insurance.
2.	Services delivered by banks and other financial institutions for conclusion of loans and mortgages, transfer of money, and holding of securities.
3.	Services delivered by lawyers, legal, tax, and organization advisors, administration offices, auditors and public notaries; except services delivered to offshore companies.
4.	Services delivered by realtors.
5.	Renting of real estate.
6.	Guarding of buildings, goods, and persons.
7.	Cleaning services.
8.	Transportation services, except those delivered by public mail and for transportation abroad.
9.	Services delivered by travel agencies.
10.	Supply of meals and drinks in hotels, bars, and restaurants, except those with a special license.
11.	Services delivered for commercial instruction and education, except for conferences that are visited only or almost only by non-residents.
12.	Services related to cultural activities.

Source: Information provided by the authorities.

Turnover tax

61. The turnover tax in the Windward islands applies to sales of both goods and services. The tax is levied on gross sales, rather than value added, so costs cannot be deducted. The tax is not only charged to consumers, but also on sales by enterprises to other enterprises. The turnover tax has a rate of 3 percent, with the exception of primary goods, which are taxed at

²⁸(...continued)

vegetables, fruit, soup, nuts, coffee, tea, non-alcoholic drinks, napkins, baby and toddler clothing, and other baby articles. Examples of tourist articles include chocolate, perfume, crystal, silver, gold, televisions, cameras, and watches.

1 percent. Water, electricity, and natural gas are exempted, as are services delivered by offshore companies to non-residents and other offshore companies.

Improving assessment and collection efficiency

62. In the late 1980s, the efficiency of levying direct taxes deteriorated substantially, and long delays in tax assessments became common.²⁹ Within the tax department, assessments were not considered late, if they were sent out within three years. Thus, whereas in 1987, 91 percent of profits tax assessments were sent within 12 months, by 1991 this had fallen to a mere 4 percent (Table 9). For profits tax collection, a similar deterioration occurred; whereas in 1987, 65 percent of all received assessments were paid within 12 months, by 1991 this had declined to a mere 1 percent (Table 10).

63. The government has taken steps to strengthen tax administration. A large effort was made to clear the backlog in profits tax assessments, and by mid-1996, the entire backlog had been cleared.³⁰ The administration of wage taxes became fully automated during 1996, which has significantly reduced the assessments and collection lags.

64. An important step in improving collection efficiency was the introduction, on January 1, 1997, of a self-assessment pay-as-you file system for profits taxes. Under the new system, enterprises are required to pay their profits taxes at the time they send in their tax returns; in the previous system, they only had to pay once they had received their final assessment.

Review of the wage structure

65. Two problems plague the wage structure of civil servants in the Netherlands Antilles. First, low and middle level staff are paid considerably more than their comparators in the private sector, and higher level staff paid less. Second, there is considerable wage drift, as periodic increases are granted automatically.

66. The government aims to introduce a new wage structure for civil servants that reduces the salary differences with the private sector and that no longer grants automatic increases. The new wage structure should come into effect from January 1, 1998. To determine a new structure, the central government appointed, in the summer of 1996, a "Commission on Salary Structure", consisting of three Dutch and three Antillean members. The commission presented its report in September 1996. The proposals of the commission are currently being reviewed by the government.

²⁹The Netherlands Antilles tax laws do not contain a provision that final profits tax assessment must be made within a certain period of time.

³⁰It is likely, however, that a significant part of the taxes are not collectible, as the assessments may be contested, the information on which the assessments were based may have become obsolete, or the firms to which the assessments were sent may no longer exist.

Table 9. Netherlands Antilles: Timing of Profits Tax Assessments, 1987-94

		Cumulative percentage of assessments sent within					
		12 months	24 months	36 months	48 months	60 months	72 months
Year in which assessments should have been sent	1987	91	91	91	94	97	100
	1988	81	81	88	95	98	100
	1989	54	73	86	95	97	100
	1990	36	59	85	93	99	100
	1991	4	36	62	80	84	...
	1992	4	38	76	85	...	...
	1993	7	49	69	...	...	...
	1994	6	16	...	...	...	...

Sources: Moret, Ernst & Young, *Rapportage omtrent beoordeling Eilandsbegroting 1993 t/m 1995 en meerjarenprognose*; and Fund staff calculations.

Table 10. Netherlands Antilles: Timing of Profits Tax Collection, 1987-93

		Cumulative percentage paid within					
		12 months	24 months	36 months	48 months	60 months	72 months
Year in which taxes should have been paid	1987	65	83	83	85	88	90
	1988	51	71	75	82	86	87
	1989	38	55	73	60	83	85
	1990	29	48	67	76	80	81
	1991	1	21	53	64	65	...
	1992	1	28	54	62	...	...
	1993	2	34	54	...	...	...

Sources: Moret, Ernst & Young, *Rapportage omtrent beoordeling Eilandsbegroting 1993 t/m 1995 en meerjarenprognose*; and Fund staff calculations.

67. To contain wage costs until the new wage structure is in place, the government has frozen periodic wage increases in the government sector from July 1, 1996 through end-1997, and fully de-indexed wages from inflation during 1996 and 1997. Moreover, the retroactive indexation payments for 1992-95 are considered a one-time compensation and will not apply toward an increase of the basic wage.

Current wage structure

68. The current wage structure contains 17 scales. Within scales 1-12, there are several salary steps, while scales 13-17 have only one step. As long as a civil servant has not reached the maximum of a scale, he or she automatically goes up one step each year. Below scale 13, civil servants receive more than what is paid for comparable functions in the market, while in scale 13 and above, civil servants receive less, with the underpayment increasing the higher the scale (Table 11).³¹ Most of the civil servants are in the lower scales, with 73 percent of all civil servants below scale 8, and only five percent of the civil servants are in scale 13 and above.

New wage structure

69. The commission based its proposed reform of the salary structure on the following goals:

- **Improvement in higher level salaries through an introduction of steps in scales 13 and above:** increasing salaries of senior civil servants in this way would also increase work incentives.
- **Introduction of special step increases:** to raise work motivation for civil servants who have reached the maximum in their scale, the commission has suggested the introduction of special step increases that would be granted only in cases of exceptional performance.
- **Increasing the number of scales from 17 to 18:** this new scale would be for the most senior civil service positions. A new position of managing director in each minister's office, to serve as an intermediary between the minister and the civil servants, has been suggested for this scale.

70. Based on the above goals, the commission has made two proposals for a new wage structure, that partially reduce the overpayment in the lower scales and the underpayment in the higher scales. The proposals differ in the degree that overpayment in the lower scales is reduced. Under the new wage structure, periodic increases would no longer be granted automatically, but based on performance evaluation discussions (this system will have to be established). At the time the new wage structure is introduced, all current civil servants will be transferred to the new scales, and will at least keep their current salary. If their current salary is above the maximum of the new scale, it will be frozen.

³¹The salary comparison does not take into account secondary benefits, like pensions, which are considerably better in the government sector than in the private sector.

**Table 11. Netherlands Antilles: Current Wage
Structure of Civil Servants**

Scale	Salary as percent of salary in private sector	Percentage of civil servants in scale 1/
1	108	2
2	110	12
3	113	8
4	120	14
5	124	14
6	123	11
7	125	12
8	123	6
9	119	5
10	115	5
11	110	2
12	102	4
13	98	2
14	91	1
15	77	0
16	62	1
17	45	1

1/ Central Government only.

Source: Data provided by the authorities.

71. Under the new wage structure, the wage bill is expected to initially increase somewhat. This is because nobody's salary decreases while for some (especially at the higher scales) it increases. The potential savings over time arise from the reduction of the pay scales and control of the wage drift.

Changes in the civil servants' pension system

Introduction

72. To reduce pension costs, which had increased sharply since the early 1990s, and which would have accelerated further in 1996, the government made changes to the civil servants' pension system in 1996. For new participants, entitlements were scaled back, while for current participants (whose entitlements remained unchanged) the financing system was changed from an almost fully capital-funded system to a partially capital-funded, and partially pay-as-you-go system.

The old system

Entitlements

73. Under the old pension system, civil servants could retire at age 55 and—if they had worked for at least 30 years—receive a pension equal to 70 percent of their final salary.³² In addition, retired civil servants also received the general old age pension (AOV).³³ As a result, for many civil servants total retirement income was very close to—or even exceeded—pre-retirement income;³⁴ as pensioners did not have to pay pension premiums, the difference in disposable income was even more favorable.

Financing

74. Until the early 1990s, the financing system for current participants (i.e., civil servants who had not yet retired) was a mixture of a pay-as-you-go and a capital-funded system. About 66 percent of the pension of current participants was financed on a funded basis; the remaining 34 percent would be financed on a pay-as-you-go basis when the associated civil servants retired.

75. Reflecting the mixed financing system, total pension premiums consisted of several elements (Table 12). First, capital-funding premiums were levied for the part of the pension of current participants that was financed on a funded basis. Capital-funding premiums amounted to 34 percent of gross wages times the share of the pension that was funded.³⁵ Of the 34 percent, employees paid 8 percentage points and the government 26 percentage points. Second, to cover that part of the pensions of retirees (i.e., past participants) that had not been financed on a funded basis, pay-as-you-go premiums were paid. Third, once every four to five years the pension fund would determine the actuarial balance, i.e., calculate whether the

³²For each of the first 20 years of work, civil servants were entitled to a pension equal to 2.5 percent of their final wage; for the years thereafter, they built up pension rights at a rate of 1.6 percent per year. Thus, after 30 years, civil servants were entitled to a pension, equal to 66.6 percent of their final wage. To this, the government added a supplement, equal to 3.4 percent of the final wage.

³³AOV (Algemene Ouderdomsverzekering, or General Old Age Insurance) is a general, state-provided, old age pension. The benefits only depend on marital status, and are not linked to wages earned before retirement. The AOV-pension is NA f. 700 per month for married couples, and NA f. 436 for single persons.

³⁴As the AOV-pension is a fixed amount, total retirement income exceeded pre-retirement income for employees at lower income levels.

³⁵For example, when 66 percent of the pension was funded, capital funding premiums amounted to 22.4 (0.66×34) percent of gross wages, whereas if 100 percent of the pension would be funded, capital funding premiums would amount to 34 percent of gross wages.

Table 12. Netherlands Antilles: Pension Premiums of the Central Government and the Island Government of Curaçao. 1986-96 1/
(In millions of NA guilders)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996		
											With measures (1)	Without measures (2)	Savings (3=1-2)
Central Government													
Employees	3.3	3.8	3.9	4.0	4.1	4.8	5.5	6.7	8.3	9.1	9.2	9.2	--
Employer	42.2	45.2	55.4	56.7	52.8	51.8	57.9	76.1	78.9	75.5	68.9	105.3	-36.4
Capital-funding premiums 2/	10.4	12.2	12.3	12.7	13.5	15.8	17.6	22.8	27.7	30.6	17.6	29.6	-12.0
Pay-as-you-go premiums 3/	28.9	30.1	30.9	31.8	30.6	29.2	33.6	37.9	35.3	35.4	37.5	37.3	0.2
VUT (early retirement)	--	--	--	--	--	--	--	--	--	--	1.4	--	1.4
Premiums to close actuarial deficits 4/	2.9	2.9	12.2	12.2	8.7	6.8	6.8	15.5	15.9	9.5	12.4	38.4	-26.0
Total	45.5	49.0	59.3	60.7	56.9	56.5	63.4	82.8	87.2	84.6	78.1	114.5	-36.4
Island Government of Curaçao													
Employees	4.3	5.2	5.0	5.5	6.6	7.6	8.5	9.9	11.8	12.8	13.7	13.7	--
Employer	32.8	37.1	49.3	53.9	52.3	57.0	65.7	89.7	97.2	95.5	81.8	128.7	-46.9
Capital-funding premiums 2/	10.4	13.9	15.5	16.8	17.7	21.1	24.0	29.7	36.9	41.2	25.1	40.1	-15.0
Pay-as-you-go premiums 3/	17.0	20.5	22.3	25.6	25.7	27.1	32.6	38.7	37.6	38.9	37.5	37.5	--
VUT (early retirement)	--	--	--	--	--	--	--	--	--	--	3.1	--	3.1
Premiums to close actuarial deficits 4/	5.4	2.7	11.5	11.5	8.8	8.8	9.1	21.3	22.7	15.4	16.2	51.2	-35.0
Total	37.1	42.3	54.3	59.4	58.9	64.6	74.2	99.6	109.0	108.3	95.6	142.5	-46.9

Source: APNA, Annual reports.

1/ Pension premiums are based on APNA's final settlements at the end of each year, except for 1996. For 1996, premiums are based on calculations by APNA in the beginning of the year.

2/ Premiums to finance future pensions of current participants.

3/ Premiums to finance current pensions of current retirees.

4/ Includes interest and fines.

current stock of capital, together with future premium receipts,³⁶ would be sufficient to cover present and future funding-financed pension obligations. If the amount of capital was inadequate, an additional premium would be levied, to make up—over 10 years—the difference between the actual and needed capital.³⁷

76. During 1990–94, the part that was financed on a fully-funded basis was raised substantially, from 66 percent in 1990, to 100 percent in 1994. Thus, from 1994 onward, capital set-asides were such that they would have financed the entire pension of current participants, and no part of their pension would need to be financed on a pay-as-you-go basis any more.³⁸ With the increase in the part of the pension that was funded, capital funding premiums increased. More important, however, was that the increase of the funding-financed share of pensions also necessitated a sharp increase in the **capital stock** of the pension fund, to cover the sharp rise in **already accrued** pension rights that now needed to be funded. As no such increase occurred, a large actuarial deficit emerged. At the end of 1994, the actuarial deficit amounted to NA f. 579 million, of which about NA f. 300 million was due to the shift toward capital-funding.³⁹ To pay off the 1994 actuarial deficit, the Island Government would have to pay from 1996 onward an additional annual premium of NA f. 40 million, and the Central Government of NA f. 25 million.⁴⁰

The new system

Entitlements

77. Two changes have been made to entitlements for new participants. First, total retirement income—i.e., the sum of the civil servants' pension and the AOV pension—has been reduced to 70 percent of the final wage.⁴¹ Second, under the new pension system, the retirement age has increased to 60 years, and the entitlement period for receiving a full

³⁶Future pension premiums were calculated using the premium percentage of 34 percent.

³⁷This premium was a fixed lump sum, which had to be paid by the government, and did not depend on wages.

³⁸With the exception of the supplemental government contribution of 3.4 percent, which was paid on a pay-as-you-go basis.

³⁹The remainder was largely caused by the 14 percent wage increase in 1992.

⁴⁰In Table 12, the premiums to close the actuarial deficit also include those for the 1989 deficit, and hence are higher than the amounts mentioned here.

⁴¹This reduction is achieved by basing the pension on the wage minus a deduction—rather on the full wage, as happened in the old system. The deduction is equal to (10/7) times the AOV. Note, that with this deduction, total retirement income = $0.7 * (\text{final wage} - 10/7 \text{ AOV}) + \text{AOV} = 0.7 * \text{final wage}$.

pension has been increased to 35 years. Moreover, pension rights will be built up slower than in the old system: for each year of employment, civil servants will be entitled to a pension equal to 2 percent of their final wage. Pension rights of current participants will not be affected, and they will continue to build up pension rights at the same rate as in the old system.

Financing

78. For current participants, there is, however, a change in the financing system. No longer will all their pension rights be financed on a capital-funded basis, but only those pension rights that would have accrued under the new system.⁴² The difference between the obligations under the old and the new system will be financed on a pay-as-you-go basis. Pensions of retired civil servants aged between 55 and 60, will be entirely financed on a pay-as-you-go basis, through the “VUT-uitkering” (early retirement benefit).

Financial effects of the pension system reform

79. The pension system reform has two opposing effects on premiums, but overall, pension premiums will decline. It reduces capital-funding premiums and premiums to cover the actuarial deficit, but it increases pay-as-you-go pension premiums and pension premiums for the “VUT-uitkering”. The reduction in capital-funding premiums results from the scaling down of entitlements that will be funded (for new participants this scaling down results from a scaling down of entitlements; for current participants from a shift to pay-as-you-go financing). The increase of the retirement age diminishes future pension obligations—and thus the amount of capital that should be present in the pension fund; it thereby decreases the actuarial deficit, from NA f. 579 million to NA f. 79 million, which lowers annual payments to cover this deficit. These savings will be partially offset by additional expenses for the “VUT-uitkering” and higher pay-as-you go premiums, that result from the partial shift for current participants from capital-funding to pay-as-you-go. All in all, under the new system in 1996, the sum of capital funding pension premiums, pay-as-you-go premiums, and “VUT-uitkering” is estimated at NA f. 69 million for the central government and NA f. 82 million for Curaçao, compared with NA f. 105 million and NA f. 129 million, respectively, under the old system.

80. In the new system, the share of the pension of current participants that will be financed on a pay-as-you-go basis increases substantially. This increase will save the government money in the short term (as it shifts premiums to the future), but the amounts the government needs to pay for the VUT and the pay-as-you-go premiums will rapidly increase after a few years, and are projected to reach NA f. 40 million by the year 2002 and NA f. 70 million by the year 2010; about two thirds of this increase will be felt by Curaçao, as its civil servants have an older age profile (Chart 6). Seeing this, the authorities have decided to set aside from

⁴²Under the new system, capital funding pension premiums will be equal to 23 percent of (total) wages. Employees will pay a premium, equal to 8 percent of their wage minus the deduction (i.e., $0.08 * (\text{wage} - \text{deduction})$), and employers will pay the remainder (i.e., $0.23 * \text{wage} - 0.08 * (\text{wage} - \text{deduction})$).

CHART 6
NETHERLAND ANTILLES
Projected Pension Premium Developments 1/
(In Millions of NA Guilders)

Source: Information provided by the authorities.

1/ Increase in pay-as-you-go pension premiums and early retirement pension payments for general government that result from pension system changes.

1997 the equivalent of 1 percent of GDP annually into a sinking fund to make partial provision for the pay-as-you-go obligations for the coming years.

Core task analysis

81. In order to streamline the government bureaucracy and make its activities more efficient, the Central Government and the Island Government of Curaçao have both initiated a so-called "core task analysis". The purpose of this exercise is to identify the core functions and responsibilities of the government. Based on this analysis, decisions will be taken on whether to abolish non-core activities, organize them into (more) autonomous public sector corporations, or shift them to the private sector.

82. At end-1996, the Central Government had just published the results of its core task analysis, while the preparation of the report of the Island Government of Curaçao was in its final stage. The Central Government's study has been sent to social partners for comments, and parliamentary consent has been sought for the overall strategy. The various proposals in the core task analysis will subsequently be presented to parliament for approval on an individual basis.

83. The central government's report identifies the core tasks of government as policy development and steering, regulation, control, and supervision. It concludes that the government is too big, absorbs too large a share of domestic savings, and crowds out private investment. The report expresses concerns that this might provoke a downward spiral in which investors withdraw, employment declines, and the most skilled people leave the Netherlands Antilles.

84. The government has distinguished three methods to reduce its role: granting of internal autonomy, granting of external autonomy, and privatization. With **internal autonomy**, the organization remains part of a department, its employees remain civil servants, and their wages remain part of the budget. With **external autonomy** the organization becomes a separate legal entity, and its relation with the government is determined by contract. The government will, however, continue to play an important role in the financing of the organization; its employees are called "semi-private" because their wages are not part of the budget, although the subsidies to pay their wages are. Under **privatization**, the organization becomes a separate legal entity and is responsible for its own financing. Its employees are no longer civil servants.

85. A preliminary timetable for implementation of the core-task analysis of the Central Government has been established. The number of civil servants will be reduced by about 45 percent over a four-year period: 764 persons will take on a semi-private status, 1,320 will be shifted to the privatized units, and 76 will be dismissed (Table 13). About one fifth of the targeted reduction of the number of civil servants in the central government is envisaged to take place in 1997. The major candidates for privatization in 1997 include the Social Insurance Bank (SVB) and the civil servants' pension fund (APNA).

Table 13. Netherlands Antilles: Timetable for Implementation of Core Task Analysis of the Central Government

Year	Units that will be privatized	No. of employees	Units that will be semi-privatized	No. of employees	Units that will be abolished	No. of employees	Total no. of employees
1996					Departement voor HIW	29	
	Total	--	Total	--	Total	29	29
1997	SVB	295	Interne opleiding	47	Instituto Linguano Antiano	9	
	APNA	54	ARNA	25	Afhandelen ziektekosten	7	
	Landsloterij (landslottery)	26	Stichting reclassering	15	Ziektekosten	4	
	Total	375	Total	87	Total	20	482
1998	Posten (Post office)	336	UNA (University)	101			
	Kadaster	76	Voogdijraderen	63			
	Hypotheekkantoor	14	CBS (Statistical office)	50			
	Postspaarbank (Postbank)	12	AAINA	15			
	Beschermen intellectueel eigendom	11	Studiefinanciering	9			
	FZOG	10					
1999	Total	459	Total	238	Total	--	697
	Caprileskliniek	317	Gevangenis (prison)	352	Formatiezaken	15	
	Landslaboratorium	169	Heropvoeding (re-education)	84	Pedagogisch didactisch bureau	11	
2000	Total	486	Total	436		26	948
	Ykwezen	--	Secretariaat van de SER	6			
	Total	--	Total	6	Total	--	6
1996-2000	Total	1320	Total	767	Total	75	2162

Source: Data provided by the authorities.

Reforms in the health care system

Introduction

86. To reduce the burden that health care places on the budget, and increase its efficiency, the government has introduced two changes to the health care financing system. First, insurance of family members of Social Insurance Bank insured employees, which was previously partly financed by the Island Government, has been shifted to SVB. Second, a new health care insurance for treating chronically ill persons—the AVBZ—has been introduced, which allowed the shifting of several government expenses to the AVBZ.

Shifting dependents of private sector employees to SVB

87. Prior to the reforms, health care insurance was split between the SVB, private insurance companies, and the various levels of government. The SVB insured health care of private sector employees whose monthly incomes did not exceed NA f. 3,193. It only insured the employees, and not their dependents. Private insurance companies typically insured health care of private sector employees with higher incomes. The various levels of government financed health care costs of their civil servants, welfare recipients (under the so called 'p.p.-system'), dependents of those private sector employees not insured by private insurance companies, and medical expenses of treating chronically ill persons.

88. In early 1996, the financing of medical care of dependents of private sector employees was shifted to SVB. This resulted in savings of NA f. 8 million for the Island Government of Curaçao. To meet the additional costs associated with the shift, SVB has imposed a supplementary premium equivalent to 4.5 percent of the employee's salary, of which 0.3 percentage point is borne by the employer and 2.1 percentage points each by the employee and the government.

AVBZ

89. On January 1, 1997, the AVBZ (Algemene Verzekering Bijzondere Ziektekosten; General Insurance Special Health care costs) was introduced. The AVBZ insures all residents of the Netherlands Antilles for uninsurable medical costs, such as prolonged stays in hospital. The insurance is administered by the BZV (Bureau Ziektekosten Verzekering, or Bureau of Health Care Insurance), the same institution that administers health care financing of civil servants and p.p.-patients.

90. Projected revenue and expenditure of the AVBZ are shown in Table 14. Revenue consists of premiums, contributions of the island governments, and a contribution of the

central government.⁴³ Premiums are levied as a percentage of taxable income.⁴⁴ The premium percentage is 2, of which 0.5 percentage points is paid by employers.⁴⁵ Welfare recipients and retirees pay only 1 percent. The contribution of the island governments is NA f. 75 per inhabitant. The contribution of the Central Government is equal to the difference between total AVBZ-related expenditure, and revenues from premiums and contributions of the island governments. Expenditures consist of three parts, viz., hospital-related expenses ("intra-murale zorg"), non hospital-related expenses ("extra-murale zorg") and general costs, which consists of administrative costs and items like artificial legs, etc. Projected expenditures for the AVBZ are NA f. 64 million.

91. The government savings from the introduction of the AVBZ can be calculated as the difference between government-financed AVBZ-related expenditures under the old system (i.e. expenses for civil servants and p.p.-patients) and government paid AVBZ-expenditures under the new system (i.e., AVBZ employers premiums paid by the government, and contributions). These are projected to amount to NA f. 23.3 million for the Island Government, and NA f. 6.8 million for the Central Government⁴⁶ (Table 15).

Table 14. Netherlands Antilles: Projected Revenue
and Expenditure of the AVBZ
(In millions of NA guilders)

Revenue	64.8
Premiums	43.2
Contributions of island governments	14.2
Contribution of the central government	7.4
Expenditure	64.8
Hospitals ("intra-muraal")	50.3
Non hospitals ("extra-muraal")	3.6
General costs	10.9

Source: Data provided by the authorities.

⁴³Co-payments from the insured might be introduced in the future.

⁴⁴On income exceeding NA f. 300,000 no premium is levied.

⁴⁵The self-employed have to pay 2 percent.

⁴⁶In the central government's budget, these savings show up on the revenue side, as they lead to a higher revenues paid by the Caprileskliniek hospital to the government.

**Table 15. Netherlands Antilles: Projected Expenditure Savings
from Introduction of the AVBZ
(In millions of NA guilders)**

	Expenses without introduction of AVBZ	Expenses after introduction of AVBZ			Savings
		Contribution	Employers premiums	Total	
Bonaire	2.7	0.8	0.1	0.8	1.9
Curaçao	35.0	10.8	0.9	11.7	23.3
Saba	...	0.1	...	...	...
St. Eustatius	0.2	0.1	--	0.1	0.1
St. Maarten	3.3	2.4	0.2	2.6	0.7
Central government	14.8	7.5	0.4	8.0	6.8
Total 1/	56.0	21.6	1.6	23.2	32.8

Source: Data provided by the authorities.

1/ Excludes Saba.

Other health care reforms

92. Several other measures have been introduced to contain health care costs. For hospitals, the open-ended financing system has been replaced by a strict budget constraint; the duration of in-patient hospital care, for instance, now requires prior authorization. A new system to control costs for medicines has been introduced, under which pharmacists receive a fixed fee per item prescribed, and reimbursement will be given for the generic product, if it exists. The government has shifted certain additional health care expenditures to the SVB, which were previously paid by the government, such as transfers and medical treatment abroad for SVB-insured patients. Also, private insurance companies will be charged for the use of ambulances by their insureds.

Public enterprise reform

93. The reform of the public enterprise sector has the dual aim of strengthening the financial performance of public enterprises and substantially reducing the size of this sector. A list of the main public enterprises is provided in Table 16, together with the degree of

Table 16. Netherlands Antilles: Description and Employment of Public Enterprises 1/

	Description	Degree of ownership	Number of employees
Central Government			
ALM n.v.	National Airline	60	999
Antelecom n.v.	Telecommunication	100	227 2/
ATM n.v.	Television station	100	53
CDM Holding n.v.	Dock and ship repair	27	389
GEBE n.v.	Water and electricity production	100	198
ITC n.v.	International Trade Center	... 3/	22
OBNA n.v.	Development bank	33	15
Posterijen	Postal services	100	284
WEB n.v.	Water and electricity production	50	96
Winair n.v.	Airline Windward Islands	100	85
Woningbouw Curaçao n.v.	Government-owned dwellings	50	2
Total			2,370
Island Government of Curaçao			
ABC n.v.	Public bus transport	100	150
Aerovista n.v.	Airport cafeteria	100	30
CDM Holding n.v.	Dock and ship repair	73	389
CPA n.v.	Harbor facilities	100	82
Curacarni n.v.	Slaughterhouse	100	4
Curinde n.v.	Free zone and industry park	100	14
Curinta n.v.	Airport facilities	100	126
Curoil n.v.	Distribution of oil products and gas	100	78
ITC n.v.	International Trade Center	... 3/	22
K.A.E. n.v.	Water and electricity production	100	357
Kodela n.v.	Water and electricity distribution	100	515
KTK n.v.	Tow boat and pilot service	100	64
OBNA n.v.	Development bank	33	15
Refineria di Korsou n.v.	Refinery lease company	100	6
Setel n.v.	Telecommunication	100	398
Woningbouw Curaçao n.v.	Government-owned dwellings	50	2
Total			2,252

Source: Data provided by the authorities.

1/ Most of the figures refer to 1995. Exceptions are figures for Antelecom n.v., ITC n.v., Curacarni n.v. and Curoil n.v., which refer to 1996, and Posterijen, which is based on 1994.

2/ Because of the transformation of Landsradio into Antelecom n.v., only the management team (consisting of six persons) is currently employed by the new organization. The remainder still are civil servants, but are at the disposal of Antelecom n.v.

3/ As a result of a restructuring of the exploitation and real estate activities of ITC, a new N.V. has been created that consolidates all activities. Due to this restructuring, it is, at the moment, not possible to determine the degree of participation of the government.

shareholder's participation of either the Central Government or the Island Government of Curaçao, and the number of employees. Taken together, these public enterprises employ approximately 4,600 people (i.e., about one-tenth of all employed persons).

94. In recent years, some public enterprises have been a considerable drain on the budget. Until 1996, the water and electricity distribution company, Kodela, received some NA f. 24 million in subsidies from the Island Government to cover its losses on water distribution.⁴⁷ The air carrier ALM, which has been making substantial losses, received a capital transfer of NA f. 12 million in 1996 from the central government, and will get the same amount in 1997. ALM has also received subsidies in recent years to help finance its flights between the various islands of the Netherlands Antilles. The local bus transport company, ABC, has received some NA f. 7 million in subsidies annually (Tables 38 and 39).

95. The government is seeking to improve internal cash generation of public enterprises through a combination of improvements in collection efficiency, costs savings, and tariff adjustments. In November 1995, Kodela increased water charges by an average of 17 percent for domestic consumers and by 10 percent for industry, while electricity tariffs were raised on average by 17-19 percent, which allowed the government to cut its 1996 subsidy by NA f. 17.5 million.

96. In the aggregate, however, public enterprises have not been a drain on the budget in recent years, as transfers to public enterprises were smaller than receipts from dividends. In 1994 and 1995, the central governments' net receipts from public enterprises were about NA f. 70 million, as the international phone company (Landsradio) made substantial dividend payments. Net revenues of Curaçao were negative in 1994, but became positive in 1995, when the oil distribution company (Curoil) paid out an extra dividend and the local telephone company (Setel) paid off a loan.

97. The government views privatization as a means to improve efficiency and raise output. A basic framework law supporting the general principles of privatization is currently being drafted. This umbrella law, which will cover the Central Government and all the island governments, will specify the guidelines for the distribution and usage of the privatization proceeds. The authorities intend to invest the proceeds from privatization, and use the returns to finance debt reduction, investment projects, enterprise restructuring, and other activities that will stimulate economic activities. Privatization will be decided on a case by case basis, and will be spread out over time.

IV. MONETARY POLICY

98. Monetary policy in the Netherlands Antilles is guided by the primary objective of maintaining the long established fixed exchange rate link to the US dollar, with the purpose of providing a stable macroeconomic framework for sustainable growth. In this regard, the level

⁴⁷Curaçao has no natural sweet water resources. Thus, all sweet water is produced through an (expensive) desalination process.

of foreign exchange reserves serves as an intermediate policy target, which is pursued mainly through controlling the pace of domestic credit expansion. In a small open economy with a high propensity to import, credit growth has been observed to spill over into higher imports, which in turn puts pressure on reserves (Chart 7). The growth of credit to the private sector slowed substantially during the early 1990s, following the introduction of the 'monetary cash reserve arrangement' (MCR), though there were marked lapses in the stance of monetary policy thereafter.

99. The practical operation of monetary policy is complicated by several factors. The financial sector is highly concentrated, and both the money and capital markets remain underdeveloped. In this context, the Bank van de Nederlandse Antillen (BNA) has a limited set of instruments at its disposal to combat excess liquidity which is endemic to the banking system. The absence of national accounts data, and lengthy delays in the availability of monetary data, also hamper policy formulation and the monitoring of developments.

A. Structure of the Financial System and Monetary Policy Instruments

100. The banking and financial system in the Netherlands Antilles is highly concentrated. At the beginning of 1996, 14 banks were authorized to operate in the domestic banking sector, excluding the Giro Curaçao and the specialized savings and credit institutions.⁴⁸ The top three banks accounted for 79 percent of deposits and 77 percent of outstanding loans; while the bottom three banks accounted for 2 percent of deposits and liabilities. Since the larger banks have a more extensive branch network, there has been a concentration of retail deposits with them, stifling effective competition. Consequently, smaller banks have resorted to the inter-bank market to raise deposits. On occasions, when faced with excess liquidity, some banks have been reluctant to accept additional deposits. However, there have been recent signs of increasing competition for deposits, and of new long-term savings instruments (yielding greater returns) being offered to retail clients.

101. The B-9 regulation, instituted in the 1970s, seeks to concentrate foreign exchange reserves at the central bank, and sets an upper limit on the amount of net claims on non-residents in foreign currencies that may be held by the commercial banks. The banks are required to submit a B-9 telex on a weekly basis, reporting both their net (i.e., "actual") position as well as their "allowed" position. The BNA defines the "allowed" B-9 as a working foreign exchange balance of up to 5 percent of gross domestic deposits (the assumption being that this amount is adequate to satisfy the banks' transactions demand for foreign exchange).⁴⁹ Banks are therefore required to sell the excess (i.e., the difference between "actual" and

⁴⁸These comprised 16 specialized credit institutions for mortgage and business lending, 2 savings banks, 12 savings and credit funds, and 27 credit unions.

⁴⁹In practice, the 5 percent rule applies to the average level of domestic deposits over the latest reported three-month period.

CHART 7
NETHERLANDS ANTILLES
Domestic Credit Growth
and Overall Balance

(Annual Percent Change and Millions of NA f.)

Source: Bank van de Nederlandse Antillen.

“allowed”) amounts to the BNA. However, the B-9 regulation permits the commercial banks to hold “special” B-9 positions in cases where residents’ deposits are in excess of US\$1 million.⁵⁰

102. In order to help boost the foreign exchange position, institutional investors, comprising mainly insurance companies and pension funds,⁵¹ are restricted in the way they may dispose of their resources through a domestic investment requirement; the so-called **40/60 rule** is set according to three tranches. For asset positions under NA f. 10 million, a maximum of 60 percent may be invested abroad. Positions between NA f. 10 million and NA f. 20 million permit up to 50 percent to be invested abroad, and for assets of over NA f. 20 million 40 percent may be invested abroad. The rationale for this rule also relates to the authorities’ desire to ensure that domestic savings are channeled into local investment opportunities; real estate investment has proved to be the most lucrative choice for such investors which has helped fuel the increase in property prices in recent years. But the inability of institutional investors to find other appropriate domestic savings instruments outside the banking system is in part responsible for the liquidity overhang in the Netherlands Antilles.

103. The prevailing mechanism of monetary policy—the so-called monetary cash reserve arrangement (MCR)—**controls domestic credit expansion** through annual guidelines for both credit to the private sector and net credit to the government.⁵² Under the MCR, the BNA sets a guideline for credit growth by each bank, in accordance with the BNA’s view of the underlying growth rate of the economy and current account developments. Commercial bank

⁵⁰Specifically, the “special” B-9 position is defined as the allowed B-9 position and half as much of that amount again, or NA f. 5 million, whichever is higher.

⁵¹In the second quarter of 1996, there were 27 insurance companies and 26 pension funds under the supervision of the BNA. Typically, life insurance companies have chosen to keep 80 percent of their assets at home and 20 percent abroad; while pension funds have kept 40 percent of their assets at home and 60 percent abroad. Total foreign assets of these institutional investors combined exceeded NA f. 1½ billion in 1993, 38 percent of GDP.

⁵²For a brief period in 1993-94 the BNA abandoned credit ceilings and experimented with a reserve requirements based system. For a detailed study of instruments of monetary control and the development of financial markets in the Netherlands Antilles see SM/94/142, Appendix II. From September 1993 until October 1994, the BNA ceased to apply the monetary cash reserve arrangement in view of the recovery in foreign exchange reserves and the re-emergence of excess liquidity in the banking system. Reserve requirements were introduced with two objectives: to reduce excess liquidity, and to move towards a more market-oriented conduct of monetary policy. The reserve requirement was calculated with reference to commercial banks’ domestic debt and adjusted on a monthly basis in the light of financial and economic developments. However, this system proved unable to contain excess liquidity in the commercial banks and to restrain credit growth. Therefore, the MCR was reinstated after one year.

balance sheets are examined on a monthly basis, and penalties are applied in cases where ceilings have been breached.⁵³ The penalty formula is:

$$P = CR * SR * [(DC_p - \overline{DC_p}) + (NDC_g - \overline{NDC_g})]$$

$$\text{if and only if } DC_p - \overline{DC_p} > 0 \text{ and/or } NDC_g - \overline{NDC_g} > 0$$

where: P is the penalty incurred in NA guilders, CR is the cash reserve ratio, SR is the standard (or pledging) rate calculated on a monthly basis,⁵⁴ DC_p and NDC_g are domestic credit to the private sector and net domestic credit to the government from which the penalty-free maxima are subtracted (represented by the bar variables in the equation).⁵⁵ The use of two instruments, a cash reserve ratio and a pledging rate, allows the BNA flexibility to fine tune the extent of the penalty over time. A bank may avoid paying penalties by buying unutilized headroom under the guideline from another bank; this is normally done through the inter-bank market.⁵⁶ In many instances banks have been prepared to incur penalties, particularly at times when borrowers have willingly shouldered the burden of higher interest charges or in cases where longer-term strategic considerations (relating to a bank's market share) were considered of paramount importance in a concentrated banking structure where non-price competition dominates.

⁵³The BNA calculates the penalty on a monthly basis, but levies the penalty on a quarterly basis.

⁵⁴At end-1996 the cash reserve ratio was 75 percent and the pledging rate was 7 percent at an annualized rate (the historical evolution of these variables is discussed more fully below). A graduated cash reserve ratio scale was introduced with effect from January 1, 1997, and is described below.

⁵⁵Until January 1, 1997 the penalty was applied with some flexibility, such that a NA f. 25,000 threshold was permitted.

⁵⁶Banks are obliged to treat DC_p and NDC_g as discrete and separate variables, in the event that credit ceilings are 'traded'—these are traded independently.

104. The BNA sets the **official lending and discount rates**. The official lending rate is charged for debit positions of the commercial banks with the central bank. Commercial banks may request a loan from the central bank, which is normally provided against collateral such as Treasury paper. As the inter-bank rates on 1-month and 3-month loans are below the discount rate, banks have little incentive to resort to the BNA lending window.⁵⁷ Banks can also manage their liquidity through sales of government securities to the central bank. In addition, the BNA offers interest bearing securities in the form of repurchase agreements (repos) and certificates of deposit (CDs). Repos were introduced in August 1992 and enable the banks to purchase Treasury paper from the central bank and resell them within a maximum period of two/three months. Repos were frequently traded in the first year after their introduction, but fell into disuse following the introduction of reserve requirements, and since August 1994 no repo transactions have been recorded. One-month CDs were introduced in April 1993, but also suffered from the introduction of reserve requirements. The BNA operates a tender system for CDs, but there is a notional ceiling on the rate. Not surprisingly, banks prefer to resort to the inter-bank market in preference to bidding for CDs.

105. For prudential purposes, the BNA has continued to maintain an underlying **reserve ratio** of 2 percent of the 'adjusted' domestic debt. The adjustment is applied in three debt tranches: (i) the first NA f. 25 million is exempted altogether, (ii) the next NA f. 25 million is subject to a 1 percent reserve requirement (i.e., 50 percent of the full requirement), and (iii) debt over NA f. 50 million is subject to the full reserve requirement.

B. Recent Monetary and Financial Developments

Developments in 1994-95

106. During 1994, when the **reserve requirement** was the principal monetary policy instrument, there was a surge in both private and public sector credit growth. Private sector credit increased by 13 percent and that to the public sector by over 37 percent (Table 40).⁵⁸

107. The **monetary cash reserve arrangement** was, therefore, reintroduced in October 1994, and the penalty provisions tightened in March/April 1995: the discount rate was increased by 1 percentage point,⁵⁹ the penalty was increased further through an increase in the cash reserve ratio, from 50 percent to 75 percent, and a freeze on commercial bank lending to the government was imposed. These measures helped to slow private sector credit growth to 4½ percent by end-1995—within the 5 percent penalty-free guideline. Indeed, domestic credit actually fell, reflecting the decline in the banking sector's willingness to hold government

⁵⁷The spread between the discount rate and the inter-bank rate was 1.75 percentage points and 0.25 percentage points for 1-month and 3-month deposits, respectively, at end-1996.

⁵⁸1994 also happened to be the year of parliamentary elections.

⁵⁹The pledging rate (used in the penalty formula) at 7 percent is one percentage point higher than the official discount rate.

securities following the audit of the Island Government undertaken for the report of the Debt Commission.

108. Overall, the growth rate of broad money (M2) fell to 4½ percent in 1995 from 8½ percent a year earlier. The net foreign assets position improved, mainly on account of indemnity insurance related inflows in the fourth quarter. As a result, during November-December liquidity in the banking system rose and demand deposits at the BNA increased sharply (Table 17).

Table 17. Netherlands Antilles: Commercial Banks' Transactions with the BNA
(in millions of NA guilders)

	Certificates of deposit		Reserve requirements of banks at BNA		Demand deposits at BNA	
	1995	1996	1995	1996	1995	1996
January	--	8	38	41	35	62
February	3	--	38	41	34	73
March	3	8	38	41	60	58
April	8	17	39	41	24	61
May	4	21	40	41	56	75
June	--	17	39	41	68	44
July	12	13	39	41	16	65
August	9	16	39	40	29	54
September	5	15	38	40	53	59
October	5	14	39	40	36	...
November	5	5	39	40	98	...
December	5	--	39	39	118	...

Source: Bank van de Nederlandse Antillen

Developments in 1996

109. The framework for monetary policy in 1996 was carried over from 1995. The private sector credit growth target during the 12 months beginning September 1995 was set at 5 percent, and the guideline for credit to the government was for zero growth. By the end of the first quarter of 1996, however, it had already become evident that the private sector annual credit growth target was close to having been breached. Although special factors were

believed to have been at work,⁶⁰ the authorities **tightened the monetary stance**: credit growth target for the private sector was lowered to 4 percent on May 9, 1996, to apply retroactively for the full year 1996. Since the credit guideline was changed part-way through the year, additional penalties were not charged retroactively for the first four months of the year.

110. However, this failed to check the pace of credit growth and the situation was exacerbated as special foreign borrowing of commercial banks onlent to domestic clients (SFBs) were exempted from the credit guidelines. Private sector credit growth is estimated to have increased by nearly 8 percent during the 12-month period ending December 1996. The underlying credit expansion was even larger as, in order to return to compliance with the credit guidelines, some major banks sold sizable mortgage portfolios with a combined value of NA f. 46.8 million to Aruban subsidiaries/affiliates of Antillean banks in the fourth quarter of the year. Net foreign assets and the overall money supply declined in 1996, dominated by hurricane-related transactions. Insurance indemnity inflows deposited with banks toward end-1995 were drawn down to finance construction activity.

111. Until May 1996, the BNA's working definition of credit to the private sector had excluded exemptions granted for banks' SFBs. The rationale for this practice was that such borrowings financed activities of enterprises which generated substantial foreign exchange earnings. Three new loans amounted to NA f. 91 million, and when properly included in the definition of private sector credit, half of the increase in credit to the private sector may be explained by such financing activities. The first loan of NA f. 31 million was on-lent to the governmental Energy Fund and used to eliminate intra-public sectors debts to Kodela, KAE and Curoil. A Windward islands based bank borrowed NA f. 54 million partly for on-lending for hotel re-construction in St. Maarten, and to refinance an existing loan. The third loan of NA f. 6 million, for another hotel project in St. Maarten, was repaid within three months.

112. **The structure of bank lending** in the Netherlands Antilles has changed noticeably since 1990: business lending has fallen while mortgage and consumer lending has risen substantially. This process has been driven by the rising cost of credit, inducing enterprises to borrow abroad, but which households have been prepared to pay.⁶¹ The rapid growth of credit in 1994 was concentrated in consumer loans and mortgages, which incurred growth rates of close to 20 percent, as loans to enterprises rose slightly after falling for two consecutive years (Table 41). The pattern of credit creation in 1995 changed somewhat, with a marginal increase in consumer loans and modest growth in mortgages and business loans. During the first quarter of 1996, business loans proved to be the most significant contributor to private sector credit growth, accounting for two-thirds of the total increase, as the effects of the economic

⁶⁰The authorities believed that consumers, anticipating the effects of the sales tax, had chosen to utilize unused credit facilities at this time.

⁶¹A widening interest differential with abroad may help explain the shift away from business lending towards consumer and mortgage lending, as creditworthy enterprises have raised funds abroad.

slowdown became more pronounced and demand for "relief credit" increased. Demand for consumer and mortgage lending had returned to trend by the third quarter of 1996.

Monetary policy objectives for 1997

113. On December 20, 1996 the BNA issued new **credit guidelines for 1997**. Domestic credit growth to the private sector has been targeted at 4 percent from end-December 1996 through end-December 1997.⁶² No exemptions will be given for prior commitments or SFBs, and asset sales will not be permitted. To monitor developments, the BNA has also established binding quarterly ceilings for credit growth. With effect from January 1, 1997 the cash reserve ratio has been revised to incorporate a progressive scale. The cash reserve ratio will remain at 75 percent for excess amounts of up to NA f. 1 million; excess amounts of between NA f. 1-2 million will be penalized at a cash reserve ratio of 90 percent; and amounts of over NA f. 2 million will be penalized at 100 percent. The pledging rate will remain unchanged at 7 percent for the time being.

Trends in excess liquidity in the banking system

114. The lack of market-oriented instruments of monetary policy, and the reliance on direct controls has resulted in **excess liquidity being pervasive** in the Netherlands Antilles financial sector. The BNA requires the commercial banks to maintain reserves against eligible liabilities for supervisory reasons. When other liquid assets are added to the definition of required liquidity, one is able to ascertain the extent of excess liquidity pervading the system (Chart 8). With the exception of only one month,⁶³ broad liquidity, which includes banks' holdings of Treasury paper, has continuously exceeded required liquidity throughout the past three years. As excess liquidity in the banking system built up during 1993 and 1995, when credit growth was effectively restrained, the banks came under increasing pressure to extend credit. This subsequently happened in 1994 and 1996.

115. Once credit has been extended, and excess liquidity is drained from the system, the banks feel the impact of this almost immediately on their B-9 position which deteriorates. Given the characteristics of the economy, credit typically finances activity with a high import content. Throughout the early parts of 1994 and most of 1995, commercial banks held foreign exchange in excess of the basic B-9 position.⁶⁴ For a short period, in early 1995, the BNA allowed for extended "special" B-9 positions; by allowing the banks to hold on to their foreign exchange, a further build-up of excess liquidity was prevented. From mid-1996 banking system operated at well below the allowed B-9 position, implying that certain banks had registered negative B-9 positions (in contravention of BNA guidelines—see Chart 9).

⁶²It is envisaged that the freeze on net domestic credit to the government will be maintained at the level outstanding on December 31, 1996.

⁶³October 1996.

⁶⁴While most banks remained within the allowed limits, the two largest commercial banks did not.

CHART 8
NETHERLANDS ANTILLES
Liquidity Position of Commercial Banks
(In Millions of NA Guilders)

Source: Bank van de Nederlandse Antillen.

CHART 9
NETHERLANDS ANTILLES
B-9 Position of Commercial Banks
(In Millions of NA Guilders)

116. One implication of excess liquidity has been a 1½ percentage point widening of the interest rate spread between lending and deposit rates since 1993 (Table 42 and Chart 10). The central bank has only partially mopped up the excess liquidity, at below market rates. In this situation, banks have tried to preserve their profit position through both lower deposit rates and higher lending rates. Rising domestic lending rates and a weakening of international interest rates have contributed to a widening of interest differential with abroad during 1995–96 (Chart 11). The authorities have taken several steps to foster competition within the banking sector in recent years, through the entry of specialized banks; promotion of mortgage lending by the non-bank financial sector and requiring banks to sell Treasury bills so that depositors have the choice of an alternative saving instrument. In addition, the structure of interest rates is quite diversified across the different islands and across different market segments.

Banking supervision

117. The BNA has taken a number of steps to **strengthen banking supervision** in recent years, through legislation, and closer on-site and off-site supervision.⁶⁵ The National ordinance on the supervision of banking and credit institutions was enacted in 1994, and sets the regulatory and supervisory framework for the Netherlands Antilles. In July 1995, a series of policy memoranda and supervisory regulations were issued to complement and strengthen the ordinance. Foreign banks are currently restricted to banks ranked in the top 1,000 worldwide in terms of total assets. In August 1996, guidance notes on effective corporate governance were issued. In order to enhance reporting discipline, a daily fine of NA f. 1,000 was introduced in 1995 for late submissions of all credit institutions under the supervision of the BNA. Also, the reporting requirements for international credit institutions have been strengthened.

V. EXTERNAL SECTOR DEVELOPMENTS

118. The Netherlands Antilles relies extensively on international trade for its growth and development. The islands have a **comparative advantage in services**: tourism, offshore/financial, refining and transshipment. Merchandise exports are of limited importance in the Netherlands Antilles and are composed of re-exports and exports of salt, reflecting the paucity of agricultural resources and the narrow industrial base of the economy. The two key services sectors, tourism and offshore, have faced particular challenges in recent years, not least in the face of growing competition from within the Caribbean region. After several years of stagnation, investment has picked up in the refining and transshipment sectors, which is beginning to revive earnings. Meanwhile, rising real incomes have placed increasing pressure on the current account, through higher imports, substantial private remittances overseas and Antillean travel abroad. Capital inflows have not kept pace with the **widening current account deficit**, which reached 9 percent of GDP in 1996, resulting in a decline of import cover of reserves to 1.6 months.

⁶⁵Details on money laundering are covered in Chapter V.

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CHART 10
NETHERLANDS ANTILLES
Interest Rate Developments
(In Percent)

Sources: Bank van de Nederlandse Antillen, Quarterly Bulletin; and IMF, International Financial Statistics.

CHART 11
NETHERLANDS ANTILLES

Interest Rate Differential with Abroad
(In Percent)

Source: IMF, International Financial Statistics.

119. The small size and open nature of the economy has led to **large swings in individual series**; the timing of just one transaction in certain sectors, such as the offshore sector, can affect the balance of payments by more than one percentage point of GDP. Apart from the complexity of certain transactions, the definition of these transactions is often somewhat arbitrary. For example, tourism is derived from transactions in foreign banknotes, travelers checks and foreign credit cards as recorded by the commercial banks. The diversified and evolving structure of the offshore sector renders it difficult to make a careful classification between offshore, investment income and 'other services' flows, as well as private capital flows. A shrinkage of the offshore tax base, and periodic efforts to speed up the collection of offshore taxes also have had a disproportionate impact on the current account outturn in recent years.

120. The analysis of external sector developments is hampered by **data problems**. The BNA collects balance of payments statistics from two reporting sources: cash and transactions returns. In the first instance, the balance of payments is recorded on a cash basis and is derived from monthly bank returns. All companies without a general exemption for approval of their foreign exchange transactions must record these transactions on an "A/B form". Those, usually larger, companies which have obtained a general exemption submit data on their net transactions directly to the BNA on a quarterly basis. Customs data are available only for the Leeward islands by the Central Bureau of Statistics, and with a long lag.

A. Recent Balance of Payments Developments

1991-94

121. **The external position strengthened in the early 1990s**, as stronger performance on both the current and capital accounts mutually reinforced one another (Table 43 and Chart 12). A combination of tighter monetary policy and increases in import duties in 1993 helped to contain the increase in merchandise imports.⁶⁶ Revenues from the key services sectors (tourism, offshore, transport and refining) enjoyed several years of solid expansion, even though the net position for offshore and transport hardly changed between 1991 and 1993. Meanwhile, the capital account swung into surplus as a result of a stronger net official balance.

122. **In 1994**, expansionary credit policy, and a worsening of the fiscal deficit led to a widening of the current account deficit as imports surged by NA f. 192 million (an increase of over 9 percent).⁶⁷ Within the services sector, offsetting trends helped maintain the net position at 1993 levels, as the net contribution from the offshore sector fell while those of tourism and transportation increased. A concomitant reduction in foreign aid combined with large debt

⁶⁶The primary reason for introducing the import surcharge was fiscal.

⁶⁷Much of the increase in imports were consumer goods. In Curaçao and Bonaire, for which customs data are available, furniture imports rose by over 10 percent, travel goods by a similar amount, and toys and games by 20 percent.

CHART 12
NETHERLANDS ANTILLES
Current Account Developments
(In Millions of NA Guilders)

Source: Bank van de Nederlandse Antillen, Quarterly Bulletin.

repayments virtually eliminated the capital account surplus. Consequently, the import cover of reserves, which had recovered from a low of 1.9 months in 1991 to 2.3 months by 1993, fell sharply to 1.6 months in 1994.

1995-96

123. **The underlying external situation deteriorated further in 1995, but this was masked by the transitional impact of the hurricane damage to St. Maarten in September 1995.** Imports continued to surge, fueled by the rapid increase in wage growth. However, the disbursements of indemnity insurance payments provided a sharp boost to 'other services' inflows, and hence the overall foreign exchange position, in the fourth quarter. Since reconstruction of housing and infrastructure would take place only gradually, amounts remained unspent at the end of the year and exceeded by a large margin the decline in earnings from tourism. The current account deficit narrowed to less than 1 percent of GDP (from 3.3 percent in 1994), and the overall balance recorded a surplus of NA f. 108 million, allowing import cover to increase to 2 months. The authorities estimate that the net effect of the hurricane on the overall balance of payments in 1995 was a temporary improvement of about NA f. 125 million. In the absence of the hurricane, the current account would likely have recorded a deficit of about 4 percent of GDP, and import cover of reserves would likely have fallen to 1½ months.

124. **In 1996 the current account deficit is estimated to have widened to NA f. 375 million (about 9 percent of GDP).** The authorities have estimated that the hurricane may have been responsible for a net deterioration of about NA f. 175 million (4 percent of GDP) of the current account. The remainder was due to higher imports stimulated by large increases in wages, the loosening of financial policies and a decline in offshore tax receipts. Despite increased inflows of private capital, the extremely large current account deficit was also partly financed out of official reserves which fell to the equivalent of 1.6 months of imports.

125. **Merchandise exports declined in 1995 and remained at that level in 1996.** In 1995, total (re-)exports from the duty free zone amounted to NA f. 205 million, accounting for a little over half of total exports. The decline in commodity exports was caused in part by the negative impact of the hurricane and resulted in non-oil exports falling by about a quarter to NA f. 60 million and oil exports falling by three-quarters to NA f. 17 million in 1995.

126. **Merchandise imports continued to grow strongly in 1995, matching the previous year's rate of 7½ percent, before slowing to around 2 percent in 1996.** The net impact of the hurricane on import growth was relatively small in 1995, since reconstruction-related imports were partly offset by lower tourism-related imports. The fastest growing sectors in 1995 included utilities, wholesale and retail trade (which is a very broad catch-all category and would capture much of the reconstruction effort), transport and communication and financial sector related imports (Table 18). In 1996, imports for utilities and transport and communication have continued at a high level, as extensive re-tooling took place following the purchase of a boiler for the energy utility (KAE) and cabling for the telecommunication companies.

127. The Netherlands Antilles' **direction of merchandise trade** is obscured by different recording methodologies adopted by the BNA (on a cash basis, excluding most oil-related transactions) and the CBS (on a customs basis, restricted to merchandise trade for Curaçao and Bonaire only). Table 19 indicates that merchandise exports in 1994 (according to the CBS) were well diversified by destination, with a similar proportions going to the Americas (North, Central and South respectively) and the European Union (heavily weighted towards the Netherlands). The Caribbean accounted for approximately one-third of all exports, as the largest export market, dominated by fuels and lubricants. Imports were dominated by oil from Venezuela (which accounted for over half the total);⁶⁸ the United States, Surinam, Guyana, and the Netherlands were the principal suppliers of food and beverages.

**Table 18. Netherlands Antilles: Breakdown of Merchandise Imports
by Economic Activity
(In millions of NA guilders)**

	1994	1995	1996 Q1-Q3
Manufacturing, of which	122	124	95
Food and textiles	60	49	35
Chemicals and petrol products	19	25	21
Metal products	17	13	17
Utilities	57	68	67
Construction	40	36	30
Wholesale and retail	1,328	1,386	1,019
Transport, storage and communication	41	69	73
Restaurants and hotels	23	30	24
Community, social services	31	37	32
Financial sector	59	84	66
Other	354	370	259
Total non-oil merchandise imports	2,056	2,203	1,664

Source: Bank van de Nederlandse Antillen.

128. The **tourism sector** is the largest export earner in the Netherlands Antilles, accounting for almost one-third of exports of goods and services (Table 44). Tourism revenues increased at an average rate of 8 percent per year between 1991 and 1994, slightly faster than the increase in stay-over tourists (see Chapter II above). The most devastating occurrence for the

⁶⁸These transactions are not included as merchandise trade in the cash basis balance of payments data.

tourism sector was the impact of the hurricane damage suffered in September 1995. Since the peak tourist season runs from the fourth quarter through to the first quarter of the following calendar year, revenues in both 1995 and 1996 were badly affected. Tourism receipts in the Windward islands fell from a peak in 1994 of NA f. 752 million to NA f. 626 million in 1995 and remained at broadly that level in 1996; by June 1996 stay-over tourism had recovered to only about three fourths of the pre-hurricane level due to the continued closure of several large hotels.

Table 19. Netherlands Antilles: Direction of Trade
for Curaçao and Bonaire
(In percent of total)

	Exports		Imports	
	1993	1994	1993	1994
South America	18	14	61	56
North America	19	15	20	20
European Union	10	17	11	14
Caribbean	33	29	4	4
Asia	4	5	3	3
Central America	15	19	1	1
Africa	2	1	--	--
Other countries	1	1	1	2

Source: Central Bureau of Statistics.

129. Rising incomes and the falling cost of **overseas travel** have contributed to a dampening of the net balance on tourism. Tourism outflows increased strongly, growing by over 10 percent per year on average during the 1990s. Outflows rose by 14 percent in 1996, well above trend, prompted by consumers' desire to pre-empt the sales tax through direct purchases while abroad.

130. After tourism, the **offshore sector** is the second most important source of foreign exchange earnings. There are three components to offshore earnings: taxes on profits, operating expenses and other (operating) expenses in the form of 'non-financial firms' servicing non-residents. All three time series display a degree of volatility, for reasons which are not necessarily connected (Table 20). Although the long-term trend in taxes is negative (see Chapter III above) the Island Government of Curaçao, which is responsible for their collection, has periodically requested advance payments. Hence, the pattern in tax collection has been uneven.⁶⁹ Within operating expenses, the core business has been trust services

⁶⁹These taxes which are recorded on an 'accrual' basis do not match the estimates of 'actual'
(continued...)

(which includes the administration of mutual funds), accounting for one half of the total inflows.

131. There has been an on-going concern within the sector that the amended tax treaty with the Netherlands (BRK) will further erode the competitiveness of the jurisdiction—particularly vis-à-vis other Caribbean jurisdictions in the administration of mutual funds. It is likely to take some time and the passage of new internal legislation, however, before the Netherlands Antilles offshore industry will be able to re-position itself to regain market share, although the passage of anti-money laundering legislation may help repair the current negative image of the Antilles. Money laundering became a criminal offence in May 1993, and this legislation was followed by two national ordinances on the 'Identification of customers when rendering financial services' and 'Reporting of unusual transactions' in February 1996.⁷⁰ The guidance notes against money laundering were also re-issued in November 1996. As of January 1997, all financial institutions have been required to report unusual transactions to a special unit within the BNA.

132. Most of the larger offshore banks have been expanding their presence in the Caribbean and across Latin America in order to exploit these emerging markets, which may explain part of the increase in offshore operating expenses (outflows) which have risen strongly in recent years. Other explanatory factors include costs relating to the relocation of offshore companies abroad, and payment for overseas services (approximately one half of all portfolios are managed abroad, for example).

133. 1995 was an exceptional year for offshore sector inflows. Offshore tax revenues were high, since back taxes were collected more stringently and later in the year advance payments were solicited. Meanwhile, changes in regulations in major industrial countries regarding local 'substance requirements' (i.e., that a substantive amount of the business's activities be centered in the Antilles) contributed to a sizable transfer of offshore operations to the Antilles in 1995, and boosted operational earnings. Within operational income, offshore banks and offshore companies performed particularly strongly (receipts increased by over NA f. 80 million and NA f. 15 million respectively). This may have had some spill-over effect into other services (e.g., law and notary offices). Indications for 1996 suggest that tax revenues fell sharply, while operational inflows were flat and outflows increased (perhaps reflecting higher fees paid for services rendered), causing the net offshore surplus to contract

⁶⁹(...continued)
receipts of the Government.

⁷⁰The guidance notes detail procedures for combating money laundering through more assiduous knowledge of the customer, accounting practices as well as internal banking policy/procedures.

from NA f. 540 million to NA f. 382 million.⁷¹ Trust services performed more strongly in both 1995 and 1996 due to improved portfolio performance.

Table 20. Netherlands Antilles: Offshore Operational Income
(in millions of NA Guilders)

	1991	1992	1993	1994	1995	1996 Q1- Q3
Operational income	213.1	210.6	269.7	262.4	375.6	281.5
Trust services	91.3	112.6	136.2	130.7	159.4	97.4
Offshore banks	58.4	28.4	50.4	23.5	106.6	98.5
Offshore companies	26.0	35.1	47.5	62.8	78.4	62.7
Accountants/Consultants	37.4	34.4	35.6	45.4	31.2	22.9

Source: Bank van de Nederlandse Antillen

134. The net contribution of the **transportation sector** to the balance of payments has grown substantially in the 1990s from NA f. 355 million in 1991 to nearly NA f. 500 million in 1996. Transportation inflows comprise four categories: the dry dock (ship repair), storage, passenger fares and 'other' (Tables 44 and 45). Restructuring of the Curaçao Drydock Company, although successful in restoring profitability, has not yet resulted in a turnaround of export earnings which have remained stagnant since 1994. In contrast, the state-owned oil company Curoil has had a number of notable successes in the sale of bunker fuel abroad, especially in servicing the US military and Ecuador, which has also been facilitated by an increase in shipping capacity.

135. The category '**other services**' comprises, amongst others, services from telecommunications, indemnity insurance, construction, leases and the Royal Navy. The heterogenous composition of the sector has resulted in large swings in the net balance. For most years, 'other services' have had a relatively small impact on the current account balance, but in 1995 hurricane related insurance payments boosted inflows by an estimated NA f. 300 million. In addition, the resumption of telephone services to Germany helped raise telecom-related inflows by NA f. 30 million in the same year. Outflows in 1995 included payments of NA f. 60 million by the St. Eustatius oil terminal to cover industrial costs abroad and a NA f. 30 million indemnity insurance payment abroad. The first quarter of 1996 saw the

⁷¹Compounding the difficulties of assessing the impact of the offshore sector on activity is the substantial rise in outflows from the offshore sector during the 1990s. To the extent that the rise in outflows reflects transfers abroad of some inflows, the net impact would diminish even further.

tail-end of the insurance inflows, and the series subsequently reverted to the underlying trend recorded in 1995. The estimated outturn is for a net surplus of NA f. 87 million.

136. **Investment income** has generally shown a surplus since 1990. Inflows have remained fairly stable at around NA f. 200 million per year, since they are primarily composed of interest receipts by banks and insurance companies. However, outflows have been more volatile as they are more equally weighted between profit remittances (which can fluctuate substantially from year to year) and interest payments. In 1995, the liquidation of investment activities of Orco Bank and interest payments by insurance companies led to one-time increase in outflows by NA f. 30 million and NA f. 25 million respectively. This caused a narrowing of the surplus on this account from NA f. 103 million to NA f. 25 million. In 1996, the outflows are estimated to have returned close to the 1994 levels. But, there were exceptional increases in inflows related to two leading banks' remittances of profits which helped raise net investment income to NA f. 125 million. **Private sector remittances**, such as life insurance payments, wages and pensions, family and student grants and migrants' transfers, have shown a consistent deficit in the 1990s. A broadly upward trend in both inflows and outflows has taken place in recent years, although austerity measures may slow outflows.

137. **Net private capital flows** have steadily increased during the 1990s, and reached an estimated surplus of NA f. 135 million in 1996, double the level of 1995. Data deficiencies make it difficult to pinpoint the underlying trends in private capital flows, since the largest credit item is classified as 'other' (Table 46). It is evident, however, that inflows and outflows track very closely. This may be due to the importance of portfolios being rolled over from year to year. To the extent that asset substitution within portfolios takes place, flows will be recorded as either 'securities' or 'other' transactions. The widening interest differential with abroad may help to explain the trends in bank and enterprise borrowing from abroad. A substantial repatriation by the pension fund APNA is partly responsible for the strong performance of private capital inflows in 1995. The increase in the net surplus in 1996 may be attributed to two monetary policy-related factors: medium- and long-term borrowing of NA f. 83 million by the commercial banks (i.e., 'special foreign borrowing' described in Chapter IV) and loan portfolio sales of approximately NA f. 45 million.

138. By contrast, **official capital flows** have shown high volatility over the past decade. Net inflows of development aid, mainly from the Netherlands, have averaged about 2 percent of GDP in recent years. There was a one-time fall in government net capital inflows in 1994 when aid flows declined (to NA f. 45 million from NA f. 104 million in 1993) and unusually large loan repayments fell due. In 1995 and 1996, however, foreign aid receipts rebounded causing the net official inflows to return to surpluses of NA f. 69 million and NA f. 52 million. However, the Netherlands Antilles did not make amortization payments due to the Netherlands in 1996, because of an agreement reached that outstanding debt would be restructured in 1997 if the Netherlands Antilles was in compliance with the structural adjustment program.

139. The strengthening of the capital account, was not sufficient to cover the widening current account deficit which led to a fall in net international reserves, NIR (Table 47) and hence import cover which declined from 2 months in 1995 to 1.6 months in 1996. The distribution of reserves between the BNA and the commercial banks is determined by the B-9

rule (see Chapter IV). Table 21 reveals that the share of NIR held in the central bank has been increasing steadily since 1993.

Table 21. Netherlands Antilles: Distribution of Net International Reserves
(In percent of total)

	1991	1992	1993	1994	1995	1996 Est.
Central bank	91	88	81	83	87	92
Commercial banks	9	12	19	17	13	8

Source: Bank van de Nederlandse Antillen.

B. Trade Policy Developments

140. The Netherlands Antilles has operated a **relatively open trade regime** for a number of years. Since 1994, tariffs have replaced all quantitative import restrictions as the instrument of trade policy. Tariff rates vary widely across categories, ranging from zero percent for most food items to 63 percent for many locally produced goods (Table 22). Special duties, excise duties and economic duties are levied in addition to the basic tariff on certain goods. Since those additional duties are not all levied on an ad valorem basis, it is difficult to measure their impact on the overall rate. Tariff reduction is an explicit objective in the authorities' structural adjustment program, and a gradual reduction of tariffs to their pre-1993 levels is being implemented from 1997. The Kingdom of the Netherlands signed the Uruguay Round Agreement on behalf of the entire Kingdom, which includes the Netherlands Antilles.⁷²

141. The Netherlands Antilles enjoys **preferential trading status** with the European Union and the USA. Under the EU-OCT (overseas countries and territories of EU members) arrangement, which runs for a period of ten years beginning July 1991, originating products are exempt from customs duties/charges, as are (semi-) manufactured or processed products with sufficient local value-added. Provisions also exist for exemptions and transshipment. In February 1996, the European Commission made proposals which seek to impose restrictions on the importation of certain products from OCT countries. Of particular importance to the Netherlands Antilles is the prospect of limitations on its (re-)exports of rice (and to a lesser extent on sugar) becoming effective in April 1997, although the matter is still under discussion. The Caribbean Basin Economic Recovery Expansion Act (Caribbean Basin Initiative II of 1990) governs trade relations with the United States. CBI II allows for the

⁷²However, the Netherlands Antilles is able to negotiate bilateral side agreements, which are currently being discussed with the USA and Canada.

permanent extension of duty free access for products imported directly from the Netherlands Antilles, that meet the 35 percent local value-added requirement and conform to the substantial transformation requirement (i.e., that the final product must be new and different from the constituent parts used in its manufacture, unless all the components are US made).

Table 22. Netherlands Antilles: Tariff Structure
(In percent of value)

Category	Tariff rate		Special duty	Excise duty	Economic duty
	Minimum	Maximum			
Animals	--	28.0	✓		✓
Plants	--	18.0			✓
Oil products	--	11.5	✓		✓
Food items	--	63.0	✓	✓	✓
Mineral products	6.0	11.5			
Chemical products	3.0	63.0	✓		✓
Plastics	5.5	28.0			✓
Leather products	3.0	28.0			✓
Wood products	5.5	28.0			✓
Paper products	--	28.0			✓
Textiles	3.0	28.0			✓
Clothing	14.0	28.0			
Building materials	3.0	28.0			
Jewelry	--	14.0			
Metal products	3.0	28.0			✓
Machine tools	3.0	28.0			
Transportation items	--	28.0			✓
Audiovisual instruments	3.0	28.0			
Weaponry	6.0	28.0			
Artwork	6.0	11.5			
Other	3.0	28.0			

1/ A ✓ indicates that a duty is levied on some products in the category.

Source: Inspectie der Invoerrechten en Accijnzen, *Gebruikstarief*.

C. Exchange and Payments System

142. The Netherlands Antilles has maintained a **fixed exchange rate** versus the US dollar, the intervention currency, at NA f. 1.79 per US\$1 since 1971. The official buying rates for the US dollar on December 31, 1996 were NA f. 1.77 per US\$1 for banknotes and NA f. 1.78 per US\$1 for drafts, checks and transfers. The official selling rate was NA f. 1.82 per US\$1. Official buying and selling rates are set on a daily basis for other key currencies on the basis of US dollar rates abroad.

143. A **foreign exchange license fees** (replacing the foreign exchange tax from January 1996) is levied on all foreign exchange payments by residents to nonresidents. International companies, pension funds and resident companies with non-resident status for exchange control⁷³ are exempt from the exchange tax. Foreign investments and transfers of loans to Antillean residents require licenses, which are granted liberally. Outward flows of resident-owned capital are subject to license, which are normally granted. Investment by residents of up to NA f. 100,000 per year in officially listed foreign securities or quoted mutual funds does not require a licence. Reinvestment of the proceeds is also allowed. Residents may also hold foreign bank accounts without a special license, which may receive up to NA f. 10,000 per quarter transferred from local accounts. Nonresidents may freely open nonresident foreign currency accounts (deposits of notes and coins are barred), and they may hold guilder balances up to NA f. 200,000 without central bank approval. Institutional investors are subject to a local investment requirement, as described in Chapter IV.

144. The nominal effective exchange rate has substantially appreciated since the 1980s, but owing to relatively low inflation compared with trading partners the CPI-based real effective exchange rate has remained below the 1990 base level in recent years (Chart 13). In the absence of reliable data on wage developments it is very difficult to make a firm assessment of the **current competitive position**. Although price developments indicate that the Netherlands Antilles appears to have maintained its competitive position, it seems possible that recent increases in various minimum wage categories, coupled with public sector wage increases, have eroded competitiveness; however no firm conclusions can be drawn in the absence of data on unit labor costs.

CHART 13
NETHERLANDS ANTILLES
Effective Exchange Rates
(1990=100)

Source: IMF, International Financial Statistics.

THE TAX STRUCTURE

145. Taxes in the Netherlands Antilles are collected by both the Central Government and the Island Government of Curaçao. Direct taxes are collected by the Island Government, whereas most indirect taxes are collected by the Central government. For profits, income, wage and property taxes, levying and collection responsibilities are split: the Central Government sends out the assessments, while the Island Government is in charge of collection; for other taxes levying and collection are done by the same government.

146. Taxes collected by the Central government include import duties, sales tax, turnover tax, excise taxes, foreign exchange levy, property transfer tax, inheritance and gift taxes, stamp duties, gambling-licenses, and taxes on the issuance of licenses and registration. The Island Government of Curaçao collects taxes on profits, income, wages (pay-as-you-earn income tax), property (land and occupancy taxes), motor vehicles, hotel rooms, gambling-licenses,⁷⁴ and the issuance of licenses. The Netherlands Antilles do not have a wealth tax, a withholding tax on dividends, or a withholding tax on royalty payments.

147. Profits taxes are differentiated between domestic and off-shore firms. Offshore companies are taxed at low rates, ranging between 2 percent and 7 percent. Domestic firms—those that are primarily engaged in local activities or are locally owned—face tax rates between 36.9 percent and 44.9 percent. However, average profits tax rates are much lower as a number of activities are tax-exempt or special arrangements apply (hotels, airline and shipping activities, duty free zone companies, etc.). Newly established firms can benefit from tax holidays, which are granted for a period of 5 to 11 years and consist of an exemption from import duties and from income tax on dividends, and a profit tax rate of only 2 percent. Enterprises operating in the duty free zone enjoy a reduced profit tax rate of 2 percent on profits earned from free zone sales.⁷⁵ An investment allowance is also allowed: the allowance is 8 percent of the total investment (12 percent for new buildings) for the first two fiscal years.

148. Income and wage tax rates are progressive. The maximum marginal tax rate, levied on income in excess of NA f. 182,200, is 57.2 percent for married persons and 60 percent for single persons. Average tax rates vary between 3 percent on a NA f. 10,000 taxable income to 42.7 percent on a NA f. 200,000 taxable income (Table 23). Medical expenses, expenses for child education, and interest paid on real estate mortgages may be deducted from taxable income. For certain types of one-time income—such as retroactive payments on wages—a special tax rate is applicable, which is set between 19.5 percent and 39 percent.

⁷⁴Taxes on gambling licenses are collected by both the Central government and the Island Government of Curaçao.

⁷⁵They are also exempt from import duties.

**Table 23. Netherlands Antilles:
Average Income Tax Rates**

Taxable Income (In NA f.)	Rates for Married Persons (In percent)
10,000	3.0
15,000	5.3
25,000	9.0
50,000	18.0
75,000	25.7
100,000	30.8
150,000	38.1
200,000	42.7

Source: Data provided by the authorities.

149. The sales tax—which was introduced in July 1996 in Curaçao and Bonaire—applies to all non-primary goods and to a specified list of services. Primary goods are exempted; non-primary goods are taxed at 6 percent; tourist articles are taxed at a reduced rate of 4 percent, while specified services are taxed at 6 percent. The turnover tax—which was introduced in January 1997 in the Windward Islands—applies to sales of both goods and services. The turnover tax has a rate of 3 percent, with the exception of primary goods, which are taxed at 1 percent. Water, electricity, and natural gas are exempted, as are services delivered by offshore companies to non-residents and other offshore companies.

150. Import duties are levied on a wide range of goods. Tariff rates vary between 0 percent (selected primary goods) and 63 percent (tobacco and fireworks, among others). In addition to these ad valorem tariffs, an array of specific duties are levied on certain imported goods. Of the 21 categories of goods on which ad valorem duties are levied, an economic duty is levied on goods in 13 categories; goods in 4 categories are subject to an economic duty; and an excise duty is levied on certain alcohol products. A fee of 1 percent is levied on all foreign exchange transactions.

151. Land and property taxes include a 4 percent transfer duty, an annual land tax in the order of 0.7 percent of the value of the property, and a property user tax which amounts to 5 percent of the rent value. The rate of the inheritance and gift tax is progressive, and ranges from 2 percent to 24 percent, depending on the degree of kinship and the value obtained.

152. The gasoline excise tax is NA f. 0.6135 per liter in Bonaire; NA f. 0.63 per liter in Curaçao; and NA f. 0.65 per liter in the Windward Islands. In addition, in Curaçao there is a surcharge of 7 cents, which goes to the Island Government of Curaçao. Excise tax on liquor is NA f. 11.50 per liter, and excise tax on beer is NA f. 1.20 per liter. Excise on locally manufactured cigarettes is NA f. 8.75 per 100 cigarettes; on cigarettes locally manufactured under license from a foreign brand NA f. 11.75 per 100 cigarettes; and on all imported cigarettes NA f. 13.75 per 100 cigarettes.

Table 24. Netherlands Antilles: Components of Aggregate Demand, 1987-93
(In millions of NA guilders)

	1987	1988	1989	1990	1991	1992	1993
Total consumption	2,391	2,394	2,578	2,811	2,864	3,002	3,265
Private consumption	1,693	1,701	1,813	1,976	2,019	2,104	2,220
Public consumption	698	693	765	835	845	899	1,045
Gross fixed investment	449	613	772	767	814	803	790
Private sector	376	548	703	682	718	733	686
Public sector	73	64	69	84	96	71	104
Stockbuilding	41	49	102	65	84	75	19
Total domestic demand	2,881	3,056	3,452	3,643	3,762	3,880	4,074
Exports of goods and services	1,710	1,960	2,196	2,529	2,651	2,879	2,847
Imports of goods and services	1,925	2,252	2,556	2,919	2,977	3,178	3,114
Foreign balance	-215	-292	-360	-390	-327	-299	-267
GDP	2,666	2,764	3,091	3,253	3,435	3,582	3,807
Net factor income from abroad	140	160	153	121	118	134	78
GNP	2,806	2,924	3,244	3,374	3,555	3,716	3,885
Depreciation	257	294	322	331	380	401	472
Net national income	2,550	2,630	2,922	3,044	3,175	3,315	3,414

Source: Centraal Bureau voor de Statistiek, *Nationale Rekeningen*, 1996.

Table 25. Netherlands Antilles: Selected Indicators of Economic Activity, 1990-96
(Annual percentage change)

	1990	1991	1992	1993	1994	1995	1996 1/
Oil sector							
Production	7.8	0.2	-5.2	-1.1	-4.5	0.7	8.9
Transshipment	-9.1	11.9	7.6	12.0	26.1	51.9	-12.0
Shipping activity 2/							
Bonaire	-26.1	46.2	27.9	25.0	14.5	--	-16.4
Curaçao	7.9	12.8	-6.5	-5.5	-2.2	8.7	1.8
Construction (Curaçao) 3/	-47.0	48.5	37.2	-8.2	0.4	-4.0	...
Tourism 4/							
Stay-over tourism	10.4	-1.4	3.1	-4.8	10.2	-13.5	-25.7
Cruise tourism	13.7	0.3	-3.1	30.3	3.8	-16.2	-0.4
Electricity production	7.1	1.7	7.5	6.6	4.8	4.4	2.5

Source: Data provided by the authorities.

1/ First three quarters over same period of previous year.

2/ Annual tonnage of shipping traffic in Antillean ports.

3/ Value of completed buildings.

4/ Number of visitors.

Table 26. Netherlands Antilles: Basic Data on Stayover Tourism, 1990-96 1/

	1990	1991	1992	1993	1994	1995	1996 2/
(In thousands)							
Number of visitors							
Bonaire	41.3	49.5	49.7	54.2	55.2	58.8	49.5
Curaçao	206.5	205.6	206.9	214.1	226.1	223.8	158.0
St. Maarten	528.5	510.3	532.6	483.3	547.0	433.9	249.4
Total	776.4	765.5	789.3	751.6	828.3	716.5	457.8
(Change in percent)	10.4	-1.4	3.1	-4.8	10.2	-13.5	-25.7
(Percent of total)							
National origin of visitors							
Bonaire							
United States and Canada	49.6	44.7	44.5	42.9	45.2	46.3	46.6
Venezuela	9.6	9.6	11.2	11.1	9.1	8.2	7.7
Other America	13.7	13.0	12.0	12.8	13.9	10.9	9.2
The Netherlands	20.0	24.4	23.5	22.9	23.1	24.6	25.8
Other	7.0	8.2	8.8	10.3	8.7	10.0	10.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Curaçao							
United States and Canada	12.9	11.1	10.1	11.8	16.1	16.9	17.6
Venezuela	11.4	12.3	14.0	14.5	12.7	13.8	12.7
Other America	45.5	39.0	38.4	36.3	33.9	31.0	30.6
The Netherlands	23.1	29.1	29.7	28.7	29.0	29.8	30.4
Other	7.0	8.4	7.7	8.7	8.3	8.5	8.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
St. Maarten							
United States and Canada	50.1	54.9	56.3	56.3	55.0	50.9	44.9
Venezuela	0.1	1.1	1.9	1.9	1.4	0.8	1.0
Other America	9.6	9.6	8.5	8.5	11.2	14.1	7.0
The Netherlands	1.7	3.0	2.4	2.4	2.4	2.6	3.0
Other	38.5	31.4	30.9	30.9	30.0	31.6	44.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank van de Nederlandse Antillen, Quarterly Bulletin.

1/ Foreigners staying longer than 24 hours.

2/ January-September.

Table 27. Netherlands Antilles: Changes in Consumer Prices, 1990-96
(Annual percentage change; period average)

	1990	1991	1992	1993	1994	1995	1996 1/
Food							
Curaçao	7.7	7.2	2.8	3.2	2.4	5.1	5.5
Bonaire	7.4	7.4	2.8	4.2	6.2	5.3	4.6
St. Maarten	5.2	4.5	1.5	1.2	4.1	6.2	5.4
Beverage and tobacco							
Curaçao	3.0	11.2	8.7	2.7	1.2	3.0	3.2
Bonaire	3.3	10.9	10.9	12.0	7.3	1.8	-0.9
St. Maarten	5.8	4.4	2.7	1.3	0.7	0.3	2.6
Clothing and footwear							
Curaçao	-0.4	0.5	3.0	-0.2	-0.5	-3.8	-3.9
Bonaire	-0.4	0.2	2.0	--	--	0.1	0.2
St. Maarten	-0.5	4.8	1.9	-0.8	-2.1	-0.4	0.3
Housing							
Curaçao	2.2	4.5	--	0.8	-1.0	3.7	5.2
Bonaire	2.0	4.3	1.4	--	2.2	1.7	1.6
St. Maarten	4.0	3.0	1.9	1.6	1.4	1.8	2.2
Housekeeping and furnishing							
Curaçao	4.2	2.7	1.3	2.0	5.4	3.2	1.5
Bonaire	4.0	2.4	-0.7	1.0	3.4	1.5	2.3
St. Maarten	6.5	3.4	2.0	1.0	5.4	8.0	3.1
Health							
Curaçao	1.7	2.3	3.2	3.7	5.6	1.7	1.5
Bonaire	1.6	4.6	5.8	2.3	3.5	4.4	4.6
St. Maarten	3.4	4.3	--	1.1	2.3	1.9	2.1
Transport and communication							
Curaçao	3.6	2.1	1.1	3.6	2.1	2.6	4.1
Bonaire	3.2	4.4	2.6	5.4	0.8	1.4	2.1
St. Maarten	3.0	5.0	2.0	0.1	1.1	1.7	1.9
Recreation and education							
Curaçao	1.1	1.6	1.5	1.7	1.1	2.0	0.8
Bonaire	0.9	1.5	0.5	1.0	1.0	1.0	0.8
St. Maarten	0.3	0.7	1.3	2.8	2.0	0.8	0.3
Other							
Curaçao	2.2	2.3	1.3	2.3	4.1	2.3	1.8
Bonaire	2.1	2.6	1.1	1.3	3.1	1.8	2.3
St. Maarten	2.4	1.7	0.3	0.4	3.4	2.5	2.1
Total							
Curaçao	3.7	3.8	1.4	2.1	1.8	2.8	3.1
Bonaire	3.5	4.1	1.9	2.2	2.9	2.3	2.3
St. Maarten	3.7	3.6	1.7	1.0	2.1	3.0	2.4
Total Netherlands Antilles	3.7	3.8	1.4	1.9	1.9	2.7	3.0

Source: Bank van de Nederlandse Antillen.

1/ Twelve months ending September 1996.

Table 28. Netherlands Antilles: Minimum Wages, 1990-96 ^{1/}
(In NA guilders per month)

	1990	1991	1992	1993	1994	1995	1996
Category 1 (Manufacturing, construction, banking, financial services, insurance)							
Curaçao	925.40	925.40	925.40	925.40	1,000.00	1,000.00	1,000.00
Bonaire	925.40	925.40	925.40	1,000.00	1,010.00	1,010.00	1,039.29
St. Maarten	925.40	925.40	925.40	1,100.00	1,100.00	1,100.00	1,100.00
Saba	925.40	925.40	925.40	925.40	950.00	950.00	1,000.00
St. Eustatius	925.40	925.40	925.40	925.40	950.00	950.00	950.00
Category 2 (Transportation, tourism, and other services)							
Curaçao	686.90	686.90	686.90	775.00	850.00	850.00	900.00
Bonaire	686.90	686.90	686.90	800.00	816.00	816.00	927.65
St. Maarten	882.65	882.65	882.65	1,100.00	1,100.00	1,100.00	1,100.00
Saba	549.50	686.90	686.90	686.90	700.00	700.00	800.00
St. Eustatius	549.50	686.90	686.90	686.90	700.00	700.00	700.00
Category 3 (Agriculture, commerce, and textile industry)							
Curaçao	656.25	686.90	686.90	775.00	850.00	850.00	900.00
Bonaire	656.25	686.90	686.90	800.00	816.00	816.00	927.65
St. Maarten	843.25	882.65	882.65	1,100.00	1,100.00	1,100.00	1,100.00
Saba	475.95	549.50	549.50	549.50	700.00	700.00	800.00
St. Eustatius	475.95	549.50	549.50	549.50	700.00	700.00	700.00
Category 4 (Household personnel)							
Curaçao	355.00	355.00	355.00	400.00	420.00	420.00	470.00
Bonaire	355.00	355.00	355.00	400.00	404.00	404.00	444.40
St. Maarten	355.00	355.00	355.00	425.00	425.00	500.40	500.40
Saba	355.00	355.00	355.00	400.00	400.00	400.00	550.00
St. Eustatius	355.00	355.00	355.00	400.00	400.00	400.00	522.72

Source: Data provided by the authorities.

^{1/} Youth minimum wages, which were introduced on September 1, 1993, are lower. They are expressed as percentages of the regular minimum wages, depending on age levels: 90 percent at age 20; 85 percent at age 19; 75 percent at age 18; and 65 percent at age 16 and 17.

Table 29. Netherlands Antilles: Flow of Development Aid , 1990-95
(In millions of NA guilders)

	1990	1991	1992	1993	1994	1995
Multi-year plan	68.6	69.3	60.1	94.2	83.9	84.5
Fund for social, educational, and cultural projects	10.0	12.8	11.1	5.6	2.2	2.1
European Development Fund	12.2	15.5	7.5	8.0	11.4	5.6
Total	90.8	97.6	78.7	107.8	97.5	92.2

Source: Bank van de Nederlandse Antillen, Quarterly Bulletin.

**Table 30. Netherlands Antilles: Multi-Year Plan Disbursements
by Sectors and by Levels of Government, 1990-95**
(In percent of total)

	1990	1991	1992	1993	1994	1995
By sectors						
Public utilities	10.1	22.1	12.3	14.6	11.8	3.0
Airports	0.3	3.5	1.8	3.3	3.8	0.7
Harbors	6.1	8.2	3.8	14.4	4.9	1.3
Roads and bridges	1.2	0.7	1.5	1.4	2.9	9.3
Education	3.5	6.1	10.8	22.7	23.1	20.8
Health	14.0	13.9	14.6	4.0	2.1	4.0
Housing	14.9	8.4	8.7	17.6	30.2	20.5
Tourism	18.1	3.9	6.0	2.8	1.3	0.7
Agriculture, animal husbandry, and fishing	1.2	1.6	0.2	--	--	--
Trade, industry and other services	15.5	8.1	4.8	7.4	5.5	15.3
Other	15.3	23.7	35.4	11.7	14.4	24.4
Total	100.0	100.0	100.0	100.0	100.0	100.0
By levels of government						
Central government	10.3	22.5	8.0	13.7	13.2	15.1
Curaçao	60.2	54.3	66.4	52.8	62.1	62.5
Bonaire	6.6	4.3	10.5	14.6	4.9	10.2
Windward Islands	22.9	19.0	15.0	18.8	7.6	12.3
Not classified	--	--	--	--	12.0	0.2
Total	100.0	100.0	100.0	100.0	100.0	100.0
Memorandum item:						
Total disbursements (in millions of NA guilders)	68.6	69.3	60.1	94.2	83.9	84.5

Source: Bank van de Nederlandse Antillen, Quarterly Bulletin.

Table 31. Netherlands Antilles: Disbursements of Aid from the European Development Fund, by Sectors and Levels of Government, 1990-95
(In percent of total)

	1990	1991	1992	1993	1994	1995
By sectors						
Public utilities	57.4	--	--	--	--	--
Airports	33.6	11.6	8.0	--	--	--
Harbors	--	--	--	5.0	--	--
Roads	--	--	12.0	--	--	--
Education	--	0.6	1.3	--	0.9	1.8
Tourism	2.5	49.7	42.7	82.5	46.5	89.3
Other	6.6	38.1	36.0	12.5	52.6	8.9
Total	100.0	100.0	100.0	100.0	100.0	100.0
By levels of government						
Central government	6.6	8.4	10.7	6.3	24.6	10.7
Curaçao	58.2	25.2	46.7	62.5	59.6	48.2
Bonaire	--	46.5	10.7	8.8	7.9	25.0
Windward islands	35.2	20.0	32.0	25.0	7.9	16.1
Total	100.0	100.0	100.0	100.0	100.0	100.0
Memorandum item:						
Total disbursements (in millions of NA guilders)	12.2	15.5	7.5	8.0	11.4	5.6

Source: Bank van de Nederlandse Antillen, Quarterly Bulletin.

Table 32. Netherlands Antilles: Operations of the General Government, 1992-97
(In millions of NA guilders)

	1992	1993	1994	1995	1996		Est.	1997 Proj.
					Q1-Q3	Original Target		
Total revenue	948	1,173	1,179	1,223	903	1,372	1,294	1,386
Tax revenue	797	948	980	1,017	756	1,139	1,095	1,188
Taxes on income and profits	499	606	620	647	452	705	663	681
Of which: offshore	187	200	185	165	...	165	135	120
Taxes on property	16	25	26	32	25	24	35	33
Taxes on goods and services	143	140	149	151	151	247	223	319
Of which: sales and turnover taxes	--	--	--	--	17	65	41	109
Taxes on international transactions	124	172	176	181	122	155	160	145
Other taxes	15	7	10	6	6	9	13	9
Nontax revenue	141	205	190	198	141	224	191	187
Capital revenue	3	--	1	--	1	--	1	3
Grants 1/	7	20	8	8	5	9	8	8
Total Expenditure	1,125	1,250	1,382	1,438	1,034	1,496	1,489	1,432
Current expenditure	1,084	1,191	1,332	1,383	976	1,436	1,431	1,350
Wages and salaries	538	629	654	692	496	746	751	660
Excluding pension premiums	414	463	478	521	377	566	578	485
Pension premiums	124	166	176	171	119	181	173	175
Goods and services	269	279	348	341	208	326	322	307
Subsidies	40	77	83	80	68	86	87	84
Transfers 1/	164	133	136	157	112	144	142	146
Interest payments	73	74	111	113	93	134	130	153
Capital expenditure	40	59	50	55	58	60	57	55
Investment	27	54	44	62	30	59	47	30
Transfers and net lending	13	5	5	-7	28	1	10	25
Contingency reserve	--	--	--	--	--	--	--	27
Balance	-177	-77	-203	-215	-132	-124	-195	-46
Sinking fund contributions	--	--	--	--	--	--	--	40
Balance including sinking fund	-177	-77	-203	-215	-132	-124	-195	-86
Financing	177	77	203	215	132	124	195	46
Domestic	188	154	233	214	133	124	196	46
Monetary financing	72	-8	74	-70	-29	--	-16	-40
Arrears to APNA	80	-221	68	29	35	-148	--	--
Retroactive payments bonds	--	--	--	--	--	51	57	-11
Other	35	383	91	256	127	221	155	98
Foreign	-36	-34	-36	-40	--	--	--	--
Amortization payments	-36	-34	-36	-40	--	-41	-41	-35
Debt relief 2/	--	--	--	--	--	41	41	35
Discrepancy	26	-44	6	40	-1	--	-1	--

Sources: Data provided by the authorities; and Fund staff estimates.

1/ Net of ERNA transfers between different levels of government.

2/ In 1996, foreign amortization payments were rolled over into 1997; in 1997, outstanding debt will be restructured upon observance of the performance targets under the adjustment program.

Table 33. Netherlands Antilles: Operations of the General Government, 1992-97
(In percent of GDP)

	1992	1993	1994	1995	1996		Est.	1997 Proj.
					Q1-Q3	Original Target		
Total revenue	26.5	30.8	29.7	30.0	21.5	34.4	30.8	31.7
Tax revenue	22.3	24.9	24.7	24.9	18.0	28.5	26.1	27.2
Taxes on income and profits	13.9	15.9	15.6	15.9	10.8	17.7	15.8	15.6
Of which: offshore	5.2	5.3	4.7	4.0	...	4.1	3.2	2.7
Taxes on property	0.4	0.7	0.6	0.8	0.6	0.6	0.8	0.8
Taxes on goods and services	4.0	3.7	3.7	3.7	3.6	6.2	5.3	7.3
Of which: sales and turnover taxes	--	--	--	--	0.4	1.6	1.0	2.5
Taxes on international transactions	3.5	4.5	4.4	4.4	2.9	3.9	3.8	3.3
Other taxes	0.4	0.2	0.3	0.1	0.1	0.2	0.3	0.2
Nontax revenue	3.9	5.4	4.8	4.8	3.4	5.6	4.5	4.3
Capital revenue	0.1	--	--	--	--	--	--	0.1
Grants 1/	0.2	0.5	0.2	0.2	0.1	0.2	0.2	0.2
Total Expenditure	31.4	32.8	34.8	35.3	24.6	37.5	35.4	32.8
Current expenditure	30.3	31.3	33.6	33.9	23.2	36.0	34.1	30.9
Wages and salaries	15.0	16.5	16.5	17.0	11.8	18.7	17.9	15.1
Excluding pension premiums	11.6	12.2	12.0	12.8	9.0	14.2	13.8	11.1
Pension premiums	3.5	4.4	4.4	4.2	2.8	4.5	4.1	4.0
Goods and services	7.5	7.3	8.8	8.4	4.9	8.2	7.7	7.0
Subsidies	1.1	2.0	2.1	2.0	1.6	2.2	2.1	1.9
Transfers 1/	4.6	3.5	3.4	3.9	2.7	3.6	3.4	3.3
Interest payments	2.0	1.9	2.8	2.8	2.2	3.4	3.1	3.5
Capital expenditure	1.1	1.5	1.3	1.3	1.4	1.5	1.4	1.3
Investments	0.8	1.4	1.1	1.5	0.7	1.5	1.1	0.7
Transfers and net lending	0.4	0.1	0.1	-0.2	0.7	--	0.2	0.6
Contingency reserve	--	--	--	--	--	--	--	0.6
Balance	-4.9	-2.0	-5.1	-5.3	-3.1	-3.1	-4.6	-1.1
Sinking fund contributions	--	--	--	--	--	--	--	0.9
Balance including sinking fund	-4.9	-2.0	-5.1	-5.3	-3.1	-3.1	-4.6	-2.0
Financing	4.9	2.0	5.1	5.3	3.1	3.1	4.6	1.1
Domestic	5.2	4.1	5.9	5.3	3.2	3.1	4.7	1.1
Monetary financing	2.0	-0.2	1.9	-1.7	-0.7	--	-0.4	-0.9
Arrears to APNA	2.2	-5.8	1.7	0.7	0.8	-3.7	--	--
Retroactive payments bonds	--	--	--	--	--	1.3	1.4	-0.3
Other	1.0	10.1	2.3	6.3	3.0	5.5	3.7	2.2
Foreign	-1.0	-0.9	-0.9	-1.0	--	--	--	--
Amortization payments	-1.0	-0.9	-0.9	-1.0	--	-1.0	-1.0	-0.8
Debt relief 2/	--	--	--	--	--	1.0	1.0	0.8
Discrepancy	0.7	-1.1	0.1	1.0	--	--	--	--

Sources: Data provided by the authorities; and Fund staff estimates.

1/ Net of ERNA transfers between different levels of government.

2/ In 1996, foreign amortization payments were rolled over into 1997; in 1997, outstanding debt will be restructured upon observance of the performance targets under the adjustment program.

Table 34. Netherlands Antilles: Operations of the Central Government, 1992-97
(In millions of NA guilders)

	1992	1993	1994	1995	1996			1997 Proj.
					Q1-Q3	Original Target	Est.	
Total revenue	372.9	452.3	467.6	470.5	349.0	552.6	496.1	565.7
Tax revenue	262.2	303.2	319.9	324.0	264.7	382.8	371.7	447.6
Taxes on property	8.3	10.7	13.3	16.5	12.0	9.7	15.5	15.6
Inheritance and gift tax	0.3	1.8	1.7	7.1	2.0	0.3	2.0	1.2
Property transfer tax	8.0	8.9	11.6	9.4	10.0	9.4	13.5	14.4
Taxes on goods and services	118.9	114.4	120.9	120.7	124.3	209.6	187.2	277.2
Of which: excises	115.1	113.0	116.5	114.7	103.7	131.4	140.3	157.0
Excise on gasoline	69.3	70.2	73.5	70.2	72.5	87.2	98.1	112.9
Excise on beer	16.4	16.5	16.1	20.0	12.0	16.0	15.9	16.9
Excise on tobacco	17.6	14.8	15.1	11.8	11.5	16.0	15.0	15.0
Excise on liquor	11.8	11.5	11.8	12.7	7.7	12.2	11.3	12.2
Sales and turnover taxes	--	--	--	--	17.4	65.0	40.5	109.4
Licenses	3.8	1.4	4.4	6.0	3.2	13.2	6.4	10.8
Taxes on international transactions	124.2	171.6	175.7	181.0	122.3	154.6	160.2	145.4
Import duties	98.3	136.4	145.2	147.4	111.3	146.0	148.3	143.3
Foreign exchange tax	25.8	32.4	28.7	31.3	9.2	5.9	9.2	--
Other	0.1	2.8	1.8	2.3	1.8	2.7	2.7	2.1
Other taxes	10.8	6.5	10.0	5.8	6.1	8.9	8.8	9.4
Stamp taxes	9.1	4.5	9.0	5.8	6.1	8.9	8.8	9.3
Other	1.7	2.0	1.0	--	--	--	--	0.1
Nontax revenue	103.7	138.3	139.4	138.2	79.5	161.2	116.4	109.7
Enterprise and property income	70.1	78.3	88.3	78.1	35.9	63.9	57.7	54.2
Fees, charges, and sales	32.6	59.8	50.0	56.7	26.9	62.8	36.9	49.7
Other nontax revenues	1.0	0.2	1.1	3.4	16.7	34.5	21.8	5.8
Capital revenue	0.1	--	0.3	--	0.3	--	0.3	--
Grants	6.9	10.8	8.0	8.3	4.5	8.6	7.7	8.4
From abroad	6.6	10.5	6.8	6.6	3.9	6.8	6.3	6.6
From other levels of government	0.3	0.3	1.2	1.7	0.6	1.8	1.4	1.8

Table 34. (Continued) Netherlands Antilles: Operations of the Central Government, 1992-97
(In millions of NA guilders)

	1992	1993	1994	1995	1996			1997 Proj.
					Q1-Q3	Original Target	Est.	
Total expenditure	425.1	461.5	483.8	557.3	419.1	604.1	576.9	590.9
Current expenditure	408.3	451.2	466.6	530.4	383.5	581.1	552.5	538.4
Wages and salaries	226.7	268.9	280.0	297.5	220.8	323.0	319.1	283.5
Excluding pension premiums	168.7	192.7	201.1	222.0	169.7	244.5	244.7	207.7
Pension premiums	58.0	76.2	78.9	75.5	51.1	78.5	74.4	75.8
Goods and services	74.7	69.8	80.9	93.8	68.9	113.7	91.2	80.0
Subsidies	--	3.0	5.0	4.8	5.3	5.2	5.3	5.0
Transfers	64.9	73.0	60.3	88.8	55.6	82.4	80.3	103.5
Other levels of government	37.1	47.8	36.9	61.8	34.7	50.3	51.7	71.8
Households	17.1	11.2	9.1	11.9	5.1	12.4	8.4	11.0
Other	10.7	14.0	14.3	15.1	15.8	19.7	20.2	20.7
Interest payments	42.0	36.5	40.4	45.5	32.9	56.8	56.6	66.4
Domestic	34.8	31.0	33.7	38.7	32.4	50.2	50.0	60.9
Foreign	7.2	5.5	6.7	6.8	0.5	6.6	6.6	5.5
Capital expenditure	16.8	10.3	17.2	26.9	35.6	23.0	24.4	38.5
Investment	8.8	11.7	16.8	26.8	18.1	30.5	22.9	15.0
Capital transfers	--	--	--	--	6.5	12.5	12.5	12.5
Net lending	8.0	-1.4	0.4	0.1	11.0	-20.0	-11.0	11.0
Contingency reserve	--	--	--	--	--	--	--	14.0
Balance	-52.2	-9.2	-16.2	-86.8	-70.1	-51.5	-80.8	-25.2
Sinking fund contributions	--	--	--	--	--	--	--	15.0
Balance including sinking fund	-52.2	-9.2	-16.2	-86.8	-70.1	-51.5	-80.8	-40.2

Sources: Data provided by the authorities; and Fund staff estimates.

Table 35. Netherlands Antilles: Operations of the Island Government of Curaçao, 1992-97
(In millions of NA guilders)

	1992	1993	1994	1995	1996			1997 Proj.
					Q1-Q3	Original Target	Est.	
Total revenue	574.7	742.8	733.4	774.6	565.6	843.0	821.7	865.0
Tax revenue	534.8	645.2	660.5	693.2	491.3	756.2	722.8	740.1
Taxes on income and profits	498.7	605.7	620.4	647.3	452.2	704.6	663.1	681.0
Profits tax	245.2	292.3	288.4	299.5	178.9	320.9	270.7	292.0
Offshore	186.5	200.0	184.9	165.0	...	165.0	135.0	120.0
Domestic	58.7	92.3	103.5	134.5	...	155.9	135.7	172.0
Wage tax	215.5	259.8	285.9	308.3	239.5	333.7	343.6	333.0
Income tax	38.0	53.6	46.1	39.5	33.8	50.0	48.8	56.0
Taxes on property	7.6	14.2	12.2	15.9	12.7	14.0	19.7	17.5
Land tax	6.3	12.9	10.3	13.4	11.0	12.0	16.0	15.0
Occupancy tax	1.3	1.3	1.9	2.5	1.7	2.0	3.7	2.5
Taxes on goods and services	24.1	25.3	27.9	30.0	26.4	37.6	36.0	41.6
Motor vehicle tax	16.6	18.3	15.2	19.7	16.3	24.2	20.3	24.0
Licenses	5.7	5.5	10.8	8.1	8.1	11.4	13.2	15.1
Hotel room tax	1.1	1.5	1.9	2.2	2.0	2.0	2.5	2.5
Other	0.7	--	--	--	--	--	--	--
Other taxes	4.4	--	--	--	--	--	4.0	--
Nontax revenue	36.9	66.5	50.3	59.4	61.7	63.1	74.4	76.9
Enterprise and property income	25.9	24.7	27.4	39.8	23.2	34.7	32.0	42.4
Fees, charges, and sales	10.0	14.4	17.3	15.5	17.9	24.4	21.4	28.5
Other nontax revenues	1.0	27.4	5.6	4.1	20.6	4.0	21.0	6.0
Capital revenue	3.0	0.4	0.4	--	0.7	--	0.7	3.0
Grants	--	30.7	22.2	22.0	11.9	23.7	23.8	45.0

Table 35. (Continued) Netherlands Antilles: Operations of the Island Government of Curaçao, 1992-97
(In millions of NA guilders)

	1992	1993	1994	1995	1996			1997 Proj.
					Q1-Q3	Original Target	Est.	
Total expenditure	699.5	810.7	920.6	902.5	627.0	915.6	935.4	886.2
Current expenditure	675.9	762.1	888.0	874.8	604.8	878.8	902.4	856.3
Wages and salaries	311.0	360.4	374.2	394.8	275.2	423.2	431.9	376.4
Excluding pension premiums	245.0	270.7	277.0	299.3	207.6	321.0	333.5	276.8
Pension premiums	66.0	89.7	97.2	95.5	67.6	102.2	98.4	99.6
Goods and services	194.6	209.2	267.5	247.3	138.8	211.9	231.1	227.1
Subsidies	40.1	73.7	78.1	74.9	62.7	81.1	81.2	78.7
Transfers	99.3	81.5	97.9	90.6	67.8	85.6	85.3	87.1
Other levels of government	27.0	18.2	16.9	15.0	13.8	12.0	12.3	12.0
Households	67.1	43.6	49.6	47.9	30.6	43.8	43.2	43.6
Nonprofit institutions	5.2	19.7	31.4	27.7	23.4	29.8	29.8	31.5
Interest payments	30.9	37.3	70.3	67.2	60.3	77.0	72.9	87.0
Domestic	18.3	25.9	58.9	54.4	60.3	65.6	62.1	77.7
Foreign	12.6	11.4	11.4	12.8	--	11.4	10.8	9.3
Capital expenditure	23.6	48.6	32.6	27.7	22.2	36.8	33.0	16.9
Investment	18.2	42.3	27.6	34.8	11.7	28.3	24.2	15.4
Capital transfers and net lending	5.4	6.3	5.0	-7.1	10.5	8.5	8.8	1.5
Contingency reserve	--	--	--	--	--	--	--	13.0
Balance	-124.8	-67.9	-187.2	-128.0	-61.4	-72.6	-113.7	-21.2
Sinking fund contributions	--	--	--	--	--	--	--	25.0
Balance including sinking fund	-124.8	-67.9	-187.2	-128.0	-61.4	-72.6	-113.7	-46.2

Sources: Data provided by the authorities; and Fund staff estimates.

Table 36. Netherlands Antilles: Financing of Fiscal Operations, 1992-97
(In millions of NA guilders)

	1992	1993	1994	1995	1996			1997
					Q1-Q3	Original Target	Est.	Proj.
Central Government								
Total balance	-52.2	-9.2	-16.2	-86.8	-70.1	-51.5	-80.8	-25.2
Financing	52.2	9.2	16.2	86.8	70.1	51.5	80.8	25.2
Domestic financing	36.8	64.8	46.2	75.0	33.3	51.5	42.6	25.2
Monetary financing	19.6	-19.4	21.1	-16.3	-26.3	--	-36.7	-15.0
Central bank	1.8	-35.4	25.9	10.1	-6.5	...	...	...
Commerical banks	18.1	15.8	-4.2	-28.3	-17.2	...	...	...
Giro Curaçao	-0.3	0.2	-0.6	1.9	-2.6	...	...	...
Non-monetary financing	17.2	84.2	25.1	91.3	59.6	51.5	79.3	40.2
Arrears to APNA	5.5	19.4	25.3	-49.9	19.1	--	--	--
Retroactive payments bonds	--	--	--	--	--	18.7	18.8	-3.8
Other domestic financing	11.7	64.8	-0.2	141.2	40.5	32.9	60.5	44.0
Foreign financing	-10.7	-8.9	-10.5	-12.5	--	--	--	--
Amortization payments	-10.7	-8.9	-10.5	-12.5	--	-13.2	-13.4	-10.9
Debt relief 1/	--	--	--	--	--	13.2	13.4	10.9
Discrepancy	26.1	-46.7	-19.5	24.3	36.8	--	38.2	--
Island Government of Curaçao								
Total balance	-124.8	-67.9	-187.2	-128.0	-61.4	-72.6	-113.7	-21.2
Financing	124.8	67.9	187.2	128.0	61.4	72.6	113.7	21.2
Domestic financing	150.7	89.5	187.2	139.2	99.5	72.6	153.0	21.2
Monetary financing	52.2	11.5	52.9	-54.0	-2.7	--	20.3	-25.0
Central bank	-0.4	1.0	5.6	4.8	13.7	...	...	...
Commerical banks	44.9	2.9	13.8	-32.9	5.1	...	...	...
Giro Curaçao	7.7	7.6	33.5	-25.9	-21.5	...	...	...
Non-monetary financing	98.5	78.0	134.3	193.2	102.2	72.6	132.7	46.2
Arrears to APNA	74.9	-240.5	42.9	78.4	15.7	-147.7	--	--
Retroactive payments bonds	--	--	--	--	--	32.0	38.5	-7.7
Other domestic financing	23.6	318.5	91.4	114.8	86.5	188.3	94.2	53.9
Foreign financing	-25.6	-24.7	-25.1	-27.1	--	--	--	--
Amortization payments	-25.6	-24.7	-25.1	-27.1	--	-27.4	-27.4	-23.6
Debt relief 1/	--	--	--	--	--	27.4	27.4	23.6
Discrepancy	-0.3	3.1	25.1	15.9	-38.1	--	-39.3	--
General Government								
Total balance	-177.0	-77.1	-203.4	-214.8	-131.5	-124.1	-194.5	-46.4
Financing	177.0	77.1	203.4	214.8	131.5	124.1	194.5	46.4
Domestic financing	187.5	154.3	233.4	214.2	132.8	124.1	195.6	46.4
Monetary financing	71.8	-7.9	74.0	-70.3	-29.0	--	-16.4	-40.0
Arrears to APNA	80.4	-221.1	68.2	28.5	34.8	-147.7	--	--
Retroactive payments bonds	--	--	--	--	--	50.7	57.3	-11.5
Other domestic financing	35.3	383.3	91.2	256.0	127.0	221.2	154.7	97.9
Foreign financing	-36.3	-33.6	-35.6	-39.6	--	--	--	--
Amortization payments	-36.3	-33.6	-35.6	-39.6	--	-40.6	-40.8	-34.5
Debt relief 1/	--	--	--	--	--	40.6	40.8	34.5
Discrepancy	25.8	-43.6	5.6	40.2	-1.3	--	-1.1	--

Sources: Data provided by the authorities; and Fund staff estimates.

1/ In 1996, foreign amortization payments were rolled over into 1997; in 1997, outstanding debt will be restructured upon observance of the performance targets under the adjustment program.

Table 37. Comparison of Taxes in Selected Caribbean Countries

	Netherlands Antilles	Antigua	Barbados	Dominica	Dominican Republic	Grenada	Haiti	Jamaica	St. Kitts and Nevis	Trinidad and Tobago
(In percent; as of 1995)										
Direct taxes										
Highest profits tax rate	45	40	40	30	25	35	35	33	40	38
Highest income tax rate	60	55	40	40	25	30	30	33	--	38
Sales tax / VAT										
Type of tax 1/	Sales 2/	Sales	Sales	Sales	VAT	VAT	VAT	Sales	Sales	VAT
Range of rates for most goods	0-6	15-30	0-28	25	8	0-55	10	15	2.5-15	15
(In percent of GDP) 3/										
Total tax revenue	25.7	18.2	28.0	22.5	13.9	20.4	6.6	30.9	21.0	27.1
Direct tax revenue 4/	16.3	2.4	11.3	6.1	2.7	5.0	0.8	11.6	4.8	15.8
Indirect tax revenue	9.4	15.8	16.7	16.4	11.2	15.4	5.8	19.3	16.7	8.8

Source: IMF, various Recent Economic Developments.

1/ Sales denotes sales or consumption tax; VAT denotes value added tax.

2/ A sales tax was introduced on July 1, 1996, in Curaçao and Bonaire; a turnover tax in the Windward islands on January 1, 1997.

3/ 1995, except Barbados (1994/95), Dominica (1994/95), Grenada (1994), Haiti (1994/1995), and Jamaica (1995/96).

4/ Includes offshore tax revenues. In 1995, offshore tax revenues in the Netherlands Antilles were approximately 4 percent of GDP.

Table 38. Netherlands Antilles: Profits of Selected Public Enterprises, 1992-95 1/
(In millions of NA guilders)

	1992	1993	1994	1995
ABC 2/	...	...	-6.8	...
ALM	-14.9	-21.8	-28.8	...
CDM	6.4	0.9	4.9	...
Curinde	1.0	1.5	1.4	...
Curinta	-2.0	-1.4	...	...
Curoil	16.6	34.8	26.9	...
ITC development	-2.6	-1.9	...	0.2
ITC exploitation	-2.8	-1.7	...	...
KAE	5.4	-3.3	...	...
Kodela -water 2/	-18.7	-22.8	-27.4	...
Kodela-electricity	15.7	18.6	11.4	...
KTK	1.9	0.2	...	...
OBNA	0.7	0.5	0.7	...
Refineria di Korsou n.v.	10.8	4.7	6.1	...
Setel	...	13.7	...	...
WEB	1.7	...	...	...

Source: Data provided by the authorities.

1/ After allowing for depreciation and interest payments; and before tax.

2/ Excluding financial transfers from government.

Table 39. Netherlands Antilles: Financial Transfers Between the Government and Public Enterprises, 1986-95
(In millions of NA guilders)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Island Government of Curaçao										
Subsidies	56.6	65.2	43.4	42.9	36.4	33.8	32.1	30.0	31.3	31.2
ABC	4.8	12.4	5.5	5.1	6.2	5.1	5.7	5.6	6.9	6.8
Calco	--	--	2.2	2.2	2.2	2.2	--	--	--	--
Curacarni	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Curinta	7.0	--	--	--	0.1	0.1	--	--	--	--
HCC	15.3	21.5	13.7	10.0	1.5	--	--	--	--	--
ITC (exploitation)	--	--	--	2.0	2.0	2.0	2.0	--	--	--
Kodela	29.4	31.2	21.8	23.4	24.2	24.2	24.2	24.2	24.2	24.2
Lending minus repayments	71.4	24.1	4.3	-0.9	21.3	-1.4	-1.5	-1.6	-2.9	-13.7
ABC	--	--	--	--	--	-0.1	--	--	--	--
ATM	--	--	--	--	0.2	--	--	--	--	--
Calco	--	24.0	--	--	--	--	--	--	--	--
CDM	30.0	--	--	--	12.3	--	--	--	--	--
CPA	--	--	--	--	10.0	--	--	--	--	--
Curinta	0.5	--	--	--	--	--	--	--	--	--
ITC (real estate)	0.4	--	3.6	--	--	--	--	--	--	--
Kodela	6.9	0.1	0.7	--	--	--	--	--	--	--
OBNA	--	1.0	1.0	0.3	--	--	--	--	--	--
Setel	33.6	-1.0	-1.0	-1.2	-1.2	-1.3	-1.5	-1.6	-2.9	-13.7
Dividend payments	--	--	--	22.0	--	5.8	14.3	12.0	16.1	30.0
Curoil	--	--	--	22.0	--	5.8	14.3	12.0	16.1	30.0
Net transfers to public enterprises	128.0	89.3	47.7	20.0	57.7	26.6	16.3	16.4	12.3	-12.5

Table 39. (Continued) Netherlands Antilles: Financial Transfers Between Government and Public Enterprises, 1986-95
(In millions of NA guilders)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Central Government										
Subsidies	--	0.8	--	--	1.1	--	--	3.0	5.0	4.8
ALM	--	--	--	--	--	--	--	3.0	5.0	3.0
GEBE	--	0.8	--	--	--	--	--	--	--	--
KAE	--	--	--	--	1.1	--	--	--	--	--
Winair	--	--	--	--	--	--	--	--	--	1.8
Capital transfers	0.7	23.6	--	--	--	--	--	--	--	--
ALM	--	23.5	--	--	--	--	--	--	--	--
Bon Antil	0.7	0.1	--	--	--	--	--	--	--	--
Lending minus repayments	1.3	7.4	4.0	--	7.0	-0.4	11.1	8.0	-1.4	-1.0
ALM	--	--	3.7	--	7.4	--	11.5	9.4	--	--
GEBE	--	--	--	--	2.0	--	--	--	--	--
ITC	1.3	2.4	0.3	--	--	--	--	--	--	--
OBNA	--	5.0	--	--	-0.4	-0.4	-0.4	-1.4	-1.4	-1.0
Dividend payments	--	--	30.0	--	40.2	30.4	58.1	61.8	76.3	73.0
Landsradio	--	--	30.0	--	40.2	30.4	58.1	61.8	76.3	73.0
Net transfers to public enterprises	2.0	31.8	-26.0	--	-32.1	-30.8	-47.0	-50.8	-72.7	-69.2

Source: Data provided by the authorities.

Table 40. Netherlands Antilles: Monetary Survey, 1990-96

	1990	1991	1992	1993	1994	1995	1996			
							March	June	Sept.	Dec. Est.
(In millions of NA guilders, end of period)										
Net foreign assets 1/	495	420	508	567	438	718	640	532	475	488
Net international reserves	526	439	526	605	469	718	678	616	560	571
Medium - and long-term credit	-31	-19	-18	-38	-31	--	37	85	85	-83
Net domestic assets 1/	1,260	1,451	1,571	1,690	2,010	1,843	1,962	1,999	2,009	1,991
Domestic credit	1,624	1,786	1,927	2,000	2,313	2,280	2,358	2,417	2,450	2,438
Government (net)	74	143	210	203	278	186	190	169	174	181
Private sector	1,550	1,643	1,717	1,798	2,035	2,094	2,167	2,248	2,276	2,257
Other items, net 1/	-364	-335	-356	-311	-303	-437	-395	-418	-441	-448
Money and quasi-money	1,755	1,870	2,079	2,256	2,448	2,561	2,602	2,531	2,484	2,479
Money	725	754	818	875	1,011	1,079	1,111	1,079	1,016	1,044
Quasi-money	1,030	1,117	1,261	1,381	1,437	1,483	1,492	1,452	1,468	1,435
Time deposits	239	246	291	321	335	350	355	318	348	338
Savings deposits	792	871	970	1,060	1,102	1,133	1,137	1,134	1,120	1,097
(Percent change over end of previous year)										
Net foreign assets	-10	-15	21	12	-23	64	-11	-26	-34	-32
Net domestic assets	19	15	8	8	19	-8	7	9	9	8
Domestic credit	16	10	8	4	16	-1	3	6	8	7
Government (net)	27	94	47	-4	37	-33	2	-9	-6	-2
Private sector	16	6	4	5	13	3	4	7	9	8
Money and quasi-money	9	7	11	9	9	5	2	-1	-3	-3
Money	10	4	9	7	16	7	3	--	-6	-3
Quasi-money	9	8	13	10	4	3	1	-2	-1	-3
Time deposits	2	3	18	10	4	4	1	-9	--	-3
Savings deposits	11	10	11	9	4	3	--	--	-1	-3

Source: Bank van de Nederlandse Antillen, Quarterly Bulletin; and data provided by the authorities.

1/ Includes gold revaluations from NA f. 67.5 million to NA f. 208.8 million in June 1995, and to NA f. 189.5 million in January 1996.

Table 41. Netherlands Antilles: Commercial Bank Credit to the Private Sector, 1990-96

	1990	1991	1992	1993	1994	1995	1996 Q3
(In millions of NA guilders, end of period)							
Loans to the private sector	1,558	1,630	1,661	1,731	1,958	2,015	2,203
Mortgage	543	563	545	618	743	783	890
<i>Of which</i>							
On-lent foreign borrowing	31	19	18	38	31	--	54
Consumer	224	222	283	381	452	455	488
Business	791	845	834	732	763	778	825
<i>Of which</i>							
On-lent foreign borrowing	--	--	--	--	--	--	31
(Percent change over end of previous year)							
Loans to the private sector	21	5	2	4	13	3	9
Mortgage	74	4	-3	13	20	5	14
Consumer	87	-1	28	35	19	1	7
Business	-7	7	-1	-12	4	2	6
(Contribution to growth, in percentage points)							
Loans to the private sector	21	5	2	4	13	3	9
Mortgage	17	2	-1	4	7	2	5
Consumer	8	--	4	6	4	--	2
Business	-4	3	-1	-6	2	1	2

Source: Data provided by the Bank van de Nederlandse Antillen.

Table 42. Netherlands Antilles: Interest Rates, 1990-96
(In percent, end of period)

	1990	1991	1992	1993	1994	1995	<u>1996</u> Nov.
Official discount rate	6.0	6.0	6.0	5.0	5.0	6.0	6.0
Deposit rates							
Passbook savings	4.9	4.9	4.8	4.1	4.0	3.6	3.6
Time deposits 1/	5.0	5.3	5.9	5.1	4.7	4.7	5.0
Lending rates							
Prime rate	10.9	11.7	12.0	12.6	12.7	12.9	13.2
Mortgage rate	11.1	11.6	12.0	12.1	11.0	11.3	11.3
Treasury bill rate 2/	6.4	6.3	5.9	4.3	5.4	5.7	5.7
Government bond yield 3/	11.1	8.7	8.6	7.9	8.0	8.3	8.3
Memorandum item:							
Penalty rate on excessive credit growth 4/	1.75	3.5	3.5	3.0	3.0	5.25	5.25

Source: Data provided by Bank van de Nederlandse Antillen.

1/ Six-month time deposits reported for 1990-91, twelve-month time deposits thereafter.

2/ Rate on three-month Treasury bills.

3/ Effective yield on five-year government bonds.

4/ For 1991, in effect from September; for 1993 in effect from April; and for 1995 in effect from April.

Table 43. Netherlands Antilles: Balance of Payments (Cash Basis), 1991-96
(In millions of NA guilders)

	1991	1992	1993	1994	1995	1996	
						Q1-Q3 Prel.	Year Est.
Trade balance	-1,728	-1,780	-1,773	-1,940	-2,168	-1,656	-2,209
Exports	409	428	414	429	377	285	382
Imports	2,137	2,208	2,187	2,369	2,545	1,940	2,591
Services, net	1,681	1,768	1,833	1,847	2,217	1,321	1,800
Tourism	608	653	753	779	607	404	564
Refining	262	281	295	276	265	194	269
Offshore activities	454	391	487	418	540	288	382
Transportation	355	353	311	358	444	369	498
Other services	1	90	-13	16	360	65	87
Investment income	54	59	-5	103	25	111	125
Private remittances	-88	-87	-107	-139	-104	-81	-90
Current account balance	-81	-40	-52	-129	-30	-305	-375
Capital account	-26	73	104	2	135	142	187
Private	-27	-6	22	27	65	102	135
Inflows	500	526	770	654	794	659	870
Outflows	527	532	748	627	729	557	735
Government	1	79	83	-25	69	40	52
Inflows	99	80	104	45	109	43	98
Outflows	98	2	21	70	40	3	45
Errors and omissions	31	73	27	-9	3	25	25
Overall balance	-75	106	79	-136	108	-139	-163

Source: Data provided by Bank van de Nederlandse Antillen.

Table 44. Netherlands Antilles: Current Inflows (Cash Basis), 1991-96
(In millions of NA guilders)

	1991	1992	1993	1994	1995	1996	
						Q1-Q3 Prel.	Year Est.
Merchandise exports	409	428	414	429	377	285	382
Curaçao and Bonaire	285	304	276	276	301	...	300
Windward islands		124	137	152	76	...	82
Nonfactor services	2,395	2,583	2,726	2,776	3,275	2,179	2,932
Tourism	843	938	1,090	1,143	1,005	755	1,018
Curaçao and Bonaire	294	336	396	392	378	...	397
Windward islands	549	602	693	752	626	...	621
Refining	262	281	295	276	265	194	269
Offshore sector	681	692	790	744	948	605	804
Taxes	232	172	244	196	249	100	135
Operating expenses	213	211	270	262	376	282	375
Other	235	309	276	286	323	223	293
Transportation	437	454	424	455	558	454	614
Drydock	88	108	73	61	65	...	62
Storage	50	57	60	52	88	...	77
Passenger fares	81	91	81	84	88	...	106
Other	218	198	211	258	318	...	370
Other services	173	219	128	158	500	171	228
Total merchandise exports and nonfactor services	2,804	3,011	3,140	3,205	3,652	2,464	3,314
Investment income	209	260	191	206	197	179	222
Private remittances	126	139	164	179	169	145	197
Total current inflows	3,139	3,409	3,494	3,590	4,019	2,788	3,733

Source: Data provided by Bank van de Nederlandse Antillen.

Table 45. Netherlands Antilles: Current Outflows (Cash Basis), 1991-96
(In millions of NA guilders)

	1991	1992	1993	1994	1995	1996	
						Q1-Q3 Prel.	Year Est.
Merchandise imports	2,137	2,208	2,187	2,369	2,545	1,940	2,591
Curaçao and Bonaire	1,446	1,553	1,483	1,521	1,709	...	1,738
Windward islands	691	655	704	848	837	...	853
Nonfactor services	732	844	945	985	1,171	964	1,273
Tourism	235	284	337	365	397	351	454
Curaçao and Bonaire	181	201	237	279	290	...	334
Windward islands	54	84	100	85	107	...	120
Transportation	81	101	113	97	113	85	116
Offshore	227	300	303	326	408	317	422
<i>Of which</i>							
Operating expenses	17	30	52	56	113	106	141
Other services	172	129	141	142	140	105	140
Total merchandise imports and nonfactor services	2,868	3,053	3,132	3,354	3,717	2,904	3,864
Investment income	155	201	196	103	172	68	98
Private remittances	215	225	271	318	273	227	287
Total current outflows	3,237	3,479	3,598	3,775	4,162	3,199	4,249

Source: Data provided by Bank van de Nederlandse Antillen.

Table 46. Netherlands Antilles: Capital Account (Cash Basis), 1991-96
(In millions of NA guilders)

	1991	1992	1993	1994	1995	1996	
						Q1-Q3 Prel.	Year Est.
Private capital, net	-27	-6	22	27	65	102	135
Securities	-36	-15	-31	-92	-30	-64	-84
Real estate	10	18	21	14	-1	7	7
Loans	16	36	43	9	7	43	45
Repayments	-27	-12	-6	-19	-50	-65	-60
Net borrowing by commercial banks	-10	-1	23	7	-10	85	83
Other 1/	20	-32	-28	108	150	96	144
Government capital	1	79	83	-25	69	40	52
Foreign aid	92	80	104	44	109	43	98
Loan repayments	-19	-2	-21	-70	-36	-3	-45 2/
Other	-73	--	--	1	-4	--	--
Capital account balance	-26	73	104	2	135	142	187

Source: Data provided by Bank van de Nederlandse Antillen.

1/ Changes in net balances held abroad by residents, including transactions in securities with a maturity of less than one year.

2/ These payments were rolled over.

Table 47. Netherlands Antilles: Net International Reserves, 1990-96
(In millions of NA guilders, end of period)

	1990	1991	1992	1993	1994	1995	<u>1996</u> Nov.
Net international reserves	495.2	419.7	525.7	604.5	469.0	718.0 1/	568.3 2/
Excluding gold	427.7	352.3	458.2	537.0	401.5	509.2	378.7
Central bank	453.2	383.9	461.1	487.0	388.2	625.3	517.3
Foreign currency	386.5	317.7	394.3	422.6	367.7	474.5	332.7
Gold	67.5	67.4	67.5	67.5	67.5	208.8 1/	189.5 2/
Short-term liabilities	0.8	1.2	0.7	3.1	47.0	58.0	4.9
Commercial banks, net	42.0	35.8	64.6	117.5	80.8	92.7	51.0
Assets	1,023.9	1,220.5	1,357.7	1,514.3	1,370.4	791.7	740.7
Liabilities 3/	981.9	1,184.7	1,293.1	1,396.8	1,289.6	699.0	689.7

Source: Data provided by Bank van de Nederlandse Antillen.

1/ Includes revaluation of gold of NA f. 141.3 million.

2/ Includes revaluation of gold of NA f. -19.3 million.

3/ Liabilities of all maturities are included for the commercial banks.