

July 1999

IMF Staff Country Report No. 99/65

Netherlands Antilles: Selected Issues and Statistical Appendix

This Selected Issues and Statistical Appendix report on the Netherlands Antilles was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of the Netherlands Antilles or the Executive Board of the IMF.

Copies of this report are available to the public from
International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
Telex (RCA): 248331 IMF UR
E-mail: publications@imf.org
Internet: <http://www.imf.org>
Price: \$15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND
KINGDOM OF THE NETHERLANDS—NETHERLANDS ANTILLES

Selected Issues and Statistical Appendix

Prepared by Luc Everaert, Fabrice Lenseigne, and Jan Kees Martijn

Approved by the European I Department

May 19, 1999

	Page
I. Introduction.....	4
II. Assessment of Fiscal Policy During 1996-98.....	5
A. Legacy of Fiscal Problems.....	5
Overview.....	5
Structural weaknesses in the budget.....	8
B. Structural Adjustment Program.....	9
C. Developments in 1996-97.....	13
Implementation in 1996.....	13
Implementation in 1997.....	14
Structure of the budget at the end of 1997.....	16
D. Developments in 1998 and Early 1999.....	17
The 1998 budget.....	17
Budget implementation in 1998.....	18
Outlook for 1999.....	20
E. Concluding Remarks.....	21
III. Sustainability of the Public Pension System.....	23
A. Introduction.....	23
B. Recent Reforms of the Public Sector Pension Scheme.....	24
C. Evaluating the Current Situation.....	26
D. Avenues for Further Reform.....	30
E. Bibliography.....	32
IV. New Instrument Mix for Monetary Management.....	32
A. Monetary Developments During 1997-98.....	34
B. Increased Reliance on Indirect Instruments.....	36
C. Assessing Excess Liquidity.....	38
V. Labor Market Performance.....	40
A. Employment, Unemployment, and Wages.....	41

B.	Economic Growth and the Labor Market	44
C.	Institutional Features of the Labor Market	47
D.	Concluding Remarks.....	49

Tables

1.	Budget Balances of the Central Government and the Island Government of Curaçao, 1994–99.....	7
2.	Main Fiscal Adjustment Measures Adopted Under the 1996–97 Program	11
3.	Pension Premiums of the Central Government and the Island Government of Curaçao, 1993–99.....	27
4.	APNA's Preliminary Balance Sheet at end-1997.....	28
5.	Employment, Unemployment, and Migration, 1990–98	41
6.	Selected Structural Indicators of Employment, 1997.....	43
7.	Unemployment and Vacancies.....	43
8.	Compensation per Employee and Productivity 1993–98.....	44

Figures

1.	Domestic Credit Growth and Overall Balance of Payments	33
2.	Excess Liquidity: Commercial Banks	39
3.	Real GDP and Employment.....	46

Boxes

1.	Coverage of the General Government.....	6
2.	Efficiency of Pension Schemes.....	31

Statistical Appendix Tables

1.	The Composition of GDP	50
2.	Components of Aggregate Demand	51
3.	Selected Indicators of Economic Activity	52
4.	Basic Data on Stay-over Tourism	53
5.	Changes in Consumer Prices	54
6.	Minimum Wages.....	55
7.	Operations of the General Government.....	56
8.	Operations of the General Government (in percent of GDP).....	57
9.	Financing of the General Government	58
10.	General Government Debt.....	59
11.	Operations of the Central Government.....	60
12.	Operations of the Island Government of Curaçao	62
13.	Flow of Development Aid	64
14.	Multi-Year Plan Disbursements.....	65
15.	Aid From the European Development Fund, Disbursements by Sectors and Authorities.....	66
16.	Monetary Survey	67
17.	Commercial Bank Credit to the Private Sector.....	68
18.	Interest Rates.....	69

19.	Balance of Payments (Cash Basis).....	70
20.	Current Inflows (Cash Basis).....	71
21.	Current Outflows (Cash Basis).....	72
22.	Capital Account (Cash Basis).....	73
23.	Net International Reserves.....	74

I. INTRODUCTION

1. Following more than a decade of relatively strong economic growth, the economy of the Netherlands Antilles entered a phase of stagnation during 1995-98, accompanied by a sharp increase in unemployment.¹ Adverse developments affecting the oil refinery and the offshore financial sector, and the hurricane in late 1995, which devastated the tourism infrastructure on Sint Maarten, are commonly seen as the main direct causes. Nonetheless, underlying fiscal imbalances and structural weaknesses of the economy also played a pertinent role. They undermined the economy's flexibility to adjust to adverse real shocks. Given the undiversified nature of the economy and the adherence to a fixed exchange rate regime, this turned out to be detrimental to economic growth.

2. This paper explores four policy issues which are crucial for understanding the recent performance of the Antillean economy and which will need to be addressed to restore the prospect of durable economic growth:

- **Fiscal policy.** By the mid-1990s, fiscal policy had become quite expansionary, accommodating wage pressures in the budgetary sector against the background of a secular decline in offshore profit tax revenues. The ensuing large deficits could be financed only through recourse to arrears to the pension fund. Section II evaluates the efforts that have been made since 1996 to restore fiscal sustainability. It explains why these efforts have not met with success so far and outlines ways to address the underlying deficiencies.
- **Public sector pension reforms.** During the 1990s, the degree of capital funding of the pension system has been altered repeatedly and the civil servants' pension fund has been abused to finance fiscal imbalances. Section III describes these pension reforms, their interaction with the government budget, and their implications for the actuarial soundness of the system. It suggests options for reform to restore the pension system's viability.
- **Monetary management.** Monetary policy has borne the burden of safeguarding the fixed exchange rate system, which has served the Antillean economy well by contributing to low inflation. Direct controls, combined with capital controls, have been the preferred instruments of monetary control so far. They have not always been effective, however, and have hampered the efficient functioning of financial markets. In 1998, the central bank initiated a shift toward increased reliance on indirect

¹ The Netherlands Antilles consists of a federation of five Caribbean islands and constitutes an autonomous part of the Kingdom of the Netherlands. The five islands are: Curaçao and Bonaire (the Leeward Islands), comprising about 80 percent of the total population of 211,000 inhabitants, and Saba, St. Eustatius, and the southern part of Sint Maarten (the Windward Islands).

instruments of monetary control, which culminated in the abolition of the ceiling on credit to the private sector for 1999. Section IV describes the monetary developments during the past two years and the shift in instruments. While it is too early to evaluate the effectiveness of the new instrument mix, it is noted that there is scope for improving the operation of the minimum reserve requirement. This could prove to be crucial for eliminating remaining excess liquidity.

- **Labor market performance.** Lack of flexibility in the labor market has limited the economy's capacity to absorb adverse real shocks, and unemployment has remained high, even during periods of strong economic growth. Section V describes trends in employment, unemployment, and wages, and the main structural features of employment and unemployment. It presents a stylized quantitative assessment of the relation between employment and growth, and reviews the main institutional features of the Antillean labor market. It concludes that a restoration of confidence, investment, and economic growth will need to be accompanied by measures to promote labor market flexibility in order to lower unemployment.

II. ASSESSMENT OF FISCAL POLICY DURING 1996-98²

3. **This chapter reviews experience with fiscal adjustment in the Netherlands Antilles in recent years, focusing in particular on the 1996-97 adjustment program, which aimed to avert an immediate financial crisis and address structural fiscal imbalances.** The review indicates that while the partial implementation of the program has been reasonably successful in reducing the size of the government, wage drift has undermined the beneficial effects of these efforts. In addition, the revenue base remains too small and further measures are needed to strengthen budget implementation. The analysis covers both the central government and the island government of Curaçao (see Box 1).

A. Legacy of Fiscal Problems

Overview

4. **The fiscal imbalance in the mid-1990s resulted from a deterioration that started with large wage increases in 1992.** The six-year average of the deficit as a percentage of GDP prior to 1992 was only 1.0 percent, but between 1992 and 1995 the average rose to 4.0 percent of GDP.³ During 1986-91, the Netherlands Antilles experienced a significant decline in offshore profit tax receipts following a repeal in the United States in 1984 of the

² Prepared by Jan Kees Martijn.

³ Up to 1995, the fiscal accounts were on an accrual basis, whereas since 1996 they have been on a cash basis. Pension premiums, however, are still recorded on the basis of obligations.

withholding tax on interest payments to nonresidents. Domestic tax revenues also diminished because of a deterioration in levying and collection of profit and income taxes. In response, expenditures in all categories were compressed, with emphasis on the containment of personnel costs. However, most of the adjustment of 1986–91 period was reversed during 1992–95. Wage costs during the 1992–95 period grew by an average of 11 percent annually at the general government level. A series of strikes in 1992 ended with a 14 percent rise in the average compensation of civil servants, and reinstatement of benefits. An increase in the number of civil servants reversed the effects of the earlier contraction. Furthermore, the shift in the financing of pension premiums from pay-as-you-go financing to capital funding led to a surge in pension premiums.

Box 1. Coverage of the General Government

The general government comprises the central government and the island government of Curaçao, which has a considerable degree of fiscal autonomy, but only limited control over the revenue side of its budget, as tax policy is mostly determined by the central government. The island government collects all direct taxes, whereas most indirect taxes are collected by the central government. A portion of tax revenue is redistributed through the so-called ERNA arrangement. The smaller islands do not take part in these arrangements. They do, however, receive contributions of the “Solidarity Fund” which is jointly financed by the central government (55 percent), Aruba (25 percent), and the Netherlands (20 percent).

Social funds responsible for social security and health care schemes and the public sector pension fund, APNA, (“Ambtenaren Pensionfondsen van de Nederlandse Antillen” or Civil Service Pension Fund of the Netherlands Antilles) are not included in the general government.

A large part of public investment is financed outside the budget. In recent years, the Netherlands Antilles has received the equivalent of about 2½ percent of GDP per year in development aid, which has been fully in the form of grants since 1992. The majority of this funding has come from the Netherlands, while a small amount has been provided by the European Union.

5. The Netherlands Antilles was in the midst of a fiscal crisis in 1995: the budget deficit of the general government reached 4.3 percent of GDP (Table 1). A large part of the deficit was financed by a buildup of arrears, which led to a considerable erosion of confidence in government. The general government debt at the end of 1995 amounted to

Table 1. Netherlands Antilles: Budget Balances of the Central Government
and the Island Government of Curaçao, 1994-99

(In percent of GDP)

	1994	1995	1996		1997		1998		1999
			Progr	Act.	Prog.	Act.	Off.Proj.	Est.	Off.Proj.
Central government									
Revenue	11.4	11.3	14.2	11.5	12.9	12.4	12.1	12.5	12.2
Expenditure	11.9	13.1	15.3	13.8	13.5	13.5	15.1	13.3	14.1
Balance	-0.5	-1.9	-1.1	-2.2	-0.6	-1.2	-3.0	-0.8	-1.9
Island government of Curaçao									
Revenue	17.8	18.5	21.1	18.7	19.8	17.1	17.8	17.1	18.0
Expenditure	22.4	21.0	23.1	20.4	20.3	19.2	20.0	19.0	19.7
Balance	-4.6	-2.4	-2.0	-1.7	-0.5	-2.1	-2.2	-1.8	-1.8
General government									
Revenue 1/	28.7	29.3	34.8	29.7	31.7	29.0	29.0	28.6	29.5
Of which: tax revenue	23.8	23.9	28.9	25.1	27.1	25.5	24.7	25.0	25.9
Expenditure 1/	33.7	33.6	37.9	33.6	32.7	32.3	34.1	31.2	33.2
Of which: current expenditure	32.5	32.3	36.2	31.9	30.9	31.0	32.2	31.0	31.6
Of which: wages (excl. pension prem.)	11.6	12.2	14.2	12.8	11.1	11.8	11.2	11.4	11.3
Of which: interest expenditure	2.8	2.8	3.4	2.9	3.5	3.4	3.9	3.6	4.0
Balance	-5.0	-4.3	-3.1	-3.9	-1.1	-3.3	-5.2	-2.6	-3.7
Sinking fund	0.0	0.0	0.0	0.0	0.9	0.0	0.0	0.0	0.0
Balance (incl. Sinking fund)	-5.0	-4.3	-3.1	-3.9	-2.0	-3.3	-5.2	-2.6	-3.7

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

1/ General government revenue and expenditure are net of ERNA transfers between the central government and the island government. Therefore, revenue and expenditure of the general government are less than the sum for the central government and the island government.

60 percent of GDP (of which two-thirds was domestic) and there was no room for further non-monetary financing of the deficit. Although the financing of the deficit through a buildup of arrears partly curtailed the expansionary impact of the large fiscal imbalance, a considerable depletion of official reserves could not be avoided: by the end of 1995 import coverage of official reserves had dropped to two months. Projections for 1996 pointed to a budget deficit of more than 9 percent of GDP. With the existing financing constraint, a larger budget could not be financed on a voluntary basis from domestic sources. In addition, in the absence of fiscal adjustment, confidence in the currency would likely erode, leading to a further decline in already low official reserves and, ultimately, jeopardizing the viability of the peg as well.

Structural weaknesses in the budget

6. Developments until the end of 1995 brought several structural weaknesses in the fiscal sector to the forefront:

- **The tax base was narrow.** In the absence of a sales tax or value-added tax, the share of taxes on goods and services in total tax revenue was 15 percent for the general government in 1995. The majority of indirect taxes were specific excise taxes, which rendered the tax system rather inelastic. The implications of the ensuing excessive reliance on direct taxes became painfully clear when the offshore profit tax receipts declined from 18.3 percent of GDP in 1986 to 3.9 percent in 1995.
- **Taxes on international trade and transactions constituted a significant part of total tax revenue collections.** Prior to 1993, when the government increased the import tariff rate by 6 percentage points in an effort to boost revenues, the share of international trade taxes in total tax collections had averaged 12 percent over the previous seven years. This ratio rose to an average of 18 percent between 1993 and 1995.
- **Tax collections also suffered from administrative problems.** Starting from the late 1980s the efficiency of levying income and profit taxes deteriorated and long delays in tax assessment and collection became common. At the end of 1995 a mere 16 percent of profit tax assessments, originally due in 1994, had been issued, while 46 percent of profit taxes originally due in 1993 had not yet been collected by the end of 1995.
- **On the expenditure side, the rise in government employment accompanied by a distorted wage structure generated an upward trend in wage and salary expenditures within the budget.** The share of wage payments in total tax revenues expanded progressively from 45 percent in 1986 to 68 percent in 1995. Under the existing wage structure, civil servants at the lower and middle levels earned more than their peers in the private sector, whereas at the higher level they earned less, creating a distorted incentive structure and reducing the quality of management.

Periodic wage increases were granted automatically, which led to a drift in nominal wages.

- **The government's obligations to the pension fund swelled, owing to higher wages and the progressive shift toward a fully funded pension system.** Faced with growing difficulties in financing the budget, the government began accumulating arrears to the pension fund, which contributed to the emergence of a chain of arrears between different governmental agencies and the pension fund.

B. Structural Adjustment Program

7. **In 1996 and 1997, the Netherlands Antilles initiated a broad-ranging adjustment program to address the worsening fiscal situation.** The program was developed in consultation with Fund staff.⁴ The fiscal component of this program included a package of measures covering both the revenue and the expenditure sides, in order to achieve an early significant reduction in the deficit, help relax the financing constraint, and establish the credibility of the government's commitment to adjustment. It also emphasized the need to address the structural problems of the budget, in particular by containing personnel costs.

8. **The target of the program was to bring down the deficit of the general government in 1996 to NA f. 124 million (3.1 percent of GDP).** This implied deficit targets of NA f. 45 million for the central government, and NA f. 79 million for the island government of Curaçao.⁵ The 1996 deficit target was negatively affected by a temporary increase in wage costs, owing to a one-time retroactive wage settlement amounting to NA f. 77 million (2.0 percent of GDP).⁶ To alleviate some of the pressure on the availability of nonbank financing, all retroactive payments to civil servants were paid out in government

⁴ In reality, the program was subject to staff monitoring only during the second quarter of 1997, after which it went off track. The existence of a staff-monitored program had been set by the Dutch government as a condition for additional financial assistance. The available assistance was to consist of a credit line of f. 100 million and the refinancing of debt owed to the Netherlands maturing in 1996, 1997, and 1998, totaling about NA f. 96 million. See IMF Staff Country Report 97/32 for a detailed description of the program.

⁵ Expressed in terms of the current estimate of 1996 GDP (instead of the program estimate), the program deficit would be 2.8 percent, reflecting a sizable upward revision of the GDP estimate.

⁶ Two such retroactive payments were made in 1996. First, a court-mandated payment was related to the elimination of salary discrepancies based on marital status, with a cost of NA f. 47.6 million. Second, a lump-sum payment covered wage indexation during 1992–95, with a cost of NA f. 29.7 million. This payment was made to honor a 1992 agreement with the unions to adjust wages if, in a given year, inflation exceeded 2 percent.

bonds. To achieve the fiscal targets a package of measures with an estimated yield in 1996 of NA f. 260 million was introduced—see Table 2 for an overview of the program measures.

9. **On the revenue side, the main element of the program was the introduction of new indirect taxes, allowing for a gradual shift away from direct and international trade taxes.** The package included a sales tax in the Leeward Islands from July 1, 1996 and a turnover tax in the Windward Islands from January 1, 1997. The aim was to extend the narrow tax base and increase the flexibility of the tax system. As part of the program and in accordance with the Uruguay Round Agreement, the government initiated a gradual reduction of tariffs to their pre-1993 levels, starting with a 1 percentage point reduction at the beginning of 1997.

10. **Fiscal reforms also included measures to improve tax assessment and collection efficiency.** An important element of this effort was the introduction of a new tax assessment and collection system for profit taxes at the island government level. Under the “self-assessment pay-as-you-file” system, enterprises were required to pay their profit taxes at the time of filing; in the previous system they had had to pay once they had received their final assessment. With backlogs in the assessment system, this had translated into long lags in collections.

11. **On the expenditure side, efforts focused on enhancing efficiency in governmental activities in the long run, and hence reduce costs, through the “core task analysis.”** The primary aim of this project, initiated at the levels of both the central government and the island government of Curaçao, was to identify the core functions and responsibilities of the government. Based on its findings, the organizational and ownership structure of noncore activities was to be changed, by way of either privatizing organizations or granting more autonomy to those retained within the public sector. The main expenditure savings were expected to come through reductions in the number of employees of governmental organizations that would be fully privatized. As a first step in this direction, the refuse collection unit (Selikor) and Giro (Girodienst), two operations of the island government of Curaçao, were transformed into public sector enterprises in early 1996.

12. **A sustainable reduction in personnel costs and a correction of the distortions in the current wage structure were at the core of the fiscal adjustment.** In accordance with the core task analysis, a comprehensive review of the organization of the civil service was conducted, in order to identify positions that could be consolidated or eliminated. This review, which would establish targets for redundancies within departments, was to be completed by end-March 1997.

13. **Both levels of government initiated a review of the pay structure for civil servants with the aim of designing a new structure starting from 1998.** In the long run, the new structure was expected to reduce the total wage bill, since wages of lower level staff would be maintained at their existing levels until the wage differential with the private sector had been eliminated, and since the wage drift would be avoided by conditioning wage increases on performance criteria rather than on the existing automatic adjustment

Table 2. Netherlands Antilles: Main Fiscal Adjustment Measures Adopted Under the 1996-97 Program

Measure	Implementation	Budget Impact (Millions of NA guilders)	Remarks
1. Increase in gasoline tax by 15 cents per liter	January 1996	8.9 in '96	
2. Replacement of the foreign exchange provision by a commercial bank license fee	January 1996	6.7 in '96 1.0 in '97	
3. Introduction of turnover tax on Leeward Islands	January 1996	41.8 in '96 95.8 in '97	Shortfall relative to '96 projection (79.7) owing to reduced rates and coverage
4. Introduction of waste disposal fee	January 1996	Allowed reduced subsidy to Selikor	
5. Increase in pensionable age from 55 to 60 and longer pension buildup period	January 1996	Contributed to lower pension premium	
6. Freeze on new hirings	January 1996		Exclusion of key positions
7. Freeze of wage indexing	July 1996	CG: 3.6 in '97	
8. Freeze of periodic wage increases	July 1996	CG: 3.4 in '97	Effect more than offset by job-regrading
9. Reduction in subsidies to public enterprises	1996	17.5 in '96	Mainly for Kodela. Effect not clear in budget, owing to shifts between "subsidies" and "goods and services"
10. Speeding up tax collection	1996		Backlogs reduced, but still sizable at end-1998
11. Strengthening of budget monitoring	1996		New reporting system introduced at both levels of government
12. Introduction of 3 percent sales tax on Windward Islands	January 1997	31.9 in '97	
13. Increase in gasoline tax on Windward Islands	January 1997	28.3 in '97	
14. Increase in property transfer tax on Windward Islands to 3.75 percent	January 1997	5.1 in '97	
15. Introduction of general insurance for supplementary health care	January 1997		Initially intended for July 1996
16. Freeze of new investments by central government.	August 1997	Sizable	Island government made similar effort
17. 35 percent reduction on central government expenditure on goods and services	August 1997	CG: 30 in '97	Island government made similar effort
18. Self assessment scheme for profit taxes	1997		Planned for 1996, fully operative in 1998, with limited end-year effect
19. Voluntary redundancy program for government staff	1997		In 1997 for island government and in 1998 for central government. Exclusion of key positions and generous layoff benefits undermine cost reduction
20. Establishment of a sinking fund for future pension obligations	1997		Scheduled contributions have not been made

Source: Data provided by the authorities and Fund staff estimates.

procedures. The short-term effect, however, would be a larger wage bill, since no civil servant's salary would decrease, while for some it would increase.

14. **Pension reform was motivated by growing difficulties in meeting pension premium obligations and an emerging actuarial deficit.** Premium obligations of the government had been rising in line with wages and because of the progressive shift toward a fully funded pension system. Two opposing immediate effects were expected from the 1996 reforms. The increase of the retirement age from 55 to 60, along with the scaling down of entitlements, was expected to reduce the pension premiums for capital funding and for APNA's actuarial deficit. However, there would be an increase in pay-as-you-go payments owing to a shift in financing from capital funding to partial pay-as-you-go for the pension payments of current participants who had not retired yet and for the entirely pay-as-you-go financing of pensions of retired civil servants 55–60 years of age. The pay-as-you-go payments were scheduled to climb sharply over time.

15. **Given the transitory nature of the savings expected from the new pension funding arrangements, the government decided to establish a sinking fund from 1997.** Failure to make an actuarially sound contribution to the sinking fund would constitute an accumulation of arrears under the adjustment program.

16. **In response to burgeoning health care costs, the government introduced measures to reduce the burden of the health care system on the budget, improve its efficiency, and protect coverage of the most vulnerable groups.** The new guidelines shifted the administration of health care programs away from the practice of open-ended financing of health care costs to a system governed by a strict budget constraint. Furthermore, health insurance for dependents of private sector employees was shifted from a government-financed scheme to social security. A new supplementary insurance scheme was designed to cover the costs of treating chronically ill patients, starting from July 1, 1996.

17. **The government also introduced additional revenue and expenditure measures to achieve an immediate reduction of the deficit:**

- **In December 1995, pending the introduction of the sales tax, the excise tax on gasoline was raised on a temporary basis and efforts were made to clear the backlog in profit taxes.** These measures were to have an estimated revenue impact of NA f. 15 million (0.4 percent of GDP). By mid-1996, the central government cleared the entire backlog of profit and income tax assessments for the period up to and including 1994. The island government, the collector of these taxes, accelerated its collection efforts and sustained these efforts into 1996.
- **On the expenditure side, a cut of subsidies to public enterprises was planned.** Specifically, a garbage collection fee of NA f. 20 per month per household was introduced in an effort to cover the costs of subsidies to the garbage collection company Selikor, which had been transformed into a public corporation in early 1996. Similarly, following increases in water and electricity prices in November

1995, subsidies to Kodela (water and electricity distribution company) were to be cut, along with the subsidy to the development bank, Korpodeko.

- **Pending the impact of the core task analysis, both levels of the government committed themselves to a freeze in new hiring.** This measure did not apply to key positions such as tax officers, teachers, lawyers, and prison guards.
- **Pending the implementation of the new pay structure, wages were to be frozen.** The freeze was legislated for the entire public sector effective from July 1, 1996 through the end of 1997. The wage freeze included elimination of periodic wage increases and full de-indexation of wages from inflation during this period.

C. Developments in 1996-97

Implementation in 1996

18. **Fiscal developments during 1996 were less than satisfactory.** The general government deficit declined to 3.9 percent of GDP, exceeding the target by 0.8 percent of GDP. At the central government level, the budget deficit in 1996 was 2.2 percent of GDP, about 1.1 percent of GDP higher than programmed. The Curaçao government deficit, on the other hand, fell to 1.7 percent of GDP, 0.8 percent of GDP below the target. The main slippages in the central government budget occurred on the revenue side, whereas at the island government level, below target revenue was fully compensated for by lower spending. The government financed the deficit entirely from domestic nonbank sources. However, the liquidity shortage at the beginning of 1996 led to the accumulation of new arrears to APNA. By the end of the year, the island government had cleared this increase, but the central government had accumulated new arrears of NA f. 16 million.

19. **At the central government level, the revenue shortfall was split evenly between tax and nontax revenue.** The sales tax for the Leeward Islands went into effect with a maximum rate of 6 percent for nonprimary goods, 5 percentage points lower than originally proposed. Consequently, revenues from this tax fell short by NA f. 39 million (0.9 percent of GDP), 10 percent of the total tax revenue originally planned for the central government. The decline in nontax revenue was explained by unexpectedly low revenues from the commercialization of the international telephone company and low revenue collection of nursing fees charged by the Capriles Clinic.

20. **At the island government level, profit tax collections were unexpectedly low.** This was due to disappointing proceeds from clearing part of the backlog in profit tax collections. In addition, the introduction of a self-assessment scheme was postponed until January 1, 1997. A significant part of these taxes were now deemed uncollectible, owing to obsolete information used to prepare the assessments and the liquidation of firms to which assessments were sent.

21. **In order to offset the effects of slippages during the first part of 1996, both levels of government took additional measures in the second half of the year.** The surcharge on gasoline was retained and Parliament approved a further increase of excise tax on gasoline in the Windward Islands from January 1997. The property transfer tax in the Leeward Islands was increased from 2.75 percent to 4 percent. The island government stepped up its efforts to clear the backlog in profit tax collections and took steps to accelerate the payment of wage taxes. Further cuts in nonwage current expenditures and investments were also introduced. The impact of these measures in 1996 was about NA f. 40 million (0.9 percent of GDP).

22. **Progress on implementing expenditure measures was mixed.** Some progress was made on the core task analysis. By the end of 1996, the core task analysis of the central government was completed, while that of the island government was at an advanced stage. A preliminary review of the wage structure of the civil service had been carried out in a timely manner for its implementation in 1998. On the downside, the introduction of the health insurance scheme for chronically ill patients and some other smaller health care measures were postponed until January 1, 1997.

23. **Expenditure monitoring and control was improved at both levels of government.** In particular, the island government of Curaçao took significant steps. First, the budgeting of expenditure authorizations was moved to a monthly basis. Second, an automated system was developed in order to obtain accurate and timely information on the expenditure commitments of various agencies. The central government requested technical assistance from the Dutch authorities to strengthen expenditure monitoring and control procedures.

24. **While the overall outturn for 1996, after adjusting for the one-time wage payments, marked an improvement over 1995, the results fell short of the target, and underlying developments were worrisome.** The setback in one of the major elements of the fiscal reform, namely the rate and coverage of the sales tax, was bound to affect adversely the future performance of the tax system. The delays in other fiscal measures, such as the introduction of the self-assessment pay-as-you-file system and the insurance scheme for chronically ill patients, cost valuable time. Furthermore, the relative success of the outturn was based on discretionary measures such as cuts in expenditures on goods and services and capital expenditures, the sustainability of which was questionable.

Implementation in 1997

25. **At the core of the policy program for 1997 were a continuation of fiscal consolidation and a correction for the structural policy slippages that had occurred in 1996.** By early 1997, structural reforms that had faltered in 1996 were fully in place. Fiscal measures were reinforced by increases in the property transfer tax and the excise tax on gasoline, further cuts in nonwage current expenditures and investment, and a host of nontax revenue measures. The program for 1997 envisaged a general government deficit of NA f. 87 million (2.0 percent of GDP), consistent with deficit targets of NA f. 40.4 million and NA f. 46.3 million for the central government and the island government, respectively.

26. **The 1997 outturn did not meet expectations.** Slippages had already become apparent at the beginning of the year. After the first quarter, the deficit of the central government had reached NA f. 17.6 million, more than 70 percent of the annual deficit target excluding the sinking fund contributions. The island government followed suit in the second quarter of the year, with a half-year deficit of NA f. 23.2 million, 9 percent over its annual deficit target, excluding the sinking fund. At the central government level these slippages early in the year were indicative of the failure to sustain cuts in expenditure on goods and services and investment. A significant drop in import duties and nontax revenues further aggravated the problem. For the island government, the early signs of slippage came on the revenue side; taxes on income and wages were below the midyear targets by a combined 11 percent, and only 17 percent of the midyear target in nontax revenues could be realized. Achieving the original objectives of the program was no longer possible. Both levels of the government accumulated new arrears to the pension fund, and when faced with significant financing constraints, postponed their contribution to the sinking fund.

27. **Both levels of government increased their efforts toward fiscal consolidation, but no adequate policy measures were implemented in a timely manner.** In the second half of 1997 the expansion of the deficit was contained, but the overall outturn for the year indicated a considerable reversal of the adjustment achieved in 1996. The deficit of the general government reached 4.2 percent of GDP (including the scheduled contribution to the sinking fund), exceeding the target by 2.2 percentage points. At the central government level, the budget deficit was 1.5 percent of GDP, more than twice the program target. The budget of the island government of Curaçao, with a deficit of 2.7 percent of GDP, was 1.6 percent of GDP above the target.

28. **At the central government level, there were significant overruns on current expenditures and shortfalls on revenues.** The most important revenue decline occurred in import duty collections. Lower import duty collections were mainly due to a 7 percent decline in imports, but slippages in collection contributed to the outcome as well. The lower-than-targeted collections on nontax revenue repeated the pattern of 1996, albeit on a smaller scale; the dividends from the central bank were significantly less than expected, and public agencies failed to pay laboratory and nursing fees.

29. **Wage costs were responsible for the most important central government expenditure overrun.** Wage payments were about 0.6 percent of GDP above the targeted level of 6.6 percent, defeating the purpose of the wage freeze. Also, proposed cuts in current nonwage expenditures and investment could not be realized, reflecting the failure of expenditure monitoring and control procedures. Expenditures on good and services remained flat at their 1996 levels, owing to a 35 percent budget reduction introduced in August. At the same time, a freeze on new investment projects was imposed. Still, investment spending was more than double the program target, representing a more than 66 percent increase over the previous year.

30. **In 1997, more than half of the revenue shortfall of the island government was attributable to low collections of profit and income taxes.** The shortfall amounted to

NA f. 116.3 million in revenues (2.6 percent of GDP) when compared with program targets. This unsatisfactory performance arose mainly from the failure of the self-assessment scheme to deliver the expected efficiency in profit tax collections and from several exemptions in the income tax code that led to unexpectedly high refunds instead of collections. The shortfall in nontax revenues was NA f. 25.5 million (0.6 percent of GDP), as dividends expected from public companies did not materialize. On the expenditure side, a notable development was the containment of outlays on goods and services below the program target.

31. **The core task analysis was successful in reducing the number of civil servants.** The central government had envisaged a reduction of civil servants from 4,566 at end-1996 to 4,419 in 1997, all of which had been realized by the end of 1997. The island government had already started the implementation of a voluntary redundancy program and the core task analysis. As a result, the number of civil servants, excluding teachers, was reduced from about 3,800 at end-1996 to about 3,700 at end-1997.

Structure of the budget at the end of 1997

32. **At end-1997, the main structural weaknesses of the budget identified at the start of the program period still existed and the deficit still exceeded the room for voluntary domestic financing.** The latter problem primarily reflected significant revenue shortfalls, which were partly exogenous and partly the result of delays in improving tax collection. However, budgetary problems had been compounded by a lack of sufficiently strong remedial measures in response to emerging shortfalls. Nonetheless, a start had been made in redressing the excessive reliance on revenue from direct taxes, reducing the size of the government, and improving the effectiveness of tax collection and expenditure monitoring.

33. **Tax revenue did not recover as targeted during the program period.** The introduction of sales and turnover taxes partly remedied the dependence of the tax system on direct taxes; but revenues from this tax represented only 2.9 percent of GDP. Direct taxes still constituted more than half of total tax revenues. The introduction of the new indirect taxes masked the decline in the buoyancy rates of direct taxes. Failure in improving the collection efficiency of profit and income taxes was the major reason behind this outcome.

34. **Lower-than-expected collections in nontax revenues had become a dominant theme on the revenue side of the budget since 1996.** Nontax revenues suffered from two main problems. First, there was an apparent reliance on optimistic forecasts of nontax revenue collections in the budget, which was not warranted by the historically realized collections. Second, the collection of dividends, fees, and charges, which constituted the bulk of nontax revenues, had been at best erratic, with the outcome depending on negotiations of revenue sharing/transfer arrangements between various levels of governmental agencies and state-owned enterprises.

35. **Wage costs remained high.** Despite the emphasis of the program on divestiture and retrenchment, and the enactment of a wage freeze, the wage bill (excluding pension premiums) had not decreased since 1995 in nominal terms and only marginally in terms of

GDP. The increase in the base wage while a wage freeze was in effect was particularly disquieting. This drift arose mainly from a job grading exercise, which involved regrading the job descriptions of government employees based on their most recently assumed responsibilities, even if they were of a temporary nature. A closer look at the composition of wages revealed that overtime payments, medical costs, and other allowances constituted the other main cause of the overruns.

D. Developments in 1998 and Early 1999

The 1998 budget

36. **Official projections showed an increase in the general government deficit to 5.2 percent of GDP in 1998.** This comprised deficits of 3.0 percent of GDP for the central government and 2.2 percent of GDP for the island government (excluding contributions to the sinking fund). Total revenue was projected to remain at 29.0 percent of GDP, but tax revenue was to decline by 0.8 percent of GDP. Total expenditure was projected to increase from 31.0 percent of GDP in 1997 to 32.2 percent. Furthermore, policy coordination between the two government levels weakened in the absence of joint adjustment efforts.

37. **Despite efforts to improve tax administration, the gradual decline in tax revenues was not projected to be reversed.** However, a planned 2 percentage point decrease in import duties was not implemented. In addition, an increase in telephone tariffs was expected to boost nontax revenues by 0.4 percent of GDP.

38. **In spite of several measures to limit wage costs, expenditure was scheduled to rise sharply in 1998.** Most of the expenditure cuts that had been achieved during the 1996-97 period were not considered of a sustainable nature. Furthermore, the growth in nonwage current expenditures and capital expenditures over and above the 1997 outturn reflected a deliberate expansion. The main measures incorporated in the 1998 budget were, on the expenditure side, continuation of the wage and (partial) hiring freeze, a reduction by half in vacation allowances, and savings expected from a reduction in the number of civil servants through the core task analysis and voluntary redundancy schemes. Following a similar scheme adopted by the island government of Curaçao in 1997, the central government anticipated that about 250 requests for voluntary departure would be granted. The immediate saving from the continuation of the core task analysis and the accompanying voluntary redundancy schemes was projected at 0.7 percent of GDP, through a reduction in wage payments as compared with the 1997 outturn. However, this saving was to be more than offset by an escalation in nonwage current expenditures by 2 percent of GDP and a growth in capital expenditures by 0.7 percent of GDP.

39. **The new wage structure was introduced at the start of 1998, as foreseen in the 1996-97 adjustment program.** For 1998, the introduction of the new system would largely undo the savings resulting from the freeze on periodic wage increases. The law stipulated step increases of fixed nominal magnitudes to be awarded based on performance evaluations,

a rule expected to limit wage costs in the medium term. However, the new performance evaluation system would not become operational until 2000.

40. **Finally, some remaining changes of the pension system that were part of the 1996 revision were enacted in 1998.** In particular, a deduction for the general old-age pension was introduced to the pension for new retirees, and the period required for building up a full pension was extended from 30 to 35 years. On that basis, the employers' premium was reduced from 20 percent to 17 percent.⁷

Budget implementation in 1998

41. **At the general government level, the 1998 deficit amounted to 2.6 percent of GDP, half of the amount included in the budget and 0.7 percent of GDP below the 1997 level.** The deficit decreased for both levels of government, to 0.8 percent of GDP for the central government and 1.8 percent of GDP for the island government. Total revenue declined in terms of GDP by 0.4 percent, mainly reflecting lower-than-anticipated profit tax revenue. With a sales tax in place over two years and several efforts to boost collections of import duties and profits taxes, the decline in tax revenues below the 1997 outturn should be considered a further setback in efforts to boost the buoyancy of the tax system.

42. **At both levels of government, spending was curtailed by a binding financing constraint that especially held down expenditure on goods and services and investment.** Total expenditure decreased by 1.1 percent of GDP. The island government also urged public enterprises to invest in government securities to alleviate its financing problem. In addition, the island government accumulated further arrears to the pension fund.⁸

43. **The lack of fiscal adjustment at the central government level was in part the result of the political paralysis associated with the lengthy government formation process during the first half 1998.** Potential coalition partners had no incentive to agree on unpopular measures before actually joining a new government. The new government, installed in June 1998, prepared a Recovery Plan for 1999 and beyond, but no measures were adopted in 1998 to address the immediate financial difficulties.

44. **Revenue performance at the central government level was largely in line with the 1997 outcome and the 1998 budget.** Two noteworthy developments were the higher-than-expected proceeds from the turnover tax on Sint Maarten and from import duties on transshipment in the last quarter of the year. On the other hand, revenue from fees, charges,

⁷ The appropriateness of this reduction is questionable, as this reduction in pension obligations had already been incorporated in the 1996 premium adjustment.

⁸ Moreover, the Dutch authorities demanded repayment of NA f. 64 million in principal on loans that had matured in 1996 and 1997, which would have been restructured on the basis of a program, as well as of the NA f. 30 million maturing in 1998.

and sales did not grow as projected. The main reason was the transformation of the post offices into a public enterprise in 1998, as a result of which revenue from postal services was no longer recorded in the government budget. Moreover, revenue collection of laboratory fees continued to be constrained by a chain of inter-agency arrears.

45. **On the expenditure side, the wage bill (excluding pension premiums) slightly exceeded the central government budget and the 1997 outcome.**⁹ Expected savings through a reduction in the number of civil servants did not materialize, as there were new hirings for vital agencies as well as generous layoff benefits. As a result, while active employment decreased further, from 4,419 to 4,346 employees, the number of people paid through the budget rose by 201. In addition, the cost of the ongoing job-grading exercise had not been incorporated into the budget.

46. **Central government transfers to other levels of government were exceptionally large in 1998.** This mainly reflected a partial settlement of outstanding arrears to Sint Maarten and Curaçao. However, the remaining financial obligations between the central government and Curaçao were still in dispute.¹⁰ As part of the settlement with Sint Maarten, the island paid off a loan early, reflected in sizable negative net lending for the central government. In May 1998, the central government cleared its arrears to APNA, through a NA f. 36.5 million loan provided by the pension fund. On the other hand, expenditure was limited by the nonpayment of the scheduled contribution to the Coast Guard run by the Netherlands. Despite the financing difficulties, there appears to have been no overall increase in domestic arrears.

47. **At the island government level, revenue fell short of the projected growth.** The self-assessment scheme for profit taxes was successful in shifting tax revenue forward within the year, but not in halting the overall declining trend, as profit tax revenue fell by 0.5 percent of GDP. The effect on total revenue was offset by the—presumably one-time— increase in the transfer received from the central government. The transfer of the revenue from a levy on waste disposal (recorded under “licenses”), collected by Kodela, the state-owned utilities company, was interrupted in 1998 as a result of a dispute over their mutual financial obligations.

⁹ After deduction of the wage costs—amounting to 0.3 percent of GDP—related to the now independent postal service.

¹⁰ The central government did not remit NA f. 20.9 million of the scheduled regular transfer to Curaçao, an amount equal to the amortization due on the part of the multi-annual loans from the Netherlands (to the central government) that was lent on to the island government. Given that the central government has not made the amortization payment, the associated obligation for the island government is unclear.

48. **On the expenditure side, wages (excluding pension premiums) were reduced further in 1998, in line with the trend since 1995, but by less than anticipated in the budget.** The overrun was the result of the ongoing job-regrading exercise, the introduction of the new wage system, and higher-than-expected layoff benefits. Expenditure on goods and services remained much lower than budgeted, reflecting the island government's financing difficulties, which also resulted in the nonpayment of scheduled pension premiums. A large outstanding zero-coupon loan by APNA, of NA f. 437 million, was refinanced in September 1998, at a below-market interest rate of 6.5 percent (compared with 8.5 percent on the old five-year loan), for 30 years.

49. **Little progress was made in 1998 with the implementation of the recommendations of the Core Task Analysis.** Six central government departments or operations had been selected to be spun off during the year, including the postal service and the Central Bureau of Statistics. Only the postal service was indeed made independent. Concerning the state-owned companies, the scheduled privatization of Antelecom was deferred, awaiting consolidation with the telecommunications firms of the separate islands. Privatization of the national air carrier, ALM, which had been making substantial losses, was also postponed.

Outlook for 1999

50. **While both levels of government face looming liquidity constraints in the course of 1999, no realistic budgets are available to guide budgetary management.** The formulation of the central government budget for 1999 was largely a pro forma exercise on the assumption of unchanged policies, as the new government's policy initiatives were not yet ready to be incorporated. Adjusted to a cash basis, the resulting budget deficit can be estimated at about 2 percent of GDP.

51. **Indirect tax reform worsened the budgetary outlook at the central government level for 1999 and beyond.** The reform included the replacement of the sales tax on the Leeward Islands by a 2 percent turnover tax and the lowering of the turnover tax rate on the Windward Islands from 3 percent to 2 percent in the first quarter of 1999. At the beginning of the year, the obligation to apply the sales tax was lifted for firms on Curaçao and Bonaire, although the law had not yet been formally abolished. The new system was phased in during March. However, small firms and specific items are exempted. The revenue loss stemming from the delay in introducing the new tax is estimated at 0.6 percent of GDP. More generally, the new sales tax is estimated to yield revenue that is 0.5 percent of GDP less than that of the old system, unless a significant part of the informal sector could be captured—which is, indeed, one of the objectives of the new system.

52. **Wage costs are set to edge slightly higher in 1999 as the authorities have decided to end the wage freeze.** In addition, the job-regrading exercise, although nearing its completion, will still have a small upward effect on wage costs. The reduction in vacation allowance from 6 percent to 3 percent has also not been continued, with a budgetary impact in 2000.

53. **The fiscal outlook is subject to large risks, given the many guarantees extended by the government for investment projects.** In early 1999, the central government reached a settlement for a claim arising from the Parker project, with the government agreeing to pay NA f. 47 million (1.1 percent of GDP) up front, and about NA f. 5 million in each of the next five years. On the other hand, the Netherlands Antilles reached agreement with Aruba on the distribution of assets and liabilities pursuant to their 1986 partition; the Antillean central government is to receive NA f. 21 million in 1999, followed by NA f. 11 million in 2000.¹¹

54. **The island government's budget, adopted in December 1998, included a deficit of 1.8 percent of GDP.** On the one hand, this budget was based on an optimistic assessment of wage and income tax revenue (slated to rise by 0.9 percent of GDP) and accelerated land tax collection (0.2 percent of GDP), and it excluded additional outlays on the Y2K project (0.4 percent of GDP).¹² On the other hand, pension premiums for 1999 have since been reduced (0.8 percent of GDP), and the budget included extra room for expenditure on goods and services (1.0 percent of GDP). On balance, these qualifications would indicate room for a slightly lower deficit. However, serious refinancing problems surfaced in January 1999, indicating that any deficit financing may be difficult given the rapid erosion of private investors' confidence.

E. Concluding Remarks

55. **Since the derailment of the adjustment program, around mid-1997, no adequate efforts have been made to put it back on track and, from this viewpoint, 1998 can largely be considered as a lost year.**

- **Despite efforts to improve tax collection efficiency, there has been a consistent decline in income and profit tax collections and in revenue from import duties.** Total revenues, after edging up slightly in 1996 to 29.7 percent of GDP, declined to 28.6 percent in 1998, and are projected to decline further in 1999. The latter is mainly the result of the replacement in 1999 of the sales tax on the Leeward Islands by a turnover tax. Nontax revenue, while notably volatile, has been declining also, reflecting the effect of the economic slowdown on dividends and problems in revenue collection stemming from financial disputes among different public sector agencies and state-owned enterprises.
- **The sustainability of containing expenditure appears questionable.** Total expenditures in 1995 were 33.6 percent of GDP, with 16.2 percent of GDP spent on

¹¹ Part of these transfers would be effected through APNA, which had a net liability to the Aruban public sector pension fund.

¹² The Y2K project was removed from the Dutch authorities' project aid budget, due to the deduction from this budget of the nonpaid amortization.

wages and salaries. By 1998, these amounts had been reduced to 31.2 percent and 14.8 percent of GDP, respectively. However, the way in which these reductions were reached was deficient in several respects. First, cuts in spending on goods and services and investment were motivated by immediate financing constraints rather than by a deliberate long-term strategy and will not be sustainable. Second, the job-regrading exercise and the new wage structure pose significant risks of a structural increase in the wage bill. Third, the reduction in the government's pension premium obligations appears to have been larger than warranted by expected future pension outlays. The resulting problem is reinforced by the nonpayment of the scheduled contributions to the sinking fund, and by the accumulation of new premium arrears by the island government.

- **The financial problems are compounded by a surge in interest costs, which reflect both a higher debt stock and a higher risk premium on the interest rate.** During the 1990s, general government debt swelled considerably, reaching 64.5 percent of GDP in 1998. Persistent budget deficits have pushed up domestic debt, while foreign debt declined in the absence of financial support from the Netherlands.¹³

56. **Unless a bold set of policy measures is put in place in a timely manner, a permanent reduction in the budget deficit cannot be achieved.** Further action is necessary on both the revenue and the expenditure sides of the budget. Moreover, anticipated liquidity problems in 1999 have intensified the urgency of such steps. Building on the useful measures adopted in 1996 and 1997, a comprehensive adjustment program would need to tackle all the structural weaknesses of the budget.

- **The tax system, given its poor performance, is in need of further improvement, in terms of both extending the base and increasing its flexibility.** Specifically, the income tax code incorporates exemptions on education costs and mortgage interest payments that can be reduced to enhance collections. Similarly, the loopholes of the new turnover tax can be eliminated. Aside from an increase in the tax rates, a uniform rate structure and an extension of the base to include all goods and services would help boost revenues.
- **It is crucial that tax collection and auditing be strengthened further.** Several improvements in tax administration and auditing are currently under way, with a potentially favorable structural effect on revenue. An automated system for the imposition of tax warranties is to be introduced in 1999. In addition, the authorities

¹³ Foreign debt mainly reflects concessional loans from the Netherlands in the past. All current development aid is in the form of grants. Foreign debt is mainly denominated in Netherlands guilders. Thus, fluctuations in the Netherlands guilder-Antillean guilder exchange rate lead to fluctuations in the foreign debt measured in Netherlands Antillean guilders.

are preparing the linking of tax declarations for the wage and turnover taxes by 2000, to limit the scope for fraud. There is a lack of qualified personnel for the regular auditing of firms, although, with technical assistance provided by the Netherlands, the auditing frequency has been slightly increased in recent years. The auditors also plan to visit many of the 12,000 Curaçao firms in 1999 to explain the new turnover tax system, with a possibly wider beneficial effect on compliance.

- **On the expenditure side, a range of measures is needed to solidify wage cost containment.** An acceleration of the core task analysis is needed to improve the efficiency of government bureaucracy and reduce the number of civil servants. However, the compensation system of civil servants needs to be revisited with due attention to severance payments, vacation allowances, and the implications of the new wage structure for keeping personnel costs in check. The viability of the pension system will be under scrutiny in the coming years. Proposals, such as a further reduction of pension entitlements and an increase in the retirement age, should be considered in order to contain pension obligations of the government. Finally, an early reduction of the deficit can be achieved by eliminating subsidies to public enterprises.

III. SUSTAINABILITY OF THE PUBLIC SECTOR PENSION SYSTEM¹⁴

A. Introduction

57. **During the 1990s, the pension scheme for civil servants underwent several changes affecting its degree of funding and sustainability.** The system first moved towards a fully funded arrangement, and then, given the financial repercussions of this change, returned to a partially pay-as-you-go (PAYG) system. In spite of a reduction in entitlements since 1996, benefits have remained generous and the system still lacks financial sustainability, implying a strong case for further reforms and fiscal consolidation. Particular problems are the excessive share of claims on the government in the public sector pension fund's asset portfolio, the accumulation of premium arrears by the government, and the projected rise in the costs of the general old age pension scheme as a result of population aging. The lingering problems illustrate the importance of governance considerations: there is a need for strengthening policy-makers' accountability for safeguarding pension claims, including through the application of strict prudential standards.

58. **The pension system of the Netherlands Antilles consists of a general state-provided old age pension (AOV), a range of private sector pension schemes, and the public sector pension system.**

¹⁴ Prepared by Jan Kees Martijn.

- **All residents of 60 years of age or older are entitled to general old age insurance.** This AOV (“Algemene Ouderdoms Verzekering”) scheme is administered by the Social Insurance Bank (SVB) and financed on a PAYG basis. The premium amounts to 10 percent of income up to a ceiling. The monthly AOV pension was NA f. 466 per person in 1998. Benefits are not linked to previous income and, since 1996, also do not depend on marital status. A deduction is applied for those who have not been residents continuously between the ages of 15 and 60.
- **About one-third of the workforce is covered by supplementary pension schemes.**¹⁵ Private sector pension schemes are administered by firm-specific pension funds, insurance companies, and—in some cases—by the firm itself. Generally, these pensions supplement the AOV benefit to 70 percent of the average wage over the final (e.g., ten) years of employment, and also cover disability. Insurance premiums—of which, typically, one third is paid by the employee—are tax deductible; as are pension or life-insurance premiums (up to a ceiling) for nonemployees.
- **Civil servants are covered by the public sector pension scheme.** This scheme is administered by APNA.

B. Recent Reforms of the Public Sector Pension Scheme

59. **During 1996–98, the pension system for civil servants was adjusted to reduce the government’s premium costs.** In the early 1990s there was a major shift from a mixture of a PAYG and a fully funded financing system to an almost completely fully funded system. However, the shift to fully funding, together with a substantial wage increase in 1992, swelled the stock of acquired pension rights, and at end-1994 APNA’s actuarial deficit amounted to NA f. 579 million (14.1 percent of GDP).¹⁶ Accordingly, further changes to the pension system were introduced in 1996 and 1998.

60. **At the core of the recent reforms was a reduction in the entitlements for new participants.** Until 1996, civil servants could retire at age 55 and—if they had worked for at

¹⁵ A 1995 study by Ernst, Moret, and Young indicated that of the total workforce of 78,589, 22,327 workers had supplementary pension insurance. Of the remaining workers, 7,994 had an income below 10/7 times the AOV benefit, implying that the AOV could be considered to provide full—i.e., at least 70 percent—coverage (see Commissie Pensioenen, 1997).

¹⁶ APNA’s actuarial balance, which is determined once every five years, compares the pension fund’s assets to the pension liabilities for current employees and retirees. In case of a deficit, an additional premium is established for the government, to cover the difference within a ten-year period.

least 30 years—receive a pension equal to 70 percent of their final salary, while also receiving the AOV. Changes were made in phases:¹⁷

- **Since the beginning of 1996, employees can only retire at age 60.** However, for those with at least five years of service and already employed at end-1995, the early retirement option was maintained.
- **Starting 1998, total retirement income for new employees was reduced to 70 percent of the final wage.** Total retirement income is the sum of a civil servant's pension and AOV benefit. To achieve this, the pension was no longer based on the wage, but on the wage minus a deduction, which is equal to (10/7) times the AOV.¹⁸
- **Finally, also since 1998, new employees can only build up a full pension if they have worked for 35 (instead of 30) years.** Accordingly, pension rights are not built up as quickly as in the old system; for each year of employment, civil servants are entitled to a pension equal to 2 percent of their final wage.

61. **The reforms also included adjustments in the financing arrangement, returning to a partial PAYG system for current retirees.** The government's capital funding premiums were reduced to cover pension rights only up to the reduced level granted to new employees.¹⁹ For current participants, the government is to compensate APNA for the difference between the obligations under the old and the new system through PAYG premiums. In addition, pensions of newly retiring civil servants aged between 55 and 60, are financed entirely on a PAYG basis, through the "VUT-uitkering" (early retirement benefit).

62. **The 1996 reforms resulted in a sharp decrease in the government's premium obligations; however, the pay-as-you go premiums were projected to grow rapidly after a few years.** The changes can be divided up as follows:

- The reduction in entitlements (for new participants) and in the degree of funding (for current participants) reduced pension funding obligations, allowing a reduction of the governments' capital-funding premium (in percent of total wages) from 26 percent to 20 percent in 1996, and then further to 17 percent in 1998.

¹⁷ In addition, starting in 1998, widowers' pensions were reduced from (5/7) to (5/8) of the regular pension.

¹⁸ To clarify: total retirement income = $0.7 * (\text{final wage} - 10/7 \text{ AOV}) + \text{AOV} = 0.7 * \text{final wage}$.

¹⁹ In addition, employees are to pay a premium equal to 8 percent of their wage minus the deduction for the AOV (i.e., $0.08 * (\text{wage} - \text{deduction})$).

- As a result of the higher retirement age, APNA's 1994 actuarial deficit was largely closed. Accordingly, the regular annual premium payments for covering the 1994 actuarial deficit, were waived, except for relatively small charges in 1997.²⁰
- Partially offsetting the above, there are additional expenses for the "VUT-uitkering" and higher PAYG premiums.

In sum, these changes lowered the 1996 contributions to NA f. 79 million for the central government and NA f. 91 million for Curaçao, compared to NA f. 105 million and NA f. 129 million, respectively, under the old system (see Table 3).

63. **The government has failed to make contributions to a sinking fund which was established in 1997 to provide for the projected rapid increase in VUT and PAYG payments.** The amounts the government would need to pay for the VUT and the PAYG premiums were projected to escalate, from NA f. 5 million in 1996, to NA f. 15 million in 1998, and would already amount to NA f. 36 million in the year 2000. To partially provide for these costs, a sinking fund was included in the 1997 budget, as part of the government's adjustment program. However, as a result of financing difficulties no contributions were made in 1997 and 1998.

C. Evaluating the Current Situation

64. **In view of APNA's recent actuarial surpluses, public sector pension premiums were reduced for 1999 and 2000.** An actuarial analysis indicated that at end-1997 the fund's assets available for covering future pension liabilities exceeded the required provision by NA f. 108 million.²¹ Likely, a further surplus was recorded in 1998. On this basis, it was decided to waive the final premium payment for covering the 1989 actuarial deficit, scheduled for 1999, and to refund the 1998 payments. In addition, the capital funding premium was lowered temporarily, for 1999 and 2000, from 17 percent to 12 percent.

65. **APNA's actuarial balance, however, does not indicate the financial viability of the public sector pension system.** Properly assessing the system's sustainability requires a more comprehensive analysis of all public sector pension obligations and the broader effects of population aging.

²⁰ These charges amounted to NA f. 7 million for the island government of Curaçao and NA f. 5 million for the central government; compared to annual premium of NA f. 40 million and NA f. 30 million, respectively, in case the reforms had not been introduced.

²¹ This surplus equals capital excluding the investment reserve for covering adverse future asset price developments (see Table 4). The calculation of the 1997 actuarial balance did not incorporate the reforms introduced in 1998.

Table 3. Netherlands Antilles: Pension Premiums of the Central Government
and the Island Government of Curaçao, 1993-99 1/

(In millions of NA guilders)

	1993	1994	1995	1996	1997	1998	1999
Central government							
Employees	6.7	8.3	9.1	9.6	9.9	10.4	10.4
Employers	76.2	78.9	75.5	69.0	74.5	65.7	50.1
Capital funding premiums	22.8	27.7	30.6	25.4	26.0	22.1	15.6
Pay-as-you-go premiums	37.9	35.3	35.4	34.9	34.7	34.5	34.0
VUT (early retirement)	--	--	--	0.1	0.3	0.5	0.5
Actuarial deficit 1989 2/	15.5	15.5	8.7	8.6	8.6	8.6	--
Actuarial deficit 1994 2/	--	--	--	--	4.9	--	--
Total	82.9	87.2	84.6	78.6	84.4	76.1	60.5
Curaçao government							
Employees	9.9	11.8	12.8	13.0	13.1	13.6	14.5
Employers	90.0	96.1	93.0	77.9	85.3	76.0	57.8
Capital funding premiums	29.7	36.9	41.2	32.6	33.1	28.9	21.7
Pay-as-you-go premiums	38.7	37.6	38.9	33.5	32.9	32.9	34.0
VUT (early retirement)	--	--	--	--	0.8	2.4	2.1
Actuarial deficit 1989 2/	21.6	21.6	12.9	11.8	11.8	11.8	--
Actuarial deficit 1994 2/	--	--	--	--	6.7	--	--
Total	99.9	107.9	105.8	90.9	98.4	89.6	72.3
Memorandum item:							
Pension Benefits	38.3	43.4	46.7	51.6	54.8	n.a.	n.a.

Source: APNA.

1/ Pension premiums are based on APNA's final settlements, rather than on the premiums charged by APNA at the beginning of each year, except for 1998 and 1999.

2/ Includes fines and interest.

66. **APNA's recent actuarial surpluses to a large extent reflected high returns on investment in 1997 and 1998—which could be temporary.** Since 1997, APNA's assets are recorded at market value instead of at historical value. As a rule, half of asset price increases is reserved for cushioning possible future asset price declines (the 'investment reserve'), while the other half helps improve the actuarial balance. In 1997, this 'other half' accounted for just over half of an annual surplus of NA f. 114 million—which brought about the above mentioned actuarial surplus by year-end.

Table 4. Netherlands Antilles: APNA's Preliminary Balance Sheet at end-1997

(In millions of NA guilders)

Assets:	2,342	Liabilities:	2,342
Investments	1,864	Capital	166
<i>Of which: government loans</i>	662	<i>Of which: investment reserve</i>	58
Fixed assets	8	Provision for future pension obligations	2,083
Claims	417	Provision for maintenance	1
<i>Of which: premium arrears</i>	308	Debt	91
Liquid assets	51		

Source: APNA.

67. **APNA's assets include sizable premium arrears, indicating a potential future liquidity problem and the existence of doubtful claims.** At end-1997, total arrears on scheduled payments to APNA amounted to NA f. 308 million, comprising 14 percent of 'available' assets.²² The largest amounts were owed by the island governments of Curaçao (68 percent) and Bonaire (15 percent). Further growth in arrears was recorded in 1998, as the island government of Curaçao was largely unable to pay. This accumulation of premium arrears could eventually undermine APNA's ability to meet its obligations, as its cash flow is projected to become negative over the next decade.²³

68. **More generally, arguably APNA's claims on the government, which comprise almost half of APNA's assets, should be excluded from a broader assessment of the pension system's sustainability.** APNA has financed about 25 percent of total general

²² Available assets comprise total assets minus debts, the investment reserve, and the provision for maintenance (see Table 4).

²³ According to a 1996 projection by Towers Perrin, for a constant number of civil servants, the number of retirees would increase sharply, by 30 percent between 1996 and 2004, as a result of the age structure of current employees and retirees, and increasing life expectancy.

government debt, and the option of delaying payments to the pension fund has served as a major shock absorber for the budget. At end-1997, government loans constituted 36 percent of APNA's total investments, below the statutory ceiling of 40 percent. However, a further 3 percent consisted of other direct loans to the public sector and government guaranteed loans. In addition to the government loans, the share of the island government of Curaçao already exceeded its limit within the overall ceiling. Furthermore, premium arrears are not included in investments; if they had been regularized, this would have brought the share of government loans to 45 percent. On a net basis, claims on the government provide no funding for future pension obligations. To honor these claims, ultimately, fiscal consolidation is required. Even if the loans could be refinanced, the government would end up paying debt service costs instead of pension benefits—i.e., the annual costs would be similar to those in a formally nonfunded system. At a practical level, however, the scope for refinancing outside the pension system is limited, given a fiscal projection in which the government already exhausts the room for domestic financing without crowding out private investment, and the limits to external financing.

69. **In the absence of a sinking fund, the projected surge in the government's PAYG payments could be unfeasible.** APNA's actuarial analysis assumes full payment by the government of the early retirement scheme and of the increase in the PAYG contributions for supplementing the funded part of the pensions of current retirees. The PAYG contributions are expected to rise from NA f. 3 million in 2000 to NA f. 11 million in 2005, and peak at NA f. 38 million by 2020. Regarding the early retirement scheme, actual costs have so far been very limited compared to initial projections of the maximum costs. In 1998, the actual VUT costs amounted to NA f. 0.5 million for the central government and NA f. 2.4 million for the island government of Curaçao, compared to maximum amounts of NA f. 5.1 million and NA f. 9.4 million, respectively. In practice, mainly teachers (employed by the island government) make use of the scheme, as they are allowed to maintain a paid job without losing the early retirement benefit. No projections are available of the likely future use of the scheme, but it appears very unlikely that the projected build up to annual costs of about NA f. 33 million by 2002 will be approached, as this scenario assumed full use of the facility.

70. **Population aging will limit the tax base, while requiring higher AOV and health insurance contributions—putting pressure on the room for taxation.** The proportion of the population of over 60 years of age is projected to expand from 10.3 percent in 1997 to 13.2 percent in 2005 and 15.1 percent in 2010.²⁴ For the current AOV arrangement, this was calculated to imply a rise in the premium from 7.8 percent of total income in 1997 to 11.1 percent in 2005 and 12.8 percent in 2010. In addition, under unchanged policies there will be an upward effect on the costs of health care, which is also largely financed through social insurance premiums. However, the combined level of premiums and taxes is constrained by tax competition with other islands and the need to ensure proper functioning of the labor market.

²⁴ Commissie Pensioenen (1997).

71. **Although data limitations preclude a comprehensive analysis, the public sector pension system does not appear to be viable.** Even a cursory assessment of the above-mentioned considerations underscores the emphasis that was put on improving the pension system's financial outlook within the 1996-97 adjustment program. The then scheduled sinking fund was largely targeted at creating a provision for the future costs of early retirement. While this particular component of the pension system appears to be less costly than envisaged, the other actuarial liabilities of the public sector indicate an urgent need for higher public saving.

D. Avenues for Further Reform

72. **The need to prepare for rising future pensions costs for civil servants calls for an improvement in the consolidated net asset position of the government and the public sector pension fund.** The lack of sustainability of the current pension arrangement for civil servants implies a need for reform, that could comprise both entitlements and the financing arrangement. Concerning the latter, it is crucial to see through the division between the government and APNA, and focus on improving their consolidated position.

73. **The future cost increase, argues for a reduction in entitlements of current employees and/or retirees and raising the premium for employees.** There is not much scope for boosting the government's pension contributions through higher taxes and reduced expenditure outside the pension system. In addition, reducing pension entitlements for new participants only would not have a strong immediate impact. These constraints leave a reduction in pension entitlements for existing retirees, and shifting pension premiums from the government to its employees as the primary remaining avenues for lowering public sector pension liabilities.

74. **Phasing in a pension deduction for the AOV benefit and terminating the early retirement scheme would provide immediate savings and eliminate a contingent liability.** Pension entitlements of public sector employees covered by the old pension system (i.e., who were employed before January 1, 1998) are overly generous: in the absence of an AOV franchise, benefits are often higher than previous income. Introducing a franchise for future retirees would eliminate the scheduled escalation of PAYG payments. Phasing in such a deduction for the about 4,700 current retirees also, would provide large immediate savings. A further option would be to phase out the early retirement scheme for current employees. Given the limited use of the early retirement scheme, the immediate financial impact of such measure would be small, but a large potential liability would be eliminated.

75. **Additional measures could be adopted to lower pensions.** Despite the recent adjustments for new employees, pension entitlements are still generous in comparison with those outside the government. This is illustrated by the required pension premium for civil servants of 20 percent, which is well above what is customary in the private sector.

- Pensions could be based on the average wage instead of on the wage at the end of a civil servant's career.

- The replacement ratio could be reduced, e.g., from 70 percent to 60 percent.
- The period required to build up a full pension could be extended further, from 35 years to, for example, 40 years.

76. **For the longer term, an important choice relates to the degree to which the system is funded.** On efficiency grounds, a fully funded system is superior if the risk-adjusted real interest rate exceeds the rate of growth of wages and salaries (Box 2). For the Netherlands Antilles, with a stagnant labor force, this condition appears to be satisfied—as is the case for most countries. It is, however, important to recognize that financial consolidation of the public sector can be implemented regardless of the degree of funding. Within the funded part of the system, APNA could reduce its provision of loans to the government; given the government's financing constraint, this would compel higher public saving. To the degree there is no funding, the delayed establishment of a sinking fund would still be the appropriate step.

Box 2: Efficiency of Pension Schemes

The choice between a funded and a pay-as-you-go (PAYG) system can be judged by the rate of return on pension contributions, as shown by Aaron (1966). Under a PAYG system, the implicit rate of return on pension contributions corresponds to the growth rate of these contributions, as this translates into increased pension income. On the assumption that pension contributions are a constant fraction of labor income, this rate is given by the real rate of growth of wages and salaries. Accordingly, if the (risk-adjusted) real interest rate earned on the pension fund's assets exceeds the sum of the growth rates of the labor force and labor productivity, a fully funded system yields a higher rate of return, making it superior from the point of view of each generation, as it can provide the same benefits at lower contribution rates. This advantage of a fully funded system reflects the associated higher capital stock, which yields this higher rate of return.

The above analysis ignores the transitional effects of changing the financing arrangement. Although changes to public pension systems are often of a piecemeal nature, it is illuminating to consider the effects of an overall change in the financing arrangement.

Moving to a PAYG public pension scheme from a situation without any public scheme would reduce domestic savings (as the need to save for one's future would be reduced), while introducing a funded scheme would have no such effect (as savings made through the scheme would (more than) compensate for reduced private savings). However, it does not follow that replacing a PAYG scheme by a fully funded one necessarily has a positive effect on savings (See Mackenzie, Gerson, and Cuevas, 1997). The crucial issue is the financing of the pension of the current generation of retirees. Since no funding has been built up for these obligations, the financing requires either fiscal consolidation or government borrowing. In the latter case, public sector dissaving may increase the stock of government debt by the amount of the newly created pension fund, leaving overall savings unchanged. This reflects the more general point that to the extent that pension funds assets are invested in government securities which, in turn, allow for an increase in government spending, there is no real counterpart to the system's reserves.

The analysis of replacing a fully funded scheme by a PAYG system largely mirrors the above. The transition creates a windfall gain, as the existing fund would no longer be needed and could be disbursed. To the extent the proceeds are spent, there is an immediate temporary decline in savings. In addition, there would be a smaller permanent reduction in savings, as a smaller stock of assets is maintained.

77. **Stronger institutional guarantees should be introduced to ensure the integrity of the pension system.** The undermining of the sustainability of the pension system during the 1990s, points to inadequate governance. To some extent this development was facilitated by the reintroduction of PAYG financing. Politicians may be held accountable more strongly for exercising the budgetary discipline needed to prepare for future pension outlays if the required contributions are clearly visible. In this respect, a fully funded system makes explicit what would be the nonfunded liabilities of a PAYG system. In the case of the Netherlands Antilles, indeed, the planned creation of a sinking fund linked to the new PAYG element of the scheme has been discarded, whereas the nonpayment of obligations to APNA are recorded as arrears and, as such, have remained on the policy agenda. As a further guarantee, a pension fund can be made subject to strict external prudential supervision.

E. Bibliography

Commissie Pensioenen, 1997, "Op Weg naar een Pensioenbeleid voor de Nederlandse Antillen," Willemstad, December.

G.A. MacKenzie, P. Gerson, and A. Cuevas, 1997, "Pension Regimes and Saving," IMF Occasional Paper, No. 153, August.

H. Aaron, 1966. "The Social Insurance Paradox," Canadian Journal of Economics and Science, Vol. 32, pp.371-374.

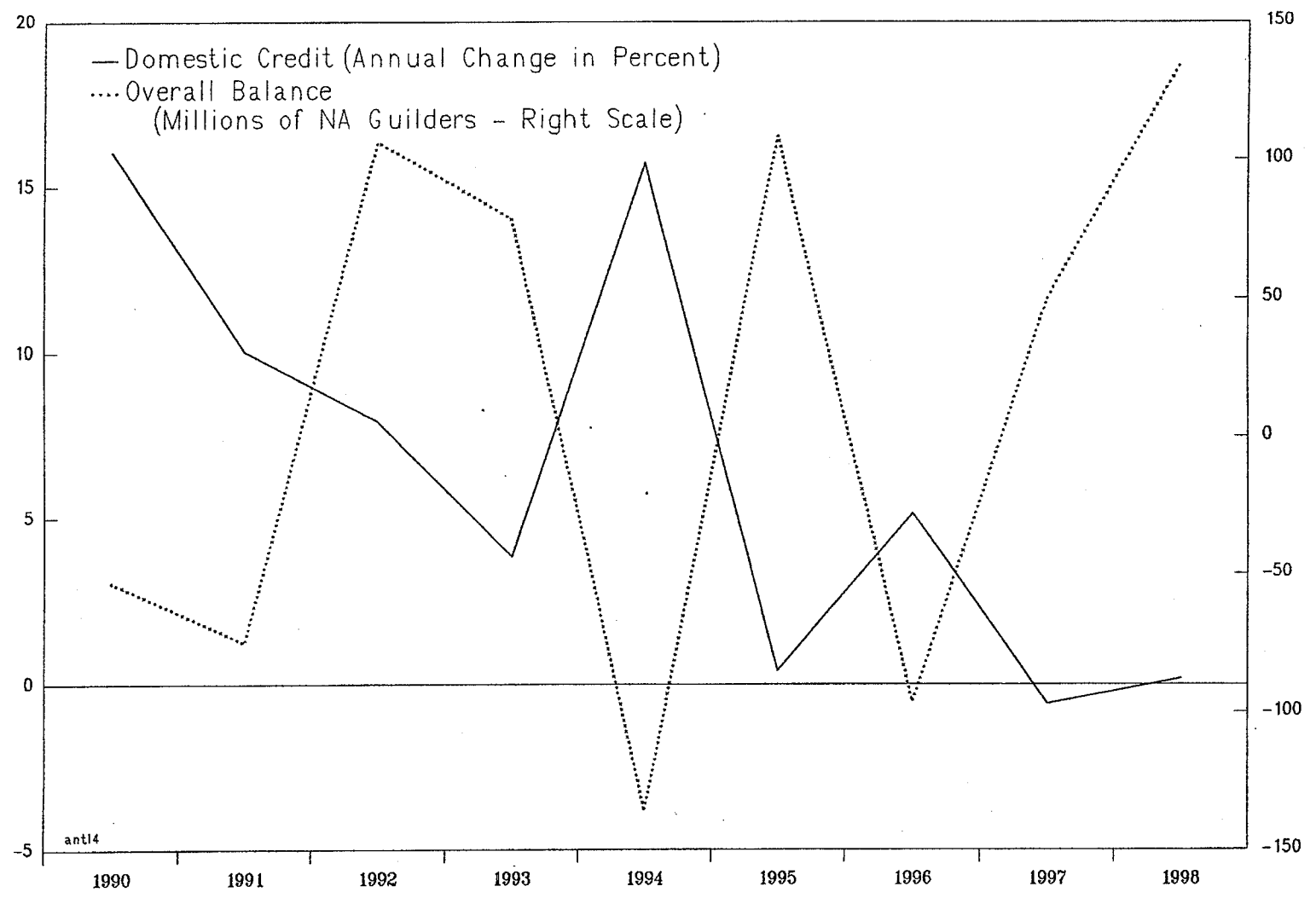
S.K. Chand and A. Jaeger, 1996, "Aging Populations and Public Pension Schemes," IMF Occasional Paper, No. 147, December.

IV. NEW INSTRUMENT MIX FOR MONETARY MANAGEMENT²⁵

78. Monetary policy in the Netherlands Antilles has managed to safeguard the peg to the U.S. dollar, which has been in place at an unchanged rate since 1971, despite the emergence of large fiscal imbalances during the 1990s. In this context and given the small open nature of the economy, adequate control over domestic credit is crucial, as credit growth has been observed to spill over into higher imports, which in turn has put pressure on international reserves (Figure 1). Direct monetary controls, combined with restrictions on capital flows, have been the preferred instruments of monetary control so far. Recognizing that they have not always been effective—as indicated by persistent excess liquidity of commercial banks—and have hampered the functioning of financial markets, the central bank initiated a shift toward increased reliance on indirect instruments of monetary control in 1998. As described below, monetary developments over the past two years may have been auspicious for the timing of this shift, but the more active use of minimum reserve requirements in the course of 1998 appears to have been effective. Even so, the shift has only been partial, since the lack of

²⁵ Prepared by Luc Everaert and Fabrice Lenseigne.

FIGURE 1
 NETHERLANDS ANTILLES
 Domestic Credit Growth and Overall Balance of Payments



Source: Bank van de Nederlandse Antillen, Quarterly Bulletin.

fiscal consolidation has forced the central bank to maintain a ceiling on credit to the government. Thus the full benefits of the increased use of indirect instruments are unlikely to be felt soon and will also depend on further refinements in the operation of the minimum reserve requirement and the development of interest rate sensitive instruments of monetary management. Without this, it may not be possible to address decisively the excess liquidity problem.

A. Monetary Developments During 1997-98

79. **After contracting in 1996, money demand increased moderately during 1997-98 and its composition shifted markedly toward time deposits.** Broad money increased by 2.6 percent and 3.6 percent in 1997 and 1998, respectively. Time deposits grew by 12.9 percent in 1997 and 7.7 percent in 1998, while savings deposits first declined in 1997 by 1.1 percent, before resuming growth at 3.4 percent in 1998. The shift toward time deposits was induced by a relative increase in interest rates on these deposits as banks were facing stronger competition for financial savings from the non-bank sector, where instruments were offered that were tied to the increasing yield on government securities. The increase in near-money also reflected a reticence to invest in government securities and in real assets, against the background of the deteriorated state of public finances and uncertainty about the course of economic policies. In part this explains the increase in savings deposits in 1998, even though yields on these deposits hardly changed.

80. **Monetary policy in 1997 was conducted against the background of a loss of control of credit in 1996 and geared at rebuilding net foreign assets and official reserves.** During 1996, net domestic assets of the banking system increased by 6.8 percent, despite a decline in domestic credit to the government, contributing to a drop in net foreign assets by NA f. 96 million and a decline in import coverage of official reserves from 2 months to 1.5 months. The loss of control was caused by a circumvention of private credit ceilings through sales of loan portfolios abroad and willingness by banks (and their clients) to pay the apparently insufficiently high penalty rate for exceeding the credit ceilings. In response, this loophole was closed and penalty rates were increased in an attempt to limit the increase in private sector credit to 3.5 percent over the period November 1, 1996 to December 31, 1997. The ceiling on credit to the government was maintained at its October 1996 level.

81. **While the tightening of monetary controls appeared to have been effective in restricting credit growth in 1997, it was assisted by a weakening of economic activity which curbed demand for credit.** By the end of 1997, net domestic assets were up by only 0.3 percent relative to end-1996 and net international reserves had increased by NA f. 49.7 million, allowing official reserves to recover to 1.9 months of imports. Claims on the private sector fell by 0.6 percent, which can be attributed largely to the decline in real GDP by an estimated 0.7 percent. The pace of mortgage expansion fell from 10.6 percent in 1996 to 6.9 percent in 1997, while consumer loans were cut by 5.9 percent and business loans by 0.3 percent.

82. **Domestic credit to the government, while not exceeding the October 1996 ceiling, did not decline as targeted in the 1996–97 macroeconomic adjustment program.** This was the consequence of the failure to correct fiscal imbalances and to deposit NA f. 40 million in a sinking fund to be held at the central bank and established to cover the expected increase in the pay-as-you-go obligations of the civil servants pension system.

83. **During 1998, monetary policy met its objectives, even though private sector credit resumed growth, in line with the modest recovery in economic activity.** The ceiling on credit to the government was maintained at its October 1996 level, while credit to the private sector was permitted to expand by 2 percent over the amount outstanding at end-September 1997. By the end of the second quarter of 1998, however, net domestic credit to the private sector, mainly in the form of consumer and business loans, had already increased by the allowed 2 percent. Anticipating the risk that the ceiling was likely to be breached, monetary policy was tightened in August 1998. The ceiling on private sector credit growth between end-June and end-December 1998 was set at $\frac{1}{4}$ percent. In addition, the minimum reserve requirement was raised from 4 percent to 6 percent in September 1998, to 6.5 percent in October, and again to 8 percent in November, to mop up excess liquidity of the banking system. This strategy proved successful as credit to the private sector contracted somewhat, recording an overall increase of 1.4 percent for the year, thus remaining below the revised ceiling of $2\frac{1}{4}$ percent.

84. **Net domestic credit to the government was kept below its ceiling during 1998.** Movements in net bank credit to the government largely followed changes in its deposit balances as banks remained reluctant to extend new credit to the government, given the unsustainable fiscal situation. Reflecting this volatility, net credit to the government first declined and then expanded by 38 percent during the second quarter of 1998, but by end-1998 it remained 17 percent below its ceiling. This was in part the result of a large disbursement of project aid from abroad which was deposited at the central bank and expected to be spent during the first few months of 1999. Excluding this deposit—which cannot be used to finance the budget deficit—net domestic credit to the government was near its ceiling at end-1998.

85. **Noteworthy is the decline in other items net of the banking system recorded in 1998.** This mainly reflects the increase in liabilities as a result of provisioning for nonperforming loans which rose by 20 percent during 1998, a development attributed to three consecutive years of weak economic activity.

86. **Thus, developments during 1997–98 indicate that while weak economic activity facilitated monetary control, the more active use of the minimum reserve requirement appeared to have contributed to checking private sector credit growth.** Admittedly, private sector credit growth never exceeded its ceiling, thus lending support to the hypothesis that the penalties for exceeding the credit ceiling were binding. However, in looking at monthly data on credit developments, it should be noted that credit to the private sector declined in the two months when reserve requirements were increased. With hindsight, as

credit growth remained below the ceiling, the monetary tightening during the last four months of the year may have overshoot.

B. Increased Reliance on Indirect Instruments

87. The central bank disposes of a full array of instruments of monetary control, but has favored three principal instruments for monetary management during 1997 and 1998:

- The **monetary cash reserves requirement (MCR)**, which establishes separate limits on credit to the private sector and net credit to the government for each bank and progressive penalties for exceeding these ceilings. To help prevent monetization of the deficit, the ceiling on net credit to the government has been kept constant at its October 1996 level. Ceilings for private sector credit growth are set with reference to money demand projections and a net foreign assets objective.
- The **minimum reserve requirement**, which is aimed at controlling the liquidity in the domestic banking system. It requires the commercial banks to place a noninterest bearing deposit on a blocked account with the central bank during the maintenance period.
- The **“B-9” policy**, which impose limits on the liquid net foreign asset position of the commercial banks. Under this policy the central bank imposes a minimum and a maximum limit on the amount of net claims on nonresidents in foreign currencies that may be held by commercial banks. The policy is aimed at controlling net outward investment and concentrating net foreign assets at the central bank. Banks must submit information on their net foreign asset position on a weekly basis.

88. Several other instruments available to the BNA for the conduct of monetary policy have been used only to a limited extent or not at all:

- **BNA certificates of deposit (CD)**, which are made available each month to individual banks. Interest rates offered on CDs are published each month and CDs are negotiable among domestic banks, although the secondary market is still very thin.
- **Repurchase agreements (REPO)**, which allow commercial banks to buy securities from the BNA's portfolio under the condition of a repurchase of these securities after a specified period of time. For the time being, the REPO facility is not active.
- **Discount window**, which permits commercial banks to rediscount paper that meets certain standards at an officially announced discount rate. Use of this facility is being discouraged by the central bank and only a limited amount is outstanding.

- **Liquid asset requirements**, which oblige banks to hold a specified share of assets in liquid instruments, mainly cash and government securities. These requirements are actively used, but mainly as a prudential tool (see Section C).

89. **During 1998, the central bank initiated important steps toward increased reliance on indirect instruments of monetary control.** To drain excess liquidity from the banking system in preparation for the removal of the ceiling on private sector credit, minimum reserve requirements were raised in successive steps to 8 percent during 1998. To mitigate the adverse impact on banks' operating costs from these increases and to help develop an active interbank money market, the central bank permitted banks to acquire and hold 25 percent of the minimum reserve requirement in the form of BNA certificates of deposit. At the same time the maximum limit on the net foreign asset position (B-9 position) was abolished, even though banks are still required not to run negative net foreign asset positions.

90. **While the new monetary policy framework in place for 1999 represents an important step toward a market-oriented monetary policy, it entails some significant drawbacks in its present form:**

- The monetary cash reserve requirement is still formally in place, even for credit to the private sector. The fact that no limit has been announced does not prevent the central bank from reinstating a limit if it deems it to be necessary to control credit growth. This sends an intransparent signal to the banking sector indicating uncertainty about the effectiveness of the indirect instruments on behalf of the monetary authorities.
- The continuation of the ceiling on credit to the government causes a segmentation of financial markets and prevents the effective market-based determination of yields across the spectrum of financial assets.
- The minimum reserve requirement is subject to variation on a monthly basis without prior warning and balances must be maintained on a day-to-day basis. Variations in minimum reserve requirements are generally seen as a crude instrument of monetary policy. If changes are too frequent and without prior warning, banks will be induced to hold excess precautionary balances, which might be seen as excess liquidity and lead to counterproductive tightening. In addition, unremunerated reserves constitute a tax on the banking sector and, as such, have distortionary effects. Finally, the effectiveness of changes in reserve requirements in controlling credit is somewhat mitigated by the lags involved in its operation (currently two months).

91. **Without much risk of loss of control, further refinements to the present monetary framework could be implemented to remove some of its drawbacks.** While the continuation of ceilings on credit to the government may be necessary as a transitory compromise until fiscal consolidation takes hold, the minimum cash reserve requirement for private sector credit appears to be redundant and could be abolished. In addition, to allow a more accurate assessment of the liquidity of the banking system, daily averaging of minimum

reserve requirements could be considered. This would obviate the need for banks to hold excess balances at the central bank out of precautionary motives. In addition, minimum reserve requirements should be varied less often and short-term control of liquidity should be left to other instruments. Some remuneration of reserves could be considered to help reduce banks' operating costs and intermediation spreads.

92. **Nonetheless, fully market-based operation of monetary policy is complicated by the limited size of the domestic financial market and the oligopolistic structure of the banking system.** The financial sector is highly concentrated, with one bank accounting for over 55 percent of all assets, and four banks covering 75 percent of assets. This structure imparts some monopoly power to banks, allowing them to pass on excess costs incurred as a result of higher reserves requirement to their customers. On the other hand, the structure of the banking system has led to a leader-follower model in which the smaller banks do not deviate from the interest rates set by the dominant, large bank. As a result, there is no effective competition on lending rates and most of the smaller banks have developed niche markets. Thus, sending signals to the banking sector through interest rates is less effective in controlling the extension of credit than in a more competitive environment.

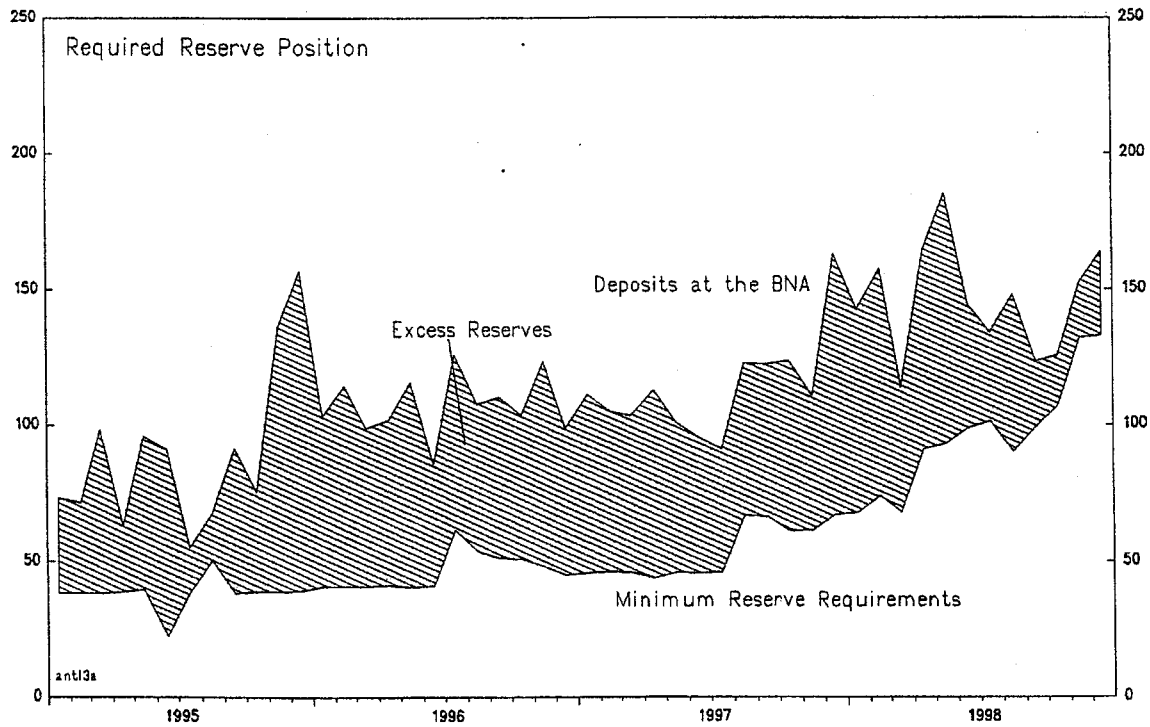
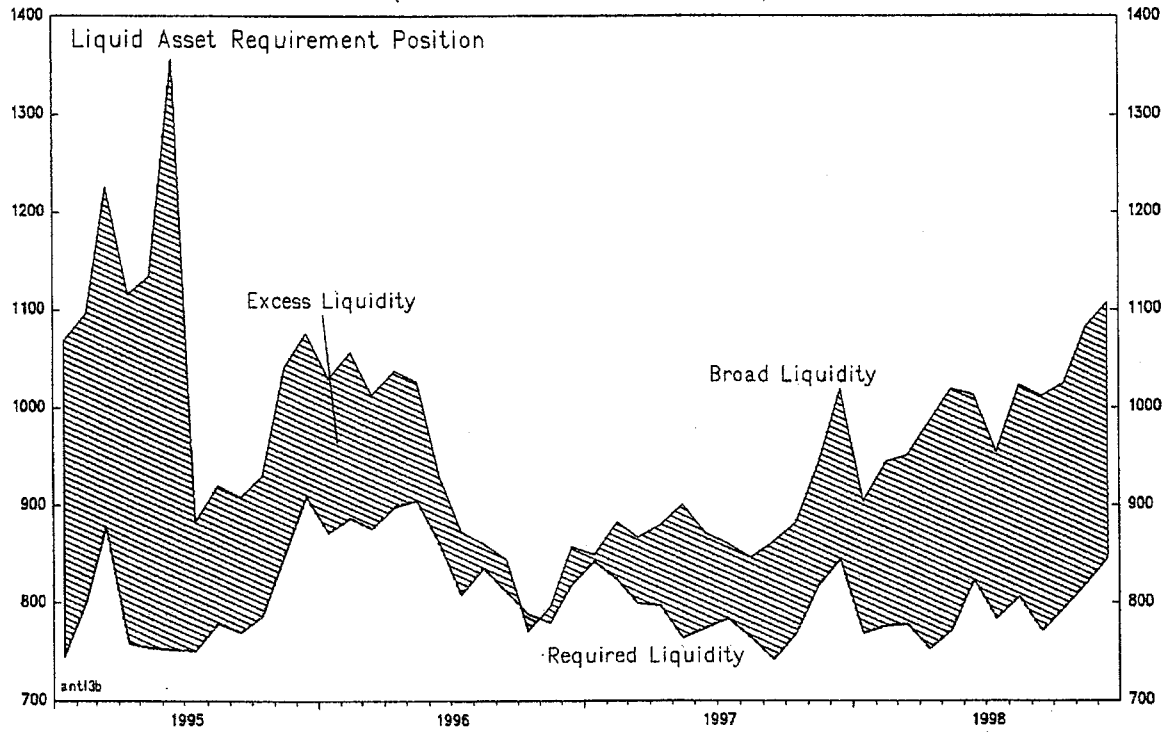
C. Assessing Excess Liquidity

93. **The concurrent use of two different concepts to measure the liquidity of the banking system in the Netherlands Antilles, each with their own drawbacks, has caused some confusion about the extent of an apparently persistent excess liquidity problem.** Since liquid asset requirements have been imposed for prudential reasons, any holdings of assets that qualify to meet these requirements in excess of statutory prescriptions have been considered excess liquidity. Given the shallowness of secondary markets, however, most of these assets cannot be considered as truly liquid. Thus the amount of commercial bank deposits held at the central bank in excess of reserve requirements appears to be a more meaningful concept to gauge the potential for unchecked credit expansion. Even this concepts has its disadvantages, though, resulting from the manner in which the reserve requirement policy is being implemented.

94. **On the prudential definition of liquidity, commercial banks have increased their excess liquidity position continuously during 1997-98 (Figure 2).** Assets qualifying to meet these requirements comprise interbank deposits, time deposits at the central bank, and treasury bills. It is not at all certain that some of these assets are as liquid as supervisory purposes would require. It can be argued, for instance, that treasury bills, under the present circumstances of unsustainable fiscal imbalances should not be considered liquid assets. In addition, liquid asset requirements have distortionary effects as the banking system is compelled to favor particular classes of assets.

95. **Looking at commercial bank deposits at the central bank in excess of minimum reserve requirements, excess liquidity has diminished considerably over the past year (Figure 2).** Commercial banks' available deposits at the central bank show a decline during 1998, mainly attributable to the growth in outstanding certificates of deposit, thanks to their

FIGURE 2
NETHERLANDS ANTILLES
Excess Liquidity: Commercial Banks
(In Millions of NA Guilders)



Source: Bank van de Nederlandse Antillen.

increasing yield over this period. Even so, some excess liquidity appears to be remaining, despite repeated increases in minimum reserve requirements. This may well be the result of the frequent variations in the minimum reserve requirements without prior notice, which in the absence of daily averaging of reserves has forced banks to hold precautionary balances at the central bank.

V. LABOR MARKET PERFORMANCE²⁶

96. **Labor market flexibility is essential to generate sufficient employment in the Antillean economy, given its narrow domestic resource base and limited diversification, which makes it particularly vulnerable to external shocks.** Flexibility is all the more important since the exchange rate has been pegged to the U.S. dollar to provide nominal stability, and therefore, cannot be used to absorb part of these shocks. As most small island economies, the Netherlands Antilles is heavily dependent for its economic development on a few key export sectors—oil refining, offshore finance, tourism, ship repair, and transshipment. Moreover, the country consist of five separate islands, each with their own labor market dynamics, and separated into two geographically distant groups. The limited size of the domestic market and the tendency for skilled workers to become specialized pose additional challenges for adjustment to shocks.

97. **The Antillean labor market has been strongly influenced by the link with the Netherlands, but it has some distinctive features as well.** Indivisibilities in investment and limited domestic resources have made the economy dependent on foreign project aid, mostly provided by the Netherlands, especially for infrastructure development and education. Labor relations have been guided by the Dutch consensus model and Dutch labor market institutions have been copied to a large extent in the Netherlands Antilles. Citizens of the Netherlands Antilles are also citizens of the Kingdom of the Netherlands and have the right to work or live in the Netherlands. However, there are also some distinctive features of the Antillean labor market: there are no unemployment benefits; the social safety net is very limited; and the public sector and migration play a key role.

98. **The trend improvement in labor market performance stalled in the mid 1990s, when the unemployment rate began to rise again.** In 1998, following two years of falling employment, an estimated 15.9 percent of the labor force of the Netherlands Antilles was unemployed, up from a historic low of 12.8 percent in 1995. Curaçao's performance is even worse, with 16.7 percent unemployed. It should be noted, though, that estimates of unemployment are biased upward, since annual surveys take place in October, a month when tourism is seasonally low and when school leavers enter the jobmarket.

99. **While the rise in unemployment since 1995 is associated with a weakening of economic activity, the latter is in turn a sign of a lack of labor market flexibility to**

²⁶ Prepared by Luc Everaert.

respond to adverse shocks, which also underlies the high level of structural unemployment. These developments and main features of the Antillean labor market are described below, followed by a stylized quantitative assessment of labor market performance, an overview of the main institutional features that affect the functioning of the labor market, and some concluding remarks.

A. Employment, Unemployment, and Wages

100. Following a decade of very strong growth, related to the boom in tourism, employment creation slowed considerably during the 1990s and has been negative since 1997, shortly after the economy went into a recession (Table 5). These developments were reflected in the unemployment rate, which dropped considerably through the first half of the 1990s, but rose again from 1995 onward, ahead of the decline in employment, and reflecting underlying growth of the labor force. The mild recovery of the economy in 1998 has not been able to reverse these trends, which have also been accompanied by a rise in emigration.

Table 5. Netherlands Antilles: Employment, Unemployment, and Migration, 1990–98

	Employment (persons)				Unemployment Rate		Migration 1/ (persons)
	Curaçao	Sint Maarten	Other Islands	Total	Curaçao	Total	
1990	47,515	15,240	5,402	68,157	17.0	n.a.	-4,104
1991	50,265	16,054	5,585	71,904	14.6	n.a.	-3,674
1992	50,999	16,911	5,771	73,681	13.9	n.a.	-1,352
1993	52,435	17,814	6,443	76,692	13.6	n.a.	-523
1994	54,685	18,718	7,172	80,575	12.8	n.a.	317
1995	54,059	18,497	8,043	80,599	13.1	n.a.	-178
1996	56,964	19,259	8,912	85,135	14.0	14.1	-1,296
1997	56,246	18,896	9,366	84,508	15.3	14.9	-2,576
1998	54,182	18,896	9,812	82,890	16.7	15.8	n.a.

Sources: Central Bureau of Statistics; Bank van de Nederlandse Antillen; and Fund staff estimates.
1/ Net, to the Netherlands, minus=outflow.

101. **Aggregate unemployment dynamics mask significant differences among islands.** Given its large weight, Curaçao's experience dominates the aggregate observations. This island has been affected relatively more by the weakening of economic activity, which contributed to a large increase in unemployment, to 16.7 percent of the labor force in 1998, despite a decline in the labor force by 4.9 percent during 1997–98. Migration outflows also rose sharply, continuing a historical trend, in contrast with the other islands, for which

migration has been less unidirectional. Bonaire, which is experiencing an economic boom, owing to a sharp increase in diving tourism, has a relatively tight labor market, with an unemployment rate below 6 percent. Specific skill requirements have led to the importation of specialized foreign workers.²⁷ Sint Maarten has been strongly affected by the 1995 hurricane, and following the main reconstruction in 1996, has seen only a slow recovery in economic activity. As a result, it had the highest unemployment rate among the islands in 1997, at 17.2 percent, and employment is reported to have stagnated in 1998. The other two, very small, islands are insignificant for the overall economy, as their labor force represents only about 2 percent of the total.

102. Following a significant increase during the first half of the 1990s, labor force participation rates have stabilized at a relatively low level in Curaçao, but at very high levels in Bonaire and Sint Maarten. Participation rates for the age group 15-64 years are 66.9 percent, 83.4 percent, and 84.7 percent, respectively, for these three islands. These rates are higher than in the Netherlands (64.4 percent), but the rate in Curaçao is lower than the average for the OECD (68.8 percent) and a group of Caribbean economies (67.7 percent).²⁸ The evolution of the labor force is also determined by underlying population growth of about 1.3 percent per year during the past decade and migration. The latter is strongly influenced by the economic cycle, but there appears to be an underlying trend of net outward migration of persons of working age.

103. While there are noteworthy exceptions, a working labor force participant is typically employed under a full-time labor contract and has less than high school education. On average, the incidence of part-time work, temporary employment, and self-employment is relatively small, all less than 10 percent (Table 6). On the smaller islands, though, all of these forms of employment are much more prevalent than the average. A relatively large number of people, 22 percent, report to be working over 43 hours per week. This appears to be mainly related to the tourism industry, as suggested by the fact that in Sint Maarten, which is almost exclusively tourism based, more than one third of the employed are in this position. Even though low-skilled labor is dominant, a sizable share of the working population has finished high school or equivalent education (23 percent), and 13 percent report to have higher education.

104. Being young, low-skilled, or female is associated with a significantly higher probability of being unemployed. Over 30 percent of people aged 15-14 and looking for work are unemployed, with this ratio as high as 35.5 percent for the island of Curaçao

²⁷ Applications for employment in Bonaire by foreigners steadily rose during the first half of the 1990s. In 1995, they amounted to 36 percent of employment.

²⁸ The sample includes Bahamas, Barbados, Jamaica, St. Lucia, and Trinidad and Tobago.

Table 6. Netherlands Antilles: Selected Structural Indicators of Employment, 1997
(Percent of total)

	Duration of the Workweek		Temporary Employment	Self- employed	Education	
	Part-time 1/	More than 43 hrs			High school	Higher
Bonaire	10	27	7	10	16	10
Curaçao (1998)	11	17	7	7	21	16
Sint Maarten	10	34	9	11	30	9
Saba	18	18	19	16	18	15
St. Eustatius	13	24	12	11	18	13
Total	11	22	7	8	23	13

Source: Central Bureau of Statistics.

1/ Less than 25 hours per week.

(Table 7). The chance of being unemployed for labor force participants who did not complete high school education is 35 percent higher than for those with high school or higher education. About 19 percent of female labor force participants are looking for work, compared to 13 percent of males.

Table 7. Netherlands Antilles: Unemployment and Vacancies

	Unemployment Rate			Low-skilled 1/ relative ratio	Long-term unemployed 2/	Unemployed per vacancy	Vacancy Rate
	Total	15-24	Female				
Bonaire (1996)	6.0	15.7	7.9	119	17	1.3	2.5
Curaçao (1998)	16.7	35.5	19.4	143	51	7.5	2.1
Sint Maarten (1997)	17.2	27.6	22.3	124	22	8.4	2.1
Saba (1997)	5.9	17.2	8.8	100	23	2.0	3.2
St. Eustatius (1997)	11.2	16.8	14.3	120	45	4.9	2.6
Total	15.7	30.6	19.1	135	42	7.3	2.5

Sources: Central Bureau of Statistics; and Fund staff estimates.

1/ Less than high school.

2/ More than 12 months, as percent of total.

105. Employers report having difficulties filling vacancies, mainly owing to inadequate skill supply. The vacancy rate declined between 1995 and 1998 for all islands,

except Sint Maarten, but—at 2.5 percent of the labor force—remains relatively high. Demand for low-skilled workers is very low, however, and vocational skills appear to be in short supply. Consequently, survey respondents indicate that as much as 43 percent and 47 percent of vacancies are difficult to fill, for Curaçao and Sint Maarten, respectively.

106. **In tandem with the worsening of the labor market performance during the second half of the 1990s, wages increased and real value added per worker stagnated.** Compensation per employee jumped by more than 20 percent in public enterprises in 1995, following labor strife, and has continued to drift upward since then (Table 8). Similar developments occurred for civil servants, following wage restraint through 1995, owing to the granting of backpay, increased use of overtime, and wage drift related to a job-regrading exercise. Wages in the key tourism sector increased by less, but nonetheless, posted strong increases in 1997–98. The link with the Dutch labor market appears to be borne out by the similarity of wage developments in the two markets over the period 1993–98, even though this parallel could be merely coincidental, given the short observation period.

Table 8. Netherlands Antilles, Curaçao: Compensation per Employee and Productivity 1993–98
(Index 1993=100)

	Average Monthly Compensation per Employee				Real value added per worker	Netherlands average wage
	Economy Wide	Public enterprises	General government	Tourism sector		
1993	100	100	100	100	100	100
1994	100	105	98	96	103	102
1995	101	123	97	100	98	103
1996	103	124	102	102	101	105
1997	108	125	111	108	102	107
1998	108	129	112	109	102	111

Sources: Central Bureau of Statistics; and staff estimates.

B. Economic Growth and the Labor Market

107. **One way of assessing the performance of the labor market is to evaluate the responsiveness of employment and unemployment to economic growth.** The prior belief is that labor market rigidities weaken the relationships between growth and employment. Firms' hiring and employment decisions are adversely affected by the costs of dealing with such rigidities. In addition, the fixed exchange rate regime and the undiversified nature of the Netherlands Antilles economy, places the burden of adjustment to real shocks onto the labor market. A high incidence of real shocks could cause a high level of unemployment. By and

large both these sets of factors appear to be important in explaining labor market performance.

108. **The Antillean economy has been subject to several severe shocks during the 1990s, most of which were unfavorable.** The decline in activity in the offshore financial sector, which had begun in the mid-1980s, continued throughout the 1990s, as indicated by the fall in offshore profit tax revenues from 7.2 percent of GDP in 1990 to 2.7 percent of GDP in 1998. Since this sector is not very labor intensive and extensively staffed with expatriates, this development has had mostly an indirect impact on employment, through the need to shift taxation to the domestic economy and cut fiscal expenditure. For the latter, a program to reduce staffing in the civil service has been initiated, but is still far from complete. International competitive pressures forced the oil refinery to reduce its staff from about 1,740 workers in 1992, to 1,220 workers in 1998, a trend which is expected to continue. In late 1995, a hurricane devastated much of the infrastructure of Sint Maarten, leading to a drop in tourism by more than 20 percent, from which the island still has to recover fully. The positive trend in cruise tourism has been partially offsetting these developments and is likely to continue with the impending completion of the mega-pier in Curaçao.

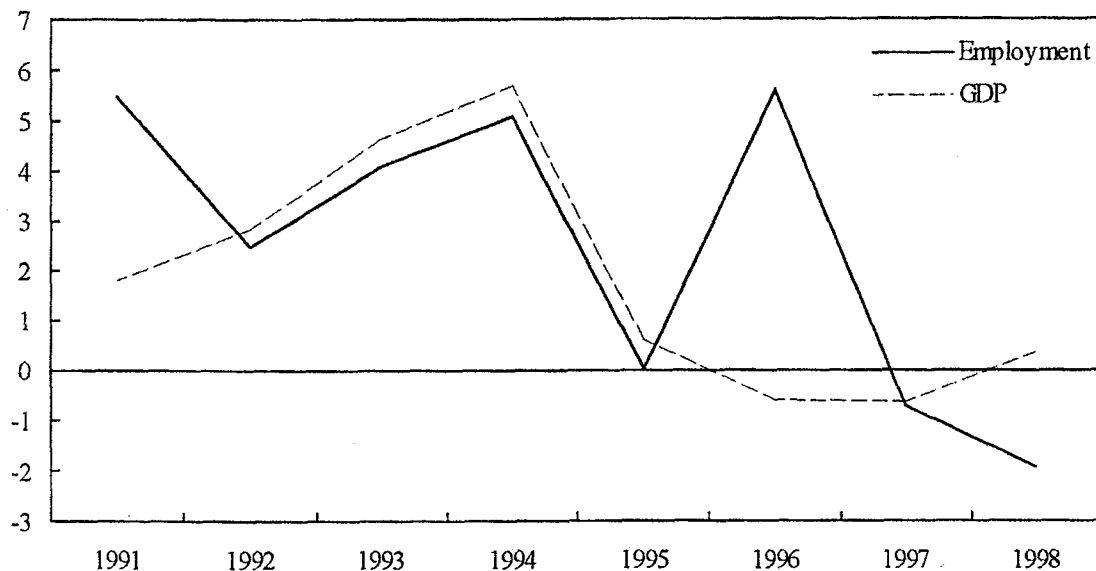
109. **An inadequate policy response to adverse shocks triggered a decline in confidence, investment, and economic activity, which was closely reflected in developments in employment (Figure 3).** The 1995 hurricane and the subsequent reconstruction effort of 1996 temporarily disrupted a generally close relationship between economic growth and employment creation during the 1990s. Sharply higher employment in 1996 resulted from the shift in activity to the labor-intensive construction sector and related industries. Smoothing employment during 1995-96 and regressing its change (e) on lagged real GDP growth (g) for the period 1991-98 yields a statistically significant relationship (t-statistics in parenthesis):

$$e_t = 0.91 + 0.78g_{t-1} \quad (1)$$

(0.90) (2.32)

The estimated coefficient of 0.78 implies that employment does not respond fully proportionally to economic activity. Given the short sample period over which the estimation took place, this could well reflect some labor hoarding by firms, which do not expand or contract their labor force in proportion to changes in their production. This observation may also be justified by the labor saving that took place during this period in response to higher real wages (and an appreciation of the real exchange rate), driven by wage increases in the public sector.

Figure 3. Netherlands Antilles: Real GDP and Employment
(Change in percent)



110. **The link between unemployment and economic growth appears to be weaker, indicating a lack of labor market flexibility.** A regression of the unemployment rate (u) on a smoothed indicator of real GDP growth for the period 1991–98 (with t -statistics in parentheses) yields a relatively low elasticity:

$$u_t - u_{t-1} = 0.42 - 0.33(g_t + g_{t-1})/2 \quad (2)$$

(0.91) (-1.86)

Every percentage point increase in economic growth, reduces the unemployment rate by only one-third of one percentage point. This coefficient reflects a firm's decision regarding how it adjusts its labor force in response to changes in output, which depends usually strongly on institutional factors affecting hiring and firing decisions. A low coefficient is usually indicative of labor market rigidities. According to the estimate, the Antillean economy is less flexible than economies that have made considerable progress in promoting labor market flexibility. For example, in the Netherlands, this coefficient has been estimated to be about

0.5 during 1981–1995.²⁹ For Germany, the estimated coefficient was 0.27 during 1960–1980, but it increased to 0.42 during 1981–94.³⁰ On the other hand, for the Japanese economy, the coefficient is still a low 0.23.

C. Institutional Features of the Labor Market

111. **A review of the main institutional features of the Antillean labor market confirms the presence of significant labor market rigidities, affecting both supply and demand sides of the market.** Disincentives to participate in the labor force or to seek employment appear to be limited: there is no unemployment compensation and social welfare payments are capped at a modest 12 percent of average wages. Total direct spending on welfare payments was limited to about 0.8 percent of GDP in 1997–98. The marginal tax and social security wedge is relatively high, though, discouraging formal employment, while minimum wages and the possibility of emigrating to the Netherlands limit the effective supply of labor. The regulations governing dismissals, part-time labor, and the workweek, appear restrictive, and government wage setting and employment play an important role.

112. **Wage setting is typically done through collective labor agreements at the enterprise level, and strongly influenced by minimum wages and wage developments in the public sector.** Workers and employees are highly unionized and formal procedures are in place to elect representative labor unions at the level of the enterprise. These unions are responsible for collective bargaining. Strikes, mostly in public enterprises, are a relatively common feature of labor relations.³¹ A national mediator office helps resolve these strikes as well as conflicts over labor conditions, wages, interpretation of collective labor agreements, and dismissals. A system of multiple minimum wages is in place, differentiated by island and by sector of employment. Workers less than 21 years of age, are entitled to a fraction of the minimum wage ranging from 65 percent to 90 percent, depending on their age. Minimum wages are set on a monthly basis for all contracts with a workweek duration exceeding 22 hours and thus interact with the regulation on the duration of the workweek to determine labor costs. They have remained constant in nominal terms since 1996, following a significant increase during the first half of the decade. The level of minimum wages appears relatively high for the region, but perhaps not overly so, given the higher relative productivity of the economy of the Netherlands Antilles, and the fact that the regulations are not strictly

²⁹ Giorno, C., et. al., 1995, "Estimating Potential Output, Output Gaps, and Structural Budget Balances," OECD Working paper.

³⁰ Olivier Blanchard, 1997, *Macroeconomics* (Prentice Hall), p. 363.

³¹ In 1997, 33 strikes were reported. Only 2 took place in private enterprises, while 17 occurred in public enterprises, and the remainder in public sector institutions.

enforced.³² According to 1997 data, approximately 21 percent of the employed earn the minimum wage. This percentage is somewhat higher in Sint Maarten (where minimum wages are higher). Reportedly, there are people earning less than the minimum wage.

113. **The regulation on the duration of the workweek and overtime pay is applied in a rigid manner and the use of temporary or short-term labor contracts is tightly circumscribed.** In December 1998, the maximum regular duration of the workweek was reduced from 45 hours per week to 40 hours per week. In addition, employees must have two full rest days per week, including Sunday. Any overtime on a workday or restday other than Sunday or holiday must be compensated at 150 percent of the normal compensation and any overtime on a Sunday or national holiday at 200 percent of the normal compensation. Contrary to the regulation applying before this change, workdays cannot be averaged over a period longer than a week. There are significant exemptions to this rule, in particular hotels, restaurants, bakeries, and navigation personnel. Use of temporary workers is limited, as such workers (provided through agencies) cannot be hired for two consecutive terms without becoming regular employees and obtaining rights under the dismissal law.³³ The same rule applies to fixed-term contracts. Probation periods cannot last longer than two months.

114. **With few exceptions, dismissal of employees requires prior approval of the director of the Department of Labor and Social Affairs and a cash severance payment.** An employer considering a layoff is required to submit an application stating the substantive reason for the dismissal. A dismissal commission will review the application, interview the employee(s), and notify the employer in writing of its decision within six weeks. Only after permission has been granted can the employer give notice to the employee. The period of notice is at least as long as the period spanning two wage payments, and in the case of a longer work relationship one week for each full year that the employee was in the service of the employer for up to a maximum of 13 weeks. Special rules apply for collective dismissal (i.e., when more than 25 percent of employees is dismissed), inter alia, consultation with the labor union. The required severance payment amounts to one week's wages per year of employment for the first ten years and increases stepwise by decade of service.

115. **The possibility of emigrating to the Netherlands and the import of legal and illegal labor impart peculiar dynamics to the Antillean labor market.** The fact that Antillean citizens are free to emigrate to the Netherlands has been seen as providing a safety valve to resolve tensions on the Antillean labor market, but it has also raised the reservation wage. High-skilled employees, who usually have been educated in the Netherlands, find the cost of emigrating relatively insignificant and demand wages that are comparable to those

³² Minimum wages in the Dominican Republic and Barbados, respectively, for example, are only 25 percent and 60 percent of those in the Antilles.

³³ A consecutive contract is defined as a contract starting within 31 days following the termination of the preceding contract.

offered in the Dutch labor market. The inability of the Antillean economy to match these wages (except in the offshore finance sector) and the ensuing deficit of qualified labor is being partially resolved through the importation of skilled labor from other countries, mainly from Latin America and the Caribbean. Low-skilled workers, on the other hand, are tempted by the generous social safety net potentially available in the Netherlands, which raises expectations of wages and welfare benefits higher than the Antillean economy can afford to pay. At this end of the market, illegally imported labor is being used to circumvent labor market rigidities and the minimum wage regulation.

D. Concluding Remarks

116. Labor market policies implemented during the 1990s, on balance, appear to have contributed to an erosion of competitiveness and a consolidation of labor market rigidities, reversing an earlier trend toward promoting flexibility. During the 1980s, the authorities were keenly aware of the need for flexible labor markets to absorb real shocks in an economy as small and undiversified as that of the Netherlands Antilles. In response to several adverse shocks, they cut nominal wages and removed indexation from most labor agreements. These policies were reversed in the early 1990s, when the minimum wage and wages in the public sector were increased in excess of productivity gains and indexation and other suspended benefits were reintroduced. In late 1998, regulations governing the duration of the workweek were tightened further.

117. Against this background, it should not come as a surprise that the further adverse shocks that happened over the past five years have led to a protracted adjustment process and a lacklustre growth performance of the Antillean economy. Labor market rigidities interacted with these shocks to generate a sharp increase in the unemployment rate to levels not seen since 1990. The recent upward shift in labor costs will need to be absorbed through increases in productivity, ushering in a period of divergence between economic growth and employment creation. Were this period to last too long, hysteresis effects could well develop, given the already high and rising number of long-term, young, and low-skilled unemployed.

118. Increasing labor market flexibility will be essential to improve the outlook for growth and employment, and to facilitate the adjustment to future shocks. In particular, in light of the need for a further reduction of the civil service, trade liberalization, and enterprise reform and privatization, the labor market's job creation potential will need to be strengthened. This can best be done through a dismantling of the regulations governing dismissals and fixed-term and temporary contracts, and the introduction of more flexibility in the law governing the duration of the workweek. Wage restraint in the public sector, including public enterprises, will be key, given the still dominant role of the public sector in the labor market. A reduction in high marginal tax rates will be beneficial to raise employment in the formal sector, while the skills mismatch between supply and demand in the local labor market needs to be addressed through educational reforms.

Table 1. Netherlands Antilles: The Composition of GDP

(In millions of NA guilders)

	1991	1992	1993	1994	1995
Enterprises	2,877.7	2,981.4	3,141.8	3,380.3	3,478.6
Agriculture	24.1	26.5	33.1	34.5	31.8
Manufacturing	234.8	258.0	244.7	266.0	281.8
Utilities	132.4	157.1	135.6	121.8	165.2
Construction	245.6	227.3	237.6	237.1	282.5
Trade	765.2	783.3	784.9	845.3	840.7
Hotels and restaurants	186.7	172.4	199.1	208.7	224.3
Transport, storage, and communication	365.9	433.7	492.1	605.0	557.0
Financial and other commercial services	789.4	796.9	900.0	900.0	944.1
Public and personal services	305.6	291.1	297.3	373.3	370.3
Minus interest margin banks	172.0	164.9	182.6	211.4	219.1
Government	539.8	601.1	674.6	731.2	771.9
GDP	3,417.5	3,582.5	3,816.4	4,111.5	4,250.5

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

Table 2. Netherlands Antilles: Components of Aggregate Demand
(In millions of NA guilders)

	1990	1991	1992	1993	1994	1995
Total consumption	2,811	2,783	2,964	3,229	3,636	4,027
Private consumption	1,976	1,938	2,065	2,184	2,521	2,853
Public consumption	835	845	899	1,045	1,115	1,174
Gross fixed investment	767	887	806	805	802	815
Private sector	682	791	735	701	707	695
Public sector	84	96	71	104	95	120
Stockbuilding	65	74	82	14	32	-3
Total domestic demand	3,643	3,744	3,852	4,048	4,470	4,839
Exports of goods and services	2,529	2,651	2,862	2,946	3,067	3,042
Imports of goods and services	2,919	2,977	3,131	3,177	3,425	3,630
Foreign balance	-390	-327	-269	-327	-359	-588
GDP	3,253	3,418	3,583	3,816	4,111.5	4,250.5
Net factor income from abroad	121	118	145	75	189.6	144.7
GNP	3,374	3,536	3,727	3,891	4,301.1	4,395.2
Depreciation	331	383	408	477	540.9	569.2
Net national income	3,044	3,153	3,319	3,415	3,760	3,826

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

Table 3. Netherlands Antilles: Selected Indicators of Economic Activity
(Annual percentage change)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Oil sector									
Production	7.8	0.2	-5.2	-1.1	-4.5	0.7	8.9	15.6	2.4
Transshipment	-9.1	11.9	7.6	12.0	26.1	51.9	-12.0	31.5	-13.9
Shipping activity 1/									
Bonaire	-26.1	46.2	27.9	25.0	62.3	6.3	-12.0	73.2	-36.5
Curaçao	7.4	13.6	-7.0	-5.5	-1.8	2.9	-0.9	20.8	13.1
Construction (Curaçao) 2/	-47.0	48.5	37.3	-7.1	0.8	-2.8	-22.8	112.8	17.3
Tourism 3/									
Stay-over tourism	10.4	-1.4	3.1	-4.8	10.2	-13.5	-25.7	10.0	3.7
Visitor nights	18.2	-2.1	6.8	6.5	10.0	-0.9	-7.0	-6.0	0.9
Cruise tourism	13.7	0.3	-3.1	30.3	3.8	-16.2	-0.4	33.1	0.3
Electricity production	7.1	1.7	7.5	6.6	4.8	4.4	2.5	2.4	6.2

Source: Data provided by the authorities.

1/ Annual tonnage of shipping traffic in Antillean ports.

2/ Value of completed buildings.

3/ Number of visitors.

Table 4. Netherlands Antilles: Basic Data on Stay-over Tourism 1/

	1990	1991	1992	1993	1994	1995	1996	1997	1998
	(In thousands)								
Number of visitors									
Bonaire	41.3	49.5	49.7	54.2	55.2	58.8	65.1	62.8	61.7
Curaçao	207.4	205.6	206.9	214.1	226.1	223.8	214.3	205.0	198.6
St. Maarten	528.5	510.3	532.6	483.3	547.0	445.0	350.7	425.3	458.5
Total	777.2	765.5	789.3	751.6	828.3	727.6	630.1	693.1	718.8
(Change in percent)	10.4	-1.5	3.1	-4.8	10.2	-12.2	-13.4	10.0	3.7
	(Percent of total)								
National origin of visitors									
Bonaire									
United States and Canada	49.6	44.7	44.5	42.9	45.2	46.3	44.8	46.6	46.6
Venezuela	9.6	9.6	11.2	11.1	9.1	8.2	7.0	6.6	8.3
Other America	13.7	13.0	12.0	12.8	13.9	10.9	12.2	11.2	9.8
The Netherlands	20.0	24.4	23.5	22.9	23.1	24.6	26.4	25.9	25.3
Other	7.0	8.2	8.8	10.3	8.7	10.0	9.6	9.7	10.0
Total	100.0	100.0	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	15.8	15.6	17.6
Venezuela	11.4	12.3	14.0	14.5	12.7	13.8	12.5	13.9	16.7
Other America	45.5	39.0	38.4	36.3	39.7	34.1	26.5	26.4	23.9
The Netherlands	23.1	29.1	29.7	28.7	29.0	29.8	30.9	30.0	28.5
Other	7.0	8.4	7.7	8.7	2.5	5.4	14.3	14.1	13.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
St. Maarten									
United States and Canada	50.1	47.6	46.7	47.4	46.6	42.4	45.8	50.1	49.7
Venezuela	0.1	0.4	0.9	1.6	1.2	0.7	1.0	1.4	1.3
Other America	9.6	8.2	8.0	6.9	9.5	9.7	13.2	12.5	15.2
The Netherlands	1.7	2.2	2.6	2.0	2.0	2.1	3.1	3.2	3.0
Other	38.5	41.6	41.8	42.1	40.7	45.1	36.9	32.8	30.8
Total	100.0	100.0	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.

Table 5. Netherlands Antilles: Changes in Consumer Prices
(Annual percentage change; period average)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Food									
Curaçao	7.7	7.2	2.8	3.2	2.4	5.1	5.1	2.3	1.2
Bonaire	7.4	7.4	2.8	4.2	6.0	5.4	4.5	1.7	0.2
St. Maarten	5.2	4.5	1.5	1.3	3.8	6.4	4.9	3	1.5
Beverage and tobacco									
Curaçao	3.0	11.2	8.7	2.7	1.2	3.0	4.0	3.7	1.1
Bonaire	3.3	10.9	10.9	12.0	7.9	1.9	0.1	2.8	5.5
St. Maarten	5.8	4.4	2.7	1.3	0.7	0.3	4.0	1.3	4.3
Clothing and footwear									
Curaçao	-0.4	0.5	3.0	-0.2	-0.5	-3.8	-2.7	0.7	--
Bonaire	-0.4	0.2	2.0	--	--	0.1	0.1	--	--
St. Maarten	-0.5	4.8	1.9	-0.8	-2.1	-0.5	0.3	0.4	0.5
Housing									
Curaçao	2.2	4.5	--	0.8	-1.0	3.7	6.0	3.9	0.9
Bonaire	2.0	4.3	1.4	--	2.1	1.8	1.9	2.4	0.5
St. Maarten	4.0	3.0	1.9	1.7	1.4	1.7	2.5	3.6	0.9
Housekeeping and furnishing									
Curaçao	4.2	2.7	1.3	2.0	5.4	3.2	1.1	2.1	0.8
Bonaire	4.0	2.4	-0.7	1.0	3.5	1.5	3.1	1.5	0.8
St. Maarten	6.5	3.4	2.0	0.8	5.6	7.8	1.4	1.7	0.9
Health									
Curaçao	1.7	2.3	3.2	3.7	5.6	1.7	1.5	3.3	2.3
Bonaire	1.6	4.6	5.8	2.4	3.5	4.4	5.7	3.8	0.4
St. Maarten	3.4	4.3	--	1.1	2.3	1.9	1.4	0.1	1.4
Transport and communication									
Curaçao	3.6	2.1	1.1	3.6	2.1	2.6	5.4	4.1	1.9
Bonaire	3.2	4.4	2.6	5.5	0.8	1.5	3.6	4.2	4.9
St. Maarten	3.0	5.0	2.0	0.2	1.0	1.6	2.1	5.4	5.6
Recreation and education									
Curaçao	1.1	1.6	1.5	1.7	1.1	2.0	0.7	2.5	0.8
Bonaire	0.9	1.5	0.5	0.1	0.9	1.0	0.9	1.9	2.2
St. Maarten	0.3	0.7	1.3	2.9	2.0	0.9	0.6	2.5	1.1
Other									
Curaçao	2.2	2.3	1.3	2.3	4.1	2.3	2.5	4.6	1.2
Bonaire	2.1	2.6	1.1	1.2	3.0	1.8	3.1	3.3	0.9
St. Maarten	2.4	1.7	0.3	0.3	3.3	2.7	2.0	2.9	1.1
Total									
Curaçao	3.7	3.8	1.4	2.1	1.8	2.8	3.6	3.1	1.1
Bonaire	3.5	4.1	1.9	2.2	2.9	2.4	2.7	2.3	1.3
St. Maarten	3.7	3.6	1.7	1.0	2.1	3.0	2.3	3.1	1.9
Total Netherlands Antilles	3.7	3.8	1.4	1.9	1.9	2.8	3.4	3.1	1.2

Source: Bank van de Nederlandse Antillen.

Table 6. Netherlands Antilles: Minimum Wages 1/
(In NA guilders per month)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Category 1 (Manufacturing, construction, banking, financial services, and insurance)									
Curaçao	925.40	925.40	925.40	925.40	1,000.00	1,000.00	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	1,039.29	1,039.29
St. Maarten	925.40	925.40	925.40	1,100.00	1,100.00	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	1,000.00	1,000.00
St. Eustatius	925.40	925.40	925.40	925.40	950.00	950.00	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	900.00	900.00
Bonaire	686.90	686.90	686.90	800.00	816.00	816.00	927.65	927.65	927.65
St. Maarten	882.65	882.65	882.65	1,100.00	1,100.00	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	800.00	800.00
St. Eustatius	549.50	686.90	686.90	686.90	700.00	700.00	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	900.00	900.00
Bonaire	656.25	686.90	686.90	800.00	816.00	816.00	927.65	927.65	927.65
St. Maarten	843.25	882.65	882.65	1,100.00	1,100.00	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	800.00	800.00
St. Eustatius	475.95	549.50	549.50	549.50	700.00	700.00	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	470.00	470.00
Bonaire	355.00	355.00	355.00	400.00	404.00	404.00	444.40	444.40	444.40
St. Maarten	355.00	355.00	355.00	425.00	425.00	500.40	500.40	500.40	500.40
Saba	355.00	355.00	355.00	400.00	400.00	400.00	550.00	550.00	550.00
St. Eustatius	355.00	355.00	355.00	400.00	400.00	400.00	522.72	522.72	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 7. Netherlands Antilles: Operations of the General Government
(In millions of NA guilders)

	1994	1995	1996	1997	1998 Est.
Total revenue	1,178.6	1,244.3	1,283.4	1,272.4	1,274.3
Tax revenue	979.3	1,016.8	1,084.8	1,119.5	1,114.5
Taxes on income and profits	620.4	647.3	659.7	617.2	607.9
<i>Of which: Offshore</i>	184.9	165.0	120.0	130.0	120.0
Taxes on property	25.4	31.5	34.4	41.0	33.7
Taxes on goods and services	148.8	148.9	219.9	331.1	331.9
<i>Of which: Sales and turnover tax</i>	0.0	0.0	41.8	127.7	141.8
Taxes on international transactions	148.8	148.9	162.2	121.8	132.5
Other taxes	9.0	6.2	8.6	8.4	8.5
Nontax revenue	190.6	212.1	191.2	144.8	150.7
Capital revenue	0.7	0.2	0.9	0.4	0.1
Grants 1/	8.0	15.2	6.5	7.7	9.0
Total Expenditure	1,385.7	1,427.2	1,453.0	1,416.8	1,392.3
Current expenditure	1,335.9	1,372.7	1,379.2	1,361.4	1,381.7
Wages and salaries	654.7	689.4	716.4	687.2	661.6
Excl. pension premiums	478.6	518.4	555.6	519.3	507.5
Pension premiums 2/	176.1	171.0	160.8	167.9	154.1
Goods and services	348.4	326.3	297.0	300.9	308.7
Subsidies to enterprises	83.1	80.5	97.8	89.4	77.8
Transfers 1/	135.5	157.7	140.9	135.7	171.0
Interest payments	114.2	118.8	127.1	148.3	162.6
Capital expenditure	49.8	54.5	73.8	55.4	10.6
Investment	44.4	59.7	41.9	48.7	38.2
Capital transfers and net lending	7.9	-5.2	31.9	6.7	-27.6
Balance	-207.1	-182.9	-169.6	-144.4	-118.0
Financing	207.1	182.9	169.6	144.4	118.0
Domestic	233.4	214.2	188.2	167.5	124.9
Monetary financing	74.0	-70.3	-23.8	-6.2	-20.4
Arrears APNA	68.2	28.5	14.2	89.2	35.5
Other domestic	91.2	256.0	197.8	84.5	109.8
Foreign	-35.6	-39.6	-1.1	-0.9	-1.5
Discrepancy/gap	9.3	8.3	-17.5	-22.3	-5.4
Memorandum Item:					
Balance on cash basis 3/	--	--	-155.4	-55.2	-82.5
Debt/GDP ratio	59.4	60.2	60.9	61.4	64.5

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

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

2/ Pensions premiums due (including non-paid amounts).

3/ Balance based on expenditure excluding accumulated pension premium arrears.

Table 8. Netherlands Antilles: Operations of the General Government
(In percent of GDP)

	1994	1995	1996	1997	1998 Est.
Total revenue	28.7	29.3	29.7	29.0	28.6
Tax revenue	23.8	23.9	25.1	25.5	25.0
Taxes on income and profits	15.1	15.2	15.2	14.1	13.6
<i>Of which: Offshore</i>	4.5	3.9	2.8	3.0	2.7
Taxes on property	0.6	0.7	0.8	0.9	0.8
Taxes on goods and services	3.6	3.5	5.1	7.5	7.4
<i>Of which: Sales and turnover tax</i>	0.0	0.0	1.0	2.9	3.2
Taxes on international transactions	3.6	3.5	3.7	2.8	3.0
Other taxes	0.2	0.1	0.2	0.2	0.2
Nontax revenue	4.6	5.0	4.4	3.3	3.4
Capital revenue	0.0	0.0	0.0	0.0	0.0
Grants 1/	0.2	0.4	0.2	0.2	0.2
Total Expenditure	33.7	33.6	33.6	32.3	31.2
Current expenditure	32.5	32.3	31.9	31.0	31.0
Wages and salaries	15.9	16.2	16.6	15.7	14.8
Excl. pension premiums	11.6	12.2	12.8	11.8	11.4
Pension premiums 2/	4.3	4.0	3.7	3.8	3.5
Goods and services	8.5	7.7	6.9	6.9	6.9
Subsidies to enterprises	2.0	1.9	2.3	2.0	1.7
Transfers 1/	3.3	3.7	3.3	3.1	3.8
Interest payments	2.8	2.8	2.9	3.4	3.6
Capital expenditure	1.2	1.3	1.7	1.3	0.2
Investment	1.1	1.4	1.0	1.1	0.9
Capital transfers and net lending	0.2	-0.1	0.7	0.2	-0.6
Balance	-5.0	-4.3	-3.9	-3.3	-2.6
Financing	5.0	4.3	3.9	3.3	2.6
Domestic	5.7	5.0	4.4	3.8	2.9
Monetary financing	1.8	-1.7	-0.6	-0.1	-0.4
Arrears APNA	1.7	0.7	0.3	2.0	0.8
Other domestic	2.2	6.0	4.6	1.9	2.5
Foreign	-0.9	-0.9	0.0	0.0	0.0
Discrepancy/gap	0.2	0.2	-0.4	-0.5	-0.2
Memorandum item:					
Balance on cash basis 3/	n.a.	n.a.	-3.6	-1.3	-1.9

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

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

2/ Pensions premiums due (including non-paid amounts).

3/ Balance based on expenditure excluding accumulated pension premium arrears.

Table 9. Netherlands Antilles: Financing of the General Government
(In millions of NA guilders)

	1994	1995	1996	1997	1998 Est.
Central government					
Total balance	-19.9	-79.2	-97.3	-51.6	-36.7
Financing	19.9	79.2	97.3	51.6	36.7
Domestic financing	46.2	75	82.7	49.7	48.0
Monetary financing	21.1	-16.3	-12.8	3.6	5.2
Central bank	25.9	10.1	3.7	6.0	1.1
Commerical banks	-4.2	-28.3	-18.8	-3.3	0.3
Giro Curaçao	-0.6	1.9	1.5	0.0	0.0
Coins and notes	0	0	0.8	0.9	3.8
Non-monetary financing	25.1	91.3	95.5	46.1	42.8
Arrears APNA	25.3	-49.9	15.9	18.3	-22.9
Retroactive bonds	0	0	22.1	-4.5	-4.4
Other domestic financin	-0.2	141.2	57.5	32.3	70.1
Loans with the public	8.5	156.1	57.5	32.3	70.1
Debt to SVB	-8.7	-14.9	0	0	0
Foreign financing	-10.5	-12.5	-1.1	-0.9	-0.3
Discrepancy	-15.8	16.7	15.7	2.8	-11.0
Curaçao government					
Total balance	-187.2	-103.7	-72.3	-92.8	-81.3
Financing	187.2	103.7	72.3	92.8	81.3
Domestic financing	187.2	139.2	105.5	117.8	76.9
Monetary financing	52.9	-54.0	-11.0	-9.8	-25.6
Central bank	5.6	4.8	11.2	-3.5	1.7
Commerical banks	13.8	-32.9	51.1	-6.3	-27.3
Giro Curaçao	33.5	-25.9	-73.3	0.0	0.0
Non-monetary financing	134.3	193.2	116.5	127.6	102.5
Arrears APNA	42.9	78.4	-1.7	70.9	58.4
Retroactive bonds	0.0	0.0	28.2	-5.7	-5.6
Other domestic financin	91.4	114.8	90.0	62.4	49.7
Loans with the public	66.0	87.5	60.2	30.0	26.4
Zero coupon bond	25.4	27.3	29.8	32.4	23.3
Foreign financing	-25.1	-27.1	0.0	0.0	-1.2
Discrepancy	25.1	-8.4	-33.2	-25.0	5.6
General government					
Total balance	-207.1	-182.9	-169.6	-144.4	-118.0
Financing	207.1	182.9	169.6	144.4	118.0
Domestic financing	233.4	214.2	188.2	167.5	124.9
Monetary financing	74	-70.3	-23.8	-6.2	-20.4
Non-monetary financing	159.4	284.5	212	173.7	145.3
Arrears APNA	68.2	28.5	14.2	89.2	35.5
Retroactive bonds	0	0	50.3	-10.2	-10.0
Other domestic financin	91.2	256	147.5	94.7	119.8
Foreign financing	-35.6	-39.6	-1.1	-0.9	-1.5
Discrepancy	9.3	8.3	-17.5	-22.3	-5.4

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

Table 10. Netherlands Antilles: General Government Debt

	1994	1995	1996	1997	1998
Central Government					
Total debt	21.1	22.5	24.0	24.0	25.3
Domestic debt	14.9	16.3	18.4	19.3	20.3
Monetary debt	2.9	2.7	2.3	2.4	2.5
Central bank	0.9	0.8	0.9	1.0	1.0
Commercial banks	1.8	1.5	1.1	1.0	1.0
Giro Curaçao	0.1	0.0	0.0	0.0	0.0
Coins and notes	0.4	0.4	0.4	0.4	0.5
Non-monetary debt	12.0	13.7	16.1	16.9	17.9
Arrears APNA	1.4	0.1	0.5	0.9	0.4
Other domestic debt	10.6	13.5	15.6	16.0	17.5
Government securities	7.8	11.3	12.4	13.0	14.3
Retroactive bonds	0.0	0.0	0.5	0.4	0.3
Negotiated loans 1/	0.8	0.7	0.6	0.5	0.4
SVB	1.9	1.5	1.8	1.7	1.7
Other	0.0	0.0	0.2	0.3	0.7
Foreign debt	6.2	6.1	5.5	4.7	4.9
The Netherlands	5.8	5.7	5.2	4.4	4.6
European Union	0.4	0.4	0.4	0.3	0.3
Island Government of Curacao					
Total debt	38.3	37.7	36.9	37.5	39.4
Domestic debt	27.9	26.8	27.1	29.2	30.7
Monetary debt	4.5	2.9	2.6	2.3	1.7
Central bank	-0.4	-0.4	-0.1	-0.2	-0.1
Commercial banks	2.5	1.6	2.7	2.5	1.9
Giro Curaçao	2.4	1.7	0.0	0.0	0.0
Non-monetary debt	23.4	23.9	24.5	26.9	29.0
Arrears APNA	1.7	3.5	3.4	4.9	6.2
Zero coupon bond	7.9	8.3	8.8	9.4	9.8
Other domestic debt	13.8	12.2	12.3	12.5	13.0
Government securities	4.0	6.1	7.3	7.9	8.4
Retroactive bonds	0.0	0.0	0.7	0.5	0.4
SVB	0.0	0.2	0.2	0.6	1.0
Other	9.8	5.9	4.1	3.5	3.3
Foreign debt	10.5	10.9	9.8	8.3	8.7
The Netherlands	10.3	10.8	9.7	8.2	8.6
European Union	0.1	0.1	0.1	0.1	0.1
Central Government					
Total debt	59.4	60.2	60.9	61.4	64.5
Domestic debt	42.8	43.1	45.6	48.5	51.0
Monetary debt	7.4	5.6	4.9	4.7	4.2
Nonmonetary debt	35.4	37.6	40.6	43.8	46.9
Foreign debt	16.6	17.0	15.3	13.0	13.6

Source: Data provided by the authorities.

1/ APNA Regentesselaan, APNA FZOG and Winkel Broth.

Table 11. Netherlands Antilles: Operations of the Central Government
(In millions of NA guilders)

	1994	1995	1996	1997	1998 Est.
Total revenue	467.4	479.5	498.2	542.5	555.7
Tax revenue	318.8	321.8	372.7	441.3	458.8
Taxes on property	13.2	15.6	15.0	23.9	21.0
Inheritance and gift tax	1.6	7.1	2.1	4.8	8.9
Property transfer tax	11.6	8.5	12.9	19.1	12.1
Taxes on goods and services	120.9	117.1	186.9	287.2	296.8
<i>Of which: excises</i>	116.5	115.3	138.3	148.6	142.6
Excise on gasoline	73.5	70.7	96.6	108.6	104.1
Excise on beer	16.1	17.0	16.1	15.0	14.4
Excise on tobacco	15.1	14.8	14.3	13.3	13.3
Excise on liquor	11.8	12.8	11.3	11.7	10.8
Sales and turnover tax	0.0	0.0	41.8	127.7	141.8
Licenses	4.4	1.8	6.8	10.9	12.4
Taxes on international transactions	175.7	182.9	162.2	121.8	132.5
Import duties	145.2	147.9	150.5	118.4	131.7
Foreign exchange tax	28.7	32.1	9.2	0.1	0.0
Other	1.8	2.9	2.5	3.3	0.8
Other taxes	9.0	6.2	8.6	8.4	8.5
Stamp taxes	9.0	6.2	8.6	8.4	8.5
Other	0.0	0.0	0.0	0.0	0.0
Nontax revenue	140.3	149.2	118.6	93.5	87.8
Enterprise and property income	88.3	5.3	57.7	42.1	40.8
<i>Of which: profit central bank</i>	10.0	5.0	45.0	38.8	32.1
Fees, charges, and sales	50.0	136.0	39.9	38.3	43.5
Other nontax revenues	2.0	7.9	21.0	13.1	3.5
Capital revenue	0.3	0.2	0.2	0.0	0.1
Grants	8.0	8.3	6.7	7.7	9.0
From abroad	6.8	7.4	6.1	6.9	8.3
From other levels of government	1.2	0.9	0.6	0.8	0.7

Table 11. (Continued) Netherlands Antilles: Operations of the Central Government
(In millions of NA guilders)

	1994	1995	1996	1997	1998 Est.
Total expenditure	487.3	558.7	595.5	594.1	592.4
Current expenditure	470.1	531.8	545.9	554.2	598.6
Wages and salaries	280.5	298.9	317.7	308.9	299.8
Excl. pension premiums	201.6	223.4	247.6	234.5	230.0
Wages	195.2	216.6	238.9	225.2	220.9
Soc. security	6.4	6.8	8.7	9.3	9.1
Pension premiums 1/	78.9	75.5	70.1	74.4	69.8
Goods and services	80.9	93.8	89.9	92.6	101.8
Subsidies	5.0	4.8	8.3	5.5	5.0
Transfers	59.8	88.8	75.6	72.3	134.6
Other levels of government	36.9	61.8	49.6	44.1	100.0
Households	8.6	11.9	8.8	7.2	8.7
Non profit institutions, abroad	14.3	15.1	17.2	21.0	25.9
Interest payments	43.9	45.5	54.4	74.9	57.4
Domestic	37.6	38.7	48.6	60.5	62.5
Foreign	6.3	6.8	5.8	14.4	-5.1
Capital expenditure	17.2	26.9	49.6	39.9	-6.2
Investment	16.8	26.8	26.1	34.7	22.4
Capital transfers	0.0	0.0	12.5	9.4	3.1
Net lending	0.4	0.1	11.0	-4.2	-31.7
To public enterprises	1.8	--	12.0	-3.2	5.3
To financial institutions	-1.4	--	-1.0	-1.0	-37.0
To households	--	--	--	0.0	0.0
Contingency	0.0	0.0	0.0	0.0	0.0
Balance	-19.9	-79.2	-97.3	-51.6	-36.7

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

1/ Pensions premiums due (including non-paid amounts).

Table 12. Netherlands Antilles: Operations of the Island Government of Curaçao
(In millions of NA guilders)

	1994	1995	1996	1997	1998 Est.
Total revenue	733.4	786.8	808.9	748.6	764.0
Tax revenue	660.5	695.0	712.1	678.2	655.7
Taxes on income and profits	620.4	647.3	659.7	617.2	607.9
Profit tax	288.4	299.5	277.3	271.9	255.5
Offshore	184.9	165.0	120.0	130.0	120.0
Onshore	103.5	134.5			
Wage tax	285.9	308.3	339.0	316.2	329.5
Income tax	46.1	39.5	43.4	29.1	22.9
Taxes on property	12.2	15.9	19.4	17.1	12.7
Land tax	10.3	13.4	15.7	9.9	6.5
Occupancy tax	1.9	2.5	3.7	7.2	6.2
Taxes on goods and services	27.9	31.8	33.0	43.9	35.1
Motor vehicle taxes	15.2	21.2	18.4	23.6	20.7
Licenses	10.8	8.4	11.6	16.3	11.5
Hotel room tax	1.9	2.2	3.0	4.0	2.9
Other	0.0	0.0	0.0	0.0	0.0
Other taxes	0.0	0.0	0.0	0.0	0.0
Nontax revenue	50.3	62.9	72.6	51.3	62.9
Enterprise and property income	27.4	40.8	24.0	18.3	29.7
Fees, charges, and sales	17.3	17.5	28.9	20.2	24.0
Other nontax revenues	5.6	4.6	19.7	12.8	9.2
Capital revenue	0.4	0.0	0.7	0.4	0.0
Grants	22.2	28.9	23.5	18.7	45.4

Table 12. (Continued) Netherlands Antilles: Operations of the Island Government of Curaçao
(In millions of NA guilders)

	1994	1995	1996	1997	1998 Est.
Total expenditure	920.6	890.5	881.2	841.4	845.3
Current expenditure	888.0	862.9	857.0	825.9	828.5
Wages and salaries	374.2	390.5	398.7	378.3	361.8
Excl. pension premiums	277	295.0	308.0	284.8	277.5
Pension premiums	97.2	95.5	90.7	93.5	84.3
Goods and services	267.5	232.5	207.1	208.3	206.9
Subsidies	78.1	75.7	89.5	83.9	72.8
Public companies	78.1	75.7	89.5	83.9	72.8
Other	0.0	0.0	0.0	0.0	0.0
Transfers	97.9	90.9	89.0	82.1	81.8
Other levels of government	16.9	16.3	18.0	14.4	11.4
Households	49.6	46.2	40.8	38.8	38.9
Nonprofit institutions	31.4	28.4	30.2	28.9	31.5
Interest payments	70.3	73.3	72.7	73.4	105.2
Domestic	58.9	60.5	60.8	72.7	87.2
Foreign	11.4	12.8	11.9	0.7	18.0
Capital expenditure	32.6	27.6	24.2	15.5	16.8
Investment	27.6	32.9	15.8	14.0	15.8
Capital transfers	7.5	7.5	0.0	0.0	0.1
Net lending	-2.5	-12.8	8.4	1.5	0.9
Contingency	0.0	0.0	0.0	0.0	0.0
Balance	-187.2	-103.7	-72.3	-92.8	-81.3

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

1/ Pensions premiums due (including non-paid amounts).

Table 13. Netherlands Antilles: Flow of Development Aid
(In millions of NA guilders)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Multi-year plan	68.6	69.3	60.0	94.1	83.9	84.5	112.4	115.9	96.6
Fund for social, educational, and cultural projects	10.0	12.8	11.1	5.6	2.2	4.6	8.1	8.6	7.2
European Development Fund	12.2	15.5	7.5	8.0	11.4	5.6	8.1	3.7	--
Total	90.8	97.6	78.6	107.7	97.5	94.7	128.6	128.2	103.8

Source: Data provided by the authorities.

Table 14. Netherlands Antilles: Multi-Year Plan Disbursements
by Sectors and Authorities
(In millions of NA guilders)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Public utilities	6.9	15.3	7.4	13.8	9.9	2.5	0	0	0
Airports	0.2	2.4	1.1	3.1	3.2	0.6	0	0	0
Harbors	4.2	5.7	2.3	13.6	4.1	1.1	0	0.0	0
Roads and bridges	0.8	0.5	0.9	1.3	2.4	7.9	9.7	22.6	13.4
Education	2.4	4.2	6.5	21.4	19.4	17.6	26.9	26.7	27.7
Health	9.6	9.6	8.8	3.8	1.8	3.4	6.3	18.7	25.8
Housing	10.2	5.8	5.2	16.6	25.3	17.3	29.7	32.0	12.6
Tourism	12.4	2.7	3.6	2.6	1.1	0.6	0	0	0
Agriculture, animal husbandry, and fishing	0.8	1.1	0.1	0	0	0	0	0	0
Trade, industry and other services	10.6	5.6	2.9	7.0	4.6	12.9	19.1	4.4	6.7
Various	10.5	16.4	21.2	10.9	12.1	20.6	20.7	11.5	10.4
Total	68.6	69.3	60.0	94.1	83.9	84.5	112.4	115.9	96.6
<i>Of which:</i>									
Central Government	7.1	15.6	4.8	12.9	11.1	12.8	15.9	28.1	23.4
Aruba	0	0	0	0	0	0	0	0	0
Curaçao	41.3	37.5	39.9	49.7	52.1	52.7	46.2	42.0	33.8
Bonaire	4.5	3.0	6.3	13.8	4.1	8.6	1.6	1.1	3.5
Windward islands	15.7	13.2	9.0	17.7	6.4	10.4	48.7	40.9	29.3
Not classified	0	0	0	0	10.2	0	0	3.8	6.6
	68.6	69.3	60	94.1	83.9	84.5	112.4	115.9	96.6

Source: Data provided by the authorities.

Table 15. Netherlands Antilles: Aid From the European Development Fund, Disbursements by Sectors and Authorities
(In millions of NA guilders)

	1990	1991	1992	1993	1994	1995	1996	1997
Public utilities	7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Airports	4.1	1.8	0.6	0.0	0.0	0.0	0.0	0.0
Harbors	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0
Roads	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0
Education	0.0	0.1	0.1	0.0	0.1	0.1	0.8	0.4
Tourism	0.3	7.7	3.2	6.6	5.3	5.0	4.1	2.3
Various	0.8	5.9	2.7	1.0	6.0	0.5	3.2	1.0
Total	12.2	15.5	7.5	8.0	11.4	5.6	8.1	3.7
<i>Of which:</i>								
Central government	0.8	1.3	0.8	0.5	2.8	0.6	1.0	0.2
Curaçao	7.1	3.9	3.5	5.0	6.8	2.7	4.2	1.8
Bonaire	0.0	7.2	0.8	0.7	0.9	1.4	1.2	0.5
Windward islands	4.3	3.1	2.4	1.8	0.9	0.9	1.7	1.2

Source: Data provided by the authorities.

Table 16. Netherlands Antilles: Monetary Survey

	1990	1991	1992	1993	1994	1995	1996	1997	1998
(In millions of NA guilders, end of period)									
Net foreign assets 1/	464.4	400.7	508.1	566.8	438.1	718.0	524.6	584.6	711.7
Net international reserves	495.3	419.6	526.2	604.7	468.6	718.0	602.4	652.1	775.3
MLT	-30.9	-18.9	-18.1	-37.9	-30.5	0.0	-77.8	-67.5	-63.6
Net domestic assets 1/	1,290.1	1,469.6	1,570.5	1,690.5	2,011.8	1,883.5	2,012.1	2,017.4	1,984.5
Domestic credit	1,622.9	1,785.8	1,927.4	2,001.1	2,315.3	2,324.4	2,443.8	2,429.0	2,433.2
Government (net)	72.9	142.5	210.3	203.7	280.4	194.1	168.0	166.0	137.8
Central government	24.2	32.5	90.5	70.5	117.6	87.0	76.4	80.1	73.4
Island governments	48.7	110.0	119.8	133.2	162.8	107.1	91.6	85.9	64.4
Private sector	1,550.0	1,643.3	1,717.1	1,797.4	2,034.9	2,130.3	2,275.8	2,263.0	2,295.4
Other items, net 1/	-332.8	-316.2	-356.9	-310.6	-303.5	-440.9	-431.7	-411.6	-448.7
Money and quasi-money	1,754.5	1,870.3	2,078.6	2,257.3	2,449.9	2,601.5	2,536.7	2,602.0	2,696.2
Money	724.3	753.6	818.1	877.7	1,013.1	1,110.8	1,028.4	1,052.7	1,074.2
Quasi-money	1,030.2	1,116.7	1,260.5	1,379.6	1,436.8	1,490.7	1,508.3	1,549.3	1,622.0
Time deposits	238.7	245.8	290.5	319.6	335.3	358.0	410.0	463.0	498.5
Savings deposits	791.5	870.9	970.0	1,060.0	1,101.5	1,132.7	1,098.3	1,086.3	1,123.5

Source: Data provided by the authorities.

1/ Includes gold revaluations from NA f. 67.5 million to NA f. 208.8 million in June 1995, to NA f. 189.5 million in January 1996 and to NA f. 179.8 in November 1998.

Table 17. Netherlands Antilles: Commercial Bank Credit to the Private Sector

	1990	1991	1992	1993	1994	1995	1996	1997	1998
(In millions of NA guilders, end of period)									
Loans to the private sector	1,557.5	1,629.7	1,661.4	1,732.5	1,958.3	2,046.4	2,171.6	2,198.6	2,232.4
Mortgage	543.1	562.5	544.6	617.8	743.2	782.9	865.7	925.7	890.3
<i>Of which:</i>									
MLT on-lent 1/	30.9	18.9	18.1	37.9	30.5	0.0	53.7	48.7	44.8
Consumer	223.6	221.9	283.3	381.1	451.9	485.9	507.7	478.1	516.2
Business	790.8	845.3	833.5	733.6	763.2	777.6	798.2	794.8	825.9
<i>Of which:</i>									
MLT on-lent 2/	0.0	0.0	0.0	0.0	0.0	0.0	26.9	18.8	18.8
(Change in percent over end of previous year)									
Loans to the private sector	21	5	2	4	13	4	6	1	2
Mortgage	74	4	-3	13	20	5	11	7	-4
Consumer	87	-1	28	35	19	8	4	-6	8
Business	-7	7	-1	-12	4	2	3	0	4

Source: Data provided by the authorities.

1/ All mortgage borrowings have been accrued to entities on the Windward Islands.

2/ All business borrowings have been accrued to entities on the Leeward Islands.

Table 18. Netherlands Antilles: Interest Rates
(In percent, end of period)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Official discount rate		6.0	6.0	6.0	5.0	5.0	6.0	6.0	6.0	6.0
Deposit rates										
Passbook savings		4.9	4.9	4.8	4.1	4.0	3.6	3.6	3.5	3.6
Time deposits <u>1/</u>		5.0	5.3	5.9	5.1	4.7	4.7	5.0	5.1	5.2
Lending rates										
Prime rate		10.9	11.7	12.0	12.6	12.7	13.0	13.4	14.0	13.9
Mortgage rate		11.1	11.6	12.0	12.1	11.0	11.2	11.5	12.0	11.7
Treasury bill rate <u>2/</u>		6.4	6.3	5.9	4.3	5.4	5.7	5.7	5.9	5.7
Government bond yield <u>3/</u>		11.1	8.7	8.6	7.9	8.0	8.3	8.3	9.0	7.8
Memorandum item:										
Penalty rate		1.75 <u>4/</u>	3.5 <u>5/</u>	3.5	3.0 <u>6/</u>	3.0	3.5 <u>7/</u>	5.25 <u>8/</u>	5.25-7.0 <u>9/</u>	5.25-7.0 <u>9/</u> 3.5-5.25 <u>10/</u> 2.1-3.5 <u>11/</u>

Source: Data provided by the authorities.

1/ 6-month time deposits reported for 1990-91, 12-month time deposits thereafter.

2/ Rate on three-month treasury bills.

3/ Effective yield on five-year government bonds.

4/ In effect from 9/1990 to 9/1991.

5/ In effect from 9/1991 to 4/1993.

6/ In effect from 4/1993 to 3/1995, when MCR in effect.

7/ In effect from 3/1995 to 4/1995.

8/ In effect from 4/1995 to 12/1996.

9/ In effect from 1/1997 to 9/1998.

10/ In effect in 10/1998.

11/ In effect from 11/1998 to 12/1998.

Table 19. Netherlands Antilles: Balance of Payments (Cash Basis)
(In millions of NA guilders)

	1990	1991	1992	1993	1994	1995	1996	1997	1998 Est.
Trade Balance	-1734	-1728	-1780	-1767	-1940	-2168	-2218	-1959	-1904
Exports	363	409	428	413	429	377	403	478	513
Imports	2097	2137	2209	2180	2369	2545	2621	2437	2417
Non-factor services	1622	1681	1768	1861	1847	2217	1787	1816	1772
Tourism	577	608	653	753	779	607	528	660	741
Inflows	804	843	938	1090	1143	1005	984	1116	1268
Outflows	227	235	284	337	365	397	456	456	526
Transportation	297	355	353	311	358	444	500	511	476
Inflows	395	437	454	424	455	558	610	607	584
Outflows	97	81	101	113	97	113	109	96	108
Offshore sector	353	458	427	495	474	600	469	462	409
Inflows	607	530	539	615	645	800	713	670	599
Tax receipts	232	232	210	244	196	249	164	147	119
Operational income	376	298	329	371	448	551	550	523	479
Outflows	255	72	112	120	170	200	245	208	189
Operational expenses	255	72	112	120	170	200	245	208	189
Refining inflows	267	262	281	295	276	265	269	207	207
Other	128	-4	55	7	-40	300	22	-23	-61
Inflows	207	323	372	330	258	648	330	264	259
Outflows	80	327	317	323	298	348	309	286	320
Investment income	46	54	59	-5	103	25	100	86	150
Inflows	212	209	260	191	206	197	218	170	247
Outflows	166	155	201	196	103	172	118	84	96
Private remittances	-89	-88	-87	-107	-139	-104	-92	-111	-118
Inflows	116	126	139	164	179	169	199	228	238
Outflows	206	215	225	271	318	273	292	339	356
Current account	-155	-81	-40	-17	-130	-30	-423	-167	-100
Capital account	21	-26	73	104	2	135	322	226	236
Private capital	-56	-28	-6	24	27	65	211	104	94
Inflows	492	499	526	774	654	794	884	804	859
Outflows	548	527	532	750	627	729	674	700	765
Government capital	76	2	79	80	-25	69	111	121	141
Inflows	113	100	80	104	45	109	114	129	143
Outflows	37	98	2	24	70	40	3	7	2
Errors & omissions	81	31	73	-8	-9	3	5	-9	-1
Overall balance	-54	-75	106	79	-136	108	-96	50	135
Debt relief									
Changes in net int. reserves	-54	-75	106	79	-136	108	-96	50	135
Official reserves (excl. gold)	386	316	394	420	321	417	338	387	444
(in months of imports)	2.2	1.8	2.1	2.3	1.6	2.0	1.5	1.9	2
Current account (percent of GDP)	-4.8	-2.3	-1.1	-0.4	-3.1	-0.7	-9.8	-3.8	-2.2

Source: Data provided by the authorities.

Table 20. Netherlands Antilles: Current Inflows (Cash Basis)
(In millions of NA guilders)

	1990	1991	1992	1993	1994	1995	1996	1997	1998 Est.
Merchandise exports	363	409	428	413	429	377	403	478	513
Curaçao and Bonaire	258	285	304	276	276	301	326	435	468
Windward Islands	105	125	124	138	152	77	77	43	45
Nonfactor services	2,280	2,395	2,583	2,754	2,776	3,275	2,906	2,863	2,916
Tourism	804	843	938	1,090	1,143	1,005	984	1,116	1,268
Curaçao and Bonaire	246	294	336	396	392	380	408	438	523
Windward Islands	559	549	602	693	752	624	576	678	745
Refining	267	262	281	295	276	265	269	207	207
Offshore sector	607	530	539	615	645	800	713	670	599
Taxes	232	232	210	244	196	249	164	147	119
Operating income	376	298	329	371	448	551	550	523	479
Transportation	395	437	454	424	455	558	610	607	584
Drydock	70	88	108	73	61	64	63	75	67
Storage	45	50	57	60	52	88	75	77	71
Passenger fares	86	81	91	89	84	88	104	98	110
Other	193	218	198	203	258	317	367	357	336
Other services	207	323	372	330	258	648	330	264	259
Total merchandise exports and nonfactor services	2,643	2,804	3,011	3,168	3,205	3,652	3,309	3,341	3,428
Investment income	212	209	260	191	206	197	219	170	247
Private remittances	116	126	139	164	179	169	199	228	238
Total current inflows	2,971	3,139	3,409	3,523	3,590	4,019	3,727	3,739	3,913

Source: Data provided by the authorities.

Table 21. Netherlands Antilles: Current Outflows (Cash Basis)
(In millions of NA guilders)

	1990	1991	1992	1993	1994	1995	1996	1997	1998 Est.
Merchandise imports	2,097	2,137	2,208	2,180	2,369	2,545	2,621	2,437	2,417
Curaçao and Bonaire	1,360	1,446	1,553	1,476	1,521	1,707	1,785	1,770	1,761
Windward Islands	737	691	655	704	848	838	836	667	656
Nonfactor services	659	714	814	893	930	1,058	1,119	1,047	1,143
Tourism	227	234	284	337	365	397	456	456	526
Curaçao and Bonaire	154	181	201	237	279	290	338	338	348
Windward Islands	72	54	84	100	85	107	118	118	178
Transportation	97	81	101	113	97	113	110	96	108
Offshore	255	72	112	120	170	200	245	208	189
Operating expenses	255	72	112	120	170	200	245	208	189
Other services	80	327	317	323	298	348	309	286	320
Total merchandise imports and nonfactor services	2,755	2,851	3,023	3,073	3,299	3,604	3,740	3,484	3,560
Investment income	166	155	201	196	103	172	118	84	96
Private remittances	206	215	225	271	318	273	292	339	356
Total current outflows	3,126	3,220	3,449	3,540	3,720	4,049	4,150	3,906	4,012

Source: Data provided by the authorities.

Table 22. Netherlands Antilles: Capital Account (Cash Basis)
(In millions of NA guilders)

	1990	1991	1992	1993	1994	1995	1996	1997	1998 Est.
Private capital, net	-56	-27	-6	24	27	65	211	104	94
Securities	-67	-36	-15	-31	-92	-30	-55	16	-8
Real estate	14	10	18	21	14	-1	12	25	15
Loans	107	16	36	43	9	7	94	72	32
Repayments	-125	-27	-12	-7	-19	-50	-80	-29	-36
Net borrowing by commercial banks	-1	-10	-1	23	7	-10	78	-10	0
Other ^{1/}	16	20	-32	-25	108	150	161	30	92
Government capital	76	1	79	80	-25	69	111	121	141
Foreign aid	58	92	80	104	44	109	114	129	143
Loan repayments	-26	-19	-2	-24	-70	-36	-3	-7	-2
Other	43	-73	0	0	1	-4	0		0
Capital account balance	20	-26	73	104	2	135	322	226	236

Source: Data provided by the authorities.

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

Table 23. Netherlands Antilles: Net International Reserves
(In millions of NA guilders, end of period)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Net international reserves 1/	495.2	419.6	526.2	604.7	468.6	718.0	602.4	652.1	777.7
Excluding gold	427.7	352.2	458.7	537.2	401.1	509.2	412.9	462.6	597.9
Central bank	453.2	383.9	461.1	487.0	388.2	625.3	527.8	576.4	623.4
Foreign currency	386.5	317.7	394.3	422.6	367.7	474.5	357.0	402	446.1
Gold	67.5	67.4	67.5	67.5	67.5	208.8	189.5	189.5	179.8
Short-term liabilities	0.8	1.2	0.7	3.1	47.0	58.0	18.7	15.1	2.5
Commercial banks, net	42.0	35.7	65.1	117.7	80.4	92.7	74.6	75.7	154.3
Assets	1,023.9	1,220.4	1,358.0	1,514.5	1,370.0	791.7	793.7	777.2	926.5
Liabilities	981.9	1,184.7	1,292.9	1,396.8	1,289.6	699.0	719.1	701.5	772.2

Source: Data provided by the authorities.

1/ Includes revaluation of gold of NA f. 141.3 million in 1995, of NA f. -19.3 million in 1996 and of NA f. -0,5 million in 1997. In November 1998, gold was re-valuated and the goldfund pertaining to the status aparte of Aruba was settled.