March 2006
IMF Country Report No. 06/116

Kingdom of the Netherlands—Netherlands Antilles: 2005 Article IV Consultation—Staff Report; and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2005 Article IV consultation with the Kingdom of the Netherlands—Netherlands Antilles, the following documents have been released and are included in this package:

- the staff report for the 2005 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on December 12, 2005, with the officials of the Kingdom of the Netherlands—Netherlands Antilles on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 17, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its March 8, 2006 discussion of the staff report that concluded the Article IV consultation.

The document listed below has been or will be separately released.

Selected Issues Paper and Statistical Appendix

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND

KINGDOM OF THE NETHERLANDS—NETHERLANDS ANTILLES

Staff Report for the 2005 Article IV Consultation

Prepared by the Staff Representatives for the 2005 Consultation
with the Kingdom of the Netherlands—Netherlands Antilles

Approved by Alessandro Leipold and Carlo Cottarelli

February 17, 2006

The 2005 Article IV discussions were held in Willemstad during December 1–12, 2005. The staff team comprised Messrs. Schule (Head), Daal, and Nadal de Simone (all EUR). It met with the governor, prime minister, minister of finance, minister of economic and labor affairs, the president of the central bank (BNA), the commissioner of public enterprises (Curaçao), and senior staff members of government agencies and the central bank. A teleconference was held with the commissioner of finance of St. Maarten. The staff also met with representatives of labor unions, the chamber of commerce, tourism and oil industries, public utilities, pension funds, institutional investors, and international and local financial sectors. Mr. Roovers (Senior Advisor to the Executive Director) attended the meetings.

The Netherlands Antilles does not have a separate quota or other financial relations with the Fund, and the Kingdom of the Netherlands' acceptance of Article VIII, Sections 2, 3, and 4 also applies to the Netherlands Antilles. Prior to 1970, consultations with the Kingdom of the Netherlands were held exclusively with officials from the Netherlands and did not include reviews of economic conditions and policies in the Netherlands Antilles. Since 1970, separate Article IV consultations with officials in the Netherlands Antilles were held at the request of the member. The first Article IV Consultation with officials from Aruba took place in 1986. After the breakup of the federation of the Netherlands Antilles (planned for mid-2007), the Kingdom of the Netherlands will have four constituent countries: the Netherlands, Aruba, Curaçao, and St. Maarten.

The Netherlands Antilles has its own currency, the Netherlands Antilles guilder (NA f.), which has been pegged to the U.S. dollar at the rate of 1.79 since 1971.

Contents Page

Executive Summary

Economic growth has been feeble so far in this decade, in the midst of economic policy drift. Growth has been constrained by still inflexible labor markets, widespread state ownership and interference in commercial activities, and insufficient investment in infrastructure and human capital. At the same time, free migration to the Netherlands has kept wages high. Persistent budget deficits and a large and growing public debt have remained unaddressed, and the welfare system has become severely strained by high unemployment and rising poverty.

After a series of referenda, the federation of the Netherlands Antilles will be disbanded in mid-2007. Talks are ongoing within the Kingdom of the Netherlands on the appropriate balance between adjustment and financing in the process of constitutional change and on how to secure macroeconomic and financial stability on the islands.

Policies will need to be strengthened to meet the key challenges of achieving higher growth and sustainable public finances:

- Near-term economic prospects have improved, but confidence-creating ***fiscal adjustment and structural reforms will be needed to sustain higher GDP growth*** in the medium term.

- Budgetary plans for 2006 foresee a sizable underlying adjustment but fall short of what is required to make a dent into debt and begin accumulating a contingency fund against shocks. A primary surplus should be achieved and increased in the following year by ***exercising strict spending discipline and implementing reforms in health care and pension systems.***

- The ***new constitutional arrangements provide an opportunity for the establishment of a stable macroeconomic framework***. Regardless of the chosen approach to debt relief, arrangements need to provide a strong basis for sustained strengthening in fiscal discipline. Enhanced fiscal transparency and more efficient management are also needed.

- To improve competitiveness and potential growth, a more ***flexible use of labor, better education and training, and greater product market competition*** are essential. Improved governance of public firms, well-targeted infrastructure investment, and streamlined administrative procedures would help raise the country's attractiveness for foreign investment.

- Bank profitability has improved, and ***financial sector supervision is being strengthened***. The authorities will need to be vigilant with respect to the financial market implications of debt rescheduling.

I. INTRODUCTION

1. **Achieving fiscal sustainability and higher trend growth are the key challenges facing the Antillean economy.** Economic policies have not been successful in meeting these challenges (Box 1). Attempts at fiscal adjustment have not been sustained, structural reforms have remained limited in scope, and some planned foreign-financed investment projects have not been implemented. Fiscal expansion has done little to strengthen activity, as much of the additional spending has leaked into imports, and investors' confidence has weakened. Consequently, economic growth has languished. Rising pension and health care costs, increased income support, and escalating interest payments have aggravated fiscal imbalances, and public debt reached 86 percent of GDP in 2005.

Box 1. Netherlands Antilles: Implementation of Past Fund Policy Recommendations

From the mid-1990s to 2001, the staff was intermittently involved in designing economic adjustment programs that formed the basis for Dutch budget support. Since 2003, Fund involvement has been largely confined to general surveillance activities. The authorities have concurred broadly with the Fund's economic policy advice, but policy implementation has been wanting.

Fiscal policy. The 1998–2001 fiscal adjustment program achieved budget balance, though only on a cash basis, while significant arrears were accumulated. During the past four years, strengthened tax collection helped stabilize tax revenues, in line with Fund advice. However, the 2005–06 income tax cut threatens this achievement. Spending discipline has been weak, and the primary balance moved into deficit in 2004. The headline deficit improvement in 2005 was entirely due to a windfall transfer from the Netherlands.

Monetary policy. The authorities have maintained a fixed peg to the U.S. dollar and, in line with Fund advice, strengthened the role of indirect policy instruments in implementing the peg.

Labor and product markets. Little progress has been made in labor markets. The liberalization of dismissal rules in Curaçao was reversed, though approval procedures became more even-handed, and decision times were shortened. Onerous working-time regulations were left untouched. Privatization has been limited to some strategic partnerships; however, state influence remains strong, and the governance of publicly-owned companies weak. Negotiations have started on private sector participation in Curaçao's oil refinery.

Financial sector. In line with Fund advice, the financial sector has been subject to strong supervision. A number of recommendations made in the 2004 Assessment of the Supervision and Regulation of the Financial Sector have been implemented. On-site inspections have been conducted more frequently, a comprehensive supervision framework for the insurance industry developed, and the AML/CFT framework further strengthened. The central bank has also taken measures to increase the efficiency of financial markets.

Trade policy. All remaining nontariff barriers, including the economic levy, have been eliminated, though the average level of tariffs remains high compared with other Caribbean countries. The authorities are considering independent WTO membership and further association with regional trade agreements (notably Caricom).

1/ With economic levies phased out in 2005, taxes on international trade declined from 2.6 to 2.1 percent of GDP. Tariffs range from 0 percent on basic goods to 63 percent on tobacco products. The unweighted average tariff rate (inclusive of levies) declined from 27.2 percent in 2000 to 15.2 percent in 2005.

2. **Reflecting the outcome of referenda on its five constituent islands, the federation of the Netherlands Antilles is to be disbanded in mid-2007.** The Kingdom of the Netherlands consists of the mainland European Netherlands and the Caribbean countries of Aruba and the Netherlands Antilles. Within the Kingdom, the Netherlands Antilles conducts independent domestic policies and has its own currency, the Netherlands Antillean guilder (NA f.), which has been pegged to the U.S. dollar since 1971. General policies are set by the central government for the federation of the Netherlands Antilles, while their implementation is entrusted to the autonomous island governments. However, incomplete nation-building, the islands' geographical separation, and dissimilar economic structures have hampered coordination between the two levels of government and have nurtured movements for greater self-determination.[1] Following the example of Aruba (1986), the two larger islands of Curaçao and St. Maarten will attain *status aparte* within the Kingdom, while the three smaller islands of Bonaire, St. Eustatius, and Saba will further strengthen their direct ties with the European mainland Netherlands.[2]

3. **In the context of the ongoing Round Table discussions on the future constitutional relations within the Kingdom, the Netherlands has declared its readiness to provide fresh support.[3]** In the fiscal area, the Netherlands has committed itself, conditional on safeguards to ensure future fiscal discipline, to find a solution to the debt problem, which the Antillean authorities see as the major obstacle to economic development. The Netherlands Antilles' central and island governments, on their side, have pledged to adopt sound fiscal policies and establish binding budget rules, supported by improved transparency and strengthened fiscal management. Details on both counts, however, still need to be agreed and, if available, will be set out in a Supplement to this Staff Report.

4. **General elections on January 27, 2006 resulted in a strengthening of centrist parties.** Since May 2005, when the left-of-center PKLP left the coalition, Prime Minister Ys has governed with a thin majority. In March 2006, the Curacao government coalition changed toward parties of the same political spectrum as those forming the central government; prospects for coordination between both levels of government have improved ahead of the breakup of the country. Local elections in May 2003 on Curaçao strengthened the left-of-center opposition, which gained the largest share on a platform of social inclusion.

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[1] Curaçao and Bonaire are located off the Venezuelan coast, and Saba, St. Eustatius, and the southern part of St. Maarten are part of the eastern Caribbean Windward Islands. Curaçao's population accounts for 73 percent of the 185,513 residents of the Netherlands Antilles, followed by the populations of St. Maarten (35,035), Bonaire (10,638), St. Eustatius (2,584), and Saba (1,434).

[2] On October 22, 2005, the Netherlands, the central government of the Netherlands Antilles, and all island governments signed an agreement of principles outlining steps toward setting up the new countries of Curaçao and St. Maarten and integrating the other islands with the Netherlands.

[3] Traditionally, the Netherlands has provided development aid, technical assistance and, occasionally, budgetary support.

II. Background

5. **The economy has barely grown so far this decade, and income per head has declined.** Annual GDP growth averaged 0.4 percent over the past five years. In 2004, growth was driven mainly by public consumption, and in 2005, private consumption took over the lead as welfare spending, including a supplement on basic pensions, reduced income taxes boosted household disposable income, and cheaper consumer credit encouraged purchases of durables. Private investment recovered from three years of decline due to the expansion of hotel rooms and some larger infrastructure investments (airports) related to tourism. Exports have benefited from solid growth in the United States, the strong recovery in Venezuela, and increased attractiveness in European tourism markets due to the euro appreciation. However, imports have risen sharply, partly due to higher oil prices (Table 1 and Figure 1). Economic growth was unevenly distributed: St. Maarten grew by 4.5 percent and Bonaire by 2.1 percent, but Curaçao progressed only marginally, by 0.2 percent.[4]

6. **The trade balance has worsened, but increased transfers from the Netherlands have mitigated the impact on reserves.** Since the role of the offshore financial sector began declining in the mid-1980s, the current account balance has been chronically in deficit. In 2004, the current account deficit widened to 3.2 percent of GDP, and foreign reserves fell to 2.5 months of import coverage, despite a substantial transfer of development aid.[5] Subsequently, in April 2005, a transfer from the Netherlands of withholding taxes on dividends paid by Dutch companies to their parents in the Netherlands Antilles boosted reserves and prevented a further deterioration of the current account balance (Table 2 and Figure 2).

7. **The free migration of Antillean citizens to the Netherlands has played a major role in the adjustment to shocks, albeit less so more recently.** Adverse shocks and fiscal tightening risk inducing emigration to the Netherlands, as happened in 1998–2001, when 12 percent of the population left the Netherlands Antilles (Figure 2). The option to move to the Netherlands also sets a floor on most wages, though a more competitive job market in the Netherlands, as well as stricter application of welfare eligibility rules, has made such emigration less attractive. Since 2002, there has been net migration, as fewer Antilleans have left and immigrants from within the region—where per capita income levels are considerably lower—have filled vacancies, in particular in the tourism business (see Table 3 and Figures 3–5 for a regional comparison of key data). As a result, the constraint on wages seems to have become less binding for the less-skilled, and the Antillean minimum wages and welfare benefits have been falling in real terms and also relative to the Netherlands. Nevertheless, unemployment has remained persistently above 15 percent.

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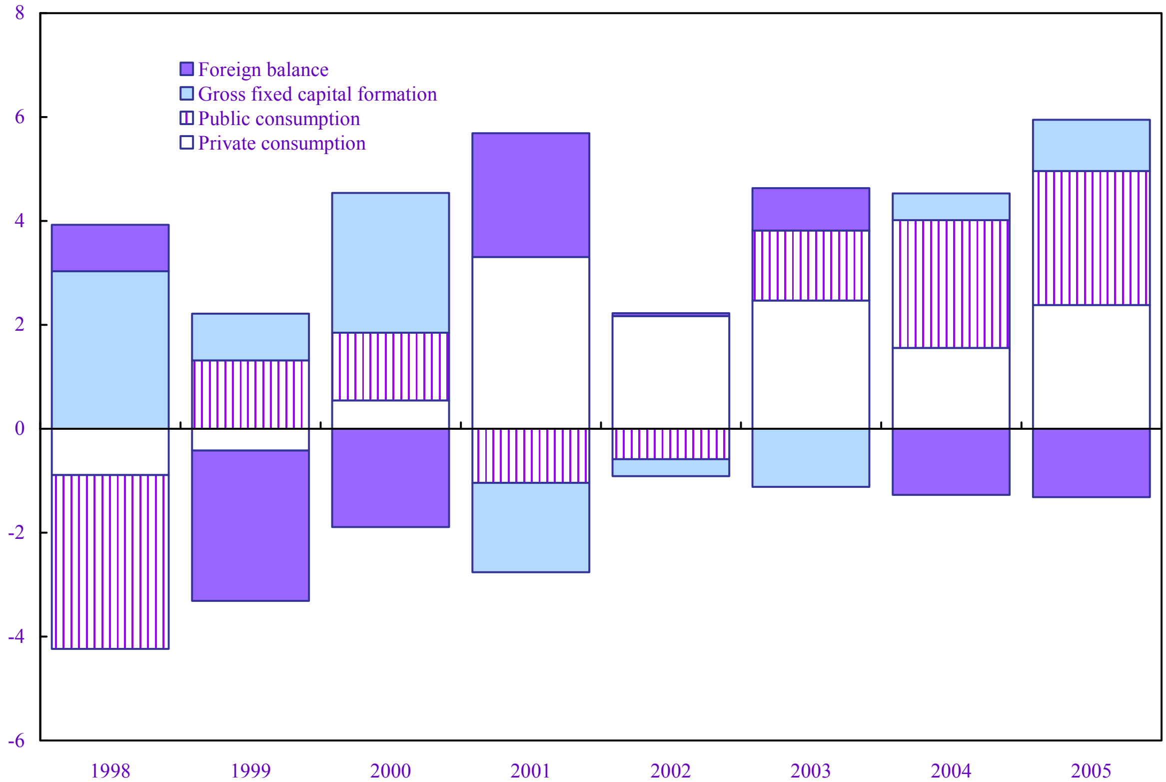
[4] Based on business surveys carried out in 2004.

[5] The Netherlands made an advance payment (2.6 percent of GDP) to USONA, the foundation in charge of managing Dutch-financed development projects.

Figure 1. Netherlands Antilles: Selected Contributions to GDP Growth, 1998-2005
(In current prices)

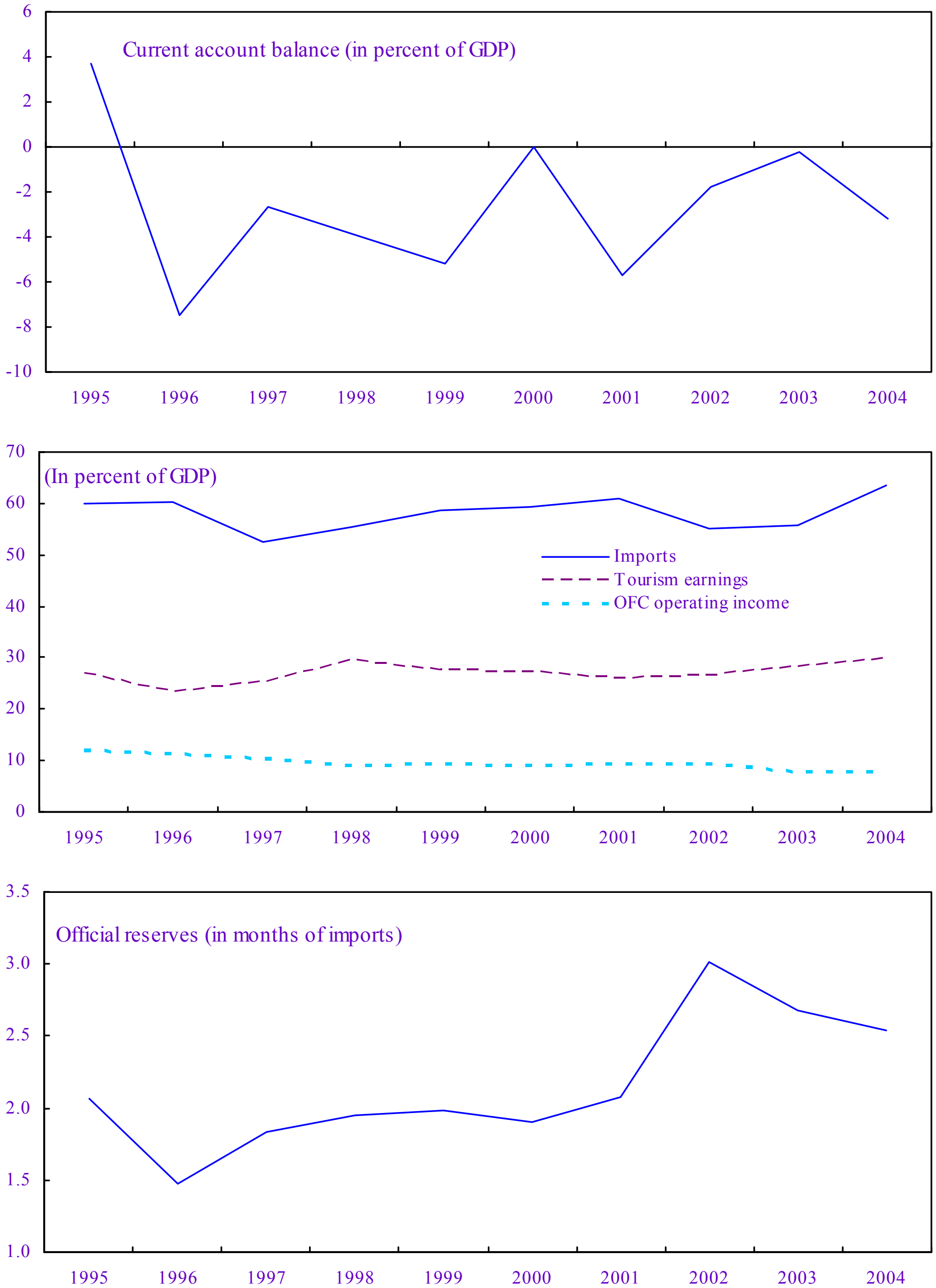


Sources: Central Bureau of Statistics; BNA; and IMF staff estimates.

8. **The long-standing peg to the U.S. dollar has provided an effective price anchor.** Over the past 15 years, inflation has been fluctuating in a narrow margin around the U.S. rate, except for 2000, when indirect tax increases pushed the consumer price index up to 5 percent (Figure 6). Moreover, interest rate premiums over U.S. rates have been small. The central bank targets foreign reserves through variations in its main policy instruments, the pledging rate, CDs, and reserve requirements. Restrictions are imposed on institutional investors' foreign asset holdings and banks' currency exposure. The fall in reserves since mid-2005 has prompted a cautiously-paced monetary tightening, though capital market rates have eased, reflecting ample liquidity in the banking system, and credit has expanded strongly (Table 4).

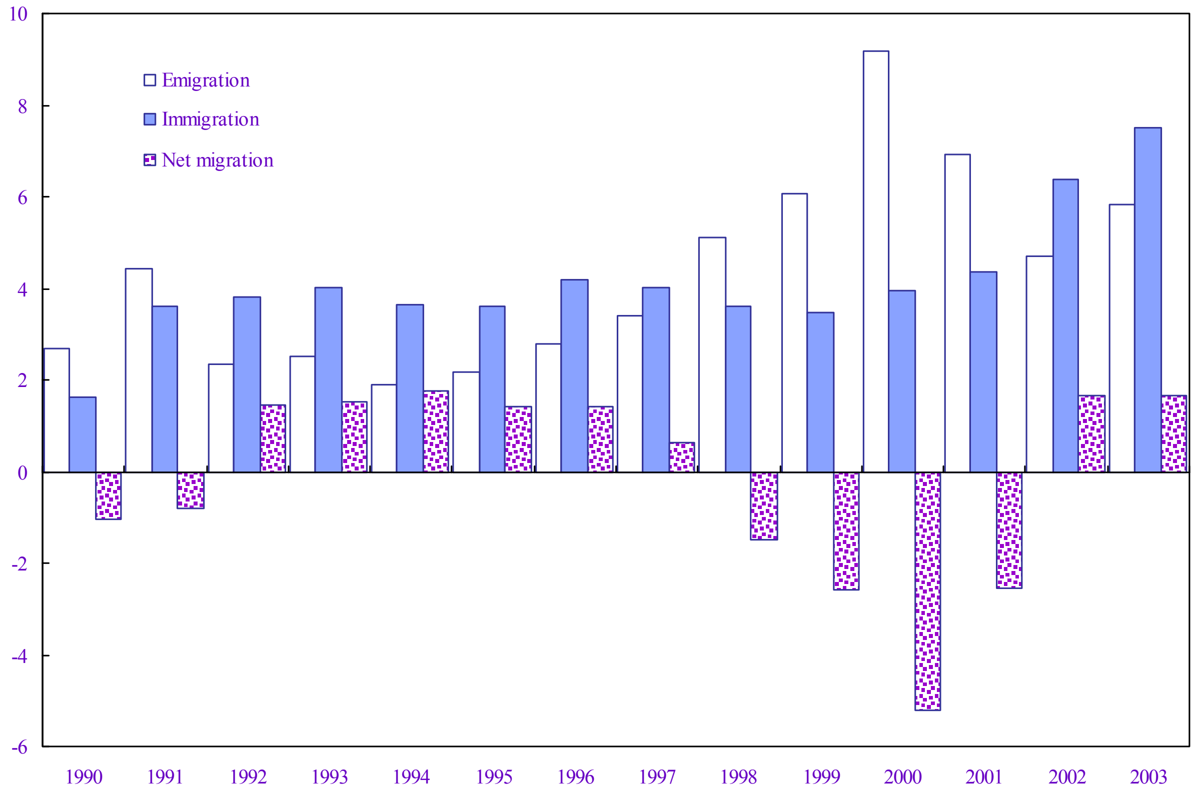
9. **Over the past four years, public finances have deteriorated, largely due to higher spending.** The end of a public sector wage freeze in 2002, improved compliance with payment obligations to the pension and health care systems, and increased spending in the justice department have contributed to a significantly higher wage bill. Health care costs have been rising rapidly, while the partial regularization of previous arrears to the public pension system has raised interest payments by more than 1 percent of GDP. Primary spending increased by nearly 3 percent of GDP over the past three years, and the general

Figure 2. Netherlands Antilles: External Sector Developments, 1995-2004



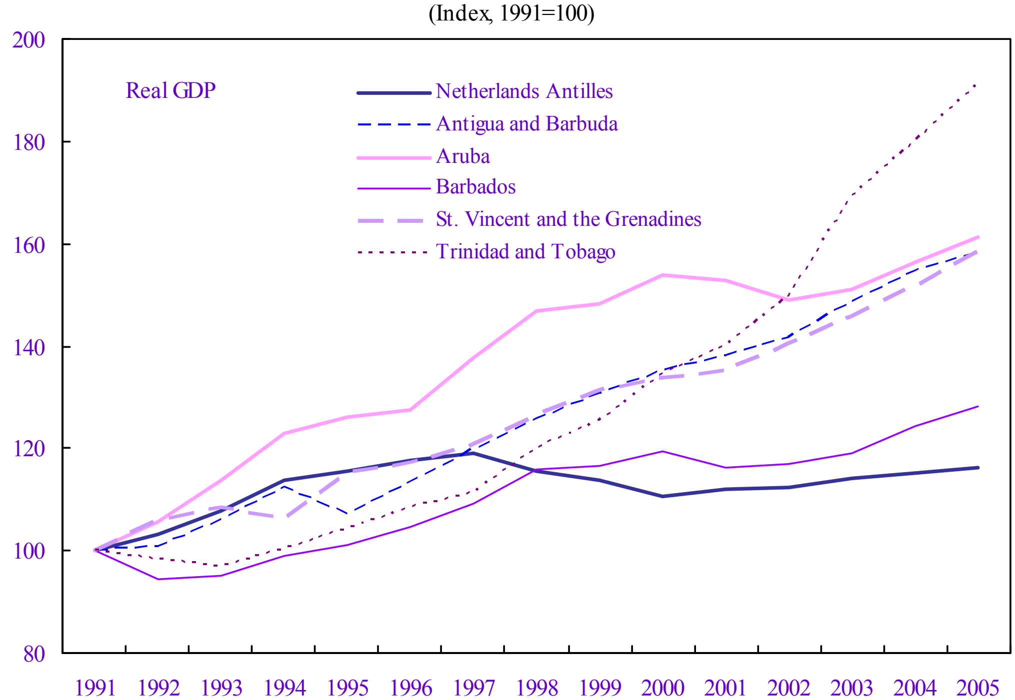
Sources: Data provided by the authorities; and IMF staff estimates and projections.

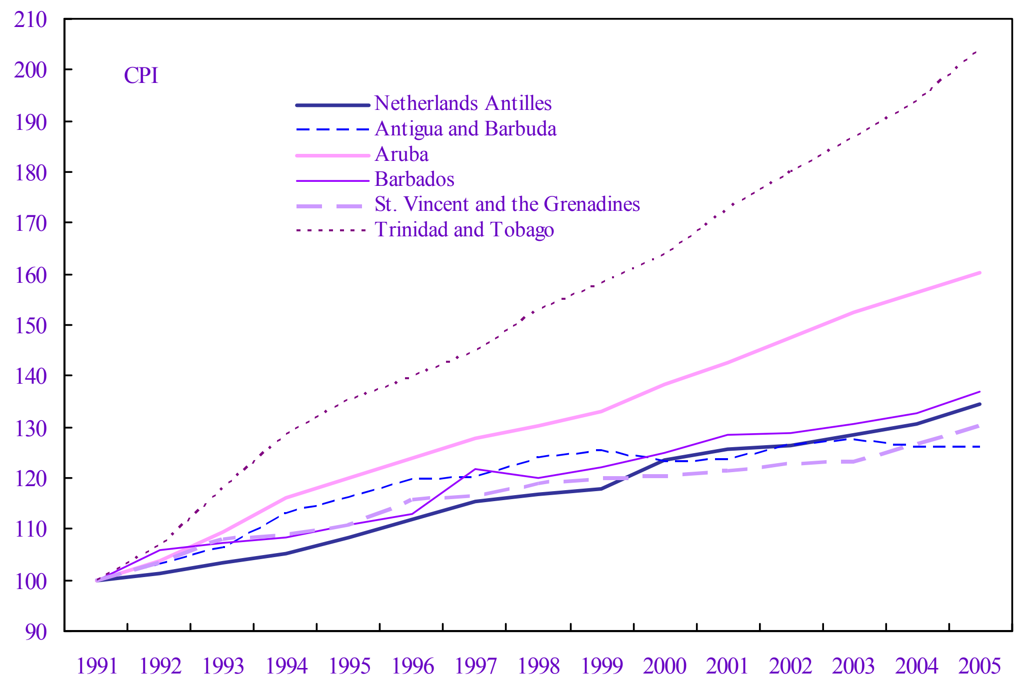
Figure 3. Netherlands Antilles: Migration, 1990-2003
(In percent of population)



Source: CBS.

Figure 4. Netherlands Antilles: Real GDP and Prices Versus Competitors 1/
(Index, 1991=100)



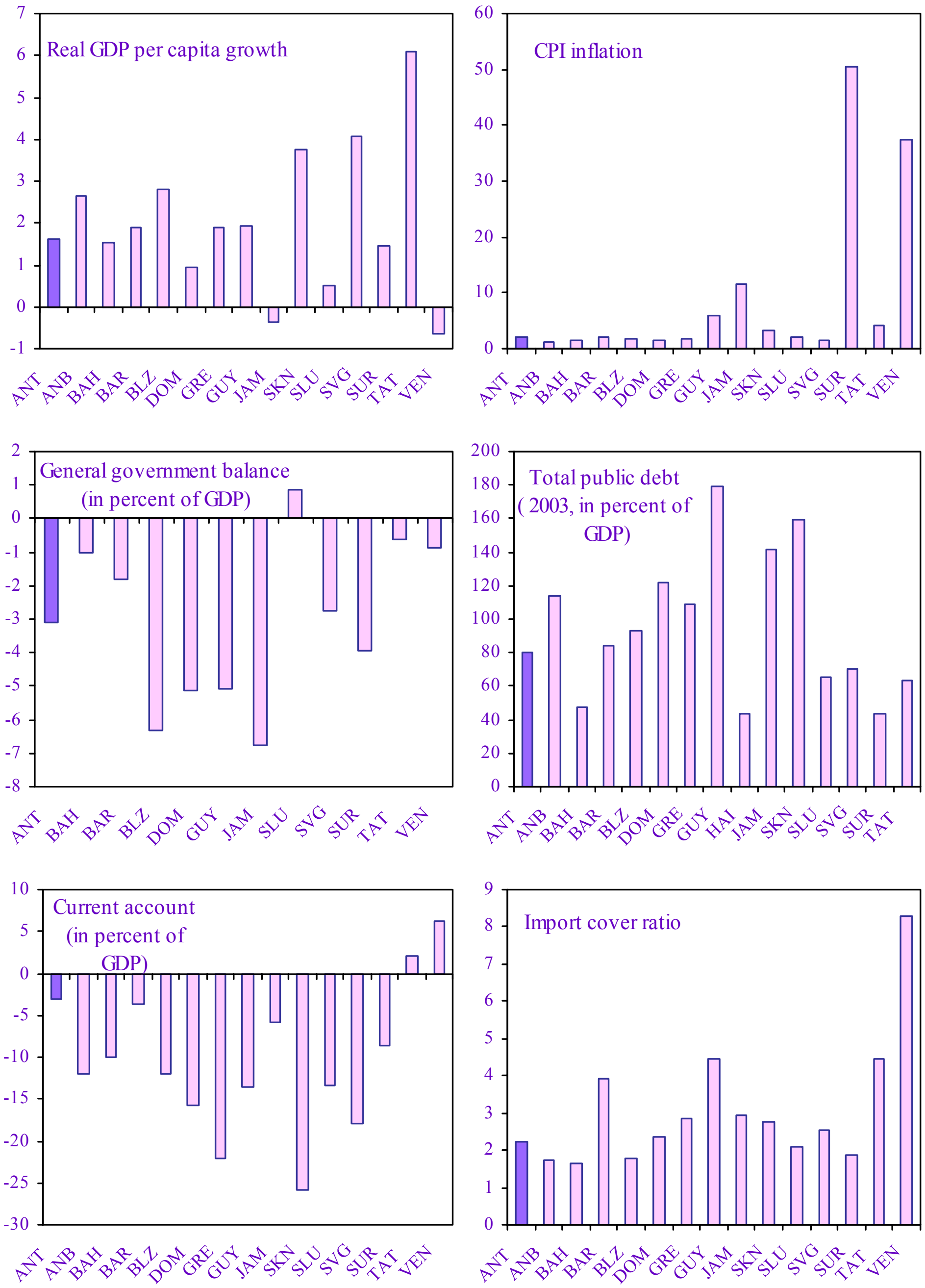


Sources: IMF, IFS and WEO.

1/ Projections in 2005.

Figure 5. Netherlands Antilles: Regional Perspective

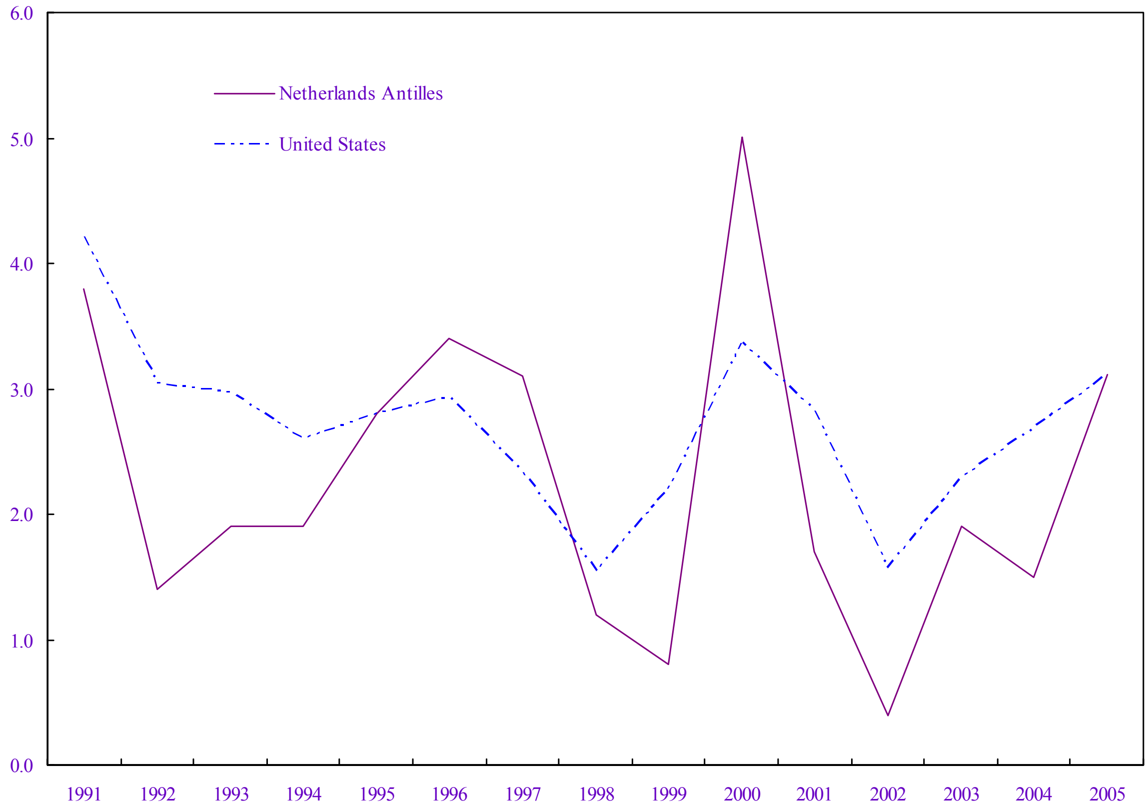
(Average, 1995-2004)



Source: IMF, WEO.

Country Code: Netherlands Antilles=ANT, Antigua and Barbuda=ANB, Bahamas=BAH, Barbados=BAR, Belize=BLZ, Dominica=DOM, Grenada=GRE, Guyana=GUY, Haiti=HAI, Jamaica=JAM, St. Kitts and Nevis=SKN, St. Lucia=SLU, St. Vincent and the Grenadines=SVG, Suriname=SUR, Trinidad and Tobago=TAT, Venezuela=VEN.

Figure 6. Netherlands Antilles: Consumer Price Inflation, 1991-2005 1/



Sources: Data provided by the authorities; and IMF, WEO.

1/ Projections in 2005.

government deficit reached 6 percent of GDP in 2004.[6] In 2005, the headline deficit improved to 2¾ percent of GDP. However, this was entirely due to a 3½ percent of GDP windfall (dividend tax revenues from the Netherlands); the underlying fiscal situation has not improved (Table 5 and Figure 7).

10. **Public debt has been rising rapidly.** General government debt rose from 64 percent to 85½ percent of GDP from 2000 to 2005. Close to one half of this increase is due to stock adjustments associated with the 2002/03 regularization of arrears to social security, about one fifth to other stock adjustments, and the remaining third (about 7 percentage points of GDP) to deficits.

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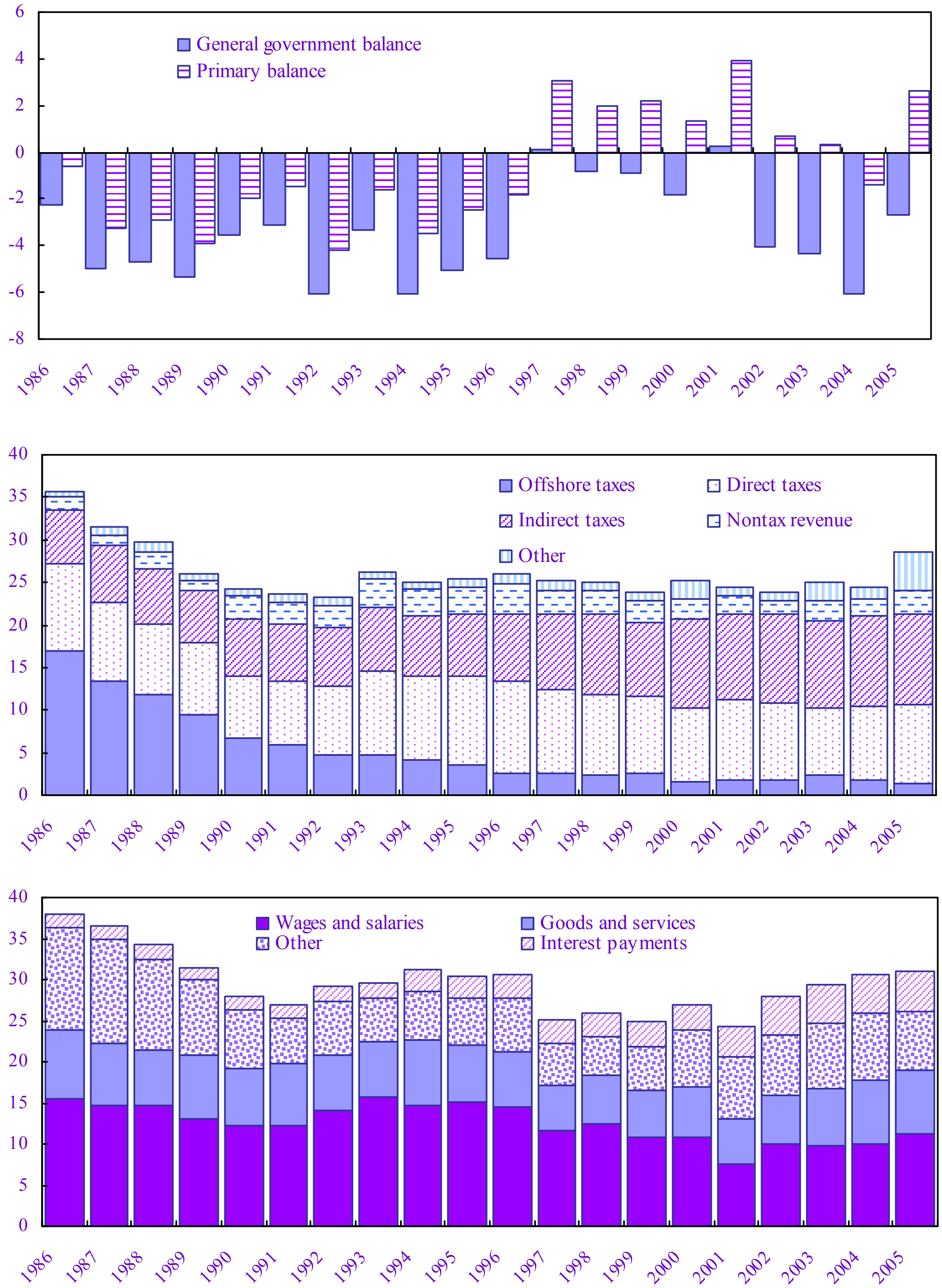
[6] For lack of data, the Antillean "general government" covers the accounts of the central and Curaçao governments and does not include the accounts of the other islands or of the social security system.

Figure 7. Netherlands Antilles: Fiscal Policy, 1986-2005
(Cash basis; in percent of GDP)



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

III. Policy Discussions

11. **Policy discussions focused on how to use the opportunity offered by the new constitutional arrangements to lay the groundwork for macroeconomic stability and sustainable economic growth.** With the negotiations on the future fiscal and socio-economic relations within the Kingdom ongoing, the individual islands' initial and prospective fiscal positions remained highly uncertain and many questions ahead of the breakup of the federation unresolved. Nevertheless, the authorities expressed readiness to seize the occasion for a fresh start. There was broad agreement that sound public finances were a precondition for sustainable economic growth. The staff advocated structural reforms to better exploit the potential for higher growth and the opportunities offered by globalization; however, the authorities' views on the effectiveness of these reforms were mixed. Moreover, coordination problems between the central and island governments and uncertainties linked to the January 2006 general elections affected the authorities' readiness to undertake forward-looking policy commitments.

A. Short-Term Outlook

12. **GDP growth was seen by the authorities and the staff to be picking up moderately in 2006.** The authorities project GDP growth at 1½ percent. The recovery of private investment is expected to strengthen, with several hotel projects already under way or about to start and the extension of two airports supporting construction activity. Private consumption should benefit from a planned reduction in income taxes, as well as from higher employment—in particular in the construction industry. However, reflecting an intended tightening of public finances, public consumption is expected to slow appreciably. The staff nonetheless expects somewhat higher GDP growth (close to 2 percent) in view of the ongoing investment projects and the effects of the tax cut on consumption. Uncertainties linked to the breakup of the federation and to sizable fiscal problems constitute the main downside risks. Consumer price inflation should slow to below 3 percent, as the impact of oil prices wanes.

13. **Medium-term economic prospects depend heavily on economic policies.** The authorities saw considerable upward potential in tourism, where increased hotel capacity should allow the creation of a significant number of permanent service jobs. Moreover, responding to environmental concerns and the need to improve product quality, important investments in Curaçao's oil refinery may be forthcoming (estimated at about 20 percent of GDP over five years). The staff concurred that there was considerable short-run upward potential but projected growth to return to a moderate pace, once the spur in investment ended (Table 6). Confidence-creating fiscal adjustment and structural reforms would help sustain higher growth after the breakup of the federation.

B. Fiscal Policy

14. **The authorities recognized the need to establish fiscal sustainability.** In their view, past attempts at fiscal adjustment had not been sustained as political pressures for additional spending when the economy weakened had been hard to resist. A new start was

now seen to be possible, based on Dutch support to solve the debt problem and readiness by the Netherlands Antilles to adopt binding budget rules. The staff agreed that circumstances were propitious for the adoption of prudent fiscal policies but underscored that establishing credibility for a rules-based fiscal policy framework would require clear upfront fiscal adjustment.

15. **The dissolution of the federation hindered the formulation of medium-term fiscal projections at the general government level.** The federation's "general government" as such will cease to exist, and medium-term fiscal scenarios would need to take into account the creation of two new countries, Curaçao and St. Maarten. At the time of the mission, however, crucial information was unavailable on, among other things, the size of the outstanding debt (after rescheduling), its distribution across the islands, and the allocation of public revenues and expenditures. Moreover, the authorities were sensitive about the risk that any staff scenario and its underlying assumptions could be seen as prejudging ongoing debt negotiations. The discussions therefore forcibly focused on fiscal policies ahead of the breakup of the Netherlands Antilles and on fiscal framework issues thereafter.

Fiscal adjustment in 2006–07

16. **The staff noted that the 2006 budgets of the central and Curaçao island governments fell short of what was required to make a dent in public debt.** Fiscal plans are for a general government deficit of 4.4 percent of GDP. This implies an underlying adjustment of about 1.4 percent of GDP, as the one-off dividend tax transfer (3.1 percent of GDP) from the Netherlands needs to be replaced by real adjustment measures. The staff considered the projected 2006 revenues and expenditures largely realistic (Text Table). However, the budgets do not incorporate the revenue losses from the reduction in income taxes,[7] which the staff calculated at about ¾ of 1 percentage point of GDP, partly compensated for by the staff's higher growth projections. On balance, the staff expects the deficit to be about ½ percent of GDP larger than budgeted. Therefore, the staff called on the authorities to execute the budget rigorously and to exploit all available margins for savings, in order to achieve a primary surplus of at least ½ percent of GDP. Against this background, the mission also questioned the modalities of the income tax reform and new spending initiatives (¶17 and ¶20).

[7] Personal income tax rates were reduced by 6½ percentage points (at the top rate) in 2005 and by 6 percentage points in 2006.

Netherlands Antilles: Operations of the General Government, 2000-07

	2000	2001	2002	2003	2004	2005	Proj. 2006	2007
	(In percent of GDP)							
Total revenue	25.2	24.5	23.9	25.1	24.5	28.7	24.1	23.6
Tax revenue	21.9	22.2	22.0	21.2	21.9	22.0	21.4	21.1
Nontax revenue	2.3	2.1	1.6	2.4	2.0	2.8	2.1	2.0
Capital revenue	0.0	0.0	0.0	0.2	0.0	0.1	0.2	0.1
Grants 1/	0.9	0.2	0.2	1.2	0.6	3.7	0.4	0.4
Of which: one-off						3.1		
Total expenditure	27.0	24.3	27.9	29.4	30.5	31.3	29.1	30.1
Interest payments	3.2	3.7	4.7	4.7	4.7	5.3	5.0	6.0
Balance	-1.8	0.2	-4.0	-4.4	-6.0	-2.7	-5.0	-6.5
Memorandum items:								
Balance excluding one-off dividend tax transfer	-1.8	0.2	-4.0	-4.4	-6.0	-5.8	-5.0	-6.5
Primary balance	1.4	3.9	0.7	0.3	-1.4	-0.5	0.0	-0.5
Debt	64.2	65.2	71.2	80.5	83.1	85.7	84.4	84.9

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

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

17. **The authorities saw little room for immediate savings.** They felt that salaries had already been reduced to a level that made it difficult to fill vacancies and that new recruitments were necessary to ensure the normal functioning of the government and fight rising crime. The potential to reduce wasteful administrative overlaps by eliminating one layer of government, was seen to be limited, except for the integration of the central and island governments' tax collection services. The authorities emphasized that reducing marginal tax rates would provide needed economic stimulus and improve incentives to work and invest. Postponing the second phase of the tax reform was not considered a viable option, given the government's preannounced commitment, and raising indirect taxes was viewed as politically unacceptable because of its distributional implications. However, the authorities stressed their intention to maintain vigilance against spending overruns.

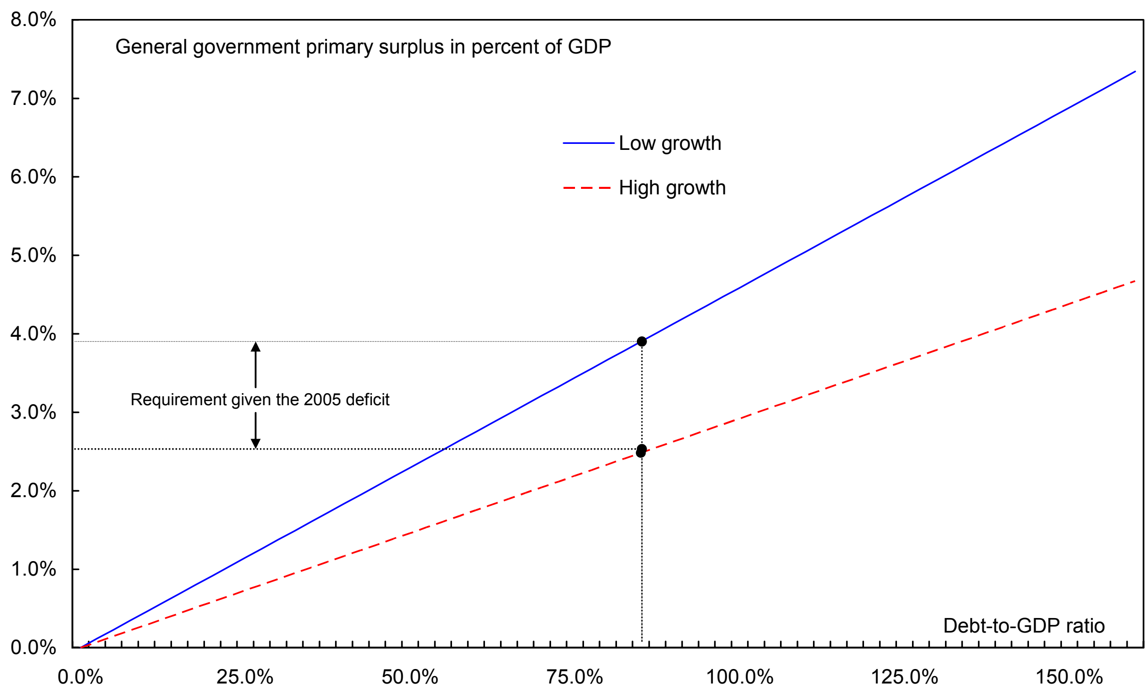
18. **The Curaçao government created a new energy fund to mitigate the detrimental impact of higher oil prices on the economy.** The staff acknowledged the economic and social challenge arising from higher oil prices but advised against distorting price signals and reducing incentives to raise energy efficiency. The island government declared its intention to gradually phase out the energy subsidy by end-2006 but saw merit in smoothing adjustment to the oil price shock.

19. **The authorities would need to run a primary surplus of 2½ percent of GDP to keep the debt stock constant as a fraction of GDP under the economic conditions projected for 2006.** With nominal GDP growth at about 4½ percent and interest rates on government debt rising to 7½ percent, a 2½ percent primary surplus would be required to keep the debt ratio constant at its 2006 level over the medium term. The starting position for the islands remains to be decided (Box 2). In 2006, despite insufficient fiscal adjustment—the staff projects primary balance at the general government level (¶16)—total outstanding debt is expected to decline marginally (to 84 percent of GDP), due to a partial debt relief in end-2005 by the Netherlands.

Box 2. Netherlands Antilles: Debt Sustainability

For the future countries of Curaçao and St. Maarten, the required primary surplus will depend on the size of the outstanding debt after rescheduling and its distribution across the islands, as well as on island-specific GDP growth, inflation, and effective interest rate on public debt. The following figure shows the linear relation between the debt level and the required primary surplus for two growth scenarios: (i) a recent trend scenario with 0.5 percent of real GDP growth (*low growth*); and (ii) a structural reform scenario with real GDP growth of 2½ percent. Inflation is set at 2½ percent and the effective nominal interest rate on public debt at 7½ percent. For illustrative purposes, the general government debt position in 2005 and the primary surplus required to stabilize the debt in the medium term are shown for two growth paths. Debt relief would obviously lower the required primary surplus proportionately. The average primary surplus over the past six years was 0.7 percent of GDP.

Primary Surplus Required for Constant Debt-to-GDP Ratio



20. **The mission discussed the benefits of accumulating a contingency fund against shocks.** The small and open Antillean economies have been subject to a series of severe shocks, including hurricanes, and revenues from tourism have been highly volatile.[8]

[8] Volatility—measured by the standard deviation of real GDP growth between 1997 and 2004—has been high (1.9). In addition, idiosyncratic shocks with important revenue impacts have included the repeal of the withholding tax agreement with the United States in 1985, the withdrawal of the Shell company in 1985, hurricanes, the terrorist attacks on the United States of September 11, 2001, which affected tourism, and the demise of the national air carrier in 2004.

For 2007, the staff recommended increasing the primary surplus to at least 1 percent of GDP to prepare the ground for building up a buffer against shocks over the medium run, to slow debt accumulation, and to demonstrate willingness to pursue prudent fiscal policies. Additional consolidation could be done by improving tax collection, exercising strict expenditure discipline, and implementing reforms in health care and pension systems without further delay. The authorities agreed that fiscal prudence would entail setting annual primary surplus targets and emphasized the importance of reining in rapidly rising health care costs and dealing with aging-related challenges to pension funds.

21. **A working group has been organized to prepare an action plan on health care reform.** Health care costs have reached 13 percent of GDP; a government-sponsored report identified adverse pricing incentives for pharmacies, inefficiencies in the management of hospitals, and constraints on tapping the pool of foreign doctors as the major problem areas. The authorities saw the small population size and the resulting high overhead costs as part of the problem but also recognized the need for policy action. The staff noted that a swift implementation of already-identified measures and strengthened incentives to limit demand, including through raising copayments, could help overcome diseconomies of scale.

22. **The authorities recognized that the civil service pension fund's (APNA) actuarial soundness remains an issue.** Most arrears with APNA have been settled or are awaiting regularization through the issuance of long-term government bonds.[9] However, in view of the rise in life expectancy and in the ratio of retired to current employees, APNA has requested to raise premiums from 20 to 24 percent. The authorities were considering raising the statutory retirement age, lengthening the contribution period, and basing benefits on average instead of final wages. The staff suggested including private sector pension funds in the reform, in order to contain economy-wide wage costs. The Curaçao government decided to top up (by 100 NA f.) basic pensions (AOV) to support consumption and alleviate age-related poverty, but recognized that across-the-board income support was not a cost-efficient way to help low-income pensioners.

Fiscal framework issues

23. **The authorities made far-reaching proposals on the future fiscal framework, but some crucial issues were left open.** On behalf of the central government, a draft law has been prepared that foresees legally-binding balanced budget rules and debt ceilings, narrowly defined escape clauses, and transitional arrangements. The Curaçao government presented detailed ideas covering budget rules, fiscal accountability, transparency, and management.

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[9] At end-2005, arrears to APNA amounted to 2.6 percent of GDP, 2 percentage points of which are expected to be converted imminently into interest-bearing bonds. By end-2004, APNA's funding ratio, although it had improved to 102.6 percent, still remains below the 125 percent target.

The staff welcomed these proposals but noted that further work was needed to harmonize the views across different levels of government. Moreover, while agreement has been reached on a number of important principles, opinions differed with respect to the two crucial issues: borrowing limits and enforcement of fiscal rules.

24. **The islands expressed concerns that borrowing limits could hamper economic development.** They favored a golden rule, allowing borrowing for capital spending. The staff noted that political economy arguments risk playing against the economic merits of such a rule. In any event, to avoid unlimited debt accumulation, a golden rule would have to be supplemented by a debt ceiling. In this context, alternative options to finance capital spending, such as the establishment of a public investment fund, could usefully be explored.

25. **Views differed on the respective roles of the self-government and the Kingdom authority in the enforcement of fiscal rules.** Two approaches to ensure durable compliance with the commitment to fiscal discipline were under discussion: one based on institutions, the other on economic incentives. Under the first approach, which would also involve a complete debt takeover by the Netherlands (an irreversible step), appropriate institutions, such as a constitutional budget law and an independent institution with enforcement powers, would be set up to ensure prudent fiscal policies. Alternatively, if the debt problem were addressed instead on a flow basis, i.e., by alleviating the financing burden, that relief could in principle be closely tied to fiscal performance. This strategy could also include a mechanism for gradually retiring the debt, conditional on the establishment of a track record of prudent fiscal behavior. With constitutional talks ongoing, the authorities did not take a definite stance on enforcement mechanisms. While they viewed a complete debt takeover as needed for development, they felt that an independent institution with enforcement powers would impinge on their autonomy.

26. **International experience also informed the discussion of fiscal rules.**[10] While country-specific circumstances were seen as important, the authorities noted with interest the experience of other countries in considering possible fiscal rules for Curaçao and St. Maarten. The staff noted that such experience suggested that (i) fiscal rules enshrined in law are no substitute for a firm political commitment to fiscal discipline, but can be particularly useful to overcome governance problems, a frequent source of fiscal indiscipline; (ii) to strengthen transparency and accountability, all fiscal and quasi-fiscal operations of the public sector should be covered and a simple fiscal indicator defined, against which budget outcomes can be measured; (iii) to minimize the risk of weakening the binding character of rules, escape clauses should be applicable only in very exceptional circumstances, such as natural disasters; and (iv) a contingency fund, possibly held in foreign exchange reserves, could provide useful insurance against economic shocks.

[10] For an overview of the international experience with fiscal rules, see IMF, Fiscal Responsibility Laws, November 1, 2005.

27. **The authorities also intended to introduce good practices in transparency and accountability.** To help improve fiscal performance, they have outlined concrete measures to strengthen financial management and accountability, clarify procedures on formulating and executing budgets, and reinforce independent budgetary audits. The staff suggested to devote more resources to the development of meaningful medium-term fiscal frameworks, which could help reduce wasteful spending and make policy priorities more transparent.

C. Monetary and Exchange Rate Policy

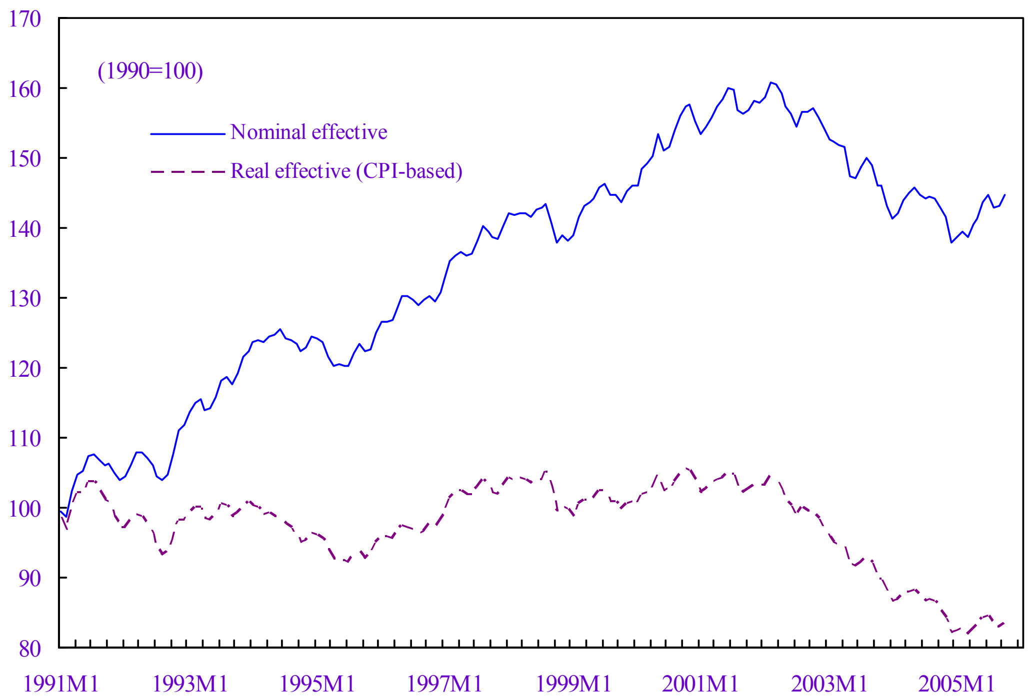
28. **Monetary conditions have been tightened to support the peg and curb credit expansion.** The monetary authorities expressed their intention to shore up reserves, which had remained below the targeted three months-of-imports coverage, despite important inflows of development aid and dividend taxes from the Netherlands. Due to excess liquidity and increased competition among banks, lending rates have eased, facilitating the financing of budget deficits. The central bank has taken measures to render money market instruments more effective and is considering reintroducing ceilings on bank lending to governments if necessary. The staff concurred with the need to tighten monetary conditions, welcomed efforts to limit public sector credit expansion, and suggested placing greater emphasis on capital account vulnerabilities in determining adequate reserve levels.

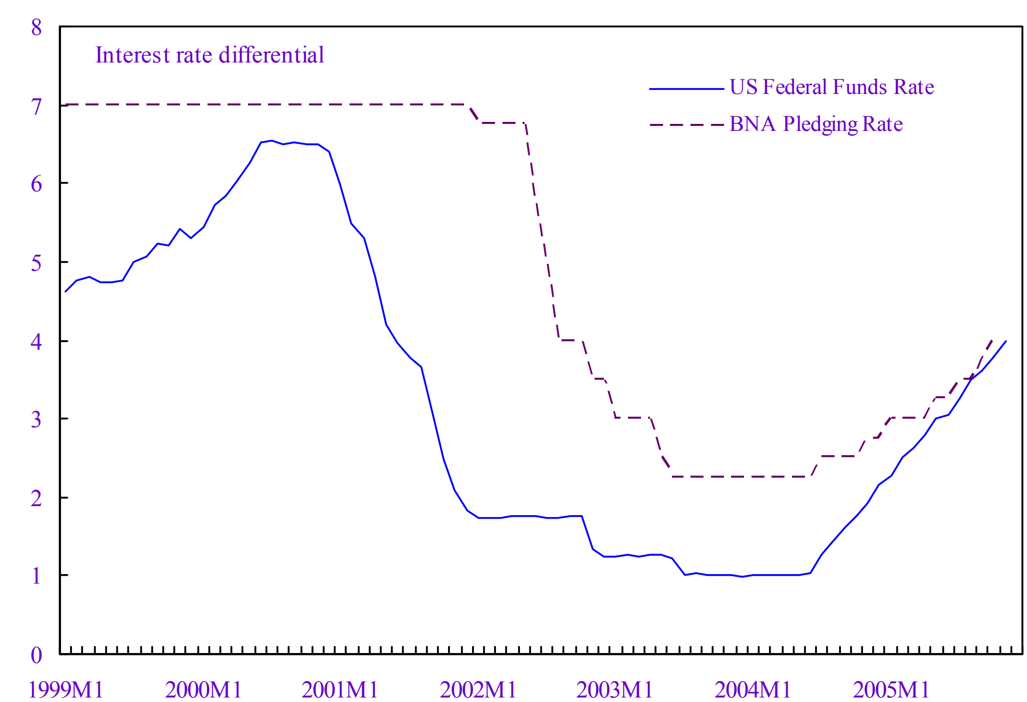
29. **Greater labor market flexibility and foreign investment were seen as essential to strengthen competitiveness.** The CPI-based real effective exchange rate indicates an improvement in competitiveness since 2002, but it was agreed that it may be an inadequate measure of the Netherlands Antilles' competitiveness (Figure 8). The authorities felt that to maintain its comparatively high living standards, the focus should be on the high-value-added market segments. With strong downward rigidity in real wages, any benefits of exchange rate adjustments would be short-lived. Their strategy was to improve product quality and raise productivity through attracting foreign investment. Representatives of the tourism sector considered nonprice factors also important, including obstacles to reacting flexibly on variations in demand and labor mismatches.

30. **New arrangements will have to be made to manage the peg after the dissolution of the federation.** The authorities intended to maintain the fixed exchange rate peg, which had served the islands well, but views on institutional arrangements differed (see also ¶8).[11] The central government saw merit in forming a monetary union with a single central bank

[11] Significant real wage rigidity still blunts the exchange rate instrument. Exact empirical evidence on wages is hard to establish due to the poor database, but there are good theoretical reasons to believe that free emigration to the Netherlands should set some floor on wages for Kingdom citizens in the Antilles.

Figure 8. Netherlands Antilles: Effective Exchange Rates and Interest Rate Differential, 1991-2005





Source: IMF, IFS.

and currency for all islands.[12] However, two possibilities for pegging to the U.S. dollar were raised: (i) continuing with the existing currency (Curaçao's preference) or (ii) adopting formal dollarization (an option mentioned for St. Maarten, which is de facto already largely dollarized). Meanwhile, the island councils of both Curaçao and St. Maarten have voted in favor of autonomous central banks and currencies; however, these island governments have signaled their openness to forming a monetary union, provided their voices and interests are adequately reflected in the governing structure of a new central bank. The staff saw merit in a fixed exchange rate anchor for the islands, supported by credible fiscal policies; in that connection, the staff suggested that the authorities consider the risk that operating costs, given substantial technical and staffing needs, might exceed seignorage creation in small monetary areas. The authorities recognized the need to be mindful of the implications of debt rescheduling for local capital markets and considered easing restrictions on institutional investors in the event of a shrinking supply of government securities.

D. Structural Policies

31. **The effectiveness of structural reform was debated.** The authorities felt that the Fund should place more weight on economic growth and poverty reduction and were unconvinced that structural reforms on their own would raise employment. They emphasized the need for infrastructure investment, better schools and child care facilities, and positive work attitudes. Encouragingly, labor unions signaled their acceptance of greater labor market flexibility, provided individual protection against abuse was preserved. The staff contended that past reforms had been too limited to yield satisfactory economic results and suggested policy action in the following areas:

- **Labor markets.** Liberalization of dismissal rules, working-time and opening hour regulations would allow better adaptation of activities to seasonal variations in demand. In addition, child care facilities remain inadequate, and the school system functions poorly, as reflected in a high dropout rate. Simpler work permit procedures would make it easier to fill low-paying jobs in the service sector and contain illegal immigration.

- **Public enterprises.** The governance of public enterprises remains inadequate. The authorities have initiated the privatization of Curaçao's refinery to secure needed investments. The refinery has become a valuable asset, and raising regular budget revenues after privatization was seen to be an important objective.

- **Product market competition.** The establishment of an independent regulatory agency would help safeguard the public interest against monopoly power and reassure international investors. The remaining OECD recommendations to improve

[12] The Jessurun Commission Report, requested by the ministers for constitutional affairs of the Netherlands and the Netherlands Antilles, supported this view.

the investment climate (Caribbean Rim Investment Initiative) should be implemented. The authorities, while welcoming efforts to create a new national air carrier, had signaled their unwillingness to participate in its capital—a move welcomed by the staff.

- **Trade.** The authorities agreed to revisit external tariffs with the aim of minimizing their distortionary impact.

E. Financial Sector Issues

32. **The authorities observed that the health of the banking system had not suffered from the weak economic growth.** Balance sheets have improved, and all but one small bank met the BNA's 10.5 percent solvency requirement (total capital over risk-weighted assets).[13] By end-2004, the ratio of nonperforming loans had dropped to 3.6 percent, while provisioning had increased to 97 percent, a high rate that supervisors explained by banks' conservative attitudes toward risk. With three banks holding 75 percent of deposits, competition in the banking system is limited, and margins are wide (Table 7). The authorities did not expect major changes in the Antillean banking system after the dissolution of the federation, which is dominated by banks operating from Curaçao. The international financial sector has continued to lose market shares to less-regulated or better-located competitors; however, a new agreement with the Netherlands on the taxation of dividends is expected to halt the sector's decline.[14]

33. **The authorities have implemented or are implementing most of the recommendations of the February 2004 Assessment of the Supervision and Regulation of the Financial Sector.** The authorities have increased the frequency of on-site inspections and modified rules for reporting problem loans. Regulatory changes are being implemented to increase the frequency of examinations of loan evaluation and loan loss provisioning, disclose consolidated information on domestic financial institutions, and improve the accounting for country, market, and other risks. International cooperation and exchange-of-information agreements have been effected with Aruba, the Netherlands, and several Caribbean islands, and memoranda of understanding with other supervisors are in preparation. A harmonization law, to be submitted to parliament in 2006, will harmonize existing supervision, including the new regime that regulates company service providers (e.g., lawyers and notaries) and allow the imposition of fines and/or penalties on managers, as well as their removal. Guidelines and procedures for the insurance industry are following, and regulatory rules on agent brokers and mortgage loan providers go beyond IFRS4 requirements.

[13] The noncompliant bank is currently profitable but operating under the emergency measure, while seeking additional capital infusion.

[14] The new agreement would reduce the tax rate on dividends received by Dutch citizens on investments in the Netherlands Antilles from 8.5 percent to either 0 or 5 percent, depending on the maturity and other asset qualities.

34. **The coverage of the AML/CFT framework is being extended to all financial intermediaries.** On-site inspection of reporting entities has already become more frequent; the BNA powers for reporting enforcement and the imposition of sanctions have been heightened; enhanced scrutiny guidelines in private banking and insurance contracts have been issued; more regular training for BNA insurance supervisory staff has been started; and new rules have been put in place to screen job applicants.

F. Other Issues

35. **The Netherlands Antilles agreed with the United Nations Development Program (UNDP) and the World Bank to undertake a poverty reduction program.** In addition to structural measures, the program proposes a number of short-term actions, including education and training, neighborhood and infrastructure improvement, and social development (e.g., single and teenage parenthood, youth and elderly care, and care for drug addicts), as well as measures to alleviate labor market mismatches. The staff encouraged the authorities to implement the recommendations of the poverty reduction program.

36. **The database has improved, but further progress is needed for effective surveillance.** National accounts statistics are available through 2003, but only in current prices. Government accounts are produced only for the central and Curaçao governments, albeit on a timely basis, while their presentation could usefully be harmonized. Additional efforts are needed to rectify deficiencies in balance of payments, employment, and wage data.

IV. Staff Appraisal

37. **The dissolution of the Netherlands Antilles entails significant changes in the setting for economic policies.** Greater self-determination for Curaçao and St. Maarten provides an opportunity to address social and economic problems in a more island-specific context, as well as to implement a set of cohesive policies that deliver higher growth on a sustained basis, key to reducing unemployment and alleviating poverty. This opportunity for a fresh start should be seized.

38. **The short-term economic outlook has improved, but medium-term prospects remain comparatively weak.** Establishing a stable macroeconomic framework, implementing productivity-enhancing structural reforms, and undertaking well-targeted investment in infrastructure and human capital are needed to improve medium-term growth prospects.

39. **Fiscal policies should target the accumulation of contingency funds, given the island economies' vulnerability to shocks.** The aim should be to build up a contingency fund, preferably in foreign reserves, by achieving a primary surplus of at least ½ of 1 percent of GDP in 2006 and of at least 1 percent of GDP in the following year. Upfront fiscal

adjustment would also help build credibility and confidence in a new approach to public finances. It can be done by further improving tax collection, exercising strict expenditure discipline, including on personnel, and implementing reforms in health care and pension systems without delay.

40. **Reforms in the health care and pension systems are needed to help reach a sustainable public finance position in the medium term and support employment and economic growth.** The comprehensive benefits provided by the state to its citizens are outstanding within the region. But the rapidly rising health care costs absorb an ever larger share of budgetary resources, raise the price of labor, and crowd out spending on education and investment. Identified savings opportunities should be exploited swiftly. The formalization of pension fund arrears is welcome, but APNA's actuarial soundness remains an issue, whose resolution will depend on implementing pension reforms and ultimately on achieving sustainable public finances.

41. **The new constitutional arrangements provide an opportunity for the establishment of a stable macroeconomic framework.** The joint efforts to establish a sound financial starting position for the future countries of Curaçao and St. Maarten, as well as for the smaller islands, and to lay the foundations for well-managed macroeconomic policies is welcome. The alternatives being considered—debt reduction and debt servicing relief—can have their merits and could help foster stronger growth. However, regardless of the approach chosen, it is important that the arrangements be transparent and provide a strong basis for a sustained strengthening in fiscal discipline over the medium term. This is essential to achieve higher sustained growth. In the meantime, planned measures to improve fiscal management and accountability should be implemented swiftly.

42. **The long-standing peg to the U.S. dollar has provided a stable nominal anchor but needs to be buttressed by productivity-enhancing structural reforms to maintain competitiveness.** Under the foreseen new constitutional arrangements, a monetary union with an independent central bank for all five islands, which could build on the experienced staff and reputation of the BNA, would allow for the pooling of currency risk and be a resource-efficient way to manage the peg. Financial sector supervision could also usefully be centralized in a single central bank.

43. **Structural reforms need to be revived in order to raise productivity and potential growth and to reduce poverty on a lasting basis.** Improved industrial relations provide a climate conducive to reform, with labor unions and employer organizations prepared to work together with the government to improve economic performance. Raising labor productivity is key to competitiveness, job creation, and higher living standards for Antillean citizens. With limited options for diversification, the use of development funds should be better targeted. Markets should be deregulated and the costs of doing business reduced to make the economy more attractive for investment in productivity-enhancing technologies and high value-added services.

44. **The authorities' responsiveness to the recommendations made in the 2004 Assessment of the Supervision and Regulation of the Financial Sector is welcome.** Positive action has already been taken on disclosure and transparency, as well as on the

harmonization and centralization of all financial sector supervision, including enforcement. The strengthening of international cooperation among supervisors is welcome and swift implementation of the remaining recommendations encouraged, including the recording requirement and improvements in the AML/CFT guidelines. In the context of debt rescheduling, financial supervisors and policymakers will have to closely monitor markets and investors' portfolio management.

45. Data provision for surveillance purposes has been adequate overall, but the staff's analysis was affected by shortcomings in national account data, which are only available in current prices, and in general government finance data, which currently cover only the central government and the island government of Curaçao. The time span and accuracy of income, wage cost, and labor market data, and the quality of balance of payments data also need improvement (Appendix I).

46. With the breakup of the federation, arrangements for Fund surveillance over the Antilles will need to be reviewed, and the staff will make its recommendations to the Executive Board at a later date.

Table 1. Netherlands Antilles: Selected Economic and Financial Indicators, 2000-06

Area	960 (km^2)
Population (2004)	180,870
GDP per capita (2004)	US$17,032
Social indicators	
Literacy rate, in percent (2003)	96.70
Life expectancy at birth (2005)	75.83
Infant mortality, over 1,000 live births (2004)	10.03
Death rate, over 1,000 population (2003)	0.40
Percent of population below age 15 (2005)	24.20
Percent of population aged 65+ (2005)	8.50

	2000	2001	2002	2003	2004	Proj. 2005	2006
Real economy (change in percent)							
Real GDP 1/	-2.7	1.3	0.3	1.4	1.1	0.9	1.9
Cruise tourism	43.4	-1.0	17.2	5.6	8.9	16.0	20.0
Stay-over tourism	-4.2	-2.5	-1.0	9.3	7.0	2.0	7.0
Per capita real GDP	1.9	6.2	2.1	-1.0	-1.2	-1.4	1.5
CPI	5.0	1.7	0.4	1.9	1.5	3.1	2.8
Unemployment rate (in percent)	13.2	14.6	14.6	15.3	15.0	16.3	15.8
Public finances (in percent of GDP)							
Central government balance	-1.2	-0.6	-2.3	-2.9	-3.6	-1.5	-2.8
General government balance	-1.8	0.2	-4.0	-4.4	-6.0	-2.7	-5.0
Public debt	64.2	65.2	71.2	80.5	83.1	85.7	84.4
Money and credit (end of year, change in percent)							
Reserve money	-4.3	36.3	24.9	-6.0	19.8	10.0	12.6
Domestic credit	4.7	3.0	10.1	5.4	11.4	10.0	14.7
Private sector	5.6	0.5	3.4	1.9	7.9	7.0	9.0
Government	-15.6	76.6	125.2	33.7	32.2	24.9	38.8
M2	2.2	14.4	11.7	8.4	9.0	13.6	13.7
M2 to net foreign assets (ratio)	5.1	3.3	3.3	3.1	3.1	3.1	3.3
Interest rates (percent)							
Deposit rate (passbook)	3.7	3.7	3.6	3.5	3.0	...	...
Government bond yield	8.8	9.0	8.2	6.7	7.1	...	...
Balance of payments (in percent of GDP)							
Trade balance	-35.2	-38.6	-35.1	-33.9	-38.3	-37.1	-38.5
Current account	0.0	-5.7	-1.8	-0.3	-3.2	-2.5	-3.1
Reserves (in millions of U.S. dollars) 2/	262.4	301.6	401.8	373.4	415.6	521.8	577.7
(in months of merchandise imports)	1.9	2.1	3.0	2.7	2.5	2.9	3.0
Exports of goods and services (change in percent, in U.S. dollars)	7.6	-0.1	-3.4	7.1	12.0	9.0	6.7
Imports of goods and services (change in percent, in U.S. dollars)	4.7	5.1	-3.4	4.8	12.3	11.6	3.0
Total foreign debt (in percent of GDP)	19.1	23.7	26.3	30.2	33.6	36.3	37.4
Total foreign debt to exports (ratio)	23.4	29.8	34.6	38.3	39.0	40.2	40.7
Fund position	The Netherlands Antilles is part of the Kingdom of the Netherlands and does not have a separate quota.						
Exchange rate	The Netherlands Antilles guilder is pegged to the U.S. dollar at NA f. 1.79 = US$1.						
Nominal effective rate (2000=100)	100.00	103.04	103.13	97.59	93.88	...	...
Real effective rate (2000=100)	100.00	100.01	97.53	89.40	83.55	...	...

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

1/ National account deflators are not available. CPI index is used instead.

2/ Total reserves of the central bank, excluding gold, end of period.

Table 2. Netherlands Antilles: Balance of Payments, 2000-06

(In millions of NA f.)

	2000	2001	2002	2003	2004	Proj. 2005	Proj. 2006
Current account	-0.8	-295.0	-94.0	-13.9	-175.8	-140.8	-189.1
Trade balance	-1,764.2	-1,994.5	-1,826.9	-1,821.0	-2,111.4	-2,273.0	-2,383.2
Exports	1,210.3	1,142.4	1,033.3	1,171.6	1,390.2	1,651.0	1,748.1
Imports	2,974.5	3,136.9	2,860.2	2,992.6	3,501.6	3,924.0	4,131.3
Services balance	1,645.0	1,658.8	1,503.0	1,569.0	1,814.5	1,819.0	2,105.2
Earnings	2,887.9	2,952.6	2,922.4	3,063.3	3,353.0	3,519.8	3,770.2
Expenses	1,242.9	1,293.8	1,419.4	1,494.3	1,538.5	1,700.8	1,665.0
Transportation	170.1	199.4	122.0	107.9	94.5	59.3	65.0
Tourism	902.7	864.4	881.0	935.6	1,133.7	1,253.9	1,374.9
Earnings	1,360.7	1,344.0	1,380.0	1,513.5	1,644.6	1,783.1	1,922.0
Expenses	458.0	479.6	499.0	577.9	510.9	529.2	547.1
Other services	572.4	595.0	499.9	525.5	586.3	605.8	665.3
Earnings	1,238.0	1,291.6	1,238.9	1,302.1	1,445.8	1,501.7	1,599.1
Of which: international financial sector	447.3	491.1	483.3	411.0	434.8	426.1	464.9
Of which: refining	373.6	345.7	308.0	343.2	304.3	321.4	343.5
Expenses	665.7	696.6	738.9	776.6	859.5	895.9	933.8
Of which: international financial sector	119.8	154.2	157.1	157.6	150.6	139.3	140.7
Income balance	60.4	39.3	1.3	-12.8	-18.8	-33.5	-65.7
Earnings	225.6	185.5	162.8	161.1	169.5	182.1	237.2
Expenses	165.2	146.2	161.5	173.9	188.3	215.6	302.9
Current transfers balance	57.9	1.4	228.6	250.9	139.9	346.7	154.6
Incoming transfers	441.4	388.5	646.6	706.4	557.3	783.1	611.6
Of which: offshore tax	81.5	87.4	83.7	121.8	100.0	305.0	110.9
Transferred abroad	383.5	387.1	418.0	455.5	417.4	436.4	457.0
Capital and financial accounts	66.4	320.4	100.9	-70.4	74.3	140.8	189.1
Capital account	53.4	66.6	49.7	46.9	142.0	124.8	127.3
Capital transfers balance	53.4	66.6	49.7	46.9	142.0	124.8	127.3
Incoming transfers	56.0	67.2	52.4	57.9	143.6	126.4	128.9
Of which: development aid	54.3	60.3	52.1	54.3	142.0	125.0	127.5
Transferred abroad	2.6	1.2	2.9	11.9	1.6	1.6	1.7
Financial account	13.0	253.8	51.2	-117.3	-67.7	16.0	61.9
Direct investment balance	-108.0	-9.3	114.0	33.1	72.3	56.8	75.3
Portfolio investment balance	-68.1	-56.8	-67.1	7.6	-1.8	-78.2	-81.9
Other investment balance	103.5	735.0	129.1	-71.8	-72.2	227.4	168.5
Change in reserves (-=increase) 1/	85.5	-415.1	-124.8	-86.2	-66.0	-190.0	-100.0
Net errors and omissions	-65.5	-25.4	-6.8	84.3	101.5	0.0	0.0
Official reserves	469.7	539.8	719.3	668.3	744.0	934.0	1,034.0
In months of merchandise imports	1.9	2.1	3.0	2.7	2.5	2.9	3.0
Memorandum item:							
Current account balance (in percent of GDP)	0.0	-5.7	-1.8	-0.3	-3.2	-2.5	-3.1

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

1/ Including commercial banks; excluding gold revaluation.

Table 3. Netherlands Antilles: A Regional Perspective

(2004, or most recent prior year)

	Nominal GDP per Capita	GDP Millions US$	Total Population (Thousands)	Real GDP Growth (Average 2000-04)	CPI Inflation (Average 2000-04)	Current Account (% GDP)	General Government Balance (% GDP)	Import Cover Ratio Ratio	General Government, Total Revenue, and Grants (% GDP)
Netherlands Antilles	17,032	2,790	181	0.2	2.1	-4.1	-6.8	2.7	27.0
Aruba	21,200	2,035	96	1.1	3.3	-5.3	-5.5	5.3	22.2
Antigua and Barbuda	11,270	803	71	3.4	0.1	-13.2	...	2.6	...
Bahamas, The	17,833	5,718	321	1.8	2.0	-5.3	-2.9	2.7	20.0
Barbados	10,300	2,813	273	1.3	1.7	-10.5	-1.2	4.0	43.4
Belize	3,939	1,036	263	7.2	1.9	-14.4	-4.7	0.9	25.4
Dominica	3,780	271	72	-0.5	1.3	-15.4	-1.4	3.0	72.0
Grenada	4,205	437	104	1.3	1.9	-17.4	...	4.5	
Guyana	1,043	786	754	0.6	5.0	-9.3	-4.5	3.3	44.0
Jamaica	3,224	8,677	2,691	1.6	9.6	-8.5	-7.1	4.1	29.4
St. Kitts and Nevis	9,523	397	42	2.5	2.1	-22.2	...	3.9	...
St. Lucia	4,320	763	177	0.5	1.6	-13.2	-1.2	2.8	26.8
St. Vincent and the Grenadines	3,791	404	107	2.9	1.1	-25.5	-6.4	3.4	33.3
Suriname	2,287	1,107	484	3.5	29.2	-13.2	-1.8	1.5	35.5
Trinidad and Tobago	9,337	12,019	1,287	7.5	4.1	13.5	2.3	7.3	29.2
Venezuela, Rep. Bol.	4,175	108,163	25,910	1.7	20.8	12.7	0.3	10.3	32.3

Sources: Data provided by the authorities; and IMF country reports and WEO.

Table 4. Netherlands Antilles: Monetary Survey, 2000-06

	Dec.					Proj.	
	2000	2001	2002	2003	2004	2005	2006
	(In millions of NA f.; end of period)						
Net foreign assets 1/	575.6	1,011.1	1,133.1	1,320.4	1,461.6	1,651.6	1,751.6
Of which: NIR	663.0	1,097.4	1,213.8	1,403.1	1,552.1	1,742.1	1,842.1
Net domestic assets 1/	2,379.4	2,369.8	2,643.6	2,772.5	3,046.9	3,415.8	4,011.8
Domestic credit	2,765.8	2,847.6	3,134.1	3,304.5	3,679.6	4,048.5	4,644.5
Government (net)	88.4	156.1	351.6	470.1	621.3	776.1	1,077.6
Private sector	2,677.4	2,691.5	2,782.5	2,834.4	3,058.3	3,272.4	3,566.9
Other items, net 1/	-386.4	-477.8	-490.5	-532.0	-632.7	-632.7	-632.7
Money and quasi-money	2,955.0	3,380.9	3,776.7	4,092.9	4,461.9	5,067.4	5,763.4
Money	1,155.5	1,309.7	1,497.2	1,525.3	1,596.6	1,813.3	2,287.1
Quasi-money	1,799.5	2,071.2	2,279.5	2,567.6	2,865.3	3,254.1	3,476.3
	(Changes in percent from end of previous year)						
Net foreign assets	-17.0	75.7	12.1	16.5	10.7	13.0	6.1
Net domestic assets	8.3	-0.4	11.6	4.9	9.9	12.1	17.4
Domestic credit	4.7	3.0	10.1	5.4	11.4	10.0	14.7
Government (net)	-15.6	76.6	125.2	33.7	32.2	24.9	38.8
Private sector	5.6	0.5	3.4	1.9	7.9	7.0	9.0
Money and quasi-money	2.2	14.4	11.7	8.4	9.0	13.6	13.7
	(Changes in percent; beginning-of-period broad money)						
Net foreign assets	-4.1	14.7	3.6	5.0	3.4	4.3	2.0
Net domestic assets	6.3	-0.3	8.1	3.4	6.7	8.3	11.8
Domestic credit	4.3	2.8	8.5	4.5	9.2	8.3	11.8
Government (net)	-0.6	2.3	5.8	3.1	3.7	3.5	5.9
Private sector	4.9	0.5	2.7	1.4	5.5	4.8	5.8
Money and quasi-money	2.2	14.4	11.7	8.4	9.0	13.6	13.7

Sources: Bank van de Nederlandse Antillen; and IMF staff projections.

1/ Includes gold revaluations.

Table 5. Netherlands Antilles: Operations of the General Government, 2000-07

	2000	2001	2002	2003	2004	Proj. 2005	2006	2007
				(In percent of GDP)				
Total revenue	25.2	24.5	23.9	25.1	24.5	28.7	24.1	23.6
Tax revenue	21.9	22.2	22.0	21.2	21.9	22.0	21.4	21.1
Taxes on income and profits	10.2	11.2	10.9	10.3	10.5	10.6	9.9	9.8
Taxes on property	0.9	0.8	0.6	0.6	0.6	0.6	0.9	0.7
Taxes on goods and services	8.0	7.7	7.9	8.0	8.3	8.5	8.3	8.3
Of which : sales and turnover tax	4.6	4.7	4.8	4.8	5.1	5.3	5.1	5.1
Taxes on international transactions	2.6	2.4	2.5	2.2	2.3	2.2	2.1	2.1
Other taxes	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Nontax revenue	2.3	2.1	1.6	2.4	2.0	2.8	2.1	2.0
Capital revenue	0.0	0.0	0.0	0.2	0.0	0.1	0.2	0.1
Grants 1/	0.9	0.2	0.2	1.2	0.6	3.7	0.4	0.4
Total expenditure	27.0	24.3	27.9	29.4	30.5	31.3	29.1	30.1
Current expenditure	27.8	27.4	27.6	28.2	29.3	30.0	27.6	28.7
Wages and salaries	10.7	7.6	10.0	9.8	9.9	11.3	9.9	9.9
Goods and services	6.3	5.3	5.9	6.9	7.9	7.6	6.9	7.0
Subsidies to enterprises	1.2	1.1	1.5	1.5	0.8	0.7	0.7	0.8
Transfers 1/	4.3	5.6	4.9	5.0	6.0	5.0	5.1	5.1
Interest payments	3.2	3.7	4.7	4.7	4.7	5.3	5.0	6.0
Capital expenditure	1.3	1.0	1.0	1.6	1.2	1.4	1.5	1.4
Balance	-1.8	0.2	-4.0	-4.4	-6.0	-2.7	-5.0	-6.5
Memorandum items:								
Primary balance	1.4	3.9	0.7	0.3	-1.4	2.6	0.0	-0.5
Primary expenditure	23.8	20.6	23.2	24.7	25.9	26.1	24.1	24.1
Total government debt	64.2	65.2	71.2	80.5	83.1	85.7	84.4	84.9

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

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

Table 6. Netherlands Antilles: Medium-Term Macroeconomic Framework, 2000-07

(Assumes: no policy changes, grants at historical levels, and no debt relief)

					Est.	Proj.		
	2000	2001	2002	2003	2004	2005	2006	2007
				(Percentage change)				
Real GDP growth	-2.7	1.3	0.3	1.4	1.1	0.9	1.9	2.8
CPI	5.0	1.7	0.4	1.9	1.5	3.1	2.8	2.5
Broad money	2.2	14.4	11.7	8.4	9.0	13.6	13.7	12.5
Domestic credit	4.7	3.0	10.1	5.4	11.4	10.0	14.7	14.2
Of which: private sector	5.6	0.5	3.4	1.9	7.9	7.0	9.0	7.0
Real expenditure growth								
Overall	6.0	-8.9	15.3	6.9	4.8	3.6	-5.5	6.2
Primary	6.7	-12.2	12.8	8.1	5.6	1.7	-5.9	2.9
				(In percent of GDP)				
General government								
Total revenue	25.2	24.5	23.9	25.1	24.5	28.7	24.1	23.6
Of which : tax revenue	21.9	22.2	22.0	21.2	21.9	22.0	21.4	21.1
Total expenditure	27.0	24.3	27.9	29.4	30.5	31.3	29.1	30.1
Of which : wages	10.7	7.6	10.0	9.8	9.9	11.3	9.9	9.9
Of which : interest	3.2	3.7	4.7	4.7	4.7	5.3	5.0	6.0
Of which : investment	0.5	0.6	0.4	0.7	0.5	0.7	0.7	0.7
Overall balance	-1.8	0.2	-4.0	-4.4	-6.0	-2.7	-5.0	-6.5
Primary balance	1.4	3.9	0.7	0.3	-1.4	2.6	0.0	-0.5
Financing	1.8	-0.2	4.0	4.4	6.0	2.7	5.0	6.5
Domestic	0.1	1.0	4.1	3.1	4.8	2.7	5.0	6.5
Foreign	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Discrepancy/program financing	0.1	-1.3	-0.1	1.3	1.2	0.0	0.0	0.0
Total government debt	64.2	65.2	71.2	80.5	83.1	85.7	84.4	84.9
Balance of payments								
Exports of goods and nonfactor services	81.8	79.3	76.1	78.8	86.0	90.2	91.9	92.6
Imports of goods and nonfactor services	84.2	85.8	82.3	83.5	91.4	98.1	96.5	96.9
Foreign balance	-2.4	-6.5	-6.2	-4.7	-5.4	-7.9	-4.6	-4.3
Current account	0.0	-5.7	-1.8	-0.3	-3.2	-2.5	-3.1	-4.7
Private sector net savings	1.8	-5.9	2.2	4.1	2.9	0.2	1.9	1.7

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

Table 7. Netherlands Antilles: Structure and Performance of the Banking System, 2000-05

	2000	2001	2002	2003	2004	2005
Number of licensed banks	11	11	10	9	9	9
Of which : majority state-owned	1	1	1	1	0	0
As a percentage of total assets	5.6	5.3	6.1	5.6	6.4	
Majority foreign-owned (number)	2	3	2	3	3	3
As a percentage of total assets	7.4	25.7	18.4	18.4	19.3	27.2
Number of branches of foreign banks	3	2	2	2	2	2
As a percentage of total assets	23.1	9.2	9.3	8.9	7.4	7.2
Number of banks accounting for:						
25 percent of total assets	1	2	2	6	6	6
75 percent of total assets	4	4	4	3	3	3
	(In percent of GDP; unless stated otherwise)					
Total assets	98.1	96.5	99.0	99.3	108.7	119.8
Total credit	54.2	51.7	52.5	53.6	58.0	63.6
Private sector credit	50.9	49.2	50.8	50.2	53.6	58.5
Total deposits excluding interbank	70.4	80.9	82.2	85.9	92.9	97.2
Corporate sector credit (in percent of total credit) 1/ 2/	55.7	57.1	59.4	57.7	57.5	58.4
Credit to households (in percent of total credit) 1/ 2/	41.5	41.2	41.7	41.7	42.5	42.7
	(In percent of total assets)					
Foreign currency-denominated						
Assets	34.7	40.4	32.3	34.3	33.1	37.2
Balance sheet liabilities	32.9	34.1	27.8	27.3	26.9	30.5
Contingent and off-balance sheet accounts (forex)	2.2	2.4	2.6	3.2	3.8	3.7
Contingent and off-balance sheet accounts	7.4	7.5	8.5	9.9	9.7	8.9
Capital adequacy						
Capital/asset ratio 3/	7.5	7.9	7.7	7.2	7.9	8.2
Solvency ratio 4/	10.2	12.2	13.2	10.9	11.7	13.2
Asset quality						
Nonperforming loans (in percent of total loans)	4.6	6.0	5.9	5.9	3.6	2.8
Provision for loan losses (in percent of nonperforming lo	70	62.0	73.9	62.3	94.6	106.0
Liquidity						
Loan-to-deposit ratio	79.1	68.7	67.6	66.3	64.9	57.6
Total assets to total liabilities	119.4	117.3	117.5	114.7	113.1	111.5
Earnings and profitability						
Return on assets (before taxes and dividends)	1.6	0.7	1.1	1.5	1.7	2.4
Average pretax profit on total assets	1.5	0.6	1.1	1.7	2.1	2.3
Return on equity (before taxes and dividends)	20.1	9.0	13.7	19.3	21.5	28.1
Interest margin to gross income	50.6	49.4	47.7	46.2	49.5	48.9
Noninterest expenses to gross income	57.1	57.6	60.5	56.3	56.7	52.9
Sensitivity to market risk						
Net foreign lending including provisions						
(Tier 1+Tier 2+Tier 3)	3.1	2.7	2.7	3.1	2.9	
Net foreign lending including provisions /Tier 1 capital	4.5	3.8	4.1	4.5	3.9	
Average lending spread (lending-deposit rate) 5/	9.6	10.1	10.2	11.2	10.6	9.6

Source: Bank van de Nederlandse Antillen.

1/ Extended by commercial banks only.
2/ Corporate sector: business loans + other mortgages. Households: consumer loans + individual mortgages.
3/ The ratio is not a risk-weighted ratio.
4/ Total capital over total adjusted assets, defined as total assets minus the assets categories that are subjected to a zero risk-weighted factor.
5/ Interest rate on working capital loans - time deposit rate. Interest rates for prime borrowers are usually about two percentage points less, but no consistent time series is available. From 12/1999, lending rate is current account overdrafts.

Kingdom of the Netherlands—Netherlands Antilles: Statistical Issues

1. General

Data problems make the effective surveillance of the economy of the Netherlands Antilles difficult. Most data are published with considerable lags and are often subject to large measurement errors and revisions. The frequency and timeliness of data provided to the Fund for surveillance purposes are shown in the attached table. The central bank (BNA) continues to provide comprehensive reviews of the economy in its Annual Reports and Quarterly Bulletins, and through data disseminated on its website. In December 2000, both the Central Bureau of Statistics (CBS) and the BNA adopted data release calendars and signed a detailed protocol of cooperation on statistics.

2. Real Sector

National accounts are compiled from the production and expenditure sides in current prices only; no deflators or official estimates of real GDP are available. No national accounts data are reported to the Statistics Department for publication in the *International Financial Statistics (IFS)*. The CBS has been publishing estimates of real GDP growth and projections for the current year on the basis of selected indicators of **production and trade**. Private sector **employment** figures are based on annual labor market surveys and are subject to large revisions, while for government employment, several inconsistent series are available. The national **consumer price index** is generally adequate and published with a lag of two months by the CBS, while the separate consumer price indices for each of the three main islands are published by the CBS with a lag of one month and by the BNA on its website with a slightly longer lag. A consistent time series on **minimum wages** is available in a timely manner.

3. Government Finance

Data on the cash budget execution of the central government and the island government of Curaçao are publicly available, with a lag of about six weeks. Coverage still needs to be extended to the other islands and several autonomous public institutions. Data on unpaid expenditure commitments are spotty for island governments. No public finance data is reported to STA for publication in the *IFS* or *Government Finance Statistics Yearbook*.

4. Money and Banking

Monetary and financial statistics, including summary indicators, are published on the BNA's website with a delay of two to three months; monetary and financial data are provided to the Fund in a timely fashion and published in the *IFS* three months after the reference period.

5. External Sector

Balance of payments statistics are reported on a transactions basis in accordance with the fifth edition of the Balance of Payments Manual, but some teething problems remain. In any case, the small size and undiversified nature of the economy impart considerable volatility to individual items, making it difficult to interpret trends. In addition, the diversified and ever-changing structure of the offshore sector makes an appropriate classification of capital account inflows and outflows problematic.

Kingdom of the Netherlands—Netherlands Antilles: Table of Common Indicators Required for Surveillance

(As of January 31, 2006)

	Date of Latest Observation	Date Received	Frequency of Data	Frequency of Reporting	Frequency of Publication
Exchange rates	12/31/05	1/3/06	Daily and Monthly	Daily and Monthly	Daily and Monthly
International reserve assets and reserve liabilities of the monetary authorities[1]	11/31/05	12/11/05	Weekly	Weekly	Weekly
Reserve/base money	11/31/05	12/11/05	Monthly	Monthly	Monthly
Broad money	11/31/05	12/11/05	Monthly	Monthly	Monthly
Central bank balance sheet	11/31/05	12/11/05	Monthly	Monthly	Monthly
Consolidated balance sheet of the banking system	11/31/05	1/18/06	Monthly	Monthly	Monthly
Interest rates[2]	11/31/05	12/17/05	Monthly	Monthly	Monthly
Consumer Price Index	Nov. 2005	Dec. 2005	Monthly	Monthly	Monthly
Revenue, expenditure, balance and composition of financing[3]—General government[4]					
Revenue, expenditure, balance and composition of financing[3]—Central government	Oct. 2005	Dec. 2005	Monthly	Monthly	Monthly
Stocks of central government and central government-guaranteed debt	Oct. 2005	Dec. 2005	Monthly	Monthly	Monthly
External current account balance	Q2 2005	12/28/05	Quarterly	Quarterly	Irregular
Exports and imports of goods and services	Q2 2005	12/28/05	Quarterly	Quarterly	Irregular
GDP/GNP	2004	12/05	Annual	Annual	Annual
Gross external debt[5]					

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 06/37
FOR IMMEDIATE RELEASE
March 30, 2006

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2005 Article IV Consultation with the Kingdom of the Netherlands—Netherlands Antilles

On March 8, 2006, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Kingdom of the Netherlands—Netherlands Antilles.[1]

Background

So far during this decade, economic growth has been slow and unevenly distributed among the islands. Annual real GDP growth is estimated at around 1 percent in 2004 and 2005, driven by private consumption and public spending, while net exports have deteriorated. For 2006, growth is projected to accelerate to just below 2 percent, with a number of tourism related investment projects already in the pipeline, and household disposable income profiting from a cut in wage taxes. On the external side, tourism is expected to perform well, in line with steady income growth in the U.S. and improved attractiveness in European markets. However, with imports rising strongly the foreign contribution to GDP growth will remain negative. Uncertainties surrounding the outlook are high, as tourism flows have been volatile, and the issue of how to achieve sustainable public finances after the breakup of the federation has remained open.

With the exchange rate pegged to the U.S. dollar, inflation in the Netherlands Antilles has closely tracked the anchor country's price developments. Cost-push pressures related to higher oil prices are expected to subside, and inflation to moderate to below 3 percent in 2006.

Over the past four years, public finances have deteriorated, largely due to weak growth and higher public spending. After the lifting of wage controls, the wage bill increased, partly due to higher payments to the civil service pension fund. Health care cost have become a driver of public spending, and expenditures in the justice department have also risen. The general

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

government deficit reached 6 percent of GDP in 2004. Budget balances have shown an improvement in 2005, however, this has largely been due to a one-off transfer of dividend taxes from the Netherlands, while underlying adjustment has been minor. The debt ratio is estimated at 86 percent of GDP in 2005.

The banking sector has shown resilience against the background of dismal economic growth. Profitability, provisioning and balance sheets in the banking sector have improved. The new agreement with the Netherlands on dividend taxation is expected to arrest the decline of the international financial industry. Supervision is being further strengthened.

Executive Board Assessment

Directors noted that, following referenda in favor of the dissolution of the federation, the Netherlands Antilles is at an important juncture, offering the possibility of a fresh start and of addressing social and economic problems in a more island-specific context. They urged the authorities to seize the opportunity provided by the new constitutional arrangements to lay the groundwork for macroeconomic stability and higher growth over the medium term.

Directors welcomed the improvement in near-term economic prospects, with growth projected to pick up moderately in 2006, driven by domestic demand, favorable tourism prospects, and related investment. At the same time, however, Directors noted that medium-term prospects remain comparatively weak, highlighting the importance of pursuing a set of cohesive policies to promote higher growth on a sustained basis—key to reducing unemployment and alleviating poverty. To this end, both sound public finances and structural reforms will be essential, along with well-targeted investment in infrastructure and human capital.

Directors stressed the need for a new approach to public finances. Noting the island economies' vulnerability to shocks, they recommended that fiscal policy be geared toward the accumulation of a contingency fund to act as a buffer against such shocks. The underlying fiscal adjustment planned for 2006 represents a desirable step forward in this direction, but more will be needed to make a dent in the high debt level. Directors noted that upfront adjustment would also help build credibility and confidence in a new commitment to fiscal prudence and thus called for a strengthening of the consolidation effort, with the aim of achieving an appreciable primary surplus in 2006, rising further in 2007. To this end, they saw scope for strengthened tax collection and stricter spending controls and encouraged the authorities to move ahead with health care and pension reforms, needed to secure fiscal sustainability over the medium term.

Directors observed that the high burden of public debt represents an obstacle to economic development. They were encouraged by the joint efforts of all parties involved to establish a sound financial starting position for the future countries of Curaçao and St. Maarten, as well as for the other islands, and to lay the foundations for well-managed macroeconomic policies. Against the background of consideration being given to debt reduction or debt-service relief, Directors stressed the importance of designing a fiscal framework with sufficiently strong incentives and mechanisms to ensure sustained fiscal discipline following the dissolution of the federation. In the meantime, Directors urged the authorities to swiftly implement planned measures to improve fiscal management, transparency, and accountability.

Directors observed that the long-standing peg to the U.S. dollar has anchored inflation expectations, but they highlighted the need for productivity-enhancing structural reforms to maintain competitiveness. Directors saw merit in forming a monetary union under the new constitutional arrangements, with a single independent central bank managing the peg in a resource-efficient way and within a framework of supportive fiscal arrangements.

Directors underscored the crucial importance of structural reforms in labor and product markets to raise income and employment on a sustained basis. In this context, they welcomed the investments in the tourism sector, and saw merit in well-targeted investment in infrastructure, education, and child-care facilities. They encouraged the authorities to engage social partners in a dialogue on the need for greater labor market flexibility. Improved governance of public firms, greater competition in product markets, and swift implementation of the OECD recommendations to improve the investment climate would all help attract much-needed productivity-raising investments. Directors also encouraged the authorities to lower external tariffs and become more closely associated with regional trade agreements.

Directors welcomed the authorities' responsiveness to the recommendations made in the Assessment of the Supervision and Regulation of the Financial Sector, including the strengthening of the AML/CFT framework, and called for the swift implementation of the remaining recommendations. They noted that banks' balance sheets have improved and that the banking sector remains highly profitable, despite weak economic growth. Directors underscored the importance of maintaining the high quality of banking supervision after the breakup of the federation and considered that supervision could usefully be centralized in a single central bank. They also stressed the importance of strengthened supervisory vigilance if financial markets have to adjust to public debt restructuring.

Directors called for further improvements in the statistical database to facilitate the assessment of economic developments and the design of policies.

Netherlands Antilles: Selected Economic Indicators

	2000	2001	2002	2003	2004 prel	2005 proj	2006 proj
	(Change in percent 1/)						
Domestic economy							
Real GDP	-2.7	1.3	0.3	1.4	1.1	0.9	1.9
Unemployment rate (in percent of labor force)2/	13.2	14.6	14.6	15.3	15.0	16.3	15.8
Consumer Prices (period average)	5.0	1.7	0.4	1.9	1.5	3.1	2.8
Money, credit, and interest rates							
Broad money	2.2	14.4	11.7	8.4	9.0	13.6	13.7
Domestic credit	4.7	3.0	10.1	5.4	11.4	10.0	14.7
Interest rate on 12 month deposit (in percent)	3.7	3.7	3.6	3.5	3.0	...	...
Government bond yield (in percent)	8.8	9.0	8.2	6.7	7.1	...	...
Exchange rates							
Exchange rate regime							
Real effective exchange 3/	2.5	0.0	-2.5	8.3	-6.5	...	...
	(In percent of GDP 1/)						
Public finance							
General government balance	-1.8	0.2	-4.0	-4.4	-6.0	-2.7	-5.0
Public debt	64.2	65.2	71.2	80.5	83.1	85.7	84.4
Balance of payments							
Current account balance	0.0	-5.7	-1.8	-0.3	-3.2	-2.5	-3.1
Trade balance (goods and nonfactor services)	-35.2	-38.6	-35.1	-33.9	-38.3	-37.1	-38.5
Official reserves (in millions of U.S. dollars) 4/	262.4	301.6	401.8	373.4	415.6	521.8	577.7
Official reserves (in months of merchandise imports) 4/	1.9	2.1	3.0	2.7	2.5	2.9	3.0

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

1/ Unless otherwise noted.
2/ Curacao only in 1998 to 2000.
3/ (+)= appreciation.
4/ Reserves of the central bank, excluding gold, end of period.