

Report of the President

The economic recession in the Netherlands Antilles continued in the fourth quarter of 1999, reflected by a decline in real Gross Domestic Product of approximately 2.9% on an annual basis. The decline in economic activities can be explained by poor domestic spending and a weak export performance. Domestic spending remained poor because of the continuing uncertainties regarding the government's policy towards the financial-economic crisis and reticent government spending forced by liquidity constraints. The weak export performance was due mainly to the impact of hurricane Lenny on the tourist sector in St. Maarten. The fourth quarter inflation rose sharply compared to the third quarter as a result of the increase in the turnover tax on the Leeward Islands from 2% to 5%, effective October 1, 1999. This rise contributed to an acceleration of the annualized inflation rate to 0.8%, which is still modest.

The overall export performance remained weak in the fourth quarter of 1999. Our main export sector, tourism, incurred a major draw back from the passing of hurricane Lenny over the Windward Islands in November 1999. As a result, the number of stay-over and cruise visitors, as well as the amount of foreign exchange income generated dropped significantly in St. Maarten. The tourist sectors in Curacao and Bonaire developed moderately but could not offset the negative development in St. Maarten. In Curacao, the number of stay-over visitors declined slightly, but was more than compensated by the increase in the number of visitor nights and cruise passengers, resulting in an improvement in foreign exchange income. In Bonaire, all tourism indicators showed an improvement, of which cruise tourism in particular.

The international financial and business services sector recorded only a marginal gain in foreign exchange income. This development was due to a decline in profit taxes transferred to the government. However, the increase in income from services rendered more than mitigated the decline in profit taxes. Furthermore, the oil refinery incurred a decline in production. Nevertheless, operational costs increased, due primarily to the higher costs of the refinery's own fuel consumption in connection with the sharp increase in world oil prices. In addition, the performance of the free zone in Curacao continued to deteriorate, as reflected by the decline in both re-exports and the number of visits.

The only sector that performed well in the fourth quarter of 1999 was the transportation sector. The good performance was attributable mainly to the marked expansion in bunker sales. Most of the other branches of the transportation industry recorded a decline in activities. The national carrier Air ALM incurred a decrease in both the number of passengers and the amount of freight transported. The airport of Curacao recorded a marginal decline in total passengers movements. The number of ships piloted into the harbors of Curacao and Bonaire decreased. In addition, Curacao's harbor registered a decline in total cargo movements. This decline was accounted for entirely by the decline in transshipment, which more than halved. Local cargo movements recorded a growth. Finally, activities in the ship repair sector continued to deteriorate as both the number of man-hours worked and ships repaired dropped considerably.

In line with the weak performance of our main export industries, the deficit on the current account of the balance of payments deteriorated in the fourth quarter of 1999. Other factors that contributed to this deterioration were increases in expenditures on travel and private remittances by Netherlands Antillean residents. These increases can be explained for a major part by increased migration, particularly to the Netherlands, as a result of the persistent economic recession. Contrary to the current account, the capital account showed an improvement. This improvement was attributable entirely to the official capital account, owing to the receipt of foreign exchange assistance from the Dutch government of approximately NAf 120 million in December 1999. This facilitated the placement of government securities with the banking sector to bridge the liquidity shortage at the end of 1999 and the first months of 2000. The surplus on the private capital account decreased significantly, due to a net increase in investments in foreign securities and a relatively large surplus in the fourth quarter of 1998 related to transitory factors. Since the

surplus on the capital account exceeded the current account deficit, our foreign exchange reserves position improved.

The balance of the General Government on a cash basis deteriorated from a surplus in the fourth quarter of 1998 to a deficit in fourth quarter of 1999. This deterioration was attributable entirely to a decline in both tax and nontax revenues. The decline in tax revenues was accounted for mainly by a transitory windfall in inheritance tax in the fourth quarter of 1998, a decrease in import duties related to the collapse of transshipment activities to the European Community and lower profit taxes collected. The latter can be explained by the persistent economic recession. The decline in nontax revenues was due to less dividend remittances by public enterprises and transitory factors. The decline in government revenues was offset partly by a decline in expenditures, the result of primarily financing constraints. In contrast, on an annual basis, the General Government's cash deficit improved. This improvement was, however, forced by the decreasing willingness of investors to buy government securities. As a result, various expenditures were cut or deferred to adjust the budget to available finance. Consequently, arrears accumulated with institutions like the civil servants pension fund as well as private creditors.

For 2000, the General Government's cash deficit is estimated at NAf 255 million, despite the fact that several measures of the urgency program are included. The main measures included are a rate increase and broadening of the base of the turnover tax, a tight wage policy and the lay-off of approximately 2,000 civil servants. However, due to severance payments, the net savings in 2000 are minimal. Since a maximum of approximately NAf 100 million can be financed domestically, it is obvious that additional measures are indispensable. Most of these measures should have a direct deficit-reducing impact, such as further expenditure cuts, strengthening the collection and broadening the base of taxes. The measures with an immediate impact should be complemented by structural measures to guarantee a sustainable reduction of the budget deficit in the medium term. In this respect, the privatization process and the further reform of the pension system should be accelerated. The authorities should decide on a comprehensive package of short-term and structural measures without further delay to underpin its commitment to address the financial-economic crisis and create a climate conducive to a sustainable recovery of our economy.

The money supply developed moderately in the fourth quarter of 1999. The expansion was attributable to the increase in net international reserves as the domestic sector recorded a contraction. The domestic contraction resulted from the government sector in connection with the foreign exchange assistance received from the Dutch government. Without this transitory factor the monetary impact of the government sector would have been neutral. The expansionary impact of the private sector remained strong due primarily to the relatively high growth rate of credit extension. Private sector credit growth continued to deviate considerably from the growth rate of the economy, thereby eroding our foreign exchange reserves position. In light of this development, the Bank increased its reserve requirement from 9% to 10% in March 2000. This increase will tighten the liquidity position of the commercial banks, which should mitigate the extension of credit.

The Netherlands Antilles has embarked on the road to fiscal consolidation designed to encourage economic expansion. The authorities' commitment to achieve that objective must be translated quickly in parliamentary approval of a comprehensive and credible package of measures aimed at a balanced budget and the liberalization of the labor and product markets to revitalize our economy. Such a step will create a basis for the gradual return of investors' confidence and negotiations with the IMF on a Fund supported structural adjustment program. The conclusion of a Fund supported program will free up the much-needed financial support from the Dutch government to facilitate the adjustment process and support a social program. This approach is essential for a resumption of economic growth and, hence, the creation of much needed jobs.

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